COMERCIO PARTNERS

Reconfiguration

From Global Trade to Quantum Innovation, a New Economic Era Emerges

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Message from Partners

Dear Clients,

Welcome to another edition of our Macroeconomic outlook for H2 2025.

As we navigate a fast-evolving global landscape, it is clear that we are standing on the threshold of a new economic era, one defined not only by shifts in trade dynamics but by the transformative power of innovation at the quantum frontier. The world trade networks are undergoing profound recalibration. Geo-political tensions, supply chain realignments and digital trade growth are reshaping traditional models of how we do business. Emerging markets are asserting greater influence , and economic resilience is increasingly leading to adaptability and collaboration across borders. Business and economies alike have to take on the fulcrum of agility in navigating regulatory shifts and technological advances.

Parallel to the evolution of trade , we are witnessing the dawn of a quantum revolution. The confluence of global trade reinvention and quantum innovation creates a rare window of opportunity, As a company , we recognize the imperative to reimagine our strategies, expand our capabilities and lead responsibly withing this evolving paradigm , whilst we educate our clients and stakeholders. Our continued investment in research, strategic partnerships, and talent development ensures we remain not only competitive , but catalytic in shaping tomorrow's economy.

The road forward demands vison, courage , and a relentless commitment to progress. As a Director at Comercio Partners, I am excited by what lies ahead- not merely for our organization , but for our society at large. In this transformative era, we must embrace change not as a challenge , but as an innovation to innovate boldly and grow sustainably.

Together, let's pioneer the new economic landscape where global connectivity and quantum possibility converge to shape a future defined by inclusivity , ingenuity and resilience.

Sit back and have fun reading this encapsulating, educational and thought-provoking piece.

Regards,
Steve Osho
MD/CEO Comercio Partners Capital

Message from Partners

2025, the year of the Tariffs

In recent times we seem to have had major events affecting markets every couple of years. In 2020, it was COVID. In 2022 it was the Russia-Ukraine war. In 2025, we have the US tariffs.

The imposition of tariffs and the policy of America first has had a massive impact on global trade and economy. For countries still reeling from inflationary pressures over the last few years, this was the last thing they needed. Countries now must align with the United State of America or face the risk of tariffs slammed on them. The Federal Reserve has also been reluctant to reduce rates due to the perceived inflationary pressure from tariff, thereby ensuring that global rates remain elevated.

On the local front, the reforms initiated by the Federal government seem to be working. The Naira has appreciated by circa 8% against the United Stated Dollar (USD), despite the USD reserves dropping by $3.5bn to $37.3bn, as the Central Bank of Nigeria cleared the FX backlog. We have become the darling of foreign investors once again, with investments seen in Nigeria Treasury Bill and Bonds. Inflation is also trending downwards, with Federal Government of Nigeria bond and treasury bill yields dropping by circa 300bps this year.

Comercio Partner's half-year report summarises the events I have highlighted above. It also tells you what to expect in the second half of 2025. It is an interesting read as always.

So sit back, relax and delve into the report. It is a must read.

Nnamdi Nwizu
CEO, Comercio Partners Trading

Message from Partners

Dear Clients,

As we step further into 2025, the landscape around us is no longer defined by recovery but by recalibration. The aftershocks of global disruptions, from fiscal tightening in developed markets to the far-reaching implications of local reform, continue to test institutions, investors, and policymakers alike. But within this complexity lies opportunity.

This Macro Report is our contribution to clarity. It distills the economic signals shaping the year ahead both seen and emerging.
From the implications of protectionist trade movements like the renewed "America First" agenda, to the micro-level impacts of Nigeria's fiscal and monetary reset, this report offers an integrated view of a world in flux and a country determined to find its footing within it.

From Nigeria's evolving fiscal architecture to shifting investor flows triggered by global trade realignment, the insights captured here are not just reflections of the present, but signals for the future.

At Comercio Partners, we believe relevance is earned through foresight and adaptability. This report reflects both. It is a tool for those navigating uncertainty with strategy, not sentiment. It is for decision-makers who understand that in markets like ours, growth belongs to those who move early, position smartly, and execute consistently.

We thank you our clients, stakeholders, and collaborators for the trust you continue to place in us. This report is our commitment to equipping you with the clarity to lead, and the insight to decide with confidence.

Here's to a year of informed choices, strategic alignment, and resilient outcomes.

Tosin Osunkoya
CEO Comercio Partners Asset Management

Executive Summary

The Comercio Partner 2025 H2 Outlook unveils a world undergoing a profound transformation, where the once-dominant U.S.-led unipolar order has fragmented into a vibrant, multipolar landscape. This is not a simple handover of power, as seen in the rise and fall of historical empires, but a radical redefinition of global influence. Nations like the United States, China, the European Union, India, and emerging blocs such as BRICS and ASEAN are not just vying for supremacy, they are reshaping the very nature of power through economic interdependence, technological innovation, and the collective need to tackle existential challenges like climate change. This intricate web of relationships elevates the stakes, offering unprecedented opportunities for those who can adapt and exposing vulnerabilities for those who cannot.

The global stage is being redrawn by the emergence of a resource-based order, termed Bretton Woods III, where control over water, food, energy, and critical minerals eclipses traditional financial hegemony as the cornerstone of national power. This shift heralds both promise and peril: resource-rich nations stand to gain influence, while others risk being sidelined. Yet, in an interconnected world, no nation can prosper alone. The decisions made in the second half of 2025, from the policy corridors of Washington to the bustling markets of Lagos, will define the contours of this new era, determining who thrives and who falters.

The United States, a precarious equilibrium U.S. economy enters H2 2025 balanced on a razor's edge, teetering between resilience and stagnation. Growth is forecast to hover just above 1%, staving off a technical recession but lacking momentum. Inflation, briefly subdued, is poised to flare up again, propelled by tariff shocks that will disrupt global supply chains, early signs of which will surface in the July CPI release, intensifying into Q4. The Federal Reserve, caught between political pressures and economic uncertainty, is expected to adopt a cautious stance, delivering a modest 25-basis-point rate cut in Q4. Amid this turbulence, the stock market anticipates volatility, with investors gravitating toward capital-intensive sectors, defense, and tech firms with global reach as safe havens. In this climate, success hinges not on broad prosperity but on precise, strategic positioning.

Nigeria stands at a critical juncture, its trajectory shaped by the weight of its past and the demands of an uncertain future. The reforms of 2023, naira devaluation, subsidy cuts, and trade liberalization, echo the 1986 Structural Adjustment Programme (SAP), yielding exchange rate stability and tighter fiscal discipline. Yet, these measures have exacted a steep price: inflation has soared, unemployment has worsened, and millions grapple with deepening hardship. The naira's staggering 224,000% depreciation since 1973 lays bare the nation's fragility, compounded by external reserves tethered to volatile oil prices. Nigeria's survival in this resource-driven world demands more than incremental change, it requires a bold reinvention through diversification, institutional renewal, and policies that prioritize the poorest. Without these, its vast potential remains a mirage. In this resource-centric age, commodities have transcended their role as mere goods to become the lifeblood of national strategy. Nigeria's abundant reserves offer a tantalizing opportunity, yet structural weaknesses in agriculture, water management, and trade leave it exposed.

The Eurobond market reflects this duality: looming U.S. rate cuts fuel investor appetite for high-yield emerging market debt, bolstered by Nigeria's reform-driven credit upgrades, but oil price volatility and

production shortfalls cloud the horizon. Angola, with reserves covering its Eurobond debt 13 times over, presents a contrast, though its oil output wanes. South Africa, lifted by a unity government and rising gold prices, regains investor trust, yet sluggish growth and high debt temper its ascent. In this global power play, resilience is not a gift—it must be forged.

Navigating the tempest Under Governor Olayemi Cardoso, Nigeria's Central Bank has deployed aggressive rate hikes to curb inflation, with projections suggesting a decline to 20% by year-end. Exchange rate reforms have stabilized the naira at ₦1,400–₦1,600 per dollar, and foreign portfolio inflows have surged 106.5% to $13.35 billion. However, a 42.3% drop in foreign direct investment to $1.08 billion, alongside risks from Middle East tensions and domestic flooding, signals underlying fragility. External reserves, buoyed by oil, remain elastic downward and sticky upward, offering little buffer against shocks. Globally, the interplay of monetary discipline, resource control, and investor sentiment will dictate the pace of this multipolar shift, with Nigeria's fate hanging in the balance.

A striking theme of this outlook is the disconnect between macroeconomic data and lived experience. Official metrics, declining inflation, improving growth projections (Comercio Partner forecasts 5% GDP post-rebasing), suggest progress, yet public skepticism abounds. Through triangulation, this report uncovers a sobering reality: while the numbers brighten, the benefits have yet to reach the masses. For Nigeria and many emerging markets, the challenge is not merely to grow but to ensure that growth translates into tangible improvements for those at the bottom.

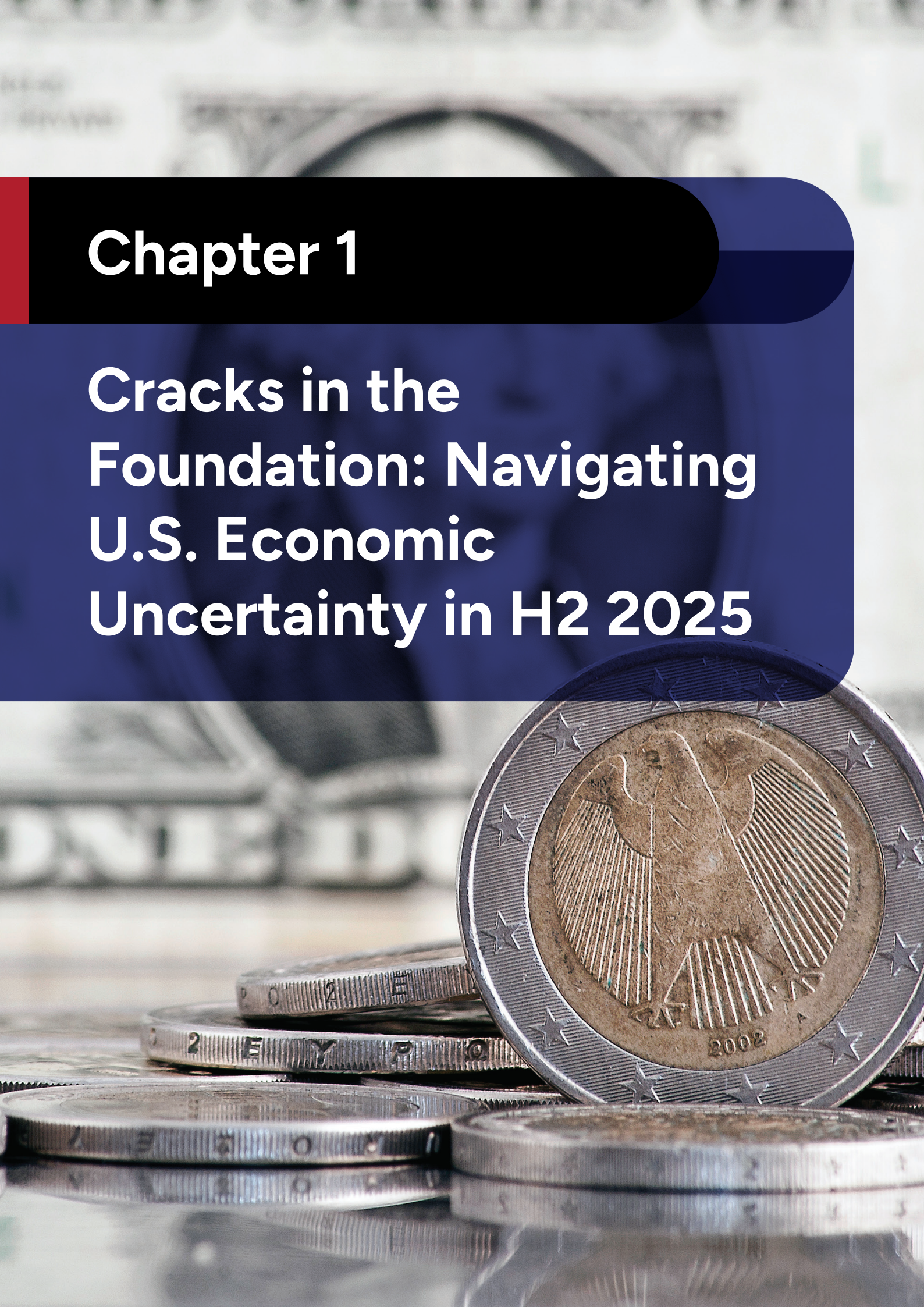
Embracing the unknown, the Comercio Partner 2025 H2 Outlook captures a world where power is no longer concentrated but diffused, contested, and redefined. From the measured deliberations of the Federal Reserve to Nigeria's oil fields and the trading floors of emerging markets, the choices of today will resonate through this era of shared hegemony. It is a landscape as unpredictable as it is exhilarating one where strategic foresight, not sheer might, will determine the victors in this bold new chapter of global history.

Section A

Global Macroeconomic Outlook 2025

Chapter 1

Cracks in the Foundation: Navigating U.S. Economic Uncertainty in H2 2025



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1 Cracks in the Foundation: Navigating U.S. Economic Uncertainty in H2 2025

1.1. Introduction

The first half of 2025 has tested the famed resilience of the US economy. What began as a cautiously optimistic year quickly spiraled into uncertainty, as a renewed wave of trade protectionism and rekindled inflationary pressures reignited long-dormant fears of an economic downturn. At the heart of the turmoil lies a question that continues to dominate financial headlines and boardroom conversations alike: Can the US sustain its expansion without slipping into recession?

The stakes rose dramatically with the re-emergence of Trump-era trade policies. While many had anticipated a return to tougher trade rhetoric, the speed, scope, and severity of the tariff measures introduced in early 2025 surpassed expectations. The global economy was blindsided. In March, sweeping tariffs, including a 10% blanket duty on most imports and targeted sanctions against key partners like China, Mexico, and Canada, sent shockwaves through markets and rekindled anxieties about global supply chains, inflation dynamics, and the future of trade multilateralism.

Though implementation of the broad-based tariffs was paused temporarily in April under a 90-day review window, the suspension has only added to the uncertainty. With the resumption of full enforcement now slated for the second half of the year, the economic cost is becoming harder to ignore. Price pressures are expected to build once again, reversing much of the disinflationary progress achieved by the Federal Reserve. Just as the Fed appeared to be nearing a policy inflection point, its path forward has been complicated by expected externally driven price shocks.

Beyond inflation, the tariffs are poised to weigh heavily on real economic activity. Higher import costs, tighter financial conditions, and diminished corporate confidence are already prompting a pullback in consumption and investment. These headwinds, coupled with a persistently high-interest rate environment, are likely to dampen growth momentum in the second half of 2025.

Yet, despite these challenges, we maintain a measured confidence in the US economy's ability to avoid a full-blown recession. While the road ahead is undoubtedly rocky, the structural strengths underpinning domestic demand, coupled with a resilient labor market and fiscal support mechanisms, offer enough cushion to prevent a sharp contraction. **In our view, the economy is entering a period of "stagflationary tightrope walking" (navigating the delicate balance between curbing inflation and sustaining growth) rather than free-falling into outright recession.**

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2 Strength Amid Strain: The US Economy Shows Resilience Despite Mounting Headwinds

2.1. Parsing the Noise: Why a Negative GDP Print Doesn't Tell the Whole Story

At first glance, the headline GDP figure for Q1 2025 might suggest the US economy stumbled out of the gate. The real GDP contracted, raising fresh concerns about the trajectory of the recovery. However, a deeper look beneath the surface reveals a far more nuanced reality, one in which front-loaded trade flows and temporary distortions obscure underlying strength in domestic demand.

The sharp rise in imports during the first quarter was a deliberate move by US businesses. In anticipation of the new tariffs scheduled for early April, importers rushed to frontload goods, inflating the import component of GDP. Since GDP is a measure of production rather than sales, these preemptive imports negatively skewed the headline figure without accurately reflecting real economic activity. The consumption of these imported goods, which typically lags importation, had not yet materialized in full by the end of Q1 and is therefore expected to show up in subsequent quarters, particularly in Q2.

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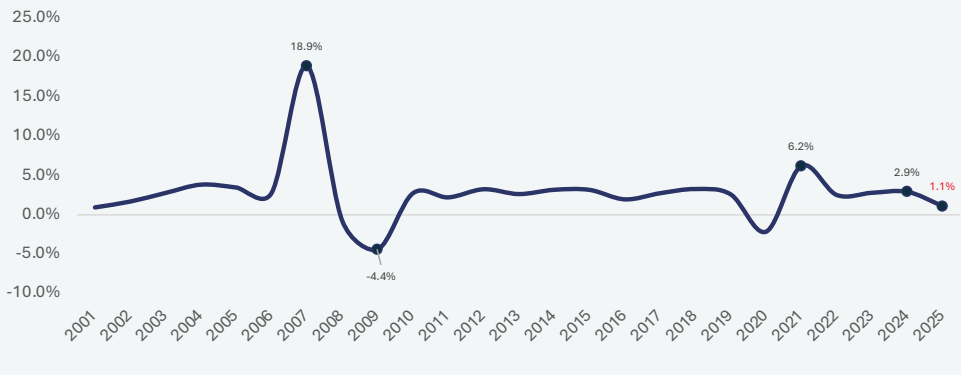
2.2. Real Private Domestic Final Purchases: A Clearer Lens on Growth Momentum

To better assess the true health of the economy, we turn to Real Private Domestic Final Purchases (RPDFP), a measure that strips out the volatile components of trade, inventory swings, and government spending. RPDFP focuses purely on domestic private sector demand, and in Q1 2025, it told a different story than the headline GDP figure. Although growth in RPDFP slowed to an annualized pace of 1.1%, this still reflects positive momentum, especially in light of prevailing monetary and policy headwinds. For context, this was below the 2.9% RPDFP growth recorded in 2024 but still well above typical recessionary levels of the 21st century.

Annualized 2025 Q1 RPDFP Weak Compared to Previous Years



NB: In computing Q1 2025 RPDFP Growth RPDFP for the quarter was annualized for comparability. The GDP 2nd Estimate Result was used for 2025.

Source: Data Compiled from the Bureau of Economic Analysis (BEA) [1]

1. Bureau of Economic Analysis, "National Data: Real Gross Domestic Product, Chained Dollars (Annual)," apps.bea.gov, May 29, 2024, https://apps.bea.gov/iTable/?reqid=19&step=2&isuri=1&categories=survey&_gl=1.

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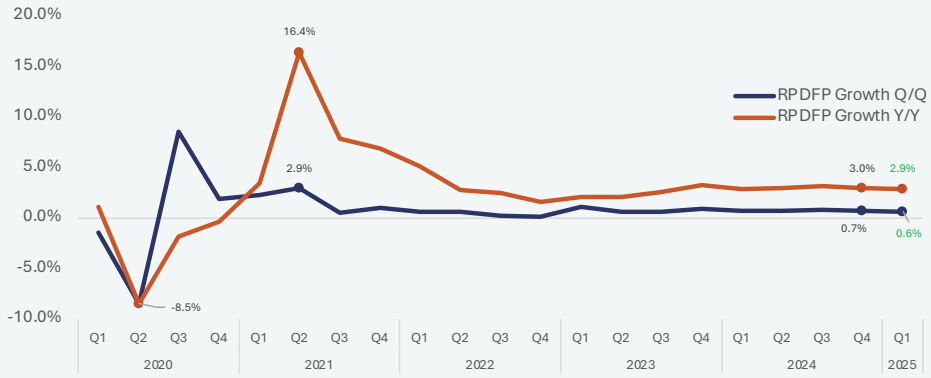
The U.S. Economy seems to be Resilient in the 1st Quarter Despite the Tariff Shock

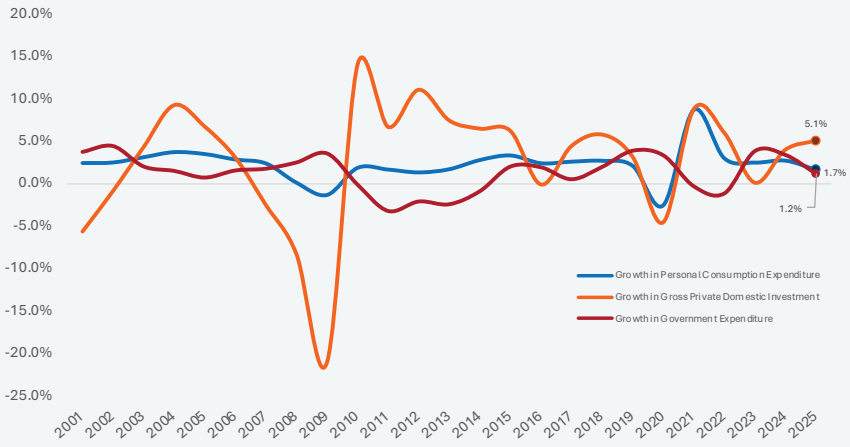


NB: The GDP 2nd Estimate Result was used for 2025.

Source: Data compiled from BEA [2]

Personal consumption, which accounts for roughly 69% of US GDP, remained the largest contributor to economic activity. However, it decelerated slightly in Q1, likely a reflection of increased economic uncertainty and a rise in precautionary savings. Consumers appeared to hold back, possibly in anticipation of higher prices and tighter financial conditions in the coming quarters.

Growth in GDP Components Still Remains Well Beyond Recession Years' Levels



NB: In computing Q1 2025 RPDFP Growth RPDFP for the quarter was annualized for comparability.
The GDP 2nd Estimate Result was used for 2025.

Source: Data compiled from BEA [3]

1. Bureau of Economic Analysis, "National Data: Real Gross Domestic Product, Chained Dollars (Annual)," apps.bea.gov, May 29, 2024, https://apps.bea.gov/iTable/?reqid=19&step=2&isuri=1&categories=survey&_gl=1.
2. Ibid.
3. Ibid.

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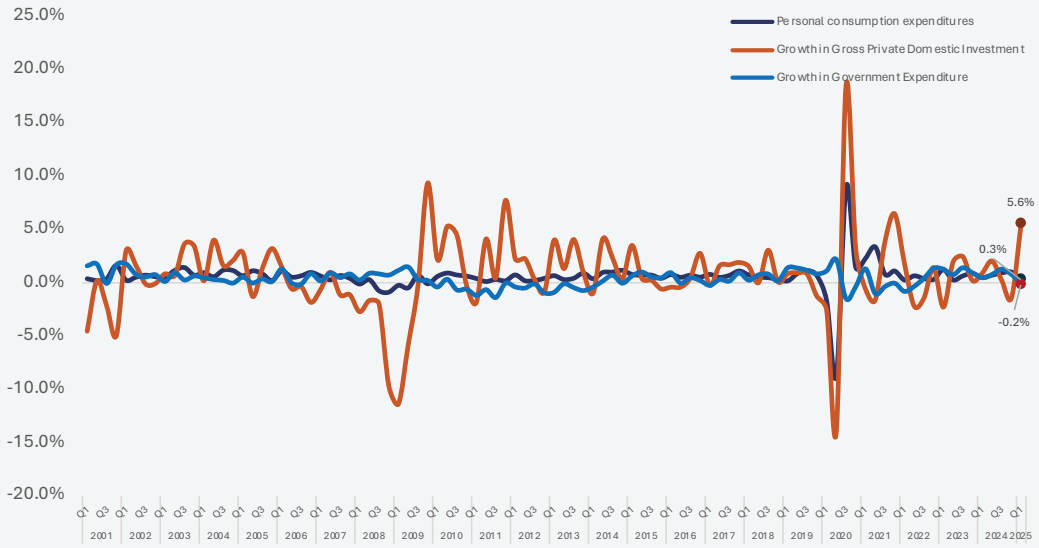
Growth in Private Investment Outperformed Weak Growth in Other Domestic Components on a QoQ Basis in Q1 2025



NB: The GDP 2nd Estimate Result was used for 2025.

Source: Data compiled from BEA [4]

Notably, private investment delivered a surprise upside. Despite still elevated interest rates, private investment grew at an impressive, annualized rate of 5.1% in the first quarter. On both a quarter-over-quarter and year-over-year basis, the performance of this sector underscores the underlying resilience of the US economy. Firms appear to remain confident in long-term growth prospects, choosing to invest in capital expansion even in a high-cost borrowing environment.

2.2.1. Public Sector Pullback: Government Spending Slows in Q1

In contrast, government expenditure was a clear drag on growth in Q1. The reduction in fiscal outlays can largely be attributed to initiatives by the Department of Government Efficiency (DOGE), which implemented targeted spending cuts aimed at trimming waste and improving budgetary discipline.

4. Bureau of Economic Analysis, "National Data: Real Gross Domestic Product, Chained Dollars (Annual)

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2.2.2. The Road Ahead: Resilience Tested by Structural and Cyclical Pressures

While core private sector activity has remained surprisingly stable, several indicators suggest that sustaining even moderate growth through the remainder of 2025 will be increasingly difficult. The slower RPDFP growth in Q1 already reflects early cracks in consumer and investment dynamics. Moving forward, additional pressures loom: rising yields will likely dampen both public and private sector borrowing; heightened inflation threatens real purchasing power; and persistent geopolitical and domestic policy uncertainty could continue to erode investor confidence and drive precautionary behavior across sectors.

Considering these factors, there appears to be little potential for the core components of the economy to significantly exceed their Q1 performance, absent a notable shift in policy or sentiment. Although the economy has not entered a contraction, it is functioning within an increasingly narrow band of stability, where positive surprises are becoming increasingly rare.

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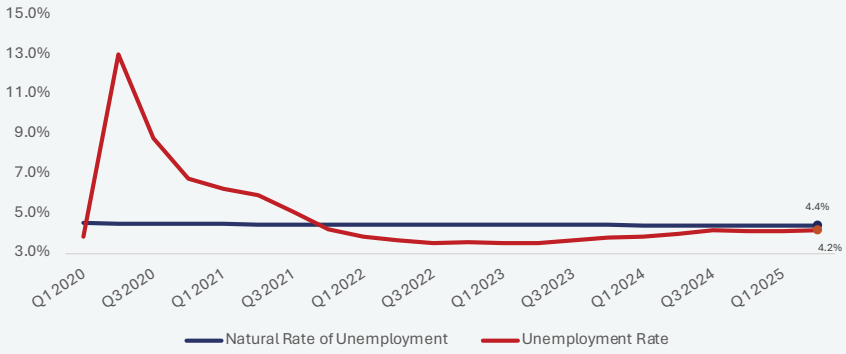
2.3. **Labor Market Strength:** A Lagging Yet Comforting Indicator

The labor market continues to be a source of relative strength for the US economy, even if it offers little forward-looking guidance. Employment is a lagging indicator by nature, and thus not always reflective of near-term shifts in broader economic momentum. Nonetheless, the job market remained healthy in the first half of 2025, offering some reassurance amid gathering clouds.

U.S. Labor Market at Full Employment Despite Global Uncertainty



NB: The Unemployment rate used in Unemployment Rate used is the average for each quarter

Source: Data compiled from U.S. Bureau of Labor Statistics (BLS)[5] and U.S. Congressional Budget Office (CBO)[6]

Unemployment remained low throughout the first half, hovering around a narrow range, and was stable at around 4.2%. **We could conveniently say the labor market is close to full employment since there is a high participation rate of around 62% and the unemployment rate is within the natural rate of unemployment, which represents unemployment arising from all sources except fluctuations in aggregate demand.**

5. U.S. Bureau of Labor Statistics, "Unemployment Rate," Bls.gov, June 6, 2025, https://data.bls.gov/dataViewer/view/timeseries/LNU04000000.
6. U.S. Congressional Budget Office, "Natural Rate of Unemployment (Short-Term)," Stlouisfed.org (Retrieved from FRED, Federal Reserve Bank of St. Louis, February 1, 2021), https://fred.stlouisfed.org/series/NROUST.

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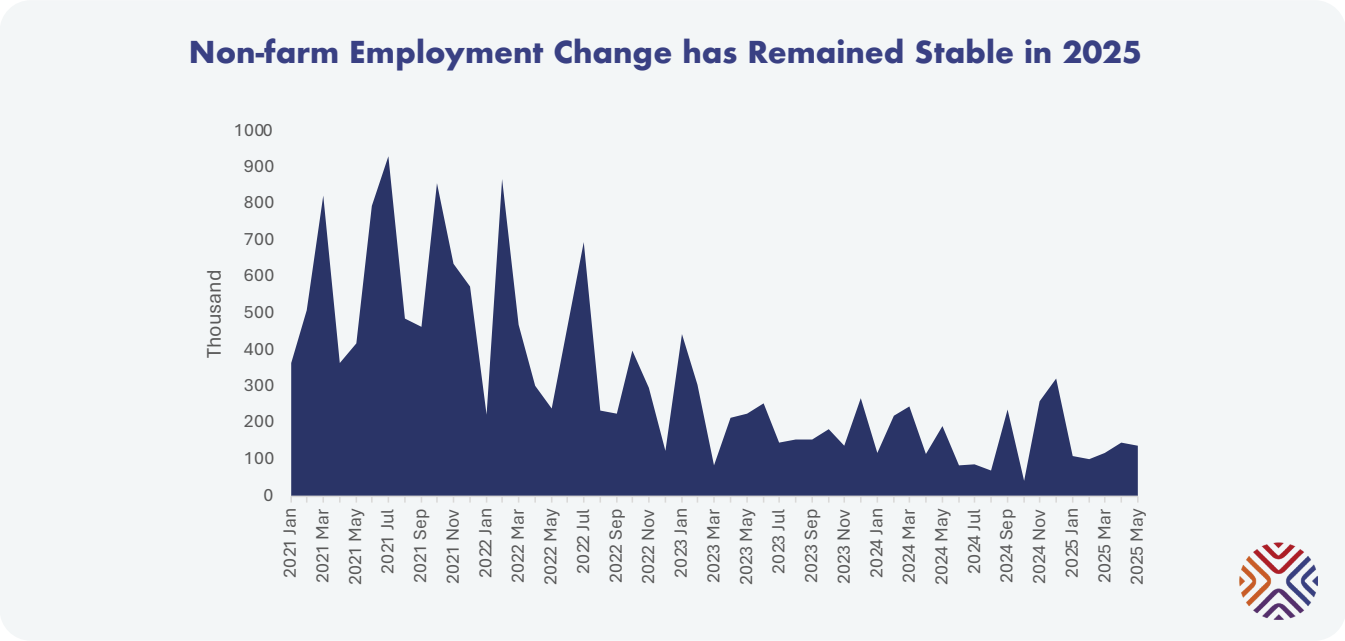

Source: Data compiled from U.S. BLS [7]

Non-farm payrolls also posted consistent gains, with monthly job additions hovering around the one-year average of 148,000. The stability in employment growth, even in the face of higher borrowing costs and global uncertainty, reflects employers' confidence in long-term demand and the stickiness of labor hoarding dynamics.

7. U.S. Bureau of Labor Statistics, "Total Nonfarm Employment," Bls.gov, June 6, 2025, https://data.bls.gov/dataViewer/view/timeseries/CES0000000001.

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3 Fractures Beneath the Surface: The Structural Fault Lines of the US Economy in 2025

3.1. A Waning Economic Halo: US Resilience Under Scrutiny

The year 2025 has become a pivotal moment for the US economy, not because of a crisis, but because of the growing realization that cracks long papered over are now becoming structurally visible. Once viewed as the unshakable engine of global capitalism, the US is facing mounting questions about the long-term sustainability of its economic framework. The downgrade of US sovereign credit by Moody's in May was emblematic of this shifting narrative. Moody's cited the relentless rise in interest payments and the swelling public debt burden as core concerns.[8]

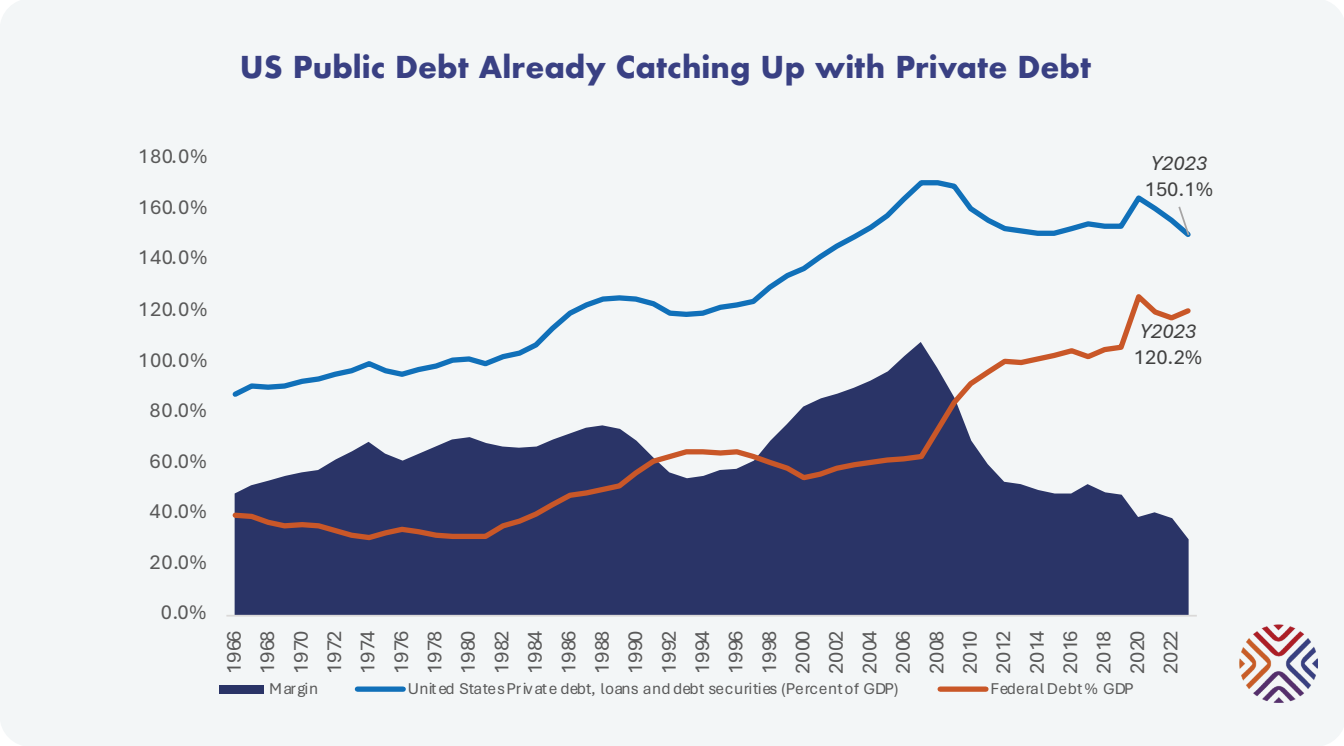
Yet, the stress in US government bond markets had already begun to manifest well before the downgrade, with yields steadily climbing on the back of worsening fiscal optics.

In this section, we explore the deepening structural vulnerabilities of the US economy, cracks that, if left unattended, risk undermining both macroeconomic stability and the dollar's enduring appeal as the world's reserve currency.

8. Moody's Ratings, "Ratings.Moodys.com," Moodys.com, May 16, 2025, https://ratings.moodys.com/ratings-news/443154.

3.2. **Public Debt Outpaces Private Credit:** A Reversal with Lasting Consequences

Historically, private credit has been the principal engine of US economic growth, consistent with a model built around consumer-driven expansion and business innovation.[9] Government debt has traditionally played a countercyclical role, stepping in during crises, then receding during recoveries. That pattern has now been fundamentally disrupted.



Source: Data compiled from U.S. Office of Management and Budget and Federal Reserve Bank of St. Louis (FRED)[10] and IMF [11]

Following the 2008 financial crisis, government borrowing surged to offset the collapse in private sector activity. However, even as private debt failed to rebound meaningfully in the post-crisis decade, public debt never slowed. By 2025, government debt had nearly caught up with private debt, despite the absence of a major economic crisis, signaling a potential inversion of the traditional U.S. growth model, where public borrowing increasingly drives economic activity in place of private credit.

9. Ifeanyi Ubah et al., "Comercio Partners Macroeconomic Outlook 2025 | Comercio Partners," Comercio Partners, February 11, 2025, https://comerciopartners.com/comercio-partners-macroeconomic-outlook-2025/.
10. U.S. Office of Management and Budget and Federal Reserve Bank of St. Louis, "Federal Debt: Total Public Debt as Percent of Gross Domestic Product," Stlouisfed.org (Retrieved from FRED, Federal Reserve Bank of St. Louis, June 3, 2025), https://fred.stlouisfed.org/series/GFDEGDQ188S.
11. International Monetary Fund, "Private Debt, Loans and Debt Securities," Imf.org, 2025, https://www.imf.org/external/datamapper/PVD_LS@GDD/USA.

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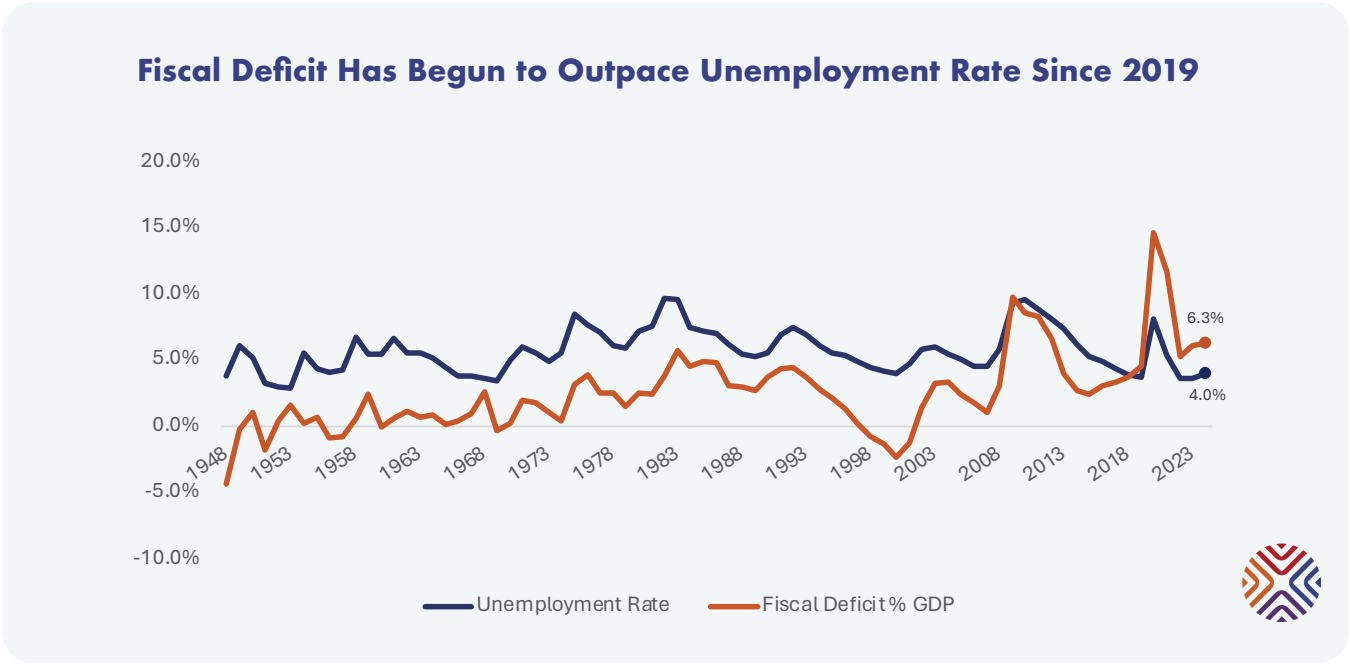

NB: Unemployment Rate represents the average for the Year.

Source: Data compiled from U.S. BLS[12] and BEA[13]

The graph further highlights this structural weakness. Historically, government deficits have tended to rise sharply during periods of economic distress, typically tracking spikes in unemployment. In most cases, unemployment has exceeded the fiscal deficit as a percentage of GDP. However, since 2020, this relationship has reversed: fiscal deficits have remained elevated even as unemployment has declined to relatively low levels. This suggests the government has been borrowing at an emergency pace despite the absence of crisis conditions, a dynamic that has contributed to upward pressure on yields in the U.S. Treasury market.

3.2. **Borrowing into a Higher Rate Regime:** A Strategy That No Longer Works

For decades, the US government has relied on a virtuous debt dynamic: declining interest rates allowed the Treasury to roll over existing debt at lower costs, even as nominal debt levels increased. This dynamic, stretching back to the 1980s, created the illusion of sustainability despite rising leverage. Inflation helped by quietly eroding the real value of obligations, further easing the fiscal burden.

That paradigm no longer holds.

12. U.S. Bureau of Labor Statistics, "Unemployment Rate," Bls.gov, June 6, 2025, https://data.bls.gov/dataViewer/view/timeseries/LNU04000000.
13. Bureau of Economic Analysis, "Federal Government Budget Surplus or Deficit (-)," FRED, Federal Reserve Bank of St. Louis (Retrieved from FRED, Federal Reserve Bank of St. Louis, December 19, 2024), https://fred.stlouisfed.org/series/M318501Q027NBEA.

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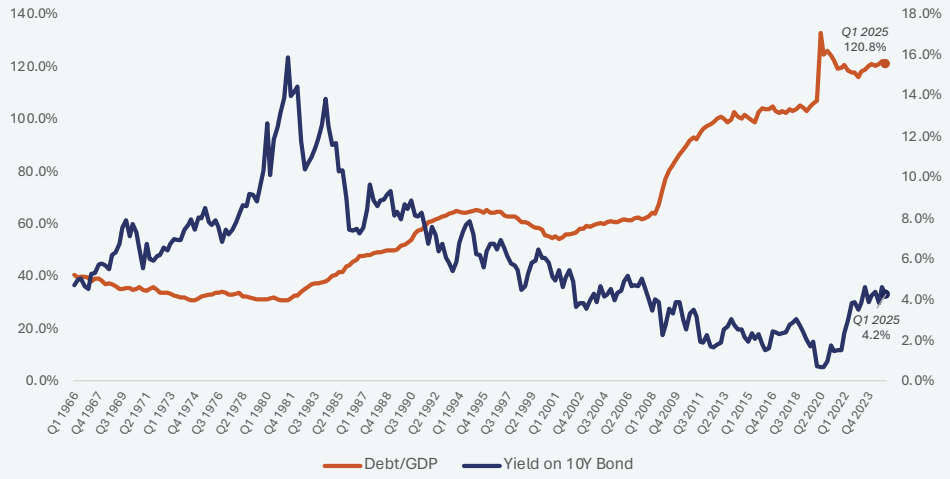
Government Debt Path Is Unsustainable Since Yield and Debt Level Follow the Same Trajectory



Source: Data compiled from U.S. Office of Management and Budget and Federal Reserve Bank of St. Louis[14] and Board of Governors of the Federal Reserve System[15]

With the Federal Reserve constrained by persistent inflation pressures and unable to quickly ease policy, the government now faces a structurally higher cost of capital. Yields on government securities are rising not only because of monetary tightening, but also because investors are demanding a premium for perceived fiscal risk. This shift introduces a feedback loop: higher debt leads to higher yields, which leads to larger interest payments and even more debt. The risks to debt sustainability are no longer theoretical; they are becoming embedded in market pricing.

3.4. The Silent Pressure from a Shrinking Social Trust Fund

A more insidious fiscal risk is emerging from demographic dynamics. The US Social Security trust fund is rapidly depleting, due to a combination of early retirements, a rising retiree population, and stagnating contributions. By 2030, roughly 21% of the US population will be over the age of 65, according to the Census Bureau, a shift that will significantly strain the already-stretched social insurance system.[16]

14. U.S. Office of Management and Budget and Federal Reserve Bank of St. Louis, "Federal Debt: Total Public Debt as Percent of Gross Domestic Product," Stlouisfed.org (Retrieved from FRED, Federal Reserve Bank of St. Louis, June 3, 2025), https://fred.stlouisfed.org/series/GFDEGDQ188S.
15. Board of Governors of the Federal Reserve System, "Market Yield on U.S. Treasury Securities at 10-Year Constant Maturity, Quoted on an Investment Basis," FRED, Federal Reserve Bank of St. Louis (Retrieved from FRED, Federal Reserve Bank of St. Louis, June 22, 2025), https://fred.stlouisfed.org/series/DGS10.
16. US Census Bureau, "2023 National Population Projections Tables: Main Series," Census.gov, February 12, 2025, https://www.census.gov/data/tables/2023/demo/popproj/2023-summary-tables.html.

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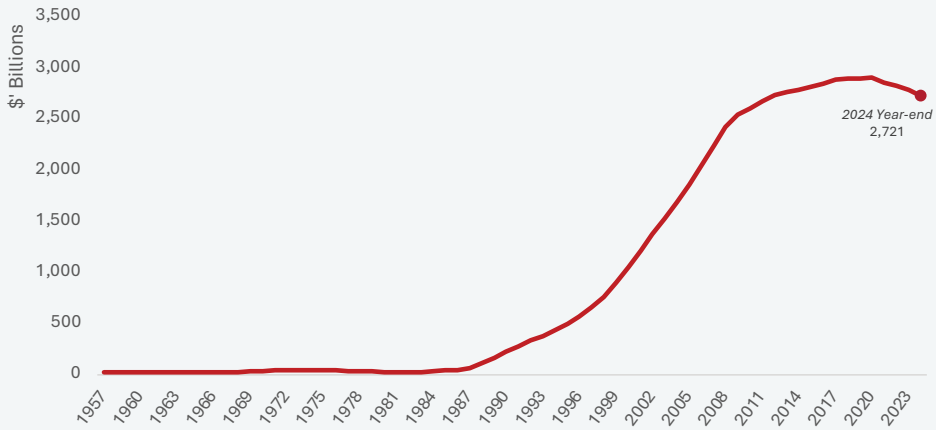
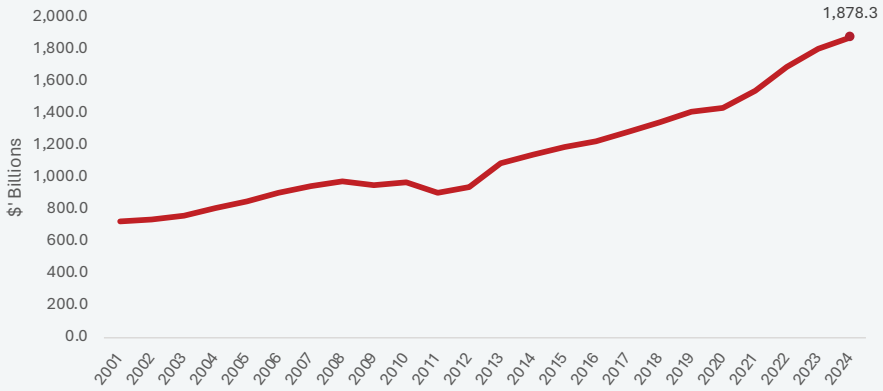
U.S. Social Trust Fund Declining Amid Demographic Pressure on Federal Finances



Source: Data compiled from Social Security Administration (SSA)[17]

Growing U.S. Government's Social Contributions May Continue to Pressure Bond Market



Source: Data compiled from BEA[18]

As the trust fund dries up, the federal government will be forced to increase direct contributions to cover payouts, potentially triggering more borrowing at a time when markets are least tolerant of fiscal slippage.

17. Social Security Administration, "Trust Fund Data," Ssa.gov, 2025, https://www.ssa.gov/OACT/STATS/table4a3.html.
18. Bureau of Economic Analysis, "National Data: Federal GFS Table," apps.bea.gov, May 29, 2025, https://apps.bea.gov/iTable/?reqid=19&step=2&isuri=1&categories=survey&_gl=1.

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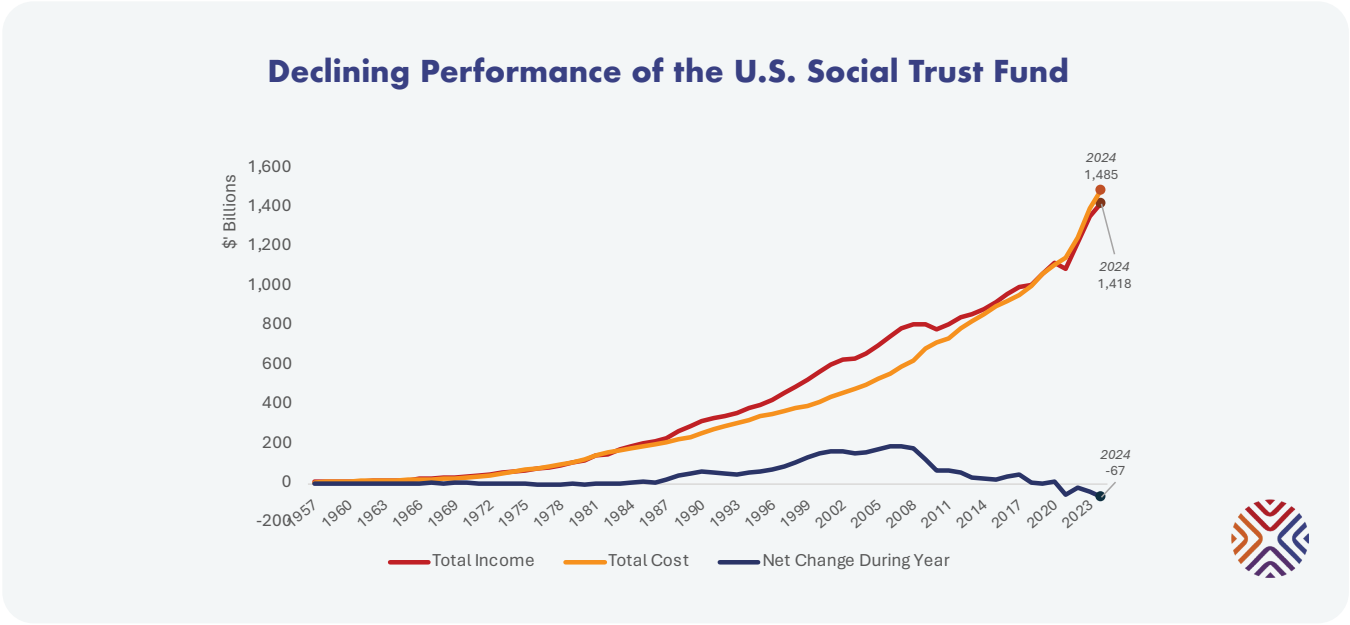

Source: Data compiled from Social Security Administration (SSA)[19]

Compounding this is the structure of the fund itself: much of its reserves are held in low-yield government securities, which offer stability but little income. The fund's return profile is unlikely to keep pace with withdrawal pressure, forcing the government to act sooner than many had assumed.

19. Social Security Administration, "Trust Fund Data," Ssa.gov, 2025, https://www.ssa.gov/OACT/STATS/table4a3.html.

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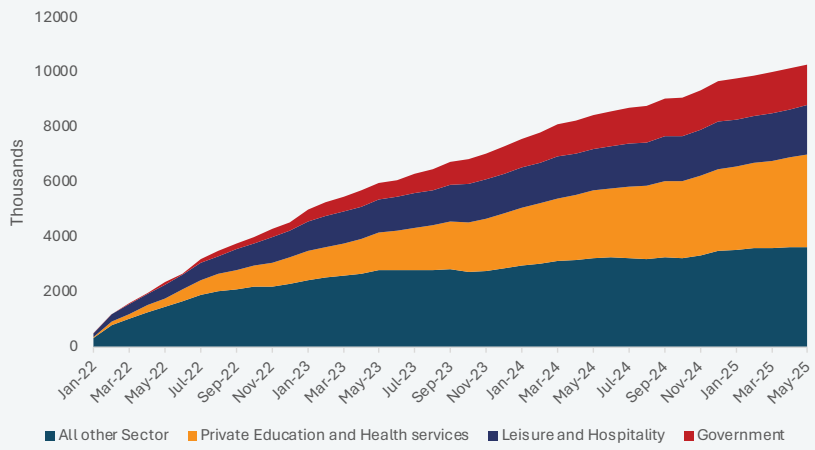
3.5. Labor Market Strength Is Becoming Narrow and Fragile

While headline labor market indicators have remained strong in 2025, the composition of job growth reveals a more fragile picture. Since 2022, the bulk of job creation, roughly 65%, has come from just three sectors: government, healthcare, and private education. These are not traditionally the engines of a robust, innovation-driven economy.

Just 3 Sectors Account for 65% Total Job Gains in the U.S Since 2022



NB: The graph shows cumulative job gains.

Source: Data compiled from U.S. BLS[20]

Core growth sectors such as technology, business services, finance, and construction have remained sluggish or outright contracted. This bifurcation in the labor market raises the risk of an employment slowdown in late 2025, particularly if public hiring slows or discretionary consumer spending weakens. Already, fiscal pressures at the federal level point to likely reductions in public employment, while renewed pressure on healthcare spending under President Trump's administration may further limit hiring in that space.[21]

Consumer-facing sectors like leisure and hospitality are also vulnerable to declining sentiment. With consumer confidence under pressure, these discretionary categories are typically the first to see spending cuts, translating into potential job losses in Q4.

20. U.S. Bureau of Labor Statistics, "Employment Situation Summary Table B. Establishment Data, Seasonally Adjusted," Bls.gov, June 6, 2025, https://www.bls.gov/news.release/empsit.b.htm.
21. James Knightley, "Decent US Jobs Market Vulnerable to Trade Uncertainty," ING Think, June 6, 2025, https://think.ing.com/articles/us-jobs-market-vulnerable-to-trade-uncertainty/.

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4 Reassessing the Japan Contagion Fear: No Systemic Spillover Risk

Japan, the largest foreign holder of U.S. Treasuries, is currently navigating its own fiscal challenges, with its public debt standing at approximately 234% of GDP.[22] Recent comments by Prime Minister Shigeru Ishiba, comparing Japan's financial condition to that of Greece, were largely political, intended to push back against opposition calls for tax cuts amid rising borrowing costs. We view this rhetoric as a domestic political maneuver rather than a credible warning of a fiscal crisis.

While some market participants have speculated that Japan's fiscal strain could spill over into the U.S. economy, perhaps through a large-scale selloff of some of their U.S. government securities holdings, we see little evidence to support this view. Unlike Greece in 2009 (with a debt level of around 128% of GDP, and currently around 142%), whose debt crisis was amplified by the dominance of foreign creditors quick to exit under stress, Japan's sovereign debt is overwhelmingly held by domestic investors and institutions.[23] Moreover, Japan remains a net global creditor with significant foreign asset holdings, providing it with financial flexibility that Greece never possessed.

It is also premature to assume that Japan would liquidate its foreign holdings to service debt denominated in its own currency, particularly given its full control over monetary policy and its ability to issue yen as needed, despite the known risks associated with such actions. This contrasts sharply with the situation in Greece, which, during its crisis, operated within the Eurozone and lacked the sovereign capacity to issue euros to manage its debt obligations. That said, Japan could be compelled to sell U.S. Treasury holdings under a narrow set of extreme conditions, most notably in the face of severe domestic financial stress or sharp currency instability.

As such, fears of Japanese divestment triggering a spike in U.S. yields are overstated. Finance Minister Katsunobu Kato has explicitly stated that Japan is not experiencing difficulties raising funds, reinforcing our view that Japanese fiscal concerns are unlikely to translate into material pressure on U.S. financial markets. **Hence, we believe these comparisons are exaggerated and fundamentally flawed.**

22. International Monetary Fund, "Data Explorer: Japan's Government Debt to GDP," Imf.org, 2025, https://data.imf.org/en/Data-Explorer?datasetUrn=IMF.RES:WEO(6.0.0).
23. Ibid.

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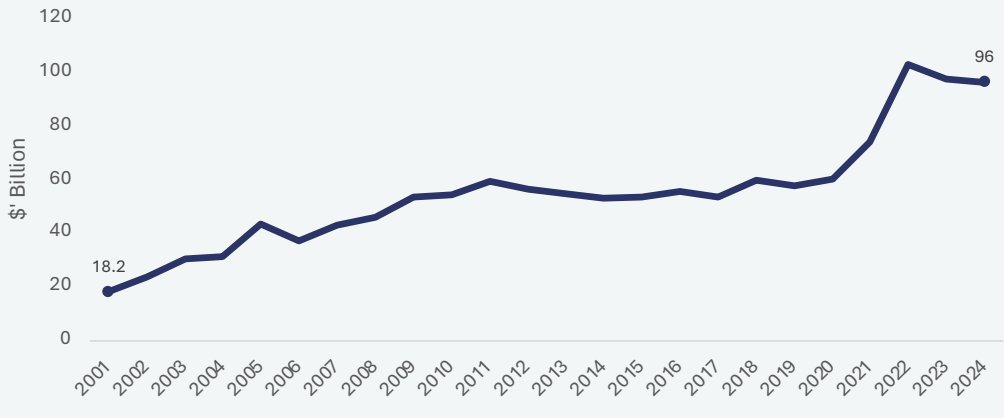
5 Trump's Fiscal Pivot: The Illusion of Rescue Without Repair

5.1. Policy Theater Meets Fiscal Reality

As the structural cracks in the US economy became too visible to ignore, particularly those tied to the unsustainable fiscal trajectory, many had hoped that the return of Donald Trump to the White House would bring a renewed focus on fiscal discipline. Early signals from the administration, including a retreat from costly overseas missions and renewed pressure on NATO allies to shoulder more defense spending, suggested a shift toward strategic austerity. At face value, it appeared that Trump was prepared to tackle the United States' mounting debt and deficit challenges head-on.

U.S Grants to Foreign Governments and International Organizations Has Quintupled From 2001



Source: Data compiled from BEA[24]

24. Bureau of Economic Analysis, "National Data: Federal GFS Table," apps.bea.gov, May 29, 2025, https://apps.bea.gov/iTable/?reqid=19&step=2&isuri=1&categories=survey&_gl=1.

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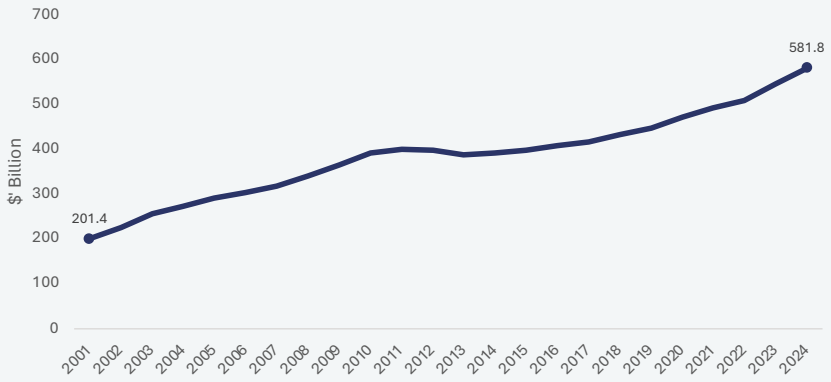
Compensation of employees Has Almost Tripled From 2001, while the General Price Level Between 2001-2024 has only grown by 64%



Source: Data compiled from BEA[25, 26]

However, the administration's much publicized "One Big Beautiful Bill Act" (OBBBA) has so far offered more political pageantry than substantive repair. Instead of offering a coherent path to fiscal sustainability, OBBBA appears to simply rearrange fiscal priorities, cutting spending in some areas only to increase it in others, all while proposing aggressive tax reductions that would further erode federal revenue.

This is not a case of "cut to balance," but rather "cut here to spend there," wrapped in populist messaging that fails to address the fundamental mismatch between America's revenue base and its spending obligations. **The early enthusiasm surrounding Trump's fiscal rhetoric has thus given way to a growing recognition: the rescue plan may be loud, but it is neither targeted nor transformative.**

5.2. DOGE's Savings Drive: Real Reform or Creative Accounting?

Central to Trump's fiscal campaign is the Department of Government Efficiency (DOGE), led by Elon Musk, whose mandate has been to slash wasteful spending and streamline the federal workforce. On paper, DOGE boasts $180 billion in cost savings by mid-year, a figure that has been touted as evidence of bold reform, equating to more than $1,100 in savings per taxpayer.[27]

But beneath the headlines, the picture is far murkier.

25. Bureau of Economic Analysis, "National Data: Federal GFS Table," apps.bea.gov, May 29, 2025, https://apps.bea.gov/iTable/?reqid=19&step=2&isuri=1&categories=survey&_gl=1.
26. Bureau of Economic Analysis, "National Data: Price Indexes for Gross Domestic Product," apps.bea.gov, May 29, 2025, https://apps.bea.gov/iTable/?reqid=19&step=2&isuri=1&categories=survey&_gl=1.
27. Department of Government Efficiency, "Savings," DOGE: Department of Government Efficiency, 2025, https://doge.gov/savings.

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DOGE's "savings" appear to stem from significant staffing reductions and operational adjustments, which may entail downstream costs. One example is the IRS, which has reportedly seen a significant degradation in its enforcement and compliance capacity, an unintended side effect of broad-based cuts. This not only reduces near-term revenue collection but potentially weakens long-term tax compliance, further aggravating the structural deficit.

Moreover, the cuts themselves have carried economic consequences. Several reports estimate that DOGE's actions have cost the broader economy around $135 billion, eroding a significant portion of the purported savings.[28] If these counter-costs are taken into account, the net savings may be far smaller, raising the question of whether the government is simply shifting fiscal burdens from the balance sheet to the real economy.

5.3. The Risk of Cosmetic Fiscalism

Ultimately, the Trump administration's early fiscal actions risk falling into the trap of cosmetic fiscalism, the appearance of budgetary responsibility without the underlying reforms needed to deliver true sustainability. Cutting foreign aid and government payrolls may win short-term political points, but they do little to resolve the more systemic drivers of the deficit: entitlements, interest payments, and an eroding tax base.

Meanwhile, tax cuts aimed at stimulating investment and consumption, key tenets of Trump's economic philosophy, run the risk of worsening the fiscal imbalance if not paired with commensurate spending restraint or revenue-neutral adjustments. And while a rising economy can sometimes paper over short-term deficits, the US is no longer in a high-growth environment. Structural constraints like demographics, trade fragmentation, and tighter financial conditions will limit the upside.

Unless the administration pivots to a more credible and comprehensive fiscal strategy, investors are likely to view this moment not as a reset, but as a missed opportunity. The political will may be there, but without fiscal coherence and transparency, the promised rescue may be no rescue at all.

28. Aimee Picchi, "DOGE Says It Has Saved $160 Billion. Those Cuts Have Cost Taxpayers $135 Billion, One Analysis Says.," Cbsnews.com (CBS News, April 25, 2025), https://www.cbsnews.com/news/doge-cuts-cost-135-billion-analysis-elon-musk-department-of-government-efficiency/.

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6 The Trump Effect: Economic Repercussions of the 2025 Policy Agenda

6.1. Trade Turbulence: Tariffs Stir Fear, Reshape Spending, and Jolt Markets

Donald Trump's 2025 trade policy has proven to be one of the most disruptive macroeconomic forces of the year. The reimposition of broad-based tariffs, combined with targeted duties against strategic trading partners, has not only created a new wave of economic uncertainty but will also revive inflationary pressures. Unlike prior tariff episodes that unfolded in phases, the 2025 regime came into effect swiftly and at scale, triggering an immediate response across households, firms, and financial markets.

Consumers, anticipating rising prices, have begun shifting behavior toward precautionary savings. This behavioral adjustment, already visible in recent surveys and spending data, is likely to deepen in the third quarter as tariff-induced inflation fully filters through to end prices. The resulting erosion in purchasing power will weigh heavily on real consumption growth, compounding broader disinflationary fatigue across the economy.

Firms are also adjusting in real time. Hiring freezes, delayed capital expenditures, and caution around long-term investments have become increasingly common, especially in sectors exposed to international supply chains. Corporate surveys suggest this hesitation will intensify into year-end as the full economic cost of the tariff regime becomes more visible, likely pushing unemployment marginally higher and dampening overall demand. Financial markets, in turn, have remained volatile as investors attempt to reprice risk based on how different sectors and global economies will absorb the policy shock.

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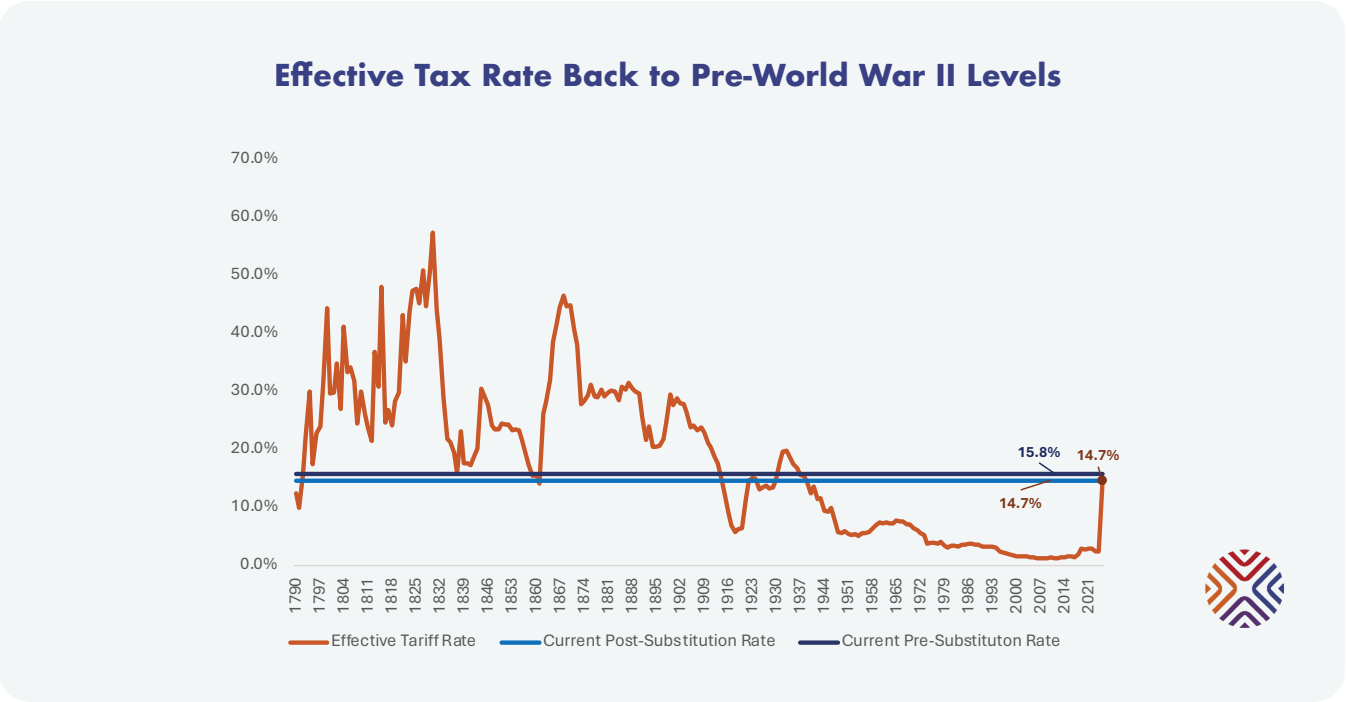

Source: Data compiled from The Budget Lab (TBL)[29]

According to analysis from The Budget Lab (TBL), the effective average tariff rate facing consumers stands at 15.8%, the highest since 1936.[30] Even after accounting for substitution effects and shifts in consumption, the adjusted rate remains 14.7%, still the highest since 1938.[28] Such historical levels of protectionism are not only inflationary, they also undermine the clarity and stability investors typically associate with US policy.

6.2. **Immigration Policy:** Labor Costs Rise on the Margins

On the labor front, Trump's strict immigration enforcement has begun to affect the low-wage labor supply, particularly in sectors reliant on undocumented or temporary help workers. Although these jobs constitute a relatively small share of the total labor market, the impact is not negligible.

The deportation of undocumented immigrants has tightened the supply of low-cost, short-term labor, especially in industries such as warehousing, hospitality support, and seasonal agriculture. As a result, remaining workers, who may now be closer to legal status or seeking regularization, will be demanding higher wages, often approaching statutory minimums.

29. The Budget Lab, "State of U.S. Tariffs: June 17, 2025," The Budget Lab at Yale, June 17, 2025, https://budgetlab.yale.edu/research/state-us-tariffs-june-17-2025.
30. Ibid
28. Aimee Picchi, "DOGE Says It Has Saved $160 Billion. Those Cuts Have Cost Taxpayers $135 Billion, One Analysis Says.," Cbsnews.com (CBS News, April 25, 2025), https://www.cbsnews.com/news/doge-cuts-cost-135-billion-analysis-elon-musk-department-of-government-efficiency/.

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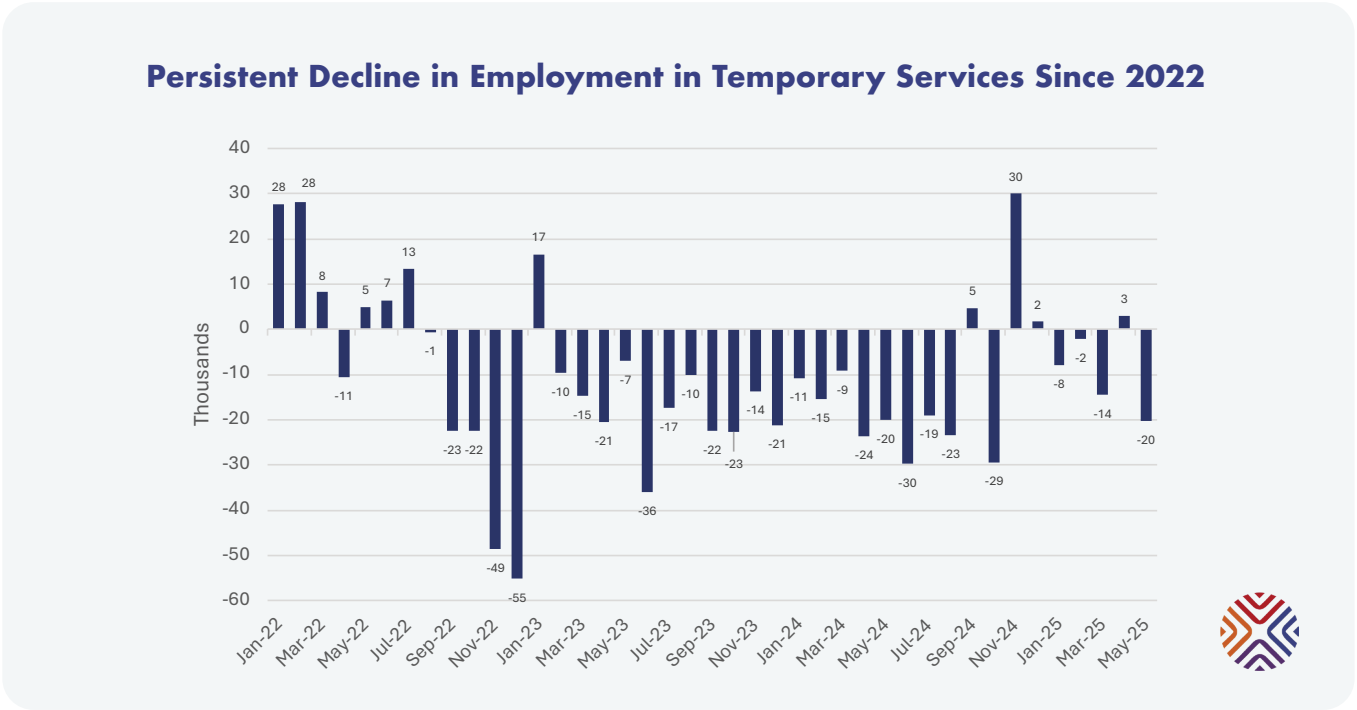
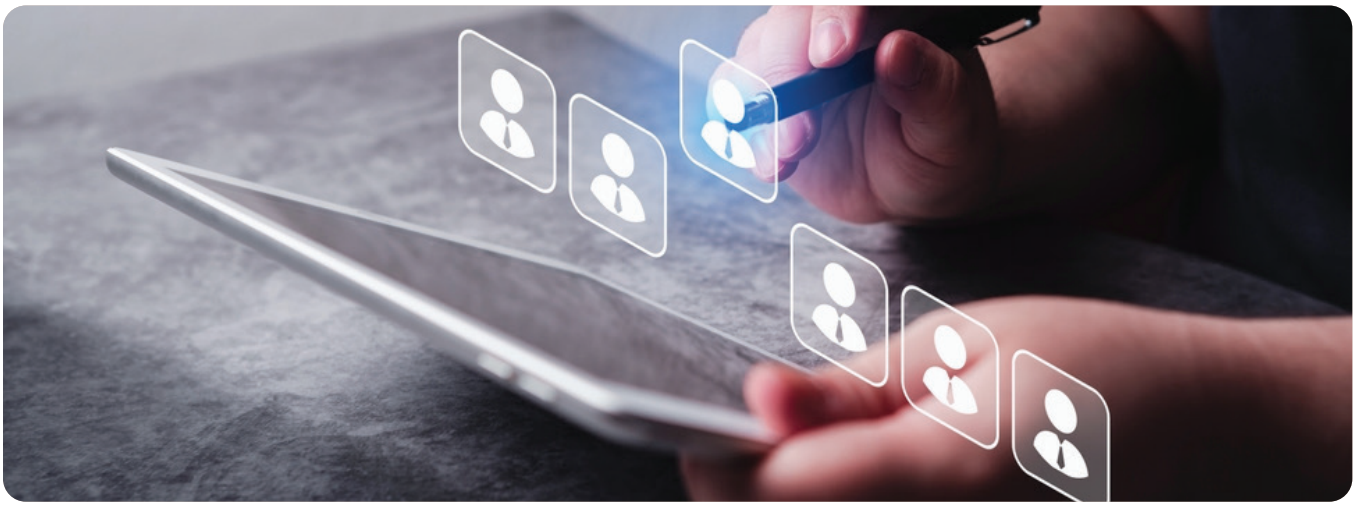


Source: Data compiled from U.S. BLS[31]

Data from the Bureau of Labor Statistics has shown a persistent decline in laborers employed in such services; however, this has been the case since 2022. Hence, a notable decline in employment within temporary help services, though this contraction is not yet broad enough to significantly move national labor metrics.

Nonetheless, in a labor market already close to full employment, even marginal cost pressures can ripple into inflationary trends (particularly in services) and erode business profit margins in sectors operating on thin wage buffers.



31. U.S. Bureau of Labor Statistics, "Employment Situation Summary Table B. Establishment Data, Seasonally Adjusted," Bls.gov, June 6, 2025, https://www.bls.gov/news.release/empsit.b.htm.

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6.3. Fiscal Strain and Market Skepticism: Borrowing Costs Tell the Real Story

While Trump's administration touts fiscal reform through the **One Big Beautiful Bill Act (OBBBA)** and the high-profile actions of the **Department of Government Efficiency (DOGE)**, markets remain largely unconvinced. Despite DOGE's claim of $180 billion in federal savings, the overall fiscal outlook is still concerning. The OBBBA is projected to contribute roughly **$2.4 trillion** in added primary deficits between 2025 and 2034, even after an expected short-term reduction of just $101 billion in 2025.[32]

Markets have responded in kind. Yields on 10- and 30-year US Treasuries have surged, reflecting investor unease with the government's long-term fiscal trajectory. We expect these yields to remain elevated through the second half of 2025, with the 10-year yield hovering around **4.25%** and the 30-year at **4.6%** or higher, barring a significant shift in fiscal or monetary policy.

These elevated yields are not merely symbolic; they are actively squeezing corporate investment, tightening the cost of credit for households, and slowing activity in rate-sensitive sectors like housing. Despite OBBBA's theoretical short-term growth contributions, these benefits are being entirely offset in practice by the tightening financial conditions that Trump-era fiscal imbalances could worsen.

32. Congressional Budget Office, "H.R. 1, One Big Beautiful Bill Act (Dynamic Estimate)," Congressional Budget Office, June 17, 2025, https://www.cbo.gov/publication/61486?utm.

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7 Looking Ahead: Forecasting the Dollar, Growth, Inflation, and Interest Rates

7.1. The Dollar's Detour: DXY Set to Rebound After Unusual Weakness

The performance of the US dollar in 2025 has defied traditional expectations. Despite a notable interest rate differential between the US and most advanced economies, many of which are cutting rates to stimulate flagging growth, the **DXY (Dollar Index)** has depreciated materially against a broad set of currencies. Historically, such a divergence would support dollar strength, yet the greenback has trended downward, reaching a low around **$98,** its weakest level in recent years.

Dollar Index (DXY) Performance Since 2017

Source: Chart from Bloomberg[33]

33. U.S. Bureau of Labor Statistics, "Employment Situation Summary Table B. Establishment Data, Seasonally Adjusted," Bls.gov, June 6, 2025, https://www.bls.gov/news.release/empsit.b.htm.

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Some market observers have interpreted this move as a sign of disinvestment from US assets. However, we believe this explanation lacks empirical support. There has been no material evidence of significant capital flight or foreign liquidation of US treasuries or equities. Rather, the depreciation is best understood as a function of increased foreign exchange hedging. With Trump's tariff regime creating unusually high levels of policy uncertainty, global investors are mitigating currency risk by hedging their dollar exposures more aggressively, putting downward pressure on the spot rate without actual capital outflows.

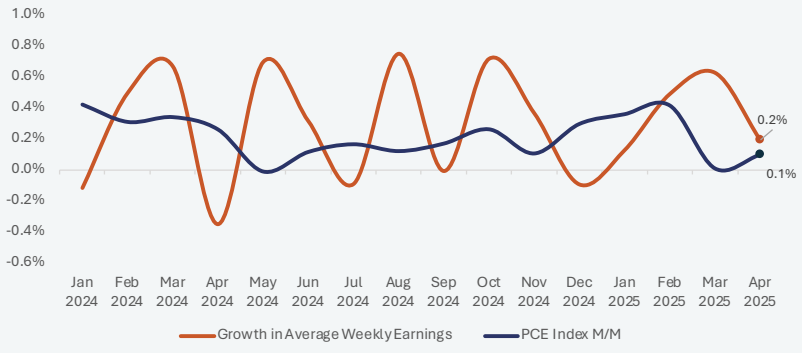
As policy clarity returns, particularly following the conclusion of the administration's 90-day tariff postponement, we expect this uncertainty premium to diminish. Coupled with sustained yield differentials and the relative strength of the US stock market, this should provide a foundation for dollar appreciation. We forecast the **DXY will remain relatively weak throughout 2025,** and trade between 100 and 102 for the remainder of 2025, gradually rebounding as foreign exchange markets reprice risk based on actual fundamentals rather than hedging behaviour.

7.2. Economic Growth: A Soft Landing, Not a Recession

The US economy will continue to navigate a narrow corridor between resilience and slowdown in 2025. We maintain our earlier view that the country will avoid a technical recession, though growth will remain subdued, likely coming in at just above 1% for the full year.[34]

Several forces are working in tension. On the positive side, Trump's proposed tax cuts may help support consumer spending, and Q2 consumption data could receive a one-time lift from import frontloading in Q1 that was not yet captured in real GDP. Additionally, wage growth has continued to outpace inflation, providing a degree of insulation for household demand.

If Wage Growth continues to Grow Faster than Inflation, People might still be incentivized to spend on Consumption



Source: Data compiled from U.S. BLS[35] and BEA[36]

34. Ifeanyi Ubah et al., "Comercio Partners Macroeconomic Outlook 2025 | Comercio Partners," Comercio Partners, February 11, 2025, https://comerciopartners.com/comercio-partners-macroeconomic-outlook-2025/.
35. U.S. Bureau of Labor Statistics, "Earnings from the Current Employment Statistics Survey (National)," Bls.gov, June 6, 2025, https://data.bls.gov/dataViewer/view/timeseries/CES0500000011.
36. Bureau of Economic Analysis, "National Data: Price Indexes for Personal Consumption Expenditures by Major Type of Product, Monthly," apps.bea.gov, March 28, 2024, https://apps.bea.gov/iTable/?reqid=19&step=2&isuri=1&categories=survey&_gl=1.

However, these tailwinds are increasingly offset by downside risks. Tariffs are set to reintroduce inflationary pressure, weakening real purchasing power. Households may increase **precautionary savings** amid economic uncertainty, while businesses, especially those exposed to trade or international supply chains, may delay or reduce capital spending. While the idea that tariffs could reduce imports and mechanically boost GDP has theoretical appeal, it overlooks the **inelastic import elasticity of US consumption.** American consumers are unlikely to meaningfully reduce their reliance on foreign goods and inputs in the short term.

Geopolitically, the US does not enjoy the same advantage in a broad-based trade conflict as it does in bilateral disputes. Canadian exports to the U.S. represent 20% of Canada's economy, while U.S. exports to Canada make up only 1.2% of the much larger American economy. However, in a trade conflict with the rest of the world, the U.S. loses that upper hand.[35] American exports to the rest of the world account for 7% of U.S. GDP, whereas exports from the rest of the world to the U.S. amount to just 4% of their combined GDP.[37]

7.3. **Inflation Outlook:** Tariff Shock Expected to Push Prices Higher in H2

After a period of deceleration, **inflation is expected to reaccelerate in the second half of 2025,** driven primarily by the **tariff shock**. We anticipate the first meaningful signs of price pressure to emerge in the **July CPI release**, with effects intensifying into Q4.

The US remains **highly import-inelastic**, and tariff costs are likely to pass quickly into final consumer prices. While a **strengthening dollar** may partially cushion the impact by reducing the local cost of imported goods, it will not be enough to fully offset the inflationary effects of broad-based tariffs. Additionally, **rising geopolitical tensions**, particularly in the Middle East, may push up energy prices, adding a secondary impulse through higher fuel and logistics costs.

We forecast that headline inflation will exceed 3.0% by year-end, but this spike will likely be temporary. We view the tariff-driven inflation as a one-time upward shift in the price level, rather than the start of a sustained inflationary cycle. As the economy adjusts to the new trade regime and supply chains stabilize, inflation should begin to moderate again by late 2026.

35. U.S. Bureau of Labor Statistics, "Earnings from the Current Employment Statistics Survey (National)," Bls.gov, June 6, 2025, https://data.bls.gov/dataViewer/view/timeseries/CES0500000011.
37. J.P. Morgan Private Bank, "2025 Mid-Year Outlook: Comfortable Uncomfortable," Jpmorgan.com, 2025, https://privatebank.jpmorgan.com/eur/en/insights/latest-and-featured/mid-year-outlook.

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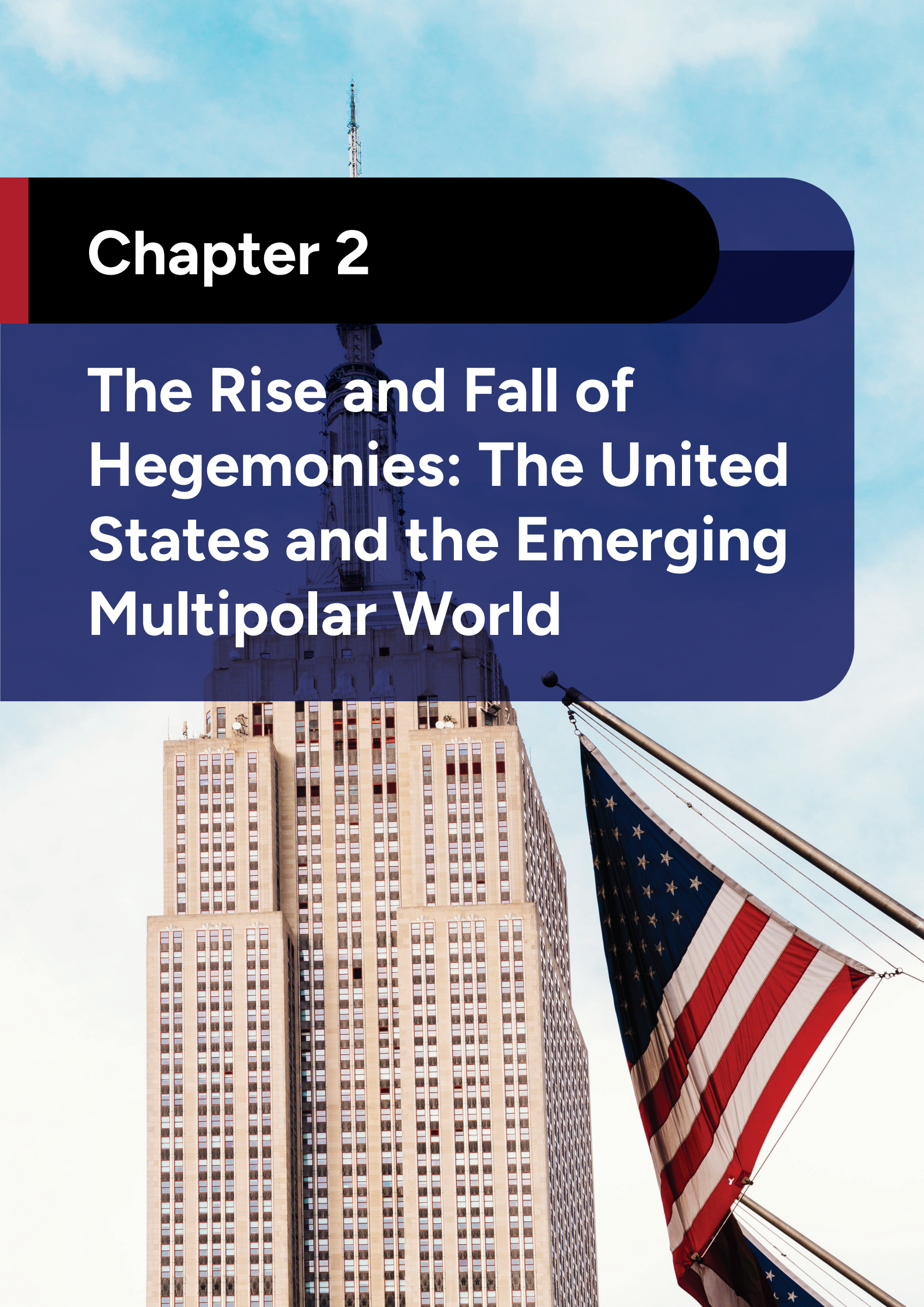
7.4. Interest Rate Policy: A Single Cut Amid Strategic Uncertainty

The **Federal Reserve** remains firmly in a wait-and-see posture. Monetary policy has been effectively on pause in 2025 as the Fed weighs conflicting signals: an inflation resurgence driven by tariffs, weak but stable economic growth, and an uncertain fiscal outlook under the OBBBA.

The **uncertainty around reciprocal tariffs,** particularly the country-specific tariffs on a 90-day pause and expected retaliation by key US trading partners, has further complicated the Fed's calculus. Policymakers are waiting for clearer evidence of how these tariffs are impacting aggregate demand, price stability, and employment. **We expect the Fed to remain on hold through most of the year, cutting rates only once by 25 basis points, likely in Q4 as growth risks tilt marginally higher.**

Despite political pressure to lower rates more aggressively, the Fed is unlikely to respond until there is hard evidence that the tariff shock has passed and inflation is on a sustained downward trajectory.



Chapter 2

The Rise and Fall of Hegemonies: The United States and the Emerging Multipolar World

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1 The Ebb and Flow of Empires: A Historical Prelude

The story of global power is a tapestry woven with the rise and fall of hegemonies, each leaving an indelible mark on the world's economic, political, and cultural landscapes. Hegemony, by its nature, implies a dominant state's ability to shape the international system, often through a blend of military might, economic prowess, and cultural influence. Yet, history teaches us that no empire's grip is eternal. From the sunlit forums of Rome to the bustling markets of Baghdad, the windswept steppes of the Mongol Empire to the far-flung colonies of Britain, hegemonies have risen through innovation and ambition, only to falter under the weight of overreach, internal strife, or the emergence of rivals.

In every case, hegemony has proven transient. Empires are not permanent conditions; they are temporary equilibria, moments when one nation accumulates enough structural power to project dominance and shape global systems in its image. Yet these conditions, as political economist Robert Gilpin and others have observed, are inherently unstable.

Today, the United States stands at a similar crossroads, its once-unquestioned dominance showing signs of strain as the world tilts toward a multipolar order. This report explores the historical parallels of hegemonic decline, the economic and geopolitical forces eroding U.S. supremacy, and the contours of a future where power is shared among many.

1.1. The Nature of Hegemony: Power in a Connected World

Hegemony is not defined by strength in isolation but by a state's ability to shape global dynamics relative to other powers. A nation may grow stronger over time, yet if its competitors grow faster, its hegemonic influence diminishes.[1] The Roman Empire, for example, exercised dominance not merely through territorial control or economic output, but by integrating diverse regions into a cohesive administrative and trade system, an approach later empires sought to replicate. The Abbasid Caliphate exemplified how cultural and technological diffusion (such as the adoption of paper and the development of financial institutions) could underpin economic strength and broaden influence far beyond military power.

1. Alejandro Dabat and Paulo Leal, "Ascenso Y Declive de Estados Unidos En La Hegemonía Mundial," Problemas Del Desarrollo 50, no. 199 (December 1, 2019): 87–114, https://doi.org/10.22201/iiec.20078951e.2019.199.67934.

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The Nature of Hegemony

	The Roman Empire	The Abbasid Caliphate	The Mongol Empire	The Spanish Empire	The British Empire	The Soviet Union
Hegemonic Period	27 BCE - 476 CE	750-1258 CE	1206-1368	1492-1700s	1707-1945	1945-1991
Peak Period	117CE	Islamic Golden Age		16th Century	19th Century	1970s
Influence	» Controlled 5 million square kilometers » Governed roughly 20% of the world's population		» Transformed Eurasia by securing trade routes during the Pax Mongolica. » Fostering commerce across 15 million square kilometers.			A superpower rather than a true hegemon
Leverages	» A sophisticated economy based on trade routes like the Nile » Standardized coinage such as the golden aureus » Agricultural Surpluses » Tribute from provinces	» Trade networks stretching from the Atlantic to China. » Its markets, or sugs, facilitated commerce in goods from silk to spices » Introduction of paper from China revolutionalized record-keeping contributing to a literacy rate among the highest in pre-modern societies		New World silver Manila Galleons (Spanish Sailing Vessels) linking Asia to Europe via the Americas		Wielded economic influence through its command economy
Economic Strength	GDP of 10% of Global Economy	Account for 10-15% of global GDP	Harder to quantify due to its decentralized nature	Controlled an estimated 20% of global trade	Commanded 23.8% of global GDP in 1870	Accounted for 13.5% of global GDP in the 1970s
Prowess	Ability to integrate diverse regions into a cohesive system	» Innovations (eg early banking system) » Science » Tax collection (Zakat tax) » Funding Welfare Programs » Trade	» Millitary Might » Trading (boosted by the safe passage of goods along the Silk Road) » Connectivity		» Industrial innovation » Colonial exploitation	

Source: Data compiled from Goldsmith (1984)[2], Kennedy (2007)[3], Findlay (2007)[4], Broadberry (2010)[5], and Maddison (2007)[6]

2. Raymond W. Goldsmith, "AN ESTIMATE of the SIZE ANL STRUCTURE of the NATIONAL PRODUCT of the EARLY ROMAN EMPIRE," Review of Income and Wealth 30, no. 3 (March 9, 1984): 263–88, https://doi.org/10.1111/j.1475-4991.1984.tb00552.x.
3. Hugh Kennedy, "Justinianic Plague in Syria and the Archaeological Evidence," January 1, 2007, 87–96, https://doi.org/10.1017/cbo9780511812934.007.
4. Ronald Findlay and Kevin H O'rourke, Power and Plenty : Trade, War, and the World Economy in the Second Millennium (Princeton, N.J. ; Woodstock: Princeton University Press, 2007).
5. Broadberry et al., "British Economic Growth, Some Preliminary Estimates," 2010.
6. Angus Maddison, "Contours of the World Economy, 1–2030 AD," Oxford University Press EBooks, September 20, 2007, https://doi.org/10.1093/oso/9780199227211.001.0001.

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The Mongol Empire, though decentralized, reshaped Eurasian commerce by enforcing security across vast trade corridors, demonstrating that hegemony can stem from enabling global exchange rather than directly administering it. Spain's colonial empire leveraged precious metals and global shipping networks to dominate trade in the early modern period, while Britain's industrial capacity and colonial reach in the 19th century represented perhaps the most comprehensive exercise of economic hegemony in history. The Soviet Union, despite its status as a superpower, exemplified the limits of centralized planning in sustaining long-term influence.

In each case, hegemonic power was deeply tied to the ability to structure economic relations, project cultural or institutional norms, and adapt to shifting global contexts. Today's hegemon, like those before it, faces similar pressures from emerging rivals and internal inefficiencies, highlighting the fluid and contested nature of global leadership.

1.2. The Architecture of Hegemony: What Made the U.S. Supreme

The hegemonic position of the United States, particularly post-World War II, emerged from a unique convergence of circumstances. Its economy was unrivaled by war-torn Europe and Asia. It controlled global institutions like the IMF, the World Bank, and the United Nations created under its watch. Its cultural exports, Hollywood, jazz, capitalism, and democracy were soft power tools and ideological warheads. The dollar became the world's reserve currency, oil was priced in USD, and the U.S. Navy patrolled the world's trade arteries.

More importantly, U.S. hegemony was not just enforced, but actively embraced. Many nations in Western Europe and East Asia willingly relinquished some of their strategic independence in return for American security assurances. Over time, key countries came to depend on U.S. military power, with most spending little on their own defense and relying on the U.S. for protection.

However, the roots of hegemonic power are structural, not relational. They lie not only in strength, but in systemic centrality, which includes dominance in production, innovation, finance, and narrative.
America had that. It was the world's factory, its laboratory, its banker, and its storyteller.
But as with all hegemonies, the seeds of erosion are sown during the apex of strength.

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2 The Twilight of Titans: Patterns of Hegemonic Decline

The arc of hegemony bends toward decline, a pattern etched in the annals of history from Rome's crumbling frontiers to Britain's fading empire. Empires rise through innovation, resource control, and strategic dominance, but their fall often stems from a confluence of internal strains and external challenges.

The United States, once the unchallenged architect of the global order, now exhibits symptoms akin to those of past hegemonies, suffering from factors like economic erosion, military overreach, and rising rivals. Yet, unlike its predecessors, the U.S.'s decline does not herald a singular successor but a fragmented, multipolar world where power is diffused among nations.

By examining historical parallels and contemporary data, we can discern the forces unraveling American dominance and the contours of the emerging global landscape.

2.1. The Economic Achilles' Heel: From Dominance to Dependence

Take the Roman Empire. At its height, Rome commanded around 10% of global GDP, powered by agricultural surplus, expansive trade networks, and tribute from a vast provincial system. Yet its economy became increasingly brittle. Overreliance on slave labor stifled productivity and innovation, while frequent rebellions sapped the empire's fiscal strength. **By the time of its Western collapse in 476 CE, per capita GDP had fallen dramatically (from around 800 sesterces in 100 CE to under 500), signaling a society in economic decline even before military defeat.**[7]

7. Peter Temin, The Roman Market Economy (Princeton University Press, 2012), https://doi.org/10.23943/princeton/9780691147680.001.0001.

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The Decline of Hegemonies

	The Roman Empire	The Abbasid Caliphate	The Mongol Empire	The Spanish Empire	The British Empire	The Soviet Union	The U.S.
Period of Decline	476 CE	After the 9th century	14th century	1500	After 1870	1980s	
Economic Conse-quence	1By 476 CE, Rome's GDP per capita had stagnated, with estimates suggesting a decline from 800 sesterces per person in 100 CE to under 500 by the empire's end	Disruption of Commerce	Trade volumes dropped significantly by the 14th century	Economic instability despite still controlling 20% of global trade	Britain's GDP share fell to 3.6% by 1913	GDP growth stagnated at 1% annually by the 1980s.	Share of the global economy, which peaked at 50% in 1945, fell to 18% by 2007 and 15% by 2023.
Factors leading to decline	» Over-reliance on slave labor stifled innovation » Provincial Revolts drained resources » Administrative complexity » Military Costs » Shifting Trade Routes	» Regional fragmentation » External Invasions » Global GDP share fell below 5% by 1258	» Decentralization » Cultural incompatibility across regions » Internal divisions fractured its 15 million square kilometer domain » Transformed Eurasia by securing trade routes during the Pax Mongolica. » Fostering commerce across 15 million square kilometers.	» Inflation: prices rose 400% between 1500 and 1600 » Over-dependence on bullion » Inability to industrialize Over-dependence on bullion » Inability to industrialize	» The Long Depression of 1873 » Lost its edge as industrial competitors like Germany and the U.S. surpassed it.	» Economic Inefficiencies » Military Over-spending	» Loss of comparative advantage in manufacturing consumer and capital goods, much like Britain in the late 19th century » The U.S. national debt, ballooning to $36 trillion (over 123% of GDP) by 2025

Source: Data compiled from Temin (2013)[7], Kennedy (2007)[8], Findlay (2007)[9,10], Broadberry (2010)[11,12], and Maddison (2007)[13,14]

7. Peter Temin, The Roman Market Economy (Princeton University Press, 2012)
8. Hugh Kennedy, "Justinianic Plague in Syria and the Archaeological Evidence," January 1, 2007, 87–96, https://doi.org/10.1017/cbo9780511812934.007.
9. Ronald Findlay and Kevin H O'rourke, Power and Plenty : Trade, War, and the World Economy in the Second Millennium (Princeton, N.J. ; Woodstock: Princeton University Press, 2007).
10. Ibid.
11. Broadberry et al., "British Economic Growth, Some Preliminary Estimates," 2010.
12. Ibid.
13. Angus Maddison, "Contours of the World Economy, 1–2030 AD," Oxford University Press EBooks, September 20, 2007, https://doi.org/10.1093/oso/9780199227211.001.0001.
14. Ibid.

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The Abbasid Caliphate, once the commercial engine of the Islamic Golden Age, saw a similar trajectory. Flourishing through taxation, trade, and early financial institutions, the Caliphate's prosperity peaked in the 9th century. But political fragmentation and waves of invasions steadily undermined its cohesion. **By the sack of Baghdad in 1258, its share of global GDP had dwindled to less than 5%, its once-vibrant markets and knowledge centers reduced to regional shadows.**[8]

The Mongol Empire, though short-lived, catalyzed an unprecedented surge in Eurasian commerce during the Pax Mongolica. However, the very decentralization that enabled vast territorial control also seeded its economic unraveling. **As the empire fractured in the 14th century, the once-secure Silk Road trade routes became unreliable, and trade volumes plummeted, dismantling the economic glue that had bound its sprawling domains.**[9]

The Spanish Empire, enriched by New World silver, seemed poised for enduring wealth. But its fortune turned into a curse. **Between 1500 and 1600, prices in Spain rose by an astonishing 400%, driven by silver-induced inflation.**[10] Despite commanding roughly 20% of global trade, Spain's economy became increasingly unstable, hollowed out by fiscal mismanagement and overreliance on extractive wealth.

The British Empire reached its zenith in 1870, controlling 23.8% of the world's GDP.[11] Its industrial might and global capital exports fueled a long belle époque. Yet as competitors like the United States and Germany surged ahead, Britain's relative economic position declined. **By 1913, its global GDP share had fallen to just 3.6%, foreshadowing imperial overreach and economic stagnation.**[12]

The Soviet Union, though never a true hegemon, offers another cautionary tale. **At its economic peak in the 1970s,** it claimed 13.5% of global GDP.[13] But chronic inefficiencies, a bloated military budget, and sluggish innovation led to stagnation. **Annual growth fell to just 1% by the 1980s, setting the stage for its eventual dissolution.**[14]

The United States now stands at a crossroads that mirrors these imperial arcs. In 1945, it emerged from World War II with an unprecedented 50% share of global GDP.[15] But that dominance has eroded steadily. **According to World Bank data, its share had fallen to 18% as of 2007 and 15% by 2023, reflecting a relative decline in manufacturing and a growing reliance on global supply chains, a trajectory strikingly similar to Britain's in the late 19th century.**[16]

8. Hugh Kennedy, "Justinianic Plague in Syria and the Archaeological Evidenc
9. Ronald Findlay and Kevin H O'rourke, Power and Plenty : Trade, War, and the World Economy in the Second Millennium
10. Ibid.
11. Broadberry et al., "British Economic Growth, Some Preliminary Estimates," 2010.
12. Ibid.
13. Angus Maddison, "Contours of the World Economy, 1–2030 AD
14. Ibid.
15. Ibid.
16. World Bank Group, "World Development Indicators - US's GDP as a Percentage of World's GDP," World Bank Open Data, 2025, https://data360.worldbank.org/

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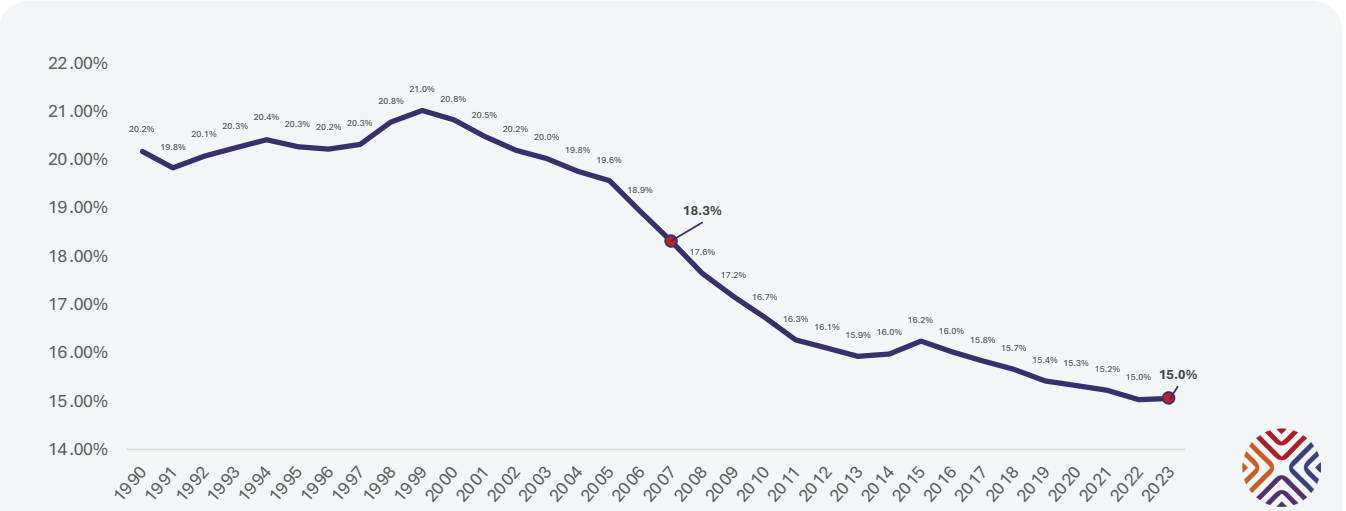
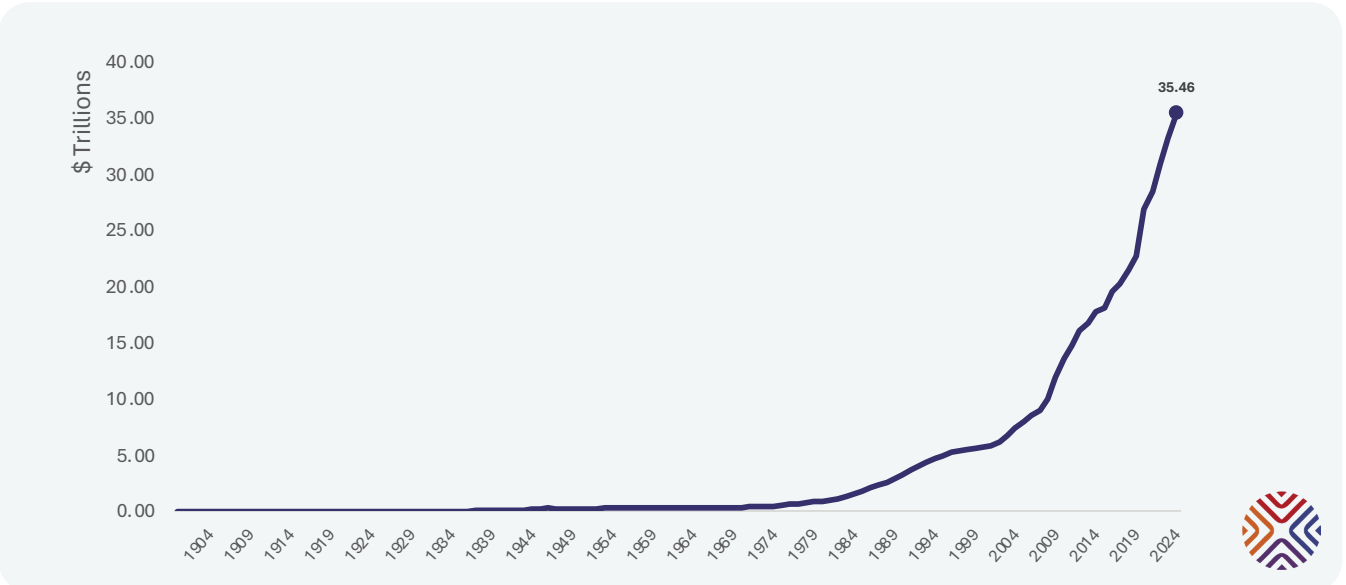
Trendline Showing Decline in U.S's Share of Global GDP



Source: Data compiled from World Bank[16]

Mounting debt is another red flag. By May 2025, the U.S. national debt has surpassed $36 trillion (over 123% of GDP).[17] Unlike imperial Britain, which financed its global role through capital exports, the U.S. now depends on inflows of foreign capital. As of 2024, foreign-held Treasury securities stood at $8.5 trillion, a liability that leaves the country exposed to external shocks and shifts in investor confidence. [18]

Trendline showing the U.S's Growing Debt Level



Source: Data compiled from the U.S. Treasury Department[19]

16. World Bank Group, "World Development Indicators - US's GDP as a Percentage of World's GDP
17. Fiscal Data, "Historical Debt Outstanding | Fiscal Data | U.S. Treasury," fiscaldata.treasury.gov, 2025, https://fiscaldata.treasury.gov/datasets/historical-debt-outstanding/historical-debt-outstanding.
18. Marc Labonte and Ben Leubsdor, "Foreign Holding of Federal Debt," The Guardian, May 23, 2025, https://doi.org/10.9385.94.
19. Ibid.

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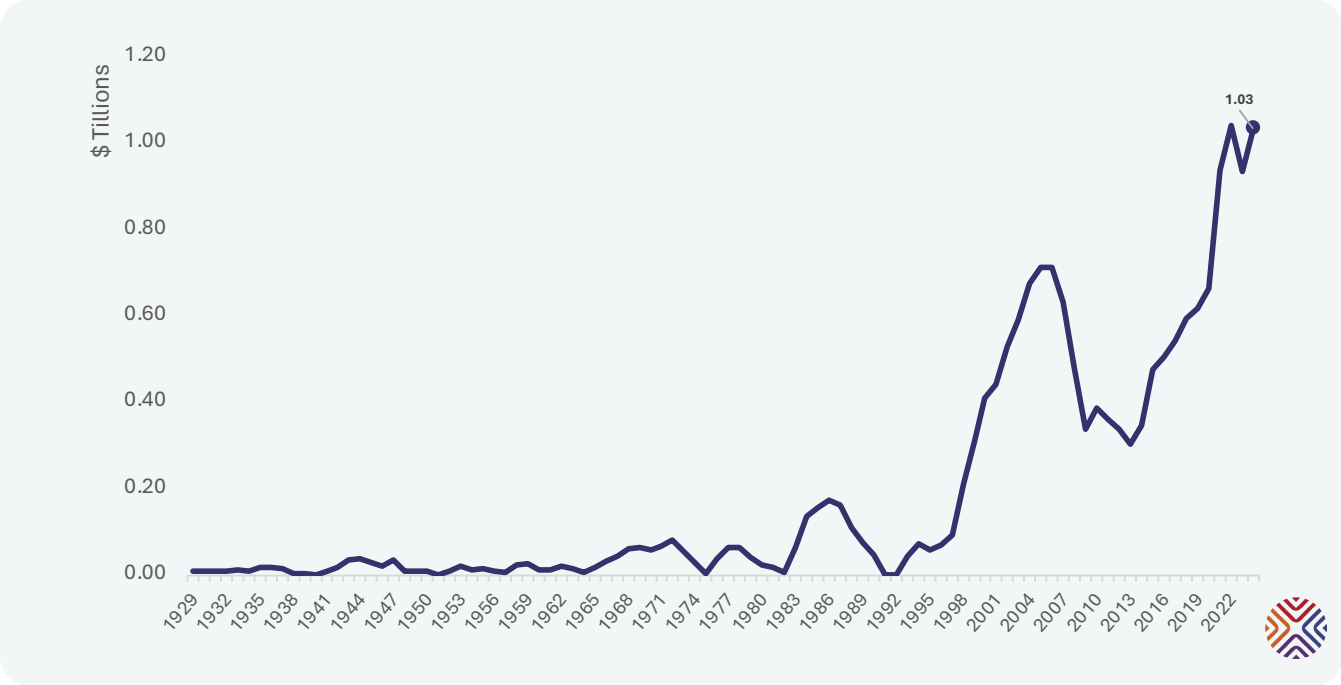
Chronic trade deficits ($918 billion in 2024 alone) further underscore America's transition from economic producer to global consumer, part reason why Donald Trump may be imposing his aggressive tariffs on the world.[20] The 2008 Global Financial Crisis, which shrank U.S. GDP by 4.3% (from its peak), marked a psychological as well as material turning point.[21] Since then, recurring fiscal and monetary crises have chipped away at confidence in American economic stewardship.

Trendline showing U.S. Persistent Trade Deficit



Source: Data compiled from the Bureau of Economic Analysis[22]

Even the **Federal Reserve**, once the symbol of policy stability, has faced criticism for reactive rather than proactive interventions. Delayed responses to inflationary pressures and market volatility have drawn uncomfortable comparisons to Britain's faltering adaptation during the rise of industrial competitors a century earlier.

From Rome to Washington, the arc of economic decline rarely begins with collapse. It starts with complacency, when wealth becomes an assumption, not a strategic asset. The history of hegemonic power shows that economic supremacy is not a permanent endowment but a precarious advantage, always vulnerable to the same forces: internal stagnation, external challenge, and the failure to adapt.

The United States may still shape the global order, but only if it can recognize the fragility of the foundation beneath its influence.

20. Bureau of Economic Analysis, "U.S. International Trade in Goods and Services, March 2025," Bea.gov, May 6, 2025, https://www.bea.gov/news/2025/us-international-trade-goods-and-services-march-2025.
21. John Weinberg, "The Great Recession and Its Aftermath," Federal Reserve History, November 22, 2013, https://www.federalreservehistory.org/essays/great-recession-and-its-aftermath.
22. Bureau of Economic Analysis, "National Data - Real Gross Domestic Product," apps.bea.gov, May 29, 2025, https://apps.bea.gov/iTable/?reqid=19&step=2&isuri=1&categories=survey&_gl=1.

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2.2. Imperial Overreach: The Military Mirage

Military power has long been a defining trait of hegemony, but history shows it can become a double-edged sword. When stretched too far, military dominance breeds vulnerability, a phenomenon often referred to as imperial overreach. As hegemonic states attempt to maintain influence through force, they frequently encounter resistance that accelerates their decline.

Hegemonies' Imperial Overreach

	The Roman Empire	The Abbasid Caliphate	The Mongol Empire	The Spanish Empire	The British Empire	The Soviet Union
Period	3rd Century	869-883	1350	1588	(1899–1902)	(1979–1989)
The overstretch	Rome's legions, numbering 400,000 at their peak, were overstretched across 5 million square kilometers	The Abbasids faced rebellions and invasions, such as the Zanj Rebellion (869–883), which weakened their military cohesion	Despite their unmatched cavalry, could not sustain control over their vast empire. Rebellions like the Red Turban uprising in China (1350s) fracturing their rule.	Spain's armadas, dominant in the 16th century, were humbled by English privateers and the 1588 Armada defeat.	Britain's Boer Wars (1899–1902)	Afghanistan campaign (1979–1989)
Economic Cost/ Consequences	Military spending consuming 3–5% of GDP by the 3rd century, contributing to fiscal collapse			Cost an estimated 10% of annual revenue	Cost £200 million (7% of GDP)	Drained $50 billion annually, exposing military limits, and accelerated economic decline

Source: Data compiled from Wikipedia (2025)[23], Temin (2012)[24], Kennedy (2007)[25], Findlay (2007)[26,27], Broadberry (2010)[28], and Maddison (2007)[29]

23. Wikipedia, "Late Roman Army," Wikipedia, February 23, 2025, https://en.wikipedia.org/wiki/Late_Roman_army.
24. Peter Temin, The Roman Market Economy (Princeton University Press, 2012), https://doi.org/10.23943/princeton/9780691147680.001.0001.
25. Hugh Kennedy, "Justinianic Plague in Syria and the Archaeological Evidence," January 1, 2007, 87–96, https://doi.org/10.1017/cbo9780511812934.007.
26. Ronald Findlay and Kevin H O'rourke, Power and Plenty : Trade, War, and the World Economy in the Second Millennium (Princeton, N.J. ; Woodstock: Princeton University Press, 2007).
27. Ronald Findlay and Kevin H O'rourke, Power and Plenty : Trade, War, and the World Economy in the Second Millennium (Princeton, N.J. ; Woodstock: Princeton University Press, 2007).
28. Broadberry et al., "British Economic Growth, Some Preliminary Estimates," 2010.
29. Angus Maddison, "Contours of the World Economy, 1–2030 AD," Oxford University Press EBooks, September 20, 2007, https://doi.org/10.1093/oso/9780199227211.001.0001.

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The Roman Empire offers a textbook case. **At its peak, Rome deployed some over 400,000 troops across a vast territory of 5 million square kilometers.[23] By the 3rd century, military expenditures consumed between 3% and 5% of GDP, straining public finances and contributing to economic destabilization.[24]** The legions were not just overstretched; they were deployed in a context where maintaining order became increasingly unsustainable as rebellions multiplied and revenues declined.

The Abbasid Caliphate similarly saw military might devolve into a liability. Internal uprisings and external invasions eroded cohesion, with the Zanj Rebellion (869–883) standing out as a major blow.[25] A slave uprising that turned into a full-scale civil war, it revealed deep structural weaknesses in the caliphate's reliance on coerced labor and its inability to suppress peripheral dissent without exhausting central resources.

The Mongol Empire, despite building the most formidable cavalry force of its time, could not maintain its far-flung dominion indefinitely. The empire's decentralized governance left it vulnerable to fragmentation. **Rebellions like the Red Turban uprising in 14th-century China (fueled by popular discontent and competing power centers) fractured Mongol control and highlighted the limits of force without administrative integration.[26] In early modern Europe, Spain's naval dominance met its limits as well. Though it possessed the world's most formidable armadas in the 16th century, the 1588 defeat at the hands of the English, a campaign that cost an estimated 10% of Spain's annual revenue, signaled a shift in maritime power.[27]** The mounting cost of maintaining imperial ambitions against determined local resistance strained the empire's capacity to sustain global control.

Britain, too, encountered the consequences of overextension. **The Boer Wars (1899–1902) in South Africa, which cost £200 million (roughly 7% of GDP), exposed the limits of imperial firepower when confronted with guerrilla tactics and entrenched local resistance.[28]** Despite superior weaponry and industrial capacity, the British military faced a drawn-out and politically costly campaign that questioned the logic of perpetual expansion.

23. Wikipedia, "Late Roman Army," Wikipedia, February 23, 2025, https://en.wikipedia.org/wiki/Late_Roman_army.
24. Peter Temin, The Roman Market Economy (Princeton University Press, 2012), https://doi.org/10.23943/princeton/9780691147680.001.0001.
25. Hugh Kennedy, "Justinianic Plague in Syria and the Archaeological Evidence," January 1, 2007, 87–96, https://doi.org/10.1017/cbo9780511812934.007.
26. Ronald Findlay and Kevin H O'rourke, Power and Plenty : Trade, War, and the World Economy in the Second Millennium (Princeton, N.J. ; Woodstock: Princeton University Press, 2007).
27. Ronald Findlay and Kevin H O'rourke, Power and Plenty : Trade, War, and the World Economy in the Second Millennium (Princeton, N.J. ; Woodstock: Princeton University Press, 2007).
28. Broadberry et al., "British Economic Growth, Some Preliminary Estimates," 2010.

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The Soviet Union's experience in Afghanistan further underscores the cost of unsustainable military engagement. **From 1979 to 1989, the USSR poured an estimated $50 billion annually into the conflict.**[29] What began as an assertion of control devolved into a quagmire that not only failed to secure strategic objectives but also intensified the economic malaise that hastened the Soviet collapse.

The United States, in the postwar era, has mirrored many of these patterns. As of 2006, the U.S. maintained 737 military bases around the world, dwarfing the 36 Britain held at its imperial peak in 1898.[30] Yet such an expansive presence has not translated into unchallenged authority. The Vietnam War (1965–1973), with a cost of over $1 trillion in today's dollars and the loss of over 58,000 American lives, exposed the vulnerability of even the most advanced military when faced with determined local resistance and unclear political objectives.[31]

More recently, the post-9/11 interventions in Afghanistan and Iraq have come at staggering financial and human cost. **With expenditures surpassing $8 trillion over two decades, these wars delivered only limited strategic returns, eroding public confidence and global credibility.**[32] Efforts to reshape the Middle East (underpinned by neoconservative strategies aimed at securing oil reserves) echo Britain's late-19th-century scramble for Africa. But as in earlier eras, local resistance, from the Taliban to Iraqi insurgents, undermined these ambitions.

Meanwhile, rising powers are challenging the U.S. military monopoly. China's defense budget, reaching $296 billion in 2023, signals long-term strategic ambition, while Russia's deployment of advanced hypersonic missile systems has introduced new dynamics in global deterrence.[33] These developments resemble the multipolar tensions that preceded World War I, as established powers find their dominance increasingly contested by assertive challengers unwilling to accept a unipolar order.

29. Angus Maddison, "Contours of the World Economy, 1–2030 AD," Oxford University Press EBooks, September 20, 2007, https://doi.org/10.1093/oso/9780199227211.001.0001.
30. Chalmers Johnson, Nemesis (New York: Metropolitan Books, 2006)
31. Kimberly Amadeo, "How the Vietnam War Affects You Today," The Balance, March 29, 2022, https://www.thebalancemoney.com/vietnam-war-facts-definition-costs-and-timeline-4154921.
32. Watson Institute, "Economic Costs | Costs of War," Brown.edu, 2019, https://watson.brown.edu/costsofwar/costs/economic.
33. Stockholm International Peace Research Institute, "Trends in World Military Expenditure, 2023," SIPRI, April 1, 2024, https://doi.org/10.55163/BQGA2180

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2.3. The Erosion of Consent: A Shifting Global Allegiance

Hegemonies often endure because others acquiesce to their leadership, drawn by economic or security benefits. The U.S. enjoyed such consent during the Cold War, as allies like Germany and Japan, constrained by post-World War II agreements, relied on American protection, allowing the U.S. to maintain a near-monopoly on global military power.[34] However, this dynamic is unraveling. China's military modernization, with around 2 million active personnel and 425 naval vessels by 2030, and Russia's nuclear arsenal, 5,449 warheads by 2025, signal a return to a pre-1914 era of competing powers.[35,36,37] Europe's rapid growth in its defense spending, reaching an estimated €326 billion in 2024, reflects a shift prompted by U.S. policies under leaders like Trump, who advocate reduced American involvement.[38] **This realignment, coupled with bold confrontations from nations like China and Russia (evident in South China Sea disputes and Ukraine conflicts) suggests a world no longer content to defer to U.S. leadership.**

The decline of the U.S. dollar's dominance further illustrates this shift. While the dollar accounted for 58% of global foreign exchange reserves in 2024, down from 71% in 2000, regional blocs like BRICS are increasingly settling trade in local currencies, with China's yuan role in global transactions increasing significantly.[39], The end of the petrodollar agreement with Saudi Arabia in 2024 will weaken the dollar's stranglehold, echoing Britain's loss of sterling's reserve status post-World War II. These trends, combined with the U.S.'s internal challenges, which include economic inequality, an aging population (21% over 65 by 2030), and infrastructure decay (ASCE rating: C in 2025), mirror the structural weaknesses that felled past hegemonies. "Make America Great Again" is, after all, not a vision of empire; it is a call to retrenchment.[40,41]

All these factors underscore a pivotal insight: the U.S. is not collapsing, but it is being normalized. It is transitioning from the uncontested hegemon to one powerful actor among several—still rich, still influential, but no longer structurally indispensable.

34. Chris Chase-Dunn et al., "LAST of the HEGEMONS: U. S. DECLINE and GLOBAL GOVERNANCE," International Review of Modern Sociology 37, no. 1 (2011): 1–29, https://doi.org/10.2307/41421398.
35. WarpowerChina, "Chinese Liberation Army (Manpower)," Warpowerchina.com, 2025, https://www.warpowerchina.com/manpower.php
36. Ronald O'Rourke, "China Naval Modernization: Implications for U.S. Navy Capabilities—Background and Issues for Congress," Congress.gov, April 24, 2025, https://www.congress.gov/crs-product/RL33153.
37. Hans Kristensen et al., "Status of World Nuclear Forces," Federation of American Scientists (Federation of American Scientists, March 29, 2024), https://fas.org/initiative/status-world-nuclear-forces/.
38. European Council, "EU Defence in Numbers," Consilium, May 27, 2025, https://www.consilium.europa.eu/en/policies/defence-numbers/.
39. International Monetary Fund, "Data Explorer-Currency Composition of Official Foreign Exchange Reserves (COFER)," Imf.org, 2025, https://data.imf.org/en/Data-Explorer?datasetUrn=IMF.STA:COFER(7.0.0).
40. US Census Bureau, "2023 National Population Projections Tables: Main Series," Census.gov, 2023, https://www.census.gov/data/tables/2023/demo/popproj/2023-summary-tables.html.
41. American Society of Civil Engineers, "ASCE Report Card Gives U.S. Infrastructure Highest-Ever c Grade," Asce.org, March 25, 2025, https://www.asce.org/publications-and-news/civil-engineering-source/society-news/article/2025/03/25/asce-report-card-gives-us-infrastructure-highest-ever-c-grade.

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3 The Dawn of a Multipolar World: Power in Fragmentation

As the United States grapples with the strains of hegemonic decline, the global stage is not preparing for a new singular titan but for a chorus of voices, each wielding significant influence. History suggests that the fall of one hegemon often paves the way for another, yet the current trajectory points to a different outcome: a multipolar world where power is distributed among nations like China, Russia, Germany, and others. This shift, driven by economic resurgence, military assertiveness, and institutional adaptability, mirrors the contentious interregnums that followed past empires but diverges in its complexity. The Roman Empire's collapse left a fragmented Europe; the Abbasid Caliphate's decline birthed regional dynasties; the Mongol Empire's disintegration opened doors for new powers. Today, the world is not converging on a new hegemon but diverging toward a shared governance model, where cooperation and competition coexist. This section explores the forces shaping this multipolar order and why a single successor to the U.S. is unlikely.

3.1. The Rise of New Powers: China's Ascent and Beyond

China's reemergence as a global power is a story of strategic patience and internal consolidation, reminiscent of the foundational phases of past hegemonies. Once a leading power until the 15th century, China's decline into a semi-colonized state in the 19th century was reversed by a national revival. Over the past four decades, the country has been able to reverse its previous poor trajectory with astonishing speed.

By 2025, China's GDP has surpassed $18.3 trillion, accounting for over 18% of global economic output, a tenfold rise from just 2% in 1980.[42] This ascent is underpinned by a massive industrial base fueled by abundant natural resources, including control over 63% of the world's rare earth metal supply, and a vast labor force of over 770 million.[43,44] These advantages have transformed China into the manufacturing heart of the global economy.

42. Eswar Prasad, "China Stumbles but Is Unlikely to Fall," International Monetary Fund, December 2023, https://www.imf.org/en/Publications/fandd/issues/2023/12/China-bumpy-path-Eswar-Prasad.
43. U.S. Geological Survey, "Mineral Commodity Summaries 2024 | U.S. Geological Survey," www.usgs.gov, January 31, 2024, https://www.usgs.gov/publications/mineral-commodity-summaries-2024.
44. Statista, "China: Labor Force from 2000 to 2023," Statista, 2025, https://www.statista.com/statistics/282134/china-labor-force/.

The Belt and Road Initiative (BRI) exemplifies China's ambitions to project influence beyond its borders. With the $1 trillion program, the BRI revives the spirit of transcontinental trade once pioneered by the Abbasid Caliphate's commercial networks. Through infrastructure, lending, and political partnerships, China seeks to embed itself in the economic foundations of developing and emerging markets.

China's trajectory since joining the World Trade Organization in 2001 has been nothing short of transformative. Hundreds of millions have been lifted out of poverty, and the country has become the linchpin of global supply chains. Yet behind the headline growth lies a complex set of constraints that differentiate China's rise from traditional hegemons.

Other powers are also reshaping the global landscape. **Russia, with a GDP of $2.1 trillion and 5,449 nuclear warheads, asserts influence through energy exports (now supplying 40% of Europe's gas; over 40% before Ukraine's invasion) and military interventions, as seen in Ukraine.**[45,46,47] Germany, with a $4.7 trillion economy, leads Europe's industrial and technological resurgence, its export-driven model echoing Britain's 19th-century trade dominance.[48] South Korea, with a $1.8 trillion GDP and cutting-edge technology sectors, and India, projected to reach $4.6 trillion by 2027, add to the multipolar mix.[49,50] These nations, unlike the Spanish Empire, which relied on silver to project power, or the Soviet Union, constrained by economic rigidity, leverage diverse strengths (technology, resources, and regional influence) without the global dominance required for hegemony. The Mongol Empire's Pax Mongolica facilitated trade across 15 million square kilometers, but its successors were regional powers, not global hegemons. Similarly, today's rising nations compete without converging on a single leader.

3.2. The Limits of a New Hegemon: Structural and Cultural Barriers

The absence of a clear successor to the U.S. stems from structural and cultural constraints that no single power can overcome. The Roman Empire's fall left no immediate heir due to Europe's fragmentation; the Abbasid Caliphate's decline saw regional powers like the Seljuks rise, none achieving global dominance. The Spanish Empire's silver-fueled hegemony waned as inflation and naval defeats shifted power to rivals like England, yet no single power dominated until Britain's rise. The British Empire's decline after 1913 saw the U.S. ascend, but only after a period of multipolar tension. The Soviet Union, despite its military might, never achieved true hegemony due to economic stagnation, with GDP growth falling to 1% by the 1980s.

Today, despite China's scale, its model lacks some of the essential features of past global leaders. Its lack of political openness and limited internal market appeal limit both domestic pluralism and international ideological appeal. Its Foreign direct investment (FDI) (once a key driver of integration into the global economy) has declined sharply, from as high as $291 billion in 2013 to $43 billion in 2023 (net inflows).51,52 Concerns over capital controls, legal transparency, and the rule of law have made investors cautious.

45. International Monetary Fund, "DATAMAPPER - Russia," www.imf.org, April 2025, https://www.imf.org/external/datamapper/profile/RUS.
46. Hans Kristensen et al., "Status of World Nuclear Forces," Federation of American Scientists (Federation of American Scientists, March 29, 2024), https://fas.org/initiative/status-world-nuclear-forces/.
47. European Council, "Where Does the EU's Gas Come From?," Consilium, May 8, 2025, https://www.consilium.europa.eu/en/infographics/where-does-the-eu-s-gas-come-from/.
48. International Monetary Fund, "DATAMAPPER - Germany," www.imf.org, April 2025, https://www.imf.org/external/datamapper/profile/DEU.
49. International Monetary Fund, "DATAMAPPER - South Korea," www.imf.org, 2025, https://www.imf.org/external/datamapper/profile/KOR.
50. International Monetary Fund, "DATAMAPPER - India's GDP," www.imf.org, April 2025, https://www.imf.org/external/datamapper/NGDPD@WEO/IND?zoom=IND&highlight=IND.

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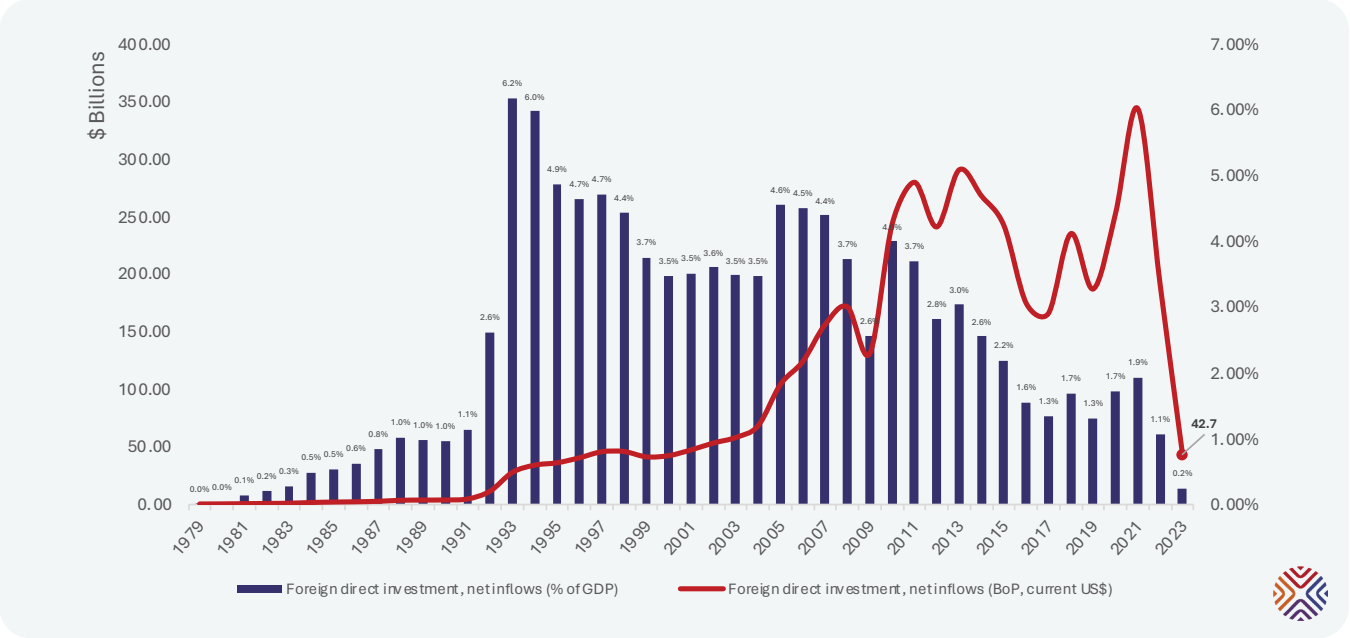
Trendline Showing China's Weak FDI Inflows, and Its Declining Share of GDP



Source: Data compiled from World Bank[51,52]

China also faces demographic headwinds. A shrinking and aging population, coupled with instability in the property sector and a financial system that remains under state management, poses long-term risks to economic dynamism. Unlike the United States, which drew foreign capital through open markets and a globally resonant political and cultural model, China's state-driven development strategy and limited political openness make it less compelling as a hegemonic alternative.

Today, China's lack of political openness and limited internal market appeal hinder its hegemonic potential. Its per capita GDP of $12,614 in 2023 pales against the U.S.'s $82,769, limiting its ability to project soft power globally.[53,54]

Moreover, the global economy's interdependence complicates hegemony. The U.S. dollar, despite declining from 71% of global reserves in 2000 to 58% in 2024, remains unmatched due to the sheer scale of dollar-denominated securities.[55] The euro, at 20% of reserves, and the yuan, at 2%, cannot rival this.[56] The end of the petrodollar deal in 2024 weakens the dollar's grip, but no alternative currency commands equivalent trust. This mirrors the British pound's gradual decline post-World War I, yet the global reliance on the U.S. economy ensures no single power can supplant it. The multipolar world, then, is characterized by regional blocs like BRICS, which is increasingly settling trade in local currencies, and ASEAN, with a combined GDP of $3.8 trillion, fostering cooperation rather than dominance.[57]

51. World Bank Group, "Foreign Direct Investment, Net Inflows (BoP, Current US$) - China | Data," data.worldbank.org, 2025, https://data.worldbank.org/indicator/BX.KLT.DINV.CD.WD?locations=CN.
52. Ibid.
53. World Bank Group, "GDP per Capita (Current US$) - China | Data," The World Bank, 2025, https://data.worldbank.org/indicator/NY.GDP.PCAP.CD?locations=CN.
54. Ibid.
55. International Monetary Fund, "Data Explorer-Currency Composition of Official Foreign Exchange Reserves (COFER)," Imf.org, 2025, https://data.imf.org/en/Data-Explorer?datasetUrn=IMF.STA:COFER(7.0.0).
56. Ibid
57. ASEAN, "ASEAN ANNUAL REPORT 2024 - ASEAN: Enhancing Connectivity and Resilience," 2024, https://asean.org/wp-content/uploads/2024/12/ASEAN-AR-2024_e-pub_web.pdf.

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3.3. A New Global Governance: Cooperation Amid Contention

The transition to a multipolar world, may lead to a form of global state formation, where powers cooperate to perform functions once monopolized by a hegemon. Historical parallels exist: the post-Mongol era saw regional powers like the Yuan and Ilkhanates maintain trade networks, while the post-British world relied on institutions like the UN and IMF, shaped by the U.S.

Today, alliances like the EU, with approximately $20 trillion economy, and BRICS, representing 40% of global GDP, suggest a shared governance model.[58,59] However, this transition is not without friction. The U.S.'s trade policies under Trump, raising the effective tariff rate, which as of May stood at 13%, echo the protectionist tariffs (40–57% from 1861–1908) that built its early capitalism.[60] These policies, alongside China's export-driven growth and Russia's energy leverage, signal a contentious rebalancing, akin to the pre-World War I rivalries among European powers.

Yet, the nuclear age tempers the prospect of hegemonic war. **A total war, as seen in the Roman-Sassanid conflicts or World War II, is unthinkable given mutual assured destruction; instead, proxy wars and trade disputes, like the U.S.-China trade war costing trillions of dollars in global GDP since 2018, define modern dominance struggles. The multipolar order, therefore, is a delicate balance of competition and collaboration, where no single power can replicate the U.S.'s post-1945 dominance.** The Abbasid's trade networks, the Mongol's secure routes, and Britain's colonial markets all required a central authority; today's world, interconnected by $31.5 trillion in global trade, demands shared stewardship.[61]

58. International Monetary Fund, "DATAMAPPER - Russia," www.imf.org, April 2025, https://www.imf.org/external/datamapper/profile/RUS.
59. Hans Kristensen et al., "Status of World Nuclear Forces," Federation of American Scientists (Federation of American Scientists, March 29, 2024), https://fas.org/initiative/status-world-nuclear-forces/.
60. European Council, "Where Does the EU's Gas Come From?," Consilium, May 8, 2025, https://www.consilium.europa.eu/en/infographics/where-does-the-eu-s-gas-come-from/.
61. International Monetary Fund, "DATAMAPPER - Germany," www.imf.org, April 2025, https://www.imf.org/external/datamapper/profile/DEU.

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4 The Resilient Giant: Can the U.S. Redefine Its Role?

The decline of a hegemon does not always herald collapse; history is replete with powers that, while losing absolute dominance, adapted to retain influence. The United States, despite economic and geopolitical challenges, possesses unique strengths—cultural adaptability, institutional flexibility, and enduring structural power, which suggest it may not fade as swiftly as its predecessors. The Roman Empire's legacy endured in Byzantine governance; the British Empire, post-decline, remained a financial hub; even the Soviet Union's dissolution left Russia a formidable player. As the U.S. navigates a multipolar world, its capacity to innovate and adapt, positions it to remain a leading, if not singular, power. This section examines the factors sustaining U.S. influence and the challenges to its reinvention.

4.1. Institutional Flexibility: The Engine of Renewal

Enduring powers succeed not just through strength, but through institutional adaptability. Rome restructured under Diocletian's tetrarchy to manage vast territories; the Abbasids sustained their economic influence through bureaucratic reforms like the diwan system until decentralization took hold. The Mongols preserved stability by integrating local elites, though cohesion eventually faltered. Spain's rigid mercantilism left it vulnerable to runaway inflation, while Britain adapted, first through industrial transformation, then by reinventing itself as a financial hub. In contrast, the Soviet Union's centralized model proved too rigid to evolve, stagnating as growth slowed. The U.S., by comparison, has remained resilient through institutional dynamism and reform.

Trendline Showing Decline in U.S's Share of Global GDP

The Roman Empire	The Abbasid Caliphate	The Mongol Empire	The Spanish Empire	The British Empire	The Soviet Union
Adapted through reforms like Diocletian's tetrarchy, which decentralized governance to manage its 5 million square kilometer expanse.	The Caliphate's bureaucratic innovations, such as the diwan system, sustained economic output (estimated at 10–15% of global GDP) until regional fragmentation overwhelmed it.	It's flexible governance, incorporating local elites, maintained trade across 15 million square kilometers, though internal divisions eroded this system.	The Empire struggled to adapt, its rigid mercantilist policies failing to counter 400% inflation from 1500–1600.	Britain, however, reinvented itself through industrial innovation, with GDP per capita rising from £1,250 in 1700 to £4,900 by 1870 (in 1990 prices), and later as a financial center post-empire.	The Soviet Union's inflexibility, with centralized planning stifling growth to 1% annually by the 1980s.

The U.S.'s institutional agility, exemplified by the creation of NASDAQ in 1971, which empowered high-tech industries to bypass the New York Stock Exchange's entrenched interests. This flexibility, as Rennstich (2003) argues, stems from a culture that supports innovation and an anti-monopoly tradition, enabling new industries to flourish.[62] The U.S.'s adoption of cryptocurrencies, with about $2 trillion in market capitalization by June 2025, and its antitrust actions (such as the 2023 case against Big Tech) demonstrate this adaptability. Unlike Britain, which struggled to transition from family firms to corporate structures, the U.S. has a history of overcoming "sclerosis," as Modelski and Thompson (1996) noted, potentially allowing it to "succeed itself" in a new form.[63] This capacity positions the U.S. to navigate declining manufacturing dominance with its share of global manufacturing falling significantly since 1990 by pivoting to technology and services, which now account for a significant proportion of its $23.3 trillion GDP.[64]

4.2. Cultural Adaptability: A Soft Power Advantage

Cultural openness has long been a linchpin of hegemonic longevity, enabling powers to integrate diverse influences and project soft power. The Abbasids thrived by blending Persian, Greek, and Indian traditions, fostering a Golden Age of science and trade. The British Empire's cultural exports, from English law to globalized tea consumption, sustained influence even as its GDP share dropped to 3.6% by 1913. The U.S. benefits from a culture "unusually open to social and economic change." **Hollywood, tech innovation, and global brands like Apple and Coca-Cola maintain U.S. cultural dominance, with American media exports generating $22.6 billion in 2023.[65] This contrasts with China, where cultural and political constraints limit soft power; its global cultural exports, like TikTok, face bans in markets like the U.S. and India.**

The U.S.'s ability to attract talent and capital further bolsters its resilience. Between 1861 and 1908, protective tariffs of 40–57% built a robust internal market, drawing foreign capital that exceeded U.S. exports. Today, the U.S. remains a magnet for investment, with $8.5 trillion in foreign-held Treasury securities in 2024, far surpassing China's $1.1 trillion in FDI inflows.[66,67] This echoes Britain's belle époque, sustained by capital returns from colonies, but the U.S.'s reliance on inflows, as you noted, marks a key difference. Its open society, with a high number of immigrants (14% of the population) in 2022, drives innovation, with a significant proportion of Fortune 500 companies founded by immigrants or their children.[68] This cultural dynamism, absent in the rigid structures of the Soviet Union or the insular policies of post-15th-century China, equips the U.S. to adapt to a multipolar world.

62. Joachim Rennstich, The Future of Great Power Rivalries, New Theoretical Directions for the 21st Century World System, vol. 2 (New York: Greenwood Press, 2003), 143–61.
63. George Modelski and William R Thompson, Leading Sectors and World Powers : The Coevolution of Global Politics and Economics (Columbia, S.C.: University Of South Carolina Press, 1996).
64. Bureau of Economic Analysis, "National Data - Real Gross Domestic Product," apps.bea.gov, May 29, 2025, https://apps.bea.gov/iTable/?reqid=19&step=2&isuri=1&categories=survey&_gl=1.
65. Motion Picture Association, "The American Motion Picture and Television Industry: Creating Jobs, Trading around the World," Motion Picture Association, January 7, 2025, https://www.motionpictures.org/research-docs/the-american-motion-picture-and-television-industry-creating-jobs-trading-around-the-world-6/.
66. Marc Labonte and Ben Leubsdor, "Foreign Holding of Federal Debt," The Guardian, May 23, 2025, https://doi.org/10.9385.94.
67. World Bank Group, "Foreign Direct Investment, Net Inflows (% of GDP) - China | Data," data.worldbank.org, 2025, https://data.worldbank.org/indicator/BX.KLT.DINV.WD.GD.ZS?locations=CN.
68. US Census Bureau, "The Foreign-Born Population in the United States: 2022," Census.gov, April 9, 2024, https://www.census.gov/library/publications/2024/acs/acsbr-019.html.

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4.3. **Structural Power:** The Enduring Leverage of Scale

Despite shifts in the global balance of power, the United States continues to wield a form of influence that is less visible but more enduring: structural power. This refers to the ability to shape the frameworks within which global systems operate—financial markets, trade networks, corporate hierarchies, and military alliances. Unlike traditional, transactional power based on immediate resources or bilateral relationships, structural power defines the rules of the game itself.

The U.S. remains deeply embedded in the infrastructure of global capitalism. Its currency still anchors the international financial system, its corporations dominate key sectors of the global economy, and its military footprint spans the planet in a way no previous empire could manage. These structural advantages allow the U.S. to absorb economic pressures that would destabilize other nations, and to act with a degree of freedom that others cannot match.

Historical comparisons highlight how rare and potent this form of power is. Empires like Spain, Rome, or even Britain operated within constraints that eventually caught up with them—whether through overextension, economic mismanagement, or the inability to adapt to internal decay. By contrast, the U.S. system is more resilient because of its scale, integration, and institutional entrenchment.

However, structural power is not invincible. It requires constant upkeep. Demographic shifts, aging infrastructure, and rising competitors demand strategic recalibration. If the U.S. fails to evolve its internal foundations, the same structural advantages that now provide global leverage could turn into liabilities. But for now, its unmatched ability to shape the environment in which others must operate remains a cornerstone of its enduring influence.

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4.4. The Challenge of Adaptation: Balancing Strength and Strain

While the U.S. possesses the tools to redefine its role, adaptation is not guaranteed. The Roman Empire's failure to reform its economy, the Abbasids' inability to quell regional revolts, and the Soviet Union's economic stagnation highlight the risks of inertia. The U.S. faces similar pressures: its tremendous debt level and trade wars strain its economy. Yet, its history of overcoming vested interests, as seen in NASDAQ's rise and antitrust efforts, suggests potential for renewal. The multipolar world demands the U.S. shift from dominance to partnership, leveraging its structural power to co-lead with rising powers, much as Britain transitioned to a financial hub post-empire. The path forward lies in balancing its enduring strengths with the realities of a fragmented global order.

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5 Navigating the Multipolar Maze: Cooperation, Conflict, and the New Global Order

The shift from a unipolar world dominated by the United States to a multipolar landscape marks a profound reconfiguration of global power, reminiscent of the turbulent transitions that followed the decline of past hegemonies. The Roman Empire's fall ushered in a fragmented Europe; the Abbasid Caliphate's collapse birthed regional dynasties; the British Empire's retreat left a vacuum filled by competing powers. Today, we are in a period of "déconcentration," where no single nation is poised to inherit the mantle of global hegemon. Instead, a constellation of powers (China, Russia, Germany, India, and others) vie for influence, creating both opportunities for collaboration and risks of conflict. This section examines the dynamics of this multipolar world, the potential for instability, and the emerging frameworks of global governance, drawing on historical lessons and contemporary realities.

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5.1. The Fragile Balance: Competition Without a Hegemon

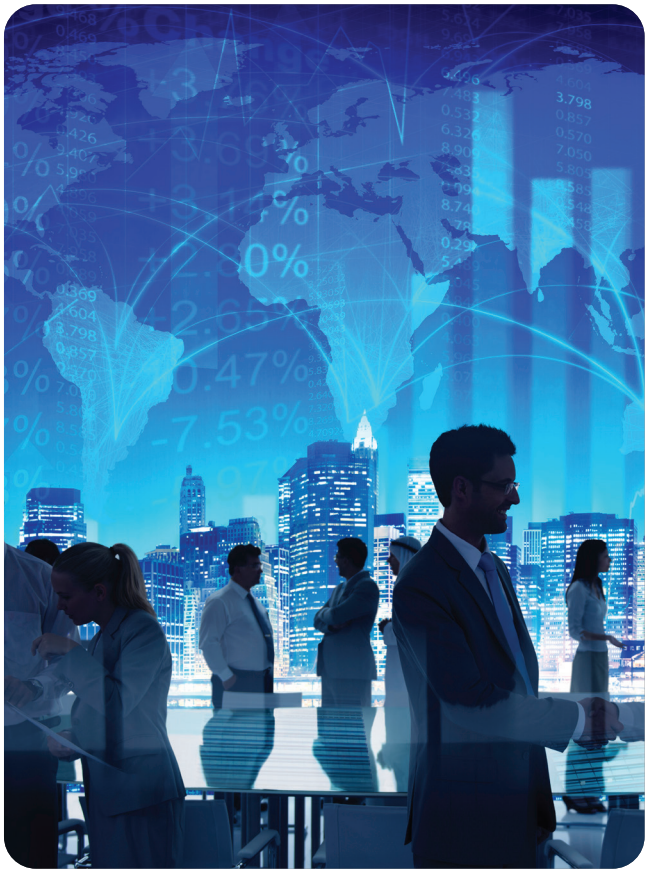
Historically, the absence of a hegemon has often led to periods of contention, as rising powers jostle for dominance. The post-Roman era saw warring kingdoms vie for control, with Europe's GDP fragmenting into small, localized economies by 500 CE. The Mongol Empire's disintegration in the 14th century sparked regional conflicts, disrupting Silk Road trade and reducing Eurasian commerce by an estimated 30%. The Spanish Empire's decline in the 17th century fueled Anglo-Dutch rivalry, with naval conflicts costing Spain 10% of its annual revenue. The British Empire's waning influence after 1913 precipitated multipolar tensions, culminating in World War I, which cost approximately 8% of global GDP. The Soviet Union's collapse in 1991 left a unipolar moment, but its brief duration underscores the instability of power vacuums.

Today's multipolar world is marked by rising tensions and competing ambitions, much like earlier eras of fragmented power. The strategic competition between the United States and China reflects a broader struggle to define the rules of global engagement. Economic rivalry, technological competition, and contested spheres of influence evoke the spirit of past mercantilist and imperial confrontations.

China's growing assertiveness, particularly in its regional seas and technological domains, has stirred unease among neighboring powers, prompting counter-alignments and strategic hedging. Russia, meanwhile, continues to challenge the existing order through a blend of military pressure and energy leverage, forcing Western powers to grapple with difficult trade-offs between security and economic interests.

At the same time, emerging powers like India and regional blocs such as the European Union and BRICS are asserting themselves more forcefully. Yet, their rise has not led to cohesive alternatives to the existing order. Instead, internal rivalries, diverging priorities, and regional disputes often undermine collective action, mirroring the fragmented alliances and strategic miscalculations that preceded past global conflicts.

This evolving landscape underscores the complexities of a world no longer dominated by a single hegemon. Power is more dispersed, but also more unstable, with overlapping claims, regional imbalances, and historical grievances all contributing to a fraught international environment. The challenge for global stability lies not just in balancing power, but in finding common ground amid growing divergence.



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5.2. The Specter of Conflict: Proxy Wars and Economic Battles

The nuclear age renders total hegemonic war unthinkable, with the potential to "reset the world to the Stone Age." Instead, great power rivalry has shifted into subtler, yet still consequential, forms: proxy wars, economic confrontation, and currency competition. These indirect contests reshape global hierarchies without triggering existential collapse.

Ongoing proxy wars, from Ukraine to the Middle East, reflect a world no longer dominated by a single superpower but shaped by overlapping spheres of influence. U.S. military and financial support to Ukraine counters Russian aggression without direct confrontation, while China's $1 trillion Belt and Road Initiative challenges Western influence not through arms, but through infrastructure and debt diplomacy. Trade policy has become a new front line. Tariffs, such as the U.S.'s sweeping 10% levies on imports during the Trump era, function as tools of economic warfare, disrupting supply chains and recalibrating dependencies. These conflicts seek to shift influence, not destroy rivals outright, echoing the Cold War's logic of containment and competition rather than annihilation.

Meanwhile, the global financial order is fragmenting. The U.S. dollar's share of global reserves has fallen, while the rise of local currency trade signals a shift toward a more multipolar monetary landscape. This resembles the period after Spain's imperial decline, when no single currency or power could dictate global economic terms. Today's rivalries are less about battlefield supremacy and more about rebalancing global systems in a world where total war is too costly to win.

5.3. From Dominance to Interdependence: Building Stability in a Multipolar World

While multipolarity raises the risk of friction, it also opens the door to shared governance. Historical precedents show that global systems can persist and adapt even as hegemonies fade—from post-Mongol trade resilience to post-British institutional frameworks like the UN and IMF. Today's global challenges, such as climate change and pandemics, demand cooperation across competing powers.

Economic interdependence reinforces this need. With $31.5 trillion in global trade and no single nation holding absolute dominance, stability hinges on collaborative mechanisms.[69] The U.S., though in relative decline, remains central through its market size and institutional influence. Meanwhile, China's infrastructure push, Europe's regulatory power, and India's tech rise all point toward a distributed leadership model.

Yet structural constraints, ranging from China's per capita income and Russia's sanctions to America's mounting debt, prevent any one power from unilaterally shaping the system. Instead, institutions like the G20 and regional trade agreements reflect a shift from hegemonic control to negotiated interdependence. The future global order will be less about enforcing dominance and more about managing competition through durable, flexible cooperation.

69. World Trade Organization, "World Trade Statistics 2024," Wto.org, 2025, https://www.wto.org/english/res_e/statis_e/world_trade_statistics_e.htm.

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6 A World Beyond Hegemony: The Dawn of a New Era: A Multipolar World in 2040

This research suggests that the global landscape has shifted dramatically from the U.S.-dominated unipolarity of the late 20th century to a vibrant, multipolar world. Power is no longer concentrated in one nation's hands but distributed among key players: the United States, China, the European Union, India, and influential regional blocs like BRICS (Brazil, Russia, India, China, South Africa) and ASEAN (Association of Southeast Asian Nations). This isn't a simple handover of supremacy, as history once saw with empires, but a new order defined by shared influence and deep interdependence. Economic ties, technological leaps, and pressing transnational challenges like climate change weave nations together, even as they jostle for position.

6.1. Economic Power: A Shifting and Connected Landscape

The global economy in the next two decades is a tapestry of multiple power centers, yet it hums with connectivity. China's GDP has soared past $25 trillion, its Belt and Road Initiative reshaping trade from Africa's ports to Southeast Asia's megacities. India, now a $7 trillion economy, thrives on its tech sector and youthful workforce, churning out AI innovations and renewable energy solutions. The United States, still a titan with a $30 trillion GDP, leans on Silicon Valley's breakthroughs in quantum computing and Wall Street's financial heft, though its share of the global pie has shrunk.

Regional blocs are the new economic anchors. The EU, with a $22 trillion economy, has fused into a digital and green tech giant. BRICS, commanding 45% of global GDP, trades in a shared currency, sidelining the U.S. dollar in its deals. ASEAN, a $5 trillion trade hub, links the Indo-Pacific, its ports buzzing with commerce. Global trade, now topping $40 trillion annually, binds these players through supply chains so intricate that a hiccup in one corner, like the 2035 semiconductor drought, ripples worldwide. Isolationism is a relic; interdependence is the rule, but it's a fragile strength.

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6.2. **Geopolitical Dynamics:** Rivalry with Restraint

Power struggles define the stage, yet guardrails keep them in check. The U.S. and China lock horns over tech—AI, 6G, semiconductors, and regional sway in Africa and Asia. But their economies are too entwined for war: American shoppers fuel Chinese factories, while Chinese firms crave U.S. patents. Nuclear risks and climate goals—like China's 2050 carbon-neutral pledge—force them to collaborate, albeit grudgingly.

Russia, with a $3 trillion GDP, plays spoiler. Its energy exports heat Europe, its troops loom in Central Asia, and its hackers probe Western grids. Yet sanctions box it in. The EU, wielding regulatory muscle, sets global standards in data and sustainability, while India, ever the non-aligned mediator, cools tensions in hotspots like the South China Sea. These balancing acts keep the multipolar world from tipping into chaos.

6.3. **Technology:** The New Currency of Influence

In 2040, technology is power's lifeblood. The U.S., China, and South Korea dominate AI and automation, their industries humming with efficiency. But innovation spreads fast—Lagos is Africa's AI capital, São Paulo a biotech leader. No one owns the future outright. Digital finance rewrites the rules: the U.S. dollar, now 50% of global reserves, shares space with China's digital yuan, the euro, and cryptocurrencies. From Jakarta to Johannesburg, central banks roll out their own e-currencies, making money a multi-headed beast.

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6.4. Climate Change: The Great Unifier

Climate change is reshaping global priorities and may become a powerful force for unity. As demand surges, experts warn of looming water shortages that could disrupt entire economies. Waterpower clean electricity through hydropower, sustains agriculture, and cools the data centers driving today's AI and cloud technologies. These overlapping dependencies could catalyze cooperation through a Global Water Accord, aligning national interests around water security.
Similarly, rare earth shortages, critical to electric vehicles and wind turbines, have spurred Arctic mining partnerships and sparked international negotiations on deep-sea resource governance. As the climate crisis intensifies, the European Union is reforming migration policies in response to rising climate-driven displacement, while India is investing in flood-resilient urban infrastructure. Meanwhile, wealthy nations are increasingly funding climate adaptation abroad, not just out of obligation, but out of strategic awareness: in a warming world, instability anywhere can ripple everywhere.

6.5. Governance: From One Leader to Many Voices

The old guard adapts. The UN, IMF, and WTO, once Western clubs, now amplify Brazil and Indonesia. The G20, a permanent council, tackles pandemics and crashes. Regional blocs flex: the EU's carbon tax shapes trade, BRICS's bank funds roads from Kenya to Kazakhstan. "Minilateral" coalitions—like the Pacific Climate Alliance or the EU-India Digital Ethics Pact—tackle niche issues without a boss. Power is a chorus, not a solo.

6.5 Governance: From One Leader to Many Voices

This world of two decades is cooperative competition incarnate. Nations vie for tech and economic crowns but unite against pandemics, climate disasters, and cyber threats. The U.S. and China bicker over lunar mines yet co-fund a Global Pandemic Shield. India and the EU spar on data but build the Sahara Solar Grid. It's messier than the U.S.-led past, but tougher to shatter, echoing the Mongol trade webs or post-British institutions—adaptable, enduring.

The U.S. is a first among equals, its clout tied to innovation and alliances. China muscles up but not to hegemony, hemmed by rivals and domestic woes. India, the EU, and blocs like ASEAN carve their niches. Success demands balance: compete fiercely, cooperate wisely, adapt nimbly. In this shared stage, survival is a team sport—even among rivals.

Section B

US Stock Market Outlook

Chapter 1

2025 U.S. Stock Market Outlook: Navigating the Second Half

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1 2025 U.S. Stock Market Outlook: Navigating the Second Half

1.0. Introduction: A Year of Whiplash and Watchfulness

The first half of 2025 has been anything but steady for the U.S. equity markets. What began as an exuberant rally sparked by political certainty quickly unraveled into a market gripped by volatility. Trade policy, inflation dynamics, and a resurgent dollar narrative have all conspired to cloud investor sentiment. As we enter the second half of the year, the outlook remains cautiously neutral, with a market that has clawed back its losses but lacks conviction.

1.1. Act I: The Trump Trade – From Hope to Hesitation

Following Donald Trump's re-election in November 2024, markets were swift to price in what many termed the "Trump Trade 2.0." Optimism surged on expectations of pro-business policies, deregulation, and expanded fiscal support. Equity indices pushed to new highs, driven by gains in sectors expected to benefit directly from the administration's rhetoric and proposed policies.

However, by February 2025, the exuberance gave way to caution. Investors began digesting not just the promise, but also the policy risks. Concerns around the administration's aggressive trade stance, particularly the reimplementation and expansion of tariffs, ignited a wave of uncertainty. The result was a sharp market correction, which we refer to as a "valuation stress test", with the DeepSeek incident catalyzing a broader reassessment of risk premiums.

1.2. Act II: A Reluctant Recovery, A Market on Pause

Despite the early turbulence, the markets staged a robust technical recovery by early April. By July, indices had regained most of their early-year losses. **Yet the tone of the recovery has been tepid. Underneath the surface, market momentum remains thin, and participation is subdued. Many institutional investors have repositioned defensively, with long-short ratios pointing toward increased conservatism.**

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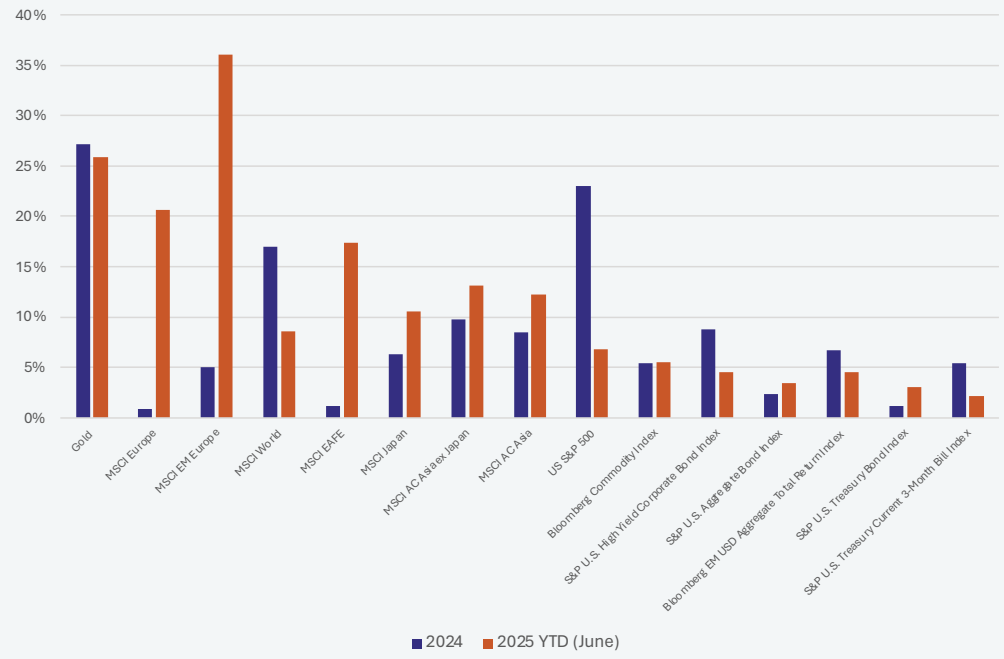
U.S. Uncertainty Opens Doors for Gold and European Markets



NB: Gold: Gold prices from Bloomberg Terminal; Europe: MSCI Europe Index; EM Europe: MSCI Emerging Markets Europe Index; World: MSCI World Index; EAFE: MSCI EAFE Index; Japan: MSCI Japan Index; Asia ex Japan: MSCI AC Asia ex Japan Index; Asia: MSCI AC Asia Index; U.S. Equities: S&P 500 Index; Commodities: Bloomberg Commodity Index; U.S. High Yield: S&P U.S. High Yield Corporate Bond Index; U.S. Aggregate: S&P U.S. Aggregate Bond Index; EM Aggregate: Bloomberg EM USD Aggregate Total Return Index; U.S. Treasury: S&P U.S. Treasury Bond Index; U.S. Cash: S&P U.S. Treasury Current 3-Month Bill Index.

Source: Data Compiled from Bloomberg[1,2,14,] MSCI[3,4,5,6,7,8,9,]S&P Global[10,11,12,13]

1. Bloomberg L.P., "Bloomberg Terminal (Gold)," 2025.
2. Bloomberg L.P., "Bloomberg Terminal (S&P 500)," 2025.
3. MSCI, "MSCI Europe Index," Msci.com, 2025, https://www.msci.com/indexes/index/990500.
4. MSCI, "MSCI Emerging Markets Europe Index," 2025, https://www.msci.com/documents/10199/1cf0a2d6-48fa-4c69-b397-b0faa3fc6e5c.
5. MSCI, "MSCI World Index," Msci.com, 2025, https://www.msci.com/indexes/index/990100.
6. MSCI, "MSCI EAFE Index," Msci.com, 2024, https://www.msci.com/indexes/index/990300.
7. MSCI, "MSCI Japan Index," Msci.com, 2025, https://www.msci.com/indexes/index/939200.
8. MSCI, "MSCI AC Asia Ex Japan Index," Msci.com, 2025, https://www.msci.com/indexes/index/899800.
9. MSCI, "MSCI AC Asia Index," Msci.com, 2025, https://www.msci.com/indexes/index/301700.
10. S&P Global, "S&P U.S. High Yield Corporate Bond Index - S&P Dow Jones Indices," www.spglobal.com, 2025, https://www.spglobal.com/spdji/en/indices/fixed-income/sp-us-high-yield-corporate-bond-index/#overview.
11. S&P Global, "S&P U.S. Aggregate Bond Index | S&P Dow Jones Indices," www.spglobal.com, 2025, https://www.spglobal.com/spdji/en/indices/fixed-income/sp-us-aggregate-bond-index/#overview.
12. S&P Global, "S&P U.S. Treasury Bond Index | S&P Dow Jones Indices," www.spglobal.com, 2025, https://www.spglobal.com/spdji/en/indices/fixed-income/sp-us-treasury-bond-index/#overview.
13. S&P Global, "S&P U.S. Treasury Current 3-Month Bill Index | S&P Dow Jones Indices," S&P Dow Jones Indices, 2025, https://www.spglobal.com/spdji/en/indices/fixed-income/sp-us-treasury-current-3-month-bill-index/#overview.
14. Bloomberg LP, "EMUSTRUU:IND | Bloomberg EM USD Aggregate Total Return Index Value Unhedged | Indices | Bloomberg Professional Services," Bloomberg Professional Services, 2024, https://www.bloomberg.com/professional/products/indices/quote/EMUSTRUU:IND.

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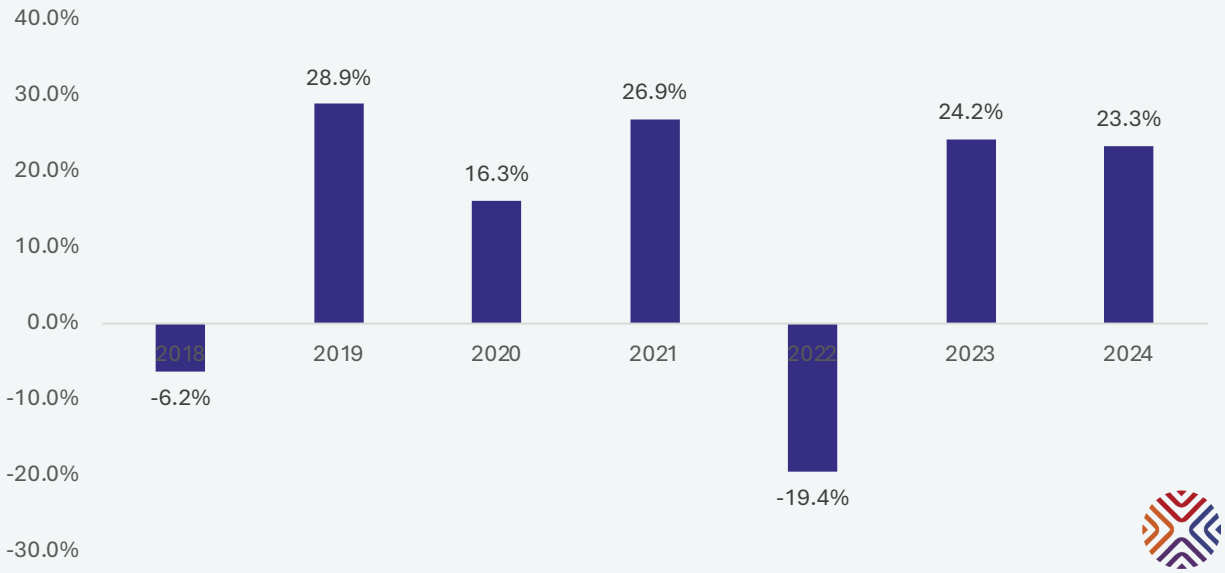
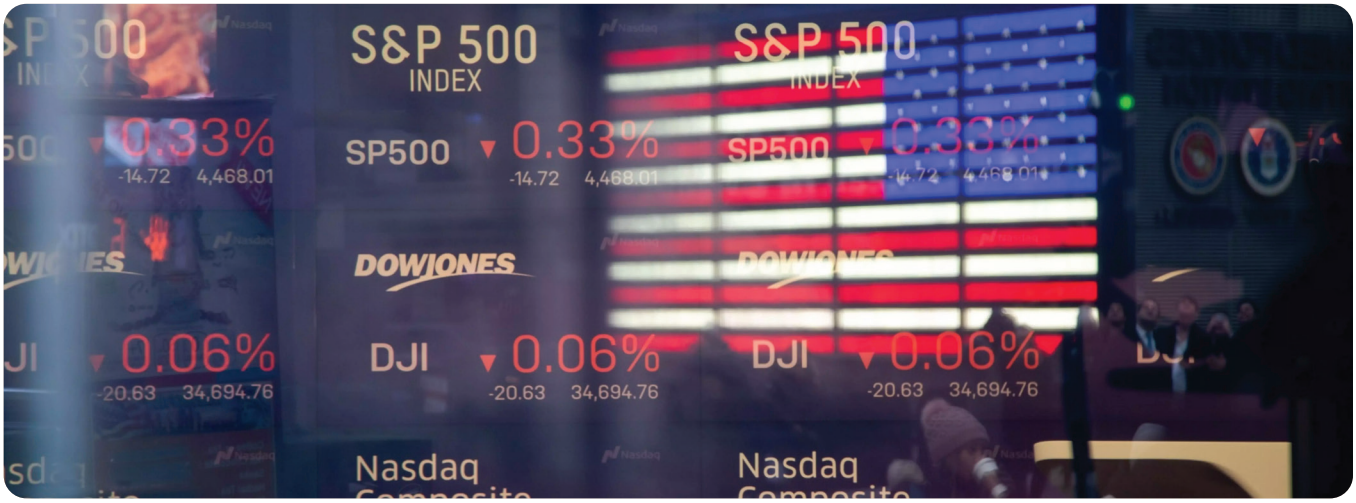
This caution reflects the persistent overhang of trade-related uncertainty. Tariff-related inflation, disruptions to global supply chains, and uncertainty about fiscal and monetary coordination have created a foggy outlook.

S&P 500 Annual Returns Have Exceeded 20% in Most of the Past 6 Years, Except During COVID and Inflation-Driven Downturns



Source: Data Compiled from Bloomberg[15]

Without clarity on these ahead, we do not foresee the market delivering the outsized 20%+ annual return seen in recent bullish years.



15. Bloomberg L.P., "Bloomberg Terminal (S&P 500)," 2025.

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2 Valuation Pressure and the Limits of Policy Response

Corporate America is being forced to adapt. Supply chain diversification, reshoring, and tariff circumvention strategies are all underway, but these come at a cost. Unlike in 2022, when companies successfully passed cost increases on to consumers, the expected inflationary pressures will compress margins. Consumers may also shift toward higher precautionary savings and reduced discretionary spending due to ongoing uncertainties and anticipated inflationary pressures.

Complicating matters is the Federal Reserve's limited flexibility. **While headline inflation has moderated, tariffs are expected to inject cost-push inflation into the system. This will constrain the Fed's ability to cut rates meaningfully, and with real yields still elevated, equity valuations face a natural cap.**

3 Currency Crosscurrents: The Dollar's Decline and What It Means for Equities

In contrast to 2022 and 2023, when the dollar soared on the back of the bullish stock market, aggressive Fed tightening, and geopolitical safe-haven flows, the greenback has been on a gradual decline through 2025. Several forces are at play: narrowing interest rate differentials and growing concerns about U.S. fiscal sustainability.

This dollar weakness, however, may offer a silver lining for equities. **Multinational corporations can benefit from favourable currency translation effects, thereby bolstering earnings from their overseas operations. Additionally, U.S. stocks become more attractive to foreign investors when denominated in a weaker dollar, potentially boosting demand.**

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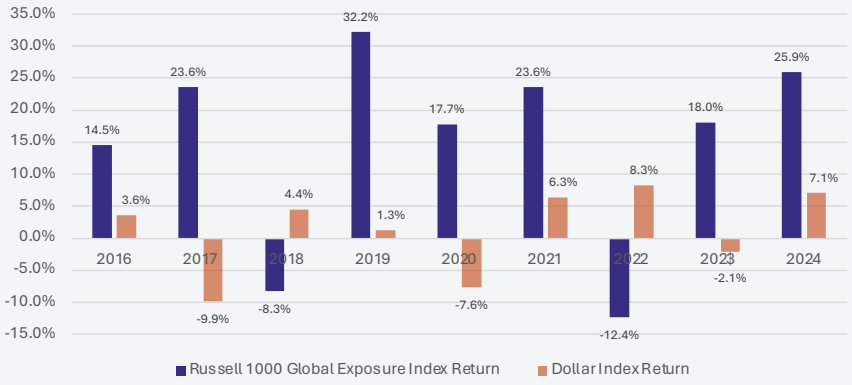
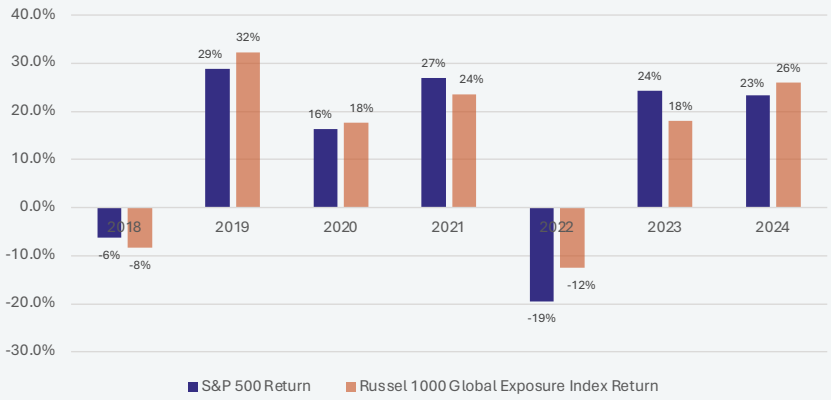
A Weaker Dollar Has Positively Impacted the Performance of U.S. Companies with Significant Foreign Operations



Source: Data Compiled from FTSE Russell[16] and Bloomberg[17]

Performance of U.S. Multinationals Significantly Influences S&P 500 Returns



Source: Data Compiled from Bloomberg[18] and FTSE Russell[19]

Despite questions about fiscal stability, U.S. assets are unlikely to lose their safe-haven status in the near term. The strategic investments by U.S.-based hyperscalers in cutting-edge sectors (AI, quantum computing, biotech, etc.) signal enduring confidence in the long-term fundamentals of the U.S. economy.

16. FTSE Russell, "Russell 1000 Global Exposure Index," Ftserussell.com, June 30, 2025, https://research.ftserussell.com/Analytics/Factsheets/Home/DownloadSingleIssue?issueName=R1GE&IsManual=false.
17. Bloomberg L.P., "Bloomberg Terminal (U.S. Dollar Currency Index)," 2025.
18. Bloomberg L.P., "Bloomberg Terminal (S&P 500)," 2025.
19. FTSE Russell, "Russell 1000 Global Exposure Index," Ftserussell.com, June 30, 2025, https://research.ftserussell.com/Analytics/Factsheets/Home/DownloadSingleIssue?issueName=R1GE&IsManual=false.

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4 Legislative Inflection Point: The Impact of the "One Big Beautiful Bill Act"

A defining policy moment in 2025 came with the passage of the "One Big Beautiful Bill Act" (OBBBA), signed into law on July 4th. This sweeping reconciliation package not only extended the core provisions of the 2017 Tax Cuts and Jobs Act (TCJA) but also introduced significant fiscal stimulus, defense investments, and new industrial policy directions.

4.1. Corporate Sector and Capital Expenditures

The most direct beneficiaries of the OBBBA are capital-intensive industries. The bill reinstates full expensing for capital investments and allows immediate deductions for qualifying structures in manufacturing, extraction, and agriculture.[20] This policy shift is a boon for firms with aggressive capital expenditure plans, such as **aerospace manufacturers and airlines. By front-loading their tax shields, these companies can meaningfully enhance post-tax earnings.**

The legislation also incentivises domestic R&D by allowing the immediate deduction of associated costs, potentially catalysing a new wave of innovation-led investment.[21]

4.2. Defence and National Security Industries

With over $150 billion allocated for defence, covering shipbuilding, missile defence, and nuclear deterrence, the defence sector is expected to benefit substantially. Funding for the "Golden Dome" system

20. Eric Revell, "Five Major Policies to Know from the One Big Beautiful Bill Act," Fox Business, July 4, 2025, https://www.foxbusiness.com/politics/five-major-policies-know-from-one-big-beautiful-bill-act.
21. William Brangham, "How Businesses and Manufacturers Will Benefit from Trump's Big Bill," PBS News, July 3, 2025, https://www.pbs.org/newshour/show/how-businesses-and-manufacturers-will-benefit-from-trumps-big-bill.

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and the modernisation of armed forces will increase contract volumes for established defence contractors, especially in naval engineering, aerospace, and cybersecurity.

$25 billion for the Golden Dome missile defense system, $29 billion for shipbuilding, and $15 billion for nuclear deterrence enhance defense capabilities and create opportunities for companies in these areas.[22] The bill supports modernization of the armed forces, prioritizing lethality and readiness, which benefits defense manufacturers and suppliers.

4.3. Corporate Sector and Capital Expenditures

The One Big Beautiful Bill Act allocates $100 billion in funding to Immigration and Customs Enforcement (ICE) through 2029, aiming to nearly double migrant detention capacity and significantly expand enforcement personnel, including the hiring of 10,000 ICE agents, 5,000 customs officers, and 3,000 Border Patrol agents.[23] This represents a substantial escalation in immigration enforcement compared to previous budget cycles.

In addition, the bill earmarks $46.5 billion for the construction of border infrastructure, including new segments of the wall and the deployment of advanced surveillance technologies such as sensors and high-resolution cameras.[24] These investments are expected to generate substantial contract opportunities for companies specializing in construction, security infrastructure, and detention facility operations.

4.4. Automotive Industry and 'Made in America' Incentives

In an effort to re-anchor manufacturing domestically, the bill introduces a $10,000 auto loan interest deduction for buyers of U.S.-made vehicles.[25] This provision is a direct incentive for consumers and a tailwind for American automakers such as Ford, GM, and Stellantis. It also reinforces the bill's broader strategy of reviving domestic production ecosystems.

22. Julie Tsirkin, Frank Thorp V, and Sahil Kapur, "What's in the Senate's Version of Trump's 'Big Beautiful Bill'? Tax Cuts, Medicaid Changes, Immigration and More," NBC News, June 30, 2025, https://www.nbcnews.com/politics/congress/trump-big-beautiful-bill-senate-tax-medicaid-cuts-rcna216024.
23. Brandon Drenon and Nadine Yousif, "The Key Items of House Republican's 'Big Beautiful Bill,'" BBC, May 22, 2025, https://www.bbc.com/news/articles/c0eqpz23l9jo.
24. Julie Tsirkin, Frank Thorp V, and Sahil Kapur, "What's in the Senate's Version of Trump's 'Big Beautiful Bill'? Tax Cuts, Medicaid Changes, Immigration and More," NBC News, June 30, 2025, https://www.nbcnews.com/politics/congress/trump-big-beautiful-bill-senate-tax-medicaid-cuts-rcna216024.
25. Julie Tsirkin, Frank Thorp V, and Sahil Kapur, "What's in the Senate's Version of Trump's 'Big Beautiful Bill'? Tax Cuts, Medicaid Changes, Immigration and More," NBC News, June 30, 2025, https://www.nbcnews.com/politics/congress/trump-big-beautiful-bill-senate-tax-medicaid-cuts-rcna216024.

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4.5. Aviation and Broader Infrastructure Investments

The $12.5 billion investment in Federal Aviation Administration upgrades will benefit both airlines and aviation tech firms.[26] By modernizing air traffic systems, the bill promises efficiency gains and improved safety. Additionally, parallel investments in maritime infrastructure suggest long-term tailwinds for shipbuilders and port authorities.

Airlines and aviation tech firms gain from upgraded air traffic control systems, improving safety and efficiency. The maritime sector benefits from billions allocated to revitalize America's shipbuilding base, supporting related industries.

4.6. Financial Services Sector

The financial sector benefits indirectly from the bill's pro-growth orientation. Faster expensing rules will stimulate business borrowing, supporting lending volumes. Meanwhile, continued economic expansion, if sustained, should boost equity valuations and drive asset management flows. Banks stand to benefit from both increased loan origination and capital market activity.

4.7. Balancing Risks: Structural Stimulus vs. Fiscal Prudence

While the OBBBA delivers substantial stimulus to key sectors, it also raises concerns about fiscal sustainability. The deficit expansion inherent in the bill has drawn criticism from analysts and policymakers, particularly given the long-term demographic pressures on entitlements. These fiscal dynamics could weigh on long-term interest rates and complicate future monetary policy.

26. The White House, "WHAT THEY ARE SAYING: One, Big, Beautiful Bill Clears House," The White House, May 22, 2025, https://www.whitehouse.gov/articles/2025/05/what-they-are-saying-one-big-beautiful-bill-clears-house/.

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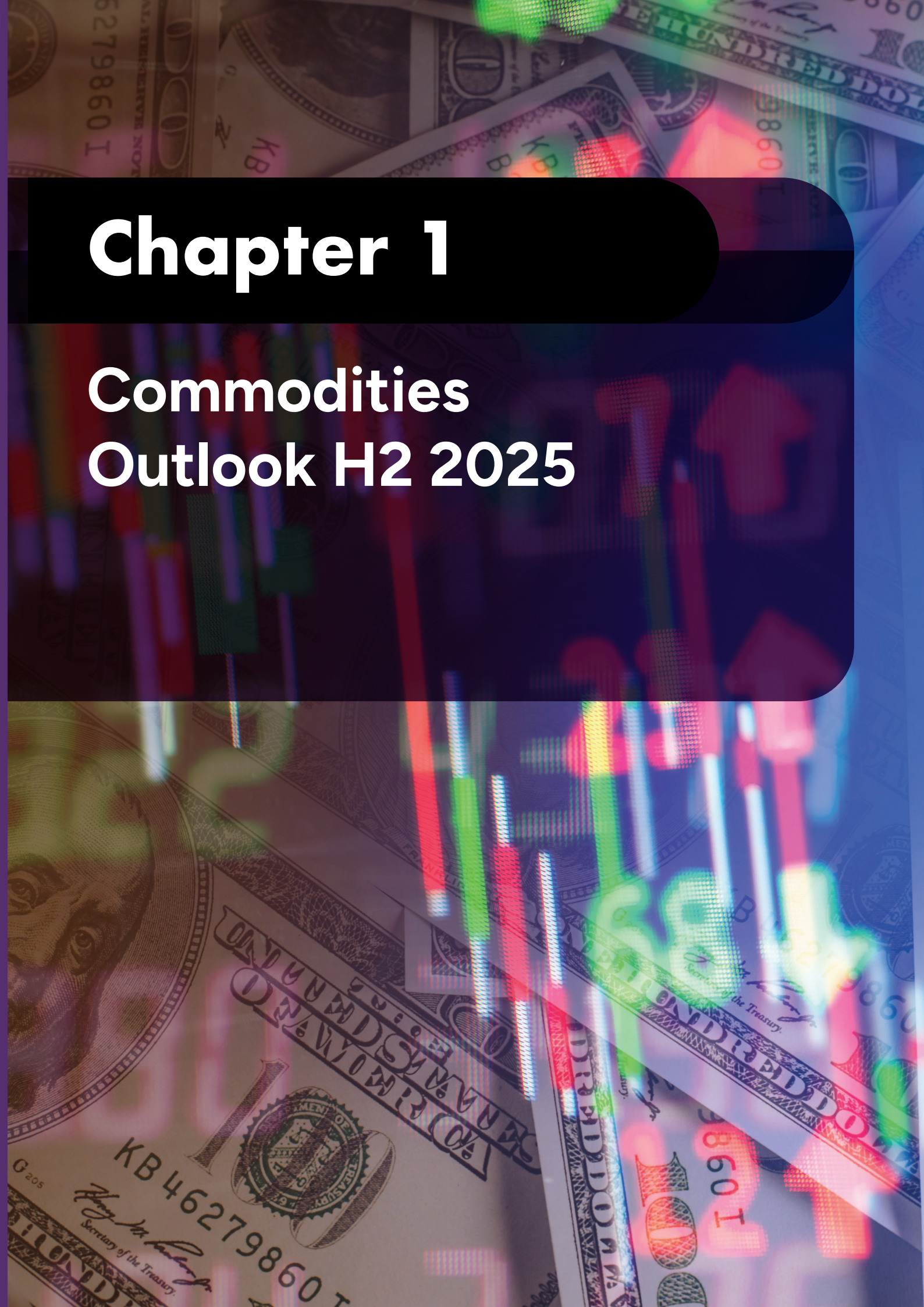
5 Conclusion: Range-Bound Resilience Amid Policy Crosscurrent

The second half of 2025 will be defined by a delicate balance of opposing forces. On one hand, the structural stimulus from the OBBBA could support equity fundamentals, as individual and institutional investors begin to readjust their portfolios to benefit from a clearer Trump policy direction. Also, a weakening dollar stands to support equity market performance in the second half of 2025. On the other hand, trade-related uncertainties, margin compression, and constrained Fed policy present persistent headwinds.

We expect market conditions to remain volatile in the second half of 2025, with investors highly reactive to short-term data releases as they search for signals about both near-term momentum and long-term trajectory. This heightened sensitivity, combined with persistent policy uncertainty, is likely to keep overall market conviction low, with leadership rotating unpredictably across sectors. While the S&P 500 may struggle to replicate the outsized gains of recent years, we anticipate pockets of strength, particularly in capital-intensive industries, defence, and innovation-driven technology firms with significant global exposure. In this environment, resilience will not be broad-based but rather concentrated and strategy-specific. Investors will need to approach the market with greater discernment, tactical flexibility, and a close watch on the evolving macro and policy backdrop.

Section C

Alternative Assets Outlook



Chapter 1

Commodities Outlook H2 2025

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1 Introduction: Resource Sovereignty and Geopolitical Transformation

The global landscape is undergoing a profound transformation, moving from a financial system based primarily on fiat currency to one where tangible natural resources are increasingly becoming the bedrock of economic power and national sovereignty. This shift, dubbed "Bretton Woods III" proposed by Economist Zoltan Pozsar is driven by escalating geopolitical tensions, the fragility of global supply chains, and the recognition that key commodities like oil, critical minerals, water, and food are indispensable for national security and economic stability. This report highlights the global dynamics of resource availability and their specific implications

Historically, the debate on natural resource scarcity has centred on depletion versus innovation. However, today's challenges are amplified by climate change, pollution, and the failure of market prices to reflect the true environmental costs of resource exploitation. Concepts like user cost, externalities, and green accounting underscore the ethical imperative to manage resources sustainably, recognizing their dual role as both sources for production and sinks for waste.

The emerging Bretton Woods III paradigm suggests that a nation's true leverage lies not only in its financial reserves but also in its control over essential resources. Water, for example, is becoming as geopolitically significant as oil due to its intensive use in AI data centres and energy production, highlighting the need for Nigeria to address water scarcity and pollution while recognizing its strategic value. Similarly, the global demand for critical minerals such as lithium, cobalt, and rare earth elements, driven by the race to decarbonize, presents both risks and opportunities, especially for Nigeria, which can leverage its mineral wealth through strategic value addition. Moreover, as nations increasingly view food security as a pillar of national security, the need to onshore production and secure access to fertilizers and energy has become urgent, reinforcing the importance for Nigeria to reduce its dependence on imports and invest in robust domestic food systems.

For Nigeria, this global shift presents both urgent challenges and significant opportunities. Despite vast natural resources: oil, gas, agricultural land, and freshwater, Nigeria's development remains below potential. The country's overreliance on rain-fed agriculture, strained freshwater resources, and vulnerability to global oil price fluctuations are critical vulnerabilities.

To thrive in this new resource-centric world, Nigeria must take deliberate steps to strengthen its resilience and competitiveness. First, it must strategically manage its water resources by investing in irrigation systems, water recycling technologies, and enforcing robust pollution controls to sustain both agriculture and public health. Diversifying the energy sector and the broader economy is also essential—this involves reducing dependence on crude oil by developing downstream capacity in petrochemicals and refining, while expanding renewable energy investments in solar, gas, and hydro power. Finally, food security must become a national priority. This requires scaling up domestic food production, boosting agricultural yields through improved inputs and practices, and enhancing rural logistics to efficiently serve the country's rapidly growing population. Together, these pillars will ensure Nigeria is well-positioned to adapt and lead in an era where control over physical resources defines global influence and stability.

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Effective natural resource management is no longer merely an environmental concern but a fundamental pillar of Nigeria's sustainable economic growth, social stability, and global relevance in the decades to come. Strategic reforms and a focus on resource control are paramount for securing Nigeria's place in this evolving global order.

1.2. Global Overview of Natural Resource Availability

In today's interconnected world, the scarcity of natural resources is shaped not just by local conditions but by wider global forces like geopolitical tensions, climate shifts, and changing financial systems. Traditionally, economists debated whether resources would run out or be saved by innovation and substitutes. Today, that debate takes on new urgency due to visible strains on the planet's ecosystems.

Natural resources include both renewables like forests and fisheries, and non-renewables like oil, gas, and minerals. Even renewable resources can be exhausted if overused. Moreover, resources play a dual role—they are both "sources" that provide input for production (like land and water) and "sinks" that absorb waste (like oceans and forests).

Economists have long tried to quantify these dynamics. Alfred Marshall introduced the concept of "user cost"—the hidden cost of depleting a resource now rather than saving it for the future. A.C. Pigou developed the idea of "externalities" costs like pollution that aren't included in market prices. Harold Hotelling built on these by showing that resource prices should rise over time as scarcity increases. It no would why many economists promote Environmental, social, and governance (ESG) policies for sustainability.

But markets often fail to capture the true value of nature. For example, when countries export timber, minerals, or food without accounting for deforestation, pollution, or soil degradation, they create invisible environmental debts. These externalities hurt long-term development, especially in resource-dependent nations.

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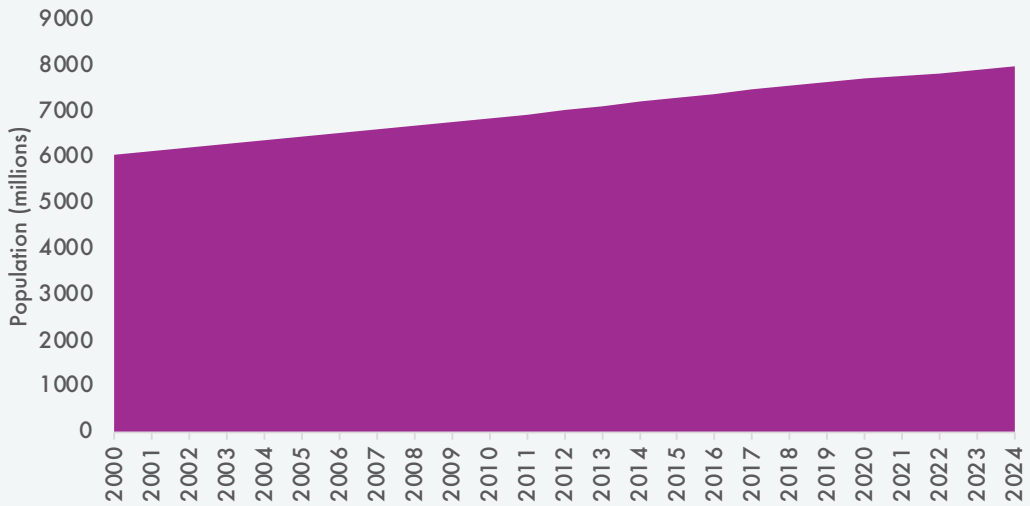
The emphasis in environmental economics is that managing natural resources isn't just about markets, it's about ethics, sustainability, and intergenerational equity. It has been proposed that we must account for not just what we produce today, but also what we destroy in the process. The idea on "green accounting" argues that a nation's wealth should include its forests, water reserves, and clean air, not just factories and GDP.

As countries grow and populations expand, pressure on water, energy, and food systems intensifies. While wealthier nations can afford to adapt or buy their way out of scarcity, poorer countries like Nigeria often face the consequences most acutely. In short, without coordinated action, environmental stress could deepen inequality and jeopardize sustainable development[1]. The government needs a plan to capture the true value of Environmental, social, and governance (ESG) without distorting growth.

Global Population in Millions



Source: Data compiled from United Nations Population Division[2]

The steady rise in both global and Nigerian populations highlights intensifying pressure on critical resources such as water, energy, and food. Nigeria's population, growing faster than the global average, underscores the urgent need to sustainably manage these essential resources. This situation reinforces the importance of adopting sustainable resource management practices rooted in environmental economics to ensure equitable and responsible development for current and future generations.

1 Salah El Serafy, Natural Resource Availability (UNESCO-EOLSS, 2001), https://www.eolss.net/sample-chapters/c11/E6-60-04-05.pdf.

2 United Nations Population Division, World Population Prospects 2025 (UN Population Division, 2025), accessed [date], https://unstats.un.org/home/nso_sites.

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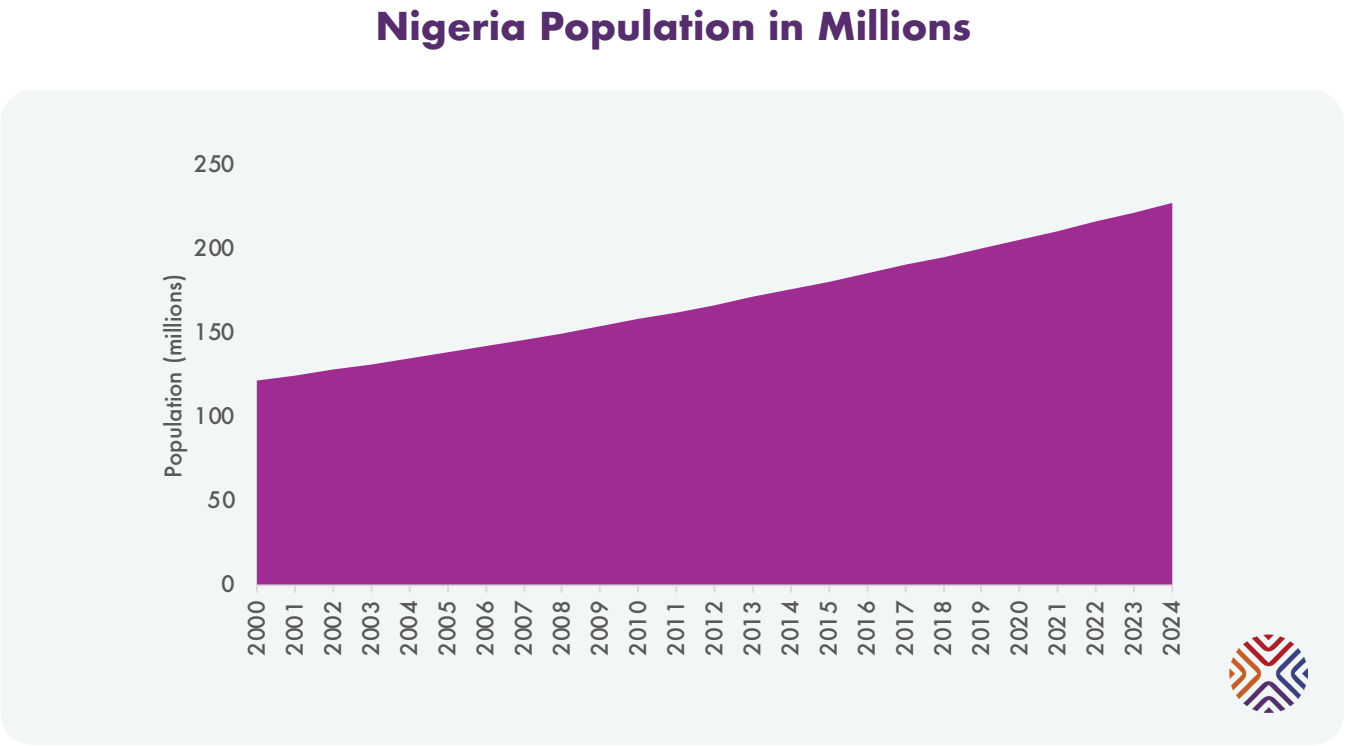


Source: Data compiled from United Nations Population Division[3]

1.3. From Dollars to Commodities: The Emergence of Bretton Woods III

The original Bretton Woods Agreement of 1944 created a post-war financial system where global trade was stabilized using the U.S. dollar, supported by institutions like the IMF and World Bank. That system eventually broke down in the 1970s, replaced by today's fiat currency order, where money is no longer tied to gold or tangible assets.

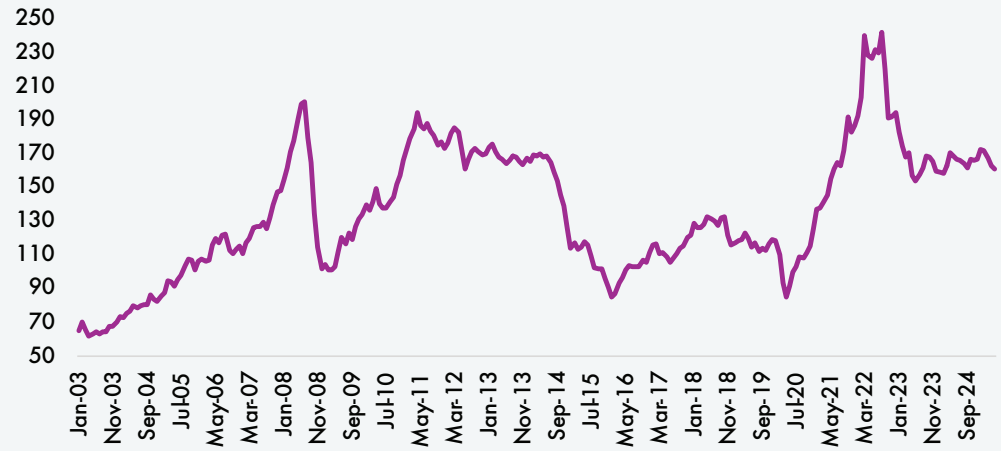
However, a new shift is underway. Economist Zoltan Pozsar has proposed the emergence of "Bretton Woods III", a system where countries rely more on commodities like oil, gold, copper, and wheat rather than U.S. Treasuries or dollar reserves to back their financial power. This shift is being driven by geopolitical rifts (e.g., Russia, China, and BRICS nations), trade sanctions, and the increasing fragility of global supply chains. This presents a virtual opportunity for the Nigerian government to strategically invest in expanding the commodities market. With our vast natural resource base, Nigeria could position itself as a global powerhouse in the global market and regain the respect of superpowers.
Under Bretton Woods III, tangible resource, not printed money, become the real store of value.

For example, when a country hoards grain or oil, it secures both food security and economic leverage. This is a world where you can print dollars, but not wheat or water. This changes the game entirely.

The implications are vast: inflation is no longer just about money supply or central bank decisions, it's about whether countries can secure real inputs.

3 United Nations Population Division, World Population Prospects 2025 (UN Population Division, 2025), accessed [date], https://unstats.un.org/home/nso_sites.

All Commodity Price Index which includes both Fuel and Non-Fuel Price Indices (2016 = 100)



Source: Data Compiled form World Bank Report[4]

The commodity price index illustrates significant volatility since 2003, reflecting periods of economic disruption and commodity supply constraints. Recently, prices have stabilized at elevated levels. This aligns with the emerging "Bretton Woods III" framework, where tangible resources like oil, grain, and minerals become central to financial strength, shifting economic power away from purely financial assets like currencies. Although the chart shows a cyclical movement typical of the commodity market, the renewed emphasis on self-sufficiency and deglobalization may shift its trajectory toward a more inflationary, upward trend

FAO Commodity Price Indices

Source: Data Compiled from FAO Food Price Index[5]

4 World Bank, Commodity Markets Outlook, October 2024 (Washington, DC: World Bank, 2024), accessed July 5, 2025, http://hdl.handle.net/10986/42219.

5 Food and Agriculture Organization (FAO), FAO Food Price Index, accessed July 5, 2025, https://www.fao.org/worldfoodsituation/foodpricesindex/en/.

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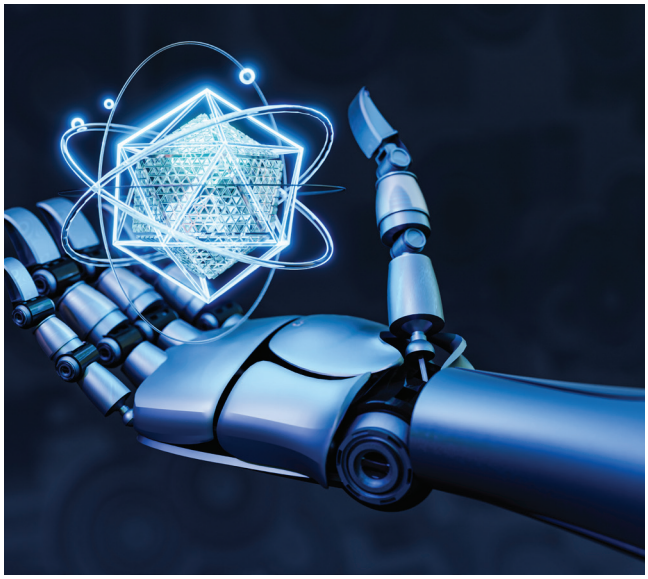
The FAO Commodity Price Indices demonstrates rising volatility and sustained upward trends in key agricultural commodities such as cereals, oils, dairy, meat, and sugar, underscoring how essential food resources are increasingly central to global economic stability and security.

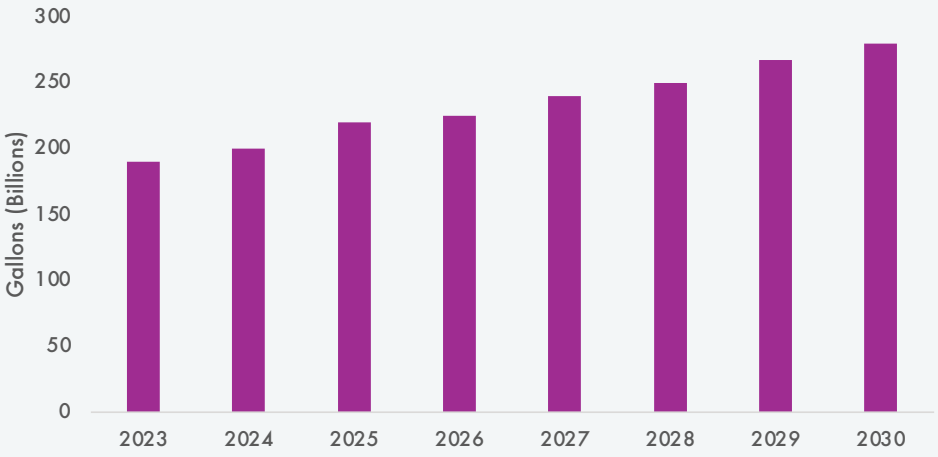
1.4. **Water as Critical Infrastructure:** The Hidden Resource Powering Artificial Intelligence

Water plays a vital yet often overlooked role in powering artificial intelligence. The massive computational demand of AI models, which has become a global megatrend requires data centres that generate extreme heat, and water is essential for cooling these facilities efficiently.

Beyond cooling, AI's energy consumption indirectly depends on water as well. Power sources like hydroelectricity and thermal plants (coal, gas, and nuclear) rely heavily on water for generation and cooling. This makes AI's environmental footprint not only carbon-intensive but also water-intensive. Data Centre water consumption is expected to keep rising in the future.



Data centers global water consumption (billion gallons/year)



Source: Data Compiled from Cai and Rosegrant (2002)[6]

6 Ximing Cai and Mark W. Rosegrant, "Global Water Demand and Supply Projections, Part 2: Results and Prospects to 2025," Water International 27, no. 2 (2002): 170–182, accessed July 5, 2025, https://cgspace.cgiar.org/server/api/core/bitstreams/e487f2ed-0e7c-4172-b723-5f3e923ef74b/content.

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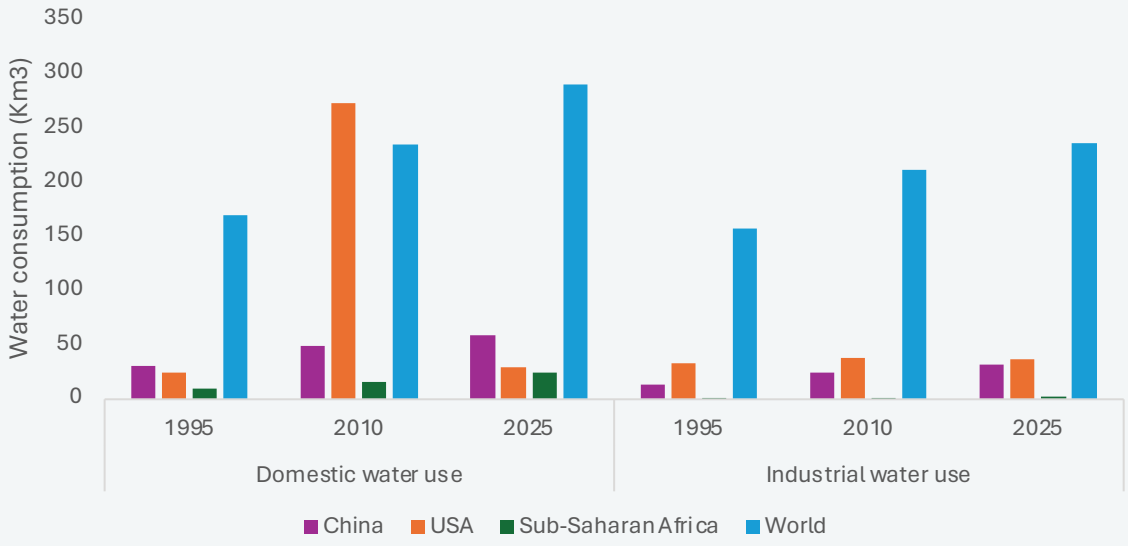
The demand for water is expected to increase steadily year-over-year, rising from approximately 200 billion gallons in 2023 to nearly 280 billion gallons by 2030. This growing demand underscores the intensifying water footprint of AI and digital infrastructure, highlighting the importance of sustainable water management, particularly as competition for water resources escalates amid rising populations, climate change, and increasing global scarcity concerns.

Moreover, the location of AI operations is increasingly influenced by local water availability. In water-scarce regions, this has raised ethical concerns about resource competition between tech infrastructure and community needs. While AI can help solve water management challenges in agriculture and utilities, its own reliance on water must be carefully managed, especially in the face of climate change and growing global droughts.

1.5. The Thirsty Giant: Quantifying AI's Growing Water Needs

Artificial Intelligence, a global megatrend, has an often overlooked and rapidly escalating demand for water. This is not just a secondary concern; water is a foundational input, making its sustainable use a critical issue for both the tech industry and society.

Consumptive Use of Water (Km3)



Source: Data Compiled from Cai and Rosegrant (2002)[7]

7 Ximing Cai and Mark W. Rosegrant, "Global Water Demand and Supply Projections, Part 2: Results and Prospects to 2025," Water International 27, no. 2 (2002): 170–182, accessed July 5, 2025,

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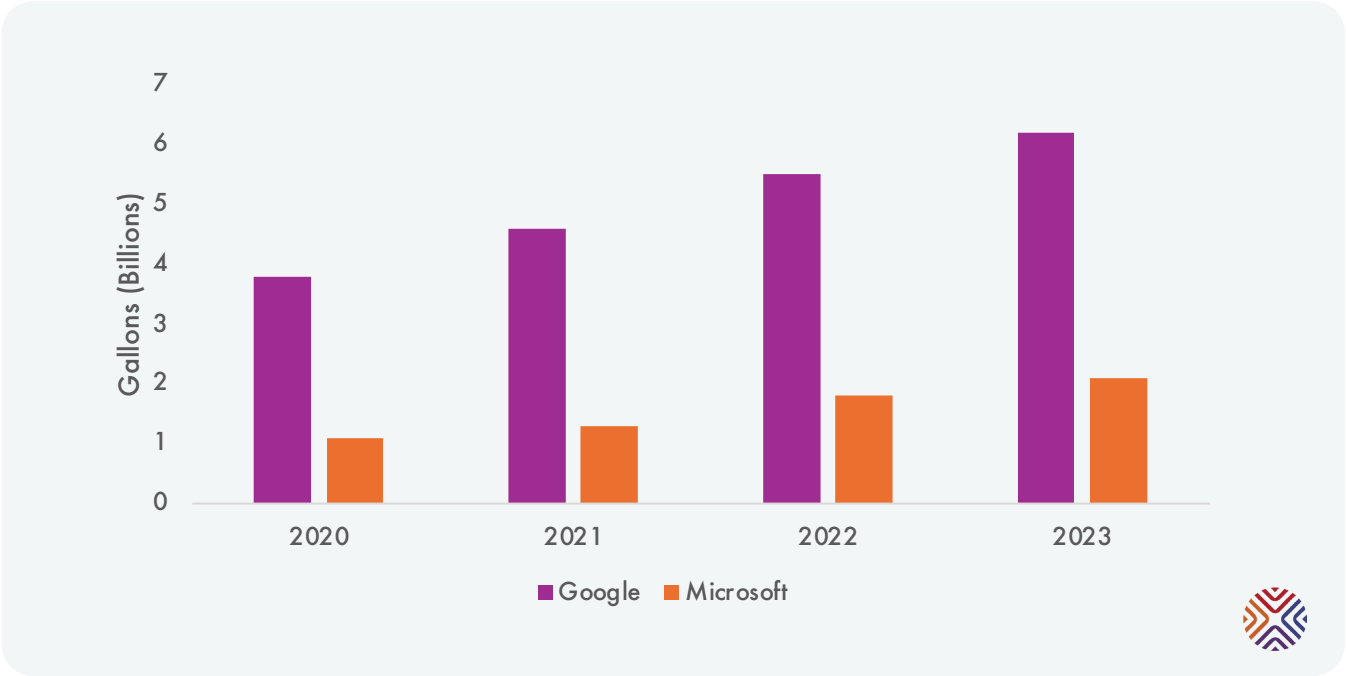
The water footprint of AI can be quantified through its direct, indirect, and supply chain demands.

1.6. Direct Water Consumption: Cooling the Brains of AI

The immense computational power required by AI models generates substantial heat, making water a critical resource for cooling data centres efficiently. Tier-1 AI companies like Microsoft and Google consume billions of gallons of water annually to support their AI infrastructure. In 2023, Google alone withdrew 29 billion litres of freshwater for on-site cooling. Even individual user interactions contribute to this consumption, estimates suggest that every 10 to 50 AI prompts can use approximately 500ml of water, which, when scaled to billions of interactions, translates into an enormous aggregate demand.

Training a single large language model also requires massive water resources; GPT-3 is estimated to have used around 700,000 Liters of clean freshwater, while Meta's Llama 2 training consumed about 10.9 million litres. Daily, a single data centre can use hundreds of thousands to millions of gallons of water, with some estimates placing average daily usage at 300,000 gallons, comparable to the water needs of roughly 100,000 homes[8].

Google and Microsoft's water consumption



Source: Data Compiled from Google[9] and Microsoft[10] Environmental Sustainability Reports

8 Shaolei Ren et al., "Making AI Less 'Thirsty': Uncovering and Addressing the Secret Water Footprint of AI Models," arXiv preprint arXiv:2304.03271 (2023), https://arxiv.org/abs/2304.03271.

9 Alphabet Inc., 2023 Environmental Report (Google, 2023), https://www.gstatic.com/gumdrop/sustainability/alphabet-2023-environmental-report.pdf.

10 Microsoft Corporation, 2023 Environmental Sustainability Report (Microsoft, 2023), https://www.microsoft.com/en-us/sustainability/emissions-impact-dashboard.

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1.7. **Indirect Water Consumption:** Powering the AI Engine

AI's energy needs also carry a significant indirect water footprint. Electricity generation, particularly from thermal power plants such as coal, gas, and nuclear facilities, as well as some hydroelectric sources, requires substantial volumes of water for cooling and operations. In 2023, the indirect water consumption from electricity use by US data centres was estimated at around 211 billion gallons[11]. On average, about 1.2 gallons of water are used indirectly for every kilowatt hour of electricity consumed. Training a single large language model can indirectly require up to 500,000 gallons of water just through the energy generation process alone.[12]

Beyond energy use, the manufacturing of AI hardware, especially semiconductor chips, also demands enormous water resources. Producing a single 30 centimetre silicon wafer, which is essential to AI hardware, consumes approximately 8,300 litres or 2,200 gallons of water, much of which must be ultrapure to prevent defects.[13]

At the industrial scale, semiconductor fabrication plants use water at levels comparable to that of a small city. In 2023, Taiwan Semiconductor Manufacturing Company, one of the world's largest chipmakers, reported water consumption of 101 million cubic meters, underscoring the intense water demands embedded throughout the AI supply chain.[14]

11 Federation of American Scientists, "Measuring and Standardizing AI's Energy Footprint," FAS, accessed July 2025, https://fas.org/publication/measuring-and-standardizing-ais-energy-footprint/.

12 Water Unite, "Rising Water Demand from Data Centres: Addressing AI's Water Impact Through Innovation," Water Unite Blog, accessed July 2025, https://www.waterunite.org/blog/post/24500/rising-water-demand-from-data-centres-addressing-ais-water-impact-through-innovation/.

13 Shaolei Ren et al., "Making AI Less 'Thirsty': Uncovering and Addressing the Secret Water Footprint of AI Models," arXiv, April 4, 2023, https://arxiv.org/pdf/2304.03271.pdf

14 Sabha Naaz, "Digital Drought: The Surprising Water Footprint Behind Every AI Image and Chat," dev.to, April 2023, https://dev.to/sabha_naaz_b5fb8be540fc0f/digital-drought-the-surprising-water-footprint-behind-every-ai-image-and-chat-83e.

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The water footprint of AI can be quantified through its direct, indirect, and supply chain demands.

1.8. The Looming Challenge

AI's water consumption is projected to rise dramatically, with global AI demand potentially accounting for 4.2 to 6.6 billion cubic meters of water withdrawal in 2027.[15]

This is more than the total annual water withdrawal of several countries combined. This escalating demand, particularly when data centres are in water-stressed regions, creates significant ethical concerns about resource competition between tech infrastructure and community needs. As AI continues its rapid expansion, its water footprint demands urgent attention and sustainable management strategies.

1.9. Energy Transition and the Geopolitics of Critical Minerals

The global push toward decarbonization and net-zero emissions is reshaping the geopolitical landscape by triggering massive demand for critical minerals particularly copper, lithium, cobalt, and rare earth elements. These materials are foundational to green technologies: copper for transmission lines and electric vehicles (EVs), lithium and cobalt for battery storage, and rare earths for wind turbines and electric motors.[16]

15 "Cooling the Machines, Heating the Planet: The Hidden Water Cost of Large Language Models," Eurasia Review, February 6, 2025, https://www.eurasiareview.com/06022025-cooling-the-machines-heating-the-planet-the-hidden-water-cost-of-large-language-models-llms-oped/

16 Organisation for Economic Co-operation and Development (OECD), Climate Resilience and Resource Scarcity in Emerging Economies (Paris: OECD Publishing, 2022), accessed July 15, 2025, https://www.oecd.org/en/topics/policy-issues/climate-adaptation-and-resilience.html.

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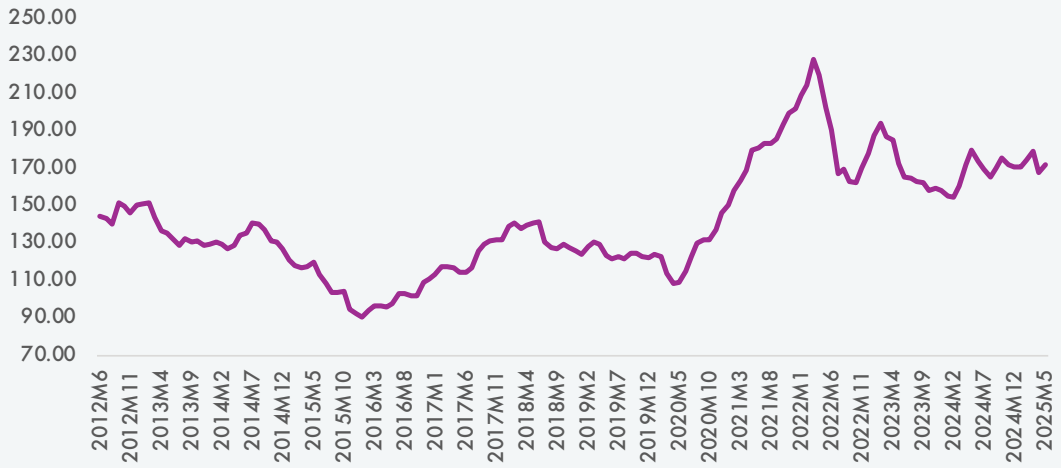
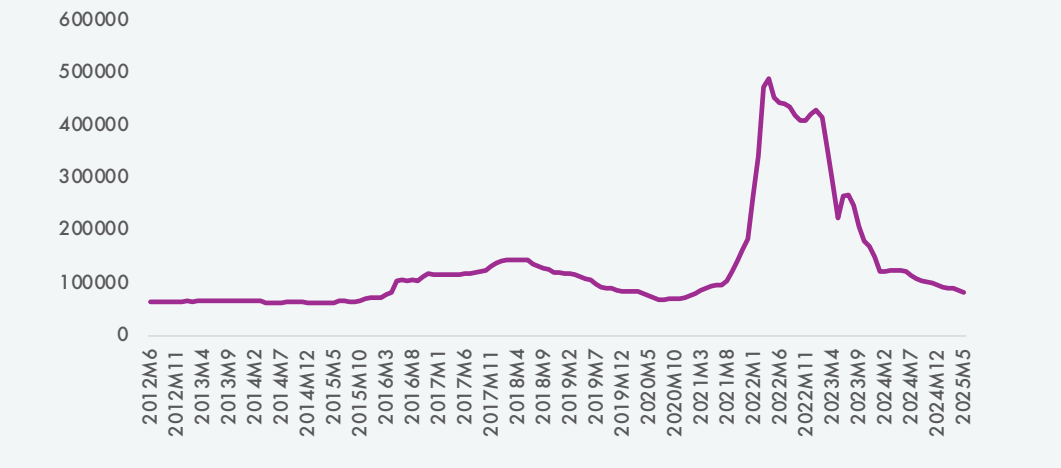
Energy Transition Metal Index



Source: Data Compiled from World Bank[17]

Lithium Prices (Battery Grade): Demand Surge and Price Correction, 2016–2024



Source: Data Compiled from World Bank[18]

17 World Bank, Commodity Markets Outlook, April 2024 (Washington, DC: World Bank, 2024), accessed July 15, 2025, https://documents1.worldbank.org/curated/en/099548005132432324/pdf/IDU-7e28d212-9178-4ab4-a122-f82604cfb20f.pdf.

18 ibid

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Global Copper Prices (USD/ton): Strategic Demand and Price Volatility

Source: Data Compiled from World Bank[19]

The Energy Transition Metals Index highlights the growing market pressure on essential materials used in clean technologies, while the sharp spike and subsequent correction in lithium prices signals surging global demand for battery-grade minerals. Similarly, the copper price trend reflects long-term volatility and rising strategic value, particularly as electrification accelerates. Together, these patterns reinforce the report's argument that control over critical resources is becoming central to global power dynamics and economic influence.

Unlike oil, which is traded globally with diversified producers, the supply chains for critical minerals are more concentrated, creating new dependencies and strategic vulnerabilities. For instance, the Democratic Republic of Congo produces over 70% of the world's cobalt, while China controls more than 60% of global lithium processing and dominates rare earth refining. Copper, though more widely distributed, is facing underinvestment just as global electrification accelerates.[20]

This global shift carries three major geopolitical implications. First, it is fuelling a wave of resource nationalism, as producing countries move to capture more value from their natural assets. Examples include Chile's efforts to nationalize its lithium sector and Indonesia's imposition of nickel export bans to drive domestic processing. Second, it is intensifying strategic alliances and tensions. Western nations are accelerating efforts to secure critical mineral supply chains through initiatives like the Minerals Security Partnership (MSP), while China expands its reach across Africa, Latin America, and Central Asia via the Belt and Road Initiative. Third, there is a clear investment realignment, with capital increasingly flowing into exploration, mineral processing, and recycling infrastructure. This reshaping of investment priorities signals that future economic hegemony may hinge more on access to mineral inputs than on oil. As the global economy transitions from fossil fuels to electrification, control over these resources is becoming the new arena for geopolitical influence.

19 World Bank, Commodity Markets Outlook, April 2024 (Washington, DC: World Bank, 2024), accessed July 15, 2025,

20 International Energy Agency (IEA), Implications – Critical Minerals Market Review 2023 – Analysis (IEA, January 1, 2024), https://www.iea.org/reports/critical-minerals-market-review-2023/implications.

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1.10. Natural Resource Dynamics and Availability

Natural resources like water, soil, forests, and minerals are the foundation of our economy and environment. They support everything from food production to energy generation and manufacturing. Some, like forests and fish, can renew themselves over time. Others—such as oil, copper, and coal are non-renewable, meaning once they are used, they are gone for good. Even renewable resources can become scarce if we consume them faster than nature can replenish them.

Economist Salah El Serafy emphasized this concern about resource availability has been central to economics for centuries. From early thinkers like Adam Smith and Thomas Malthus to modern economists like Alfred Marshall and Harold Hotelling, there has been a consistent thread: how do we manage nature's gifts without depleting them? Hotelling, for example, developed a framework to show that natural resources become more valuable over time, especially as they become harder to replace.

Resources play dual roles in our environment: they serve as sources, like land that provides food or rivers that supply water, and as sinks, helping to absorb pollution and manage waste. A forest, for instance, can be both a source of timber and a sink for carbon dioxide. This dual role makes the management of resources even more complex.

A big issue is that prices in the market often do not reflect the full environmental cost. When we buy gasoline or a plastic bottle, we rarely see the damage caused by oil drilling or waste disposal. These are known as externalities, costs that are paid by society rather than by producers or consumers. As a result, harmful practices can continue simply because they appear cheap on the surface.

Green accounting seeks to solve this by including environmental costs in economic decision-making. This can help governments and companies make better choices, not just based on profit, but also on sustainability.

There's also a debate in sustainability circles: Can technology substitute nature? Some economists argue yes, we can invent clean energy or grow food more efficiently. Others insist that many natural systems, like clean air, healthy oceans, and biodiversity, have no substitutes. This leads to the idea of strong vs. weak sustainability. Strong sustainability demands that we preserve nature as it is, while weak sustainability allows for some trade-offs as long as total capital (natural and man-made) stays constant.

As the global population grows and consumption increases, pressure on natural resources will continue to mount. Without conscious effort, even wealthy countries face pollution, congestion, and declining quality of life. Markets alone can't fix these issues. We need thoughtful public policy, international cooperation, and a shared commitment to preserving the planet's wealth, not just for today, but for generations to come.

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1.11. **Nigeria's Resource Landscape:** Local Implications in a Global Game

Nigeria's vast natural resources oil, gas, agricultural land, and freshwater make it a country of strategic importance. Yet, its development outcomes remain far below potential. In the context of global resource competition and Bretton Woods III, Nigeria's internal resource governance and external trade strategy are increasingly vital.

Water and Agriculture

Nigeria's agriculture remains heavily reliant on rainfall, with underdeveloped irrigation infrastructure and increasing pressure on freshwater resources due to rapid urban expansion, industrial pollution, and climate variability. In a world where global demand for AI and data processing intensifies the use of water-intensive energy and cooling systems, water itself is emerging as a critical geopolitical asset. Domestically, declining water quality not only hampers crop yields but also poses serious public health risks. Ensuring sustainable water availability must therefore be integrated into both agricultural policy and urban development strategies. This includes prioritizing investments in drip irrigation and water recycling technologies, protecting watersheds through conservation efforts, and strictly enforcing pollution control regulations, particularly those related to industrial discharge.

Oil, Gas & Energy Security

While oil remains Nigeria's economic backbone, overreliance is dangerous. Global moves toward green energy and Petroyuan dynamics may marginalize dollar-dependent exporters. Nigeria has a unique opportunity to leverage the petroyuan, China's initiative to trade oil in yuan, to stabilize the naira, reduce its reliance on volatile dollar markets, and strengthen economic ties with China, its largest oil buyer.

For this to succeed, Nigeria must broaden its export base beyond crude oil by adding value locally, such as refining petroleum or expanding into agriculture and processed goods and bolster its financial infrastructure for seamless RMB (Chinese yuan) clearing. These steps could enhance Nigeria's resilience against dollar fluctuations and align it with the petroyuan's goal of internationalizing the yuan, reducing global dependence on the U.S. dollar, and amplifying China's influence in energy markets.

However, significant hurdles remain. The petrodollar's entrenched dominance in global oil pricing and the Eurodollar system's deep roots mean any shift to the petroyuan will be slow and complex. Nigeria's trade imbalance with China further complicates the picture: in May 2025, Nigeria exported 252 million dollars to China but imported 2.24 billion dollars, resulting in a trade deficit of 1.99 billion dollars. Compared to May 2024, exports declined by 7.09 million dollars while imports rose sharply by 755 million dollars.

This expanded the trade gap by a total of 757 million dollars. Crude petroleum and tin ores made up the bulk of Nigeria's exports, totaling 123.3 million dollars[21]. This gap underscores Nigeria's heavy reliance on imports and limited export diversity. To capitalize on the petroyuan, Nigeria must rebalance this trade dynamic by boosting value-added exports and developing offshore RMB liquidity, capabilities currently constrained by weak infrastructure and limited banking capacity for yuan transactions.

This opportunity ties into a broader geopolitical shift toward multipolarity, with implications for oil-exporting nations like Nigeria and the BRICS bloc. Yet, Nigeria's progress hinges on overcoming domestic challenges. Without major strides in export diversification and RMB financial systems, the petroyuan's benefits will remain out of reach, leaving Nigeria vulnerable to the same economic risks it seeks to escape.

Nigeria must:

Diversify exports (Cocoa, cashew, fertilizers)

Build downstream capacity (Energy distribution, refining and petrochemicals)

Secure domestic energy supply through solar, gas, and hydro

Food Security: A Widening Gap Between Population and Production

Nigeria faces a critical food security crisis. With a rapidly growing population expanding at 3.2% annually, the nation's food production lags significantly behind at a mere 1.1% growth rate. This creates an escalating annual deficit in essential agricultural commodities, forcing Nigeria to spend billions of dollars on food imports to feed its citizens. This unsustainable reliance on imports drains foreign exchange, exposes the economy to global price volatility, and undermines national sovereignty in a world increasingly valuing tangible resources over financial asset.

21 Observatory of Economic Complexity (OEC), Nigeria (NGA) and China (CHN) Trade, accessed July 15, 2025, https://oec.world/en/profile/bilateral-country/nga/partner/chn.

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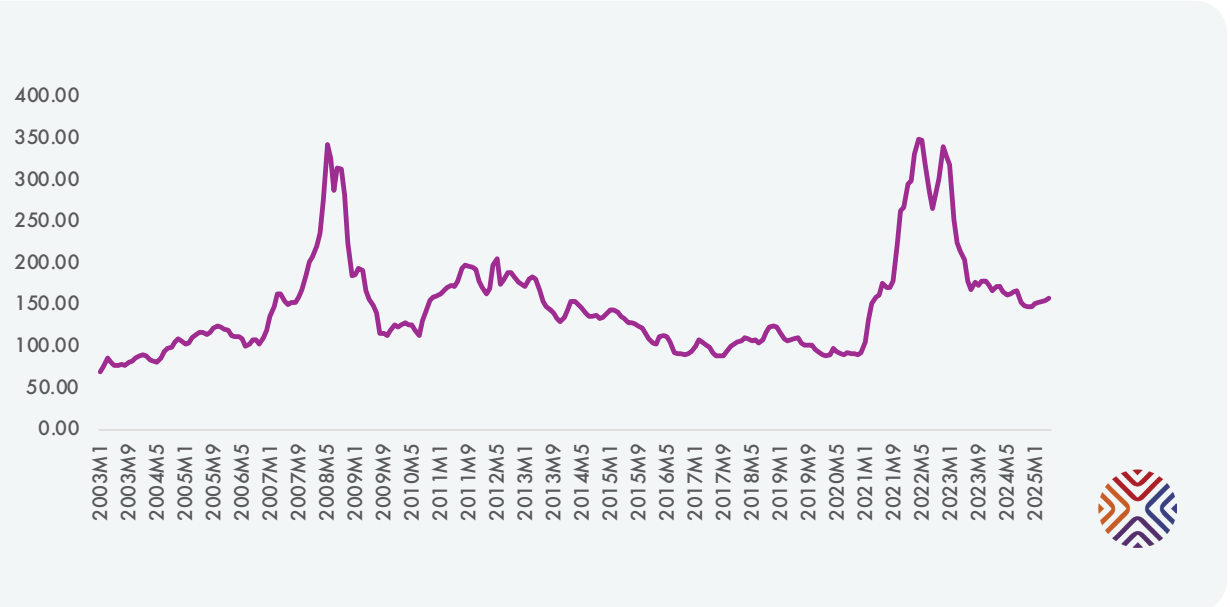
1.12 Key Obstacles Hindering Nigeria's Food Production and Security

A Low Crop Yields & High Input Costs

Nigeria holds vast agricultural potential, with fertile lands well suited for producing staple crops such as cassava, rice, and maize. However, crop yields per hectare remain significantly below global averages due to several structural challenges. One key issue is the high cost of agricultural inputs, particularly fertilizers, which are priced in close correlation with volatile international natural gas markets. This dependency makes fertilizers unaffordable for many smallholder farmers, resulting in poor soil nourishment and low productivity. Additionally, limited access to improved, high-yielding, and disease-resistant seed varieties further constrain output, leaving much of the country's agricultural capacity underutilized.

Fertilizer Price Index Includes DAP, Potash, and Urea (2016 = 100)



Source: Data Compiled from Food and Agriculture Organization of the United Nations (FAO)[22]

22 Food and Agriculture Organization of the United Nations (FAO), FAO Fertilizer Price Index 2016=100, including DAP, Potash, Urea, accessed July 15, 2025, https://www.fao.org/worldfoodsituation/foodpricesindex/en/.

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The global fertilizer price trends since 2003, showing sharp spikes around 2008 and 2022, both driven by global supply shocks and energy price volatility. These fluctuations directly impact input costs for farmers in countries like Nigeria, where fertilizer affordability is already a major barrier to productivity.

B

Lack of Irrigation Infrastructure

Most farming in the country is heavily reliant on rainfall, which exposes the sector to the growing unpredictability of climate change, including prolonged droughts and sudden floods. This rain-fed dependency not only increases the vulnerability of crops to weather shocks but also limits farming to specific cultivation seasons. As a result, farmers are unable to produce consistently throughout the year, undermining food security and the stability of supply chains.

C

Fragmented and Inefficient Value Chains

An estimated 30 to 40 percent of food produced is lost after harvest, largely due to insufficient storage facilities, inadequate preservation methods, and a lack of modern processing infrastructure. These post-harvest losses are further compounded by poor rural logistics, as many farming communities are connected by deteriorating roads and limited transport networks. This not only delays the movement of produce to markets but also increases spoilage and transportation costs, reducing the profitability and viability of agricultural activities.

1.13 Implications in a "Bretton Woods III" World

As the global economy shifts towards a **"Bretton Woods III"** paradigm, economic power and national security are increasingly defined by control over physical commodities such as food, water, and critical minerals. For Nigeria, this transformation carries significant implications. Food is no longer merely an economic or humanitarian issue; it has become a strategic asset central to national stability and sovereignty. However, Nigeria's heavy reliance on food imports heightens its vulnerability to external shocks, including global supply chain disruptions, currency volatility, and geopolitical tensions, all of which can trigger sharp increases in food prices and threaten domestic food security.

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1.14 Recommendations for a Sustainable Path Forward

Addressing Nigeria's food security challenge requires a comprehensive and strategic approach that tackles both production inefficiencies and systemic barriers across the agricultural value chain. First, boosting agricultural productivity is essential. This involves implementing a strategic fertilizer policy to ensure affordable and consistent access to fertilizers, potentially through local production or targeted subsidies insulated from volatile global gas prices. Additionally, farmers must have access to high-yielding, climate-resilient seed varieties and modern farming techniques to increase output. Expanding irrigation infrastructure is also critical to enable year-round cultivation and reduce the risks posed by climate variability.

Equally important is strengthening post-harvest management and logistics. Significant investments are needed in cold chain facilities, modern storage warehouses, and processing plants situated near major farming zones to drastically cut down post-harvest losses and enhance the value of produce. Improving rural infrastructure, especially road networks, will further facilitate the efficient and cost-effective movement of agricultural goods to markets. Moreover, enhancing rural security is vital to unlock the full potential of Nigeria's farmland. This means addressing the underlying causes of insecurity, including banditry, insurgency, and farmer-herder conflicts, so that farmers can safely return to and work their land. By prioritizing these interconnected interventions, Nigeria can revitalize its agricultural sector, reduce dependence on costly food imports, and secure its food future, fortifying both economic resilience and national stability in an increasingly resource-driven global order.

By prioritizing these strategic interventions, Nigeria can transform its agricultural sector, reduce its dependence on costly imports, and ensure food security for its growing population, thereby strengthening its economic sovereignty and long-term stability in a resource-driven global landscape.

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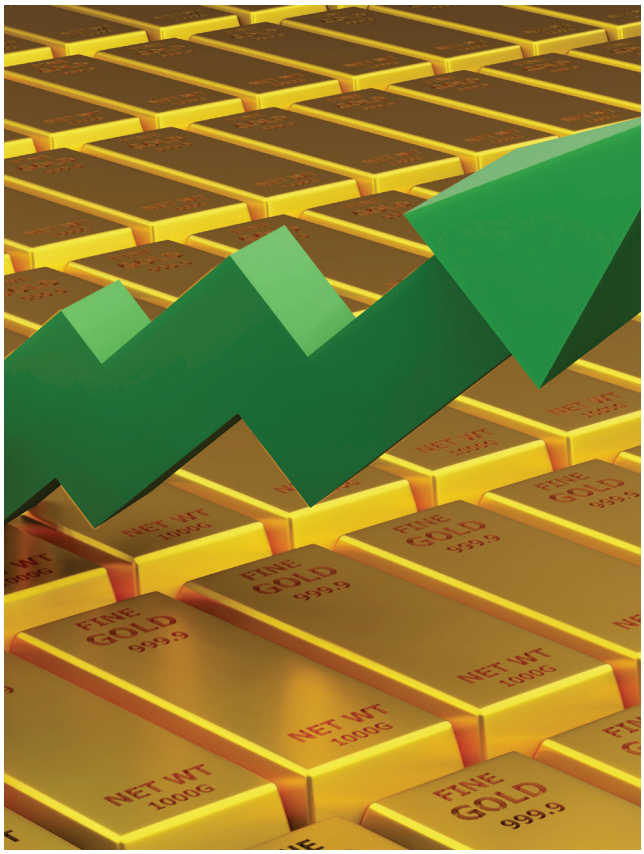
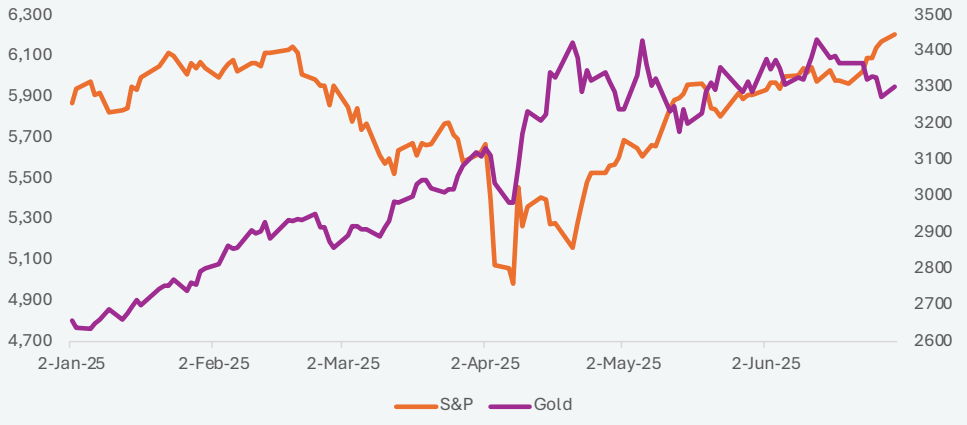
1.15 Gold in 2025: A Safe Haven Amid Market Uncertainty

Gold performed strongly in the first half of 2025, reinforcing its role as a reliable alternative asset during periods of market uncertainty. At the beginning of the year, gold experienced a sharp rally triggered by geopolitical tensions and policy uncertainty following Donald Trump's return to office. His proposed reciprocal and retaliatory tariffs on multiple countries raised concerns about a significant shift in global trade dynamics, prompting a flight to safe-haven assets like gold. During this period, the S&P 500 declined simultaneously, reflecting broader investor caution.

However, following the tariffs paused and market fears eased, the S&P 500 began to recover. In response, gold's upward momentum slowed, and prices began consolidating within a defined range rather than continuing to trend higher. This pattern underscores the inverse relationship between equity market confidence and gold demand during periods of political and economic uncertainty.



Movement of S&P 500 and Gold Prices in H1 2025: Market Reactions to Economic Uncertainty



Source: Data Compiled from Bloomberg Terminal[23]

23 Bloomberg Terminal, Gold and S&P 500 Price Data for H1 2025, accessed July 5, 2025

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Similarly, Gold Demand specifically for investment purposes rose in Q1 2025 by about 60% up from the previous quarter. This sharp increase was primarily driven by heightened investor uncertainty following the Trump tariffs and the announcement of the Liberation Day Plan, both of which stirred market volatility. As a result, investor appetite for safe-haven assets intensified. Nevertheless, the S&P resurgence in April didn't have a notable decline to gold indicate that the demand for gold maybe beyond safe haven.

Demand in Gold for Investment purposed rose significantly in Q1 2025

Source: Data Compiled from World Gold Council[24]

Central bank demand for gold picked up in 2022. While it has moderated slightly from its peak levels, it remains elevated, highlighting a potential structural shift in reserve management strategies. Despite short-term fluctuations, the overall trend reflects a sustained strategic interest in gold, driven by its role as a hedge against currency volatility and macroeconomic uncertainty. The continued strength in demand through Q1 2025 reinforces gold's importance in global reserve diversification.

24 World Gold Council, Gold Demand by Country, compiled by Metals Focus, Refinitiv GFMS, and ICE Benchmark Administration, accessed July 5, 2025, https://www.gold.org/goldhub/data/gold-demand-by-country.

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The Surge in Central Banks Demand for Gold which Picked up in 2022 will continue to moderate however, remain elevated given that the price has significantly increased.

Source: Data Compiled from World Gold Council[24]

1.16. Gold Expectation in H2 2025

While gold is expected to retain its role as a safe-haven asset, a repeat of H1's 24% rally appears unlikely. Our projection suggests a gradual upward movement. We anticipate gold will trade within the $3,600 to $3,700 range by year-end, implying a return of approximately 9% to 16% from its June 2025 close, put gold around the $4000 region. This outlook reflects continued investor demand amid geopolitical uncertainty and shifting monetary dynamics.

25 World Gold Council, Gold Demand by Country, compiled by Metals Focus, Refinitiv GFMS, and ICE Benchmark Administration, accessed July 5, 2025, https://www.gold.org/goldhub/data/gold-demand-by-country.

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1.17. **Conclusion:** Gold as a Strategic Barometer of Global Uncertainty

The global economy is shifting away from fiat currency dominance and toward resource-backed power structures. In this Bretton Woods III world, natural resource control is a form of economic sovereignty.

For Nigeria, this is both a warning and an opportunity. The country's rich resource endowments, if managed wisely, can secure its place in a multipolar world. But without strategic reform, the risk is continued vulnerability, inflation, and underdevelopment.
Resource management is not just an environmental issue, it is the foundation of sustainable economic growth, social stability, and global relevance in the decades to come.

Gold has reasserted its role as a cornerstone asset in an increasingly volatile global economy. As of mid-2025, the price of gold hovers near historic highs, above $3,500 per ounce, driven by a confluence of geopolitical shifts, inflationary pressures, and eroding confidence in traditional financial instruments. High Net-Worth Individuals (HNIs), sovereign wealth funds, and institutional investors are increasingly reallocating capital from U.S. Treasuries into gold, viewing it as a safer store of value amidst systemic risks.[26]

One of the most significant structural changes behind gold's ascent is the reduction in U.S. Treasury holdings by major reserve accumulators such as China and Russia. In a world moving toward Bretton Woods III, as framed by Zoltan Pozsar, gold is re-emerging as the ultimate form of "outside money", a real, tangible asset immune to monetary debasement, sanctions, or geopolitical fallout. With China accelerating gold purchases and Russia diversifying its reserves post-sanctions, this trend signals a global rebalancing of monetary power, especially among BRICS+ nations.

This paradigm shift has real consequences in the Global South. In Ghana, one of Africa's top gold producers, the spike in global prices has intensified the galamsey crisis—the proliferation of illegal small-scale mining. While these operations provide livelihoods and contribute informally to foreign exchange earnings, they also cause severe environmental destruction, deforestation, contamination of water bodies, and social conflict (Aubynn, 2023; Ghana EPA, 2024). The surge in gold prices has made galamsey even more attractive and profitable, overwhelming local enforcement and undermining formal mining regulation.[27]

Ghana's situation illustrates the local fallout of global investment shifts. While gold serves as a hedge for global capital, it exacerbates vulnerabilities in resource-rich, governance-fragile economies. Without robust environmental safeguards and formalization of artisanal mining, high gold prices may translate into resource mismanagement, ecosystem collapse, and social unrest rather than sustainable development.[28]

26 World Gold Council, Gold Demand Trends Report, Q1 2024 (London: World Gold Council, 2024), accessed July 15, 2025, https://www.gold.org/goldhub/research/gold-demand-trends-report-q1-2024.

27 . Aryee Aubynn, "Small-Scale Mining and Environmental Management in Ghana," University of Ghana – ISSER Working Paper, 2023.

28 Edzorna Francis Mensah, "EPA Raises Concern over Severe Water Pollution Caused by Illegal Mining," GBC Ghana, October 4, 2024, https://www.gbcghanaonline.com/general/epa-raises-concern/2024/.

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In sum, gold today is more than just a financial hedge. It is a barometer of systemic distrust, a signal of shifting monetary power, and in countries like Ghana, a flashpoint for environmental and governance challenges. Understanding the gold market's geopolitical and local implications is essential for navigating the commodity-driven realignment of global finance.

For emerging markets like Ghana, the global gold rush has had profound but complex consequences. The country's informal mining sector, known as galamsey, has surged due to high gold prices, leading to widespread environmental degradation, water pollution, and social unrest. While artisanal mining contributes significantly to livelihoods and foreign exchange earnings, its unchecked expansion reflects a governance vacuum—exacerbated by the global appetite for gold as a hedge against uncertainty.[29]

In this new geopolitical and economic context, gold is no longer just a commodity—it is a geopolitical signal, a risk barometer, and a reflection of systemic distrust. Understanding its role is critical for anticipating shifts in global capital flows, inflation dynamics, and the sustainability of resource-dependent economies.

29 Ghana Chamber of Mines, Annual Report 2023, accessed July 15, 2025, https://ghanachamberofmines.org/wp-content/uploads/2025/01/Annual-Report-2023-ACTIVITY-REPORT-OF-THE-DEPARTMENT-OF-ANALYSIS-RESEARCH-AND-FINANCE.pdf.

Chapter 2

Cryptocurrency Outlook H2 2025

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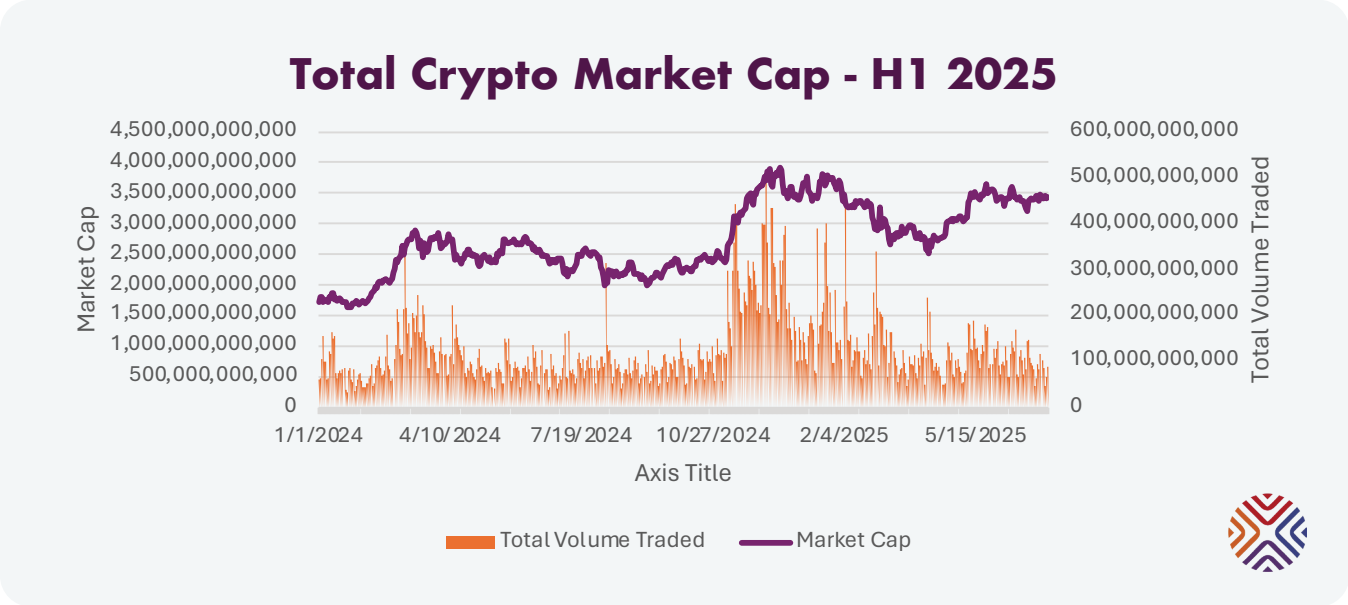
1 Market Overview

1.1. Introduction

As we look ahead to the second half of 2025 (H2 2025), the cryptocurrency market stands at a transformative crossroads. The first half of 2025 (H1 2025) laid a robust foundation, with a total market capitalization increase of approximately 3%, reaching $3.46 trillion by mid-year. Despite a volatile journey from a Q4 2024 peak of $3.8 trillion to a mid-cycle dip of $2.5 trillion, the first half of 2025 established a solid foundation.

This resilience amid macroeconomic challenges such as global trade tensions and Trump's tariffs, combined with regulatory advancements and surging institutional adoption, positions the crypto market for significant evolution in H2 2025.



Source: Data compiled from CoinGecko [1]

The cryptocurrency market has exhibited a price-volume divergence, which reflects the cryptocurrency market's transition from retail-driven speculation to institutional-dominated investment and long-term holding, leading to lower liquidity on exchanges. This supply squeeze supports price appreciation but also increases volatility risk if large holders sell. Overall, it reflects a maturing market with growing institutional confidence and less speculative trading.

1. CoinGecko. "Crypto Market Cap Charts." CoinGecko, 2025. https://www.coingecko.com/en/global-charts.

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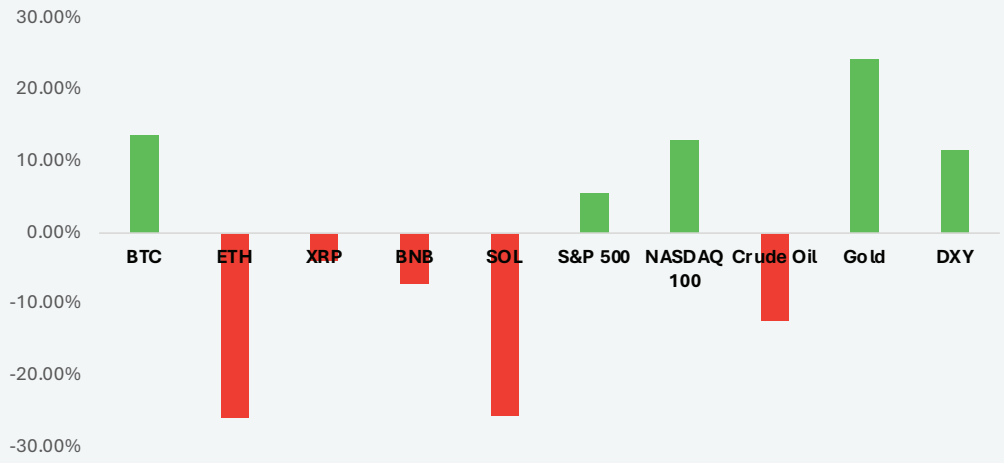
Return of Major Cryptocurrencies vs Major Asset Classes in H1 2025



Source: Data compiled from Tradingview [2, 3, 4, 5, 6, 7, 8, 9, 10, 11]

In H1 2025, Bitcoin's 13.55% return demonstrated notable resilience, outperforming most altcoins like Ethereum (-25.86%) and Solana (-25.57%), which remain weighed down by volatility and weak recovery momentum. This divergence underscores Bitcoin's growing maturity and institutional adoption, contrasting with the broader crypto market's speculative and fragmented nature. Compared to traditional assets, Bitcoin's performance rivaled the NASDAQ 100's strong 12.93% gain and significantly outpaced the S&P 500's 5.61%, while gold's 24.31% surge highlighted ongoing demand for safe havens amid economic uncertainty. Meanwhile, crude oil's 12.27% decline and the 11.64% rise in the U.S. dollar index reflect macroeconomic pressures that continue to shape asset class dynamics, reinforcing Bitcoin's emerging role as a distinct, alternative investment with unique risk-return characteristics.

2. TradingView. "Bitcoin / U.S. Dollar." TradingView, 2019. https://www.tradingview.com/symbols/BTCUSD/.
3. TradingView. "ETHUSD — Ethereum Price Chart," n.d. https://www.tradingview.com/symbols/ETHUSD/.
4. TradingView. "XRP / U.S. Dollar." TradingView, 2019. https://www.tradingview.com/symbols/XRPUSD/.
5. TradingView. "BNB," July 7, 2025. https://www.tradingview.com/symbols/BNBUSD/.
6. TradingView. "Solana," July 6, 2025. https://www.tradingview.com/symbols/SOLUSD/.
7. TradingView. "S&P 500 Index Chart — SPX Quote," n.d. https://www.tradingview.com/symbols/SPX/.
8. TradingView. "NASDAQ-100 Technology Sector," April 15, 2024. https://www.tradingview.com/symbols/NASDAQ-NDXT/.
9. TradingView. "Brent Crude Oil," July 7, 2025. https://www.tradingview.com/symbols/BRENT/?exchange=BLACKBULL.
10. TradingView. "XAUUSD Chart — Gold Spot US Dollar Price," n.d. https://www.tradingview.com/symbols/XAUUSD/.
11. TradingView. "U.S. Dollar Currency Index." TradingView, 2019. https://www.tradingview.com/symbols/TVC-DXY/.

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1.2. Setting the Stage for H2 2025

The cryptocurrency market in H1 2025 demonstrated both volatility and strength. Key drivers included:

Macroeconomic Pressures: Global trade tensions, particularly Trump's tariffs, sparked volatility, with Bitcoin dropping to $76,329 and Ethereum to $1,473 in April before rebounding.

Regulatory Progress: The U.S.'s GENIUS Act and the EU's MiCAR framework bolstered investor confidence.

Institutional Momentum: Corporate Bitcoin holdings soared to over 800,000 BTC, and ETF assets reached new highs.

The market is poised to surpass $3.5 trillion by year-end, driven by regulatory tailwinds and institutional capital inflows, though short-term volatility from macroeconomic factors will persist.

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2 Regulatory Landscape: Forging a Stable Future

The regulatory environment in H2 2025 will be a cornerstone of crypto's growth, transitioning it from an experimental asset class to a regulated financial pillar.

United States: The Trump administration's pro-crypto stance, exemplified by the GENIUS Act (passed June 17, 2025), establishes a federal framework for stablecoins, requiring liquid asset backing and transparency. [12]The SEC's Crypto Task Force and dropped enforcement actions (e.g., against OpenSea, Robinhood, and Coinbase) signal a shift to progressive regulation, likely to spur innovation and institutional trust.

European Union: The Markets in Crypto Assets Regulation (MiCAR), fully effective since December 30, 2024, offers a comprehensive framework, classifying assets and imposing obligations on issuers. This clarity will attract businesses and investors, positioning the EU as a crypto leader.[13]

Asia-Pacific: Japan's proposed reclassification of crypto as "financial products" could unlock ETFs and lower tax rates to 20%, while South Korea's Digital Asset Basic Act (June 10, 2025) enables domestic stablecoin issuance. Conversely, China's total ban (effective June 1, 2025) will stifle growth there, redirecting activity elsewhere.[14]

UAE: Dubai's Virtual Assets Regulatory Authority (VARA) announced Rulebook Version 2.0 on May 19, 2025, introducing stricter anti-money laundering protocols, mandatory client screening, and enhanced security measures with a June 19 compliance deadline, further strengthening its position as a global crypto hub.[15]

Regulatory clarity in the U.S., EU, Japan, and South Korea will accelerate institutional adoption and market stability. China's restrictions may limit global growth slightly, but the net effect will be positive, with the U.S. and EU leading the charge.

12. R-TN, Bill. "Text - S.394 - 119th Congress (2025-2026): GENIUS Act of 2025." Congress.gov, 2025. https://www.congress.gov/bill/119th-congress/senate-bill/394/text.
13. "PwC Global Crypto Regulation Report 2025 Contents," March 2025. https://legal.pwc.de/content/services/global-crypto-regulation-report/pwc-global-crypto-regulation-report-2025.pdf.
14. People's Republic of China. "Notice on Further Preventing and Resolving the Risks of Virtual Currency Trading and Speculation," September 15, 2021. http://www.pbc.gov.cn/en/3688110/3688172/4157443/4353814/index.html.
15. Vara.ae. "VARA Issues Updated Activity Rulebooks to Strengthen Market Integrity and Risk Oversight," May 19, 2025. https://www.vara.ae/en/news/vara-issues-updated-activity-rulebooks-to-strengthen-market-integrity-and-risk-oversight/.

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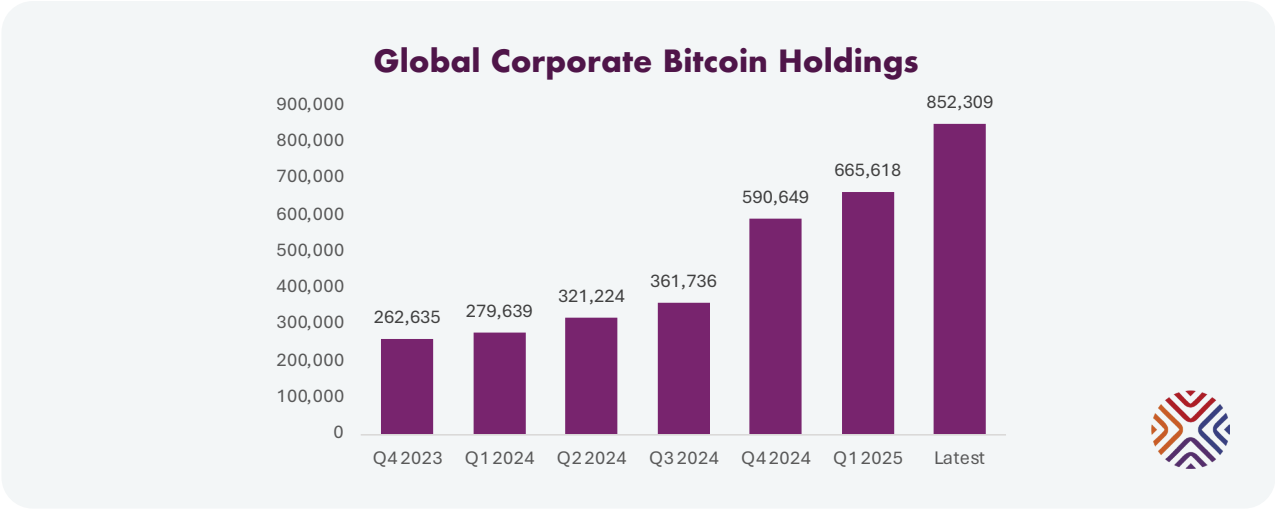
3 Institutional and Sovereign Adoption

Institutional participation in the cryptocurrency market reached unprecedented levels in H1 2025, a trend set to intensify in H2.

- **Corporate Holdings:** 134 corporations now hold over 800,000 BTC (4% of supply), with MicroStrategy (now "Strategy") owning over 590,000 BTC.[16]



NB: Latest Data as of 2025-07-07

Source: Data compiled from bitcointreasuries.net [17]

16. Bitcointreasuries.net. "Bitcoin Treasuries - 135 Public Companies, Private Businesses and Other Entities," November 14, 2024. https://bitcointreasuries.net
17. Ibid

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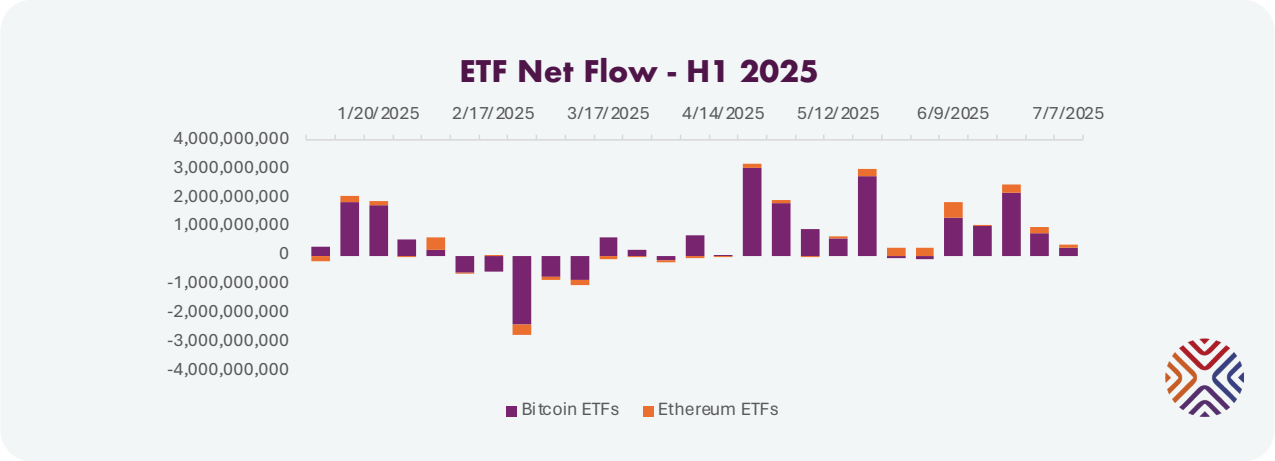
- **ETFs:** Bitcoin ETFs hit $135 billion in AUM at the end of June[18], with BlackRock's IBIT reaching $70 billion in just 341 days. Ethereum ETFs, led by BlackRock's ETHA ($4.6 billion AUM), are also gaining traction. [19]H2 will likely see new ETFs emerge.



Source: Data compiled from CoinMarketCap[20]

- **Pension Funds:** Pension funds have demonstrated a substantial commitment, with a UK fund allocating 3% of assets to Bitcoin.[21] This may represent a validation of cryptocurrency as a long-term strategic asset suitable for retirement portfolios.

- **Sovereign Wealth Funds:** Abu Dhabi's Mubadala holds $436.9 million worth of Bitcoin ETF, with more funds likely to follow.[22]

- **Tokenization:** Real-world asset tokenization, at $0.6 trillion in 2025, is projected to hit $18.9 trillion by 2033, representing a 53% compound annual growth rate.[23]

18. CoinMarketCap. "Bitcoin ETF List Data | CoinMarketCap," 2023. https://coinmarketcap.com/etf/bitcoin/.
19. CoinMarketCap. "Ethereum ETF List Data | CoinMarketCap," 2023. https://coinmarketcap.com/etf/ethereum/.
20. CoinMarketCap. "Crypto ETF List Data | CoinMarketCap," 2023. https://coinmarketcap.com/etf/.
21. Cartwright.co.uk. "Cartwright Sees Growing Interest in Bitcoin Exposure | Cartwright Pension Trusts," 2024. https://pensiontrusts.cartwright.co.uk/news-update.php?nid=112.
22. SEC. "SEC FORM 13-F Information Table," 2025. https://www.sec.gov/Archives/edgar/data/1704268/000108514625001478/xslForm13F_X02/infotable.xml.
23. Ripple. "Global Financial Infrastructure Entering a New Era as Tokenized Assets Set to Surge to $19 Trillion by 2033," April 7, 2025. https://ripple.com/ripple-press/global-financial-infrastructure-entering-a-new-era/.

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4 Macroeconomic and Political Influences

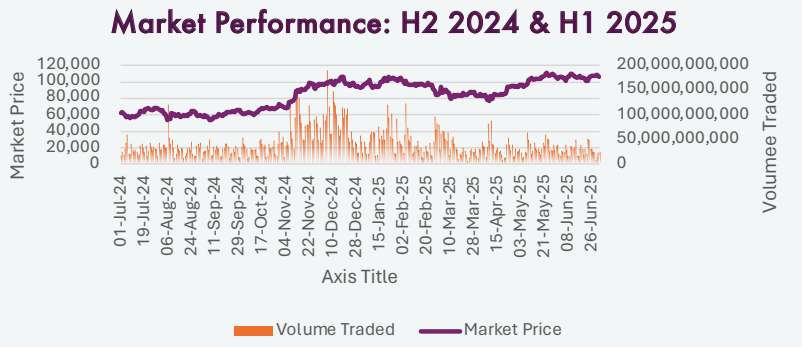
Macroeconomic factors will remain a double-edged sword in H2 2025.

Trump's Tariffs: In H1, tariffs triggered a drop in the price of Bitcoin to as low as $76,329 and a decline in the price of Ethereum to $1,473. Yet, Bitcoin's quick rebounds highlight its resilience.

Market Correlation: Crypto-S&P 500 correlation fell from 0.83 (H2 2024) to 0.72 (H1 2025), suggesting a gradual decoupling, though sensitivity to traditional market risks persists.

Inflation Hedge: The tariffs contributed to inflation fears and concerns about delayed monetary easing, which also pressured Bitcoin prices. However, Bitcoin's role as a potential hedge against inflation kept some investor interest alive despite the trade war-induced volatility.

5 Bitcoin



Source: Data compiled from CoinGecko[24]

Bitcoin's H1 2025 saw it rally to $111,500 before consolidating at $107,000, driven by institutional adoption and a pro-crypto U.S. stance.

24. CoinGecko. "Bitcoin (BTC) Price, Marketcap, Chart, and Info." CoinGecko, 2025. https://www.coingecko.com/en/coins/bitcoin.

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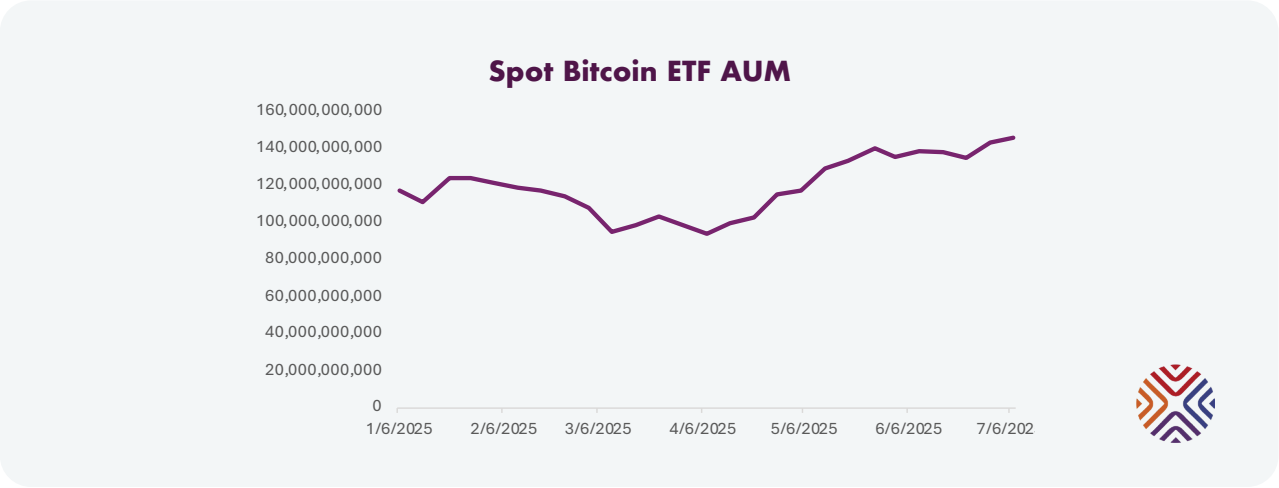
- **Institutional Demand:** ETF inflows and corporate holdings will remain strong.



Source: The Block[25]

Spot Bitcoin ETFs started the year with approximately $117 billion AUM and grabbed momentum by January's end, pulling in $4.5 billion net, catapulting AUM past $124 billion. In Q1, total AUM dropped with tactical institutional adjustments and hedge-fund rebalancing during a Bitcoin price dip following Trump's tariff. Mid-year, BlackRock's IBIT broke ETF records, hitting $70 billion AUM by early June and later $80 billion, while total Bitcoin ETF AUM approached $140–150 billion. Throughout June and July, ETF inflows surged, including back-to-back days over $1 billion, reinforcing Bitcoin's ascent to record highs above. Overall, AUM growth reflects consistent macro drivers, regulatory advances, and major institutional adoption.

- **Supply Dynamics:** Post-2024 halving effects may peak in H2, tightening supply.

- **Trading Trends:** Low volumes signal a shift to long-term holding, tied to sensitivity to macroeconomic factors.

Bitcoin could surpass $150,000, testing new highs, though tariff-related dips are possible. Its dominance will persist due to first-mover advantage and institutional trust.

25. The Block. "Bitcoin ETFs Archives," n.d. https://www.theblock.co/data/crypto-markets/bitcoin-etf.

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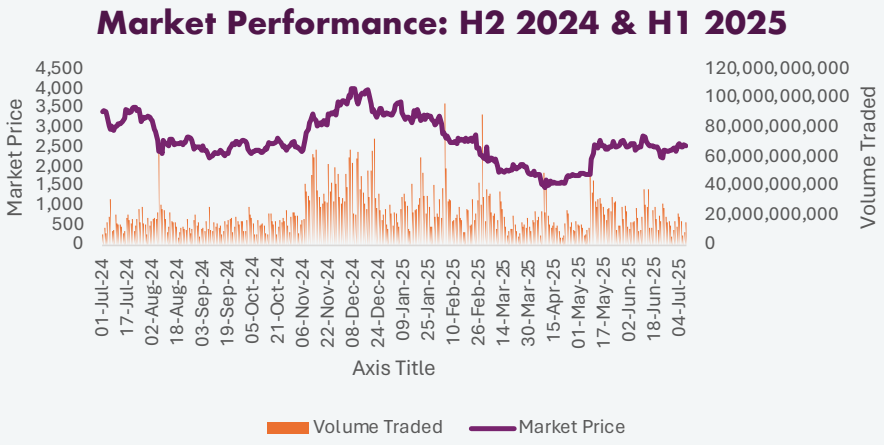
6 Ethereum



Source: Data compiled from CoinGecko[26]

Ethereum's H1 2025 was turbulent, falling to $1,800 before recovering to $2,500, buoyed by network upgrades and ETF interest.

Network Upgrades: Ethereum 2.0 enhancements will boost scalability, supporting DeFi and NFT growth.[27]

Institutional Appeal: The AUM of all Ethereum ETFs has grown to $11.33 billion AUM as of the 11th of July, reflecting rising demand.

25. CoinGecko. "Ethereum USD Historical Data | CoinGecko," 2025. https://www.coingecko.com/en/coins/ethereum/historical_data?start=2024-07-08&end=2025-07-08.
26. Kapron, Zennon. "Ethereum's 2025 Price Outlook: Drivers, Risks & the Range of Possibilities." Forbes, April 27, 2025. https://www.forbes.com/sites/digital-assets/article/ethereum-ether-price-prediction-2025/.

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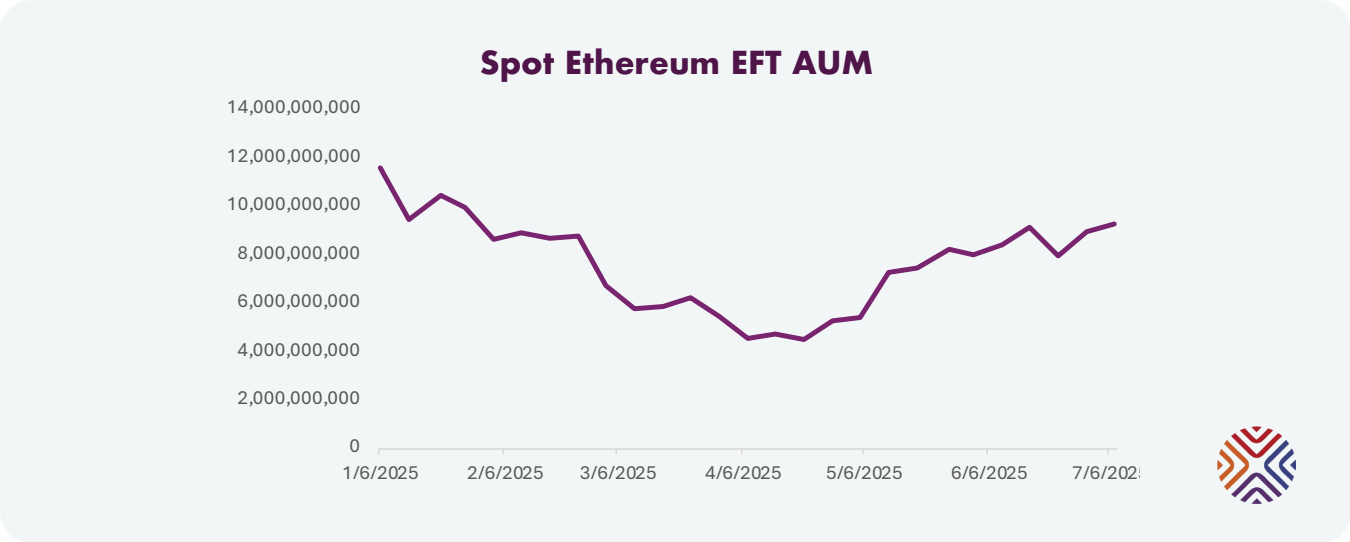

Source: The Block[28]

The AUM of Ethereum spot ETFs declined to $4 billion in April from $11 billion at the beginning of the year. Despite slower Q1 compared with Bitcoin, institutional sentiment shifted after the SEC signaled openness to staking[29], fueling a $538 million net flows in May. BlackRock's ETHA led gains, surpassing $4.5–5 billion AUM in June. By July, cumulative Ethereum ETF AUM reached $9.2 billion, bolstered by optimism around staking inclusion and growing institutional trust. While smaller than Bitcoin, Ethereum ETFs have carved a niche with utility-focused appeal and clear potential ahead.

- **Volume:** Recovery from April lows suggests stabilizing sentiment.

Ethereum may reach $4,000, driven by upgrades and institutional flows, though competition from rival blockchains could temper gains.

28. The Block. "Ethereum ETFs Archives," 2025. https://www.theblock.co/data/crypto-markets/ethereum-etf.
29. US Securities and Exchange Commission. "SEC.gov | Response to Staff Statement on Protocol Staking Activities: Stake It till You Make It?," May 29, 2025. https://www.sec.gov/newsroom/speeches-statements/crenshaw-statement-protocol-staking-052925.

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7 Stablecoins

- **Institutional Use:** They accounted for 74.6% of OTC trades, with a 154% transaction growth.[30]
- **Regulatory Boost:** The GENIUS Act and South Korea's legislation will fuel innovation.
- **DeFi Role:** Stablecoins remain critical to DeFi expansion.

Market cap could hit $300 billion, cementing stablecoins as a bridge to traditional finance.

8 What does Quantum Computing mean for Cryptocurrency?

Quantum computing marks a revolutionary advancement in computational technology, harnessing the principles of quantum mechanics to process information far beyond the capabilities of classical computers.

Unlike traditional bits, which represent either a 0 or a 1, quantum bits or "qubits" can exist in multiple states simultaneously due to superposition and entanglement. This unique ability enables quantum computers to tackle complex calculations at an exponential speed, promising significant breakthroughs across various fields.

However, for the world of cryptocurrency, this power introduces both profound challenges and exciting possibilities.

30. "Finery Markets H1 2025 Crypto OTC Review: Stablecoin Edition Client Turnover, Secondary Markets, and Risks of Depegs." Accessed July 9, 2025. https://finerymarkets.com/assets/files/h1_2025.pdf.

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8.1. The Threat to Cryptographic Security

The cornerstone of cryptocurrencies like Bitcoin and Ethereum is their reliance on robust cryptographic algorithms, such as RSA and the Elliptic Curve Digital Signature Algorithm (ECDSA).[31] These algorithms secure transactions and wallets by making it computationally infeasible for classical computers to reverse-engineer private keys from public keys.

Quantum computing, however, threatens this foundation. Shor's algorithm, a quantum algorithm, can factor large numbers and solve discrete logarithm problems exponentially faster than classical methods. If realized on a sufficiently powerful quantum computer, it could potentially unlock private keys, undermining the security of cryptocurrency networks and enabling theft or forgery of transactions.

An additional concern is the "Store Now, Decrypt Later" (SNDL) strategy. Malicious actors could collect encrypted data today, including blockchain transaction records, and decrypt it years later when quantum computers become capable of breaking current standards. Since cryptocurrency ledgers are public, this poses a long-term risk to the privacy and security of digital assets, even if the technology isn't an immediate threat.

8.2. Recent Advancements in Quantum Computing

Progress in quantum computing has been steady, with notable milestones like Google's Willow quantum computer showcasing the field's potential.

However, practical quantum computers capable of cracking cryptographic algorithms remain in the developmental stage. Experts estimate that such machines requiring thousands of stable qubits with low error rates are still 10 to 20 years away, though the timeline remains uncertain due to the rapid pace of innovation. The National Institute of Standards and Technology (NIST) is also advancing the field by working to standardize post-quantum cryptographic algorithms, signaling a global push to prepare for this quantum future.[32]

8.3. Crypto's Response: Quantum-Resistant Solutions

Crypto's solution to the quantum threat lies in adopting quantum-resistant cryptographic algorithms such as lattice-based, hash-based, and code-based schemes[33].

31. Herman, Arthur, and Alexander Butler. "Decrypting Crypto: Cryptocurrencies and the Quantum Computer Threat." Hudson Institute, June 17, 2025. https://www.hudson.org/technology/decrypting-crypto-cryptocurrencies-and-the-quantum-computer-threat.
32. NIST. "NIST Releases First 3 Finalized Post-Quantum Encryption Standards | NIST." NIST, August 13, 2024. https://www.nist.gov/news-events/news/2024/08/nist-releases-first-3-finalized-post-quantum-encryption-standards.
33. Hasan, Rakibul. "Quantum-Resistant Cryptography: A New Frontier in Fintech Security." World Journal of Advanced Engineering Technology and Sciences 12, no. 2 (July 30, 2024): 614–21. https://doi.org/10.30574/wjaets.2024.12.2.0333.

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These post-quantum cryptography methods replace vulnerable digital signatures and key exchange protocols to secure blockchain transactions. Several cryptocurrencies have integrated these quantum-safe technologies to future-proof their networks.[34]

8.4. The Broader Context

The quantum threat is not unique to cryptocurrency; it extends to all systems relying on current encryption, including banking, e-commerce, and government infrastructure. This universal challenge underscores the urgency of developing quantum-resistant solutions across all sectors

8.5. Crypto's Response: Quantum-Resistant Solutions

Beyond the risks, quantum computing offers transformative opportunities for cryptocurrency. Its computational power could enhance blockchain scalability, accelerate transaction processing, and support more sophisticated smart contracts and decentralized applications.

Additionally, quantum cryptography, such as quantum key distribution (QKD), could provide ultra-secure communication channels, bolstering blockchain networks with unprecedented levels of protection.

8.6. Looking Ahead

The impact of quantum computing on cryptocurrency is a dual-edged sword: it threatens the security of existing systems while opening doors to innovation. While practical quantum computers capable of disrupting crypto are likely years or decades away, the "not yet" caveat from experts emphasizes the need for vigilance.

The proactive steps being taken, from PQC development to quantum-enhanced technologies, reflect the industry's commitment to resilience.

In conclusion, quantum computing's influence on cryptocurrency hinges on an uncertain timeline, but preparation is already underway. By staying informed and adaptable, the crypto community can safeguard digital assets against future threats while harnessing quantum advancements to shape a more secure and efficient blockchain ecosystem.

34. Algorand. "Leading on Post-Quantum Technology ." Algorand.co, May 31, 2023. https://algorand.co/technology/post-quantum.

9 Outlook

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Growth with Caution The crypto market in H2 2025 will experience steady growth, with a projected market cap exceeding $3.5 trillion. Regulatory clarity, institutional adoption, and technological advancements such as tokenization and ETF proliferation will drive this trajectory.

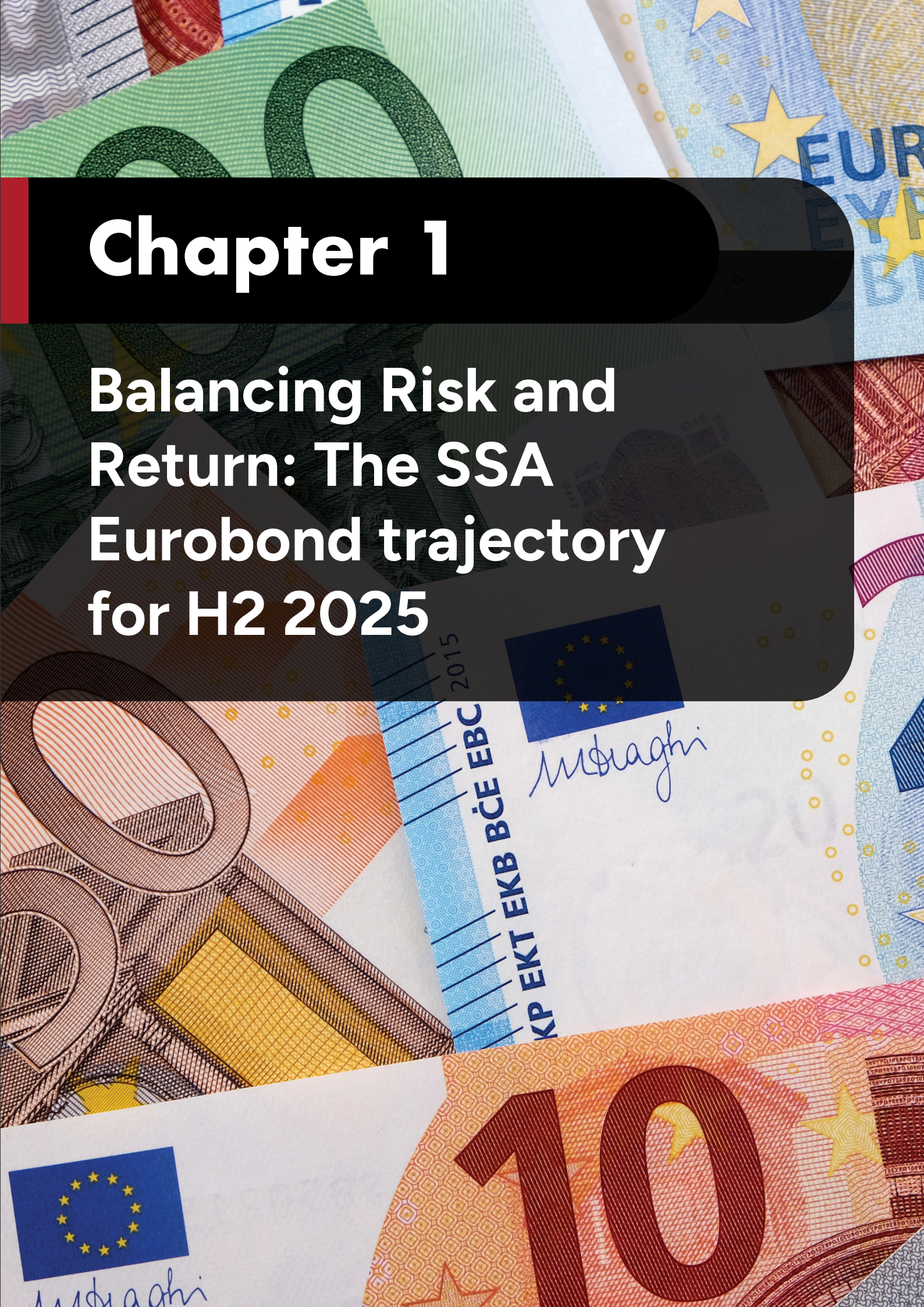
Bitcoin may test $150,000, Ethereum $4,000, and stablecoins $300 billion, supported by over $120 billion in institutional capital. However, macroeconomic risks, including trade tensions and inflation, will introduce volatility, necessitating caution.

Key Takeaway:

The crypto market is maturing into a legitimate asset class, but its path will balance robust fundamentals with external uncertainties. Investors should embrace the long-term potential while bracing for short-term turbulence.

Section D

SSA Eurobond Outlook



Chapter 1

Balancing Risk and Return: The SSA Eurobond trajectory for H2 2025

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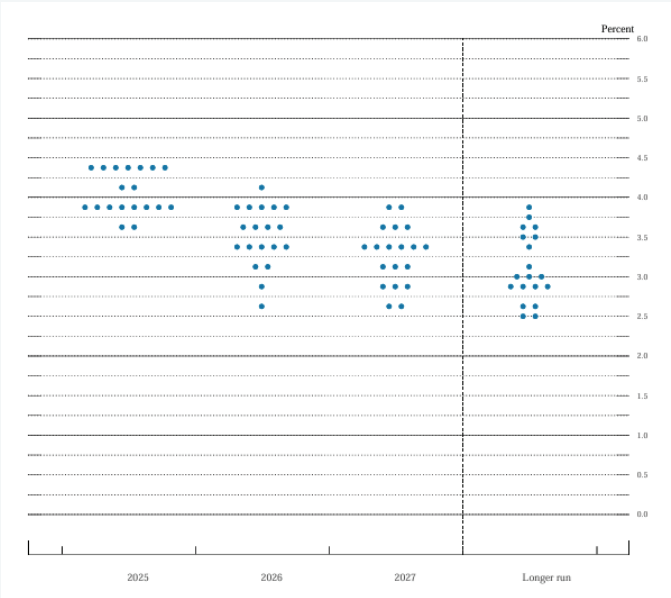
1 Introduction

The performance of the global Eurobond market is largely influenced by the strength and direction of the economy in which the bond is denominated. The Dollar-denominated Eurobond market closely mirrors developments in the U.S. economy. This correlation was evident in the first half of 2025, as performance trends aligned with those observed in the broader U.S. market during the tariff imposition.

Looking ahead to the second half of 2025, the anticipated trajectory of the U.S. economy and the policy stance of the U.S. Federal Reserve will play a critical role in shaping Eurobond market dynamics, particularly in terms of liquidity, investor risk appetite, and yield movements.

The Federal Reserve is currently projecting two rate cuts before year-end, which would bring the federal funds rate down to a range of 3.75%–4.00% from the current 4.25%–4.50%, a reduction of 50 basis points.

Federal Funds Rate Outlook: Dot Plot of Midpoint Targets



Source: Federal Reserve Board: FOMC Meeting Economic Projection[1]

1. U.S. Federal Reserve, FOMC Economic Projections – June 2025, accessed July 5, 2025. https://www.federalreserve.gov/monetarypolicy/files/fomcprojtabl20250618.pdf.

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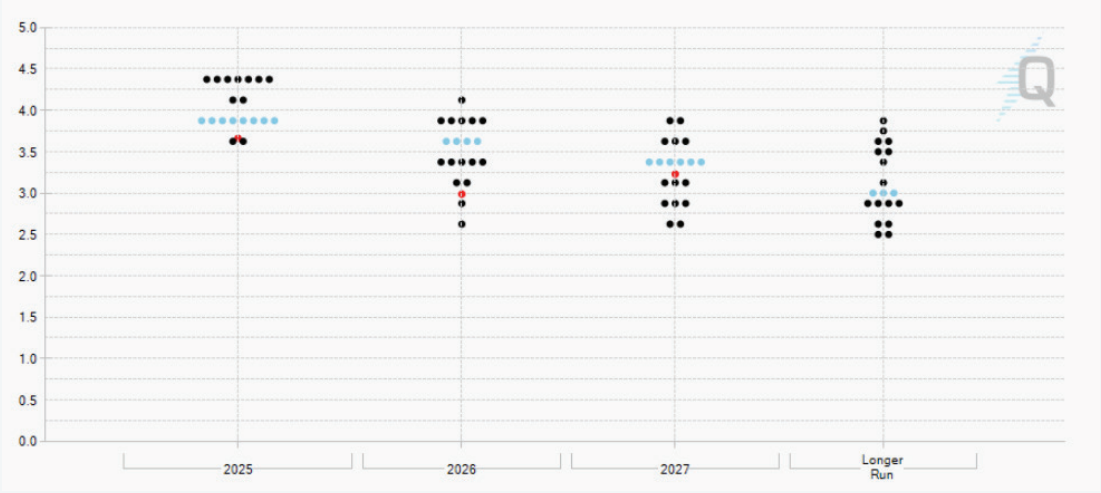
While market participants are pricing in a more accommodative stance from the U.S. Federal Reserve. Current expectations suggest the Fed may implement three rate cuts, totaling 75 basis points, which would bring the federal funds rate down to a range of 3.50% to 3.75% by year-end.

Given the inverse relationship between interest rates and bond prices, such a move would likely provide upward momentum for the Eurobond market, particularly in the Dollar-denominated segment. Lower interest rates typically reduce the yield on new issues, thereby increasing the value of outstanding bonds with higher coupons, supporting price appreciation across the credit curve.

In contrast, the first half of 2025 saw the Fed holding rates steady, offering no cuts, despite ongoing market speculation. This policy stability kept bond prices range-bound, with performance largely tied to macroeconomic signals, geopolitical sentiment, and sector-specific credit dynamics.



Source: : CME Group: Market Watch Tool[2]

Another key macroeconomic indicator influencing the Eurobond market is the U.S. GDP growth rate. Between 2017 and 2024, U.S. GDP grew at a compound annual growth rate (CAGR) of approximately 1.74%, a period that included significant outlier events such as the COVID-19 pandemic and the global inflation shock of 2022.

Looking ahead, U.S. GDP is projected by the Federal Open Market Committee members to grow at a slower pace compared to the compound annual growth rate recorded over the past seven years. The economy is expected to expand by 1.4% in 2025.

Growth is further projected at 1.6% in 2026 and 1.8% in 2027, then expected to stabilize around 1.8% in the long-run trend.

In addition, the Q1 2025 GDP report revealed a contraction of 0.5%, largely driven by a surge in imports, companies accelerating purchases to stockpile goods ahead of expected tariff increases, and a decline in government spending.

2 CME Group, CME FedWatch Tool, accessed July 5, 2025. https://www.cmegroup.com/markets/interest-rates/cme-fedwatch-tool.html.

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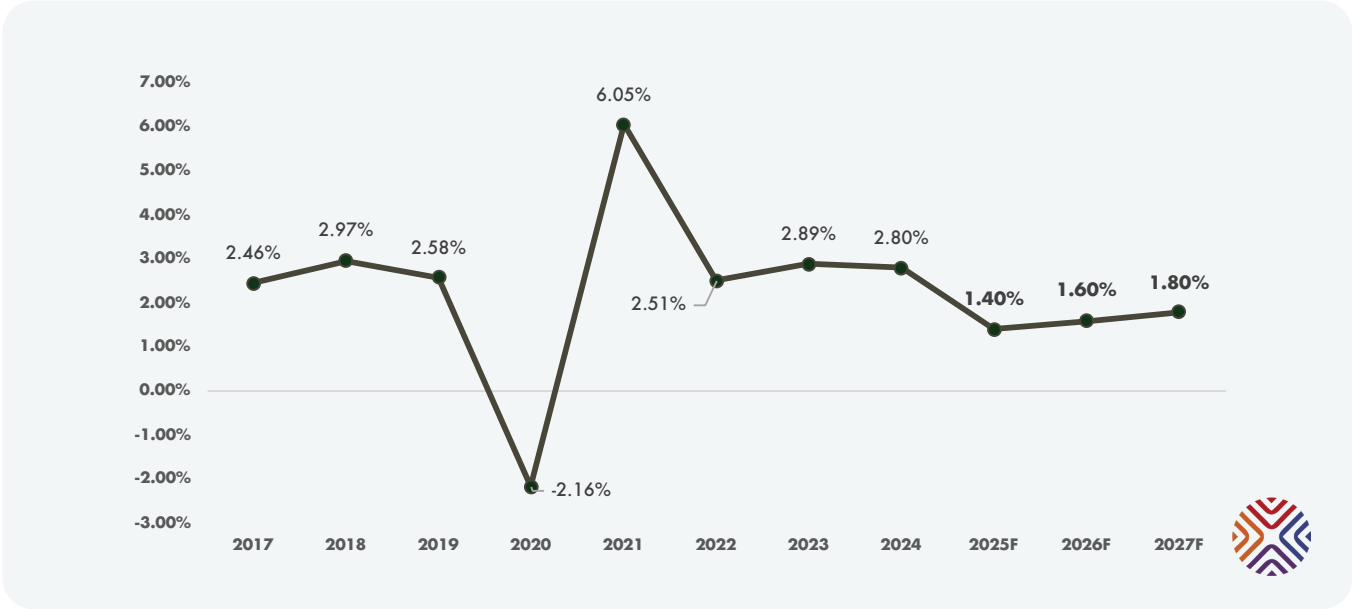
The anticipated deceleration in U.S. GDP growth suggests a shift toward a more subdued macroeconomic environment. With real GDP expected to expand at a slower pace, following a contraction of 0.5% in Q1 2025 and a projected average of just 1.6% over the next few years, investor sentiment may lean toward more defensive asset classes, including sovereign Eurobonds from stable emerging markets.

This cooling in growth could prompt the U.S. Federal Reserve to maintain a more accommodative policy stance, which would support global liquidity and lower yields, indirectly boosting demand for high-yielding Eurobond issuances. In this context, slower U.S. growth may create favorable conditions for emerging market debt, particularly for issuers perceived as reform-driven and fiscally responsible.

U.S. GDP Growth (2017–2024) and FOMC Forecasts (2025–2027)



Source: Data sources from Federal Reserve Board: FOMC Meeting Economic Projection[3]

3 U.S. Federal Reserve, FOMC Economic Projections – June 2025, accessed July 5, 2025. https://www.federalreserve.gov/monetarypolicy/files/fomcprojtabl20250618.pdf.

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2 Nigeria Eurobond Market

2.1 Nigeria's Reform Momentum and Market Response

Since the implementation of key policy reforms in 2023, investor confidence in Nigeria's market and economy has improved significantly. This renewed confidence is reflected in recent credit rating upgrades by Fitch and Moody's, as well as Moody's earlier revision of Nigeria's outlook from stable to positive.

These upgrades were driven by reforms such as exchange rate liberalisation, tighter monetary policy, and the removal of fuel subsidies, all of which have enhanced economic stability and resilience. Although the reforms initially contributed to inflationary pressures, those pressures have since eased. The policies are becoming more firmly established and are helping to strengthen the foreign exchange market while reducing external vulnerabilities.

Date	Rating Agency	Rating Action
11th April 2025	Fitch	Upgraded Nigeria's Long-Term Foreign-Currency Issuer Default Rating (IDR) to 'B' from 'B-'. Outlook is Stable. Reflects confidence in ongoing policy reforms.
16th May 2025	S&P	Nigeria Ratings Affirmed At 'B-/B'; Outlook Remains Stable
31st May 2025	Moody	Upgraded Nigeria's ratings to B3 from Caa1; cites improved external and fiscal positions, outlook revised to stable from positive

Source: Fitch[4] , S&P Rating Report[5]

4 Fitch Ratings, "Fitch Upgrades Nigeria to 'B'; Outlook Stable," April 11, 2025. https://www.fitchratings.com/research/sovereigns/fitch-upgrades-nigeria-to-b-outlook-stable-11-04-2025.

5 S&P Global Ratings, "Regulatory Disclosure Source ID 13490077," accessed July 5, 2025. https://www.spglobal.com/ratings/jp/regulatory/article/-/view/sourceId/13490077.

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The recent sovereign credit rating upgrades by Fitch and Moody's, along with Moody's earlier revision of Nigeria's outlook to positive, have significantly enhanced the country's investment profile. These developments serve as strong signals to global investors that Nigeria is on a credible path toward macroeconomic reform and fiscal discipline, and it's becoming a more stable and investable market.

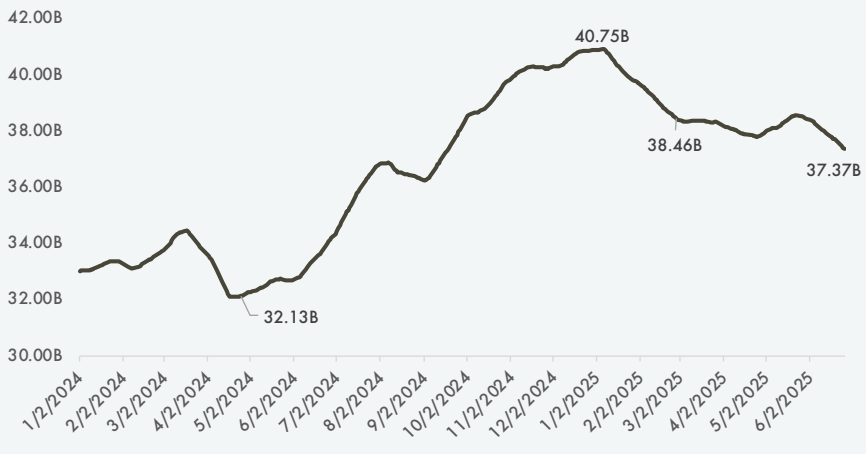
2.2 FX Reserve Trajectory: Strengthening Buffers Amid Shifting Capital Flows

Nigeria's foreign exchange reserves saw notable growth through 2024, peaking above $40 billion, supported by key policy shifts such as savings from the removal of fuel subsidies and improved fiscal management. This reserve buildup was further strengthened by a sharp rise in foreign portfolio inflows (FPI), which increased by 106.5% to $13.35 billion.

However, the trend began to shift in the first half of 2025. The foreign reserves show a gradual but sustained decline, falling to $37.37 billion in June, despite a brief recovery in May.

Critically, while FPI has surged, Foreign Direct Investment (FDI) fell significantly, down 42.3% to $1.08 billion. This is concerning, as FDI represents more stable, long-term capital that supports structural economic growth compared to the short-term, sentiment-driven nature of FPI. The uptick in FPI likely reflects opportunistic capital inflows attracted by Nigeria's high-interest rate environment rather than deep investor confidence in long-term fundamentals. This inflow can be volatile and quickly reversed in the face of global shocks or domestic policy missteps.

Movement in Nigeria's Foreign Exchange Reserves



Source: Data Compiled from CBN[6]

6 Central Bank of Nigeria, "Nigeria's External Reserves," accessed July 5, 2025. https://www.cbn.gov.ng/IntOps/Reserve.html.

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Nigeria's Balance of Payments has been improving steadily. In 2024, the country recorded a BoP surplus of $6.83 billion, marking a clear turnaround from deficits of $3.34 billion in 2023 and $3.32 billion in 2022. In Q1 2025, Nigeria posted a current account surplus of $3.73 billion, which amounts to about 54% of the total recorded for the entire year 2024[7]. By the end of 2025, we expect the Balance of Payments to grow by around 70% compared to last year, supported by the currency now being at a more competitive rate that encourages exports and discourages imports. Additionally, savings from reduced oil importation, given Nigeria's declining reliance on imported petroleum products, are also contributing to this improvement.

Looking at Nigeria's external debt obligations, the total coupon payments for H2 2025, combined with the $1.118 billion Eurobond principal maturing in November 2025, amount to $1.813 billion. Given current reserve levels, this debt service burden is covered approximately 20 times over.

We project external reserves to reach approximately $43 billion by year-end, reflecting a 15.6% increase from their end-June 2025 level. Supportive tailwinds include a stable currency, rising foreign inflows and remittances, and a decline in imports of oil and other goods. On the other hand, key headwinds remain the repayment of Eurobond principal and interest, bearish oil prices, and ongoing domestic production challenges.

2.3 Oil Production Performance: Output Gains with Persistent Volatility

Nigeria's average daily crude oil and condensate production in 2025 has been higher than in 2024, largely attributed to the Operation Delta Sanity crackdown aimed at improving output and reducing oil theft. For instance, average production from January to May 2025 stood at approximately 1.67 million barrels per day (mbpd), compared to 1.56 mbpd over the same period in 2024, an increase of about 114,310 barrels per day.

Despite this improvement, the policy has not delivered consistent output growth, as monthly production still fluctuates. Moreover, current production remains below the 2025 budget target of 2.06 mbpd, highlighting a continued shortfall.

In addition, oil prices have remained below the budgeted $75 per barrel since February 2025, except for a brief spike in June driven by geopolitical tensions in the Middle East.

7 Central Bank of Nigeria, Balance of Payments Release 2025, accessed July 5, 2025. https://www.cbn.gov.ng/Out/2025/CCD/CBN%20Release%20on%20BoP.pdf.

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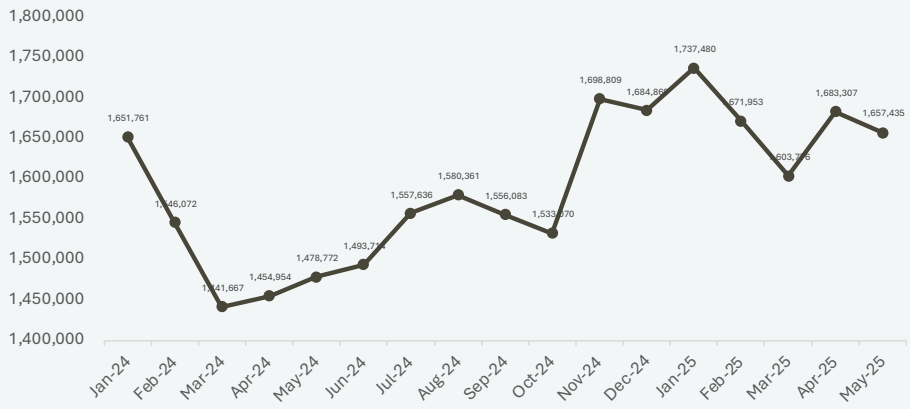
Nigeria daily crude oil and condensate production output



Source: Data Compiled from NUPRC[8]

Since the start of 2025, oil prices have been trending downward, with the U.S. Liberation Day tariffs adding further downward pressure. In June, prices briefly spiked due to heightened tensions from the Iran-Israel conflict, driven by uncertainty in the Middle East. However, as tensions eased and a ceasefire was announced, oil prices declined again.

Looking ahead to the second half of 2025, we expect oil prices to trade within the $60–$80 per barrel range. With prices expected to stay below the budget $75 per barrel threshold in the second half of 2025, Nigeria may see constrained foreign exchange inflows. This could put pressure on fiscal revenues and limit the government's capacity to fund budgetary commitments.

A potential tailwind is the risk of renewed conflict in the Middle East, which could push prices as high as $120 per barrel. However, the likelihood of such an escalation remains low due to its significant global impact.

On the downside, a key headwind is the expected increase in oil supply from OPEC+ members as they unwind previous production cuts. In May 2025, however, member countries were unable to fully meet the planned increase, achieving only 154,000 barrels per day compared to a headline target of 411,000 barrels. This shortfall was due to voluntary cuts by some countries to compensate for past quota breaches. While we expect the unwinding of cuts to continue, we do not anticipate oil prices falling significantly below the $60 per barrel threshold.

8. Nigerian Upstream Petroleum Regulatory Commission (NUPRC), Oil Production Status Report, accessed July 5, 2025. https://www.nuprc.gov.ng/oil-production-status-report/.

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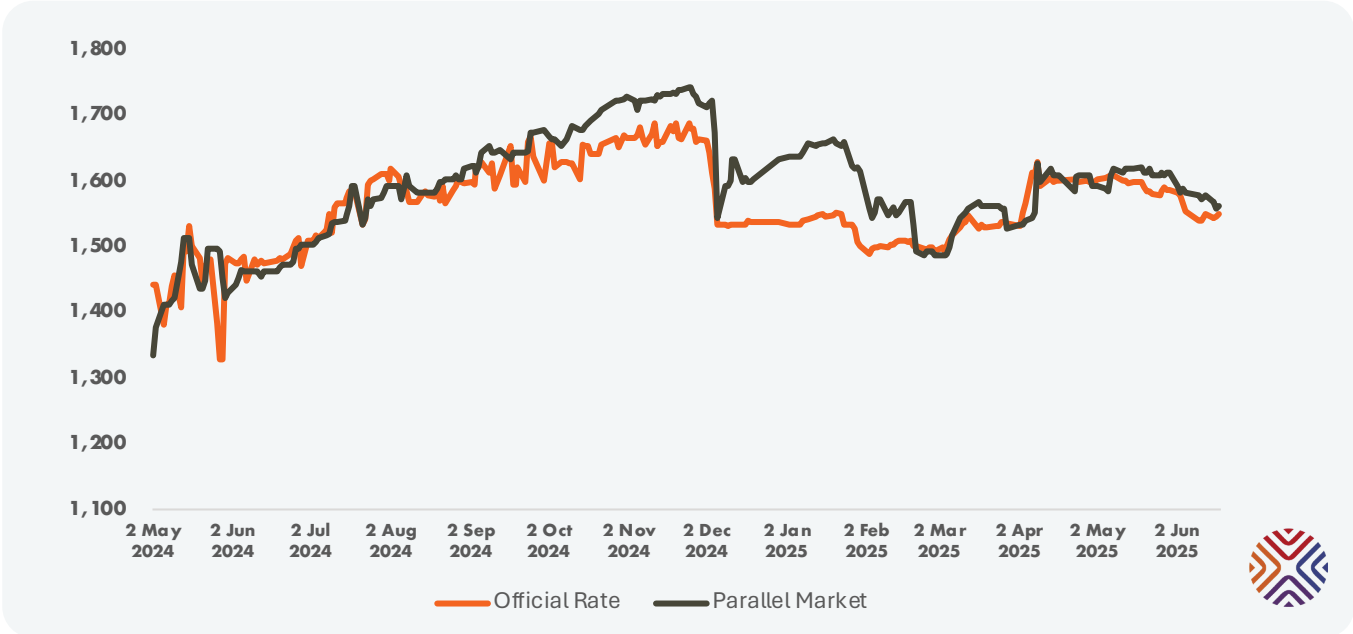
2.4 Exchange Rate Outlook: Stability Anchored by Policy Discipline

The naira remained relatively stable in the first half of 2025, consistently trading within the N1,500–N1,600 per USD range, with the gap between the official and parallel markets narrowing significantly.

Looking ahead, we expect the naira to continue trading within this range in the second half of 2025. While external shocks or market speculation may cause short-term deviations, any significant outliers are likely to be addressed through targeted CBN interventions aimed at preserving exchange rate stability and investor confidence. This will boost investors confidence, as a stable currency reduces foreign exchange losses.

USD/Naira Official and Parallel Market Exchange Rate Movement



Source: Data compiled from CBN,[9] Rate Captain[10]

9 Central Bank of Nigeria, Exchange Rate by Currency, accessed July 5, 2025. https://www.cbn.gov.ng/rates/ExchRateByCurrency.html.

10. RateCaptain, FX Market News and Data, accessed July 5, 2025. https://ratecaptain.com/.

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The new Nigeria tax reform introduced in June 2025 is poised to significantly enhance government revenue generation. Key components of the reform include the consolidation of revenue-collecting agencies, aimed at minimizing leakages and inefficiencies in tax collection. Additionally, the digitalization of revenue processes is expected to reduce administrative costs and improve transparency.

A major highlight of the 2025 tax reform is the expansion of the tax base, which seeks to bring previously unrecorded income and revenue streams into the formal tax net. This measure is particularly significant for Nigeria, a country long characterized by a low tax-to-GDP ratio. However, the new tax framework is scheduled to take effect in January 2026, allowing time for implementation and stakeholder alignment. In the long term, these reforms are expected to boost non-oil revenue, enhance fiscal sustainability, and reduce Nigeria's overreliance on volatile oil revenues.

2.5 **Conclusion:** Managing Fragility, Unlocking Opportunity

The outlook for Nigeria's Eurobonds in the near to medium term remains cautiously optimistic. As long as the government maintains policy continuity, increases domestic revenue particularly due to notable tax reforms, and keeps the naira relatively stable, it should be able to meet its debt obligations, including Eurobond interest and principal payments when due. These conditions will not only support Nigeria's repayment capacity but also improve its access to international capital markets on more favorable terms. Nigeria's debt-to-GDP ratio for 2024 was at a relatively fair level of 52.13%[11].

Ultimately, the combination of sustained reforms and improving macroeconomic fundamentals could enhance investor confidence further, paving the way for a more resilient Eurobond market anchored on credibility, stability, and a demonstrated willingness and ability to repay.

11 11. Debt Management Office Nigeria, Total Public Debt as at December 31, 2024, accessed July 5, 2025. https://www.dmo.gov.ng/debt-profile/total-public-debt/5215-total-public-debt-as-at-december-31-2024/file.

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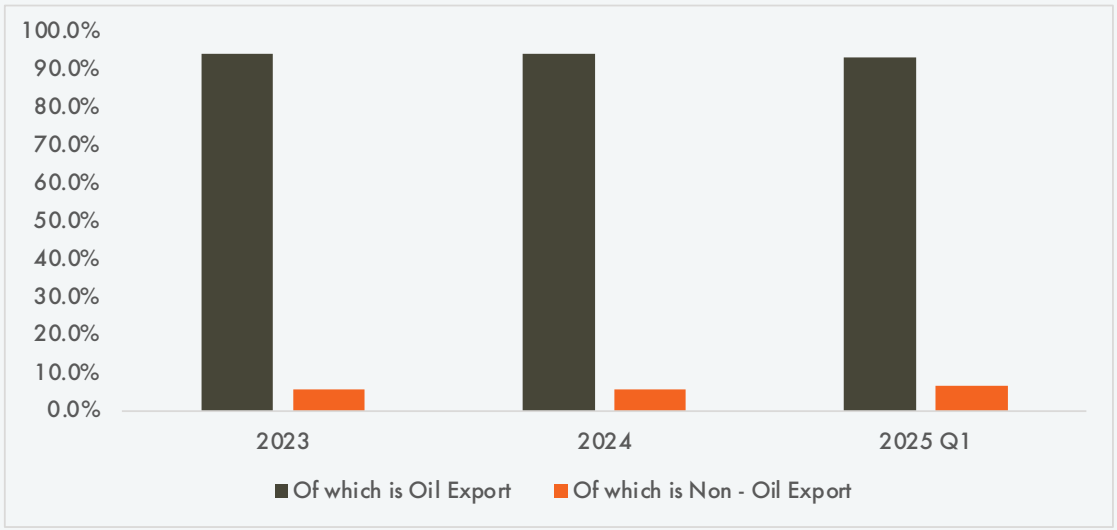
3 Angola Eurobond Market

3.1 Angola's Export Dependency and Eurobond Sensitivity

Angola is an oil-dependent country, with 93.2% of its exports in Q1 2025 coming from oil. Similar patterns were observed in 2023 and 2024, where over 94% of total exports were oil related. The performance of Angola's Eurobonds in the second half of 2025 will largely depend on two key factors: market sentiment toward the U.S. economy, since the bonds are denominated in U.S. dollars, and Angola's perceived ability to repay both the principal and interest on its bonds.



Source: Data compiled from Instituto Nacional de Estatística[12]

12 Instituto Nacional de Estatística Angola, Trade and Economic Data Portal, accessed July 5, 2025. https://www.ine.gov.ao/Diretorios/Ver.

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3.2 Oil Output Trends and Policy Measures

In January 2024, Angola exited OPEC+ to gain greater production flexibility. However, its oil output has remained constrained, not by quotas, but by capacity limitations. As a result, production has continued to trend downward.

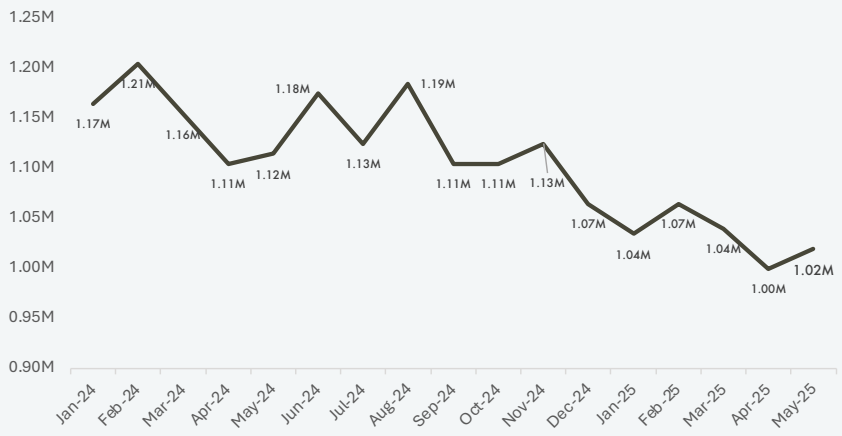
In the first half of 2025, output averaged 1.00 million barrels per day (mbpd), falling short of the ANPG's (Agência Nacional de Petróleo, Gás e Biocombustíveis) target of 1.17 mbpd and well below the 10-year average of 1.39 mbpd. This decline is primarily due to maturing and aging oil fields as well as persistent underinvestment in the sector. Additionally, key projects like TotalEnergies' Begonia[13] and CLOV3, which were expected to boost output, have faced delays.

To address this trend, Angola's 2020–2025 Hydrocarbon Exploration Strategy remains underway. The strategy seeks to reverse production declines through expanded exploration, geological studies, concession allocations, and intensified research. However, despite being in place since 2020, it has yet to significantly lift output. Still, as an ongoing effort, it may require more time to deliver measurable results.

For 2025, Angola's budget assumes an oil price of $70 per barrel and a daily production of 1.098 million barrels. However, actual performance has fallen short on both fronts; oil prices have remained below the $70 benchmark for most of the year, and production has consistently underperformed, highlighting downside risks to revenue projections and external balances.

Despite structural weaknesses in the oil sector, Angola's exit from OPEC+ and its ongoing Hydrocarbon Exploration Strategy suggest an intent to regain production momentum. If sustained, this could restore investor confidence. However, delayed project timelines (e.g., Begonia, CLOV3) continue to cast doubt on near-term recovery, keeping risk premiums elevated.

Angola Oil Output in million barrels per day (mbpd)



Source: Data Compiled from Ychart[14]

13 Global Energy Monitor, Begonia Oil Field (Angola), accessed July 5, 2025. https://www.gem.wiki/Begonia_Oil_Field_(Angola).

14 YCharts, Angola Crude Oil Production, accessed July 5, 2025. https://ycharts.com/indicators/angola_crude_oil_production.

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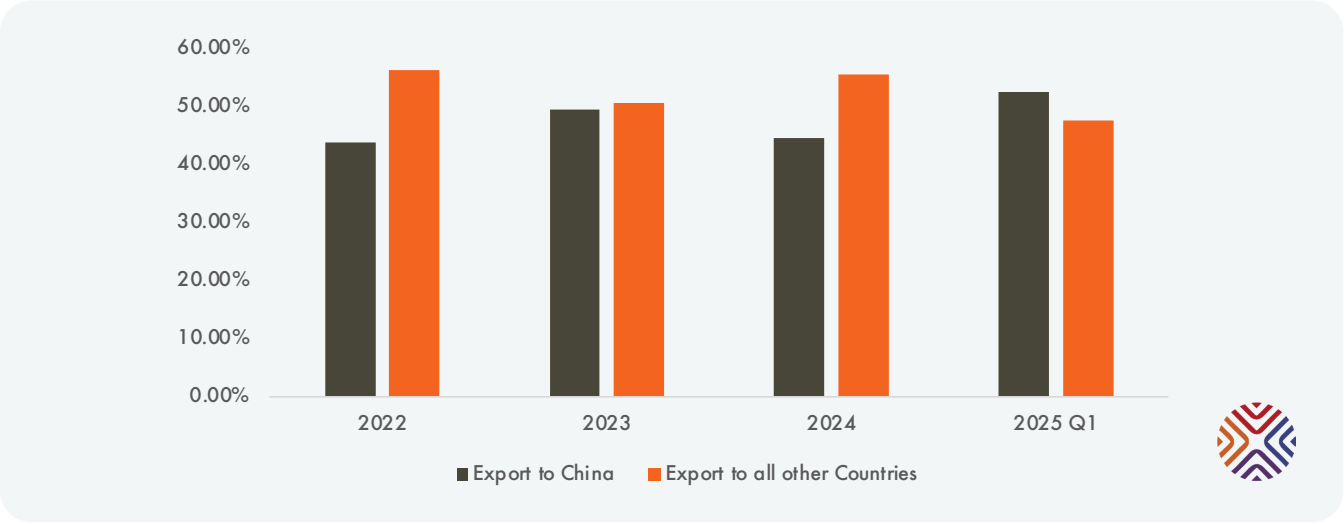
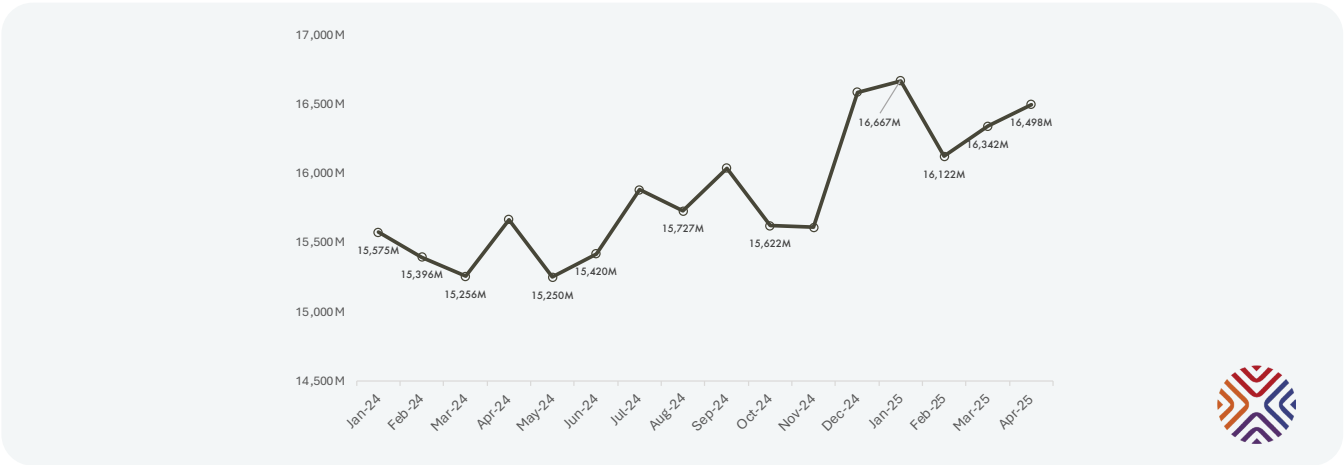
Angola maintains a strong trading relationship with China, with over 50% of its exports in Q1 2025 directed toward the Chinese market. This heavy reliance exposes Angola's foreign exchange revenue to vulnerabilities stemming from fluctuations in China's economic performance. Currently, China is grappling with deflationary pressures driven by weak domestic demand, subdued industrial activity, and persistent property sector stress. These conditions have led to softer demand for commodities, including crude oil, Angola's primary export. This could dampen Angola's oil earnings and limit foreign exchange inflows.



Source: Data Compiled from Instituto Nacional de Estatística (INE) de Angola[15]

3.3 Reserves and Eurobond Repayment Capacity

Angola Official reserve assets and other foreign currency assets in USD ($)



Source: Data Compiled from Banco Nacional de Angola (BNA)[16]

15 Instituto Nacional de Estatística Angola, Trade and Economic Data Portal, accessed July 5, 2025.

16 Banco Nacional de Angola, Monthly Reserve Report, accessed July 5, 2025. https://www.bna.ao/service/rest/file/getPDF/v2?url=_layouts/15/DocIdRedir.aspx?ID=AE2CRDQUTFAC-2123509798-868.

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Angola's foreign reserves have shown solid resilience in 2025, climbing from 16.12 billion USD in February to 16.49 billion USD by April, following a mild correction after the January high of 16.65 billion USD.
While reserves remain below the January peak, the April rebound signals renewed external stability and suggests Angola is maintaining a strong liquidity position amid a cautiously improving macro backdrop.

Looking ahead, Angola faces a total Eurobond debt obligation of $1.26 billion in the second half of 2025, consisting of $864 million in principal repayment and $398.85 million in coupon payments. With current foreign reserves at $16.49 billion, the country's reserve position can cover this Eurobond debt service approximately 13 times.
However, it should be noted that there are other interest payments due on different types of debt, as well as other policy uses for the external reserves. Angola's debt-to-GDP ratio stands at 58.2%.
This high reserve-to-Eurobond repayment coverage ratio is a strong indicator of Angola's short-term external solvency and should offer reassurance to investors about its ability to meet upcoming debt obligations without resorting to disruptive financing measures or depleting critical reserves.

In addition, Angola is currently phasing out fuel subsidies, aiming to eliminate them completely by the end of 2025. The savings from this phaseout are expected to further bolster its reserve position.

3.4 **Outlook:** Short-Term Stability, Long-Term Vigilance

Angola is well-positioned to meet its Eurobond obligations in H2 2025, supported by foreign reserves of $16.49 billion, more than 13 times its maturing external debt for the period. This provides strong near-term coverage and should reassure investors of its repayment ability.

However, sustained underperformance in oil production and heavy reliance on crude exports raise longer-term concerns. With output averaging just 1.00 mbpd, below both budget targets and historical norms, future revenue flows remain vulnerable. Continued weak performance in the oil sector could narrow fiscal space and external buffers, warranting close monitoring beyond 2025.

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4 South Africa Eurobond

4.1 South Africa Eurobond: Stability, Capital Inflows, and Reserve Strengthening

The formation of the Government of National Unity (GNU) following South Africa's May 2024 general elections has contributed to short-term political stability, strengthening investor confidence and enhancing the credibility of the country's reform agenda. This renewed stability has bolstered the confidence of external stakeholders, including credit rating agencies and international investors, in South Africa's commitment to growth-enhancing structural reforms and fiscal consolidation.

South Africa's foreign reserves have been expanding at a robust pace in 2025, outstripping the growth seen in the previous two years. Between January and April 2025 alone, reserves increased by 4.9%. This acceleration has been driven by key factors, notably the successful issuance of a US$3.5 billion two-tranche Eurobond in November 2024, comprising a 12-year bond at 7.1% and a 30-year bond at 7.95%, which attracted significant foreign capital inflows, even at a yield lower than 8%, showing the significant pricing advantage, it has.

Additionally, the sharp rally in gold prices, delivering a year-to-date return of 25.5%, has further supported reserve accumulation, given South Africa's strong position as a leading gold exporter. The total outstanding repayment in coupon and principal due for South Africa in H2 2025 is $2.488 billion, which is well covered by its reserve.

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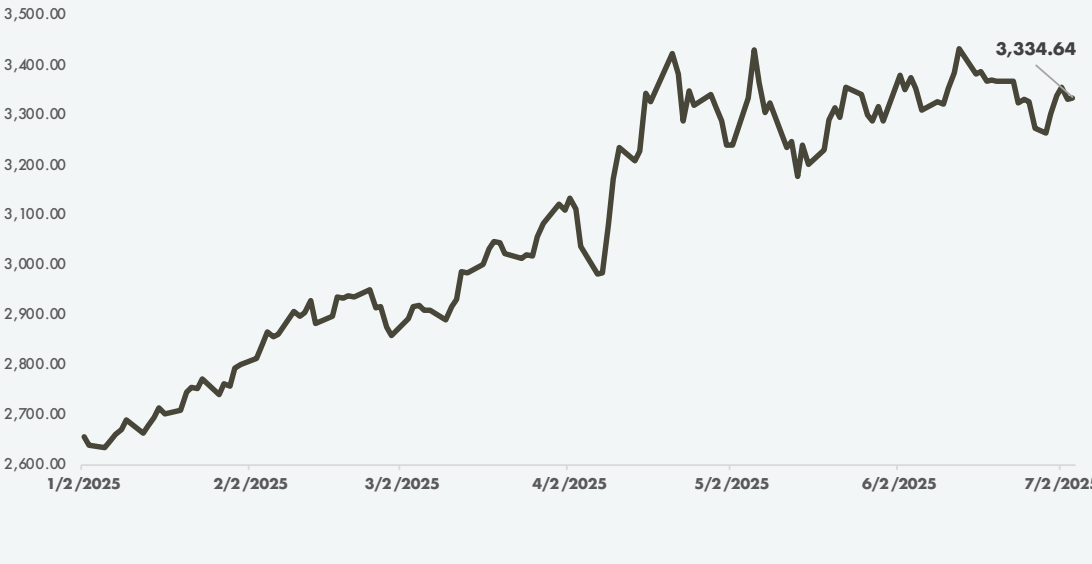
South Africa Gross Reserves in USD' Million

Source: Data Compiled from Reserve Bank[17]

Gold Historical Price



Source: Data Compiled from Bloomberg[18]

17 South African Reserve Bank, Information Notice – Gold and Foreign Exchange Reserves, June 2025, accessed July 5, 2025. https://www.resbank.co.za/en/home/publications/publication-detail-pages/Financial-Markets/Notices/Information-Notice/2025/information-notice-gold-and-foreign-exchange-reserves-june-2025.

18 Bloomberg LP, Gold Spot Price (XAUUSD), Bloomberg Terminal, accessed July 5, 2025.

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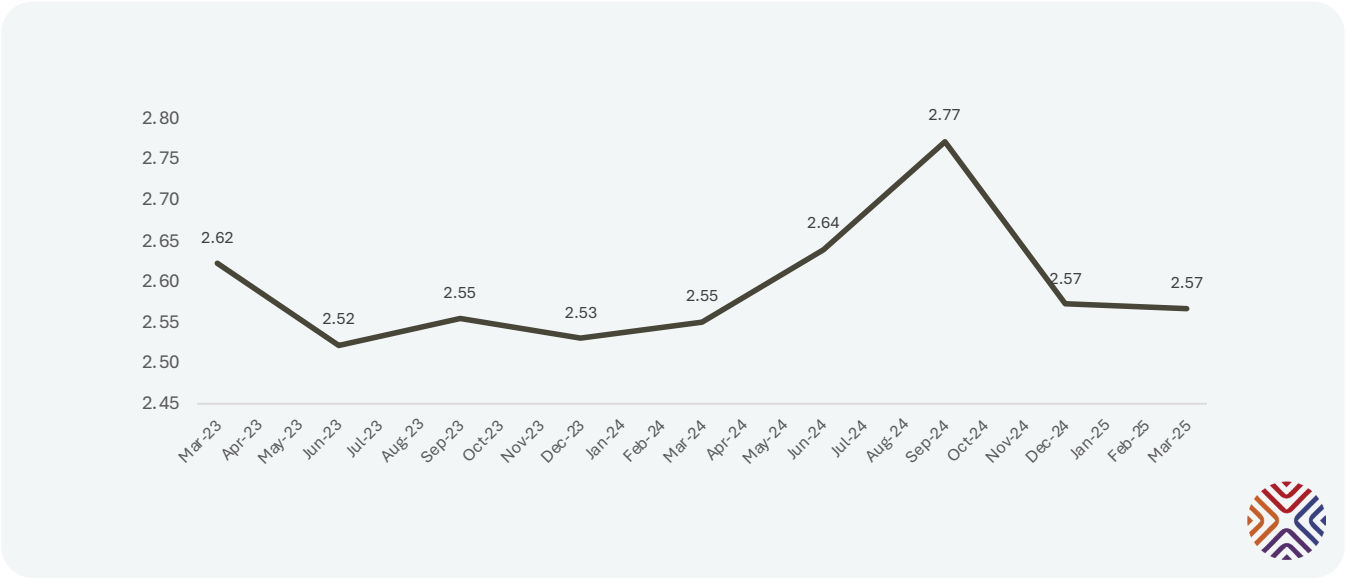
4.2 External Liquidity vs. Debt Pressure: A Shifting Balance

Despite South Africa maintaining a high debt-to-reserve ratio of averaging 2.6:1, indicative of elevated external vulnerability, there has been a noticeable improvement in 2025. This improvement is largely attributed to a strengthening of the country's foreign reserves. As reserves continue to rise in the second half of the year, the debt-to-reserve ratio is expected to stabilize, signaling improved external liquidity and reduced pressure on the sovereign's balance sheet.

External Debt-to-Reserve Ratio



Source: Data Compiled from Reserve Bank South Africa[19]

South Africa's GDP has been growing at a low pace for the past 10 years; it grew by less than 1% in 2024 and by 0.8% in 2025 Q1.

While South Africa's strong buildup of foreign reserves, driven by gold earnings and capital inflows, has improved the country's liquidity position, a sustained trend would ease rollover pressures and enhance the government's ability to meet Eurobond repayments without straining the balance of payments.

19 South African Reserve Bank, Gross External Debt – Q1 2025, accessed July 5, 2025. https://www.resbank.co.za/content/dam/sarb/publications/gross-external-debt/2025/Gross%20External%20Debt%201st%20Quarter%202025.pdf.

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4.3 Outlook: Improving Liquidity Supports Eurobond Stability, but Challenges Remain

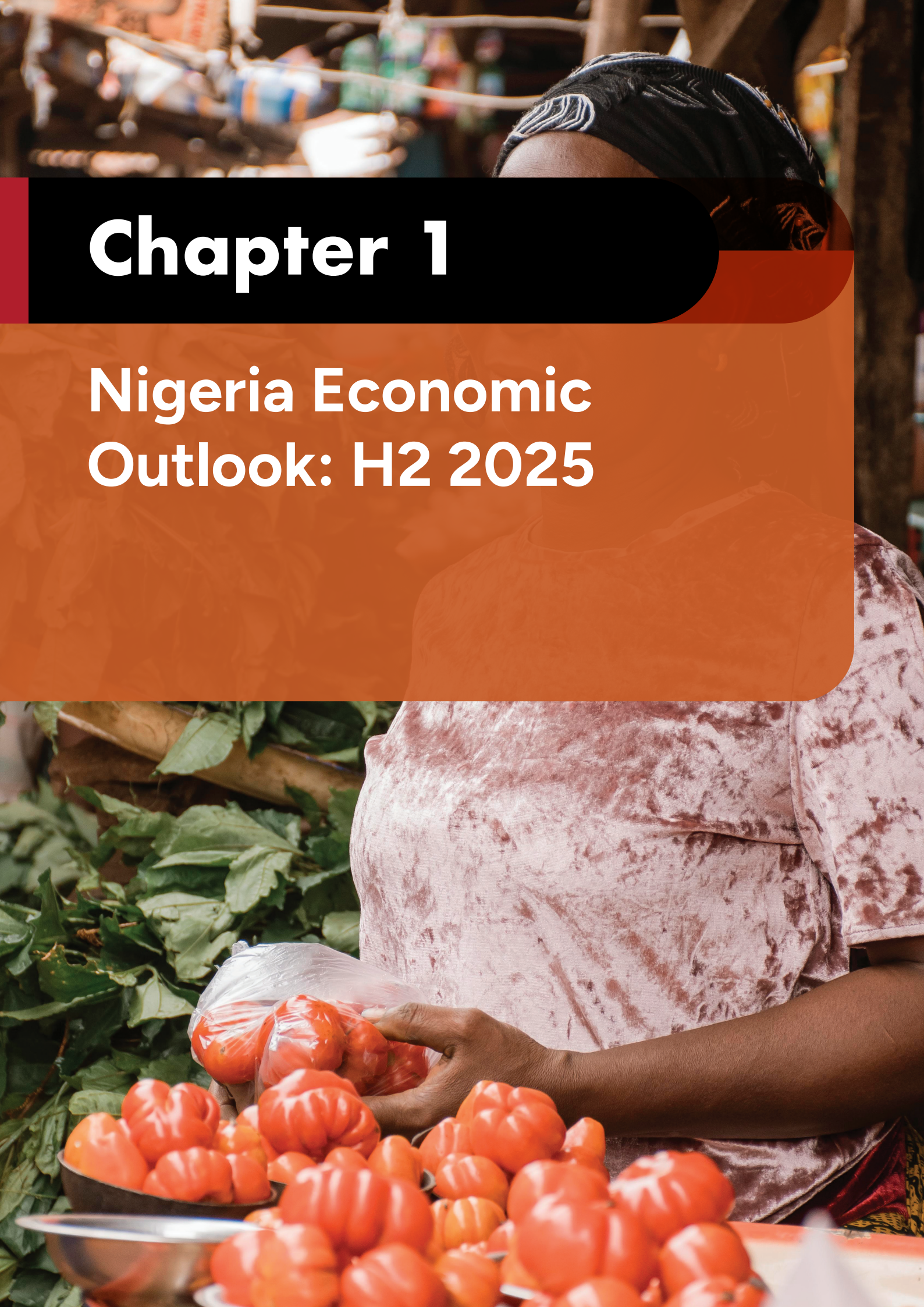
In summary, the outlook for South Africa's Eurobonds in the remainder of 2025 is cautiously optimistic, shaped by a blend of supportive domestic reforms and external financial conditions. While the direction of U.S. monetary policy will continue to impact global risk appetite and borrowing costs, South Africa's commitment to fiscal consolidation, structural reforms, and exchange rate stability offers a strong foundation for resilience.

The improved reserve position, bolstered by robust capital inflows and gold export earnings, enhances the country's external liquidity and reinforces its ability to meet debt obligations. However, persistent structural challenges, such as weak economic growth and a high debt-to-reserve ratio, must be addressed to sustain this positive momentum.

Ultimately, continued policy discipline, investor engagement, and steady reform execution will be critical to maintaining market confidence and ensuring favourable Eurobond market performance through 2025 and beyond.

Section E

Nigeria Macroeconomic Outlook 2025



Chapter 1

Nigeria Economic Outlook: H2 2025

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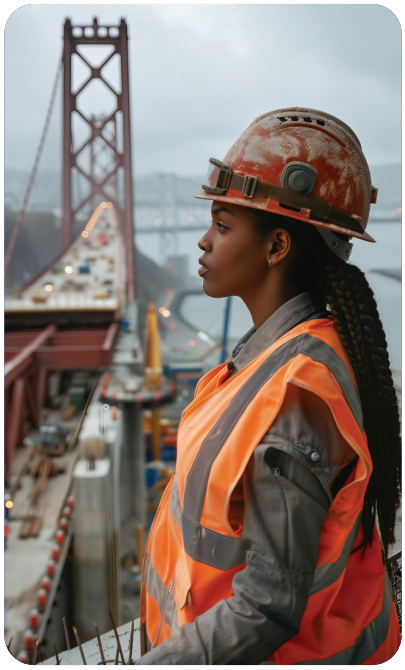
1 Historical Foundations: The SAP Legacy and Economic Missteps



As Nigeria approaches the latter half of 2025, it stands at a critical crossroads, facing a precarious economic landscape shaped by both global and domestic forces. On one side, a bearish oil market looms due to increased OPEC output, threatening to depress prices and erode export revenues. On the other hand, geopolitical tensions, particularly the conflict in the Middle East between Iran and Israel, could disrupt supply chains and drive oil prices upward.

With thinning reserves and persistent structural vulnerabilities, the pressing question emerges: Is Nigeria prepared for an economic shock? Drawing from history, which often rhymes rather than repeats, the 1986 Structural Adjustment Programme (SAP) serves as a cautionary tale of market-driven reforms that faltered without addressing deeper structural issues.

This report investigates Nigeria's economic trajectory, dissects the global and domestic drivers at play, and proposes data-backed strategies to foster resilience and inclusive growth.

1.1. The Oil Boom and the Birth of Dependency

The abundance of natural resources can lead to economic stagnation or conflict due to factors such as corruption, dependence on resource extraction, and a lack of diversification. For Nigeria, it was oil.

The 1970s and 1980s marked a turning point in Nigeria's economic landscape, as the country experienced two major oil booms. The first boom in 1974 was triggered by the 1973 Arab-Israeli War, which led to a global oil price surge, while the second in 1979 was a consequence of the Iranian Revolution, which further disrupted global supply and elevated oil prices.

These booms led to a significant increase in government revenue, which fuelled expansive public spending on physical and economic infrastructure. However, this surge in oil wealth triggered demand-pull inflationary pressures, particularly in wages and the cost of goods and services, causing the non-oil sectors, especially agriculture, to become increasingly unattractive. The strength of the naira during this period made imports cheaper and exports less competitive, undermining Nigeria's traditional agricultural export base. This shift marked the beginning of Nigeria's overreliance on oil as its primary source of export earnings and government revenue.[1]

1. Nils B. Tallroth, "Structural Adjustment in Nigeria," Finance & Development 24, no. 3 (September 1987): 30–33, https://www.elibrary.imf.org/display/book/9781616353683/ch006.xml.

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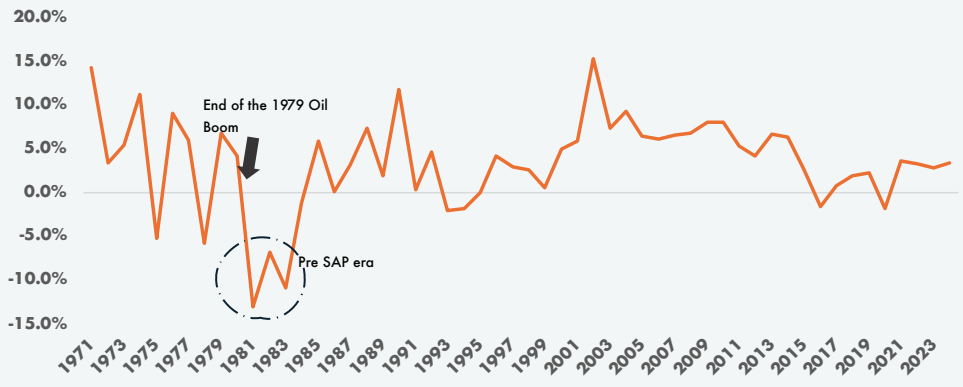
1.2. From Boom to Breakdown: Nigeria's Structural Fault Lines

By the early 1980s, after the end of the oil boom, a downturn in the global oil market exposed Nigeria's economic vulnerabilities. Oil export earnings plummeted from $23.4 billion in 1980 to $9.9 billion in 1983, a 57.7% decrease. In response, the government implemented austerity measures that focused on administrative controls. However, these actions exacerbated existing structural weaknesses rather than resolving them. Investment spending was drastically cut, and while wages in the public sector were kept the same, expenditure on necessary inputs such as supplies, maintenance, and materials declined. The public sector had grown excessively, accounting for approximately half of GDP and two-thirds of modern sector employment.[2]

An analysis of Nigeria's GDP growth from 1971 to 2024 reveals that the period between 1981 and 1984 marked the country's most prolonged and severe economic contraction. During these four consecutive years, GDP contracted significantly, by 13.1% in 1981 and 10% in 1983, representing the sharpest downturn within the review period. This economic decline was driven by deep-rooted structural deficiencies and Nigeria's overreliance on crude oil exports, which made the economy highly vulnerable to global oil price shocks

Nigeria GDP growth from 1971 to 2023



Source: Data compiled from World Bank[3]

1.3 Inflation Before Reform: The Pressure Cooker Years

Nigeria experienced significant inflationary spikes, primarily driven by demand-pull inflation and expansionary fiscal policies. A key contributor was the monetization of oil revenues, which dramatically increased the money supply. This effect was amplified by a sharp rise in public sector spending, as booming oil earnings fueled aggressive government-led investments and recurrent expenditures.

2 A. Ahmed, "The Structural Adjustment Programme: The Journey so Far," CBN Economic and Financial Review 25, no. 4 (1987): 25–28, https://dc.cbn.gov.ng/efr/vol25/iss4/6/.

3 World Bank, "Nigeria," World Bank Data, accessed July 26, 2025, https://data.worldbank.org/country/nigeria.

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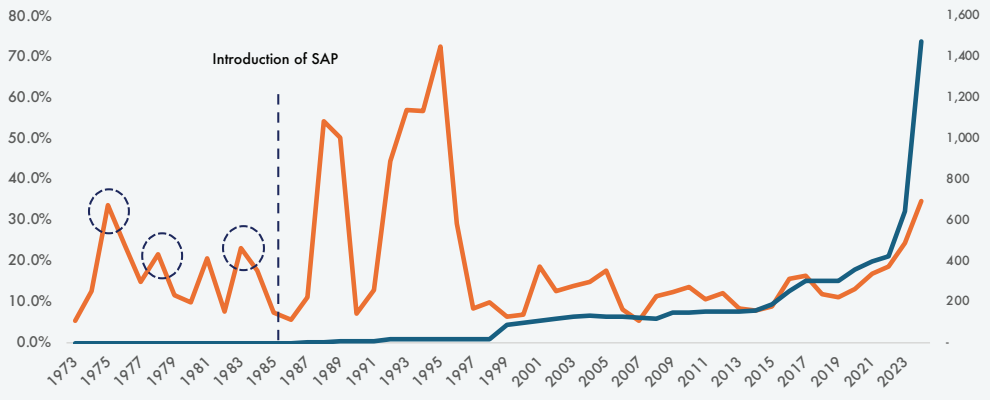
A particularly notable event was the Udoji salary award of 1975, which granted large, retroactive pay increases to public servants. This policy substantially boosted aggregate demand without a corresponding increase in domestic production, thereby intensifying inflationary pressures[4].

Furthermore, Nigeria's heavy reliance on imports, especially for industrial inputs and consumer goods, meant that increased domestic demand extended to the external sector, deteriorating the trade balance. By 1984 and 1985, the country recorded balance of payments deficits, signaling deepening external vulnerabilities[5]. During this period, inflation peaked at 34% in 1975, 20.8% in 1981, and 23.2% in 1983. Meanwhile, the fixed exchange rate regime artificially strengthened the Naira, masking underlying structural weaknesses in the economy.

Inflation and Exchange Rate in Nigeria (1973–2024)



Source: Data compiled from World Bank[6]

4 Akinyemi O. Oyefusi, Oil and the Probability of Rebel Participation among Youths in the Niger Delta of Nigeria (WIDER Research Paper No. 2007/62, United Nations University World Institute for Development Economics Research, 2007), https://core.ac.uk/download/pdf/234647515.pdf.

5 M. O. Ojo, "Monetary Policy in Nigeria in the 1980s and Prospects in the 1990s," Economic and Financial Review 30, no. 1 (March 1992): Article 1, Central Bank of Nigeria, https://dc.cbn.gov.ng/cgi/viewcontent.cgi?article=1894&context=efr.

6 World Bank, "Nigeria," World Bank Data, accessed July 26, 2025

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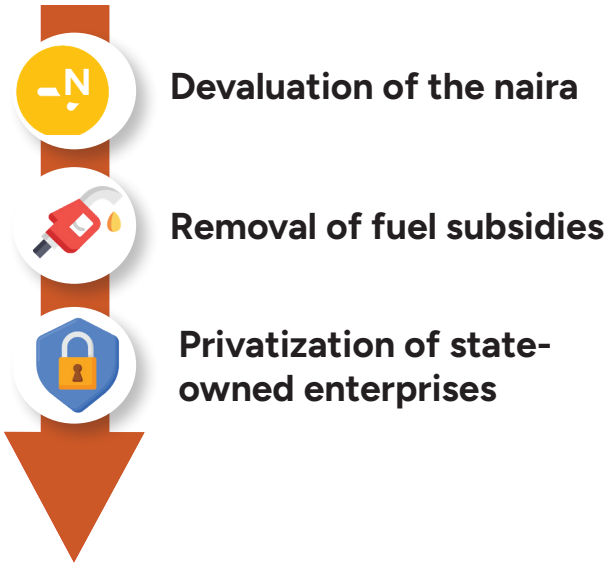
Simultaneously, Nigeria's external debt burden ballooned, driven by indiscriminate foreign borrowing and a growing backlog of unpaid trade obligations. The country's total external debt rose sharply from N2.3 billion in 1981 to N10.6 billion in 1983 and then to N17.3 billion by 1985. Correspondingly, the debt service ratio escalated from a modest 5% in 1981 to 33.2% in 1985, effectively cutting Nigeria off from international credit markets and further compounding the nation's economic woes.[7]

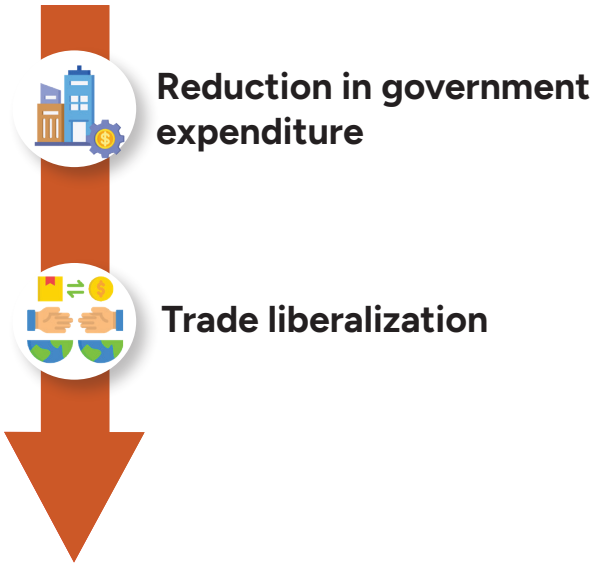
1.4 SAP Implementation in Nigeria and the IMF Era

By the end of 1985, it became evident that only broad and comprehensive economic reforms could arrest the nation's deteriorating trajectory.[8]

Facing economic collapse, the Nigerian government approached the International Monetary Fund (IMF) for assistance. In return, the IMF proposed a set of policy conditions aimed at restoring macroeconomic stability.[9]

These included:





Although Nigeria rejected the condition to remove fuel subsidies, it went on to implement the Structural Adjustment Programme (SAP) in July 1986. The SAP was designed as a two-year policy package to address deep-rooted structural distortions in the Nigerian economy, many of which had persisted since the oil boom era of the 1970s.

7 World Bank, Nigeria: Strategic Options for Redressing Industrial Growth (Washington, DC: World Bank, 1995), https://documents1.worldbank.org/curated/en/959091468775569769/pdf/multi0page.pdf.

8 A. Ahmed, "The Structural Adjustment Programme: The Journey so Far," CBN Economic and Financial Review 25, no. 4 (1987): 25–28, https://dc.cbn.gov.ng/efr/vol25/iss4/6/.

9 Oluwakemi Aladesanmi and Olabode Ajayi, "A Review of IMF Loan Conditionalities and Economic Growth in Nigeria: Evidence from 1986–2019," Proceedings of the 1st Asia Pacific International Conference on Industrial Engineering and Operations Management, Singapore, March 7–11, 2021, https://www.ieomsociety.org/singapore2021/papers/1205.pdf.

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2 The Structural Adjustment Programme in Focus

2.1. **Policy Shifts Under SAP:** Devaluation and Exchange Reform

The introduction of the Structural Adjustment Programme (SAP) in Nigeria in July 1986 was a turning point in the country's economic policy framework. One of its earliest and most significant measures was the establishment of the Second-Tier Foreign Exchange Market (SFEM) in September 1986. SFEM replaced the previous fixed exchange rate regime with a market-determined exchange rate system, allowing the naira's value to be set by demand and supply dynamics. This shift aimed to correct the distortions caused by an overvalued naira, which had previously made imports artificially cheap and exports uncompetitive. On the day SFEM was introduced, the naira depreciated sharply, falling from N1.5535 to N4.6406, a devaluation of over 198% in a single day, signaling the severity of the exchange rate misalignment.

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2.2 SAP Fallout: Inflation and Fiscal Turbulence

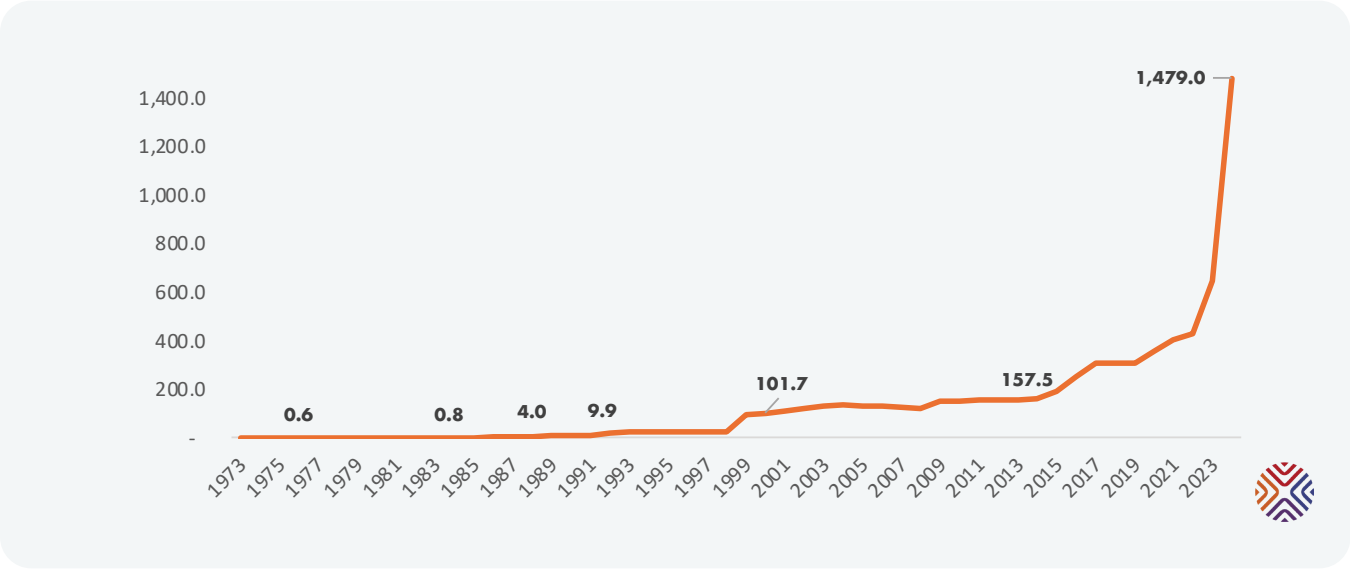
Following the devaluation of the Naira under the SAP, the currency depreciated significantly, by approximately 1,147% between 1986 and 1998, moving from N1.75 to N21.89 per US dollar. This sharp depreciation triggered a wave of inflationary pressures across the Nigerian economy.

In 1988, inflation surged dramatically to 54.5%, up from 11.3% in the previous year. Although it dropped slightly to 50.5% in 1989, it eventually declined to 7.4% in 1990. However, Nigeria experienced a new wave of inflation spikes in 1993 and 1995, reaching 57.2% and 72.8%, respectively.

These inflationary episodes were largely driven by devaluation of currency, expansionary fiscal policy, and rapid growth in money supply. The Nigerian government financed persistent budget deficits primarily through borrowing from the Central Bank of Nigeria (CBN). By the end of 1994, the CBN held nearly 75% of the federal government's domestic debt, significantly increasing the money supply and placing upward pressure on prices.[10]

This event after the implementation of SAP showed that Nigeria was still battling severe macroeconomic instability, and the devaluation alone could not fix the underlying structural weaknesses. Fiscal indiscipline and over-reliance on oil revenues continued to weigh heavily on economic outcomes.

Nigeria Exchange Rate Movement from 1973 to 2023



Source: Data Compiled from CBN[11]

10 A. Ahmed, "The Structural Adjustment Programme: The Journey so Far," CBN Economic and Financial Review 25, no. 4 (1987): 25–28,

11 Central Bank of Nigeria, Statistical Bulletin, accessed June 17, 2025, https://www.cbn.gov.ng/documents/Statbulletin.html.

To complement the new exchange rate framework, the government implemented significant trade liberalization policies. A further incentive for exporters allowed them to retain 100% of their foreign exchange earnings in domiciliary accounts, thereby encouraging non-oil exports and boosting external reserves.[12]

The government implemented tight monetary and disciplined fiscal policies. The CBN imposed credit ceilings, especially on public sector borrowing, and deregulated interest rates, boosting banking activity and financial intermediation. On the fiscal side, efforts focused on broadening the tax base, cutting budget deficits, and reducing unproductive spending. Corporate tax was lowered from 45% to 40%, with incentives for investment in agriculture, refining, and gas. Together, these measures aim to stabilize the economy, curb inflation, and promote private-sector-led, export-driven growth.[13]

12 A. Ahmed, "The Structural Adjustment Programme: The Journey so Far," CBN Economic and Financial Review 25, no. 4 (1987): 25–28,

13 M. O. Ojo, "Monetary Policy in Nigeria in the 1980s and Prospects in the 1990s," Economic and Financial Review 30, no. 1 (March 1992): Article 1, Central Bank of Nigeria, https://dc.cbn.gov.ng/cgi/viewcontent.cgi?article=1894&context=efr.

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3 Recurring Cycles: Economics Reform Without Relief

3.1 Nigeria's Economic Déjà Vu: How Past Policies Are Resurfacing in Nigeria's Present Economy

In 2023, Nigeria began experiencing a wave of structural economic reforms that closely mirror policy shifts seen during the Structural Adjustment Programme (SAP) era. These reforms, framed as necessary for fiscal sustainability, have led to sharp economic shocks for everyday Nigerians.

The first major policy move came in May 2023, with the removal of the fuel subsidy, announced during the inauguration speech of President Bola Ahmed Tinubu. This marked the end of decades of government spending to keep domestic petrol prices artificially low. The fuel subsidy had long been criticized as inefficient and disproportionately benefiting the wealthy, but its removal came without adequate cushioning policies, causing immediate ripple effects.[14]

Following closely was the unification of the foreign exchange rate regime, which abolished the multiple exchange rate windows and allowed the naira to float.

By removing the artificial peg, the exchange rate was now determined by market forces, a long-standing recommendation of international financial institutions. However, this unification caused a sharp devaluation of the Naira, resulting in cost-push inflation as imports became significantly more expensive. The Naira dropped by 248%, from N460.7 in May 2023 to N1602.2 in April 2025.

These twin policies, fuel subsidy removal and FX unification, led to a surge in the cost of goods and services across the board. Transportation costs doubled in many states, energy prices skyrocketed, and the cost of production increased substantially for manufacturers. These costs, in turn, were passed onto consumers in the form of higher prices for food, household items, and services, deepening the economic hardship for millions of Nigerians.

14 KPMG Nigeria, "Removing Nigeria's PMS Fuel Subsidies: Understanding the Policy Shift," KPMG Insights, June 2023, https://kpmg.com/ng/en/home/insights/2023/06/removing-nigeria-pms-fuel-subsidies.html.

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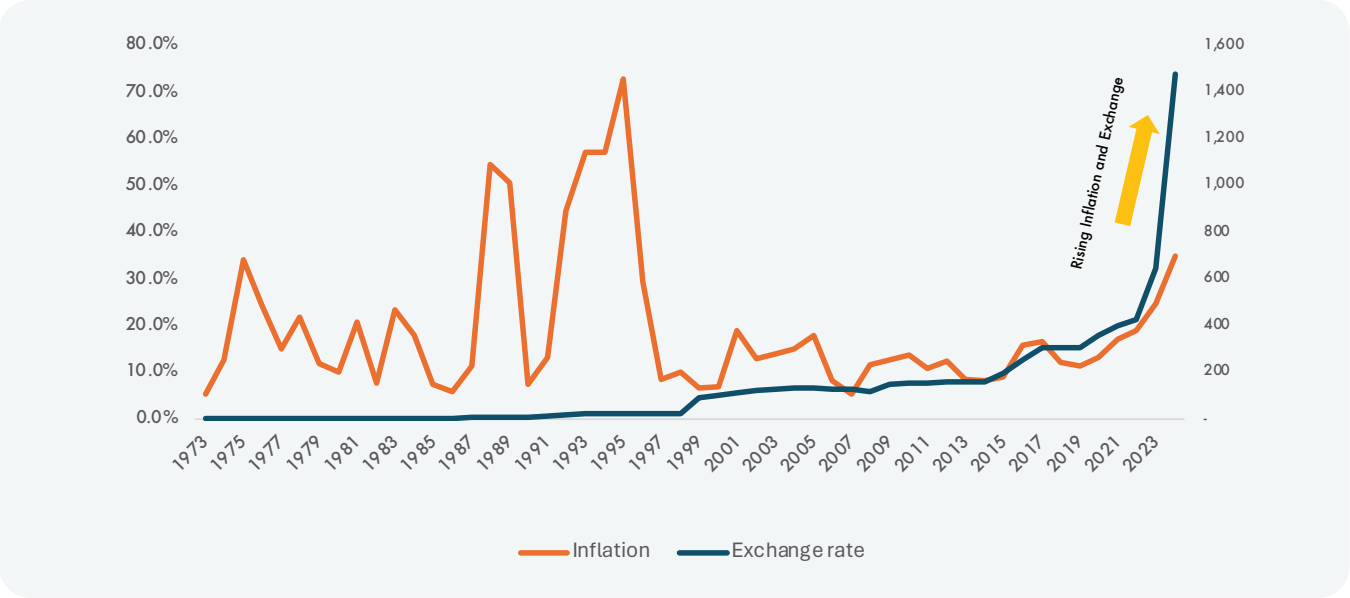
Inflation and Exchange Rate Trend of Nigeria (1973–2024)



Source: Data compiled from the World Bank[15]

While the government positioned these reforms as painful but necessary, it can be argued they reflect a prioritization of debt repayment over genuine economic development. International organizations like the IMF and World Bank have long advocated for such reforms, often tying them to financial support packages. The core objective behind their recommendations is typically to ensure macroeconomic stability and fiscal discipline, especially the ability of a country to service its debts, to create a revolving pool of funds for lending to other distressed economies.

Nigeria completed the repayment of its $3.4 billion COVID-19 emergency facility from the IMF. In April 2025. But while the financial debt may be cleared, the social cost of that borrowing remains unpaid. Nigerians are grappling with record-high inflation, unemployment, and worsening poverty levels, with little relief in sight.

In essence, the structural adjustments and reforms Nigeria has implemented to address its long-standing economic deficiencies have yet to yield the desired outcomes. While these policies have been aimed at improving macroeconomic fundamentals and attracting foreign investment, with success, evidenced by commendations from international organizations and recent upgrades in Nigeria's credit rating, their benefits have not translated into real economic relief for the average Nigerian.

15 World Bank, Nigeria Public Finance Review: Resilience through Reforms, November 2022, https://documents1.worldbank.org/curated/en/099545011232116970/pdf/P1778200813d1605e0b361074dc50d90cd3.pdf.

The cost of living remains exceedingly high, and inflation continues to erode household incomes. Although the impact of the earlier introduced policy is beginning to ease and the economy shows signs of adjustment, there has been a glaring lack of complementary cushioning measures or social intervention programs to protect the most vulnerable segments of the population.

As a result, the burden of economic reforms continues to fall disproportionately on ordinary Nigerians, particularly the poor, deepening inequality and amplifying social hardship.

3.2 Oil Price Movements and Reserve Fragility (2006–2025)

An analysis of the correlation between global oil price movements and Nigeria's external reserves from 2006 to 2025 reveals a moderate positive correlation of 0.36, indicating that while oil prices influence reserves, the relationship is not perfectly linear.

Historically, periods of declining oil prices have been accompanied by corresponding drops in Nigeria's external reserves. However, even when oil prices recover, the rebound in reserves tends to lag or occur at a slower pace. **In other words, the oil price and Nigeria's reserve relationship show that it is flexible downward and rigid upward based on the analysis.**

This asymmetry can be attributed to several structural and economic dynamics. Notably, the reserves are often drawn upon for multiple fiscal and monetary interventions, including defending the naira, servicing external debt, and funding critical imports. Consequently, a recovery in oil prices may not immediately translate into reserve accumulation, especially when prior shocks have left fiscal imbalances or when the Central Bank of Nigeria (CBN) maintains an aggressive intervention stance in the FX market.

In 2025, this pattern appears to be reemerging. Amid a bearish oil market in H1, Nigeria's external reserves have continued to decline moderately.

15 World Bank, Nigeria Public Finance Review: Resilience through Reforms, November 2022, https://documents1.worldbank.org/curated/en/099545011232116970/pdf/P1778200813d1605e0b361074dc50d90cd3.pdf.

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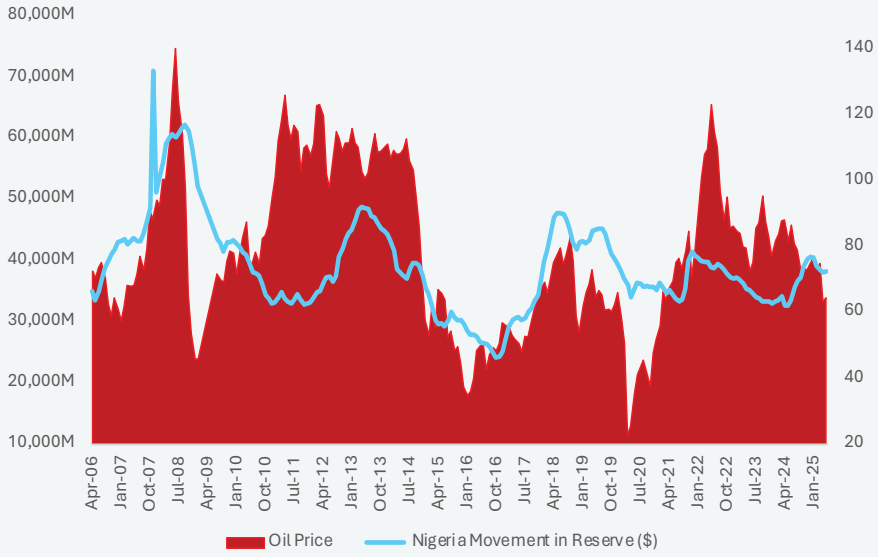
CBN's efforts to stabilize the currency through frequent interventions have placed further strain on the reserve buffers. This raises an important macroeconomic question: How resilient is Nigeria in the face of another external shock, such as a prolonged slump in oil prices, without triggering significant economic dislocations or imposing hardship on its population. These underlying issues must be addressed to build stronger shock absorbers and ensure long-term economic stability.

Reserve Movement in Relation to Oil Price



Source: Data Compiled from CBN[16], Bloomberg[17]

We project external reserves to reach around $43 billion by year-end, representing a 15.6% growth from the end-June 2025 position.

Tailwind factors include a stable currency and a reduced need for the CBN to defend the naira, along with increased inflows and foreign portfolio investment and foreign direct investment driven by Nigeria's improved economic outlook. This is evidenced by the recent credit rating upgrades and positive outlooks from the three major rating agencies. Also contributing are high interest rates and favourable remittance policies for Nigerians in the Diaspora, including the NRBVN, Non-Resident Nigerian Ordinary Account (NRNOA), and Non-Resident Nigerian Investment Account (NRNIA).

Furthermore, a reduction in imports is expected as the naira's competitive position discourages excessive importation. Nigeria is also progressing toward fuel self-sufficiency, which should reduce the volume of fuel imports over time. In addition, the Dangote Refinery plans to source 100% of its crude oil locally by the end of 2025, further easing pressure on external reserves by eliminating the need for imported crude.

Potential headwinds include the repayment of Eurobond principal and interest totaling $1.8 billion in the second half of 2025, bearish oil prices amid OPEC+ plans to ramp up output, and the fact that oil prices remain below Nigeria's budget benchmark of $75 per barrel. In addition, domestic production challenges could further weigh on revenue inflows.

16 Central Bank of Nigeria, Movement in Foreign Reserves, accessed June 17, 2025, https://www.cbn.gov.ng/IntOps/Reserve.html.

17 Bloomberg Terminal, Historical Crude Oil Prices, accessed June 17, 2025.

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4 Structural Impediments: The Core Barriers

4.1 Oil Dependency: The Impact of Oil Price Susception on Nigeria's Economic Trajectory

Nigeria as an oil-dependent country, makes its economy vulnerable to changes in oil prices. After reaching an all-time high of $139.83 per barrel in June 2008, oil prices plummeted to $45.59 per barrel by December 2008. This sharp depreciation can be attributed to the global financial crisis in the country, elevated oil prices in the first half of the year. However, inflation rose from 9.7% in May 2008 to 15.1% by year-end, largely due to rising global food prices and the cost of other imported goods, as Nigeria remained heavily import-dependent.

Crude Oil Price Movement

Source: Data compiled from Bloomberg terminal.[18]

In 2015 and the first half of 2016, Nigeria experienced a bearish trend in global oil prices, with crude oil falling to as low as $34.4 per barrel in January 2016. This sharp decline had significant implications for the Nigerian economy, which had previously enjoyed robust growth, averaging around 7% annually from 2000 to 2014. However, by 2015, the annual real GDP growth rate had dropped sharply to 2.7%.[19]

18 Bloomberg Terminal, Historical Crude Oil Prices, accessed June 17, 2025

18 World Bank, Adjustment in Africa: Reforms, Results, and the Road Ahead (Washington, DC: World Bank, 1994), https://openknowledge.worldbank.org/entities/publication/9ecd5def-9737-5785-a3fb-c631cefbcda7.

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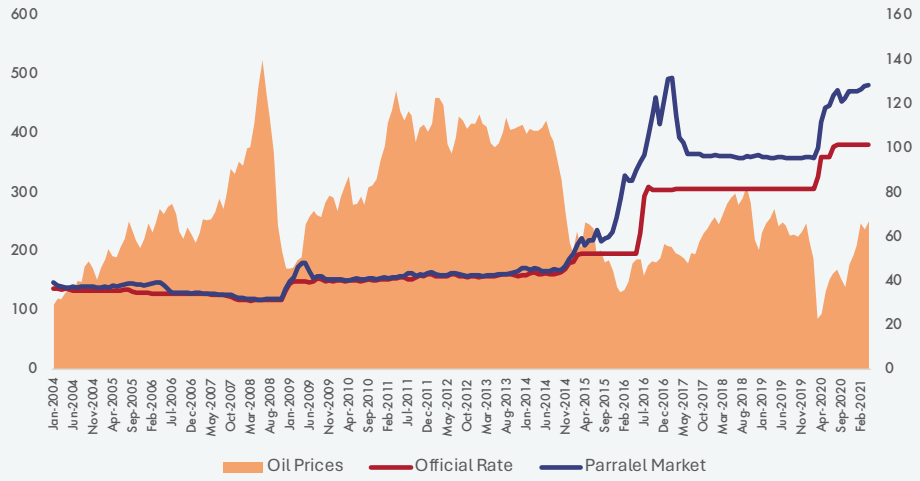
The downturn deepened in 2016 when Nigeria recorded its first annual GDP contraction since 1994, shrinking by 1.6%. This marked the onset of a recession. The contraction was driven by a combination of lower oil revenues and a notable reduction in oil production output, resulting in dwindling foreign exchange earnings.

The pressure on external reserves and reduced inflows led to a significant depreciation of the national currency. The naira, which was previously pegged at N197 to the US dollar in the official market, depreciated to N305.22. Additionally, a wide disparity emerged between the official exchange rate and the parallel market, with the gap averaging over N121, further highlighting the strain on Nigeria's foreign exchange management and the broader economy.



Source: Data Compiled from CBN[20], Bloomberg[21]

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20 Central Bank of Nigeria, Exchange Rates by Currency, accessed June 17, 2025, https://www.cbn.gov.ng/rates/ExchRateByCurrency.html.

21 Bloomberg Terminal, Historical Crude Oil Prices, accessed June 17, 2025.

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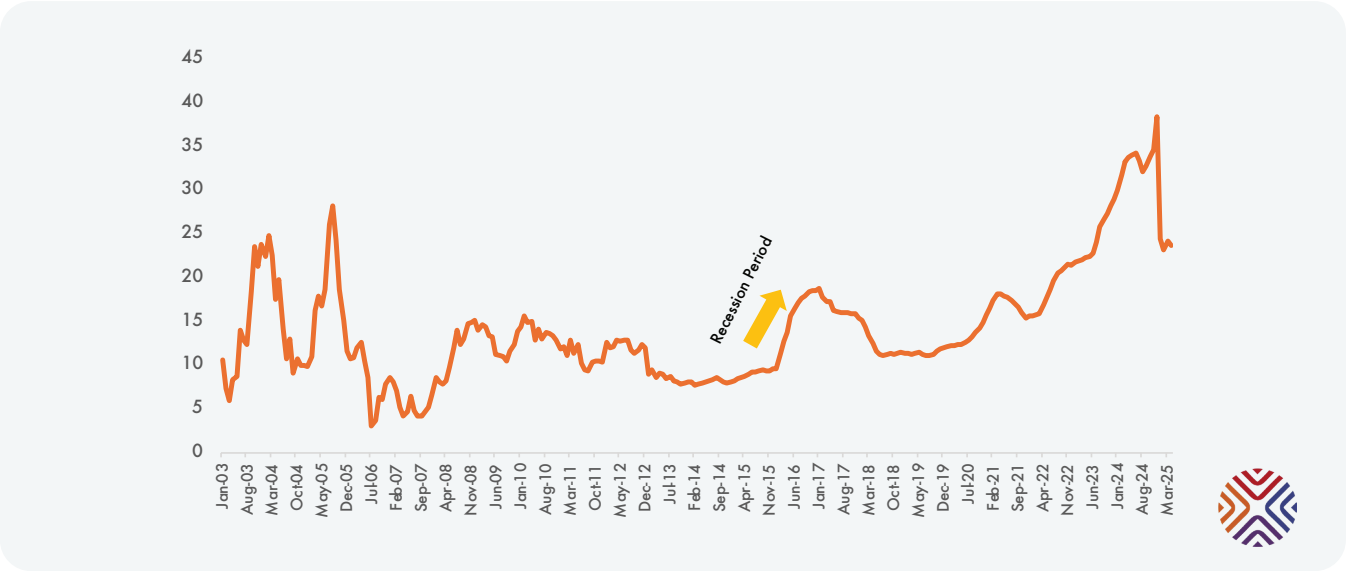
Nigeria Inflation Rate Trend



Source: Data compiled from CBN[22]

4.2 Why Nigeria Avoided a Recession in 2008 but not in 2016

In contrast to the 2016 economic downturn, Nigeria was able to avoid a recession during the 2008 global oil price collapse. This resilience was largely attributed to the country's relatively strong macroeconomic fundamentals and a robust external reserves position at the time. Despite the sharp decline in oil prices and rising inflation pressures, Nigeria's real GDP still grew by a solid 6.8% in 2008. The availability of fiscal buffers and prudent economic management enabled the country to absorb the external shock and maintain growth, conditions that were absent during the 2016 oil price crash. Given that the 2016 oil price crash led to recession and naira devaluation, current bearish oil conditions could reawaken similar vulnerabilities, especially if reserves continue thinning and FX pressures rise.

The Period highlights the importance of building fiscal buffers during oil booms to cushion against future shocks. As the global economy becomes increasingly volatile, Nigeria's ability to manage inflation and exchange rate pressures will depend on disciplined fiscal policy, improved productivity, and a diversified revenue base.

22 Central Bank of Nigeria, Inflation Rate, accessed June 17, 2025, https://www.cbn.gov.ng/rates/inflrates.html.

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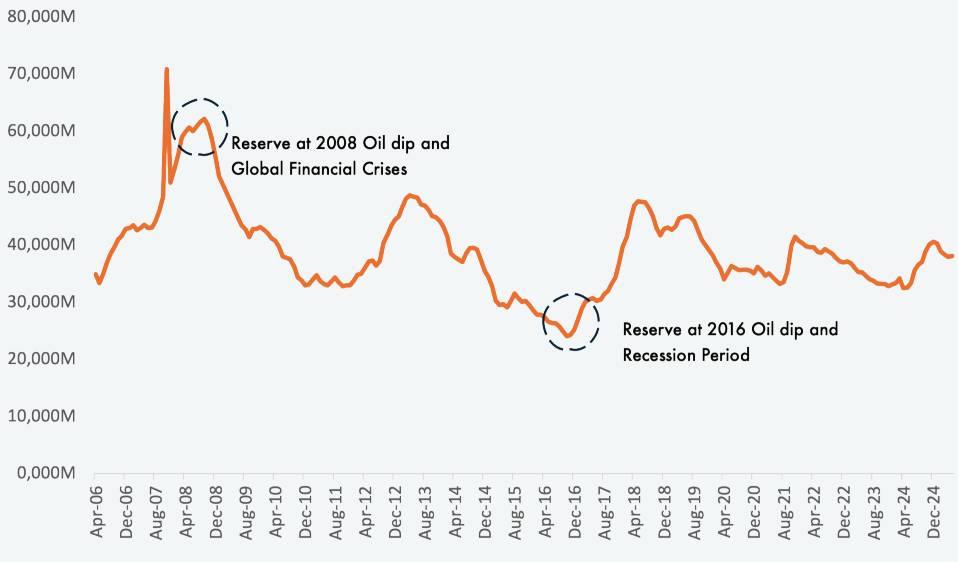
Nigeria Reserve Movement ($)



Source: Data Compiled from CBN[23]

Similarly, during the COVID-19 pandemic, oil prices experienced another dramatic decline. Prices fell from $66 per barrel in December 2019 to $22.74 by March 2020. This downward trend continued, reaching as low as $6 on a trading day in April 2020. Combined with the lockdown restrictions and economic disruptions, Nigeria witnessed a significant drop in government revenue. In response, the country sought emergency financial assistance of $3.4 billion from the International Monetary Fund (IMF) in April 2020, equivalent to 100% of its IMF quota[24]

As is customary with the IMF's Rapid Financing Instrument (RFI), the loan came with policy reform expectations. Any member country requesting RFI support is required to collaborate with the IMF to address its balance of payments challenges and to outline the general economic policies it intends to pursue. In Nigeria's case, these policy proposals included the removal of fuel subsidies, devaluation of the national currency, and the liberalization of the economy to promote greater foreign participation and investment.

Among the key proposals attached to the loan were the removal of fuel subsidies, the devaluation of the national currency, and the liberalization of the economy to allow for increased foreign influence and participation.[25] Their objectives tend to override national development goals, leading to persistent poverty and inflation.

23 Central Bank of Nigeria, Movement in Foreign Reserves, accessed June 17, 2025, https://www.cbn.gov.ng/IntOps/Reserve.html.

24 International Monetary Fund, "Nigeria's IMF Financial Assistance to Support Healthcare Sector, Protect Jobs," IMF News, April 29, 2020, https://www.imf.org/en/News/Articles/2020/04/29/na042920-nigerias-imf-financial-assistance-to-support-health-care-sector-protect.

25 Policy and Legal Advocacy Centre (PLAC), "IMF Approves $3.4billion Loan for Nigeria," PLAC, accessed June 17, 2025, https://placng.org/Legist/imf-approves-3-4billion-loan-for-nigeria/.

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4.3 Context and Controversy Surrounding Fuel Subsidy in Nigeria

Fuel subsidy in Nigeria was introduced in the 1970s and became institutionalized through the Price Control Act, which made it illegal for fuel to be sold above a government-regulated price. This policy, intended to shield consumers from volatile global oil prices, eventually became a deeply entrenched fiscal commitment by the government.

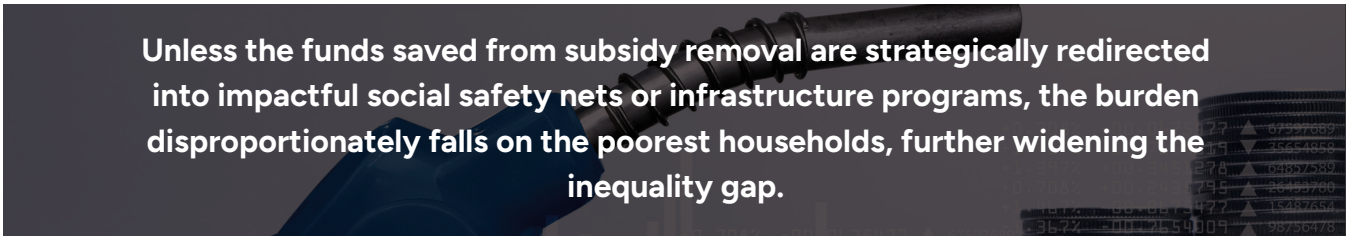
In January 2012, then-President Goodluck Jonathan announced the removal of the fuel subsidy, increasing the price of petrol from N65 to N140 per liter. The rationale behind this decision was that wealthier Nigerians benefited disproportionately from the subsidy, as they consumed more fuel and, in some cases, diverted subsidized fuel for resale across borders for higher profits.

It was argued that eliminating the subsidy would free up public funds for infrastructure, education, and health investments that could better serve the broader population.

However, the removal sparked widespread national protests known as "Occupy Nigeria," driven by fears that the policy change would impose undue economic and social hardship on the poor. Public transport fares doubled, and food prices surged, amplifying the cost of living. In response to the public outcry, the government partially reversed the policy on January 14, 2012, reducing the pump price to N90 per liters.[26]

A World Bank report from November 2021 underscored the regressive nature of the subsidy: households in the bottom 40% of the income distribution accounted for less than 3% of gasoline purchases, while three-quarters of all petrol consumed went to private firms, government agencies, public transport services, and other commercial entities. Despite these findings, what was often underestimated was the subsidy's indirect trickle-down effect, particularly its role in keeping transportation and commodity prices relatively stable.[27]

This became evident again in 2023, when the full removal of the fuel subsidy led to a similar cascade of inflationary pressures, demonstrating that even when the poor are not direct beneficiaries of subsidies, they remain the most vulnerable to the downstream consequences. Energy and transportation costs are interconnected with virtually every sector, and as those prices rise, so do the costs of food, services, and essentials.



26 Global Nonviolent Action Database, "Nigerians Protest Removal of Fuel Subsidy, 2012," Swarthmore College, accessed June 17, 2025, https://nvdatabase.swarthmore.edu/content/nigerians-protest-removal-fuel-subsidy-2012.

27 PwC Nigeria, Fuel Subsidy in Nigeria: Issues, Challenges and the Way Forward, 2022, https://www.pwc.com/ng/en/assets/pdf/fuel-subsidy-in-nigeria-issues-challenges-and-the-way-forward.pdf.

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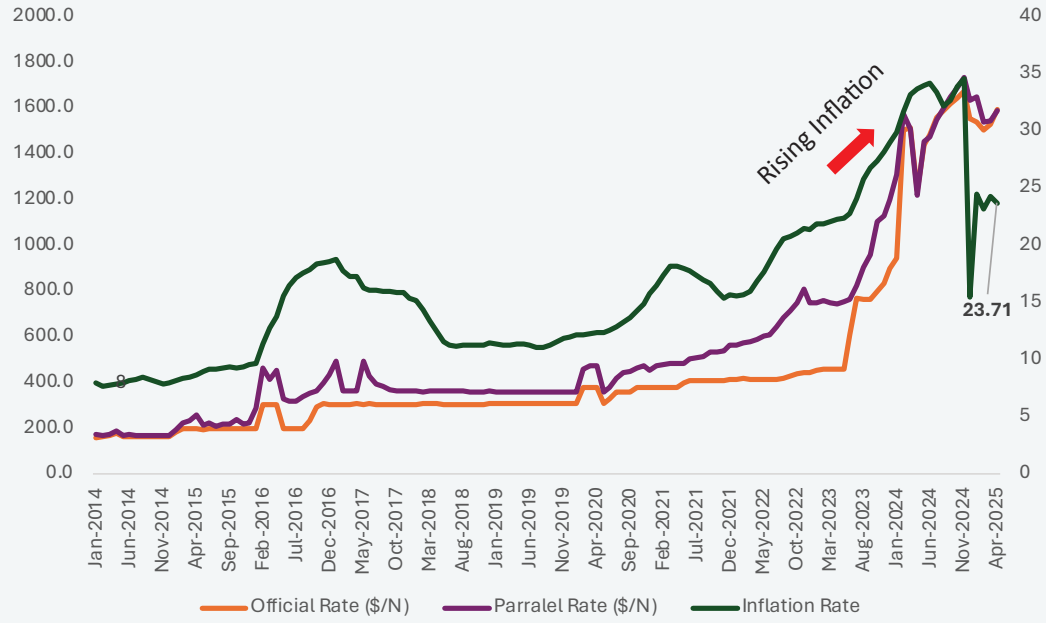
In the first half of 2025, we saw the stabilization of several economic policies introduced in 2023. Prices have steadied, inflation has slowed, and corporate earnings are rebounding, reflecting a period of macroeconomic adjustment settling into equilibrium.

As we enter the second half of 2025, we expect a relatively stable exchange rate environment, with the Central Bank of Nigeria (CBN) actively intervening in the FX market to defend the naira in case of an adverse movement. This exchange rate stability will offer relief to companies with foreign-denominated obligations, as it removes a significant layer of uncertainty from financial forecasting.

Notably, several companies have already de-risked their exposure by converting dollar-denominated debts to naira-based instruments. This reduces corporate vulnerability to external shocks and strengthens local currency adoption in long-term financing.

Exchange Rates and Inflation in Nigeria



Source: Data compiled from CBN[28]

28 Central Bank of Nigeria, Exchange Rates by Currency, accessed June 17, 2025, https://www.cbn.gov.ng/rates/ExchRateByCurrency.html.

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4.4 H2 2025 Risks: Can Nigeria Withstand Another Oil Shock?

In the second half of 2025 (H2), oil prices are projected to remain subdued as global demand growth slows sharply, from 990,000 barrels per day (kb/d) in the first half to just 650 kb/d for the remainder of the year. This moderation in demand is driven by intensifying economic headwinds and record-high electric vehicle (EV) sales, both of which are curbing traditional oil consumption.

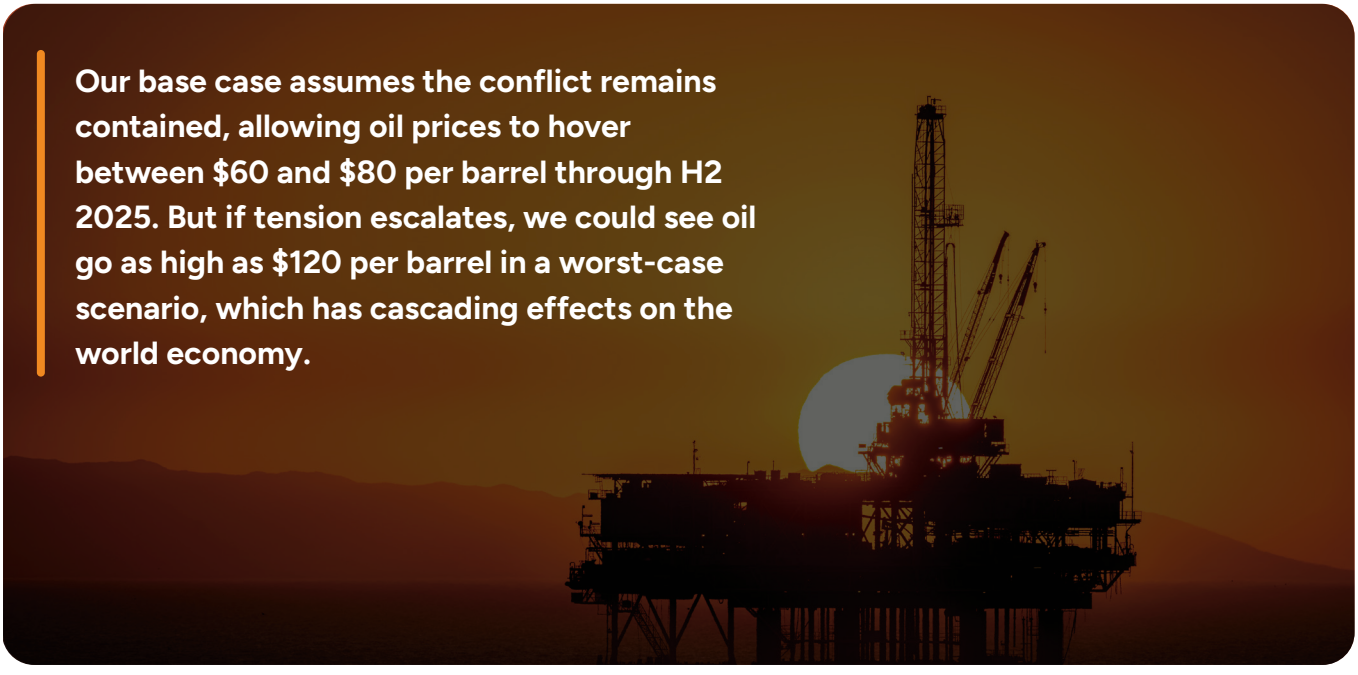
Global oil demand is expected to drop, falling from a growth rate of 990,000 barrels per day in H1 to just 650,000 barrels per day in H2. This slowdown is largely due to worse global economic headwinds and surging electric vehicle (EV) sales, which are gradually displacing fossil fuel demand.

At the same time, global oil supply is projected to expand by 1.6 million barrels per day in 2025, reaching an average production of 104.6 million barrels per day. A further increase of 970,000 barrels per day is anticipated in 2026. The April 2025 decision by OPEC+ to gradually unwind 2.2 million barrels per day in voluntary production cuts has added to supply pressures. This began with a 138,000 bpd increase in April, followed by a larger boost of 411,000 bpd in May. However, actual delivery fell short; only 180,000 bpd was added in May compared to the targeted 310,000 bpd, highlighting the gap between intentions and execution. This underperformance led to a brief dip in global prices.[29]

The geopolitical tensions in June between Israel and Iran, which escalated sharply, reversed the downward trend in oil prices, pushing them upward. However, how sustainable and long-lasting this upward movement will be will depend on how other factors unfold. Still, the immediate impact on global oil supply remains limited, as Iran's exports are already restricted by U.S. sanctions, and neither country ranks among the top global exporters.

The greater risk lies in a potential spillover into major exporters like Saudi Arabia, Iraq, the UAE, or Egypt. If regional instability spreads, it could trigger a new wave of global inflation, pushing up the prices of energy, goods, and services worldwide; however, this is very unlikely.

Our base case assumes the conflict remains contained, allowing oil prices to hover between $60 and $80 per barrel through H2 2025. But if tension escalates, we could see oil go as high as $120 per barrel in a worst-case scenario, which has cascading effects on the world economy.



29 International Energy Agency, Oil Market Report – May 2025, accessed June 17, 2025, https://www.iea.org/reports/oil-market-report-may-2025.

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Sanctions on oil from Russia, Iran, and Venezuela continue to act as a partial supply cap, limiting how much crude reaches global markets. Additionally, OPEC+ nations' output for May 2025 indicated that the nations are still struggling to meet their new output targets. While this helps to stabilize prices temporarily, it is not a reliable long-term solution.
Meanwhile, the structural shift toward clean energy and EV adoption continues to chip away at oil demand fundamentals. As supply expands and consumption stagnates, the oil market is likely to enter a prolonged phase of price weakness in the future.

For Nigeria, this evolving oil landscape presents familiar risks. The country's economic model remains heavily reliant on oil exports. With foreign reserves under pressure and fiscal buffers thin, a renewed collapse in oil prices could quickly lead to lower government revenues, FX shortages, and rising macroeconomic instability.

History has shown that Nigeria's economy is acutely sensitive to oil price shocks. Each downturn reduces revenue, disrupts currency stability, and slows growth. As the global market braces for prolonged pricing pressure, the question remains: Can Nigeria survive another oil shock without slipping into crisis?
In the past, Nigeria has had to resort to borrowing during oil price downturns, often under emergency conditions. However, these external loans rarely come without strings. They are typically tied to advice that promotes austerity measures, cutting public spending, removing subsidies, and liberalizing markets, all of which often result in economic hardship for the most vulnerable.

These policies, though designed to restore macroeconomic balance, have a track record of exacerbating inequality, deepening poverty, and fueling public discontent. The burden of adjustment is rarely shared equally. The poor are hit hardest by rising living costs, reduced public services, and currency devaluation, while the benefits of recovery, if any, remain unequally distributed.

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5 Petro-Economy Comparisons: Lessons from Kuwait and Saudi Arabia

Comparing the Nigerian economy with those of Saudi Arabia and Kuwait, two countries with similar heavy dependence on oil for export. Oil made up over 74% of their total exports in 2023.

	Nigeria	Saudi Arabia	Kuwait
Oil Export	86.4%	74.9%	90.4%
Non-Oil Export	13.6%	25.1%	9.6%

Source: Observatory of Economic Complexity (OEC)[30]

5.1 Oil Price Volatility and GDP Response in Kuwait, Saudi Arabia, and Nigeria

A review of GDP trends for Nigeria, Saudi Arabia, and Kuwait between 1971 and 2023 reveals a broadly similar pattern in GDP growth movements, indicating a shared sensitivity to oil price fluctuations. However, there are notable deviations, particularly between the 1970s and 1997, reflecting varying levels of economic resilience and exposure among the three economies. Looking at Kuwait, it experienced a sharp GDP contraction of over 40% in 1991, followed by a dramatic recovery of 82.8% in 1992, which can be linked to the aftermath and rebound from the Gulf War, an outlier not driven by oil prices. Despite such extremes, the overall trend suggests a correlated movement, reinforcing the impact of global oil price cycles on these oil-dependent nations.

30 Observatory of Economic Complexity (OEC), Country Profiles: Kuwait, Nigeria, and Saudi Arabia, accessed June 17, 2025, https://oec.world/.

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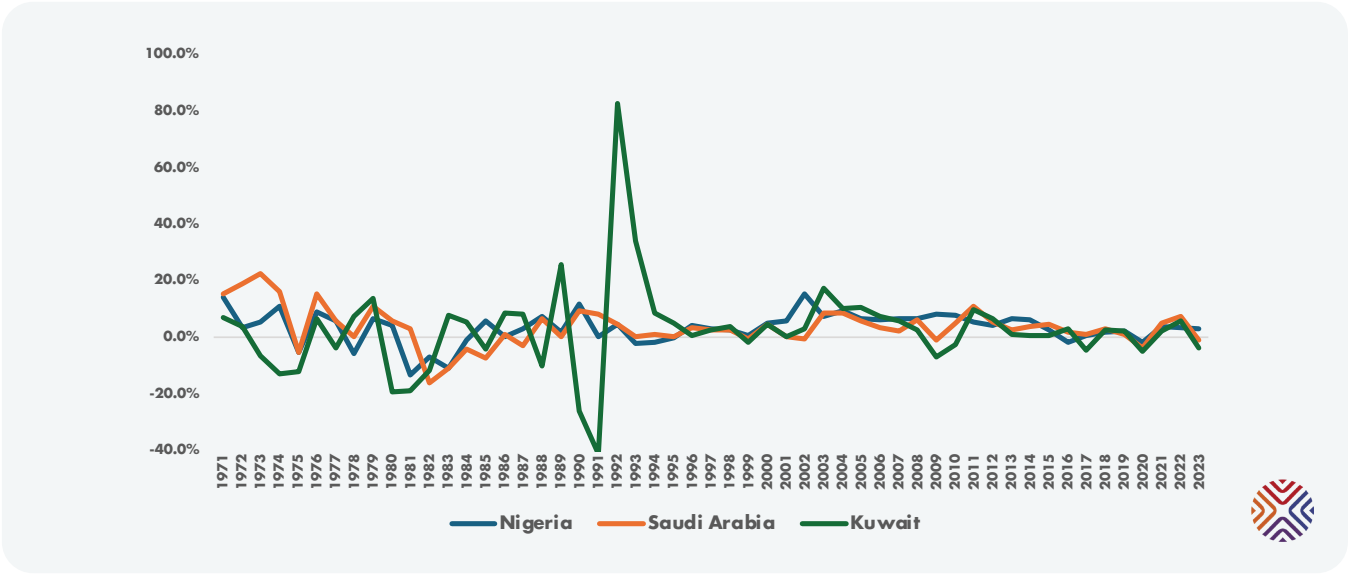
GDP growth rate trend for Nigeria, Kuwait, and Saudi Arabia

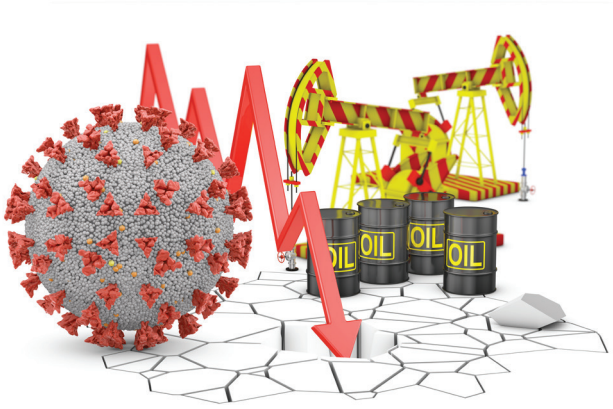


Source: Data compiled from World Bank[31]

During the 2008 global financial crisis, oil prices were high in the first half of the year but fell sharply in the second half. Despite averaging $101 per barrel in 2008, the average dropped to $63.9 in 2009. This price slump had a pronounced impact on Kuwait and Saudi Arabia, both of which experienced GDP contractions in 2009. Notably, Kuwait's GDP contracted again in 2010, even though oil prices had begun recovering, averaging $80.9 per barrel that year. This persistent weakness reflects Kuwait's high dependence on oil, which accounts for over 90% of its export earnings and a significant portion of government revenue. In fact, 86% of Kuwait's 2024 budgeted revenue is projected to come from oil, a clear indicator of its vulnerability to oil price shocks.[32]

In 2016, another sharp oil price dip occurred, but this time only Nigeria experienced a GDP contraction, while both Saudi Arabia and Kuwait managed to maintain positive, albeit reduced, growth. This divergence highlights Nigeria's structural vulnerabilities, such as weaker fiscal buffers, foreign exchange instability, and poor infrastructure. While oil prices marginally recovered in 2017, Kuwait experienced a fresh GDP contraction, whereas Nigeria and Saudi Arabia recorded subdued growth.

The 2020 COVID-19 pandemic triggered a synchronized global economic downturn. Oil prices plummeted to historic lows, and all three economies, Nigeria, Saudi Arabia, and Kuwait, experienced GDP contractions, demonstrating the deep reliance of their macroeconomic stability on oil revenues.



31 World Bank, GDP Growth (Annual %) – Nigeria, Kuwait, Saudi Arabia, World Bank national accounts data and OECD National Accounts data files, accessed June 17, 2025, https://data.worldbank.org/indicator/NY.GDP.MKTP.KD.ZG?locations=NG-KW-SA.

32 Kuwait Ministry of Finance, State Budget Presentation 2024–2025, accessed June 17, 2025, https://www.mof.gov.kw/MofBudget/PDF/BudgetPresentation25-24Eng-1.pdf.

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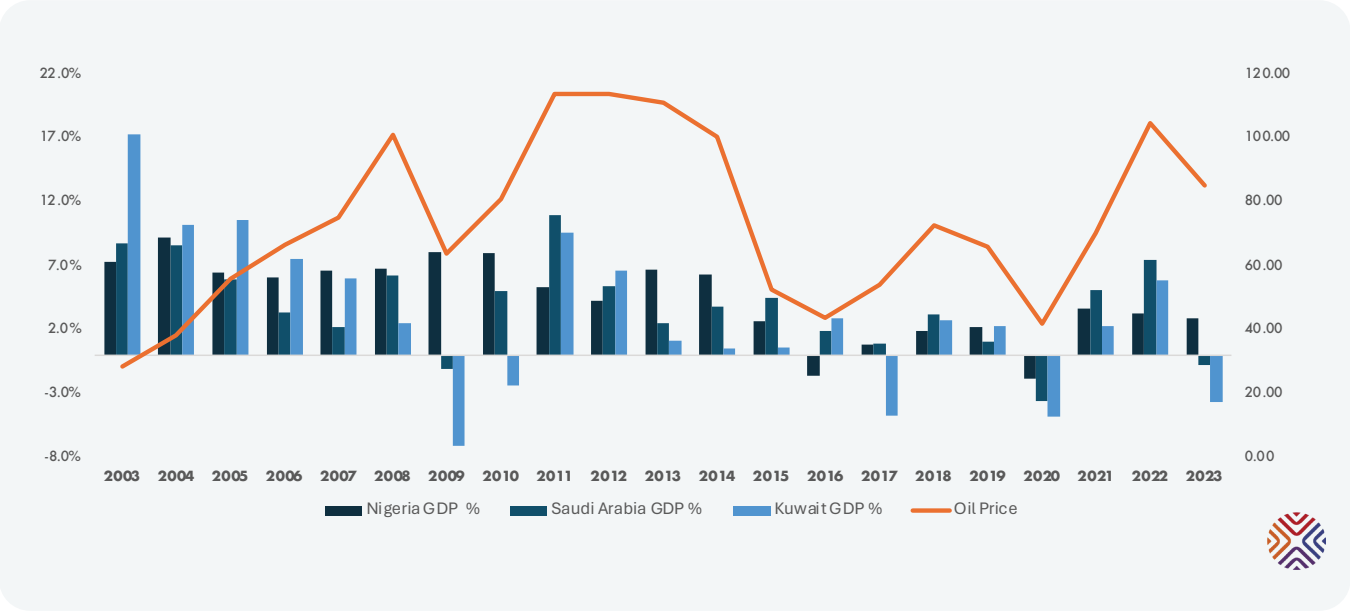
GDP Growth rate for Nigeria, Kuwait and Saudi Arabia vs. Oil Price Movement



Source: Data compiled from World Bank,[33] Bloomberg[34]

5.2 Shock Absorbers: Why Reserves and Reform Matter

Overreliance on a single commodity, such as crude oil, for foreign exchange earnings makes an economy highly vulnerable to price fluctuations in the global market. While economic diversification remains the most sustainable long-term solution, robust external reserves and sound macroeconomic reforms and structures can provide critical stability during periods of adverse price movements.

This was evident during the 2008 global financial crisis, when Nigeria avoided a recession despite falling oil prices, largely due to its strong external reserves at $53,598M and relatively stable macroeconomic framework at the time. Similarly, Saudi Arabia has consistently shown resilience during oil price downturns, supported by its substantial reserve buffers and economic management systems.

For instance, in 2016, during another significant oil price dip, Saudi Arabia's external reserves averaged $547,267M, while Nigeria's external reserves stood at just $28,020M and Kuwait's at $33,936M. This stark contrast highlights the importance of maintaining ample reserves and institutional preparedness to cushion the economy against commodity-driven external shocks.

33 World Bank, GDP Growth (Annual %) – Nigeria, Kuwait, Saudi Arabia, World Bank national accounts data and OECD National Accounts data files, accessed June 17, 2025, https://data.worldbank.org/indicator/NY.GDP.MKTP.KD.ZG?locations=NG-KW-SA.

34 Bloomberg Terminal, Historical Crude Oil Prices, accessed June 17, 2025.

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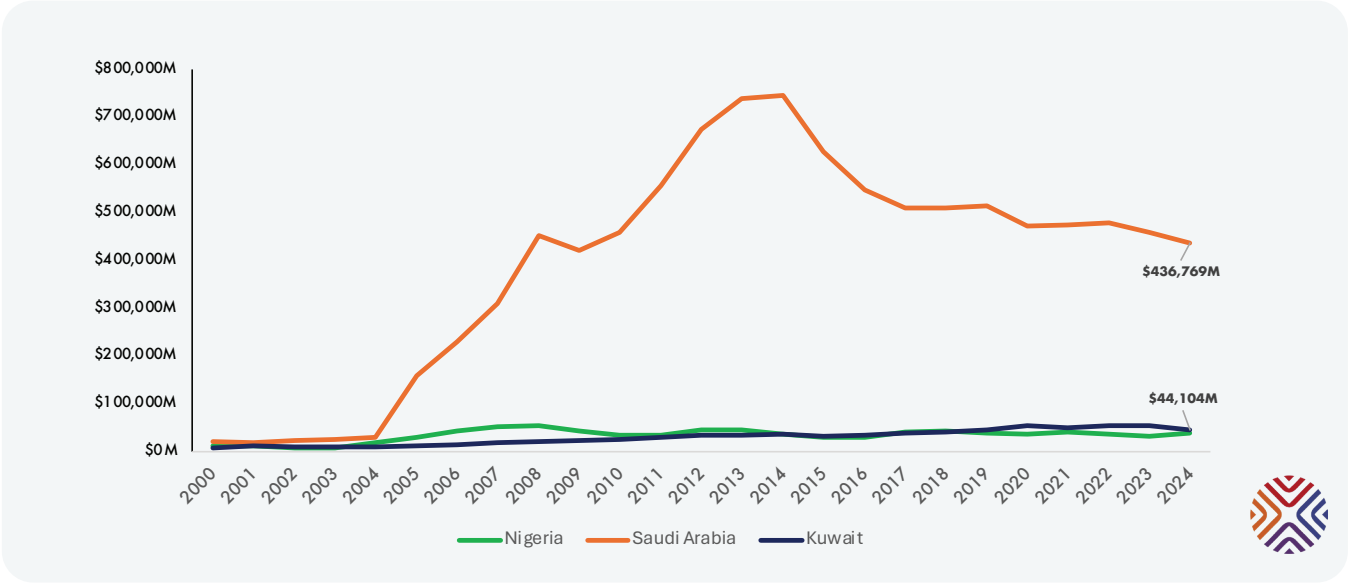
Total reserves in US$, including Gold



Source: Data compiled from World Bank[35]

5.3 Currency Wars: The Naira vs. Oil + Peers, 1973–2024

Over the past 51 years, a comparative analysis of four major petroleum-exporting countries—Nigeria, Egypt, Kuwait, and Saudi Arabia—reveals stark contrasts in currency stability against the US dollar. Among them, the Nigerian naira has experienced the steepest depreciation, plunging by over 207,000% since its introduction in 1973. In contrast, the Saudi riyal has shown remarkable stability, depreciating by only 1% over the same period, making it the most stable currency in this analysis.

35 World Bank, Total Reserves (Includes Gold, Current US$) – Saudi Arabia, Nigeria, Kuwait, World Development Indicators, accessed June 16, 2025, https://data.worldbank.org/indicator/FI.RES.TOTL.CD?locations=SA-NG-KW.

This divergence suggests that currency instability in Nigeria is not solely due to over-reliance on oil. Rather, it highlights a deeper issue: the lack of long-term fiscal discipline and sound monetary management. Holding other factors constant, it becomes evident that an economy can remain oil-dependent and still achieve currency stability if supported by effective policy frameworks.

The main differentiator is the exchange rate management system adopted by each country. Saudi Arabia operates a hard peg to the US dollar, which has anchored its currency for over five decades. This stability is underpinned by disciplined monetary policy and prudent fiscal management. Similarly, Kuwait maintains a fixed peg to a basket of currencies, offering it both flexibility and resilience. Both countries have strategically managed their oil wealth through sovereign wealth funds, providing substantial reserves in both oil and US dollars to support their fixed exchange rate regimes.

In contrast, Nigeria has followed a more erratic path, shifting between fixed, managed float, and multiple exchange rate regimes. The naira operated under a controlled float until 2023, when the exchange rate was unified in favor of a more market-determined system, leading to further devaluation. Between 1980 and 1990, all four countries experienced currency devaluations, largely due to the end of the oil boom and falling oil prices. However, Kuwait and Saudi Arabia implemented long-term reforms and maintained fiscal discipline, which helped preserve their currency stability.

Ultimately, Nigeria's persistent currency depreciation stems less from oil dependence and more from inconsistent fiscal policies, weak institutional frameworks, and poor exchange rate management.

Year	Nigeria	Egypt	Kuwait	Saudi Arabia
1973	0.66	0.40	0.30	3.71
1980	0.55	0.70	0.27	3.33
	20%	-43%	10%	11%
1990	8.04	1.55	0.29	3.75
	-93%	-55%	-6%	-11%
2000	101.70	3.47	0.31	3.75
	-92%	-55%	-6%	0%
2010	150.30	5.62	0.29	3.75
	-32%	-38%	7%	0%
2020	358.81	15.76	0.31	3.75
	-58%	-64%	-6%	0%
2024	1,478.97	45.30	0.31	3.75
	-76%	-65%	0%	0%
Total Move	-224903%	-11483%	-3%	-1%

36 World Bank, Official Exchange Rate (LCU per US$, period average) – Nigeria, Kuwait, Saudi Arabia, Egypt, accessed June 17, 2025, https://data.worldbank.org/indicator/PA.NUS.FCRF?locations=NG-KW-SA-EG.

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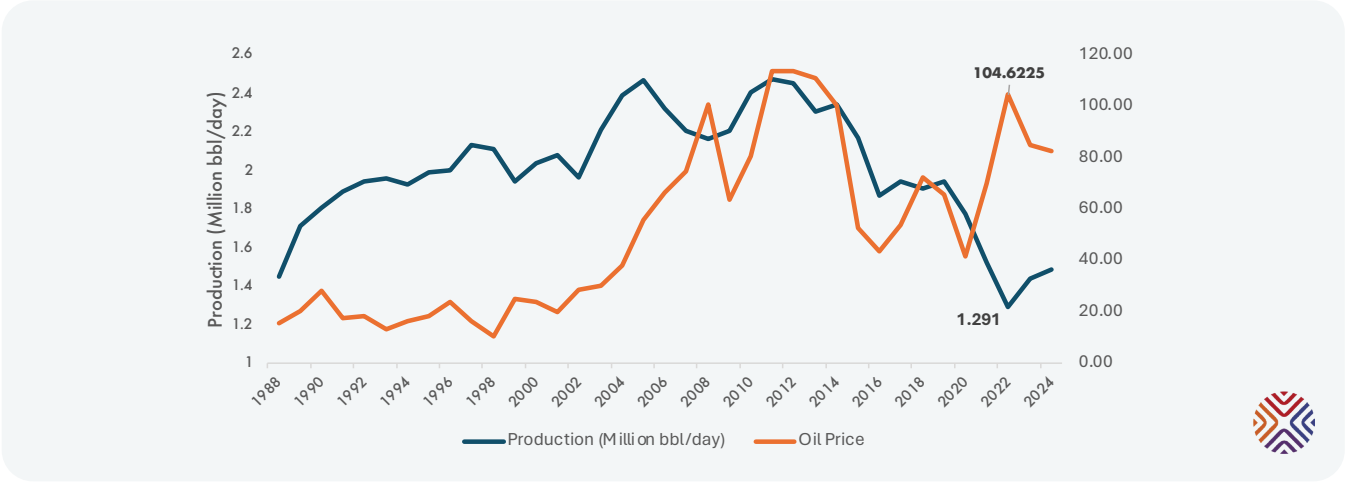
6 Bold Strategies: Unlocking Nigeria's Potential

6.1 Improving Oil Output

Nigeria average daily crude oil production



Source: Data compiled from Bloomberg,[37] YCharts[38]

Looking at the trend of Nigeria's average daily crude oil production (in million barrels per day), it is evident that output has been declining steadily since 2014. This decline translates to reduced revenue for the government, especially in an economy where oil accounts for a significant share of export earnings and fiscal receipts.

However, in recent times, the government has been making renewed efforts to boost daily output, understanding that oil revenue is a function of both price, which is externally determined, and volume, which is more within its control. One such intervention is Operation Delta Sanity, launched in 2024, with Phase Two that commenced at the start of 2025. This initiative was designed to restore daily production above 2 million barrels.[39]

The operation is already showing encouraging results. Nigeria's output has reportedly increased from a low of around 1.29 million barrels per day to nearly 1.5 million barrels per day. This improvement has been attributed to enhanced surveillance, reduced oil theft, and better coordination among security forces and oil companies. As oil theft declines, more oil is officially accounted for, leading to increased government revenue and fiscal stability.

37 Bloomberg Terminal, Historical Crude Oil Prices, accessed June 17, 2025.

38 YCharts, Nigeria Crude Oil Production (Annual), accessed June 17, 2025, https://ycharts.com/indicators/nigeria_crude_oil_production_annual.

39 Nigerian Navy, "Nigerian Navy Launches Operation Delta Sanity II – Monday 30 December 2024," accessed June 17, 2025, https://hqenc.mil.ng/nigerian-navy-launches-operation-delta-sanity-ii-monday-30-december-2024/.

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An analysis of historical output shows that Nigeria's oil production has been in a downward trajectory since 2018, with key contributing factors being rampant crude theft, pipeline vandalism, and underinvestment in infrastructure. However, since 2022, this trend has begun to reverse. Output recovery can be linked to heightened anti-theft measures and reactivation of previously idle oil fields.[40]

6.2 Growing Beyond Oil: Government Strategies to grow Reserves

Diversification of the economy is a key agenda needed to strengthen the economy, as well as to grow the foreign reserves. The Nigerian government has introduced strategic initiatives to attract remittances and foreign capital inflows. One such measure is the Non-Resident Nigerian Ordinary Account (NRNOA), which enables Nigerians in the diaspora to remit their foreign earnings directly to Nigeria. Additionally, the Non-Resident Nigerian Investment Account (NRNIA) was introduced to provide diaspora Nigerians with a channel to invest in Nigerian assets either in foreign currency or in Naira.[41]

To further enhance participation, in May 2025, the Non-Resident Bank Verification Number (NRBVN) was launched, allowing Nigerians living abroad to remotely enroll for and obtain BVNs. This initiative is designed to streamline identity verification and ensure that remittances are captured directly into formal financial channels, limiting leakage to third-party money transfer operators and boosting foreign reserves through more transparent inflow.[42]

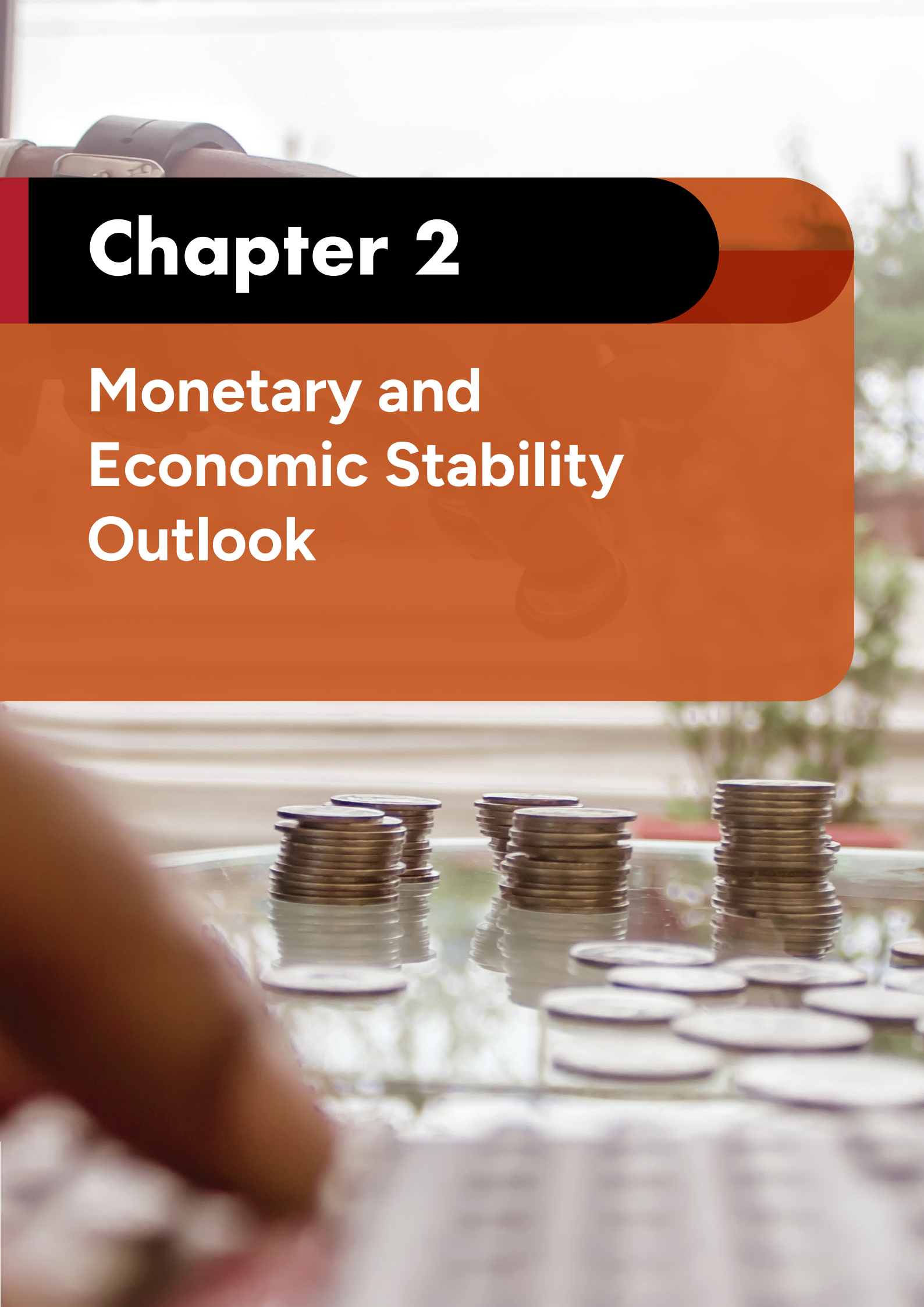
40 Central Bank of Nigeria, January 2025 Economic Report, accessed June 17, 2025, https://www.cbn.gov.ng/Out/2025/RSD/January%202025%20Economic%20Report.pdf.

41 Central Bank of Nigeria, Introduction of Non-Resident Nigerian Ordinary Account and Non-Resident Nigerian Investment Account, TED/FEM/PUB/FPC/001/002 (Abuja: Trade and Exchange Department, January 10, 2025), https://www.cbn.gov.ng/Out/2025/TED/TEDFEMPUBFPC001002.pdf.

42 Nigeria Inter-Bank Settlement System (NIBSS), "CBN Launch NRBVN for Nigerians in the Diaspora," NIBSS, accessed June 17, 2025, https://nibss-plc.com.ng/cbn-launch-nrbvn-for-nigerians-in-the-diaspora/.

Chapter 2

Monetary and Economic Stability Outlook



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1 Monetary and Economic Stability Outlook

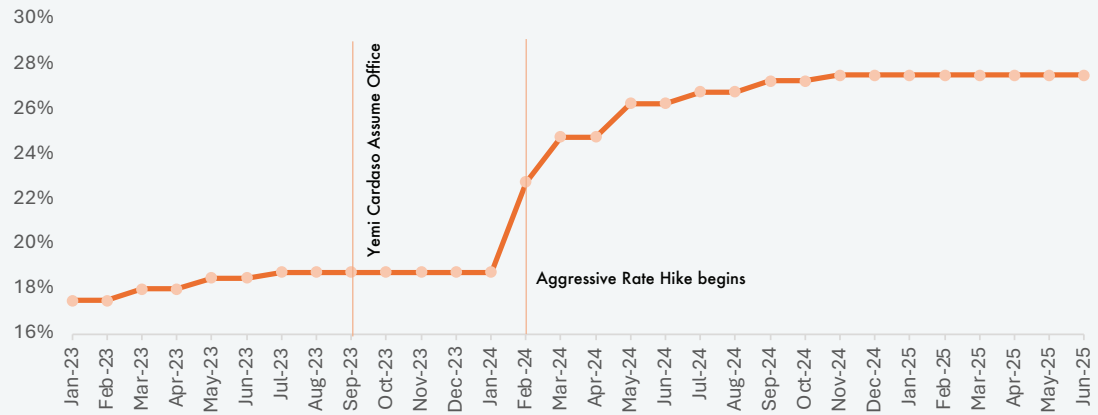
Since Olayemi Cardoso assumed office as the Acting Governor of the Central Bank of Nigeria (CBN) on September 22, 2023, pending confirmation by the Senate[43]. He has introduced a series of monetary policies aimed at achieving price stability, with a particular focus on curbing inflation.

A key step was the aggressive interest rate hikes, initiated as a response to surging inflation following the removal of fuel subsidies and the unification of the exchange rate, policy moves that lacked adequate cushioning measures and intensified inflationary pressures.

From January 2023 to the time Dr. Cardoso assumed office in September 2023, Nigeria's headline inflation rate surged by 490 basis points, reaching 26.72%. The main causes of inflation during this period were food and energy costs. Core inflation remained relatively stable, indicating that headline inflation was largely influenced by rising food prices.

To address this, the CBN implemented a series of aggressive monetary policy rate (MPR) hikes between February 2024 and November 2024, totalling 875 basis points. This was followed by a rebasing exercise aimed at better capturing inflation dynamics.

Nigeria Interest Rate



Source: Data compiled from NBS[44]

43 Central Bank of Nigeria, CBN Press Release: Cardoso Assumes Office, 2023, accessed June 19, 2025, https://www.cbn.gov.ng/Out/2023/CCD/CBN_Press_Release_Cardoso_Assumes_Office.pdf.

44 National Bureau of Statistics. Interest Rate Data. Accessed June 24, 2025. https://www.nigerianstat.gov.ng/.

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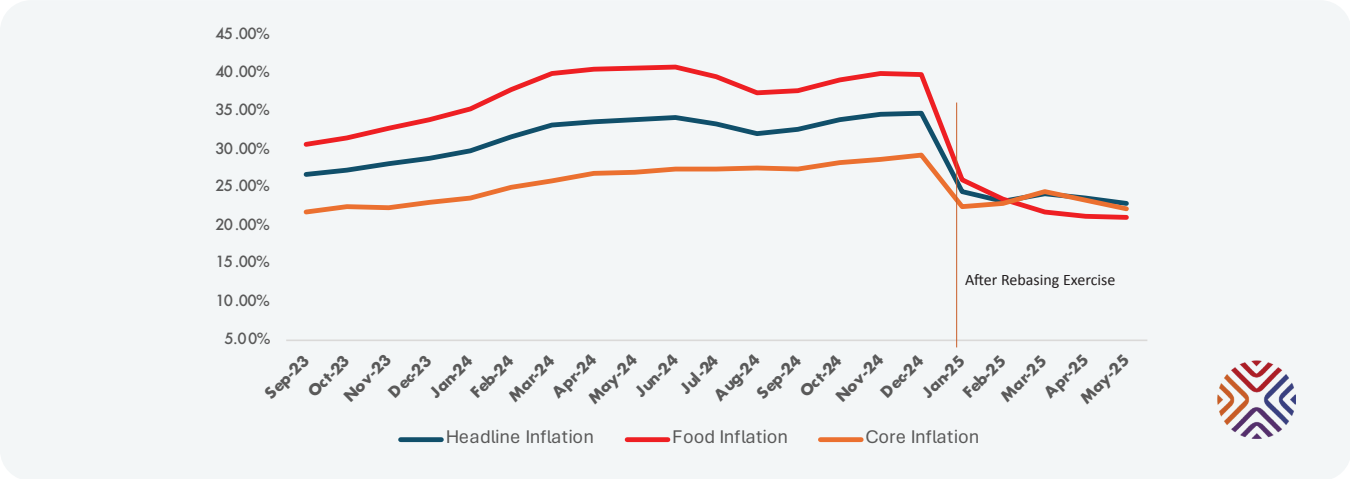
1.1. Inflation Trajectory, Food Dynamics, and Geopolitical Energy Shocks

By January 2025, inflation recorded a significant decline of 10.32%. This was largely attributable to higher base effects and statistical adjustment rather than structural improvements. Notably, food inflation remained persistently high during this period.

Nigeria Headline, Food and Core Inflation Rate



Source: Data compiled by NBS[45]

At its 299th meeting, the Monetary Policy Committee (MPC) flagged food inflation as a major risk to Nigeria's economic outlook. In March 2025, while Core inflation and Headline inflation rose, food inflation continued its decline Year on year, and it's currently below core inflation, a trend we haven't seen in a while. This suggested emerging price stability in the food segment while highlighting inflationary pressures in the non-food components, particularly in housing, utilities, and essential services. At the 300th MPC meeting, the Committee acknowledged this progressive moderation in food inflation and noted its implications for broader inflation trends and economic stability.[46]

Price stability remains a core focus of the Central Bank of Nigeria (CBN). With food prices largely stable and the Dangote Refinery actively supplying fuel, pump prices for Premium Motor Spirit (PMS) have been relatively low and steady. The Naira for Crude arrangement has made oil supply stable, as refineries don't have to source for dollars to purchase crude.

Domestically, the second half of the year also brings seasonal risks. The rainy season historically leads to floods, which affect agricultural regions, damaging crops and rural infrastructure. With climate variability increasing, the risk of weather-related food production shocks is growing.

45 National Bureau of Statistics, Consumer Price Index (CPI) May 2025 Report (Abuja: NBS, 2025), https://microdata.nigerianstat.gov.ng/index.php/catalog/154/download/1232/CPI_May_2025_Report.pdf

46 Central Bank of Nigeria, 300th Monetary Policy Committee (MPC) Press Briefing, streamed live on YouTube, May 2025, https://www.youtube.com/live/I5COoux-7SY?si=E9fCw8NxpoQV0y2k

These overlapping pressures, security challenges and climate extremes could constrain food supply and elevate prices. This is particularly concerning given that food comprises of 40% of Nigeria's inflation basket. Any sharp rise in staple prices would erode household purchasing power and undo recent disinflation gains.

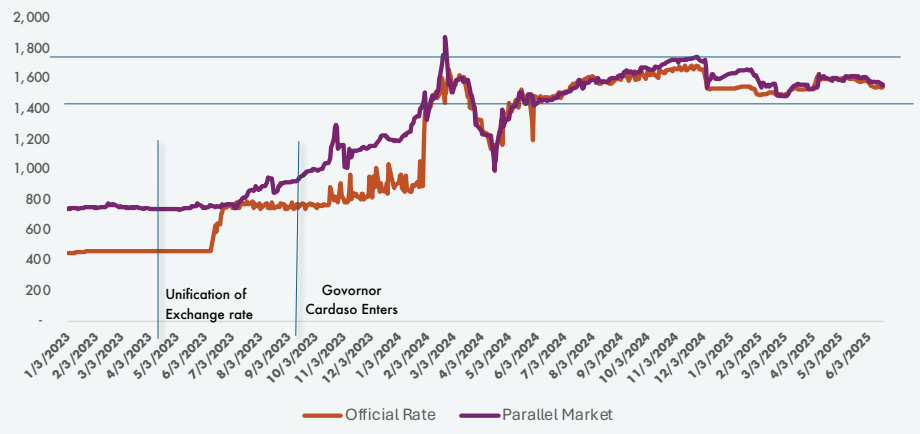
Global oil prices have trended downward through the first half of the year, except for a spike during the escalation of tensions between Iran and Israel. Moving into H2 2025, the interplay of other factors will decide whether we will continue to see food inflation low.

For Energy cost in H2, tension in the Middle east poses a big threat. The Middle East region is home to major oil producers such as Iraq, Saudi Arabia, the United Arab Emirates, and Kuwait. The war between Israel and Iran placed uncertainty on oil prices; however, both parties agreed to a ceasefire last week in June.

One major concern, the war pose on oil, is the possibility of the conflict spilling over on key maritime transit routes, particularly the Strait of Hormuz. This narrow waterway facilitates the transport of nearly 20% of the world's crude oil shipments, making it one of the most strategically vital oil routes globally.[47]

If there is any disruption to oil shipments, global oil prices could surge. While this might boost Nigeria's foreign reserves and help stabilise the naira, it would also result in higher domestic inflation, through imported inflation, and high crude prices can increase fuel prices. Rising fuel prices would elevate transportation and production costs, especially in food distribution and manufacturing, triggering a fresh wave of inflationary pressure.

Nigeria Exchange Rate (Official and Parallel Market)



Source: Data compiled from CBN,[48] RateCaptain[49]

47 J.P. Morgan Private Bank, "Middle East Tensions Challenge Investor Confidence," J.P. Morgan, last modified May 14, 2024, https://privatebank.jpmorgan.com/eur/en/insights/markets-and-investing/tmt/middle-east-tensions-challenge-investor-confidence

48 Central Bank of Nigeria, "Exchange Rates," Central Bank of Nigeria, accessed June 19, 2025, https://www.cbn.gov.ng/rates/ExchRateByCurrency.html.

49 RateCaptain, "Cash Rates," RateCaptain, accessed June 19, 2025, https://ratecaptain.com/cash-rates/

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From 2014 until mid-2023, Nigeria operated a managed-float exchange rate regime. During this period, multiple exchange rates existed: the Central Bank of Nigeria (CBN) official rate, the Investors' and Exporters' (I&E) FX window rate, and the parallel market rate. This fragmented structure led to significant price distortion in the foreign exchange market and created widespread opportunities for arbitrage.[50]

To address this, on April 21, 2023, the CBN introduced the Unification of exchange rate through the **"Willing Buyer – Willing Seller"** model, a semi-liberalized framework that allowed market forces more influence, although it was still far from a fully flexible exchange rate system. Although this policy was introduced prior to Olayemi Cardoso's tenure start, he inherited its outcomes and was tasked with managing its effectiveness upon assuming office in September 2023.

Before the unification of the exchange rate system in mid-2023, the disparity between the official and parallel market rates exceeded N200, a gap that significantly undermined policy credibility and created huge arbitrage opportunities. Following the unification, the official exchange rate rose rapidly to close this gap, leading to a sharp depreciation of the Naira. By early 2024, the difference between the official and parallel market rates had narrowed substantially, and the Naira has continued to trade within the range of N1,500 to N1,700 per US dollar. We expect the Naira to continue to trade within the range, in H2, and any deviation will be corrected by the CBN intervention to defend the Naira.

At the 300th meeting of the Monetary Policy Committee (MPC), Governor Cardoso remarked that the Naira had reached a competitive level that should incentivize exports and domestic production. He also highlighted that the persistently high demand for foreign exchange, particularly for imports and external transactions, remains a fundamental driver of Nigeria's inflationary pressures.

The Central Bank of Nigeria (CBN) has made continued efforts and implemented policies aimed at increasing the supply of foreign currency into the country. It has also taken steps to increase transparency by publishing its financial statements and net reserve balances, with a commitment to continue doing so. As well, it cleared the $7 billion foreign exchange backlog in early 2025. This moves significantly eased repatriation constraints for businesses and investors, reinforcing confidence in Nigeria's financial system, and reduce the pressure on the Naira.

50 Peterson K. Ozili, "Exchange Rate Unification in Nigeria: Benefits and Implications," MPRA Paper 120441, University Library of Munich, Germany, March 2, 2024, https://mpra.ub.uni muenchen.de/120441/1/MPRA_paper_120441.pdf.

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It is well acknowledged by the CBN that investors avoid markets marked by volatility and unpredictability; hence, the recent stability in the foreign exchange (FX) market has helped restore investor confidence. This improved sentiment has, in turn, drove an increase in foreign exchange inflows from foreign portfolio and direct investment inflows[51]. In 2024, Foreign Portfolio Investment (FPI) rose by 106.5% to $13.35B signaling strong investors' appetite in Nigeria, however, this increase in FPI could rather be from the attractive high-interest rate environment in Nigeria due to the interest rate hike, as Foreign Direct Investment (FDI) dropped 42.3% to $1.08B. Which is a concern, as FDI is a more long-term and stable contribution to the economy than FPI, which can easily be taken out of the economy.[52]

As we expected two rate cuts from the Monetary Policy Committee (MPC) decision between 50 to 100 basis points later this year, this could have a counteractive effect. Lower interest rates reduce bond yield, thereby dampening the attractiveness of Nigerian markets to foreign portfolio investors (FPIs). This creates a double-edged dynamic, where FX stability supports inflows, but monetary easing could simultaneously constrain them.

Looking at the naira's performance relative to the DXY (US dollar index, which measures the dollar against a basket of six major foreign currencies), the Naira has remained relatively stable compared to the dollar index; there appears to be no correlation between these two data. The major concern is that during periods when the dollar was depreciating, one would expect the Naira to appreciate in response.

However, it remained flat, showing no meaningful correlation. This indicates that the Naira is somewhat insulated from US and global currency dynamics and is instead driven by domestic factors such as central bank interventions, FX liquidity constraints, and monetary policy decisions, rather than market-determined exchange mechanisms.

51 Central Bank of Nigeria, 300th Monetary Policy Committee (MPC) Press Briefing, streamed live on YouTube, May 2025, https://www.youtube.com/live/I5COoux-7SY?si=E9fCw8NxpoQV0y2k

52 Central Bank of Nigeria, Nigeria Posts $6.83 Billion Balance of Payments Surplus in 2024, Signaling Economic Resurgence (Abuja: Central Bank of Nigeria, April 9, 2025), https://www.cbn.gov.ng/Out/2025/CCD/CBN%20Release%20on%20BoP.pdf.

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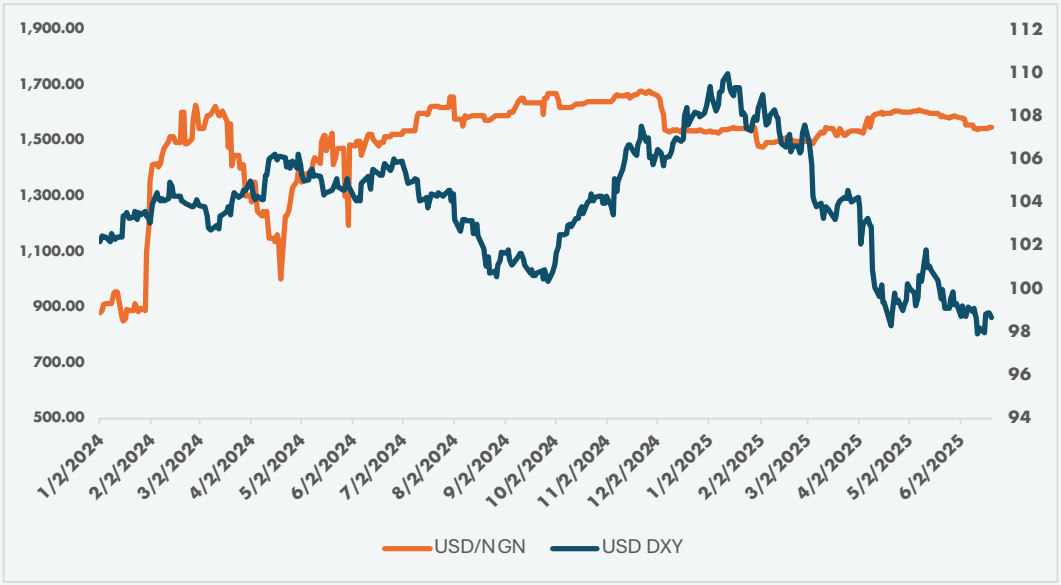
Naira Movement vs. Dollar Index Movement



Source: Data sourced from Investing.com,[53] CBN[54]

A closer analysis of Naira's performance against eight major currencies reveals that Naira initially showed relative strength following the implementation of the Electronic Foreign Exchange Matching System (EFEMS) in December 2024. This reform enhanced transparency and improved operational efficiency in Nigeria's FX market, providing a temporary boost to the currency.

However, beginning in February 2025, Naira began a steady month-on-month decline, effectively erasing the earlier gains driven by EFEMS, in May the currency reversed and started to appreciate. At the end of June 2025, the Naira was the worst-performing currency year-to-date among the group.

53 Investing.com, U.S. Dollar Index Futures Historical Data, accessed July 24, 2025, https://www.investing.com/indices/usdollar-historical-data?cid=1224074.

54 Central Bank of Nigeria, "Exchange Rates," Central Bank of Nigeria, accessed June 19, 2025, https://www.cbn.gov.ng/rates/ExchRateByCurrency.html.

Currency	Jan	Feb	Mar	Apr	May	June	YTD
Naira ₦	4.10%	-1.42%	-2.24%	-4.58%	1.20%	2.71%	**-0.49%**
Euro €	-1.18%	1.66%	3.97%	4.74%	0.17%	3.11%	**12.99%**
Mexican Peso ₱	0.69%	0.68%	0.37%	4.40%	0.92%	2.98%	**10.40%**
Japanese Yen ¥	1.26%	3.08%	0.47%	4.83%	-0.84%	-0.29%	**8.68%**
Chinese Yuan ¥	0.66%	-0.44%	0.36%	-0.22%	1.02%	0.36%	**1.75%**
Indian Rupee ₹	-1.28%	-0.87%	2.19%	1.03%	-0.93%	0.00%	**0.09%**
South African Rand R	1.14%	-0.19%	2.07%	-1.48%	3.37%	0.72%	**5.70%**
Egyptian Pounds £	1.25%	-0.87%	0.21%	-0.52%	2.28%	-0.35%	**1.97%**
Ghanaian Cedi ₵	-4.17%	-1.15%	0.12%	9.11%	38.28%	-0.83%	**41.90%**

Source: Data compiled from Trading View[55]

Naira Expectation

Scenario	Exchange Rate Expectation	Key Drivers
Best Case	₦1,400	• Successful 2025 Eurobond issuance to fund budget deficit • Historical naira appreciation after Eurobond issuance (e.g., Dec 2024) • Improved FX inflows from sustained government efforts Higher global oil prices • Depreciation of the US dollar
Base Case	₦1,500–₦1,600	• Naira has traded within this band in H1 2025 • CBN interventions to stabilize the naira during adverse movements • Steady FX inflows and oil revenues • Stable macroeconomic policy stance
Worst Case	Above ₦1,700	• Weak FX inflows due to lower oil prices in 2025 Negative net foreign portfolio inflows • Strengthening of the US dollar • Increased dollar demand and market volatility

55 Currency Performance vs USD (Jan.–June 2025, YTD). Chart created using TradingView. Data compiled manually across currency pairs: Naira, Euro, Mexican Peso, Japanese Yen, Chinese Yuan, Indian Rupee, South African Rand, Egyptian Pound, and Ghanaian Cedi. Accessed July 24, 2025. https://www.tradingview.com/chart/J27Km5Ky/?symbol=FX_IDC%3AUSDNGN.

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1.2. Regulatory Forbearance and the Implications for Nigeria's Economy

In mid-June 2025, the CBN issued a circular directing the temporary suspension of dividend payments, executive bonuses, and investments in foreign subsidiaries for banks operating under regulatory forbearance. This suspension will remain in place until the banks have fully excited the forbearance regime and are independently verified to be compliant with standard regulatory provisions.[56]

This move ensures that banks retain internal capital to rebuild their financial strength rather than distribute profits or engage in risky expansions. While this may pose a short-term disadvantage, particularly for investors and Pension Fund Administrators (PFAs) who favour banks for their steady dividend cash flow, it ultimately reinforces a more resilient and shock-resistant banking system.

However, there are trade-offs. Banks under regulatory forbearance may adopt a more risk-averse posture, limiting new credit issuance, especially to sectors like oil and gas, power, and agriculture, which are already burdened with restructured loans. This could result in a temporary credit squeeze in the economy. Nevertheless, this credit constraint is expected to be short-lived and will ease once banks successfully exit the forbearance regime and return to full regulatory compliance.

56 Central Bank of Nigeria, Temporary Suspension of Dividend Payments, Bonuses, and Investment in Foreign Subsidiaries, BSD/DIR/CON/LAB/018/008, June 13, 2025.

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On the monetary policy front, the interest rate has been held at a high of 27.5% since November 2025. While economic indicators have shown moderate improvement compared to the previous year, and inflation is gradually slowing, the Monetary Policy Committee (MPC) has maintained this elevated rate. It can be argued that this stance is aimed at attracting Foreign Portfolio Investment (FPI) by offering competitive returns in a global environment where capital seeks yield.

However, this tight monetary policy stance comes with trade-offs. High borrowing costs discourage businesses from seeking loans to expand operations, effectively delaying growth plans and reducing domestic investment appetite. Access to credit becomes more restrictive for households and small businesses, undermining private sector growth.

What we expect for inflation and MPC

The Monetary Policy Committee is projected to adopt a more dovish stance in the coming months, given that elevated interest rates are constraining real sector activity. However, this shift remains contingent on inflation continuing to moderate.

For the next two MPC meetings, we expect two rate cuts of about 50 to 100 basis points.

And during the last MPC meeting for the year, we expect a hold decision, as the committee hold to see the effects of these policy adjustments on the economy.

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For Inflation, at the end of H2, we expect:

Scenario	Inflation Rate	Key Drivers	Rationale
Best Case	20%	• Stabilization of government policies • Structural reforms in agriculture and logistics • Grants to farmers, improved security & transport • Improved fuel supply and pricing from Dangote Refinery • Subdued global oil prices	• Continued implementation of supportive policies • Dangote Refinery maintains lower prices • Stable FX rates and oil prices • High base effect from inflation rebasing continues to reflect in data
Base Case	23%	• Ongoing structural reforms • Supportive fiscal & monetary policy • Improved logistics and electricity interventions • CBN stabilising naira	• Volatility from seasonal food inflation (Flooding, insecurity) • Possible new government policies may introduce mild inflationary pressure • Inflation expected to retrace after temporary spikes
Worst Case	25%–26%	• Food inflation from flooding/ insecurity in key agricultural zones • MPC rate cuts leading to FPI outflows • Increased dollar demand and exchange rate pressures	• Insecurity persists or worsens • Poor weather impacts harvests • Increased tension with Iran and Israel • MPC cuts interest rates, weakening naira • External factors or policy missteps trigger inflationary pressures

1.3. Global Influence and Local Consequences Outlook Nigeria's reform efforts have often been skewed toward externally

Nigeria's reform efforts have often been skewed toward externally driven recommendations, particularly emphasising fiscal tightening and market liberalisation. While these measures can enhance Nigeria's attractiveness to foreign portfolio investment (FPI) and foreign direct investment (FDI), especially in a high-interest rate environment that encourages capital inflows and remittances, it is equally important to consider the domestic implications.

Reforms must be balanced with policies that protect and promote the welfare of Nigerians, particularly the poor and vulnerable. A singular focus on market orthodoxy, without a complementary investment in social protection, food security, healthcare, and local industry development, could deepen socioeconomic inequality and trigger social unrest.

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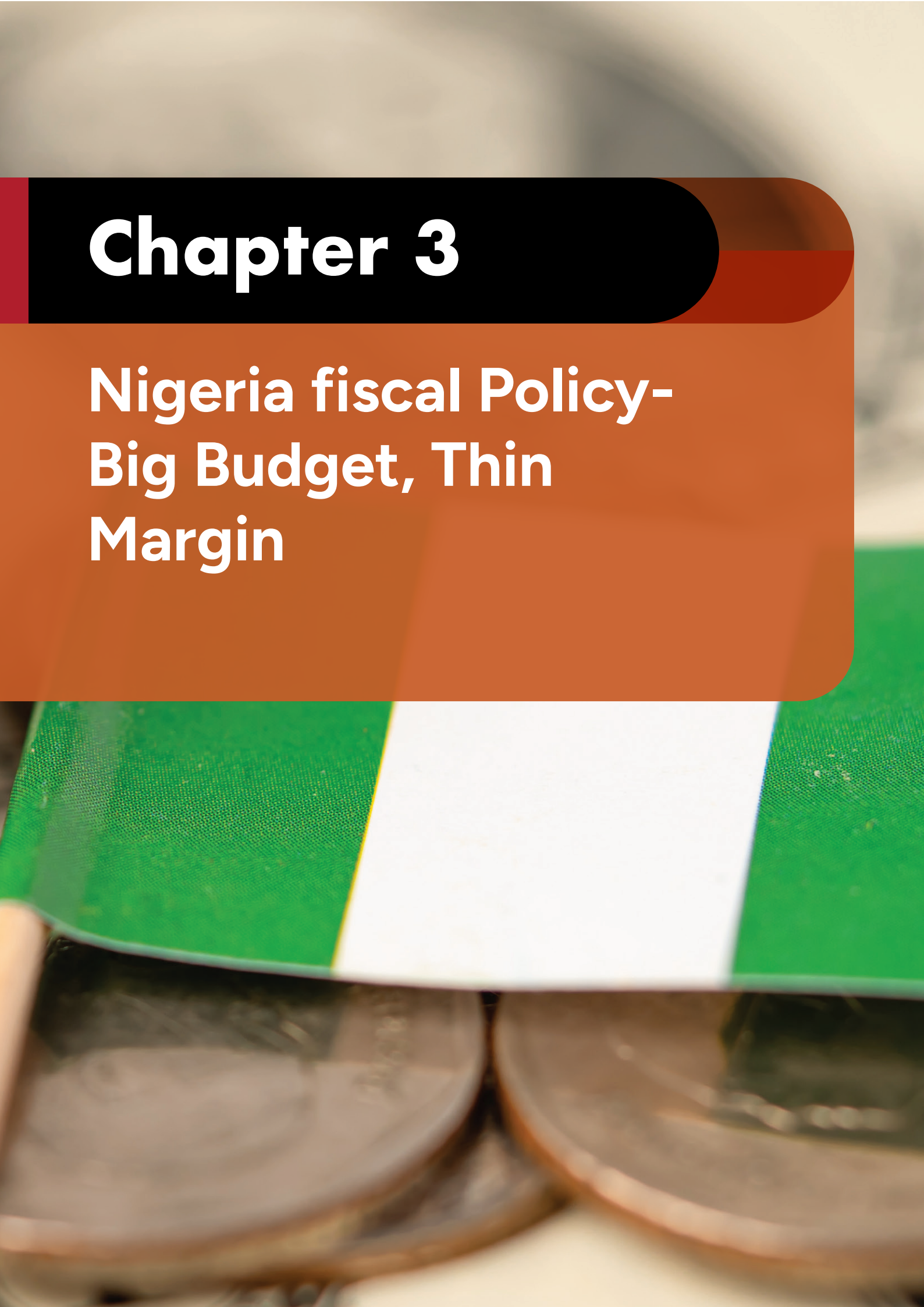
Additionally, as global capital flows become increasingly sensitive to geopolitical shifts and monetary policy adjustments in advanced economies, Nigeria must remain cautious. Over-reliance on foreign capital can expose the country to abrupt reversals when external conditions change, especially with looming uncertainties in global interest rate trends and commodity price volatility.

To achieve meaningful progress, Nigeria must pursue reforms that are not just externally acceptable but internally transformative. Prioritizing structural investments, in infrastructure, education, technology, and agriculture, while ensuring macroeconomic stability, will be key to building resilience. Without a commitment to long-term, sustainable, and inclusive development, Nigeria risks repeating the same missteps of the 1980s and 1990s: short-lived gains followed by deeper vulnerabilities.

Chapter 3

Nigeria fiscal Policy- Big Budget, Thin Margin



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1 Introduction

Nigeria enters 2025 with a fresh fiscal playbook ambitious in design but already strained by old macroeconomic burdens. Inflation remains sticky, revenue diversification is lagging, debt levels are rising, and tolerance both from investors and citizens is thinning fast.

While Moody's and Fitch have issued upgraded outlooks signalling renewed investor confidence, those ratings are forward-looking.[1] Structural inefficiencies, particularly around fiscal execution and institutional capacity, continue to weigh on near-term stability.

January 2025 headline inflation came in at 24.48% [2]after CPI rebasing (down from 34.6%). Food inflation remains high at 26.0% (down from 39.84%), trending near Comercio Partners' 20% H1 forecast. [3] Government's 15% year-end target looks less like a plan and more like a wish, unless supply-side fixes in agriculture and logistics materialize fast.

The budget projects N41.91 trillion in revenue, built on a hopeful $75/barrel oil price and 2.06 million barrels per day.[4] In reality, crude is trading closer to $60–$65, putting a hole in the plan before Q2 ends. [5] Non-oil revenue continues to underperform, despite recurring reform talk. Tax policy changes aim to improve compliance and equity, but results depend less on headlines and more on actual follow-through still Nigeria's weak spot.

The fiscal deficit for 2025 is estimated at N13.08 trillion (1.52% of GDP), to be financed through fresh borrowing.[6] Debt servicing took up 33% of the 2024 budget, a loud fiscal alarm. [6] The country's margin for error is narrowing. Without disciplined spending and smarter debt management, sustainability will remain a PowerPoint concept.

1. Moody's Investors Service, "Moody's upgrades Nigeria's rating to 'B3' on better external and fiscal positions," Reuters, May 30, 2025, https://www.reuters.com/world/africa/moodys upgrades nigerias rating b3 better external fiscal positions 2025 05 30/;
   Fitch Ratings, "Fitch Upgrades Nigeria to 'B'; Outlook Stable," Fitch, April 11, 2025, https://www.fitchratings.com/research/sovereigns/fitch upgrades nigeria to b outlook stable 11 04 2025.
2. National Bureau of Statistics, December 2024 CPI Report, January 2025, https://microdata.nigerianstat.gov.ng/index.php/catalog/154/download/1127/cpi_1NewDec2024.xlsx.
3. Ifeanyi Ubah et al., Comercio Partners Macroeconomic Outlook 2025, Comercio Partners, February 7, 2025, https://comerciopartners.com/comercio-partners-macroeconomic-outlook-2025/.
4. Budget Office of the Federation, 2025–2027 Medium Term Expenditure Framework & Fiscal Strategy Paper, approved November 15, 2024, https://budgetoffice.gov.ng/index.php/2025-2027-medium-term-expenditure-framework-fiscal-strategy-paper.
5. TradingView. Brent Crude Oil (TVC:UKOIL) Daily Chart. Accessed June 16, 2025. https://www.tradingview.com/symbols/TVC-UKOIL/.
6. Grant Thornton Nigeria. 2025. "Nigeria's 2025 Budget and the Economy." Grant Thornton (blog). April 2025, https://www.grantthornton.com.ng/insights/nigerias-2025-budget-and-the-economy2/

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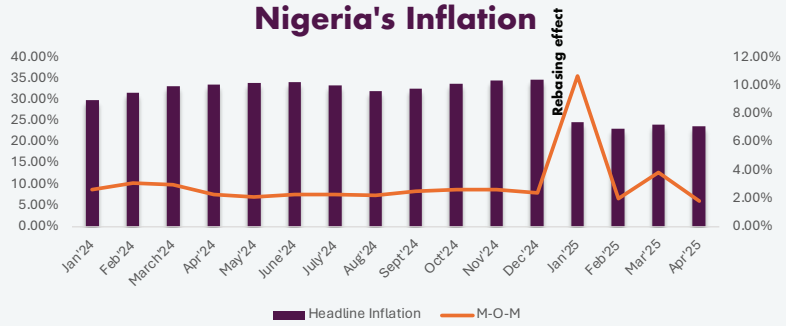
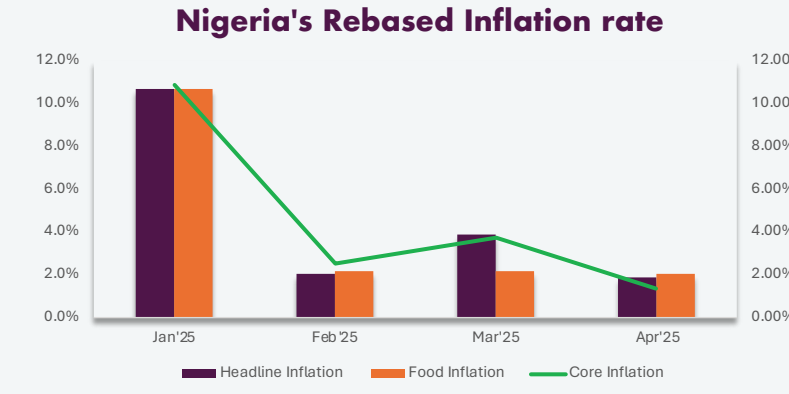
1.1. Inflation- The Mirage and the Moment: When Inflation Fell by Recalibration



Source: NBS, CP Research

The year began with a dramatic headline Nigeria's inflation dropped by over 100 basis points, from 34.8% in December 2024 to 24.48% in January 2025.[2] But this wasn't the product of a sudden economic miracle. It was the result of a long-overdue statistical rebasing of the Consumer Price Index (CPI). By changing the reference year from 2009 to 2024 and expanding the consumption basket from 740 to 934 items, the NBS recalibrated the inflation measuring tool to better reflect modern consumption habits. Crucially, food and energy weights were reduced dampening the outsized influence of volatile components.

This rebasing caused a sharp one-time drop in the reported year-on-year inflation rate but had no bearing on actual price movements. The January MoM inflation rate stood at 10.68%, as the CPI index for January was 110.68, compared to 100.00 in December. The takeaway was simple: Nigeria didn't tame inflation overnight; it just changed how it counted it.



Source: NBS, CP Research

2. National Bureau of Statistics, Highlights of 2024 CPI Rebasing Result, February 18, 2025,https://microdata.nigerianstat.gov.ng/index.php/catalog/154/download/1156/Highlights%20of%20CPI%20Rebasing%20Result.pdf.

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1.2. From Calm to Concern: The March Rebound

February showed marginal improvement, with inflation declining to 23.18%, but the calm proved temporary.[7] March marked a turning point as inflation reversed course, climbing to 24.23%, led by a steep increase in core inflation.[8] Month-on-month, core prices jumped by 3.7%. Food inflation, surprisingly, offered a reprieve in March due to stable logistics and slower increases in key staples. However, the relief was short-lived.

By April, it delivered a welcome deceleration. Headline inflation declined to 23.7%, helped by a sharp slowdown in monthly price changes from 3.9% in March to 1.9%.[9] Food inflation eased to 21.3% and core inflation moderated to 23.4%. The underlying reasons included a relatively stable naira, no fuel price shocks, and a reduction in mobile/data price pass-through. Also at play was the high base effect from the rebased CPI, which statistically suppressed year-on-year inflation readings.

1.3. The Fiscal Side: Holding the Line with Little Firepower

On the fiscal front, the federal government's strategy was anchored on discipline and restraint. The subsidy removal from mid-2023 was left untouched in H1 2025, despite mounting pressure. This saved trillions in recurrent expenditure, but exposed households to higher living costs.

Cash transfers worth ₦25,000 per household were rolled out to approximately 12 million households, though coverage remained patchy.[10] Meanwhile, reforms in electricity pricing continued, with more cost-reflective tariffs introduced. Efforts to digitize tax compliance and reduce waivers were implemented through the Finance Act 2025, but the revenue base remained narrow.[11]

Importantly, capital spending was delayed due to tight liquidity. The government frontloaded domestic borrowing early in the year and leaned on multilateral concessional funding to stay afloat. Despite these efforts, states struggled with real declines in FAAC allocations and rising wage bills.

7. National Bureau of Statistics (NBS). Consumer Price Index (CPI) Report for February 2025. Abuja, Nigeria: National Bureau of Statistics, 2025. https://microdata.nigerianstat.gov.ng/index.php/catalog/154/download/1161/CPI_february_2025.pdf.
8. National Bureau of Statistics. Consumer Price Index Report for March 2025. Accessed April 15, 2025. https://microdata.nigerianstat.gov.ng/index.php/catalog/154/download/1198/CPI_MARCH_2025.
9. National Bureau of Statistics (NBS). Consumer Price Index April 2025. Abuja: NBS, May 2025. https://nigerianstat.gov.ng
10. Reuters. 2024. "Nigeria restarts cash transfers to cushion hardship caused by reforms, https://www.reuters.com/world/africa/nigeria-restarts-cash-transfers-cushion-hardship-caused-by-reforms-2024-02-26/?utm_
11. Nigerian Electricity Regulatory Commission. 2025. AEDC MYTO Order No. NERC/2025/o03. Abuja: NERC, February 2025. https://nerc.gov.ng/wp-content/uploads/2025/02/AEDC_February_2025_003.pdf?utm_

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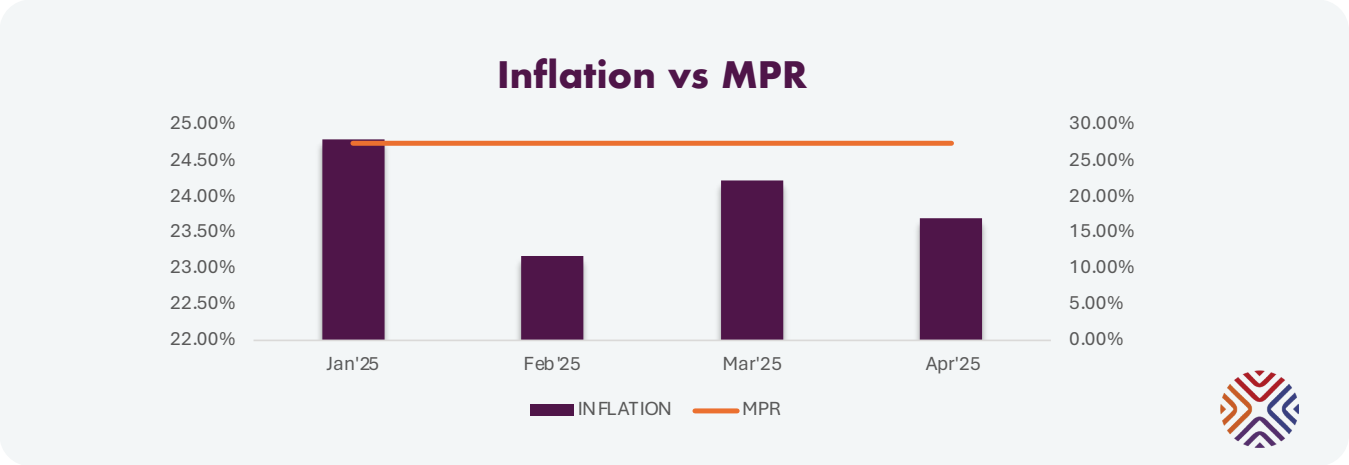
1.4. Discipline Over Drama: CBN Sticks to the Script



Source: NBS, CBN, CP Research

The Central Bank of Nigeria (CBN) in the first half of 2025 has projected a posture of firm control, guided by price stability over populist relief. After a turbulent 2024, the Bank stepped into the new year with a clear message: inflation targeting is back, and credibility is currency. Its tone and decisions have been more deliberate, less experimental, and above all, disciplined.

The CBN's policy rate, MPR was held at 27.75% throughout Q1 and Q2 a continuation of its aggressive tightening cycle from the prior year.[12] But this time, there was no shock factor. No surprise hikes, no contradictory guidance. The bank instead chose predictability. It assessed the new inflation metrics under the rebased CPI framework and resisted any temptation to pivot early. Even as the headline inflation dropped thanks in part to statistical effects from the January rebasing the CBN refused to read this as a sign of easing price dynamics. Core inflation remained elevated, the naira was still fragile, and the real economy was exposed to FX risks. Holding the rate steady was a calculated act of restraint not of complacency.

That restraint, however, was paired with resolve. The CBN intensified its presence in the foreign exchange market not by trying to fix the rate, but by managing volatility. Its approach was to stabilize, not sterilize. By narrowing the gap between official and parallel rates and increasing market turnover, it sought to create a more credible price discovery environment while keeping speculative behaviour in check. The naira, though still pressured, showed signs of holding ground, particularly in April, when FX flows improved and importers adjusted expectations downward. Throughout, the CBN kept its narrative steady disinflation will be earned, not assumed.

Portfolio investors noticed. With one of the highest real yields in frontier markets, Nigeria attracted cautious interest into its fixed income space. But the CBN knew this interest was transactional, not yet structural. Hence the tone of its communication: conservative, technocratic, and deliberately boring. No adventurism. No optimism untied to data. Just a hard focus on monetary discipline and FX management.

12. National Bureau of Statistics, Highlights of 2024 CPI Rebasing Result, February 18, 2025,https://microdata.nigerianstat.gov.ng/index.php/catalog/154/download/1156/Highlights%20of%20CPI%20Rebasing%20Result.pdf.

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This posture isn't without limits. The CBN cannot fix insecurity that affects food supply, nor can it resolve the fiscal constraints driving up deficit monetization risks.

Looking ahead, the CBN is unlikely to change course in H2 unless inflation drops meaningfully toward or below 20% and FX pressure remains subdued. It will not rush to cut rates even if headline inflation moderates further. The balance of risks, capital flight, naira weakness, and renewed imported inflation is too high. If anything, the Bank may tighten liquidity further through non-rate tools to support the naira and signal firmness.

In short, the CBN in 2025 is acting as a firewall less a driver of growth, more a protector of stability. It is setting the stage, not for a monetary pivot, but for a coordinated macroeconomic reset, if the fiscal and structural arms of policy choose to move in tandem.

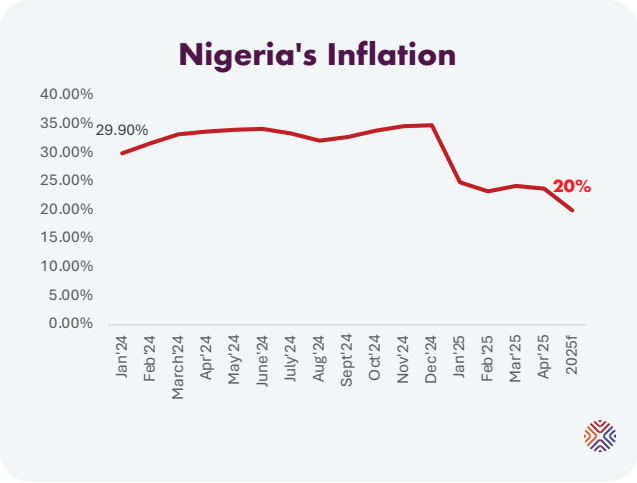
1.5. **Direction:** Where We Stand, What It Means

By mid-2025, the disinflation narrative is visible but vulnerable. April's print suggests some short-term success driven more by statistical effects and exogenous price stability than by structural improvement. The fuel market was calm not because costs disappeared, but because the naira held its ground. Telecom price shocks had passed, but core inflation remains sticky. The FX market showed less volatility, but CBN interventions continue to prop up liquidity.

The naira's behaviour was central to the inflation swings throughout the half-year. When it held its ground as in February and April headline inflation slowed. When it weakened, as in March, inflation surged. Nigeria's import-heavy economy amplifies even marginal currency depreciation. This pass-through effect is more than theoretical: when fuel, medicine, and basic inputs become more expensive due to currency movement, the effects ripple across every economic layer.

So why has inflation remained elevated despite tighter monetary policy and a seemingly disciplined fiscal stance? First, core inflation is sticky. Services, utilities, transport, and communication costs are rising steadily. These are less sensitive to short-term shocks and more reflective of entrenched structural costs. Second, FX stability has been achieved largely through intervention, not organic improvement in supply. Reserves remain limited, and oil revenues are under pressure from falling prices and a 14% U.S. tariff on Nigerian exports.[13] Third, food inflation remains vulnerable to insecurity, climate disruptions, and logistical inefficiencies. The onset of the rainy season may worsen supply chain issues in Q3.

In essence, Nigeria is not out of the woods. Inflation has softened, not disappeared. The groundwork for real disinflation supply-side resilience, fiscal depth, FX independence—is still under construction.



13. The White House Fact Sheet: President Donald J. Trump Declares National Emergency to Increase Our Competitive Edge, Protect Our Sovereignty, and Strengthen Our National and Economic Security." April 15, 2025. https://www.whitehouse.gov/fact-sheets/2025/04/fact-sheetpresident-donald-j-trump-declares-national-emergency-to-increase-our-competitive-edgeprotect-our-sovereignty-and-strengthen-our-national-and-economic-security/.

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1.6. H2 2025 Outlook: Measured Progress, Persistent Risk

In the second half of the year, inflation is expected to decline slowly. The base effect from H2 2024 will temper year-on-year comparisons. But the upside risks remain elevated. The best-case scenario for H2 is inflation gradually trending toward 20% for a best-case scenario by December 2025. The worst-case scenario involves FX shocks, food disruptions, and fiscal slippage pushing inflation back above pre-rebasing levels 24%.

Food inflation may rise again with the onset of the rainy season and insecurity in the North Central zones, which disrupts planting and logistics. Exchange rate fragility could resurface if oil prices fall further or foreign portfolio investors exit. U.S. tariffs on Nigerian exports will dampen dollar inflows and pressure reserves.

CBN is expected to hold rates in Q3 but might change parameters such as a liquidity ratio and Cash reserve ratio (CRR) asymmetric corridor, maintaining its inflation-targeting posture. A rate cut is likely if inflation dips further below to 21%. Any easing before that could trigger capital flight and reintroduce exchange rate pressure.

The federal government's fiscal room remains narrow. Multilateral funding will be key to keeping capital projects alive. However, without deepening non-oil revenue and accelerating subsidy-targeted interventions, fiscal fragility could undercut macro stability.

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1.7. Conclusion: Not Fixed, Not Failing Still Fragile

Nigeria's inflation story in H1 2025 is a tale of redefinition and resistance. The rebasing reshaped perception but didn't erase reality. Disinflation is underway, but structural weaknesses currency dependence, food insecurity, shallow fiscal buffers still anchor inflation risks above comfort.

The best-case scenario for H2 is inflation gradually trending toward 20% by December 2025. The worst-case scenario involves FX shocks, food disruptions, and fiscal slippage pushing inflation back above 25%. Inflation has been massaged by metrics, but policy execution not statistics will determine the path forward. The challenge for H2 isn't just to hold the line. It's to build enough traction to make disinflation real, resilient, and lasting.

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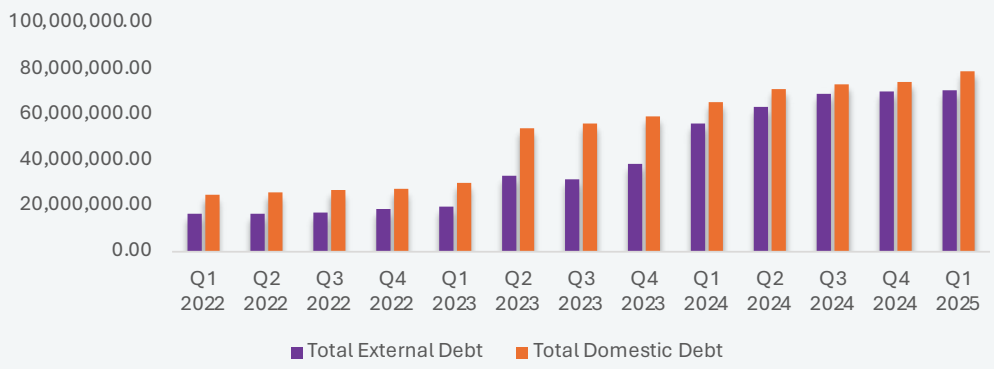
2 Debt at the Centre of the Stage: Nigeria's Balancing Act



Debt has become Nigeria's most influential economic variable. It drives policy, defines the budget, moves markets, and shapes investor confidence. From Abuja to Wall Street, the conversation is less about whether Nigeria borrows, and more about how, from whom, and at what cost.

As of Q1 2025, Nigeria's total public debt climbed to ₦149.39 trillion, representing a year-on-year increase of ₦27.72 trillion or 22.8% from ₦121.67 trillion in Q1 2024. On a quarterly basis, debt stock rose by ₦4.72 trillion or 3.3% compared to ₦144.67 trillion at the end of 2024, according to data from the Debt Management Office (DMO). [14] This increase reflects a combination of fresh borrowings and currency depreciation effects, particularly on external obligations.

The debt structure remained nearly balanced, with domestic debt accounting for ₦78.76 trillion (52.7%) and external debt standing at ₦70.63 trillion (47.3%) as of March 2025. However, in dollar terms, external debt stood at $45.98 billion higher than domestic debt's $51.26 billion equivalent due to naira devaluation. This shift in the naira value has effectively inflated the size of external debt in local currency terms, adding significant pressure to debt servicing.

While external debt increased by 26.1% year-on-year in naira terms, from ₦56.02 trillion in Q1 2024, the quarterly growth was modest at just 0.5%, reflecting limited new foreign borrowings. Instead, the naira's continued weakness remains the primary driver of upward movement in the local currency value of foreign debt.

External debt obligations include borrowings from multilateral institutions such as the World Bank and the African Development Bank (52.19%), bilateral sources (16.79%), and commercial creditors (30.94%), including Eurobond investors.[15] The burden of

14. Debt Management Office, Nigeria's Total Public Debt as at December 31, 2024, https://www.dmo.gov.ng/debt-profile/total-public-debts
15. Debt Management Office, Debt profile as at March 31st 2025, https://www.dmo.gov.ng/debt-profile/external-debts/debt-service/5361-nigeria-s-actual-external-debt-service-payments-in-1st-quarter-2025/file

servicing these debts in naira terms has become heavier as the local currency continues to slide in value, a trend that could deepen if reforms aimed at stabilising the currency do not yield results.

Nigeria's public debt path continues on an upward trajectory, with currency depreciation amplifying the cost of external obligations in naira terms. The rising ratio of external debt to total public debt (up from 46% in March 2024 to 47.3% in March 2025) highlights the increasing exposure to FX volatility. Simultaneously, domestic borrowings, though more predictable, are pushing interest expenditures higher, further squeezing fiscal space.

With the total debt stock nearing the ₦150 trillion mark, concerns persist over the rising cost of debt servicing, which now consumes a significant share of the national budget, given the current monetary tightening environment, limited oil production gains, and ongoing exchange rate instability, the cost of both external and domestic debt servicing remains elevated. This dynamic increases the risk of debt sustainability challenges, particularly if GDP growth underperforms or reforms stall.

The rising share of external debt especially in naira terms underlines the currency risk that Nigeria faces with continued reliance on foreign borrowing. At the same time, the consistent increase in domestic debt signals the government's efforts to raise funds from the local capital market, despite concerns about high debt servicing costs and crowding out of private investment.

The 'Renewed Budget' Nigeria's 2025 budget is not timid. At ₦54.99 trillion, it represents a near doubling of the prior year's expenditure envelope.[4] It is also a bet, a large, complex bet anchored on a trio of volatile assumptions: oil, inflation, and exchange rate stability. At the heart of this fiscal blueprint lies a critical fault line: debt.

The financing of the 2025 budget is premised on an official revenue projection of ₦41.7 trillion, implying a deficit of roughly ₦13.3 trillion.[6]. This deficit, though equivalent to only 3.8% of GDP, carries outsized consequences when viewed through the lens of debt servicing. Nigeria has earmarked ₦16.3 trillion almost one-third of total spending solely for interest payments. This is not an isolated spike. In 2024, debt service consumed ₦8.25 trillion, already equivalent to 45–50% of actual federal revenues. The 2025 projection effectively doubles that burden. The implication is straightforward: Nigeria will borrow more to service existing obligations while continuing to finance basic governance through debt.

In December 2024, Nigeria returned to the Eurobond market for the first time since early 2022, successfully raising $2.2 billion across two tranches $700 million

in a 6½-year note at 9.625% and $1.5 billion in a 10-year note at 10.375%. [16] The deal attracted a $9+ billion order book, signalling strong investor appetite for Nigerian debt and marking a return of confidence

4. Budget Office of the Federation, 2025–2027 Medium Term Expenditure Framework & Fiscal Strategy Paper, approved November 15, 2024, https://budgetoffice.gov.ng/index.php/2025-2027-medium-term-expenditure-framework-fiscal-strategy-paper.
6. Grant Thornton Nigeria. 2025. "Nigeria's 2025 Budget and the Economy." Grant Thornton (blog). April 2025, https://www.grantthornton.com.ng/insights/nigerias-2025-budget-and-the-economy2/
16. Debt Management Office, Press Release: Nigeria Prices US$ 2.2 Billion in a 6.5-Year and 10 Year Eurobonds, with Peak Orderbooks in Excess of US$9.0 Billion, December 2, 2024, https://www.dmo.gov.ng/news-and-events/circulars-releases/5010-press-release-nigeria-prices-us-2-2-billion-in-a-6-5-year-and-10-year-eurobonds-with-peak-orderbooks-in-excess-of-us-9-0-billion/file?utm_

following economic reforms.

In May 2025, a ₦300 billion Sukuk offering received ₦2.2 trillion in bids, underlining strong local liquidity and investor confidence in sovereign instruments.[17] Treasury bills continue to roll over weekly, with average yields in the 20–25% range, primarily due to persistent inflationary pressure. While these short-term papers provide fiscal breathing room, they also compound interest obligations in the near term.

The debt capital market has remained active. Q1 2025 saw ₦1.94 trillion in bond issuances. Oversubscription in the FGN Bond market pushed yields downward despite rising benchmark rates. T-Bills, however, remained high-yield instruments due to short tenor and inflation hedging. Eurobond yields trended lower in H1 2025 after two credit rating upgrades: Fitch moved Nigeria from B- to B, and Moody's raised its sovereign outlook to B3 from a Caa1.[1] The November 2025 Eurobond currently yields 5.05%, while the long-dated 2051 issue trades near 10.45%. The government also raised $917 million from a domestic USD-denominated bond in 2024, attracting both diaspora and institutional capital.[18]

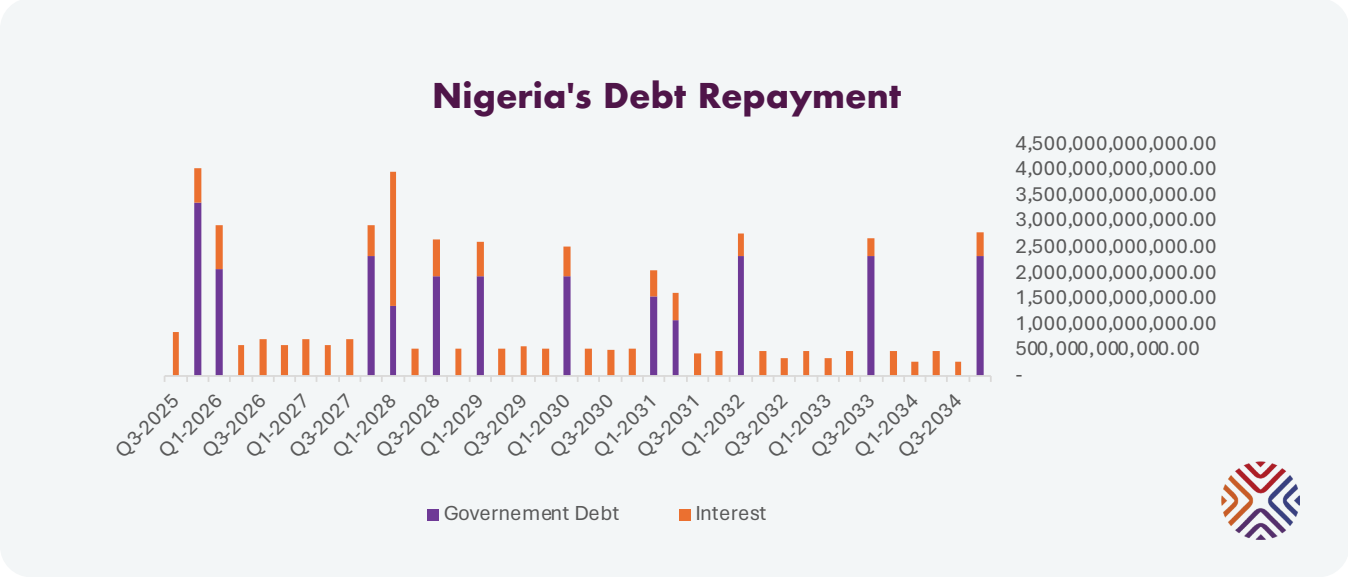
Interest payments are becoming the cornerstone of fiscal strain. External debt service is projected to hit $5.2 billion in 2025, up from $4.7 billion in 2024.[1] The schedule includes a $1.1 billion Eurobond due in November. Meanwhile, domestic debt servicing reached ₦1.58 trillion in Q4 2024 alone, bringing the annual figure to over ₦8 trillion. The 2025 budget earmarks ₦14.32 trillion for total debt servicing nearly one-third of total revenues and over 50% of federal-only revenues. A persistently high-interest rate environment CBN's benchmark rate stands at 27.5% has escalated the cost of domestic debt, with FGN Bond yields averaging 19% and T-Bills priced at ~20.5%.

Looking ahead, Nigeria's public debt is projected to grow by approximately 20% by year-end, driven by continued fiscal financing needs and exchange rate pressures. The persistent volatility of the naira against major currencies is expected to inflate the local currency value of external debt, even in the absence of large new disbursements. While the Central Bank's recent dovish stance may ease domestic borrowing costs and provide some relief through lower yields on bonds and treasury instruments, the government is still expected to rely heavily on these channels to fund the budget deficit and refinance maturing obligations.

A sustained appreciation of the naira could moderate the pace of debt growth by limiting valuation effects on external borrowings. However, this would not materially alter the overall debt outlook, which remains elevated due to structural imbalances in revenue generation and continued deficit financing.

1. Moody's Investors Service, "Moody's upgrades Nigeria's rating to 'B3' on better external and fiscal positions," Reuters, May 30, 2025, https://www.reuters.com/world/africa/moodys upgrades nigerias rating b3 better external fiscal positions 2025 05 30/;
   Fitch Ratings, "Fitch Upgrades Nigeria to 'B'; Outlook Stable," Fitch, April 11, 2025, https://www.fitchratings.com/research/sovereigns/fitch upgrades nigeria to b outlook stable 11 04 2025.
18. Debt Management Office, Press Release: Series VII Sovereign Sukuk Offer Attracts ₦2.205 Trillion Subscription, https://x.com/FinMinNigeria/status/1908062805128827008?utm_source=
17. Debt Management Office. 2025. Press Release: Series VII Sovereign Sukuk Offer Attracts ₦2.205 Trillion Subscription. Abuja, https://www.dmo.gov.ng/news-and-events/circulars-releases/5311-press-release-sukuk-series-vii-offer-attracts-n2-205-trillion-subscription/file?utm_

2.1. Pacing the Curve: Nigeria's Debt Management Outlook



Source: Bloomberg, CP Research

Nigeria's debt story over the next few years is less a sprint and more a choreographed performance, a mix of high-stake leaps, slow turns, and dramatic pauses. The schedule of repayments from late 2025 through 2034 shows the government moving through alternating cycles of heavy obligations and quiet quarters. In some periods, it is poised to write trillion-naira cheques to bondholders and creditors; in others, it stands still, making only the interest payments required to keep the lights on.

Nigeria is mostly refinancing rolling over old debt with new ones. It's a fiscal treadmill: the government isn't really getting off; it's just adjusting the pace. Interest payments alone are a heavy beat in this dance. Every quarter, they thump steadily in the background, consuming a sizable portion of government revenue. Even when no debt principal is due, the interest doesn't stop. This relentless pressure is why Nigeria's fiscal space is so tight spending on education, health, and infrastructure must now compete with debt service.

What lies ahead depends on how well the country can manage these repayments without stumbling. If oil prices stay supportive, tax reforms gather steam, and the naira holds firm, Nigeria may glide through this period with control. But any shock either foreign or domestic could throw the rhythm off, making each step heavier than the last. The real challenge is not just to dance through this cycle, but to eventually leave the floor entirely to move from a borrowing economy to a building one. Until then, the performance continues.

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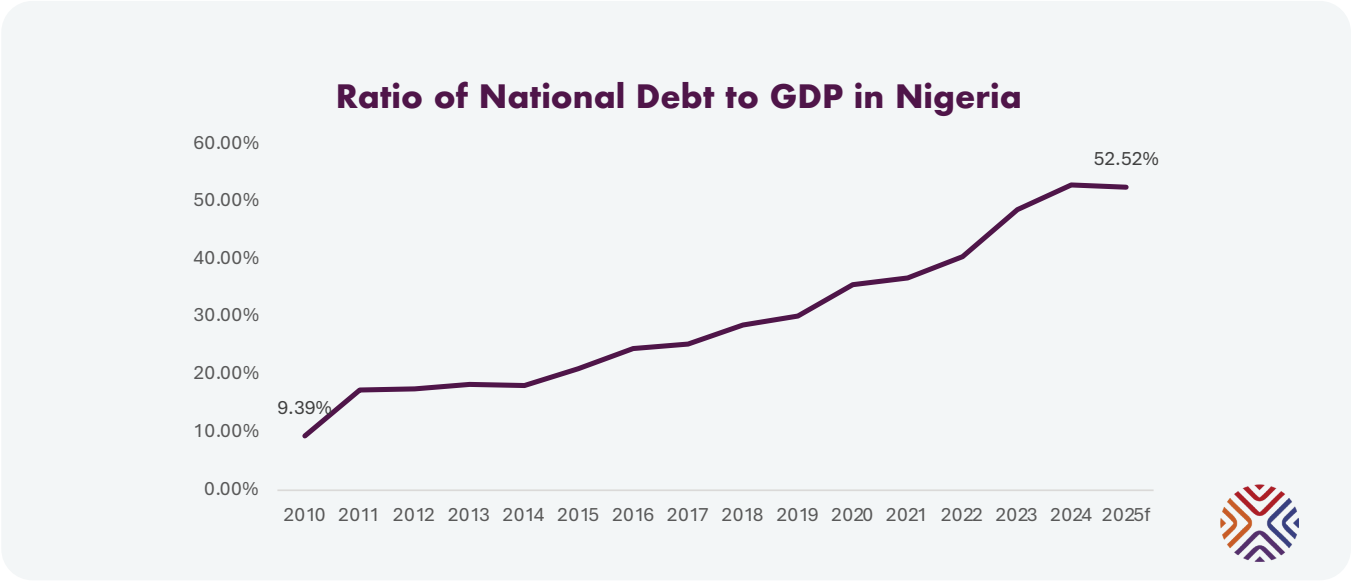
2.2 From Oil to IOUs: Nigeria's Fiscal Balancing Act



Source: Statista, CP Research

Nigeria's national debt-to-GDP ratio has followed a sharp and steady climb over the last 15 years, moving from a modest 9.39% in 2010 to an estimated 52.90% in 2024.[19] The forecast for 2025 shows a slight dip to 52.52%, suggesting that the current debt trajectory may be flattening, but the underlying issues driving this increase remain unresolved.

The sharpest uptick occurred post-2015, coinciding with the oil price crash[20], multiple exchange rate adjustments, and persistent budget deficits. Nigeria's economic structure, heavily reliant on oil for revenue and foreign exchange, left the country vulnerable to external shocks. When oil revenues plunged, the government turned to borrowing to fund its operations and capital projects. From 2015 to 2020, debt-to-GDP jumped from 21.02% to 35.63%,[21] and continued its ascent through the pandemic years and into the ongoing fiscal adjustments of the Tinubu administration.

The rise in the debt ratio has been driven by a mix of domestic and external borrowing, with domestic debt accounting for the larger share. The shift toward borrowing in local currency helped mitigate exchange rate risks to an extent, but high interest rates on local debt instruments (often over 15%) increased debt servicing costs. Meanwhile, external borrowings including Eurobonds and concessional loans have added currency risk, especially as the naira weakened significantly following FX reforms. The rebasing and unification of the foreign exchange market in 2023 and 2024 inflated the naira value of external obligations, which in turn elevated the debt-to-GDP ratio even without new borrowing.

19. StatiSense (X/Twitter), "Nigeria Debt to GDP Ratio since 1999 … 2010 — 9.39%, https://x.com/StatiSense/status/1917929683968295225?utm_
20. Stocker, Marc, John Baffes, and Dana Vorisek. 2018. "What Triggered the Oil Price Plunge of 2014–2016 and Why It Failed to Deliver Economic Impetus, https://blogs.worldbank.org/en/developmenttalk/what-triggered-oil-price-plunge-2014-2016-and-why-it-failed-deliver-economic-impetus-eight-charts#:~:text=The%20initial%20drop%20in%20oil,mid%2D2015%20to%20early%202016.
21. Statista, "National Debt of Nigeria in Relation to Gross Domestic Product (GDP)," accessed June 19, 2025, https://www.statista.com/statistics/383195/national-debt-of-nigeria-in-relation-to-gross-domestic-product-gdp/.

Nigeria's economic growth, though positive, has not been strong enough to outpace debt accumulation. Between 2010 and 2023, GDP growth averaged just under 3%, below the 6–7% level needed to meaningfully absorb rising debt. Although the economy grew by 3.84% at the end of 2024, however, growth is still vulnerable to policy slippages, insecurity in key regions, and global commodity price fluctuations.

Government revenue remains the weakest link. Despite recent efforts to boost tax collections, Nigeria's tax-to-GDP ratio remains between 7% and 10%, far below the sub-Saharan African average of 15–18%.[22] Fuel subsidy removal, FX unification, and new tax administration measures have helped shore up non-oil revenues, but the structure remains narrow and volatile. The result is a persistently high debt service-to-revenue ratio, which stood near 70% in 2023 and remains a major fiscal constraint.

The implications are direct. First, a rising debt burden without corresponding revenue growth leads to increased borrowing just to service existing obligations. This crowds out spending on infrastructure, education, health, and other productivity-enhancing investments. Second, high domestic borrowing costs siphon capital away from the private sector, dampening investment and job creation. Third, if the ratio crosses certain thresholds around 55–60% of GDP for emerging economies it begins to pose a material risk to macroeconomic stability, investor confidence, and future access to credit.[23]

Despite the risks, not all borrowing is bad. If well-targeted and transparently deployed, public debt can finance productive capital investments that drive growth and eventually lower the debt-to-GDP ratio. However, Nigeria's historical track record in public project execution and leakages in procurement weaken this argument. Debt used for recurrent spending, subsidies, and political payouts is not growth-enhancing and only deepens the debt spiral.

22. International Monetary Fund, Nigeria: Tax Revenue Mobilization—Lessons from Successful Reform Episodes (IMF Staff Country Report No. 2023/094, July 2023), https://www.imf.org/-/media/Files/Publications/Selected-Issues-Papers/2023/English/SIPEA2023019.ashx#:~:text=Based%20on%20these%20cross%2Dcountry,as%20high%2Dlevel%20political%20commitment.
23. World Bank, "Debt Vulnerabilities And Financing Challenges In Emerging Markets: An Overview of Key Data," https://www.imf.org/-/media/Files/Publications/PP/2025/English/PPEA2025002.ashx?utm_

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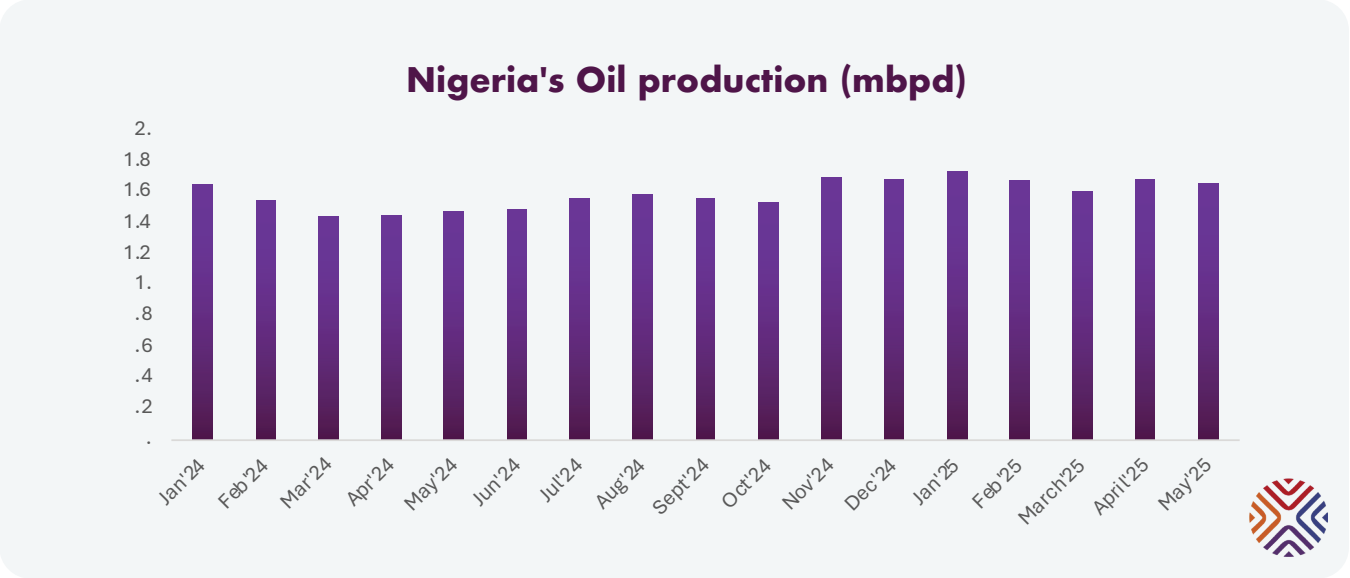
2.3. Drilled and Thrilled: Nigeria's Budget Finds Oxygen in Oil Prices



Source: NURPC, NP Research

Nigeria's fiscal structure remains deeply tied to the fate of global oil markets. Oil accounts for roughly 80–90% of foreign exchange earnings and over 50% of government revenue. This dependency means that budget performance, debt dynamics, and economic stability often rise and fall with crude prices.

As of early 2025, Nigeria's budget is built on an oil price benchmark around $75 per barrel and a daily production target exceeding 2.06 million barrels. But for most of the year, actual production has struggled around an average 1.34mbdp, consistently meet this mark due to pipeline vandalism, oil theft, and underinvestment. Compounding this was a recent decline in oil prices, which raised alarms about revenue shortfalls and the prospect of fresh borrowing.

When oil prices slipped below $65 per barrel earlier this year, it triggered real concern in Abuja as Nigeria's 2025 budget is built on a benchmark of around $75, so a sustained price drop of that magnitude threatened to blow open fiscal deficits. [4,5] With oil still forming the backbone of both foreign exchange earnings and government revenue, such a slide directly undermined the state's ability to meet debt obligations, pay salaries, fund capital projects, or even keep the naira steady.

The reasons behind the earlier dip were structural and global: weak demand from China, global trade slowdown, fears of a global economic slowdown given global trade tension to translate to weak demand, add trade tensions and slower global industrial output, and oil faced a bearish market environment, dragging Nigeria along with it.

4. Budget Office of the Federation, 2025–2027 Medium Term Expenditure Framework & Fiscal Strategy Paper, approved November 15, 2024, https://budgetoffice.gov.ng/index.php/2025-2027-medium-term-expenditure-framework-fiscal-strategy-paper.
5. TradingView. Brent Crude Oil (TVC:UKOIL) Daily Chart. Accessed June 16, 2025. https://www.tradingview.com/symbols/TVC-UKOIL/.

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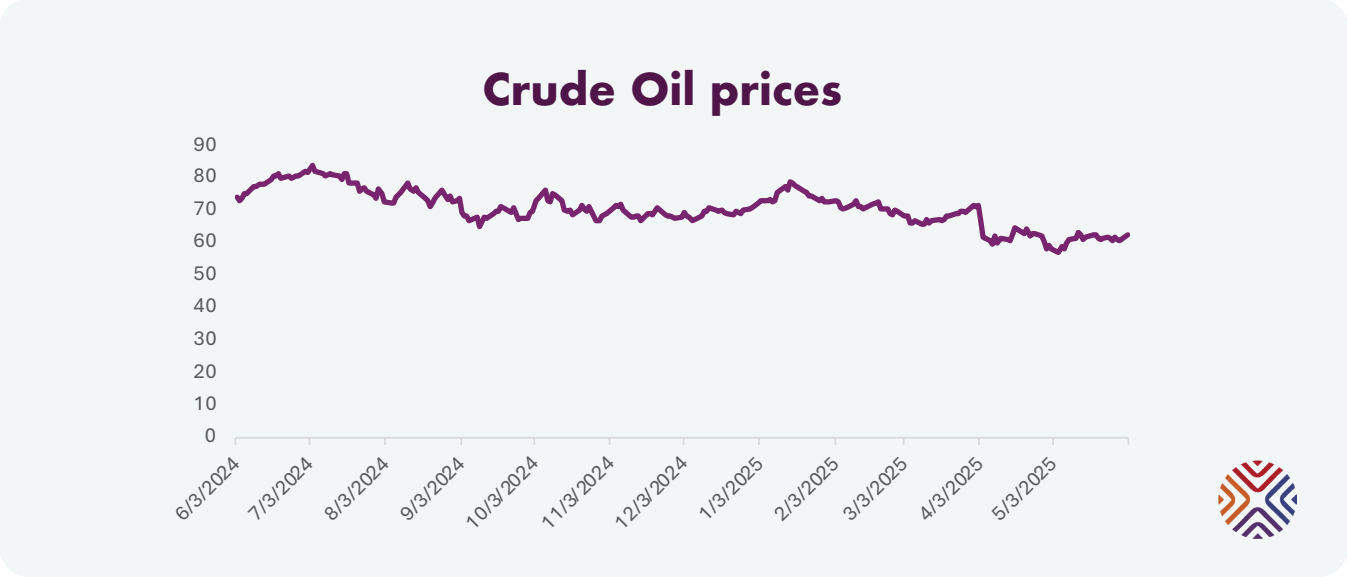
2.1. Pacing the Curve: Nigeria's Debt Management Outlook



Source: Investing.com, CP Research

Then came the unexpected twist, an escalation in Iran-Israel tensions. Within days, oil prices reversed course, jumping past $75 per barrel (in June 2025)[5] as markets priced in the risk of supply disruptions in the Middle East. For Nigeria, this geopolitical bounce offers short-term relief: it narrows the budget gap, boosts dollar inflows, and buys the central bank breathing space in the FX market. With higher oil receipts, the government might avoid fresh borrowing in Q3 or Q4 at least externally and redirect some of the windfall toward cushioning domestic obligations.

But this windfall also carries risks. When oil prices rise, Nigeria often postpones reforms and doubles down on old habits recurrent spending, subsidy reinstatements, and politically motivated projects. If revenue gains are not directed toward capital investments or debt reduction, the structural weaknesses persist. Higher prices may also reduce urgency around domestic revenue reforms, especially in non-oil sectors where tax collection remains abysmally low.

Borrowing could slow down temporarily if the oil price rally persists. But given Nigeria's weak tax base and high debt servicing obligations now consuming nearly three-quarters of revenue even strong oil receipts may not fully close the gap. Domestic borrowing will likely continue, albeit at a slower pace, to fund cash flow mismatches and bridge capital projects.

The broader economic implication is twofold: first, the oil price uptick offers temporary fiscal relief and improved FX liquidity. Second, it presents a credibility test. If the government uses the windfall wisely clearing arrears, funding infrastructure, and reducing debt it could stabilize macro fundamentals and attract investment. If squandered, the cycle resets when prices drop again.

5. TradingView. Brent Crude Oil (TVC:UKOIL) Daily Chart. Accessed June 16, 2025. https://www.tradingview.com/symbols/TVC-UKOIL/.

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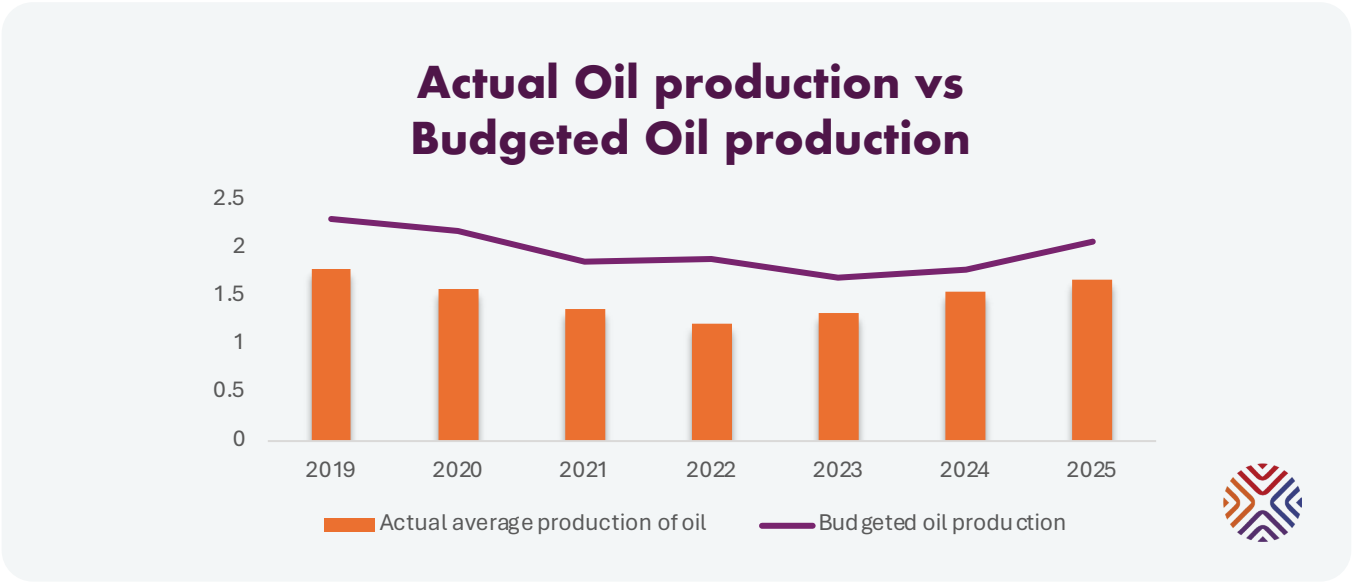
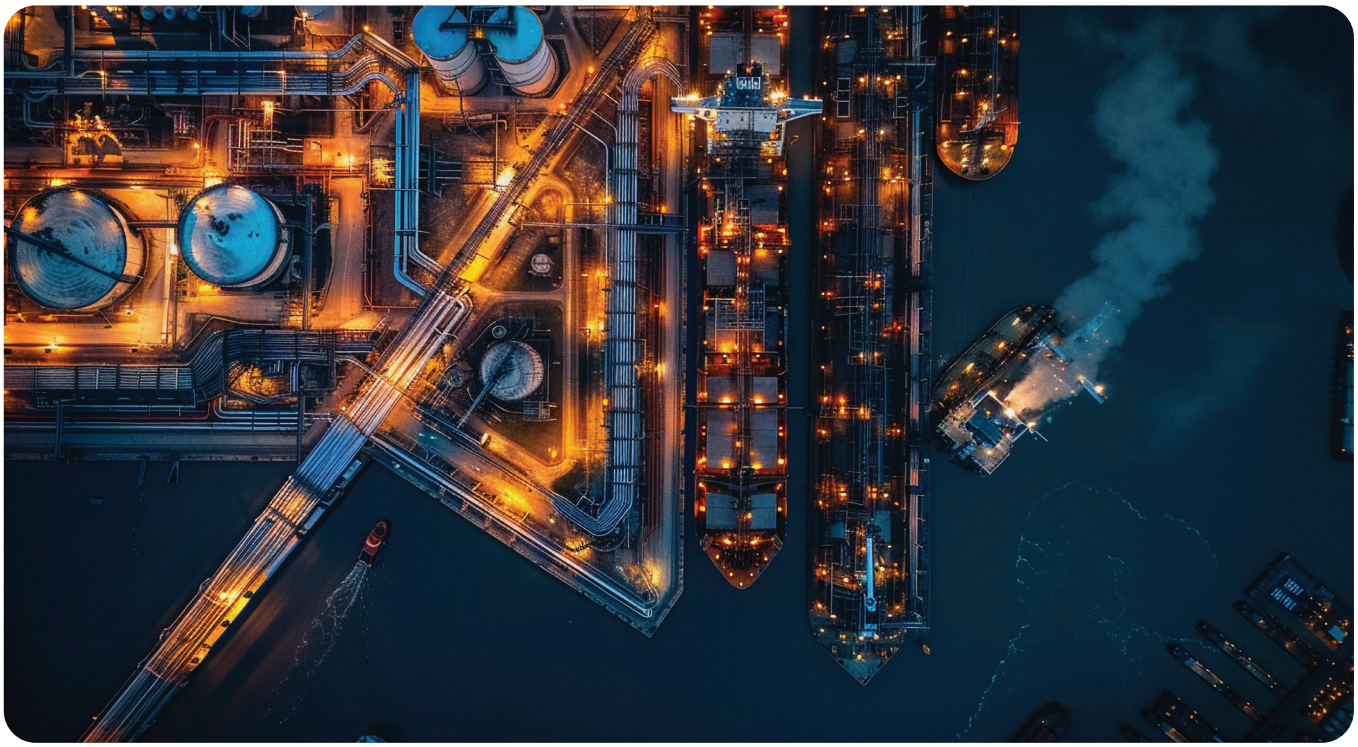


Source: NURPC, Budget office

Nigeria's budget has long relied on oil production targets as the central pillar of revenue projection, yet year after year, actual production has consistently underperformed against budgeted benchmarks. Between 2019 and 2025, this gap has become a structural feature of fiscal planning, with significant economic consequences.

Nigeria's inability to meet oil production targets is more than a statistical deviation—it is a structural fiscal weakness. Until the country reforms its upstream governance, secures production infrastructure, and aligns budget projections with operational capacity, the economy will remain trapped in a cycle of over-promising and under-delivering, funded by rising debt and narrowing fiscal options.



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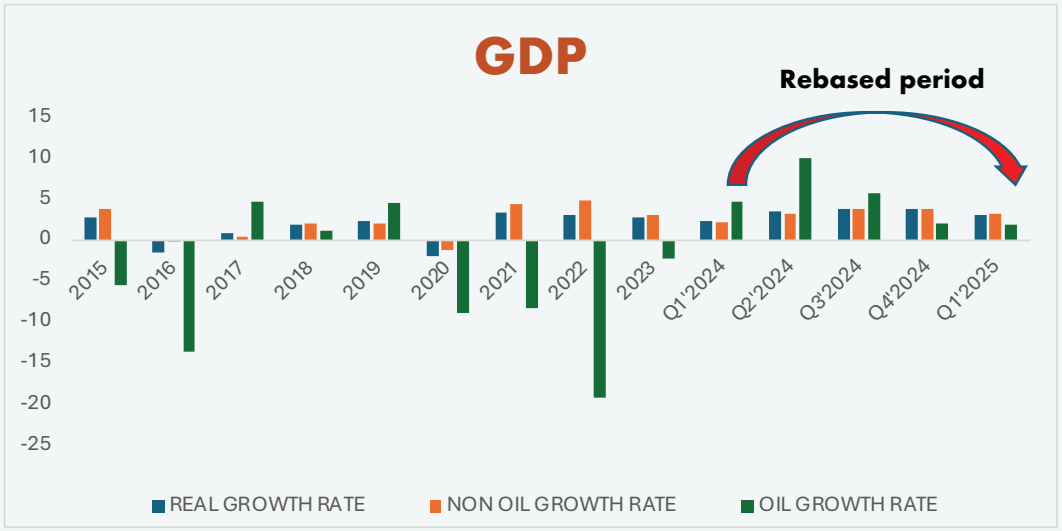
3 A New Economic Baseline: Rebasing Nigeria's GDP to Reflect a Changing Economy



Source: NBS, CP Research

Nigeria's Gross Domestic Product (GDP), recently rebased to 2019 constant prices, offers not just an updated statistical measure, but a more accurate lens into the structure, resilience, and fragilities of Africa's largest economy. With this recalibration, the picture that emerges is both affirming and unsettling affirming in the sense that the economy is more dynamic and diversified than previously recorded; unsettling because it lays bare the deep imbalances and productivity constraints that continue to stifle inclusive growth.[24]

As of Q1 2025, the nominal GDP stood at ₦94.05 trillion, representing an 18.3% year-on-year expansion. In real terms, GDP grew by 3.13%, a modest deceleration from 3.76% in Q4 2024 but an improvement over the 2.27% recorded in Q1 2024. [25]This upward adjustment confirms that Nigeria is a significantly larger economy than previously captured. Yet while the size has changed, the substance has not. The underlying dynamics low productivity, sectoral dualism and macroeconomic volatility remain firmly in place.

Between 2015 and 2024, Nigeria's real GDP growth averaged slightly above 1.5%, a pace insufficient to outstrip population growth (~2.6% per annum) and drive meaningful poverty reduction or job creation.

24. National Bureau of Statistics (Nigeria), GDP Rebasing 2025: Final Report, https://microdata.nigerianstat.gov.ng/index.php/catalog/147/download/1256/GDP_Rebasing_2025_%20Final.pdf.
25. National Bureau of Statistics (Nigeria), Q1 2025 GDP Report, https://microdata.nigerianstat.gov.ng/index.php/catalog/147/download/1258/Q1_2025_GDP%20Report.pdf.

Rebasing, by design, brings the GDP calculation in line with a more recent base year, reflecting changes in production patterns, consumption behaviour, and sectoral emergence. It incorporates previously underrepresented sectors like digital services, fintech, and logistics, and provides a more robust estimate of economic activity. Growth is being driven by a narrow band of services, while job-rich sectors like agriculture and industry remain subdued.

It makes the picture clearer, not necessarily brighter. Nigeria may now appear wealthier and more digitised, but rebasing does not fix the structural problems it merely quantifies them more accurately.

The updated figures show an economy that is increasingly service led. Services accounted for 57.5% of real GDP in Q1 2025, while industry and agriculture contributed 19.18% and 23.33%, respectively. Growth is being powered by information and communication technology, financial services, real estate, and trade.[25] Telecommunications alone contributed 10.59% to real output, highlighting the growing role of digital infrastructure. Financial institutions grew by 15.91% year-on-year, reflecting deepening formalisation and innovation in the banking and fintech spaces. However, these gains are not necessarily translating into broad-based improvements in living standards or employment. Services tend to be less labour absorbing, especially in their digital and capital-intensive segments. While they boost GDP, they do less for inclusive growth.

At the same time, sectors that are central to employment and poverty reduction like agriculture and manufacturing remains weak. Agriculture posted a meagre 0.07% real growth in Q1 2025, despite employing a significant portion of the population. Manufacturing grew by just 1.69% in real terms, constrained by high energy costs, FX volatility, weak logistics, and policy inconsistency. Despite robust nominal growth of over 42%, the real sector remains largely stagnant, highlighting a troubling divergence between GDP figures and on-the-ground economic vitality. Nigeria has undergone two major recessions in the last decade, first in 2016 due to oil price collapse and again in 2020 during the COVID-19 pandemic. Though the economy has returned to a growth path since 2021, the recovery has been tepid. Real growth was 3.4% in 2021, tapered to 3.1% in 2022, slowed further to 2.74% in 2023, and rebounded to 3.4% in 2024. The first quarter of 2025 shows continuity in this pattern of modest expansion.

The oil sector, while still influential in fiscal and external accounts, continues to underperform in GDP terms, a traditional growth driver, has remained volatile. Despite a marginal increase in daily crude production to 1.62 million barrels per day in Q1 2025, real oil GDP growth slowed to 1.87%, down from 4.71% a year earlier. The sector's contribution to real GDP has declined to just 3.97% highlighting both output constraints and the growing relevance of the non-oil economy reflecting both structural production issues and the ongoing shift toward a more diversified economy.

The non-oil sector, the real engine of the economy continues to underpin Nigeria's output resilience, contributing over 96% to real GDP in Q1 2025. It grew by 3.19% in the quarter, driven primarily by services such as telecommunications (7.82%), financial institutions (15.91%), and trade (1.78%). Real estate (4.61%) and construction (6.21%) also showed robust performances, despite inflationary pressures.

However, this shift from oil to services is not without caveats. Services, particularly in ICT and finance, tend to be capital-intensive and skill-biased, limiting their ability to absorb low-skilled labour. Agriculture, still the largest employer and a vital food security anchor grew just 0.07% in real terms in Q1 2025, a concerning sign amid high food inflation and rural underemployment. Manufacturing, despite a nominal rebound (+42.4% YoY), posted real growth of only 1.69%. Structural challenges such as forex volatility, energy supply deficits, infrastructure bottlenecks, and policy inconsistency continue to constrain the sector's competitiveness and export potential.

25. National Bureau of Statistics (Nigeria), Q1 2025 GDP Report, https://microdata.nigerianstat.gov.ng/index.php/catalog/147/download/1258/Q1_2025_GDP%20Report.pdf.

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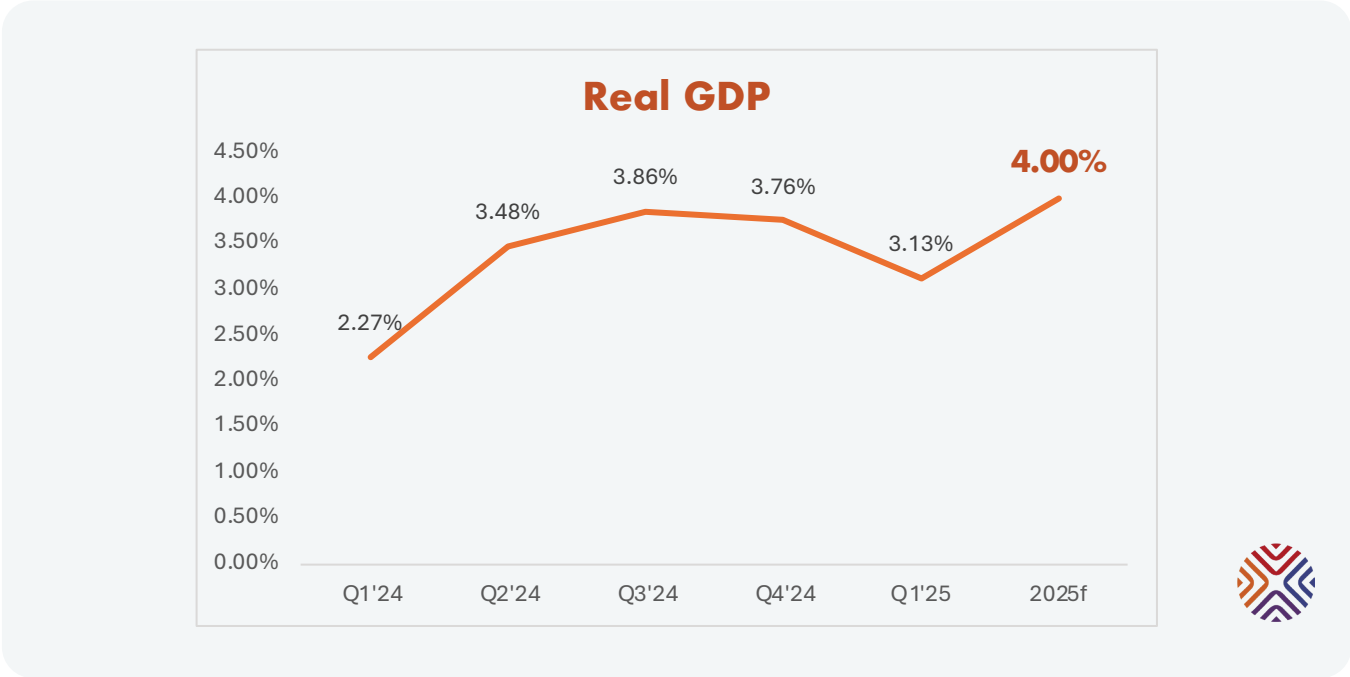
This paints a picture of a dual economy one that is expanding in digital and formal sectors, but stagnant in labour-intensive, rural, and industrial domains. The rebased numbers reveal that Nigeria's economy is both more modern and more uneven than previously understood. This duality presents a strategic challenge: how to harness high-growth, high-productivity sectors while also revitalising those that offer broader employment and developmental impact.

3.1. The New Face of Growth: Rebasing Nigeria's GDP into Reality



Source: NBS, CP Research

Nigeria's recently rebased GDP anchored to 2019 constant prices has reframed the national economic narrative.[24] No longer merely a technical recalculation, it presents a sharper, more nuanced view of Africa's largest economy, exposing its evolving structure, latent dynamism, and persistent vulnerabilities. With nominal GDP at ₦94.05 trillion in Q1 2025,[25] and real growth recorded at 3.13% (3.31% at market prices), the new data confirms what had long been suspected but poorly measured: that Nigeria is a larger, more digitised, more service-oriented economy than previously understood.

With these revised fundamentals, what lies ahead? The momentum seen in Q1 is likely to carry into Q2 2025, driven by seasonal gains in agriculture, steady performance in services, and modest oil output improvements. **Given the strong base in digital**

24. National Bureau of Statistics (Nigeria), GDP Rebasing 2025: Final Report, https://microdata.nigerianstat.gov.ng/index.php/catalog/147/download/1256/GDP_Rebasing_2025_%20Final.pdf.
25. National Bureau of Statistics (Nigeria), Q1 2025 GDP Report, https://microdata.nigerianstat.gov.ng/index.php/catalog/147/download/1258/Q1_2025_GDP%20Report.pdf.

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and financial services and an expected recovery in agricultural activity, real GDP growth in Q2 is projected at 3.4% to 3.6%, and by the end of 2025 to be at 4%. That trajectory reflects resilience but not yet structural transformation.

The rebasing has not created a new economy; it has made other sectors more revealed. It gives clarity, not comfort. It confirms that Nigeria is growing, but still not inclusively; expanding, but not equitably; modernising but not yet industrialising. Growth is increasingly coming from sectors that generate output without proportionate employment, reinforcing inequality and deepening regional disparities. The task now is not to celebrate bigger numbers, but to ensure those numbers mean more.

As the government pushes toward the $1 trillion economy target, the rebased figures offer both a head start and a warning. Without real reforms that lift productivity across all sectors, particularly agriculture and industry, and without stabilising inflation and the exchange rate, Nigeria may well cross the $1 trillion mark on paper but remain trapped in a low-equilibrium reality. The face of growth has changed. Whether its foundation does, is the question that matters.

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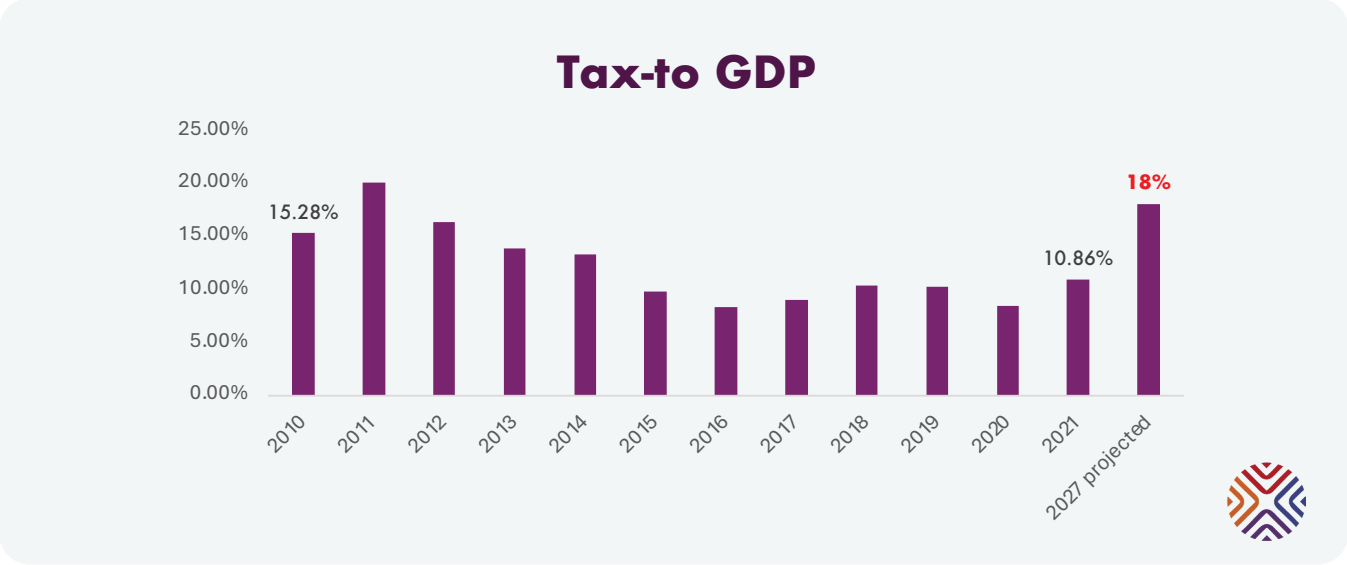
4 Beyond Oil, Beyond Borrowing: Nigeria's Quiet Tax Revolution



Source: NBS, CP Research

Nigeria's current tax reform program reflects a shift from fragmented, survival-driven revenue generation toward the design of a coherent, development-oriented fiscal structure. Under the leadership of Taiwo Oyedele, Chairman of the Presidential Fiscal Policy and Tax Reforms Committee, the approach has moved from firefighting to structural reengineering, seeking to replace inefficiency with sustainability and short-term cash grabs with long-term strategy.[27]

The focus of the committee is not just on raising revenue but on correcting structural weaknesses in Nigeria's tax architecture. These weaknesses have persisted across decades: multiple, overlapping taxes; conflicting collection authorities; weak enforcement; and over-reliance on oil revenue. What is now emerging is a deliberate pivot to harmonised taxation, streamlined administration, and digital infrastructure that supports a broader, more stable tax base.

The reforms are guided by two core principles: simplification and expansion. Nigeria has over 60 officially recognised taxes and levies, yet more than 95% of government tax receipts come from fewer than 10.[28] The committee's recommendation to eliminate redundant and non-performing taxes targets both administrative inefficiency and the high cost of compliance. This rationalisation also reduces the burden on formal enterprises, particularly in sectors like manufacturing and logistics, that are often subject to arbitrary local levies and multiple audits.

27. Presidential Fiscal Policy and Tax Reforms Committee. 2023. Interim Report on Nigeria's Tax and Fiscal Policy Reform. Abuja: Federal Government of Nigeria. https://fiscalreforms.ng/
28. Presidential Fiscal Policy and Tax Reforms Committee. 2024. Technical Framework for Tax Harmonisation and Revenue Administration Reform. Abuja: Federal Government of Nigeria. https://fiscalreforms.ng/wp-content/uploads/2024/11/Tax-reform-bills-CFOs_Nov2024.pdf

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A key aspect of the reform effort is the digitisation and unification of tax collection. The proposal for a single national tax platform is expected to centralise payment processes across federal, state, and local levels, enabling real-time tracking, enhancing compliance, and eliminating leakages. The long-term goal is not just technical efficiency, but transparency, predictability, and improved trust in fiscal governance. As a corollary, the committee is reviewing existing tax incentives, particularly those extended to oil and gas, manufacturing, and companies in free trade zones where economic returns have been minimal relative to revenue loss.

Central to the broader expansion strategy is the formalisation of the informal economy. The informal sector accounts for over 57% of Nigeria's GDP and over 80% of its labour force.[29]However, these activities are largely outside the tax net, with cash-based transactions, lack of documentation, and limited interaction with formal financial systems. The committee's plan includes a simplified presumptive tax regime enabling small businesses to pay taxes based on turnover estimates and incentive-based registration, offering benefits like access to credit, health insurance, and micro-finance services. This is a long-term investment in economic inclusion as much as it is a revenue initiative.

The digital economy comprising fintech, telecommunications, e-commerce, and digital content platforms is another under-taxed frontier. Rapid growth in transaction volume and platform use has not translated proportionately into VAT or corporate income tax revenue. New reforms are designed to align tax treatment with economic value, improving VAT collection and compliance without undermining sector innovation.

Also, non-oil taxes, which include Company Income Tax (CIT), Value Added Tax (VAT), Customs Duties, Stamp Duties, Capital Gains Tax, and Personal Income Tax (PIT), among which VAT and CIT are the largest contributors, are central to Nigeria's ongoing fiscal reform agenda, especially as the country seeks to reduce its overdependence on oil revenues and create a more resilient, diversified revenue base. Historically, oil has accounted for the bulk of federally collected revenue, but volatility in global oil prices and declining production have exposed the risks of this model. As a result, recent policy shifts have placed renewed emphasis on expanding non-oil tax revenues.

The 2024 tax revenue performance reveals a decisive shift in Nigeria's fiscal dynamics.[29] Non-oil taxes have significantly outperformed expectations, while oil tax collections have lagged behind, reinforcing the growing relevance of non-oil revenue streams in the country's fiscal architecture.

Oil tax revenue in 2024 was projected at ₦9.96 trillion, with a quarterly benchmark of approximately ₦2.49 trillion. However, actual collections fell short each quarter, cumulatively reaching ₦5.76 trillion, just 58% of the annual target.In contrast, non-oil taxes delivered ₦15.94 trillion in 2024 exceeding the target of ₦9.45 trillion by over 68%. Quarterly collections consistently surpassed benchmarks, with the most pronounced jump in Q2 and Q3. [30]

The implications are clear. Nigeria's fiscal strategy is slowly decoupling from oil dependence. While oil remains geopolitically and economically important, its diminishing share in revenue reflects a structural transition.

The committee has submitted multiple reports and working documents since 2023, including a detailed roadmap for raising the tax-to-GDP ratio from the current 10.86% to 18% by 2026. [27] This is a structural target, not just a fiscal one. Hitting it requires both improved compliance and broader engagement with high-earning individuals and under-assessed sectors such as real estate, retail trade, and high-net-worth individuals. The medium-term objective is to reduce dependence on oil-linked earnings and offshore

30. National Bureau of Statistics (NBS). 2022. Labour Force Statistics Volume I: Unemployment and Underemployment Report (Q4 2020). Abuja: NBS. https://www.nigerianstat.gov.ng
31. Federal Inland Revenue Service (FIRS). 2024. Annual Tax Collection Report. Abuja: FIRS.
27. Presidential Fiscal Policy and Tax Reforms Committee. 2023. Interim Report on Nigeria's Tax and Fiscal Policy Reform. Abuja: Federal Government of Nigeria. https://fiscalreforms.ng/

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borrowing, while the long-term ambition is to support Nigeria's growth trajectory toward becoming a $1 trillion economy.

What distinguishes this reform process is its acknowledgement that revenue is not merely a product of tax rates it is the outcome of system design, administrative discipline, and institutional legitimacy. If implemented with continuity and political will, these reforms could fundamentally recalibrate Nigeria's fiscal structure and enhance macroeconomic stability. This will be essential for attracting long-term capital, reducing the fiscal deficit, and positioning Nigeria as a self-sustaining economy in the decade ahead.

4.1. **Rewriting Revenue:** Nigeria's New Tax Order

The 2025 Nigeria Tax Reform Acts mark a fundamental shift in the country's fiscal architecture, targeting long-standing structural inefficiencies in revenue mobilisation and tax administration. Initiated under the Presidential Committee on Fiscal Policy and Tax Reforms in mid-2023, the reform process was driven by the need to boost non-oil revenue, improve tax equity, and modernise an outdated and inefficient tax structure. [31] On 26 June 2025, President Bola Ahmed Tinubu signed into law four key pieces of legislation: the Nigeria Tax Act (NTA), the Nigeria Tax Administration Act (NTAA), the Nigeria Revenue Service Act (NRSA), and the Joint Revenue Board Act (JRBA). Collectively referred to as the Nigeria Tax Reform Acts, these laws consolidate, simplify, and restructure Nigeria's tax landscape.

The reforms have now been enacted, but the effective date of implementation is expected to be no earlier than 1 January 2026. This provides a transition window for the government, businesses, and taxpayers to adapt to new systems particularly those involving digital compliance, e-invoicing, and updated reporting standards.

One of the key implications is a broader and more equitable tax base. With the revised Personal Income Tax structure and new residency definitions, the reforms bring high-income individuals, especially those with offshore earnings or cross-border activities, into the tax net. This strengthens tax fairness, reduces dependence on consumption and payroll taxes, and aligns with international norms.

More broadly, the reforms align Nigeria's tax system with international standards, improve transparency, and reduce the economy's over-reliance on oil revenue. That said, success depends on execution particularly digital readiness and capacity at the state level. The framework is strong, but results will depend on how well it is applied.

Rebuilding Fiscal Foundations Through Broader Participation

Nigeria's 2025 tax reform goes beyond patching fiscal leakages, it redefines the architecture of domestic revenue mobilisation. With a tax-to-GDP ratio of just 10%, Nigeria significantly underperforms its African peers, the reform aims to narrow this gap by expanding the formal tax base, correcting structural inefficiencies, and reducing the state's overdependence on oil.

One key pillar is the restructuring of the Personal Income Tax regime. Individuals earning less than ₦800,000 annually are now exempt from tax, offering targeted relief amid elevated inflation and cost-of-living pressures. [31] Simultaneously, higher earners face a marginal rate of up to 25%, shifting more responsibility

31. Federal Inland Revenue Service (FIRS). 2024. Annual Tax Collection Report. Abuja: FIRS.

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to those with stronger purchasing power. This revised structure is in tune with the progressive tax system, providing relief to low-income earners and ensuring higher income earners contribute a larger proportion of their income.

Fixing the Corporate Tax Puzzle: Equity, Simplicity, and Global Conformity

For corporates, especially large firms and multinationals, the reforms introduce deeper structural changes that reflect global best practices. The 15% minimum effective tax rate (ETR) on large companies, those with turnover above ₦50 billion or members of multinational groups ensures that entities cannot shift profits to low-tax jurisdictions without consequence. Where subsidiaries abroad pay less than 15%, a top-up tax applies in Nigeria. This provision brings Nigeria into early alignment with the OECD's Pillar II rules, a global standard only a few African nations like South Africa and Egypt have begun to adopt. It closes long-exploited loopholes around base erosion and profit shifting.[32]

Another bold shift is the increase in the Capital Gains Tax (CGT) rate for companies from 10% to 30%, eliminating arbitrage between trading and capital income. This affects sectors like real estate, infrastructure, and private equity where capital structuring is often used to avoid taxes.

In simplifying the corporate tax structure, the 4% Development Levy consolidates multiple minor taxes TET, NASENI, Police Trust Fund, and IT Levy into a single charge on assessable profits. This reduces fragmentation but increases the effective tax rate for large firms to around 34%. Nigeria compensates with improved administrative clarity and investment-linked incentives. Small businesses, defined as companies earning below ₦100 million in revenue and holding assets under ₦250 million, are fully exempt from CIT, CGT, and the Development Levy, preserving a buffer for MSMEs and encouraging gradual formalisation.

Closing Loopholes, Modernising Compliance, and Decentralising Revenue

Nigeria's 2025 tax reforms aim to close long-standing gaps in tax collection by using digital systems, stricter reporting rules, and a decentralised collection approach. While the VAT rate stays at 7.5%, the system has been modernised. Businesses can now recover input VAT on most purchases, including capital items. Essential goods like food, medicine, and education are zero-rated, which protects low-income households while allowing businesses to claim VAT refunds on related costs.

Mandatory e-invoicing and fiscalisation now embed digital processes into VAT collection. Also, VAT revenue is now more decentralised. States receive 55% of VAT collections and local governments 35%, while the federal government takes only 10%. This setup gives states a stronger financial incentive to enforce VAT compliance and grow their tax base. The structure could encourage efficiency among states while putting pressure on weaker ones to improve.

Compliance is further tightened with penalties: ₦100,000 for late filings and ₦5 million for doing business with unregistered entities. Taxpayers must also disclose aggressive tax planning schemes. A new Tax Ombuds Office has been set up to resolve

32. Deloitte, "OECD Pillar Two: Global Minimum Tax Rules," last modified 2024, https://www.deloitte.com/an/en/services/tax/perspectives/oecd-pillar-two.html#:~:text=Pillar%20Two%20sets%20out%20global,on%20profits%20in%20all%20countries.

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disputes and protect taxpayers. For non-resident companies, the rules now allow Nigeria to tax offshore income linked to the local economy, using expanded permanent establishment rules and a "force-of-attraction" principle. A 4% minimum tax now applies to Nigerian-source income even if no profit is declared.

However, implementation issues remain. Zero-rated VAT items still require businesses to pay VAT upfront on inputs, then apply for refunds. This process can cause cash flow problems, especially for small firms, and refunds are often delayed. Since no interest or penalty applies if the tax office delays refunds, businesses bear the risk of blocked capital, which can reduce their willingness to comply fully.

If implemented effectively, the reforms could raise Nigeria's tax-to-GDP ratio from 10% to between 13% and 15% in the medium term. More broadly, the reforms align Nigeria's tax system with international standards, improve transparency, and reduce the economy's over-reliance on oil revenue. That said, success depends on execution particularly digital readiness and capacity at the state level. The framework is strong, but results will depend on how well it is applied.

4.2. Outlook

The long-term outlook for Nigeria's tax reform is both ambitious and foundational. It is not simply about fixing a revenue gap; it is about rebuilding the architecture of the Nigerian state's fiscal independence. If sustained and implemented with political will, the reforms could reposition the country's public finance system for resilience, equity, and growth over the next decade.

At the heart of the long-term vision is a target to lift the tax-to-GDP ratio from under 11% to at least 18% by 2026, then consolidate above 20% by the early 2030s. This would place Nigeria within range of its African peers and provide the government with predictable, non-oil revenues to fund infrastructure, education, healthcare, and security—without resorting to excessive borrowing. Achieving this would require structural discipline: harmonised collection, effective enforcement, incentives that reward compliance, and a complete rethinking of tax exemptions and waivers. One of the biggest game changers in the long term is the shift from taxing a narrow formal elite to capturing the broader economy. If the informal sector, which drives over half of GDP, is gradually brought into the net through simplified, digital-first taxation, it will reduce overreliance on a small group of corporate and formal income taxpayers. It will also spread the burden more fairly across the economy.
However, the long-term success of the tax reform hinges on institutional insulation—shielding the reform process from political cycles. If future administrations unravel or underfund the effort, the system could revert to old inefficiencies. Sustainability will depend on embedding reforms into law, automating enforcement, and ensuring state and local governments are fully integrated into the framework.

If Nigeria stays the course, the tax reform will do more than raise revenue. It will help decouple the economy from oil, reduce dependence on debt, and create a social contract where governance is funded from within, not borrowed from abroad.

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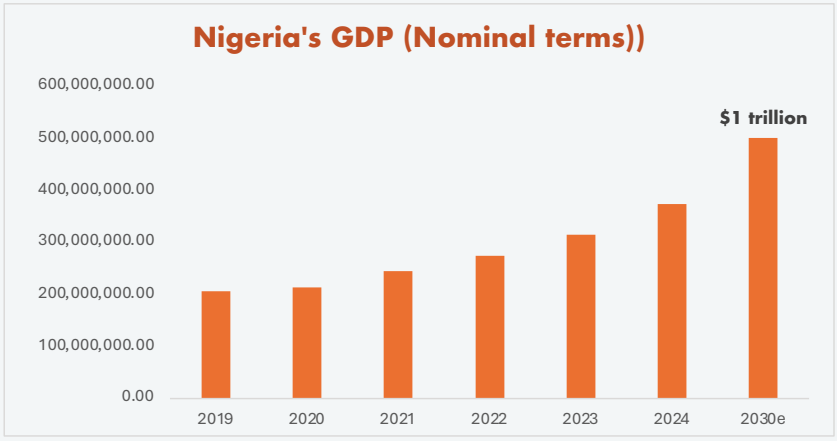
5 Toward a $1 Trillion Economy: Ambition Meets Arithmetic



Source: NBS, CP Research

Within this context, the government's stated ambition to become a $1 trillion economy by the early 2030s gains new relevance. On the surface, rebasing brings Nigeria closer to that goal. With nominal GDP now estimated at over ₦376 trillion on an annualised basis, Nigeria is roughly a $252.92 billion economy (at an average rate of 1,486 as of 2024).25 Reaching $1 trillion by 2030 would require sustained nominal GDP growth of at least 21.8% annually, implying that nominal GDP would need to more than quadruple in 7 years. Historically, Nigeria has averaged around 11–13% nominal growth, so reaching 21.8% sustainably would require a major uplift in real GDP growth, currency stability, and disinflation.

But this is not just a numbers game. Hitting the $1 trillion mark in dollar terms demands more than statistical expansion; it requires real structural transformation. Without stable exchange rates, consistent real growth of 7-10% per year, and lower inflation, nominal increases will not translate into sustainable development or improved livelihoods.

Historically, Nigeria's real GDP has averaged under 3.5%, and never sustainably above 6% since 2015. Achieving 7–10% real growth annually would require **broad-based productivity gains**, significant investment, and **institutional reforms** to unlock growth in agriculture, manufacturing, and digital infrastructure.

The path to a $1 trillion economy will demand productivity enhancements across agriculture, manufacturing, and services. It will require deeper financial markets, stable macroeconomic policies, and stronger institutions that can deliver on infrastructure, regulatory consistency, and reform implementation. Most importantly, it will require a growth model that is both inclusive and diversified; one that creates jobs, raises incomes, and expands economic opportunity across all regions and demographics. The risk is that without this foundation, Nigeria could cross the $1 trillion threshold in headline terms while remaining shallow in terms of its developmental impact.

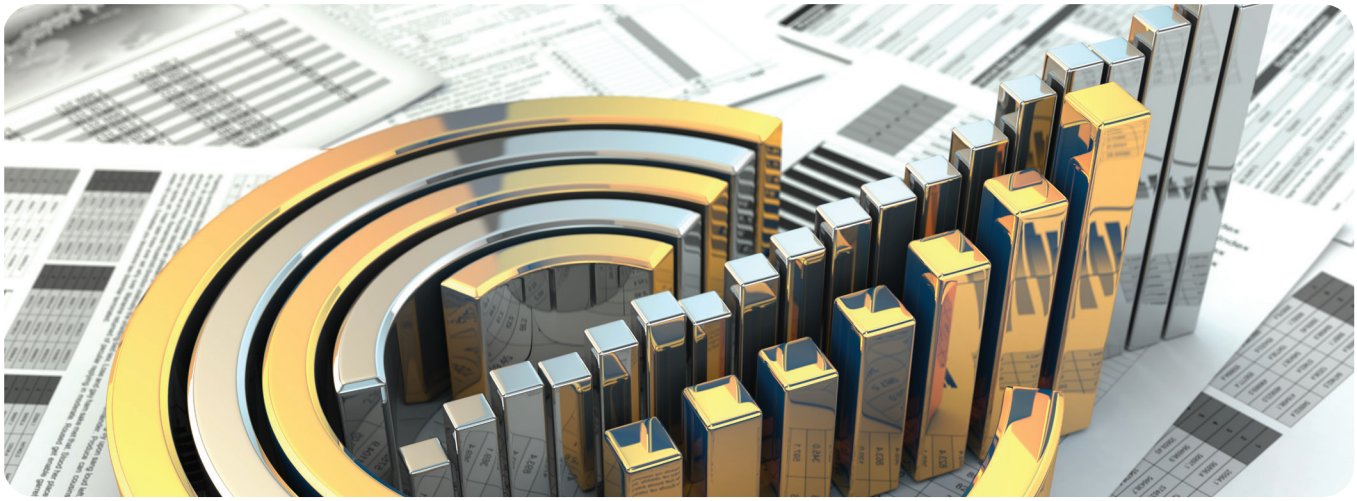
The reform agenda under President Bola Tinubu's administration has injected momentum into the structural transformation narrative. The removal of petrol subsidies, the FX rate convergence, and aggressive tax reforms particularly under the leadership of the Fiscal Policy and Tax Reforms Committee have created a new fiscal and economic orientation. These moves have expanded the non-oil tax base, improved revenue administration, and reduced fiscal leakages. In 2024, non-oil taxes outperformed oil revenue significantly, with ₦15.94 trillion collected versus ₦5.76 trillion from oil, a reversal from historical patterns.[30] This suggests that efforts to rebalance public finances are beginning to yield tangible results. This growing non-oil revenue base is critical for funding infrastructure, education, healthcare, and industrial policy without over-relying on debt or volatile oil receipts.

In sum, the newly rebased GDP gives Nigeria a more precise map of its economic terrain, but it does not change the journey. The economy may now appear larger, but its long-standing structural constraints, low productivity, limited industrial depth, and uneven sectoral linkages remain firmly in place. The goal of reaching a $1 trillion economy is achievable, but only if Nigeria moves from nominal ambition to real transformation. Without that shift, growth will be more statistical than substantial.

5.1. Outlook

Looking ahead, the success of Nigeria's $1 trillion ambition depends on the depth and execution of policy, not just breadth. Reforms must be institutionalised, inflation must be tamed, the FX regime stabilised, and investments in infrastructure and human capital accelerated. Tax reforms must be paired with incentives that encourage formalisation and industrial expansion. The rebasing exercise, while helpful in recalibrating the data, must not become a substitute for real economic transformation.

The $1 trillion economy is within conceptual reach, but reaching it in real, meaningful terms will require Nigeria to double down on structural reforms, deepen domestic value chains, and unlock productivity across both formal and informal sectors. The direction is right; the pace and consistency of execution will determine how quickly the country closes the gap.



30. Federal Inland Revenue Service (FIRS). 2024. Annual Tax Collection Report. Abuja: FIRS. https://www.firs.gov.ng/tax-resources-statistics.

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6 Nigeria's Trade; A New Trade Landscape

Source: NBS, CP Research

Nigeria's trade profile is undergoing a notable shift. For decades, the country operated under a trade structure dominated by imports, driven by an overreliance on foreign goods, weak domestic production capacity, and an overvalued exchange rate. However, this trend is now changing, recent data from NBS[33] showed that exports are consistently outpacing imports, reflecting improved export competitiveness and structural response to currency adjustments.

From 2020 to 2022, Nigeria's imports exceeded exports, resulting in trade deficits or marginal surpluses. In 2021, for example, imports stood at ₦20.84 trillion against ₦18.91 trillion in exports—a deficit of nearly ₦2 trillion. But from 2022 onward, the narrative started to shift. By 2023, the trade surplus rose to ₦5.1 trillion, and in 2024 it expanded further to ₦16.85 trillion, with exports at ₦77.44 trillion compared to ₦60.59 trillion in imports. This reversal is largely a function of the FX liberalization in June 2023[34], which resulted in a steep naira devaluation of roughly 70%, pushing the naira from sub-₦800 levels to over ₦1,400/$1. The reform narrowed the gap between official and parallel market rates, discouraged speculative demand for dollars, and made Nigerian exports significantly cheaper in USD terms, improving global competitiveness.

Exports in Q1 2025 rose to ₦20.6 trillion ($13.5 billion), up 3.8% from the previous quarter, though down 7.5% from Q1 2024 in USD terms. The decline compared to Q1 2024 reflects the base effect from an unusually strong oil export quarter last year. This decline reflects the reduced demand for dollar-priced goods following devaluation, as well as a drop in petroleum imports due

33. National Bureau of Statistics. Foreign Trade in Goods Statistics (Q1 2025). Abuja: NBS, May 2025. https://www.nigerianstat.gov.ng.
34. Central Bank of Nigeria. Press Release on Exchange Rate Unification, June 2023. https://www.cbn.gov.ng/out/2023/ccd/operational%20changes%20to%20fx%20market.pdf

to the ramp-up of operations at the Dangote Refinery. With domestic refining now covering a larger share of fuel consumption, FX previously spent on importing petroleum products is now being conserved.

The composition of non-oil exports is evolving. Higher volumes of processed food, beverages, chemicals, plastics, and tobacco products contributed to this growth.[33] This reflects the early signs of structural transformation as Nigerian firms in light manufacturing and agro processing begin to take advantage of improved export margins driven by FX reforms. The devaluation has made Nigerian products more attractive in global markets, especially across ECOWAS and other regional trade corridors.

Nigeria's trade dynamics are evolving from an import-led structure to a more balanced and potentially export-dominant configuration. While crude oil still anchors external earnings, the growth in non-oil exports is narrowing the dependency gap.

The depth of Nigeria's trade reconfiguration will depend on three core levers: durability of FX reform, the scalability of non-oil export capacity, and trade logistics efficiency. The Dangote Refinery has helped reduce petroleum imports, but the wider success of this transition depends on whether policymakers can fix structural constraints—power supply, transport networks, and regulatory red tape. The increase in non-crude exports (₦7.64 trillion in Q1 2025) is encouraging, but the economy still needs deeper supply chain investments to sustain it.[33]

Meanwhile, import behaviour is adjusting. Imports declined by 6.2% from Q4 2024 and 9.9% year-on-year in USD terms. [35]This drop is partly a function of FX scarcity and rising import costs, but it also points to early-stage substitution and strategic demand compression by businesses. Many import-dependent firms are localizing parts of their supply chain or could delaying capex-heavy inputs. This has mixed implications: positive for domestic production, but potentially negative for productivity in sectors still reliant on imported machinery or components.

The growing trade surplus supports the naira in theory, but the exchange rate remains volatile due to inconsistent inflows and limited confidence in the FX market framework. While export proceeds are rising, the repatriation pipeline remains slow, and the financial system still lacks the depth to fully convert trade gains into liquidity relief. For investors, this opens a bifurcated outlook: sectors tied to export revenue and FX gains-such as agribusiness, chemicals, and logistics will benefit disproportionately, while import-dependent industries remain exposed to cost pressures and FX risk.

From a macro standpoint, Nigeria is in a rare position where trade dynamics are favourably aligned. The export surge, though still dominated by oil now includes a growing non-oil base, which if consolidated, could become a true diversification pillar. The trade surplus is reducing pressure on FX reserves, and the narrowing of the current account deficit should give the central bank more policy flexibility.

But the sustainability of this progress hinges on execution. FX reforms initiated the pivot, but institutional support, export financing, trade facilitation, and infrastructure must follow. The opportunity is clear: if Nigeria can institutionalize its export momentum and address logistical frictions, it can shift from a historically consumption-led, import-heavy economy to one that exports competitively at scale. In that transition lies the next phase of Nigeria's macroeconomic resilience.

33. National Bureau of Statistics. Foreign Trade in Goods Statistics (Q1 2025). Abuja: NBS, May 2025. https://www.nigerianstat.gov.ng.
35. National Bureau of Statistics, Nigeria. Foreign Trade Statistics Report, Q4 2024. Abuja: National Bureau of Statistics, 2025. https://microdata.nigerianstat.gov.ng/index.php/catalog/84/download/1159/Q4_2024_Foreign_Trade_Statistics_Report.pdf

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6.1. The handshake between Fiscal and Monetary policy

Nigeria's macroeconomic landscape since 2024 has been shaped by a cautious and evolving handshake between fiscal and monetary authorities, aimed at taming inflation, stabilising the currency, and laying foundations for sustained growth. The alignment still imperfect between the Central Bank of Nigeria (CBN) and the fiscal side under the Federal Ministry of Finance has seen attempts at synchronised action, though coordination challenges remain.

On the monetary front, the CBN pivoted away from the unconventional policy stance of the pre-2023 years, where quasi-fiscal interventions blurred its mandate. Under new leadership, the bank has reasserted its price stability objective. This involved sharp interest rate hikes, sustained open market operations, and a gradual return to orthodox monetary tools. Headline inflation, which had soared due to energy subsidy removals, naira depreciation, and structural inefficiencies, began to moderate only slightly in early 2025, slowing but not reversing.

Meanwhile, the fiscal authority embraced an aggressive reform path. Fuel subsidy removal, exchange rate unification, and tax policy reforms under the Presidential Committee on Fiscal and Tax Policy marked a significant shift from revenue-for-survival to revenue-for-development. The tax-to-GDP ratio, historically under 10%, has begun a slow climb, supported by digitisation, harmonisation of taxes, and targeting of the informal economy.[30] Still, fiscal consolidation has not fully materialised, as interest payments continue to absorb a third of total expenditure, and borrowing persists due to weak non-oil revenue mobilisation and oil production shortfalls. Where both sides have attempted coordination is in the handling of inflation. The CBN's tightening measures have been reinforced by efforts to reduce fiscal leakages and curb monetisation of deficits. However, the underlying structural inflation driven by logistics bottlenecks, insecurity in agricultural zones, exchange rate volatility, and an under-diversified economy limits the effectiveness of these policies. Price pressures remain sticky, particularly for food and core goods, as supply chains remain vulnerable.

In terms of structural growth, the reforms, while painful, have begun to reprice risk and restore investor sentiment. Fiscal policy is shifting focus towards productivity, with planned capital spending in infrastructure, digital economy, and energy. However, weak execution, limited fiscal space, and subnational inefficiencies are constraints. On the monetary side, financial inclusion and credit access for MSMEs remain under-addressed, despite tighter control over inflation. The results so far are mixed. Growth is positive but uneven, with real GDP expansion averaging just under 4% below population growth. Inflation remains above target. Exchange rate pressure has eased but not stabilised. The fiscal deficit is still high, though narrowing. The outlook depends on whether reforms are institutionalised and if both arms of policy can resist populist reversals in the face of economic hardship.

The handshake between monetary and fiscal authorities has not been seamless, but it is firmer than in previous years. Its durability, however, will depend on whether structural bottlenecks particularly around oil production, revenue leakages, and subnational coordination are addressed with equal commitment. Otherwise, the reform momentum may stall before it delivers the promised transformation.

Section F

The Nigeria Financial Market

Chapter 1

Nigeria equity Market

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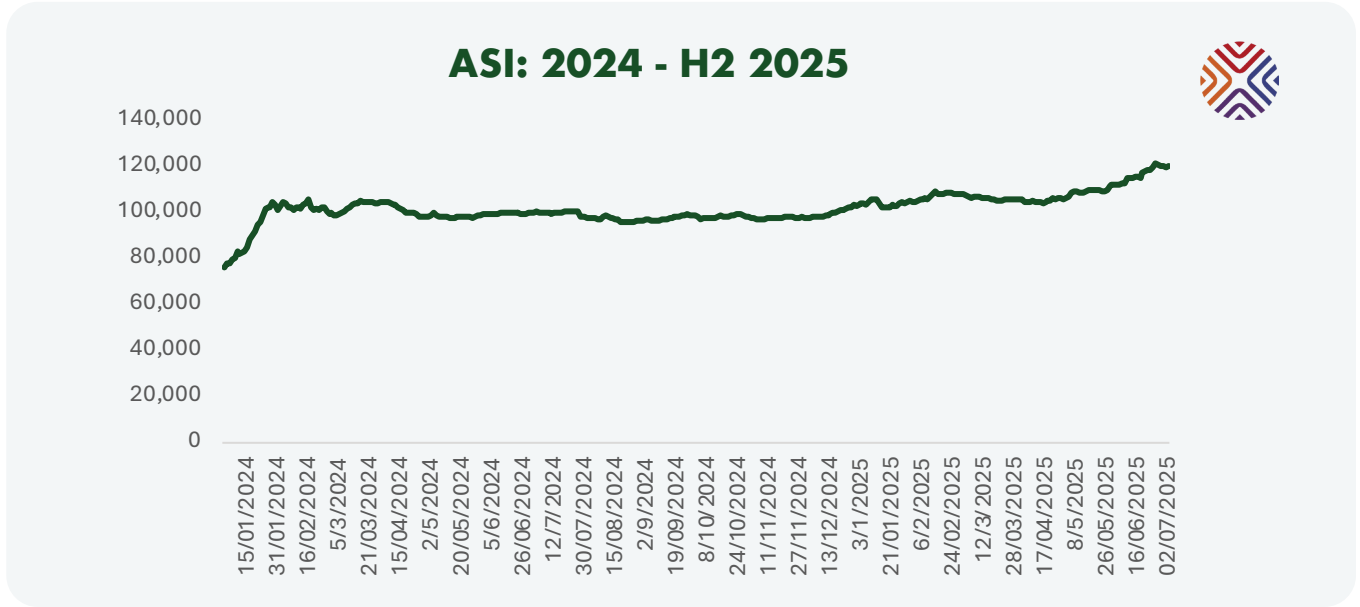
1 All Share Index Market Performance

The Nigerian Exchange (NGX) All-Share Index delivered a remarkable 16.57% gain in the first half of 2025, closing at 119,978.57 points on June 30, 2025, from its opening level of 102,926.40 points. This strong performance was accompanied by significant market capitalization growth of N13.2 trillion, rising from N62.76 trillion at year-end 2024 to N75.95 trillion by June 2025. The market demonstrated resilience amid various economic headwinds and regulatory changes, positioning the NGX as one of Africa's top-performing stock exchanges.



Source: Investing.com[1]

1 Investing.com Nigeria. "NSE All Share Historical Rates - Investing.com NG," February 7, 2001. https://ng.investing.com/indices/nse-all-share-historical-data

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1.1. FPI-FDI Participation

The Nigerian equities market witnessed a notable resurgence in Foreign Portfolio Investment (FPI) activity during the first half of 2025, marking a significant shift from the subdued participation observed in previous years. This uptick in foreign investor engagement reflects a renewed confidence in the market, driven by a combination of macroeconomic reforms and improved market dynamics.

Total FPI transactions on the Nigerian Exchange (NGX) grew to N996.03 billion in the first five months of 2025, more than doubling the N458 billion recorded during the same period in 2024, albeit at a lower market share of 22.59% compared to 22.78% in 2024

The Central Bank of Nigeria's (CBN) initiatives to enhance transparency and stability in the foreign exchange market, including maintaining the Monetary Policy Rate (MPR) to curb inflation, have bolstered investor confidence.

The NGX's robust performance, underpinned by strong earnings from listed companies, has attracted foreign investors seeking growth opportunities in emerging markets.

While the increased FPI participation underscores a positive trajectory for the Nigerian equities market, sustained efforts to maintain macroeconomic stability and implement investor-friendly policies will be crucial in retaining and further attracting foreign investments.

1.2. Structural Changes: Listings and De-listings in H1 2025

New Listing:

Legend Internet Plc

Companies who Delisted:

UNION HOMES SAVINGS AND LOANS PLC
...Solid, Safe and Sure - Footed

Med-View Airline

Goldlink Insurance Plc
...innovation driven by experience!

CAPITAL

Notore

THE TOURIST COMPANY OF NIGERIA PLC

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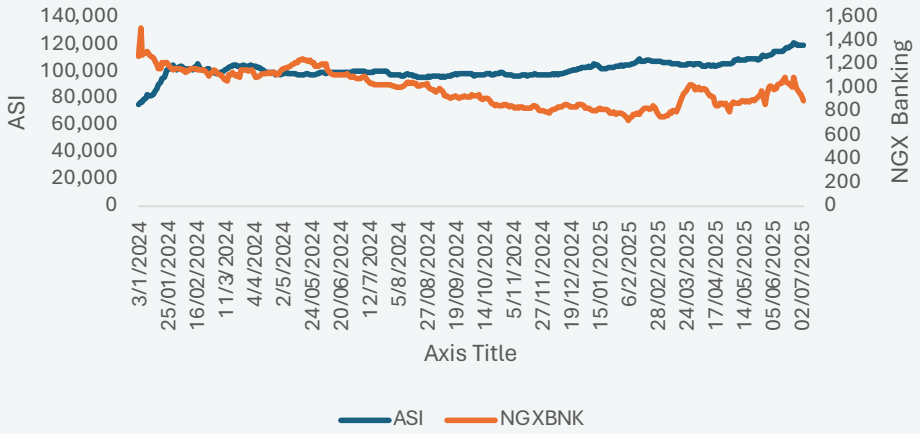
2 Sectorial Analysis

2.1 Banking Sector



Source: Data compiled from Investing.com [2, 3]

2.1.2. Introduction

The sector is now entering a critical phase. The CBN's recapitalization directive, announced in 2024 with a 2026 deadline, is shifting market focus to capital raising strategies. Banks are preparing to meet the new thresholds through rights issues, equity injections, and potential consolidation[4].

The CBN's recent directive ending regulatory forbearance further altered the landscape, banks with significant restructured exposures have been ordered to suspend dividend payments, defer management bonuses, and halt offshore investments until full provisioning is completed. This has introduced

2 Investing.com Nigeria. "NSE Banking Historical Rates - Investing.com NG," February 7, 2001. https://ng.investing.com/indices/nse-banking-historical-data

3 Central Bank of Nigeria, Circular to All Commercial, Merchant and Non-Interest Banks; and Promoters of Proposed Banks, FPR/DIR/PUB/CIR/002/009 (Abuja: Financial Policy & Regulation Department, March 28 2024).www.cbn.gov.ng/Out/2024/CCD/Recapitalization_MARCH_2024.pdf

4 Central Bank of Nigeria, Circular to All Commercial, Merchant and Non-Interest Banks; and Promoters of Proposed Banks, FPR/DIR/PUB/CIR/002/009 (Abuja: Financial Policy & Regulation Department, March 28 2024).www.cbn.gov.ng/Out/2024/CCD/Recapitalization_MARCH_2024.pdf

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new constraints and raised concerns about capital adequacy for some institutions.

Going into the second half of the year, the market will remain focused on execution risk around recapitalization, asset quality trends, and the regulatory pace. For now, Tier-1 banks continue to lead, but broader sector re-rating will depend on clarity and speed of capital raising and balance sheet adjustments.

2.1.3. Interest Income: Peak Performance and Emerging Stability

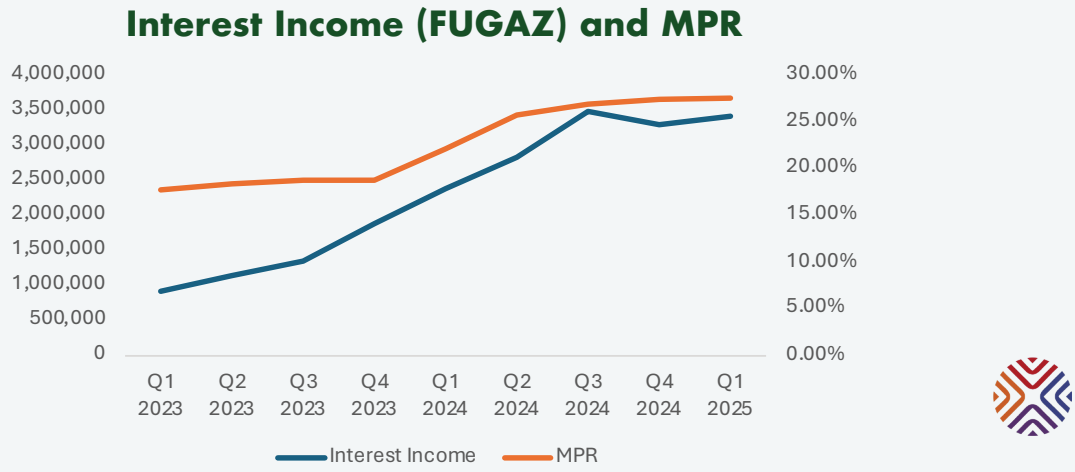
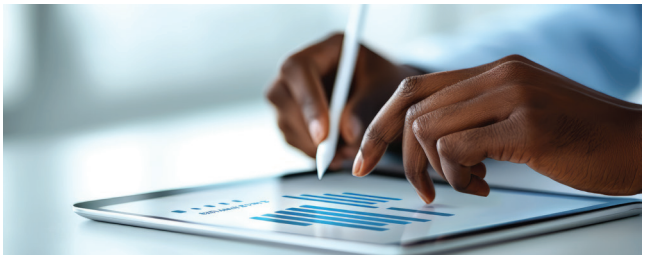


***Figure in Millions of Naira**

Source: Data compiled from CBN[5], Companies' Financials

The elevated MPR, which saw successive hikes throughout 2024, created a fertile ground for Nigerian banks to harvest substantial interest income. This trend persisted into Q1 2025, though the pace of growth moderated as the CBN opted to hold the policy rate steady since November 2024. This shift signals the likely end of the exponential growth phase for interest income, ushering in a period of consolidation. Despite this deceleration, the income base remains robust, underpinned by banks' proactive balance sheet management. Rather than merely riding the wave of high rates, institutions have tactically extended asset durations during rate hikes, rotated into higher-yielding instruments like Treasury bills and bonds, and maintained adequate liquidity buffers. This strategic agility has solidified interest income as a dependable earnings engine, even as the repricing opportunities tied to fresh rate increases diminish.



5 Central Bank of Nigeria. "Money Market Indicators | Central Bank of Nigeria," https://www.cbn.gov.ng/rates/mnymktind.html

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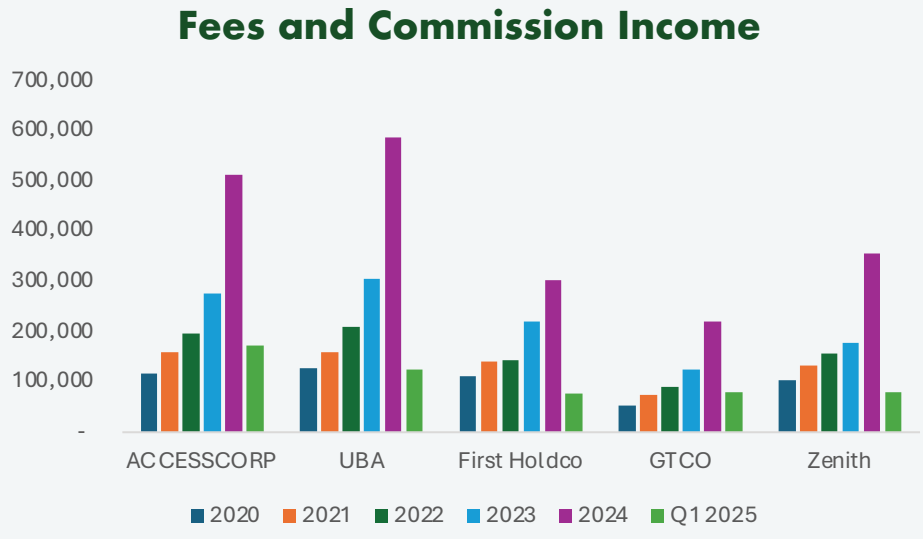
2.1.4. Beyond Lending

In Q1 2025, gains from investment securities soared by approximately 85% to N1.5 trillion compared to Q1 2024, reflecting a deliberate strategy to exploit yield curves and duration mismatches. This treasury performance underscores a broader trend: banks are not passive beneficiaries of monetary policy but active managers of interest rate risk. By rebalancing their asset mix—shifting between loans, T-bills, and bonds, they have locked in substantial gains bolstering overall profitability. However, with CBN adopting a more stable stance and the rate curve flattening, this playbook may face challenges if funding costs rise or loan demand remains tepid.

Non-Interest Revenue: The Digital Dividend



Source: Data compiled from Company Financials

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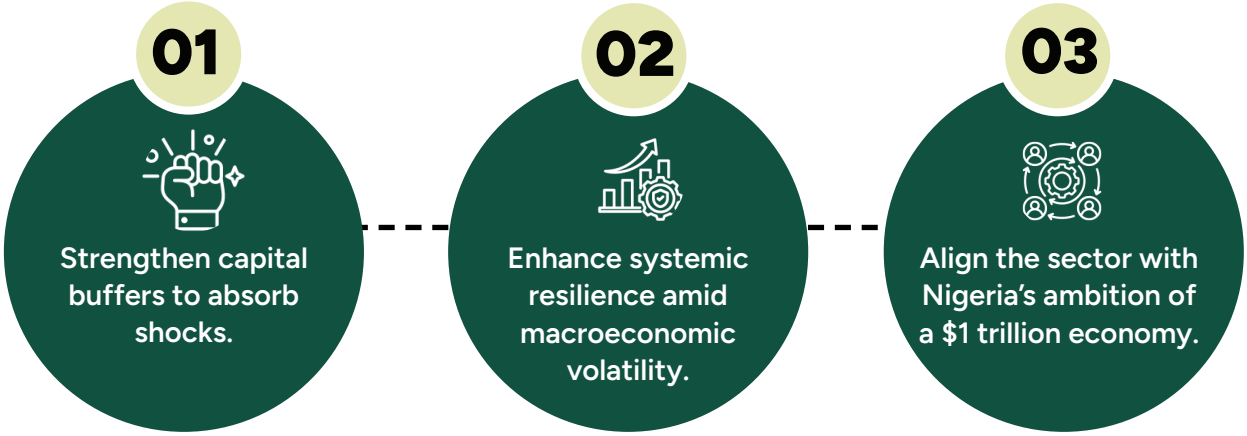
Complementing interest-driven gains is a sharp uptick in non-interest revenue, particularly from fees and commissions. The rapid shift toward digital banking and e-payment platforms, fueled by a large retail customer base, has unlocked scalable income streams from card maintenance, transfers, account servicing, and digital transactions. This growth highlights the sector's adaptability to changing consumer behaviours and its capacity to build resilient, fee-based revenue models. As macroeconomic pressures like inflation and foreign exchange volatility persist, these diversified earnings have fortified banks against external shocks, enhancing their appeal to investors.

2.1.5. Recapitalization

The CBN's recapitalization mandate requiring international banks to reach N500 billion, national banks N200 billion, and regional banks N50 billion in minimum paid-up capital by March 2026 is a cornerstone of Nigeria's banking sector reset. This initiative aims to:



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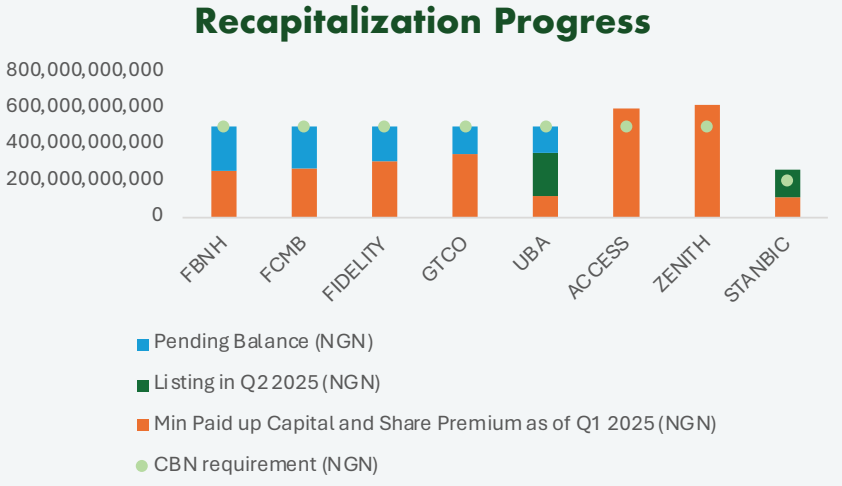
Recapitalization Initiative and Structural Transformation



NB: Data as of June 30 2025
Source: Data compiled from Proshare[7] , Company Financials

Unlike the 2004 recapitalization, which unfolded during 9.25% GDP growth[8] and fiscal abundance, driving a 76% surge in banking assets between 2004 and 2009[9], the current cycle faces a starkly different backdrop. GDP growth is muted at 3.84% (Q4 2024), inflation remains sticky, and exchange rate volatility persists despite reforms like fuel subsidy removals and FX liberalization. This raises a critical question: can recapitalization ignite a credit and inclusion boom akin to the mid-2000s, or will it remain a compliance-driven exercise?

Banks are mobilizing capital through rights issues, public offerings, and private placements. Tier-1 players like GTCO and Access are advancing, while mid-tier and regional banks grapple with wider gaps. This market-driven approach offers strategic flexibility, unlike the forced consolidations of 2004, but demands compelling investor narratives.

6 Prsohare.co "Banks Recapitalization Watch for The Week Ended May 22 2025" http://proshare.co/articles/banks-recapitalization-watch-for-the-week-ended-may-22-2025

7 World Bank. "GDP Growth (Annual %) - Nigeria | Data." Worldbank.org, 2023. https://data.worldbank.org/indicator/NY.GDP.MKTP.KD.ZG?locations=NG

8 Okoye, Lawrence Uchenna, Kehinde A Adetiloye, Olayinka Erin, and Grace O Evbuomwan. "Impact of Banking Consolidation on the Performance of the Banking Sector in Nigeria." The Journal of Internet Banking and Commerce 22, no. 1 (March 27, 2017): 1–16. https://www.icommercecentral.com/open-access/impact-of-banking-consolidation-on-the-performance-of-the-banking-sector-in-nigeria.php?aid=85640#1.

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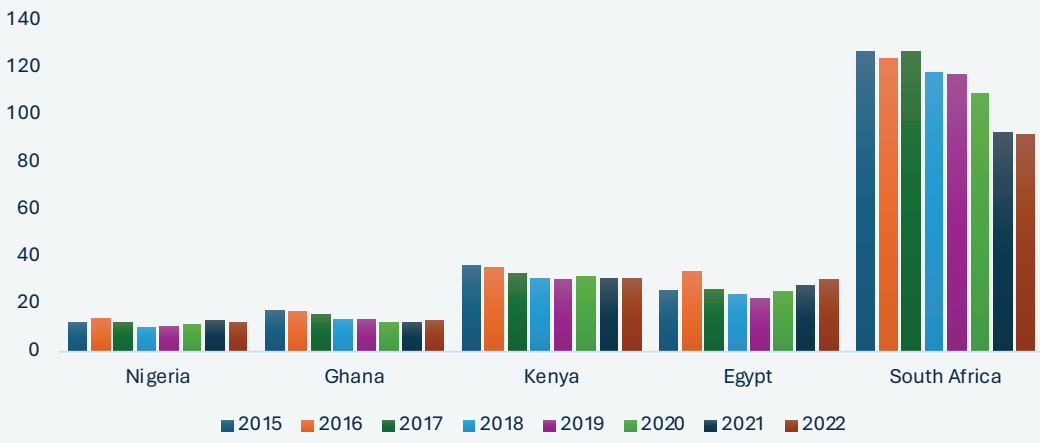

Source: Data compiled from World Bank[10]

The real impact hinges on capital deployment. If channeled effectively, the increased capital base could lift Nigeria's Domestic credit to private sector-to-GDP ratio from its 12.96% (2022) toward emerging market peers, fueling growth in oil and gas, manufacturing, agriculture, fintech, and SMEs. Yet, without monetary easing, inflation control, and FX stability, banks may prioritize capital preservation over aggressive lending, muting the multiplier effect. Credit growth could remain selective, favoring prime corporates and government entities over riskier segments.

Beyond lending, recapitalization offers a platform for strategic repositioning:

regional expansion across Africa, sophisticated product innovation, and investments in digital infrastructure. These moves may elevate cost-to-income ratios initially but promise long-term efficiency and profitability gains. Post-2026, the sector's trajectory will reflect not just capital raised, but how effectively it is wielded amid macro constraints.

9 World Bank. "Domestic Credit to Private Sector (% of GDP) | Data." data.worldbank.org, 2023. https://data.worldbank.org/indicator/FS.AST.PRVT.GD.ZS.

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2.1.6. Forbearance Rollback

CBN's decision to phase out forbearance, a pandemic-era leniency allowing banks to defer loan impairments, ushers in a pivotal regulatory shift. Banks must now reclassify restructured loans such as Stage 2 or Stage 3 under IFRS 9, triggering higher expected credit loss (ECL) provisions. This has a dual impact:

- **Capital erosion:** Provisions erode retained earnings, a key component of Tier 1 capital, just as banks strive to meet recapitalization targets.
- **Earnings pressure:** Higher charges compress post-tax profits, weakening internal capital generation.

Compounding this, CBN has imposed stringent measures on banks still under forbearance: dividend suspensions, bonus deferrals, and restrictions on foreign investments. These preserve capital but erode investor appeal, particularly for mid-tier institutions reliant on external raises.

Fidelity Bank and FCMB face acute exposure. FCMB's N207.6 billion in forborne loans (May 2025) could push its NPL ratio to 11.5%, inflating risk-weighted assets and straining capital adequacy.[10] Fidelity, despite raising N273 billion, must offset provisioning costs that chip away at new equity. Conversely, GTCO and Stanbic IBTC, with no forbearance exposure, enjoy strategic flexibility, maintaining dividends and robust balance sheets.

From a macro lens, this dual-capital squeeze, provisioning losses, and recapitalization demands may tighten credit conditions in H2 2025. Banks could slow lending to high-risk sectors to safeguard capital adequacy ratios (CAR), redirecting credit to safer bets like government securities or blue-chip corporates. This selective lending risks dampening the growth impact of recapitalization unless macro stability improves.

10 FCMB GROUP PLC'S STATEMENT on CBN'S DIRECTIVE on FORBEARANCE LOANS," 2025. https://doclib.ngxgroup.com/Financial_NewsDocs/44283_FCMB_GROUP_PLC-FCMB_GROUP_PLC_PRESS_RELEASE_CORPORATE_ACTIONS_JUNE_2025.pdf.

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2.1.7. Core Banking Operations: The Bedrock of Sustainable Earnings

The Nigerian banking sector is recalibrating its revenue model, with core banking activities, interest income, transaction fees, and lending margins reasserting dominance as the primary earnings drivers. The exceptional foreign exchange (FX) revaluation gains that inflated profits in 2023 and early 2024 have dissipated, moderated by a trio of forces:

Regulatory tightening:

The Central Bank of Nigeria (CBN) has imposed stricter limits on net open FX positions, curbing speculative exposures.

Currency stability:

Relative exchange rate stability in 2025 has diminished mark-to-market revaluation opportunities.

Taxation headwinds:

The Finance (Amendment) Bill 2024's 70% tax on realized FX gains has slashed the post-tax value of these flows.[11] The Central Bank imposed this tax to target profits that banks earned due to the devaluation of the naira, not through their usual operations.

This structural shift marks the end of an era of outsized, policy-induced profits. With the CBN maintaining a stable stance since November 2024, holding the Monetary Policy Rate (MPR) steady at 27.5%, the window for aggressive yield repricing on loans and fixed-income assets has closed. Interest income, while still robust, is stabilizing rather than accelerating, and net interest margins (NIMs) are expected to plateau rather than expand further in H2 2025.

For banks, the strategic imperative is clear: profitability now hinges on balance sheet optimization, **cost discipline**, and fee-based services. Institutions with strong liability franchises, those able to secure low-cost deposits, will defend their spreads more effectively, while digital service delivery and risk-adjusted lending will define outperformance. Non-performing loan (NPL) ratios are likely to hold steady, though pockets of stress may emerge in FX-exposed sectors (e.g., oil and gas) and consumer credit. Banks must bolster IFRS 9 provisioning buffers to mitigate these risks, particularly as the March 2026 recapitalization deadline looms.

11 Proshare.co. "Finance Act (Amendment) Bill, 2024 (HB. 1611)," 2024. https://www.proshare.co/articles/finance-act-amendment-bill-2024-hb.-1611?menu=Reports&classification=Read&category=Taxation.

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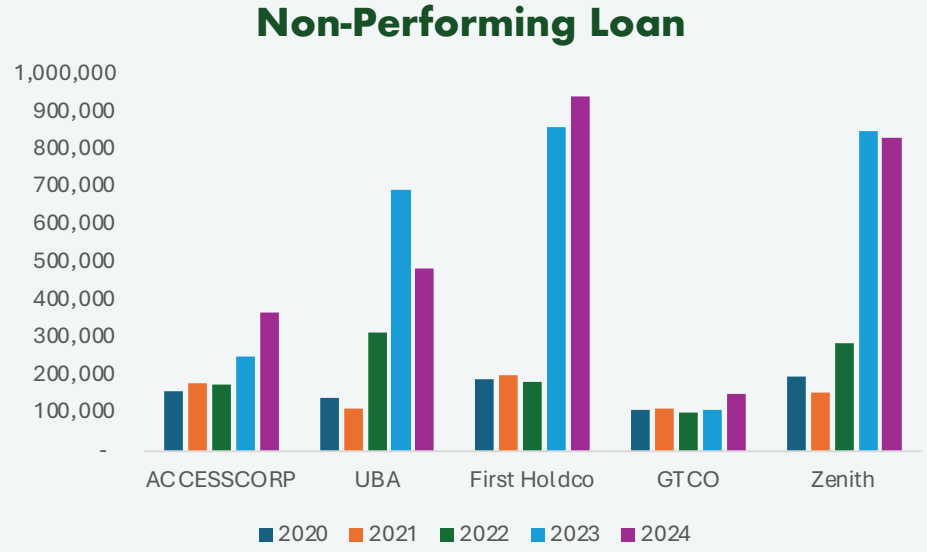

Source: : Data compiled from Company Financials

In this new norm, the sector's growth will moderate but remain resilient. The re-rating opportunity lies not in another earnings spike but in sustained return on equity (ROE) stability, rewarding banks that master margin management, capital efficiency, and credit discipline.

2.1.8. **Looking Ahead:** From Tailwinds to Execution

As monetary conditions ease, the banking sector's outperformance will increasingly depend on operational excellence rather than macroeconomic tailwinds. Interest income will remain a core pillar, but its dominance may wane as margin compression emerges amid stabilizing rates. Future success through the 2025–2026 cycle will hinge on three key levers: effective management of funding costs and margins, proactive capital strategies to meet recapitalization thresholds, and rigorous asset quality discipline to mitigate risks from legacy loan exposures. Banks that master this transition from riding high yields to executing with precision will likely lead the pack in delivering shareholder value.

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2.1.9. Banking H2 2025 Outlook: Moderated Growth, Selective Opportunities

The Nigerian banking sector will enter H2 2025 with moderated but resilient growth. Key dynamics include:

a

Earnings deceleration:

With the MPR stable at 27.5%, Net interest margins may face mild firmness from rising funding costs and competitive lending terms. FX gains will fade further amid Naira stability and the 70% windfall tax.

b

Profitability pivot:

Non-interest income will normalize, shifting focus to core banking resilience and operational efficiency.

c

Divergent performance:

Banks like GTCO, with clean balance sheets and consistent dividends, will outperform. Those under regulatory pressure and investor caution (e.g., Access, Zenith, First Bank) may face valuation discounts until dividend clarity emerges.

Market performance will reward recapitalization progress, dividend reinstatement given the recent forbearance policy, and continuous profitability on bottom-lines. The sector's narrative is evolving from exponential growth to sustainable profitability, anchored in capital strength and risk discipline.

2.1.8.1 A New Playbook for Value Creation

The Nigerian banking sector stands at an inflection point. The shift to core operations, the recapitalization drive, and the forbearance clampdown demand a playbook centered on operational excellence, capital prudence, and strategic foresight. Banks that adapt balancing regulatory compliance with innovative execution will unlock long-term value. For investors, the outlook is cautiously optimistic: resilience persists, but selectivity is paramount. Prioritize institutions with diversified earnings, disciplined risk management, and robust fundamentals, as the era of easy gains yields to a performance-driven landscape.

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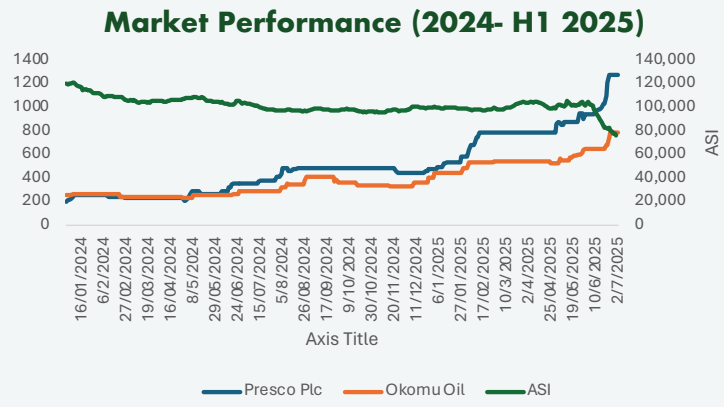
2.2. Agriculture



Source: Data compiled from Investing.com [12] [13]

2.2.1. Introduction

Nigeria's agriculture sector, which contributed 24.64% to real GDP in 2024[14] remains a cornerstone of economic diversification. The industrial palm oil segment, led by Presco Plc and Okomu Oil Palm Plc, has exemplified how scale, vertical integration, and macro alignment can yield exceptional returns.

12 Investing.com Nigeria. "Presco Historical Rates - Investing.com NG," https://ng.investing.com/equities/presco-historical-data

13 Investing.com Nigeria. "Okomu Oil Historical Rates - Investing.com NG," https://ng.investing.com/equities/okomuoil-historical-data

14 National Bureau of Statistics "Nigeria Gross Domestic Product Q4 2023" https://microdata.nigerianstat.gov.ng/index.php/catalog/147/download/1157/Q4_2024_GDP_Report.pdf

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2.2.2. Financial Performance

The Nigerian palm oil industry, led by Presco Plc and Okomu Oil Palm Plc, delivered a stellar financial performance in 2024, underpinned by favorable macroeconomic dynamics and strategic positioning. Combined revenue for both firms surged, driven by the naira devaluation and elevated global crude palm oil prices. Presco reported a 102.6% increase in revenue to ₦207 billion, while Okomu Oil's revenue rose 73% to ₦130 billion.

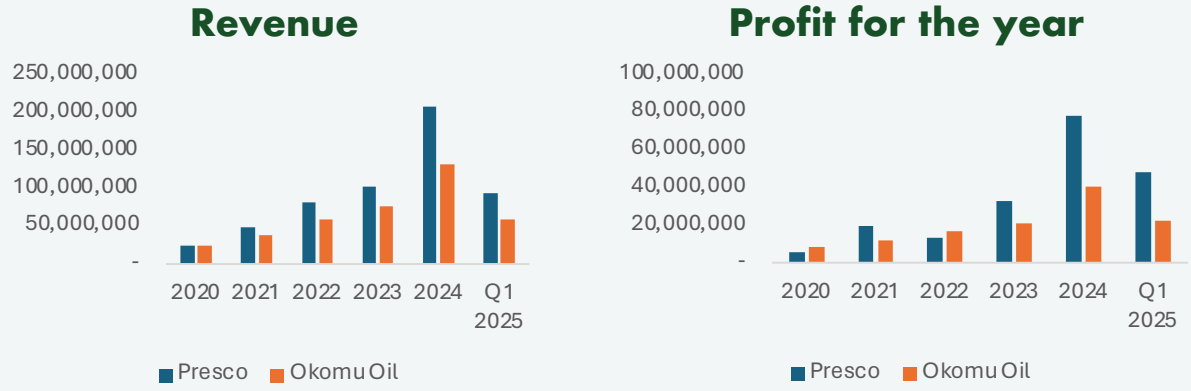

***Figure in thousands of naira**

Source: Company Financials

Presco and Okomu Oil maintained strong gross margins with an average of 75%, despite rising costs of input. Operating expenses, although rising due to inflation and expansion, grew at a slower pace than revenues, resulting in improved cost ratios and higher operating margins. These efficiencies underscored the firms' ability to scale operations while maintaining profitability.

Net profits rose dramatically on the back of strong operating results, favorable tax treatments, and exchange rate gains. Presco's profit after tax jumped by 140.45% to ₦77 billion, while Okomu Oil's grew by 93.53% to ₦39 billion. In addition, they reported substantial foreign exchange gains from export revenues, which contributed to elevated net income.

2.2.3. Market and Economic Conditions:

The operating environment for Nigeria's leading palm oil producers, Presco Plc and Okomu Oil Palm Plc, has been shaped by a range of favorable macroeconomic and industry-specific factors. Chief among these was the sharp devaluation of the naira, which significantly influenced pricing dynamics and profitability. The weaker currency made imported palm oil prohibitively expensive, effectively granting Presco and Okomu substantial pricing power in the domestic market. This currency movement also amplified the naira value of their export revenues. While it

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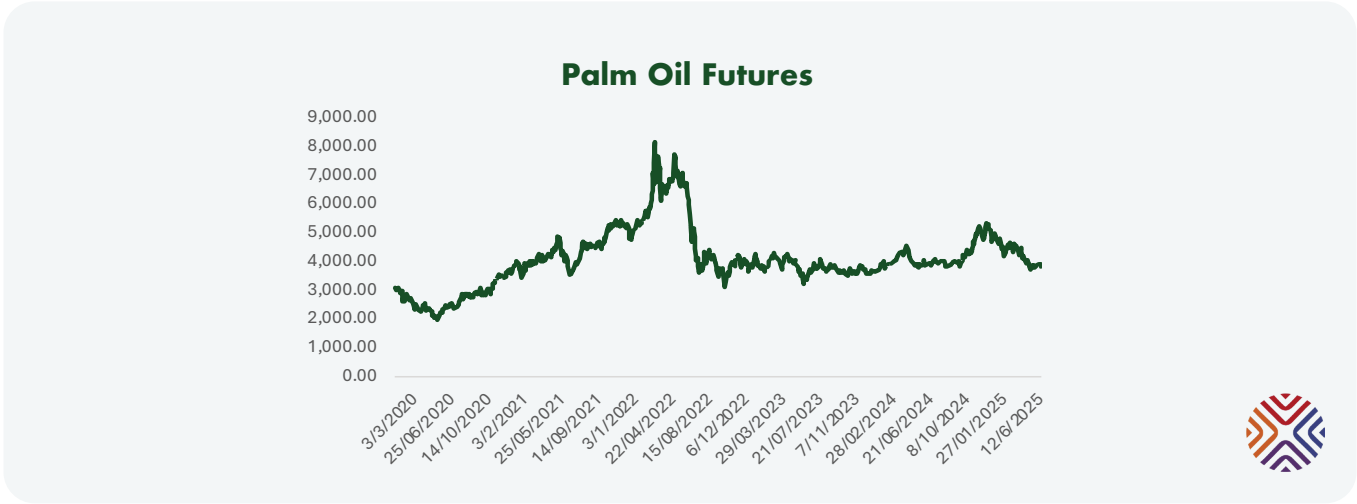
did lead to higher input costs (especially for imported items such as fertilizers, chemicals, and machinery parts), the overall impact of the currency shift was positive, as reflected in both companies' strong financial results. However, with the naira showing signs of stabilization rather than appreciating aggressively, it still makes the importation of palm oil expensive to local users. This higher opportunity cost of importing will still make local demand resilient in the second half of the year. Also, the naira's poor relative performance when compared to other palm oil exporting countries' currencies shows that exportation will also make local palm oil production more competitive in the international market.

Global commodity dynamics further bolstered performance. The price of crude palm oil rose throughout 2023 and 2024 due to a confluence of global supply-side pressures. Export levies and biodiesel mandates in Indonesia (a move to curtail export of CPO which is instrumental to the country's pivot from fossil fuel to biodiesel) and consequent increase in demand of crude oil palm from importing countries, and challenges in alternative vegetable oil supply chains all contributed to elevated international prices. Going forward, Crude palm oil prices are expected to continue to soften, as output continues to recover and importing countries make the shift to alternative edible oils.



Currency in Malaysian ringgit

Source: Data compiled from Data sourced from Investing.com [15]

Government policy has also played a critical role in sustaining the industry's momentum. Palm oil has long been prioritized in Nigeria's import substitution agenda, having featured on the Central Bank of Nigeria's import restriction list since 2015. With a renewed government focus on diversifying exports and improving food self-sufficiency, plantation agriculture is expected to receive even greater attention in 2025. This could bring additional support for market leaders through grants or further tax breaks, reinforcing their long-term growth outlook.

The competitive landscape remains firmly in favor of these two industry giants. Domestically, Presco and Okomu operate in an oligopolistic environment, with few unlisted or smallholder producers able to match their scale, efficiency, or operational depth. Their dominance is further supported by trade policies and foreign exchange constraints, which continue to restrict palm oil imports. Rather than competing through branding, both companies focus on supplying bulk oil to industrial customers and wholesalers, maintaining a strategic advantage through operational integration and economies of scale.

15 Investing.com Nigeria. "Palm Oil Futures Price - Investing.com NG," February 7, 2001. https://ng.investing.com/commodities/palm-oil

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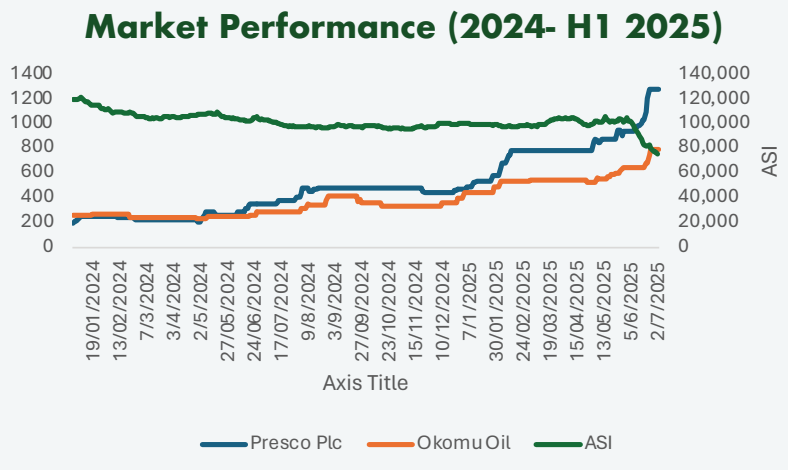
Both firms also pursued significant strategic initiatives during the year. Presco expanded beyond Nigeria through its acquisition of Ghana's Oil Palm Development Company (GOPDC), a move aimed at diversifying currency exposure and thus stabilizing and boosting export earnings; it is worth noting that GOPDC derives around 41% of its revenue from exports. Okomu Oil continued its replanting programme, setting the foundation for future production growth.

2.2.4. Investment Implications

Investor interest in Nigeria's agricultural sector, particularly palm oil, remains strong due to the powerful convergence of currency depreciation, robust global CPO price dynamics, and structural domestic market protections. The strategic foresight and integrated operational capabilities of Presco and Okomu Oil position them effectively to maintain dominance, deliver consistent profitability, and provide sustained value to investors in the foreseeable future.

2.2.5. Market Performance



Source: Data compiled from Investing.com [16, 17]

Investors' interest in the agricultural industry is mainly spurred by positive momentum in the driver of their revenue, with the devaluation of the naira and an increase in crude palm oil prices.

16 Investing.com Nigeria. "Presco Historical Rates - Investing.com NG," https://ng.investing.com/equities/presco-historical-data

17 Investing.com Nigeria. "Okomu Oil Historical Rates - Investing.com NG," https://ng.investing.com/equities/okomuoil-historical-data

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H2 2025 Outlook

The agriculture sector's outlook is cautiously optimistic, with moderate growth as macro tailwinds wane:

- **Earnings trajectory:** Presco and Okomu Oil will sustain strong margins due to scale, but revenue growth may slow to 20–30% as CPO prices soften, and naira effects normalize. Investments in refining (Presco'sN100 billion bond) and replanting (Okomu Oil) will drive long-term capacity but elevate near-term costs.
- **Risks:** Insecurity, logistics disruptions, and rising energy costs could pressure smaller players. Large firms' integrated models mitigate these, but regulatory shifts (e.g., export taxes) or global supply recovery pose threats.
- **Opportunities:** Government support for diversification and Presco's regional expansion via GOPDC position, the sector for sustained leadership. Investors should favor integrated players with export exposure and operational efficiency.

Investment Takeaway: Presco and Okomu Oil remain attractive for their resilience and scale, but investors should temper expectations for 2024-style gains. Focus on firms with diversified revenue streams and cost discipline to navigate a less favorable macro environment.

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2.3. Industrial Goods Sectors – Cement Makers

2.3.1. Financial Performance

The cement industry, a linchpin of Nigeria's industrial goods sector, demonstrated robust performance in 2024 despite macroeconomic headwinds (inflation, naira devaluation, high interest rates). Dangote Cement, Lafarge Africa, and BUA Cement posted strong results:

DANGOTE CEMENT

Revenue rose **62.2%** to N3,580.6 billion, with profit after tax at N503.2 billion, driven by domestic demand and a **69.1%** surge in exports (to 1.2 million tonnes of cement/ clinker).

LAFARGE

Revenue grew **72%** toN696.76 billion, with profit after tax nearly doubling to N100 billion, fueled by eco-friendly products and pricing adjustments.

BUA CEMENT

Revenue jumped **90%** to N876.5 billion, though profit after tax grew modestly to N73.9 billion due to rising costs.

These gains reflect strategic pricing to offset 82.79% cost inflation (energy, raw materials) and sustained demand from infrastructure and housing. However, FX losses averaged N121 billion (up 32.98% YoY) due to naira devaluation, though recent FX stability is reducing this drag.

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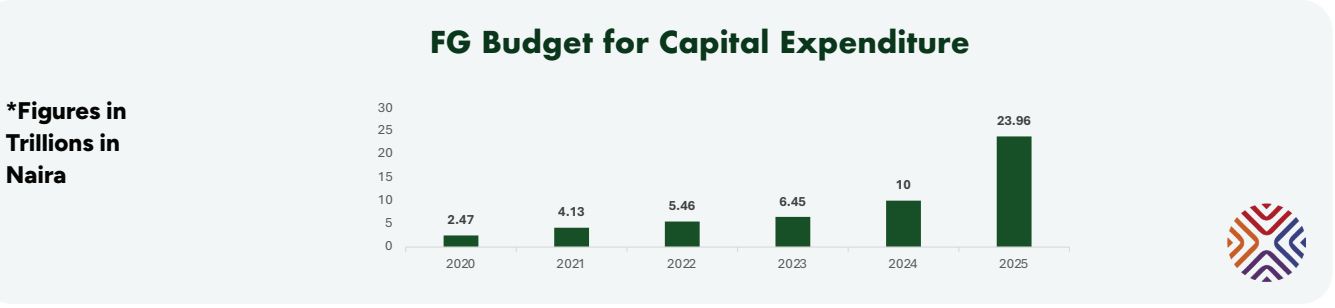
2.3.2. Market and Economic Conditions

The cement sector's resilience is anchored in:

- **Government spending:** The 2025 federal budget's N23.96 trillion capital expenditure, including N2.5 trillion for roads (e.g., Lagos-Calabar, Badagry-Sokoto), and state governments' N17.51 trillion infrastructure plans drive demand for cement and related inputs[18].

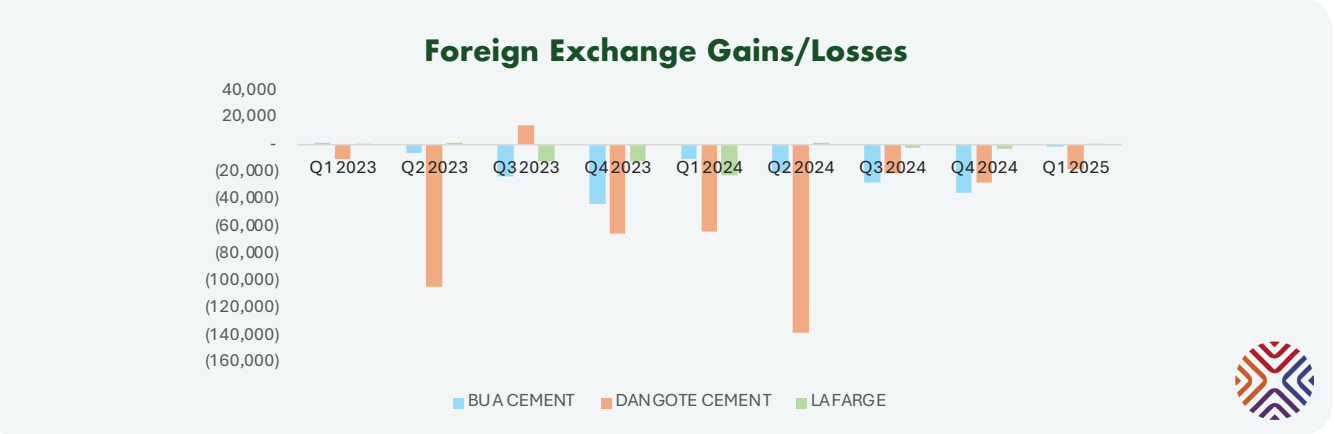


Source: Data compiled from BudgIT[1]

- **Urbanization:** Rising population and housing needs sustain demand, though high cement prices have slowed smaller developers. A potential interest rate decline in late 2025 could unlock pent-up construction activity.
- **Sustainability push:** Investments in renewables—Dangote's $280 million CNG fleet, Lafarge's calcined clay and Elephant ECOPlanet initiatives, BUA's diesel reduction—lower costs and align with ESG trends.
- **Export potential:** The African Continental Free Trade Area (AfCFTA) offers growth avenues, but ECOWAS tensions (e.g., Niger border closures) cut BUA's exports by 83.9% in 2024. Dangote's 31 clinker ships to Ghana and Cameroon highlight stronger export execution.

Challenges include persistent inflation, potential FX volatility, and high energy costs, which could squeeze margins if pricing power wanes.

The devaluation of the naira has affected the cement industry. The three major cement producers witnessed a significant increase in their foreign exchange losses, averaging 32.98% year-on-year to N121 billion in 2024.



NB: Figures in millions of Nigerian naira
Source: Data compiled from Company Financials

1. Vahyala Kwaga, Adejoke Akinbode, Oluwatosin Iseniyi, Oludamilola Onemano, Oluwaseyi Adenuga, Ibukunolu James. "Federal Government Approved Budget Analysis," n.d. https://budgit.org/wp-content/uploads/2025/05/2025FGBudgetAnalysisFinal.pdf.
18. Cherry, Ben. "President Tinubu's 2025 Budget – NALTF." Naltf.gov.ng, 2025. https://naltf.gov.ng/president-tinubus-2025-budget/

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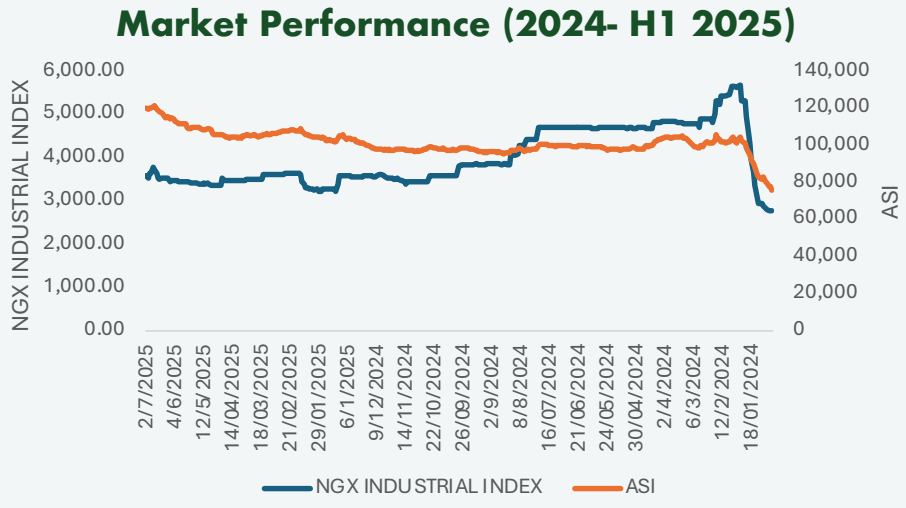
2.3.3. Market Performance



Source: Source: Data compiled from Investing.com[19]

H2 2025 Outlook

The cement sector is poised for steady growth with selective opportunities:

- **Earnings trajectory:** Revenue growth will moderate to 15–25% as cost pressures ease but pricing power softens. Margins will stabilize with renewable energy adoption and FX loss dissipation.
- **Risks:** Inflation, logistics costs, and regional trade barriers could constrain export growth. Smaller developers' sensitivity to cement prices may limit volume upside.
- **Opportunities:** Government infrastructure spending and AfCFTA expansion favor export-oriented players like Dangote. Sustainability initiatives enhance long-term competitiveness.

Investment Takeaway: Dangote and Lafarge are top picks for their scale, export traction, and ESG alignment. BUA's recovery hinges on navigating ECOWAS trade barriers. Prioritise firms with cost discipline and regional diversification.

19 Investing.com Nigeria. "NGX INDUSTRIAL INDEX Historical Rates - Investing.com NG," https://ng.investing.com/indices/ngx-industrial-historical-data

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2.4. **Telecommunications:** Data-Driven Resilience Amid Macro Pressures

2.4.1. Financial Highlights

In 2024, both MTN Nigeria and Airtel Nigeria faced significant financial challenges driven largely by the sharp devaluation of the Nigerian Naira and inflationary pressures, yet they showed resilience in operational growth.

In 2024, MTN Nigeria and Airtel Nigeria faced severe FX and inflation headwinds but showcased operational resilience:

MTN

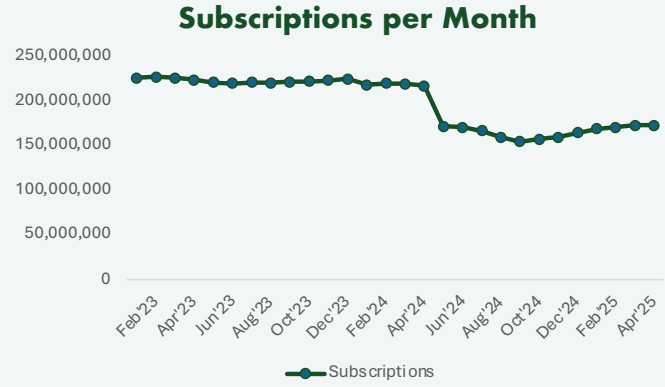
Service revenue grew 35.9% to N3.36 trillion, driven by 49.1% data revenue growth and 14.5% voice revenue increase. Subscriber base rose 1.6% to 80.9 million, with data traffic up 42.9% and usage per subscriber at 11.2GB (+33.6%). However, a N925.4 billion FX loss led to a N400.4 billion loss after tax and negative shareholders' equity of N458 billion.

airtel

Revenue fell 40.3% to $738 million (reported currency) due to naira devaluation but grew 35% in constant currency. Subscriber base increased 3.2% to 52.1 million, with data usage up 37.2% to 8.4GB/month. EBITDA dropped 46.4% to $360 million, with margins at 48.8%, hit by 60% diesel price hikes.

Both firms mitigated FX exposure by reducing USD debt and raising local borrowing. The NCC's 50% tariff hike (effective January 2025)[20] will bolster revenue, addressing cost-tariff gaps

Airtel Nigeria reported a 40.3% decline in revenue to $738 million in 2024 in reported currency



Source: Data compiled from NCC[21]

20 Ncc.gov.ng. "PRESS STATEMENT: NCC Approves Request for Tariff Adjustments by Operators | NCC," 2024. https://ncc.gov.ng/media-centre/press-releases/press-statement-ncc-approves-request-tariff-adjustments-operators

21 Ncc.gov.ng. "Industry Statistics | NCC," 2023. https://ncc.gov.ng/market-data-reports/industry-statistics

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2.4.2. Market Conditions

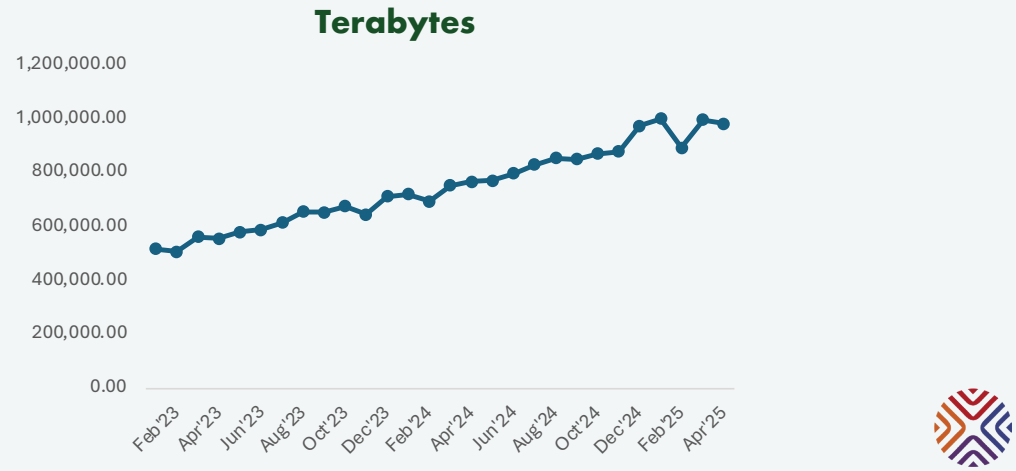
The telecom sector's dynamics are shaped by:

- **Data boom:** Total subscriptions reached 172 million (April 2025), recovering from SIM-NIN verification losses[22]
- **FX stabilization:** Naira stability in 2025 will reduce FX losses (MTN: N925 billion; Airtel: $1,070 million in 2024), though 70% import reliance for equipment[23] remains a cost driver.
- **Regulatory shifts**: The NCC's tariff hike supports sustainability but risks demand elasticity.
- **Cost pressures:** Inflation (34.2%) and diesel price surges elevate operating expenses, necessitating tariff adjustments and efficiency gains.

Data Consumption to Drive Revenue Growth

Data consumption patterns continue to demonstrate the underlying strength of Nigeria's telecommunications market.

Increased data consumption which has shown remarkable growth, underscores the increasing digital adoption across Nigerian consumers. This growth has become the primary revenue driver for telecommunications operators and is set to continue to fuel growth in the future.



Source: Data compiled from NCC[24]

22 Jimoh, Abdullahi. "Nigeria's Telecom Industry Balances Growth and Crisis despite Economic Pressures." News Central TV, June 17, 2025. https://newscentral.africa/nigerias-telecom-industry-balances-growth-and-crisis-despite-economic-pressures/

24 Ncc.gov.ng. "Industry Statistics | NCC," 2023. https://ncc.gov.ng/market-data-reports/industry-statistics

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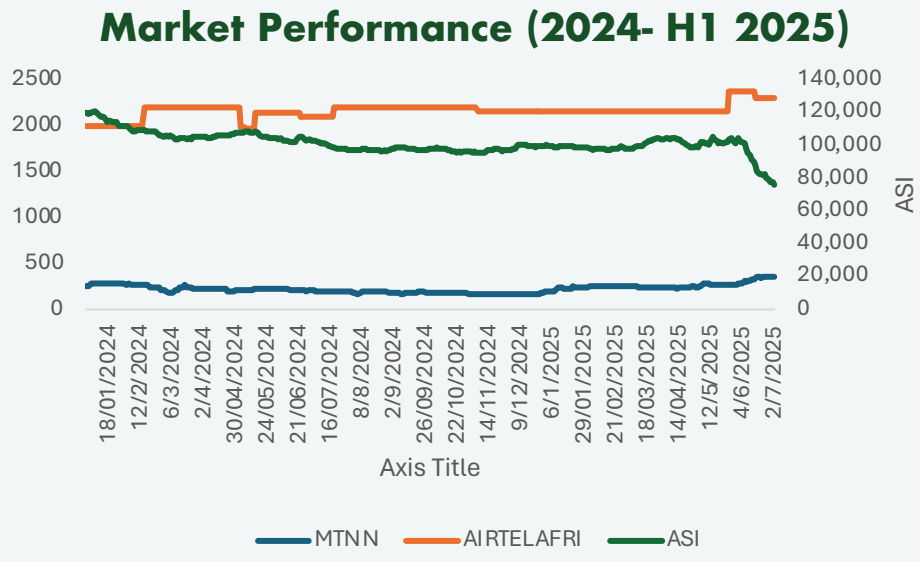
2.4.3. Market Performance



Source: Investing.com [25] [26]

H2 2025 Outlook

The telecom sector will see resilient growth driven by data and tariffs:

- **Earnings trajectory:** Revenue growth of 20–30% is expected, fueled by tariff hikes and data demand. Margins will improve as FX losses fade, and local financing grows.
- **Risks:** Demand elasticity from tariff hikes, regulatory compliance costs, and energy expenses could pressure profitability. Negative equity (MTN) raises capital concerns.
- **Opportunities:** Mobile money (Airtel: 44.6 million users) and 5G rollout offer upside. Tariff hikes and digital adoption ensure revenue resilience.

Investment Takeaway: : MTN and Airtel remain compelling for their data-driven growth and tariff tailwinds, but MTN's balance sheet stress warrants caution. Favor Airtel for its diversified revenue and lower leverage.

25 Investing.com Nigeria. "Airtel Africa Historical Rates - Investing.com NG," https://ng.investing.com/equities/airtel-africa-historical-data?cid=1153176

26 Investing.com Nigeria. "MTNN Historical Rates - Investing.com NG," https://ng.investing.com/equities/mtn-nigeria-com-historical-data

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2.5. Consumer Goods

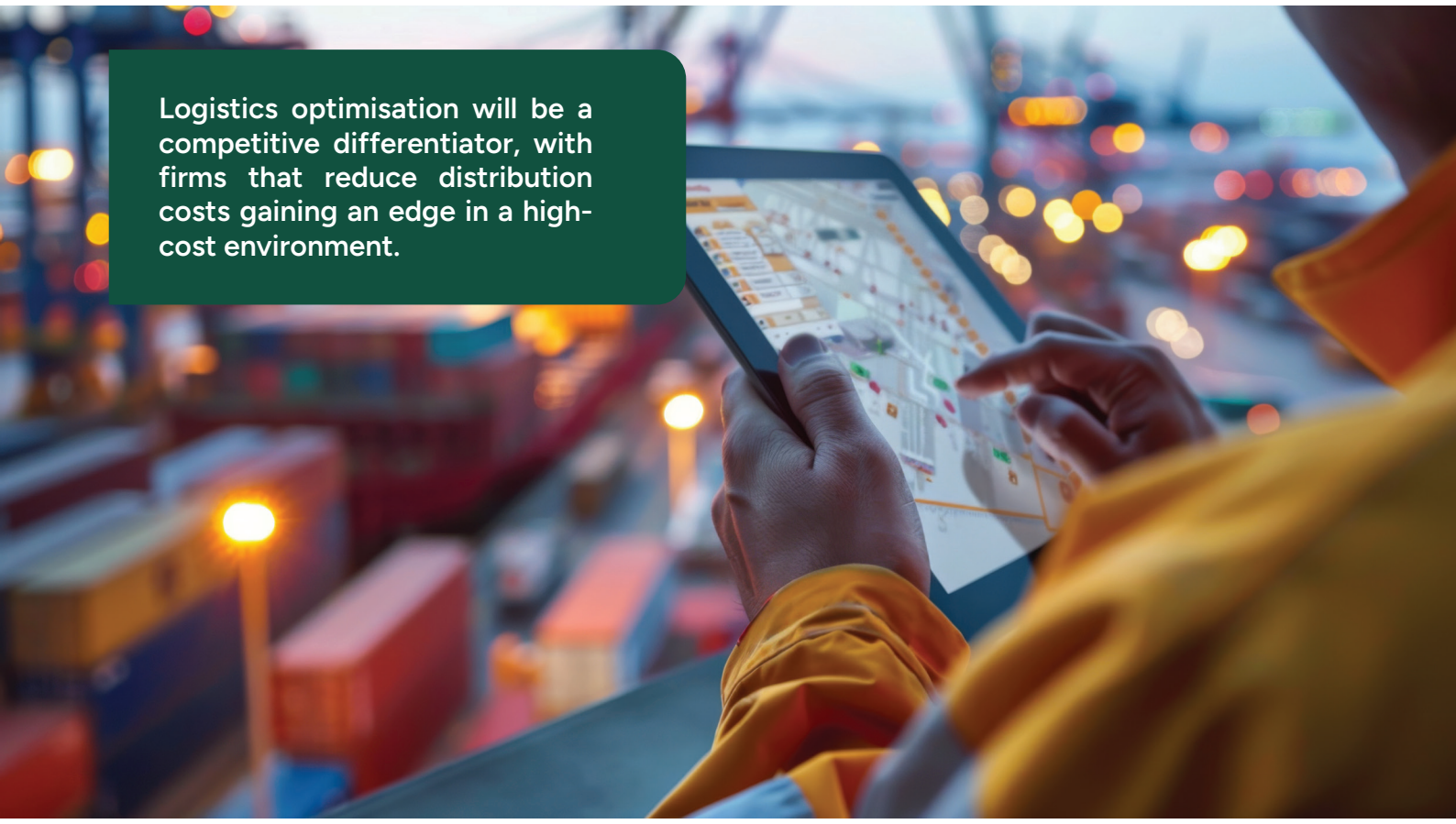
2.5.1. Market and Economic Conditions:

The sector's winners will balance defensive cost management with proactive growth initiatives.

Fuel Costs and Logistics: A Structural Challenge

The post-subsidy fuel price spike, PMS prices rose from N200/liter in 2022 to over N600/liter by 2025, drove a more than 200% increase in transportation and logistics costs. For FMCGs reliant on Nigeria's extensive but infrastructure-challenged distribution networks, this has squeezed margins and disrupted supply chains.

- **Broader implications:** Beyond distribution, higher fuel costs have inflated raw material sourcing expenses, particularly for firms dependent on road transport.
- **Adaptation strategies:** Companies are exploring localised production hubs and alternative logistics (e.g., rail) to mitigate costs, though fuel price stabilisation at N600-650/liter in 2025 offers some predictability.



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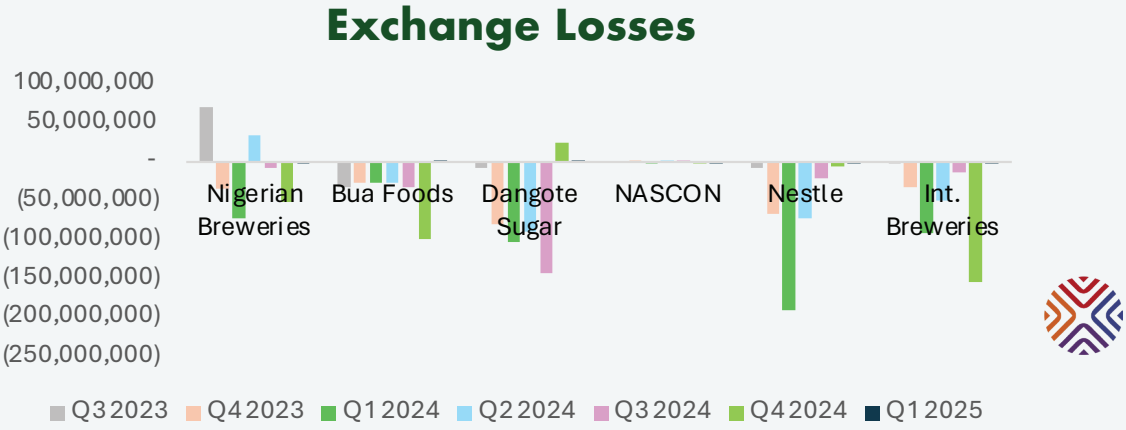
FX Losses: A Calmer but Costly Horizon



Source: Data compiled from Company Financials

The naira's devaluation—from N460/$ in 2022 to ~N1,600/$ in 2024—inflicted significant FX losses on consumer goods firms, particularly those with dollar-denominated debt or imported inputs. FX losses averaged 15-20% of operating profit in 2023-2024. However, the convergence of exchange rates and reduced volatility in 2025 have diminished these risks, though the naira's weakness keeps import costs elevated.

- **Mitigation efforts:** Firms are adopting FX hedging (e.g., forward contracts) and diversifying revenues via exports to West Africa.
- **Outlook:** FX losses should largely dissipate in H2 2025, but high input costs will persist unless localization accelerates.

Finance Costs: Relief in Sight

CBN's rate hike to 27.5% by late 2024 sharply increased borrowing costs, with finance expenses for leveraged FMCGs rising 40-60% year-on-year. Short-term debt and overdrafts, vital for working capital, became particularly burdensome.

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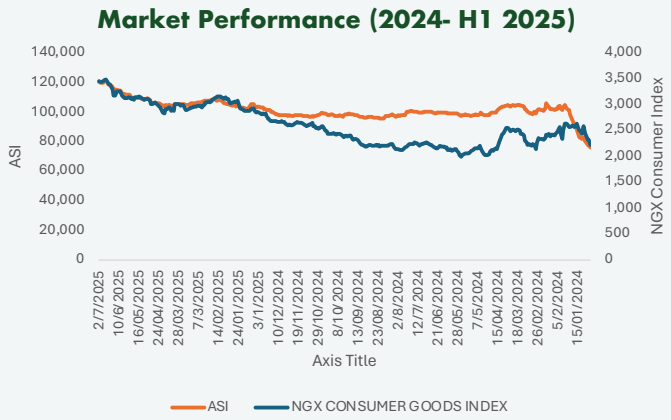
2.5.2. Market Performance



Source: Data compiled for Investing.com[27]

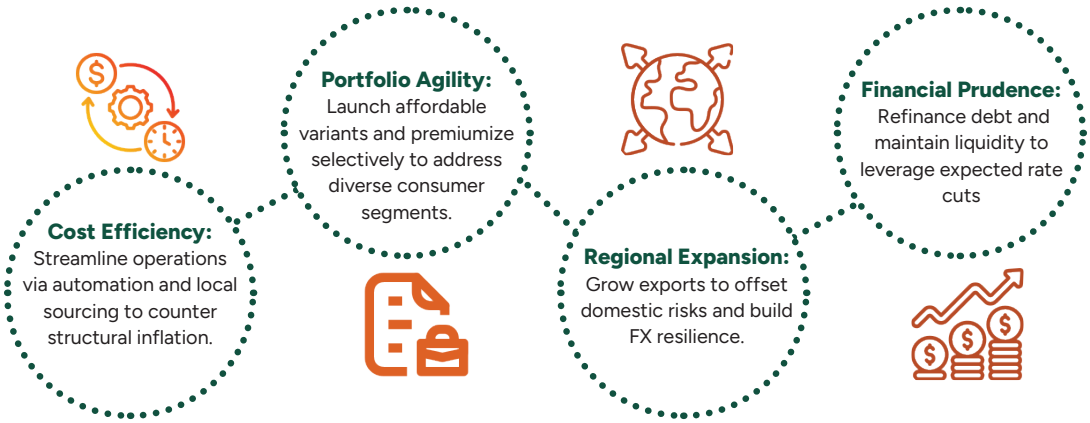
In H1 2025, the NGX Consumer Goods Index rose 12.5% year-to-date, outpacing the broader market's 8.2% gain. This reflects:

- **Earnings strength:** Major FMCGs (e.g., Nestlé, Unilever) achieved double-digit revenue growth, despite margin pressure.
- **Investor confidence:** Stabilizing macro conditions have lowered risk premiums, boosting valuations (forward P/E ratios rose from 10x in 2024 to 14x in 2025).
- **Divergence:** Large-cap firms with robust brands outperformed, while smaller players struggled with scale and liquidity.

H2 2025 upside depends on translating macro improvements into volume and margin gains, with investor favor likely tilting toward operationally efficient firms.

2.5.3. Strategic Recommendations

To thrive in H2 2025, consumer goods companies should prioritize:



27 Investing.com Nigeria. "NSE Consumer Goods Historical Rates - Investing.com NG," July 3, 2025. https://ng.investing.com/indices/nse-consumer-goods-historical-data.

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2.6. Oil and Gas

2.6.1. Industry and Economic Factors

Global Oil Dynamics: Price Sensitivity Looms Large

Brent crude prices are projected to average $64/bbl. in 2025. Trade tensions and increased output from OPEC+ and non-OPEC countries pose downside risks, potentially exacerbated by a global economic slowdown[29].

Naira Devaluation: Relief on the Horizon

The naira's sharp decline since 2023 inflated costs for imported equipment and debt servicing, squeezing margins. However, relative FX stability in 2025 could ease these pressures, particularly for upstream players reliant on foreign inputs. This stabilization may enhance capital expenditure efficiency, though firms with dollar-denominated obligations remain exposed.

Indigenous Ascendancy: A Structural Transformation

Nigeria's oil and gas sector is undergoing a seismic shift as indigenous firms capitalize on IOC divestments:

- Seplat Energy acquired ExxonMobil's Nigerian assets for $1.28 billion, targeting 120,000 bpd by revitalizing dormant wells.
- Oando Plc's $783 million purchase of Nigerian Agip Oil Company boosted its 2024 net profit by 267% to N220 billion.
- Renaissance Africa Energy plans a $15 billion investment post-Shell asset acquisition, signaling ambitious growth.

International Oil Companies (IOCs) are exiting onshore and shallow-water assets due to oil theft, vandalism, and unrest, ceding ground to local players. This shift promises increased local ownership, job creation, and agile decision-making but demands robust risk management amid security and capital challenge

Insight: Indigenous firms are redefining the sector, but their success depends on overcoming infrastructure deficits and securing financing without IOC-scale resources.

29 World Bank Blogs. "Crude Realities: Shaky Balance in Oil's Supply and Demand Shifts," 2025. https://blogs.worldbank.org/en/opendata/crude-realities--shaky-balance-in-oil-s-supply-and-demand-shifts.

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2.6.2. Strategic Implications

The rise of indigenous players carries profound implications:

- **Localized Advantage:** Proximity to assets and communities could streamline operations and reduce disruptions, enhancing responsiveness.
- **Economic Impact:** Greater local content may spur domestic supply chains and job growth, though capital intensity remains a hurdle.
- **Risk Exposure:** Without IOC financial buffers, indigenous firms face amplified risks from price drops, theft, and regulatory complexity.

2025 will test these companies' ability to marry local knowledge with operational excellence, potentially setting a new competitive benchmark

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2.6.3. Market Performance

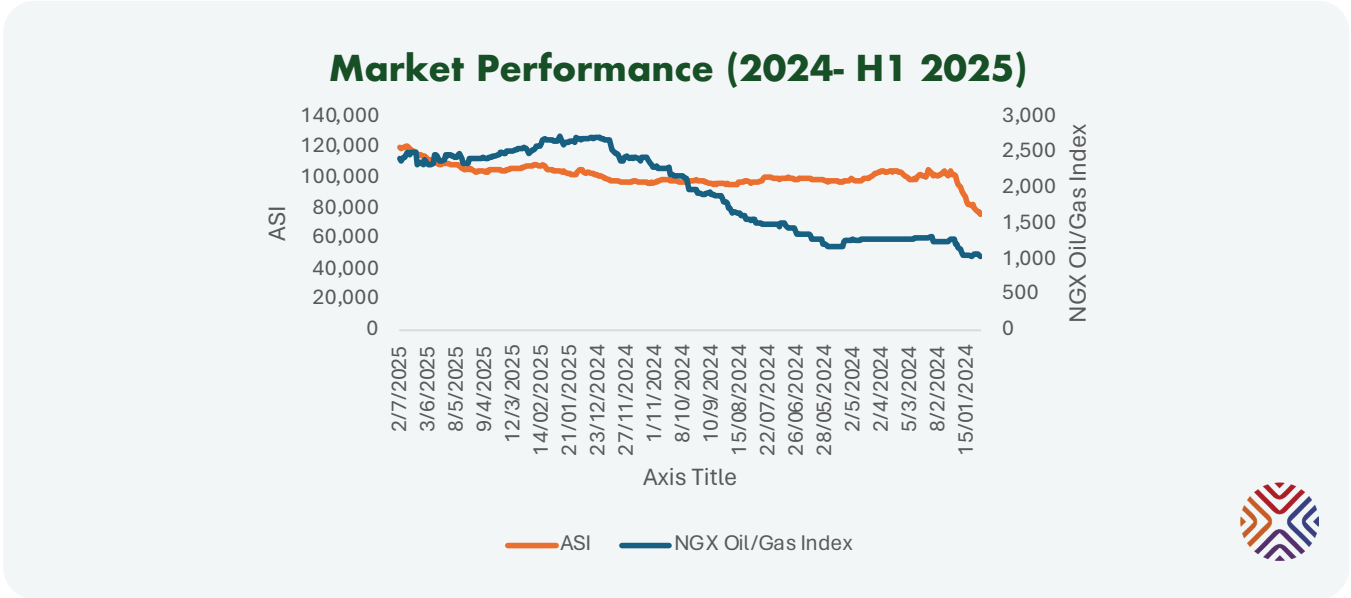
Market Performance Outlook: Selective Opportunities Amid Uncertainty

The sector's 2025 market performance will blend growth potential with macro-driven volatility:

- **Turnaround Plays:** Eterna and Oando's recoveries could draw investors if profitability proves durable.
- **Growth Leaders:** Seplat and Aradel, with strategic expansions and strong margins, position as high-upside bets.
- **Defensive Options:** MRS's debt-free status and Conoil's cost efficiency offer stability.

Risks: Brent price declines or naira instability could erode gains, favoring firms with diversified revenues and low leverage.

Investors should prioritize companies blending growth ambition with financial prudence, such as Seplat (gas-focused resilience) and MRS (debt-free stability)



Source: Data compiled for Investing.com[28]

28 Investing.com Nigeria. "NSE Oil & Gas Historical Rates - Investing.com NG," https://ng.investing.com/indices/nse-oil---gas-historical-data

Chapter 2

Nigeria Fixed income market

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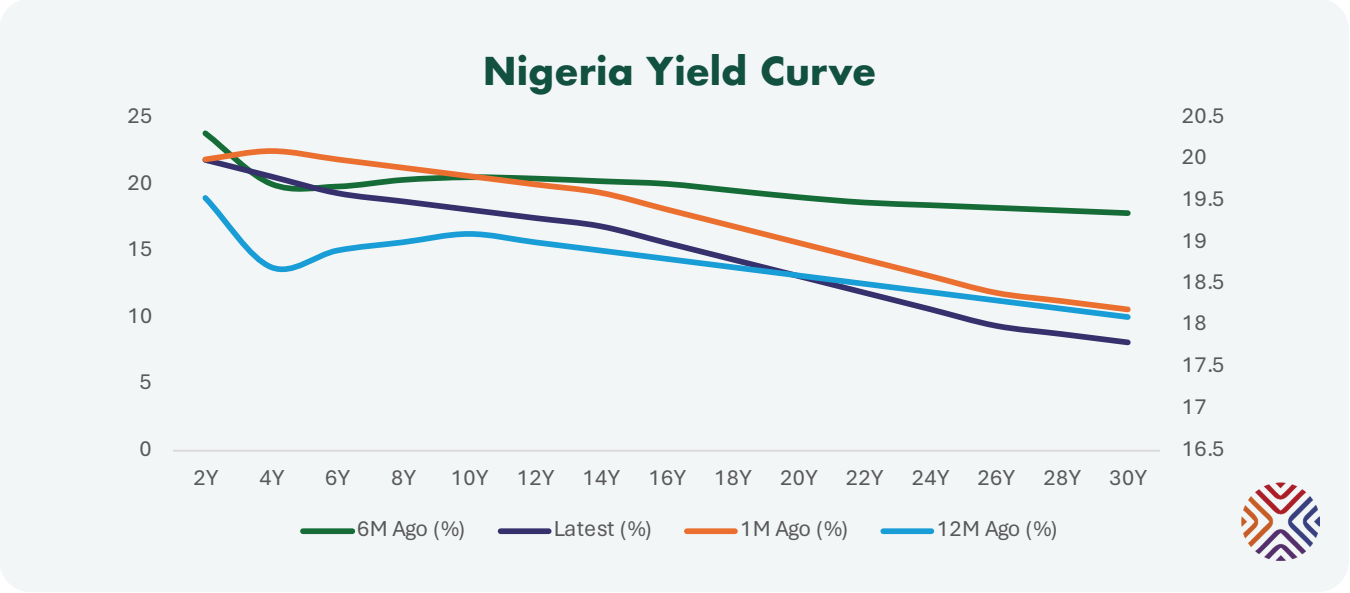
1 Rebasing effects on Nigeria's Fixed Income: A Yield Revival with Strings Attached



Source: Bloomberg, Trading view, CP Research

Nigeria's fixed income market is adjusting following the recent inflation rebasing, which has reset benchmarks for real yields.[1] Recent auctions have delivered real, inflation-adjusted returns, prompting renewed activity from domestic institutional investors. Foreign portfolio investors, previously cautious, are also beginning to re-enter selectively.

With inflation now aligning with Comercio Partners' 20% mid-year projection[2], there is a shift in reassessing both the adequacy of current yields and the risk associated with longer tenors. Demand has broadened across tenors with major focus around the short to medium tenor bonds, nudging the curve to flatter and taking some of the heat out of prior rate pressures. March and April 2025 saw yields peak; since then, they've edged lower.[3] The bond market, it seems, is buying the disinflation story at least for now.

Monetary policy played a central role in shaping the trajectory of fixed income yields. The Central Bank of Nigeria maintained a hawkish stance from 2024, hiking the Monetary Policy Rate (MPR) by 850 basis point and holding steady at 27.5% as of February 2025.[4]

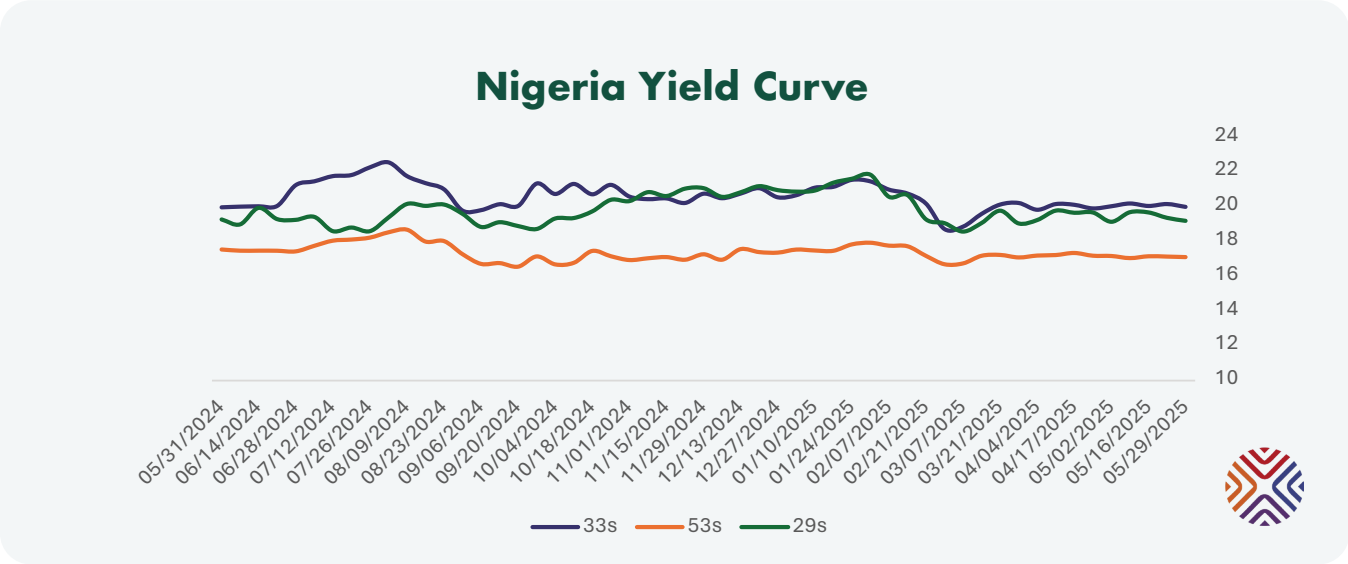
1. National Bureau of Statistics, Highlights of 2024 CPI Rebasing Result, February 18, 2025,https://microdata.nigerianstat.gov.ng/index.php/catalog/154/download/1156/Highlights%20of%20CPI%20Rebasing%20Result.pdf.
2. Ifeanyi Ubah et al., Comercio Partners Macroeconomic Outlook 2025, Comercio Partners, February 7, 2025, https://comerciopartners.com/comercio-partners-macroeconomic-outlook-2025/.
3. DMO Nigeria, FGN Bond Auction Result – May 2025, https://www.dmo.gov.ng/fgn-bonds.
4. Central Bank of Nigeria, "Monetary Policy Committee Decisions," accessed June 23, 2025, https://www.cbn.gov.ng/MonetaryPolicy/decisions.html.

As a result, risk appetite is no longer hiding, but it hasn't gone reckless either. Investors have moved from blunt risk aversion to a more selective, duration-conscious approach.

The result: tighter spreads and stronger auction participation, particularly for instruments that hedge against reinvestment risk. If this trend continues and that's a big "if" further yield compression is on the table.

Nonetheless, this rebalancing remains fragile. Geopolitical risks, most notably the Israel-Iran conflict and rising US trade protectionism have introduced new layers of volatility to global capital flows.[5,6] In this environment, any deviation from the expected inflation path or renewed pressure on the naira could disrupt the yield curve's current trajectory.

What's unfolding is more than a technical correction. It's a repricing of macro risk and a possible pivot to a more stable, real-yield anchored framework. The shift is promising but not guaranteed. The path ahead hinges on policy consistency and reform credibility. Investors are watching, engaged but not yet convinced. The market is leaning in but on one foot near the exit.



Source: Bloomberg, CP Research

Over the past year, Nigeria's bond market has undergone a notable transformation, shaped by an evolving macroeconomic backdrop. What began as a defensive environment dominated by high inflation, tight monetary conditions, and exchange rate instability has given way to a cautiously constructive phase marked by shifts in real yields, investor positioning, and pricing dynamics.

Yields across the curve rose steadily for much of the past 12 months, reflecting a repricing of risk in response to macro headwinds. Inflation remained elevated for most of the period, prompting the Central Bank of Nigeria (CBN) to sustain a tight

5. International Monetary Fund, Global Financial Stability Report – April 2025: Geopolitics and Capital Flows, https://www.imf.org/en/Publications/GFSR.
6. NextIAS, Israel Iran Conflict: Detailed Explanation, PDF, June 2025, accessed June 23, 2025, https://www.nextias.com/newuploads/Nextias/2025/6/israel-iran-conflict-1750510067745.pdf. nextias.com+4nextias.com+4nextias.com+4

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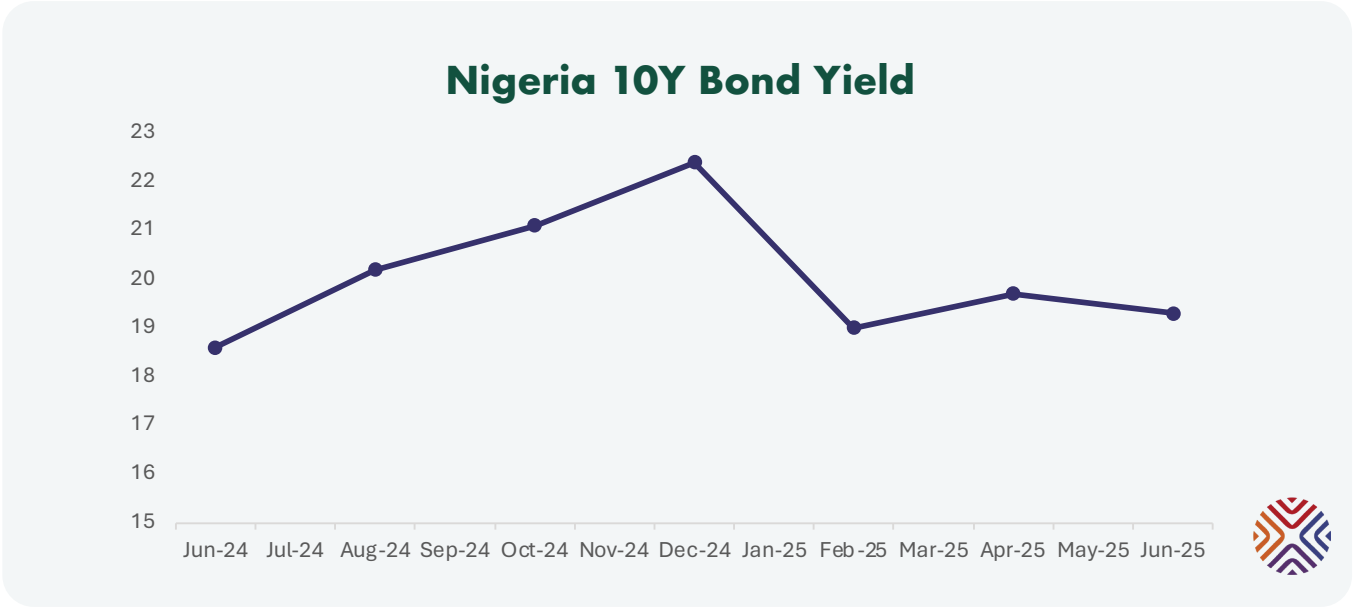
monetary stance.[3] Simultaneously, a volatile currency environment and a widening fiscal deficit reinforced market caution. As a result, bond yields moved higher, particularly across the short- to long-end of the curve, with benchmarks reaching multi-quarter highs around Q1 2025.

Currently, the Nigeria 10-Year Government Bond offers a yield of 19.409%.[7] The 10-Year bond yield reflects the return investors can expect if they hold the bond until maturity. Government bond yields are critical indicators of economic confidence and investor sentiment.

Between January and May 2025, the Debt Management Office (DMO) conducted five bond auctions offering a total of ₦1.95 trillion across multiple tenors.[3] The auctions generated ₦2.49 trillion in total allotments, reflecting sustained investor interest in long-term government securities.

Being bullish at the beginning of the year, appetite also hasn't dwindled down as the year progresses. At the beginning of the year, Debt Management Office (DMO) offered ₦450 billion across three tenors Apr-2029, Feb-2031, and Jan-2035 which marked the highest yield environment during the period and marked the peak in investor demand for long-dated instruments with rates as high as 22% levels but by end of Q1, by May 2025, stop rates fell to 18.98%. With the 2035s dropped from the calendar, demand shifted to May 2033s, which drew strong interest.

Investor preference typically leans toward the longest-dated bond available, reflecting a strategy to lock in yields ahead of potential rate declines. The decline in stop rates (cut-off yields) in the FGN bond auctions between January and May 2025 can be attributed to a combination of monetary policy shifts, improved investor sentiment, and liquidity conditions. The sharp drop-in stop rates between January and February 2025 over 200–300 basis points in some tenors suggests a policy signal from the CBN stance and improved inflation outlook which priced in.



Source: Trading view, Bloomberg, CP Research

3. DMO Nigeria, FGN Bond Auction Result – May 2025, https://www.dmo.gov.ng/fgn-bonds.
7. Trading Economics, "Nigeria Government Bond 10Y," accessed June 23, 2025, https://tradingeconomics.com/nigeria/government-bond-yield.

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1.1. **Yielding to Reality:** Nigeria's Bonds Find Their Range as Appetite changes

The Nigerian bond market has had a busy year, one marked by high-stakes repricing, macro whiplash, and a slow but deliberate return to something that looks like balance. What started as a defensive campaign against runaway inflation and FX instability has shifted into a holding pattern defined by the possibility of real yield reawakening and investor recalibration.

Twelve months ago, bond yields were racing upward. Inflation was stubborn, the naira was fragile, and the Central Bank was wielding tight policy like a blunt instrument. The result? A steepening curve and short-to-mid tenors printing multi-quarter highs. But markets don't move in straight lines. By Q2 2025, the tone had changed. Historically, the Nigeria 10-Year Government Bond Yield reached an all-time high of 22.35 in January of 2025.[7]

As of May 2025, Nigeria's 10-Year Government Bond yielded 19.41%.[7] That's not a panic number, but it's not cheap either. It signals caution an implicit demand for macro discipline and risk premium compensation. It also reflects a market that's moved past its peak fear phase.

Given a budget of ₦54.9 trillion, the Debt Management Office (DMO) has held five auctions between January and May, offering ₦1.95 trillion and allotting ₦2.49 trillion. Early-year euphoria saw massive bids, especially for Jan-2035 bonds, with stop rates as high as 22%. But that was it then. By May, Jan-2035 had disappeared from the calendar, and May-2033 quietly became the new investor favourite. The message was clear: the hunt wasn't just for yield; it was for yield with staying power and for the government being conservative with debt and rate to be paid back.

The DMO's current posture is telling. They're fine with clearing rates where they are, and they won't chase bids unless demand weakens materially. That suggests confidence or constraint. Either way, it places a ceiling on rates unless the macro picture deteriorates.

Meanwhile, CBN has kept its messaging neutral. No sharp rate cuts, no hawkish pivots just a steady hand and a message: "We'll wait." That's translating into stable nominal yields and cautious market behaviour. This isn't blind optimism. It's tactical. Investors aren't buying duration just because it's cheap; they're weighing reinvestment risk, monetary trajectory, and real return expectations. That shift explains the 200–300 basis point drops in auction stop rates from January to February. It also explains why appetite is still strong but less aggressive.

7. Trading Economics, "Nigeria Government Bond 10Y," accessed June 23, 2025, https://tradingeconomics.com/nigeria/government-bond-yield.

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1.2. Yield Outlook: A Narrow Lane with Speed Bumps

The current yield band (19% to 20.50%) has become the market's comfort zone. Real returns are positive, liquidity isn't overly tight, and inflation is tentatively easing. Unless a new catalyst emerges, this band could hold through H2 2025.

But that's a big if. Here's what could jolt the curve:

- **Liquidity stress:** Aggressive CRR debits, surprise OMO auctions, or FAAC shortfalls could force yields higher.
- **Inflation surprises:** A reversal in food prices or FX slippage could reignite risk premiums.
- **FX surprises.**
- **Global spillover:** If the U.S. Fed stays hawkish or oil prices fall further, Nigeria's yields may need to compensate to retain offshore interest or external influences from the Isreal-Iran conflict.
- **Debt appetite of DMO.**

Also, the cost of borrowing is high although cheaper than on the external market. At 19–20%, the DMO is treading carefully. Pushing yields back toward 22% is politically and fiscally expensive. However, with external funding options limited, domestic issuance will likely rise in H2 but expect strategic pacing, not floodgates.

The Nigerian bond market isn't euphoric but it's no longer defensive either. Real yields, more disciplined issuance, and a slightly improved macro narrative have pushed it into a more stable regime. But this is not autopilot. The market is pricing in a soft landing, not a full recovery.

Yields at 19–20% are not low; they're a statement. Investors want compensation for risk, clarity from policymakers, and a macro framework that rewards patience. If that holds, the curve may flatten further. If not, volatility will be quick to return.

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1.3. OMO in Miniature: Why the CBN Is Thinking Short

The recent shift by the Central Bank of Nigeria (CBN) toward issuing shorter-tenor OMO (Open Market Operation) bills signals a deliberate tactical adjustment in its liquidity management and policy signalling. By offering mostly short-dated paper, typically 90 days or less, the CBN is prioritizing flexibility in responding to volatile liquidity cycles, inflation dynamics, and FX pressures.

The CBN's decision to offer more attractive yields on short-tenor OMO bills, the CBN is sending a clear signal: it is prioritizing short-term liquidity sterilization to anchor inflation expectations and manage FX pressures.

This shorter-tenor issuance indicates a more reactive and defensive policy posture. Rather than locking in liquidity sterilization for longer periods, CBN is preserving optionality, allowing it to adjust its stance more frequently as macro conditions evolve.

From a policy signalling standpoint, the move communicates that the CBN is cautious about committing to a long-term tightening path, even as inflation remains slightly elevated. This may reflect an internal balancing act, sterilizing excess naira liquidity to anchor inflation expectations and exchange rate stability, while avoiding the funding cost and market distortion that could result from aggressive long-duration OMO supply.

For the market, this has several implications for H2 2025. First, OMO auctions are likely to remain frequent, targeting short-term liquidity surges from FAAC, bond maturities, and fiscal injections. The impact will be episodic rather than sustained, reinforcing short-term volatility. Second, investor demand may concentrate even further at the front end of the curve, where risk and duration exposure are minimal, and rollover flexibility is high. This could create steepness at the very short end of the yield curve, while leaving mid-curve rates sensitive to sovereign borrowing supply.

Finally, the use of shorter-dated OMOs suggests CBN is keeping policy options open for the latter part of the year. If inflation shows consistent decline and FX markets stabilize, the CBN could begin reducing the pace or size of sterilization. But if pressures persist through fiscal slippage, FX weakness, or renewed inflation shocks, OMO tenors may extend again, and issuance could become more aggressive.

In summary, the preference for short-tenor OMO bills reflects a cautious, tactical stance by the CBN. It underscores policy uncertainty and liquidity fragility, with the central bank managing risk in short increments rather than committing to a structural tightening cycle. For the market, this translates into continued short-duration preference, reactive positioning, and limited visibility into the medium-term rate path.

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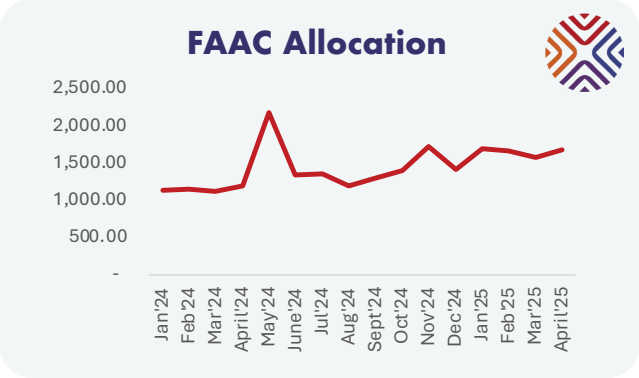
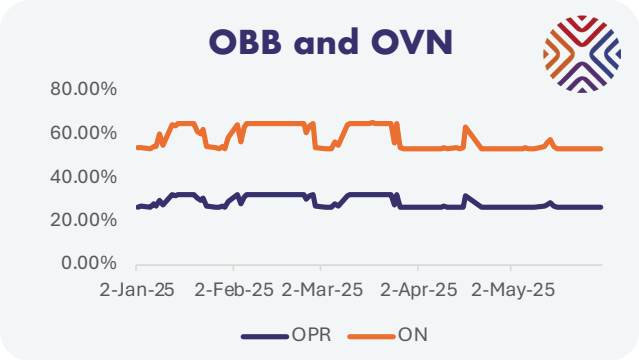
1.4. Liquidity



Source: FAAC, CP Research



Source: FMDQ, CP Research

Liquidity has been the dominant force shaping Nigeria's financial markets in the first half of 2025. The yield environment across money and fixed income markets has responded to shifts in FAAC disbursements, bond maturities, CBN's liquidity sterilization tools, particularly OMO, and monetary policy adjustments.[4]

The first quarter opened with severe liquidity strain. Interbank funding rates (OPR and ON) consistently traded above 30%, reflecting tight cash conditions across the banking system. This stress was driven by subdued FAAC inflows, limited bond maturities, and aggressive liquidity sterilization by the CBN via OMO and CRR debits.

By Q2, conditions had shifted. A notable spike in FAAC allocations is likely due to improved oil-related inflows or naira-adjusted revenue effects that eased systemic liquidity pressures.[8] Interbank rates moderated to the 26.4–27.4% range, and short-term funding stress declined. This triggered a mild rally in the T-bill segment and supported improved bid dynamics across the bond curve.

The Central Bank maintained an active OMO posture, mopping up excess liquidity to anchor inflation expectations and FX stability. However, sterilization efforts remained partial, given the scale of FAAC injections and persistent refinancing pressures from the fiscal side.

Liquidity surges have been episodic, largely tied to FAAC cycles rather than organic market depth. From January to May 2025, FAAC allocations totalled ₦6.64 trillion up year-on-year—boosting short-term demand in primary debt auctions but failing to sustainably filter into secondary market flows. Transmission remains weak, constrained by shallow interdealer activity and limited institutional participation.

Structurally, Nigeria's liquidity landscape remains vulnerable. The 2025 federal budget is benchmarked at $75/per barrel[9], but Brent crude trades closer to $65 as of May.[10] Investor confidence has been supported by monetary tightening and initial FX reform progress, but market fragility persists. Liquidity cycles are reactive, policy transmission is impaired, and the fixed income market remains susceptible to shocks from oil, FX, and fiscal dynamics. The CBN's ability to manage short-term liquidity while preserving price stability remains critical as the macro-fiscal gap widens.

4. Central Bank of Nigeria, "Monetary Policy Committee Decisions," accessed June 23, 2025, https://www.cbn.gov.ng/MonetaryPolicy/decisions.html.
8. Federation Accounts Allocation Committee (FAAC), "Monthly FAAC Disbursement Report – May 2025," https://www.faac.gov.ng.
9. Budget Office of the Federation, 2025–2027 Medium Term Expenditure Framework & Fiscal Strategy Paper, approved November 15, 2024, https://budgetoffice.gov.ng/index.php/2025-2027-medium-term-expenditure-framework-fiscal-strategy-paper.
10. TradingView. Brent Crude Oil (TVC:UKOIL) Daily Chart. Accessed June 16, 2025. https://www.tradingview.com/symbols/TVC-UKOIL/.

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1.5. H2 2025 Outlook: Liquidity and Market Implications

The outlook for Nigeria's liquidity conditions in H2 2025 is highly contingent on three variables: oil revenue trajectory, the pace of fiscal execution, and the Central Bank's monetary stance. If Brent crude remains below the $75/per barrel budget benchmark currently near $65,[10]

FAAC inflows will likely weaken, reducing system liquidity and reintroducing upward pressure on short-term rates. This could reverse some of the easing seen in Q2 and tighten funding conditions across the banking system.

The Central Bank is expected to maintain a cautious monetary stance.[4] With inflation still above 22%[11] as of April'25 and real rates only marginally positive, the CBN is unlikely to ease aggressively. Any liquidity injections will likely be sterilized through OMO issuances, limiting their impact on broader market conditions. This means liquidity spikes will remain short-lived and heavily influenced by FAAC cycles and debt service flows.

For the fixed income market, this sets the stage for yield consolidation rather than continued compression. T-bill and bond yields may stabilize at elevated levels, with the 364-day NTB likely to trade in the 18.5%–20% range absent a major shift in inflation or policy stance. The duration of demand will remain tactical. Investors will likely avoid aggressive long-duration positions until there's greater clarity on FX flows, fiscal deficit funding, and inflation trajectory.

In the bond market, continued government reliance on domestic issuance to finance budget gaps, especially if Eurobond access remains limited, will raise supply risks. This could steepen the yield curve, particularly in the mid-tenor segment, unless supported by strong institutional demand. However, structural liquidity from pension funds may still anchor at the long end.
Equally important is secondary market liquidity. If inter-dealer depth remains shallow and the bid-offer spreads stay wide, price discovery will remain poor. This impairs policy transmission and limits investor confidence in the duration of exposure. Without reforms to deepen the market such as improving repo infrastructure or standardizing OMO instruments, market behaviour will stay reactive and short-term focused.

In summary, H2 2025 will likely see tighter liquidity conditions than Q2, moderate upward pressure on yields, and selective investor participation. The balance between FAAC inflows and CBN sterilization, alongside fiscal risk and FX performance, will shape both pricing and positioning in the money and fixed income markets. Investors should prepare for short-lived rallies, elevated volatility, and persistent duration of risk premia.

4. Central Bank of Nigeria, "Monetary Policy Committee Decisions," accessed June 23, 2025, https://www.cbn.gov.ng/MonetaryPolicy/decisions.html
10. TradingView. Brent Crude Oil (TVC:UKOIL) Daily Chart. Accessed June 16, 2025. https://www.tradingview.com/symbols/TVC-UKOIL/.
11. National Bureau of Statistics (NBS). Consumer Price Index April 2025. Abuja: NBS, May 2025. https://nigerianstat.gov.ng

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1.6. Yield Shift: The 2025 Treasury Bill Playbook

Since the start of 2025, Nigeria's Treasury Bills (NTB) market has been both and responsive, reflecting evolving macroeconomic signals and shifts in investor positioning. From January through May, the Debt Management Office (DMO) conducted twelve auctions, offering a total of ₦7.89 trillion and raising ₦7.36 trillion.[12] Though the year started with tight liquidity and risk-off sentiment, the market gradually settled into a pattern: falling yields in Q1, stabilization in Q2, and investors getting increasingly tactical.

Auctions opened with high stop rates particularly on the 364-day bills, which cleared at 22.62% on January [8]. With monetary policy still in a tightening phase and refinancing needs peaking, investor appetite was skewed toward shorter-duration, high-yield paper. There was strong demand across the curve, but especially at the short end, where yields offered quick compensation against inflation and monetary policy risk.

February and March brought a noticeable shift. Liquidity conditions improved meaningfully, supported by maturing bills, bond coupon disbursements, and fiscal injections, FAAC. These flows freed up bank and institutional balance sheets, leading to a surge in demand for longer-tenor bills. Investors began reallocating capital toward 364-day instruments in a bid to lock in attractive returns ahead of expected yield compression. This recalibration coincided with an improving inflation outlook and the absence of further monetary tightening signals from the Central Bank.

The result was a sharp drop in stop rates. The 364-day yield declined from over 22% in early January to 17.82% by March 5. Auctions during this period were heavily oversubscribed, reflecting deep investor interest, especially at the long end of the curve. Appetite was driven not just by yield, but by the growing conviction that the market was approaching a peak in rates. The compression of yields was most pronounced in February and March, with March recording the highest auction size of the period ₦2.8 trillion raised.

By April, however, the market had begun to plateau. The aggressive rate of compression of Q1 gave way to a more cautious, stable trading environment. Investors grew more selective in their bidding, having already captured capital gains earlier in the year. With stop rates for the 364-day instrument stabilizing near 19.6%, and shorter-dated bills clearing around 18%–18.5%, market participants shifted from aggressive yield-chasing to preserving returns in a more stable rate band.

Investor behaviour during this period reflects a maturing risk assessment. While demand remained robust, the focus shifted from broad participation to duration-specific plays. The longer tenors remained favoured, not only due to their yield advantage but because of reduced volatility in the short end. The shift in strategy suggests that market participants have internalized the central bank's stance at stable rates for now, with no immediate hike or easing on the horizon.

8. Federation Accounts Allocation Committee (FAAC), "Monthly FAAC Disbursement Report – May 2025," https://www.faac.gov.ng.
12. DMO Nigeria, FGN Nigeria Treasury Bills, https://www.dmo.gov.ng/fgn-bonds/nigerian-treasury-bills

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1.7. Outlook

The outlook for the Nigerian treasury bills market for the remainder of 2025 is one of cautious stability, with yields expected to hold within a narrow band 17-18%. This expectation is underpinned by several interrelated factors that have shaped market behaviour so far this year and are likely to continue influencing auction outcomes in the coming months.

First, the sharp decline in stop rates observed between January and March was largely driven by excess liquidity in the financial system. This liquidity was sustained by large repayments from maturing government instruments, bond coupon inflows, and other maturities. These injections enabled the market to bid more aggressively at auctions, leading to oversubscription and downward pressure on yields.

Second, monetary policy has been steady. Since the last major rate hike in Q4 2024,[4] the Central Bank has not introduced further tightening. While inflation remains elevated in year-on-year terms, recent month-on-month data has shown signs of moderation given the rebasing, if this trend continues, the Central Bank is unlikely to raise the Monetary Policy Rate (MPR) further, which removes one of the key upside risks to treasury bill yields. In fact, the flattening of the yield curve, especially between the 91-day and 364-day bills, suggests that the market is no longer pricing rate hikes. This dynamic should continue to suppress upward pressure on yields unless inflation or FX conditions deteriorate sharply.

Third, there is a structural demand component in play. Pension funds, asset managers, and other institutional investors are increasingly looking to lock in relatively high fixed income returns in anticipation of further normalization in the market. With equity market uncertainty and limited alternative safe-haven instruments, treasury bills particularly the 364-day tenor offer a predictable and relatively risk-free investment. This will continue to drive demand even if yields remain flat or decline slightly.

Lastly, the FX market, while still volatile, has not triggered capital flight or major dislocation in the fixed-income space in recent months. Should the Central Bank continue to manage FX liquidity and sustain confidence in the exchange rate framework, foreign and domestic portfolio investors will likely maintain their current positioning, reducing the risk of a sudden repricing in treasury bills.

1. National Bureau of Statistics, Highlights of 2024 CPI Rebasing Result, February 18, 2025,https://microdata.nigerianstat.gov.ng/index.php/catalog/154/download/1156/Highlights%20of%20CPI%20Rebasing%20Result.pdf

Section G

Beyond Traditional Macros

Chapter 1

Nigeria entertainment Industry H2 2025 and beyond

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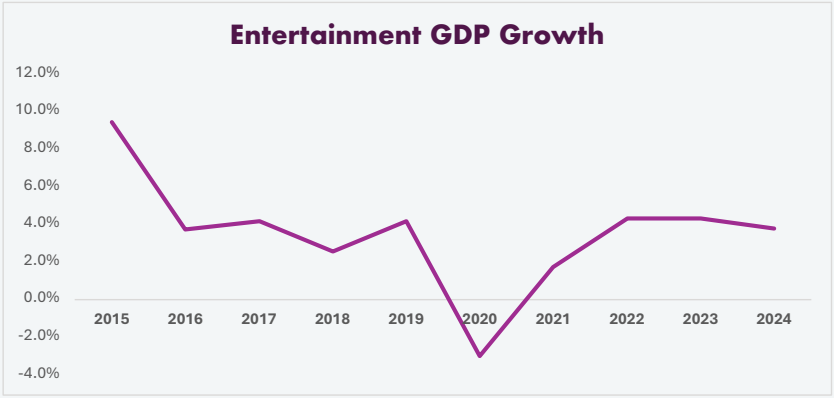
1 Nigeria's Entertainment Industry H2 2025 and Beyond

Nigeria's entertainment industry has evolved from a cultural commodity into a strategic economic asset, with significant potential to drive GDP growth, job creation, and foreign exchange earnings. Valued at approximately $9 billion in 2023, the sector is projected to reach $13.6 billion by 2028,[1] reflecting its growing role in the country's post-oil economy. The contribution to Real GDP shows an upward trend with hopes for massive expansion.

Parallel to film, Nigeria's music industry anchored by the global rise of Afrobeats has become a key export engine. Supported by global streaming platforms and digital distribution, Nigerian artists now bypass traditional gatekeepers, achieving international airplay, chart presence, and major-label partnerships. The music sector exemplifies a successful shift from analogue scarcity to digital abundance, where monetization increasingly comes from live performances, brand endorsements, and platform royalties.



Source: NBS, CP Research [2]

1. PwC, Entertainment and Media Outlook: 2024–2028, https://www.pwc.co.za/en/assets/pdf/africa-entertainment-media-outlook-2024.pdf
2. National Bureau of Statistics (NBS). 2024. Nigerian Gross Domestic Product Report (Q4 2024). Abuja: NBS. https://nigerianstat.gov.ng

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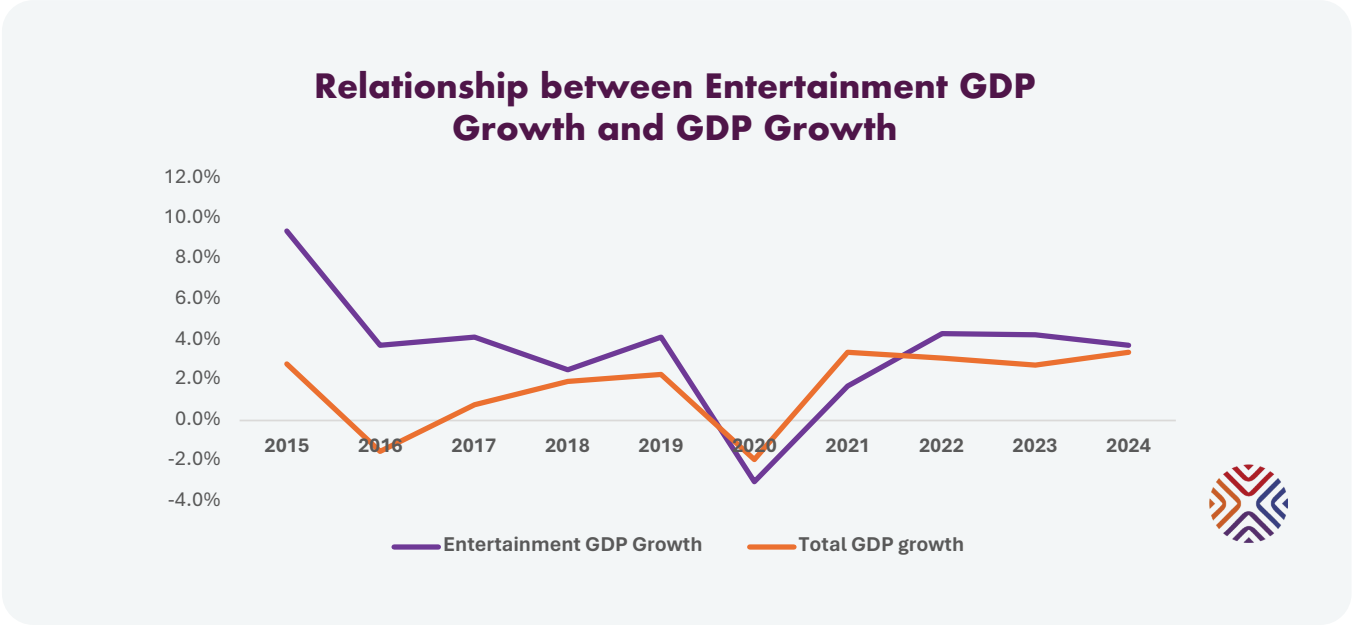
From 2015 to 2016, the sharp decline in both entertainment and total GDP growth[2] was driven by Nigeria's first recession in over two decades, caused by the collapse in global oil prices, declining foreign reserves, and a weakened naira. These macroeconomic disruptions reduced household consumption and investor confidence, affecting discretionary sectors like entertainment.

Between 2017 and 2019, the gradual recovery in both indicators stemmed from modest oil price stabilization, improved foreign exchange access, and a mild fiscal rebound. The entertainment sector benefited from increased digital adoption, mobile penetration, and the emergence of local content demand. Its growth remained ahead of total GDP, signalling stronger structural momentum.

The 2020 contraction reflects the COVID-19 pandemic. Lockdowns, cancelled events, cinema closures, and disrupted production severely impacted the entertainment industry. The broader economy also contracted due to oil demand shocks, border closures, and supply chain disruptions.



Source: NBS, CP Research[2]

The rebound from 2021 onward was supported by economic reopening, recovery in oil prices, fiscal support, and stronger digital infrastructure. In entertainment, there was accelerated adoption of streaming platforms, global licensing of Nigerian content, and diaspora-driven demand. These factors led to a sharper bounce in entertainment GDP relative to the broader economy.

By 2023 and 2024, growth in both metrics stabilized. For total GDP, this reflects tighter monetary policy to curb inflation, subsidy removals, and exchange rate reforms. For entertainment, growth reflects a maturing industry with formalization, platform partnerships, and more stable revenue channels, but also exposure to inflationary pressure and reduced consumer purchasing power. The convergence of both trends suggests a normalization phase where entertainment's outperformance is moderated by broader macroeconomic constraints.

2. National Bureau of Statistics (NBS). 2024. Nigerian Gross Domestic Product Report (Q4 2024). Abuja: NBS. https://nigerianstat.gov.ng

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Digital connectivity, smartphone penetration, and low-cost content creation tools have democratized access to production and distribution. Short-form comedy, skit content, and creator-led series are often distributed via YouTube, TikTok, and Instagram are redefining what qualifies as "mainstream media." [3] This model supports new income streams and empowers micro-influencers to reach global audiences without intermediaries.

Nigeria's position within this landscape reflects broader shifts: audience preferences are migrating toward mobile-first, social-driven formats; platform dominance is tilting toward algorithms and direct-to-consumer access; and creators are evolving into entrepreneurs with monetization stacks that span sponsorships, NFTs, brand collabs, and subscription models. [4] From the era of travelling theatre troupes to the age of streaming platforms and interactive entertainment, Nigeria's entertainment sector is no longer just a cultural artifact—it is a mirror of the country's digital transformation, a soft power asset, and a potential growth lever in the post-oil economy.[5] Nigeria's entertainment industry is on the cusp of transforming from a dynamic cultural phenomenon into a strategic economic engine capable of contributing 4–5% of GDP by 2035, provided structural reforms, targeted investment, and export-driven policies are implemented.[1] Leveraging demographic density, digital acceleration, and growing global demand for African narratives, Nigeria sits at a potential inflection point its path over the next decade determining whether it mirrors the scaled success of cultural powerhouses like South Korea, India, or Brazil.

1. PwC, Entertainment and Media Outlook: 2024–2028, https://www.pwc.co.za/en/assets/pdf/africa-entertainment-media-outlook-2024.pdf
3. GSMA, The Mobile Economy Sub-Saharan Africa 2023 (London: GSMA, 2023), https://www.gsma.com/mobileeconomy/sub-saharan-africa/.
4. McKinsey & Company, A Creative Recovery: The Future of Entertainment and Media (New York: McKinsey & Company, 2022), https://www.mckinsey.com/industries/technology-media-and-telecommunications/.
5. World Bank, Digital Economy for Africa (DE4A) Initiative (Washington, D.C.: World Bank, 2023), https://www.worldbank.org/en/programs/all-africa-digital-transformation.

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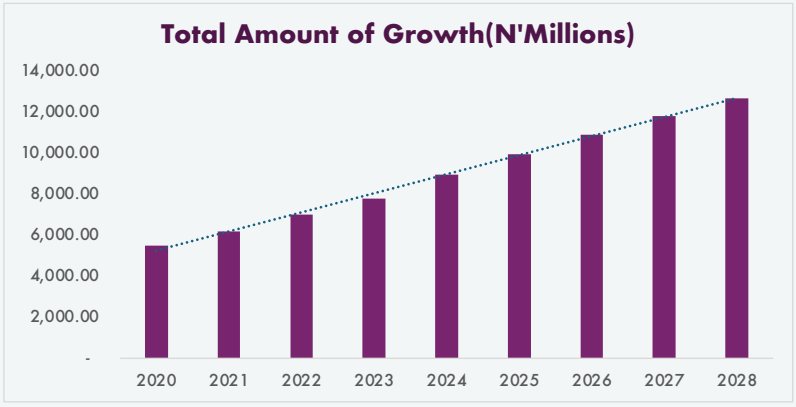
1.1. Current State and Growth Trajectory

Market Size: The entertainment and media (E&M) industry was valued at $9 billion in 2023, with forecasts estimating growth to $13.6 billion by 2028. This reflects a compound annual growth rate (CAGR) of 8–10% through 2028, driven by digital platforms and global demand.[1]



Source: PWC, CP Research[2]

Valued at approximately $9 billion in 2023, the industry is projected to reach $13.6 billion by 2028, driven by a convergence of digital connectivity, rising global demand for Nigerian content, and increased investment across the creative value chain.[1] The compound growth trajectory reflects deeper structural shifts: digital content consumption is rising; mobile device penetration is expanding; and global audiences are engaging more with Nigeria's creative output.

Source: NBS, CP Research[2]

1. PwC, Entertainment and Media Outlook: 2024–2028, https://www.pwc.co.za/en/assets/pdf/africa-entertainment-media-outlook-2024.pdf
2. National Bureau of Statistics (NBS). 2024. Nigerian Gross Domestic Product Report (Q4 2024). Abuja: NBS. https://nigerianstat.gov.ng

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- **GDP Contribution:** By Q4 2025, the broader art, recreation, and entertainment sector is projected to contribute 3.79% to Nigeria's GDP and support over 4 million jobs, with employment expected to increase as investment scales.[6]

Key Drivers:

Digital Connectivity: Rising smartphone penetration and the National Broadband Plan's goal of 90% coverage by 2025 are expanding access to content.[7]

Global Demand: Nigerian music (Afrobeats) and films (Nollywood) are gaining traction on platforms like Spotify, Netflix, and YouTube.

Investment: Multinational platforms, such as Netflix with its $23 million investment since 2016,[8] alongside local venture capital, are fueling growth. In 2024, Spotify reported that Nigerian artists earned ₦58 billion in royalties, more than double the ₦25 billion recorded the previous year. [9]

Growth is expected to moderate to a CAGR of 6.7% by 2028 as the industry matures, shifting focus from rapid expansion to professionalism and export competitiveness.[1]

1. PwC, Entertainment and Media Outlook: 2024–2028, https://www.pwc.co.za/en/assets/pdf/africa-entertainment-media-outlook-2024.pdf
6. PwC. (2022). Global Entertainment and Media Outlook 2022–2026. Retrieved from https://www.pwc.com/gx/en/news-room/press-releases/2022/global-entertainment-and-media-outlook-2022 2026.html#:~:text=Driven%20almost%20entirely%20by%20digital,consumer%20spending%20and%20internet%20access.
7. Nigerian Communications Commission, "Nigerian National Broadband Plan 2020–2025, https://ncc.gov.ng/media-center/public-notices/new-nigerian-national-broadband-plan-2020-2025#:~:text=The%20new%20Broadband%20Plan%20is,1%25%20of%20minimum%20wage).
8. trade.gov. (2023). Nigeria – Media and Entertainment. Retrieved from https://www.trade.gov.
9. Spotify, "2024 Royalty Report: How Nigerian Artists Are Winning on Streaming Platforms," accessed June 2025, https://newsroom.spotify.com.

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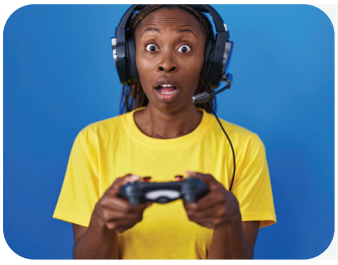
2 Sectoral Breakdown

Nollywood: Producing over 2,500 films annually, Nollywood ranks as the world's second-largest film industry by output after Bollywood. It is transitioning from informal distribution to formal licensing, with platforms like Netflix and Amazon commissioning originals. Piracy remains a hurdle, eroding up to 50% of potential revenue.[10]

Music: Afrobeats has propelled Nigerian artists onto global stages, in Spotify 2024 report noted that royalties reached ₦58 billion in 2024 (up from ₦25 billion the prior year).[11] Investment in the music ecosystem is rising, though artists lack sufficient professional support.

Digital Content: The "skit economy" thrives on platforms like YouTube, TikTok, and Instagram, with mobile video accounting for nearly 50% of Nigeria's data consumption. This sector democratizes content creation and monetization.[12]



Gaming and Esports: Still nascent, this sub-sector shows promise, driven by Gen Z engagement, rising smartphone use, and improved broadband.

Nollywood and music will remain dominant, but digital content and gaming could contribute 15–20% of sector revenue by 2030.

10. UNESCO. Re|Shaping Policies for Creativity: Addressing Culture as a Global Public Good. 2022. https://unesdoc.unesco.org/ark:/48223/pf0000379165.locale=en.
11. Spotify, "2024 Royalty Report: How Nigerian Artists Are Winning on Streaming Platforms," accessed June 2025, https://newsroom.spotify.com.
12. UNCTAD, Creative Economy Outlook 2022: Overview (Geneva: UNCTAD, 2022), https://unctad.org/publication/creative-economy-outlook-2022.

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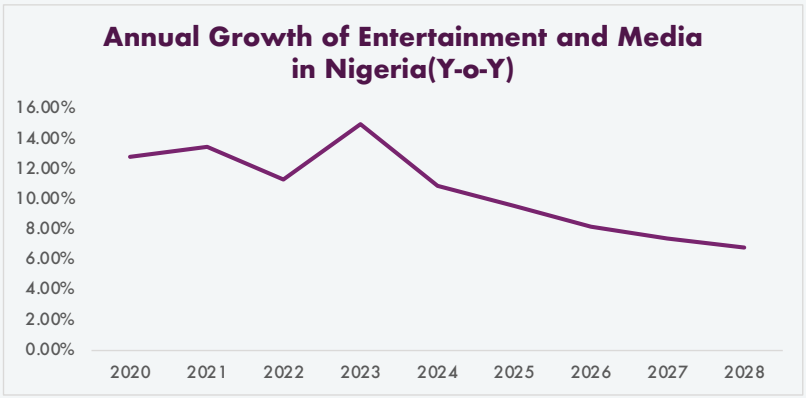
3 Structural Challenges

The Nigerian Creative and Entertainment Industry Intervention Fund, launched in 2010, was designed to stimulate content production, industry-specific financing, and skill development.[13] While the fund has seen some traction, disbursement remains modest. Many creative workers, especially in the informal sector, remain excluded due to documentation barriers and collateral requirements. In contrast, international capital, particularly from global streaming platforms and music investors, has become a more consistent financier of content and capacity in film and music.



Source: PWC, CP Research [1]

The creative economy is now a recognized contributor to GDP, employment, tax revenue, and foreign exchange. While Nollywood remains a cultural cornerstone, faster growth is now concentrated in segments like internet advertising, music streaming, and esports. Internet advertising alone is expected to grow at a 15.4% compound annual growth rate (CAGR), more than doubling from $519 million in 2023 to $1.06 billion by 2028. [14]

Between 2020 and 2023, the sector saw double-digit annual growth, starting at 12.7% in 2020, driven by mobile internet penetration, global interest in Nigerian content, and increased digital consumption. A temporary slowdown to 11.5% in 2022 reflected consumer spending constraints and ongoing challenges including piracy, monetization inefficiencies, and regulatory opacity.[1]

1. PwC, Entertainment and Media Outlook: 2024–2028, https://www.pwc.co.za/en/assets/pdf/africa-entertainment-media-outlook-2024.pdf
13. Bank of Industry, "Creative Industry Financing Initiative," accessed June 2025, https://www.boi.ng/bois-intervention-to-creative-industry-hits-n2b-under-nollyfund
14. McKinsey & Company, A Creative Recovery: The Future of Entertainment and Media (New York: McKinsey & Company, 2022), https://www.mckinsey.com/industries/technology-media-and-telecommunications/.

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By 2023, growth rebounded sharply to 15.2%, underpinned by capital infusions and broader ecosystem maturity. Notably, Netflix's $23 million investment in Nigerian content led to partnerships with Nollywood studios and over 250 original productions. In parallel, digital-native creators commercialized skits, short films, and music across platforms like YouTube, TikTok, and Instagram.[15]

Major Bottlenecks

- **Piracy and IP Enforcement:** Weak intellectual property laws and enforcement cost creators billions annually, deterring investment.
- **Financing Gaps:** Traditional financing models are ill-suited for creative businesses, with initiatives like the Creative Industry Financing Initiative hampered by bureaucracy and low uptake.
- **Infrastructure:** Unreliable power, costly logistics, and a shortage of world-class studios increase production costs and limit scalability.
- **Regulatory Fragmentation:** Overlapping mandates across ministries create inefficiencies and red tape.

These challenges could cap growth unless addressed through reforms and private-sector innovation, such as The Lagos Arena project,

15. AIN Media, "Nollywood's Golden Age: Nigeria's Film Industry Is Rewriting Economic Narratives and Cultural Soft Power," Africa Investment News, May 2024, https://www.ainvest.com/news/nollywood-golden-age-nigeria-film-industry-rewriting-economic-narratives-cultural-soft-power-2505/?utm_source=chatgpt.com.

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4 Policy and Demographic Tailwinds

Demographics: With a median age of 18 and growing digital literacy, Nigeria has a vast, engaged audience.

Digital Infrastructure: The National Broadband Plan's 90% coverage target by 2025 will enhance streaming and monetization potential.[16]

Global Validation: Investments from Netflix, Spotify, and others signal Nigeria's rising creative clout.

These tailwinds provide a strong foundation, but policy coherence and IP protection are essential to maximize gains.

5 Future Growth Frontiers

Creative Tech and AI: With a 70% generative AI adoption rate, AI could transform production processes, cut costs and boost quality.

Export Potential: Entertainment exports, currently at $800 million annually, could reach $2–3 billion by 2030, following models like South Korea's "Hallyu."[17]

New Verticals: Gaming, exports, and short-form content are high-growth areas, potentially accounting for 20% of revenue by 2030.

Outlook

Strategic investments in AI, infrastructure, and export promotion could see the sector contribute 4–5% of GDP by 2035.

16. Nigerian Communications Commission, "Nigerian National Broadband Plan 2020–2025, https://ncc.gov.ng/media-center/public-notices/new-nigerian-national-broadband-plan-2020-2025#:~:text=The%20new%20Broadband%20Plan%20is,1%25%20of%20minimum%20wage).
17. "Korea's content industry exports hit all-time high in 2021," The Korea Times, March 12, 2025; global Hallyu value $12.4 billion.

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6 Nigeria and the Global Entertainment Industry: Closing the Gap

In the entertainment industry, the music industry is posed to grow at a CAGR of 7.1% in 2030 driven by expansion of 5G and AR/VR technologies, increased mergers and acquisitions (e.g., Microsoft-Activision, Warner Bros-Discovery) and growth in emerging markets like Africa and Southeast Asia.[18]

The film industry generates revenue through theatrical releases, streaming platforms, and home media. Hollywood remains dominant, but regional industries like Bollywood, Nollywood, and Chinese cinema are gaining global influence. Streaming services are expected to generate over $150 billion in revenue by 2026. [1]

Hollywood remains dominant in terms of global influence and revenue generation, but regional industries like Bollywood, Chinese cinema, and Nollywood are expanding their footprints. Global studios are consolidating, leveraging large-scale budgets, and deploying advanced technologies across production and distribution.

In Nigeria, the entertainment sector, particularly Nollywood and the music industry, has made regional and diaspora impact. Nollywood is one of the largest film producers globally by volume, and Nigerian music, especially Afrobeats, has gained global recognition through collaborations and international streaming. Platforms such as Netflix and Amazon Prime have begun featuring Nigerian content, while artists like Burna Boy, Tems, and Davido have secured global deals and awards. Policy efforts like the Creative Industry Financing Initiative and the NollyFund have also provided limited capital support.

In 2023, the music and film industries collectively contributed $1.4 billion to Nigeria's GDP, a 27.46% increase from $1.1 billion in 2020.[19] This growth reflects the sector's rising economic impact, driven by increased production, global demand, and digital platforms.

The film industry contributed 2.3% to GDP in 2021, equivalent to $660 million (N239 billion), with projections to exceed $1 billion in export revenue in the coming years. The television and video market grew to $806 million in 2020, driven by subscription-based streaming services like Netflix, Iroko TV, and Amazon Prime Video.[8]

The music industry, employing about one million people as of 2021, generated over $8 billion for the economy, fueled by global recognition of artists like Wizkid and Burna Boy, who have won Grammy Awards. [8]

However, Nigeria's entertainment industry faces challenges that constrain global competitiveness. Infrastructure is underdeveloped, including poor broadband penetration, limited high-quality studio facilities, and a low number of cinema screens per capita. The funding ecosystem remains informal, with limited access to structured ventures or private equity investment. Piracy is widespread, eroding potential revenue. Intellectual property enforcement is weak, and data on sector performance is poorly tracked. Most creative professionals lack access to formal

1. PwC, Entertainment and Media Outlook: 2024–2028, https://www.pwc.co.za/en/assets/pdf/africa-entertainment-media-outlook-2024.pdf
8. trade.gov. (2023). Nigeria – Media and Entertainment. Retrieved from https://www.trade.gov.
18. trade.gov. (2023). Nigeria – Media and Entertainment. Retrieved from https://www.trade.gov.
19. Powers of Africa. (2024). Nigeria: Creative Industry Boosts GDP. Retrieved from https://powersofafrica.com

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training in areas like digital editing, animation, or AR/VR production. There is also a growing talent drain, as top creatives relocate for better conditions.

Compared to global peers, Nigeria lacks the scale, structure, and capital depth needed to compete in high-revenue segments such as international licensing, large-scale production, or technology-driven formats. While global platforms are capturing value from Nigerian content, the domestic ecosystem is not fully monetizing its creative output.

To improve its position, Nigeria needs to formalize its entertainment industry through copyright enforcement and reliable data frameworks. It must expand access to institutional funding, incentivize local and international partnerships, and invest in infrastructure such as broadband and production hubs. Workforce development programs focused on digital skills, AR/VR, and animation will be critical. Trade and cultural diplomacy should promote Nigerian content across regional markets under frameworks like the AfCFTA.

Without deliberate policy alignment and private sector participation, Nigeria risks remaining a content provider rather than a value-capturing player in the global entertainment economy. The opportunity window remains open, but the pace of global advancement requires urgent and coordinated action.

6.1. Why Entertainment Is Nigeria's Next Hidden Gem

Nigeria's entertainment industry is poised to become a transformative economic force, offering a compelling case as the country's next hidden gem. Here's why:

- **Export Engine:** Nigerian content Afrobeats, Nollywood films, and digital skits is a global phenomenon. With exports projected to triple to $2–3 billion by 2030, the sector could rival oil as a foreign exchange earner.
- **Job Creation:** Supporting over 4 million jobs, the industry can absorb Nigeria's youthful workforce, fostering inclusive growth as it scales.
- **Digital-First Model:** Leveraging a mobile-first population, entertainment thrives on accessible platforms, lowering barriers to entry and enabling wealth creation for creators.
- **Soft Power:** Cultural exports enhance Nigeria's global influence, boosting tourism, trade, and diplomacy.
- **AI Integration:** High AI adoption positions the sector to leapfrog in production efficiency and global competitiveness.

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Unlocking the Potential. To fully realise this potential, Nigeria must address key gaps:

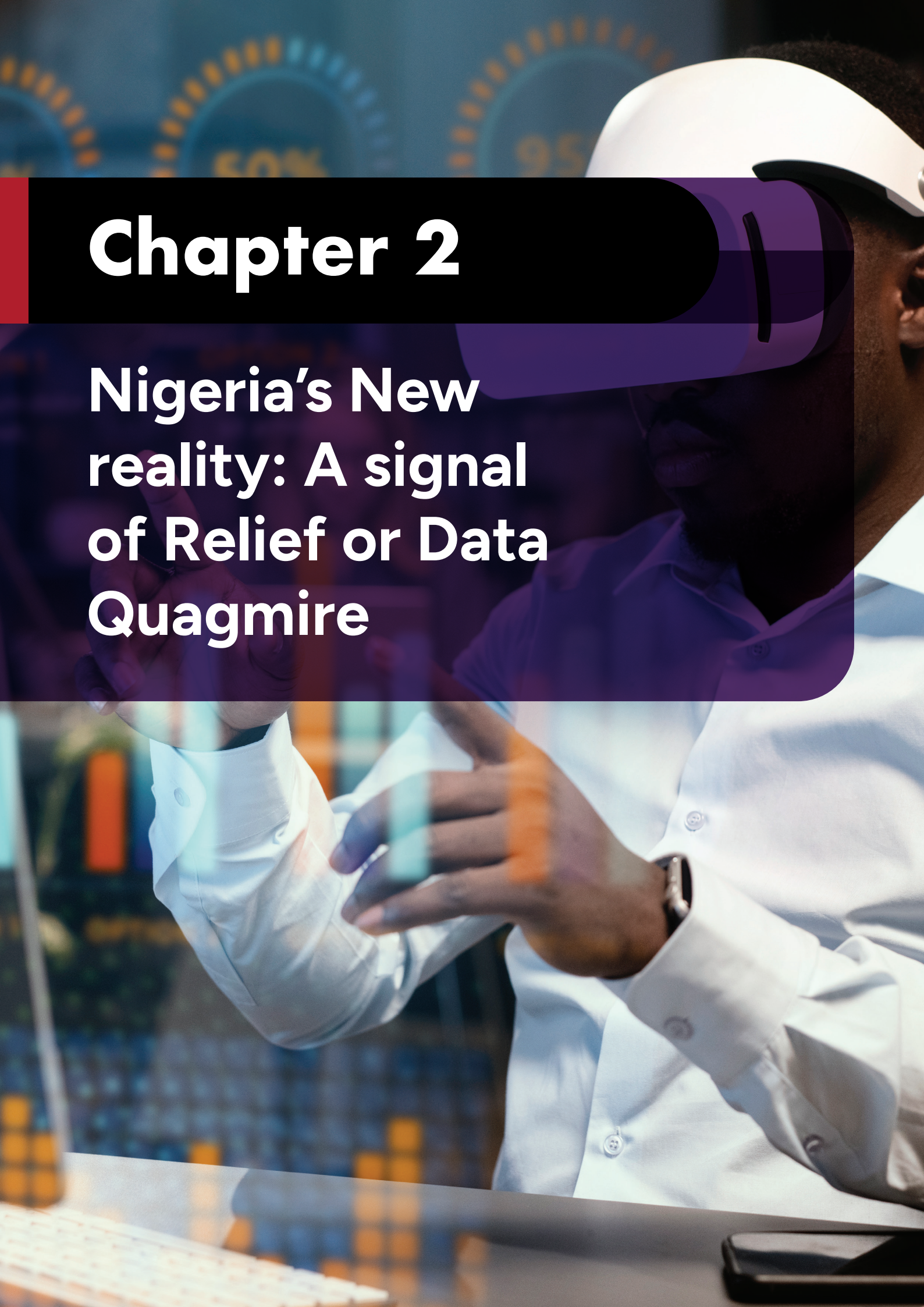
1. **IP Reform:** Strengthen laws and enforcement to protect creators and attract investment.
2. **Fit-for-Purpose Financing:** Develop credit models tailored to intangible assets.
3. **Infrastructure Investment:** Expand digital and physical facilities, like studios and broadband.
4. **Policy Coordination:** Create a unified regulatory framework to streamline growth.

The Global Parallel South Korea's "Hallyu" model, where coordinated policies turned pop culture into a $12.4 billion export industry, offers a blueprint. Nigeria's organic momentum, paired with targeted reforms, could yield similar results.[17]

Bottomline

With its youthful demographics, digital acceleration, and global cultural resonance, Nigeria's entertainment sector is more than a cultural asset; it's an economic powerhouse in waiting. By addressing structural challenges and investing strategically, Nigeria can transform this industry into a diversified growth engine, cementing its status as the country's next hidden gem.

17. "Korea's content industry exports hit all-time high in 2021," The Korea Times, March 12, 2025; global Hallyu value $12.4 billion.



Chapter 2

Nigeria's New reality: A signal of Relief or Data Quagmire

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1 Nigeria's New Reality: A Signal of Relief or Data Quagmire?

As Africa's largest economy, Nigeria stands at a pivotal juncture. Official data paints a picture of remarkable recovery: inflation is plummeting, unemployment aligns with rates in developed nations, and GDP growth is poised to surge following a long-overdue rebasing of national accounts. These developments suggest a nation emerging from years of economic turmoil, offering a potential signal of relief for millions who have weathered persistent hardship.

Yet, beneath this statistical optimism lies a troubling question: Are these improvements genuine, or do they mask a deeper disconnect between data and reality? Is Nigeria trapped in a data quagmire, where numbers obscure truth, or, worse, experiencing immiserizing growth, where economic expansion fails to uplift its people?

The Comercio Partners Research team aim to unravel this paradox by dissecting Nigeria's macroeconomic indicators, scrutinizing recent methodological shifts, and amplifying the voices of its citizens through a comprehensive survey conducted by the CP Research team.

This analysis triangulates primary and secondary data to offer a nuanced and captivating outlook on Nigeria's economic future, one that probes whether the nation is on the cusp of prosperity or ensnared in a statistical mirage.

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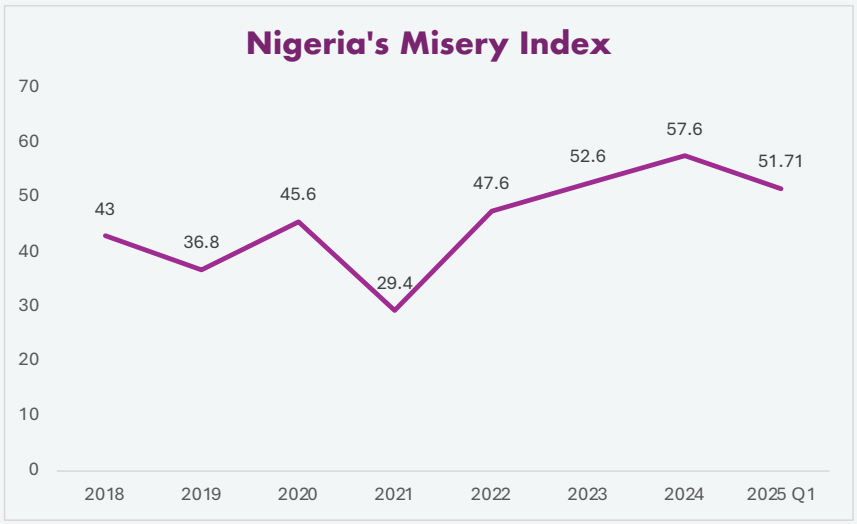
2 The Misery Index: A Falling Gauge, A Rising Doubt

The Misery Index, a composite of inflation and unemployment rates, serves as a barometer of economic distress. In Nigeria, this index is reportedly retreating from its peak, suggesting an easing of hardship.



Source: Economic Intelligence Unit (including estimate), International Monetary Fund and World Bank Calculation[1], CP Research [1]

Policy reforms, monetary tightening, fiscal adjustments, and improved foreign exchange market functioning, appear to underpin this decline. On paper, it's a cause for cautious optimism. Yet, shadows of doubt loom large. Recent changes in how key metrics are measured, GDP rebasing, inflation basket adjustments, and unemployment reclassification complicate the narrative.

The National Bureau of Statistics (NBS) has revamped its methodologies, but these revisions raise questions about reliability. For instance, the newly rebased GDP reflected growth in sectors like technology and fintech, increasing the nominal strength of the economy, but does it necessarily capture the improved lives? Similarly, adjustments to inflation and unemployment calculations may artificially lower the Misery Index, mask persistent struggles while looking good on paper.

To understand this, we must decompose the index's components, starting with inflation.

1. U.S. Congressional Budget Office, "Natural Rate of Unemployment (Short-Term)," Stlouisfed.org (Retrieved from FRED, Federal Reserve Bank of St. Louis, February 1, 2021), https://fred.stlouisfed.org/series/NROUST.

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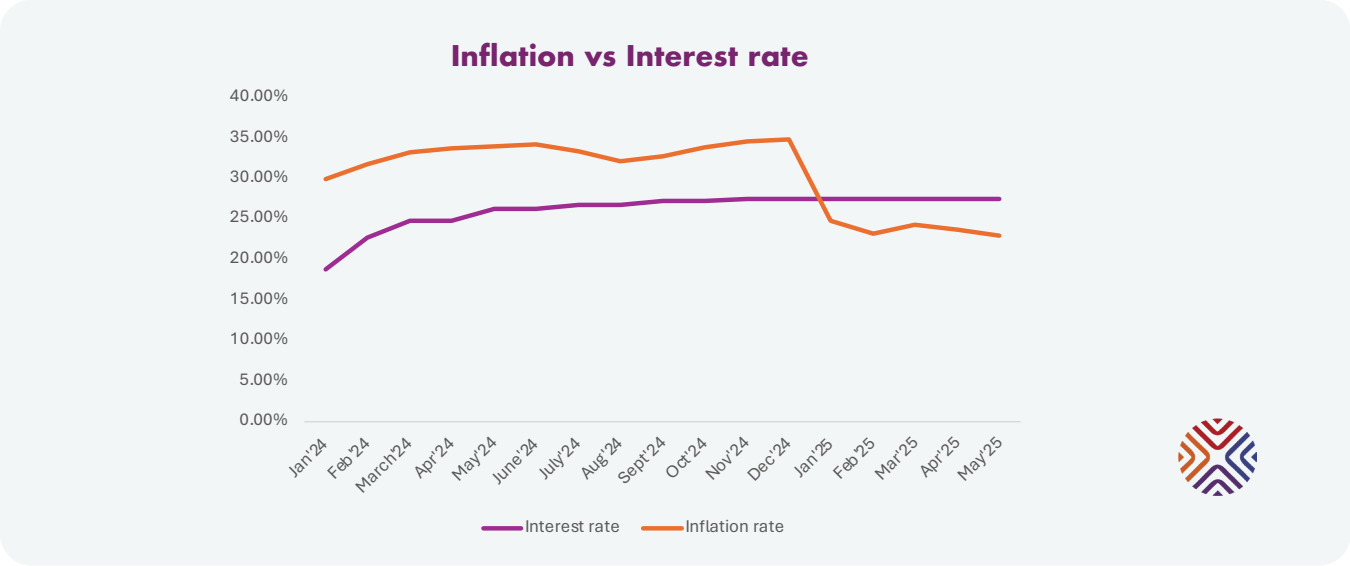
2.1. Inflation: Statistical Triumph, Lived Burden

Nigeria's inflation has undergone a dramatic shift. After peaking at 34.8% in December 2024, it dropped to 22.22% by mid-2025,2 a decline hailed by international observers as a testament to effective policies. The Central Bank of Nigeria (CBN) has maintained a hawkish stance, holding the Monetary Policy Rate (MPR) at 27.5%, while naira stability, bolstered by improved FX market transparency, has curbed price volatility. Nevertheless, a regression analysis reveals a significant and positive correlation between interest rates and inflation, reinforcing that the role monetary tightening played in reducing inflation may be less than imagined as the proper monetary policy transmission mechanism is lacking in Nigeria, a country that is not necessarily credit driven.[3]



Source: NBS[1], CBN, CP Research

Hence, it is safe to conclude that the primary driver of this drop is the NBS's rebasing of the inflation basket, a methodological tweak that prompts scrutiny. The choice of base year is critical; it should reflect economic normalcy, yet the selected period may not, potentially skewing results.

While this statistical adjustment paints a rosy picture, the reality for Nigerians diverges sharply. Food, transport, and rent, accounting for over 70% of household budgets, remain stubbornly expensive. The Comercio Panters survey reveals that 94.3% of respondents face rising prices, with 72.5% noting significant hikes. Despite lower inflation figures, purchasing power continues to erode, rendering relief more theoretically than tangible.

Internationally, this disinflation boosts Nigeria's credit ratings and attracts foreign portfolio investment (FPI). But these inflows are fickle, poised to flee at the first sign of trouble; say, a global shock reigniting inflation. Thus, while the statistical decline is noteworthy, it belies the persistent cost-of-living crisis gripping the populace.

1. U.S. Congressional Budget Office, "Natural Rate of Unemployment (Short-Term)," Stlouisfed.org (Retrieved from FRED, Federal Reserve Bank of St. Louis, February 1, 2021), https://fred.stlouisfed.org/series/NROUST.
2. National Bureau of Statistics (NBS). Consumer Price Index April 2025. Abuja: NBS, May 2025. https://nigerianstat.gov.ng
3. Ubah, Jeremiah I., Philip Alege, and Adeyemi Ogundipe. "The Effect of the Size of the Informal Sector on Inflation Rate." Innovations, no. 66 (2023): 309–323. https://journal-innovations.com/assets/uploads/doc/59809-309-323.16619.pdf.

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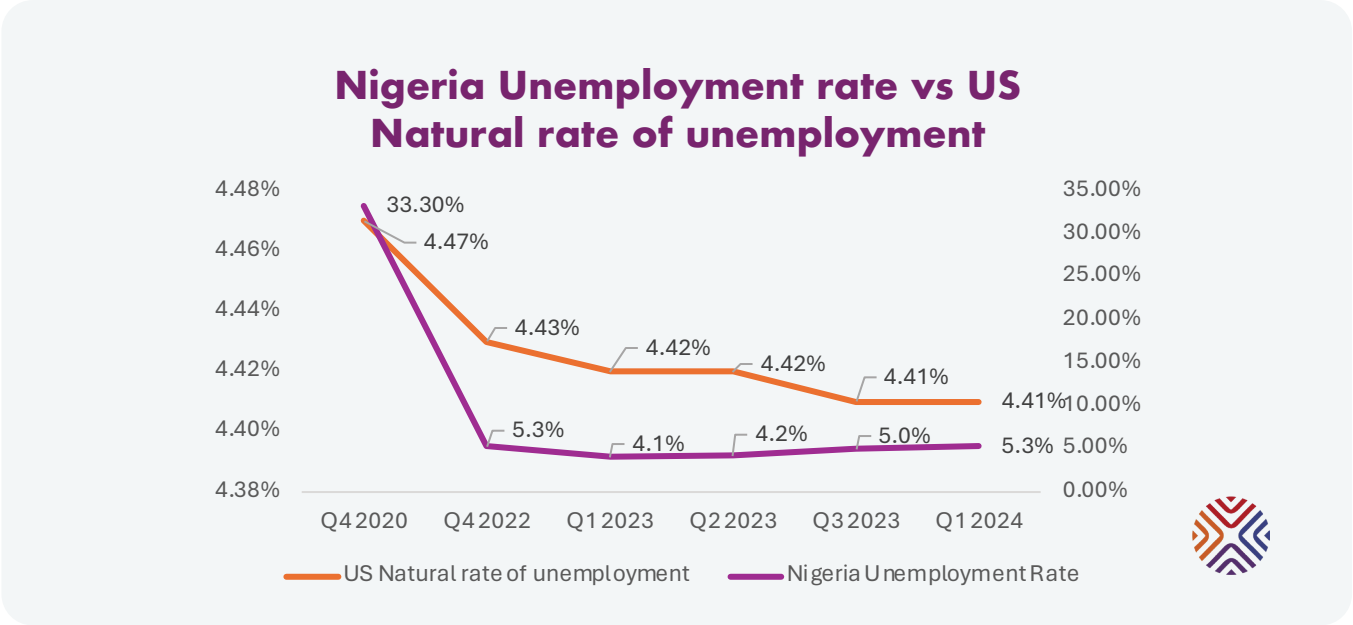
2.2. Unemployment: A Statistical Façade

Nigeria's unemployment rate offers another enigma. Revised by the NBS to 4.1% in early 2023[4], it mirrors the natural rate of unemployment (4-5%)[1] in developed economies like the United States, where such levels signal a balanced labor market.



Source: NBS, U.S. Congressional Budget Office, CP Research

In theory, this suggests a healthy economy where most willing workers are employed without stoking inflation. Yet, this alignment is illusory. The drop stems not from robust job creation but from a redefinition of employment: individuals working as little as one hour per week are now classified as employed.

This technical adjustment drastically understates joblessness and underemployment. Nigeria's labor market remains dominated by informality, with many trapped in precarious, low-wage roles. The survey underscores this: **52.2%** of respondents report fewer job opportunities, while only **44.1%** see new ones emerging. Moreover, underemployment is rampant, and the gap between the minimum wage and a living wage widens. Per capita income lags behind rising costs, leaving households stretched thin.

The Misery Index benefits mechanically from this lower unemployment rate, but the lived experience, marked by instability and inadequate earnings, tells a different story. Nigeria's labor market improvement, it seems, is a statistical anomaly, not a structural triumph.

1. U.S. Congressional Budget Office, "Natural Rate of Unemployment (Short-Term)," Stlouisfed.org (Retrieved from FRED, Federal Reserve Bank of St. Louis, February 1, 2021), https://fred.stlouisfed.org/series/NROUST.
4. National Bureau of Statistics (NBS), Labour Force Statistics: Unemployment and Underemployment Report Q1 2023 (Abuja: NBS, 2023), https://www.nigerianstat.gov.ng.

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2.3. GDP Growth: Prosperity or Immiserizing Mirage?

Nigeria's GDP had a significant boost with the 2025 rebasing of national accounts. New sectors such as tech, fintech, digital commerce, creative industries, logistics, and informal services, were captured, reflecting the economy's evolution.

Source: NBS, CP Research

Internal projections estimate an average real GDP growth at **4% in 2025**, up from 3.38%[5], in 2024, fueled by inclusiveness in the non-oil sector, reflecting resilience but not yet structural transformation.

This growth trajectory, reshape perceptions of Nigeria's macro reforms, yielding favorable ratios and optics. Yet, herein lies the specter of immiserizing growth, a concept where GDP expansion fails to enhance living standards, or even worsens them for many.

In Nigeria, this risk is palpable. The informal sector, employing most workers, may see little benefit from formal growth. Capital-intensive sectors like oil and infrastructure often enrich a narrow elite without creating mass employment.

The survey starkly illustrates this disconnect: 83% of respondents struggle more to afford basics like food and housing than last year, and 58.6% can't secure three meals daily. Despite GDP optimism, growth appears to bypass the masses, concentrating benefits among a few. Without inclusive policies, Nigeria risks a growth that impoverishes rather than prospers if no real changes are made.

5. National Bureau of Statistics (NBS). 2024. Nigerian Gross Domestic Product Report (Q4 2024). Abuja: NBS. https://nigerianstat.gov.ng

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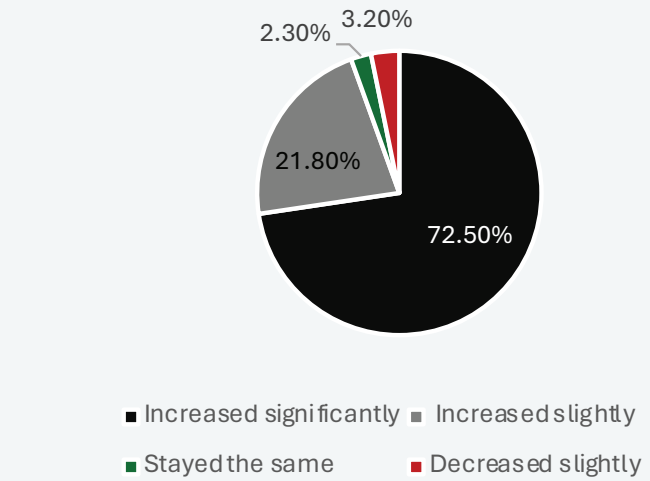
3 The People's Pulse: A Reality Check

To anchor this analysis, the Comercio Research team surveyed Nigerians, predominantly in Western Nigeria (67.7% of respondents), offering a window into urban economic life.

Price Trends and Income Dynamics



Source: CP Research

A substantial majority (94.3%) reported an increase in prices of regularly purchased goods and services, with 72.5% experiencing significant hikes. Contrastingly, income changes have not kept pace, as only 37.5% of respondents reported increased salaries, while 48.2% reported no change and 14.3% reported salary decreases.

Affordability and Basic Needs: Increased economic pressures have notably impacted the affordability of basic necessities, with 83% indicating greater difficulty in affording food, housing, and healthcare compared to the previous year.

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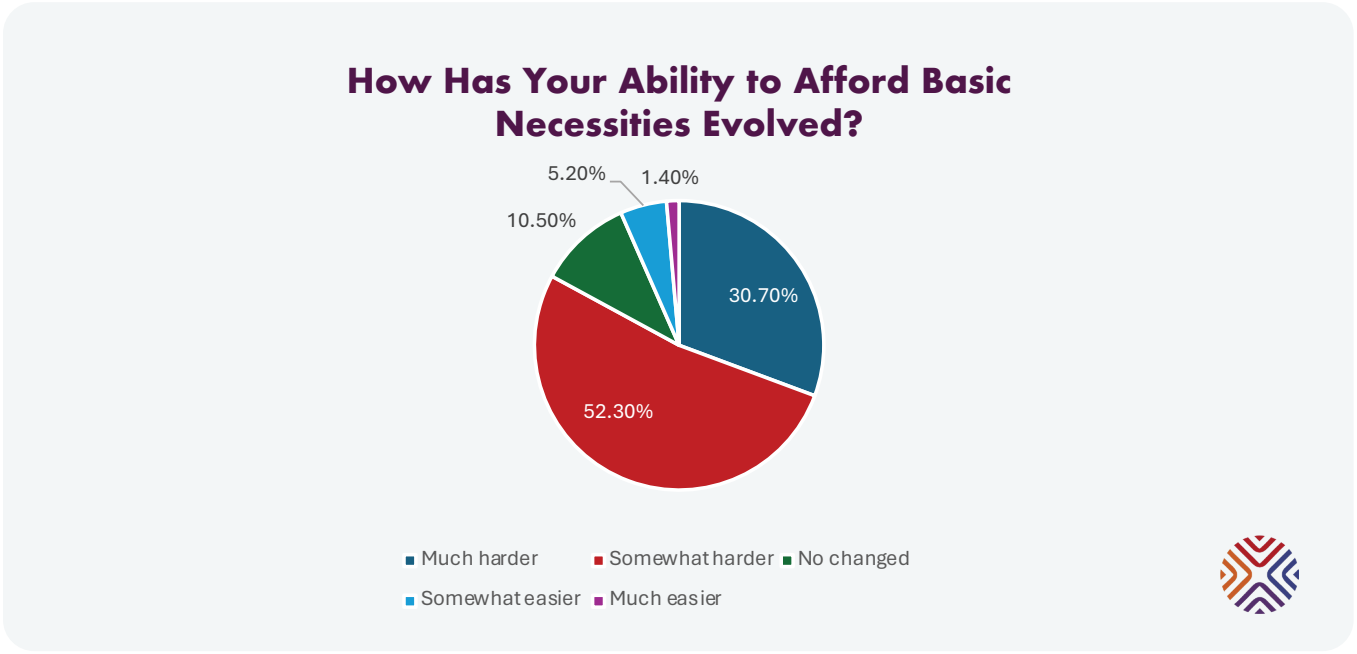
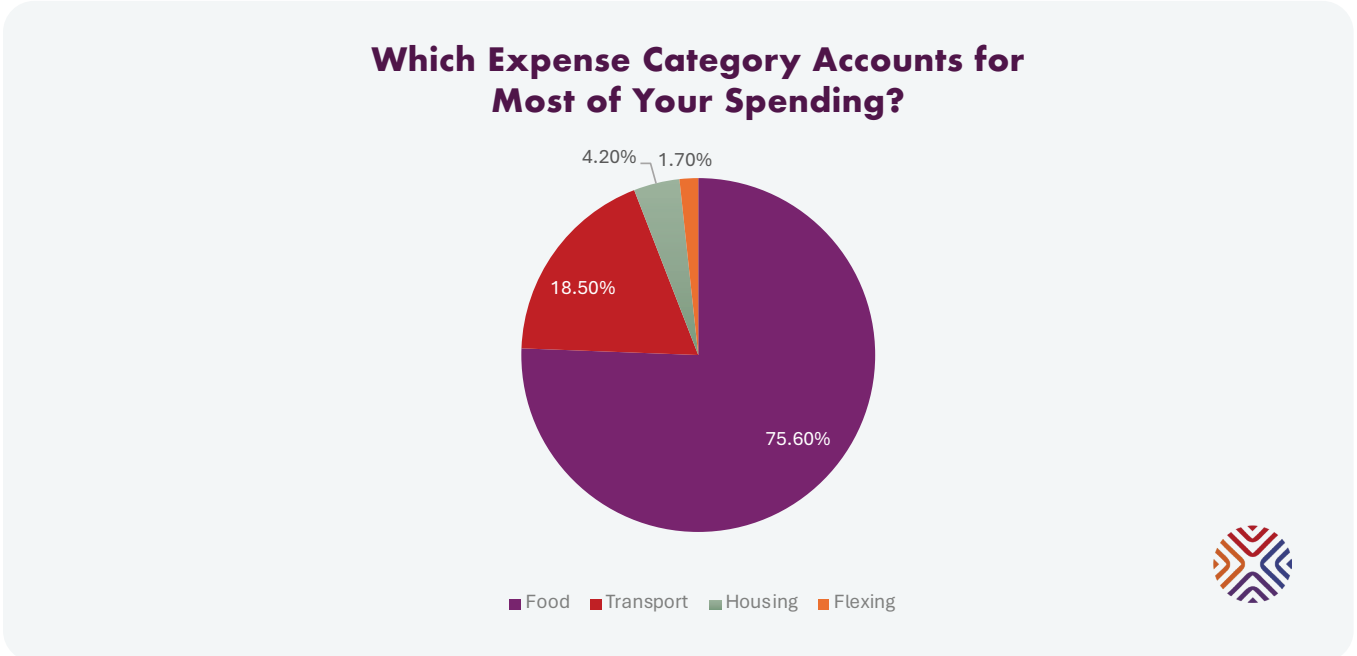


Source: CP Research

Employment Landscape: Employment opportunities exhibit negative trends; 52.2% report fewer job opportunities, with only 44.1% noting new job opportunities appearing.

Small Business Impact: Economic changes have negatively affected small businesses, with 36.6% experiencing worsening sales and profits, although 26% reported improvements, reflecting a mixed but predominantly challenging business environment.



Source: CP Research

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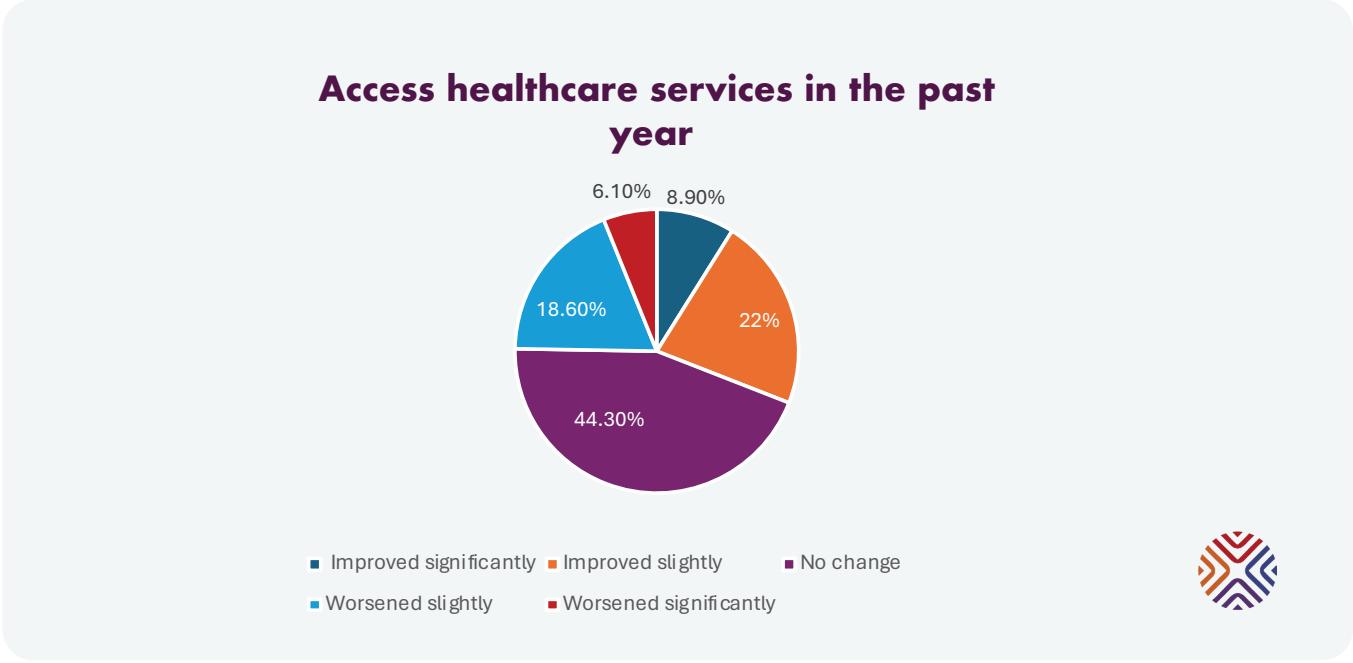
Expense Allocation: The bulk of household expenses remains significantly oriented towards essential items, predominantly food (75.6%), far surpassing transport (18.5%), housing (4.2%), and leisure-related expenses (1.7%).

Food Security: Notably, 58.6% of respondents struggle to consistently afford three square meals daily, underscoring critical issues in household food security. With over half (58.6%) struggling to consistently afford meals, there is a clear indication of deteriorating food security, reflecting deeper socio-economic challenges and potential nutritional implications for the population.

Healthcare Access: Healthcare accessibility remains stable for most (44.3%), but there is cause for concern as 22% experienced deterioration in healthcare services over the past year. Although healthcare access remained stable for many, the 22% experiencing worsening conditions underscores inadequacies in public health systems and financial barriers to healthcare access.



Source: CP Research

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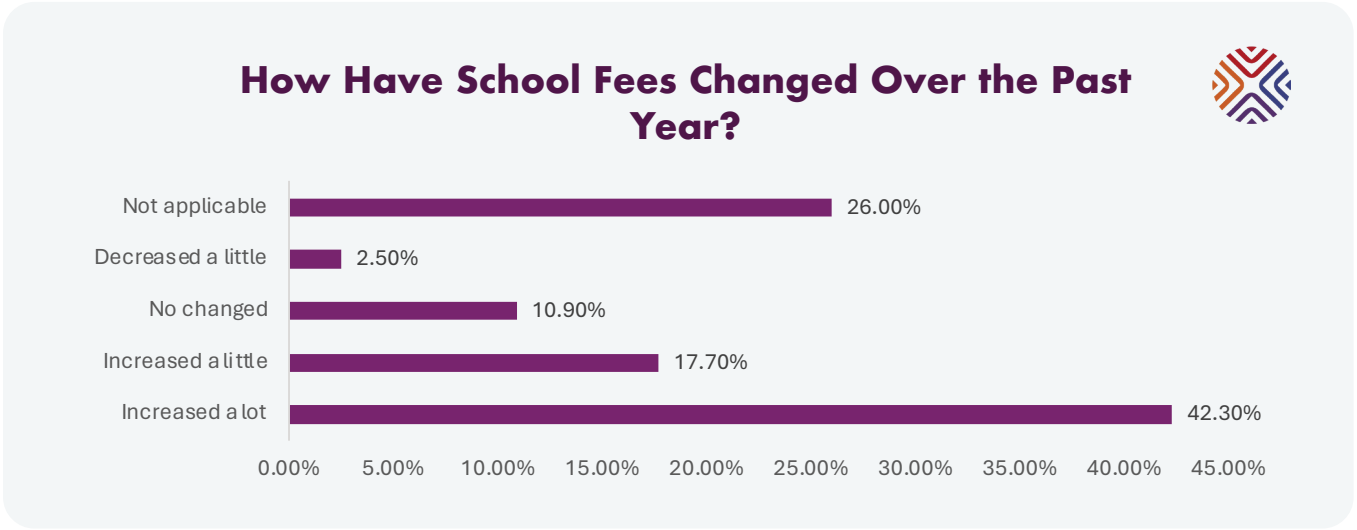
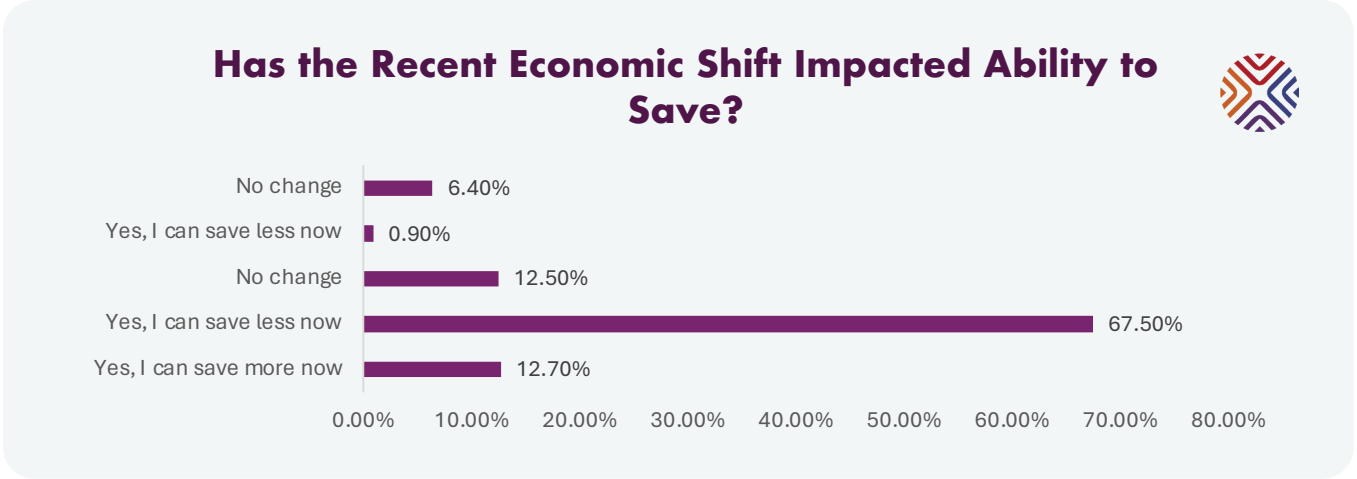
Educational Expenses: School fees have notably increased for 42.3% of respondents with school-going children, further burdening household budgets. The marked increase in educational costs for 42.3% of families highlights the rising burden on household budgets, potentially limiting access to education and exacerbating socio-economic inequalities.



Source: CP Research

Savings and Credit Accessibility: Savings capacities have significantly declined, with 67.5% now saving less. Additionally, credit accessibility has tightened, with 59.4% of respondents reporting increased difficulty in obtaining loans. The significant reduction in savings (67.5%) and tightened credit access (59.4%) suggest weakening financial resilience among households, limiting their capacity to buffer against economic shocks.



Source: CP Research

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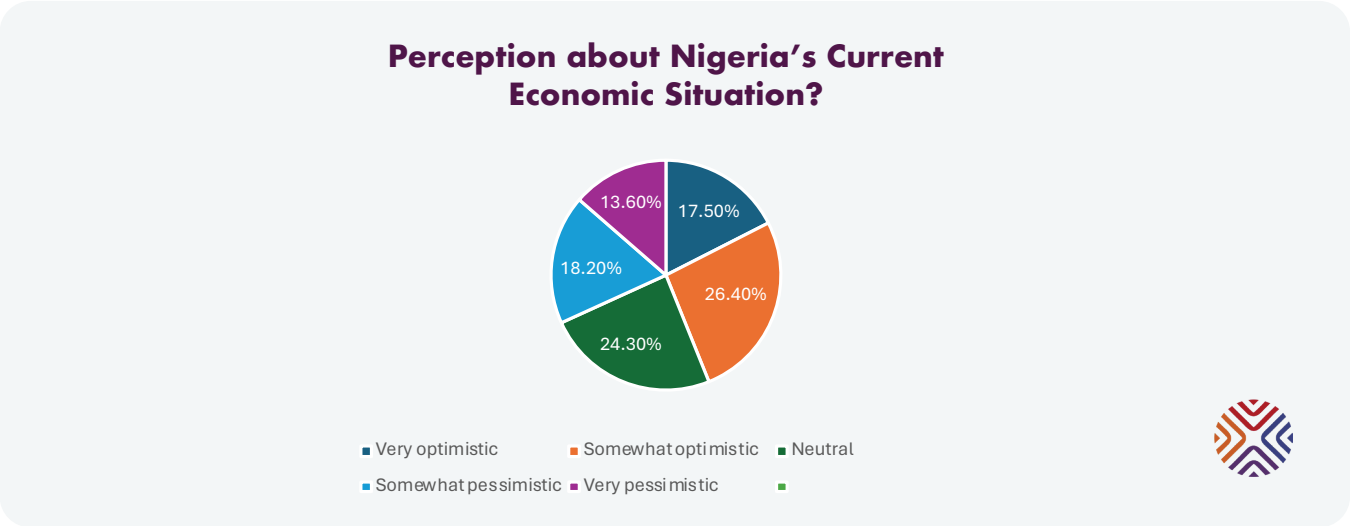
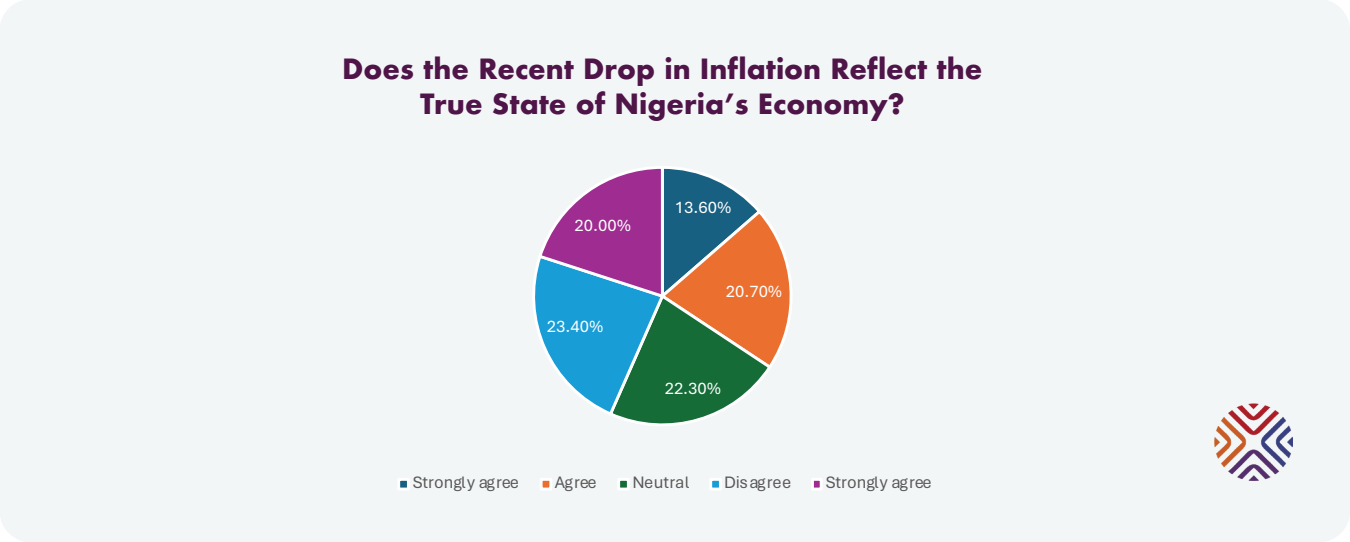
Future Economic Outlook: Despite current challenges, there remains resilient optimism among respondents, with 64.3% expecting their financial situation to significantly improve in the coming year. The optimistic outlook, despite current hardships (64.3% anticipating financial improvement), suggests resilient confidence or expectations of economic recovery driven by potential policy reforms, market adjustments, or adaptive personal strategies



Source: CP Research

Perception of Inflation Data: Official inflation data, reported to have decreased from 34.8% to 24.48%, is met with skepticism, as 43% of respondents disagree with these figures reflecting their economic reality. Widespread skepticism about official inflation figures (43% disagreement) indicates public distrust in economic reporting, potentially eroding confidence in government transparency and economic governance.



Source: CP Research

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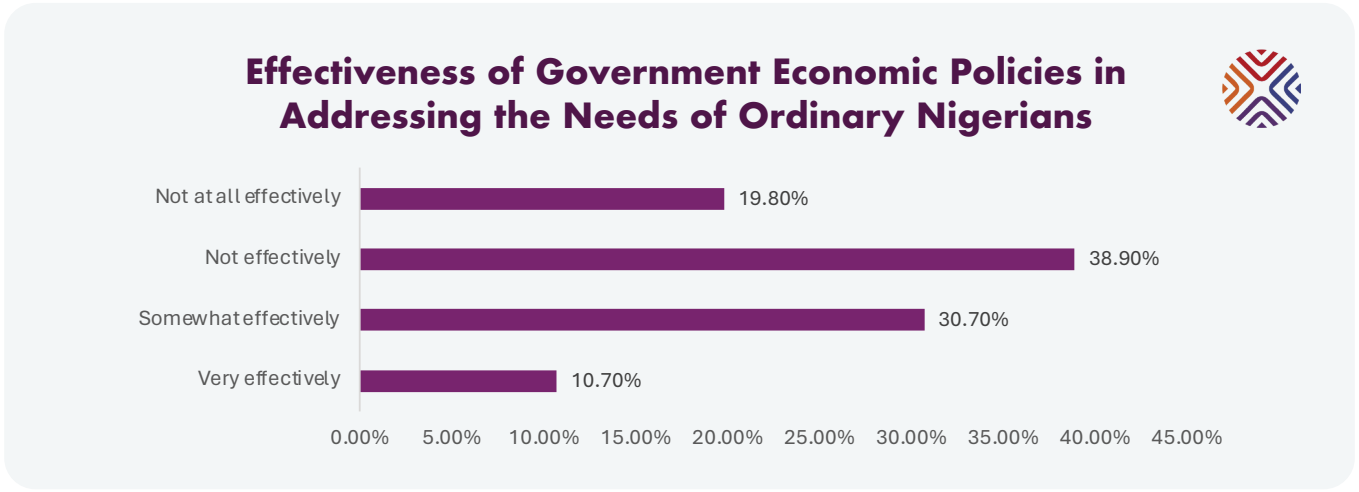
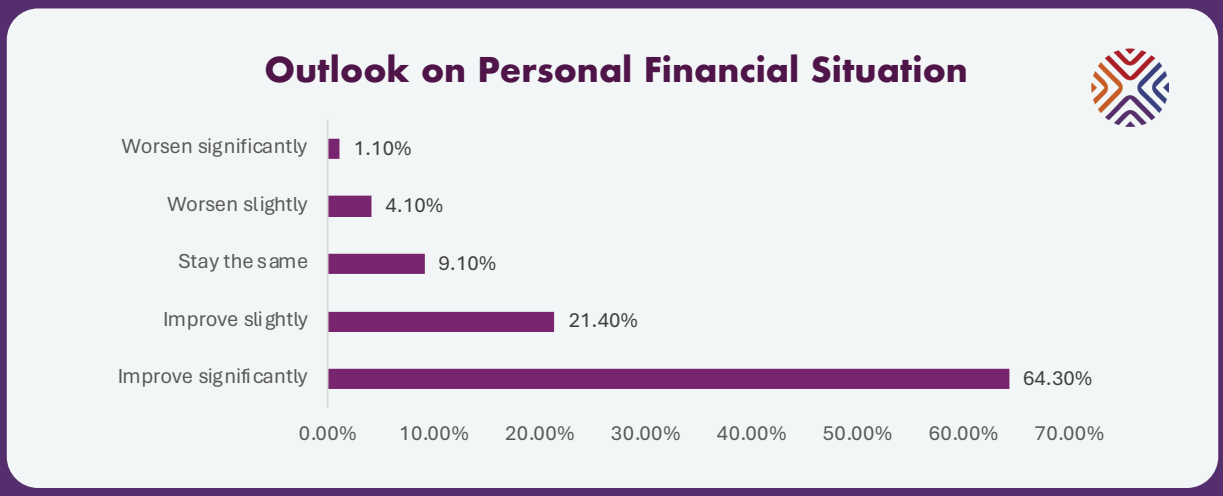
Government Policy Effectiveness: There is notable dissatisfaction with government economic policies, as 69.6% consider them ineffective in addressing the economic needs and realities faced by ordinary Nigerians. The prevalent dissatisfaction (69.6%) regarding government economic policies highlights perceived ineffectiveness in addressing citizens' practical economic concerns, urging policymakers towards more targeted and effective interventions.



Source: CP Research

Despite this, **64.3% remain hopeful for financial improvement, a resilient optimism amid adversity.** Yet, distrust festers: 43% reject official inflation data as reflective of their reality, and 69.6% deem government policies ineffective. This chasm between macro gains and micro struggles is the crux of Nigeria's economic riddle.



Source: CP Research

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4 Navigating the Data Quagmire, Confronting Immiserizing Growth

Nigeria's economic outlook is a tale of two realities. Official metrics herald progress: inflation cools, unemployment shrinks, and GDP surges. Yet, the people's experience; rising costs, stagnant incomes, and elusive opportunities, reveals a stark disparity.

This is the data quagmire: a tangle of methodological shifts and statistical revisions that obscure truth, projecting relief where hardship persists. At its core lies immiserizing growth. Nigeria's GDP may soar, but if benefits remain confined to elite sectors, the majority languishes.

The survey's grim insights, food insecurity, financial fragility, and policy disillusionment suggest that growth, as currently structured, is not a tide lifting all boats but a wave drowning many. For Nigeria to transcend this quagmire and avert immiserizing growth, bold action is needed:

1. **Refine Data:** Integrate underemployment, informal sector dynamics, and real income shifts into official metrics.
2. **Foster Inclusion:** Prioritise finance to labour-intensive sectors—agriculture, manufacturing, SMEs to spread the gains.
3. **Bolster Safety Nets:** Expand affordable healthcare, education, and food security initiatives.
4. **Enhance Governance:** Ensuring public funds fuel development.
5. **Listen to Citizens:** Use public feedback to align policies with lived needs, rebuilding trust.

Nigeria's new reality holds promise, projects hold that we could have an economy of $13trillion by 2075[6], but only if it bridges data and destiny. Without this, statistical triumphs will remain hollow, and growth will immiserize rather than empower, a cautionary tale for a nation at a crossroads.

6. Goldman Sachs Research, The Path to 2075: Slower Global Growth but Convergence Remains Intact (New York: Goldman Sachs, 2022), https://www.goldmansachs.com/pdfs/insights/pages/gs-research/the-path-to-2075-slower-global-growth-but-convergence-remains-intact/report.pdf.

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Disclaimer

This Comercio Research team survey was conducted online in Nigeria, a country challenged by inconsistent electricity supply and limited technological infrastructure. According to the World Bank (2023), approximately 55% of Nigerians still lack reliable access to electricity, and internet penetration remains around 55% (NCC, 2023). Consequently, online sampling inherently introduces bias, disproportionately capturing urban, tech-literate, and relatively affluent respondents while underrepresenting rural, economically disadvantaged, and technologically underserved populations. Therefore, the survey outcomes provide only a snapshot of economic perceptions among respondents who are able to participate digitally, and the findings should be treated as indicative rather than definitive. Further comprehensive, diverse, and inclusive methods of data collection and analysis are required for a more accurate representation of Nigeria's overall economic conditions and public sentiment.

While the statistically required minimum sample size for a population of 220 million at a 95% confidence level and 5% margin of error is 384 respondents, this survey exceeded that threshold significantly, collecting a total of 440 responses. This expanded response pool strengthens the validity of the findings and allows for more robust inferences, including analysis across Nigeria's diverse geopolitical zones. However, despite the improved sample size, the limitations of digital access and geographic distribution still apply. Kindly check the Appendices for more details.

Appendix: Sample Size Determination and Questionnaire Reference

Survey Reference:

The data used in this report was collected through a digital questionnaire titled "Economic Wellbeing and Consumer Sentiment in Nigeria (2024)", administered via Google Forms.

Survey Link:

https://docs.google.com/forms/d/1BehSIE Iv0ojwjtFxJVQMJENWQwVLY4EGGciJTit488/edit?ts=684fc95a#responses

Sample Size Calculation Overview:

To ensure that the results from the questionnaire are statistically significant and representative of Nigeria's population, the required sample size was determined using the standard formula for sample size estimation:

$$N_0 = \frac{Z^2 . p . (1-p)}{E^2}$$

Where:

Z = 1.96 (for a 95% confidence level)
= 0.5 (most conservative estimate)
E = 0.05 (5% margin of error)

$$N_0 = \frac{(1.96)^2 . 0.5 . (1-0.5)}{(0.05)^2} = 384.16$$

Given Nigeria's total population of approximately 220 million, the finite population correction factor was applied, though its effect is minimal due to the large population size:

$$n\text{adj} = \frac{384.16}{1 + \left(\frac{384.16-1}{220{,}000{,}000}\right)} \approx 384$$

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Methodological framework

The survey was administered using Google Forms and distributed digitally through social media platforms, email networks, and targeted physical outreach channels. A **non-probability convenience sampling method** was employed, with elements of **voluntary response sampling**. Although random distribution was attempted to capture a wide base of Nigerian respondents, the process did not meet the strict criteria for **simple random sampling**, given the self-selection bias introduced by online participation.

Despite this, the survey collected a total of **440 responses,** significantly exceeding the **statistically required minimum of 384 respondents**, the number necessary for a population of 220 million at a 95% confidence level and a 5% margin of error. This large response base enhances the reliability of findings and allows for disaggregation and analysis across Nigeria's six geopolitical zones.

Nevertheless, due to unequal access to digital tools, geographic and socio-economic representativeness cannot be guaranteed. The data should be interpreted as reflective of Nigeria's digitally connected and economically active population rather than the entire demographic landscape.

Further nationally representative studies using stratified random sampling, face-to-face interviews, and hybrid data collection methods are recommended for more comprehensive insights.

Sampling Method

The study employed a **non-probability convenience sampling approach**, distributed primarily through social media, email chains, and digital networks. Though random distribution was attempted, the use of an online platform introduces self-selection bias. The sample was not stratified according to Nigeria's six geopolitical zones, urban-rural spread, or socioeconomic indicators. As such, the data reflects views of those with internet access, literacy, and interest in participating—skewing toward younger, educated, and urban Nigerians.

In contrast, best practice for national surveys, especially in a demographically diverse country like Nigeria, typically involves **stratified random sampling** across geopolitical zones (North-West, North-East, North-Central, South-West, South-South, and South-East), further divided into urban and rural areas, gender, age groups, and key socio-demographic characteristics. A sample of 500 using this method, properly allocated and weighted, can still yield nationally meaningful insights with a margin of error around ±4.4%. Stratified cluster sampling (via states, LGAs, enumeration areas, and households) is also recommended for physical surveys.

Data Collection Tools

The survey instrument was hosted on **Google Forms,** containing structured, close-ended questions with limited open-ended responses. The questionnaire was designed for digital ease of use and distributed primarily in English. No translations into indigenous languages were deployed, which further constrains accessibility for non-English-speaking respondents.

Limitations

- **Selection Bias:** Self-selected digital respondents do not represent the offline population.
- **Coverage Error:** Entire segments (e.g., non-literate, rural poor, elderly) are structurally excluded from online surveys.
- **Regional Skew:** Majority of respondents were from southern and western Nigeria, especially urban centres.
- **Access Gap:** Structural issues like internet cost, device ownership, and power supply reduced nationwide accessibility.

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