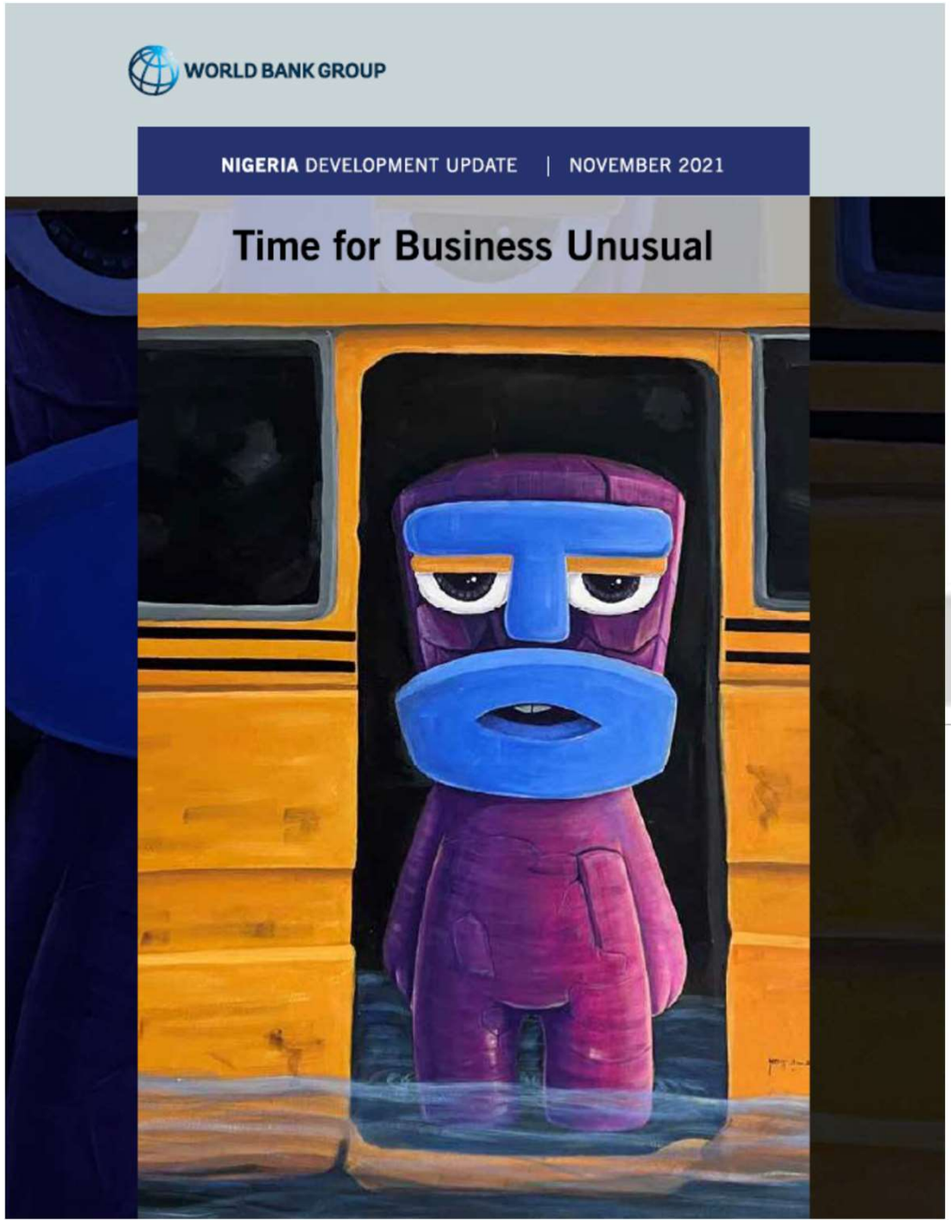
Nigeria Development Update

The Continuing Urgency of Business Unusual

June 14, 2022

WORLD BANK GROUP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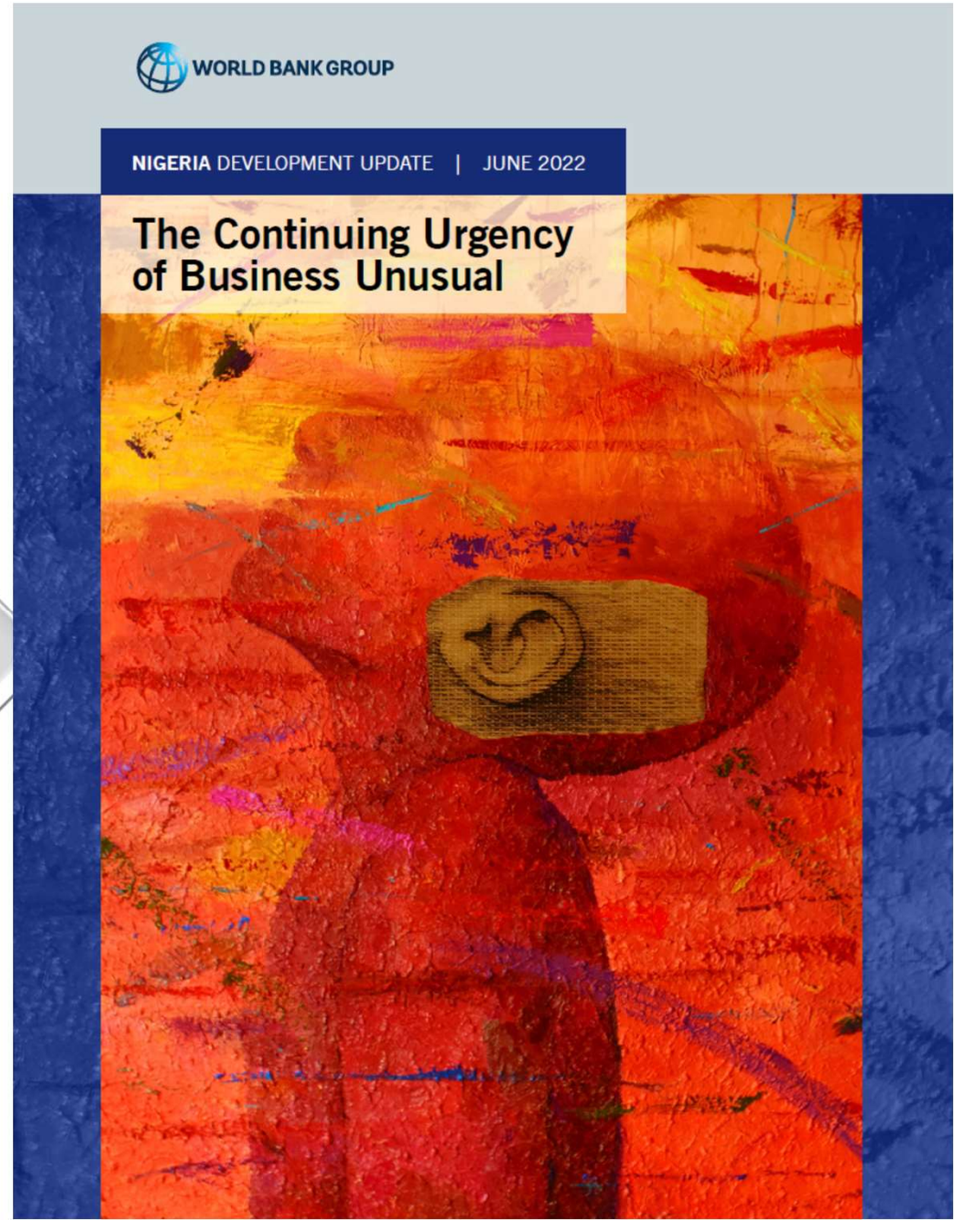
Time for Business Unusual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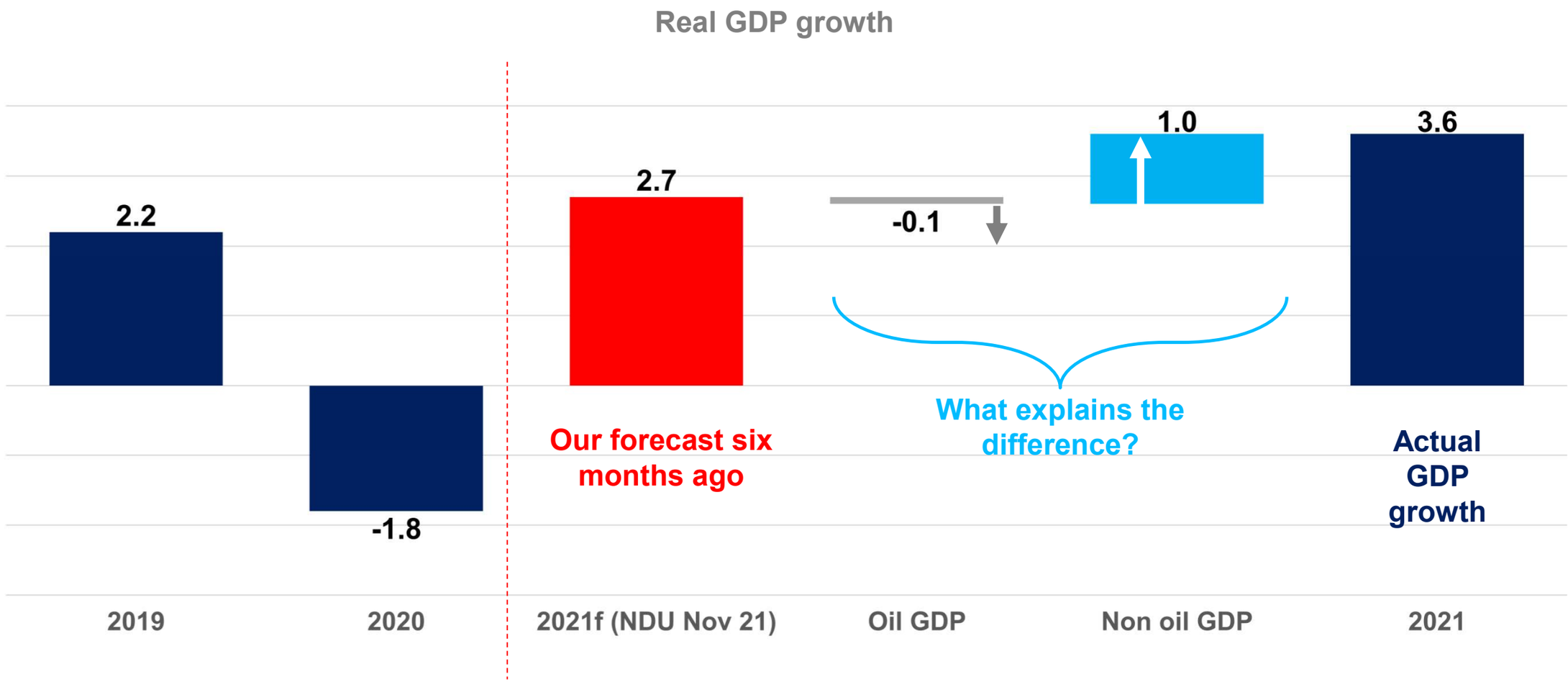
The Continuing Urgency of Business Unusual

NIGERIA'S PARADOX:

FASTER ECONOMIC GROWTH, BUT GREATER CAUSE FOR CONCERN

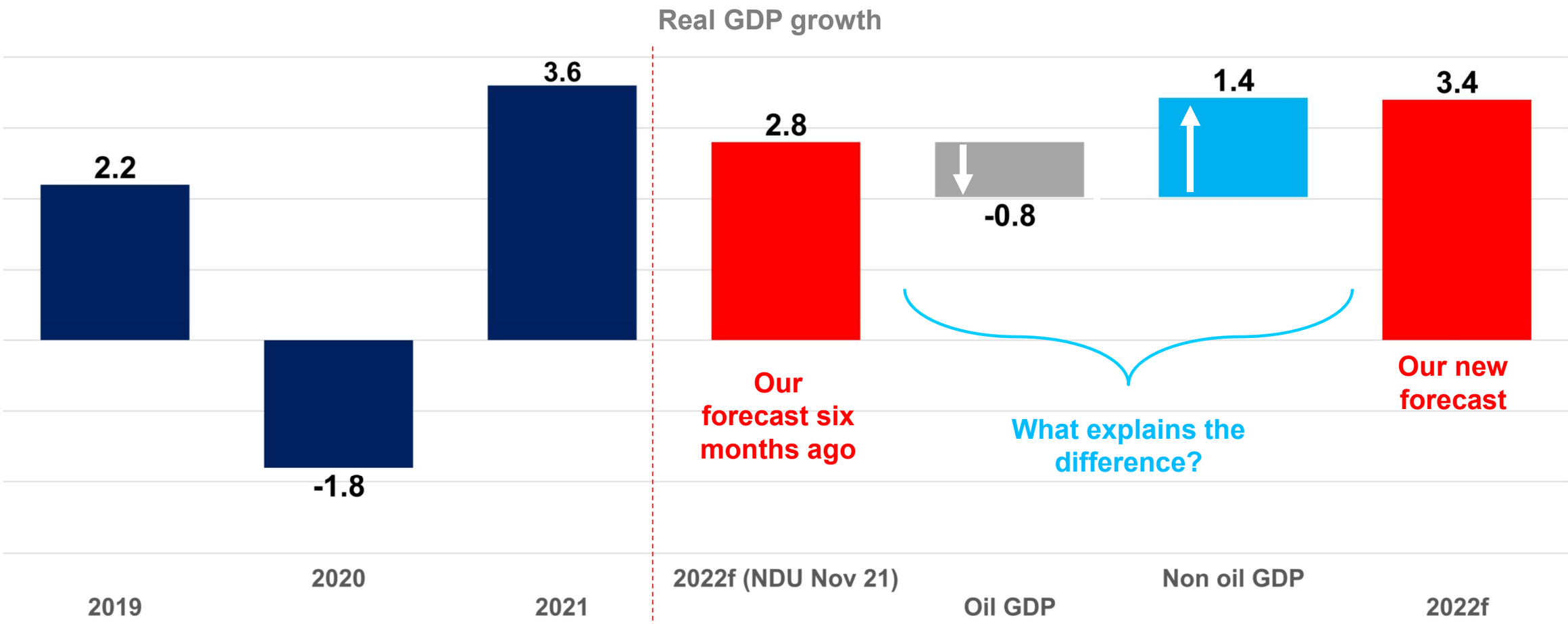
NIGERIA'S GROWTH IN 2021 WAS BETTER THAN EXPECTED…

…driven by the non-oil sector, while the oil sector is underperforming



Source: World Bank estimates.

…AND GROWTH PROSPECTS FOR 2022 HAVE ALSO IMPROVED

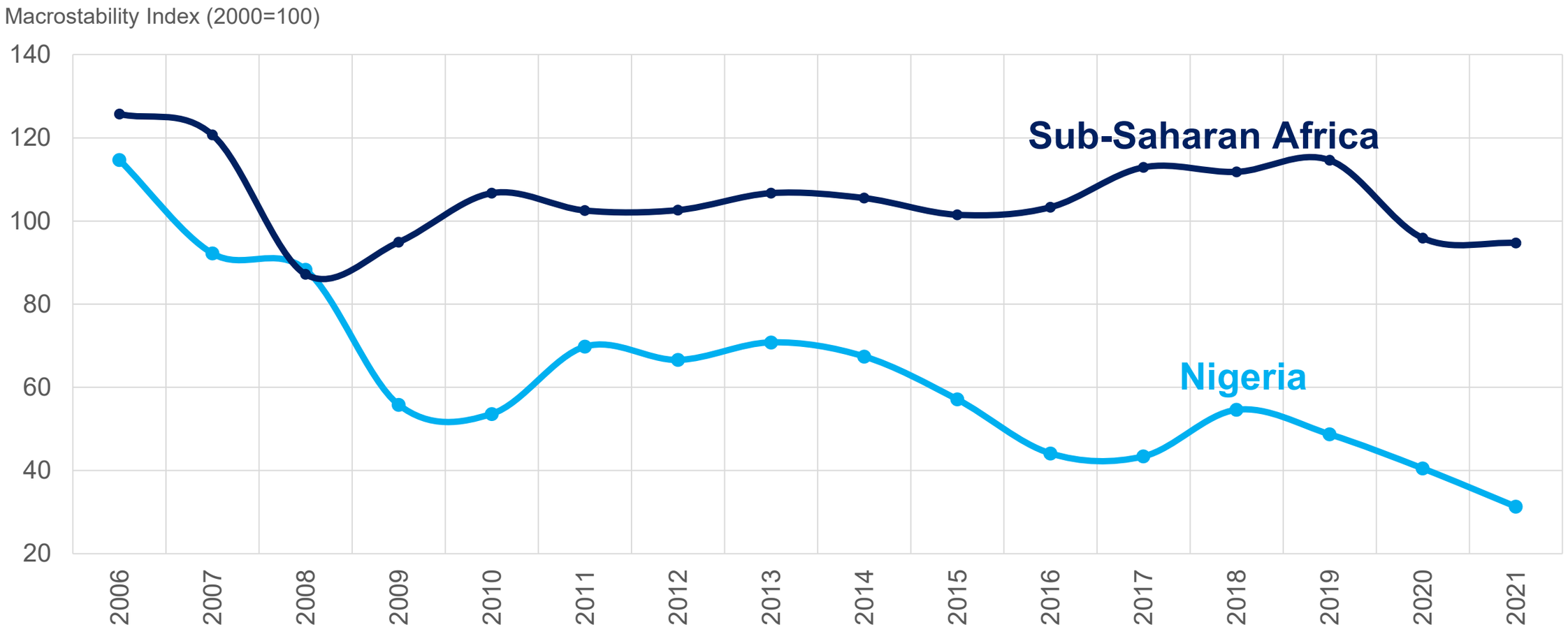


Source: World Bank estimates.

HOWEVER, NIGERIA'S MACRO SITUATION HAS WEAKENED

…this is not the case among regional peers or oil producers worldwide.

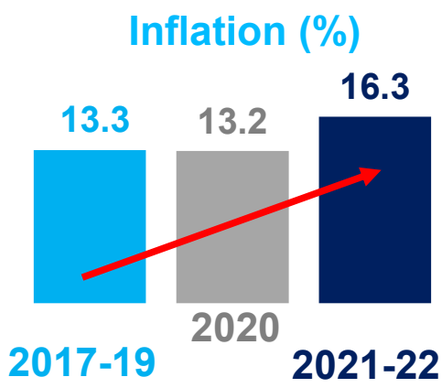
A macro stability index comprising inflation and external & fiscal balances shows a deterioration

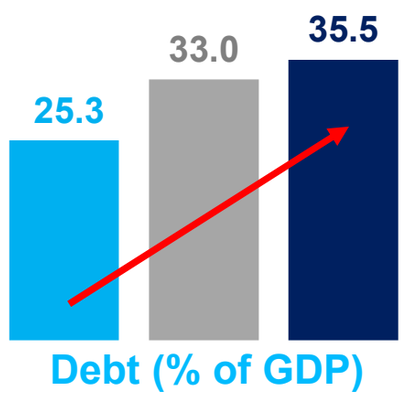


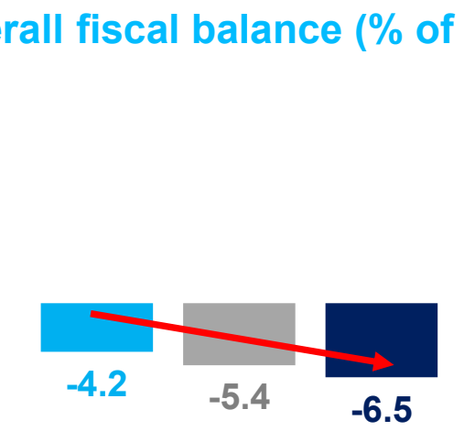
Source: NBS, OAGF, CBN, WEO, and World Bank estimates.

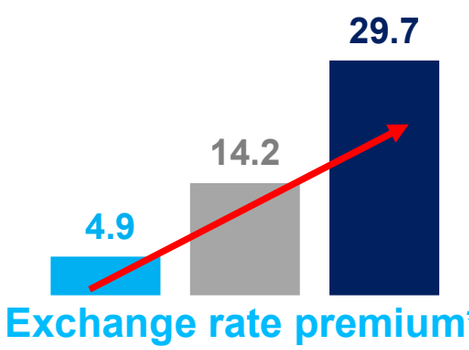
INFLATIONARY, FISCAL, AND FX PRESSURES HAVE INCREASED CONSIDERABLY, LEAVING THE ECONOMY MUCH MORE VULNERABLE

The Nigerian economy is more vulnerable to shocks…

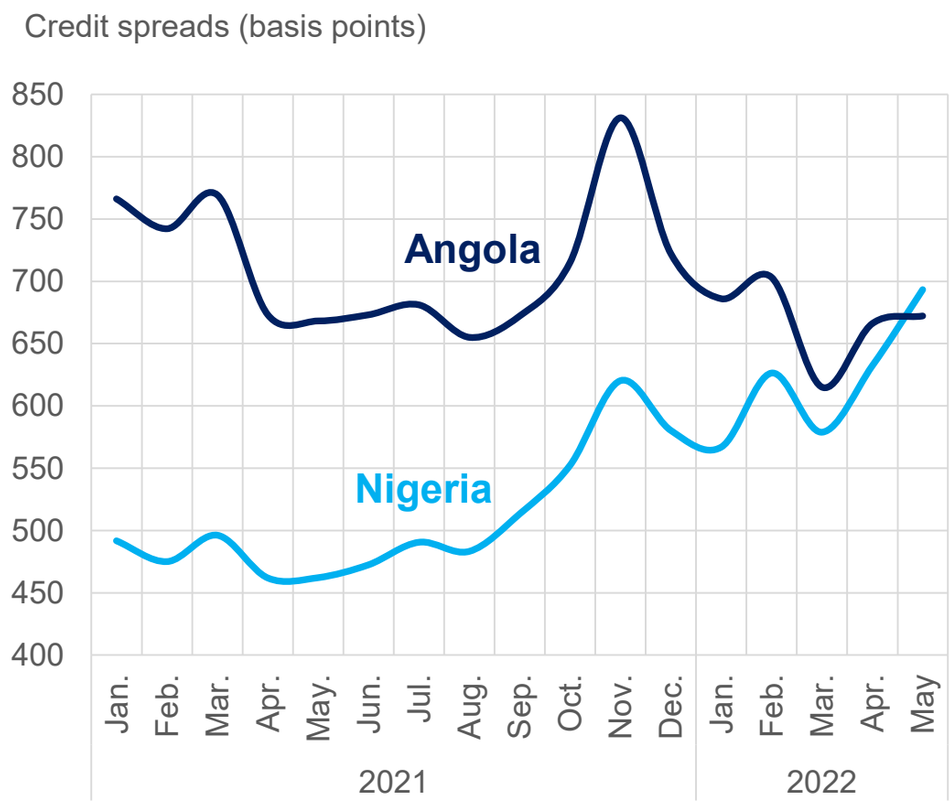








…and the market's perception of risk has increased.



Source: World Bank, NBS, OAGF, and CBN.

*Note: Exchange rate premium in 2021-2022 is the average difference between the Investors and Exporters (I&E) rate and the parallel market rate between Jan 2021 and May 2022.

INFLATION IS PUSHING MILLIONS OF NIGERIANS INTO POVERTY…

…AND IT'S NOT JUST SHOCKS DRIVING INFLATION, BUT LACK OF CONCERTED ACTION TO REDUCE IT

A COMBINATION OF POLICY DISTORTIONS AND GLOBAL SHOCKS ARE FUELING INFLATION

Suboptimal exchange rate management is fueling inflation due to FX supply constraints and lack of predictability, which is ultimately leading to a rise in the parallel exchange rate which is closely associated with inflation.

The **monetization of fiscal deficits** by the CBN (Ways and Means) and **CBN's subsidized lending** to firms add to inflationary expectations.

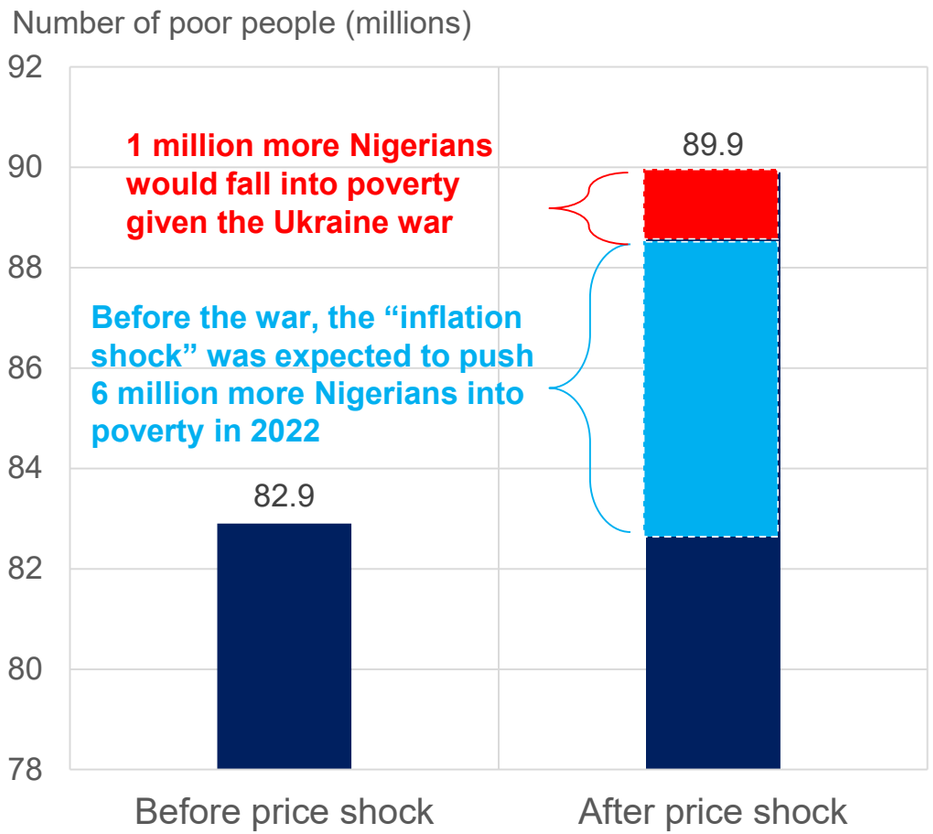
Import and FX restrictions reduce the supply of food and key staples, increasing their prices and those of associated goods.

More recently, the war in Ukraine has added to inflation pressures through higher global prices of food and fuels.

The May 2022 increase in the Monetary Policy Rate was a step in the right direction, but the effectiveness of monetary policy is compromised by un-anchored inflation expectations, trade restrictions, and subsidized interest rates.

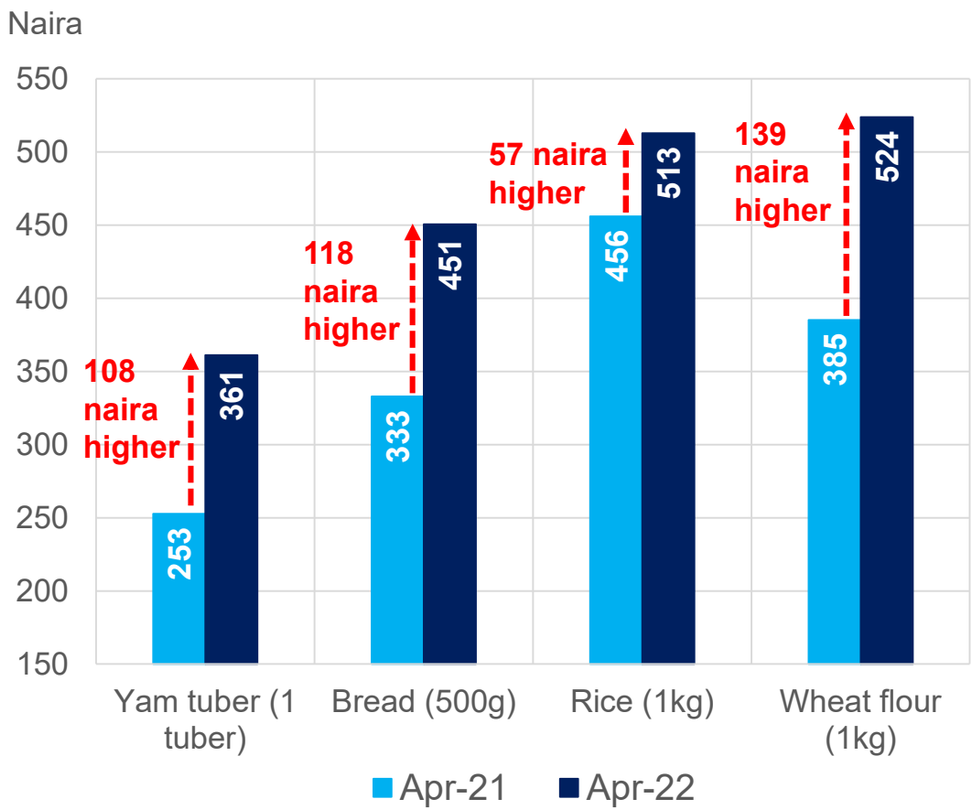
BEFORE THE WAR IN UKRAINE INFLATION WAS PUSHING MILLIONS OF NIGERIANS INTO POVERTY. WAR-INFLATION WILL PUSH MANY MORE.

By end-2022, 7 million more Nigerians are expected to fall into poverty due to the "inflation shock"



Source: World Bank calculations based on NBS data.

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



Source: NBS.

HOUSEHOLDS ARE FEELING THE PINCH AS RISING PRICES REDUCE THEIR PURCHASING POWER

₦ 30,000

Nigeria's minimum wage in nominal naira in 2019

The cumulative inflation between 2019 and 2021 was 35 percent

2019

US$82

Nigeria's minimum wage in nominal US dollars in 2019

The real minimum wage in naira in 2022, after discounting for inflation

₦ 22,000

2022

The parallel market exchange rate depreciated from 367 to 600 Naira/US$

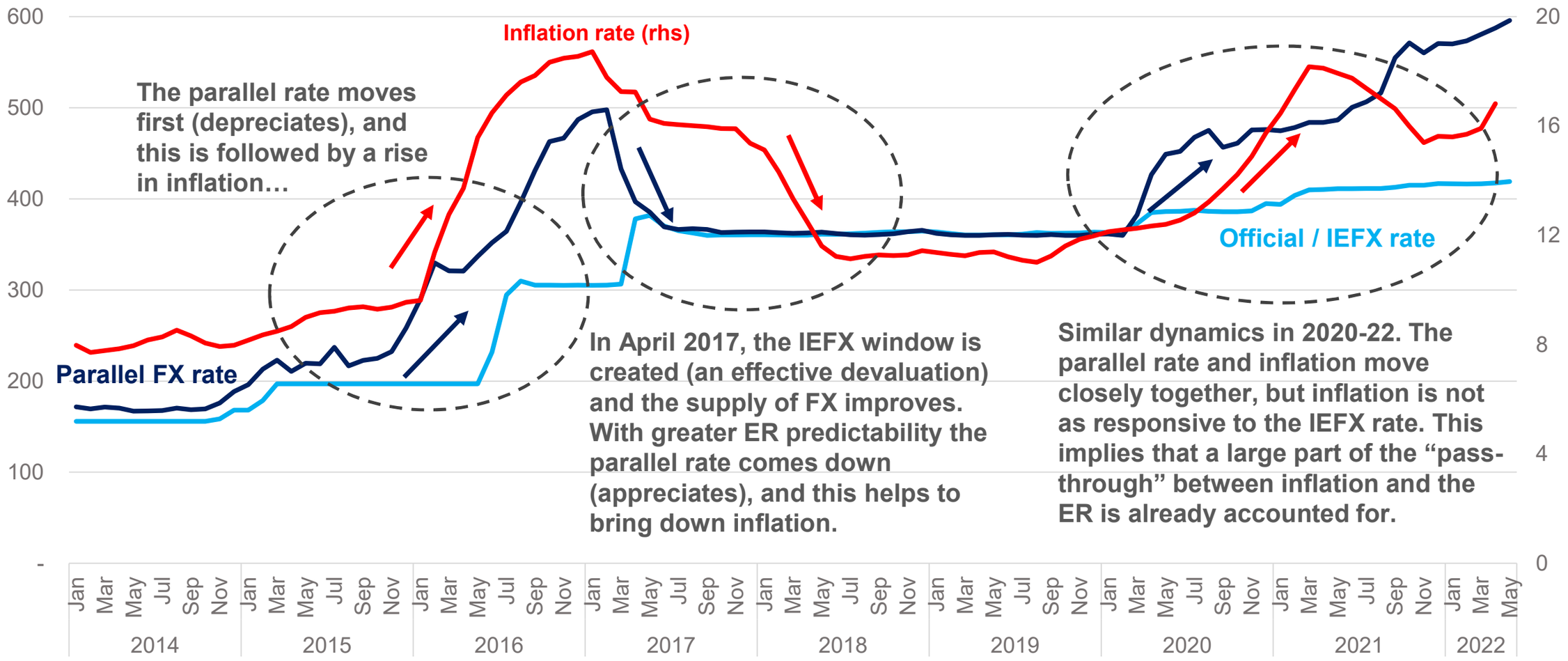
US$37

Nigeria's real wage in US dollars in 2022, after discounting for both inflation and exchange rate depreciation

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

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.

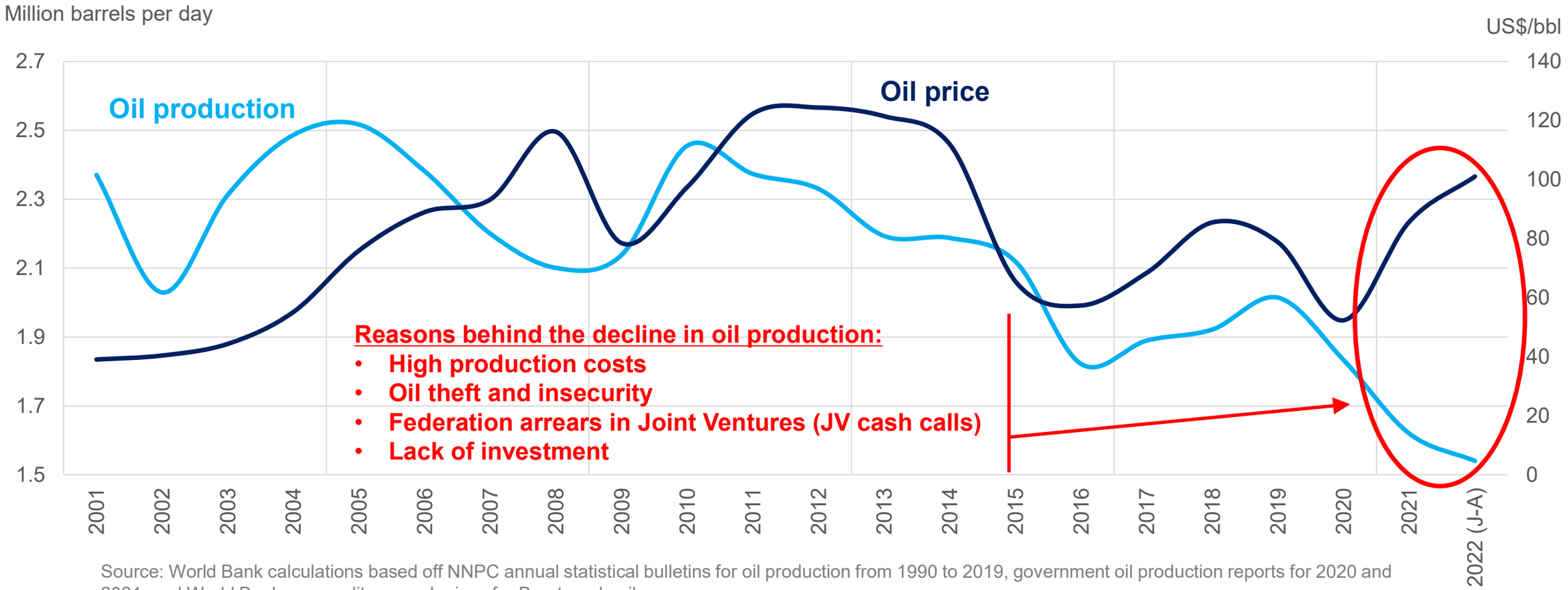
THE FISCAL URGENCY:

NIGERIA'S CURIOUS CASE OF THE MISSING OIL REVENUES

NIGERIA'S FIRST-EVER DECOUPLING OF OIL PRICES AND REVENUES BEGAN IN 2021, AND WILL LIKELY EXACERBATE IN 2022

…the reasons are lower oil production, and a larger petrol subsidy which is incentivizing smuggling and eroding oil revenues

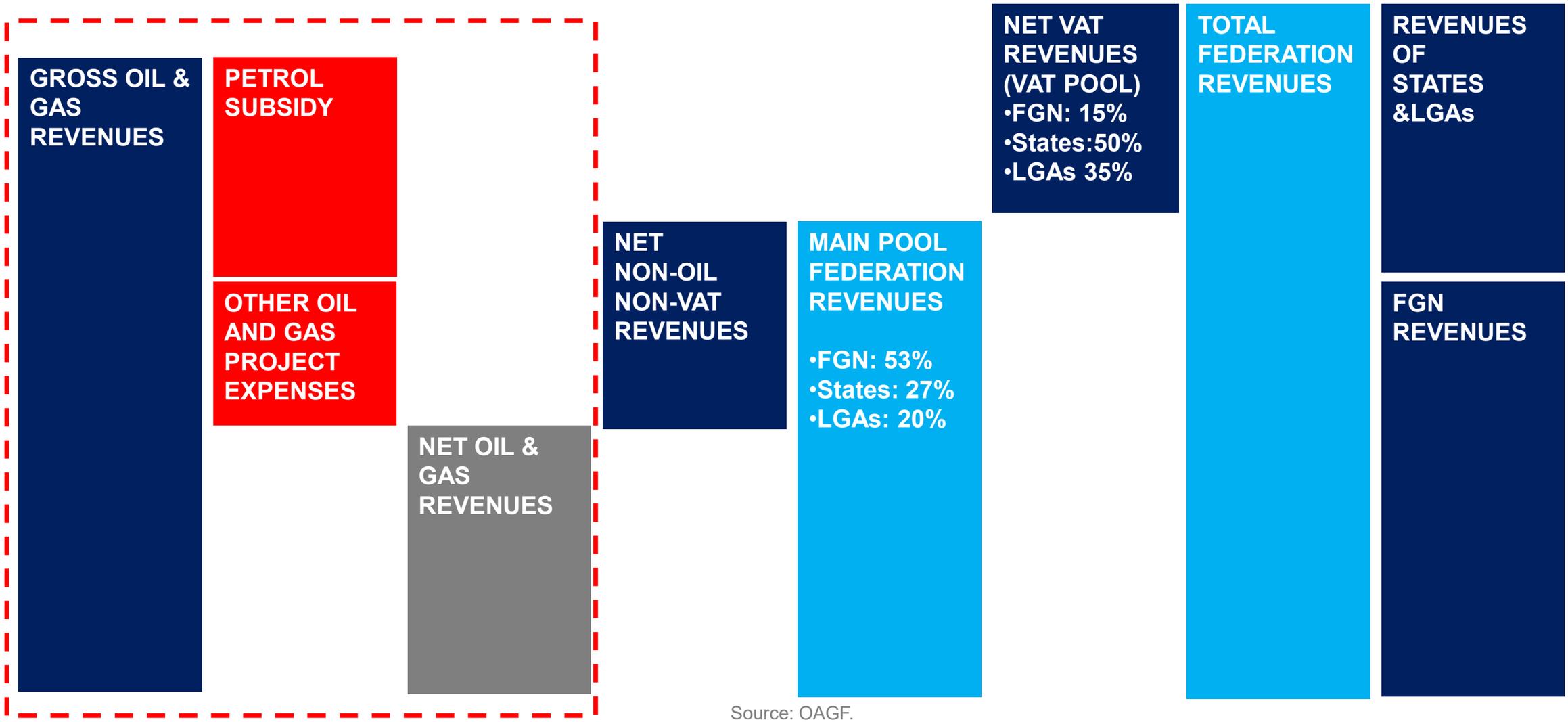
In 2021, oil production was the lowest in three decades



Source: World Bank calculations based off NNPC annual statistical bulletins for oil production from 1990 to 2019, government oil production reports for 2020 and 2021, and World Bank commodity annual prices for Brent crude oil.

FOLLOWING REVENUE FLOWS

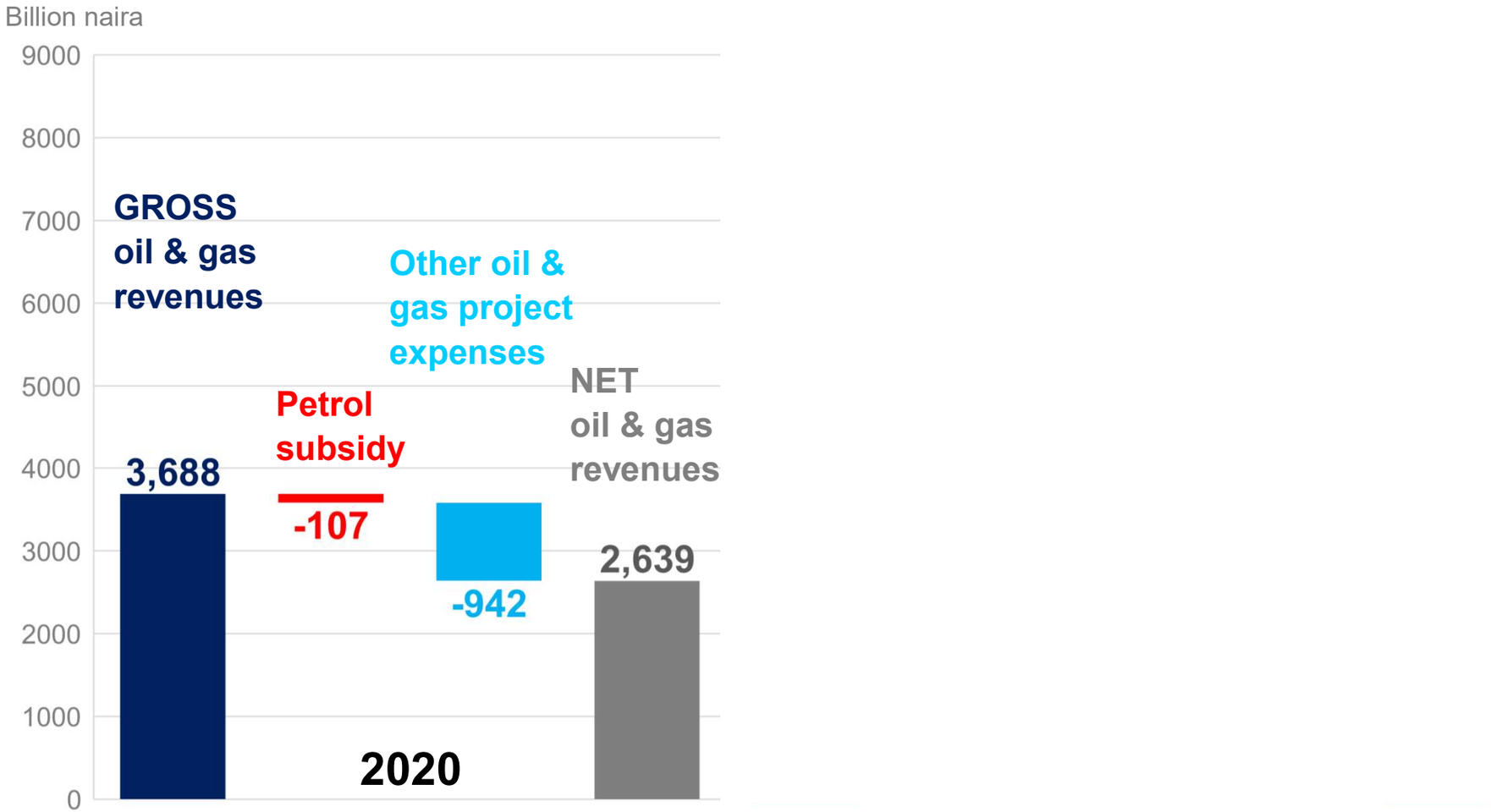
…a primer on Nigeria's fiscal framework



Source: OAGF.

DESPITE HIGHER OIL PRICES, OIL REVENUES IN 2022 WILL BE LOWER DUE TO A LARGER PETROL SUBSIDY AND LOWER PRODUCTION

…at a time when fiscal resources are needed to support the economic recovery.



Source: OAGF, NETI, and World Bank estimates.

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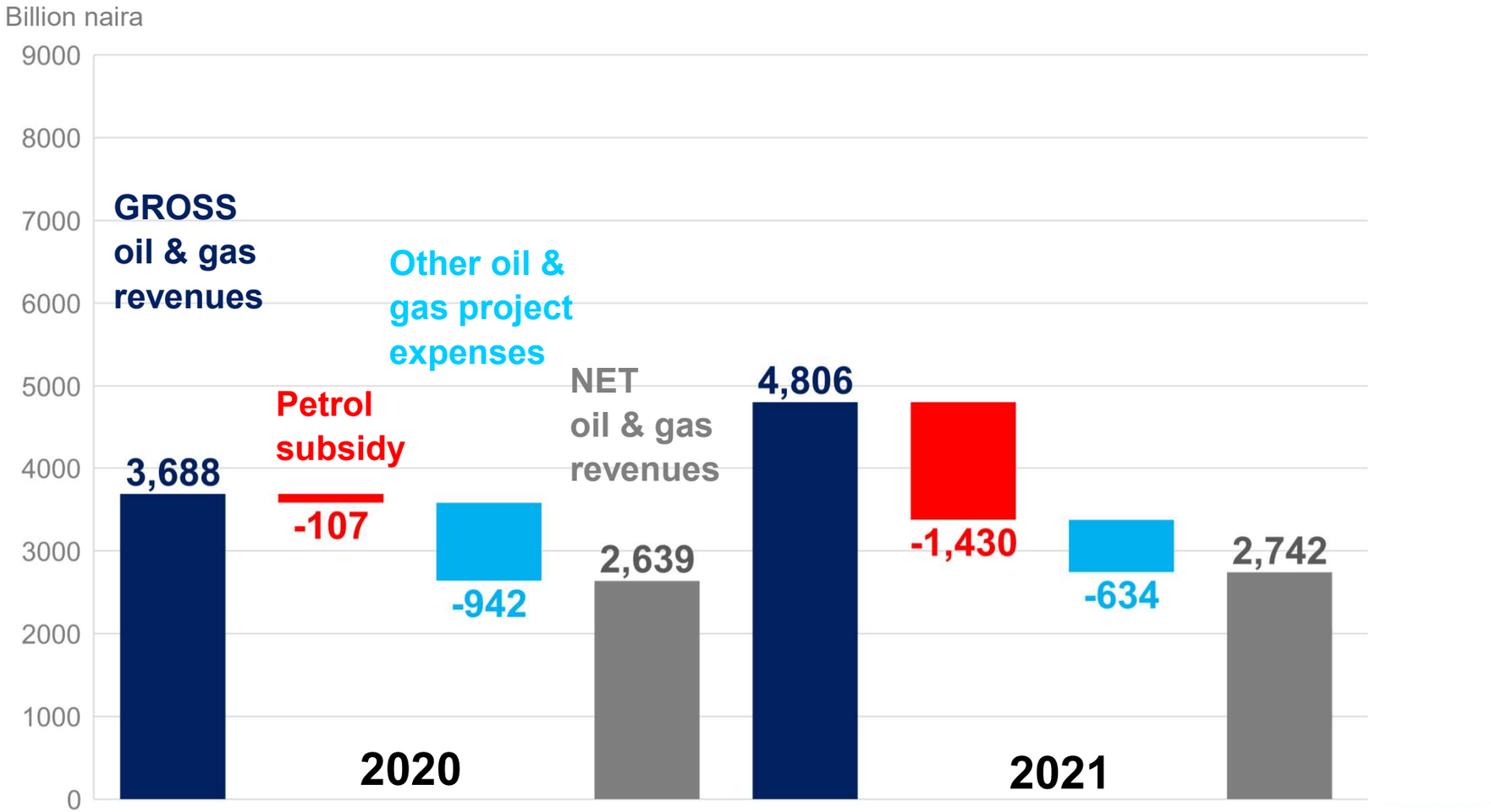

Source: OAGF, NETI, and World Bank estimates.

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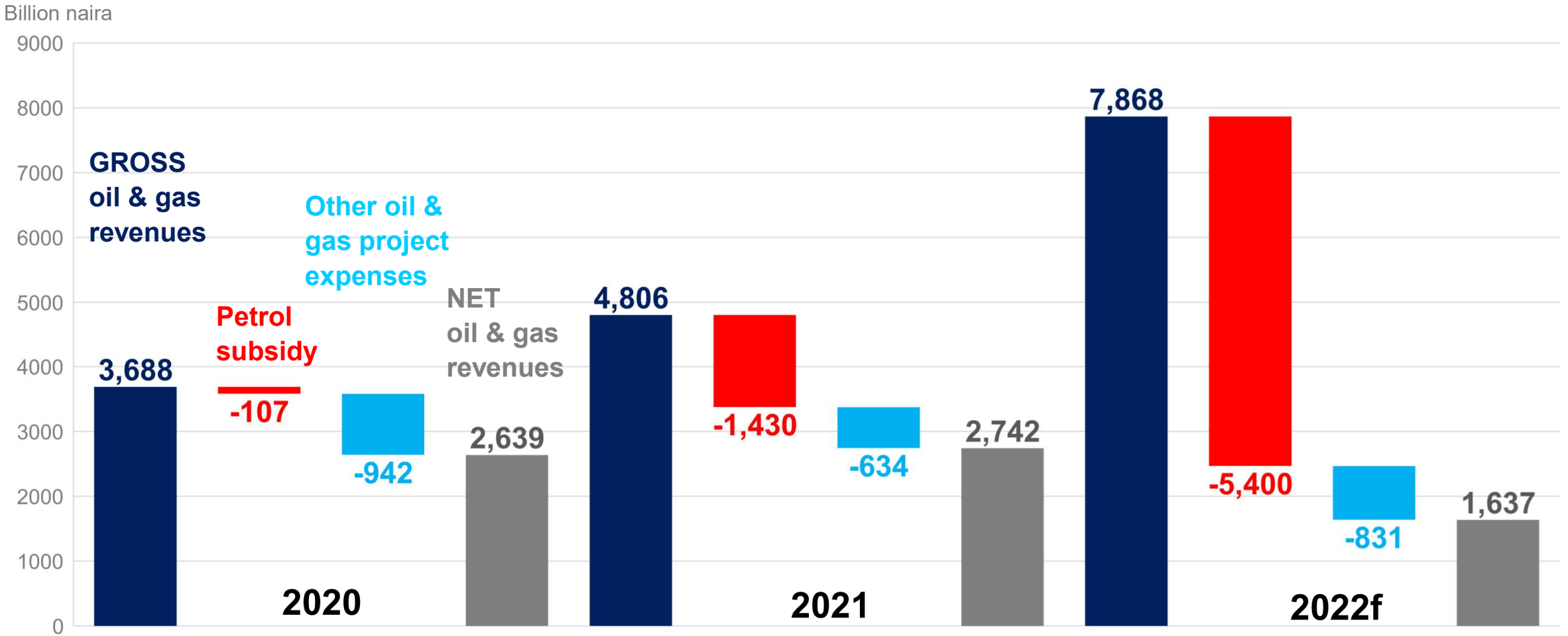

Source: OAGF, NETI, and World Bank estimates.

FOLLOWING REVENUE FLOWS

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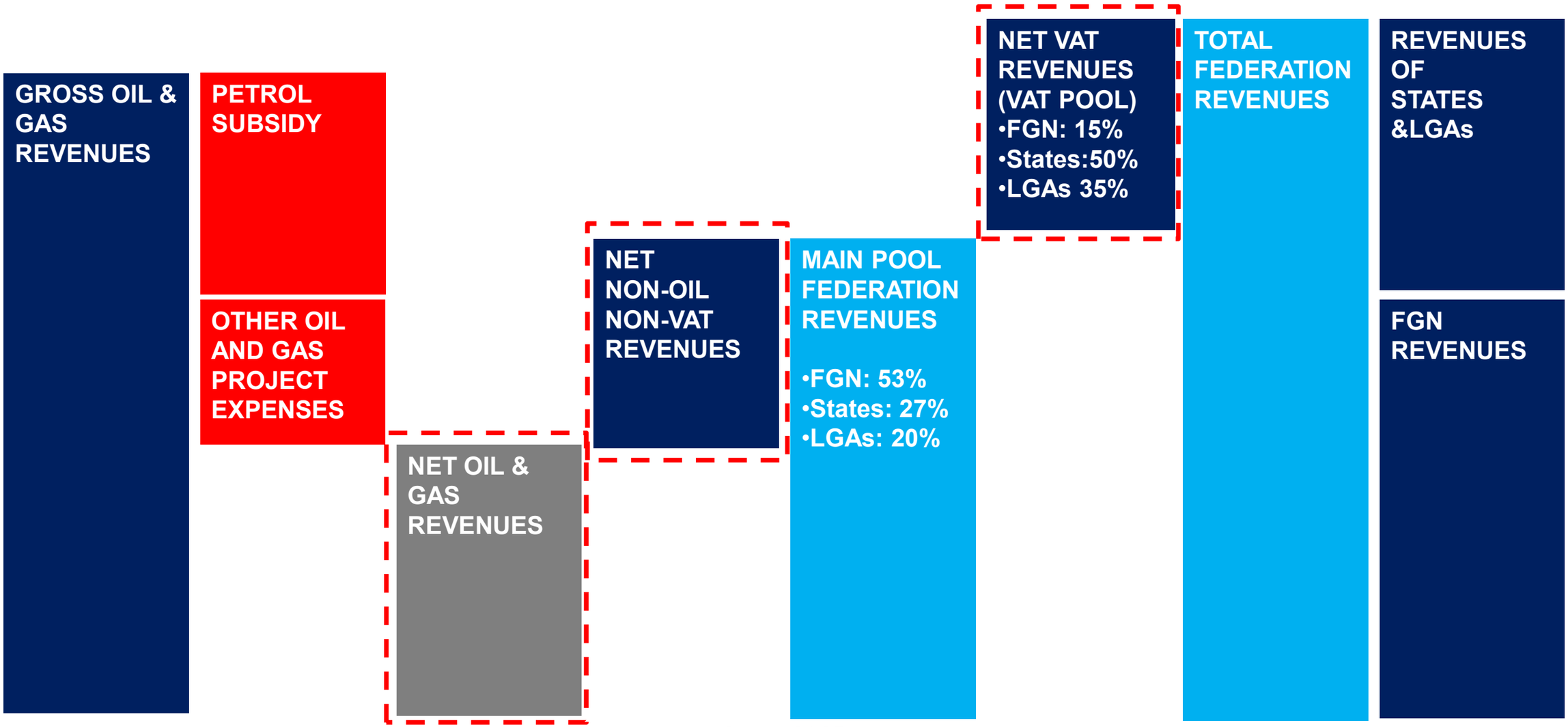
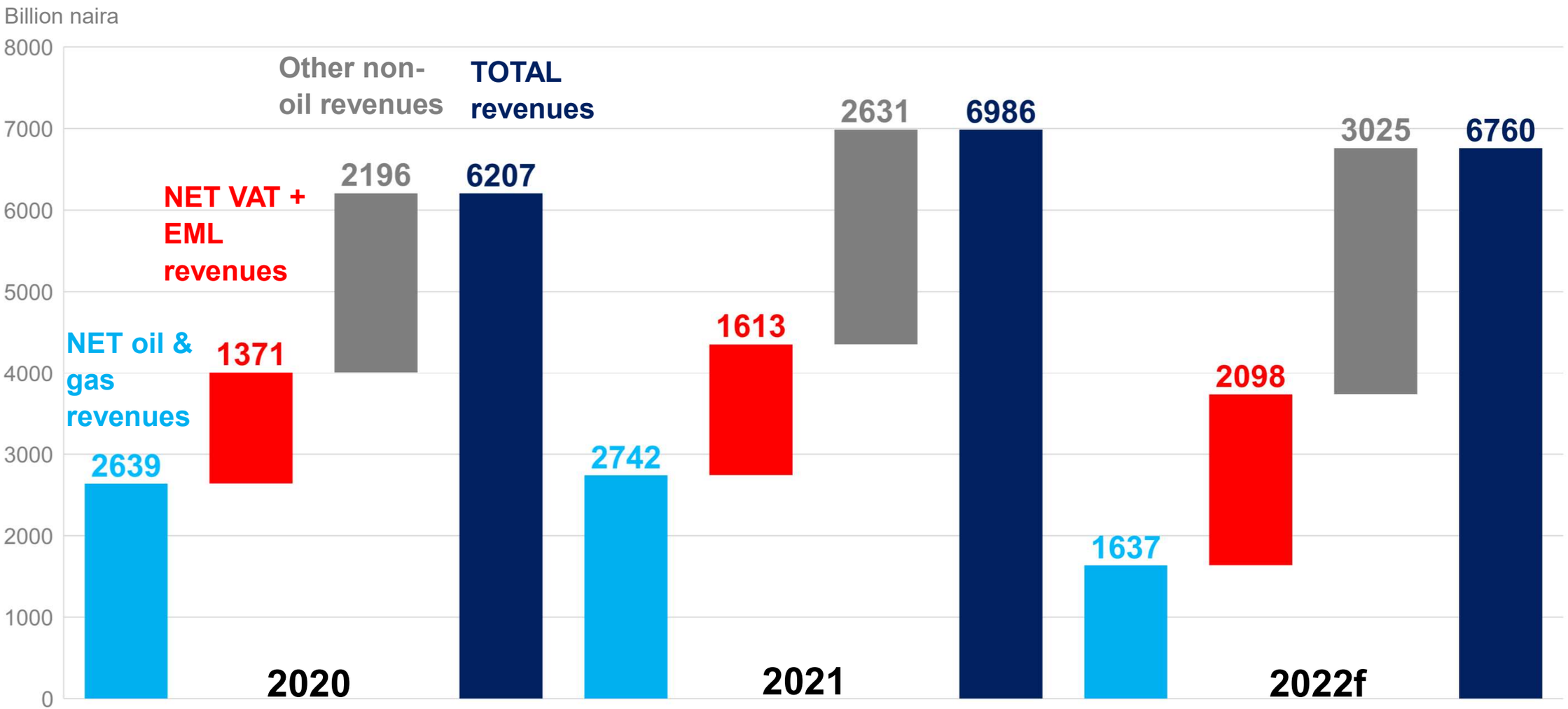


Source: OAGF.

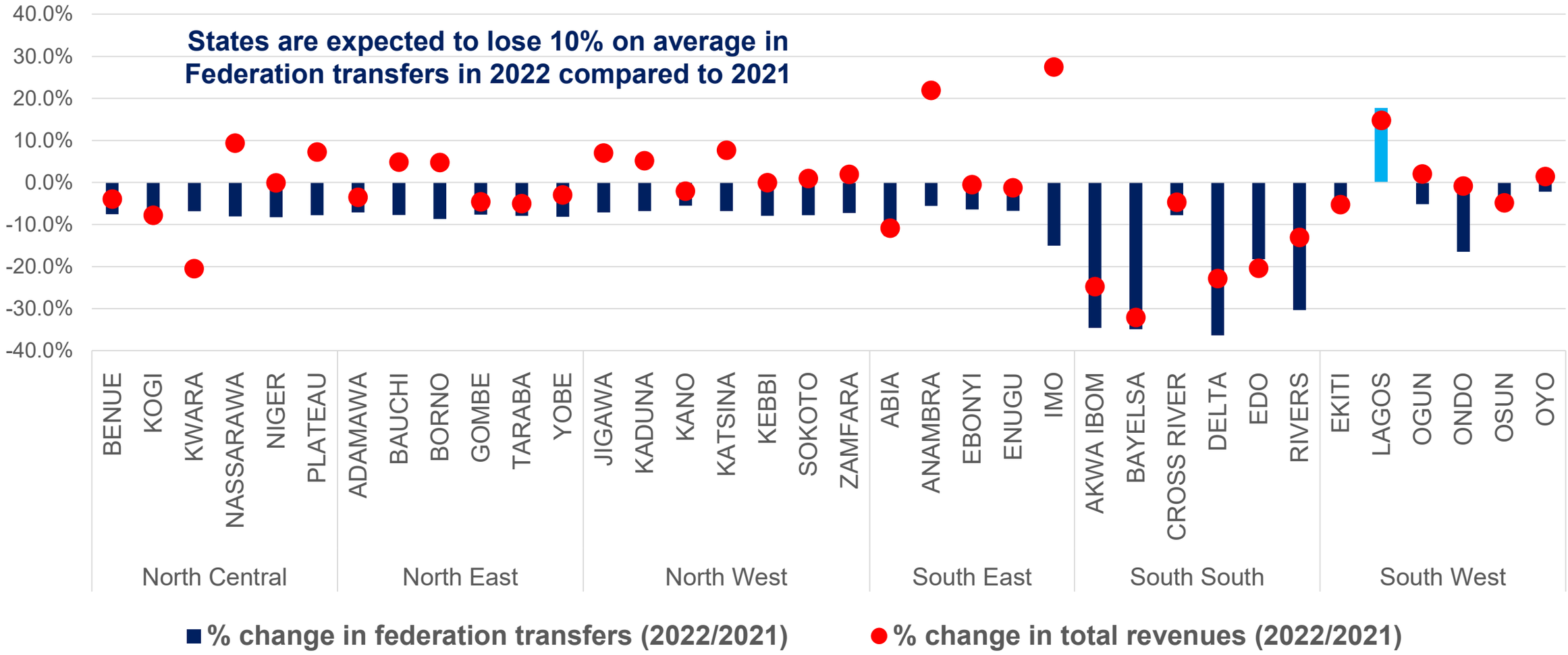
TOTAL REVENUES WILL LIKELY FALL IN 2022, AS HIGHER NON-OIL REVENUES WON'T COMPENSATE FOR LOWER OIL REVENUES



Source: OAGF, NETI, and World Bank estimates.

IN 2022, ALL STATES EXCEPT ONE WILL RECEIVE LOWER NOMINAL FEDERATION TRANSFERS THAN IN 2021

…as a result, most states will likely experience a decline in total revenues in 2022.

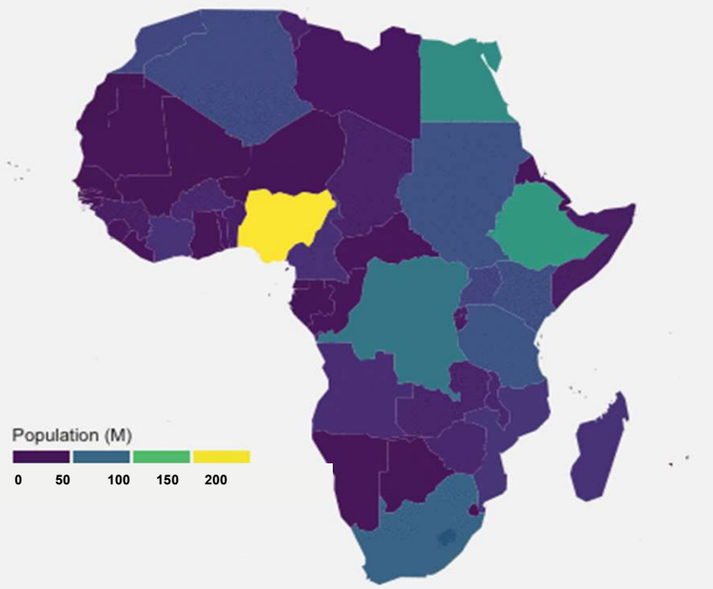


Source: State Budget Implementation Reports 2021, OAGF, and World Bank estimates.

THE URGENCY TO CATALYZE PRIVATE INVESTMENT FOR JOBS AND SECURITY

THE CHALLENGE: JOBS NEEDED FOR A FAST-GROWING LABOR FORCE

Size of Countries adjusted by Population Size



Nigeria has the largest population in Africa, and it will be the 3rd largest country in the world by 2050

300,000 young Nigerians are entering the labor market every month.

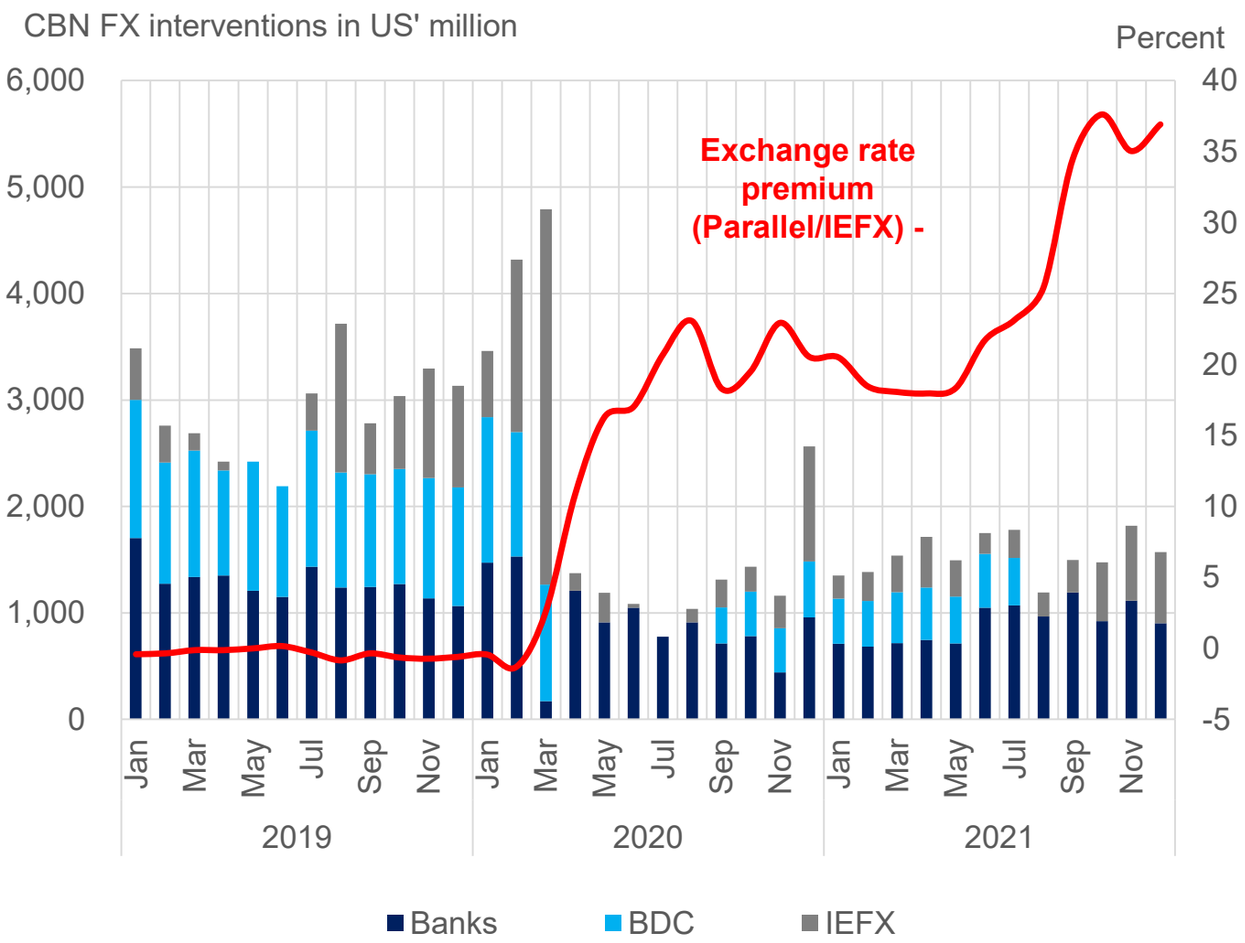
23% of girls between the ages of 15–19 are already married

19% are already mothers or pregnant with their first child.

NIGERIA'S FX MANAGEMENT IS DETERRING INVESTMENT

…due to uncertainties firms face in accessing FX and related costs to doing business.

The CBN has reduced its FX interventions…



…and the appetite for investment in Nigeria has declined since 2019.

RATHER THAN BOOSTING DOMESTIC VALUE ADDED, TRADE RESTRICTIONS ARE HURTING NIGERIANS

Import and FX restrictions aimed at promoting industrialization have increased smuggling, reduced revenues, hurt consumers, and raised production costs for firms

HIGHER INFLATION

LOWER FISCAL REVENUES

LOWER PRIVATE INVESTMENT

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Import and FX restrictions aimed at promoting industrialization have increased smuggling, reduced revenues, hurt consumers, and raised production costs for firms

HIGHER INFLATION

38% higher prices

Import bans caused the **prices** of affected goods to increase by **38 percent.**

LOWER FISCAL REVENUES

US$1.8bn per year

Import bans make Nigeria lose US$1.8 billion annually (0.5% of GDP) due to **tariff evasion.**

US$275m per year

FX restrictions lost Nigeria **1% of total tax revenues** between 2015-19.

LOWER PRIVATE INVESTMENT

14% costlier inputs

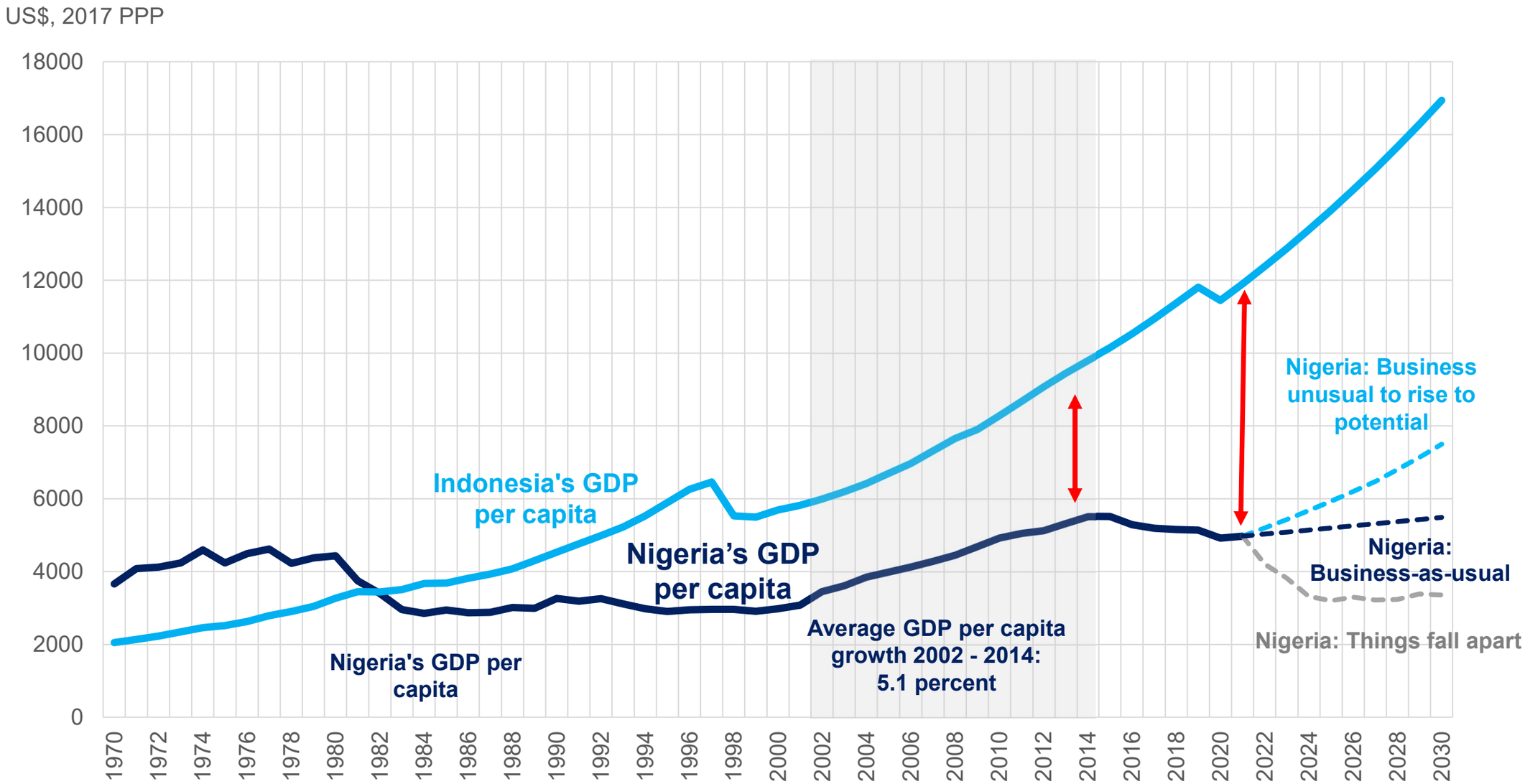
The average industry in Nigeria **pays 14% more for its inputs** than what it would have paid in the absence of **trade restrictions.**

There are better ways to boost Nigeria's domestic value added and diversify the economy

NIGERIA'S CHOICE:

WHAT "BUSINESS UNUSUAL" COULD LOOK LIKE… ESPECIALLY IN AN ELECTION YEAR

GROWING AT 3.2% IS NOT NEAR ENOUGH, THUS NIGERIA HAS A CHOICE



Source: NBS, WDI, and World Bank estimates.

NIGERIA'S CHOICE: SUGGESTED PRIORITIES FOR THE NEXT MONTHS

1. Reducing inflation
2. Addressing fiscal pressures
3. Catalyzing private investment to boost job creation

HOW TO GET THERE: OPTIONS FOR THE NEXT 6-12 MONTHS

1 Reducing inflation

- Fully reopen **land borders** to trade and remove **FX and import restrictions** on staple foods and medicines
- Signal the CBN's **commitment to price stability** as the primary goal and reduce subsidized lending to medium and large firms
- Reduce **CBN overdrafts** for fiscal deficit financing to their legal limit

2 Addressing fiscal pressures

- Establish a "compact" with the Nigerian people to **phase out the petrol subsidy** while protecting the poor through targeted and time-bound cash transfers
- Safeguard oil revenues by **eliminating oil in-kind payments** and ensuring that all oil revenues are transferred to the Federation account and verified
- **Rationalize tax expenditures** granted to agriculture, pioneer, and financial sectors.

3 Catalyzing private investment to boost job creation

- Establish a **single, market-responsive exchange-rate** and improve FX access (e.g., well-defined FX auctions)
- Accelerate **power sector** reforms
- Reduce delays in **border and port clearance** (automating procedures and introducing risk-based customs interventions)

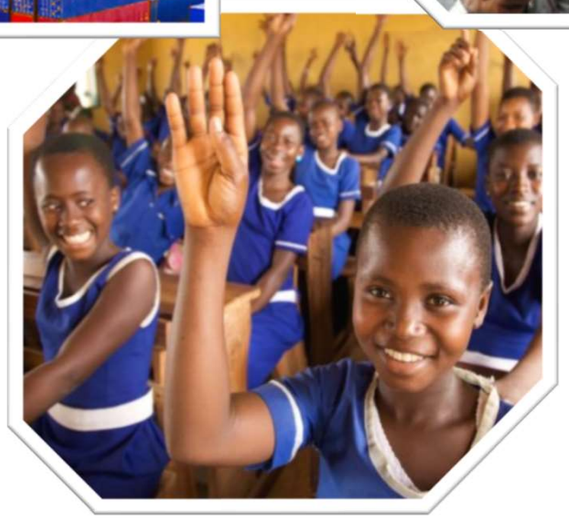
ALSO, IN THIS EDITION OF THE NIGERIA DEVELOPMENT UPDATE…

Investing in Adolescent Girls to Defuse Nigeria's Demographic Timebomb

The Unintended Consequences of Nigeria's Trade Policies

Attitudes Towards the Petrol Subsidy Reform

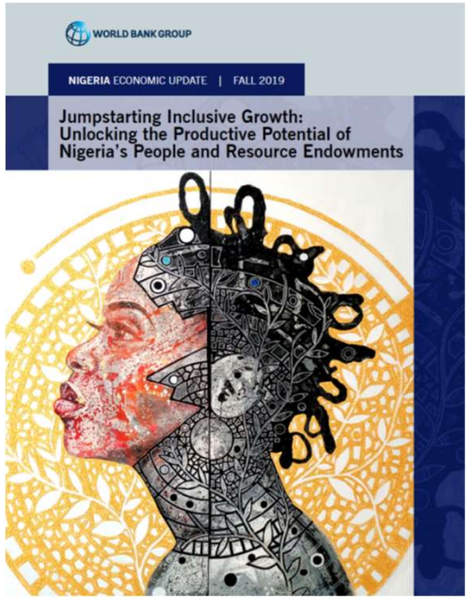
Oil Production and Related Revenues

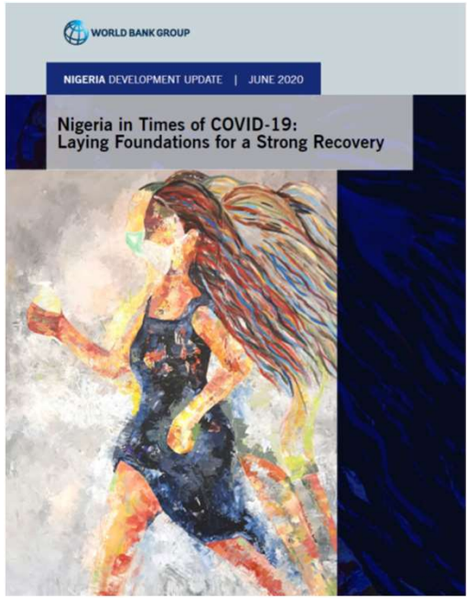


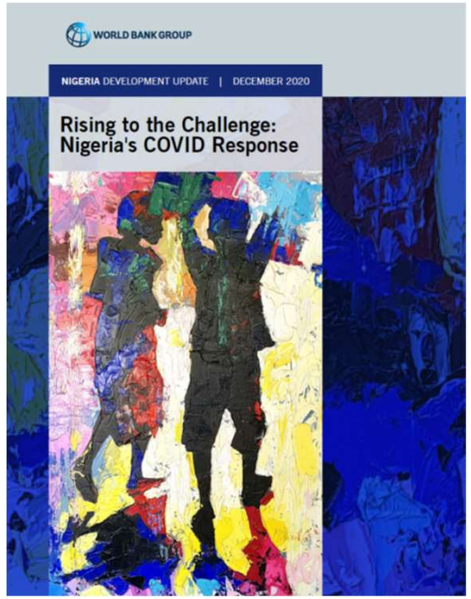
Bringing Nigeria's Children Back to School

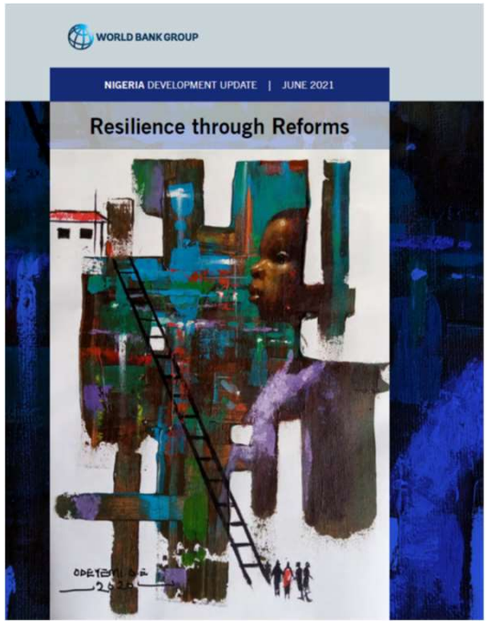
This and previous editions of the NDU are available at:

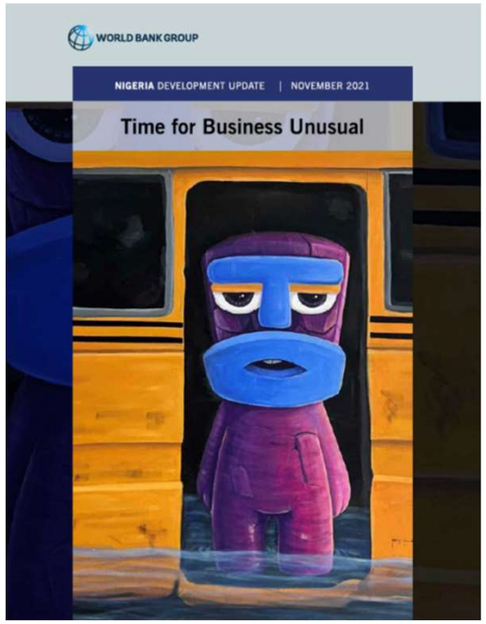
worldbank.org/en/country/nigeria

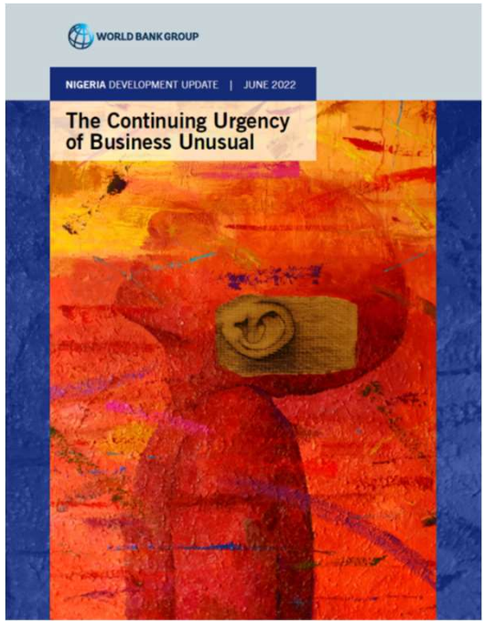












People forge ideas,
People mold dreams,
And people create art

Thank You