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NIGERIA DEVELOPMENT UPDATE | JUNE 2023

Seizing the opportunity

Nigeria Development Update
June 2023

Seizing the opportunity

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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.

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Abbreviations and Acronyms

AfCFTA	African Continental Free Trade Area
AML/CFT	Anti-money laundering/countering of the financing of terrorism
BOF	Budget Office of the Federation
bpd	barrels per day
bps	basis points
CAR	Capital Adequacy Ratio
CBN	Central Bank of Nigeria
COVID-19	Corona Virus Disease 2019
DMO	Debt Management Office
ECOWAS	Economic Community of West African States
EMDEs	Emerging Markets and Developing Economies
FATF	Financial Action Task Force
FDI	Foreign Direct Investment
FPI	Foreign Portfolio Investment
FX	Foreign Exchange
GDP	Gross Domestic Product
I&E	Investors and Exporters
LGAs	Local Government Areas
LICs	Low-Income Countries
MPR	Monetary Policy Rate
N	Nigerian Naira
NAFEX	Nigeria Autonomous FX Fixing
NDU	Nigeria Development Update
NASSP SU	National Social Safety Nets Program - Scale Up
NBS	National Bureau of Statistics
NCTO	National Cash Transfer Office
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
PPG	Public and Publicly Guaranteed
PMS	Premium Motor Spirit
RRR	Rapid Response Registry
SRGI	Strategic Revenue Growth Initiative
US	United States
y-o-y	year-on-year

Overview

Nigeria's economic performance weakened in the first part of 2023 amid a challenging global context and domestic economic distortions

The prevailing global economic conditions continue to pose challenges for Nigeria's economy. The global economy, still grappling with the compounded effects of the COVID-19 pandemic, Russia's invasion of Ukraine, and the sharp tightening of monetary policy to curb high inflation, remains in a precarious position (World Bank, 2023). While external financing conditions have broadly stabilized over the past six months, they remain challenging, especially for "frontier markets" such as Nigeria. Emerging and developing economies face deteriorating growth prospects due to the higher cost of borrowing, limited access to international capital markets, high inflation, and record debt levels. Despite the steepest global interest-rate hiking cycle in four decades, inflation remains high; even by end-2024, it is projected to remain above most central banks' target ranges.

In the months following the previous Nigeria Development Update (NDU), published in December 2022 under the title of "Nigeria's Choice", economic growth weakened further. Real gross domestic product (GDP) growth fell from 3.3 percent in 2022 to 2.4 percent year-on-year (y-o-y) in Q1 2023. This slowdown was largely due to the sustained contraction in oil production, as well as the demonetization of the Nigerian naira, causing a scarcity of cash that severely disrupted the economy in February and March. The World Bank projects real GDP to grow by 3.3 percent in 2023, although the outcome could vary significantly from this base case depending on the policy choices and their implementation by the new administration.

The new administration, which took office at the end of May, has initiated critical reforms to address macroeconomic imbalances. The challenging global context has been a headwind for the economy through imported inflation and increased external borrowing costs. However, domestic policies have played a more significant role in impeding Nigeria's recent economic performance and have increased vulnerabilities to further shocks. The previous mix of fiscal, monetary, and exchange rate, as well as structural (e.g., trade), policy settings have failed to deliver. The new government has recognized the need to chart a new course and has already made a start on critical reforms, such as the elimination of the petrol subsidy and reforms in the foreign exchange (FX) market. There is now scope for Nigeria to seize the opportunity of having a new government to lift its economic trajectory and achieve inclusive, sustainable growth, if it chooses to sustain these reforms while protecting the poor and vulnerable.

The need for comprehensive, ongoing reform is urgent, as fiscal pressures remain intense despite still elevated global oil prices. Global oil price booms have historically supported the Nigerian economy, but this has not been the case since 2021. The average price of crude oil increased by over 150 percent from 2020 to 2022, and yet Nigeria's fiscal space has shrunk, with the general government fiscal deficit at or above 5.0 percent of GDP since 2021. The major cause of higher global energy prices causing Nigeria's fiscal situation to weaken was the petrol (also known as Premium Motor Spirit, or PMS) subsidy, deducted directly from oil revenues. This implied forgone fiscal revenues of ₦4.5 trillion or 2.2 percent of GDP in 2022—almost half the fiscal deficit. The subsidy deductions, combined with the protracted decline in oil production, resulted in the lowest levels of net oil revenues (as a share of GDP) being transferred to the government in over a decade. Large primary deficits, rising global and domestic interest rates, and the continuous reliance on expensive, inflationary financing from the Central Bank of Nigeria (CBN) to meet in-year cash shortfalls, have increased debt-servicing costs. Interest payments on the public debt increased from 2.6 percent of GDP in 2021 to about 3.4 percent of GDP in 2022, or over one-quarter of total general government expenditure.

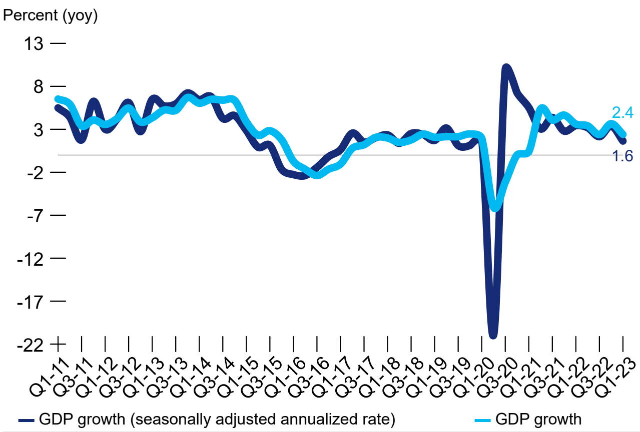
Consumer price inflation has surged and is currently one of the highest globally, which is related to Nigeria's fiscal imbalance and points to the urgency of reform efforts. Inflation in Nigeria has been high for many years due to structural factors, but it escalated in 2022, to the point where consumer prices increased at their fastest pace for 17 years. The consumer price index further accelerated in 2023 through May, up to 22.4 percent y-o-y. High inflation has been driven by the monetization of the fiscal deficit by the CBN, multiple exchange rates and exchange rate depreciation in the parallel market, and intensified trade restrictions, exacerbated by the spike in global food and energy prices. The CBN implemented measures to control rising inflation, including raising the monetary policy rate by 700 basis points (bps), but these proved ineffective and monetary policy remained loose overall in the first half of the year. The loss of purchasing power from high inflation has increased poverty in the short-term, pushing an estimated 4 million Nigerians into poverty between January and May 2023.

Currency market distortions contributed to weak growth, the fragile fiscal position, and high inflation. Before the major FX reforms implemented on June 14, the CBN only allowed a slow depreciation of the official exchange rate, which was insufficient 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 11 percent from January 2022 through May 2023, while the parallel market rate depreciated by 30 percent, with the parallel market rate premium widening from 37 percent in January 2022 to 63 percent in May 2023. During this period, the CBN, the largest single supplier of FX to the Nigerian economy, continued to suppress FX demand. The use of FX remained banned for the importation of 43 product categories, and the CBN also 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. Nigeria's previous exchange rate management stifled business activity, investment, and growth weakening the fiscal position, and boosting inflationary pressures. Despite higher oil exports and reduced CBN interventions, external reserves fell from their recent high of US$41.8 billion in October 2021 (helped by official sector inflows) to US$34.9 billion in June 2023.

The CBN policy to redesign the Nigerian naira led to a scarcity of cash, adversely impacting economic activity in the early months of 2023. The short transition period of the naira redesign was insufficient for the CBN to replace the demonetized old notes with new ones, leading to a cash scarcity. The lack of adequate digital and financial infrastructure and processes to support a swift transition to a cashless economy—coupled with the fact that only 40 percent of adults have a bank account—further exacerbated the situation. The cash shortage resulted in a black market for new notes, inflating overall transaction costs. The adverse shock to economic activity was further intensified by reversals in policy decisions and conflicting positions between state and federal governments, the CBN, and the Supreme Court. As a result, non-oil-non-agriculture GDP saw a steep decline from an average quarterly growth rate of 6.0 percent in 2022 to 3.9 percent y-o-y in Q1 2023. Firms reported that the inability to secure regular funding and operating cash for expenditures, combined with rising prices and fuel shortages, led to a decline in demand.

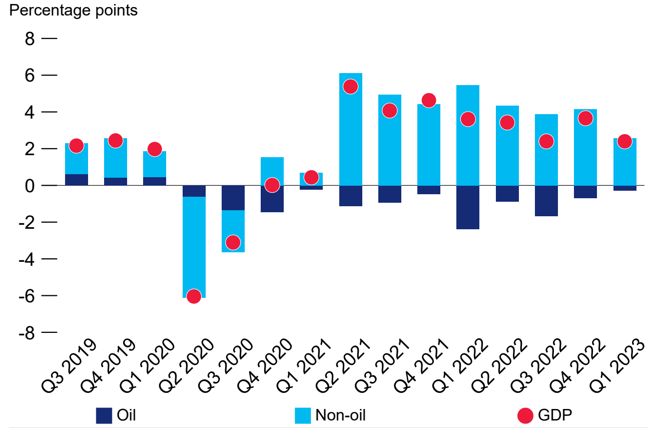
Figure O.1. A snapshot of Nigeria's economic situation in H1 2023

A. In Q1 2023, output growth slowed…



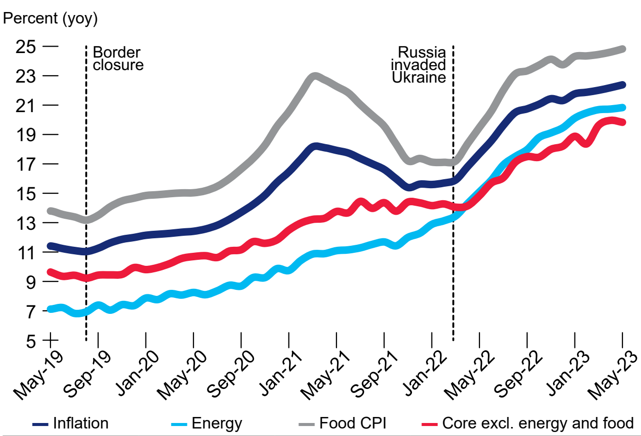
Sources: NBS and World Bank estimates.

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



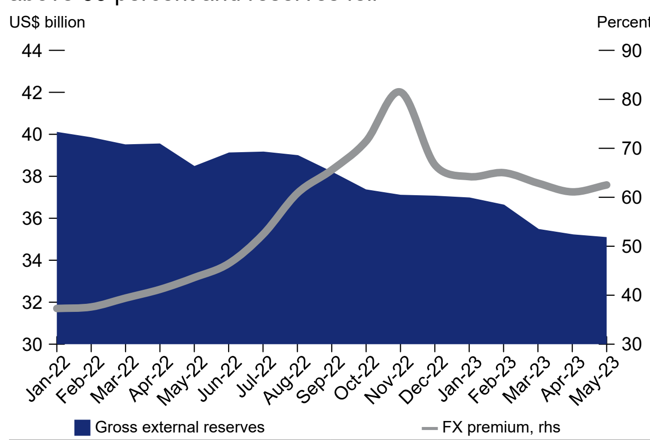
Sources: NBS and World Bank estimates.

C. Inflation increased sharply and reached a 17-year high…



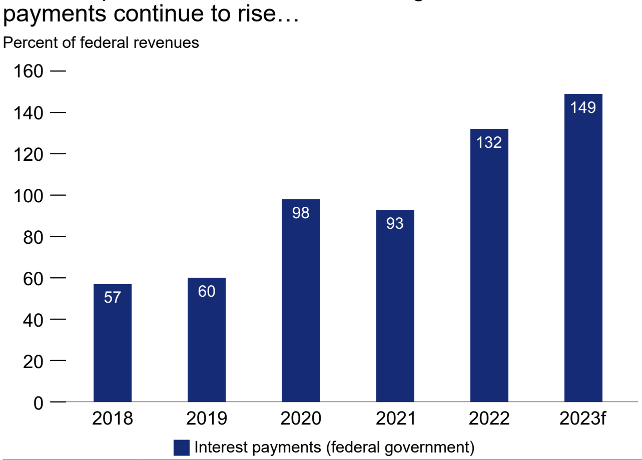
Source: NBS.

D. …while the parallel FX market rate premium remained above 60 percent and reserves fell



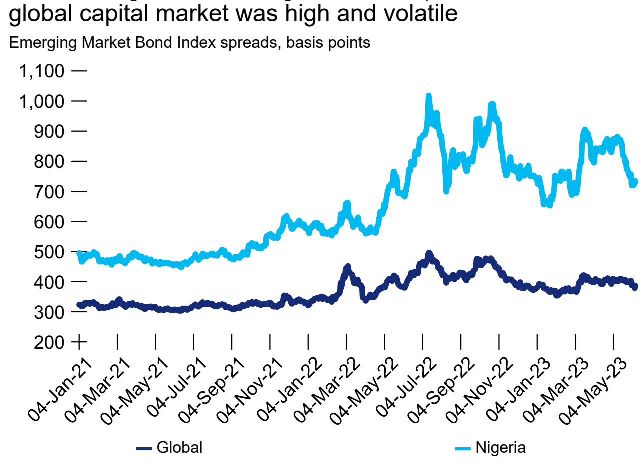
Sources: CBN and Bureau de Change Operators.

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



Sources: OAGF and DMO.

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



Source: JP Morgan.
Note: The series presented are EMBI spreads.

The decision to remove the petrol subsidy is the first step towards restoring macroeconomic stability and creating more fiscal space

For years, Nigeria maintained an opaque, fiscally unsustainable, and socially unfair petrol subsidy. The petrol (PMS) subsidy imposed a huge fiscal cost on Nigeria as it increased from 1.1 percent of total revenues in 2020 to 32.4 percent in 2022, costing more than the budget allocated to health, education, and social protection combined. The price of petrol in Nigeria was one the lowest in the region, providing powerful financial incentives to smuggle the fuel out of the country and make illegal financial gains at the expense of ordinary Nigerians. As a result of the subsidy, which cost about 2.2 percent of GDP in 2022, the Federation has not received any oil income from the Nigerian National Petroleum Corporation Limited (NNPCL) since 2022. NNPCL also accumulated arrears of about ₦2.8 trillion (US$3.7 billion) by end-2022 as the Federation did not pay back the full cost of the subsidy. The subsidy was highly regressive, as the poor purchase only 3 percent of the total PMS subsidized by the Government, while the better-off capture most of the rest.

With the removal of the subsidy, and the implementation of FX reforms (discussed below), the Government is projected to achieve estimated fiscal gains of about ₦3.9 trillion in 2023, equivalent to 1.6 percent of GDP. These gains are expected to reach over ₦21 trillion between 2023 and 2025, compared with a scenario in which the fuel subsidy had persisted. However, fiscal risks remain elevated, as the Government's subsidy arrears to the NNPCL are estimated at ₦2.8 trillion. If these arrears are promptly settled, the fiscal savings for 2023 would be significant, resulting in a fiscal deficit increase of around 0.8 percentage points of GDP, reaching 5.9 percent. Conversely, failure to sufficiently cover the arrears could potentially impact repairs and maintenance, security, and joint-venture cash calls, which could adversely affect oil production and revenue generation.

The removal of the petrol subsidy is anticipated to cause a temporary increase in inflation in the upcoming months before contributing to disinflation in the medium term. The price increases resulting from the subsidy removal will have a one-time impact on prices, primarily affecting petrol purchases for transportation, power generation, and certain services. Headline inflation is expected to rise from 18.8 percent in 2022 to 25 percent in 2023. However, by Q1 of 2024, the subsidy removal will start to have a disinflationary effect, meaning that it will alleviate inflationary pressures despite higher petrol prices. This is because the subsidy removal creates additional fiscal space and reduces reliance on financing from the CBN, curbing growth of the money supply. To limit the risk of so-called second-round effects, where one-off price increases trigger more generalized inflation including through wage-price spirals, it will be important to adopt macro-fiscal policy settings that are conducive to price stability.

Compensating transfers will be essential in helping to shield Nigerian households from the initial price impacts of the subsidy reform. Without compensation, many households could be pushed into poverty by higher petrol prices and forced to resort to coping mechanisms with long-term adverse consequences, such as not sending children to school, or not going to health facilities to seek preventative healthcare (see Spotlight section).

In addition to providing immediate cash compensation, the Government could also elaborate on the use of the freed-up resources in a new compact with the Nigerian people, outlining support in the immediate as well as medium and long term, at the federal, state, and local government levels. The recent proposal to implement a set of measures to alleviate the impact of the subsidy removal, led by the National Economic Council, should clearly identify priority areas for government investment and effectively communicate these to the public to garner support. A public commitment to identifying development (including infrastructure) spending priorities, pro-poor service delivery, and a role for social protection programs to help households cope with shocks could guide such a compact (see Spotlight section). The compact should also be anchored in a clear commitment to fiscal realism, as a large expansion in spending could have fiscal implications, potentially leading to increased fiscal deficits over the medium-term.

FX management reforms have the potential to unlock growth and boost capital inflows

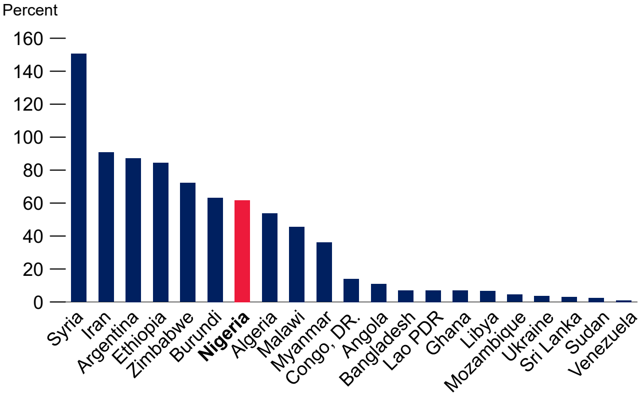
For the past six years, the exchange rate regime consisted of a highly managed official rate and an FX market lacking in clear and predictable price discovery, including due to the use of multiple FX windows to serve multiple purposes. This led to limited FX supply at the official rate, pushing economic agents into a parallel market to meet their FX requirements, and generated arbitrage and rent-seeking opportunities. Aiming to reduce FX demand and preserve reserves while maintaining the stabilized official rate, the CBN also imposed administrative controls, including banning the use of FX for importing 43 products (comprising 936 product lines) since 2015, and reducing the size of its FX supply interventions since 2020. Overall, FX market distortions increased in recent years, and the official rate became significantly overvalued: the benchmark exchange rate, the Nigerian Autonomous FX Rate Fixing (NAFEX) rate stood at ₦465 per US dollar in May 2023, while the parallel market rate was ₦763 per US dollar. This was a 63 percent premium over the NAFEX rate and among the highest premiums in the world (Figure O.2).

Nigeria's previous FX rate management approach impeded investment and growth, contributed to inflation, and undermined the efficacy of monetary and fiscal policies. Countries with FX distortions and multiple FX regimes tend to grow at a slower pace than economies without these distortions (Figure O.3). In Nigeria, for domestic firms, the costs of importing goods, paying foreign debts, or engaging in any other activities requiring foreign currency, increased, impacting their operational costs and overall profitability. For foreign firms, these conditions made investment in Nigeria less attractive due to the increased costs and risks associated with currency conversion. The absence of transparency in accessing FX hampers the efficient allocation of productive resources by distorting domestic competition within the economy, creating an environment in which rent-seeking behavior becomes more prevalent. Attempts by the CBN to control inflation while simultaneously maintaining a stable and overvalued exchange rate also created a set of conflicting objectives. Since 2021, the CBN grappled with the challenge of stabilizing inflation by hiking the policy rate and taking additional measures to curb liquidity in the credit market. One factor impeding the achievement of that objective was the increase in the parallel exchange rate, which directly influenced the cost of goods and services.

The weakness in investor confidence engendered by Nigeria's approach to exchange rate management contributed to lower levels of foreign capital inflows. Exchange rate misalignments created uncertainty for foreign investors, who, being unsure of the future value and convertibility of the currency, and thus the profitability of their investments, refrained from committing their capital. Net foreign direct investment (FDI) inflows to Nigeria, which have been weak over time, have been particularly low and volatile since 2013—falling to below 1 percent of GDP from the previous range of 1 to 2.5 percent between 2008 and 2012, and even turning negative in 2022. Net foreign portfolio investment (FPI) inflows, which have also been volatile, surged in 2017 (rising by 450 percent) when the investors' and exporters' FX window was established and functioned based on market-determined exchange rates. Subsequently, net FPI flows have largely been below 1 percent of GDP and negative in 2018 and 2020.

Figure O.2. Nigeria's FX premium was among the highest in the world

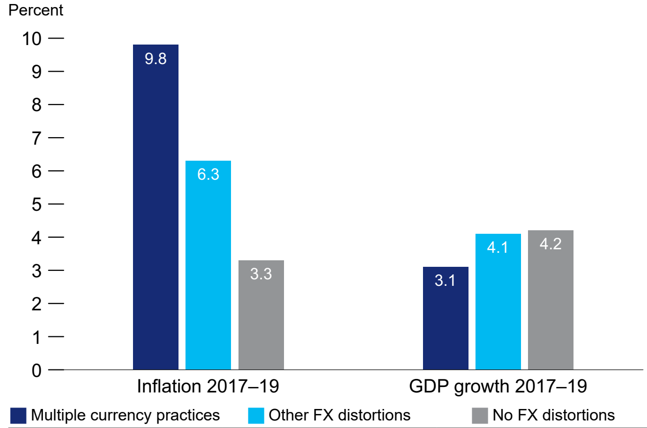
FX premia (March 2023, unless otherwise stated)



Sources: Central banks.
Note: Iran: premium reported is the baseline official exchange rate. FX premium for Burundi is as of 12/31/2022; Angola as of 01/27/2023 and Lao PDR as of 02/28/2023. Does not include outliers such as Lebanon and Yemen.

Figure O.3. Countries with multiple FX windows tend to report lower growth and higher inflation

GDP growth and inflation



Sources: WDI and WEO.

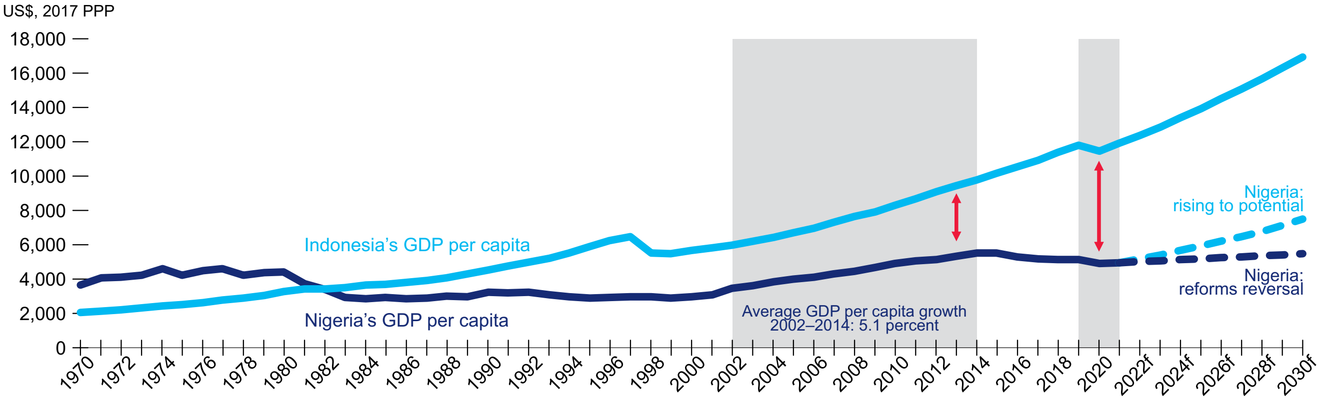
The comprehensive reform initiated in mid-June addresses three critical distortions in the FX market: (i) the absence of a price discovery mechanism; (ii) the existence of multiple FX windows; and (iii) institutional weaknesses, such as a lack of transparency and predictability. Beginning on June 14, the CBN made important reforms by abolishing the segmentation of the FX market across multiple FX windows and collapsing them into the Investors & Exporters (I&E) window. This has allowed the naira to trade freely by reintroducing the willing buyer, willing seller mechanism at the I&E window, bringing the exchange rate for government transactions closer to the NAFEX, enhancing transparency of orders, and removing ineffective schemes such as the RT-200 and Naira 4 Dollar Remittance programs. This resulted in the largest single-day depreciation of the naira (27 percent), from N463 to N632/US$. To continue improving the efficiency of the FX market, remaining priorities are to remove FX restrictions, clearly communicate how the new FX regime will operate, and implement a supportive monetary framework where the primacy of price stability guides monetary policy actions.

To build on the immediate, major reforms, and seize the opportunity to rise to its potential, Nigeria still has other urgent choices to make

The removal of the subsidy and FX management reforms are crucial measures to begin to rebuild fiscal space and restore macroeconomic stability, and the opportunity should be seized to take further, necessary policy reform steps. Persistently high inflation and low fiscal revenues continue to hinder economic growth. It remains imperative to change course, as sluggish economic growth risks becoming deeply entrenched through low investment due to weak macroeconomic conditions, escalating poverty, and fragility. The combination of intensified macroeconomic instability, reaching historically high levels, and underlying structural challenges, has significantly hampered Nigeria's potential output growth. Potential output growth has declined from an average robust 8.2 percent during 2000–2010 to 4.4 percent in 2011–2014, and further to 2.1 percent in 2015–2021.

Nigeria can seize the opportunity to rise to its potential by adopting and implementing additional urgent reforms that lay the foundation for robust

Figure O.4. Nigeria has more urgent choices to make



Sources: NBS and World Bank.

and inclusive growth through private investment and job creation. In this scenario, Nigeria's GDP per capita could grow above 4 percent annually (World Bank 2022b) in a low-inflation scenario, and thus, the welfare of Nigerian citizens could rapidly improve. Moreover, convergence with other middle-income economies could accelerate. Figure O.3 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 that of Nigeria, together with the opportunity Nigeria now has of catching up and rising to its potential.

Further policy reforms are available to help Nigeria seize the opportunity. Although these policy reforms have also been outlined in previous Nigeria Development Updates, they are now even more urgent given slowing growth and intensifying macroeconomic challenges, including rising inflation, the erosion of the FX reserve buffer, and the fiscal squeeze despite the 2021–22 global oil price boom. The current window of opportunity offered by a new government, if effectively seized, could have a transformative impact on the lives of millions of Nigerians and establish a solid foundation for inclusive, sustained growth. The removal of the petrol subsidy and the initial FX reforms are a critical step. Now, the challenge is to implement a comprehensive reform package that encompasses a range of complementary measures. Addressing certain imbalances while neglecting other areas could prove costly for Nigeria's economic performance and may not yield the desired benefits. Critical measures are needed in two 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 non-oil revenues.** This can be achieved by 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.

II. **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. 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. Macro policy options to support Nigeria's rise to its full potential

Policy	*Status*	*Specific Measures*
I. Restoring Macroeconomic Stability		
Remove the petrol subsidy	Green	The removal of the subsidy was announced on May 29 and pump prices were adjusted on June 1 by the NNPCL. With the removal of the subsidy, the Government is expected to see fiscal savings of around ₦2 trillion in 2023 or 0.9 percent of GDP. Between 2023 and 2025, these gains would be about ₦11 trillion, against a scenario in which the fuel subsidy had continued.
Increase non-oil revenues	Yellow	Since 2019, the Government introduced non-oil revenue reforms and tax administration improvements, which have prevented an even more severe fiscal squeeze by boosting non-oil revenues from 4.4 percent of GDP in 2019 to 5.2 percent in 2020. 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 included increasing the VAT rate from 5.0 to 7.5 percent, increasing gas flare fees, rationalizing tax expenditures, and operationalizing the electronic money transfer levy. The oversight of government-owned enterprises (GOEs) has also been strengthened, by ensuring a 50 percent cap on the cost-to-income ratio of these parastatals. In the short-run, the Government can further increase non-oil revenues by (i) gradually increasing the VAT rate, while allowing for input tax credit on capital and services, (ii) removing VAT exemptions on petroleum products, (iii) improving tax administration to ensure the collection of the newly introduced excises on telecommunication, single use plastics, and high-polluting vehicles, (iv) implementing an advisory visit program to improve voluntary compliance, (v) adopting a data-driven approach to tax audit, (vi) leveraging technology to reduce tax avoidance, (vii) linking residential property with PIT returns, (viii) introducing a simple turnover tax on SMEs at the state level instead of the various nuisance fees and levies, (ix) adopting modern valuation methods to properties.
Reduce inflation through a sequenced and coordinated mix of monetary, fiscal, and trade policies	Red	**Monetary and fiscal measures:** Continue the reduction of subsidized CBN lending to medium and large firms; end the Federal Government's borrowing from the CBN. **Trade measures:** Remove the 43 items from the list of FX restrictions, and replace import restrictions with tariffs that reflect the Economic Community of West African States (ECOWAS) Common External Tariff.
Unify and adopt a market-responsive exchange rate	Yellow	On June 14, the CBN made important reforms by abolishing the segmentation of the FX market across multiple FX windows and collapsing them into the I&E window; allowing the naira to trade freely by reintroducing the willing buyer, willing seller mechanism at the I&E window. To enhance the efficiency of the FX markets, additional measures need to be implemented: • Remove the FX restrictions for the 43 items in the CBN list of FX restrictions. • Communicate the new framework for exchange rate management. • Enhance the consistency of the current framework for monetary policy operations to ensure that price stability guides monetary policy actions.

Note: Green indicates completion, yellow work in progress, and red denotes reforms that have not yet begun.

Table O.2. A cash transfer program is critical to support the PMS subsidy removal

Policy	***Specific Measures***
II. Expand social protection to protect the poor and most vulnerable	
Establish a social compact with the Nigerian people	• Make a compact with Nigerian citizens that directly links the removal of the petrol subsidy to compensatory cash transfers and development priorities at federal, state, and local government level • 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
A potential cash transfer program: frequently asked questions	
Is **₦5,000 / month enough** to compensate households for the PMS subsidy removal?	Due to the rise in petrol prices, poor and economically insecure households face an average income loss of ₦5,700 per month.
Who will be the recipients of the cash transfer?	The National Social Registry (NSR) includes 15.7 million households (over 60 million individuals) from rural and peri-urban areas in almost all LGAs. The Rapid Response Registry contains 2.7 million households from urban areas and can be expanded rapidly to increase coverage. Together, they cover 44 percent of all households in Nigeria.
How were the recipients identified?	Households in the NSR were directly determined by community members, who identified the poorest households among themselves. Households in the RRR were identified through SMS blasts to poor urban wards, and the information was validated through an in-person visit.
Is having a bank account a **prerequisite** for receiving a transfer?	No, it is not. Mobile wallets can be set up for recipients who do not already have one, allowing everyone to receive transfers digitally.
How can we ensure people on the registry are the ones **receiving the transfers**?	All transfers align with the CBN's know-your-customer (KYC) requirements. An increasing number also use biometric data for additional verification.

Part 1:
Recent Economic Developments and Outlook for Nigeria

Economic Growth: The naira redesign adversely impacted economic activity

The Nigerian economy recovered modestly from the COVID-19 pandemic in 2021, but momentum faded throughout 2022 and into 2023. After growing by 3.6 percent in 2021, real GDP growth decelerated to 3.3 percent 2022, similar to the 3.1 percent average in Sub-Sahara Africa (SSA) and below the average of 4.0 percent in developing countries (World Bank 2023). Growth continued to weaken in early 2023, with output increasing by 2.4 percent y-o-y in Q1 2023. With real GDP growing at a similar pace to population growth of about 2.6 percent, Nigeria's per capita income has not been increasing sufficiently and faster growth is needed to significantly alleviate the high poverty rate of around 41.1 percent estimated in 2022.[1]

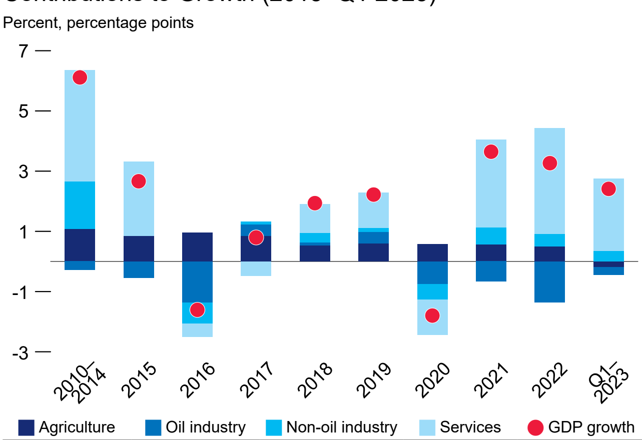
In Q1 2023, growth was mainly driven by manufacturing, construction, and most services (Figure 1.1). However, a number of factors weighed on growth, including subdued oil production, contraction in agricultural output, and the impact of the naira demonetization, which led to cash scarcity (see Box 1.1). Growth in the first quarter was similar to levels seen in 2016-2019, a sluggish growth period, after adjusting for seasonal variations (Figure 1.2).

- **Agriculture:** In Q1 2023, agricultural output in Nigeria decreased by 0.9 percent y-o-y, compared with 3.2 percent growth during the same period in 2021. This outcome was due to lower livestock production and to the sustained impact of severe floods in Q3 2022, which destroyed rice and corn farmlands in the north and center of the country. Agriculture remains a key sector in the Nigerian economy, accounting for 25 percent of GDP and employing a significant proportion of the workforce.

- **Oil:** Oil production has consistently declined since 2020, preventing Nigeria from benefiting fully from higher global oil prices since 2021. In 2021, oil output declined by 8.3 percent, followed by a further

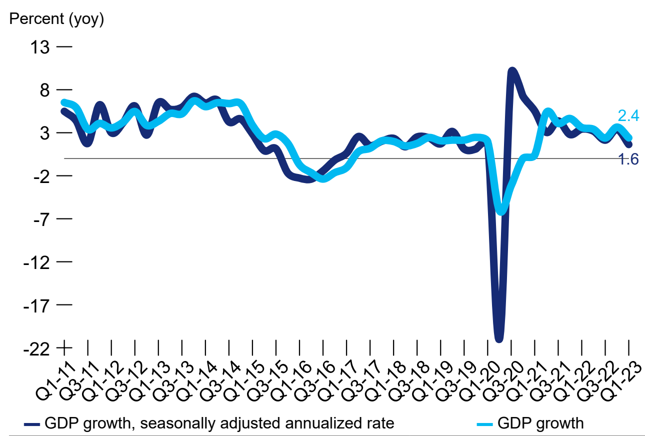
Figure 1.1. The contribution to growth of all non-oil sectors shrank in Q1 2023...

Contributions to Growth (2015–Q1 2023)



Source: NBS.

Figure 1.2. ...and growth has drifted lower, towards the subdued levels of 2018–2019



Sources: NBS, World Bank estimates.

1 The 41.1 percent poverty rate is estimated at the national poverty line of ₦137,430 per person per year in 2018/19 prices.

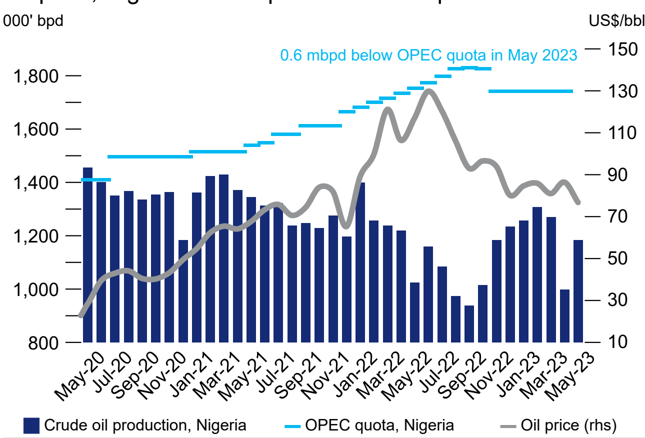
decline of 19.2 percent in 2022, and a 4.2 percent y-o-y decline in Q1 2023. Despite a slight recovery to 1.5 million barrels per day (bpd) in Q1 2023 relative to Q4 2022, oil production remains well below Nigeria's Organization of the Petroleum Exporting Countries' (OPEC) quota for the same period of 1.7 million bpd (Figure 1.3). The sector faces persistent technical and security challenges in the oil-producing Niger Delta region, aging infrastructure, and inadequate investment. The Nigerian National Petroleum Company Limited's (NNPCL) failure to pay for the Federation's share of costs in joint-venture operations has also reduced liquidity and available funding for operating expenses and has halted many joint-venture operations.

- **Non-oil industry:** In Q1 2023, the non-oil industrial sector grew by 2.3 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 non-oil industrial sector was severely affected by cash scarcity (see Box 1.1), which made it difficult for small and medium businesses to access credit and fund operations, limiting their ability to scale up production and invest in new projects. In addition, rising input and service costs in the context of high inflation, increasing insecurity, and shortages of FX also weighed down on the sector's output.

- **Services:** Strong growth in telecommunications and financial services supported a 4.3 percent y-o-y increase in services output in Q1 2023. The information and communications technology (ICT) sector, which did not contract even during the 2020 recession, expanded by 10.3 percent y-o-y due to increased consumption of data services by households and businesses and higher subscriber numbers. Financial services grew by a robust 21.4 percent y-o-y, driven by domestic credit expansion, and an increase in digital transactions in the context of the naira redesign. However, the expansion of financial output needs to be evaluated in the context of other services subsectors being adversely affected by the cash scarcity resulting from the naira redesign. For example, retail and wholesale trade grew by only 1.3 percent y-o-y in the Q1 2023, compared with growth of 5.1 percent in 2022.

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

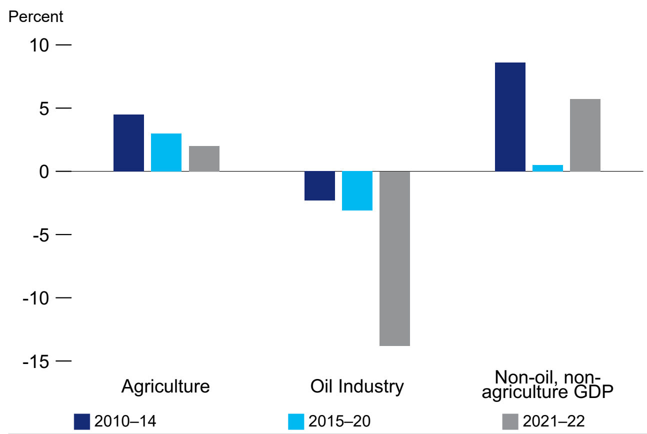
Oil price, Nigeria's oil output and OPEC quotas



Sources: NBS, NUPRC, and OPEC data.

Figure 1.4. …and growth in the oil and agriculture sectors remains below previously achieved levels

Growth rates

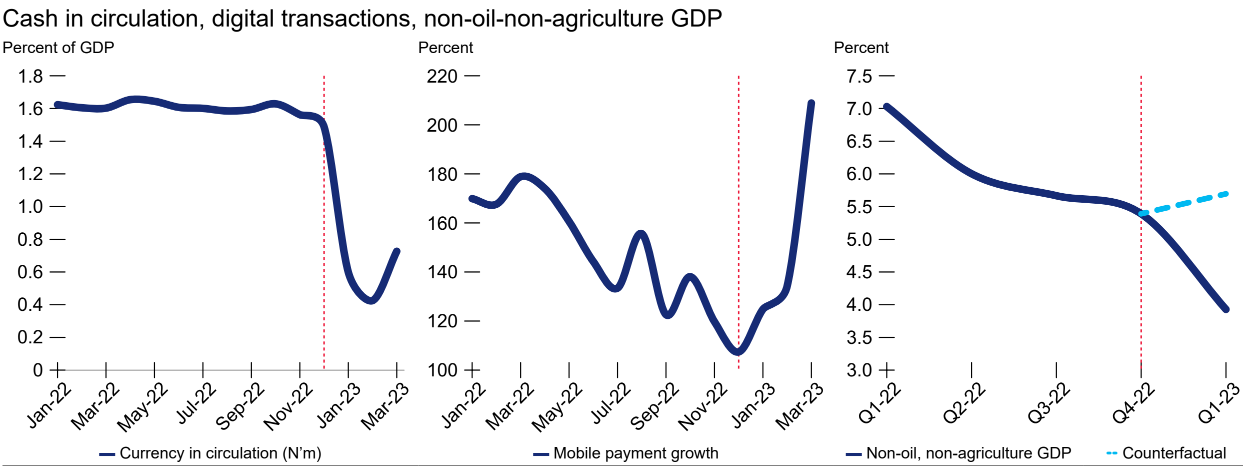


Sources: NBS.

Box 1.1. The naira redesign and its impact on growth

The CBN policy to redesign the Nigerian naira led to a scarcity of cash due to its timing and short transition period. The CBN announced on October 26, 2022, that it planned to redesign, produce, and circulate new series of Nigerian naira bank notes in the denominations of ₦200, ₦500 and ₦1,000 (equivalent to roughly US$0.5, US$1, and US$2 at the official rate). Stated goals for the policy included reducing the amount of currency in circulation outside of banks, reducing inflation and demand for foreign currency, addressing shortages of clean notes, reducing counterfeiting, and accelerating the transition to a cashless economy. According to the CBN's original timeline, the new currency notes were to be circulated from December 15, 2022, with both the new and existing notes considered legal tender until January 31, 2023. The short transition period was not enough for the CBN to replace the demonetized old notes with new notes and this resulted in cash scarcity. Moreover, digital and financial infrastructure and processes were not in place to support the rapid transition to a cashless economy, with only 40 percent of adults having a bank account. The shortage of cash led to the creation of a black market for new notes, increasing overall transaction costs. The adverse shock to economic activity was further exacerbated by reversals in policy decisions and conflicting positions between state and federal governments, the CBN, and the Supreme Court. Although the Supreme Court extended the deadline to accept old notes until the end of 2023 on March 2, it was only a month later that the old notes were effectively back in circulation.

Figure B1.1. Impact of naira redesign on cash in circulation, digital transactions and GDP gowth.



Sources: CBN, NBS and World Bank estimates.

Disruptive cash shortages and uncertainty negatively impacted consumer and business sentiment. 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. Nigeria was not an exception. In February 2023, Nigeria's Purchasing Managers' Index (PMI) fell sharply to 44.7 index points, a decline from 53.5 index points in January, and entered negative territory (below 50 index points) for the first time since the COVID-19 pandemic began (Figure B1.1). This trend continued in March 2023. As industrial and services

Box 1.1 continued

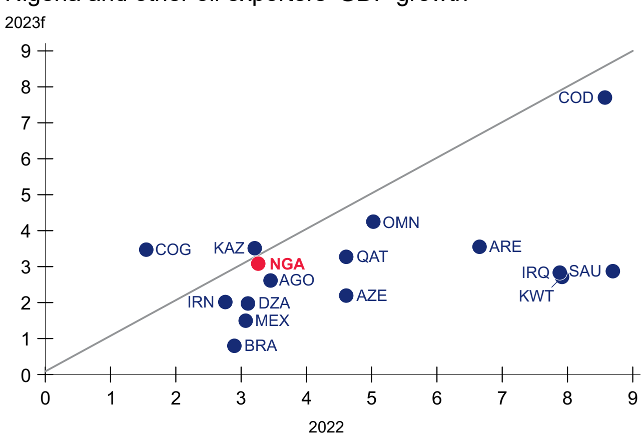
activities were affected, non-oil-non-agriculture GDP weakened sharply from an average quarterly growth rate of 6.0 percent in 2022 to 3.9 percent y-o-y in Q1 2023. According to firms, the inability to secure regular funding and operating cash to commit to spending, combined with increasing prices and fuel shortages, led to a decline in demand.

Compared with an indicative, counterfactual scenario without the naira redesign, non-agriculture non-oil GDP growth in Q1 2023 could have been higher by 2 percentage points. Furthermore, the naira redesign policy was predicated partly on the goals of easing FX rate pressures and reducing inflation. However, as was predictable given that currency in circulation accounts for only a small part of the money supply (7 percent as of November 2022), the policy had no discernable positive effects: inflation edged higher from 21.3 percent in December 2022 to 21.9 percent in Q1 2023, and the exchange rate premium of 64 percent in Q1 2023 was above its average value of 53 percent in 2022.

The Nigerian economy is estimated to grow by 3.3 percent in 2023, but the outlook remains highly uncertain. The expected rate of growth of Nigeria's GDP is similar to population growth (Figure 1.5), and not enough to meaningfully lift incomes per person and help to reduce poverty. Growth remains below the higher rates that Nigeria achieved before 2015, and below those of other oil-producing nations, which are estimated to grow by an average of 3.5 percent in 2023 (Figure 1.5). Services, trade, construction, and a partial recovery in oil production will lead growth in 2023, while agriculture is expected to remain subdued due to flood damage to farmlands. Growth in manufacturing and services is projected to increase from the weak first quarter of the year. Although the oil industry will benefit from the resolution of some maintenance issues and partly recover, production levels are still expected to remain below 2017-19 levels, with a high risk of reversals due to insecurity, theft, vandalism, force majeure events, and lack of payment discipline. Overall, Nigeria's

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

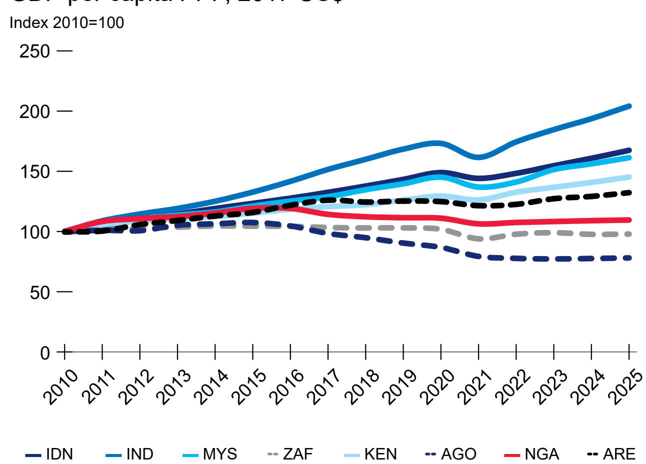
Nigeria and other oil exporters' GDP growth



Sources: NBS and World Bank estimates.

Figure 1.6. Nigeria's per capita income has stagnated and fallen behind peers

GDP per capita PPP, 2017 US$



Sources: NBS and World Bank estimates.

economy will remain highly vulnerable to both external and domestic shocks, making it urgent to undertake needed policy reforms to reduce inflation, increase fiscal revenues, and shift toward a market-responsive exchange rate. Sustained high inflation (see below) and unemployment rates will increase domestic security risks, which, in turn, could further reduce economic growth.

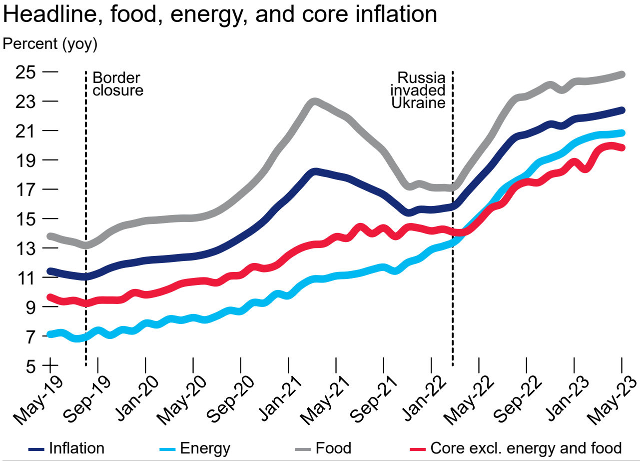
Prices: High inflation continues, increasing poverty

Nigeria's chronically high inflation has worsened. Inflation in Nigeria has been high on a structural basis, but it has escalated in recent years, to the point where consumer prices are now increasing at their fastest pace in 17 years. The most recent pattern of chronically high and increasing inflation has been in place since October 2019, when Nigeria's land borders were closed. Headline inflation rose sharply from 15.6 percent in January 2022 to 21.8 percent in January 2023 and further to 22.4 percent in May 2023 (Figure 1.7). The recent spike in inflation was primarily driven by surging food and energy prices caused by Russia's invasion of Ukraine. Food prices rose by 24.6 percent (y-o-y) in April, resulting from higher prices of major staples such as bread, cereals, rice, yam, and other tubers. Energy prices remained elevated at 20.8 percent (y-o-y) in May, as kerosene and diesel prices hit new record highs. Core inflation, which excludes volatile energy and food prices to provide an indication of underlying inflation pressures, increased to 20.0 percent in April, led by rising prices for medical services, transportation, clothing, footwear, housing, and education services.

The effectiveness of monetary policy to reduce inflation has been undermined by monetization of the budget deficit and other inconsistent policies, contributing to inflation. The CBN has implemented measures to control rising inflation, including raising the monetary policy rate by 700 basis points (bps) and the cash reserve ratio by 500 bps since May 2022. However, the monetization of the fiscal deficit through expensive Ways and Means advances, and the CBN's provision of development finance at subsidized rates, have weakened the effectiveness of monetary policy, increased money supply, and contributed to high inflation. Exchange rate distortions resulting from the high premium between the official and parallel rates and multiple exchange rates have also contributed to high inflation (Figure 1.9). The limited effectiveness of monetary policy has translated into unanchored inflation expectations (Figure 1.10), i.e., economic agents believed that despite the CBN policy actions inflation would increase.

Figure 1.7. Nigeria's inflation rate reached a 17-year high...

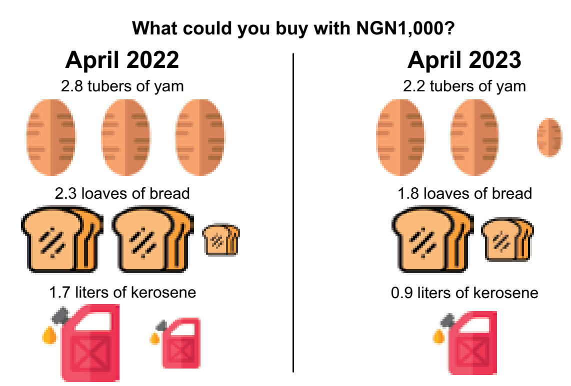
Headline, food, energy, and core inflation



Source: NBS.

Figure 1.8 ...driven by the high cost of domestic food and energy prices

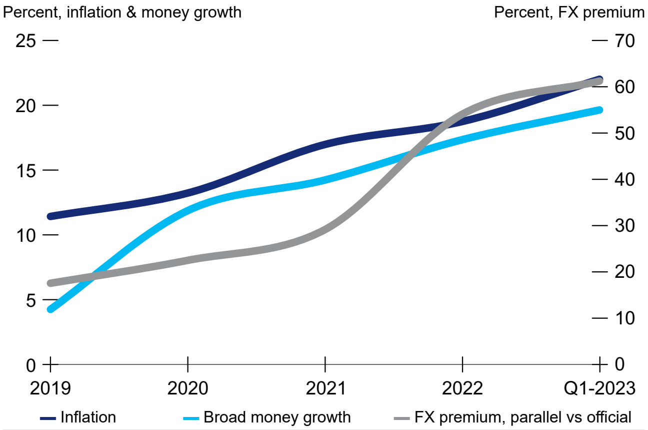
Food and energy prices



Sources: NBS.

Figure 1.9. FX policy and monetary expansion contribute to rising inflation

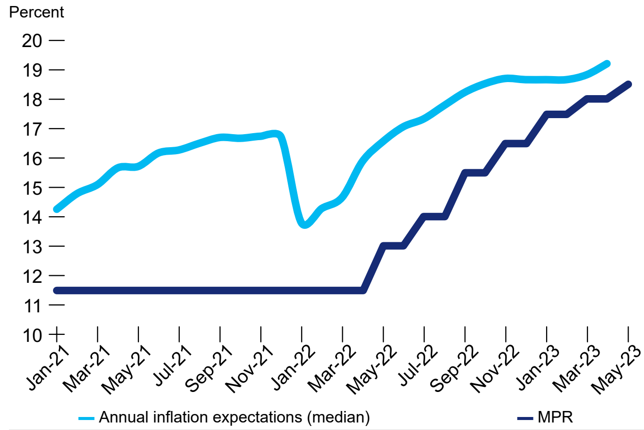
Inflation rate, broad money growth and FX premium



Sources: CBN, NBS and World Bank estimate.

Figure 1.10. Analysts' inflation expectations have not decreased despite the increase in the policy rate

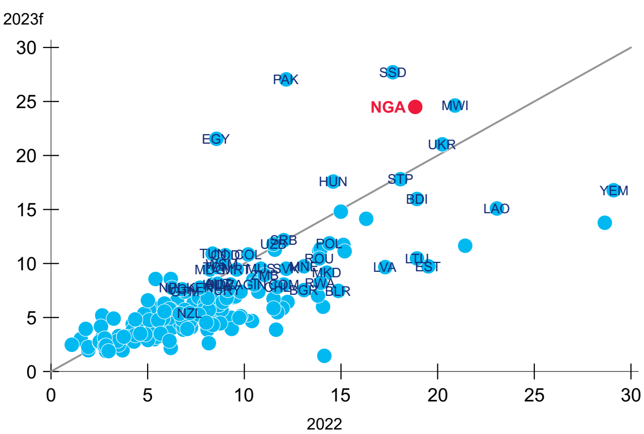
Inflation rate



Source: CBN and FocusEconomics.
Note: Inflation expectations are measured as the mean of the annual inflation forecasts of a panel of professional forecasters.

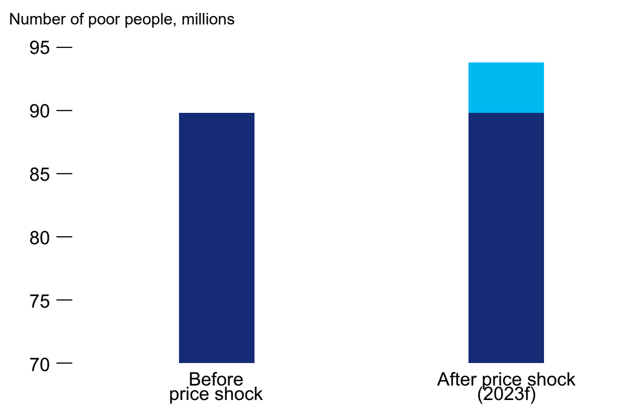
Figure 1.11. In 2023, Nigeria's inflation rate will remain among the highest in Sub-Saharan Africa (SSA)

Inflation rate and cost of sales



Source: NBS and World Bank estimates.

Figure 1.12. Inflation pushed an additional 4 million Nigerians into poverty between December 2022 and April 2023



Source: World Bank estimates.
Note: Estimated number of poor people at the national poverty line of ₦137,430 per person per year in 2018/19 prices.

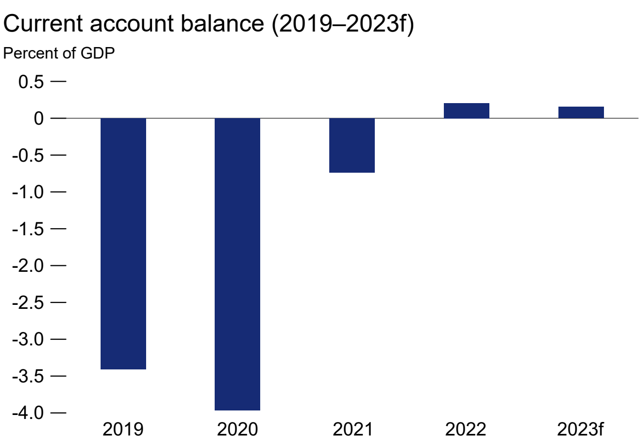
High inflation between December 2022 and April 2023 is estimated to have pushed 4 million more Nigerians into poverty. Nigeria's inflation is currently one of the highest rates in Sub-Saharan Africa (Figure 1.11). This sharp increase in prices has negatively impacted the purchasing power of households (Figure 1.12). Richer households lost more purchasing power relative to their consumption than poorer households. Nevertheless, the loss of purchasing power increased the poverty headcount rate by an estimated 2 percentage points or 4 million people. The number of poor people in rural areas increased by an estimated 4 percent, against 11 percent in urban settings, which is consistent with urban households less often consuming own-produced food than rural ones.

The external position: Vulnerabilities remain elevated due to the weakness of oil and non-oil flows

Nigeria's current account did not fully benefit from the surge in global oil prices in 2022, largely due to lower oil production and higher fuel imports. In 2022, the current account balance (CAB) recorded a marginal surplus of 0.2 percent of GDP, a figure that could have been much higher, considering the surge in global oil prices. The combination of lower oil production, higher imports of refined petroleum products and services, and increased income outflows, led to the relatively weak performance. Non-oil imports were suppressed by the scarcity of FX. Despite oil production challenges, oil export revenues continued to exert the strongest influence on the CAB, constituting over 60 percent of current account inflows. Current transfers (mainly diaspora remittances) constituted the next largest component of current account inflows—almost 25 percent. In terms of total exports of goods and services, oil exports remained dominant, at 83 percent in 2022 (see Box 1.2 on opportunities for export diversification). In 2023, higher oil output on the back of a partial recovery of the sector and robust remittance flows are expected to push the CAB into a larger surplus position.

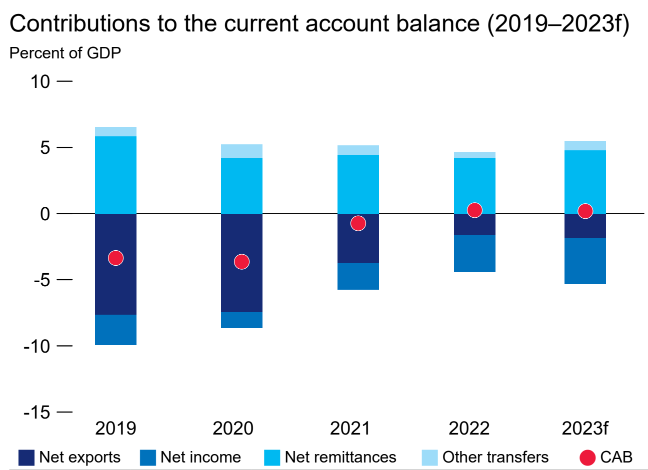
The financial account was in surplus in 2022, mainly due to positive net foreign portfolio flows. While net FPI flows were positive, they remained low, at 1 percent of GDP, and below the level in 2021. Net FDI flows on the other hand were negative during the period and, combined with net FPI inflows, they represented less than 1 percent of GDP. Foreign investment flows (mainly oriented towards the oil, financial, telecommunication sectors) into Nigeria continue to be low due to a combination of factors, but more recently exacerbated by distortions in the FX management regime and attendant scarcity of FX, which not only stifled the importation of production inputs but also the repatriation of earnings and other external commitments. The re-introduction of a managed float exchange rate system and unification of the FX windows on June 14, 2023, are expected to boost

Figure 1.13. The CAB is projected to strengthen in 2023…



Sources: CBN and World Bank estimates.

Figure 1.14 …driven by higher oil export inflows and remittances



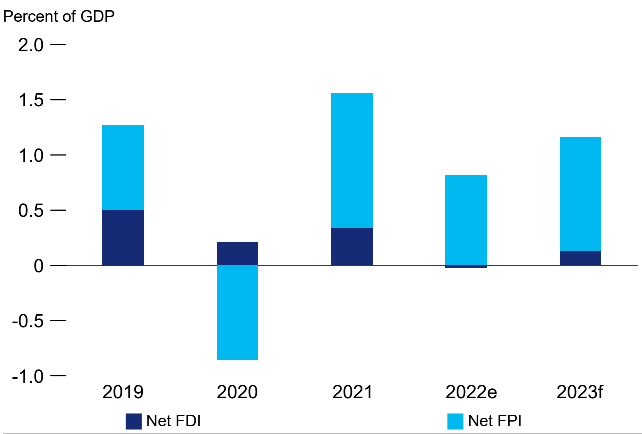
Sources: CBN and World Bank estimates.

investor confidence in the Nigerian economy and foster greater financial flows into the country in the coming months.

Despite the CAB moving into surplus in 2022, a decoupling between oil prices and FX reserves emerged and continued until May 2023. Historically, FX reserves held at the CBN were highly correlated with oil prices (Figure 1.18). This was not the case in 2022, as FX reserves did not increase proportionally to higher global oil prices and, on the contrary, declined. This was partly related to lower oil export FX flows to the CBN, which contracted, likely as a result of the direct crude sale-direct fuel purchase arrangements, as well as direct deductions for the ballooning cost of the PMS subsidy. In a bid to increase FX supply, the CBN had introduced special measures to boost non-oil FX flows such as the remittance incentive scheme and the RT-200 program. In contrast to their intended objective, these initiatives created additional FX windows and arbitrage

Figure 1.15. FDI and FPI flows into Nigeria remain low relative to the size of the economy…

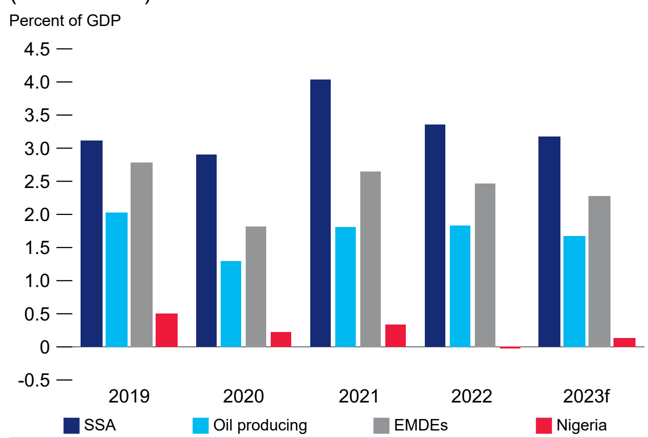
Net FPI and FDI flows into Nigeria (2019–2023f)



Sources: CBN and World Bank estimates.

Figure 1.16. …and are well below those of peer countries

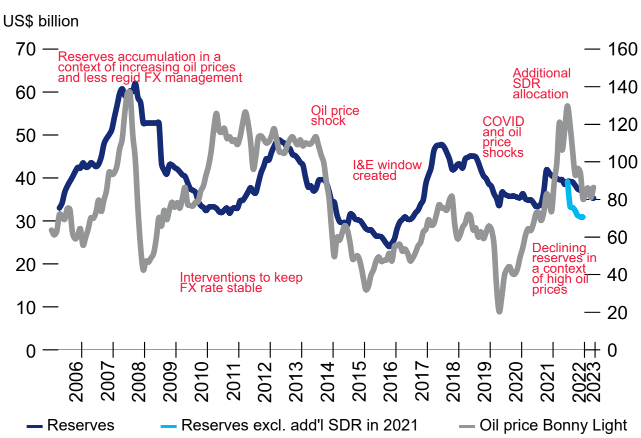
Capital flows (FDI only) to Nigeria and comparator countries (2019–2023f)



Sources: CBN and World Bank estimates.

Figure 1.17. Nigeria's FX reserves have declined despite higher oil prices

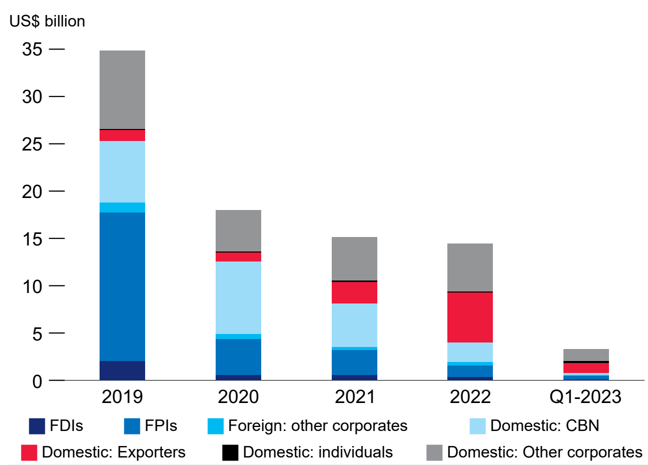
Gross FX reserves and oil prices



Source: CBN.

Figure 1.18. The CBN reduced its FX interventions in early 2023

Sources of FX Inflows to the Investors and Exporters FX market



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

opportunities.[2] Overall, FX reserves continued to decline and dropped further from US$37.1 billion (covering 6.9 months of imports) in end-2022 to US$35.1 billion by end-May 2023. Reflecting the scarcity of FX at the official rates, the CBN continued rationing the supply of FX in the official windows. In the first four months of 2023, FX supplied through the Investors and Exporters FX window dropped by 26.5 percent (y-o-y) to US$3.6 billion.

Box 1.2. Seizing the opportunity for more growth through increased and more diversified trade

Since the 1970s, oil has represented the majority of Nigeria's exports, indicating that the country's efforts to achieve diversification have not yielded substantial results thus far. Over the past five decades, hydrocarbon products have made up approximately 90 percent of Nigeria's total exports (Figure B1.2). Successive economic strategies such as the 2004–07 National Economic Empowerment and Development Strategy (NEEDS), the 2017–20 Economic Recovery and Growth Plan (EGRP) as well as the current 2021–25 Medium Term National Development Plan (NDP), have stressed the need for export diversification, but have been met with limited success. While the post-2021 increase in oil prices strengthened Nigeria's current account balance, an oil windfall did not materialize. Instead, as a result of domestic policies including costly retail petrol subsidies (lifted in the beginning of June 2023) and exchange rate management policies resulting in scarcity of FX, fiscal pressures intensified, and foreign exchange reserves fell.

Other commodity-rich countries have successfully diversified their exports, and so could Nigeria. In the 1980s, Indonesia's oil exports accounted for approximately 70 percent of total exports, lower but still broadly comparable to Nigeria's 95 percent share in the same time frame. Domestic policy reforms that have reduced barriers to international trade and opened up the economy since the 1990s, however, reduced import costs and non-tariff barriers to trade. As a result, FDI into Indonesia quadrupled in under a decade following the reforms, and in 2021 oil represented only 19 percent of total exports.

Diversifying away from extractive industries such as oil, and supporting the development of other sectors with greater scope for productivity gains, can accelerate employment creation and income growth. For instance, as new technologies and innovations are making services more productive and tradeable, and services are already amongst the fastest growing parts of the economy, creating increasing opportunities for Nigeria to benefit from more trade in services. Exports in this sector grew by over 280 percent between 2019 and 2022, around half of the increase in raw materials exports over this period, whilst consumption goods exports shrank. Diversification can stimulate structural transformation, foster the creation of high-quality jobs, build new competitive advantages, and usher in economic growth for Nigeria.

The African Continental Free Trade Area (AfCFTA) is a significant avenue for promoting non-oil exports. Signed by Nigeria in 2019, AfCFTA could support trade diversification through the continent-wide removal of tariff- and nontariff-barriers. Contrary to concerns about the effects of these policies, the 2022 Nigeria Country Economic Memorandum shows that revenue losses would be very low, about -0.04 as a percentage of total government revenue annually over 10 years. while estimating conservatively that if AfCFTA is fully implemented, overall income gains will be approximately 4 percent on the back of increased economic activity. Total production would be estimated to increase by $18 billion by 2035, with significant gains being made in natural resources, services, and construction trade thanks to Nigeria's comparative advantage in these sectors (World Bank 2022 AfCFTA report). The AfCFTA could thus diversify Nigeria's economy further and position

2 In 2021, the CBN introduced the "Naira 4 Dollar" scheme, offering ₦5 for every dollar of diasporan remittances, and in 2022, it launched the "Race to US$200 billion in FX repatriation (RT200)" Program, which rewards ₦65 for every dollar repatriated and sold at the I&E window to a third party and ₦35 for every dollar repatriated and sold at the I&E window for own use. On June 14, 2023, these schemes were abolished (effective from June 30, 2023) as part of a welcome move to improve the operations of the FX market.

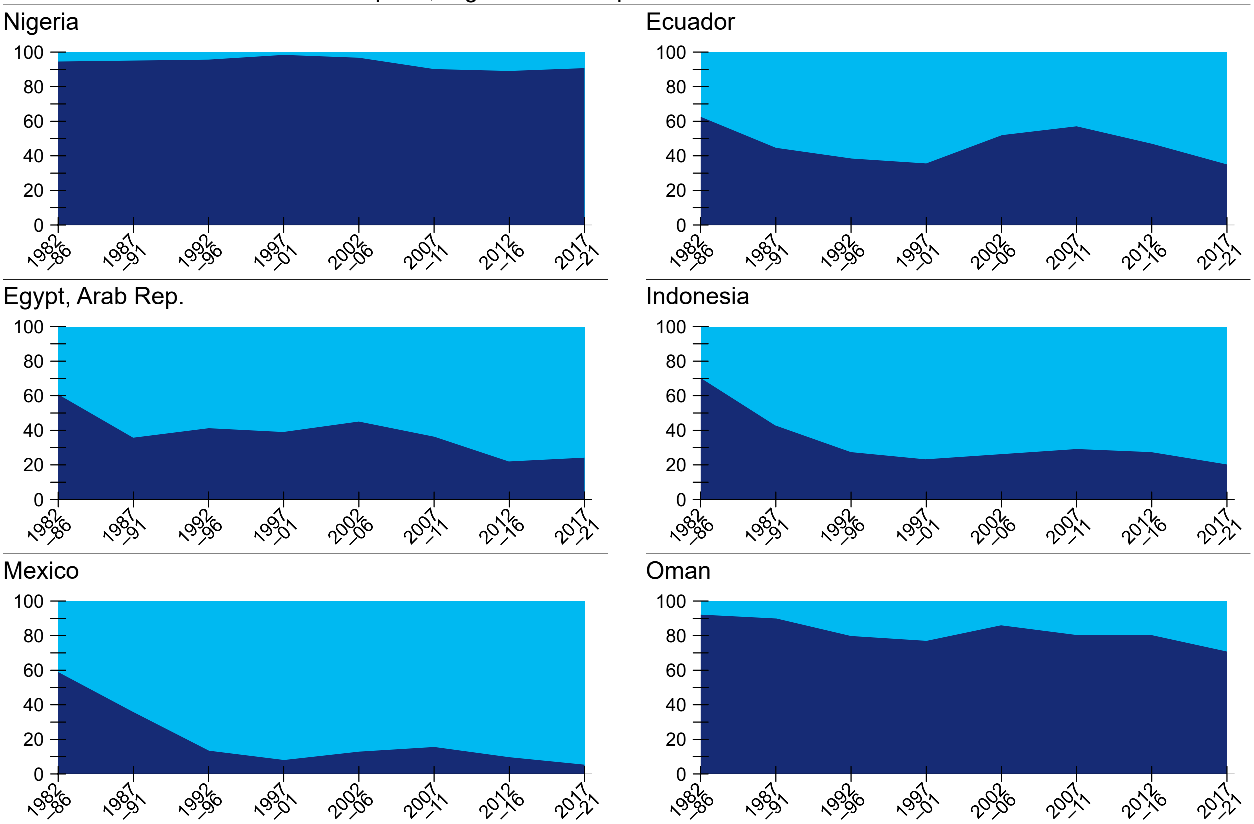
Box 1.2 continued

the country as a regional powerhouse, attracting more FDI and catalyzing growth. This emphasises the importance of continuing negotiations of, and implementing, the various AfCFTA protocols in the coming years.

Domestic trade policy changes are needed to promote trade diversification and attract export-led FDI. The current restrictive trade policy in Nigeria has a negative impact on poverty, revenue and domestic competitiveness. The current import ban of staple foods drives up the cost of living, while FX restrictions on imports harm Nigerian firms' competitiveness, increase inflation and poverty, and reduce customs revenue. Applying tariffs that reflect the common ECOWAS tariff and replacing FX restrictions with tariffs would increase the revenues these generate and lower consumer goods' and intermediate production inputs' prices. Red tape and behind the border barriers also increase trade costs, further impeding diversification, in addition to the current weak trade infrastructure, and security challenges. Nigeria therefore stands to gain from reforms that address high trade costs and delays at the border, positioning the country as a logistics hub for the region and therefore creating a springboard into regional value chains for its dynamic private sector. As outlined by the June 2022 Nigeria Development Update, a more predictable and transparent trade policy framework, and stronger implementation of the AfCFTA, could increase investment and overall diversification of the economy.

Figure B1.2. Nigeria's oil dependency far exceeds that of other oil-rich comparator countries and has been more persistent

Relative shares of oil and nonoil exports, Nigeria and comparators



Source: World Bank estimates based on UNCOMTRADE.

Monetary policy reforms remain critical for private investment and growth, recent exchange rate management changes hold potential for unlocking growth

In response to continuing inflationary pressures, the central bank has increased the monetary policy rate by a cumulative 200 basis points in 2023 up to May, when it reached 18.5 percent. The CBN started increasing the monetary policy rate in May 2022, for the first time in almost three years, and continued in 2023. It also increased the cash reserve requirement by 500 bps in September 2022 (also the first time in almost three years) to curb banking system liquidity. However, as noted in the December 2022 edition of the NDU, these tightening measures have been limited in their impact, as the CBN's own continued subsidized lending to the manufacturing, agriculture and other sectors (albeit at a slower rate since August 2022), as well as its financing of the federal government's fiscal deficit, have been expansionary. Latest available data show that the stock of central bank overdrafts to the federal government grew by 35 percent in 2022 to reach ₦23.5 trillion (US$52.4 billion) by end-2022. This level breaches the statutory provision for no more than 5 percent of the previous year's revenue, to be fully liquidated by the end of each year. In May 2023, the National Assembly approved the conversion of the bulk of this liability to long-term securities held by the CBN. Overall, as the World Bank Nigeria Monetary Conditions Index indicates, monetary conditions remain loose despite policy rate hikes (Figure 1.19).[3]

The decision to extend the transition period for the naira redesign was a welcome move, necessary to mitigate the negative socio-economic effects of the scarcity of new notes. Given Nigeria's substantial informal sector and the limited use of digital payments—only 34 percent of Nigerian adults reportedly made or received digital payments in 2021[4]—the under-supply of new notes (with only a portion of the withdrawn notes being made available to the public in the form of new notes) led to a severe cash crunch and disruption of economic activity from January to March 2023 (see Box 1.1 for more details). By international standards for currency redesign or other changes in currency in circulation, the initially designated transition period during which the old and new notes could circulate simultaneously was extremely short, a situation exacerbated by the undersupply of new notes. Recent examples of demonetizations over short periods, comparable to the CBN's initial December-January (later February) plan, have either caused significant economic disruption and costs, or have been more limited in scope, such as in India in 2016 and Kenya in 2018.

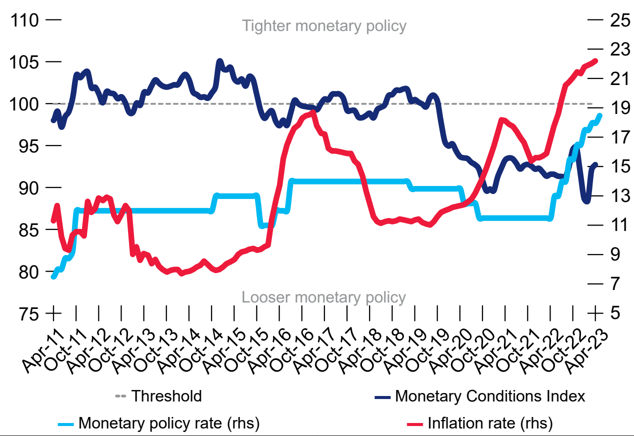
Until mid June, exchange rate policy remained focused on keeping the official exchange rate little-changed and well below the market-clearing rate. The NAFEX rate, which was notionally determined on a willing-buyer—willing-seller basis, continued to be managed by the CBN and did not move in tandem

3 A Monetary Conditions Index is a weighted average of changes in short-term real interest rates and exchange rates relative to a base period, and is useful for assessing the relative looseness or tightness of monetary policy. For the World Bank Nigeria index, we use the the real ex-ante one-year T-bill rate, the real effective exchange rate, and a variable for credit growth—the real net domestic credit. The base year is 2019.

4 World Bank Global Findex Database (2021).

Figure 1.19. Monetary Conditions remain loose despite increases in the monetary policy rate (MPR)

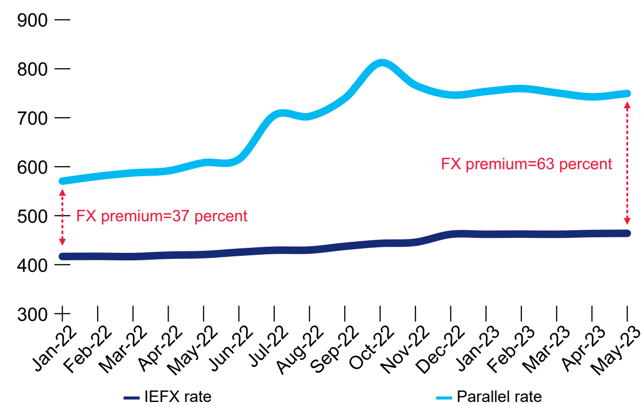
World Bank Nigeria Monetary Conditions Index (March 2011—April 2023)



Sources: CBN, NBS.

Figure 1.20. The parallel market premium increased between January 2022 and May 2023

NAFEX Closing rate and Parallel Market Rate (Jan 2022—April 2023)



Sources: CBN, Nairametrics.

with market fundamentals.[5] The FX market lacked a clear and predictable price discovery mechanism, primarily due to the use of multiple FX windows to serve multiple purposes. This continued to limit FX supply at the NAFEX window, pushing economic agents into the parallel market to meet their FX requirements, and generated arbitrage and rent-seeking opportunities. As of June 13, 2023, the parallel market–NAFEX premium was 63 percent, indicating a significant overvaluation of the NAFEX rate. With the aim of reducing FX demand and preserving external reserves, while also maintaining a stable NAFEX rate, the CBN maintained administrative controls. These included restricting access to FX for importing 43 products starting in 2015 and reducing the size of its FX supply interventions since 2020.

The previous exchange rate management approach impeded investment and growth and the recent changes to FX policy and management are a welcome development, capable of unlocking growth. The rigidity of the previous FX regime hampered private investment and production, with firms continually reporting limited FX availability for their imports and challenges in repatriating earnings, making it difficult to fulfill their external commitments. The transition towards a more unified and market-responsive exchange rate starting on June 14, 2023, is expected to facilitate the supply of FX in the market, boost the confidence of both domestic and foreign investors in the Nigerian economy, and enhance trade and capital flows, thereby alleviating persistent FX pressures. If the interbank FX market becomes fully operational, the ability of 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.

5 The Nigeria Autonomous FX Rate Fixing (NAFEX) rate is the exchange rate applicable in the Investors and Exporters (I&E) FX window. This window was created by the CBN in 2017 to consolidate most of the private sector transactions. The rate was adopted by the CBN in 2021 as the reference exchange rate for the economy. The NAFEX rate remained steady in the range of ₦460–₦462/US$ in Q1 2023 despite high prevailing levels of unmet FX demand at this rate.

Box 1.3. Recent successful FX reforms in other emerging economies

FX reforms such as shifting from a fixed to a floating exchange rate, or unification of different FX windows, often involves complex and painstaking changes in economic policy, governance, and the institutional framework. Initially, these reforms can lead to economic volatility and inflationary pressures However, when adequately sequenced and implemented, FX reforms can significantly enhance a country's economic resilience, boost its competitiveness, and promote sustainable growth. The price level in the economy prior to the exchange rate adjustment tends to reflect the parallel market exchange rate, but prices can escalate if the transition process is not adequately managed, and complementary reforms are not implemented. Experiences in Angola, Myanmar, and Uzbekistan, where the move to unify the exchange rate required additional measures to control inflation and manage volatility, can inform FX reform measures in Nigeria.

Angola: In January 2018, Angola initiated significant reforms of its FX regulations. The Central Bank of Angola started a process of gradual exchange rate liberalization, moving away from a pegged currency system to a more flexible model. It also liberalized its rules on international transactions, easing restrictions on the movement of capital. The reform process was a response to an economic crisis that the country was facing due to lower oil prices since 2014, which had resulted in a lack of FX liquidity. It also included several measures on the fiscal front to achieve a reduction in the fiscal deficit. The inflation rate rose about 10 percentage points from the beginning to end of the unification process, while the official rate depreciated by 42 percent. Inflation was contained, in large part because of the restrictive monetary and fiscal policy stance, and because the market had already priced in the parallel market rate, which had a premium of 150 percent over the official rate before the implementation of the reforms. In October, the Central Bank of Angola fully removed constraints from its FX auctions, and significantly tightened monetary policy to control inflation. Since the end of the unification process, FDI flows have picked up quickly and FX is mainly traded in the formal market, with the parallel market only used for small cash transactions.

Myanmar: In June and July 2012, Myanmar undertook major currency reforms, transitioning from a fixed-rate currency system to a managed float system. Prior to the reforms, Myanmar had a dual exchange rate, with the official rate pegged the local currency to the IMF special drawing rights and used for government revenue and for imports by some state-owned enterprises. The Central Bank of Myanmar announced the plan, stating that preparations to unify the dual exchange rate should be made in July, and this would be followed over the next 12 months by a managed currency float of the kyat, Myanmar's currency. The exchange rate adjustment was dramatic, with the FX market rate unified at the parallel rate: it went from K 8/US$ to K 800/US$. But most of the economy was already operating using the parallel market exchange rate, as only a few companies had privileged access to the official rate. Thus, price levels do not reflect the impact of this adjustment, with inflation at 7 percent on average during 2012–2014.

The Central Bank of Myanmar also took measures to introduce more liquidity in local currency with the creation of an interbank market, which did not exist before, and the introduction of a policy rate as monetary policy tool. To strengthen these reforms, market information and surveillance systems were introduced, and other Asian central banks were enlisted to help Myanmar authorities develop the capacity to run an interbank market.

Box 1.3 continued

Uzbekistan: In September 2017, Uzbekistan initiated a significant reform of its FX management. Before the reform, Uzbekistan relied heavily on a state-driven, import-substitution growth model from the early 1990s to 2016, with mixed outcomes for job creation and living standards. As part of the reform, the Central Bank of Uzbekistan abandoned the previous dual exchange rate system, unifying it into a single rate, allowing the local currency to float freely, and abolished FX restrictions. This led to a depreciation of 50 percent of the official rate, that was aligned with the premium between the official and parallel rate.

The liberalization of the FX market was part of a comprehensive set of measures to liberalize the economy that also removed restrictions on trading and investment transactions, reformed government operations and the tax system. Prior to the reform, monetary policy was subordinated to an exchange rate peg. As part of the comprehensive reform program, the Central Bank of Uzbekistan adopted a new approach, and monetary policy was focused on achieving price stability. Importantly, the central bank was removed from the list of state bodies that were under the control of the Government, paving the way for greater operational independence.

The reform led to an immediate increase in remittances, investment, and foreign trade. Despite initial inflationary pressures, a stronger institutional framework supported by a new central bank law in October 2019, that set price stability explicitly as the primary goal of monetary policy, helped control inflationary pressures and bring inflation down from 17.5 percent in 2018 to 10.8 percent in 2021.

Table 2.4. Country case studies where exchange rate has been unified

Country	ER adjustment		Inflation		Interest rate		Fiscal Program
	Date	Size, Percent	Prior to unification	Peak	Prior to unification	Peak	
Angola	Jan 18–Oct 19	68.0	16.3	23.8	14.5	30.00	Yes
Azerbaijan	Feb–Oct 15	24.5	0.2	3.50	3.50	3.00	
	Dec 15–Mar 17	62.4	3.6	14.5	3.00	15.0	Broadly
Egypt	Oct 15–Apr 17	103	14.1	32.9	11.75	18.75	Broadly
Ghana	Jan–Sep 14	51.5	13.5	17.9	16.00	21.00	Yes
	Feb 15–Feb 16	21.0	16.4	19.2	21.0	26.00	Yes
	Jun 18–Aug 19	18.1	9.9	9.4	17.00	16.00	Yes
Kazakhstan	Jan–Mar 14	17.6	4.6	7.75	5.50	5.50	Broadly
	Jul 15–Jan 16	95.8	4.0	17.4	5.50	17.0	Yes
Malawi	Jul 11–Mar 13	156	7.4	34.6	4.0	21.2	Yes
	Jun 15–Feb 16	71	21.2	24.9	11.6	11.6	No

Box 1.3 continued

Table 2.4. Country case studies where exchange rate has been unified (continued)

Country	ER adjustment		Inflation		Interest rate		Fiscal Program
	Date	Size, Percent	Prior to unification	Peak	Prior to unification	Peak	
Myanmar	Jun–Jul 12	14,500	-1.1	7.1	10.0	10.0	No
Pakistan	Nov 17–Dec 18	31.6	4.0	6.2	5.75	10.0	No
	Mar–Jun 19	15.6	9.4	12.3	18.6	13.25	Yes
Uzbekistan	Aug–Sep 17	86	15.8	20.1	9.0	14.0	Broadly

Source: IMF (2021).
Note: Peak is the highest value during the 12 months after the adjustment.

The banking sector: Resilient but operating in a challenging environment

Growth of credit to the private sector in real terms has been negative since Q3 2022. Real credit to the private sector, issued by deposit-taking banks and by the CBN, through its development finance operations, has contracted by 2.6 percent y-o-y on average since August 2022. The lack of growth (in real terms) of private sector credit is consistent with the slow overall pace of economic expansion since the initial recovery from the COVID-19 pandemic. It also indicates an imbalance between stagnant private sector credit and rapidly expanding credit to the public sector which grew (in real terms) by 28.7 percent since August 2022. Such crowding out of private sector credit and investment by high public sector borrowing places upward pressure on interest rates and limits growth prospects.

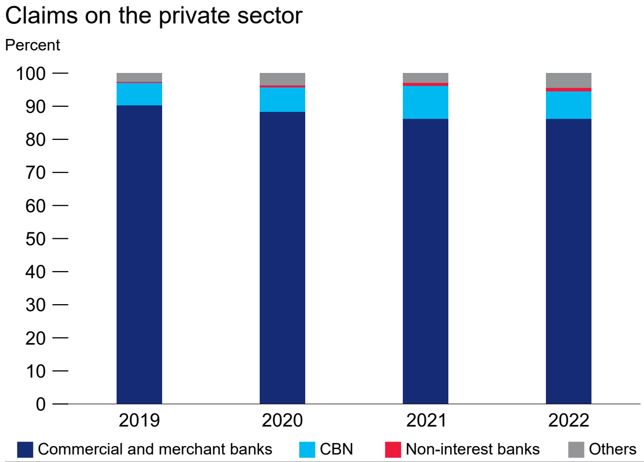
CBN credit to the private sector remained roughly unchanged in H2 2022, resulting in a 180-bps fall in the share of credit to the private sector originated by the CBN (Figure 1.21) from end-2021 to 2022. To the extent that this reflects a policy to curtail development financing activities, this is consistent with the monetary policy rate (MPR) hiking cycle that started in May 2022 to control inflation and curb credit growth. At the sectoral level and in nominal terms, the share of credit to the manufacturing sector edged higher, accounting for 18.2 percent of private sector credit in November 2022 (compared with 15.7 percent in 2020), while that of agriculture has hovered at around 6.0 percent. Retail sector credit continued to expand but still accounts for less than 10 percent of private sector credit.

The main source of funding of Nigeria's banking system is deposits, which grew by about 23 percent y-o-y in Q1 2023, in line with growth rates registered since mid-2022. Banks were not materially impacted in their deposit funding by the CBN's naira redesign policy. However, interest rates on deposits have risen in response to the MPR increases. While the naira demonetization had an initial impact on certain monetary aggregates—both currency in circulation and outside the banks saw dramatic declines (of over two-thirds by end-February 2023)—this trend started to reverse by March 2023 and, overall, does not appear to have substantially impacted bank deposits nor broad money supply, which continue to grow as in previous months.

The banking system remains well capitalized, profitable, and with improving asset quality indicators but there are pockets of weaknesses. The banking system capital adequacy ratio (CAR) stood at 13.7 percent in February 2023, down from 14.1 percent in June 2022.[6] Larger banks have CARs that exceed minimum requirements by healthy margins while medium and small banks tend to have thinner buffers over the minimum. Loan quality is reported to be improving with the non-performing loans (NPLs) ratio down to 4.2 percent in February 2023 from 4.9 percent in June 2022. The improvement has been driven by recoveries, sales, and write-offs as well as the overall growth in the loan portfolio. Some smaller banks hold significant shares of loans classified as stage 2 under the International Financial Reporting Standards, and are thus vulnerable to further deterioration under continued adverse conditions. Smaller banks, including microfinance banks that intermediate the CBN's

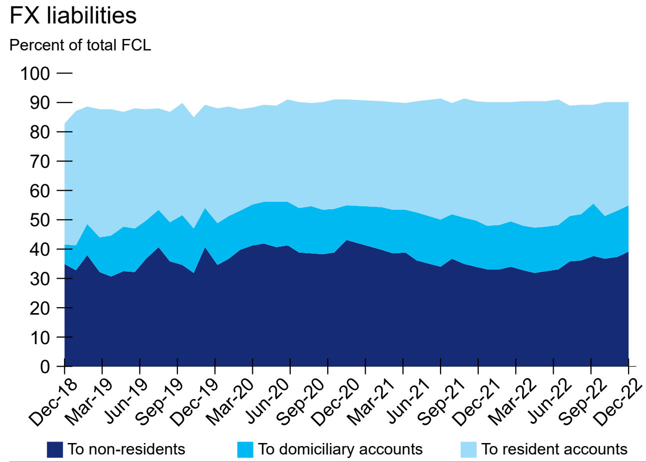
6 The minimum CAR for a bank with an international license is 15 percent, with a 1 percentage point add-on for Domestic Systemically Important Banks (D-SIBs), while for a national license bank minimum CAR is 10 percent.

Figure 1.21. Claims on private sector by origination



Source: CBN.
Note: Others include private mortgage banking and microfinance banks.

Figure 1.22. Structure of FX liabilities of banks



Source: CBN.

development finance funding, could see a sharper rise in NPLs in the future as those lending programs target smaller firms and marginal borrowers in the agriculture and manufacturing sectors.

The results of recent CBN stress tests for credit risk suggest that it would take more than a doubling of the NPL ratio to bring system CAR below minimum requirement. Banks remain highly liquid in naira with the liquidity ratio at 43.1 percent in February 2023, up from 38.7 percent in June 2022. Profitability is slowly improving but it is still well below pre-COVID-19 levels. Return on assets (ROA) on average stood at 1.4 percent in 2022, the same as in 2021, but significantly lower than in 2019 (2.5 percent). Over the same periods, return on equity (ROE) stood at 17.2, 16.0, and 25.3 percent, respectively. Larger banks able to leverage their franchises, and characterized by wider reach, lower funding costs, and diversified income sources, show on average higher profitability indicators than smaller banks.

Banks have improved their FX-denominated lending practices and the sourcing of funding is evolving. FX-denominated funding has become a more important source of overall bank funding and, at the same time, the FX funding mix has changed (Figure 1.22). The share of bank funding mobilized in FX rose some 200 bps between end-2021 and end-2022. Over the same period, the share sourced from both non-residents and the household sector rose by some 700 bps to 65 percent, offsetting the lower funding sourced from corporates. The banking system does not have any maturing Eurobonds in 2023 and 2024. However, repayments will increase in 2026. Tighter prudential regulations have led banks to improve the management of FX-denominated credit facilities and gradually reduce the share of lending in FX to the household and corporate sectors. The share of credit to households in FX decreased from 32.7 percent in 2018 to 19.1 percent in 2022, while the share of credit to corporations in FX fell from 36.9 to 32.6 percent over the same period.

Banks are key players in the public domestic debt market, holding some 55 percent of the outstanding stock of government securities. The banking system is a significant investor in government bonds and thus would benefit from a sustained improvement in fiscal performance and debt sustainability indicators. Concerns over the deterioration in public debt sustainability indicators and the material holding of government bonds was advanced as reason for the recent downgrade of Nigerian banks ratings by Fitch, an international credit rating agency. Total direct exposure to the Government was equivalent to 1.8 times bank capital in 2022. Several factors play a role in banks' holding of government securities including prudential regulation on liquid assets, liquidity management considerations, relatively attractive yields,[7] collateral requirements, and heightened risk averseness in the past few months. The recent public debt restructuring in Ghana has had a limited impact on Nigerian banking groups with subsidiaries in that country.

The Financial Action Task Force (FATF)[8] placed Nigeria on the public FATF List[9] of Countries Subject to Increased AML/CFT Monitoring (a.k.a. the "Grey List"[10]). This decision was based on the results and ratings Nigeria received in the August 2021 Mutual Evaluation on Compliance with International AML/CFT Obligations, which indicated several structural deficiencies in its AML/CFT system.[11] Nigeria and FATF will agree on a time-bound Action Plan. When the FATF confirms that all deficiencies have been adequately rectified, FATF will remove Nigeria from the Grey List.

7 Unlike lending to other sectors, no bank capital is required to lend to the Government.

8 The FATF is the international standard-setting body for anti-money laundering (AML), countering of the financing of terrorism (CFT), and countering proliferation financing (CPF).

9 The consequences of public listing on the FATF lists can result in loss of correspondent banking relationships with domestic banks which can drive up the cost of cross-border transactions or transactions involving FX. In addition, countries can suffer from loss of some FDI.

10 https://www.fatf-gafi.org/en/countries/black-and-grey-lists.html

11 In February 2023, Nigeria made a high-level political commitment to work with the FATF and GIABA to strengthen the effectiveness of its AML/CFT regime. Since the adoption of its MER in August 2021, Nigeria has made progress on some of the MER's recommended actions to improve its system including by improving its AML/CFT legislative framework, updating its assessment of inherent ML/TF/PF risks, and strengthened its implementation of targeted financial sanctions.

Fiscal Policy: Fiscal pressures remain high, with the removal of the petrol subsidy and FX reforms providing some relief

Nigeria's general government fiscal deficit was a sizable 5.0 percent of GDP in 2022, shrinking from its 2021 level (6.5 percent), mainly on the back of reduced capital spending. The smaller (though still sizable) deficit (Figure 1.23), despite lower oil revenues and higher interest payments, was largely due to a sharp reduction in the share of capital expenditure, which fell from 4.7 percent of GDP in 2021 to 2.8 percent of GDP in 2022 (Figure 1.24). On the revenue side, the outturn was helped by welcome progress on mobilizing more non-oil revenues, albeit from a very low base, as non-oil revenues rose from 4.6 percent of GDP in 2021 to 5.1 percent of GDP in 2022.

The quality of spending weakened in the face of financing constraints and mounting debt. Capital expenditures have been volatile, including steep contractions such as in 2022 when fiscal pressure was acute, making it more difficult to close Nigeria's large infrastructure gap and weighing on future growth. Overall, the rigidity of expenditure has increased, squeezing fiscal space for the discretionary spending needed to meet development objectives. Personnel costs and interest payments comprise a growing share of total general government expenditures (59 percent in 2022) and for the first time in 2022 exceeded total government revenues (102 percent).

Reflecting high inflation but also measures from the Government's Strategic Revenue Growth Initiative (SRGI), non-oil revenues showed large nominal gains, and some gains in terms of share of GDP. Value-added tax (VAT) posted a nominal increase of 16.9 percent in 2022 and maintained its level of 1.1 percent of GDP (the same as in 2021). Other Federal Inland Revenue Service collection (e.g., company income tax, capital gain tax, electronic money levy, etc.), recorded a large 68 percent increase compared with 2021, an increase

Figure 1.23. In 2022, the fiscal deficit was 5.0 percent of GDP, down from 6.5 percent in 2021

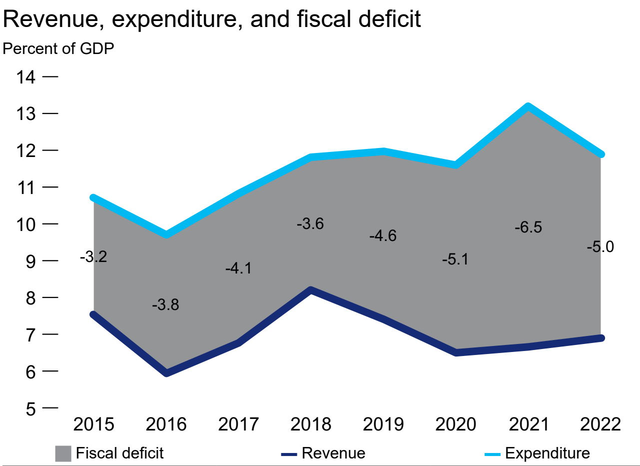
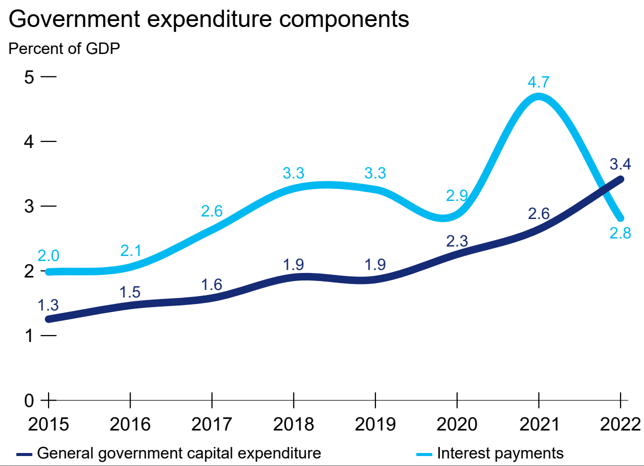


Figure 1.24. Fiscal consolidation in 2022 is expected from a contraction in capital expenditure compared with 2021

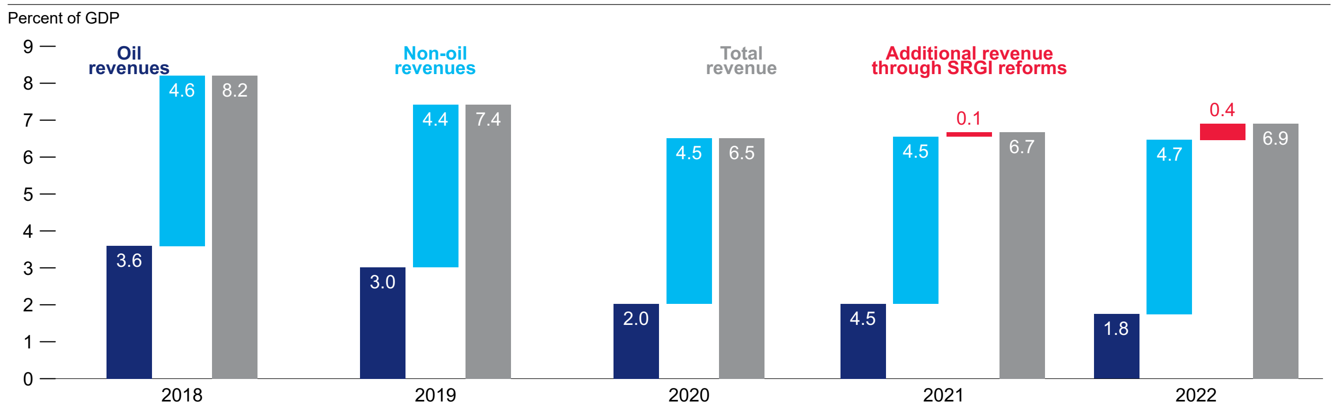


Source: World Bank calculations based on data from BOF, OAGF, and DMO.

of 0.4 percentage points of GDP. The Nigeria Customs Service reported a nominal increase of 36.4 percent in customs receipts, an increase of 0.2 percentage points of GDP, partially aided by the depreciation of the naira. The collective increase in non-oil revenues between 2021 and 2022 was 0.4 percentage points of GDP, from 4.6 percent of GDP in 2021 to 5.1 percent in 2022 (Figure 1.25). This is a welcome trend and sign of progress from the SRGI, although there is a long way to go to lift Nigeria's revenue mobilization to levels closer to international benchmarks (e.g., average SSA excluding Nigeria revenue-to-GDP ratio for 2022 is estimated to be 20.6 percent of GDP, compared with 6.9 percent for Nigeria) and to meet Nigeria's vast development challenges.

In 2022, oil revenues fell to their lowest levels as a share of GDP since 2016, notwithstanding the fact that global oil prices reached their highest level since 2014. The decline in oil revenue to a multi-year low of 1.8 percent of GDP is due to the persistent fall in oil production ((Figure 1.26), which averaged 1.4 million bpd, well below the OPEC quota of 1.8 million bpd, and large deductions for the petrol subsidy (estimated at ₦4.3 trillion for 2022 or 2.1 percent of GDP). Since September 2022, no revenue from crude oil sales has been remitted to the Federation Account. The Federation now owes NNPCL for the subsidy costs, and the subsidy arrears (net of taxes) are estimated to be ₦2.9 trillion (1.4 percent of GDP) as of March 2023 (Figure 1.27).

Figure 1.25. Revenue mobilization measures have begun to boost non-oil revenues



Source: World Bank staff calculations based on data from OAGF.

Figure 1.26. Oil production fell while oil prices continued increasing…

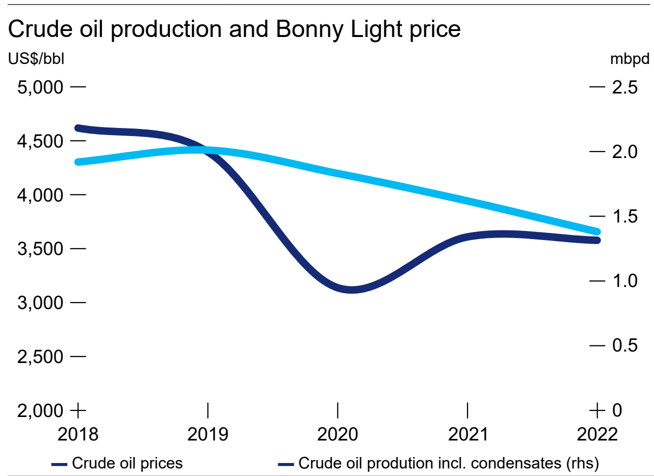
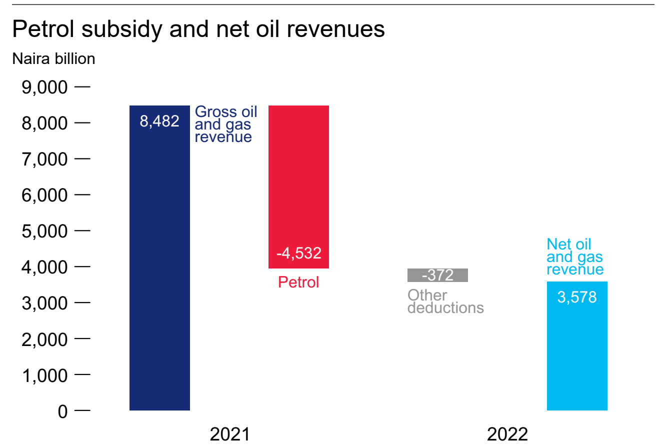


Figure 1.27. …and subsidy payments exceeded net oil revenues transferred to the Federation

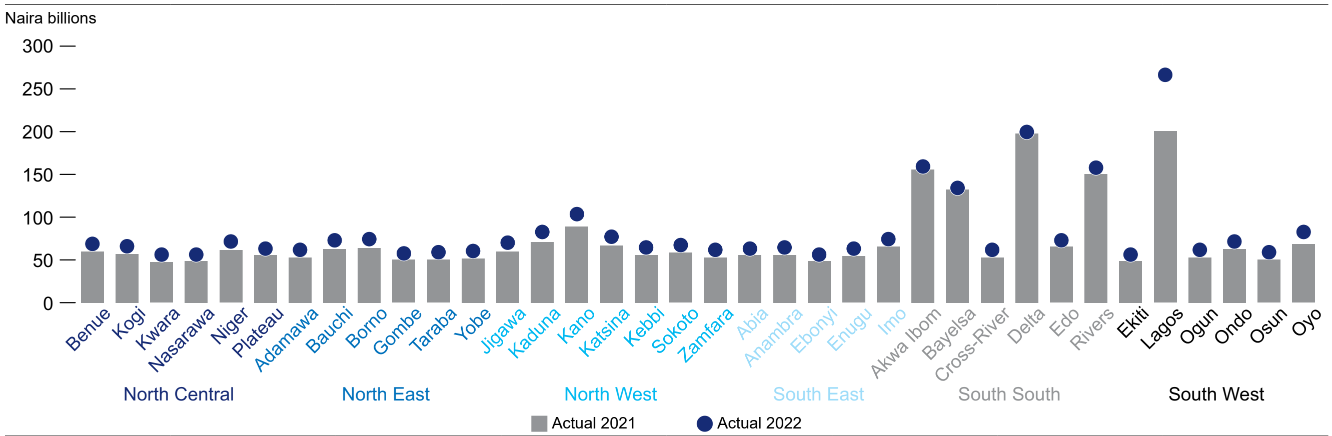


Source: World Bank staff calculations based off data from OAGF and NBS.

Reflecting the rise in nominal non-oil revenues of general government, states' collective total revenues increased by 0.4 percentage points of GDP in 2022. An average state saw an increase in nominal revenues between 2021 and 2022 of 16.1 percent. However, given the high inflation rate, this is estimated to be a fall in real terms for most states. For oil producing states that receive 13 percent derivation, the increase was smaller (a larger decline in real terms), as oil revenues underperformed in 2022. Oil producing states saw an average increase of only 8.4 percent as compared with non-oil producing states that saw an increase of 18.3 percent (Figure 1.28).

In contrast to the states, the federal government faced a drop in its revenues. The federal government's total revenues fell by 0.2 percentage points of GDP to 2.4 percent of GDP (increase of ₦400 over 2021 revenues or 9.1 percent in nominal terms). This change was driven by the greater reliance of the federal government on oil revenues, which underperformed in 2022, as per the revenue-sharing formula. The fiscal federalism structure also meant that the federal government continued to be responsible for the bulk of interest payments (3.2 percent of GDP in interest payments, almost all of the general government's total of 3.4 percent of GDP). Interest payments for the federal

Figure 1.28. All states saw an increase in their Federation transfers in nominal terms



Source: World Bank calculations based off data from BOF and OAGF.

Figure 1.29. In 2022, the federal government's revenues were insufficient to cover its interest obligations…

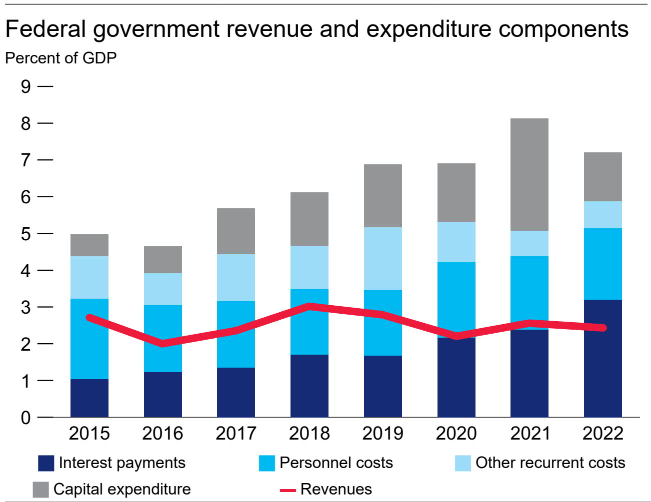
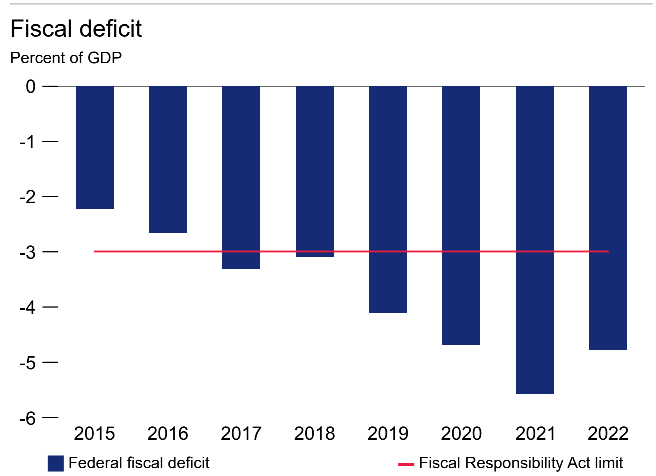


Figure 1.30. …and the federal fiscal deficit continued to be in breach of the Fiscal Responsibility Act limit

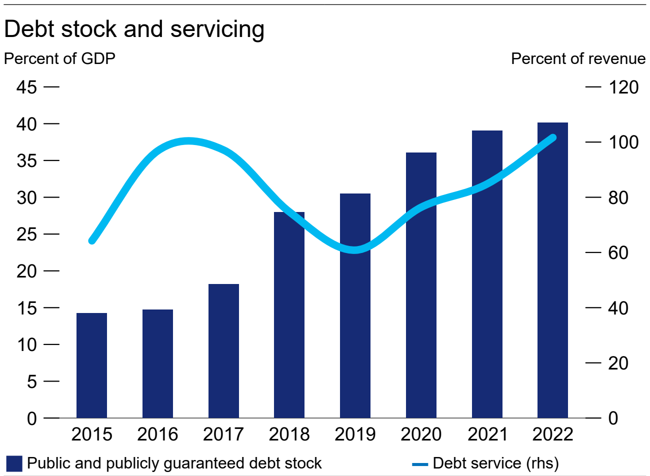


Source: World Bank staff calculations based off data from BOF and OAGF.

government reached 132 percent of federal government revenues, indicating that in 2022, for the first time, the federal government was borrowing to meet its existing interest obligations (Figure 1.29). Reflecting this intense fiscal pressure, the federal government was also the biggest contributor to the general government's significant decrease in capital expenditure. The federal government slashed its capital expenditure by 2.0 percent of GDP vis-à-vis 2021 levels, with capital expenditure of 1.1 percent of GDP being the lowest since 2016. Despite this reduction in capital expenditure, the federal government still posted a fiscal deficit of 4.8 percent of GDP which, while lower than the level in 2021 (5.6 percent of GDP), is still in breach of the 3.0 percent of GDP limit set in the Fiscal Responsibility Act 2007 (Figure 1.30).

Debt servicing continues to pose a large and growing fiscal risk to the economy. Public and publicly guaranteed (PPG) debt reached 40 percent of GDP in 2022 (Figure 1.31), and the overall debt servicing (interest payments and principal repayments) to revenue ratio crossed 100 percent of general government revenues for the first time, reaching 101.5 percent. This is due mainly to a large increase in Ways and Means financing from the CBN.

Figure 1.31. PPG debt reached 40 percent of GDP and debt servicing to revenue ratio crossed 100 percent



Source: World Bank staff calculations based off data from BOF, OAGF, DMO, and the CBN.

Heavy reliance on Ways and Means financing posed a particular challenge in 2022. Compared with traditional financing instruments, Ways and Means financing is expensive (at the monetary policy rate plus 3 percent, i.e., 21.5 percent as of May 2023), non-transparent, distortionary to market interest rates, and inflationary. While Ways and Means financing is often used to meet the in-year revenue shortfalls, in 2022, given the difficult global and domestic economic conditions, the federal government was unable to meet its budgeted financing targets (Figure 1.32). In addition, significant unbudgeted financing was required to meet the budgeted revenue shortfall. Therefore, the recourse to financing from the CBN was even higher than usual in recent years, accounting for about 58 percent of total financing in 2022 (Figure 1.33).

In early 2023, the Federal Ministry of Finance, Budget, and National Planning was able to successfully negotiate more favorable terms (9 percent, with a 40-year repayment period) for servicing a significant proportion of the stock of Ways and Means financing (₦22.7 billion, about 92 percent of total Ways and Means financing as of end-December 2022). However, no agreement was made for the remaining stock as well as for any future Ways and Means financing. As such, debt servicing costs are expected to remain high and over 100 percent of federal government revenues over the medium-term.

Figure 1.32. Both external and domestic financing fell short of budget targets in 2022…

Net borrowing

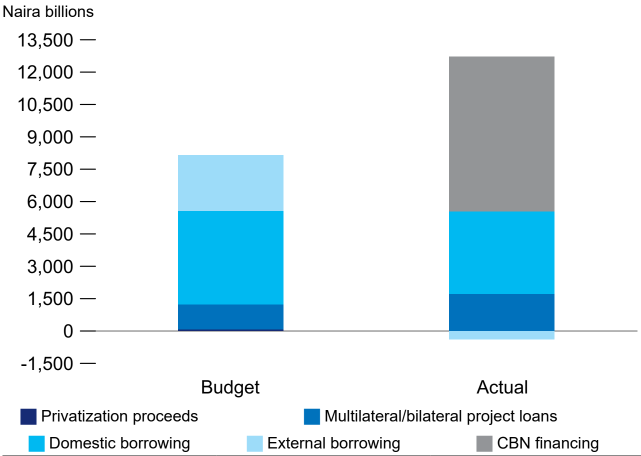
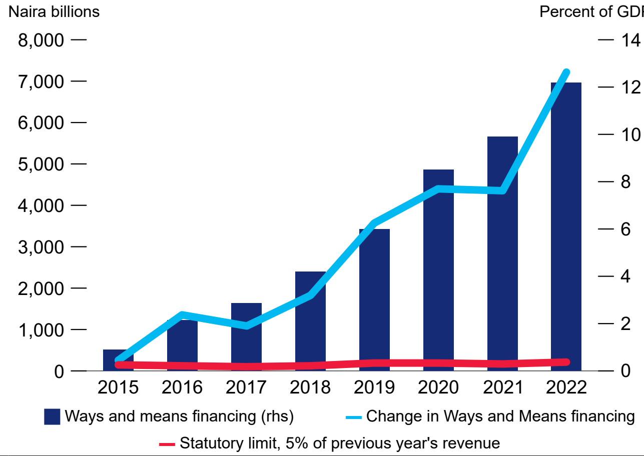


Figure 1.33. …resulting in a sharp rise in financing from the CBN

CBN Ways and Means



Source: World Bank staff calculations based on data from BOF, OAGF, DMO, and the CBN.

Economic Outlook

The global economy: A sharp policy-induced slowdown

Global growth is expected to weaken substantially this year, as tighter monetary policy, owing to persistent inflation, restricts global financial conditions (World Bank, 2023). Despite a recent deceleration in global headline inflation amid fewer supply disruptions and easing commodity prices, high inflation persists in many countries, and in most inflation-targeting economies it is still above target. The extent of monetary policy tightening has been unprecedented, leading to a sharp increase in borrowing costs, tighter credit conditions, and episodes of financial distress in banking and interest-rate-sensitive sectors, such as commercial real estate. While stronger than expected earlier this year, global activity is still envisioned to weaken sharply in 2023, especially in advanced economies, reflecting the lagged impact of interest rate hikes (Figure 1.34A). Global economic growth is projected to decline to just 2.1 percent this year and to 2.9 percent in emerging markets and developing economies (EMDEs) excluding China (Table 1.1). Slowing external demand, tighter global financial conditions, and weaker growth spillovers from the recovery in China are set to weigh on recoveries in EMDEs. An acceleration of growth in China is expected to be primarily driven by the recovery in service-providing sectors resulting in only weak positive spillovers to global demand, trade, and commodity prices. Meanwhile, tighter financing conditions, slow growth, and high debt levels are aggravating unfavorable debt dynamics across EMDEs, increasing the risk of debt distress, especially in low-income countries (LICs), and curtailing fiscal space already depleted by earlier shocks.

Risks to the global outlook remain skewed to the downside. Global growth could weaken more than anticipated if persistent inflation results in additional monetary policy tightening, or in the event of stresses in the advanced-economy banking sector becoming systemic and emanating into the global financial system. Increasing interest rates, along with slowing growth, may cause a jump in NPLs, leading to a substantial further tightening of credit conditions in many countries. Heightened risks of financial distress could weigh on investor confidence, negatively affecting capital flows and investment, especially if current global geopolitical tensions and policy uncertainty worsen. If the recovery in China disappoints, global commodity prices could moderate by more than anticipated, undermining recoveries in commodity exporters, especially metal exporters. In EMDEs, tighter financial conditions,

Table 1.1. Global and regional indicators, 2019–2023

	2020	2021	2022	2023f	
				June 2023 (current projection)	January 2023 (previous projection)
Real GDP growth - Global economy, percent	-3.1	6.0	3.1	2.1	1.7
Real GDP growth - Advanced Economies, percent	-4.3	5.4	2.6	0.7	0.5
Real GDP growth - Emerging and Developing Economies, percent	-1.5	6.9	3.7	4.1	3.4
Real GDP growth - Emerging and Developing Economies excluding China, percent	-3.9	5.9	4.1	2.9	2.7
Real GDP growth - Sub-Saharan Africa, percent	-2.0	4.4	3.7	3.2	3.6
Crude oil price (US$ per barrel)	42.3	70.4	99.8	80	88

Source: Global Economic Prospects (June 2023), Commodity Markets Outlook (April 2023).

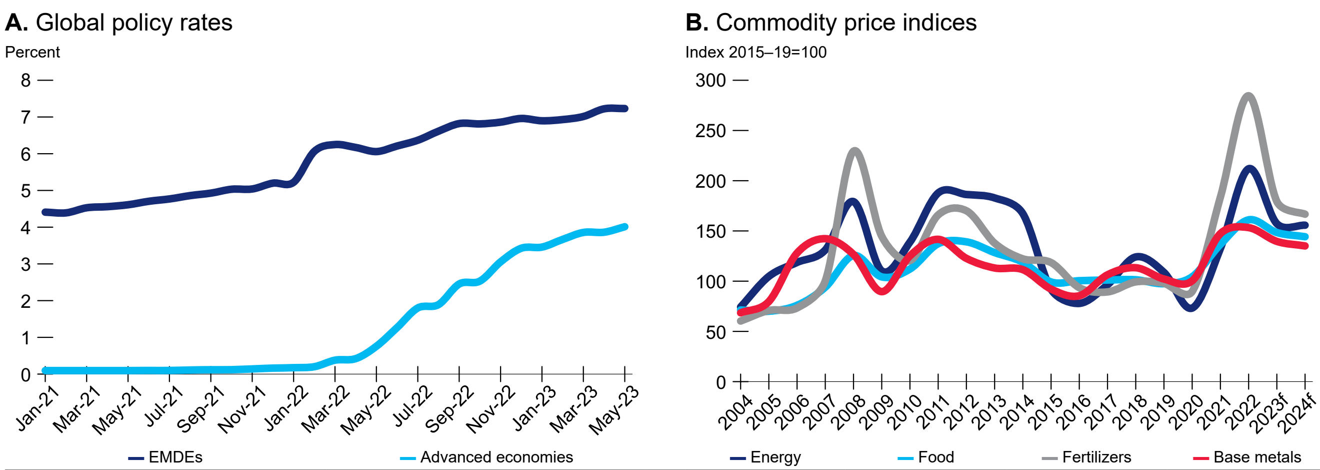
rising debt service costs, weak growth, and high levels of debt could crystalize the risk of debt distress and further constrain fiscal space. Food prices are expected to remain well above pre-pandemic levels. As a result, further disruptions to the supply of farming inputs (such as energy and fertilizers), additional trade policy restrictions, adverse climate shocks, and an escalation of violence and conflict, especially in LICs, could push even more people into extreme poverty and food insecurity.

Commodity prices continued to retreat from their historic peaks amid slowing global growth, milder 2022 northern hemisphere winter weather, and a shift in patterns of trade in key commodities following Russia's invasion of Ukraine. Commodity prices are expected to drop by 21 percent this year—the steepest decline since the pandemic. However, they will still be well above their pre-pandemic average (Figure 1.34B). Energy prices are projected to decline by 26 percent in 2023 and remain flat in 2024, while agricultural and metal prices are forecast to decline by 7 and 9 percent in 2023, and by 2 and 3 percent in 2024, respectively. Substantial volatility in commodity prices, especially energy prices, is expected to persist. Prices could surprise to the upside if a recovery in China supports a strong rebound in domestic fuel consumption. Conversely, stronger-than-expected oil exports from the Russian Federation or weaker-than-expected global growth could push energy prices to lower than expected levels. Similarly, metal and agricultural prices could decline by more than expected if global activity, especially consumer demand in advanced economies, moderates by more than anticipated.

Nigeria's outlook and policy priorities: After the petrol subsidy removal and initial FX reforms, Nigeria has other critical policy choices to make

The bold and ambitious reforms initiated will lift Nigeria's growth potential. The current GDP growth trajectory is clearly not adequate to drive poverty reduction and shared prosperity. GDP growth in 2021 was mainly the result of normalization of economic activity following the 2020 recession. Growth in 2022 and in 2023 in per capita terms was not sufficient to boost poverty reduction and job creation. The challenges are stark, particularly at a time of tighter global financial conditions and elevated global uncertainty, which appear likely to persist. Following a bold start with the recent PMS subsidy reforms and FX reforms, the urgency

Figure 1.34. Global financial conditions have continued to tighten



Source: Bank for International Settlements; World Bank.
Note: A) Average of nominal policy rates weighted by real GDP. Last observation is May (as of May 10); B) World Bank Pink Sheet data indexed to 2015–19=100; f indicates forecast.

remains for Nigeria to seize the opportunity to chart a new course with ambitious and comprehensive reforms to raise long-term growth prospects.

In the base-case scenario, GDP growth is projected to expand in the medium term. The economy is expected to grow at 3.3 percent in 2023, 3.7 percent in 2024, and 4.1 percent in 2025. The main assumptions underpinning this growth projection are as follows:

- Growth will be primarily driven by: (i) services, mainly telecommunications, trade, transport, and financial services; (ii) manufacturing and construction; and (iii) a slow recovery in the oil sector.
- The recovery in the oil sector is anticipated to be slow and is subject to elevated uncertainty, due to ongoing security and technical risks. Bonny Light crude oil is projected to average US$90 per barrel between 2023 and 2025. Concurrently, crude oil production is projected to increase to 1.5 million bpd in 2023 and range between 1.5 and 1.6 million bpd in 2024–25.
- The agriculture sector is expected to gradually recover from the disruption caused by the devastating floods that occurred between August and October 2022. However, the sector's productivity is expected to remain little-changed.
- It is assumed that there is no major intensification of insecurity and the number of conflicts.
- The naira redesign and the phase-in of new notes is projected to continue smoothly throughout the rest of the year without any serious disruption.
- The petrol subsidy removal and FX reforms are assumed to be sustained, and they will impact positively the fiscal and external sectors.
- Further economic policy reforms strengthening Nigeria's macro-fiscal policy framework would be a source of upside to the baseline scenario.

The recent decision to remove the petrol subsidy marks a crucial initial step towards restoring macroeconomic stability, creating fiscal space, and improving growth prospects. Nigeria moved into mid-2023 against the backdrop of weakening macroeconomic stability. Despite solid growth in the non-agriculture-non-oil sector (interrupted only by the naira redesign) and high global oil prices (averaging US$99.9 per barrel in 2022, up from an average of US$56.3 per barrel between 2016 and 2020), Nigeria's domestic imbalances (inflation, fiscal situation) and external imbalances (FX market premium, FX reserves) deteriorated. For the first time in its history and alone among major oil exporters, Nigeria failed to reap significant benefits from a global energy price surge (since late 2021), largely due to the costly petrol subsidy, as well as other policy settings. This resulted in low net oil revenues and increased reliance on costly CBN financing, which in turn pushed up interest costs, leading to severe fiscal, monetary, and debt management challenges. The removal of the subsidy will improve Nigeria's fiscal position and sets the foundations for a more resilient, faster-growing economy. However, the overall fiscal impact of the decision will depend on several factors, including how the Government plans to use these savings (see next section).

The removal of the petrol subsidy will increase prices in the coming months but significantly reduce inflation pressures in the medium-term. The subsidy removal has a one-off, level effect on some prices, mainly petrol purchases for vehicles and generators, as well as transport-related costs, and the cost of some services. Consequently, headline inflation is expected to rise from 18.8 percent in 2022 to 24.5 percent in 2023. However, the medium-term effect will be to reduce inflation: by Q1 2024, the removal of the subsidy will become disinflationary, i.e., it will reduce inflationary pressures compared with those under "business as usual", despite higher petrol prices. This is because the subsidy removal will have created additional fiscal space and reduced the recourse to CBN financing, thus reducing growth of the money supply.

Compensating transfers will be essential in helping to shield Nigerian households from the initial impacts of the subsidy reform. Without compensation, many households would be pushed into poverty by higher petrol prices and would have to resort to coping mechanisms with long-term adverse consequences, such as not sending children to school, or not going to health facilities to seek preventative healthcare (see Spotlight section). To entrench the reform, the Government could elaborate on the use of the freed-up resources in a new compact with the Nigerian people, outlining support in the immediate as well as medium- and long-term, at the federal, state, and local government levels. The compact will need to clearly identify priority areas of government investment and communicate these effectively to the public to garner support. A public commitment focusing on sound fiscal policies and pro-poor service delivery is central to such a compact. Strong social protection programs are critical elements of such a compact in the immediate as well as the longer term.

The comprehensive reform aiming to correct the absence of a price discovery mechanism, the existence of multiple FX windows, and lack of transparency and predictability could bolster investor confidence, stimulate economic growth, and alleviate inflationary pressures. The maintenance of multiple exchange rates, and an overvalued official rate, generated large economic distortions and severely undermined the business environment, investment, and growth in Nigeria. The lack of FX availability at the official rate and the consequent upward pressure on the parallel market rate imposed costs on both domestic and foreign firms operating in Nigeria and discouraged fresh investment and firms' entry. For domestic firms, the cost of importing goods, paying external debts, or engaging in any other activities requiring FX increased, impacting their operational costs and eroding profitability. For foreign firms, these conditions made investment in Nigeria less attractive due to the higher costs and risks associated with currency conversion.

In the transition to a market-driven exchange rate, managing the adjustment process is critical to reduce uncertainty and volatility. The process will be smoother if fiscal and monetary policies are supportive, and the move is well communicated both to the financial markets, and to the population in general (IMF, 2021). A new framework for exchange rate interventions needs to be announced, together with a coherent framework for monetary policy operations that sends the signal to the market that the CBN would operate an effective monetary policy to control inflationary pressures once the exchange rate has adjusted.

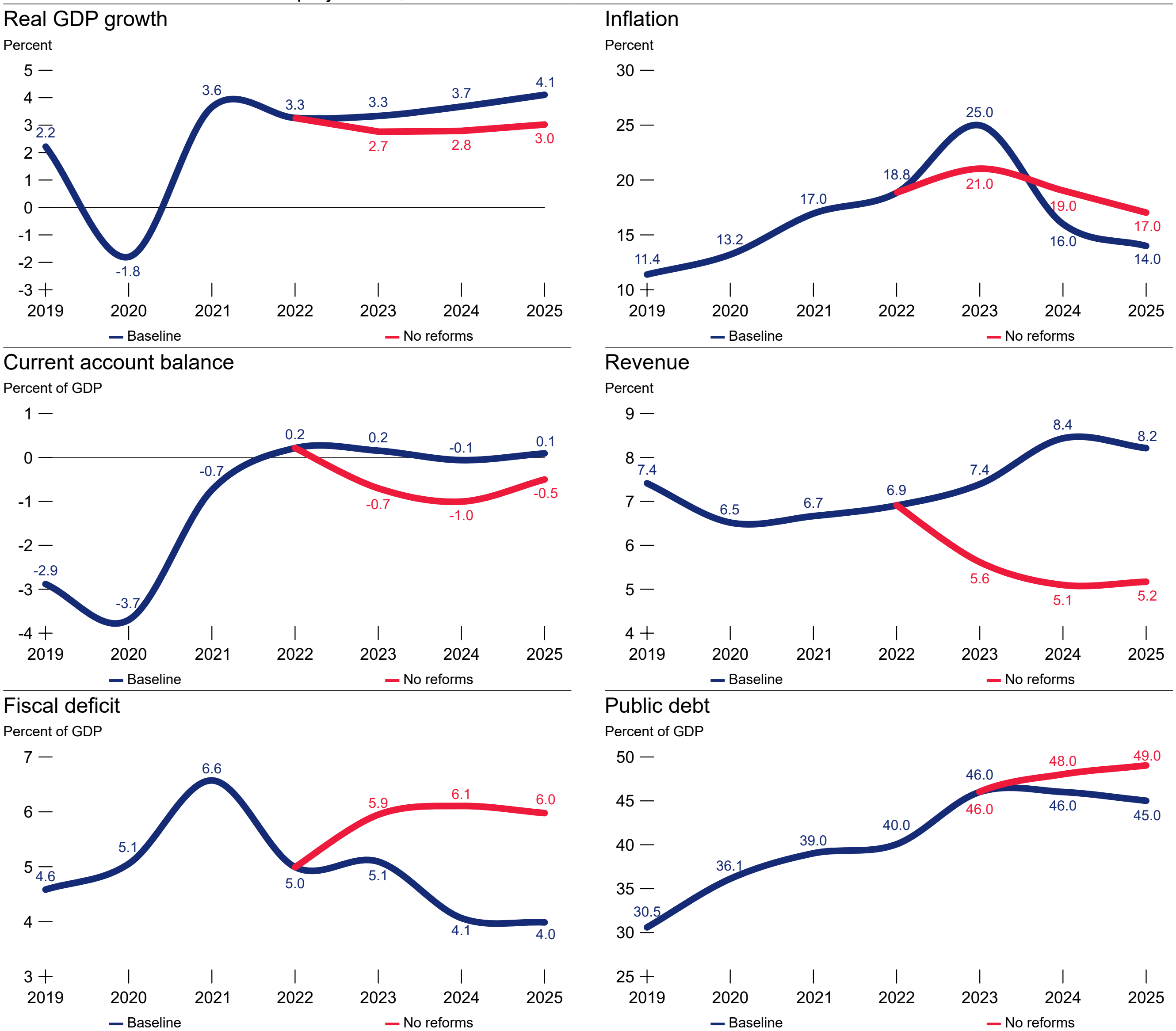
The next policy priority is to reduce inflation and maintain price stability. The CBN only began to respond more decisively by tightening some aspects of monetary policy during 2022. However, the recent policy rate hikes have not been enough to reduce inflationary pressures. To lower inflation to the CBN's target of 6 to 9 percent in the near term, further concerted policy action is needed by reforming the mix of trade, exchange rate, monetary, and fiscal policies. In this context, continuing with the financing of the fiscal deficit through CBN Ways and Means financing would be counterproductive because it would lead to higher inflation and put pressure on the exchange rate.

The policy reform agenda is urgent because a more stable macroeconomic platform is critical for higher investment, growth, and jobs, and since the economy is more vulnerable to shocks than before the pandemic. In 2022, external reserves did not benefit from higher oil prices, and the need for external financing has not declined as was the case in previous episodes of higher global oil prices. Fiscal buffers have been depleted, despite high global oil prices, largely due to the petrol subsidy which the new government has now moved decisively to address. Inflation is already at high levels, draining the resilience of households and firms. Inflation has pushed millions of Nigerians into poverty and FX scarcity has discouraged investment and production. The recent shocks have compounded long-standing structural challenges in revenue mobilization, human capital development, infrastructure investment, and governance.[12]

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

Figure 1.35. The important reforms initiated will improve Nigeria's economic outlook

Macroeconomic indicators and projections, 2019–2024



Source: World Bank.

Fiscal implications of the removal of the petrol subsidy and of recent exchange rate measures

The removal of the petrol subsidy and implementation of key FX reforms from June 2023 are welcome efforts that will boost net oil revenues and provide fiscal savings to the Government. However, the overall fiscal impact of the decision will depend on several factors, including how the Government plans to use these savings.

While the petrol subsidy directly reduced net oil revenues transferred to the Federation Account, the overvaluation of the official rate meant that the Federation incurred losses in terms of the naira

that it received for development programs and taxes denominated in foreign currency. Firms reported lower than actual profits, reflecting the official overvalued rate, thus reducing government tax revenues. Implementing exchange rate policy reforms to rectify the overvaluation of the official rate enhances the naira value of taxes and external financing denominated in US dollars for both federal and sub-national governments, i.e., the local currency equivalent of taxes collected, or financing received in US dollars increases.

The removal of the subsidy coupled with the FX reforms are expected to provide fiscal savings of around ₦3.9 trillion in 2023 or 1.6 percent of GDP. Between 2023 and 2025, the savings would be over ₦21 trillion, compared with a scenario in which the fuel subsidy had continued, and the previous exchange rate regime had continued. The revenue-to-GDP ratio will rebound, reaching 7.4 percent of GDP in 2023, or 1.4 percentage points of GDP higher than if the reforms had not been enacted (Figure 1.36). The fiscal deficit is still expected to remain large, at 5.1 percent of GDP in 2023, before falling to 4.0 percent in 2024 and falling further to 3.9 percent of GDP in 2025. As such, debt servicing is expected to be lower than in the continuation of the subsidy scenario (Figure 1.37), dropping to 76 percent of general government revenues by 2025 (after peaking at 121 percent of revenues in 2023).

Fiscal risks remain as the Government is estimated to owe the NNPCL ₦2.8 trillion in subsidy arrears. If these are paid as soon as possible, they would eliminate the fiscal savings for 2023, raising the fiscal deficit by over 0.8 of a percentage point of GDP to 5.9 percent, while also reducing some fiscal savings for the subsequent year. It remains to be seen what decision the Government takes on the payment of these arrears, as non-payment of the arrears (and them being included as debt of the Government instead), may have potential implications for repairs and maintenance, security, and joint venture cash calls, all of which can impact oil production and revenues.

The fiscal impact also depends on other policy choices that the Government makes as to how to redirect the savings. To alleviate the temporary inflationary impact of the reform on the public, the Government may expand the social safety net program. While support for this can be provided by multilateral and bilateral development partners, a larger-than-expected expansion can have a fiscal impact. Other measures that have been

Figure 1.36. Removal of the subsidy and FX reforms can potentially provide the Government with considerable fiscal gains over the medium-term…

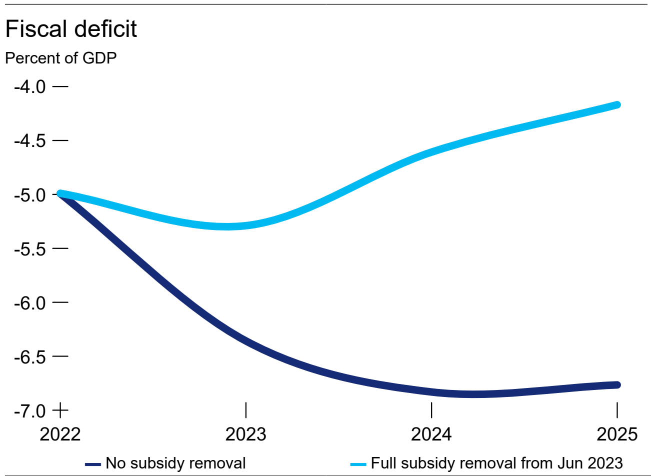
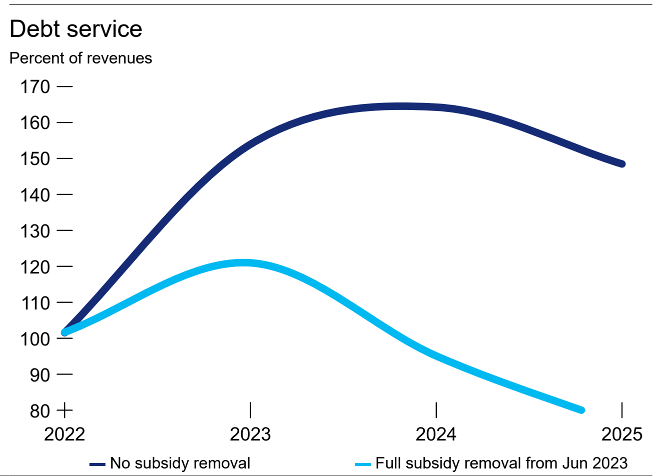


Figure 1.37. …and reduce debt servicing costs

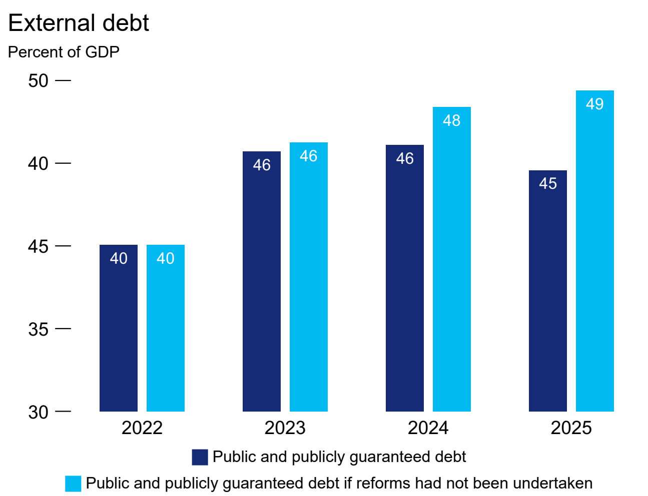


Source: World Bank estimates based on data from BOF, DMO, OAGF, and NNPC.

suggested, such as increasing the minimum wage or civil service salaries, would also raise general government expenditure. The final fiscal impact of the reform will therefore likely fall somewhere in between the scenario where the savings are used entirely to reduce the fiscal deficit and minimize financing needs, and where the savings are deployed entirely to clear arrears.

An overvalued official exchange rate had flattered Nigeria's debt indicators. The devaluation of the official exchange rate is projected to have significant implications for the country's PPG debt stock. As per the baseline assumptions, the PPG debt-to-GDP ratio is anticipated to reach 46 percent in 2023, compared with 40 percent in 2022. However, of this increase, only 2.5 percentage points of GDP are due to the exchange rate devaluation (Figure 1.38).

Figure 1.38. With the exchange rate devaluation, PPG debt is expected to moderate after 2023



Source: DMO.

Nigeria's choice: Policy options for the next six months to reduce inflation, address fiscal pressures, and invest in the future of Nigerians

Policy reforms are available to help Nigeria seize the opportunity and rise to its potential. Although these have also been outlined in previous Nigeria Development Updates, 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. The removal of the petrol subsidy and FX reforms have opened a window of opportunity that, if effectively seized, could have a transformative impact on the lives of millions of Nigerians and establish a solid foundation for sustained growth. It is imperative to implement a comprehensive reform package that encompasses a range of complementary measures to maximize their collective impact on growth, job creation, and poverty reduction. Addressing certain imbalances while neglecting other areas could prove costly for Nigeria's economic performance and may not yield the desired benefits Critical measures are needed in two 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 non-oil revenues.** This can be achieved by 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.

II. **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. 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 1.2. Macro policy options to support Nigeria's rise to its full potential

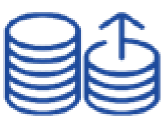
Policy	*Status*	*Specific Measures*
I. Restoring Macroeconomic Stability		
Remove the petrol subsidy 		The removal of the subsidy was announced on May 29 and pump prices were adjusted on June 1 by the NNPCL. With the removal of the subsidy, the Government is expected to see fiscal savings of around ₦2 trillion in 2023 or 0.9 percent of GDP. Between 2023 and 2025, these gains would be about ₦11 trillion, against a scenario in which the fuel subsidy had continued.
Increase non-oil revenues 		Since 2019, the Government introduced non-oil revenue reforms and tax administration improvements, which have prevented an even more severe fiscal squeeze by boosting non-oil revenues from 4.4 percent of GDP in 2019 to 5.2 percent in 2020. 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 included increasing the VAT rate from 5.0 to 7.5 percent, increasing gas flare fees, rationalizing tax expenditures, and operationalizing the electronic money transfer levy. The oversight of government-owned enterprises (GOEs) has also been strengthened, by ensuring a 50 percent cap on the cost-to-income ratio of these parastatals. In the short-run, the Government can further increase non-oil revenues by (i) gradually increasing the VAT rate, while allowing for input tax credit on capital and services, (ii) removing VAT exemptions on petroleum products, (iii) improving tax administration to ensure the collection of the newly introduced excises on telecommunication, single use plastics, and high-polluting vehicles, (iv) implementing an advisory visit program to improve voluntary compliance, (v) adopting a data-driven approach to tax audit, (vi) leveraging technology to reduce tax avoidance, (vii) linking residential property with PIT returns, (viii) introducing a simple turnover tax on SMEs at the state level instead of the various nuisance fees and levies, (ix) adopting modern valuation methods to properties.
Reduce inflation through a sequenced and coordinated mix of monetary, fiscal, and trade policies 		**Monetary and fiscal measures:** Continue the reduction of subsidized CBN lending to medium and large firms; end the Federal Government's borrowing from the CBN. **Trade measures:** Remove the 43 items from the list of FX restrictions, and replace import restrictions with tariffs that reflect the Economic Community of West African States (ECOWAS) Common External Tariff.

Table 1.2. Macro policy options to support Nigeria's rise to its full potential (continued)

Policy		***Specific Measures***
Unify and adopt a market-responsive exchange rate 		On June 14, the CBN made important reforms by abolishing the segmentation of the FX market across multiple FX windows and collapsing them into the I&E window; allowing the naira to trade freely by reintroducing the willing buyer, willing seller mechanism at the I&E window. To enhance the efficiency of the FX markets, additional measures need to be implemented: • Remove the FX restrictions for the 43 items in the CBN list of FX restrictions. • Communicate the new framework for exchange rate management. • Enhance the consistency of the current framework for monetary policy operations to ensure that price stability guides monetary policy actions.
II. 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 removal of the 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.

Note: Green indicates completion, yellow work in progress, and red denotes reforms that have not yet begun.

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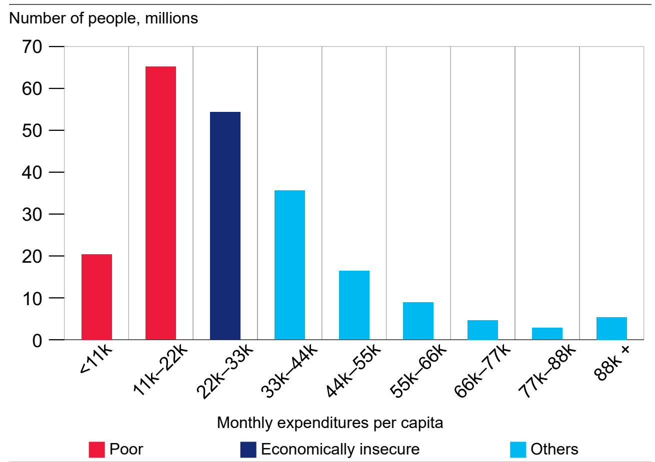
Part 2: Spotlight on Nigeria’s Development Agenda

SPOTLIGHT: Strengthening Nigeria's social safety nets in the wake of the petrol subsidy removal: A need for a new social compact

Summary: *The recent removal of the petrol subsidy has reinforced the need for robust social safety nets as a part of a broader compact to the Nigerian people. Nigeria currently underspends on social safety nets compared to Sub-Saharan Africa and the world, such that less than 20 percent of the population is covered. The safety net delivery system of Nigeria, including the National Social Registry (NSR) and the Rapid Response Registry (RRR)—which have identified 44 percent of all households in Nigeria—together with a robust digital payments mechanism, can quickly, safely, and securely deliver a compensatory cash transfer to poor and economically insecure households. International experience shows that such a social protection scheme can build trust in government institutions, and thus help to forge a new social compact with Nigerians to break out of the current cycle of low trust, weak public services, and low revenues.*

Figure 2.1. Distribution of Nigeria's population by consumption levels In 2018



Source: World Bank estimates based on NLSS 2018/19 (National Bureau of Statistics 2019).
Note: The spatially and temporally adjusted prices in 2018–19 terms in the NLSS are deflated by the CPI to April 2023 prices. The poor are those living in households with expenditures below the national poverty line of ₦137,430 per person per year in 2018/19 prices; economically insecure are those living in households with expenditures below ₦206,145 per-person per year in 2018/19 prices.

Nigeria suffers from high poverty and multiple concurrent shocks

The majority of Nigerians are either poor or economically insecure, just one shock away from falling into poverty

About 40 percent of Nigerians—82.9 million people—lived on less than the national poverty line in 2018/19.[13] An additional one quarter of the population—some 52.6 million people—were economically insecure, at high risk of falling into poverty (Figure 2.1). The overall poverty situation since then is unlikely to have improved given that GDP per capita has declined since 2019.

If a shock hits, these poor and insecure households would be forced to adopt costly coping strategies, diminishing their physical and human capital assets. They may also be forced to make decisions to survive the shock that reduce their future prospects (e.g., early sale or slaughter of livestock, drawing down savings intended for investments). These adverse coping strategies reduce long-term productivity, which in turn lowers chances of securely escaping poverty.

Most Nigerians, especially the poor and economic insecure, experienced recent shocks. In 2018/19, around 22 percent of Nigerians lived in a household

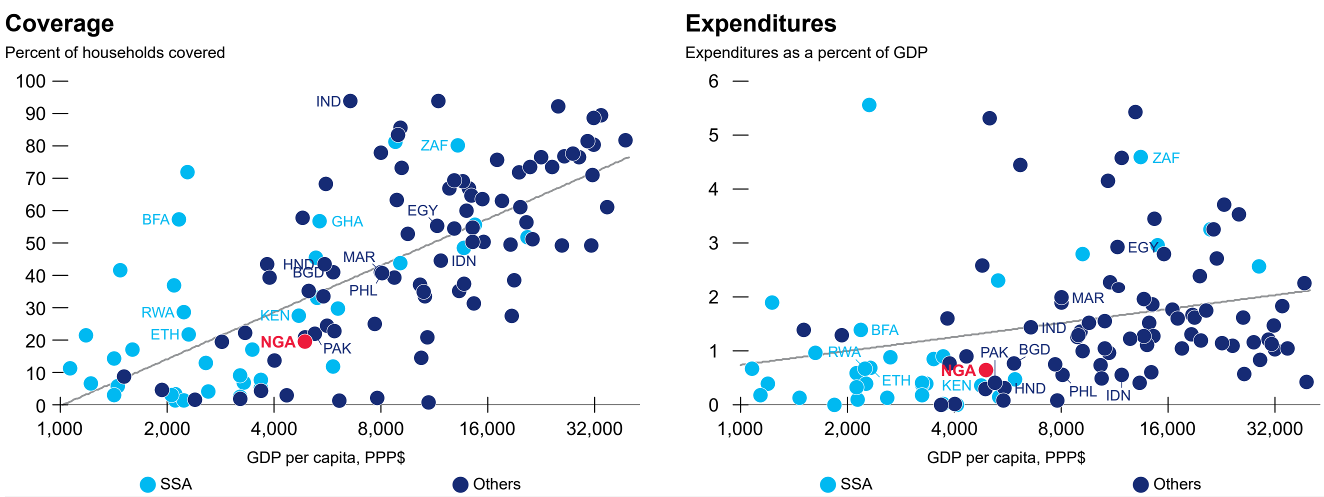
13 The national poverty line is set at ₦137,430 per person per year in 2018/19 prices.

that had been affected by at least one climate shock and 64 percent lived in a household that had been affected by at least one non-climate shock.[14] The exposure to shocks was wider for poor and economically insecure households: almost 70 percent of poor and economically insecure Nigerians experienced any of these shocks, compared with 64.3 percent of the rest of the population. In addition, the shocks hit the poor and economically insecure harder, as they do not have the ability to cope with the shocks. Since then, multiple shocks have affected Nigeria's economy, including the COVID-19 pandemic, the rise in commodity prices triggered by Russia's invasion of Ukraine, and the impacts of severe flooding on domestic supply of staple crops. These shocks, in combination with policy missteps, have kept inflation high, especially for food items. This affects poor and economically insecure households more as they spend a larger share of the expenditures on food, pushing millions of Nigerians into poverty.[15] More recently, the rapid and insufficiently prepared implementation of the naira redesign caused currency shortages. The fuel subsidy removal—even though fiscally prudent and essential—has added to the economic shocks faced by Nigerians.

Despite being exposed to frequent recent shocks, the majority of the population lacks protection to adequately cope with shocks financially. In 2021, Nigeria spent only 0.7 percent of its GDP on social safety nets. This is much lower than the average for Sub-Saharan Africa and lower middle-income countries of 1.2 percent and the global average of 1.5 percent (Figure 2.2). Consequently, only 19.4 percent of Nigerians benefitted from any safety nets program, compared with 25 percent regionally and 41 percent globally. Even among those covered, benefit levels remain insufficient to keep households out of poverty.[16] Thus, Nigeria needs to rapidly and comprehensively expand the coverage and adequacy of its social protection programs to allow households to cope better with inevitable future shocks.

Social protection programs are an investment in Nigeria's people and society. In the immediate term, social protection programs such as cash transfers can

Figure 2.2. The coverage of and expenditures in social protection programs are extremely low in Nigeria



Source: World Bank based on ASPIRE database (World Bank 2023), NLSS 2018/19 (National Bureau of Statistics 2019), and (World Bank 2022b).
Note: Coverage statistics for Nigeria is based on the NLSS 2018/19 survey and the expenditure statistic is based on (World Bank 2022b).

14 Source: NLSS 2018/19 and World Bank estimates. Reference period = 3 years prior to the survey. In NLSS 2018/19, climate shocks include shocks such as loss of harvest or property due to fire, poor rains, or flooding. Non-climate ones include shocks such as theft, death, or illness of a household member, or sudden price increases.

15 World Bank 2022a.

16 Benefit levels for the average safety nets beneficiaries in 2018/19 was only 2.7 percent of their consumption.

provide relief and cushion against price rises and income shocks. Such programs also effectively boost human capital investment. Sustained safety nets programs increase schooling among children and improve their health outcomes in the short, medium, as well as long-term.[17] These programs can also have significant positive spillovers in the local economy by boosting local demand and increasing revenues for local firms. In Kenya, each dollar spent on safety nets (cash transfers in this case) adds US$2.6 to the community by spurring the local economy.[18]

The petrol subsidy removal needs to be accompanied by a new social compact with the Nigerian people

In addition to being fiscally prudent, the recent petrol subsidy removal presents an important opportunity for the Government of Nigeria to redirect resources towards its people. In 2022, Nigeria spent ₦4.5 trillion on the petrol subsidy, which was 2.2 percent of GDP, pushing Nigeria unsustainably deeper into debt.[19] In addition, the subsidy was also regressive: it benefited the rich more than the vast majority of the population, as wealthier households are more likely to consume petrol than poorer households (Figure 2.3.A). Consequently, the bottom 40 percent of the Nigerian people received less than 3 percent of the subsidy directly, whereas those at the top 60 percent received over 23 percent. The majority—about three-quarters—of the subsidy went towards firms, transport operators and ministries, departments, and agencies, but also smugglers who sell the fuel in neighboring countries at a much higher price. The Government can use part of the savings from the subsidy removal to benefit Nigeria's poor and economically insecure people who remain unprotected from ever recurring shocks.

In the immediate term, the removal of the petrol subsidy has caused an increase in prices, adversely affecting poor and economically insecure Nigerian households. Petrol prices appear to have almost tripled following the subsidy removal. The poor and economically insecure households, who directly purchase and use petrol as well as those that indirectly consume petrol, are adversely affected by the price increase. Among the poor and economically insecure, 38 percent own a motorcycle and 23 percent own a generator that depends on petrol. Many more use petrol dependent transportation.

The poor and economically insecure households will face an equivalent income loss of ₦5,700 per month, and without compensation, an additional 7.1 million people will be pushed into poverty (Figure 2.3.B). Many current, as well as newly, poor and economically insecure households will likely resort to coping mechanisms that will have long-term adverse consequences, such as not sending children to school, or not going to the health facilities to seek preventative healthcare or cutting back on nutritious dietary choices.

With low levels of public trust in the Government, the promise to channel savings from the PMS subsidy reform into investments can ring hollow, undermining support for the reform. Over half of the Nigerian population has only a low level of trust in any of the key governmental institutions.[20] Furthermore, Nigerians do not trust the Government to make a good use of the savings from the petrol subsidy reform.[21] As the 2012 failed petrol subsidy removal attempt

17 See Araujo and Macours (2021); Barrera-Osorio, Linden, and Saavedra (2019); Millán et al. (2020) for evidence from Mexico, Colombia, and Honduras. See Baird et al. (2014); Millán et al. (2019) for a broader review of the evidence.

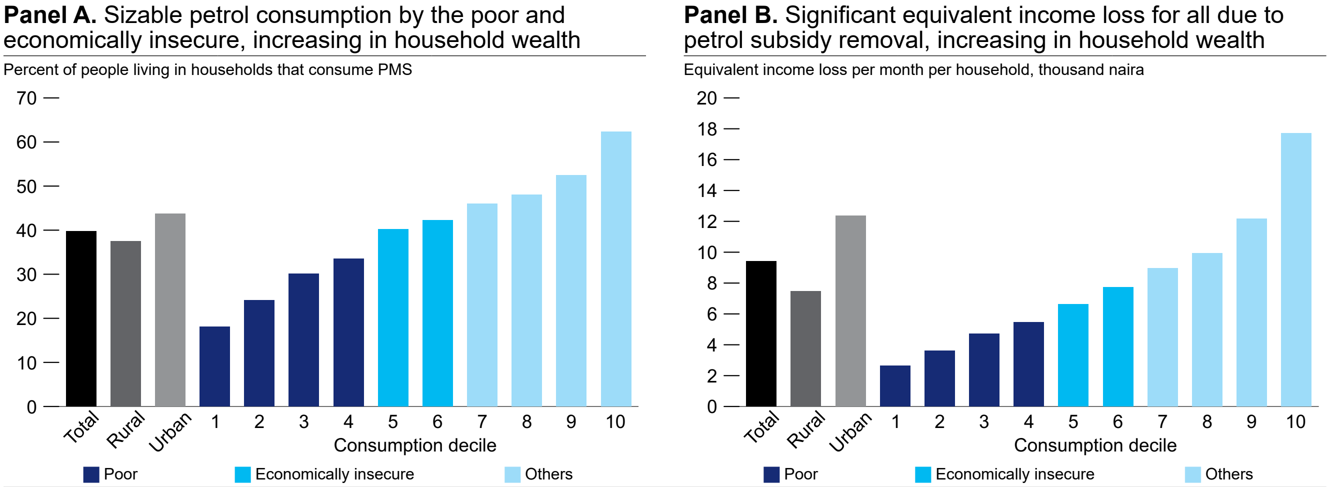
18 See Egger et al. (2022) for further details.

19 Based on estimates from the World Bank and the Office of the Accountant General of the Federation; https://oagf.gov.ng/.

20 The Afrobarometer (2020) survey asked about respondents' trust in the president, the parliament, local government, the policy, the army, and the courts. A response of 'not at all' or 'just a little' is considered to have low levels of trust in the government. See World Bank (2022c) for more details.

21 Data collected by the Nigerian Economic Summit group. See McCulloch, Moerenhout, and Yang (2021); World Bank (2022c) for details.

Figure 2.3. Petrol expenditures and equivalent income loss due to the petrol subsidy removal



Source: 2018/19 NLSS and World Bank estimates.
Note: Equivalent income losses in panel B are in April 2023 prices. Estimates exclude Borno. Simulations assume PMS prices tripled following the subsidy removal. The poor are those living in households with expenditures below the national poverty line of ₦137,430 per person per year in 2018/19 prices; economically insecure are those living in households with expenditures below ₦206,145 per person per year in 2018/19 prices.

demonstrated, the success of the policy depends critically on its ability to garner public support.

To build support for the reform, the Government could propose a compact with the Nigerian people outlining how it will support them in the immediate, as well as medium and long terms. The compact will need to clearly identify priority areas of government spending, communicate these effectively to the public to garner support, and follow up with effective implementation without delay to show intent. A public commitment focusing on sound fiscal policies and pro-poor service delivery is central to such a compact. Strong social protection programs are critical elements of such a compact in the immediate, as well as the longer term.

Strengthened social protection can help build the much-needed trust in the Government. Beyond the direct and indirect impacts, social protection programs—when executed properly, transparently, and with robust communications—quickly provide credible evidence to the public that the Government can deliver on its promises. The execution of such programs signals the Government's competence, as well as its desire to truly support the poor and economically insecure. This translates to increased trust in and support for the Government and its reform efforts.[22] Through their positive effect on human capital and economic spillovers in the form of growth and resilience, social protection programs can further strengthen the social compact. The Government can then leverage the increased trust to implement other reforms which, for instance, would allow them to raise even more revenues. This has the potential to generate a virtuous cycle that can be crucial to deliver other complementary public services, such as education, health, nutrition, and public infrastructure.

Nigeria has the capacity and the infrastructure to deliver immediate assistance at scale

In recent years, Nigeria has invested in building a robust safety nets delivery system that can provide immediate assistance to a large number of households. This includes the development of social registries that can be used to select households for support and a robust payment system that can deliver cash transfers in a safe, secure, and reliable manner.

22 See Evans, Holtemeyer, and Kosec (2019); Manacorda, Miguel, and Vigorito 2011; Zucco Jr. 2013) for examples from Tanzania, Uruguay, and Brazil.

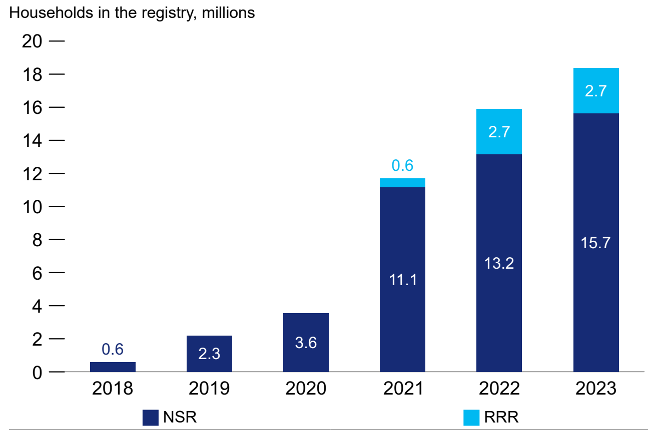
The social registries can serve as a credible gateway to select beneficiaries for immediate support

The National Social Registry (NSR) in Nigeria has increased in recent years. The NSR, which is an aggregated database of all State Social Registers, is an information system containing data on poor and economically insecure households collected by respective states based on a community-based targeting mechanism. That is, households included in this registry are deemed as poor and economically insecure by the communities themselves, with poorer communities given a higher priority. Conceived in 2016 and maintained by the National Social Safety Net Coordinating Office (NASSCO), the NSR has expanded rapidly in recent years to 15.7 million households (over 60 million individuals). The NSR includes households from rural and peri-urban areas throughout the country and covers almost all of the Local Government Areas (LGAs) (Figure 2.4). Most of the households in the registry were added after 2020, which means that the information contained in the registry is still relatively new.[23]

The Rapid Response Registry (RRR) complements the NSR, especially in urban areas. The RRR was launched during the pandemic to quickly build a registry of poor and economically insecure people in urban areas using mobile-based technology. RRR recognizes that poverty in urban areas is highly localized and such pockets of poverty exist even within wealthier LGAs. Initially, SMS blasts are sent to selected poor urban wards, inviting residents to register. Interested people self-select and respond to the invite by providing their details through a secure mobile platform. A subsequent in-person visit to the registrants' households verifies the information and collects additional data on the household.[24] The RRR already has 2.7 million verified households from urban areas. More importantly, the RRR can be expanded quickly to augment urban coverage.

Figure 2.4. The coverage of the social registries has grown in recent years

Size of the NSR and RRR over the years



Source: World Bank based on information provided by the National Social Safety Net Coordinating Office.
Note: Data as of March 2023.

The registries can credibly identify the poor and economically insecure households across the country. Because of community participation in selecting the poor and economically insecure households, as well as the prioritization given to poorer LGAs, the NSR has higher coverage in poorer parts of the country. In fact, the coverage of the LGAs in the NSR correlates strongly with the LGA level wealth index[25] (Figure 2.5). That is, over 65 percent of households in the least wealthy LGAs (bottom 10 percent) are captured in the NSR, compared with fewer than 20 percent of households in the wealthiest LGAs (top 10 percent). Together, the two registries already cover over 18 million households, or about 44 percent of all households in the country. Thus, the registries can serve as a strong gateway to select beneficiaries to provide immediate assistance.[26] In addition, the registries, especially the RRR, can be expanded quickly in urban areas to increase coverage.

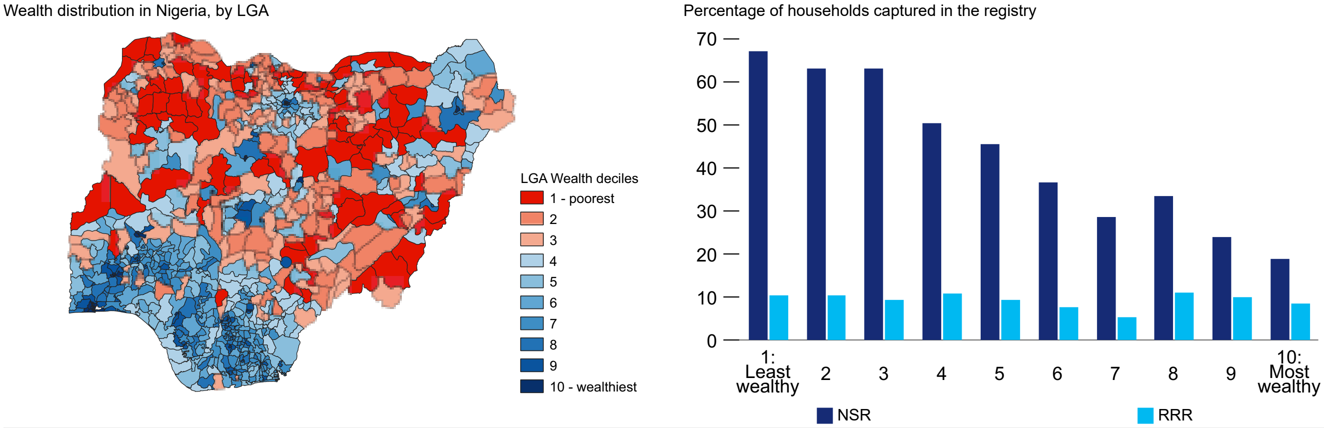
23 NASSCO is in the process of continually updating the information in the registry.

24 Even though the RRR registration is done through a different process than the NSR, the RRR collects similar information, in fact a subset of information, collected by the NSR.

25 This was computed in Smythe and Blumenstock (2022) using machine learning techniques applied to satellite imageries of Nigeria.

26 Further targeting could be done among the potential beneficiaries in the registries to select a specific profile of beneficiaries. See Box 2.1 for an example of how this is being done under a World Bank financed project to ensure that the benefits go more towards the poor and economically insecure and those affected by price hikes.

Figure 2.5. The registries have a high coverage in poorer LGAs



Source: World Bank based on Smythe and Blumenstock (2022) and administrative registry data from the National Social Safety Net Coordinating Office.
Note: The wealth deciles for both figures are based on the LGA level wealth index derived in Smythe and Blumenstock (2022).

Reliable and secure digital cash transfer has become possible across the country

The cash transfer delivery system has come a long way in Nigeria to allow for a fully digital system leveraging the national payments infrastructure. In recent years, the payment delivery mechanism deployed by the National Cash Transfers Office (NCTO) has advanced to ensure that the cash transfers are delivered to the right beneficiary in a timely manner using digital payment modalities. Until recently, limited access of digital and financial infrastructure in rural areas had slowed the adoption of interoperable digital financial channels for payment delivery. Such gaps in financial access have been increasingly addressed by the implementation of policies that favor financial inclusion, such as the expansion of agent networks and the issuance of Payment Service Bank (PSB) licenses by the CBN.

Due to these improvements, the NCTO was able to pay all of the 1.94 million beneficiary households digitally by December 2022.[27] The beneficiaries, largely from rural areas, received the payments directly in their bank accounts or mobile wallets which align with CBN know-your-customer (KYC) requirements and are interoperable (beneficiaries can withdraw cash from any agent). To facilitate access to cash in remote areas, the NCTO partnered with payment service providers and super-agent networks, to establish fixed location and roaming agents that are accessible to beneficiaries, without needing to travel long distances (over 5km). This infrastructure has led to greater financial inclusion for the beneficiaries as they are able to withdraw funds flexibly, save, or perform other transactions, including digital bill payments. The experience of implementing digital payments among the poorest households in rural and in remote parts of Nigeria builds confidence that such a system can be scaled up throughout the country.

27 The 1.94 million beneficiaries households are from the National Cash Transfer Program, also known as the Household Uplifting Program financed by the World Bank's National Social Safety Nets Program.

Box 2.1. Immediate financing can be available through the World Bank for immediate rollout of assistance

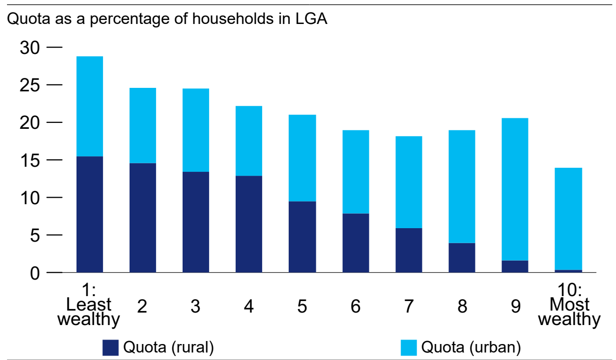
While the petrol subsidy reform is expected to generate large savings in the medium term, the current fiscal situation of Nigeria necessitates external financing to provide immediate cash assistance. The US$800 million World Bank credit program, the National Social Safety Nets Program—Scale Up (NASSP SU), is approved and stands ready to provide immediate assistance to some people if the Government so chooses. NASSP SU seeks to expand coverage of shock-responsive safety nets support among the poor and vulnerable (or economically insecure) and strengthen the safety nets delivery systems. The program will support over 10 million households with time-limited cash transfers of ₦5,000 per household for six-months.[28] The program, and its facilities, are well-suited to provide immediate relief to the people in the current context of the petrol subsidy removal.

Two features of this program allow the resources to be directed in a transparent and accountable fashion toward the poor and vulnerable (economically insecure) population that is most affected by the shock.

First, the program targeting reflects petrol consumption patterns and expands coverage in lagging areas.

The petrol consumption pattern, and hence the impact of the reform, is concentrated more towards urban areas. The NASSP SU quotas, as shown in Figure B2.1, are established by carefully balancing the extent of poverty and vulnerability in the LGAs with the severity of the expected impact of the reform. The program will further refine targeting to ensure that the benefits do not go to the wealthy who do not need support to cope with the shock. In addition, the World Bank financing will support expanding the registries in under-covered LGAs, particularly in the poorer urban wards. In areas with sufficient coverage, the program will prioritize people living in poorer wards to receive the support.

Figure B2.1. The NASSP SU target quotas reflect the wider proportion of the people hit by the price shock



Source: World Bank staff with support from NASSP SU project team.
Note: The wealth deciles are based on the LGA level wealth index derived in (Smythe and Blumenstock 2022).

Second, the program makes further advancements to the payment systems. The advancements aim to increase trust in the system by incorporating an even stronger KYC regime that will include biometric verification numbers (BVN) where applicable. An improved management information system will seek to establish direct interfaces to national payment systems, which will enable straight-through processing of payments directly from the government treasury to beneficiary bank accounts or mobile wallets. These improvements will enable real-time monitoring and provide greater auditability and transparency of payments to the beneficiaries. Further improvements will also be made to the payment system, as well as monitoring and grievance redressal systems, to ensure that the right beneficiaries receive the right amount of assistance in the right time.

28 The benefit size is similar to the average equivalent income loss for the poor and vulnerable households in the bottom 60 percent.

Well-targeted cash transfers can effectively ease the brunt of the petrol price increases

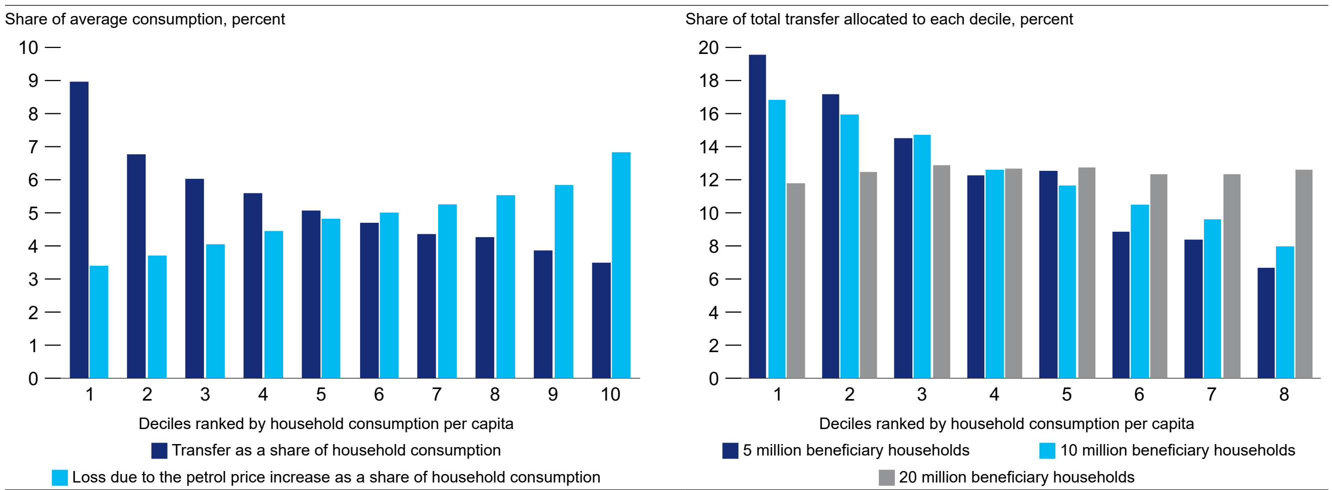
The Government can partially shield the poor and economically insecure population from the brunt of the price increase by utilizing the registries and the payment systems.

A monthly cash transfer of ₦5,000 per household per month can substantially lower the burden of the price increase among the poor and economically insecure.[29] This transfer amounts to 6 percent of the expenditures of the poor and economically insecure, slightly higher than the 4 percent equivalent income loss they are facing due to petrol subsidy removal (Figure 2.6). On average, these transfers would compensate over 85 percent of the equivalent income loss among poor and economically insecure recipients. However, it may not be possible to provide immediate assistance to everyone due to financial as well as logistical constraints. In such cases, it would be prudent to direct more resources towards the poor and economically insecure who struggle more to cope with the adverse impacts of the petrol price increases.

Effective targeting of the compensatory transfers can ensure that the poor and economically vulnerable receive a large share of the cash transfers. A simple approach of geographically targeting poorer wards first and screening out the very wealthy (say, the top 20 percent) can be effective in the Nigerian context. Such an approach would ensure that, in case only a limited number of people can be reached, more resources go to the poor and economically insecure. For example, if only 10 million households can be reached, this approach would direct 88 percent of the resources toward the poor and economically insecure households (Figure 2.6). The use of the registries as a gateway for the compensatory transfers and following similar targeting approach can be even more effective to help the poor and economically insecure.

The cash transfers will need to reach a substantial number of households for the aggregate impact to be significant. Even reaching 10 million beneficiary households with this approach will only lift 1.7 million poor out of poverty, when compared to 7.1 million pushed into poverty by the petrol price increase.

Figure 2.6. Large-scale cash transfers can significantly reduce the impacts of petrol price increase among the poor and economically insecure, and effective targeting of the compensatory transfers can ensure that the poor and economically vulnerable receive larger proportion of the cash transfers



Source: World Bank staff estimates based on NLSS 2018/19 (National Bureau of Statistics 2019).
Note: The transfer considered amounts to ₦5,000 per month for each household. Simulations assume PMS prices tripled following the subsidy removal.

29 The cash transfer amount and the targeting approach discussed here is a simplified version of the approach used for the NASSP SU program (Box 2.1).

Reaching 20 million beneficiary households will lift 4.0 million people out of poverty. Reaching 20 million beneficiary households will lift 56 percent of them out of poverty. However, just aiming to reduce the poverty headcount rate will be a misplaced objective in this context, as this does not account for the welfare of the already poor people who are pushed deeper into poverty due to the petrol price increase. The petrol price hike is expected to deepen poverty by 1.4 percentage points.[30] Reaching to 10 million beneficiary households mitigates the increase in the depth of poverty by 52 percent; reaching 20 million beneficiary households mitigates 87 percent. Higher amounts of transfers per beneficiaries will further increase the impact on poverty headcounts, as well as the depth of poverty.

The need to go beyond the immediate assistance

Immediate assistance to households, especially through the NASSP SU program, can be an essential element of the social compact, but it cannot be the only one. The immediate financing can be used to demonstrate to the public that the Government is indeed serious in its commitment to support the poor and economically insecure, and to build some trust in the Government and its ability to deliver on the compact. The Government can leverage the public trust and support garnered through the early rollout of cash transfers and build on the registries or the payment systems to provide targeted support to many more households not covered by the program. As seen from Figure 2.3. and Figure 2.5, a much larger share of the population is affected by the price increases and, as seen above, a wider coverage is necessary to adequately offset the impacts on the poor and economically insecure.

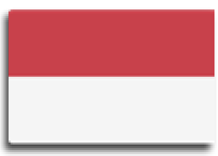
In the medium term, as the savings from the reform materialize, Nigeria can use the proceeds to sustainably finance the social protection programs that provide safety nets in response to shocks, as well as those that support the chronic poor and economically insecure. As Box 2.2 shows, many countries have successfully carried out fuel subsidy reforms by relying on their social protection programs, and used the proceeds from the reforms to expand their social protection programs. This could open the opportunity for Nigeria to expand the lagging coverage of and expenditure on social protection programs (as seen in Figure 2.2) to benefit poor and economically insecure Nigerians. With just a fraction of the savings from the subsidy removal, Nigeria can sustainably finance expanded social protection to its poor and economically insecure people.[31] The expanded social protection programs can be complemented with other pro-poor service delivery such as health, education, jobs, and as a part of the broader and long-term social compact.

30 That is, the poor now have an income which is lower, on average, by 1.4 percent of the poverty line (or, 293 naira per person per month [April 2023 prices]).

31 For instance, a quarter of the PMS subsidy expenditure in 2022 would be sufficient to provide N5,000 per month of cash transfers to 20 million households.

Box 2.2. International experience in using social protection in the wake of fuel subsidy reforms

Social protection policies have successfully been implemented parallel to fuel subsidy removals in many countries, such as the Philippines, Indonesia, and Ghana. The following table describes these countries' experiences.

Philippines 	The Philippines' experiences illustrate the successes that can be attained through carefully sequenced reforms. The country implemented fuel subsidy reforms gradually in the 1980s and 1990s, starting with the implementation of an oil stabilization fund in 1984, followed by transitional subsidies, and culminating in market-based fuel pricing in 1998. To mitigate the effects of the reforms, the Philippines implemented targeted cash transfers and transitionary, targeted subsidies to help low-income households adapt to the change. Parallel to strengthening social protection policies, they also invested in communications to raise awareness of the benefits of the reform.
Indonesia 	In the early 2000s, Indonesia spent just 0.3 percent of its GDP on social assistance programs, while gasoline and diesel subsidies far exceeded this at about 4 percent of GDP. Social protection programs gradually expanded, however. The country's flagship scheme, Bantuan Langsung Tunai (BLT) was introduced in 2005 and gradually increased its coverage from one-third of Indonesian households to 80 percent of the population by 2012. In 2013, Indonesia began phasing out its fuel subsidy. Recognizing the importance of a social compact to compensate for the effect of this reform, four social safety net schemes were merged and relaunched the following year. Coverage in the informal sector was expanded as well. These policies proved effective at protecting the poor and economically insecure, and allowed the subsidy reform to save 0.4 percent of GDP.
Ghana 	Prior to fuel subsidy reforms, Ghana spent over 3 percent of GDP on petroleum subsidies, more than double its education expenditure. In 2013, the country deregulated most petroleum product prices, except for pre-mix fishing and residual fuel oil. In conjunction with this, Ghana implemented a national cash transfer program called Livelihood Empowerment Against Poverty (LEAP), which targeted the poor and economically insecure. LEAP benefited from a pre-existing social registry and digital payments system. This social protection policy curtailed the impact of the deregulation on the poor and reduced national inequality.[32] In November 2022, the residual fuel oil subsidy was suspended as well.

32 See Cooke et al. (2016).

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Nigeria: Key Economic Indicators

Economy	***2016***	***2017***	***2018***	***2019***	***2020***	***2021***	***2022***	***2023f***	***2024f***	***2025f***
Real GDP growth (% yoy)	**-1.6**	**0.8**	**1.9**	**2.2**	**-1.8**	**3.6**	**3.3**	**3.3**	**3.7**	**4.1**
Nominal GDP (naira tr)	103	115	129	146	154	176	202	241	271	308
Oil production (mb/d)	1.8	1.9	1.9	2.0	1.8	1.6	1.4	1.5	1.6	1.6
Oil price (Bonny light, US$/bbl)	45	55	72	65	42	66	105	95	85	90
Inflation (%, average)	15.7	16.5	12.1	11.4	13.2	17.0	18.8	25.0	16.0	13

Real sectoral growth (percent, yoy)	***2016***	***2017***	***2018***	***2019***	***2020***	***2021***	***2022***	***2023f***	***2024f***	***2025f***
Real GDP growth	-1.6	0.8	1.9	2.2	-1.8	3.6	3.3	3.3	3.7	4.1
Agriculture	4.1	3.4	2.1	2.4	2.2	2.1	1.9	1.7	2.2	2.5
Industries	-8.9	2.1	1.9	2.3	-5.8	-0.5	-4.6	5.4	4.3	5.1
Industry-oil	-14.4	4.7	1.0	4.6	-8.9	-8.3	-19.2	8.8	3.3	3.2
Industry-non-oil	-5.0	0.6	2.4	0.9	-3.9	4.4	3.3	3.9	4.8	5.9
Services	-0.8	-0.9	1.8	2.2	-2.2	5.6	6.7	3.4	4.1	4.4
Oil GDP	-14.4	4.7	1.0	4.6	-8.9	-8.3	-19.2	8.8	3.3	3.2
Non-oil GDP	-0.2	0.5	2.0	2.1	-1.3	4.4	4.8	3.0	3.7	4.1

Sources: NBS and World Bank estimates.

External sector	***2016***	***2017***	***2018***	***2019***	***2020***	***2021***	***2022***	***2023f***	***2024f***	***2025f***
Exchange rate - official (₦/US$, end of period)	305	306	307	307	380	412	444	–	–	–
Exchange rate - parallel (₦/US$, end of period)	490	363	363	362	470	569	747	–	–	–
Real effective exchange rate index (end of period)	80	98	93	82	76	72	61	–	–	–
Current account balance (percent GDP)	1.3	3.6	1.7	-2.9	-3.7	-0.7	0.2	0.2	-0.1	0.1
Exports of goods and services (US$ bn)	38.4	50.8	66.0	69.9	39.9	50.9	69.1	69.1	65.6	70.6
o/w oil and gas exports (US$ bn)	32.0	42.3	56.6	54.5	31.4	40.8	57.1	56.4	52.2	57.0
Imports of goods and services (US$ bn)	-47.0	-50.9	-71.6	-100.8	-72.2	-67.5	-77.0	-76.6	-74.8	-80.2
Net transfers (including remittances) (US$ bn)	19.9	22.0	24.1	26.4	21.0	22.0	21.8	22.4	22.7	23.1
Net direct investment (US$ bn)	3.1	2.1	0.2	2.0	0.9	1.5	-0.1	0.5	1.9	2.7
Net portfolio investment (US$ bn)	1.9	10.3	0.0	3.1	-3.7	5.4	3.9	4.2	5.6	5.6
External reserves (US$ bn, end of period)	25	36	42	40	35	41	37	–	–	–
Equivalent months of imports of G&S	6	8	7	5	6	7	6	–	–	–

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

Monetary and financial sector (% change yoy, end of period, unless indicated otherwise)	***2016***	***2017***	***2018***	***2019***	***2020***	***2021***	***2022***	***2023f***	***2024f***	***2025f***
Money supply (M2)	17.8	2.3	12.1	6.3	31.4	17.5	16.5	–	–	–
Narrow money	31.5	-0.9	5.2	-10.4	50.4	14.0	14.8	–	–	–
Net foreign assets	61.8	69.6	18.5	-68.5	26.4	27.5	-54.5	–	–	–
Net domestic credit	24.3	-3.5	6.3	31.2	14.4	17.8	36.2	–	–	–
Credit to government	68.6	-25.4	33.7	94.9	21.2	20.4	78.2	–	–	–
Credit to private sector	17.4	1.4	1.9	17.6	12.0	16.8	19.5	–	–	–
Monetary policy parameters:										
Monetary policy rate (absolute rate, end of period)	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	–	–	–
Cash reserve requirement (absolute rate, end of period)	22.5	22.5	22.5	22.5	27.5	27.5	32.5	–	–	–
Financial market indicators (end of period)										
Stock market (NSE) index	26,624	32,161	37,186	29,060	27,485	40,097	48,941	–	–	–
Fitch sovereign long term foreign debt rating	B+	B+	B+	B+	B	B	B-	–	–	–
Moody's sovereign long term foreign debt rating	B1	B2	B2	B2	B2	B2	B3	–	–	–

Source: CBN, NGX, FITCH, Moody and S&P.

Nigeria: General government fiscal summary										
Actual (percent of GDP)	*2016*	*2017*	*2018*	*2019*	*2020*	*2021*	*2022*	*2023f*	*2024f*	*2025f*
Total revenues	**5.9**	**6.8**	**8.2**	**7.4**	**6.5**	**6.7**	**6.9**	**7.4**	**8.4**	**8.2**
Federally collected	4.8	5.4	6.6	5.9	5.2	4.9	5.2	5.7	6.7	6.5
Oil and gas revenues	1.6	2.3	3.6	3.0	2.0	2.0	1.8	2.4	3.7	3.5
Non-oil revenues and other revenues	3.1	3.1	3.0	2.9	3.1	2.9	3.4	3.3	3.0	2.9
Independent and other revenues	1.2	1.4	1.6	1.5	1.4	1.7	1.7	1.7	1.7	1.7
Total expenditure	**9.7**	**10.9**	**11.8**	**12.0**	**11.6**	**13.2**	**11.9**	**12.5**	**12.4**	**12.1**
Overall balance (general government)	-3.8	-4.1	-3.6	-4.6	-5.1	-6.6	-5.0	-5.1	-4.0	-3.9
Public debt	21	24	28	31	36	39	40	43	44	43
Domestic debt	17	19	22	24	28	29	30	29	28	27
External debt	3	5	6	6	8	10	10	14	16	16

Nigeria: Federal government fiscal accounts										
Actual (percent of GDP)	*2016*	*2017*	*2018*	*2019*	*2020*	*2021*	*2022*	*2023f*	*2024f*	*2025f*
Total revenue	**2.0**	**2.4**	**3.0**	**2.8**	**2.2**	**2.6**	**2.4**	**2.8**	**3.1**	**3.1**
Share of federally collected revenues	1.7	2.0	2.5	2.4	1.8	1.8	1.9	2.2	2.6	2.5
Oil, gas and mineral revenue (incl. signature bonus)	0.7	1.0	1.5	1.4	0.9	1.0	0.7	1.0	1.6	1.5
Non-oil revenue	1.0	1.0	1.0	0.9	0.9	0.8	1.1	1.2	1.0	1.0
FG independent revenues and grants	0.3	0.4	0.6	0.4	0.4	0.8	0.6	0.6	0.6	0.6
Total expenditure	**4.7**	**5.7**	**6.1**	**6.9**	**6.9**	**8.1**	**7.2**	**7.7**	**7.3**	**7.1**
Recurrent expenditure	3.9	4.4	4.7	5.2	5.3	5.1	5.9	6.4	6.0	5.8
Personnel cost (including pensions)	1.8	1.8	1.8	1.8	2.1	2.0	1.9	1.8	1.7	1.8
Overhead cost	0.1	0.2	0.1	0.2	0.2	0.2	0.2	0.3	0.2	0.2
Other recurrent (incl. COVID-19 intervention and power sector)	0.7	1.1	1.0	1.5	0.9	0.5	0.5	0.6	0.6	0.6
Interest payments	1.2	1.4	1.7	1.7	2.2	2.4	3.2	3.7	3.4	3.2
Capital expenditure (incl. COVID-19 intervention)	0.7	1.2	1.5	1.7	1.6	3.1	1.3	1.3	1.3	1.3
Overall fiscal balance	-2.7	-3.3	-3.1	-4.1	-4.7	-5.6	-4.8	-4.9	-4.1	-4.0

Source: OAFG and Budget Office of the Federation.

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Feather Flakes
*by **Jimmy Nwanne***

Jimmy Nwanne is a Nigerian artist who lives and works in Kaiserslautern, Germany. Born in Kaduna, Nigeria, he studied Fine Arts with painting as his major at Nnamdi Azikiwe University in Awka, Nigeria. Whether as portraiture or composition, Nwanne's works look at the relationship between life, identity and migration. The freedom to make a composition, a portraiture, by rearranging the natural place of something into another, in order to communicate an idea is what is usually being explored.

The piece speaks to a state of mind, simply open to spreading love and positive vibes. The feathers reminds us of the bird which is a symbol of one's inner peace.

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.