Nigeria: Macroeconomic Developments and Outlook

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Stanbic IBTC Investors Forum
Outline

• Global Economic Developments and Outlook

• Sub-Saharan Africa: Economic Developments and Outlook

• Nigeria: Economic Developments and Outlook

• Main Policy Recommendations
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Dark winter but light at the end of the tunnel

**Output**

Incomplete recovery

**Risks**

Tremendous uncertainty

- Upside: More vaccine success; additional fiscal support
- Downside: delays in vaccinations, virus mutations, stronger lockdowns, tighter financial conditions
- Geopolitical tensions and social unrest could escalate
- Prolonged decline in activity leads to scarring

**Policies**

Ensure a sustained recovery

- Accelerate universal vaccine rollout
- Avoid premature withdrawal of lifelines where contagion is high. Gradually shift to support reallocation of resources.
- Fiscal and monetary support should be maintained where debt sustainability and inflation are not at risk
- Foster inclusive, green recovery
- International support for vulnerable economies
Strong rebound in global GDP growth

2021 growth projections (annual percentage change)
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Financial Conditions have improved (SSA Bond Index Spread vs. US Benchmark)

Sources: Bloomberg LLC; and IMF staff calculations.
Note: GFC = global financial crisis.
…especially in the largest SSA economies
Fiscal Policy Responded to Covid-19 (in 2020, as % GDP)…
… as did monetary policy (change in rates since January 2020)…
…helping in some cases to mitigate the impact of the crisis

(Real GDP Index, 2019=100)
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The pandemic is moderating from the historic second round and likely to abate further with ongoing vaccination...

Vaccination plan

- National Vaccine Deployment Plan in place
- Goal is to vaccinate 40% of population in 2021 and 70% by 2022
- Two main platforms: WHO’s COVAX and AU’s COVID-19 Vaccine Deployment and Access Strategy

Challenges

- Securing adequate doses
- Operational difficulties
- Financing
...although oil production remains subdued, rising oil prices will help...

Sources: IMF Global Assumptions database.

Sources: IMF staff calculation..
…supporting a moderate recovery in 2021
Inflation is high amidst worsening unemployment

**Unemployment**
(percent of labor force)

- **2018Q3**
  - Total: [Bar Graph]
  - Youth: [Diamond]
- **2020Q2**
  - Total: [Bar Graph]
  - Youth: [Diamond]

**Inflation**
(annual percentage change)

- **Jan-2020**
  - All: [Bar Graph]
  - Food: [Diamond]
- **Jan-2021**
  - All: [Bar Graph]
  - Food: [Diamond]
Sizable deficits, higher debt and rating downgrade

Fiscal and current account deficits (percent of GDP)

- Overall fiscal balance
- Current account balance

Public debt (percent of GDP)

2020 Sovereign rating actions

- S&P
  - Downgrade B- (from B)
- Fitch
  - Downgrade B (from B+)
- Moody's
  - Affirmation B2
- Fitch
  - Affirmation B
Limited Policy Space

Nigeria: FGN interest payments to revenue

Fiscal financing and sources (billions of Naira)
Accommodative monetary policy stance

Nigeria and peers: Real policy rates
(3-month moving average, end of period)
Persistent exchange market pressure…

Nigeria: Daily turnover in the I&E FX window
(USD million, monthly average)

Nigeria: Exchange rates
(Naira per USD, daily)
...amid limited investor appetite
Risks from the COVID-19 pandemic clouds the outlook

**Real GDP**
(Annual percentage change)

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<th>Year</th>
<th>Baseline</th>
<th>Adverse scenario</th>
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**Public Debt**
(percent of GDP)

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Containing inflation should be a top priority…
...as should be unifying the various exchange rates into one market-clearing rate...
...mobilizing revenue...

Total Revenue  Non-oil Revenue

12.75 percent: minimum tax-to-GDP ratio for accelerated growth and development outcomes (Gaspar et al. 2016)
... and fostering structural reforms to enhance competitiveness and instill confidence.
Nigeria and the IMF

Cooperation under 3 main pillars:

- Surveillance and economic policy advice through annual Article IV consultations
- Financial emergency assistance (RFI, April 2020)
- Capacity Development Activities:
  - Budget
  - PFM
  - Revenue
  - Statistics
  - Financial sector supervision
  - Monetary policy and operations
Thank you

Additional information on IMF activities can be found at