

# Federal Government's Economic Reforms:

## Impacts and Recommended Policy Actions

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# Introduction

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- A lot has happened in the last 16 months that the current administration came to power
- There have been many reforms, with significant impacts on the lives of the citizens and businesses.
- An attempt is therefore made in this presentation to highlight some of the recent economic reforms and their impacts
- Also, some recommended policy options are discussed

# Recent Reforms and Impacts

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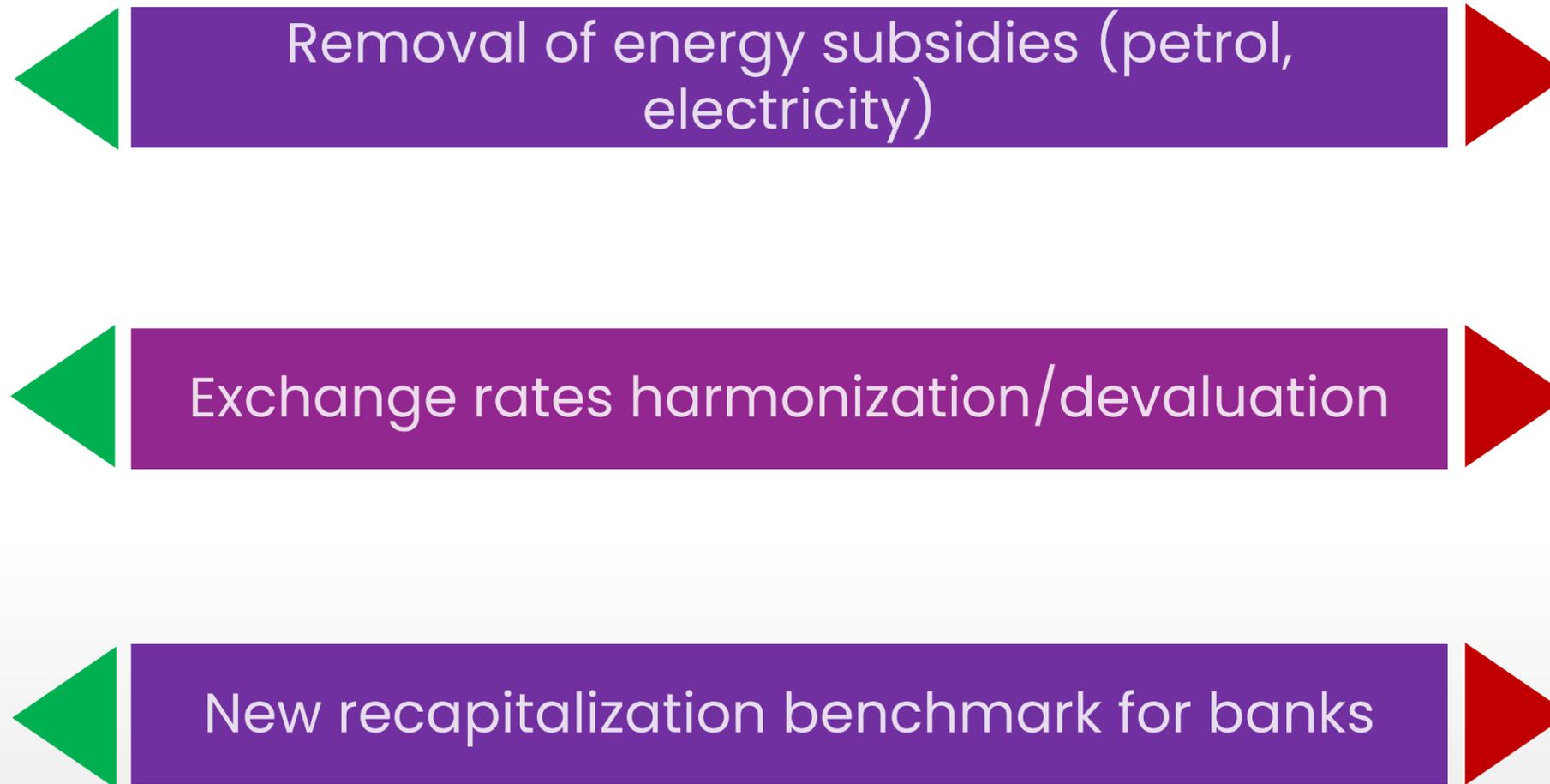


# Market Reforms and Impacts

## Pros

- Subsidy savings and incentives for private players in the sector
- Support capital inflow and capacity to clear forex backlog
- Potential for bigger banks and investment opportunities

## Reforms



## Cons

- Increased energy prices and reduced purchasing power
- Weaker currency
- Stress of raising new capital and risks of restructuring

# Business Competitiveness Reforms and Impacts

## Pros

- Improved room for SME growth
- Reduced pressure on PMS and lower transport costs
- Ability to freely conduct economic activities, especially agriculture and boost investment

## Reforms

SME support programmes (single-digit loan interest, VAT, CIT WHT below N25m revenue)

Presidential Initiative on Compressed Natural Gas for mass transit to reduce transportation costs

Intensified efforts to curb insecurity problems

## Cons

- Large informal sector and limited awareness to take advantage
- High cost and risk of conversion and constrained access
- Many areas in the country are still unsafe



# Governance and Institutions Reforms and Impacts

## Pros

- Avenue to make significant changes to the country's fiscal and tax policies
- More resources at the grassroots level
- Potential to aid economic growth, stability and create jobs

## Reforms

Establishment of the Presidential Fiscal Policy and Tax Reforms Committee

Direct payment of FAAC to LGAs

Economic Stabilisation Bill (ESB) seeking to amend about 15 different tax, fiscal, and establishment laws for development

## Cons

- The need to harmonise the Committee's work with existing structures, e.g. Finance and Planning
- Potential for friction between States and LGAs
- May create friction among affected government agencies



# Citizens' Welfare Reforms and Impacts

## Pros

- Improved access to education and housing loans
- Help manage the immediate impact/shocks of economic reforms
- Ability to raise workers' purchasing power, given current high inflation environment

## Reforms

Establishment of the Nigerian Education Loan Fund (NELFUND) and the Nigerian Consumer Credit Corporation (CREDICORP)

Palliatives to cushion the effect of subsidy removal

Increase in minimum wage

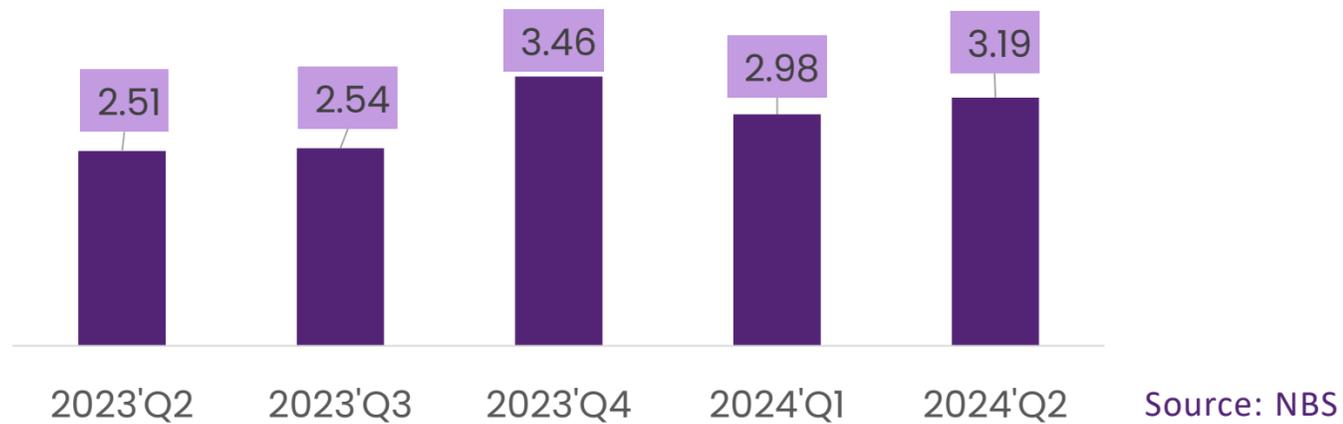
## Cons

- Risks associated with insufficient funding and method of allocation.
- Problems associated with inadequate provision and method of distribution.
- Potential to be inflationary and inability of all States and the private sector to pay.

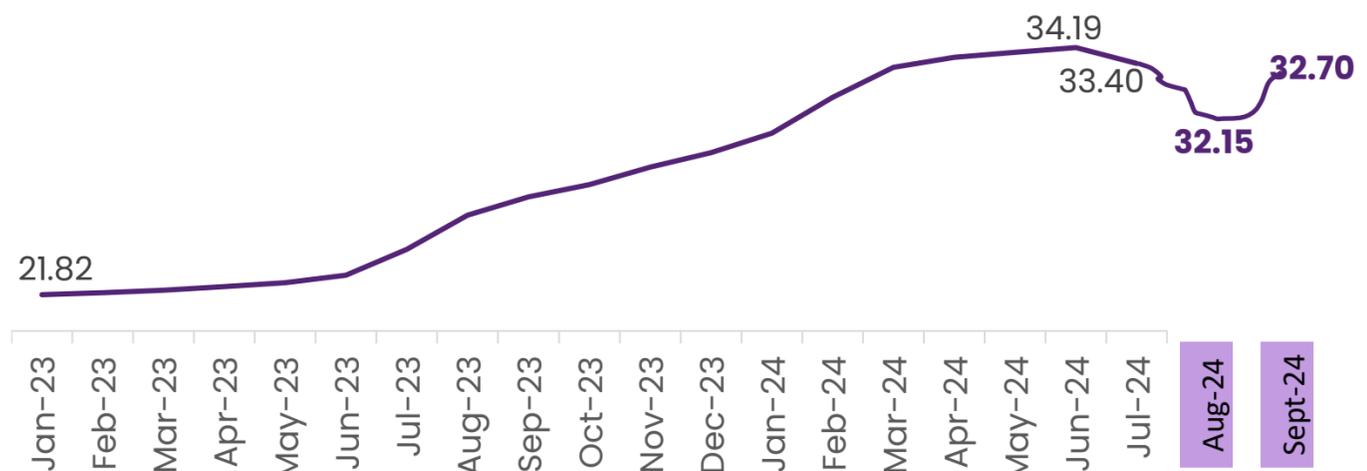


# Macroeconomic Impacts

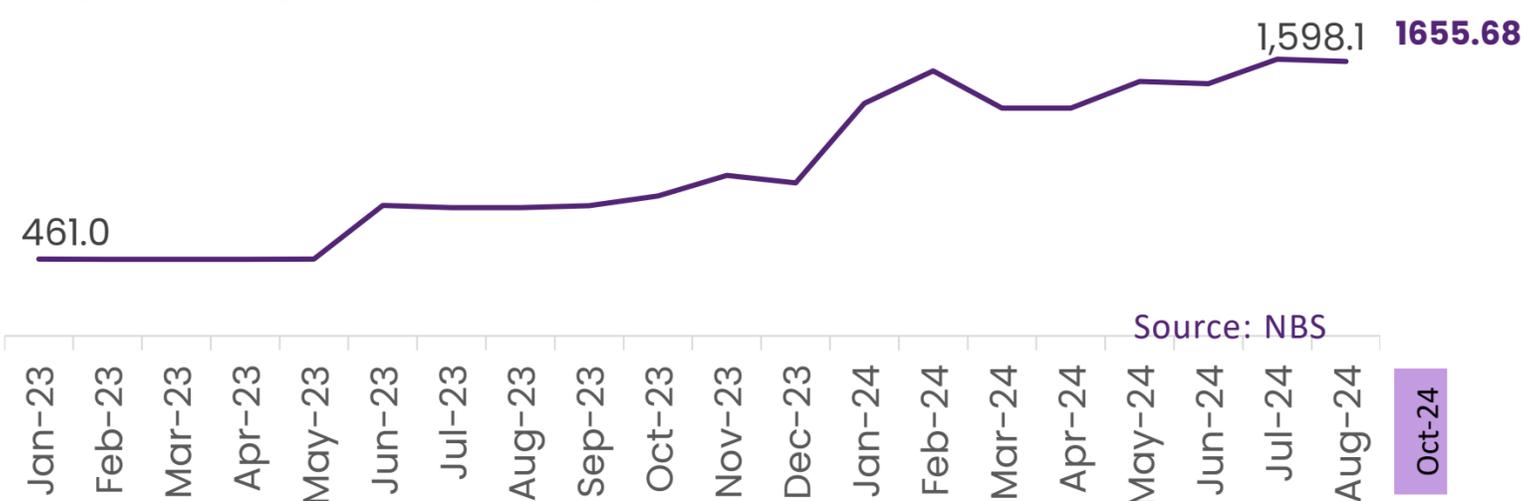
**Figure 1. Nigeria: GDP Growth Rate (%)**



**Figure 2. Nigeria's Inflation Rate (%)**



**Figure 3. Nigeria's Exchange Rate (N/US\$1)**



01

Nigeria's GDP growth rose to 3.19% in 2024'Q2 from 2.98% recorded in Q1. As shown earlier the forecasts in the short to medium term remain weak

02

- Inflation rate rose from 21.82% in Jan-2023 to 34.19% in Jun-2024 and declined slightly to 33.40% in Jul-2024 and further to 32.15% in Aug-2024
- Inflation reached 32.70% (yr/yr) in September 2024, driven mainly by food price inflation and loose financial conditions.
- With continued monetary tightening, IMF projects inflation to gradually decline to 24% (yr/yr) at the end of 2024 and further to 14% by 2027.
- Hence, interest rate is expected to remain relatively high in response to inflation and economic instability.

03

- Naira has depreciated by 71.15% between January 2023 and August 2024, rising from N461/US\$1 to N1,598.1/US\$, now around N1,657/US\$,
- Naira will likely continue to face gradual depreciation pressures due to trade imbalances and inflation.

# Sector Impacts

- The performance of the Nigerian economy has been mixed in the last one year
- The performance of the financial sector and fiscal space has been largely positive
  - Financial & Insurance Sector accounts for 6.57% of Nigeria's GDP but has continued as a major contributor to economic growth, recording 28.79% in 2024'Q2
- But changes in the real sector of the economy have not been impressive

	Last Period	Latest Period	Change (%)
<b>Output Prices</b>			
GDP Growth Rate (%) – Q2' 2024	2.51	3.19	0.68
Agriculture Growth Rate (%) – Q2' 2024	1.50	1.41	-0.09
Industry Growth Rate (%) – Q2' 2024	-1.94	3.53	5.47
Services Growth Rate (%) – Q2' 2024	4.42	3.79	-0.63
Inflation Rate (%) – Jul	24.08	33.40	9.32
Crude Oil Price (\$/bn) – Aug	89.3	82.9	-7.17
Petrol Price (N/Ltr) – Jun	545.83	750.17	37.44
<b>Financial Statistics</b>			
Money Supply - GDP Ratio %	28.95	40.12	11.17
MPR (%) – Sep	15.50	27.25	11.25
Equities Market Cap. as % of GDP – Sep	17.45	22.54	5.09
Stock Market Indices – Sep	67,296.18	96,205.85	42.96
Non-performing loan to Total loan (%)	4.20	4.70	0.50
<b>International Finance</b>			
Official Exchange Rate (N/US\$1.00) – Sep	784.53	1,628.65	-51.83
Parallel Exchange Rate (N/US\$1.00) – Sep	920.00	1,650.00	-44.24
Official & Parallel Exchange Rate Gap	135.47	21.35	-84.24
External Reserve (US\$' ) – Sep	33,430.78	36,337.01	8.69
Current Account Balance as % of GDP – Q1' 2024	4.16	5.82	1.66
<b>Public Finance</b>			
Public Debt as % of GDP – Q1' 2024	41.52	49.66	8.14
FGN Revenue as % of GDP	3.30	4.85	1.55
FGN Expenditure as % of GDP	6.82	9.02	2.20
Ave. Monthly Gross FAAC (N'Bn) – May	1,134.03	2,324.79	105.00
Share of Capital in Budget (%)	27.40	37.29	9.89

## Market Reforms

- More transparency in the management of subsidy savings and product pricing
- Build foundation for Long-term productivity and export-led growth to strengthen currency
- Couple financial sector growth with real sector expansion through adequate lending and advisory

## Business Competitiveness

- Link micro and small enterprises with large firms for backward and forward linkages.
- Increase options available to consumers at competitive prices and address market failures
- Adopt relevant and effective means to eliminate insecurity problems

## Governance and Institutions

- Mainstream committee's work and recommendations to relevant agencies for sustainability
- Build capacity and encourage transparency and efficiency at the grassroots/LGA levels
- Obtain inputs and buy-ins from the relevant agencies on cross-cutting policies

## Citizens' Welfare

- Devise a sustainable model of funding, outside budget and be transparent in allocation.
- Palliatives, in the short run, to be directed at and sufficient for those that need it most while long-term poverty reduction strategies should be pursued.
- Increase domestic production to dampen inflation pressure and recognise the timeline of other stakeholders to pay minimum wage.

## Embrace The **3** Cs of Success

### Collaborate

- Engage the private sector in the provision of necessary infrastructure to free public resources.
- Collaborate with development partners but be seen as capable of independent thinking and policymaking in a pro-citizen manner.
- Leverage local expertise and seek the support of experienced hands.
- Build trust with workers by prioritizing their welfare and engaging in discussions to increase wages and productivity.
- Be seen to feel what the citizens feel.

### Coordinate

- Make the process of policy formulation and implementation more objective, transparent and evidence-based.
- See fuel subsidy and exchange rate misalignment as symptoms of a bigger productivity problem to be solved over the medium to long term.
- Develop a coherent economic plan by harmonising the National Development Plan, Nigeria Agenda 2050, 8-Points Agenda, and the report of the Presidential Fiscal Policy and Tax Reforms Committee.
- Effectively raise and mobilise domestic resources.
- Ensure effective macroeconomic policy coordination without hampering the independence of the CBN.

### Communicate

- Improve the way economic policies, outcomes and expectations are communicated.
- Constantly keep the citizens informed about the costs and benefits of current reforms.
- Let people know that the government is cooking, and there should be enough to go round.
- Avoid overpromising and work to deliver on what is promised to build trust.
- Beyond official communication, note that citizens will form their opinions and behaviour based on what they see leaders do.

# THANK YOU

## For Listening



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