

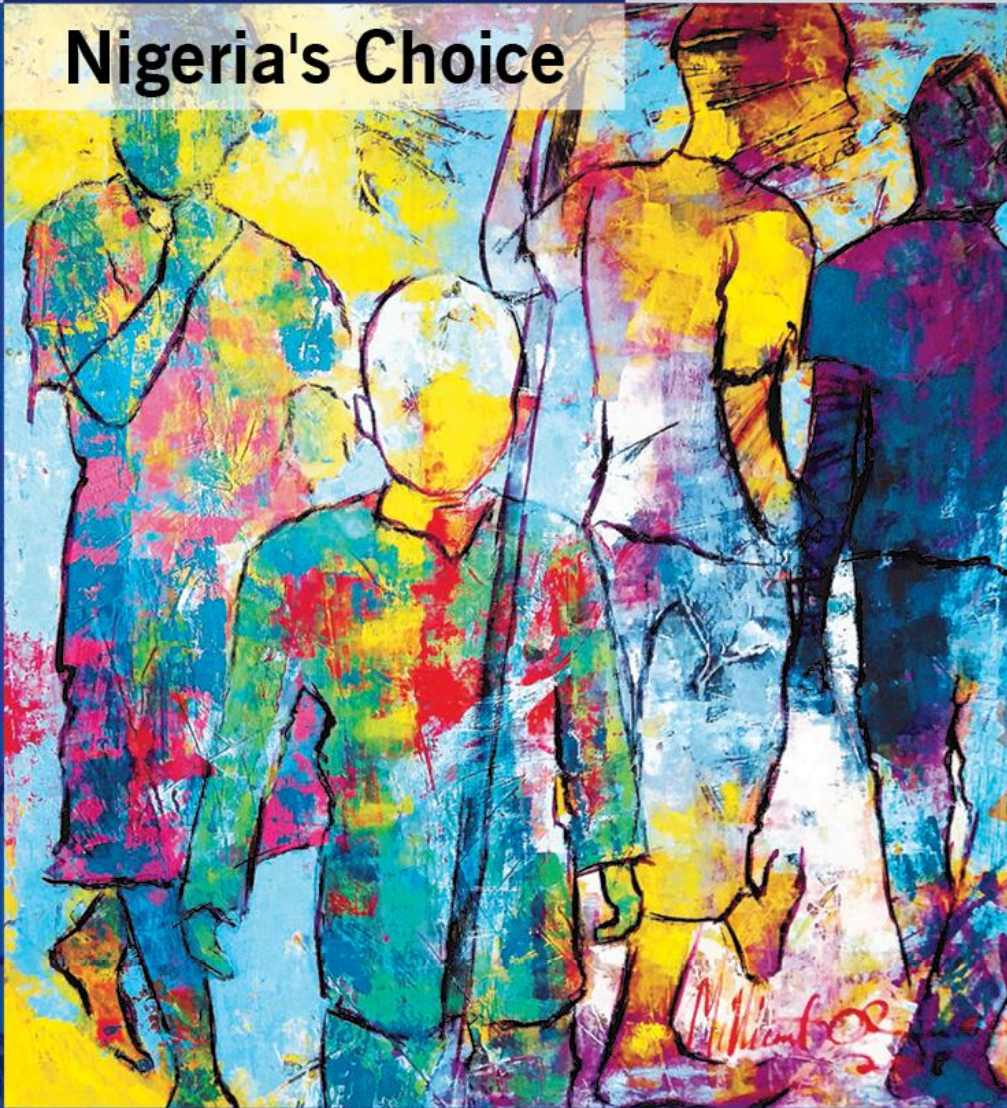
# Nigeria Development Update

## Nigeria's Choice

December 15, 2022



# Nigeria's Choice

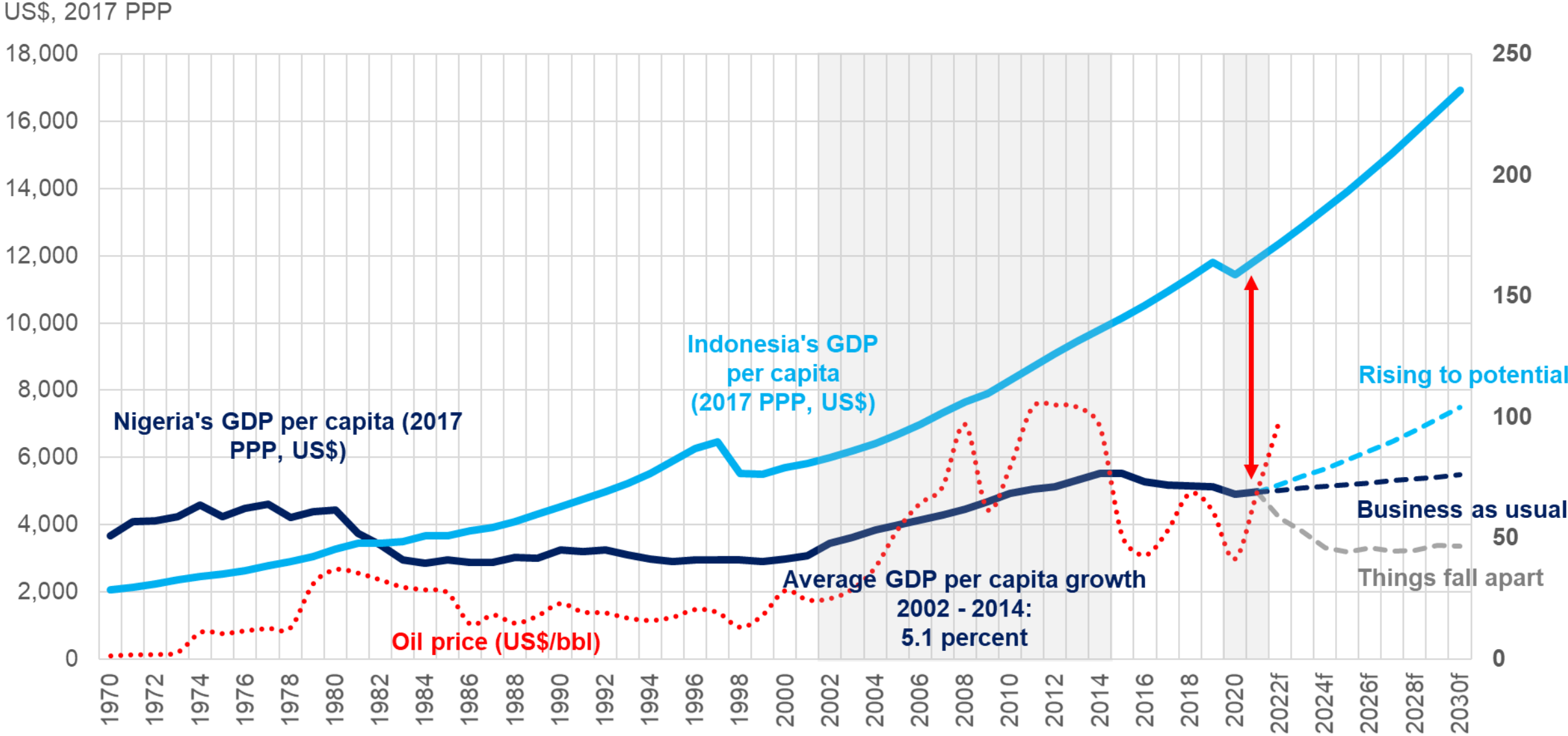


# Nigeria | Charting a New Course

Country Economic Memorandum



# NIGERIA STANDS AT A CRITICAL JUNCTURE, WITH A CHOICE TO MAKE



Source: NBS, WDI, and World Bank estimates.

# PART 1: A TASTER OF THE NIGERIA COUNTRY ECONOMIC MEMORANDUM

Seven observations about  
Nigeria's growth record



# Seven observations about Nigeria's growth record

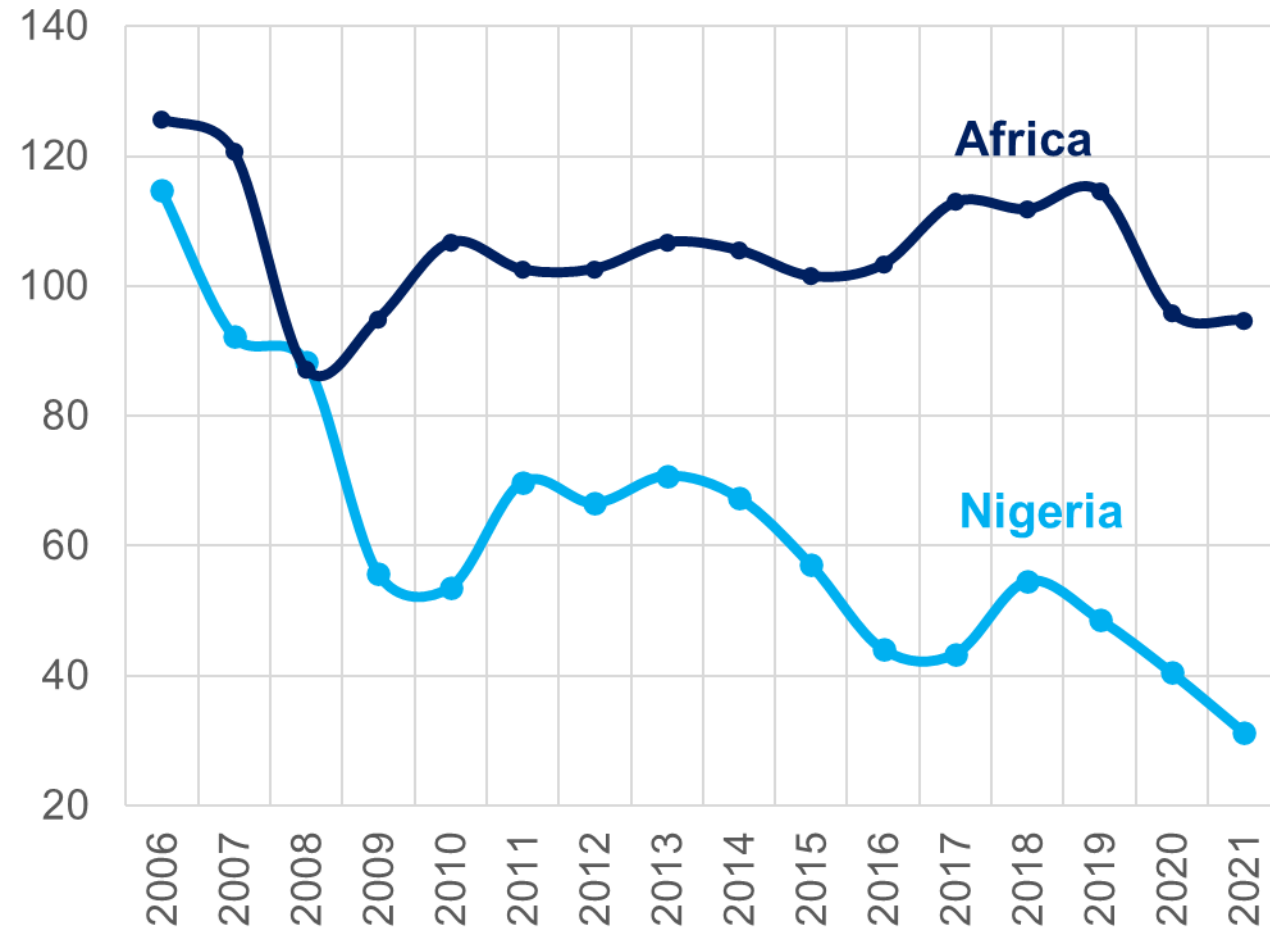
1. Macroeconomic stability and policy predictability have deteriorated over the past decade, eroding **growth potential**
2. Economic performance across different periods is directly linked to the **pace of reforms**, which relates to the strength of institutions
3. Nigeria lacks large and mid-sized **formal productive firms**, pointing to labor misallocation that hinders productivity growth
4. Oil dominance: boom-bust oil cycles and low investment have hindered **economic diversification**, as oil continues to dominate exports
5. **Structural transformation** and job creation have been slow
6. More **jobs** are needed to employ a fast-growing labor force and a demographic dividend is not yet in sight
7. The economy is not generating enough **pathways out of poverty**, due to the lack of better jobs and economic transformation

Source: NBS, CBN, WDI, and World Bank estimates.

# 1. Macroeconomic stability and policy predictability have deteriorated over the past decade, eroding growth potential

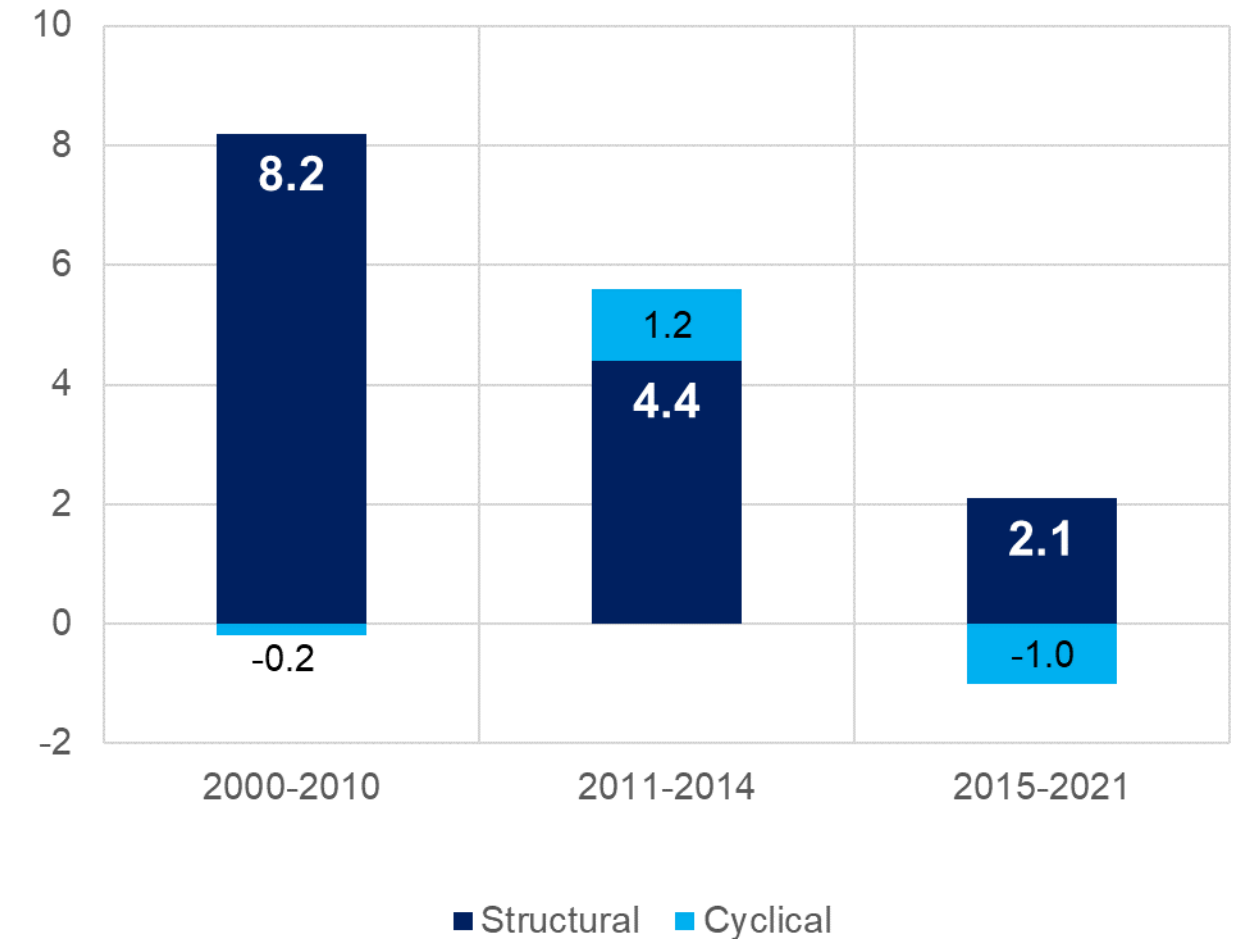
A macroeconomic stability index comprising inflation, fiscal and external balances shows steady deterioration

Macro-stability Index (2000=100)



Nigeria's potential output growth is now below population growth

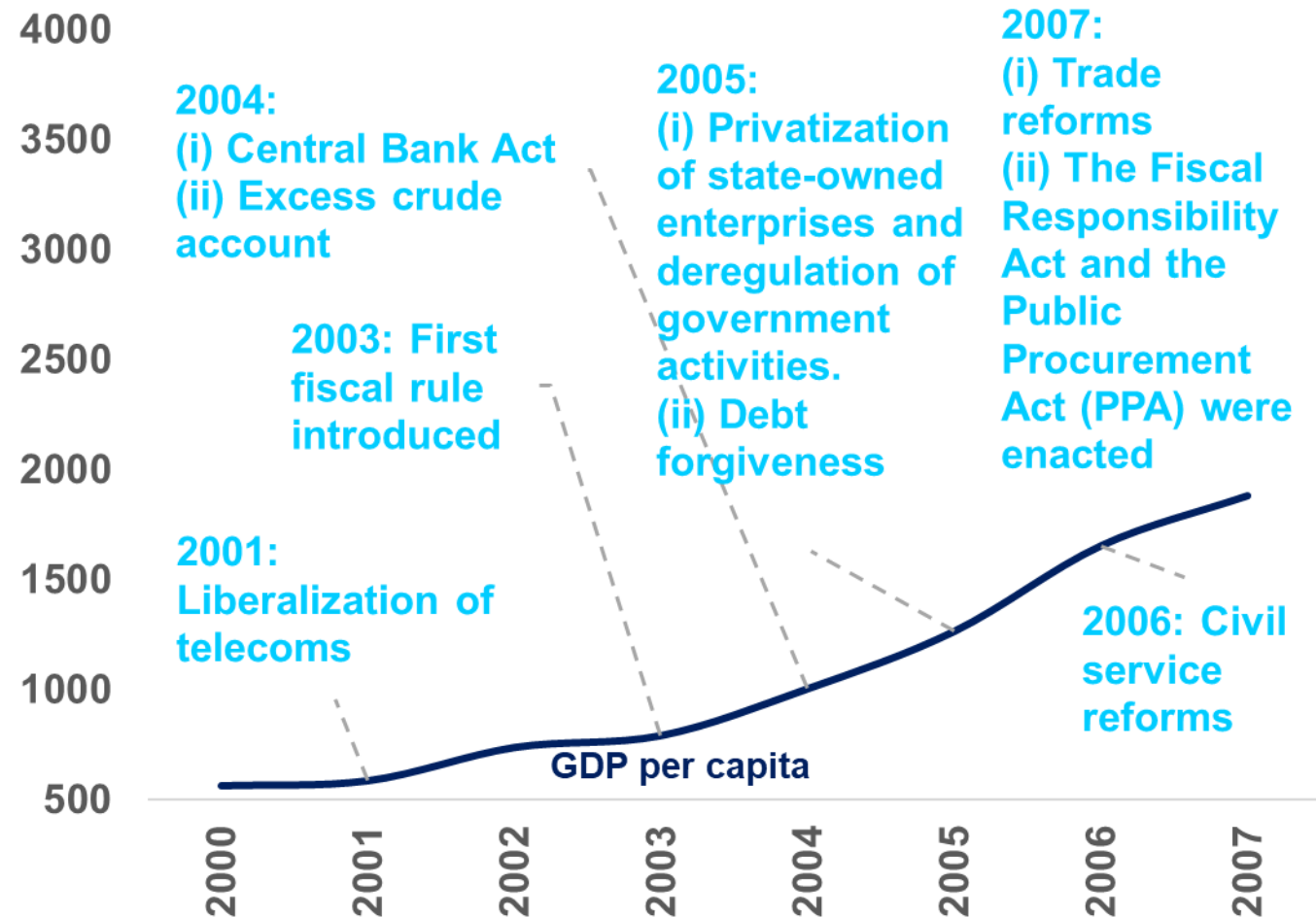
Percent



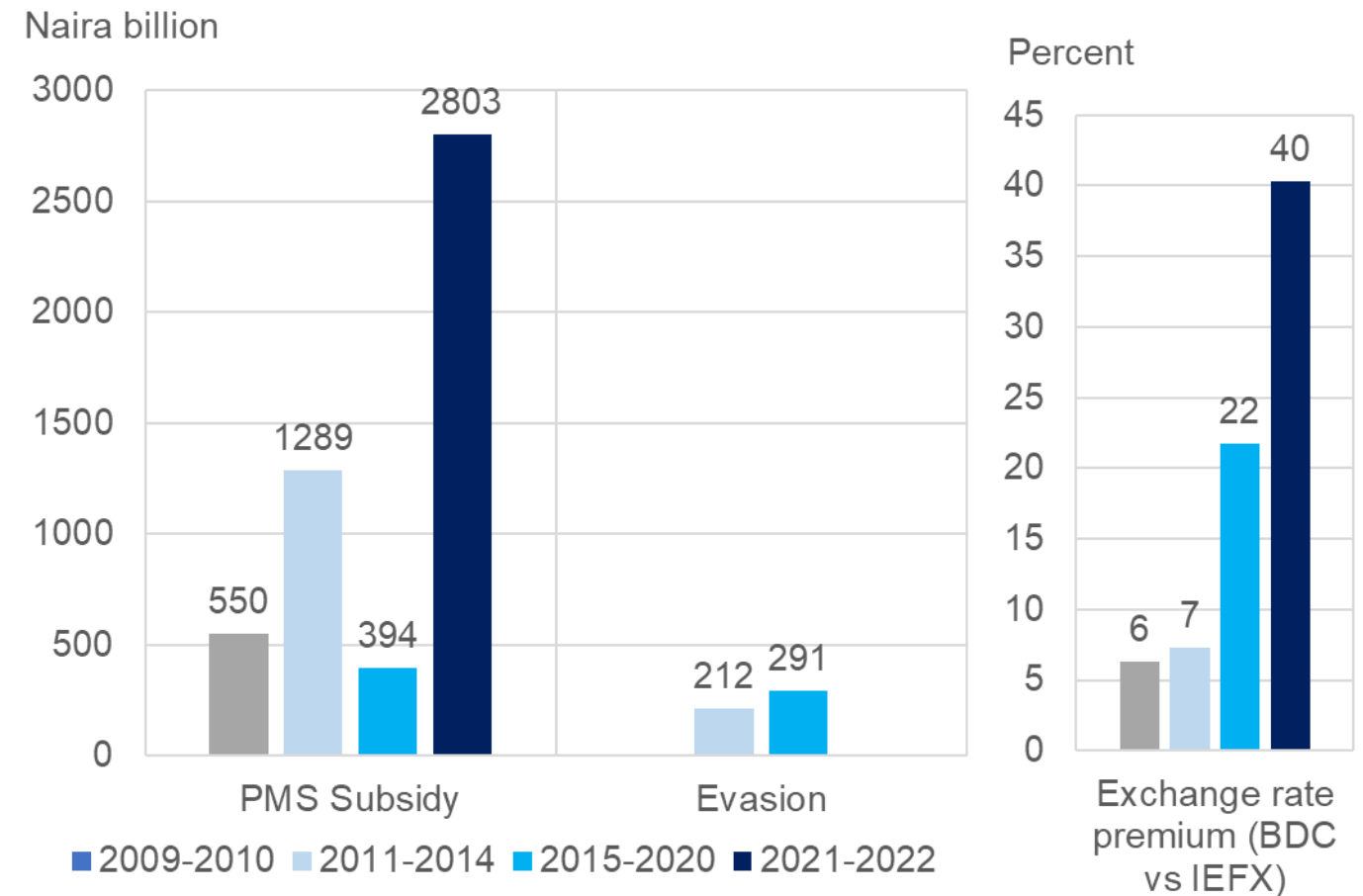
Source: NBS, CBN, WDI, and World Bank estimates.

## 2. Economic performance across different periods is directly linked to the pace of reforms, which relates to the strength of institutions

From 2001 to 2008, the Nigerian Government implemented a series of bold reforms



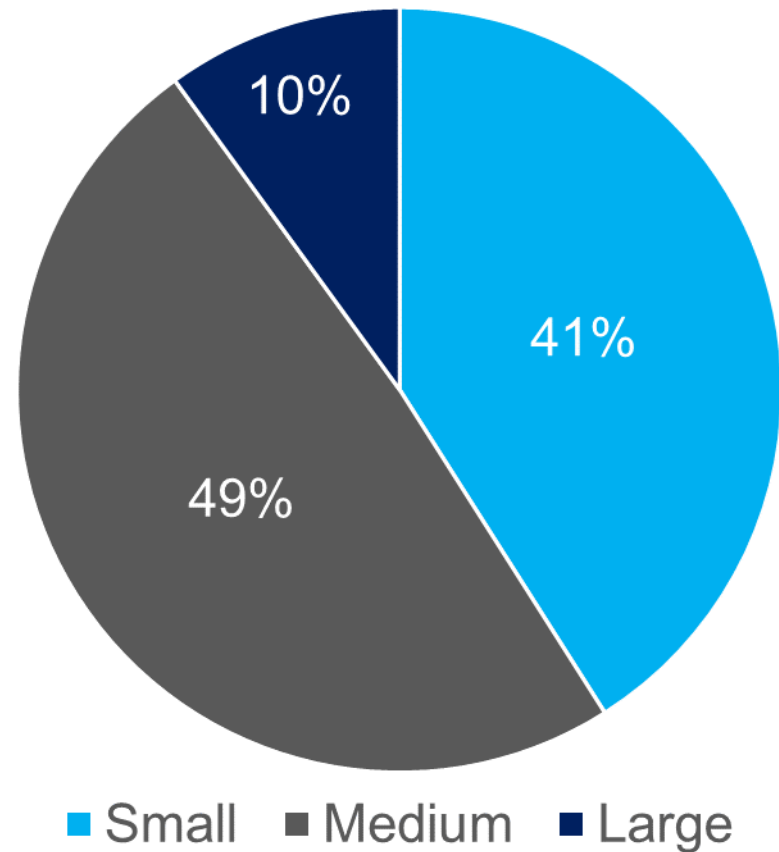
However, the appetite for reforms has decreased over the past decade



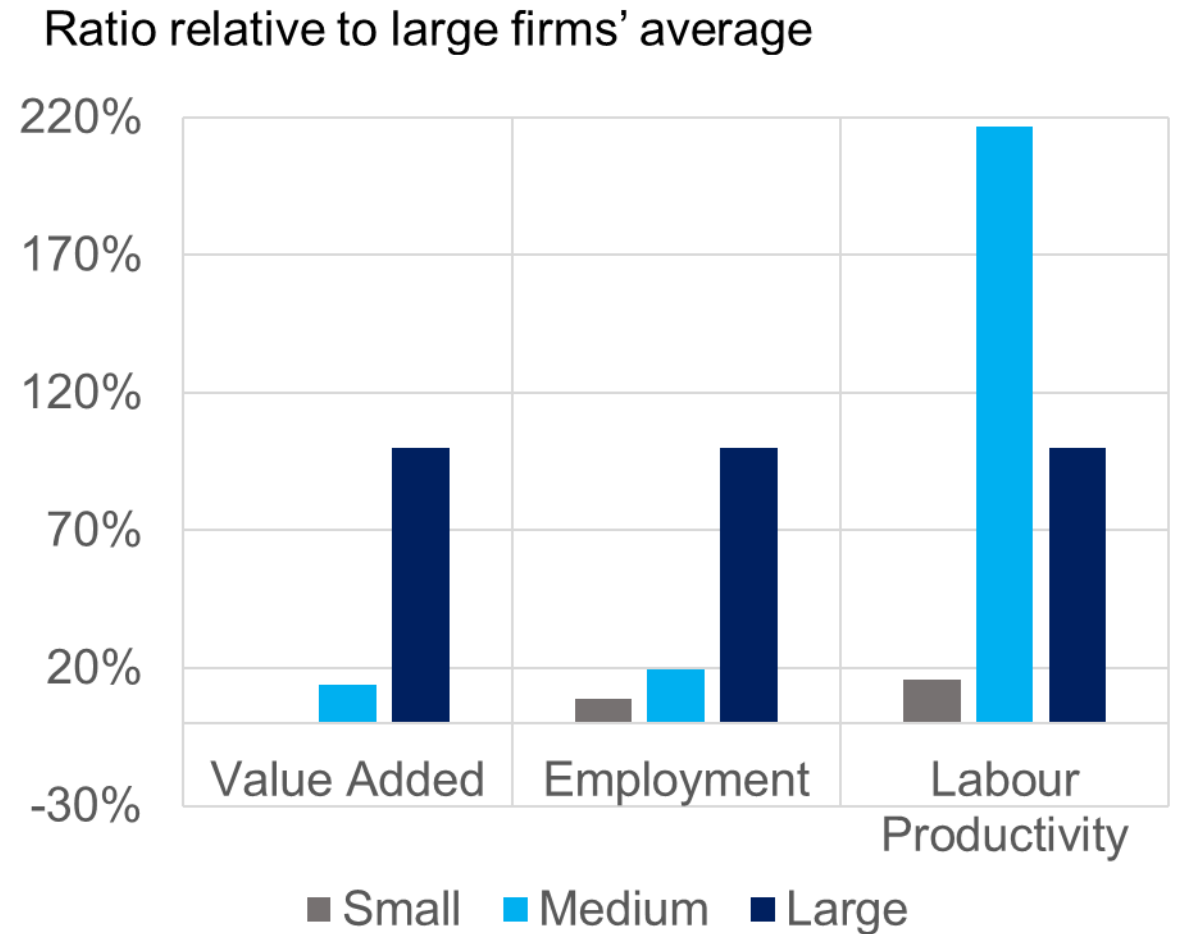
Source: NBS, NCS, CBN, and World Bank estimates.

### 3. Nigeria lacks large and mid-sized formal productive firms, pointing to labor misallocation that hinders productivity growth

Small firms dominate the business landscape...



...but report the lowest productivity

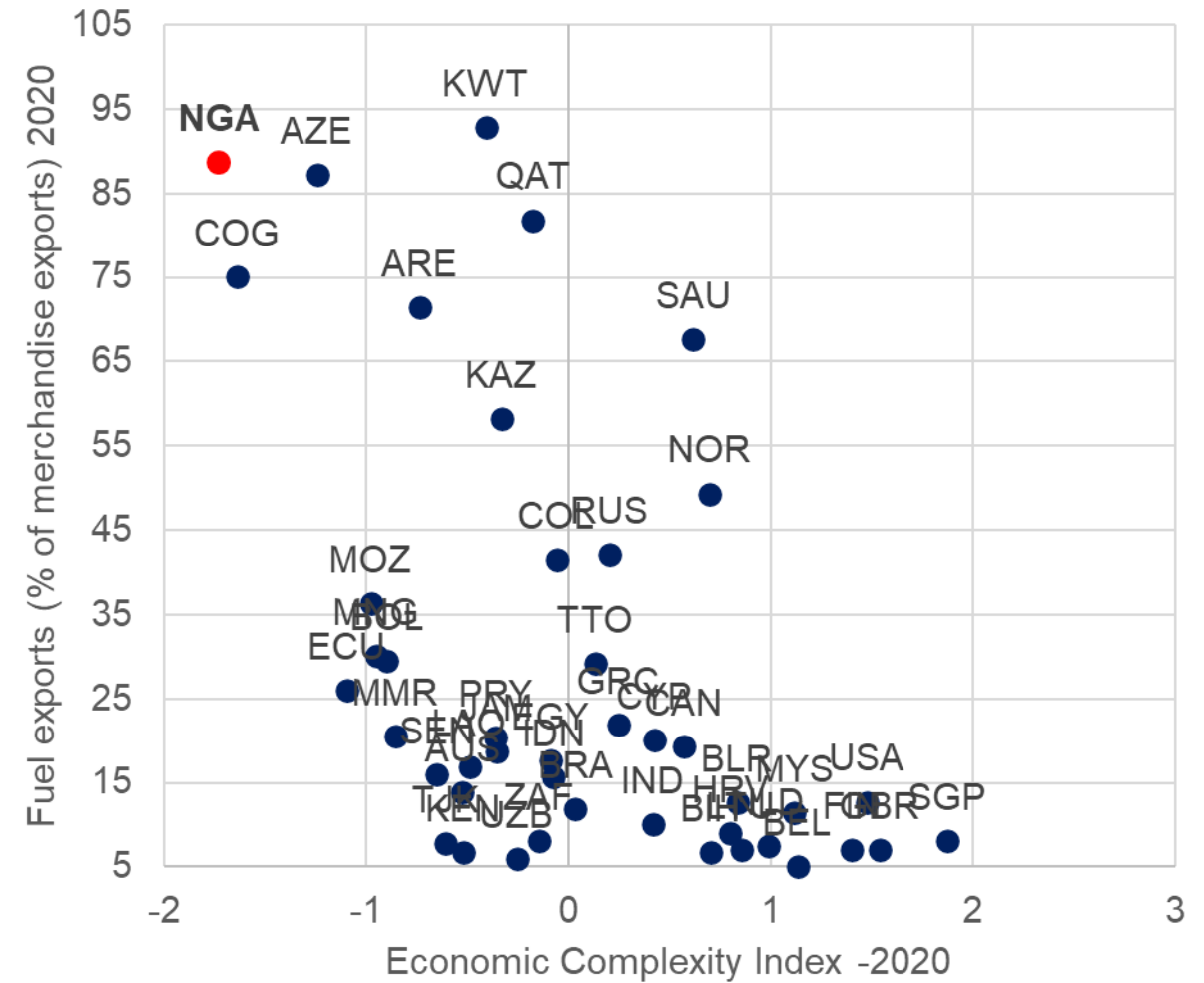
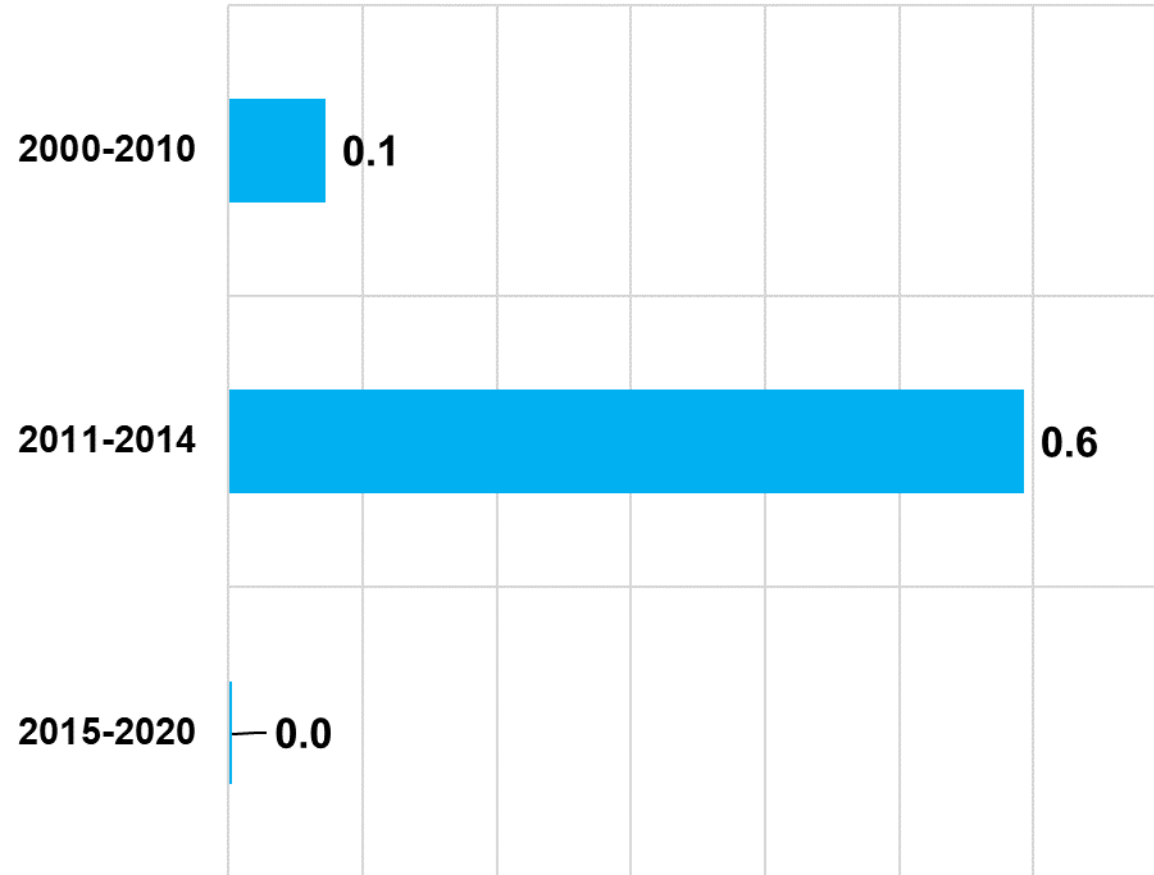


Source: Enterprise Survey 2009 and 2014, and World Bank estimates.

# 4. Oil dominance: boom-bust oil cycles and low investment have hindered economic diversification, as oil continues to dominate exports

Investment has played a limited role in economic growth Nigeria has one of the least complex economies in the world

Contribution of Investment to GDP Growth (percentage points)



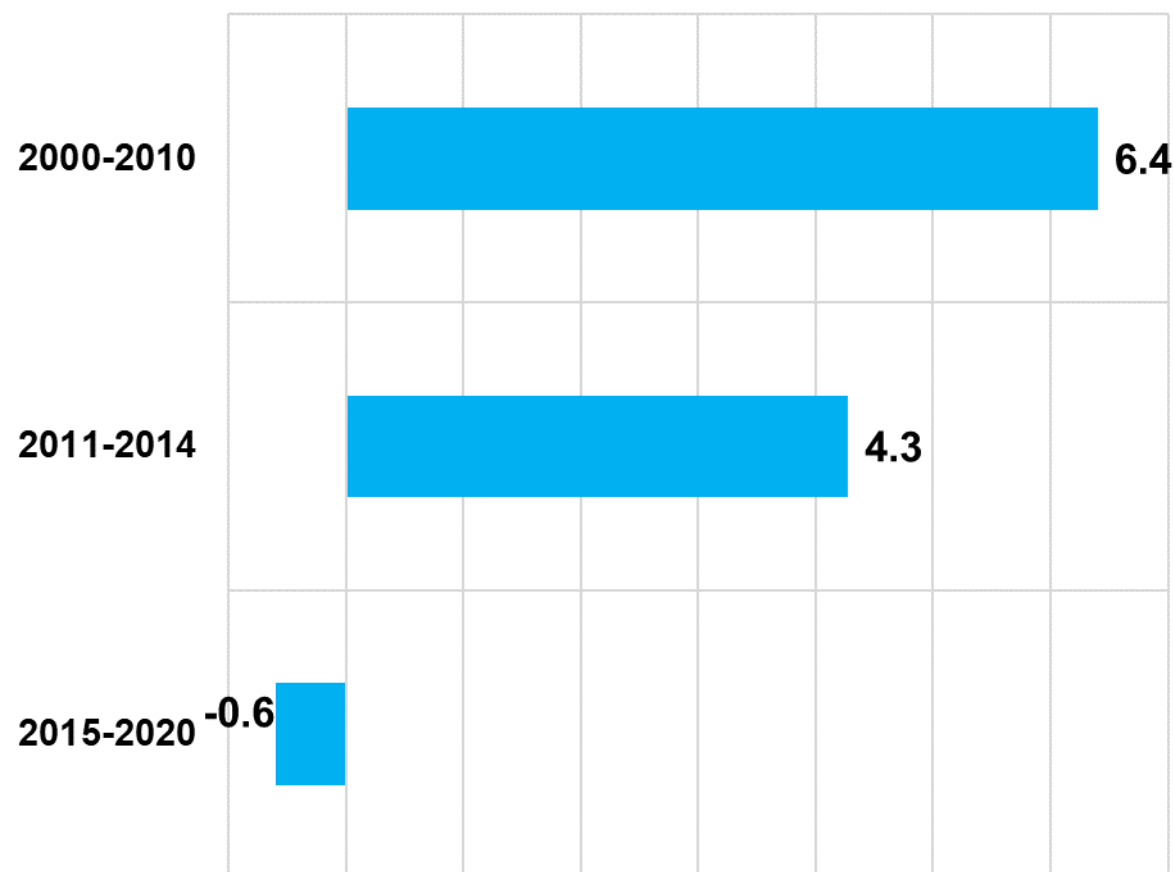
Source: NBS, CBN, Observatory of Economic Complexity, and World Bank estimates.

# 5. Structural transformation and job creation have been slow

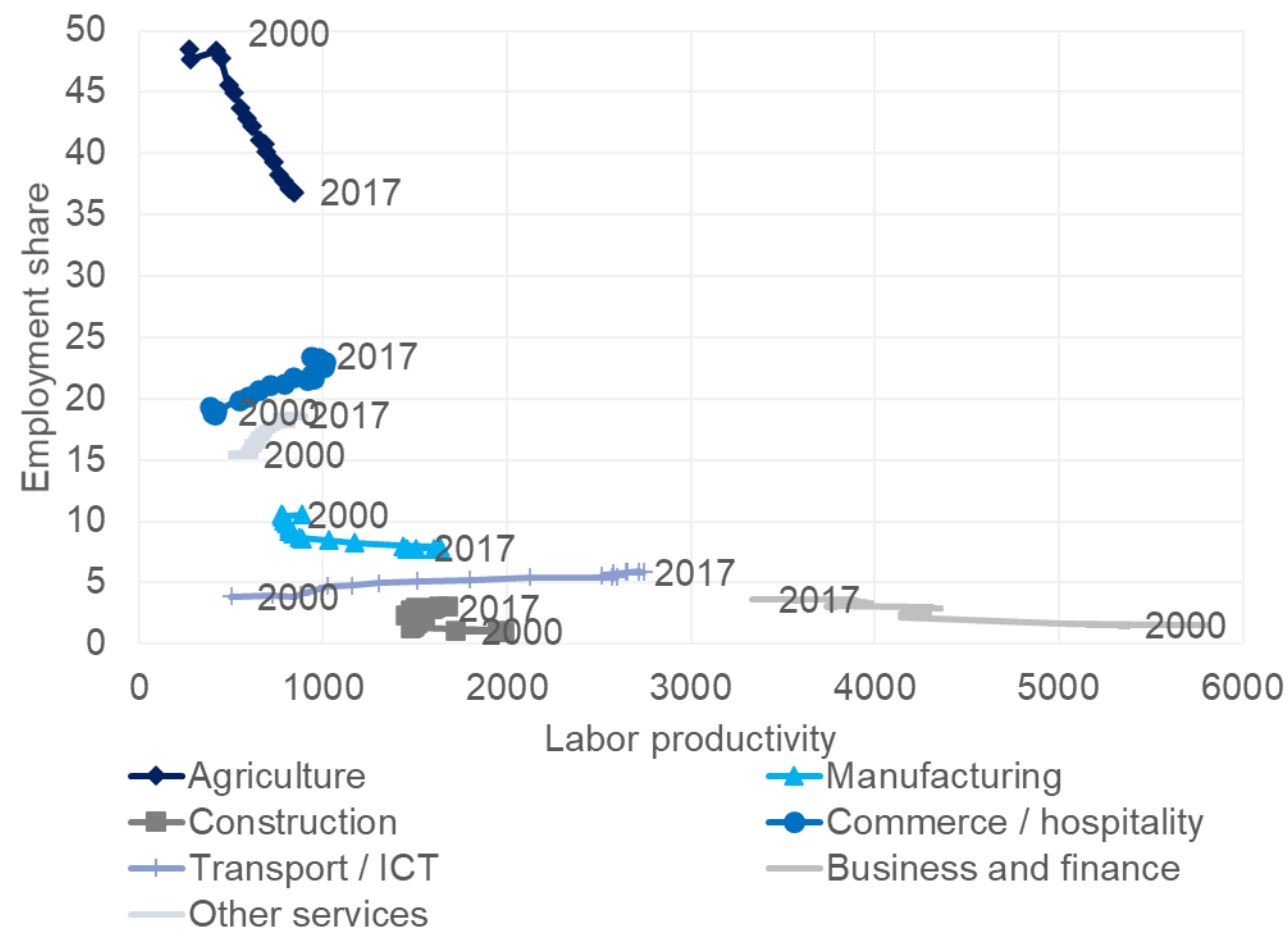
The non-oil economy has shifted increasingly towards low-productivity services, although agriculture still dominates

TFP growth has declined sharply

Contribution of Total Factor Productivity to GDP Growth (percentage points)



The move out of agriculture into other sectors has increased productivity, but agriculture remains the main employer

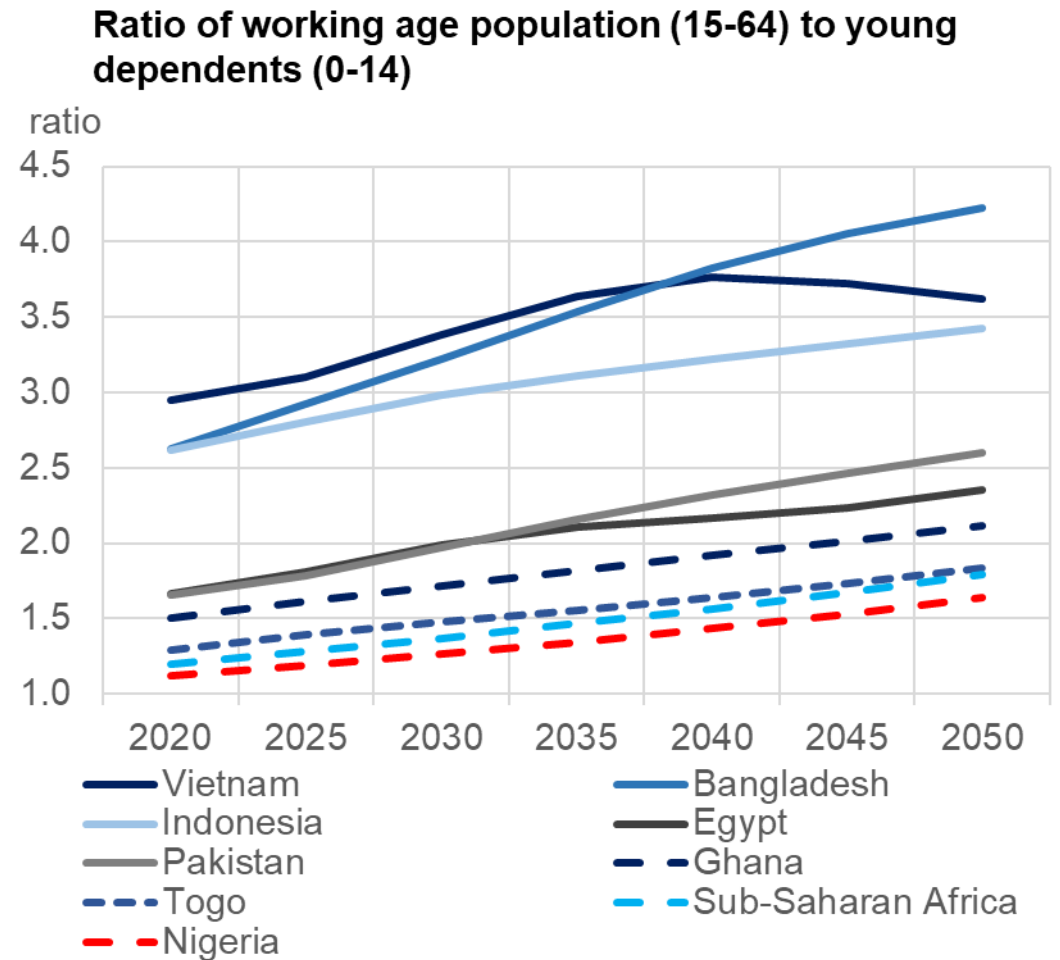
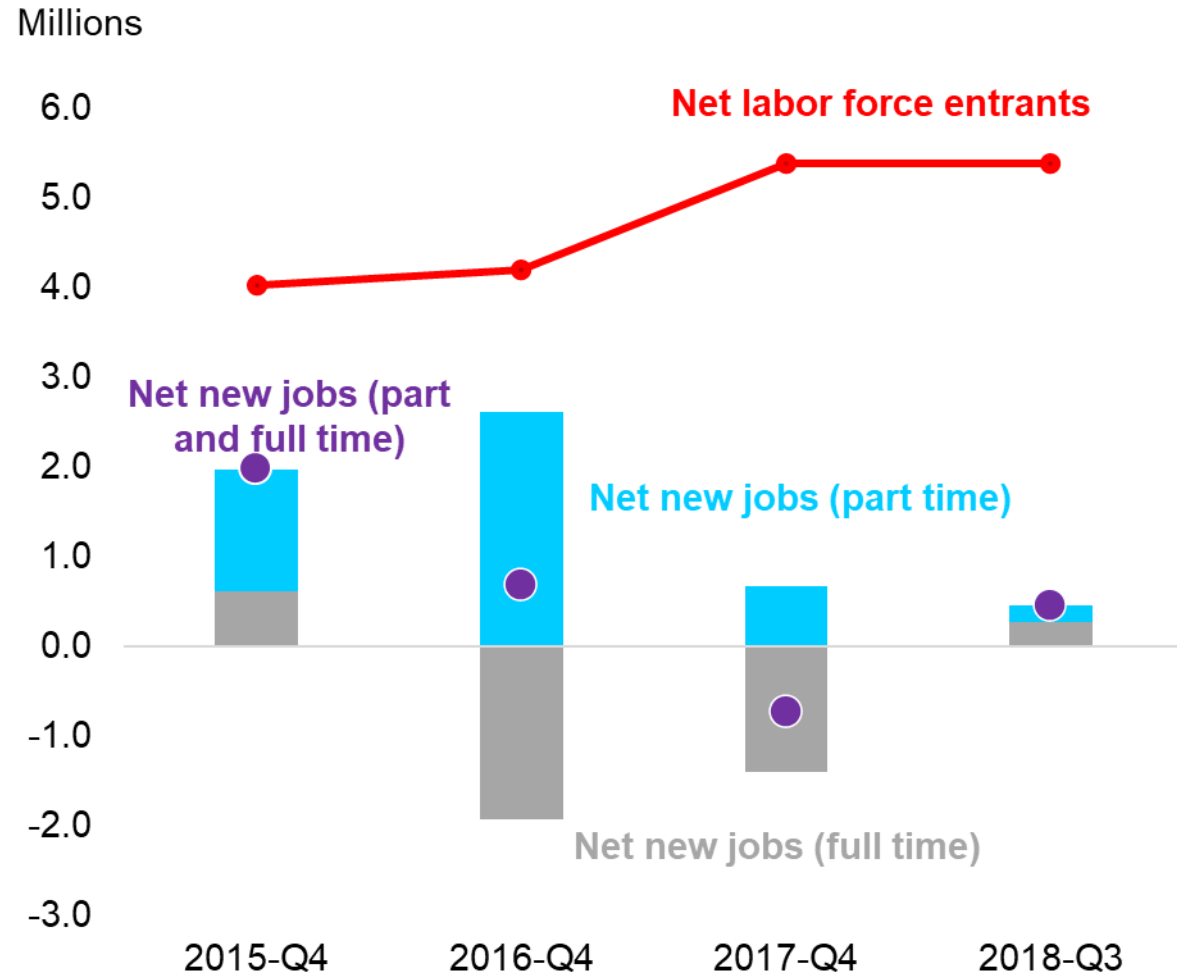


Source: NBS, CBN, ILO, and World Bank estimates.

# 6. More jobs are needed to employ a fast-growing labor force and a demographic dividend is not yet in sight

Job creation, especially of full-time, high-quality jobs, has not kept up with a fast-growing population (even before the 2020 recession)

Even in 2050, for every young dependent in Nigeria, on average only 1.5 family members will be of working age - much lower than comparator countries

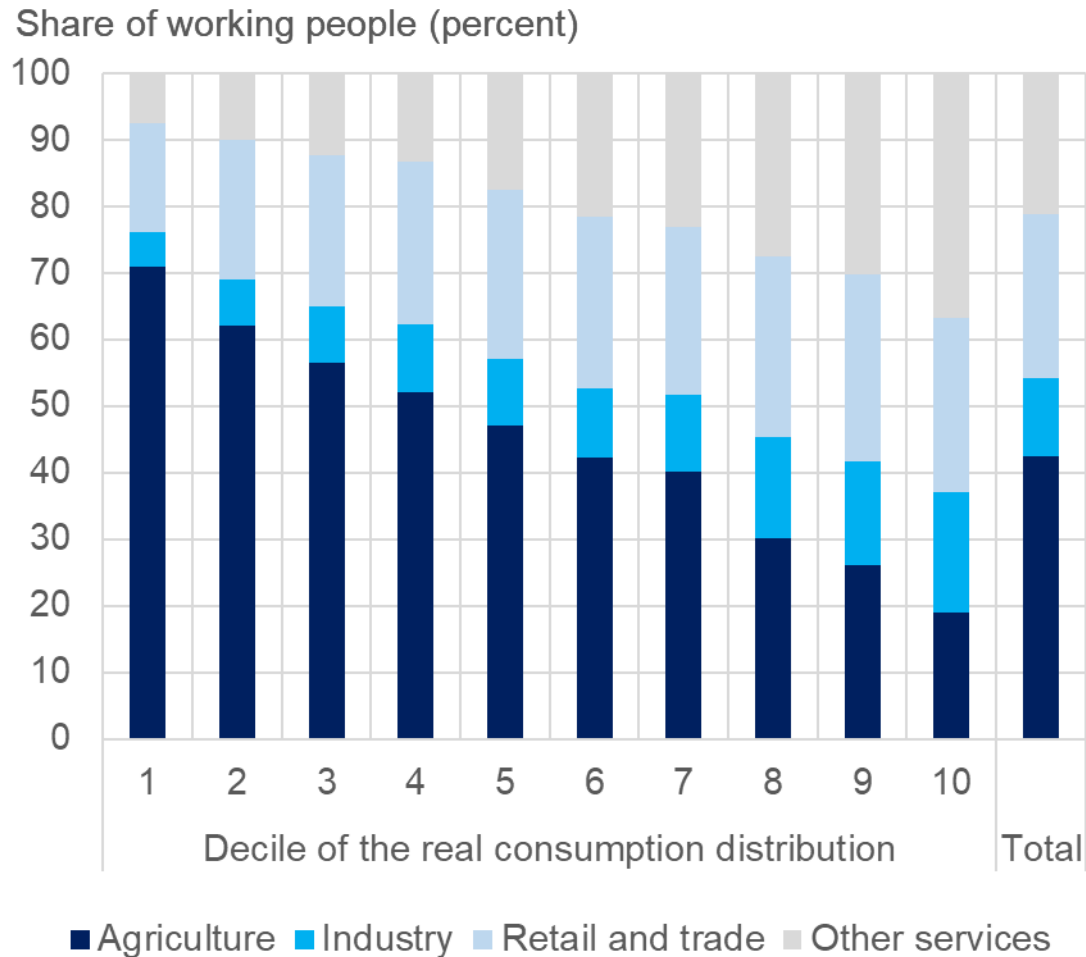


Source: NBS, CBN, UN World Population Prospects, and World Bank estimates.

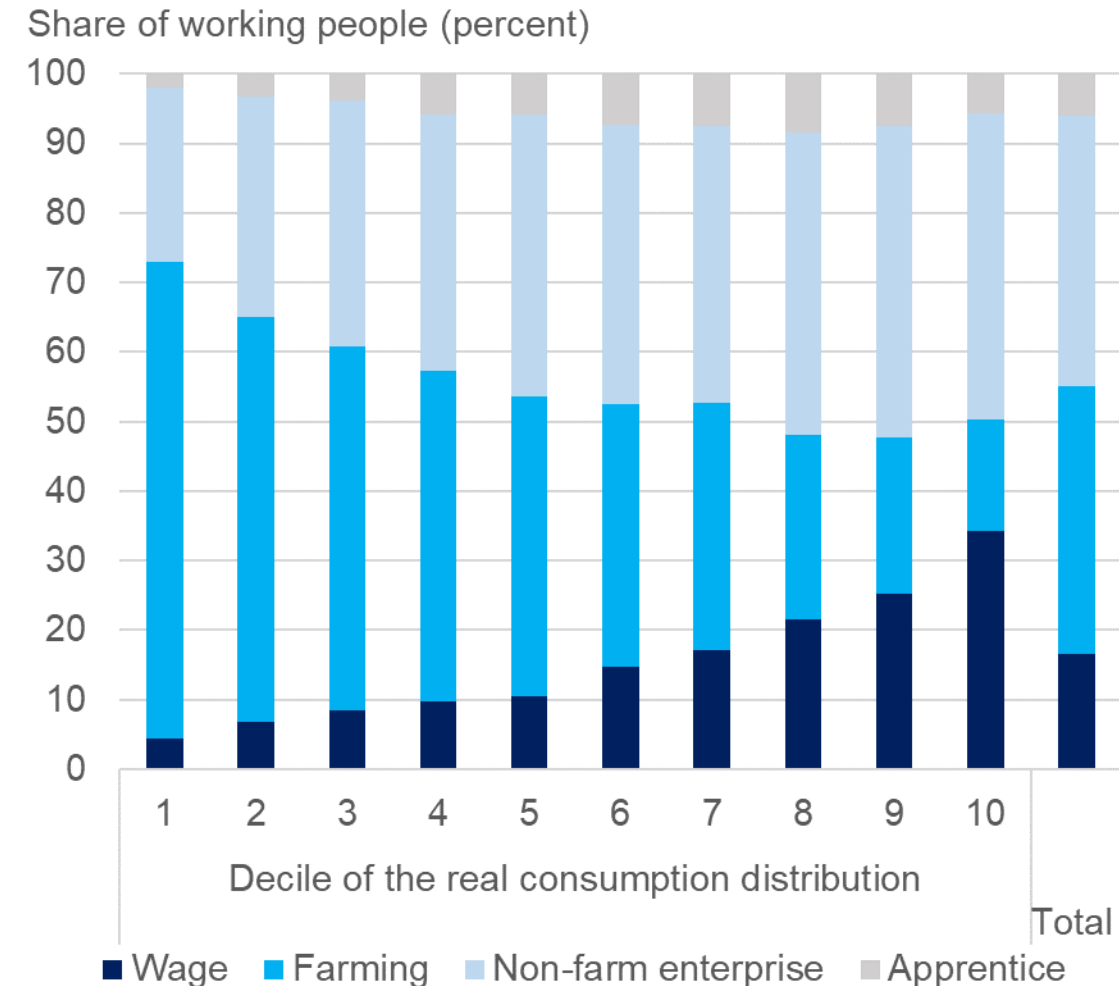
# 7. The economy is not generating enough pathways out of poverty, due to the lack of better jobs and economic transformation

Merely being in work does not guarantee a path out of poverty, and wage work is scarce

Employment in agriculture is more prevalent among the poor



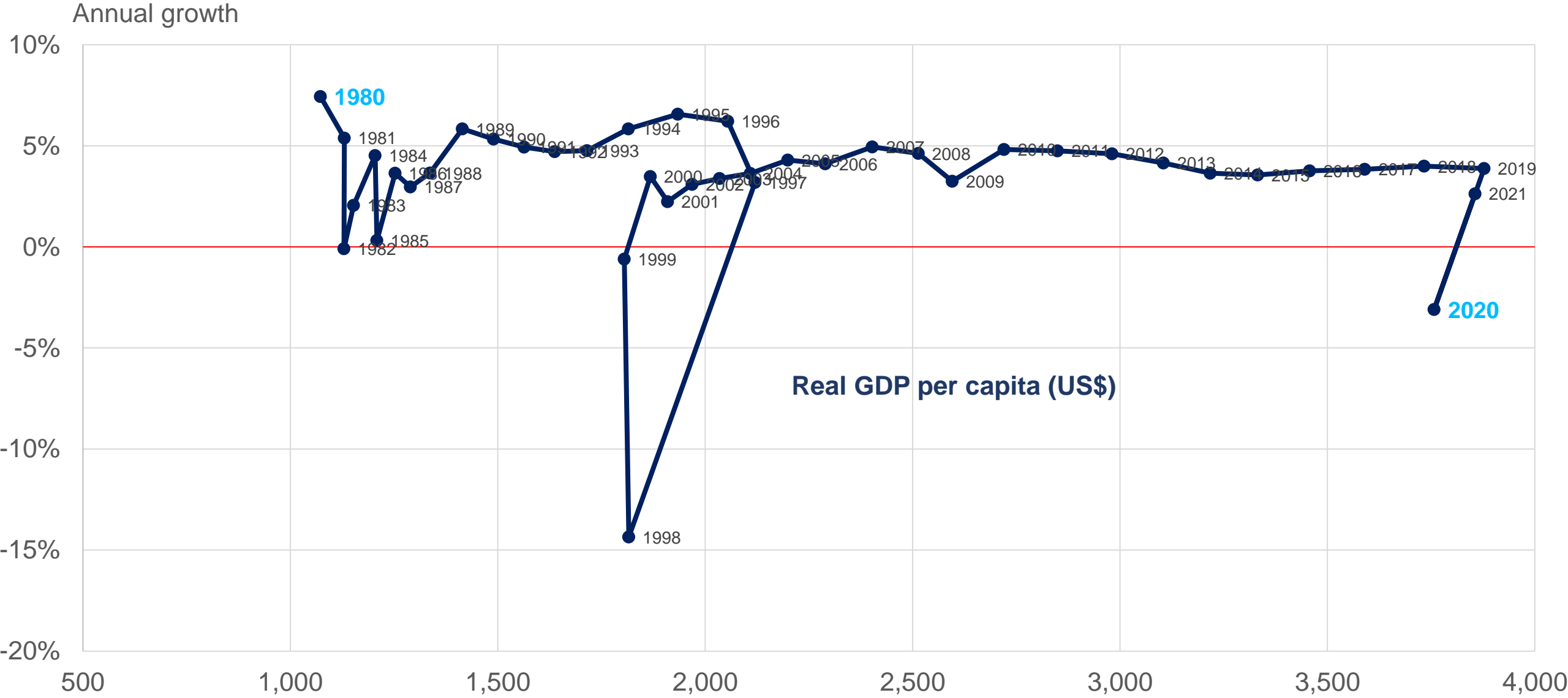
Only 16.7 percent of working Nigerians have a wage job



Source: 2018/2019 NLSS, and World Bank estimates.

# RECAP OF THE LONGER-TERM DEVELOPMENT PATH: INDONESIA

Steady growth of the pie punctuated by occasional setbacks

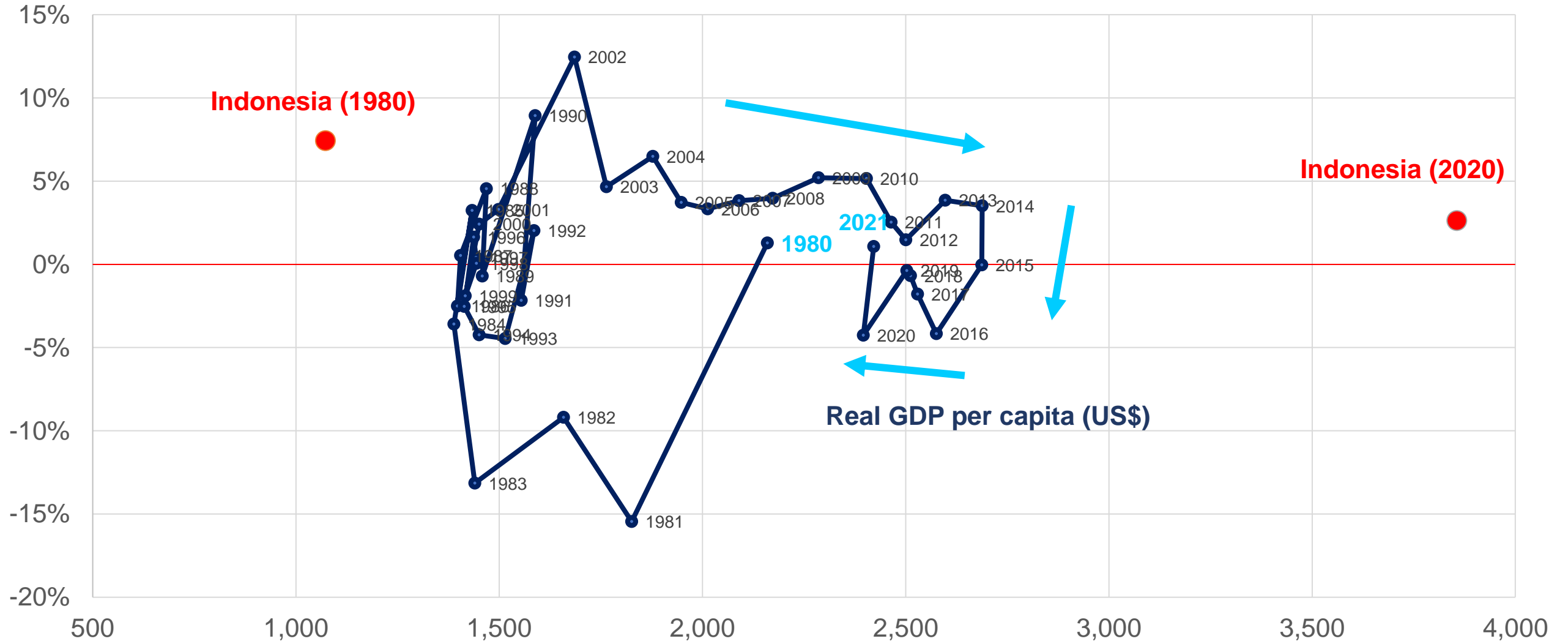


Source: WDI.

# RECAP OF THE LONGER-TERM DEVELOPMENT PATH: NIGERIA

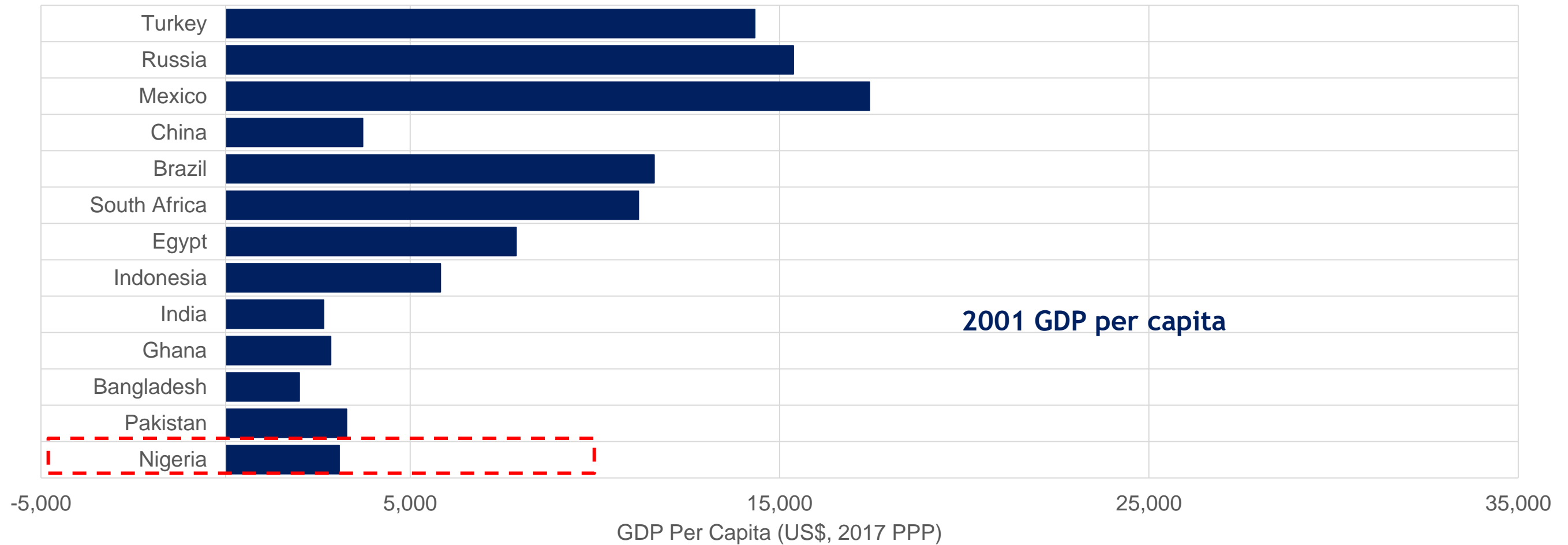
Little sustained progress other than during the 2000s, then two recessions associated with 2015 oil shock & COVID-19

Annual growth



Source: WDI.

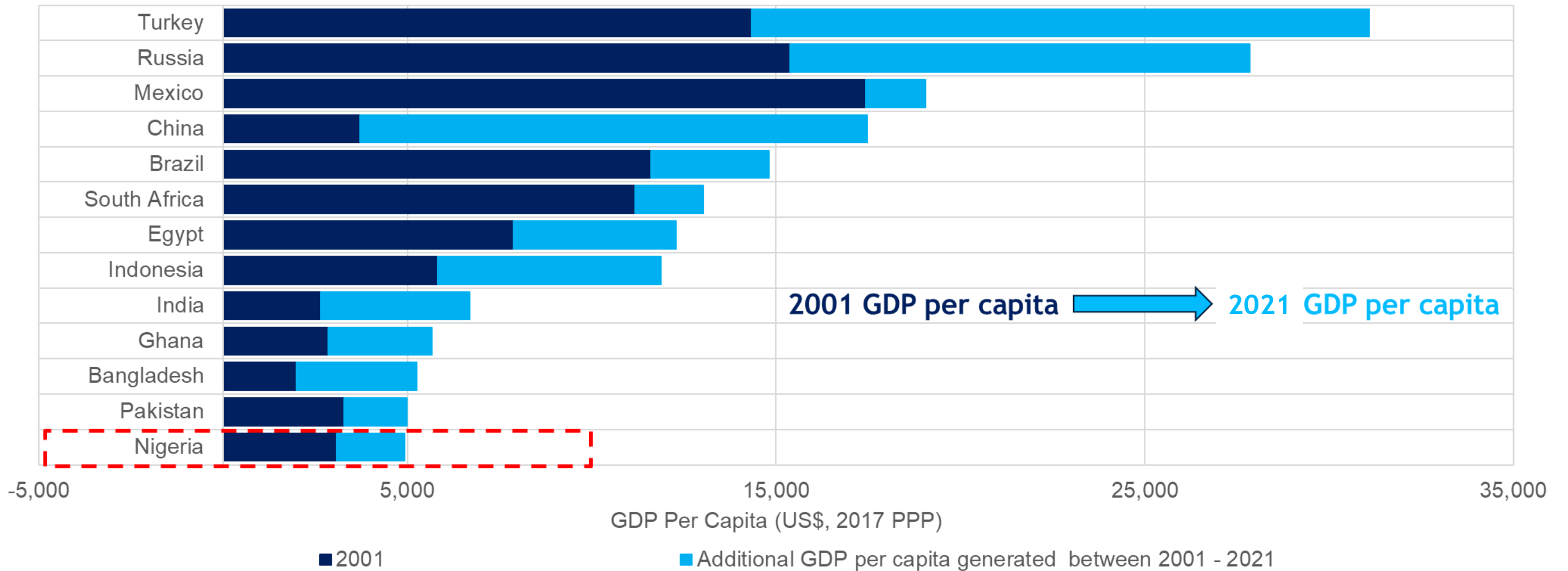
# NIGERIA'S GROWTH SINCE 2001: A WIDER COMPARATIVE PERSPECTIVE



Source: NBS, CBN, WDI, and World Bank estimates.

# NIGERIA'S GROWTH SINCE 2001: A WIDER COMPARATIVE PERSPECTIVE

Nigeria's GDP per capita gains over the last two decades are the lowest among middle-income peers



Source: NBS, CBN, WDI, and World Bank estimates.

# PART 2: THE URGENCY OF NIGERIA'S CHOICE (OR: WHAT'S DIFFERENT THIS TIME)

## Increasing fragility

Macro-fiscal indicators are flashing red despite a global oil price boom

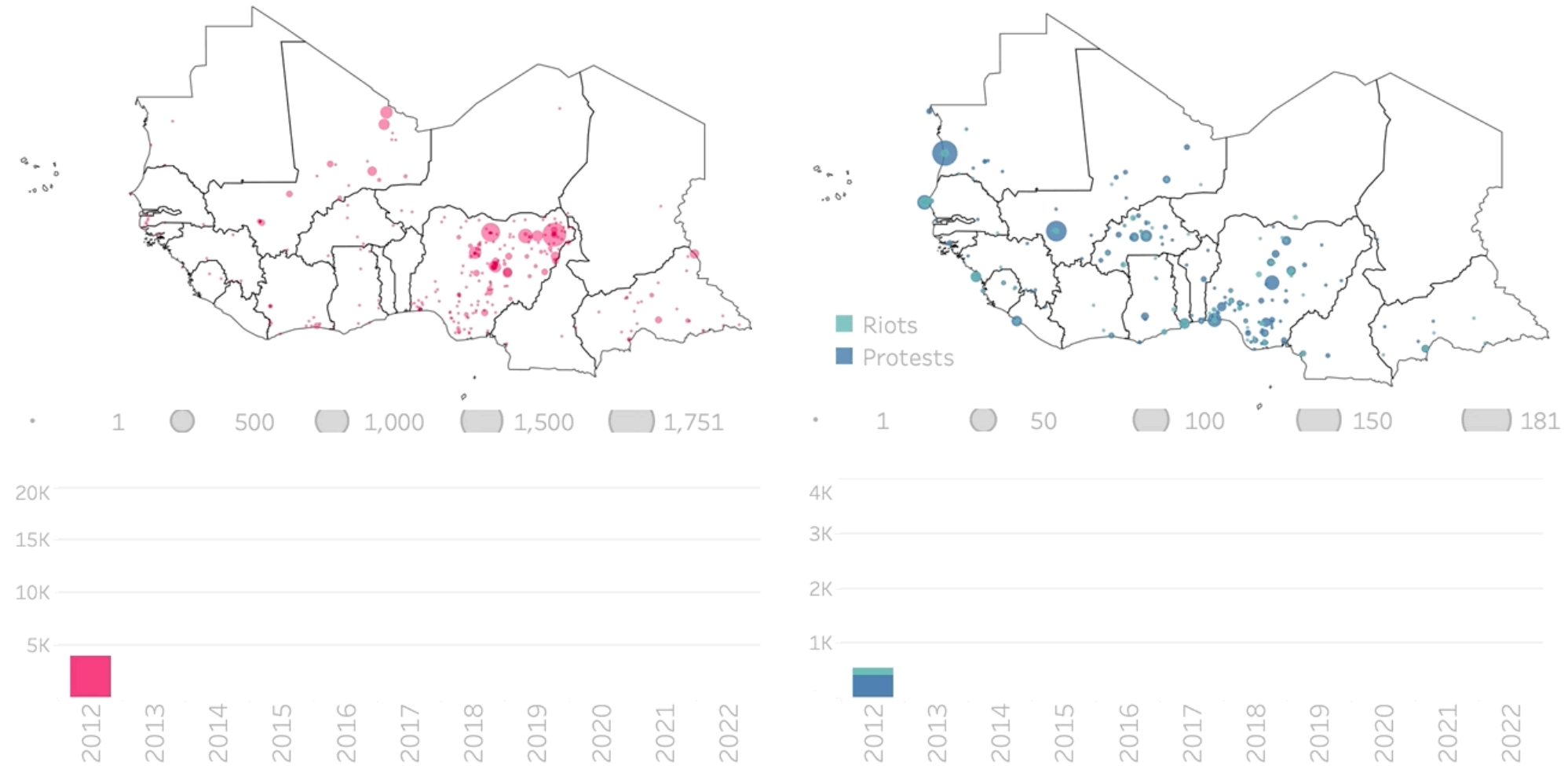
Coming to a head: why has Nigeria not benefited from the oil price boom?



# INCREASE IN CONFLICT AND VIOLENCE

The nexus between lack of economic opportunity and conflict is intensifying

## 2012



Source: ACLED.

# PART 2: THE URGENCY OF NIGERIA'S CHOICE (OR: WHAT'S DIFFERENT THIS TIME)

Increasing fragility

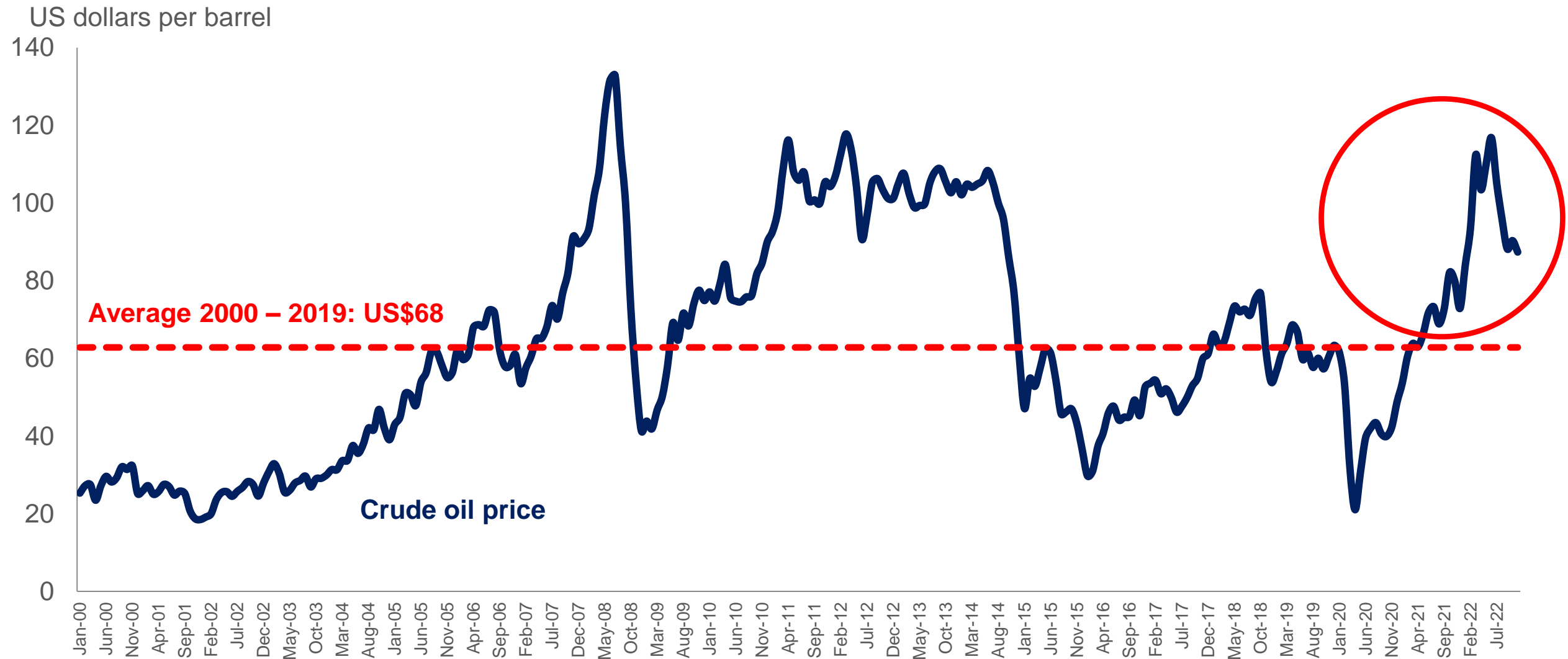
Macro-fiscal indicators are flashing red despite a global oil price boom

Coming to a head: why has Nigeria not benefited from the oil price boom?



# MACRO-FISCAL SITUATION: GLOBAL ENERGY PRICES BOOMED IN 2021-22

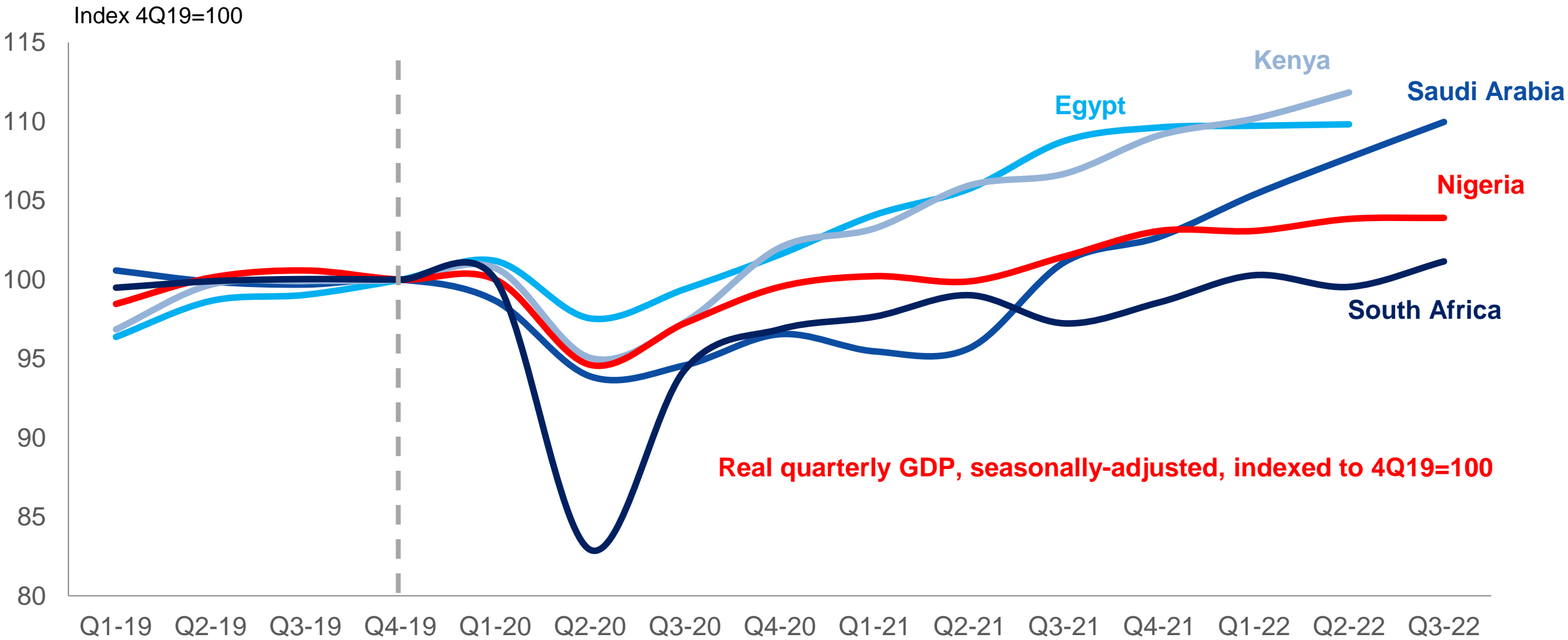
Prices are well above the average of the last two decades



Source: World Bank

# YET DESPITE BEING AN OIL EXPORTER, NIGERIA'S RECENT ECONOMIC GROWTH RATE HAS BEEN LOW

It has been more like that of South Africa, an *oil importing* country hit very hard by the pandemic



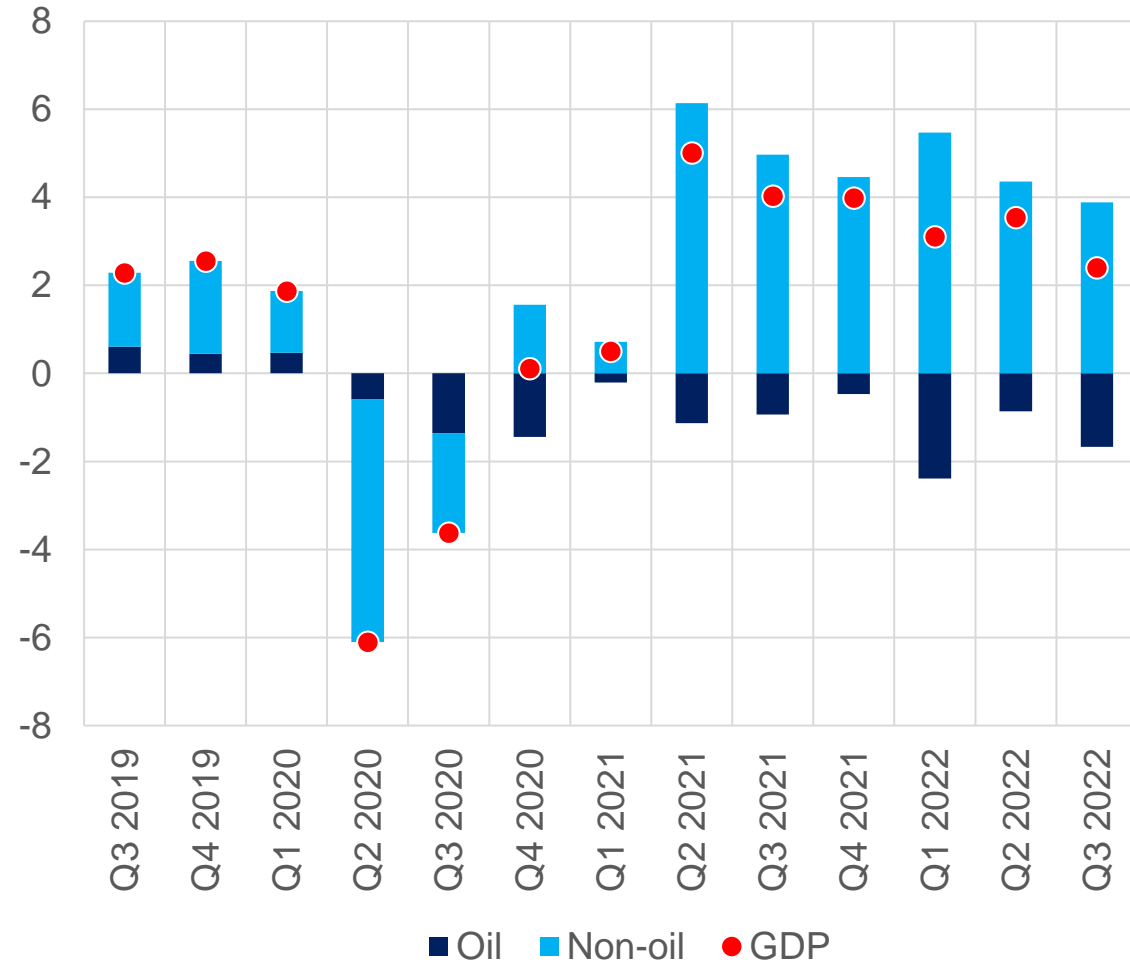
Real quarterly GDP, seasonally-adjusted, indexed to 4Q19=100

Source: World Bank estimates based on Haver data

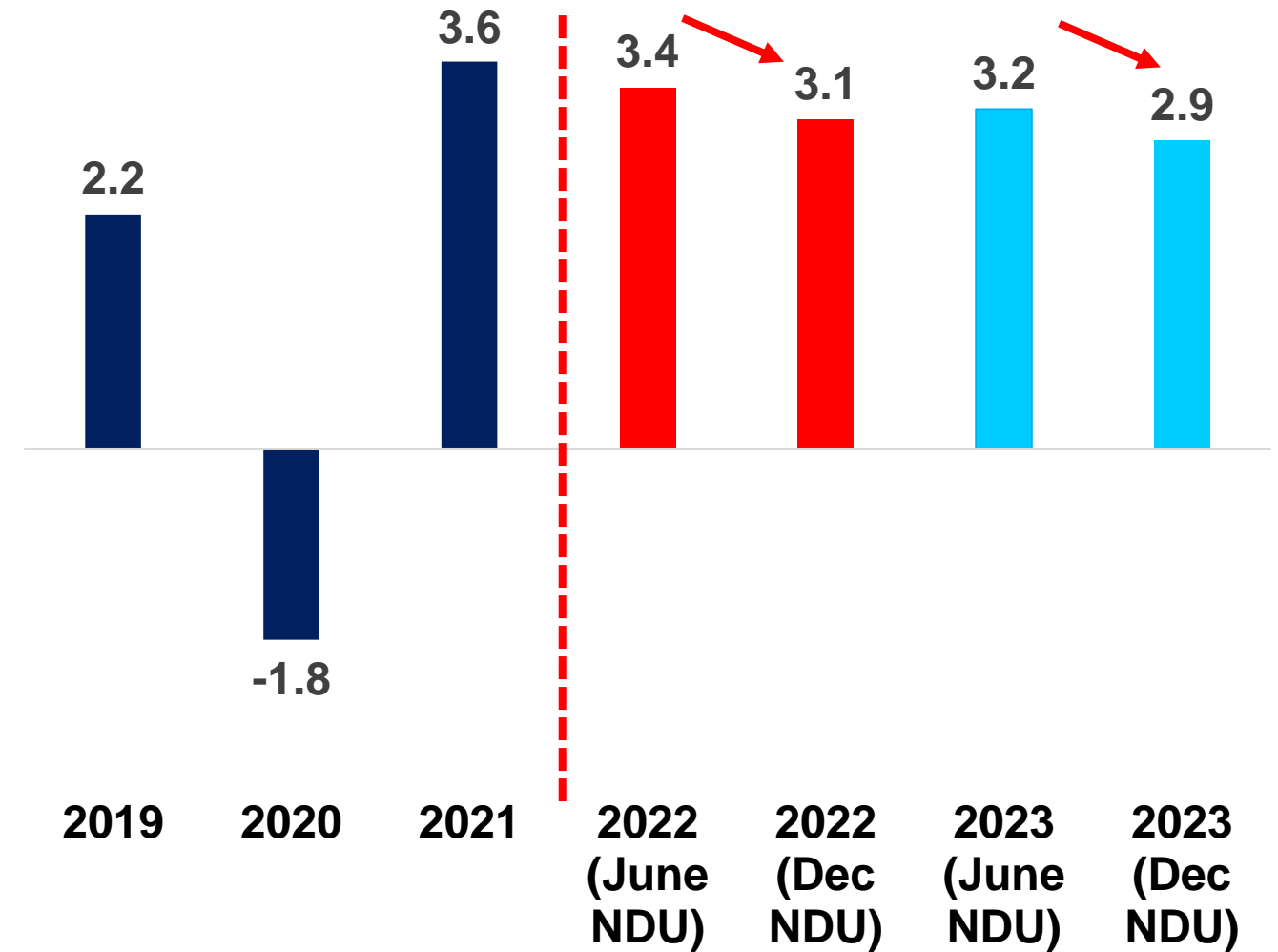
# THE BASE CASE IS FOR GDP GROWTH TO REMAIN WEAK NEXT YEAR

Oil output has continued to contract, and non-oil output growth has fallen

Percentage points



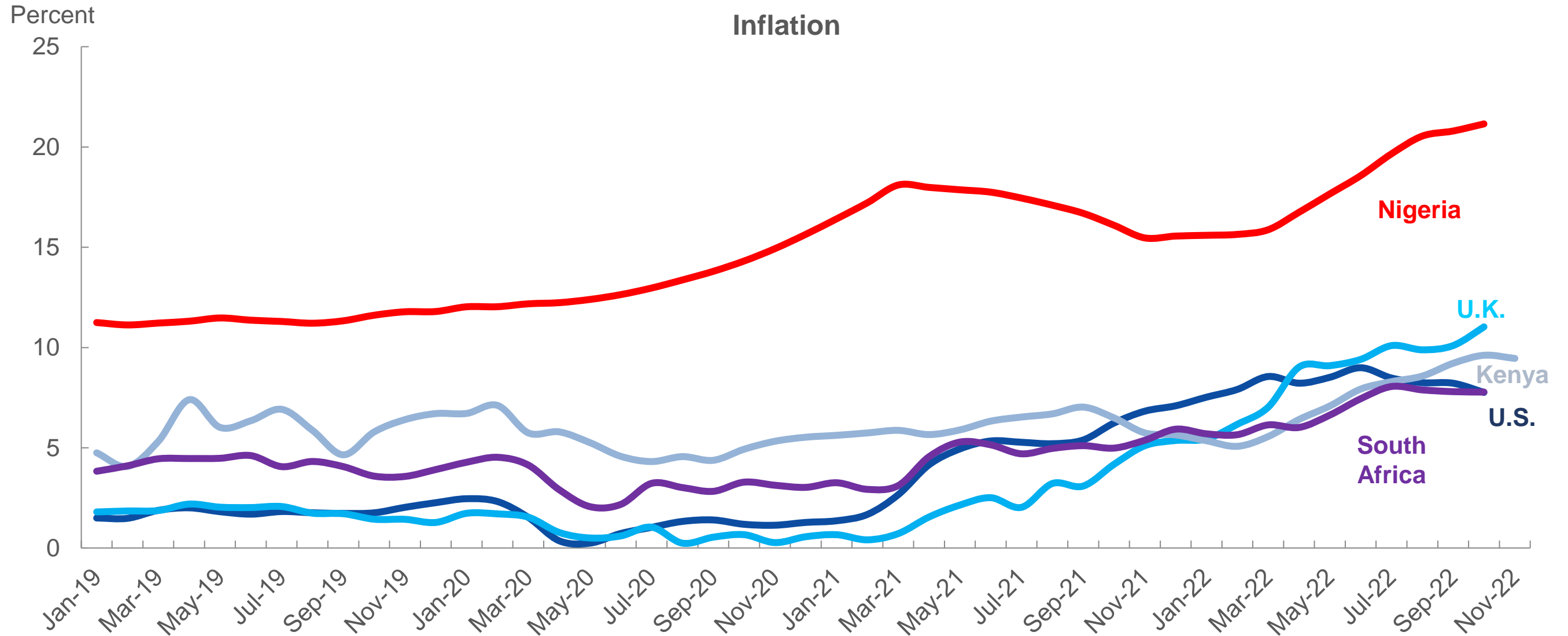
Nigeria's growth outlook has been revised downwards



Source: NBS, World Bank estimates.

# INFLATION HAS SURGED OFF AN ALREADY HIGH BASE

Nigeria's high, structural inflation pre-dates the global supply and price shocks of 2021-22 and has worsened

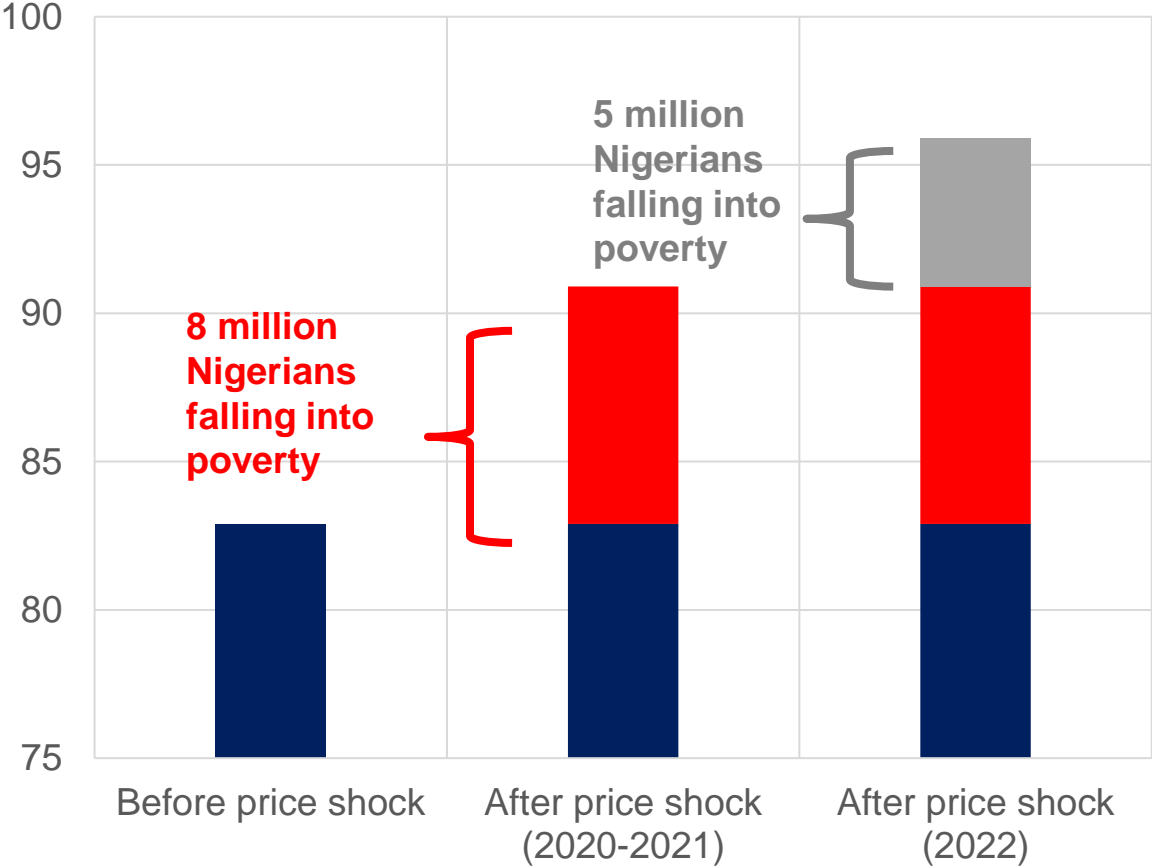


Source: World Bank estimates based on data from Haver.

# INFLATION REACHED ITS HIGHEST LEVEL IN 17 YEARS IN OCTOBER 2022, INCREASING POVERTY & FOOD SECURITY CONCERNS

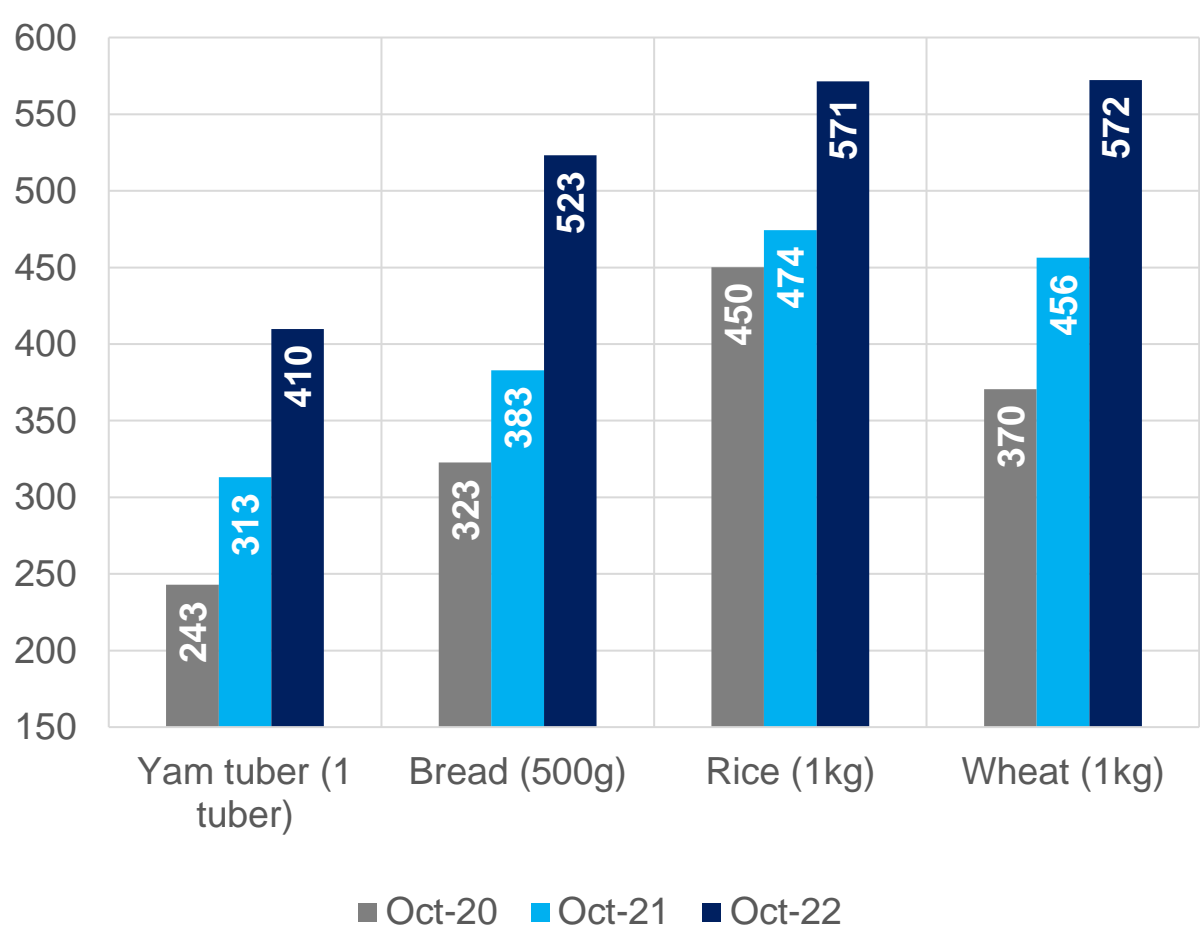
Inflation pushed an estimated 5 million more Nigerians into poverty in the first 10 months of 2022

Number of poor people (millions)



Average prices of locally-produced staples have increased faster than average inflation

Naira



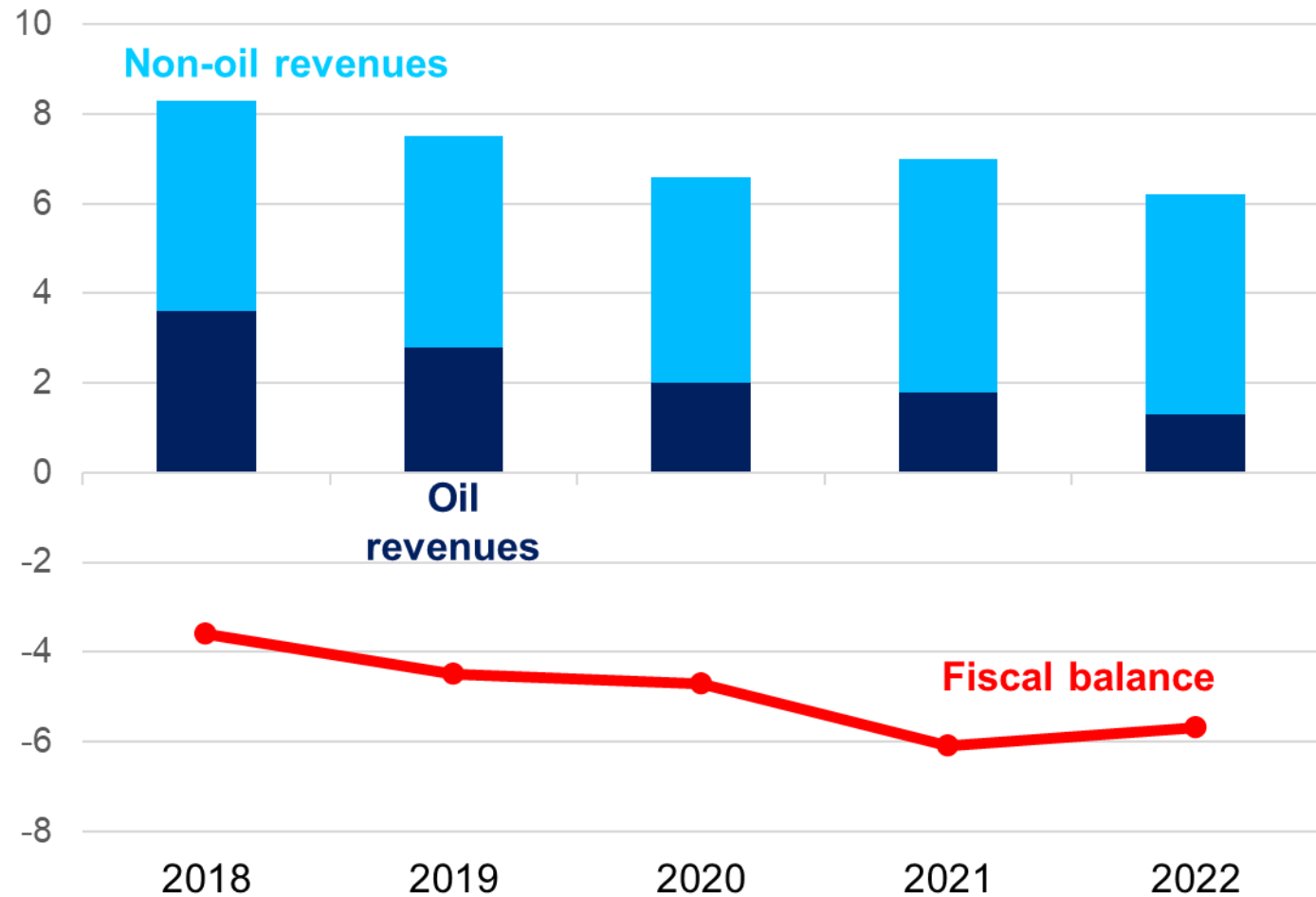
Source: World Bank estimates based on NBS data.

Source: NBS.

# PUBLIC FINANCES ARE UNDER SEVERE PRESSURE

Fiscal deficits have increased, forcing a rapid increase in borrowing from the CBN

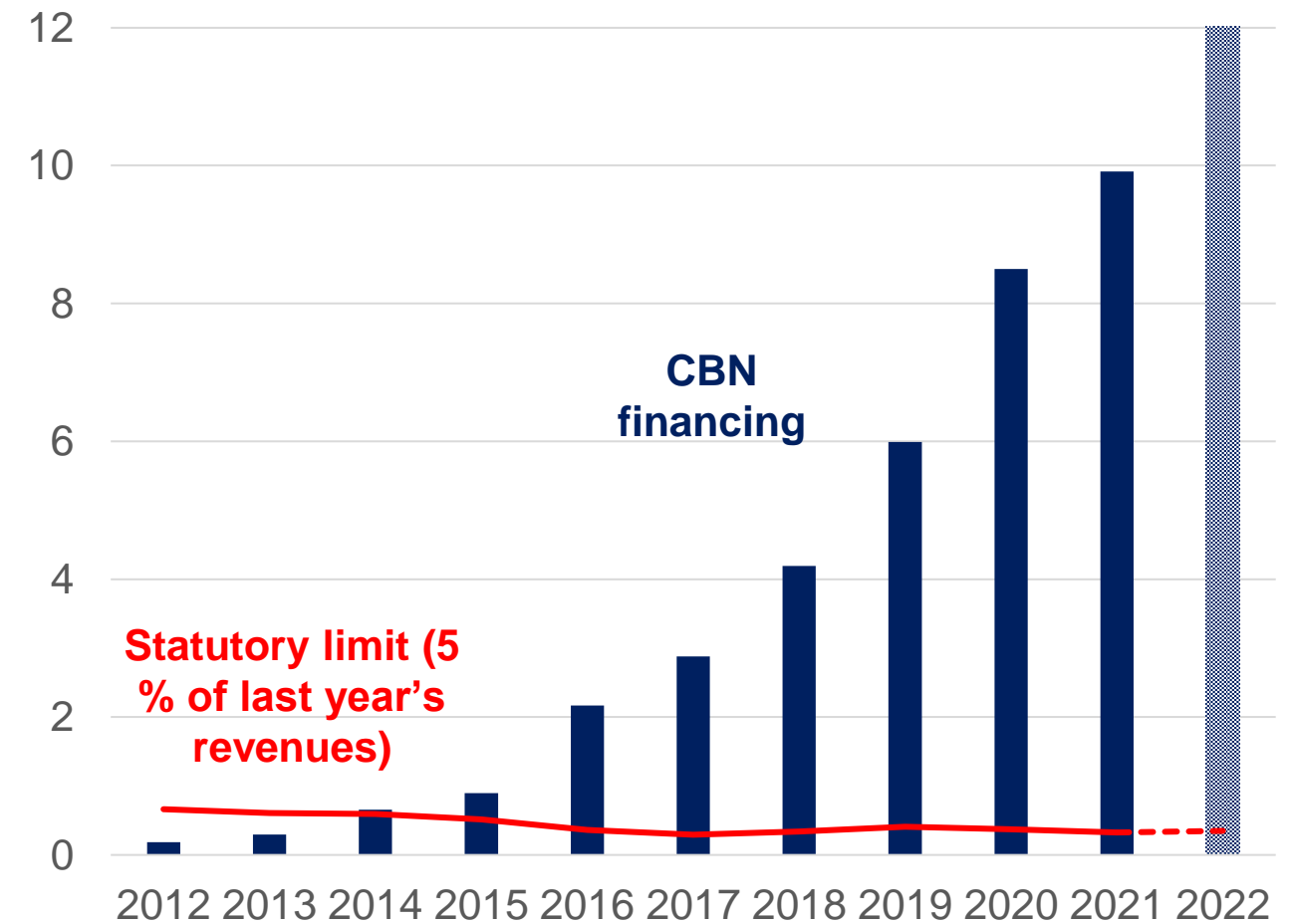
Due mainly to slumping net oil revenues, the fiscal deficit has widened...



Sources: BOF and OAGF

...causing a ramp-up in expensive and inflationary CBN financing

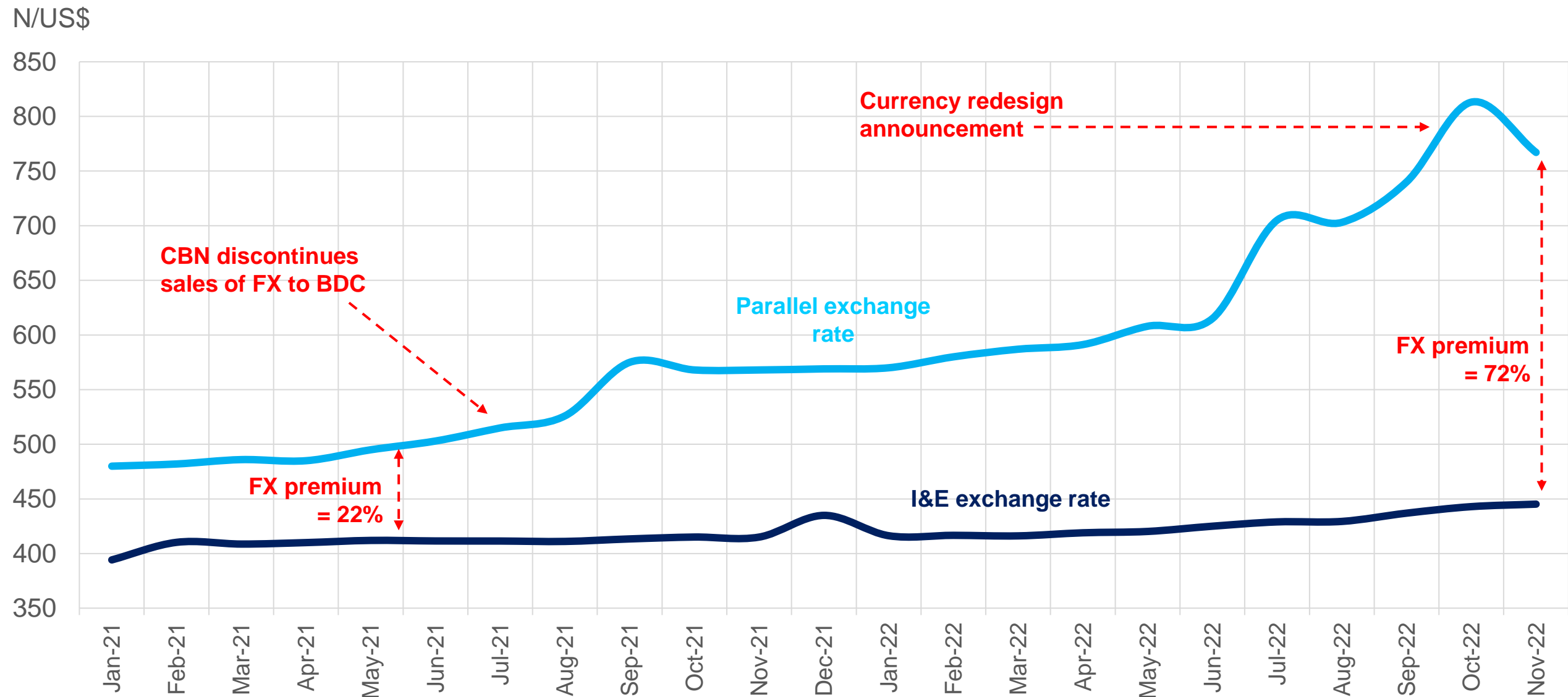
Percent of GDP



Sources: CBN and OAGF and World Bank estimates.

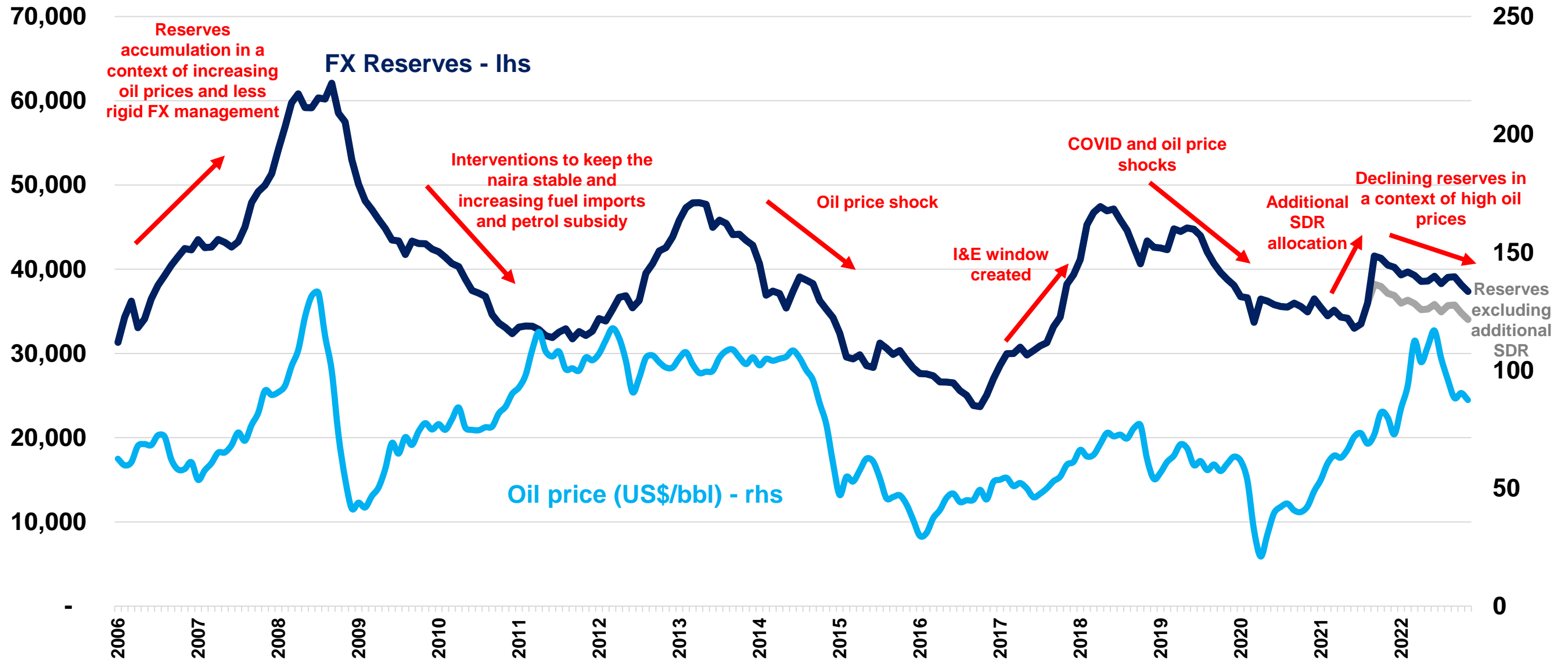
# FX DISTORTIONS HAVE INCREASED

This is deterring investment due to uncertainties firms face in accessing FX and related costs to doing business

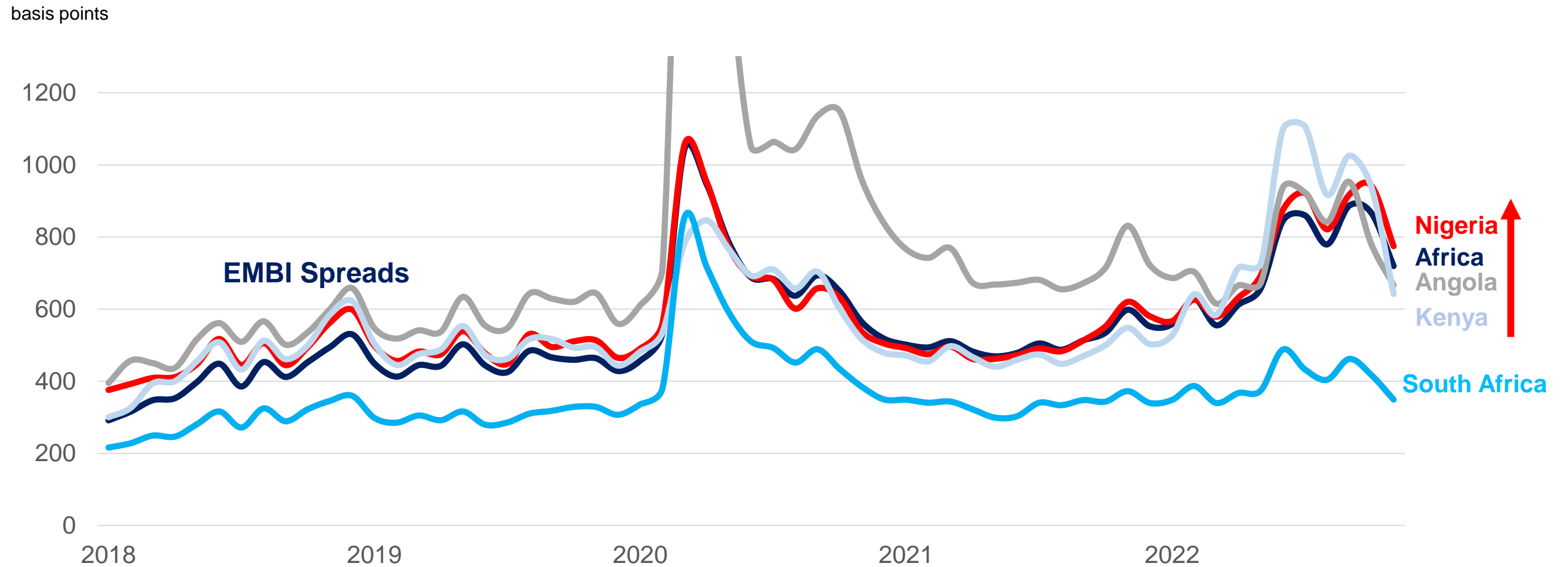


Source: CBN, BDC.

# FX RESERVES HAVE DECLINED IN 2022, DESPITE HIGHER OIL EXPORT REVENUES WHICH HAVE PUSHED THE CURRENT ACCOUNT INTO SURPLUS

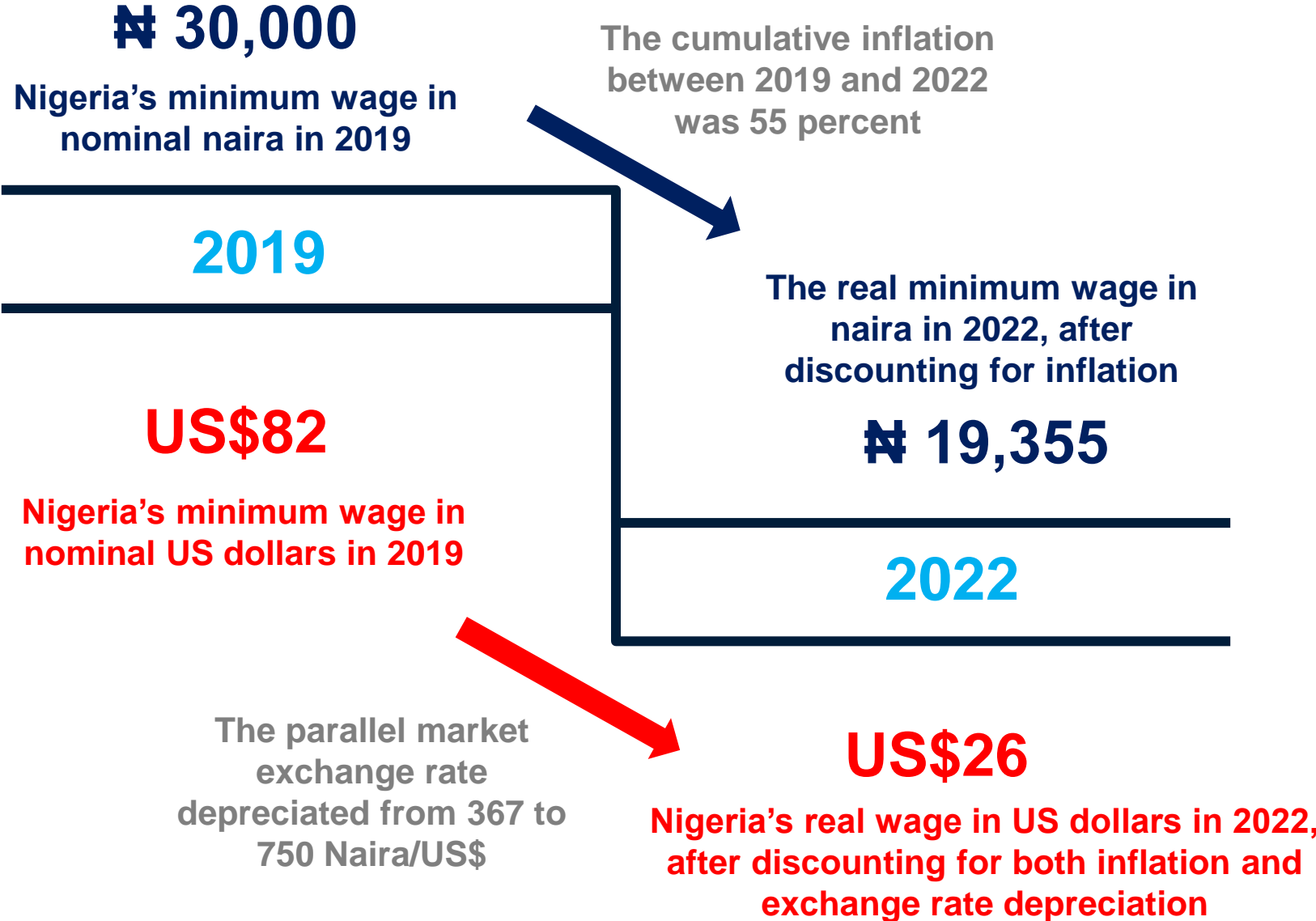


# NIGERIA'S RISK PREMIUM HAS INCREASED IN GLOBAL CAPITAL MARKETS, INCREASING BORROWING COSTS



Source: JP Morgan.

# GROWTH & MACROECONOMIC CHALLENGES HIT HOME: HOUSEHOLDS' PURCHASING POWER HAS SLUMPED...



Source: NLSS, NBS, CBN, and World Bank estimates.

# PART 2: THE URGENCY OF NIGERIA'S CHOICE (OR: WHAT'S DIFFERENT THIS TIME)

Increasing fragility

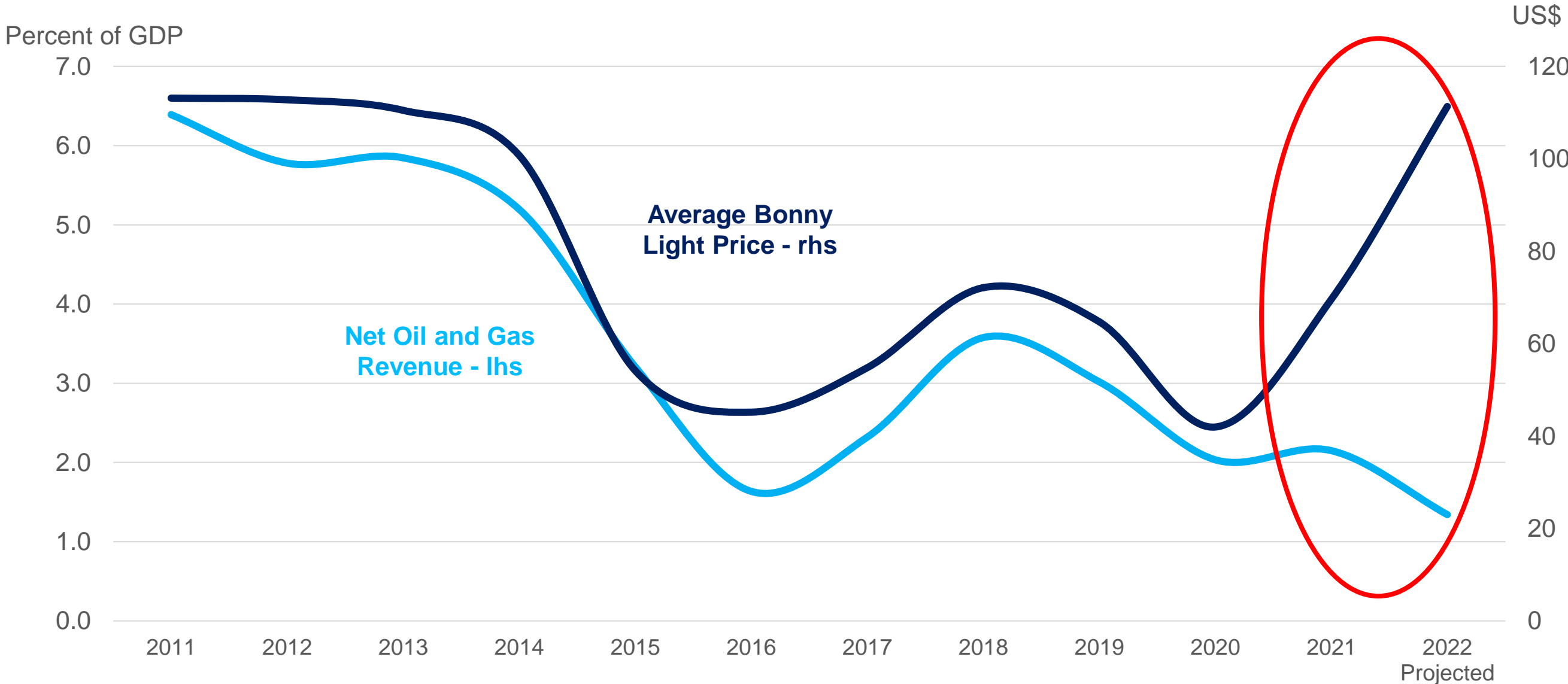
Macro-fiscal indicators are flashing red despite a global oil price boom

Coming to a head: why has Nigeria not benefited from the oil price boom?



# OIL REVENUES HAVE DECOUPLED FROM OIL PRICES

For the first time in Nigeria's history, rising oil prices are not filtering into net revenues

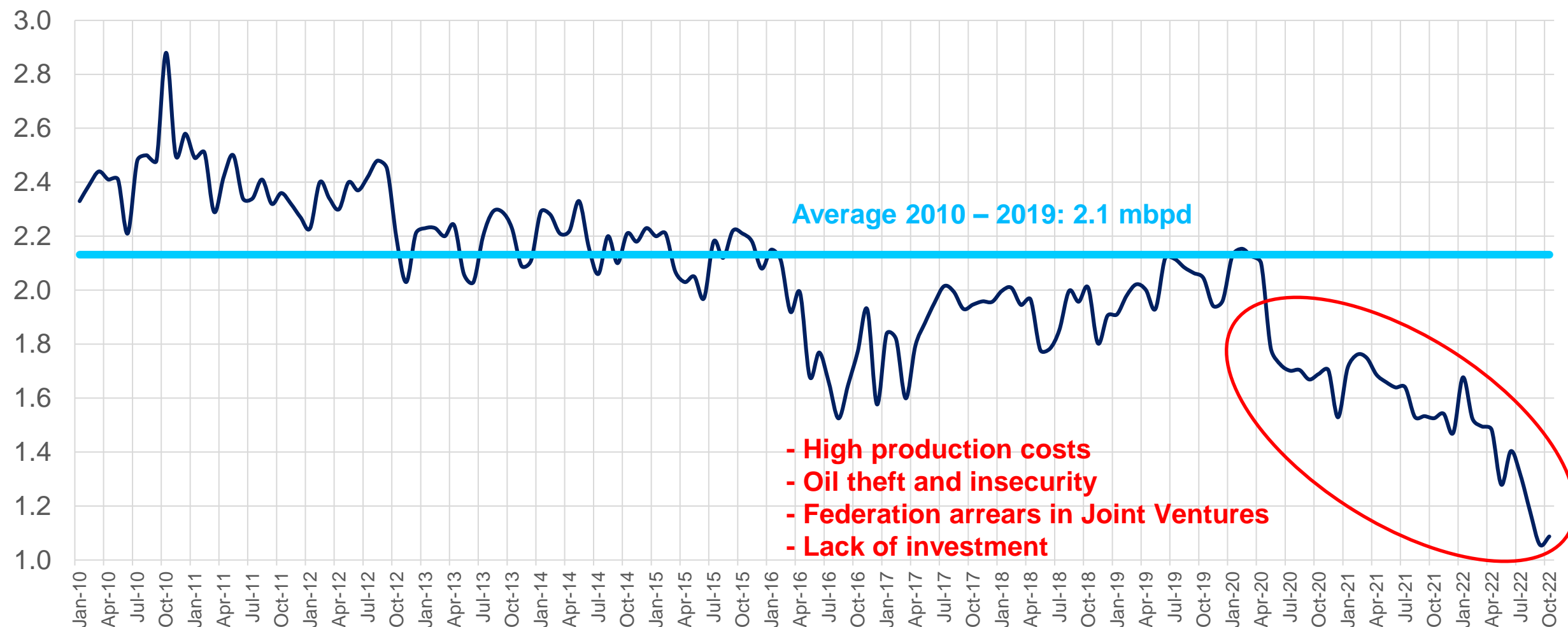


Source: OAGF, World Bank estimates based off NNPC annual statistical bulletins for oil production from 2015 to 2019, government oil production reports for 2020 and 2021, and World Bank commodity annual prices for Brent crude oil.

# THE DECOUPLING IS PARTLY DUE TO LOWER CRUDE OIL PRODUCTION

In H1 2022, oil production was the lowest in three decades

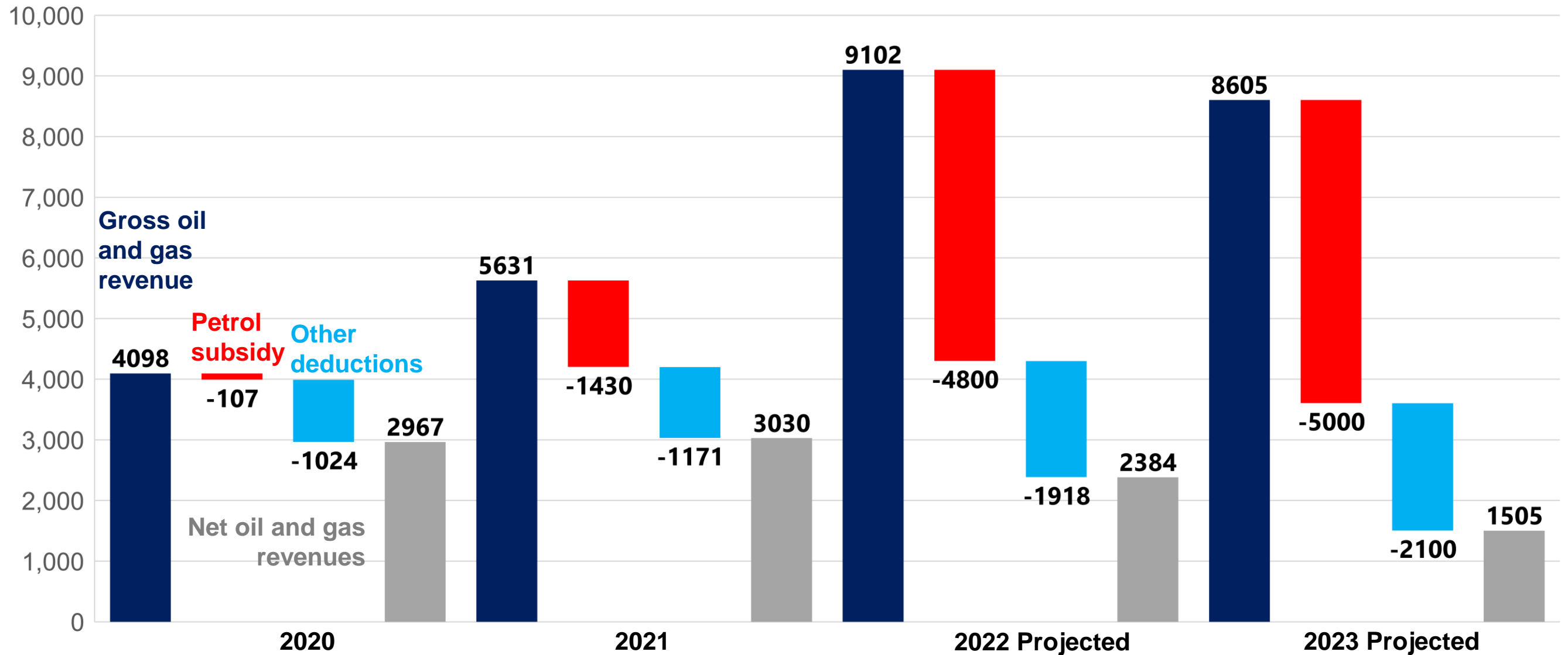
Crude oil production (mbpd)



Source: NNPC annual statistical bulletins for oil production from 2015 to 2019, government oil production reports for 2020 and 2021, OPEC.

# BUT MAINLY DUE TO THE COSTLY AND REGRESSIVE PETROL SUBSIDY

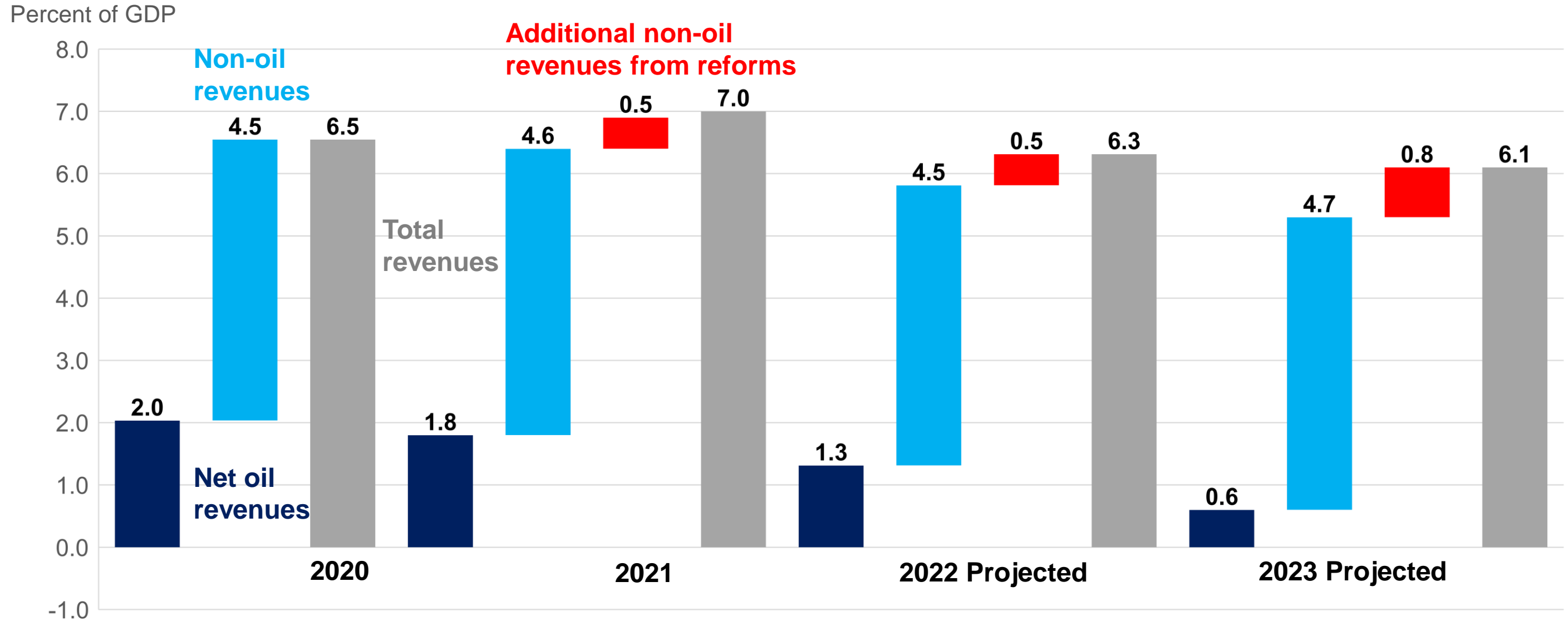
Naira, billion



Source: OAGF, NETI, and World Bank estimates.

# REFORMS TO BOOST NON-OIL REVENUES HAVE PREVENTED AN EVEN WORSE FISCAL SQUEEZE

The Strategic Growth Revenue Initiative has helped prevent a steeper decline in revenues

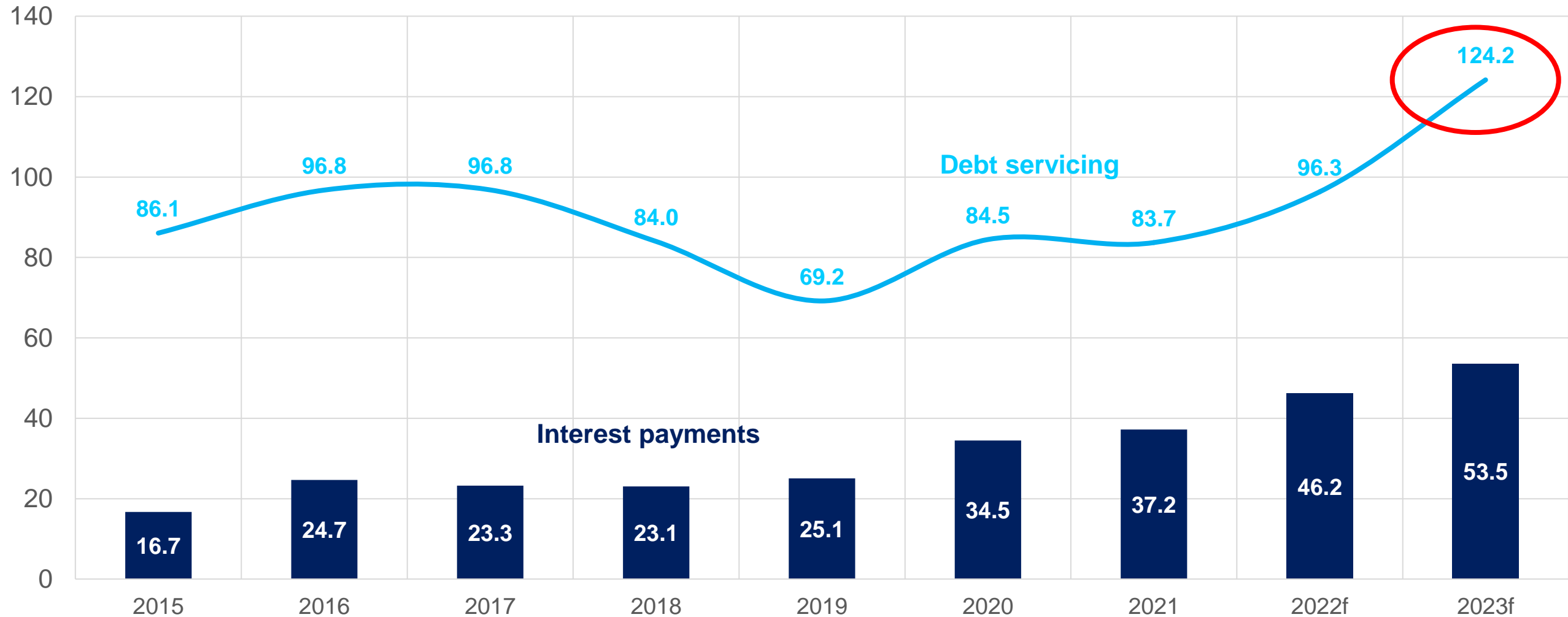


Source: World Bank estimates based on data from NEITI, BOF, and OAGF

# GOVERNMENT HAS BEEN FORCED TO BORROW MORE AND THE COST OF DEBT IS SURGING

Interest costs and principal repayments are rising fast, crowding out spending on productive sectors

Percent of revenue



Source: World Bank estimates based on data from OAGF and DMO

# INFLATION: FUELED BY A COMBINATION OF SHOCKS AND POLICIES

## Recent domestic & external price shocks



**Flooding** in farming areas has impacted the harvest of crops such as rice and corn and will reduce agriculture production in 2023



**The war in Ukraine** has increased global food and fuel prices

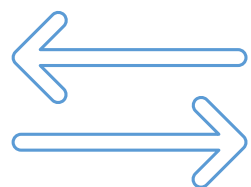
## Policies



**Suboptimal exchange rate management** fuels inflation by constraining FX supply, complicating the operating environment for businesses, and pushing up the parallel exchange rate which is closely associated with inflation



**Import and FX restrictions** restrict the supply of food and staple products, increasing their prices and those of associated goods






**Monetary & fiscal policy settings:** The increase in the Monetary Policy rate (500bp since May 2022) is a step in the right direction, but the effectiveness of monetary policy is compromised by **subsidized interest rates** and the **monetization of the FG fiscal deficit** which in turn is partly due to the fiscal burden imposed by the **PMS subsidy**

# PART 3: CHOOSING TO RISE TO POTENTIAL

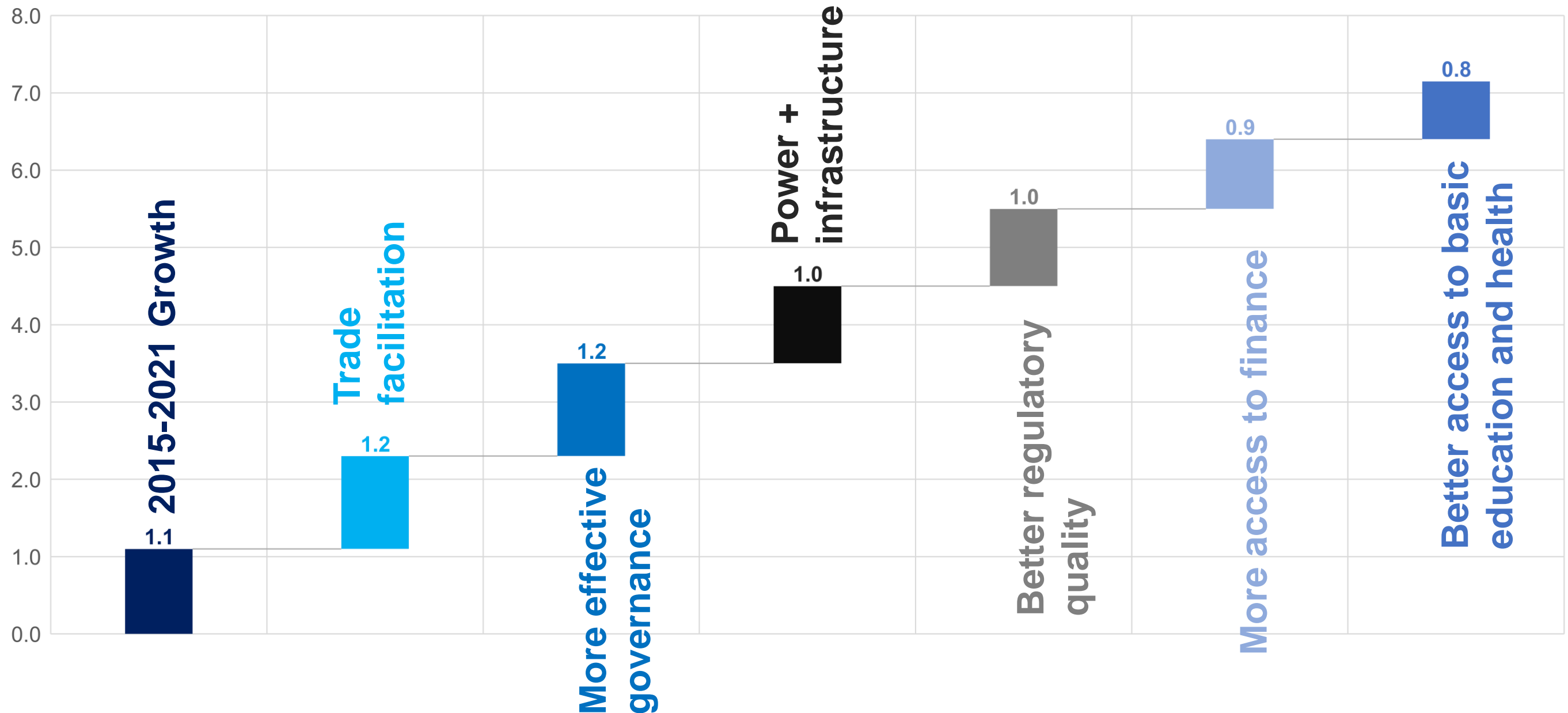


# KEY CHOICES: A PRIORITIZED SET OF REFORMS FOR THE SHORT AND MEDIUM-TERM

Time horizon	Macroeconomic and Institutional Enablers	Investment Accelerators
<b>Sprints</b> 	Adopt a <b>single and market-reflective</b> exchange rate	Facilitate trade and boost domestic value added by <b>removing import and foreign exchange restrictions</b>
	Increase non-oil revenues by <b>raising VAT and excise rates</b> and strengthening tax administration	
<b>Medium-distance runs</b> 	<b>Eliminate the petrol subsidy</b> by establishing a compact which also protects the poor and vulnerable	Increase access to finance by <b>strengthening the institutional infrastructure for financial intermediation</b>
	Contain inflation by <b>reducing the federal government's recourse to CBN financing</b>	
<b>Marathons</b> 	<b>Boost competition</b> by embedding it into policy, enhancing enforcement, and simplifying rules to lower costs	Boost <b>power generation</b> by investing in infrastructure to reduce technical and commercial losses
	Reduce insecurity by <b>strengthening the rule of law</b>	Facilitate transport connectivity by <b>reducing interstate transportation costs</b>

# WHAT DOES SUCCESS LOOK LIKE? TRANSFORMATIVE GAINS

Federal and state-level reforms could unlock 6.7 percentage points of additional annual growth over the next 20 years



# SUSTAINING POLICY IMPLEMENTATION

The success of Nigeria's growth strategies will largely depend on the establishment of a **strong implementation mechanism** that promotes performance and accountability



Implementation is the result of **consensus among the political elite** about the direction of policy, the allocation of fiscal resources, the role of the state and the space for private sector initiatives

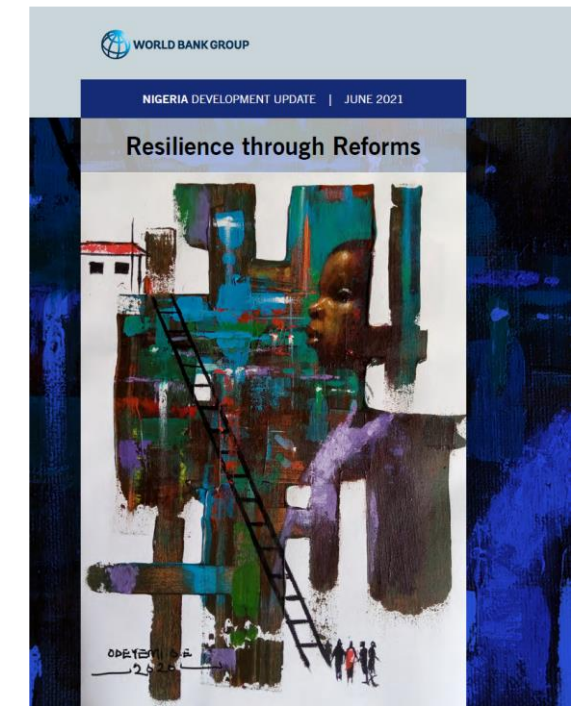
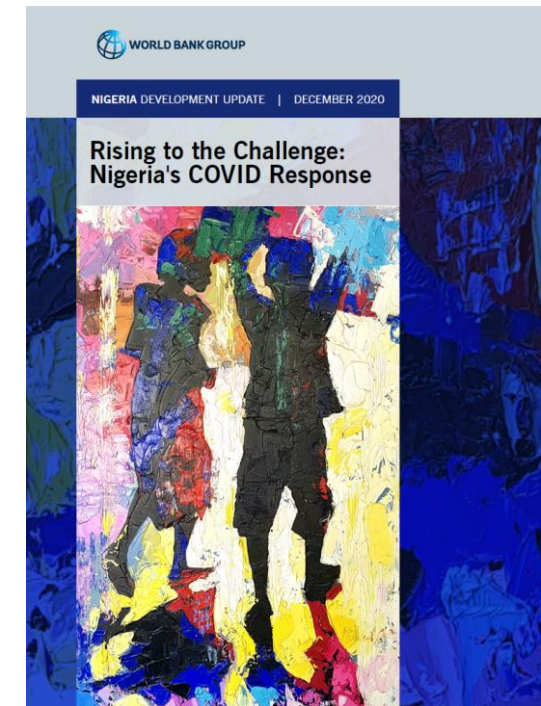
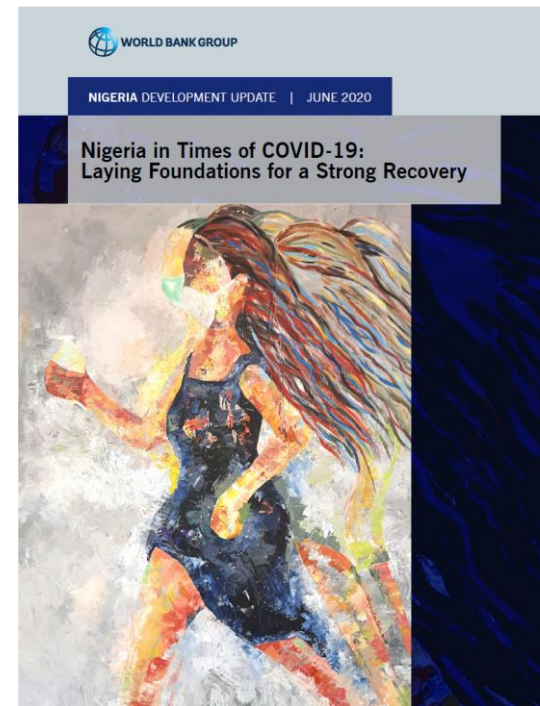
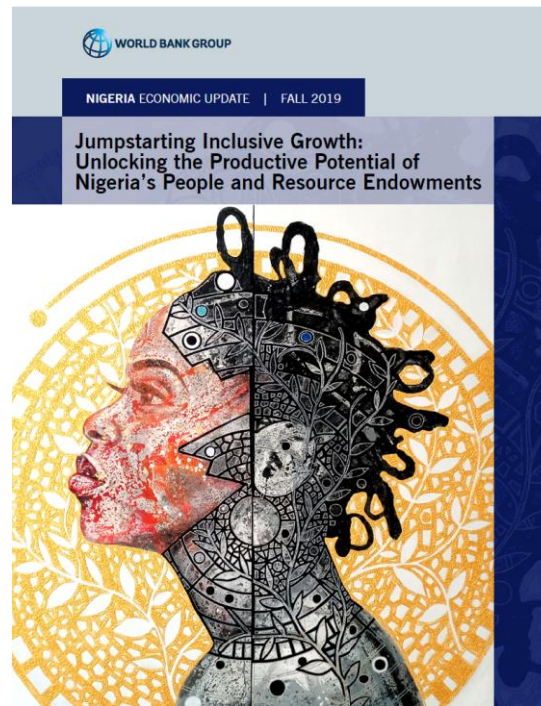


**Thank You**



Grass to Grace  
By Millicent Osumuo

*Millicent Osumuo*



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