Jumpstarting Inclusive Growth

Unlocking the Productive Potential of Nigeria’s People and Resource Endowments

December 2, 2019
Nigeria’s economic recovery continues

Economic and demography outlook makes job creation an urgent task

Bold reforms can mitigate risks and promote faster, more inclusive, and sustained growth
Nigeria’s economy is recovering gradually...

...although non-oil sectors are contributing less to growth than before

Annual GDP growth

Contribution to GDP growth (percentage points)

Inflation started to pick up in recent months

Inflation adds over time…

A 50kg bag of rice which in 2016 cost ₦10,700

Now costs ₦17,400

Food prices are rising faster in states neighboring Benin

14%

Average food inflation nationwide as of October 2019 (year on year)

Annual Food Inflation (October 2019)

- 9.5 – 11.0%
- 11.0 – 12.7%
- 12.7 – 14.3%
- 14.3 – 15.9%
- 15.9 – 17.5%

Jobs
Recent government efforts to boost job creation

✓ **Business regulations:** Established the Presidential Enabling Business Environment Council (PEBEC) to make it easier to start and operate a business: Nigeria has significantly improved its ranking in *Doing Business* from 169th in 2017 to 131st in 2019.

✓ **Investment:** ERGP investment platforms (labs) set up in March 2018 to accelerate priority projects in agriculture, transportation, manufacturing, power, and gas. Labs helped identify 164 priority projects with an investment requirement of US$22.5 billion.

✓ **Financial inclusion:** Improved payment service regulations.

✓ **Digital:** Launched the Central Portal for Government Services ([www.services.gov.ng](http://www.services.gov.ng)) to promote transparency & digital economy.

✓ **Trade:** Signed in July 2019 the Africa Continental Free Trade Area (AfCFTA) agreement; a signal that Nigeria is now more willing to become a driver of continental growth and integration.

✓ **Social protection:** Ratified the Social Protection Policy and established a Social Registry of poor and vulnerable households to enhance social protection systems.
The Nigerian labor force is growing rapidly

In the last 5 years...

19 Million Nigerians entered the labor force

15 Million ended up unemployed

4 Million found a job

The number of unemployed has quadrupled since 2015

Employed, unemployed, and inactive people (Index: 2014 Q4=100)

- **Unemployed**
- **Employed**
- **Inactive**

Recession

Youth and women struggle more to find jobs:

\[ \frac{2}{3} \text{ young Nigerians are unemployed or inactive} \]

(Double the adult rate)

Inactive youth potential for unrest/extremism

Sources: National Bureau of Statistics
Job quality: Most new jobs are part-time

Number of New (Net) Jobs Created
Full-Time vs. Part-Time

- Millions of people / jobs
Job quality: Most new jobs are part-time (2)

Millions of New (Net) Jobs Created during 2014-2018

- Total New Jobs: 6 (Gain in Part Time Jobs)
- Loss of Full Time Jobs: 2

Unemployment rates vary across states

In 7 states the unemployment rate exceeds 30%

Unemployment Rate (2018 Q3)

- Lowest unemployment
- Highest unemployment

Source: National Bureau of Statistics
Positive news in 2018: A year after the recession ended, 15 states created new (net) jobs…

Source: National Bureau of Statistics
...and 4 states created more jobs than the entrants to the labor market, thus reducing unemployment

Source: National Bureau of Statistics
More and better jobs are needed to employ the growing labor force

**Number of new jobs, labor market entrants, and newly unemployed**

*Kano had 540,000 newly unemployed in just one year (2017Q3 - 2018Q3)*

- New jobs (full and part time)
- Net addition to labor force
- Newly unemployed

Source: National Bureau of Statistics
Economic outlook
Nigeria’s growth outlook is stable, albeit slower than in peer countries

**Risks and Opportunities**

**External**
- + Higher oil prices
  - – Escalation of trade disputes
  - – Tighter financing conditions to emerging markets

**Domestic**
- + Acceleration of structural reforms and strengthened investor confidence
  - + Revenue-based fiscal consolidation
  - – Slow reform implementation
  - – Reduced oil production
  - – Increased security tensions

Multiple objectives pose a difficult balancing act for macro-financial management

E.g., though well-intentioned, CBN development finance interventions (e.g. agric.) could:

- Undermine the effectiveness of the Monetary Policy Rate
- Discourage private banks from lending to underserved markets
- Create a potential conflict of interest for the CBN (oversight vs. operator of dev. fin. schemes)
- Reduce the CBN’s operational surpluses
- Undermine transparency in the allocation of public resources (off-budget).
Limited buffers and oil dependence leave Nigeria vulnerable to shocks

Government Revenues, % GDP 2015-18

Excess Crude Account and Oil Prices

Foreign Portfolio Investments and Foreign Direct Investment

Value of CBN Bills and % of Foreign-Held CBN Bills

Source: NBS and CBN
Risk scenario: A moderate fall in oil prices could lead to a recession

- Oil accounts for \( \sim 10\% \) of GDP
- Oil GDP growth
- Oil revenues currently account for \( \frac{1}{2} \) of total revenues
- Exports earnings
- Oil represents over 80\% of exports
- Financial sector pressures
- Private sector credit
- Public Borrowing
- Public Spending
- External reserves
- Exchange rate pressures
- Monetary tightening
- Investor Confidence/FPI flows
- Non-oil GDP growth

Oil price

Oil revenues

Oil represents over 80\% of exports

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Financial sector pressures

Private sector credit

Public Borrowing

Public Spending

External reserves

Exchange rate pressures

Monetary tightening

Investor Confidence/FPI flows
Unlocking the productive potential of Nigeria’s people and resource endowments
Boosting productivity will accelerate growth and help create more and better-paid jobs.
Reform options in four areas to boost productivity

- Reduced Regulatory Discretion
- Input Quality and Availability
- Access to Finance
- Policy Transparency and Predictability
Policy Transparency and Predictability

Monetary Policy Effectiveness
- Unify exchange rates into a single window.
- Strengthen the banking resolution framework.
- Evaluate the effectiveness of development finance interventions and import-substitution policies; if policies continue, make the subsidy explicit in the federal budget.

Domestic Revenue Mobilization and Expenditure Quality
- Increase nonoil revenue through comprehensive tax policy and administration reforms.
- Enhance NNPC oil-revenue remittances.
- Strengthen spending coordination between the federal and subnational governments.

Trade Policy
- Phase out foreign exchange restrictions and import prohibitions
- Implement the ECOWAS external tariff regime
- Phase out tariffs in sectors where there are concerns about competitiveness and job losses and prepare complementary policies to support those who are negatively impacted by reforms.

Source: World Development Indicators.
Input Quality and Availability

Trade Facilitation
- Reduce the costs, delays, and inefficiencies involved in border and port clearance.
- Improve safety and security for road freight vehicles traveling and parking along strategic routes.
- Align Nigeria with WTO’s Trade Facilitation Agreement.

Power and Transport Infrastructure
- Accelerate the implementation of the Power Sector Reform Program to provide much-needed power to Nigerian firms and households.
- Enable the expansion of well-managed public-private partnerships (PPPs) for roads, railways, and airports.
- Improve land management to attract investment in agriculture.
- Enhance competition in the insurance market for agriculture.

Human Capital
- Adopt policies and programs to keep adolescent girls in school and increase women’s empowerment.
- Implement a national skills-development strategy to align the supply of skills with market needs.

Source: USAID.
Reduce Regulatory Discretion

Transaction Costs and a Levelled Playing Field

- Adopt the Companies Allied Matters Act.
- Digitize regulatory processes.
- Advance subnational business environment reforms and state-to-state learning.
- Rationalize tax expenditures (e.g., pioneer-status schemes) and evaluate entities with pioneer status.
- Adopt the Nigeria National Quality Policy.
- Strengthen the capacity of the Competition Authority.
Financial Deepening and Inclusion

- Reinforce banking capital buffers.
- Apply guidelines for licensing and regulation of payment service banks.
- Enhance the legal framework for debt resolution and foreclosure.
- Advance the National Financial Inclusion Strategy, including consolidation of the microfinance banking sector.
- Improve credit information systems.
- Enact the Data Protection Bill.
- Foster digital financial services.
With sustained reforms, a $6,000 per capita economy with more job opportunities is possible.

### Business as Usual
- **GDP per capita (2010 US$):**
  - US$0.5 trillion economy: Population 196 m, GDP pc: US$2,396
  - US$0.7 trillion economy: Population 348 m, GDP pc: US$2,083

### Aspirational
- **GDP per capita (2010 US$):**
  - US$2 trillion economy: Population 296 m, GDP pc: US$6,330
  - US$2 trillion economy: Population 348 m, GDP pc: US$5,385
People forge ideas, people mold dreams, and people create art.

Thank You

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Yet We Had No Burns, Blisters
by Godwin Arikpo