NIGERIA

Table 1	2021
Population, million	211.4
GDP, current US$ billion	429.1
GDP per capita, current US$	2029.9
Poverty rate (national poverty line, %)[a]	41.6
Gini index[a]	35.1
School enrollment, primary (% gross)[b]	87.5
Life expectancy at birth, years[b]	55.0
Total GHG Emissions (mtCO2e)	363.7

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent value (2018).
b/ WDI for School enrollment (2018); Life expectancy (2020).

While economic growth in Nigeria has rebounded, macroeconomic stability has weakened. Amidst global commodity shocks, a depreciating currency, and monetization of the deficit, inflation is surging and pushing millions of Nigerians into poverty. Meanwhile, a costly petrol subsidy, low oil production and non-oil revenues, and increasing interest rates are causing fiscal challenges. Risks are tilted to the downside stemming from the lack of macro-fiscal reforms, an uncertain external outlook, deteriorating security, and the upcoming 2023 elections.

Key conditions and challenges

Following a contraction of 1.8 percent in 2020 because of the COVID-19 pandemic, GDP growth rebounded to 3.6 percent in 2021 driven by base effects in most non-oil sectors. However, macroeconomic stability has weakened due to a depreciating currency, increasing inflation, higher fiscal pressures, and declining forex reserves.

High inflation has been chronic in Nigeria for the last two decades, but since 2019 inflation has accelerated driven by the multiple exchange rates, trade restrictions, and monetization of the public deficit. These policies have pushed inflation from 11.8 percent in 2018-2019 to 17 percent in 2021, almost double the inflation target of 9 percent set by the Central Bank of Nigeria (CBN). Nigeria's fiscal position has been deteriorating since 2015 due to low and declining oil and non-oil revenues and rising expenditures, resulting in persistently high fiscal deficits.

To put the economy on a sustainable and inclusive growth path, it will be critical to stabilize the macroeconomy by reducing inflation, increasing revenues, and adopting a single market-driven exchange rate regime. It would be also important to reopen land borders for trade, remove import and FX restrictions on staple foods and medicines, and reduce subsidized CBN lending to medium and large firms. Such reforms will be essential for diversifying the economy out of oil, building resilience, and creating quality jobs that are critically needed to reduce poverty.

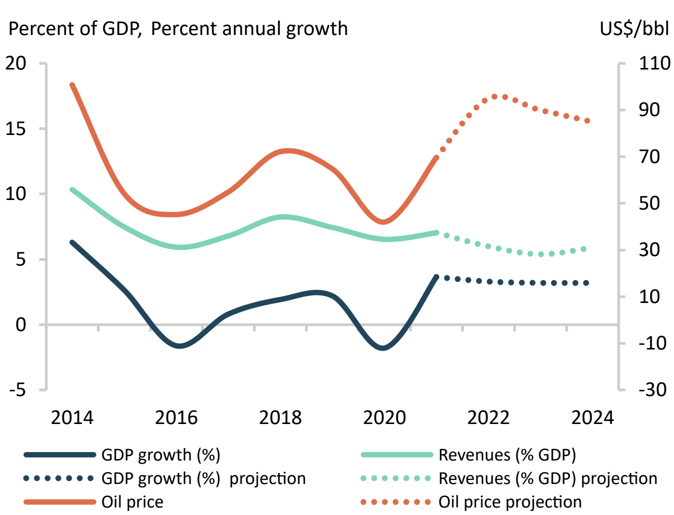
Recent developments

In H1 2022, GDP grew by 3.5 percent, driven by trade, transport, telecommunication, and financial services. In contrast, the oil sector shrank by 19.7 percent despite the sharp increase in global oil prices. The subdued oil production — below the OPEC quota — is the result of funding shortfalls, lack of adequate maintenance, and security risks.

Inflation spiked and reached 19.6 percent in July 2022. The monetary authorities have responded by increasing the monetary policy rate by 250 basis points since May 2022. However, this measure has not been fully effective in containing inflation due to the monetarization of the deficit, a depreciating currency and an increase in imported food and energy inflation. The banking sector remains robust, and credit expanded by 21.3 percent in Q1 2022 spurred by CBN's development finance interventions.

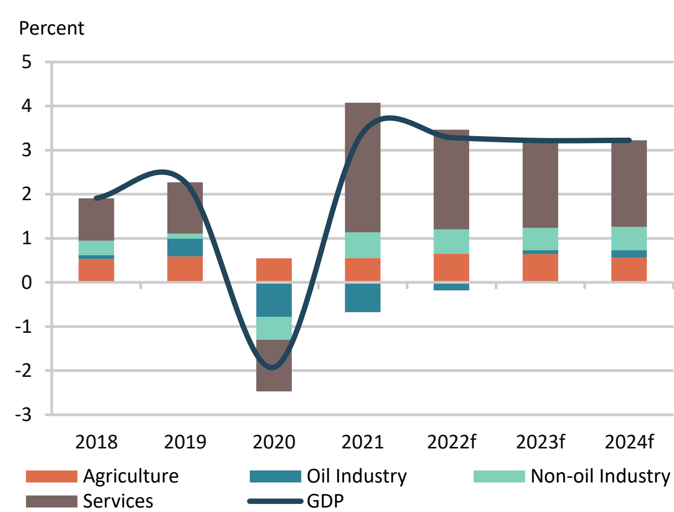
On the fiscal front, the decoupling between oil prices and oil revenues that started in 2021 continued in 2022. While oil prices have risen globally, the fiscal position has worsened because the cost of the petrol subsidy has increased to about 2.7 percent of GDP and oil production has fallen to a three-decade low. Low non-oil revenues and high interest payments compound fiscal pressures. Thus, the fiscal deficit is expected to remain above 5 percent in 2022,

FIGURE 1 Nigeria / Oil price shock transmission channels



Sources: National Bureau of Statistics and World Bank.

FIGURE 2 Nigeria / Real GDP growth and contributions to real GDP growth



Sources: National Bureau of Statistics and World Bank.

breaching the stipulated limit of 3 percent specified by the 2007 Fiscal Responsibility Act. This will keep the public debt stock at over 37 percent of GDP and push the debt service to revenue ratio from 85.4 percent in 2021 to 102.3 percent in 2022.

The current account balance (CAB) recorded a surplus of 2.3 percent of GDP in Q1 2022, driven by a 129-percent increase in crude oil exports reflecting higher oil prices. This CAB surplus, which is expected to shrink during the rest of the year as a result of higher import prices of food and refined petroleum products, has not translated into increased foreign reserves due to higher FX interventions, new FX schemes, and lower capital inflows.

Outlook

The economy is projected to grow by an average of 3.2 percent per year between 2022 and 2024, slightly above the population growth rate of 2.6 percent. Growth will be driven by services, trade, construction, and agriculture. Oil production is projected to remain subdued in 2022 because of inefficiencies and insecurity. From the demand side, growth will be driven by private consumption and investment reflecting the strong growth in the services and construction sectors.

Inflation is projected to average 18.5 percent in 2022 and decrease slightly to 15.5 percent in 2023, as the main sources of inflationary pressure are expected to persist, hampering poverty reduction. With Nigeria's population growth continuing to outpace poverty reduction, the number of Nigerians living below the national poverty line is set to rise by 11.8 million between 2019 and 2024.

Fiscal, external, and debt pressures are expected to persist over the outlook period due to rising global and domestic interest rates and low oil revenues resulting from the moderation in oil prices and inability to significantly increase oil production. While the current account is expected to remain positive in 2022 and 2023, this is not expected to translate into higher international reserves. Meanwhile, non-oil revenues will not increase as a share of GDP without significant tax revenue reforms. As a result, the fiscal deficit will remain high and average more than 6 percent of GDP in 2022-2024, pushing debt service to balloon to about 111 percent of revenues by end-2024.

Downside risks to Nigeria's outlook have intensified. Growth may be affected by a further decline in oil production amidst deteriorating security, scarcity of foreign exchange, and tighter liquidity. In parallel, debt pressures will increase if the petrol subsidy is not phased out and planned reforms to increase non-oil revenues do not materialize. The February 2023 general elections are another source of risk if they lead to large government spending and/or cause social unrest. The authorities can strengthen the economy by implementing macroeconomic reforms to: (i) reduce inflation, (ii) address mounting fiscal pressures, and (iii) catalyze private investment to create quality jobs.

TABLE 2 Nigeria / Macro poverty outlook indicators (annual percent change unless indicated otherwise)

	2019	2020	2021	2022e	2023f	2024f
Real GDP growth, at constant market prices	2.2	-1.8	3.6	3.3	3.2	3.2
Private Consumption	-1.0	-1.0	25.6	4.5	2.6	2.9
Government Consumption	8.8	61.6	-34.0	-14.0	-3.6	1.0
Gross Fixed Capital Investment	8.3	-14.7	4.6	7.9	3.9	8.0
Exports, Goods and Services	15.0	-33.4	-32.1	0.5	9.0	3.6
Imports, Goods and Services	27.3	-61.9	44.4	4.0	4.3	9.0
Real GDP growth, at constant factor prices	2.3	-1.9	3.4	3.3	3.2	3.2
Agriculture	2.4	2.2	2.1	2.7	2.7	3.0
Industry	2.3	-5.8	-0.5	-1.4	5.8	3.6
Services	2.2	-2.2	5.6	5.4	2.5	3.1
Inflation (Consumer Price Index)	11.4	13.2	17.0	18.5	15.5	13.5
Current Account Balance (% of GDP)	-3.1	-4.0	-0.4	1.1	1.2	0.1
Net Foreign Direct Investment Inflow (% of GDP)	-0.5	-0.2	-0.4	-0.3	-0.3	-0.3
Fiscal Balance (% of GDP)	-4.6	-5.1	-5.9	-5.9	-6.4	-5.9
Debt (% of GDP)	30.5	36.0	37.7	37.6	37.6	38.0
Primary Balance (% of GDP)	-2.6	-2.7	-3.7	-2.2	-2.7	-2.1
Poverty rate (national line, %)[a]	40.2	42.1	41.6	41.3	41.0	40.7
GHG emissions growth (mtCO2e)	2.5	1.1	1.5	1.3	1.1	1.0
Energy related GHG emissions (% of total)	37.2	37.2	37.0	36.4	35.5	34.4

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.
Notes: e = estimate, f = forecast. Poverty lines are expressed in 2017 PPP, resulting in changes from earlier editions that used 2011 PPP. See pip.worldbank.org.
a/ Calculations based on 2018-LSS. Actual data: 2018. Nowcast: 2019-2021. Forecasts are from 2022 to 2024. These calculations use the national poverty line of 137,430 naira per person per year, in 2018/19 prices. The national line is used, as it will remain the yardstick on which policymakers in Nigeria focus, even as the PPP price data and international poverty lines for cross-country comparisons are updated. For further details see https://blogs.worldbank.org/africacan/what-does-moving-2017-ppps-and-new-international-poverty-lines-mean-nigeria