

Trip Notes

Nigeria: On the Right Path to Stability?

Photo: Nigerian National Mosque in Abuja, with Aso Rock looming on the horizon

Aktia

Summary

- We participated in an investor trip to Nigeria in early March, meeting with policy makers, banks, private sector companies, and independent local experts in Abuja and Lagos.
- President Bola Tinubu's reforms are beginning to show signs of impact. The difficult macroeconomic adjustments have caused pain for ordinary Nigerians, but there is hope for a better future on the ground. However, significant reforms are still needed to achieve inclusive and sustainable growth. In the coming months, it remains to be seen whether currency stability can be maintained, and inflation contained. The next Central Bank Monetary Policy Committee meeting in May will indicate whether the monetary easing cycle can begin.
- Insecurity remains a significant challenge in Nigeria, but efforts to address it have led to increased oil production. The government's 2025 budget targets 2 million barrels per day. Despite historically weak revenues, there is now an aggressive push to boost government income through higher oil production and comprehensive fiscal and tax reforms.
- Nigeria's reforms have yet to accelerate GDP growth enough to reduce poverty. Addressing structural constraints, with a focus on governance and strengthening institutions, is essential. Additionally, substantial investments are needed to address the country's infrastructure deficit and improve access to electricity.
- President Tinubu's reforms face a tight timeline, with campaigning for the February 2027 elections starting next year. Structural reforms that may face political resistance still lie ahead, testing the strength of leadership. Maintaining reform momentum and stability is crucial, and by the end of this year, Nigeria hopes to be in a stronger position.
- **Our view:** We have been constructive on Nigeria since the change of administration, although the impact of reforms has only recently become visible. There are several points to monitor, particularly on the fiscal side, as we move closer to the elections. We are invested in Nigeria through both our local currency frontier strategy and our hard currency strategy.

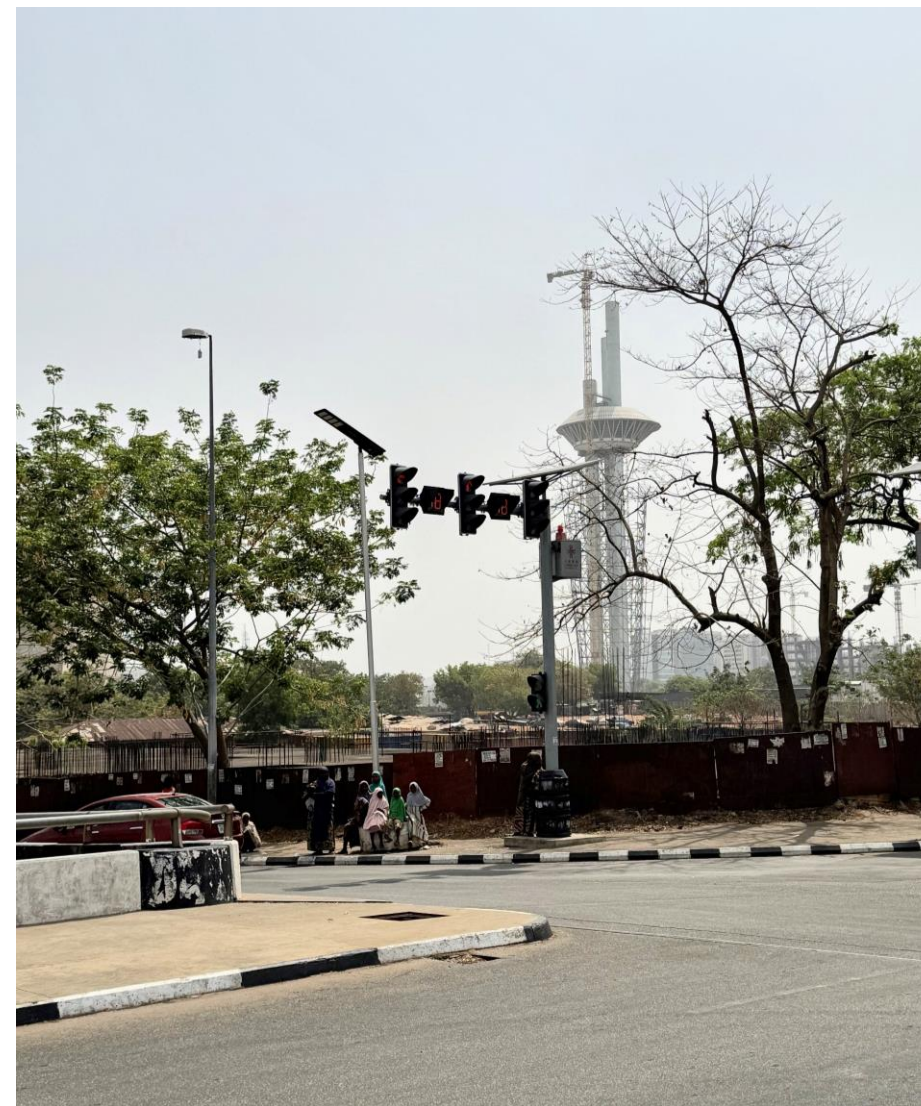


Photo: Crossroads in Abuja. In the background is the Millenium Tower, the tallest (170 m) artificial structure in Abuja.

Nigeria

Nigeria, often referred to as the "Giant of Africa," is the continent's most populous nation, home to over 230 million people. In 2014, Nigeria's GDP exceeded USD 500 billion following a GDP rebasing, but severe economic challenges and currency devaluations shrank its GDP to below USD 200 billion in 2024, causing it to lose its status as Africa's largest economy. Nigeria has vast natural resources, including approximately 37 billion barrels of oil reserves, which dominate exports. Against this backdrop, we participated in an investor trip to Nigeria (Moody's: Caa1 positive, S&P: B- stable, Fitch: B- positive), engaging with policymakers, banks, private sector companies, and independent local experts. Our visit took us to Abuja, the administrative and political capital, and Lagos, Nigeria's largest city and economic hub. Throughout our meetings, a cautiously optimistic narrative emerged: while Nigeria has undergone early macroeconomic stabilization, the key question remains whether this newfound stability will be sustainable in the medium and long term.

Nigeria has begun correcting years of macroeconomic imbalances through significant adjustments, as President Bola Tinubu launched a series of long-overdue reforms at the end of May 2023. These include curtailing or removing costly fuel subsidies and implementing exchange rate harmonization, measures estimated to collectively cost around 5% of GDP. The macroeconomic correction over the past 1.5 years has been painful for ordinary Nigerians, as living costs have soared. This year, the government is focusing on power sector and fiscal reforms.

Annual inflation reached 34.8% in December 2024. In January 2025, inflation was rebased, and the CPI basket composition was updated, bringing the rebased annual inflation figure to 24.5%. Inflation is widely expected to moderate further as the exchange rate has stabilized and fuel prices have declined, supported by improved domestic refining capacity, among other factors. Data challenges have prevented the publication of a rebased time series for inflation, making comparisons difficult. However, inflation is trending lower, and people on the ground are beginning to feel some relief, albeit gradually. The International Monetary Fund (IMF) forecasts inflation to reach 21.0% by the end of the year, which is still high.

The Dangote Oil Refinery, a 650,000-barrel-per-day private refinery, is expected to soon operate at full capacity, supplying refined products to the Nigerian domestic market and reducing the need for imports, thereby lowering the import bill. Additionally, the refinery will produce byproducts, as its petrochemical plant

will provide domestic raw materials for manufacturing. The refinery is also looking to export its refined products to new markets. Last year, the Dangote Refinery had to import crude oil from abroad after the Nigerian National Petroleum Company Limited (NNPCL) failed to supply sufficient crude for its operations. The ongoing fuel price war between Dangote and NNPCL for market dominance has driven pump prices down for ordinary Nigerians, and this decline is expected to continue in the coming months.

Under Governor Olayemi Cardoso, the Central Bank of Nigeria (CBN) has adopted more orthodox monetary policies, restoring confidence in monetary and exchange rate management. The introduction of the Electronic FX Matching System (BMATCH) has improved the functioning of the market, FX availability, and the naira has remained stable for now. The CBN aggressively raised interest rates by 875 basis points last year, ending at 27.50%, but held rates steady in the February 2025 meeting. With inflation expected to moderate, pressure is building to lower rates. The market's positive reaction to the policy changes is seen in declining treasury bill rates and an increase in foreign portfolio inflows. The CBN also appears to have ended the practice of financing government budget shortfalls. Investors are awaiting the net FX reserve figure, which is expected by the end of Q1 2025, with gross reserves around USD 40 billion at year-end. The next MPC meeting in May may signal a rate cut if inflation trends continue downward.

	2029F	2025F	2024E	2023	2022	2011 - 2021
Real GDP (% annual percent change)	3.3%	3.1%	2.9%	2.9%	3.3%	2.6%
Inflation (% annual percent change)	14.0%	21.0%	29.0%	28.9%	21.3%	12.4%
Overall Fiscal Balance (% of GDP)	-4.8%	-4.2%	-4.6%	-4.2%	-5.4%	-3.5%
Government Debt (% of GDP)	49.3%	50.0%	51.3%	46.4%	39.7%	24.2%
Current Account (% of GDP)	-2.0%	-0.7%	-0.5%	1.7%	0.2%	0.6%

Sources: Aktia, IMF and Macrobond

Nigeria

Nigeria's fiscal landscape is undergoing significant changes under the Tinubu administration, with a strong focus on tax and fiscal policy reforms aimed at increasing government revenue. Nigeria's tax-to-GDP ratio remains one of the lowest in Sub-Saharan Africa, standing at just 8% after the upcoming GDP rebasing, far below the continent's average of 16%. The government is targeting a 17% ratio within three years, though this goal is ambitious given the political resistance to tax reform. The 2025 budget, at NGN 54.9 trillion (USD 36.6 billion), is the largest in Nigeria's history and is built on the expectation of higher oil production and improved tax revenues.

The budget targets oil production at 2.1 million bpd. Oil production has risen to 1.7 million barrels per day (bpd), including condensate, with an improved security situation. The budget also projects an ambitious revenue increase to NGN 40.9 trillion, but if oil prices or tax reforms fall short, the budget deficit could widen from the targeted 3.9%. Nigeria is exploring external borrowing options but is likely to return to the Eurobond market with a Eurobond maturity nearing later this year. It is clear that the government's borrowing from the domestic market will increase further. The government also plans privatization efforts in infrastructure, education, and health to reduce borrowing needs. Nigeria's debt-to-GDP ratio has increased and is above 50%, with debt servicing costs already consuming over 60% of federal government revenues. The upcoming GDP rebasing will lower the debt-to-GDP ratio and could falsely give more headroom for borrowing. The IMF has warned against excessive borrowing.

Nigeria's current account will likely record a surplus again in 2024, perhaps higher than the 2% of GDP surplus in 2023. This strong performance would have been driven by a rise in oil output and a sharp depreciation in the exchange rate that suppressed imports. The outlook for 2025 is uncertain, with expectations of a more resilient exchange rate potentially leading to higher non-oil imports and oil exports remaining vulnerable to global price swings. However, the current account is expected to remain in surplus.

Nigeria's reforms have not yet spurred considerably higher GDP growth, which is crucial for reducing poverty, especially considering Nigeria's rapid population growth of 2.5%. The economy grew by 3.4% in 2024, driven by the non-oil sector, with Q4 growth surprising at 3.84%. With over 60% of the economy in the informal sector, including street vendors, subsistence farming, and service providers, addressing broader economic development is crucial. Nigeria's economy needs to grow at a much faster pace, close to 7%, to ensure job creation and inclusive growth. This requires improvements in power capacity, the business environment, security, and infrastructure. In addition, Nigeria has struggled to attract foreign direct investment (FDI), particularly outside the oil and gas sector.

With elections set for February 2027, President Tinubu's reforms face a tight timeline, as campaigning will begin about a year earlier. While bold reforms have been implemented without an IMF program, and some critical changes are irreversible despite their unpopularity, much remains to be done. Structural reforms, particularly in electricity, private sector development, and areas that may face political resistance, are crucial. A key risk lies in the fact that reforms have largely been driven by strong leadership rather than solid institutions. Strengthening these institutions is vital for sustainable economic growth and poverty reduction. Moving forward, it is essential to maintain the momentum of reforms, ensure they benefit all of society, and focus on building strong institutions to create a more stable and prosperous future. Hopefully, by the end of 2025, Nigeria will be in a stronger position and closer to regaining its status as Africa's largest economy.

Our View: We have been constructive on Nigeria since the change of administration, although the impact of reforms has only recently become visible. There are several points to monitor, particularly on the fiscal side, as we move closer to the elections. We are invested in Nigeria through both our local currency frontier strategy and our hard currency strategy.

This presentation is produced by Aktia Bank plc (“Aktia”) for investors. The information has been collected from available public sources, considered by Aktia to be trustworthy. However, Aktia cannot guarantee that the information is correct or all-inclusive. The presentation is meant as a tool, among others, to help the investor to make decisions. The investor’s investment decision is his own, and it should always be founded on information and analyses that the investor himself deems to be sufficient. The investor should observe that there may be swift changes on the market, affecting this presentation. Aktia, its subsidiaries and associated companies, co-operation partners, or employees of said companies are not responsible for direct or indirect losses or damage caused by the use of this presentation, or parts of it, in investment operations. The presentation is meant to be shown in conjunction to a spoken presentation given by Aktia, and it should not be used without the presentation. The contents of this presentation is aimed for the target group it was presented to, and it shall not be made available to any other recipients. Copying or quoting the presentation, or parts of it, is not allowed without the permission of Aktia.

Investments always involve financial risks. The customer bears the responsibility for the financial impact of his investment decisions. The investment may fail to yield a profit, or the invested capital may even be lost. The customer may be debited the costs for financial services irrespective of the investment results. It is always advisable to study the investment market and alternative investments in detail before making the decision to invest. Aktia cannot give assurance to the materialisation of the expected yield presented. The information is based on assumptions based on the historic yield from different financial instruments, but it is no guarantee for future development of yield or value. This presentation is part of Aktia’s marketing material, and therefore not necessary put together in accordance with the rules for independent investment analysis. Trade restrictions concerning investment analysis is not applied on the financial instruments presented. This presentation is not based on the customer’s individual data, and it is not intended to be investment advice. The aim is to present the financial instruments, and their characteristics, included in the quotation. We would be happy to set a date for preparation of an individual investor profile and to give you individual investment advice. The customer may be obliged also to pay taxes and official charges other than those debited by Aktia. The customer should be aware that investments and investment property are subject to taxation, the impact of which was not necessarily taken into consideration in this presentation. Future performance is subject to taxation which depends on the personal situation of each investor, and which may change in the future. The customer is responsible for the gathering of necessary information regarding taxation of his investments and his decisions concerning these.

Aktia