NIGERIA

Table 1	2019
Population, million	202.0
GDP, current US$ billion	448.1
GDP per capita, current US$	2218.0
International poverty rate ($1.9)[a]	39.1
Lower middle-income poverty rate ($3.2)[a]	71.0
Upper middle-income poverty rate ($5.5)[a]	92.0
Gini index[a]	35.1
School enrollment, primary (% gross)[b]	84.7
Life expectancy at birth, years[b]	54.3

Source: WDI, Macro Poverty Outlook, and official data.
Notes:
(a) Most recent value (2018), 2011 PPPs.
(b) WDI for School enrollment (2016); Life expectancy (2018)

The COVID-19 pandemic and the oil price collapse are likely to lead Nigeria to its deepest recession in four decades. Given this crisis and natural population growth, the number of people living below the international poverty line is set to rise by 16 million by 2022. While Nigeria faces severe challenges to regaining growth momentum, reforms to enhance exchange rate management, power supply, and the business climate would position the economy on a stronger recovery path.

Key conditions and challenges

At the onset of COVID-19, the Nigerian economy was still recovering from the 2015-2016 oil price shock which swung Nigeria into its first recession in 25 years. The 2020 contraction would follow four years of low growth and rising unemployment, due to various factors including multiple foreign exchange rates, trade restrictions, deficit monetization, combined with long-standing development challenges to mobilize domestic revenues, reduce infrastructure gaps, and strengthen governance. Public revenues were already low at 8 percent of GDP in 2019, with politically constrained tax reforms and inefficiencies in the oil sector. Despite sustained fiscal deficits (around 4 percent of GDP), public spending, marred by energy subsidies, remained at half the level of countries at a comparable level of development. Before the pandemic, Nigeria's poverty reduction efforts already faced major challenges, as population growth (2.6 percent) persistently outpaced GDP growth rates and job creation remained weak. In 2018/2019, 4 in 10 Nigerians were living below the $1.90 per person per day (2011 PPP) poverty line and millions more were vulnerable to falling into poverty.

Nigeria has been hit hard by the COVID-19 outbreak and the oil shock. Its economy and public finances are highly dependent on sales of crude oil. Nonoil industry and services also depend on the inflows from the oil industry. The crisis is providing an opportunity to address longstanding structural challenges.

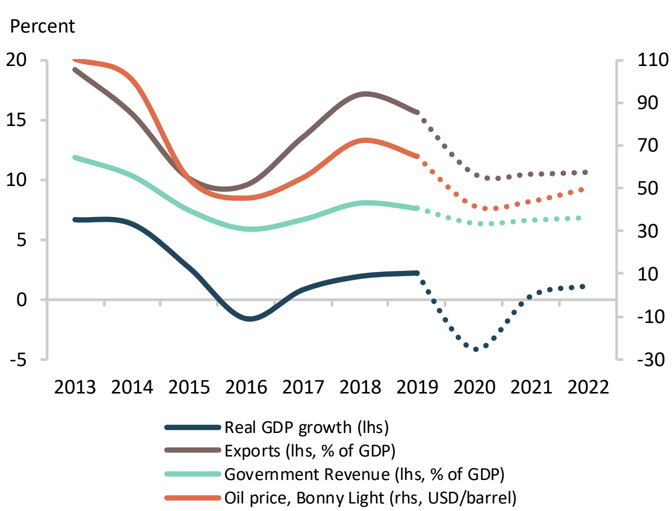
Since April, Nigeria harmonized key exchange rates, increased electricity tariffs to more cost-reflective levels, established a market-based mechanism for gasoline prices, increased oil sector transparency, and adopted a crisis-response budget. A relatively low public debt-to-GDP ratio gives Nigeria borrowing space to partially shield poor households from the effects of COVID-19.

Recent developments

Nigeria's economy contracted by 6 percent (year-on-year) in Q2 2020. The oil sector was hit by tumbling prices and OPEC quotas. Measures to contain the COVID-19 outbreak had an immediate impact on economic activity across the non-oil industry and services sectors. Agriculture growth slowed amidst difficulties in moving inputs and outputs. In services, only telecoms (on the back of higher data demand) and financial services (benefitting from pre-crisis credit growth and shielded by forbearance and stimulus measures from the Central Bank) registered growth. Annual inflation accelerated to 13.2 percent by August, with hikes in food and healthcare prices.

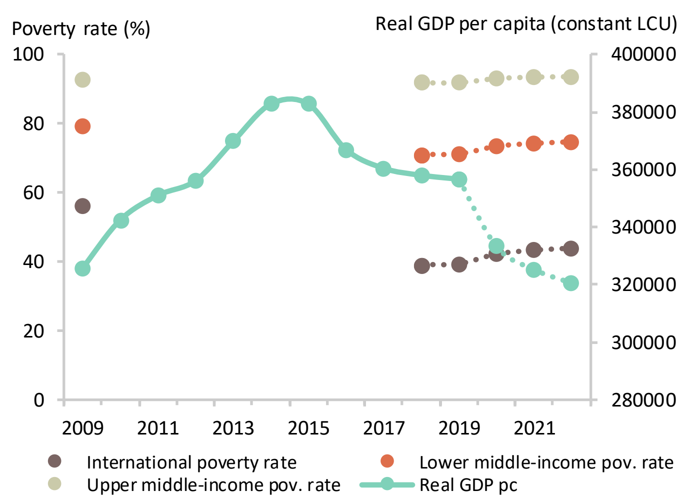
The crisis has severely impacted employment: between mid-March and May, the share of working Nigerians almost halved as Nigeria implemented strict lockdown measures, with service-sector workers hit

FIGURE 1 Nigeria / Oil price shock transmission channels



Sources: World Bank and Nigerian authorities.

FIGURE 2 Nigeria / Actual and projected poverty rates and real GDP per capita



Source: World Bank. Notes: See table 2.

the hardest. Most Nigerians have subsequently returned to work (many entering agriculture), but their incomes remain precarious. Households adopted drastic coping mechanisms with likely negative long-term impacts: 51 percent reduced food consumption and 29 percent drew down savings. Fewer than 2 percent of households are covered by social safety net programs. Despite import contraction (reduced port activities and forex restrictions) mirroring oil-dominated export contraction, the current account deficit hovered around 3 percent of GDP in Q2, aggravated by a sharp (40 percent) drop in remittances.

Capital inflows (concentrated in the financial sector) fell by 78 percent, putting additional pressures on the reserves, spurring the Central Bank to devalue, harmonize multiple nominal exchange rates and commit to gradually moving to a more flexible exchange rate regime. The Government enacted an amended budget for 2020 which reflects the new fiscal situation, reduces nonessential spending, provides a COVID-19 stimulus (across health emergency, public works, food security and support for MSMEs), and revises borrowing limits to protect critical expenditures in a transparent way by minimizing recourse to Central Bank financing. The Central Bank cut the policy rate and extended subsidized credit to the health sector, MSMEs, and households.

Outlook

Despite moderating oil prices (US$42 in 2020), Nigeria's economy is projected to contract by about 4 percent in 2020, with severe challenges to regaining growth momentum in 2021-2022. Growth will remain constrained by low public and private investment, and lower consumption stemming from precautionary behavior in non-poor households and dwindling savings in poor households. International capital flows are expected to remain limited, with remittances (equivalent 5 percent of GDP) struggling to recover given the slow recovery prospects in key diaspora abodes. International portfolio flows, which propped up the fixed exchange rate before the shock, are unlikely to return before further exchange rate reforms.

Both the depth of the recession and speed of recovery are subject to a high degree of uncertainty and can deteriorate rapidly in the face of further oil price movements, global and domestic pandemic developments, and domestic policy nuances. Deteriorating living standards may lead to resurgence or intensification of violence and conflict. Depending on the frequency and size of these shocks, growth projections in 2020 range between -3 and -8 percent, with similar range of growth rates in the medium term.

In the absence of a robust response to the crisis, the poverty rate is projected to rise even faster than without the COVID-19 shock, to 44 percent by 2022. Households deriving income from informal activities (50 percent of GDP) that rely on close physical proximity and those close to conflict-prone areas are particularly vulnerable.

Fiscal and current account deficits will remain high, as oil revenues and exports will be slow to recover, and the exigencies of COVID-19 require higher borrowing. While the availability of concessional debt may be limited given high demand across countries, Nigeria's relatively low and sustainable debt stock may allow it to return to international capital markets. With little private sector activity, and inflation limited by lack of demand, domestic issuances should also prove a viable instrument.

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

	2017	2018	2019	2020 e	2021 f	2022 f
Real GDP growth, at constant market prices	0.8	1.9	2.2	-4.1	0.3	1.1
Private Consumption	-1.0	5.2	-2.4	-3.1	0.4	0.9
Government Consumption	-8.0	33.2	15.0	-0.4	-12.1	-0.1
Gross Fixed Capital Investment	-3.0	9.7	11.8	11.6	-23.3	9.6
Exports, Goods and Services	8.7	-1.4	15.0	-25.0	22.5	1.2
Imports, Goods and Services	4.8	49.2	27.3	-28.0	3.1	11.6
Real GDP growth, at constant factor prices	0.8	1.9	2.3	-4.1	0.3	1.1
Agriculture	3.4	2.1	2.4	1.2	1.8	2.1
Industry	2.1	1.9	2.3	-10.3	-2.3	1.3
Services	-0.9	1.8	2.2	-4.1	0.5	0.6
Inflation (Consumer Price Index)	16.5	12.1	11.4	12.9	12.8	12.1
Current Account Balance (% of GDP)	2.8	1.0	-3.8	-1.2	-0.6	-0.5
Net Foreign Direct Investment (% of GDP)	0.6	0.2	0.4	0.3	0.2	0.2
Fiscal Balance (% of GDP)	-4.0	-4.1	-4.6	-5.8	-4.7	-4.6
Debt (% of GDP)	18.9	19.3	21.7	27.1	29.4	31.1
Primary Balance (% of GDP)	-2.3	-2.2	-2.6	-3.9	-2.5	-2.2
International poverty rate ($1.9 in 2011 PPP)[a,b]		39.1	39.3	42.2	43.2	44.0
Lower middle-income poverty rate ($3.2 in 2011 PPP)[a,b]		71.0	71.1	73.5	74.3	74.8
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a,b]		92.0	92.1	93.1	93.4	93.6

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices.
Notes: e = estimate. f = forecast.

(a) Calculations based on 2018-LSS. Actual data: 2018. Nowcast: 2019. Forecast are from 2020 to 2022.

(b) Projection using neutral distribution (2018) with pass-through = 0.7 based on GDP per capita in constant LCU.