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NIGERIA DEVELOPMENT UPDATE | DECEMBER 2023

Turning the corner: From reforms & renewed hope, to results

Nigeria Development Update
December 2023

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

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Abbreviations and Acronyms

BOF	Budget Office of the Federation
mbpd	Million barrels per day
CBN	Central Bank of Nigeria
CIT	Corporate Income Tax
COMTRADE	Commodity Trade Statistics Database
DMO	Debt Management Office
EMDEs	Emerging Markets and Developing Economies
FDI	Foreign Direct Investment
FGN	Federal Government
FPI	Foreign Portfolio Investment
FX	Foreign Exchange
GDP	Gross Domestic Product
MPR	Monetary Policy Rate
N	Nigerian Naira
NAFEX	Nigeria Autonomous FX Fixing
NAFEM	Nigeria Foreign Exchange Market
NBS	National Bureau of Statistics
NDU	Nigeria Development Update
NLSS	Nigerian Living Standard Survey
OAGF	Office of the Accountant General of the Federation
OMO	Open Market Operation
PMS	Premium Motor Spirit
US	United States
VAT	Value Added Tax
yoy	Year-on-year

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Overview

Continuing on the difficult reform path is necessary to improve Nigeria's growth prospects and reduce poverty

Important reform decisions have been taken for Nigeria to avoid a fiscal cliff, and temporary compensation is being provided to help the poorest and most vulnerable households

In May and June 2023, the incoming administration undertook two critical policy decisions, which have resulted in price and exchange rate adjustments in the second half of the year. While the reforms were essential for Nigeria to avoid a fiscal cliff and enable faster growth, they have brought difficult economic adjustments. When the previous edition of the Nigeria Development Update (NDU) was published at the end of June, major policy changes had just been announced by the new government, including ending the gasoline (premium motor spirit, PMS) subsidy, and shifting to a unified, market-reflective foreign exchange (FX) rate. Since May, retail gasoline prices have increased by an average of 163 percent and the Nigerian naira (N) has depreciated against the US dollar by 41 percent in the official market and by 30 percent in the parallel market. The sharply higher price of gasoline and other imported goods has contributed to inflation, which increased from already elevated levels to 27.3 percent year-on-year (yoy) in October.

Targeted cash transfers are helping to cushion the adjustment to higher gasoline prices. Recognizing the need to help especially poor and vulnerable households to cope with the shock of one-off price adjustments, on October 17 the Government announced that it would roll out cash transfers of N25,000 (about US$32) per month to 15 million recipients and their families (directly benefiting over 67 million Nigerians) for three months. The total costs of these transfers to provide relief to Nigeria's most poor and vulnerable are similar to what Nigeria was previously spending every three months on the subsidy. Previously, the unsustainable spending on the subsidy was fueling economic imbalances (especially, fiscal deficit monetization and rising inflation) that were worsening poverty outcomes and pushing Nigeria toward a full-blown crisis.

The Government is making progress on implementing the announced reforms

On FX policy, progress has been made on implementing the policy for a unified, transparent, and flexible exchange rate. On October 12, the Central Bank of Nigeria (CBN) reaffirmed that it was committed to achieving a flexible exchange rate based on freely priced transactions between willing buyers and willing sellers in the official market (renamed the Nigeria Foreign Exchange Market, NAFEM). Also on October 12, the CBN lifted the ban on the use of FX to import 43 product categories. The end of the ban—which was first imposed in 2015—is an important step to removing policy-induced segmentation in the FX market distortions, while having the pro-poor effect of reducing the prices of basic goods (see Part 2 for a closer look). Finally, the CBN has begun to clear the backlog of overdue forward obligations that had accumulated under the previous foreign exchange management approach.

Monetary policy has begun to tighten. On October 27, the CBN lifted the cap on banks' use of its Standing Deposit Facility (SDF) (currently at the Monetary Policy Rate [MPR] minus 300 basis points [bp]), which was previously set at N2 billion per bank. This strengthens monetary policy transmission by allowing the bottom of the MPR corridor to anchor short-term market rates, since it provides banks with a remunerated option to place excess liquidity. On October 30, the CBN conducted large open market operations (OMOs), mopping up N400 billion in liquidity at relatively high clearing yields, including 17.5 percent for one-year

T-bills. Market interest rates have also risen sharply. For example, the one-year interbank T-bill fixing surged to 19 percent on November 13, up from about 10 percent before the OMOs.

On fiscal policy, budget planning for the next several years is consistent with sustaining the fiscal savings from the subsidy reform and mobilizing more revenues. The Federal Executive Council approved the medium-term expenditure framework (MTEF) and Fiscal Strategy Paper on October 16, which anticipate a rise in non-oil revenues in the medium term due to several tax policy measures, and plan no financing for gasoline subsidies for 2024–2026. In addition, a supplemental budget for 2023 was signed into law on November 8, increasing spending[1] and raising the debt issuance ceiling by N2.2 trillion (about US$2.8 billion, or 0.9 percent of GDP). This included N400 billion for the cash transfers.

However, the reforms are yet to be completed to fully realize the economic benefits

The FX market has remained volatile and is still in a period of continuing adjustment to the new policy approach. Following the announcement to merge all the official FX windows and reaffirmation of the willing-buyer-willing-seller (WBWS) mechanism at the official FX rate, there have been significant fluctuations in the exchange rate, in both the official and parallel markets. While the parallel market premium fell significantly in July 2023 following the announcement to merge FX windows, it re-emerged in August 2023 and, in October, even briefly rose to pre-June levels. The premium changes significantly on a daily basis, as the official exchange rate has fluctuated up to 26 percent in one day and the parallel market rate has also been volatile.

Revenue gains from the FX reform are visible, but more clarity is needed on oil revenues, including the fiscal benefits from the PMS subsidy reform. Nominal oil revenue gains have been evident since June. These are mostly categorized as "exchange rate gains", suggesting that they are due to Nigerian naira depreciation. Except for the exchange rate-related increases, however, there is a lack of transparency regarding oil revenues, especially the financial gains of the Nigeria National Petroleum Corporation (NNPC) from the subsidy removal, the subsidy arrears that are still being deducted, and the impact of this on Federation revenues. It is also unclear why retail petrol prices have not changed much since August, despite fluctuations in the exchange rate and global oil prices.

Inflation remains at record high levels for Nigeria. Most recently, inflation rose to reach 27.3 percent (yoy) in October 2023, partly driven by the one-off price impacts of the removal of the gasoline subsidy. The impact of this inflation is especially hard on the poor and vulnerable. The Government has initiated targeted cash transfers to mitigate some of the impact on the most vulnerable households. In addition, a holistic approach to reducing inflation, including through tighter fiscal and monetary policies, is also needed.

The near-term priority is to enhance the reform effort with a closely coordinated mix of fiscal, monetary, and FX policies to reduce inflation and achieve macroeconomic stabilization

On the fiscal front, it will be crucial to sustain the savings from the PMS subsidy reform. The high cost of the gasoline subsidy was weakening Nigeria's fiscal position, in turn leading to a rapid increase in deficit monetization through CBN Ways and Means financing, and fueling inflation. It is important that the subsidy is not reinstated, and that continued progress is made to ensure market-reflecting pricing. Removing the PMS subsidy creates an opportunity to open up the gasoline market, enabling other market players apart from NNPC to import gasoline. This would yield benefits to consumers from market competition, and more revenues to the Federation account, ultimately flowing to all tiers of government. However, to fully reap this benefit, there is a need to allow PMS prices to adjust periodically in line with market fundamentals (i.e., in line with the exchange rate and international prices, similar to the pricing of diesel). To gain more clarity on how gasoline is being priced in the context of the Government's decision to remove the PMS subsidy, there is a need to enhance the transparency of NNPC, and to regularly publish information that explains prices at the pump.

The Government needs to also continue implementing revenue-led fiscal consolidation. In the absence of such consolidation, debt levels will escalate, along with debt servicing costs. To prevent such a situation, it is important that revenue mobilization efforts continue. For oil revenues, this includes continued efforts to increase oil production, reducing distortions in PMS pricing, and ensuring that oil revenues flow appropriately to the Federation, which will require more transparency and accountability regarding NNPC revenues. For non-oil revenues, this includes reforming the value-added tax (VAT) regime, implementing green excise taxes and other socially and environmentally beneficial taxes, and making improvements in tax administration. In addition, prudence needs to be exercised in expenditure decisions, with a clear focus on prioritizing expenditure efficiency.

On the monetary front, the policy stance has begun to tighten, but significantly stronger action is still needed to curb inflation. The new management at the CBN has implemented some tightening measures, including narrowing the asymmetric corridor in the SDF, removing the cap on banks' SDF deposits, and increasing the volume and rates of OMOs. While these are welcome measures, further tightening is likely required to effectively control inflation. The MPR remains negative in real terms (-1.0 as of October 2023 in the baseline inflation projection), broad money supply (M2) growth is still elevated (34.6 percent yoy in September 2023), and monetary policy transmission is still hindered by the CBN's development finance schemes and ongoing financing of fiscal deficits through Ways and Means. The CBN has signaled clearly its intention to end quasi-fiscal activities, and refocus on targeting lower and stable inflation and, moving into 2024, the effective implementation of the new approach will be key.

On exchange rate policy, additional measures can be taken to increase market stability. The CBN has reaffirmed its commitment to the WBWS mechanism, yet liquidity in the official (NAFEM) market has remained thin. Further monetary policy tightening is expected to help underpin the value of the naira. However, there is also a need to increase FX supply in the market. Facilitating FX flows, especially from all exports, through the NAFEM can help provide additional volumes in the official window that can help provide stability. In addition, clarity on the CBN's net reserve position, and on the CBN's continued progress in clearing the FX backlog, would also strengthen market confidence.

Communicating and implementing a coordinated economic policy mix is essential

Building on the bold reforms already made, there is a need to develop and announce coordinated fiscal and monetary policy actions for the short to medium term. A well-articulated policy direction and strategy can help build market confidence and allow the economy to stabilize more quickly. The policy direction can articulate the short-term objectives that would help coordinate all the key economic actors and accelerate implementation. This policy plan would require buy-in and articulation from the highest level of the Government, and a consensus among the key economic actors. The credibility of the plan would need alignment among the policy actions in terms of policy objectives (e.g., both monetary and fiscal policy actions focusing on tightening), and consistent implementation.

Beyond macroeconomic stabilization imperatives, extending the reform momentum can address structural constraints, and

Table O. 1. Macro-fiscal outlook (with vs without reforms)

		Post-reforms				No-reforms			
	2022	2023	2024	2025	2026	2023	2024	2025	2026
Key economic indicators	Act.	Proj	Proj	Proj	Proj	Proj	Proj	Proj	Proj
Real GDP growth (annual percentage change)	3.3	2.9	3.3	3.7	4.1	2.9	2.9	3.0	3.1
CPI inflation (yearly average)	18.8	24.5	21.7	19.6	17.1	21.0	21.5	23.0	24.0
Current account balance (percent of GDP)	0.2	0.2	0.1	-0.0	-0.0	-0.7	-1.0	-0.6	-0.7
Fiscal and debt indicators (percent of GDP, unless stated otherwise)									
Revenues	6.7	7.6	8.8	9.5	10.2	5.7	6.0	5.9	5.1
Expenditures	11.7	12.7	12.9	13.2	13.4	12.1	12.1	11.8	11.2
Primary fiscal balance	-1.6	-1.7	-1.0	-0.5	0.1	-2.2	-2.0	-2.0	-2.5
Overall fiscal balance	-5.0	-5.1	-4.1	-3.7	-3.2	-6.4	-6.1	-6.0	-6.2
Public debt	40.0	42.0	41.2	38.3	35.9	43.0	41.8	40.0	38.2
Debt service (percentage of revenues)	101.5	66	61	51	41	172	176	182	236

Sources: OAGF, DMO, CBN, NBS and World Bank staff calculations

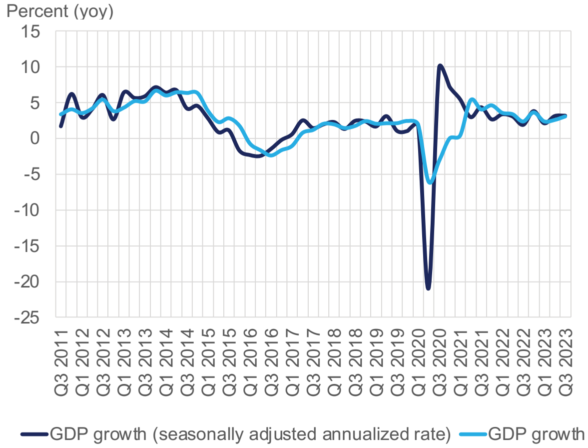
propel Nigeria onto a high and inclusive growth path

The economic outlook for Nigeria in the short to medium term hinges on the continuation and effectiveness of its macroeconomic stabilization agenda. Successful implementation of the initiated reforms will be the first step toward improving Nigeria's growth prospects[2]. With implementation of these first macroeconomic stabilization reforms, the economy is expected to grow at an average annual rate of 3.5 percent during 2023–2026, or 0.5 of a percentage point higher than in a scenario in which the reforms had not been implemented. Services, especially banking and ICT, together with industry will benefit from a more stable and predictable macroeconomic environment, and easier access to FX and imported inputs. Moreover, the reform of the gasoline subsidy should help NNPC settle its arrears and start paying fully for the Federation's share of costs in joint venture operations, thereby allowing oil production to gradually increase over time. Meanwhile, the agriculture sector is expected to recover from the disruption caused by the devastating floods in mid-2022.

Moving decisively onto a higher long-term growth and poverty reduction path requires not only a stable macroeconomic environment but also concerted structural reforms. In the medium term, the economy will begin to benefit from increasing fiscal space for development spending, including on power and transport infrastructure, as well as on human capital. Structural constraints to growth can be alleviated by strengthening public services and investments, reducing insecurity, improving the business environment, and increasing openness to trade. Together, such reforms would boost investment and productivity across sectors, unlocking the stronger growth that Nigeria's economys demonstrably capable of, and allowing economic development to regain its fast pace.

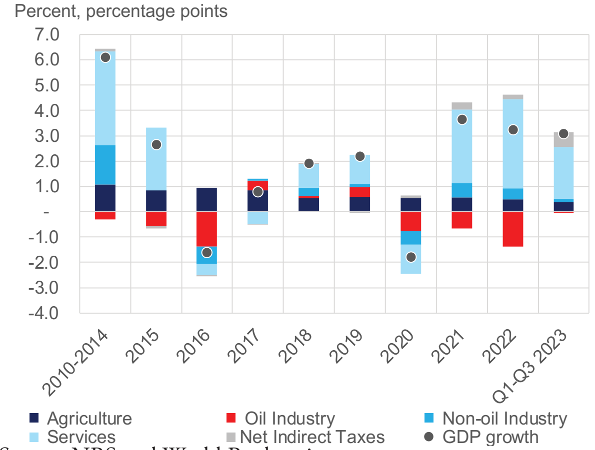
Figure O.1. A snapshot of Nigeria's economic situation

A. In Q2 and Q3 2023, output growth continues to be subdued



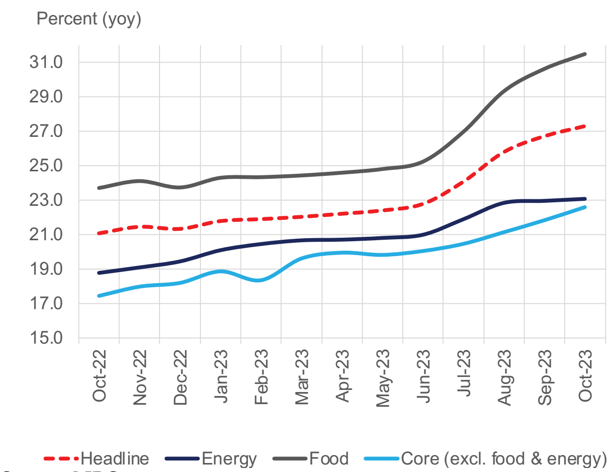
Sources: NBS and World Bank estimates.situation

B. …as services have yet to fully recover from the demonetization policy in Q1 and oil production continues to contract



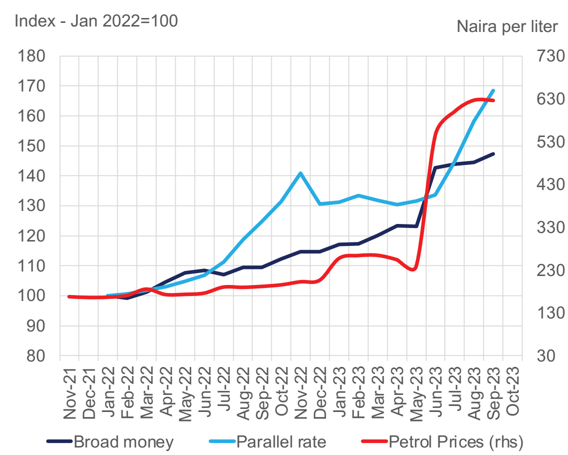
Sources: NBS and World Bank estimates.

C. Headline inflation continued to rise, notably through food and fuel prices….



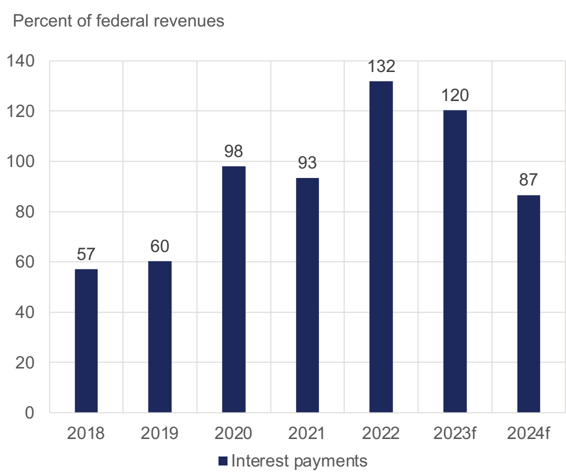
Sources: NBS

D. … partly driven by continued excess domestic liquidity, removal of gasoline subsidy, and naira depreciation



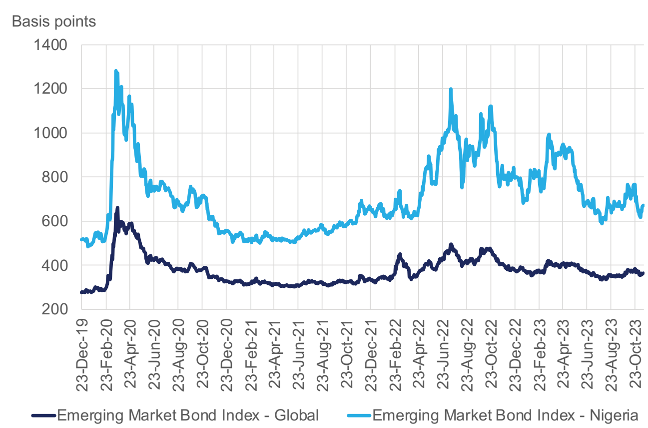
Sources: CBN, NBS and Bureau de Change Operators

E. Fiscal pressures remain high…



Sources: OAGF and DMO

F. …and Nigeria's sovereign credit risk premium in the global capital market has begun to improve. "



Source: JPMorgan.
Note: The series presented are EMBI spreads.

Table O.2.: Measures to restore macroeconomic stability

Policy	Status	Specific Measures
		Restoring Macroeconomic Stability
Remove the gasoline subsidy and establish a market-based mechanism for gasoline pricing		The removal of the subsidy was announced on May 29 and pump prices were adjusted on June 1. This results in expected fiscal savings of around N2 trillion in 2023, or 0.9 percent of GDP. Between 2023 and 2025, the expected gains are over N11 trillion, against a scenario in which the subsidy had continued.
		Reaffirm the commitment to not subsidize gasoline and ensure retail gasoline prices are consistent with this. Regularly publish information that explains prices at the pump. Publish detailed financial statements and revenue flows of NNPC to safeguard the fiscal savings from the subsidy reform and ensure that oil revenues flow to the Federation.
Increase non-oil revenues		Since 2019, the Government introduced non-oil revenue reforms and tax administration improvements, through the Strategic Revenue Growth Initiative (SRGI). This has helped boost non-oil revenues, reversing the previously declining trend, and preventing an even more severe fiscal squeeze. Key reforms included increasing the VAT rate from 5.0 to 7.5 percent, increasing gas flare fees, rationalizing tax expenditures, and operationalizing the electronic money transfer levy. The oversight of government-owned enterprises (GOEs) has also been strengthened, by ensuring a 50 percent cap on the cost-to-income ratio of these parastatals.
		In the short run, the Government can further increase non-oil revenues by: (i) gradually increasing the VAT rate, while allowing for input tax credit on capital and services; (ii) removing VAT exemptions on petroleum products; (iii) improving tax administration to ensure the collection of the newly introduced excises on telecommunication, single-use plastics, and high-polluting vehicles; (iv) implementing an advisory visit program to improve voluntary compliance; (v) adopting a data-driven approach to tax audit; (iv) leveraging technology to reduce tax avoidance; (vii) linking residential property with profit income tax (PIT) returns; (viii) introducing a simple turnover tax on SMEs at the state level, instead of the various nuisance fees and levies; and (ix) adopting modern valuation methods to properties.

Policy	Status	Specific Measures
		Restoring Macroeconomic Stability
Reduce excess domestic liquidity and money supply growth to control inflation		The CBN has begun tightening monetary policy restarting OMOs, and removing the cap on the Standing Deposit Facility. Additional measures to reduce naira liquidity, and tolerance for higher market interest rates, may be required.
		Further tighten monetary policy. Build on strong stated commitments by finalizing and communicating the plan to swiftly phase out monetization of the fiscal deficit and current CBN development finance interventions.
Reduce trade restrictions that increase prices and poverty		On October 12, CBN announced the removal of FX restrictions for the importation of 43 items. This is expected to help reduce prices on staples such as rice and help to bring poverty rates down, spur competition by removing exchange rate access distortions, and raise revenues.
		Start lowering import tariffs and non-tariff barriers on food and pharmaceuticals to lower prices and reduce poverty. Past import restrictions have not achieved their intended objectives of fostering domestic production, and have increased domestic prices, curtailing competitiveness and household consumption.
Adopt a de facto floating exchange rate and fully channel FX inflows to NAFEM		On June 14, the CBN unified the multiple official FX windows into a single official market to be operated under a de facto willing-buyer-willing-seller mechanism.
		Ensure full FX liberalization by continuing to build market confidence around free pricing and evaluating, and implementing policy measures to channel FX supply into the NAFEM. Publish full information on net reserves to build market confidence.
		Expand social protection to protect the poor and most vulnerable
Establish a social compact with the Nigerian people		Nigeria has developed a social registry system and rolled out time-bound, shock responsive, targeted cash transfers of N25,000 to 15 million recipients and their families (directly benefiting over 60 million Nigerians) for a period of 3 months.
		Implement a wider compact with Nigerian citizens to partly channel increasing revenues to continuous redistribution mechanisms—such as targeted cash transfers—and to expanded and better provision of public services. Publicize and publish details of this compact to enable public monitoring of its implementation.

PART 1:

Recent economic developments and the outlook for Nigeria

Real sector: Reform momentum offers renewed hope for growth

Despite having the largest economy and population in Africa, Nigeria offers only limited opportunities to most of its citizens. A Nigerian born in 2020 is expected to be a future worker who will be only 36 percent as productive as he/she could have been if they had had full access to education and health—the seventh-lowest Human Capital Index (HCI) in the world. Weak job creation and entrepreneurial prospects stifle the absorption of the 3.5 million Nigerians entering the labor force every year, and many workers choose to emigrate in search of better opportunities. An estimated 79.4 million Nigerians lived below the international poverty line in 2018 (the latest survey data)—one of the world's largest poor populations. In most areas, state capacity is low, service delivery is limited, and insecurity and violence are widespread. Wide infrastructure gaps constrain access to electricity and hinder the domestic economic integration that would allow the country to leverage its large market size. Emerging problems, such as the increased severity and frequency of extreme weather events, especially in the northern parts of the country, add to these long-standing development challenges.

Economic growth offers the main path for sustained and inclusive development in Nigeria, but recent performance has been weak (Figure 1.1). Between 2000 and 2014, Nigeria's economy experienced broad-based and sustained growth of over 7 percent annually, on average, benefiting from favorable global conditions, and macroeconomic and first-stage structural reforms. The poverty rate at the international poverty line decreased from 48 percent in 2003 to 32 percent in 2015 World Bank 2023b), implying a 4.4 million decline in the number of poor people. In the period 2015–2022, however, economic policy missteps and external shocks contributed to a slump in growth rates to an average of 1.4 percent (-1.1 percent in per capita terms). The poverty rate increased by 4 percentage points in the period. Monetary and exchange rate policy distortions, increasing fiscal deficits, high levels of trade protectionism, and external shocks such as the COVID-19 pandemic weakened economic fundamentals and pushed Nigeria into a fragile economic position. While growth rebounded to 3.6 percent in 2021, after a contraction of 1.8 percent in 2020 during the pandemic, the recovery lost momentum, with growth slowing to 3.3 percent in 2022 and further to 3.1 percent (yoy) by Q3 2023, partly due to a disruptive currency demonetization policy in Q1 2023 and weak oil production. Services continue to be the main positive contributor to growth (Figure 1.2).

• **Agriculture.** Agricultural output, which had remained resilient even during the pandemic, contracted for the first time in seven years, by 0.9 percent in Q1 2023, but rebounded to grow by 1.5 percent in Q2 2023 and 1.3 percent in Q3 2023. On average, agricultural output grew by 0.7 percent (yoy) in the first nine months of 2023, the lowest level of growth since 2011. The slowdown in agricultural output was driven by a significant contraction in livestock and fishing production. The cash shortage experienced in Q1 2023, lingering effects of the 2022 floods, and high costs of imported inputs such as fertilizers contributed to the slowdown in the agriculture sector. Various official development finance interventions since 2015 have not been effective in restoring agricultural production to its 2010–14 average growth rate of around 4.5 percent.

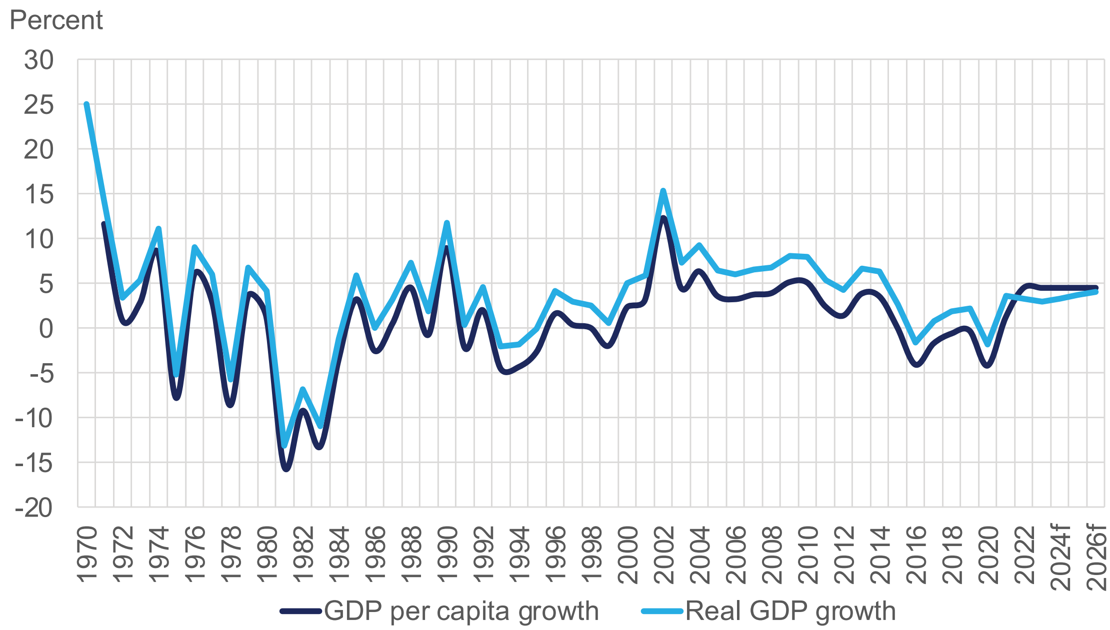
• **Non-oil industry.** In the first nine months of 2023, output in the non-oil industry sector grew modestly by 2.3 percent (yoy). In the manufacturing sector, output growth remained sluggish, as the sector continues to face structural challenges, including transport and power infrastructure gaps. Stronger expanding industries include food and beverage, cement, wood and wood products, chemical and pharmaceutical products, and non-metallic products. Construction grew by 3.5 percent yoy in the first nine months of 2023.

• **Oil: The historically low level of crude oil production since 2020 has prevented Nigeria from fully reaping the benefit of higher global oil prices.** Oil production has shown a modest improvement, growing by 4.6 percent (yoy) in the first nine months of 2023, but remains well below the pre-pandemic average monthly production level (1.7 mbpd), Nigeria's Organization of the Petroleum Exporting Countries' (OPEC) quota of 1.7 mbpd, and the Federal Government estimate for the 2023 Budget of 1.69 mbpd.

• **Services.** The services sector grew by 4.3 percent yoy in the first nine months of 2023, driven by growth in financial services and information and communications technology (ICT), which counterbalanced a contraction in the transport industry. The sector continues to be the main driver of growth in Nigeria, reflecting continuing structural transformation from agriculture to services. ICT, one of the resilient sectors during the pandemic, grew by 8.5 percent yoy in the first nine months of 2023, boosted by both voice and internet subscribers. Financial services output rose by 25.3 percent in H1 2023, as the cash crunch experienced during Q1 substantially expanded e-payment transactions. The trade sector's growth remains tepid, however, at 1.8 percent yoy in the first nine months of 2023, below its average of 6.6 percent between 2010 and 2014, partly due to the cash squeeze in Q1. Transportation and storage contracted by 30.7 percent in the first nine months of 2023, largely due to the impact of the gasoline subsidy removal, which led to an almost threefold increase in gasoline prices.

Figure 1.1. . Past economic policy missteps and external shocks have contributed to lower growth GDP per capita growth and real GDP growth

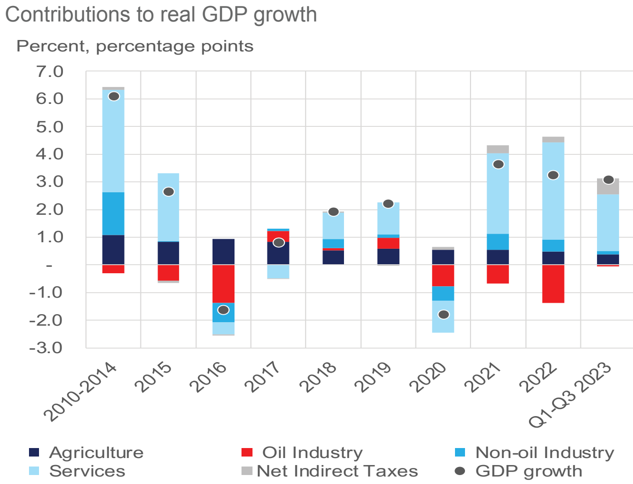
GDP per capita growth, real GDP growth and poverty rate



Source: NBS

Recognizing the need to change course, the new administration has undertaken several bold reforms to restore the economic fundamentals for inclusive growth since May 2023. The Government of Nigeria eliminated an increasingly costly, opaque, and regressive gasoline subsidy that amounted to 2.2 percent of GDP in 2022, unified multiple FX windows that distorted relative prices, partly liberalized the exchange rate to better reflect market conditions, and lifted the restriction on purchasing FX in the official market to import 936 product lines. The CBN has also re-commenced conducting open market operations (OMOs) and lifted the cap for commercial banks to deposit funds at the Central Bank of Nigeria (CBN). The mopping-up of

Figure 1.2. .... with consistent contraction of the oil sector, counterbalanced by services growth



Sources: NBS and World Bank estimates

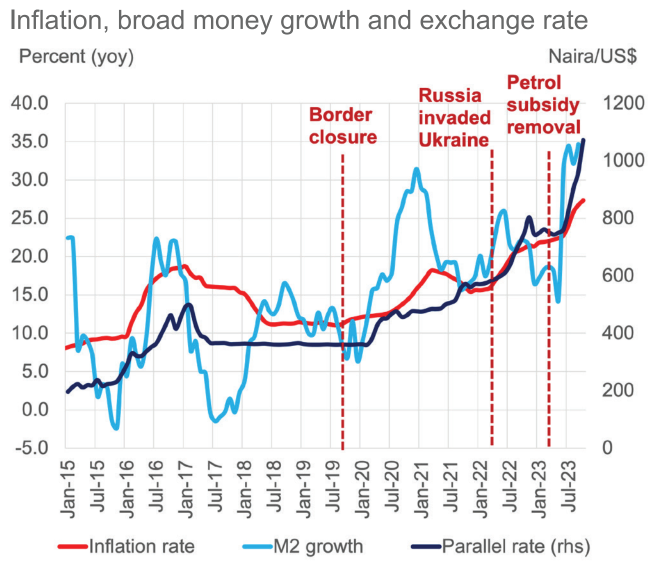
excess domestic liquidity and changes toward more orthodox, rates-based monetary policy have led to a rise in domestic market interest rates. Recognizing the short-term adjustment costs of these reforms—in particular, the gasoline subsidy removal—the Government has also rolled out temporary, targeted cash transfers of N25,000 per month, directly benefiting over 60 million people for three months.

The recent reforms are expected to undo the increases in poverty seen in recent years from 2024 onward, albeit only marginally and slowly. Sluggish growth and rising inflation have increased poverty from 40 percent in 2018 to 46 percent in 2023, pushing an additional 24 million people below the national poverty line[3]. The number of poor rose from 79 million in 2018 to 104 million in 2023, with urban poor—more exposed to inflation—increasing from 13 to 20 million, while the number of poor people in rural areas increased from 67 to 84 million. In the medium term, the reforms will reverse this trend through higher growth and lower inflation, but to a limited extent, with poverty rates decreasing from 46 percent in 2024 to 44 percent in 2026.

Prices and monetary policy: Inflation has continued to hit record highs and monetary policy needs significant tightening

Nigeria's inflation has increased in 2023 and reached an almost two-decade high. Inflation has historically been high and persistent in Nigeria—in 13 out of the past 15 years, inflation was higher than 9 percent, the ceiling of the CBN's target range—reflecting the combination of loose fiscal and monetary policies, structural supply constraints, and external shocks (Figure 1.3). Most recently, inflation rose to reach 27.3 percent (yoy) in October 2023, partly driven by the removal of the gasoline subsidy and the significant exchange rate depreciation. Food inflation remained chronically high at 31.5 percent yoy in October (6.3 percentage points [pp] higher than in June), as the prices of key staples rose by at least one-quarter in October. Energy inflation also remained elevated at 23.1 percent (2.1 pp higher than in June), driven by record-high prices of gasoline and diesel (Figure 1.4). Core inflation (excluding food and energy) also increased, reaching 22.6 percent in October (2.5 pp higher than in June), led by rising prices of medical services, travel, furniture, and maintenance and repairs of transport equipment.

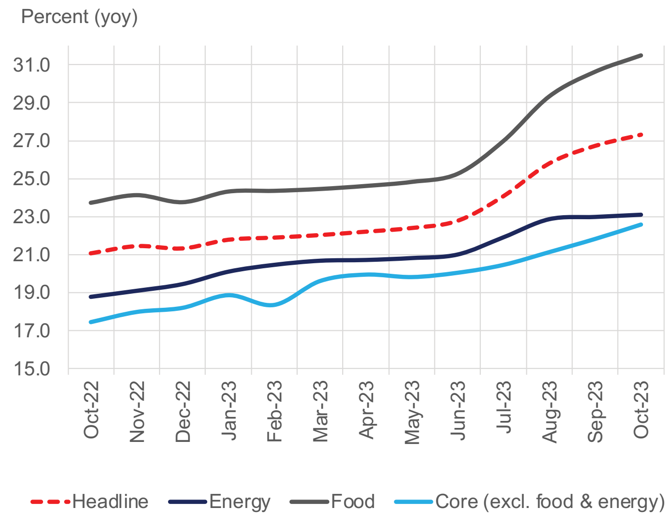
Figure 1.3. Nigeria's inflation spiked to almost two-decade high…



Source: NBS

Figure 1.4. …with energy and food price increases being the main driver of recent headline inflation

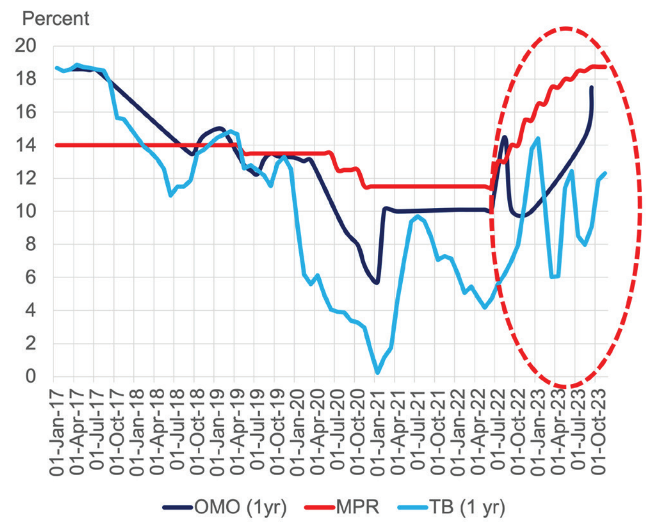
Inflation rate



Source: NBS

Figure 1.5. T-bills and OMO rates have begun moving closer to the MPR

Interest rates



Source: NBS

The CBN has started tightening monetary policy.

The CBN has increased the Monetary Policy Rate (MPR) since May 2022 by a cumulative 725 basis points, to 18.75 percent, and increased the cash reserve ratio by 500 basis points, to 32.5 percent in September 2022. The CBN also narrowed the asymmetric corridor from +100/-700 to +100/-300 basis points around the MPR in the Standing Deposit Facility (SDF)—where banks can deposit funds overnight with the CBN to earn interest and borrow funds from the CBN—and removed its N2 billion cap per bank. The new administration has also restarted OMOs—interrupted since January 2023—in October 2023, with a N325 billion operation (almost three times higher than the average intervention since 2010) at 17.5 percent yield for the one-year T-bill, closer to the MPR than in the recent past. Recent data have also shown that T-bill yields have reached over 21 percent (Figure 1.5). In a move toward greater transparency, the CBN published its financial statements for the years 2017–2022, which were previously outside the public domain. (Box 1.1).

Nonetheless, a significantly tighter monetary policy and stronger policy transmission are needed to rein in inflation. The MPR remains negative in real terms with respect to both the past year's inflation and the expected inflation in the next year, while real interest rates have risen significantly in advanced economies. Money supply grew by 34.6 percent yoy to reach 27.5 percent of GDP in September 2023, the highest in over a decade. Monetary policy transmission is still hindered by the CBN's development finance schemes and central-bank financing of fiscal deficits through Ways and Means. While the new CBN management and the Government have committed to eliminating development finance programs, this has yet to be implemented. Similarly, significant Ways and Means financing has continued in 2023 and is projected to reach 1.4 percent of projected 2023 GDP, in breach of the limits imposed by the CBN Act 2007. Central-bank financing of fiscal deficits not only directly contributes to rising inflation but also undermines its institutional credibility and de facto independence to pursue its inflation control mandate. Relatedly, coordination and communication of monetary and fiscal policies could help anchor expectations and increase foreseeability for market agents.

Box 1.1. Publication of financial statements of the Central Bank of Nigeria

After a gap of five years, in August 2023, the CBN published its financial statements, for the years 2017–2022. The publication of financial statements was important in putting CBN back on track with meeting basic financial transparency standards.

The financial statements show that the CBN recorded a small profit throughout the period. Large income inflows were recorded from the interest payments from the Ways and Means financing extended to the Federal Government. The statements also highlight the increase over time in the deposits of financial institutions at the CBN, which may have helped mitigate the inflationary pressure of the high volume of credit to the Federal Government, to the detriment of the availability of credit for the private sector. Large credit losses were also reported, likely due to the CBN undertaking several development finance schemes. Other large costs included those due to foreign exchange revaluations, rebate expenses, and large administrative and personnel expenses. As such, the remittance of profits to the Federal Government remained low, although significantly varying year-on-year.

The statements also showed that the composition of gross reserves of the CBN has changed over time. Time deposits decreased, as have current accounts with foreign banks, while the share of domiciliary accounts in gross reserves fell to negligible levels between 2021 and 2022. The statements also showed that the CBN has significant short-term liabilities, include foreign exchange denominated liabilities. They indicate that in 2022 the net reserves of the CBN were significantly lower than the gross reserves that are reported more publicly on the website.

Figure B1.1.1. Net income of the CBN remains large as interest income soars due to high volumes of Ways and Means lending…

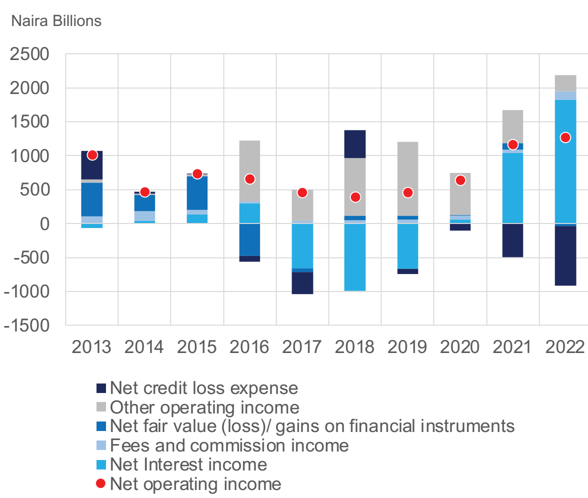
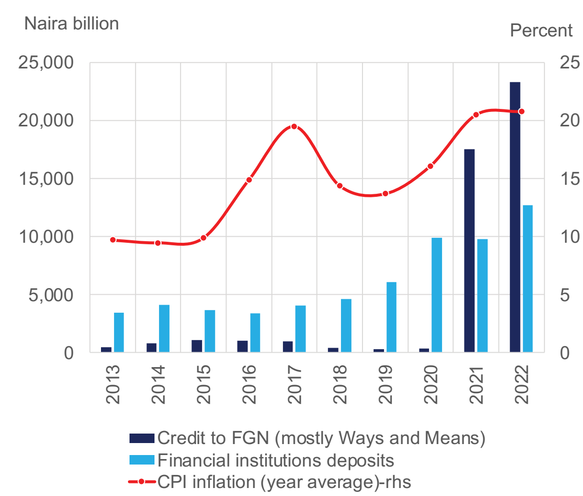


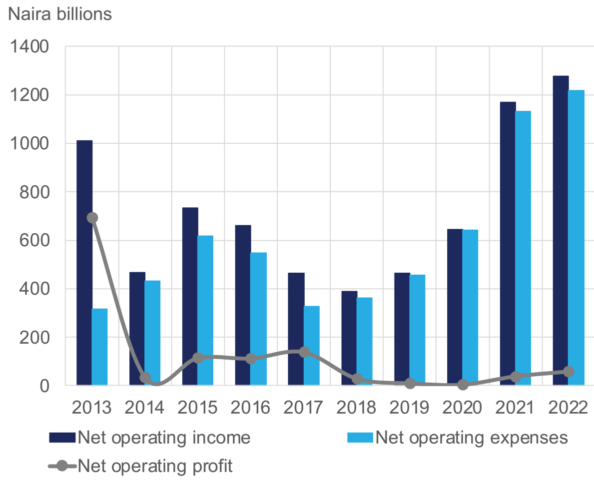
Figure B1.1.2. …which is partially financed from the deposits of the financial institutions held at the CBN



Sources: CBN financial statements and World Bank estimates.

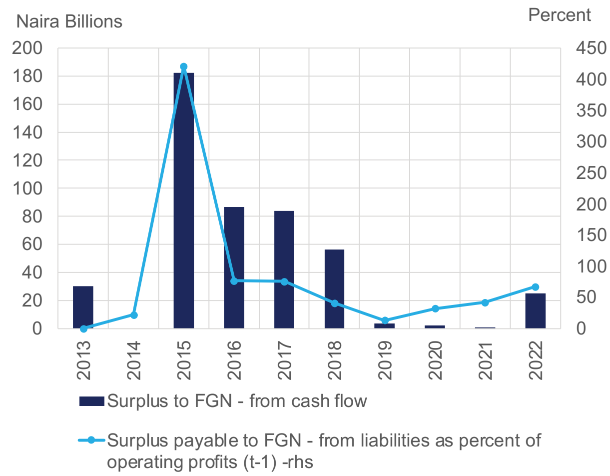
Box 1.1 cont.

Figure B1.1.3. However, large costs means that the CBN remains in only a small profit…



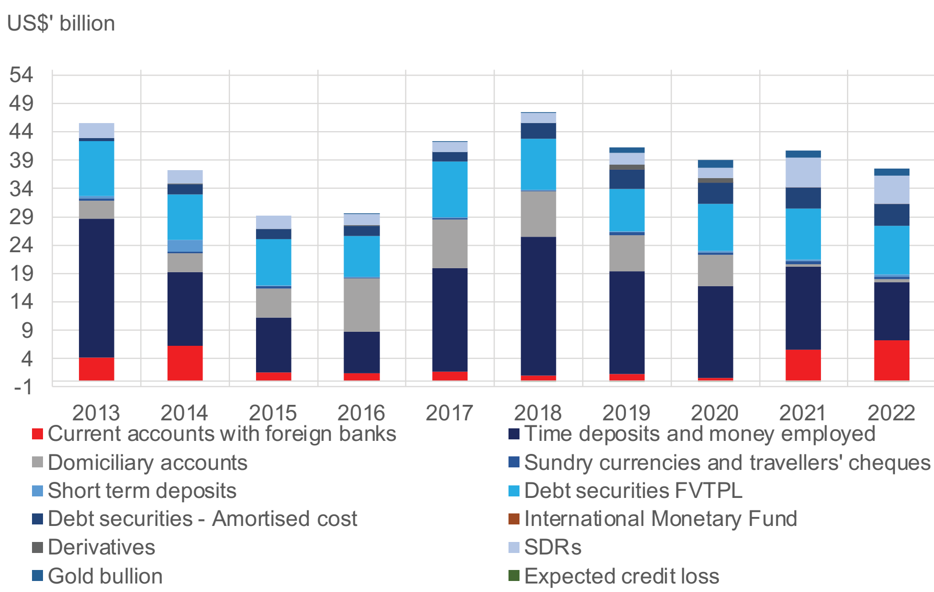
Sources: CBN financial statements and World Bank estimates.

Figure B1.1.4. …and remittance of the profit to the FGN remains low



Sources: CBN financial statements and World Bank estimates.

Figure B1.1.5. Composition of gross reserves at the CBN have changed significantly over the past few years, with higher reliance on current accounts in foreign banks



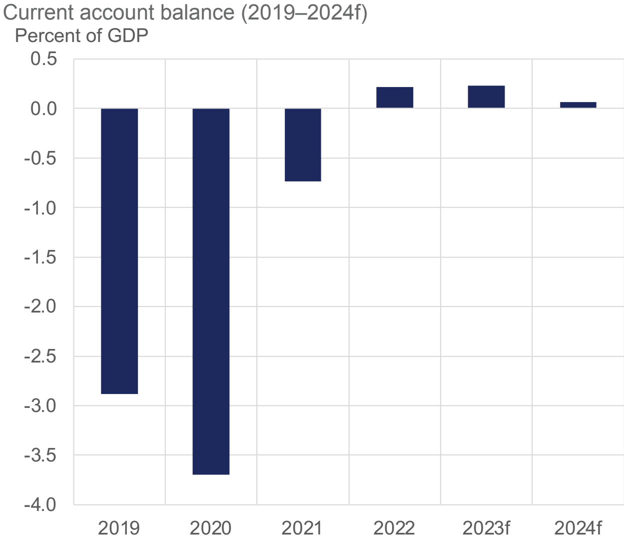
Sources: CBN financial statements and World Bank estimates.

External sector: Vulnerabilities remain elevated in the external sector due to the weakness of oil and non-oil flows

The current account balance is expected to remain slightly positive for 2023, while the trade balance is projected to decline. While the goods balance is expected to remain positive, the deficit on the services side is expected to increase. In H1 2023, the current account balance (CAB) increased to a surplus of 1.1 percent of GDP, compared with an H12022 current account surplus of just 0.3 percent GDP. With the removal of the gasoline subsidy and the large-scale depreciation of the naira in June 2023, imports, including gasoline imports, are projected to fall. However, exports are also expected to contract, even though oil production is projected to increase, as oil prices are projected to be 20 percent lower, on average, than 2022 levels. Higher imports of services, especially in the transportation and travel sectors, are expected to reduce the trade balance. In H1 2023, the trade balance stood at a deficit of 1.7 percent of GDP, as opposed to a deficit of 1.6 percent of GDP in H12022.

Figure 1.6. The CAB is projected to strengthen in 2023…

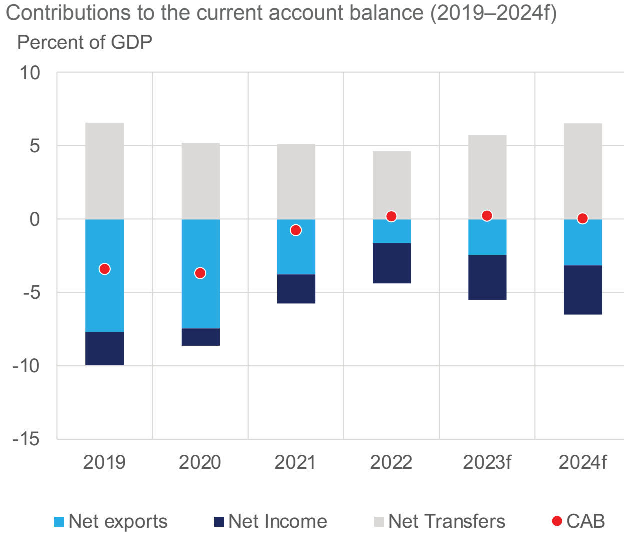
Current account balance (2019–2024f)



Sources: CBN and World Bank estimates.

Figure 1.7. …driven by higher oil export inflows and remittances

Contributions to the current account balance (2019–2024f)



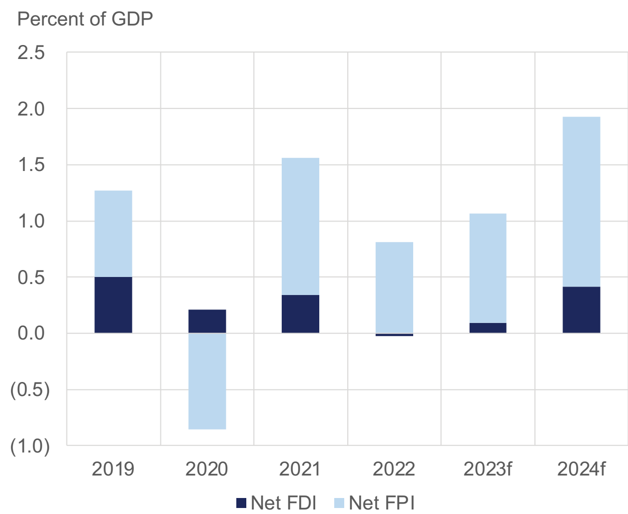
Sources: CBN and World Bank estimates.

The financial account is projected to remain in a small surplus in 2023, despite posting negative balances at the half-year mark. Net foreign direct investment (FDI) is projected to reach 0.4 percent of GDP in 2023, against 0.1 percent of GDP in 2022, and foreign portfolio investment (FPI) is projected to improve to 1.5 percent of GDP in 2023, against 1.0 percent of GDP in 2022. However, at the half-year mark, both FDI and FPI were weaker than in the previous year. In H12023, FDI was at -0.1 percent of GDP compared with 0.6 percent in H12022, while FPI was at 0.2 percent of GDP, against 0.7 percent of GDP in H12022. However, the two major reforms are estimated to help the country post larger gains on FDI and FPI by year-end.

Favorable oil prices and the CAB surplus have not buoyed reserves. The generally high oil prices since 2021 would normally be associated with rising gross reserve levels, but this has not been the case, and is part of the reason behind the high errors and omissions figure reported in the balance-of-payments (BOP) accounts.[4] The low reserves appear to be primarily due to a continued lack of oil-related flows to the CBN. Lower oil production—below the Organization of the Petroleum Exporting Countries' (OPEC) quota—is likely a factor,

Figure 1.8. FDI and FPI flows into Nigeria remain low relative to the size of the economy…

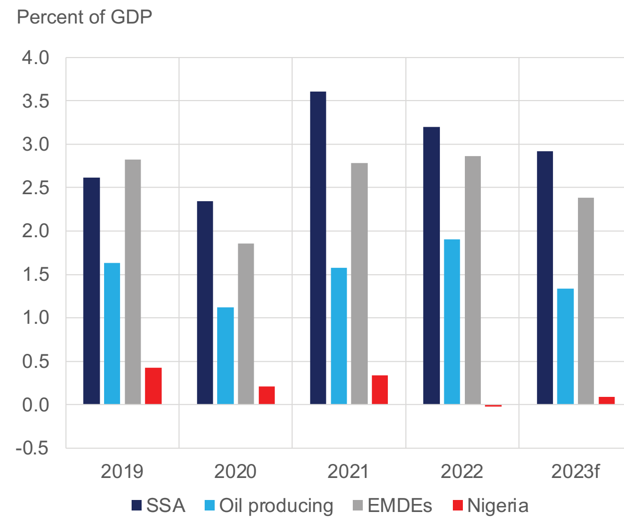
Net FPI and FDI flows into Nigeria (2019–2024f)



Sources: CBN and World Bank estimates.

Figure 1.9. …and are well below those of peer countries

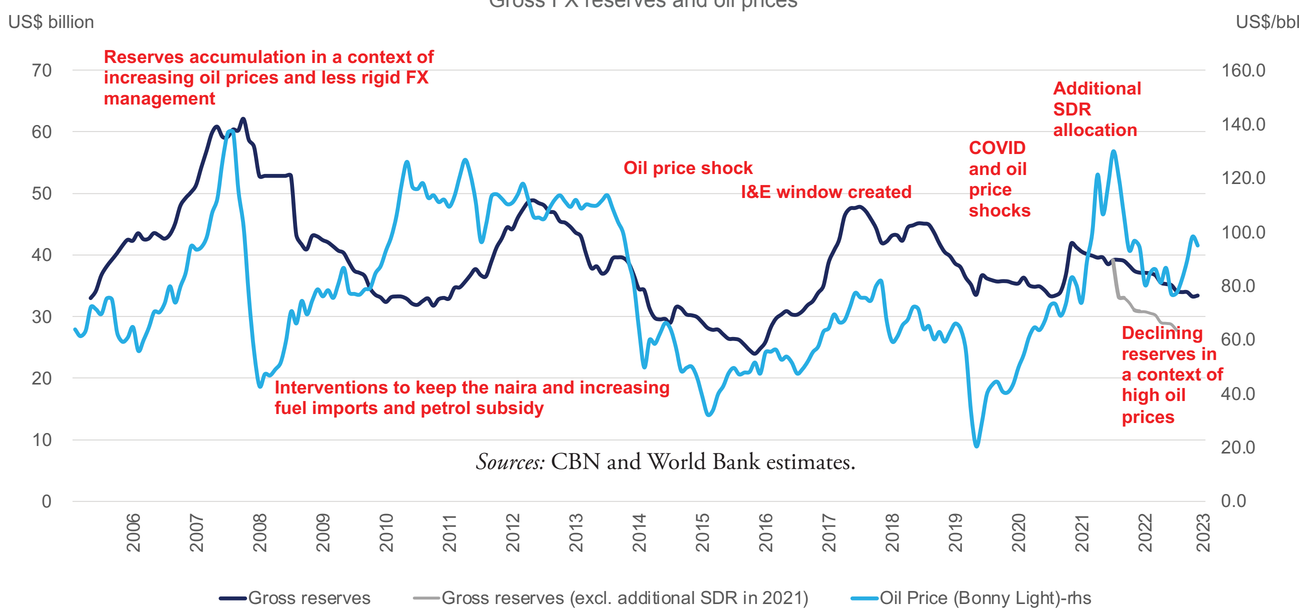
Capital flows (FDI only) to Nigeria and comparator countries (2019–2023f)



Sources: CBN and World Bank estimates.

Figure 1.10. Nigeria's FX reserves have declined despite higher oil priceNet FPI and FDI flows into Nigeria (2019–2024f)

Gross FX reserves and oil prices

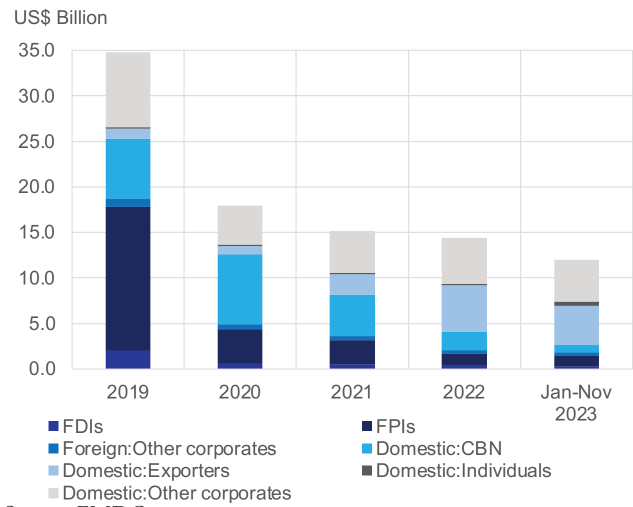


Sources: CBN and World Bank estimates.

but the removal of the gasoline subsidy (and direct debits by NNPC for it) and the discontinuation of the Direct Sale Direct Purchase arrangement (crude oil for gasoline swaps) in the latter half of 2023 should have increased gross reserves post-June 2023. However, this has not been the case and gross reserves remain at around the US$33 billion level, despite the reforms. In addition, information on net reserves is unavailable, making it problematic to gain a full sense of the CBN's ability to meet its liabilities.

Figure 1.11. The CBN reduced its FX interventions in 2023

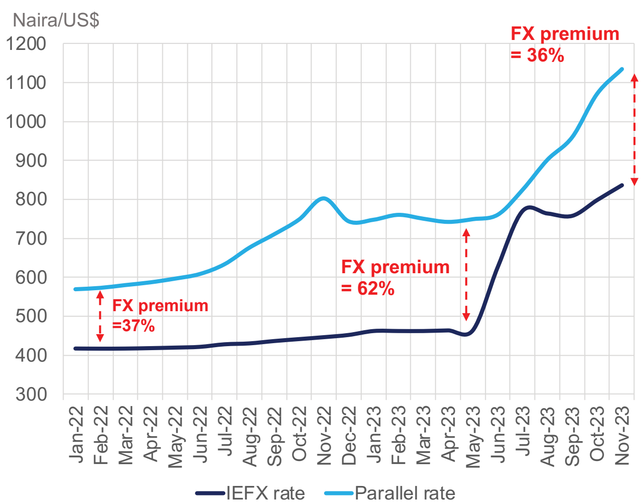
Sources of FX inflows to the investors and exporters FX market



Sources: FMDQ

Figure 1.12. The parallel market-NAFEX premium increased between 2022 and mid-2023

NAFEX closing rate and parallel market rate (Jan 2022–May 2023)



Sources: FMDQ, AbokiFX.

TThe FX market has been volatile. The lack of clear communication by the CBN on the strategy to clear the FX backlog has fueled speculation around low net reserves (JPMorgan 2023), which in turn has caused volatility in both the official and parallel markets. The volume of FX trades in the official window remains consistently low, and the exchange rate premium between the official window and the parallel market has re-emerged and is fluctuating between a 10 to 40 percent range. The parallel rate depreciated by 45.4 percent between June and October (monthly averages), while the official rate has not adjusted proportionately (monthly averages depreciating by 27.3 percent in the same period). The latest figures show a premium of about 40 percent, on average, as the naira remains at around N800/US$1 in the official market. Without stabilization of the official FX market at market-reflective rates, the risks to expected net FDI and net FPI remain high.

Financial sector: Private sector credit remains resilient but pockets of vulnerabilities emerge

Nigeria's financial sector has grown markedly in size in the past year, mainly driven by the surge in the banking sector. The assets held by financial intermediaries and institutional investors stood at the equivalent of 58.9 percent of GDP in June-2023, 10.5 percentage points higher than in June-2022. Banks—commercial, merchant, non-interest, primary mortgage, and microfinance—held the largest share, at 80.0 percent, followed by the pension fund sector at 13.2 percent, and development finance institutions, at 2.8 percent. The insurance sector has a small holding of assets reflective of the very low market penetration (premiums were equivalent to just 0.4 percent of GDP in 2022), although they could grow over time as health insurance starts to develop.[5] The sovereign wealth fund held assets equivalent to just 0.5 percent of GDP in 2022. The build-up of assets has been impacted in the past few years by the diversion of crude revenue resources toward fuel subsidy payments; assets under management (AUM) in the sovereign wealth fund are expected to grow in the coming years on the back of the earmark in the Petroleum Sector Act benefiting the Nigerian Sovereign Investment Authority.[6]

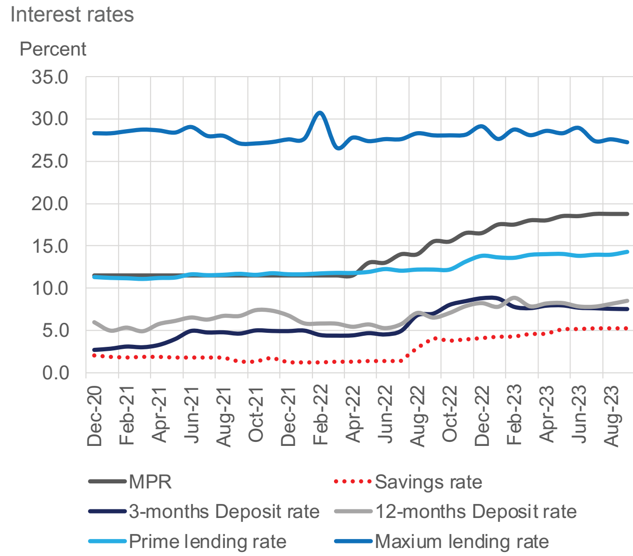
Institutional investors exhibit a very strong preference for sovereign risk holdings and short-term fixed-income instruments, but have very limited exposure to infrastructure financing. Pension funds hold 76 percent of their total assets in government securities and in money market mutual funds invested in T-bills. Prudential regulations allow pension funds to take significant exposure to infrastructure bonds—up to 15 percent of AUM. However, these assets are less than 1 percent of the portfolio, in part reflecting the dearth of offerings. In the mutual funds sector, money market funds held 44 percent of the AUM by the sector, and US dollar funds another 29 percent. Public equities market capitalization stood at the equivalent of 16.4 percent of GDP in June 2023, and has continued to surge strongly since then. However, participation of foreign investors in public equities continued to decline in the first nine months of 2023, accounting for less than 10 percent of trading, down from 16 percent a year earlier. This downward trend of FPI in general, including exits from OMOs,[7] started after 2019, and has intensified more recently, reducing market liquidity and impacting price discovery. The recent removal of Nigeria from the MSCI Frontier Market Index to a standalone market status on account of persistent difficulties in the FX market, could further diminish foreign investor participation.

Over the past few months, there has been a surge in growth of banking sector credit to the economy, while lending rates have risen, but by only a fraction of the rise in the CBN policy rates. The growth rate (yoy) in nominal credit to the private sector accelerated from an average 22.6 percent in Q2 2023 to 39.9 percent in Q3 2023, largely reflecting the valuation impact of the naira depreciation on US dollar-denominated loans in June and the subsequent floating of the currency. As a result, notwithstanding the acceleration in annual inflation in Q3 2023, growth in real credit to the private sector turned positive and started to accelerate, breaking 10 consecutive months of contraction. A similar pattern is shown in money supply growth, both narrow and broad. The relative importance of the CBN in the provision of credit to the private sector through a wide range of development finance interventions has declined further to 7.0 percent, from 10 percent in 2021. At the sectoral level, the share of private sector credit going to industry rose to 39.5 percent in June 2023 (particularly in manufacturing, and oil and gas) from 35.1 percent a year earlier, while that going to agriculture fell by 1.2 percentage points over the same period. Bank retail portfolios remain relatively small, at just about 1 percent of private sector credit (end-2022). While the CBN's monetary policy rate (MPR) has risen by 725 basis points since end-April 2022, the average prime lending rate rose by only one-third of that rise through September 2023, while the maximum lending rate fell marginally over that period. By contrast, deposit rates have risen by a significant share of the rise in the MPR across maturities, with the largest rise on savings deposits. Banks have been cautious about passing on the rise in MPR and in their funding costs to borrowers, as their repayment capacity is under pressure from the continued rise in inflation, the currency depreciation, and sluggish growth of the economy. There is a risk that stressed loans exposures will turn non-performing if interest rates on those facilities are raised further.

The erosion of bank capital buffers continued through H1 2023 and pockets of vulnerability have emerged in a challenging operating environment. The banking system capital adequacy ratio (CAR) fell to 11.2 percent in June 2023, 3.3 percentage points lower than a year earlier, and 4.3 percentage points lower than in 2021.[8] The decline has accelerated in the past year, in part reflecting the impact of the currency devaluation, which was only partially offset by net revaluation gains as banks' US dollar-denominated assets are bigger than US dollar-denominated liabilities.[9] Smaller banks have thinner capital buffers above minimum requirements than systemic ones. This makes them more vulnerable to the possible worsening in overall loan quality that, in the past, has followed significant depreciations of the currency (with a 12- to 24-month lag)—stress that is further heightened by high inflation. While through June [3]2023, the non-performing loans (NPLs) ratio has continued to improve and fell to 4.1 percent, 0.8 of a percentage point lower than one year earlier, stress test results for credit risk as of end-2022 reported in the CBN's Financial Stability Report are suggestive of latent weaknesses to a substantial deterioration in loan quality. Among other reasons, this is because the banking system capital buffer has further eroded since last year. The system remains liquid, with a liquidity ratio of 48.4 percent in June 2023, and profitable with a return on equity of 17.2 percent in 2022. Banks' combined exposure to the sovereign remains elevated at 2.0 times capital, with an additional 1.6 times capital in CBN securities, as of June 2023.

In May 2023, the CBN took decisive supervisory action on numerous financial institutions with long-standing breaches of regulatory requirements. In addition to commercial banks, the CBN also oversees microfinance banks, primary mortgage banks, and finance companies, among other financial intermediaries. In May 2023, the CBN removed the licenses of 179, four, and three of those institutions, respectively. The Nigeria Deposit Insurance Corporation (NDIC) has proceeded promptly with the payment of guaranteed deposits, which is a critical attribute in well-functioning deposit insurance agencies to help maintain the public's confidence in the system.

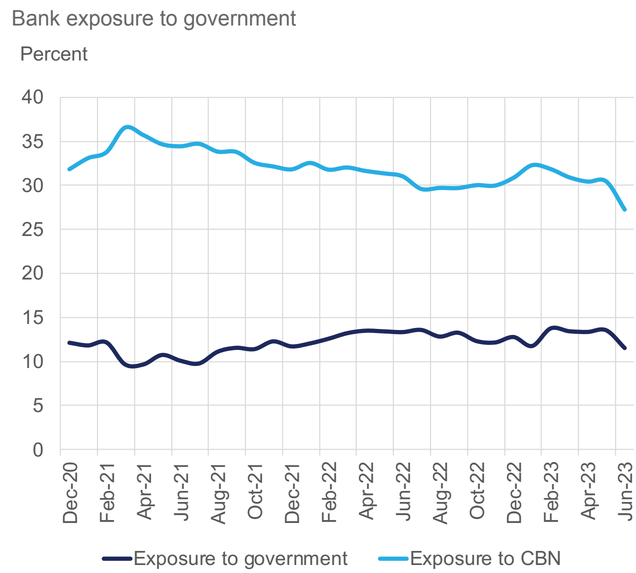
Figure 1.13. CBN MPR and selected banking rates (2020–September 2023)



Source: CBN.

Note: Others include private mortgage banking and microfinance banks

Figure 1.14. Commercial and merchant bank exposure to the Government and the CBN (2020–June 2022)



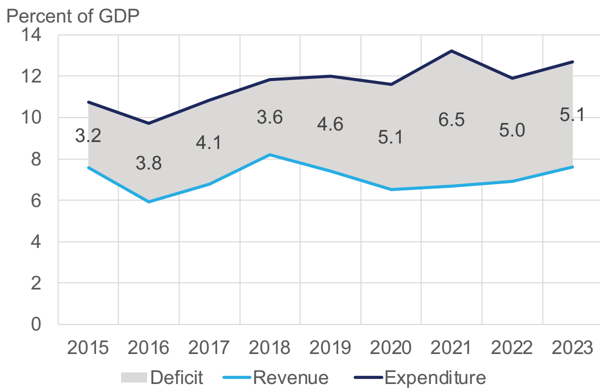
Source: CBN

Fiscal: Reforms provided significant fiscal relief, but pressures remain high

Nigeria's fiscal situation improved in the second half of 2023 on the back of the reforms undertaken in June 2023, but challenges continue. With the devaluation of the naira, net Federation revenues grew in nominal terms yoy, but remained stagnant in terms of GDP per capita. However, the revenue impact of the removal of the fuel subsidy is yet to fully materialize. Expenditure pressures continued to mount, as interest payments soared. Capital expenditures were also high, especially during the H1, limiting the ability of the Federal Government to implement significant fiscal consolidation from the expenditure side in H2 2023. Additional expenditure pressures are expected in 2023 from the announced policy measure of the N35,000 wage award for all federal civil servants from September 1 onward for six months. As such, despite higher revenue performance in H2-2023, the fiscal deficit for 2023 for the Federation is estimated to be 0.1 of a percentage point higher than 2022 levels, at 5.1 percent of GDP.

Figure 1.15. Despite reforms, the fiscal deficit in 2023 is expected to remain high…

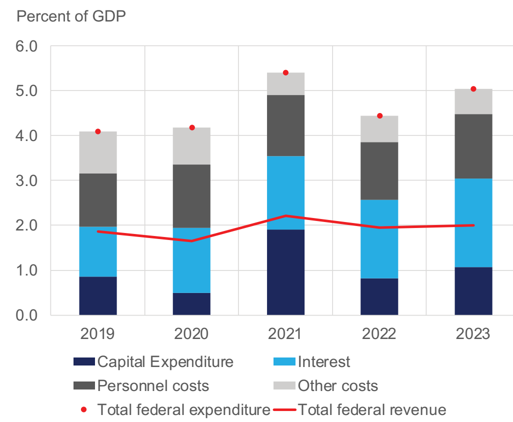
Fiscal deficit (as percent of GDP)



Sources: OAGF, BOF, and World Bank estimates

Figure 1.16. …as expenditure pressures continue

Federal revenue and expenditure Jan–Aug (as percent of full-year GDP)



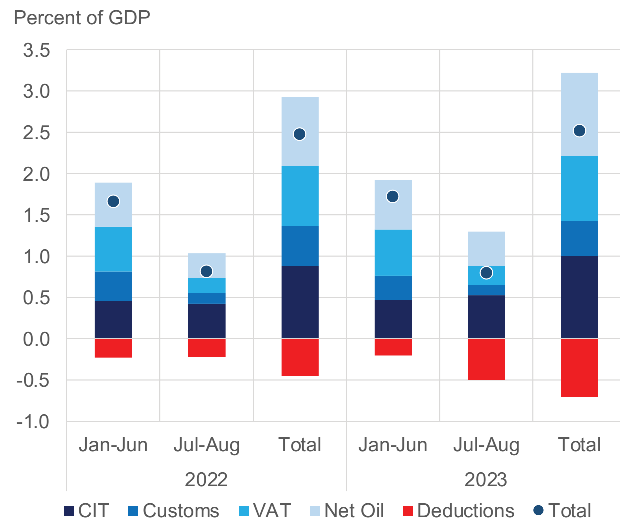
Sources: OAGF, BOF, and World Bank estimates

Between January and August 2023, net Federation revenues remained stagnant at 2.5 percent of full-year GDP, as deductions from the net Federation account increased in July and August. However, net Federation revenues in the July–August period registered a smaller nominal growth (15.9 percent) than in the January–June period (22.8 percent). This is primarily due to large-scale deductions for non-oil excess account in July and August, at N589 billion and N600 billion, respectively. Without these deductions, net Federation revenues would have increased by 0.3 of a percentage point of GDP (30.5 percent yoy in nominal terms) between January and August, with all of the increase coming in the July–August period. It is unclear why these deductions were made, or against which methodology and formulae, and it is not known whether some of these deductions were channeled back into the Federation account to meet the growing expenses.

Non-oil Federation revenues saw considerable gains on the back of exchange rate reform in the second half of the year. Corporate tax revenues posted an increase of 0.1 of a percentage point of full-year GDP (a 34.2-percent increase in nominal terms) in January–August yoy, with the entire increase coming in the July–August period, making it the largest contributor to Federation revenue growth in the period. While July–August is the filing period, which could explain the increase in corporate taxes, the collections in these months are significantly higher than the previous year's collection in the July–August period, indicating some windfall gains for companies on the back of naira devaluation. Similarly, VAT collections for January–August increased yoy by 0.1 of a percentage point of full-year GDP (28.6 percent in nominal terms, with July–August posting gains of 46.9 percent yoy in nominal terms). Customs revenues declined by 0.1 of a percentage point of full-year GDP in the January–August period (a nominal increase of only 3.8 percent yoy), but it reversed the negative nominal growth (-0.1 percent yoy) in the January–June period, to post nominal growth of 14.4 percent yoy in the July–August period. While the devaluation of the naira is expected to raise the value of imports and therefore increase customs duties on them, the impact of the devaluation on the price of imports is also expected to weigh on demand. As such, the net effect of the devaluation on customs duties is not expected to be large.

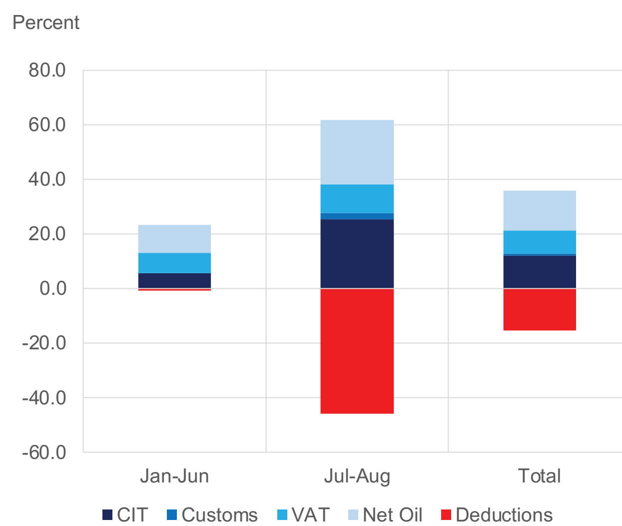
As per the Office of the Accountant General of the Federation (OAGF) fiscal accounts reports, gains in net oil revenues of the Federation were lower than what they should have been, given the removal of the costly gasoline subsidy. The gasoline subsidy cost the Federation about N380 billion a month and it had been expected that, after the decision to remove the subsidy, the Federation account would have seen large increases in net oil revenues. However, most of the gains in the oil revenues in H2 2023, as reported by OAGF, can be attributed to exchange rate gains. Without exchange rate gains, net oil revenue between January and August would have declined by 0.2 of a percentage point of full-year GDP yoy, all materializing in the July–August period [10]. In August, additional revenue from 40 percent profit of Production Sharing Contracts (PSCs) and the interim yearly dividend were reflected in the accounts. However, these were not as high as what the gains from removing the gasoline subsidy should have been. Given that petrol pump prices have not changed in line with market fundamentals (notably exchange rate movements and global oil prices), there is a risk that the implicit fuel subsidy has reemerged, potentially keeping net oil revenues lower than expected.

Figure 1.17. Large (and growing) deductions, primarily for non-oil excess account, have reduced net Federation revenues in 2023



Source: OAGF, NBS, and World Bank estimates

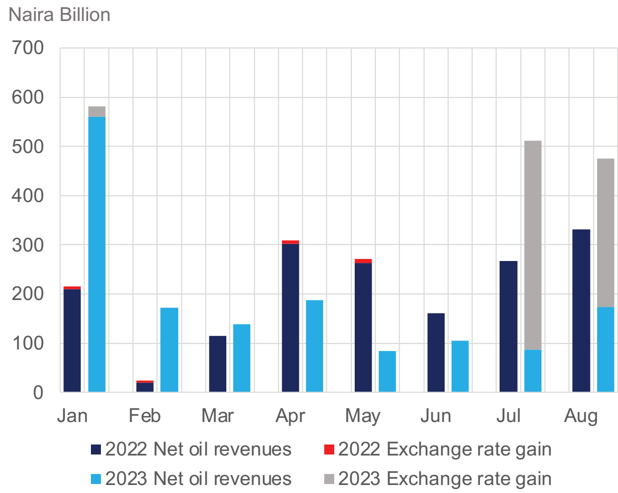
Figure 1.18. Corporate taxes were the biggest contributor to revenue growth in H2 2023….



Source: OAGF, and World Bank estimates

Expenditure pressures have continued to mount during 2023. Federal expenditure (which accounted for 60 percent of the total Federation expenditure in 2022) saw 0.7 of a percentage point of full-year GDP yoy increase in the January–August period (a 36.6-percent nominal increase yoy). This was driven by rising interest costs that increased by 0.3 of a percentage point of full-year GDP yoy (a 36.4-percent nominal increase yoy,

Figure 1.19.…as net oil revenues were lower than what they had been expected to be following the removal of the subsidy

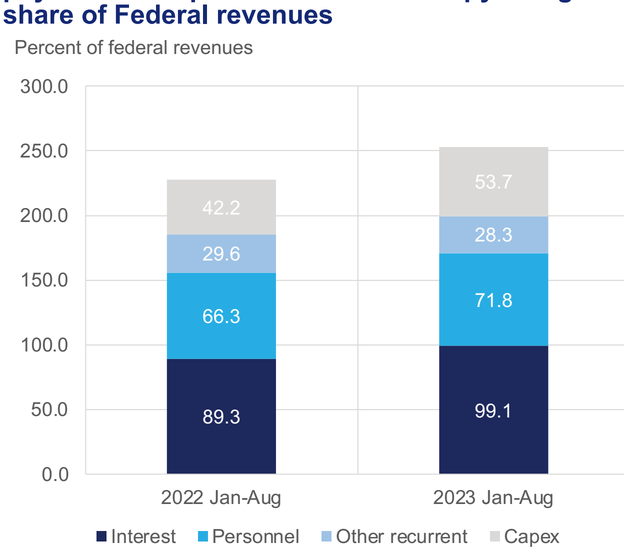


comprising 99 percent of total Federal revenues), and high capital expenditures (which increased by 0.4 of a percentage point of full year GDP yoy). Personnel costs also increased considerably for the Federal Government by 0.2 of a percentage point of GDP yoy (a 33-percent increase in nominal terms) during January–August. However, efforts at fiscal consolidation can be seen in the second half of the year, as total expenditure contracted during the July–August period by 0.2 of a percentage point of full-year GDP yoy, as opposed to 0.8 of a percentage point of GDP yoy growth posted in the January–June period.

Interest expenses are estimated to slow down in the second half of the year, as the securitization of the Ways and Means financing lowers costs. In July–August 2023, interest costs increased yoy but remained constant in percentage-of-GDP terms yoy, as opposed to 0.3 of a percentage point of GDP increase yoy in the first half of the year. Interest on external debt declined in July–August 2023 by 18.4 percent yoy in nominal terms, despite devaluation of the naira, while it was 3.5 percent lower in nominal terms yoy in the January–June period. A large part of the slowdown in interest payments is attributable to the securitization of the N22.7 trillion of Ways and Means[11], which was approved by Parliament in June 2023. However, with the wage reward being announced for the end of the year as a palliative for federal employees due to the removal of the fuel subsidy, a further contraction on the expenditure side for the remainder of the year seems unlikely.

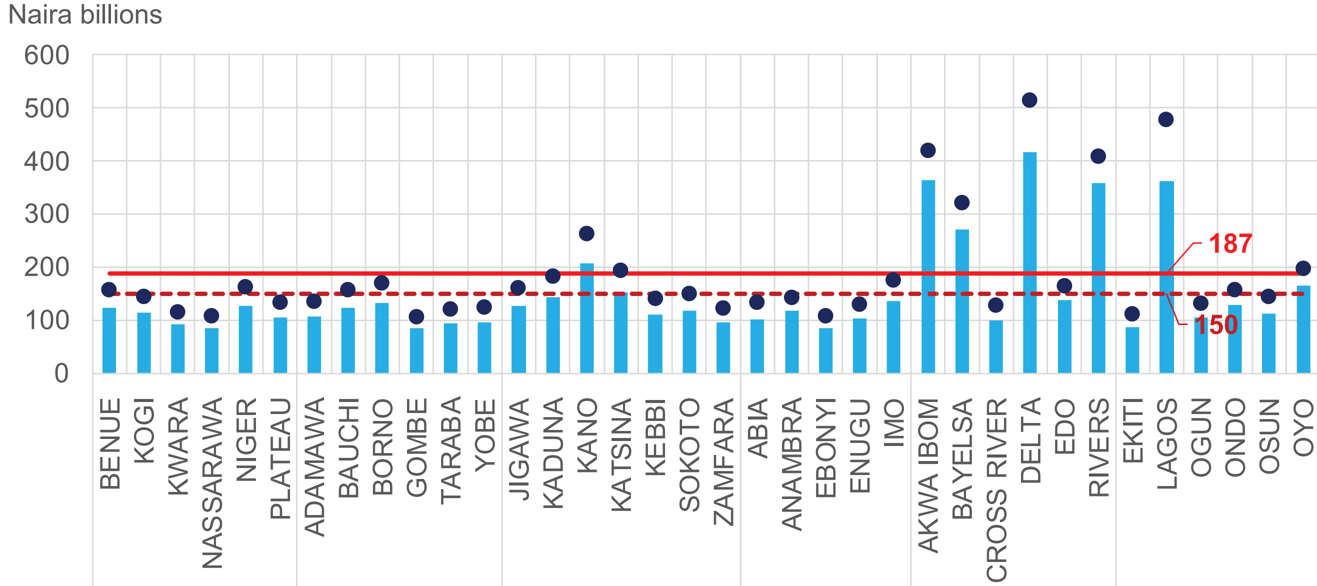
Federation transfers to states are expected to stay relatively constant in real terms in 2023. In 2022, for an average state, Federation transfers (states + local) increased by N18 billion, or 13.8 percent, from 2021 levels—below the rate of inflation. While oil-producing states on average saw an increase in 2022 of N54 billion, non-oil-producing states only received an additional N4 billion, on average. In 2023, with higher revenues, especially from exchange rate gains in the oil sector, and from CIT, an average state is expected to see about N187 billion of Federation transfers vis-à-vis N150 billion in 2022 (a 25-percent increase). Oil-producing states are projected to receive N52 billion more in Federation transfers than 2022 levels (a 21.7-percent increase), while non-oil-producing states are estimated to gain an additional N31 billion in 2023 in Federation transfer revenues.

Figure 1.20. Room for fiscal consolidation from the expenditure side is limited, as interest payments and personnel costs occupy a larger share of Federal revenues



Source: OAGF, NBS, and World Bank estimates

Figure 1.21. Federation transfers to states are projected to increase by 25 percent on average in 2023

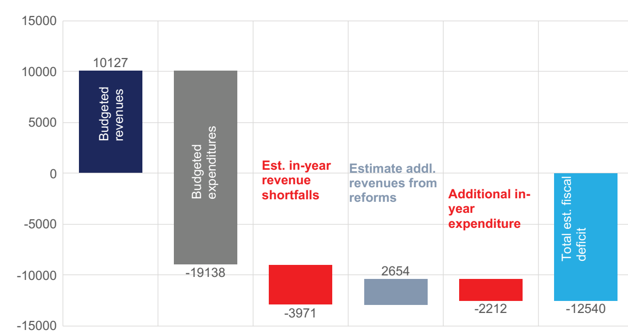


Source: OAGF, and World Bank estimates

With reforms resulting in higher revenues, Nigeria's debt sustainability has improved. The debt stock is estimated to reach 42.2 percent of GDP in 2023, as foreign currency debt increases by 2 percentage points of GDP (to reach 11.3 percent of GDP) due to the revaluation effects of the naira depreciation, while domestic debt (despite higher issuances and continued Ways and Means financing) increases by only 0.1 of a percentage point of GDP (to reach 30.9 percent of GDP). With higher nominal revenues in 2023 and securitization of Ways and Means, debt servicing as a share of GDP is expected to decline from 101.5 percent in 2022 to 66 percent of Federation revenues.

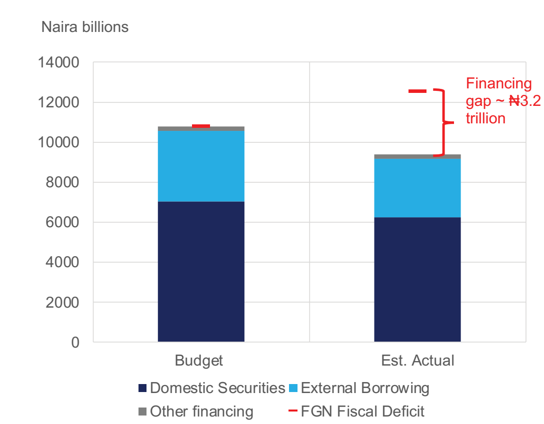
A higher-than-budgeted Federal fiscal deficit is expected to result in continued reliance on costly and distortionary Ways and Means financing. While market domestic debt issuances are estimated to be much higher than 2022 levels (budgeted at N7 trillion in 2023, as opposed to N3.3 trillion in 2022), reliance on Ways and Means financing is expected to continue, which is a costly and distortionary source of finance. While Ways and Means financing is lower than the 1.7-percent-of-GDP level in 2022, it is still estimated to be 1.4 percent of GDP at the end of 2023.

Figure 1.22. The total fiscal deficit is projected to be higher than budgeted in 2023…



Source: OAGF, NBS, and World Bank estimates

Figure 1.23.…resulting in a significant financing gap



Source: OAGF, and World Bank estimates

Box 1.2. The Proposed Medium-Term Fiscal Framework 2024–26

The 2024–2026 Medium-Term Fiscal Framework (MTFF), along with the Fiscal Strategy Paper, was approved by the Federal Executive Council (FEC) on October 16, 2023. The MTFF and the Fiscal Strategy Paper present the Government's economic framework and projections, the Federation revenues and the Federal budgeted expenditures over the next three years, as well as aggregate financing options for the Federal fiscal deficit. A summary of the MTFF is presented below, noting that details may change as the MTFF and budget are approved by Parliament (including exchange rate assumptions). In Nigeria, revenue projections have tended to be over-optimistic (partly due to over-optimistic oil-production projections), and the outturns tend to fall short of budget targets, resulting in higher-than-budgeted Federal fiscal deficits.

Table 1.2.1. Summary information from the proposed MTEF 2024–2026

	2023 approved budget	2024	2025	2026
Crude oil price (US$ per barrel)	75	78	73.8	69.9
Crude oil production (mbpd)	1.7	1.8	1.8	1.8
Exchange rate (N/US$)	435.6	750	665.6	669.8
Inflation (%, annual average)	17.2	21.4	20.3	18.6
Real GDP growth (%)	3.8	3.8	4.2	4.8
Net Federation Accounts Allocation Committee (FAAC) revenues (N trillion)	11.9	26.6	25.9	27.1
Federal Government revenues (N trillion)	8.6	15.5	14.3	14.8
Federal Government expenditure (N trillion)	20.2	24.8	24.6	26.4
Federal fiscal deficit (N trillion)	-11.6	-9.3	-10.3	-11.6
Federal deficit financing (N trillion)	11.6	9.3	10.3	11.6
Domestic borrowing (N trillion)	7.9	6	6.4	8.9
External borrowing (N trillion)	1.8	1.8	2.1	1.1
Multilateral and bilateral loans (N trillion)	1.8	1.1	1.7	1.4
Privatization (N trillion)	0.2	0.3	0	0
Other (N trillion)	0	0.1	0.1	0.1

Source: BOF, and World Bank estimates

Box 1.3. The costs of using Ways and Means financing

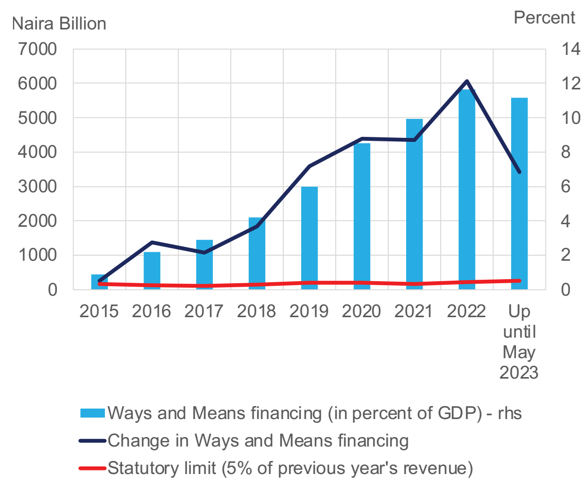
Monetization of the Federal fiscal deficit is a violation of the CBN Act 2007. As per the CBN Act 2007, the recourse to Ways and Means financing is meant to be a temporary solution to smooth out any short-term revenue management issues for the Federal Government (FGN). However, the Act also states that the FGN cannot, at any time, obtain an advance from the CBN of more than 5 percent of the previous year's revenue, and that an advance must be repaid at the end of the financial year. Failure to repay an advance would result in no further advances to the FGN. However, since 2013, the FGN has been accumulating a stock of Ways and Means financing at an increasing rate, breaching the limits set in the Act. By end-2022, the stock of Ways and Means financing stood at N23.5 trillion, or 11.6 percent of GDP.

Ways and Means financing carries significant costs and causes distortions in the economy. The interest cost of Ways and Means (at the Monetary Policy Rate [MPR] + 3 percent) tends to be much higher than any of the other domestic financing instruments used by the FGN. For example, with the MPR increasing to 18.75 percent in July 2023, the interest rate on Ways and Means financing stands at 21.75 percent, significantly higher than even long-term FGN bonds issued by the Government (15.7 percent for 30-year bonds issued in November). Ways and Means is also mostly financed by the CBN through seigniorage, which increases money supply and is, therefore, highly inflationary. The CBN has also partially financed Ways and Means through the balances of commercial banks, which maintain balances at the CBN to comply with Cash Reserve Ratio (CRR) requirements; the minimum CRR stands at 32.5 percent. Even though financing through CRR mitigates the inflationary impact of Ways and Means, it comes at the cost of private sector credit, diverting this to the public sector.

Reliance on Ways and Means financing continues to date, despite high costs, primarily due to existing budgeting practices. Federal budgets are prepared based on overly optimistic revenue projections that are often not realized during the year, causing in-year financing gaps to emerge as actual fiscal deficits exceed budgeted fiscal deficits. Meeting this unbudgeted financing gap through official domestic financing channels would require preparing a supplementary budget that has to be approved by Parliament, which can be a difficult and time-consuming process. Consequently, the FGN resorts to using Ways and Means financing—a quicker source of financing and one that is not officially accounted for as part of the FGN's debt stock.

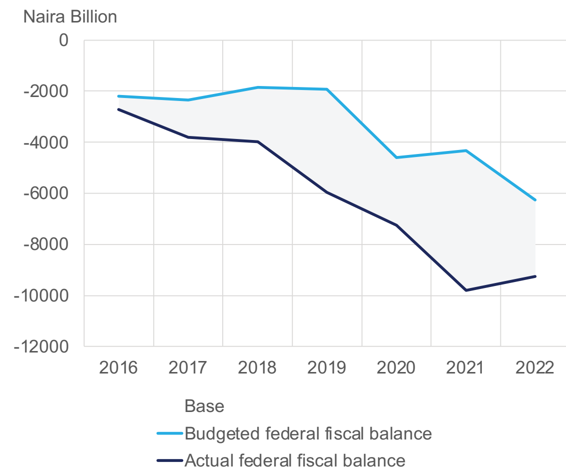
Box 1.3 cont.

Figure B1.3.1. Up until May 2023 (pre-approval of the securitization), FGN had accumulated an additional N3 trillion of Ways and Means financing, much higher than the statutory limit



Sources: CBN and World Bank staff estimates.

Figure B1.3.2. Fiscal deficit outturns have been larger than budgeted, contributing to increasing the stock of Ways and Means



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

Securitization of the stock of Ways and Means helped mitigate some of the fiscal costs, but it is not a long-term solution. In mid-June 2023, Parliament approved the securitization of N22.7 trillion of the stock of Ways and Means (stock up until October 2022) to a 40-year tenor instrument at 9 percent interest rate, which is now considered part of the official debt stock of the FGN. This securitization helps reduce the cost of servicing the accumulated stock of Ways and Means financing, but reduces the profitability of the CBN, and does not address the ongoing "flow" of deficit monetization. As of May 2023, the stock of Ways and Means financing was over N26 trillion, or 11.1 percent of full-year projected GDP. The securitization was approved in May 2023 and the total outstanding stock of Ways and Means by end-June was revised to N4.3 trillion, or 1.8 percent of GDP.

Both the monetary and fiscal authorities need to work together to reduce, and eventually eliminate, the use of Ways and Means financing. On the monetary side, it is important for the CBN to prioritize returning to adherence with the CBN Act. On the fiscal side, boosting revenues can reduce the size of fiscal deficits, which would reduce the overall recourse to Ways and Means as the actual revenues may be closer to the optimistic budget revenue targets. Better budgeting practices, including more realistic revenue and expenditure planning, can reduce the need to use Ways and Means. In addition, better cash management practices, including more stringent application of Treasury Single Account (TSA) principles, can eliminate the need for accumulating Ways and Means in response to in-year cash management challenges. Full transparency and disclosure of information on Ways and Means, both to the public and Parliament, is also vital to rebuild institutional credibility and confidence, which implies including it as part of Nigeria's official debt stock and all debt analytics.

Economic Outlook

The global economy: Continuation of a policy-induced slowdown

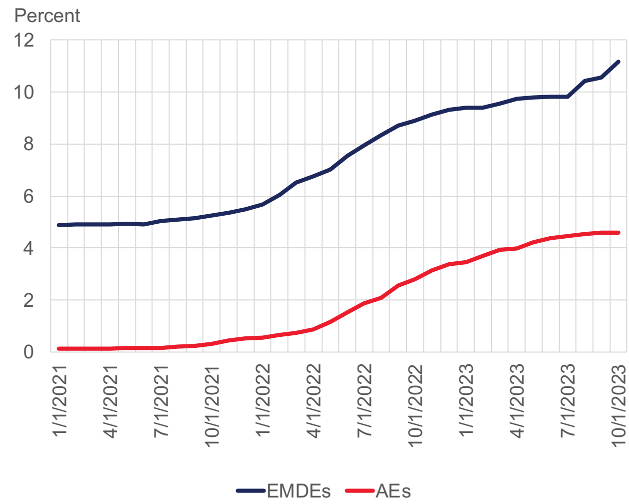
Global growth is expected to weaken this year, as tighter monetary policy owing to persistent inflation weighs on economic activity (World Bank 2023a). Despite a recent deceleration in global inflation amid easing commodity prices, inflation has remained sticky in many countries. The extent of monetary policy tightening has been unprecedented, leading to a sharp increase in borrowing costs, tighter credit conditions, and a slowdown in interest-rate-sensitive sectors, such as commercial real estate. While stronger than expected earlier this year, global growth is still expected to have weakened in 2023, reflecting the lagged impact of interest rate hikes (Figure 1.24A). Global economic growth is projected to decline to just 2.1 percent this year and to 2.9 percent in emerging markets and developing economies (EMDEs) excluding China. Slowing external demand, tighter global financial conditions, and weaker growth spillovers from the recovery in China have weighed on recoveries in EMDEs. An acceleration of growth in China is expected to be primarily driven by a recovery in services, thus providing only limited positive spillovers to global demand, trade, and commodity prices. Meanwhile, tighter financing conditions, slower growth, and high debt levels exacerbated unfavorable debt dynamics across many EMDEs, increasing the risk of debt distress.

Risks to the global outlook remain tilted to the downside. Global growth could weaken more than anticipated if persistent inflation results in additional monetary policy tightening. Increasing interest rates, along with slowing growth, may trigger an increase in NPLs, leading to a further tightening of credit conditions in some countries. Current global geopolitical tensions and policy uncertainty could worsen—especially in the case where the conflict in the Middle East escalates—weighing on investor confidence, adversely affecting capital flows and investment. However, if the recovery in China should disappoint, global commodity prices could decline and thereby undermine recoveries in commodity exporters, especially metal exporters. In EMDEs, tighter financial conditions, rising debt service costs, weak growth, and high levels of debt could increase the risk of debt distress, while further constraining fiscal space. Food prices are expected to remain above pre-pandemic levels. As a result, further disruptions to the supply of farming inputs (especially energy and fertilizers), extreme weather conditions, and an escalation of violence and conflict could push more people into extreme poverty and food insecurity.

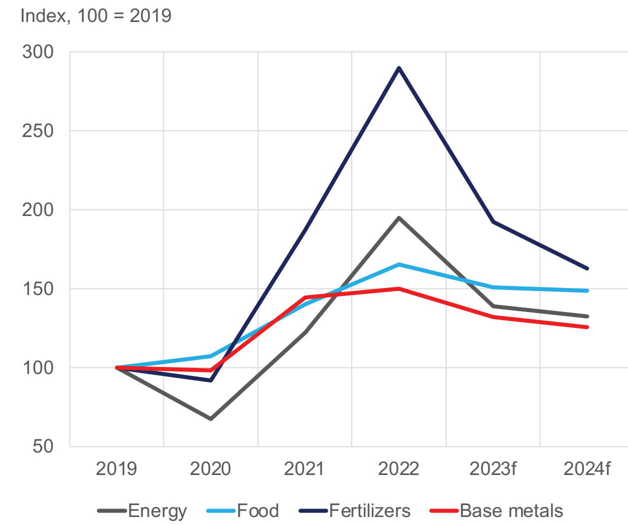
Commodity prices have retreated from their highs in 2022. Commodity prices are expected to drop 24 percent in 2023 and fall a further 4 percent in 2024 (Figure 1.24B), assuming that the latest conflict in the Middle East remains contained, with minimal effects on commodity markets (World Bank Group 2023). In such a scenario, weak global growth amid tight financial conditions continues to drive commodity prices lower in 2024. Energy prices are projected to decline by nearly 29 percent in 2023 and ease further by 4.5 percent in 2024, while food and metal prices are forecast to decline by 8.8 and 12 percent in 2023, and by 1.5 and 5.1 percent in 2024, respectively. While increased supply of major commodities will dampen prices, subdued global goods trade and weakness in China's highly leveraged property sector will weigh on energy and industrial metals into 2024. With the latest conflict in the Middle East, geopolitical risks have risen sharply, for the commodity market outlook in particular. Severe weather events, primarily driven by El Niño, and weaker-than-expected global growth are additional risks to the commodity outlook.

Figure 1.24. Global financial conditions have tightened

A. Global policy rates



B. Commodity price indices



Sources: Haver; World Bank.
Note: AEs =Advanced economies; EMDEs = Emerging Markets and Developing Economies.
A. Unweighted average of nominal policy rates. Panel includes 16 AEs and at least 70 EMDEs. Last observation is October 2023.
B. f indicates forecast.

Table 1.1. Global and regional indicators, 2019–2023

	2020	2021	2022	2023f	
				June 2023 (current projection)	January 2023 (previous projection)
Real GDP growth – Global economy (%)	-3.1	6	3.1	2.1	1.7
Real GDP growth – Advanced Economies (%)	-4.3	5.4	2.6	0.7	0.5
Real GDP growth – Emerging and Developing Economies (%)	-1.5	6.9	3.7	4.1	3.4
Real GDP growth – Emerging and Developing Economies excluding China (%)	-3.9	5.9	4.1	2.9	2.7
Crude oil, Brent (US$ per barrel)[a3]	42.3	70.4	99.8	84	88

Sources: World Bank. 2023a. Global Economic Prospects (June 2023). World Bank: Washington, DC;
World Bank Group. 2023. Commodity Markets Outlook (October 2023). World Bank: Washington, DC.

Note: [a] For the crude oil price, the current reference date is October 2023 (as in the Commodity Markets Outlook).

Nigeria's outlook and policy priorities: Maintaining reform momentum will allow Nigeria to chart a new course

Recent reforms, if continued and enhanced, are expected to unwind critical macroeconomic imbalances and distortions that have held back Nigeria's growth in the recent past. Reforms are expected to contribute to a progressive recovery of GDP growth between 2023 and 2026, at an annual average of 3.5 percent in the period. Services—especially banking and ICT—and non-oil industry will benefit from a more stable and predictable macroeconomic environment, and easier access to FX and imported inputs. Along with continuing increased global oil prices, the removal of the gasoline subsidy should help oil production to gradually recover and reverse the sector's decline. In turn, the agriculture sector is expected to progressively recover from impacts of the severe floods in 2022. In the medium term, the economy will also benefit from increased fiscal space for development spending, including on power and transport infrastructure, and on human capital. Moving decisively onto a high long-term growth path will require not only macroeconomic stabilization but also structural reforms to reduce insecurity, improve the business environment, and increase openness to trade. Together, these reforms will significantly boost investment and productivity across all sectors.

Inflation will gradually decline in 2024 and beyond, if monetary policy tightening is accelerated (Figure 1.26). The reform of the gasoline subsidy increased some prices, mainly of gasoline purchases for vehicles and generators, as well as transport-related costs. Consequently, headline inflation is expected to rise from an average of 18.8 percent in 2022 to 24 percent in 2023. However, the reform of the subsidy will become disinflationary starting in H12024 due to fiscal consolidation. This will help to reduce financing from the CBN, consequently lowering money supply growth and dissipating the impact of the initial large gasoline price increases. Similarly, while the depreciation of the naira contributes to short-run inflation, over time a more transparent, market-reflective, and flexible exchange rate, underpinned by monetary policy tightening, is also likely to be more stable, thereby easing the pressures on inflation. Additional transparency on the net reserves position of the CBN and clearer communication on the clearance of the backlog can also boost confidence in market and help stabilize the naira, which will help keep inflation moderated. In the baseline scenario, lower inflationary pressures from reduced deficit monetization would be best supported by a significantly tighter monetary policy, the projected decline in global non-oil commodity prices, and the higher foreign supply of goods and services, as strengthened policies and macroeconomic stability foster the increased trade and investment needed to address supply-side constraints.

The reform of the gasoline subsidy, the unification of the exchange rate, and non-oil revenue-related reforms are expected to result in larger fiscal inflows. It is estimated that revenues will rebound from 6.7 percent of GDP in 2022 to 7.6 percent in 2023, and increase further to average 9.5 percent of GDP in 2024–2026. Three main factors contribute to this increase in revenues:

- **First, the resources that were previously used to finance the gasoline subsidy will now flow back to the Treasury, adding about 1.4 percent of GDP as additional annual revenue gains.**

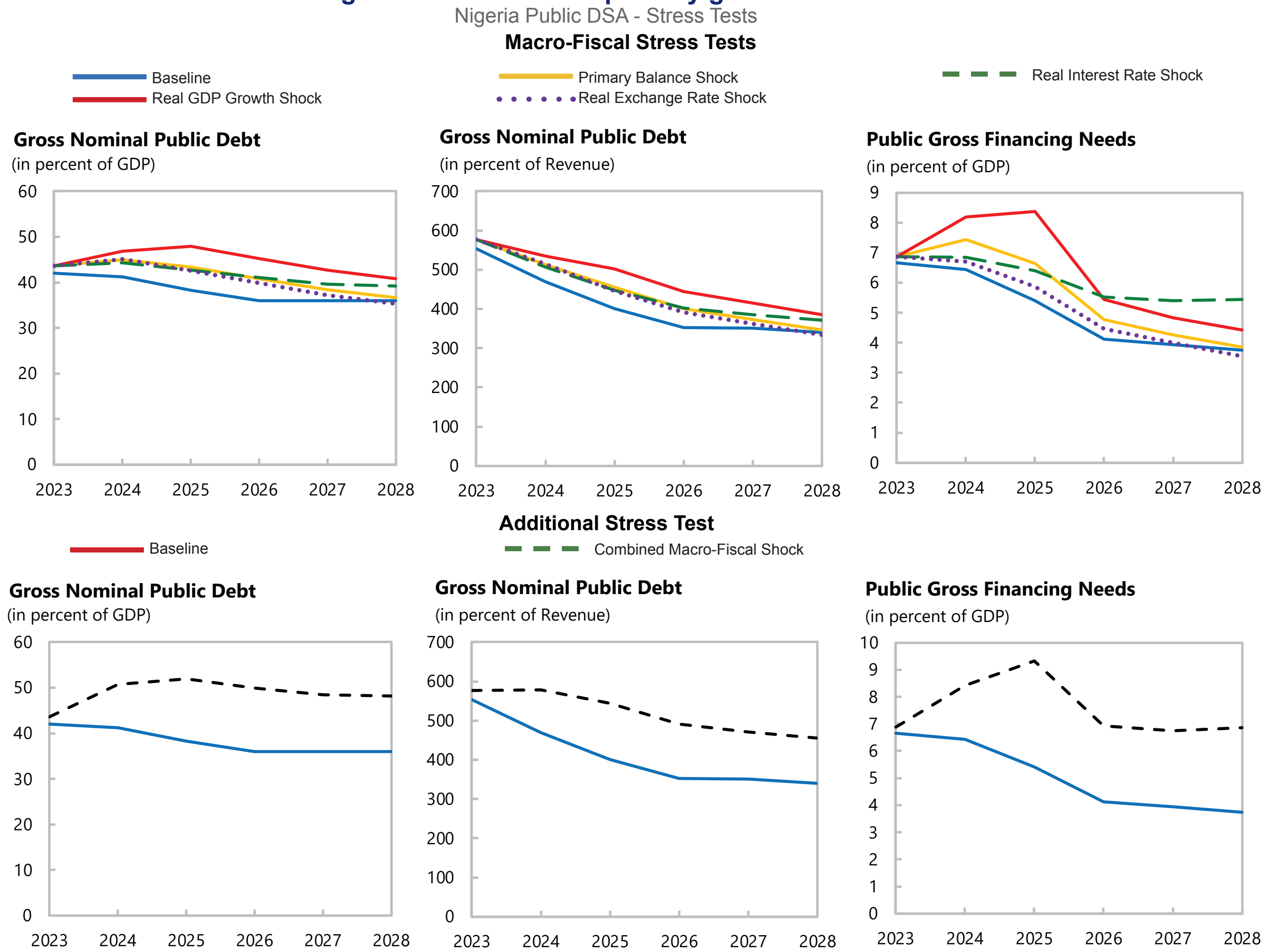
- **Second, the reform of the FX rate will boost foreign-related revenues (oil and customs) as US dollar-denominated Federation revenues were previously exchanged at an overvalued exchange rate.** This is estimated to bring about 0.9 percent of GDP in additional gains compared with a scenario in which the reform was not implemented.

- **Third, planned non-oil revenue-generating measures are expected to yield an additional 1 percent of GDP by 2026.**

As a result of the revenue gains, the fiscal deficit will decrease, despite an increase in spending. Expenditures are set to rise from 11.7 percent of GDP in 2022 to 13.5 percent in 2026. This increase is due to the Government's rollout of compensating measures in 2024 to protect Nigerian households from the initial impacts of the subsidy reform. This is reflected in an increase of 0.7 of a percentage point of GDP in the wage bill. Concurrently, there will be a boost in capital spending, particularly in 2025 and 2026, as the Government directs investments toward enhancing physical and human capital. In addition, interest payments on debt will rise because of the anticipated tightening of monetary policy. Overall, the revenue gain will outweigh the spending increase, resulting in the primary balance moving into a small surplus by 2026 and the fiscal deficit shrinking from 5.1 percent of GDP in 2022 to about 3.2 percent in 2026.

The improved fiscal position will contribute to maintaining the sustainability of public debt. With the Public and Publicly Guaranteed (PPG) debt stock at 40 percent of GDP at the end of 2022, Nigeria's debt stock is not high by international standards. However, due to low revenue mobilization and high debt costs, debt servicing had been rising rapidly before the reforms, on a trajectory to reach more than 200 percent of revenues by 2026. Following the reforms, Nigeria's significantly improved fiscal path will keep debt levels below 40 percent of GDP over the medium term, and debt servicing will start trending downward from about 101.5 percent of total revenues in 2022 to 43 percent in 2026. The improving debt trajectory is primarily due to the improved fiscal outlook resulting from higher projected revenues through the reforms, and the securitization of over 95 percent of the stock of Ways and Means financing into a long-tenor instrument with a significantly lower interest rate.[12] With only 23 percent of the total PPG debt stock in foreign currency (mostly on concessional terms), the public debt stock and servicing are estimated to remain sustainable in the face of exchange rate and other macroeconomic shocks (Figure 1.25).

Figure 1.25. Public and publicly guaranteed debt



Source: World Bank estimates using data from DMO and the MAC DSA template.

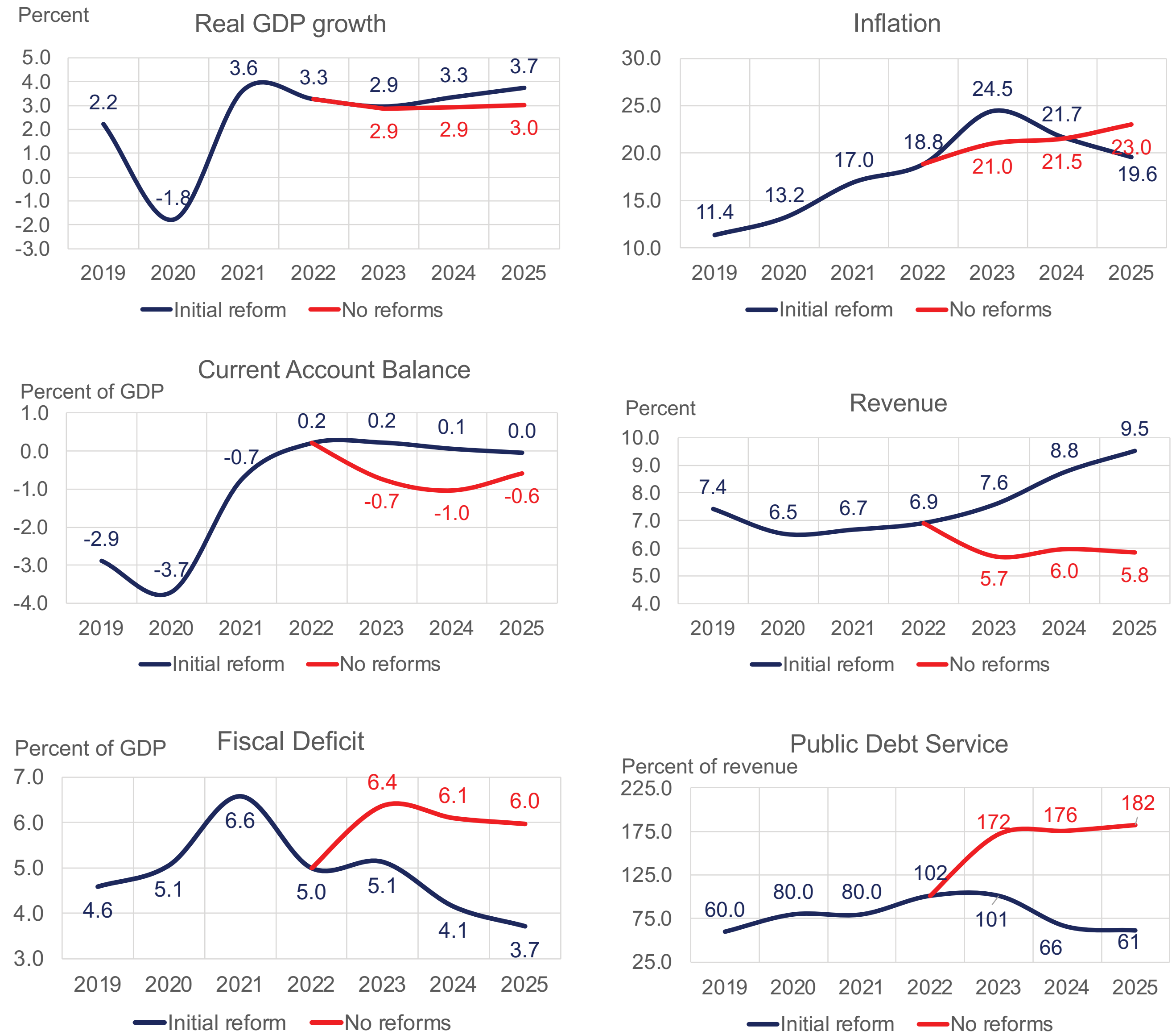
Risks to the economic outlook are tilted to the downside, as the baseline scenario hinges on reforms being sustained, despite the headwinds from adjustment pains and any adverse shocks. Domestically, policy reversals or the failure to implement coherent and supportive policy measures are the biggest risks to restoring macroeconomic stability in Nigeria. If savings from the PMS subsidy are not realized, revenues could drop as much as 2 percentage points of GDP in the coming years. Similarly, not allowing the exchange rate to be determined by market forces and failing to tighten monetary policy could add to exchange rate volatility, maintain inflationary pressures, erode investor confidence, reignite arbitrage opportunities, and further increase inflation. A weaker reform impetus to quickly ramp up non-oil revenues through tax policy and tax administration, combined with a continued decline in oil production, would lead to a rapid deterioration in the fiscal situation, with debt servicing pressures escalating over the medium term. Under this "no-reform" scenario (Table 1.2), Nigeria's macroeconomic stability would worsen significantly, the growth outlook would remain weak, and economic instability would intensify. Externally, continued tight monetary policy in the key economies, global growth deceleration, worsening political instability in the region, or intensification of the conflicts in the Middle East and Ukraine, could undermine economic activity in Nigeria. Similar to all countries, Nigeria also faces rising climate change-related risks, such as a repeat of the damaging 2022 floods.

Table 1.2. Macro-fiscal outlook (with vs without reforms)

		Post-reforms				No-reforms			
	2022	**2023**	**2024**	**2025**	**2026**	**2023**	**2024**	**2025**	**2026**
Key economic indicators	Act.	Proj	Proj	Proj	Proj	Proj	Proj	Proj	Proj
Real GDP growth (annual percentage change)	3.3	2.9	3.3	3.7	4.1	2.9	2.9	3.0	3.1
CPI inflation (yearly average)	18.8	24.5	21.7	19.6	17.1	21.0	21.5	23.0	24.0
Current account balance (percent of GDP)	0.2	0.2	0.1	-0.0	-0.0	-0.7	-1.0	-0.6	-0.7
Fiscal and debt indicators (Percent of GDP, unless stated otherwise)									
Revenues	6.7	7.6	8.8	9.5	10.2	5.7	6.0	5.9	5.1
Expenditures	11.7	12.7	12.9	13.2	13.4	12.1	12.1	11.8	11.2
Primary fiscal balance	-1.6	-1.7	-1.0	-0.5	0.1	-2.2	-2.0	-2.0	-2.5
Overall fiscal balance	-5.0	-5.1	-4.1	-3.7	-3.2	-6.4	-6.1	-6.0	-6.2
Public debt	40.0	42.0	41.2	38.3	35.9	43.0	41.8	40.0	38.2
Debt service (percentage of revenues)	101.5	66	61	51	41	172	176	182	236

Sources: OAGF, DMO, CBN, NBS and World Bank staff calculations.

Figure 1.26. The important reforms initiated, if sustained, improve Nigeria's economic outlook
Macroeconomic indicators and projections, 2019–2024



Source: World Bank.

Staying the course: To fully realize the economic gains, Nigeria needs to continue with reforms

Nigeria took several critical decisions and reforms earlier this year to avoid a fiscal cliff and regain macroeconomic stability, but there is a need to fully implement and broaden them to switch onto a higher growth path. Fully establishing macroeconomic stability remains an important priority, to reduce the vulnerability of the economy to crisis and help return to the growth focused reforms (World Bank 2022), needed to sustainably reduce poverty and boosting job creation. There are three key outstanding reform areas in this regard:

a. Safeguarding the benefits to the Federation of the PMS subsidy reform: To ensure that revenue gains from the removal of subsidy are fully transferred to the Federation account, and to guarantee that the subsidy remains effectively removed and petrol prices adjust in line with market principles.

b. Increasing non-oil revenues. To reduce Nigeria's vulnerability to volatile oil prices, rebuild fiscal space, and sustainably increase spending to meet its enormous development needs, it is vital to increase non-oil revenues. This can be achieved by building on recent progress that has begun to broaden the non-oil tax base efficiently and equitably, and rationalizing tax expenditures.

c. Reducing inflation and rebuilding confidence through a consistent overall mix of monetary, FX and fiscal policies to restore conditions for private investment and growth, and ultimately benefit Nigerians.

As the economy adjusts to the new policy mix, cushioning the impacts on the poor and most vulnerable is also essential. The Government has recently rolled out cash transfers to 15 million households to help them cope with the inflationary impact of the removal of the gasoline subsidy. This can be a critical first step in building a social compact of the citizens with the state, and gain buy-in from the public for continuing with the reforms and undertaking future reforms.

Moving decisively onto a higher long-term growth and poverty reduction path requires not only a stable macroeconomic environment but also concerted structural reforms (World Bank 2022). In the medium term, the economy will begin to benefit from increasing fiscal space for development spending, including on power and transport infrastructure, as well as on human capital. Reducing structural constraints to growth require not only strengthening public services and investments but also reducing insecurity, improving the business environment, and increasing openness to trade. Together, these reforms will boost investment and productivity across sectors, allowing economic development to regain its fast pace.

Table 1.3. Macro policy options to continue to support Nigeria's achieve macroeconomic stability

Policy	Status	Specific Measures
		Restoring Macroeconomic Stability
Remove the gasoline subsidy and establish a market-based mechanism for gasoline pricing		The removal of the subsidy was announced on May 29 and pump prices were adjusted on June 1. This results in expected fiscal savings of around N2 trillion in 2023, or 0.9 percent of GDP. Between 2023 and 2025, the expected gains are over N11 trillion, against a scenario in which the subsidy had continued.
		Reaffirm the commitment to not subsidize gasoline and ensure retail gasoline prices are consistent with this. Regularly publish information that explains prices at the pump. Publish detailed financial statements and revenue flows of NNPC to safeguard the fiscal savings from the subsidy reform and ensure that oil revenues flow to the Federation.
Increase non-oil revenues		Since 2019, the Government introduced non-oil revenue reforms and tax administration improvements, through the Strategic Revenue Growth Initiative (SRGI). This has helped boost non-oil revenues, reversing the previously declining trend, and preventing an even more severe fiscal squeeze. Key reforms included increasing the VAT rate from 5.0 to 7.5 percent, increasing gas flare fees, rationalizing tax expenditures, and operationalizing the electronic money transfer levy. The oversight of government-owned enterprises (GOEs) has also been strengthened, by ensuring a 50 percent cap on the cost-to-income ratio of these parastatals.
		In the short-run, the Government can further increase non-oil revenues by (i) gradually increasing the VAT rate, while allowing for input tax credit on capital and services, (ii) removing VAT exemptions on petroleum products, (iii) remove the suspension imposed on the excises on telecommunication, single use plastics, and high-polluting vehicles, (iv) increase excise rates on sin goods (tobacco and alcohol), implementing an advisory visit program to improve voluntary compliance, (v) adopting a data-driven approach to tax audit, (iv) leveraging technology to reduce tax avoidance, (vii) linking residential property with Profit Income Tax (PIT) returns, (viii) introducing a simple turnover tax on SMEs at the state level instead of the various nuisance fees and levies, (ix) adopting modern valuation methods to properties
Reduce excess domestic liquidity and money supply growth to control inflation		The CBN has begun tightening monetary policy restarting OMOs, and removing the cap on the Standing Deposit Facility. Additional measures to reduce naira liquidity, and tolerance for higher market interest rates, may be required.
		Further tighten monetary policy. Build on strong stated commitments by finalizing and communicating the plan to swiftly phase out monetization of the fiscal deficit and current CBN development finance interventions.

Policy	Status	Specific Measures
Restoring Macroeconomic Stability		
Reduce trade restrictions that increase prices and poverty		On October 12, CBN announced the removal of FX restrictions for the importation of 43 items. This is expected to help reduce prices on staples such as rice and help to bring poverty rates down, spur competition by removing exchange rate access distortions, and raise revenues.
		Start lowering import tariffs and non-tariff barriers on food and pharmaceuticals to lower prices and reduce poverty. Past import restrictions have not achieved their intended objectives of fostering domestic production, and have increased domestic prices, curtailing competitiveness and household consumption.
Adopt a de facto floating exchange rate and fully channel FX inflows to NAFEM		On June 14, the CBN unified the multiple official FX windows into a single official market to be operated under a de facto willing-buyer-willing-seller mechanism.
		Ensure full FX liberalization by continuing to build market confidence around free pricing and evaluating, and implementing policy measures to channel FX supply into the NAFEM. Publish full information on net reserves to build market confidence.
Expand social protection to protect the poor and most vulnerable		
Establish a social compact with the Nigerian people		Nigeria has developed a social registry system and rolled out time-bound, shock responsive, targeted cash transfers of N25,000 to 15 million recipients and their families (directly benefiting over 60 million Nigerians) for a period of 3 months.
		Implement a wider compact with Nigerian citizens to partly channel increasing revenues to continuous redistribution mechanisms—such as targeted cash transfers—and to expanded and better provision of public services. Publicize and publish details of this compact to enable public monitoring of its implementation.

Note: Green indicates completion, yellow denotes partially completed reforms, and red highlights reforms that have not yet begun.

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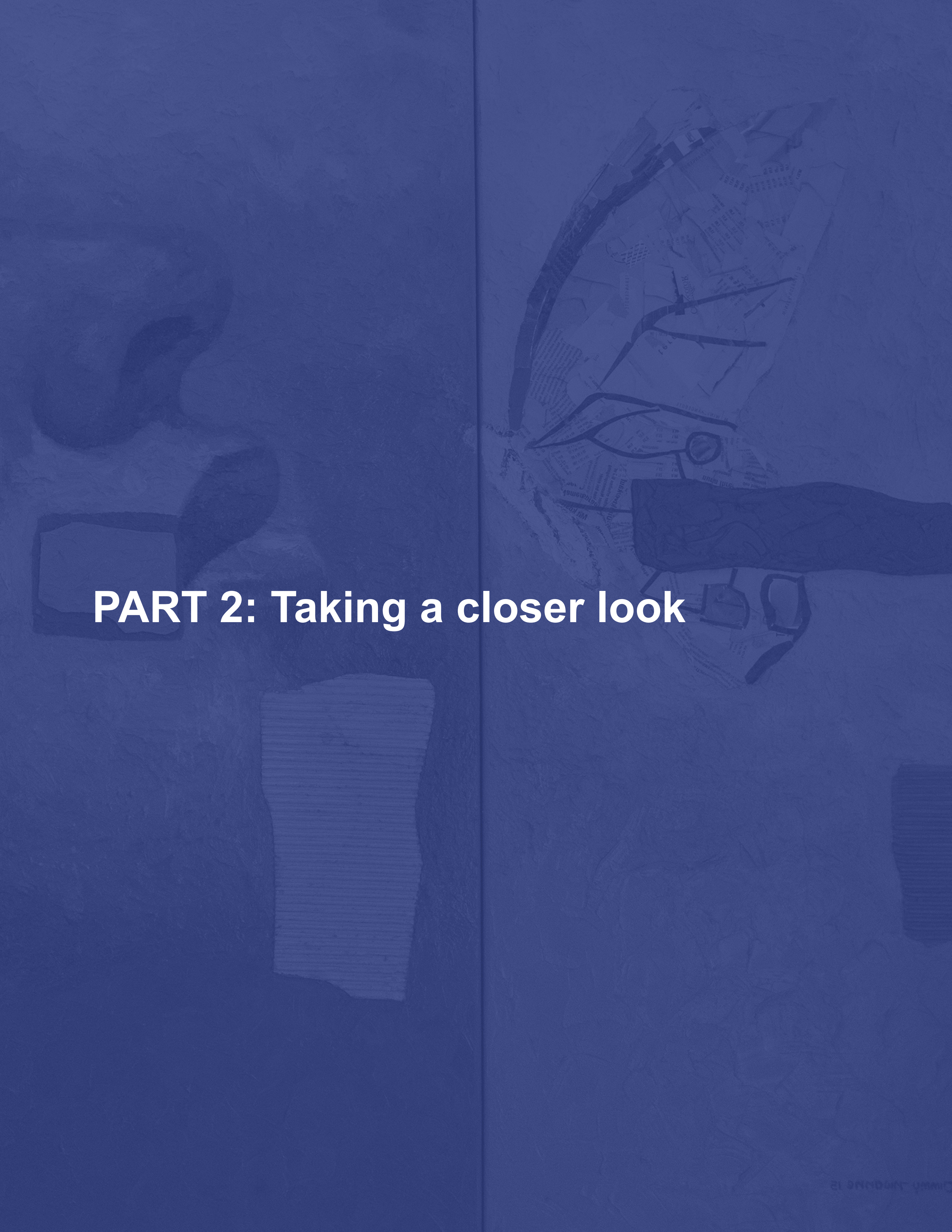


PART 2: Taking a closer look

Lifting FX Restrictions on Imports and Tackling Import Bans

Summary: This section examines the effects of foreign exchange (FX) restrictions and import bans in Nigeria. The analysis reveals several unintended consequences. Notably, these restrictions not only pushed economic agents toward the parallel FX market, widening the gap between the official and parallel exchange rates, but they also raised the prices of both imported and domestic goods. The most significant impact was on households, which saw their purchasing power decrease with higher prices. In addition, they undermined the competitiveness of local firms reliant on imports for their inputs and the competition pressures in the domestic market. These negative outcomes outweighed any potential industrial policy payoffs, calling into question their net social and economic values. The section concludes by proposing complementary policies that would support Nigeria's macroeconomic stabilization and structural reforms to increase competitiveness and economic diversification.

The Unintended Consequences of Imports Restrictions

The FX restrictions on importing 43 product categories have now been lifted, but import bans on specific items remain in place. Nigeria maintained two distinct lists of trade restrictions. The first, FX restrictions imposed on importers in 2015, were lifted on October 12, 2023. Initiated by the CBN, the restrictions purportedly aimed to conserve FX reserves and bolster domestic industry and job creation. They affected 43 product categories[13], encompassing over 936 product lines according to the Harmonized Standard (HS) customs classification. The Nigeria Customs Service (NCS) enforces the second, still active, list of trade restrictions. As the statutory authority tasked with implementing trade policies, the NCS operates within the framework of the Government's fiscal policy measures, as directed by the Ministries of Trade and Finance, to enforce a comprehensive ban on the importation of 23 product categories[14]. These import bans have been established through various pieces of government legislation since the mid-1970s.

The two lists overlapped on certain products, creating governance loopholes, uncertainty for the private sector, and higher prices. There was an overlap of seven product categories between the two lists (Table 2.1). The overlap and lack of clarity on these measures led to the restrictions affecting product categories beyond those included in the restrictions.

The FX access restrictions and import bans heightened trade barriers and created costly economic distortions. While the FX restrictions did not explicitly prohibit importing the 43 categories of goods on the restriction list, they created a significant hurdle. Since importers were unable to obtain FX through official channels to cover the cost of their imports, they turned to the more expensive parallel markets and resorted to smuggling the imported products into the country. Moreover, private sector firms often raised concerns over how these restrictions affected exchange rate management, inflation, and firms' productivity[15]. Partly because of these restrictions, Nigeria ranked 97 out of 153 countries in 2023 on the Competitive Industrial Performance Index, 44 places below South Africa (ranked 53)[16].

Table 2.1. Comparison of FX restrictions on imports and import bans

FX restrictions on imports	Import Bans	Items in both lists
Rice	Live or dead birds including frozen poultry	Vegetable oils
Cement	Pork and beef	Chicken and poultry
Margarine	Bird eggs (excl. hatching eggs for breeding and research)	Eggs
Palm Kernel/Palm oil products/Vegetable oils	Refined vegetable oil (excl. linseed, castor oil, olive oil, and hydrogenated vegetable fats.	Tomato
Meat and Processed Meat Products	Cane or beet sugar, chemically pure sucrose in any form	Tomato paste
Vegetables fresh and processed	Cocoa butter, power and cakes	Soaps
Poultry: chicken, egg, turkey	Spaghetti/noodles	Meat, processed meat (pork, beef)
Private airplanes/Jets	Tomatoes, whole, in pieces, tomato paste or concentrate	
Indian Incense	Fruit juice in retail packs	
Tinned fish in sauce (Geisha/Sardines)	Tomato ketchup and sauces	
Cold Rolled Steel Sheets	Waters, incl. mineral or with added sugar but excl. energy, health drinks and beer	
Galvanized Steel Sheets	Bagged cement	
Roofing Sheets	Dichlorodifluoromethanezzzz	
Wheelbarrows	Medicaments (various)	
Head pans	Waste pharmaceuticals	
Metal Boxes and Containers	Mineral and chemical fertilizer (nitrogen, phosphorus, potassium and variants)	
Enamelware	Soaps and detergents in retail packs	
Steel Drums	Mosquito repellent coils	
Steel pipes	Rethreaded and used pneumatic tires but excluding used truck tires for rethreading of size 11 x 20.	
Wire rods (deformed or not)	Paper products (cartons, boxes, and cases); toilet paper, cleansing or facial tissue (excl. baby diapers and incontinence pads; and exercise books	
Iron rods and reinforcing bars	Carpets and rugs of all types	
Wire mesh	All types of footwears, bags and suitcases (excl. safety shoes in oil industries, sports shoes, canvass shoes, and all knocked down)	
Steel nails	Hollows glass bottles of a capacity > 150 ml (0.15 liters)	
Security and razor wire	Used compressors, air conditioners, and fridges and freezers	
Wood particle boards and panels	Used motor vehicles > 12 years from the year of manufacture	
Wood fiber boards and panels	Ball point pen and parts including refills (excluding tips)	
Wooden doors		
Furniture		

Toothpicks		
Glass and Glassware		
Kitchen Utensils		
Tableware		
Tiles – vitrified and ceramic		
Textiles		
Woven fabrics		
Clothes		
Plastic or rubber products and		
cellophane wrappers		
Soap and cosmetics		
Tomatoes and Tomato paste		
Euro bond, foreign currency bond		

Overall, import restrictions had four major adverse effects on the Nigerian economy:

1. **FX market segmentation:** Despite the import restrictions faced by traders and businesses, whether in the form of FX restrictions or import bans, substantial quantities of restricted products were continuously imported to Nigeria. Anecdotal evidence suggests that these entities used to resort to the parallel market to secure FX for their import bill, increasing demand pressures in the parallel market and contributing to FX market segmentation.

2. **Higher prices:** Figure 2.1 shows, for instance, that the price of domestic and imported rice moves concurrently and increased substantially post implementation of import restrictions. Eliminating both FX restrictions on imports and import bans would lead to an estimated 4.7 percent decrease in prices of the goods affected. Moreover, import restrictions can affect the production costs and market power of all domestic and foreign firms operating in Nigeria. Through domestic supply chains and competition for resources and market shares, industries other than the ones targeted by the protectionist policies are affected, amplifying the adverse, unintended consequences of this form of industrial policy.

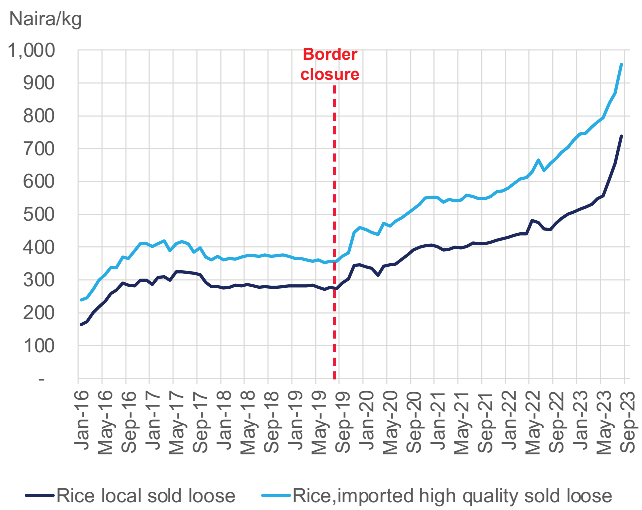
3. **Trade evasion:** FX restrictions on imports had also directly resulted in an 18.1 percent increase in trade evasion (Figure 2.2). This evasion rate in Nigeria is triple that of low-income countries. The unrecorded trade flows, which were not reflected in Nigeria's balance-of-payments (BOP) statistics, were evidenced by a comparison between exports to and imports from Nigeria as recorded by trading partners. While reported imports in Nigeria dropped by over two-thirds between 2015 and 2019, exports to Nigeria from trade partners only halved in the same period. These recording gaps, especially pronounced in sectors such as textiles (exceeding 100 percent), art (94 percent), and hides and skins (78 percent), suggest that imports under FX restrictions had consistently been evaded, including in product categories that were not part of the FX restrictions lists (Figure 2.3).

4. **Lower fiscal revenues from tariffs:** The revenue impact of import restrictions amounted to about US$1.4 billion, or about US$275 million annually, between 2015 and 2019 (Figure 2.4).

5. Overall revenue losses: This estimate accounts for the revenue that would have been collected if imports had been formally recorded at the borders, and assuming no evasion due to import restrictions, which did not materialize following the introduction of the import

restrictions. [17][18]The overall revenue loss is significantly higher when including evasion due to high tariffs. Assuming that there was no trade evasion due to high tariffs and import restrictions between 2010 and 2019, Nigeria would have collected additional annual revenue of US$1.8 billion.[19] This is a conservative estimate and is equivalent to 0.4 percent of GDP and 6.6 percent of overall tax revenue in 2020. Based on these estimates, overall tariff revenues would have been 45 percent higher each year in the absence of evasion. The sectors with the highest revenue losses are plastics, metals, stones and textiles.

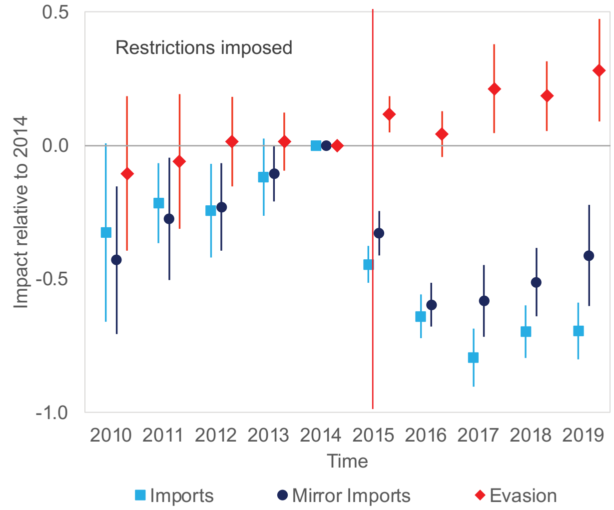
Figure 2.1. Price of both domestic and imported rice increased post FX import restrictions and border closure



Source: NBS (for price data).

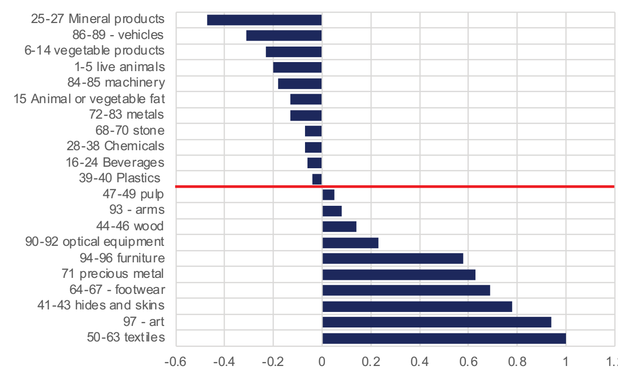
Note: Figure shows price movements for the goods labeled "Rice local sold loose" and "Rice, imported high quality sold loose" in NBS price data

Figure 2.2. FX restrictions led to an increase in trade evasion by 18.1 percent



Source: World Bank staff calculations using COMTRADENBS price data

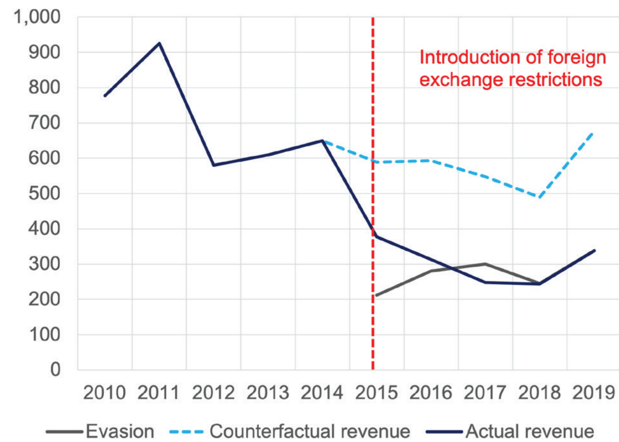
Figure 2.3. FX restrictions led to substantial evasion gaps in some sectors



Source: World Bank staff calculations using COMTRADENBS price data

Figure 2.4. Without tariff evasion, Nigeria's revenue would have been significantly higher

Tariff Revenue from goods subject to FX restrictions on imports and import bans (million US$)

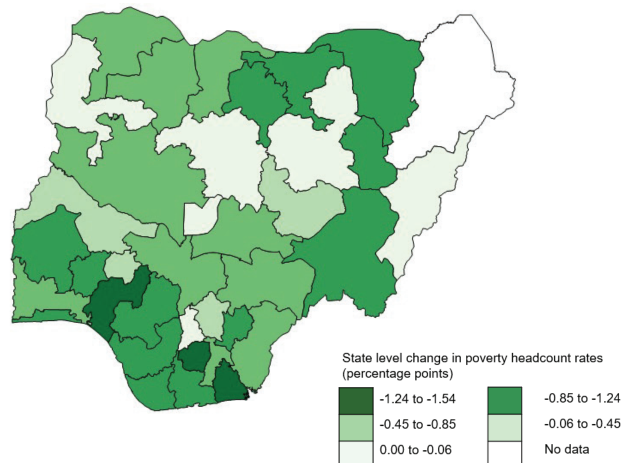


Source: World Bank staff calculations using COMTRADE.
Note:
The graph depicts the evolution of tariff revenue of goods subject to FX bans (introduced in 2015) and import bans. The dotted line "counterfactual revenue" depicts the estimated revenue that would have been collected had FX bans not been introduced. The red line "Evasion" denotes the tariff evasion induced by the introduction of FX restrictions. Sample period: 2010–2019.

Lifting Import Restrictions: A Pathway to Improved Welfare

Removing import restrictions is pro-poor and will enhance consumer welfare, as they have adversely affected Nigerians' purchasing power. The impact of restrictive trade policies on prices has added pressure on Nigerian households. Dabelan and Nga (2018) show that removing import bans in Nigeria could lower national poverty rates by up to 2.6 percentage points. Import restrictions disproportionately affect goods that are consumed more by the poorer households. For example, rice—a staple food for about 84 percent of Nigerian households and consumed in both locally-produced and imported varieties—has seen escalating prices, a trend exacerbated by import restrictions. Recent World Bank estimates show that removing import restrictions could lower the prices of affected items by 4.7 percent. This would lead to an overall increase in purchasing power which, in turn, would lift about 1.3 million people (around 0.6 percent of the population) out of poverty. The positive impacts on poverty reduction would be seen across various states (Figure 2.5), with the largest gains in Kaduna, Ekiti, Enugu, FCT, Kwara, Anambra, Adamawa, Cross River, and Kebbi, and the smallest in Rivers, Akwa Ibom, Ondo, Abia, Imo, and Ebonyi.

Figure 2.5. The impact of removing FX restrictions and imports bans would vary by state depending on what households consume and produce



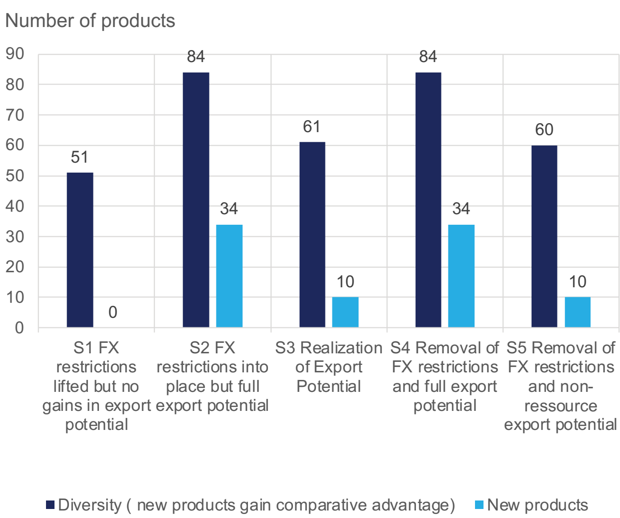
*Sources: 2*018/19 NLSS (for consumption data), NBS (for price data), Humanitarian Data Exchange (for map shape files), and World Bank staff estimates.

Note: Estimates exclude Borno. Poverty calculated using Nigeria's national poverty line. Income and poverty changes were calculated using the HIT model, in which 2018/19 NLSS data were incorporated. Income captured by households' consumption, a measure of their welfare. NBS price data from 2015 to 2017 and information on previous trade policies were used to estimate the pass-through from trade policies to prices.

Eliminating import restrictions would also enhance firms' export potential and support economic diversification. A counterfactual analysis using a gravity model shows that import restrictions did not yield significant economic gains by enhancing exports competitiveness and enabling the country to export new products, especially in the non-oil sector (Figure 2.6). For instance, in 2021, Nigeria's unrealized export potential in sectors such as foodstuffs, vegetables, animals, and metals was about US$ 4.5 billion (Figure 2.7), or US$ 13 billion (including petroleum) and 22.5 percent of its total exports. Meanwhile, Nigeria's imports would have been US$3.7 billion higher had FX not been restricted

(Figure 2.8), implying that, in sum, the trade balance in 2021 could have been US$9.3 billion higher without FX restrictions and assuming a scenario where full trade potential was realized. Overall, this suggests that import restrictions, intended to enhance the competitiveness of domestic industries, might in fact have had the opposite effect.

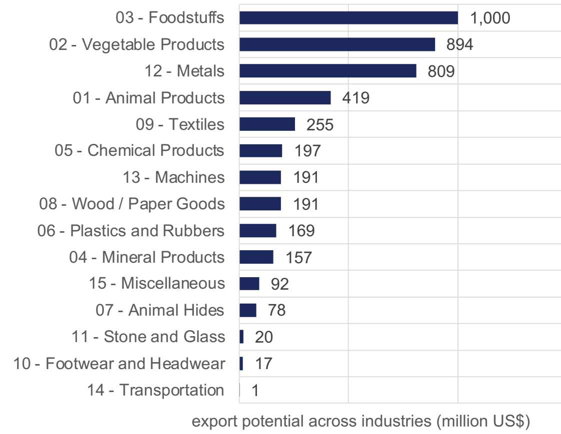
Figure 2.6. Lifting import restrictions will not affect negatively economic diversification and export competitiveness gains



Source: World Bank staff calculations using COMTRADE.

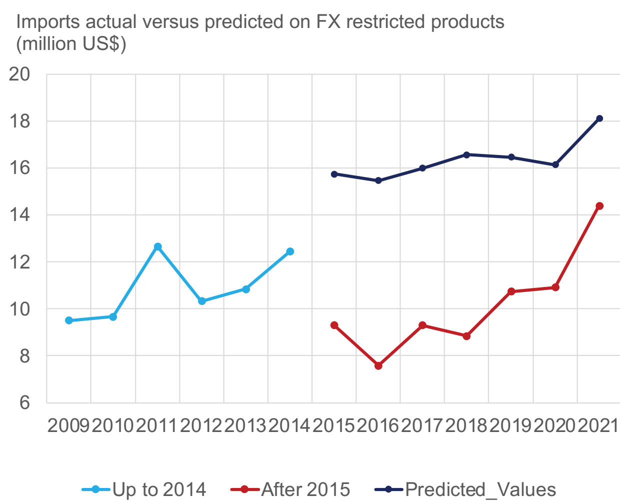
Note: There are five scenarios. S1. FX Restrictions Lifted - This scenario solely contemplates the impact on the export structure if FX restrictions are entirely removed, without any alterations to the existing export potentials (we use the counterfactual estimates for the imports to estimate the export structure of Nigeria). S2. Full Realization of Export Potential: Under this scenario, we maintain the FX restrictions (hence we use realized trade in 2021) but allow Nigeria to fully realize its export potential across all HS4 products. S3. Selective Realization of Export Potential: This scenario mirrors the second, with one critical difference—Nigeria maximizes its export potential only in products that exclude natural resources (but FX restrictions are kept). The intent is to gauge the limitations of natural resource in exploiting the export potential. S4. Combined Scenario - Restrictions Lifted & Full Export Potential Realized: Merging the conditions of the first and second scenarios, this analysis seeks to understand the compound effects on Nigeria's export structure when both FX restrictions are removed, and the full export potential is achieved. S5. Combined Scenario - Restrictions Lifted & Selective Export Potential Realized: By amalgamating the conditions of the first and third scenarios, we aim to discern the collective implications when FX restrictions are annulled, and Nigeria taps into its non-resource-based export potential.

Figure 2.7. Despite the FX restrictions Nigeria still had a large unrealized export potential in 2021



Source: World Bank staff calculations using COMTRADE.

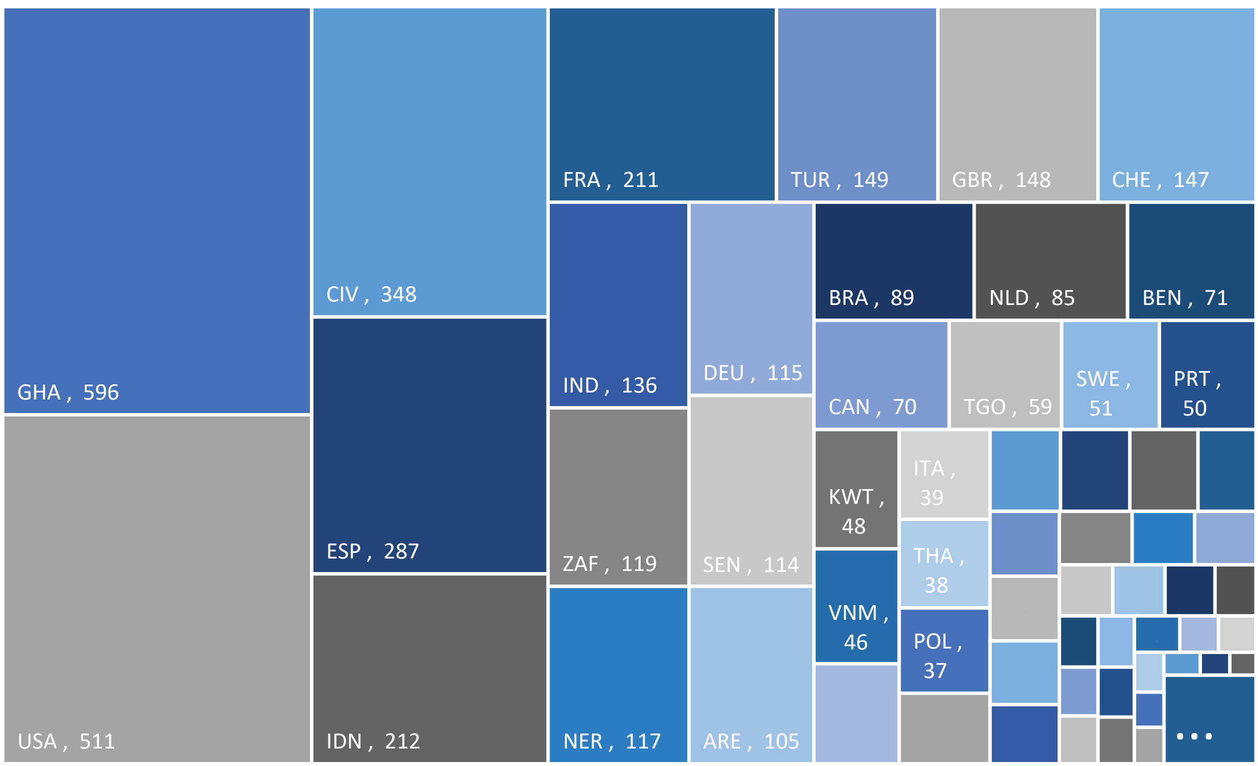
Figure 2.8. Imports of restricted FX products would have been US$3.7 billion higher had they not been restricted



Source: World Bank staff calculations using COMTRADE.

Furthermore, the unrealized export potential in existing and new markets remained high especially in the presence of import restrictions. Nigeria's potential to diversify its export markets becomes evident when considering the unrealized export potential during the period of FX restrictions (from 2015 onward). The country holds substantial export opportunities of non-oil products with neighboring countries, such as Ghana and Côte d'Ivoire, as well as with global trading partners including the United States, Spain, Indonesia, France, and Turkey (Figure 2.9). Access to these markets is crucial for Nigeria's export diversification and broader economic diversification initiatives. However, under the FX restrictions, these objectives were not achieved. In fact, Nigeria's market diversification diminished even further during this period (World Bank 2022).

Figure 2.9. Nigeria's unrealized export in 2021 in presence of FX restrictions (US$ million)

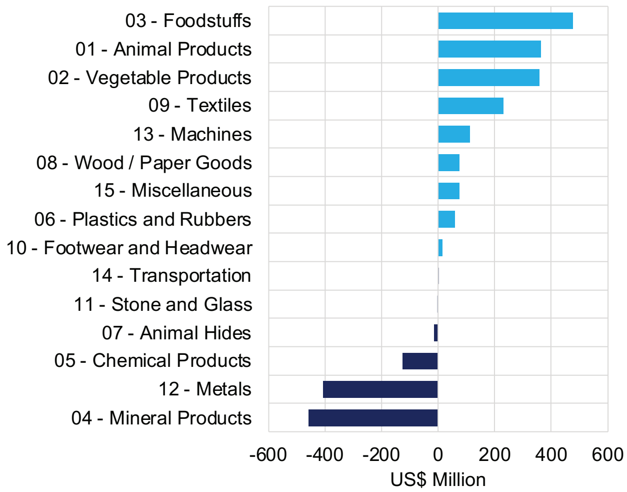


Source: World Bank staff calculations using COMTRADE.

Despite the overall welfare economic gain, there will be some economic losers.

FX restrictions and import bans, through their protectionist stance, did support some businesses and sectors, especially manufacturing companies in minerals, metals, and chemical products. However, in Nigeria's case the economic losses for these sectors could easily be covered by the benefits to consumers and sectors such as foodstuff, animal and vegetable products, textiles (Figure 2.10). These sectors will become more competitive, as less-distorted prices will allow resources to shift to more productive firms and sectors, rather than protected ones. Moreover, competition with imports will incentivize Nigerian firms to improve their productivity, and gain better access to capital and intermediate goods from overseas. This will strengthen Nigeria's integration into regional and global markets, benefiting from the African Continental Free Trade

Figure 2.10. Winners and losers at the sectorial level from removing FX restrictions in 2021 (US$ million)



Source: World Bank staff calculations using COMTRADE.

Area (AfCFTA) and attracting more FDI. But these positive outcomes would also require supporting macroeconomic and structural policies to facilitate private sector development, including through macroeconomic stability, infrastructure availability, and a conducive business environment.

In Nigeria, import restriction policies had very limited effectiveness, exacerbated by the country's porous borders, the large informal sector, and underdeveloped domestic supply chains. The ban on the use of FX for imports had harmed the credibility of the CBN by conflating FX and trade policy, detracting from its core mandate of price stability, and ultimately reducing its effectiveness in reducing inflation. These import restrictions effectively act as a tax, especially on poorer households and businesses, due to higher prices. They also cause the misallocation of resources, hindering growth of competitive firms and sectors. Removing these import restrictions increases competition, prompting domestic firms to upgrade their production processes, and also enhances access to capital and intermediate goods from other countries.

The Way Forward

Nigeria's decision to remove the FX restrictions on the 43 items is a step in the right direction in terms of loosening trade restrictions. The aggregate gains from this decision are expected to be high, especially for consumers who are already facing a high inflationary environment. The decision also allows the CBN to refocus on its core mandates for monetary policy and exchange rate management, and reduces major distortions in the economy. However, the economic gains from this policy direction can be enhanced by lifting the outright import bans.

While the removal of import restrictions may present challenges to certain sectors, these can be mitigated for some of them with a comparative advantage. Reducing the overall cost of doing business is a crucial first step. This can involve facilitating custom processes, reducing domestic and international trade and transport costs, and removing institutional barriers to doing business. Concurrently, a careful review of the tariff structure on certain banned import items, particularly those where Nigeria holds a comparative advantage, and to commit to a simple and enduring tariff structure with more discipline. This review should aim to provide a balanced approach where tariffs could be slightly adjusted to replace import restrictions and, therefore, to support domestic industries without counteracting the advantages of more open trade. In the medium term, the tariffs could be phased out to allow for better resource allocation in the economy. Through this dual approach of easing business operating conditions and fine-tuning tariff policies, the negative impacts on the disadvantaged sectors may be reduced, while still capitalizing on the broader economic benefits of the lifted FX restrictions.

Beyond removing import restrictions, several complementary reforms are needed to support Nigeria's structural agenda and overall gains in competitiveness and economic diversification. These policies are summarized in Table 2.1.

Table 2.2. Policy options to support Nigeria's trade policy

Why are the measures needed?	What measures are proposed? Short–medium term (6–18 months)	Medium–long term (18–36 months)	What is the likely impact that measures will have?
Supportive environment for export growth and competitiveness			
Nigeria's highly restrictive trade regime has a negative impact on domestic revenues, the welfare of citizens, and the productivity and competitiveness of firms.	• Facilitate imports of staple foods and medicines by removing them from the list of import bans, and applying tariffs that reflect the common external tariff of the Economic Community of West African States· • Review tariffs to reduce the costs of key inputs for domestic producers	• Following a review of the impact of existing restrictions, remove import bans on 25 products or replace bans with tariffs • Reform tariff schedule to reduce input costs	• Tariff revenues will increase • Prices of banned products will fall Cheaper intermediate inputs for many industries would foster substantial growth and job creation in these sectors· • A more predictable trade policy could increase investment and production efficiency
Reduce domestic and international trade and transport costs			
Nigeria stands to gain from reforms that address high costs and delays at the border, positioning the country as a commercial center for the region and a springboard into regional value chains	• Simplify and harmonize export and import procedures (documentations, paperless trade, digital trade) • Improve governance and enhance the transparency and efficiency of customs procedures, speeding up clearance time • Address bottlenecks such as port logistics, congestion, and transportation costs	• Introduce National Single Window. • Expedite implementation of reforms for the WTO TFA under the WTO and under the African Continental Free Trade Area • Expand and maintain port infrastructure and improve logistics· • Implementation of the Authorized Economic Operator program	• Reducing customs delays and trade costs will significantly enhance the integration of Nigerian firms into national, regional, and continental value chains
Create an appropriate policy and institutional infrastructure to support trade priorities			
Improve Nigeria's trade policy institutional framework	• Improve the institutionalization of trade policy within the Ministry of Finance and FMITI	• Clearly delineate the roles of institutions in trade policy formulation	• Trade policy formulation will improve, and be more independent from ad-hoc institutional interventions (incl. CBN interventions)

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Nigeria: Key Economic Indicators

Economy	*2016*	*2017*	*2018*	*2019*	*2020*	*2021*	*2022*	*2023f*	*2024f*	*2025f*	*2026f*
Real GDP Growth (% yoy)	-1.6	0.8	1.9	2.2	-1.8	3.6	3.3	2.9	3.3	3.7	4.1
Nominal GDP (Naira tr)	102.6	114.9	129.1	145.6	154.3	176.1	202.4	243.0	289.8	342.6	397.8
Oil Production (mb/d)	1.8	1.9	1.9	2.0	1.8	1.6	1.4	1.5	1.5	1.6	1.6
Oil Price (Bonny light, US$/bbl)	45	55	72	65	42	66	105	81	83	85	85
Inflation (%, average)	15.6	16.5	12.1	11.4	13.2	17.0	18.8	24.5	21.7	19.6	17.1

Real sectoral growth (%, yoy)	*2016*	*2017*	*2018*	*2019*	*2020*	*2021*	*2022*	*2023f*	*2024f*	*2025f*	*2026f*
Real GDP Growth	-1.6	0.8	1.9	2.2	-1.8	3.6	3.3	2.9	3.3	3.7	4.1
Agriculture	4.1	3.4	2.1	2.4	2.2	2.1	1.9	1.2	1.9	2.1	3.2
Industries	-8.9	2.1	1.9	2.3	-5.8	-0.5	-4.6	0.3	1.9	2.2	2.3
Industry-Oil	-14.4	4.7	1.0	4.6	-8.9	-8.3	-19.2	-5.4	-0.7	0.2	0.1
Industry-NonOil	-5.0	0.6	2.4	0.9	-3.9	4.4	3.3	2.7	2.9	2.9	3.1
Services	-0.8	-0.9	1.8	2.2	-2.2	5.6	6.7	4.4	4.5	4.9	5.1
Oil GDP	-14.4	4.7	1.0	4.6	-8.9	-8.3	-19.2	-5.4	-0.7	0.2	0.1
Non-Oil GDP	-0.2	0.5	2.0	2.1	-1.3	4.4	4.8	3.3	3.6	3.9	4.3

Sources: NBS and World Bank estimates.

External Sector	*2016*	*2017*	*2018*	*2019*	*2020*	*2021*	*2022*	*2023f*	*2024f*	*2025f*	*2026f*
Exchange rate - official (N/US$, end of period)	305	361	364	363	396	422	450	-	-	-	-
Exchange rate - parallel (N/US$, end of period)	490	363	363	362	470	569	747	-	-	-	-
Real effective exchange rate index (end of period)	86	99	87	79	79	73	63	-	-	-	-
Current Account Balance (%GDP)	1.3	3.6	1.7	-2.9	-3.7	-0.7	0.2	0.2	0.1	-0.0	-0.0
Exports of Goods and Services (US$ bn)	38.4	50.8	66.0	69.9	39.9	50.9	69.1	60.7	57.9	66.1	76.2
o/w oil and gas exports (US$ bn)	32.0	42.3	56.6	54.5	31.4	40.8	57.1	48.8	46.6	54.5	63.0
Imports of Goods and Services (US$ bn)	-47.0	-50.9	-71.6	-100.8	-72.2	-67.5	-77.0	-70.1	-68.7	-77.2	-88.3
Net transfers (including remittances) (US$ bn)	19.9	22.0	24.1	26.4	21.0	22.0	21.8	22.2	22.5	22.7	23.1
Net Direct Investment (US$ bn)	3.1	2.1	0.2	2.0	0.9	1.5	-0.1	0.4	1.4	2.0	2.3
Net Portfolio Investment (US$ bn)	1.9	10.3	-0.0	3.1	-3.7	5.4	3.9	3.8	5.2	5.2	5.4
External Reserves (US$ bn, end of period)	24.9	35.8	42.4	39.6	35.5	41.2	37.2	34.3	36.0	33.9	30.7
Equivalent months of imports of G&S	6.3	8.4	7.1	4.7	5.9	7.3	5.8	5.9	6.3	5.3	4.2

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

Monetary and Financial Sector (% change yoy, end of period, unless indicated otherwise)	*2016*	*2017*	*2018*	*2019*	*2020*	*2021*	*2022*	*2023f*	*2024f*	*2025f*	*2026f*
Money Supply (M2)	17.8	2.3	12.1	6.3	31.4	17.5	16.5	-	-	-	-
Narrow Money	31.5	-0.9	5.2	-10.4	50.4	14.0	14.8	-	-	-	-
Net Foreign Assets	61.8	69.6	18.5	-68.5	26.4	27.5	-54.5	-	-	-	-
Net Domestic Credit	24.3	-3.5	6.3	31.2	14.4	17.8	36.2	-	-	-	-
Credit to Government	68.6	-25.4	33.7	94.9	21.2	20.4	78.2	-	-	-	-
Credit to Private Sector	17.4	1.4	1.9	17.6	12.0	16.8	19.5	-	-	-	-
Monetary policy parameters:											
Monetary Policy Rate (absolute rate, end of period)	14.0	14.0	14.0	13.5	11.5	11.5	16.5	-	-	-	-
Liquidity Ratio (absolute rate, end of period)	30.0	30.0	30.0	30.0	30.0	30.0	30.0	-	-	-	-
Cash Reserve Requirement (absolute rate, end of period)	22.5	22.5	22.5	22.5	27.5	27.5	32.5	-	-	-	-

Financial Market Indicators (end of period)	*2016*	*2017*	*2018*	*2019*	*2020*	*2021*	*2022*	*2023f*	*2024f*	*2025f*	*2026f*
Stock Market (NSE) Index	26,624	32,161	37,186	29,060	27,485	40,097	48,941	-	-	-	-
Fitch Sovereign Long Term Foreign Debt Rating	B+	B+	B+	B+	B	B	B-	-	-	-	-
Moody's Sovereign Long Term Foreign Debt Rating	B1	B2	B2	B2	B2	B2	B3	-	-	-	-

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

Nigeria: General Government Fiscal Summary - preliminary	2016	2017	2018	2019	2020	2021	2022	2023f	2024f	2025f	2026f
Actual (%GDP)											
Total revenues	5.9	6.8	8.2	7.4	6.5	6.7	6.7	7.6	8.8	9.5	10.2
Federally collected	4.8	5.4	6.6	5.9	5.2	4.9	5.0	5.3	6.9	7.7	8.3
Oil and gas revenues	1.6	2.3	3.6	3.0	2.0	2.0	1.8	2.0	3.5	3.6	3.9
Non-oil revenues and other revenues	3.1	3.1	3.0	2.9	3.1	2.9	3.2	3.3	3.4	4.1	4.4
Independent and other revenues	1.2	1.4	1.6	1.5	1.4	1.7	1.7	2.3	1.9	1.9	1.9
Total expenditure	9.7	10.9	11.8	12.0	11.6	13.2	11.7	12.7	12.9	13.2	13.4
Overall balance (general government)	-3.8	-4.1	-3.6	-4.6	-5.1	-6.6	-5.0	-5.1	-4.1	-3.7	-3.2
Public Debt (net)	21	24	28	31	36	39	40	42	41	38	36
Domestic debt	17	19	22	24	28	29	31	31	30	28	27
External debt	3	5	6	6	8	10	9	11	12	10	9

Nigeria: Federal Government Fiscal Accounts - preliminary											
Actual (%GDP)											
Total Revenue	2.0	2.4	3.0	2.8	2.2	2.6	2.4	2.9	3.4	3.8	4.2
Share of federally collected revenues	1.7	2.0	2.5	2.4	1.8	1.8	1.9	2.0	2.7	3.1	3.5
Oil, Gas and Mineral Revenue (incl. signature bonus)	0.7	1.0	1.5	1.4	0.9	1.0	0.7	0.8	1.5	1.6	1.8
Non-Oil Revenue	1.0	1.0	1.0	0.9	0.9	0.8	1.1	1.2	1.2	1.5	1.7
FG Independent revenues and grants	0.3	0.4	0.6	0.4	0.4	0.8	0.6	0.9	0.7	0.7	0.7
Total Expenditure	4.7	5.7	6.1	6.9	6.9	8.1	7.0	8.1	7.5	7.4	7.4
Recurrent Expenditure	3.9	4.4	4.7	5.2	5.3	5.1	5.9	6.0	5.8	5.7	5.8
Personnel Cost (including Pensions)	1.8	1.8	1.8	1.8	2.1	2.0	1.9	2.0	2.0	1.8	1.7
Overhead Cost	0.1	0.2	0.1	0.2	0.2	0.2	0.2	0.2	0.3	0.2	0.2
Other recurrent	0.7	1.1	1.0	1.5	0.9	0.5	0.5	0.6	0.6	0.7	0.7
Interest payments	1.2	1.4	1.7	1.7	2.2	2.4	3.2	3.2	2.9	3.1	3.2
Capital Expenditure	0.7	1.2	1.5	1.7	1.6	3.1	1.1	2.1	1.6	1.7	1.6
Overall Fiscal Balance	-2.7	-3.3	-3.1	-4.1	-4.7	-5.6	-4.6	-5.2	-4.1	-3.7	-3.2

Sources: OAFG and Budget Office of the Federation.

Endnotes

1 The supplementary budget focused on higher security and infrastructure spending, and also included higher personnel costs, especially to cover a proportion of the wage award following the subsidy removal.

2 For additional reforms focused on improving the growth outlook for Nigeria, please refer to World Bank's Nigeria Country Economic Memorandum: Charting a New Course (2022).

3 Source: World Bank's projections based on NLSS 2018-19.

4 The BOP accounts reported by the CBN have historically had large errors and omissions, which are presented without any explanation. In 2022, the net errors and omissions reported in the BOP accounts was about negative US$7 trillion.

5 In May 2022, Nigeria passed the National Health Insurance Authority Bill 2022 seeking to expand coverage for 89 million citizens unable to afford the costs of health care.

6 There are three funds under the aegis of Nigeria Sovereign Investment Authority (NSIA), namely Nigeria Infrastructure Fund (NIF), Future Generations Fund (FGF), and the Stabilization Fund (SF).

7 There was an 8 percent nominal decline in holdings between end-2022 and end-June 2023.

8 The minimum CAR set by the CBN is 10 percent for banks with a national license and 15 percent for banks with an international license, with an additional 1 percent for banks designated as domestically systemically important.

9 Other effects of the large depreciation on banks' balance sheets are seeing in the jump of the ratio of US dollar-denominated liabilities between May and June 2023, from 23.4 to 30.6 percent. A similar patter, albeit less pronounced, is observed with regards to the share of foreign currency assets

10 It is assumed that NNPC is deducting for fuel subsidy arrears which the Federation owed NNPC, but clarity on that has not yet been received.

11 The stock of Ways and Means financing up until October 2022.

12 Around N22.7 trillion of the stock of Ways and Means financing was restructured to 40-year tenor instruments with an interest rate of 9 percent, as opposed to financing terms of one-year repayment and interest rates at monetary policy rate plus 3 percent (about 21.75 percent).

13 The initial list with 41 product categories in 2015 was extended to 43 as fertilizer and maize were later added in December 2018 and July 2020 , respectively. See references: https://www.cbn.gov.ng/out/2015/ted/ted.fem.fpc.gen.01.011.pdf. https://www.cbn.gov.ng/Out/2018/TED/TED.FEM.FPC.GEN.01.006.pdf. https://www.cbn.gov.ng/Out/2020/CCD/Importation%20of%20Maze%20TED2.pdf

14 https://customs.gov.ng/?page_id=3075

15 https://guardian.ng/news/forex-restriction-on-41-items-inimical-to-real-sector/

16 https://stat.unido.org/country/NGA.pdf

17 These are conservative estimates and do not consider smuggling (underreporting of exports and imports) and thus focuses on only actual trade flows.

18 The revenue loss only from FX restrictions is estimated to have been US$200 million between 2015 and 2019, or US$40 million annually.

19 Rijkers et al. 2023.

Nigeria Development Update
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Almost there
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.