

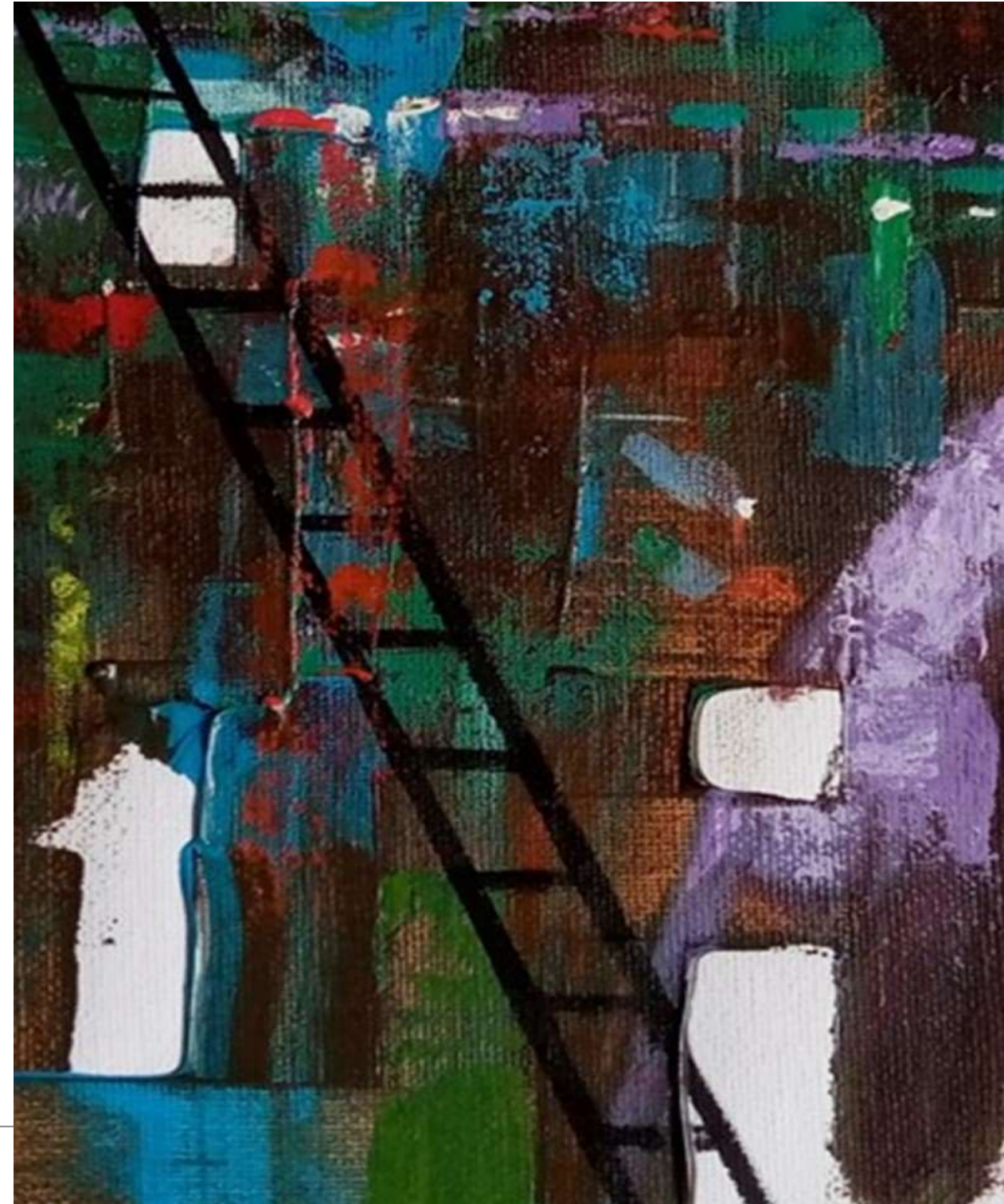
Nigeria Development Update

Resilience through Reforms

June 15, 2021



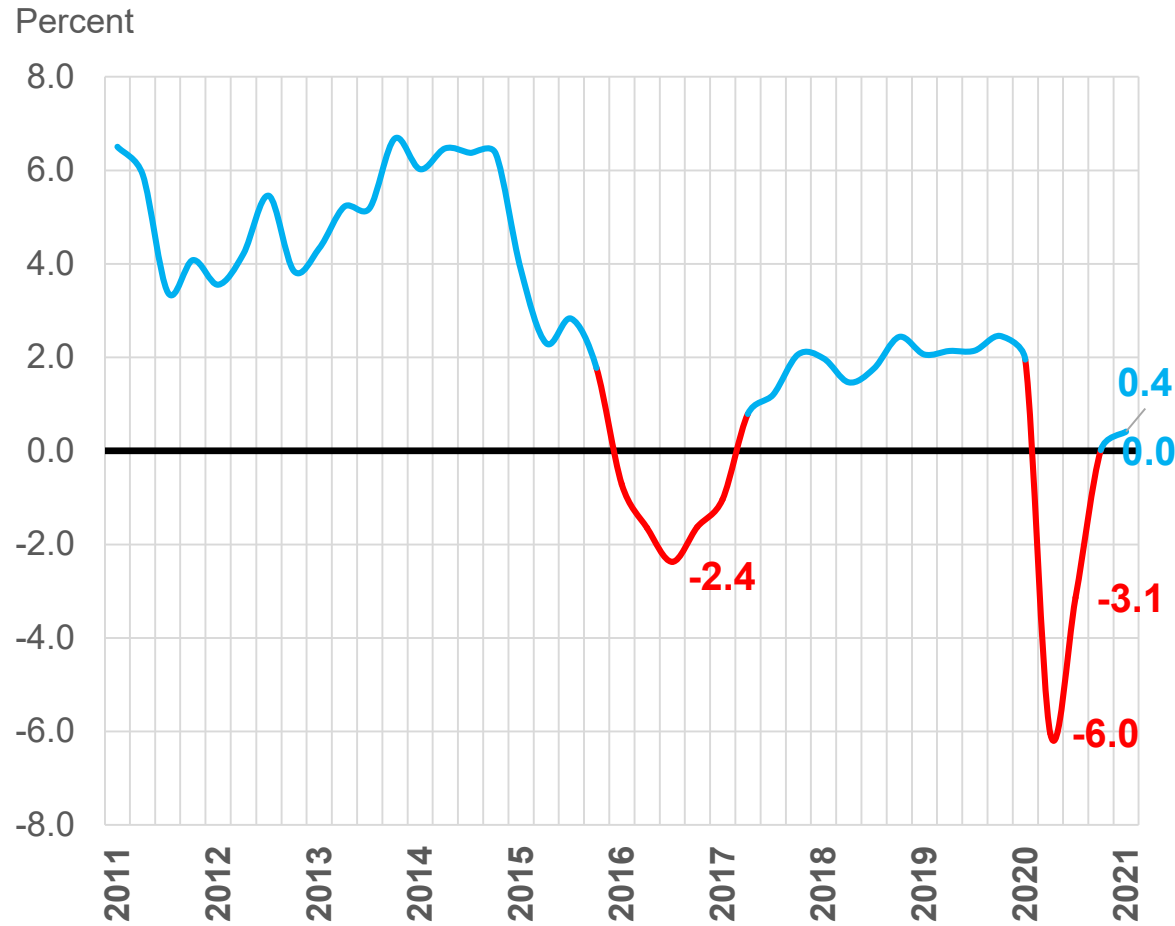
NIGERIA EXITED THE PANDEMIC-INDUCED RECESSION



ECONOMIC GROWTH RESUMED FOLLOWING A SHARP CONTRACTION

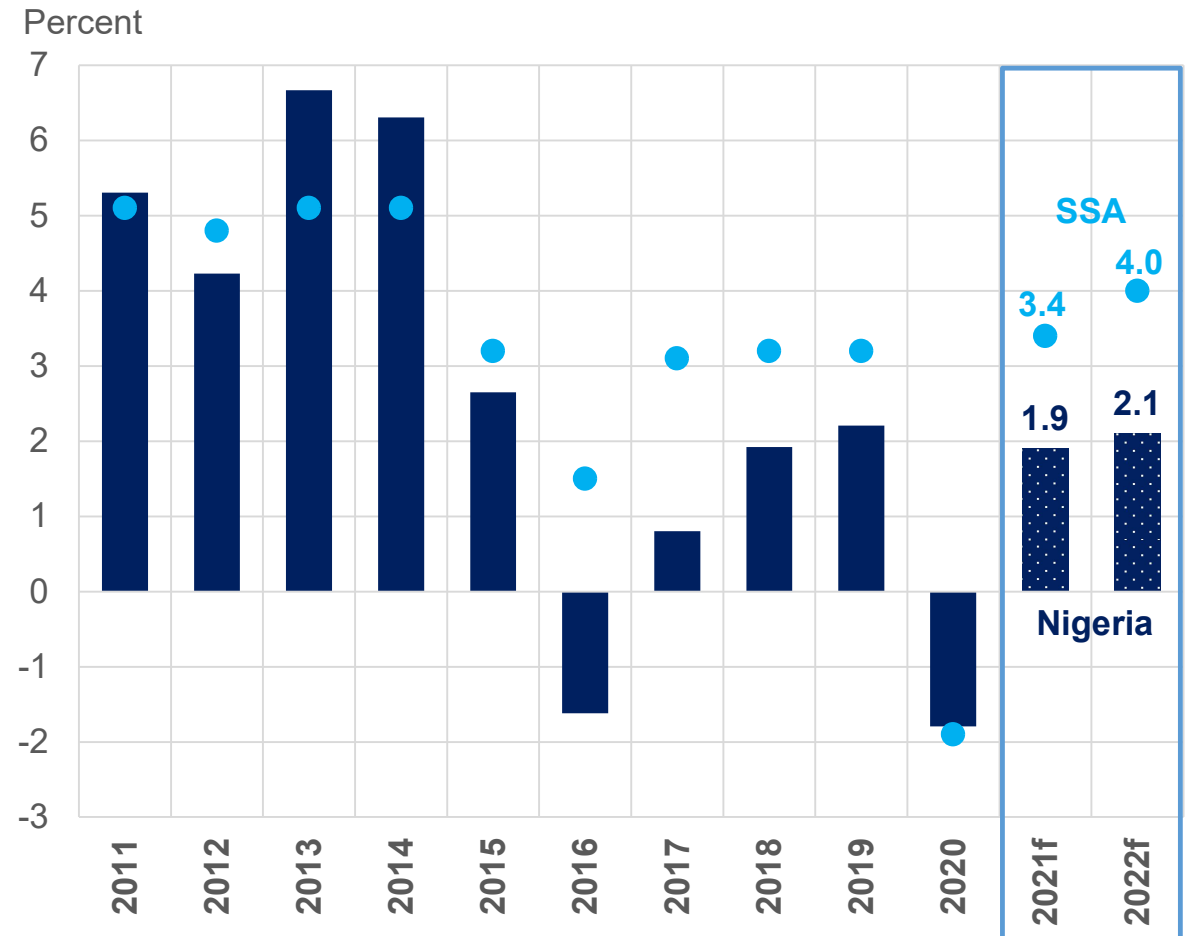
...but there is more potential as Nigeria is projected to grow more slowly than other African countries in 2021-22

Quarterly GDP growth in Nigeria has resumed but remains below the levels of 2017-2019



Source: NBS.

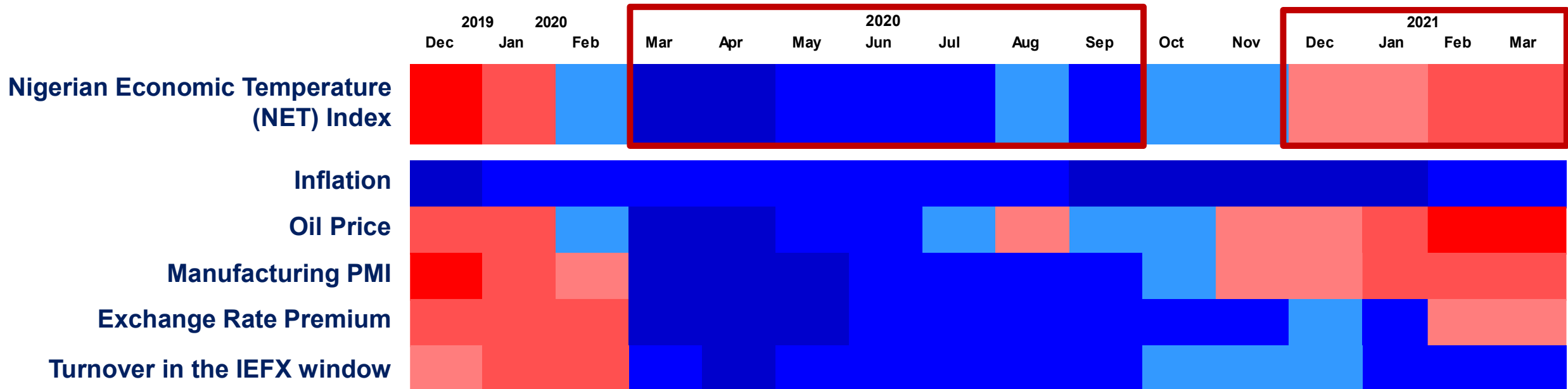
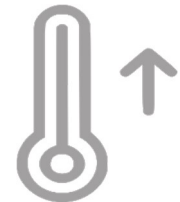
Projected GDP growth in 2021-2022 is expected to lag the average growth in Sub-Saharan Africa



Source: NBS, GEP, and World Bank estimates.

NIGERIA'S "ECONOMIC TEMPERATURE" IS GETTING WARMER, HINTING A GROWTH REBOUND FOR Q2 & Q3 2021

...yet, there are factors dragging growth which generates uncertainty around the speed of the recovery



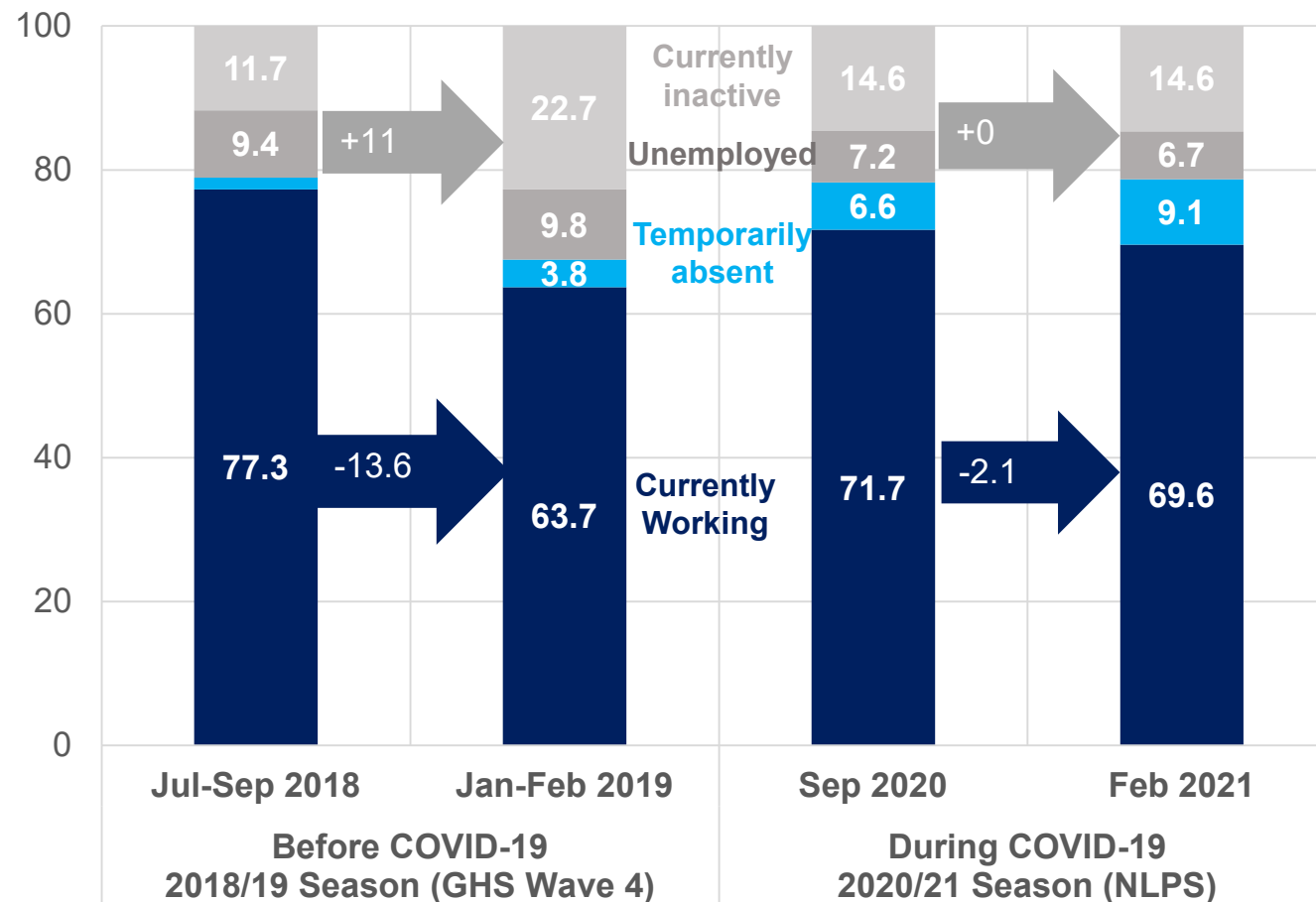
Source: NBS, CBN, and World Bank estimates.

The NET Index is produced by the World Bank and measures the “temperature” of the Nigerian economy based on a set of 14 high-frequency indicators including headline inflation, oil prices, manufacturing PMI, Treasury Bill rates, currency in circulation, exchange rate indicators (e.g., premium between the parallel vs. NAFEX rates), external reserves, and credit to the private sector. The color coding is based on the deviations of each indicator relative to a 5-year average. RED indicates potential stronger growth (the economy is heating up). BLUE indicates the opposite (the economy is cooling).

MORE PEOPLE WERE WORKING IN FEB 2021 THAN WOULD BE EXPECTED GIVEN PREVIOUS SEASONAL PATTERNS

...this could be because the crisis pushed more people to work

Working situation
(% individuals, 15-64 years old)



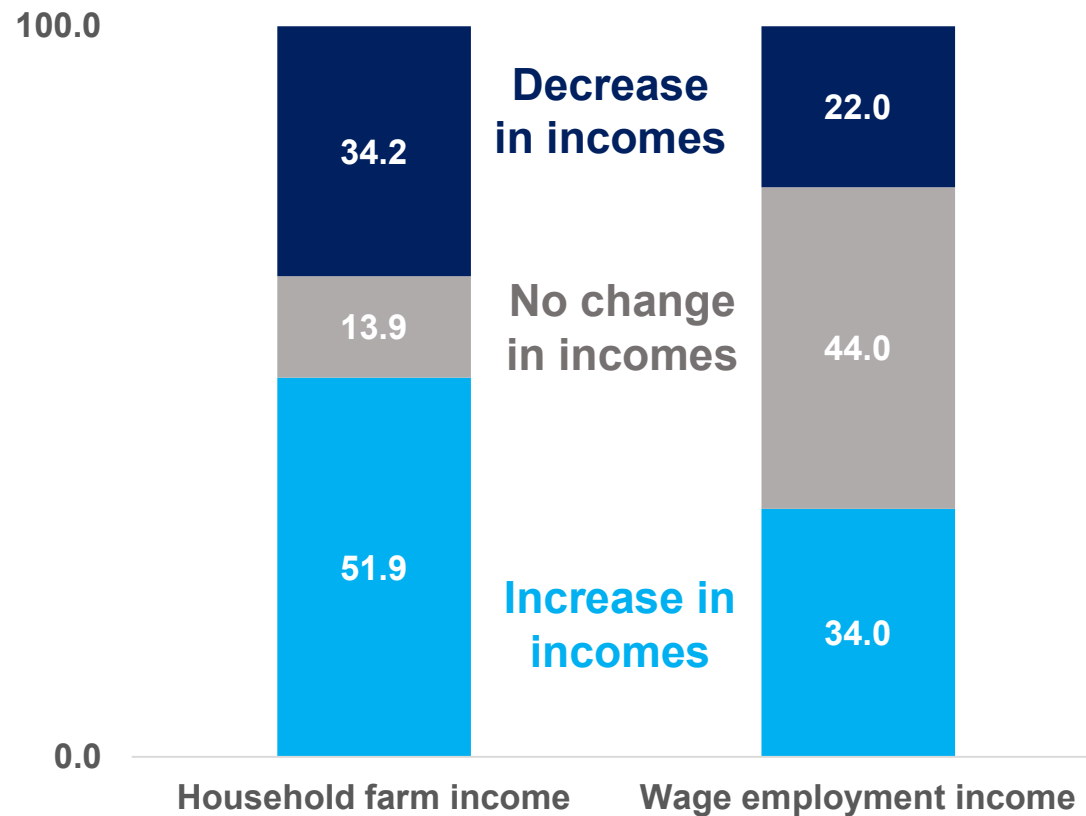
- Typically, the share of people working declines in Nigeria between September and February. This is due to seasonality in agriculture.
- New workers were primarily:
 - **Women:** In the 2020-21 agricultural cycle the share of women working was about 14 percentage points higher than in the 2018-19 period.
 - **People from poor households:** New workers are also concentrated in households in the poorest quintiles of the pre-crisis consumption distribution.
 - **Workers in commerce and services:** These sectors expanded more than would be expected from previous seasonal patterns.
- These findings suggest continued economic precarity. Households may now need more people to work in the post-harvest season than before the COVID-19 crisis.

Source: Nigeria General Household Survey, Wave 4, and Nigeria COVID-19 National Longitudinal Phone Survey.

SOME HOUSEHOLDS ARE SEEING IMPROVEMENTS IN INCOMES

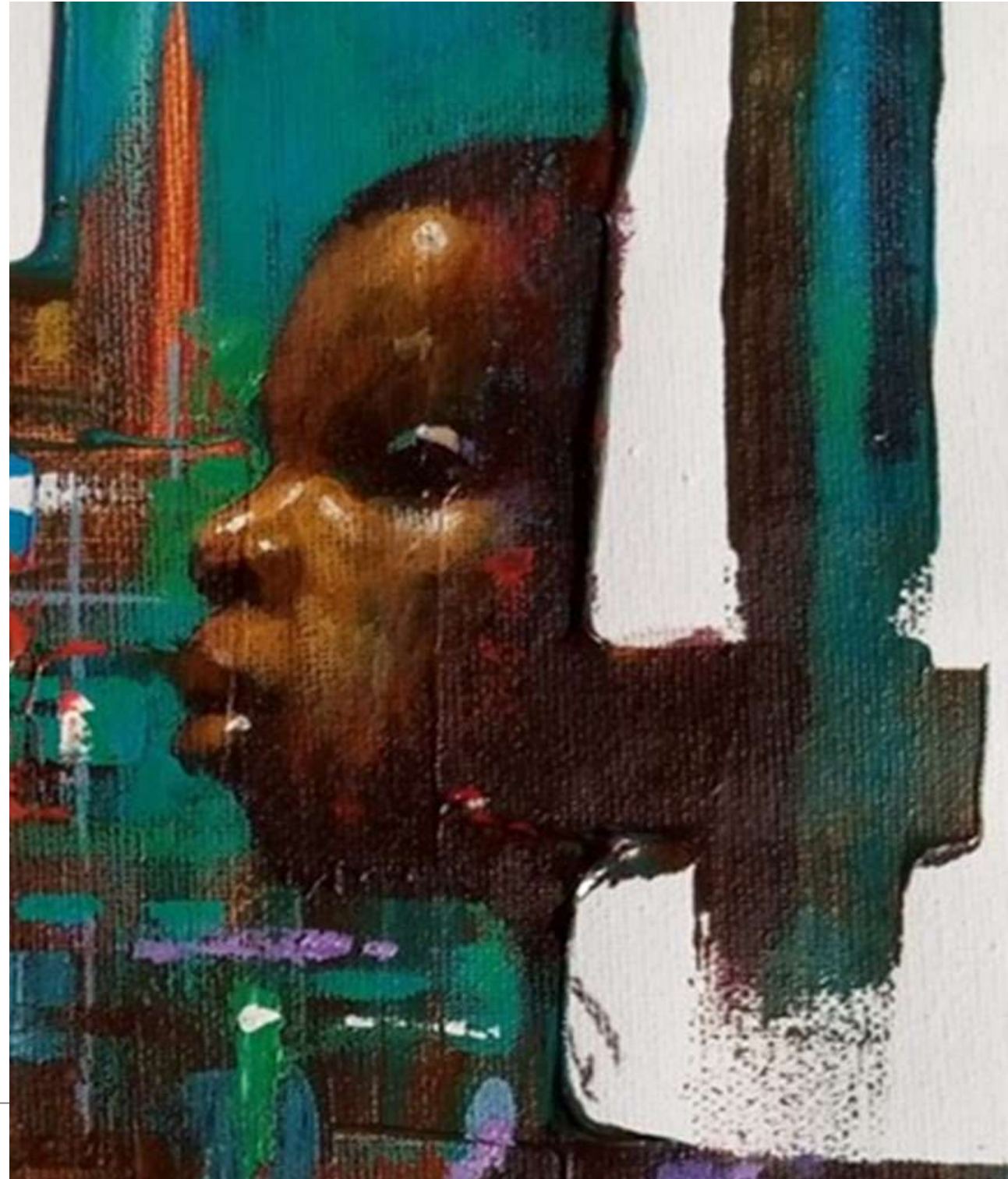
...though the increase has been uneven across segments of the labor market

Households working in agriculture were more likely to report higher incomes relative those in wage employment



Source: Nigeria COVID-19 National Longitudinal Phone Survey.

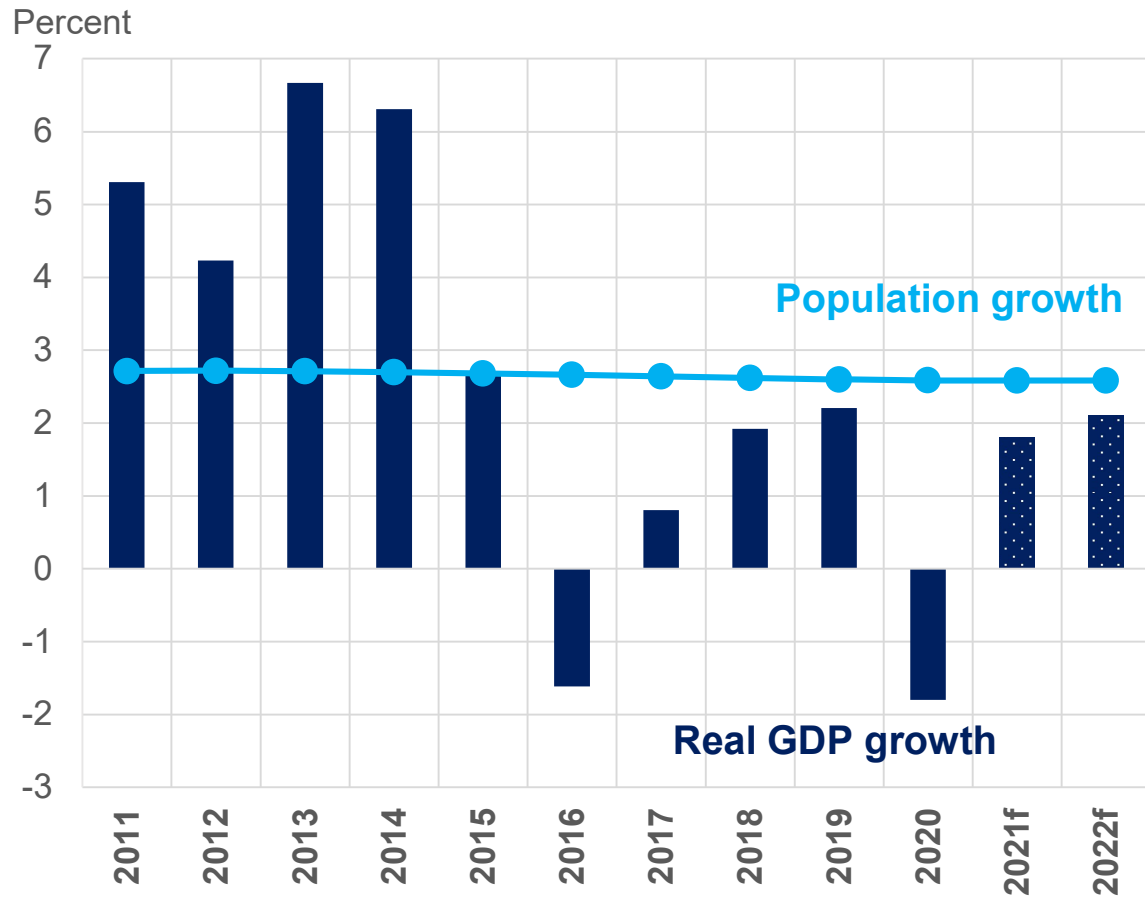
THE CRISIS HAS PROFOUNDLY AFFECTED NIGERIANS AND THE RECOVERY IS FRAGILE



WITH ECONOMIC GROWTH BELOW THE RATE OF POPULATION GROWTH, PER CAPITA INCOMES WILL CONTINUE TO DECLINE

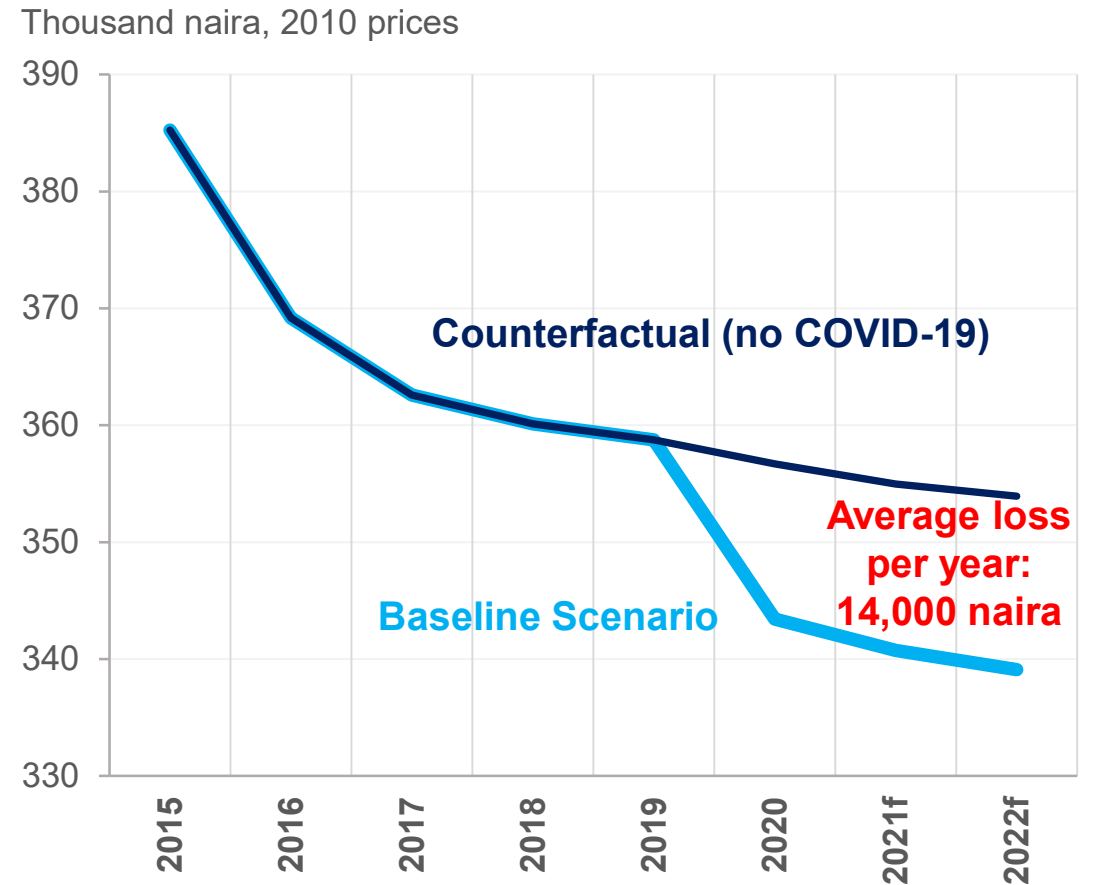
...Between 2020 and 2022, Nigerians would lose on average about 42,000 naira compared to pre-pandemic projections

GDP per capita is expected to be negative in 2021 - 2022



Source: NBS and World Bank staff estimates.

The cumulative loss of GDP per capita in 2020 – 2022 is equivalent to 13 percent of current GDP per capita

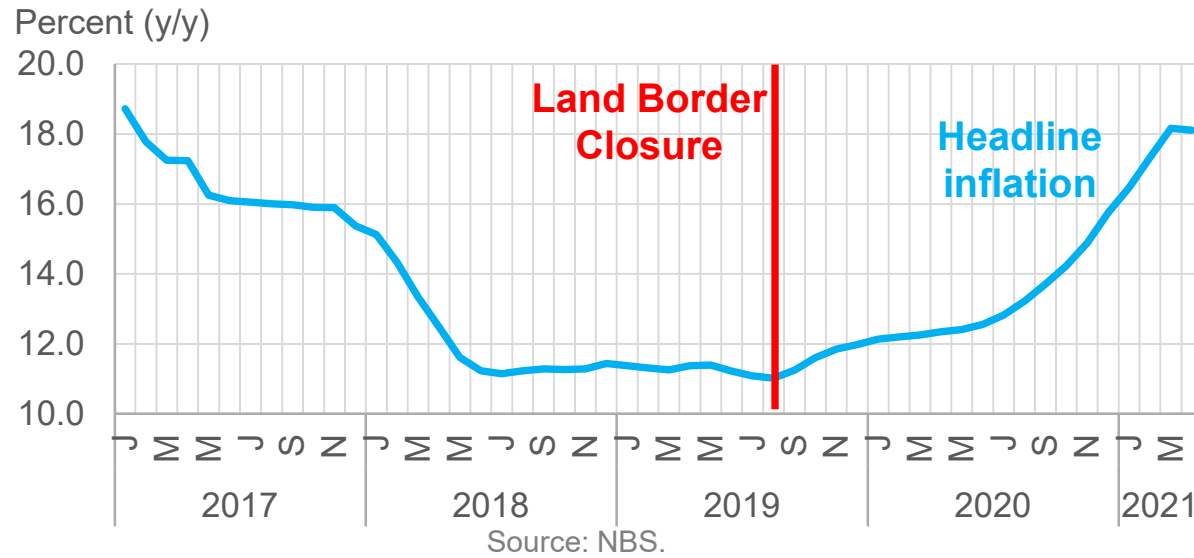


Source: NBS and World Bank staff estimates.

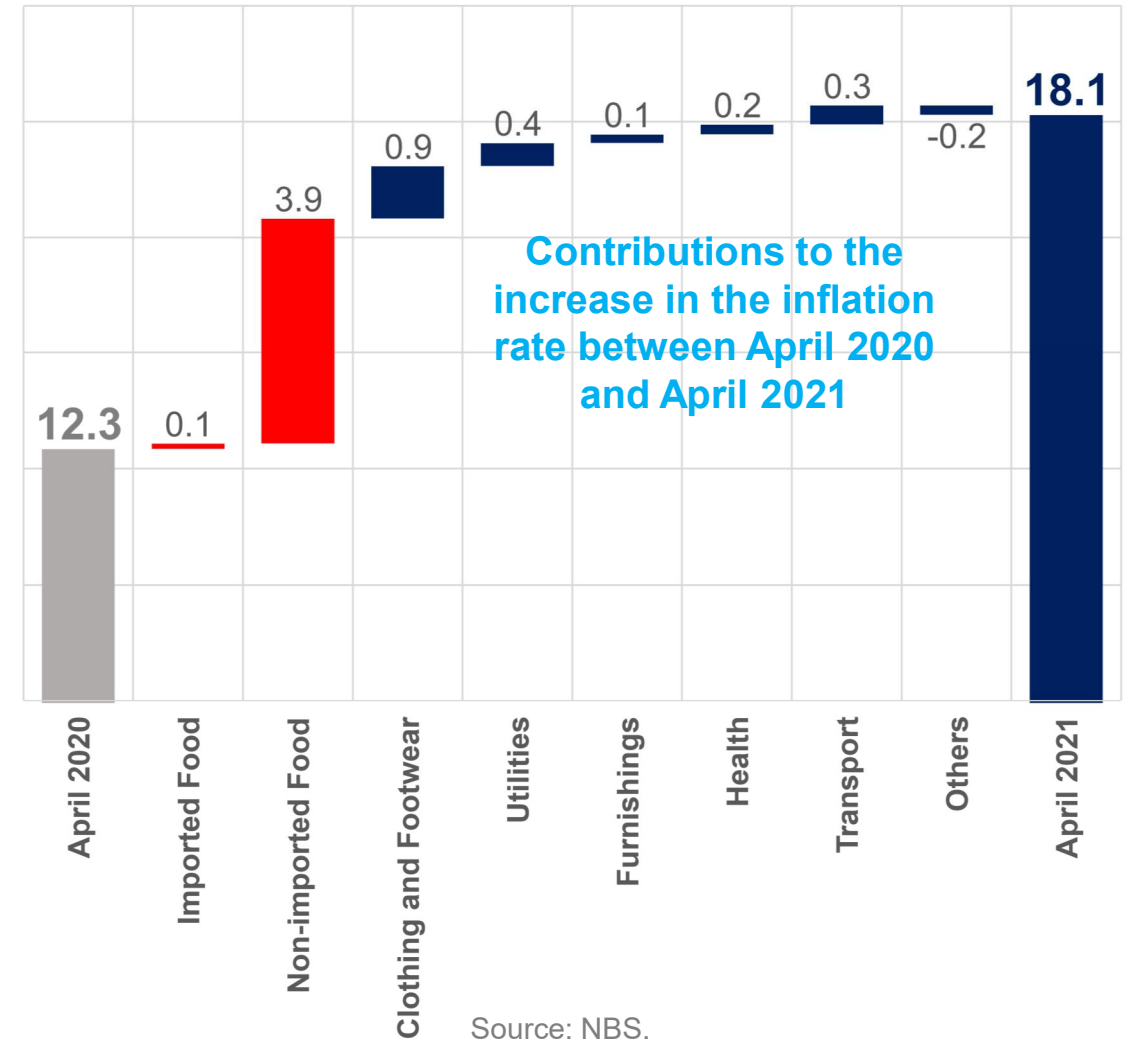
HIGH INFLATION IS REDUCING NIGERIANS' PURCHASING POWER

...with rising food prices as the main driver

Inflation rose in 2021-21 from an already high level



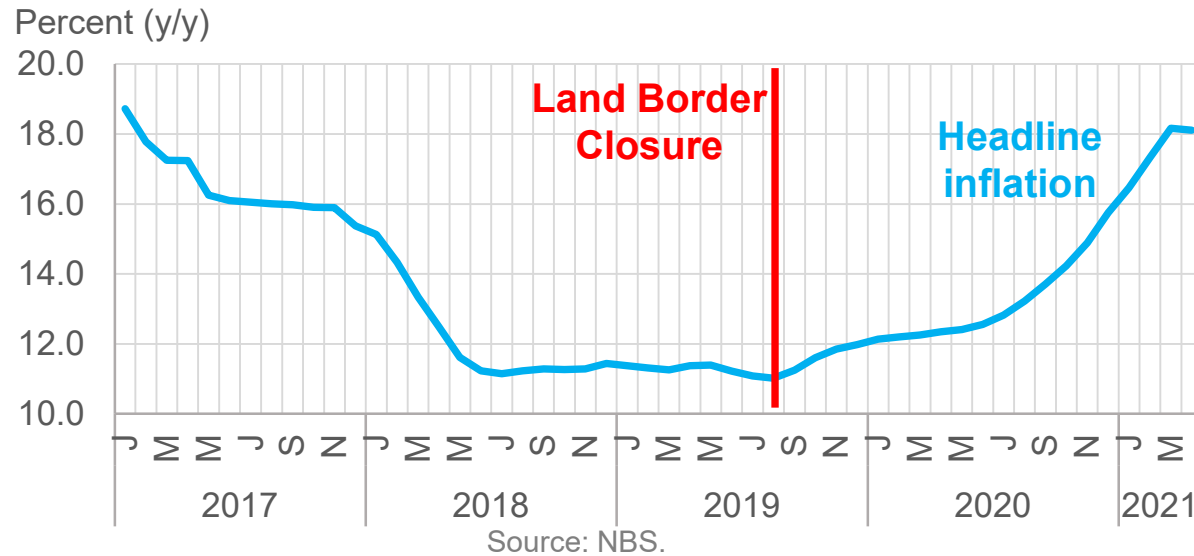
In the past year food prices accounted for almost 70% of the total increase in inflation



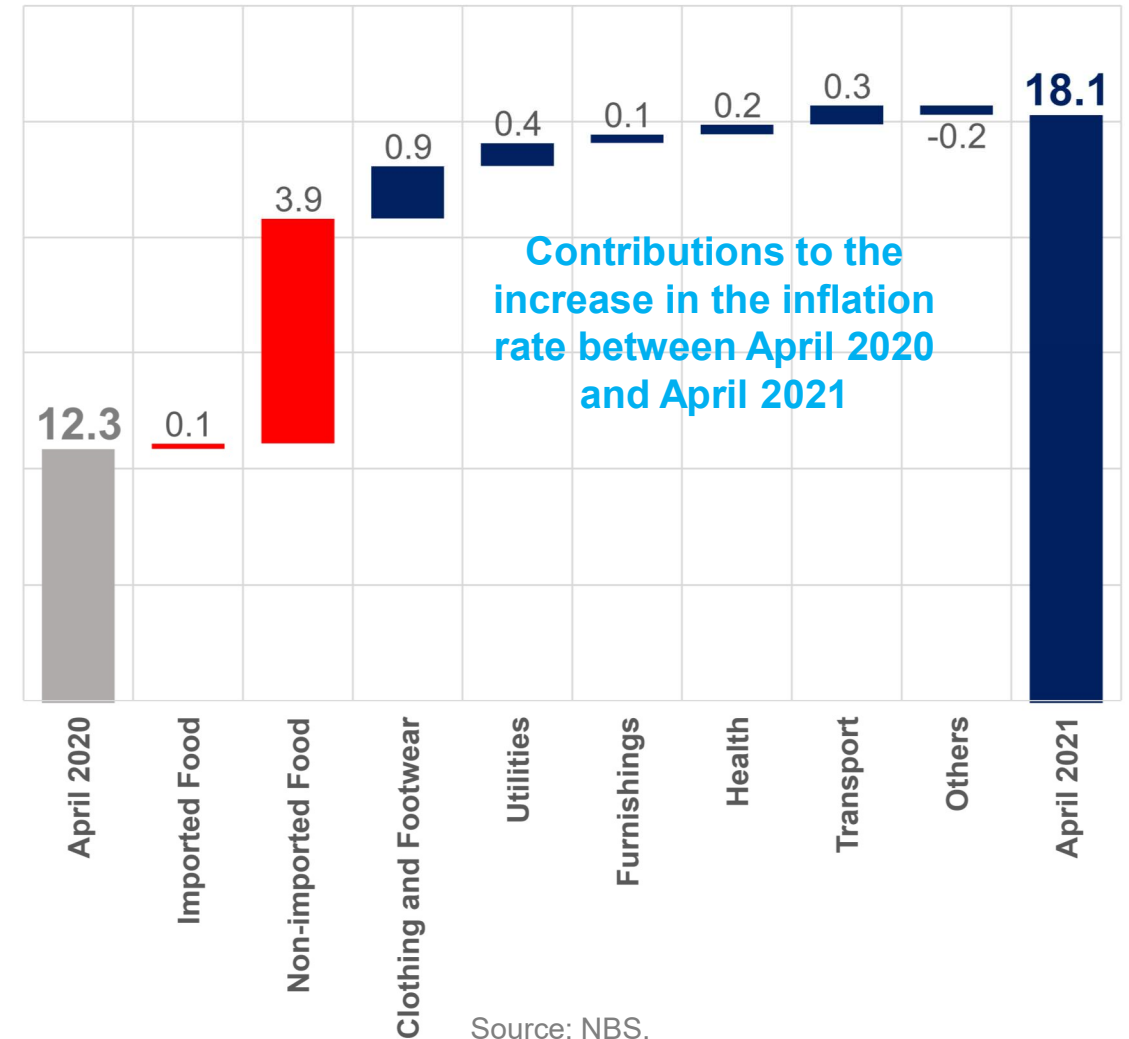
HIGH INFLATION IS REDUCING NIGERIANS' PURCHASING POWER

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In 2021 Nigeria is expected to have the 5th highest inflation rate in Africa.

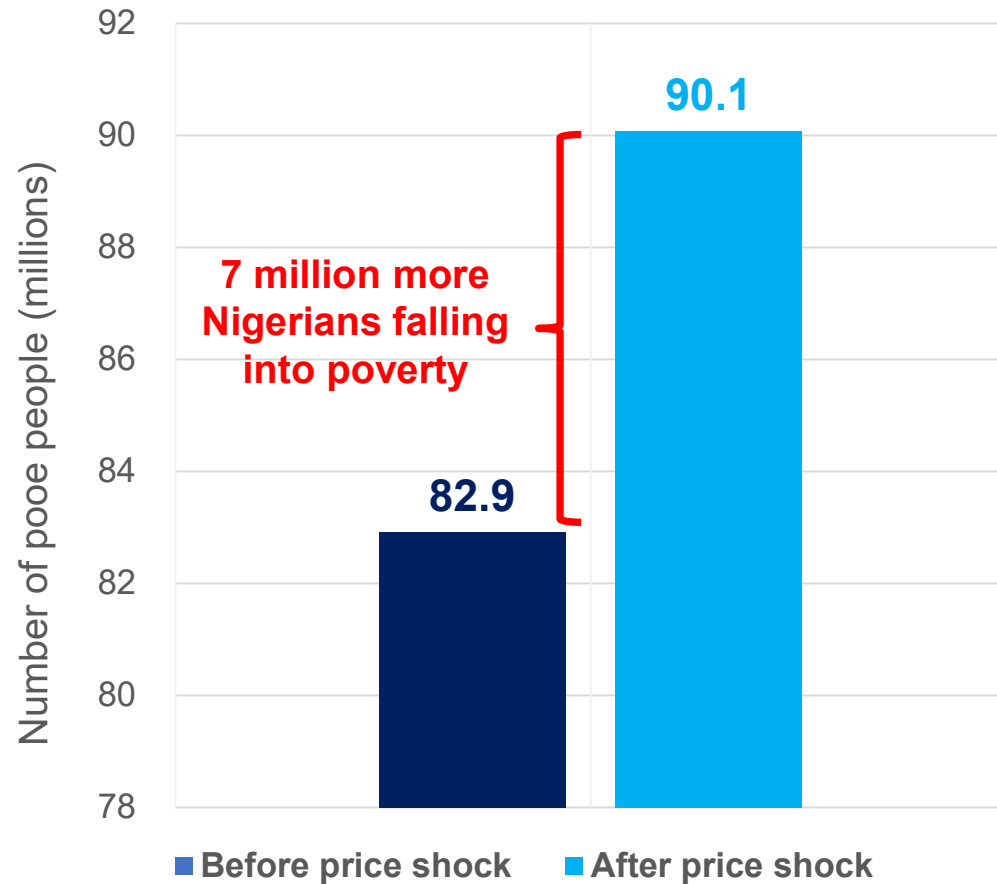
What could you buy with 1000 nairas?



Source: NBS and World Bank staff estimates.

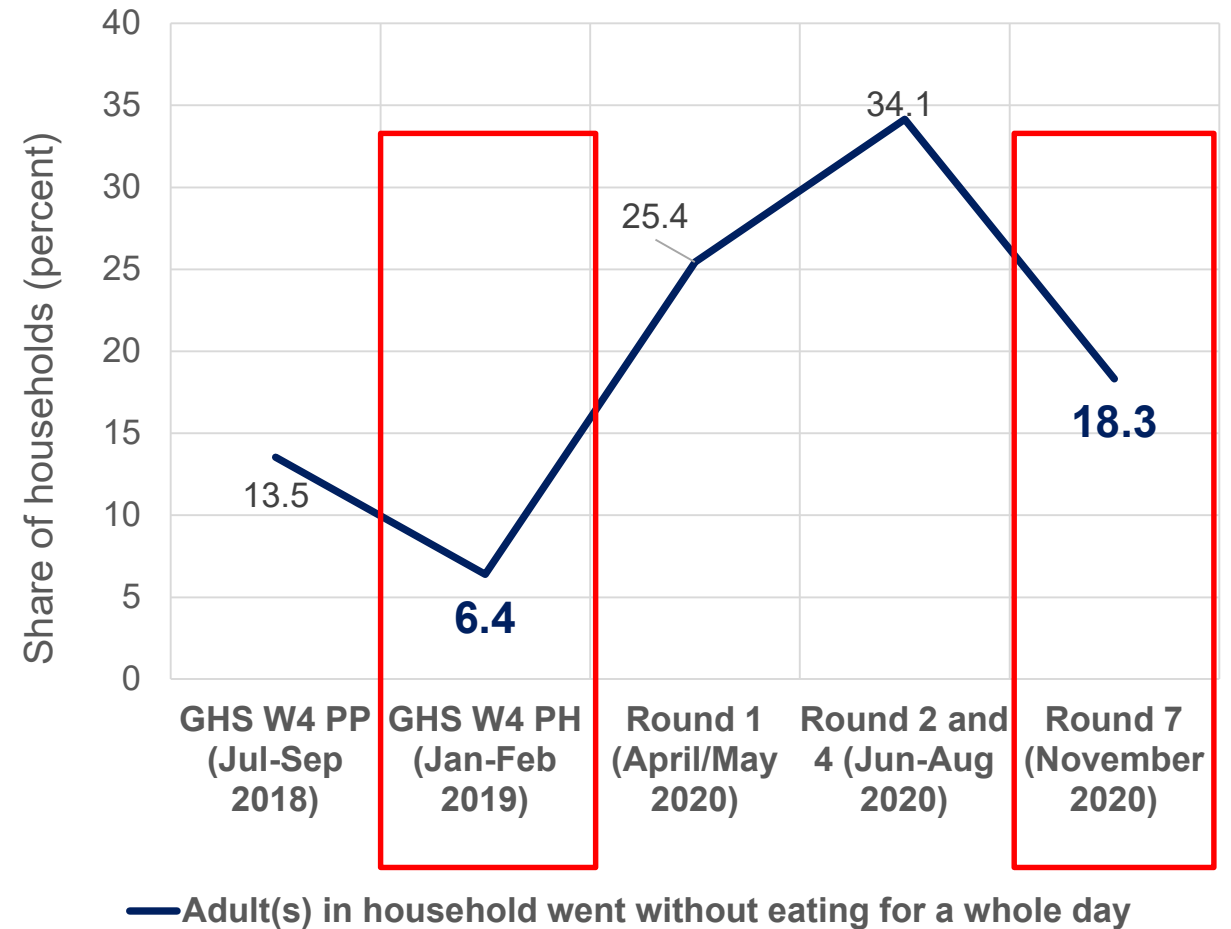
INFLATION IS EXACERBATING POVERTY AND FOOD INSECURITY

Falling purchasing power is expected to have pushed about 7 million more Nigerians into poverty



Source: NBS and World Bank staff estimates.

In Nov-20 about 18% of adults in the household did not eat for an entire day, compared to 6% before COVID

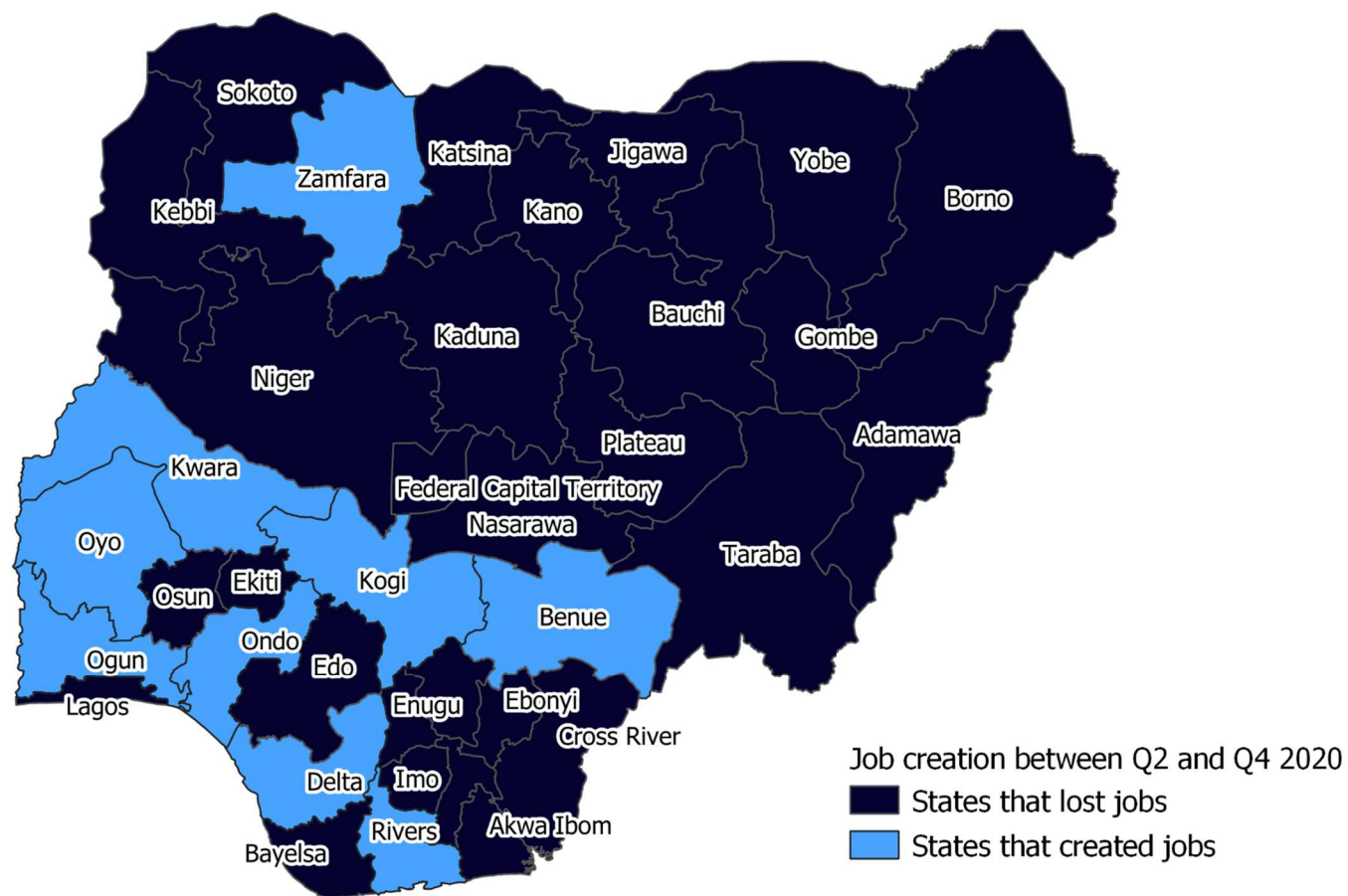


Source: Nigeria General Household Survey, Wave 4, and Nigeria COVID-19 National Longitudinal Phone Survey.

THE CRISIS WILL HAVE A LASTING EFFECT ON WELFARE

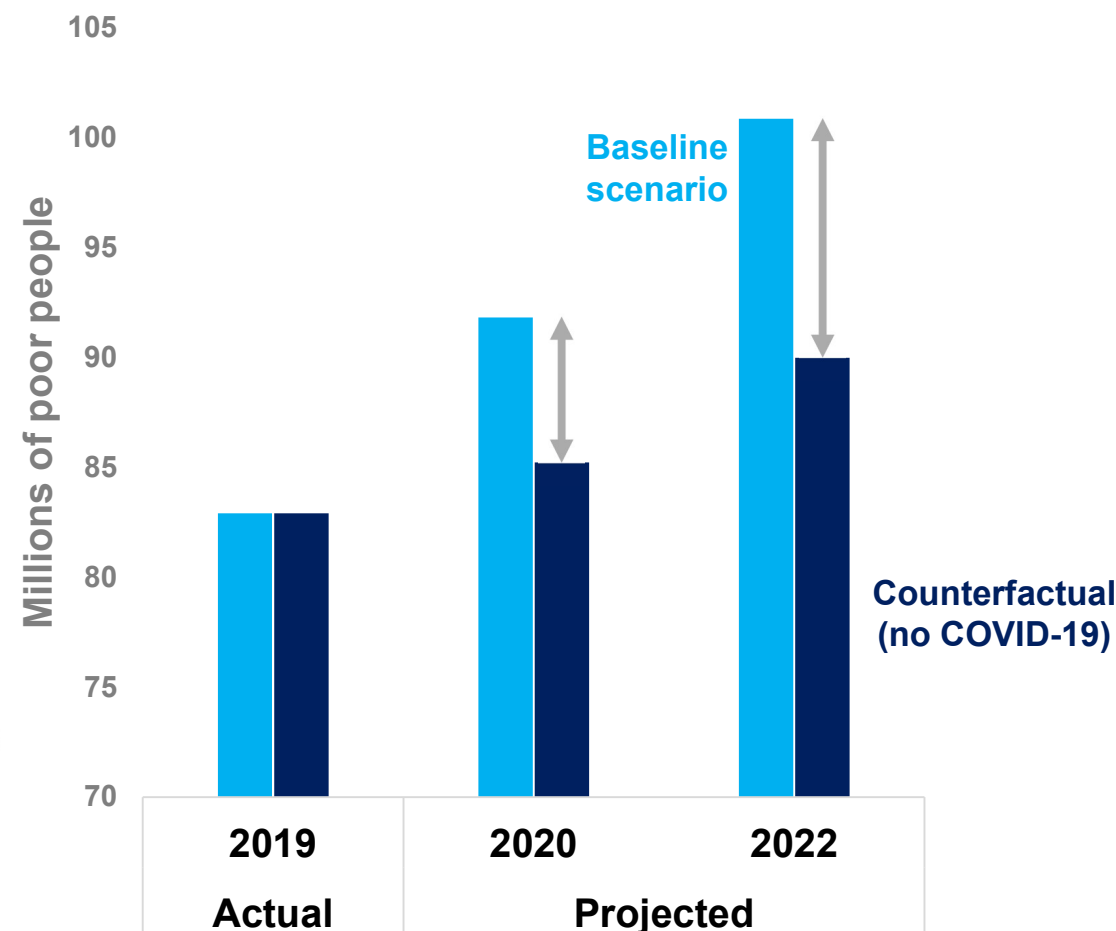
...highlighting the need for immediate and sustained actions

Job creation in 2020 was uneven across states



Source: NBS and World Bank estimates.

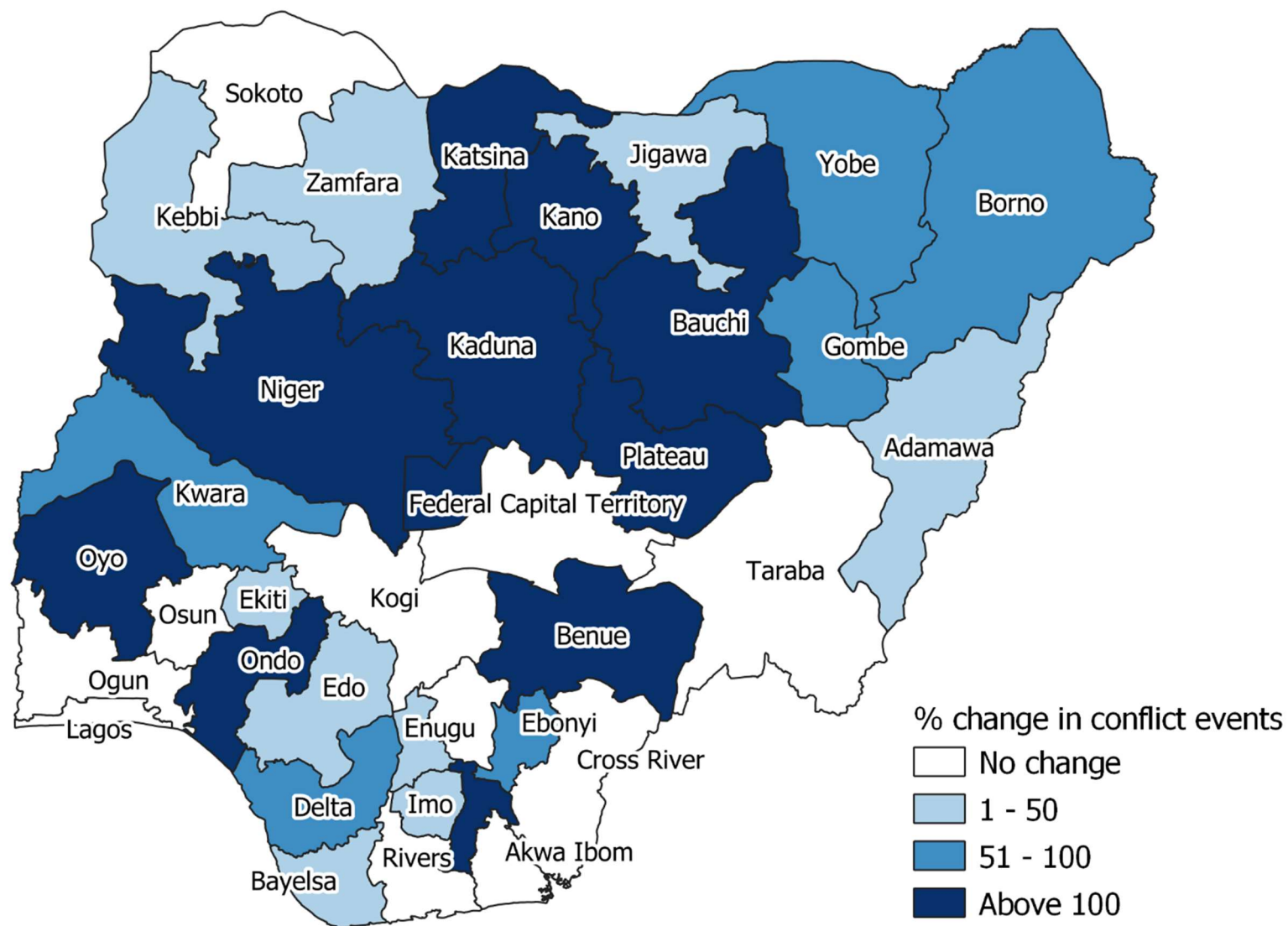
Over 11 million more Nigerians are expected to fall into poverty during 2020-22 due to COVID



Source: NBS and World Bank estimates.

INSECURITY AND CONFLICT HAVE HEIGHTENED

...and are dragging economic growth and job creation

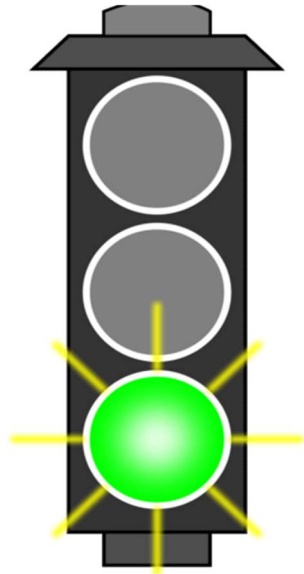


Source: ACLED.

THE CRISIS SERVED AS A WAKE-UP CALL



THE GOVERNMENT HAS UNDERTAKEN MAJOR REFORMS TO MITIGATE THE IMPACT OF THE PANDEMIC



ON TRACK



Development direction

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



Budgeting practices and accountability of COVID-19 spending

The FGN and the 36 states responded in a coordinated manner by adopting crisis-responsive budgets.

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



Transparency of oil revenues

NNPC's first-ever publication of audited financial statements.

The public now has much more available information to assess NNPC's operations.

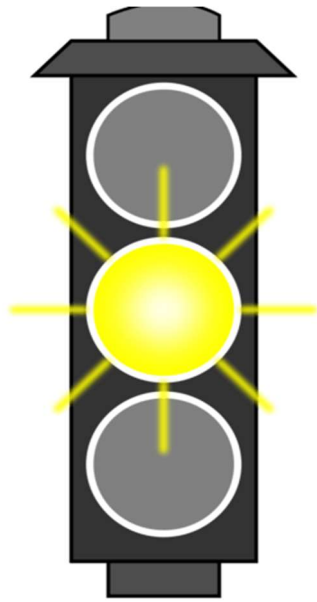


Debt transparency

More timely information available online, and the government is compiling a comprehensive catalogue of contingent liabilities.

Debt transparency is critical to reduce the cost of borrowing.

SUSTAINING REFORM MOMENTUM IS CRITICAL TO ENSURE A ROBUST RECOVERY BEYOND 2021



PAUSED



Petrol subsidy reform

The government established a market-based pricing mechanism for petrol, but subsidies have recently returned.



Electricity tariff reform

The government began to adjust electricity tariffs but has paused planned tariff increases that would bring prices towards cost-reflective levels.

Petrol subsidies have recently returned
(Estimated PMS under-recoveries, Naira per liter)

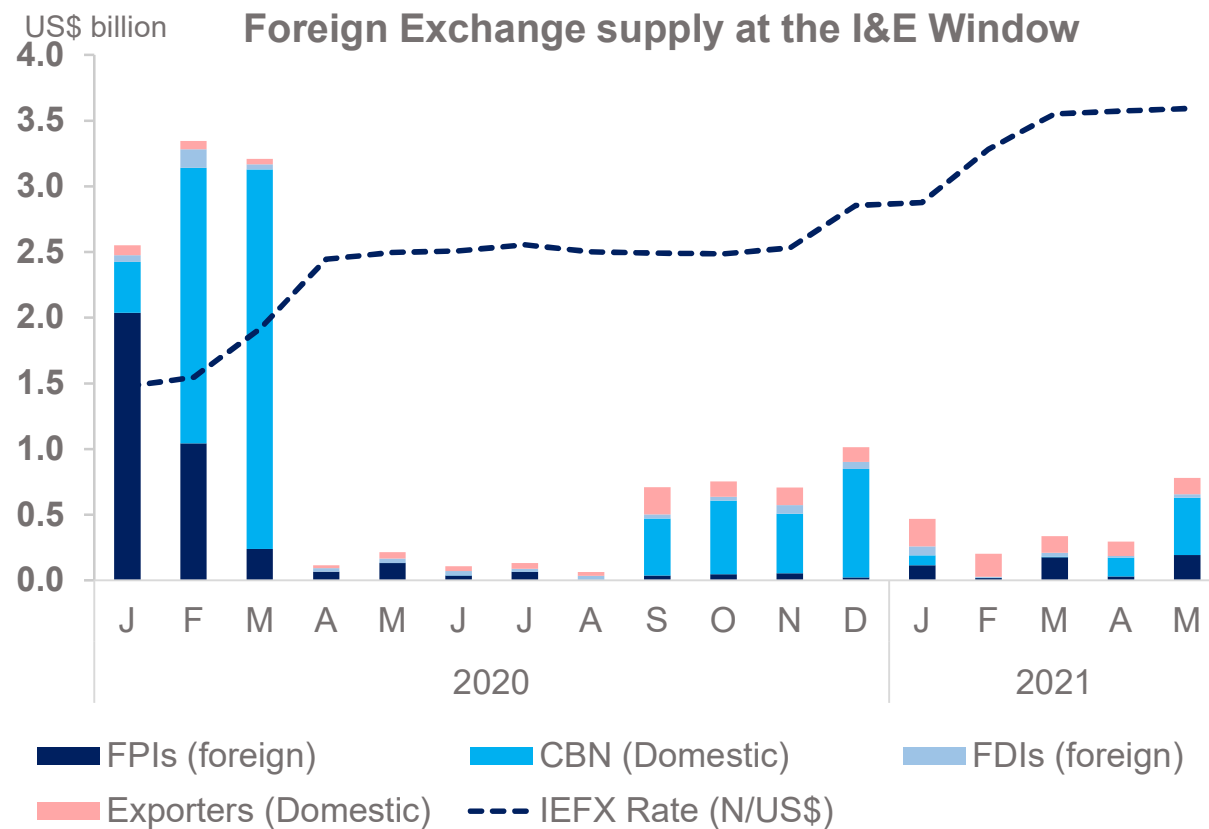


Source: World Bank estimates.

THE CENTRAL BANK OF NIGERIA HAS TAKEN FURTHER STEPS TO UNIFY THE EXCHANGE RATES

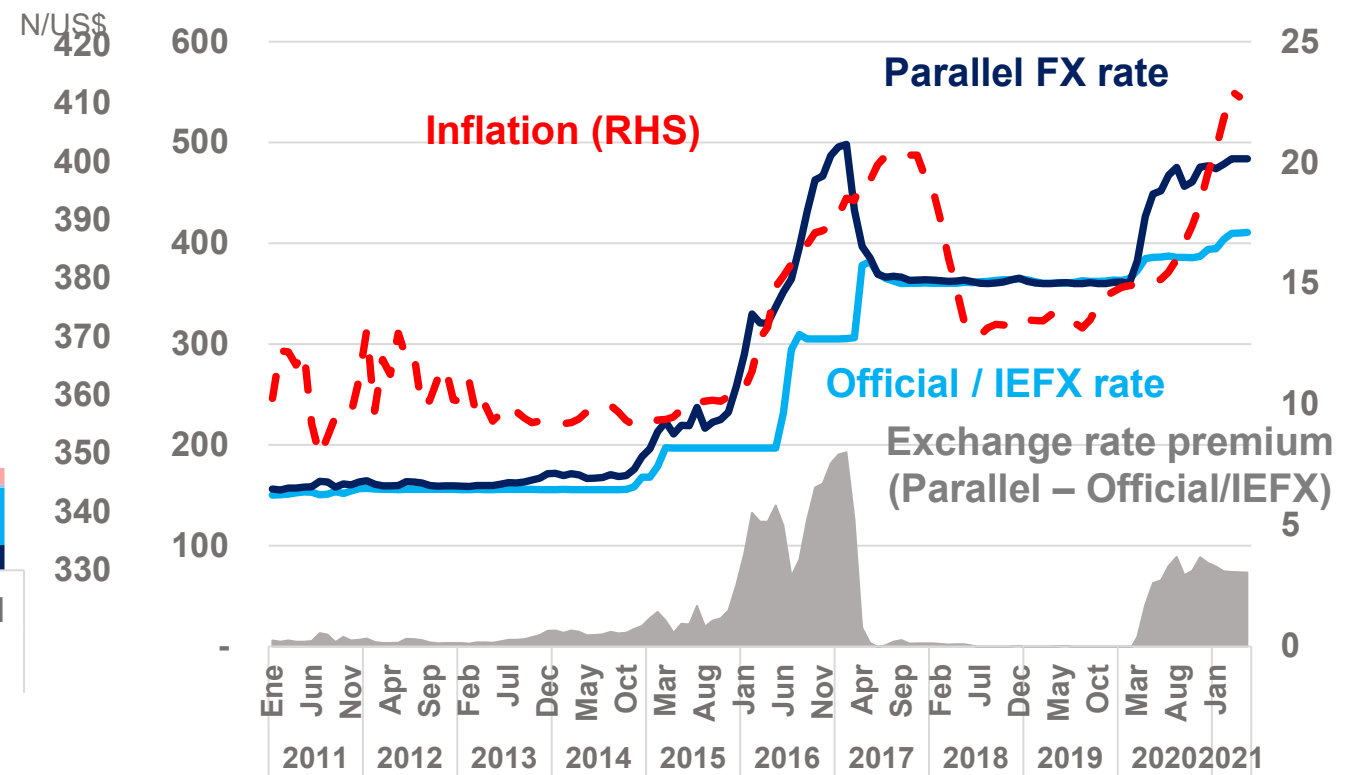
...though further clarity and predictability in ER management and access to FX would boost investor confidence

The CBN has supplied more FX and adopted the IEFX rate as the official rate.



Source: CBN, NBS.

The ER premium is expected to decrease

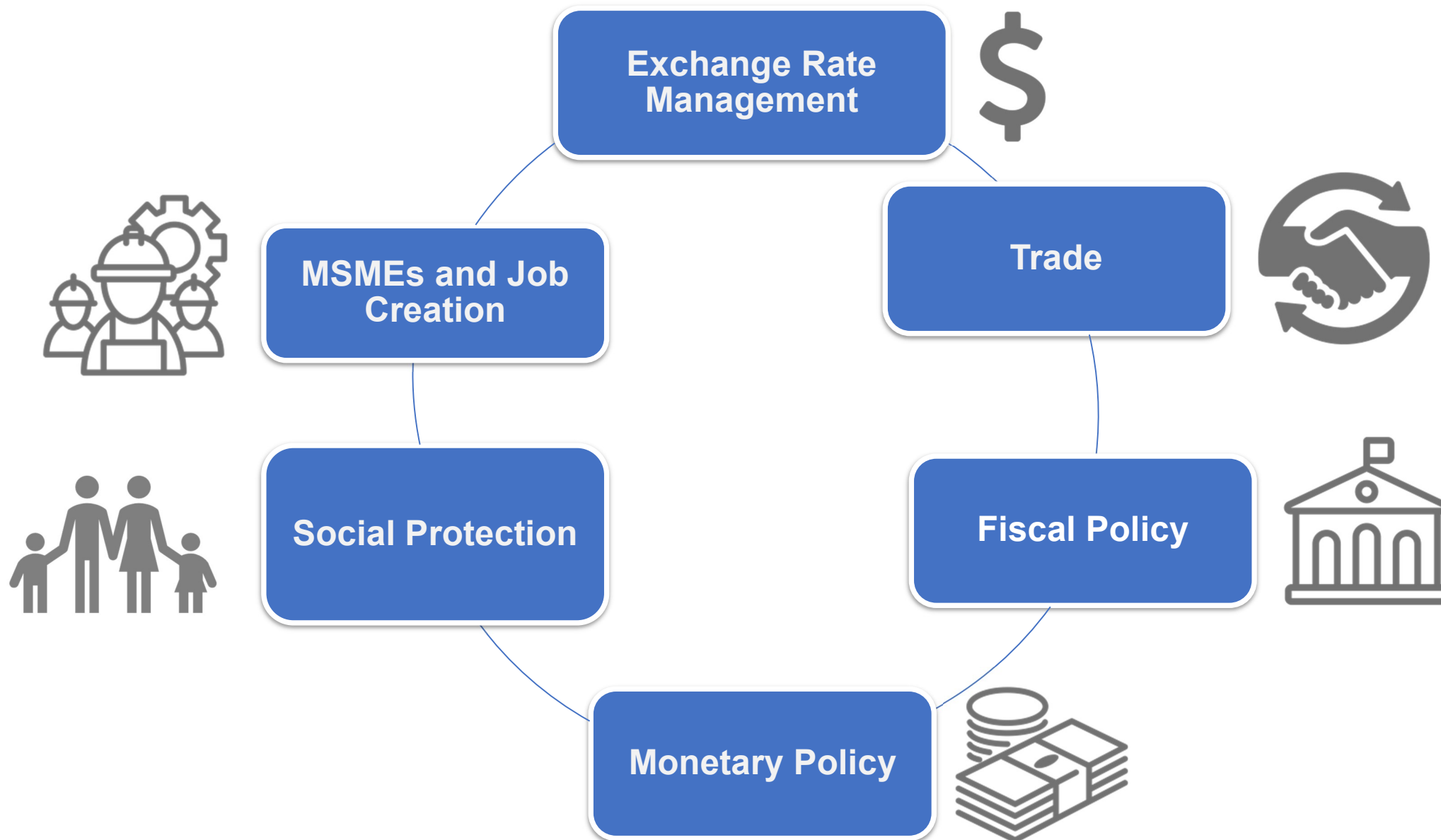


Source: CBN, NBS.

THE SHORT-TERM PRIORITY: REDUCE INFLATION AND PROTECT THE POOR



SIX POLICY AREAS TO REDUCE INFLATION WHILE PROTECTING THE POOR AND SUPPORTING THE RECOVERY



POLICY OPTIONS FOR THE IMMEDIATE TERM (NEXT 3-6 MONTHS)



1

Exchange rate management

- **Communicate an exchange rate management strategy that makes the NAFEX rate (now the anchor) more flexible**, which would boost Nigeria's competitiveness while helping to reduce inflation.
- **Enhance the FX auction process**, for instance by using pre-defined exchange-rate bands to control possible immediate overshooting.



2

Trade

- **Fully reopen land borders to trade.**
- **Facilitate imports of staple foods and medicines** by removing them from the list of FX restrictions.
- **Review FX restrictions and import bans** currently applied to nonfood goods.
- **Refrain from adding any new products to the list of import bans and FX restrictions.**



3

Fiscal policy

- **Establish mechanisms to monitor the federal government's stock of CBN overdrafts** (i.e., the historical stock of accumulated ways *and means*), **the flow of the overdraft facility** (i.e., its monthly use), **and its servicing cost** (i.e., interest payments).

POLICY OPTIONS FOR THE IMMEDIATE TERM (NEXT 3-6 MONTHS)

4



Monetary policy

- Signal a **commitment to price stability** as the primary monetary policy objective.
- **Resume naira-denominated open-market operations (OMOs)** with a clear schedule for issuing securities.
- **Reduce CBN lending to medium and large corporates** under its subsidized schemes.
- **Phase out the reliance on the cash reserve ratio (CRR)** as a liquidity control tool as it implicitly taxes financial savings.

5



Social protection

- **Provide targeted cash-transfer support** to poor households using the National Social Safety Nets Programs (NASSP I and II) and expand the Rapid-Response Register of vulnerable beneficiaries in urban and peri-urban areas.
- Rapidly **implement the CARES program** to support households, farmers, and firms.

6



MSMEs and job creation

- **Identify criteria for enabling MSMEs to access appropriate forms of equity financing** and launch a scoping exercise to enroll and screen eligible MSMEs, develop parameters for debt restructuring, and create performance indicators for viable delinquent MSMEs.

**BEYOND THE IMMEDIATE NEED:
TWO POLICY AREAS CRITICAL
TO ENSURE A ROBUST AND
SUSTAINED RECOVERY**





Power

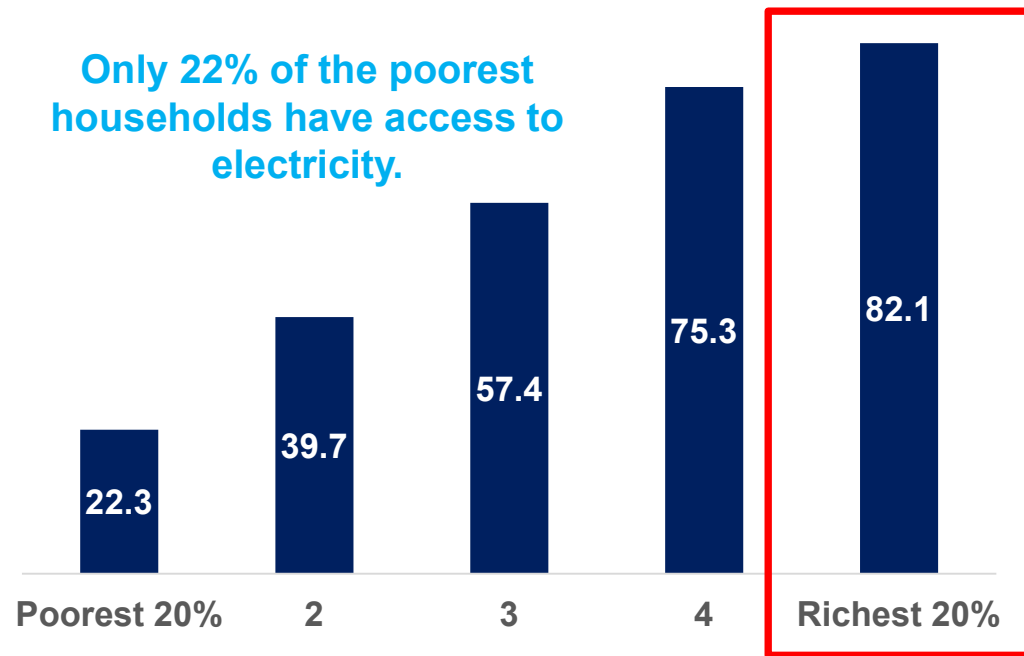


Revenues

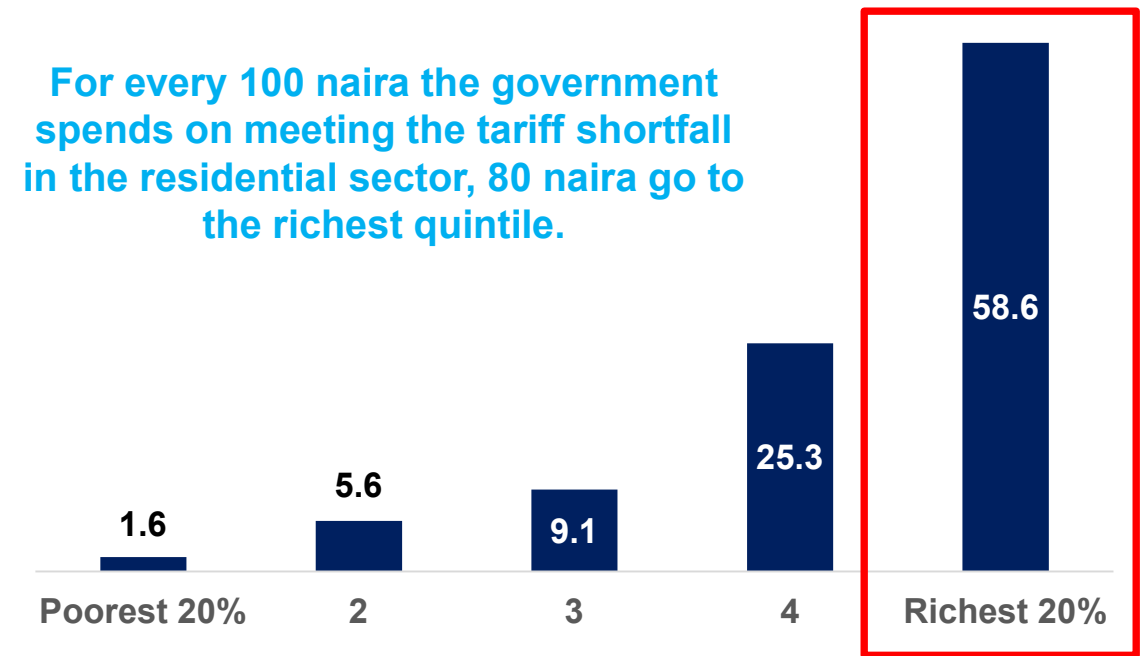
POWER: THE OXYGEN OF THE ECONOMY, AND THE SECTOR NEEDS A TURNAROUND

...Nigeria has the largest number of people without access to electricity in the world, and electricity subsidies benefit mainly richer households

Who is connected to the grid?
(% of population)



Who benefits most from electricity subsidies?
(% of population)

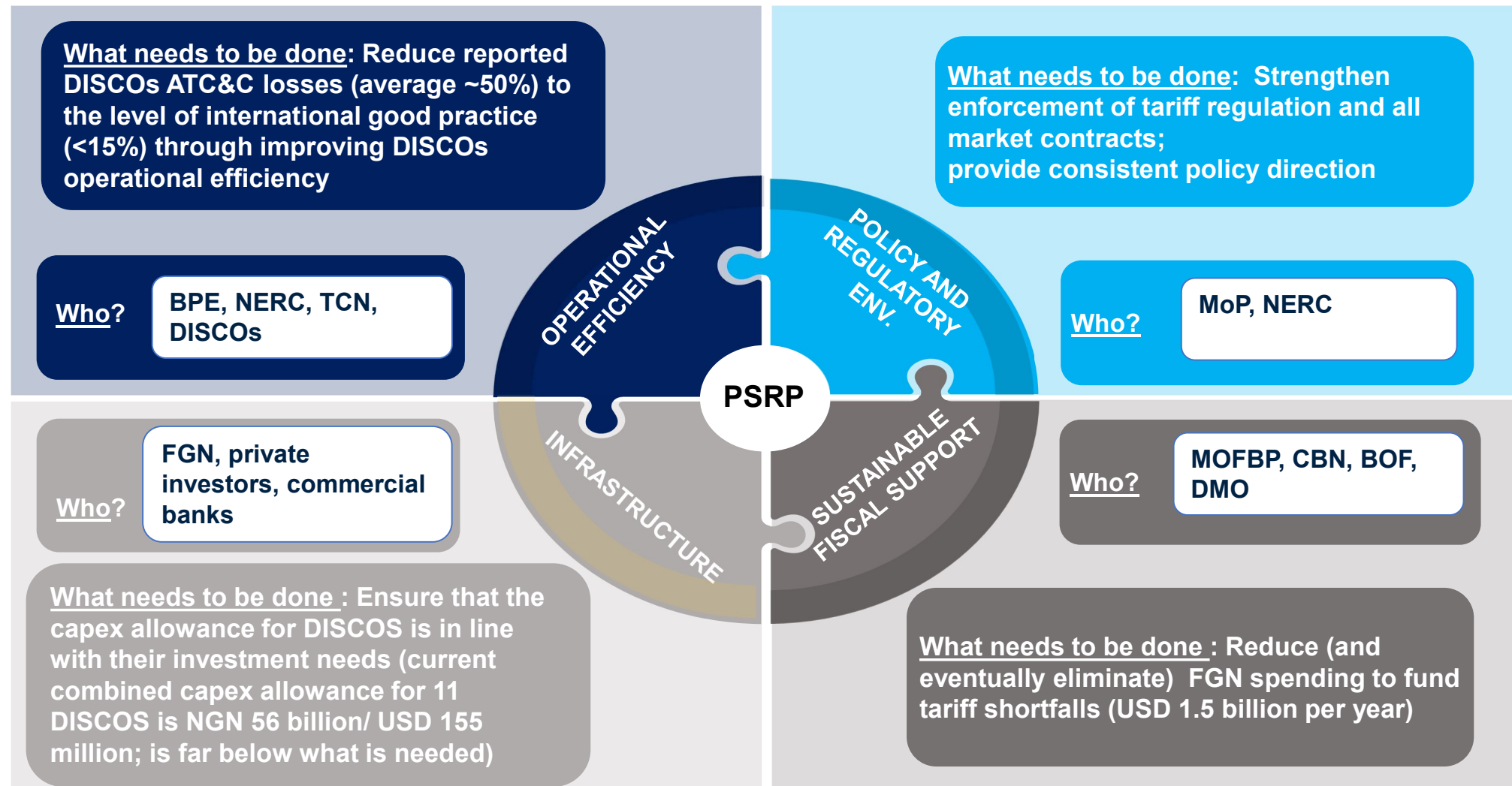


Population quintiles based on per capita expenditure

Source: Nigerian Electricity Supply Industry and World Bank staff estimates.

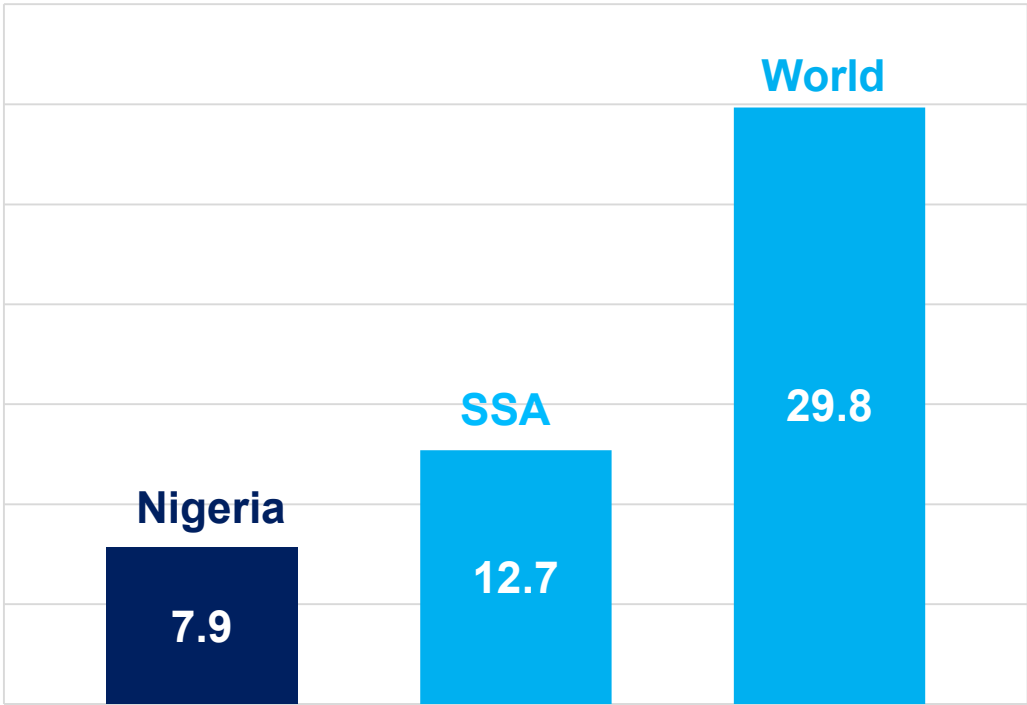
MULTI-DIMENSIONAL POLICIES ARE NEEDED TO PROVIDE RELIABLE POWER TO IGNITE PRIVATE INVESTMENT AND GROWTH

Four interlinked dimensions to turnaround Nigeria's power sector



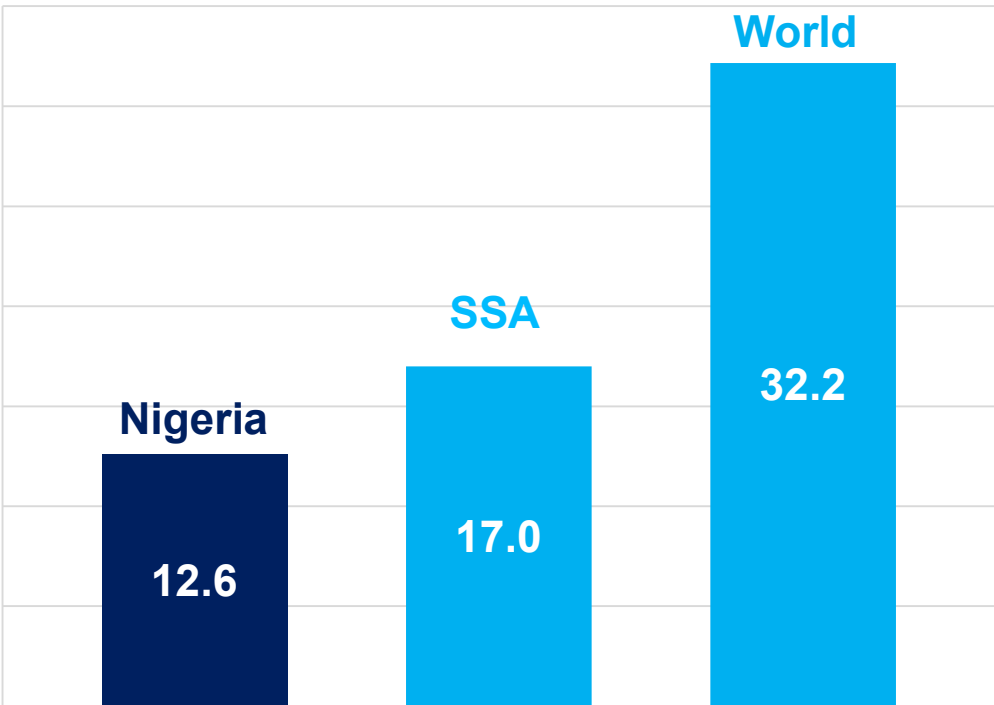
REVENUES: NIGERIA HAS AMONG THE LOWEST REVENUES GLOBALLY, WHICH TRANSLATES INTO LOW SPENDING AND FISCAL RISKS

General Government Revenue
2015-2019 (% of GDP)



Source: IMF Fiscal Monitor.

General Government Expenditure
2015-2019 (% of GDP)



Source: IMF Fiscal Monitor.

REVENUES: NIGERIA HAS AMONG THE LOWEST REVENUES GLOBALLY, WHICH TRANSLATES INTO LOW SPENDING AND FISCAL RISKS

General Government **Revenue**
2015-2019 (% of GDP)



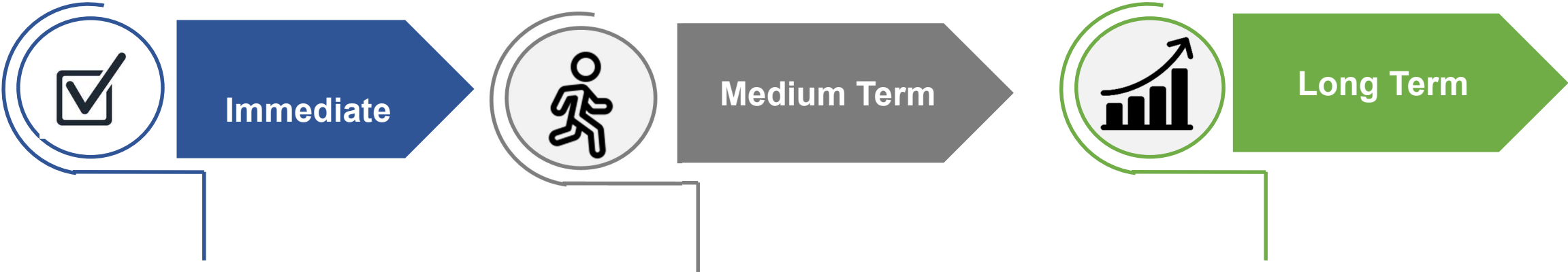
Source: IMF Fiscal Monitor.

General Government **Expenditure**
2015-2019 (% of GDP)



Source: IMF Fiscal Monitor.

SEQUENCED REFORMS CAN HELP RAISE REVENUES IN A TIME OF CRISIS IN ORDER NOT TO AFFECT INVESTMENT AND GROWTH



Enhance excise rates on “sin goods”

Implement the **Electronic Money Transfer levy**

Improve overall **tax compliance** with focus on VAT

Rationalize tax expenditures

Reform key tax statutes at the **Federal level**, i.e., the Corporate Income Tax Act (CITA) and the Value Added Tax Act (VATA).

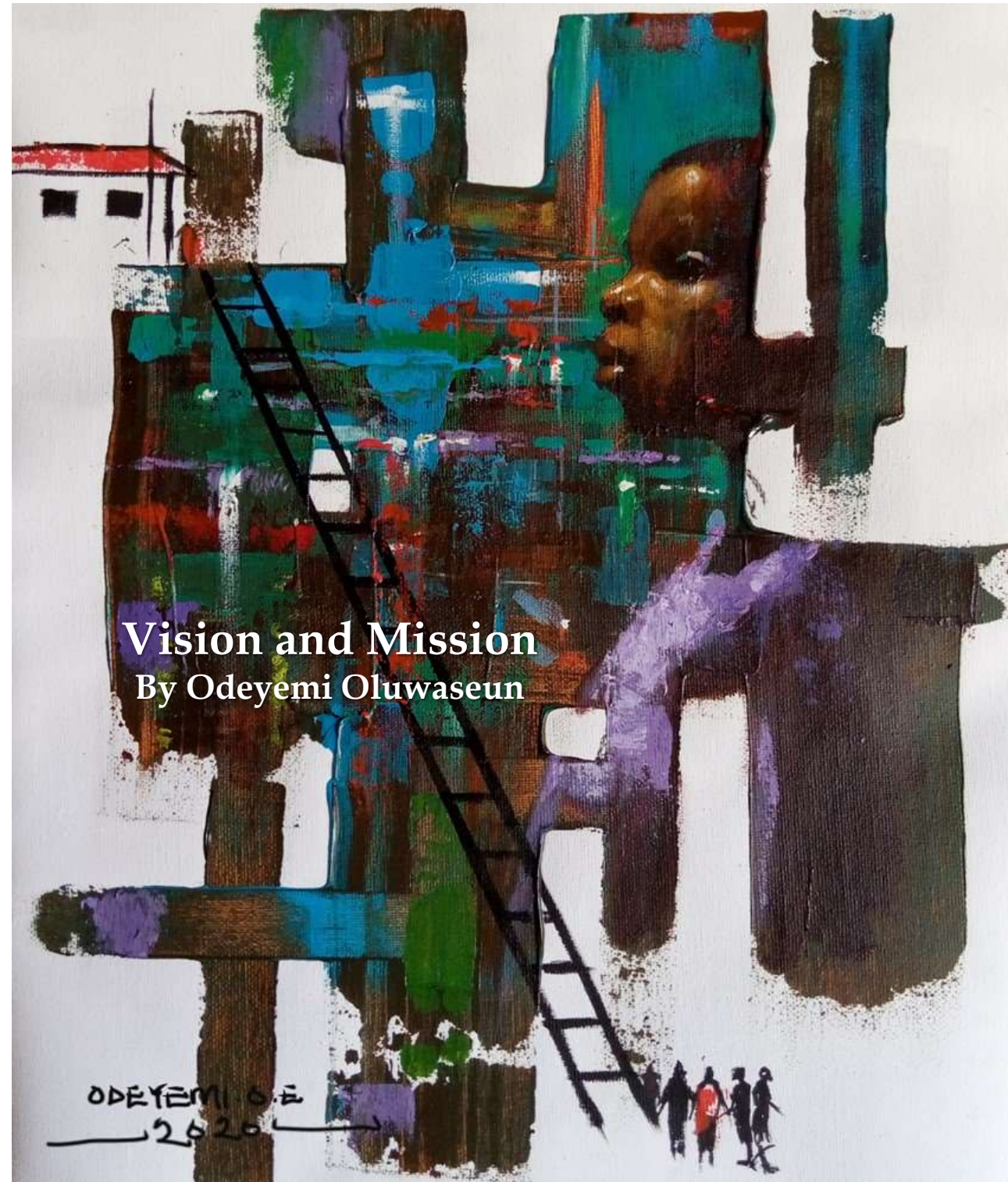
Improve revenue from **cross border transactions** and other international tax measures.

Enhance **Internally Generated Revenues (IGR)** at the state level



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

Thank You



ANNEX: POLICY OPTIONS TO REDUCE INFLATION WHILE PROTECTING THE POOR AND SUPPORTING THE RECOVERY

1

EXCHANGE RATE MANAGEMENT

IMMEDIATE PRIORITIES (3 to 6 Months)

- **Communicate an exchange rate management strategy that makes the NAFEX rate (now the anchor) more flexible**, which would boost Nigeria's competitiveness while helping to reduce inflation.
- **Regulate the auction process**, at least initially, by using pre-defined exchange-rate bands to control possible immediate overshooting.

MEDIUM-TERM PRIORITIES (6 to 18 months)

- **Deepen the FX market** by re-establishing the dollar interbank market and enabling commercial banks to trade FX on their own behalf.
- **Merge all exchange-rate windows** into a single window that reflects market fundamentals

IMMEDIATE PRIORITIES (3 to 6 Months)

- **Fully reopen land borders** to trade.
- **Facilitate imports of staple foods and medicines** by removing them from the list of FX restrictions.
- **Review the FX restrictions and import bans** currently applied to nonfood goods.
- **Refrain from adding any new products to the list of import bans** and FX restrictions.

MEDIUM-TERM PRIORITIES (6 to 18 months)

- **Replace import bans with tariffs**, which will increase revenues, lower domestic prices, and reduce smuggling and criminality along the border.
- **Finalize plans to implement the African Continental Free-Trade Area Phase 1 protocols.**
- Put in place **high-priority measures to reduce trade and transportation costs** by addressing delays in border and port clearance such as simplifying and harmonizing documents, streamlining and automating procedures, and making more information available.

IMMEDIATE PRIORITIES (3 to 6 Months)

- **Establish mechanisms to monitor the federal government's stock of CBN overdrafts** (i.e., the historical stock of accumulated ways and means), **the flow of the overdraft facility** (i.e., its monthly use), **and its servicing cost** (i.e., interest payments).
- **Adopt a mechanism to increase flexibility between borrowing options to finance the federal government deficit.** Currently, the legislature approves a fixed ceiling for each domestic and external loan contracted to finance the domestic deficit; when external financing falls short of approved plans, domestic borrowing is not automatically increased to cover the shortfall, resulting in recourse to CBN financing, which can lead to higher inflation.

MEDIUM-TERM PRIORITIES (6 to 18 months)

- To further reduce the federal government's recourse to CBN financing, **improve the accuracy of budgetary revenue forecasting.** Overoptimistic revenue forecasts and the resulting shortfalls lead to larger-than-anticipated deficits, creating additional financing needs for which borrowing has not been approved by the legislature, which encourages the use of CBN financing.
- Adopt a **mechanism to allow increased borrowing to cover additional financing needs** arising from revenue shortfalls.

MONETARY POLICY

IMMEDIATE PRIORITIES (3 to 6 Months)

- **Signal a commitment to price stability** as the primary monetary policy objective.
- **Resume naira-denominated open-market operations (OMOs)** with a clear schedule for issuing securities.
- **Reduce CBN lending to medium and large corporates** under its subsidized schemes.
- **Phase out the reliance on the cash reserve ratio (CRR)** as a liquidity control tool as it implicitly taxes financial savings.

MEDIUM-TERM PRIORITIES (6 to 18 months)

- Establish a **Monetary and Fiscal Policy Coordination Council** to clarify joint policy objectives and identify areas of coordination. The council could focus on eliminating unsustainable monetary and quasi-fiscal interventions while strengthening debt sustainability and advancing Nigeria's development priorities.

SOCIAL PROTECTION

IMMEDIATE PRIORITIES (3 to 6 Months)

- **Leverage the National Social Safety Nets Programs (NASSP I and II)** to provide targeted cash-transfer support to additional 5 households in the NSR in rural areas and possible expansion of the Rapid-Response Register of vulnerable beneficiaries in urban and peri-urban areas to include another 7.2 million households in addition to the 2 million already targeted by the COVID-19 response effort.
- Rapidly **implement the CARES program** to support households, farmers, and firms.

MEDIUM-TERM PRIORITIES (6 to 18 months)

- **Integrate the NHGSFP and other social assistance programs into the National Social Register (NSR) and State-level social registers.**
- **Augment social protection programs with improved mechanisms for payment delivery**, such as that developed through the NASSP, which could be enhanced by using digitization to facilitate payment delivery and strengthen accountability.
- **Graduate existing NASSP beneficiaries into productive-inclusion activities** such as workforce training, asset and livestock transfers, and livelihood grants.

MSMES AND JOB CREATION

IMMEDIATE PRIORITIES (3 to 6 Months)

- **Identify criteria for enabling MSMEs to access appropriate forms of equity financing** and launch a scoping exercise to enroll and screen eligible MSMEs, develop parameters for debt restructuring, and create performance indicators for viable delinquent MSMEs.
- **Screen and enroll eligible MSMEs and build their capacity for debt restructuring.**

MEDIUM-TERM PRIORITIES (6 to 18 months)

- **Roll out financing for targeted MSMEs** while monitoring enrollment and assessing the reliability of the streamlined process.
- **Develop a streamlined process that offers clear incentives to formalize and register informal MSMEs.**
- **Implement targeted labor-intensive public works and infrastructure microprojects** to support employment while bolstering the capital stock.