

Nigeria Development Update

**Turning the corner:
*from reforms and renewed hope,
to results***

December 13, 2023



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NIGERIA DEVELOPMENT UPDATES

Bi-annual assessment of recent economic and social developments in Nigeria and prospects

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NIGERIA DEVELOPMENT UPDATE | NOVEMBER 2021

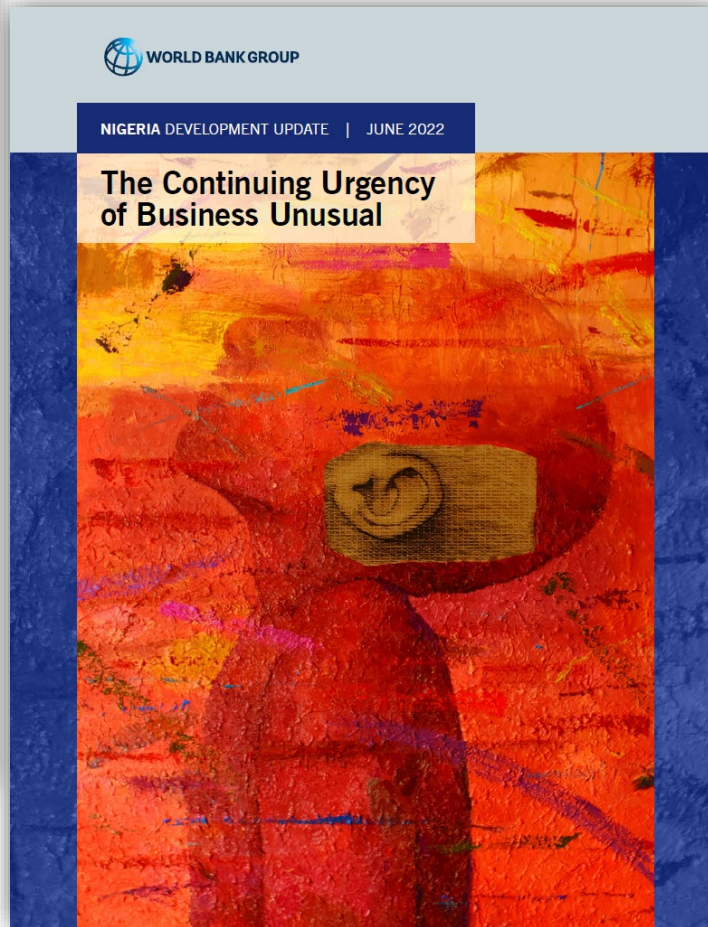
Time for Business Unusual



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NIGERIA DEVELOPMENT UPDATE | JUNE 2022

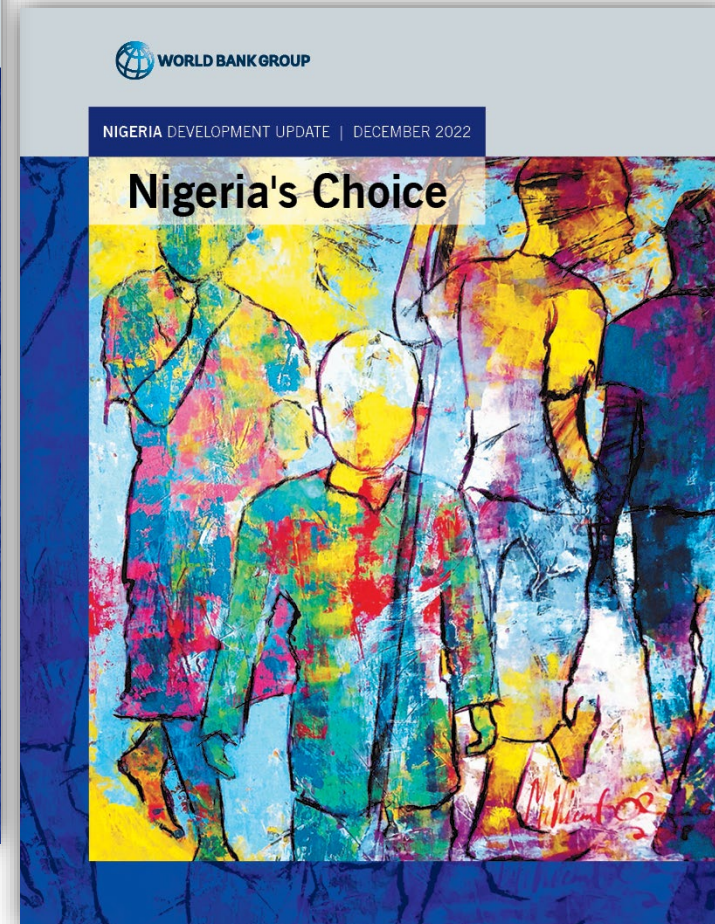
The Continuing Urgency of Business Unusual



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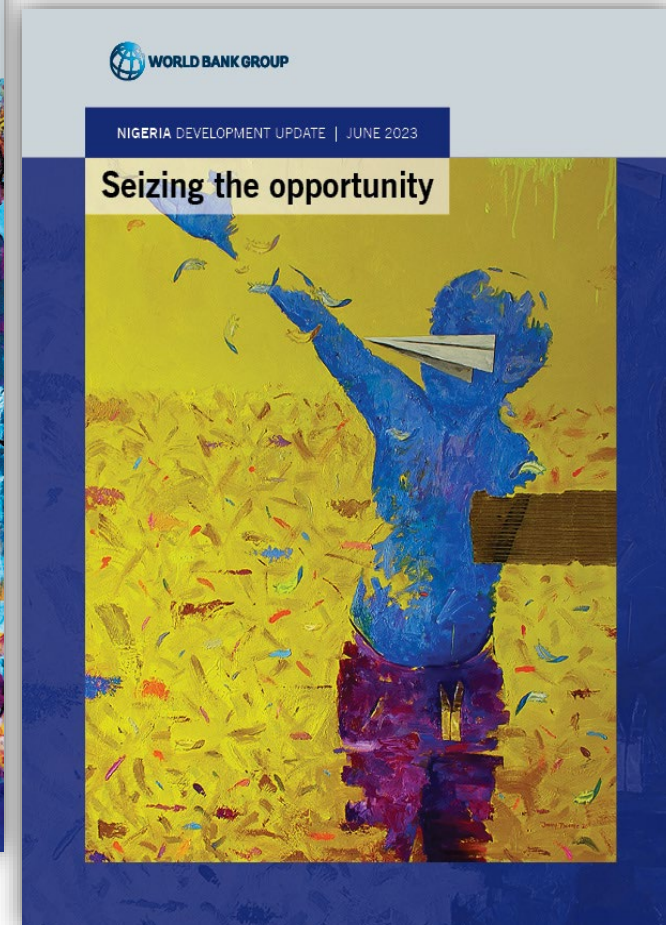
Nigeria's Choice



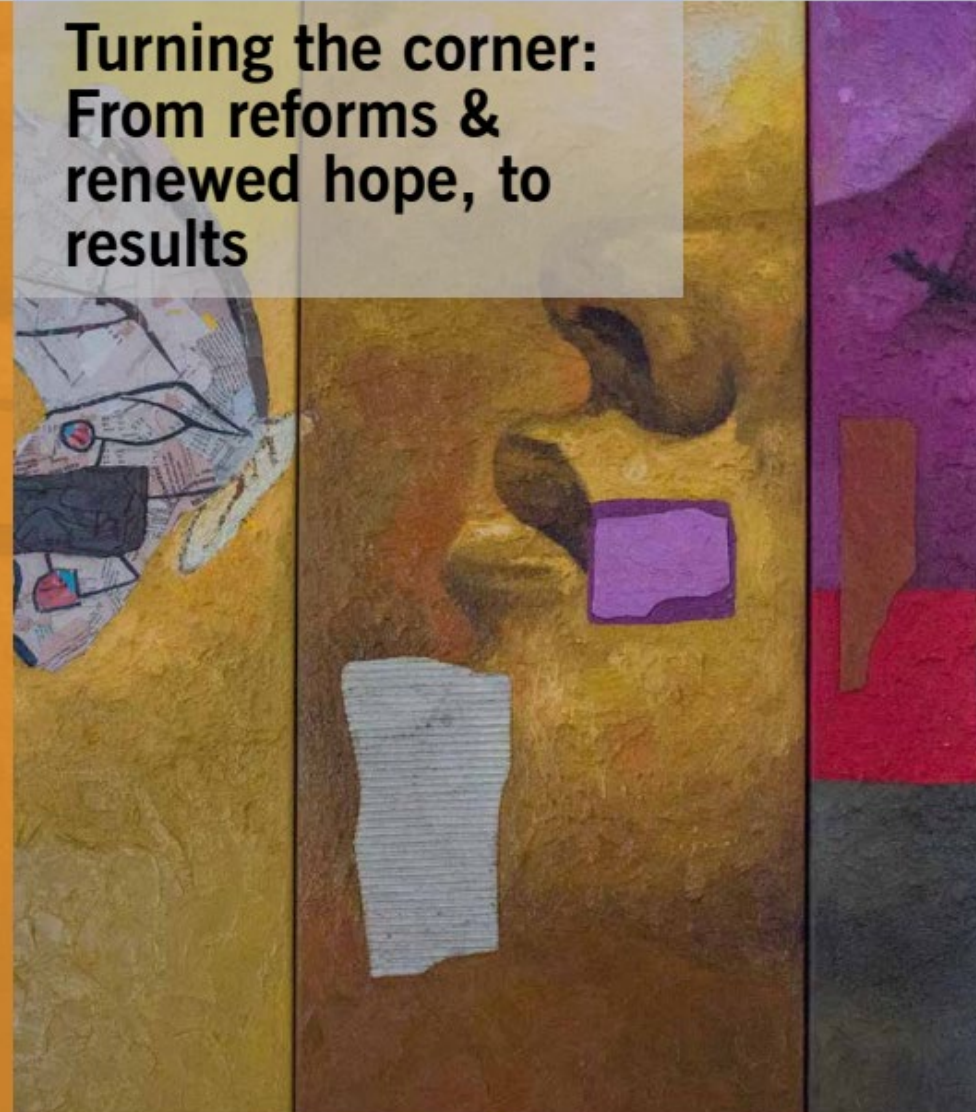
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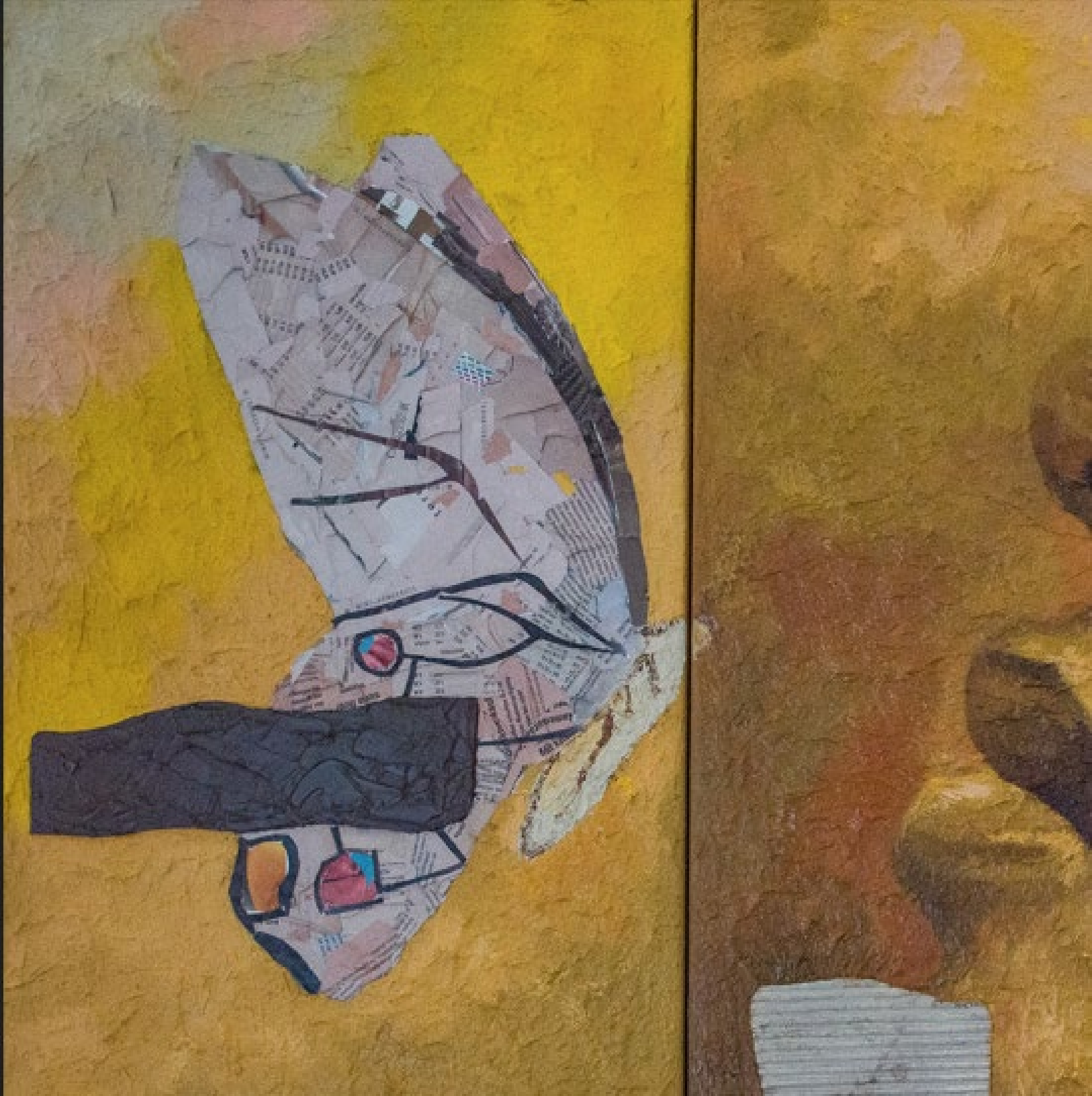
Seizing the opportunity



Turning the corner: From reforms & renewed hope, to results

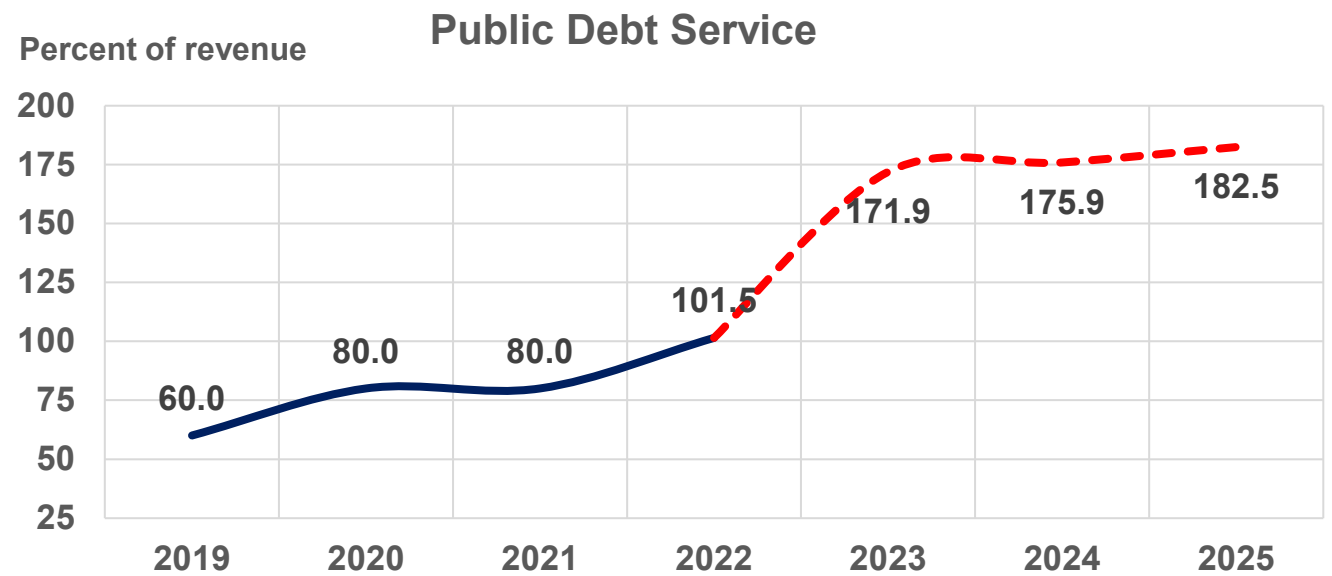
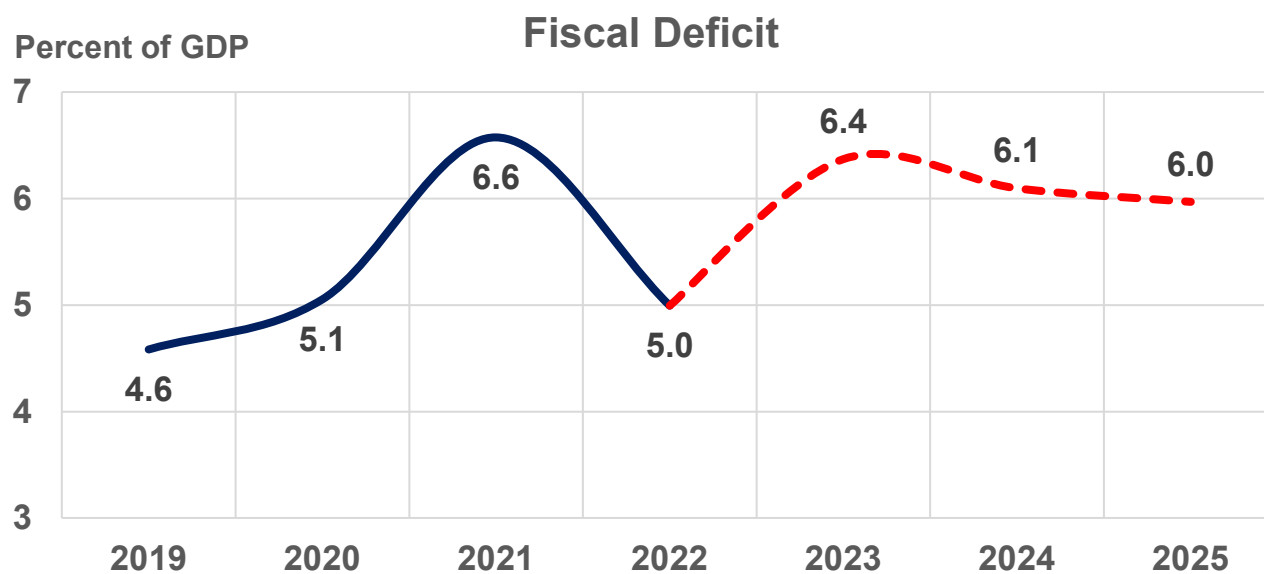
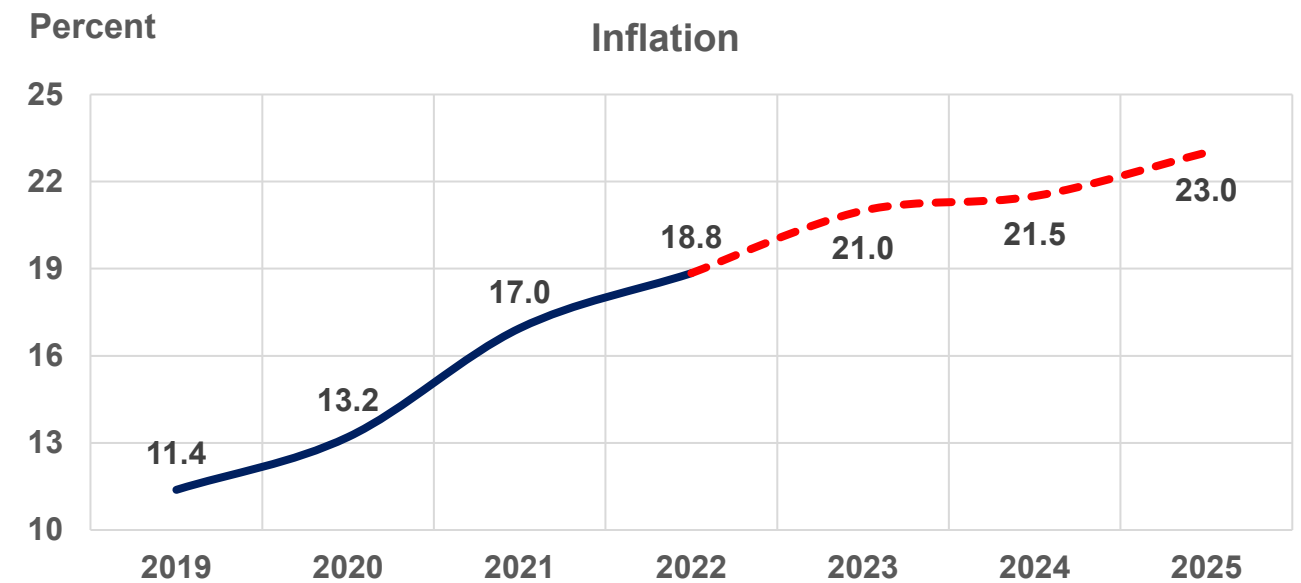


**THE BOLD REFORMS
STOPPED THE SLIDE
TOWARDS A CRISIS AND
PROVIDED RENEWED
HOPE**



IN EARLY 2023, NIGERIA'S ECONOMY WAS SLIDING TOWARDS A CRISIS

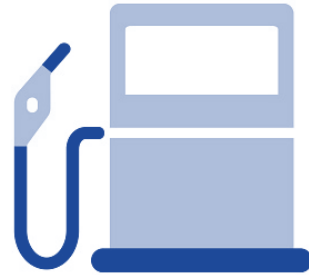
The main macroeconomic indicators for Nigeria were all deteriorating, in some cases rapidly



Sources: NBS, OAGF, DMO, CBN, and WB

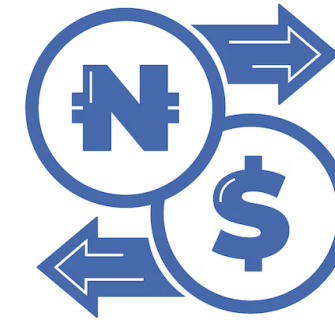
FACED WITH A FRAGILE ECONOMIC SITUATION, THE ADMINISTRATION INITIATED CRITICAL MACRO REFORMS

PETROL SUBSIDY REMOVED



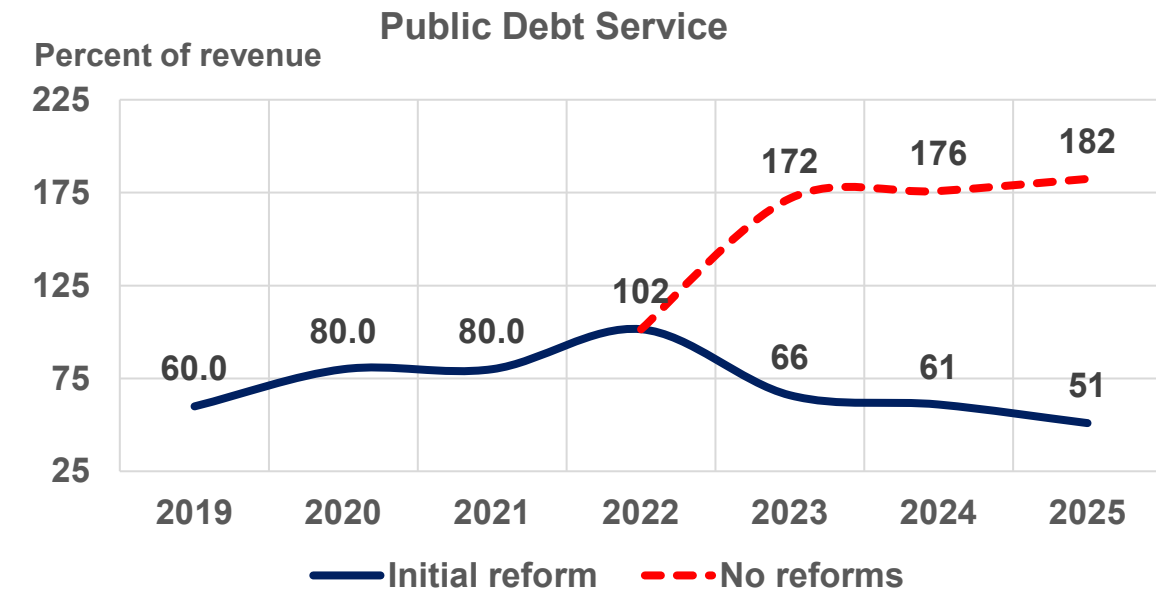
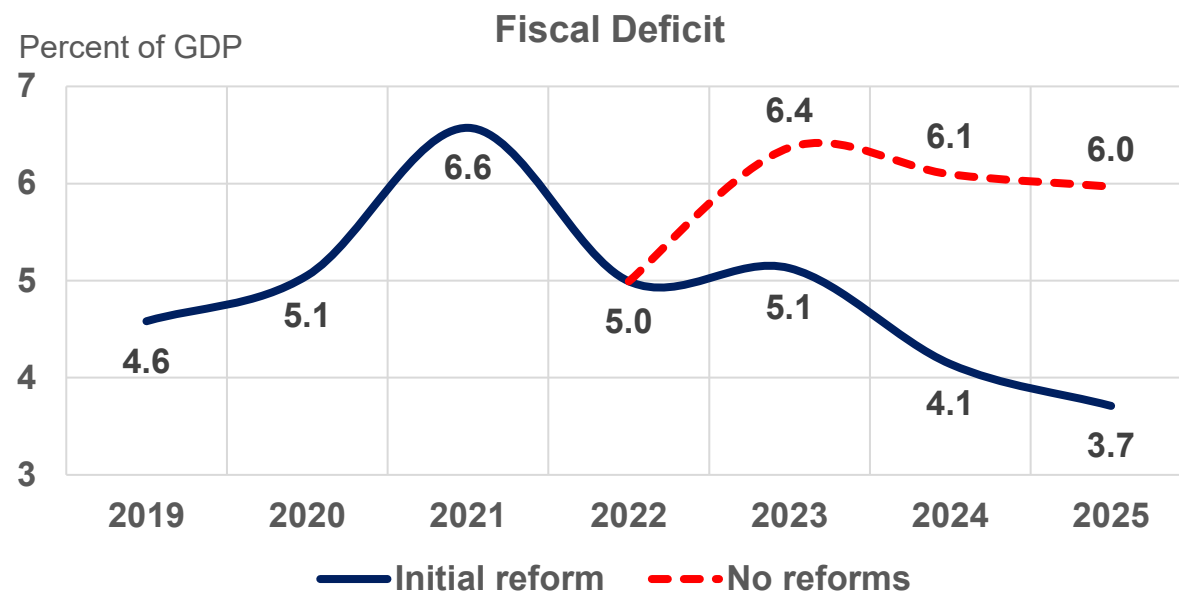
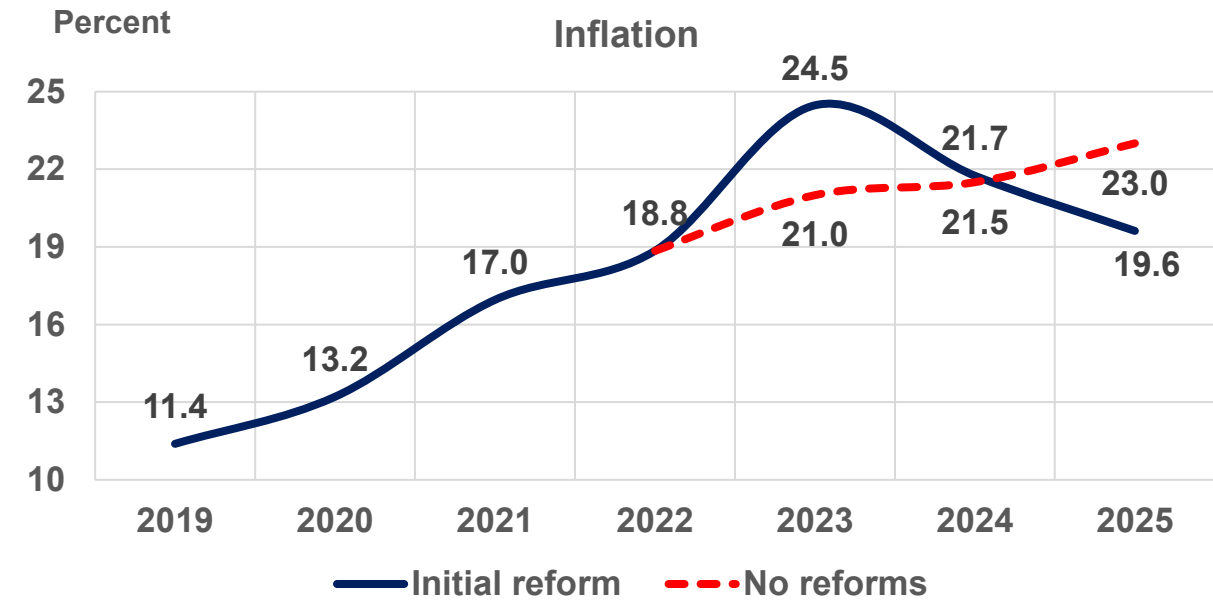
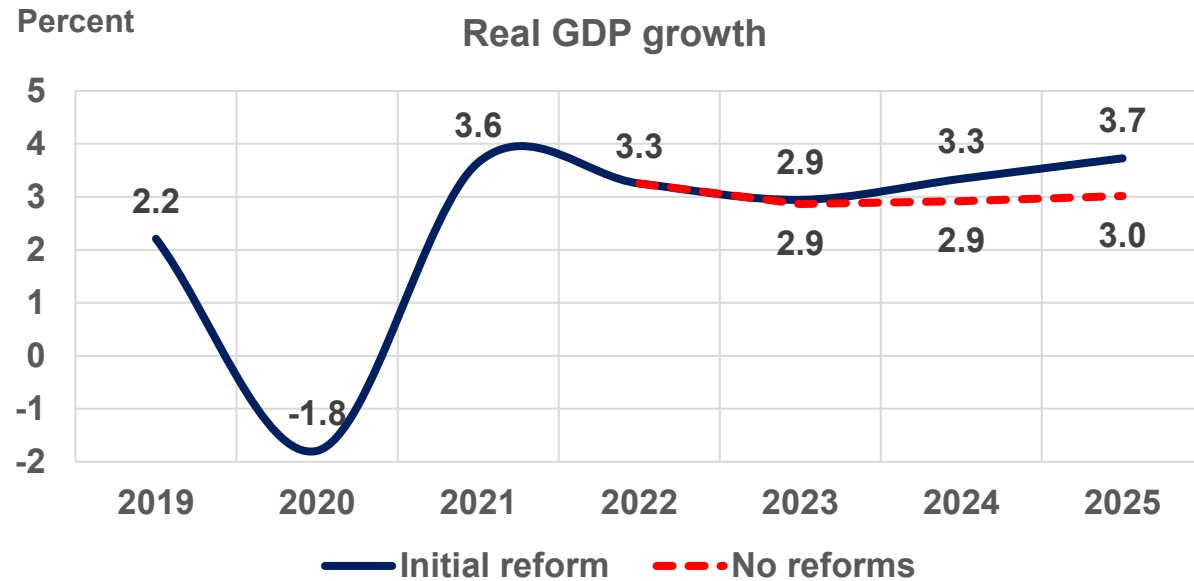
- FGN **removed the petrol subsidy**, which was costly (2.2% of GDP in 2022), opaque, and regressive
- The subsidy **reduced the oil revenues** transferred to the Federation Account
- Due in large part to the subsidy, since 2021, the Nigerian economy was effectively **unable to benefit from rising global oil prices**

FX MANAGEMENT REFORMED



- To unwind FX distortions, CBN **unified the multiple official FX windows** and committed to a **willing-buyer-willing-seller principle** in the newly unified NAFEM
- CBN began to **clear the backlog of FX obligations**
- To improve the FX market and lower prices, CBN also **lifted FX restrictions** on 43 imported product categories

THESE REFORMS, IF SUSTAINED AND FULLY IMPLEMENTED, HELP NIGERIA TO AVOID A FISCAL CLIFF

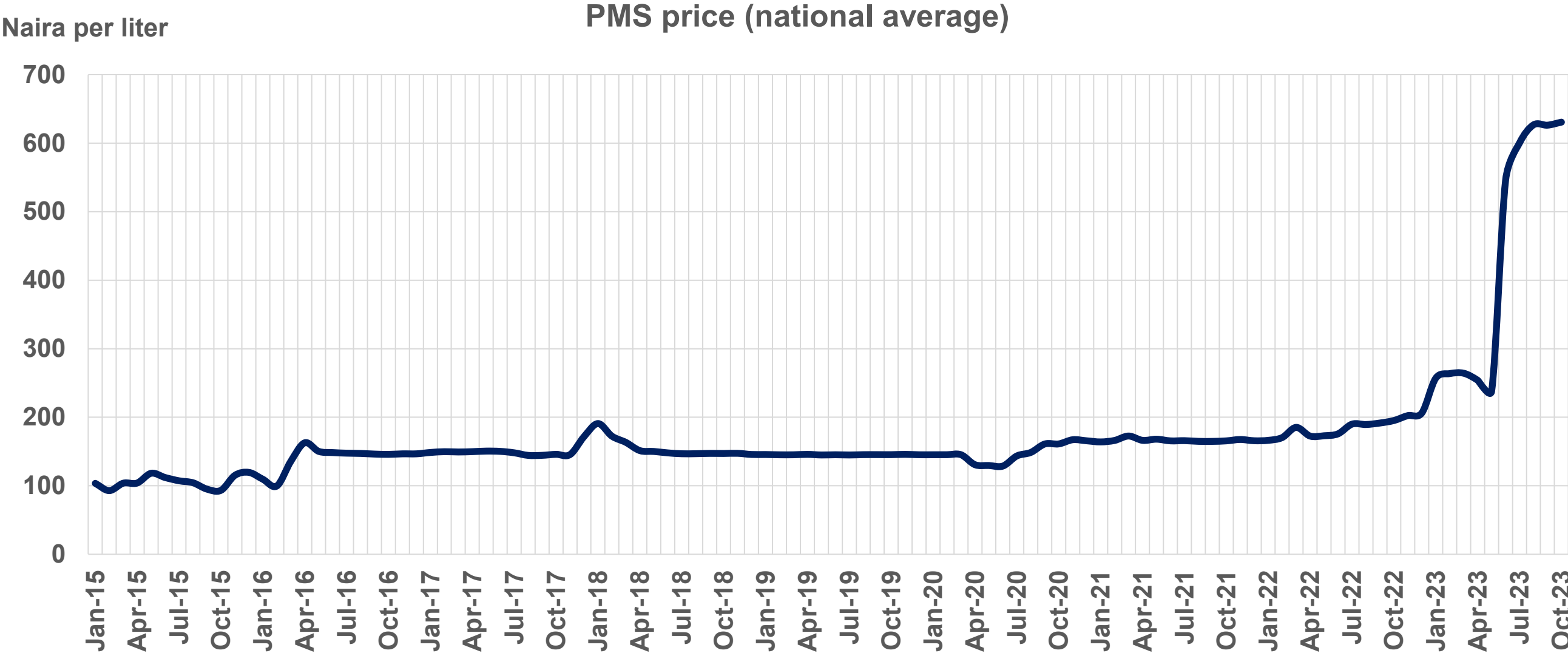


Sources: NBS, OAGF, DMO, CBN, and WB

**PAINFUL ADJUSTMENTS
ARE ONGOING, AS WELL
AS STEPS TO EASE THE
PAIN AND SPEED THE
RECOVERY**



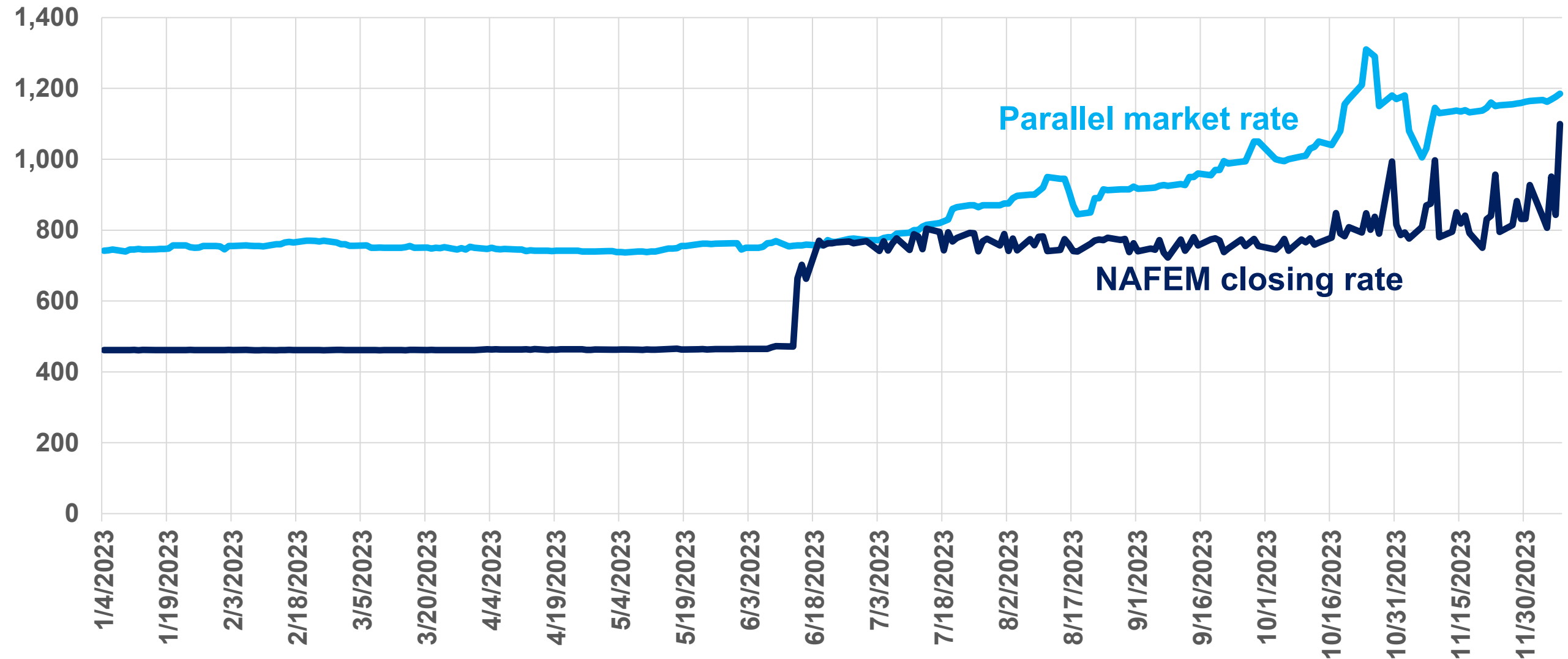
WHILE NEEDED, THE REFORMS ALSO ENTAIL LARGE, PAINFUL ADJUSTMENTS, SUCH AS TO PETROL PRICES...



Sources: NBS

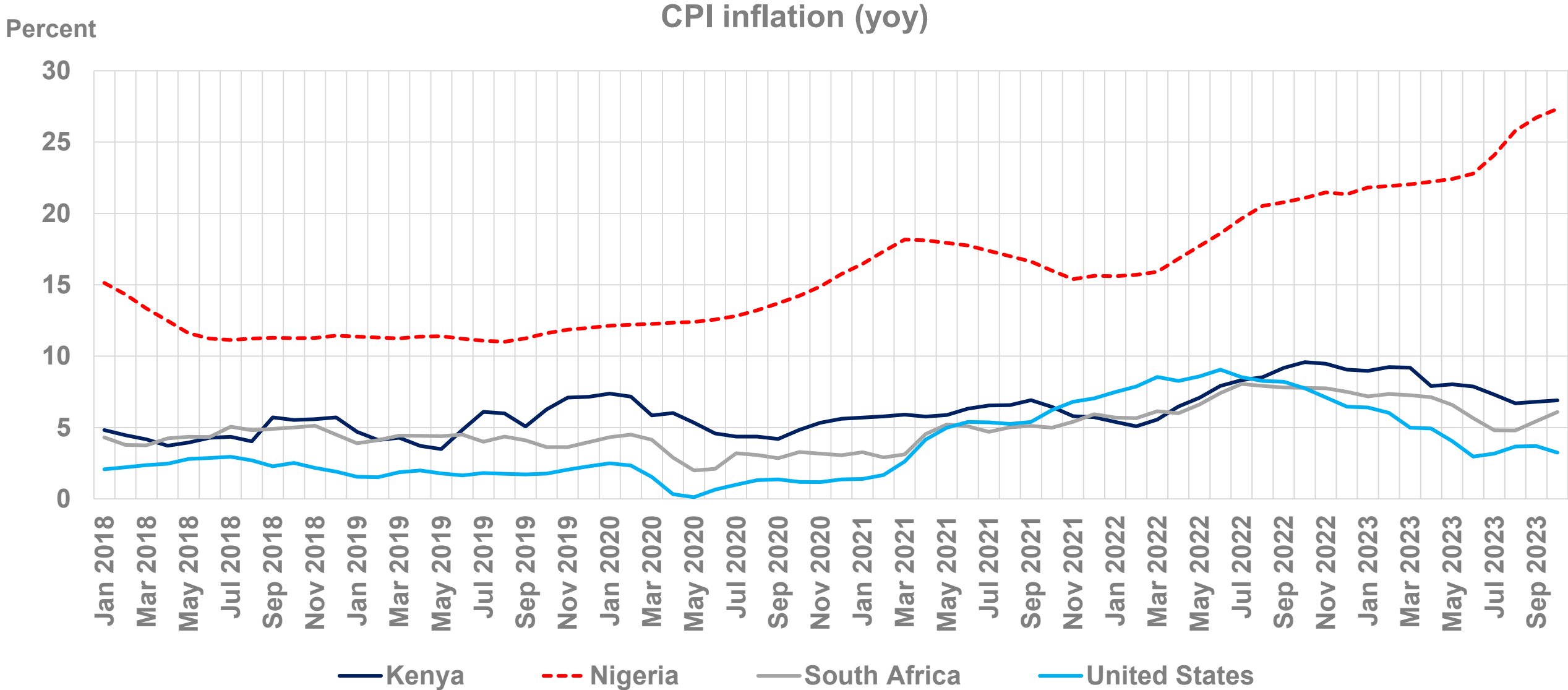
...AND TO THE EXCHANGE RATE...

Naira per US dollar



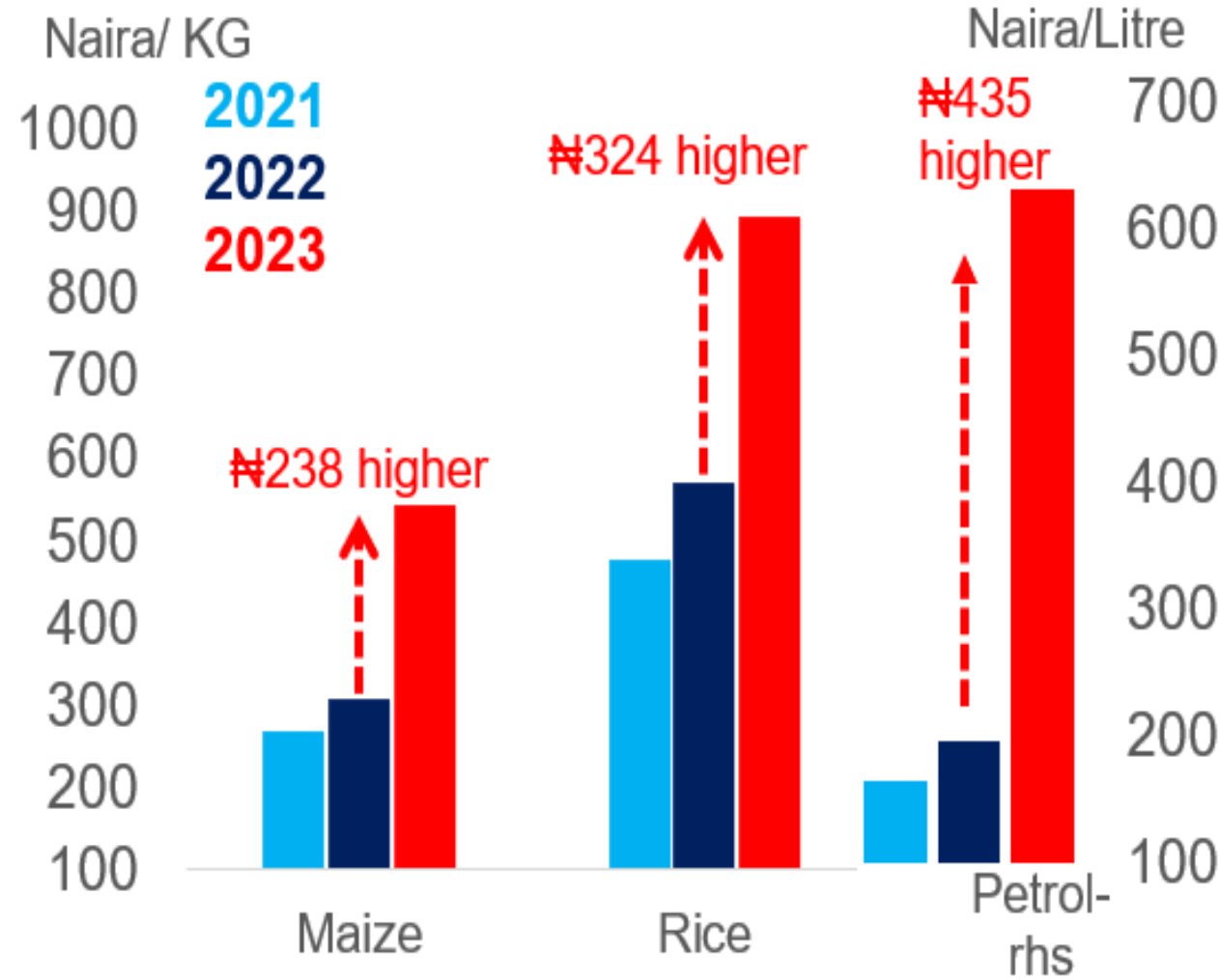
Sources: FMDQ, abokiFX

...CONTRIBUTING TO NIGERIA DIVERGING FROM THE GLOBAL TREND OF EASING INFLATION SINCE MID-YEAR

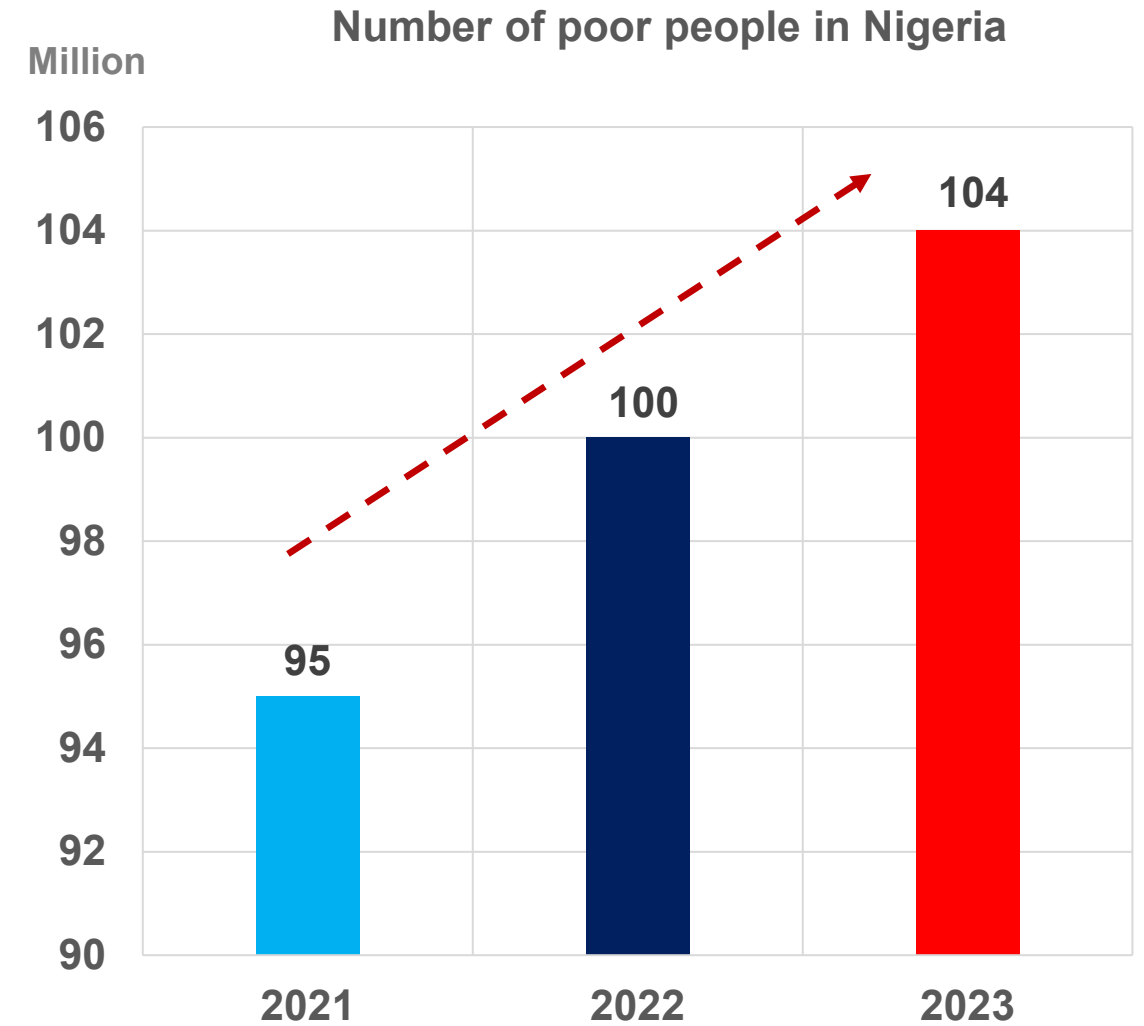


Source: CBN, IMF and WB

THE INTENSE COST OF LIVING PRESSURES HAVE INCREASED POVERTY



Source: NBS



Source: World Bank's projections based on NLSS 2018-19

TO HELP HOUSEHOLDS COPE, THE GOVERNMENT IS ROLLING OUT A LARGE-SCALE PROGRAM OF CASH TRANSFERS...

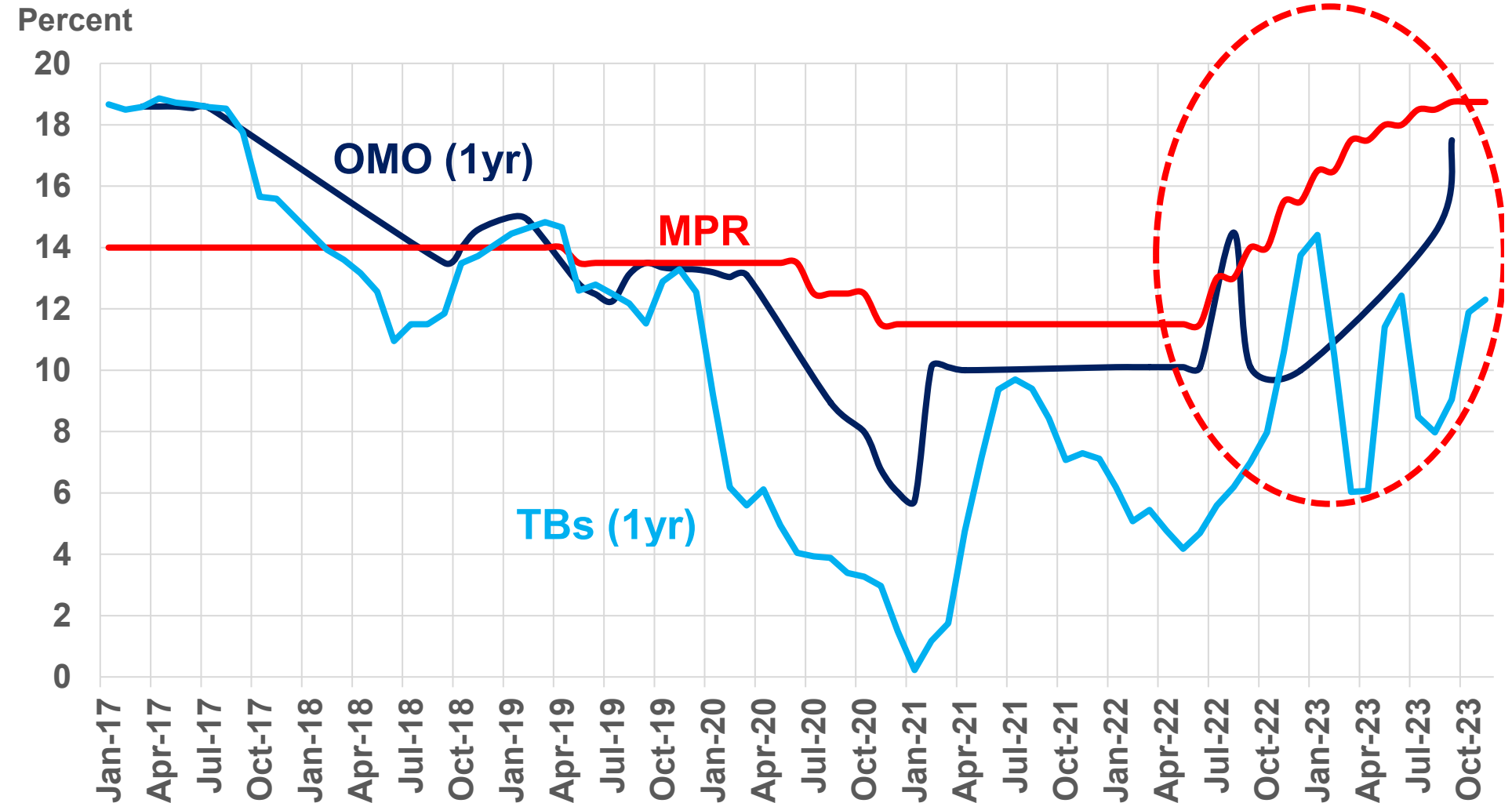


| | |
|----------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p>WHAT ARE CASH TRANSFERS?</p> | <p>Cash transfers are payments made to low-income households of N25000 per month by the Government for 3 months</p> |
| <p>WHEN DID THE CASH TRANSFER PROGRAM START?</p> | <p>Conditional Cash Transfer Program was launched on October 17, 2023</p> |
| <p>WHO ARE THE BENEFICIARIES?</p> | <p>The Program aims to cover 15 million poor, near-poor, and vulnerable households living on less than N75000 per month across Nigeria</p> |
| <p>HOW IS THE VERIFICATION DONE?</p> | <p>Following the launch, the State Social Registers is going through a robust verification process led by the Federal Ministry of Humanitarian Affairs and Poverty Alleviation, in conjunction with the State governments. Beneficiaries will be supported to enroll for the NIN during the verification process to expand the coverage and use of the national identity number.</p> |
| <p>HOW IS THE PAYMENT MADE?</p> | <p>Cash transfers are being delivered through electronic means, directly into verified beneficiary owned accounts or wallets, facilitating financial inclusion for these households.</p> |
| <p>HOW MANY HOUSEHOLDS HAVE RECEIVED MONEY TO DATE?</p> | <p>Currently 1.5 million households have received money, and the program is expected to reach 5 million households by the end of December</p> |

...AND CBN HAS STARTED TIGHTENING MONETARY POLICY TO BRING INFLATION UNDER CONTROL

T-bill and OMO yields, as well as prime lending rates, have started to move closer to the MPR

- To mop-up excess liquidity, restarted Open Market Operations (OMOs)
- To improve monetary policy transmission, removed the N2 billion cap on the Standing Deposit Facility (SDF) and narrowed its rate corridor







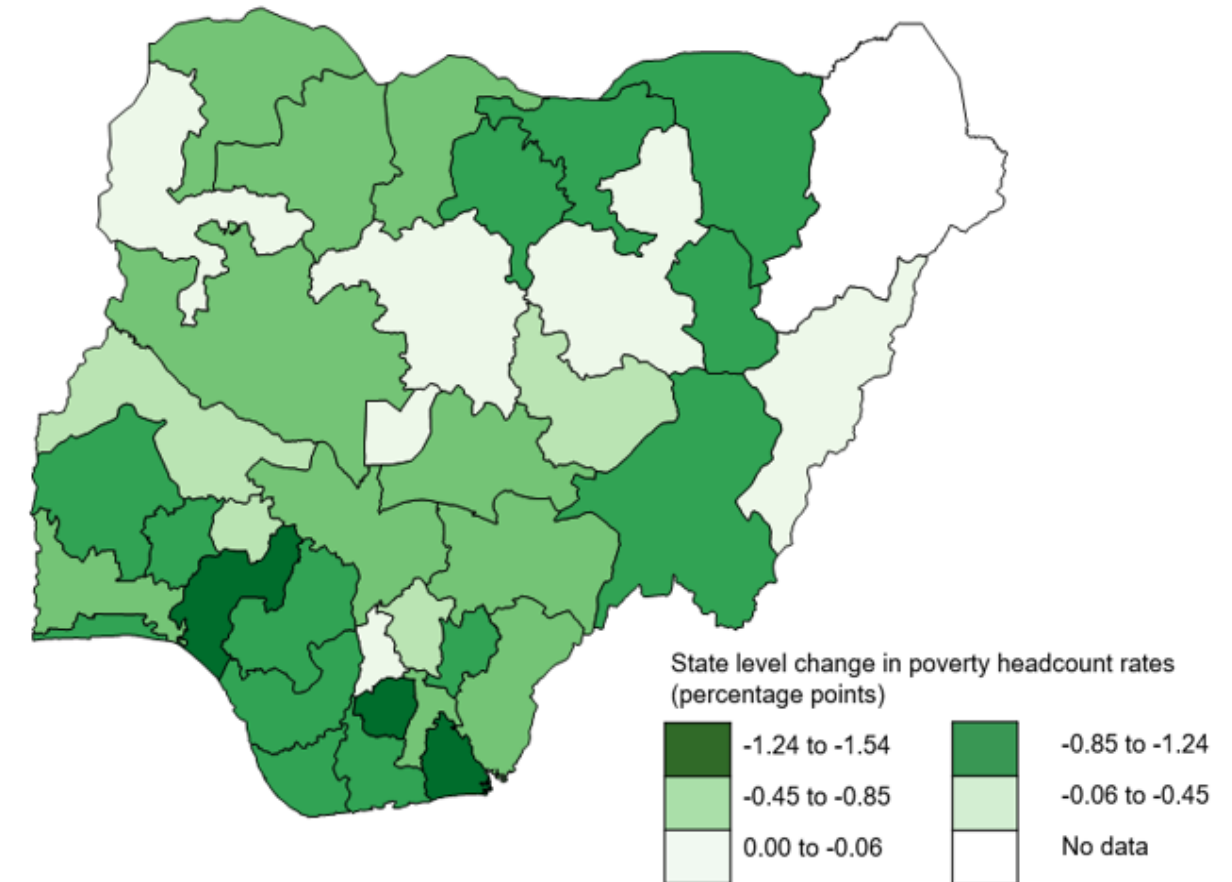
Source: CBN

CBN ALSO LIFTED FX ACCESS RESTRICTIONS FOR IMPORTING 43 ITEMS, LIKELY IMPROVING THE OVERALL WELFARE OF NIGERIANS

Import restrictions had **adverse effects** on the economy

Removing import restrictions **could lift 1.3 million people** (around 0.6 percent of the population) out of poverty

| | |
|-------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
|  | <p>FX MARKET SEGEMENTATION: Traders bypassed import and FX restrictions, persistently importing restricted products into Nigeria. They often tapped into the parallel market for FX, pushing demand into the parallel market and fragmenting the FX market</p> |
|  | <p>HIGHER PRICES: Eliminating both FX restrictions on imports and import bans would lead to an estimated 4.7 percent decrease in prices of the goods affected</p> |
|  | <p>TRADE EVASION: FX restrictions on imports had directly resulted in an 18.1 percent increase in trade evasion</p> |
|  | <p>LOWER FISCAL REVENUES: The revenue impact of import restrictions amounted to about US\$1.4 billion, or about US\$275 million annually, between 2015 and 2019</p> |



Sources: World Bank Country Economic Memorandum (2022)

Sources: 2018/19 NLSS (for consumption data), NBS (for price data), Humanitarian Data Exchange (for map shape files), and World Bank staff estimates.

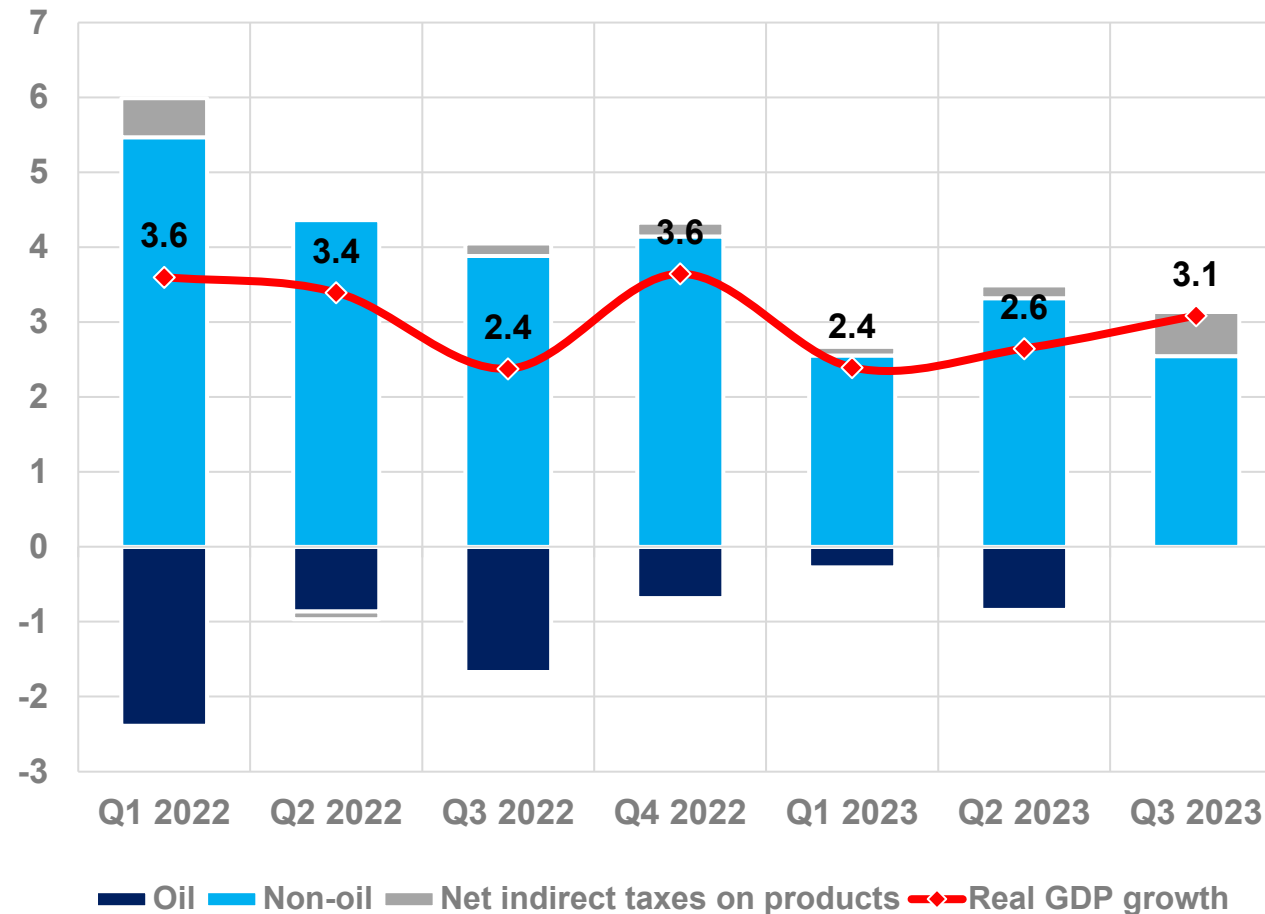
DESPITE THE ADJUSTMENT COSTS OF THE REFORMS, OUTPUT GROWTH THROUGH Q3 2023 HAS BEEN RESILIENT

Non-oil GDP growth has been consistently **positive**, while the oil sector has been constantly a **drag on growth**

GDP growth could be **0.7 percentage points in 2023** higher if budgeted oil production targets had been achieved

Sectoral Contribution to GDP

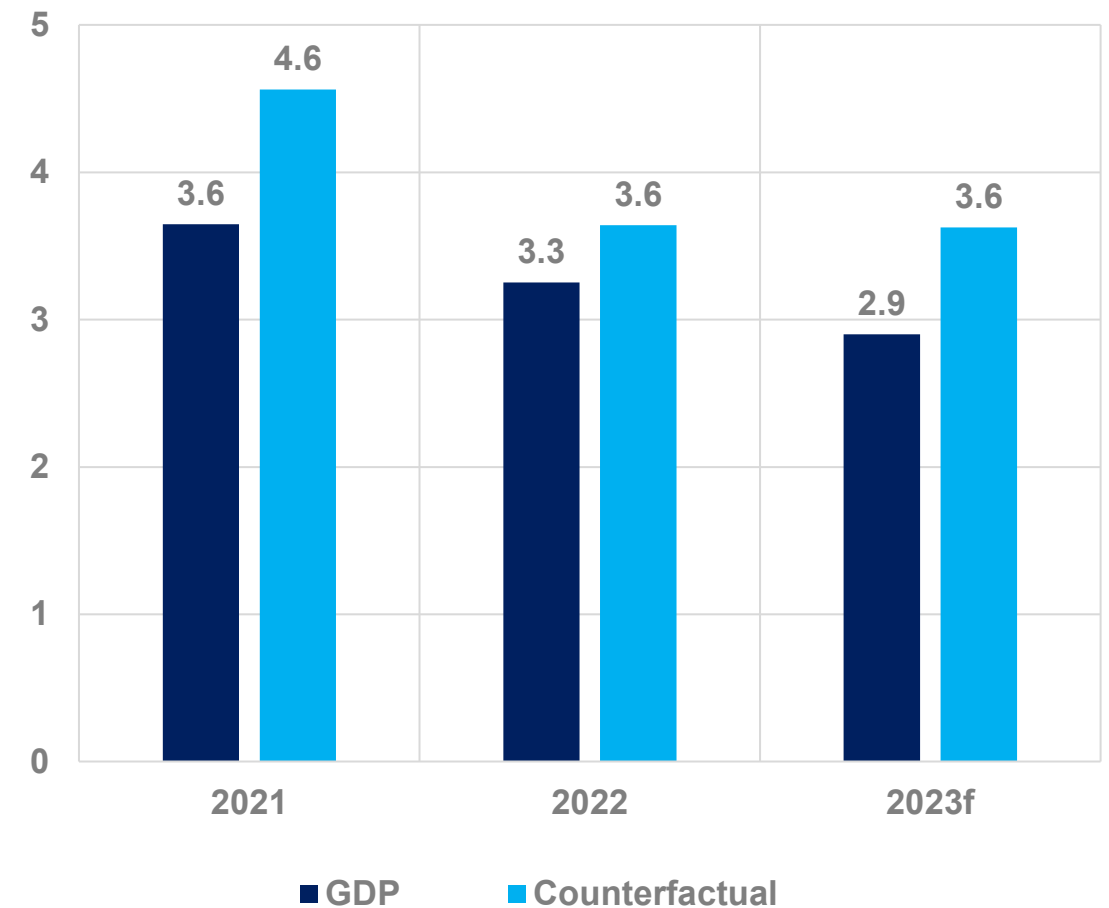
Percentage points



Source: NBS and World Bank

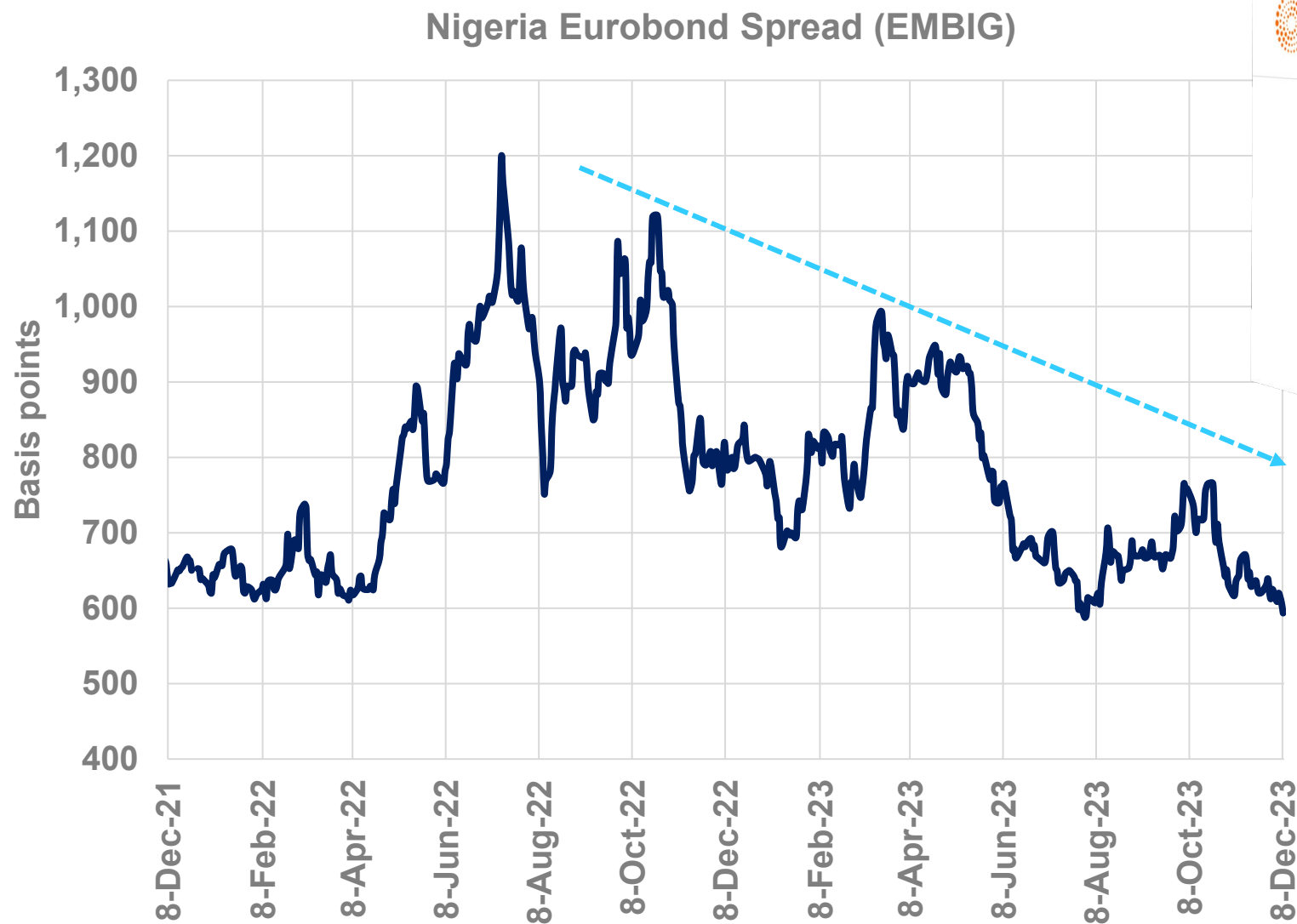
GDP Growth: actual vs counterfactual

Percent

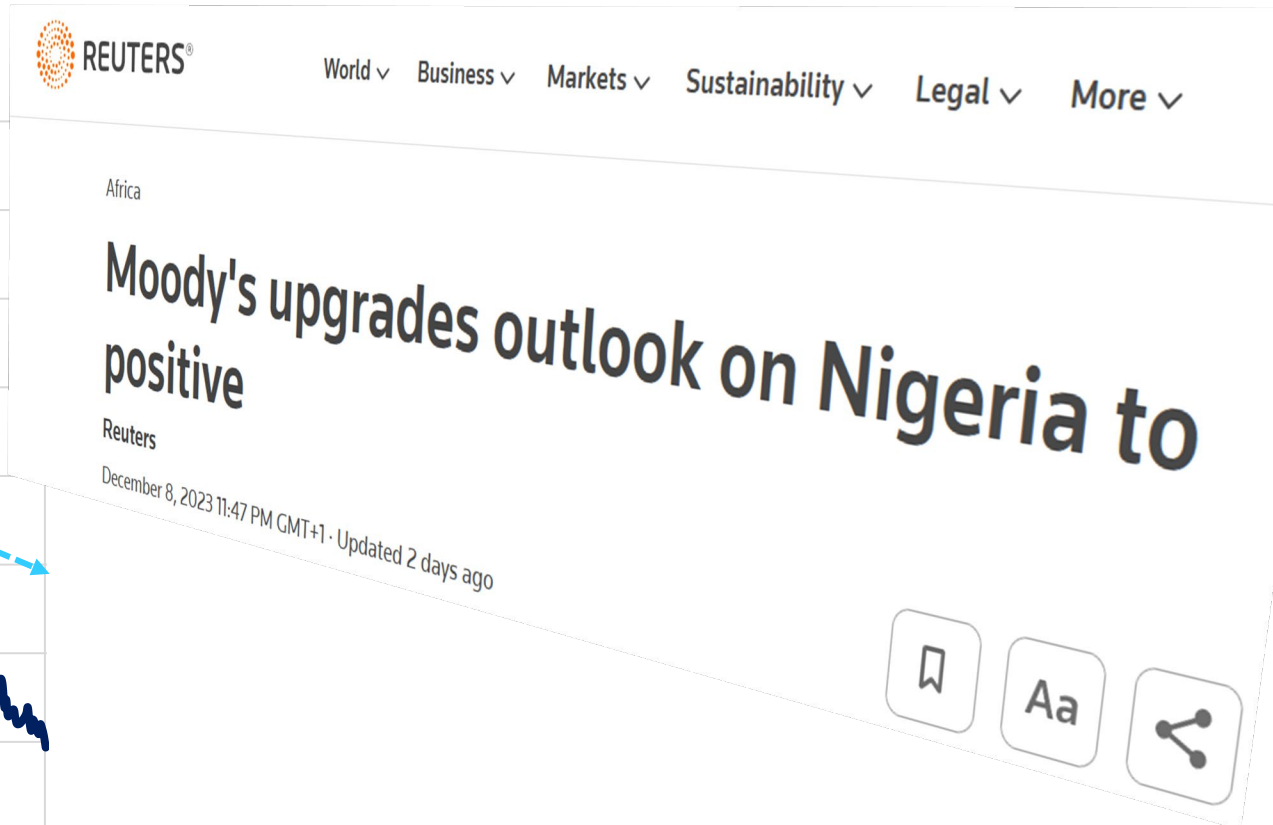


Source: NBS and World Bank. Note: The counterfactual is estimated as the GDP growth had oil production reached its budgeted target

THE NARRATIVE IN FINANCIAL MARKETS ABOUT NIGERIA HAS STARTED TO SHIFT IN A MORE POSITIVE DIRECTION



Source: JP Morgan



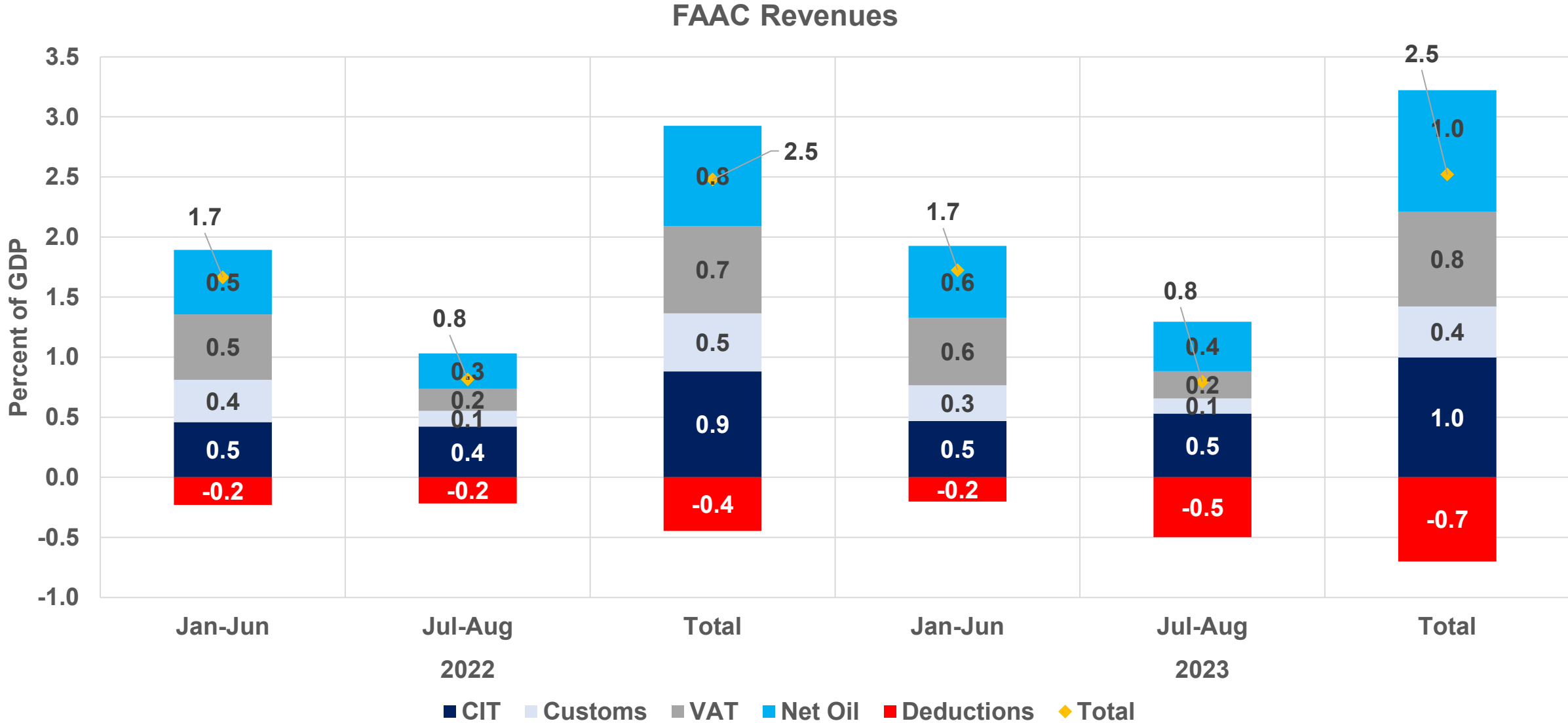
“Aug 4 (Reuters) - S&P Global Ratings on Friday revised its outlook on Nigeria to stable from negative, citing the government's recent reforms”

**BUT, NIGERIA IS YET TO
FULLY TURN THE CORNER
AND CHALLENGES
REMAIN**



FAAC REVENUES REMAIN FLAT AS A SHARE OF GDP...

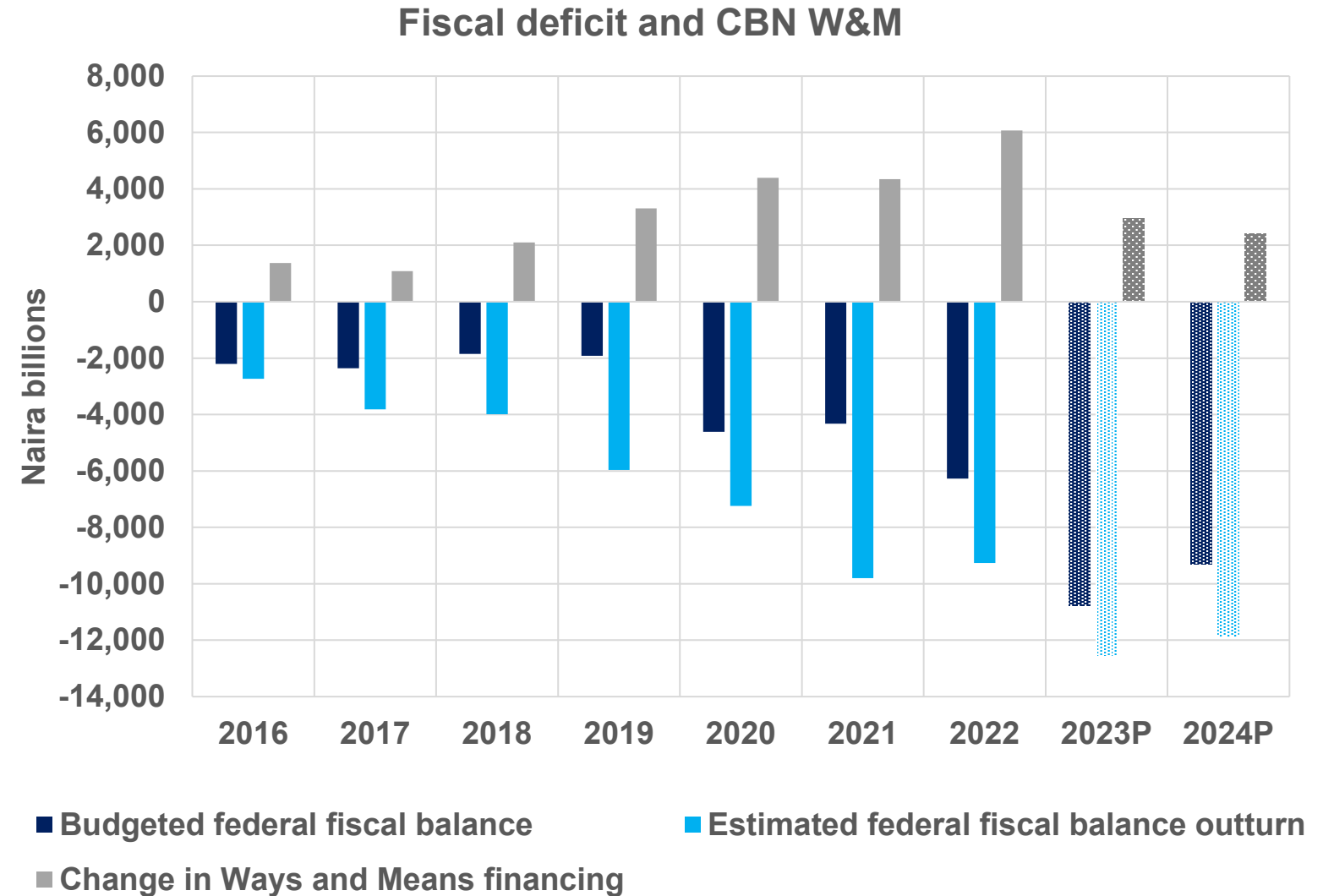
FX unification has created a windfall for Federation revenues.... yet, large deductions, as well as lower than expected gains from subsidy removal, have kept FAAC revenues constant in percent of GDP terms



Source: OAGF and WB

...KEEPING FINANCING NEEDS ELEVATED, RAISING RISKS OF CONTINUED FINANCING FROM WAYS AND MEANS

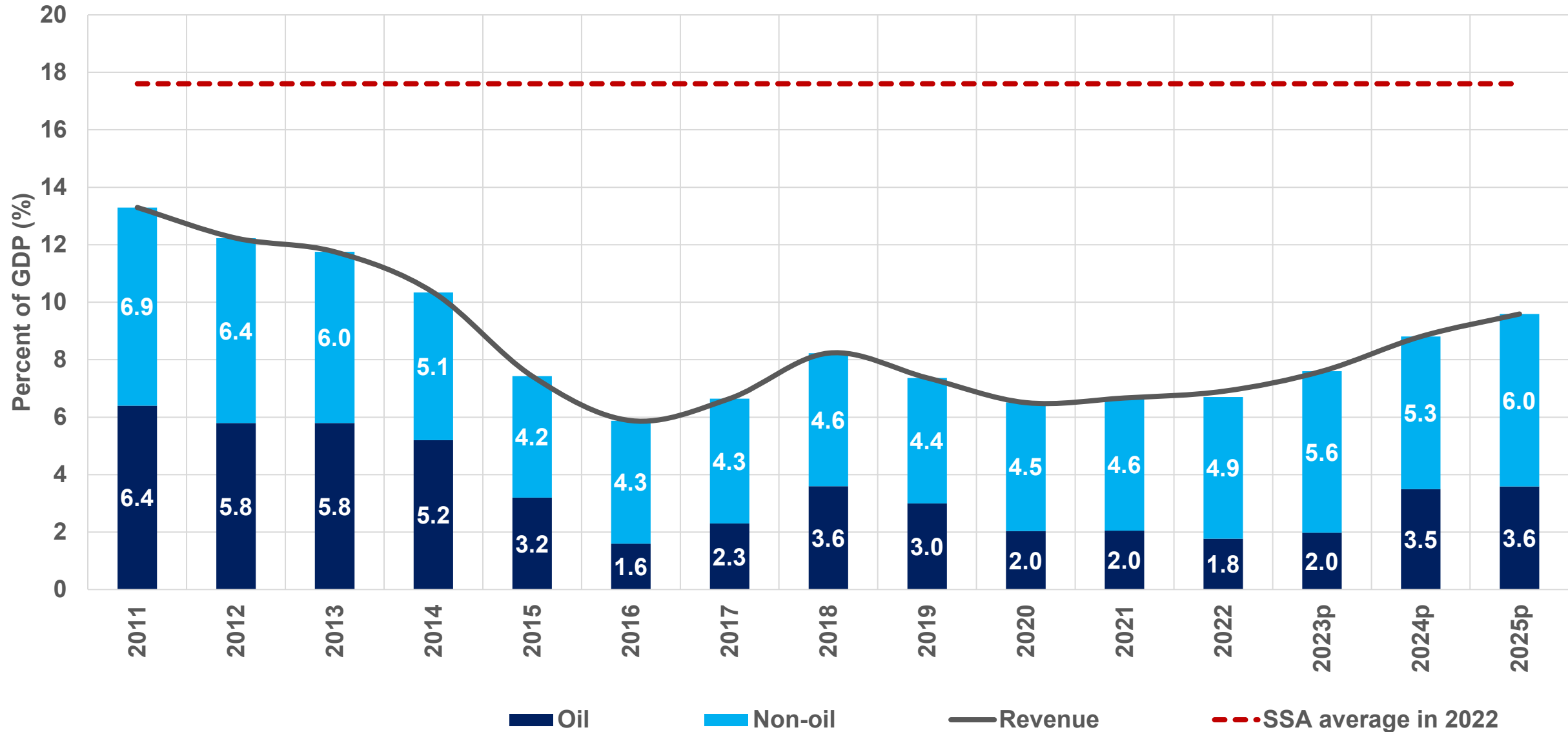
- In recent years, Nigeria has filled financing gaps through **contracting Ways and Means financing from CBN**.
- This large-scale use of W&M contravened the CBN Act. Such deficit monetization is **distortionary and inflationary**.
- Up until May 2023, Nigeria had accumulated **N26.9 trillion (or 11.6 percent of GDP) in Ways and Means financing**.
- In June 2023, **N22.7 billion of the stock was securitized** allowing it to be considered official debt, reducing the interest rate, and increasing the tenor.
- Nigeria's return to macroeconomic stability hinges in part on **decisively ending the reliance on W&M from CBN**.



Source: OAGF, DMO, WB

INCREASING REVENUES REMAINS CRITICAL TO STABILIZE NIGERIA'S FISCAL SITUATION – BOTH OIL AND NON-OIL

General government revenue

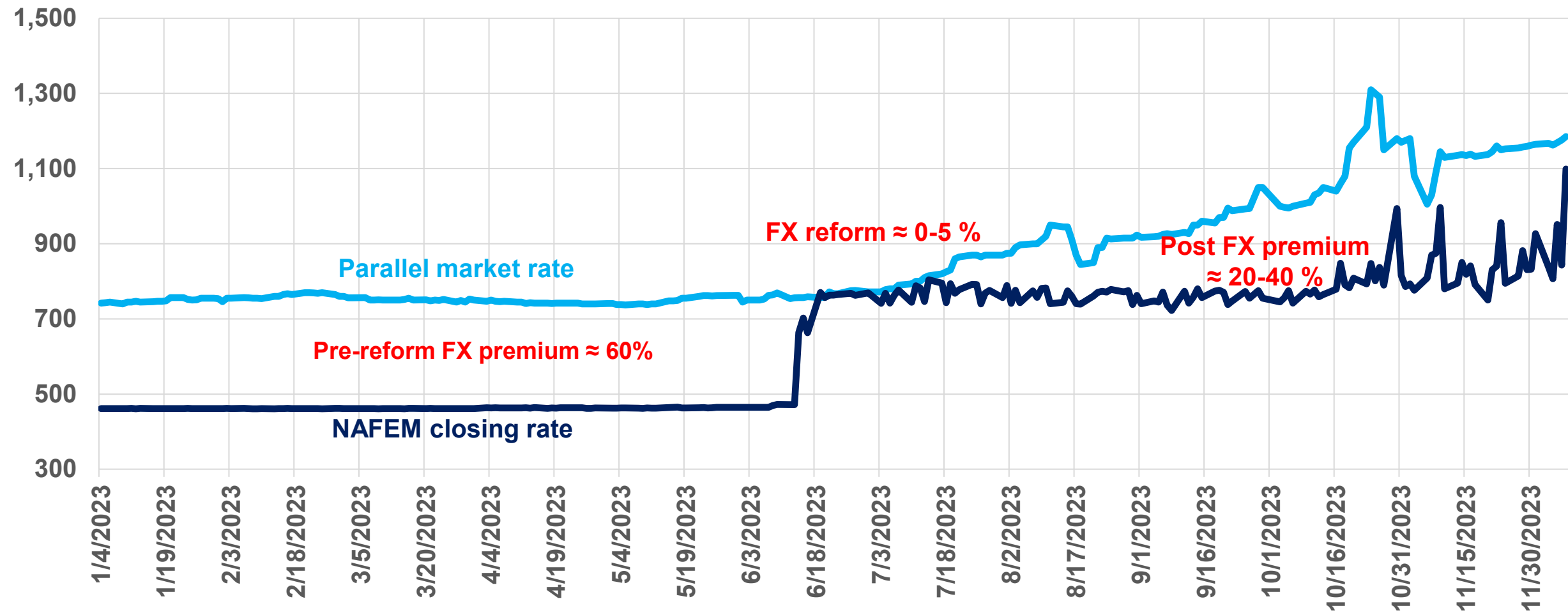


Source: OAGF, NBS, WDI, WB

THE FX MARKET CONTINUES TO BE VOLATILE AND PARALLEL PREMIUM PERSISTS...

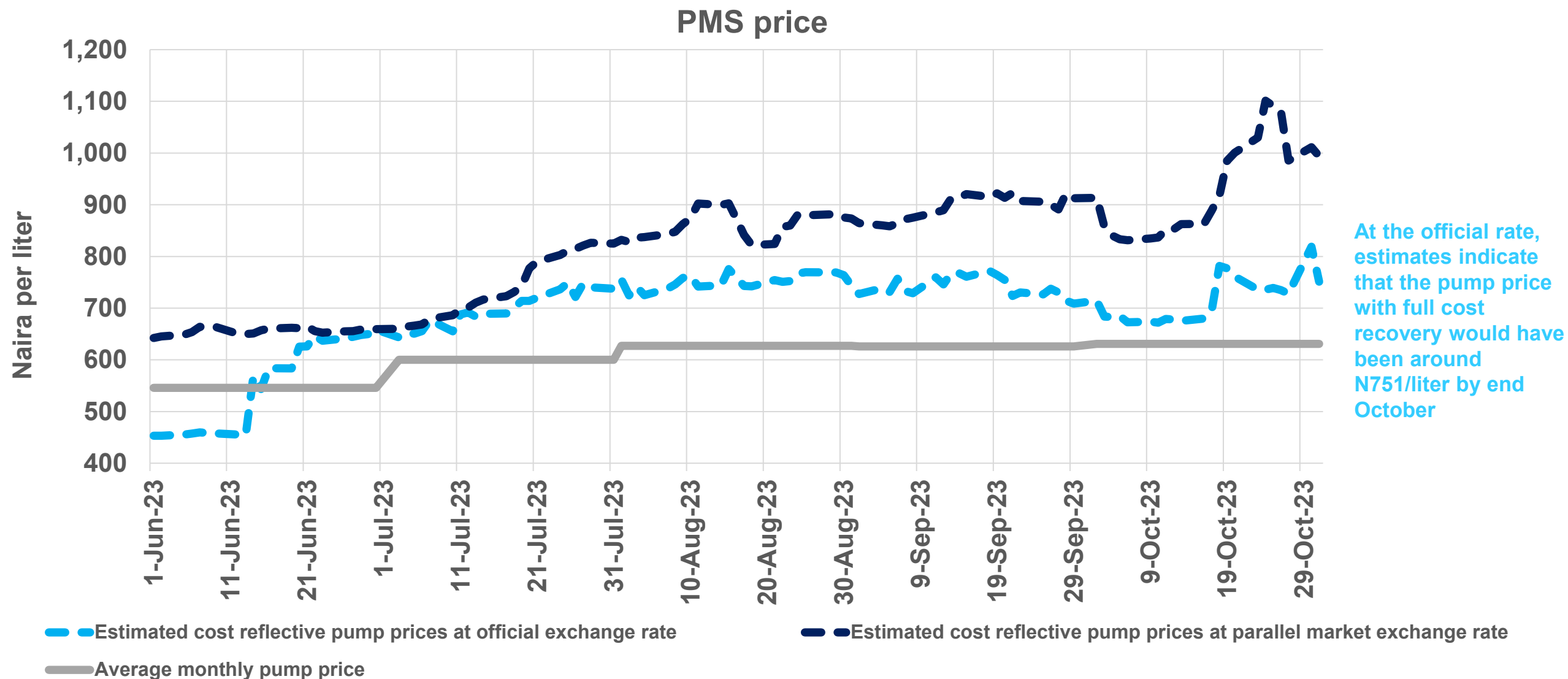
After nearly closing immediately after the FX reforms in end June, the parallel market premium has widened again to a 20-40% range

Naira per US dollar



Source: CBN, AbokiFX, FMDQ, WB

PETROL PRICES ARE NOT FULLY ADJUSTING TO MARKET CONDITIONS, HINTING AT THE PARTIAL RETURN OF THE SUBSIDY



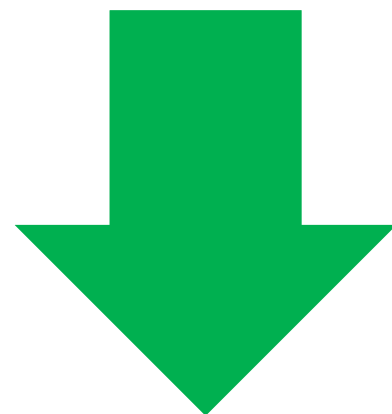
Source: World Bank estimates based on NBS, CBN and global oil price data

FULLY TURNING THE CORNER: WHAT WILL IT TAKE?



SECURING THE BENEFITS OF CRITICAL REFORM #1: THE NEW FX POLICY

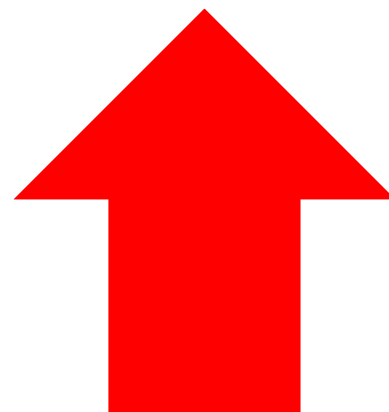
POLICY RECOMMENDATIONS TO FULLY TURN THE CORNER



KEY BENEFITS: corrects overvalued FX rate and external imbalance, resolves FX access problems by allowing price to adjust based on FX supply and demand



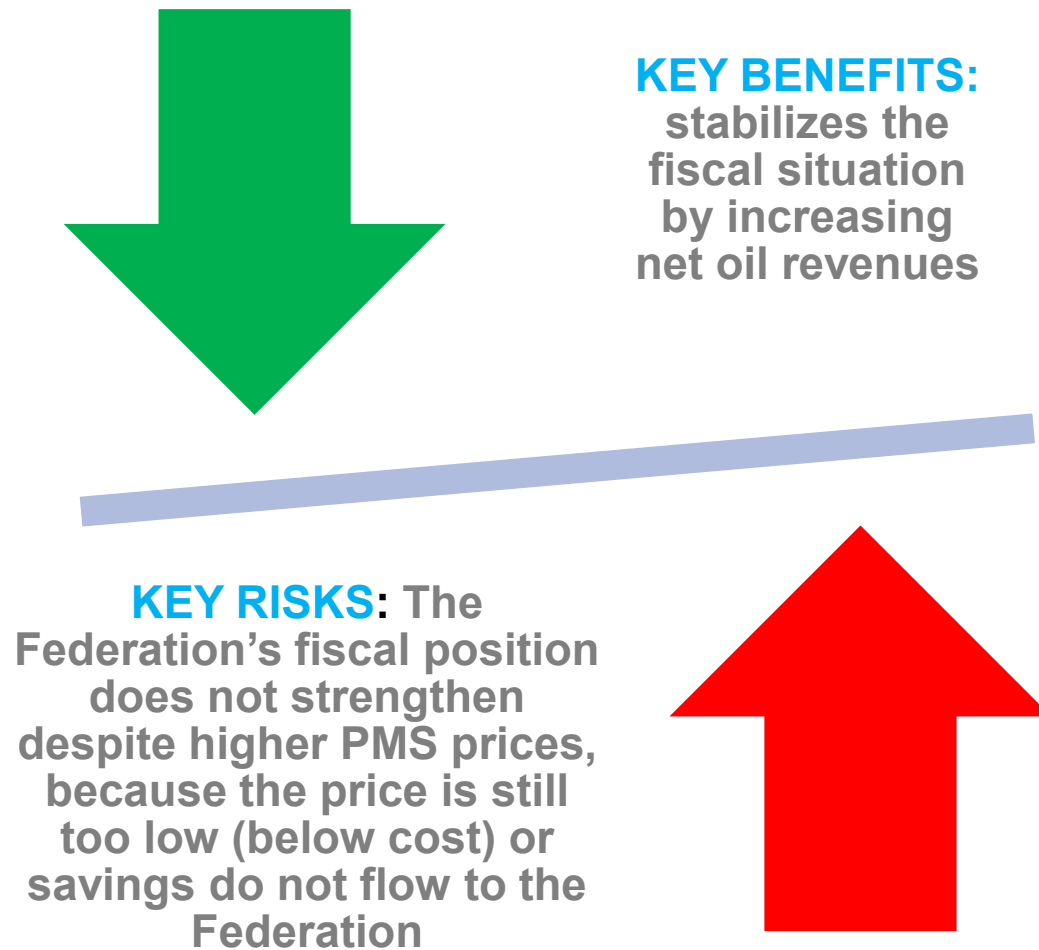
KEY RISKS: inflation keeps increasing. Then naira will again become overvalued, generating pressure to depreciate, raising inflation...risk of a spiral



- Tighten monetary policy further
- Communicate the plan to swiftly phase out monetization of the fiscal deficit via Ways and Means
- Communicate the plan to phase out CBN development finance schemes
- Continue to build market confidence around free FX pricing and evaluate and implement policies to channel more FX supply into the NAFEM
- Publish full information on progress towards clearing the forwards backlog and on net reserves to build market confidence

SECURING THE BENEFITS OF CRITICAL REFORM #2: COST-REFLECTIVE PMS PRICING

POLICY RECOMMENDATIONS TO FULLY TURN THE CORNER



(A) OIL REVENUES

- Clarify how prices at the pump are fixed as opposed to market conditions.
- Ensure revenue gains from removal of fuel subsidy materializes.
- Improve transparency of NNPC with regards to profits and oil revenues to be remitted to the Federation Account.

Even with oil revenue benefits secured, non-oil revenues also need to be increased

(B) NON-OIL REVENUES

- Increase the VAT rate while allowing for input tax credit; remove exemptions for petrol products
- Introduce green and pro-health taxes
- Rationalize tax expenditures
- Improve tax administration
- Adopt a data-driven approach to tax auditing

ADD THE MAGIC INGREDIENT FOR REFORM SUCCESS, JOBS, AND POVERTY REDUCTION: FASTER ECONOMIC GROWTH

Address structural barriers to investment and growth

- Formulate and implement plans to improve power and transport infrastructure, public service delivery, security, and business environment. These are decisive factors to raise growth prospects.
- Reduce trade restrictions:
 - Review the import bans list and align the tariffs to the ECOWAS common external tariff
 - Review tariffs to reduce costs of key inputs for producers
 - Simplify and harmonize import and export procedures
 - Address bottlenecks such as port logistics and congestion

KEY MACRO-FISCAL POLICY RECOMMENDATIONS FOR THE NEXT SIX MONTHS TO FULLY TURN THE CORNER

Curbing inflation and stabilizing FX market

- Tighten monetary policy further
- Communicate a plan to swiftly phase out monetization of the fiscal deficit
- Communicate the plan to phase out current CBN development finance schemes
- Continue to build market confidence around free FX pricing and evaluate and implement policies to channel FX supply into the NAFEM
- Publish full information on net reserves to build market confidence

Creating more fiscal space

- Regularly publish information which explains prices at the pump to ensure the subsidy is not reinstated
- Improve transparency of NNPC with regards to profits and oil revenues to be remitted to the Federation Account
- Raise non-oil revenues:
- Increase VAT rate while allowing for input tax credit; remove exemptions for petrol products
- Improve tax administration
- Adopt a data driven approach to tax auditing
- Introduce a simple turnover tax on SMEs at state level instead of various existing fees and levies

Addressing structural barriers to growth

- Detail plans to improve power and transport infrastructure, public service delivery, security, and business environment. These are decisive factors to raise growth prospects.
- Reduce trade restrictions:
 - Review the import bans list and align the tariffs to the ECOWAS common external tariff
 - Review tariffs to reduce costs of key inputs for producers
 - Simplify and harmonize import and export procedures
 - Address bottlenecks such as port logistics and congestion

From reforms, to renewed hope, to results



The measures taken already to help the poorest and most vulnerable households cope with shocks through targeted cash transfers are a good start in redirecting the previous wasteful spending on the subsidy

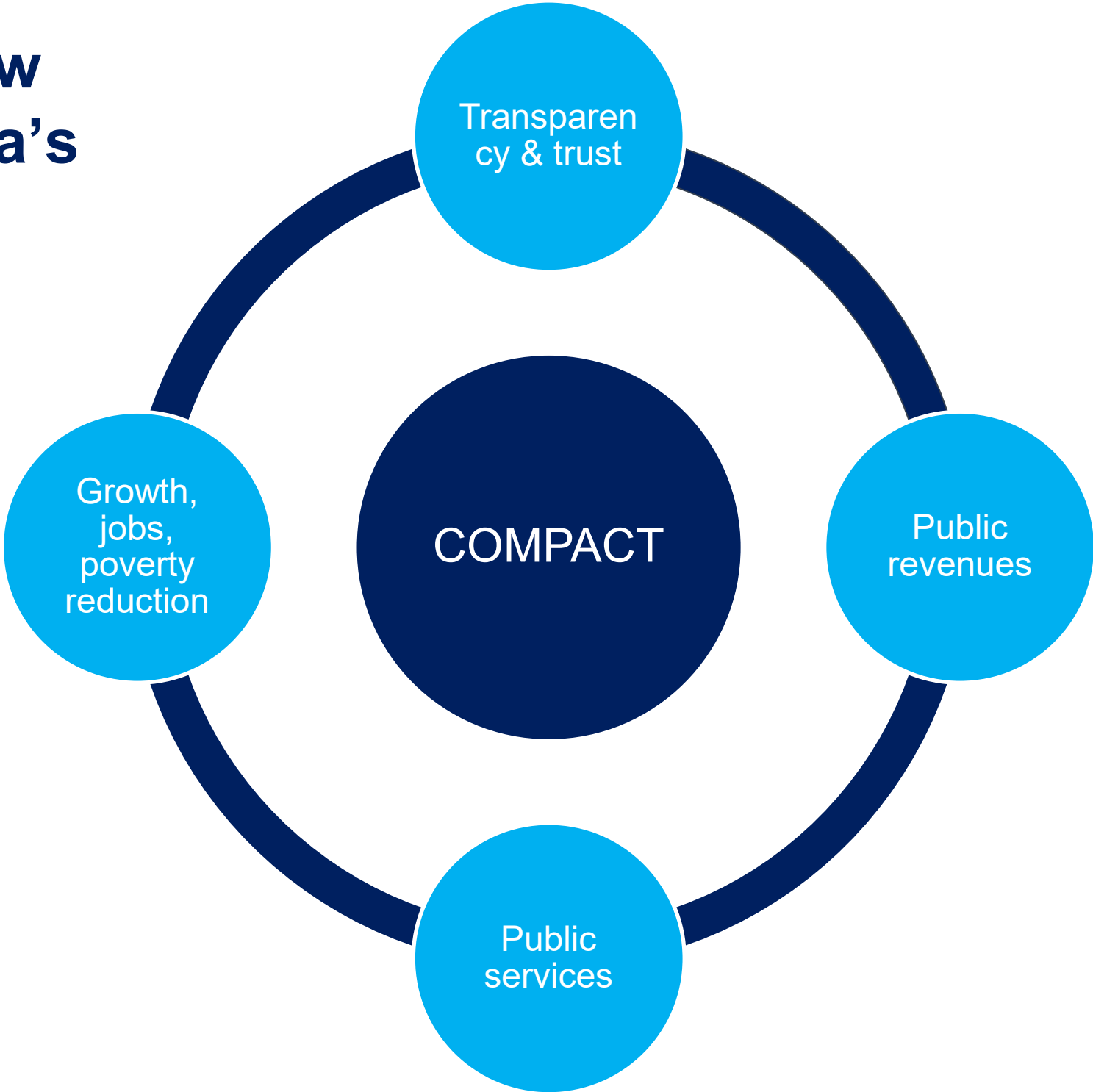


With continued reform implementation that stabilizes the macroeconomic and fiscal situation and begins to generate more growth, jobs, and revenues, Nigeria will have more choices to make



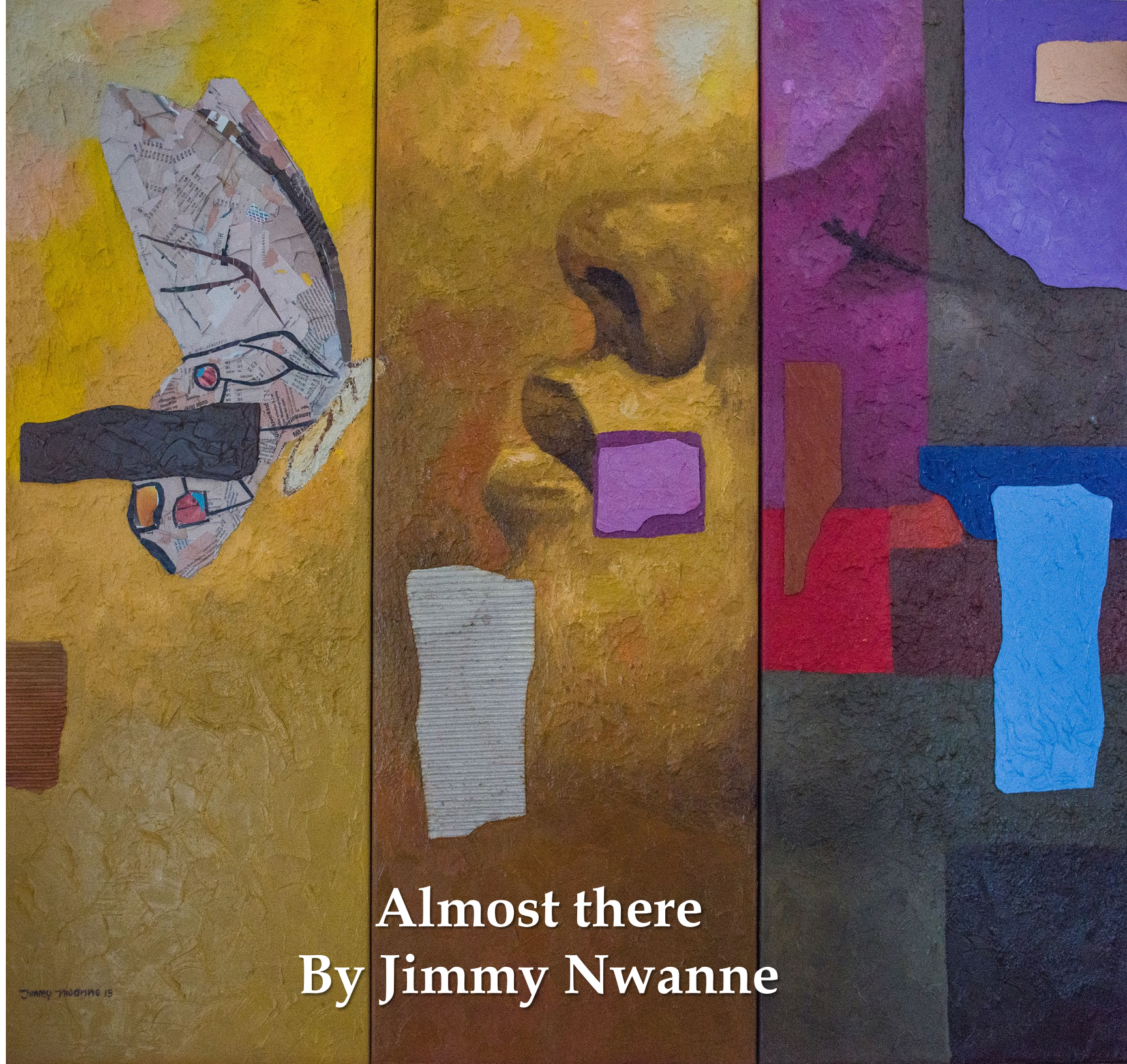
This could include a formulating and implementing a renewed **compact** to deliver social assistance, primary healthcare, basic education and economic opportunities

Turning the corner: a new compact between Nigeria's people and state?





Thank You



Almost there
By Jimmy Nwanne

Jumpstarting Inclusive Growth: Unlocking the Productive Potential of Nigeria's People and Resource Endowments



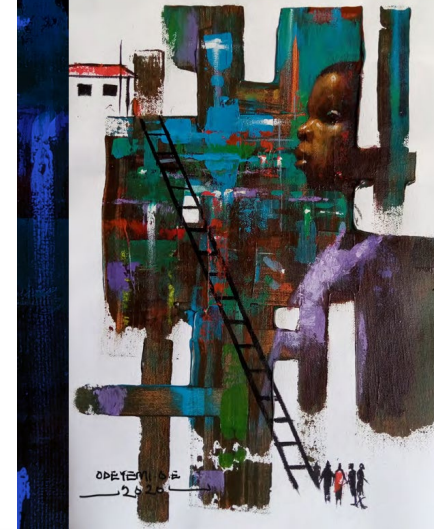
Nigeria in Times of COVID-19: Laying Foundations for a Strong Recovery



Rising to the Challenge: Nigeria's COVID Response



Resilience through Reforms



Time for Business Unusual



The Continuing Urgency of Business Unusual



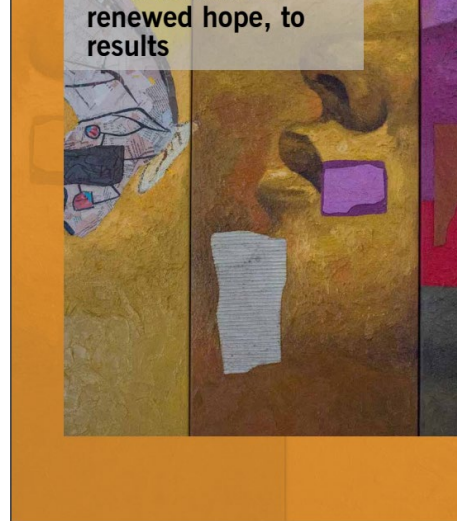
Nigeria's Choice



Seizing the opportunity



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