Overview of the Nigerian Economy

Economic and Social Environment

- Since 2003, the Government of Nigeria has sustained far-reaching economic reforms at the federal level, particularly in public finance management, and the financial sector.
- The economic reforms and prudent policies have contributed to the consolidation of macroeconomic stability and improvements in overall economic indicators.
- The reforms left the economy better prepared to deal with the crisis. Central to this success is the oil-price-based fiscal rule where oil revenues are allocated based on a budget oil price and volume of production. Oil revenues in excess of the budget price and production are transferred into an “excess crude account”. This rule created an oil-savings cushion of $18 billion (15 percent of non-oil GDP) as well as foreign reserves that peaked in September 2008 at $62 billion (16 months of imports).
- GDP growth which was 3% in 2009 averaged about 7 percent in the first two quarters of 2010, driven by the non-oil sectors.
- The government is targeting economic growth of 10 percent for 2011 but the IMF projects Nigeria’s economy to grow at 7.4 percent in 2010 and 2011.

Unemployment Rate and poverty Ratio

- The strong growth of the Nigerian economy has not translated into job creation
- Unemployment still hovers around 19.7 percent on average, as it was in March 2009.
- 49% of the unemployed reside in the urban area and 39.7% unemployed are in the rural area.
- Latest available figures show that 54.4 percent of Nigerians live below the poverty line.

Inflation/Interest Rate/Exchange Rate

- Year-on-year inflation rose to 13.7 per cent in August/September from 13.0 per cent in July/August.
- The Central Bank of Nigeria (CBN) increased its benchmark Monetary Policy Rate (MPR) from 6 to 6.25 percent as a precautionary measure to moderate inflationary pressure. The pressure is likely to result from the implementation of the new salary structure in the civil service, the expected fiscal injection arising from the expenses in the up-coming elections, and injections resulting from the purchase of non-performing loans from banks.
- The naira depreciated by about 6 percent from mid-September to mid-October as a result of increased demand for hard currency but regained its lost value in October.

Fiscal Policy and Public Financial Management:

- Total revenue and grants increased from 22.2 percent of GDP in 2009 and 28.6 percent of GDP in 2010.
- Oil and gas portion of the revenue increased from 15 percent of GDP in 2009 to 21.6 percent of GDP in 2010.
- Hence the non-oil and gas revenue portion decreased from 7.2 percent in 2009 to 7.0 percent in 2010.
- 7 percent of domestic resource mobilization from the non-oil and gas sectors of the economy is very small and makes Nigeria’s domestic resource mobilization vulnerable to fluctuations in petroleum prices. There is the need to strengthen tax administration to improve internally generated revenue, particularly from the non-petroleum sectors, more timely and transparent reporting and audits to reduce fraud.
- AfDB is currently undertaking a study to strengthen tax administration to improve domestic resource mobilization.

**Public Debt Stock:**
- Nigeria’s total public debt currently stands at about US$32.5 billion representing 16.8 percent of the country’s Gross Domestic Product (GDP).
- About US$ 28 billion or 86 percent of this is owed domestically, while the balance of about US$4.5 billion or 14 percent is owed to foreign multilateral creditors.
- The rising public debt stock has been a major concern. However, the Director General of the Debt Management Unit of the Ministry of Finance maintains that 16.8 percent debt-to-GDP ratio is well within the recommended ceiling of between 14 and 25 percent.

**Financial Sector:**
- The banking system expanded during the earlier part of the decade but was very weak. Marginal and unused loans accounted for about 20 percent of the system assets and non-performing loans about 20 percent consolidation trimmed the number of banks from 89 to 24.
- The pace of the expansion posed a big challenge to supervisors. Level of private credit rose from 21 percent of non-oil GDP before consolidation to 50 percent by the end-of 2008 which called for careful monitoring.
- The global crisis magnified the challenges in the banking system. Concerns about the banking system intensified as the crisis progressed, and it was revealed that some banks were using the central bank discount window as an ongoing source of funding.
- The Central Bank of Nigeria introduced some comprehensive banking sector reforms into the Nigerian banking industry to address poor corporate governance, and unethical practices in the industry.
- This has resulted in a $4 billion bailout of nine weakly capitalized lenders and the dismissal of chief executives of five (5) top banks; with sixteen (16) senior bank officials.
- The reforms have brought some stability into the banking industry in Nigeria.
- The Governor of the Central Bank has remarked that 15 of the current 24 Nigerian Banks might survive the reform in the banking sector.
- CBN has revoked the operating licenses of 224 Microfinance Banks because of their high portfolio at risk resulting from non-performing loans.
- The newly created Asset Management Corporation of Nigeria (AMCON) is to buy up non-performing loans in exchange for government bonds to help improve their
capital and liquidity, restore confidence, and revive lending in Nigeria’s banking sector.

- The Central Bank of Nigeria (CBN) has established a 500 billion naira Infrastructure Fund to assist companies in the power, aviation, and manufacturing sectors in its bid to encourage economic growth and infrastructure development. The Funds are secured by government guarantee and would be channeled through the Bank of Industry (BOI) for on-lending to banks and to eligible end-users.

- CBN has established a 200 billion naira Small and Medium Enterprises Credit Guarantee Scheme to provide credit to manufacturers and small and medium enterprises in Nigeria for the development of small and medium enterprises and the manufacturing sector. The scheme is 100% funded and managed by the Central Bank.

- CBN has established a 200 billion naira commercial Agriculture Credit Fund to provide credit facilities to commercial agricultural enterprises to fast-track the development of the agricultural sector. Resources in the Fund are the proceeds of a 200 billion naira seven-year bond raised by the Debt and Management Office.

**Promoting Economic Growth:**

- Nigeria wants to become one of the world’s top 20 economies by 2020. To achieve this goal the authorities plan to build a globally competitive economy that is much less reliant on the oil and gas sector to generate employment and reduce poverty.

- This calls for enhancing competitiveness through structural reforms and investment in critical infrastructure particularly power generation and transmission, energy, transportation, and railway.