

## Recent macroeconomic and financial developments

Nigeria's economy entered a recession in 2020, reversing three years of recovery, due to fall in crude oil prices on account of falling global demand and containment measures to fight the spread of COVID-19. The containment measures mainly affected aviation, tourism, hospitality, restaurants, manufacturing, and trade. Contraction in these sectors offset demand-driven expansion in financial and information and communications technology sectors. Overall real GDP is estimated by the Bank to have shrunk by 3% in 2020, although mitigating measures in the Economic Sustainability Programme (ESP) prevented the decline from being much worse.

Inflation rose to 12.8% in 2020 from 11.4% in 2019, fueled by higher food prices due to constraints on domestic supplies and the pass-through effects of an exchange rate premium that widened to about 24%. The removal of fuel subsidies and an increase in electricity tariffs added further to inflationary pressures. The Central Bank of Nigeria cut the policy rate by 100 basis points to 11.5% to shore up a flagging economy. The fiscal deficit, financed mostly by domestic and foreign borrowing, widened to 5.2% in 2020 from 4.3% in 2019, reflecting pandemic-related spending pressures and revenue shortfalls. Total public debt stood at \$85.9 billion (25% of GDP) on 30 June 2020, 2.4% higher than a year earlier. Domestic debt represented 63% of total debt, and external debt, 37%. High debt service payments, estimated at more than half of federally collected revenues, pose a major fiscal risk to Nigeria. The current account position was expected to remain in deficit at 3.7% of GDP, weighed down by the fall in oil receipts and weak external financial flows.

## Outlook and risks

The economy is projected to grow by 1.5% in 2021 and 2.9% in 2022, based on an expected recovery in crude oil prices and production. Stimulus measures outlined in the ESP and the Finance Act of 2020 could boost nonoil revenues. Improved revenues can narrow

the fiscal deficit to 4.6% and the current account deficit to 2.3% of GDP in 2021 as global economic conditions improve. Reopening borders will increase access to inputs, easing pressure on domestic prices and inflation, projected at 11.4% in 2021. Downside risks include reduced fiscal space, should oil prices remain depressed. In addition, flooding and rising insecurity could hamper agricultural production. Further depletion in foreign reserves from \$35 billion (7.6 months of import cover) could lead to sharp exchange rate depreciation and inflationary pressures. A potential relapse in COVID-19 cases could exacerbate these risks. High unemployment (27%), poverty (40%) and growing inequality remain a major challenge in Nigeria.

## Financing issues and options

Nigeria's public debt is relatively sustainable at 25% of GDP. But debt service payments are high, and the country's ability to attract external private financial flows is hurt by macroeconomic imbalances and policy uncertainty. During the first half of 2020, Nigeria received \$7.1 billion in foreign investment. This was half the amount it received in the corresponding period of 2019. Nigeria's financing requirements require improved domestic revenue collection. Currently, nonoil revenue collections are equivalent to 4% of GDP. The revenue yield in 2020 from an increase in the value-added tax rate to 7.5% from 5% was less than projected because of subdued economic activity. Broadening the tax base could strengthen Nigeria's fiscal buffers, if structural reforms to enhance compliance are supported and illicit financial flows are tackled. Remittances and sharia-compliant sukuk bonds also offer potential financing options. In 2019, remittances totaled \$23.8 billion (5.3% of GDP), but the effect of the COVID-19 pandemic in key source markets could reduce this figure. The third issuance of sukuk bonds of 150 billion naira (\$395 million) in June 2020 attracted 669.1 billion naira, of which 162.5 billion naira was allotted to finance 44 critical road projects. Use of foreign reserves as a financing option in the medium term is impaired by lower oil receipts, the main source of foreign exchange.



Source: Data are as of December 2020 and are from domestic authorities; figures for 2020 are estimates and figures for 2021 and 2022 are projections by the African Economic Outlook team.