NIGERIA

Table 1	2022
Population, million	218.5
GDP, current US$ billion	477.4
GDP per capita, current US$	2184.4
National poverty rate[a]	41.1
Gini index[b]	35.1
School enrollment, primary (% gross)[c]	85.7
Life expectancy at birth, years[c]	52.9
Total GHG emissions (mtCO2e)	383.2

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent value (2022).
b/ Most recent value (2018), 2017 PPPs.
c/ WDI for School enrollment (2019); Life expectancy (2020).

Oil price booms have previously supported the Nigerian economy, but this has not been the case since 2021. Instead, macroeconomic stability has weakened amidst declining oil production, costly fuel subsidies, exchange rate distortions, and monetization of the fiscal deficit. The deteriorating economic environment is leaving millions of Nigerians in poverty. Risks are tilted to the downside given the lack of macro-fiscal reforms, the naira demonetization, and an uncertain external outlook.

Key conditions and challenges

Macroeconomic stability has weakened considerably due to multiple FX rates, high and increasing inflation, rising fiscal pressures, and declining forex reserves. Nigeria's fiscal position has deteriorated since 2015 due to declining oil revenues and rising expenditures, resulting in persistently high fiscal deficits. To finance the growing deficit, the government has resorted increasingly to costly financing from the central bank, which in turn has increased interest costs, crowding out private sector credit, and contributing to inflation.

Nigeria's chronically high inflation has increased since 2019, especially for food items, eroding the purchasing power of poor and vulnerable Nigerians and increasing poverty. The effectiveness of monetary policy is compromised by multiple FX windows, the central bank's provision of development finance at subsidized rates, and monetization of the fiscal deficit.

Persistent structural economic issues (volatile growth, low private investment, low and inefficient public spending, due to low revenue collection, and low social development outcomes leading to low productivity) have prevented any meaningful acceleration of growth. Insecurity remains widespread, with more violent conflict events occurring across the country, adversely impacting private investment and growth.

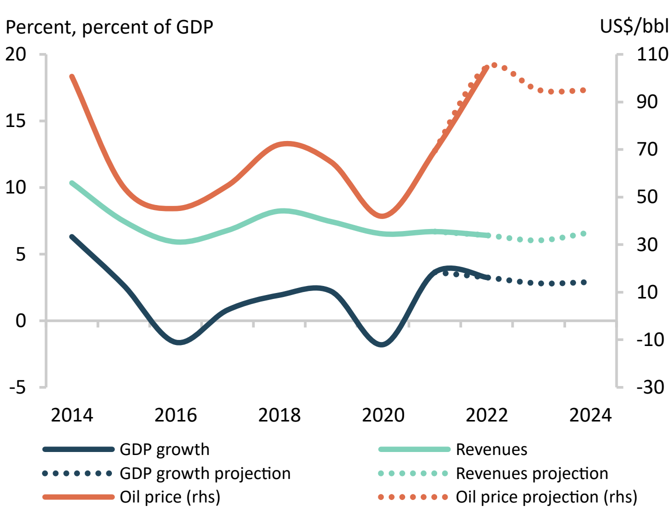
The oil sector, historically the main contributor to fiscal revenues and accounting for about 90 percent of total exports, has underperformed since 2020. Declining oil production and the mounting cost of the petrol subsidy have prevented Nigeria from reaping the benefits of higher global oil prices. The weakness in oil production stems from technical and security challenges in the oil-producing Niger Delta region, aging infrastructure and inadequate investments in the sector, and the Nigerian National Petroleum Company's (NNPC) delays in paying for the government's share of costs in joint-venture operations.

Recent developments

In 2022, oil revenues, the fiscal deficit outturn, FX reserves, and economic growth decoupled from the cycle of higher global oil prices. GDP growth decelerated from 3.6 percent in 2021 to 3.3 percent in 2022. Growth was driven by manufacturing, construction, and most services. In contrast, the oil sector shrank by 19.2 percent. From the demand side, growth was driven by private consumption and investment.

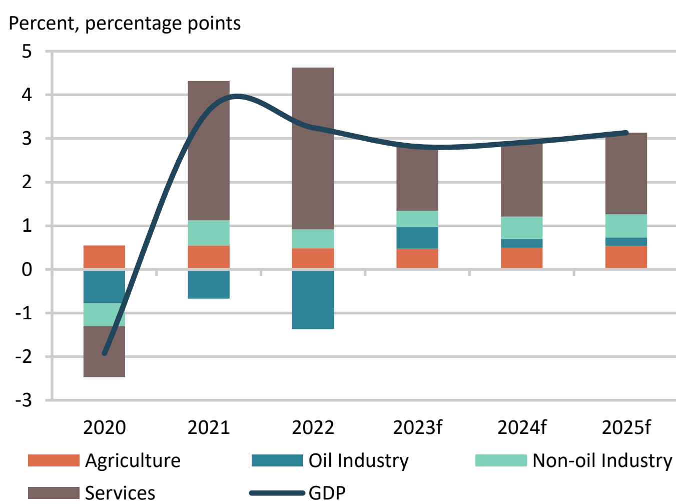
Inflation reached an annual average 18.8 percent in 2022, a 21-year high. Food inflation in 2022 is estimated to have pushed five million Nigerians into poverty. The increase in inflation resulted from higher global commodity prices, the sharp depreciation of the parallel market exchange rate, floods that impacted several states,

FIGURE 1 Nigeria / Oil price, Government revenues, and real GDP growth



Sources: WDI, NBS, and World Bank.

FIGURE 2 Nigeria / Real GDP growth and sectoral contributions to real GDP growth



Sources: NBS and World Bank.

and the monetization of the fiscal deficit. The central bank has increased the reference rate by 600 basis points since May 2022, but inflation continued rising throughout the year. While banking sector indicators remain sound at the system level, the deteriorating fiscal and external environment could expose the financial system to shocks that it lacks adequate buffers to withstand.

The fiscal position deteriorated. In 2022, the cost of the petrol subsidy increased from 0.7 percent to 2.3 percent GDP. Low non-oil revenues and high interest payments compounded fiscal pressures. The fiscal deficit was estimated at 5.0 percent of GDP in 2022, breaching the stipulated limit for federal fiscal deficit of 3 percent. This has kept the public debt stock at over 38 percent of GDP and pushed the debt service to revenue ratio from 83.2 percent in 2021 to 96.3 percent in 2022.

The current account balance recorded a deficit of 0.3 percent of GDP in Q1-Q3 2022. The increase in crude oil exports reflecting higher oil prices was outpaced by higher imports of refined petroleum products and lower remittances and capital inflows. As of December 2022, FX reserves were enough to cover 6.9 months of imports, compared to 7.5 months in end-2021.

Outlook

Nigeria is in a more fragile position than before the late 2021 global oil price boom. Growth and poverty reduction have further been affected by cash scarcity in the context of the Naira redesign. The economy is projected to grow by an average of 2.9 percent per year between 2023 and 2025, only slightly above the population growth rate of 2.4 percent. Growth will be driven by services, trade, and manufacturing. Oil production is projected to remain subdued in part because of inefficiencies and insecurity.

With Nigeria's population growth continuing to outpace poverty reduction, and persistent high inflation, the number of Nigerians living below the national poverty line will rise by 13 million between 2019 and 2025 in the baseline projection.

Fiscal and external pressures are expected to persist due to rising global and domestic interest rates and low oil revenues resulting from the moderation in oil prices and inability to significantly increase oil production. In the absence of significant FX management reforms, international reserves are projected to remain stagnant. Meanwhile, non-oil revenues will not increase as a share of GDP without significant tax revenue reforms. As a result, the fiscal deficit will remain above 5.0 percent of GDP in 2023-2025.

Downside risks to Nigeria's outlook have intensified, with most of the risks coming from domestic policies, continued low oil production, and heightened scarcity of foreign exchange and local currency. Fiscal and debt pressures will increase if the petrol subsidy is not phased out in June 2023, as envisaged in the 2023 Budget. The authorities can strengthen the economy by restoring macroeconomic stability through reforms to (i) increase oil and non-oil revenues, (ii) tighten monetary policies to reduce inflation, and (iii) unify the multiple FX windows and adopt a single, market-responsive exchange rate. Increased insecurity as well as adverse climate change effects could further dampen the economic outlook for Nigeria.

TABLE 2 Nigeria / Macro poverty outlook indicators (annual percent change unless indicated otherwise)

	2020	2021	2022e	2023f	2024f	2025f
Real GDP growth, at constant market prices	-1.8	3.6	3.3	2.8	2.9	3.1
Private Consumption	-1.0	25.6	5.0	2.4	2.1	2.5
Government Consumption	61.6	-34.0	1.3	-15.7	12.1	3.5
Gross Fixed Capital Investment	-14.7	4.7	-6.8	4.4	1.8	2.6
Exports, Goods and Services	-33.4	-32.1	5.4	11.2	6.0	7.0
Imports, Goods and Services	-61.9	44.4	4.0	2.5	4.4	4.8
Real GDP growth, at constant factor prices	-1.9	3.4	3.1	2.9	2.9	3.1
Agriculture	2.2	2.1	1.9	1.9	2.0	2.2
Industry	-5.8	-0.5	-4.6	4.6	3.7	3.7
Services	-2.2	5.6	6.7	2.8	3.1	3.3
Inflation (Consumer Price Index)	13.2	17.0	18.8	16.5	13.5	11.5
Current Account Balance (% of GDP)	-3.7	-0.4	0.0	0.7	0.1	0.0
Net Foreign Direct Investment Inflow (% of GDP)	-0.2	-0.3	0.1	-0.3	-0.4	-0.4
Fiscal Balance (% of GDP)	-5.1	-6.3	-5.0	-5.4	-5.3	-5.8
Revenues (% of GDP)	6.5	6.9	6.4	6.0	6.7	6.4
Debt (% of GDP)	36.0	38.8	38.6	39.3	40.8	42.2
Primary Balance (% of GDP)	-2.8	-3.6	-1.8	-1.9	-1.4	-1.6
Poverty rate, national line[a,b]	42.0	41.5	41.1	40.9	40.7	40.4
GHG emissions growth (mtCO2e)	-0.2	4.2	4.0	2.6	3.0	3.3
Energy related GHG emissions (% of total)	36.3	37.3	38.0	37.9	37.9	38.0

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.
Notes: e = estimate, f = forecast.
a/ Calculations based on 2018-LSS. Actual data: 2018. Nowcast: 2019-2021. Forecasts are from 2022 to 2025.
b/ These calculations use the national poverty line of 137,430 naira per person per year, in 2018/19 prices. The national line is used, as it will remain the yardstick on which policymakers in Nigeria focus, even as the PPP price data and international poverty lines for cross-country comparisons are updated. For further details see https://blogs.worldbank. org/africacan/what-does-moving-2017-ppps-and-new-international-poverty-lines-mean-nigeria.