Cape Economic Performance and Prospect Bulletin – January 2025

Highlights

- *Price pressures expected to remain heightened and remain above pandemic levels as tightening efforts continue to crystalise.*
- *Nigeria's Q4 2024 output growth expected to remain positive and marginally higher than Q3 2024.*
- ***Forecast shows that inflationary pressure in Nigeria heightened in December 2024, with headline inflation rising to 35.3 percent**.*

Global Economic Update

In 2024, global economic growth exhibited notable resilience despite the widespread implementation of restrictive monetary policies aimed at curbing inflationary pressures in both advanced and emerging markets. However, distinguishing between a measured slowdown and an impending recession remains challenging, as the early signals of these scenarios often overlap.

The moderation of inflationary pressures offered relief to households and businesses, easing cost burdens, and supporting economic activity. By the fourth quarter of 2024, central banks in advanced economies and select emerging markets began pivoting toward more accommodative monetary policies. Measures such as interest rate cuts and liquidity infusions have improved financial conditions, reduced borrowing costs, and created room for further interventions. Nonetheless, some central banks—most notably the Central Bank of Nigeria—retained a tightening stance to manage domestic inflation risks. This divergence underscores the heterogeneity in macroeconomic conditions and policy responses across regions.

A recovery in global trade activity signalled a rebound in demand for goods and services among major economies, contributing to overall growth. However, a return to pre-pandemic growth rates remains constrained by persistent challenges. High debt burdens in both advanced and emerging markets, limited fiscal space for growth-driven public expenditure, and elevated interest rates relative to pre-pandemic levels have weighed heavily on consumer spending and investment activity.

Geopolitical tensions have further amplified these uncertainties, creating an unpredictable economic environment that undermines business confidence and disrupts global supply chains. As a result, global output growth for 2024 is projected at 3.2 percent, marking a modest improvement from 3.1 percent in 2023.

In the Advanced Economies - the United States, economic indicators revealed a mixed outlook. While retail sales and industrial production-maintained momentum through the third quarter into the fourth quarter of 2024, the labour market exhibited signs of moderation, with job creation falling below expectations. Although not yet in contraction, the softening labour market reflects broader economic uncertainties. Output remained above trend in the latter half of the year, but potential policy shifts—such as an extension of tax cuts and renewed tariff policies under President Trump's administration—continue to shape market sentiment.

In Europe, the United Kingdom emerged as a growth leader among G7 nations during the first half of 2024, a trend sustained through the year's end. Conversely, the Eurozone experienced uneven growth, with disparities in manufacturing performance across sectors and regions, even as business surveys indicated overall expansion.

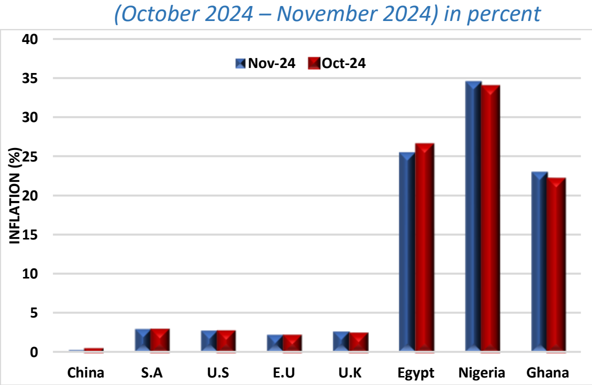
Emerging markets are anticipated to outpace advanced economies in 2024, driven by robust domestic demand and rising foreign direct investment. China leads this cohort, underpinned by targeted fiscal stimulus in real estate and construction, despite lingering challenges in household consumption. Other economies, including India, Indonesia, Vietnam, and the Philippines, are poised for strong growth trajectories, bolstered by increasing investments and domestic consumption. In contrast, major Latin American economies such as Brazil and Mexico are likely to experience slower growth due to subdued demand, fiscal tightening, and restrictive monetary policies.

Specifically, global growth remains constrained by several headwinds. Heightened geopolitical tensions, elevated commodity prices—particularly for oil and grains—and climate-related disruptions continue to strain economic momentum. Inflation trends remain uneven, with advanced economies achieving some disinflationary progress, while emerging markets grapple with maintaining capital inflows amid inflationary pressures.

The effectiveness of monetary policy adjustments in addressing inflation has varied across regions. Advanced economies, such as the United States and the United Kingdom, have begun to ease monetary policies in response to moderating inflation. For instance, the US Federal Reserve lowered its target range to 4.25-4.50% and signalled a potential slowdown in the pace of easing, with projections for two additional rate cuts in 2025—down from the four previously anticipated. In contrast, the Bank of England held its policy rate steady at 4.75%, reflecting internal divisions over the appropriate response to persistently high inflation. The European Central Bank adopted a more accommodative stance, reducing its deposit rate to 3%, reflecting a diminished sense of urgency over inflation risks.

In contrast, emerging markets exhibit caution. While inflation has eased in several countries, central banks like the Central Bank of Nigeria continue to maintain a tight monetary stance to curb domestic inflation risks and preserve capital inflows. This contrasts with the Bank of Ghana, which shifted to an easing approach supported by favourable real interest rates.

Figure 1: Year-on-Year Inflation in Selected Economies (October 2024 – November 2024) in percent



Source: Various National Statistics Offices

We anticipate that central banks in advanced economies will progressively shift toward more accommodative monetary policies, while emerging market economies are expected to maintain restrictive stances in the first half of 2025. This trend will likely persist, particularly in economies grappling with elevated inflation levels or those striving to attract and retain capital flows in competitive markets. The resulting divergence in policy highlights the complex trade-offs central banks face in balancing growth objectives, ensuring price stability, and safeguarding financial systems.

During December 2024, global equity markets experienced a broad decline, reflecting region-wide weaknesses as the U.S. Federal Reserve signalled a more aggressive interest rate trajectory for the coming year. Nevertheless, global equities achieved a 17.5% gain in 2024, measured in dollar terms, buoyed predominantly by strong performance in the U.S. This marked the second consecutive year of double-digit returns. However, U.S. market breadth contracted in December, reversing gains from the prior month similar to 2019s Trump-related rally. Despite this, tech-focused mega-cap stocks in the U.S. continued to deliver robust outperformance, underscoring sectoral resilience amidst broader market challenges. In equity markets, the S&P 500® was down 2.50% in December, bringing its 2024 return to 23.31%. The Dow Jones Industrial Average® lost 5.27% for the month and was up 12.88% for 2024.The S&P MidCap 400® decreased 7.29% for the month, bringing its 2024 return to 12.20%. The S&P SmallCap 600® returned -8.12% in December and was up 6.82% for 2024.

Global geopolitical tensions persisted, with significant developments in Ukraine and the Middle East. In Syria, the Assad regime's collapse marked a critical turning point in the region's ongoing instability. Politically, the United States narrowly avoided a government shutdown through a last-minute agreement, highlighting the deepening partisan divides. In Europe, President Macron appointed François Bayrou as France's new Prime Minister after Michel Barnier's failure to secure parliamentary support for the budget. Meanwhile, in Germany, Chancellor Olaf Scholz faced a vote of no confidence, triggering federal elections scheduled for February.

Elsewhere, Canada's Finance Minister stepped down amid escalating economic pressures linked to tariff threats from former U.S. President Trump, while internal party conflicts prompted Prime Minister Justin Trudeau to announce his intention to resign. In Asia, South Korea briefly implemented martial law under a now-impeached president, underscoring the volatile nature of the region's political environment.

In the commodities market, crude oil prices saw a modest increase in December, though they ended slightly lower overall for 2024. West Texas Intermediate (WTI) closed the year at US$70.99 per barrel, while Brent crude settled at US$73.99 per barrel. On the upside, energy and commodity markets continue to face price pressures driven by robust demand and ongoing geopolitical uncertainties. Conversely, downside risks are anchored in vulnerabilities within the global financial system, which could suppress market activity.

Despite the US dollar reaching a historic peak on a nominal trade-weighted index, gold delivered its strongest annual performance since 2010 in dollar terms, reflecting its enduring appeal as a hedge against uncertainty. Meanwhile, Bitcoin achieved another milestone, briefly surpassing US$100,000, underscoring its continued volatility and speculative allure within financial markets.

Global Economic Outlook

The global economy demonstrated remarkable resilience throughout 2024, successfully navigating significant hurdles such as geopolitical conflicts and subdued export demand. Nevertheless, downside risks linger, particularly given the persistence of elevated geopolitical tensions and early signs of weakening global trade flows. Private consumption remains a critical driver of economic activity, while moderating inflation and anticipated interest rate reductions are expected to provide a supportive framework for sustained growth into late 2024 and throughout 2025.

In advanced economies, the United States continues to exhibit robust economic performance, a trend likely to extend into 2025. However, risks to consumer spending and broader economic momentum remain, stemming from persistent inflation in the services sector, rising consumer debt levels, a cooling labour market, and growing political uncertainties. In the Eurozone, declining inflation and a resurgence in export activity offer cautious optimism for growth. Yet, the pace of recovery in the region remains muted compared to other major economies, reflecting deep-seated structural issues and disparities in regional economic dynamics.

Emerging markets, particularly China and India, maintain a strong growth trajectory, underpinned by solid private consumption and dynamic export sectors. However, China's economic outlook is tempered by mounting challenges, including a weakening real estate market and slowing productivity gains, which could pose significant headwinds to its recovery efforts.

Financial markets are expected to exhibit continued volatility. Bond markets appear to have overestimated the probability of aggressive monetary policy easing. Although market sentiment points to rapid interest rate reductions, such expectations may be overly optimistic absent a pronounced economic downturn. A prudent investment strategy would favour diversified regional exposures over concentrated small-cap investments. Markets in the UK and continental Europe present relatively attractive valuations and steady economic momentum, offering a buffer against potential vulnerabilities in the U.S. market.

Looking ahead to 2025, portfolio flows are projected to shift increasingly toward emerging markets, bolstered by the continuation of monetary easing in advanced economies. Central banks face increasingly complex policy challenges as they strive to balance inflation containment, employment support, and financial stability.

Premature easing could jeopardize progress on inflation control, while excessive tightening raises the risk of financial instability or recessionary pressures.

In the commodities sector, further realignments are anticipated. Oil prices are expected to moderate as OPEC+ incrementally reverses earlier production cuts. Similarly, natural gas and coal prices are likely to decline due to abundant supply and elevated inventory levels. Conversely, industrial metal prices could experience a rebound, supported by China's fiscal and monetary stimulus measures. Gold prices may soften as expectations of interest rate cuts are already largely reflected in current valuations, and agricultural commodity prices are projected to decrease amid improved supply conditions.

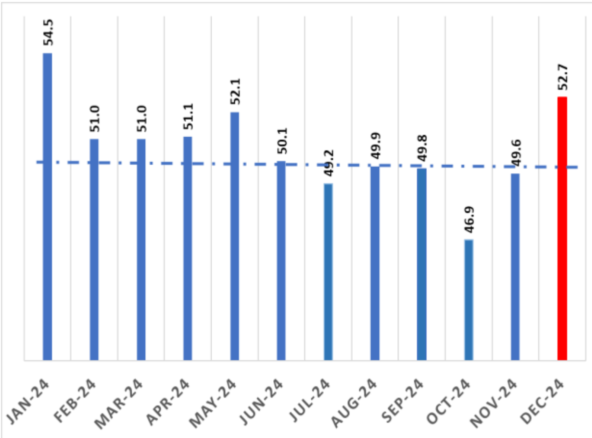
In summary, the global economy remains delicately balanced, contending with the interplay of geopolitical uncertainties, monetary policy complexities, and shifting dynamics in the commodity markets. To foster sustainable growth and stability, policymakers and central banks must implement precise and adaptive measures to reinforce the fragile recovery and safeguard macroeconomic stability over the medium term.d

Nigeria's Output Growth

There are strong indications that Nigeria's real GDP performance in the final quarter of 2024 would remain positive, building on the growth momentum recorded in Q3 2024, driven by a seasonal surge in economic activities associated with year-end festivities. Nigeria's headline Purchasing Managers' Index (PMI) provides a mixed signal. Nigeria's PMI data for Q42024 reveals a gradual recovery, with the private sector overcoming prior contractions and demonstrating resilience amid persistent challenges such as inflationary pressures, infrastructural deficits and lingering currency weakness, which continued to weigh on business operations.

The fourth quarter started on a challenging note as business condition was dampened by weak demand, elevated inflationary pressures, and prevailing economic uncertainties which resulted in a PMI stood of 46.9 points in October, signalling a continuation of contraction in private sector economic activity. However, November 2024 saw the PMI improved to 49.6 points, nearing the 50.0 threshold that delineates expansion from contraction. This reflected a stabilising economy as new orders began to increase, driven by recovering consumer demand and improved sentiment in the private sector. December 2024 PMI also improved significantly, jumping to 52.7 points for the first time in six months (figure 2). The robust PMI reading indicates a resurgence in private sector activity, suggesting that Nigeria's economy is poised for modest expansion.

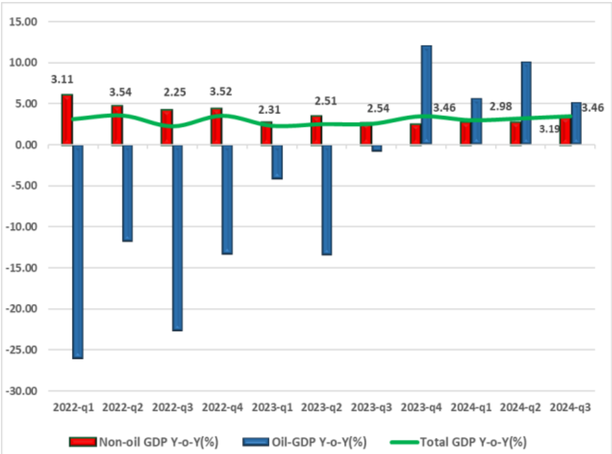
Figure 2: Trend of Nigeria's PMI (Jan - Dec 2024)



Source: Stanbic IBTC

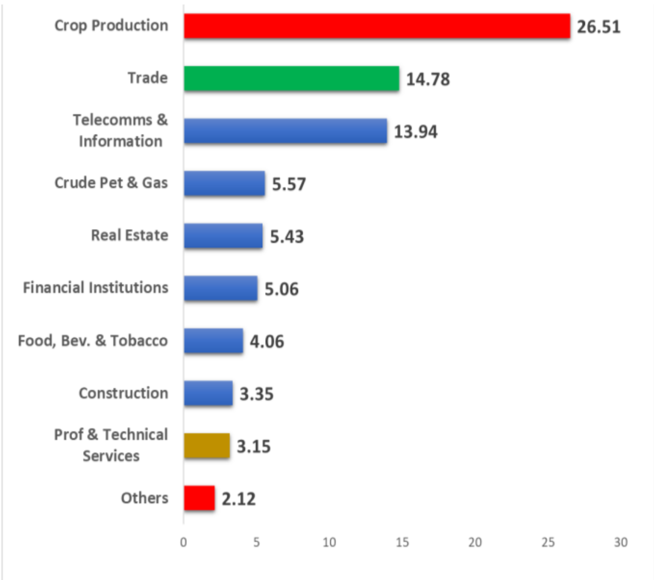
The rising trend of Nigeria's PMI in Q42024 suggests that GDP growth will likely build on the momentum observed in Q32024. Key drivers of this growth include increased output, improving consumer demand, and a recovery in crude oil production, which remains a vital component of Nigeria's economic stability. However, challenges such as elevated inflation, caused by currency weakness and rising transportation costs, continue to erode consumer purchasing power and firm profitability. Supply chain disruptions and infrastructure deficits further constrained the pace of recovery. Despite these headwinds, the outlook for GDP growth in Q42024 remains cautiously optimistic.

Figure 3: Real GDP Growth Rate in Nigeria (Q12022 – Q32024) in percent



Source: National Bureau of Statistics (NBS)

Figure 4: Top 10 Economic activities that drove Nigeria's RGDP in Q32024 in Per cent



Source: National Bureau of Statistics (NBS)

Output Growth Outlook

Nigeria's economic growth has shown notable resilience despite facing pronounced macroeconomic challenges. Persistent constraints, such as elevated energy prices, foreign exchange instability exacerbated by currency scarcity, security challenges, insufficient infrastructure, and escalating production costs, continue to hinder the attainment of robust and sustained economic progress. While projections indicate that growth will remain positive through the final quarter of 2024 and improve further in 2025, these enduring structural and macroeconomic pressures are expected to moderate the overall growth trajectory.

The growth outlook is further clouded by additional headwinds stemming from restrictive monetary policies. Elevated interest rates, ongoing exchange rate volatility, and heightened economic uncertainty are likely to weigh on economic performance. However, some optimism arises from anticipated seasonal improvements in the agricultural sector and enhanced industrial productivity, driven by the commencement of operations at the Dangote refinery, Warri and Port Harcourt refinery among other private refineries coming up in the course of 2025. These developments are expected to provide a moderate uplift to economic activity. Nonetheless, the persistent structural deficiencies pose significant challenges, potentially undermining the efficacy of policy measures designed to support growth.

Price Update

Nigeria's headline inflation rate accelerated to 34.60 percent in November 2024, up from 33.88 percent in October 2024. This uptick reflects persistent upward pressures on the cost of goods and services, exacerbated by high energy prices, currency depreciation, supply chain disruptions, infrastructural deficits, insecurity and heightened demand dynamics typically associated with the year end. With inflation remaining elevated, Nigerians face mounting challenges as the escalating cost of living impacts household expenditure and business operations alike.

In November 2024, headline inflation rate increased by 0.72 percentage points compared to October 2024. On a year-on-year basis, headline inflation rose by 6.4 percentage points from the 28.20 recorded in November 2023. Key contributors to the year-on-year increase in headline inflation included (see figure 5) prices of Food & Non-Alcoholic Beverages (17.92%), Housing, Water, Electricity, Gas & Other Fuels (5.79%), Clothing & Footwear (2.65%), and

Transport (2.25%). These categories underscore the significant impact of food prices on the rising inflationary pressures in the economy.

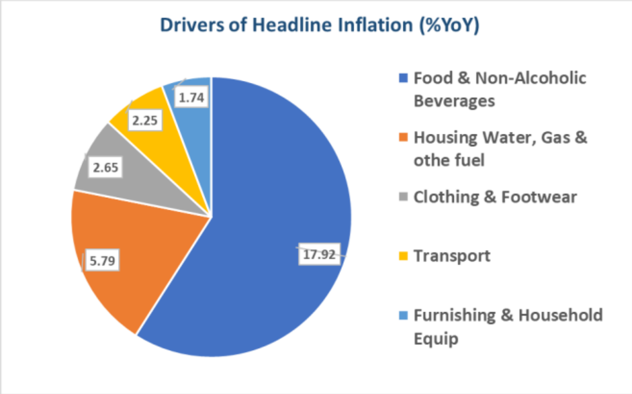
However, on a month-on-month basis, headline inflation rate was marginally lower by 0.002 percentage points in November as it reduced to 2.638 percent, compared to 2.64 percent recorded in October 2024. This indicates that the pace of the average price increase in November was slightly decelerated.

Food inflation accelerated further to 39.93 percent year-on-year in November 2024, up from 39.16 percent in October 2024, highlighting persistent price pressures in the food sector. This represents a 7.08 percentage-point increase compared to the 32.84% recorded in November 2023, underscoring the sustained upward trajectory of food prices. The surge was primarily driven by significant price increases in key staples, including guinea corn, rice, maize grains, yam, water yam, coco yam, palm oil, and vegetable oil, intensifying the financial strain on households struggling to meet basic food needs.

On a month-on-month basis, food inflation in November 2024 stood at 2.98 percent , marking a slight increase of 0.05 percentage points from the 2.94 percent recorded in October 2024. highlighting persistent volatility in food prices.

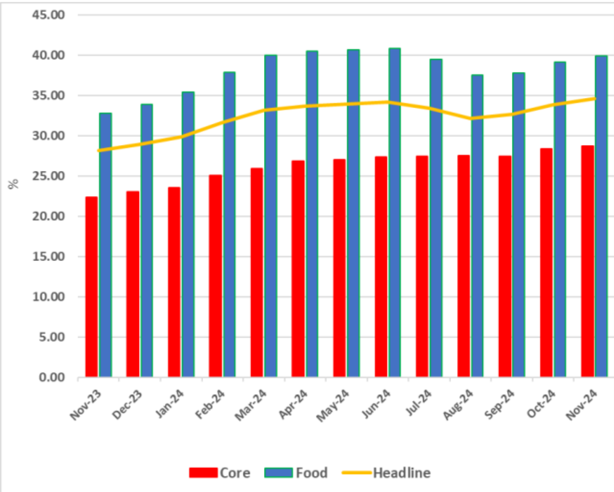
Core inflation rose to 28.75 percent in November 2024, up from 28.37 percent in October 2024, indicating a persistent rise in underlying price pressures. Year-on-year, core inflation was 6.36 percentage points higher than the 22.28 percent recorded in November 2023. On a month-on-month basis however, core inflation slowed down by 0.30 percentage points to 1.83 percent from 2.14 percent in October 2024, reflecting a marginal downward pressure on non-food and non-energy prices.

Figure 5: Drivers of Headline Inflation Nov. 2024 (Y-on-Y)



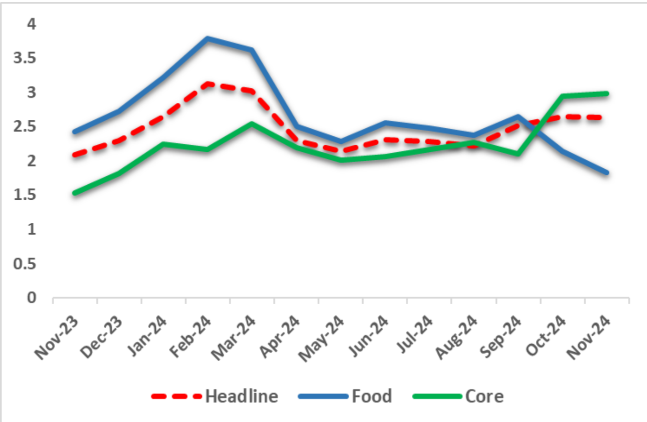
Source: NBS

Figure 6: Year-on-Year Headline, Food and Core Inflation (Nov 2023 – Nov. 2024) in per cent



Source: NBS

Figure 7: Month-on-Month Inflation Rates (Oct 2023 – Oct 2024) in percent



Source: NBS

Price Outlook

Inflation is expected to heighten in December 2024. Our forecast showed that inflationary pressure would heighten as headline food and core inflation are expected to rise to 35.3, 42.6 and 29.3 percent respectively.

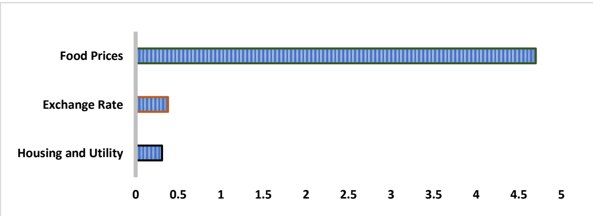
Table 1: Inflation forecast for December 2024 in Per Cent

Headline	Food	Core
35.3	42.6	29.3

Source: CAPE Economic Research and Consulting, 2025

The principal drivers shaping the forecast for headline inflation persist in food prices, the exchange rate, housing, and utility costs, contributing 4.70 percent, 0.38 percent, and 0.31 percent, respectively.

Figure 8: Driver of Predicted Inflation



Source: CAPE Economic Research and Consulting, 2025

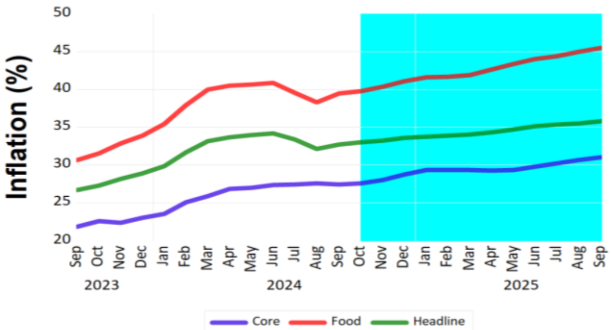
Our analysis highlights the critical role of rising food prices, exchange rate volatility, and escalating housing and utility costs in driving headline inflation. The deregulation of energy prices and subsequent adjustments in exchange rates continue to amplify inflationary pressures, effects that are projected to linger into the medium term.

Core inflation is predominantly influenced by upward trends in transportation, education, clothing, housing, utilities, and healthcare expenses. These inflationary dynamics are further exacerbated by the growing fiscal deficit, the withdrawal of fuel subsidies, and sustained exchange rate pressures, which collectively create substantial pass-through effects on consumer prices.

As emphasized in prior analyses, the Monetary Policy Committee (MPC) of the Central Bank of Nigeria adopted a tightening stance during its November 2024 meeting, raising the monetary policy rate by 25 basis points to 27.50 percent. This decision underscores the dual mandate of curbing inflation and maintaining Nigeria's attractiveness in the foreign portfolio investment (FPI) market. However, ensuring stability in the foreign exchange market necessitates robust fiscal interventions that complement the Central Bank's monetary policies, particularly those aimed at attracting foreign direct investment (FDI) and fostering export growth. Initial priorities should include strengthening the oil sector, followed by a deliberate strategy to diversify the economy.

Looking forward, the MPC is likely to maintain its tightening trajectory during its February 2025 meeting, which will shape the monetary policy outlook for the year. The Committee may opt to retain the policy rate at 27.50 percent or implement a marginal increase to enhance its inflation-fighting buffer.

Figure 9: 12-Month Inflation Projection



Source: CAPE Economic Research and Consulting, 2025

Our revised 12-month inflation outlook suggests an upward trend of inflation going into 2025, contingent upon prevailing conditions. Tailwinds to this projection include energy prices, volatility in the exchange rate, security concerns, and policy uncertainties.

Fiscal Operations Update

The Federation Accounts Allocation Committee (FAAC) injected the sum of ₦1.727 trillion into the economy through its monthly allocations to the three tiers of government in December 2024. The amount represents an increase of 22.4 percent compared to the ₦1,411.74 trillion distributed in November 2024. The amount distributed represents about 54.96 percent of total revenue (₦3.14 trillion) collected, which was higher than the ₦3.67 trillion gross revenue collected in the preceding month. The improved collection was attributed to significant increases in revenue from Oil and Gas Royalty and CET levies.

However, an increase in fiscal injections could further exacerbate the already elevated inflationary pressures by amplifying demand-side factors in an economy grappling with supply constraints and rising costs.

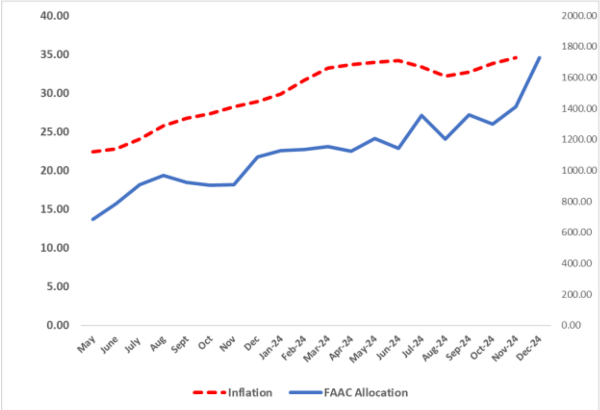
Table 2: Highlight of Nov. 2024 FAAC Distr (N'billion)

	December	November	% Change
Fed.	*581.86*	*433.02*	*34.4*
State	*549.79*	*490.70*	*12.0*
LG	*402.55*	*355.62*	*13.2*
13%	*193.29*	*132.40*	*46.0*
Total	***1,727.49***	***1,411.74***	***22.4***

Source: FAAC, November 2024

A detailed breakdown of allocations, as presented in Table 3, reveals that the Federal Government received ₦581.86 billion, the States ₦549.79 billion, and Local Governments ₦402.55 billion. Additionally, the 13% derivation fund distributed to beneficiary states amounted to ₦193.29 billion. In Nigeria's high-inflation environment, such increased fiscal injections are likely to amplify inflationary pressures. As illustrated in Figure 12, the rise in FAAC allocations is expected to further intensify these pressures, adding to the challenges of managing inflation effectively.

Figure 10: Trend of FAAC Distribution and Inflation Rate in Nigeria



Source: FAAC

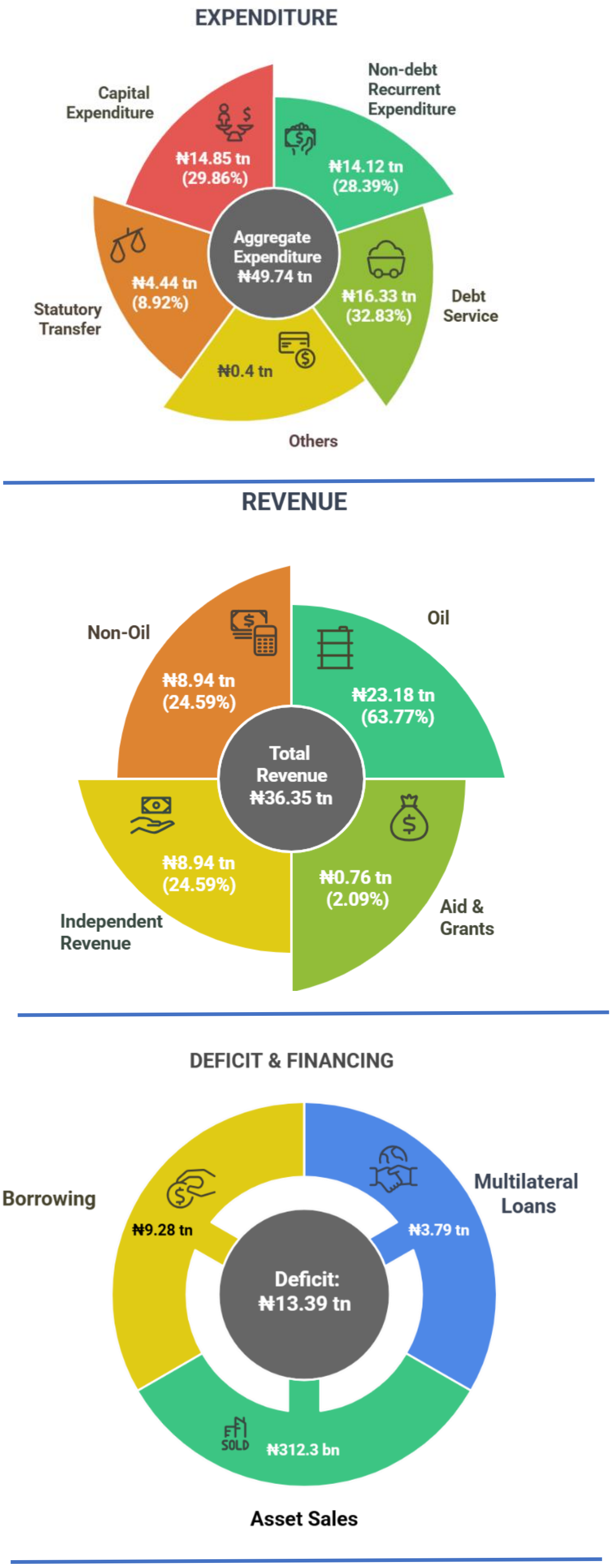
2025 FGN Budget Analysis

The proposed FGN 2025 Budget, christened **"The Restoration: Securing Peace, Rebuilding Prosperity,"** is strategically aligned with the Medium-Term Expenditure Framework and Fiscal Strategy Paper (MTEF/FSP) 2025-2027, as well as the National Development Plan 2021-2025. It aims to steer Nigeria toward sustainable economic growth in the face of emerging global and domestic challenges. With a proposed total expenditure of ₦49.74 trillion, the 2025 budget represents a significant 41.90 percent increase in aggregate spending and an 85.46 percent projected increase in revenue compared to the approved 2024 budget. This substantial fiscal expansion underscores the government's commitment to achieving long-term economic stability and prosperity.

KEY ASSUMPTIONS

Daily oil production	• *2.06 mbpd*
Crude oil price	• *US$75*
Exchange rate	• *₦1500.00/US$*
GDP growth	• *4.60%*
Inflaiton rate	• *15.00%*

Figure 11: 2025 FGN Budget Parameters



Source: Budget Office of the Federation

However, the 2025 budget outlines an ambitious fiscal plan that is built on some key assumptions that raise concerns about its feasibility and impact. The projection of 2.06 million barrels per day (mbpd) in oil production appears overly optimistic, given persistent challenges such as oil theft, insecurity in oil-producing regions, and Nigeria's adherence to OPEC quotas. These factors have consistently hindered actual production levels, making this target difficult to achieve and posing significant risks to revenue generation. Similarly, the assumption of a 15 percent inflation rate starkly contrasts with the current rate of 34.6 percent. This unrealistic projection may lead to cost underestimation, eroding the real value of allocations and limiting the government's ability to meet its developmental objectives effectively.

Another pressing concern is the high debt servicing cost of ₦16.33 trillion, which accounts for 32.8 percent of total expenditure. This significant fiscal burden reduces resources available for critical capital and social investments, highlighting the urgent need for structural reforms to boost revenue and manage debt sustainably. Furthermore, while the budget appears larger in nominal terms, exchange rate differentials erode its real value. At the assumed exchange rate, the 2025 budget stands at US$33 billion, a decline compared to the 2024 budget's US$35 billion. This contraction in dollar terms underscores reduced purchasing power in an import-dependent economy, potentially compromising the government's ability to execute its plans effectively. Addressing these challenges requires a recalibration of fiscal strategies to ensure realistic projections, sustainable debt management, and enhanced economic resilience.

Despite the increased budget size in Naira terms, the fiscal deficit is projected to decline from ₦15.4 in 2024 trillion to ₦13.39 trillion 2025, reflecting fiscal consolidation efforts. However, the planned borrowing of ₦9.28 trillion to finance the deficit raises concerns about fiscal sustainability. With debt servicing already consuming a significant portion of revenue, the reliance on additional borrowing highlights the urgency of reforms to boost revenue mobilization and ensure long-term economic stability.

Conclusion

In summary, the global economic outlook for 2025 presents a cautiously optimistic trajectory, albeit overshadowed by formidable challenges. Emerging markets continue to grapple with persistent structural headwinds, amplified by prolonged global uncertainties and a decelerated recovery trajectory in China. Although the stringent monetary policy actions by central banks have contributed to easing inflationary pressures in select regions, these measures have incurred significant trade-offs, including suppressed economic momentum and heightened exposure to financial system vulnerabilities. Despite these global headwinds and constrained policy manoeuvrability, Nigeria's economic forecast for 2025 remains positive.

Country in Focus – Republic of Madagascar

Figure 12: Economic Parameters for Republic of Madagascar

Source: CAPE Economic Research and Consulting, 2025