Cape Economic Performance and Prospect Bulletin – March 2025

Highlights

- *Price pressures expected to remain heightened and remain above pandemic levels as tightening efforts continue to crystalise.*
- *Nigeria's Q1 2025 output growth expected to remain positive and marginally higher than Q4 2024 as economy stabilises from reforms.*

Global Economic Update

The global economy continues to demonstrate resilience, with inflationary pressures moderating amidst high reversal risk following the evolving global order and persistent geopolitical uncertainties. However, distinguishing between a controlled economic slowdown and an impending recession remains complex, as early indicators for both scenarios often overlap.

Among advanced economies, the United States presents a mixed economic outlook following a plethora of executive orders and geopolitical leaning uncertainties of the new administration. Although product and labour markets are showing marginal signs of weaking, they have remained resilient. Although the planned tariffs and illegal immigration crackdown pose substantial headwinds to the market.

Furthermore, despite ongoing macroeconomic uncertainties, the U.S. economy continues to exhibit robust performance, underpinned by strong fundamentals and resilient market dynamics. Although only a limited set of policy measures has been both announced and executed, market participants remain optimistic, anticipating one or two further interest rate cuts in the near term. This expectation is supported by stable key economic indicators, which suggest that potential opportunities, such as enhanced capital allocation and sustained corporate profitability—outweigh the prevailing risks. Consequently, both policy strategists and market analysts maintain that, even amidst global volatility, the risk-reward balance remains favourable for the U.S. economy.

The overall economic output remains positive; however, policy adjustments—including potential tax cuts and revised tariff policies under President Trump's administration, continue to influence market sentiment.

Geopolitically, Ukraine peace talks have commenced in a fragmented manner. The U.S. initially engaged in bilateral discussions with Russia, deliberately excluding Ukraine and European allies, while President Zelensky's recent Oval Office visit was abruptly curtailed following a dispute with President Trump and Deputy Vance. Concurrently, key European nations—led by the United Kingdom and France, have begun formulating an independent peace proposal to present to Washington. In Germany, a political transition is underway that is expected to yield a two-party coalition government, with incoming Chancellor Friedrich Merz advocating for increased public expenditure, particularly in defense. On the trade front, President Trump intensified tariff threats by confirming that the postponed 25% tariffs on Canada and Mexico will take effect on March 4, and he announced an additional 10% tariff on China along with supplementary non-tariff measures, despite earlier indications of a potential trade deal with Beijing. Moreover, tariffs targeting the European Union and a broader reciprocal tariff policy—potentially encompassing additional levies such as VAT—are scheduled for early April. Finally, the U.S. House of Representatives passed a $4.5 trillion tax-cut bill aimed at extending the tax reductions implemented during Trump's first term.

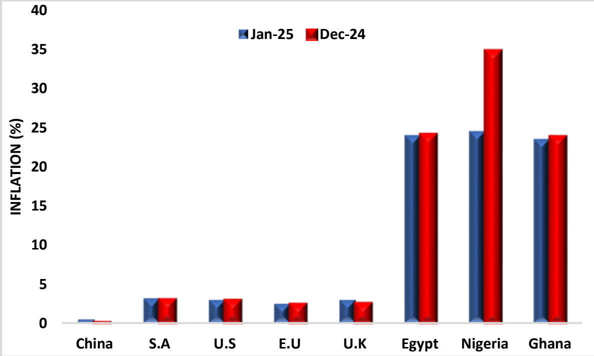
Emerging market economies are expected to outpace advanced nations, driven primarily by robust domestic demand and increased foreign capital inflows. China remains at the forefront, benefiting from targeted fiscal measures in the real estate and construction sectors despite ongoing challenges in household consumption. Similarly, India, Indonesia, Vietnam, and the Philippines are projected to experience strong economic expansion, supported by rising investment inflows and consumer spending. In contrast, major Latin American economies such as Brazil and Mexico are likely to witness slower growth, hindered by fiscal consolidation initiatives, muted domestic demand, restrictive monetary policies, and the recent impact of tariffs imposed by the Trump administration.

Global growth, while demonstrating signs of resilience, continues to face significant headwinds. Elevated geopolitical risks and climate-related disruptions persistently weigh on economic performance. Moreover, inflation dynamics remain uneven: advanced economies are showing modest disinflationary progress, whereas emerging markets continue to struggle in sustaining capital inflows amid persistent inflationary pressures.

The easing of inflation in the latter half of 2024 prompted several economies to implement interest rate cuts, thereby reducing borrowing costs for households and businesses and bolstering economic activity. By early 2025, central banks in both advanced economies and select emerging markets had adopted more nuanced monetary policies tailored to their domestic economic conditions. However, some authorities, such as the Central Bank of Nigeria, have opted to maintain a tightening stance to better manage inflation risks, highlighting the divergence in macroeconomic conditions and policy responses across regions.

A rebound in global trade activity signaled renewed demand for goods and services, thereby bolstering overall economic growth. Nonetheless, rising trade protectionism, exemplified by the imposition of tariffs and reciprocal measures, particularly by the United States, presents a substantial risk to the recovery of global trade. Concurrently, heightened geopolitical tensions have intensified uncertainty, undermining business confidence and disrupting supply chains. Additionally, significant debt burdens across both advanced and emerging economies, coupled with constrained fiscal capacity, continue to restrict public expenditure intended to stimulate economic growth, while elevated interest rates relative to pre-pandemic levels have suppressed consumer spending and private-sector investment. The effectiveness of monetary policy adjustments in managing inflation has varied by region. In advanced economies, the U.S. Federal Reserve initiated monetary easing by reducing its target rate to 4.25–4.50% in December 2024, signalling a gradual deceleration in the pace of easing; however, early policy decisions prompted by the Trump administration led to a pause in further rate cuts in January 2025 due to inflationary concerns. In contrast, the European Central Bank adopted a more accommodative approach by lowering its deposit rate from 2.75% to 2.50% in March 2025, and the Bank of England similarly reduced its rate from 4.75% to 4.50% in February 2025. Emerging market central banks, including the Central Bank of Nigeria, have maintained tighter monetary policies to mitigate inflation risks and support capital inflows, while the Bank of Ghana, after shifting towards an easing stance in late 2024, has held its policy rate at 27% since January 2025, reflecting the delicate balance between curbing inflation, fostering economic growth, and maintaining financial stability.

Figure 1: Year-on-Year Inflation in Selected Economies (December 2024 – January 2025) in percent



Source: Various National Statistics Offices

The S&P 500® was down 1.42% in February, bringing its YTD return to 1.24%. The Dow Jones Industrial Average® lost 1.58% for the month and was up 3.05% YTD. The S&P MidCap 400® decreased 4.44% for the month, bringing its YTD return to -0.83%. The S&P SmallCap 600® returned -5.84% in February and was down 3.16% YTD.

In February, stock markets exhibited only modest responses to developments in Washington—including official rhetoric, executive orders, and policy adjustments, perceiving these events as part of ongoing negotiations. While the final outcomes may ultimately reshape the nation's economic landscape and, consequently, the market, the immediate concern centred on consumer sentiment. There was apprehension that emerging consumer pessimism, reflected in confidence and sentiment indices, could lead to reduced spending, thereby lowering corporate profits and affecting employment levels. This pessimism was further compounded by uncertainties regarding public sector employment and its spill over effects on the private sector, along with the potential re-emergence of inflationary pressures driven by tariffs. Despite robust employment figures and significantly lower inflation, consumer perceptions remain pivotal, as they directly influence market expectations for future profits.

Global geopolitical uncertainties have intensified, driven by significant developments across Europe, the Middle East, and North America. The economic landscape remains volatile as nations contend with trade tensions, shifting alliances, and strategic policy adjustments. In North America, trade relations have experienced renewed strains as tariff and counter-tariff measures among the United States, Canada, Mexico, and China escalated in early 2025 amid tariff flip-flops from the Trump administration and reciprocal actions by affected countries. These measures, impacting key industries such as manufacturing, automobiles, technology, and agriculture, have raised concerns over potential supply chain disruptions and adverse effects on global trade flows. The absence of a durable resolution continues to undermine market confidence in trade-sensitive sectors.

In Europe, Ukraine's conditional willingness to engage in peace negotiations with Russia—contingent upon the involvement of the EU and the United States—marks a potential shift in the conflict's trajectory, following a contentious media briefing where American authorities sought increased gratitude from the Ukrainian president. While Ukraine signalled some flexibility to secure a mineral deal in exchange for security guarantees, European nations, particularly NATO members, have increased their commitment to security spending. Germany, for example, is considering a substantial expansion of its military capabilities, while France is emerging as a regional nuclear hub. However, ongoing diplomatic uncertainties exacerbate volatility in energy markets and disrupt cross-border investment flows, further contributing to regional economic fragility.

Immediate policy interventions may provide temporary relief, yet persistent uncertainties pose structural risks to global trade, inflation dynamics, and investor sentiment. The outlook for the coming months remains dependent on the efficacy of diplomatic engagements and the resolution of ongoing trade disputes. In the commodities market, crude oil prices declined in February 2025, with West Texas Intermediate (WTI) closing at US$69.71 per barrel and Brent crude at US$72.81 per barrel. Upside risks persist due to robust demand and geopolitical uncertainties, while downside risks are linked to vulnerabilities in the global financial system and the potential oversupply from increased U.S. oil production following aggressive policy directives, which could trigger a market glut and price collapse.

Historically, February has been a strong month for Bitcoin; however, February 2025 saw an 18.81% decline, with Bitcoin closing at US$84,373.01 after reaching a low of US$78,248.91. This downturn was driven by macroeconomic uncertainty, particularly regarding inflation and the potential for U.S. interest rate hikes, alongside the Federal Reserve's cautious approach, which maintained rates in the 4.25%-4.50% range with only two projected cuts for the year. These factors constrained liquidity for asset investments, including Bitcoin. Moreover, escalating geopolitical tensions and the spectre of trade conflicts further contributed to market volatility. Despite this correction, which marked Bitcoin's lowest level in 2025, historical patterns suggest potential resilience following significant growth phases, particularly in the aftermath of halving events. Notably, on March 2, President Donald Trump announced the establishment of a strategic cryptocurrency reserve, reflecting the increasing significance of digital assets in financial markets. This was followed by a Crypto Summit hosted by the White House on March 7, where policymakers and industry leaders convened to deliberate on the future trajectory of digital assets.

Global Economic Outlook

On the outlook, the first half of 2025 is expected to be marked by considerable turbulence. In advanced economies, the United States continues to exhibit robust economic performance—a trend forecast to persist despite challenges such as persistent service sector inflation, mounting consumer debt, a softening labour market, and escalating political uncertainties that pose risks to consumer spending and overall economic momentum. Conversely, the Eurozone, buoyed by declining inflation and a resurgence in export activity, presents cautious optimism; however, its recovery is likely to be constrained by enduring structural weaknesses and divergent economic conditions among member states.

In emerging markets, particularly China and India, sustained expansion is anticipated, driven by strong domestic demand and vigorous export activity. Nonetheless, China faces notable headwinds including a contracting real estate sector and diminishing productivity gains, which may impede its recovery and complicate trade relations with the United States. Financial markets are also projected to remain volatile. Although current market sentiment favours rapid interest rate cuts, bond markets appear to have overestimated the probability of aggressive monetary easing, suggesting that premature cuts could be counterproductive unless triggered by a significant economic downturn. A prudent investment approach should therefore emphasize diversified regional exposure over concentrated small-cap positions, with markets in the United Kingdom and continental Europe offering relatively attractive valuations and stable economic momentum that may help mitigate U.S. market vulnerabilities.

Central banks in advanced economies are anticipated to adopt a measured transition toward more accommodative monetary policies, carefully calibrating adjustments in response to domestic economic conditions and evolving global dynamics, including shifts in policy under the Trump administration. In contrast, emerging market central banks are likely to maintain restrictive monetary policies in early 2025, particularly in economies contending with elevated inflation or striving to sustain capital inflows within competitive financial environments. This divergence in policy underscores the complex trade-offs inherent in balancing growth objectives, price stability, and financial system resilience.

Looking ahead, capital flows are projected to increasingly favour emerging markets, driven by monetary easing in advanced economies. Central banks will continue to navigate complex policy dilemmas as they balance the imperatives of inflation control, employment support, and financial stability, with premature policy loosening risking the erosion of inflation containment efforts and excessive tightening heightening the risk of financial instability or recessionary pressures.

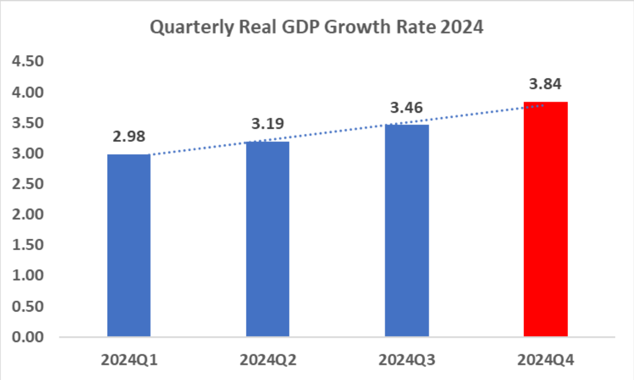
In the commodities sector, further adjustments are anticipated. Oil prices are expected to moderate as OPEC+ gradually reverses previous production cuts and U.S. oil output rises. Similarly, ample supply and high inventory levels are likely to exert downward pressure on natural gas and coal prices. In contrast, industrial metal prices may rebound, supported by fiscal and monetary stimulus measures in China, while gold prices are projected to soften as expectations of interest rate cuts are already factored into market valuations. Agricultural commodity prices are also expected to decline amid improved global supply conditions.

In summary, the global economic environment for the second quarter of 2025 would be shaped by geopolitical uncertainties, shifting monetary policy trajectories, and dynamic commodity market trends. To ensure sustained growth and macroeconomic stability, policymakers and central banks must employ precise and adaptable strategies that reinforce the ongoing recovery while effectively mitigating medium-term risks.

Nigeria’s Output Growth

The Nigerian economy sustained a steady growth trajectory throughout 2024, demonstrating resilience in the face of persistent macroeconomic headwinds. Real GDP expanded to 3.84 percent in Q4 2024, up from 2.98 percent in Q1 2024 (Figure 2), reflecting a broad-based recovery across key sectors. On a year-on-year basis, economic growth in Q4 2024 improved by 0.38 percentage points above the 3.46 percent recorded in Q4 2023, underscoring the economy's continued expansion despite global and domestic challenges. This outturn is surprisingly stronger than expected based on PMI data, which had signalled a more subdued pace of economic activity.

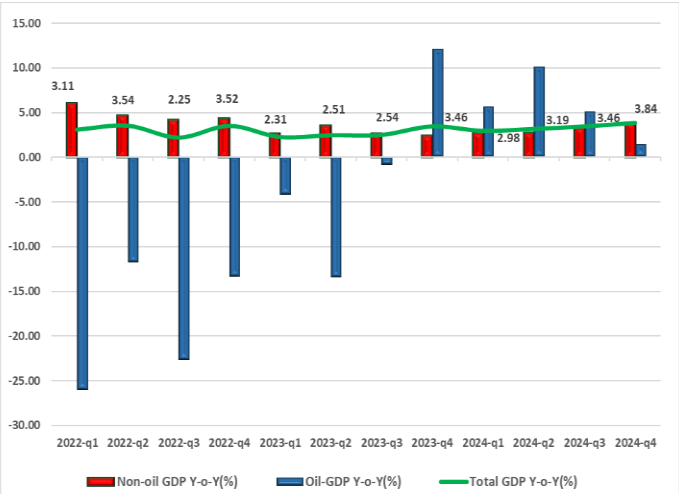
Figure 2: Nigeria's RGDP Performance in 2024



Source: **Source: National Bureau of Statistics (NBS)**

Growth in Q4 2024 was primarily driven by the Services sector, which posted a robust expansion of 5.37 percent and contributed 57.38 percent to total GDP. This highlights the increasing role of service-oriented subsectors in Nigeria's economic structure, supported by financial services, telecommunications, and trade-related activities.

Figure 3: Nigeria's Annual RGDP Growth Rates 2018-2024



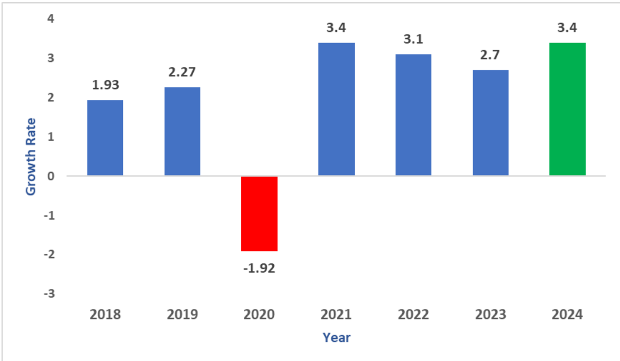
Source: **Source: National Bureau of Statistics (NBS)**

For the full year 2024, Nigeria's economy expanded by 3.40 percent, marking the strongest annual growth rate since 2021 (Figure 3). This improved performance is largely attributed to the broad-based recovery across 38 economic activity sectors, reflecting the impact of key structural reforms introduced in mid-2023. In particular, the removal of fuel subsidies and exchange rate harmonization played a critical role in enhancing fostering investment inflows, and improving resource allocation across sectors. These policy measures have also laid the foundation for sustained, private sector-led growth in the coming years.

In nominal terms, Nigeria's economy expanded to ₦269.3 trillion in 2024, from the ₦229.9 trillion recorded in 2023 reflecting a significant increase in aggregate economic activity. However, the sharp depreciation of the Naira led to a substantial contraction in the size of the economy in dollar terms. This underscores the profound impact of exchange rate fluctuations on Nigeria's macroeconomic stability and international economic positioning.

The oil sector GDP recorded a real growth rate of 1.48 percent (year-on-year) in Q4 2024, marking a sharp decline of 10.64 percentage points compared to the 12.11 percent growth registered in Q4 2023 (Figure 4). This slowdown is largely attributed to a reduction in average crude oil production, which fell from 1.6 mbpd in Q42023 to 1.5 mbpd in Q42024, reflecting persisting operational challenges within the sector.

Figure 4: Real GDP Growth Rate in Nigeria (Q12022 – Q42024) in percent



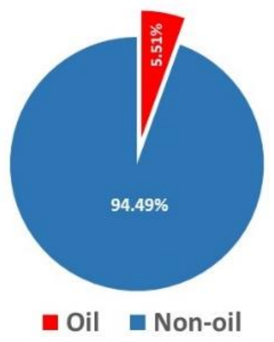
Source: National Bureau of Statistics (NBS)

The oil sector recorded an annual growth rate of 5.54 percent in 2024, a significant rebound from the -2.22 percent contraction in 2023. However, its contribution to real GDP declined to 4.60

percent in Q4 2024, down from 4.70 percent in Q4 2023 and 5.57 percent in the previous quarter. Despite quarterly declines, the sector's overall share of GDP in 2024 stood at 5.51 percent, slightly above the 5.40 percent recorded in 2023.

The non-oil GD grew by 3.96 percent in real terms in Q42024, an improvement of 0.89 percentage points from 3.07 percent in Q42023 and higher than the 3.37 percent recorded in Q32024. The non-oil sector contributed 95.40 percent to real GDP in Q42024, slightly above 95.30 percent in Q4 2023 and 94.43 percent in Q3 2024. However, its aggregate contribution for 2024 stood at 94.49 percent, marginally lower than the 94.60 percent recorded in 2023.

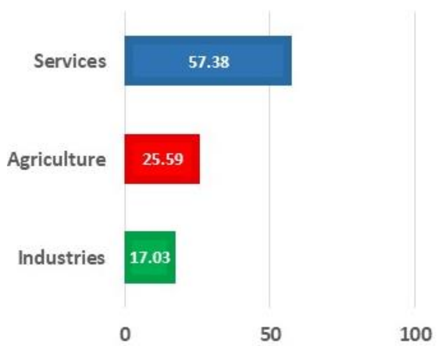
Figure 5: Contributions of Oil and Non-oil Sectors to 2024 Aggregate GDP



Source: National Bureau of Statistics (NBS)

Beyond the services sector, other key contributors to Q42024 GDP growth included agriculture, which accounted for 25.59 percent, and industries, which contributed 17.03 percent, highlighting the continued importance of these sectors in driving economic expansion.

Figure 6: Contributions of Key Sector to Q42024 GDP

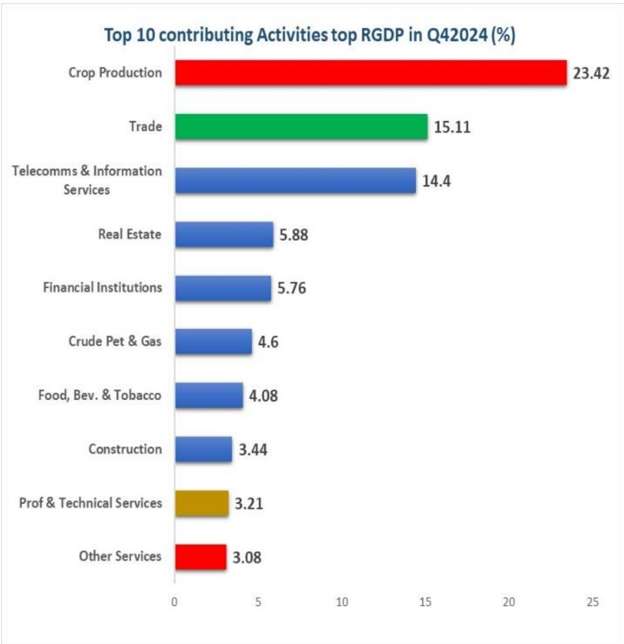


Source: National Bureau of Statistics (NBS)

This sectoral performance highlights the need for targeted policy interventions to sustain broad-based growth and strengthen economic resilience. In particular, addressing high production costs, inadequate power supply, and supply chain disruptions is essential to enhancing the contribution of these key sectors to the economy.

Top ten economic activities that drove real GDP in Q42024 (figure 4) included crop production, trade, Telecommunication and information services, real estate, among others (Figure 7).

Figure 7: Top 10 Economic activities that drove Nigeria's RGDP in Q42024 in Percent

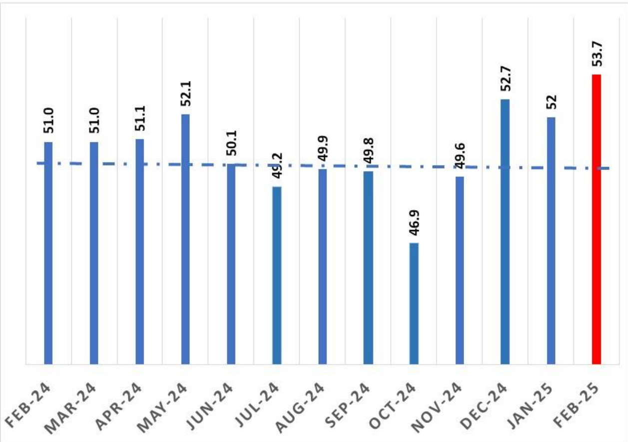


Source: National Bureau of Statistics (NBS)

Looking ahead to the Q12025 growth outcome, Nigeria's Purchasing Managers' Index (PMI) climbed to 53.7 in February 2025, up from 52.0 in January, reflecting an uptick in private sector activity. This improvement was driven by higher demand, leading to increased output, new orders, and purchasing activity across key sectors such as services, manufacturing, agriculture, and trade. However, employment growth remained sluggish, constrained by rising staff costs despite firms reporting stronger business conditions. Encouragingly, inflationary pressures eased, with input costs rising at their slowest pace in 10 months and output price inflation moderating to a seven-month low, suggesting a gradual stabilization in operating expenses.

From a growth perspective, the sustained expansion in private-sector activity supports the positive GDP trajectory seen in late 2024. The improving demand environment, coupled with exchange rate stability and lower fuel costs, enhances prospects for economic resilience. However, persistent cost pressures, structural bottlenecks, and cautious hiring trends could limit broader employment gains and investment expansion. Moving forward, continued policy support, infrastructure improvements, and measures to enhance productivity will be crucial to sustaining this growth momentum.

Figure 8: Trend of Nigeria's PMI (Feb 2024 - Feb 2025)



Source: Stanbic IBTC

Output Growth Outlook

Nigeria's economic growth has exhibited notable resilience despite ongoing macroeconomic challenges. However, several key constraints—such as high energy costs, pronounced foreign exchange volatility driven by currency shortages, security concerns, inadequate infrastructure, and escalating production expenses—continue to hinder the attainment of sustained and robust expansion. While forecasts for 2025 remain positive, enduring structural and macroeconomic impediments are anticipated to temper the overall growth trajectory.

Restrictive monetary conditions further compound the outlook. Elevated interest rates, exchange rate fluctuations, and persistent economic uncertainty are likely to suppress economic activity. Additionally, increased oil production in the United States is expected to drive down crude oil prices, which could adversely impact Nigeria across the real, fiscal, and external sectors. In this context, government revenue may face heightened constraints, particularly as the budgeted US$75 per barrel becomes increasingly unfeasible.

Nonetheless, cautious optimism is derived from anticipated seasonal gains in agriculture and improvements in industrial output. The operationalization of the Dangote refinery, along with the revitalization of the Warri and Port Harcourt refineries and the commencement of additional private-sector refinery investments in 2025, are expected to moderately boost economic activity. Yet, underlying structural deficiencies remain a critical concern, potentially limiting the efficacy of policy interventions aimed at achieving sustainable long-term economic growth.

Price Update

Following the rebasing of the Consumer Price Index (CPI), Nigeria's headline inflation rate declined to 24.48 percent year-on-year in January 2025, a significant adjustment from the 34.80 percent recorded in December 2024 under the previous methodology. This statistical revision reflects an updated approach to measuring price changes, ensuring a more accurate representation of consumer spending patterns and economic conditions. The rebasing aligns Nigeria's inflation measurement with current consumption trends, capturing shifts in household expenditure and structural changes in the economy.

A sectoral breakdown reveals that food inflation, a key driver of overall price levels, moderated to 26.08 percent year-on-year in January 2025, compared to 39.84 percent in December 2024 under the previous index. Similarly, core inflation, which stood at 22.59 percent year-on-year, signalling a deceleration in price pressures across non-food sectors. The decline in core inflation suggests some easing in cost-push pressures, likely influenced by factors such as exchange rate stability, improved supply chain conditions, and moderating input costs. While the rebased inflation figures offer a lower statistical reading, underlying price pressures remain a key concern, necessitating continued policy interventions to anchor inflation expectations and sustain economic stability.

Fiscal Operations Update

In February 2025, the Federation Accounts Allocation Committee (FAAC) disbursed N1.703 trillion to the three tiers of government, reflecting a 19.59 percent increase from the N1.424 trillion distributed in January 2025. This allocation accounted for 64.48 percent of the total revenue collected, which rose to N2.641 trillion, representing a 14.33 percent increase from N2.31 trillion in January. The upsurge in revenue was primarily attributed to stronger collections from Value-Added Tax (VAT), Petroleum Profit Tax (PPT), Companies' Income Tax (CIT), Excise Duty, Import Duty, and Common External Tariff (CET) Levies.

Despite the overall revenue growth, collections from Electronic Money Transfer Levy (EMTL) and Oil & Gas Royalty saw notable declines, underscoring sectoral weaknesses in oil-related earnings. The surge in non-oil revenue streams, particularly from taxation and import duties, reflects improved compliance, administrative efficiency, and broader economic activity. This revenue performance highlights the growing significance of non-oil sources in Nigeria's fiscal sustainability, reinforcing the need for policy measures that enhance domestic revenue mobilization, strengthen tax enforcement, and mitigate volatility in oil-dependent revenue streams.

The inflationary impact of fiscal expansion is particularly pronounced in economies like Nigeria, facing structural bottlenecks, such as supply chain inefficiencies, foreign exchange volatility, or high production costs. In such cases, an increase in public spending may intensify cost-push inflation, further amplifying price instability. To mitigate these risks, fiscal policymakers must strike a balance between stimulating economic activity and maintaining price stability, often through complementary monetary policies, targeted spending, and supply-side interventions.

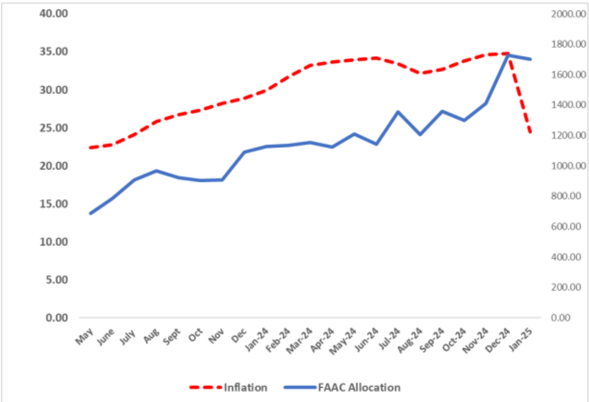
Table 1: Highlight of Feb. 2025 FAAC Distr (N'billion)

	Feb. 2025	Jan. 2025	% Change
Fed.	*552.59*	*451.19*	*22.5*
State	*590.61*	*498.49*	*18.5*
LG	*434.57*	*361.75*	*20.1*
13%	*125.28*	*113.48*	*10.4*
Total	***1,703.05***	***1,424.49***	*19.6*

Source: FAAC, Feb 2025

A detailed breakdown of allocations, presented in Table 1, reveals that the Federal Government received ₦552.59 billion, States ₦590.61 billion, and Local Governments ₦434.57 billion. Additionally, the 13% derivation fund distributed to beneficiary states amounted to ₦125.28 billion. In Nigeria's high-inflation environment, such increased fiscal injections are likely to heighten inflationary pressures. Figure 9, shows the link between FAAC allocations and inflation.

Figure 9: Trend of FAAC Distribution and Inflation Rate in Nigeria



Source: FAAC, February 2025.

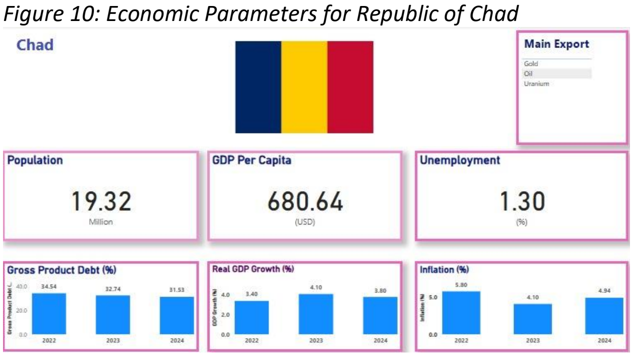
Conclusion

In conclusion, the global economic outlook for 2025 suggests a cautiously optimistic path, albeit one that is constrained by considerable challenges amid evolving geopolitical dynamics and realignments. Emerging markets continue to grapple with entrenched structural limitations, further compounded by enduring global uncertainties and a recovery in China that has lagged expectations. Although rigorous monetary policy measures implemented by central banks have helped to temper inflation in various regions, these interventions have also imposed significant trade-offs, such as dampened economic growth and heightened vulnerabilities within the financial sector. Nonetheless, despite these global adversities and the restricted capacity for expansive policy manoeuvres, Nigeria's economic outlook for 2025 remains favourable.

The domestic economy continues to demonstrate resilience amid persistent macroeconomic challenges; however, structural bottlenecks and policy constraints pose significant risks to sustained growth. While positive developments—including seasonal agricultural gains, increased industrial activity, and refinery expansions—offer some optimism, the broader outlook remains tempered by foreign exchange instability, high production costs, and restrictive monetary conditions. Additionally, lower crude oil prices could exacerbate fiscal pressures, further constraining government revenue. To achieve long-term economic stability, addressing these structural inefficiencies through targeted policy reforms and investment in critical infrastructure remains imperative.

Country in Focus – Republic of Chad

Figure 10: Economic Parameters for Republic of Chad



Source: CAPE Economic Research and Consulting, 2025