

2022

NESG MACROECONOMIC
OUTLOOK



The Last Mile:

**Reforms towards Significant Improvement
in National Economic Outcomes**









Introducing NESG Radio

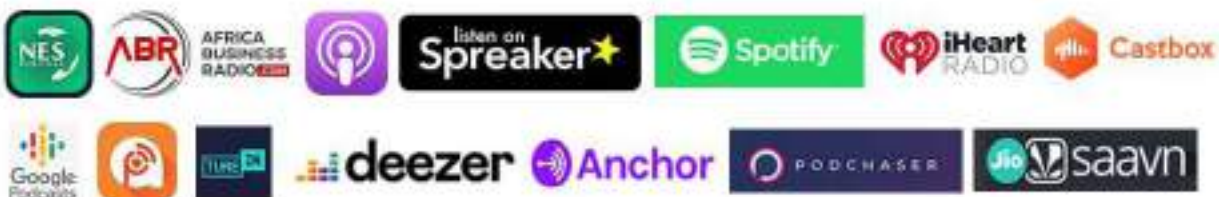
The NESG Radio is a traditionally syndicated podcast that will factually and effectively inform Nigerians with curated localized content. Our weekly podcasts will help communicate critical information such as economic policies, ideas, health information, trends, and interventions to Nigerians.

For enquiries and partnerships, contact us: radio@nesgroup.org

www.nesgroup.org/radio

info@nesgroup.org | +234-01-295 2849 |      OfficialNESG

Available on



**Episodes are syndicated to radio stations across local communities in Nigeria*

In this report

05
Introduction

08 **Part A:**
The Nigerian Economy in 2021
and Outlook for 2022

10 Events that Shaped
the Nigerian
Economy in 2021

11 Review of Nigerian
Economy in 2021

24 The Outlook for
the Nigerian
Economy in 2022

31 Snapshot of National
Development Plan
2021-2025

58
Concluding
Remarks

34 **Part B:**
The Last Mile: Reforms towards Significant Improvement
in National Economic Outcomes

36 Oil & Gas Sector
Deregulation
and Fuel Subsidy
Reforms

47 Foreign Exchange
Reforms

55 Sectoral Reforms



FOREWORD

Nigeria's economic progress can be likened to that of an athlete with the potential to become a star. This assertion speaks to the much-needed confidence in the country's development prospects after evaluating its economic performance in 2021. The economy sustained its recovery momentum as the real Gross Domestic Product (GDP) expanded by an average of 3.2 percent in the first three quarters of the year. Reaping from the high growth in output, the inflation rate, after peaking at 18.2 percent in March 2021, moderated for most of the year and averaged at 17.0 percent in 2021. The exchange rate faced intense pressure, and the Central Bank of Nigeria (CBN) adopted the Investors' and Exporters' FX window to strengthen the local currency's stability.

Also, in the first half of 2021, external reserves faced intense pressure despite the high global oil prices. This pressure was occasioned by the continued CBN's intervention in the foreign exchange market to finance rising demand for the US dollar. Despite the accretion of reserves in the third quarter following the massive foreign borrowing, external reserves have trended downwards since the fourth quarter of the year due to poor inflows from non-oil sources to meet foreign exchange demand.

On the social aspect, unemployment and poverty worsened as economic growth remained non-inclusive. This situation, due to the weak linkages between economic growth and socio-economic indicators, threatens the country's quest for development.

Going into 2022, the year presents opportunities to initialise critical reforms to achieve a paradigm shift in governance and policy design in Nigeria. If we miss these opportunities for critical reforms, many of the challenges encountered in 2021 will become amplified, leading to an adverse impact on business productivity and citizens' welfare.

In the NESG Macroeconomic Outlook for 2022, we highlight the need for reforms that will sustain the recovery of output and ensure improved social inclusion in Nigeria. We believe that the role of government is to ensure reforms translate to a friendly business environment and better welfare conditions for households in the country.

Enjoy your read!

Laoye Jaiyeola
CEO, NESG

Introduction

Nigeria is rapidly consolidating its recovery from the pandemic-induced recession, but the pre-COVID-19 narrative of poor inclusiveness and macroeconomic instability still persists.

Despite a GDP growth of 3.2 percent in the first three quarters of 2021, data from the National Bureau of Statistics (NBS) show that average prices of goods and services were high; trade balance remained in deficit and foreign investment inflow was constrained in the year. The World Bank estimated that an additional 8 million Nigerians fell into poverty between 2020 and 2021 due to lower purchasing power. Although Nigeria's potential is enormous, job creation across sectors has been lagging, resulting in an increase in unemployed individuals.

While there is considerable improvement in some areas, such as the mobilisation of non-oil revenue in the last few years, one thing is clear: Nigeria cannot afford to continue with its business-as-usual approach in policymaking and execution. The heightened insecurity and social vices in several parts of the country is proof that when some segments of the population are left behind, it will not only offset the few gains made prior to COVID-19 but will also deprive the country of much-needed investments that are needed to ensure sustainable growth and development.

The challenges associated with insecurity, rising prices, unemployment, and lower investments intensify the need for reforms that will lead the country to substantial economic progress and improved social inclusion. This will ensure that businesses and citizens constitute the core of government policies and actions.

Certainly, the challenges facing the country are daunting. Still, the year 2022 presents a unique opportunity for Nigeria to initiate tough economic reforms that would propel sustainable economic growth and inclusive development. Long-standing issues of deregulation of the downstream sector, foreign exchange scarcity and lower investment into key sectors must be given the utmost attention in 2022. The deregulation of the downstream oil and gas sector, for example, is needed at this critical time when massive investments are required to fix the deteriorating state of the existing refineries. This will address the predicament of huge importation of refined fuel products that deprive the country of the foreign exchange required to meet other important obligations. While the Petroleum Industry Act (PIA) stipulates the long-awaited deregulation, there is a need to muster efforts to improve the business and policy environment in order to rekindle investors' confidence in the Nigerian economy.

Implementing these reforms will undoubtedly come at a cost to the government, businesses and citizens. However, the herculean task before the government is to ensure that these costs are minimised in order to create a win-win situation for every stakeholder and, in turn, advance the country on the path of development. Fortunately,

the federal government has launched the National Development Plan (2021-2025), which sets targets, priority areas, and action steps to be implemented in the next five years. Even so, the success or failure of the plan will largely hinge on the level of implementation and coordination among government agencies, domestication of the plan by the state governments, and the private sector's commitment to making the necessary investments in key areas of the economy. More importantly, the government is expected to be a key driving force in creating a business-friendly environment, ensuring macroeconomic stability and mobilising investments across board.

With just over a year left in office, the current administration must intensify the pace of reforms, especially given the impact of the twin challenges of poverty and unemployment on insecurity and social cohesion of the nation. In order to secure the future of Nigeria, the government must recognise the urgency of now. Economic and social reforms that will create jobs and improve the lives of Nigerians should be non-negotiable in 2022.





PART A

**The Nigerian
Economy in 2021
and Outlook for
2022**



**The Nigerian
Economy in 2021**

EVENTS THAT SHAPED THE NIGERIAN ECONOMY IN 2021

1 The Finance Act of 2020: The Finance Act 2020 is the second of its kind enacted to support the 2021 Budget of the Federal Government of Nigeria (FGN). Partly due to its implementation, the non-oil revenue as of November 2021 had outperformed its prorated projection by 18.8 percent.

2 Intensified insecurity: The prevalence of kidnappings, banditry, terrorism and herders' violence has contributed substantially to rising food insecurity, and has further spiked the high food inflation rate. The worsening security situation also disrupted economic activities.

3 An upward movement in crude oil prices: This increased Nigeria's exports by 40.6 percent in the first nine months of 2021. It also helped to push the current account to surplus in US\$0.31 billion in Q2-2021 & US\$1.77 billion in Q3-2021.

4 The signing of the Petroleum Industry Bill: The Petroleum Industry Bill was signed into law on August 16, 2021. Although the oil and gas sector is currently in recession, the Petroleum Industry Act (PIA) is expected to drive investments in the sector and support economic growth.

5 International Monetary Fund (IMF) allocation of Special Drawing Rights (SDRs): Nigeria was allocated US\$3.4 billion in SDRs, and this helped improve the country's external reserves position.

6 Adoption of the Investors' & Exporters' (I&E) Window exchange rate: The Central Bank of Nigeria (CBN) further intensified its efforts to harmonise the foreign exchange market by adopting the I&E Window rate as the official exchange rate. This increased the turnover at the I&E foreign exchange Window.

7 Twitter ban: In June 2021, the Federal Government of Nigeria banned Twitter's operations in the country based on claims that the social media platform was used to instigate violence and hate speech in Nigeria. Although the ban was lifted in January 2022, it is a signal that the Nigeria government can take such actions and therefore investors will have to recognize this when making their investment decisions.

8 Discovery of the Omicron variant of COVID-19 virus: In the fourth quarter of 2021, the Omicron variant of COVID-19 was first detected in South Africa, with rising cases of this new variant in Nigeria. This event led to the reintroduction of travel bans across countries.

9 Demutualisation of the Nigerian Stock Exchange (NSE): The NSE, now NGX, has transitioned from a not-for-profit organisation to a limited liability company that is profit-oriented and accountable to shareholders. This is in a bid to improve the efficiency of stock exchange operations. Following its demutualisation, the Exchange has been listed on its platform.

II
Improved domestic productive activities motivated consolidated economic recovery and tapering inflationary pressures in 2021, following restrictions removal and increased digitalisation of operations.

II

II
...Nigeria's inflation rate remains elevated on the back of insecurity, infrastructural decay, exchange rate depreciation and supply chain disruptions caused by poor logistics and rising energy and transport costs.

II

1. REAL SECTOR DEVELOPMENTS

The Nigerian economy consolidated its recovery in 2021. A significant part of the improvement resulted from comparing current output with a period when output had shrunk; that is, the 'base effect' was responsible for the growth recorded. According to the NBS, the value of Nigeria's economic output – adjusted for inflation, in other words, 'real' GDP – grew cumulatively, by 3.2 percent in the first three quarters of 2021 (see Fig. 1a) compared to the 2.6 percent contraction in the corresponding period of 2020. That is, the economy expanded by 0.5 percent, 5 percent, and 4 percent in the first three quarters of 2021, respectively. Cuing from the GDP by Expenditure report in H1-2021, the growth recorded in the economic output was largely driven by household consumption which accounted for 75.6 percent of GDP, while government and investment expenditure contributed 6.2 percent and 17.2 percent, respectively.

A spotlight on sectoral performance showed that many service-based sub-sectors experienced high growth, with significant contributions to real GDP growth achieved between January and September 2021 (see Fig. 1b). Improved local commercial and productive activities, and increased digitalisation of operations accounted for the high growth of key sectors such as trade, manufacturing, ICT, finance and insurance, transport, and others (see Fig. 1c). The agriculture sector's growth declined slightly to 1.6 percent in 9M-2021 from 1.7 percent in the same period of 2020. The declining growth in the agriculture sector is a result of low productivity, heightened post-harvest losses due to poor logistics and insecurity across the country. Mining and quarrying activities (largely the oil and gas industry) recorded negative growth of 8.3 percent in the period under review. The continued decline in the sector is mainly attributable to the decrease in domestic crude oil production. The disruption in production resulted from force majeure on international oil companies, prolonged maintenance of oil assets and pipeline sabotage in the Niger Delta.

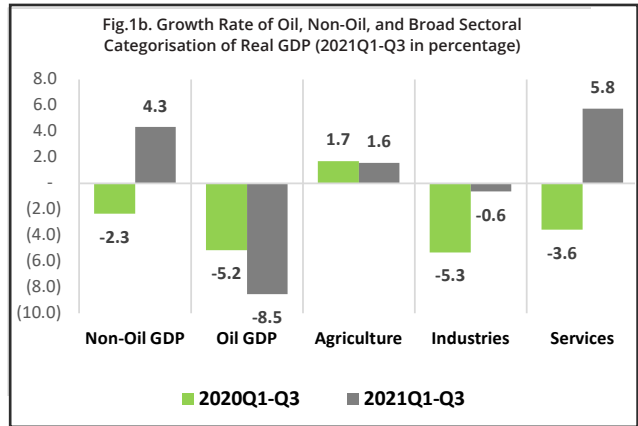
Inflationary pressures tapered gradually from the second quarter of 2021. After peaking at 18.2 percent in March 2021, the headline inflation rate remained on a downward trend as it stood at 15.6 percent in December 2021. However, on an annual basis, the average inflation rate was high at 17.0 percent in 2021 relative to 13.3 percent in 2020. Therefore, despite the seeming decline in 2021, businesses and households still faced high price levels with detrimental effects on economic activities. Key drivers of the inflation rate trend in Nigeria were structural factors such as insecurity, infrastructural decay, exchange rate depreciation and supply chain disruptions due to poor logistics, and rising costs of energy and transport. The elevated inflation risk depressed the purchasing power of households and increased the cost of business operations.

FIGURE 1: NIGERIA'S ECONOMIC PERFORMANCE IN 2021

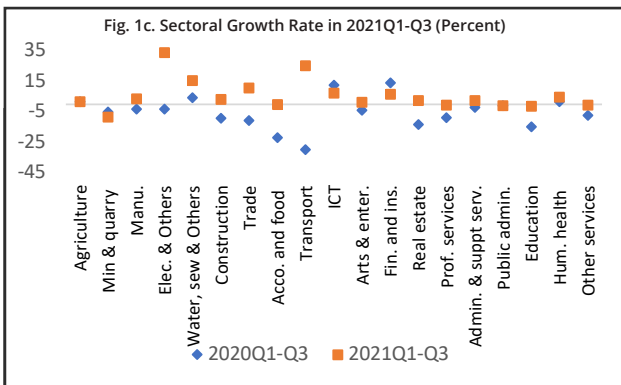
Real GDP Growth in 2021 Q1-Q3 shows the Nigerian economy is fast recovering



Services and non-oil industrial sectors contributed greatly to the performance of non-oil and aggregate economic growth in 2021 Q1-Q3



Reopening of the economy and relaxation of restrictions resulted in high growth for many services and industrial sub-sectors



The inflation rate remained above 12 percent throughout 2021 and contributed to the high cost of living in Nigeria

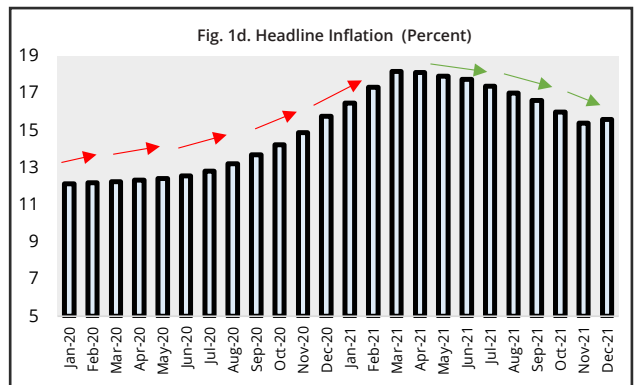


Fig.1e Labour Force statistics in 2020



Data: NBS, Charts: NESG Research

“
Nigeria's fiscal space remained constrained as the country could not tap into the global oil market rally
 ”

“
The sub-par revenue performance was primarily driven by poor oil revenue and the rising cost of subsidies.
 ”

2. POLICY ENVIRONMENT

This section is designed to illustrate the changes in government actions, or that of its agencies, that impacted businesses and overall economic performance during the year 2021. The government's key policy activities are categorised into fiscal policy, monetary policy, and regulatory environment.

Fiscal Policy

Fiscal constraint persists despite the increase in oil price above the budget benchmark for 2021. In 2021, Nigeria's fiscal space remained constrained as the country could not tap into the global oil market rally. The price rally in the global oil market did not translate into revenue growth for the Nigerian government.

According to the Budget Office of the Federation, Nigeria's distributable revenue was N5.5 trillion in the first eleven months of 2021, 26 percent less than the 2021 prorated budget of N7.4 trillion for the period (see Fig. 2a). Similarly, Federal Government (FG) retained revenue also underperformed against projection by 30.6 percent to N4.3 trillion (see Fig. 2b). The sub-par oil revenue performance was primarily driven by constraints on crude oil production that affected the oil revenue potential for the year. Likewise, the rise in the cost of fuel subsidies alongside elevated oil prices short-changed the government as the inflows that were supposed to serve as government revenue went into subsidies.

On the other hand, the Federal Government secured legislative approval for a supplementary budget of N983 billion, increasing the year's budget to N14.6 trillion. Eleven months into the year, the Federal Government of Nigeria's expenditure was N12.6 trillion – 6.0 percent lower than prorated budget for the period (see Fig. 2b). While recurrent expenditure exceeded its prorated value for the eleven months by 4.5 percent, spending on capital projects was 26.1 percent lower than prorated for this period.

Actual revenue for 11M-2021 was N5.5 trillion out of N8.1 trillion budgeted – actual revenue showed 75 percent performance when the prorated budget is considered. As a result, debt servicing and the fiscal

||
*Aside
 deficiency
 in revenue
 performance,
 FGN fiscal
 deficit and
 the resultant
 expansion in
 debt stock was
 driven by over-
 running debt
 servicing*
||

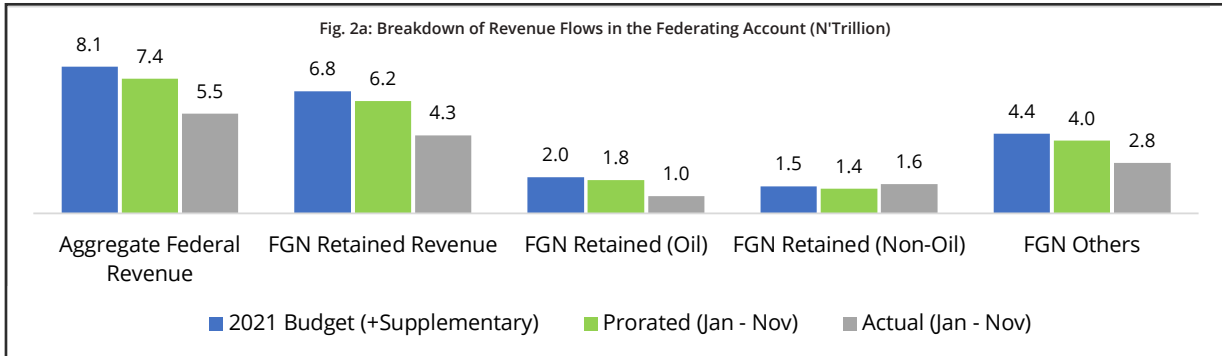
deficit exceeded their prorated values. The FGN debt service for 11M-2021, at N4.2 trillion, was 40.0 percent higher than the projection, and the resultant debt service to revenue ratio stood at 76 percent. This culminated in a 19.3 percent increase in the budget deficit to N7.1 trillion from N5.9 trillion prorated for eleven months (see Fig. 2b). As expenditure continues to outpace revenue, the fiscal deficit expands and is now outrunning revenue.

Due to the widening fiscal deficit, Nigeria's borrowing pace has increased. According to the Debt Management Office, Nigeria's public debt stock as of September 2021 stood at N38 trillion, an increase of 15.5 percent (N5.1 trillion) in the space of 9 months. The growth in Nigeria's public debt stock was driven by a 22.6 percent (N2.9 trillion) and 11 percent (N2.2 trillion) expansion in external and domestic debt stocks, respectively. This brings the external and domestic debt stocks to N5.6 trillion and N22.4 trillion, respectively, in Q3-2021 (see Fig. 2c).

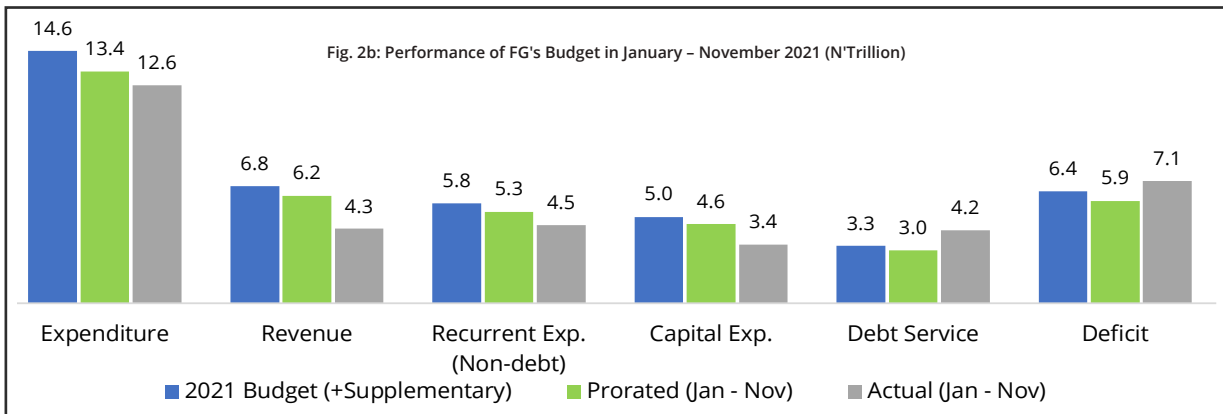
Beyond the rising debt stock, the sustainability of Nigeria's current debt level is of great concern. Nigeria's public debt-to-GDP ratio at 35.7 percent is one of the lowest globally, which gives more room for aggressive borrowing. However, the debt service-to-revenue ratio at 76 percent (January to November 2021) suggests that the government spent a larger part of its revenue on debt servicing while borrowing to finance other government activities including capital projects (see Fig. 2d). This five-year-old trend implies that a larger proportion of government borrowings has gone into debt and non-debt recurrent expenditure. As borrowing grows, Nigeria risks falling deeper into a debt cycle and an imminent debt crisis.

FIGURE 2: NIGERIA'S FISCAL POLICY PERFORMANCE IN 2021

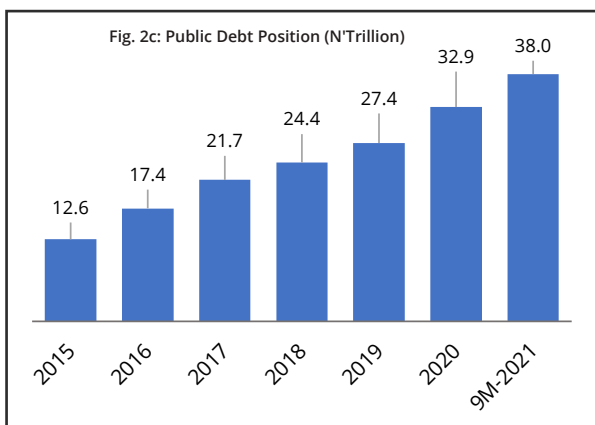
Nigeria's fiscal space remained constrained as Nigeria could not tap into the global oil market rally.



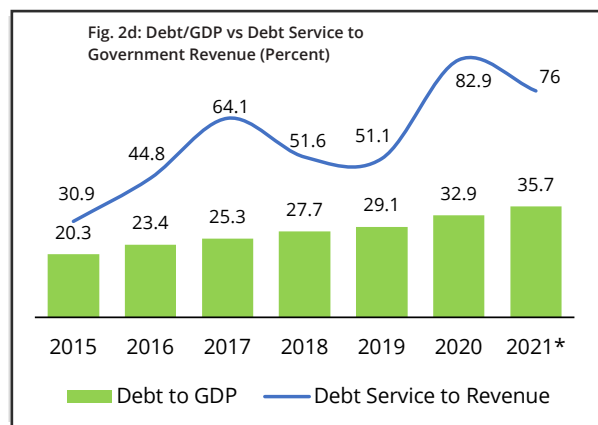
FGN fiscal deficit expands and is now outrunning revenue as debt servicing outperformed budget projections.



Nigeria's borrowing rate is not subsiding on the back of widening fiscal deficit.



Beyond rising debt stock, the sustainability of Nigeria's current debt level is of great concern.



Note: The Debt to GDP ratio on the asterisked year is the IMF estimate for 2021 while the debt service to revenue on the asterisked year is 11 months of 2021 as reported by the Budget Office of Nigeria.

Data: Debt Management Office, Budget Office; IMF, Charts: NESG Research

II
The MPC in 2021 maintained a static position across all policy parameters, while the movements in liquidity and yields motivated trade-offs in the performances of the fixed income and equity markets.

II

Monetary Policy

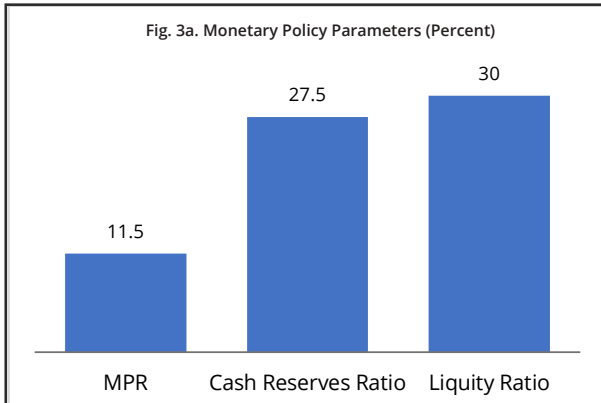
The monetary policy unit held a static but pro-growth policy stance in 2021. Due to the persistence of COVID-19 pandemic, the monetary policy unit contended with a constrained economy in recovery. Additionally, the Central Bank of Nigeria (CBN) had to deal with inflationary pressures as structural factors continued to drive up food prices, exchange rate volatility amid low crude oil production, low accretion to foreign reserves, and liquidity volatility. To support economic growth, the Monetary Policy Committee (MPC) in 2021 maintained a static position across all policy parameters despite the high inflation rate. Hence, for eight consecutive MPC meetings and 16 straight months, the Monetary Policy Rate (MPR), Cash Reserves Ratio (CRR) and Liquidity Ratio were retained at 11.5 percent, 11.5 percent with +100/-700 asymmetric corridor, 27.5 percent, and 30 percent, respectively (see Fig. 3a). The decision was further motivated by the need to sustain the downward trend in inflation rate. In addition, through its various schemes, the CBN supported the economy with about N1.3 trillion over the past 18 months and maintained its Loan-to-Deposit Ratio (LDR) of 65 percent to continue to expand credit to the real sector. Consequently, the credit to the private sector in the year expanded by 17.3 percent to N35.3 trillion as of November, 2021 from N30.1 trillion in December, 2020 (see Fig. 3b).

Following the introduction of the CBN Special Bill late in 2020, and a series of OMO auctions, the impact of the CBN OMO Policy in 2019 substantially faded out in 2021. Consequently, yields across all sovereign instruments rose. Mid-year, average yields across FGN Bonds, Treasury Bills and OMO markets increased to 11.8 percent, 6.6 percent and 9.9 percent from 6.3 percent, 0.5 percent, and 0.6 percent, respectively, on the first trading day of 2021 (see Fig. 3c). However, liquidity expansion in Q3-2021 and Q4-2021 — arising from the maturities across the fixed and money markets instruments, the strategic positioning of the government and CBN's stance to reduce the cost of borrowing — motivated the decline in yields in the second half of the year. At year's end, average yields across FGN Bonds, Treasury Bills and OMO markets stood at 11.6 percent, 4.4 percent and 5.5 percent, respectively. With inflation at 15.6 percent in December 2021, the real interest rate remained negative. This could be a reason for the poor foreign capital imported during the year.

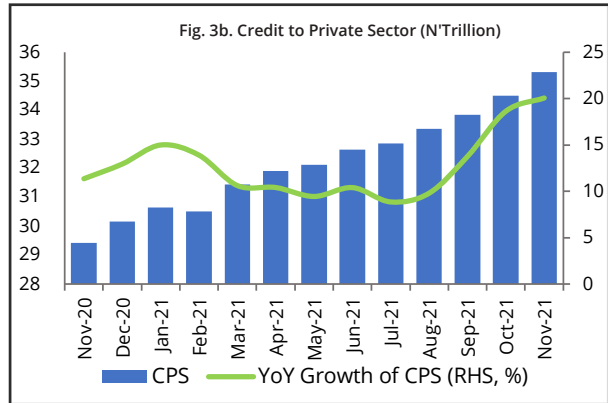
In response to liquidity movements, the equity market maintained an inverted posture to the performance of yields in 2021. In the first half of the year, the equity market responded with a downward trend in the NGX All-Share Index (ASI) following the introduction of the CBN Special Bill that mopped up liquidity in the system. However, due to the surge in liquidity that came with maturities across segments of the fixed income market, system liquidity buoyed. This resulted in a downward spiral in yields on the Treasury Bill and OMO markets. Consequently, the NGX-ASI recorded a gain of 6.1 percent at the close of the year.

FIGURE 3: NIGERIA'S MONETARY POLICY ENVIRONMENT IN 2021

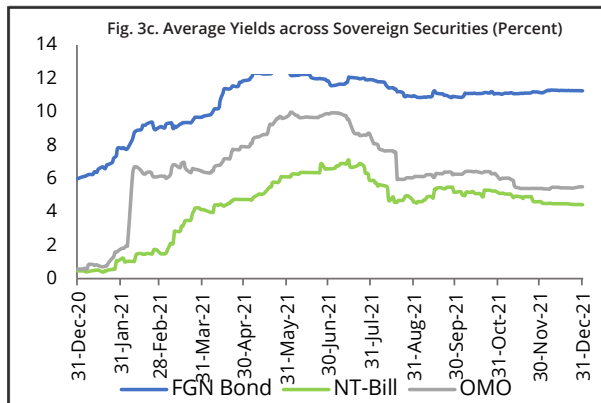
MPC maintained a static position across all policy parameters despite elevated inflation rate in 2021



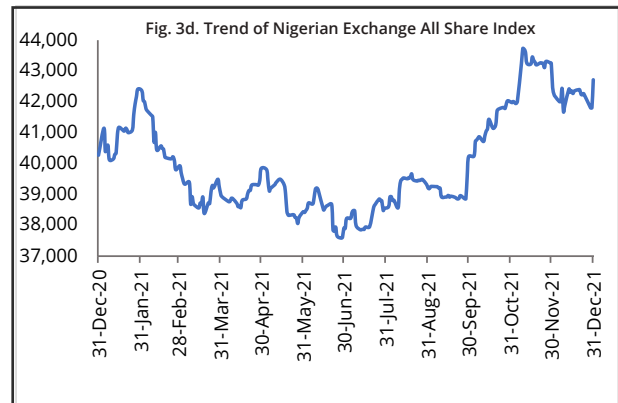
Credit to the private sector in the year expanded by N5.2 trillion as of November 2021 to N35.3 trillion from N30.1 trillion in December 2020



Following the introduction of the CBN Special Bill, yields across all sovereign instruments expanded.



Opposing movement in system liquidity motivated switch in the performance of the equity market



Data: CBN, FMDQ, NGX, Charts: NESG Research

Regulatory Policies

Effective from January 2021, the Corporate Affairs Commission (CAC) commenced the implementation of the Company and Allied Matters Act (CAMA) 2020, which was signed into law by the President in August 2020. The new law seeks to make starting a new business seamless and cheaper with the use of technology, strengthen the transition of Micro, Small and Medium Enterprises (MSMEs) in the informal sector to the formal sector, and reshape the general business environment. Specifically, the law provided for the establishment of a single membership company; cheaper fees for registration and reform of MSMEs; electronic filing, share/transfer, and e-meetings; voluntary corporate arrangement for extensive insolvency regime; disclosure of members with significant control of companies to enhance corporate accountability and transparency; and other reforms aimed at strengthening the business environment.

Likewise, the Finance Act 2020, as implemented in 2021, made several reforms. The law expanded the conditions for the President to exceed the expenditure ceiling to include war, safety, breakdown of law and order, natural disaster or other public dangers threatening the existence and unity of Nigeria. To ease the business environment, it provided for a reduction in import duty on cars for transport from 30 percent to 5 percent; the reduction of the minimum tax rate to 0.25 percent from 0.5 percent; and exemption of incomes of N30,000 or less from tax. To strengthen government revenue, the Act mandates companies operating in Free Trade Zone (FTZ) to file their returns with the Federal Inland Revenue Service (FIRS); and imposes a N50 flat levy on electronic fund transfers of over N10,000.

In a bid to rekindle the potential of Nigeria's oil and gas industry and remove constraints to growing petroleum output and export, the President signed the Petroleum Industry Act (PIA) to become effective from 2022. The Act fosters institutional reforms for transparent and accountable management of the oil and gas industry; expansion of the industry's capacity through a commercially competitive business environment and liberalised downstream operation; socio-economic development of host communities to enhance harmonious coexistence with petroleum operators and alleviate disruption associated with conflicts; and industry's fiscal framework to optimise government revenue mobilisation. The new law came at a critical time in the oil and gas industry when it struggles to expand output, export and support government revenue as international oil companies continue to trigger the force majeure clause. The new law also allows the Nigerian National Petroleum Corporation (NNPC) to transition to Nigerian National Petroleum Company Limited (NNPC Limited) and specifically provides a timeline for removing fuel subsidies.

Also, in January 2022, the Securities and Exchange Commission (SEC) will commence charging regulatory fee on fixed income secondary market transactions (bonds). This will feed into revenue for the government. However, it will strain investors in the capital market and constitute a disincentive to foreign participants that are already exiting the market

II
Despite improved economic growth and crude oil prices, Nigeria's external positions deteriorated due to technical disruptions in production capacity and declining foreign investment inflows.

II

3. EXTERNAL SECTOR

In 2021, Nigeria's external position, especially merchandise trade, deteriorated further. The recovery of the global economy motivated an increase in the demand for crude oil globally. This translated to a rise in international oil prices. As at the end of December 2021, the Brent crude and West Texas Intermediate (WTI) oil prices peaked at US\$77.8 per barrel and US\$75.2 per barrel, respectively. These represent increases of 65.4 percent and 72.8 percent compared with their respective opening prices in 2021. The average price for Bonny Light in 2021 stood at US\$71.1 per barrel representing 68.9 percent increase when the average price for 2020 is considered. Despite the ease in the global supply chain constraints, Nigeria's crude oil production (less condensate) averaged 1.4 million barrels per day (mbpd) in 2021 compared with 1.6 mbpd in 2020 (see Fig. 4a). The decline in Nigeria's crude oil production is due to the challenges of deteriorating production capacity and technical disruptions in the operations of some oil terminals. Consequently, Nigeria continued to produce below its OPEC production quota. This resulted in low revenue from oil exports.

Nigeria's net trade position worsened despite a more than 40 percent increase in exports. Buoyed by the rise in the proceeds from crude oil exports, Nigeria's total export value increased by 40.6 percent in 9M-2021 to N13.1 trillion from N9.3 trillion in 9M-2020 (see Fig. 4b). However, the trade balance remained in deficit, due to a faster growth in imports over exports. From January to September 2021, the country's total import value increased by 57.1 percent to N22 trillion from N14 trillion in the corresponding period of 2020. The growth in import value was driven by higher bills on the imports of machinery & transport equipment, chemicals & related products, mineral fuel, food & live animals, and manufactured goods. Consequently, Nigeria's trade deficit widened to N8.8 trillion in the first three quarters of 2021 from N4.6 trillion in the same period of 2020 (see Fig. 4b).

Contrary to trade balance, current account is back to surplus. After nine consecutive quarters of being in deficit, the current account recorded a surplus of US\$0.35 billion in Q2-2021 (see Fig. 4d). Consolidating on the net surplus, the current account balance quadrupled by Q3-2021 to US\$3.68 billion, reflecting the impact of the oil price increase. However, the inflows of foreign investment into Nigeria remained constrained in 2021 despite the recovery path of the economy. The total capital inflows of US\$4.5 billion is 47.6 percent lower than US\$8.6 billion in the same period of 2020 (see Fig. 4c). On a disaggregated level, Foreign Direct Investment (FDI), Foreign Portfolio Investment (FPI) and Other Investments declined by 56.2 percent, 46.2 percent, and 47.7 percent in the first three quarters of 2021 to US\$0.3 billion, US\$2.7 billion and US\$1.4 billion, respectively, compared with the

//
...Central Bank of Nigeria (CBN) adopted the Investors & Exporter (I&E) Window exchange rate as the government's official exchange rate in an effort to harmonise the forex market

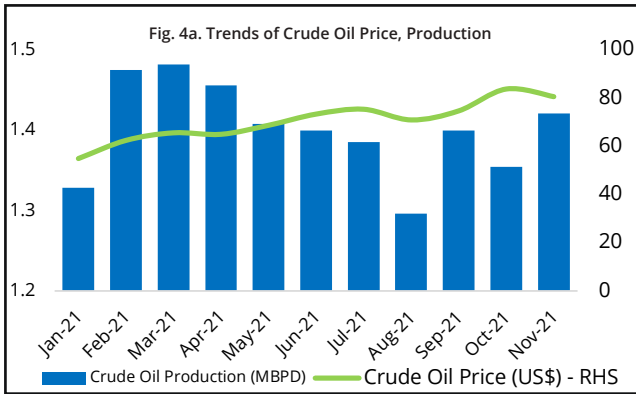
//

corresponding period of 2020. The fragile economic growth path and capital market uncertainties significantly doused investors' confidence in Nigeria as a preferable investment destination.

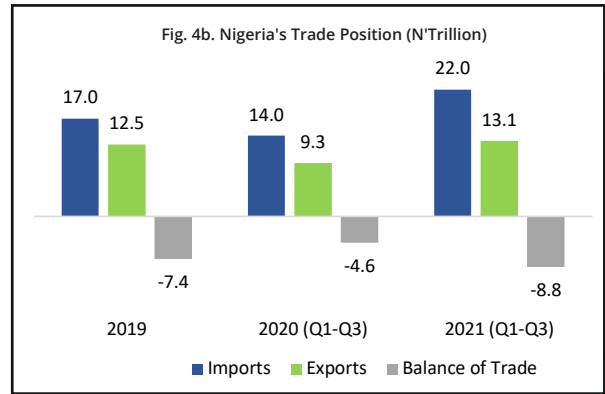
As the economic impact of COVID-19 endured, Nigeria sought direct borrowing to ease pressure on the external reserves and exchange rate. For most of the first three quarters of 2021, the external reserves and exchange rate faced tremendous pressure, especially from foreign exchange (FX) demand for import and low foreign investments inflows. Consequently, Nigeria's foreign reserves increased to US\$41.8 billion in October 2021, before retreating to US\$40.5 billion at year's end (see Fig. 4e). This represents an annual increase of 14.4 percent from US\$35.4 billion in 2020, which is largely driven by external borrowing from Eurobond issuance, IMF's SDR and the rally in global oil price in 2021. Following the FX pressure in the year, there was an adjustment in the exchange rate on the Investors' & Exporters' (I&E) Window, while the CBN adopted the I&E exchange rate as the official rate in an effort to harmonise the multiple FX markets. However, the gap between the I&E Window and the parallel market exchange rates widened and settled in the range of N145/US\$ - N160/US\$ at the end of 2021 (see Fig. 4f).

FIGURE 4: NIGERIA'S EXTERNAL SECTOR PERFORMANCE IN 2021

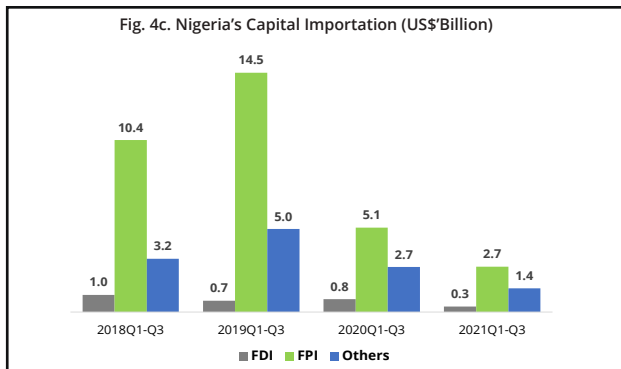
...oil production was below OPEC+ benchmark in 2021



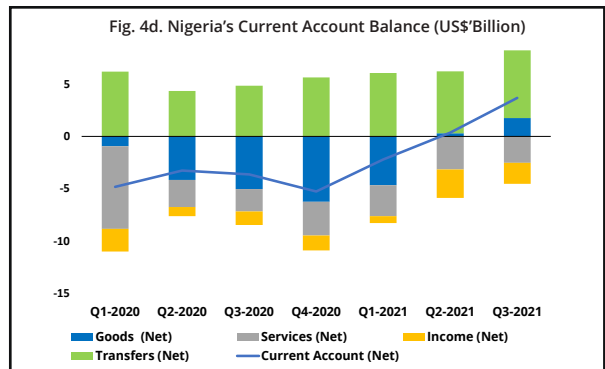
Nigeria's trade situation remains unfavourable. It recorded widening deficit in first three quarters of 2021



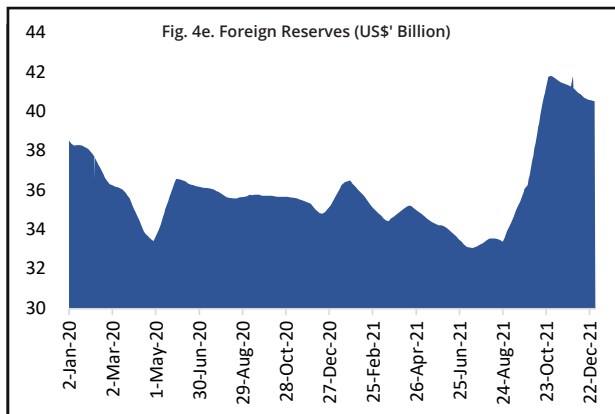
Nigeria's perceived harsh business environment scares away investors



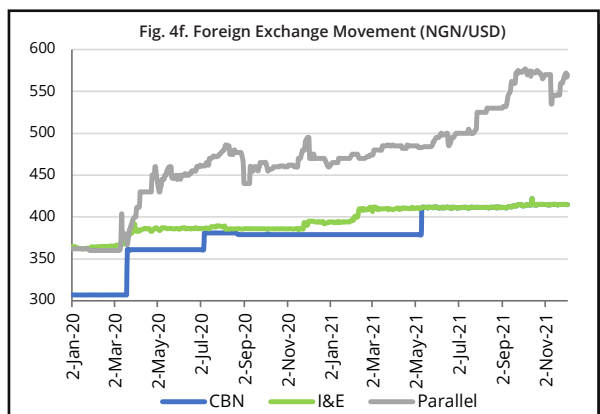
...high oil price in 2021 contributed to improving Nigeria's net current account balance position



...External reserves closed the year high on improved global oil price & high external fund sourcing such Eurobond, IMF's SDR



Naira depreciated hugely despite CBN's FX market interventions



Data: NBS, CBN, FMDQ, Charts: NESG Research

LESSONS FROM THE REVIEW OF THE NIGERIAN ECONOMY IN 2021

A general theme on the posture of the Nigerian economy in 2021 is that of foreign exchange shortage and divergence of interest rates, as well as other policy constraints. These continue to limit sectoral productivity, elevate investment risks, slow down job creation, and worsen trade balance, resulting in a dearth of long-term investments required to achieve high and sustained economic growth.

The widening fiscal deficit and other constraints that are required to quickly turn around the situation are also worrying for the country's economic future. Therefore, there is need for a paradigm shift in the policy environment to avoid the reversal of the current pace of economic recovery. This paradigm shift can only be guaranteed by making hard economic reform decisions. If history is anything to rely on, only economic reforms that align with the aspirations of the private sector (for economic efficiency) and the people (in terms of welfare) can generate the economic outcomes that are inclusive and ensure no one is left behind in the last mile.







**The Outlook for
the Nigerian
Economy in 2022**

KEY EVENTS THAT WILL SHAPE THE NIGERIAN ECONOMY IN 2022

1 Proposed removal of subsidy on petrol: The Petroleum Industry Act (PIA) stipulates the removal of fuel subsidy. This decision would significantly impact all facets of the economy – particularly households' welfare, cost of business operations, and government finances.

2 Implementation of the new National Development Plan (NDP) 2021–2025: The Plan is premised on six pillars: economic growth and development; infrastructure; public administration; human capital development; social development, and regional development, with the goal to produce an average growth of 4.7 percent over the next five years.

3 Completion and launch of the Dangote Refinery. The much-awaited 650,000 barrel-capacity Dangote Refinery project is expected to reach the completion stage before the end of Q1-2022. Its operations are expected to reduce the importation of refined fuel products and boost foreign exchange savings.

4 Rising levels of insecurity. Failure of the government to tame the insecurity challenges — particularly banditry and kidnapping — could discourage the inflow of much-needed investments into the various sectors of the Nigerian economy.

5 The introduction of the International Financial Reporting Standard (IFRS) 17 for insurance companies and recapitalisation of insurance and pension firms. These will lead to mergers and acquisitions in 2022 as well as increased activities on the nation's stock exchanges. As a result, Nigeria may experience a surge in investment inflows.

6 Commencement of operations by the Infrastructure Company Limited (INFRACO). With an initial capital injection of US\$2.4 billion by the Federal Government, the infrastructure-focused development company is expected to start operations in 2022 and grow its asset base to N15 trillion.

7 Election-related spending would over-bloat fiscal spending in 2022. The conduct of general elections comes at a huge cost to the nation's treasury. This spending is usually supportive of higher productivity in key services sub-sectors like media and broadcasting, print and advertising, transportation, among others.

8 Pressure on commodity prices will persist in 2022 and worsen the rate of poverty. Increasing global inflation, especially in highly industrialised countries like China, will result in higher cost of import for emerging economies like Nigeria. This will affect the country's exchange rate and is expected to exert additional pressures on general (consumer) prices and conditions of the poor.

9 Introduction of the Pan-African Payment and Settlement System (PAPSS). One of the drawbacks in the operationalization of the African Continental Free Trade Area (AfCFTA) agreement is the difficulty associated with payment and transaction settlements considering the existence of more than 40 currencies on the continent. The PAPSS was launched in September 2021 to ease this challenge. It is expected to reduce the high transaction costs associated with currency convertibility and moderate the pressures on Nigeria's external reserves.

10 Forex shortage and persistent backlog of demand. The volatility of exchange rate will persist in 2022 on the back of insufficient liquidity of foreign exchange. This will continue to constrain economic and productive activities as well as create considerable level of uncertainty for investors in Nigeria's investment

NIGERIA MACROECONOMIC PROJECTIONS FOR 2022

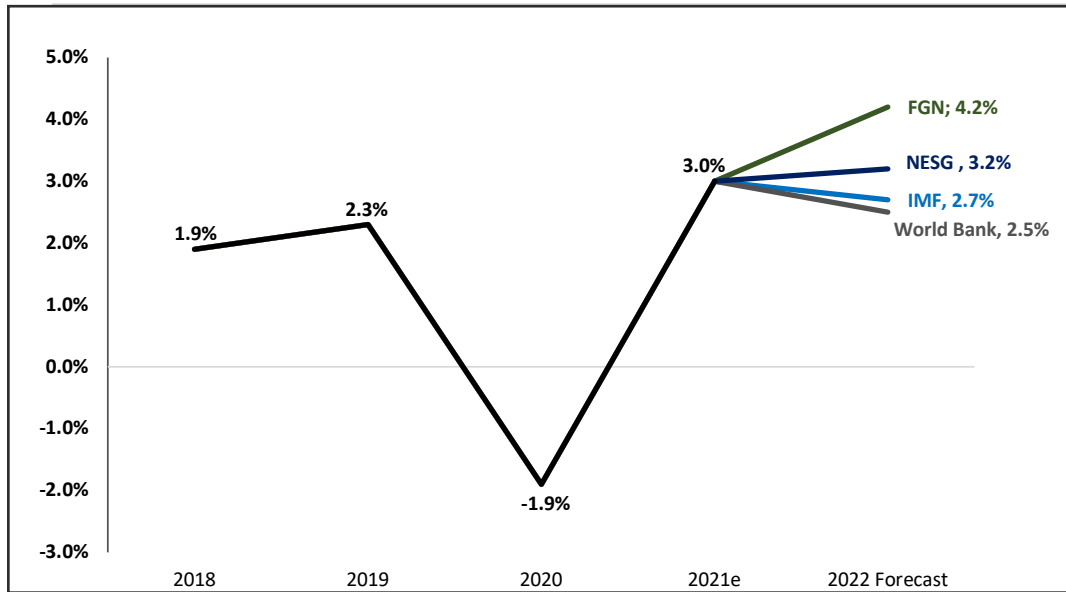
In carrying out our projection, we used the NESG Computable General Equilibrium (CGE) and Macroeconomic Models, which were developed to simulate and analyse the impacts of different policies on major macroeconomic indicators. The NESG CGE model has eight blocks: production, income and savings, demand, international trade, prices, equilibrium, dynamic equations, and other variable blocks. The model does not involve any intertemporal or truly dynamic optimisation behavioural assumption; rather, it involves recursive optimisation, characterised by a sequence of temporary equilibria.

The projections for 2022 is driven by both the external/global developments and domestic economic conditions. The global developments considered include growth in global output, global oil market, international trade, and the impact of new variants of COVID-19. On the other hand, fiscal spending, pre-election activities are expected to shape the domestic economic environment. Although precise forecasts are difficult, confidence construction and scenarios around forecasts give flexibility and plausibility. This section provides the forecast of Real GDP growth, inflation, government revenue, exchange rate and unemployment for 2022 by exploring three scenarios:

- **The Business-as-Usual Scenario (1)** builds on the basic ceteris paribus assumption that the macroeconomic condition remains the same as in the preceding year, as well as assumptions around the 2022 Appropriation Act.
- **The Best-Case Scenario (2)** is slightly optimistic relative to the business-as-usual scenario. The crude oil price was based on the average New York Mercantile Exchange (NYMEX) crude oil Futures for Jan-Oct 2022.
- **The Worst-Case Scenario (3)** is slightly pessimistic relative to the business-as-usual scenario.

	Assumptions	Outcomes	Implication
Scenario 1: Business as Usual	Crude oil price averages US\$62 per barrel (pb); Crude oil production average 1.66 million barrels per day (mbpd); Capital Expenditure at ₦3.5 trillion	Real GDP expands by 2.7 percent; Inflation rate average 15 percent; Government revenue increases by 20 percent; Official exchange rate depreciates and stabilises at ₦430/US\$1; The parallel exchange rate at ₦550/US\$1; Unemployment rate at 33 percent; Underemployment rate at 29 percent	Per capita spending increases by 5 percent; Government debt increases by 11 percent
Scenario 2: Best Case	Crude oil price averages US\$75pb; Crude oil production average 2.0mbpd; Capital Expenditure at ₦4.05 trillion	Real GDP expands by 3.2 percent; Inflation rate moderates to 12 percent; Government revenue increases by 30 percent; Official exchange rate stabilises at ₦415/US\$1; The parallel exchange rate at ₦535/US\$1; Unemployment rate at 30 percent; Underemployment rate at 22 percent	Per capita spending increases by 9 percent; Government debt increases by 9 percent
Scenario 3: Worst Case	Crude oil price averages US\$50pb; Crude oil production average 1.2mbpd; Capital Expenditure at ₦2.7 trillion	Real GDP expands by 1.8 percent; Inflation rate increases to 17 percent; Government revenue declines by 20 percent; Official exchange rate depreciates to ₦450/US\$1; The parallel exchange rate at ₦600/US\$1; Unemployment rate at 40 percent; Underemployment rate at 32 percent	Per capita spending increases by 3.5 percent; Government debt increases by 19 percent

Fig 5: Actual and Projected Real GDP Growth for 2022



Source: World Bank; IMF; Nigeria Ministry of Finance, Budget and National Planning; NESG Research

Rationale and Outcomes

Scenario 1 – Business as Usual

Rationale: The business-as-usual scenario assumes that crude oil prices will average at US\$62 per barrel in 2022 as stipulated in the 2022 Appropriation Act. This case suggests that discovering new variants of COVID-19 will slow down the pace of global economic recovery in 2022. This will, therefore, affect the pick-up of production activities in advanced and emerging economies, as well as the demand for crude oil. In response, OPEC will continue to cut production quotas to ensure stable prices. Consequently, Nigeria's crude oil production will average 1.66 mbpd – more than 1.49 mbpd recorded in 2021 but 12 percent lower than the 2022 budgetary oil production level of 1.88 mbpd. This scenario also assumes that the government will spend N3.5 trillion as capital expenditure, amounting to 68 percent of 2022 budgeted capital expenditure.

Outcome: The outcome of this scenario is a gradual improvement in the macro-economy. Real GDP will expand by 2.7 percent in 2022. The Agriculture, Trade, and Telecommunications sectors will continue to be the primary drivers of growth based on their current resilience levels. Meanwhile, other sectors, such as Manufacturing and Services, will expand marginally. Nevertheless, government revenue will increase by 20 percent. Issues such as increased electricity tariffs and increasing petrol prices due to the possible removal of subsidies will keep the inflation rate high at 15 percent. Meanwhile, the official and the parallel market exchange rates will depreciate to N430/US\$1 and N550/US\$1, respectively. The unemployment and the underemployment rates will be 33 percent and 29 percent in the year.

Implication: Outcome of the business-as-usual and the run to the general election will bring about 5 percent increase in household expenditure and constraint to fiscal revenue will increase government deficit by 11 percent.

Scenario 2 – Best Case

Rationale: In our best-case scenario, based on the NYMEX Futures crude oil price, we assume that the average crude oil price will sustain its high level and benchmark at US\$75 per barrel in 2022, from an average of US\$70.4 per barrel recorded in 2021. This is above the 2022 budget benchmark of US\$62 per barrel. Despite discovery of new strains of COVID-19 and re-enactment of lockdowns and travel restrictions by some countries, the massive vaccination will help sustain economic activities across the globe in 2022; thus, demand for oil will remain high.

In terms of production, this scenario assumes an improvement in Nigeria's crude oil production to 2.0 mbpd from an average of 1.49 mbpd in 2021. This is in anticipation of an upward review of OPEC quota, resolution of technical issues affecting oil production, the release of crude oil from the country's strategic reserves, and commencement of implementation of the Petroleum Industry Act. Moreover, this scenario assumes the Federal Government will spend up to N4.05 trillion as capital expenditure in 2022, representing 75 percent of budgeted capital expenditure for the year. This will rest on the anticipated increase in the oil price, culminating in higher government revenue and the commencement of implementation of the new National Development Plan (2021-2025).

Outcome: The outcomes of this scenario will have significant positive impacts on the Nigerian economy despite the economic growth trend moderating due to Real GDP growth in 2021. Real GDP will expand by 3.2 percent in 2022, driven by expansion in major critical sectors such as Agriculture, Telecommunications, Financial Institutions, Transportation and Manufacturing. Government revenue will increase by 30 percent. The official and the parallel exchange rates will stabilise at N415/US\$1 and N535/US\$1, respectively, as rising oil prices and output will support the growth of the external reserves. The improved macroeconomic space will support the declining inflation rate trend, and the inflation rate will moderate to 12 percent, while the unemployment and underemployment rates settle at 30 percent and 22 percent, respectively.

Implication: Outcome of the best-case and the run to the general election will bring about a 9 percent increase in household expenditure and constraint to fiscal revenue. The pressure of election spending will increase the government deficit by 9 percent.

Scenario 3 – Worst Case

Rationale: In the worst-case scenario, we assume crude oil price will average at US\$50 per barrel. This will be motivated by an anticipation of a new escalation of the spread of COVID-19, mostly the new strain, that could lead to widespread lockdown among countries and constrain global demand for crude oil. This will incentivise OPEC to expand production cut, Nigeria's production will decline further, and domestic crude oil production will average 1.2 mbpd. With the eventual decline in government revenue, we assume the Federal Government will only spend up to N2.7 trillion on capital projects in 2022, amounting to 50 percent of budgeted capital expenditure in 2022.

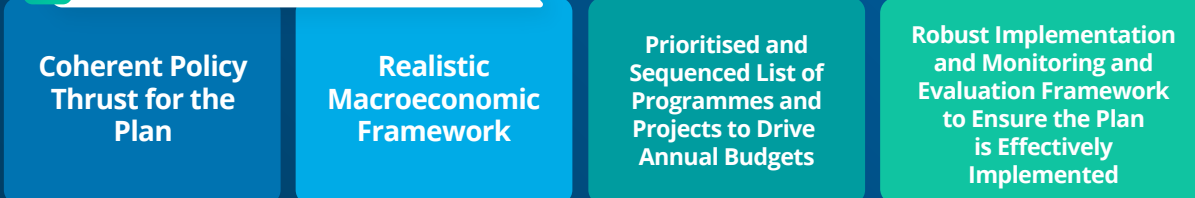
Outcome: The outcome of this scenario will constitute a headwind to the rise of the macro-economy. Real GDP will grow by 1.8 percent in 2022. The output of critical sectors such as Manufacturing, Construction and other services subsectors will experience contraction. This will lead to a contraction in government revenue by 20 percent as revenue from oil and non-oil products become constrained. Pressure on the exchange rate will intensify as the official and parallel market rate will rise to N460/US\$1 and N600/US\$1, respectively, due to falling inflows from oil export and foreign investments. This will further increase the inflation rate to 17 percent, and unemployment and underemployment rates will increase to 40 percent and 32 percent, respectively, in the year.

Implication: Outcome of the worst-case and the run to the general election will bring about a 3.5 percent increase in household expenditure and constraint to fiscal revenue. In addition, election spending pressure will increase government deficit by 19 percent.

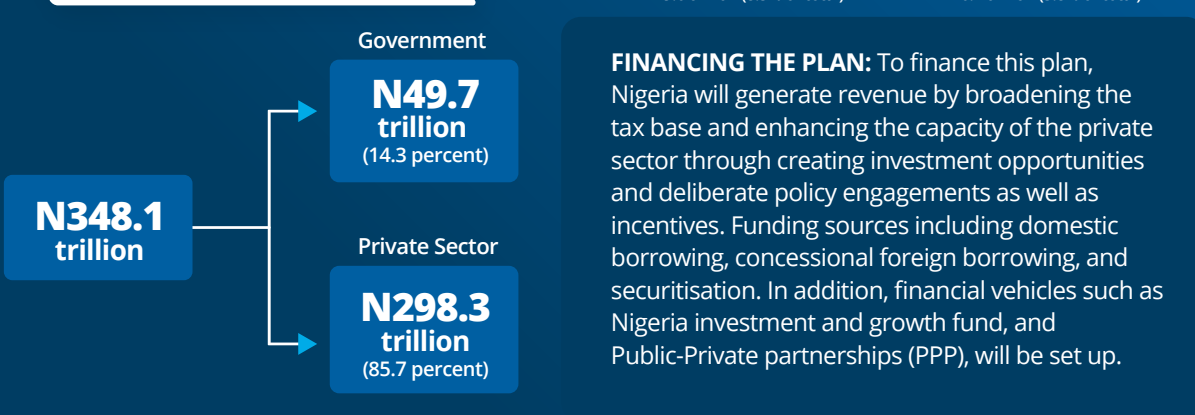
SNAPSHOT OF NATIONAL DEVELOPMENT PLAN 2021-2025

The National Development Plan (NDP) 2021-2025 adopted an integrated and multi-sectoral development approach. The approach recognises the multi-faceted and interlinked nature of sustainable economic growth and development, which calls for interventions to be tackled simultaneously through a coordinated approach to implementing development programmes. In all, the overall goal of the Plan is to lift 35 million people out of poverty by 2025.

PILLARS OF THE PLAN



SIZE OF THE PLAN



ROLES OF GOVERNMENT IN THE PLAN

The philosophy of the government is to work with all stakeholders within and outside the country for the structural transformation of the economy to guarantee continuous improvement in the welfare and standard of living of all citizens.

STRUCTURE OF THE PLAN

The Plan is structured around seven cluster areas, namely: (1) Economic growth and development (2) Infrastructure (3) Public administration (4) Human capital development, (5) Social Development, (6) Regional development and (7) Plan Implementation, Communication, Financing, Monitoring and Evaluation.

TRANSFORMATION OF THE NIGERIAN ECONOMY AS PICTURED IN THE PLAN (AVERAGE FOR 2021-2025)

Real GDP Growth (%)	Agriculture Growth (%)	Industry Growth (%)	Manufacturing Growth (%)	Services Growth (%)	Oil Sector Growth (%)	Non-Oil Sector Growth (%)
4.65	2.61	8.31	10.42	4.02	1.54	4.91

IMPROVEMENTS IN SOCIO-ECONOMIC INDICATORS (AVERAGE FOR 2021-2025)

Unemployment Rate (percent) 22.78	Job Creation (million) 4.21	Number of people out of poverty (million) 6.98	Per capita GDP (US\$) 2,927.58
Agriculture Reduce post-harvest losses to 30 percent, export share 6.1 percent, & improve national food security.	Manufacturing Increase manufacturing output by 13 percent	Oil and Gas Share of the economy - 7.5 percent, oil refining -1 percent of the economy, 80 percent of gas production for power: Increased oil & gas production by 2.4 mbpd & 15 bscfpd, respectively	Solid Minerals Rise in share of economy to 3 percent & N20 billion revenue
Creative Industry One of the top 20 CCHT sectors globally in terms of GDP by 2025			

INFRASTRUCTURE

Transport N7.7 trillion	Power & Alternative Energy N598 billion	Digital Economy N150 billion	Housing & Urban Development N3.5 trillion	Science, Tech & Innovation N924 billion	Financial sector N1.5 trillion
-----------------------------------	---	--	---	---	--

PUBLIC ADMINISTRATION

EDUCATION & HUMAN RESOURCES Improve access to basic education by 80 percent; reduce out of school children by 8 million; improve higher education delivery in 10 schools	HEALTH Increase key health indicators such as doctor to patient ratio, number of health centres; life expectancy, infant mortality etc	FOOD & NUTRITION Improve social outcomes around Sustainable Development Goals (SDG)
--	--	---

SOCIAL DEVELOPMENT

WASH Improve access to water for hygiene, food and energy production.	ENVIRONMENT Optimisation of circular economy & renewable energy	WOMEN & GENDER EQUALITY Improve gender parity by <100	YOUTH DEVELOPMENT reduce youth unemployment & increase the participation of youths in governance	SPORTS DEVELOPMENT Increase impact of sports on the Nigerian economy & improve Nigeria's ranking in sports	PERSON WITH DISABILITY Improve livelihood for people with disabilities by 50 percent
---	---	---	--	--	--

REGIONAL DEVELOPMENT - Minimise disparity in economic development and access to public services across all geopolitical zones.

7 PRIORITIES FOR EFFECTIVE IMPLEMENTATION OF THE NATIONAL DEVELOPMENT PLAN (2021 – 2025)

While the Plan is well-detailed and broad in identifying critical elements, drivers and enablers of national development, the need for its effective implementation cannot be overemphasised. To achieve meaningful impacts on economic growth and inclusive development, the government must deliberately ensure that the necessary foundation is laid to optimise economic benefits and outcomes*.

The effective implementation of the Plan rests on the following priorities:

Provide Implementation Guideline: It is important to communicate the specific policy actions to government's ministries, departments and agencies, as well as the specific role of subnational governments in the Plan. This is important to properly close out the legacies that will emanate from the Plan and ensure an efficient transition strategy as the government has just about a year left to work on the Plan.

Provide Investment Promotion Framework: Given that the Plan is heavy on private sector investment, the government needs to identify the specific kind of investment it seeks to promote across sectors. This is important for the private sector to know where and how to tap into the Plan.

Implement Civil and Public Service Reform: The effective implementation of the Plan rests on the readiness of civil and public servants to ensure they execute the Plan to the letter. Implementation of previous plans suffered setbacks due to improper, injurious and un-nationalistic disposition towards policy implementation by public and civil servants. Many of the recommendations of the Oronsaye Report on Civil Service Reform continue to be relevant. For instance, there is a need to institute a performance and merit-based management of Ministries, Departments & Agencies (MDAs) and harmonise their activities to effectively drive implementation of government's plans.

Ensure Macroeconomic Stability and Policy Coordination: Given the expected commitment from the private sector, the decisions of the government and MDAs need to signal confidence in the macroeconomic space. This is important for the private sector to commit to the economy in the long term and support economic diversification and socially inclusive economic growth.

Invest in Human Capital Development: With a heightened expectation for industrial development as well as development in other sectors in the Plan, the manpower quality which is expected to marshal specific policy actions is important. The quality revolves around their capacity *vis-a-vis* education, skill set, health conditions, life expectancy, social security, etc. Improvement in human capital will substantially propel the workforce to drive the effective implementation of the Plan.

Implement Capital Mobility Reform: One of the banes to inflows of foreign investment in Nigeria is the ad hoc nature of capital transfer policy and regulation. The government needs to provide clarity concerning cross border movement of capital. In the absence of this, private investments from foreign investors will be limited.


Improve the Security Situation: The private sector investment of ₦298.3 trillion implies an investment of about 50% of GDP annually. To encourage a private sector investment of that magnitude, there must be safety of lives and properties. Continued elevation of security threats will be a disincentive and will limit private investment.

* The emphasis of the NDP 2021 – 2025 on multi-sectoral growth and development gives credence to the central recommendation of previous NESG Macroeconomic Outlook Reports: NESG has canvassed that Nigeria can only achieve sustainable economic growth, massive job creation, poverty reduction and economic diversification through broad growth across major sectors of the economy.

PART B

**The Last Mile:
Reforms towards
Significant
Improvement in
National Economic
Outcomes**





Oil & Gas Sector Deregulation and Fuel Subsidy Reforms

OIL & GAS SECTOR DEREGULATION AND FUEL SUBSIDY REFORMS

The debate on complete deregulation of Nigeria's oil and gas industry, including the removal of fuel subsidy, has been a recurring event since the return of democratic rule in 1999. While oil & gas contributes about 34.9 percent of total revenue of the Nigerian Government and 85.2 percent of the country's exports, the industry continues to struggle, with a poor contribution to the country's GDP (at 8.1 percent) in the first three quarters of 2021 (NBS; FMFBNP; 2021). Notwithstanding the poor and volatile performance of the industry, the oil & gas industry still holds enormous prospects such as:

- Source of needed massive investment potentials, particularly the midstream oil and gas sector;
- Wealth creation opportunities via job creation, etc.;
- Provision of inputs for light manufacturing industries such as petrochemical, plastics & rubber production, drugs & pharmaceutical; and
- Enormous gas reserves to earn foreign exchange and support external reserves accretion.

In response to creating a competitive sector, the newly assented Petroleum Industry Act (PIA) 2021 promises several reforms. To optimise the benefits associated with the PIA, there is a need to implement its provisions properly. Ultimately, it is anticipated that reforms initiated via the PIA will help attract investments, improve efficiency and productivity, as well as maximise socio-economic outcomes associated with a high performing oil and gas industry.

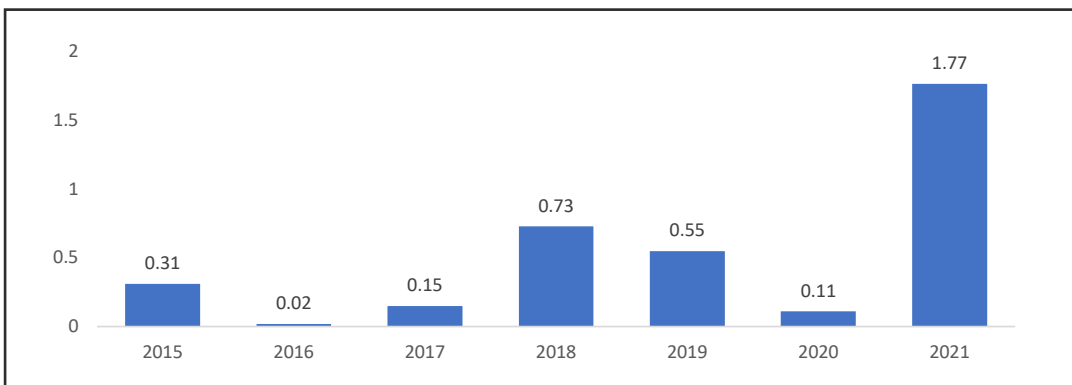
Some of the reforms' targets of the PIA include:

- **Propel Petroleum Industry Growth:** provide the institutional, legal, competitive, and commercial framework for developing the oil and gas industry in Nigeria.
- **Robust Institutional Framework:** create a transparent and accountable governance system that enables a conducive business environment in the petroleum industry.
- **Improve Administration:** complete liberalisation of the downstream industry and promotion of fair and commercial competition among industry players.
- **Strengthen Fiscal Framework:** expand the petroleum industry's capacity to enhance government revenue through a new, clear and dynamic set of rules.
- **Host Community Development:** ensure direct socio-economic benefits to the host communities of petroleum facilities to enhance harmonious co-existence.

In addition to the need for full deregulation, one of the contentious policy issues in the sector is the fuel subsidy reform. This is one of the many difficult decisions Nigeria might have to take in 2022. The fuel subsidy, conceived initially as a short-term support tool, has endured over time, thereby becoming a threat to fiscal sustainability. In the last three decades, Nigeria has spent substantial government revenue on subsidies, which has become increasingly unsustainable. The strain in

public finances resulting from huge fuel subsidy costs has forced the Government to adjust the pump price of fuel from time to time. However, partial deregulation — currently known as the price modulation system — only provides temporary relief as the fuel subsidy cost gathers momentum whenever international crude oil prices rise.

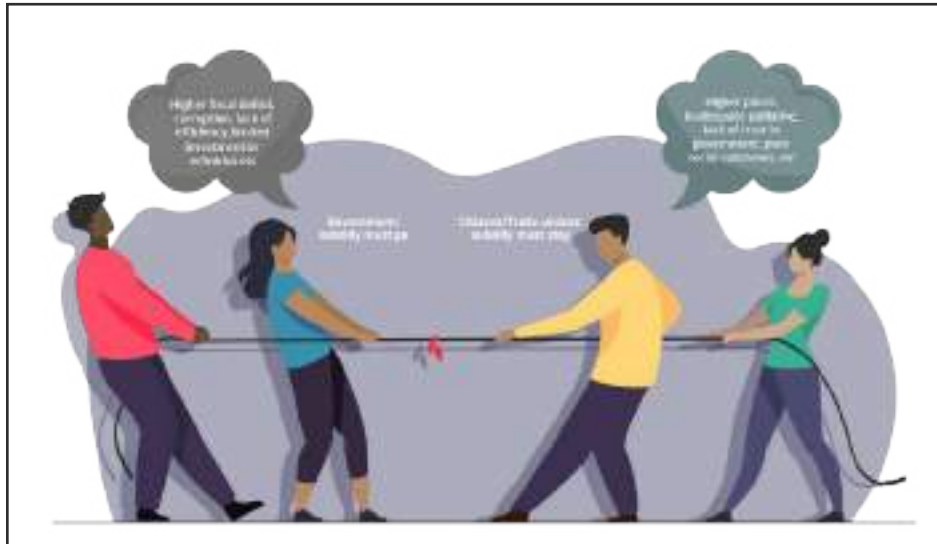
Figure 6: Fuel Subsidy in Nigeria (N'Trillion)



Data: NNPC, Chart: NESG Research

From the government fiscal position, between 2015 and 2021, Nigeria has spent a cumulative sum of N3.64 trillion on fuel subsidies, rising from N307 billion in 2015 to N1.77 trillion in 2021 – representing a whopping increase of 477 percent (see Figure 6). Following the fall in crude oil price to as low as US\$9 per barrel in April 2020 (average price in 2020 was US\$42 per barrel) as a result of the COVID-19 pandemic, fuel subsidies accounted for over 5 percent of the federal government's retained revenue from around 11 percent in 2019 when crude oil price averaged US\$66 per barrel. However, with the current rebound in the crude oil price, the burden of fuel subsidy cost will increase. On the other hand, the private sector argued that without a fair pricing system that comes with deregulation, expected inflows of investments would be hard to achieve; meanwhile, the average citizens considered the inflationary pressure that would come with subsidy removal and the impacts on the cost of living & welfare.

Figure 7: Re-Shaping the Narratives: Opposing Views on Fuel Subsidy Reforms



Source: NESG Research

KEY CONSIDERATIONS/CONCERNS FOR SUBSIDY REMOVAL

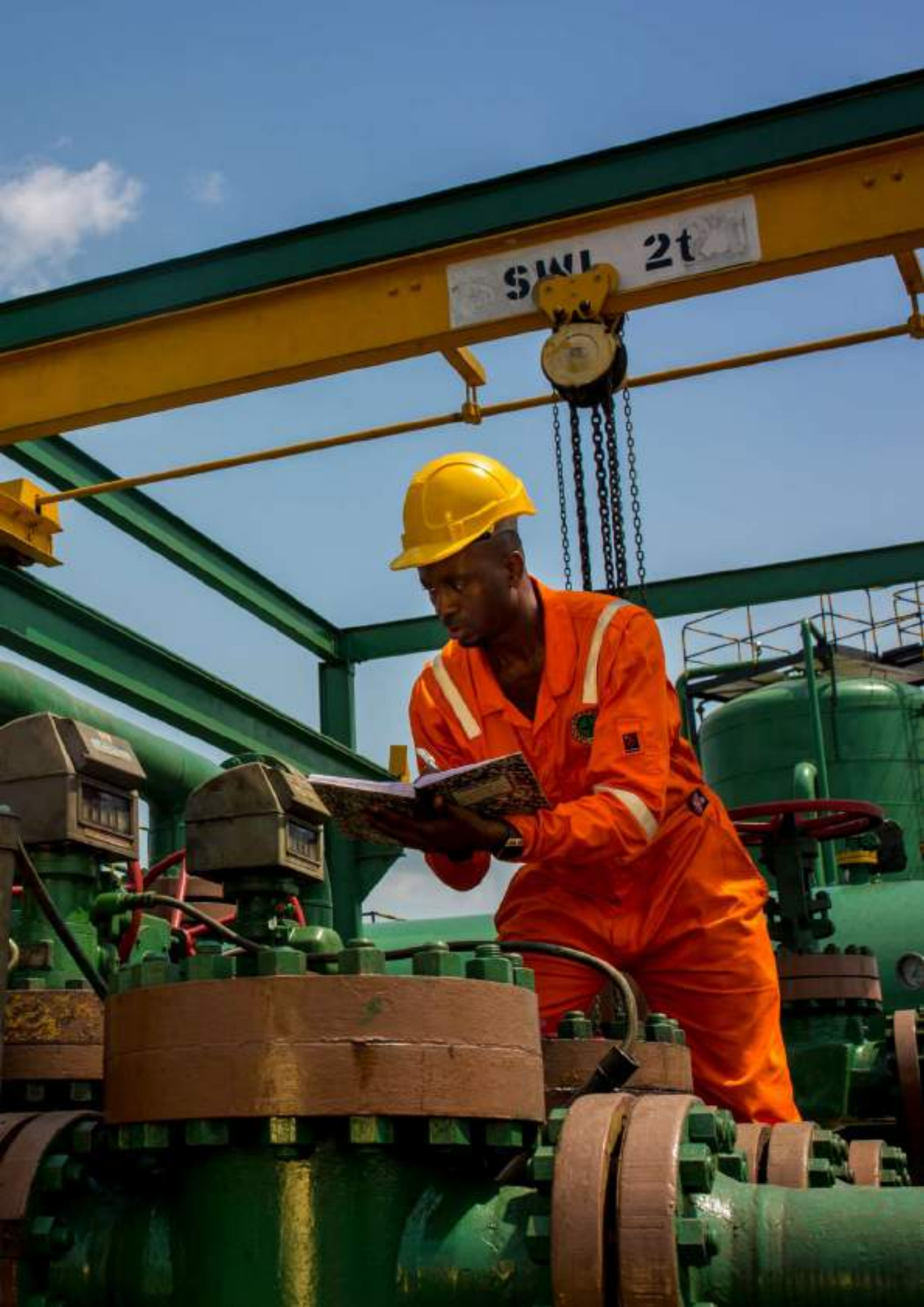
The fuel subsidy removal policy, which will affect the welfare of the citizens, needs to be treated with utmost care to create a long-lasting solution that will benefit relevant stakeholders. Therefore, a mix of measures becomes vital to ensure that reforms generate an overall positive impact. The salient issues that must be taken into consideration while contemplating fuel subsidy reforms are:

- 1. Inflationary impact:** The central role of fuel in the daily lives of Nigerians — directly and indirectly — will cause prices to increase. According to the World Bank (2021), fuel subsidy removal will increase inflation by 2–2.5 percentage points. The Bank had previously noted that about 8 million Nigerians fell into poverty due to lower purchasing power in the last year. The question, therefore, remains: How many more Nigerians will fall into poverty as a result of an increase in the fuel price? When prices go up, businesses are faced with higher operating costs, while citizens suffer from depressed purchasing power and poverty. Without efforts to provide direct income (through transfers) or indirect income (through jobs) to the majority of citizens that need them, higher prices will only inflict more hardship on citizens and heighten social vices. It is also important to note that prices are sticky-downwards in Nigeria as measured by the consumer price index. While the inflation rate may trend downwards a few months after the subsidy removal, this does not signify that price will fall, as a falling inflation rate does not mean falling prices.

The key priorities to mitigate the inflationary impact of the fuel subsidy reforms should include:

- Boosting agricultural productivity by addressing the insecurity challenges facing the major food-producing regions. According to the World Bank (2021), the northern part of Nigeria is a hotspot for insecurity, as the number of violent cases in the zone almost doubled to 3,188 in the first three quarters of 2021 from 1,699 cases in the same period of 2019;
- Reducing food wastage and post-harvest losses by improving the farm mechanisation rates, efficient transport system and providing low-cost storage facilities for farmers. According to ActionAid Nigeria, Nigeria loses about N3.5 trillion per annum due to post-harvest losses on account of poor handling of produce, inadequate storage facilities and a dearth of good feeder roads in rural communities across the country;
- Reducing extortion on the highways. The collection of illegal tolls along inter-state roads by non-state actors and security agencies have become so significant that commuters often transfer the additional costs to consumers, particularly those moving their produce directly from the farm;
- Reducing the highway burden by fixing the existing railway networks and seaports. Transporting farm produce across Nigeria has been limited to road networks while other transport means remain unexplored. For the potentially accessible rural communities, the connecting highways are in a deplorable or abandoned state;
- Building strategic reserves of essential agricultural products and making them available when they become scarce. Through the commodity price boards established in the past, the Government stabilised the prices of crucial agricultural products by releasing scarce produce from its reserves. Some interventions in the agricultural sector could be upgraded to achieve a similar purpose.

2. Efficiency in Government spending: From past subsidy reforms in Nigeria, there has been a lack of clarity on how the Government spends subsidy savings. According to NOI-Polls (2015), about 52 percent of survey respondents stated that they were excluded from the benefits of past subsidy reforms. As to the reasons for this, about 66 percent of the respondents cited pervasive corruption, while 39 percent settled on poor management of the fuel subsidy reforms. To this end, transparency and accountability in government spending behaviour is a precondition to building trust and confidence that Nigeria's subsidy savings will ultimately be channelled to social and developmental uses – infrastructure, health, and education. This strategy significantly contributed to the partial success of fuel subsidy reform in Ghana in 2005.



BOX 1: Successful and Unsuccessful/Partially Successful Case Studies of Fuel Subsidy Reforms – GHANA

Ghana provides a case of a partially successful fuel subsidy reform in 2005 with the two (2) measures deployed. Firstly, by setting aside a Poverty and Social Impact Assessment (PSIA) on fuel subsidy reforms, the Ghanaian authorities demonstrated to the civil societies that the existing fuel subsidy regime largely benefitted the high-income class. Besides, the social spending implementation was highly transparent and pro-poor. While these strategies have partially succeeded the fuel subsidy reforms in Ghana, the rising opposition from labour unions compelled the government to roll back the reforms, and the subsidy regime persisted (See World Bank's Policy Note by Bacon and Kojima, 2006). One key factor that militated against successful fuel subsidy reforms over the years in Ghana is the failure to isolate the activities of the regulatory agencies from political manipulation and interference (IMF, 2013). Instead of adjusting fuel prices in line with changes in domestic economic fundamentals, such as exchange rate, the regulatory agencies take direct orders from the Presidency on petroleum product pricing. However, in Mauritania, the abrupt increase in fuel prices led to social unrest and contributed to the ousting of the then-president. In 2003, communication about the reform was poor. Distrust of the government and corruption also fanned the flames of dissent, leading to fuel pricing reforms (IMF, 2013).

3. Need to make the oil and gas sector more competitive, whilst the Government plays an umpire role: The Brazil case study shows an increasing need to ensure competition in the oil and gas sector, important for improved private sector participation. As a result, the Nigerian National Petroleum Corporation (NNPC) cannot remain the sole importer of refined fuel products if a liberalisation policy in the sector works out well. Instead, the Petroleum Industry Act (PIA) should be judiciously implemented to attract investors into Nigeria's oil industry, particularly the downstream and midstream segments. More importantly, the regulatory role is significant to avoid exploitation of Nigerians by profit-oriented oil marketers. There is also the need to sever the statutory responsibility of regulatory agencies from frequent political interference, to achieve a successful fuel subsidy reform. In Ghana, the interplay of politics with the operations of the state-owned oil company limited progress of fuel subsidy reforms.

4. Investment in the downstream and midstream segments of the oil and gas sector: There are expectations that the PIA would unlock the needed investments to revitalise the existing refineries and construct new refineries. Achieving this will reduce huge dependence on petrol imports and strike out the need to pay subsidies on fuel. Reports from the NNPC showed that the four (4) existing refineries could only meet about 20 percent of total fuel demand. The facilities at the refineries have deteriorated to the extent that their combined capacity is just a little above 20 percent of their maximum capacity. While the much-awaited Dangote refinery — the largest in Africa — is expected to take off shortly, the Government should address the recurring challenges facing businesses in Nigeria, including the infrastructural deficit, policy inconsistency and regulatory distortions, among others.

BOX 2: Successful and Unsuccessful/Partially Successful Case Studies of Fuel Subsidy Reforms - BRAZIL

Brazil presents an example of successful subsidy reforms in the early 1990s and 2001. The country also achieved a successful electricity subsidy reform between 1993 and 2003, implemented under an IMF credit facility programme. The success factors are summarised as follows:

- The authorities in Brazil adopted a gradual approach to fuel subsidy removal by starting with politically weak commodities (consumed by commoners) and ending the subsidy reforms with the politically difficult energy products (consumed by the solid political elites);
- Trust and confidence in government played a critical role in dousing all forms of opposition from the general public as the then Head of State enjoyed popular support;
- The government allowed fuel prices to automatically adjust to macroeconomic fundamentals, particularly the volatility in exchange rate movements;
- Brazil leveraged the existing social welfare programmes to support vulnerable groups. Initially, the palliative measure took the form of allotting gas vouchers to low-income households, making them eligible to buy fuel products at a subsidised rate. The Brazilian Government later expanded the scope of the safety net in 2003 to capture over 50 million people under the country's most extensive social welfare programme, nicknamed "La Bolsa Familia" (IMF, 2013).

5. Effective Communication Strategy: Estimates from the World Bank (2021) showed that the poorest 40 percent consume less than 3 percent of the total fuel consumption in Nigeria, reflecting that the subsidy on petrol benefits the rich more than the poor. With this in mind, there will be buy-in from the labour unions and civil societies if they are well informed about the benefits of the reform and are assured of corrupt-free mitigating measures to alleviate the conditions of the vulnerable groups in the country. Reports have shown that countries, such as Indonesia, explored an effective communication strategy before introducing fuel subsidy reform, and this contributed significantly to public acceptance of the reform in the country.



ACTION POINTS FOR THE GOVERNMENT ON THE BEST PATH TO TAKE

1. Consider gradual phasing-out of the subsidy. There is a need to develop a phase-out subsidy plan. The Government can remove the fuel subsidy partly to allow for adjustments to the new prices by the citizens. Past experiences in Nigeria have shown that the abrupt removal of fuel subsidies will only stoke public demonstrations and protests. Unlike in the case of Brazil, where authorities removed subsidies on fuel products one after the other, Nigeria could consider a gradual adjustment in the pump price of petrol, perhaps to reflect the state of key macroeconomic stability indicators, such as the exchange rate. However, this adjustment will raise another concern as persistent exchange rate depreciation that will translate to higher petrol prices. The Government, therefore, needs to address the underlying drivers of macroeconomic instability in the country. One of such drivers is the considerable pressure on external reserves due to high bills on petroleum product imports, which could have otherwise been saved if the existing refineries were in good working condition.

2. Implement effective and efficient social interventions before subsidy removal to gain citizens' trust. One of the key reasons for opposition to fuel subsidy reforms in Nigeria is the absence of sustainable and enduring social protection schemes. The ad-hoc nature of social investment programmes in Nigeria with limited coverage needs review. The Government could leverage different platforms — census, mobile money, CBN's Bank Verification Number (BVN) and the national social register — to ensure the coverage of the most vulnerable public members while implementing mitigating measures. Although we note that effecting such transfers before subsidy removal comes with additional fiscal pressure, we believe that this is necessary, given the low level of trust between the citizenry and the Government. This could also be considered a cost for the Government to bear in the subsidy removal debate.

3. Address corruption/inefficiencies in the oil and gas sector. The NNPC needs to publicise its internal operations and financial position regularly. After about 44 years of existence, the state-owned oil company published its first audited financial report in June 2020. This implies that decades of NNPC's operations have been marred by corruption and abuse of public resources due to a lack of accountability. These irregularities create an atmosphere of distrust and a loss of confidence in the Government and its agencies. Until transparency and accountability are deeply entrenched in Nigeria's oil and gas sector, critical reforms in the industry will be vehemently opposed by the labour unions and civil societies.

4. Intensify efforts to improve revenue. Even if the fuel subsidy is removed, there is likelihood that the government deficit will increase in the medium term if the Government's revenue growth rate does not outpace that of expenditure. In essence, fuel subsidy removal will only alleviate the fiscal deficit situation in the short term. Efforts to enhance the country's oil and non-oil revenues must be intensified. However, we cannot over-emphasise the need to block revenue leakages, expand the tax nets, and strengthen partnerships with state governments to explore the resources at the subnational level.

In conclusion, the removal of subsidies on petrol will come at a cost. Tough reforms are costly and the cost of inactions is also enormous. However, the Government must work to minimise this cost on citizens through direct and indirect interventions. Implementing subsidy reforms without complementing the policy with effective mitigation measures will only elevate economic hardships for Nigerians and could stoke social unrest as a result. For instance, the abrupt removal of fuel subsidies pronounced on January 1, 2012, led to week-long nationwide protests and demonstrations. Since the EndSARS protest in 2020, Nigeria has been in a fragile state and therefore, abrupt fuel subsidy removal might lead to protests that the country cannot afford. More importantly, rebuilding public trust is not easy to come by, but if government actions continuously favour credibility, the trust deficit will be narrowed. This, the NESG believes, will also go a long way in improving public acceptance, as reforms will be implemented in the general interest of the populace.





Foreign Exchange Reforms

FOREIGN EXCHANGE REFORMS

The challenges facing foreign exchange management in Nigeria are age-long. Going by the adage that “you cannot give what you do not have”, it is essential to note that the import-dependent nature of the country has put more pressure on the external reserves and exchange rate. According to the National Bureau of Statistics (NBS), Nigeria’s import trade accounts for 61 percent of total external trade in 2020. Before discussing issues around forex availability and appropriate forex pricing, there is an urgent need to address the low productivity across the various activities in the non-oil sector, with huge potential to contribute significantly to forex earnings in Nigeria. The trade statistics show that Nigeria is a net importer of agricultural products due to constrained domestic supply. Based on the data from NBS, the net import value of agricultural products spiked to more than double to N1.4 trillion in 2020 from N689.7 billion in 2019.

Nigeria remains a net importer of raw materials leaving domestic resources unharnessed or under-utilised. The net import value for raw materials rose sharply by 79.4 percent to N2.2 trillion in 2020 from N1.2 trillion in 2019, according to the NBS data. This is not surprising as the country also depends on imported finished manufacturing products. The NBS data showed that Nigeria’s net import value of manufactured goods increased to N11.8 trillion in 2020 from N9.9 trillion in 2019. The unfavourable net trade position across commodities could be reversed if the low productivity across the non-oil sector activities is addressed and their export potentials are fully harnessed. With an improved trade balance position (currently in deficit), the country would reduce its exposure to external borrowing through Eurobonds and other non-concessional loans. Maintaining a favourable trade balance, as well as adequate inflows of foreign investments, will contribute significantly to improving the net flows of forex through the economy – which had crashed from as high as US\$102.6 billion in 2013 to US\$70.7 billion in 2020.

Meanwhile, the massive dependence on imports has constrained the CBN to manage forex demand by prohibiting certain commodities, that could otherwise be produced locally, from accessing forex at the official market since 2015. The result of this policy action has heightened demand pressures in the parallel market, leading to the wide gap between the official exchange rate (now the I & E Window exchange rate) and the parallel market exchange rate (see Fig. 4f in Part A).

The challenge to the poor forex supply in Nigeria is mainly attributable to the lack of diversification of forex sources, with colossal dependence on crude oil export proceeds and, more recently, foreign borrowings. Another challenge facing forex management in Nigeria is the frequent intervention of the CBN at the forex market, which exerts intense pressure on the country’s external reserves. Faced with the continued dwindling of the external reserves, the Apex Bank resorted to exchange rate devaluation (three episodes were witnessed in 2020) and forex rationing among end-users. These challenges send wrong signals to prospective investors who are more concerned about the safety of their investments (particularly forex repatriation at maturity of investments, in addition to returns).

Despite the various interventions of the CBN in the forex market, the issues of forex unavailability and inappropriate forex pricing have not been fully addressed. To this end, we propose that reforms to address Nigeria’s foreign exchange problems should focus on two key areas: the need to boost forex availability and guarantee appropriate forex pricing.

Reform 1: Need to boost Foreign Exchange Availability

To boost investors' confidence in the Nigerian economy and enhance the attractiveness of the country's financial instruments, there is an urgent need to improve the availability of forex. The key considerations that matter for forex availability in Nigeria include:

- **Leveraging the African Continental Free Trade Area (AfCFTA) and ensuring effective border control:** The AfCFTA presents an opportunity for Nigeria to improve trade, particularly exports with other African countries. Nigeria can leverage the trade pact by diversifying its export sources away from crude oil and targeting new markets, particularly light manufacturing exports. To fully harness the benefits of the Free Trade Area, there is an urgent need to improve logistics associated with clearing consignments at the country's ports. Needful to know is that only two out of the six seaports in Nigeria are fully operational. A considerable amount of forex is lost due to delays in consignment clearance and damages experienced during the process. Additionally, there is a need to address the porous nature of Nigeria's land borders as this will help improve proceeds from custom duties collection and the inflow of forex. Effective border control will also ensure that smuggling activities are reduced to the barest minimum.
- **Removing capital controls and encouraging the inflow of stable investments:** Stiff controls on capital inflows occasioned by market illiquidity and forex rationing have discouraged prospective investors from considering Nigeria as a good investment destination. This has primarily limited Nigeria's capital importation to portfolio investment or hot money, prone to capital flow reversals or flight. Hence, the country needs to implement investment-friendly policies that will encourage the inflow of stable investments such as Foreign Direct Investment (FDI). There is a need for improved compliance of the authorities with contractual agreements. This is important for attracting higher foreign investments, thus contributing significantly to infrastructural development via the Public-Private Partnership framework. This channel will also boost the availability of forex in the country.
- **Prioritising non-oil forex sources:** While the non-oil sector contributes 90 percent to Nigeria's Gross Domestic Product (GDP), it only accounts for a meagre 10 percent of export earnings, according to the NBS data. Given the country's output potential, there is an urgent need to boost the export of non-oil products, such as value-added agro-based products. One way to achieve this is to develop a home-grown quality control system to ensure that Nigerian-made products become attractive to foreign buyers. The lack of standardisation in Nigeria also partly explains why Nigerian products must be exported to Ghana first for repackaging before being re-exported to the rest of the world. If this re-exportation could be eliminated, the additional foreign inflows from value-addition will accrue to Nigeria. Also, there is an increasing need to boost remittances' inflows via the formal channel, largely banks, to complement the International Monetary Transfers Operators' efforts by reducing the high transfer costs.

- **Enhancing the quality of import substitutes:** Many Nigerians patronise foreign-made products due to the low quality of local products. A considerable portion of the country's foreign exchange could have otherwise been saved if both domestic and foreign buyers patronised goods produced in the country. There is an increasing need for widespread sensitisation of Nigerians, particularly the elite and high-income class, on the benefits of patronising local products, in terms of increased jobs creation for the teeming unemployed if the domestic industries were to be in good working conditions. One more job is likely being created in foreign lands for every US dollar spent on imported products. The forex rationing practice also suggests that the quality of the non-oil commodities need to be enhanced for Nigerians to switch their expenditure towards homemade products. This would also reduce the forex demand backlogs and moderate the pressures on Nigeria's external reserves.
- **Fixing the local refineries and constructing new ones:** The much-awaited 650,000 barrel-capacity Dangote Refinery project — which will be the largest in Africa — is expected to start operations by the second quarter of 2022. The US\$15 billion refineries would reduce petroleum importation, which accounts for about 80 percent of total fuel consumption in Nigeria. The deregulation of the oil and gas sector as specified in the Petroleum Industry Act (PIA) is expected to attract more investments to fix the existing refineries and contribute to the construction of new refineries. Reduced dependence on petroleum imports would help boost forex savings and guarantee improved forex availability.

Reform 2: Need to ensure Appropriate Pricing of Foreign Exchange

There are hot debates around what the central exchange rate should be. External agencies such as the IMF have called for unification and flexibility of the exchange rate regime in Nigeria. Notwithstanding, the key considerations that matter for appropriate forex pricing include:

- **A clear forex policy to instil investors' confidence:** The multiplicity of exchange rates brings about uncertainty in evaluating profitability associated with alternative investment opportunities. Hence, there is a need for clarity as to what the country's central exchange rate should be, to improve investors' confidence. A transparent exchange rate policy would also attract more stable foreign capital inflows, such as foreign direct investments, which remain very low compared to foreign portfolio investments. In this way, there is a need to alleviate investors' panic that new forex inflows from the Special Drawing Rights (SDRs) of US\$3.5 billion and Eurobonds valued at US\$4 billion will be judiciously used to meet forex demand obligations. This will also help to restore their confidence in the economy. Additionally, local manufacturers and traders would be able to predict the cost of importation to a large extent. This will also limit the possibility of arbitrage practices that have become the country's norm.

- **Need to determine the fair value of the Naira:** The argument for undervaluation or overvaluation of the Naira could be proved from the computation of the Real Effective Exchange Rate (REER) or trade-weighted exchange rate. The REER is the weighted average of a country's currency about an index or basket of other major currencies. The IMF Staff estimates suggest an overvaluation of the real effective exchange rate (applied on the level of the official exchange rate in 2020) of 18.5 percent . This estimate is expected to be much higher now that the CBN has adopted the I&E Window exchange rate as its official rate. In addition, an appropriately valued exchange rate would foster domestic industrialisation more effectively than a system of forex rationing.

Moreover, country experiences have shown that four considerations are essential for a successful transition to exchange rate flexibility, and they include:

- A deep and more liquid foreign exchange market;
- A coherent policy governing the Central Bank's interventions in the foreign exchange market;
- An appropriate alternative nominal anchor to replace the fixed exchange rate system; and
- Effective systems for reviewing and managing the exposure of both the public and the private sectors to exchange rate risk.



BOX 3: Why Egypt emerged as one of the most favourable Destination for Foreign Capital

Following the Global Financial Crisis in 2008 and the Egyptian Revolution in 2011, the economy of Egypt experienced severe economic vulnerability which manifested into an acute shortage of foreign exchange. This was associated with drastic decline in foreign reserves, large fiscal deficit, growing public debt and overvalued exchange rate, which was constricting the economy and destabilising the macroeconomic space. However, following the implementation of some structural reforms, Egypt is now the most favourable destination for foreign investments in Africa. This has largely supported the stabilisation of the economy. Despite the economic fallout of COVID-19, Egypt's economy recorded positive growth in 2020 and Foreign Direct Investment of US\$13.7 billion in 2020, relative to Nigeria economy that contracted by 1.9 percent and recorded FDI receipts of US\$2.5 billion in 2020. The major distinguishing factor for Egypt is the availability of foreign exchange liquidity. Also, the stable macroeconomic space as reflected in low inflation and sustained economic growth make Egypt a more profitable investment destination compared to Nigeria. In order to achieve this feat, Egypt put in place the following economic reforms:

- **Economic Liberalisation:** As part of the IMF's three-year Extended Fund Facility (EFF) programme, Egypt liberalised its economy, particularly its foreign exchange market to be more market-oriented and it lifted regulations on businesses to drive economic growth. This motivated the floating of the country's currency.
- **Currency Devaluation:** Following the adoption of floating exchange rate, the Egyptian currency was officially devalued and the premium between the official and parallel market rates shrunk.
- **Removal of Forex Transfer:** Government relaxed the cap on the amount of foreign exchange that can be deposited and withdrawn by citizens.
- **Clearance of Backlogs:** The government conducted special auctions to clear a backlogs of foreign exchange demand.
- **Fiscal consolidation:** Egypt took steps to reduce fiscal deficit and keep public debt on a downward trajectory which reduced debt servicing and freed up fiscal space for social spending.
- **Removal of Subsidies:** Other economic reforms took place as part of the economic program are removal of subsidies on fuel and electricity.

Initially the liberalization of the exchange rate along with the other reforms led to a spike in Inflation, which peaked at 33 percent in July 2017. Thereafter, the impact of the subsidy reform subsided as inflation rate dropped to 4.2 percent in July 2020. External reserves have expanded from US\$15 billion in January 2015 to US\$35 billion as at July 2020, representing more than double in a space of five years.

BOX 4: External Sector Reforms in India

Over the past three decades, India has seen tremendous progress in its external sector management following progressive trade and foreign investment liberalisation efforts. The tradition before this period was generally for the government to give permission to deal with the external sectors, and tariffs on imports were on average over 100 percent across the capital, intermediate, and consumer goods. The economy was a relatively closed economy but has achieved reasonable industrialisation. However, inefficiency and bureaucracy around a controlled economy undermined the potential. Hence, India's export was barely 5 percent of GDP with very limited foreign exchange inflows, while the Indian rupee was heavily overvalued. The Balance of Payment Crisis in 1991 paved the way for the government to explore external sector liberalisation while embarking on the following external sector reforms:

- **Currency Devaluation:** The Rupee was devalued twice in 1991, followed by the removal of cash compensatory subsidy on exported goods. This led to cost-push inflation as the cost of intermediate inputs increased; however, with the support of some monetary and fiscal policy measures, the price level stabilised.
- **Trade Liberalisation and Reduction in Customs Duties:** Import duties on non-agricultural goods were reduced to give domestic industries cheaper capital and intermediate goods. This was done in phases reducing from as high as 300 percent to 35 percent in 2002-03, 15 percent in 2005-06 and 12.5 percent in the 2006-07 budget.
- **IMF and World Bank Assistance:** This was based on the condition that devalued the Rupee, liberalised trade and reduced customs duties, structural reforms that culminated into the opening of the economy to the rest of the world.
- **Fiscal Consolidation and Macroeconomic Stabilisation:** India's rising fiscal deficit was a significant driver of the balance of payments imbalances. Hence, the fiscal deficit at 8.5 percent of GDP in 1988 was reduced to 4.7 percent in 1992, 4.0 percent in 1996, and further down to 2.5 percent in 2008. This was achieved by moderating government expenditure and introducing tax reforms.
- **Adopted Market-determined Exchange Rate:** Effective from 1993, India adopted a market-determined exchange rate. This was also followed by substantial depreciation and improved capital importation.
- **Institutional Reform - FEMA Replaces FERA:** The government replaced the stringent Foreign Exchange Regulation Act (FERA) provisions with Foreign Exchange Management Act (FEMA) provisions for trade, investment and forex market liberalisation.

These reform events have improved the external balance and supply of foreign exchange in India. Exports increased from about 5 percent of GDP in the 1980s to over 20 percent since the 2000s. Foreign Direct Investment inflows into India expanded from US\$236.7 million in 1991 to US\$50.6 billion in 2019. Also, foreign reserves that were a mere US\$5.8 billion in 1991 expanded to US\$630 billion in 2021.

In conclusion, the monolithic nature of the Nigerian economy has subjected both external reserves and the domestic currency to intense pressures arising from global oil price volatility. While global oil price was very high in 2021, the external reserves were under pressure to meet backlogs of forex demand. This suggests that Nigeria can no longer continue to depend on crude oil proceeds if the country is to achieve stable inflows of forex. Therefore, the fiscal and monetary authorities must work in unison to boost forex supply, especially from non-oil exports and from steady foreign investment inflows (FDI and remittances).

Increasing the supply of foreign exchange is the only way to narrow the widening parallel market premiums. Also, adopting a more flexible exchange rate system that adjusts with changing macroeconomic conditions will enhance the attractiveness of Nigeria as a profitable investment destination.

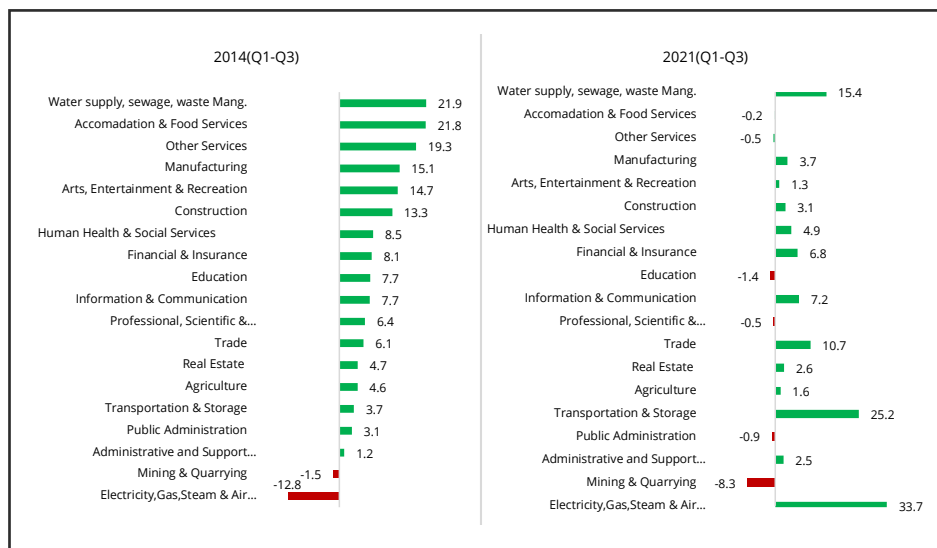


Sector Reforms

SECTORAL REFORMS

Despite growing at an average rate of 3.2 percent in the first three quarters of 2021, the Nigerian economy remains plagued by high inflation rate, increasing unemployment and underemployment rates as well as rising poverty. These challenges have persisted over the years as a result of skewed growth performance, with growth concentrated in a few sectors which do not have capacity to create jobs with decent incomes. Figure 8 compares the growth rates across sectors in the first 3 quarters of 2014 and 2021, respectively. It shows that the growth rate of critical sectors has declined relative to the pre-2016 recession period of strong economic growth in 2014.

Figure 8: Average Growth Rate (Percent)



Data: NBS, Chart: NESG Research

Resolving socio-economic issues including low job creation, unemployment, foreign exchange instability, external trade deficit and government revenue constraints, and insecurity rest on the ability of the different sectors of the economy to expand and contribute positively across board. With the government's pledge to lift 35 million people out of poverty by creating 21 million full-time jobs by 2025, it needs to drive improved productivity across major sectors of the economy.

The expansion of major sectors of the economy is primarily hampered by the persistence of structural challenges ranging from infrastructure deficit to exchange rate volatility, sectoral rigidity, and the economy's susceptibility to oil prices swings. Also, regulatory bottlenecks and corruption; the multiplicity of taxes; limited financing (corporate and consumer) and high cost of borrowing; inefficiency of standardisation and quality control processes; poor implementation of government policies, projects and programmes; inadequately skilled workforce; and elevated level of insecurity have inhibited the progress of various sectors.

As much as Nigeria needs to scale up and expand production across all sectors of the economy, the government needs to prioritise sectors based on their linkages with economic growth, other sectors of the economy, employment and social inclusion. Hence, we outline particular reforms in 5 critical sectors that the government can undertake or advance in the short run to deliver significant improvement in Nigeria's economic outcomes. These sectors include Agriculture, Manufacturing, Health, Education and Trade. We believe that implementing these reforms would significantly improve the performance of these sectors and promote inclusive economic development.



Agriculture Sector



The Agricultural sector is plagued by low productivity and high wastage of produce. This impedes the sector's output and drives rising food insecurity in the nation. A large proportion of farmers in the country are small-holder in nature, undertaking subsistence farming and are based in the rural areas. These farmers would greatly benefit from access to critical information, leading to increased crop yields. Extension workers have a crucial role to play. However, according to The African Seed Access Index (TSAI) 2020 report, the ratio of agricultural extension workers to farmers in Nigeria is the lowest in Africa. With the high level of food inflation (averaging 20.5 percent in 2021) exacerbated by security challenges, measures to improve the sector's productivity are important. We suggest the following reforms:

- Create a plan to strengthen the activities of agriculture extension workers to scale up technical advice to farmers and enhance the adoption of higher-yielding seeds, which would improve the output of the sector
- Implement measures to facilitate the early release of seed varieties, such as reducing the administrative requirements for registering new varieties of seeds
- Extend training schemes for farmers in the use and maintenance of innovative technology which can lower post-harvest losses and improve productivity
- Implement an irrigation-enhancement initiative that focuses on facilitating the adoption of irrigation and repairs to irrigation systems
- Reduce land fragmentation and make farmlands available for genuine farmers at subsidised rates so that they can expand their production base and even adopt farm mechanisation. This will help boost agricultural productivity
- Develop appropriate pricing for agricultural products to keep farmers' incomes stable
- Promote technology adoption in agriculture with the goal of improving quality, productivity, market access, and reducing wastage.

Manufacturing Sector



The manufacturing sector has continuously faced several structural challenges leading to low productivity, which has caused many manufacturing firms to shut down, limiting growth and investment inflows into the sector. Taking steps towards addressing structural issues and attracting investment into the sector is key to unlocking the sector's potential. Therefore, we recommend the following reforms to improve the sector's performance:

- Develop a plan for the manufacturing sector, which involves identifying priority sub-sectors followed by developing industrial policy and sectoral plans for these priority areas
- Strengthen the Nigerian Investment Promotion Commission (NIPC), tasked with promoting and supporting investment within the country, by empowering the agency to make policy decisions that drive private investment into specific sectors, infrastructural projects, and government projects
- Develop tailor-made finance and competitive grants to support innovative development and start-up of nascent industrial and manufacturing enterprises. The pharmaceutical sector, for instance, requires significant capital outlay for production and expansion
- Develop a home-grown quality control system to ensure that Nigerian-made products become attractive to foreign buyers. This will help boost forex earnings from non-oil export commodities; and
- Provide adequate incentives such as affordable credit facilities to manufacturers to facilitate mass production of exportable commodities.

Education Sector



Nigeria has significant strides to make in improving the quality of education provided in educational institutions across the nation, Nigeria's out-of-school statistics are troubling. According to the Ministry of Education, Nigeria had over 6 million out-of-school children as at 2021. Low budgetary allocation (5.7 percent in 2021), a lack of industry-aligned curricula, and a mismatch between employer needs and the labour force skills are other major challenges facing the sector. The sector's poor performance has contributed to the scale of unemployment and underemployment in the country, which, in turn, promotes social unrest. To strengthen this sector, we suggest the following sector-specific reforms:

- Strengthen social safety net programmes such as conditional cash. This will increase the disposable income of poor households, thereby promoting school participation
- Introduce an unemployment insurance scheme which is responsive to economic conditions
- Extending financial support to parents and guardians for the purchase of digital devices for their children to aid learning
- Use and upgrade of more non-formal educational institutions to enhance skill acquisition for those citizens outside of formal education
- Improved funding of the education sector with investment in specialised fields such as Science, Technology, Engineering and Mathematics (STEM) to equip the Nigerian youth for jobs of the future
- School curriculum reform to reflect the specific and dynamic needs of industry as well as development of a medium for engaging the private sector in an extensive review of education curricula
- Partner with the private sector to roll out internship programmes across different sectors of the economy. This will improve the employment prospects of students and graduates
- Establish a standardised benchmark for the performance of students and educational institutions, respectively
- Standardise teachers' entry requirements and revise compensation packages to make them competitive. This will enhance the quality of the teaching force.

Health Sector



Although Nigeria has seen improvement in its health services in recent times, it is still poorly ranked at 163rd out of 191 countries in the World Health Organisation (WHO) health system ranking in 2021, explaining why it also has some of the poorest health outcomes globally. Low funding and investment in the sector have been major contributors to the sector's observed performance. The need to improve funding for primary health care prompted the creation of the Basic Health Care Provision Fund (BHCPF). However, the fund's purpose has not been fully realised due to challenges with its management. Moreover, poor data management systems have made it difficult for the sector to manage resources and implement health intervention programmes effectively. Reforms which address these challenges are essential to strengthening the performance of the health sector. We propose the following reforms:

- Develop incentives for the banking sector to provide financial support for the health sector's development, such as by providing guarantees for the money borrowed by health institutions
- Develop guidelines and structures for effective health data management. This will facilitate the collation of important health-related statistics for adequate planning
- Higher tax incentives for investment in health care compared with other sectors
- Introduce processes, such as clear guidelines for implementation and the roles of parties involved in the disbursement of funds. This will reduce bottlenecks in the management of the Basic Healthcare Provision Fund (BHCPF)
- Health authorities should introduce transparency and accountability structures for the effective management of the BHCPF
- Implement a supportive and unified regulatory framework to support private investors in healthcare delivery
- Improve working conditions of healthcare professionals to avert brain drain.

Trade Sector



As the second largest employer of labour in Nigeria and with high absorptive capacity, the trade sector is integral to job creation. Impediments to growth in the trade sector arise from international activities, including currency devaluation, which increased the prices of imported goods and services. Other external factors include the multiplicity of the exchange rate that makes foreign trade complex and constrained foreign direct investment. The ever-growing presence of non-state actors, underdeveloped credit system, lack of finance and high-interest environment also constitute major drawbacks to growth in the trade sector.

Given its distributive and market-creating roles in the economy, the deficient performance of the trade sector will affect Nigeria's competitiveness among other African countries in the face of the African Continental Free Trade Area (AfCFTA) agreement. The following reforms would improve the performance of the trade sector:

- Urgently address the porous nature of land borders and poor capturing of trade across land borders
- Strengthen border security and establish border structures across the six regions to facilitate export to other ECOWAS countries
- Strengthen the reforms on the operations of the ports and provide clarity on the conditions and requirements for import and export to further ease the import and export process
- Increase access to trade financing and ensure a more friendly interest environment
- Ensure macroeconomic stability, mainly as it affects inflation and exchange rate
- Improve the business environment by advancing on the ease of doing business components
- Reduce the grip of non-state actors on trade business as the various charges emanating from their activities constrain players in the sector.

CONCLUDING REMARKS

The performance of the Nigerian economy was impressive in 2021, but the pre-pandemic narrative of growth, non-inclusiveness and poor socio-economic conditions still linger. Among many issues that dented improved economic outcomes are insecurity, foreign exchange scarcity, declining foreign investment inflows, sectoral rigidity, infrastructure deficit, inadequately skilled workforce, policy inconsistency, and regulatory bottlenecks. Going into 2022, Nigeria has the opportunity to build on current growth performance by initiating tough economic reforms that would remove the constraints on the expansion of sectors of the economy and enhance their capacity to create more jobs and lift millions out of poverty.

This report (NESG 2022 Macroeconomic Outlook) presents critical reforms to drive significant improvement in economic outcomes for Nigeria. It emphasises reforms across three major areas: (1) reforms on the long-awaited oil and gas sector deregulation and fuel subsidy removal; (2) reforms on the foreign exchange management; and (3) sector-specific reforms that can drive significant inflows of stable investments such as FDI into the economy.

The pace of reforms, however, needs to be accelerated for the following reasons:

- The heightened insecurity and social vices in several parts of the country are direct fallouts from the social exclusion suffered by many citizens. Therefore, the government cannot afford to procrastinate on implementing these reforms as further delay could offset the gains from the recent rapid economic recovery. The urgency of now should be the watchword.
- The launch of the National Development Plan (2021-2025) provides a veritable starting point for the government to initiate reforms that can change the development paradigm in Nigeria. It adequately recognises the need for private sector development and sectoral growth to drive inclusive development. Nevertheless, the effectiveness of the Plan hinges on the need for the government to provide supportive business and policy environment that will sustain the interests and confidence in the Nigerian economy.
- As the general elections in 2023 approach, there is the possibility that the space for implementing crucial reforms in Nigeria will be narrow. But the political elite should note that prioritising the populace's interests should take the front burner on their agenda, before and after the elections. This will not only narrow the existing trust deficit between government and the governed but will also ensure that much-needed reforms attract little or no opposition from all stakeholders.



References

- Adepoju, P. (2018). Nigeria's medical brain drain. Retrieved from: <https://www.devex.com/news/nigeria-s-medical-brain-drain-93837>
- Bacon, R. and Kojima, M. (2006). Phasing Out Subsidies: Recent Experiences with Fuel in Developing Countries. World Bank Note No. 310. Retrieved from: <https://openknowledge.worldbank.org/handle/10986/11178>
- Bazilian, M. and Onyeji, I. (2012). Fossil fuel subsidy removal and inadequate public power supply: implications for businesses. Energy Policy 45: 1–5. Retrieved from: https://inis.iaea.org/search/search.aspx?orig_q=RN:43077250
- Budget Office (2021). Budget Implementation Report for Second Quarter 2020. Retrieved from: <https://www.budgetoffice.gov.ng/index.php/2020-second-quarter-and-half-year-bir/2021-second-quarter-and-half-year-bir/download>
- Central Bank of Nigeria (2021), 2020 Statistical Bulletin. Retrieved from: <https://www.cbn.gov.ng/documents/Statbulletin.asp>
- Central Bank of Nigeria (2021). Crude oil prices, crude oil production and exports data. Retrieved from: <https://www.cbn.gov.ng/rates/crudeoil.asp>
- Central Bank of Nigeria (2021). Gross external reserves data. Retrieved from: <https://www.cbn.gov.ng/IntOps/Reserve>
- Debt Management Office (2021). Nigeria's Public Debt Stock as at September 30, 2021. Retrieved from: <https://www.dmo.gov.ng/debt-profile/total-public-debt>
- FMDQ (2021). FX Closing Prices (Official and Investors and Exporters Exchange Rates). Retrieved from: <https://emarkets.fmdqgroup.com/>
- IMF (2013). Case Studies on Energy Subsidy Reform: Lessons and Implications. Retrieved from: <https://www.imf.org/external/np/pp/eng/2013/012813a.pdf>
- National Bureau of Statistics (2020). Unemployment Report for Fourth Quarter 2020. Retrieved from: <https://nigerianstat.gov.ng/elibrary>
- National Bureau of Statistics (2021). CPI and Inflation Reports. Retrieved from: <https://nigerianstat.gov.ng/elibrary>
- National Bureau of Statistics (2021). Nigeria Capital Importation Report for Third Quarter 2021. Retrieved from: <https://nigerianstat.gov.ng/elibrary>
- National Bureau of Statistics (2021). Nigeria Foreign Trade Report for Third Quarter 2021. Retrieved from: <https://nigerianstat.gov.ng/elibrary>
- National Bureau of Statistics (2021). Nigerian Gross Domestic Product Report for Third Quarter 2021. Retrieved from: <https://nigerianstat.gov.ng/elibrary>
- Nigerian Economic Summit Group (2021). NESG Macroeconomic Outlook for 2021. Four Priorities for the Nigerian Economy in 2021 and Beyond. Retrieved from <https://www.nesgroup.org/research>

NOI-Polls (2015). High Cost of Petrol: Nigerians not enjoying full benefits of petrol subsidy. Retrieved from: <https://noi-polls.com/high-cost-of-petrol-nigerians-not-enjoying-full-benefits-of-petrol-subsidy/>

World Bank (2021). Time for Business Unusual. Second Bi-annual Nigeria Development Update. Retrieved from: <https://www.worldbank.org/en/country/nigeria/publication/nigeria-development-update-ndu>

End Notes

¹According to World Bank, the short-term economic implications of fuel subsidy removal may be hard-felt by average Nigerians, the majority of whom live below the poverty line – an estimated 90 million as of December 2020.

²This lack of trust can be best explained by a study conducted by the NESG in 2019, which showed that many Nigerians are willing to pay taxes provided the government improves accountability, transparency and ensure efficient use of public resources.

³We outlined cash transfers to the poor and vulnerable citizens before the removal of fuel subsidies as one of the possible approaches that should go into the consideration of a fuel subsidy reform.

⁴Inflation rate is simply the rate at which prices increase between two periods. A fall in inflation rate therefore means that the rate of increase in prices has slowed. For instance, if year-on-year inflation rate falls from 20% in July to 15% in August, average prices rose by 15% in August. This does not represent a fall in price but rather a deceleration in the pace of price increase by 5 percentage points.

NESG Research Reports



Visit www.nesgroup.org/research to read for free

About The NESG

The NESG is an independent, non-partisan, non-sectarian organization, committed to fostering open and continuous dialogue on Nigeria's economic development. The NESG strives to forge a mutual understanding between leaders of thought so as to explore, discover and support initiatives directed at improving Nigeria's economic policies, institutions and management.

Our views and positions on issues are disseminated through electronic and print media, seminars, public lectures, policy dialogues, workshops, specific high level interactive public-private sessions and special presentations to the executive and legislative arms of government.

Copyright © 2022
by the Nigerian Economic Summit Group

All rights reserved. No part of this publication may be reproduced, stored in a retrieval system or transmitted, in any form or by any means, electronic, mechanical, photocopying, or otherwise without the prior permission of the Nigerian Economic Summit Group.

For additional information with respect to this Report, please contact the following:

NESG Research & Development
research@nesgroup.org

NESG DIRECTORS

• Mr. Asue Ighodalo	Chairman	• Dr Philip Mshelbila	Member
• Mr Niyi Yusuf	Vice-Chairman	• Mr Wassim Elhusseini	Member
• Mr Osagie Okunbor	Vice-Chairman	• Mr Kyari Bukar	Member
• Mr 'Laoye Jaiyeola	CEO	• Mrs Amina Maina	Member
• Mr Yinka Sanni	Member	• Mr Nnanna Ude	Member
• Mrs Wonuola Adetayo	Member	• Mr Karl Toriola	Member
• Mr Kunle Elebute	Member	• Mr Oluboyede Olusanya	Member
• Mr Foluso Philips	Member	• Mrs Ndidi Nwuneli	Member
• Mr Udeme Ufot	Member	• Mr Mike Sangster	Member
• Mr Olusegun Ogunsanya	Member	• Mr Lanre Akinbo	Member
• Mrs Juliet Ehimuan	Member	• Mr Demola Sogunle	Alternate
• Mr Frank Aigbogun	Member		

Contributors

- | | | |
|-------------------------|---------------------|-------------------------|
| • Dr. Olusegun Omisakin | • Faith Iyoha | • Dr. Oluwaseyi Vincent |
| • Wilson Erumebor | • Shakirudeen Taiwo | • Wasiu Adekunle |
| • Yinka Iyinolakan | • Sodik Olofin | • Henry Egbe |



📍 **THE SUMMIT HOUSE**
6, Oba Elegushi Street,
Off Oba Adeyinka Oyekan Avenue,
Ikoyi, Lagos.
P.M.B 71347, Victoria Island, Lagos

📍 **ABUJA LIAISON OFFICE**
4th Floor, Unity Bank Tower,
Beside Reinsurnace building
Plot 785, Herbert Macaulay Way,
Central Business District, Abuja

🌐 www.nesgroup.org
✉ info@nesgroup.org
☎ +234-01-295 2849

🐦 [f](#) [@](#) [in](#) [v](#) officialNESG