WHISPERS

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WHEN WE SPEAK, THE WORLD UNDERSTANDS

FDC LIMITED

CONTENTS

WHISPERS OVERVIEW

In this latest edition of Whispers, the FDC Think Tank takes a deep dive into recent economic developments and their impact on your business and corporate strategy.

2025 economic policy – Eating your cake and having some left

"Policymakers face a difficult balancing act in striving for macroeconomic stability while also working to address development needs and ensure reforms are socially and politically acceptable." – IMF 2024

2025 started with a frenzy of policy initiatives, but without an approved budget by the NASS. These policy moves could be game-changers for consumers and businesses alike—though not without their headwinds. Among these are the long-overdue rebasing of the GDP and CPI, aiming to provide a more accurate reflection of the Nigerian economy.

Rebasing of GDP is not plastic surgery

The GDP rebasing, last carried out in 2014, will change the base year from 2010 to 2019 and incorporate more activities such as the digital economy, modular refineries, fringe activities, and social programs like the National Health Insurance Scheme. The cosmetic effect of rebasing is a magnified GDP, more likely to be above $500 billion.

For the reconstitution of the CPI basket, the NBS is proposing to adopt 2024 as the base year and expand the items in the basket from 740 items to 960 items. New subindexes, such as service, energy, and goods indexes, will be introduced, and the 2022/2023 Nigeria Living Standards Survey (NLSS) will be adopted to determine the weights of items in the CPI basket.

Diaspora options increase by two

The CBN also launched two new accounts for Non-Resident Nigerians (NRNs): the Non-Resident Nigerian Ordinary Account (NRNOA) and the Non-Resident Nigerian Investment Account (NRNIA), effective from January 1, 2025. The NRNOA allows NRNs to remit foreign earnings and manage funds in multiple currencies while the NRNIA enables investments in Nigerian assets, including the Diaspora Bond. These initiatives aim to boost remittances and economic participation.

Tariff increases could be a spoiler

However, these positive initiatives could be undermined by hikes in telecom tariffs, VAT increases, and toll fees, which could erode household budgets and reduce disposable income. While the overall negative impact is expected to be minimal compared to the financial crunch of 2023 and 2024, the balancing act between stimulating growth and protecting consumer wallets will be a major policy challenge this year.

Textile revival – The next frontier

The Nigerian textile industry, which was once a powerhouse, has been in the doldrums since the early 1990s. As of 2023, its contribution to GDP was a meagre 3% and it accounted for only 0.05% of exports, with only 20 textile mills surviving, down from 175 in the mid-1980s.

Meanwhile, Bangladesh and Vietnam have turned their textile sectors into global success stories with export-oriented policies and competitive pricing.

Can the Nigerian Textile Industry Be Export-Driven and Competitive?

Clothing is one of the necessities of life, thus making the textile and clothing industry a key contributor to economic growth in any nation. The Nigerian textile industry produces quality cotton, wool, and silk fabrics such as Adire, Aso-oke, Ankara, and Akwete. The industry's modernization started with Kaduna Textile Limited in 1957, and this approach later spread across the country.Between the 1970s and 1982, the industry had about 180 textile mills, with an average capacity utilization of 84.4% in 1980 and industry output of about $4.60 billion (bn).[1] This positioned Nigeria as the third largest textile hub in Africa after South Africa and Egypt, accounting for 63% of West Africa's textile capacity.[2]

Although the industry was foreign-dominated, the major materials used for production were locally sourced, thereby enabling backward integration in the country. The import substitution industrial strategy (replacement of imports by domestic production) adopted during the 1980s also supported the industry. An example of this strategy was boycotting the Multi-Fiber Agreement (MFA), a world trade agreement (between 1974 and 1994) that imposed quotas on developing countries' textiles and clothing exports to developed countries.

However, the modern Nigerian textile industry began to experience setbacks after the World Trade Organization (WTO) opened the global textile and apparel industry to competition through free trade. The post-MFA era started in 1995 with the Agreement on Textiles and Clothing (ATC). The ATC used free trade to integrate the industry into the WTO fully. This gave some countries, like China, an advantage to enter the global markets. The ATC led to the influx of cheaper fabrics into the Nigerian market, particularly from China, as well as second-hand clothing from the United States and Europe. The African Growth and Opportunity Act (AGOA) of 2000 initiated a new free trade opportunity for textiles between the United States and sub-Saharan African countries. The intention of this act was to rectify some of the damage done in the 1990s by the MFA and ATC. However, Nigeria was unable to tap the benefit.

The genesis of the industry's problem was the import-substitution policy (between 1960 and mid-1986). This strategy didn't give room for competition. When the economy eventually opened up, the

1.Central Bank of Nigeria (2010). Average Manufacturing Capacity Utilization. Real Sector Statistics. CBN Statistical Bulletin (2009). www.cbn.gov.ng

2. Afolabi Olaleye (2011). China-Africa Relations: The Northern Nigerian Textile Industry. https://digitalcommons.chapman.edu/cgi/viewcontent.cgi?article=1007&context=international_studies_theses & African Growth and Opportunity Act (2013)." Reviving Nigeria's ailing textile industry". https://agoa.info/news/article/5065-revivig-nigeria-ailing--textile-industry.html

protected industries crumbled under the relentless pressure from foreign competitors. China was able to adulterate the Nigerian adire market through low prices, resulting in a shift in Nigerian preferences. This led to a decline in the industry's average capacity utilization (ACU) from 84.4% in 1980 to the lowest level of 20.20% in 1999.[3]

Despite efforts by the government to revive the sector since 1986 to date, it continues to deteriorate. Import duty exemption certificates, which began in March 2020, were issued to machinery and spare parts importers to equip and upgrade the sector. These certificates exempted them from import tariffs aimed at easing production costs to improve the sector's productivity. In 2017, Executive Order 003 was initiated to promote local patronage. With this order, federal government agency and parastatal procurement expenditures must be at least 40% of made-in-Nigeria products on selected items, including uniforms and wears. Regardless of the effort, the sector continued to underperform when comparing the annual ACU of 50.74% in 2023 with 73.25% in 2008 and 84.4% in 1980.[4] This deterioration is due to implementation gaps, as some orders have been withdrawn and relaxed.

Currently, 20 textile industries are operating in Nigeria, down from a peak of 175 in the mid-1980s.[5] According to the National Bureau of Statistics, the industry grew last in 2018 by 1.69%. In 2023, the sector's contribution to GDP contracted by 3.06% with an export value of N18.76bn, while its imports rose sharply to N377.47bn (a trade deficit of N358.71bn) from N182.53bn in 2020.[6]

The question is: where are we getting it wrong?

Bangladesh and Vietnam are the world's second and third largest textile and clothing exporters after China ($299.07bn) in 2023, with an export value of $49.4bn and $42bn, respectively, while for Nigeria it is $5mn. For the global market share of the total export value of $872 billion, these two countries hold 5.7% and 4.8%, respectively, and China accounts for 34.3% owing to their cost efficiencies and resilience amid a challenging market environment.[7]

Empirical review of Bangladesh, Nigeria, and Vietnam

Variables	Bangladesh	Nigeria	Vietnam
Overall productive capacity index (2022)	40.7	31.9	46.9
Population(million) 2023	170.28	222.18	100.77
Current minimum wage (per month)	$104.51	$45.60	$194.82

Source: UNCTADstat and Trading Economics[8]

In 2023, Bangladesh's economy was valued at $446.35bn, and the ready-made garment industry accounted for 81% of its exports. Vietnam's GDP was $433.70bn of which the textile clothing and garment (TCG) industry constituted 12% of its exports.

3. Central Bank of Nigeria (2010). Average Manufacturing Capacity Utilization, Real Sector Statistics. CBN Statistical Bulletin (2009). www.cbn.gov.ng
4. Rahman, F. R. 2024. "Inside Yanbu Refinery's digital transformation journey." Saudi Arabian Oil Co. https://www.aramco.com/en/news-media/elements-magazine/2024/inside-yanbu-refinerys-digital-transformation-journey
5. Aramco's annual audited reports, various years and FDC Think Tank
6. NBS (2024), Q2'24 Foreign Trade Statistics https://nigerianstat.gov.ng/elibery/read/1241553
7. World Trade Organization (2024). Merchandise trade value annual dataset. WTO | Trade Statistics - Bulk download of trade datasets
8. UN Trade and Development (UNCTAD 2023) Productive capacities index, annual, 2000-2022. https://unctadstat.unctad.org/datacentre/dataviewer/US.PCI. Trading Economics (2024). https://tradingeconomics.com/countries

For Nigeria's GDP of $374.95bn; the TCG industry contributes 0.05% to its exports.[9] Seeing that Bangladesh, whose exports are highly dominated by the TCG industry, has the highest GDP among the three countries demonstrates that the sector can be a significant driver of economic growth.

Bangladesh achieved this industry success through an export-oriented industrialization policy called the 1982 New Industrial Policy, which improved the sector's competitiveness. The industry was privatized, and the government provided stimulus initiatives to support the sector's growth. These include duty-free imported machinery and raw materials, signing multilateral agreements with advanced economies such as Europe and North America to gain free access to their markets with zero tariff costs, and human capital development.[10] Despite over 80% of the cotton and fiber used for production being imported from China, the US, and others, 87% of the yarn is sourced locally. The country has a strong value chain, and production must meet a specified quality standard called the Bangladesh Standards and Testing Institution Ordinance, 1985.

The Vietnam TCG industry was among the key global players through adopting the Doi Moi (renovation) policy which was initiated by the Communist Party in 1986. Under this policy, Vietnam moved from a centrally planned economy to an open and multi-sector economy, allowing private sector development centered on market-orientated management. Production is done to meet higher demand with competitive pricing and leverage-free or minimal export quotas through favorable trade agreements. These enhance the sector's resilience amid competitors, dynamic global supply chains, and buyers' tastes and preferences.[11]

Nigeria is currently facing economic hardship, severely hit by the exchange rate crisis, inflation, and a high debt profile, all rooted in the effect of weak government policies on the manufacturing sector. It is time for the government to look beyond the oil industry and diversify the economy to bolster overall productivity. Lessons such as consistency in policy execution, favorable trade agreements, and human capital development that enhance diversification of the industry from the production of local attire into other wears like T-shirts, jeans, polo shirts, sportswear, nightwear, underwear, and jackets can be drawn from Vietnam and Bangladesh to revive the Nigerian TCG industry. To transform the country's exports into wealth, we need targeted policies and innovations that support existing businesses, enhance value chains, boost competitiveness, and improve market access.

9.OEC World (2024). OEC World Economic Report, General Statistics Office of Vietnam. Statista (2024), Bangladesh: export value of ready-made garments, https://www.statista.com/statistics/987707/bangladesh-export-value-garments/ & NBS (2024) Q2'24 Foreign Trade Statistics, www.nbs.gov.ng

10. Afsana Mishu (2021) History of Textile and Garment Industries in Bangladesh https://textilelearner.net/textile-and-garment-industries-in-bangladesh/

11. Report on Vietnam Textile and Garment Industry (2010) actif_report_on_vietnam_textile_and_german_industry.pdf

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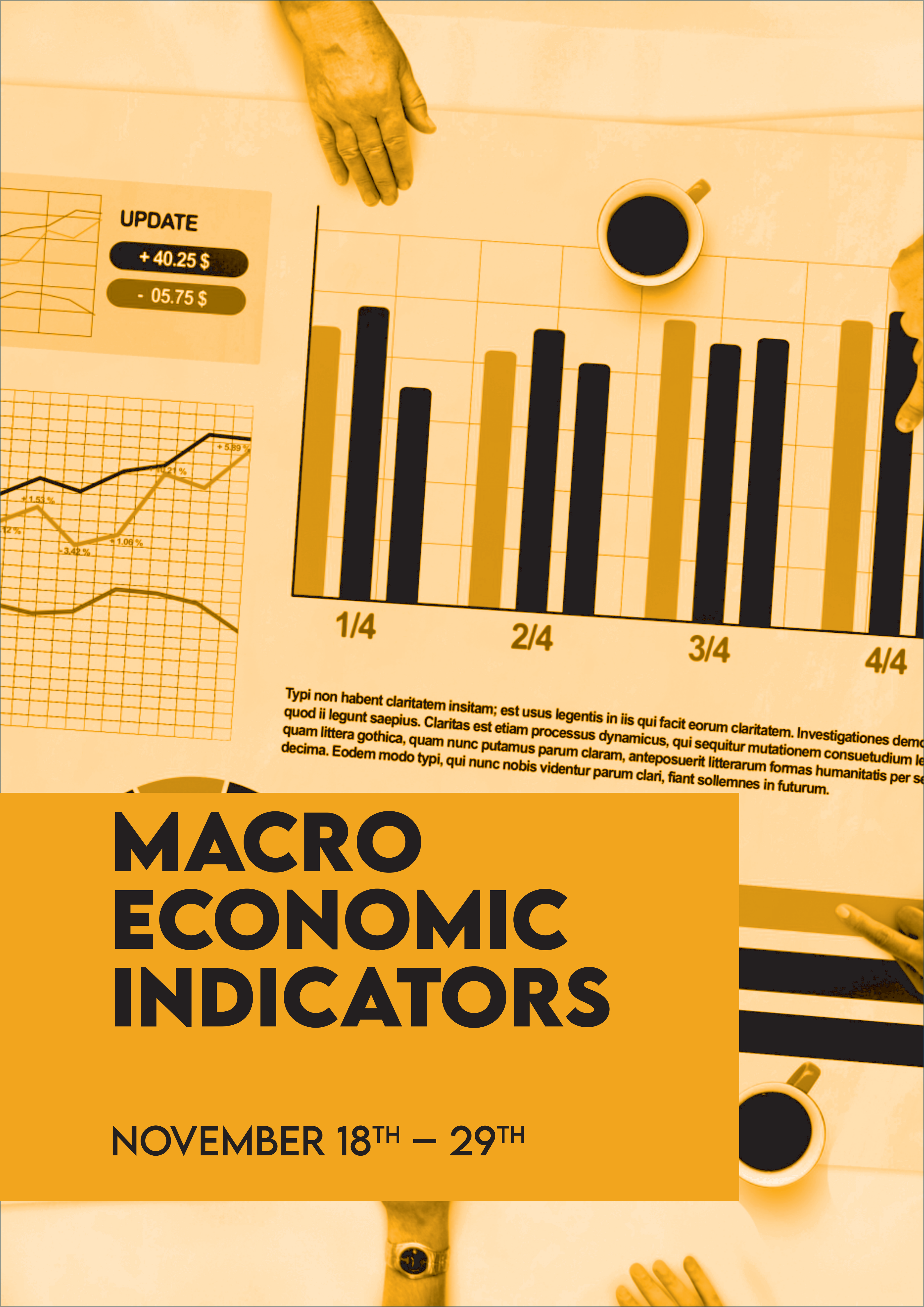


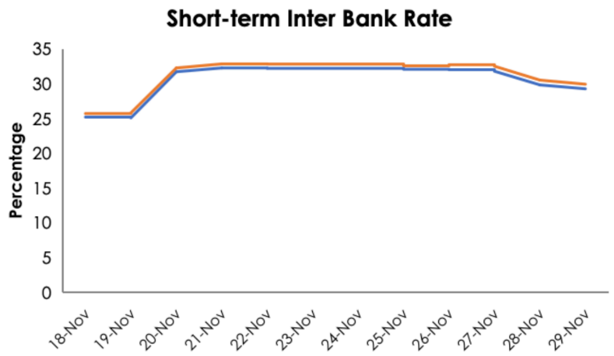
MACRO ECONOMIC INDICATORS

NOVEMBER 18TH – 29TH

MONEY MARKET

The bank's average position turned negative in the second half of November, standing at N184.48bn, compared to a higher negative balance of N385.53bn in the second half of October. There was one OMO repayment on November 19, and no OMO sale during the review period. Short-term interbank rates (OPR, O/N) averaged 30.44% p.a., up 84 bps from 29.6% p.a. in October.

One primary market auction was conducted, amounting to N693.05bn, 84.98% higher than N374.67bn in the second half of October. On the other hand, five primary market repayments were made during the half of November, which amounted to N643.56bn. Primary market rates were unchanged in all tenors while at the secondary market, yields increased at the 91-day tenor, unchanged at the 182-day tenor, and decreased at the 364-day tenor.



Source: FDC Think Tank

Tenor	Primary market (Nov 6th 2024) (%)	Primary market (Nov 20th 2024) (%)	Secondary market (Nov 18th 2024) (%)	Secondary market (Nov 29th 2024) (%)
91-day	18.00	18.00 ⟷	23.50	23.69 ▲
182-day	18.50	18.50 ⟷	22.25	22.25 ⟷
364-day	23.50	25.50 ⟷	22.40	22.35 ▼

Source: FMDQ, FDC Think Tank

Outlook and Implication

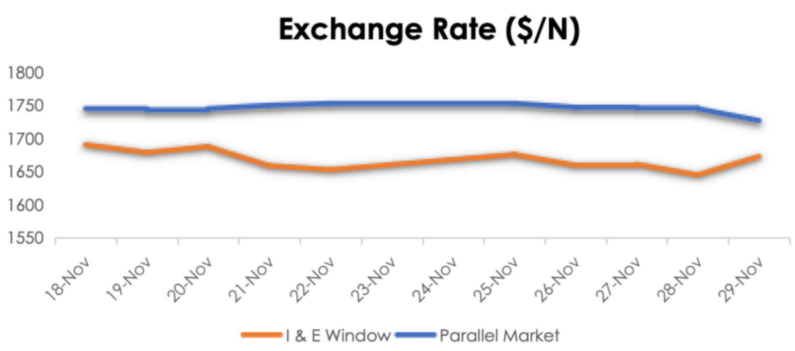
Short-term interbank rates are anticipated to increase due to tight liquidity from NTB, Bond, and OMO sales in December, reducing banking sector liquidity. Higher interest rates mean borrowing costs will remain elevated, potentially impacting economic activity.

FOREX MARKET

The forex market is undergoing reforms with the adoption of a "willing-buyer-willing-seller" model by the CBN, allowing the exchange rate to be influenced by demand and supply dynamics. Key factors affecting the exchange rate include balance of payments, capital inflows, and trade balance.

EXCHANGE RATE

In the Investors' and Exporters' Foreign Exchange (I&E FX) window, the naira appreciated by 1.03% against the dollar, strengthening from N1,690.00/$ on November 18 to N1,672.69/$ by November 29. Similarly, in the parallel market, the naira also appreciated by 1.04%, closing at N1,727.00/$ on November 29, up from N1,745.00/$ on November 18. This appreciation was driven by the CBN's intervention in the FX market through the sale of a total of $102m to authorized dealers to increase dollar supply. This intervention was carried out in two batches, an initial of $48m, followed by $54m.



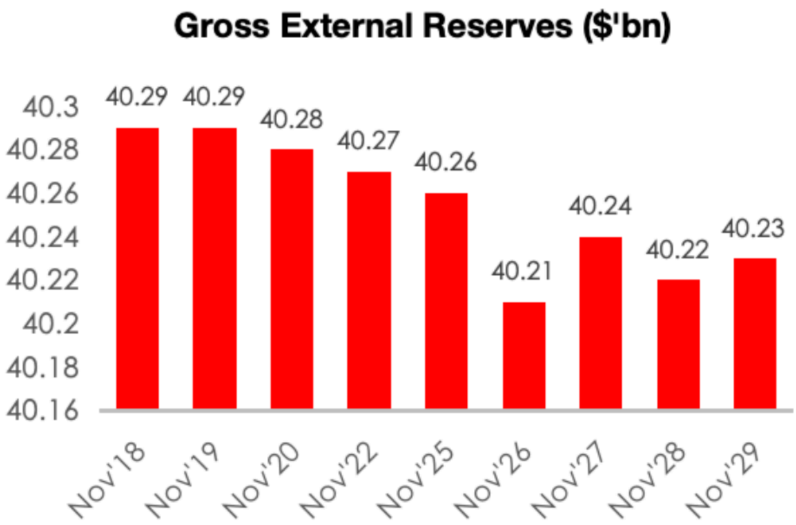
Source: FDC Think Tank

Outlook and Impact

The Naira is expected to remain stable in the near-term as the CBN continues to intervene in the forex market to ensure dollar liquidity. Additionally, dollar inflows from family and friends during the festive season will support dollar supply. However, as businesses begin stocking for the new year, the increased demand for dollars could exert upward pressure on the exchange rate.

EXTERNAL RESERVES

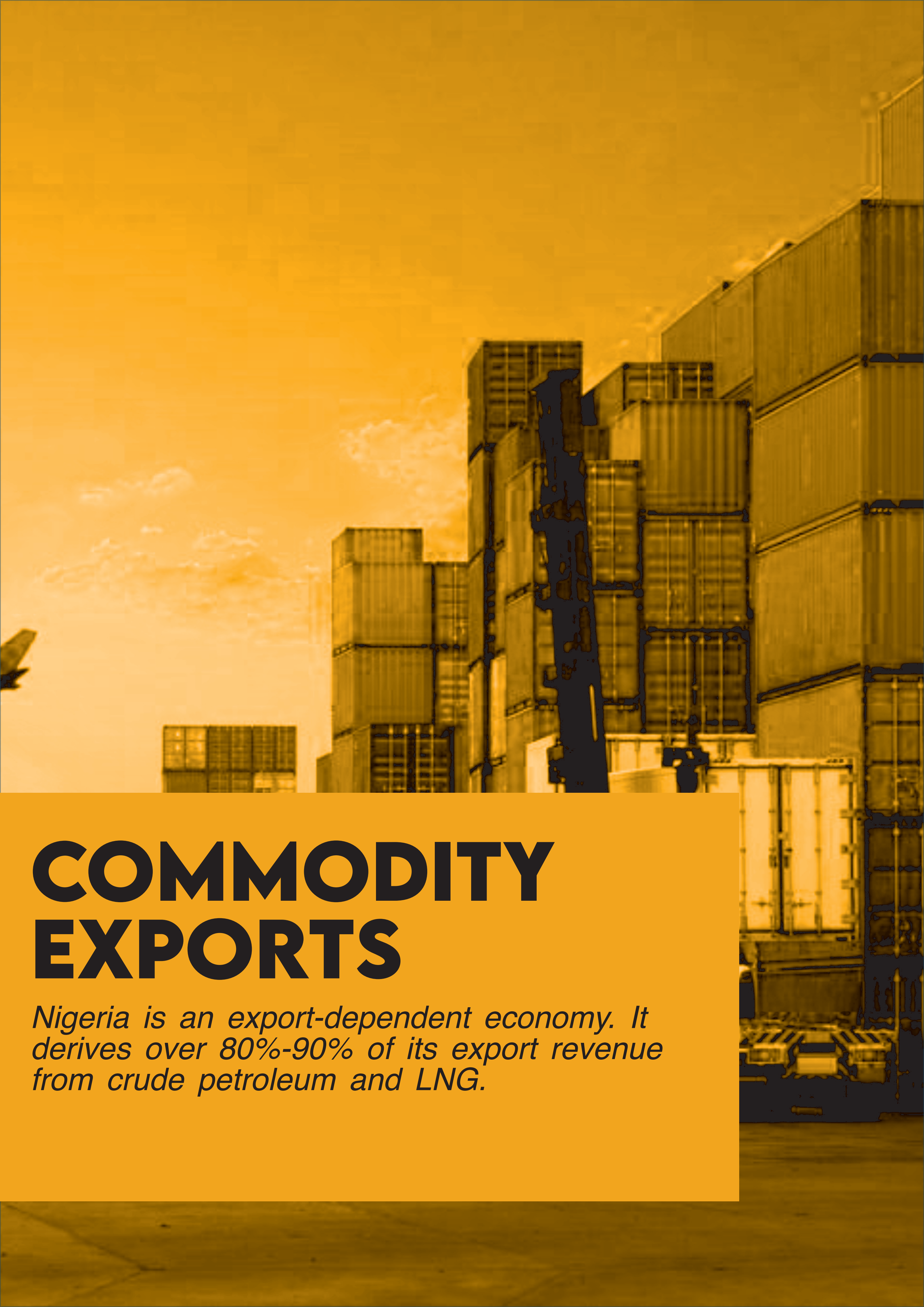
The country's external reserves declined by 0.15%, closing at $40.23 billion on November 29 from $40.29 billion on November 18. This decrease was attributed to drawdowns from the CBN for forex market interventions, debt service repayments and lower oil receipts.



Source: CBN, FDC Think Tank

Outlook and Impact

In the short term, external reserves are expected to increase, supported by capital inflows from foreign portfolio investments (FPI), higher remittance inflows, and earnings from non-oil exports, particularly cocoa, which recently hit a record high of over $12,000/mt. An increase in external reserves will likely stabilize the naira and support debt repayments. Additionally, it will boost investor confidence, ensure economic resilience and support government spending.

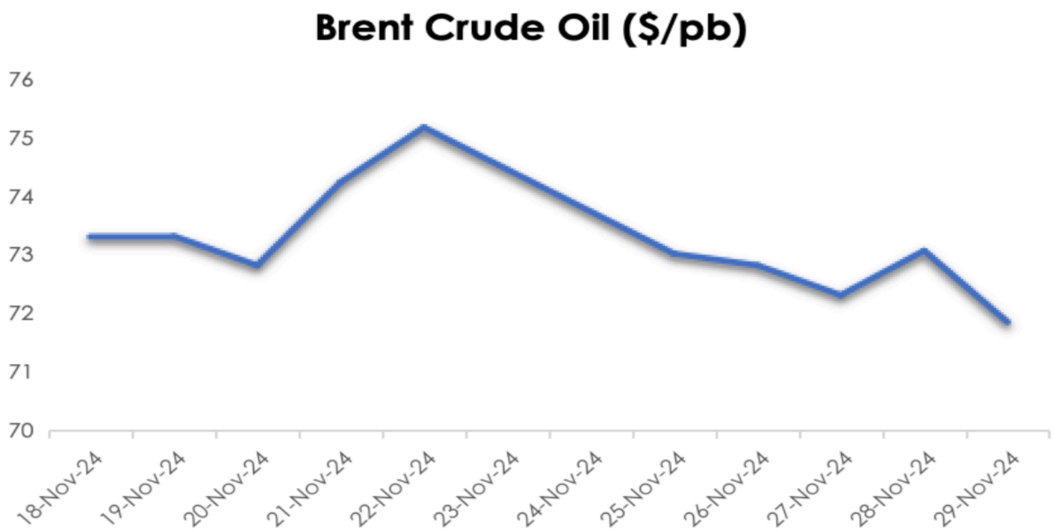


COMMODITY EXPORTS

Nigeria is an export-dependent economy. It derives over 80%-90% of its export revenue from crude petroleum and LNG.

OIL PRICES

Brent's price dipped by 1.99% from $73.3pb on November 18 to $71.84pb on November 29. The decline was primarily attributed to reduced oil demand from China, the world's largest crude importer, despite stimulus announcements from the Chinese government. Additionally, oil prices faced pressure from stronger-than-expected U.S. supply, as reported by the Energy Information Administration (EIA). Further adding to the supply glut, Norway's Equinor restored full production capacity at the Johann Sverdrup oil field after a power outage.



Source: Bloomberg, FDC Think Tank

Outlook

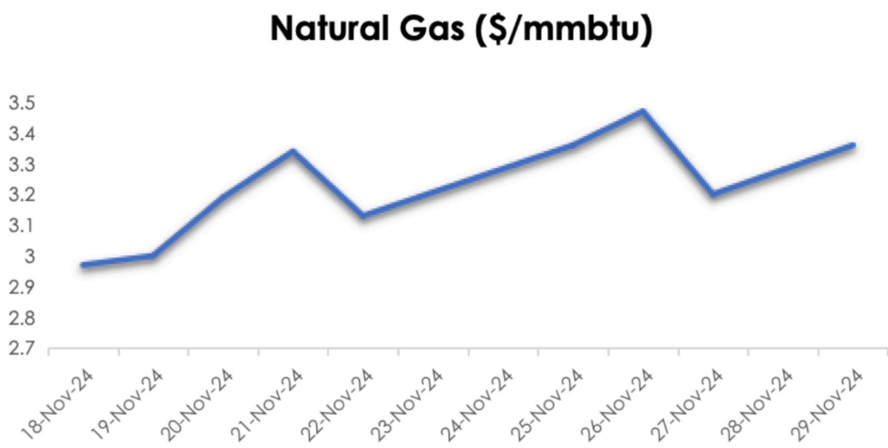
In the near term, oil prices are anticipated to be bullish, as China's economic data is expected to improve in 2025 as recent stimulus measures take effect. Additionally, lower interest rates in the U.S. and other regions will likely support increased oil consumption.

Implication

Higher crude oil prices will boost Nigeria's government revenue, enhancing foreign earnings and contributing to external reserve growth, which in turn strengthens the naira.

NATURAL GAS

The price of natural gas surged 13.13%, rising from $2.97/MMBtu on November 18 to $3.36/MMBtu on November 29. This significant increase was primarily driven by higher heating demand in the U.S. Additionally, robust natural gas demand in Europe, India, and China provided further support for prices. Moreover, the ongoing escalation of Russia-Ukraine tensions contributes to elevated gas prices.



Source: Bloomberg, FDC Think Tank

Outlook

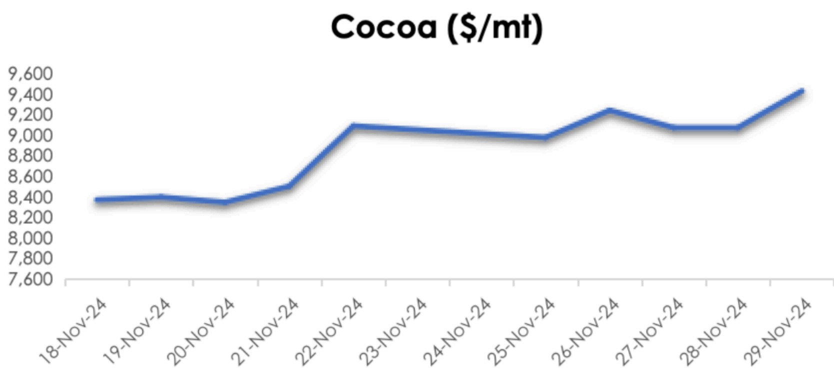
Natural gas prices are expected to stay high in the near term, driven by forecasts of above-normal temperatures in the U.S. Furthermore, ongoing concerns about Russia's supply to Europe will continue to exert upward pressure on prices.

Implication

Increasing LNG prices will boost Nigeria's export revenue, strengthen foreign reserves, and enhance government earnings.

COCOA

Cocoa prices climbed by 12.67% in the second half of November, rising from $8,365/mt on November 18 to $9,425/mt by November 29. This sharp rise was primarily driven by supply concerns stemming from adverse weather conditions in West African cocoa-growing regions, leading to significant crop losses, particularly in Ivory Coast. Additionally, both Ghana and Ivory Coast raised their cocoa prices by 50% as rising demand continued to outpace supply.



Source: Bloomberg, FDC Think Tank

Outlook

Cocoa prices are anticipated to decline in the near term as funds engage in profit-taking and long liquidation following the record high of $12,646/mt achieved on December 18.

Implication

Lower cocoa prices will reduce Nigeria’s export earnings, and also impact farmers' income and revenue.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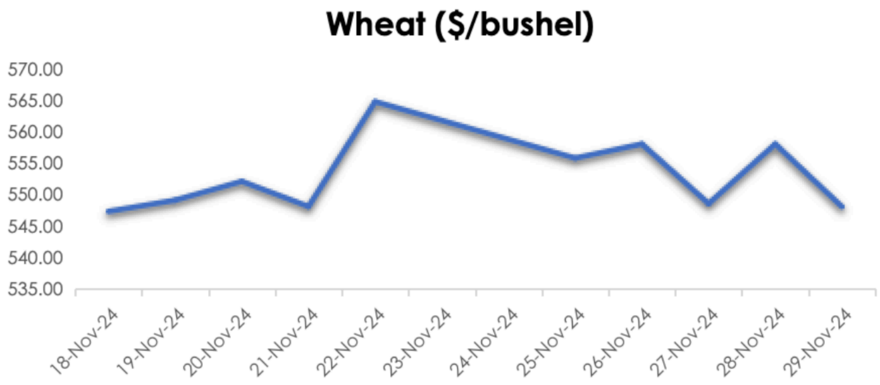
COMMODITY IMPORTS

WHEAT

The price of wheat climbed by 0.14% in the second half of November, rising from $547.25.00/bushel on November 18 to $548.00/bushel on November 29. The price uptick was driven by fears of an escalating Russia-Ukraine war, reducing wheat shipments from Russia. Additionally, the rise in Russia's wheat export prices and heightened tensions in the Black Sea region supported the increase.



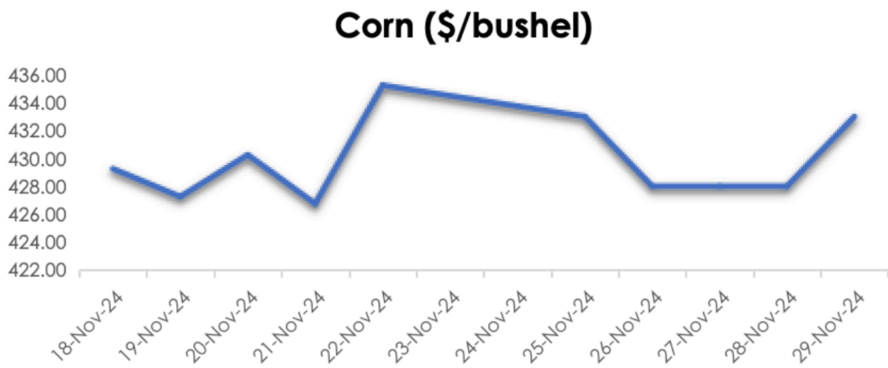
Source: Bloomberg, FDC Think Tank

Grains- Outlook

Grain prices are expected to decline in the near term due to increased supply in the export market following bumper harvests in Australia and Argentina. However, a rise in global grain supply is likely to push prices downward.

CORN

In the second half of November, corn prices rose by 0.64%, moving from $427.25/bushel on November 18 to $430.00/bushel on November 29. The price increase was primarily fueled by supply disruptions from the Ukraine war and higher grain export tariffs. Furthermore, a downward revision in Brazil's November corn export estimates contributed to the price surge.



Source: Bloomberg, FDC Think Tank

Grains-Impact

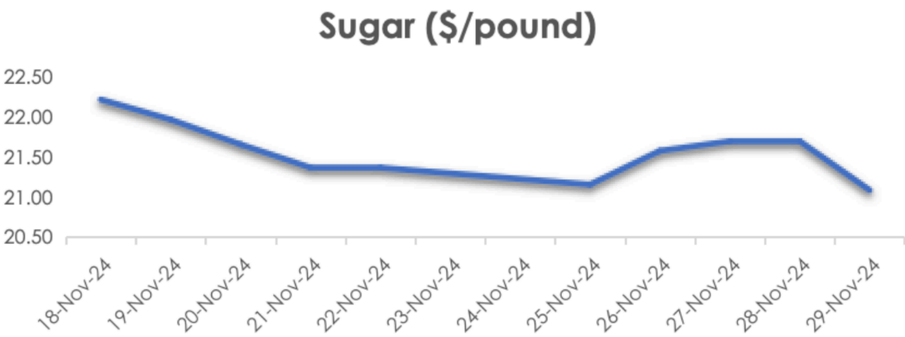
A decrease in grain prices will lower import costs, likely reducing imported inflation.

Terms of Trade

In Q2'24, the country's terms of trade decreased by 0.06% and are expected to be positive in the near term. In the review period, the country's import increased by 0.15% compared to its export value of 0.06%. Nigeria's oil production increased by 12.03% in November to 1.49mbpd, still below OPEC's quota of 1.5mbpd. Similarly, cocoa prices are trading above $11,000/mt which will likely improve the trade balance.

SUGAR

The price of sugar slipped by 5.09% from $22.21/pound on November 18 to $21.08/pound on November 29. The decrease was mainly driven by favourable weather forecasts in Brazil, and increased sugar output in Thailand. Furthermore, the International Sugar Organization (ISO) reduced its 2024/25 global sugar deficit forecast, further pressuring prices downward.



Source: Bloomberg, FDC Think Tank

Outlook

Sugar prices are expected to decline due to higher outputs in India, China, and Thailand.

Implication

Lower sugar prices could reduce Nigeria's import bill and lower production costs for manufacturers of confectionery, potentially impacting sugar derivatives and easing imported inflationary pressures.

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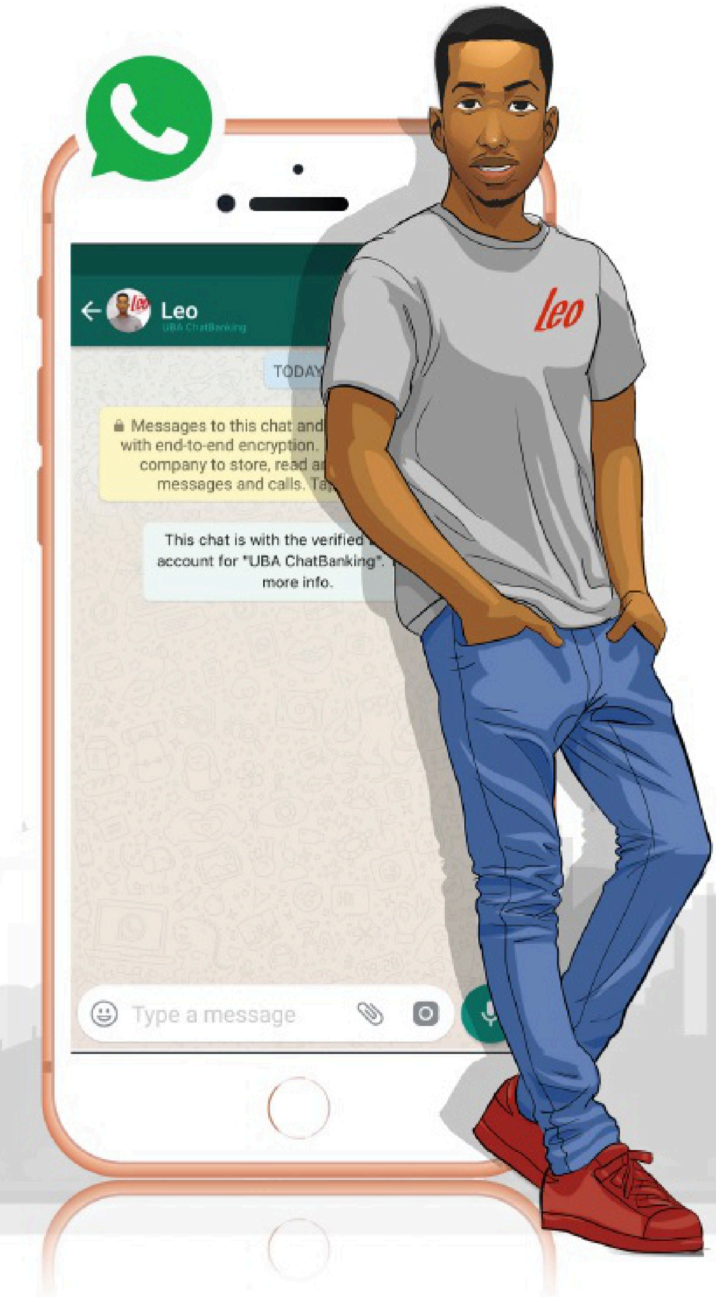

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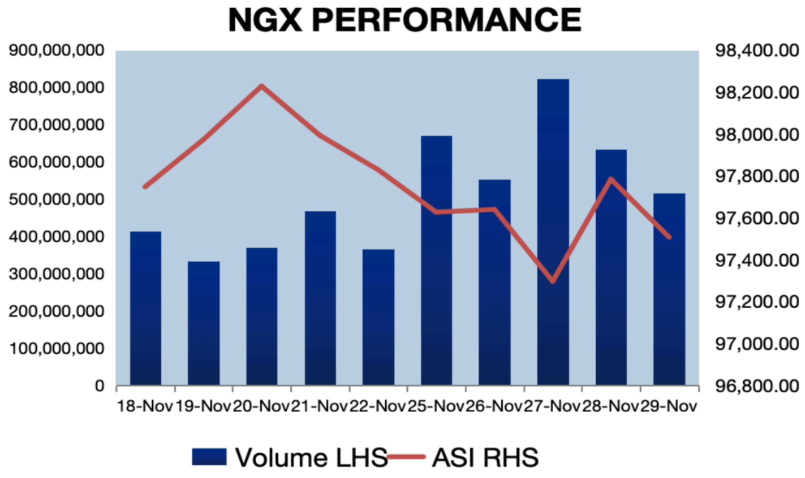
STOCK MARKET REVIEW

NOVEMBER 18TH – 29TH

The Nigerian Stock Exchange closed negatively in the second half of November. It lost 0.25% to close at 97,506.87 points on November 29, down from 97,747.27 points on November 18. Similarly, the market capitalization decreased by 0.20% to N59.11 trillion on November 29, relative to its close of N59.23 trillion on November 18. The YTD return was 30.40%, and the market breadth was positive at 1.51x; as 46 stocks gained, 65 remained unchanged, and 40 lost. The NGX's performance was negative due to bearish sentiments due to price depreciation in large and medium-capitalized stocks, including Aradel Holdings, Eterna, Nigeria breweries, John Holt and Haldane McCall.

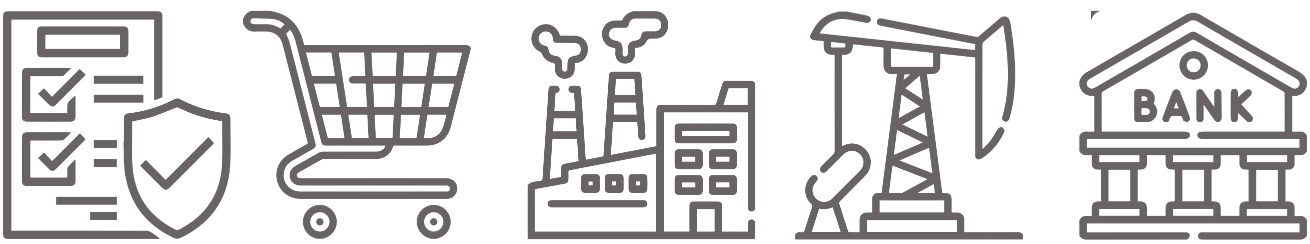


Source: NGX, FDC Think Tank

The market activity level was negative in the review period. The average volume traded decreased by 35.95% to 514.61mn units from 803.51mn units. Additionally, the average value of trades declined by 23.52% to N9.07bn from N11.86bn in the second half of November.

The performance of the sectors was mixed, as three sectors gained while two sectors lost. The insurance sector recorded a 5.38% increase, followed by consumer goods (1.81%) and Industrials (1.71%). The Banking sector lost 2.27%, and the oil & gas sector lost 1.68%.

SECTOR PERFORMANCE



Insurance	FMCG	Industrial	Oil &Gas	Banking
5.38%	1.81%	1.71%	-1.68%	-2.27%

TOP 5 GAINERS

SUNU Assurances Nigeria Plc, offering Non-life insurance for the domestic and corporate sectors of asset and health management services, led the gainers' list with a 50.00% increase in its share price. This was followed by EUNISELL Interlinked Plc (46.21%), Tantalizer Plc (40.24%), WAPCO Plc (26.09%) and Cadbury Plc (22.41%).

TOP 5 LOSERS

Multiverse Mining and Exploration Plc led the laggards with -25.79%. This was followed by LASACO Assurance Plc (-16.47%), Eterna Plc (-16.13%), PZ Cussons Nigeria Plc (-11.62%), and RT Briscoe Nigeria Plc (-10.71%).

TOP 5 GAINERS

Company	Nov-18 (N)	Nov-29 (N)	Absolute Change	Change (%)
SUNUASSUR	2.60	3.90	1.30	50.00%
EUNISELL	13.18	19.27	6.09	46.21%
TANTALIZER	0.82	1.15	0.33	40.24%
WAPCO	46.00	58.00	12.00	26.09%
CADBURY	17.40	21.30	3.90	22.41%

TOP 5 LOSERS

Company	Nov-18 (N)	Nov-29(N)	Absolute Change	Change (%)
MULTIVERSE	7.95	5.90	-2.05	-25.79%
LASACO	2.55	2.13	-0.42	-16.47%
ETERNA	24.80	20.80	-4.00	-16.13%
PZ	24.95	22.05	-2.90	-11.62%
RTBRISCOE	2.80	2.50	-0.30	-10.71%

Outlook

We expect the market to be bearish in the near term. However, steady gains in mid- and large-cap stocks will boost investor confidence and momentum.

WHISPERS OUTLOOK

- FDC projects December 2024 inflation to rise by 0.7% to 35.3% from 34.6% in November 2024, driven by the typical festive demand and spending boost.
- However, we expect price pressure to ease in January 2025, following reduced post-Christmas demand and the relative stability of the naira.
- In the past four weeks, the naira traded between N1,650-N1,680/$ at the parallel market. The stability was largely due to the continuous intervention by the CBN. These include the CBN's weekly FX sales of $25,000 to BDC operators and the enhanced transparency introduced by the Enhanced Foreign Exchange Market System (EFEMS). The steady accretion of the gross external reserves is expected to reinforce these interventions further. Gross external reserves remain above $40 billion, supported by increased foreign portfolio investment and higher oil earnings.
- Oil prices are projected to increase in the coming weeks, driven by supply shortages caused by adverse weather conditions and improved demand from China. In Nigeria, oil production is likely to rise further due to sustained anti-theft efforts by the federal government.

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