

# Macroeconomic Outlook: How can Nigeria Emerge from Global Shocks?

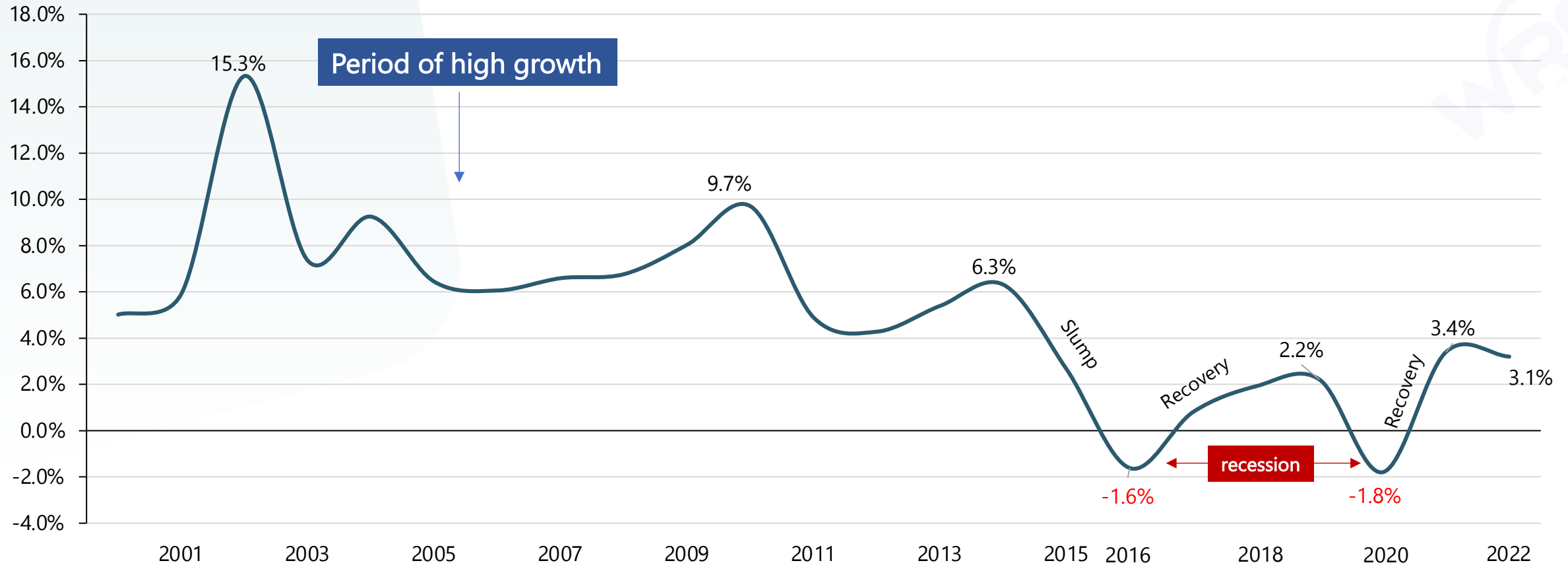
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# Nigeria's GDP Growth has slowed over the years

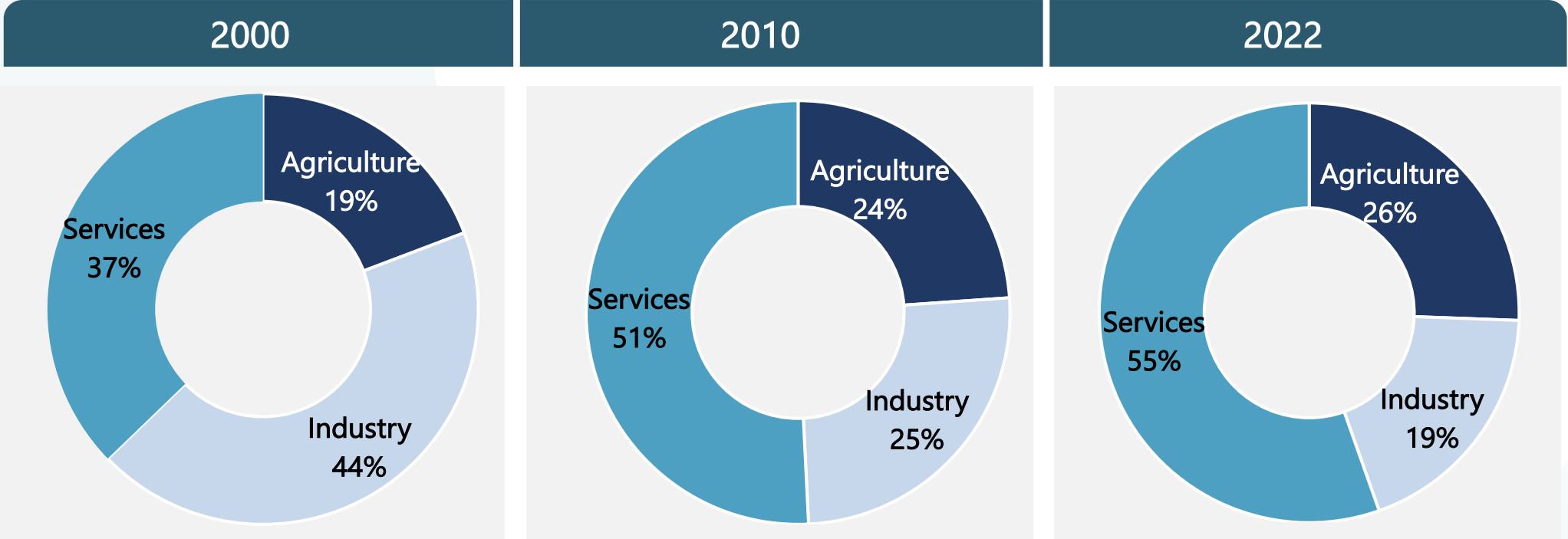
Nigeria's GDP Growth (%)



- GDP growth has declined, from an average growth of 7.9% in the 2000s to 2.5% in the 2010s.
- Growth has average 1.1% in the last 7 years.

# GDP composition has shifted towards the services sector

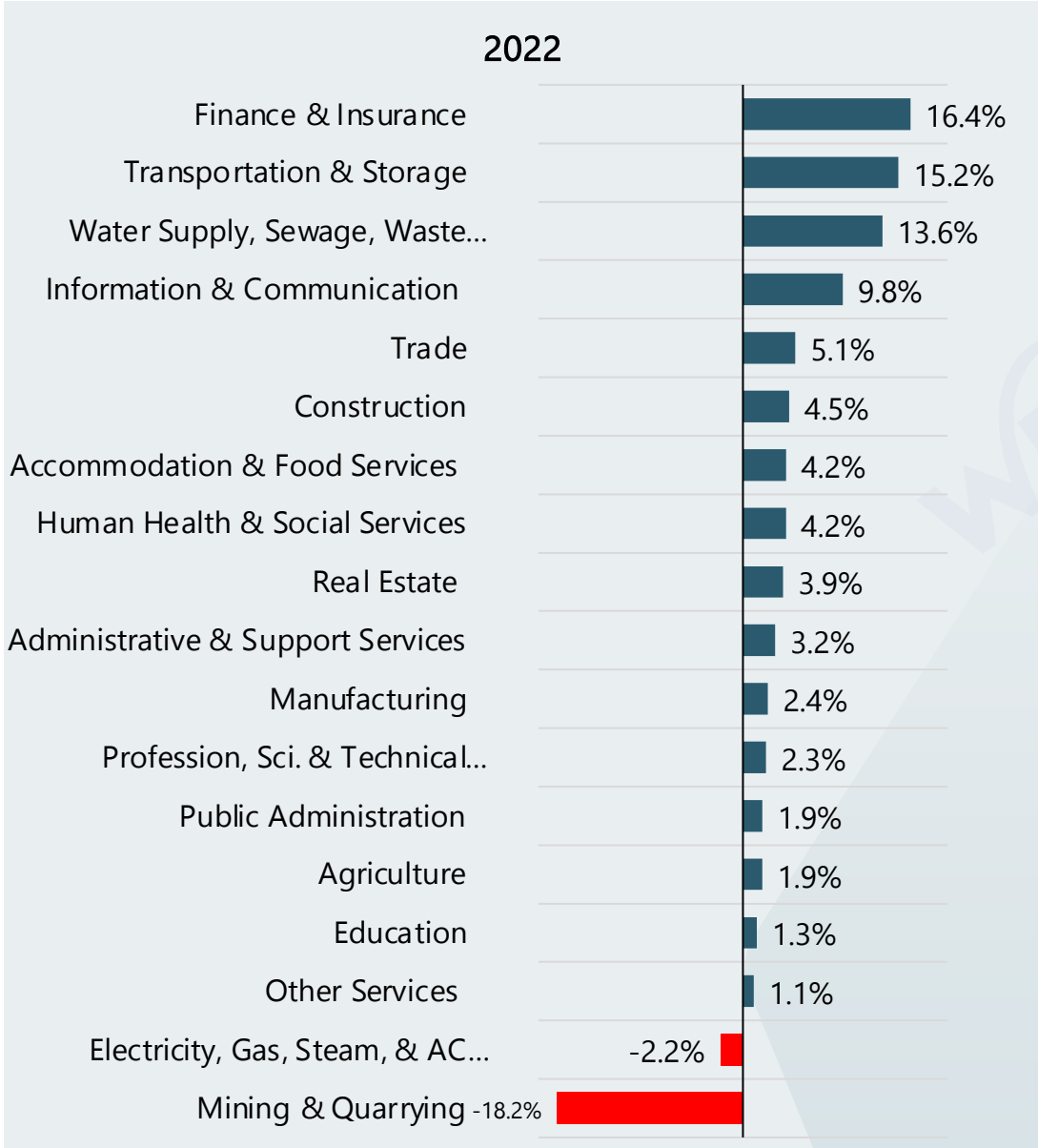
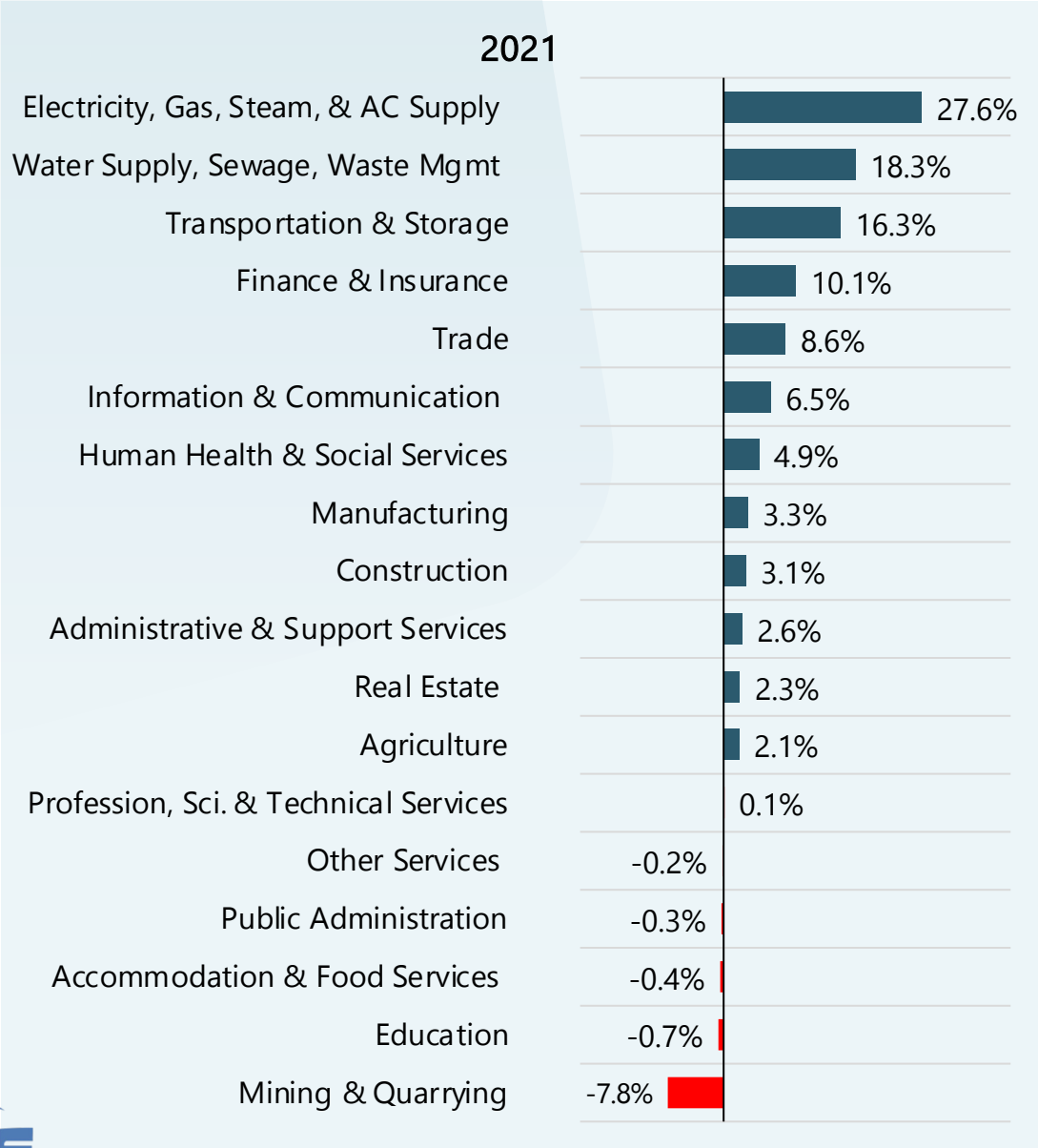
Nigeria's GDP Composition



- Services share of GDP has expanded from 37% in 2000 to 55% in 2022.
- Share of Industry declined from 44% in 2000 to 19% in 2022. Manufacturing share - 9% in 2022 (12% in 2000).

# Services sector has been a major growth driver in Nigeria

Nigeria's Sectoral GDP Growth (%)



Data Source: NBS

# External shocks and how they are transmitted

*Shocks could emanate from policy decisions, events, war, climate change, pandemic, trade wars, etc.*

## Oil Price Movement



Volatile oil price contributes to fluctuating output and even recession. Nigeria's inability to save when oil prices are high is also a challenge.

## Investment Flows



Response by monetary authorities in the global north to contain inflation influences the movement of investments – triggers outflows when rates trend upwards.

## Supply Chain/Trade



Higher shipping costs, scarcity of some goods, and rising inflation due to COVID-19 lockdowns and the war in Ukraine continue to affect global supply chains.

***With Covid-19 and the war in Ukraine, coupled with several internal problems, there have been intense pressure across all three channels***

# These shocks create fiscal imbalances and macro distortions



High  
inflation/Scarcity  
of goods



Weak  
exchange  
rate/FX  
scarcity



Trade Deficit



Fiscal Deficit

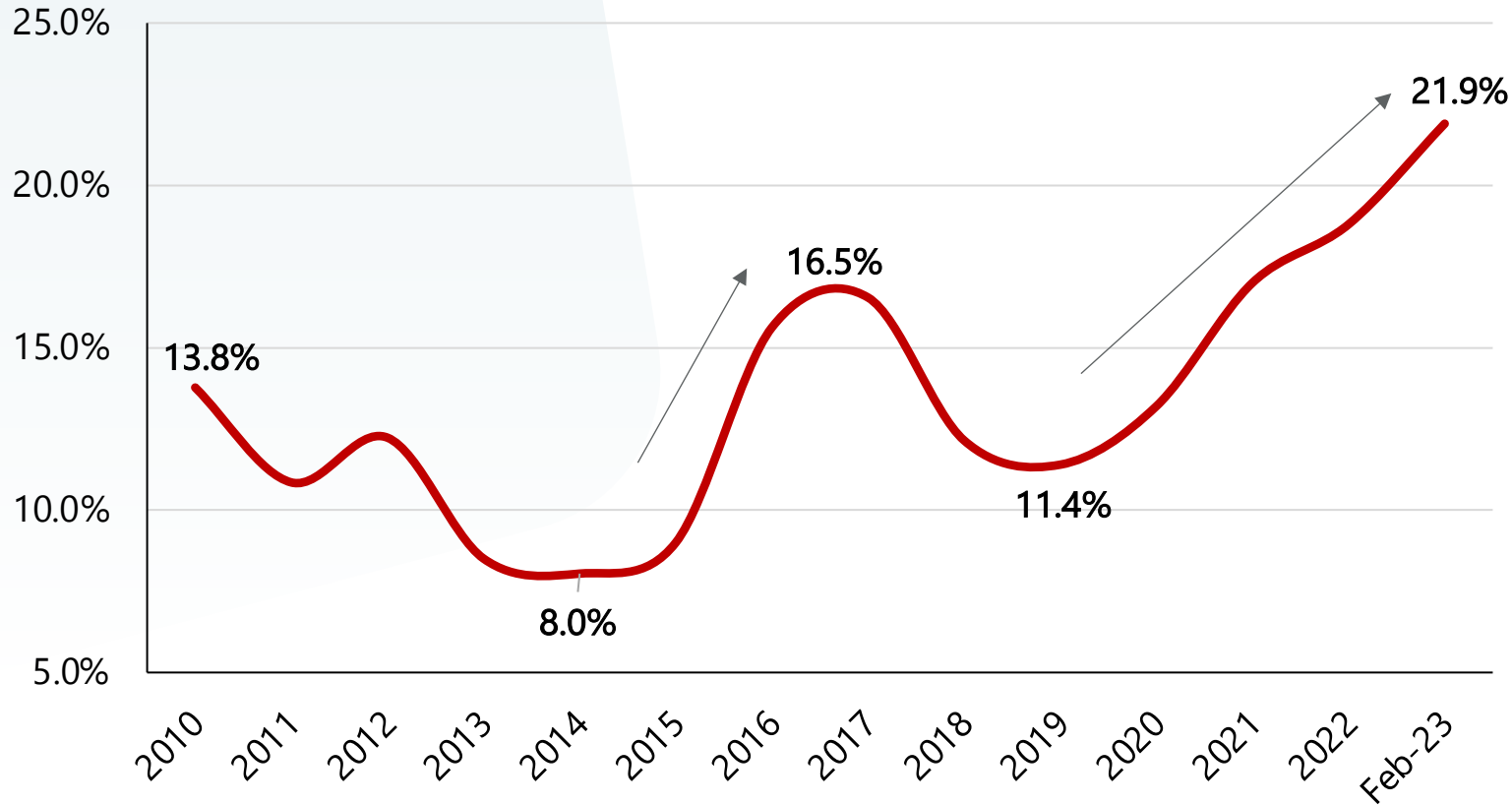


Weak  
investment  
in key  
sectors


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# Rising inflation rate is affecting investment and economic prosperity

Nigeria's Average Inflation Rate



What ₦10,000 can buy in Feb 2023

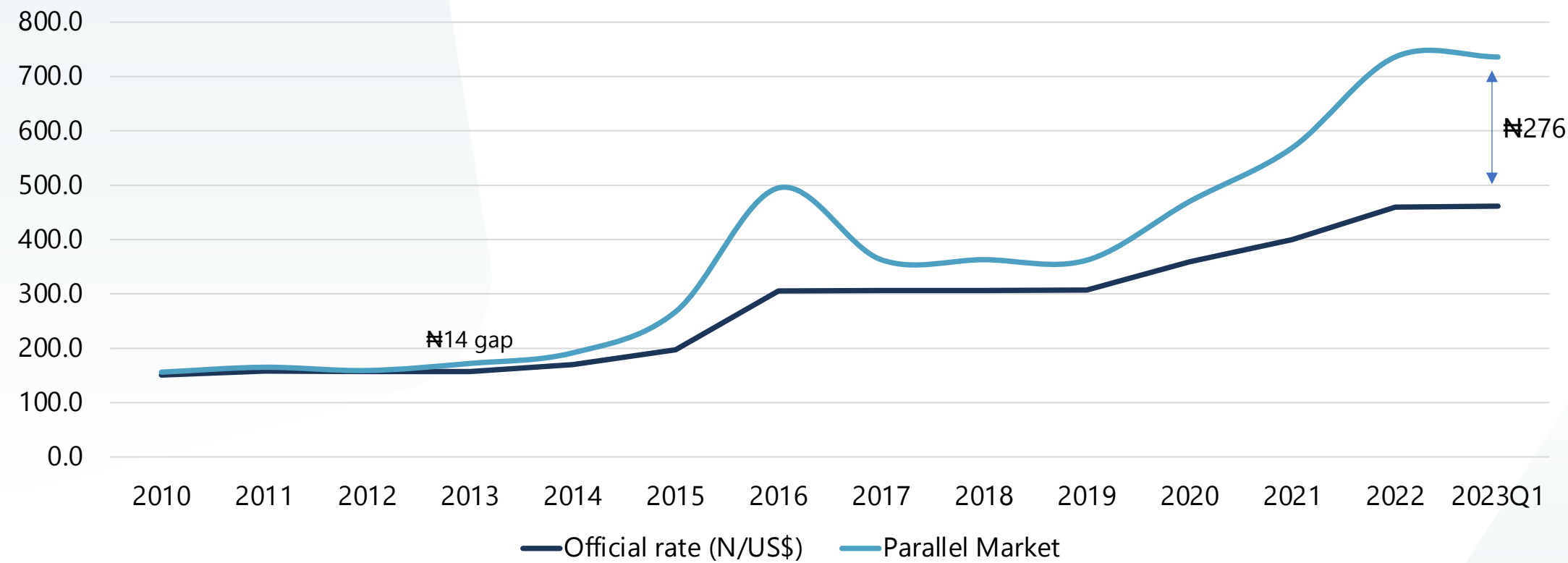


Could be purchased with ₦3,226 in Feb 2015

- Weak purchasing power caused by rising inflation and poor support mechanism for households is pushing millions into poverty.
- Real interest rate has been negative.

# Exchange rate gap has widened overtime

Nigeria's Exchange Rate (End-period)

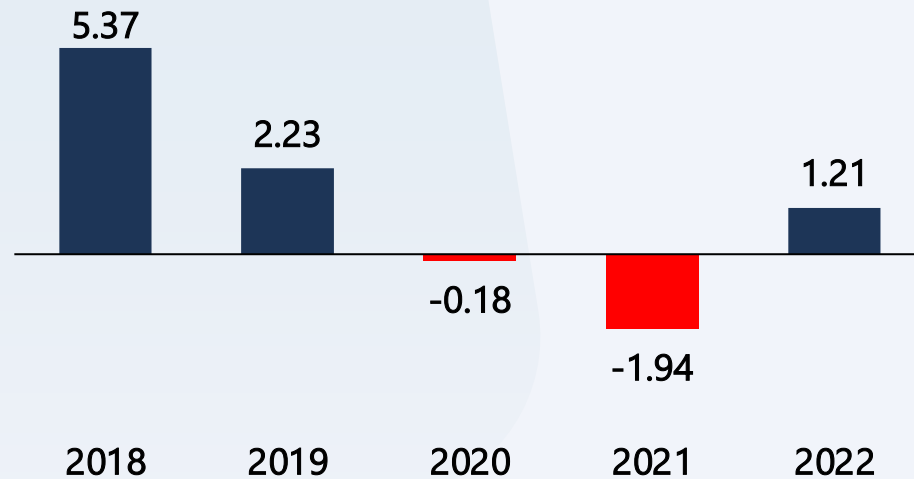


- Limited reserve accretion, unstable exchange rate policies, economic recessions, tough business environment are some factors that have led to significant depreciation of the Naira vis-à-vis other currencies.



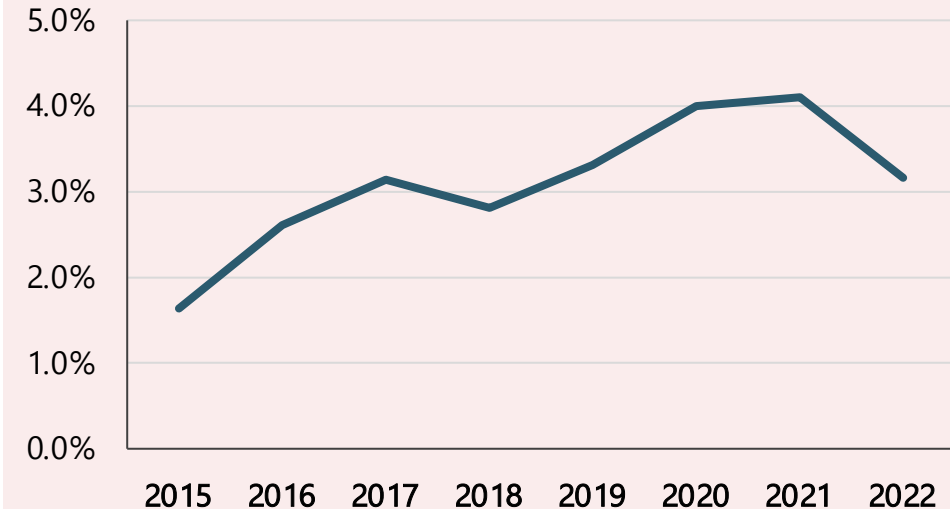
# Trade deficit returned positive in 2022 but fiscal pressure remains

Nigeria's Trade Balance (Trillion Naira)



- Crude oil dominates exports and total trade in goods – 91% of goods export in 2022.
- Share of manufactured goods in export – 2.9%.
- Much of Nigeria's trade is with Europe and Asia

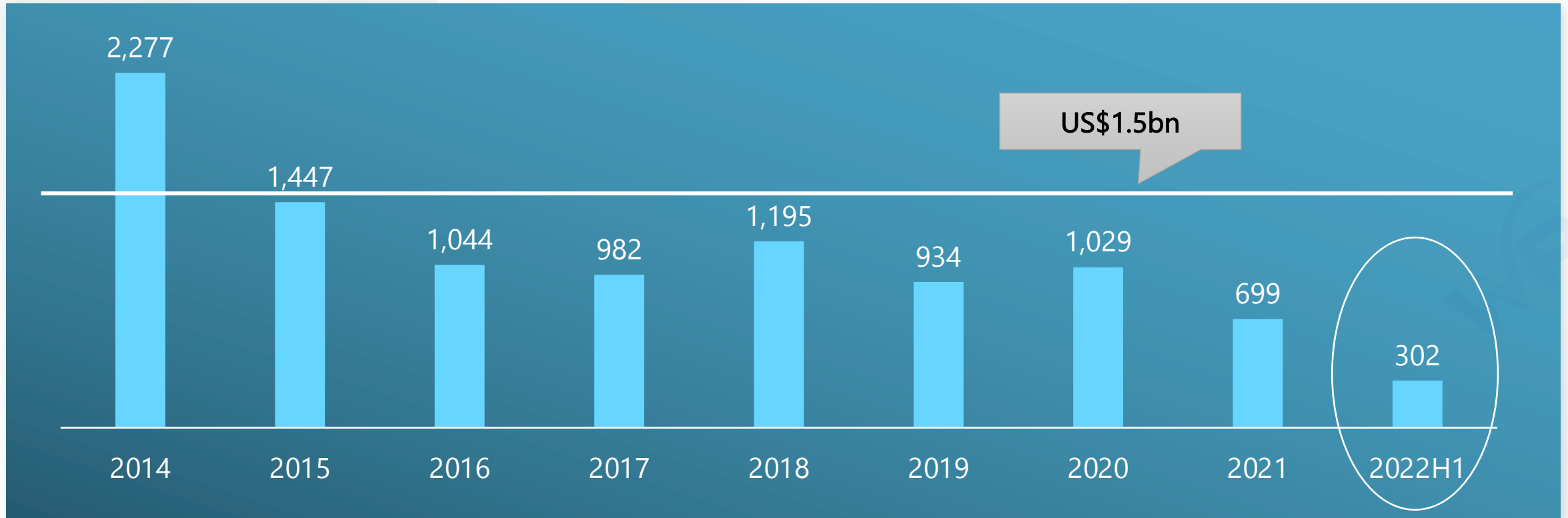
Nigeria's Fiscal Balance (% of GDP)



- Fiscal balance as a percentage of GDP has been on the rise, albeit lower relative to several Africa countries.
- Key problem remains lower revenue, weak spending efficiency and higher debt service payments as a share of total revenue.

# Foreign Direct Investment yet to reach US\$1.5 billion in 7+ years

Nigeria's Foreign Direct Investment Inflows (US\$ million)



- Poor FDI inflow signals weak investor confidence in the economy.
- FDI inflow into South Africa was US\$37.6bn in 2021; Egypt +US\$5 billion; US\$31.1 in Indonesia.

# What role should the government play?

*Ideally, it is the role of the government to absorb these shocks and limit their impacts on the economy.*

Government can absorb these shocks by leveraging its buffers:

External reserves

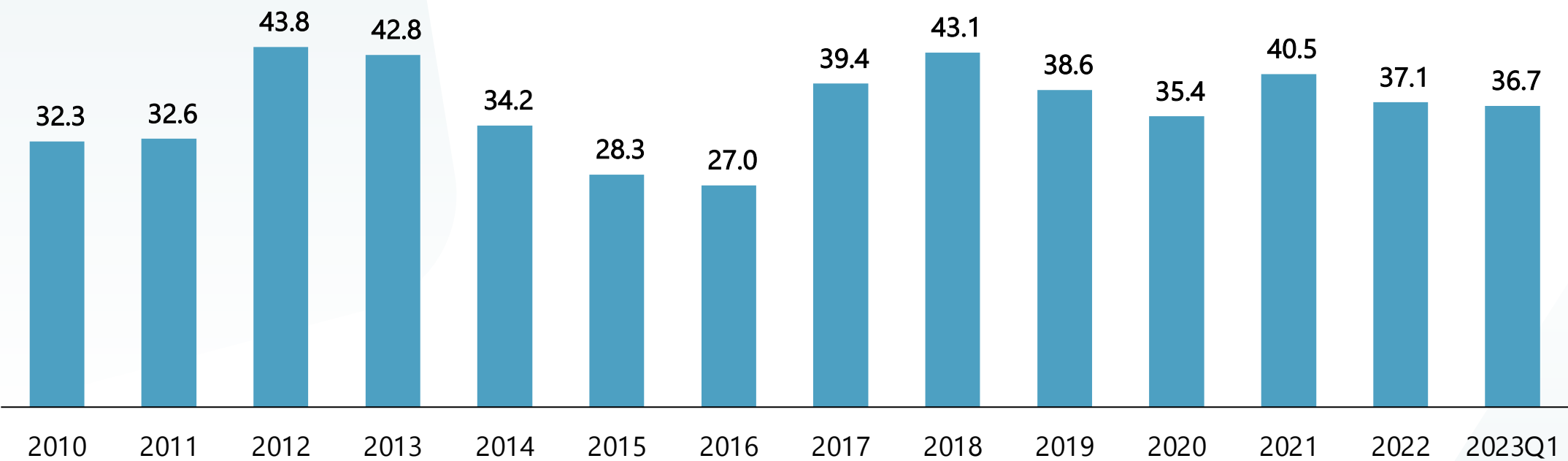
Fiscal savings

Borrowing



# Reserves yet to reach its year-end peak since 2012

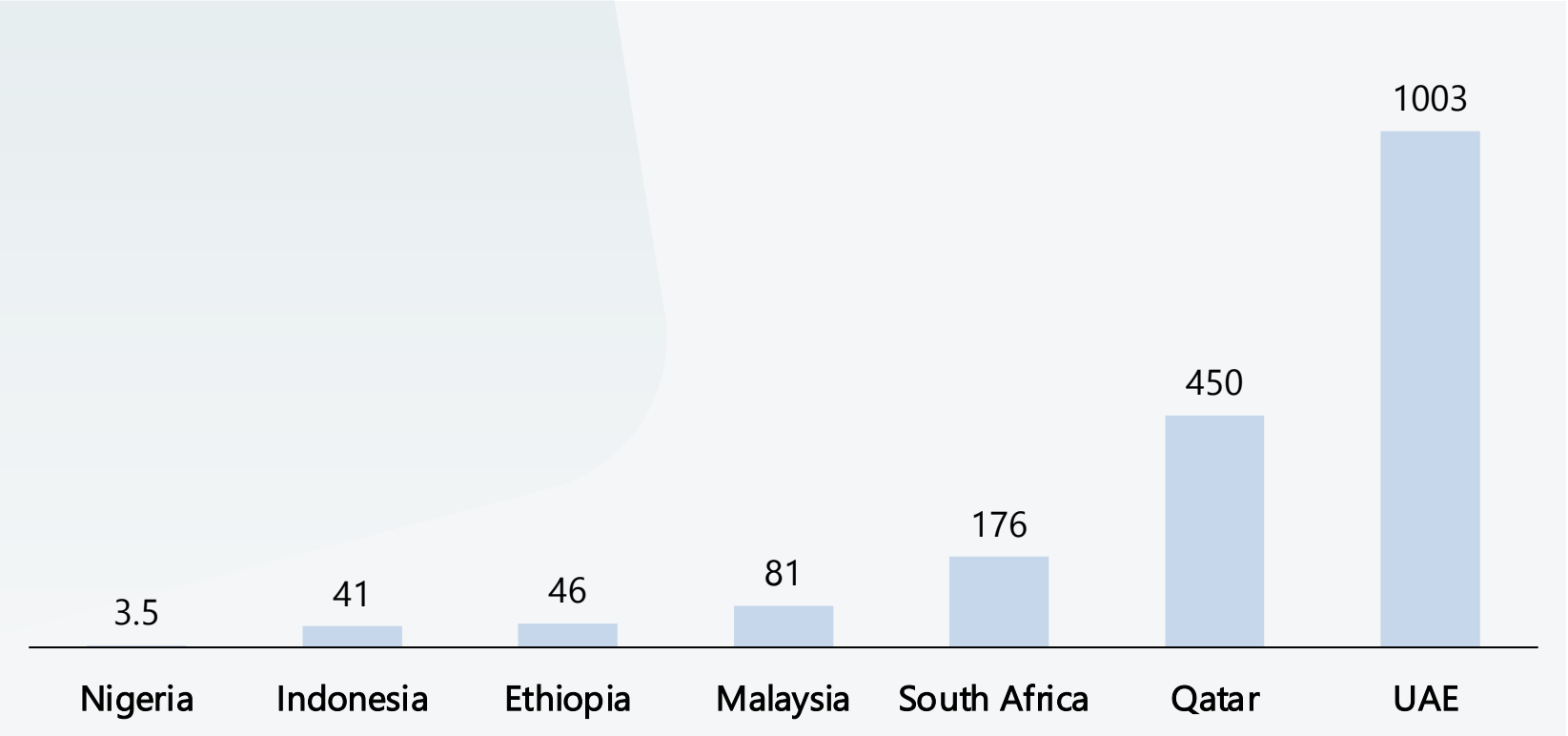
Nigeria's External Reserves (Billion US\$) (End-period)



- Reserves can finance about 5-7 months of imports

# SWF at US\$3.5 billion is meagre for Nigeria

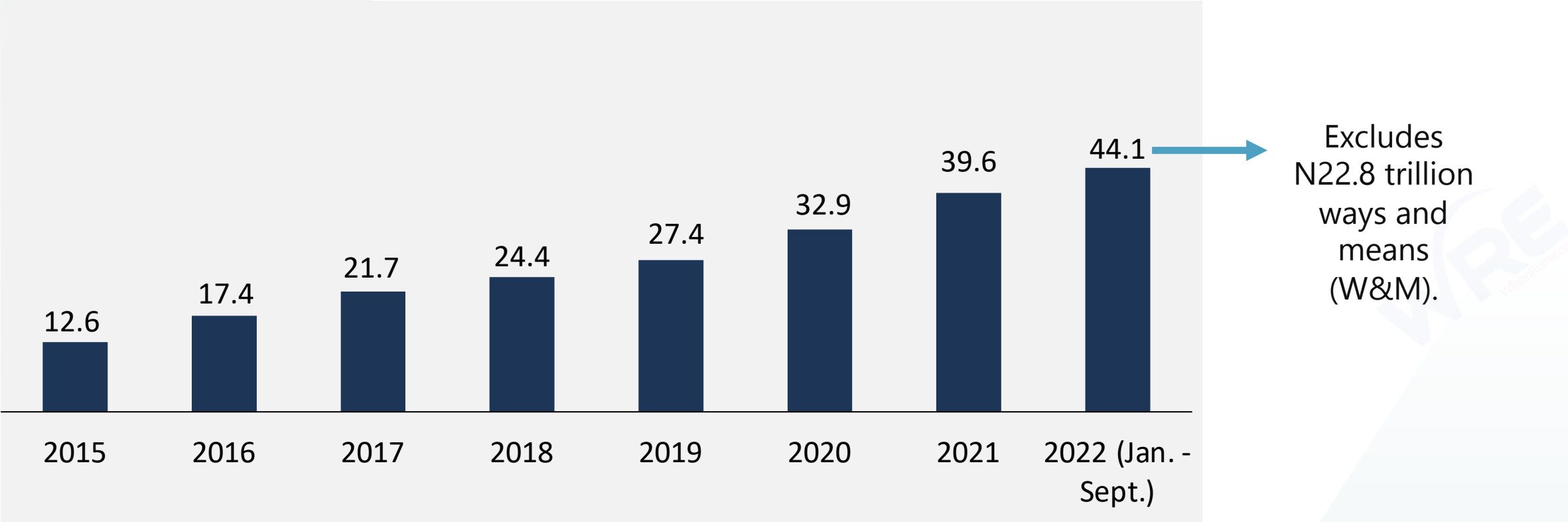
Sovereign Wealth Fund (Billion US\$)



SWF in Nigeria has grown from US\$1 billion in 2011/2012 to US\$3.5 billion. However, the fund is meagre for a resource-endowed country like Nigeria.

# Public debt stock at N66.9 trillion as at September 2022

Nigeria's total Public Debt Stock (Trillion Naira)



Although debt to GDP ratio remains at 35% in 2022, about 80% of FG revenue was used to service debt. In addition, as at 2015, debt to GDP ratio was 14%.

Shocks often end up like this...



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# Beyond external factors, there are local factors that limit growth and productivity

## The Scarcity Trinity



### Naira scarcity - its own currency

The situation appears to be improving but the “needless” Naira redesign policy created undue hardship for Nigerians.



### Dollar scarcity - foreign currency (official market)

Inability to meet demand on time in the official market triggers depreciation in the black market.



### Fuel scarcity

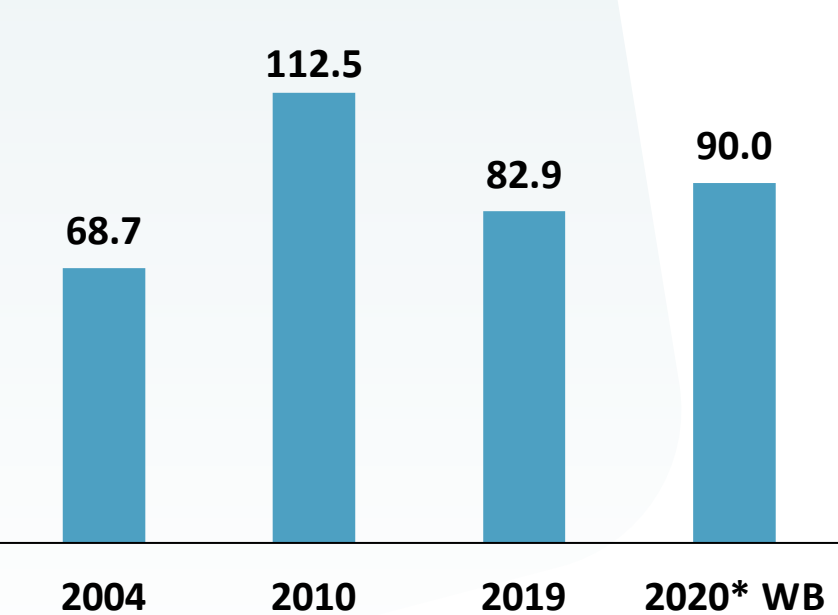
Opaque subsidy regime, high imports/shipping costs, weak infrastructure have led to perennial fuel scarcity across Nigeria.

All three are within the government's control (CBN/FG) even though private sector plays a role in the value chain. Is this a clear case of government failure? Other factors such as inadequate infrastructure, insecurity, poor power supply, poor access to affordable finance, etc are equally important.



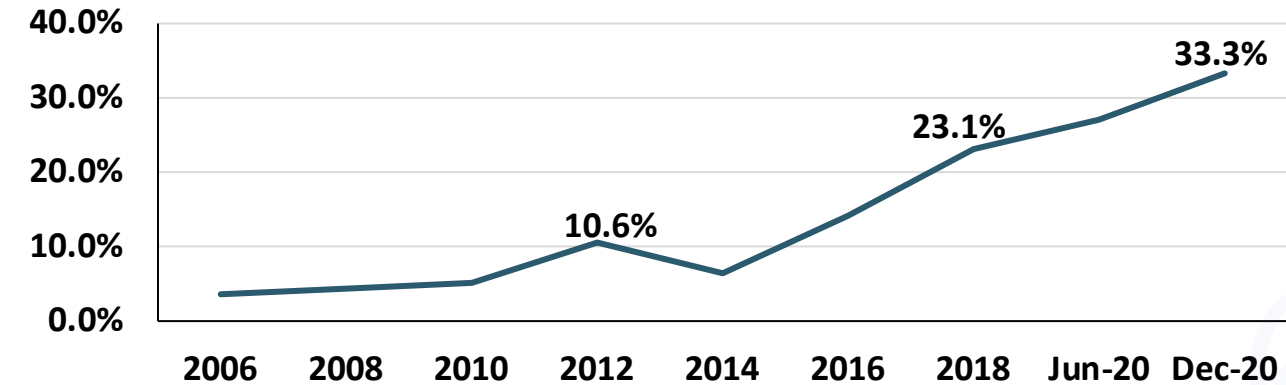
# Poverty and Unemployment are consequences of weak resilience

Nigeria's Number of Poor (million)

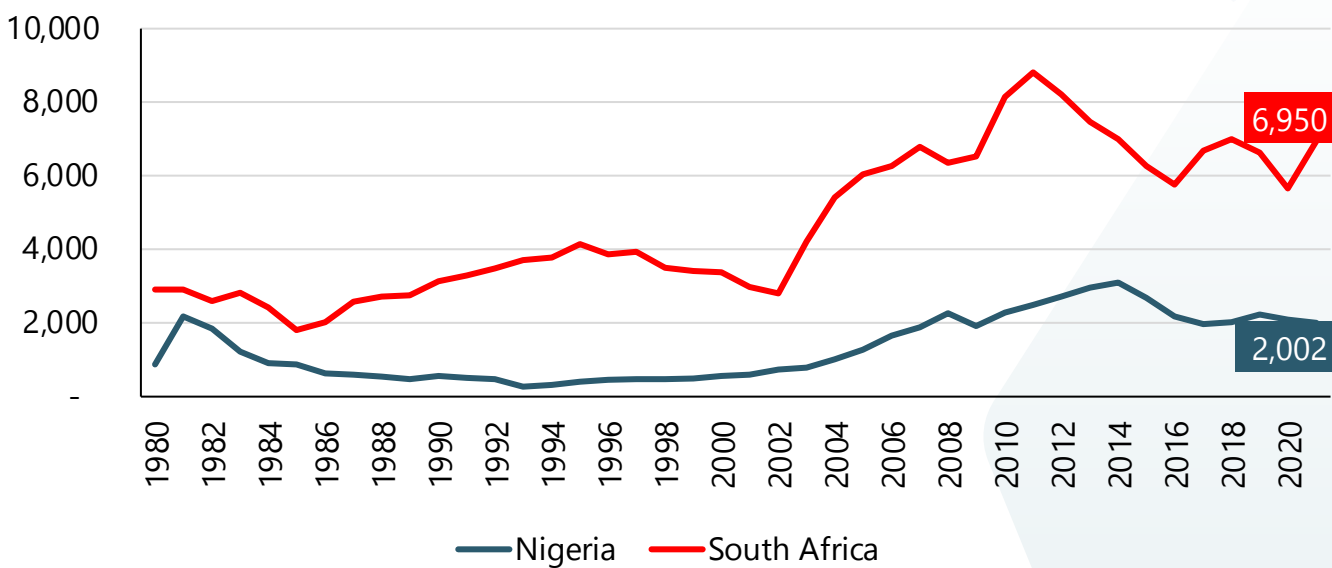


- Poverty and unemployment have been major challenges for successive administrations.
- 133 million Nigerians are multi-dimensionally poor

Nigeria's Unemployment Rate



GDP Per Capita at current prices (US\$)



# Is there hope for Nigeria in view of these challenges?

Three main factors raise hope on the future of the country.

- **An awakening of many of our young population in politics and governance:** This translates to increased participation in choosing leaders and holding them accountable.
- **The role of technology in our society:** It took many countries about 1-2 decades to move up a stage in the development ladder. Technology can help Nigeria leapfrog.
- **The recently signed 16 bills by the President:**
  - Grants powers to States to generate, transmit and distribute electricity in areas covered by the national grid.
  - Moved “railways” from the Exclusive Legislative List to the Concurrent Legislative List
  - Mandated President and Governors to submit nominees for Ministers or Commissioners within sixty days of taking the oath of office.

## Entertainment Industry

Music, arts, fashion, culture, movies continue to put Nigeria on a global map with numerous opportunities.



## Manufacturing

Less than 3% of Nigeria's manufacturing output was exported in 2022. Nigeria also has a large domestic market fed by imports of manufactured goods.



## The AfCFTA

The African Continental Free Trade Area (AfCFTA) Agreement is a golden opportunity for businesses in Nigeria to boost exports.



# Key Opportunities



## Tech-enabled firms

Technology is changing the way we do business and interact. ICT is among the fastest growing industries in Nigeria.



## Sub-nationals

Progressive sub-nationals are providing incentives to businesses across sectors to lure investments.



## Real Estate

Increasing diaspora population creates demand for real estate.

# Key options to strengthen economic resilience



## Unlock revenue prospects

Urgently curb oil theft, gold theft and mineral theft in general. Develop gas value chain. Increase tax net through a social pact with Nigerians. Phased subsidy removal. Address corruption through proper scrutiny of revenue generating agencies.

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## Inculcate savings culture

Review/amend Section 162 (3) of the Constitution which states that any amount in the credit of the federation account shall be shared across the 3 tiers of government. It is important to allow allocations to the SWF before the proceeds are shared. In addition, states governments need to establish wealth funds.

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## Improve spending efficiency

Ensure intense budget scrutiny to remove leakages and spending on wasteful projects. Link government bonds to capital projects. Social spending needs to be increased to cater for millions of low-income Nigerians. Implement e-governance reforms. Stop debt accretion via ways and means that are beyond statutory provisions

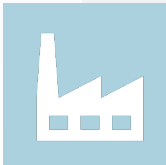
# Key options to strengthen economic resilience



## Unlock private capital

Remove growth constraints – clear forex policies, ensure tax harmonisation, tackle charges from non-state actors, PEBC and relevant agencies must create awareness on the recently signed constitutional bills, particularly the private sector components.

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## Industrialise Nigeria

- Evidence from my PhD thesis suggests areas with massive potential for income growth in the long run are tradable services (ICT, Finance and Telecoms) and manufacturing (food processing and light manufacturing). Nigeria can compete at low to mid level in manufacturing but small firms must be at the centre.
- Industrial policy must be linked with trade policies. Where the share of manufactured goods that is exported is less than 3% should be unacceptable. AfCFTA implementation strategy must be pragmatic and proactive. Rapid growth of export of manufactured goods is one of the sustainable ways to ensure reserve accretion.

# Nigeria's Post-Election Economic Outlook for 2023

- **Economic Growth & Inflation**

Nigeria's GDP will continue to grow albeit at a much slower pace in 2023 as inflation and a weaker currency bit harder on output. The Naira scarcity will slow down growth, particularly for 2023Q1. Prices will continue to rise, as long as pressures on FX, insecurity and infrastructure deficit remain. Insecurity and political uncertainty - still major concerns for investors and citizens.

- **Sectoral Performance**

Services sector will continue to drive growth in Nigeria. ICT and Finance will continue to expand. Their impact on employment, however, will remain limited. Agriculture will continue to experience growth based on high demand for food and government financial support for the sector.

# Nigeria's Post-Election Economic Outlook for 2023

- **Public Finance and Exchange Rate**

Projected revenues in the FG budget are likely to be unmet as historical performance shows. This means that debt will continue to rise, along with debt servicing cost. The CBN will continue to manage the Naira, but pressure on the currency will increase. There will be gradual depreciation in the official market. Nigeria needs to boost investors' confidence and implement an aggressive export strategy.

- **Economic and Social Inclusion**

Economic and social inclusion could worsen if there are no concrete and urgent steps to address inflation. Naira scarcity will ease in coming months but the negative effects of the demonetisation policy will continue to be felt by households and informal businesses.



**Wilson R. Erumebor**



# Thank You!

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*The views in this report are those of the author and do not represent the views of the organizations he is affiliated to.*



# Questions

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# Contact Me!



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