2021 NESG MACROECONOMIC OUTLOOK

4 Priorities for the Nigerian Economy in 2021 and Beyond


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In this report

FOREWORD

Many economies across the world entered the year 2020 with so much optimism. However, the outbreak of the novel Coronavirus (COVID-19) in Wuhan, China and its spread to the rest of the world dampened the prospect of the global economy. The spread of the virus constituted a public health challenge as it over-stretched the health care systems of many countries due to rising number of confirmed cases. The pandemic also had huge economic implications as countries implemented lockdowns and movement restrictions. These responses resulted in a disruption of global supply chain, a fall in crude oil price and a global recession.

In Nigeria, the economy halted the 12 consecutive quarters of positive Gross Domestic Product (GDP) growth and contracted by 6.1 percent and 3.6 percent in the second and third quarters of 2020 respectively, triggering a second recession in the space of five years. Inflation rate kept up the momentum, closing 2020 at 15.8 percent from 12.1 percent in January. Exchange rate faced intense pressure, which led to series of devaluations of the Naira as external reserves depleted, foreign investment inflows declined and oil receipts plummeted. In 2020, the socio-economic condition in Nigeria worsened as unemployment rate rose to 27.1 percent as at June 2020 while about 8.6 million Nigerians are expected to fall into poverty in the year.

Just like 2020, the year 2021 will be characterized by uncertainties. There is the possibility of a third, fourth and fifth wave of COVID-19, which will intensify existing pressure on health systems and the economy at large. In 2021, many of the challenges encountered in 2020 will remain, or perhaps become amplified; so will the expectations of citizens and the business community on the government to address these challenges. Although the Nigerian government implemented several interventions to alleviate the situation of businesses and individuals and ease the impact of the pandemic, a lot more efforts are needed to get Nigeria on the path of positive economic growth that delivers a reduction in unemployment and poverty.

In the NESG Macroeconomic Outlook for 2021, we emphasised four priorities that are essential in driving economic recovery and delivering a high, sustainable and inclusive economic growth for Nigeria over the next few years. These priorities include macroeconomic stability, policy and regulatory consistency, sectoral reforms and human capital development. The overall goal must be to attain a favourable business environment and improve the welfare of the average Nigerian. In 2021 and beyond, the federal and state governments must be deliberate and proactive to counter the effects of the pandemic. With all sense of urgency and intensity, the government at all levels must embark on reforms aimed at attracting investments into crucial sectors of the economy. This is because the business-as-usual scenario will only lead Nigeria down the drain of economic hardship, wider income inequality and increasing poverty.

Wishing everyone a nice reading time.

'Laoye Jaiyeola
CEO, NESG

Introduction

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Nigeria is at a critical point in its 60-year history. In the year 2020, Nigeria experienced one of the worst recessions in several decades - its second recession in a space of 5 years. While the rate of unemployment reached a peak of 27.1 percent as at June 2020, the World Bank estimated that in 2020, about 8.6 million Nigerians would fall into poverty. Real per capita incomes, according to the Bank, are expected to fall to levels like those seen in the 1980s. When compared with countries like Indonesia, China, Singapore and Malaysia that have exponentially expanded their real income for decades, the fact remains that Nigeria, in recent times, was never far from the realities of the 1980s.

Nigeria is at a crossroad. Nigeria has been at a crossroad even before the outbreak of COVID-19. It has been at a crossroad even before the recession in 2016. A crossroad where the country has to decide on implementing tough choices to reform itself or continue on the business-as-usual pathway. A crossroad that will ensure breaking the country from the curse of crude oil and developing its non-oil sector or continuing the cycle of reliance on crude oil for foreign exchange earnings and government revenue. One that will determine the optimum path for states to thrive and become independent or allow the continued reliance on the centre for survival. A crossroad that will determine what type of legacy it wants to leave for the future generation. Nigeria cannot afford the business-as-usual approach which will only lead to further job losses, pull millions of citizens into poverty and worsen an already fragile economy.

Nigeria's economy had been on a rough path even before COVID-19. Although the trajectory of economic growth had been improving since 2017, economic growth was still fragile and driven by just a few sectors, as was the case leading up to the recession in 2016. For instance, between 2017 and 2019, only 3 out of the 19 major sectors- agriculture, mining & quarrying and ICT - contributed 91 percent to Nigeria's economic growth while about 15 sectors either contributed insignificantly or negatively to economic growth. The economic recovery was further marred by slower accretion of the country's external reserves in the early parts of 2019, which further took a downward turn from the month of August 2019, as monetary and fiscal authorities could not take advantage of the gains of the relatively stable crude oil prices in 2019. Continued intervention by the Central Bank of Nigeria (CBN) in the forex market, high demand for imports, as well as, external debt servicing obligations led to the decline of the reserves in 2019.

Wrong policy choices cast a strain on an ailing economy even before the outbreak of COVID-19. The implementation of land border closure resulted in a decline in earnings from non oil exports. This policy decision reversed the few gains made in the last couple of years and further exacerbated the challenges facing the economy. In addition to a sharp and consecutive increase in prices – inflation rate rose from 11 percent in August 2019 to 14.9 percent in November 2020 – the economy has recorded consecutive trade deficits since the fourth quarter of 2019. Many non-oil exporters that serviced neighbouring countries suffered losses. This, we believe, was a huge cost to the economy. The closure was a heavy policy decision that required the input of the private sector especially given its implications on businesses, both formal and informal players. In addition to a challenging trade environment, public debts trended upwards with an addition of a net of N3 trillion to the debt stock in 2019. Actual

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debt servicing costs remained high at 60 percent of total revenue.

The outbreak of Coronavirus (COVID-19) only accentuated the problems and further tested the strength of the economy
The COVID-19 pandemic and its associated impact tested the strength of the economy and exposed the long-standing vulnerabilities therein. The first major impact channel was through the crude oil industry, Nigeria's major vulnerability spot. Consistent decline in oil prices triggered by lower demand due to the implementation of lockdowns across countries led to several revisions of the benchmark crude oil price in the 2020 budget, which was later pegged at US$28 per barrel from US$57 per barrel when the budget was passed in December 2019. Shortfall in oil revenue that followed was supported by a sharp increase in public debts which rose to N32.2 trillion as at September 2020 from N27.4 trillion in December 2019. In summary, the pandemic revealed that Nigeria had an economy that could not withstand shocks especially taking into consideration the low levels of external reserves and fiscal savings.

The pandemic also tested the ability of government to adequately cater for the needs of citizens and businesses in times of crisis. With the implementation of lockdowns and restrictions across major states, the government needed to step up in providing palliatives for affected citizens who were estranged from work and from making a living. Prior to the pandemic, the number of poor people in Nigeria stood at 83 million, according to the National Bureau of Statistics. Bearing in mind that the lockdown not only affected the poor but also the near poor population as well as middle income earners, providing adequate support was a herculean task for the government at both federal and state levels. Several factors such as inadequate data on affected citizens, ineffective delivery systems and mechanisms as well as issues relating to accountability and transparency limited the states' reach of affected citizens.

It is clear that COVID-19 is a global pandemic that affected many countries including developed economies. Even countries with high income and developed economies experienced a deep recession, deeper than that of Nigeria. However, for many developed economies that fell into a recession, the implementation of lockdowns and restrictions rather than commodity prices, played a much more important role. But for Nigeria, the performance of crude oil price and output cuts were also significant factors that led to the recession. In essence, the recovery of the Nigerian economy will not only be linked with the easing of lockdowns, but also with the performance of the global oil industry.

The fact remains that Nigeria is yet to wean its economy from the performance of crude oil price. Even with 2020 being one of the worst years for the global oil industry with oil price declining to as low as US$9 per barrel in April, crude oil still accounted for 81 percent of Nigeria's export earnings in the third quarter of 2020. When other oil products are included, this share increased to 93 percent implying that non-oil exports accounted for just 7 percent of total export earnings in the period. The above statistics further confirm that government efforts to diversify the economy are not yet yielding positive results - a very familiar tale that Nigeria must change, if it must favourably compete with other countries in the light of the African Continental Free Trade Area (AfCFTA) agreement.

Beyond crude oil, human development is at one of its worst stage in the history of Nigeria and this was made severe by the pandemic. Despite the ambition of the current administration to lift 100 million people out of poverty in the next 10 years, the World Bank, in its Nigeria Development Update, noted that before COVID-19, about 2 million Nigerians were expected to fall into poverty in 2020. The institution further stated that with COVID-19, the recession is likely to push an additional 6.6 million Nigerians into poverty in 2020, bringing the total newly poor to 8.6 million. This, therefore, implies an increase in the total number of poor in Nigeria to about 90 million in 2020. Unemployment rate also reached a peak of 27.1 percent as at June 2020 due to the impact of the pandemic.

As Nigeria moves into the future, it is faced with the pressing need to provide solutions to an expanding array of economic and social challenges that continue to hamper development. At every level of governance, political leaders must rise to the leadership challenge that the COVID-19 crisis presents. Policymakers must be proactive and sincere in dealing with the problems of policy inconsistency, poor implementation of national plans and making bad choices. What is clear is that the state of the Nigerian economy at any point in time is a consequence of the choices/decisions of policymakers: choices of either taking the wrong policy action or ignoring appropriate signals to implement the right policy decisions. This is a reality that policymakers must accept going forward. Policymakers must be deliberate in solving basic economic problems and continuously engage with relevant stakeholders before making crucial decisions.

There are however several reasons to be optimistic: Nigeria has implemented some tough reforms in 2020, such as, removal of fuel and electricity subsidies and a massive programme on harmonisation of citizen's data. These must be consolidated with swift implementation of security reforms and sanitising the business environment, both of which are crucial in attracting investments into critical sectors of the economy. In addition, state governments must be given the legislative and policy support to explore the opportunities and resources in their respective states. The urgency of these reforms must be prioritised going into the next decade.

Already, the devastating impacts of the twin phenomenon of poverty and unemployment are being felt across several parts of the country as manifested in the level of insecurity – kidnappings, theft, and other social vices. The violence that followed the EndSARS protests in late October of 2020 is also a testament of heightened aggravation of a group of young and agile citizens towards the ruling class, the middle and high income citizens. This implies that the conversation for achieving inclusive economic recovery has never been even more important. This is at the heart of the survival of the nation.

Meanwhile, in the last three editions of our Macroeconomic Outlook Report, we, the Nigerian Economic Summit Group (NESG), emphasized the importance of inclusive economic growth and how it can be attained in Nigeria. Specifically, in one of the editions, we developed a framework for inclusive growth in Nigeria and proposed reforms to alter the structure of the economy, drive sustainable and high economic growth, create more job opportunities and achieve significant poverty reduction. The current edition, (Macroeconomic Outlook for 2021), builds on the previous works and highlights four key priorities that must be considered and wholeheartedly pursued by the Nigerian government to get the economy on the path of inclusive economic growth and development with the immediate goal of creating jobs and lifting millions of Nigerians out of poverty.

Part I of this report reviews the Nigerian economy in 2020 and provides an outlook for 2021. Part II discusses the Four Priorities for the Nigerian Economy in 2021 and Beyond.

Part I

NIGERIA IN 2020 AND OUTLOOK FOR 2021

Review of the Nigerian economy in 2020

1. Real Sector Developments

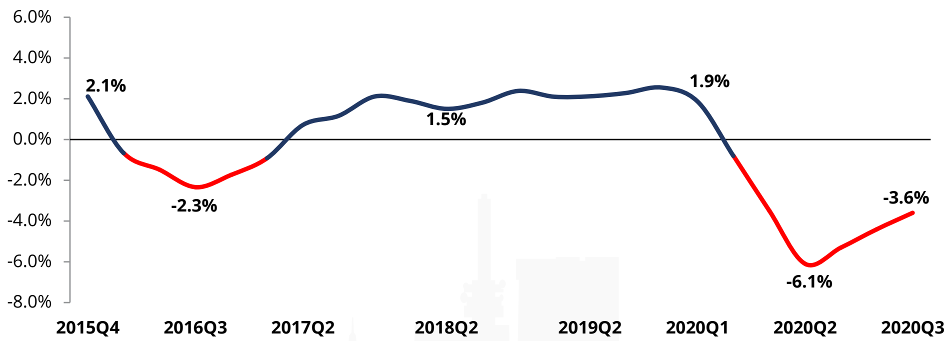
The year 2020 began with a lot of optimism following a suppressing trade war between the United States and China, improved commodity prices and a brighter global outlook. The outbreak of the novel Coronavirus (COVID-19) in Wuhan, China and its spread to other countries dampened every bit of confidence across economies. Beyond the public health challenges that came with it, the associated restrictions of movement and imposition of lockdowns constricted economic activities, disrupted the global supply chains and triggered a global recession.

According to the International Monetary Fund (IMF), the global economy is expected to contract by 4.4 percent in 2020. This will be motivated by economic contractions in major economies. For instance, among the advanced economies, the United States, the United Kingdom, Germany, France, Canada and Japan have contracted by 3.8 percent, 10.6 percent, 5.8 percent, 9.5 percent, 6.0 percent and 5.9 percent in 2020 Q1-Q3 respectively. Among emerging economies, real Gross Domestic Product (GDP) of India, Russia, Brazil and Saudi Arabia contracted by 9.4 percent, 3.3 percent, 5.0 percent and 4.2 percent in the first nine months of 2020 respectively. In Africa, the economy of South Africa recorded -7.8 percent growth in 2020 Q1-Q3. Meanwhile, the economy of China, where the rampaging virus emanated from, is expected to expand by 1.9 percent in 2020 and has recorded 0.4 percent growth in 2020 Q1-Q3.

Nigeria slipped into second recession in five years on the back of COVID-19 pandemic

Just like many other countries, Nigeria was not spared of the impact of COVID-19. In 2020, the economy halted its 12 consecutive quarters of expansion and contracted by 6.1 percent in the second quarter of 2020 mainly driven by the fall in crude oil price and the implementation of lockdown and restrictions. In 2020Q3, the economy fell into a recession with a contraction of 3.6 percent. This represents the second economic recession since 2016. Cumulatively, the economy contracted by 2.7 percent in the first three quarters of 2020. Further reopening of the economy could translate into improved economic performance in the fourth quarter of 2020, however, a second wave of COVID-19 coupled with the devastation that followed the EndSARS protest could slow the pace of economic recovery going forward.

Figure 1: Nigeria's Real GDP Growth (2015Q4 – 2020Q3)



Data Source: National Bureau of Statistics; Chart: NESG Research

Both Nigeria's oil and non-oil sectors were majorly affected by the pandemic

The negative impact of COVID-19 on the global oil market was transmitted into the Nigerian oil sector. The oil sector which suffered from lower crude oil prices and production contracted by 6.6 percent and 13.9 percent in 2020Q2 and 2020Q3, respectively, compared with positive growth rates of 7.2 percent and 6.5 percent recorded in the respective corresponding periods of 2019. Meanwhile, the disruption of economic activities that came with COVID-19 alongside scarcity of foreign exchange negatively impacted the non-oil sector, which contracted by 6.1 percent and 2.5 percent in 2020Q2 and 2020Q3, respectively. Cumulatively, in the first nine months of 2020, the oil and non-oil sectors contracted by 5.2 percent and 2.3 percent, respectively.

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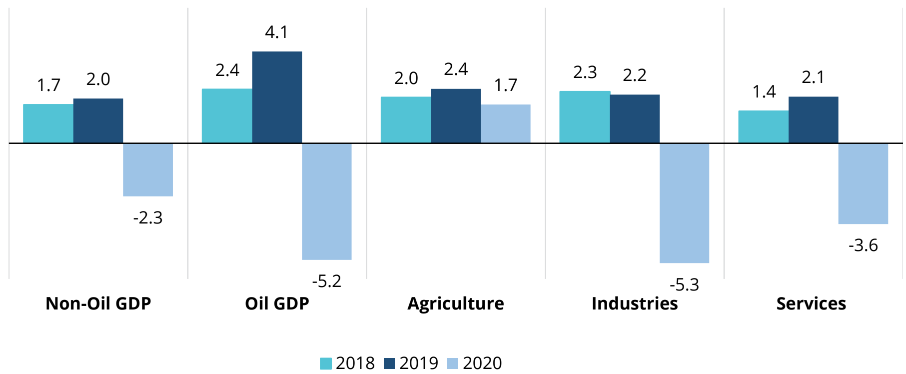
Of the three broad sectors, the Industrial sector was the most susceptible to external shocks, such as, COVID-19. The sector contracted by 12.1 percent in 2020Q2 and by 5.3 percent in 2020Q1-Q3. Contraction of the sector was driven by poor performance of the oil industry coupled with lower demand and sales volume in the manufacturing sector, triggered by the lockdown and restrictions. As for Services, the sector contracted by 3.6 percent in 2020Q1-Q3. Contraction in overall services in 2020 was balanced by the double-digit expansion of services sub-sectors - ICT and Finance & Insurance - that benefited from the pandemic. As with the recession in 2016, the Agricultural sector exhibited resilience; reflected by a positive but lower growth rate in the first three quarters of 2020. With many activities in the sector regarded as essential services and therefore exempted from the lockdown, reduced real demand due to lower purchasing power affected the agricultural sector. In the first nine months of 2020, the sector expanded by 1.7 percent.

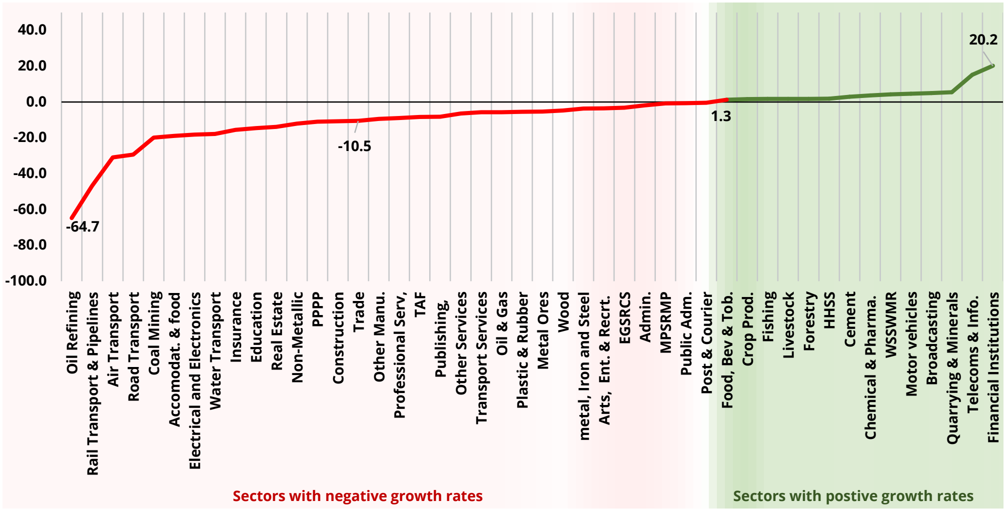
Figure 2: Growth Rate of Oil, Non-Oil and Sectoral Categorisation of Real GDP (2020Q1-Q3 *in percentage*)



Data Source: National Bureau of Statistics; Chart: NESG Research

Based on data from 2020Q1-Q3, only 14 out of the 46 activity sectors recorded positive growth in the year, of which only eight recorded growth rates above 3.0 percent. Among the sectors with positive growth rates, Finance and ICT topped the list as the nature of the pandemic necessitated a surge in ICT and financial services. On the other hand, many of the already challenged activity sectors contracted in 2020. Contractions were huge in sectors, such as, oil refining, trade, food and accommodation services, real estate, construction and transportation.

Figure 3: Growth Rate of Activity Sectors in Nigeria (2020Q1-Q3 *in percentage*)

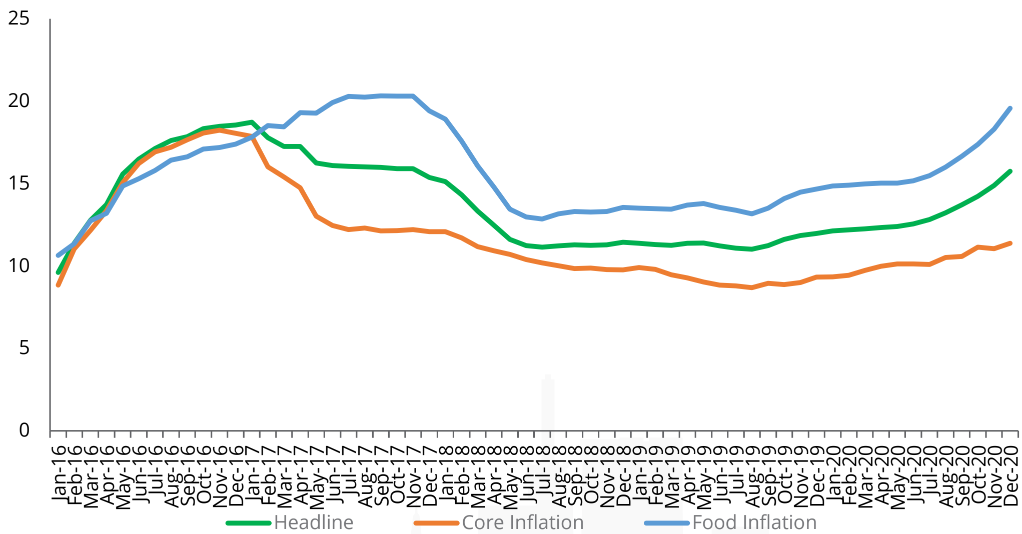


Data Source: National Bureau of Statistics; Chart: NESG Research

Constrained supply chain manifested in rising inflation

Inflation rate in Nigeria has been on the rise since the second half of 2019 following the closure of land borders by the federal government. Issues relating to insecurity, foreign exchange scarcity and exchange rate depreciation, supply chain bottlenecks and increase in Value Added Tax (VAT) were factors that triggered price increase in 2020. Given these factors, inflation rate has risen from 11 percent in August 2019 to 15.8 percent in December 2020, a 16 consecutive-month increase. Food inflation continued to account for the large increase in overall inflation. The food inflation rate increased by 4.9 percentage points to 19.6 percent in December 2020 from 14.7 percent in December 2019. In addition to the constraint on the supply chains, the hike in transport cost and the series of exchange rate devaluations impacted the non-food (core) inflation. Consequently, the core Inflation increased by 2.1 percentage points to 11.4 percent in December 2020 from 9.3 percent in December 2019.

Figure 4: Trend of Inflation Rate in Nigeria (Percentage)



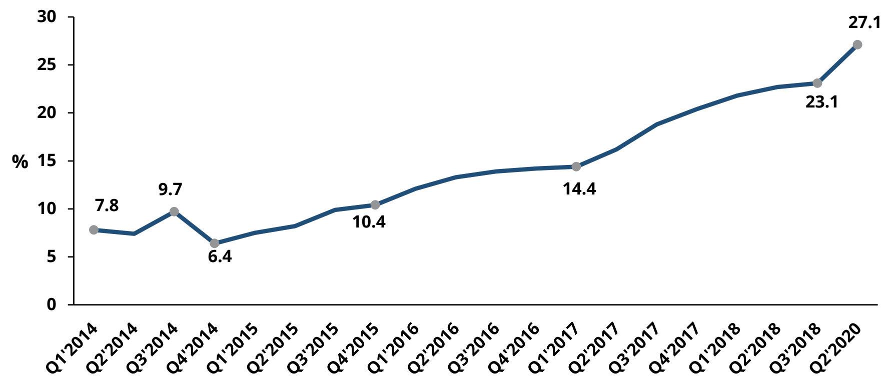
Data Source: NBS. Chart: NESG Research

Disruptions of economic activities exacerbated unemployment problem in Nigeria

The impact of COVID-19 on economic activities manifested in the rising unemployment rate as many firms in several industries were forced to scale down output due to lower demand. According to data from the National Bureau of Statistics (NBS), unemployment rate jumped to an all-time high of 27.1 percent as at 2020Q2 from 23.1 percent as at 2018Q3. In addition, the COVID-19 Monitoring Survey conducted by NBS between April and May, 2020 showed that about 42 percent of respondents that were on paid-employment before the outbreak in Nigeria lost their jobs during the pandemic. Combined unemployment and underemployment rate stood at 55.7 percent as at June 2020.

"The impact of COVID-19 on economic activities manifested in the rising unemployment rate as many firms in several industries were forced to scale down output due to lower demand"

Figure 5: Trend of Unemployment Rate in Nigeria (percent)



Data Source: National Bureau of Statistics; Chart: NESG Research

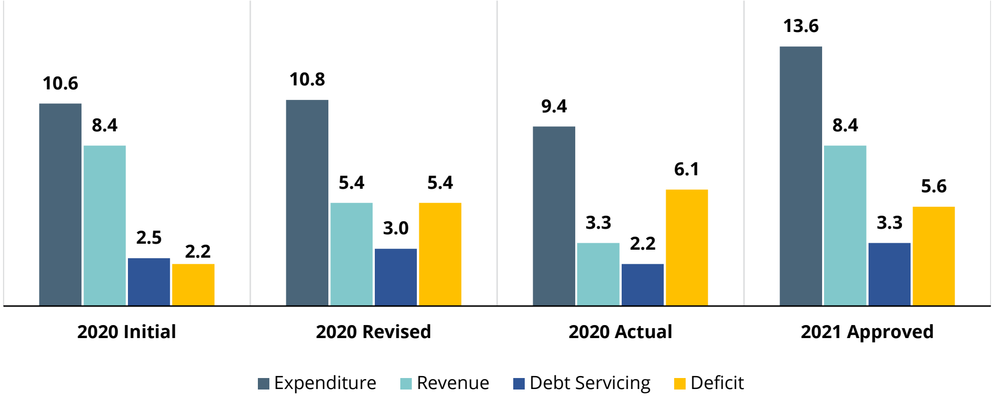
2. Fiscal Policy Environment

COVID-19 constrained the already challenging fiscal position

The strain on the global economy manifested in lower demand for crude oil as countries implemented lockdown and movement restrictions. This led to a crash in oil prices in the global oil market. As a result, the government revised the 2020 budget to accommodate the potential revenue shortfall and cater for the stimulus spending given the need to cushion the effect of the lockdown on citizens and businesses. The Federal Government earlier budgeted a total of N10.6 trillion in expenditure for 2020 with N8.4 trillion in revenue and N2.2 trillion in budget deficit. The budget was then revised as expenditure target was increased to N10.8 trillion, thereby pushing budget deficit up to N5.5 trillion. The budget assumptions were also revised: the oil price benchmark was revised to US$28 per barrel from US$57 per barrel and oil production was revised to 1.94 million barrels per day (mbpd) from 2.18 mbpd.

Despite the revisions, the actual expenditure and revenue underperformed their projections while budget deficit outperformed its projection. Total federal government expenditure for 2020 stood at N10.1 trillion, representing a shortfall of 6.6 percent from 10.8 trillion projected for the period. To close the year, a total of N1.7 trillion was spent for capital projects which amounts to 89 percent of budget and 11 percent underperformance when compared with 2.0 trillion budgeted. The recurrent expenditure of the government in 2020 at N7.9 trillion, however, outweigh the budget of N7.6 trillion by 4.3 percent. On the flip side, the federal government retained revenue stood at N3.9 trillion, of which oil revenue accounted for 38.6 percent . This represents an underperformance by 27.1 percent from N5.4 trillion projected for the period. However, the debt servicing figure, outperformed the budget by 8.8 percent to N3.3 trillion from N3.0 trillion projected. This amounts to 82.9 percent of federal government retained revenue.

Figure 6: Federal Government Budget Expenditure, Revenue and Deficit (N'Trillion)

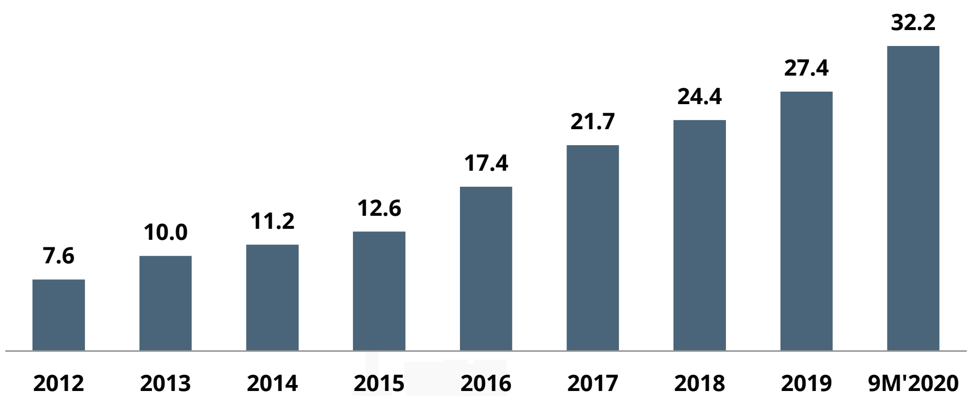


Data Source: Central Bank of Nigeria, Budget Office of the Federation; Chart: NESG Research

> *"Beyond the constraints on revenue mobilization, the surge in emergency spending to meet up with COVID-19 interventions and relief measures expanded government's budget deficit"*

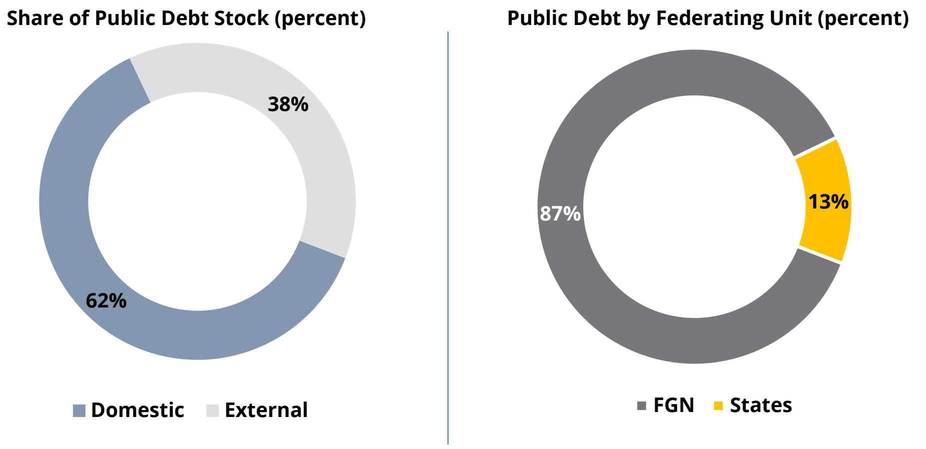
Beyond the constraints on revenue mobilization, the surge in emergency spending to meet up with COVID-19 interventions and relief measures expanded government's budget deficit. . Consequently, the budget deficit in 2020 stood at N6.1 trillion, an 11.7 percent upside from N5.5 trillion projected. This increases the concerns about public debt position as total public debt stock continues to increase significantly. According to data from the Debt Management Office (DMO), as at 2020Q3, the Nigerian government has added a net of N4.8 trillion to the total public debt stock in the year. Total public debt stood at N32.2 trillion as at September 2020.

Figure 7: Nigeria's Public Debt Stock (N'Trillion)



Data Source: Debt Management Office; Chart: NESG Research

Figure 8: Distribution of Public Debt Stock

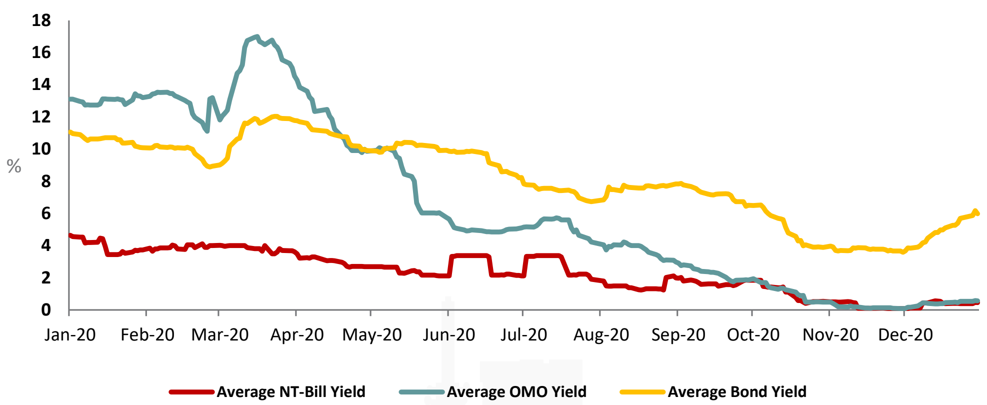


Data Source: National Bureau of Statistics; Debt Management Office; Chart: NESG Research

3. Monetary Policy Environment

Tough economic environment limits the effectiveness of monetary policy. Monetary policy tools became constrained in the face of rising liquidity, inflationary pressure, foreign exchange instability, and economic fallout of COVID-19 which led the economy into a recession. Rising liquidity was as a result of the Central Bank of Nigeria's (CBN's) Open Market Operation (OMO) policy in 2019 that restricted non-bank corporates and individuals from participating in OMO transactions both in the primary and secondary markets. This made it impossible for some investors to roll over their investments in the OMO market, thereby shoring up the liquidity level in the economy. Consequently, yields across all sovereign instruments declined – average yields on FGN Bond, Treasury Bill and OMO declined to 6.0 percent, 0.5 percent and 0.6 percent at the close of December 2020 from 9.1 percent, 4.7 percent and 13.1 percent on the first trading day of 2020.

Figure 9: Movement of Yields Across Sovereign Securities (percent)



Data Source: National Bureau of Statistics; Debt Management Office; Chart: NESG Research

"As the impact of COVID-19 manifested, managing economic slump became the policy priority as the CBN embarked on expansionary monetary policy stance"

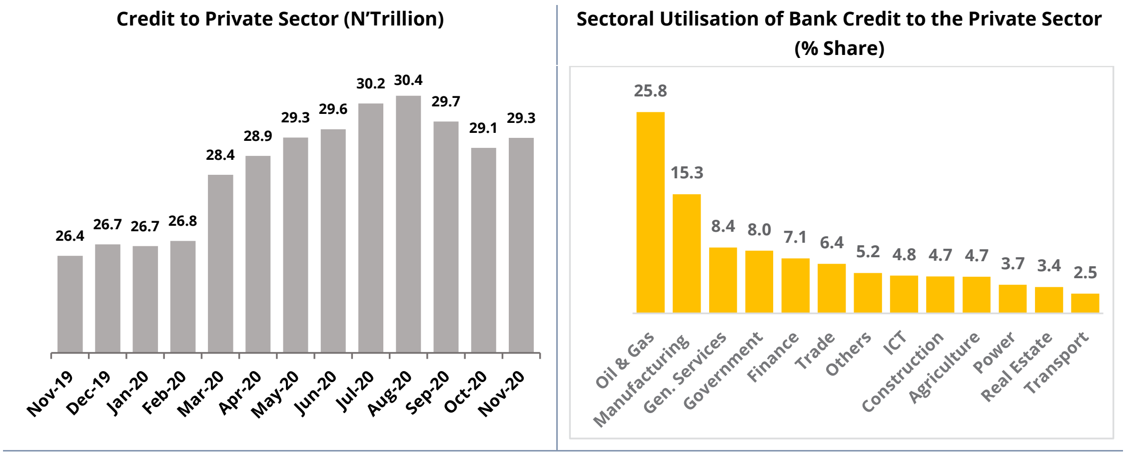
The high inflationary environment emanated from the land border closure policy of the federal government and was amplified by COVID-19-induced disruption of economic activities. Before the outbreak of COVID-19, the CBN had been faced with the counteracting choices of either boosting the economy by way of expansionary policy or curtailing inflation with the use of contractionary policy. In response, the Monetary Policy Committee (MPC) in its first meeting of 2020 voted to increase the Cash Reserves Ratio (CRR) for banks by 500 basis points to 27.5 percent while the Monetary Policy Rate (MPR), Liquidity Ratio and Asymmetric Corridor remained at 13.5 percent, 30 percent and +200/-500 basis points. As the impact of COVID-19 manifested, managing economic slump became the policy priority as the CBN embarked on expansionary monetary policy stance. Moreover, the CBN noted that inflationary pressures were not primarily driven by monetary factors, but by structural factors. Consequently, the MPC adjusted the MPR downward by 100 basis points on two occasions to 12.5 percent in May 2020 and to 11.5 percent in September 2020.

In 2020, the CBN intensified its unconventional measures to monetary policy and direct stimuli, in order to ameliorate the impact of COVID-19 pandemic on the economy. The CBN embarked on the following interventions to boost economic growth and manage inflation in 2020:

- The CBN introduced a N50 billion fund under the Target Credit Facility to provide soft loans for MSMEs and households as stimulus packages for those affected by the disruption caused by COVID-19.
- Provided N100 billion support for the health sector to finance research & development, the establishment of laboratories and supporting innovations towards producing test kits and development of vaccines.
- Rolled out N1.1 trillion intervention fund to boost credit to support local manufacturing and import substitution across critical sectors.
- Extended moratorium for loan repayment by one year and adjusted the interest rate on all CBN special intervention loans to 5 percent from 9 percent.
- Strengthened the enforcement of the 65 percent Loan to Deposit Ratio (LDR) policy to extend more credit to the real sector.
- Granted regulatory forbearance to banks to restructure the terms of credit in affected sectors
- Directed debit on banks' balance for violating the regulatory cash reserve ratio of 27.5 percent alongside the LDR of 65 percent to manage liquidity and transfer credit to the real sector.
- Adjustment of the minimum rate on savings accounts to 10 percent of MPR.
- Introduced the Central Bank of Nigeria Special Bill to manage system liquidity.

Put together, these interventions resulted in increased credit to the private sector in the year. As at November 2020, the total credit to the private sector increased by N2.6 trillion (9.7 percent) to N29.3 trillion from N26.7 trillion in December 2019. This is also reflected in the decline in prime lending rate from 15 percent in December 2019 to 11.3 percent as at October 2020. Besides, total credit from the banking sector as at September 2020 stood at N19.9 trillion, an increase of N2.7 trillion (15.6 percent) from December 2019. The services and the industrial sectors were the highest beneficiaries of total banking sector credit to the economy – both accounting for 39.9 percent and 36.2 percent respectively. Meanwhile, the manufacturing sector (a segment of the industrial sector) accounted for 15.3 percent. About 18.8 percent of the banking credit was channelled to the oil & gas sector while the agricultural sector had a share of 4.7 percent. Despite the constraints in the oil & gas sector, a sum of N3.7 trillion in banking credit was injected as at September 2020, 8.8 percent higher than the banking credit of N3.4 trillion to the oil & gas sector as at December 2019

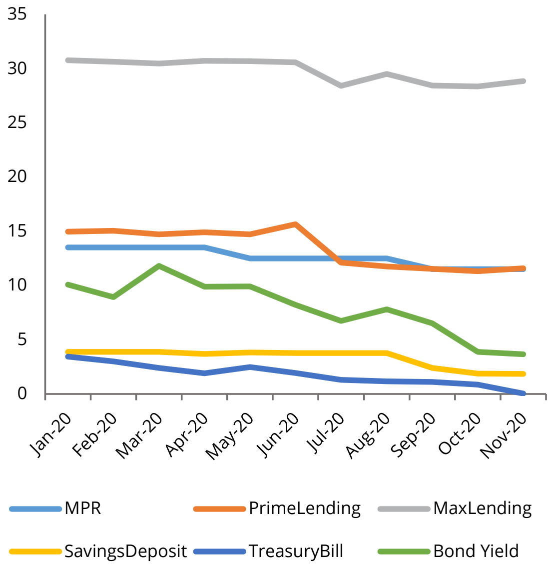
Figure 10: Credit to the Private Sector



Data Source: Central Bank of Nigeria, National Bureau of Statistics; Chart: NESG Research

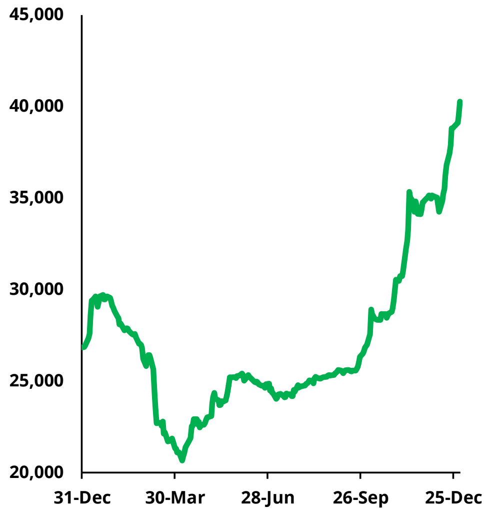
Despite the expansion in credit to the economy over the year, it is yet to translate to significant growth and increased employment opportunities. Agreeably, this could be a problem of lag, however, some of the structural conditions in the country (infrastructural, regulatory, inflationary, exchange rate, corporate ethics, terms of credit) constitute major headwinds to the transmission of private sector credit to growth. While the CBN's interventions could support the economic recovery process, they however, heighten the risk of having higher non-performing loans in the banking sector (6.0 percent in 2020Q3 and 2019Q4). In addition, as experienced in 2020, one major outcome of these unorthodox approaches is suppressing and widened disparity of different interest rates in the fixed income space. Lower interest rates coupled with the challenges in the real sector served as major disincentives to investments, particularly foreign investments, in the year. However, the equity market enjoyed rally as Nigerian Stock Exchange year to date (YTD)) pointed at 50.03 percent to close the year 2020.

Figure 11. Interest Rates Across Markets (%)



Data Source: CBN. Chart: NESG Research

Figure 12. Nigerian Stock Exchange All Share Index



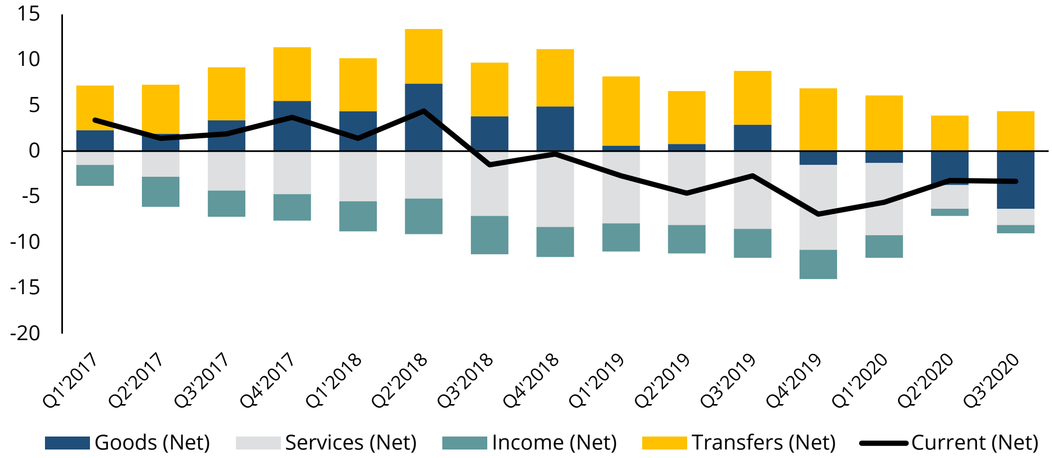
Data Source: NSE. Chart: NESG Research

4. External Sector Developments

COVID-19 reinforced the adverse impact of land border closure on Nigeria's trade balance position.

The closure of land borders resulted in the initial slippage of the trade balance position into negative territory in the fourth quarter of 2019. The trade deficit widened consistently in the first three quarters of 2020, totalling –N4.6 trillion compared with a trade surplus of N2.8 trillion in the corresponding period of 2019. The worsening position of the trade balance so far in the year 2020 could be attributed to lockdown restrictions and suspension of international travels across the world as part of measures aimed at containing the spread of the coronavirus pandemic. It was observed that imports grew at a faster rate than exports. Total merchandise imports jumped by 19.5 percent to N13.9 trillion in Q3'2020 from N11.6 trillion in the corresponding period of 2019. However, total merchandize exports fell by 35.4% to N9.3 trillion in the first three quarters of 2020, compared with N14.4 trillion in the same period of 2019. This was largely due to the sharp decline in oil exports, which accounted for 87 percent of total export earnings in Q1-Q3'2020. Non-oil exports, which accounted for 13 percent of total exports, fell by 38.4 percent (year-on-year) to N1.2 trillion in the first three quarters of 2020.

Figure 13: Nigeria's Current Account Balance (US$ Billion)



Data Source: Central Bank of Nigeria; Chart: NESG Research

> *"...overall investment inflows fell sharply by 56.9 percent to US$8.7 billion in the first three quarters of 2020 from US$20.2 billion in the corresponding period of 2019*

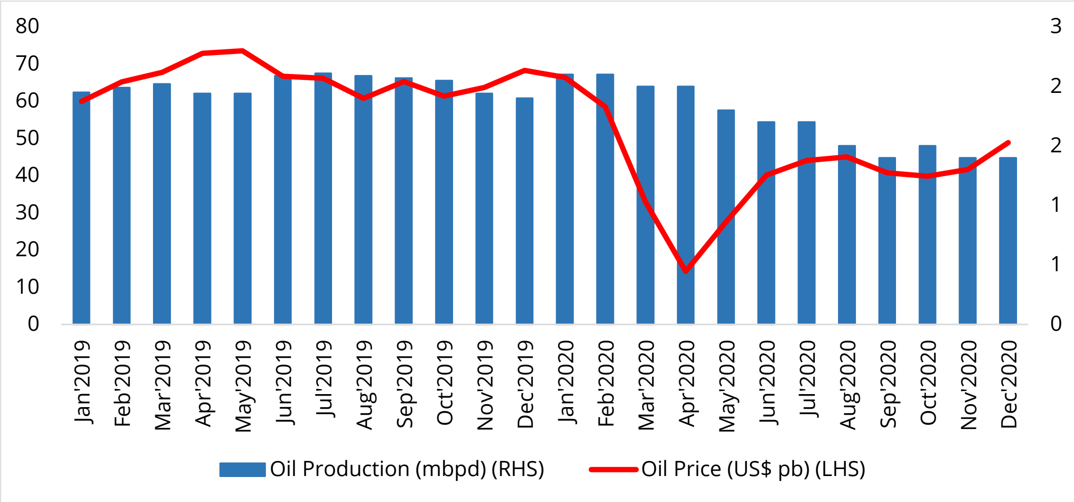
Foreign investment inflows plunged by 56.9 percent in 2020Q1-Q3

Foreign investment inflow into Nigeria was influenced by weak economic fundamentals, lower crude oil prices and weak external reserves position, as well as, negative real interest rate. According to data from the NBS, overall investment inflows fell sharply by 56.9 percent to US$8.7 billion in the first three quarters of 2020 from US$20.2 billion in the corresponding period of 2019. The decline in total investment inflows in 2020 was primarily driven by a 64.6 percent drop in foreign portfolio investments (FPI) to US$5.1 billion in the first three quarters of 2020 from US$14.4 billion in the same period of 2019.

COVID-19 magnified the country's balance of payments crisis for FY'2020.

The widening trade deficit coupled with persistent deficit in the services account and negative net factor income (such as, interests, dividends etc.) led to a further deterioration of the current account balance, which has consistently remained in deficit since the third quarter of 2018. According to the CBN, the current account deficit stood at US$3.3 billion in the third quarter of 2020, representing 3.2 percent of nominal Gross Domestic Product (GDP). However, the current account deficit narrowed in the first three quarters of 2020. Nonetheless, the unfavourable current account balance and the deficit in the financial and capital accounts (arising from dwindling foreign investment inflows) led to a deterioration of the balance of payments position in 2020.

Figure 14: Trends of Crude oil price, Oil production and Oil exports



Source: CBN, OPEC & NBS; Chart: NESG Research

> *"In the first nine months of 2020 (January to September), crude oil exports earnings totalled N7.8 trillion, 37.6 percent below its level in the corresponding period of 2019 (N12.5 trillion)" "*

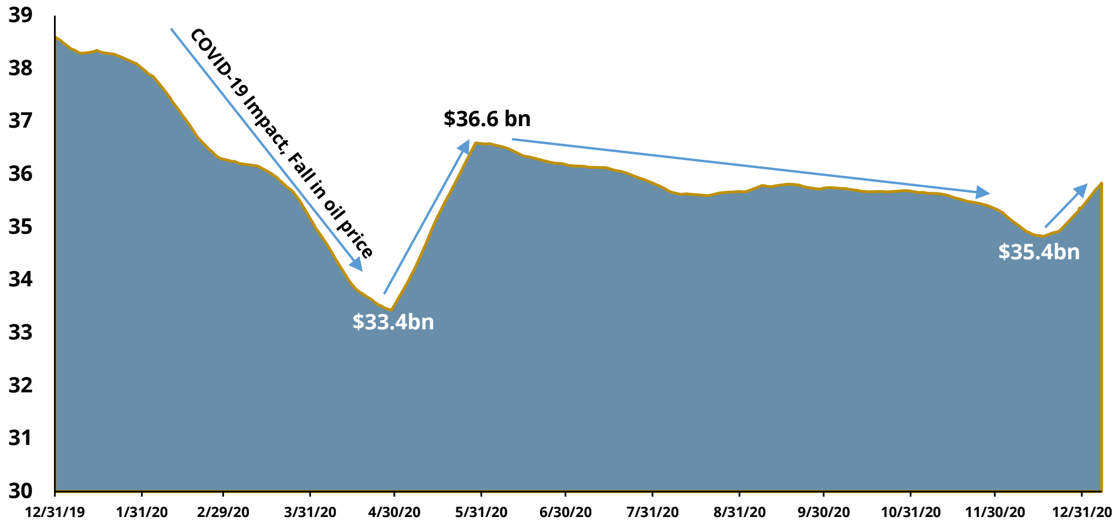
Oil prices down by 56 percent in 2020, as COVID-19 hits the global oil market hard.

In the year 2020, external influences that bedevilled the Nigerian economy included the oil price wars and the outbreak of COVID-19 both of which had negative impacts on the price of crude oil. The average price of Nigeria's Bonny Light plunged by 55.6 percent to US$42.1 per barrel in 2020 from US$65.5 per barrel in 2019. The sharp decline in crude oil prices coupled with the drop in domestic crude oil production translated into lower oil export earnings. In the first nine months of 2020 (January to September), crude oil exports earnings totalled N7.8 trillion, 37.6 percent below its level in the corresponding period of 2019 (N12.5 trillion). This is not unexpected as the average domestic crude oil production fell to 1.7 million barrels per day in 2020 from 2 million barrels per day in 2019. In recent times, crude oil prices have received some boosts arising from several attempts by large pharmaceutical companies (Pfizer, Moderna and BioNTech) to discover an effective vaccine against COVID-19. The prospect of improved global oil demand informed the decision of the Organization of the Petroleum Exporting Countries (OPEC) and its allies to boost oil production by 500,000 barrels per day starting from January 2021. This will bring the new daily output cut to 7.2 million barrels.

Rising external debt raises more concern over the huge burden of external debt servicing in light of revenue generation constraints.
Faced with the twin challenges of COVID-19 and sharp oil price decline, as well as, the intense pressure on external reserves, Nigeria was left with the option of seeking financial assistance from multilateral organizations including IMF, World Bank and the African Development Bank (AfDB), among others, in order to meet its fiscal obligations. This led to a continuous rise in external debts coupled with the huge burden of external debt servicing at a time when oil export receipts are dwindling. Nigeria's external debts stood at an all-time high of N12.2 trillion (US$31.9 billion) as at the third quarter of 2020. Similarly, external debt service costs peaked at N322.9 billion (US$849.9 million) in the third quarter of 2018, before retreating to N193.2 billion (US$507.2 million) in the third quarter of 2020. This, coupled with the volatility in total revenue receipts, which stood at N1.9 trillion (US$4.9 billion), resulted in an increase in external debt service-to-revenue ratio to 10.4 percent in the third quarter of 2020 from 8.9 percent in the corresponding period of 2019. In December 2020, the World Bank approved Nigeria's loan request amounting to US$1.5 billion for budgetary support. By implication, a persistent rise in the country's external debt stock vis-à-vis external debt servicing costs amid weak revenue base could widen fiscal deficits going forward.

The worsening external economic environment was also reflected in the huge pressure on the country's external reserves and the instability in the forex market.
Against the backdrop of higher demand for foreign exchange (forex) in the face of limited foreign exchange supply, the CBN adjusted the official exchange rate to N361/US$ and N381/US$ in March and July 2020, respectively from N307/US$. Owing to lower oil export receipts, the persistent deterioration of trade balance and dwindling investment inflows at the height of COVID-19 pandemic, there was a continuous depletion in external reserves. Between January and April, the reserves had lost 13 percent of its value.

Figure 15: Movement of external reserves (US$ Billion)

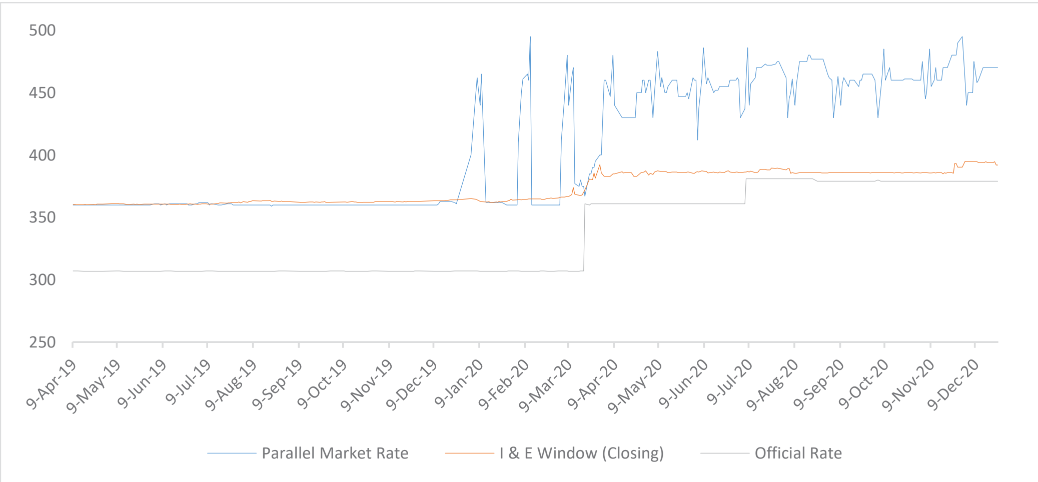


Data Source: Central Bank of Nigeria; Chart: NESG Research

Meanwhile, the increase in external reserves in May 2020 was due to the approval of IMF's Refinancing Instrument worth US$3.4 billion for Nigeria in April 2020. Ever since, the CBN has continued to ration forex among end-users. For the most part of 2020, the inability of the Apex bank to meet the forex demand backlogs widened the parallel market premium, which stood at 25 percent on December 31, 2020. External reserves faced pressure in 2020, closing the year at US$35.4 billion, 8.4 percent lower than its level a year earlier (US$38.6 billion). In 2020, external reserves averaged US$35.9 billion (2019: US$43 billion).

"External reserves faced pressure in 2020, closing the year at US$35.4 billion, 8.4 percent lower than its level a year earlier (US$38.6 billion)"

Figure 16: Movement of exchange rates (N/US$)



Data Source: Central Bank of Nigeria, FMDQ; Chart: NESG Research

Key Policies and Events that shaped 2020 for Nigeria

01

Outbreak and rapid spread of COVID-19

The year 2020 witnessed rapid spread of COVID-19 which originated from China. In 2020, COVID-19 resulted in over 1.7 million deaths, plunged many economies into a recession and disrupted global supply chains.

02

Implementation of lockdown and social distancing policies

In May, the government of Nigeria implemented lockdown and movement restrictions to limit the spread of COVID-19. This move stalled activities in key states such as Lagos, Ogun, Delta, Rivers, Kaduna and the FCT and led to an economic contraction of 6.1 percent in the second quarter of 2020.

03

Downward movement of crude oil price

Following the effects of COVID-19, crude oil price fell to as low as US$9 per barrel in April 2020. This, coupled with output cuts, had tremendous impact on Nigerian government revenue, foreign exchange earnings and external trade balance.

04

Closure of Land Borders

Continued closure of the Nigeria's land borders, which was initiated in 2019 resulted in sharp increase in prices of goods and widening trade deficits.

05

Signing and Ratification of AfCFTA agreement

The Nigerian government signed and ratified the African Continental Free Trade Area (AfCFTA) Agreement in July 2019 and November 2020, respectively. The implementation of the agreement is expected unlock new market opportunities for Nigeria, provided the government implements reforms to support local production.

06

The coming into effect of the Finance Act

The Finance Bill was signed into law on January 13, 2020. The law made provisions for an increase in VAT from 5% to 7.5%. Also, small businesses with turnover of less than N25 million will be exempted from corporate income tax. The implementation of VAT increase constitutes one of the inflation stoking factors in Nigeria.

07

Increase in electricity tariff

The Nigerian Electricity Regulatory Commission (NERC) approved a 100 percent increase in electricity tariff, which took effect from September 2020. The hike in tariff will improve electricity supply and possibly enhance productivity. It will also lead to higher costs for individuals and businesses.

08

Oil subsidy removal and partial deregulation of the downstream oil sector

In July 2020, the Federal Government announced the removal of fuel subsidy. This led to a hike in fuel price by 13% to N167 per litre. In the later part of 2020, fuel price was largely determined by the government, rather than by market forces.

09

The EndSARS protest and its aftermath

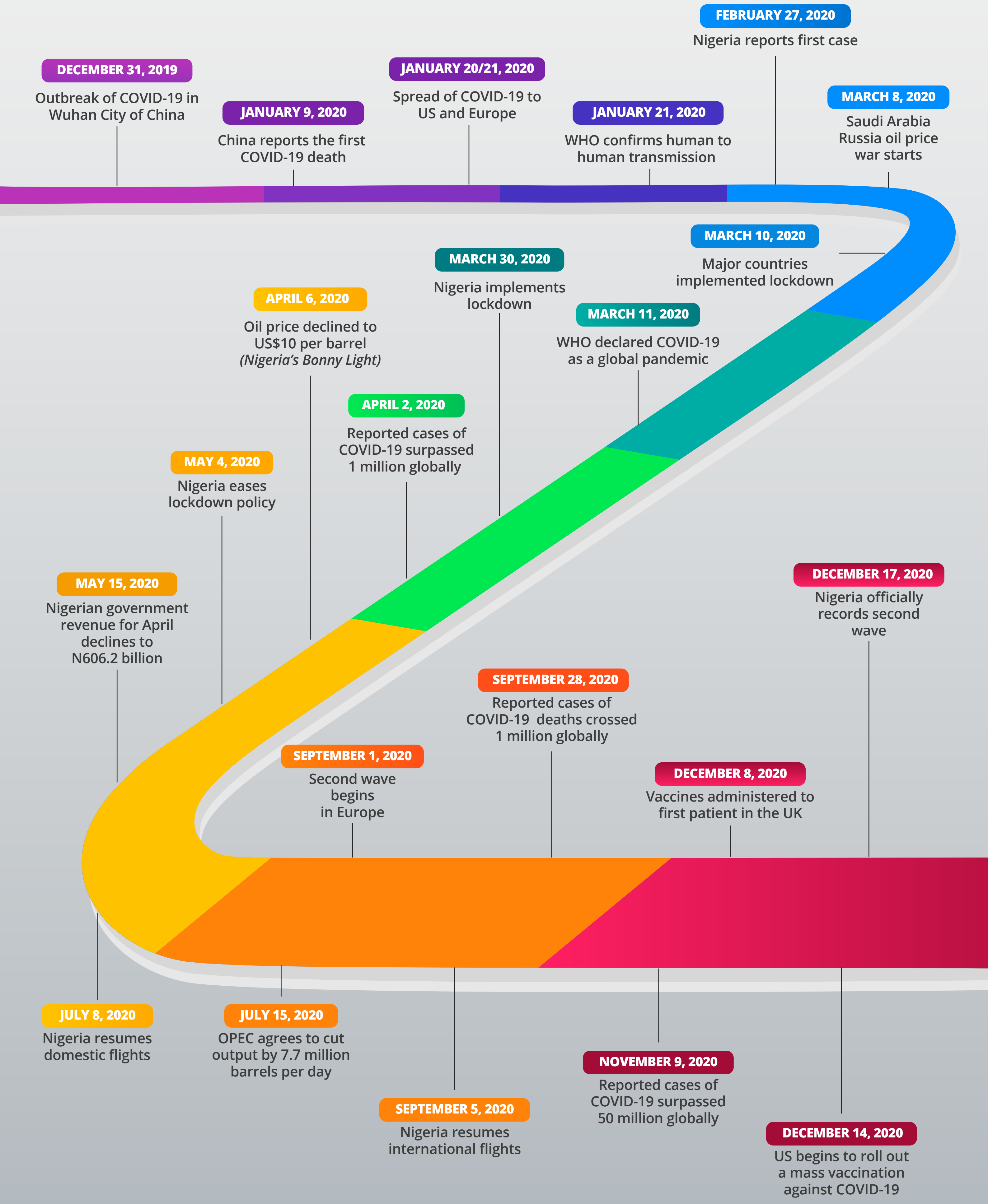
In October 2020, Nigerian youths took to the street in protest against police brutality and demanded the outright disbandment of the Special Anti-Robbery Squad (SARS). The aftermath of the protests was characterized by massive looting and destruction of private and public facilities in many parts of the country.

10

Devaluation of the Naira

The CBN adjusted the Naira exchange rate from N307/US$ to N361/US$ and N381/US$ in March and July 2020, respectively. The policy action was taken to slowdown the depletion of the external reserves.

Timelines of Key COVID-19 related events



IMPACT OF COVID-19 ON THE NIGERIAN ECONOMY

Real sector performance in Nigeria nosedived on the impact of COVID-19. However, the agricultural sector showed some level of resilience

Chart 1: Nigeria's Real GDP Growth

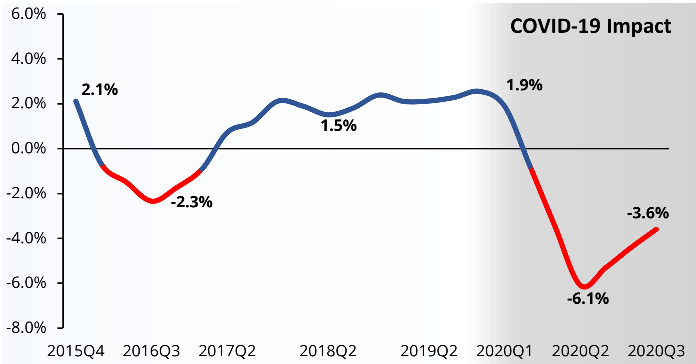
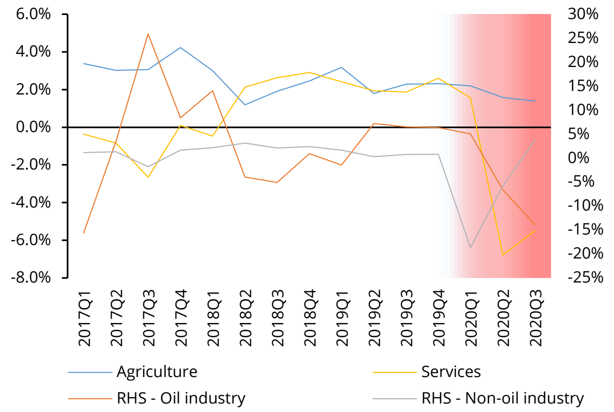


Chart 2: Sectors' Performance (Growth rate)



Inflation rate consistently increased, Exchange rate became volatile in the parallel market

Chart 3: Inflation Rate (%)

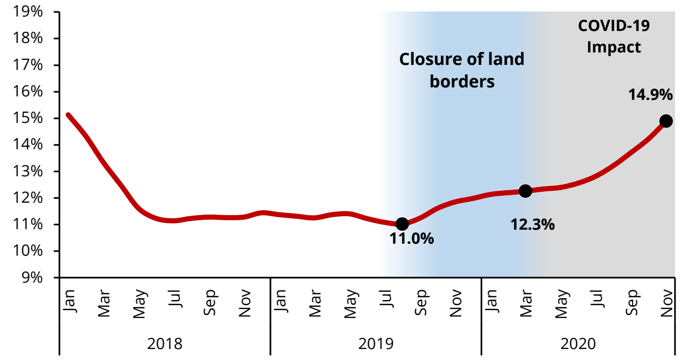
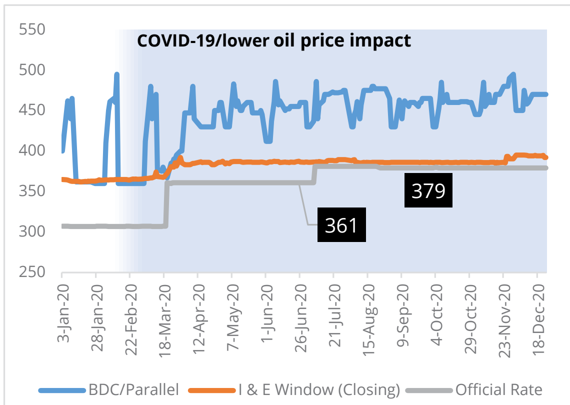
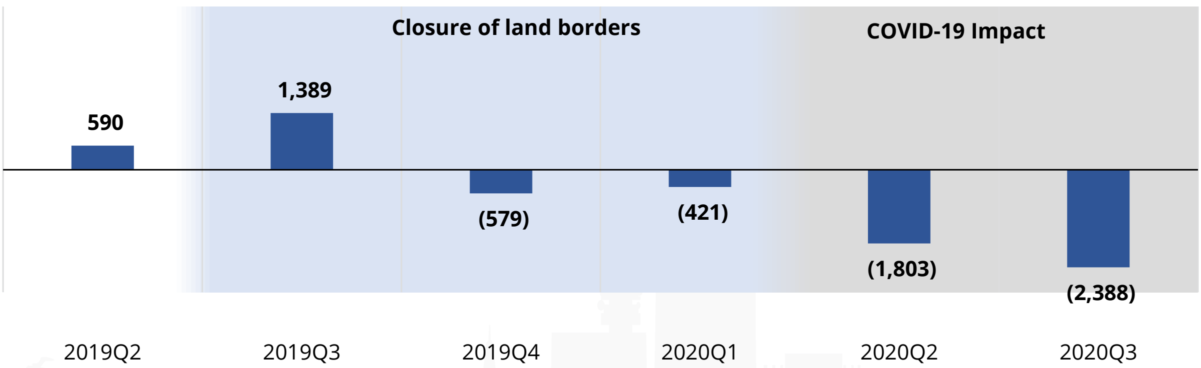


Chart 4: Exchange rate Movement (US$/N)



Value of Imports has been higher than Exports since the full closure of land borders in 2019Q4

Chart 5: Trade Balance in Billion Naira



Interest rates continued its downward trend

Chart 6: Interest rate environment

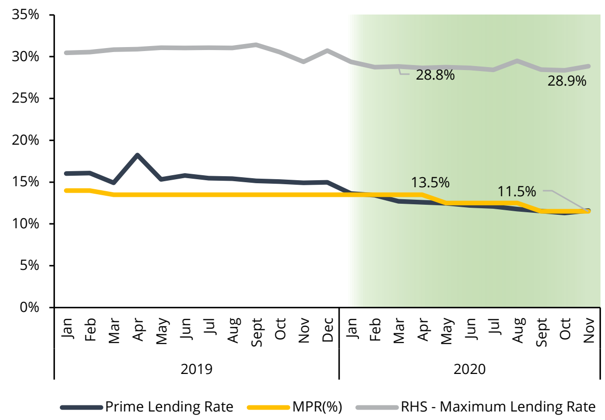
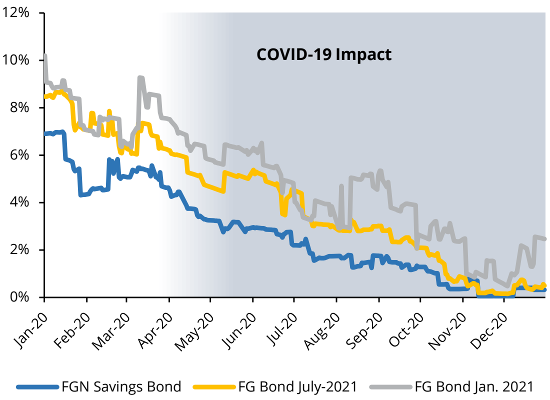


Chart 7: Yield Curve of Nigerian Bonds Market (%)



Foreign Investment inflows declined significantly, External Reserves faced severe pressure

Chart 8: Total Foreign Capital Inflows (US$ Billion)

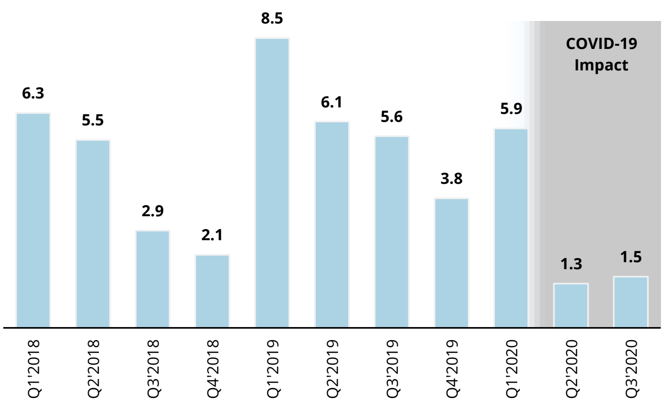
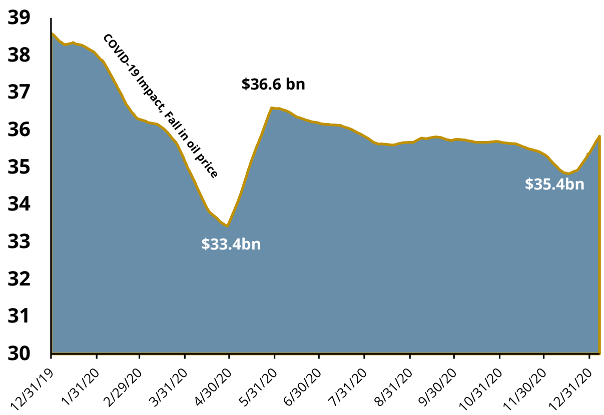


Chart 9: External Reserve Movement (US$ Billion)



Data Source: Central Bank of Nigeria, National Bureau of Statistics, FMDQ; Chart: NESG Research

Outlook for 2021

On the global front, weakness in global activities due to Covid-19 and oil price shock has eased faster than expected. Going forward, Nigeria's macroeconomic outlook remains contingent on the interaction of global conditions and efficient domestic policy environment However, an effective COVID-19 vaccine and return to normalcy will play a critical role in stabilizing the global economy. On the downside, recovery will be threatened by the second wave of COVID-19 and possibly a third wave in the United States which would heighten the level of uncertainty, disrupt planned investments and constitute a strain on global economic activities. Also, OPEC+ voluntary cut in oil production in January 2021 will keep oil prices moderate, portending lower oil revenues for oil-exporting economies. Finally, without debt relief to many less developed economies, there is a high possibility of occurrence of the huge global debt trap which may result in a global financial crisis.

The recovery of the global economy will hinge on the discovery and distribution of an effective COVID-19 vaccine. Significant efforts have been made in the discovery and distribution of COVID-19 vaccines since the fourth quarter of 2020. Meanwhile, the emergence of new strains of the virus is likely to prompt another series of lockdown across many countries. For instance, in December 2020, the United Kingdom (UK) reinstated travel restrictions as part of efforts to control the spread of COVID-19. Renewed lockdown pronouncements could slow the pace of economic recovery going into 2021. The IMF is however optimistic that the global economy would recover from the current slump with a growth projection of 5.2 percent in 2021. Nonetheless, the pace and extent of global economic recovery would largely depend on the discovery of an effective vaccine against the viral infection and its new strands. Consequently, commodity-dependent countries, such as, Nigeria would remain vulnerable to recurring external shocks through the oil price, trade and investment channels.

GDP growth will improve and possibly return to positive region but unemployment and poverty rates will maintain an upside position. In our moderate case scenario for 2021, we do not expect the implementation of lockdown and movement restrictions as experienced in April 2020. However, selected restrictions which will affect sectors such as education, transport, accommodation and food services, etc will be implemented. As the global economy recovers in the later part of 2021 and given the anticipated stability in crude oil price, we expect Nigeria's GDP growth to return to positive region in 2021. However, growth in output will not be accompanied by a reduction in poverty, unemployment and underemployment rates, especially given the weak correlation between output and these indicators in the short term in Nigeria.

Prices will remain high, inflationary pressure will persist in 2021 on the back of renewed pressure from petrol pricing and increased electricity tariff. Inflationary pressure in 2020 was driven by a combination of factors including the land border closure, the increase in price of petrol and electricity tariff, foreign exchange challenges, insecurity and supply chain disruptions. While the government ordered reopening of the land borders in December, other factors cited above are still in existence. Following the removal of petroleum subsidy, for instance, petrol prices went as high as N167 per litre in December 2020. Recovery of crude oil prices could also translate into higher petrol prices or the resumption of government subsidies. This is a crucial issue that policymakers will have to contend with in 2021. In addition, the upward adjustment in electricity tariff will fully manifest in 2021 as businesses are still adjusting to COVID-19. Also, some of the provisions that came with the finance bill especially the increase in VAT from 5 percent to 7.5 percent will continue to influence the price level going forward.

Insecurity has now become a major risk to doing business in Nigeria. The challenge of insecurity became severe in 2020 with incessant kidnappings, robbery, theft and other forms of crimes in several parts of the country. This created panic among citizens and investors and is a major factor that limited huge inflow of private capital into crucial sectors of the economy. If unchecked, the insecurity situation will intensify and could slow down economic recovery in 2021.

Interest rate is expected to increase in 2021. The interest rate environment was muddled in 2020 following the CBN OMO regulation which bulged the liquidity in the system. This resulted in a downward trend in the rates across segments of the market, which was also followed by lower Foreign Portfolio Investments (FPIs) targeting fixed income instruments. It, however, led to a rally in the equity market, which closed the year as one of the best performing stock markets in the world. With the introduction of CBN Special Bill that accommodates retail investors, the excess liquidity will be reduced and the interest rates especially on Treasury Bills and OMOs are likely to adjust upward in 2021.

Government revenue to improve in 2021. The fiscal position was already constrained prior to COVID-19, which further intensified pressure on government revenue. Despite the revenue challenges associated with the pandemic, the government reaped some benefits from the tax reforms that came with the Finance Act 2019, particularly the increase in Value Added Tax (VAT). With the discovery of vaccines for COVID-19, the oil market is expected to marginally pick up. Non-oil revenue is also expected to improve in anticipation of an economic recovery in 2021.

FDI inflows will improve; trade deficits would be reversed and foreign exchange challenges will persist.

As economic activities improve, we expect improved inflows of FDIs into key sectors of the economy; albeit not above the pre-COVID-19 level. We believe that investors will seek to take advantage of Nigeria's large market, as well as, leverage the opportunities that the AfCFTA offers. Nigeria is also expected to narrow its trade deficit in the year as earnings from crude oil improve. However, reforms are needed to boost non-oil export earnings and attract significant capital into key sectors such as manufacturing, agriculture, trade and ICT.

Key Policies and Events that will shape 2021

01

Mass production and administration of COVID-19 vaccines globally.
Large pharmaceutical companies across the world have shown commitment towards the mass production of COVID-19 vaccine. The discovery and effective distribution of vaccine would speed up global economic recovery and restore stability in global commodities and financial markets including that of Nigeria. The new strain of the virus could however slow recovery in 2021.

02

OPEC-plus agrees to boost oil output from January 2021
In 2020, OPEC and its allies started to implement a production cut of 7.7 million barrels of crude oil per day. With the prospect of improved global oil demand in sight, the oil cartel has agreed to increase its crude oil output by 500,000 barrels per day starting from January 2021. Nigeria would benefit from the increase in output via oil GDP and oil revenue increase.

03

COVID-19 partial lockdown and social distancing
There is a possibility of an increase in the spread of COVID-19 in Nigeria and this could lead to shutting down of schools, entertainment centres and other public places. Consequently, economic activities would be constrained going forward.

04

Completion of Lagos-Ibadan Railway Project
The Federal government has reiterated plans to complete the Lagos-Ibadan railway project by mid-January 2021. The US$1.6 billion rail project would boost interstate trade volumes and soften pressure on the road infrastructure.

05

Early implementation of the 2021 Appropriation Bill
On December 31, 2020, the President signed the 2021 Appropriation Bill into law with an expenditure outlay of N13.6 trillion. Early implementation of the 2021 Budget is expected to kick-start economic recovery going forward.

06

Re-opening of land borders
On December 16, 2020, the Nigerian government ordered the opening of the four land borders which have been shut since October 2019. The reversal of the land border closure policy is expected to boost trading activities between Nigeria and its West African neighbours.

07

Implementation of AfCFTA
Implementation of AfCFTA commenced on January 1, 2021. The trade deal is expected to create a single market with combined GD of US$2.5 trillion and total population or market size of 1.2 billion. Nigeria is expected to gradually implement some of the agreements of the trade deal in the year.

08

Introduction of Special Bills by the CBN
In order to manage excess liquidity in the system, the CBN has introduced a Special Bill with a tenor of 90 days and zero coupon rate. Unlike the subsisting OMO bill, prospective market participants include banks, retail and institutional investors. This is likely to tighten market liquidity and drive up money market rates in 2021.

Macroeconomic Projection for 2021 - 2025

Our projection for 2021-2025 was executed with the use of the NESG Macroeconomic Model which was developed to simulate and analyse the impacts of different policies on major macroeconomic indicators.

		Assumptions			Outcomes				
		Crude Oil Price (US$/Barrel)	Crude Oil Production (Barrel/ Million)	Capital Expenditure (N'Trillion)	Real GDP Growth Rate	Inflation Rate	Increase in Govt. Revenue	Unemploy-ment rate	Underem-ployment rate
Scenario 1: Best Case	**2021**	51	1.8	2.3	2.9%	14.5%	23.3%	26%	28%
	2022	53	1.8	2.5	5.5%	13.8%	30.4%	23.5%	27.4%
	2023	57	1.9	2.8	4.9%	12.6%	30.4%	22.2%	26.2%
	2024	63	2.1	3.3	6.4%	11.8%	30.4%	20.8%	25%
	2025	65	2.2	3.8	7.5%	11.8%	30.4%	19.3%	24.1%
Scenario 2: Business as Usual	**2021**	44	1.7	1.7	0.9%	16%	10%	28.3%	29%
	2022	45	1.7	1.8	1.7%	15.1%	10%	29%	30%
	2023	46	1.7	1.8	2.2%	14.3%	10%	30%	30.3%
	2024	48	1.8	1.9	2.7%	13%	10%	30.3%	30.7%
	2025	50	1.8	1.9	2.9%	12.1%	10%	30.7%	31%
Scenario 3: Worst Case	**2021**	30	1.4	1.1	-2.5%	17%	-40%	33%	32%
	2022	40	1.7	1.4	-0.6%	18.1%	5%	35%	32.6%
	2023	44	1.7	1.7	1.1%	18.7%	5%	35.3%	32.3%
	2024	45	1.7	1.7	1.7%	18.2%	5%	35.3%	32.7%
	2025	46	1.8	1.9	1.9%	17.7%	5%	34.7%	32.5%

Rationale and Outcomes

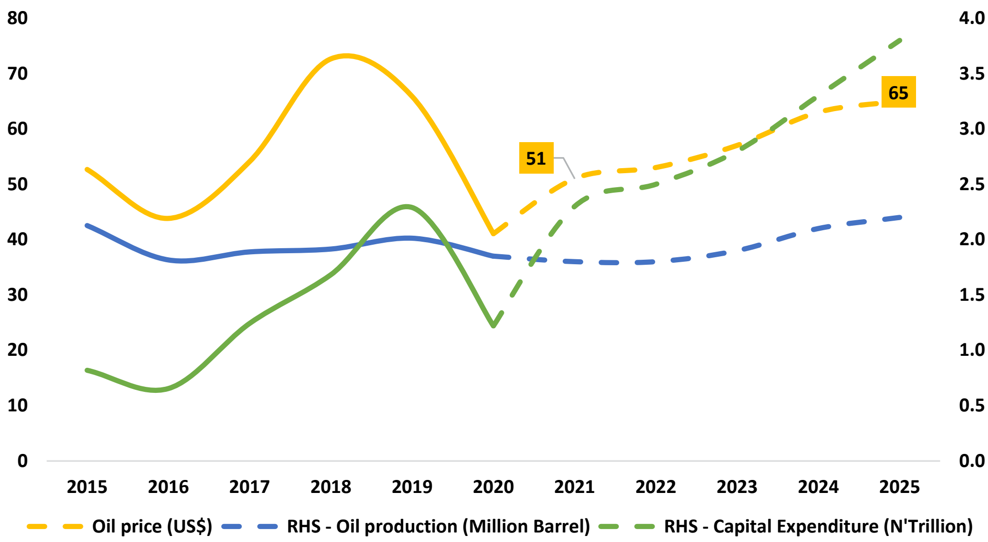
Rationale

Scenario 1 – Best Case: In our best-case scenario, we assume that the continued discovery and availability of vaccines and recovery of the global economy would lead to relative stability in the global oil market for 2021 – 2025. Consequently, we assume that global oil price will average US$51 per barrel in 2021 and increase to US$53, US$57, US$63 and US$65 per barrel in 2022, 2023, 2024 and 2025 respectively. Alongside oil price, this scenario assumes an improvement in crude oil production to 1.8 million barrels per day (mbpd) in 2021 to 1.8 mbpd, 1.9 mbpd, 2.1 mbpd and 2.2 mbpd in 2022, 2023, 2024 and 2025 respectively. This is in anticipation of a reduction in OPEC cuts, expansion in Nigeria's production quota, the commitment of the National Assembly to passing the Petroleum Industry Bill and continued peaceful operation in the Niger Delta region. This scenario further assumes the federal government will be able to spend up to N2.3 trillion as capital expenditure in 2021 and N3.8 trillion in 2025. This will rest on the anticipated increase in revenue from oil and non-oil sectors. This scenario also assumes improved private investment as well as capital and labour efficiencies across major sectors during the period.

Scenario 2 – Business as Usual: The business-as-usual scenario assumes that crude oil price will average US$44 per barrel in 2021. The price of crude oil will increase gradually to US$50 per barrel in 2025. This is on the back of increasing usage of vaccines among major economies of the world, however, mass vaccination will be delayed, thus, resulting in slower economic expansion and demand for crude oil. To maintain a higher crude oil price, OPEC will constantly implement production cuts over the period. Consequently, Nigeria's crude oil production will average 1.7 mbpd in 2021 and 1.8 mbpd in 2025. This scenario also assumes that the government spends N1.7 trillion as capital expenditure in 2021 and N1.9 trillion by 2025.

Scenario 3 – Worst Case: In the worst-case scenario, we assume crude oil price will average US$30 per barrel in 2021 and US$46 per barrel in 2025. In this scenario, there is an escalation in the spread of COVID-19, especially the new strain, which leads to another round of global lockdown with resultant effects on crude oil demand from major economies in Europe, Asia and North America. Consequently, OPEC expands production cut and Nigeria's crude oil production declines to 1.4 mbpd in 2021 and increases to 1.8 mbpd in 2025. With the eventual decline in government revenue, we assume the federal government spends N1.1 trillion as capital expenditure in 2021 and N1.9 trillion in 2025 financed majorly by borrowings.

Figure 17: Assumptions - Trends of Drivers (2021 -2025)



Outcomes

Scenario 1 – Best Case: The outcomes of this scenario will have significant upside on the macroeconomy over the period 2021 – 2025. Real GDP expands by 2.9 percent in 2021; by 5.5 percent in 2022 and 7.5 percent in 2025. The growth will be driven by expansion in major sectors such as Agriculture, Telecommunications, Financial Institutions, Construction, Trade and Manufacturing. Government revenue will increase by 23.3 percent in 2021 and expand by an average of 30 percent over the next five years. Inflation rate will moderate to 14.5 percent in 2021 and move down to 11.2 percent in 2025. In addition, the unemployment rate will fall to 26 percent and 19.3 percent in 2021 and 2025 respectively. In this scenario, the Nigerian economy recovers swiftly from the recession and gets on a path of high and sustainable growth that delivers improved social welfare.

Table 1: Scenario 1 - Best case

	Real GDP Growth Rate	Inflation Rate	Increase in Govt. Revenue	Unemployment rate	Underemployment rate
2021	2.9%	14.5%	23.3%	26%	28%
2022	5.5%	13.8%	30.4%	23.5%	27.4%
2023	4.9%	12.6%	30.4%	22.2%	26.2%
2024	6.4%	11.8%	30.4%	20.8%	25%
2025	7.5%	11.8%	30.4%	19.3%	24.1%

Scenario 2 – Business as Usual: The outcome of this scenario is a gradual improvement of the economy. Real GDP expands by 0.9 percent in 2021; 1.7 percent in 2022 and 2.9 percent in 2025. Agriculture, Finance and Telecommunications sectors continue to be the major driver of growth based on their recent resilience. Meanwhile, other sectors such as Manufacturing and Services expand marginally. Nevertheless, government revenue increases by 9.6 percent in 2021 and maintains an average growth of 10 percent over the next five years. Despite the opening of the land borders, the persistent restrictions from the continuous spread of COVID-19, increased electricity and petrol prices keeps the inflation rate high at 16 percent in 2021 while it subsided to 12.1 percent in 2025. Also, unemployment rate will inch up to 28.3 percent in 2021 and to 30.7 percent in 2025. This implies that economic growth will be driven by a few sectors of the economy.

Table 2: Scenario 2 - Business as usual

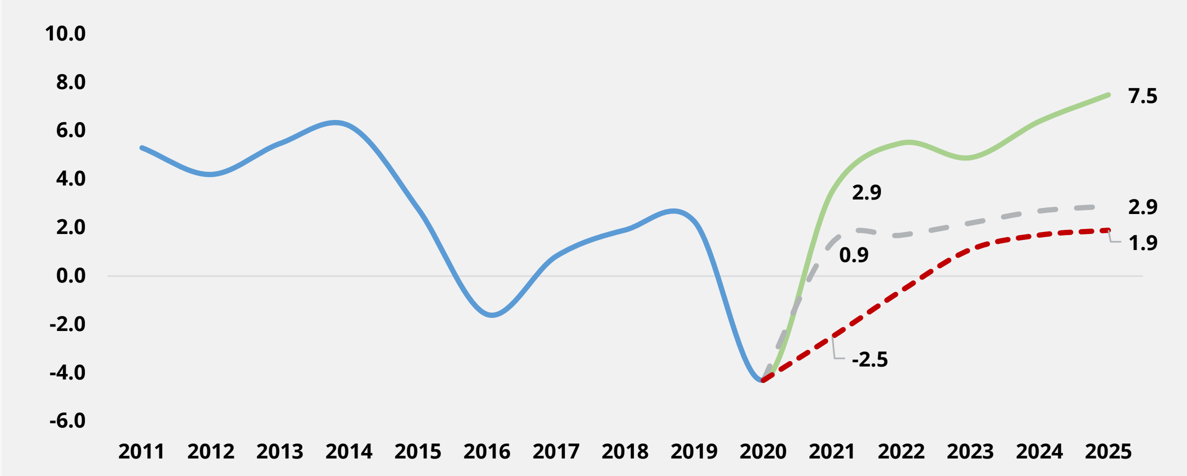
	Real GDP Growth Rate	Inflation Rate	Increase in Govt. Revenue	Unemployment rate	Underemployment rate
2021	0.9%	16%	10%	28.3%	29%
2022	1.7%	15.1%	10%	29%	30%
2023	2.2%	14.3%	10%	30%	30.3%
2024	2.7%	13%	10%	30.3%	30.7%
2025	2.9%	12.1%	10%	30.7%	31%

Scenario 3 – Worst Case: In this scenario, real GDP declines by 2.5 percent and 0.6 percent in 2021 and 2022 respectively. In 2023, 2024 and 2025, the economy expands by 1.1 percent, 1.7 percent and 1.9 percent respectively. The output of key sectors such as manufacturing, construction and other services subsectors will experience contraction. This will lead to a contraction in government revenue by 40 percent in 2021 as revenue from oil and non-oil sectors becomes constrained. Subsequently, government revenue increases marginally by an average of 5.2 percent over the following four years. Inflationary pressure increases further as inflation rate rises to 17 percent and 18.7 percent in 2021 and 2023 respectively before inching down to 17.7 percent in 2025. Unemployment rate increases to 33 percent in 2021, further to 35.3 percent in 2024 before retreating to 34.7 percent in 2025.

Table 3: Scenario 3 - Worst case

	Real GDP Growth Rate	Inflation Rate	Increase in Govt. Revenue	Unemployment rate	Underemployment rate
2021	-2.5%	17%	-40%	33%	32%
2022	-0.6%	18.1%	5%	35%	32.6%
2023	1.1%	18.7%	5%	35.3%	32.3%
2024	1.7%	18.2%	5%	35.3%	32.7%
2025	1.9%	17.7%	5%	34.7%	32.5%

Figure 18: Real GDP Growth Rate Projections for 2021-2025 (Percent)



Part II

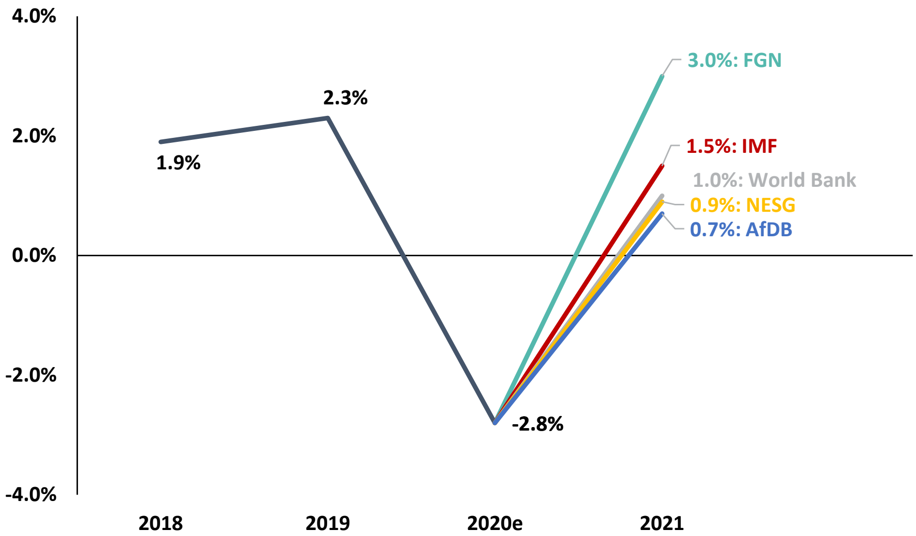
4 PRIORITIES FOR THE NIGERIAN ECONOMY IN 2021 AND BEYOND

Introduction

The economic uncertainties that dictated the momentum of the Nigerian economy in 2020 - and the resultant outcomes, present an opportunity for the Nigerian government to simultaneously tackle key structural issues and restore the economy back to the growth path. Thus, the government's most important agenda in 2021 must be to address these problems as a foundation for economic recovery in the short term and inclusive economic growth in the future.

In consonance with the expected recovery of the global economy in 2021, Nigeria is also projected to exit the recession in the year. Our business-as-usual scenario agrees with this projection. However, Nigeria needs more than a simple GDP rebound especially taking into consideration the last recovery cycle. What the Nigerian economy needs is a high, robust and sustained economic growth that delivers a significant reduction in unemployment and poverty.

Figure 19: Actual and Projected real GDP growth for 2021



Data Source: Various sources. Chart: NESG Research

As presented in Part 1 of this report, the best-case scenario perfectly suits this aspiration - the Nigerian economy would grow by 2.9 percent in 2021 and achieve a sustained high growth rate up to 2025. In addition to a high GDP growth, the country will achieve a more robust and resilient economy exemplified by improved external reserves and fiscal position as well as stable inflation rate. Government revenue is projected to increase by 23.3 percent in 2021 and is expected to increase further till 2025. Exchange rate will become stable and key inclusive growth indicators such as unemployment and poverty rates will gradually reduce overtime.

Private Investment is the key to achieving faster recovery and inclusive economic growth...

To achieve this best-case scenario – high, robust and sustained economic growth that delivers a significant reduction in unemployment and poverty – investment, which is an important component of aggregate demand, will play a crucial role. As the effect of the pandemic wanes out over time, the Nigerian government will be under pressure to repay its debt and this could either constrain future budget non-debt expenditures or result in more borrowing. Both options would only heighten the risk of having a depressed economic growth era with rising unemployment and poverty rates.

Following the constrained fiscal space faced by the Nigerian government, investment in critical sectors is what will drive economic recovery and sustain the growth momentum in the medium term. Investment, both local and foreign direct, is often associated with job creation, technical knowhow, technology, economic growth and the strive towards efficiency.

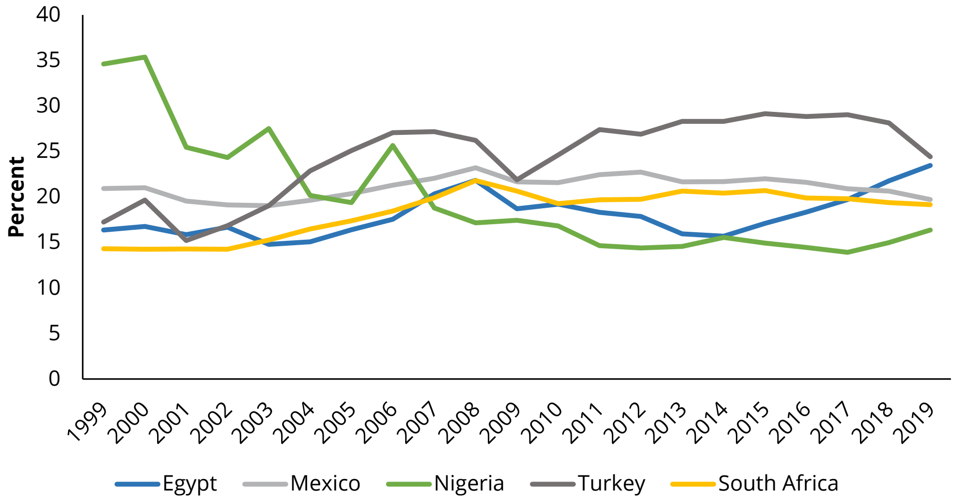
Looking at the growth experience of several countries, evidence suggests that there is a strong linkage between investment in strategic sectors and the reduction in unemployment and poverty. China, which is a major reference for many developing countries, implemented the Open Door Policy which led to a significant inflow of investments into several sectors of the economy. Specifically, FDI inflows rose from US$916 million in 1983 to US$3,487 million in 1990. In 2002, China became the world's largest recipient of FDI, receiving nearly US$53 billion. Inflow of investment was associated with lifting 850 million people out of poverty from 1981 to 2013. The percentage of people living in extreme poverty fell from 88 percent to 1.85 percent during the same period.

...but size of private investments and the sectors receiving these investments matter

While investment is important for economic growth in Nigeria, there is limited evidence to show that higher investment can be linked with a significant reduction in unemployment and poverty. This is because Nigeria has, for decades, struggled with the challenges of rising unemployment and poverty rates. We can, however, infer that the reason for the weak linkage between investment and these social indicators can be attributed to two major factors: First, is the low amount of investment as shown by the share of investment in real GDP and second, is the direction of investment i.e. the nature of the sector acquiring the investment.

On the first point, Nigeria's real investment as a share of GDP has trended downwards and remained low over the past decade when compared with those of peer countries. As at 2019, Nigeria has experienced an 18.2 percentage point decline in investment as a share of real GDP from 34.6 percent in 1999 to 16.4 percent. This suggests a huge burst in real investment over the past two decades. Moreover, just like the experience of the 2016 recession, the recessionary impact of COVID-19 would further constrain private investments.

Figure 20. Real Gross fixed capital formation (% of GDP)



Data Source: World Development Indicator. Chart: NESG Research

During the era of high economic growth rate (2000-2007), Nigeria implemented crucial reforms of privatisation and liberalisation which saw an increase in the inflow of investments into the energy and telecommunications sector. The opening up of the telecoms sector, in particular, led to the inflow of multinational firms into Nigeria with huge investments in broadband connectivity and other ICT infrastructure. Although sectors such as oil & gas, power, and telecommunication experienced significant inflow of investment during the period, Nigeria experienced negative de-industrialisation, a situation in which the manufacturing industry faces challenges, thus creating unemployment, thereby depressing real income.

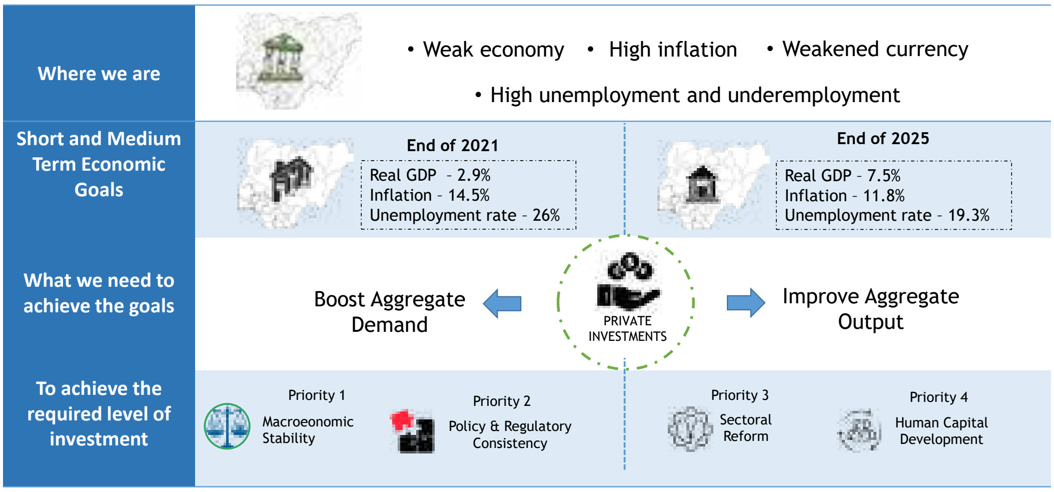
On a positive note, the world (Nigeria inclusive) is not short of capital but the business environment needs stability

What is more comforting is that the global economy is not short of capital; neither is the local economy. As at November 2020, there was about US$17 trillion of capital invested in negative-yielding interest-bearing securities globally . In Nigeria, excess liquidity in the fixed income markets has resulted in lower interest rates and a capital market bubble as seen in the last quarter of 2020.

But investment looks beyond the country's potential and considers the level of risks matched against possible returns. Attracting and retaining investments into critical sectors in Nigeria will therefore require a stable environment, where policies are fairly predictable or at least policy uncertainties are reduced to the barest minimum. Reforms, therefore, are needed to remove structural constraints to enable the expansion of the private sector, which will play a major role in the post-COVID-19 pandemic economic recovery.

In view of this, we propose a theory of change that highlights four key priority areas that are important in attracting significant investments and in turn, improving Nigeria's socio-economic outcomes in the short and medium term. These priority areas **are macroeconomic stability, policy and regulatory consistency, sector reforms and human capital development.**

Figure 21: Theory of Change and 4 Priority Areas for Nigerian Economy in 2021 and Beyond

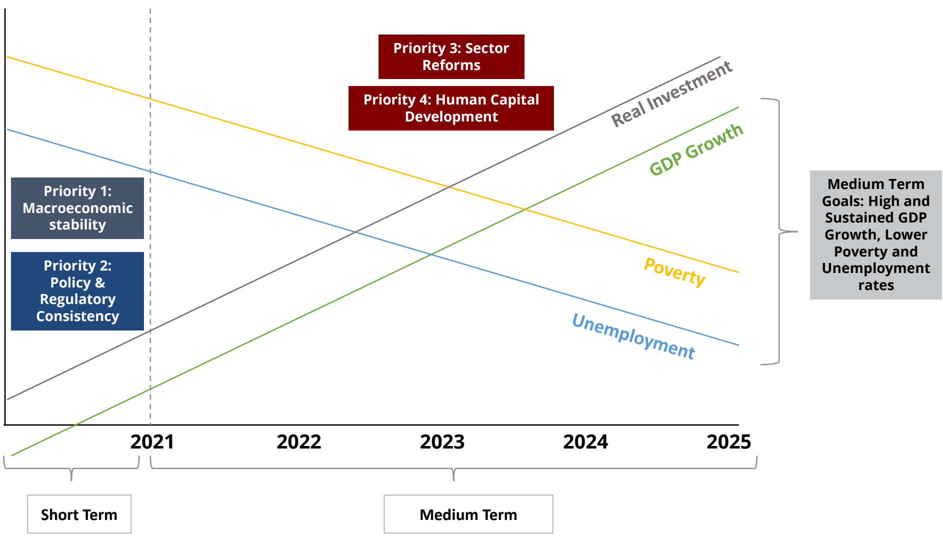


Priorities 3 & 4 will have low to moderate impacts on aggregate demand and output in the short-term

The change framework, as proposed, provides an implementation flows with possible policy outcomes that seek to achieve the earlier-prescribed best-case scenario. Recommended policies within the priority areas are also specific in dealing with the constraints hindering productivity in Nigeria.

From an impact perspective, although all the priorities will have huge impacts on Nigeria's socio-economic landscape over the next five years, two of the four priorities – Macroeconomic Stability and Policy/Regulatory Consistency – if achieved, will deliver a much higher impact in the immediate and short term. Because COVID-19 induced shocks resulted in volatility and instability of macroeconomic indicators such as inflation rate, GDP growth, fiscal balance and exchange rate, among others, macroeconomic stabilization and policy coherence should be the first point of call towards economic recovery and also in achieving high and sustainable economic growth over the medium term.

Figure 22: Priorities Impact over time



Note:
Priority 1 & 2 will have a higher impact on the economy in the short term than 3 & 4
Priority 1, 2, 3 & 4 will have a higher impact on the economy in the medium term

PRIORITY 1: MACROECONOMIC STABILITY

Macroeconomic instability became evident in 2020

Nigeria's poorly diversified economy is reflected in its heavy reliance on the oil sector, which is fundamentally prone to shocks and fluctuations. On account of this, the country is subjected to many shocks that trigger macroeconomic instability and adverse socio-economic outcomes. Notwithstanding the country's extraordinary economic growth episode in the first decade of the 2000s, the unstable macroeconomic environment seems to have eroded the benefits achieved during the high growth era.

Assessing Nigeria using the **'Maastricht Indicators[1]** confirmed that the country has a volatile macroeconomic environment - steep economic growth, acute foreign exchange (forex) shortages and volatility, and deteriorating current account position (See Box 1A). In addition, inflation rate has exceeded the Monetary Policy Rate (MPR), thereby creating a suppressed yield environment and negative real returns on most of the country's investment instruments. Some critical policies, such as forex restrictions on food items and land border closure also contributed to price volatility. On the government side, fiscal deficits remained high in 2020 and exceeded the 3 percent of GDP benchmark as the government increased total expenditure in the 2020 budget. While the country faced a stagnated revenue situation, the hope of a quick recovery is limited by COVID-19 outbreak, resulting in lower crude oil price and weakened global oil demand. Although the country's debt stock remains low, debt service is increasingly troubling the effective implementation of her annual budget. These, in total, have adversely impacted investments, human capital development and stalled economic growth potentials of Nigeria. The unstable macroeconomic environment has contorted some economic progress and thrust many people into poverty and unemployment[2].

While the current economic structure is the primary driver of macroeconomic instability in Nigeria, many other policy and non-policy factors contribute weighty shockwaves to the economy. Some of the policy factors include rigidity of FX management, the inertia to implement the needed pro-market reforms in crucial sectors such as liberalisation of downstream oil and gas sector, deregulation of the energy sector, and harmonisation of monetary and fiscal policy direction, among others. Other factors include insecurity, high level of corruption, high unemployment and under-employment rate, policy inconsistency and perceived limited capacity of the Nigerian government to properly implement many of the reforms initiated to drive the economy.

[1] Maastricht indicators or Criteria are used to define Macroeconomic Stability in the European Union. These indicators are low and stable inflation; low long-term interest rates; low national debt relative to GDP; low fiscal deficits; and domestic currency stability.
[2] Arieff, A. et al (2010) The Global Economic Crisis: Impact on Sub-Saharan Africa and Global Policy Responses. Congressional Research Service

Box 1A: Assessments of Nigeria using the Maastricht Indicators of Macroeconomic stability

Figure 23: Real GDP Growth Trend & Oil Sector Growth

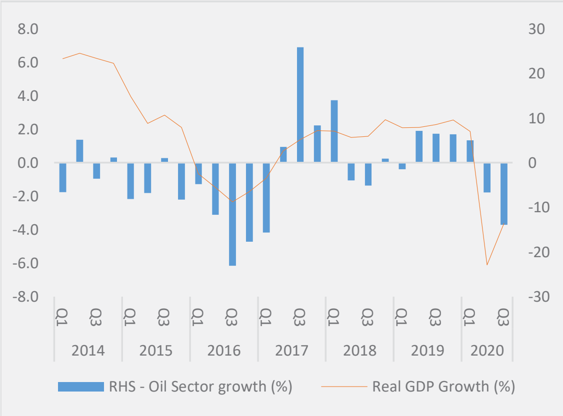


Figure 24: Trend of Inflation & Volatility

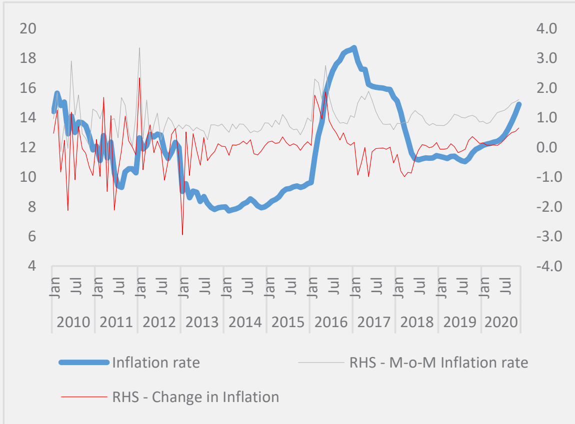


Figure 25: Trend & Volatility of Current Account

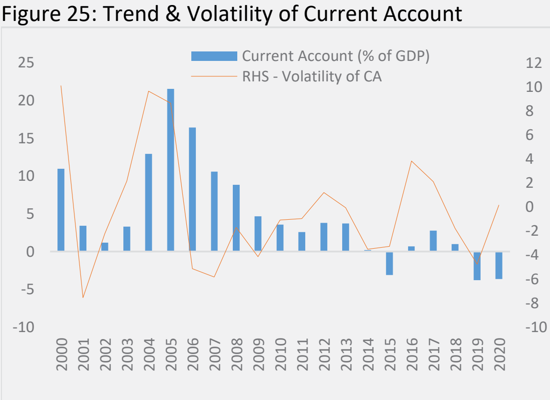


Figure 26: Interest rate movement

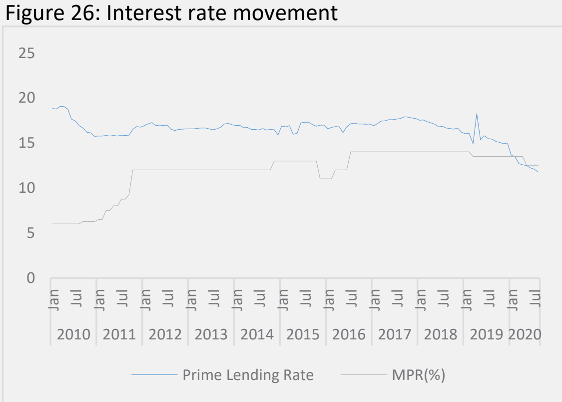


Figure 27: Trend of Exchange (US$/NGN)

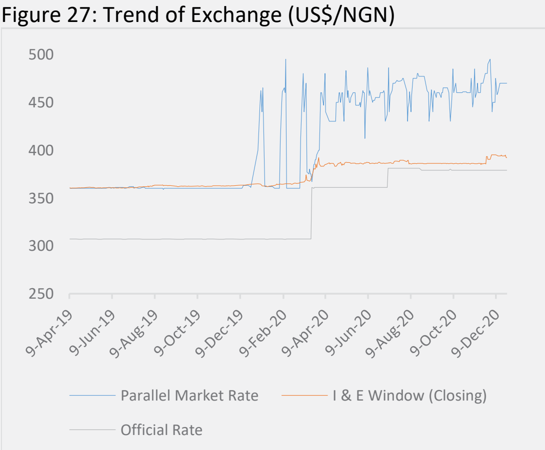
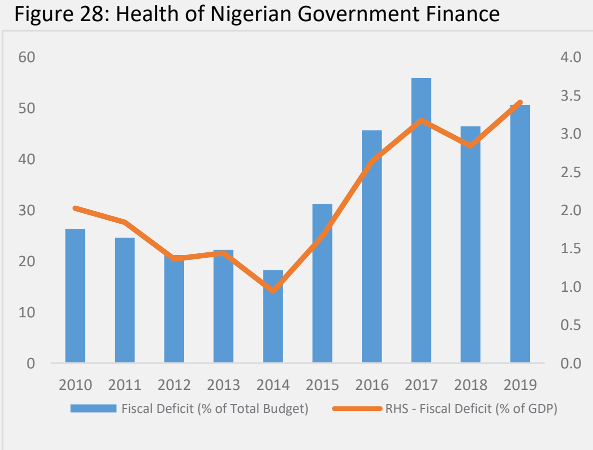


Figure 28: Health of Nigerian Government Finance



Data Source: CBN, NBS, IMF. Chart: NESG Research

It is generally agreed that growth-promoting policies work effectively in a stable macroeconomic environment. Consequently, improving the country's macroeconomic environment should be the most vital priority for the Nigerian government - fiscal and monetary authorities. This is so because the stabilisation of the economy is a prerequisite for higher levels of investments (domestic and foreign) and economic growth. These indicators' favourable performance positively correlates with job creation, reduction in violence, and a higher standard of living.

BOX 1B: Challenges facing Nigeria's Macroeconomic Environment

The current state of Nigeria's macroeconomic environment is unfavourable in attracting huge investment, which is critical in driving economic growth. This condition is principally due to the weakening of its three core pillars: monetary institution, fiscal policy environment and good governance. In the fiscal policy space, the government faces a rising budget deficit. As at 2020, the budgetary deficit was 153.9% of government revenue and more than the benchmark figure of 3 percent of GDP. 47 percent of the N6.15 trillion actual deficit was financed by the Central Bank of Nigeria (CBN), thereby crowding out private sector investments especially considering the high level of market liquidity in the year. Also, some hard-line fiscal policies such as the 50% increase in the Value Added Tax (VAT) rate, the proposed hike in electricity tariffs and the stoppage of fuel subsidy among others. contributed significantly to the surge of inflation rate in the year.

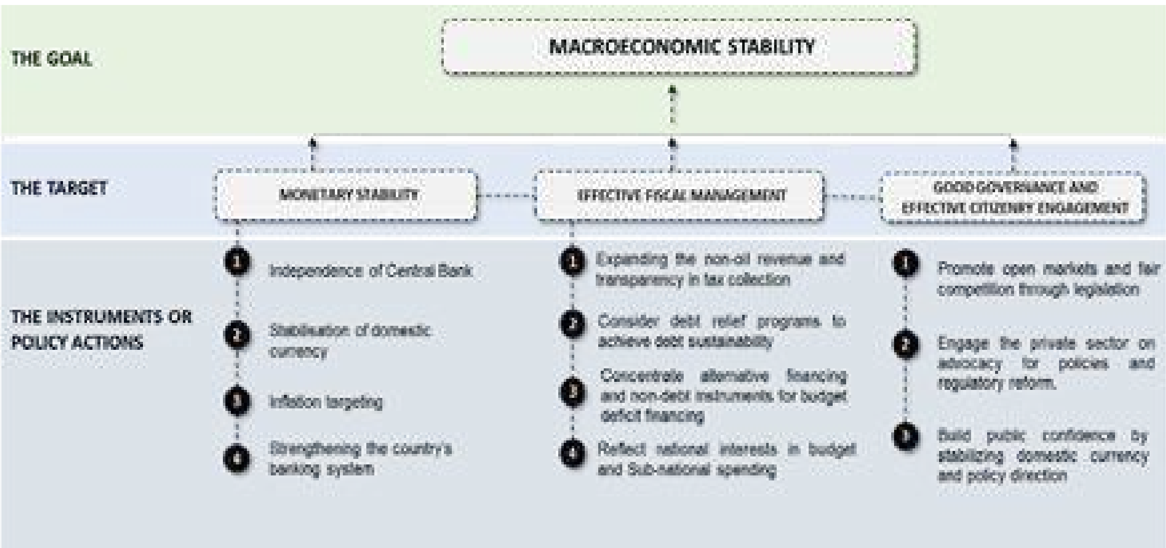
On monetary stability, there has been misalignment of the country's interest rate due to CBN's policy that restricted individuals and non-bank corporates from participating in the OMO space. For the most part of 2020, rates on fixed income instruments traded below the supposed benchmark rate- the MPR, while inflation rate rose rapidly, thus, creating a negative real interest rate environment. These developments heightened the level of uncertainty and narrowed investment options in the fixed income market, which plays an important role in the conduct of monetary policy and the stability of the financial system.

Nigeria's apex bank has, in recent times, focused more on implementing fiscal interventions while the practice of multiple exchange rate windows has been allowed to continue, despite its negative impact on the economy. Scarcity of foreign exchange (FX) and limited FX inflows particularly from non-oil sources- with the CBN being the major FX supplier- were predominant in 2020, partly due to the impact of COVID-19 and also as a result of poor FX management. We believe these are urgent issues that need to be addressed to improve investors' confidence and ensure stability of the financial system.

With the initiation of the right reforms, Nigeria can attain a level of macroeconomic stability needed to attract considerable investments to trigger economic potentials, achieve accelerated growth, and bring many Nigerians out of poverty in the shortest possible time. Our approach for Nigeria to achieve a stable macroeconomic environment is through a three-pronged policy stratification: monetary stability, effective fiscal management; and good governance and effective citizenry management. These policy recommendations are segmented into short and long-term based on their impact.

"...inflation rate has exceeded the Monetary Policy Rate (MPR), thereby creating a suppressed yield environment and negative real returns on most of the country's investment instruments"

Figure 29: Three-Pronged Policy Stratification for achieving Macroeconomic stability in Nigeria



Monetary Stability

Achieving monetary stability is a subjective assessment which varies from one country to another. Considering that Nigeria is at an early stage of recovery from an economic recession, the core of the country's monetary policy stance should be to stabilise the currency, bringing inflation and foreign-exchange rates to a level that is consistent with sustainable growth, and promoting good management of the banking system.

The table below presents some of the policy recommendations on how Nigeria can achieve monetary stability.

Independence of Central Bank:
An independent monetary authority typically exists when the Central Bank can implement monetary policy decisions without direct or perceived political interference. Promoting this should be a focal policy point.

Stabilisation of domestic currency:
For an economy, having an unstable currency is harmful to growth as it causes inflationary pressure and depletion of resources. As a result, there are few options to stabilise the currency, including discontinuing the multiple FX windows and setting the exchange rate close to the I & E window or BDC rate. Hence, the CBN should ensure policy clarity and work with the fiscal authorities to develop a foreign exchange policy that supports economic growth and instils confidence.

Inflation targeting: For government and monetary authorities, the first task should be to achieve a stable price level. This is because stabilising inflation would help to restore public confidence in the Naira and attract more significant investments. As a result, these are key action points:

- Set an annual inflation target for the country at 6-9 percent. In the short term, a higher single-digit target is encouraged for a recovering economy as it serves as incentives for production.
- The CBN needs to work closely with the Fiscal authorities to address key policy constraints such as multiple taxations, high tariffs etc. Although, this is not a function of the CBN, they are important in achieving inflation target.

Strengthening the country's banking system: At this stage, the central bank should focus on creating effective financial intermediation and expansion of coverage. Thus;

- Establish rules for transparency and corporate governance in financial institutions;
- Formally integrate FINTECHs and other third party non-bank or financial institutions into the banking system as practised in Kenya, Ghana and South Africa;
- Avoid political lending, prevent bad loans as well as enhance credit supply to key sectors.

Effective Fiscal Management

This entails building an effective, transparent and accountable system for collecting revenue, spending public funds, and managing public debt. Achieving these will help stabilise the macroeconomic environment and position the country for sustainable long-term economic growth. Highlighted below are suggestions on how to achieve effective fiscal policy management in Nigeria.

Expanding the non-oil revenue and ensuring transparency in tax collection; the government needs to improve the tax compliance of businesses, especially from the non-oil sector. At this stage, there is a need to shift to improving the tax authority's capacity to broaden the tax base. In achieving this, the government must:

- Accept low tax rates on all earned income;
- Simplify tax procedures by harmonising all taxes into a separate basket of personal and business taxes.

Consider debt relief programs to achieve debt sustainability: Nigeria needs to approach multinational creditors like International Monetary Fund (IMF), World Bank and others with a proposal for **"Debt Servicing Relief".** This will help ease the country's shrinking revenue potentials and reduce the fiscal deficit.

Concentrate on alternative and non-debt sources for budget deficit financing; There is a need to consider adopting non-traditional financing mode, especially for infrastructure development.

- The institutionalisation of Private Public Partnership (PPP) model and the use of non-interest financing models, should be considered. These financing models are cheap, cost-effective and can help improve transparency in public procurement.

Reflect national interests in budget and Sub-national spending: Aside from ensuring transparency of the public procurement process, the fiscal plan must align with citizens' interest especially the implementation of the capital budget, procurement reforms etc.

Good Governance and Effective Citizenry Engagement

There is a need to guarantee proper operations of economic and non-economic institutions towards addressing the challenges of stabilising the macroeconomic environment. This is because economic institutions and laws are needless in bad governance and low public engagement.

Promote open markets and fair competition through legislation: Ensuring that the country's laws and regulatory environment support a market economy's tenets are critical at this stage. Thus, the following actions must be taken:

- Address inconsistency in current laws or legal frameworks governing commerce, labour and property rights.

Engage the private sector before policies and other reforms are implemented: Government should always consult widely while making new or updating existing laws.

Build public confidence by stabilising domestic currency and policy direction: Government must understand that perceptions are more important than reality in public engagement. Hence, relevant government agencies must work on improving public perception of the country's currency and policy of governments. In achieving this, the following are suggested:

- Shore up the country's reserves to US$50 billion by the end of 2021.
    - Government needs to support businesses that are non-oil export oriented to take advantage of AfCFTA.
    - Increase the inflow of FDI and other types of investments.
- Address FX supply bottleneck by ending the multiple FX rates;
- The first step should be to stop the **'Dollarisation'** of the Nigerian economy. The government must ensure there is a suppression of the current trend where people are now converting their savings into foreign currencies.

Box 2: Job Creation and Poverty Reduction should be a central theme in Nigeria's economic recovery process

Recessions in Nigeria are associated with job losses and increase in the number of people in poverty- the 2020 recession is no different. The unique nature of the 2020 recession, which saw the implementation of lockdowns and restrictions, also means that job losses and poverty challenges will be more severe.

Before the outbreak of COVID-19, our macroeconomic projection showed that unemployment rate would increase to 25 percent in 2020 in our moderate case scenario while the World Bank estimated that 2 million Nigerians were expected to fall into poverty in the year. With the pandemic and its implications on the economy, unemployment rate has risen to 27.1 percent as at June 2020 even as the World Bank stated that an additional 6.6 million Nigerians will fall into poverty in 2020. These statistics reveal the fact that COVID-19 will bring more hardship on the majority of Nigerians, thus, raising the stakes for the Nigerian government to intervene and provide solutions to key economic problems.

With about 4.8 million individuals entering into the labour force each year, we estimate that at least 52 million individuals will enter into the labour market from 2020 to 2030. This implies that to maintain the current unemployment rate of 27.1 percent by 2030, Nigeria needs to create at least 52 million jobs within the decade i.e. about 5 million jobs per annum to cater for new labour market entrants. This estimate ignores the growing size of new entrants into the labour force as the population expands, suggesting that the number of jobs required will even be more than anticipated.

To address the challenge of unemployment and by extension poverty, Nigeria's private sector has to be the engine room while the government sets the agenda and addresses key bottlenecks facing the business environment. First, the government must prevent further job losses and many more Nigerians from falling into poverty by providing financial support to businesses that have been severely hit by the pandemic. Secondly, new jobs are needed in the economy and this can only be attained through an expanding private sector and skills development. Driving the creation of new jobs is as important as preventing further job losses. Here, macroeconomic stability is an essential precondition. COVID-19 has intensified macroeconomic instability with rising inflation, foreign exchange scarcity, declining GDP and lower external reserves. These factors, along with other pre-existing bottlenecks, have further heightened pressure on businesses, led to job losses and plunged many individuals into poverty. To tame this challenge would require the monetary and fiscal authorities to work towards ensuring price stability by addressing factors that continue to trigger higher cost of doing business – cost of input, infrastructure deficit, forex rationing, and logistics challenges. Jobs can only be created when the private sector expands and government efforts must be geared towards addressing constraints that limit the expansion of businesses.

Our analysis on the linkage between employment and poverty in the Macroeconomic Outlook for 2020 is still relevant, especially because Nigeria is yet to make significant reforms that will lead to massive job creation and reduction in poverty. In the Macroeconomic Report titled "Nigeria in a New Decade: Priority for Accelerated Growth, Job Creation and Poverty Reduction", we examined the impact of job creation on poverty in Nigeria and estimated the elasticity of poverty with respect to job creation at -0.6. This suggests that for every 10 jobs created, only 6 people are lifted out of poverty on average. Beyond the fact that the economy has not created significant number of jobs over time compared with other fast-developing countries, constraints such as infrastructure deficit, rising inflation and ineffective governance led to an increase in the number of poor people in the country. In addition, the quality of jobs measured by the level of income, security and flexibility, remains low, thereby weakening the linkage with poverty reduction.

To change this narrative and strengthen the linkage, government reforms must focus on the need for the economy to expand its capacity to create significant jobs, the quality and type of jobs required (skills) to lift a significant number of individuals out of poverty and efficient labour market. The government will also need to implement reforms that will attract significant investments into six pre-identified sectors (Manufacturing, Construction, Trade, Professional Services, Education and Health) that met the criteria:

- Sectors that account for a sizeable share of employed individuals.
- Sectors that have potential to grow and expand their outputs
- Sectors with strong backward and forward linkages.
- Sectors with link to inclusive growth.

The advantage for Nigeria is that opportunities exist in these sectors especially when we consider potential local demand and exports. What is needed, however, is the political will to see through the much-needed reforms that address specific sectoral bottlenecks of quality inputs, finance, market access, infrastructure, skills shortage, cost of doing business and regulatory challenges. We estimated that addressing these core challenges has the potential to create an additional 12 million jobs in the next five years and lift an estimated 52 million individuals out of poverty – a job-poverty elasticity of 4.3. This simulation was carried out under a scenario where both the quality and quantity of jobs improve significantly, as the economy experiences rapid growth. Income from wages and salary also increases over time, closing the inequality gap. This, therefore, explains the strong and negative relationship between employment and poverty.

At the centre of job creation and poverty reduction is skills development. Given that majority (about 38 percent) of the unemployed in Nigeria are individuals without secondary school qualifications, skills development is a crucial way of ensuring these individuals are productively engaged in the economy. As a matter of urgency, the government of Nigeria needs to overhaul the country's technical and vocational system to improve its attractiveness and effectiveness. The government must work with private companies in designing a dual and effective TVET system based on the country's aspirations and the opportunities that exist in the economy (see Box 3). This is an area with immense potential that is yet to be unlocked in Nigeria.

Above all, businesses cannot thrive in an environment plagued with mounting insecurity. Efforts to address challenges of kidnappings, theft and other social vices must be intensified by both the federal and state governments, especially given that a secure environment is a pre-condition for economic growth, job creation and poverty reduction.

PRIORITY 2: POLICY AND REGULATORY CONSISTENCY

Nigeria has faced a series of challenges that have hindered economic prosperity and inclusive development. Some of these challenges include insecurity, deep-rooted corruption, deepening poverty & inequality, dwindling domestic & foreign investment and exacerbating socio-economic conditions. At the core is the issue of policy misfit and regulatory inconsistency or overlaps. Policy misfit is a situation where a strategy or policy designed to address a specific issue does not consider the dynamics of interactions economic agents and therefore worsens the exiting condition or creates new challenges.

What drives policy making in Nigeria and what are the challenges associated with public policy?
Ideally, public policies are influenced by the condition of the economy, technological changes, goals of the nation, research findings and political activities, among other factors. In Nigeria, these factors are important, but the policy making and delivery process remains a challenge that has, overtime, inhibited growth and development of the country.

In numerous occasions, crucial decisions that affect businesses are made without proper consultation of stakeholders and without consideration of evidence and research. Impulse, rather than evidence, is a major factor that drives policy making in Nigeria. A clear example is the closure of the land border, which was swiftly implemented without a clear and documented analysis of the potential winners and losers; the duration of the closure as well as needed reforms to position local industries to take advantage of the closed borders.

In addition, there is often a lack of a central vision, ideology and goals which are crucial in ensuring coherence of policies and reforms within and across the different levels of government. This challenge of lack of coherence has consistently resulted in economic and social losses. The recent reduction of tariffs on imported vehicles by the government despite efforts to support local vehicle production falls under this category. Even in some cases where plans, visions and agendas exist, such as the Economic Recovery and Growth Plan (ERGP), they are often not considered by different levels of government in their decision-making process. There are instances where policies are driven by good intentions and proper economic considerations but execution becomes a challenge. This speaks to the capacity of implementers and the capabilities of government institutions to ensure full compliance and monitor

Nigeria's Performance on Selected Indices on the Global Competitiveness Indicators

Figure 30: Governance Effectiveness

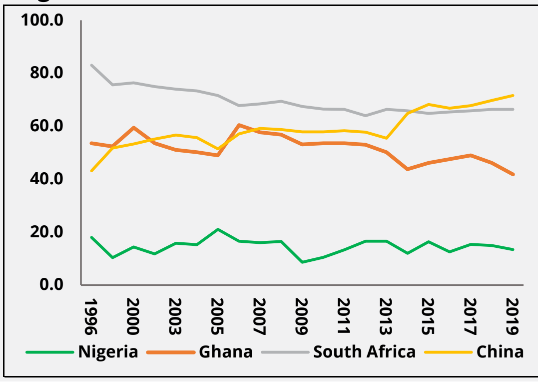
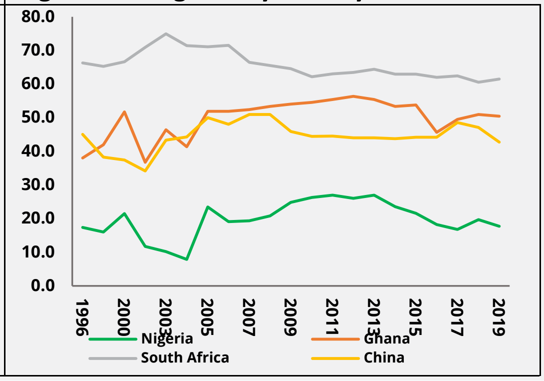


Figure 31: Regulatory Quality



Data Source: World Bank. Chart: NESG Research

progress. In addition, issues relating to continuity of policies and programmes, monitoring and implementation, evaluation are specific challenges that continue to limit the inflow of investments and, by extension, job creation in Nigeria.

Bad Policies result in social and economic losses

Bad policy decisions come at a cost to both citizens and businesses operating in the country. For instance, while the closure of land borders may have triggered an increase in rice production. This policy decision reversed the few gains – stable price level and positive trade balance - , Nigeria has made in the last couple of years and exacerbated the challenges facing the economy. In addition to a sharp and consecutive increase in consumer prices – inflation rate rose from 11 percent in August 2019 to 15.8 percent in December 2020 – the economy has continuously recorded widening trade deficits since the fourth quarter of the 2019. Although the policy may have favoured a small section of rice farmers and producers, the resulting wins came at the expense of other local producers, industries, and consumers in the form of higher price of inputs and lower non-oil exports.

In view of the AfCFTA, the government ordered the reopening of the borders in December 2020. This raises several questions – what gains and losses has the country made since the borders were shut? Did the closure of the land borders improve productivity of rice farmers to enable them to withstand foreign competition? Since the borders were shut, have there been pronounced reforms to improve the efficacy of border and other security agencies such as Nigeria Customs Services, the Nigerian Police Force and the Nigerian Immigration Services? Has the government invested in border facilities by adopting modern technologies to ensure effective operations and detection of smuggled items?

Before crucial decisions are made, it is therefore important for policymakers to engage in proper consultation as well as conduct evidence-based analysis on the potential benefits and costs of the intended actions

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"Policies and actions of key decision makers across all the levels of government must be driven by clear visions and goals that are consistent with improving the business environment"

What needs to be done

COVID-19 has heightened the need for the government to make better decisions and ameliorate the situation of citizens and businesses to earn trust. The pressure will be on the government to implement better policies that will attract new investments, result in job creation and improve the welfare of citizens.

Policymaking, therefore, should be driven by the need to create public value, which is a combination of what the people values and what is of value to the people. From an economic perspective, there are immediate and long-term gains when policies and decisions are focused on delivering public value. First, the trust deficit between the people and the Nigerian government would be narrowed and the government would be seen as acting in the best interest of the people. Second, social vices would be reduced to the barest minimum. Third, this could result in a stable environment that can attract significant investment, which is crucial for job creation and poverty reduction.

Policymakers must bear in mind that private investments, particularly Foreign Direct Investment (FDI) tend to move towards economies with stable policy environment. Policies and actions of key decision makers across all the levels of government must be driven by clear visions and goals that are consistent with improving the business environment. This will improve the confidence of investors on the economy overtime.

For regulators, the motivation must be to support businesses and ensure compliance with relevant standards that have been agreed to, by all stakeholders. Government (at different levels) and its agencies must truly act as "enablers" in the business environment rather than creating hurdles for businesses through fierce regulations and numerous charges. The motivation and incentives for business and industry regulators such as Nigeria Customs Service (NCS), NAFDAC, SON, among others, need to be re-engineered to focus on efficient and effective service delivery to their immediate stakeholders, in a simplified and easily accessible manner. This proposition is based on the premise that quality, clear and business-friendly regulation, are key in removing business hurdles across sectors and are germane to the expansion of existing businesses as well as to the growth of new businesses across the country.

To address the issue of continuity, the institutionalisation of public policy is important. Policy makers must be guided by clear rules, processes and practices that must be followed before crucial policy decisions are made or altered. They must also be consciously aware that discontinuity is associated with huge costs which could have medium to long-term implications on the economy. To ensure continuity of long term plans irrespective of political affiliations, some countries have established laws that ensures compliance with the existing development plan. Nigeria can adopt such practice.

Box 3: Roles of Sub-Nationals in driving Economic Growth and Inclusive Development

The prospects for economic growth and inclusive development through the sub-national governments are promising. Across the 36 states and the FCT, there is a huge deposit of mineral resources and a large pool of labour, which, if properly harnessed, can spur growth and development. Despite these potentials, there are structural, legal and regulatory challenges that continue to hamper the development of sub-nationals in Nigeria. With the emergence of COVID-19 and its associated challenges, many states became technically comatose. More than one third (13 states) of the 36 states in Nigeria experienced fiscal incapability and worsened unemployment and poverty levels. Therefore, addressing these issues will unlock states' potentials to contribute to the country's economic growth and development.

While there is the optimistic view that addressing these structural, legal and regulatory issues will enhance economic activities across states, the government must ensure implementation this time. There is a need to identify the comparative economic advantages of each state and region in Nigeria. This is a crucial step towards increasing the current level of productivity, enhancing job creation and improving export earnings. For example, many states have significant advantages to use agriculture, agro-processing, manufacturing and solid-minerals sectors for internal revenue generation, job creation, foreign exchange and economic growth.

To achieve better social and economic outcomes, it is important to address the centralisation of regulations and laws, which is a limiting factor in unlocking states' economic potentials. In the immediate and short-term, a series of executive orders devolving more powers to the states should be initiated. The long-run fix would be through a constitutional review process. Devolving more political and economic powers to the states would allow for the creation and implementation of policies and regulations that harness states' economic potentials. State governments will need to form partnerships with the private sector, federal government and with other states, both within and outside their regional blocks in providing infrastructure and developing crucial sectors.

As the federal government embarks on developing medium-term plans and long-term vision for Nigeria, state governments must play key roles in the planning process. The government needs to adopt the National Economic Empowerment Development Strategy (NEEDS) approach in developing national and industrial plans/policies. The NEEDS' approach allows state and local governments to design and implement plans based on their needs and potentials. This would be the best approach in generating jobs, exports, and revenue.

In conclusion, Nigeria needs to move to an era where production, rather than federal allocation, drives the economy of states. This is an essential pre-condition for unlocking economic growth and job creation potentials of sub-nationals in Nigeria.

PRIORITY 3: SECTORAL REFORMS

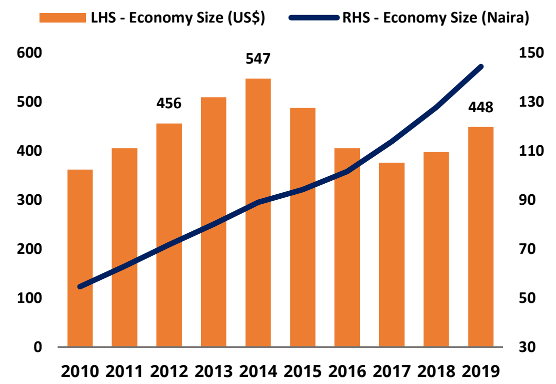
The poor performance across many sectors is a strong reflection of dousing investment. Investment in Nigeria has remained below potential. All through the last decade, the country's real investment as a percentage of GDP was below 20 percent - this share is significantly low compared with those of fast-growing economies such as China (43 percent) and Indonesia (33 percent). In terms of foreign investments, FDIs have consistently fallen under US$1.5 billion per annum since the year 2016, a meagre amount when compared with that of countries like Indonesia, Malaysia and Brazil. Principal factors contributing to this stunted investment growth include harsh business environment, policy inconsistency and regulatory bottlenecks.

Figure 32: Challenges to Doing Business in Nigeria

Source: Nigeria Investment Promotion Commission.

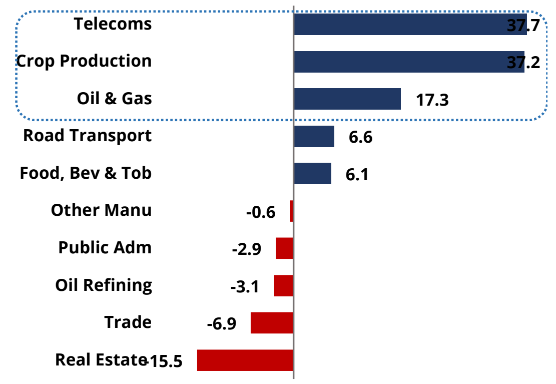
An x-ray of the country's economic performance shows the overwhelming effects of the above on slowdown and contraction of economic activities across several sectors. Data from the National Bureau of Statistics (NBS) showed that of the economy's 46 activity sectors, only three accounted for 92.2 percent of economic growth from 2015 to 2019. These sectors are Telecommunication & Information Services (37.7 percent), Crop Production (37.2 percent) and Crude Petroleum and Natural Gas (17.3 percent). Meanwhile, the remaining 43 sectors scrambled for 7.8 percent, as they underperformed their potentials. Notably, the Trade and the Real Estate sectors with substantial shares in overall GDP were the major growth suppressors during the period.

Figure 33A. Size of the Nigerian economy (in US$bn and N'trillion)



Data Source: World Bank. Chart: NESG Research

Figure 34B. Sectoral Contributions to Growth 2016 - 2019 Top 5 and Bottom 5



Data Source: NBS. Chart: NESG Research

> *"…private investment in key sectors is what will drive growth in output as firms will seek to innovate, leverage new opportunities that the pandemic offers…"*

The disincentives for private investors (domestic and foreign) to commit to investing in sectors of the economy are somewhat similar. They are primarily demotivated by the persistence of structural challenges ranging from the inadequate power supply and infrastructure deficit to a volatile exchange rate, sectoral rigidity and the economy's susceptibility to oil prices swings. Other challenges facing the sectors include regulatory bottleneck and corruption; inefficiency in the judicial system and unreliable dispute resolution system; 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; the dominance of SMEs; inadequately skilled workforce; and increasing insecurity level.

Private Investments in strategic sectors is what Nigeria needs, urgently

In Nigeria, given the constraints associated with government finances, private investment in key sectors is what will drive growth in output as firms will seek to innovate, leverage new opportunities that the pandemic offers and take advantage of new markets in view of the commencement of the African Continental Free Trade Area agreement. Investment in crucial sectors is also what will get workers back to work in 2021.

As much as Nigeria needs private capital in every sector of the economy, the government needs to prioritise sectors based on their linkages with economic growth; other sectors of the economy; employment and inclusion. In our Macroeconomic Outlook for 2020, we identified six crucial sectors that fit the above criteria. They include Manufacturing, Construction, Trade, Education, Health and Professional Services with ICT and Renewable energy sectors serving as enablers (See Figure 35).

Figure 35: Identification of Critical Sectors Based on Potential to Contribute to Growth, Job Creation and Economic Competitiveness of Nigeria

Source: NESG Research

These sectors were selected based on the fact that they account for a sizeable share of employment; there is strong potential for growth in outputs, but their contribution to overall GDP growth is low. Besides, they have strong backward and forward linkages with other sectors and have strong linkage with inclusive growth (poverty reduction). The framework also includes the Information and Communication Technology (ICT) sector, which plays a crucial role in the outcome of other sectors. With the introduction of technology to create new opportunities within the sectoral framework, we believe these suggested reforms will help to open up the sectors for private investment.

What is more comforting about investment is that the global economy is not short of capital; neither is the local economy. As at November 2020, there was about US$17 trillion of capital invested in negative-yielding interest-bearing securities globally[3]. Thus, the negative real returns on investments in Nigeria is not a big problem or issue in attracting and retaining investments into critical sectors. The country needs to provide a stable environment, where policies are relatively predictable, and uncertainties are reduced to the barest minimum.

Table 4 presents specific reforms to open up the sectors for private domestic and foreign investments which would propel the sectors to drive growth, expansion in employment and poverty reduction.

[3] See https://www.bloomberg.com/graphics/negative-yield-bonds/

Table 4. Sector Specific Reform to open up private investment

Sectors	Policy Reforms	
	Reforms with Short Term Impact	Reforms with Long Term Impact
Manufacturing sector to support local consumption and exports	Strengthen the Nigerian Investment Promotion Commission (NIPC) and make it independent to make policy decisions to drive private investment into specific sectors, infrastructural projects and government projects.	Develop and implement a National Industrial Policy with a clear path to develop manufacturing activities in Nigeria.
		Urgently identify priority sub-sectors to develop the value chain to attract investors based on their potential to create jobs, meet domestic demand, improve export earnings and enhance value addition, including agro-processing industries (food, beverages & tobacco); textiles; metal & steel; and petrochemicals.
	Tailor-made finance and competitive grants to support innovative development and start-up of nascent industrial and manufacturing enterprise with a robust social impact.	Collaborate with the private sector to take advantage of specific factor endowments across states and establish Special Economic Zones (SEZ), Industrial Parks and/or Agro-industrial complexes across regions.
		Provision of market linking infrastructural facilities ranging from transport infrastructure to storage, standardisation, port, and general supply chain efficiency.
Develop construction sector to bridge the infrastructure gap	Strengthen the NIPC with legislative supports to identify infrastructural needs with high social impact for Public-Private-Partnerships (PPP) arrangement.	Design and implement an integrated public word programme incorporated into the National Development Plan for Infrastructural development.
	Strengthen the public procurement system to address delays, inefficiencies and corruption.	Design and implement skills development programmes for the construction sector's labour force.
	Establish a regulatory commission for the construction sector to harmonise the various laws guiding its operations.	
Education sector to build necessary human capital	Reform the teacher-training colleges and institutes to produce competent teachers and engage the private sector to review the education curricula across all levels to produce graduates that meet the latest industrial workforce need.	A complete overhaul of the education system to build a labour force that serves the workforce need for recent industrial development
	Establish a standardised benchmark for the performance of students and educational institutions alike.	Rejuvenate the Technical and Vocational Educational Training (TVET) system to develop technical skills
	Attract the best possible teaching hands by standardising the teachers' entry requirement, provide competitive compensation & working conditions, and provide attractive career opportunities for teachers.	Massive investment in education infrastructure (buildings, classrooms, etc.) from federal and state governments.

	Give autonomy to educational institutions – give them the right of ownership, resource mobilisation & allocation, encourage social partnership and establish accountability framework that includes community stakeholders. In exchange for autonomy, the institutions must show results.	
Health sector to support human capital development	Encourage the banking sector to provide financial support for the health sector's development.	Reform the health system to promote private investment.
	Provide health sector tailored financial assistance to support medical research & development and start-ups.	Expand the health insurance scheme's coverage to the bottom of the income pyramid.
	Implement a supportive and unified regulatory framework to support private investors in healthcare delivery.	Investment in health care training, medical schools, and research & development funding.
	Higher tax incentive for healthcare investment compared with other sectors.	Public-Private Partnership in establishing healthcare facilities, where people with health care plans can settle their bills and subsidies are offered to indigent people.
Trade Sector	Urgently address the porous nature of land borders and poor capturing of trade across land borders. Strengthen border security, establish border structures across the six regions, spell out the conditions for import & export, and capture land border trades.	Develop a trade policy that would be reviewed from time to time to set a clear path and policy stance on trade.
	Increase access to trade financing and adequate regulation of the interest environment.	Improve infrastructure – logistics & transportation, water, electricity, and warehouses & storage.
	Ensure macroeconomic stability, mainly as it affects inflation and exchange rate.	Develop ports in other regions and adopt automation technology in goods clearance to ease the Lagos port burden.
	Improve the business environment by advancing on the ease of doing business components.	
	Reduction of the activities of non-state actors.	
	Tackle security challenges.	
Professional, Scientific and Technical Services to drive efficiency of other sectors	Regulatory forbearance to encourage investors in the sector.	Support programmes to up-skill workers to meet the workforce need of this sector.
	Support innovation and digital integration in professional services to promote exportable services.	
Digital and Technology sectors to enhance other sectors of the economy	Improve the regulatory framework for investment in digital & technology development and efficient operation of businesses involved in technology adoption & transfer. Also, establish digital technology adoption standards as it concerns data security, privacy, consumer protection, intellectual property, and sustenance of cultural values.	Develop and implement a comprehensive industrial policy for the digital economy, which should also be a component of the National Development Plan.

	Provide incentives for investors through tailored financial support system to assist with start-up & working capital and supporting venture capital funding.	PPP in the development of digital infrastructure. Government support and PPP will be highly needed to achieve universal connectivity and internet exchange, especially in rural and remote areas.
	Speed up digital adoption across sectors of the economy by encouraging non-digital sectors to adopt digital technology. The government should also lead by example to adopt e-governance in public service delivery.	Establishment of Special Economic Zones. Tech Hubs and/or industrial packs across regions of the economy to promote technology adoption and transfer.

Box 4: A Brief on AfCFTA: Establishment, Opportunities & Risks

In March 2018, The African Continental Free Trade Area (AfCFTA) agreement was entered into by over 40 African countries. Currently, there are 53 signatories, leaving out Eritrea. The key goal of the free trade pact is to expand the volume of intra-African trade, which stood at 16 percent in 2018[4]. Till date, 36 countries, including Nigeria, have ratified the agreement. The trade deal is expected to create a single market with a combined GDP of US$2.5 trillion and total population or market size of 1.2 billion. With AfCFTA, the United Nations Economic Commission for Africa (UNECA) expects the volume of intra-African trade to grow by 15-25 percent by 2040[5]. Owing to the outbreak of COVID-19, the implementation of AfCFTA was postponed from July 1, 2020 to January 1, 2021. Currently, trade in Africa remains dominated by raw materials and less processed products; on average, minerals and agriculture accounted for 44 percent and 16 percent of intra-African trade, respectively, between 2007-2017[6]. The free trade area agreement provides for the elimination of tariff on 90 percent of traded goods. This, according to UNCTAD, would result in a welfare gain of US$3.6 billion[7].

Meanwhile, evidence has shown that African economies, that are more diversified and have improved transport infrastructure, would benefit more from the trade pact than others that are resource-based and agricultural dependent. Putting this in context, South Africa currently accounts for 40 percent of intra-African manufacturing imports. On the other hand, resource-based countries, such as, Algeria, Egypt and Nigeria – which collectively account for approximately 50 percent of Africa's GDP – contribute only 11 percent to intra-African trade[8]. Another bone of contention is the issue of "rules of origin" which constitutes a significant risk factor. This implies that protectionism practices by some countries could constitute a set-back for the establishment of the ambitious single market for Africa.

But there are several reasons to be optimistic. Using a dynamic CGE modelling technique, the World Bank estimates revealed that AfCFTA would promote manufacturing exports over natural resources, agricultural and services exports[9]. It showed that manufacturing exports would account for one-third of the projected total exports of US$2.5 trillion by 2035. On the other hand, natural resources, services and

[4] IMF (2019). "Sub-Saharan Africa Regional Economic Outlook: Recovery Amid Elevated Uncertainty". https://www.imf.org/en/Publications/REO/SSA/Issues/2019/04/01/sreo0419
[5] https://www.brookings.edu/research/intra-african-trade-a-path-to-economic-diversification-and-inclusion/
[6] IMF (2019).
[7] https://unctad.org/news/task-ahead-great-say-african-leaders-continent-wide-free-trade-deal-signed
[8] IMF (2019).
[9] World Bank (2020). The African Continental Free Trade Area: Economic and Distributive Effects. Retrieved via: https://openknowledge.worldbank.org/handle/10986/34139

agriculture are expected to contribute 28 percent, 10 percent and 8 percent to total exports, respectively. In terms of intra-African exports, the estimates also showed that manufacturing exports will have increased by 110 percent followed by agricultural exports (49 percent) and services exports (14 percent) by 2035.

Nigeria could reap more gains through export diversification away from crude oil, as manufacturing exports currently account for an average of 9 percent of the country's total exports. This suggests that efforts should be directed at strengthening domestic value chains, particularly the agro-allied industrial base. To achieve this, there is a need to attract private capital, most especially, FDI, that would allow for knowledge and technological transfers. Moreover, for Nigeria to maximally benefit from the trade deal, there is an urgent need to also address transport infrastructure bottlenecks and provide improved logistics. Finding a lasting solution to the Apapa gridlock by creating similar ports in other regions of the country, so as to ensure speedy clearance of consignments needs to be prioritised. Nigeria also needs to set standards for locally-made goods to enhance their attractiveness in the regional market. On a final note, the Nigerian government as a matter of urgency needs to operate an efficient and corruption-free land border system, so as to guide against the importation of low-cost sub-standard products into the country.

It is only when these and many more reforms are implemented that Nigeria can begin to reap the benefits of the trade deal.

PRIORITY 4: HUMAN CAPITAL DEVELOPMENT

Introduction

Given the key goals of achieving economic recovery in 2021 and sustaining growth into the future in Nigeria, the imperative of investment in human capital development cannot be over-emphasized. The sudden outbreak and rapid spread of the coronavirus pandemic has not only overstretched the country's healthcare system but has also tested the resilience of the education sector. The pandemic has further highlighted the need for both health and education sectors to continuously adapt to a changing environment characterised by limited physical interactions. For the health sector, it is important to intensify the pace of reforms for the following reasons:

- The global pandemic is health-related.
- Health insurance coverage is low, thereby reflecting the predominance of out-of-pocket spending on healthcare services.
- COVID-19 has disrupted global supply chains, thereby causing irregular medical supplies; hence, the need to have a robust healthcare industry that could leverage inter-sectoral linkages to ensure the local production of drugs and other medical equipment.
- Nigerians could not travel abroad for treatment due to high prevalence of COVID-19.
- The coronavirus pandemic has overwhelmed the capacity of the health system, requiring the expansion of the healthcare infrastructure and the need to ensure personnel adequacy.
- The absence of adequate data on health-related outcomes, including mortality rate and incidence of diseases explains the reason for the failure of most health-related intervention programmes and policy responses to reach out to their intended targets or beneficiaries.

On the other side of the human capital divide is the education sector, which equally requires urgent attention for the following reasons:

- The current school curriculum is not designed to empower the youths with skills needed in the workplace or skills needed to contribute positively to the society.
- Most social unrests are usually a direct consequence of higher unemployment and underemployment among the youths in Nigeria.
- The need to revive technical and vocational education would be key in narrowing the skills gap.
- The outbreak of COVID-19 has made it imperative to promote digital learning following schools' closure across the world, including Nigeria.
- Preparing the Nigerian youths for future jobs, which would require digitization and automation – these are the core elements of the Fourth Industrial Revolution.

- The rising levels of child labour and school drop-outs - due to factors including insecurity, poverty and gender discrimination – are key challenges in achieving universal basic education.

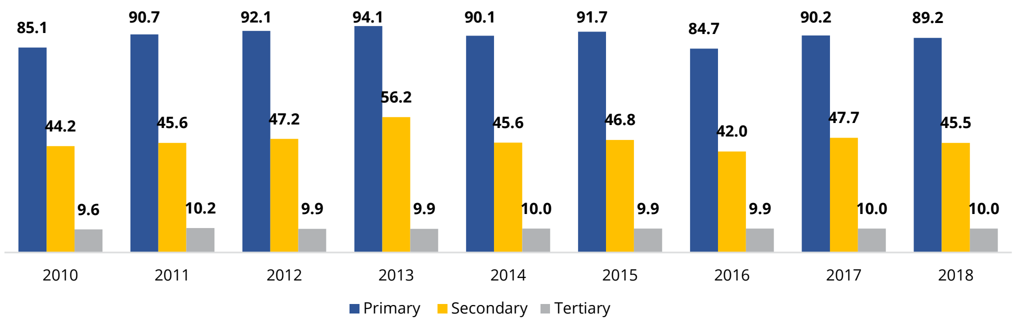
Striking Facts about Human Capital Development in Nigeria

- ***There is huge regional disparity in school enrolment and quality of education, as national enrolment rates declined with higher educational qualification.***

Statistics shows that the school enrolment rate falls with rising levels of education. From 2010 through 2018, school enrolment rates averaged 89.8 percent, 46.7 percent and 9.9 percent at primary, secondary and tertiary levels of education, respectively, corresponding to an average overall enrolment rate of 49 percent. This is an indication of a higher number of school drop-outs, particularly at post-primary education levels. Over a similar period, the average school drop-out rate stood at 33.7 percent, which is far and above the Sub-Saharan and global averages of 20.6 percent and 8.5 percent respectively[10]. Out of about 20 million out-of-school children in the world, Nigeria accounts for 64 percent of the total (12.7 million).

Estimates show that the internally displaced children account for 54 percent of out-of-school children[11]. On a regional basis, in 2017, North Western and North Eastern states had the lowest youth literacy rates at 53.1 percent and 57.5 percent respectively, while South Western, South Eastern and South Western states had youth literacy rates in excess of 90 percent[12]. This clearly demonstrates the regional disparity in school enrolment rates and quality of education across the country.

Figure 36: School enrolment by level of education (percentage of corresponding age-group population)



Data Source: World Development Indicators. Chart: NESG Research

[10] World Development Indicators (2019). World Bank Database. Retrieved from: https://databank.worldbank.org
[11] Office of the Special Assistant to the President on SDGs (2020). Integration of the SDGs into National Development Planning in Nigeria: A Second Voluntary National Review. Retrieved from: https://sustainabledevelopment.un.org
[12] National Bureau of Statistics (NBS) and United Nations Children's Fund (UNICEF) (2017). Multiple Indicator Cluster Survey 2016-17, Survey Findings Report. Retrieved from: https://nigerianstat.gov.ng/elibrary?queries[search]=literac

- **Nigeria ranks low on health outcomes relative to the rest of Sub-Saharan Africa.**

Nigeria's average life expectancy currently at 54 years underperforms sub-Saharan Africa's average of 61 years and other countries including Ghana (63 years) and South Africa (64 years). In 2018, the World Health Organization ranked Nigeria's healthcare system as 178th out of 192 countries[13]. Similarly, the country has recorded unimpressive performance in some other health outcomes (incidence of malaria and under-five mortality rate) due to higher out-of-pocket spending on healthcare relative to the Sub-Saharan average and few other SSA countries including Ghana and South Africa. Specifically, while South Africa and Ghana are close to achieving the under-five mortality rate SDG target of 25 per 1,000 live births by 2030, Nigeria is still far away at 120 per 1,000 live births. The inadequacy of health workers – physicians and nurses & midwives relative to its peers - casts doubt about the capacity of Nigeria's health sector to meet the healthcare needs of the growing population.

Table 5. Health Care Financing and Personnel Adequacy Indicators

	Nigeria	South Africa	Ghana	SSA
Government health expenditure (percent of current health expenditure)	14.2	53.7	33.5	36.1
Out-of-pocket expenditure (percent of current health expenditure)	77.2	7.8	40.3	35.5
Physicians (per 100,000 people)	40	90	10	20
Nurses and midwives (per 100,000 people)	120	240	130	90
	Nigeria	South Africa	Ghana	SSA
Under-five mortality rate (per 1,000 live births)	120	35.3	50	77.5
Prevalence of HIV (percent of population ages 15-49)	1.5	20.5	1.7	3.9
Incidence of malaria (per 1,000 population at risk)	291.9	3.9	212.6	219.1
Life expectancy at birth (years)	54	64	63	61

Data Source: World Development Indicators as at 2017 & Nigeria's Federal MInistry of Health.

- **COVID-19 has mandated the need for value chain development in Nigeria's pharmaceutical industry.**

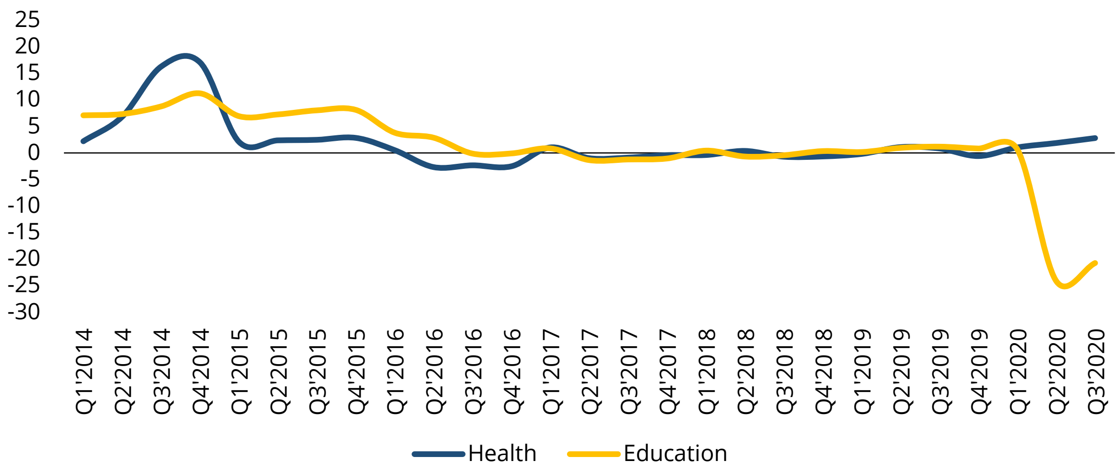
Huge dependence on imported healthcare facilities and medicine reflect low value chain in the domestic pharmaceutical industry. Consequently, Nigeria relies on countries including the Netherlands, China, India, United Arab Emirate and France for imported antibiotic drugs, which accounted for 2.3% of total imports in the third quarter of 2020. In order to save foreign exchange earnings, there is an urgent need to explore the domestic value chain in the country's pharmaceutical industry to guarantee regular supplies of drugs and other facilities in the event of a global crisis, such as, COVID-19.

[13] Odubola, I. (2018). Nigeria's healthcare system ranks 187th globally. Retrieved from: https://businessday.ng/health/article

- **COVID-19 outbreak tests the resilience of Nigeria's health and education sectors**

The rapid spread of COVID-19 into Nigeria has clearly shown the age-long structural weaknesses of the health and education sectors in response to unexpected events, such as, COVID-19 crisis. This is clearly reflected in the volatile, negative and weak growth of both sectors even before the global pandemic struck. While the health sector maintained positive growth in the first three quarters of 2020 due to high spending on healthcare as part of efforts to contain the spread of coronavirus, the education sector contracted sharply in the second and third quarters of 2020 *(see Figure 37).* Aside from limited private sector investment, the education sector is bedeviled with some challenges, such as, incessant industrial action by teaching and non-teaching staff of public higher institutions, limited funding earmarked for the refurbishment of laboratories and libraries, as well as, poor internet connectivity in public higher institutions, most especially.

Figure 37: Trend of Growth Rates in Health and Education Sectors (%)

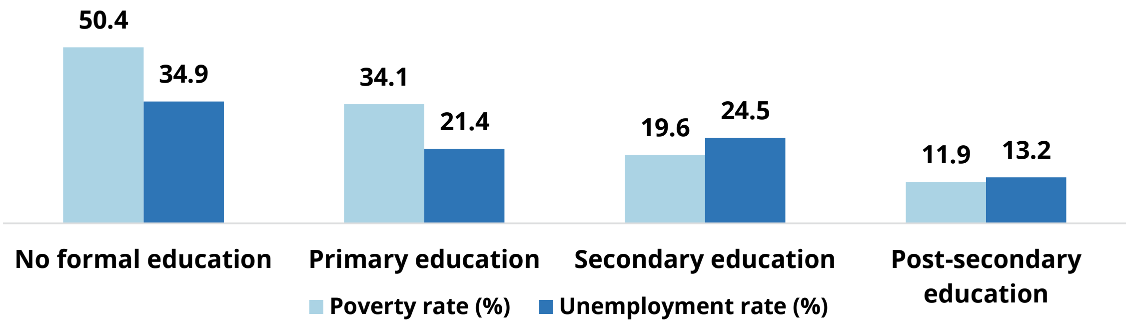


Data Source: CBN, NBS. Chart: NESG Research

- **Poverty and unemployment are pervasive among segment of the population with no formal education.**

Statistics showed that Nigerians with no formal education are faced with the highest levels of poverty and unemployment. As individuals and households attain higher levels of education, poverty and unemployment rates tend to decline.

Figure 38: Poverty rate (2019) and Unemployment rate (2020Q2) by Educational Qualification



Data Source: NBS. Chart: NESG Research

> *"...while job creation is a necessary condition for poverty reduction, the quality of job matters as individuals with higher educational qualifications are more likely to obtain quality jobs"*

This raises the question as to whether individuals are poor and unemployed because they have no formal education or whether they have no formal education because they are poor and unemployed. For poverty and education, the relationship tends to be bi-directional while a one-way relationship can be argued for unemployment and education. What is crucial to note, however, is the importance of human capital development in boosting the chances of being gainfully employed in the formal sector with less likelihood of falling into abject poverty. This also implies that while job creation is a necessary condition for poverty reduction, the quality of job matters as individuals with higher educational qualifications are more likely to obtain quality jobs. This is the more reason for huge investment in human development i.e. both health and education sectors.

- **Health insurance coverage is low.**

This reflects the predominance of out-of-pocket spending on healthcare delivery in Nigeria, which currently accounts for over 70 percent of total healthcare spending. It has also been estimated that over 90 percent of Nigerians are excluded from social and private health insurance cover. Estimates show that only federal workers, which account for less than 1 percent of the total workforce, are sufficiently enrolled under the National Health Insurance Scheme (NHIS) introduced in 2005, with passive participation of state governments. Similarly, several private establishments have also keyed into enrolling their employees on the Private Health Insurance; notwithstanding, the enrolees have been estimated to be less than 1 percent of Nigeria's population[14].

- **Inadequacy of personnel arising from brain drain syndrome.**

Nigeria's health sector has long suffered from a huge deficit in modern health facilities and highly skilled personnel. The number of medical professionals, including doctors, nurses, and midwives, is insufficient to serve the growing population's health needs in Nigeria. The patient-to-doctor ratio remains abruptly high at 2,500: 1, which falls short of WHO's recommendation of 600: 1. The reason for this is not far-fetched as many health professionals and medical experts have sought asylum elsewhere, mainly to advanced countries in search for better working conditions. This challenge along with inadequate health infrastructure have resulted in a high level of outbound medical tourism. According to

[14] Medic West Africa. 2019 Healthcare Market Insights: Nigeria. Retrieved via: https://www.medicwestafrica.com/

Pricewaterhouse Coopers (PwC), Nigeria loses about US$1 billion to outbound medical tourism on an annual basis. Their estimates also showed that 60 percent of outbound medical tourism are related to vital medical specialties including oncology, orthopaedics, nephrology and cardiology.

- **Existence of mismatch between educational qualification and job requirement.**

There is an increasing gap between the level of education and the actual industry needs. This suggests the poor state of technical and vocational education and inadequate and, in some cases, unproductive internship schemes. The resulting gap in technological know-how stood at 59 percent far above the global average of 38 percent[15]. The school curriculum is faulty to the extent that graduates remain unprepared to fulfil society's practical needs. This, therefore, imposes an additional burden on the employers of labour to invest in their employees through on-the-job training, among others.

- **In Nigeria, technical and vocational education is widely perceived as an avenue for academically weak students and school drop-outs only.**

This has resulted in disinterest in acquiring technical and vocational skills among the youths, who end up as an apprentice and casual workers in the informal sector. The low receptiveness and limited relevance of technical and vocational education is reflected in the high unemployment level among non-graduates, which stood at 76 percent of the total unemployed in the second quarter of 2020[16].

> "*According to Pricewater-house Coopers (PwC), Nigeria loses about US$1 billion to outbound medical tourism on an annual basis*"

- **Nigeria has consistently ranked low on the Global Human Development Index.**

Statistics[17] showed that Nigeria's human development performance remains poor over time. The human development index (HDI)[18] stayed flat at 0.5 from 2014 to 2019, with the country ranking 161st out of 189 countries surveyed in 2019. While having the same HDI as the Sub-Saharan African average, Nigeria underperformed the global average of 0.7. The country's unimpressive ranking over the years could be attributed to inadequate funding of education and health sectors, limited capacity to harness citizens' human capital potential – resulting in brain drain, and high level of school drop-outs and child labour. There is a wide disparity in human capital development across the 36 states and FCT-Abuja. Yobe State ranked 34th with a human development index (HDI) of 0.34 out of 1. On the flip side, Lagos State had the highest HDI relative to its regional peers and other states of the federation at 0.5 in 2016[19].

Key Priorities for Human Capital Development in Nigeria

Human capital development is a medium to long-term priority. Nonetheless, there is need for massive investment in education and healthcare sectors in order not only to reap the long-term benefits of grooming skilled and healthy manpower that would contribute immensely to the socio-economic development of the country, but also to enjoy the short-term gains in terms of improved school enrolment rate, literacy rate and social protection of the poor and the vulnerable groups against preventable health risks – communicable and non-communicable diseases. We, therefore, classify the key policy reforms in terms of their respective timelines of implementation over the short-term, medium-term and long-term horizons.

[15] WEF (2017). The Global Human Capital Report for 2017. A Publication of the World Economic Forum. ISBN 978-1-944835-10-1.
[16] National Bureau of Statistics (2020). Unemployment Report for Second Quarter 2020. Retrieved from: https://nigerianstat.gov.ng/elibrary
[17] UNDP (2020). The Human Development Report for 2020. ISBN: 978-92-1-126442-5.
[18] The Human Development Index is an economic metric that is used to assess the quality of human capital in a country. It comprises three sub-indices, namely, the per capita income index, the education index and the life expectancy index. HDI ranges between 0 and 1. According to UNDP, an HDI that is 0.5 and below is regarded as low, and 0.9 as very high. The closer it is to 1, the higher the quality of human capital and the closer it is to 0, the lower the quality of human capital.
[19] NBS (2016). The Human Development Report. Retrievable via: https://nigerianstat.gov.ng/elibrary?queries[search]=huma

Key Reforms to the Health Sector

Table 6. Key Reforms to the Health Sector

Action Points	Timelines of Implementation		
	Short-term	Medium-term	Long-term
Need to collate relevant health-related statistics regularly for adequate planning. One of the reasons why intervention programmes and policy responses to health crisis fail to achieve desirable outcomes is the absence of data on the beneficiaries and vulnerable segments of the population, including women and children. Building a sustainable and robust health system requires decisive leadership, improved governance and continuous gathering of data.	√	√	
Need for massive investment in the health sector through partnerships between the government and other stakeholders. The growing population in Nigeria offers huge market opportunities for private sector investment. Therefore, private and non-profit organizations need to be incentivised to provide affordable and quality healthcare services. Achieving this would also require the collaboration of the government with local and international communities.		√	√
Need for adequate funding of the health sector. The annual budgetary allocations to the health sector are quite sub-optimal. Several countries, including Nigeria, are yet to meet the 2001 Abuja's Declaration that mandated African countries to allocate 15 percent of their budgetary estimates to the health sector. The health sector accounts for only 4.4 percent of total expenditure in the approved 2021 budget. Improved public spending on healthcare would support efforts aimed at achieving universal health coverage.	√	√	√
Need for huge investment in research and development. The limited funding of the healthcare sector is also reflected in low public investment in research and development, particularly, in the area of developing domestic value chain in the country's pharmaceutical industry. Many lessons could be drawn from the experiences of heavy-weight pharmaceutical companies including Pfizer, Moderna and BioNTech, which have received financial support from private and public entities, to develop an effective vaccine against COVID-19.		√	√
Need for digitization of healthcare services. Digitalizing activities in hospitals would ensure that many patients enjoy seamless healthcare delivery and would guarantee timeliness in service delivery at public hospitals, most especially.		√	√
Better working conditions are needed to avert brain drain or human capital flight. There is a need to make the environment more conducive for medical practitioners to optimize the opportunities available in the country to reduce the rate of human capital flight. The prospect of better pay and working conditions for health professionals in the developed world has led to a brain drain from Africa, including Nigeria.	√	√	√

Key Reforms to the Education Sector

Table 7. Key Reforms to the Education Sector

Action Points	Timelines of Implementation		
	Short-term	Medium-term	Long-term
Need to bridge regional disparity in school enrolment and education quality. For Nigeria to achieve the SDG goal 4 – inclusive and equitable quality education – by 2030, there is need to promote universal access to affordable education across gender and regions. For instance, there is urgent need to address some known barriers to school enrolment such as poverty, insecurity and gender discrimination. This would become a matter of urgency given that children of school age accounts for half of the country's total population.	√	√	
Recruitment of highly qualified teachers. Appointment of teachers should be subject to an objective selection process, which would ensure that the best of hands are recruited to impart useful knowledge to students. This should be complemented with organizing regular on-the-job training and seminar programmes for teachers so as to keep pace with global standards.	√	√	
Need to embrace digitalized learning. This would build and strengthen the resilience of the education sector in periods of crisis, such as, the COVID-19 induced lockdown restrictions. This is highly important to ensure that the population of out-of-school children are drastically reduced.		√	√
Need for a school curriculum reform to reflect specific and dynamic industry needs. This calls for an effective synergy between the government, academic environment and the industry. There is a need for the existing internship schemes to be tied to specific skills to improve youths' employability potential.	√	√	
Need to empower youths with productive skills development. There is an urgent need to empower Nigerian youths through social investment in skills development. Achieving this would require the resuscitation of the country's technical and vocational education scheme. Nigeria could take a cue from the German technical and vocational education system, which embraces both schooling youths and drop-outs. Investment in skills development has helped close the country's skills gap among the youths (aged 15-24 years), which stood at 28 percent in 2017[20]	√	√	√
Need for improved funding of the education sector to prepare the youths for the Fourth Industrial Revolution. In 2021, the budgetary share of expenditure on education (5.7%) falls short of UNESCO's benchmark of 26 percent. There is need for investment in specialized field areas, such as Science, Technology, Engineering, and Mathematics (STEM) to adequately prepare Nigerian youths for future jobs, that would be highly digitalized and automated.	√	√	√

[20]WEF (2017).

Box 5: Fixing Nigeria's Youth Unemployment Rate

Nigeria is the most populous country in Africa with about 67 percent of the its population below 35 years. The dominance of young people creates an atmosphere for a large and productive workforce capable of driving the country to a state of self-sufficiency. However, unemployment rate of young people has drastically increased over the years. According to NBS, youth unemployment rate rose from 29.7 percent as at September 2018 to 35 percent as at June 2020. Consequently, the number of unemployed youth stood at 14 million in June 2020. Many factors have contributed to this yearly surge in the youth unemployment rate. The factors with the most significant effects are:

- Limited number of jobs created in the economy
- Neglect of the country's education system
- Lack of a well-structured and effective system of skills development
- Rising rural-to-urban migration
- Rapid population growth
- Unfriendly business environment.

Aside from leading to an increase in youth unemployment rate, these factors have also resulted in social vices as well as insecurity of lives and properties. Considering this, there is an urgent need to tackle these challenges head-on, to ensure the Nigerian youths are productively engaged in the economy. One key solution in addressing Nigeria's youth unemployment challenge is reforming the education system especially the Technical Vocational Education and Training System (TVET).

Reforming the TVET system appears to be the potent hammer that can fix youth unemployment. This solution will give room for skills acquisition and development, self-reliance, self-sufficiency, and provide the country with a skilled workforce that can compete globally. The profile of the Nigerian youth also makes TVET important. Because a large number of youths are unskilled and semi-skilled, imparting them with relevant skills is one way to ensure they can contribute meaningfully to economic development. Despite the huge prospect of TVET, not much has been done. In fact, this sector has been neglected over the years and Nigeria is yet to implement some serious reforms that will transform its TVET system. Some specific challenges associated with the current TVET structure include:

- Unstructured Vocational Education and Training system
- Use of Outdated Curricula
- Lack of coordination among partners
- Inadequate Funding of the Education system
- Erosion of dignity towards technical and vocational education.

What Nigeria must do going forward

- **Structured Vocational Education and Training system:** The Vocational Education and Training system should be clearly defined and must have a clear path of integration with the real-life work environment. The system must be integrated into the education system. Nigeria needs to design a system with clearly defined goals and paths, where responsibilities of stakeholders are well-known.

- **Coordination among partners with a binding legal framework:** There should be proper coordination and clear understanding among the National Board for Technical Education, Nigeria Education Research and Development Council, National Business and Technical Examination Board, Federal Inspectorate Service, and the Ministry of Education. Drawing from the German experience, the bodies responsible for the functioning of the VET system perform and monitor the progress of the system yearly. This is done within the framework of the law. The success of the VET system in Germany is built on partnership.

- **Massive funding for vocation education and training system:** The funding of the Vocational Education and Training system is imperative in delivering quality education. For instance, in most technical schools there is a shortage of instructors/ lecturers in Nigeria. In addition to the need for the government to increase funding for education, incentives must be given to private companies to invest in different aspects of the value chain.

- **Use of up-to-date curricula:** There is a need for a yearly review of the curricula used in the TVET system. Curricula need to be updated and flexible to meet market demands. Most technical schools especially colleges of education use out-of-date curricula for years and this leads to a situation where many of their graduates lack appropriate skills. The German experience ensures that each stakeholder meets to discuss and review the curricula; professional organizations give proper recommendations on updates and this is implemented into the VET system after proper review. Training companies also ensure that trainees meet market demands. Nigeria can imbibe such approaches.

The present situation of the TVET system calls for a total remodelling and reforming of the system. With the implementation of the above solutions, Nigeria will be positioned to create massive jobs for its teeming youthful population and enhance their contribution to the economy.

"Policymakers must understand that the business-as-usual scenario will only lead Nigeria down the drain of economic hardship, wider income inequality and increasing poverty"

Conclusion

Nigeria is indeed at a turning point! What needs to be done is not only about coming out of the current recession, but also about holistically deploying appropriate measures to sustain the economy on a strong growth path accompanied by massive job creation and poverty reduction. On policy and economic management, a departure from the past practice is essential to move forward. In the last 60 years, the country's experience could be best described as "putting old wine in new bottles" or "business-as-usual" approach to policymaking and implementation. For example, diversifying the Nigerian economy is an issue that is as old as the country's existence. Unfortunately, the insurgence of COVID-19 has exposed the country's structural vulnerabilities and has mandated the need to achieve better outcomes by implementing evidence-based reforms. Therefore, it can't be business as usual again.

As a way forward, the Nigerian government needs to reverse the current recessionary trend and build a more resilient economy. Working on the four key priorities – macroeconomic stability, human capital development; holistic sectoral reforms, and policy and regulatory consistencies, will boost private sector investment which is central to economic recovery efforts in 2021 and beyond.

In addition to these priorities, an exemplary leadership, alongside strong political-will to implement tough reforms, is needed to yield desirable outcomes. An outstanding leadership, especially in times of crisis, will provide clear visions and align these to improve the political and business environment. Although COVID-19 and its impacts were unexpected as at December 2019, the actions of the Nigerian government at both federal and state levels in 2021 must be deliberate and proactive to counter the effects of the pandemic. Urgency and intensity of reforms must be the new priority. Policymakers must understand that the business-as-usual scenario will only lead Nigeria down the drain of economic hardship, wider income inequality and increasing poverty.

Therefore, addressing the country's myriad of socio-economic problems such as insecurity, high unemployment and underemployment, corruption, huge poverty and inequality gap etc., using the priority areas as the pillars will require effective leadership.

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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.

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