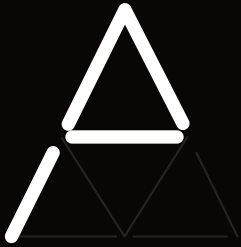
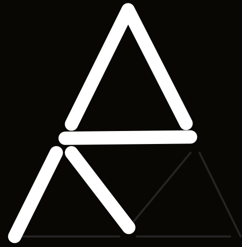
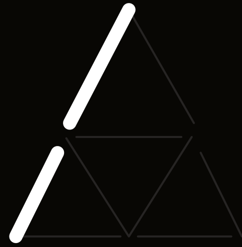
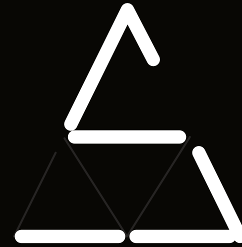
December 31, 2024

P R I S M

BIZNOMICS

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01
The Prism (Biznomics) Overview

2025: A Year of Cautious Hope Following Economic Reforms

Nigerians endured another challenging year in 2024, with inflation surging to 34.6%, a 28-year high, and the naira experiencing sharp volatility amidst persistent economic headwinds. Petrol prices were fully deregulated after years of government intervention, marking a pivotal policy shift but intensifying short-term pressures on households and businesses.

As we step into 2025, however, cautious optimism emerges. Structural reforms, particularly the CBN's drive for improved transparency in the forex market, are showing early signs of stabilizing the naira and reducing volatility. Nigeria's external position has strengthened, with concessional and capital inflows rising significantly compared to two years ago, signaling renewed investor confidence.

Inflation is expected to peak and begin a gradual decline, with forecasts pointing to a reduction to the 25% range in 2025 and further easing to the mid-teens by 2026. To sustain this momentum, Nigeria must accelerate efforts to diversify its economy, especially given the looming risks of lower oil prices, while implementing policies that drive productivity and long-term economic resilience.

Structural deconstruction is like hitting the jackpot twice

Over the past three decades, Nigeria's efforts to address exchange rate crises and import dependency through import restrictions have often exacerbated rather than resolved the underlying economic concerns. This calls for reexamining the perceived economic problem with a diagnostic lens.

To tackle the import dependence and weak currency problem, Nigeria needs to address production deficiency by dismantling the systemic bottlenecks that distort resource allocation, impede economic coordination, and limit productive efficiency. These bottlenecks arise from entrenched institutional inefficiencies, regulatory rigidity, and fragmented economic frameworks that fail to optimize factor utilization.

By addressing root causes of inefficiencies (such as inadequate infrastructure, regulatory barriers, and limited access to finance), structural reforms could unlock domestic productivity gains and bolster Nigeria's export capabilities.

In this latest edition of FDC Prism, the Think Tank provides an in-depth analysis of Nigeria's evolving economic landscape, shedding light on what lies ahead for the country in the new year.

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02

Is Nigeria an import-loving or production-deficient economy?

In the past three decades, Nigeria has made efforts to restrict imports in a bid to tackle exchange rates crisis or deal with "import dependency problem". However, these efforts seem to have compounded the economic woes, rather than ameliorate them. This calls for reexamining the perceived economic problem with a diagnostic lens.

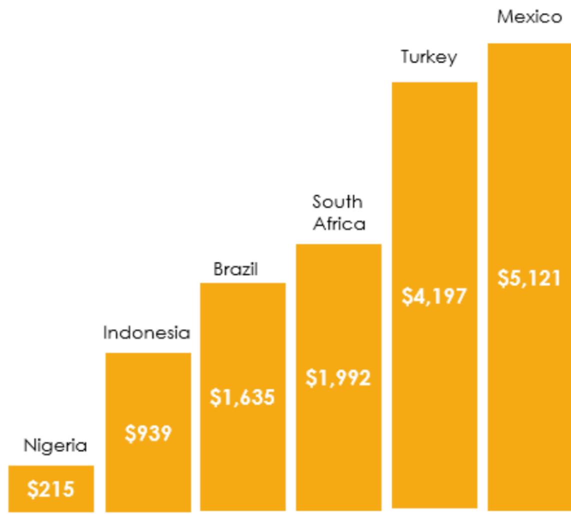
Correct diagnosis leads to the design and implementation of policies that directly address the root cause of a problem rather than its symptoms, increasing the likelihood of sustained economic improvement. However, misdiagnosis can lead to misguided policies that exacerbate existing problems. So, if a wrong problem is treated with a right prescription, the outcome could be disastrous. Yet too often, policymakers rush to generic (or even wrong) remedies, leading economies down a path of economic crisis instead of economic redemption.

Over 90% of Nigerians will answer an emphatic "YES" to the question, "Is Nigeria an import-loving country?". Traditionally, the policy response for import dependency is import restriction. Import restriction can plunge an economy that has production deficiency problem into economic crisis with nontrivial welfare implications.

Nigeria has a low import relative to its size

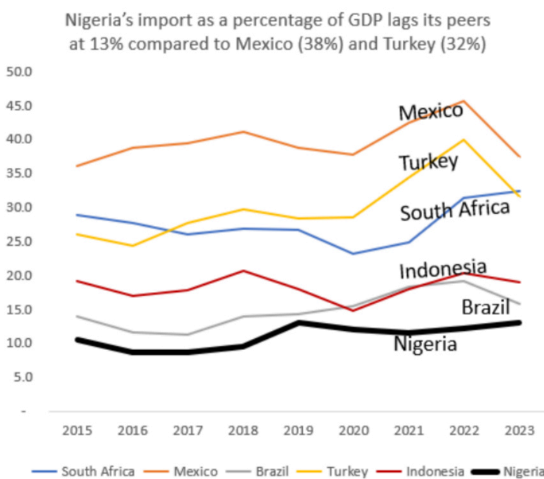
While import may be viewed as undesirable outflow of resources, it plays a strategic role in facilitating productivity gains, fostering accelerated growth and sustainable development. Import provides essential inputs, advanced technologies, and machinery that bolster production capabilities and innovation. Even imports of consumer goods enhance GDP indirectly by stimulating household consumption and supporting related sectors like retail and logistics. They fill gaps in the supply chain, preventing economic disruptions.

Figure 1.A Import per head in selected countries

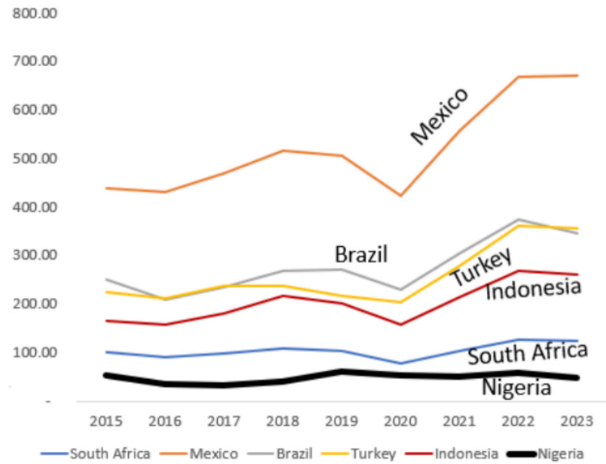


In other words, imports are not bad in themselves. Nigeria is a country of 227 million people.[1] This compares closely with Brazil (213 million) and Indonesia (282 million). Nigeria's import per head is $215, which is 7 times lower than Brazil's import per head ($1,635). Nigeria's import per head is also 19 times lower than Turkey's ($4.197); 9 times lower than South Africa's ($1,992) and 23 times lower than Mexico's ($5,121).

Figure 1B: Import as a percentage of GDP (Panel B.1) and nominal imports in dollars (Panel B.2)



Panel B.1: Nigeria's import as a percentage of GDP lags its peers at 13% compared to Mexico (38%) and Turkey (32%)



Panel B.2: Nigeria's import stagnates at $48bn compared to Mexico's $670bn and Brazil's $347bn

Source: UNTACAD; FDC

Similarly, Figure 1B (Panel B.2) shows Nigeria's total import of $48bn in 2023 is much lower than Mexico's ($670bn), Brazil's ($357bn), Turkey's ($357bn), Indonesia's (262bn) and South Africa's ($124bn). One irrefutable consensus is that relative to population and size of the economy, Nigeria's import is significantly lower than that of its peers. Interestingly, although output growth has remained tepid in the past decade (2% annually), goods imports have declined by 13% to $48bn in 2023 from $55bn in 2013. Declining imports amidst weak output growth may be indicative of diminishing welfare, reduced access to technology and machinery, and constrained productivity.

1. World Economic Outlook (2024). International Monetary Fund (IMF)

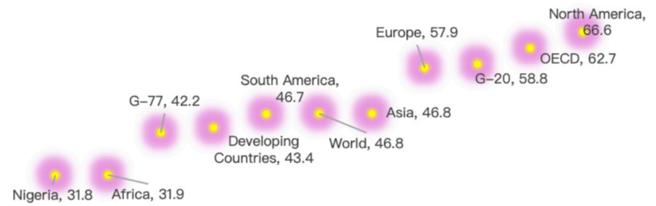
Import is a natural consequence of production deficiency

An economy thrives on variety of commodities or goods — be it food, technology, machinery, or consumer goods. When domestic production cannot meet demand, imports fill the void. At its core, imports are natural solutions to the inability to produce the variety of goods required to sustain both industry and consumers.

Nigeria's agricultural sector, for instance, struggles to achieve self-sufficiency, necessitating imports of staples like rice, wheat, beans, etc. Similarly, the absence of high-tech manufacturing capacity forces dependence on foreign machinery, vehicles, electronics, etc. This reliance highlights production deficiency bookended by structural bottlenecks.

As systemic constraints, structural bottlenecks distort resource allocation, impede economic coordination, and limit productive efficiency. These bottlenecks arise from entrenched institutional inefficiencies, regulatory rigidity, and fragmented economic frameworks that fail to optimize factor utilization. Structural bottlenecks create systemic inertia that restricts the economy's ability to scale its productive capacity, undermining the structural transformation needed for self sufficiency and sustainable economic development. For example, Nigeria has a low productive capacity index of 31.8 compared to the global average (46.8), Developing countries (43.4), and G-77 countries (42.2). In other words, Nigeria has a production deficiency problem, and not necessarily import-addicted citizens.

Figure 1C: Nigeria has a low productive capacity index

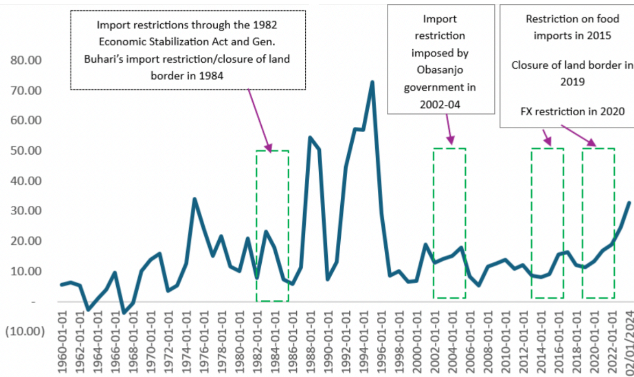


Source: UNCTAD; FDC

Import restriction is a cure worse than the disease

One of the most popular first line of defence in Nigeria is import restriction. It is envisaged as the omnipotent cure for exchange rate crisis, and low productivity. While intended to promote local production and reduce dependency on foreign goods, import bans or restrictions in a production-deficient economy often exacerbate existing challenges, making them a cure worse than the disease. With domestic industries unable to meet demand due to inadequate capacity, limited resources, and structural inefficiencies, import restrictions disrupt supply chains, hinder access to critical inputs, and drive up prices (see Figure 1D). This further reduces productivity and discourages investment in local production, as businesses face higher costs and uncertainties. Such distortions and inflationary pressures are also amplified by smuggling and black-market activities which are reinforced by import restrictions.

Figure 1D: Import restrictions in Nigeria is associated with inflationary pressures



Source: NBS; FDC

Structural deconstruction is like hitting the jackpot twice

What Nigeria needs is structural deconstruction—dismantling systemic bottlenecks and implementing deep reforms. This will bring sustainable productivity gains and boosts exports, making it a superior option to import restrictions. By addressing root causes of inefficiencies (such as inadequate infrastructure, regulatory barriers, and limited access to finance), structural reforms enable a more efficient allocation of resources.

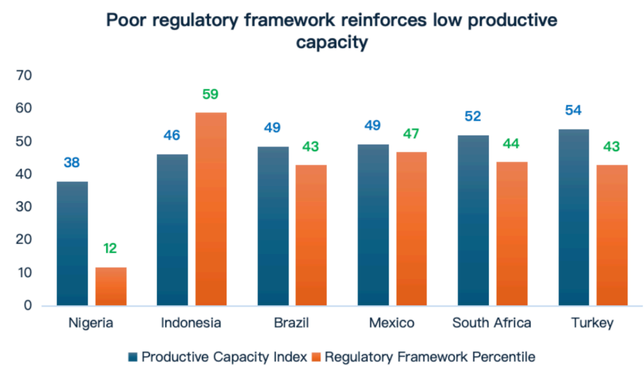
Structural deconstruction is like hitting the jackpot twice

1. Institutional Efficiency and Governance

Strengthening institutions by reforming the justice system, streamlining bureaucracy, and enforcing accountability is crucial. Nigeria's global percentile ranking on quality of regulatory framework is 12%, compared to South Africa (44%), Brazil (43%), Mexico (47%), Turkey (43%) and Indonesia (59%). Poor regulatory framework undermines Nigeria's production capacity which is currently far below that of its peers.

Reforming the business environment governance will foster investor confidence and create a conducive business environment.

Figure 1E: Poor regulatory framework reinforces low productive capacity

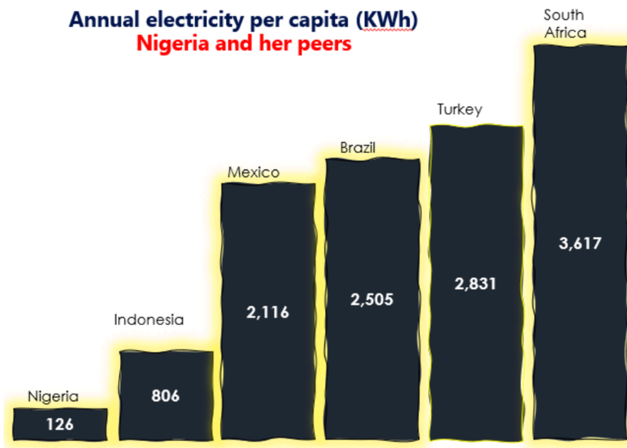


Source: World Bank; UNCTAD; FDC

2. Infrastructure Investments

Nigeria needs to prioritize massive investment in critical infrastructure, particularly in energy, transport, and logistics. Electricity per capita in Nigeria is about 216 KWh compared to its peers like Indonesia (806KWh), Mexico (2,116 KWh), Brazil (2,505 KWh), Turkey (2,831 KWh) and South Africa (3,717KWh). Investment in energy infrastructure powers industrialization by ensuring consistent, and affordable electricity for industries; reducing operational costs and enhancing efficiency; and attracting investment in high-tech manufacturing.

Figure 1F: Annual electricity per head



Source: FDC

3. Transitioning from a natural wealth to a produced wealth economy

To unlock production possibilities, there is a need to shift focus from resource extraction to value-added manufacturing and technology-driven industries. This transformation emphasizes innovation, industrialization, financialization and human capital development, fostering efficiency and productivity. Technological advancement thrives in such an ecosystem, with industries adopting cutting-edge solutions to improve output and competitiveness. This shift reduces dependency on volatile resource revenues, integrates Nigeria into global value chains, and positions it as a hub for technological innovation and high-tech manufactured goods exports, driving sustained growth.

Nigeria can benefit more from trade through strategic positioning.

No country can sufficiently produce everything that it needs. Empirical evidence[2] shows that it is more beneficial for an economy to specialize in goods where they have a comparative advantage – this kind of production advantage can be acquired!

Trade offers significant benefits to developing countries, including access to global markets, foreign exchange earnings, and technology transfer. To leverage trade for sustainable development, Nigeria must diversify exports, invest in high-tech manufacturing, and integrate into global value chains (e.g., producing keyboards for a computer manufacturing company in another region, such as the US).

However, when necessary, trade restrictions must be strategic rather than arbitrary. The costs and benefits of a trade restriction must be carefully considered before being deployed. Deploying trade restriction before designing a plan on how to drive domestic production is like setting a cart before the horse, and this could amount to turning a crack into a canyon.

2. World Bank (2024). Trade. https://www.worldbank.org/en/topic/trade/overview

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03

Under-pricing spillovers: Reducing tax evasion through cargo scanners in Nigeria

The improvement in tax revenue collection remains a top policy thrust for Nigeria. The government is facing increasing pressure to raise tax revenues to support essential spending on healthcare, education, and social infrastructure. Nigeria is not alone in this battle. It is a challenge faced by many low-income countries. However, the International Monetary Fund reported that Nigeria's tax-revenue-to-GDP ratio, at 9.4% in 2023, was among the lowest globally and in Africa (24% in South Africa, 22% in Botswana, 20% in Mauritius, 14% in Brazil and Kenya, 13% in Ghana, and 12% in Malaysia).

One important tool to increase the government's revenue collections is the fight against tax evasion at Nigeria's borders. According to the Federal Inland Revenue Services, VAT revenue from imports rose from ₦244.52 billion in 2019 to ₦714.51 billion in 2023. Although taxation from imported goods and services remains an important source of revenue for Nigeria, evasion at the borders is rampant. In response, the Nigerian Customs Services (NCS) announced the installation of container scanners across all ports of entry into the country in 2022. They were designed to scan 400 containers per day., However, this has not significantly improved import tax revenue collection. Rather, the import taxes to non-oil taxes ratio declined from 7.77% in 2019 to 7.43% in 2023. This could be due to several factors including evasion, corruption, and lack of transparency.

A thorough understanding of how taxes are evaded can improve the collection, especially for import taxes, which make up a sizable portion of total government tax receipts. Uganda is one country that Nigeria can look to for guidance on how to reduce border tax evasion.

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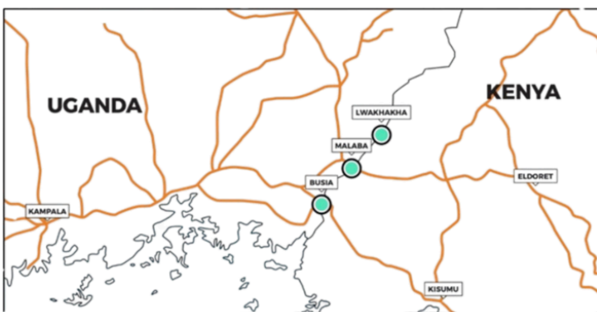
3. Okon, D. 2024. IMF: At 9.4% in 2023, Nigeria's tax revenue to GDP ratio among lowest in the world. TheCable. https://www.thecable.ng/imf-at-9-4-in-2023-nigerias-tax-revenue-to-gdp-ratio-among-lowest-in-the-world/
4. Onyenucheya, A. 2022. "NCS to examine 400 containers daily with new scanners." The Guardian. http://guardian.ng/ncs-to-examine-400-containers-daily-with-new-scanners/#:~:text=%E2%80%9COn%20capacity%2C%20the%20scanners%20will,average%20of%2055%20seconds%20each.
5. Bivbere, G., & Nnaemezia, G. 2022. "Finance Minister inaugurates container scanners for ports." Vanguard. https://www.vanguardngr.com/2022/11/finance-minister-inaugurates-container-scanners-for-ports/
6. Federal Inland Revenue Services. 2024. "Tax and statistics reports." Abuja, Nigeria. https://www.firs.gov.ng/tax-resources-statisitcs
7. Eissa, N., Rauschendorfer, J., & Best, M. 2020. "Tax evasion in customs: Firm level evidence from Uganda". International Growth Centre. United Kingdom. https://www.theigc.org/collections/tax-evasion-customs-firm-level-evidence-uganda

Companies adopt new strategies to evade import taxes: evidence from cargo scanners in Uganda

In 2018, the Uganda Revenue Authority installed non-intrusive cargo scanners at two key entry points, Busia and Malaba, on the Kenyan border to help eliminate tax evasion (see map below).[8] The purpose of the cargo scanners was to discover import tax evaders and thus reduce some cheating, but instead of finding non-compliant tax evaders, they discovered a novel form of tax evasion - under-pricing of goods, resulting in the decline of taxes associated with the imports.



Investigating the cargo scanners' impact on trade and tax revenue revealed ambiguous effects. Whereas the installation of scanners enhanced reporting of taxed goods, and reduced under-counting and misclassification of goods, it resulted in more under-pricing, leading to lower general import values and a decline in tax collection, especially the customs import VAT. This occurs when the value of properly documented products is redeclared and charged the same price as previously misclassified and undercounted goods. We refer to this as "under-pricing spillover."[9] After scanners are installed, all previously imported goods, whether legally or illegally, undergo a re-evaluation to impose tariffs.[10]

How importers are adjusting to scanners to evade taxes in Uganda

It is discovered that with the aid of cargo scanners, misclassification and undercounting of commodities have declined but importers have learned to upsurge under-pricing. After the installation of scanners at the Busia and Malaba borders, the amount of non-taxed products dropped whereas the unit value increased. On the flip side, the quantities of taxed goods rose whilst their corresponding values fell. This indicates a rise in under-pricing and a decline in misclassification and undercounting. Evidence from the investigation revealed that the rising under-pricing more than counterbalanced the fall in misclassification and undercounting, resulting in a 7.7% drop in the imports of taxed items and a 9.8% drop in tax receipts.[11]

Further discovery revealed that cargo scanners were more effective on mid-sized firms in avoiding tax evasion whereas large-sized multinational corporations (MNCs) have developed innovative strategies to evade taxes. Detailed investigations showed increased tariff payments by abstemiously importing firms whereas high regular importing firms reported reductions. This points to the fact that most transactions were under-priced. It was therefore argued that import-tariff-induced under-pricing is integrated into the fabrics of MNCs and associated with the general corporate tax-induced pricing mechanism.

8. Asiimwe, D. 2018. "Uganda installs cargo scanners at border posts." The East African. https://www.theeastafrican.co.ke/tea/business/uganda-installs-cargo-scanners-at-border-posts-1400154

9. Davies, J., Smith, A., and Johnson, R. 2024. "How firms find new ways to evade taxes: Evidence from cargo scanners in Uganda." https://www.theigc.org/blogs/taxing-effectively/how-firms-find-new-ways-evade-taxes-evidence-cargo-scanners-uganda

10. Best, M., Eissa, N., Sequeira, S., Ayo, J. O., Lal, P., & Rauschendorfer, J. 2024. "Drivers and implications of import tax evasion in Uganda." International Growth Centre. 20 May 2024[Blog]. Available at https://www.theigc.org/blogs/taxing-effectively/drivers-and-implications-tax-evasion-uganda

11. ibid., Davies, et al. 2024.

FDC

Recommendations for Nigerian Customs Services

Learning from Uganda, Nigeria can fight tax evasion at the borders by adopting an all-inclusive unit valuation of imported products. The primary goal is to focus on the accurate unit values of declared items and to reduce under-pricing, a strategy that is often undetectable by cargo scanners.

Secondly, attention should be drawn to MNCs importing goods into Nigeria. Similar to the revelation in Uganda, these firms can successfully evade taxes without being detected. By using deceptive transfer pricing, these companies typically shift earnings to low-tax regions, undermining the domestic tax base.

We recommend the adoption of multiple approaches including painstaking unit value analysis to prevent profit shifting and under-pricing.

Conclusion

A key source of government revenue is the import tax revenue. Nigeria can learn key valuable lessons from the import-tax evasion case in Uganda. If the government of Nigeria, through the NCS gets it right at the borders, then its overall tax revenue will improve. The NCS can take a leaf from the experience in Uganda and position itself strategically to improve tax collection at the borders.

3. Gavin, M. (2023). Nigeria Security Tracker. https://www.cfr.org/nigeria/nigeria-security-tracker/p29483

04

Global Perspective – Global leadership to be tested in 2025

Culled From Financial Times

The headline act for 2025 is the FT's man of the year for 2024, Donald Trump, as he returns to the White House after his inauguration on January 20. The president-elect's threats to impose tariffs, carry out mass deportations and slash taxes and regulations could have wide-ranging economic implications, according to investors and analysts. Some economists are concerned that these policies may lead to higher inflation, lower growth and increased volatility.

The prospect of a sweeping policy overhaul is already looming large over the Federal Reserve. The US central bank trimmed interest rates by a quarter of a percentage point in December — its third consecutive reduction — but projections point to half as many rate cuts in 2025 than were forecast back in September. This has already upset markets.

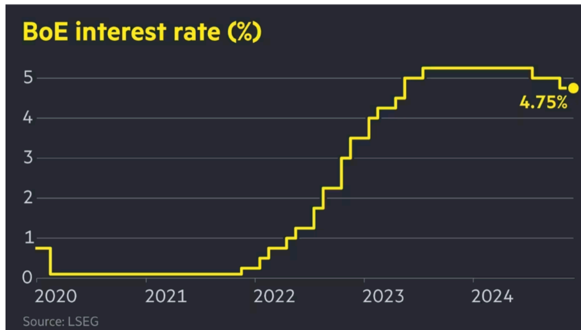
Political change is also in the air for Europe's largest economy. Voters in Germany will go to the polls on February 23 after chancellor Olaf Scholz's three-way coalition imploded under the strain of the country's economic and security challenges. The German economy is at risk of contraction in 2025 and the attack carried out by a Saudi national on a Christmas market in Magdeburg, killing five and injuring more than 200, has left the country in a state of shock.

Elsewhere in Europe other changes of leadership are a possibility. France's next scheduled presidential election is more than two years away but there is much speculation that the incumbent Emmanuel Macron will resign before the end of his term, according to FT columnist Gideon Rachman.

We enter another year of war in the Middle East and Ukraine, which means that Russia's Vladimir Putin will once again be a key figure in the news. This Tuesday marks 25 years since he took over from Boris Yeltsin as acting president of Russia, and May 7 next year will be the quarter-century anniversary of his first presidential inauguration.

In the UK the year will be a testing ground for some of the Labour government's election manifesto pledges. Chancellor Rachel Reeves will face increasing pressure to prove that the party's policies are fostering economic growth. The introduction of VAT on private school fees will come into force on January 1, while on April 1 private schools will lose the right to claim charitable business rate relief. Expect a lot of angry parents.

The UK economic outlook is challenging. The Bank of England last month warned that stubborn inflation would prevent it from cutting interest rates quickly. Traders expect the central bank to make two quarter-point rate cuts next year — compared with the four the market expected as recently as October.



Corporate news is set to be driven by the themes of artificial intelligence and green technology, perhaps increasing tensions between the west and China.

Electric vehicles are expected to outsell cars with internal combustion engines in China for the first time in 2025, according to data compiled by the FT from investment banks and research groups. One good theme for the coming year (IMHO) is that the momentum for the hype about AI is likely to fade, but the technology boom will continue as businesses claim significant — if unproven — gains from AI deployments, according to my colleague on the US west coast Richard Waters.

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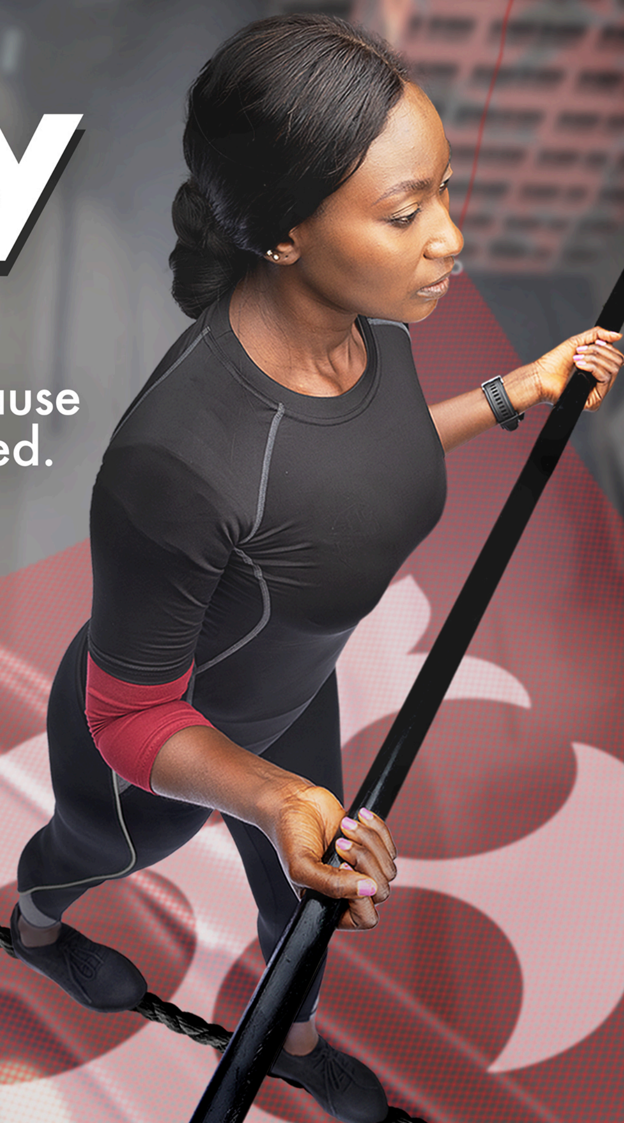

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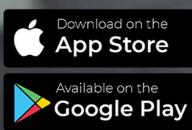

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Market Capitalization	₦3.15trn
Current Price	₦93.00
Industry	Industrial Goods

Analyst's note

BUA Cement Plc, a member of the BUA Group, is a leading Nigerian industrial company dedicated to the manufacturing and marketing of high-quality cement products. The company was established through the consolidation of BUA Group's cement holdings, specifically Obu Cement and the Cement Company of Northern Nigeria (CCNN), which allowed it to leverage synergies and enhance operational efficiency.

Following this merger, BUA Cement rapidly ascended to become the second-largest cement producer in Nigeria by volume, with factories located in Sokoto State in North-West Nigeria, Okpella in Edo State, and various regions in South-South Nigeria. The company boasts a combined production capacity exceeding 11 million metric tons per annum, positioning it as a key player in meeting the growing demand for cement across the nation.

In the first nine months of 2024, BUA Cement demonstrated strong revenue growth, and achieved an impressive inventory turnover ratio of 4.49, the highest in at least 5 years, highlighting its effectiveness in managing and converting inventory into revenue, which is a notable strength in a capital-intensive industry.

However, the company faced challenges in profitability and liquidity. A return on assets (ROA) of 3.28%, which is 70.5% lower than its 5-year average of 11.13% indicates inefficiencies in utilizing its asset base to generate profits, potentially influenced by macroeconomic headwinds and cost pressures. Liquidity metrics further reveal areas of concern, with a current ratio of 0.81 and a quick ratio of 0.54. These figures indicate that BUA Cement may face difficulties meeting short-term liabilities.

Looking ahead, BUA Cement is taking significant steps to enhance its production capacity and market presence. The company has signed an agreement to expand its production line in Sokoto, aiming to boost its installed capacity to 20 million metric tons per annum. This expansion is part of BUA's strategy to deepen both the availability and affordability of cement across Nigeria, reinforcing its commitment to becoming the country's foremost cement producer while addressing the growing demand for building materials.

Financial Analysis

Improved sales volume boost top-line performance

In 9M'24, total revenue increased by 73.7% to N583.41bn from N335.86bn in 9M'23. This growth was driven by higher prices and increased sales volumes, supported by the additional 6 million metric tonnes per annum (mpta) of capacity installed this year—3 mpta at Obu and 3 mpta at Sokoto.

Furthermore, strategic initiatives, such as targeted marketing and operational efficiencies, also contributed to revenue growth.

Operating profit rise despite increased cost of sales

The cost of sales surged by 115.9% to N402.59bn in 9M'24, up from N186.44bn in 9M'23. This substantial rise was due to elevated costs of raw materials and energy attributed to the depreciation of the naira and heightened inflationary pressures. However, this was offset by modest selling price adjustments, resulting in a rise in gross profit by 21.0% to N180.81bn in 9M'24 from N149.42bn in 9M'23 and a 15.2% increase in operating profit to N137.83bn from N119.82bn in 9M'23.

Foreign exchange losses weigh on profit margin

BUA Cement PLC's foreign exchange losses surged by 113.25% to N57.43bn in the 9M'24, up from N26.93bn in 9M'23. This sharp increase in losses contributed to a 27.98% decline in profit before tax, which fell to N61.75 bn in 9M'24 from N85.75bn in 9M'23. Similarly, profit after tax decreased by 35.62%, dropping to N48.97bn in 9M'24 from N76.06bn in 9M'23.

Risk and Outlook

Like many companies in Nigeria, BUA Cement PLC faces significant challenges due to rising energy costs, naira depreciation, and inflationary pressures. To mitigate these issues, BUA Cement has invested in state-of-the-art technologies aimed at reducing power consumption and enhancing operational efficiency. The company is transitioning to natural gas at its Sokoto plant, which helps lower production costs, while also constructing a mini liquefied natural gas (LNG) facility to ensure a stable supply of fuel. Additionally, BUA Cement is exploring the use of compressed natural gas (CNG) powered trucks for transportation to further cut costs. To address the impact of currency fluctuations, the company is adapting its pricing strategies and focusing on optimizing its distribution processes. These initiatives are designed to strengthen BUA Cement's resilience against the challenging economic landscape in Nigeria while maintaining its commitment to providing affordable cement products.

BULLS SAY

- A top player in Nigeria's cement industry
- Reputable track record
- Strong brand name
- Commitment to sustainability through the use of alternative energy sources, such as natural gas and investments in renewable energy projects.

BEARS SAY

- Rising operating costs, owing to rising inflationary pressures.
- Naira depreciation, which deepened fx losses.
- Intense competition from other leading players such as Dangote Cement and Lafarge plc
- Persistent macroeconomic headwinds negatively affect consumer demand and purchasing power.
- High-interest rate environment, raising the cost of credit.
- Challenges arising from middlemen inflating cement prices hindering efforts to make products more affordable for consumers.

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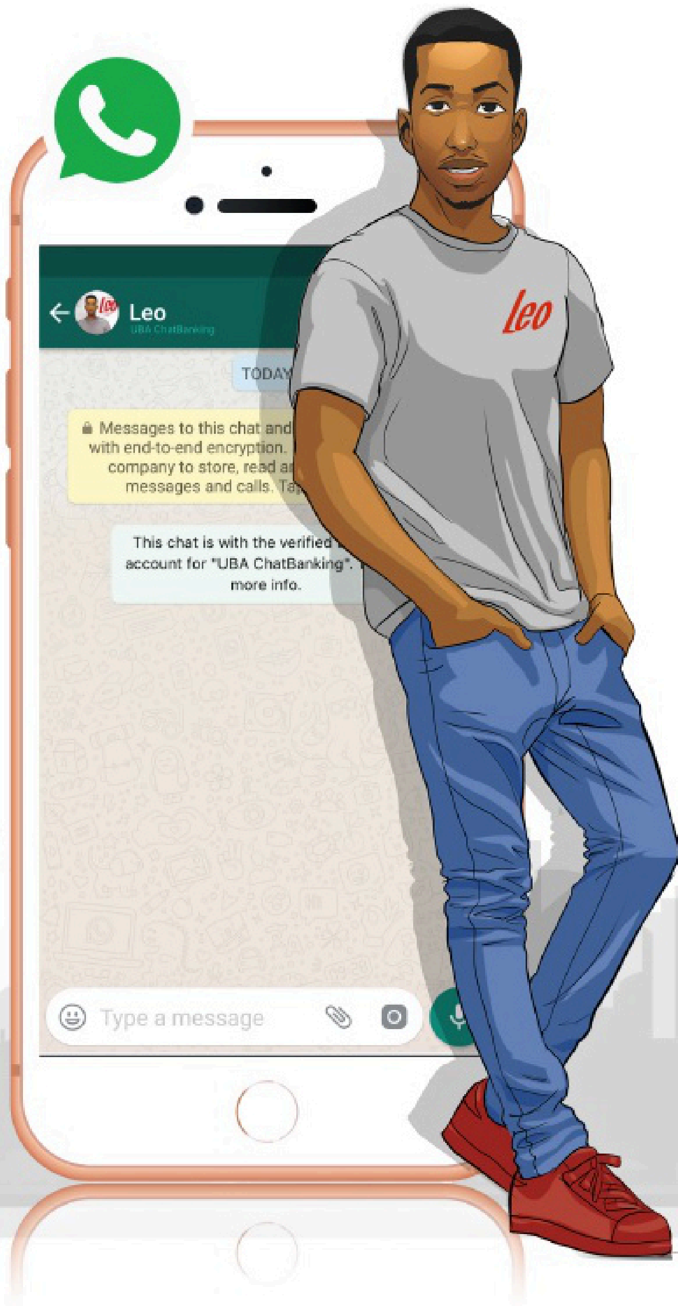

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A PRISM OUTLOOK

2024 is, no doubt, a rough year. We expect 2025 to be pivotal in many ways.

- *Crude oil production would maintain the current momentum and could increase to 1.51mbpd in January. Increased foreign exchange from crude oil sales and foreign portfolio inflows will support external reserves accretion and boosts investor confidence.*

- *The naira is expected to remain stable in January 2025, trading at N1550-N1650/$. Interest rates are projected to remain higher for longer, and this will bolster a stronger naira.*

- *Inflation is expected to start moderating in January 2025 after hitting 35% in December 2024. The disinflation will be supported by base effect and exchange rate stability.*

- *The real GDP growth for Q4'24 is expected in February 2025. Our estimates show that the Q4'24 GDP will expand further to 3.52% on harvest effects and festive demands.*

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