NIGERIA IN THE TIME OF COVID-19

Rising to the challenge

AILPA Webinar

August 27, 2020

NIGERIA
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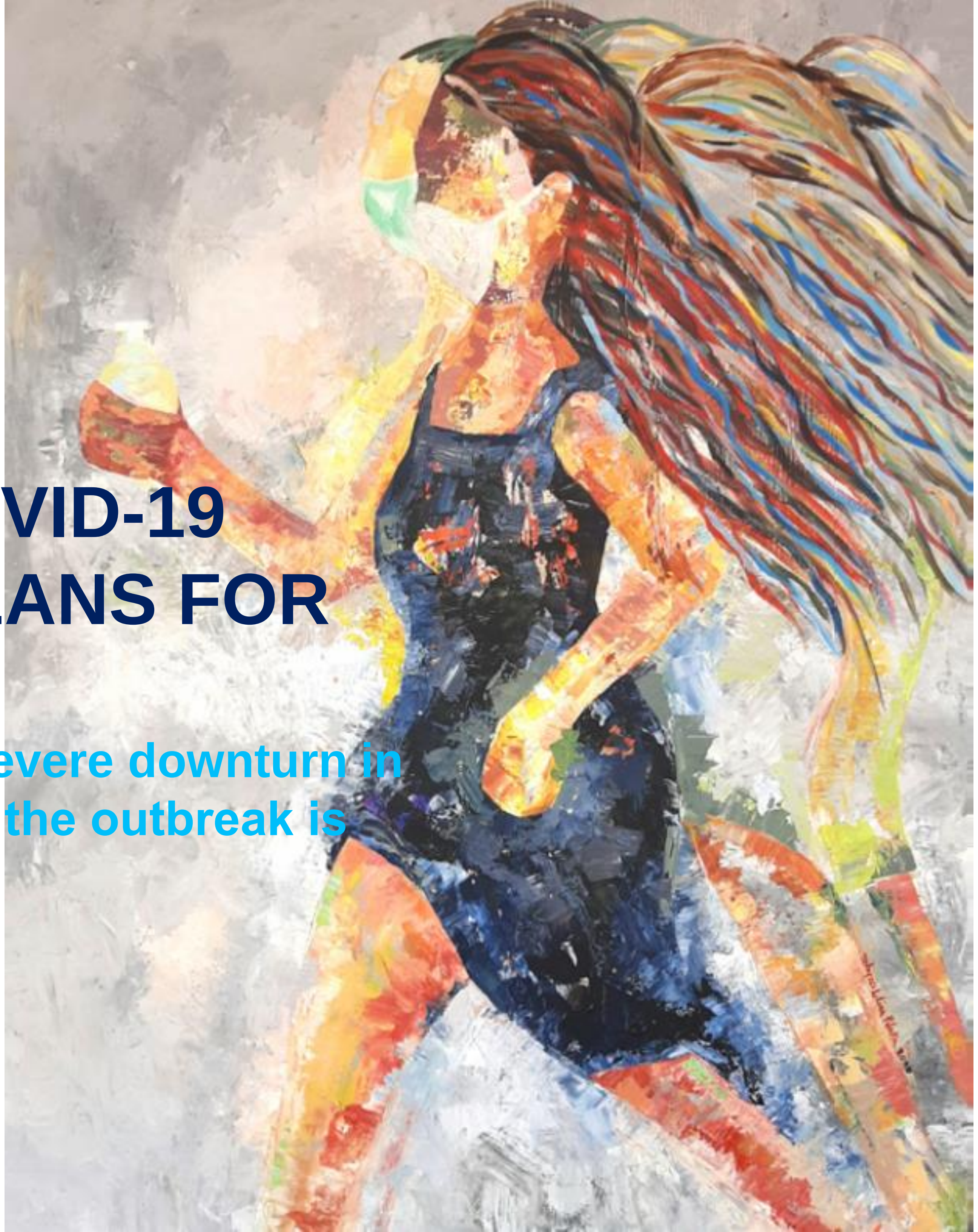
WHAT THE COVID-19 PANDEMIC MEANS FOR NIGERIA

Potentially the most severe downturn in four decades…even if the outbreak is contained



OIL PRICES HAVE DECLINED SHARPLY SINCE THE ONSET OF THE COVID-19 CRISIS

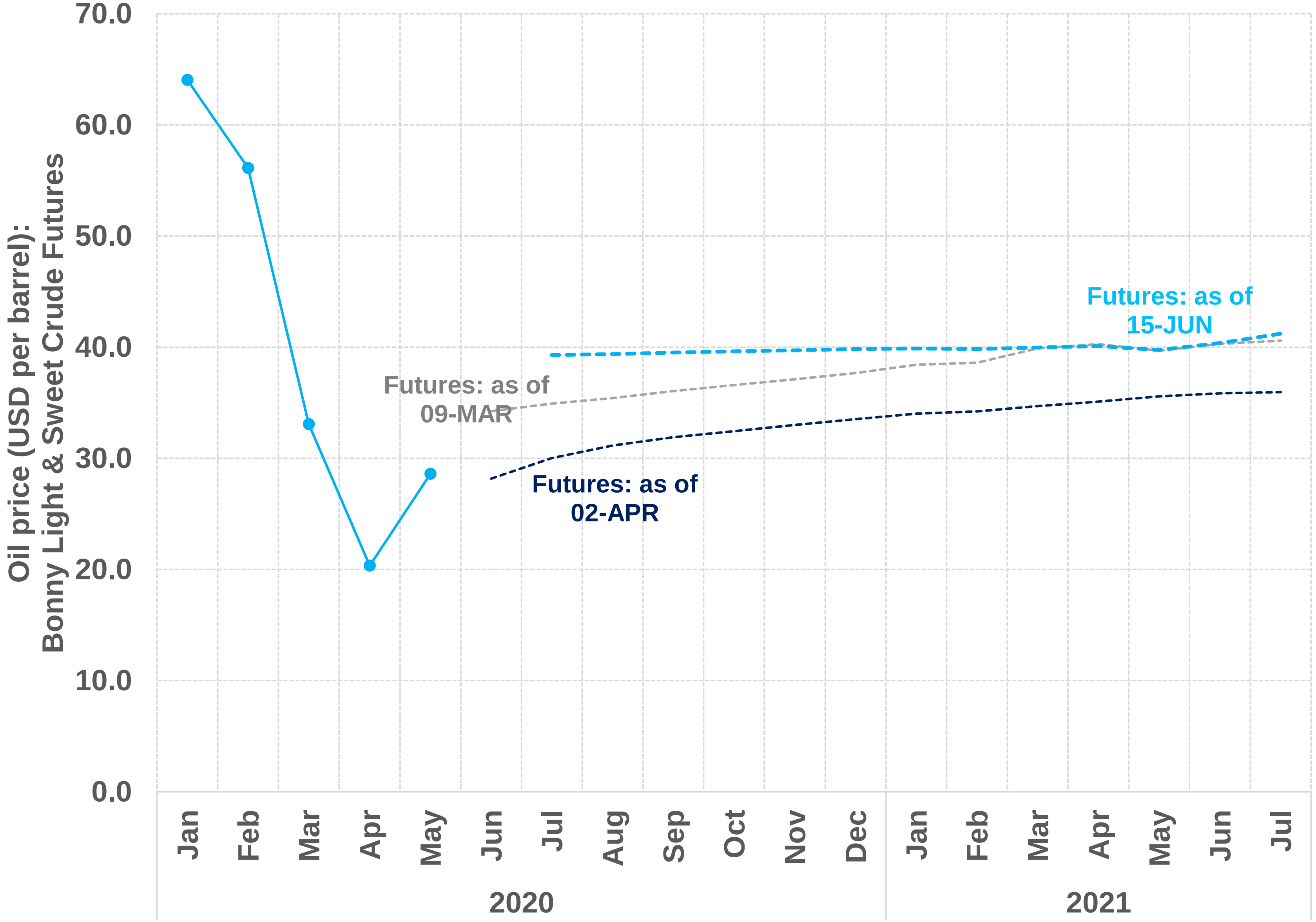
…and are likely to remain low for the foreseeable future

Oil prices remain 30% below the start of 2020

- Oil shock more severe than in 2015-16 (production is also lower)

The outlook is for a prolonged period of low oil prices, which is not in Nigeria's favor

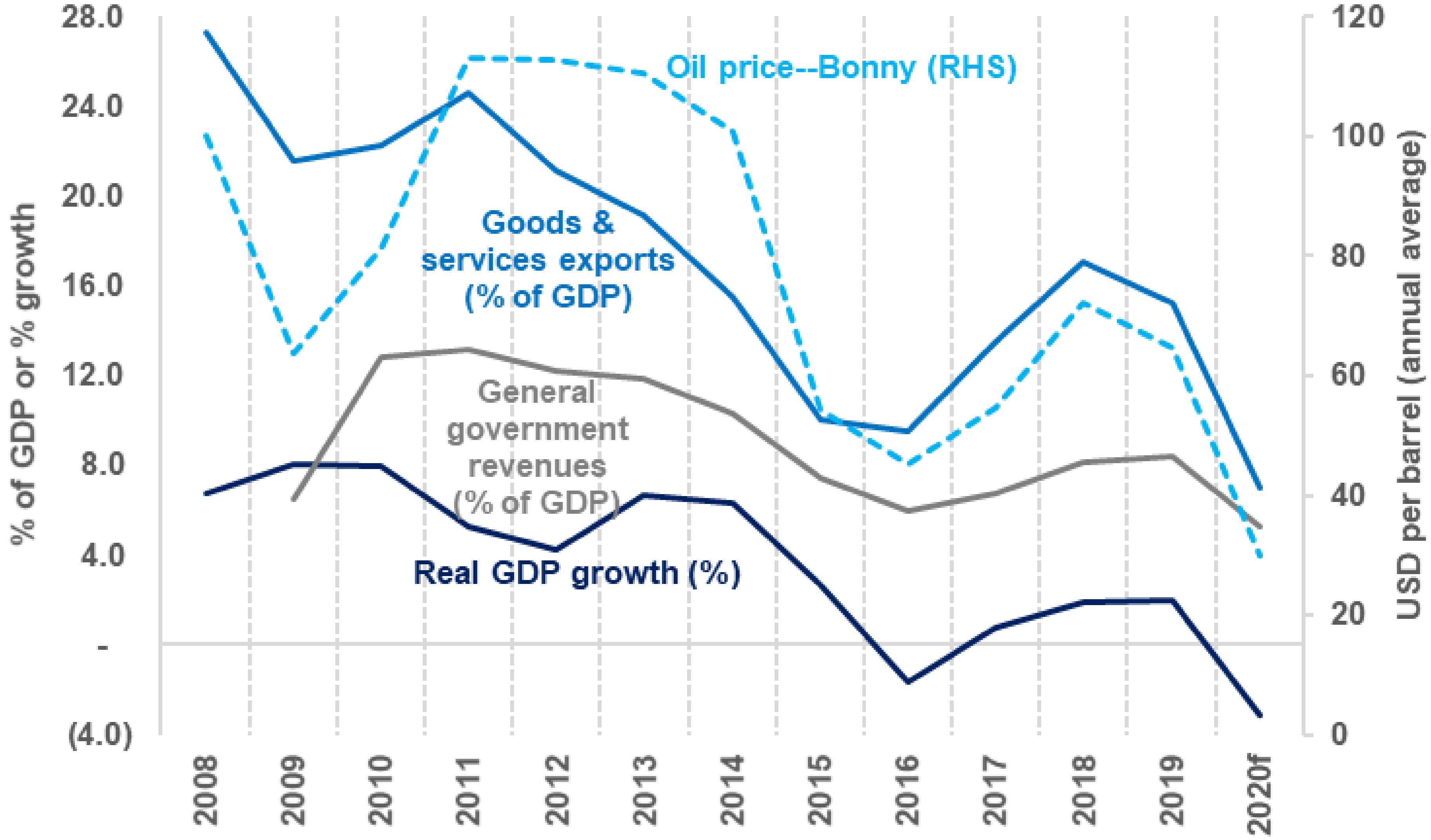
- If the price of oil futures is any guide, prices could **remain below USD 50 per barrel well into 2021**



THE COLLAPSE IN OIL PRICES IS DESTABILIZING THE ECONOMY

…affecting fiscal and external balances, and growth

- **Nigeria's economy is highly vulnerable to oil shocks.**
- A sharp decline in oil prices:
    - **Lowers exports earnings**—oil and gas represents over 80% of goods and services exports
    - **Cuts government revenues**—about 50% of general government revenues come from oil and gas
    - **Tightens private sector credit**—about 30% of bank credit concentrates in the oil and gas sector
    - **…and puts pressure on the exchange rate**
    - The nonoil sector also depends on oil sector activity.



THE PANDEMIC IS REDUCING FOREIGN REMITTANCES

…adding to the households' loss of income and consumption

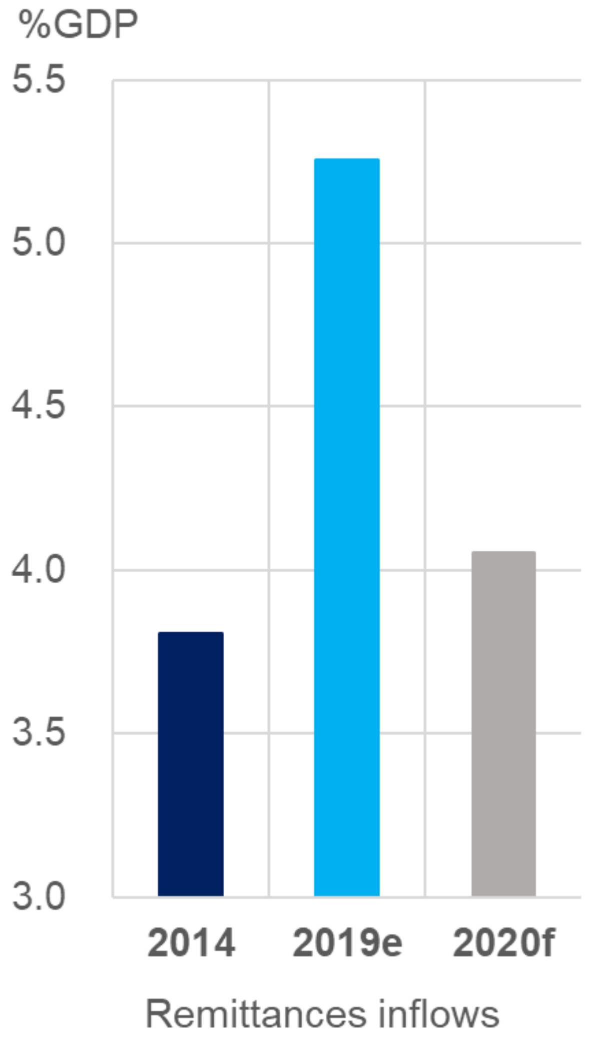
Oil price

Remittances

COVID-19

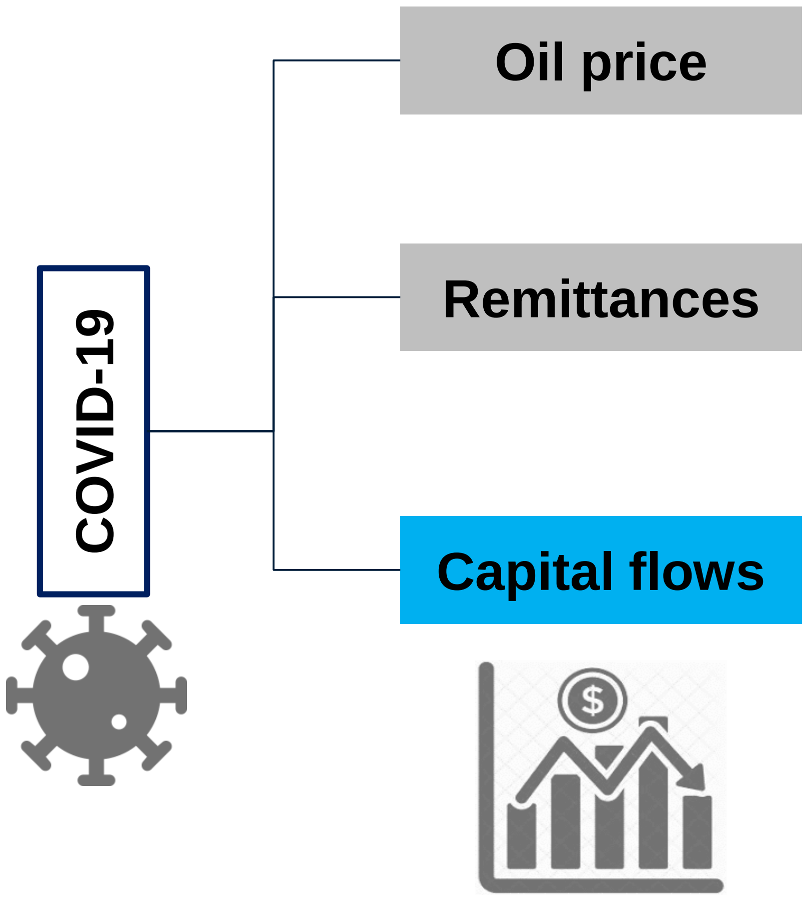
- **15-17 million Nigerians live abroad**
  - they send home over $25 billion annually
  - 53% percent of them are in Europe and North America, where rising unemployment rates is affecting incomes
- **The fall in remittances will affect household consumption**
  - 1 in 2 of Nigerians live in households that receive remittances
- **This fall will also add to the external balance pressures**
  - Foreign remittances amounted to 5% GDP in 2019…
  - …equivalent to 40 percent of oil exports

Foreign remittances are projected to decline by 25% in 2020



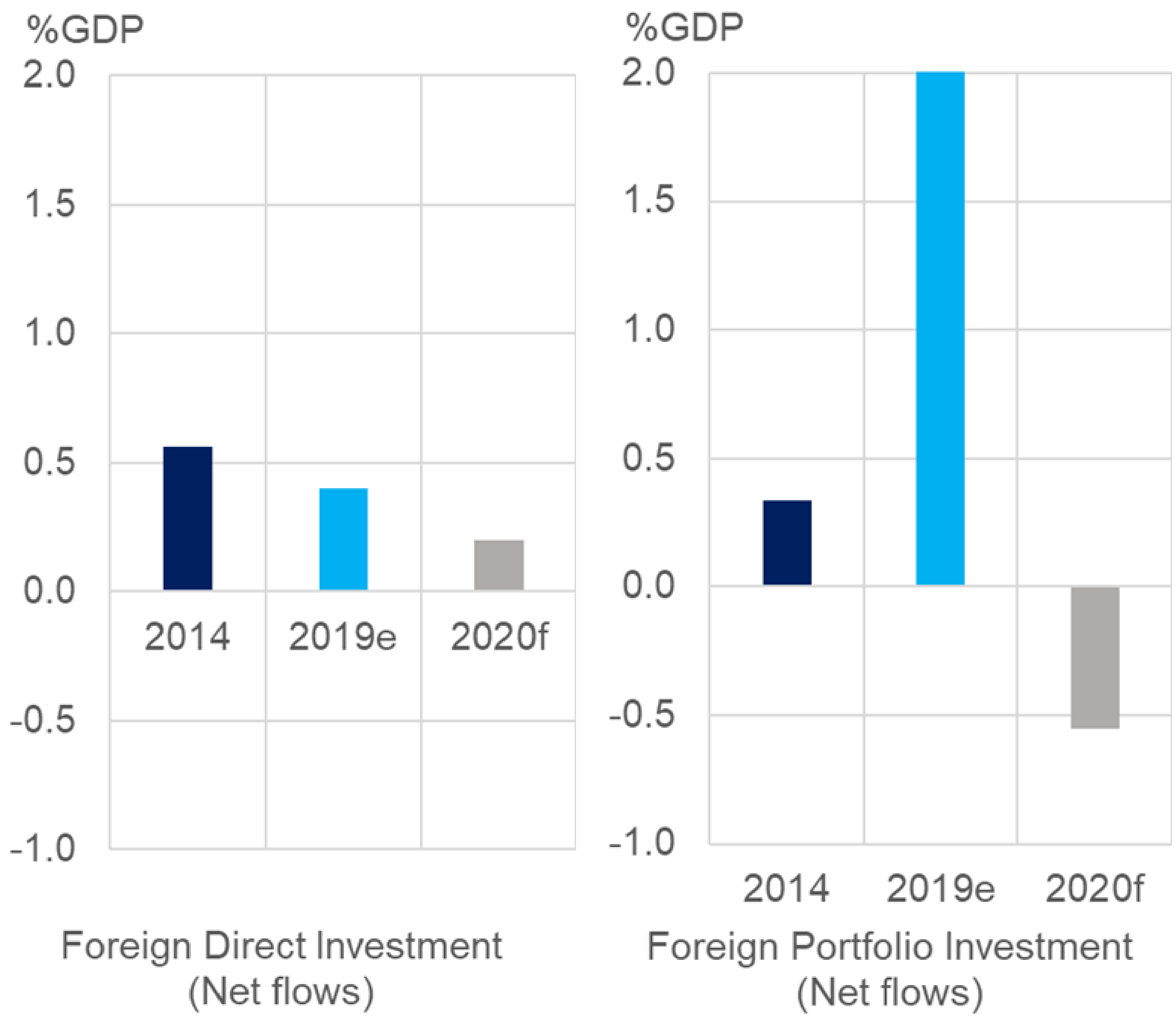
FOREIGN CAPITAL INFLOWS ARE ALSO EXPECTED TO DECLINE

…adding to the external payment pressures



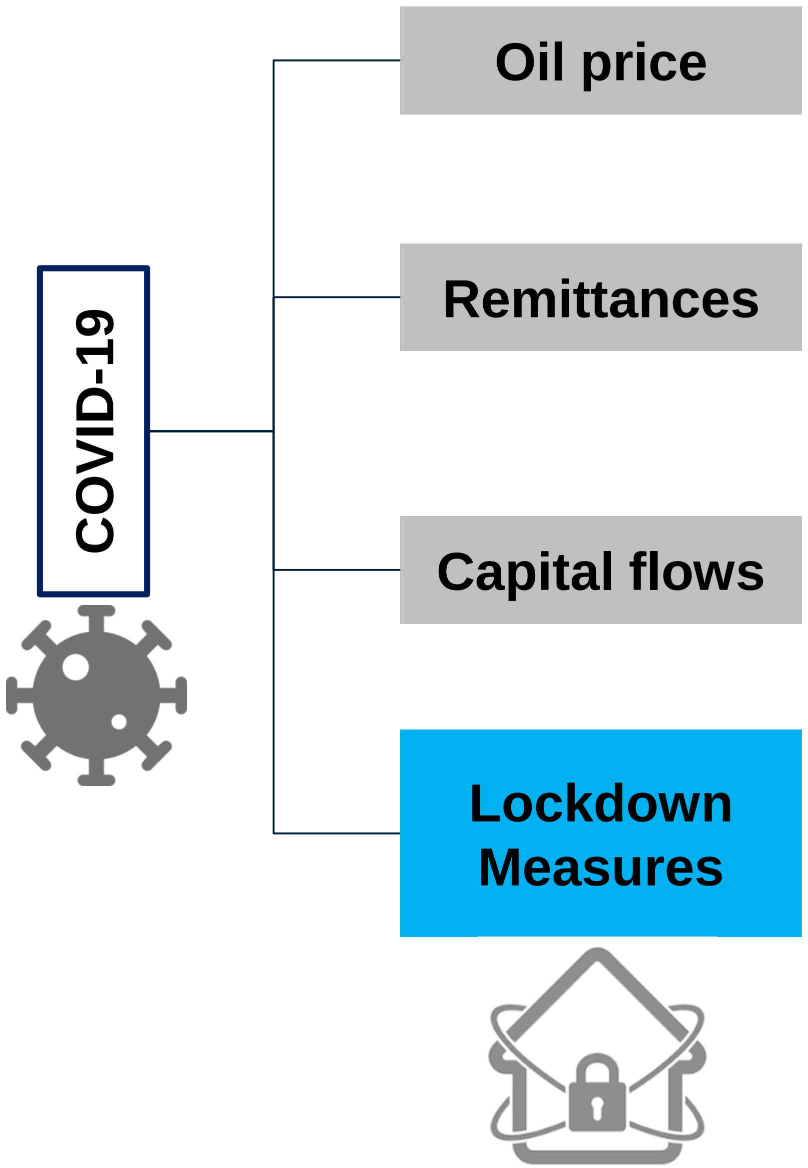
- **Foreign Portfolio Investments (FPI) are the main source of financing for Nigeria's balance of payments**
  - **This 'hot money' flows account for 2% of GDP and over 50% of foreign capital flows.**
- **Global risk aversion and policy uncertainty add to these pressures**
  - **Before COVID-19 investor confidence was already eroding and FPI inflows fell by 46% in Q1 of 2020**
- **FDI remains very low, and concentrated in the oil sector**

Capital inflows are expected to decline



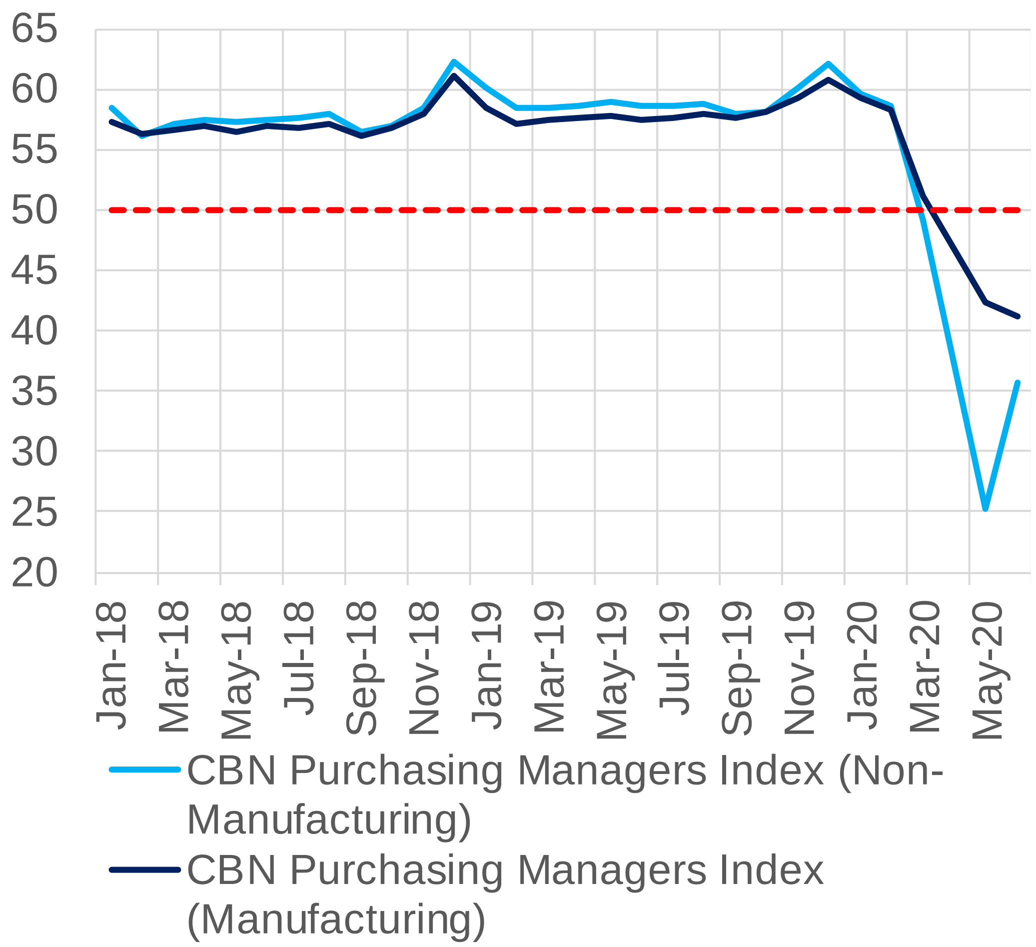
COVID-19 OUTBREAK IN NIGERIA IS IMPEDING ECONOMIC ACTIVITY

…in addition to the tragic loss of lives



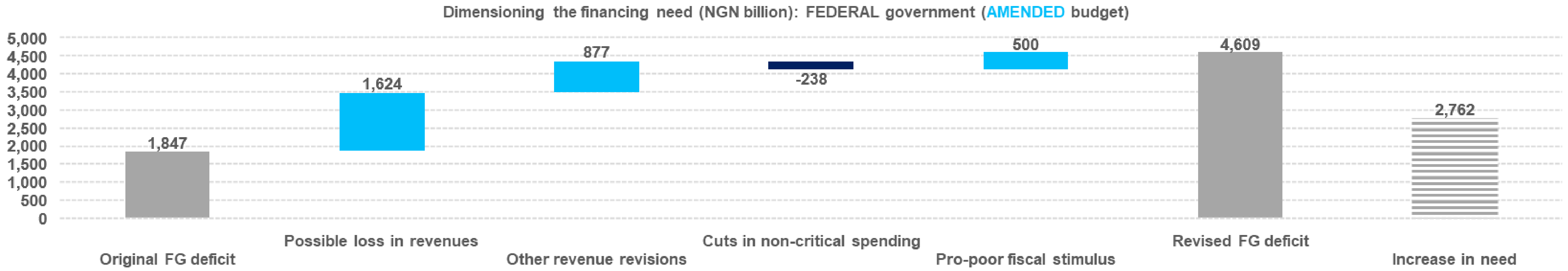
- **Containment measures**, while necessary to contain the spread of the virus, will:
  - **affect formal services** (e.g. banking sector);
  - **constrain informal sector activities** (e.g. street vendors);
  - **impede industrial production,** as getting supplies becomes more difficult.
- **Disruption of supply chains** can affect the agricultural planting season and **affect food security** later in the year.
- **Behavioral changes** will depress demand

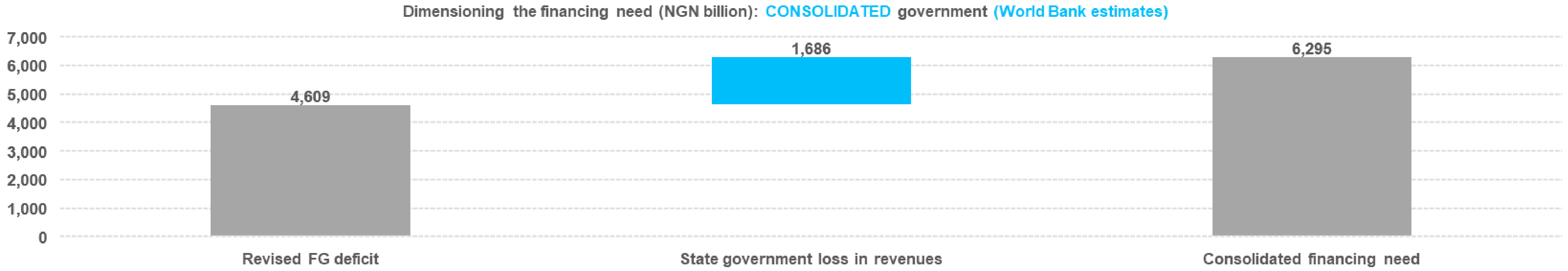
The Purchasing Managers Index declined sharply in April-June 2020



GOVERNMENT FINANCES WILL BE PARTICULARLY HARD HIT

Estimates as of August 25, 2020 (oil price assumption for 2020 = USD 42 per barrel)

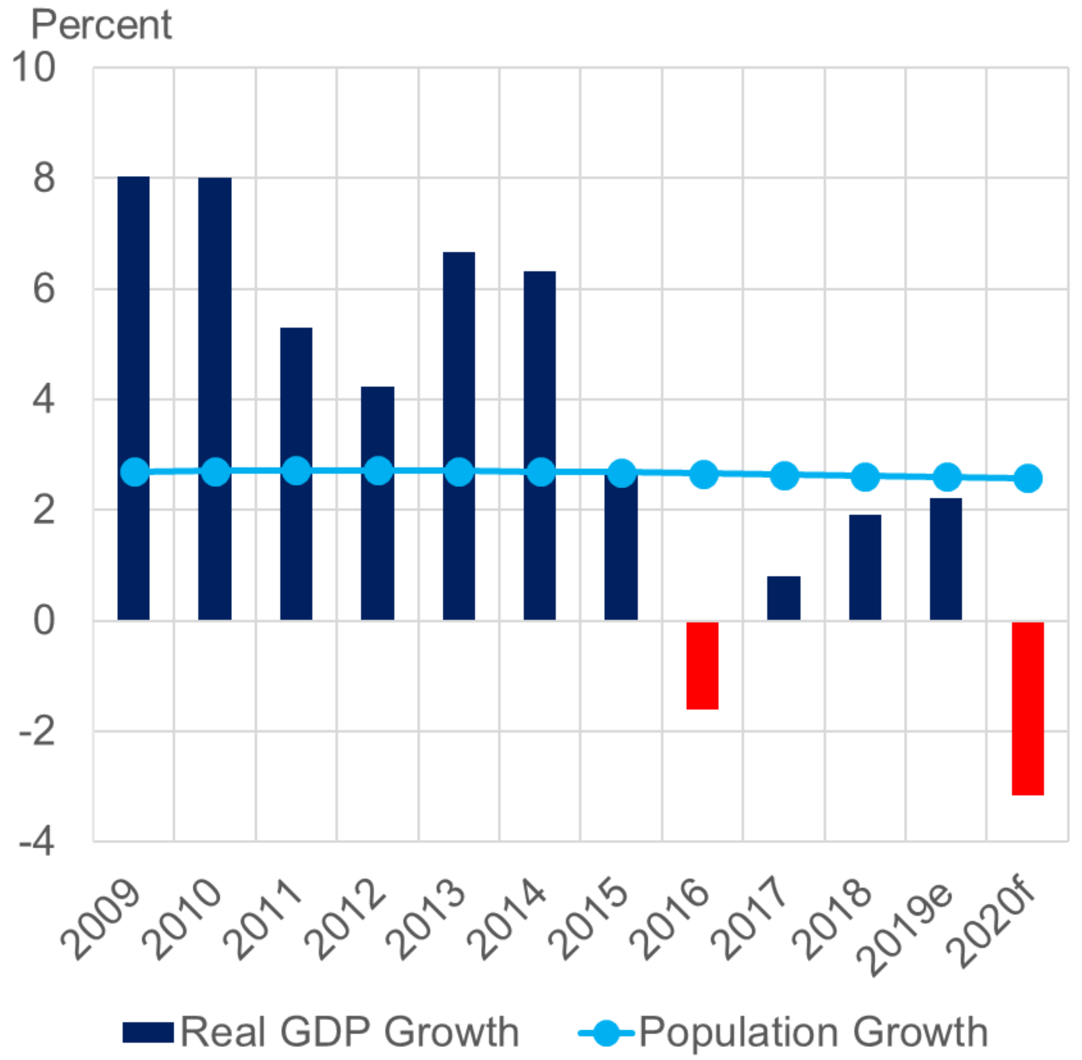




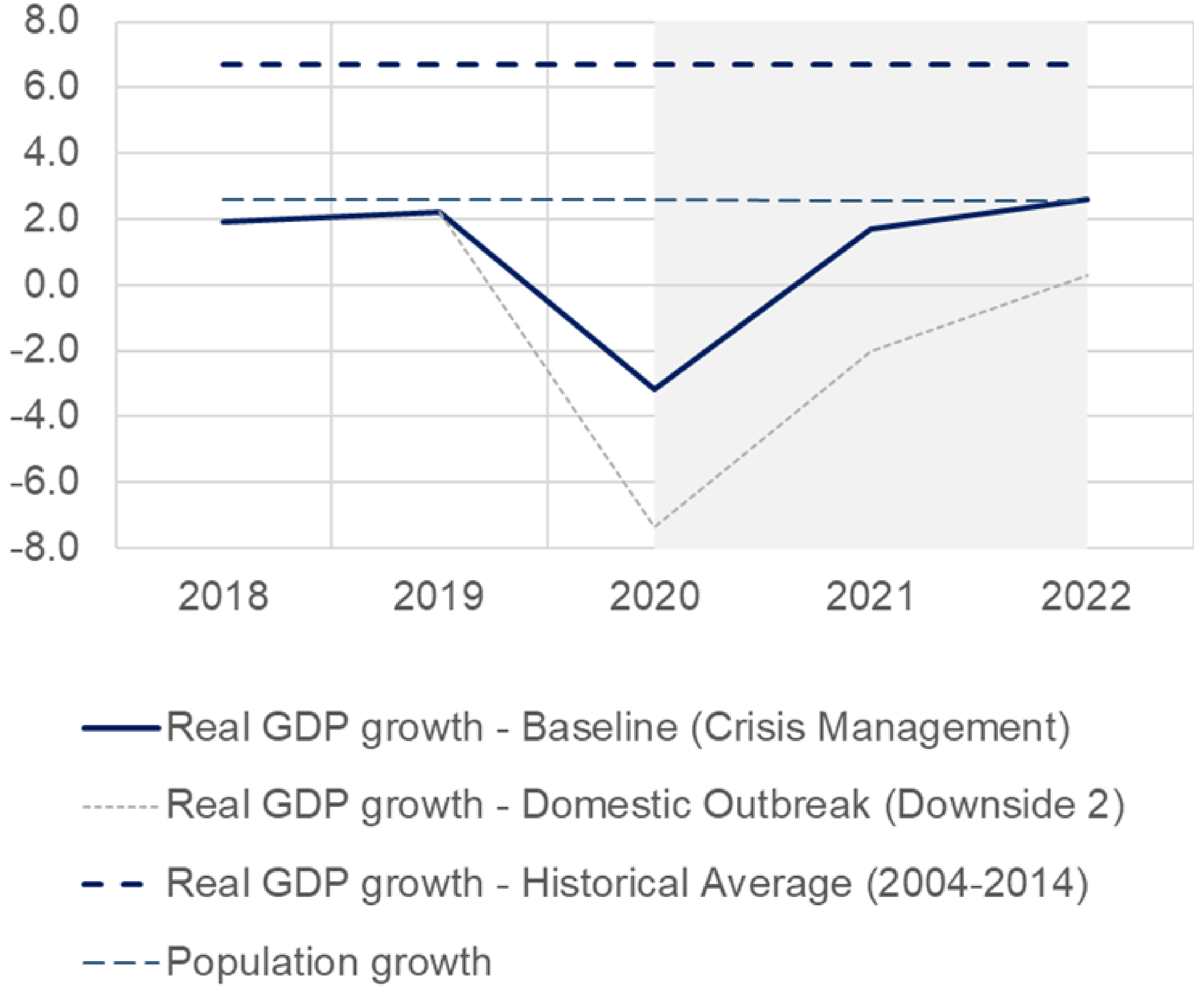
NIGERIA'S ECONOMY IS EXPECTED TO CONTRACT IN 2020

…possibly triggering the worst recession in four decades

GDP growth is likely to contract by over 3% in 2020

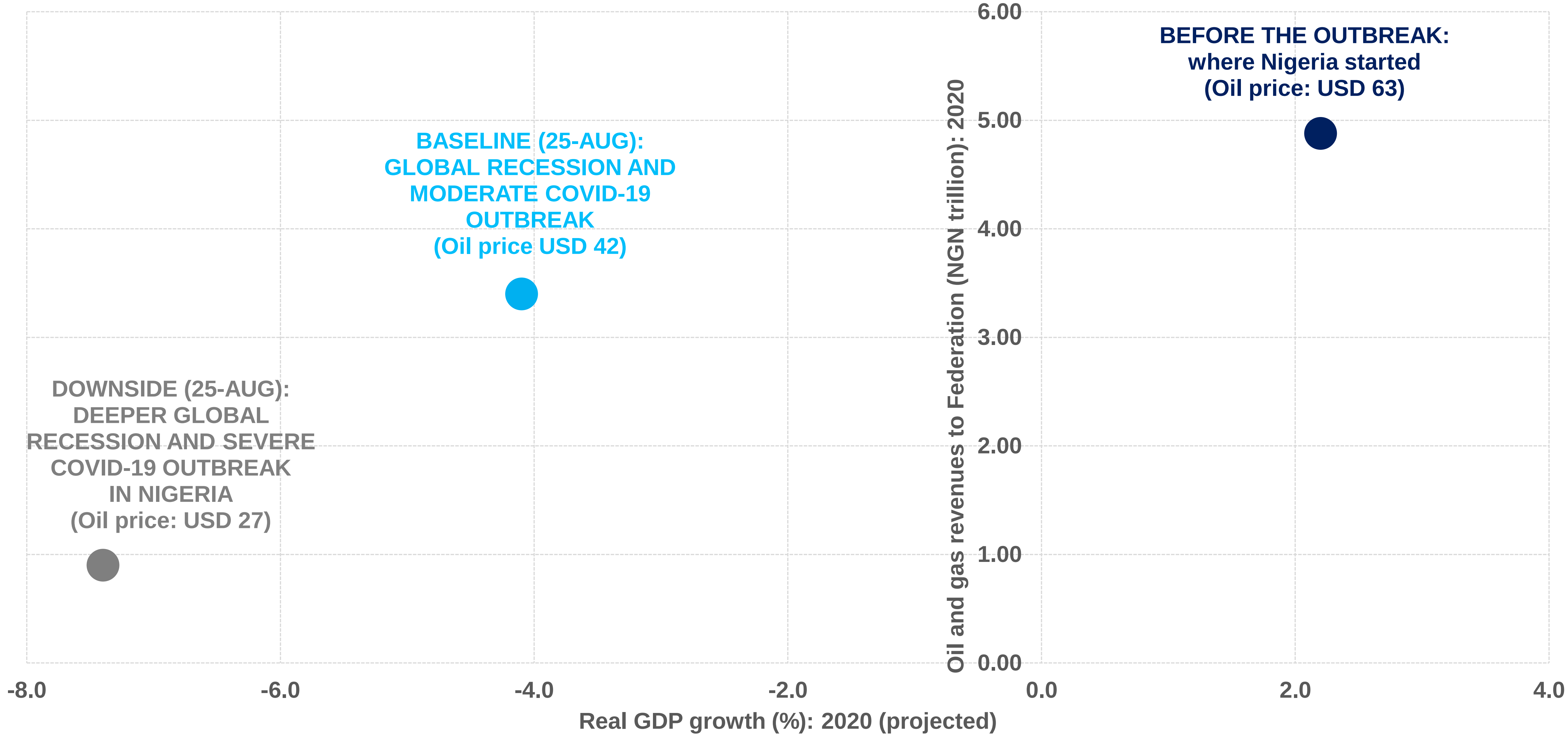


The speed of the recovery would depend on the policy response

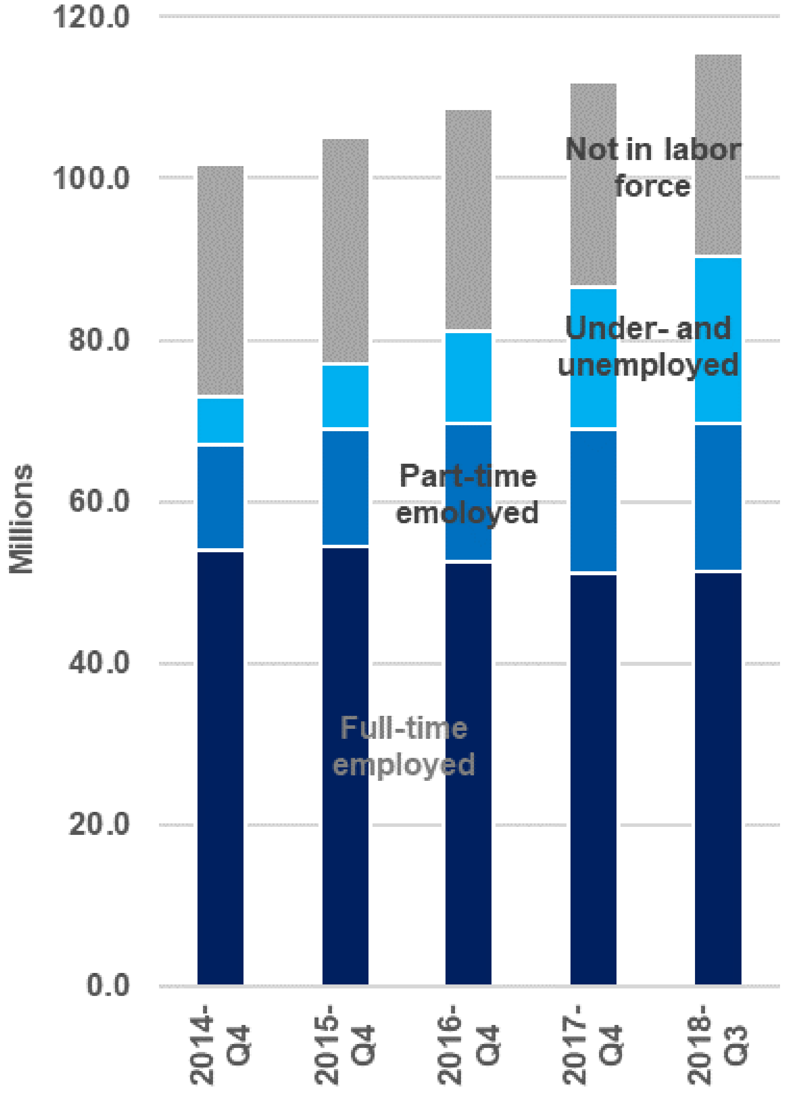


…AND THE CONTRACTION COULD BE EVEN MORE SEVERE

…if the global recession is deeper



JOBS, ALREADY SCARCE FROM THE 2016 RECESSION, WILL BE THAT MUCH HARDER TO FIND



A RAPIDLY GROWING WORKING AGE POPULATION

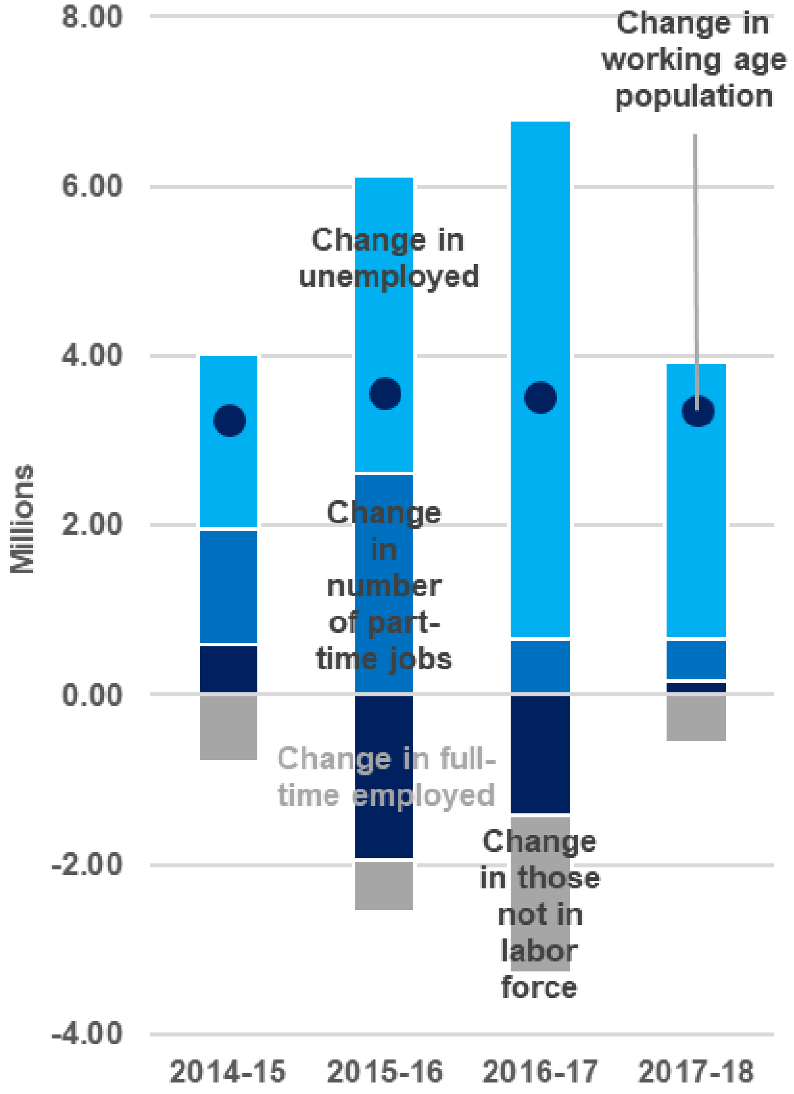
- Growing by about 3.5 million per year from 101 million in 2014 to 115 million by 2018

AN EXPANDING POOL OF UNDER AND UNEMPLOYED

- Between 2014 and 2019, 19 million Nigerians entered the labor force and **only 4 million found a job…**
- …while 15 million ended up under or unemployed

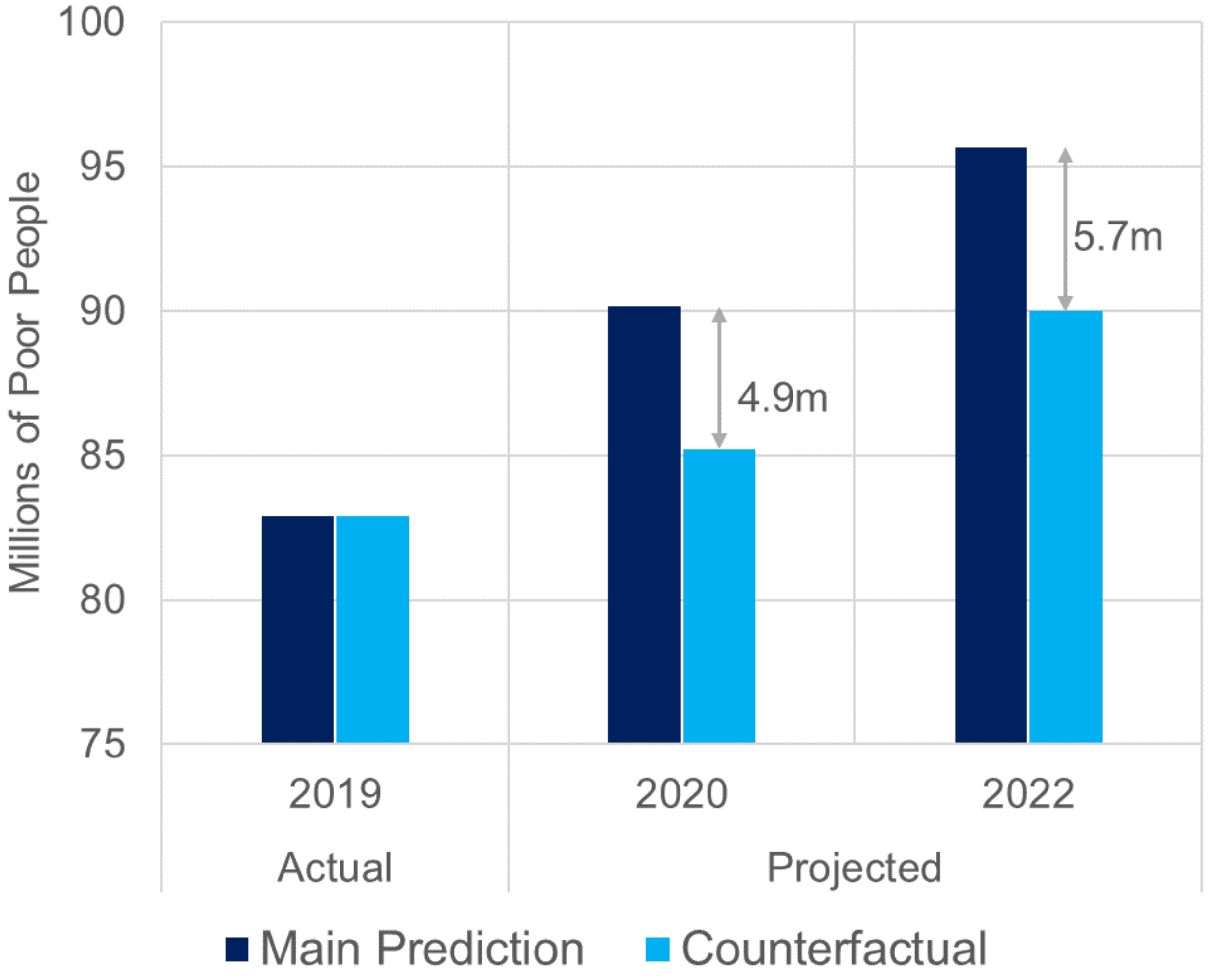
A NET LOSS OF FULL-TIME JOBS DURING THE RECESSION AND ONLY A SLOW RECOVERY SINCE

- In 2016 and 2017 nearly 3.5 million full-time jobs were lost…
- …and many more individuals of working age entered the labor force



MANY NIGERIANS ARE EXPECTED TO FALL INTO POVERTY AS INCOMES FALL WHILE POPULATION CONTINUES TO RISE

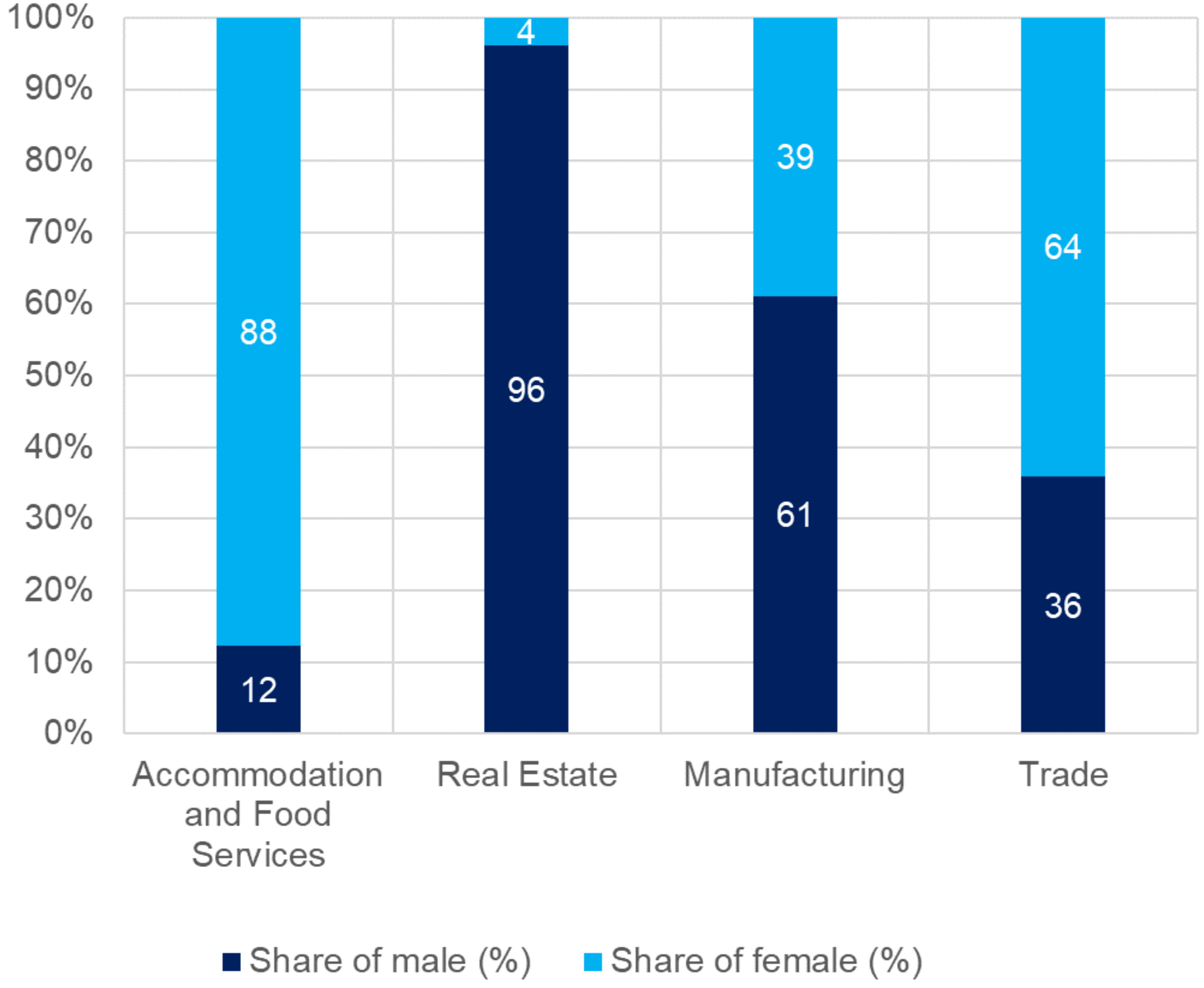
The share of households living in poverty is expected to increase significantly due to COVID-19



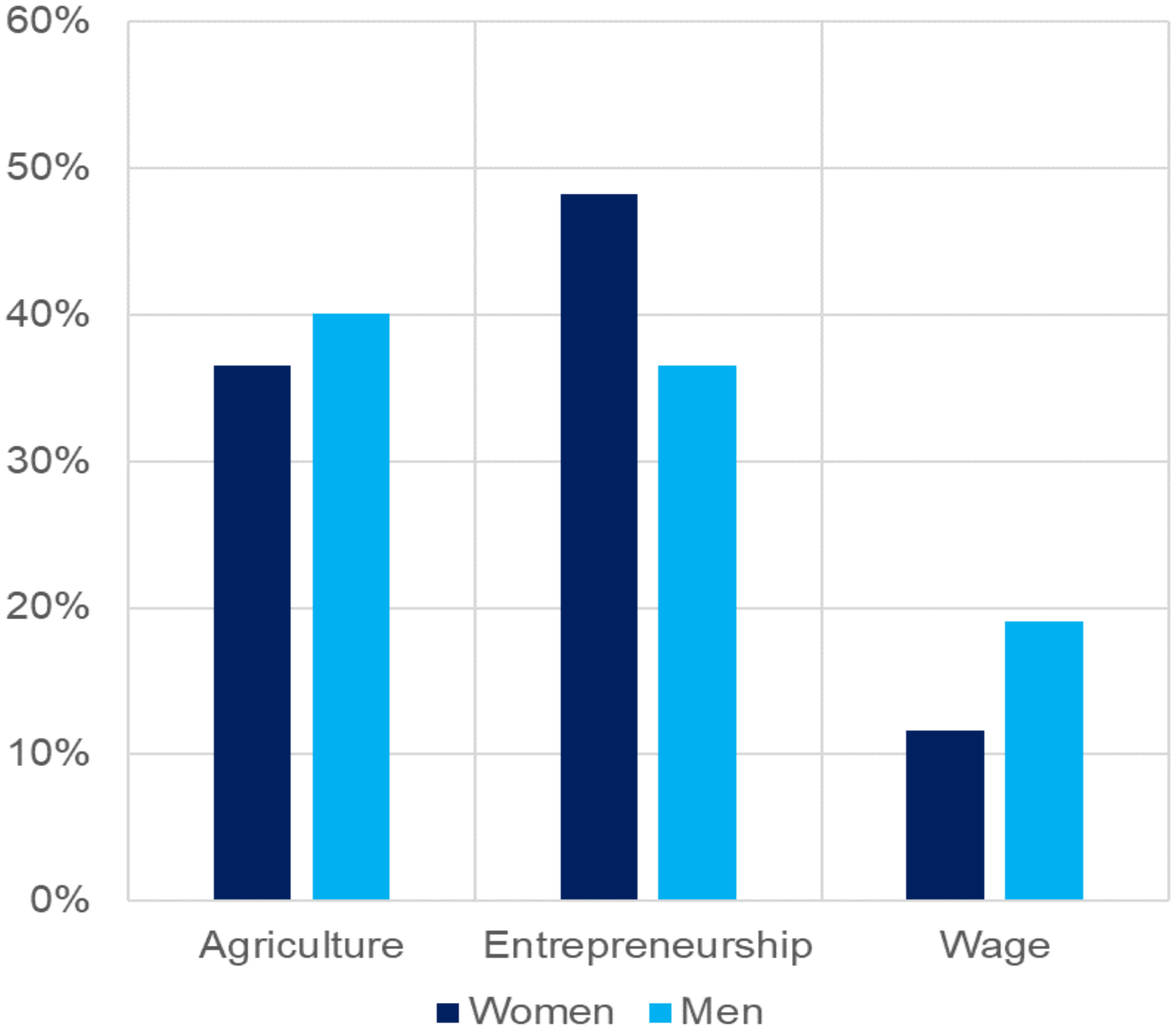
- Without the COVID-19 shock (the counterfactual scenario), about 2 million Nigerians were expected to fall into poverty in 2020 as population growth outpaces economic growth
- With COVID-19, the recession is likely to push an additional 5 million Nigerians into poverty in 2020, bringing the total newly poor to 7 million this year
- This implies an increase in the total number of poor people in Nigeria from about 90 million in 2020 to about 96 million in 2022
- The following factors help explain this increase in poverty:
  - Having a vulnerable employment;
  - Receiving remittances; and
  - Being already poor.

WOMEN AND WORKERS IN THE INFORMAL SECTOR ARE LIKELY TO BE MORE AFFECTED

9.2 million female workers in Nigeria earn their living in sectors exposed to COVID-19



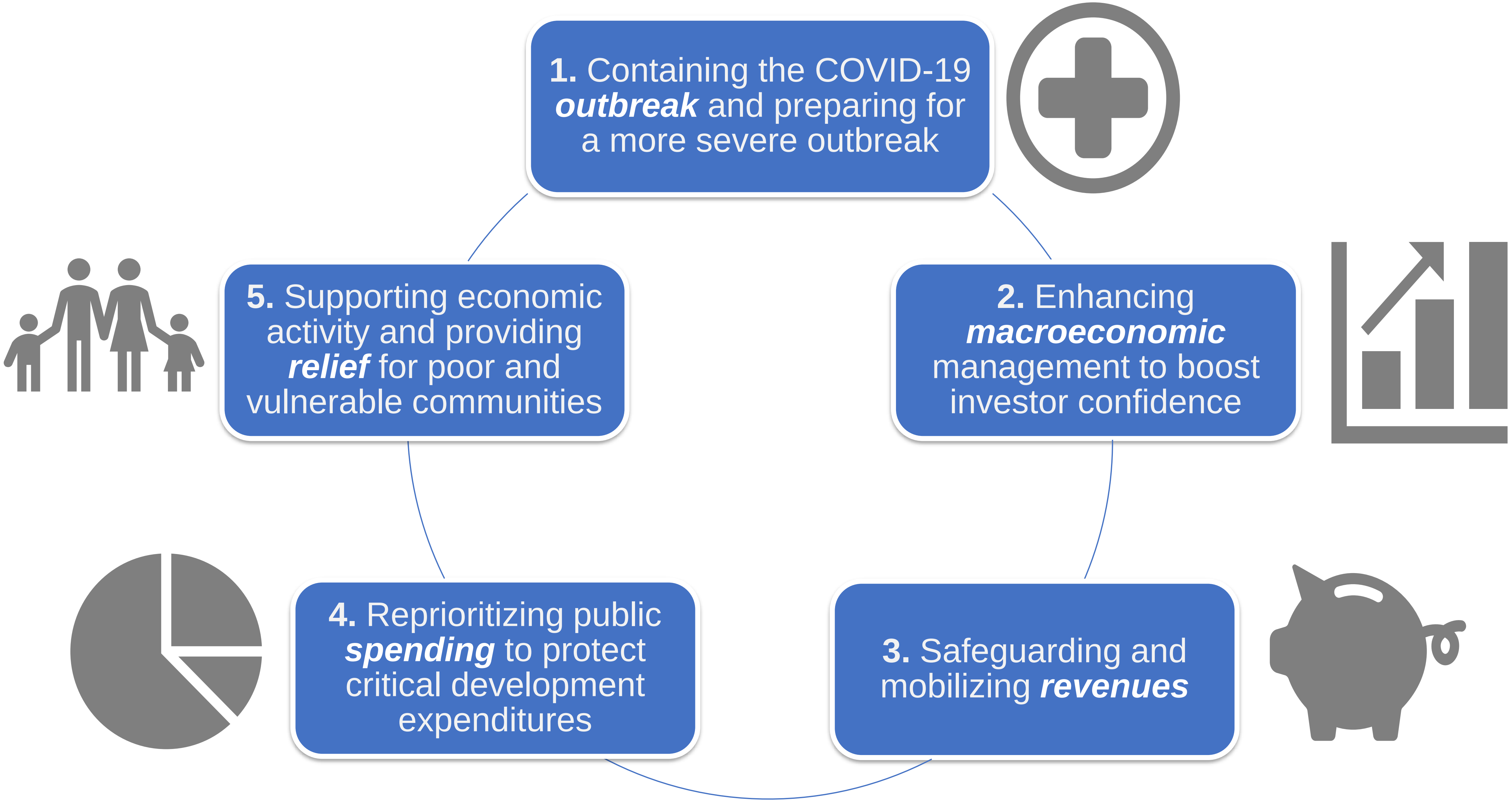
More working women are entrepreneurs rather than wage earners



AN UNPRECEDENTED CRISIS REQUIRES AN EQUALLY UNPRECEDENTED POLICY RESPONSE

…but also presents an unique opportunity

FIVE POLICY AREAS TO MITIGATE THE IMPACTS OF COVID-19 AND LAY FOUNDATIONS FOR A STRONG RECOVERY



1 CONTAINING THE OUTBREAK AND PREPARING FOR A MORE SEVERE OUTBREAK

NEAR-TERM OPTIONS (3 to 6 Months)

- Continue improving **surveillance** and testing capacity.
- Ensure provision of necessary **protective gear** for health workers; upgrade isolation and treatment **facilities**.
- Strengthen **community engagement** to facilitate flows of credible information on, e.g., social distancing, wearing of masks, and other international best practice recommendations.
- Improve the **referral network system**, including diagnostic (laboratory), and treatment and care (hospitals).

MEDIUM-TERM OPTIONS (6 to 15 months)

- Scale up coverage of life and health **insurance** to provide an additional indemnity and safety net.
- Ensure safe resumption of non-emergency **primary care functions**, such as vaccinations and preventive care.

2 ENHANCING MACROECONOMIC MANAGEMENT TO BOOST INVESTOR CONFIDENCE

NEAR-TERM OPTIONS (3 to 6 Months)

- Unify **exchange rates** into a single window, and increase exchange rate flexibility now, before foreign exchange reserves are further depleted and pressures mount for a much larger and disruptive devaluation that would hurt the poor
- Ensure clear separation and improved coordination of **fiscal, financial, and monetary** policies
- Define measures for rescheduling and restructuring the loans of borrowers affected by COVID-19 and **heighten monitoring** of bank assets and the effectiveness of temporary forbearance
- Ease **foreign exchange** restrictions to limit inflationary pressures and increase supply of food and key staples (e.g., health-related products).

MEDIUM-TERM OPTIONS (6 to 15 months)

- Refocus management of monetary policy toward the primary objective of **price stability**
- Phase out land **border** closures to limit inflation and direct private sector development to more competitive ends
- Continue making management of **public debt** more transparent
- Review regulations that affect **bank recovery** and resolution planning
- Review prudential requirements related to bank sales of non-performing loans to **AMCON** and similar companies to transparently streamline the process for efficient resolution of nonperforming loans

3 SAFEGUARDING AND MOBILIZING REVENUES

NEAR-TERM OPTIONS (3 to 6 Months)

- Ensure business continuity of revenue collecting agencies and facilitate tax payments through online platforms.
- Enhance the collection of oil and gas revenues and communicate a clear timeline for repayment of nonoil tax relief measures at both federal and subnational tiers of government.
- Increase the transparency of oil and gas revenue reporting through regular publication of financial reports audited financial statements to formulate the reform agenda

MEDIUM-TERM OPTIONS (6 to 15 months)

- After the crisis, accelerate domestic revenue mobilization reforms (review and eliminate revenue-leaking incentives; adjust excise duties from, e.g., alcohol, cigarettes, and fuel; and introduce measures to counter international tax avoidance by amending the international tax rules related to corporate and personal income taxes, VAT, and capital gains taxes)
- Enhance oil-revenue remittances by managing unbudgeted deductions and underpayments by NNPC
- Introduce new petroleum industry legislation to safeguard oil revenues and strengthen the management, governance, and competitiveness of the oil sector.

4 REPRIORITIZING PUBLIC SPENDING TO PROTECT CRITICAL DEVELOPMENT EXPENDITURES

NEAR-TERM OPTIONS (3 to 6 Months)

- Ensuring that **execution of the 2020 Amended Budgets** and both federal and state COVID-19 stimuli are effective and transparent
- Create fiscal space by ensuring full implementation of the new **market-based gasoline** pricing mechanism
- Accelerate the implementation of the **Power Sector Recovery Program**, including reducing electricity tariff shortfalls while protecting the poor
- Continue tightening **fiscal coordination** across tiers of government to ensure the most efficient use of very scarce fiscal resources

MEDIUM-TERM OPTIONS (6 to 15 months)

- Formulate and adopt **COVID-19–responsive budgets** for 2021, with fiscal stimulus measures to support economic recovery
- Identify fiscal savings through, e.g., evaluation of **off-budget** federal government spending
- Roll out the **Treasury Single Account** to include all federal government entities and agencies
- Expand the coverage of the expenditure commitment management and control module of the **GIFMIS to cover all expenditures**, budgetary and nonbudgetary, of Federal ministries, departments, and agencies
- Accelerate action on the recommendations of PEFA and PIMA exercises to strengthen **public financial management**

5 SUPPORTING ECONOMIC ACTIVITY AND PROVIDING RELIEF FOR POOR AND VULNERABLE COMMUNITIES

NEAR-TERM OPTIONS (3 to 6 Months)

- Issue guidelines for **adapting procurement** procedures to support and encourage SMEs to participate in public procurement
- Increase cash, basic services, and **livelihood support** to poor and vulnerable households
- Ensure **food security** and safe functioning of food supply chains for poor households

MEDIUM-TERM OPTIONS (6 to 15 months)

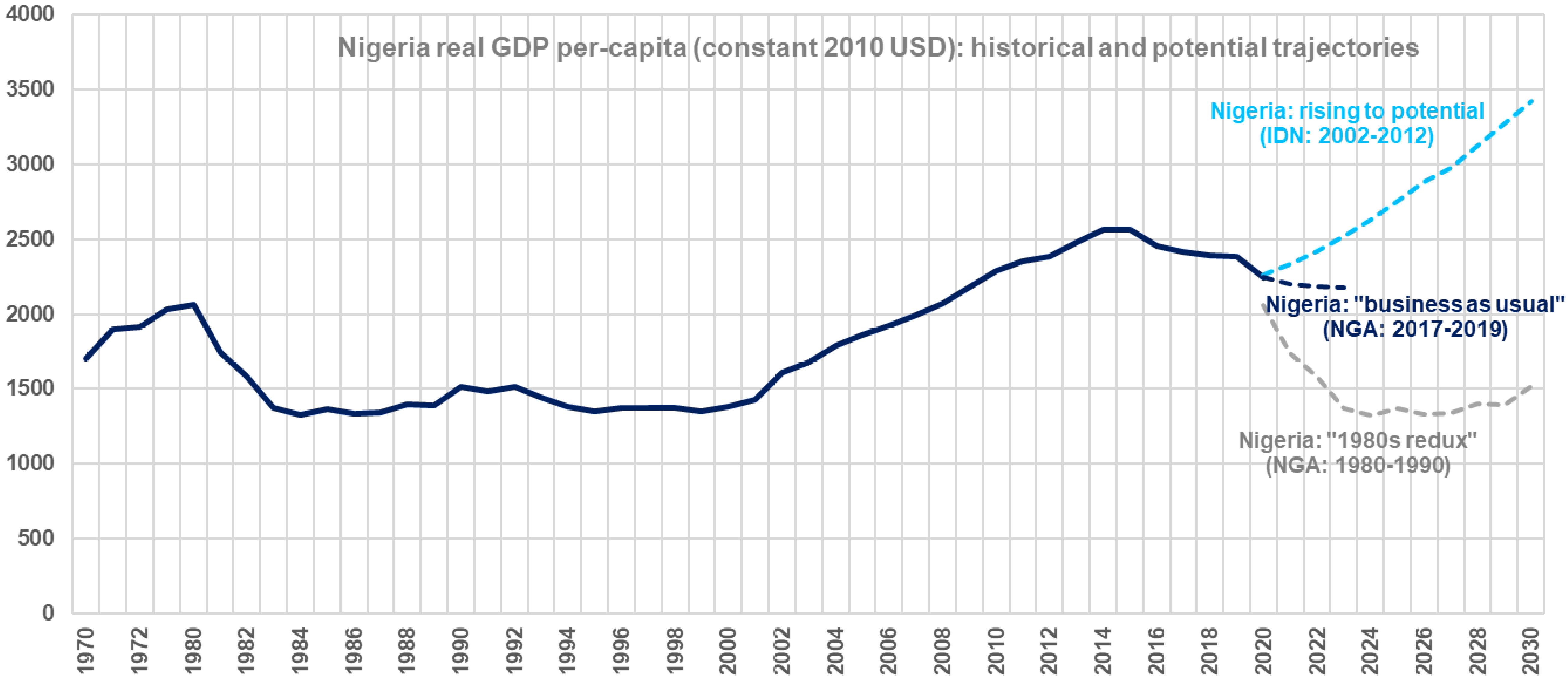
- Facilitate recovery and enhance capabilities of SMEs by **targeting credit support** to distressed and vulnerable enterprises; and providing one-off grants to SMEs, to cover operational costs and IT solutions
- Activate **e-procurement**
- Increase the efficiency of social protection spending by improving both traditional and nontraditional **targeting methods**, such as geographical, categorical, or community-based targeting, with delivery methods that are consistent with social distancing

A LONGER TERM PERSPECTIVE

Nigeria is at a potential historical inflection point

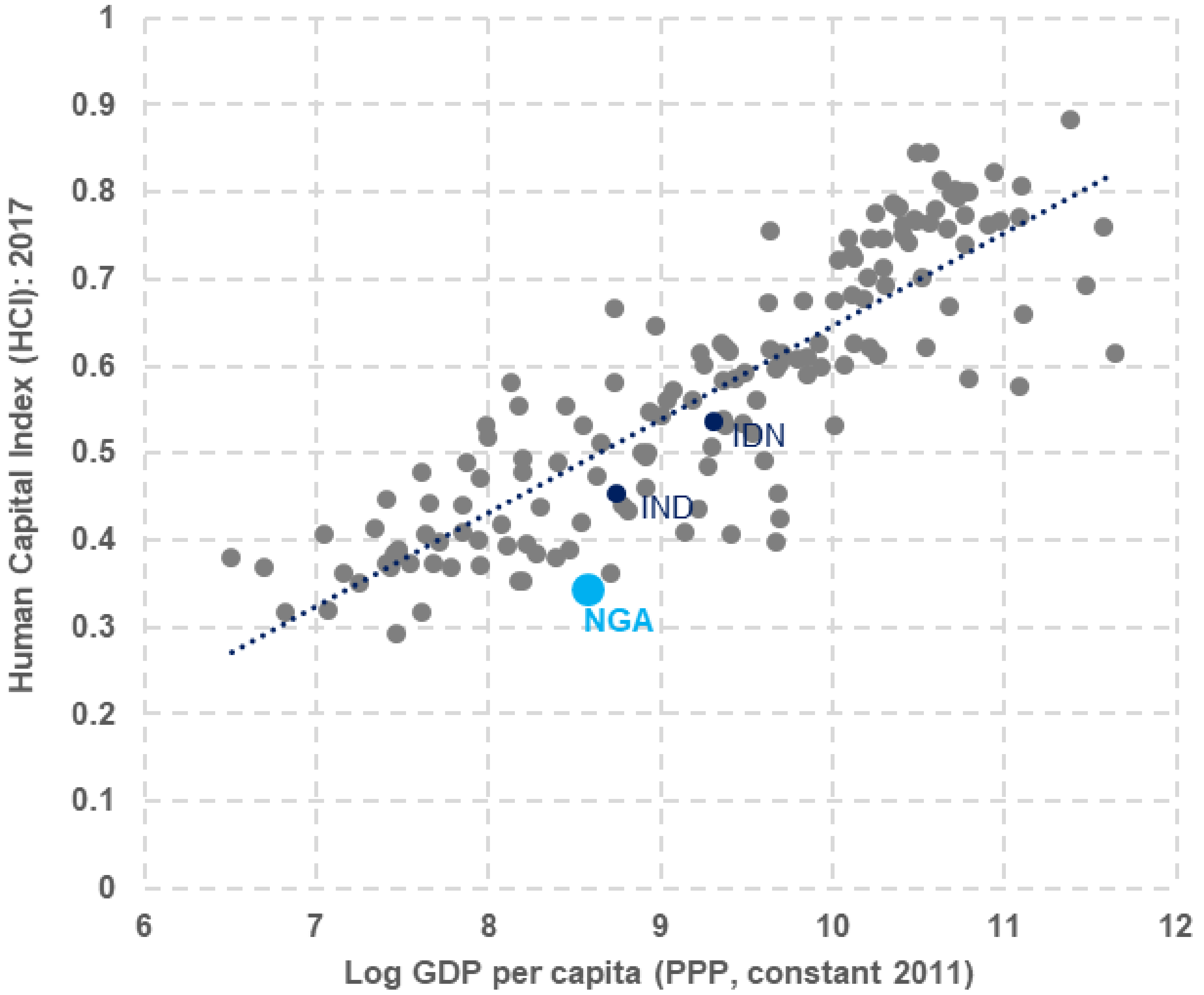
NIGERIA HAS A CHOICE

How Nigeria responds to the COVID-19 crisis will determine the future for her children



INVESTING IN NIGERIA'S CHILDREN, YOUTH AND WOMEN

NIGERIA IS THE SIXTH-LOWEST GLOBALLY ON THE HUMAN CAPITAL INDEX



NUMBER OF OUT-OF-SCHOOL CHILDREN

One in every five of the world's out-of-school children is in Nigeria

NUMBER OF PEOPLE DEFECATING IN THE OPEN

58% of all Nigerians lack access to basic sanitation services and 47 million people still practice open defecation, a number second only to India.

NUMBER OF UNDER-5 CHILD DEATHS

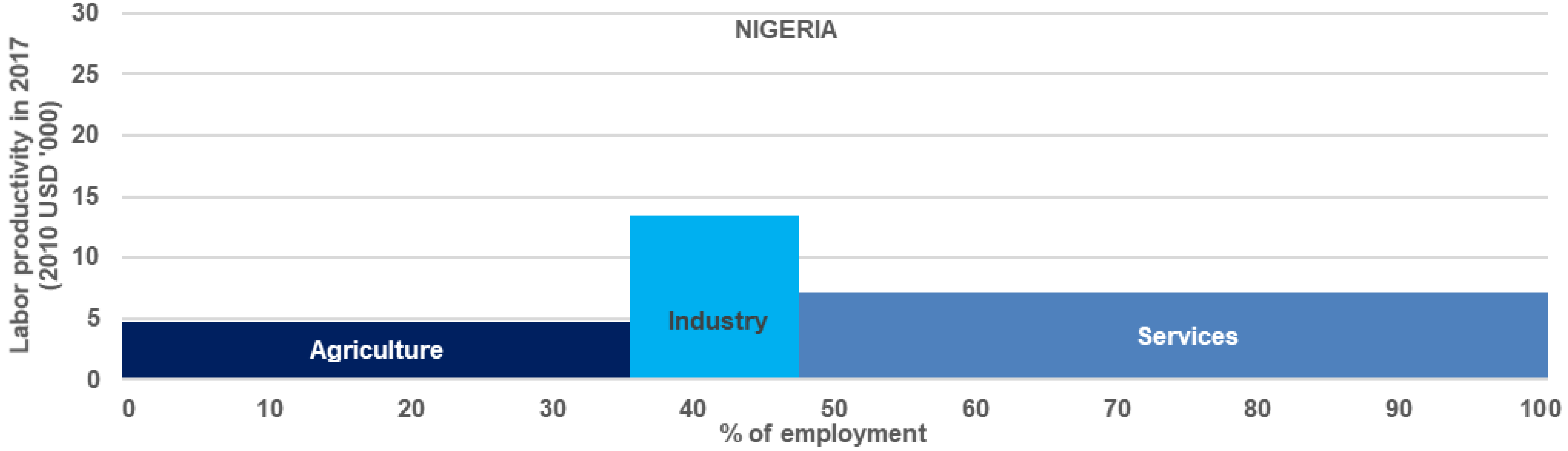
Nigeria will soon over take India as the country with the most under-5 child deaths in the world, over 700,000 a year

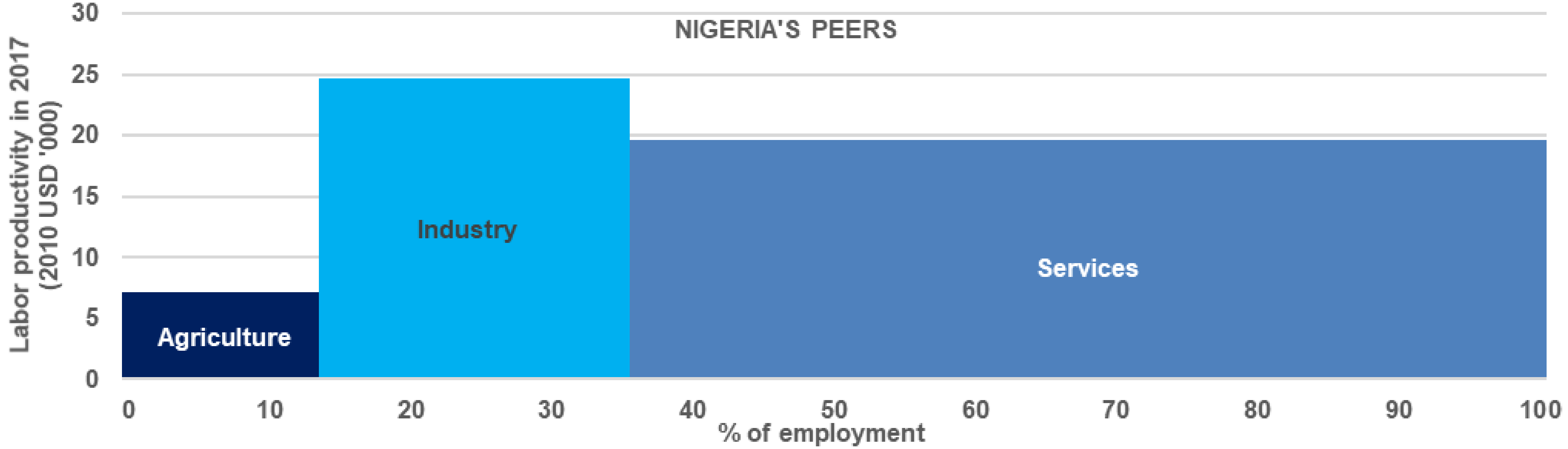
PERCENTAGE OF CHILDREN STUNTED

One in every three children under five years of age (32%) suffers from chronic malnutrition, among the highest in the world

Source: World Development Indicators

CATALYZING PRIVATE INVESTMENT AND JOB CREATION FOR STRUCTURAL TRANSFORMATION AND ECONOMIC DIVERSIFICATION





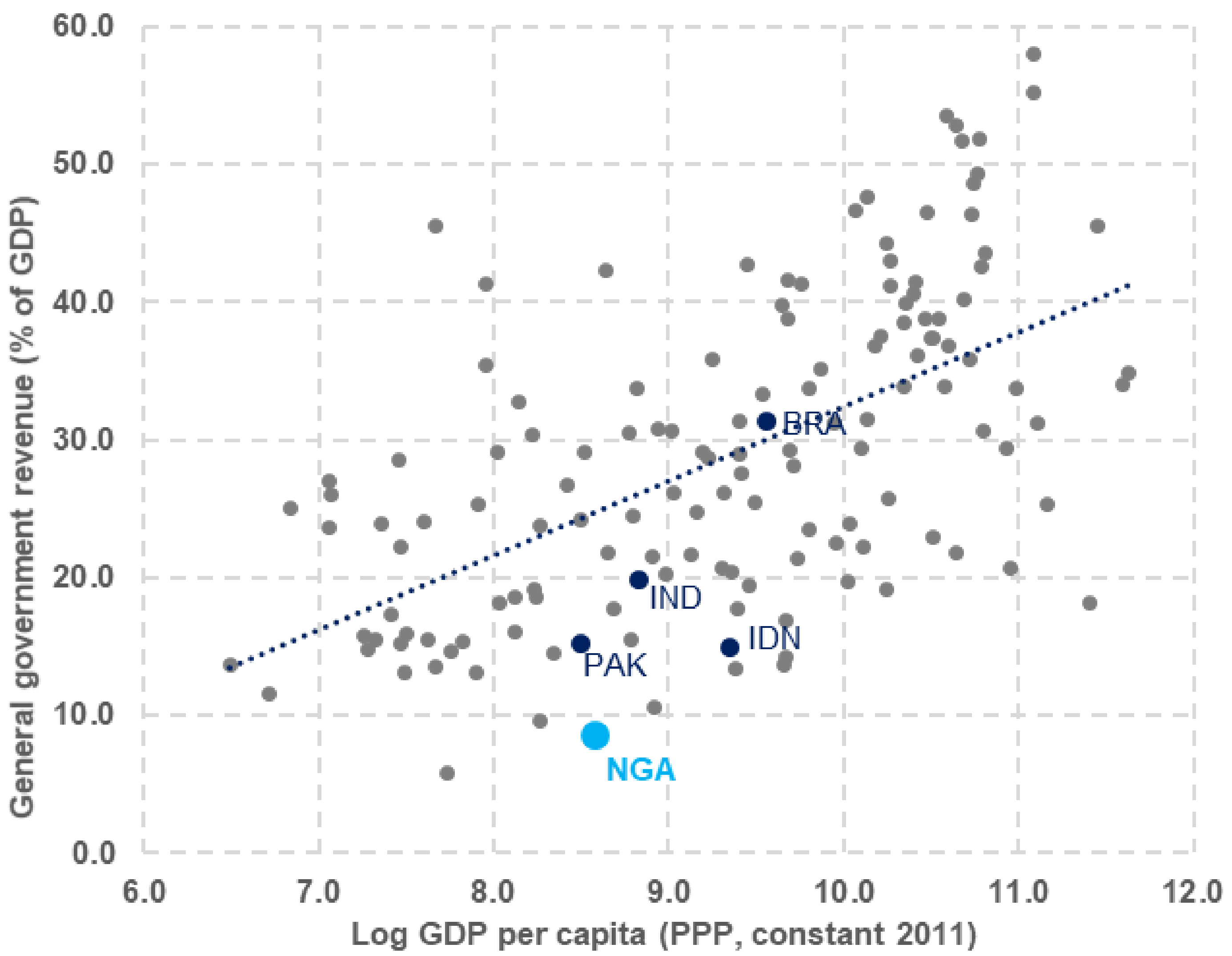
RAISING GOVERNMENT REVENUES

AT 8% OF GDP IN 2019, NIGERIA'S REVENUE TO GDP RATIO WAS ONE OF THE LOWEST IN THE WORLD

- Oil revenues are volatile and below potential due to insufficient contributions from Nigeria National Petroleum Corporation.
- Non-oil revenues are less than 4% of GDP due to a sub-optimal VAT system, tax expenditures, and high tax compliance costs

FASTER AND SUSTAINED GROWTH WILL REQUIRE NON-OIL REVENUES TO BE AT LEAST 12% OF GDP

- Government has initiated a first set of revenue reforms (Finance Act 2020) and others are planned under the Strategic Revenue Growth Initiative
- Tax policy and administration measures, combined with better expenditure quality, can boost revenues in a way that does not affect growth



Thank you

Riding the Tide
by Lilian Chizoba Pilaku