Cape Economic Performance and Prospect Bulletin – May 2025

Highlights

- *Price pressures expected to remain heightened and remain above pandemic levels as tightening efforts continue to crystalise.*
- *Nigeria's Q2 2025 output growth expected to remain positive and marginally higher than Q1 2025 as economy stabilises from reforms.*
- *Nigeria's Economic Policy Uncertainty Index surged by over 85% between February and April 2025, peaking amid heated trade policy debates and State of Emergency declaration in River State*

Global Economic Update

Economic activity has remained relatively resilient for most of the first half of 2025, although this stability was supported by temporary factors. However, global growth prospects are markedly weak, reflecting tariff rates at levels not seen in a century and a highly unpredictable environment, while inflation risks have increased. Accelerated inventory build-up "front-loading" ahead of looming tariff increases has underpinned manufacturing output, helping to sustain global economic momentum. Nonetheless, weakening business confidence driven by the ongoing trade dispute is expected to surface more clearly in the months ahead.

In the United States, the economic outlook is mixed. Both the goods and labour markets display underlying strength, yet recent policy shifts, including aggressive new tariffs on trading partners and tighter immigration controls have begun to weigh on growth momentum. Executive orders expanding tariff coverage to key imports have elevated production costs and dampened business confidence, while stricter visa rules are limiting labour-force participation and adding to hiring frictions. Moreover, the lack of clarity around the administration's broader geopolitical posture has amplified investor wariness, creating pockets of volatility that risk undercutting otherwise solid fundamentals. With these headwinds, forecasts for 2025 have tilted toward a stagflation scenario, sluggish output growth coupled with persistent price pressures, which in turn is expected to postpone any Federal Reserve rate reductions until well into next year.

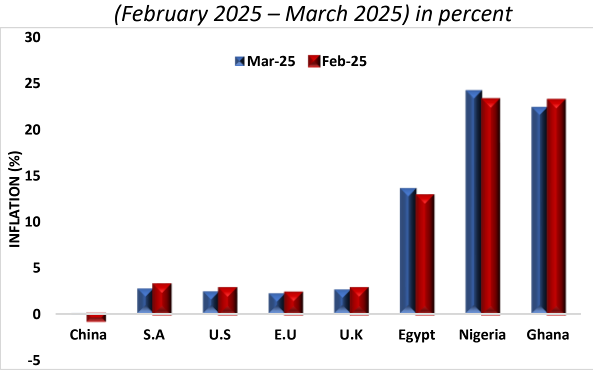
By contrast, emerging and frontier economies are projected to outpace advanced peers, buoyed by strong domestic demand and ongoing inflows of foreign capital. China remains at the forefront, where targeted fiscal support for the real estate and infrastructure sectors has helped offset softer consumer spending. India's economy is similarly on a robust trajectory, fuelled by record investment levels and a resilient consumer base, despite global uncertainties. In Latin America, however, growth is expected to be more muted: Brazil's GDP expansion is being constrained by fiscal retrenchment and tight monetary policy, while Mexico faces headwinds from reduced U.S. demand and the lingering impact of newly imposed duties on its exports. In both cases, policymakers are balancing the need for macroeconomic stabil ity with the imperative to shield growth from external shocks.

Inflationary trends are divergent. Advanced economies are gradually achieving disinflation: U.S. headline inflation slowed from 3.4 percent in mid-2024 to 2.4 percent by March 2025, and euro-area inflation eased from 5 percent to 2.2 percent over the same period. Even China, the world's second-largest economy, reported a drop in inflation to negative region of -0.1 percent. However, many smaller emerging markets particularly in Sub-Saharan Africa continue to grapple with inflation rates above double digits, reflecting persistent supply bottlenecks, weaker currencies, and volatile capital flows.

In response, several advanced economies are easing to support output growth. In the U.S., the Federal Reserve after raising rates to 4.25–4.50 percent by December 2024, the Fed paused cuts from January 2025 onward, citing the uncertain impact of Trump-era tariffs on inflation and growth prospects. At its May 2025 meeting, it reiterated its data-dependent "wait-and-see" approach to guard against a premature policy pivot. In Europe the European Central Bank (ECB) reduced its deposit, main refinancing, and marginal lending rates by 25 basis points in April 2025 bringing them to 2.25 percent, 2.40 percent, and 2.65 percent respectively, in order to counter slowing growth and stabilize underlying inflation dynamics. In the United Kingdom: The Bank of England has shifted to an accommodative stance with rate cuts and policy normalisation to support demand and is expected to sustain this trend at its May 2025 meeting.

Emerging markets are equally tailoring their monetary policies to local conditions. Notably, Nigeria confronted with 24.23 percent inflation and episodic capital flight, the Central Bank of Nigeria (CBN) has maintained its Monetary Policy Rate above 27 percent and Cash Reserve Ratio at 50 percent, prioritizing inflation control and FX stability despite headwinds to growth. Equally the Bank of Ghana facing inflation of over 22 percent, retained its policy rate at 27.5 percent in March 2025, citing the need to anchor inflation expectations and stem portfolio outflows.

Figure 1: Year-on-Year Inflation in Selected Economies (February 2025 – March 2025) in percent



Source: Various National Statistics Offices

The equities market remained largely bearish. The S&P 500® was down 0.76% in April, bringing its YTD return to -5.31%. The Dow Jones Industrial Average® lost 3.17% for the month and was down 4.41% YTD. The S&P MidCap 400® decreased 2.32% for the month, bringing its YTD return to -8.63%. The S&P SmallCap 600® returned -4.28% in April and was down 13.19% YTD.

Market participants spent April reacting to a succession of headline-driven developments, particularly the rapid shifts in U.S. tariff policy, that injected elevated volatility into trading sessions. In early May, for example, the S&P 500 snapped a nine-session winning streak immediately following the announcement of renewed tariffs, underscoring how policy uncertainty can trigger sharp equity reversals. Throughout April, the Volatility Index traded at elevated levels, reflecting heightened investor anxiety as the administration's trade stance oscillated. The persistent downside momentum highlights the market's sensitivity to short-term political and policy updates, suggesting that until tariff trajectories and trade-war outcomes become clearer, equity benchmarks may continue to underperform despite underlying corporate earnings strength.

The recent surge in protectionist policies, manifested through new tariffs and retaliatory actions, especially by the United States, directly threatens the fragile rebound in global trade. Such measures, together with escalating geopolitical strains, have undercut corporate confidence and fractured supply chains. At the same time, both advanced and developing economies face mounting debt loads and shrinking fiscal space, limiting their ability to deploy public spending as a countercyclical tool. Elevated borrowing costs, relative to pre-pandemic norms, continue to dampen household consumption and corporate investment.

Across regions, uncertainty remains acute. In North America, a wave of tariffs and counter-tariffs among the U.S., Canada, Mexico, and China since early 2025 has disrupted key industries, from manufacturing and automotive to technology and agriculture, fuelling fears of supply-chain breakdowns and curbing trade volumes. In Europe, tentative signals from Ukraine about engaging Russia in peace talks, contingent on robust EU and U.S. support, hint at a possible de-escalation. Yet, persistent diplomatic ambiguity keeps energy markets on edge and discourages cross-border capital flows. Meanwhile, NATO members are boosting defence budgets, Germany contemplating major expansions to its military infrastructure and France reinforcing its nuclear capabilities, adding another layer of uncertainty that continues to strain regional investment and economic stability.

In the commodities market, crude oil prices declined in April 2025, with West Texas Intermediate (WTI) closing at US$58.21 per barrel and Brent crude at US$61.06 per barrel. Downside risks are linked to vulnerabilities in the global financial system, rising trade uncertainty and the potential oversupply from increased U.S. oil production following aggressive policy directives, which could trigger a market glut and price collapse.

In April 2025, the cryptocurrency market exhibited notable recovery from its March slump, driven by renewed institutional interest, easing macroeconomic uncertainty, and significant price rebounds in major tokens. Bitcoin led the resurgence by 14.5 percent to US$97,400, while Ethereum held relatively steady, in part due to inflows into spot ETFs. Trading volumes and open interest across CME futures and options continued to expand, reflecting heightened risk-management activity amid ongoing geopolitical and policy uncertainties. Meanwhile, several institutional milestones, including Binance's USD1 stablecoin launch and Morgan Stanley's planned crypto integration, underscored the growing convergence between traditional finance and digital-asset markets.

Global Economic Outlook

On the outlook, the remainder of the first half of 2025 and going into the second half of 2025, the global economy is expected to be marked by considerable turbulence.

Advanced economies exhibit uneven resilience, most notably the U.S. labour market remains solid despite persistent service-sector inflation and rising household leverage, while the Eurozone shows tentative recovery as inflation eases and exports rebound. China and India are forecast to lead emerging-market growth, though China's property downturn and trade-war risks could weigh on momentum.

Advanced-economy central banks are expected to pivot toward easing by late 2025, contingent on disinflation holding in core services and wage growth moderating. In contrast, several emerging-market central banks, in Latin America and Sub-Saharan Africa, are likely to maintain restrictive policy stances into early 2026 to anchor inflation and defend FX amid competitive global yields.

As developed-market rates begin to ease, capital is forecast to reflow into higher-yielding emerging markets, supporting local assets but also risking sudden stops if policy divergences shift, even as financial markets remain jittery and global trade lingers under tariff-induced uncertainty. Bond markets have arguably priced in too-aggressive rate cuts, with swap-market pricing showing a 65 percent chance of a June Fed cut up from 45 percent in April, yet fundamental indicators suggest cuts may be delayed until H2 2025. Equity markets will remain sensitive to policy shifts and trade-war developments, favouring diversified, defensive exposures over concentrated small-cap bets.

Commodity markets are set for divergent trajectories: oil and gas prices are likely to ease on increased OPEC+ and U.S. output, industrial metals may recover on Chinese stimulus, and agricultural prices could soften amid ample supply. OPEC+'s decision to accelerate output increases, combined with rising U.S. shale production, has driven Brent futures toward US$66/barrel for 2025, down from US$70 at year-end. Natural gas and coal inventories remain high, pointing to further moderate downside pressure on prices. Stimulus-driven infrastructure demand in China underpins a projected recovery in copper and aluminium prices by mid-2025. Conversely, buoyant global harvests and depressed bulk-cargo freight rates are expected to weigh on grain and vegetable-oil prices, with the FAO Food Price Index down 19.9 percent from its March 2022 peak.

Global trade volumes grew just 1.2 percent in Q1 2025, down from 3.8 percent a year earlier, as U.S. and Chinese tariff escalations squeezed manufacturing and agriculture value chains. Absent durable tariff rollbacks or new multilateral accords, supply-chain re-shoring and near-shoring trends are likely to continue, raising costs and fragmenting global value chains.

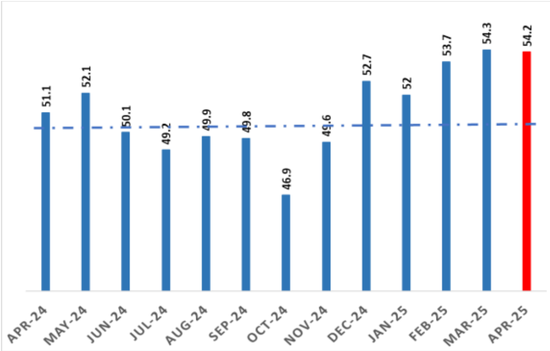
In summary, the global economic environment is poised to be shaped by geopolitical uncertainties, shifting monetary policy trajectories, and dynamic trends in commodity markets. To ensure sustained growth and macroeconomic stability, policymakers and central banks must adopt precise, adaptable strategies that reinforce the ongoing recovery while effectively mitigating medium-term risks. Policymakers and market participants must remain agile, calibrating monetary policy to evolving inflation dynamics, monitoring capital-flow reversals, and anticipating commodity-price shifts, while diplomatic progress on trade agreements will be pivotal to restoring confidence in global trade and investment.

Nigeria's Output Growth

Nigeria's economic momentum remained positive at the start of the second quarter of 2025, building on the recovery seen throughout Q1. Private sector activity continued to strengthen in April, supported by improved customer demand, higher output, and sustained hiring, according to the latest Stanbic IBTC Bank Nigeria PMI. The headline PMI stood at 54.2 in April, slightly down from 54.3 in March, but still well above the 50-point threshold that signals expansion (figure 2). This marks the fifth consecutive month of improvement in business conditions and reflects the most robust pace of output growth since January 2024. All four monitored sectors posted increases in activity, with the services sector leading the expansion.

Rising new orders and customer inflows supported stronger output performance, prompting firms to ramp up purchasing and hiring activity. April marked the fifth consecutive month of job creation, with employment growth hitting an eight-month high—though the pace remained moderate. Despite these gains, backlogs of work continued to build, signalling that existing capacity is under strain amid sustained demand.

Figure 2: Trend of Nigeria's PMI (Mar 2024 - Mar 2025)

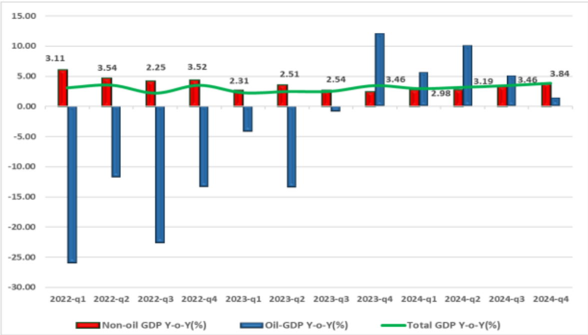


Source: Stanbic IBTC

Inflationary pressures edged higher in April compared to March, driven by local currency depreciation and rising energy costs. Input prices rose across all sectors, with particularly sharp increases in manufacturing. As a result, output prices also climbed, though inflation remained below the peaks recorded in 2024. The overall cost environment remains challenging, but the relative easing from last year is helping to bolster business sentiment and planning. While business confidence slipped slightly—marking a third consecutive decline—firms remained broadly optimistic about output growth over the next 12 months. Nonetheless, concerns over currency volatility and inflation are weighing somewhat on expectations.

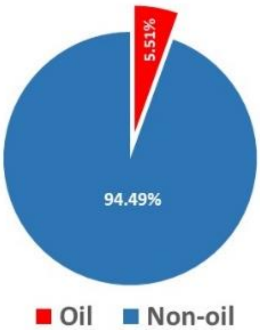
Based on the last GDP Report by NBS, the top ten economic sectors that supported output growth include crop production, trade, telecoms and information services among others. Historical trends and dynamics of Nigeria's output growth are as illustrated in the following charts (fig. 3-6)

Figure 3: Real GDP Growth Rate in Nigeria (Q12022 – Q42024) in percent



Source: National Bureau of Statistics (NBS)

Figure 4: Contributions of Oil and Non-oil Sectors to 2024 Aggregate GDP



Source: NBS

Figure 5: Nigeria's Annual GDP Growth Rates (2018 - 2024)

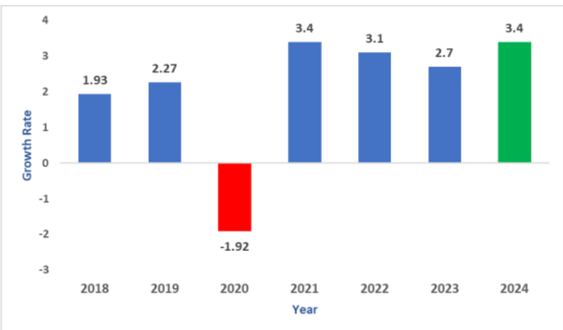
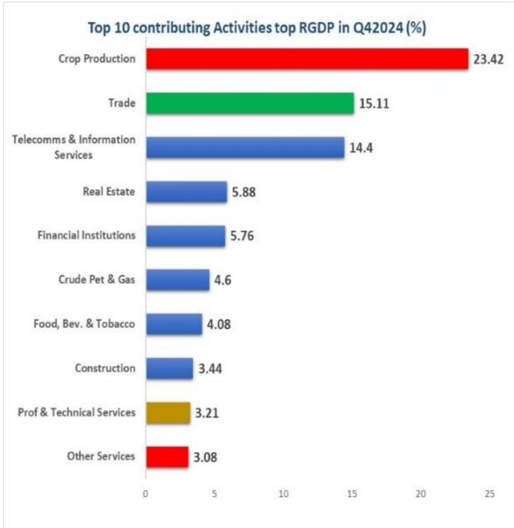


Figure 6: Top 10 Economic activities that accounted for Nigeria's RGDP in Q42024 (Percent)



Source: National Bureau of Statistics (NBS)

Output Growth Outlook

Nigeria's economic growth has shown notable resilience despite persistent macroeconomic challenges. However, several key constraints—high energy costs, acute foreign exchange volatility driven by currency shortages, security concerns, inadequate infrastructure, and rising production costs—continue to impede the achievement of sustained, robust expansion. While growth forecasts for 2025 remain positive, structural and macroeconomic headwinds are expected to weigh on the overall growth trajectory.

Restrictive monetary conditions further cloud the outlook. Elevated interest rates, exchange rate fluctuations, and persistent economic uncertainty are likely to dampen economic activity. Additionally, rising oil production in the United States is expected to exert downward pressure on crude oil prices, potentially undermining Nigeria's real economy, fiscal position, and external balances. This could tighten government revenues, especially as the budgeted oil price of US$75 per barrel becomes increasingly unrealistic.

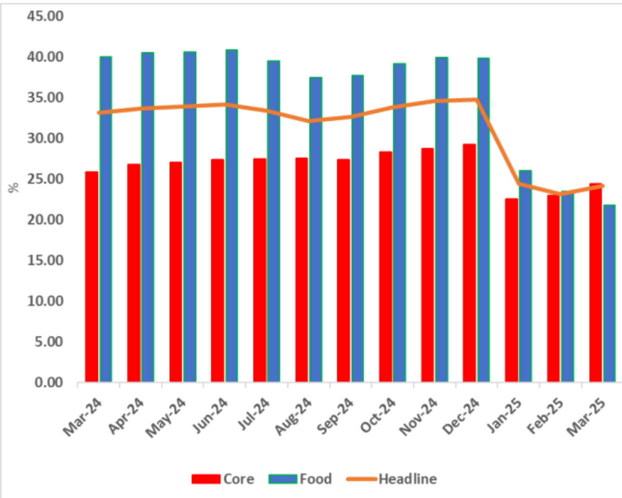
Nonetheless, cautious optimism stems from expected seasonal gains in agriculture and improvements in industrial output. Yet underlying structural weaknesses remain a critical concern, potentially constraining the effectiveness of policy efforts aimed at securing sustainable, long-term growth.

Price Update

Nigeria's headline inflation rate surged to 24.23 percent in March 2025, reversing the temporary moderation recorded in February and reaffirming persistent inflationary pressures across the economy. This marks a sharp increase from 23.18 percent in February, indicating growing strain on household incomes amid escalating prices of essential goods and services.

On a month-on-month basis, the headline inflation rate rose sharply to 3.90 percent in March, up from 2.04 percent in February. This 1.85 percentage point increase signals renewed momentum in overall price growth, fuelled by structural inefficiencies, exchange rate pass-through, and supply-side disruptions. The inflation surge was driven by rising prices across both food and non-food categories, underscoring the broad-based nature of the price pressures.

Figure 7: Year-on-Year Headline, Food and Core Inflation in Nigeria (Mar. 2024 – Mar. 2025)



Meanwhile, food inflation — a critical component of household consumption — rose to 21.79 percent year-on-year, further eroding real incomes. Month-on-month food inflation also increased to 2.18 percent, from 1.67 percent in February, driven by rising prices of key staples such as rice, bread, vegetables, and oil.

Core inflation rose to 24.43 percent year-on-year, highlighting persistent underlying price pressures beyond seasonal agricultural effects. On a month-on-month basis, core inflation accelerated to 3.73 percent in March, up from 2.52 percent in February.

The renewed inflation uptrend underscores the fragile state of price stability, despite earlier monetary tightening and the CPI rebasing implemented earlier this year. It suggests that the disinflation observed in February was likely transitory, with inflationary momentum still deeply embedded. This persistence calls for coordinated monetary, fiscal, and structural policy measures to address underlying inflationary pressures

Fiscal Operations Update

The fiscal operations of the Nigerian government in April 2025 reflect a further moderation in Federation Account disbursements, amid sustained weakness in revenue inflows. According to data from the Federation Accounts Allocation Committee (FAAC), a total of ₦1.578 trillion was distributed among the three tiers of government in April 2025. This represents a 5.9 percent decline compared to the ₦1.678 trillion disbursed in March 2025.

The total amount disbursed in April 2025 accounted for 65.45 percent of the ₦2.411 trillion in gross revenue generated in March 2025, which is typically distributed the following month. Notably, Petroleum Profit Tax (PPT) and Companies Income Tax (CIT) recorded significant increases during the period. However, these gains were offset by declines in revenues from oil and gas royalties, Value Added Tax (VAT), Electronic Money Transfer Levy (EMTL), excise duties, import duties, and Common External Tariff (CET) levies.

The continued decline in net allocations raises growing concerns over the fiscal resilience of subnational governments, particularly amid rising inflation and escalating expenditure pressures. Without stronger revenue performance or improved fiscal efficiency, states and local governments may face increasing difficultues in meeting financial obligations and sustaining service delivery.

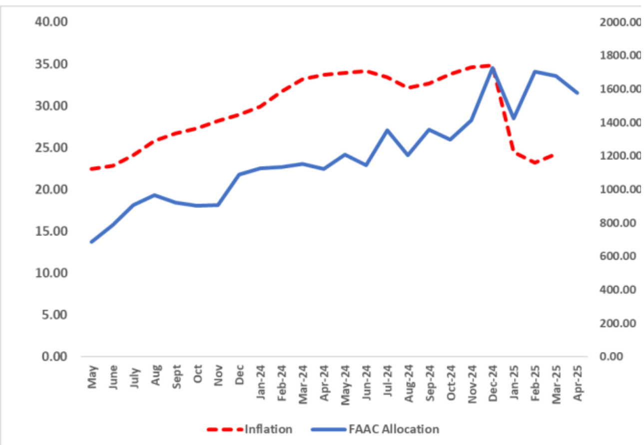
Table 1: Highlight of April. 2025 FAAC Distr (N'billion)

	Apr. 2025	Mar. 2025	% Change
Fed.	*528.69*	*569.66*	*-7.2*
State	*530.45*	*562.19*	*-5.6*
LG	*387.00*	*410.56*	*-5.7*
13%	*132.61*	*136.04*	*-2.5*
Total	***1,578.75***	***1,678.45***	***-5.9***

Source: FAAC, Mar 2025

The breakdown shows that allocations to the federal government declined by 7.2 percent, from ₦569.66 billion to ₦528.69 billion. Similarly, state governments received ₦530.45 billion (down from ₦562.19 billion), while local governments received ₦387.00 billion, representing a 5.7 percent decrease. The 13% derivation fund for oil-producing states also dipped slightly by 2.5 percent to ₦132.61 billion (Table 1). Given the observed relationship between fiscal injections and inflation dynamics (see Figure 8), the 5.9 percent decline in FAAC disbursements in April 2025 may have adverse implications amid the current inflation resurgence. While lower fiscal `outflows could theoretically ease demand-side pressures, the broader context suggests otherwise: reduced allocations may constrain subnational governments' capacity to address rising costs, fund essential services, and support vulnerable households.

Figure 8: Trend of FAAC Distribution and Inflation Rate in Nigeria

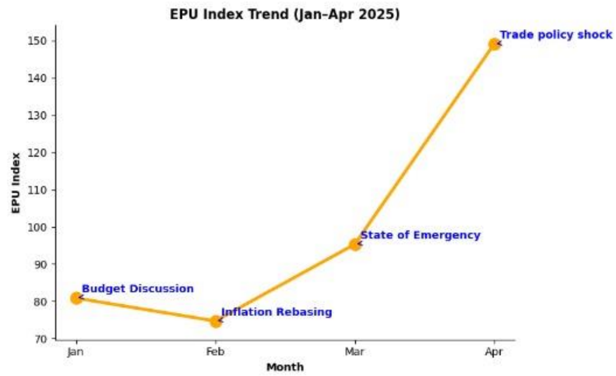


Source: NBS and FAAC

Nigeria Economic Policy Uncertainty Index (January–April 2025)

Between January and April 2025, Nigeria's Economic Policy Uncertainty (EPU) Index exhibited marked month-to-month volatility, reflecting evolving policy debates and their influence on business and investor sentiment. The index opened the year at 80.5 in January, dipped to 75.2 in February, climbed to 95.4 in March, and then surged to 149.3 in April (Figure 9)

Figure 9: EPU Index Trend for Nigeria



January: Budget Deliberations

The year began under the shadow of protracted National Assembly budget negotiations. Lawmakers and the executive branch clashed over revenue projections, capital spending allocations, and the projected fiscal deficit. Extended debates over sectoral priorities—particularly in infrastructure, education, and security—continued into the final week of January, fuelling uncertainty among market participants regarding government borrowing needs and potential tax adjustments. Although a temporary framework was adopted to maintain government operations, full budget approval remained pending, sustaining a relatively high level of policy uncertainty (EPU = 80.5).

February: Inflation Rebasing Consensus

In February, the index eased to 75.2 as economists, the Central Bank, and the National Bureau of Statistics reached consensus on a new inflation rebasing exercise. By updating the

Consumer Price Index basket to reflect evolving consumption patterns, policymakers addressed longstanding discrepancies in reported inflation figures. The clearer methodology and revised base year bolstered confidence in official data, enabling financial markets to recalibrate and temporarily reducing policy uncertainty.

March: State of Emergency Declaration

Uncertainty rebounded in March (EPU = 95.4) following the federal government's declaration of a state of emergency across multiple northern and central states. Intended to curb rising communal violence and banditry, the measure raised concerns about fiscal pressures from expanded security operations, the risk of curfews, and potential trade disruptions. Businesses faced heightened uncertainty over supply chain continuity and compliance obligations under emergency regulations.

April: Tariff and Trade-Policy Debates

April's record high of 149.3 was driven by intense debates over tariffs and trade policy. The Ministry of Finance proposed sweeping increases in import duties on food and industrial goods, while the Export Promotion Council floated new incentives for agricultural and mineral exports. Stakeholders—from import-dependent manufacturers to farmer cooperatives—lobbied vigorously, generating uncertainty over the final structure of duties, exemptions, and implementation procedures. The potential for abrupt cost increases and shifting competitiveness triggered a sharp spike in the EPU Index.

Outlook

As Nigeria enters the second quarter, close monitoring of parliamentary approvals, Central Bank communications, and trade-policy negotiations will be critical. Clear timelines for budget ratification, transparent guidance on security-related spending, and prompt release of updated tariff schedules could help reduce policy uncertainty and support more stable economic planning.

Conclusion

In conclusion, the global economic outlook for 2025 reflects cautious optimism tempered by persistent risks. Trade protectionism—exemplified by U.S. tariff escalations and retaliatory measures—threatens to derail the fragile trade recovery and exacerbate supply chain disruptions. Geopolitical tensions, from Ukraine to the Middle East, continue to unsettle markets and weigh on business confidence, injecting volatility into commodity and financial markets. Meanwhile, elevated public and private debt levels, coupled with limited fiscal space, are constraining policymakers' ability to deploy expansionary measures without compromising debt sustainability. Policy rates remain well above pre-pandemic levels, dampening consumer demand and private investment despite moderating inflation.

Emerging markets face particularly acute challenges. Structural weaknesses—including shallow financial markets and narrow export bases—have been compounded by trade-war uncertainties and slower-than-expected growth in China. Nonetheless, many central banks have successfully re-anchored inflation expectations through aggressive rate normalizations, though these gains have come at the cost of weaker growth and pressure on financial sector resilience. According to the IMF, global growth is projected at 3.3 percent in 2025, but downside risks from policy missteps and geopolitical shocks remain significant.

Amid this constrained environment, Nigeria's economy has demonstrated relative resilience. The external position has been supported by robust remittance inflows—equivalent to nearly 6 percent of GDP—and rising foreign reserves, helping to cushion the impact of oil revenue volatility. Prudent fiscal management and gradual structural reforms have strengthened Nigeria's macroeconomic framework, creating conditions for modest growth, projected at 3.8 percent in 2025, despite global headwinds. Continued efforts to diversify the economy, deepen capital markets, and enhance policy coordination will be critical to sustaining this resilience and positioning Nigeria for stronger growth as external uncertainties gradually ease.

Country in Focus – Republic of Rwanda

Figure 10: Economic Parameters for Republic of Rwanda

Source: CAPE Economic Research and Consulting, 2025