Economic Outlook 2024

Overall Macroeconomic Environment

Macroeconomic Environment includes analyst's views on GDP Growth, Inflation, Monetary Policy Rate, and Exchange Rate for 2024.

GDP Growth

- GDP growth is expected to average 2.9% in 2024, an improvement from the estimated 2.5% in 2023.
- Key growth drivers will include improved oil production volumes and higher government expenditure and consumer spending as they adjust to the impact of the fuel subsidy removal.
- Sectors such as finance and information communication will continue to drive output in 2024, while modest growth is expected for manufacturing and agriculture, due to harsh operating environment.
- *FSDH estimate: 2.5%*

Inflation (Average)

- The inflation rate is expected to average 27.9% in 2024 (2023: 24.5%).
- Key challenges of insecurity, logistics bottlenecks and infrastructure deficit will linger in the year, raising business costs.
- Although, we expect the inflation rate to trend downwards in H2 2024 as fiscal authorities will intensify their efforts to address some of these challenges.
- *FSDH estimate: 24.5%*

Monetary Policy Rate (MPR)

- We expect the Central Bank of Nigeria to pursue an inflation target agenda in 2024.
- This position implies a mopping up of liquidity via the fixed-income market and suggests a hawkish environment for interest rates.
- While interest rate hikes and the issuance of monetary instruments to mop up liquidity are inevitable, we do not envisage excessive rate increases, as the apex bank will also consider the need to boost economic growth and curtail high borrowing costs for both businesses and the government.
- The MPR is expected at 19% in H1 2024 and will be adjusted downwards as the inflation rate declines in H2.
- *FSDH estimate: 18.75%*

Exchange Rate ($/N, Average)

- The FX market will continue to be under pressure, driven by rising demand for imported goods and services - overall GDP growth is not high enough to meet domestic needs.
- Additional FX inflows from crude oil sales and other sources will not be adequate to meet this rising FX demand.

- Although foreign portfolio investment inflow is expected to improve relative to 2023 to take advantage of high interest rates, the economy will still be far from attaining the volume of FPIs pre-COVID.
- *We anticipate an average exchange rate of N925 per US$ in the official market in 2024.*

Capital Market forecasts

Capital Market forecasts include analyst's views on Equity Market and Fixed Income Market for 2024.

Equity Market Return

- At the end of 2023, Nigerian equities traded at a PE ratio of 10.5x, a 13% and 10% discount to our peer average and the MSCI Frontier Market index, respectively. Thus, it appears to show an undervaluation of Nigerian equities.
- However, despite the rally in January, we are cautious about the market outlook as we expect investors to reduce exposure following the earnings results announcement. We expect it to intensify if announced dividend payments underwhelm investors' expectations.
- That said, improvements in the FX market and policy normalisation in the global economy could encourage FPI flows toward Nigerian equities.
- We project the NGX-ASI will have a 2% EPS growth rate but model a lower valuation of 9.0x PE ratio. Overall, we expect the NGX-ASI to close the year around the 60,000 - 66,000 mark.
- *FSDH estimate: -13.0%*

1-year NTB Rate (Average)

- We anticipate tighter monetary policy in H1 2024 as part of the strategy to lower inflation with aggressive liquidity mop-ups.
- Moreover, we expect the FG to raise cN6.0tn via the domestic debt market (excluding ways & means), which is greater than the total maturity from the sovereign debt market (N3.25tn) plus new pension fund flows (estimated at N585bn). This does not account for new fund flows from DMBs. We expect these bond issuances to strain system liquidity during the year.
- In addition, we highlight that total NT-bill maturities for the year as of 16 January are estimated at N6.6tn, which we expect to be rolled over given the FG's revenue constraints.
- Overall, we anticipate a higher NT-bills rate on average in 2024.
- *FSDH estimate: 13.0%*

Bond Market

- The FG is expected to continue relying on the domestic debt market to finance the budget deficit.
- While loans from bilateral and multilateral sources would be available, the Eurobond market would be difficult to approach due to the elevated global interest rate environment.
- We project the FG would borrow N6.0tn from the bond market with a bias for longer tenors.
- Compared to expected maturities for the year coupled with fresh inflows, we expect bond supply to outweigh demand, driving bond yields higher.
- *FSDH estimates:*
    - 5Y Bond Yield (Average): 16.0%,
    - 10Y Bond Yield (Average): 17.0%,
    - 30Y Bond Yield (Average): 18.0%