Nigeria in Times of COVID-19:

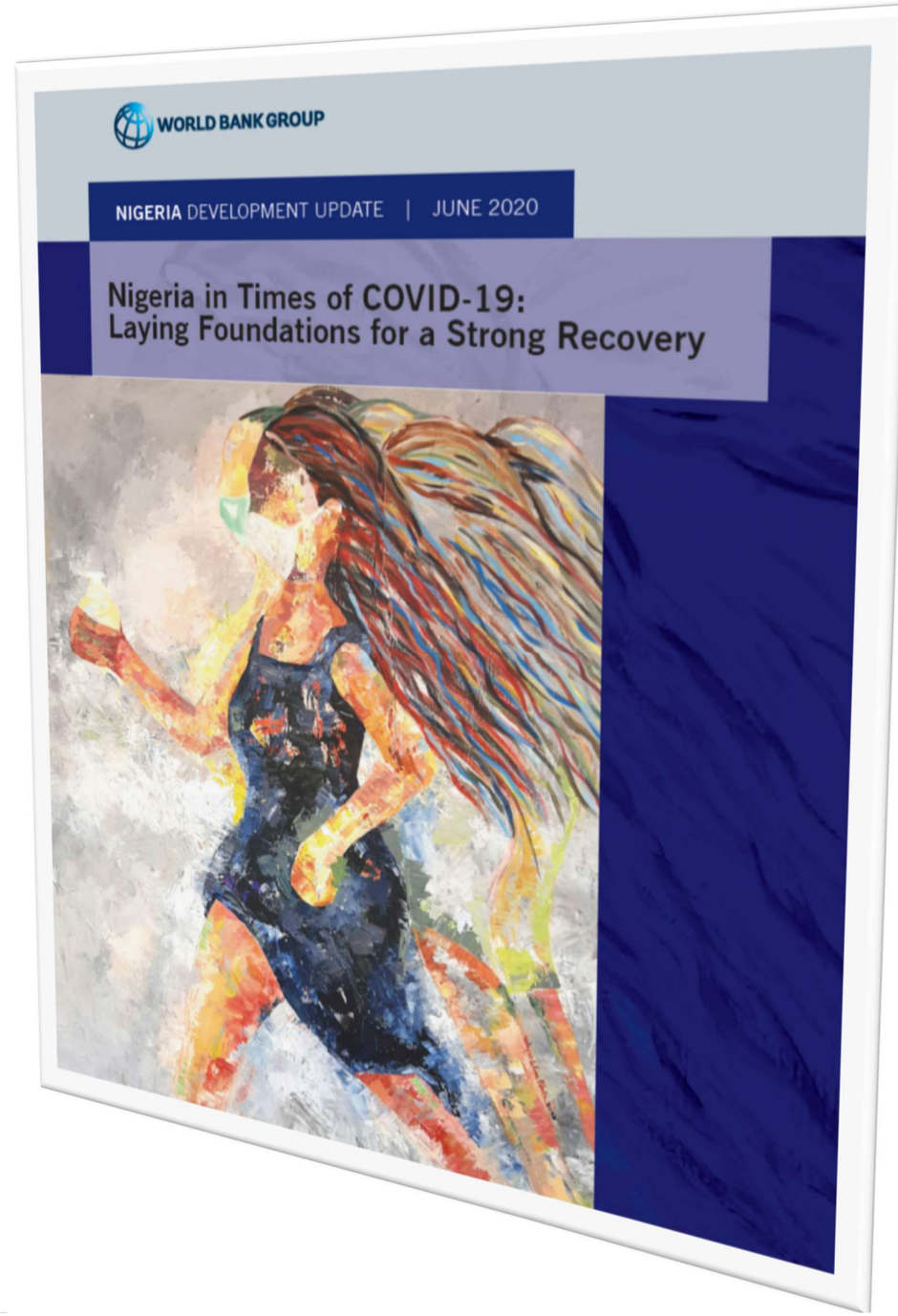
Laying Foundations for a Strong Recovery

Nigeria Development Update

June 25, 2020

WORLD BANK GROUP

COVID-19 IS IMPACTING NIGERIA'S ECONOMY THROUGH VARIOUS CHANNELS



THE ECONOMY WILL BE IMPACTED THROUGH VARIOUS CHANNELS

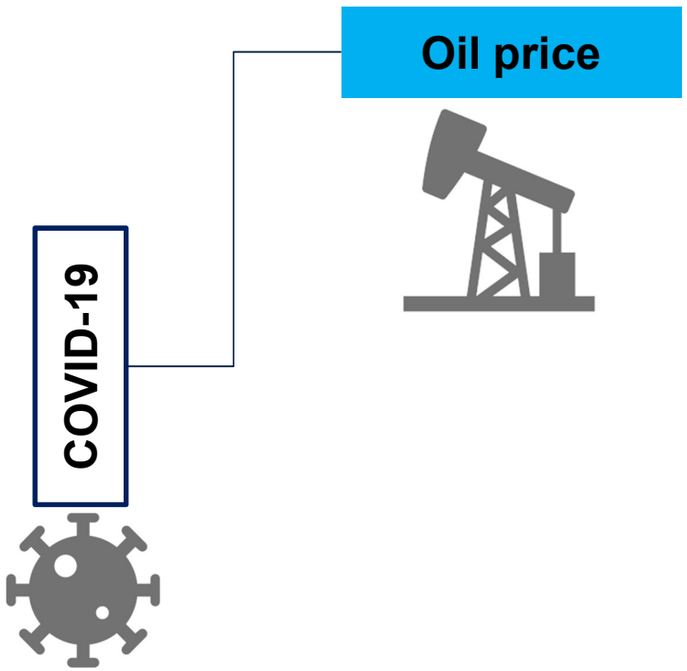
…even if Nigeria manages to contain the spread of the virus

COVID-19

- Oil price
- Remittances
- Capital flows
- Lockdown Measures

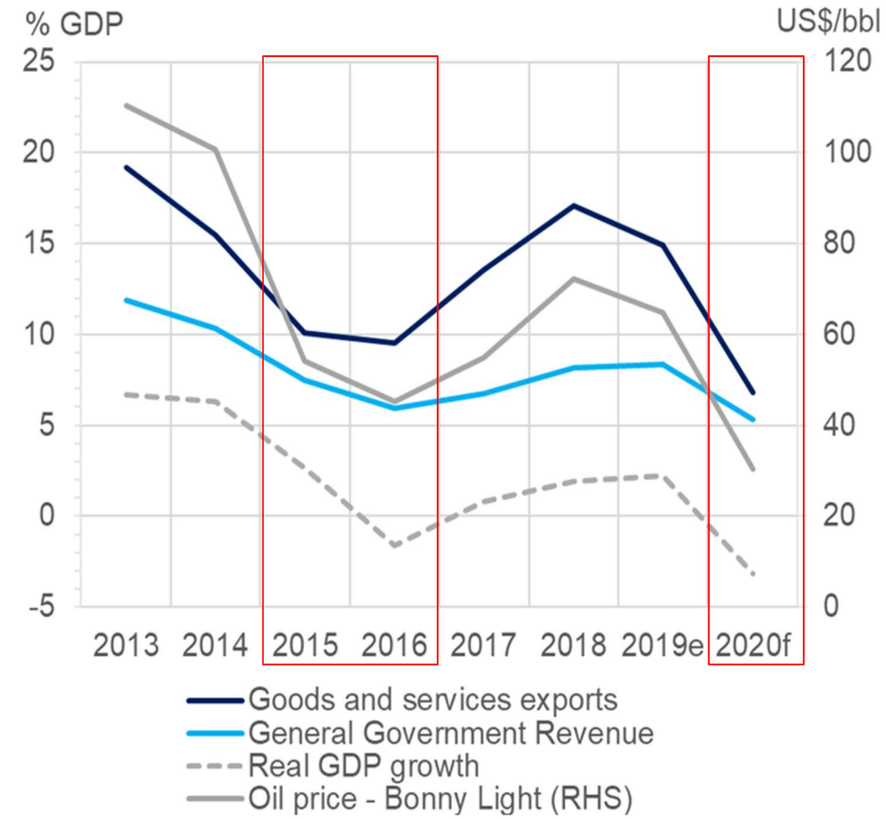
THE COLLAPSE IN OIL PRICES IS DESTABILIZING THE ECONOMY

…affecting fiscal and external balances, and growth



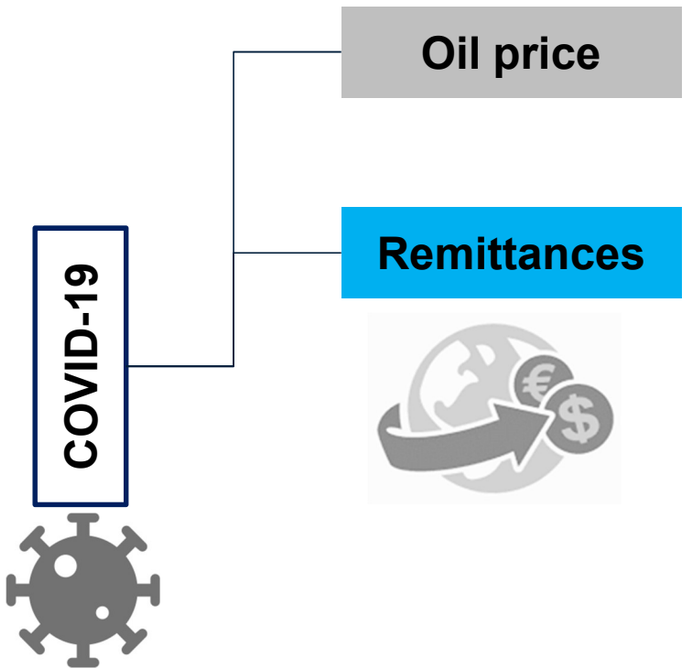
- **Nigeria's economy is highly vulnerable to oil shocks.**
- A sharp decline in oil prices:
  - **Lowers exports earnings**—oil and gas represents over 80% of goods and services exports
  - **Cuts government revenues**—about 50% of general government revenues come from oil and gas
  - **Tightens private sector credit**—about 30% of bank credit concentrates in the oil and gas sector
  - **…and puts pressure on the exchange rate**
  - The nonoil sector also depends on oil sector activity.

The oil shock will be more severe than in 2015-16



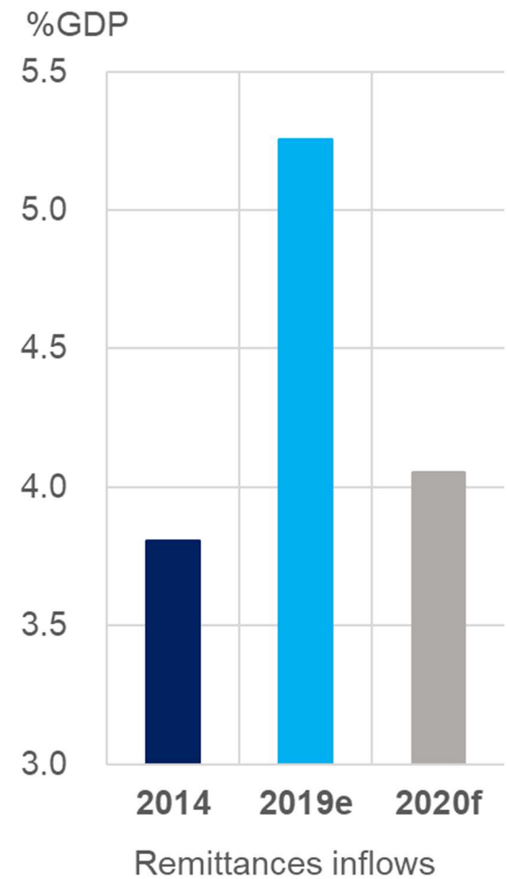
THE PANDEMIC IS REDUCING FOREIGN REMITTANCES

…adding to the households' loss of income and consumption



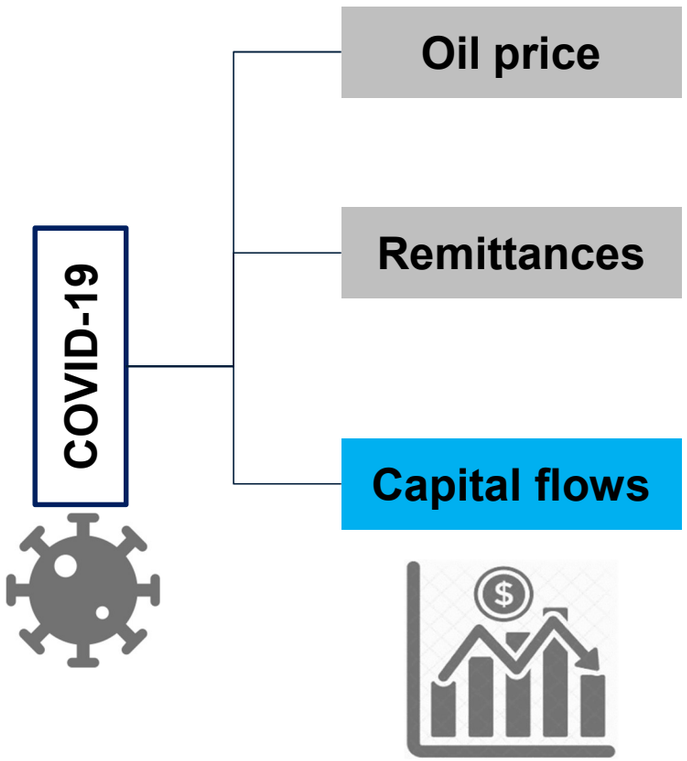
- **15-17 million Nigerians live abroad**
  - they send home over $25 billion annually
  - 53% percent of them are in Europe and North America, where rising unemployment rates are affecting incomes
- **The fall in remittances will affect household consumption**
  - 1 in 2 of Nigerians live in households that receive remittances
- **This fall will also add to the external balance pressures**
  - Foreign remittances amounted to 5% GDP in 2019…
  - …equivalent to 40 percent of oil exports

Foreign remittances are projected to decline by 25% in 2020

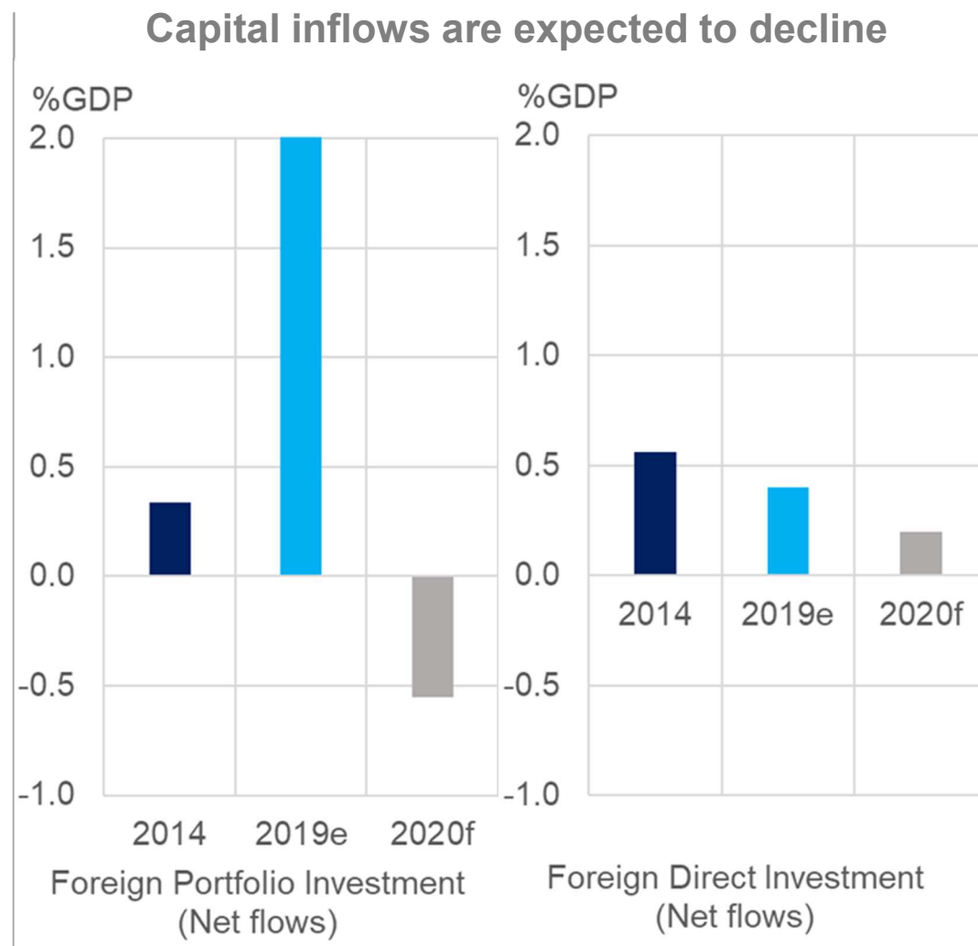


FOREIGN CAPITAL INFLOWS ARE ALSO EXPECTED TO DECLINE

…adding to the external payment pressures

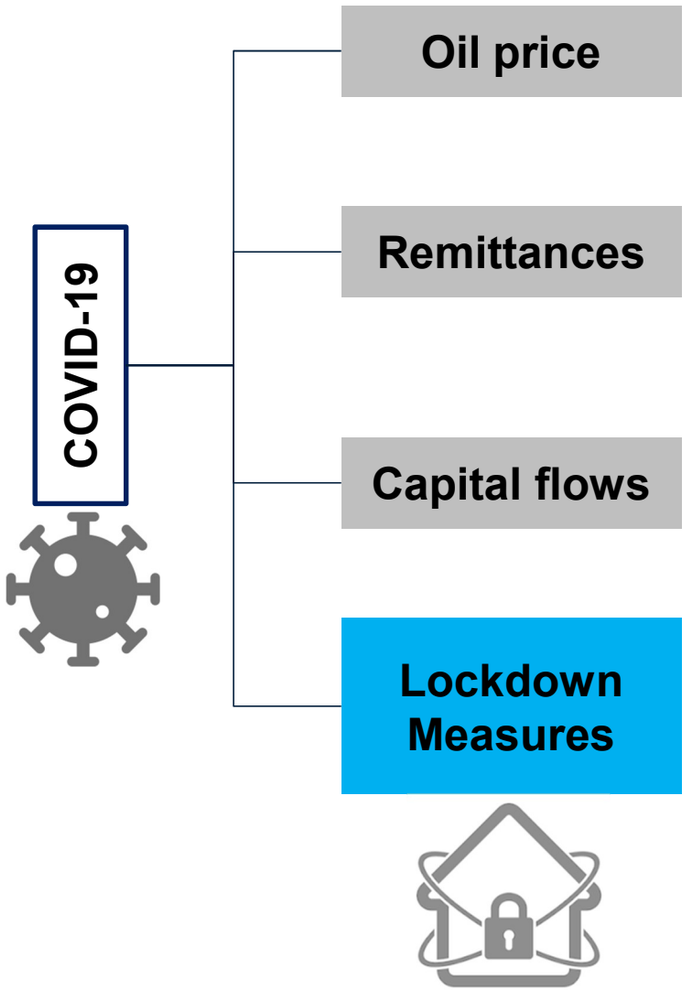


- **Foreign Portfolio Investments (FPI) are the main source of financing for Nigeria's balance of payments**
  - This 'hot money' flows account for 2% of GDP and over 50% of foreign capital flows.
- **Global risk aversion and policy uncertainty add to these pressures**
  - Before COVID-19 investor confidence was already eroding and FPI inflows fell by 46% in Q1 of 2020
- **FDI remains very low, and concentrated in the oil sector**



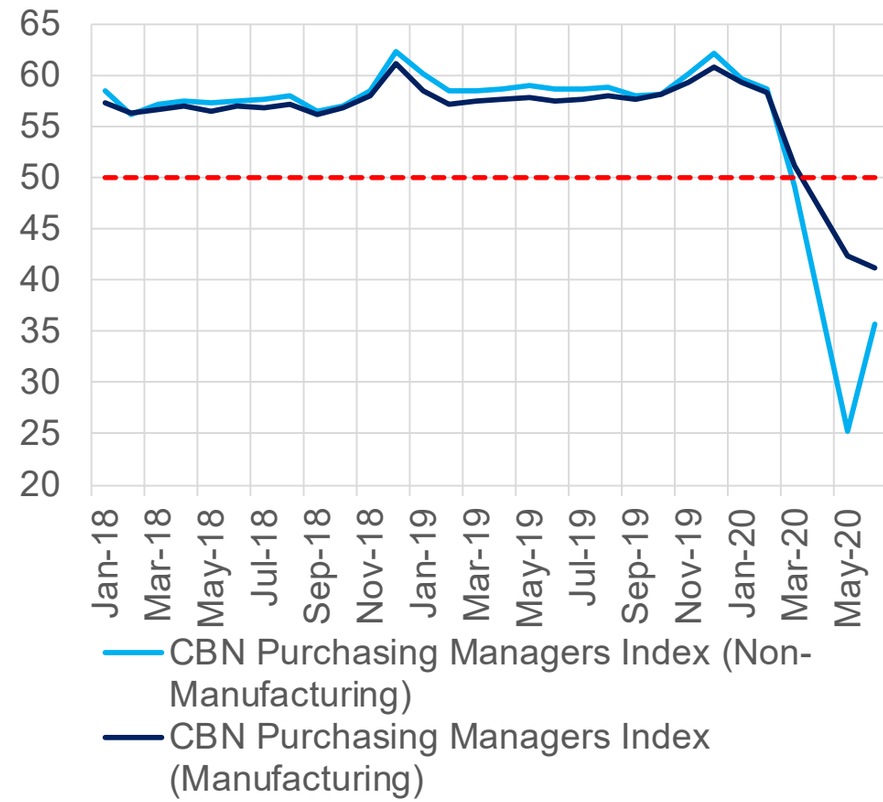
COVID-19 OUTBREAK IN NIGERIA IS IMPEDING ECONOMIC ACTIVITY

…in addition to the tragic loss of lives

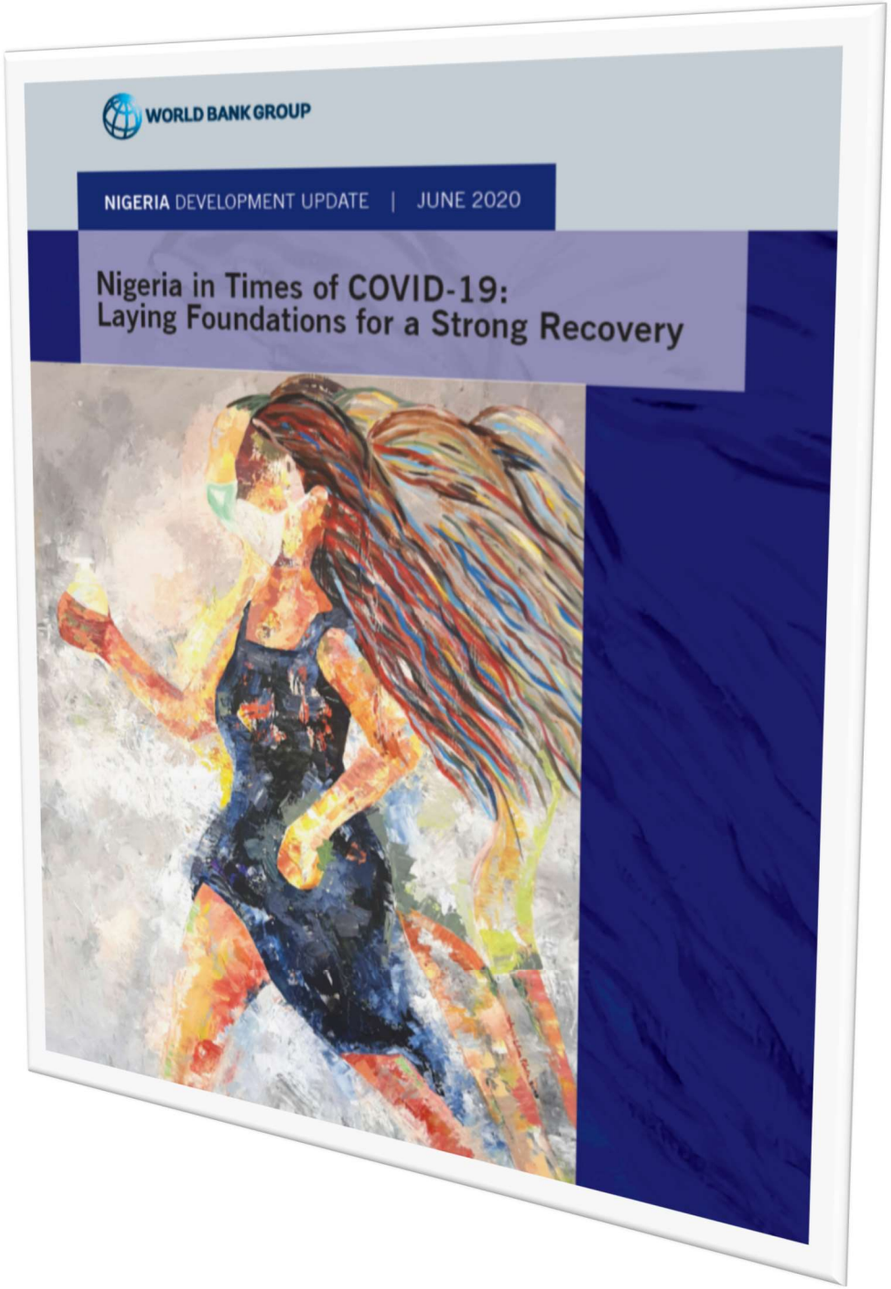


- **Containment measures**, while necessary to contain the spread of the virus, will:
  - **affect formal services** (e.g. banking sector);
  - **constrain informal sector activities** (e.g. street vendors);
  - **impede industrial production,** as getting supplies becomes more difficult.
- **Disruption of supply chains** can affect the agricultural planting season and **affect food security** later in the year.
- **Behavioral changes** will depress demand

The Purchasing Managers Index declined sharply in April-June 2020

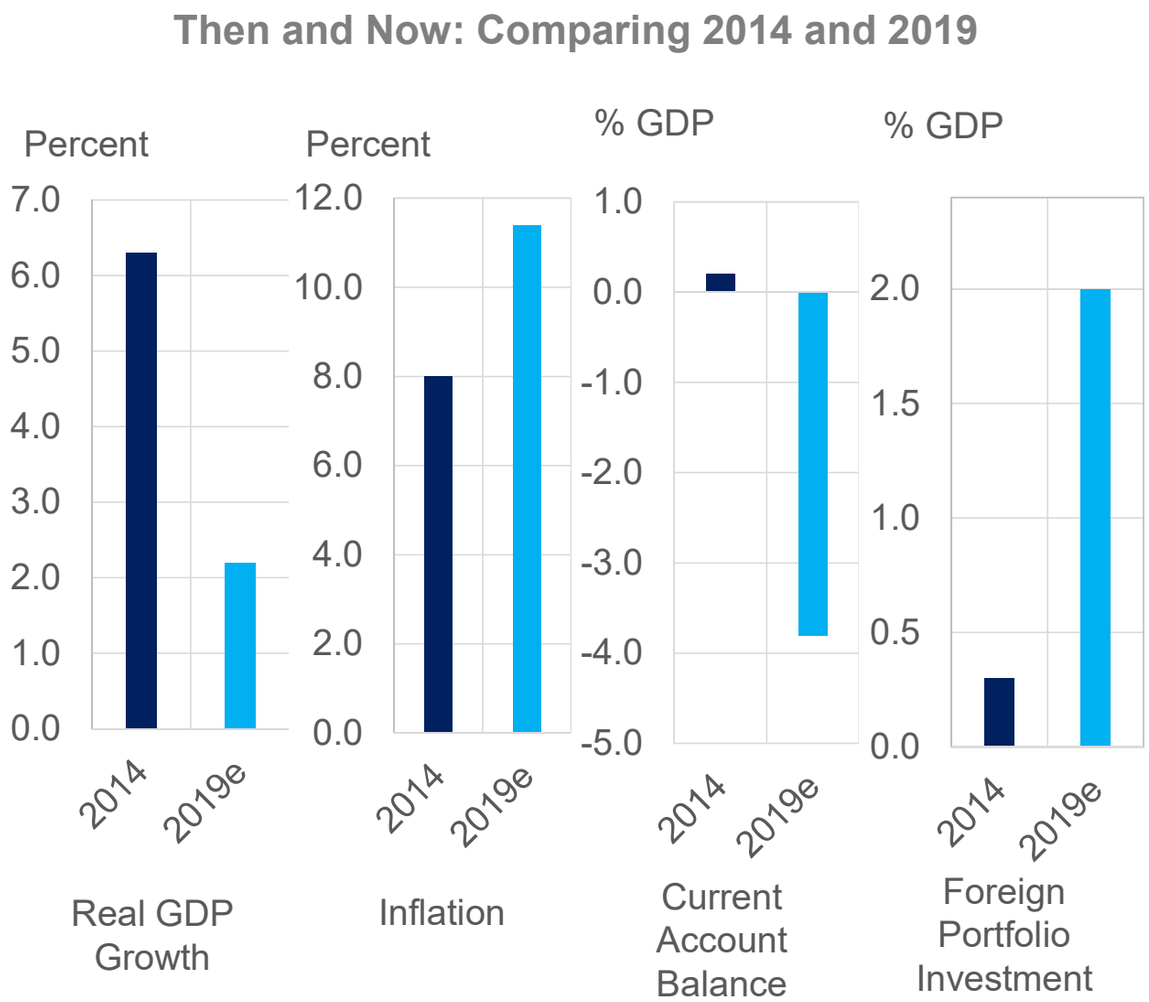


WHY THE URGENCY: NIGERIA'S ECONOMY WAS ALREADY VULNERABLE WHEN COVID-19 HIT



NIGERIA'S ECONOMY WAS FRAGILE WHEN COVID-19 HIT

…it was still recovering from the 2016 recession

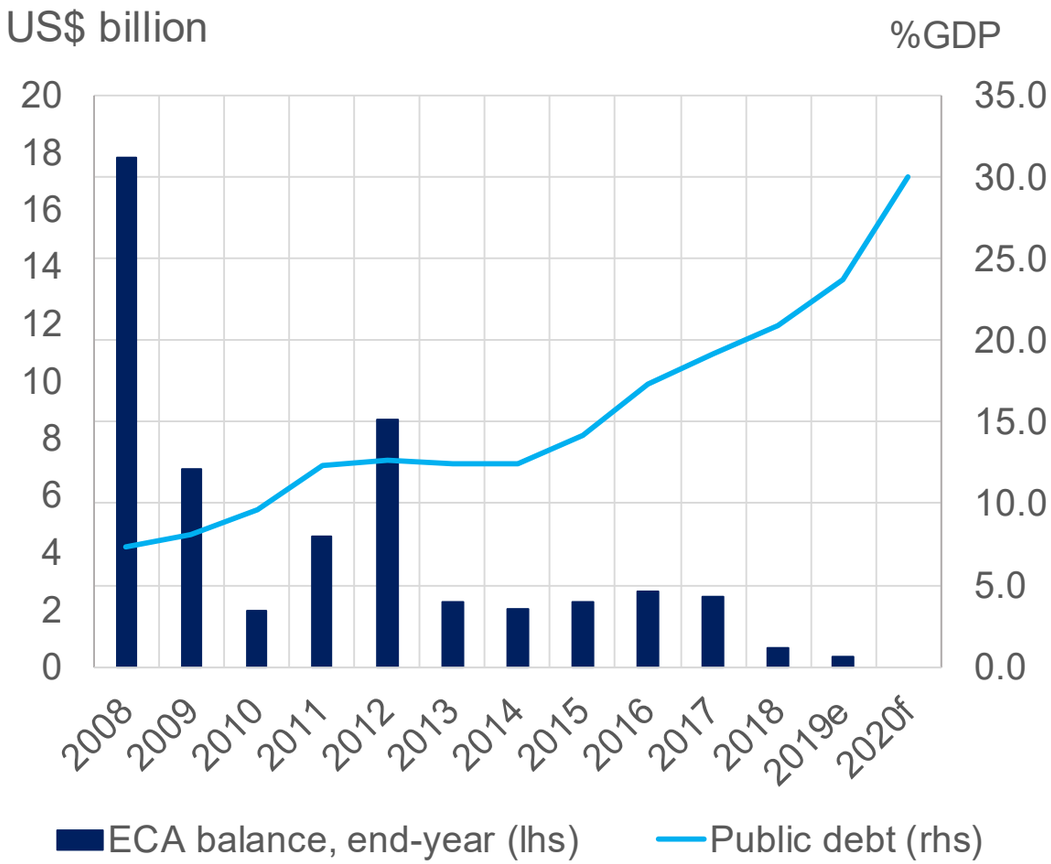


- **Before the 2016 recession, Nigeria's economy was growing fast** at 6.3%. By contrast, before COVID-19 struck, the economy was growing at **2.2%**
- **Inflation** was single digits in 2014, compared to about 12% in 2019
- The **general government fiscal deficit** was 4.4% of GDP in 2019, compared to 1.8% in 2014
- The **current account balance** was already running a deficit of 3.8% of GDP in 2019, compared to a marginal surplus in 2014
- **FPI ("hot money")** constituted more than half of foreign capital flows in 2019, compared to less than 30% in 2014

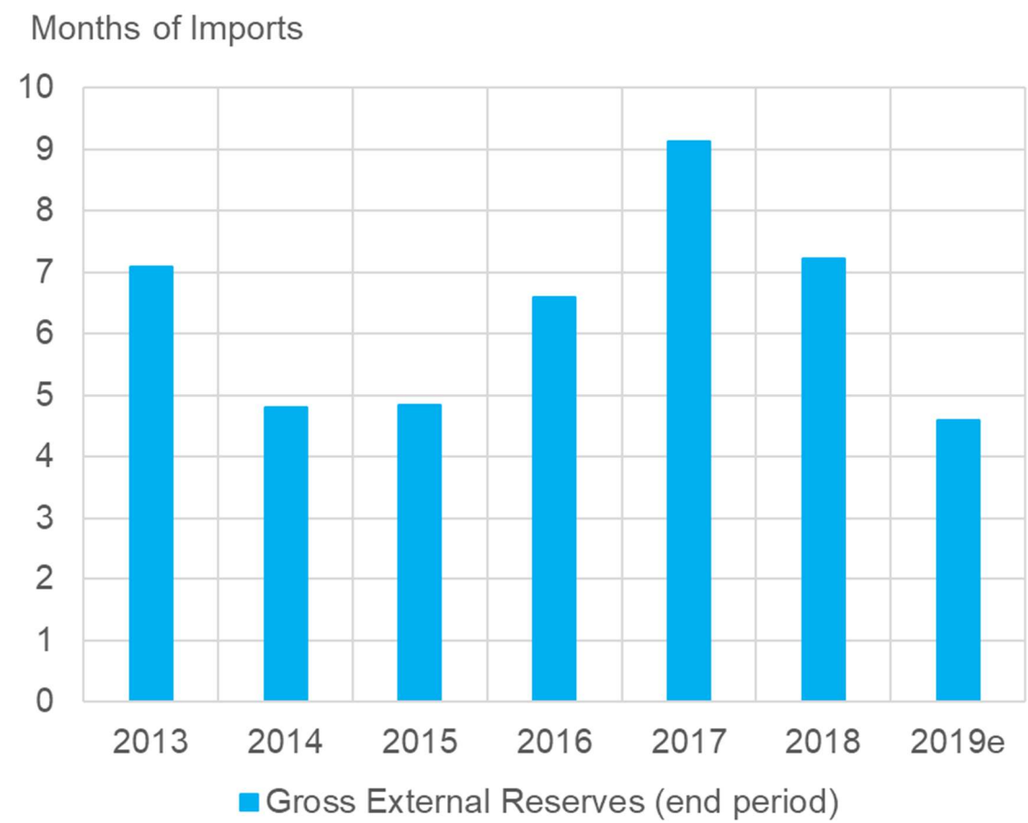
THERE ARE FEWER POLICY BUFFERS

…due to limited fiscal and external savings

The Excess Crude Account (ECA) was virtually depleted and debt was rising before COVID-19…

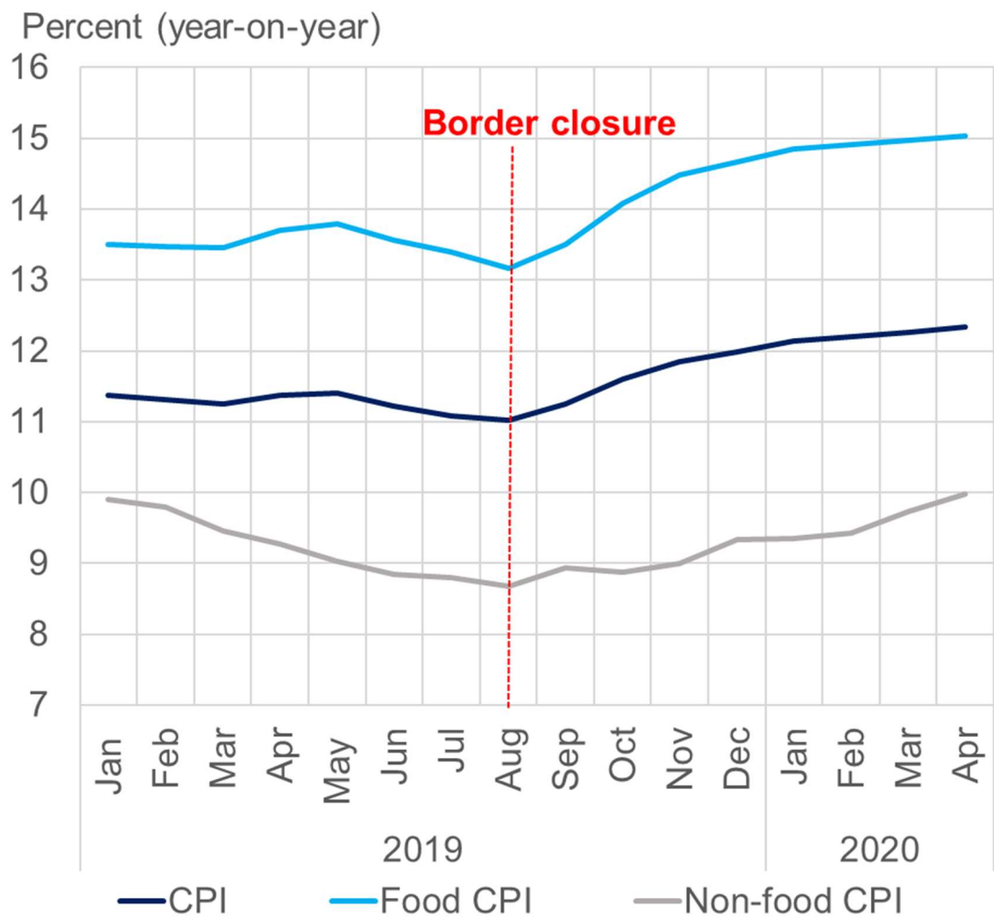


…and external reserves were in decline



INFLATION HAD BEEN RISING

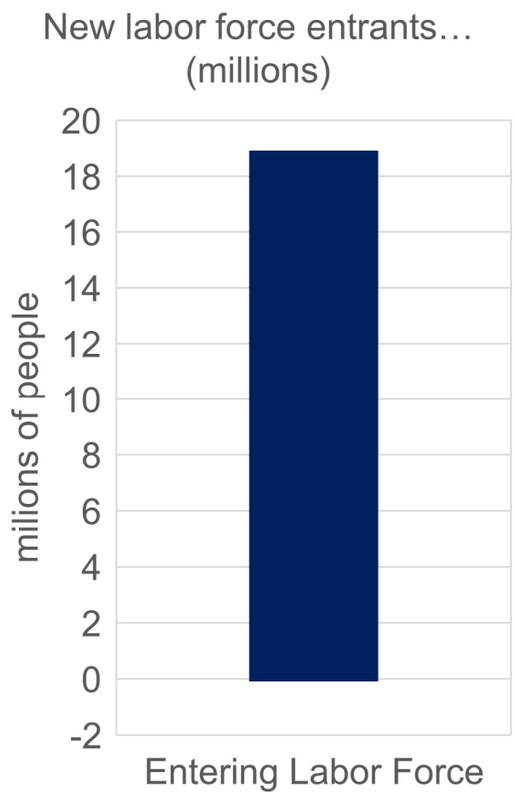
…due in part to the land border closure in 2019

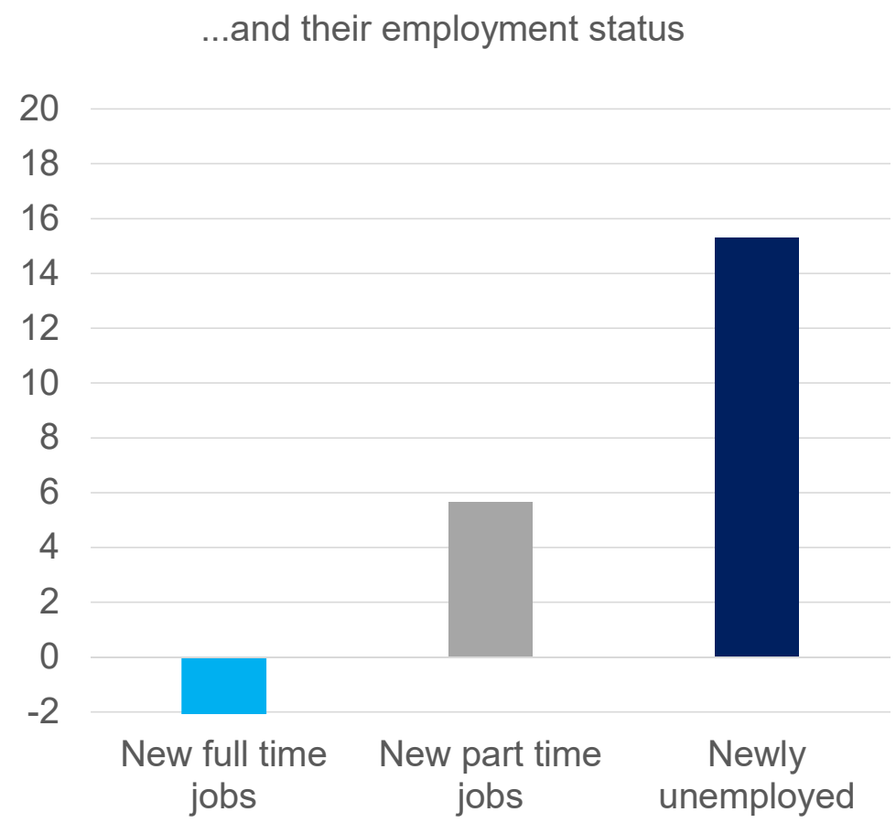


- **Driven mainly by rising food prices**, inflation had been rising since August 2019, when Nigeria closed its land borders
- **Lockdown measures in 2020** further **disrupted domestic production**, and subsequently the **naira depreciation** intensified inflationary pressures (in the short-term, inflation pressures will be somewhat offset by lower fuel prices and lower consumer demand)
- By year-end 2020, the impact of COVID-19 on both domestic production and imports is projected to drive inflation up to **13.8 percent**

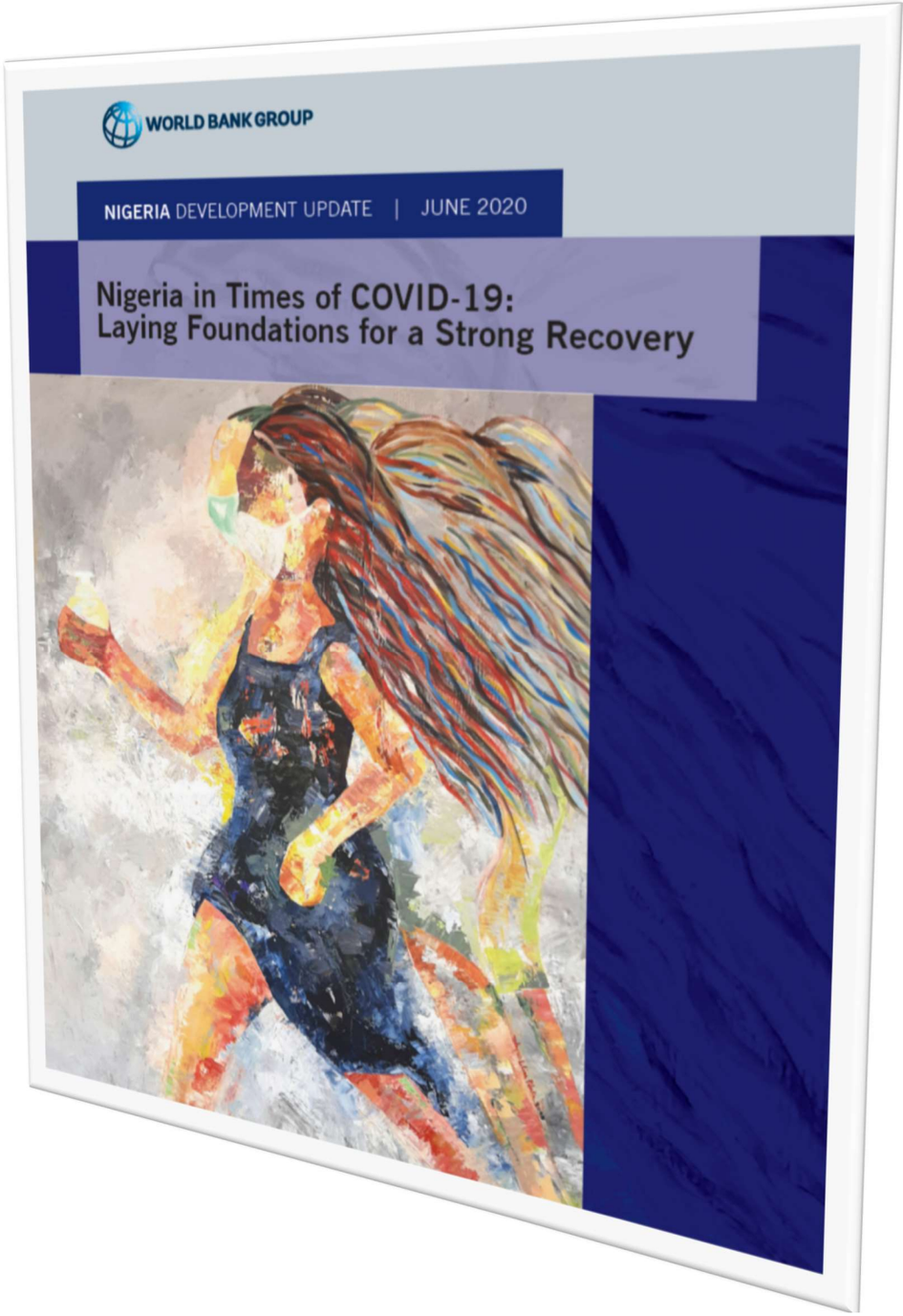
JOBS WERE ALREADY SCARCE, WITH MANY LOOKING FOR JOBS BUT FEW FINDING THEM

Between 2014-18, 19 million Nigerians entered the labor market, and 15 million of them became unemployed





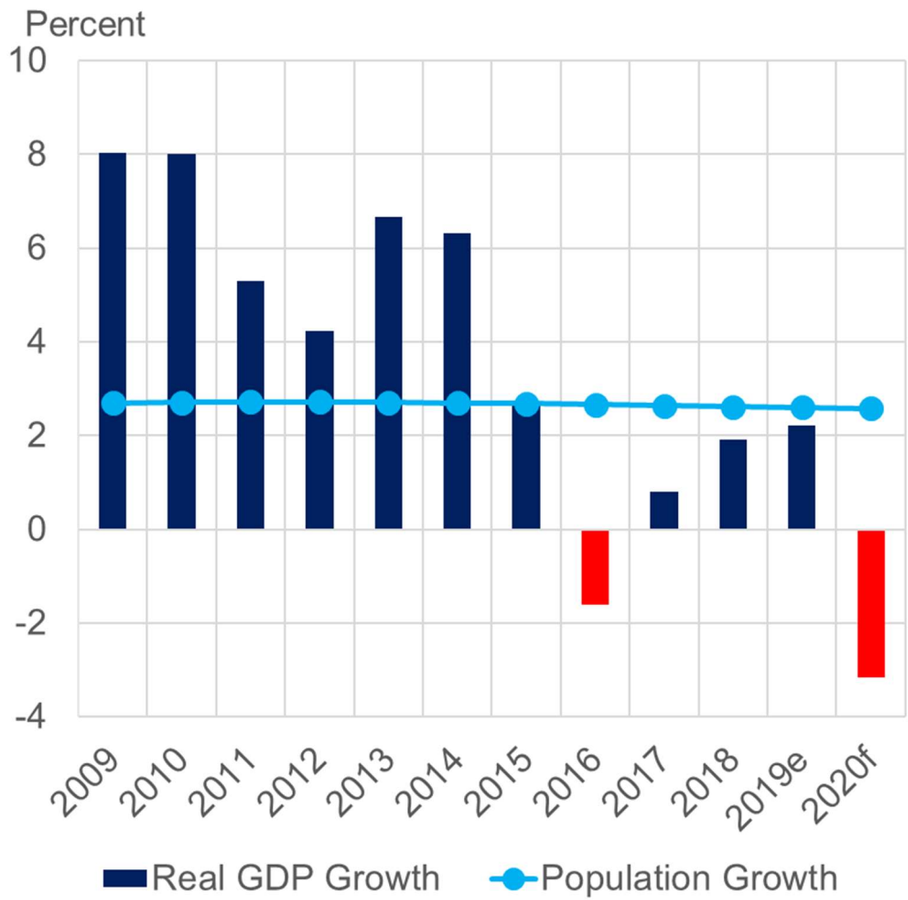
IMPACTS ON THE ECONOMY AND NIGERIAN HOUSEHOLDS



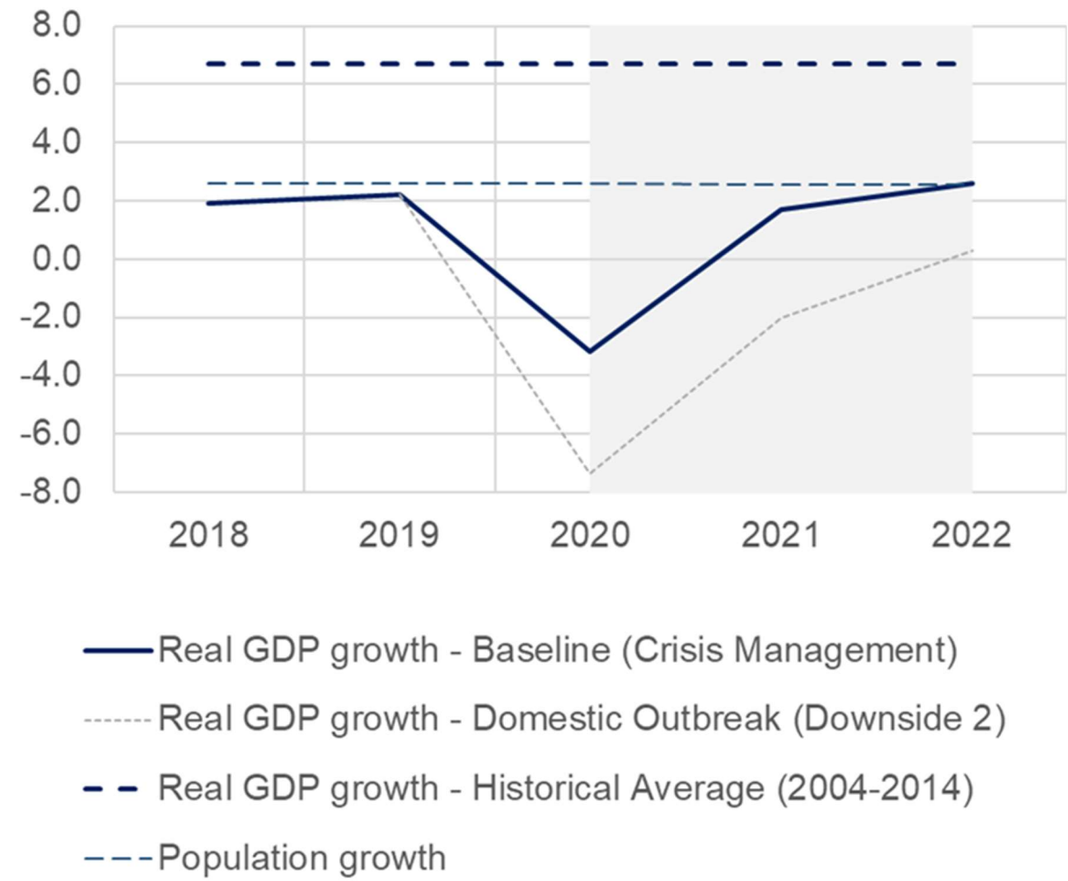
NIGERIA'S ECONOMY IS EXPECTED TO CONTRACT IN 2020

…possibly triggering the worst recession in four decades

GDP growth is likely to contract by over 3% in 2020



The speed of the recovery would depend on the policy response



ALL ECONOMIC SECTORS WILL BE AFFECTED

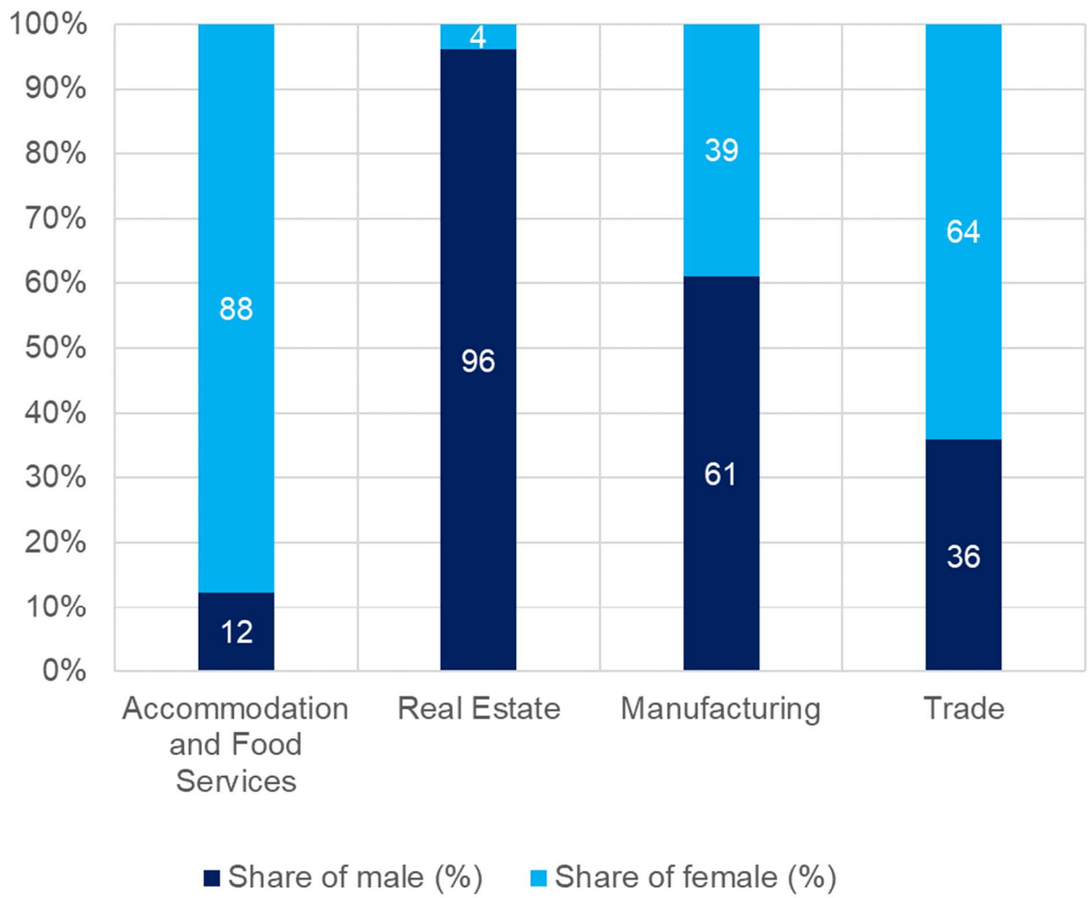
…to different degrees

Likelihood of a negative impact due to COVID-19

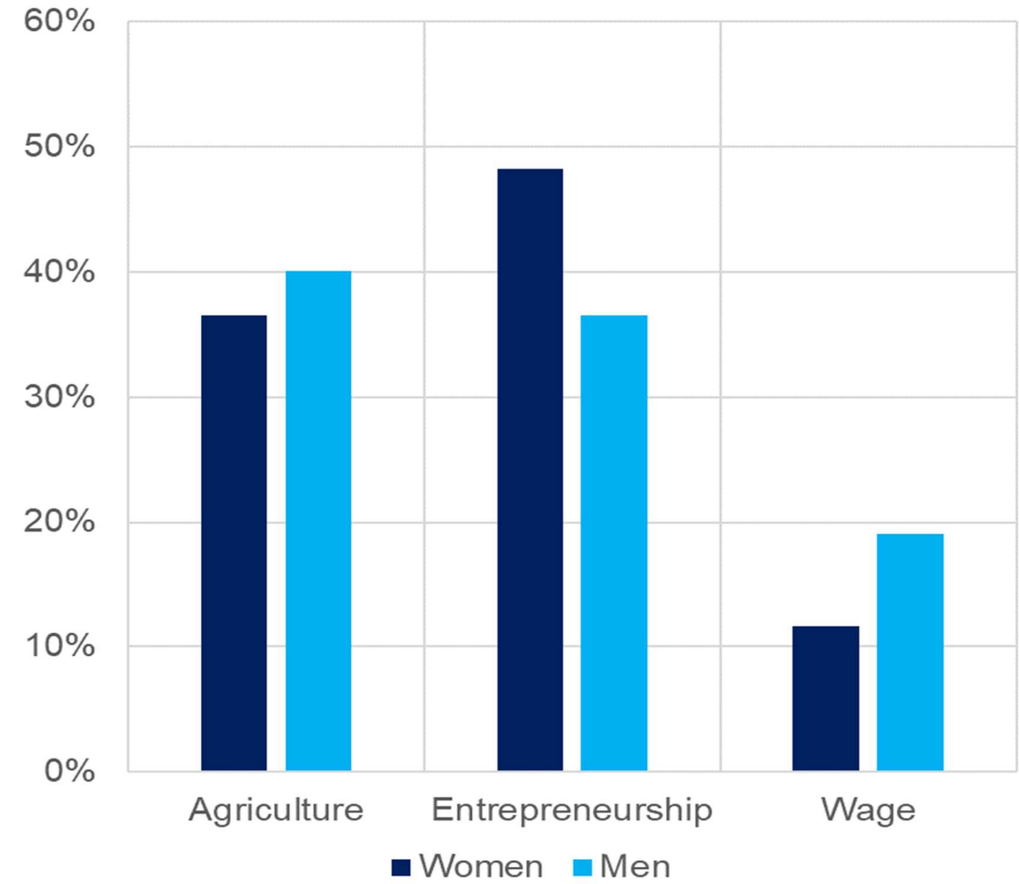
High	Medium	Low
• Trade • Manufacturing • Real Estate • Accommodation and Food Services • Transportation and Storage • Arts, Entertainment and Recreation	• Mining and Quarrying • Financial Services and Insurance • Construction • Agriculture • Information and Communication	• Water Supply, Sewage, and Waste Management • Electricity, Gas, Steam and AC Supply • Administrative and Support Services • Human Health and Social Services • Education

WOMEN AND WORKERS IN THE INFORMAL SECTOR ARE LIKELY TO BE MORE AFFECTED

9.2 million female workers in Nigeria earn their living in sectors exposed to COVID-19

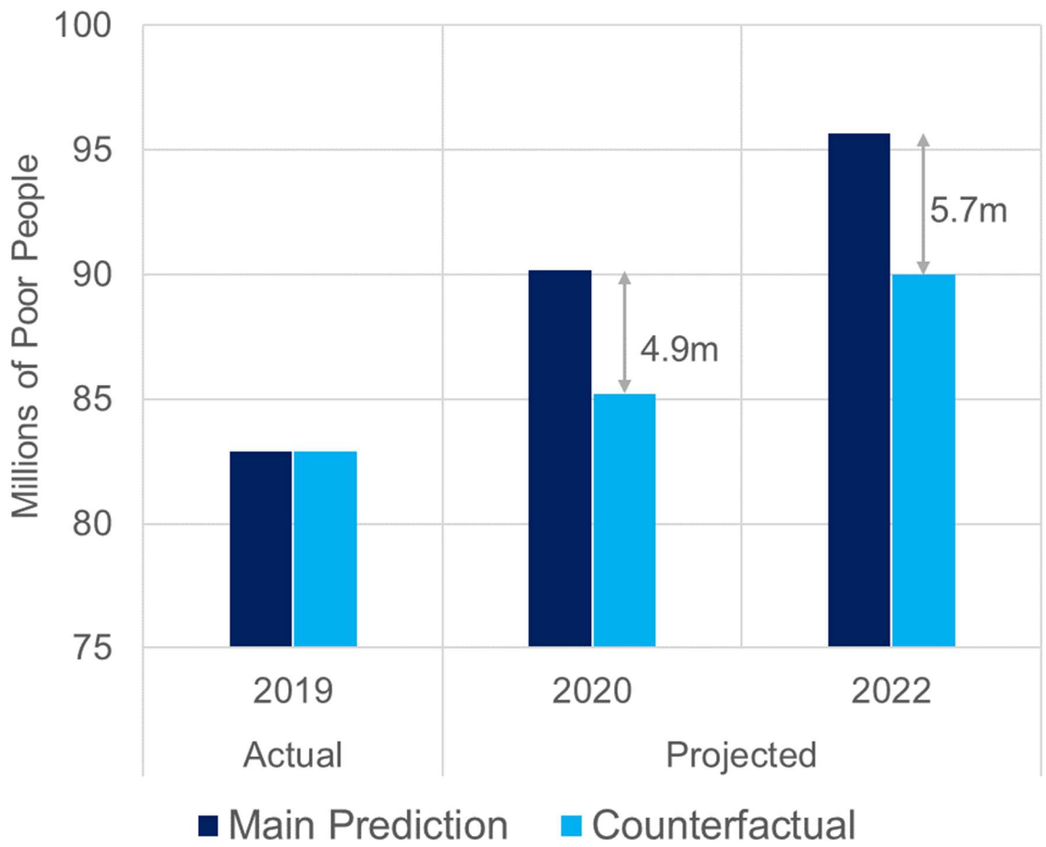


More working women are entrepreneurs rather than wage earners



MANY NIGERIANS ARE EXPECTED TO FALL INTO POVERTY AS INCOMES FALL AND POPULATION RISES

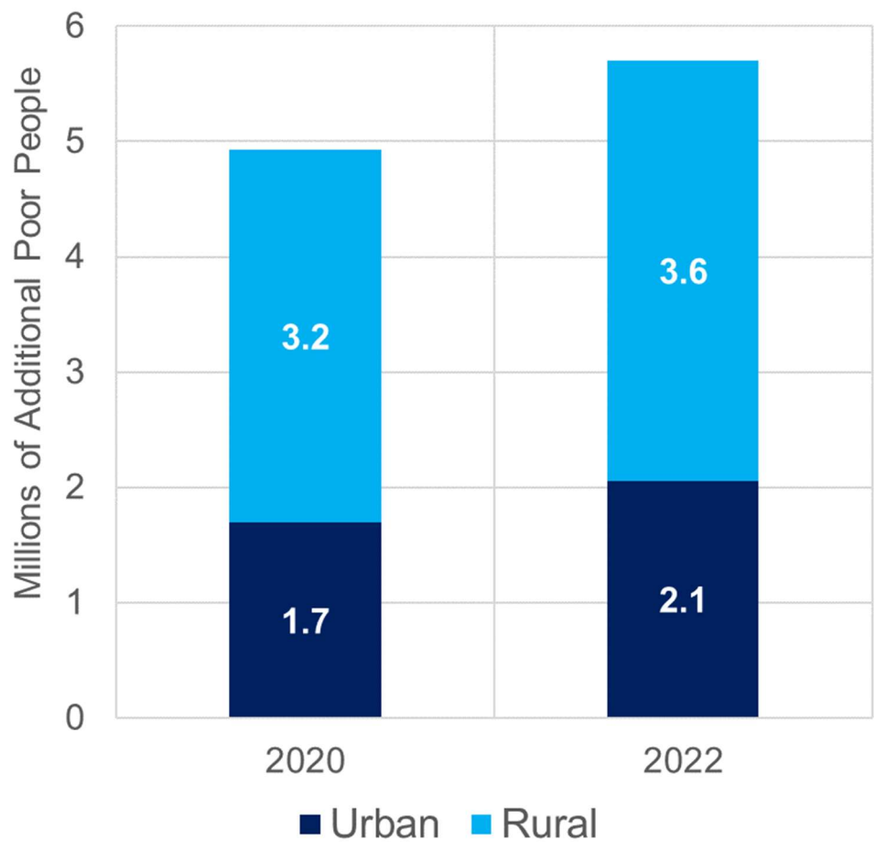
The share of households living in poverty is expected to increase significantly due to COVID-19



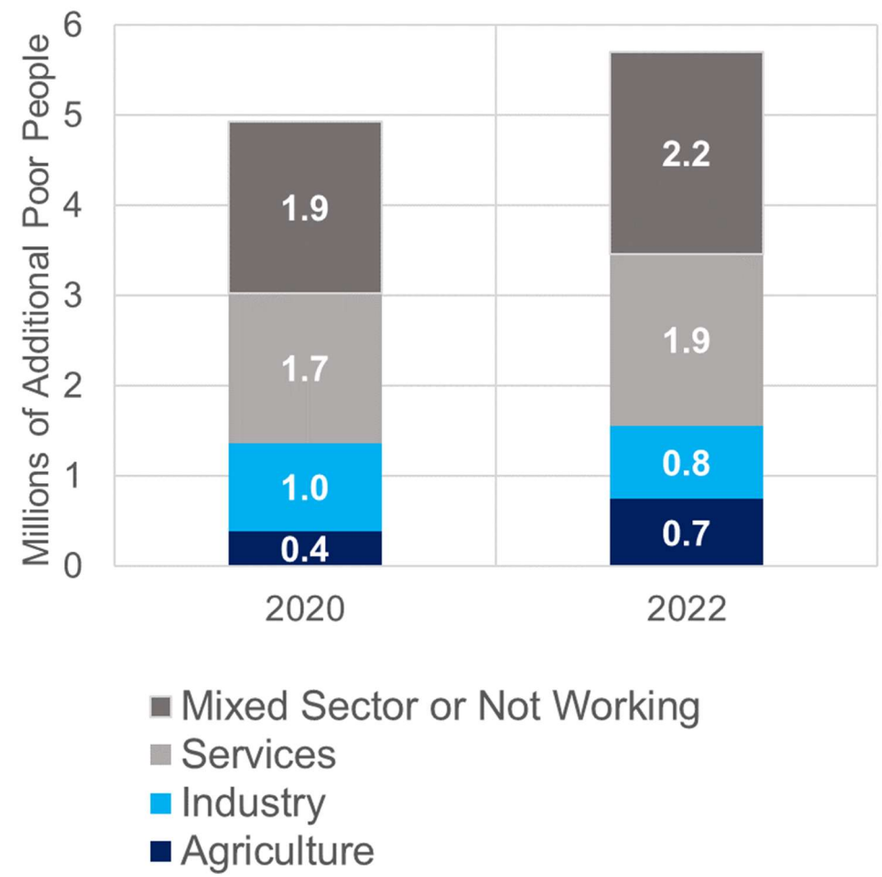
- **Before the COVID-19 shock** (the counterfactual scenario), about **2 million Nigerians were expected to fall into poverty in 2020** as population growth outpaced economic growth
- With **COVID-19**, the recession is likely to push an **additional 5 million Nigerians into poverty in 2020**, bringing the total newly poor to 7 million this year
- This implies an increase in the total number of poor people in Nigeria from about **90 million in 2020** to about **96 million in 2022**
- The following factors help explain this increase in poverty:
  - Having a vulnerable employment;
  - Receiving remittances; and
  - Being already poor.

THOSE LIVING IN URBAN AREAS AND WORKING IN SERVICES ARE MORE LIKELY TO FALL INTO POVERTY DUE TO COVID-19

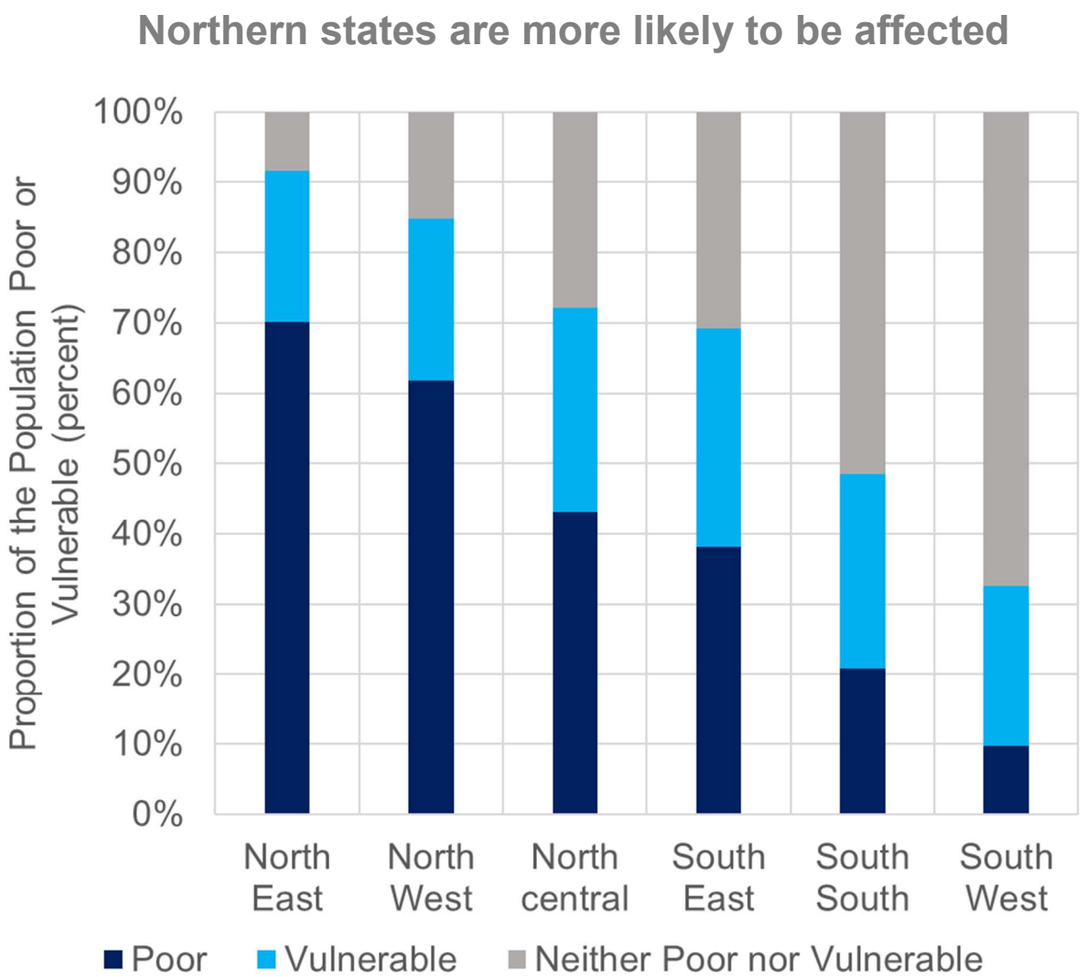
Projected increase in the number of poor, by Urban-Rural



Projected increase in the number of poor, by sector

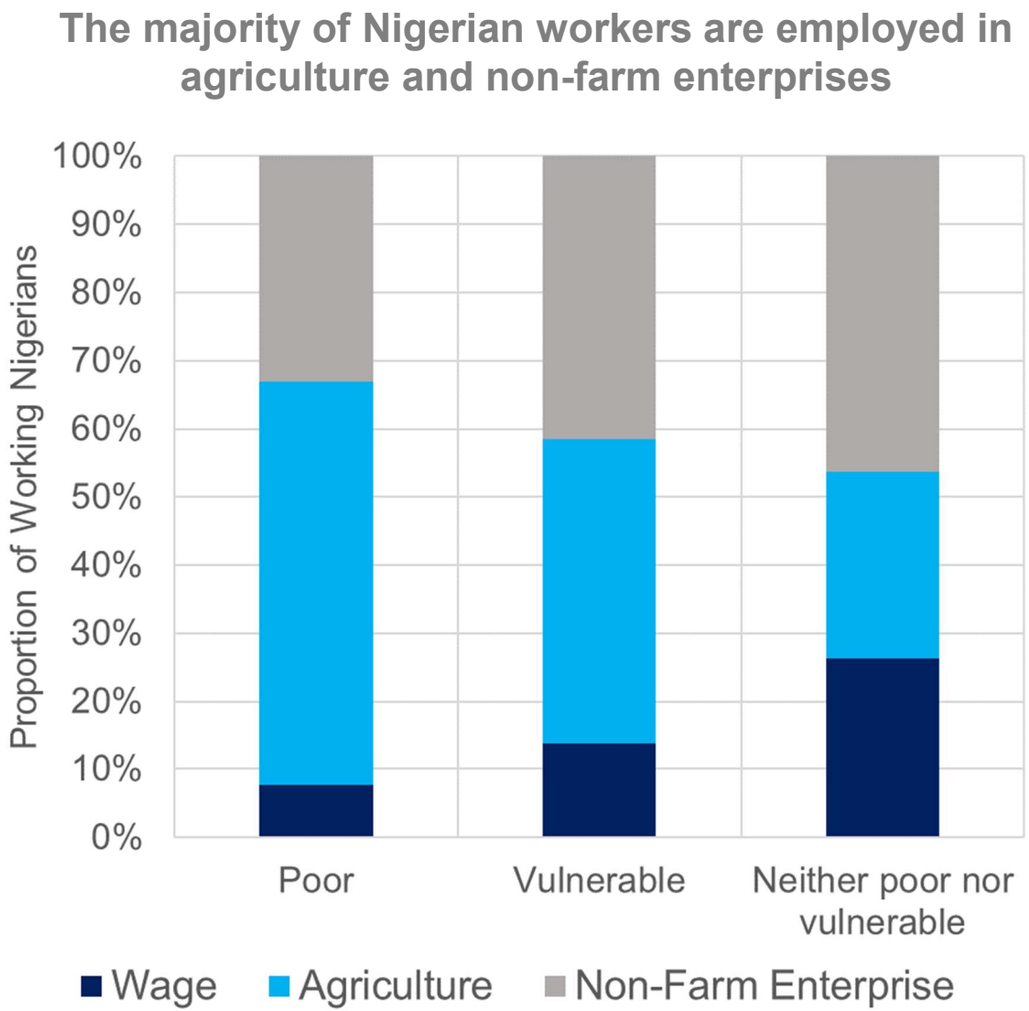


NON-POOR NIGERIANS ARE ALSO VULNERABLE TO FALLING BACK INTO POVERTY



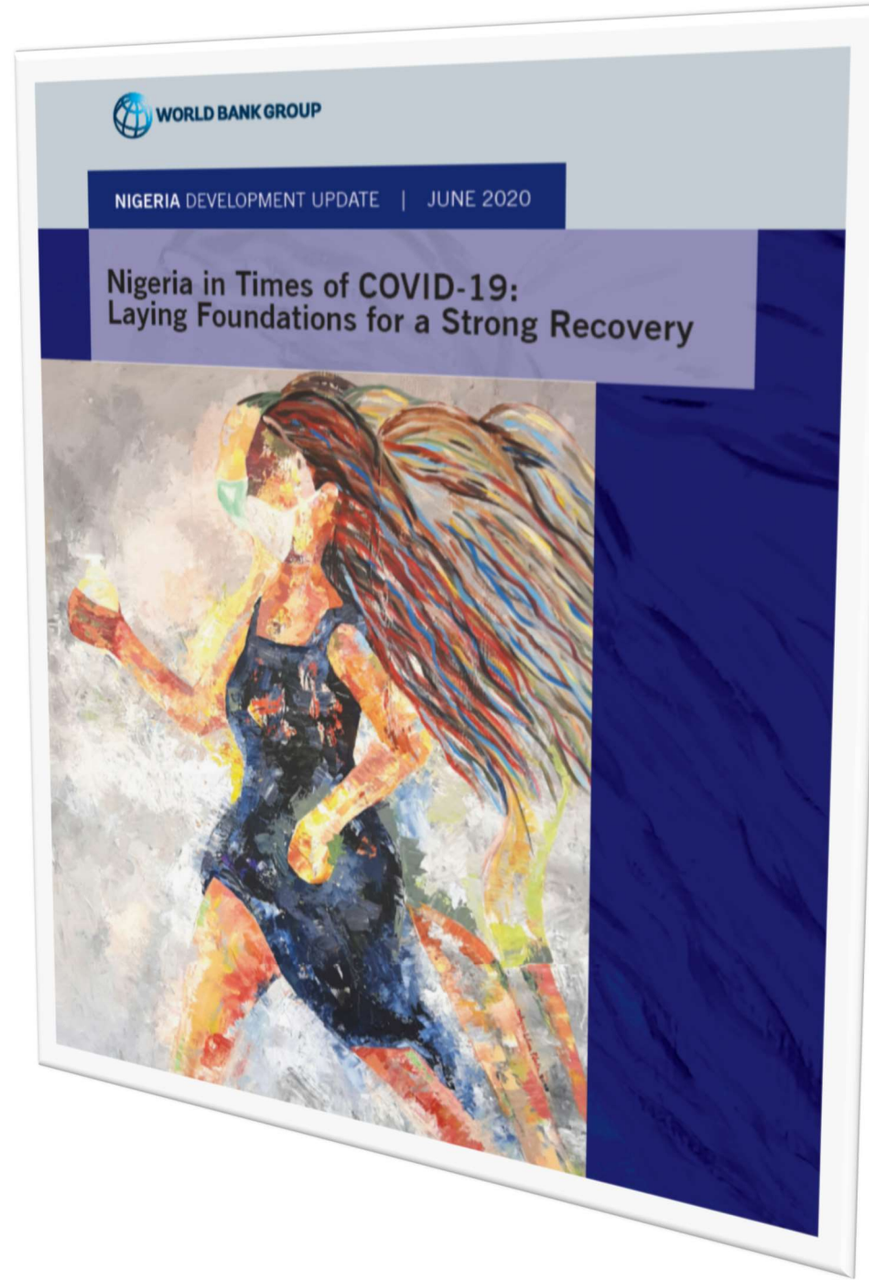
- **People living only just above the poverty line are more susceptible** to becoming poor when shocks occur
- Nationally, 40% of Nigerians (83 million people) live below the poverty line, while another 25% (53 million) are considered to be vulnerable
- **With COVID-19**, many of these 53 million **vulnerable people could fall into poverty**

A SURVEY IN APR-MAY 2020 CONFIRMED THE SEVERITY OF THE IMPACT ON POOR AND VULNERABLE NIGERIANS



- By April-May 2020, **42% of individuals working before March 2020 were no longer working**
- The share of individuals who stopped working was highest among the poor, and those working in services
- Rising prices have reduced the purchasing power of Nigerians
- **1 in 2 households** reported that they had reduced their food consumption to cope with the effects of the crisis
- These behavioral changes reduce welfare in the short-term but also have long-term **negative consequences for human capital development**

THIS UNPRECEDENTED CRISIS REQUIRES AN EQUALLY UNPRECEDENTED POLICY RESPONSE



FIVE POLICY AREAS TO MITIGATE THE IMPACTS OF COVID-19 AND LAY FOUNDATIONS FOR A STRONG RECOVERY

1. Containing the COVID-19 ***outbreak*** and preparing for a more severe 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 providing ***relief*** for poor and vulnerable communities

1. CONTAINING THE OUTBREAK AND PREPARING FOR A MORE SEVERE OUTBREAK

NEAR-TERM OPTIONS (3 to 6 Months)

- Continue improving **surveillance** and testing capacity.
- Ensure provision of necessary **protective gear** for health workers; upgrade isolation and treatment **facilities**.
- Strengthen **community engagement** to facilitate flows of credible information on, e.g., social distancing, wearing of masks, and other international best practice recommendations.
- Improve the **referral network system**, including diagnostic (laboratory), and treatment and care (hospitals).

MEDIUM-TERM OPTIONS (6 to 15 months)

- Scale up coverage of life and health **insurance** to provide an additional indemnity and safety net.
- Ensure safe resumption of non-emergency **primary care functions**, such as vaccinations and preventive care.

2. ENHANCING MACROECONOMIC MANAGEMENT TO BOOST INVESTOR CONFIDENCE

NEAR-TERM OPTIONS (3 to 6 Months)

- Unify **exchange rates** into a single window, and increase exchange rate flexibility now, before foreign exchange reserves are further depleted and pressures mount for a much larger and disruptive devaluation that would hurt the poor
- Ensure clear separation and improved coordination of **fiscal, financial, and monetary** policies
- Define measures for rescheduling and restructuring the loans of borrowers affected by COVID-19 and **heighten monitoring** of bank assets and the effectiveness of temporary forbearance
- Ease **foreign exchange** restrictions to limit inflationary pressures and increase supply of food and key staples (e.g., health-related products).

MEDIUM-TERM OPTIONS (6 to 15 months)

- Refocus management of monetary policy toward the primary objective of **price stability**
- Phase out land **border** closures to limit inflation and direct private sector development to more competitive ends
- Continue making management of **public debt** more transparent
- 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 transparently streamline the process for efficient resolution of nonperforming loans

3. SAFEGUARDING AND MOBILIZING REVENUES

NEAR-TERM OPTIONS (3 to 6 Months)

- Ensure business continuity of revenue collecting agencies and **facilitate tax payments** through online platforms.
- Enhance the collection of **oil and gas revenues** and communicate a clear timeline for repayment of nonoil 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 reports audited financial statements to formulate the reform agenda

MEDIUM-TERM OPTIONS (6 to 15 months)

- After the crisis, accelerate **domestic revenue mobilization reforms** (review and eliminate revenue-leaking incentives; adjust excise duties from, e.g., alcohol, cigarettes, and fuel; and introduce measures to counter international tax avoidance by amending the international tax rules related to corporate and personal income taxes, VAT, and capital gains taxes)
- Enhance oil-revenue remittances by managing **unbudgeted deductions** and underpayments by NNPC
- Introduce **new petroleum industry legislation** to safeguard oil revenues and strengthen the management, governance, and competitiveness of the oil sector.

4. REPRIORITIZING PUBLIC SPENDING TO PROTECT CRITICAL DEVELOPMENT EXPENDITURES

NEAR-TERM OPTIONS (3 to 6 Months)

- Ensuring that **execution of the 2020 Amended Budgets** and both federal and state COVID-19 stimuli are effective and transparent
- Create fiscal space by ensuring full implementation of the new **market-based gasoline** pricing mechanism
- Accelerate the implementation of the **Power Sector Recovery Program**, including reducing electricity tariff shortfalls while protecting the poor
- 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)

- Formulate and adopt **COVID-19–responsive budgets** for 2021, with fiscal stimulus measures to support economic recovery
- Identify fiscal savings through, e.g., evaluation of **off-budget** federal government spending
- Roll out the **Treasury Single Account** to include all federal government entities and agencies
- Expand the coverage of the expenditure commitment management and control module of the **GIFMIS to cover all expenditures**, budgetary and nonbudgetary, of Federal ministries, departments, and agencies
- Accelerate action on the recommendations of PEFA and PIMA exercises to strengthen **public financial management**

5. SUPPORTING ECONOMIC ACTIVITY AND PROVIDING RELIEF FOR POOR AND VULNERABLE COMMUNITIES

NEAR-TERM OPTIONS (3 to 6 Months)

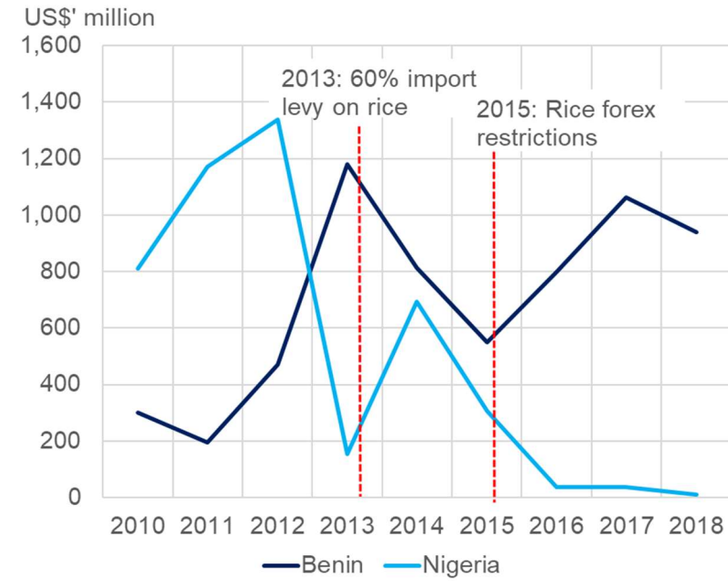
- Issue guidelines for **adapting procurement** procedures to support and encourage SMEs to participate in public procurement
- Increase cash, basic services, and **livelihood support** to poor and vulnerable households
- Ensure **food security** and safe functioning of food supply chains for poor households

MEDIUM-TERM OPTIONS (6 to 15 months)

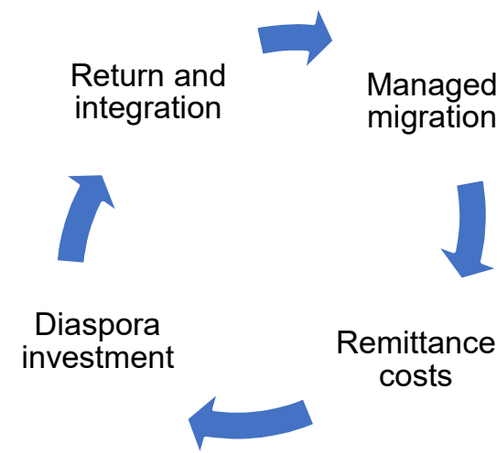
- Facilitate recovery and enhance capabilities of SMEs by **targeting credit support** to distressed and vulnerable enterprises; and providing one-off grants to SMEs, to cover operational costs and IT solutions
- Activate **e-procurement**
- Increase the efficiency of social protection spending by improving both traditional and nontraditional **targeting methods**, such as geographical, categorical, or community-based targeting, with delivery methods that are consistent with social distancing

ALSO IN THIS EDITION OF THE NIGERIA DEVELOPMENT UPDATE…

- ✓ **Nigeria's Border Closure**: Impacts and the Way Forward



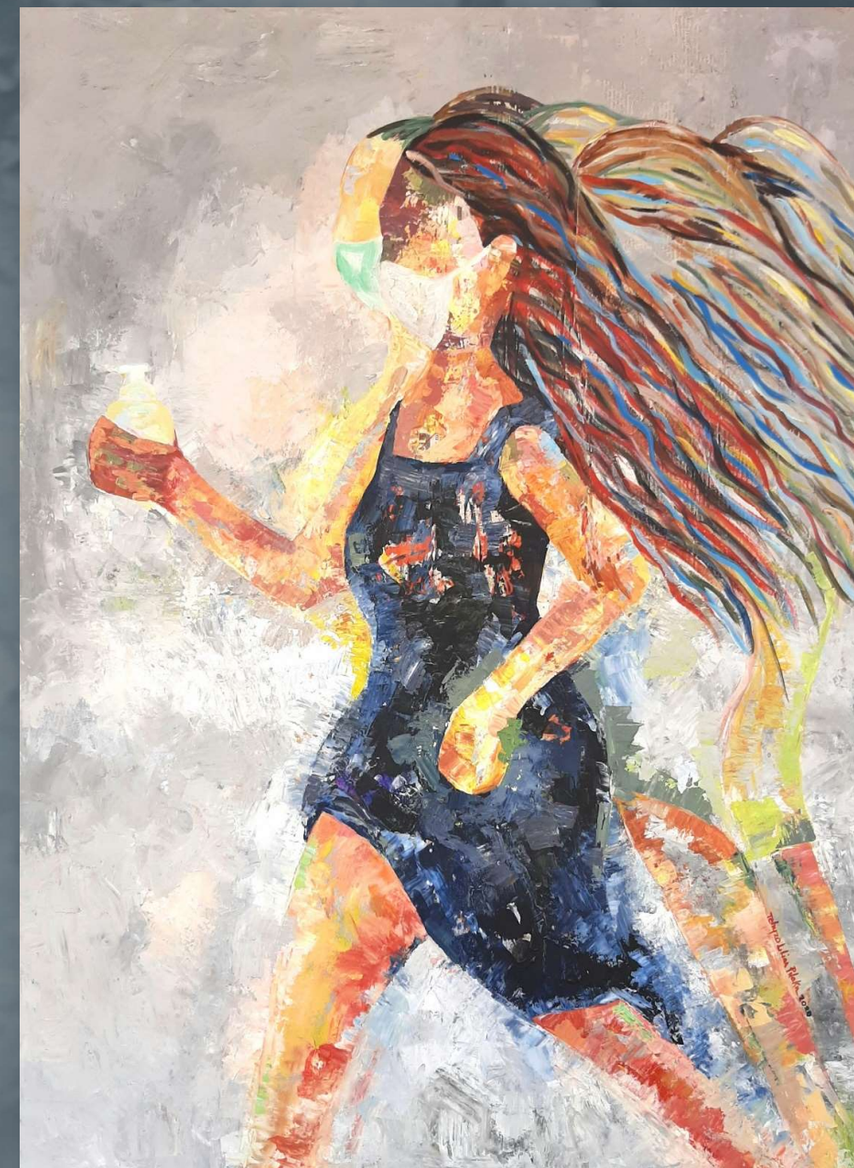
- ✓ **The Role of Agribusiness** in Providing Food Security and Supporting the Post-Pandemic Recovery



- ✓ **Leveraging Migration**, Remittances, and the Diaspora for Development

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

Thank You



Riding the Tide
by Lilian Chizoba Pilaku