THE NIGERIAN ECONOMIC SUMMIT GROUP

4 Priorities for the Nigerian Economy in 2021 and Beyond

2021 NESG MACROECONOMIC OUTLOOK

OUTLINE

The Issue

Nigeria is at a critical point in its 60-year history

The Outlook

Where do we go from here?
Here are the numbers

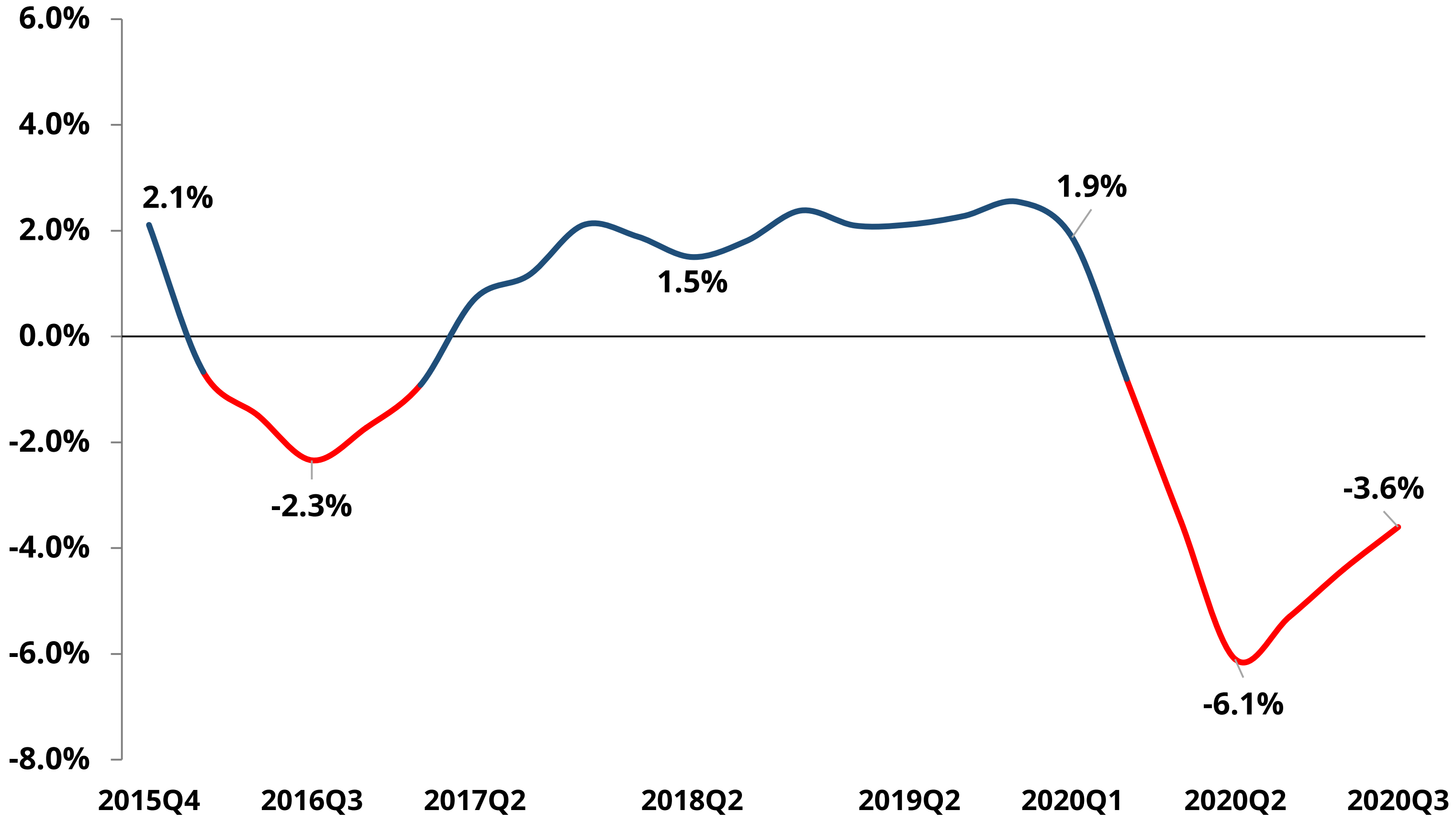
The Key Priorities

Key priorities for stability, growth and sustainability:
The theory of change

The Nigerian economy contracted in 2020

Nigeria slipped into second recession in five years on the back of COVID-19 pandemic

Nigeria's Real GDP Growth (2015Q4 – 2020Q3)

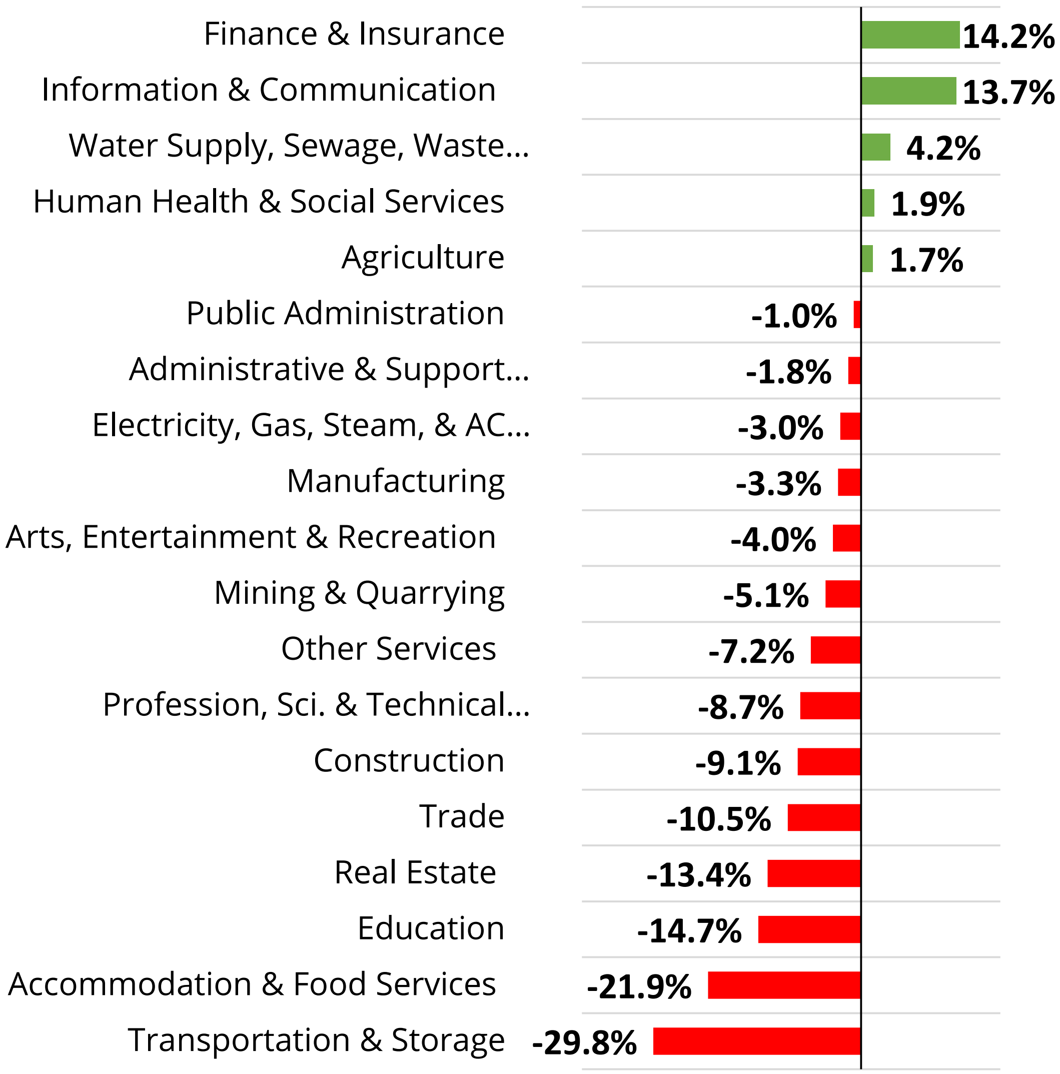


- Implementation of lockdowns and fall in crude oil price led the economy into a recession in 2020Q3.
- Real per capita incomes in Nigeria are expected to fall to levels like those seen in the 1980s - WB

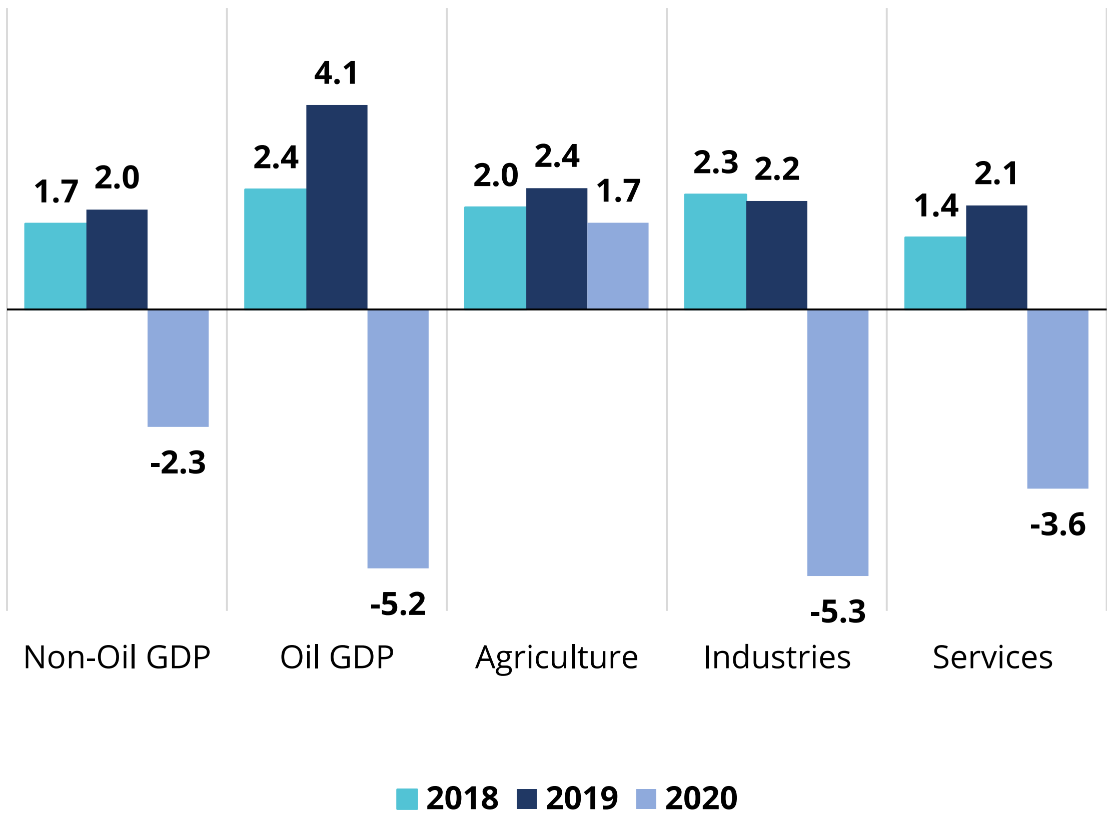
Data Source: National Bureau of Statistics; Chart: NESG Research

Sectoral performance: Only 5 sectors grew in 2020 (Q1-Q3)

Nigeria's sectoral output performance (2020 Q1-Q3)



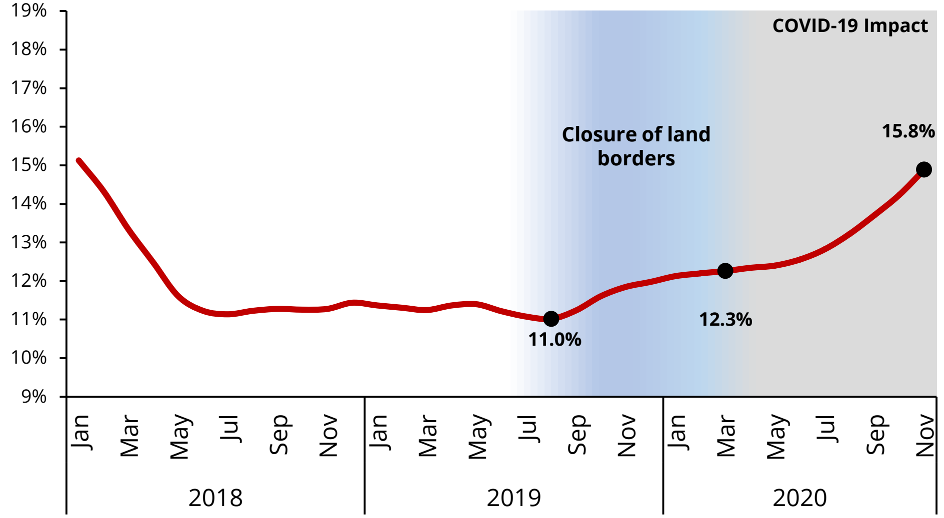
Growth Rate of Oil, Non-Oil and Sectoral Categorisation of Real GDP (2020Q1-Q3 in percentage)



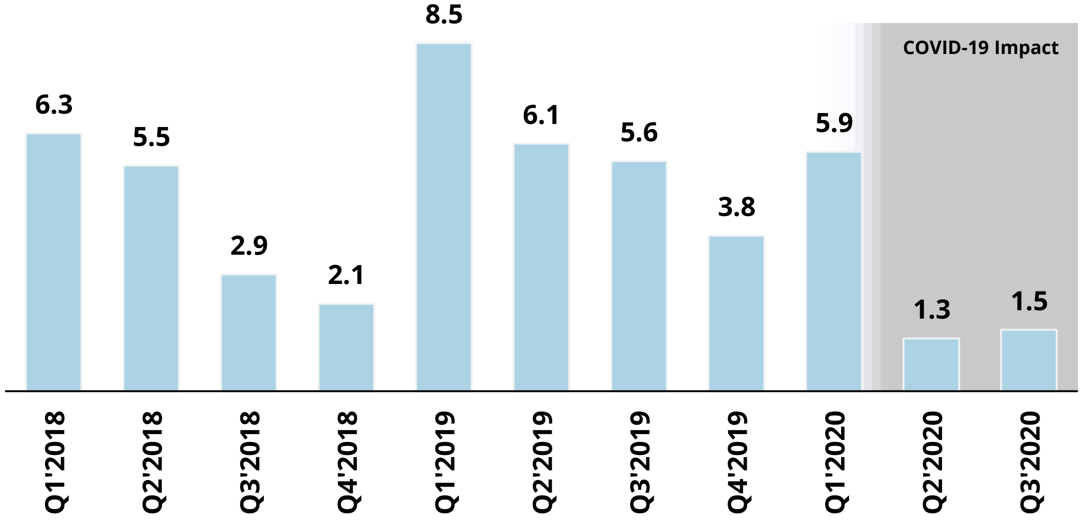
Both Nigeria's oil and non-oil sectors were majorly affected by the pandemic.

Several Indicators point to the fact that many of the problems existed pre-COVID-19

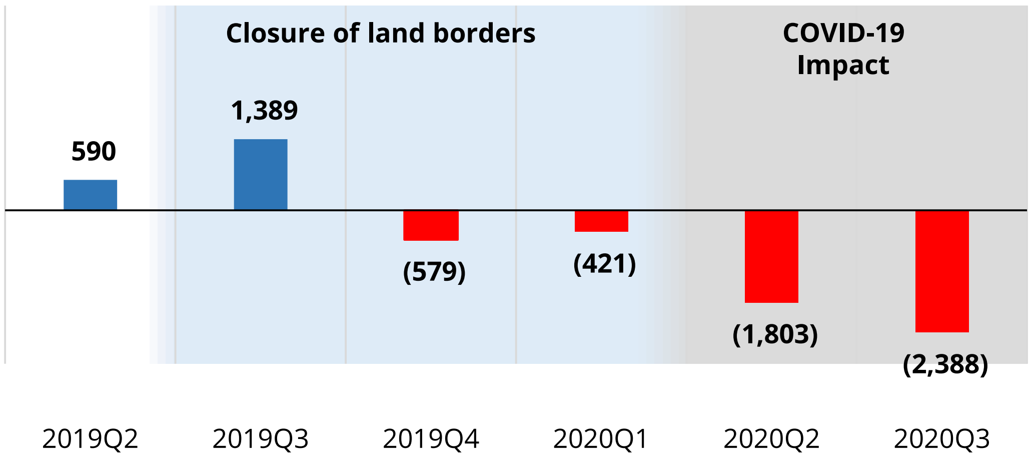
Trend of Inflation Rate in Nigeria (Percent)



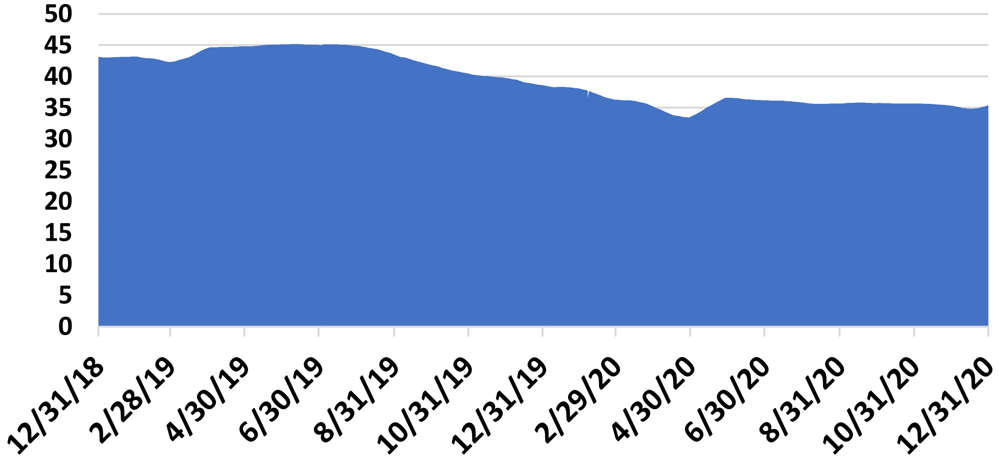
Foreign Investment Inflows (US$ Billion)



Trade Balance (N'Billion)



External Reserves (US$ Billion)



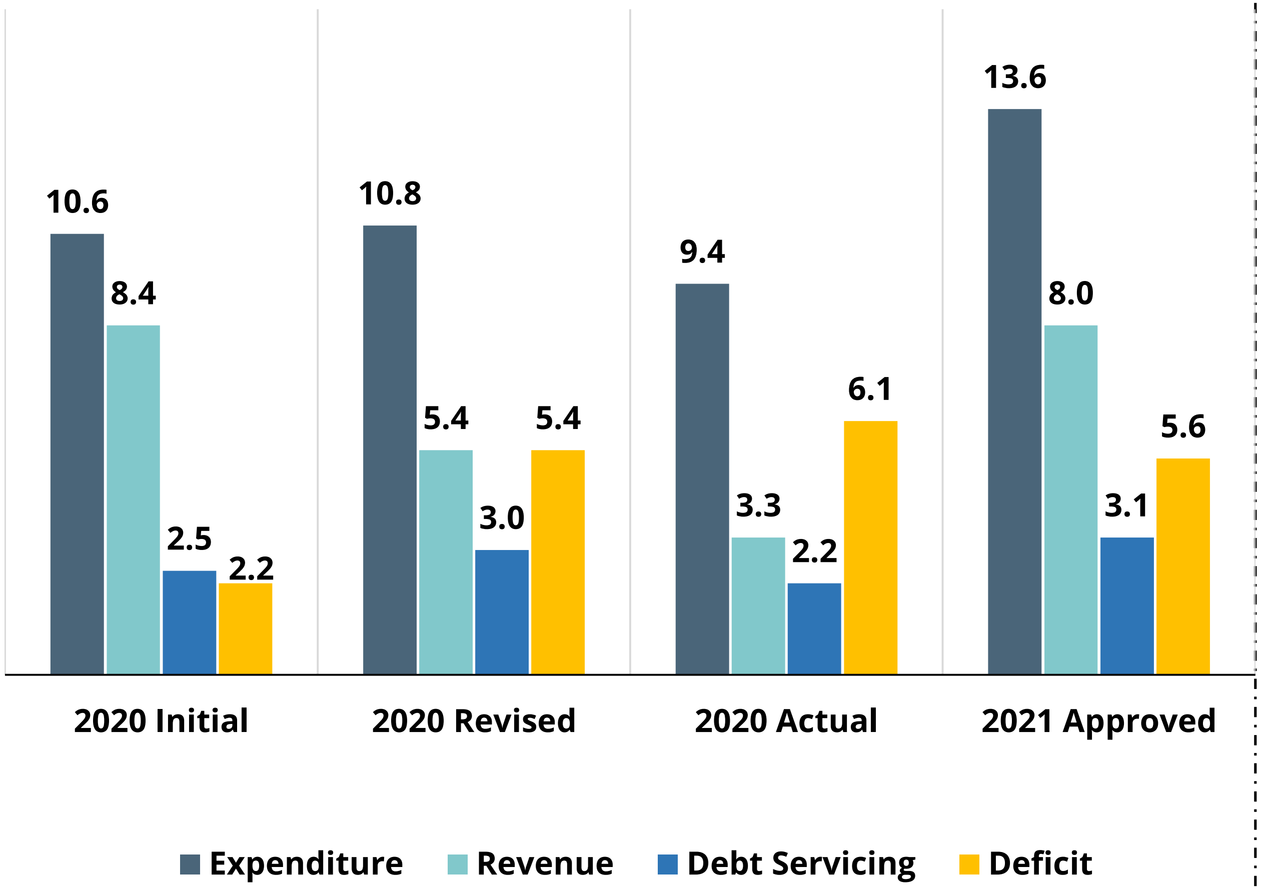
Data Source: Central Bank of Nigeria; National Bureau of Statistics; Chart: NESG Research

Fiscal Policy Environment

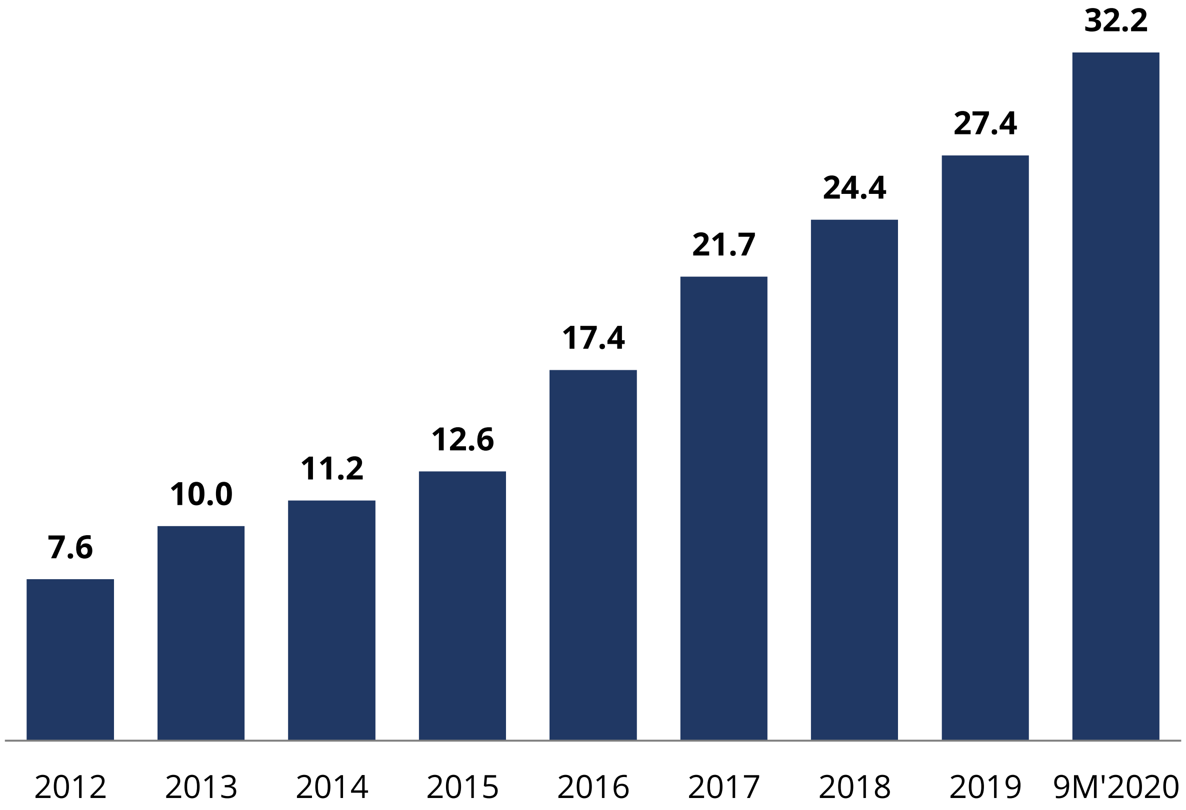
COVID-19 constrained the already challenging fiscal position

As at Q3’2020, the country’s total public debt stock stood at N32.2 trillion (added a net of N4.8 trillion).

Federal Government Budget Expenditure, Revenue and Deficit (N’Trillion)



Nigeria’s Public Debt Stock (N'Trillion)



Data Source: Budget Office of the Federation, Debt Management Office; Chart: NESG Research

Nigeria in 2020

Large current account deficits financed by short-term borrowing.

FISCAL CONSTRAINT

RISING DEBTS

RISING UNEMPLOYMENT

STAGNANT/DECLINING GDP

DEEPENING POVERTY

WEAKENED CURRENCY

Drivers: COVID-19 | Policy & Regulatory Challenges| Reliance on crude oil, etc.

The Outlook

"A man who does not plan long ahead will find trouble at his door." — Confucius

THE OUTLOOK

2021-2025: The likely paths ahead of us

01

Worst Case:

This scenario mirrors the path of complete economic and policy recklessness/negligence.

02

Business As Usual:

This scenario assumes we continue with the current path.

03

Best Case:

This scenario marks a complete departure from the BAU-approach to the higher path of vision, commitment and tough policy choices on investment.

MACROECONOMIC PROJECTION RATIONALE

01

GLOBAL ECONOMIC OUTLOOK

- Global economic outlook
- Oil price
- Covid-19

02

DOMESTIC ECONOMIC OUTLOOK

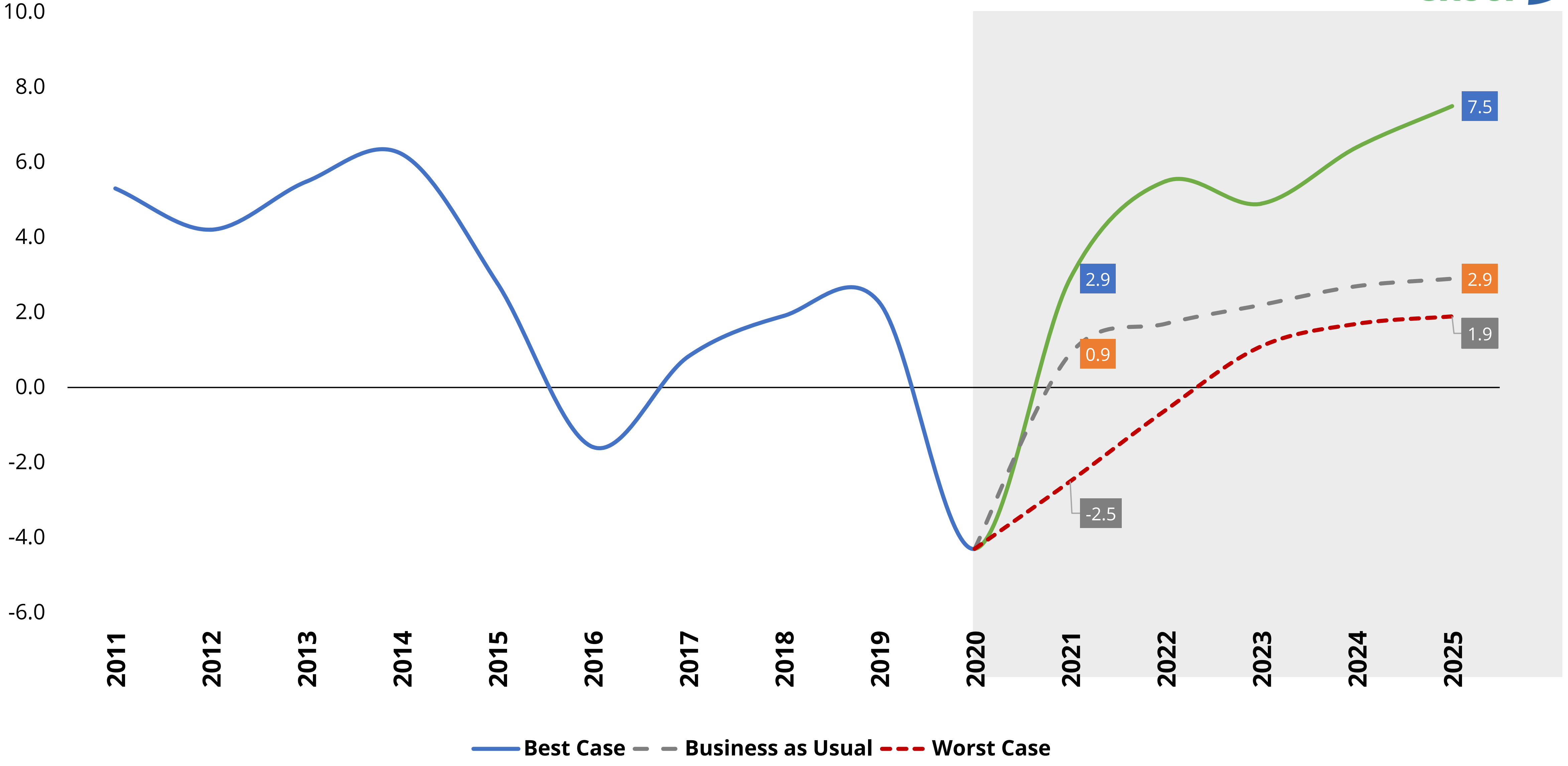
- Oil production
- Capital expenditure
- Policy efficiency

03

ROLE OF PRIVATE INVESTMENT

High-end private investment

Real GDP Growth Rate Projections for 2021-2025 (Percent)



Nigeria will likely exit the recession in 2021

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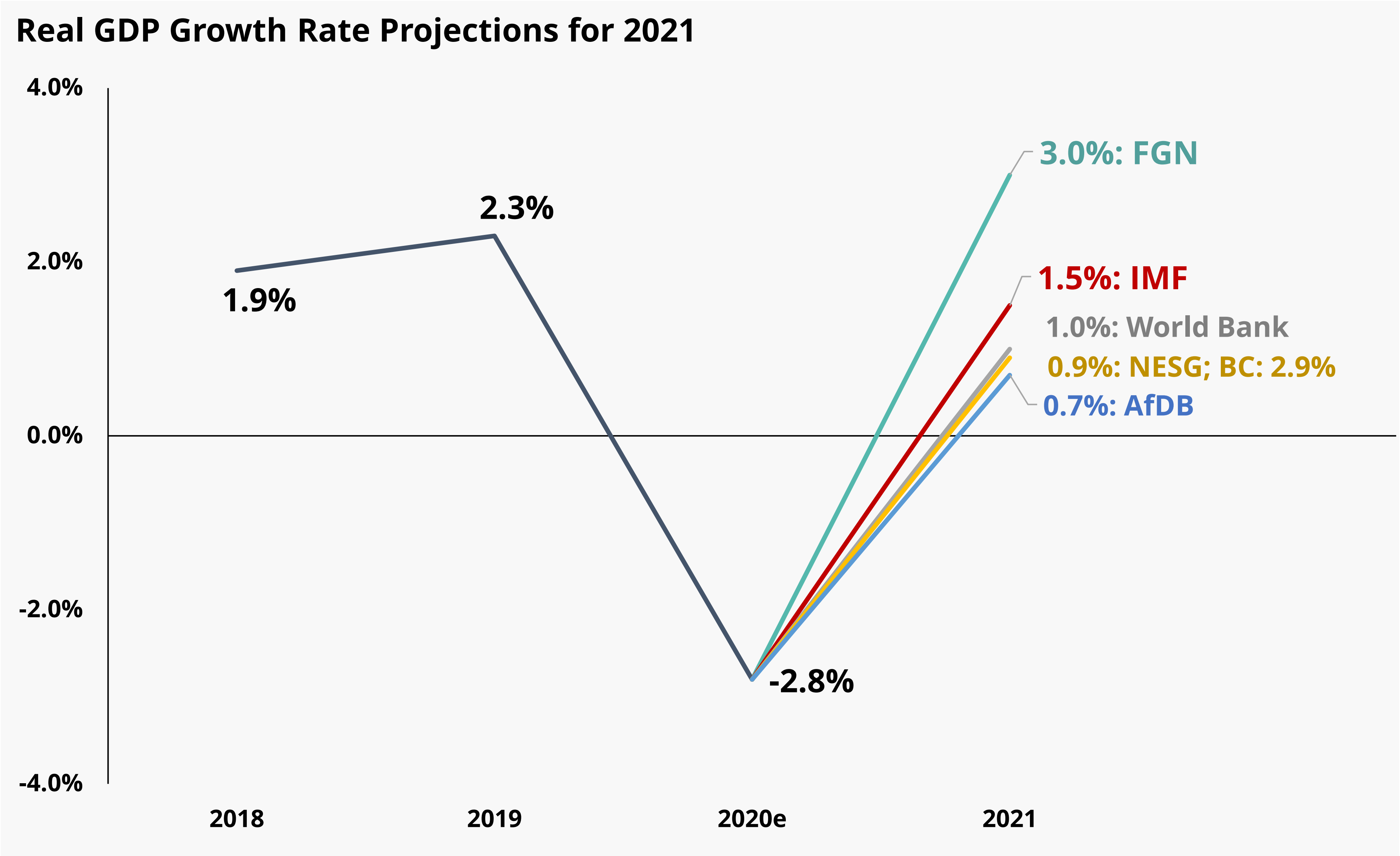
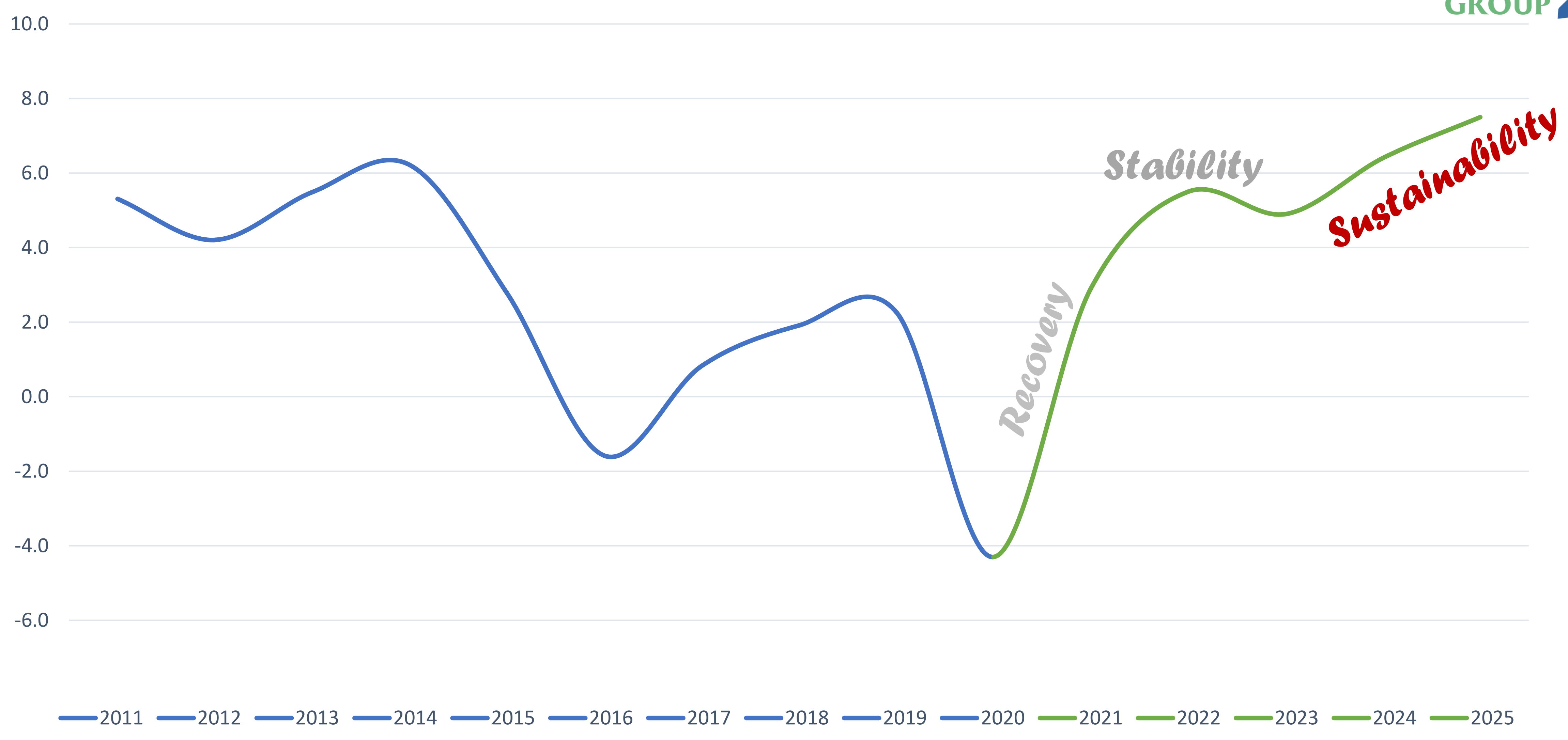


- All growth projections for the Nigerian economy in 2021 are positive

Source: Various sources, NESG Research

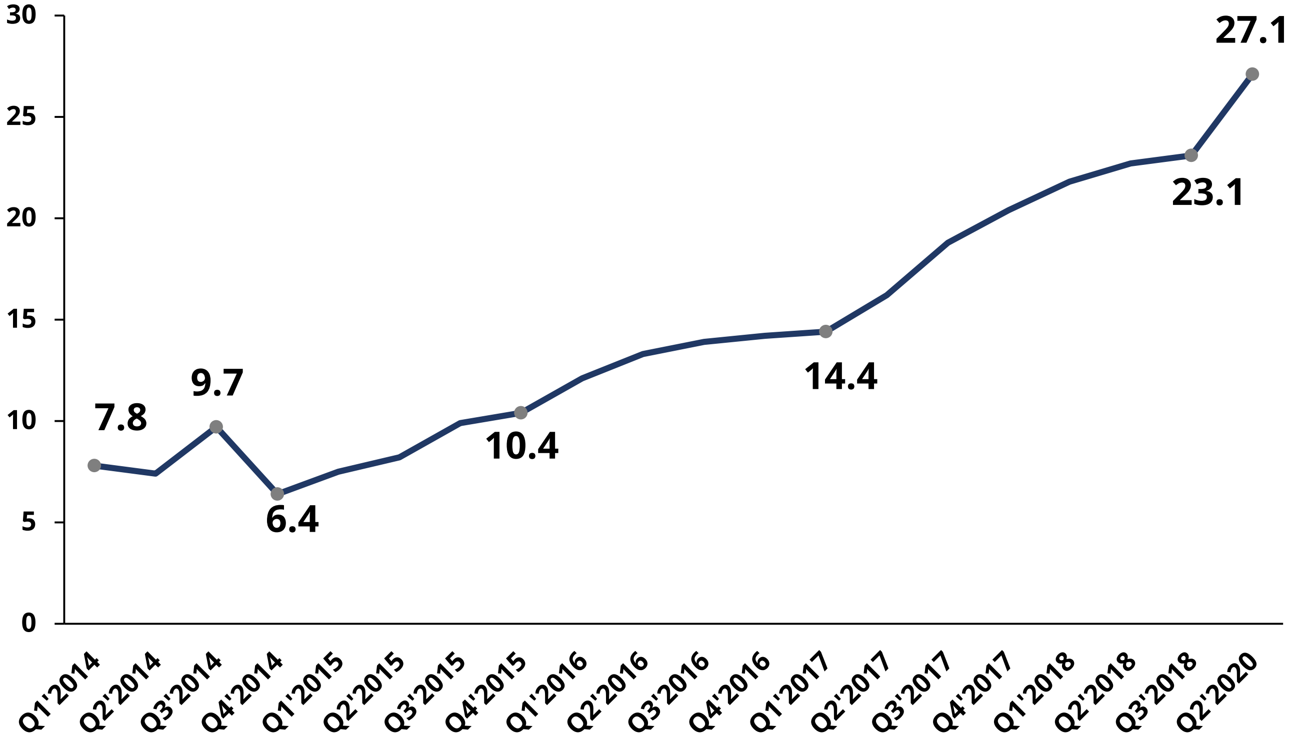
Best Case: Real GDP Growth Rate Projections for 2021-2025 (Percent)



But unemployment and poverty rates are sticky downwards…

Overtime, there has been a weak linkage between economic growth and investment vs job creation and poverty reduction. Even in periods of positive growth, unemployment and poverty rates have trended upwards

Trend of Unemployment Rate in Nigeria (Percent)



Number of poor people in Nigeria (million)

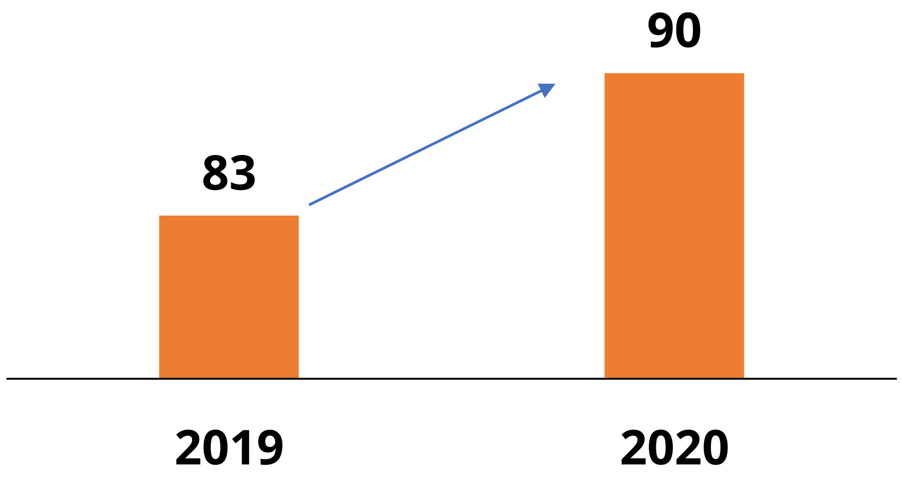
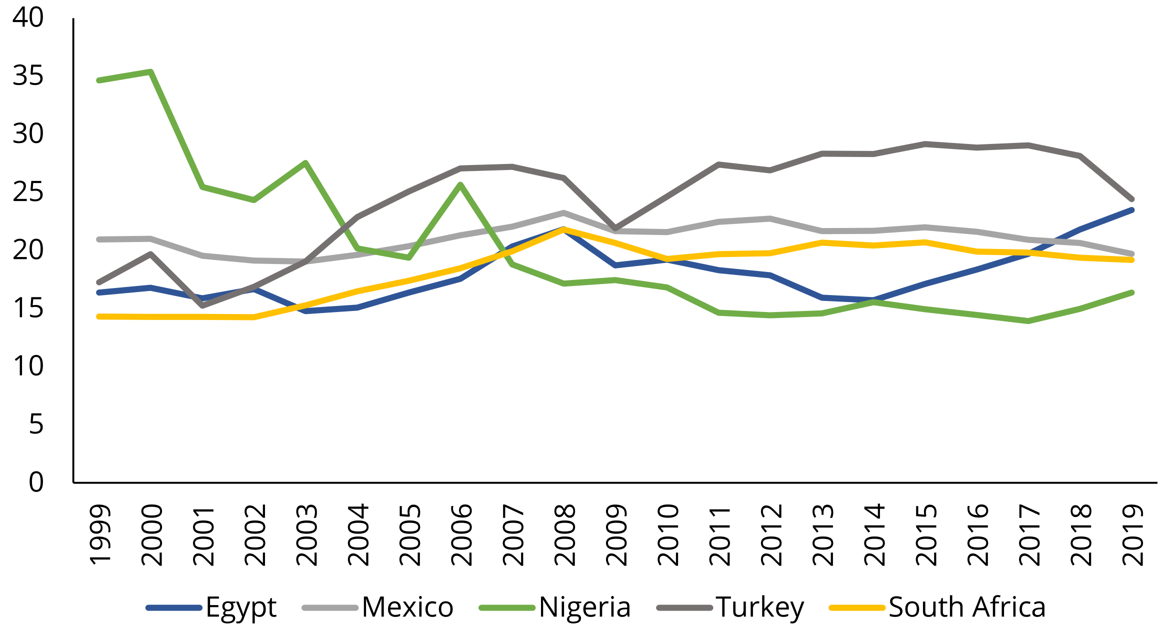


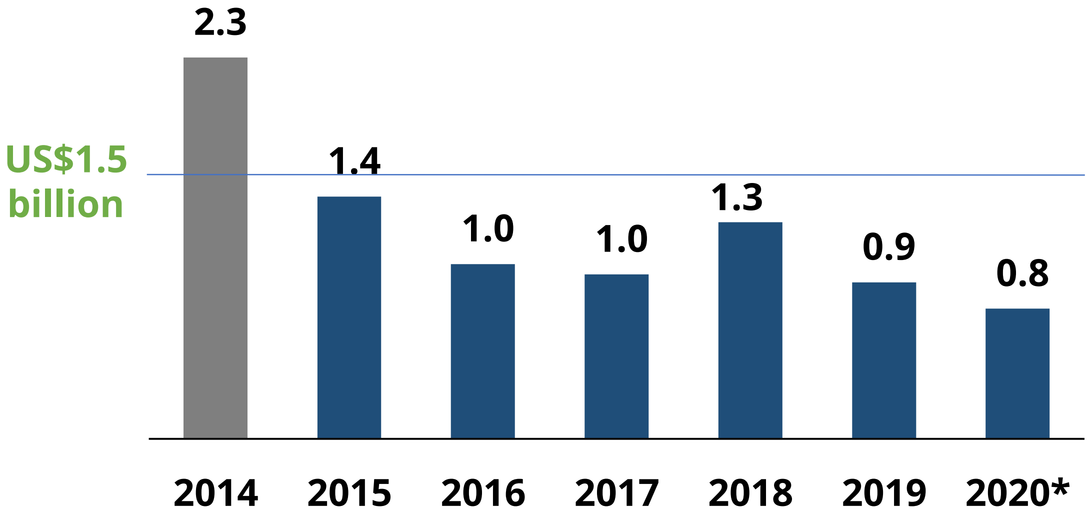
Figure for 2020 is an estimate from the World Bank

To fix this challenge, Nigeria needs investment-led growth

Real Investment as a share of GDP (Percent)



Foreign Direct Investment Inflows into Nigeria (US$ Billion)



***Data for 2020 covers Q1- Q3**

Two Points are crucial:

- Size of Investment
- The direction of investment i.e. the nature of the sector acquiring the investment.

Source: NBS, WDI, NESG Research

Nigeria's investment environment has not been "friendly"

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Nigeria has huge potential: Arable land, large population & market, mineral resources, strategic locations…

…but

- Structural factors remain evident: infrastructure, electricity..
- Insecurity
- Limited attention to implement reforms across key sectors
- FX management
- Policy & Regulatory Inconsistency
- The "Nigerian Factor".

Investor feedback (no particular order, most frequent in red)

- "corruption: you can't get anything done without paying a bribe"
- "government is anti-big business"
- "government agencies harass investors"
- "poor private sector engagement in policy formulation"
- "painful, long, unpredictable government approval process"
- "frequent policy changes make long term planning difficult"
- "meeting with senior government officials cancelled after investor's arrival"
- "everything is smuggled in; borders are too porous, so tariff measures never work"
- "difficult operating conditions: erratic power, bad roads, poor public utilities"
- "multiple taxes by federal and state agents"
- "lack of skilled labour, poor work ethic"
- "security situation is getting worse"
- "corrupt judiciary; too many sacred cows"
- "road to Apapa port costs us millions per day"
- "insufficient investment incentives"
- "difficulty with getting visas"
- "access to long term capital is challenging"
- "high cost of doing business"

Nigeria's investment environment has not been "friendly"

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Why Investment?

- In this COVID-19 era, government spending is important but will be constrained in view of rising debts and future debt service obligations.
- Investment is needed to drive production and productivity.
- Investment will sustain growth.
- Investment in critical sectors will drive inclusion.

The Four Priorities and Economic Transformation of Nigeria: A Theory of Change

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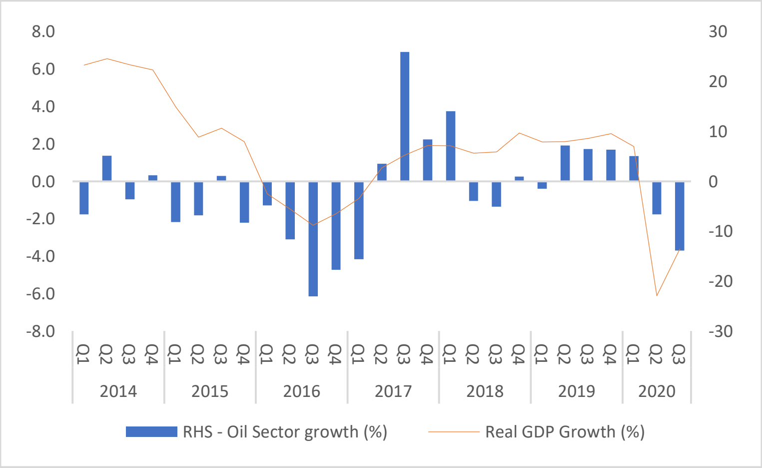
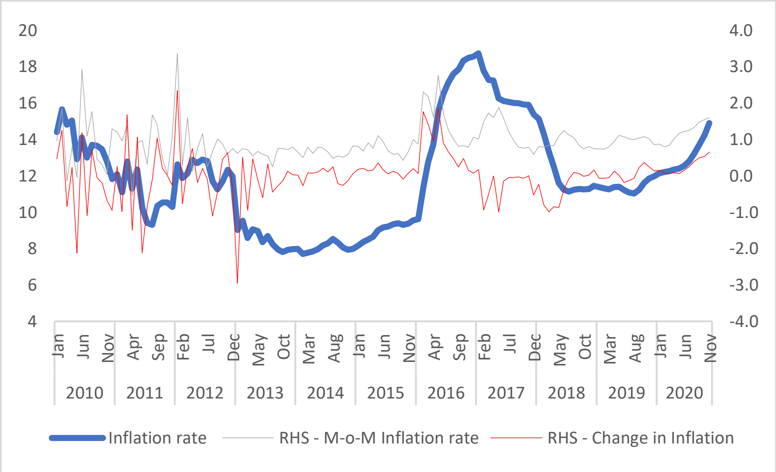
Where we are	• Weak economy • High inflation • Weakened currency • High unemployment and underemployment	
Short and Medium Term Economic Goals	**End of 2021** Real GDP - 2.9% Inflation - 14.5% Unemployment rate - 26%	**End of 2025** Real GDP - 7.5% Inflation - 11.8% Unemployment rate - 19.3%
What we need to achieve the goals	Boost Aggregate Demand ← PRIVATE INVESTMENTS	→ Improve Aggregate Output
To achieve investment we need	Priority 1 Macroeonomic Stability Priority 2 Policy & Regulatory Consistency	Priority 3 Sectoral Reform Priority 4 Human Capital Development

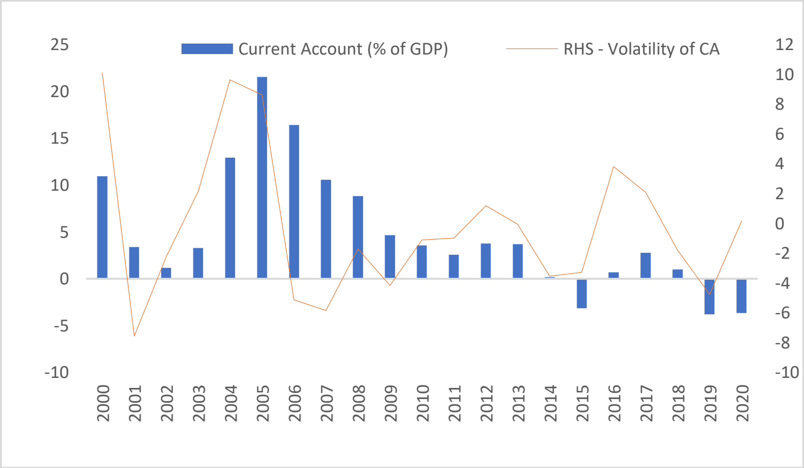
Priorities 3 & 4 will have low to moderate impacts on aggregate demand and output in the short-term

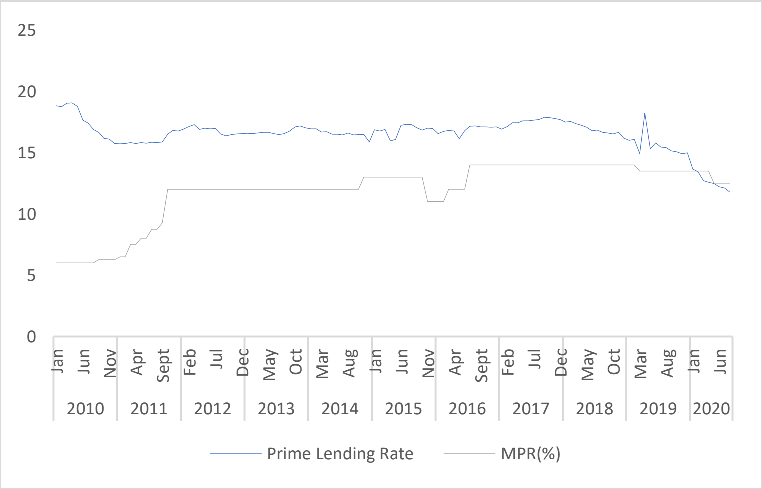
Priority 1: Macroeconomic Stability

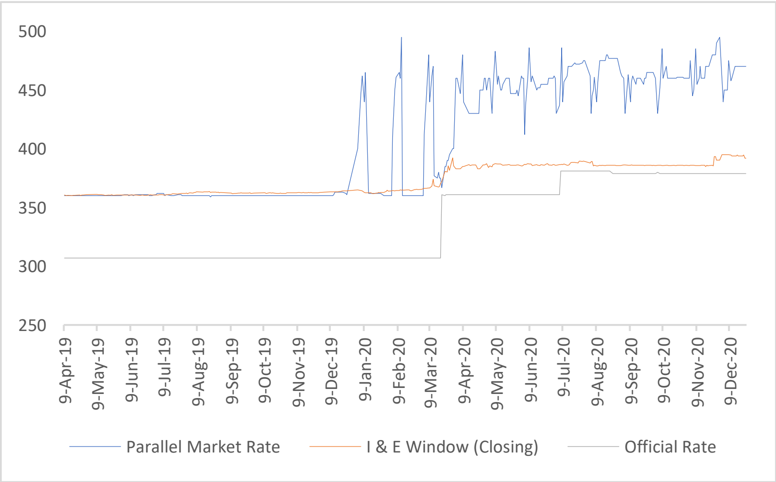
Assessing Nigeria using the **'Maastricht Indicators'** confirmed that the country has a volatile macroeconomic environment.

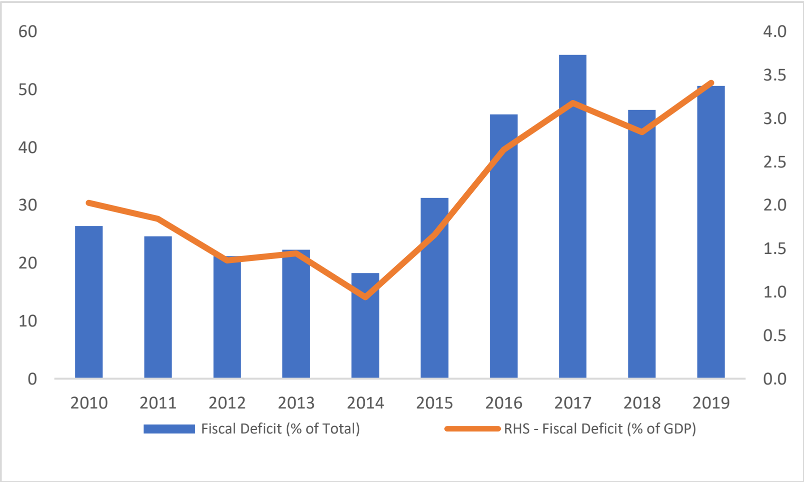












Data Source: CBN, National Bureau of Statistics, FMDQ Chart: NESG Research

Macroeconomic instability became even more evident in 2020

Reserves have barely improved in a space of 8 years

*2020 figure is Foreign Reserves as at November 2020.

Data Source: CBN, Bank Indonesia, NESG Research

The three-pronged policy stratification to achieve macroeconomic stability

THE GOAL

MACROECONOMIC STABILITY

THE TARGET

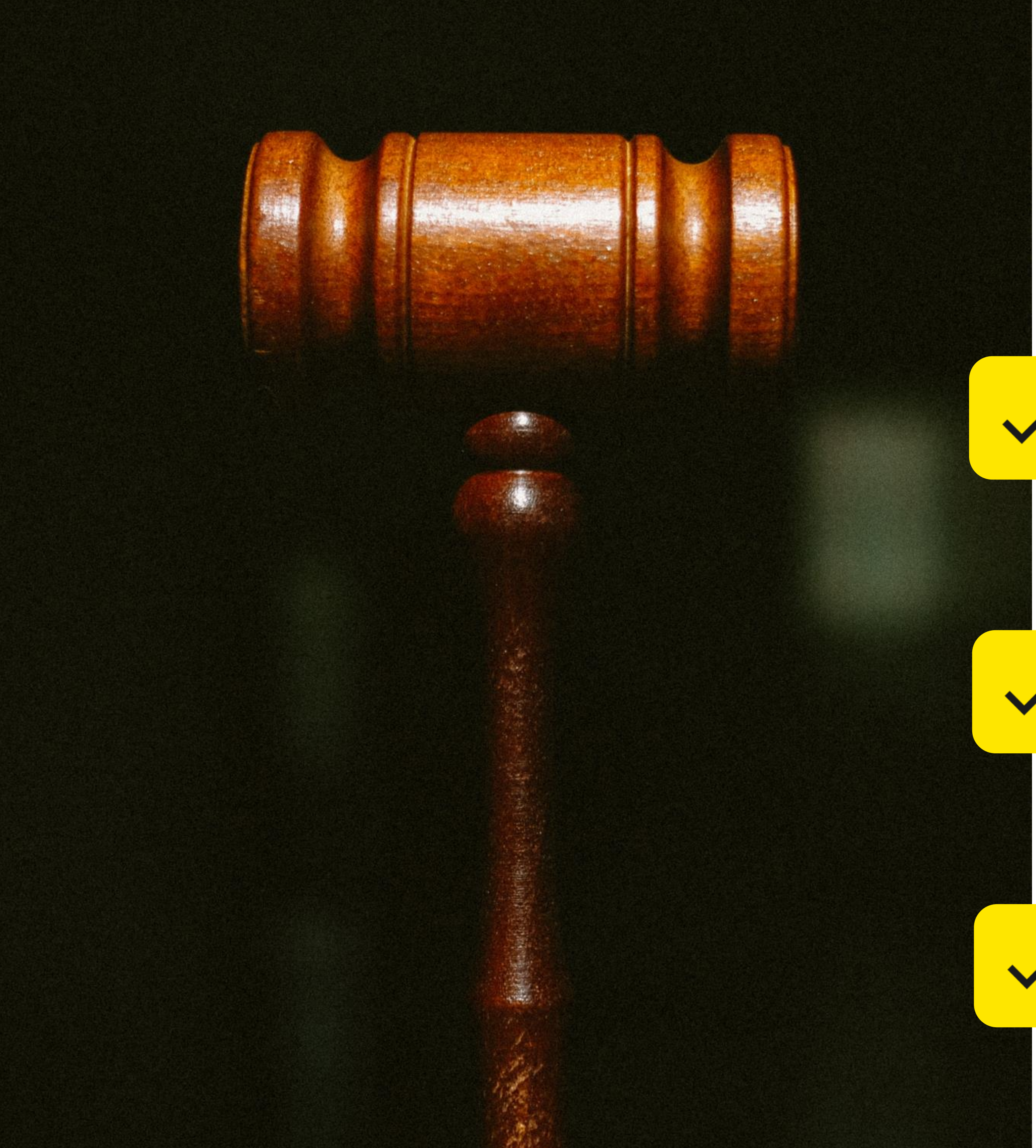
MONETARY STABILITY	EFFECTIVE FISCAL MANAGEMENT	GOOD GOVERNANCE AND EFFECTIVE CITIZENRY ENGAGEMENT
1 Independence of Central Bank	1 Expanding the non-oil revenue and transparency in tax collection	1 Promote open markets and fair competition through legislation
2 Stabilisation of domestic currency	2 Consider debt relief programs to achieve debt sustainability	2 Engage the private sector on advocacy for policies and regulatory reform.
3 Inflation targeting	3 Concentrate alternative financing and non-debt instruments for budget deficit financing	3 Build public confidence by stabilizing domestic currency and policy direction
4 Strengthening the country's banking system	4 Reflect national interests in budget and Sub-national spending	

THE INSTRUMENTS OR POLICY ACTIONS

Source: NESG Research

Priority 2: Policy & Regulatory Consistency

- Policy Reversals
- Lack of proper consultation with stakeholders
- Crucial decisions that affect businesses are made without consideration of evidence and research
- Poor adherence to a central vision, ideology and goals;
- Lack of coherence (States vs Federal) has consistently resulted in economic and social losses
- Frequent discontinuity of policies and programmes, especially when change of government happens.



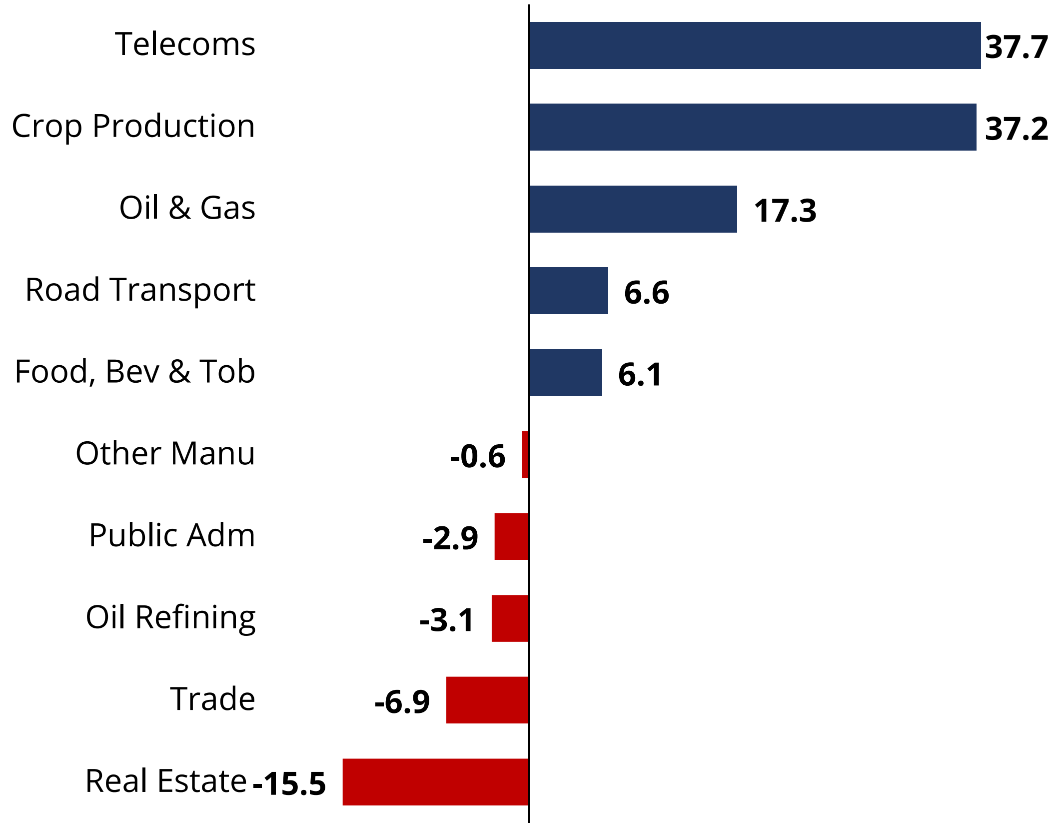
Targeted Reforms

- Policymaking should be driven by the need to create public value
- Clear visions and goals that are consistent with improving the business environment
- Industry regulators should act as "Enablers" not "Disablers" in the business environment

Priority 3: Sector Reforms for Investment

Three of the 46 activity sectors of the economy accounted for 92.2 percent of economic growth from 2015 to 2019 – Telecoms, Crop Production and Oil & Gas.

Sectoral Contribution (%) to Growth 2016 - 2019 Top 5 and Bottom 5



The government will also need to implement reforms that will attract significant investments into sectors that meet the criteria:

- Sectors that can account for a sizeable share of employed individuals.
- Sectors that have potential to grow and expand their outputs
- Sectors with strong backward and forward linkages.
- Sectors with link to inclusive growth.

Data Source: National Bureau of Statistics, Chart: NESG Research

Priority 3: Sector Reforms for Investment

Six Sectors met the above criteria:

- Manufacturing
- Construction
- Trade
- Professional Services
- Education and
- Health

ICT and Renewable energy are enablers

Targeted Reforms

Industrial/Manufacturing:
A revisit to the National Industrial Policy.

Trade: AfCFTA:
What is our winning strategy?

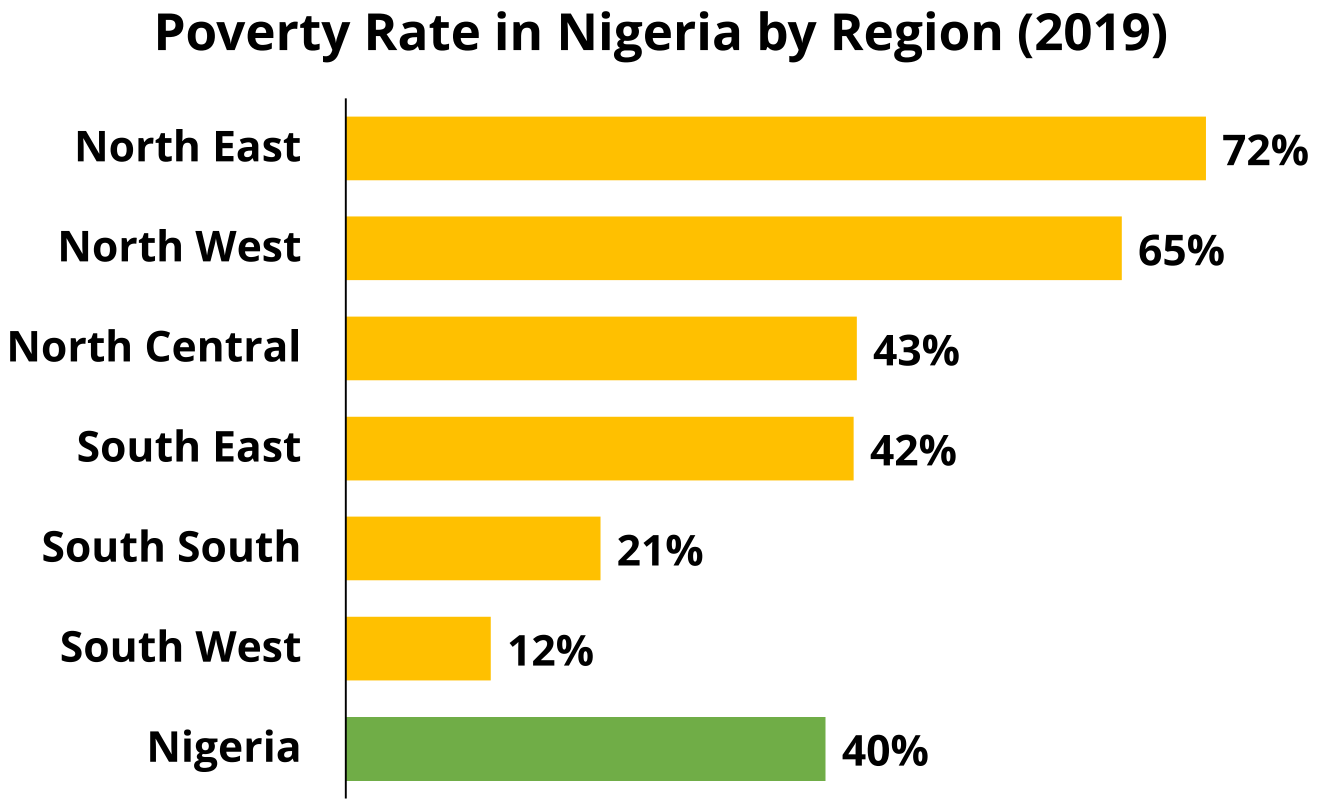
Petroleum Industry Bill:
What hope for PIB in 2021?

Digital Economy:
Support for Innovation & Digital Integration.

Social Sector:
Health/Education: Data-Driven Innovation, Value Creation & Access

Priority 4: Human Capital Development

Nigeria's human development performance remains poor over time. The Human Development Index (HDI) stayed flat at 0.5 from 2014 to 2019, with the country ranking 161st out of 189 countries surveyed in 2019.



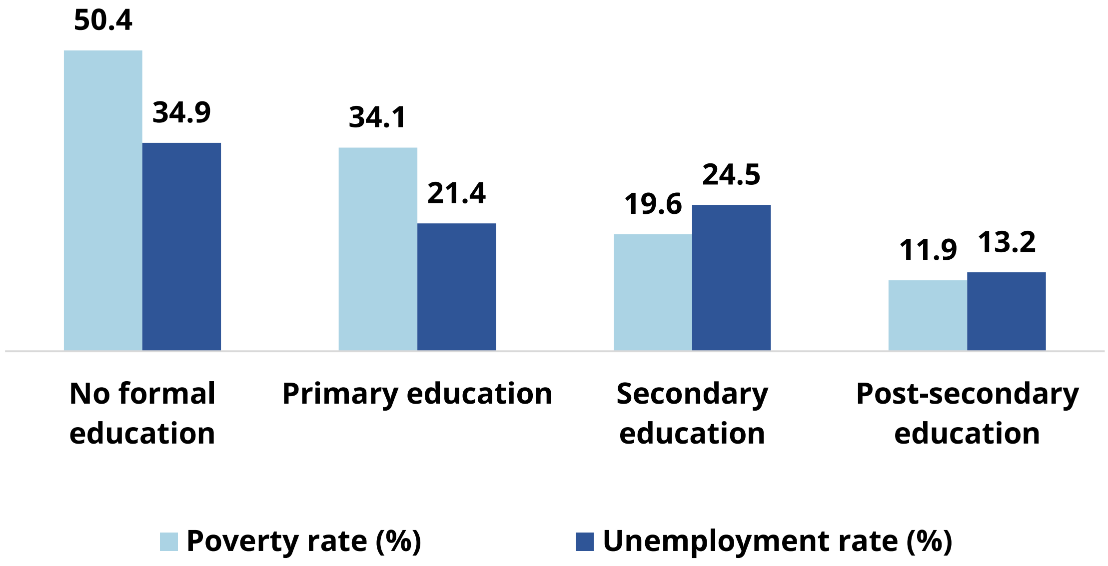
COVID-19 Impacts

- The outbreak and rapid spread of the coronavirus pandemic has not only overstretched the country's healthcare system but has also tested the resilience of the education sector.
- The pandemic has further highlighted the need for both health and education to continuously adapt to a changing environment characterised by limited physical interactions.
- Human capital development is not only important but necessary for the survival of the nation.

Data Source: National Bureau of Statistics, Chart: NESG Research

Key Priorities for Human Capital Development in Nigeria

Poverty rate (2019) and Unemployment rate (2020Q2) by Educational Qualification



Poverty and unemployment are pervasive among segment of the population with no formal education.

Reforms

- Social welfare must be a priority
- Massive digitization programme in Education and Health sectors
- Nation-wide skills development programme
- Curriculum review and delivery
- Opportunity for health care reforms

Conclusion

- The goal must be to build a resilient and high growth economy that delivers a reduction in poverty and unemployment.

- Investment will play a major role in achieving sustained recovery.

- Policymakers must understand that the business-as-usual scenario will only lead Nigeria down the drain of economic hardship, wider income inequality and increasing poverty.

- The Nigerian government at both federal and state levels in 2021 must be deliberate and proactive to counter the effects of the pandemic. Urgency and intensity of reforms must be the new priority.

Thank you.

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