Nigeria Development Update

Time for Business Unusual

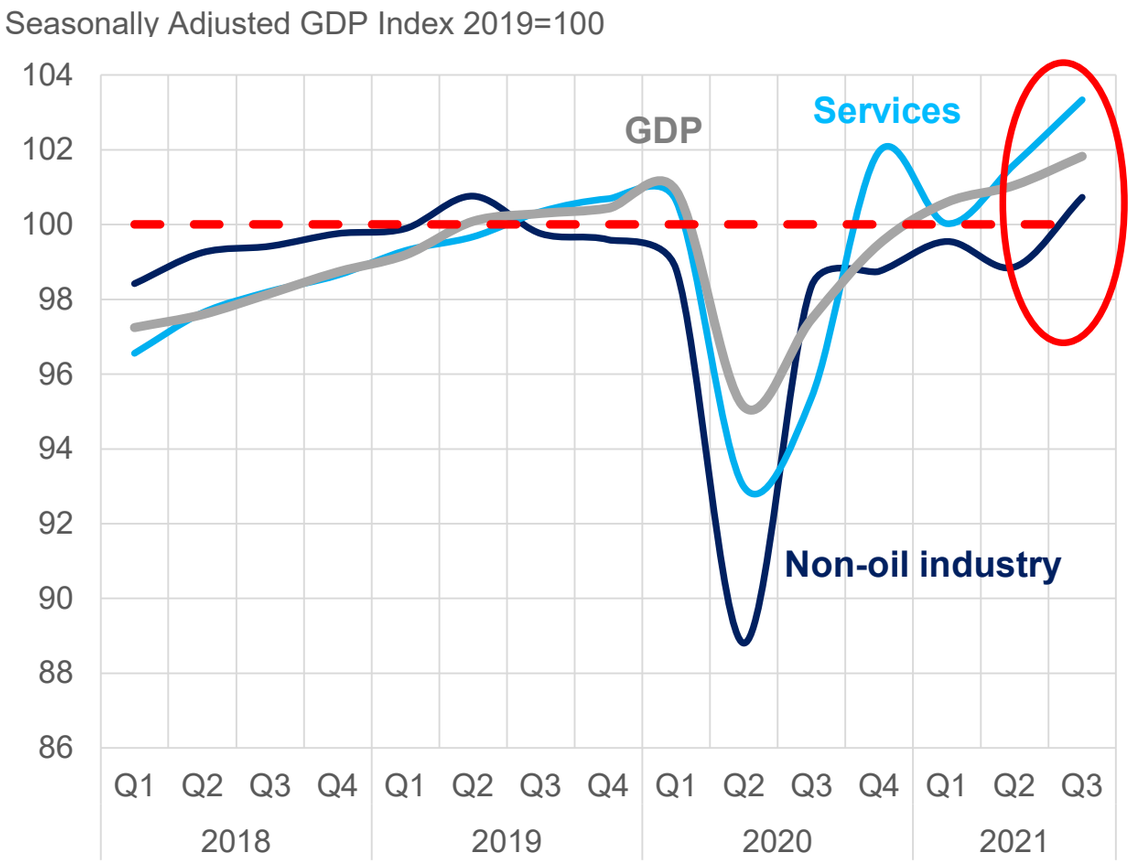
November 23, 2021

WORLD BANK GROUP

NIGERIA'S POST-COVID RECOVERY HAS STRENGTHENED, BUT IS VULNERABLE

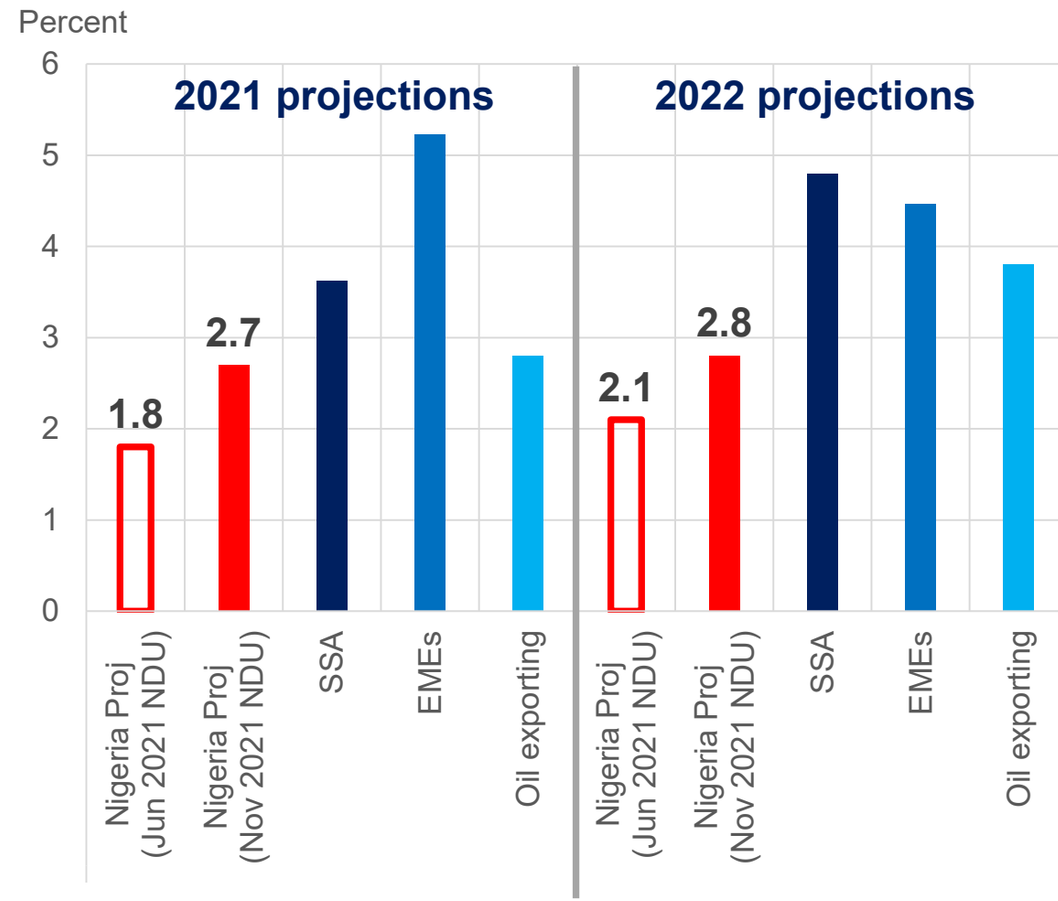
NIGERIA'S ECONOMY IS RECOVERING FASTER IN 2021 THAN INITIALLY EXPECTED, BUT IT IS STILL LAGGING PEERS

Growth continued to pick up, and in Q3 2021 it surpassed 2019 levels…



Source: NBS and World Bank estimates.

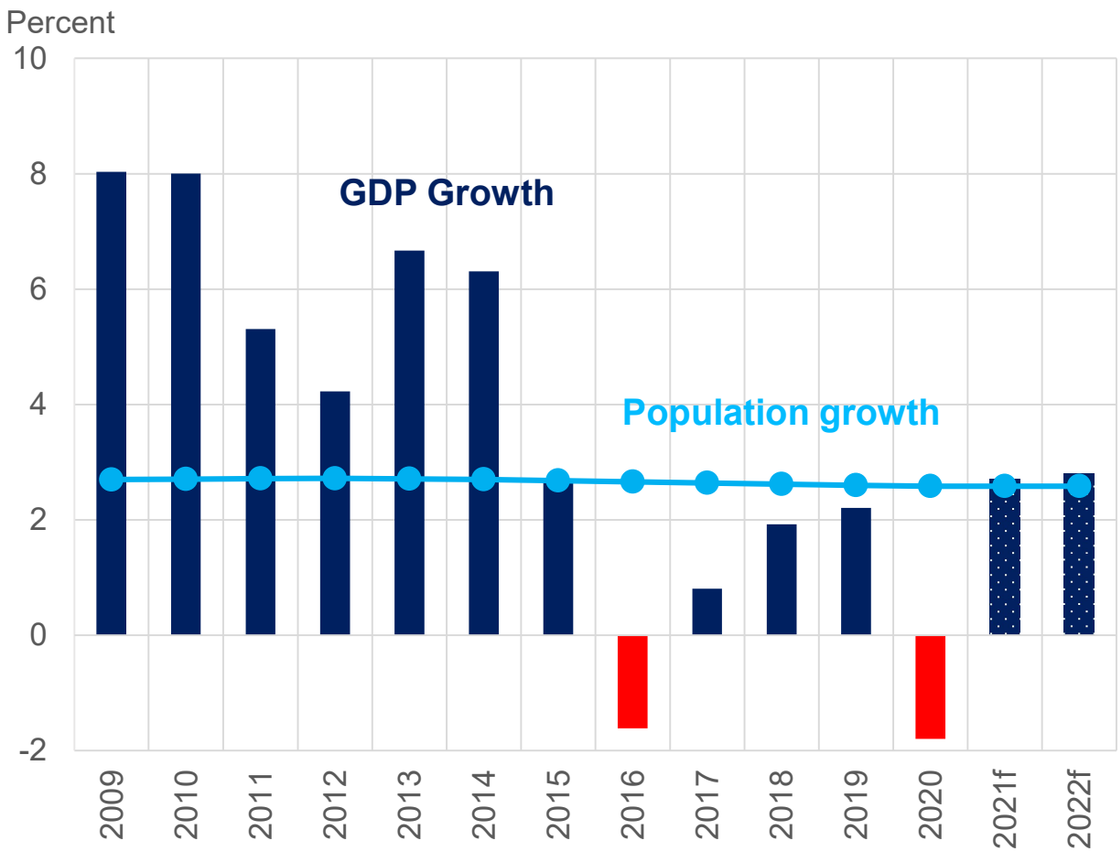
…and while our forecasts for Nigeria are higher, Nigeria is expected to grow more slowly relative to peers.



Source: NBS, GEP, and World Bank estimates.

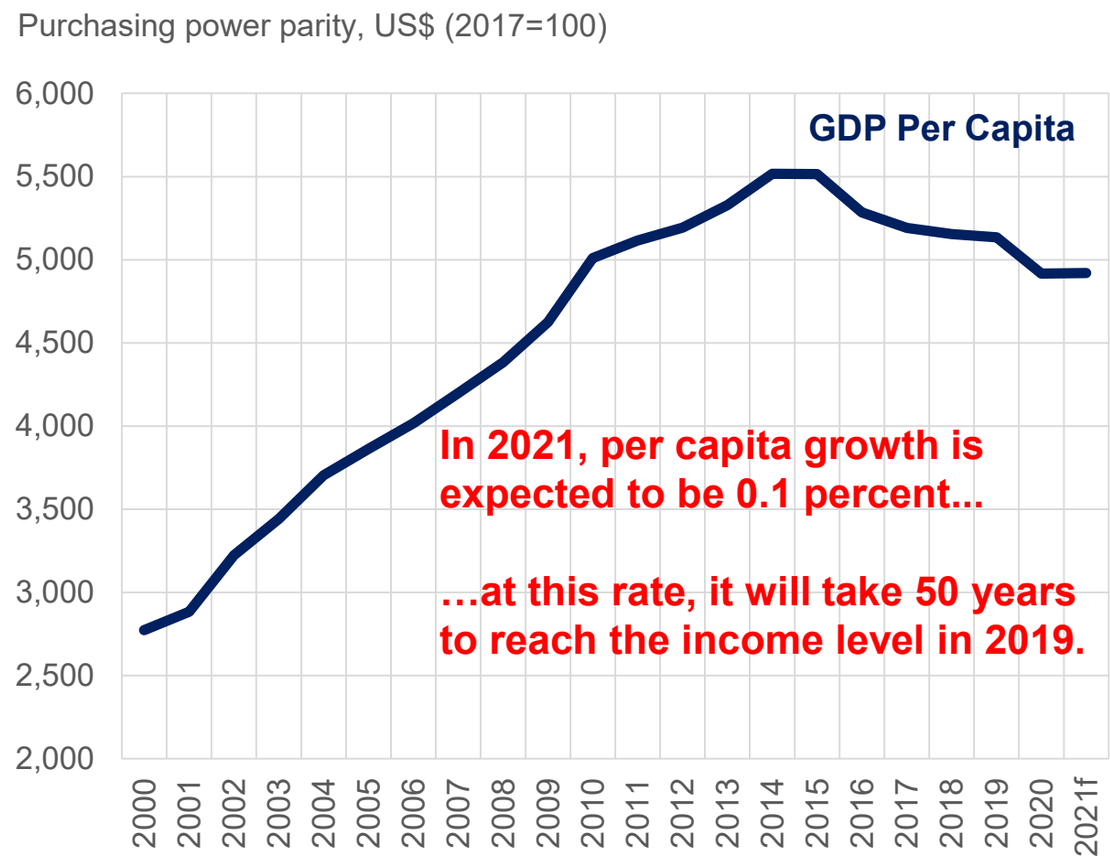
FASTER GROWTH IS NEEDED TO CREATE GREATER OPPORTUNITIES THAT IMPROVE LIVELIHOODS

For the first time since 2015, Nigeria's economy is expected to grow faster than its population in 2021-22…



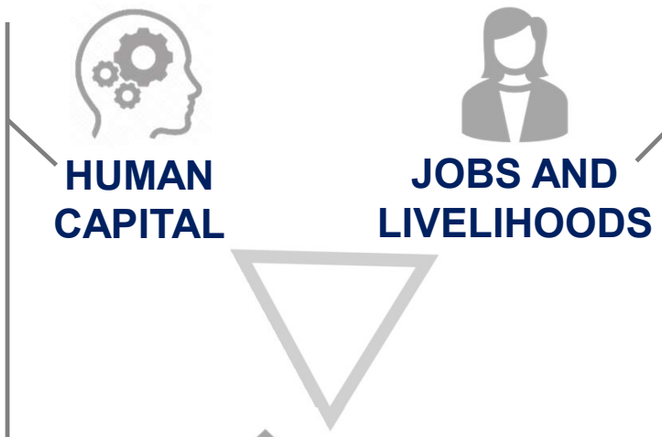
Source: NBS.

…yet growth is still too low to create the kind of economic opportunities that Nigeria needs.



Source: NBS, GEP, and World Bank estimates.

THE COVID-19 CRISIS IS SIGNIFICANTLY IMPACTING HOUSEHOLDS, AND THE EFFECTS OF THE PANDEMIC MAY BE LONG-LASTING



HUMAN CAPITAL

- School closures in 2020 reduced older children's attendance, even after reopening, implying possible long-lasting consequences for human capital.
- Nigerian children may have suffered a loss of around 0.3 learning-adjusted school years.
- School shutdowns may have exacerbated educational inequalities due to uneven access to remote learning.

JOBS AND LIVELIHOODS

- To cope with the crisis, many Nigerians have resorted to retail and trade jobs, but few of these jobs yield secure earnings.
- Agriculture fared better than other sectors during the crisis, thanks partly to favorable rains, even if disruptions and rising prices affected crop production.
- Young Nigerians aspire to good professional jobs after the crisis; in the absence of jobs there could be widespread disappointment.

WELFARE

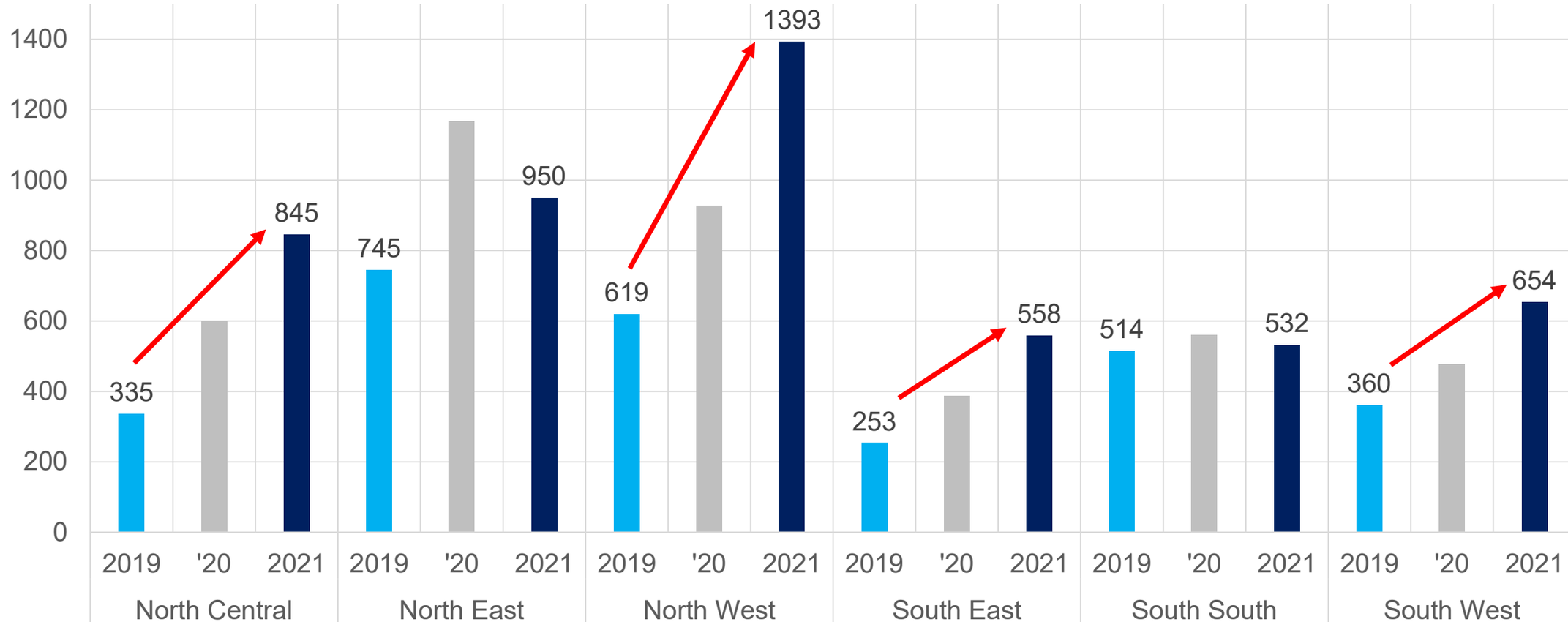
- To cope with lower incomes, many households have reduced their food consumption.
- High inflation has compounded the negative welfare effects.
- Due to limited social protection, poor and vulnerable households have been affected more by the COVID-19 crisis.

Source: World Bank (2021), "COVID-19 in Nigeria: Frontline Data and Pathways for Policy."

VIOLENT CONFLICT CONTINUES TO RISE ACROSS THE NATION

…dragging private investment and job creation.

Number of violent conflict events, Jan-Sept.



Source: ACLED and World Bank calculations.

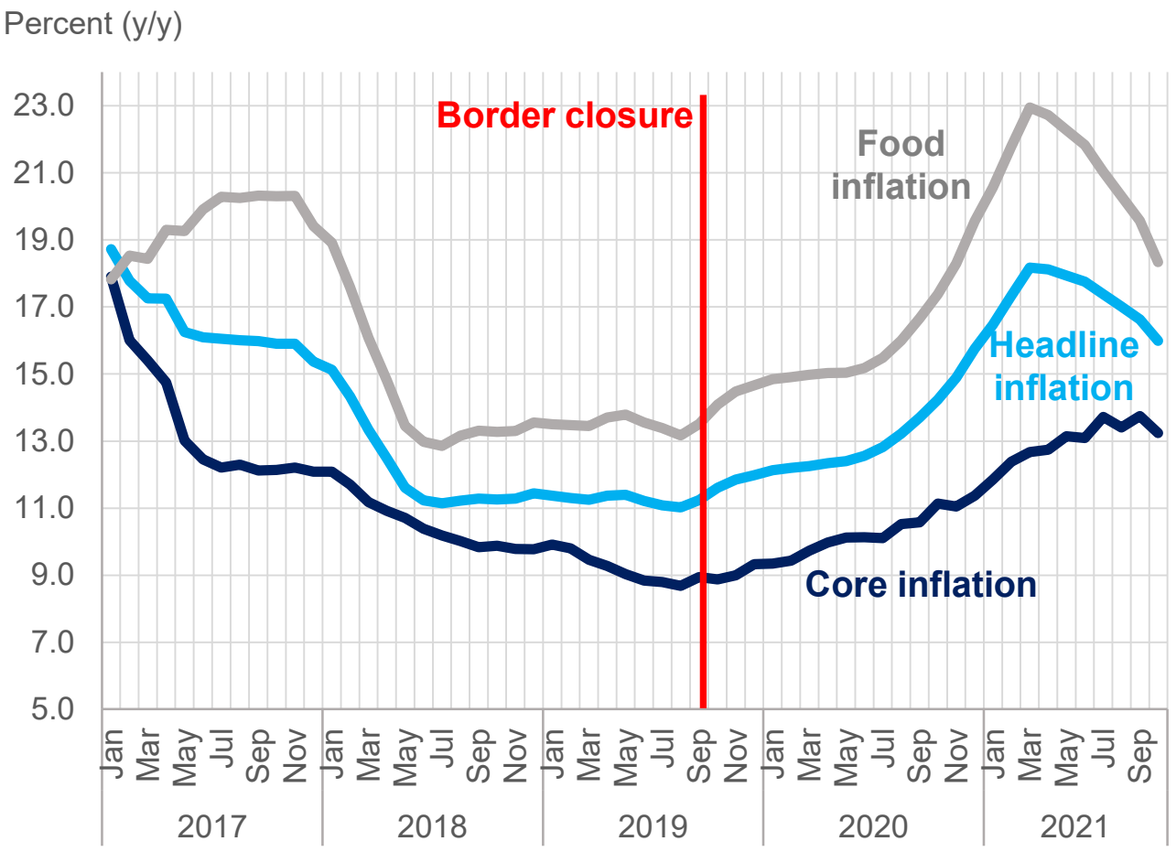
REDUCING INFLATION AND ENHANCING EXCHANGE RATE MANAGEMENT REMAIN A PRIORITY…

…A NEW URGENCY IS TO ADDRESS FISCAL RISKS

WHILE INFLATION HAS COME DOWN, IT REMAINS VERY HIGH, AND NIGERIANS ARE FEELING THE PINCH

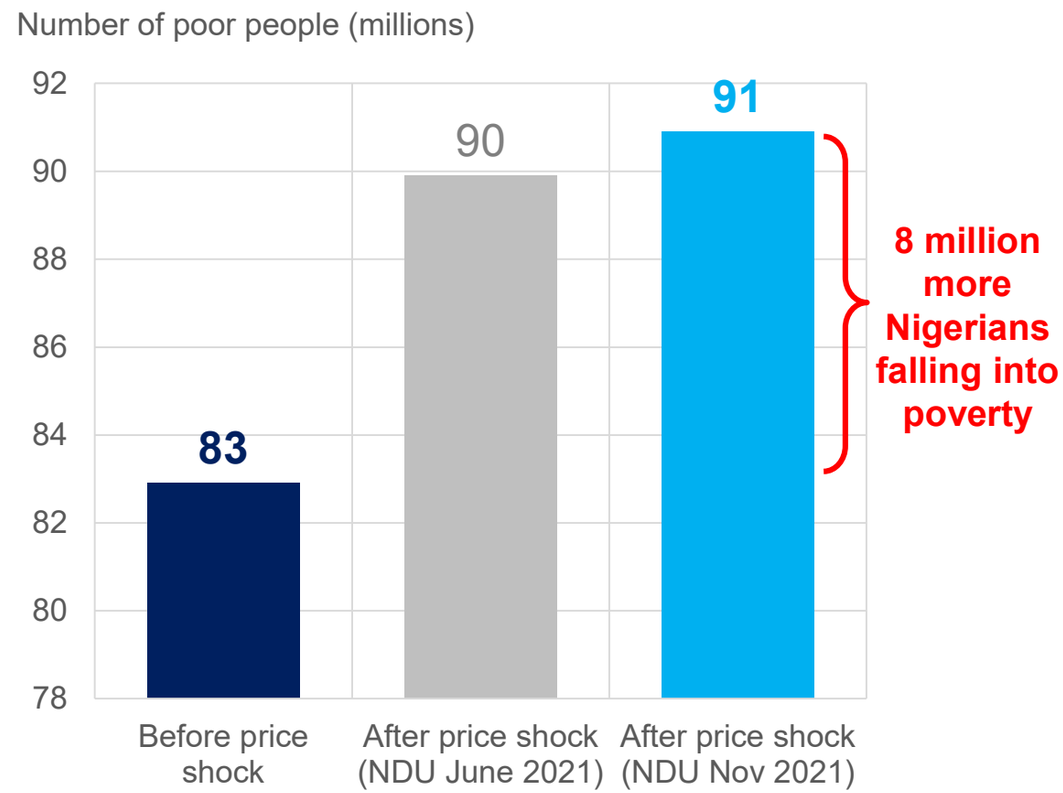
…prices continue to rise fast, pushing millions of families into poverty.

Nigeria has the 7th highest inflation rate in Africa, and it is one of the few countries where inflation rose as incomes fell.



Source: NBS.

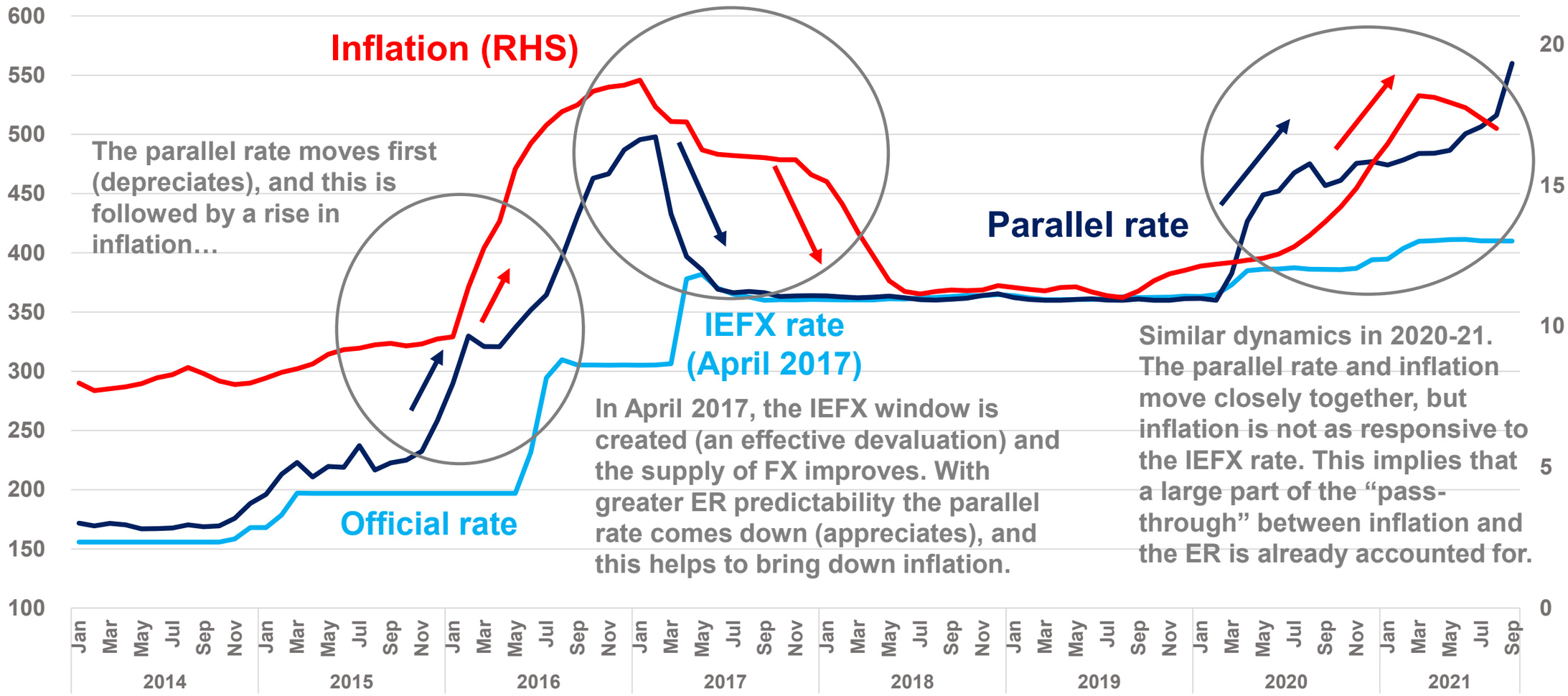
The "inflation shock" pushed about 8 million Nigerians into poverty during 2020 and 2021.



Source: NBS and World Bank estimates.

THE PARALLEL RATE IS DRIVING INFLATION. MORE FLEXIBLE AND PREDICTABLE FX MANAGEMENT WILL HELP REDUCE INFLATION…

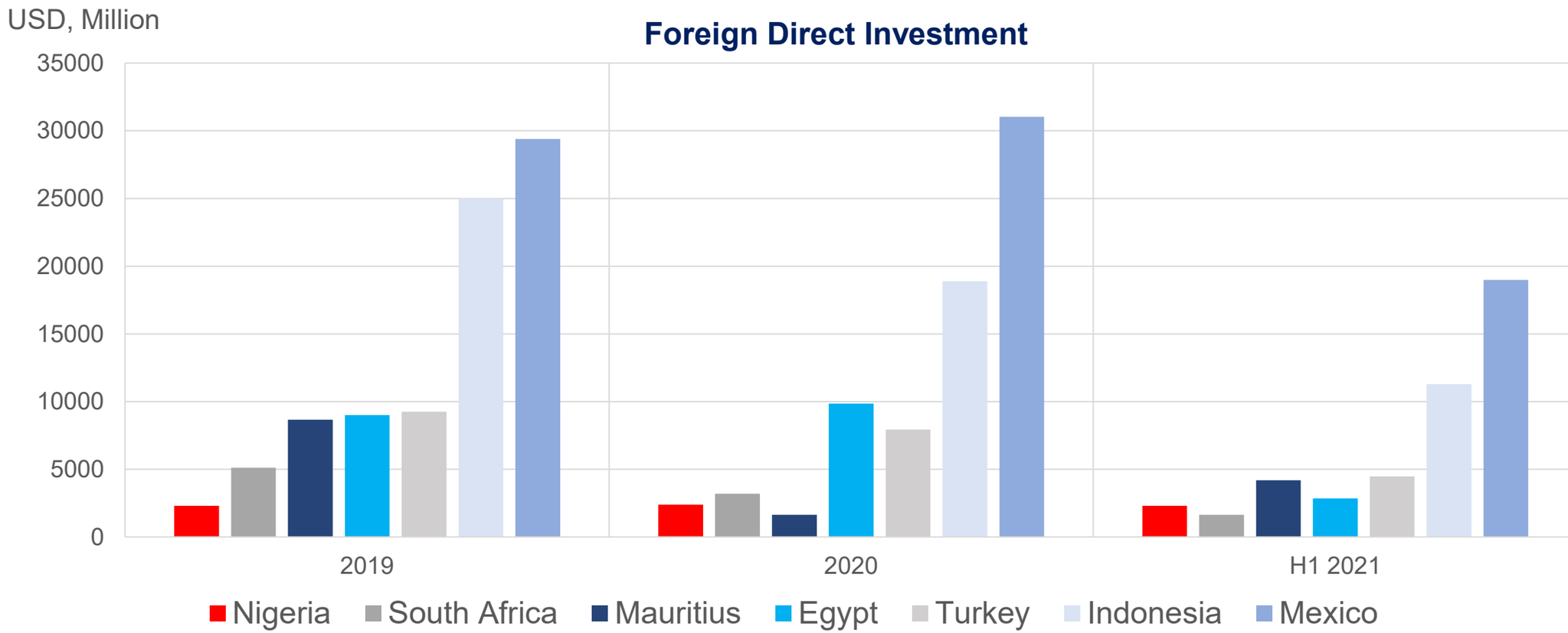
…the parallel rate is driving inflation even if the volume of transactions in the parallel market is small



Source: CBN, NBS.

…ENHANCED EXCHANGE RATE MANAGEMENT WILL HELP ATTRACT AND RETAIN PRIVATE INVESTMENT NEEDED FOR JOBS

Nigeria is lagging in foreign direct investment inflows compared to peer economies.



Source: World Economic Outlook.

FISCAL RISKS ARE RISING, MAINLY BECAUSE OIL REVENUES ARE FALLING AT A TIME WHEN OIL PRICES ARE HIGHER

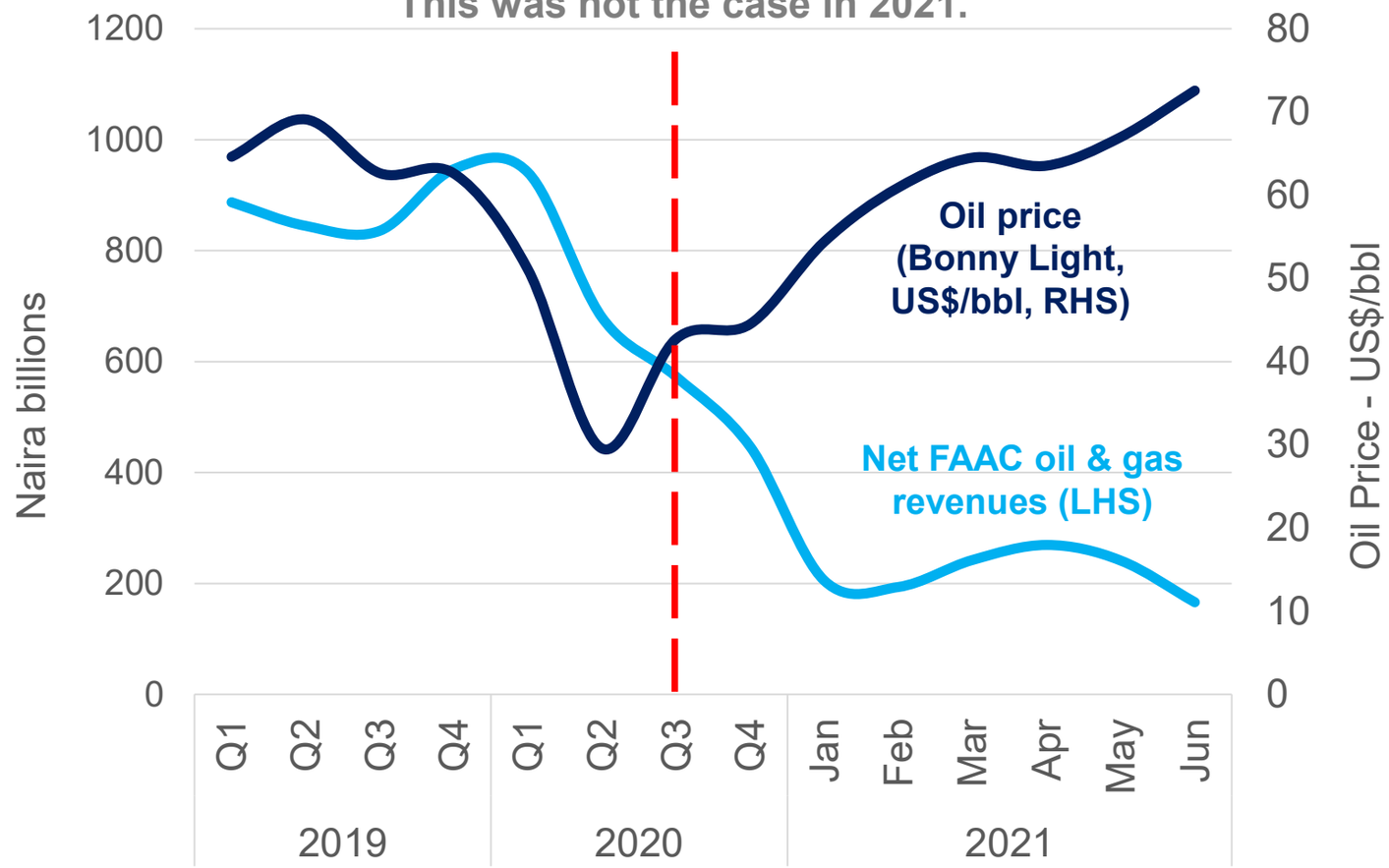
Before the pandemic, Nigeria already had the lowest revenues in the world…

Ranking:
115th out of 115 countries (2015-2019)

…and as a result, the second lowest spending level.

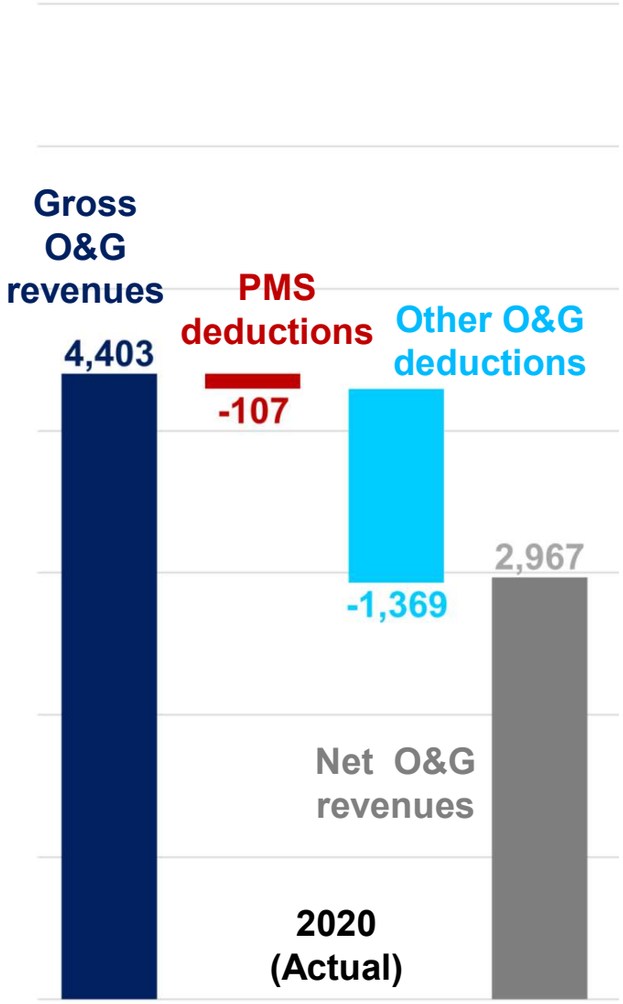
Ranking:
114th out of 115 countries (2015-2019)

Typically, Nigeria's oil revenues improve when oil prices rise. This was not the case in 2021.



Source: NBS, CBN, and OAGF.

FEDERATION REVENUES WILL BE SIGNIFICANTLY LOWER IN 2022 THAN IN 2020, MAINLY DUE TO LOWER NET OIL & GAS REVENUES



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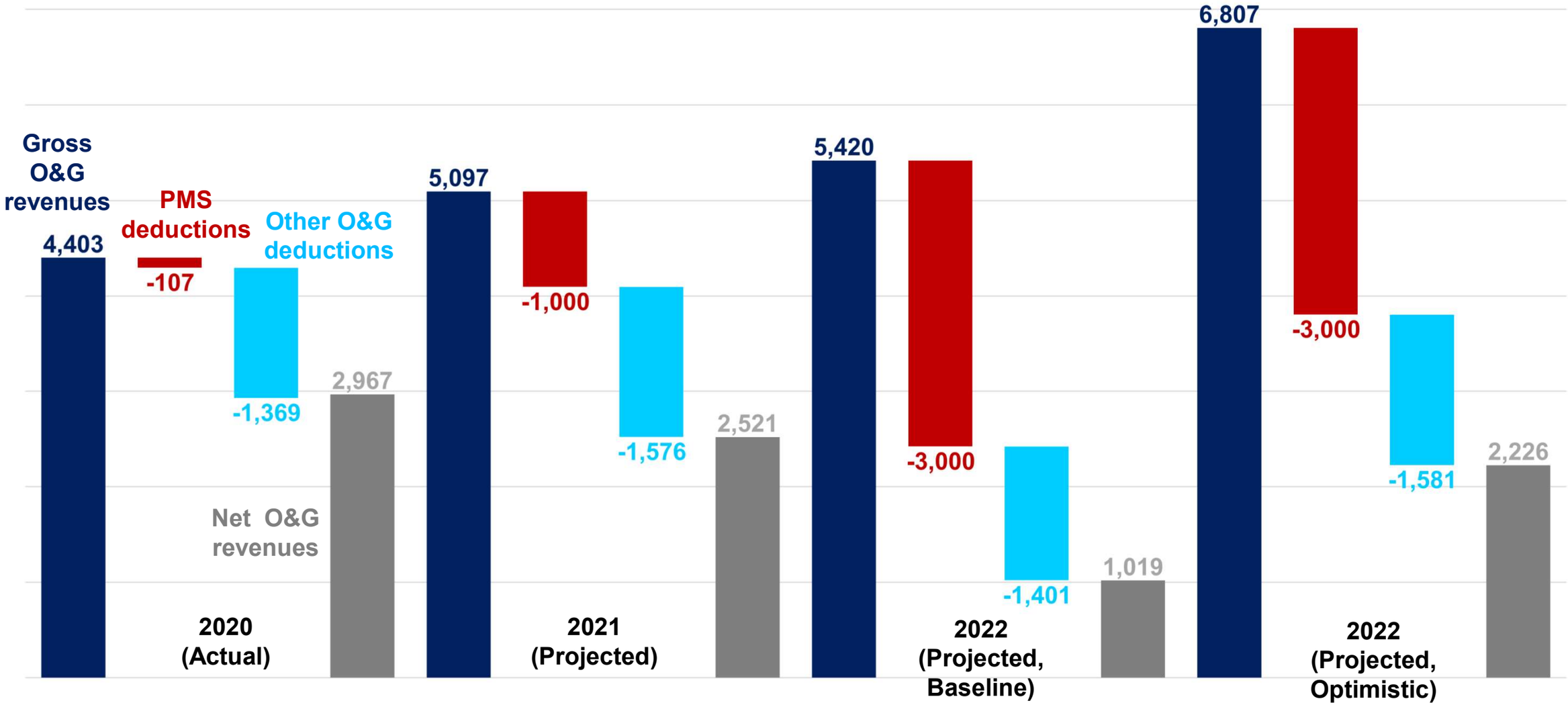
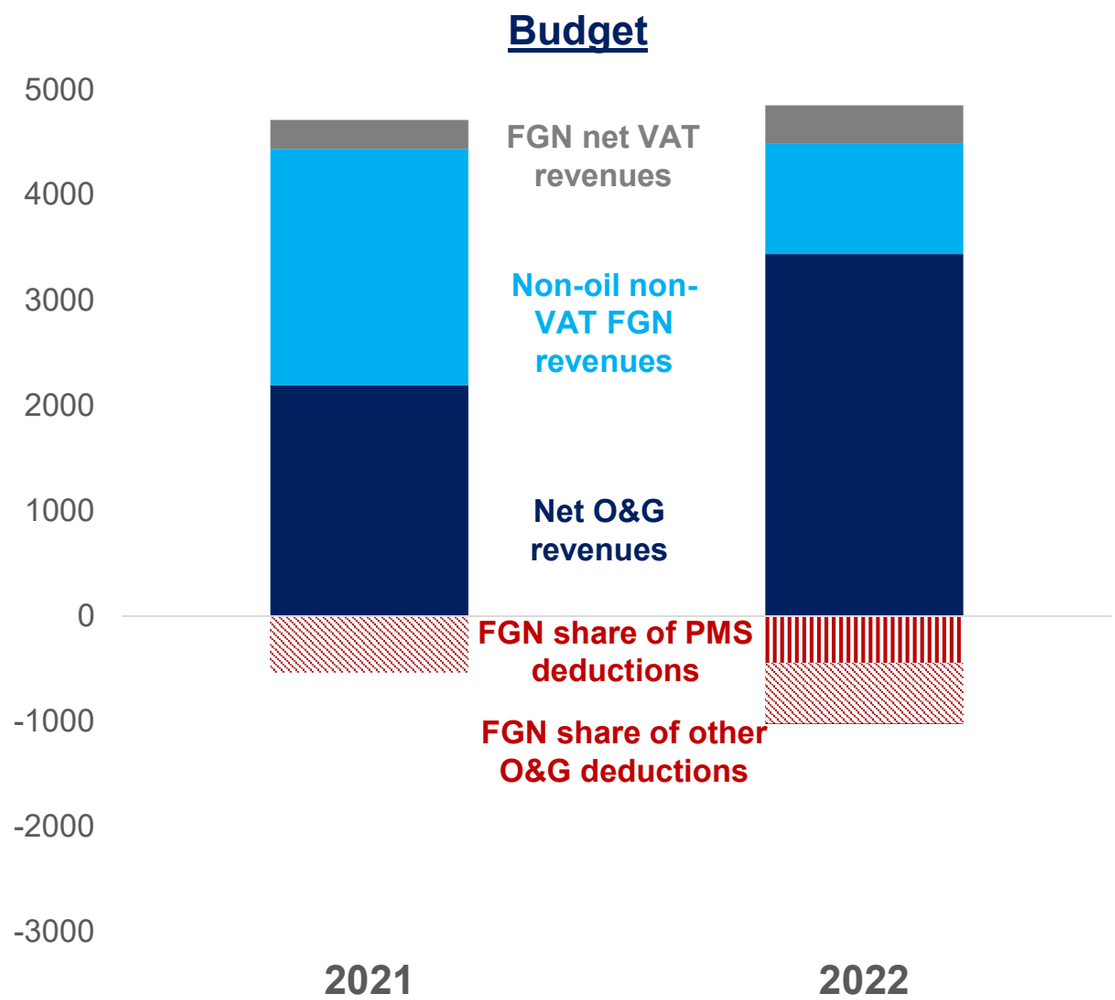
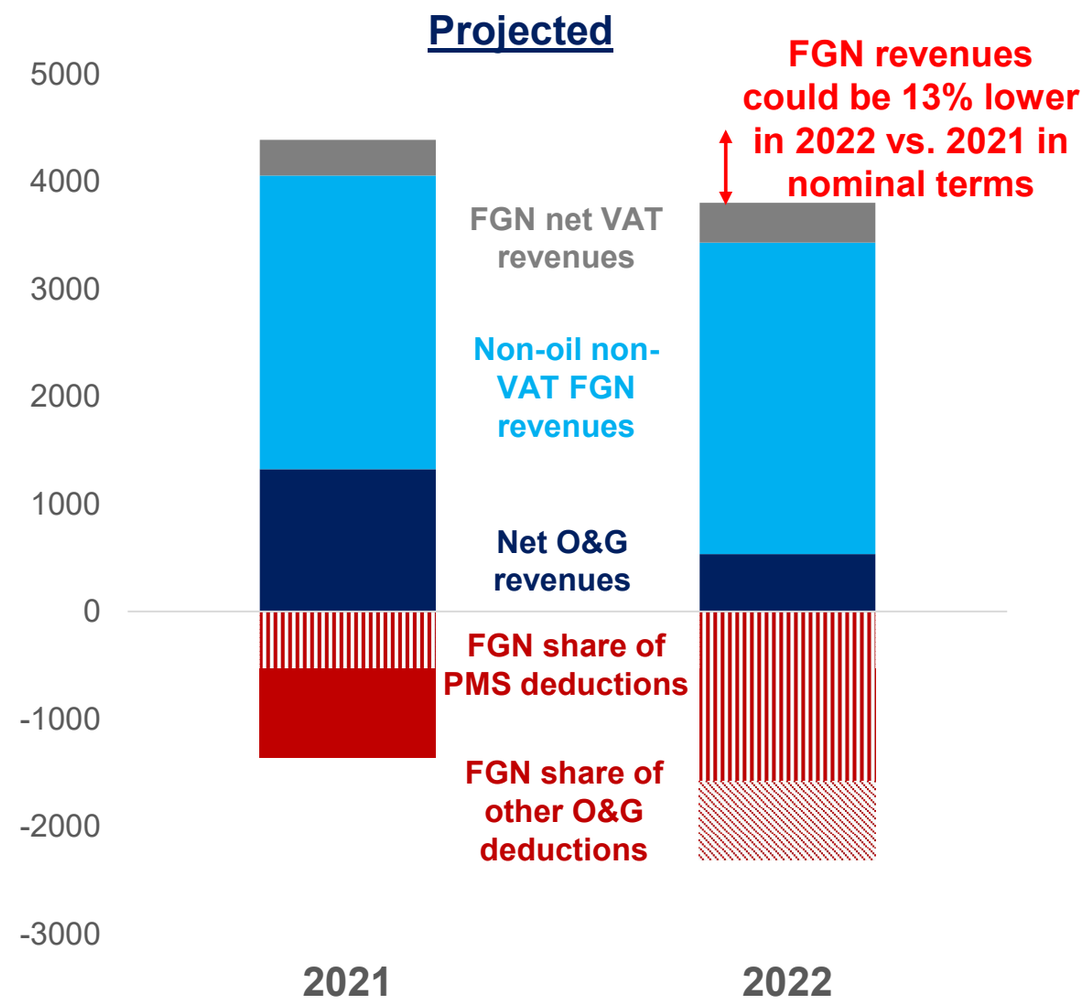
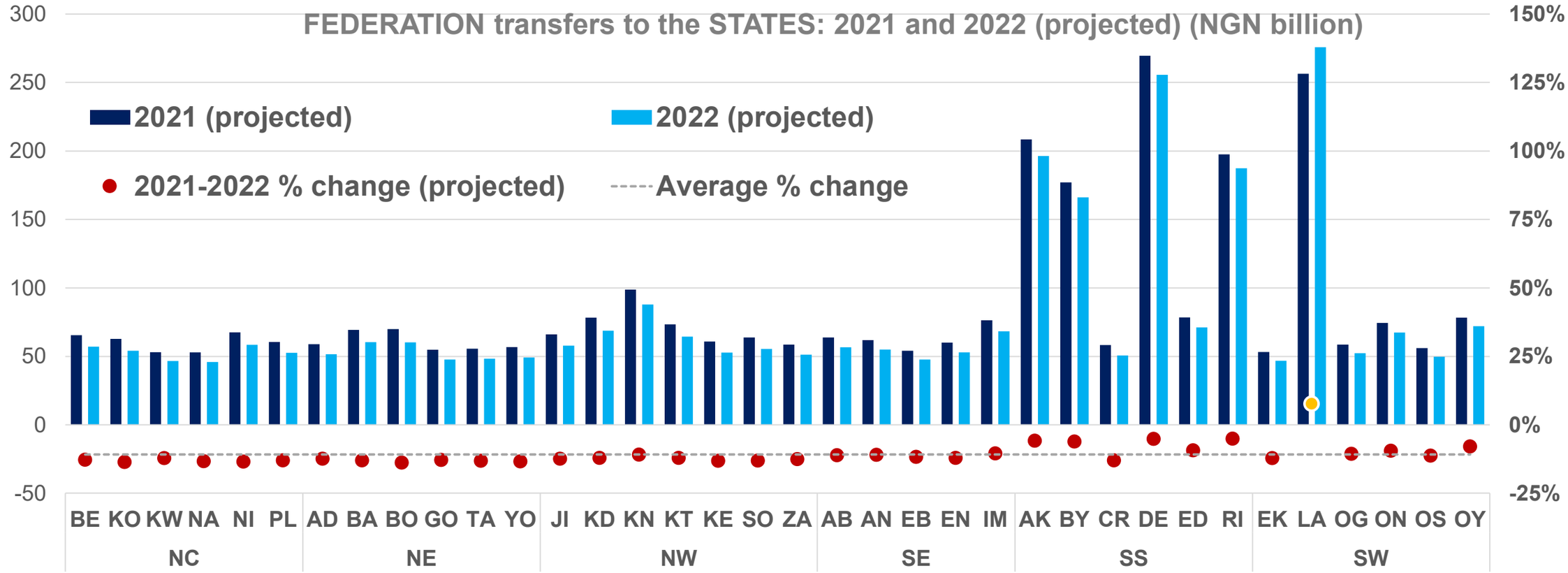


FEDERAL GOVERNMENT REVENUES WILL BE HIT PARTICULARLY HARD IN 2021 AND ESPECIALLY IN 2022





TRANSFERS TO THE STATES ARE PROJECTED TO DECLINE IN 2022

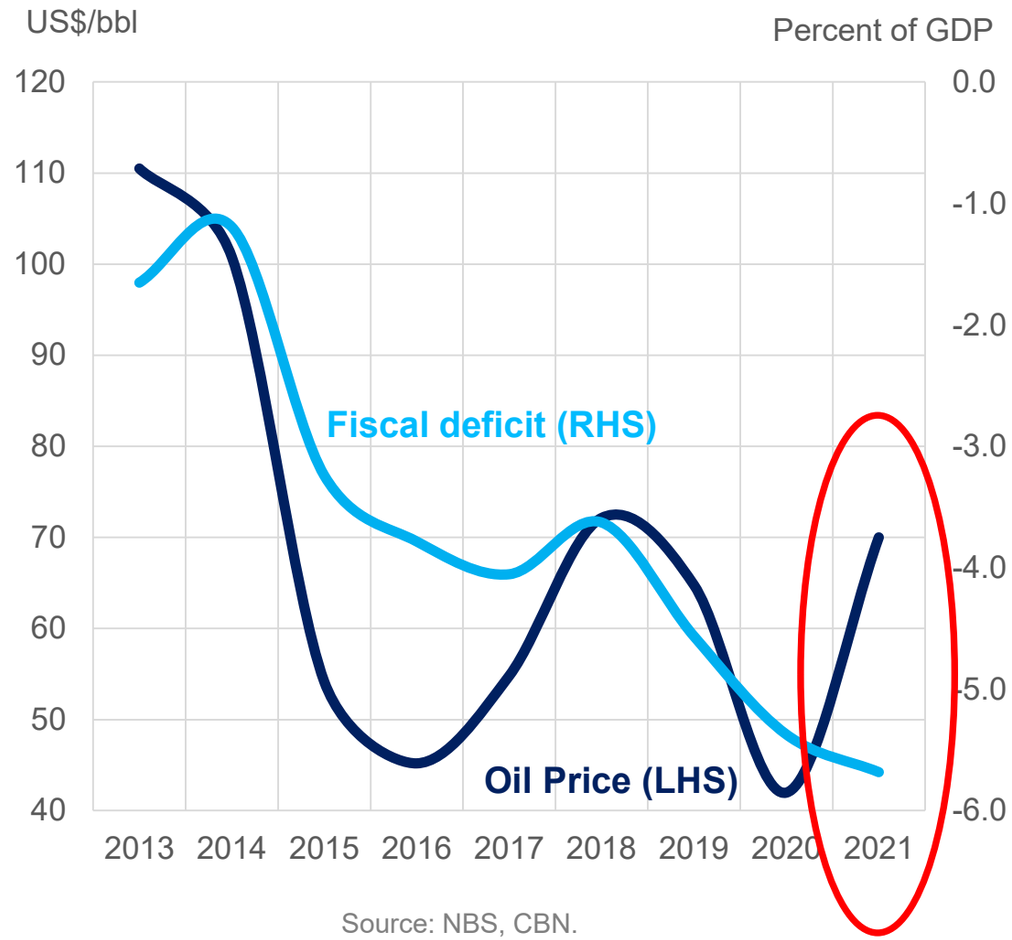


- **35 out of 36 states are likely to see transfers from the Federation fall** (in **nominal terms**) from 2021 to 2022, with the **average decline projected to be about 11%.**
- **In the case of many states, this will mean that transfers from the federation will not be enough to cover even salaries, and certainly not recurrent costs, which are growing in nominal terms.**

IN SUMMARY, NIGERIA'S FISCAL POSITION IS DETERIORATING

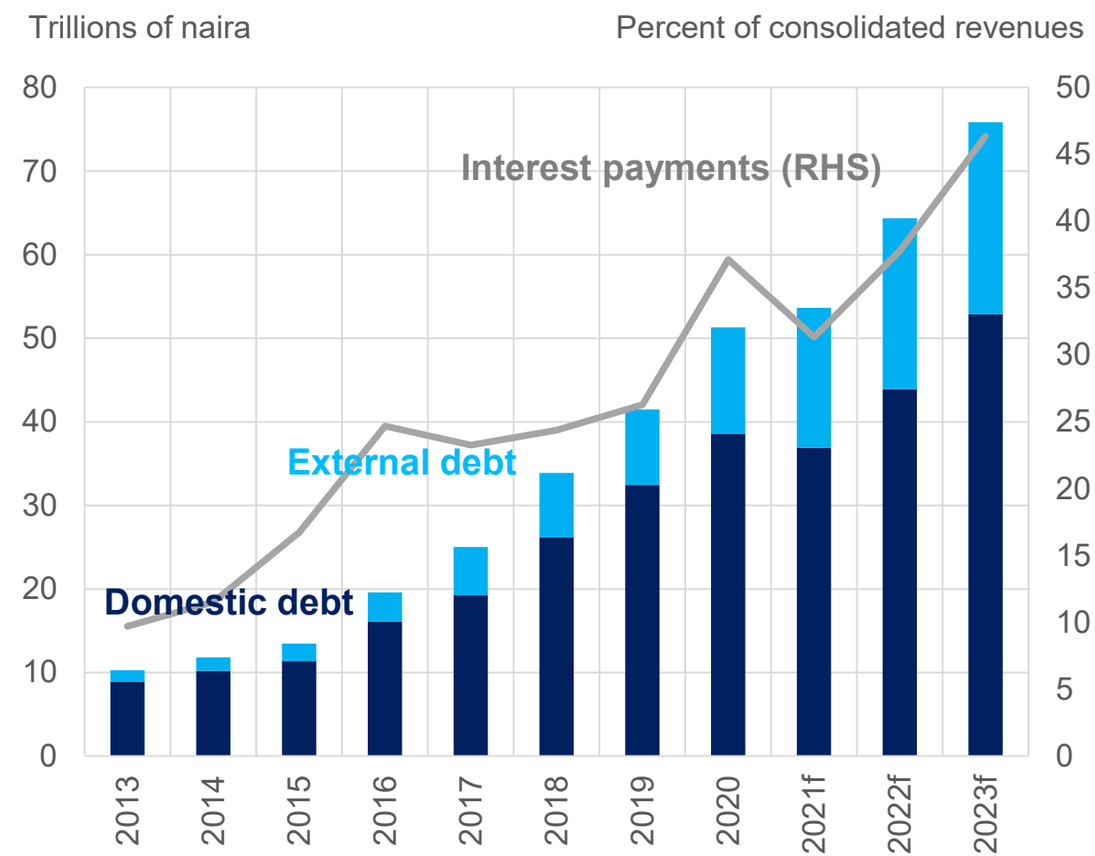
…resulting in higher debt and less space for investments in human capital and infrastructure.

Nigeria's fiscal deficit has widened…



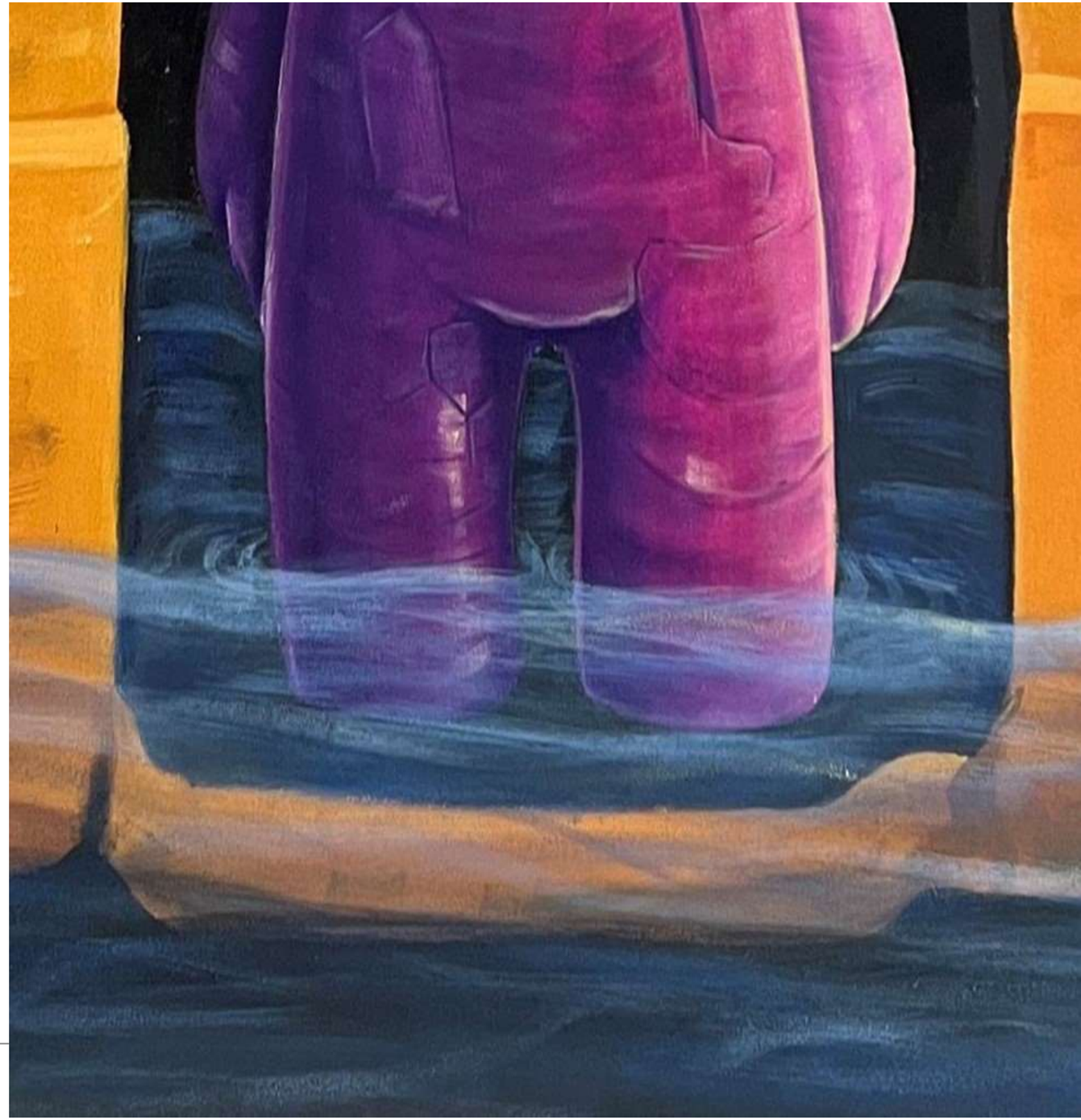
Source: NBS, CBN.

…resulting in higher debt and a larger share of revenues dedicated to serve this debt.



Source: NBS, CBN, and World Bank estimates.

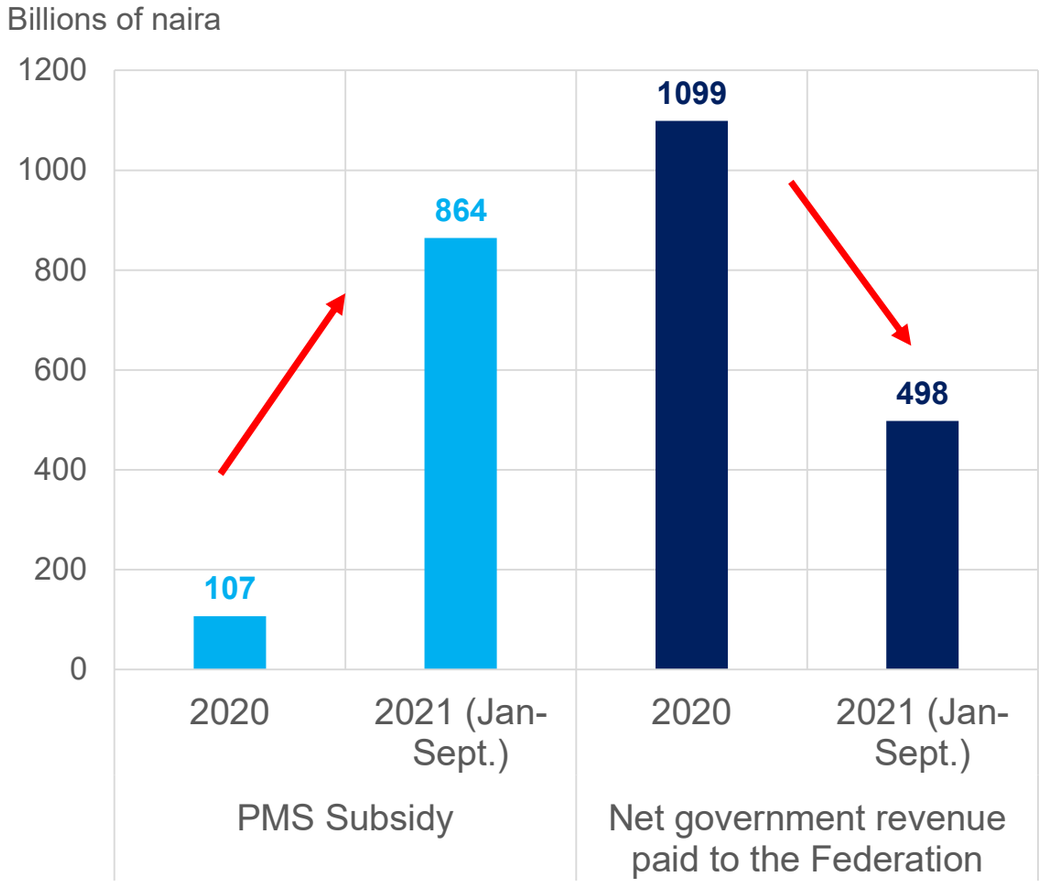
THE PMS SUBSIDY AND THE URGENCY FOR A “COMPACT” WITH THE NIGERIAN PEOPLE



NIGERIA IS THE ONLY COUNTRY IN THE WORLD THAT SUBSIDIZES ONLY PMS, THE COST OF WHICH IS MASSIVE AND UNSUSTAINABLE

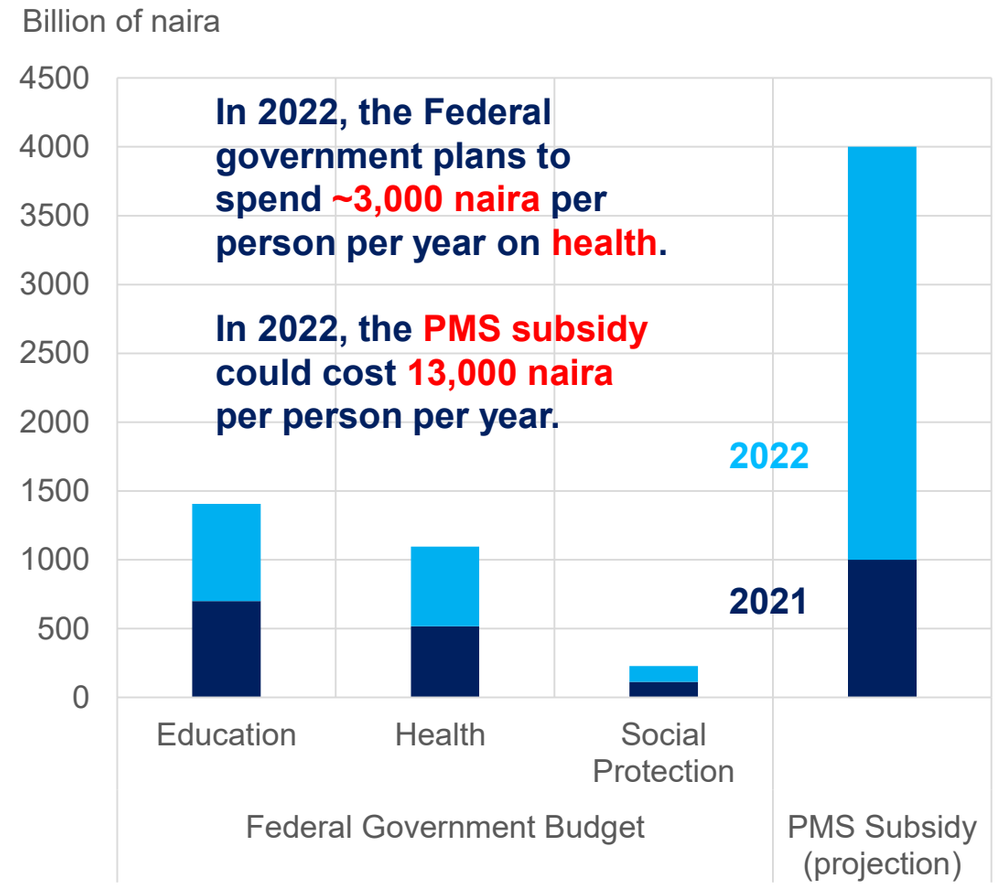
…as a result, Nigeria is sacrificing critical investments in physical and human capital.

The cost of PMS subsidy is at a six year high…



Source: CBN.

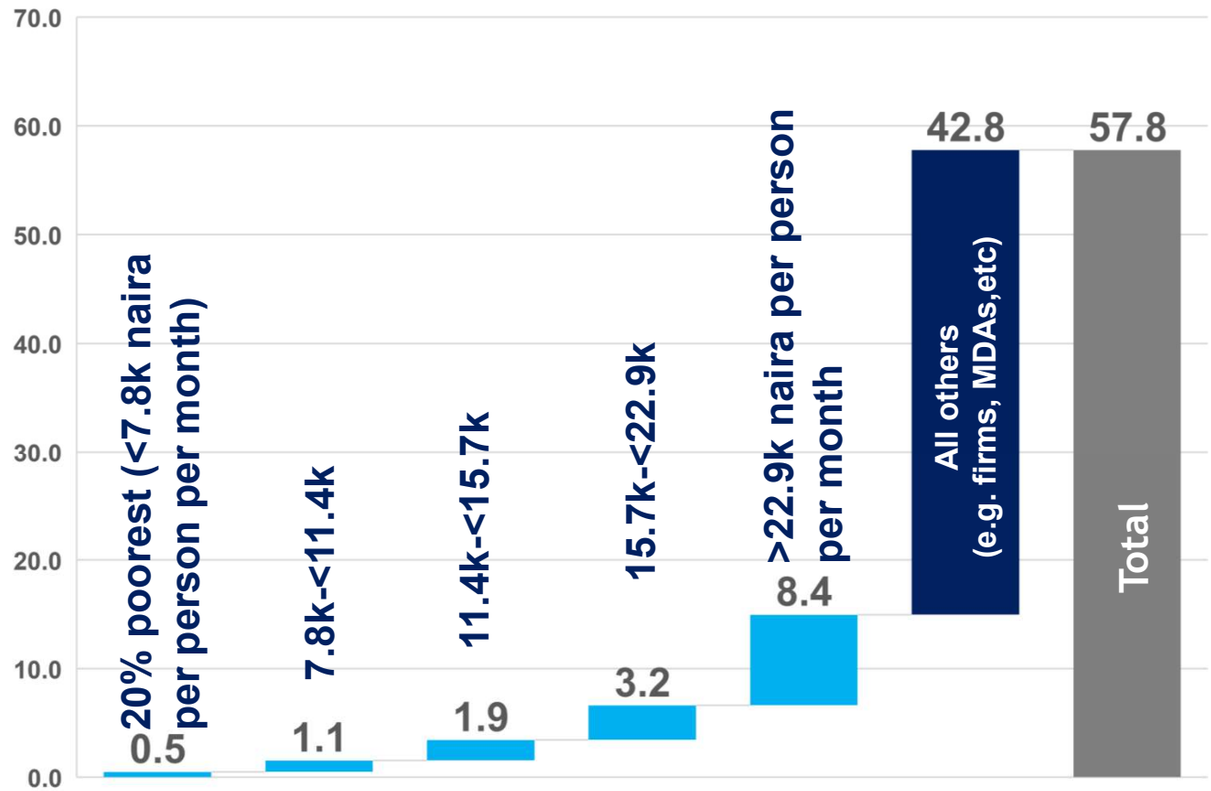
…significantly reducing fiscal space for social spending.



Source: NBS, CBN, and World Bank estimates.

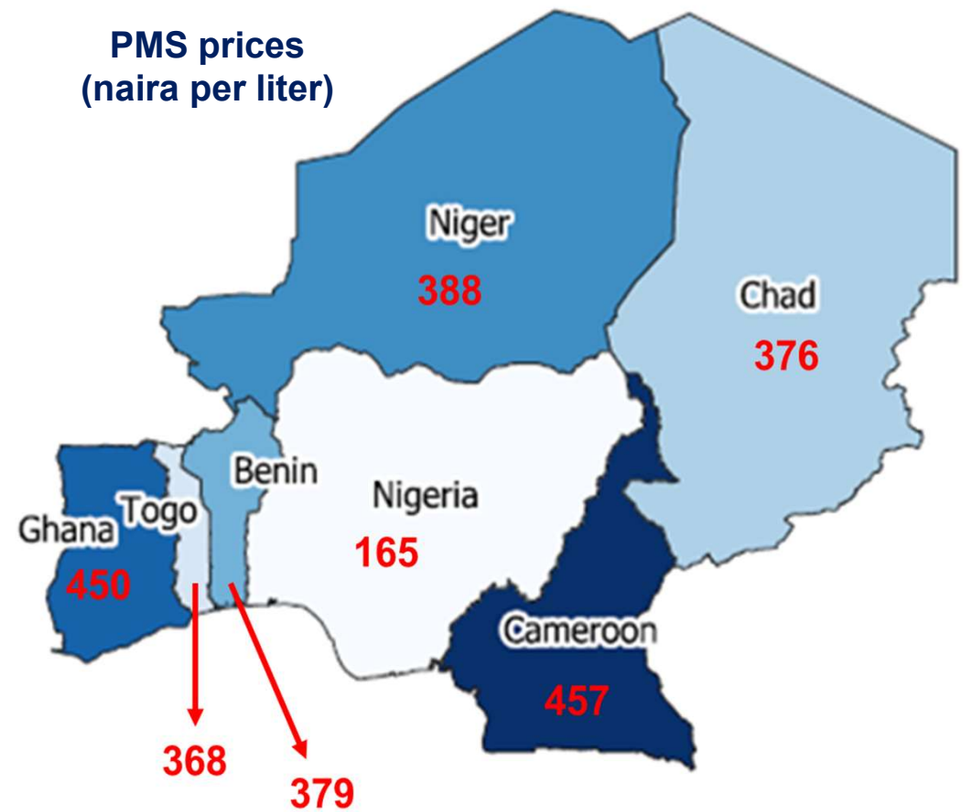
MOST OF THE PMS SUBSIDY BENEFITS RICHER NIGERIANS, AND FUEL SMUGGLERS

The poorest 40% consume less than 3% of the total PMS consumption in Nigeria



Consumption of PMS by households and others (millions of liters per day)

By creating a large price differential between Nigeria and its neighbors, the PMS subsidy is incentivizing smuggling



A BETTER CHOICE: A "COMPACT" WITH THE PEOPLE UNDER WHICH…

The domestic price of PMS is allowed to be cost-reflective…

…eliminating the PMS subsidy that will cost the federation over NGN 3 trillion a year in forgone revenues and mostly benefits the rich and those who smuggle PMS to neighboring countries…

PMS SUBSIDIES
(could cost NGN 3 trillion over the next 12 months)

…and the **NGN 3 trillion** in recovered revenues from eliminating PMS subsidies are REDIRECTED to:

- Immediately deliver NGN 600 billion in **CASH SUPPORT TO THE PEOPLE** over the six months following the removal of PMS subsidies

…and to funds for development priorities at all levels of government:

- **LGA development funds**
- **STATE development funds**
- **NATIONAL priority programs**

NATIONAL PRIORITY PROGRAMS
(NGN 850 billion)

- Security
- Interstate connectivity
- Power sector recovery

STATE DEVELOPMENT FUNDS
(NGN 800 billion)

- Basic education
- Rural roads
- Industrial zones

LOCAL GOVERNMENT DEVELOPMENT FUNDS
(NGN 774 billion)

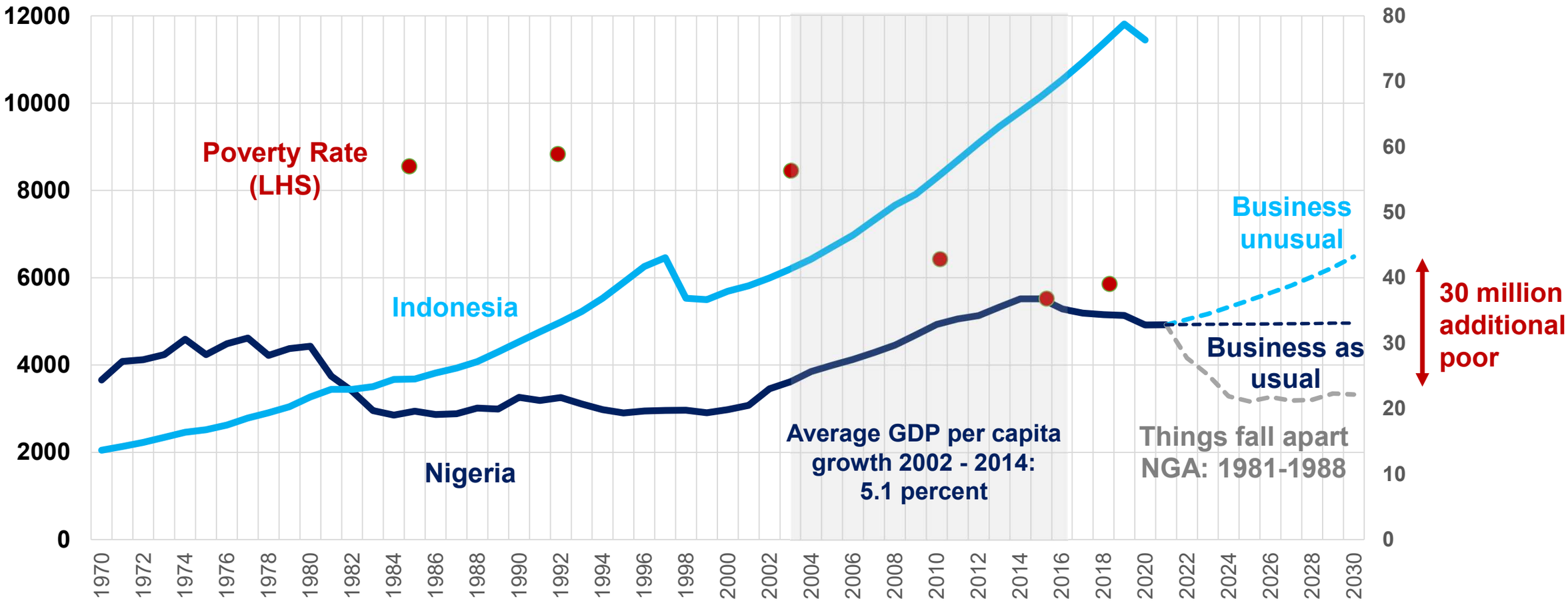
- Primary healthcare
- Water & sanitation
- Community development

CASH FOR THE PEOPLE
- 6 months
- NGN 5,000 per month

NATIONAL BASE (NGN 300 billion) 10 million beneficiaries	LOCALIZED STATE ADD-ON (NGN 300 billion) 10 million beneficiaries

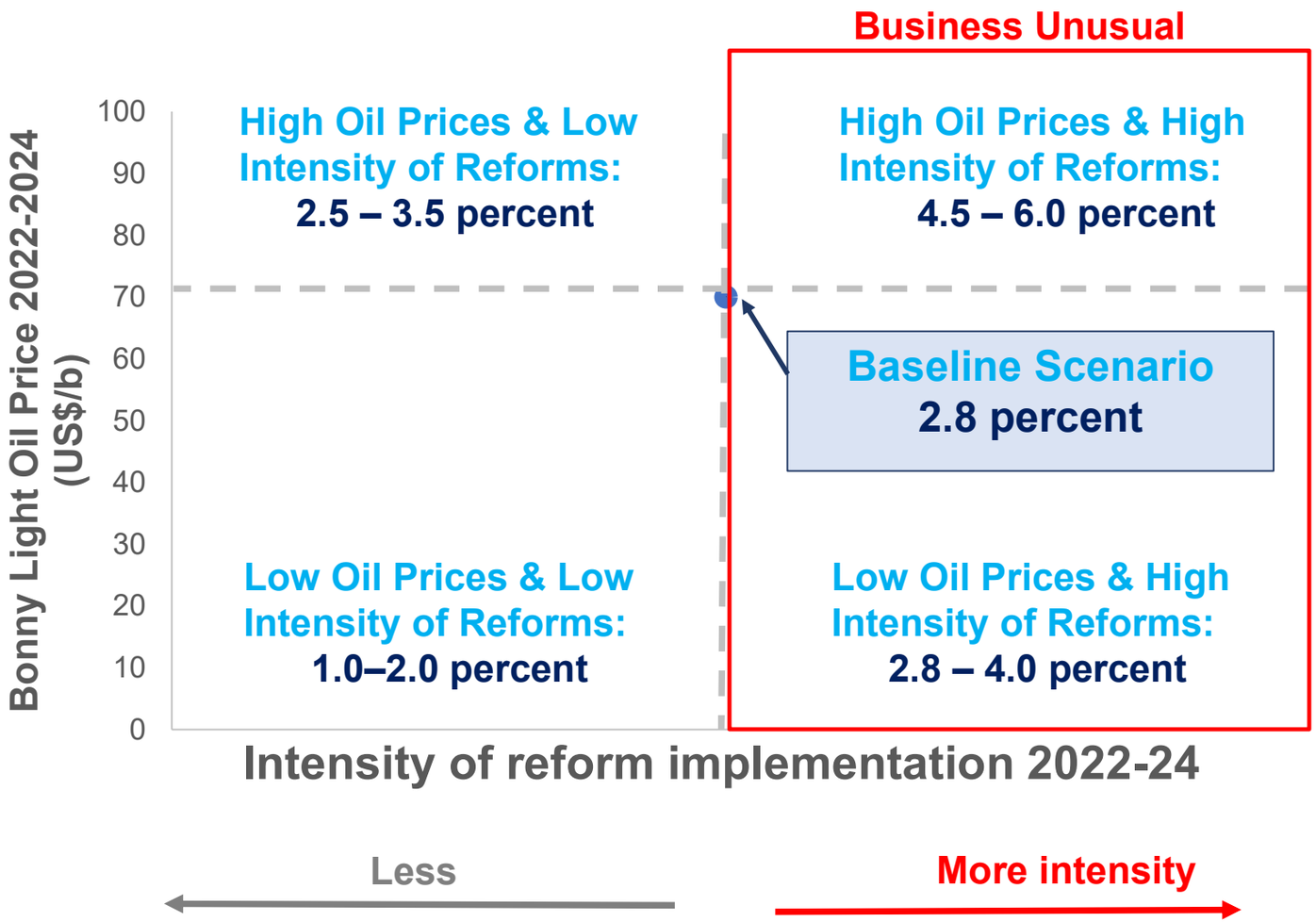
THE URGENCY OF BUSINESS UNUSUAL

WHY THE URGENCY: BUSINESS-AS-USUAL POLICIES WOULD PUSH MILLIONS OF NIGERIANS INTO POVERTY



HIGHER OIL PRICES WON'T GET US THERE…ONLY POLICY REFORMS CAN BOOST GROWTH TO THE LEVELS NIGERIA NEEDS

What this means over for the next 3 years…



A business unusual scenario would prevent 6 million additional Nigerians falling into poverty during 2022-2024.

HOW TO GET THERE: THE PRIORITY FOR THE NEXT 3-6 MONTHS

1. Reducing inflation
2. Addressing fiscal pressures
3. Catalyzing private investment to boost job creation
4. Protecting the poor and vulnerable

HOW TO GET THERE: THE PRIORITY FOR THE NEXT 3-6 MONTHS

- Enhance the flexibility and predictability of **exchange rate management**.
- Fully reopen **land borders** to trade.
- Remove **FX restrictions** on imports of staple foods and medicines.
- Signal the CBN's commitment to **price stability** as the primary goal.
- Reduce **CBN overdrafts** for deficit financing to their legal limit.

1 Reducing inflation

2 Addressing fiscal pressures

- Eliminate the **PMS subsidy** in a way that protects the poor.
- Raise **excise taxes on "sin goods"** (alcohol, cigarettes, sugary drinks).
- Enhance **tax compliance** on the VAT and the Electronic Money Transfer levy.
- Introduce a **"green" surcharge** on imported vehicles.

3 Catalyzing private investment to boost job creation

- Clearly communicate the **exchange-rate management strategy** to build credibility and improve FX access (e.g., well-defined FX auctions).
- Deepen **power sector** reforms.
- Reduce delays in **border and port clearance** (automating procedures and introducing risk-based customs interventions.

4 Protecting the poor and vulnerable

- Implement a large-scale (25% to 50% of the population) and **time-bound targeted cash-transfer program** to mitigate impacts of high inflation and the PMS subsidy removal.
- Redirect savings from PMS subsidy to finance **primary health, basic education, and rural connectivity**.

People forge ideas, people mold dreams, and people create art.

Thank You