Nigeria Development Update

Resilience through Reforms

June 15, 2021
NIGERIA EXITED THE PANDEMIC-INDUCED RECESSION
ECONOMIC GROWTH RESUMED FOLLOWING A SHARP CONTRACTION

...but there is more potential as Nigeria is projected to grow more slowly than other African countries in 2021-22

Quarterly GDP growth in Nigeria has resumed but remains below the levels of 2017-2019

Projected GDP growth in 2021-2022 is expected to lag the average growth in Sub-Saharan Africa

Source: NBS. Source: NBS, GEP, and World Bank estimates.
NIGERIA’S “ECONOMIC TEMPERATURE” IS GETTING WARMER, HINTING A GROWTH REBOUND FOR Q2 & Q3 2021

...yet, there are factors dragging growth which generates uncertainty around the speed of the recovery

The NET Index is produced by the World Bank and measures the “temperature” of the Nigerian economy based on a set of 14 high-frequency indicators including headline inflation, oil prices, manufacturing PMI, Treasury Bill rates, currency in circulation, exchange rate indicators (e.g., premium between the parallel vs. NAFEX rates), external reserves, and credit to the private sector. The color coding is based on the deviations of each indicator relative to a 5-year average. RED indicates potential stronger growth (the economy is heating up). BLUE indicates the opposite (the economy is cooling).

Source: NBS, CBN, and World Bank estimates.
MORE PEOPLE WERE WORKING IN FEB 2021 THAN WOULD BE EXPECTED GIVEN PREVIOUS SEASONAL PATTERNS

...this could be because the crisis pushed more people to work

- Typically, the share of Nigerians working declines between September and February. This is due to seasonality in agriculture.

- New workers were primarily:
  - **Women**: In the 2020-21 agricultural cycle the share of women working was about 14 percentage points higher than in the 2018-19 period.
  - **People from poor households**: New workers are also concentrated in households in the poorest quintiles of the pre-crisis consumption distribution.
  - **Workers in commerce and services**: These sectors expanded more than would be expected from previous seasonal patterns.

- These findings suggest continued economic precarity. Households may now need more people to work in the post-harvest season than before COVID.

SOME HOUSEHOLDS ARE SEEING IMPROVEMENTS IN INCOMES

...though the increase has been uneven across segments of the labor market

Households working in agriculture were more likely to report higher incomes relative those in wage employment

THE CRISIS HAS PROFONDLY AFFECTED NIGERIANS AND THE RECOVERY IS FRAGILE
WITH ECONOMIC GROWTH BELOW THE RATE OF POPULATION GROWTH, PER CAPITA INCOMES WILL CONTINUE TO DECLINE

...Between 2020 and 2022, Nigerians would lose on average about 42,000 naira compared to pre-pandemic projections.

GDP per capita is expected to be negative in 2021 - 2022

The cumulative loss of GDP per capita in 2020 – 2022 is equivalent to 13 percent of current GDP per capita.

Source: NBS and World Bank staff estimates.
HIGH INFLATION IS REDUCING NIGERIANS’ PURCHASING POWER

…with rising food prices as the main driver

Inflation rose in 2021-21 from an already high level

In the past year food prices accounted for almost 70% of the total increase in inflation

Contributions to the increase in the inflation rate between April 2020 and April 2021

Source: NBS.
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In 2021 Nigeria is expected to have the 5th highest inflation rate in Africa.

What could you buy with 1000 nairas?

Source: NBS and World Bank staff estimates.
INFLATION IS EXACERBATING POVERTY AND FOOD INSECURITY

Falling purchasing power is expected to have pushed about 7 million more Nigerians into poverty.

In Nov-20 about 18% of adults in the household did not eat for an entire day, compared to 6% before COVID.

Source: NBS and World Bank staff estimates.

THE CRISIS WILL HAVE A LASTING EFFECT ON WELFARE

...highlighting the need for immediate and sustained actions

Over 11 million more Nigerians are expected to fall into poverty during 2020-22 due to COVID

Job creation in 2020 was uneven across states

Source: NBS and World Bank estimates.
INSECURITY AND CONFLICT HAVE HEIGHTENED

...and are dragging economic growth and job creation

Source: ACLED.
THE CRISIS SERVED AS A WAKE-UP CALL
THE GOVERNMENT HAS UNDERTAKEN MAJOR REFORMS TO MITIGATE THE IMPACT OF THE PANDEMIC

Development direction

Adoption of the Economic Sustainability Plan. Development policy anchor for the short-term to mitigate the crisis and build back better.

Budgeting practices and accountability of COVID-19 spending

The FGN and the 36 states responded in a coordinated manner by adopting crisis-responsive budgets.

The Office of the Auditor General will undertake audits of COVID-19 spending to help ensure value-for-money.

Transparency of oil revenues

NNPC’s first-ever publication of audited financial statements. The public now has much more available information to assess NNPC’s operations.

Debt transparency

More timely information available online, and the government is compiling a comprehensive catalogue of contingent liabilities. Debt transparency is critical to reduce the cost of borrowing.
SUSTAINING REFORM MOMENTUM IS CRITICAL TO ENSURE A ROBUST RECOVERY BEYOND 2021

**Petrol subsidy reform**

The government established a market-based pricing mechanism for petrol, but subsidies have recently returned.

**Electricity tariff reform**

The government began to adjust electricity tariffs but has paused planned tariff increases that would bring prices towards cost-reflective levels.

![Graph showing petrol subsidies have recently returned](source: World Bank estimates.)
THE CENTRAL BANK OF NIGERIA HAS TAKEN FURTHER STEPS TO UNIFY THE EXCHANGE RATES

...though further clarity and predictability in ER management and access to FX would boost investor confidence

The CBN has supplied more FX and adopted the IEFX rate as the official rate.

The ER premium is expected to decrease

Foreign Exchange supply at the I&E Window

Source: CBN, NBS.

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THE SHORT-TERM PRIORITY: REDUCE INFLATION AND PROTECT THE POOR
SIX POLICY AREAS TO REDUCE INFLATION WHILE PROTECTING THE POOR AND SUPPORTING THE RECOVERY

- Exchange Rate Management
- MSMEs and Job Creation
- Social Protection
- Trade
- Fiscal Policy
- Monetary Policy
POLICY OPTIONS FOR THE IMMEDIATE TERM (NEXT 3-6 MONTHS)

1. Exchange rate management
   - Communicate an exchange rate management strategy that makes the NAFEX rate (now the anchor) more flexible, which would boost Nigeria’s competitiveness while helping to reduce inflation.
   - Enhance the FX auction process towards a more transparent price setting mechanism, for instance by using pre-defined exchange-rate bands to control possible immediate overshooting.

2. Trade
   - Fully reopen land borders to trade.
   - Facilitate imports of staple foods and medicines by removing them from the list of FX restrictions.
   - Review FX restrictions and import bans currently applied to nonfood goods.
   - Refrain from adding any new products to the list of import bans and FX restrictions.

3. Fiscal policy
   - Establish mechanisms to monitor the federal government’s stock of CBN overdrafts (i.e., the historical stock of accumulated ways and means), the flow of the overdraft facility (i.e., its monthly use), and its servicing cost (i.e., interest payments).
Monetary policy

- Signal a commitment to price stability as the primary monetary policy objective.
- Resume naira-denominated open-market operations (OMOs) with a clear schedule for issuing securities.
- Reduce CBN lending to medium and large corporates under its subsidized schemes.
- Phase out the reliance on the Out of Cycle (OOC) cash reserve ratio (CRR) beyond objectives of liquidity management as it undermines banks liquidity management and hampers financial intermediation.

Social protection

- Provide targeted cash-transfer support to poor households using the National Social Safety Nets Programs (NASSP I and II) and expand the Rapid-Response Register of vulnerable beneficiaries in urban and peri-urban areas.
- Rapidly implement the CARES program to support households, farmers, and firms.

MSMEs and job creation

- Identify criteria for enabling MSMEs to access appropriate forms of equity financing and launch a scoping exercise to enroll and screen eligible MSMEs, develop parameters for debt restructuring, and create performance indicators for viable delinquent MSMEs.
BEYOND THE IMMEDIATE NEED: TWO POLICY AREAS CRITICAL TO ENSURE A ROBUST AND SUSTAINED RECOVERY
POWER: THE OXYGEN OF THE ECONOMY, AND THE SECTOR NEEDS A TURNAROUND

...Nigeria has the largest number of people without access to electricity in the world, and electricity subsidies benefit mainly richer households.

Who is connected to the grid? (% of population)

- Poorest 20%: 22.3%
- 2nd quintile: 39.7%
- 3rd quintile: 57.4%
- 4th quintile: 75.3%
- Richest 20%: 82.1%

Who benefits most from electricity subsidies? (% of population)

- Poorest 20%: 1.6%
- 2nd quintile: 5.6%
- 3rd quintile: 9.1%
- 4th quintile: 25.3%
- Richest 20%: 58.6%

Population quintiles based on per capita expenditure

Source: Nigerian Electricity Supply Industry and World Bank staff estimates.
MULTI-DIMENSIONAL POLICIES ARE NEEDED TO PROVIDE RELIABLE POWER TO IGNITE PRIVATE INVESTMENT AND GROWTH

Four interlinked dimensions to turnaround Nigeria’s power sector

**What needs to be done:** Reduce reported DISCOs ATC&C losses (average ~50%) to the level of international good practice (<15%) through improving DISCOs operational efficiency

**Who?** BPE, NERC, TCN, DISCOs

**What needs to be done:** Strengthen enforcement of tariff regulation and all market contracts; provide consistent policy direction

**Who?** MoP, NERC

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**What needs to be done:** Ensure that the capex allowance for DISCOS is in line with their investment needs (current combined capex allowance for 11 DISCOS is NGN 56 billion/ USD 155 million; is far below what is needed)

**Who?** FGN, private investors, commercial banks

**What needs to be done:** Reduce (and eventually eliminate) FGN spending to fund tariff shortfalls (USD 1.5 billion per year)

**Who?** MOFBP, CBN, BOF, DMO
REVENUES: NIGERIA HAS AMONG THE LOWEST REVENUES GLOBALLY, WHICH TRANSLATES INTO LOW SPENDING AND FISCAL RISKS

General Government **Revenue**
2015-2019 (% of GDP)

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<th></th>
<th>Nigeria</th>
<th>SSA</th>
<th>World</th>
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<tbody>
<tr>
<td>Revenue</td>
<td>7.9</td>
<td>12.7</td>
<td>29.8</td>
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General Government **Expenditure**
2015-2019 (% of GDP)

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<tbody>
<tr>
<td>Expenditure</td>
<td>12.6</td>
<td>17.0</td>
<td>32.2</td>
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Source: IMF Fiscal Monitor.
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General Government **Revenue**
2015-2019 (% of GDP)

Revenue Ranking:
115\textsuperscript{th} out of 115 countries

General Government **Expenditure**
2015-2019 (% of GDP)

Expenditure Ranking:
114\textsuperscript{th} out of 115 countries

Source: IMF Fiscal Monitor.
SEQUENCED REFORMS CAN HELP RAISE REVENUES IN A TIME OF CRISIS IN ORDER NOT TO AFFECT INVESTMENT AND GROWTH

Immediate

Enhance excise rates on “sin goods”

Implement the Electronic Money Transfer levy

Improve overall tax compliance with focus on VAT

Medium Term

Rationalize tax expenditures

Reform key tax statutes at the Federal level, i.e., the Corporate Income Tax Act (CITA) and the Value Added Tax Act (VATA).

Long Term

Improve revenue from cross border transactions and other international tax measures.

Enhance Internally Generated Revenues (IGR) at the state level
People forge ideas, people mold dreams, and people create art.

Thank You
ANNEX: POLICY OPTIONS TO REDUCE INFLATION WHILE PROTECTING THE POOR AND SUPPORTING THE RECOVERY
EXCHANGE RATE MANAGEMENT

IMMEDIATE PRIORITIES (3 to 6 Months)

- Communicate an exchange rate management strategy that makes the NAFEX rate (now the anchor) more flexible, which would boost Nigeria’s competitiveness while helping to reduce inflation.

- Regulate the auction process, at least initially, by using pre-defined exchange-rate bands to control possible immediate overshooting.

MEDIUM-TERM PRIORITIES (6 to 18 months)

- Deepen the FX market by re-establishing the dollar interbank market and enabling commercial banks to trade FX on their own behalf.

- Merge all exchange-rate windows into a single window that reflects market fundamentals.
TRADE

IMMEDIATE PRIORITIES (3 to 6 Months)

• Fully reopen land borders to trade.
• Facilitate imports of staple foods and medicines by removing them from the list of FX restrictions.
• Review the FX restrictions and import bans currently applied to nonfood goods.
• Refrain from adding any new products to the list of import bans and FX restrictions.

MEDIUM-TERM PRIORITIES (6 to 18 months)

• Replace import bans with tariffs, which will increase revenues, lower domestic prices, and reduce smuggling and criminality along the border.
• Finalize plans to implement the African Continental Free-Trade Area Phase 1 protocols.
• Put in place high-priority measures to reduce trade and transportation costs by addressing delays in border and port clearance such as simplifying and harmonizing documents, streamlining and automating procedures, and making more information available.
FISCAL POLICY

IMMEDIATE PRIORITIES (3 to 6 Months)

• Establish mechanisms to monitor the federal government’s stock of CBN overdrafts (i.e., the historical stock of accumulated ways and means), the flow of the overdraft facility (i.e., its monthly use), and its servicing cost (i.e., interest payments).

• Adopt a mechanism to increase flexibility between borrowing options to finance the federal government deficit. Currently, the legislature approves a fixed ceiling for each domestic and external loan contracted to finance the domestic deficit; when external financing falls short of approved plans, domestic borrowing is not automatically increased to cover the shortfall, resulting in recourse to CBN financing, which can lead to higher inflation.

MEDIUM-TERM PRIORITIES (6 to 18 months)

• To further reduce the federal government’s recourse to CBN financing, improve the accuracy of budgetary revenue forecasting. Overoptimistic revenue forecasts and the resulting shortfalls lead to larger-than-anticipated deficits, creating additional financing needs for which borrowing has not been approved by the legislature, which encourages the use of CBN financing.

• Adopt a mechanism to allow increased borrowing to cover additional financing needs arising from revenue shortfalls.
MONETARY POLICY

IMMEDIATE PRIORITIES (3 to 6 Months)

• Signal a commitment to price stability as the primary monetary policy objective.

• Resume naira-denominated open-market operations (OMOs) with a clear schedule for issuing securities.

• Reduce CBN lending to medium and large corporates under its subsidized schemes.

• Phase out the reliance on the cash reserve ratio (CRR) as a liquidity control tool as it implicitly taxes financial savings.

MEDIUM-TERM PRIORITIES (6 to 18 months)

• Establish a Monetary and Fiscal Policy Coordination Council to clarify joint policy objectives and identify areas of coordination. The council could focus on eliminating unsustainable monetary and quasi-fiscal interventions while strengthening debt sustainability and advancing Nigeria’s development priorities.
IMMEDIATE PRIORITIES (3 to 6 Months)

• Leverage the National Social Safety Nets Programs (NASSP I and II) to provide targeted cash-transfer support to additional 5 households in the NSR in rural areas and possible expansion of the Rapid-Response Register of vulnerable beneficiaries in urban and peri-urban areas to include another 7.2 million households in addition to the 2 million already targeted by the COVID-19 response effort.

• Rapidly implement the CARES program to support households, farmers, and firms.

MEDIUM-TERM PRIORITIES (6 to 18 months)

• Integrate the NHGSFP and other social assistance programs into the National Social Register (NSR) and State-level social registers.

• Augment social protection programs with improved mechanisms for payment delivery, such as that developed through the NASSP, which could be enhanced by using digitization to facilitate payment delivery and strengthen accountability.

• Graduate existing NASSP beneficiaries into productive-inclusion activities such as workforce training, asset and livestock transfers, and livelihood grants.
IMMEDIATE PRIORITIES (3 to 6 Months)

- Identify criteria for enabling MSMEs to access appropriate forms of equity financing and launch a scoping exercise to enroll and screen eligible MSMEs, develop parameters for debt restructuring, and create performance indicators for viable delinquent MSMEs.

- Screen and enroll eligible MSMEs and build their capacity for debt restructuring.

MEDIUM-TERM PRIORITIES (6 to 18 months)

- Roll out financing for targeted MSMEs while monitoring enrollment and assessing the reliability of the streamlined process.

- Develop a streamlined process that offers clear incentives to formalize and register informal MSMEs.

- Implement targeted labor-intensive public works and infrastructure microprojects to support employment while bolstering the capital stock.