

Recent macroeconomic and financial developments

Nigeria's economy grew by 3.6% in 2021 from a 1.8% contraction in 2020, underpinned on the supply side by 4.4% expansion in the non-oil sector against 8.3% contraction in the oil sector; non-oil growth was driven by agriculture (2.1%) and services (5.6%). On the demand side, public and private consumption were contributors to GDP growth. Per capita income grew by 1.0% in 2021. The fiscal deficit narrowed to 4.8% of GDP in 2021 from 5.4% in 2020, due to a modest uptick in revenues, and was financed by borrowing. Public debt stood at \$95.8 billion in 2021, or about 22.5% of GDP.

Annual average inflation stood at 17.0% in 2021 against 13.2% the previous year and above the central bank's 6–9% target. Inflation was fueled by food price rises at the start of the year and exchange rate pass-through. The central bank kept the policy rate unchanged at 11.5% in 2021 to support economic recovery. The current account deficit narrowed to 2.9% of GDP in 2021 from 4% the preceding year, supported by recovery in oil receipts. Improved oil exports and disbursement of the SDR allocation of \$3.4 billion (0.8% of GDP), pending decision on its use, helped to boost gross reserves to \$40.1 billion in 2021. The ratio of NPLs to gross loans was 4.9% in December 2021 (regulatory requirement 5%), while the capital-adequacy ratio was 14.5% (regulatory benchmark 10%). Poverty and unemployment remained high, broadly unchanged from 40% and 33.3%, respectively, in 2020.

Outlook and risks

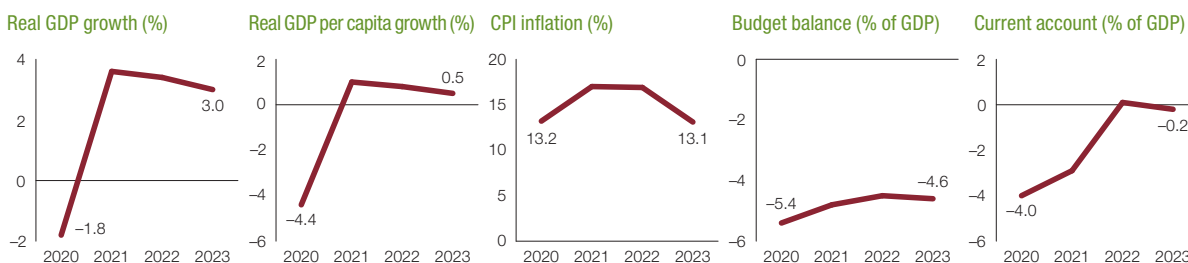
Growth will decelerate, averaging 3.2% during 2022–23, due to persistent low oil production and rising insecurity. Inflation is projected to remain elevated at 16.9% in 2022 and to stay above pre-pandemic levels in 2023, fueled mainly by rising food, diesel, and gas prices and persistent supply disruptions amplified by the Russia–Ukraine conflict. Capital inflows are projected to recovery, while oil exports are projected to increase slightly. The benefit of a forecast positive oil price shock on

exports may, however, be partly offset by a weak output effect due to lower oil production, stoked by infrastructure deficiencies and rising insecurity. The projected marginal current account surplus of 0.1% of GDP in 2022 could turn into deficit of 0.2% in 2023. Improved revenue collection will help narrow the fiscal deficit to an average of 4.5% of GDP. Public debt targeted to reach 40% of GDP by 2024 on fresh borrowing. The headwinds to the outlook may be exacerbated by rising insecurity and policy uncertainty underpinned by reversal of initially planned removal of subsidies on premium motor spirit a year before the 2023 elections.

Climate change issues and policy options

Climate change's impact is seen in crop yields declining by 7% in the short term (2006–35) and by 25% in the long term (by 2050). Projected increases in annual maximum temperature of 3–4°C between 2050 and 2070 could further undermine agricultural productivity and cause greater water stress. Already, shortages of water and grazing land are generating communal conflicts. Nigeria is 73 on the 2021 GCRI.

Transition to low carbon highlights the plight facing Nigeria's oil sector and energy infrastructure. Oil and gas account for more than 85% of exports and about half of revenues. Eliminating fossil fuels will act as a drag on the transition to higher income but provides a chance for inclusive and green development. The revised NDC 2021–30 and National Adaptation Plan 2021 set emission targets for 2030 at 453 MtCO₂eq, around half the level forecast in 2015. This is a 2.6% annual increase, with total financing estimated at \$177 billion. The Climate Change Act (2021), aligned with the Medium-term National Development Plan, provides the legal framework. Investing in clean energy, smart agriculture, and climate-proofing technology are vital for the economic transformation's resilience and export-led diversification. Nigeria's policy efforts bode well for meeting SDG 13 on climate action by 2030, but risks abound.



Source: Data are as of April 2022 and are from domestic authorities; figures for 2021 are estimates and figures for 2022 and 2023 are projections by the African Economic Outlook team.