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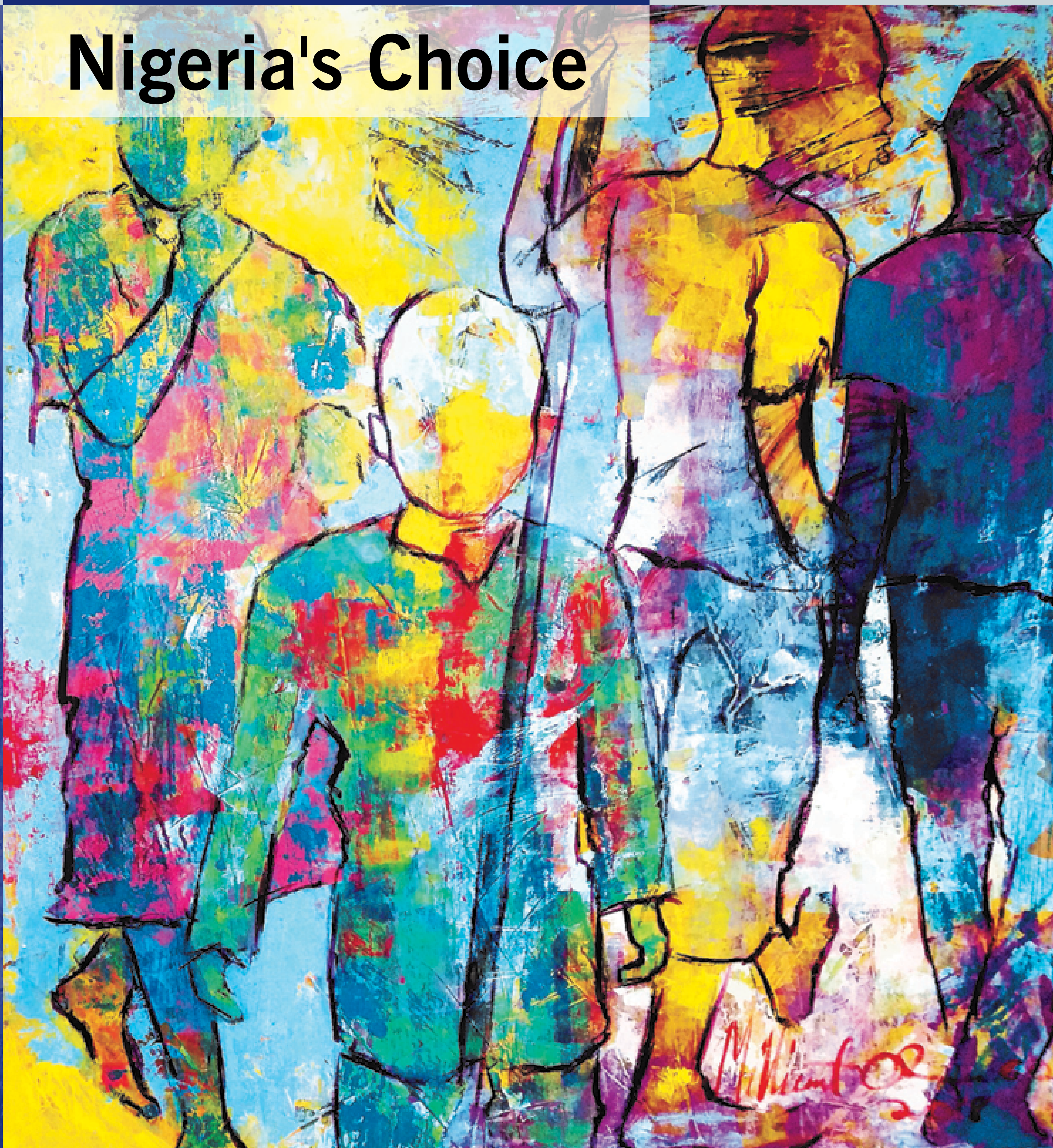
NIGERIA DEVELOPMENT UPDATE | DECEMBER 2022

Nigeria's Choice



Nigeria Development Update
December 2022

Nigeria's Choice

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Cover credits: **"Grass to Grace (Synthesis)" by Millicent Osumuo**. Grass, inception not in our hands, vibrant colorful dreams alive, Grace finds us.

Acknowledgements

The Nigeria Development Update (NDU) is a World Bank report series produced twice a year that assesses recent economic and social developments and prospects in Nigeria, and places these in a longer-term and global context. The NDU also provides an in-depth examination of selected policy issues and medium-term development challenges in Nigeria. It is intended for a wide audience, including policy makers, business leaders, financial market participants, and the community of analysts and professionals engaged in Nigeria's evolving economy.

The report was prepared by a World Bank team led by Alex Sienaert (Lead Economist), Gloria Joseph-Raji (Senior Economist), and Miguel Angel Saldarriaga (Economist). The team included: Nyda Mukhtar, Joseph Ogebe, Lilian Okpeku, Samer Matta, Masami Kojima, Arthur Lagrange, Mariano Cortes, Sergiy Kasyanenko, Aleksander Stojanov, Ryan Chia Kuo, and Bertine Kamphuis.

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For information about the World Bank and its activities in Nigeria, please visit: www.worldbank.org/ng

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Abbreviations and Acronyms

bpd	barrels per day
bps	basis points
CBN	Central Bank of Nigeria
COVID-19	Coronavirus Disease 2019
ECOWAS	Economic Community of West African States
EMBIG	Emerging Market Bond Index Global
EMDEs	Emerging Markets and Developing Economies
FAAC	Federation Accounts Allocation Committee
FCCPC	Federal Competition and Consumer Protection Commission
FDI	Foreign Direct Investment
FX	Foreign Exchange
GDP	Gross Domestic Product
GOE	Government-Owned Enterprise
I&E	Investors and Exporters
IEFX	Investors and Exporters Foreign Exchange
IGR	Internally Generated Revenue
LMIC	Lower Middle-Income Country
mbpd	Million barrels per day
NAFEX	Nigeria Autonomous Foreign Exchange Fixing
NASSP	National Social Safety Nets Project
NBS	National Bureau of Statistics
NDU	Nigeria Development Update
NLSS	Nigerian Living Standard Survey
NSR	National Social Registry
OAGF	Office of the Accountant General of the Federation
OPEC	Organization of the Petroleum Exporting Countries
PMS	Premium Motor Spirit
SRGI	Strategic Revenue Growth Initiative
TFP	Total Factor Productivity
TFR	Total Fertility Rate
US	United States
VAT	Value Added Tax

Overview

Nigeria is in a challenging and deteriorating economic situation

Nigeria's economic performance has weakened since the previous Nigeria Development Update (NDU) was published in June 2022 under the title of "The Continuing Urgency of Business Unusual".

The global economic environment has weakened. Economic activity in most major economies has slowed in 2022 amid high inflation and central banks shifting toward contractionary monetary policies. External financing conditions, particularly for governments and private borrowers in frontier markets such as Nigeria, have tightened, as the US dollar has appreciated sharply against most other currencies to historically strong levels, and global benchmark interest rates have risen. Moving into 2023, growth in most regions is expected to weaken further, and uncertainty regarding the outlook remains elevated, partly because of key unknowns such as future developments related to the Russian Federation's invasion of Ukraine.

Nigeria's economic output growth has slowed and the World Bank is lowering its growth projections. Real gross domestic product at market prices (GDP) growth in the third quarter (Q3) of 2022 was 2.4 percent year-on-year (y-o-y), on the back of a continued contraction in oil output (-22.7 percent y-o-y) and slowing non-oil growth (4.3 percent y-o-y, down from 4.8 percent y-o-y in Q2 2022). The World Bank now projects that real GDP will grow by 3.1 percent in 2022 and 2.9 percent in 2023–24, 0.3 of a percentage point lower than the previous projections at the time of the June 2022 NDU.

The rate of consumer price inflation has surged and is currently one of the highest globally. The consumer price index, already increasing at a high rate, accelerated in 2022 through October, to be up 21.1 percent y-o-y, a 17-year high. High inflation has been persistent in Nigeria for the past two decades, but since 2019 inflation has increased substantially, driven by the multiple exchange rates and exchange rate depreciation in the parallel market, intensified trade restrictions, and the monetization of the public deficit by the Central Bank of Nigeria (CBN). In 2022, this has been exacerbated by the spike in global food and energy prices due to the war in Ukraine and global supply disruptions. Since May 2020, the CBN has responded by tightening monetary policy, increasing the policy rate by 500 basis points (bps) and increasing the cash reserve requirement by 500 bps. However, the disinflationary impact of these measures has been weakened by continuing monetization of the fiscal deficit, sector-specific subsidized credit provisions, and imported food and energy cost increases.

Currency market distortions have increased. The CBN has allowed a slow depreciation of the official exchange rate but this has not been sufficient to bring the supply and demand of foreign currency into balance, placing increasing pressure on the exchange rate in the parallel market. The official rate depreciated by 5.2 percent in 2022 through November while the parallel market rate depreciated by 40 percent, with the parallel market rate premium widening from 37 percent in January to 71 percent in November. The CBN, the largest single supplier of foreign exchange (FX) to the Nigerian economy through the government's crude oil receipts, has continued to suppress FX demand by restricting access to FX for the importation of 45 products. Furthermore, it has limited the size of its interventions in the FX market and, thus, the FX supply for imports of those goods and services that are not banned. In 2022, firms have increasingly reported limited FX availability for their imports and requirements to repatriate FX-denominated earnings and difficulties in meeting external commitments. Nigeria's exchange rate policy settings are stifling business activity, investment and growth, and amplifying macroeconomic risks.

External and fiscal pressures have continued to grow, despite elevated global oil prices. Oil price booms have historically supported the Nigerian economy but this has not been the case in 2021–22. The average price of crude oil increased by over 150 percent from 2020 to 2022, yet Nigeria's macroeconomic performance has weakened over this time, and its fiscal space has shrunk. In 2022, the general government fiscal deficit is estimated to have increased to 5.7 percent of GDP from 5.4 percent in 2020 before the boom. External reserves are little-changed since 2020, even after sizable eurobond issuances and International Monetary Fund (IMF) special drawing rights (SDR) allocation inflows. Foreign reserves fell from their recent high of US$41.8 billion in October 2021 (helped by the official sector inflows) to US$37.1 billion in November 2022. In fact, Nigeria's recent economic performance has been more like that of an oil importing country facing headwinds from high global energy prices.

There are two reasons why Nigeria is not benefiting from high global oil prices:

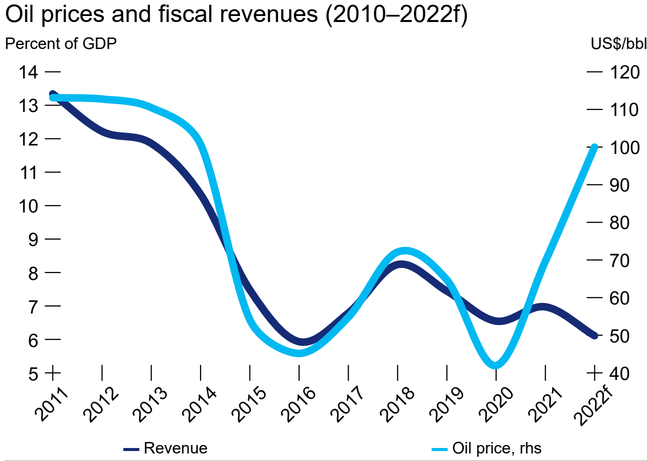
- First, **lower oil production**: As a result of high production costs, theft and insecurity, joint-venture cash-call arrears, and inadequate investment, Nigeria's crude oil output has been falling since 2020 and has consistently been below its Organization of the Petroleum Exporting Countries (OPEC) quota since June 2020. It reached a three-decade low of 0.9 million barrels per day (bpd) in September 2022, about half of the pre-pandemic levels, before recovering modestly to 1 million bpd in October.

- Second, the **ballooning cost of the petrol subsidy**: The continuation of the petrol subsidy (deducted directly from oil revenues) implies forgone fiscal revenues of 2.5–2.7 percent of GDP in 2022. This, combined with the protracted decline in oil production, has resulted in the lowest levels of net oil revenues (in percent of GDP) being transferred to the government in over a decade.

The government has recently introduced welcome non-oil revenue reforms and tax administration improvements, which have prevented an even more severe fiscal squeeze. The Strategic Revenue Growth Initiative (SRGI) of the Federal Government has helped boost non-oil revenues since 2020, reversing the previously declining trend. Key reforms have included increasing the value added tax (VAT) rate from 5.0 to 7.5 percent, increasing gas flare fees, rationalizing tax expenditures, introducing additional international tax measures, and operationalizing the electronic money transfer levy. The oversight of government-owned enterprises (GOEs) has also been strengthened, by

Figure O.1. There has been a decoupling between oil prices and revenue in 2022…

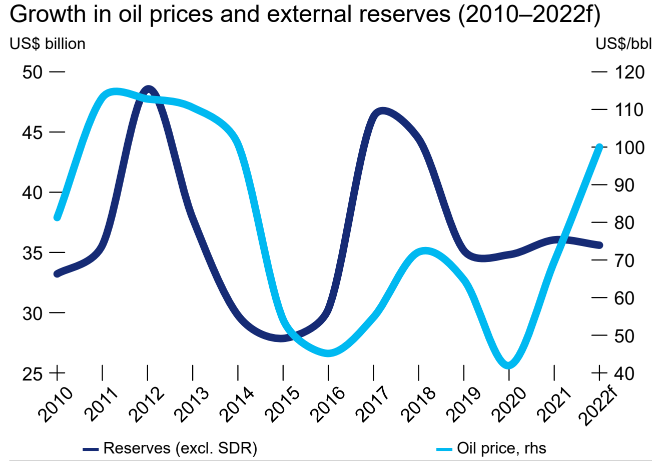
Oil prices and fiscal revenues (2010–2022f)



Sources: CBN, OAGF.

Figure O.2. …and between oil prices and external reserves

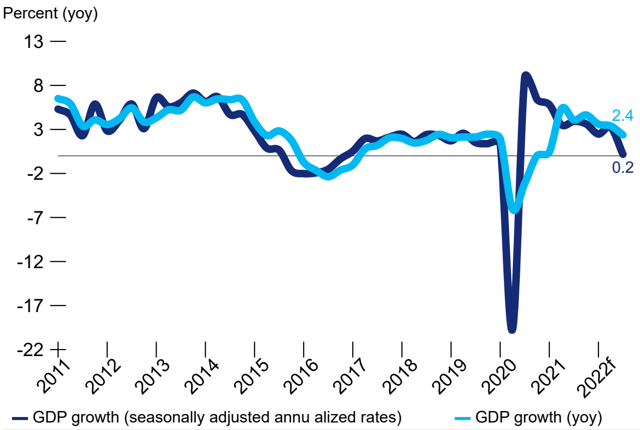
Growth in oil prices and external reserves (2010–2022f)



Source: CBN.

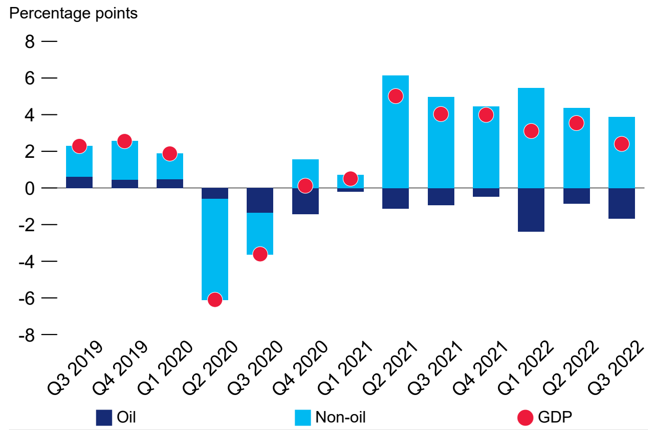
Figure O.3. A snapshot of Nigeria's deteriorating economic situation

A. Since June, output growth has slowed…



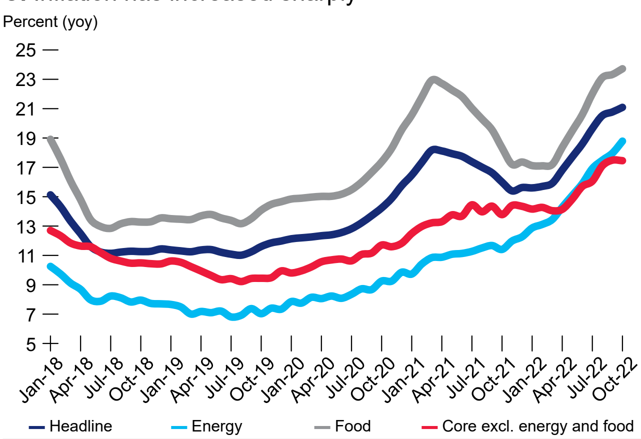
Sources: NBS; World Bank estimates.

B. …as oil output has continued to contract and non-oil output growth has weakened



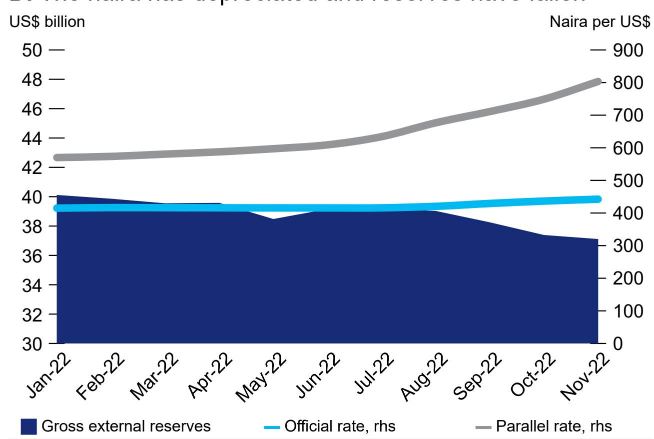
Source: NBS.

C. Inflation has increased sharply



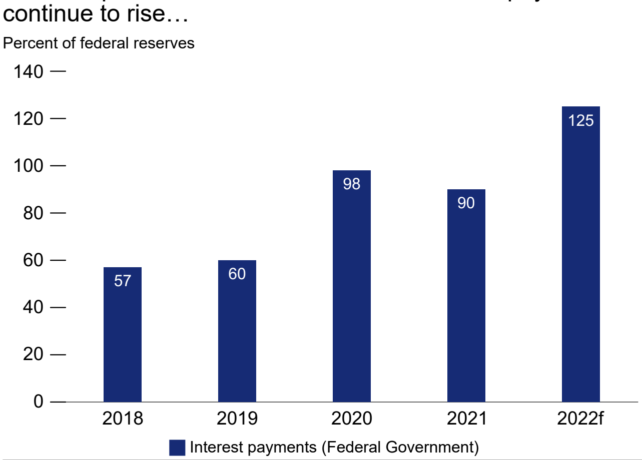
Source: NBS.

D. The naira has depreciated and reserves have fallen



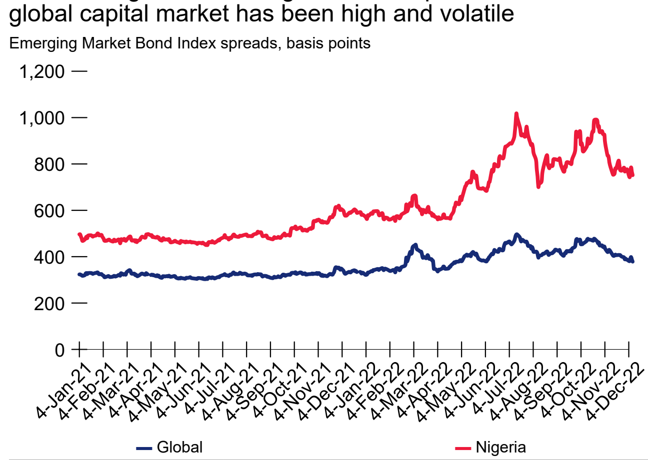
Sources: CBN; Bureau de Change Operators.

E. Fiscal pressures have increased, as interest payments continue to rise…



Sources: FAAC, DMO.

F. …and Nigeria's sovereign credit risk premium in the global capital market has been high and volatile



Source: JP Morgan.

ensuring a 50 percent cap on the cost to income ratio of these parastatals. Despite the COVID-19 pandemic, non-oil revenues increased from 4.4 percent of GDP in 2019 to 4.8 percent in both 2021 and 2022. These gains in non-oil revenues have helped mitigate the impact of declining oil revenues. However, total general government revenues are still expected to decline in 2022 as a share of GDP, weighed down by weak oil revenues.

As a result of the tight fiscal situation, debt-servicing costs are increasing rapidly. Large primary deficits, rising global and domestic interest rates, and the continuous reliance on expensive, inflationary financing from the CBN to meet in-year cash shortfalls, are increasing debt-servicing costs. Interest payments on the public debt are projected to increase from 2.4 percent of GDP in 2021 to about 3.1 percent of GDP in 2022 (or over one-quarter of the total general government expenditure). In a "business-as-usual" scenario, the public debt stock, at about 36.4 percent of GDP at present, is projected to increase to 44.6 percent of GDP by 2027. Interest payments alone will account for 62.7 percent of general government revenues by end-2027. The rise in debt costs is squeezing out public investments and other productive social expenditure. It is also a source of concern to financial markets, as reflected by the spike in Emerging Market Bond Index Global (EMBIG) spreads, which reached about 1,022 bps in October, and the recent downgrades of Nigeria's sovereign credit rating by two of the major international rating agencies.[1]

To reduce its vulnerability to crisis and rise to its potential, Nigeria has urgent choices to make

The set of policies that Nigeria adopts effectively means the country choosing among markedly different paths. Continuing on the current path—of *business as usual*—is itself a choice. Unfortunately, this path entails low growth and stalled development outcomes. It also exacerbates the high risk of potential crises due to macroeconomic instability and increasing fragility—an even more adverse scenario, that could be dubbed *things fall apart*. Conversely, Nigeria could undertake comprehensive reforms to restore macroeconomic stability and reinvigorate growth and development—*rising to potential*. Making and following through on the choice to rise to potential will not be easy, as the critical reforms would require not only good design but also sustained implementation and consensus among Nigerian elites. Trade-offs and compensation measures will also need to be weighed, effectively communicated and followed through on to achieve the buy-in from stakeholders (for example, around effectively redirecting the current unsustainable, opaque, wasteful and regressive expenditure on the premium motor spirit, PMS or petrol, subsidy). Nevertheless, previous episodes of reform progress and high growth, such as in the 2000s, show that Nigeria can do it, and its tremendous economic potential that could be unleashed is well-known. *Rising to potential* would be transformative for 80 million poor Nigerians, for Nigeria as a whole, and for Africa.

Changing course is urgent, as slow economic growth has become entrenched due to deteriorating macroeconomic performance, increasing poverty and fragility. The combination of macroeconomic instability, which has worsened to historically high levels, and structural impediments, have caused Nigeria's potential output growth—the growth of real GDP growth that can be sustained over the long term—to decline dramatically. Potential output growth slowed from an average of a strong 8.2 percent in 2000–2010 to 4.4 percent in 2011–2014, and further to 2.1 percent in 2015–2021. Current economic projections are for growth to continue at a similar pace in the coming years. Since the rate of population growth is 2.6 percent per year, this will not be enough to meaningfully lift real per capita incomes and reduce poverty. There are significant risks of an even

1 Moody's downgraded Nigeria's sovereign credit rating by one notch to B3 on October 21, 2022, and placed the rating on review for a further downgrade, while Fitch Ratings downgraded Nigeria by one notch to B- on November 11, 2022.

weaker near-term growth and poverty scenario than the base case, in the absence of critical reforms to buttress macroeconomic stability and if further adverse shocks occur.

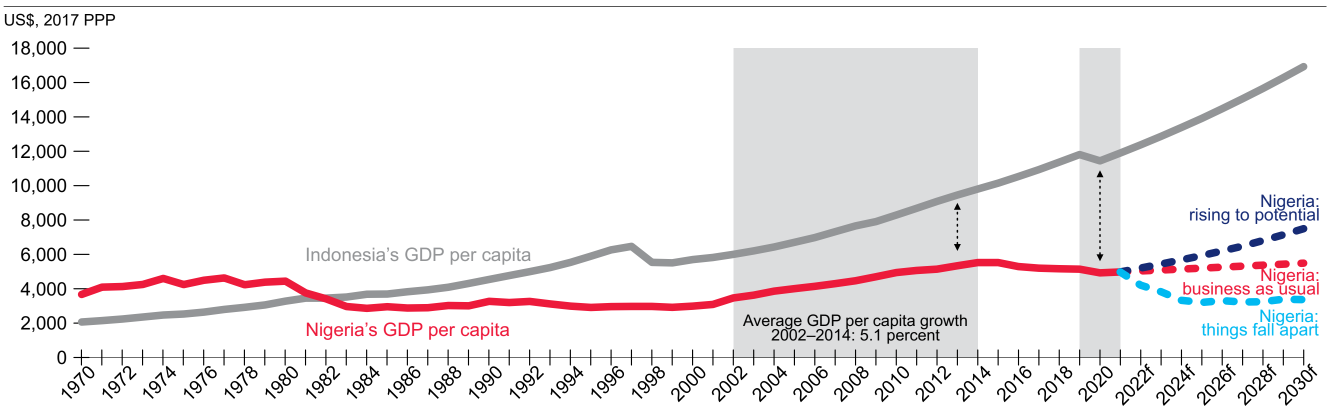
Nigeria's current economic challenges are also the culmination of multi-decade structural and policy weaknesses. A weak infrastructure base (power, water supply, transportation network), high levels of insecurity, governance issues, bottlenecks to private investment and competitiveness, poor human development outcomes, and uncertainty about the pace and direction of economic policy, are key factors hampering the long-term growth of Nigeria's economy. Insecurity has particularly come to the fore in recent years, becoming more widespread, with more violent conflict events across the country. This has affected millions of people, and has also discouraged private investment and growth. The situation is compounded by increased public perceptions of policy unpredictability at the state and federal levels in the run-up to the February 2023 general election.

If Nigeria continues with "business-as-usual" policies, the country will effectively be choosing a path that will lead to people's prospects being hindered. Without the implementation of critical structural reforms, growth will not increase to much above population growth, and per-capita income will stagnate, making it impossible to sustainably reduce poverty and generate shared prosperity. If the employment rate does not start to improve, 80 million working-age Nigerians will not have a full-time job by 2030. If the poverty rate does not start to fall, 23 million more Nigerians will live in extreme poverty by 2030.

The "business-as-usual" scenario would also increase the risk not of only economic stagnation but even of outright decline in per capita incomes and further setbacks in development. Under the business-as-usual scenario, even if a potential acute economic crisis were avoided, Nigeria would be at risk of repeating its slow deterioration of the 1980s, especially if oil prices were to fall. This period was characterized by a prolonged contraction in imports and public expenditures, and lackluster or even negative growth because of weak private investment, and declining investments in human capital. However, this time, this would be taking place in a context of greater insecurity and with a large population of youth who are increasingly frustrated by the lack of economic opportunity. It would also leave Nigeria with little to show for a further depleted natural resource base and leave the country severely under-resourced to adapt to accelerating climate change.

Conversely, Nigeria could choose reforms that would put it on the path to finally rise to its potential. This would mean adopting and implementing reforms that lay the foundation for robust and inclusive growth through private investment and job creation. In this

Figure O.4. Nigeria has a choice to make



Sources: NBS and World Bank.

scenario, Nigeria's GDP per capita could grow by 4–5 percent (World Bank 2022b), and thus, the welfare of Nigerian citizens could rapidly improve. Moreover, convergence with other middle-income economies could accelerate. Skeptics may argue it is unrealistic for Nigeria to chart a new development trajectory and grow at around 7 percent per year instead of the current 2–3 percent, or to abandon the over-reliance on oil, together with its legacy of weak governance and poor track record of macroeconomic policies. But in 2000, skeptics would have dismissed the likelihood that Nigeria would become a lower middle-income country (LMIC) and quadruple its income per capita over the following decade. And yet this is nonetheless what it did. Figure O.4 illustrates these scenarios. Indonesia is included as a reference point to show where Nigeria could be today had it achieved the same inclusive growth path since 1982 when Indonesia's per capita output first exceeded Nigeria's, and the opportunity of Nigeria catching up and rising to potential.

What are some policy choices Nigeria can make to rise to its potential?

Policy reforms are available to help Nigeria overcome the current challenges and set the foundations for rising to its potential. Although these have also been outlined in previous NDU, they are now even more urgent given slowing growth and intensifying macroeconomic challenges, including rising inflation, the erosion of the foreign reserve buffer, and a worsening fiscal squeeze despite the 2021–22 global oil price boom.

Critical reforms are needed in three key areas:

I. **Restoring macroeconomic stability:** This is a priority to address the vulnerability of the economy to crisis, and a prerequisite for accelerating growth, reducing poverty and boosting job creation. Key policies in this regard include:
   a. **Increasing oil and non-oil revenues.** This can be achieved by restoring oil production to pre-2020 levels, phasing out the petrol subsidy, building on recent progress that has begun to broaden the non-oil tax base efficiently and equitably, and rationalizing tax expenditures.
   b. **Reducing inflation through a sequenced and coordinated mix of trade, monetary and fiscal policies** to restore conditions for private investment and growth, and to protect Nigerians' welfare.
   c. **Adopting a single, market-responsive exchange rate.**

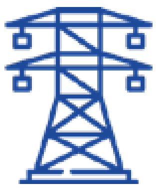
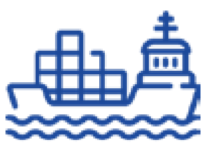
II. **Boosting private sector development and competitiveness:** Strengthening the country's macroeconomic foundations is necessary to make the economy more competitive and to boost growth, but this will not be enough on its own. To catalyze and sustain growth and job creation in the long term, the structural constraints that hinder private investment must be addressed. While the development challenges are vast, a change of policies in three areas will help to improve the productivity of the economy by reducing the cost of doing business and improving the allocation of resources:
   a. **Access to reliable power by investing in the sector's infrastructure;**
   b. **Trade policies that boost domestic value-added by reducing protectionist measures;** and
   c. **Strengthened competition in the domestic market.**

III. **Expanding social protection to protect the poor and most vulnerable:** Building on earlier progress in expanding social protection to the poor and vulnerable, the government can leverage the phasing-out of the petrol subsidy to establish a new social compact with Nigerians. Phasing out the subsidy would generate enormous fiscal savings, but would also adversely affect consumers via higher pump prices and the inflation pass-through effect on transportation costs. Establishing a redistribution mechanism that uses a portion of the fiscal savings to protect lower-income households could minimize the negative impact on consumer welfare while still yielding a large net gain in government revenues. To build public support for phasing out the subsidy, and as part of a wider process of building trust, the government could propose a compact with Nigerian citizens that directly links the phased-out subsidy to compensatory cash transfers. It could publicize this compact (cash transfer amounts, eligibility criteria, transfer mechanisms, etc.), enabling the media and civil society to monitor compliance.

Table O.1. Policy options to support Nigeria's rise to its full potential

Policy	***Specific Measures***
I. Restoring Macroeconomic Stability	
Increase oil and non-oil revenues 	• Restore oil production to pre-2020 levels • Phase out the petrol subsidy • Broaden the non-oil tax base efficiently and equitably • Increase VAT rate • Increase pro-health taxes • Introduce green taxes • Rationalize tax expenditures
Reduce inflation through a sequenced and coordinated mix of monetary, fiscal, and trade policies 	• **Monetary and Fiscal measures:** Reduce subsidized CBN lending to medium and large firms; Enforce the legal limit that prevents the Federal Government from borrowing from the CBN more than 5 percent of the previous year's fiscal revenues • **Trade measures:** Remove imports of staple foods and medicines from the list of FX restrictions, and replace restrictions with tariffs that reflect the Economic Community of West African States (ECOWAS) Common External Tariff; and review FX restrictions and import bans on non-food goods and assess the implications of replacing them with tariffs
Unify and adopt a market-responsive exchange rate 	• Adopt a single market-responsive rate by unifying all windows and enhancing the efficiency of the Investors & Exporters (I&E) foreign exchange window • Re-establish the US dollar interbank market and re-enable commercial banks to trade FX on their own behalf and not solely to fill client orders

Table O.1. Policy options to support Nigeria’s rise to its full potential (continued)

Policy	*Specific Measures*
II. Boosting private sector development and competitiveness	
Improve access to reliable power by investing in the sector’s infrastructure 	• Strengthen the regulatory environment to enhance market competition and corporate governance among power generation and distribution companies • Improve efficiency in electricity generation, transmission, and distribution systems; including through: (i) tackling electricity theft and bill collection to reduce high system losses; and (ii) increasing accountability and transparency through timely publishing of audited financial statements for all distribution companies, according to international financial reporting standards • Invest in power infrastructure to reduce technical and commercial losses; including through: (i) accelerating the introduction of metering for customers; (ii) upgrading and rehabilitating transmission lines; and (iii) adopting a strategy to expand access to electricity that encompasses off-grid solutions
Promote trade policies that boost domestic value-added by reducing protectionist measures 	• Remove trade restrictions to reduce customs evasion and cut production costs
Strengthen competition in the domestic market 	• Design pro-competition government interventions ‣ Develop binding collaboration agreements and guidelines on collaboration between the Federal Competition and Consumer Protection Commission (FCCPC) and sectoral regulators such as the National Communications Commission (NCC) ‣ Enhance efforts to increase the efficiency of FCCPC by increasing its human resources, giving it the legal capacity to introduce remedies, and implementing independent budget allocations for its various mandates ‣ Address competitive distortions introduced by industrial policies—including reducing local content requirements, import bans and quotas, and restrictions on the entry of foreign companies; and making the administration of incentive schemes more transparent and objective
III. Expand social protection to protect the poor and most vulnerable	
Establish a social compact with the Nigerian people 	• Propose a compact with Nigerian citizens that directly links the phased-out petrol subsidy to compensatory cash transfers • Establish a redistribution mechanism that uses a portion of the fiscal savings from petrol subsidy removal to protect lower-income households • Publicize and publish details of this compact to enable public monitoring of its implementation

Part 1:
Recent Economic Developments and Outlook for Nigeria

Economic Growth: Losing steam amid policy inertia and external shocks

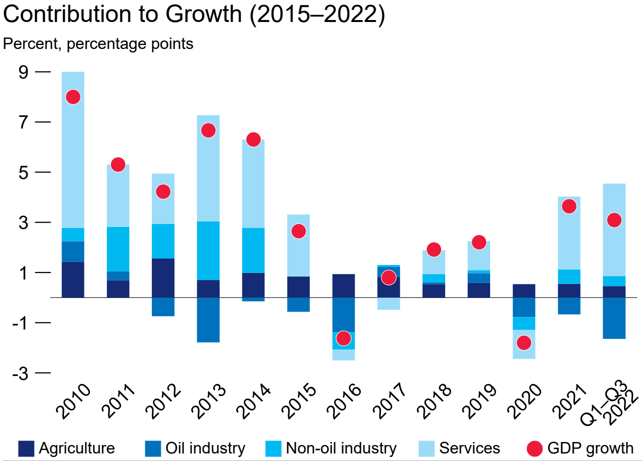
The Nigerian economy's modest rebound from the pandemic has faded during the course of 2022. Following a contraction of 1.8 percent in 2020 due to the COVID-19 pandemic, the economy staged a modest rebound and grew by 3.6 percent in 2021. Economic growth exceeded population growth for the first time since 2015, with services and manufacturing activities contributing more to GDP growth than their previous trend (2015–20). The rebound has faded during the course of 2022 and in seasonally adjusted terms, the average quarterly growth rate is trending back to the 2016–19 level. At 1.1 percent in 2021 and an expected 0.5 percent in 2022, per capita GDP growth remains extremely low and not enough to noticeably reduce poverty levels. At this pace, it will take Nigeria at least eight years to recover the per capita output levels seen in 2014, before the 2015–16 recession.

The non-oil economy, especially services, is the driver of growth. The economic rebound has been mostly on account of the pick-up in manufacturing, construction, and most services, and sustained albeit slow growth in agriculture (Figure 1.1). The momentum partially carried through into 2022, with the non-oil economy growing at 5.0 percent (y-o-y) in Q1–Q3 2022, driven by agriculture, manufacturing, construction, trade, telecommunications, and financial services.

- **Agriculture.** In Q1–Q3 2022, agricultural output rose by 1.8 percent y-o-y, up from 1.5 percent in the same period in 2021. Crop production, which represents 90 percent of total agricultural production, drove the expansion, with especially strong growth among staple foods produced primarily for domestic consumption such as rice, corn, beans, and cassava. However, in Q3 2022 the sector suffered a decline in production due to severe floods in the north and center of the country, which destroyed rice and corn farmlands. In 2020, agriculture was the most resilient sector to the impact of the pandemic, and production accelerated as displaced services and manufacturing workers shifted to smallholder farming. However, as services and manufacturing recovered, agriculture production has not returned to its pre-recession

Figure 1.1. Services continued to contribute the most to growth in 2022…

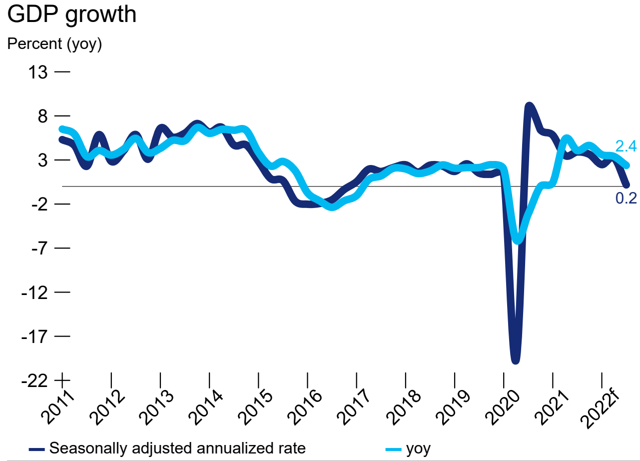
Contribution to Growth (2015–2022)



Source: NBS.

Figure 1.2. …but growth has decelerated in the second half of the year

GDP growth



Sources: NBS, World Bank estimates.

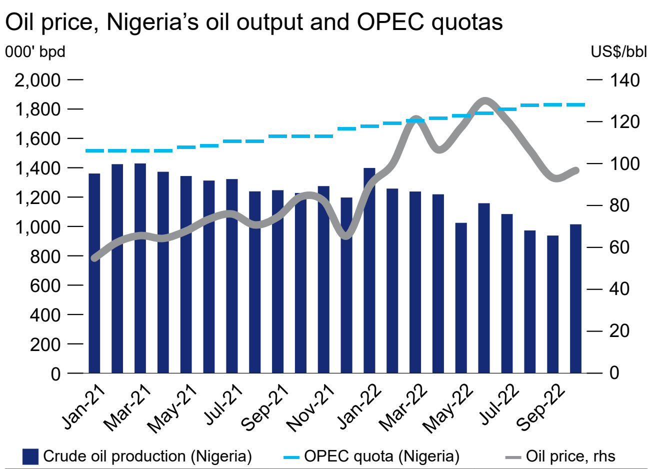
average growth rate (4.5 percent from 2010–14), despite extensive government support to the sector through the CBN Anchor Borrowers' Programme, the Agribusiness Small and Medium Enterprises Investment Scheme, the Nigeria Incentive-Based Risk Sharing System for Agricultural Lending, and other targeted initiatives.

- **Non-oil industry.** During Q1–Q3 2022, the non-oil industrial sector grew by 3.0 percent y-o-y driven by manufacturing and construction. Within manufacturing, cement, food and beverages, chemical and pharmaceutical products, non-metallic products and plastics drove the expansion. The increased production was associated with a recovery in private consumption and inventory accumulation as companies attempted to manage rising input and service costs in a context of high inflation and increasing insecurity, and shortages of FX.

- **Services.** Robust and sustained growth in telecommunications, financial services, trade, and transportation boosted services output by 7.0 percent y-o-y in Q1–Q3 2022, the highest rate since 2013, driven by a rebound in private consumption. Information and communications technology (ICT), one of the few sectors that did not contract during the 2020 recession, expanded by 9.5 percent y-o-y as households and firms consumed more data services and subscriber numbers increased. Trade increased by 5.4 percent y-o-y in Q1–Q3 2022, following five years of continuous decline; the recovery of real aggregate demand from the pandemic boosting retail and wholesale commerce. Transportation expanded by 23.0 percent y-o-y, despite higher insecurity in the Northern states, in part driven by the full reopening of Nigeria's land borders, which had remained closed since October 2019. Financial services grew by 18.3 percent y-o-y driven by domestic credit expansion and high lending spreads.

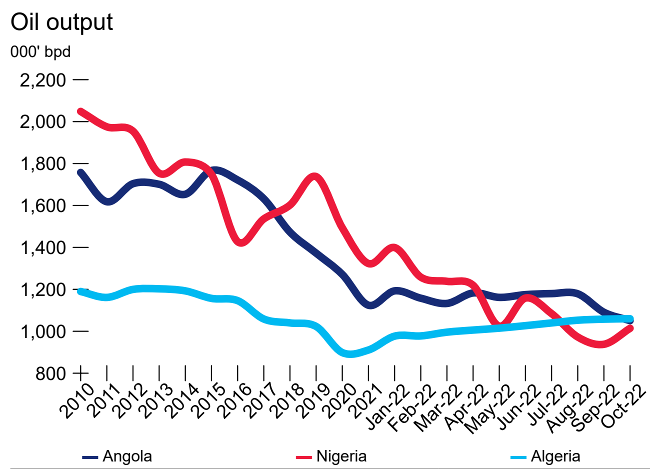
The oil sector continues to impede a healthier economic recovery. The consistent contraction in oil production since 2020, which continues to fall short of its historical performance, has prevented Nigeria from reaping the benefits of higher global oil prices. Oil output declined by 20.7 percent in the first nine months of the year. In Q3 2021, Nigeria reportedly produced 1.1 million barrels per day (bpd) of crude oil (excluding condensate), its lowest level in the past three decades and well below the OPEC quota for Q3 of 1.7 million bpd (Figure 1.3). Thus, Nigeria has lost its position as the largest oil producer in Africa to Angola and Algeria (Figure 1.4). The consistent decline

Figure 1.3. Nigeria's oil output continued to decline, falling short of OPEC quotas since June 2020…



Sources: NBS, NUPRC, and OPEC data.

Figure 1.4. …and as of May 2022, Nigeria is no longer the top oil producer in Africa



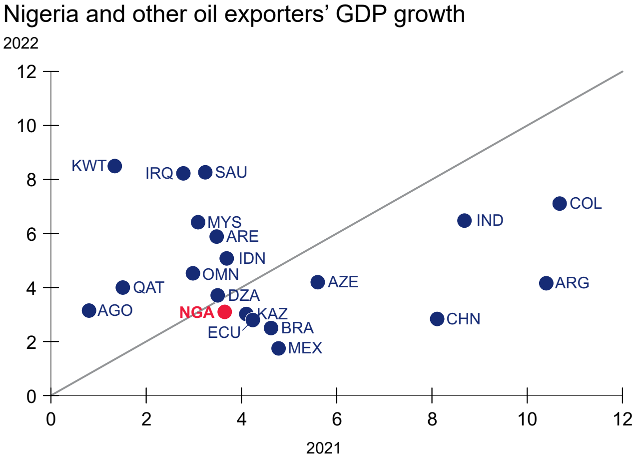
Sources: NBS, NUPRC, and OPEC data.

in oil production stems from technical and security challenges in the oil-producing Niger Delta region, aging infrastructure and inadequate investment in the sector, and the Nigerian National Petroleum Company's (NNPC) failure to pay for the Federation's share of costs in joint-venture operations—thus reducing liquidity and available funding for operating expenses, and forcing the halting of many joint-venture operations.

The Nigerian economy is estimated to grow by 3.1 percent in 2022 and projected to grow by 2.9 percent in 2023, though the outlook remains highly uncertain. Nigeria's GDP is expected to grow only slightly faster than its population in 2022 and 2023 (Figure 1.5) and still below pre-2015 rates and those of oil-producing countries—in 2022, oil producing economies are estimated to grow on average 4.8 percent (Figure 1.5)—and below the average for Sub-Saharan Africa (SSA) of 3.6 percent. Services, trade, construction, and oil production will lead growth in 2023. Growth in agriculture is expected to fall due to the impact of the floods on farmlands. Growth in manufacturing and services is projected to moderate as the pandemic recovery effects fully fade out and inventory levels normalize. The oil industry will benefit from some maintenance issues being resolved, but oil production is expected to remain below 2017–19 levels, and the risk of reversals due to insecurity, theft, vandalism, and lack of payment discipline is high. Nigeria's economy will remain highly vulnerable to both external and domestic shocks, and shocks will be exacerbated in the absence of urgently needed policy reforms to reduce inflation, increase fiscal revenues, and shift toward a market-responsive exchange rate. If inflation and unemployment remain high, this will exacerbate domestic security risks, which in turn could further reduce economic growth.

Figure 1.5. Nigeria's GDP growth is below that of most other oil-exporting economies…

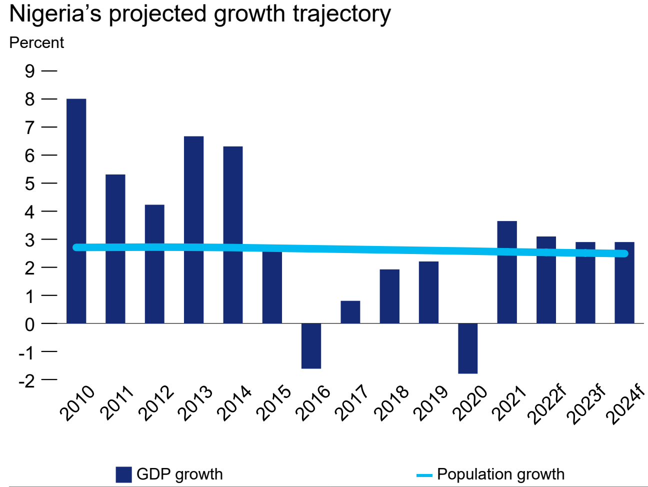
Nigeria and other oil exporters' GDP growth



Sources: NBS and World Bank estimates.

Figure 1.6. …and is projected to barely outpace population growth in 2022–2024

Nigeria's projected growth trajectory



Sources: NBS, UN, and World Bank estimates.

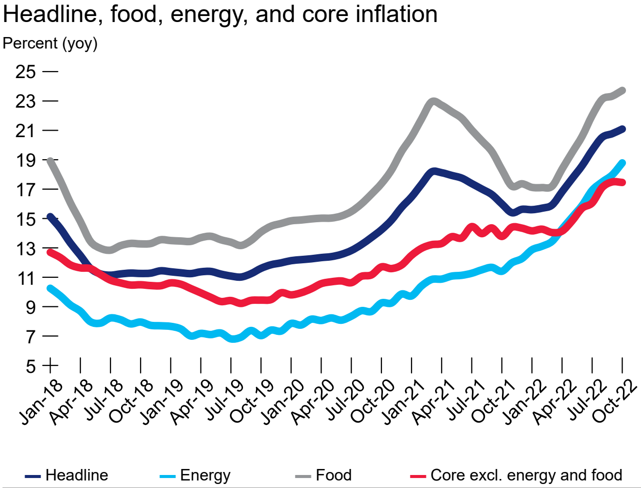
Prices: High inflation continues to push more Nigerians into poverty

Nigeria's chronic, high inflation has worsened since 2020, eroding the purchasing power of Nigerians and increasing poverty. Since October 2019, Nigeria's inflation has been persistently high (Figure 1.7). Inflation accelerated after the closure of Nigeria's land borders in October 2019, and increased steadily throughout 2020 due to domestic supply constraints related to the COVID-19 pandemic. In 2021, at an average of 17 percent, inflation was above that of the previous four years and among the highest rates in the world (Figure 1.8). During the course of 2020 and 2021, inflation was mainly driven by higher food prices, especially for staples such as bread and cereals, potatoes, yams, and other tubers, meat, fish, fruits, and oils and fats. The pace of price increases eased somewhat in 2021 as the economy reopened and domestic manufacturing and agricultural production increased, but inflation remained high at an average of 17 percent y-o-y.

In 2022, external shocks, natural disasters, and policy decisions have further fueled inflationary pressures in Nigeria, with inflation projected to average 19 percent for the year. Before the war in Ukraine, inflation was expected to remain above 14 percent in 2022 driven by supply constraints and the current mix of monetary, trade and exchange rate policies. During the year, the large shocks from the war in Ukraine and flooding in farmlands of rice and corn, added to energy and food inflation. Moreover, despite some trade restrictions being relaxed with the full reopening of the land borders in the first half of the year, a larger-than-expected depreciation of the Nigerian naira in the parallel market has exacerbated inflation. The headline inflation rate rose to 21.1 percent y-o-y in October 2022, the highest rate in the last 17 years, compared with 15.6 percent y-o-y in January, while food inflation increased from 17.1 to 23.7 percent over the same period. Core inflation, which excludes volatile food and energy prices, increased from 14.2 to 17.5 percent y-o-y. Inflation is not expected to decelerate in the near term, with the devastating floods in many food-producing regions putting further pressure on prices in the first half of 2023.

Figure 1.7. Inflation increased in 2022…

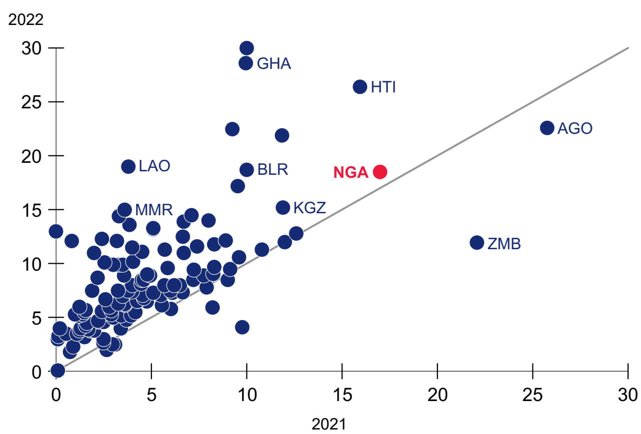
Headline, food, energy, and core inflation



Source: NBS.

Figure 1.8. …and is one of the highest rates globally

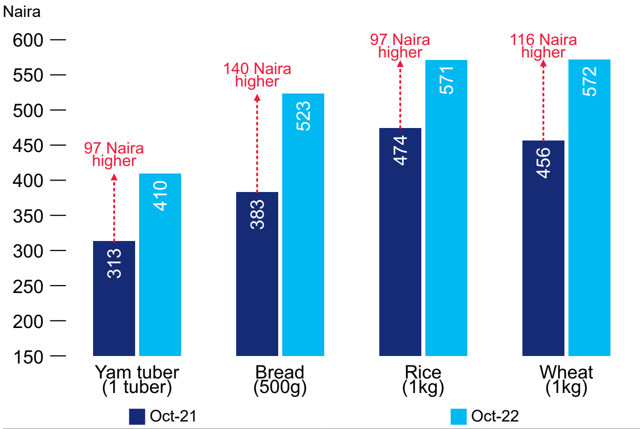
Inflation rate



Sources: NBS and World Bank estimates.

Figure 1.9. Domestic prices of food staples have increased sharply…

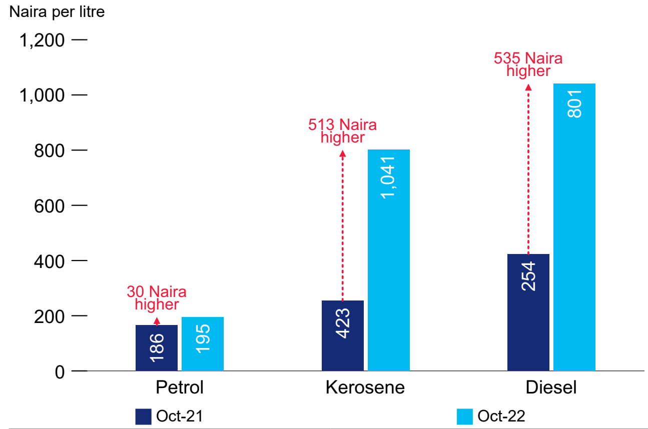
Average prices of local staples



Source: NBS.

Figure 1.10. …and so have fuel prices, except petrol because it remains subsidized

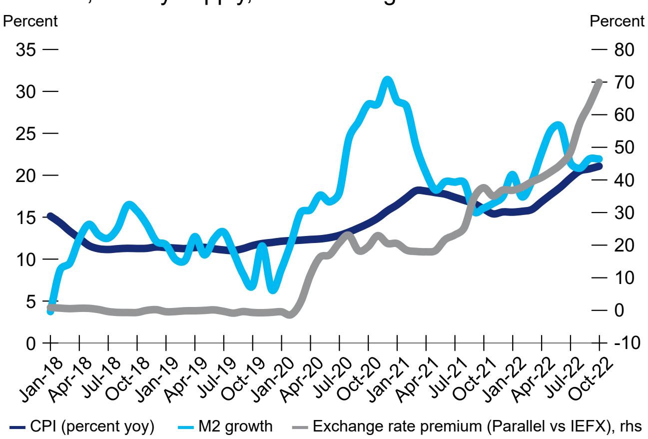
Average prices of fuel products



Source: NBS.

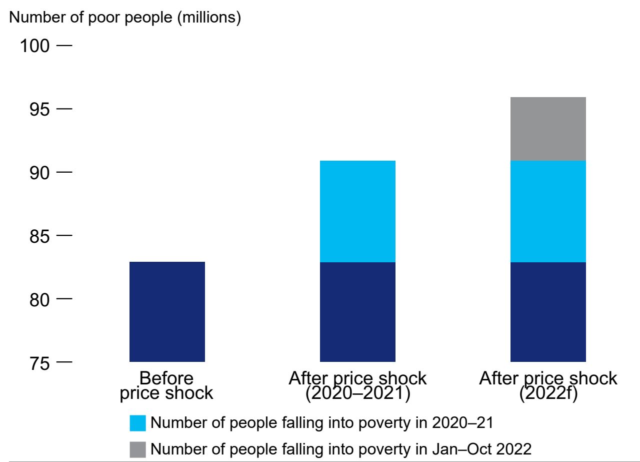
Figure 1.11. High inflation is being driven by monetary and exchange rate policies…

Inflation, money supply, and exchange rates



Sources: NBS, CBN, FMDQ and World Bank estimates.

Figure 1.12. …and is pushing millions of Nigerians into poverty



Sources: NBS and World Bank estimates.

Inflation is partly the result of monetary, exchange rate and fiscal policy decisions. After loosening monetary policy through September 2020 to help combat the economic impact of the pandemic, the CBN left its monetary policy rate unaltered until May 2022, making it one of the last emerging economies to begin tightening policy.[2] Since May, the CBN has implemented measures to curtail inflation, raising the monetary policy rate by 500 bps and the cash reserve ratio by 500 bps. However, exchange rate management, which has widened the gap between the parallel rate and official rate from 37 percent in January 2022 to 71 percent in October 2022, and the provision of development finance at subsidized rates, have compromised the effectiveness

2 Includes emerging and developing economies (EMDEs) following the IMF classification of countries by income category.

of monetary policy. Moreover, financing of the fiscal deficit through Ways and Means[3] continues to fuel inflation by increasing liquidity in the money market (Figure 1.11). The CBN's inflation target of 6–9 percent, which has not been achieved since 2016, remains unlikely to be met in the near term.

As many as 5 million Nigerians have been pushed into poverty as a result of inflation in 2022. The World Bank estimates that between 2020 and 2021, inflation pushed about eight million more Nigerians below the poverty line (Figure 1.12), increasing the total number of poor people to about 90 million. Higher inflation in 2022 is estimated to have pushed an additional five million Nigerians into poverty between January and September 2022, mainly through higher prices of local staples, such as rice, bread, yam, and wheat, especially in non-rural areas.

3 The Ways and Means clause allows the government to borrow money from the central bank in an emergency, or for a short period of time, to cover fiscal imbalances caused by delayed government-expected financial receipts.

The External Position: Decline in external reserves despite higher oil prices

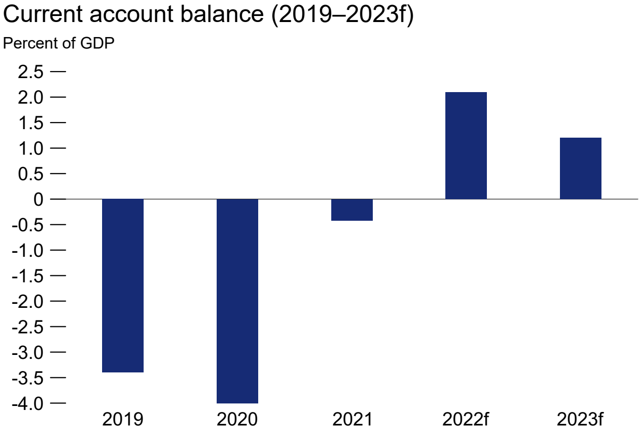
In 2022, Nigeria's current account balance is expected to move into a surplus of 2.1 percent of GDP from a deficit of 0.4 percent of GDP in 2021, driven mainly by significantly higher oil exports, more robust remittance inflows, and constrained imports. By the first half of the year (H1 2022), the current account balance (CAB) had turned from a deficit of 4.6 percent of GDP in H1 2021 to a surplus of 3.5 percent. The effect of higher crude oil prices (averaging US$111 per barrel in H1 2022, compared with US$64 per barrel in H1 2021) outweighed the combined effect of the decline in oil production (an average of 1.2 million bpd in H1 2022 compared with 1.5 million bpd in H1 2021) and the rise in the value of imports (26 percent in H1 2022) due to higher food and refined petroleum product imports. Remittance inflows were slightly higher and also contributed to the current account surplus. The services and income sub-account balances remained negative, as has been the case historically.

Net foreign direct investment (FDI) and foreign portfolio investment (FPI) flows into the Nigerian economy remain low, together totaling only about 1 percent of GDP. While net FPI flows were slightly positive in H1 2022 (Nigeria raised US$1.25 billion in Eurobonds in March 2022, albeit at a premium compared to similar existing tenors), net FDI inflows were negative, reflecting net withdrawals of equity by foreign investors. FDI and FPI flows into Nigeria do not compare favorably with similar economies of the world (Figure 1.16), reflecting difficulties with FX availability, security concerns and other structural challenges in recent years.

Despite the current account surplus in 2022, gross FX reserves declined by 8.4 percent, year-to-date (up to November 2022). This was out of line with historical patterns whereby changes in gross FX reserves followed very closely the dynamics of the CAB. Similar to the decoupling of fiscal oil revenues from oil prices, the deviation from the historical pattern between FX

Figure 1.13. The CAB is estimated to have moved into surplus in 2022…

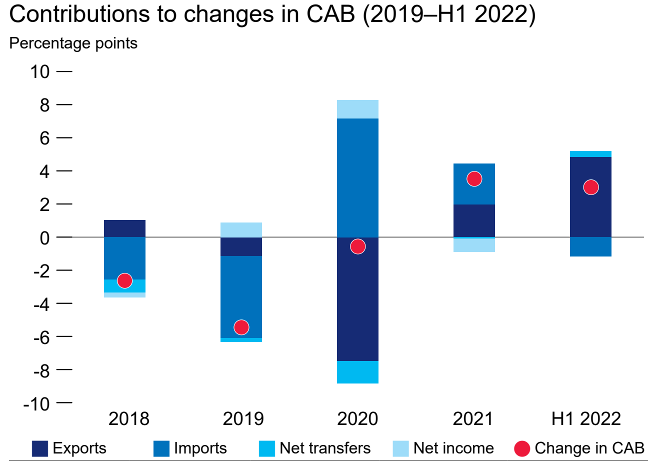
Current account balance (2019–2023f)



Source: CBN.

Figure 1.14. …driven by higher oil export revenues and foreign remittances

Contributions to changes in CAB (2019–H1 2022)

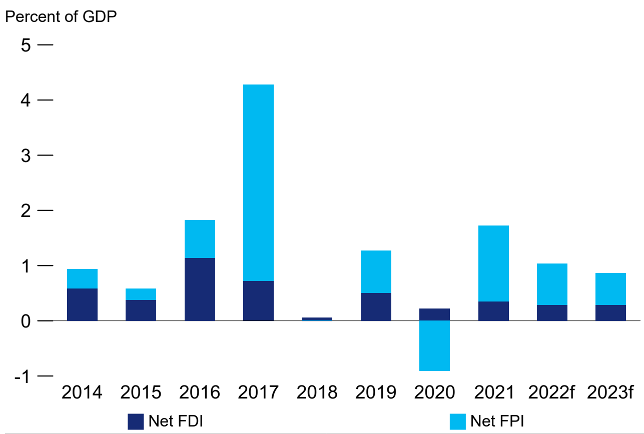


Source: CBN.

reserves and oil prices began in 2021 as a result of lower government oil export inflows through the CBN. This is, in turn, the result of the NNPC's increased Direct Sale–Direct Purchase arrangements (barter trade of crude oil for refined petroleum products which implies no exchange of cash), and the rising petrol subsidy deductions made directly by the NNPC from crude oil sales proceeds, which has meant that not all FX earnings associated with oil exports flow through the CBN. In H1 2022, less than one-quarter of total oil export FX earnings flowed through the CBN. Notwithstanding the decline in the gross reserves, they remained enough to cover 6.7 months of imports—comparable to, or above the ratios of most other countries in the region (Figure 1.18). Nigeria's import volumes in 2022 were, however, constrained by limited FX liquidity, given the CBN's strategy of managing FX demand and rationing its supply to the markets as the largest single supplier of FX.

Figure 1.15. FDI and FPI flows into Nigeria remain low…

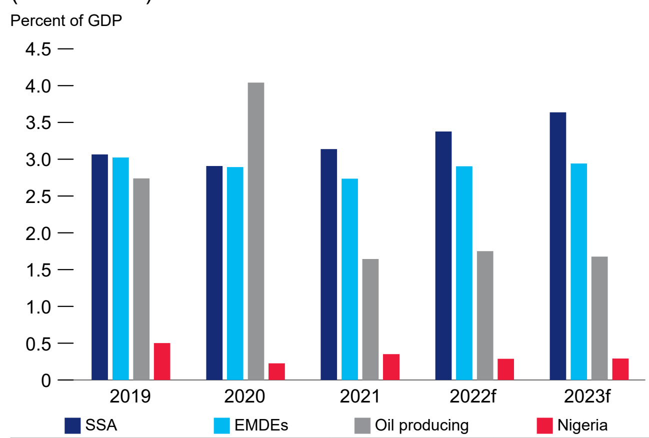
Net FPI and FDI flows into Nigeria (2019–2023f)



Source: CBN.

Figure 1.16. …and do not compare favorably with peer countries

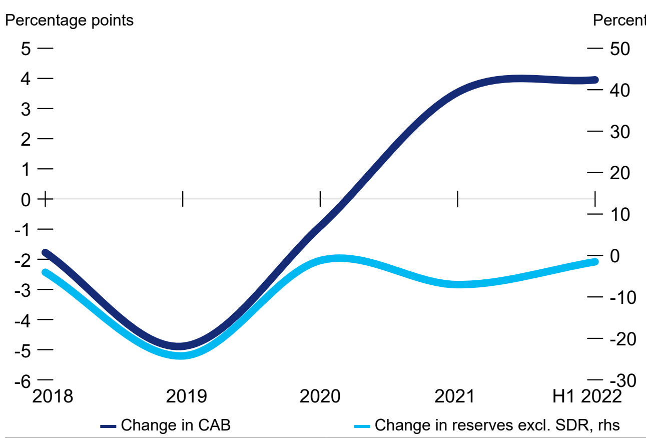
Capital flows (FDI only) to Nigeria and comparator countries (2019–2023f)



Source: World Bank.

Figure 1.17. There has been a decoupling of the external reserves from the CAB…

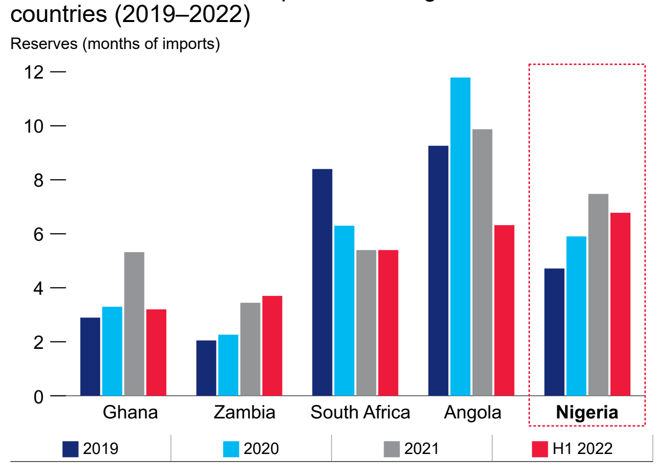
Movements in the CAB and gross reserves (2019–2022)



Source: CBN.

Figure 1.18. …but Nigeria's reserves in months of import cover still compare favorably with countries in the region

Reserves in months of import cover: Nigeria and other countries (2019–2022)



Source: World Bank calculations based on CBN and WDI data.

Monetary Policy and Exchange Rate Management: Conflicting goals reduce the effectiveness of monetary policy

Amid persistent inflationary pressures, monetary policy was further tightened in the second half of 2022. After the 150 bps monetary policy rate hike in May 2022, the CBN hiked the rate by a further 250 bps as of September and 100 bps in November, and for the first time in almost three years, increased the cash reserve requirement by 500 bps in September, to curb banking system liquidity.[4] However, the efficacy of these measures is undermined by the CBN's financing of the Federal Government's fiscal deficit, and by the lending schemes to the manufacturing and agriculture sectors at subsidized rates, both of which are expansionary. As of September 2022, y-o-y broad money (M2) growth was 22 percent, fueled mainly by 76 percent y-o-y growth in credit to the Federal Government.

The CBN remains focused on maintaining a stable naira, allowing only a slow, insufficient adjustment of the official exchange rate as the shortage of FX worsens. The CBN is the largest supplier of FX to the Nigerian economy through the government's crude-oil receipts but in response to the decline in FX reserves amid rising crude-oil export revenues, it continues to manage FX demand by maintaining a complete restriction of FX supply to import 45 products. Furthermore, it has limited the size of its interventions in the FX market and thus the supply for imports of products and services that qualify for FX. In 2022, firms have increasingly reported limited FX availability for their imports and requirements to repatriate FX-denominated earnings and difficulties in meeting external commitments. The increased demand in the parallel market has resulted in a parallel rate premium of up to 71 percent as of October, from 37 percent by the end of 2021. The announcement in late October of a full switch to new currency notes for the three highest denominations from end-January 2023 added to the FX pressures, as the demand for alternative stores of value, such as foreign currency, increased.

Along with its FX demand management policies and restraining FX supply, the CBN seeks to boost FX supply to the economy through other sources, which is adding to distortions. The CBN introduced the "Race to US$200 billion in FX Repatriation (RT-200)" program in February 2022, with the goal of repatriating US$200 billion of non-oil export earnings over the next five years.[5] The main component of this program is a rebate scheme to encourage the repatriation and sale of export proceeds into the FX market. Despite the good intentions of this scheme, it has, in practice, created an additional FX window with a different (subsidized) exchange rate, even if transactions are executed through the I&E window. Moreover, with the rising parallel-to-official rate premium, incentives are created for agents to settle transactions outside of the I&E window at the parallel rate even after benefiting from the RT-200 rebate (see Box 1.1). This policy should be reconsidered. Similarly, the strategy of awaiting the onset of a planned new domestic crude-oil refinery in 2023 with the expectation that it will shave off a considerable amount of FX demand (petroleum product imports account for 30 percent of FX for imports) and help build the external reserves may also need to be re-assessed. While the planned refinery would indeed help to reduce FX demand on the one hand, the supply of FX from crude-oil exports will, on the other hand, be reduced, unless

4 At its September 2022 monetary policy committee meeting, the CBN increased the cash reserve requirement from 27.5 percent to a minimum of 32.5 percent.

5 The CBN reports that non-oil exporters repatriated US$4.99 billion into the country in Q1–Q3 2022 (compared with US$4.19 billion in the entire 2021). However, of this amount, only US$1.966 billion qualified for the RT-200 incentive.

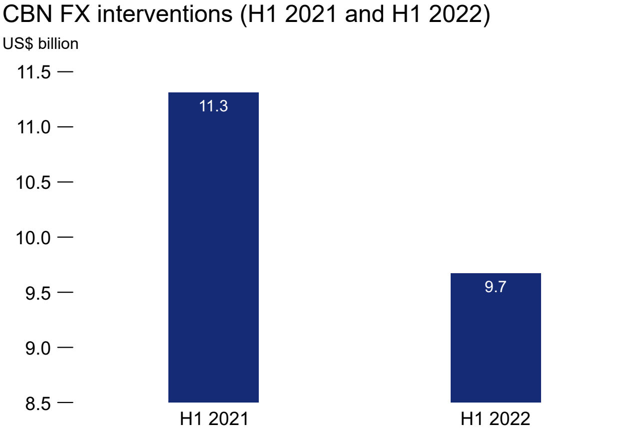
the refinery's payments for its crude-oil purchases from the government are in foreign currency.

Allowing for greater flexibility in exchange rate management, with a view toward a unified and market-reflective exchange rate, would likely attract more FX inflows into the economy than special measures. The current favorable external conditions (oil prices being their highest in nine years) provide an opportunity to adjust the exchange rate to be reflective of market dynamics. Allowing the willing buyer-willing seller mechanism of the I&E market to function as originally envisioned, with the forces of demand and supply playing the major role in determining the exchange rate in this market would help eliminate misalignment, boost investor confidence and enhance the flow of foreign capital into the country. This will, in turn, alleviate the current persistent FX pressures. Furthermore, re-introducing a US dollar interbank market that enables commercial banks to trade FX on their own behalf and not solely to fill client orders will help increase the depth and liquidity of the FX market and improve price discovery.

The timing and short transition period of the Nigerian naira redesign may weigh on economic activity. The CBN announced on October 26, 2022, that it planned to redesign, produce, and circulate new series of Nigerian naira (₦) 200, 500 and 1,000 notes (equivalent to roughly US$0.5, US$1, and US$2 at the official rate). The three notes are the highest denominations out of the eight legal tender notes in Nigeria. Following the launch of the new designs on November 23, 2022, the new currency notes are to be circulated from December 15, 2022, with both the new and existing notes considered legal tender until January 31, 2023. Thereafter, only the new notes will be legal tender. Bank charges on cash deposits have been suspended to facilitate the transition. While periodic currency redesigns are normal internationally and the naira does appear to be due for it, since naira notes have not been redesigned for two decades, the timing of and short transition period for this demonetization may have negative impacts on economic activity, in particular for the poorest households. International experience suggests that rapid demonetizations can generate significant short-term costs, with small-scale businesses, and poor and vulnerable households, potentially being particularly affected due to being liquidity-constrained and heavily reliant on day-to-day cash transactions. At present, households and firms already face elevated financial pressures from prolonged, high inflation, recently compounded by external food and fuel price shocks, and the severe floods, and phasing out existing naira notes over a short time period may add to their challenges.

Figure 1.19. The CBN reduced the size of its FX interventions in the FX markets in 2022

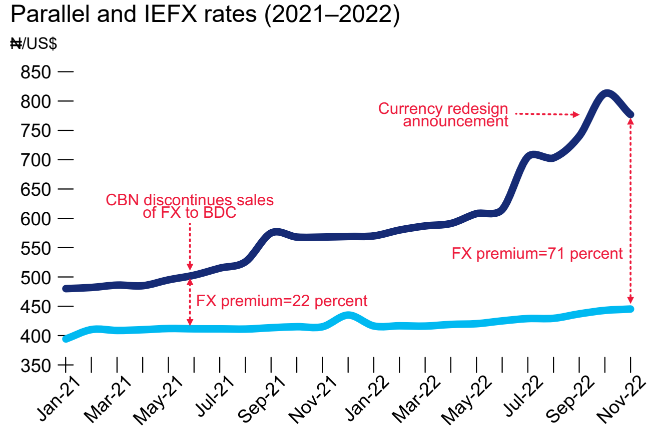
CBN FX interventions (H1 2021 and H1 2022)



Sources: CBN, NBS.

Figure 1.20. The parallel market-to-IEFX rate premium continues to grow

Parallel and IEFX rates (2021–2022)



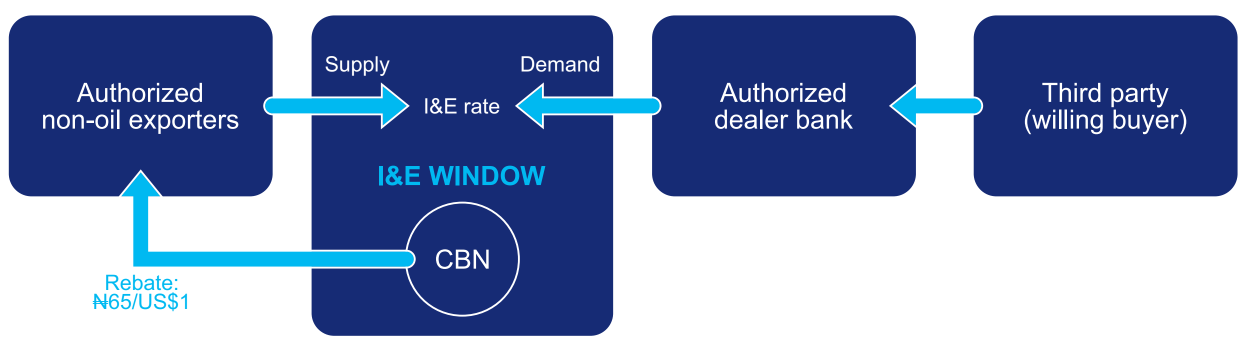
Sources: CBN, Nairametrics.

Box 1.1. The RT-200 Program: Good intentions, more distortions

In February 2022, the CBN introduced the "Race to US$200 billion in FX Repatriation (RT-200)" program, with the goal of repatriating US$200 billion of non-oil export earnings over the next 3–5 years. Through the Program, the CBN intends to reduce the country's exposure to volatile sources of FX (mainly oil exports) and the main component of the Program is a rebate scheme to "encourage repatriation and sale of export proceeds into the FX market". Exporters of finished and semi-finished goods can participate in this scheme by selling their repatriated export proceeds in the I&E window to an authorized dealer bank on behalf of a willing buyer. In return, FX sellers receive an "incentive" of ₦65 for every US$1.00 repatriated and sold at the I&E window to a third party and ₦35 for every US$1.00 repatriated and sold at the I&E window for own use. The goal of repatriating US$200 billion however seems ambitious, given that over the past decade, non-oil exports amounted to US$49 billion.

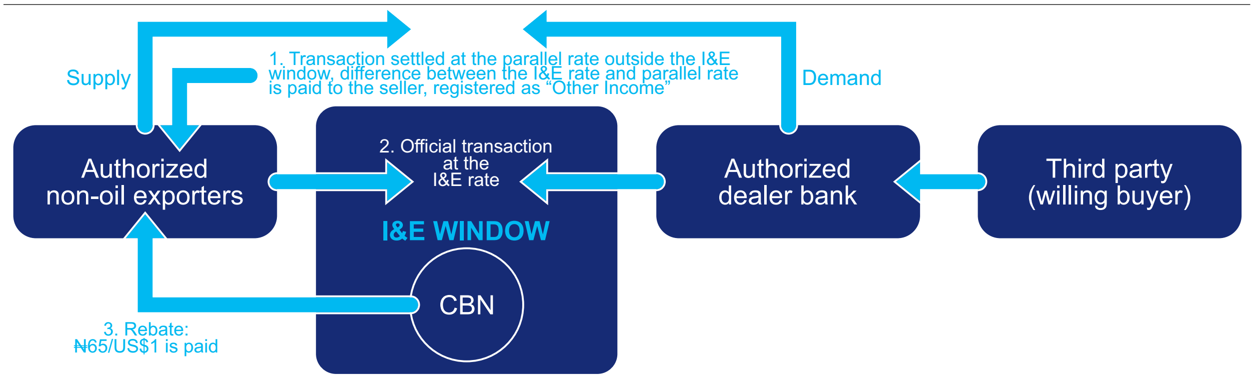
Good as the intentions of the scheme may be, it has introduced additional distortions in the FX market. In practice, this scheme has created an additional window (or sub-window) with a subsidized exchange rate, even though transactions are executed through the I&E window: the effective naira exchange rate for the FX seller is the subsisting I&E rate plus ₦65 or ₦35. Moreover, the substantial parallel to the I&E rate premium (71 percent as of October 2022) and expected further depreciation of the I&E rate in a context of FX shortages may have created incentives for exporters to settle transactions with third parties outside of the I&E window at the parallel rate. Based on anecdotal information, the parallel rate has become the prevailing rate in the willing-buyer-willing-seller market, but transactions are still recorded at the I&E rate for accounting purposes.

Figure B1.1. The RT-200 program in theory



Source: World Bank.

Figure B1.2. The RT-200 program, accounting for arbitrage



Source: World Bank.

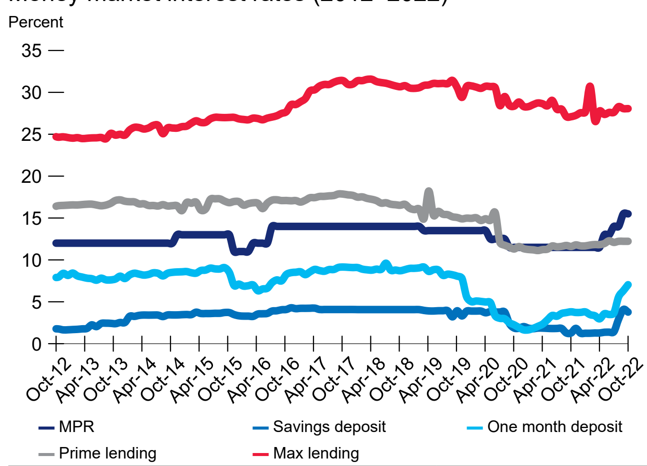
The Financial Sector: Slowing real credit growth amid rising costs of funding

Credit to the private sector has continued to grow in nominal terms through Q3 2022, however, in real terms, credit growth has slowed considerably, to close to zero. In particular, over the same period there has been a clear slowdown in credit to the private sector originated through the CBN's development finance interventions. Two factors seem to have been driving this development, namely the pressures exerted by the continued large funding needs of the government attended to by the CBN and the more restrictive monetary policy stance adopted by the CBN since May 2022.[6] Thus, the share of outstanding private sector credit originated by the CBN has fallen from 10 percent in 2021 to 8.5 percent in Q3 2022. While demand deposits have continued to grow vigorously, savings and time deposits have contracted in real terms over the past four months—a development that, if it persists, could pressure banks' funding and their capacity to continue to expand credit. Already the loans-to-deposits ratio has risen by some 570 bps between 2021 and Q3 2022 to 64.8 percent. In particular, manufacturing and finance and insurance registered over 100 bps gains in the share of private sector credit since end-2021. Commercial banks have increased their exposure to sovereign risk by some 160 bps to 13.3 percent of the total assets over the same period, and the combined exposure to the CBN and to the government stood at 44.4 percent of total assets at Q2 2022.

There has been little pass-through of the CBN's policy rate adjustments in the past few months to bank lending rates. The financing of the fiscal deficit, exchange rate management, and direct regulations on commercial banks have reduced the effectiveness of monetary policy. The CBN has raised its policy rate three times (500 bps in total) since May 2022 to reduce inflation. However, lending rates have barely moved with the prime lending rate and the maximum lending rates rising by just 40 bps and 27 bps, respectively, between end-April and end-October (Figure 1.21). In contrast, funding costs have risen significantly. Deposit mobilization is the main source of funding for Nigerian banks, and rates on savings and one-month time deposits have risen by 249 bps and 408 bps, respectively, over that period, with smaller increases on longer maturities. These developments could tighten interest rate margins and erode the profitability of banks.

Figure 1.21. There has been little pass-through from the monetary policy rate to lending rates in 2022

Money market interest rates (2012–2022)



Source: CBN.

Though global funding conditions have significantly tightened in 2022, the share of total bank liabilities accounted for by foreign-currency denominated instruments remained unchanged in H1 2022, at around 24 percent. Banks are not rolling over maturing

6 In mid-March 2022, the CBN extended the 5 percent interest rate on its development finance interventions for one more year, but it reversed course in mid-August announcing that the rate would rise to 9 percent starting on September 1, 2022.

eurobonds but instead have continued to rely on domestic sources, both corporate and households, to maintain funding. While the share of foreign-currency denominated assets in total assets rose by 40 bps in the first half of 2022 to 18.3 percent, this development was driven by lending to corporates, as banks have gradually reduced the share going to households. In any case, banks continue to have more US dollar-denominated assets than liabilities, benefiting at the margin from the depreciation of the naira.[7]

Asset quality indicators are broadly steady. The system-wide Capital Adequacy Ratio (CAR), which stood at 14.5 percent in 2021, declined to 13.4 percent in August 2022. While the reported CAR of systemically important banks is above the higher Basel III requirements coming into effect in November 2022, some of the smaller banks could face challenges in meeting the higher standard and may need to raise capital, reduce exposures to riskier assets classes, and limit profits distribution. The non-performing loans (NPLs) ratio has remained virtually unchanged since 2021 at 4.8 percent in August 2022. The CBN continues to improve the coverage of its Credit Risk Management System (CRMS) registry by widening the institutional coverage reporting to it. In August 2022, Other Financial Institutions (OFIs) started to report on credits that they originate and thus the CRMS now provides a more comprehensive view on the indebtedness and performance of borrowers, which in due course should result in more accurate credit risk assessments. Finally, in November 2022, Basel III standards on capital (solo and consolidated basis), liquidity (Liquidity Coverage Ratio, LCR), leverage, and large exposures came into effect, which will help buttress the resiliency of the banking system.

7 It should be noted that when the naira depreciates, it lowers the CAR of banks because the value of risky US dollar-denominated assets rises in naira terms.

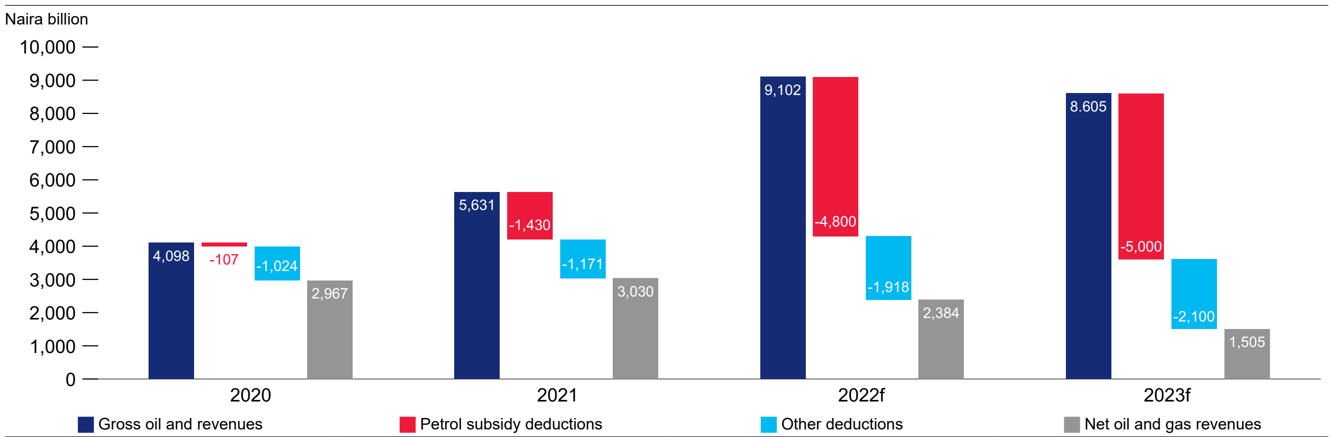
Fiscal Policy: Under pressure due to the petrol subsidy and low non-oil revenues

Despite the collapse in net oil revenues, Nigeria's fiscal deficit in 2022 is expected narrow slightly, to a still large 5.7 percent of GDP. Oil revenues are estimated to fall by almost 1 percentage point of GDP from 2.2 percent to 1.3 percent. Despite this, the steady performance of non-oil revenues, coupled with expenditure adjustments, will help prevent a substantial widening of the fiscal deficit. Nevertheless, the federal fiscal deficit level, estimated at 5.2 percent of GDP for 2022, will remain in breach of the legally stipulated level set in the Fiscal Responsibility Act (2007).

Total revenues as a share of GDP in 2022 are expected to fall to their lowest level since 2016, at 6.3 percent of GDP. Despite oil prices increasing substantially (the average monthly Bonny Light price up until September 2022 was US$109.3 per barrel compared with US$66.5 per barrel for the same period in 2021), Nigeria's oil revenues continue to slide as production falls and subsidy deductions reduce oil revenue transfers to the Federation Account. For 2022, the petrol subsidy cost incurred is expected to be ₦4.8 trillion, or 2.3 percent of projected GDP. Consequently, between January and August, the nominal net oil revenue transfers to the Federation Account were lower by almost 11 percent y-o-y in nominal terms (Figure 1.22 and Figure 1.23).

Non-oil revenues remained broadly steady as a share of GDP in 2022 through August. Nominal non-oil revenue growth has been strong, but this has been partly due to inflation and some tax administration and policy measures, such as the operationalization of the electronic money transfer levy, and the rationalization of some tax expenditures. In nominal terms, in 2022 up to September, net customs revenues increased by 37 percent, net Federal Inland Revenue Service (FIRS) revenue by 68 percent, and net VAT revenues by 14 percent y-o-y. It is projected that for 2022 non-oil revenues will broadly maintain their ratios in percent of GDP, collectively at 4.8 percent of GDP, against 4.4 percent of GDP in 2021. However, given that oil revenues continue to be the single largest revenue item (31 percent of total general government revenues in 2021), total general government revenues are expected to decline in 2022 as a share of GDP.

Figure 1.22. The petrol subsidy continues to consume a large portion of gross oil and gas revenues, lowering net oil and gas revenues transferred to the Federation Account



Sources: NNPC, OAGF and BOF and World Bank estimates.

Most of the fiscal consolidation in 2022 is expected to come from the expenditure side, as total expenditures are estimated to fall by 1.2 percentage points of GDP. Nominal increases in expenditure (estimated up to 8 percent for the year) will be below the rapid increase in nominal GDP due to high inflation. However, "rigid" expenditures are expected to increase even as a percentage of GDP. Interest payments are expected to increase by almost 38 percent in nominal terms and rise to their highest ever level, crossing 3 percent of GDP (an increase of 0.4 of a percentage points of GDP from 2021). Personnel expenditures (wages and pensions combined) are estimated to increase by 13 percent in 2022 and will decline slightly in terms of percentage of GDP (3.5 percent in 2022 against 3.7 percent in 2021). Collectively, these rigid expenditures will post an increase of 0.3 of a percentage points of GDP. As such, expenditure adjustments are estimated to fall on capital expenditures, with a projected decline between 2021 and 2022 of almost 15 percent, or 1.3 percentage points of GDP to 3.3 percent of GDP (Figure 1.24).

The fiscal condition of subnational governments is expected to weaken in 2022, as Federation Account transfers for the average state are estimated to decline due to weak net oil revenue collection.[8] For an average state, statutory transfers—the main source of state revenue—are estimated to decline by 5.5 percent and internally generated revenue (IGR) is estimated to remain at broadly the same levels as in 2021 (declining slightly by 0.8 percent). Nevertheless, total revenues for an average state are estimated to remain broadly unchanged in nominal terms, as gains in VAT revenues are estimated to offset the declines in statutory transfers. However, expenditure is expected to increase by almost 4 percent for an average state in nominal terms, especially capital expenditure, which is estimated to increase by 17.3 percent in nominal terms in the run-up to the 2023 general election. Consequently, the fiscal deficit of an average state is estimated to reach 37.9 percent of revenues in 2022, as opposed to 31 percent of revenues in 2021 and 17 percent of revenues in 2020. Recurrent expenditure between 2021 and 2022 is estimated to have contracted by almost 5.4 percent for an average state, raising concerns about accumulation of arrears. These trends are estimated to

Figure 1.23. Net oil revenues continue to drop, despite high oil prices, as subsidy deductions increase

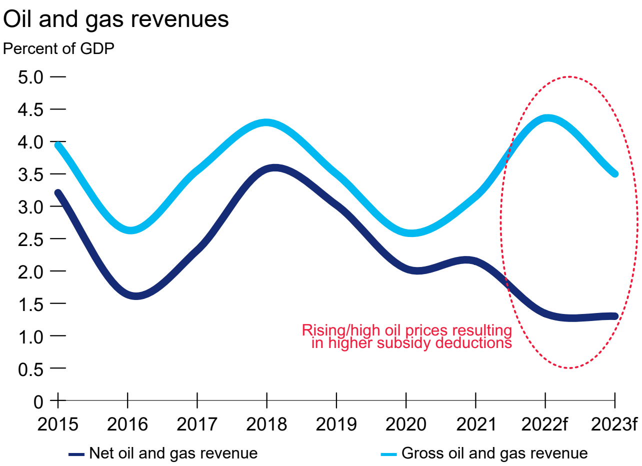
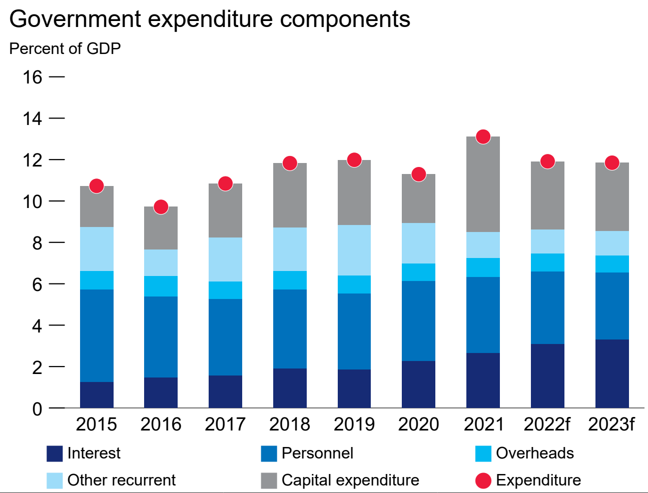


Figure 1.24. Fiscal consolidation in 2022 is expected from a contraction in capital expenditure compared with 2021

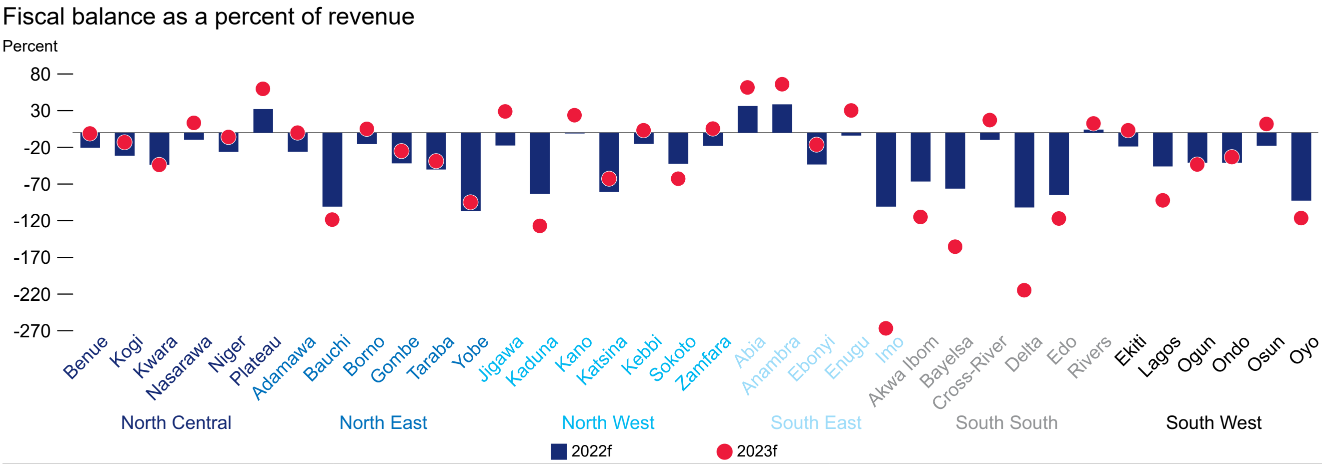


Sources: OAGF and BOF and World Bank estimates.

8 For more details about subnational governments' public finances, please refer to the World Bank's Nigeria Public Finance Review (November 2022).

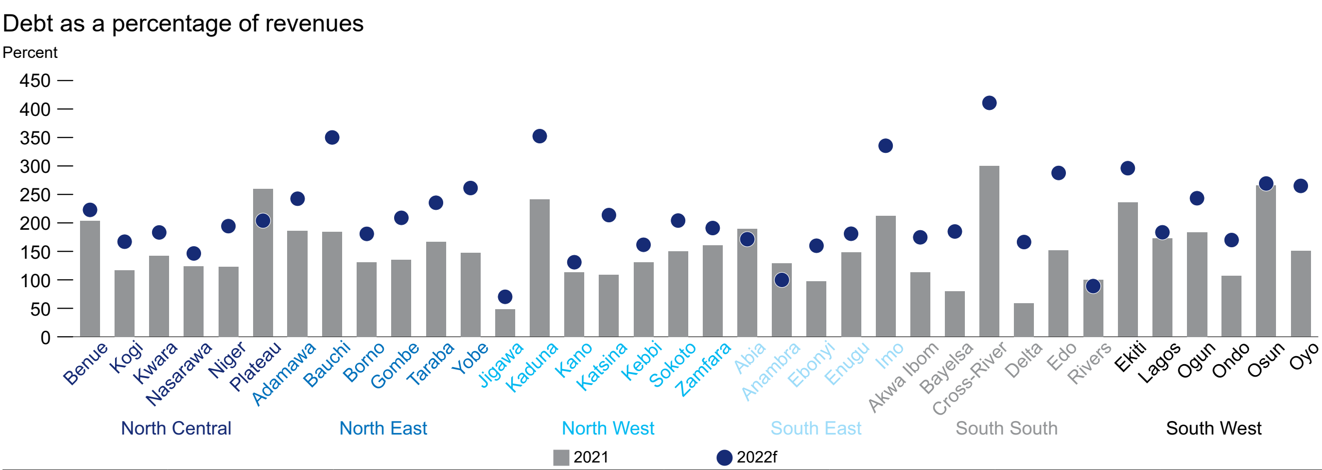
continue in 2023 with the fiscal position of the states weakening. Debt levels for an average state are estimated to increase from 154.6 percent of revenues in 2021 to above 200 percent of revenues in both 2022 and 2023 (Figure 1.25 and Figure 1.26).

Figure 1.25. For most states, fiscal deficits are expected to increase as expenditure pressures outstrip revenue growth



Sources: NGF, OAGF, BOF and World Bank estimates.

Figure 1.26. Debt levels for states have increased



Sources: NGF, OAGF, BOF and World Bank estimates.

Box 1.2. Proposed Federal Budget 2023

The proposed 2023 Federal Budget was presented to the National Assembly on October 7, 2022. The Budget was accompanied by the Medium-Term Fiscal Framework and the Fiscal Strategy Paper and presented two different options for 2023. It presented the fiscal position of the Federal Government (and of Federation Revenues) with the subsidy reform (the petrol subsidy is currently planned to be eliminated by June 2023) and without the subsidy reform, i.e., with the continuation of the subsidy. The budget proposals are presented below. These estimates are subject to revision following the discussion by the National Assembly and it should also be noted that government revenue projections are often overoptimistic and outturns usually fall below target, resulting than higher than budgeted fiscal deficits.

	2022 Budget (revised)	*2023 Budget Proposal (business-as-usual)*	*2023 Budget Proposal (with subsidy reform)*
Crude oil price (US$ per barrel)	73	70	
Crude oil production (million bpd)	1.6	1.69	
Exchange rate (₦/US$)	410.15	435.57	
Inflation (%, annual average)	16.11	17.16	
Real GDP growth (%)	3.55	3.75	
Net Federation Accounts Allocation Committee revenues (₦ trillion)	**11.0**	**7.7**	**11.0**
Federal Government revenues (₦ trillion)	**10.0**	**6.3**	**8.8**
Federal Government expenditure (₦ trillion)	**17.3**	**18.8**	**19.8**
Federal fiscal deficit (₦ trillion)	**7.4**	**12.4**	**11.0**
Financing (₦ trillion)	**7.4**	**12.4**	**11.0**
Domestic Borrowing (₦ trillion)	3.5	8.4	7.5
External Borrowing (including multilateral and bilateral loans) (₦ trillion)	2.6	2.1	1.9
Privatization (₦ trillion)	0.1	0.2	0.2
Others (₦ trillion)	1.2	1.8	1.4

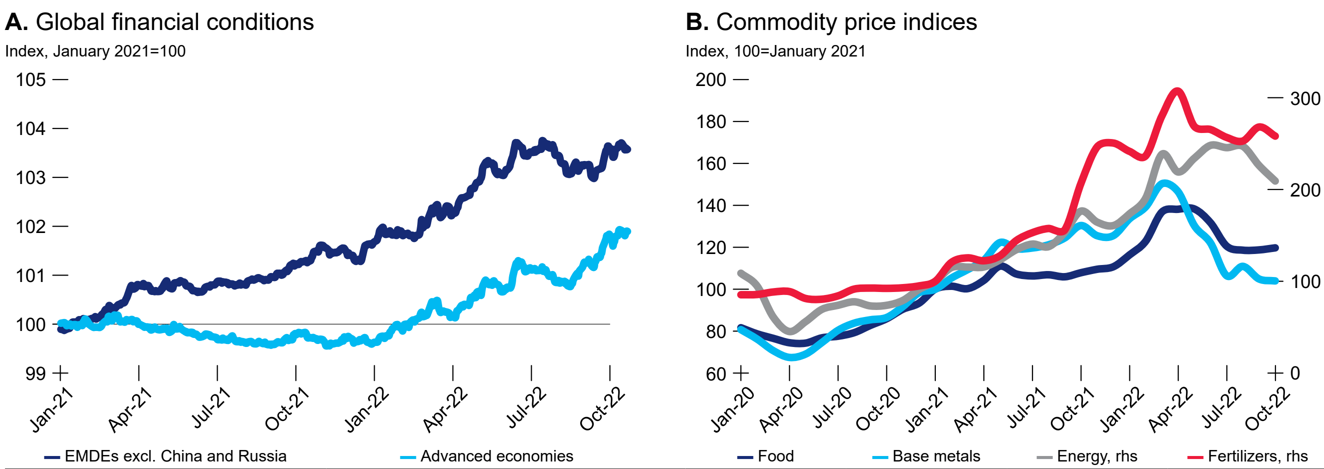
Economic Outlook: Slow growth, hampered by macro-fiscal, trade and exchange rate policy weaknesses

The Global Economy: The risk of a global recession has increased

Global growth prospects have deteriorated substantially in H2 2022, as higher inflation has prompted a faster-than-anticipated synchronous global monetary policy tightening. This year, the U.S. Federal Reserve has embarked upon its fastest tightening cycle since the early 1980s, raising the federal funds target rate by 375 bps since March. The resulting sharp tightening of global financial conditions, together with a stronger US dollar and elevated debt levels, is eroding already depleted fiscal space and worsening debt sustainability across many emerging markets and developing economies (EMDEs) (Figure 1.27A). The war in Ukraine continues to disrupt energy and other commodity markets, particularly for food and fertilizers, triggering sharp cost-of-living increases and spreading food insecurity. Weaker currencies in many commodity-importing EMDEs have increased commodity and other import prices in local currency terms, contributing to inflation and cost-of-living pressures. Conversely, some EMDE commodity exporters have been adversely affected by some US dollar commodity prices softening, especially metal prices (Figure 1.27B), on weakening global demand in H2 2022, amid a sharp growth slowdown in China. Global investor sentiment has declined markedly due to worries that the global economy is precariously close to entering a recession. Global growth is projected to slow sharply in 2023, even as many countries have yet to recover from pandemic-induced output losses (Table 1.1).

Risks to the global outlook are skewed to the downside. More persistent and higher-than-anticipated inflation could trigger more policy tightening, restraining global activity even further. Tighter financial conditions and further increases in borrowing costs could push

Figure 1.27. Global financial conditions tightened



Sources: Bloomberg; World Bank.
A. Based on Goldman Sachs Financial condition indices. Sample includes 10 advanced economies (including euro area) and 11 EMDEs (excluding China and Russian Federation). Aggregates are calculated using GDP weights at average 2010-19 prices and market exchange rates. Higher value indicates tighter financial conditions.
B. Pink Sheet data for oil, metals, and agricultural prices indexed to January 2021=100. Last observation is October 2022.

Table 1.1. Global and Regional Indicators, 2019–2023

	2020	2021	2022f	2023f	
				WEO October	WEO April
Real GDP growth - Global economy (percent)	-3.0	6.0	3.2	2.7	3.6
Real GDP growth - AEs (percent)	-4.4	5.2	2.4	1.1	2.4
Real GDP growth - EMDEs (percent)	-1.9	6.6	3.7	3.7	4.4
Real GDP growth - SSAs (percent)	-2.0	4.1	3.3	3.5	3.9
Crude oil price (US$ per barrel)	42.3	70.4	100	92	92

Sources: World Economic Outlook (October 2023), Commodity Markets Outlook (October 2022).

even more countries into debt distress, further limiting fiscal space to support recoveries. Global investor confidence could deteriorate further, hitting capital flows and investment if global geopolitical tensions and policy uncertainty worsen. The slowdown in growth of commodity exporters, especially metal exporters, could accelerate if global activity declines faster than expected. Continued disruptions to food, energy, and fertilizer markets, especially if geopolitical tensions and conflicts were to intensify, could keep inflation elevated in many EMDEs, raising poverty and food insecurity. More frequent and severe adverse weather events related to climate change could disrupt food systems even more in many countries, especially in low-income countries. Some countries, particularly those already experiencing elevated levels of violence and conflict, face the prospect of a vicious cycle of slower growth, a further deterioration in living standards, increased fragility, and still weaker growth.

Most commodity prices have declined from the peaks they reached early in 2022 amid a global growth slowdown and heightened concerns about a global recession. Commodity prices are expected to ease further over the next two years, as the global economy decelerates. However, they will remain well above their average over the past five years. Energy prices are anticipated to drop by 11 percent in 2023 and 12 percent in 2024, while agricultural and metal prices are projected to decline by 5 and 15 percent in 2023, respectively, before stabilizing in 2024. Substantial upside risks to energy price remain, including the possibility of a surge in energy demand during the upcoming winter in Europe, and continued disruptions to energy markets because of the war in Ukraine. Higher-than-expected energy prices could pass through to non-energy prices, especially food and fertilizers. A sharper-than-anticipated slowdown in global growth or an outright global recession is a key downside risk, especially for crude oil and metal prices.

Nigeria's Outlook: Slow growth, hampered by macro-fiscal policy weaknesses

GDP growth is projected to be moderate in the base case.

- **In 2023–24, the economy will continue growing at a moderate pace.** Growth will be driven by: (i) services, mainly telecommunications, trade, transport, and financial services; (ii) manufacturing and construction; and (iii) a partial recovery in the oil sector.

- **The recovery in the oil sector is expected to be slow and subject to constant security and technical risks.** Oil prices are expected to remain broadly stable, while oil production increases gradually. The price of Bonny Light crude oil is assumed to average US$85 per barrel between 2022 and 2024, and crude oil production will remain at 1.3 million bpd at the end of 2022 and range between 1.4 and 1.6 million bpd in 2023–24.

- **Growth of agricultural output will be adversely affected by the disruption and damage caused by the devastating floods that occurred between August and October 2022.**

- **Central banks in advanced and emerging economies continue tightening their monetary policy stance in response to supply shocks.**

- **Overall, relative to the previous edition of the NDU in June 2022, growth estimates have been revised downward:** Nigeria's GDP is projected to grow by 3.1 percent in 2022 and by 2.9 percent in 2023–24, down from the previous forecasts of 3.4 percent for 2022 and 3.2 percent for 2023–24 from July 2022.

Nigeria's macroeconomic stability has deteriorated significantly. Non-oil sector growth has been solid (above 4 percent) and global oil prices have been high (US$99.9 per barrel in 2022, compared with US$56.3 per barrel on average between 2016 and 2020). However, despite these positive factors, Nigeria's fiscal performance and FX reserves position have deteriorated. Nigeria has not benefited substantially from the global energy price boom because of the costly petrol subsidy, and record low oil production. This has suppressed net oil revenues, while non-oil revenues have also remained low. Consequently, the government has resorted increasingly to costly CBN financing, which in turn has increased interest costs, causing severe fiscal and debt challenges. Because Nigeria has not built adequate buffers during this episode of high global oil prices, the economy is more vulnerable to external shocks than before the pandemic. Inflation is also elevated, due to global commodity price shocks, trade restrictions, a depreciating currency, and the monetization of the fiscal deficit.

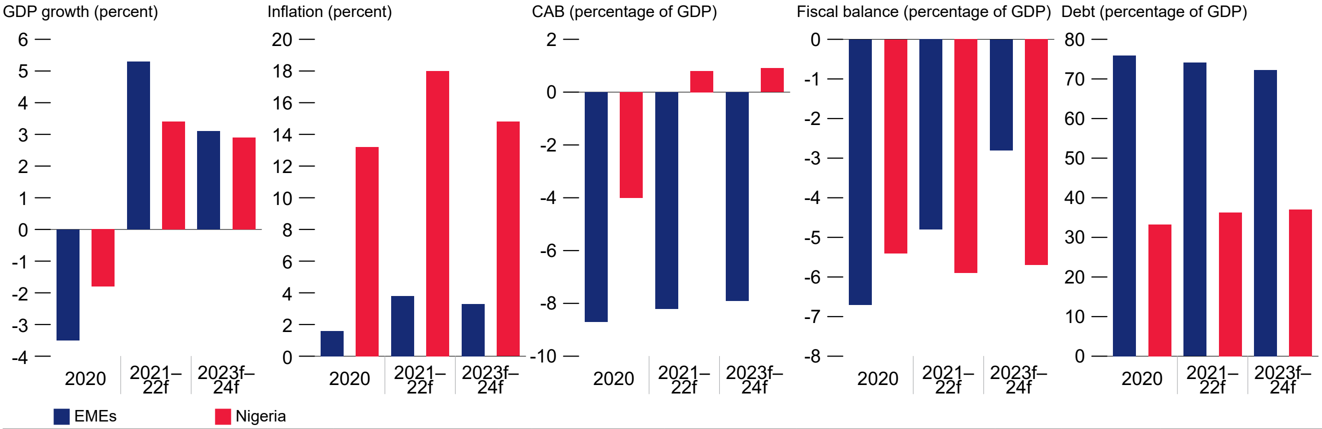
Oil revenues, fiscal outcomes, FX reserves, and economic growth have all decoupled from oil prices, and Nigeria will not benefit from higher global oil prices in the near term. The decoupling is the result of lower oil production and policy decisions such as maintaining the petrol subsidy. The decoupling between oil prices and fiscal oil revenues started in 2021, intensified in 2022, and will continue until the petrol subsidy is phased out. In 2022, external reserves have also not benefited from higher oil prices, and the need for external financing has not declined as was the case in previous episodes of higher oil prices. Instead of benefiting from the windfalls to build macroeconomic resilience, the Nigerian economy is becoming more vulnerable to external shocks—if the external windfalls were to reverse, the economy could face a similar recession to that of 2015–16.

Reducing high inflation by adjusting policies to be consistent and conducive to price stability is a key priority for improving macroeconomic sustainability. Consumer prices began to accelerate three years ago. However, the authorities only began to respond more decisively by tightening monetary policy during 2022. As discussed in previous editions of the NDU, between 2020 and 2022, Nigeria's high and increasing inflation resulted from both external shocks and a lack of concerted policy action to reduce it by reforming the mix of trade, exchange rate, monetary, and fiscal policies. Thus, inflation is not expected to decrease to the CBN's target of 6 to 9 percent in the near term.

Insecurity and uncertainty about the pace and direction of economic policy further compound the challenges in strengthening growth and macroeconomic stability. Insecurity remains widespread in Nigeria, with more violent conflict events occurring across the country. Insecurity has affected millions of people, and it has also weighed on private investment and growth. This situation is compounded by an increased public perception of policy unpredictability at the state and federal levels ahead of the February 2023 general election.

Figure 1.28. In a business-as-usual scenario, Nigeria's GDP growth rate will continue to lag other emerging economies, inflation will be higher, and fiscal deficits larger

Macroeconomic indicators and projections, 2017–2024



Sources: IMF WEO; World Bank.

Amid heightened risks, the government has maintained a "business-as-usual" policy stance that does not promote faster economic growth and job creation. Multiple exchange rates, trade restrictions, and CBN financing of the public deficit are stoking inflation, creating large economic distortions, and severely undermining the business environment and the appetite to invest in Nigeria. These policies compound long-standing weaknesses in revenue mobilization, foreign investment, human capital development, infrastructure investment, and governance.[9] Notably, during 2020 and 2021, when oil prices were much lower, the government missed an opportunity to address one of the primary sources of fiscal vulnerability by choosing to maintain the subsidy for petrol. Due to the petrol subsidy and low oil production, Nigeria now faces a fiscal timebomb.

With the 2023 general election approaching, the window of opportunity for accelerating growth by easing macroeconomic imbalances, addressing fiscal vulnerabilities, and protecting the welfare of poor households is rapidly shrinking. As discussed in the special topic section of this NDU, with the upcoming general election in February 2023, a key challenge is addressing macroeconomic vulnerabilities when: (i) elections encourage higher spending; (ii) high inflation is pushing millions of Nigerians into poverty; and (iii) higher global interest rates weigh on portfolio investment, and raise the costs of private investment financing and public borrowing.

Nigeria's Fiscal Outlook: Defusing the timebomb

More reforms to spend better and mobilize domestic revenues are urgently needed to strengthen Nigeria's fiscal outlook. The government has announced its intention to remove the petrol subsidy in 2023, which will be a welcome, critical reform to improve the allocative efficiency of spending and secure fiscal sustainability. Although this will support net oil revenues from 2023 onward, oil prices are not expected to increase in the base case, and the inability to significantly increase oil production will keep oil revenues stagnant. Significant additional fiscal reforms will therefore be critical (Figure 1.29).

Expenditure pressures are expected to remain high over the medium term, especially "rigid" expenditures, i.e., personnel costs and interest payments (Figure 1.30). Despite the restructuring of

9 See World Bank reports: (i) the 2022 Nigeria Public Finance Review (November 2022); and (ii) the Nigeria Country Economic Memorandum (December 2022).

the Ways and Means stock in 2023, interest payments are projected to steadily increase by 2.4 percentage points of GDP between 2018 and 2027, and by 2027 interest payments will account for over 62 percent of revenues. Consequently, the burden of expenditure consolidation efforts is expected to be borne heavily by capital expenditures, which are projected to stay limited at 3.3 percent of GDP, well below what is needed to close Nigeria's large infrastructure gap.

Over the medium term, the fiscal deficit is expected to remain in breach of the legal limit set in the Fiscal Responsibility Act (2007), and the debt stock is expected to increase. Debt is expected to remain under the sustainability threshold of 70 percent on the key solvency risk measure of the debt-to-GDP ratio, reaching about 45 percent of GDP in 2027. However, the debt trajectory and profile are causes for concern, as debt is increasing rapidly (Figure 1.31), the proportion of short-term (expensive) debt is high, and poor market perceptions coupled with higher global financing costs may limit Nigeria's access to international financing. Debt servicing is expected to surge, exerting fiscal and liquidity pressures (Figure 1.32).

Figure 1.29. Without structural reforms, revenues are expected to remain low over the medium term…

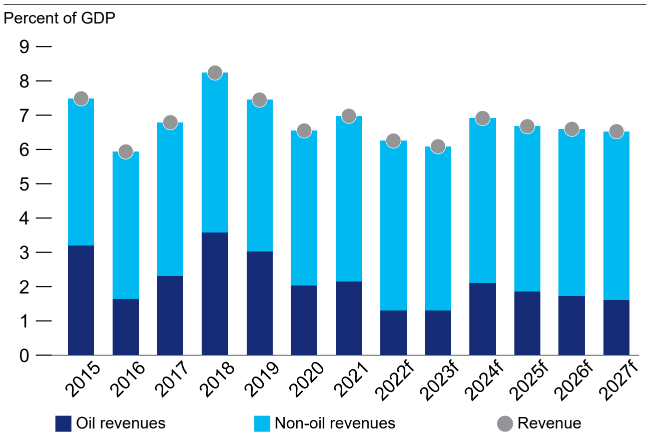
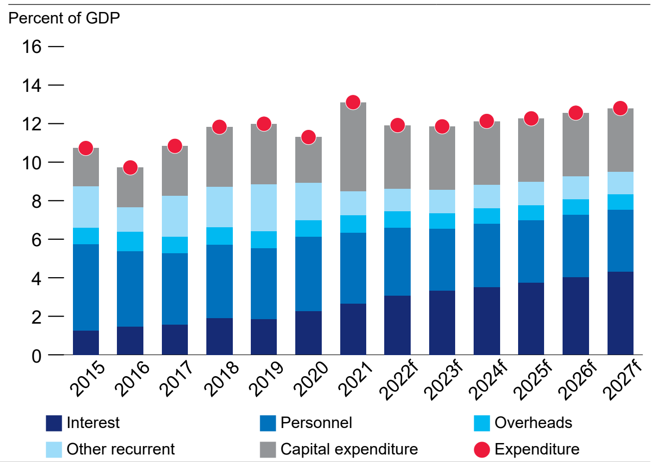


Figure 1.30. …while expenditure pressures are projected to increase due to a surge in interest payments



Sources: World Bank estimates based on data from OAGF, BOF, and DMO.
Note: The baseline scenario assumes the restructuring of Ways and Means stock of financing from 2023 onwards.

Figure 1.31. Debt will continue to rise…

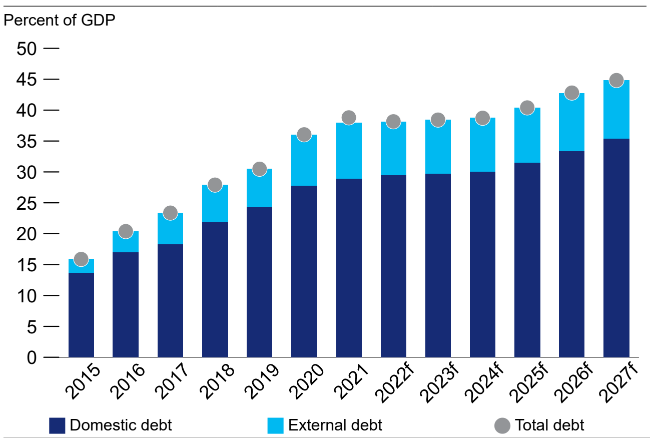


Figure 1.32. …and the dependence on short-term financing is a cause for concern

Heat Map

Debt level	Real GDP growth shock	Primary balance shock	Real interest rate shock	Exchange rate shock	Contigent liability shock
Gross financing needs	Real GDP growth shock	Primary balance shock	Real interest rate shock	Exchange rate shock	Contigent liability shock
Debt profile	Market perception	External financing requirements	Change in the share of short-term debt	Public debt held by non-residents	Foreign currency debt

Sources: World Bank estimates based on data from OAGF, BOF, and DMO.
Note: The baseline scenario assumes the restructuring of Ways and Means stock of financing from 2023 onwards.

Undertaking critical reforms can significantly improve the medium-term fiscal outlook. Removing the petrol subsidy, strengthening tax reforms (gain of about 0.3 of GDP per year between 2023 and 2027), restructuring Ways and Means financing (savings of about 0.6 percent of GDP per year between 2023 and 2027), improving oil production to OPEC quota levels (1.6 percent of GDP between 2023 and 2027 per year), and addressing other macroeconomic policy reform priorities (especially in FX and inflation management), would allow for the fiscal deficit to narrow significantly over the medium term. In such a reform scenario, the fiscal deficit would be around 4.7 percent of GDP in 2023[10]. This would still be higher than the legal limit (federal fiscal deficit is to be 3 percent of GDP in Fiscal Responsibility Act of 2007), but it would help improve fiscal sustainability and begin to rebuild space for development spending by reducing the debt stock to around 37.4 percent of GDP by 2027, and interest payments to around 42 percent of revenues.

Nigeria's Choice: Policy options to reduce inflation, address fiscal pressures, and catalyze private investment for faster growth and job creation

Nigeria is in a more fragile position than before the global oil price boom. Downside risks to Nigeria's outlook have intensified and the country's vulnerability to external shocks has increased. Growth may be affected by a further decline in oil production amid heightened insecurity and by scarcity of FX and tighter external 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 election is another source of risk if it leads to large government spending or cause social unrest. The authorities can strengthen the economy by implementing macroeconomic reforms to: (i) reduce inflation; (ii) reduce fiscal pressures; and (iii) catalyze private investment to create quality jobs.

The risk of returning to a scenario where economic growth is below population growth is high under the current policy mix, and more reforms are urgently needed. The GDP growth trajectory observed in 2021–22 may well weaken without further, sustained reform efforts. GDP growth in 2021 was mainly the result of normalization of economic activity following the 2020 recession—without base effects, GDP growth would have been in the 1.8 to 2.3 percent range, below the population growth rate. Growth in 2022 in per capita terms, has not been sufficient to boost poverty reduction and job creation. Nigeria has not benefited from high oil prices, which in fact have negatively impacted the fiscal position, as the cost of the petrol subsidy has ballooned. Inflation is pushing millions into poverty. FX scarcity is discouraging investment and production, particularly at a time of tighter global financial conditions and elevated global uncertainty.

Providing macroeconomic sustainability, marshaling fiscal resources, and building the transparency, accountability, and effectiveness of public institutions are prerequisites to promoting inclusive development and building trust across society. Nigeria, however, features several economic anomalies—such as multiple exchange rates, foreign exchange restrictions, and pro-cyclical fiscal policies—that are partly explained by the dominance of the oil sector. Trade protectionism is also widespread, leading to a sub-optimal allocation of resources within productive sectors. As a result, many investors have concluded that Nigeria's macroeconomic management is weak and have therefore declined to invest more fully in the country's economic transformation. Further inhibiting this transformation is the "yo-yo" effect of workers shifting back and forth between agriculture and services, in response to changes in the oil price (World Bank, 2020).

Macroeconomic foundations alone will not make the economy more competitive. To sustain growth and job creation in the long term, structural constraints that hinder private investment must be addressed. While the

10 Assuming the end of the petrol subsidy in June 2023.

development challenges are vast, a change of policies in two areas is urgent to improve the productivity of the economy by reducing the cost of doing business and improving the allocation of resources: (i) access to reliable power by increasing efficiency and investing in the sector's infrastructure; (ii) trade policies that boost domestic valued added by reducing protectionist measures; and (iii) strengthened competition in the domestic market.

To address these challenges and begin to make progress on Nigeria's enormous development challenges, the time to implement reforms is now. The next section examines in more detail the choices Nigeria can make to stop the deterioration in its macroeconomic and fiscal performance, and steer a course toward poverty reduction and shared prosperity.

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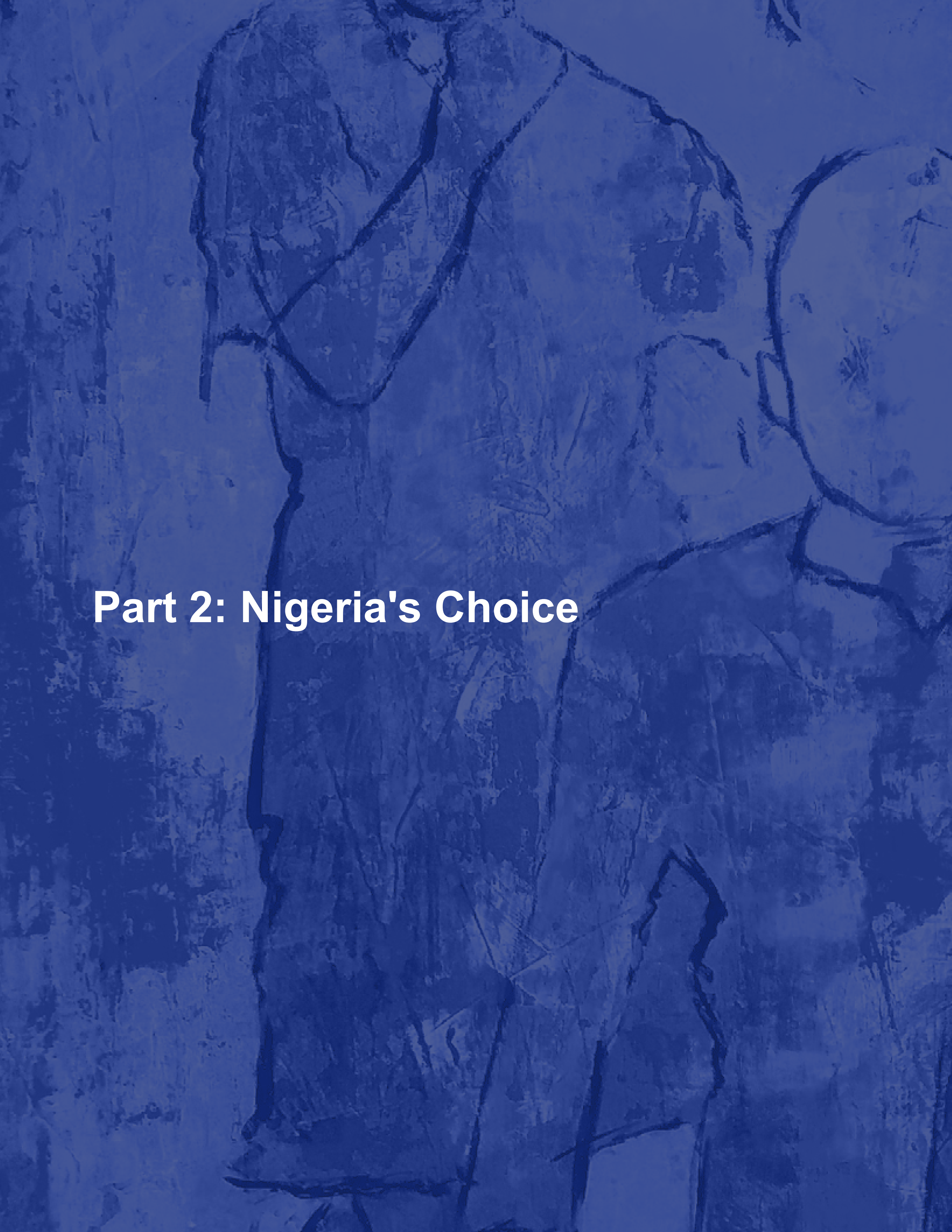


Part 2: Nigeria's Choice

Nigeria's Choice

Nigeria is at a critical juncture with a choice to make

Nigeria has the potential to be a giant on the global stage. Nigeria is Africa's largest country, with over 200 million people, which is expected to double by 2030. Nigeria is also Africa's largest economy, with a nominal GDP of around US$430 billion (2021). Nigeria is a multi-ethnic and diverse federation of 36 autonomous states, with an abundance of resources, a young and entrepreneurial population, and a dynamic private sector. The country has a large domestic market, entrepreneurs who are driving growth through digital technologies, and state governors with a high degree of autonomy, which offers opportunities for dynamic and progressive leaders to move ahead independently.

But the country is also characterized by strong spatial inequalities and a large north-south divide. The best-performing regions of Nigeria compare favorably with upper middle-income countries, while the worst-performing states are below the average for low-income countries. These differences are evident in the sectors driving growth and their linkages to job creation, poverty reduction, and government revenue generation. The emerging service economy accounts for up to 50 percent of the national economy (real estate, finance, telecommunications, etc.) and is mostly concentrated in the south, especially Lagos which has Nigeria's largest non-oil economy. Moreover, the oil industry—which, although declining, remains the country's economic backbone—is an enclave sector whose production is centered in the Niger Delta and corporate activity in Lagos. By contrast, sectors such as agriculture, solid minerals, and manufacturing, which have not experienced rapid expansion, are the mainstays of the economy in northern states. Low growth has deepened regional gaps and, at current growth rates, it will take 40 years for northern states to catch up with southern states.

Nigeria was a rising growth star globally in the 2000s due to the implementation of several structural reforms in a context of increasing oil prices. Between 2001 and 2010, Nigeria ranked among the top 15 fastest growing economies in the world, with an average annual growth rate of 8.2 percent. In addition to the surge in oil prices, this period was characterized by sound macroeconomic policies that helped stabilize the economic environment and first-generation sectoral reforms (in banking and telecommunications), which instilled confidence for private sector development. As a result, GDP per capita almost quadrupled from US$568 in 2001 to US$2,280 in 2010. Nonetheless, this fast-growth period failed to translate into significant job creation. The expansion of good quality non-farm jobs—a feature that characterized East Asia's growth in the 1980s and 1990s—was absent in Nigeria. Meanwhile, industries in the formal sector, such as financial services and hospitality, were either not very employment-intensive, or have added labor from a very low base, hence failing to make a significant difference in wage employment growth.

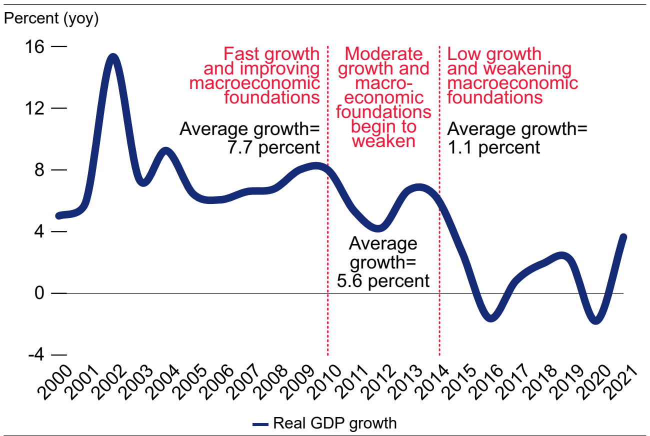
The hard-won income gains from the 2000s evaporated between 2011 and 2021, due to the lack of deeper structural reforms, global shocks, conflicting macroeconomic policies, and increased insecurity. Although external conditions were still favorable in 2011–14 with high oil prices, a combination of weak institutions and a lack of deeper reforms prevented the country from sustaining the strong dynamics of the previous decade. As Nigeria failed to use its windfalls from natural resources efficiently to develop an enabling business environment that attracts private investments and creates quality jobs, the economy entered a period of sluggish economic activity where growth plummeted to 1.1 percent in 2015–2021—much lower than the 2.6 percent population growth. While external factors—the collapse in oil prices and the COVID-19 pandemic—contributed to this economic deceleration, a worsening domestic macroeconomic policy environment—exchange rate mismanagement, trade restrictions, and weak fiscal policy—undermined economic stability and the country's growth potential.

The current business-as-usual policy framework hinders prospects for economic growth and job creation. Multiple exchange rates, trade restrictions and a protectionist policy stance, poor revenue mobilization, and financing of the public deficit by the CBN continue to undermine macroeconomic stability and the business environment. These policies perpetuate long-standing weaknesses in foreign investment, human capital development, infrastructure investment, and governance (World Bank, 2022a). Moreover, the current policies have caused a decoupling between oil prices and the fiscal and external accounts.

Nigeria could choose reforms that would put it on the path to finally rise to its potential. This would mean adopting and implementing reforms that lay the foundation for robust and inclusive growth through private investment and job creation. The welfare of its citizens could rapidly improve and convergence with other middle-income economies could accelerate.

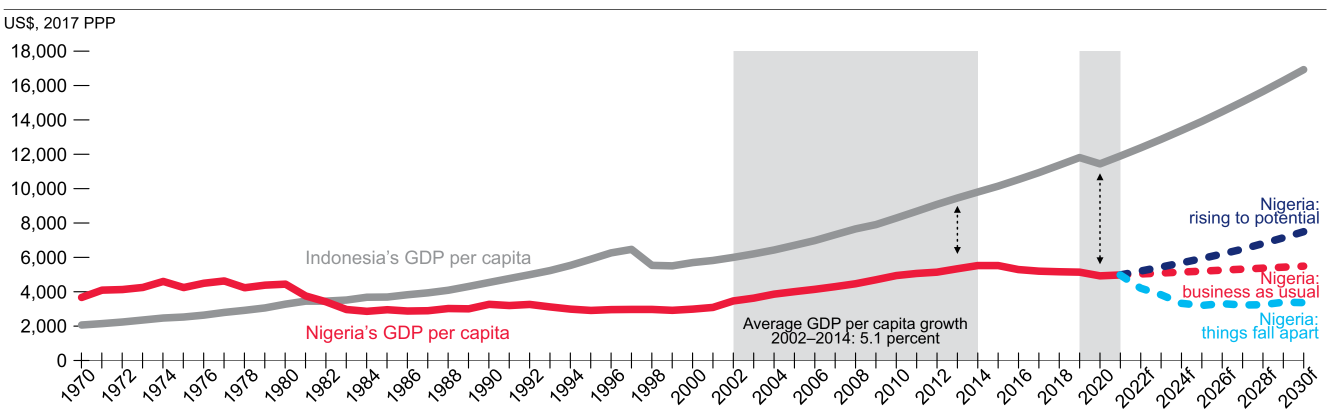
The cost of inaction for Nigeria is very high. In the short term, without significant reforms to restore macroeconomic stability, per capita GDP growth will be close to zero, and even in a sustained high-oil-price scenario, because of the decoupling of the economy and oil prices, Nigeria could revert to negative per capita growth. Even at a per capita GDP growth rate of 1.1 percent observed in 2021—which was partly a result of base effects following the 2020 recession—it would take about a decade for Nigeria to return to the level of GDP per capita seen in 2014, just before the oil shock. In the medium term, if no structural reforms are implemented and business as usual continues, people's prospects will be hindered. Per-capita income will plateau, 80 million working-age Nigerians will not have a full-time job by 2030 if the employment rate does not improve, and 23 million more Nigerians will live in extreme poverty by 2030 if the poverty rate does not fall. Nigeria's oil-based growth model, low tax revenue,

Figure 2.1. Nigeria's growth performance since the return of democracy can be divided in three periods



Sources: NBS, World Bank.

Figure 2.2. Nigeria has a choice to make



Sources: NBS and World Bank.

mismanaged exchange rate, weak governance, large-scale trade restrictions, and inefficient resource use will have prevented crucial investments, extended Nigeria's pattern of poor and unequal growth, and depleted the country's natural-resource base.

To rise to its potential, Nigeria needs to grow faster and create more jobs

Creating better jobs is a necessary condition for accelerating poverty reduction and economic transformation. It is estimated that 3.5 million Nigerians enter the labor market every year, a number that cannot be absorbed by a public sector-led economy. This large number represents 41 percent of the total new entrants in the labor market in West Africa. However, even if job creation were to catch up with the expansion of the labor force, Nigerian workers would not fully benefit if other socio-economic conditions remain unchanged. A child born in Nigeria today will be 36 percent as productive in adulthood as she could be if she enjoyed more and better-quality education and full health (the sixth-lowest percentage globally). A combination of limited job creation, booming demographics, and unfulfilled aspirations is pushing young Nigerians to emigrate abroad in search of gainful employment.

Unlocking private investment will create more and better-quality jobs in a sustainable manner. The private sector is at the heart of any development process and has been a critical component in every sustained growth success story around the world. East Asia's progress since the late 1950s and early 1960s exemplifies how private sector-led growth that is rapid and broadly shared can lift millions out of poverty with little or no increase in income inequality. Although policies varied from country to country, reflecting differences in initial political and economic conditions, the successful East Asian economies were able to attract high rates of private investment by maintaining macroeconomic stability and adopting policies in favor of trade openness, whereby they abandoned import substitution early on in favor of export promotion. In Nigeria, the private sector is responsible for an estimated 90 percent of GDP and 94 percent of jobs, and thus is the only option for creating job-enhancing growth.

To make that possible, the government has a critical role to play by strengthening macroeconomic foundations to allow private sector investment to thrive and by investing in human capital to sustain growth in the long term. The macroeconomic stability of Nigeria has steadily deteriorated over the past decade and has reached an all-time low due to several factors. First, an over-reliance on oil exports, which account for more than 90 percent of total exports, results in a high degree of external volatility. Second, limited fiscal space that stems from very costly fuel subsidies, low tax rates, and weak tax administration hinders the ability of the various tiers of government to deliver quality public services, including investments in human capital. Third, restrictive trade policies, weaknesses in exchange rate management, and the monetization of the growing fiscal deficit by the CBN have led to double-digit inflation.

What can we learn from Nigeria's growth record? Seven messages

Learning from Nigeria's recent growth performance is critical to developing an effective and inclusive growth agenda that creates jobs and reduces poverty in the long term. Understanding what the drivers of growth are, what affects the quality of observed growth, and how well-positioned the country is to continue generating growth is important for three reasons. First, growth is an effective driver of poverty reduction. Without strong economic growth, the chances of reducing poverty are small. Second, the quality of growth matters. Nigeria not only has to create millions of jobs for its expanding labour force, but also needs them to be quality jobs that create added value if they are expected to lift people out of poverty. Third, time matters. A single year of poor economic performance has long-term consequences. As the COVID-19 pandemic has made evident, economic shocks can have long-lasting scars on education and human capital. If no action is taken now, the income gap with other middle-income economies over the next decades will become insurmountable, and the chances that an average Nigerian will achieve the same living standards as in other middle-income economies will dwindle.

1. Macroeconomic stability and policy predictability have steadily deteriorated over the past decade, eroding growth potential, and undermining macroeconomic foundations

Macroeconomic stability has worsened significantly since 2014 and, by 2021, it had reached at an all-time low. As a result, Nigeria's potential output—the level of real GDP that can be sustained over the long term—is below population growth. Potential output, measured through the structural component of growth, reflects what an economy can produce when operating at maximum sustainable employment. Potential growth has declined from an average of 8.2 percent in 2000–10, to 4.4 percent in 2011–14, and further to 2.1 percent in 2015–21. With potential economic growth below population growth, Nigeria relies on cyclical growth (positive exogeneous shocks) to generate positive GDP-per-capita growth, exacerbating the country's vulnerability to external volatility. Several factors have undermined macroeconomic stability:

- **An over-reliance on oil exports, resulting in high exposure to external volatility.** Over the past four decades, oil and gas has consistently represented more than 90 percent of Nigeria's total exports, exposing the economy to a high degree of external volatility.

- **Limited fiscal space.** Nigeria's limited fiscal space reflects the country's low total revenues and heavy dependence on crude-oil exports. Following the 2015 oil shock, Nigeria's already low general government revenue fell to an average of just 7 percent of GDP between 2016 and 2020—among the lowest in the world.

- **A pro-cyclical fiscal position.** The government's dependence on volatile oil revenues, very low non-oil revenues, and depleted fiscal buffers have shifted its fiscal policy stance from counter-cyclical between 2008 and 2014, to pro-cyclical between 2015 and 2021 (World Bank, 2022a).

- **Inconsistent monetary policies.** Nigeria's monetary policies are not helping reduce inflation. Since 2018, the CBN has increasingly financed the Federal Government, heightening inflationary pressures. Moreover, the CBN's policy goals are conflicting, as the central bank aims to stabilize the de facto exchange rate, promote economic growth, and contain inflation simultaneously with a limited set of tools.

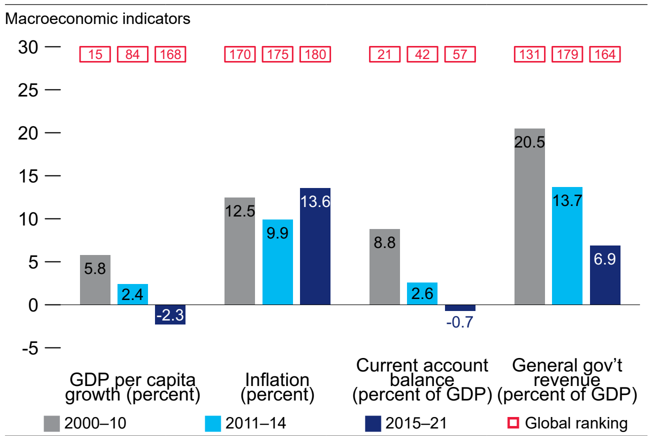
- **Unpredictable exchange rate policies.** Exchange rate policy aims to maintain an artificially stable exchange rate through continued FX restrictions and administrative measures. The CBN supplies FX to four FX windows at different rates, while maintaining a complete restriction on FX for a group of 45 products and limiting its supply for most other imports. These policies have hurt investor confidence: FDI inflows have fallen significantly and domestic producers have curtailed production due to limited access to imported raw materials.

- **Restrictive trade policies.** Unpredictably enforced import prohibitions, high tariffs and levies, FX restrictions, cumbersome customs procedures, and a dearth of publicly available compliance information increase trade costs and erode Nigeria's non-oil export competitiveness.

2. The growth performance across different periods is directly linked to the pace of reforms, which in turn is related to the strength of institutions and political economy dynamics.

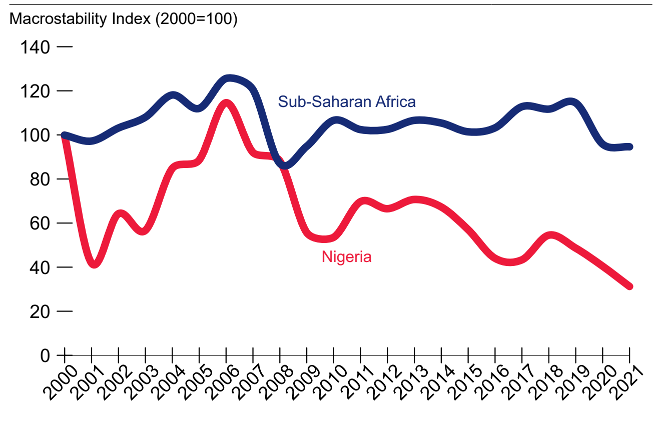
Nigeria has a track record of successful sectoral reforms that have achieved substantial growth gains. Structural policies, such as large-scale privatization, reforms to the regulatory environment, the establishment of institutions tasked with combating corruption, and financial sector reforms, have succeeded in improving the supply response of the economy (Figure 2.5). Improvements in aggregate domestic demand underlying the strong growth performance were the result of: (i) higher FDI, most notably in the oil and gas and telecommunications sectors; (ii) increases in remittances from Nigerians living abroad; and (iii) higher credit to the private sector (Treichel, 2010). FDI and remittances responded directly to important changes in macroeconomic policies and structural reforms. Most notably, sound macroeconomic policies helped stabilize the economic environment, and reduce inflation and real interest rates.

Figure 2.3. Most macro-fiscal indicators have significantly worsened…



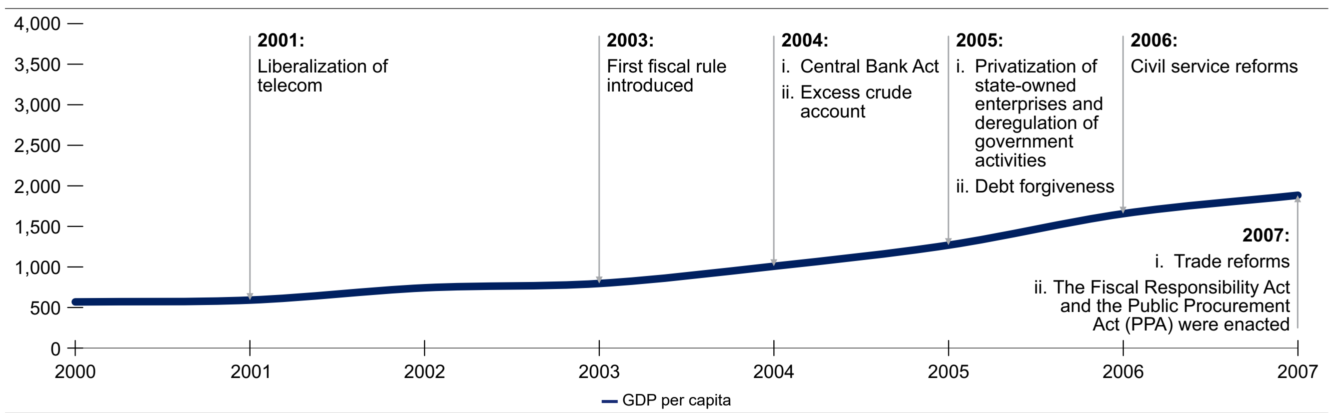
Source: WEO.
Note: Numbers in red are Nigeria's rank relative to other countries.

Figure 2.4. …and Nigeria's macroeconomic stability reached a low in 2021



Sources: World Bank staff calculations based on IMF WEO data.

Figure 2.5. From 2001 to 2008, the Nigerian Government implemented a series of bold reforms that boosted economic growth



Source: NBS.

3. As oil continues to dominate exports and is a major source of fiscal revenues, boom-and-bust oil cycles and low investment have hindered economic diversification.

In Nigeria, the contribution of investment to growth has been small, due to limited fiscal space and a weak business environment. Because of muted investment growth, Nigeria has remained far more dependent on oil exports than the average among other oil-rich countries. Since the 1970s, Nigeria's economy has become heavily focused on oil production, and formerly robust non-oil sectors have atrophied. Previously, Nigeria exported a broad range of primary commodities, including a substantial share of the world's cocoa, palm oil, groundnuts, cotton, hides, skins, rubber, and coffee, as well as coal, tin, and other minerals. Over the past decades, oil has instead consistently represented more than 90 percent of Nigeria's total exports. This overwhelming dependence on oil exports has left Nigeria's terms-of-trade and balance-of-payments highly vulnerable to shocks.

As a result of low investment in non-oil industries, Nigeria is among the seven least-complex economies in the world. Over the past 20 years, Nigeria's economy has become relatively less complex, moving from the 127th to the 133rd position in the Economic Complexity Index ranking (Observatory of Economic Complexity). Low growth and slow structural transformation have contributed to this outcome—the pace of structural transformation of the domestic economy of the 2000s has not been sustained over a sufficiently long period.

4. Structural transformation and job creation have been slow, as the non-oil economy moved from low-productivity agriculture to low-productivity services

Nigeria's periods of expansion have been accompanied by improvements in total factor productivity (TFP). Between 2001 and 2011, growth was accompanied by a sizable rise in TFP[11]. This coincided with important sectoral reforms that boosted output and job creation in the financial and ICT sectors. Sound macroeconomic policies helped stabilize the economic environment and curb inflation and real interest rates, while sectoral reforms included large-scale privatization, reforms to the regulatory environment, the establishment of institutions tasked with combating corruption, and financial sector reforms (Treichel, 2010) As the reform impulse slowed after 2010, TFP's contribution to economic growth also slowed.

The non-oil economy has shifted from low-productivity agriculture to similarly low-productivity services. Sector-specific contributions to growth can be conceived as the result of two underlying mechanisms: (i) changes in per-worker productivity in a given sector; and (ii) reallocation of workers across sectors. The latter can be split in two subcomponents: (i) a dynamic productivity gain, from labor moving to sectors where labor productivity increases; and (ii) a static productivity gain, when workers move to sectors with higher productivity, regardless of its growth.

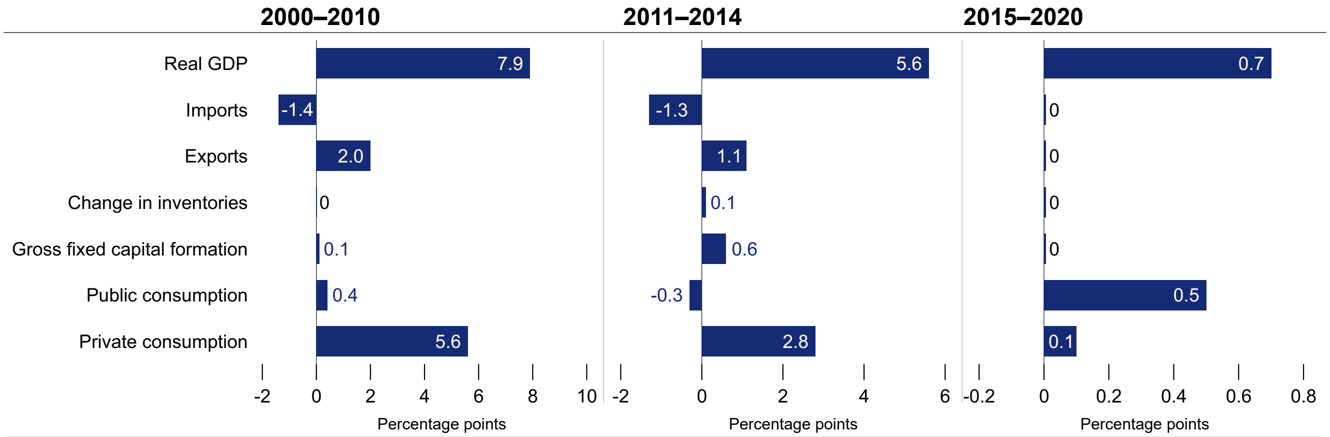
- Between 2000 and 2014, within-sector productivity growth and the reallocation of labor across sectors reinforced each other in promoting growth in Nigeria (Figure 2.9). However, productivity growth was largely driven by within-sector productivity growth followed by transitions to more-productive sectors.

- Agriculture and services exhibited noticeable growth in within-sector productivity. Productivity growth in

11 Measured by the residual of capital and labor accumulation, and not only technological innovation.

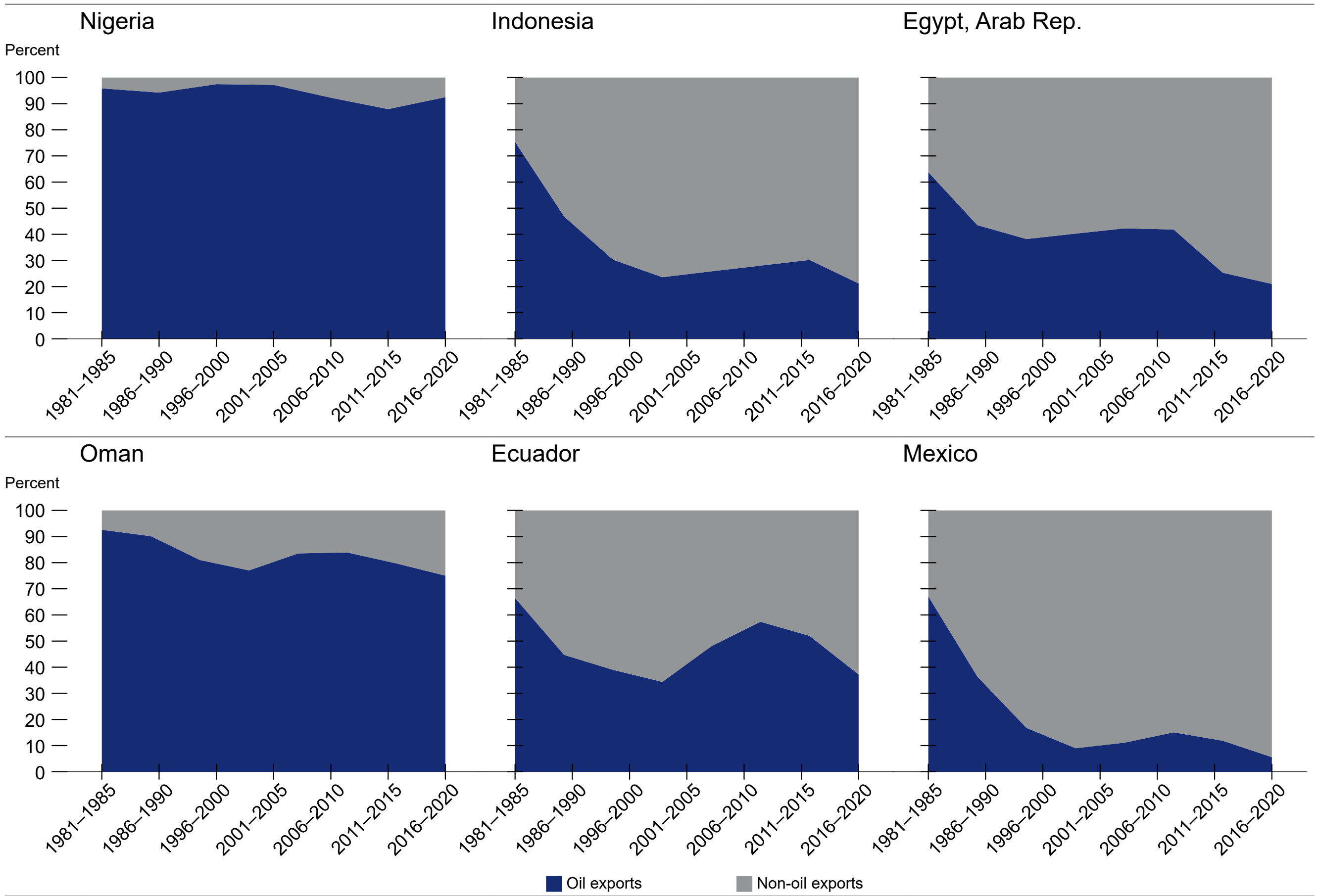
Figure 2.6. Investment has played a limited role in economic growth

Contributions to GDP Growth



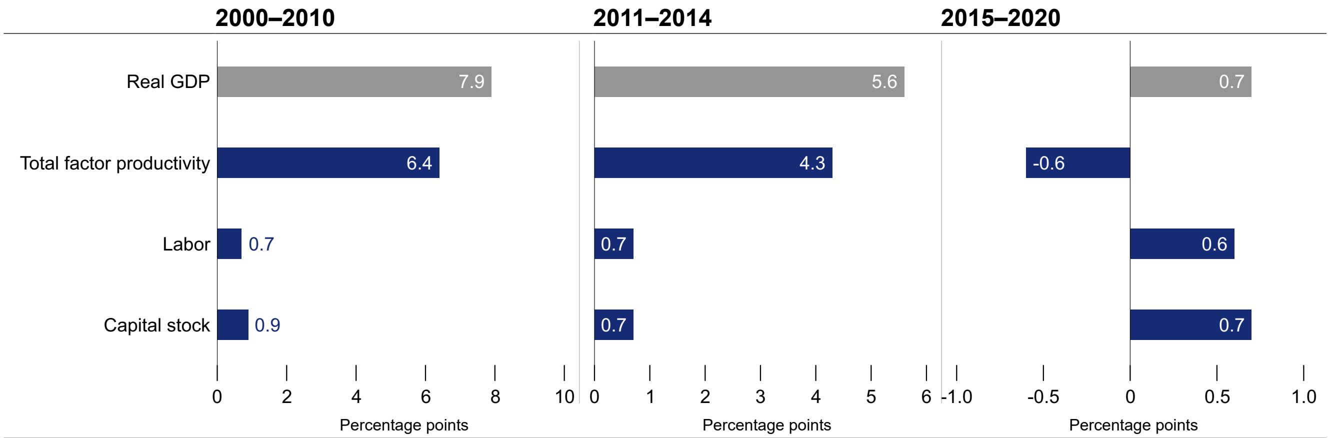
Source: NBS.

Figure 2.7. Oil exports continue to dominate the exports basket in Nigeria



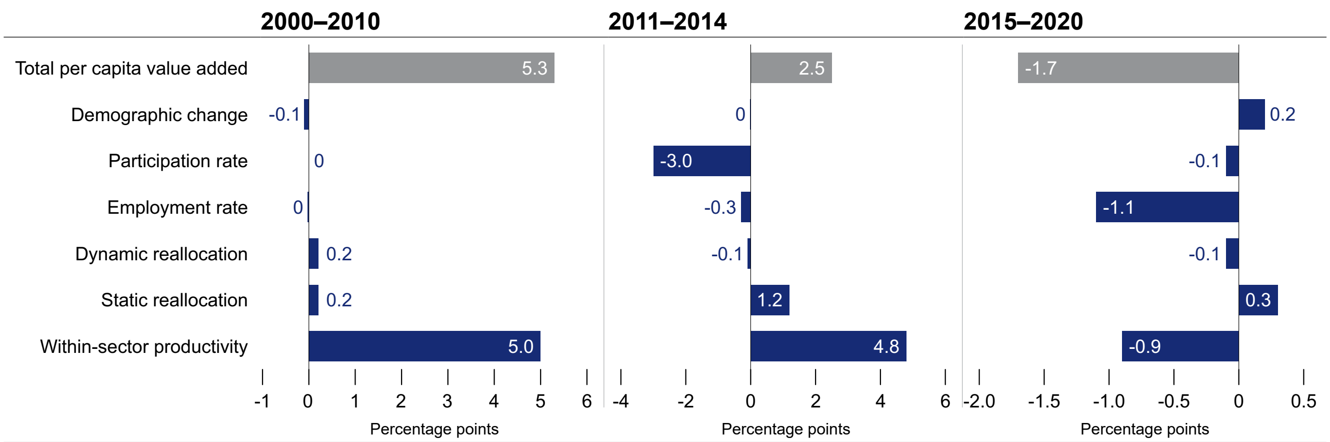
Sources: WDI and CBN.

Figure 2.8. The decline in structural GDP growth has been accompanied by a decline in TFP growth



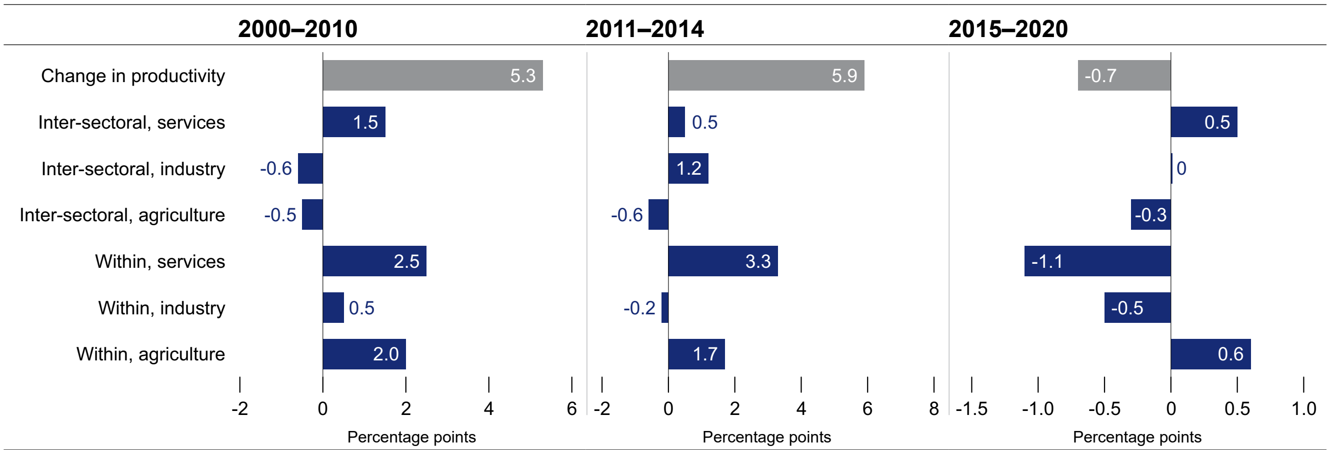
Source: NBS.

Figure 2.9. The contraction in within-sector productivity has led the decline in per-capita value added…



Source: WDI.

Figure 2.10. …driven by decreases in productivity in industry and services



Source: WDI.

agriculture (within-sector) generated three-quarters of the aggregate productivity gain in this period. In services, within-sector productivity growth was relatively more modest, but nonetheless positive (Figure 2.10). Labor reallocation from agriculture, and to a limited extent manufacturing, toward the services sector drove the main across-sector dynamics throughout the 2000s. However, reallocation effects remained limited compared with productivity dynamics within each sector.

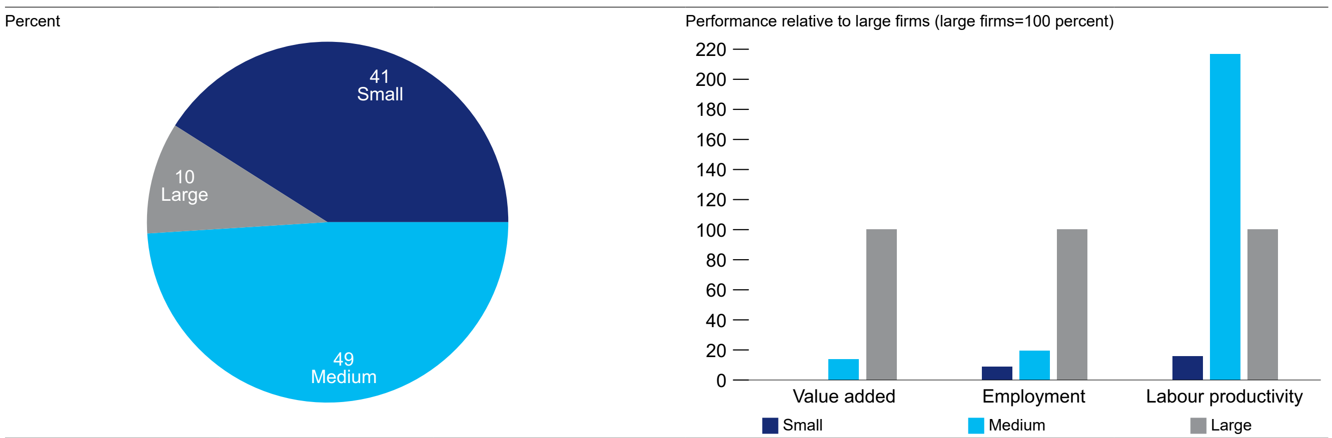
- Between 2015 and 2020, productivity declined due to within-sector productivity contractions and an increase in unemployment. The within-sector productivity contraction was shared across services and industry. The contraction in productivity growth within industry and services was significant and drove the overall decline in TFP. Despite decreasing productivity in agriculture, both industry and services lost employment shares to the agriculture sector. That is, given lack of opportunities elsewhere and low entry barriers in agriculture, the latter became the absorbing sector for new labor entrants despite low productivity and earnings. These effects were further exacerbated by the COVID-19 pandemic.

5. Nigeria's low productivity is also linked to the lack of large and mid-sized formal productive firms, pointing to a misallocation of labor.

Small firms represent 40 percent of the total number of firms in Nigeria and report the lowest productivity. Large firms are concentrated in telecommunications, oil production, and the financial sector. They are the most productive but have not been able to generate productivity spillovers. In 2014, smaller firms reported having more workers compared with 2009, but larger firms have higher levels of productivity and can create jobs faster.

There is a dual economy featuring large concentrations in employment among the most- and least-productive firms, even in the formal sector. The more-productive firms in Nigeria pay higher wages and the most-productive firms employ the most people, making productivity growth crucial to creating more and better jobs. However, there appears to be a missing middle, as the least-productive firms are the second-biggest employers. This dual economy is not driven by informality, as the same pattern holds when focusing only on formal firms. The missing middle, whereby there is a negative relationship between employment and productivity between the first and fourth quartiles, points to a misallocation of labor. This is because, ideally,

Figure 2.11. Small firms dominate the business landscape but report the lowest productivity



Source: Enterprise Survey 2009 and 2014. The sample is restricted to a balanced panel of firms that responded to both surveys.

labor should be allocated to the most-productive firms, and a generally positive relationship would be expected between employment and productivity.

6. Employment growth did not always occur in subsectors with the highest labor productivity growth, thereby dragging down aggregate productivity through misallocation

Employment growth did not always occur in subsectors with the highest labor productivity growth, thereby dragging down aggregate productivity through misallocation. The subsectors with the highest growth in employment between 2016 and 2017 were mostly those with low labor productivity[12]. This implies that labor has been flowing to increasingly less-productive sectors. Although the relationship between employment growth and productivity growth can be ambiguous,[13] it is ideally expected to be positive (Cusolito and Maloney, 2018). Labor should be allocated to more-productive sectors, where it can generate the most value, thereby increasing aggregate productivity. In that case, we would see a strong positive relationship between employment and productivity growth. Therefore, a negative relationship, whereby sectors with decreasing productivity receive more employment, means that misallocation across sectors may be on the rise. Industry, the sector that has been typically the driver of structural transformation, remains subdued. A Nigerian manufacturer needs almost one and half times more workers than the average LMIC firm to produce the same level of output.

Agriculture has been the primary driver of growth and employment over time. While services subsectors, such as trade and business services, increased their contribution to growth significantly between 2000 and 2014, agriculture has remained the main driver of growth and job creation. In the labor market, this has been reflected in a shift of employment into family agriculture. Moreover, the considerable growth of employment in agriculture is consistent with the absence of improvement in agricultural productivity. Nigeria's growth path has been distinct from that of other middle-income economies such as India or Indonesia, whose strong performance relied extensively on the services and manufacturing sectors. In Nigeria, by contrast, over the period of high growth of 2001–2010, the contribution of agriculture to GDP declined only marginally.

7. The economy is not generating enough pathways out of poverty due to the lack of economic transformation

Most poverty in Nigeria is in-work poverty, and working in any job does not guarantee a pathway out of poverty (World Bank, 2022b). Around 11.7 percent of Nigerian workers were primarily engaged in jobs in industry in 2018/19, compared with 42.4 percent in agriculture and 45.9 percent in services (including retail and trade and other types of services). Employment in agriculture is far more prevalent among Nigeria's poor: some 60 percent of workers from the bottom 40 percent of the consumption distribution were primarily engaged in agriculture, compared with 33.1 percent of those from the top 60 percent.

Working in farm and non-farm enterprises is very small in scale and may not generate the income required to lift households out of poverty. Among those working primarily in farming in 2018/19, around 36.5 percent produced farm outputs that were only or mainly for sale, and this share was higher for those in the top 60 percent of the consumption distribution (40.7 percent) than for those in the bottom 40 percent (32.2 percent). This resonates with previous evidence from Nigeria that suggests the commercialization

12 There are two caveats to this result. First, the data come from an MSME survey that excludes large firms. Second, productivity is measured as sales per employee. Sales data are influenced by the prices that firms can charge, and potentially reflect more factors than productivity differences alone (e.g., price-setting power, quality differences).

13 The relationship can be negative when productivity rises because jobs have been cut, e.g., by shedding superfluous workers or switching to technologies that require less labor; or it can be positive when more-productive firms expand.

Figure 2.12. Employment in agriculture is more prevalent among the Nigerian poor

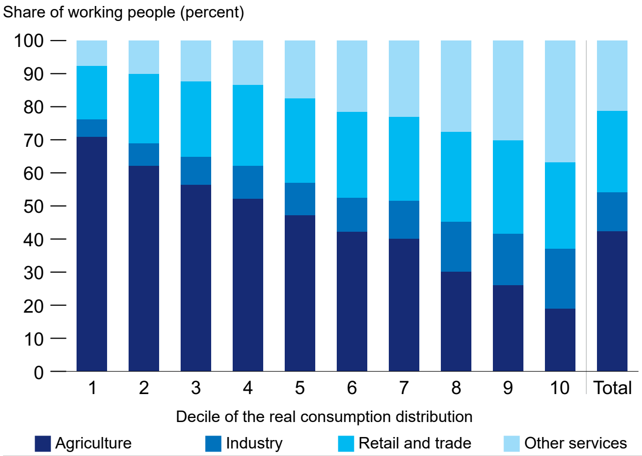
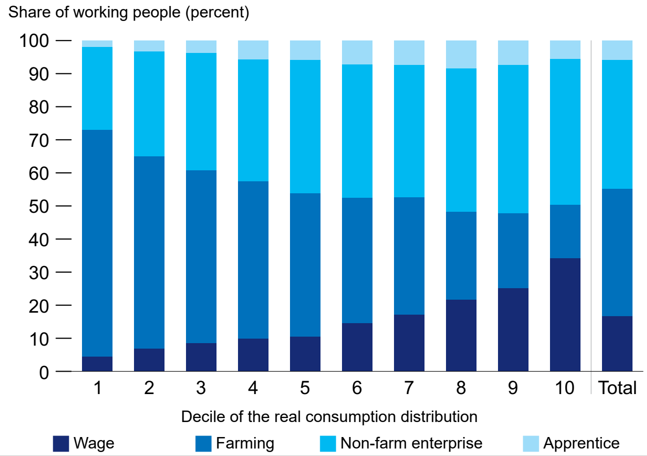


Figure 2.13. Only 16.7 percent of Nigerians have a wage job



Sources: 2018/19 Nigerian Living Standard Survey and World Bank estimates.
Note: Sample restricted to individuals of working age (aged 15–64) who were working. Primary job refers to the job that individuals spent the most hours on during the previous week.

of agricultural activities may not be widespread (Ecker & Hatzenbuehler, 2021). Similarly, non-farm enterprises were unlikely to employ people from outside the household: just 16.5 percent of non-farm enterprise workers engaged employees from outside their household, with this share being even lower for those from the bottom 40 percent of the consumption distribution.

What will it take to a chart a new growth path?

Nigeria is at a pivotal moment in its history. Nigeria was one of the best growth performers globally in the 2000s, but it failed to efficiently use the large windfalls from natural resources and build institutions that could foster structural transformation and job creation. As a result, Nigeria is struggling to keep pace with the growth rates and transformation of its peers, and improvements in its development outcomes have stalled since the early 2010s. For instance, GDP per capita dropped from US$2,280 in 2010 to US$2,097 in 2020, and the number of Nigerians living below the poverty line rose from 68 million to about 80 million—the world's second-largest poor population after India. Moreover, Nigeria is one of the least developed countries in the world, with a ranking of 160 out of 188 on the 2021 Human Development Index.

The choices that Nigeria faces are not easy. The country's development challenges are numerous. But if Nigeria and its leaders choose to take the risk of moving on from the status quo and business-as-usual, then the next few years could see Nigeria rise to its full potential. Lifting at least 80 million Nigerians out of poverty will require swift and decisive action to address insecurity and conflicts, high levels of poverty, population growth, and youth unemployment, macroeconomic and fiscal challenges, long-standing governance issues, crises in power and water supply, bottlenecks to private investment and competitiveness, and poor human development outcomes. Although Nigeria faces serious structural challenges, reforms that lay the foundation for robust and inclusive growth through private investment and job creation could rapidly improve the welfare of its citizens and accelerate convergence with other middle-income economies. To free up space for the private sector and enable it to serve as the engine of growth and job creation, the priority is to restore macroeconomic stability through adequate fiscal, trade and monetary policy.

Nigeria has the potential and resources to accelerate growth and reduce poverty. While there is no silver bullet to accelerate growth, Nigeria can become a rising growth star again if it implements a comprehensive set of bold reforms in a timely manner. Skeptics may argue it is unrealistic for Nigeria to chart a new development trajectory and grow at around 7 percent per year instead of the current 2–3 percent, or to abandon the over-reliance on oil, together with its legacy of weak governance and poor track record of macroeconomic policies. But in 2000, skeptics would have dismissed the likelihood that Nigeria would become a LMIC and quadruple its income per capita over the following decade. And yet this is nonetheless what it did. Hence, despite the current challenges, Nigeria can still chart a sustainable and inclusive growth path based on solid economic institutions with a sound macroeconomic environment that reduces regional disparities, strong human capital that will help children reach their full potential and acquire the skills needed for a modern economy, and productive firms that create more and better jobs.

To chart a new and inclusive growth path, Nigeria needs macroeconomic and institutional enablers and investment accelerators

To achieve the desired success and forge a faster and more inclusive growth path, the World Bank Nigeria Country Economic Memorandum proposes a strategy based on a prioritized set of reforms. Nigeria's aspiration to chart a new path to upper middle-income status requires the effective implementation of a wide range of reforms that span across all parts of government, the private sector, and society. In particular, bold first- and second-generation reforms are required. First-generation reforms—termed as "enablers"—consist of fiscal adjustment, exchange rate, and trade liberalization reforms that seek to create the right foundations for a well-functioning economy. Meanwhile, second-generation reforms—termed as "accelerators"—are critical to developing market institutions and a vibrant private sector that creates quality jobs. Both sets of reforms will require strengthening coordination between federal, state and local governments to reduce inefficiencies and maximize synergies.

To catalyze private investment and offer more opportunities to the youth, the priority is to restore and preserve macroeconomic stability. To do so, it will be critical to improve the availability of FX, and the predictability and credibility of the exchange rate system to ensure a level playing field across all firms and individuals. In parallel, reducing inflation—which pushed an estimated 8 million Nigerians into poverty in 2020 and 2021—is another key priority to tackle. This can be done by adopting a single and market-driven exchange rate regime, and enforcing the legal limit that prevents the Federal Government from borrowing more than 5 percent of the previous year's fiscal revenues from the CBN. There is also an urgent need to strengthen the macro-fiscal framework to provide sufficient resources to deliver quality public services, including investments in human capital, and maintain debt sustainability by: (i) eliminating the costly and regressive petrol subsidy (estimated at 2.7 percent of GDP in 2022); (ii) increasing non-oil revenues by broadening the non-oil tax base efficiently and equitably; and (iii) improving the efficiency of spending.

Strengthening the rule of law and promoting market contestability and competition are also needed to foster a business-friendly environment that creates quality jobs. Given the diverse range of security threats that has impacted the Nigerian social fabric in recent years—as evident by the 200 percent increase in number of conflict events between 2018 and 2021—it will be important to build up social cohesion to enhance citizen participation and help restore government presence. In addition to strengthening the rule of law, a business-enabling environment is essential to support a more efficient allocation of resources and increasing firms' productivity. To that end, the Nigerian authorities are encouraged to reduce administrative burdens, reduce barriers to entry to strengthen market contestability and competition, and improve the transparency and management of land markets by enhancing land use planning and strengthening tenure security.

In addition to macroeconomic and institutional enablers, investment accelerators are critical to develop a more competitive private sector. Four binding constraints to private investment need to be addressed to revitalize the private sector. First, unreliable power supply is the biggest deterrent to private sector development in Nigeria, causing annual economic losses estimated at US$28 billion (5 percent of GDP). Second, Nigeria remains one of the of the world's least diversified countries, due to high trade and transport costs, a restrictive trade policy environment, and numerous constraints in the overall investment climate. The protectionist trade regime limits growth opportunities and raises production costs for the private sector. Third, low access to finance constrains the access of firms to varied sources of funding, in particular for micro, small, and medium enterprises. Only 11.4 percent of firms in Nigeria have access to finance, a lower share than the average of the region and of other middle-income countries. Fourth, Nigeria is capturing a fraction of its digital economy growth potential, as evident from the household penetration rate for fixed broadband, which was just 0.04 percent in 2018, below the African and global averages of 0.6 and 13.6 percent, respectively.

1. Restore macroeconomic stability

Providing macroeconomic sustainability, marshaling fiscal resources, and building the transparency, accountability, and effectiveness of public institutions are prerequisites to promoting inclusive development and building trust across society. Nigeria, however, features several economic anomalies—such as multiple exchange rates, restrictions, and pro-cyclical fiscal policies—that are partly explained by the dominance of the oil sector. Trade protectionism is also widespread, leading to a sub-optimal allocation of resources within productive sectors. As a result, many investors have concluded that Nigeria's macroeconomic management is weak and have therefore declined to invest more fully in the country's economic transformation. Further inhibiting this transformation is the "yo-yo" effect of workers shifting back and forth between agriculture and services, in response to changes in the oil price (World Bank, 2020a).

1. Increase oil and non-oil revenues to set Nigeria on a fiscally sustainable path

Nigeria's revenues are among the lowest globally. As revenues remain volatile and low, the country has adjusted spending to achieve fiscal sustainability. Low revenue and costly subsidies undermine the government's ability to finance necessary expenditures in critical areas, such as health, education, security, and Nigeria's vast infrastructure gap. Over-reliance on oil and low tax rates are major obstacles to accelerating revenue mobilization. Oil and gas revenues are volatile and have been reducing, amid a secular decline in oil production and the burden of petrol subsidies to consumers. Oil fiscal savings rules broadly functioned until 2012, but since then savings have been depleted and not replenished.

- **Eliminate the petrol subsidy.** Nigeria's petrol subsidy imposes a massive and unsustainable fiscal burden (2.7 percent of GDP in 2022), and an even greater opportunity cost. By maintaining an inefficient price control on PMS, Nigeria is forgoing productivity-enhancing investments in essential public goods and services.

- **Increase non-oil revenues.** Two sets of actions can contribute to achieving this goal:

    - **First, broaden the non-oil tax base efficiently and equitably.** Low tax rates are a major obstacle to accelerating revenue mobilization. Despite rising from 5.0 to 7.5 percent in 2020, the standard VAT rate in Nigeria remains by far the lowest in SSA. A weak tax administration also hinders revenue mobilization. For instance, poor

VAT efficiency reflects exemptions on a wide range of goods (e.g., food, pharmaceuticals, education) and weak administrative performance. Moreover, certain classes of taxpayers escape the income tax net entirely or in part.

- **Second, reduce tax expenditures.** Nigeria started publishing cost-benefit analyses of its tax expenditures on a regular basis to inform the preparation of the annual Medium-Term Expenditure Framework and Fiscal Strategy Paper. However, adequate management of tax expenditures is hindered by shortcomings in the legislative framework and overlaps across several public institutions. Best practice suggests that tax expenditures should be decided solely through tax laws.

2. Reduce inflation through a sequenced and coordinated mix of trade, monetary, and fiscal policies to protect the welfare of Nigerians

Inflation in Nigeria has been chronically high and among the highest in the world. Inflationary pressures from global and domestic supply shocks are compounded by policy distortions, in particular: (i) a lack of flexible FX management; (ii) trade restrictions; and (iii) conflicting monetary policy goals. Nigeria's monetary policy is not helping reduce inflation. In particular, FX management and development finance at subsidized rates have reduced the effectiveness of the monetary policy. Since 2018, the CBN has increasingly financed the federal government, heightening inflationary pressures. Moreover, the CBN's policy goals—stabilize the de facto exchange rate, promote economic growth, and contain inflation—are at odds with each other. Partly due to weak fiscal management, since 2015 the CBN has increasingly focused on directly promoting growth and industrial development. Meanwhile, high inflation has worsened poverty and depressed economic activity. Between 2020 and 2022, for instance, the inflation shock has pushed an estimated 15 million Nigerians into poverty.

- **Trade measures:** Remove imports of staple foods and medicines from the list of FX restrictions, and replace restrictions with tariffs that reflect the ECOWAS Common External Tariff. Review FX restrictions and import bans on non-food goods and assess the implications of replacing them with tariffs.

- **Monetary policy:** Reduce subsidized CBN lending to medium and large firms. To further reduce the Federal Government's recourse to CBN financing, and enforce the legal limit that prevents the Federal Government from borrowing from the CBN more than 5 percent of the previous year's fiscal revenues.

3. Unify and adopt a market-responsive exchange rate

The CBN's exchange rate management policies continue to discourage investment and fuel inflation. Exchange rate stability is a key CBN objective; to preserve its external reserves, the CBN continues to manage FX demand, set the price, and limit the supply of FX to the market. Although the CBN has raised the nominal official exchange rate three times since 2020 (by 15 percent in March 2020, 5 percent in August 2020, and 7 percent in May 2021), FX management remains too rigid to effectively respond to external shocks.

Enhance the efficiency of the I&E window. Allow the willing-buyer-willing-seller mechanism to fully operate by not constraining the size and quotes of orders set by commercial banks on behalf of third parties. Clearly communicate the exchange-rate management strategy will build credibility and improve the availability and accessibility of FX.

Re-establish the US dollar interbank market and re-enable commercial banks to trade FX on their own behalf and not solely to fill client orders. This would help increase the depth and liquidity of the FX market while improving price discovery. Banks would also be able to absorb some unexpected FX demand and supply shocks, gradually lessening the need for CBN interventions, while still being subject to net open position limits and other prudential requirements. The reestablishment of the US dollar interbank market would also help participants reallocate FX liquidity and comply with prudential standards.

2. Boost private sector development and competitiveness

Macroeconomic foundations alone will not make the economy more competitive. To sustain growth and job creation in the long term, structural constraints that hinder private investment must be addressed. While the development challenges are vast, a change of policies in two areas is urgent to improve the productivity of the economy by reducing the cost of doing business and improving the allocation of resources: (i) access to reliable power by investing in the sector's infrastructure; (ii) trade policies that boost domestic valued added by reducing protectionist measures; and (iii) strengthened competition in the domestic market.

4. Strengthen competition and reduce trade restrictions to boost domestic value added

Nigeria's protectionist trade regime limits growth opportunities and raises production costs for the private sector. Nigeria remains one of the world's least diversified countries, due to high trade and transport costs, a restrictive trade policy environment, and numerous constraints in the overall investment climate. In recent years, there has been a significant escalation in the scale and scope of import restrictions. Many of them have been intended to support the development of domestic production and processing, especially of staple food items. They include FX restrictions, import bans, border closures, and high tariffs. However, these policies have done little to boost domestic production and have increased evasion due to the country's highly porous borders, large informal sector, and underdeveloped domestic supply chains. Nigeria exports relatively little to the rest of the continent. Its formal intra-regional exports as a share of total exports are less than 10 percent, while almost one-quarter of South Africa's exports go to the African region.

The degree of competition is weak in Nigeria when compared with peers. While the country has made significant progress in passing its competition law, its policy approach to competition still needs to be strengthened. Nigeria ranks below peer countries on perception-based indices of the degree of competition, and several key markets exhibit a high degree of concentration and poor market outcomes such as high prices or low access, reflecting barriers to entry and to expansion of smaller firms. Boosting product market competition in Nigeria is critical for enabling more efficient allocation of resources and productivity growth and making staple products more affordable to increase consumer welfare: for example, available retail price data for 41 food items provide preliminary evidence that retail prices are generally higher in Lagos than in other major cities in the rest of the world even when controlling for GDP per capita, import costs, the status of logistics, and local tax rates, suggesting an opportunity to increase competition to improve consumer outcomes.

Industrial policies that protect local incumbent firms and weak competition enforcement capacity constitute some of the most critical constraints to competition in Nigeria. Local content rules[14] and import bans and quotas[15] are pervasive, especially in critical sectors such as ICT, oil and gas, food, cement, and medicine. These policies create an unlevel playing field between domestic and foreign firms, inhibit investment, and raise prices for households and downstream firms. In key sectors such as ICT, sectoral regulations also make it harder for domestic and foreign entrants alike to challenge with incumbent firms: For example, Nigeria's current regulatory framework with respect to ICT grants zonal monopolies for wholesale

14 Guidelines for Nigerian Content Development in the ICT sector, NITDA, 2013. https://www.pwc.co.za/en/assets/pdf/nigeria-ict-local-content-guidelines-alert.pdf

15 https://www.export.gov/article?id=Nigeria-Prohibited-and-Restricted-Imports

broadband infrastructure, and there are currently no regulations that mandate infrastructure sharing by dominant operators that may possess control over bottleneck facilities. Relatedly, certain large players appear to exercise significant influence over the way Nigeria designs its industrial, trade, and investment policies, resulting in industrial standards and state aid policies that often favor specific firms over others in the same sector: For example, cement standards in Nigeria favor the largest local company as they are not in line with global standards but adhere closely to cement specifications from the largest company's plant. Finally, although Nigeria has made important legal reforms to combat abusive practices by dominant firms, regulators' capacity to enforce these rules remains limited in practice, with the Federal Competition and Consumer Protection Commission (FCCPC) ranking low on efficiency measures relative to regional peers.

- **Remove trade restrictions to decrease customs evasion and reduce production costs.** A wide range of restrictions are intended to support the development of domestic production and processing, especially of staple food items. One of the areas where trade restrictions have the most impact is customs evasion. Current import bans, in combination with unpredictable enforcement and cumbersome customs procedures, cause large-scale smuggling, and FX bans have led to substantial reductions in reported imports. Increased openness to trade can help Nigeria achieve long-standing policy goals of economic diversification and industrial development.

- **To achieve competitive markets, Nigeria must put in place an approach to competition that encompasses both enforcement of the competition law and the design of pro-competition government interventions.** A critical first step could be to develop binding collaboration agreements and guidelines on collaboration between FCCPC and sectoral regulators such as the National Communications Commission to reform regulations that constrain competition and enforce laws governing abuse of dominance and anti-competitive practices. This should be accompanied by efforts to increase the efficiency of FCCPC by improving its human resources, giving it the legal capacity to introduce remedies, and implementing independent budget allocation for its various mandates. Relatedly, addressing competitive distortions introduced by industrial policies—including reducing local content requirements, import bans and quotas, and restrictions on entry of foreign companies and making administration of incentive schemes as transparent and objective as possible—is also critical.

5. Ensure access to reliable power to reduce the cost of doing business

Unreliable power supply is one the biggest deterrent to private sector development in Nigeria. Lack of power consistently tops the list of constraints facing the private sector. Most firms connected to the national grid receive less than five hours of power per day. Meanwhile, 40 percent of the population (85 million Nigerians) do not have access to electricity, well above the average of 14 percent across LMIC. The average Nigerian consumes 147 kWh per year, one-fifth of the average for LMICs. Chronic power shortages reduce the incentives for investors to expand production and create more jobs. Notably, in the absence of reliable power, 30 percent of SMEs and 26 percent of households are estimated to use gasoline generators, whose combined capacity is eight times larger than that of the national grid. However, these generators are expensive, and cause 1,500 deaths annually from smoke inhalation. Furthermore, until recently, electricity tariff subsidies imposed an unsustainable fiscal burden on the Government. For instance, between 2015 and 2020, such subsidies cost on average US$1.2 billion per year.

- **Strengthening the regulatory environment, to enhance market competition and corporate governance among power generation and distribution companies.** Nigeria's power sector is unbundled and, since 2013, largely privately owned. However, a weak regulatory framework has led to limited enforcement of contracts and delays in electricity tariff reviews.

- **Improving operational efficiency in electricity generation, transmission, and distribution systems.** Opportunities include: (i) tackling electricity theft and bill collection to reduce high system losses; and (ii) increasing accountability and transparency by timely publishing audited financial statements for all distribution companies, according to international financial reporting standards.

- **Investing in infrastructure to reduce technical and commercial losses.** Distribution companies lose about 50 percent of every kWh produced, well above the international standard of 15 percent. Opportunities include: (i) accelerating the introduction of metering for customers; (ii) upgrading and rehabilitating transmission lines; and (iii) adopting a strategy to expand access to electricity that encompasses off-grid solutions.

3. *Expand social protection to protect the poor and most vulnerable*

The double-digit increase in prices, especially of food and essential commodities, over the past few years, at a time when incomes have been flat or declining, has pushed millions of Nigerians into poverty and reduced the welfare of many more. In addition, multiple concurrent shocks, due to the COVID-19 pandemic, and, most recently, the war in Ukraine and severe flooding in many parts of the country, continue to plague the poor and vulnerable in Nigeria. It is therefore important for the Government to ramp up social support to the poorest and most vulnerable citizens to cushion the impact of these multiple concurrent shocks, and help build their resilience and ability to weather future shocks.

Prior to now, the Government of Nigeria has already been progressively leveraging social protection as a key instrument to provide economic and social support, and pathways out of poverty for the poor and vulnerable. The Government introduced a National Social Protection Policy (NSPP) Framework in 2017, which seeks to establish a minimum social floor for all Nigerian citizens. The 2021 update to the NSPP further seeks to strengthen social protection systems, particularly by developing and using the National Social Registry (NSR) for adequate beneficiary selection of all social and labor market programs, improving coordination and integration between state and national registers, and establishing a strong information management system. The Federal Ministry of Humanitarian Affairs, Disaster Management and Social Development was set up to further institutionalize the delivery of the Government's Social Investment Program (SIP) and to create an institutional home for the coordination of social protection across the country.

Cash transfers represent a key element of the Government's social protection efforts. Under the Government's National Social Safety Nets Project (NASSP), Nigeria's cash transfer program provides targeted cash transfers to the most vulnerable households with the long-term goal to support lifting millions out of poverty. About 1.9 million poor and vulnerable households mined from the NSR receive bi-monthly cash transfers under the NASSP, alongside complementary livelihood services and savings groups mobilization schemes. The NASSP also supported the development of a Rapid Response Registry that has been used by the Government to provide short-term cash transfers targeted at the urban poor and vulnerable, and informal sector workers affected by the pandemic. However, even with the NASSP, which drastically expanded the coverage of the cash transfer programs in Nigeria, overall coverage remains low, with less than 10 percent of the poor and vulnerable receiving transfers.

The need for an expanded and shock-responsive system motivated the design of the National Social Safety Nets Project Scale Up (NASSP-SU) in 2021. The NASSP-SU aims to expand coverage of shock responsive safety net support among the poor and vulnerable, and strengthen the national safety net delivery system. It intends to further expand coverage to reach an additional 8.2 million households (about 41 million individuals) through short-term cash transfer programs identified from the NSR in rural areas and the Rapid Response Registry in urban areas.

NASSP-SU presents an opportunity for the Government of Nigeria to establish a new social compact with Nigerians, particularly if it decides to phase out the petrol subsidy. Phasing out the petrol subsidy would generate enormous fiscal savings, but it would also adversely affect consumers via higher pump prices and the inflationary pass-through effect on transportation costs. Establishing a redistribution mechanism that uses a portion of the fiscal savings to protect lower-income households could minimize the negative impact on consumer welfare, while still yielding a large net gain in government revenues. To build public support for phasing out the subsidy, the Government could propose a compact with Nigerian citizens. It can publicize these compensatory cash transfers, explaining their relationship to the petrol subsidy reform, as well as the eligibility criteria and transfer mechanisms involved. The government can also outline new targets for public service delivery that will be achieved with the fiscal savings from phasing out the petrol subsidy. This compact should define specific actions to be undertaken by different government ministries, departments, and agencies, enabling the media and civil society to monitor compliance.

Sound implementation and consensus among elites is critical to operationalize all these reforms

Sequencing the reforms is paramount for a successful implementation. All the proposed actions are critical to realizing Nigeria's potential. However, not all actions can be implemented immediately and yield results in the short term. Considerations about the political economy, global context, and adequate funding are necessary to

Table 2.1. Key policy reforms for faster and more inclusive growth

*Time horizon**	*Policy reforms*
Sprints	Adopt a single and market-reflective **exchange rate**
	Increase **non-oil revenues** by raising VAT and excise rates and strengthening tax administration
	Facilitate **trade and boost domestic value added** by removing import and FX restrictions
Medium distance runs	Eliminate the **petrol subsidy** by establishing a "compact" which also protects the poor and vulnerable
	Contain **inflation** by reducing the Federal Government's recourse to CBN financing
Marathons	Boost **competition** by embedding it into policy, enhancing enforcement, and simplifying rules to lower costs
	Boost **power generation** by investing in infrastructure **and addressing inefficiencies** to reduce technical and commercial losses

Source: World Bank.
Note: *Sprints are stroke-of-the-pen reforms implementable within 1–3 months or less at no fiscal cost, given the political will. Medium distance runs are programs implementable within 18 months with tangible benefits for millions of Nigerians that can help make the sprints more bearable. Marathons are longer-term structural initiatives and institutional reforms that can be initiated and put on a firm footing in the next three years but will take longer to complete. Blue boxes are policies to be implemented at the federal level, while grey boxes are policies that require both federal and state level implementation.

improve the chances of successfully implementing any reform. Against this background, "sprints" are stroke-of-the-pen reforms implementable within one to three months at no fiscal cost, given the political will; "medium-distance runs" are programs implementable within 18 months with tangible benefits for millions of Nigerians; and "marathons" are long-term structural initiatives that can be initiated and put on a firm footing in the next three years.

To implement this set of prioritized reforms, the authorities need to walk the talk and shift their focus from the "what" to the "how". Over the years, Nigerian governments have developed a plethora of development plans (Vision 2020 and Vision 2030) and sectoral strategies that analyzed, identified, and set targets for tackling various development challenges. Nonetheless, many of the ambitious targets set in these strategies were not achieved because of weak implementation. For instance, Nigeria's per capita income was US$2,097 in 2020, almost half of the target set in Vision 2020 that was developed in 2009. To place a higher priority on effective implementation and prioritize interventions, the authorities could develop an institutional arrangement that promotes accountability and coordination and that focuses on improving results as measured by outcomes in a limited number of priority areas. To effectively coordinate policy implementation across tiers of government, any type of institutional arrangement should support a culture change that prioritizes the delivery of public services and meeting citizens' needs and should be anchored at the center of policymaking.

Policy implementation, implementation, and implementation. The development agenda, which has not changed for several years and is unlikely to be corrected overnight, remains significant. For any reform to succeed, adequate and sustained implementation through subsequent government administrations will be critical. But policy implementation is not a byproduct of economic growth. 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. Only with sustained implementation can we finally stop talking about Nigeria's potential and start talking about Nigeria's actuals.

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Nigeria: Key Economic Indicators

Economy	***2015***	***2016***	***2017***	***2018***	***2019***	***2020***	***2021***	***2022f***	***2023f***	***2024f***
Real GDP Growth (% yoy)	**2.7**	**-1.6**	**0.8**	**1.9**	**2.2**	**-1.8**	**3.6**	**3.1**	**2.9**	**2.9**
Nominal GDP (Naira tr)	95	103	115	129	146	154	176	209	246	281
Oil Production (mb/d)	2.1	1.8	1.9	1.9	2.0	1.8	1.6	1.4	1.5	1.6
Oil Price (Bonny light, US$/bbl)	54	45	55	72	65	41	66	90	80	75
Inflation (%, average)	9.0	15.6	16.5	12.1	11.4	13.2	17.0	19.0	16.0	13.5

Real sectoral growth (%, yoy)	***2015***	***2016***	***2017***	***2018***	***2019***	***2020***	***2021***	***2022f***	***2023f***	***2024f***
Real GDP Growth	2.7	-1.6	0.8	1.9	2.2	-1.8	3.6	3.1	2.9	2.9
Agriculture	3.7	4.1	3.4	2.1	2.4	2.2	2.1	1.6	1.9	2.2
Industries	-2.2	-8.9	2.1	1.9	2.3	-5.8	-0.5	-2.5	4.3	3.7
Industry-Oil	-5.4	-14.4	4.7	1.0	4.6	-8.9	-8.3	-13.6	7.1	3.3
Industry-NonOil	0.1	-5.0	0.6	2.4	0.9	-3.9	4.4	3.5	3.1	3.9
Services	4.8	-0.8	-0.9	1.8	2.2	-2.2	5.6	6.1	2.9	2.9
Oil GDP	-5.4	-14.4	4.7	1.0	4.6	-8.9	-8.3	-13.6	7.1	3.3
Non-Oil GDP	3.7	-0.2	0.5	2.0	2.1	-1.3	4.4	4.5	2.7	2.8

Sources: NBS and World Bank estimates.

External Sector	***2015***	***2016***	***2017***	***2018***	***2019***	***2020***	***2021***	***2022f***	***2023f***	***2024f***
Exchange rate - official (₦/US$, end of period)	197	305	306	307	307	380	413	444		-
Exchange rate - parallel (₦/US$, end of period)	267	490	363	363	362	465	570	777	-	-
Real effective exchange rate index (end of period)	67	86	99	87	79	79	66	61	-	-
Current Account Balance (% GDP)	-3.2	1.3	3.4	1.6	-3.3	-3.8	-0.4	2.1	1.2	0.5
Exports of Goods and Services (US$ bn)	49.0	38.4	50.8	66.0	69.9	39.9	50.9	68.2	62.6	60.9
o/w oil and gas exports (US$ bn)	42.4	32.0	42.3	56.6	54.5	31.4	45.1	57.6	51.3	48.8
Imports of Goods and Services (US$ bn)	71.9	47.0	50.9	71.6	100.8	72.2	66.1	67.3	69.7	72.2
Net transfers (including remittances) (US$ bn)	20.2	19.9	22.0	24.1	26.4	21.0	22.0	25.3	26.0	26.6
Net Direct Investment (US$ bn)	1.6	3.1	2.1	0.2	2.0	0.1	1.5	1.4	1.6	1.7
Net Portfolio Investment (US$ bn)	0.9	1.9	10.3	0.0	3.1	-3.6	5.9	3.5	3.2	3.5
External Reserves (US$ bn, end of period)	29	26	39	43	39	35	41	37	-	-
Equivalent months of imports of G&S	5	7	9	7	5	6	7	7	-	-

Sources: CBN, FMDQ, Nairametrics and World Bank estimates.

Monetary and Financial Sector (% change yoy, end of period, unless indicated otherwise)	*2015*	*2016*	*2017*	*2018*	*2019*	*2020*	*2021*	*2022f*	*2023f*	*2024f*
Money Supply (M2)	5.9	17.8	2.3	12.1	6.3	31.0	17.5	21.9	-	-
Narrow Money	24.1	31.5	-0.9	5.2	-10.4	51.7	14.0	29.0	-	-
Net Foreign Assets	-18.7	61.8	69.6	18.5	-68.5	26.4	27.5	-16.2	-	-
Net Domestic Credit	12.1	24.3	-3.5	6.3	31.2	17.6	17.8	34.9	-	-
Credit to Government	152.0	68.6	-25.4	33.7	94.9	30.8	20.4	75.2	-	-
Credit to Private Sector	3.3	17.4	1.4	1.9	17.6	12.9	16.8	17.8	-	-
Monetary policy parameters:										
Monetary Policy Rate (absolute rate, end of period)	11.0	14.0	14.0	14.0	13.5	11.5	11.5	16.5	-	-
Liquidity Ratio (absolute rate, end of period)	30.0	30.0	30.0	30.0	30.0	30.0	30.0	30.0	-	-
Cash Reserve Requirement (absolute rate, end of period)	20.0	22.5	22.5	22.5	22.5	27.5	27.5	32.5	-	-

Financial Market Indicators (end of period)										
Stock Market (NSE) Index	28,642	26,875	38,243	31,431	26,842	40,271	41,815	43,839	-	-
Fitch Sovereign Long Term Foreign Debt Rating	BB-	B+	B+	B+	B+	B	B	B-	-	-
Moody's Sovereign Long Term Foreign Debt Rating	Ba3	B1	B2	B2	B2	B2	B2	B3	-	-
S&P Sovereign Long Term Foreign Debt Rating	B+	B	B	B	B	B-	B-	B-	-	-

Sources: CBN, NGX, FITCH, Moody and S&P.
Note: M2, Narrow Money, Net Foreign Assets, Net Domestic Credit (government and private) and stock market index are as at October 2022; Monetary Policy Parameters are as at November 2022.

Nigeria: General Government Fiscal Summary - preliminary										
Actual (%GDP)	*2015*	*2016*	*2017*	*2018*	*2019*	*2020*	*2021*	*2022f*	*2023f*	*2024f*
Total revenues	**7.5**	**5.9**	**6.8**	**8.2**	**7.4**	**6.5**	**7.0**	**6.3**	**6.1**	**6.9**
Federally collected	6.4	4.5	4.9	6.1	5.5	4.6	4.6	4.2	3.9	4.8
Oil and gas revenues	3.2	1.6	2.3	3.6	2.8	2.0	2.2	1.3	1.3	2.1
Non-oil revenues and other revenues	3.2	3.1	3.1	3.0	2.9	3.1	2.5	2.9	2.6	2.7
Independent and other revenues	1.1	1.5	1.8	2.1	1.9	1.9	2.4	2.1	2.2	2.1
Total expenditure	**10.7**	**9.7**	**10.8**	**11.9**	**12.0**	**11.6**	**13.1**	**11.9**	**11.8**	**12.1**
Overall balance (general government)	-3.2	-3.8	-4.1	-3.6	-4.5	-5.4	-6.1	-5.7	-5.8	-5.2
Public Debt (net)	14	19	22	26	28	33	36	36	37	37
Domestic debt	12	16	17	20	22	25	27	27	28	29
External debt	2	3	5	6	6	8	10	9	9	9

Nigeria: Federal Government Fiscal Accounts - preliminary										
Actual (%GDP)	***2015***	***2016***	***2017***	***2018***	***2019***	***2020***	***2021***	***2022f***	***2023f***	***2024f***
Total Revenue	**2.7**	**2.0**	**2.4**	**3.0**	**2.8**	**2.2**	**2.7**	**2.3**	**2.2**	**2.5**
Share of federally collected revenues	2.3	1.7	2.0	2.5	2.4	1.8	1.9	1.6	1.4	1.8
Oil, Gas and Mineral Revenue (incl. signature bonus)	1.5	0.7	1.0	1.5	1.2	0.8	1.1	0.6	0.6	0.9
Non-Oil Revenue	0.9	1.1	1.0	1.0	1.2	1.0	0.8	1.0	0.9	0.9
FG Independent revenues and grants	0.4	0.3	0.4	0.6	0.4	0.4	0.8	0.8	0.8	0.8
Total Expenditure	**5.0**	**4.7**	**5.7**	**6.1**	**6.9**	**6.6**	**8.1**	**7.5**	**7.3**	**7.4**
Recurrent Expenditure	4.4	3.9	4.4	4.7	5.2	5.4	5.1	5.7	5.6	5.7
Personnel Cost (including Pensions)	2.2	1.8	1.8	1.8	1.8	2.1	2.0	2.0	1.7	1.7
Overhead Cost	0.1	0.1	0.2	0.1	0.2	0.2	0.2	0.2	0.2	0.2
Other recurrent (incl. COVID-19 intervention and power sector)	1.0	0.7	1.1	1.0	1.5	1.0	0.5	0.6	0.6	0.6
Interest payments	1.1	1.2	1.4	1.7	1.7	2.2	2.4	2.9	3.1	3.3
Capital Expenditure (incl. COVID-19 intervention)	0.6	0.7	1.2	1.5	1.7	1.2	3.1	1.8	1.8	1.8
Overall Fiscal Balance	-2.2	-2.7	-3.3	-3.1	-4.1	-4.4	-5.5	-5.2	-5.1	-4.9

Sources: OAGF, DMO, NBS, and World Bank estimates.

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Grass to Grace (Synthesis)
by ***Millicent Osumuo***

Millicent Osumuo, a native from Anambra State, Nigeria, is a contemporary artist and entrepreneur. She started drawing and painting at an early age, and studied art at the Department of Fine and Industrial Art of the University of Uyo, where she earned BA Honours in Painting. Throughout her work, Millicent has driven conversations on topics such as the state of the woman in modern society, the meaning of community, and the environment. Her approach contemplates the individual in themselves and in their surroundings, allowing her room to skilfully convey multiple themes. She is currently researching the human experience in the context of poverty and development and is personally developing initiatives that allow her art to contribute to the mental growth of the underserved and unreached in society. To convey her messages, Millicent delivers fine art pieces across the spectrum from natural to abstract and employs bold strokes with a generous application of colors to imbue her work with character and emotional wealth.

People forge ideas, people mold dreams, and people create art. To connect local artists to a broader audience, the cover of this report and following editions will feature art from Nigeria.