NIGERIA

Table 1	2020
Population, million	206.1
GDP, current US$ billion	440.9
GDP per capita, current US$	2139.1
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).

In 2020, Nigeria plunged into a recession due to the combined COVID-19 and oil price shocks. The number of people below the international poverty line is projected to rise by 12 million between 2020 and 2023. The economy is expected to recover modestly in 2021. Reforms to enhance exchange rate management, fiscal management and the business climate would position the economy on a stronger and sustainable recovery path.

Key conditions and challenges

In 2020, Nigeria's economy entered into a recession due to COVID-19-related disruptions, notably lower oil prices and remittances, enhanced risk aversion in global capital markets, and mobility restrictions. The crisis is far from being over and a "second wave" has started in Nigeria, with the number of daily cases averaging 407 in the first week of March, although below the 642 daily peak cases recorded in June 2020.

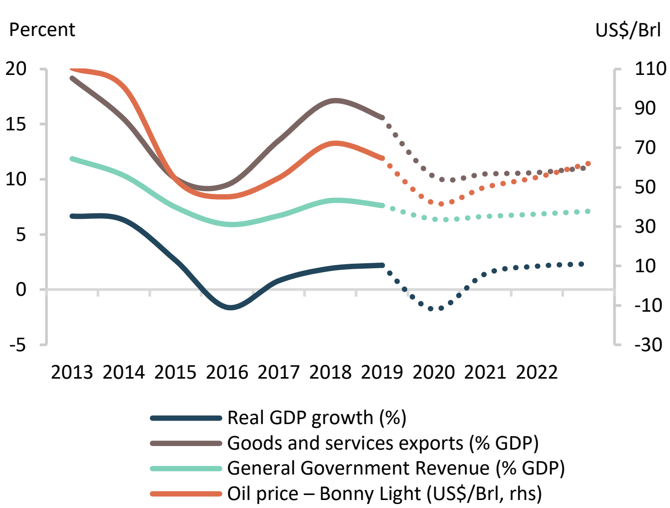
Still recovering from the 2015- 2016 recession, COVID-19 struck the Nigerian economy while the business environment remained inadequate due to double-digit inflation, multiple foreign exchange rates practices, trade restrictions. Nigeria's economy remains highly dependent on sales of crude oil. In 2019, while it only represented about 10 percent of total GDP, oil accounted for more than 80 percent of exports and more than 50 percent of consolidated fiscal revenues. Its performance has a direct effect on job creation and revenues in related manufacturing and services sectors. It also impacts unrelated sectors, mainly through an income effect. Given these macroeconomic vulnerabilities, 4 in 10 Nigerians lived below the poverty line before the COVID-19 crisis struck.

Following the COVID-19 shock, the federal government took important steps to set the foundations for fiscal sustainability: reducing fuel and electricity subsidies, increasing oil sector and debt transparency, and proceeding with implementation of VAT, business environment, and administrative reforms. Revenue-driven fiscal consolidation remains an urgent priority, as with the mounting debt service costs (including from higher central bank deficit financing) and low and shocked revenues, the interest-to-revenue ratio at the federal government level exceeded 90 percent.

Recent developments

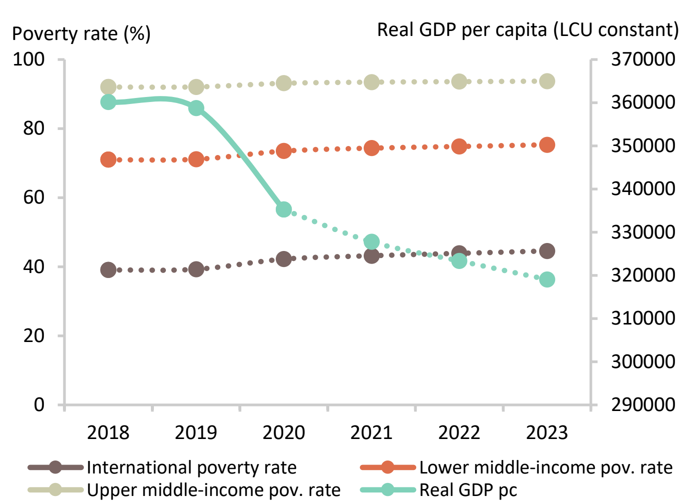
GDP contracted by 1.8 percent in 2020 driven by a decline in oil industry (due to lower oil prices and production disruptions), non-oil industry (as a result of lockdown measures and the contraction of domestic demand), and services (due to a decline in trade, accommodation and food services, and transportation). The contraction of economic activity has stopped in 2020Q4, as recovery in services and agriculture counterbalanced sustained contraction in industrial production. Annual inflation increased from 11.4 percent in 2019 to 13.2 percent in 2020 driven by higher food prices due to pre-COVID border closures and rising FX restrictions, and rapidly increasing broad money growth (32 percent by the end of 2020), partly to finance the fiscal deficit. In the December 2020 round of phone survey data, 83 percent of households reported experiencing an increase in the price of major food items between July 2020 and

FIGURE 1 Nigeria / Oil price shock transmission channels



Sources: Nigeria Authorities and World Bank.

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



Source: World Bank Notes: Table 2.

December 2020, up from 18 percent of households between January 2017 and January 2019.

The pandemic severely disrupted the labor market. While many workers have subsequently returned to work, income loss vulnerabilities remain and are contributing to food insecurity. During the second half of 2020, 58 percent of households that experienced a shock reported they reduced their food consumption.

The fiscal deficit widened to 5.8 percent of GDP following a sharp revenue fall, but timely passage of the amended budgets at both federal and state government levels helped limit the recourse to central bank financing (which, nevertheless, remained significant at 2.8 percent of GDP).

In the first three quarters of 2020 exports declined by 44 percent due to lower oil prices, while imports declined by 16 percent due to trade disruptions, FX scarcity and lower domestic demand. Resilient during the previous shocks, remittances (5 percent of GDP) have declined by 33 percent in the same period as the Nigerian diaspora experienced income shocks. While the central bank devalued the key FX rate twice during the year in the face of oil and capital inflow shocks (capital inflows declined by 59.6 percent in 2020), the movement was not sufficient to equilibrate the market. The intensified capital control measures led to FX scarcity, evidenced by the increasing parallel exchange rate premium (22 percent on average in the H2).

Outlook

Nigeria's growth is expected to recover modestly in 2021, averaging 1.4 percent, led by telecommunication services, trade due the gradual opening of borders, agriculture thanks to an additional influx of labor, and construction, in a context of higher oil prices and fewer mobility restrictions. Yet, growth will remain constrained by low public and private investment.

This baseline scenario assumes that the authorities maintain and strengthen current macroeconomic reform efforts that are essential to managing the shock-induced fiscal and external financing needs. Particular priorities include revenue-based fiscal consolidation, the reprioritization of spending and the strengthening of expenditure and debt management, reforms for financial sector stability, and the adoption of a more flexible and transparent foreign exchange management regime.

Given the combined effects of the COVID-19 crisis and population growth, the number of Nigerians living in poverty could rise by 12 million between 2020 and 2023, and by 2023 the absolute number of poor Nigerians will be close to 100 million with millions more vulnerable to falling below the poverty line if further shocks occur.

Nigeria's economic outlook remains highly uncertain. Uncertainty around the pace of vaccination and duration of the COVID-19 pandemic persists and will continue to impact household consumption and private investment. Moreover, oil sector volatility, including an unexpected shock to oil prices, and weaknesses in the soundness and growth of the financial sector, despite recent forbearance measures by the central bank, could threaten this modest projected recovery. Adequate exchange management reforms could bring portfolio flows back and foster private investment and employment creation. Even in the most favorable global context, the policy response of Nigeria's authorities will be crucial to set the foundations of a robust recovery path.

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

	2018	2019	2020 e	2021 f	2022 f	2023 f
Real GDP growth, at constant market prices	1.9	2.2	-1.8	1.4	2.1	2.3
Private Consumption	5.2	-2.4	1.3	2.7	1.7	0.5
Government Consumption	33.2	15.0	13.6	1.5	0.7	3.4
Gross Fixed Capital Investment	9.7	11.8	19.0	0.2	5.4	5.4
Exports, Goods and Services	-1.4	15.0	-32.2	-0.2	2.1	8.4
Imports, Goods and Services	49.2	27.3	-23.5	3.5	5.0	10.7
Real GDP growth, at constant factor prices	1.9	2.3	-1.9	1.4	2.1	2.3
Agriculture	2.1	2.4	2.2	1.4	2.1	2.3
Industry	1.9	2.3	-5.9	1.0	3.4	3.6
Services	1.8	2.2	-2.2	1.5	1.6	1.8
Inflation (Consumer Price Index)	12.1	11.4	13.2	15.5	13.0	11.0
Current Account Balance (% of GDP)	1.0	-3.8	-2.4	0.4	1.0	0.7
Net Foreign Direct Investment (% of GDP)	0.2	0.4	0.2	0.2	0.2	0.2
Fiscal Balance (% of GDP)	-4.1	-4.6	-5.8	-4.5	-3.7	-4.3
Debt (% of GDP)	19.3	21.7	25.2	25.8	26.2	34.0
Primary Balance (% of GDP)	-2.2	-2.6	-4.1	-2.6	-1.6	-2.5
International poverty rate ($1.9 in 2011 PPP)[a,b]	39.1	39.3	42.2	43.2	43.9	44.6
Lower middle-income poverty rate ($3.2 in 2011 PPP)[a,b]	71.0	71.1	73.5	74.3	74.8	75.3
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a,b]	92.0	92.1	93.1	93.4	93.6	93.7

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: 2019-2020. Forecast are from 2021 to 2023.
(b) Projection using neutral distribution (2018) with pass-through = 0.7 based on GDP per capita in constant LCU.