Nigeria Development Update

Rising to the Challenge

Nigeria’s COVID response

December 10, 2020
NIGERIA’S ECONOMY HAS PLUNGED INTO ITS DEEPEST RECESSION SINCE THE 1980s
How has COVID-19 affected Nigeria’s economy?

**Oil price**
- In 2020 oil exports are expected to fall by 43%
- …and fiscal revenues are expected to fall by about 25%

**Remittances**
- In H1 2020 remittances fell by about 50%
- 1 in 2 Nigerians live in a household that receive remittances

**Capital flows**
- In 2020 net portfolio investment is projected to shrink by 2.1 p.p. of GDP due to global risk aversion and uncertainty around foreign exchange policies.

**Mobility**
- The non-oil industry and services were heavily affected by mobility restrictions
- As of Q3 2020 these sectors contracted by 4.6% and 3.6%, respectively.

**Quarterly (y-o-y) economic growth in Nigeria**

- In 2020 it recorded its deepest quarterly contraction since the 1980s
INFLATION WAS ALREADY INCREASING BEFORE COVID-19

...rising food prices are disproportionately affecting the poor

In October, inflation reached a 30-month high

Imagine that the amount of food you can buy decreases drastically in just one year. This is how inflation has hit the Nigerian poor.

How many Kgs of these products can 1000 Naira buy

<table>
<thead>
<tr>
<th>Product</th>
<th>Oct 2019</th>
<th>Oct 2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>Maize (kg)</td>
<td><img src="image1" alt="Icons" /></td>
<td><img src="image2" alt="Icons" /></td>
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<tr>
<td>Onion (kg)</td>
<td><img src="image3" alt="Icons" /></td>
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<tr>
<td>Rice (kg)</td>
<td><img src="image5" alt="Icons" /></td>
<td><img src="image6" alt="Icons" /></td>
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</tbody>
</table>

Each icon represents 1 kilogram.
THE PACE OF RECOVERY IS UNCERTAIN

...and the economy is not yet on the right track

Most high-frequency indicators are “blue/cold”, which implies that they are not supporting a recovery.

<table>
<thead>
<tr>
<th>Indicators</th>
<th>2019</th>
<th>2020</th>
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<tbody>
<tr>
<td></td>
<td>Dec</td>
<td>Jan</td>
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<tr>
<td>Headline Inflation</td>
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<tr>
<td>Food Inflation</td>
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<tr>
<td>Crude Oil Price</td>
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<tr>
<td>Manufacturing PMI</td>
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<tr>
<td>Non-Manufacturing PMI</td>
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<tr>
<td>Business Outlook</td>
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<td>External Reserves</td>
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<td>Exchange Rate Premium</td>
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<tr>
<td>Money Supply (M3)</td>
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<tr>
<td>Credit to Private Sector</td>
<td></td>
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<tr>
<td>Currency in Circulation</td>
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</table>

Color coding is based on the deviations of standardized values of each indicator relative to a 5-years mean. Red represents growth above the mean (the indicator is “heating up”), with darker shades of red representing stronger growth. Blue represents the opposite. In this context, an economy that is heating is experiencing a recovery/rebound, whereas a cold economy is still far from recovering.
WHILE EMPLOYMENT IS REBOUNDING TO PRE-COVID LEVELS, THERE IS MORE ECONOMIC PRECARITY…

Nigerians returned to work after the initial lockdown

Food insecurity increased sharply after COVID-19

![Graph showing employment and food insecurity trends in Nigeria](image-url)
...JOB QUALITY HAS WORSENED, WITH MORE WORKERS ENGAGED IN PRECARIOUS WORK IN THE AGRICULTURAL SECTOR

More than 1 in 3 household heads who used to work in nonagricultural sectors report working in agriculture
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More than 1 in 3 household heads who used to work in nonagricultural sectors report working in agriculture.
…WHILE THE COVERAGE OF SOCIAL PROTECTION PROGRAMS IS LOW

Share of the population living in a household that is enrolled or benefits from a social protection program

- National
- Urban
- Rural

NASSP (enrolled)
- 2 (National), 2 (Urban), 2 (Rural)

School feeding program (recipient in the last 12 months)
- 15 (National)

All other programs (recipient in the last 12 months)
BY 2022, ABOUT 11 MILLION MORE NIGERIANS ARE EXPECTED TO FALL INTO POVERTY DUE TO THE COVID-19 CRISIS

- Before COVID-19 (the counterfactual scenario), about 2 million Nigerians were expected to fall into poverty in 2020 as population growth outpaced economic growth.
- With COVID-19, the recession is likely to push an additional 6.6 million Nigerians into poverty in 2020, bringing the total newly poor to 8.6 million this year.
- This implies an increase in the total number of poor in Nigeria from about 90 million in 2020 to about 100 million in 2022.
- Northern states are more likely to be affected.
- The following factors help explain this increase in poverty:
  - Having a vulnerable employment;
  - Receiving fewer remittances; and
  - Being close to the poverty line.
NIGERIA IS AT A CRITICAL HISTORICAL JUNCTURE, WITH A CHOICE TO MAKE
In 2020, real per capita incomes in Nigeria are expected to fall to levels like those seen in the 1980s.
Nigeria can choose to break from business-as-usual and rise to its potential by deepening reforms to promote faster and more inclusive economic growth.
NIGERIA’S CHOICE

Nigeria at a critical juncture: historical and potential trajectories

The right mix of policies could reduce Nigeria’s oil dependence and reduce growth volatility.
Nigeria at a critical juncture: historical and potential trajectories

By rising to its potential and breaking its oil dependence, Nigeria could make progress towards lifting 100 million Nigerians out of poverty...
...and make the leap towards higher income levels.
THE CRISIS SERVED AS A WAKE-UP CALL, AND THE GOVERNMENT HAS UNDERTAKEN BOLD REFORMS

**Development Direction**

- **Gasoline subsidy**
  - Establishment of a market-based pricing mechanism for gasoline.
  
  *The gasoline subsidy was costly, benefitted mainly richer households, and harmed the environment.*

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

**Power**

- **Adjustment of electricity tariffs towards more cost-reflective levels.**
  - *The elimination of the electricity subsidy would free almost 0.5% of GDP, which is equivalent to Nigeria’s total public spending on health.*

- **Transparency of oil revenues**
  - NNPC’s first-ever publication of audited financial statements.
  
  *Now the public has much more available information to assess NNPC’s operations.*
THE CRISIS SERVED AS A WAKE-UP CALL, AND THE GOVERNMENT HAS UNDERTAKEN BOLD REFORMS

Debt transparency

Compilation of a comprehensive catalogue of contingent liabilities.

*Debt transparency is critical to reduce the cost of borrowing.*

Accountability of COVID-19 spending

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

*International experience suggests that during emergencies the risk of inefficient spending is greater.*

Crisis-Responsive Budgets

The FGN and the 36 states adopted Amended Budgets for 2020.

*For the first time, Nigerian states responded to a fiscal shock in a coordinated manner, prioritizing COVID-19 response expenditures and identifying financing source to avoid a rise in arrears.*
A SINGLE, MARKET DRIVEN EXCHANGE RATE WOULD BOOST INVESTOR CONFIDENCE AND REDUCE INFLATION IN THE MEDIUM-TERM
AN EFFICIENT FX MARKET WOULD ACCELERATE NIGERIA’S RECOVERY

...by bringing back and retaining investment.

The scarcity of FX has driven parallel rates up.

WHAT HAS BEEN DONE

- The crisis presented an opportunity to harmonize Nigeria’s exchange rates.
- In August, the CBN aligned the Official Rate with the Investors and Exporters Foreign Exchange (IEFX) Rate.
- The IEFX rate depreciated in April (more recently in December to N395/US$).

WHAT IS PENDING

- It’s critical that the IEFX rate reflects market fundamentals. Since April it has remained broadly stable, undermining the efficiency of the FX market.
- Large and small firms across sectors are facing difficulties when trying to access FX.
INFLATION FOLLOWS MOVEMENTS IN THE PARALLEL FX RATE

...because the parallel rate is used for food imports

- When CBN-managed rates take time to adjust, the parallel rate shoots up.
- When FX supply is limited, importers turn to the parallel market.
- This increases the cost of food, driving inflation (imported food represents 13% of the Consumer Price Index basket).
- The IEFX rate is important for inflation only relative to movements in the parallel rate. E.g., in 2017, as the parallel rate decreased (following the introduction of IEFX rate and de-facto depreciation), inflation also decreased.
SUSTAINING AND DEEPENING REFORMS IS CRITICAL FOR A STRONG RECOVERY
FIVE POLICY AREAS TO MITIGATE THE IMPACTS OF COVID-19 AND LAY FOUNDATIONS FOR A STRONG RECOVERY

1. Managing COVID-19 outbreak

2. Enhancing macroeconomic management to boost investor confidence

3. Safeguarding and mobilizing revenues

4. Reprioritizing public spending to protect critical development expenditures

5. Supporting economic activity and access to basic services and providing relief for poor and vulnerable communities
MANAGING THE COVID-19 OUTBREAK UNTIL A VACCINE IS DISTRIBUTED

NEAR-TERM OPTIONS (3 to 6 Months)

- Plan for the purchase and distribution of a COVID-19 vaccine.
- Continue improving testing capacity.
- Further strengthen community engagement to facilitate flows of credible information on social distancing, wearing of masks, and other international best practice recommendations.

MEDIUM-TERM OPTIONS (6 to 15 months)

- Leverage primary health care facilities to deliver essential health services coupled with effective communications to avoid disruptions to service delivery.
- Scale up coverage of life and health insurance to provide an additional indemnity and safety net.
ENHANCING MACROECONOMIC MANAGEMENT TO BOOST INVESTOR CONFIDENCE

NEAR-TERM OPTIONS (3 to 6 Months)

• Allow the exchange rate to reflect market fundamentals, to preserve reserves, increase the naira value of external financing and dollar-denominated revenue proceeds, and boost investor confidence.

• Ensure clear separation and improved coordination of fiscal, financial, and monetary policies, including more transparent reporting of CBN quasi-fiscal interventions.

• Define measures for rescheduling and restructuring the loans of borrowers affected by COVID-19 and heighten monitoring of bank capital requirements and the effectiveness of forbearance measures.

• Reopen land borders for all traders and firms to limit inflationary pressures and develop coordinated border management procedures with neighboring countries.

MEDIUM-TERM OPTIONS (6 to 15 months)

• Fully unify exchange rates into a single, market-driven window.

• Strengthen management of monetary policy toward the primary objective of price stability, with more transparent targets and operational and liquidity management mechanisms.

• Review regulations that affect bank recovery and resolution planning.

• Review prudential requirements related to bank sales of non-performing loans to AMCON and similar companies to streamline the process for efficient resolution of nonperforming loans.
SAFEGUARDING AND MOBILIZING REVENUES

NEAR-TERM OPTIONS (3 to 6 Months)

- Facilitate tax payments through online platforms.
- Communicate a clear timeline for the repayment of non-oil tax relief measures at both federal and subnational tiers of government.
- Increase the transparency of oil and gas revenue reporting through regular publication of financial and volumetric data, including deductions for all strategic projects funded by the government.

MEDIUM-TERM OPTIONS (6 to 15 months)

- Mobilize tax revenues in a way that does not negatively affect investment and growth, including a review of revenue-leaking incentives like tax concessions; adjusting currently-low excise taxes to bring in more revenue.
- Ensure the timely publication of audited financial statements for NNPC and its subsidiaries and monthly publication of oil sector data.
- Ensure that any revenue by a government-owned entity that is due to the government but retained by the entity is governed by terms and conditions specified in a written agreement with the regulator and approved by the Minister of Petroleum Resources.
REPRIORITIZING PUBLIC SPENDING TO PROTECT CRITICAL DEVELOPMENT EXPENDITURES

NEAR-TERM OPTIONS (3 to 6 Months)

- Ensure the sustainability of the gasoline subsidy reform either by publishing detailed guidelines for the March 2020 regulations, “Market Based Pricing Regime for Premium Motor Spirit”, or by fully deregulating gasoline prices.

- Ensure that execution of the 2020 Amended Budgets at both federal and state levels and are transparent, including adequate procurement, and auditing for COVID-19 related expenditures.

- Continue tightening fiscal coordination across tiers of government to ensure the most efficient use of very scarce fiscal resources.

MEDIUM-TERM OPTIONS (6 to 15 months)

- Continue power sector reforms.

- Expand the coverage of the GIFMIS to cover all expenditures, budgetary and nonbudgetary, of Federal MDAs

- Accelerate action on the recommendations of PEFA and PIMA diagnostics to strengthen public financial management

- Monitor current public sector guarantees, including any added during the crisis, and devise a strategy for managing fiscal risks.

- Continue tightening budgeting practices to improve budget execution, spending efficiency and debt management and transparency
SUPPORTING ECONOMIC ACTIVITY AND ACCESS TO BASIC SERVICES AND PROVIDING RELIEF FOR POOR AND VULNERABLE COMMUNITIES

NEAR-TERM OPTIONS (3 to 6 Months)

- Extend the reach of targeted social safety nets.
- Issue guidelines for adapting procurement procedures to support and encourage SMEs to participate in public procurement.
- Reduce food insecurity for poor rural households through the distribution of seeds and fertilizers, the provision of agricultural extension services.
- Ensure students go back to school.
- Scale-up successful remote learning interventions.
- Ensure funding for paying teachers.

MEDIUM-TERM OPTIONS (6 to 15 months)

- Increase the efficiency of social protection spending by improving both traditional and nontraditional targeting methods, such as geographical, categorical, or community-based targeting.
- Facilitate access to finance for distressed and vulnerable enterprises; and provide one-off grants to SMEs, to cover operational costs and IT solutions.
- Activate e-procurement.
- Strengthen school infrastructure, in particular water and sanitation and connectivity infrastructure.
ALSO, IN THIS EDITION OF THE NIGERIA DEVELOPMENT UPDATE...
## SPOTLIGHTS ON NIGERIA’S DEVELOPMENT AGENDA

<table>
<thead>
<tr>
<th>Area</th>
<th>Description</th>
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</thead>
<tbody>
<tr>
<td><strong>Social Protection</strong></td>
<td>Nigeria spends less on social safety nets than every other lower-middle income country and most of its regional peers. Social protection program coverage has remained low during the COVID-19 crisis.</td>
</tr>
<tr>
<td><strong>Health</strong></td>
<td>Nigeria ranks among the top ten countries heavily affected by COVID-19 in Africa. The government responded to the pandemic through a cross-sector COVID-19 response effort.</td>
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<tr>
<td><strong>Education</strong></td>
<td>The pandemic will exacerbate the challenges that the education sector faces in Nigeria. <strong>Learning levels could fall by 10% or more due to COVID-19</strong>, which in turn could translate in an equivalent GDP loss.</td>
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<tr>
<td><strong>Gender</strong></td>
<td><strong>Closing gender gaps</strong> in key economic sectors in Nigeria could yield additional 2.3% of GDP.</td>
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<td><strong>Labor Migration</strong></td>
<td>Opening <strong>new, safe, and orderly channels for international labor migration could unlock unrealized gains</strong> for Nigeria’s economy and help facilitate its recovery.</td>
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People forge ideas, people mold dreams, and people create art.

Thank You