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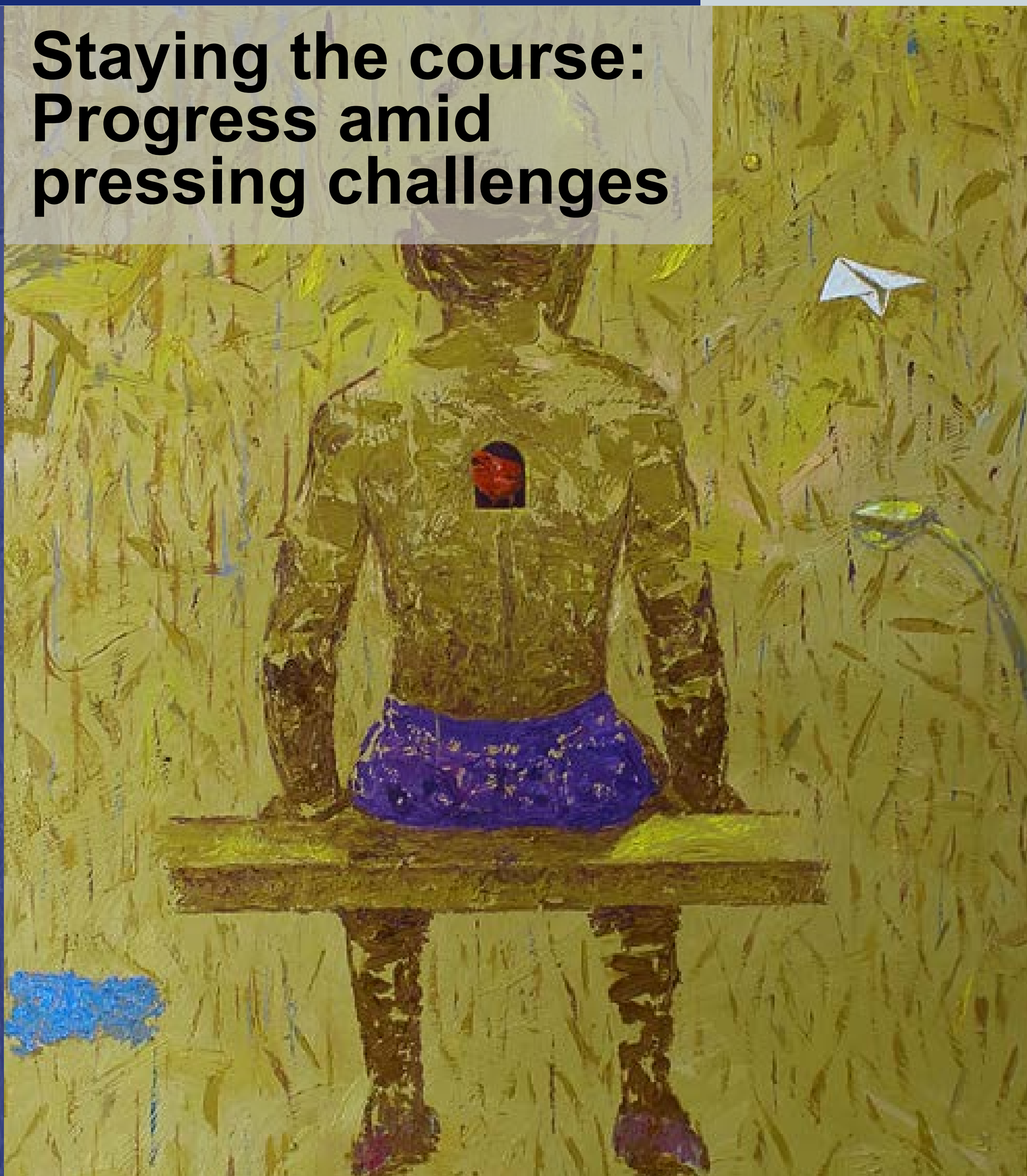
NIGERIA DEVELOPMENT UPDATE | OCTOBER 2024

Staying the course: Progress amid pressing challenges



Nigeria Development Update
October 2024

Staying the course: Progress amid pressing challenges

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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.

The report was prepared by a World Bank team led by Matheus Bueno (Economist), Gloria Joseph-Raji (Senior Economist), and Jonathan Lain (Senior Economist). The team included: Toluwase Adesina, Lire Ersado, Ayodele Fashogbon, Julien Giorgi, Elena Glinskaya, Arya Iskender, Annika Kaiser, Hadija Kamayo, Priscilla Kandoole, Ruchita Manghnani, Samer Matta, Joseph Ogebe, Lilian Okpeku, Olumide Omoyele, Utz Pape, Dominik Peschel, Elizabeth Purdie, Marko Rissanen, Evis Rucaj, Maheshwor Shrestha, Alex Sienaert, Aleksandar Stojanov, Sering Touray, Julia Vaillant, and Mizuki Yamanaka.

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Abbreviations and Acronyms

AML/CFT	Anti-money laundering/countering of the financing of terrorism
BOF	Budget Office of the Federation
AUM	Assets Under Management
CAB	Current Account Balance
CAC	Corporate Affairs Commission
CAR	Capital Adequacy Ratio
CBN	Central Bank of Nigeria
COVID-19	Corona Virus Disease 2019
CRR	Cash Reserve Ratio
ECOWAS	Economic Community of West African States
EMDEs	Emerging Markets and Developing Economies
ER	Exchange Rate
FAB	Financial Account Balance
FATF	Financial Action Task Force
FDI	Foreign Direct Investment
FPI	Foreign Portfolio Investment
FX	Foreign Exchange
GDP	Gross Domestic Product
LR	Liquidity Ratio
MPC	Monetary Policy Committee
MPR	Monetary Policy Rate
NAFEM	Nigerian Autonomous Foreign Exchange Market
NAFEX	Nigeria Autonomous FX Fixing
NBS	National Bureau of Statistics
NDIC	Nigeria Deposit Insurance Commission
NPL	Non-Performing Loans
OMO	Open Market Operations
OPEC	Organization of the Petroleum Exporting Countries
PMS	Premium Motor Spirit
pp	Percentage Point(s)
PPP	Purchasing Power Parity
SEC	Securities and Exchange Commission
US	United States
VAT	Value Added Tax
yoy	Year-on-year

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Overview

Nigeria's improved economic policies have resulted in difficult adjustments and are starting to show results

Previous distortionary and unsustainable macroeconomic policies were hindering Nigeria from achieving its immense potential. Monetary and foreign exchange (FX) policies were increasingly opaque, distortive, and inconsistent with maintaining price stability, including multiple managed and overvalued official exchange rates. Fiscal revenues were hampered by one of the lowest tax-to-GDP ratios globally (3.2 percent of GDP in 2022), whilst a large share of the Federation's oil revenues was absorbed by a costly, regressive, and opaque gasoline subsidy. The overvalued official exchange rate and emergence of a large parallel FX market premium, which constituted an implicit FX subsidy, also imposed large revenue losses, as well as weighing on confidence, investment, and growth. The combined fiscal cost of the PMS and FX subsidies was enormous. In 2022, the estimated cost was 5.2 percent of GDP, equivalent to about three-quarters of the revenues that flowed to the Federation. The resultant large and growing fiscal deficits were increasingly financed by deficit monetization through Ways and Means Advances from the Central Bank of Nigeria (CBN), the stock of which increased to 11.6 percent of GDP by end-2022. The economy inevitably fell into a downward spiral of eroding confidence, surging inflation, de facto currency depreciation manifesting through a widening FX premium, declining official reserves, burgeoning debt, weak growth, and increasing poverty and social fragility.

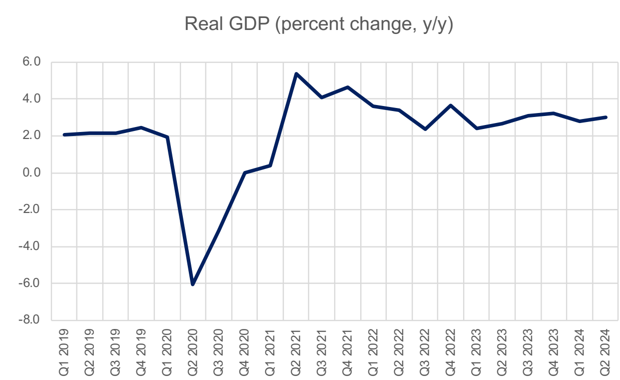
Major reforms have been undertaken to restore macroeconomic stability since May 2023. The government started to move towards market-based pricing of gasoline to address the large fiscal cost of subsidized pricing. The CBN initiated major FX policy reforms that resulted in a unified, better regulated, and market-reflective official exchange rate. Exchange rate flexibility, which eliminated the parallel premium and implicit FX subsidy, along with other fiscal reforms – such as rationalizing tax expenditures, introducing withholding VAT for key sectors, and improving the management of revenue remittances by government agencies – sharply increased Federation revenues from 5.5 percent of GDP in H1 2023 to 8.7 percent in H1 2024. Monetary policy has also tightened to rein in inflation, with a combined 850 basis point monetary policy rate (MPR) hike to 27.25 percent since February 2024, as well as other measures to improve monetary policy transmission and lift market interest rates. Crucially for Nigeria's economic turnaround, the fiscal and monetary authorities have also moved decisively to restore fiscal discipline by ending deficit monetization and refocusing the central bank on its price and financial sector stability mandate.

The new policy direction is essential, but in the short-term it has added to already intense pressures on households and firms. The policy changes, whilst necessary and urgent to avert an outright fiscal crisis and put Nigeria on a better development path, were undertaken from an already fragile economic position, and against the backdrop of political transition, high inflation, and supply-side shocks (especially of food staples), and other heightened uncertainties. The removal of the PMS subsidy led to an unprecedented tripling of retail gasoline prices in 2023, which was followed by another approximately 50 percent increase in 2024 through early October. The exchange rate unification and subsequent depreciation also had substantial knock-on effects on general price levels. Nigerians across the income spectrum have been affected, from those at the bottom facing soaring food prices, to those running generators, to those at the top with cars. Monetary policy tightening has also aggravated an already high-interest rate environment for businesses, particularly micro, small and medium enterprises (MSMEs). With so many constituencies having benefited from the previous approach, especially the elite, there has been intense political pressure to regress to the previous policies, despite their unsustainable cost and the fact that they unfairly benefited mainly a lucky few at the expense of ordinary Nigerians, holding Nigeria's economy back, misdirecting scarce fiscal resources, and preventing poverty reduction.

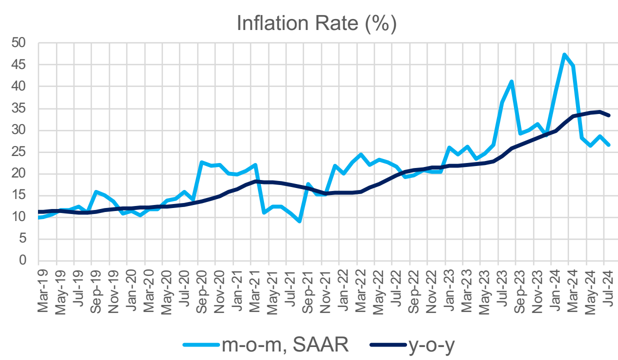
Although it is still early, positive results from the improved policies are starting to show (Figure O.1.). Output growth has remained modest overall, but inched higher through mid-2024 as oil sector output has stabilized and activity in some services has been robust. Inflation, though still high at 33.4 percent in July 2024 on a year-on-year basis (yoy), fell for the first time in nineteen months, and edged lower again in August to 32.2 percent. Whilst still fragile, the fiscal position is improving, with the Federal Government's fiscal deficit narrowing from 6.2 percent of GDP in H1 2023 to 4.4 percent in H1 2024, helping to mitigate debt-related risks, re-anchor inflation expectations, and restore confidence in the economy. FX reserves – a buffer against external shocks – have risen from US$32.9 billion at the end of 2023 to more than US$38.5 billion by early October 2024. The real exchange rate has dropped to historical lows, correcting the previous overvaluation of the official rate, and enhancing Nigeria's international competitiveness, providing an historic opportunity for Nigerian products and services to compete with imports and tap export market opportunities.

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

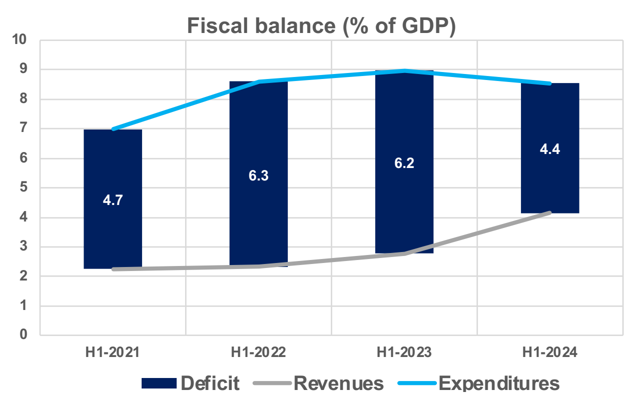
A. Growth has been resilient, with a slight tick up in the most recent quarter…



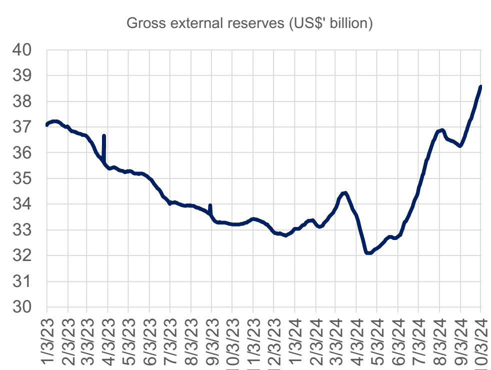
B. …inflation remains high, but has been decreasing since July



C. …the FGN's fiscal deficit shrank in H1-2024…



D. … and gross foreign reserves have increased



Sources: NBS, CBN, OAGF, DMO, World Bank estimates

The indications that the macroeconomic situation is improving are encouraging, providing oxygen to the economy and the necessary condition for growth to ignite, with the help of additional, complementary measures. Sustaining the new direction of policies will continue to open space for the takeoff in investment and jobs which Nigeria urgently needs, and which in turn will further reinforce the improvement in the external and fiscal positions. If they can be sustained, and complemented with measures to address long-standing structural constraints and spur investment, growth, and jobs, Nigerians will start seeing the benefits of the new direction in their daily lives.

Sustaining and deepening reforms is essential to maximize gains, while intensifying support for the poorest households to cope with inflation, and expand opportunities

Table O.1., below, summarizes the progress made and immediate priorities to build upon Nigeria's macro-critical reforms.

The monetary policy stance needs to remain tight until a sustained disinflation path is achieved, along with continued improvements in policy transmission. Maintaining a tight enough monetary policy stance is critical to keep market interest rates positive in real terms, temper FX demand, and lower inflation expectations. Furthermore, it is essential that the CBN's commitment to not reverting to inflationary ways and means advances as in the recent past should be upheld. The CBN could clearly communicate that the recent amendment of the CBN Act to increase the limit from 5 to 10 percent of previous year's revenue does not imply a renewed recourse to ways and means. Rather, the legal requirement to retire outstanding balances at the end of each year and use this facility only for limited, temporary liquidity mismatches remains. Ways and means balances (principal and interest) should be systematically reported on with less of a time lag. Monetary policy implementation should also rely progressively more on standard tools—i.e. MPR anchoring via open market operations and standing facilities—rather than prudential instruments, to improve policy transmission and ease financial repression. Strong coordination between monetary and fiscal policy, with the latter reducing borrowing pressures sufficiently, is necessary to rebuild confidence and reduce inflation.

Exchange rate policy should continue to be geared towards maintaining a unified, market-reflective exchange rate, whilst deepening the FX market. The CBN should continue efforts towards deepening the official FX market, including by facilitating formal remittances inflows, allowing international oil companies to fully concentrate their FX sales in the official market, restoring intermediated market access to bureaux de change, and refraining from ad-hoc FX auctions. Allowing market participants to trade FX with more flexibility across time would also contribute to deepening the FX market. In addition, continuously reaffirming the commitment to exchange rate flexibility, adopting a comprehensive, systematic, and transparent framework for CBN FX interventions, and building reserves, would contribute to anchoring exchange rate expectations to fundamentals, rather than to perceived targeted rate levels. Maintaining the single, market-reflective exchange rate is crucial to increase fiscal revenues (from oil and taxes on other export-related profits, customs, and VAT on imports), attract investment, build external reserves, and, in turn, set the conditions for investment and inclusive growth.

On the fiscal front, focus on four key areas can reduce debt risks and create more space for development and pro-poor spending. First, and building on progress toward market-reflective pricing, it is essential to address the remaining implicit PMS subsidy by allowing retail prices to adjust periodically in line with market fundamentals (i.e., exchange rates and international prices). This would open the PMS market to competition and boost Federation revenues. Second, continued progress on non-oil revenue growth through tax reforms and improved administration is vital; Nigeria's tax revenues of 3.8 percent of GDP in 2023 remain extremely low by international standards. Third, reducing governance costs and redirecting inefficient spending toward more targeted, pro-growth, and pro-poor initiatives is crucial for supporting the poor, boosting long-term growth, and effectively communicating burden-sharing to the population. Fourth, ensuring realistic budgets and avoiding the re-emergence of unbudgeted financing needs is necessary to prevent a return to ways and means financing, which should be reserved for short-term liquidity support and kept within stipulated legal limits.

In parallel with stabilizing the macroeconomy, it is critical to protect the poor and the economically insecure by enhancing the social protection framework. So far, a social registry has been developed, covering over 18 million households (making it one of the largest in the world), and time-bound, shock responsive, direct benefit transfers of NGN 25,000 are being rolled out to 15 million households (directly benefiting over 60 million Nigerians) for a period of 3 months. The authenticity of the individuals is being validated through the National Identification Number (NIN) or the Bank Verification Number (BVN) before making payments directly into recipient bank accounts. To date, 4.4 million households have received at least one payment tranche and 0.8 million have received a second tranche. While the NIN/BVN requirements help authenticate individuals and ensure that the payments go to the authenticated individual, the low coverage of NIN/BVN among the poor and vulnerable population has adversely impacted the pace of the rollout of the direct benefit transfers. There is an urgent and critical need to ensure that the poor and vulnerable population from the social registries are quickly enrolled into the NIN/BVN, so that the direct benefit transfers can reach them. Over the medium term, there is a pressing need to accelerate and enhance social protection by: (i) ensuring that the social registry continues to increase in coverage and becomes dynamic to reflect the current status of the households; (ii) ensuring that the social protection system has a wide coverage and provides adequate benefits to households, including quick scaling up of programs in response to shocks; and (iii) accelerating the roll-out of social protection measures, including the direct benefits transfer program, to counteract purchasing power losses and hardships.

Macroeconomic stabilization creates a new platform and historic opportunity to ignite growth and job creation, if supplemented by progress on addressing long-standing structural constraints. Reducing trade barriers can play a key role in reducing prices and boosting Nigeria's competitiveness. The removal of the FX ban on 43 product lines, the temporary removal of tariffs on food products, and the re-launch of the single window are positive initial steps. Alongside the implementation of these measures, further actions should remove import bans on food and cleaning products, apparel, and fertilizers, as well as and align tariffs with the ECOWAS Common External Tariffs (CET). Longer-term efforts on external trade should focus on tariff transparency, reducing non-tariff barriers, and improving trade facilitation through better risk management and audits. Improving competition policy and its enforcement would bolster the benefits of lower import barriers in reducing prices and fostering growth, as would increasing access to finance to productive firms. Transport and digital infrastructure investments should increase, in partnership with the private sector, to better integrate the domestic market, and allow businesses to expand. Increasing access to reliable power supply and reducing insecurity, from banditry to informal checkpoints along trade corridors, are also essential to boost job creation. Sustained investments and institutional strengthening would enhance state capacity to deliver health and education to the population, especially in poorer regions.

Productive jobs are essential for poverty reduction

Without jobs, poor Nigerians will not be able to escape poverty. Poverty is high and rising in Nigeria.

More than half of the population lives in poverty[1]. This partly reflects the modest overall pace of economic growth, which is insufficient to compensate for the erosion of purchasing power brought about by inflation. Yet, it also reflects the non-inclusive structure of growth: even when GDP was expanding more rapidly in the early 2010s, richer households benefited more. Jobs hold the key to sharing the proceeds of growth. Since Nigeria has a young and growing population, the jobs that can harness the country's potential "demographic dividend" are needed now.

However, employment on its own is not enough to lift people out of poverty: Nigeria needs productive jobs, but these are scarce. In Nigeria, as in many countries, high employment and high poverty coexist. In-work poverty is common as many jobs do not generate earnings that are high enough to escape poverty. Low incomes are symptomatic of low productivity jobs. Nigeria's labor market is changing – with employment shifting from agriculture to services – but these changes are not increasing overall productivity and living standards, because many of the new service-sector jobs are in low-productivity sub-sectors like retail and wholesale trade.

Sustained poverty reduction depends on creating wage jobs through macro-fiscal stability, growth, and private sector development, complemented by building human capital. Wage jobs are associated with escaping poverty, but they remain rare: just 13.6 percent of employed Nigerians are primarily engaged in wage work. Addressing the urgent need for more wage jobs depends on the foundations of macro-fiscal stability and growth. This entails establishing the conditions for private sector development – boosting market access, increasing openness to trade, and promoting a better business environment can all help. This must be complemented by other long-run efforts to reduce poverty, including building human capital and ensuring the skills of Nigeria's workers match the current needs of the labor market.

Short- and medium-run policies to boost productivity in farm and non-farm household enterprises would provide relief while higher-paying jobs are not available, and could support some to succeed and grow. Most farm and non-farm household enterprises are currently small scale, rarely employing individuals from outside the household. Supporting these household enterprises relies on many of the foundational policies, especially the bedrock of basic infrastructure, but also goes beyond these. Like other firms, they need to be able to access the inputs they require – including tools, fertilizer, and productive, climate-resilient crop varieties for farmers – for which improved access to finance may also help. In addition, they need to reach output markets to foster commercialization and productivity growth.

Policy initiatives for women and youth can improve the labor market's poverty-reducing potential. Initiatives that cover mostly highly-formalized wage workers – including policies on public sector jobs and minimum wage legislation – only reach a small segment of Nigeria's poor and economically insecure population directly, as they do not have access to these types of jobs. Such policies may also be fiscally costly, given the large share of formal public sector workers. Focusing on excluded workers offers a clearer avenue for reducing poverty. Women and youth have lower access to productive jobs than the rest of the population, so supporting better labor market outcomes for them is key. Gender-sensitive policies include: (1) keeping girls in school, (2) improving provision of childcare, and (3) overcoming restrictive gender norms that prevent women participating in the labor market through economic empowerment interventions combined with trainings and community sensitization. For Nigeria's vast youth population, policies to (1) support skills and job matching, (2) manage external migration including by helping young emigrants reach destination countries that

1 Based on projections using the 2018/19 Nigerian Living Standards Survey (NLSS) and the national poverty line.

seek their skills, and (3) provide fallback employment – including by ensuring that public investments consider job creation potential – can help improve access to productive jobs.

Table O.1. Progress with Key Economic Reforms since December 2022 (I), and the Immediate Top Priorities to Deepen the Reforms (II)

KEY REFORMS	(I) REFORM PROGRESS HEATMAP				(II) MEASURES TO SUSTAIN AND DEEPEN THE REFORMS
	NDU Dec-22	NDU June-23	NDU Dec-23	NDU Oct-24	
(A) MONETARY POLICY					
Maintain tight monetary policy to lower inflation					• Maintain positive real ex-ante policy rates. • Ensure policy rates place a floor under short-term market interest rates. • Rely more on policy rates and standard instruments (MPR anchoring, via OMOs and SDF/SLF), rather than on prudential instruments (e.g., CRR).
Avoid resorting to deficit monetization, including continuing to avoid Ways & Means Advances					• Have realistic budgets to avoid unbudgeted financing requirements. • Increase the timeliness and detail level of information on the Ways & Means Advances balance and interest paid on it, and on the CBN's overall balance sheet.
Improve balance sheet transparency					• Publish the 2023 audited financial statements. • Provide details on net FX reserves.
(B) FISCAL POLICY					
Eliminate the PMS subsidy					• Adopt a plan to fully achieve and maintain a cost-reflective PMS price. • Include any implicit PMS subsidy in the budget.
Strengthen non-oil revenues					• Reform the VAT regime and rationalize tax expenditures. • Improve tax administration by adopting an e-invicing system and strengthening tax audits.
Increase transparency of oil revenues					• Improve the reporting of oil revenues to FAAC. • Conduct an audit to reconcile what is owed by the NNPC to the Federation, and vice versa.
Phase out the FX subsidy					• Ensure that all FX-related transactions occur at the market-determined exchange rate.
Reduce the cost of governance					• Cut wasteful expenditures that are not essential, such as purchase of vehicles, external training, etc. • Reduce the cost of collection of MDAs/GOEs.
(C) FOREIGN EXCHANGE POLICY					
Maintain a unified, market-reflective exchange rate					• Communicate and implement a comprehensive, systematic framework for CBN FX interventions to provide clarity to market participants as to when and how CBN may buy or sell FX. • Focus on transparently supporting market liquidity and price discovery.
Concentrate FX transactions in the official market					• Take measures to build liquidity in the NAFEM, including by easing remaining restrictions, and channeling oil-related inflows to the market.
(D) TRADE POLICY					
Reduce trade restrictions that increase prices and poverty					• Lift import bans. • Eliminate tariff deviations from ECOWAS CET. • Adopt and implement a compliance trade program.
(E) PROVIDE URGENT RELIEF TO THE POPULATION					
Scale-up and provide relief to the population					• Accelerate the roll out of targeted cash transfers. • Allocate savings from PMS subsidy removal to sustainably expand cash transfers and other well-targeted support.

Legend	Weak	Semi-weak	Average	Semi-strong	Strong

PART 1:

Recent economic developments and the outlook for Nigeria

Please note that projections of economic variables presented in this section of the Report are based on data and information only up to September 13, 2024.

Nigeria's economic landscape has been impacted by past policy missteps and external shocks, weighing on growth, and resulting in increased poverty. Recognizing the urgent need for change, the government has embarked on bold but challenging macroeconomic reforms since mid-2023 to rein in inflation, normalize access to foreign exchange, and remove fiscally unsustainable, regressive, and distortionary subsidies. Nigerians have experienced intensifying hardship, as the needed price and exchange rate adjustments have added to cost of living pressures, whilst confidence, investment, jobs and income growth, take time to gain traction on the back of improved policies and macroeconomic stability. Sustaining and deepening the reforms to maximize the gains from the difficult steps already taken, while also intensifying support for poor and vulnerable households to cope, offers a path forward.

Part 1 of this NDU reviews recent macroeconomic developments since the last edition in December 2023. It begins by analyzing output growth dynamics, sectoral contributions, and recent poverty trends. Next, it examines inflation trends and monetary policy actions. The section then assesses Nigeria's external position, including trade balances and foreign exchange reserves, and reviews developments in the financial sector. It also explores fiscal and debt dynamics. The section concludes with a medium-term macroeconomic outlook for Nigeria over the next three years, framed within the global context, and offers recommendations for strengthening the reform momentum.

1.1. Economic growth has been resilient, albeit only moderate

The conditions for economic growth have improved with recent macroeconomic reforms. Monetary policy tightening and improved policy coherence, reforms to the FX market that resulted in a market-reflective exchange rate, and the start of a revenue-based fiscal adjustment, have improved macroeconomic conditions for businesses to expand and create jobs. Sustaining these reforms and building on them with structural reforms can further unwind the long-standing constraints to private sector development and unleash faster growth. Against the backdrop of large exchange rate and price increases in Nigeria and other economies (such as Egypt), there is a need to exercise caution when estimating the size of the Nigerian economy relative to other economies, and such estimates should not be based on nominal US dollar GDP (Box 1.1).

Amidst ongoing reforms, economic growth has remained moderate, but resilient, driven by the service sector (Figure 1.1 and Figure 1.2). GDP growth slowed to 2.9 percent in 2023 partly due to weak crude oil production, a damaging currency demonetization in the first quarter, and the spillovers from the 2022 floods. In per capita terms, real GDP growth averaged 0.7 percent between 2021-2023, still not reaching the pre-pandemic income level. The economy grew by 2.9 percent in H1 2024 year-on-year (yoy), 0.5 percentage points (pp) higher than H1 2023. Quarterly growth also picked up, from 2.8 percent yoy in Q1 2024 to 3.0 percent in Q2 2024. The services sector, especially financial and telecommunication services, continued to be the major driver of growth in the first half of 2024. Yet, a number of factors weighed on growth, including still subdued agricultural and manufacturing output. Overall, regarding the major economic sectors:

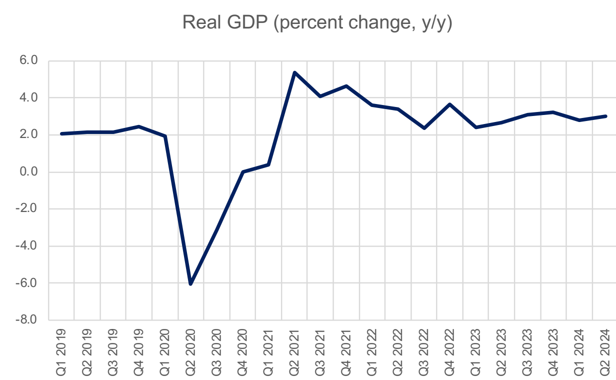
- **Agriculture: Agricultural output growth fell to 0.8 percent yoy in H1 2024.** The sluggish growth largely resulted from contractions in livestock production and a slowdown in crop production. The sector continues to be affected by unfavorable climatic conditions (low rainfall in 2023 farming season and heatwaves in Q1 2024), insecurity in farming communities, and higher costs of imported farm inputs – such as fertilizer and other agrochemicals following the naira depreciation.

- **Non-oil industry: The non-oil industrial growth decelerated from 2.9 percent in H1 2023 to 0.8 percent in H1 2024.** The growth of the manufacturing sector remained weak at 1.4 percent, as the sector faced rising cost pressures from FX depreciation, increased interest rates, and higher PMS prices, along with ongoing structural challenges like power shortages and a difficult business environment. The food and beverage and cement sub-industries were the main drivers of growth, while coal mining, quarrying, minerals, oil refining, textiles, apparel, and footwear all contracted. Construction contracted by 0.8 percent yoy in H1 2024, marking its first decline since the 2020 recession.

- **Oil: The oil sector growth accelerated from a contraction of 8.7 percent in H1 2023 to a growth of 7.8 percent in H1 2024.** The sector benefited from a moderate increase in crude oil and condensates production which grew by 2.9 percent in H1 2024 to 1.5 mbpd. Despite the increase in average crude production, it remains below the Federal Government's 2024 Budget estimate of 1.8 mbpd (including condensates) and OPEC's quota of 1.5 mbpd (excluding condensates).

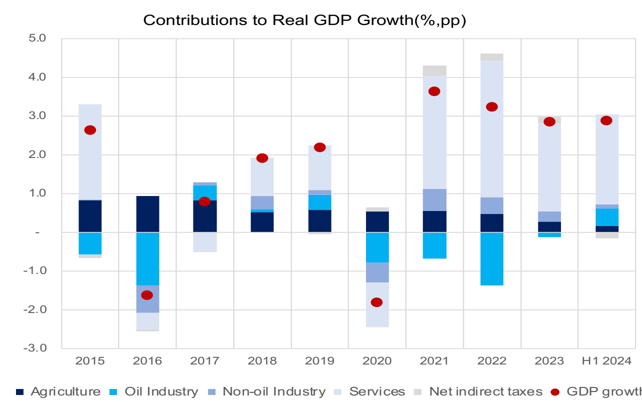
- **Services: The services sector remained the main driver of GDP growth, expanding by 4.1 percent yoy in H1 2024.** Financial services grew by 31.9 percent yoy, the fastest in over a decade, driven by FX gains from naira depreciation and higher interest income due to wider spreads from rising market rates. Information and communication services, the second largest contributor, grew by 5.7 percent, supported by ongoing expansion in voice and data services. However, transportation and storage services contracted by 3.9 percent, while trade services growth remained weak at 1.0 percent, below H1 average of 2.5 percent between 2011-19.

Figure 1.1. GDP growth has been resilient to recent shocks and edged up in Q2 2024…



Sources: NBS and UN

Figure 1.2. …mainly driven by services, helped in H1 2024 by stabilizing oil output



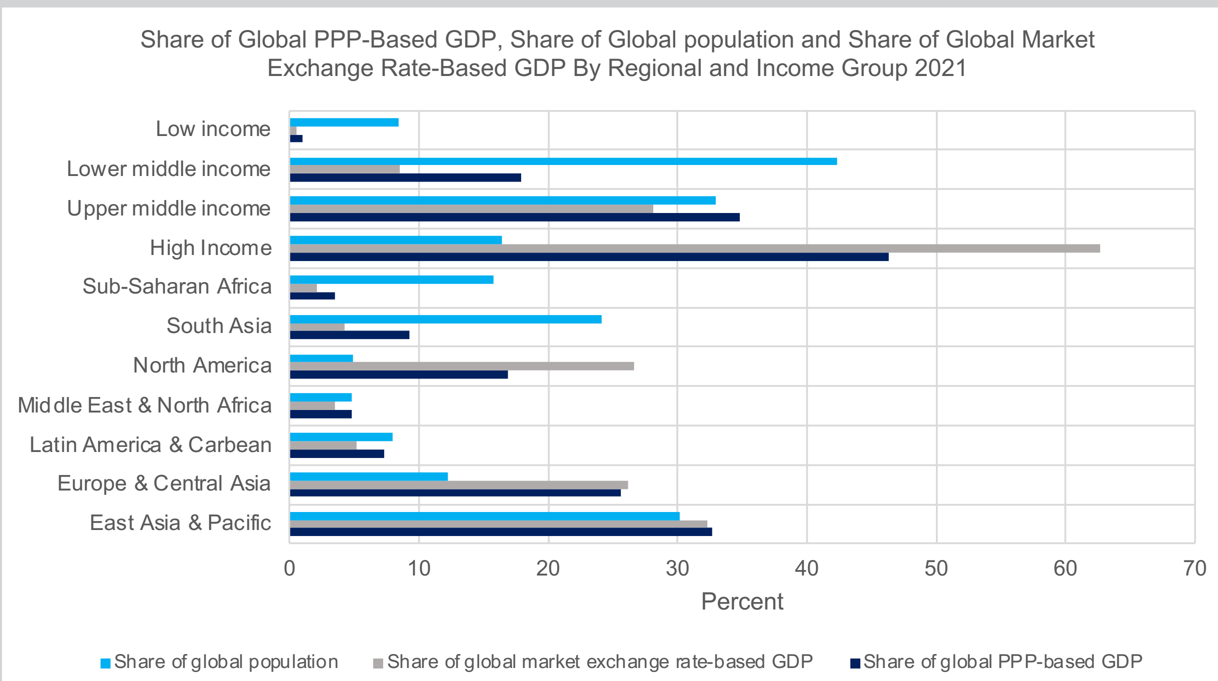
Sources: NBS

Multiple shocks in a context of high economic insecurity have deepened and broadened poverty, with over 115 million Nigerians estimated to have been poor in 2023. Since 2018/19, an additional nearly 35 million people have fallen into poverty, so that more than half of Nigerians (51.1 percent of the population in 2023) are now estimated to live in poverty. While the majority of the poor people (61.9 percent) still live in rural areas, poverty has become an increasingly urban plight, with the share of urban population living in poverty rising from 18.0 to 31.3 percent between 2018/19 and 2024. Several shocks have contributed to this major increase and changing profile of the poor: the COVID-19 recession, natural disasters such as flooding, growing insecurity, the high cost of the demonetization policy in Q1 2023, high inflation, and low economic growth. Previous domestic policy missteps compounded the effects of the shocks, particularly rising inflation, eroding the purchasing power, especially of urban households, pushing many into poverty. The government is ramping up the cash transfer programs to support economically insecure households to help weather the crisis.

Box 1.1. The difficult task of correctly evaluating the relative size of Nigeria's economy

Countries compile and release Gross Domestic Product (GDP) estimates in their respective local currency units (LCU), such as in the Nigerian naira. To compare the GDPs of different countries, the LCU GDP estimates need to be converted into a common currency. Purchasing power parities (PPPs) are the preferable currency conversion factor for comparing the relative size of volume or output, i.e., the GDP, of different countries. This is because PPPs control for price level differences between countries, unlike market exchange rates (MERs). Countries compile their GDP estimates reflecting their national prices. As large differences in price levels can exist between countries, especially for non-traded products, such as services, MER-converted GDP estimates do not accurately measure the relative sizes of economies. If no account is taken of the price level differences when converting GDP to a common currency, the size of higher-income economies with high price levels will be overstated, and the size of lower-income economies with low price levels will be understated (Figure B1.1).

Figure B1.1. Lower-income economies are larger when price levels are taken into account



Source: World Development Indicators, ICP 2021

Box 1.1. Cont.

In addition, MERs typically fluctuate over time and can exhibit significant volatility over a short period of time, whereas PPPs are more stable. These fluctuations in MERs, especially in the short term, can translate into similarly widely differing GDP estimates when the MERs are the chosen conversion measure. MERs are determined by the total demand for a particular currency, and financing foreign trade and capital transfer are components of this demand. In general, multiple factors, including changes in government policies and market speculation, can impact the MERs. The fluctuations in MERs, especially short-term volatility, do not necessarily reflect actual changes in the relative output of the economies, but rather changes in the currencies' valuations against each other. These fluctuations are not a factor in the PPP-based GDP estimates, as they are based on observed expenditures and prices[3].

Figure B1.2 shows that MER-based estimates of Nigeria's share of GDP for Africa fell from around 16% to under 13% between 2021 and 2023, and both Egypt and South Africa have larger GDP shares under this measure in 2023. This is related to the sharp increase in the official exchange rate between the Nigerian naira (NGN) and US dollar (USD). During this period, the official USD/NGN exchange rate rose from 399.41 to 646.13 (a 38% depreciation of the naira). Conversely, PPP-based estimates of GDP show Nigeria's output accounted for around 15% of the regional total for all three years and was consistently the second-largest economy in Africa (behind Egypt) during the observed period.

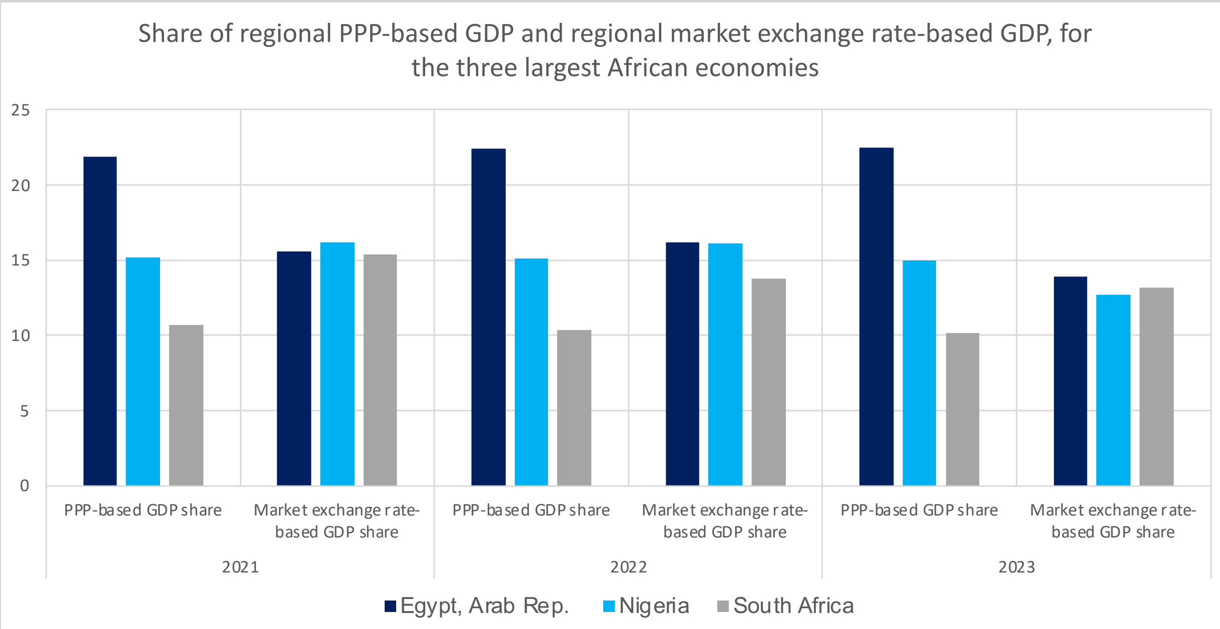
GDP estimates for 2024 are scheduled to become available in July 2025 through the World Bank World Development Indicators (WDI). So far in 2024, Africa largest economies, including Egypt and Nigeria, experienced further, large increases in their nominal exchange rates against the US dollar as well as in domestic prices due to the high inflation. Furthermore, in Nigeria, the gap between the official and parallel market exchange rates closed in February 2024, facilitating price discovery and foreign exchange (FX) supply, which is expected to be positive for trade, investment, and growth.

Overall, comparing and ranking the value of economic activity amongst African economies against a volatile price backdrop should be done cautiously. Such comparisons should not be based on official MERs.

3 PPPs are estimated by the International Comparison Program (ICP) based on national accounts expenditures and prices of goods and services surveyed within each country. The most recent results were published in May 2024 for the reference year 2021. PPP time series estimates in major international databases, such as the World Bank's World Development Indicators and International Monetary Fund's World Economic Outlook, are based on ICP's benchmark PPPs. The ICP is one of the world's largest statistical initiatives, coordinated by the World Bank under the auspices of the United Nations Statistical Commission (UNSC), through an established governance framework. The ICP relies on a partnership of international, regional, sub-regional, and national statistical agencies—including the African Development Bank (AfDB), the Asian Development Bank (ABD), the Interstate Statistical Committee of the Commonwealth of Independent States (CIS-STAT), the United Nations Economic Commission for Latin America and the Caribbean (UN-ECLAC), the United Nations Economic and Social Commission for Western Asia (UN-ESCWA), the Statistical Office of the European Union (Eurostat) and the Organisation for Economic Co-operation and Development (OECD). The Nigerian National Bureau of Statistics (NBS) is an active partner in the ICP's global collaboration, collecting and compiling these data for each ICP cycle. The AfDB is the coordinating body for ICP activities in Africa.

Box 1.1. Cont.

Figure B1.2. Comparing Africa's three largest economies, 2021-23



Source: World Development Indicators, ICP 2021

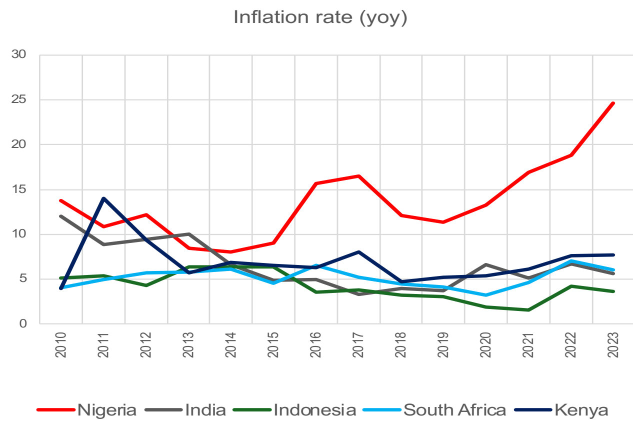
1.2. Monetary policy has improved markedly, and inflation has begun to fall

A series of macroeconomic policy missteps in 2015-2023 contributed to an inflation surge in Nigeria (Box 1.2). Up until 2014, headline inflation was broadly stable, in high single digits or low two digits, not so distant from the levels observed in other major emerging markets (Figure 1.3). From 2015, however, the CBN shifted its primary focus away from price stability – its core mandate – ostensibly towards growth objectives, by providing large amounts of credit to households and firms at subsidized rates, as well as prohibiting access to FX to import over 900 product lines. Large and unbudgeted fiscal deficits, as well as the costs associated with maintaining an overvalued exchange rate, increasingly subjugated monetary policy to financing fiscal deficits, including through deficit monetization through Ways and Means Advances. The money supply increased at a very rapid pace between 2015 and 2023, sapping confidence in the naira and pushing up inflation. As a result, inflation was surging, even before the series of reforms which began in mid-2023, reaching 22.4 percent yoy in May 2023.

Monetary policy effectiveness also weakened, as CBN started employing prudential and regulatory tools for monetary policy purposes. To stimulate credit provision, CBN imposed a minimum loan-to-deposit ratio to banks (instead of a prudential maximum) and restricted access to its standing facilities, where banks can obtain or park liquidity. Conversely, it imposed extraordinarily high cash reserve requirements (CRR) to mop up liquidity. High pressure for lending combined with constrained allocation options led to artificially low government borrowing costs and market rates, which lost the monetary policy rate (MPR) anchor (Figure 1.4).

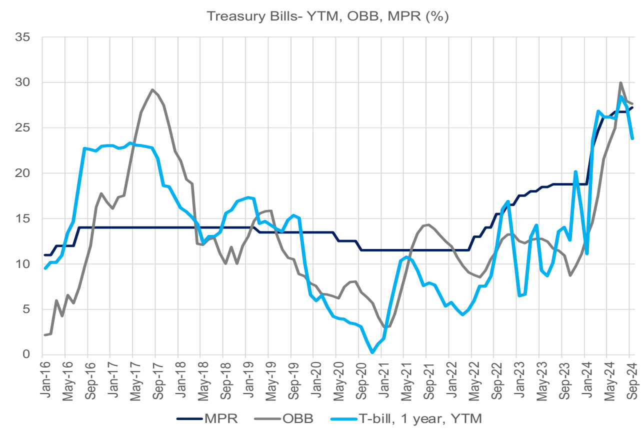
Under its new leadership, the CBN has taken bold steps to reverse the harmful previous policy framework. Crucially, the CBN committed to stop

Figure 1.3. Misguided policies contributed to an inflation surge in Nigeria from 2015



Sources: NBS and WDI

Figure 1.4. Market rates progressively lost the MPR anchor, as transmission channels weakened

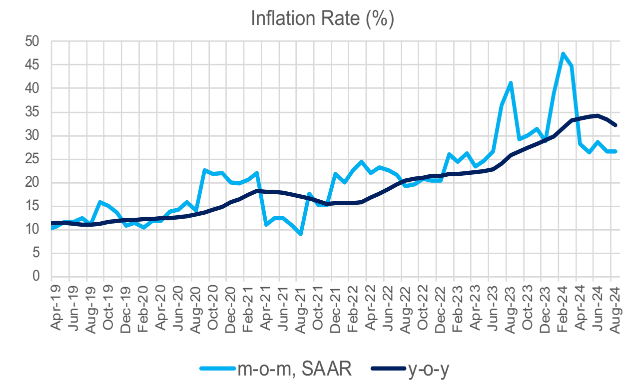


Sources: CBN
Note: OBB= open buy back; YTM= yield-to-maturity. T-bill yields are at issuance.

monetary financing of the fiscal deficit (see fiscal developments section) and halted new development finance interventions, which were inconsistent with its price stability mandate. The monetary policy stance has also been significantly tightened. The newly constituted Monetary Policy Committee (MPC) raised the MPR by a combined 850 basis points to 27.25 percent between January and September 2024 and improved the flexibility and level playing field of the CRR, although it remains exceptionally high at 50 percent to drain domestic liquidity. Importantly, the CBN has followed through on the MPC's decisions with large open market operations (OMOs) at rates close to the MPR. In the first eight months of 2024, OMOs amounted to over NGN 6.6 trillion, 30 percent more than in the three previous full years combined. The monetary policy stance was tightened further by increasing the standing deposit facility rate from -300 bps around MPR to -100 bps, while the standing facility rate increased to MPR +500 bps. Consequently, market rates have been re-anchoring to the MPR recently (Figure 1.4). The new monetary policy framework has also attracted FX inflows and drained naira liquidity, contributing to solidify the FX reform (see external sector developments below).

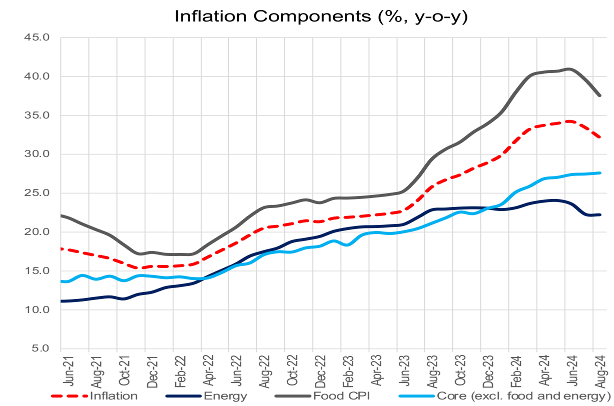
Although inflation started to decline, the battle is far from over. After reaching a 28-year high of 34.2 percent year-on-year (yoy) in June 2024, headline inflation began to decline in July, falling further to 32.15 percent in August 2024. This was supported by base effects and a slowdown in the month-to-month (mom) pace of price increases since March due to tightened monetary policy. However, while mom inflation peaked in February 2024, it remains elevated, running at an annualized pace of about 27 percent (Figure 1.5). Higher food prices are particularly in focus, contributing 60 percent of the consumer price index increase in the 12 months leading to August 2024, compared to the 52 percent weight of food in the CPI basket (Figure 1.6). The surge in food prices is attributed to significant increases in key staples such as rice, garri, bread and wheat, which have more than doubled as of August 2024.

Figure 1.5. Monetary policy correction has started to reduce inflation, though the pace of price increases is still high…



Sources: NBS

Figure 1.6. …especially for food prices



Sources: NBS

Box 1.2. Quantifying long-term drivers of inflation

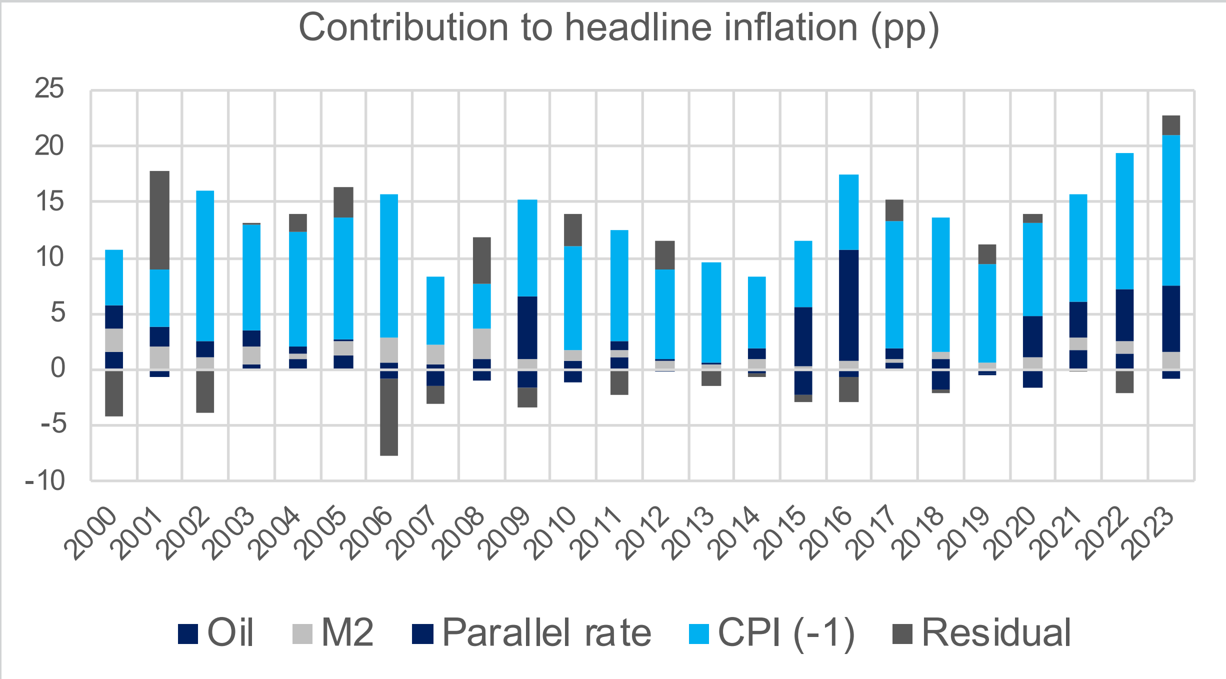
Inflation in Nigeria has been largely determined by macroeconomic fundamentals. Broad money supply grew 13 percent on average in 2018-2023, significantly above that of real GDP, 1.8 percent. This expansion was largely driven by monetization of fiscal deficits through Ways and Means, which reached 11.5 percent of GDP in May 2023, right before being securitized; up from 4.2 percent back in 2018. The relentless rise in import prices and the loss of credibility of CBN's focus on price stability pushed up inflation expectations. Increased naira liquidity was met by a fall in FX inflows, specially from oil exports and foreign investors, which led to nominal exchange rate depreciation pressures. As the official exchange rate was increasingly and artificially overvalued, supply of FX at official rates dried up. Demand for FX was displaced to the parallel market and the more market-reflective parallel exchange rate soared, feeding into inflation. Changes in input costs, notably oil, also contributed to higher inflation

An error correction inflation model allows to quantify the effects of the main inflation drivers. While rising structural constraints and price shocks have impacted inflation, the preferred estimates indicate that the main long-term drivers of inflation until 2023 were money supply growth, inflation expectations – anchored on persistently high past inflation – exchange rate depreciation, and input costs, in particular oil (Figure B1.3). The estimates point to a large effect of inertial inflation, highlighting the importance of a sufficiently persistent and tight monetary policy stance to re-anchor inflation expectations. Similarly, the contribution of exchange rate depreciations to headline inflation is sizeable, particularly in recent years. A 10 percent higher USD/NGN exchange rate is estimated to increase aggregate price levels by 2 percent (i.e., 20 percent pass-through)[4].

4 Caveats to this estimation include endogeneity concerns that could arise from possible omitted variables and simultaneity. Time series on Nigeria are quite short, so a balance must be struck between comprehensiveness and statistical properties when estimating the main drivers of inflation. Similarly, reverse causality could bias estimators, for instance, if the exchange rate affects inflation, but the latter also affects the former. The parsimonious model, however, restricts the scope for biases in the estimators.

Box 1.2. Cont.

Figure B1.3. Macroeconomic imbalances were the main contributors to inflation



Sources: World Bank
Note: Oil= Crude oil price; M2= broad money supply and CPI (-1) = previous years consumer price index.

1.3. Reforms have successfully achieved a unified, market-reflective exchange rate and the external position is improving

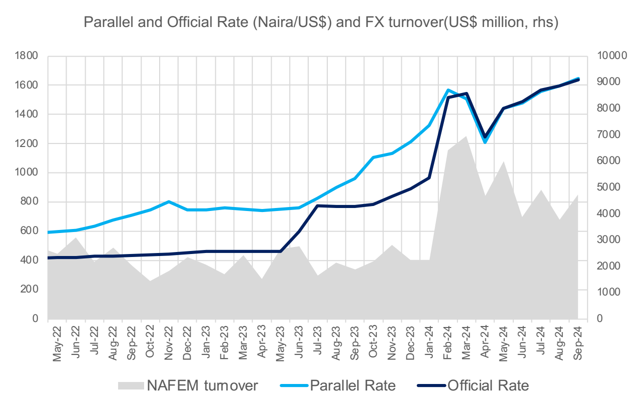
Major reforms achieved a market-reflective exchange rate in the official FX market

The previous exchange rate policy was opaque and imposed huge costs on the economy. The official rate – the Nigerian Autonomous Foreign Exchange Fixing (NAFEX), determined at the Investors' and Exporters' (I&E) window – was tightly managed by the CBN due to moral suasion and did not reflect market fundamentals. The FX market lacked a clear and predictable price discovery mechanism due to the use of multiple FX windows to serve various purposes. FX demand restrictions and declining FX supply through the official channels pushed businesses and households into the parallel market to meet their FX requirements and generated arbitrage and rent-seeking opportunities. Prior to the reforms, as of June 2023, the parallel market-NAFEX premium was 60 percent, indicating a significant overvaluation of the NAFEX rate.

Far-reaching FX policy reforms have been implemented since June 2023, culminating in a market-reflective official FX market. In June 2023, the CBN unified all the FX windows into the Nigerian Autonomous Foreign Exchange Market (NAFEM) and initiated the adoption of a willing buyer-willing seller principle for FX trades. Further major changes in regulations at the end of January 2024 helped re-establish a functioning official FX market; and the official brokerage, FMDQ, implemented a new spot exchange rate daily fixing methodology, which excludes outlier transacted prices. The CBN increased enforcement against practices of underreporting exchange rates used in FX trades, which had evolved in the market in response to the previous policy regime. It also lifted caps on exchange rate spreads that were in place for some market participants and cleared a backlog in FX claims of about US$4.4 billion that were assessed to be legitimate. In addition, CBN stopped moral suasion which had previously sought to keep the official rate managed at a certain level. As a result, the official exchange rate, and the minimum and maximum intraday traded rates, have all converged around the market rate, eliminating the parallel premium. An interbank FX market has also begun to emerge, contributing to a less volatile spot exchange rate, along with the significant monetary policy tightening which began in February 2024. The NAFEM has been attracting progressively more FX transactions. Average daily turnover in the official market increased 226 percent (H1 2024 vs H1 2023) to $252 million.

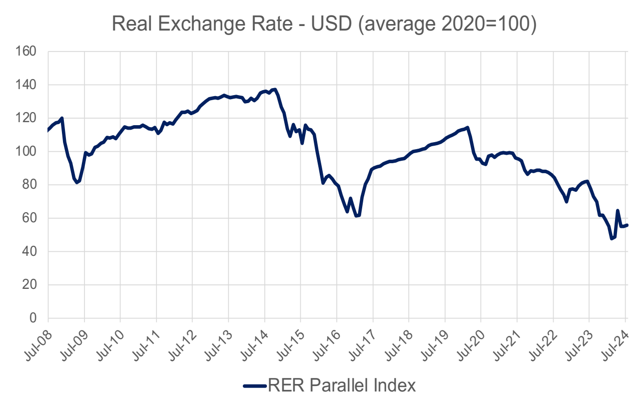
The depreciation of the nominal exchange rate corrected the previous overvaluation of the naira and opens space for domestic production, including for export markets. The real exchange rate, relative to the US dollar, was 45 percent lower by June 2024 than the average rate of 2020, reaching historical lows. The very large nominal adjustment of the exchange rate more than compensates for recent inflation differentials between Nigeria and the US, making the US dollar price of the naira in real (i.e., inflation-adjusted) terms the lowest it has been since at least the early 2000s. By making the FX-denominated price of Nigerian products much cheaper, the exchange rate enhances Nigeria's international competitiveness and export potential, as well as creating space for domestic producers to compete with imports, if accompanied by major structural reforms to lower the high costs of production.

Figure 1.7. FX reforms closed the FX premium and more than doubled turnover



Sources: CBN, FMDQ, market surveys

Figure 1.8. The real exchange rate has staged a large adjustment



Sources: U.S. BLS, NBS, market surveys

The CBN has also made strides in improving transparency and communication, but further effort is required. In August 2023, for the first time since 2014, the CBN published its audited financial statements, covering the years 2015 to 2022. Additionally, the CBN resumed publishing several key reports and analyses, which had been halted since 2020. These include details of FX interventions in the official market, the Purchasing Manager Index report[5], the Business Expectations Survey report[6], and the Inflation Expectation Survey report[7]. Building on these significant improvements in

5 https://www.cbn.gov.ng/Out/2024/STD/2024%20SEP%20%20PMI%20REPORT%20FINAL.pdf

6 https://www.cbn.gov.ng/Out/2024/STD/BES%20Report%20July%202024.pdf

7 https://www.cbn.gov.ng/Out/2024/STD/Aug%202024%20IES%20Report%20final%20.pdf

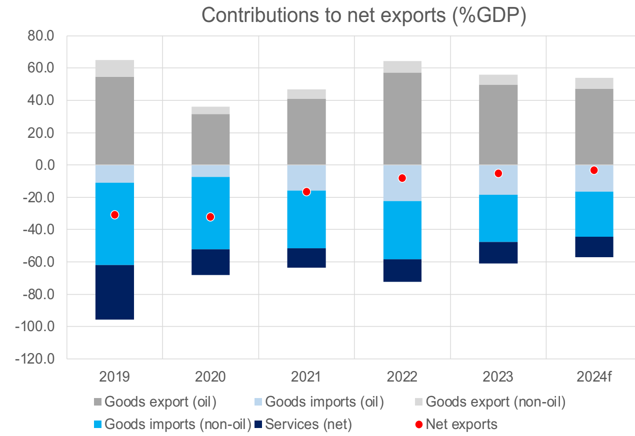
transparency, it is crucial for the CBN to publish the 2023 audited financial statements and provide details on net FX reserves. Together, these actions would further strengthen transparency and credibility, which are essential for attracting investment and maintaining economic stability.

Larger current and financial account surpluses are strengthening the external position

The current account balance (CAB) moved further into surplus in 2023, driven by lower imports. The CAB increased 73 percent to US$6bn, as goods imports decreased more pronouncedly following the exchange rate depreciation—though the trade balance was still negative—and remittances remained high at 22.5 billion US dollars, amongst the highest in Sub-Saharan Africa (SSA). While oil production increased, oil exports fell in US dollar terms. This trend continued into the first half of 2024, when the CAB further to a surplus of US$8.5bn, the highest mid-year balance since 2014, as the trade deficit halved (yoy) and remittances inflows increased 7 percent (yoy).

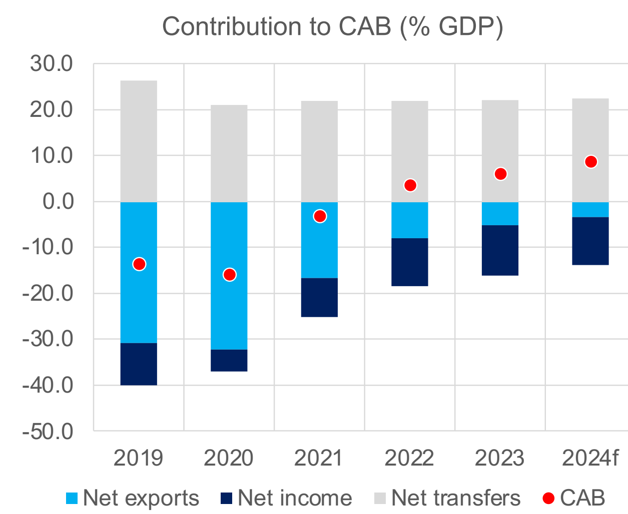
The financial account surplus saw a large jump on the back of increased foreign portfolio investments (FPI), FDI, and other investment flows on net bases. The FAB increased markedly from 1.4 percent of GDP in 2022 to 4.7 percent of GDP in 2023 as net FDI moved from a negative position in 2022 into positive territory and net FPI surged by 74 percent. As of the first half of 2024, the FAB was lower compared to the same period in 2023, due to negative net FDI and other investment flows. However, net FPI inflows increased in H1 2024 (yoy), in response to exchange rate reforms (which made the domestic currency more reflective of market fundamentals) and higher domestic debt security yields. FPI flows will likely remain very sensitive to relative yields in other markets. FDI remains extremely low and is expected to increase only marginally in the full year 2024, as banks strive to attract foreign capital investments to meet new capitalization requirements

Figure 1.9. The exchange rate depreciation has compressed imports…



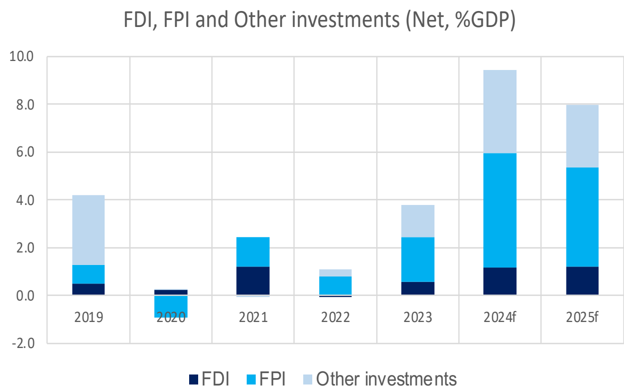
Source: CBN, WB staff projections

Figure 1.10. The exchange rate depreciation has compressed imports…



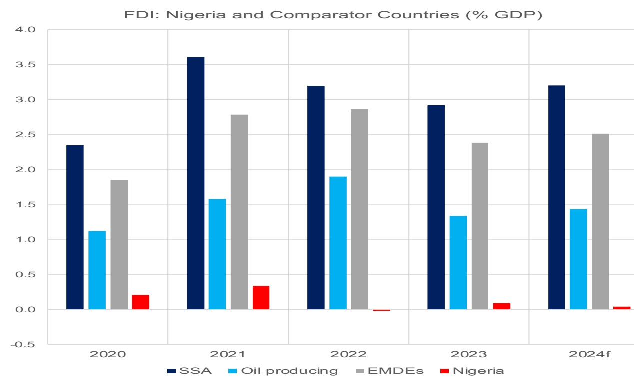
Source: CBN, WB staff projections

Figure 1.11. Net FDI and FPI have grown…



Source: CBN, WB staff projections

Figure 1.12. … but FDI to Nigeria remains very low compared to peer countries

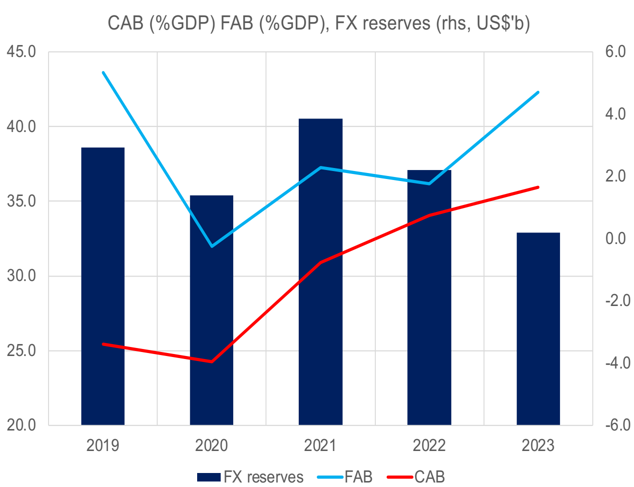


Source: CBN, WB staff projections

announced in March 2024 (Figure 1.11). The FAB is projected to reach 4.6 percent of GDP in 2024.

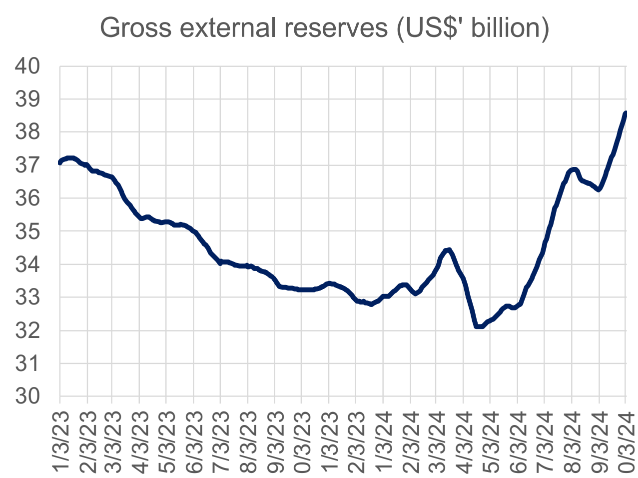
Gross external reserves are increasing. Gross reserves (30-day moving average) increased from US$33.4bn at the end of 2023 to US$38.3bn at end-September. High errors and omissions figures are reported in Nigeria's balance of payments (BoP) accounts, making changes in reserves the key metric to gauge how Nigeria's overall BoP position is evolving. For example, reserves declined significantly in 2023 despite both the current and financial account balances being in surplus.

Figure 1.13. FX Reserves declined in 2023, despite CAB and FAB improvements…



Source: CBN

Figure 1.14. …but are growing in 2024

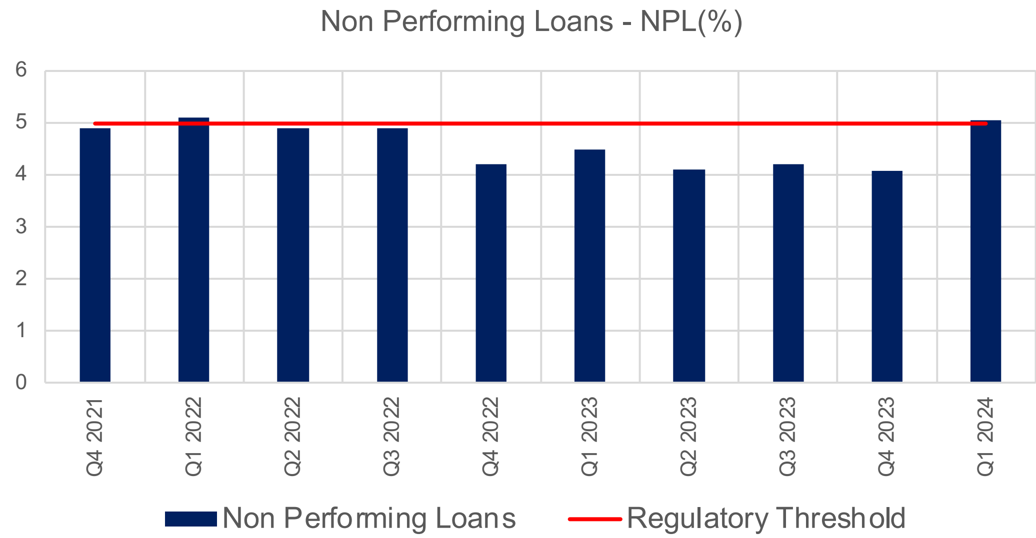


Source: CBN

1.4. The financial sector remains resilient despite the impacts of recent shocks

Nigeria's banking industry, which dominates the financial system, remains resilient despite external and domestic shocks. There has been a marginal deterioration in loan performance in terms of non-performing loans (NPLs) in the first quarter of 2024, compared to the previous year, due to a challenging economic environment. The ratio of NPLs to total loans increased by 0.6 pp to 5.1 percent in Q1 2024 compared to Q1 2023 (Figure 1.15). This ratio is marginally above the prudential benchmark of 5.0 per cent. Banks,

Figure 1.15. Banking system NPLs slightly breached the 5 percent threshold in Q1 2024



Source: CBN

however, remain liquid with the industry liquidity ratio at 42.1 percent, well above the minimum regulatory benchmark of 30.0 percent, indicating an adequate liquidity cushion of the banks and their ability to meet with their obligations[8]. While profitability has slowly improved, it is still well below pre-COVID-19 levels, and is concentrated in larger banks, which benefit from lower funding costs and diversified income sources.

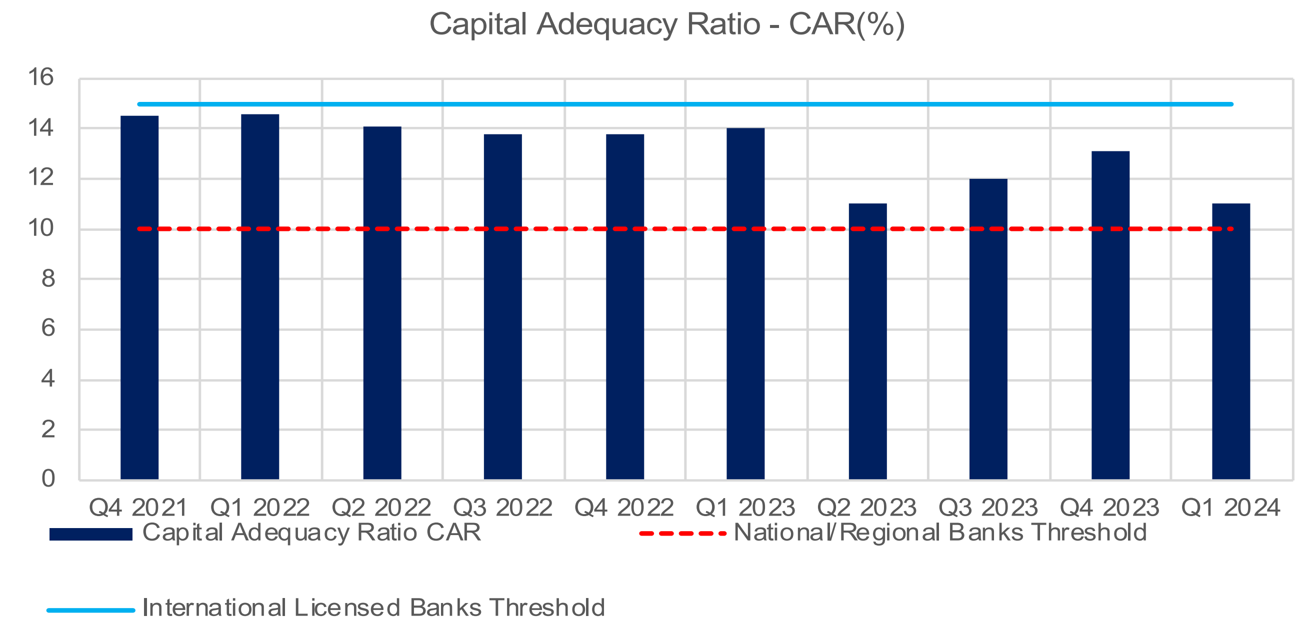
The banking system's capital buffers have been eroded due to high inflation, significant depreciation of the naira, and the increase in the NPL ratio. The capital adequacy ratio of the banking system was 11.1 percent in Q1 2024, down from 14.2 percent in Q1 2023[9] (Figure 1.16). As a pre-emptive measure to shore up financial resilience, the CBN on March 28, 2024, announced new minimum capital requirements for the banking sector, with a 24-month implementation window. Following approvals from the Nigeria Securities and Exchange Commission (SEC), several commercial banks with international licenses have already initiated capital increase procedures in the market through rights issues or public offers[10].

Other regulatory agencies are complementing the CBN's actions to protect depositors and enhance public confidence in the financial system. In May 2024, the Nigeria Deposit Insurance Commission (NDIC) announced an upward review of the maximum deposit insurance coverage levels across various banks, with immediate effect. In a coordinated move among the financial sector regulators, in June 2024, the SEC published its framework for the 2024 banking sector capitalization program to serve as a guide to the issuers and capital market operators in filing applications for capital raises or mergers and acquisitions. Additionally, in July 2024, the Corporate Affairs Commission (CAC) issued new guidelines for the recapitalization, merger, and share increment of banks and financial institutions in Nigeria.

In line with its commitment to its core mandate of ensuring price stability as well as promoting a sound and stable financial system, the CBN has recently made a number of regulatory interventions. In January 2024, the CBN replaced the boards and management teams of Polaris Bank, Union Bank, and Keystone Bank,

8 CBN Economic Report, February 2024.
9 CBN Quarterly Reports (2023& 2024).
10 Access Holding, Guaranty Trust Holding Company Plc, FBN Holding (Fidelity Bank) and FCMB Group Plc.

Figure 1.16. Banks' capital buffers have been eroded, but at system level remain above the minimum requirement



Source: CBN

citing the banks' regulatory non-compliance, corporate governance failures, disregarding the conditions under which their licenses were granted, and involvement in activities that pose a threat to financial stability. In June 2024, the CBN revoked the banking license of Heritage Bank, citing the bank's poor financial performance and a situation that constituted a threat to financial stability. The NDIC was promptly appointed as the liquidator in line with Nigeria's bank resolution framework. According to the NDIC, at the time of its failure, Heritage Bank had 2.3 million depositors (99 percent of which had deposits under the deposit insurance coverage amount of NGN 5 million naira), total deposits of NGN 650 billion naira, and a loan portfolio of NGN 700 billion naira.

Loan portfolios and loan-deposit spreads have increased. The total loan portfolio of Nigerian banks increased by 50 percent between December 2022 and December 2023. However, credit intermediation remains low, and a large part of the increase was likely driven by high inflation and valuation effects. Strong earnings generated from the substantial 18 percent spread between deposit and lending rates along with FX revaluation gains (due to net long FX balance sheet positions) on Naira depreciation have supported banks' balance sheet growth. The large spread bolsters bank equity growth and can enhance banks' lending capacity, at least in the short term. However, such large spreads also reflect shortcomings in the competitive landscape.

Deepening Nigeria's non-bank financial sector will also be vital to support higher investment and growth. Nigeria's shallow and concentrated capital market – primarily focused on government securities and large corporates – poses a challenge to sustainable and inclusive growth. In terms of the public equity capital market, the ratio of market capitalization to GDP as at end of March 2024 is estimated at 24 percent[11] compared to 395 percent[12] in South Africa. There are only 151 listed

11 National Bureau of Statistics, Nigerian Exchange, March 2024.

12 Department Statistics, South Africa, Johannesburg Stock Exchange, March 2024.

companies on the Nigerian Exchange, compared to 312 listed on the Johannesburg Stock Exchange as of July 2024. In terms of debt capital, Federal Government (FGN) bonds account for about 85 percent[13] of total debt capital market capitalization. Long-term finance and patient capital are especially needed to support the growth of MSMEs and help fund Nigeria's large investment needs. Nigeria's pension industry has grown significantly over the last two decades, posting 20 percent average annual growth, with assets under management of about NGN 20 trillion as of April 2024. Recent legislation permits investment of up to 15 percent of total pension assets in infrastructure, but these assets are less than 1 percent of the portfolio, in part reflecting the scarcity of offerings.

1.5. A revenue-driven fiscal consolidation is accompanying the monetary policy tightening

The fiscal position of the Federal Government improved in the first half of 2024, with the overall deficit narrowing to 4.7 percent of GDP, compared to 6.2 percent of GDP in the same period last year. This improvement was primarily due to increased revenues, largely from the non-oil sector, following the removal of the implicit foreign exchange subsidy and revenue gains from reforms that enhanced the transparency and accountability of how government-owned enterprises (GOEs) and ministries, departments, and agencies (MDAs) remit their statutory revenues. Meanwhile, expenditures edged lower as a ratio of GDP.

Gains from FX unification, improved tax administration, and better management of revenue remittances from parastatals boosted non-oil revenues. Non-oil tax revenues to the Federation increased sharply by 1.7 percentage points of GDP in H1-2024 compared to H1-2023. This surge was driven by enhanced tax administration, including digital tax collection via the TaxProMax system and the implementation of withholding VAT at source by certain sectors. The unification of the FX rate led to a significant revenue windfall, as various FX-denominated revenues used to be transferred to the Federation at the official rate, which was 53 percent lower than the parallel rate in 2022 (Box 1.3). This resulted in an estimated NGN 6.2 trillion (3 percent of GDP) in forgone tax revenues. The cost of these forgone revenues was even larger than the cost of the PMS subsidy, which had a fiscal cost of NGN 4.5 trillion in 2022 (2.2 percent of GDP). Additionally, dividends from parastatals rose by 0.3 percentage points of GDP, following the December 2023 reform to standardize and automate fund remittances to the treasury.

13 FMDQ, Debt Management Office.

Box 1.3. Quantifying the fiscal cost, through forgone revenues, of multiple exchange rates

Prior to the full FX unification in February 2024, the presence of a parallel FX premium generated enormous fiscal costs, in the form of forgone revenues. This situation emerged because FX revenue inflows—such as oil and customs revenues, as well as a portion of domestic VAT and CIT which are paid in FX—were transferred to the treasury at the official exchange rate. However, due to the significant difference between the official and parallel market rates, the amount of naira-denominated revenue received by the Federation from FX-linked revenues was significantly reduced. The unification of the FX rate has therefore eliminated the forgone revenues that previously benefited certain groups at the expense of the entire nation.

The implicit forgone revenues from the premium in the rate impacted five main revenue streams to the Federation:

1. Oil and gas revenues: Gross oil revenues are collected in FX, including crude oil and gas royalties, Petroleum Profit Tax (PPT), revenues from gas flaring, and other oil and gas revenue flows.
2. Import duties and excise duties on imported goods: Import duties and excises on imported goods are collected by the Nigeria Customs Service (NCS) in FX.
3. VAT revenues: VAT on imported goods and a significant share of VAT domestically are paid in FX. Combined, these two categories accounted for about 44.3 percent of net VAT revenues in 2021-2023
4. CIT revenues: Similar to VAT, about 40 percent of total CIT revenues collected by the Federation were paid in FX in 2021-2023.
5. GOE revenues: Several GOEs in Nigeria collect fees and levies in FX but remit revenues to the Federation in naira[14]. Unfortunately, data are not available for this category.

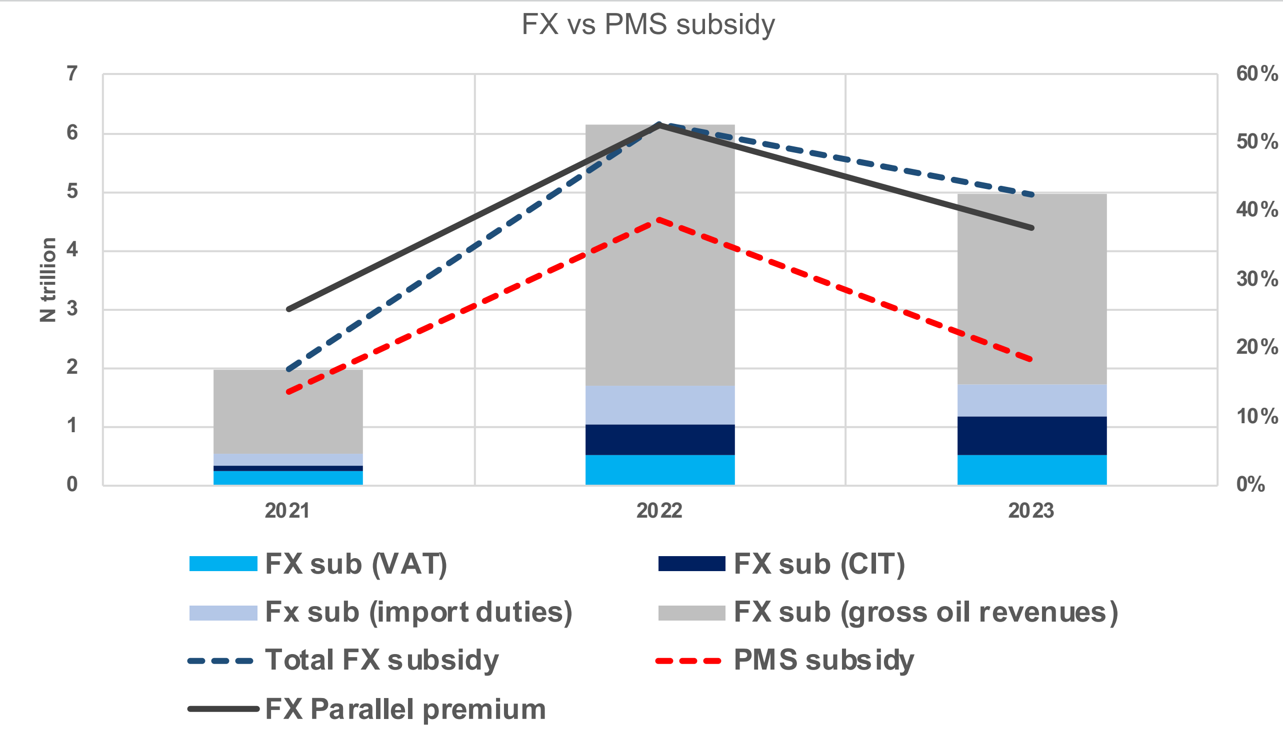
The estimated implicit forgone revenues from the FX premium were even larger than the PMS subsidy, underscoring the importance of maintaining a unified FX rate. In 2022, when the cost of the PMS subsidy reached NGN 4.5 trillion (2.2 percent of GDP), the revenues forgone that emerged due to the large parallel rate premium are estimated to have been NGN 6.2 trillion (3 percent of GDP): NGN 4.5 trillion of FX revenue forgone from gross oil revenues and NGN 1.7 trillion from the FX revenue forgone from non-oil tax revenues (Figure B1.4). These findings demonstrate that the FX unification reform not only addresses distortions in the FX market and the real economy but also has a substantial impact on restoring fiscal space. Therefore, maintaining the unified FX rate which Nigeria has achieved since February 2024 is essential from a fiscal perspective.

It should be noted that in addition to the large estimated fiscal benefits, the FX reform is also expected to benefit the economy by removing the large distortions the previous regime imposed, such as skewing the competitive landscape in favor of importers with preferential access to FX, making it more difficult and less profitable to export, and fueling rent-seeking and illicit activity.

14 Some of the GOEs that collect revenues in foreign currency include: Nigerian National Petroleum Corporation (NNPCL), Federal Airports Authority of Nigeria (FAAN), Nigeria Ports Authority (NPA), and the Nigerian Maritime Administration and Safety Agency (NIMASA).

Box 1.3. Cont.

Figure B1.4. The implicit FX subsidy was higher than the PMS subsidy

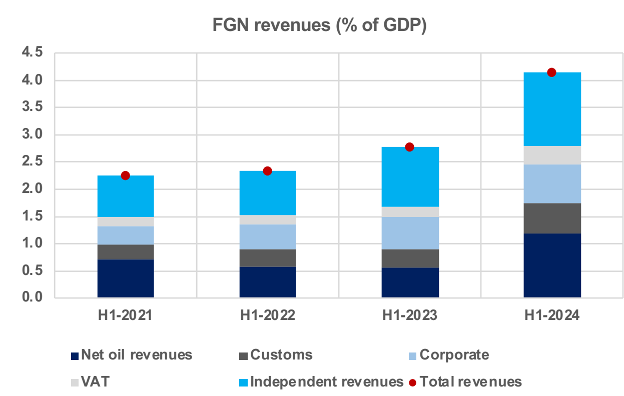


Sources: OAGF, NBS, CBN, survey of BDCs, and World Bank calculations

Net oil revenues have increased, despite the implicit subsidy on premium motor spirit (PMS, gasoline), due to substantial FX-related gains. Gross oil revenues are estimated to have risen from NGN 3.8 trillion (3.7 percent of GDP) in H1 2023 to about NGN 9.8 trillion (8 percent of GDP) in H1 2024. This surge in gross oil revenues has been driven largely by exchange rate effects: the unification of the FX rate, and the higher unified exchange rate. However, since August 2023, gasoline prices increased more slowly than import costs, which rose in local currency (naira) terms on account of naira depreciation. This was because NNPCL fixed the import value of gasoline in naira terms below the cost of imports in US dollar terms at the market exchange rate, effectively making it the de facto monopoly importer. The below-cost pricing of gasoline imposed a renewed implicit subsidy cost on the Federation, estimated at about NGN 5.9 trillion (2.1 percent of GDP) in 2024, as NNPCL's fiscal transfers have also been based on a below-market naira exchange rate. In addition to the fiscal cost of the implicit fuel subsidy, the gains in gross revenues were also eroded by several deductions, including the increased amount of pledged crude oil being used by NNPCL to service loans it has acquired in recent years. Overall, net oil revenues (including gains from the FX rate unification) increased by 1.2 percentage points of GDP in H1-2024.

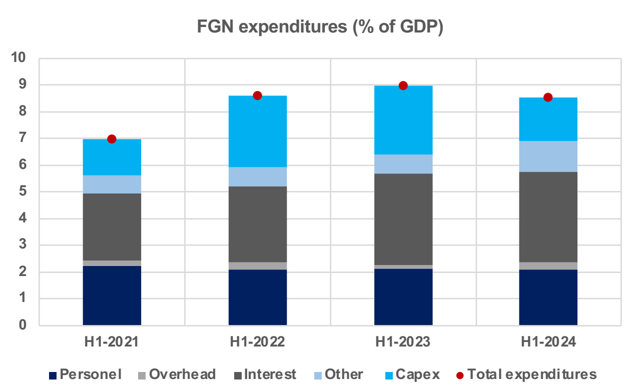
Revenue growth was accompanied by expenditures edging lower as a share of GDP, mainly due to under-execution of capital spending, which helped offset rising interest payments. In H1 2024, FGN expenditures amounted to 8.5 percent of GDP (NGN 10.5 trillion), slightly lower as a share of GDP compared to the 9 percent (NGN 9.4 trillion) recorded in H1-2023. This relative stability in spending reflects two contrasting trends. On the one hand, capital expenditure (capex) declined by 1 pp of GDP, with actual spending reaching only 40 percent of the prorated budgeted amount for the period. On the other hand, overhead costs rose by 0.2 pp of GDP, and other expenditures, including funds allocated to cover the shortfall in electricity tariffs and other initiatives such as the presidential metering program, increased by 0.5 pp. Personnel costs remained steady as a share of GDP during this period, which preceded the anticipated increase in the national minimum wage, which is expected to raise government

Figure 1.17. Revenues rose sharply in H1 2024…



Sources: OAGF and NBS

Figure 1.18. …while expenditure slightly dropped, due to under-execution of capex



Sources: OAGF and NBS

expenditures by approximately NGN 0.6-1 trillion annually.

In addition to the fiscal improvement, the authorities are following through on their commitment to stop monetizing the deficit. In a positive development, the Federal Ministry of Finance (FMF) and the CBN agreed to securitize the outstanding NGN 7.3 trillion stock of Ways and Means advances using market-based debt instruments. To this end, the DMO increased commercial borrowing and issued a cumulative NGN 12.8 trillion in debt securities (FGN bonds and NTBs) as of early August to finance the fiscal deficit and repay the stock of Ways and Means advances, which dropped by NGN 3.7 trillion in Q1 2024, to stand at NGN 4.4 trillion in March 2024. Relying on standard debt instruments not only eases inflationary pressures and is fundamental to restoring investor confidence, but also enhances debt transparency, improves debt management, and importantly, reduces borrowing costs, as the cost of Ways and Means financing is 3 pp higher than the MPR.

Nigeria has arrested the previous, rapid deterioration in its fiscal position and debt sustainability risks, and debt-related risk metrics are generally improving. Public and publicly guaranteed (PPG) debt is estimated to increase from 49.1 percent of GDP at the end of 2023 to 50.8 percent in 2024, with the slight increase being mainly due to the FX valuation effect on external debt. The debt burden has increased sharply in recent years (it was 30.5 percent of GDP in 2019), but it is now on a declining trend helped by the major reforms, especially those begun in 2023. Although Nigeria's stock of government debt remains moderate by international standards relative to the size of its economy, the very low revenue base means that the cost of servicing its debt quickly crowds out productive spending and makes the fiscal position vulnerable to debt-related risks. The debt service-to-revenue ratio exceeded 100 percent in 2022. Fortunately, this has declined alongside the improvement in the fiscal situation and is expected to be 57.1 percent in 2024. The improving debt trajectory is primarily driven by higher revenues due to ongoing reforms and the securitization of over 75 percent of the Ways and Means financing stock into a long-term instrument with a significantly lower interest rate. Nigeria's external debt risk profile is helped by the fact that only 23 percent of the total PPG debt stock is in foreign currency, and mostly on concessional terms. Overall, the government's debt remains sustainable, though it remains critical to further strengthen the fiscal position, and especially the revenue base, to reduce Nigeria's vulnerability to adverse shocks and to sustainably free up resources to spend on development priorities.

Despite improvements in the fiscal situation, lack of transparency in both the oil sector and the 2024 amended budget creates fiscal uncertainties. Opaque governance at NNPCL undermines the transmission of oil revenues to the Federation. Non-transparent reporting to the Federation Account Allocation Committee (FAAC) makes it difficult for authorities to oversee NNPCL's performance, calculate expected oil and gas revenues, and reconcile the difference between revenues received by the Federation and NNPCL's total income. The reports submitted to FAAC are inconsistent and lack key information, such as pledged revenues, the tradeable value of crude oil, actual payments, and receipts from trade. Additionally, as noted in the Nigeria Public Finance Review (2022)[15], quasi-fiscal activities—like in-kind crude oil revenues and direct cost deductions—further obscure financial reporting. Furthermore, unlike past practices when the Budget Office of the Federation (BOF) published details of approved budgets, the government has not released information regarding the NGN 6.2 trillion amendment to the 2024 Appropriation Act, creating some uncertainties about the future fiscal position.

1.6. Economic Outlook: The global economy is stabilizing and the prospects for Nigeria have improved, albeit still fragile

The global economy is stabilizing

The global economy is stabilizing, following several years of overlapping negative shocks. Global growth is projected to stabilize at 2.6 percent this year, holding steady for the first time in three years (Table 1.1). Despite high financing costs, geopolitical tensions, and conflicts, global activity strengthened in early 2024, largely driven by solid U.S. economic expansion. Advanced economies are expected to grow by 1.5 percent, though with significant variation. Inflation has declined to the point where major central banks have begun to ease monetary policy, notably the U.S. Federal Reserve which lowered the federal funds rate by 50 basis points to 4.75 percent in September 2024.

Growth in emerging markets and developing economies (EMDEs) is expected to decline slightly from 4.2 percent in 2023 to 4 percent in 2024. However, excluding China, EMDE growth is projected to rise to 3.5 percent this year and firm to an average of 3.9 percent in 2025-26. The contribution from domestic demand in EMDEs is expected to weaken in 2024, mainly due to idiosyncratic factors in some large economies, but should strengthen over 2025-26 as inflation eases and financial conditions improve. Policy rates have been cut in many EMDEs. In China, growth slowed in early 2024 and is expected to continue weakening due to lower consumption and subdued investment, with the ongoing property sector downturn weighing on real estate investment.

Risks to the global outlook remain tilted to the downside, despite some improvements since the beginning of this year. Heightened geopolitical tensions and intensifying conflicts could disrupt economic activity, including if a conflict-related shock to global oil supply pushes prices higher, counteracting the disinflation trend. Delays in disinflation could lead to postponed policy rate cuts, slowing growth. Additionally, weaker-than-expected growth in China, such as a prolonged property sector downturn, could have significant negative spillovers, especially for EMDE commodity exporters. Rising trade policy uncertainty and restrictions also pose risks to trade and economic activity. On the upside, faster-than-expected global disinflation, supported by stronger productivity growth, could enable central banks to cut rates more

15 https://documents1.worldbank.org/curated/en/099615211172222358/pdf/P1750950fbd29d02008429007d1ed499d61.pdf

quickly, boosting growth. U.S. growth could also exceed expectations due to strong labor supply dynamics, driven by higher labor force participation and the absorption of working-age migrants.

After a sharp decline between mid-2022 and mid-2023, aggregate commodity prices have generally risen in 2024 (Figure 1.18). The increase was driven by tight supply conditions and signs of firmer industrial activity. Oil prices have fluctuated this year, trending substantially higher in April in the context of escalating tensions and conflict in the Middle East, but subsequently pulling back in recent weeks. Metals prices, excluding those of precious metals, are projected to stay well above pre-pandemic levels, as weaker metals demand associated with lower real estate investment in China is likely to be counterbalanced by firming global industrial demand and metals-intensive clean energy investments.

Figure 1.19. Central banks have started cutting policy rates

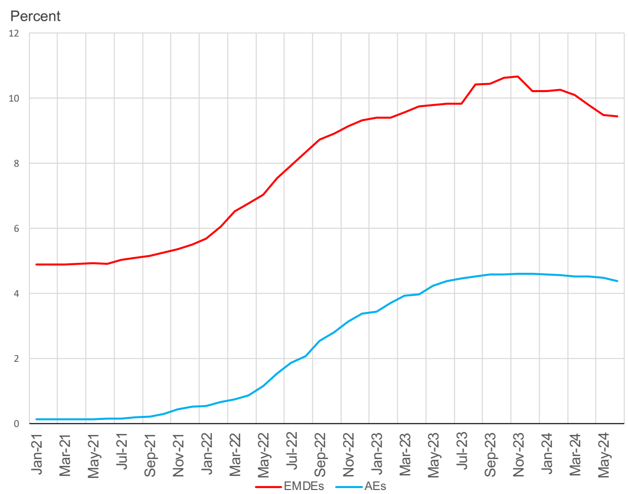
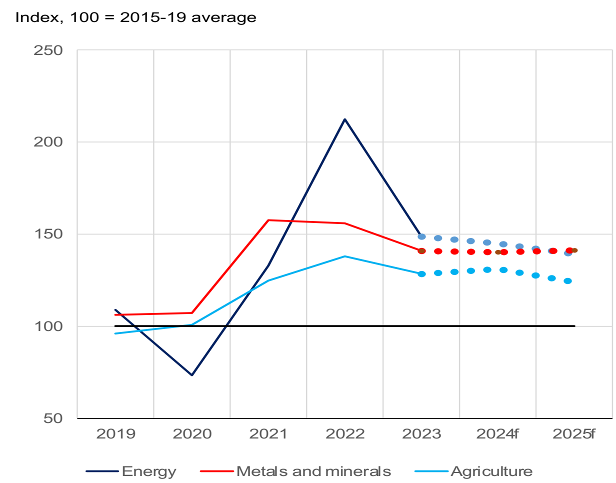


Figure 1.20. Commodity price indices are expected to remain broadly at 2023 levels



Sources: Haver; World Bank.
Notes: AEs =Advanced economies; EMDEs = Emerging Markets and Developing Economies.
Left-hand figure: Unweighted average of nominal policy rates. Panel includes 16 AEs and 76 EMDEs. Last observation is June 2024. Right-hand figure: f indicates forecast.

Table 1.1. Global and regional indicators, 2021–2024

	2021	2022	2023e	2024f	
				June 2024 (current projection)	January 2024 (previous projection)
Real GDP growth – Global economy (%)	6.3	3.0	2.6	2.6	2.4
Real GDP growth – Advanced Economies (%)	5.5	2.6	1.5	1.5	1.2
Real GDP growth – Emerging and Developing Economies (%)	7.3	3.7	4.2	4.0	3.9
Real GDP growth – Emerging and Developing Economies excluding China (%)	6.5	4.3	3.4	3.5	3.5
Crude oil, Brent (US$ per barrel)a	70.4	99.8	82.6	84.0	81.0

e = estimate, f = forecast. Sources: World Bank, Global Economic Prospects, June 2024, World Bank: Washington, D.C

Nigeria's outlook: recent reforms are expected to significantly improve macroeconomic conditions into the medium term, but the economy is still fragile

Economic growth is expected to increase slightly in the projection period (through 2027), as macroeconomic reforms are consolidated. GDP is projected to grow by 3.3 percent in 2024, rising to an annual average of 3.7 percent over 2025-2027, continuing to be largely driven by the services sector, particularly financial services, telecommunications, and information services. While agricultural output is projected to improve over the medium term, enhancing agricultural productivity and strengthening security will be critical to mitigating food insecurity and reducing poverty, especially in key food-producing regions. The non-oil industry sector is likely to experience modest yet steady growth, as manufacturers contend with ongoing structural challenges. Crude oil production is expected to improve slightly and reverse the sector's negative growth trend since 2020. The production of domestic refined petroleum products by the new Dangote Petroleum Refinery is expected to push up oil refining output in the medium term.

Inflation will moderate in the base case. Headline inflation is anticipated to peak at an average annual rate of 31.7 percent in 2024, largely driven by the depreciation of the naira and increased gasoline prices, both of which have exerted upward pressure on prices in the short term. Yet, in the medium term, recent macroeconomic reforms and their continuation will help to reduce inflation, expected to fall to 14.3 percent by 2027.

The fiscal position is expected to improve if the Government remains committed to reforms to increase domestic revenues, control expenditures, and avoid any recourse to financing through Ways and Means Advances. Non-oil revenues are projected to continue rising, averaging 5.2 percent of GDP in 2025-2027, driven by higher dividends from parastatals and fiscal gains from closing the FX premium. Planned reforms to rationalize tax expenditures, improve VAT, enhance tax administration, and progress towards eliminating the gasoline subsidy, will further boost revenues. On the spending side, expenditures are expected to rise due to a higher wage bill from raising the minimum wage, increased capital investments in physical and human capital, and expanded social programs. Interest payments on debt are expected to decrease as global and domestic interest rates decline. Overall, revenue gains will exceed spending increases, reducing the primary deficit from 1.8 percent of GDP in 2023 to 0.2 percent by 2027, and putting the debt-to-GDP ratio on a downward path.

The current account balance is expected to remain in surplus at an average of 3.1 percent of GDP from 2025 to 2027, driven by a mix of increasing non-oil exports, reduction in oil imports, and falling oil exports. Despite a slight increase in oil production in the medium term, crude oil export revenues are anticipated to decline due to lower global prices and an increase in crude sales in naira to domestic refineries, in addition to NNPC's pledged crude oil commitments. However, rising non-oil exports, helped by a more competitive naira, are expected to partially offset the decline in oil exports. On the import side, refined oil imports are expected to decrease with new domestic fuel refining and the phase out of the gasoline subsidy, while non-oil imports are likely to remain constrained. Remittances are also expected to strengthen, driven by the unification of the FX rate.

Nigeria continues to face economic challenges and there are substantial downside risks to the outlook. The population faces a prolonged rise in the cost of living driven by high inflation, especially for food products, outpacing nominal earnings growth. Adverse weather conditions may further limit agricultural output, increasing food prices and exacerbating poverty, particularly for low-income households. It is thus essential to ensure that social protection systems offer comprehensive coverage, adequate benefits, and flexibility to adapt to shocks. Ramping up social protection efforts and improving the quality of spending on development priorities is vital to help households cope with the difficult economic situation. On the fiscal front, setbacks to further increasing non-oil revenues and safeguarding oil revenues could increase debt pressures. Not resorting to monetizing the deficit is crucial to efforts to rebuild confidence in the naira, reduce inflation, reduce debt costs, and keep the needed fiscal consolidation on track. The oil sector remains hindered by insecurity, limited investment, lack of transparency, and governance challenges.

1.7. Policy priorities: Staying the course on macro stabilization reforms, while intensifying support for the poorest households and expanding opportunities

Critical reforms are helping to stabilize Nigeria's economy, and need continued efforts. The CBN should stay the course with tight monetary policy and maintaining the unified, market-reflective exchange rate policy. By building the relative appeal of the naira, maintaining sufficiently positive real ex-ante policy rates will help to drive down inflation. The monetary policy toolkit should also progressively rely more on standard rates-based instruments to improve policy transmission, building on the progress thus far to return to orthodox policy conducive to macroeconomic stability and long-term financial sector development. The official FX market should be deepened, and foreign reserves rebuilt, as liquidity and access to FX is much more important than the nominal exchange rate. Substantial FX trade volume still occurs outside of NAFEM, as with recent retail FX auctions and sales to bureaux de change. The CBN could improve transparency by regularly publishing gross and net reserves at given dates. The unification and development of the FX market, higher foreign investment, and positive net trade balances can be leveraged to rebuild foreign reserves. On the fiscal front, increasing non-oil revenues is a continuing, urgent priority. Despite their recent increase, these remain extremely low by international standards. Similarly, oil revenues need to be safeguarded by permanently establishing market-reflective gasoline prices. In terms of meetings fiscal financing needs, the authorities are strongly committed to no longer monetizing the fiscal deficit through Ways & Means Advances; it is critical to rebuild confidence in the naira and reduce inflation expectations that this continues.

The macroeconomic reforms, if sustained and expanded, create a new platform to ignite growth and poverty reduction, also calling for deep structural reforms. Ongoing reforms boost international competitiveness, increase the attractiveness of Nigeria for domestic and foreign investments, and have started to reduce debt-related fiscal risks and reopen fiscal space. Yet, addressing longstanding and potentially binding constraints to growth are crucial for Nigeria to sustain stronger growth. This requires reducing trade barriers, improving trade facilitation, increasing access to reliable power supply, and improving the business environment. Transport infrastructure investments led by the private sector could integrate the domestic market, allowing businesses to reap economies of scale. Improving creative destruction forces for productivity growth rely on not only lowering import barriers, but also improving competition policy and its enforcement. Reducing insecurity, from banditry to informal checkpoints along trade corridors, is essential to increase production across sectors such as agriculture and the oil sector. Improving state capacity to deliver essential services to the population, especially in poorer regions, requires sustained investments and policy improvements, and can be a main driver for Nigeria's development. The country urgently needs to improve its human capital to fully benefit from its growing and young population, as described further in Part 2.

Although many structural reforms would involve longer and sustained efforts, some quick wins are readily available. Trade protectionism geared towards import substitution has failed to produce results. Instead, it constrains Nigerians' access to higher quality or cheaper goods, with direct adverse impacts on their purchasing power and national poverty levels (5.8 increase in prices for banned products). High effective rates are also estimated to increase input costs of Nigerian firms by 13.7 percent on average, curb healthy competition in the domestic market, and lower productivity. Recent measures to temporarily remove tariffs on food products and launch the National Single Window are welcome steps. These could be furthered by permanently lowering import tariffs on food and smoothing trade at the border with a green lane fast trade system for perishable and food products; lifting import bans on food and cleaning products, apparel, and fertilizers; reducing tariff deviations from the ECOWAS Common External Tariff on all products; and improving trade facilitation through better risk management and by implementing post clearance audits to reduce costs and time of cargo at the port and at border.

Part (I) of Table 1.2, below, summarizes macroeconomic reform progress since the December 2022 NDU, using a heat map where dark red indicates a significant issue and dark green indicates the issue has been largely addressed. Part (II) highlights the key immediate actions needed to deepen and sustain the reforms.

Whilst Nigeria's macroeconomic stabilization efforts and boosting growth are urgent, there is also a need for strategies to create productive jobs and ensure that growth translates into poverty reduction. Chapter 2 of this report therefore delves into labor market outcomes in Nigeria and outlines pathways to help the country to create the more productive, higher-quality jobs, which are essential for long-term, inclusive growth. It also details policies that could be deployed to help farm and non-farm household enterprises access the inputs they need and expand the markets they serve. Such strategies offer a way to sustainably boost the economic opportunities and earnings of all Nigerians, including the vast majority who do not have access to formal, waged employment.

Table 1.2. Progress with Key Economic Reforms Since December 2022 (I), and What Policies Are Still Needed to Sustain and Deepen the Reforms (II)

KEY REFORMS	(I) REFORM PROGRESS HEATMAP				(II) POLICIES NEEDED TO SUSTAIN AND DEEPEN THE REFORMS
	NDU Dec-22	NDU June-23	NDU Dec-23	NDU Oct-24	
(A) MONETARY POLICY					
Maintain tight monetary policy to lower inflation	Weak	Semi-weak	Average	Semi-strong	• Maintain positive real ex-ante policy rates. • Ensure policy rates place a floor under short-term market interest rates. • Rely more on policy rates and standard instruments (MPR anchoring, via OMOs and SDF/SLF), rather than on prudential instruments (e.g., CRR).
Avoid resorting to deficit monetization, including continuing to avoid Ways & Means Advances	Weak	Weak	Semi-weak	Semi-strong	• Have realistic budgets to avoid unbudgeted financing requirements. • Increase the timeliness and detail level of information on the Ways & Means Advances balance and interest paid on it, and on the CBN's overall balance sheet.
Improve balance sheet transparency	Weak	Semi-weak	Semi-weak	Average	• Publish the 2023 audited financial statements. • Provide details on net FX reserves.
(B) FISCAL POLICY					
Eliminate the PMS subsidy	Weak	Strong	Semi-weak	Semi-strong	• Adopt a plan to fully achieve and maintain a cost-reflective PMS price. • Include any implicit PMS subsidy in the budget.
Strengthen non-oil revenues	Weak	Semi-weak	Average	Average	• Reform the VAT regime and rationalize tax expenditures. • Improve tax administration by adopting an e-invoicing system and strengthening tax audits.
Increase transparency of oil revenues	Weak	Weak	Weak	Weak	• Improve the reporting of oil revenues to FAAC. • Conduct an audit to reconcile what is owed by the NNPC to the Federation, and vice versa.
Phase out the FX subsidy	Weak	Semi-strong	Semi-weak	Strong	• Ensure that all FX-related transactions occur at the market-determined exchange rate.
Reduce the cost of governance	Weak	Weak	Weak	Weak	• Cut wasteful expenditures that are not essential, such as purchase of vehicles, external training, etc. • Reduce the cost of collection of MDAs/GOEs.
(C) FOREIGN EXCHANGE POLICY					
Maintain a unified, market-reflective exchange rate	Weak	Semi-strong	Semi-weak	Strong	• Communicate and implement a comprehensive, systematic framework for CBN FX interventions to provide clarity to market participants as to when and how CBN may buy or sell FX. • Focus on transparently supporting market liquidity and price discovery.
Concentrate FX transactions in the official market	Weak	Average	Semi-weak	Semi-strong	• Take measures to build liquidity in the NAFEM, including by easing remaining restrictions, and channeling oil-related inflows to the market.
(D) TRADE POLICY					
Reduce trade restrictions that increase prices and poverty	Weak	Weak	Semi-weak	Semi-weak	• Lift import bans. • Eliminate tariff deviations from ECOWAS CET. • Adopt and implement a compliance trade program.
(E) PROVIDE URGENT RELIEF TO THE POPULATION					
Scale-up and provide relief to the population	Weak	Weak	Semi-weak	Average	• Accelerate the roll out of targeted cash transfers. • Allocate savings from PMS subsidy removal to sustainably expand cash transfers and other well-targeted support.

Legend	Weak	Semi-weak	Average	Semi-strong	Strong

PART 2 - Spotlight: Fostering productive jobs is vital to help Nigerians find pathways out of poverty

2.1.Sustainable poverty reduction relies on creating productive jobs

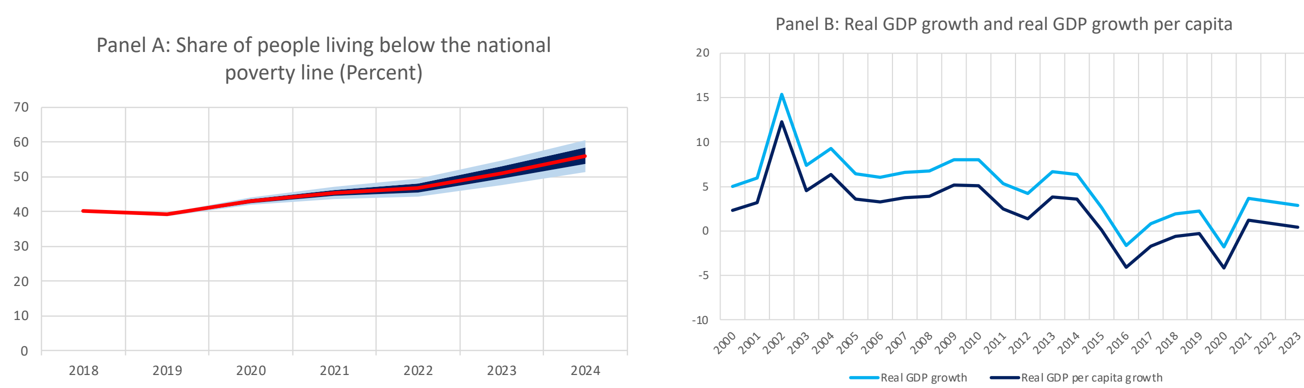
With growth proving too slow to outpace inflation, poverty has risen sharply. Since 2018, the share of Nigerians living below the national poverty line[16] is estimated to have risen sharply from 40.1 percent to 56.0 percent (Figure 2.1 A). Combined with population growth, this means that some 129 million Nigerians are living in poverty. This stark increase partly reflects Nigeria's beleaguered growth record. Real GDP per capita has not recovered to the level it was at prior to the oil price-induced recession in 2016. The COVID-19 pandemic compounded this drop in economic activity. Moreover, growth is failing to outpace inflation: large increases in prices across almost all goods have diminished purchasing power.

The structure of growth has not been conducive to poverty reduction; exports remain dependent on oil, total factor productivity has declined, and non-oil economic activity shifted from low-productivity agriculture to low-productivity services. Even when the economy was growing rapidly in the early 2010s, richer Nigerians benefited more than poorer Nigerians (Lain & Vishwanath, 2022). Macroeconomic data hint at why growth is not reaching poor and economically insecure Nigerians. Around 90 percent of Nigeria's exports are in oil, an industry where job creation is limited (OEC, 2024). Total factor productivity has also been in decline, while non-oil economic activity has shifted from low-productivity agriculture to low-productivity services – this links with the shift in employment from agriculture to services described below (World Bank, 2022). Foreign direct investment, which can help drive job-creating innovation and overall investment, also remains low relative to the size of Nigeria's economy and comparator countries (World Bank, 2023).

Ensuring that economic growth reaches poor and economically insecure Nigerians hinges on improving labor market outcomes. The labor market is the main vehicle through which the proceeds of economic growth are shared among households and individuals; the labor market is a key determinant of job creation and entrepreneurship. Labor – that is, time and effort – is the only asset for many poor and economically insecure Nigerians (Fields, 2019). This means labor market policies that can support the creation of productive private sector jobs are essential for lifting Nigerians out of poverty.

16 The national poverty line is 137,430 naira per person per year in 2018/19 prices, which corresponds to 2.48 USD 2017 PPP per person per day. It is therefore slightly higher than the international extreme poverty line of 2.15 USD 2017 PPP per person per day.

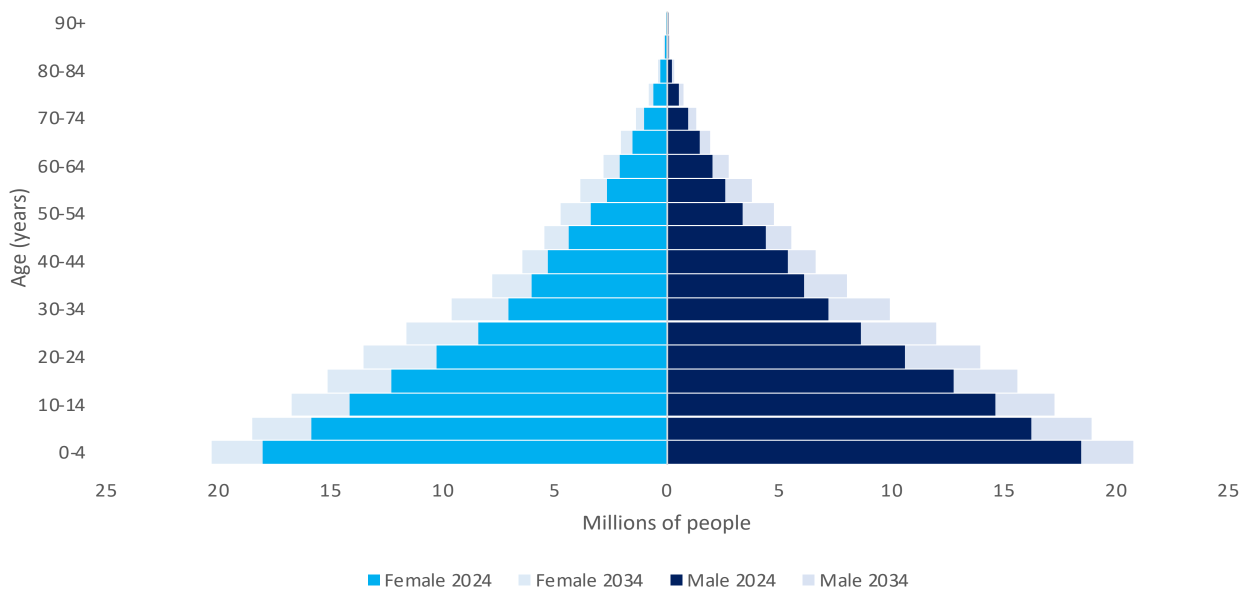
Figure 2.1. Nigeria has experienced rising poverty, reflecting a decade of weak growth and rising inflation



Notes: In Panel A, poverty estimates are constructed using the POVMOD projection model used for the World Bank's Macro-Poverty Outlooks. Headline projections are created using a pass-through from GDP growth to household consumption growth of 0.9. Fan chart shows "bands" of predictions with pass-throughs of 0.8, 0.85, 0.9, 0.95, and 1. Sources: 2018/19 NLSS, WDIs, and World Bank estimates.

The time for poverty-reducing labor market policies is now: Nigeria's young and growing population provides the country with huge economic potential. Almost two-thirds of Nigerians are aged less than 25 (Figure 2.2). Millions of Nigerians will therefore soon come of working age. In the next 10 years, the number of 15-24 year-old Nigerians is set to increase by more than 12 million. The high number of working-age people relative to those who are too young or old to work can give Nigeria a sizable "demographic dividend". It can drive inclusive growth and poverty reduction (Fox & Gandhi, 2021). Harnessing the potential for such a demographic dividend requires urgent action to invest in human capital and create higher productivity jobs.

Figure 2.2. Nigeria has a young and growing population, providing the country with a sizeable potential demographic dividend



Sources: United Nations and World Bank estimates.

The lack of productive jobs not only constrains inclusive growth and poverty reduction; it also risks squandering the potential of young Nigerians' ambitions and could fuel conflict. Most young Nigerians aspire to work in professions such as accountancy, the civil service, medicine, engineering, and teaching (Lain, et al., 2021). They are also optimistic, with around 8 in 10 15-25 year-olds believing that it is likely or very likely that they will one day attain the dream job to which they aspire. Failing to harness these ambitions and this optimism represents a waste of young Nigerians' potential. Worse still, it could drive frustration and even conflict. Evidence from across Sub-Saharan Africa suggests that people – especially young people – are at higher risk of being drawn into conflict when productive livelihood opportunities are lacking (Cramer, 2010).

Against this backdrop, this spotlight reviews the latest trends in Nigeria's labor market outcomes and considers broad policy directions that could improve the country's prospects for creating productive jobs. The spotlight uses the latest microdata from the Nigeria Labour Force Survey (NLFS) and 2018/19 Nigerian Living Standards Survey (NLSS) to provide a comprehensive picture of the types of jobs that can lift Nigerians out of poverty and the policies that can help create them.

2.2. Employment alone is not enough to lift Nigerians out of poverty

Most working-age Nigerians are employed, but many of them remain poor. Around 75.8 percent of working-age Nigerians are employed, meaning that they work for pay or profit (Figure 2.3)[17]. Similarly, Nigeria's unemployment rate – the share of those in the labor force who are not employed but who are actively searching for and are available for employment – is relatively low at just 4.7 percent. Being employed, however, is no guarantee of being able to escape poverty. Many jobs are not productive and therefore remunerative enough to afford a life beyond poverty[18]. This mix of high employment and high poverty is not unique to Nigeria: a similar situation persists in other countries in Western and Central Africa and in peer countries in other regions (Figure 2.3).

There is relatively little difference in the likelihood that Nigerians from richer and those from poorer households are working. Around two-thirds of working-age Nigerians are working, meaning they engage either in paid employment or subsistence agriculture, regardless of whether they are in the richest or the poorest consumption decile (Figure 2.4)[19]. Moreover, unemployment is, if anything, higher among Nigerians from richer households. Work therefore offers no guarantee of exiting poverty. In the absence of widespread social security, households must engage in some sort of activities to provide them with the income, or directly with food, needed to survive. Only people from richer households can afford to remain openly unemployed for long spells while searching for a job.

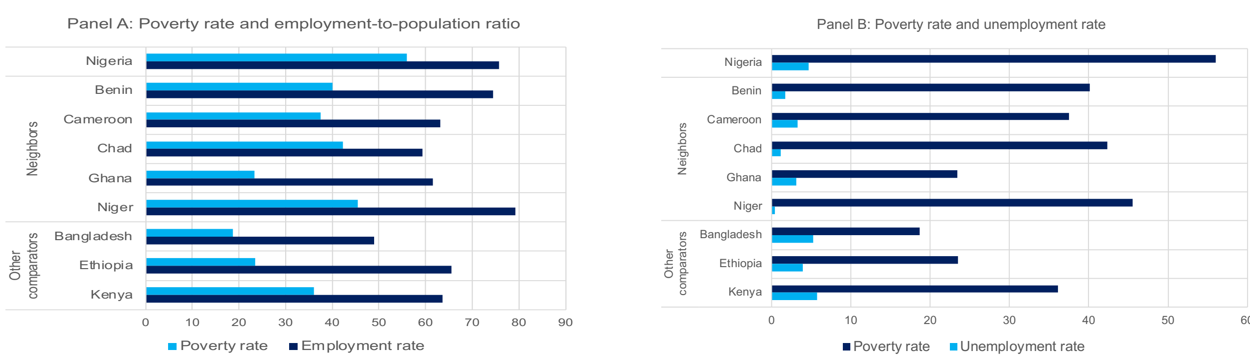
The key question for Nigeria's labor market is therefore not so much whether someone works, but what they do. Characterizing the productive livelihoods that can lift people out of poverty relies on examining detailed information on the types of jobs people do, the occupations and activities in which they engage, and the nature of the establishments in which they work. It is this detailed profile of people's jobs to which the subsequent sections turn.

17 For the NLFS, the working-age population is defined as those aged 15 years or more.

18 Around 12.5 percent of employed Nigerians are also underemployed, in the sense that they work less than 40 hours per week and are willing and able to work more.

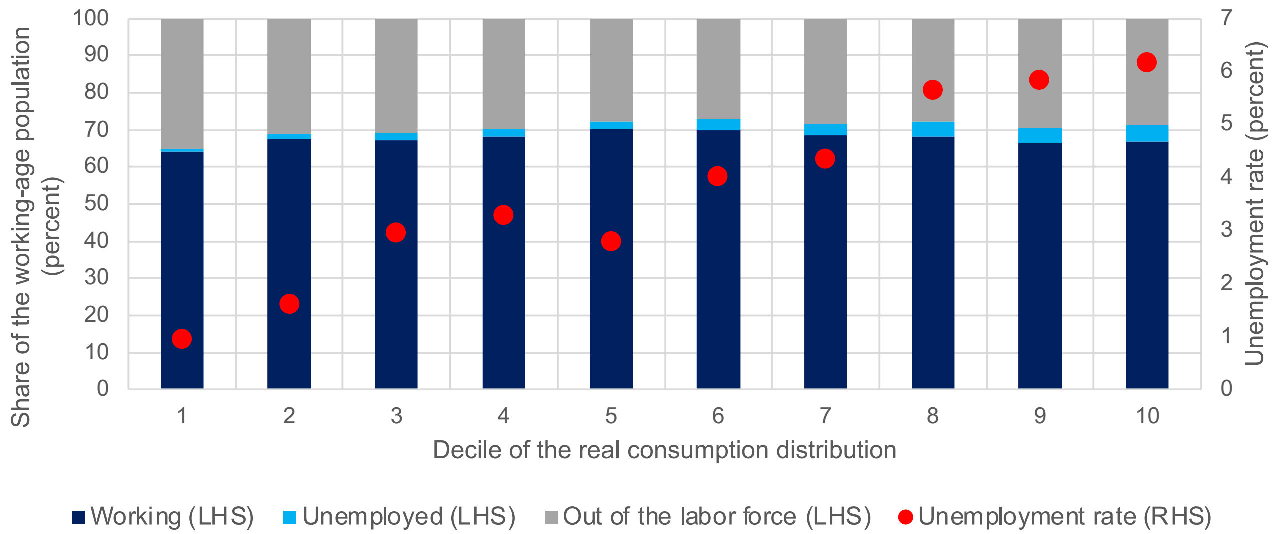
19 The estimated share of people who are working in the 2018/19 NLSS is lower than the estimated share of people who are employed in the NLFS. This may reflect the surveys' different questionnaires and data-collection methods. The analysis in this spotlight focuses on the NLFS, as its approach was specifically designed to gather the most accurate labor market data. In particular, the NLFS was designed to reduce proxy responses, whereby one household member provides responses on behalf of another. Proxy responses can lead to lower estimates for the share of people who are working or employed, because household members may not know about one another's labor market activities.

Figure 2.3. High employment-to-population ratios, low unemployment, and high poverty often coexist



Notes: Poverty rates reported using each country's national poverty line. Employment-to-population ratios and unemployment rates taken from national sources.
Sources: NBS, Poverty and Inequality Platform, ILOSTAT, and World Bank estimates.

Figure 2.4. Work offers no guarantee of escaping poverty



Notes. The share who are working does not distinguish paid employment from unpaid activities like subsistence farming, as the questions in the 2018/19 NLSS were slightly different from the NLFS. Sources: 2018/19 NLSS and World Bank estimates.

2.3. Very few jobs allow workers to exit poverty

Wage jobs allow workers to escape poverty. Among employed people, the share of those who hold wage jobs is around double for those from households in the top 60 percent of the consumption distribution compared to those in the bottom 40 percent (Figure 2.5). This could reflect the fact that obtaining a wage job helps boost household income, but also, those coming from richer households have higher levels of education and human capital, which may help them obtain a wage job in the first place. Either way, wage jobs are at least associated with exiting poverty.

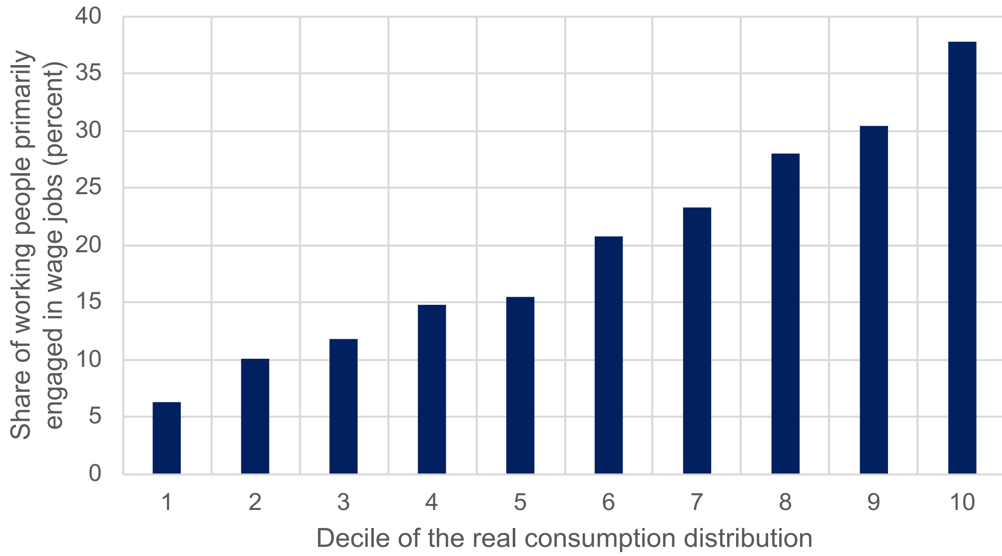
Yet wage jobs are extremely scarce, and even those with higher levels of education have no guarantee of obtaining one. Only around 13.6 percent of employed Nigerians primarily engage in wage jobs (Figure 2.6). Higher education increases the likelihood of holding a wage job, but even among those with post-secondary education, more than half of employed people hold self-employment jobs. Among self-employment jobs, 9 in 10 involve working in one's own farm or non-farm business, with the small remainder primarily engaged in helping a household business or helping a household member who works for someone else.

Wage jobs also lack the non-pecuniary benefits that are often associated with job formality in high-income countries. Only around half of wage workers hold written contracts with their employer. The shares of wage employed Nigerians with employers paying into social security, with annual leave, and with sick leave are just 28.0 percent, 22.6 percent, 20.0 percent respectively.

Wage-employment is highly segmented, with certain types of well-paying wage jobs being concentrated in the public sector. On average, public sector wage jobs pay 66.2 percent more than private sector (or other) wage jobs (Figure 2.7). However, higher-skilled individuals sort disproportionately into the public sector. Overall, around one-third of wage workers hold public-sector jobs, but this share rises to around one-half among those with post-secondary education. As such, considering individual characteristics, such as age, sex, and education, reduces the estimated wage premium for public-sector workers to about 36.5 percent

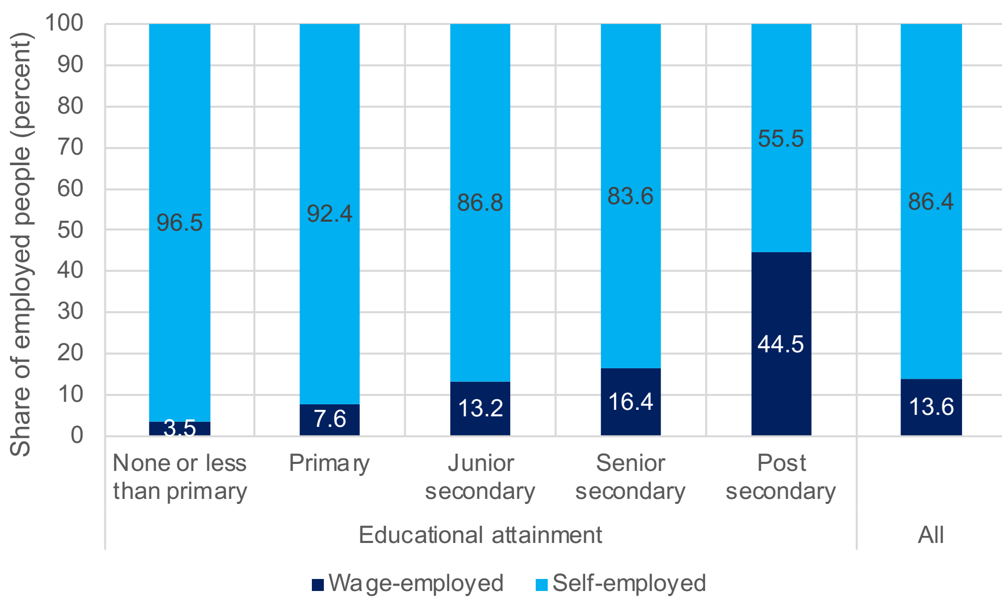
(Annex 1). Yet the fact that a large earnings premium remains even after accounting for these characteristics suggests that there may be unfair barriers to entry to public sector jobs, which could lock out the poor and economically insecure. Moreover, public sector workers may have stronger bargaining power due to (1) collective

Figure 2.5. Wage jobs are associated with exiting poverty



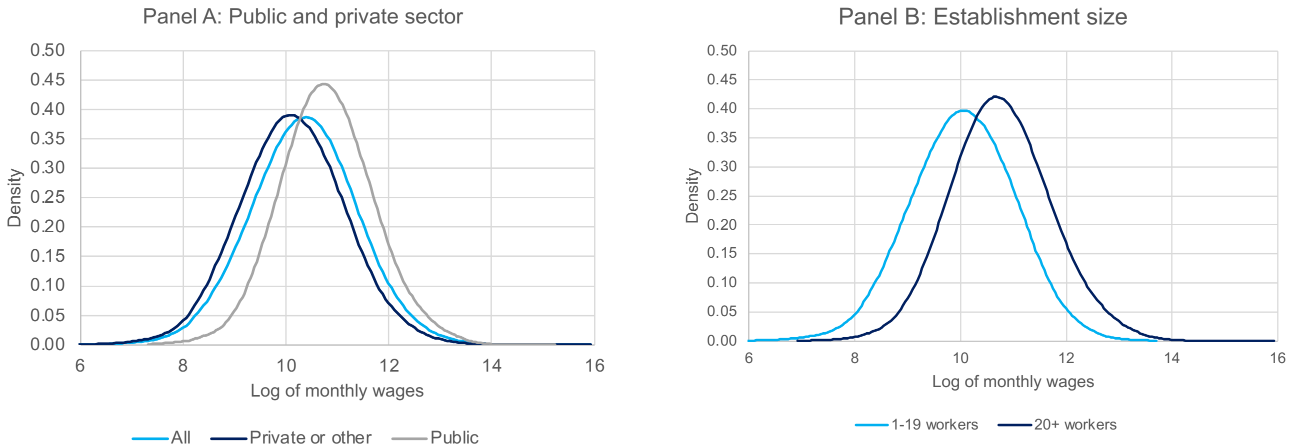
Notes: Sample restricted to employed people aged 15+. Wage employment includes apprentices, in line with ILO guidelines. Sources: 2018/19 NLSS and World Bank estimates.

Figure 2.6. Few employed Nigerians hold wage jobs, and even those with higher levels of education have no guarantees of finding wage work



Notes: Sample restricted to employed people aged 15+. Primary job is the job that the individual spends the most time doing. Wage employment includes apprentices, in line with ILO guidelines. Sources: NLFS and World Bank estimates.

Figure 2.7. Wage jobs in the public sector and in large establishments have the highest earnings



Notes: Sample restricted to wage-employed people aged 15+. Sources: 2018/19 NLSS and World Bank estimates.

bargaining arrangements, (2) their involvement in providing key services whose disruption is politically sensitive, and (3) their direct proximity to policymakers (Abdallah, C; Coady, D; Jirsavetakul, F, 2023).

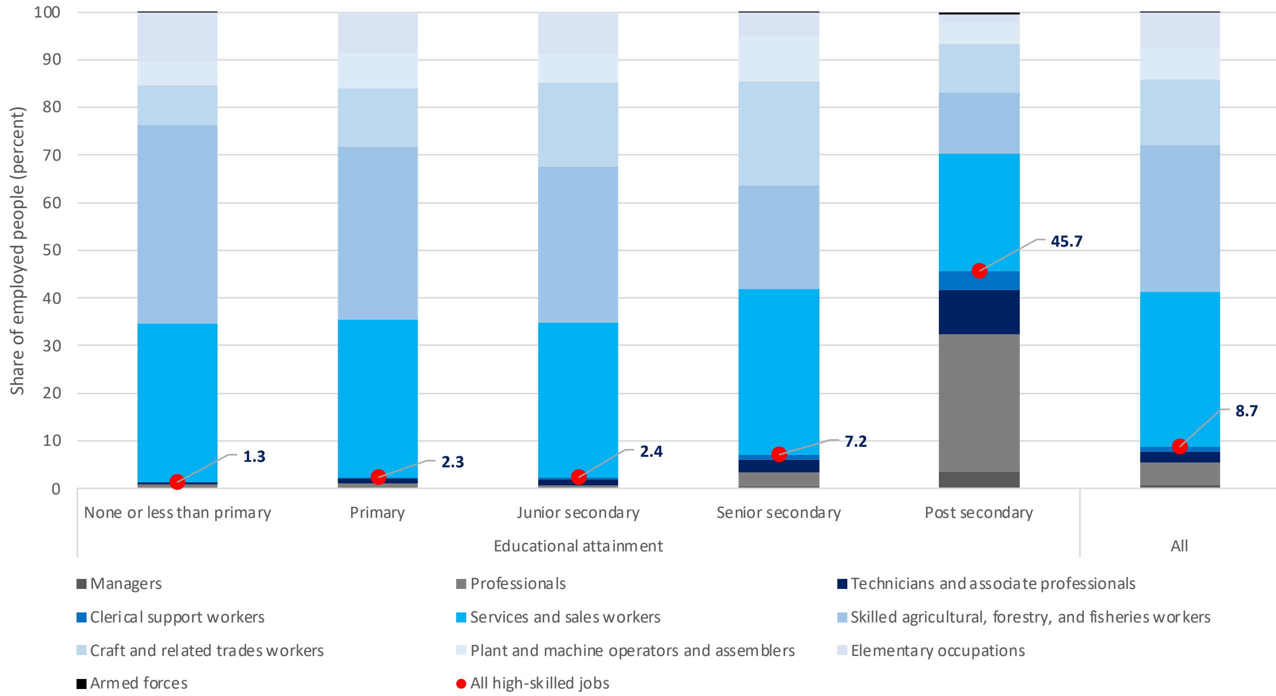
Additionally, wage workers in larger establishments have significantly higher earnings, as larger firms are more productive. Wage-employed Nigerians working in establishments with 20 or more people have 71.0 percent higher earnings than those working in establishments with fewer than 20 people. This difference drops to around 40.9 percent – still a large premium – when taking individual characteristics into account (see Annex 1). Yet most wage jobs in Nigeria are not in large establishments and such jobs are especially hard to obtain for those with lower education levels: among wage workers, around 21.5 percent of those with primary education (or lower) work in establishments with 20 or more people, but this rises to 35.8 percent of those with secondary education and 60.1 percent of those with post-secondary education[20].

Non-farm household enterprises are typically very small and struggle to grow, as self-employed Nigerians face constraints in trying to expand their productivity and increase earnings. More than 8 in 10 non-farm enterprises only employ labor from inside the household. Employing people from outside the household is therefore rare. Constraints on enterprise growth could also limit both the number and the productivity of wage jobs. Firm survival and firm growth are challenges that start with the very smallest household enterprises.

While more education helps Nigerians gain high-skilled jobs, these jobs are relatively rare even for those with secondary or post-secondary education. Just 8.7 percent of employed Nigerians hold high-skilled jobs: these are the jobs that use skills associated with secondary education and beyond (Figure 2.8). Even among employed Nigerians with post-secondary education, the majority do not hold high-skilled jobs. For Nigerians with secondary education, only 7.2 percent workers hold high-skilled jobs. While a mismatch of skills or opportunities can contribute to the difficulty of obtaining high-skilled jobs, an insufficient number of such jobs clearly contributes to it as well.

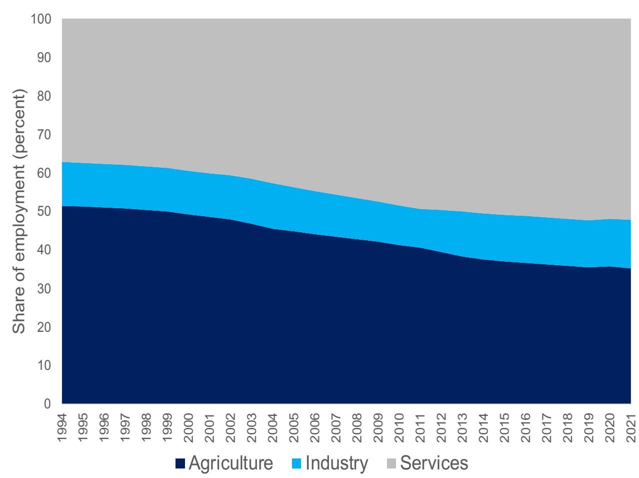
20 As evidence from across Western and Central Africa shows, the scarcity of jobs in large establishments in not unique to Nigeria. For example, Davies and Kerr (2018) document the challenges that firms face in surviving and growing in Ghana.

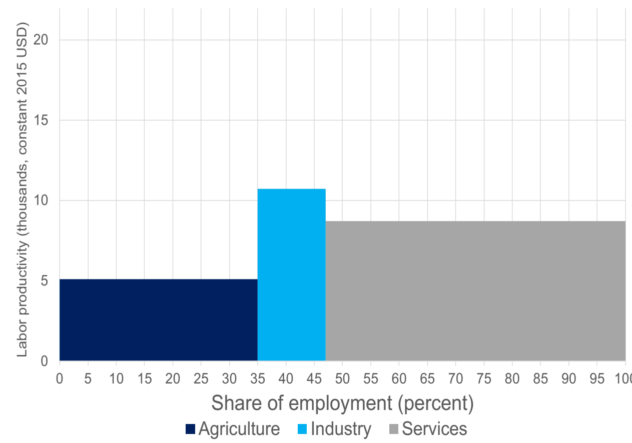
Figure 2.8. While more education helps Nigerians obtain jobs that use high skills, such jobs are rare even for those with secondary and post-secondary education



Notes: Sample restricted to people aged 15+ who are employed and who report their occupation. Primary job is the job that the individual spends the most time doing. Managers, professionals, technicians and associate professionals, and clerical support workers are the only occupations that guarantee using skill levels 2, 3, and 4, which are the skill levels associated with secondary education or higher. Skill levels not possible to assign for services and sales workers, skilled agricultural, forestry, and fisheries workers, craft and related trades workers, and plant and machine operators and assemblers. See annex for further details. Sources: NLFS and World Bank estimates.

Figure 2.9. Employment in Nigeria has shifted from agriculture to services in the last two decades, a sector in which productivity is higher overall…





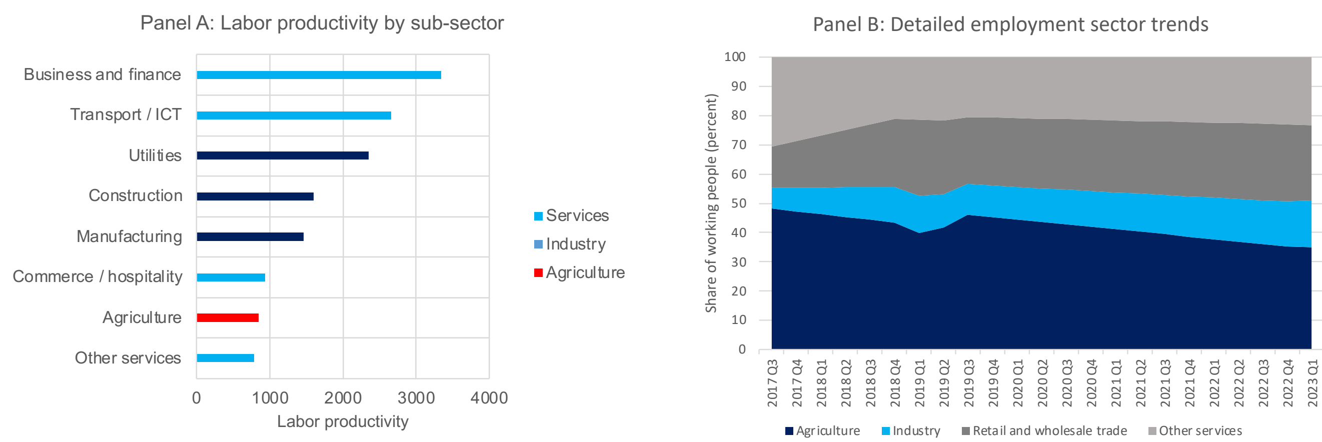
Sources: WDIs and World Bank estimates.

2.4 Nigeria's labor market is changing as work shifts from agriculture to services, but this is not raising productivity and earnings

Notwithstanding the persistent low quality of jobs in Nigeria, the labor market is in flux, with employment shifting dramatically from agriculture to services in the last two decades. The share of Nigerian workers engaged in agriculture dropped from about half in 2000 to just over a third by 2021 (Figure 2.9). Services now comprise more than half of Nigeria's jobs. This echoes the overall shifts in economic activity from agriculture to services.

Even with the influx of workers, services are more productive than agriculture, but the shift towards services has not increased living standards; this is partly because some of the specific types of service-sector jobs to which Nigerians are moving have relatively low productivity, especially those in retail and wholesale trade. Labor productivity remains more than two-thirds higher in services than in agriculture in Nigeria, even though the increased labor supply to the sector would be expected to exert downward pressure on earnings. Yet Nigeria's service sector is highly heterogeneous. Some sub-sectors within services have labor productivity levels that are close to, or even less, than agriculture. Among these is commerce/hospitality, which includes retail and wholesale trade jobs (Figure 2.10). Many of Nigeria's new service-sector jobs are in retail and wholesale trade. This means the productivity gains of employment shifting from agriculture to services are not guaranteed for all workers and could explain why there has been no accompanying increase in living standards.

Figure 2.10. … but many of Nigeria's new service-sector jobs are in sub-sectors with lower productivity, including retail and wholesale trade

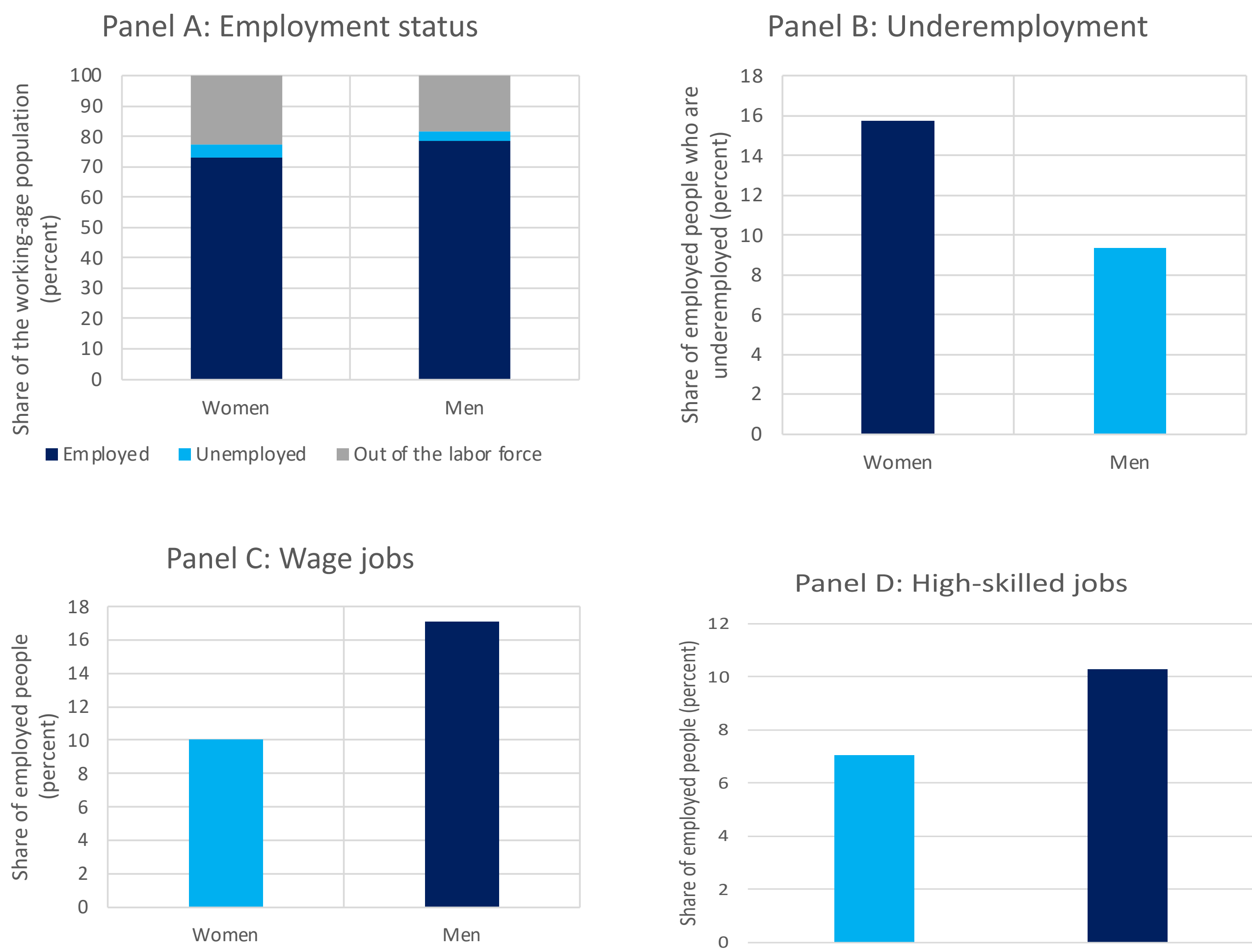


Notes: Panel A estimates adapted from Nigeria Country Economic Memorandum 2022. Commerce/hospitality includes retail and wholesale trade. Mining and extractives are excluded to improve readability. ICT = Information and Communication technology. Sources: ILO, NBS (for Panel A), NBS 2017 Q3 Unemployment Report, 2018/19 NLSS, and 2023 Q3 NLFS (onwards) (for Panel B), and World Bank estimates.

2.5. Accessing productive jobs is even harder for Nigeria's women and young people

Unequal labor market opportunities for women and men constrain inclusive growth and poverty reduction. Lower labor market engagement from women may cause Nigeria to miss out on a large part of its demographic dividend and misallocate its resources. Barriers to entry into the labor market or into certain

Figure 2.11. Gender differences persist in terms of employment and job quality



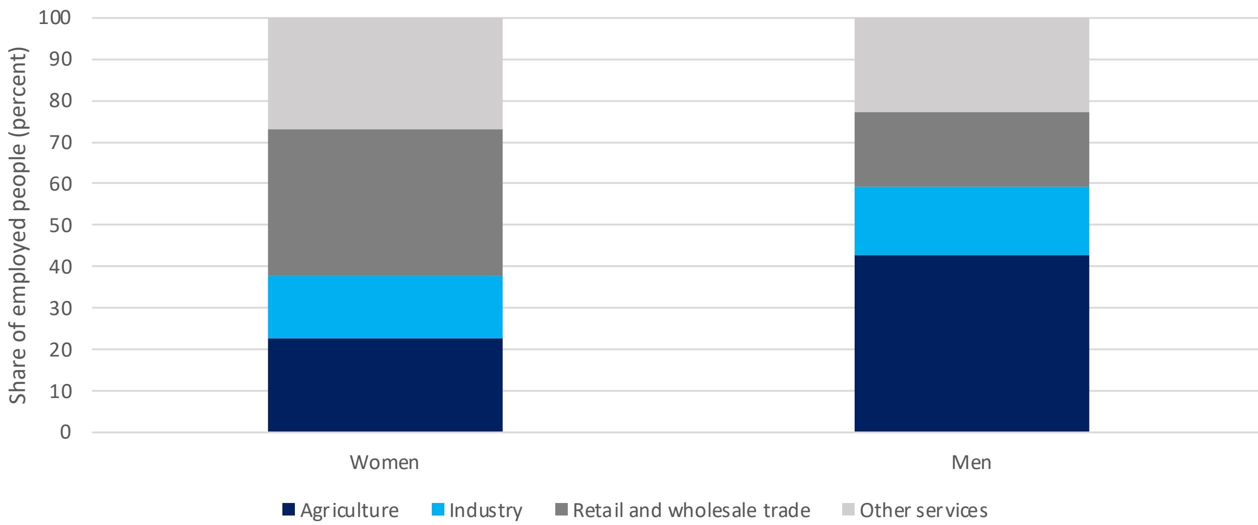
Notes: Primary job is the job that the individual spends the most time doing. For Panel C, underemployment means the share of employed people who work less than 40 hours per week, but who are willing and able to work more. For Panel D, managers, professionals, technicians and associate professionals, and clerical support workers are the only occupations that guarantee using skill levels 2, 3, and 4, which are the skill levels associated with secondary education or higher. Skill levels not possible to assign for services and sales workers, skilled agricultural, forestry, and fisheries workers, craft and related trades workers, and plant and machine operators and assemblers.
Sources: NLFS and World Bank estimates.

jobs prevent women from engaging in those activities which best match their skills and which would fully harness their productive potential (Cuberes & Teignier, 2016; Georgieva, Sayeh, & Sahay, 2022). Removing such labor market barriers to women today can also promote further investment in human capital, shaping the outcomes of future generations (Muller & Casabonne, 2020).

Women are less likely to be employed than men in Nigeria, and those that are employed work in jobs that are less likely to lift them out of poverty. In particular, employed Nigerian women are more likely to be underemployed than employed Nigerian men, in the sense that they work less than 40 hours per week, but are willing and able to work more (Figure 2.11). Moreover, they are less likely to hold wage jobs and jobs that utilize higher skill levels.

A sizeable share of women's jobs is in retail and wholesale trade and other services. The share of employed Nigerian women working in retail

Figure 2.12. Employed women disproportionately engage in retail and wholesale trade activities



Sources: NLFS and World Bank estimates.

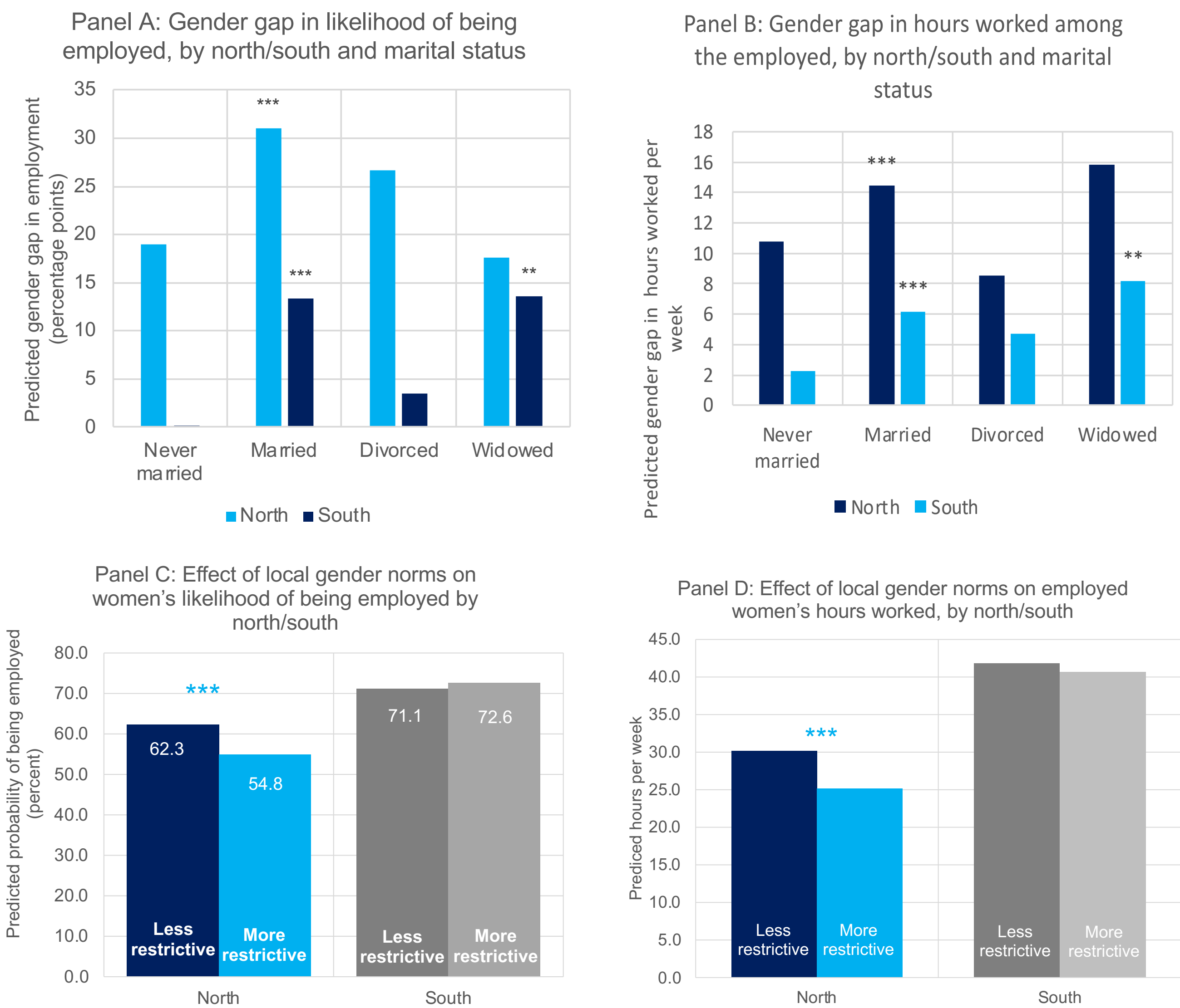
and wholesale trade is around double the share of employed Nigerian men (Figure 2.12). Women are therefore disproportionately engaged in a sector where employment has been growing, but without gains in productivity and earnings. This implies that policies are needed to either improve productivity in retail and wholesale trade jobs or to help open up jobs to women in other sub-sectors with higher productivity.

Women's labor market outcomes are associated with family formation and gender norms, especially in Nigeria's northern states. The employment gap between working-age women and men is strongly associated with marriage, a proxy for family formation (Figure 2.13). Family formation is also significantly associated with a larger gender gap in the number of hours worked. Once caring for children and household chores are taken into account women in both the north and the south of Nigeria work more hours than men, revealing how unpaid care work constrains women's available time in the labor market (Figure 2.14)[21]. In northern Nigeria, overall employment as well as hours worked are correlated with proxies for local restrictive gender norms. This underlines the additional constraints women face in accessing higher paying jobs.

Young people have more difficulties accessing higher-skill jobs; this warrants special attention given the investments made in their human capital. The share of Nigerians who have attained primary, secondary, or post-secondary education is 7.8 percentage points higher among those aged less than 30 years compared to those aged 30 or more (World Bank, 2024). The literacy rate is also significantly higher for younger Nigerians. This suggests that the average skill levels of new labor market entrants may be improving. However, most young people are not currently finding jobs that harness their higher educational attainment. Young people are less likely to be employed than the non-youth overall, although this mainly reflects the fact that many of them are still in full-time education (Figure 2.16). However, those young people that do gain jobs are more likely to be underemployed and they are much more likely to work in jobs that do not use higher skill levels. This directly limits the returns to the time and resources spent on their education.

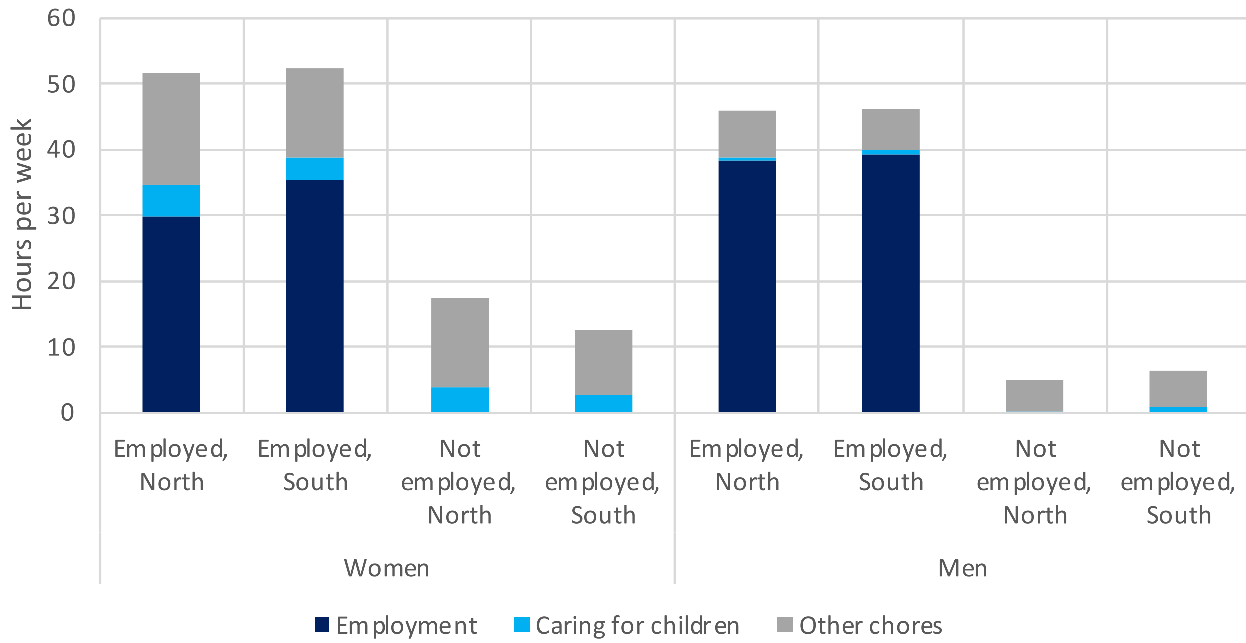
21 This finding emerges from a time-use module implemented in the post-planting visit of Nigeria's 2018/19 General Household Survey.

Figure 2.13. Family formation and restrictive gender norms worsen gender gaps in labor market engagement, especially in northern Nigeria



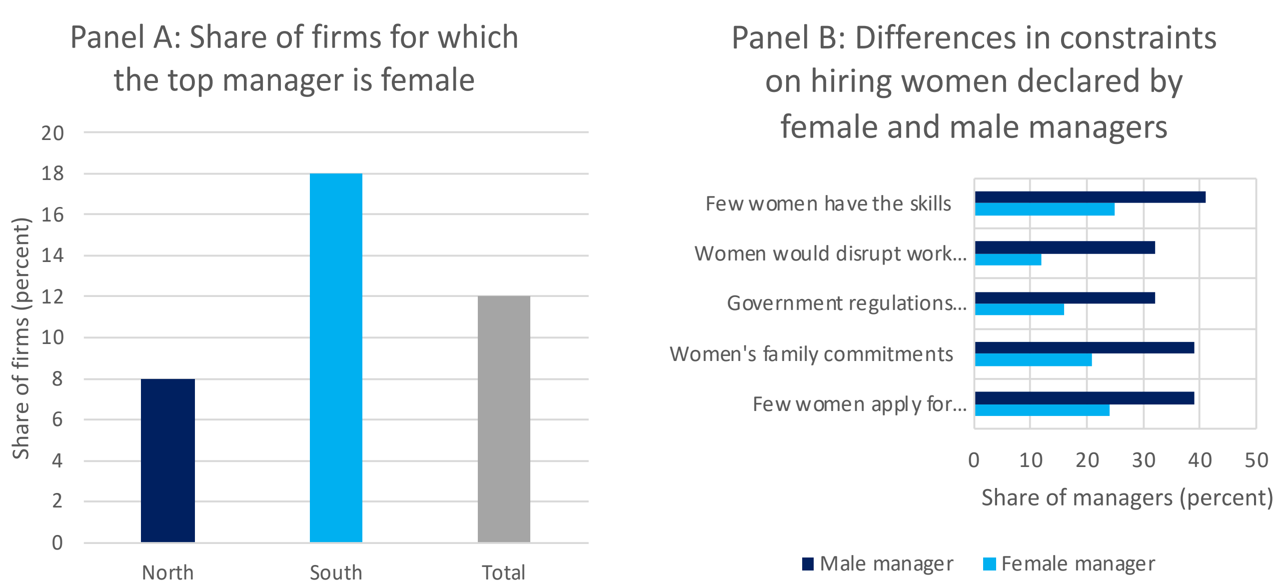
Notes: Stars show statistical significance level for the gender gap: * p<0.10, ** p<0.05, *** p<0.01. In Panels A and B, never married is the reference category. In Panel C, the proxy for gender norms is the share of women in the LGA for whom it is a problem getting permission to go to the doctor. In Panel D, the proxy for gender norms is the share of households in the LGA in which only the husband decides over large purchases. Control variables included in the regressions include age, marital status, number of children under six years old, education level and, LGA-level norms (decision-making on large purchases, asking permission to go to the doctor). Sources: 2018/19 NLSS and World Bank estimates.

Figure 2.14. Women work more hours than men, once caring for children and household chores are considered



Sources: 2018/19 General Household Survey and World Bank estimates.

Figure 2.15. Women are less likely to manage Nigeria's firms, while male and female managers declare different constraints on hiring women

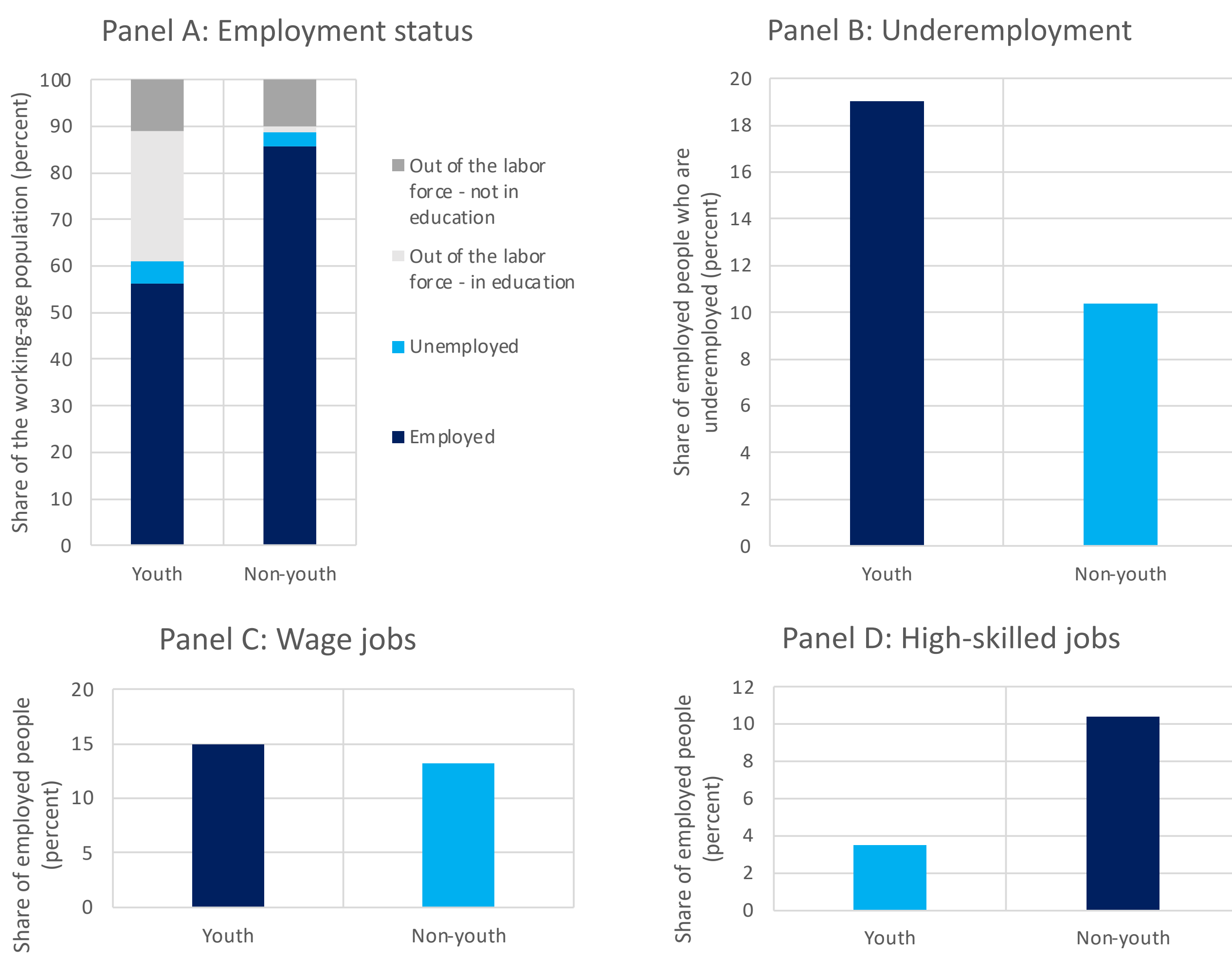


Sources: 2014 Nigeria Enterprise Survey and World Bank estimates.

2.6. Short- and long-run strategies can help Nigeria's labor market to drive poverty reduction

Productive job creation – the cornerstone of sustainably reducing poverty – will depend on fostering macro-fiscal stability, accelerating growth, and improving the environment for private sector development. Wage jobs, especially those in large establishments, offer workers the best chance of escaping poverty. Yet they remain rare in Nigeria; urgent action is needed to help create them. Wage job creation depends on growth, so the macro-fiscal reforms described in Part 1 provide critical foundations. Boosting market access, increasing openness to trade, and promoting a better business environment, could help firms grow and increase their job-creation potential – this can help make sure growth is job-rich. To do this, Nigeria can better leverage its large internal market by reducing transport barriers, including through investing in new infrastructure and

Figure 2.16. Many young Nigerians do not find the jobs that harness their human capital investments



Notes: Youth means those aged 15-24 years. Non-youth means those aged 25+. Primary job is the job that the individual spends the most time doing. For Panel C, underemployment means the share of employed people who work less than 40 hours per week but who are willing and able to work more. For Panel D, managers, professionals, technicians and associate professionals, and clerical support workers are the only occupations that guarantee using skill levels 2, 3, and 4, which are the skill levels associated with secondary education or higher. Skill levels not possible to assign for services and sales workers, skilled agricultural, forestry, and fisheries workers, craft and related trades workers, and plant and machine operators and assemblers. Sources: NLFS and World Bank estimates.

eliminating informal trade costs. Basic infrastructure – such as an uninterrupted electricity supply – constitutes a critical input for many firms. International trade is also essential for increasing the size of the market for export goods and helping domestic firms to import inputs, while also imposing competitive discipline to drive up productivity and earnings. Working towards competitive neutrality – meaning that no firms should have undue advantages from who owns or controls them – and fostering a more conducive business environment could support better allocation of resources in the Nigerian economy and attract more foreign direct investment.

On the labor supply side, Nigeria can hone the skills required for the productive jobs. Despite the significant investment in human capital, Nigeria still has a long way to go to equip workers with the skills they need for productive jobs and to boost the skills needed to establish, maintain, and grow firms. Given their health and education outcomes, a child born in Nigeria in 2020 will only achieve 36 percent of the productivity he or she could have attained with full health and education, meaning Nigeria had among the lowest human capital levels in the world[22]. At the same time, many Nigerians who have achieved higher levels of education are not working in jobs utilizing commensurate skill levels. As sectoral shifts advance and other trends – including digitalization – progress, tracking Nigeria's changing skills needs will be vital. Given the depth of its new and improved labor force survey, Nigeria could consider putting in place a formal skills monitoring system to help guide policies around basic education, vocational training, and migration[23].

Short- and medium-run policies to boost productivity in farm and non-farm household enterprises would provide relief while higher-paying jobs are not available and could even support some to succeed and grow. Even if the reforms outlined above eventually help wage jobs proliferate, "informal will be normal" in Nigeria for years or decades in the future (Fox & Gandhi, 2021). Raising productivity in farm and non-farm enterprises could increase earnings for their owners, lifting them out of poverty, as well as potentially allowing them to grow and employ others outside of the household. While agriculture represents a declining share of jobs in Nigeria, it remains a crucial income-generating activity for the poor and economically insecure. Therefore, policies to promote farm productivity and commercialization – including new and more climate-resilient crop varieties and investments in storage, transport, and market access – will be vital (Oseni & Winters, 2009; FAO, 2018; Beegle & Christiaensen, 2019; Ecker & Hatzenbuehler, 2021). Similarly, non-farm household enterprises would benefit from policies that make it easier to acquire key inputs including through improved access to finance, build the infrastructure on which small businesses rely, and foster output market access. This echoes many of the reforms to the business environment that help medium and large firms create wage jobs.

Policy initiatives that cover only highly-formalized wage jobs – including policies focused on public sector workers and minimum wage legislation – may not reach many of Nigeria's poorest workers directly. While increasing the demand for wage workers is a key policy priority, the vast majority of employed Nigerians – especially from poorer households – do not currently hold such jobs. This limits the direct effects that policies focusing on subsets of wage workers can have on poverty. In particular, public sector wage jobs are not only rare and disproportionately occupied by comparatively better off Nigerians; they also pay significantly more than private sector and other types of wage jobs, even after taking individual characteristics into account, suggesting there are additional barriers to entry into public sector jobs, which may lock out the poor and economically insecure. Similarly, minimum wage legislation may not directly reach the poorest workers because they do not

22 This finding emerges from the 2020 Human Capital Index (HCI), which is based on a range of markers of health and education including infant mortality, expected years of schooling, sand stunting (World Bank, 2020). Only six countries had lower HCI scores than Nigeria globally in 2020.

23 The creation of a "Critical Occupations List" for Indonesia provides a helpful example of skills monitoring initiatives (World Bank, 2020).

hold wage jobs and around a third of private sector wage earners receive less than minimum wage anyway, demonstrating that enforcement is imperfect. Raising minimum wages and public sector pay could also be fiscally costly.

Therefore, policy initiatives could focus directly on poor, economically insecure, and excluded workers, who would benefit from specific policies to improve their labor market outcomes; this includes improving labor market opportunities for women. Gender-sensitive policies have the potential to work towards closing the gap between women's and men's labor market outcomes. Such polices could focus on: (1) keeping girls in school, which delays marriage and childbearing and hence helps increase scope for women's economic participation; (2) improving the provision of childcare; and (3) relaxing or overcoming restrictive gender norms that limit women's labor market participation through economic empowerment interventions combined with couples' trainings or community sensitization, or correcting misperceptions around women's labor market participation.

Likewise, finding employment solutions that cater to Nigeria's large and growing youth population is an urgent policy priority; this means (1) supporting skills and job matching, (2) managing external migration, and (3) providing fallback employment. First, skills programs need to be better linked with labor demand and supported by an efficient job matching system. In the current context where job opportunities are scarce, it is critical to ensure that the right people are matched for the right kind of jobs, and that the youth invest in those skills that will provide an economic return. The increasing global (and domestic) demand for digital skills can be one such area. Second, Nigeria needs to invest in facilitating migration and developing managed migration systems. While Nigeria's demographics are youthful, many developed economies are rapidly aging and need workers. Nigeria can capitalize on this by proactively facilitating migration to those destinations, especially in occupations where skills shortages in aging economies are more severe – including in care and related services. Investing in skills development systems that strategically cater to labor markets abroad and developing a strong migration system to manage regular migration presents a major opportunity. Third, it is equally important to provide fallback or transitional opportunities – including by ensuring that public investments consider job creation potential – for those young people that do not have better employment opportunities.

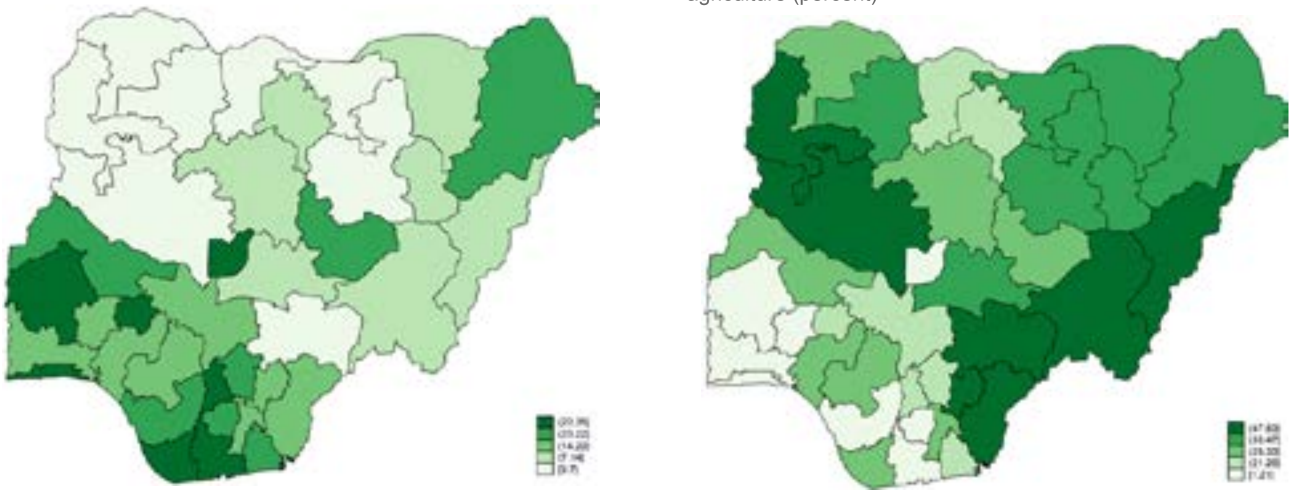
State-specific policy initiatives can provide opportunities to trial smaller and more manageable programs before nation-wide rollouts. Labor market outcomes are highly heterogeneous across Nigeria. For example, wage-employment is generally more common in the country's southern states, while a larger share of employed Nigerians primarily engage in agriculture in the northern states (Figure 2.17). Hence, specific policies and the way they are targeted could be approached differently across states. Given the scale of Nigeria's labor market challenges, working at the state level may also provide an opportunity to try out initiatives before they are implemented across the country. All of Nigeria's labor market challenges cannot be addressed instantaneously, but breaking the problem down into more "bitesize" pieces could offer policymakers a springboard to try, evaluate, and potentially scale up interventions.

Given the wide range of policies that can bolster Nigeria's labor market outcomes, continued investment in the country's labor market data will remain essential. The policy insights in this spotlight – which are summarized in Table 2.1Table 2.1 – rely on Nigeria's new and improved labor force survey, the NLFS, which was relaunched with a methodology that matches international best practices at the end of 2022. Maintaining this momentum on data collection will be crucial for making sure new policies are informed by evidence and give the poorest Nigerians the labor market opportunities they need to escape poverty.

Figure 2.17. Nigeria's labor market outcomes differ widely across the country's states

Panel A: Share of employed Nigerians holding wage jobs (percent)

Panel B: Share of employed Nigerians engaged primarily in agriculture (percent)



Notes: Sample restricted to employed people aged 15+. Sources: NLFS and World Bank estimates.

Table 2.1 Summary of policies to help create productive jobs for poverty reduction

Strategies to create productive wage jobs and build the right skills

- Maintain momentum on reforms to foster macro-fiscal stability and accelerate growth (see Part 1)
- Leverage Nigeria's large internal market by investing in infrastructure and eliminating informal trade costs
- Reinforce provision of the basic infrastructure needed by firms to survive and grow, including uninterrupted electricity
- Reduce barriers to international trade to promote exports
- Work towards competitive neutrality, meaning that no firms should have undue advantages from who owns or controls them
- Foster a more conducive business environment
- Continue investing in human capital
- Track the economy's skills needs, as sectoral shifts and other trends - including digitalization - progress

Solutions to boost productivity in farm and non-farm household enterprises

For farms:

- Promote more climate-resilient crop varieties
- Invest in storage and transportation
- Support access to output markets

For non-farm household enterprises:

- Ensure enterprises can access key inputs, including through better access to finance
- Bolster basic infrastructure
- (As with farms) support access to output markets

Tailored policies for poor, economically insecure, and excluded workers, including women and young people

For women:

- Help girls stay in school
- Improve provision of childcare
- Overcome restrictive gender norms through economic empowerment interventions and trainings/community sensitization

For young people:

- Support skills development and job matching
- Manage external migration, including by helping young emigrants reach destination countries that need their skills
- Provide fallback employment – including by ensuring that public investments consider job creation potential – to help improve access to productive jobs

Trial interventions at the state level before scaling up

Plus: keep investing in labor market data to track progress and hone policies

Sources: World Bank.

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Annex 1. Earnings regressions among the wage employed

Regression of earnings on establishment and individual characteristics among wage-employed workers

	Public sector		Establishment size		Public sector and establishment size	
	No controls	With controls	No controls	With controls	No controls	With controls
Public sector	0.6623***	0.3648***			0.3823***	0.2144***
	(0.0309)	(0.0303)			(0.0364)	(0.0362)
Establishment size of 20+			0.7098***	0.4087***	0.5243***	0.3302***
			(0.0309)	(0.0249)	(0.0350)	(0.0291)
Controls?	N	Y	N	Y	N	Y
N	5765	5765	5559	5559	5559	5559
R-squared	0.1158	0.3617	0.1475	0.3745	0.1759	0.3817

Notes: Sample restricted to wage-employed people aged 15+. Dependent variable is log of earnings in the primary job. The top 1 percent of log earnings are winsorized to reduce the influence of outliers, but this does not substantially alter the results. Standard errors are clustered at the enumeration area level and are in parentheses. Some respondents did not know the size of their establishment, which explains the lower sample size in those regressions. * p<0.10, ** p<0.05, *** p<0.01. Sources: 2018/19 NLSS and World Bank estimates.

Annex 2. Nigeria - Key Economic Indicators

	2020	2021	2022	2023	2024f	2025f	2026f	2027f
Real economy								
GDP (current LCU, billions)	154,252	176,076	202,365	234,426	286,733	341,346	395,047	447,527
GDP per capita, PPP (constant 2021)	5,558	5,624	5,670	5,695	..	..	..	..
Real GDP per capita (change, percent)	-4.4	1.0	0.7	0.3	0.7	0.9	1.1	1.2
Real GDP (change, percent)	-1.8	3.6	3.3	2.9	3.3	3.5	3.7	3.8
Agriculture	2.2	2.1	1.9	1.1	1.5	1.9	2.2	2.4
Industries	-5.8	-0.5	-4.6	0.7	0.9	2.5	2.7	3.1
Industry - oil	-8.9	-8.3	-19.2	-2.2	1.0	5.6	5.2	3.8
Industry - non-oil	-3.9	4.4	3.3	2.0	0.8	1.3	1.7	2.8
Services	-2.2	5.6	6.7	4.2	4.9	4.4	4.5	4.5
Prices								
GDP deflator (percent)	7.8	10.1	11.3	12.6	18.4	15.0	11.6	9.1
CPI inflation (average, percent)	13.2	17.0	18.8	24.7	31.7	23.5	18.1	14.3
Oil price (Bonny light, US$/bbl)	42.0	65.5	104.6	85.2	85.8	79.8	76.7	73.6
Exchange rate (average, N/$)	382.2	410.3	428.2	644.7	..	..	..	..
Selected monetary indicators	**Percent of GDP**							
Broad money (percent; end of period)	24.5	25.2	25.6	33.6	..	..	..	..
Bank credit to private sector	19.4	19.8	20.6	26.7	..	..	..	..
Bank credit to the government	7.5	7.9	12.2	14.3	..	..	..	..
Fiscal accounts	**Percent of GDP**							
Revenues	6.7	6.7	6.8	7.6	10.5	10.3	11.2	11.4
Expenditures	11.9	13.2	11.4	12.9	14.8	14.8	14.9	15.0
Primary fiscal balance	-2.9	-3.9	-1.6	-1.8	-0.3	-0.6	-0.2	-0.2
Overall fiscal balance	-5.2	-6.6	-4.6	-5.3	-4.3	-4.5	-3.7	-3.6
Public debt	36.1	38.8	40.3	49.1	51.1	49.9	48.6	48.4
External debt	8.2	9.9	9.3	16.3	26.1	25.4	25.8	26.1
Domestic debt	27.8	29.0	31.0	32.8	25.1	24.5	22.8	22.3
Balance of payments	Percent of GDP, unless otherwise stated							
Current account balance	-4.0	-0.8	0.7	1.7	4.5	3.6	3.0	2.8
Trade balance	-8.0	-3.9	-1.7	-1.4	-1.7	-1.6	-1.5	-1.3
Exports of goods and services	9.9	11.8	14.6	16.6	30.3	26.3	23.2	21.3
Imports of goods and services	-17.9	-15.7	-16.3	-18.0	-32.0	-27.9	-24.7	-22.5
Primary income	-1.2	-2.0	-2.2	-3.0	-5.4	-4.5	-3.9	-3.4
Secondary income	5.2	5.1	4.6	6.1	11.6	9.7	8.3	7.4
Net foreign direct investment	0.2	1.2	-0.1	0.6	1.2	1.2	1.0	1.0
Net foreign portfolio investment	-0.9	1.3	0.8	1.8	4.8	4.2	3.7	3.3
Gross reserves (million US$, eop)	35,492	41,181	37,194	32,912	..	..	..	..
Gross reserves (months of imports)	5.9	7.3	5.8	6.0	..	..	..	..

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

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The View
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 simply touches on the story of success, someone finding love.

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.