CITN: 2024 NIGERIA ECONOMIC OUTLOOK AND PERFORMANCE

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1.0 OVERVIEW OF NIGERIA'S ECONOMIC PERFORMANCE FOR 2023

Following a change in administration in May 2023, Nigeria stands at a pivotal moment with a unique opportunity to return to a sustainable and inclusive growth path. The new administration led by President Bola Ahmed Tinunu, GCFR has recognized the need for a change in course and has undertaken key reforms to restore macroeconomic stability. These reforms include the removal of the gasoline subsidy and the unification and significant liberalization of the exchange rate.

These reforms, coupled with global oil prices remaining above historical averages, are expected to reduce fiscal pressures and unwind critical macroeconomic distortions that have hindered growth in the past. However, the removal of the fuel subsidy in Nigeria has had far-reaching effects, not only on Nigerian citizens but also on neighboring West African states that historically depended on subsidized petrol smuggled in from Africa's largest oil producer.

The subsidy removal has led to increased fuel prices, higher food and transportation costs across West Africa over the last few months, affecting all food items. Consequently, Nigeria's economy experienced a downturn in 2023, with macroeconomic indicators worsening. This was evidenced by slower GDP growth, rising inflation, severe foreign exchange shortages, increasing debt stock and servicing, Naira volatility, declining foreign portfolio investment, and foreign direct investment, among others.

These consequences, including inflation and Naira devaluation, have eroded consumers' disposable income, leading to a compression in aggregate demand, and hindered business growth, and overall economic expansion.

2.0 OVERVIEW OF NIGERIA REVENUE GENERATED IN 2023

The revenue collection for Nigeria in 2023 exhibits a fluctuating trend in both gross oil and non-oil revenue streams. In the initial quarter, there was a slight decrease in gross oil revenue from January to March, potentially influenced by fluctuations in global oil prices or production levels. However, April witnessed a notable increase, indicating a potential recovery or stabilization in the oil sector (See Figure 1).

Conversely, gross non-oil revenue demonstrated a more consistent upward trajectory from January to June, suggesting positive performance in sectors beyond oil. This trend could be attributed to enhanced economic activities, improved tax compliance, or government efforts to diversify revenue sources. Nevertheless, there was a significant spike in July 2023, possibly due to seasonal factors or one-time revenue inflows.

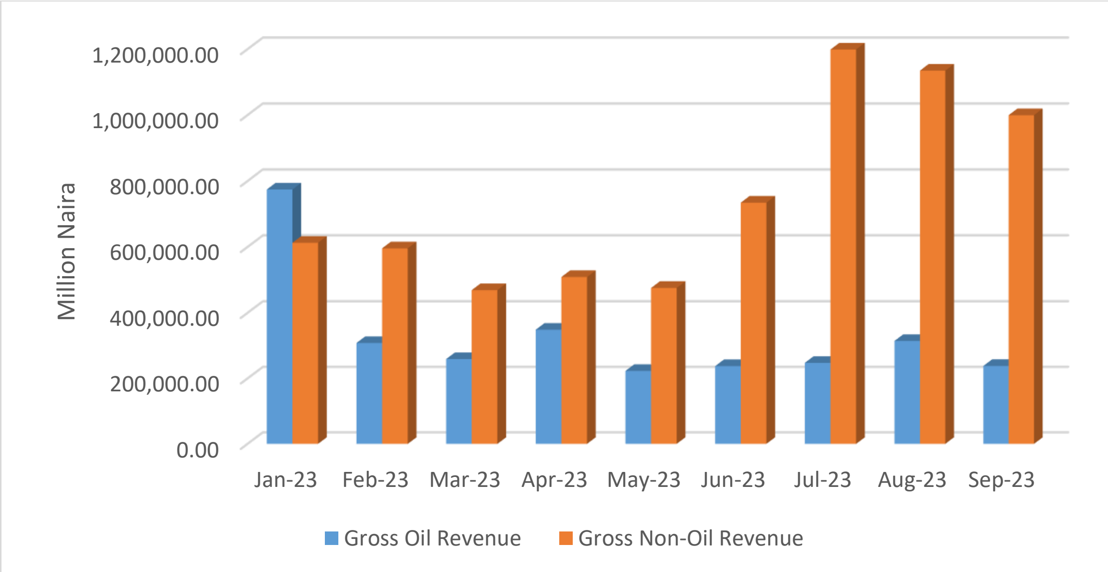

Figure 1: Revenue Generation between Jan 23- Sep 2023 in Nigeria

The revenue trends in Nigeria from January to September 2023 painted a complex picture of the economy's performance. Customs revenue, encompassing import duties, excise, and special levies, exhibited fluctuations, with a notable surge in August and September. This increase suggests a potential rise in trade activities or adjustments in tariffs and levies during that period. However, overreliance on customs revenue may expose the economy to external trade risks despite indicating a vibrant trade environment.

On the other hand, revenue from the Federal Inland Revenue Service (FIRS), primarily comprising corporate taxes, capital gains tax, and stamp duties, experienced a decline from March to June. This decline signals challenges in tax collection or a slowdown in corporate profitability. The sharp drop in revenue from May to June raises concerns about issues such as tax evasion or reduced business activities. Addressing these challenges would require improving tax compliance, enhancing the business environment, and stimulating economic growth to boost corporate earnings.

In contrast, gross VAT receipts demonstrated consistent growth throughout the period, with a notable acceleration from June to September. This expansion suggests an increase in consumer spending and economic activities, reflecting positively on the overall economy. Factors such as improved consumer confidence, government policies, or economic stimuli may have contributed to this growth. Strengthening VAT collection mechanisms and maintaining a conducive environment for consumption could further support economic growth and revenue generation.

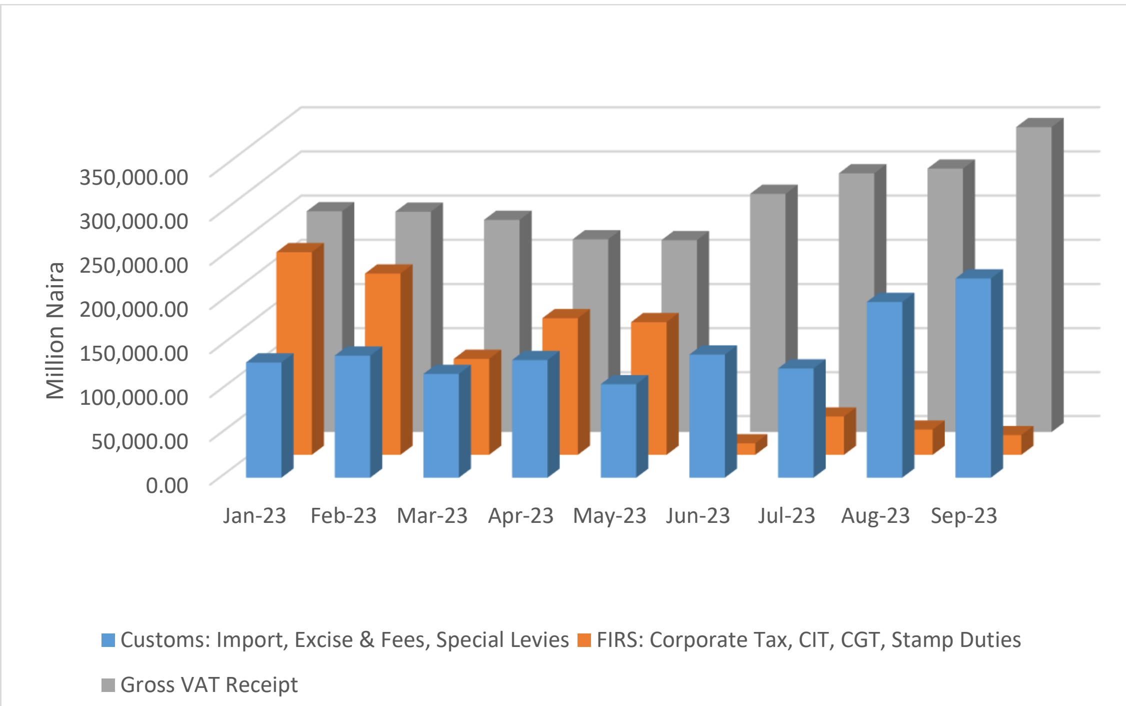

Figure 2: Revenue from Non-Oil Tax between Jan 23- Sep 2023 in Nigeria

3.0 2023 SECTORIAL PERFORMANCE

The sectorial performance in Nigeria for the first three quarters of 2023 reveals a dynamic economic landscape characterized by varying degrees of growth, stability, and volatility across different sectors. The agriculture sector demonstrated consistent growth throughout the quarters, indicating stability and possibly increased productivity in the industry. This growth is crucial for food security and rural development, highlighting the sector's resilience amidst economic challenges. On the other hand, the crude petroleum and natural gas sector exhibited volatility, with a significant drop in Q2 followed by a slight recovery in Q3. This volatility is typical of the oil and gas sector, which is heavily influenced by global market dynamics and geopolitical factors.

The solid minerals sector experienced a notable spike in Q2, suggesting increased mining activities or favorable market conditions for solid minerals during that period. This highlights the sector's potential for growth and its importance in diversifying the Nigerian economy away from oil dependency. The manufacturing and industry sectors showed mixed performance, with growth in Q2 but a slight decline in Q3. These sectors are sensitive to overall economic conditions, consumer demand, and government policies, indicating the need for targeted interventions to stimulate growth and enhance competitiveness. The construction sector demonstrated growth in Q2 but a slight decline in Q3, reflecting fluctuations in construction projects and infrastructure development during the period. This sector plays a vital role in economic development and job creation, requiring sustained investment and policy support. The trade sector showed relatively stable performance, indicating a consistent level of commercial activities during the period. This sector's stability is essential for maintaining supply chains and supporting economic growth.

The transport sector exhibited moderate growth in Q2 and Q3, highlighting its importance in facilitating economic activities and connecting regions within Nigeria and internationally. The information and communication sector showed consistent growth, reflecting the increasing importance of technology and communication services in driving economic activities and innovation. The real estate sector showed growth in Q2 but a decline in Q3, reflecting market demand

and investment patterns in the sector. This sector is closely linked to the overall economy and consumer confidence, requiring targeted policies to stimulate growth and address challenges. The education sector demonstrated growth in Q2 and Q3, indicating increased investment in education and training during the period. This growth is essential for human capital development and workforce productivity.

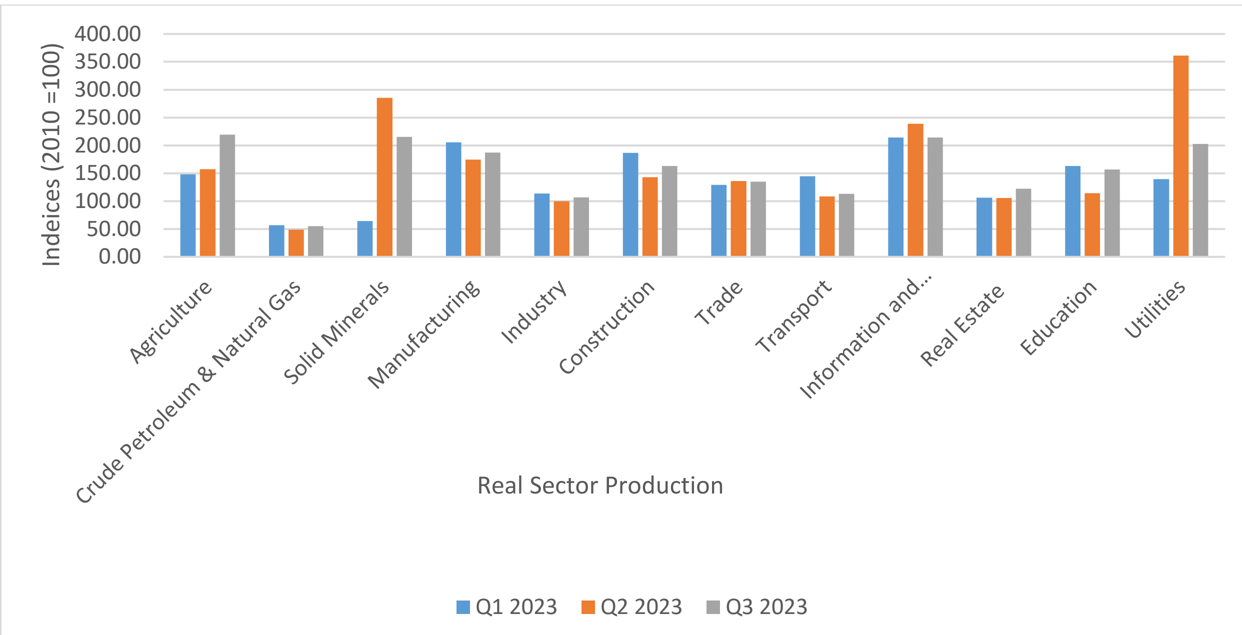

Figure 3: Sectorial Performance in Nigeria

4.0 MACROECONOMIC INDICATORS

In 2023, Nigeria experienced a mix of positive and challenging macroeconomic indicators that reflected the country's economic performance and the effectiveness of its policy measures. The External Reserves (US$ Million) indicate the country's ability to meet external obligations and stabilize its currency. The slight decline from January to March to April to June followed by a more significant decrease in July to September suggests potential challenges in managing external balances. This is attributed to subsidy removal and exchange rate reforms that took place immediately after the new administration and coupled with increased import demand, lower crude oil revenue (a key export for Nigeria). Exchange Rates (₦/US$1.00) reveal the value of the Nigerian Naira against the US Dollar. The significant depreciation of Naira from January to March to April to June, and a significant depreciation from July to September, indicate the implication of the reform of the exchange rate by the new administration. The Monetary Policy Rate (%) reflects the stance of the Central Bank of Nigeria (CBN) in managing inflation and stabilizing the currency. Monetary policy actions and frameworks are key at the current juncture to keep inflation expectations anchored. The stable rate from January to March to April to June, followed by an increase in July to September, suggests a tightening of monetary policy. This is aimed at curbing inflationary pressures and stabilizing the currency.

The Consumer Price Index (CPI) (%) measures the average change in prices of goods and services consumed by households. The steady increase over the periods indicates rising inflationary pressures. Factors such as currency depreciation, supply chain disruptions, and high demand are contributing to this trend. Finally, the GDP at Current Basic Prices (₦ Million) reflects the total economic output of Nigeria. The increasing trend from January to March to April to June, and a significant jump in July to September, indicate a growing economy. This growth is driven by factors such as increased government spending, higher consumer demand, or expansion in key sectors like agriculture and services.

Table 1: Macroeconomic Indicators in Nigeria

Month	**External Reserves (US$' Million)**	**Exchange Rates (₦/US$1.00)**	**Monetary Policy Rate (%)**	**Consumer price index (%)**	**TOTAL (GDP) AT CURRENT BASIC PRICES (₦' Million)**
Jan - Mar	35,529.06	460.17	17.67	22.12	51,242,151.21
Apr - Jun	34,019.91	563.66	18.17	23.30	52,103,927.13

Jul - Sep	33,357.04	761.60	18.75	24.71	60,658,600.37

Source: CBN, 2023

5.0 2024 NIGERIAN ECONOMIC OUTLOOK

The economic outlook for Nigeria in 2024 could be influenced by several factors based on the activities and reforms that were envisaged by the new administration in 2023. If anything is to go by, there are several key indicators that will shape the faces of 2024, these indicators include fiscal policy and tax reform outcomes, exchange rate management, debt management, volume and sectorial growth.

The economic outlook for Nigeria in 2024 is cautiously optimistic, but it is contingent on several key factors. One of the major determinants of Nigeria's revenue targets is its oil revenue, which heavily relies on oil prices, and the successful implementation of tax and fiscal reforms which will help the Government to attain its target of 18% Tax to GDP ratio in three years and surpass Africa average set at 16.5%. However, achieving the budgeted oil revenue will depend on various external factors such as OPEC oil production quotas, international oil prices, and geopolitical factors. This reliance on external factors underscores the volatility and uncertainty surrounding Nigeria's oil revenue projections.

However, the success of these reforms hinges on effective budgeting and execution. Historically, Nigeria has struggled to realize its budgeted revenue targets, with actual revenue often falling short. Thus, effective budget execution will be crucial in achieving the revenue targets set for 2024.

Furthermore, challenges persist in areas like corporate tax collection, highlighting the need for improved tax compliance. Diversifying revenue sources away from customs duties is also crucial to reducing dependence on volatile commodity prices. While the Nigerian economy has shown resilience and growth in VAT receipts, sustaining economic growth and revenue generation will require addressing tax compliance issues and enhancing the business environment.

Finally, while there are opportunities for revenue growth in Nigeria in 2024, there are also significant challenges. Success will depend on the effective implementation of fiscal reforms, improved tax compliance, a conducive business environment, and a resilient focus on improving SMEs.

6.0 CONCLUSION

The outlook remains cautiously optimistic, contingent on global economic conditions and domestic policy measures while there are opportunities for revenue growth, particularly in non-oil sectors, addressing tax compliance issues and enhancing the business environment will be crucial. Diversifying revenue sources away from customs duties is also necessary to reduce dependence on volatile commodity prices. Overall, sustaining economic growth and revenue generation in Nigeria will require concerted efforts in reform implementation and effective budget execution.

References

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