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The Nigerian Economy under a New Administration

It is a new dawn in Nigeria's political clime, following the election and inauguration into office of President Bola Tinubu and his team. President Tinubu is taking over office at an auspicious time as the Nigerian economy is in a precarious state- rising inflation amidst sluggish growth, external imbalances, and a growing debt burden, but to name a few. These domestic macroeconomic challenges have been exacerbated by the impact of external shocks such as the COVID-19 pandemic, Russia's war in Ukraine, China's slowing economy and global monetary tightening.

The International Monetary Fund is projecting that the global economy will grow at a slower pace of 3% in 2023 from an estimated 3.5% in 2022. This is based on the tightening stance adopted by monetary authorities to fight inflation. Sub-Saharan Africa (SSA) is forecast to grow at a slightly faster pace of 3.5% (from 3.6% in 2022), with Nigeria projected to grow by 3.2% (from 3.1% in 2022). The rationale for the multilateral agency's growth forecast for Nigeria is premised on rising inflation and the measures taken to address the insecurity issues in the oil sector.

Nigeria's Economic Performance:
A Mix of Sub-Optimal Growth and Worsening Economic Indicators

Since Nigeria's transition to civilian rule in 1999, the economy has recorded a mixed performance led by the different administrations. The period between 1999-2007 under the Obasanjo administration featured major reforms in the financial services and telecommunication sectors, which contributed to a stellar growth of 14.6% - the highest average growth under any administration to date.

By 2008, the economic reforms were in favour of real sectors such as agriculture, power, manufacturing etc., which resulted in key events. For example, the privatization of the national power company, the introduction of initiatives such as the Agricultural Credit Scheme Guarantee, Automotive Industry Development Plan (AIDP) and Youth Enterprise with Innovation in Nigeria (YouWin). However, challenges such as the global financial crisis which led to oil price volatility, increased inflation, insecurity, etc. resulted in a decline in the average growth rate over an eight-year period to 6.3%.

The last administration led by Muhammadu Buhari witnessed significant events such as the COVID-19 pandemic, a sharp decline in global oil prices, and geopolitical tensions (e.g., China vs. USA and Russia vs. Ukraine) amongst others. These global events alongside domestic challenges resulted in a significant decline in the average growth rate to 1.4% and two economic recessions within the eight-year period.

A summary of Nigeria's economic performance over the years is highlighted in the table below:

Indicators[1]	**1999**	**2003**	**2007**	**2011**	**2015**	**2019**	**2023[2]**	**Direction between 1999 and 2007**	**Direction between 2007 and 2015**	**Direction between 2015 and 2023**
Nominal GDP ($'million)	57,257	102,830	262,220	414,100	492,440	474,520	378,000	↑	↑	↓
Real GDP growth (%)	0.5	9.5	7.3	4.9	2.7	2.2	2.3	↑	↓	↓
Population size ('million)	119.7	113.1	148.3	165.5	184	203.3	223.8	↑	↑	↑
Population growth (%)	2.6	2.7	2.7	2.8	2.6	2.5	2.4	↑	↓	↓
GDP per capita ($)	478.4	772.5	1,768.2	2502.6	2,676.3	2,334	2,034.8	↑	↑	↓
Average inflation (%)	6.6	14	5.3	10.8	9	11.4	25	↓	↑	↑

LEGEND: ↑↓ Positive impact ↑↓ Negative impact ↑↓ Mixed impact

[1] EIU, NBS, CBN
[2] EIU's Forecast

Nigeria's Growth Challenge: What Has Been Done?

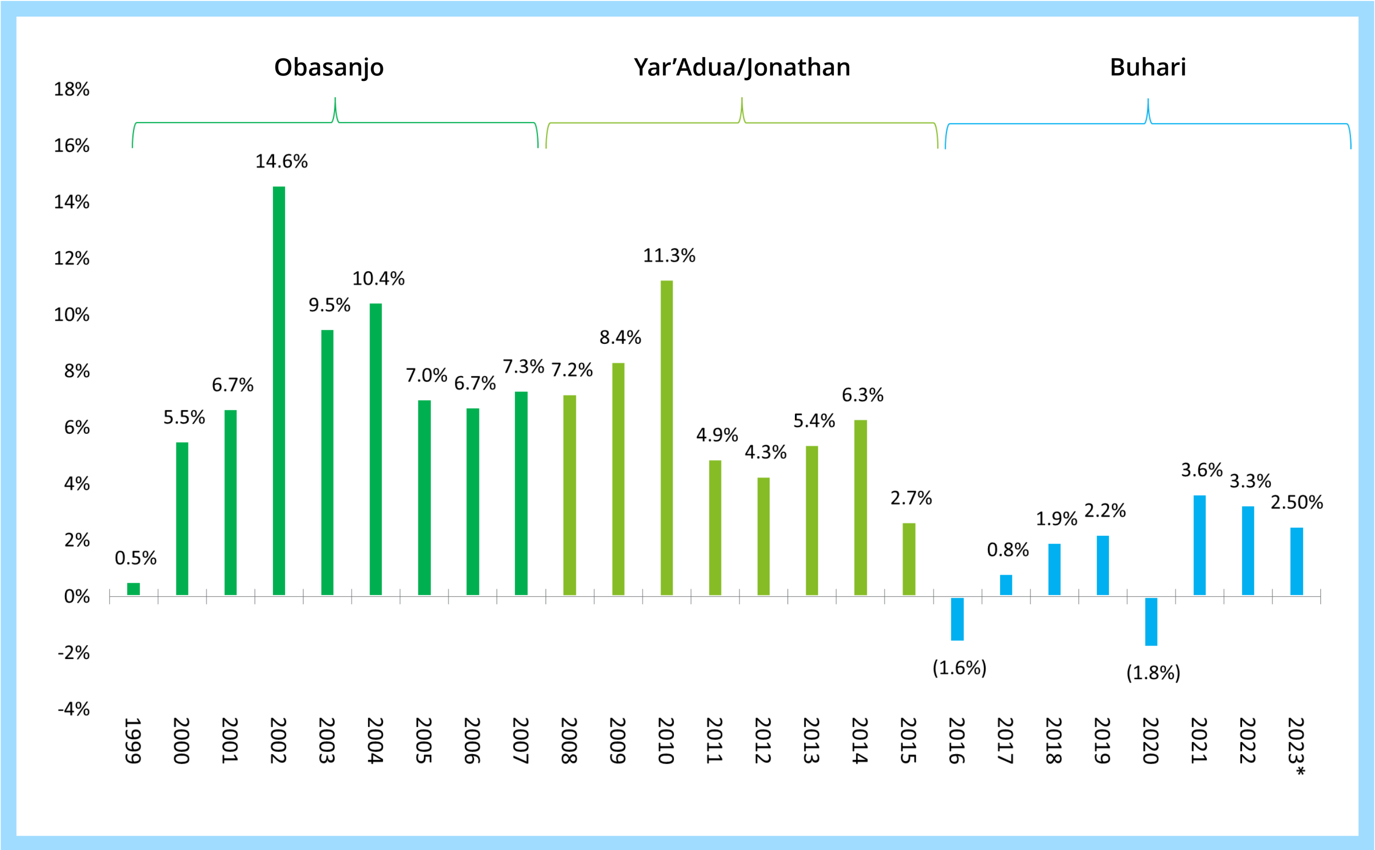
Over the past 24 years, the different administrations have attempted to maintain a positive growth. Nigeria has experienced four administrations that have attempted to address the macroeconomic challenges impeding Nigeria's GDP growth.
A summary of the policies introduced during the last administrations is indicated below:

Administration	Fiscal policies	Monetary policies
Olusegun Obasanjo (1999-2007)	• Privatisation of the telecommunication sector through increased private sector investment (e.g., MTN and other telecommunications) • Formation of ECOWAS to facilitate free trade across member states • Restructuring of Nigeria's public debt profile through the cancellation of Nigeria's foreign debt amounting to the sum of $18 billion	• Banking sector reforms which involved the recapitalisation requirements of banks to ensure adequate capital to support their operations • Non-banking sector reforms such as the Pension Reform Act 2004 to ensure proper management of funds and improve the standard of living
Musa Yar'Adua/ Goodluck Jonathan (2007-2015)	• Privatisation of the national power company to encourage competition and efficiency • Partial removal of fuel subsidy • Debt management: The issuance of Eurobonds and the restructuring of existing debt obligations • National Automotive Industry Plan (NAIDP) to promote local production of automobiles through incentives to manufacturers • Sovereign Wealth Fund (SWF) to manage and invest oil revenues appropriately to support infrastructure development	• Proposal of Treasury Single Account (TSA) • Modification of the reserve requirements of commercial banks to manage inflation, stabilise the exchange rate and promote prudent banking practices • Introduction of initiatives within the agriculture sector such as the Agricultural Credit Scheme Guarantee and the Agricultural Transformation Agenda (ATA) to increase local production, stabilise food prices and mitigate inflationary pressure in the food sector • The establishment of the Asset Management Company (AMCON) to address rising non-performing loans
Muhammadu Buhari (2015-2023)	• Increase of VAT from 5% to 7.5% • Education tax was also increased from 2% to 2.5% • Introduction of police fund levy of 0.005% • Introduction of the road infrastructure tax credit scheme • Introduction of an import restriction list including food and non-food items. The purpose of the list was to encourage domestic production by restricting foreign exchange availability • Closure of the land borders to encourage local production of food • New excise duty rates on goods such as non-alcoholic beverages to promote and stimulate economic growth • Implementation of the Africa Continental Free Trade Agreement (AfCFTA)	• Rationing of dollars to defend the foreign reserves • Introduction of Investor and Exporter forex (IEFX) window to stabilize the exchange rate • Naira redesign, which was implemented to control money in circulation while lowering inflation. However, the short time frame to return old naira notes caused a cash crunch in the economy, social tension and increased pressure on the banking system • Interest rate hike to an 11-year high of 18.5%, which was later increased to 18.75% in July 2023

Nigeria's Policy Implementation Journey

Despite the objectives of the policies introduced, the Nigerian economy is still faced with suboptimal growth of 3.3% and GDP per capita of $2,187, which is c.84% below the world average of $13,479 as of 2022[3]. The chart below shows that the monetary and fiscal policies introduced by previous administrations have recorded varying results for Nigeria's GDP growth:

Nigeria's Real GDP Growth Across Different Administrations[4]



Challenges such as poor policy implementation, heavy reliance on the oil sector as a major source of revenue, and infrastructure deficit, internal security issue and significant debt burden have impeded economic growth and subsequently limited the effectiveness of policies over the years:

Poor policy implementation

The policies rolled out over the years to address Nigeria's macroeconomic challenges have failed to achieve the desired outcomes. The lack of proper execution and policy implementation due to weak institutional capacity, bureaucratic inefficiencies, and inadequate coordination among government agencies have affected the effectiveness of policies.

[3] EIU
[4] EIU, NBS
*Forecast

Heavy reliance on the oil sector

Prior to the discovery of oil in the 1970s, Nigeria's export earnings were from non-oil sectors such as agriculture, mining, etc. However, the discovery of oil has resulted in the shift in focus of policymakers to the oil sector and the subsequent neglect of other sectors. By the fourth quarter of 2022, the oil sector accounted for 77.24%[5] of Nigeria's total export revenue, emphasizing the heavy reliance of the government on the commodity. Nigeria's reliance on oil exports has exposed the economy to the negative impacts of the Dutch Disease and subjected its main revenue source and external balance to fluctuations in global oil prices, which are cyclical in nature.

Infrastructure deficit

According to the 2022 Africa Infrastructure Development Index (AIDI), Nigeria ranks 24th out of 54 economies surveyed for quality infrastructure facilities in Africa. With a score of 24.5 out of 100 total points, Nigeria lags behind other African giants such as South Africa, Egypt etc. Nigeria's infrastructure deficit is estimated at $2.3 trillion[6] due to factors such as rural-urban migration and growing annual population growth, which has exacerbated the strain on existing facilities and resulted in dilapidated infrastructure in Nigeria.

Infrastructure development in Nigeria has been negatively impacted by inadequate funding, poor maintenance culture, and poor consolidation of previous development efforts by successive administrations. Addressing these obstacles is crucial to improving the country's infrastructure and fostering sustainable economic growth. Public-Private Partnership (PPP) models and foreign investment inflows can serve as potential measures to address the challenges identified.

Significant debt burden

Nigeria's debt has been on the rise over the years, increasing from $48.5 billion in December 2007 to $108.3 billion as at March 2023[7]. The Debt-to-GDP ratio was 5.1% in 2010 and has consistently risen to 16.8% as of 2022[8]. The consistent rise in the country's debt burden has resulted in an increase in interest payments and principal repayments. This has impeded economic growth as revenue meant for investment in infrastructure and other sectors of the economy is used to service these debts.

Internal security issues

According to the 2022 Global Peace Index, Nigeria ranked 143 out of 163 independent nations and territories with respect to the level of peacefulness.[9] The terrorism index for Nigeria was 8.23 points as at 2022 on a scale of 0 (no impact) to 10 (highest impact)[10]. Insecurity challenges such as Boko Haram, communal clashes, kidnapping, etc. have posed a threat to economic growth. Insecurity in the Niger Delta has affected the production of oil, which is a major source of revenue in the country, hence negatively impacting production and resulting in investment diversion and an increase in security budget.

[5] Reviewed NIMP
[6] Reviewed NIMP
* Forecast
[7] Debt Management Office Nigeria
[8] EIU
[9] Institute for Economic and Peace (IEP)
[10] Global Terrorism Index (GTI)

The Renewed Hope Agenda

President Bola Ahmed Tinubu announced his target to achieve a GDP growth rate of 7% within the next four years. During his first 40 days in office, the President introduced strategic policies/initiatives such as the removal of fuel subsidies, the launch of a Policy Advisory Council, transition to a managed floating exchange rate system, etc., all aimed at transforming the economy, boosting growth and development.

President Tinubu's Advisory Council has also indicated the administration's economic roadmap during it's first tenure:

Overall Economic Reform Roadmap

<table>
<tr><th>Short Term (100 Days)</th><th>Medium Term (12 – 18 Months)</th><th>Long Term (3 – 4 Years)</th></tr>
<tr><td colspan="2">Address oil theft and pipeline vandalism and substantially grow oil and gas production</td><td></td></tr>
<tr><td></td><td colspan="2">Unlock the potential of the solid minerals sector</td></tr>
<tr><td>Announce impending elimination of PMS subsidy</td><td></td><td></td></tr>
<tr><td colspan="3">Rationalise select government assets</td></tr>
<tr><td colspan="3">Deepen tax collection by restructuring and automating key revenue generating agencies</td></tr>
<tr><td colspan="2">Optimise operating expenditure to reduce cost and leakages</td><td></td></tr>
<tr><td>Transition to a transparent and unified foreign exchange rate system</td><td></td><td></td></tr>
<tr><td>Resolve the cash shortage situation</td><td></td><td></td></tr>
<tr><td colspan="2">Establish a coordinating body for fiscal and monetary policy</td><td></td></tr>
<tr><td></td><td colspan="2">Reform CBN's operating model</td></tr>
<tr><td></td><td colspan="2">Reform the regulatory environment to enable business and investment</td></tr>
<tr><td></td><td colspan="2">Transform Nigeria to become Africa's most efficient trading nation</td></tr>
<tr><td></td><td colspan="2">Grow non-oil export contribution to GDP</td></tr>
<tr><td></td><td colspan="2">Grow manufacturing contribution to GDP</td></tr>
<tr><td></td><td colspan="2">Be the leading investment destination choice among the MINT economies (FDI)</td></tr>
<tr><td></td><td colspan="2">Accelerate implementation of the Nigerian capital market master plan</td></tr>
<tr><td colspan="3">Establish a cabinet-level Performance and Delivery Unit in the Presidency</td></tr>
</table>

Color code: Fiscal Policy Monetary policy Industry (Manufacturing) and Trade Capital Market

High Targets, High Expectations

To measure the success of the renewed hope agenda, President Bola Tinubu's Policy Advisory Council has outlined the administration's economic target for the administration within an eight-year timeline as:

- Double the economy to $1trillion
- Achieve an average annual GDP growth rate of 7%
- Lift 100 million people out of poverty
- Create an enabling environment to generate over 50 million jobs
- Deliver sustained inclusive growth

With a current nominal GDP of $478.1 billion, the proposed annual growth rate of 7% will translate to a GDP level of $878.9 billion by 2031. This is lower than the economic size target of $1 trillion. Therefore, the economy should actually grow at a rate of 8.5% to achieve the set target within the stipulated timeframe.

Further analysis of the targets put forward shows that with a projected GDP size of $1 trillion and an annual population growth of 2.6%, GDP per capita is projected to reach $3,631 by 2031. This is higher than the current SSA average of $1,794 but lower than the world average of $13,479. GDP per capita is a measure of the economic prosperity of citizens based on the country's output and population. The world average GDP per capita is often used as a threshold to measure the state of a country's prosperity and any country that is substantially below the threshold is considered to be less prosperous.

With GDP per capita currently at $2,187, Nigeria is significantly below the prescribed threshold. For Nigeria to reach the current world average, its GDP per capita will need to grow at an exponential rate of 25.6% per annum within the span of eight years. In the last 23 years (between 1999 and 2022), Nigeria's GDP per capita has increased at an average rate of 7.7%. Given this historical trend and the existing policy frameworks in place, a growth of above 20% in GDP per capita could result in an overheated economy. To bring Nigeria closer to the world average while preventing an over-heated economy, the current administration can aim to double the current GDP per capita over the next 8 years.

Growth expectations for Nigeria to double its GDP per capita

Achieving double of Nigeria's current GDP per capita level ($4,374.8) may not bring the country to the current world average threshold but it will at least **reduce the gap between Nigeria's GDP per capita and the world average by $2,187.4.**

> **Based on analysis, a GDP growth rate of 10.8% would be necessary for Nigeria's GDP per capita to double within the next eight years. Considering a stable population growth rate of 2.6%, this translates to a GDP per capita growth rate of approximately 8.2% annually.**

Year	GDP ($'million)	Population (million)	GDP per capita ($)
2022	478,050.0	218.5	2,187.4
2023	529,745.3	224.2	2,362.6
2024	587,030.8	230.1	2,551.7
2025	650,511.0	236.0	2,756.0
2026	720,855.9	242.2	2,976.6
2027	798,807.7	248.5	3,214.9
2028	885,189.0	254.9	3,472.3
2029	980,911.5	261.6	3,750.3
2030	1,086,985.1	268.4	4,050.5
2031	1,204,529.3	275.3	4,374.8

The projected annual GDP per capita growth of 8.2% is subject to an annual GDP growth forecast of 10.8%. This will generate a GDP size of $1.2 trillion and an annual population growth of 2.6%, leading to a population size of 275 million by 2031.

Countries that have transformed their economic fortune

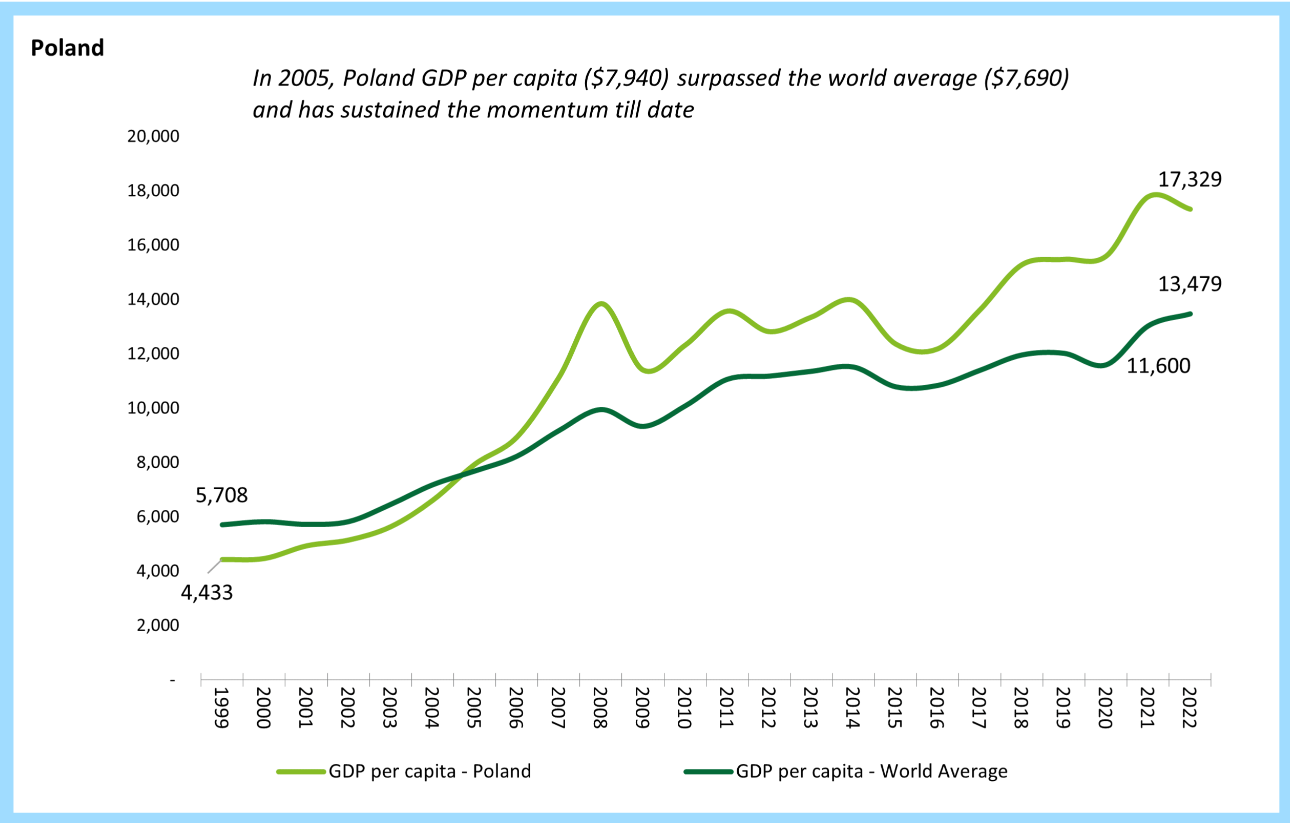
Although the target to double Nigeria's GDP per capita is ambitious, there are examples of countries that have achieved similar targets within a comparable timeframe. Countries such as Poland and Chile have doubled their GDP per capita within eight years and serve as examples of countries that recorded economic transformations due to the strategic policies implemented by presidents with a political will.

Poland

Poland, located in the heart of Central Europe, is a remarkable success story of reference in terms of economic development and transformation. Since the fall of communism in 1989, the country has undertaken significant market-oriented reforms, which have resulted in the transition from a centrally planned economy to a thriving market-based system. Poland witnessed a remarkable economic transformation between 1999 to 2022, marked by impressive growth figures. Over the period, Poland's annual average GDP growth was 6.5% while its population declined by an average of 0.2% per annum, which translated to an average growth of 6.3% per annum.

[6] EIU

Poland vs World Average: GDP per Capita[6]



Poland crossed the world average GDP per capita in 2005 under the administration of President Aleksander Kwaśniewski. There are key factors and policies that have propelled Poland's growth, positioning it as a leading player in the region and elevating its GDP per capita above the world average. Some of the policies and actions that charted an inspiring path toward sustainable economic growth for Poland include:

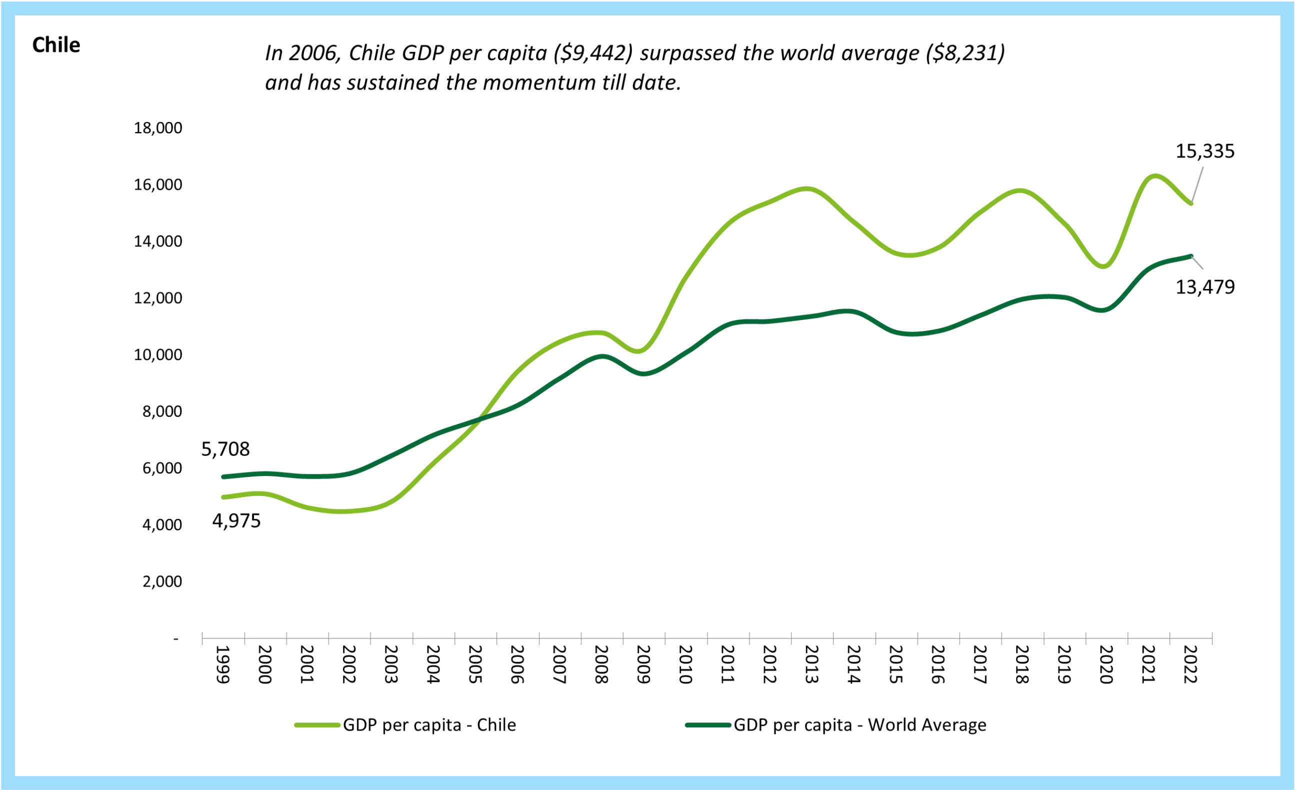
- Market-oriented reforms to improve efficiency, introduce competition, and stimulate economic growth. These reforms include privatizing state-owned enterprises, liberalizing trade, and deregulating the economy.
- Bilateral trade agreements with countries like the United States, Canada, and South Korea, as well as the implementation of programs to support export-oriented industries.
- Membership in the European Union (EU) since 2004 provided access to a larger market, increased trade opportunities, financial assistance, infrastructure development funds, and improved access to EU programs.
- Significant investments in infrastructure development, including transportation networks, energy systems, and telecommunications. Major projects like the A2 and A4 motorways improved road networks, railway infrastructure was modernized, airports and seaports were expanded and modernized, and energy infrastructure projects were undertaken to enhance generation, transmission, and distribution capacities.
- Establishment of Special Economic Zones (SEZs) to attract investments and stimulate economic activities in less-developed regions. Currently, around 14 SEZs operate in Poland, driving regional development, innovation, and industrialization.

[6] EIU

Chile

As at 1999, Chile's GDP per capita ($4,975) was below the world average ($5,708) by approximately 13%. However, the country has successfully turned its economic fortunes around and recorded an impressive path of economic growth and development from 1999 till date. The country has attracted investment inflows and fostered innovation through a series of market-oriented reforms, sound macroeconomic policies and strategic investments in human capital and infrastructure. Chile's current GDP per capita of $15,335 is 13.8% higher than the world average.

Chile vs World Average: GDP per Capita[7]



Some of the factors that have contributed to Chile's GDP per capita growth over the years include:

- To harness the natural resource abundance in Chile, the government created the Sovereign Wealth Fund to ensure a sufficient revenue buffer in the mining sector. To date, the sector still plays a significant role in Chile's economy and contributed 8.4% to the national GDP as of 2022[8]. The government also leveraged private public partnerships to ensure consistent exploitation and availability of natural resources.

- Due to its modest size and distant location from major global consumption hubs, Chile embraced free trade and pursued an open trade policy. The country signed numerous free trade agreements with countries such as China and USA[9], which encouraged access to larger markets and facilitated export growth.

- Chile allowed the private sector to play a prominent role in the economy by privatizing traditional public sectors such as electricity, telephone, and transportation. This enabled the government focus on providing public goods and

[7] EIU
[8] EIU
[9] International Trade Administration

implementing social programs to alleviate poverty and improve access to basic services. The government is also able to focus on its role in market regulation and supervision, ensuring a competitive environment, setting rates for natural monopolies, and promoting consumer protection and market discipline.

The Road Ahead: How can Nigeria Double its GDP per Capita?

> "The short-term objective to double Nigeria's GDP per capita to achieve the desired economic size and growth rate requires planning, political will, and effective implementation."

The current administration will be tasked with the responsibility to implement strategic reforms with long-term gains, albeit with some short-term pain. The Advisory Council has outlined other critical success factors of the administration including leadership accountability, strategic communication with Nigerians, the appointment of qualified and committed leaders, the establishment of a strategic coordinating organ to ensure alignment of fiscal and monetary policies, and the establishment of a Presidential Performance and Delivery Unit to coordinate the delivery of major initiatives.

The low-hanging fruits for the administration to tackle within the next 4 years include:

Improve the business environment to encourage private sector participation: In the case of Chile, the private sector played a pivotal role as the driving force behind the country's economic transformation. By addressing these economic factors, Nigeria can create a conducive business environment that encourages private sector participation, and boosts investment inflows and productivity.

Economic diversification: Nigeria's over-reliance on the oil sector makes it vulnerable to fluctuations in crude oil prices. Therefore, the new administration should seek to boost GDP growth by diversifying the economy and promoting non-oil sectors such as agriculture, manufacturing, and service sectors.

Removal of bottlenecks that constrain production & export activities: Trade openness through incentives for local production, and reduction of tariffs in certain industries with the potential to generate foreign exchange should be encouraged.

Effective foreign exchange management: A continued management of the foreign exchange market towards a liberalized regime solely dependent on market forces. This will aid cost structuring, promote long-term planning across key sectors, and reduce uncertainties among investors.

Reduce Nigeria's infrastructure deficit by leveraging partnerships with the private sector: Collaborating with private enterprises through public-private partnerships (PPPs) can bring significant benefits while mobilizing private capital and expertise. These partnerships can address infrastructure gaps, promote economic growth, and create jobs. This is a strategic approach to bridge the infrastructure gap and drive sustainable development.

Regulatory reforms to create a more business-friendly environment that encourages Foreign Direct Investment (FDI): Introduction of transparent and business-friendly policies to boost investor confidence. In addition, streamlining the bureaucratic procedures, especially concerning repatriation of capital to bolster Nigeria's attractiveness to FDI.

Contact




Temitope Odukoya
Managing Partner,
Financial Advisory
Deloitte Africa

todukoya@deloitte.com.ng
+23419041748

Bola Adigun
Partner, Economic Advisory Leader,
Deloitte West Africa

badigun@deloitte.com.ng
+23419041737

Abimbola Ogundare
Partner, Corporate Finance Leader,
Deloitte Africa

aogundare@deloitte.com.ng
+23419042090

Damilola Akinbami
Chief Economist,
Deloitte West Africa

dakinbami@deloitte.com.ng
+23419042042

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