

6th Regular Meeting
of the
Presidential Economic Advisory Council (PEAC)
with
HE. President Muhammadu Buhari GCFR



Outline

- Executive Summary
- Since our last meeting:
 - *Economic Environment: Update & Review*
 - *Issues Requiring Urgent Attention*
- The Council



Executive Summary

- The global economy has continued to improve as COVID infections drop and roll-out of vaccination intensifies;
- Though out of recession, the domestic economy remain fragile with inflation continuing to rise, unemployment remains high and external account weak.
- Policy must urgently address the challenge of rising prices by reducing post-harvest losses and continuing to improve infrastructure



Executive Summary

- Council draws attention to 3 issues requiring urgent attention –
 - the need for policy clarity with regard to fuel subsidies – this will help resolve the dilemma which rising crude oil prices present.
 - The worsening security environment has adversely affected food production leading to higher prices. In other economic sectors, in addition to raising costs, investment has also been delayed or cancelled
 - The need for the PIB to encourage investment in Nigeria's Oil & Gas Sector by adopting
 - a single sector regulator instead of multiple regulators currently proposed,
 - deregulation of gas prices and
 - prepare the NNPC for commercialization through a sell-down of government shares
 - establish a 'one-stop shop' to ensure accelerated approval for priority Oil sector projects



Executive Summary

- Council notes Federal Executive Council approval of the national poverty with growth strategy;
- In addition to continuing to monitor on-going developments in the economy, the PEAC is working on and will bring recommendations on the following –
 - Debt Sustainability
 - Agriculture and Irrigation
 - The dynamics of unemployment



Economic Environment: Update & Review

- International Economic Environment
- The Domestic Environment
- Urgent Issues



Since our last meeting - the global economic environment has continued to improve

- The international economic environment continuing to improve driven by –

- **Combination of falling COVID-19 Infections and roll-out of COVID-19 Vaccination:**

- With India as exception, the spread of COVID-19 infections has eased.
- Thus far 1.2bn doses have been administered worldwide with 285mn people fully vaccinated and a further 618mn people receiving at least 1 dose. Approximately 3.7percent of the world population fully vaccinated and 7.9percent receiving a single dose.
- Striking disparities are now apparent. For example, only 1.4percent of Africa's population has been vaccinated compared with 48percent in North America.
- High and upper middle-income countries account for 83percent of vaccinations while low-income countries account for 0.3 percent of vaccinations

- **Stimulus spending in the USA:**

In March 2021, the US President signed into law the American Rescue Plan Act which appropriated US\$1.9trn – taking aggregate US appropriations on COVID-19 relief to US\$5.6trn



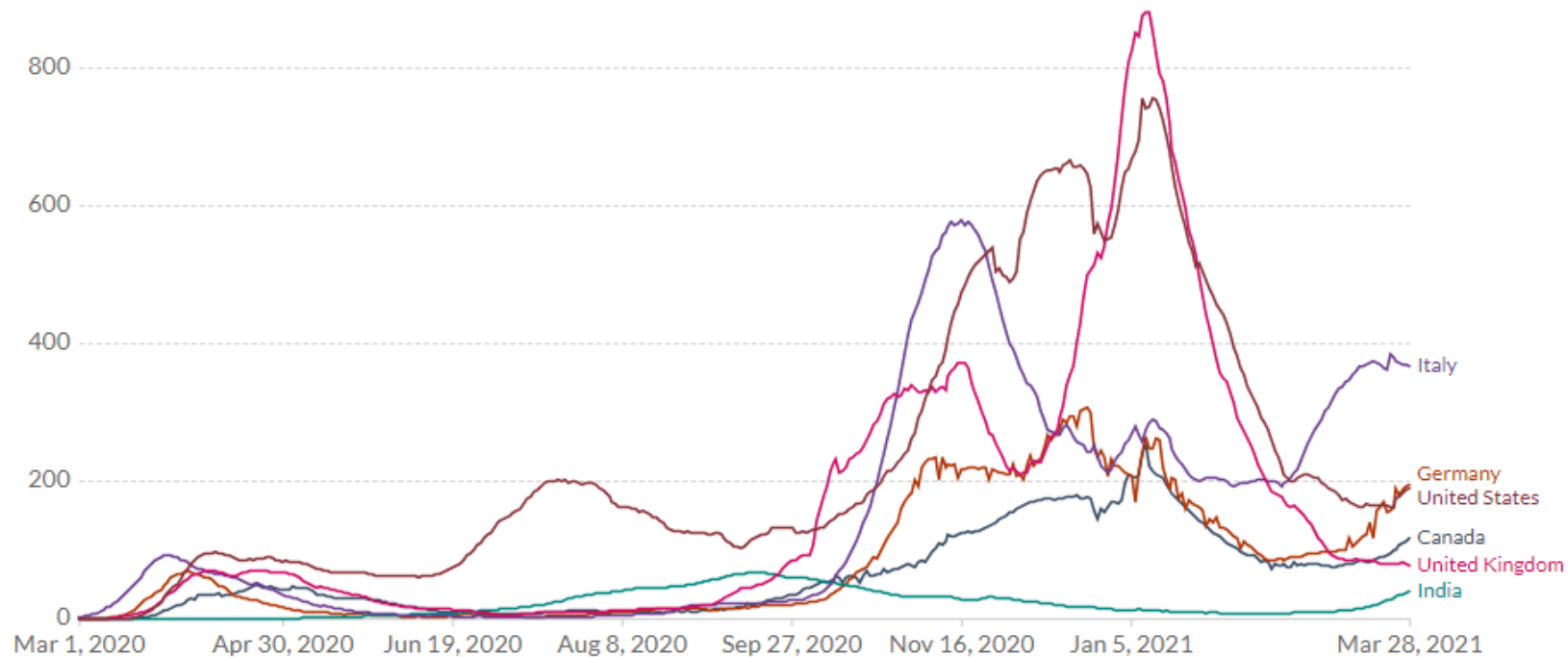
COVID-19: Infections Tapering

Daily new confirmed COVID-19 cases per million people

Shown is the rolling 7-day average. The number of confirmed cases is lower than the number of actual cases; the main reason for that is limited testing.

Our World
in Data

LINEAR LOG



Source: Johns Hopkins University CSSE COVID-19 Data

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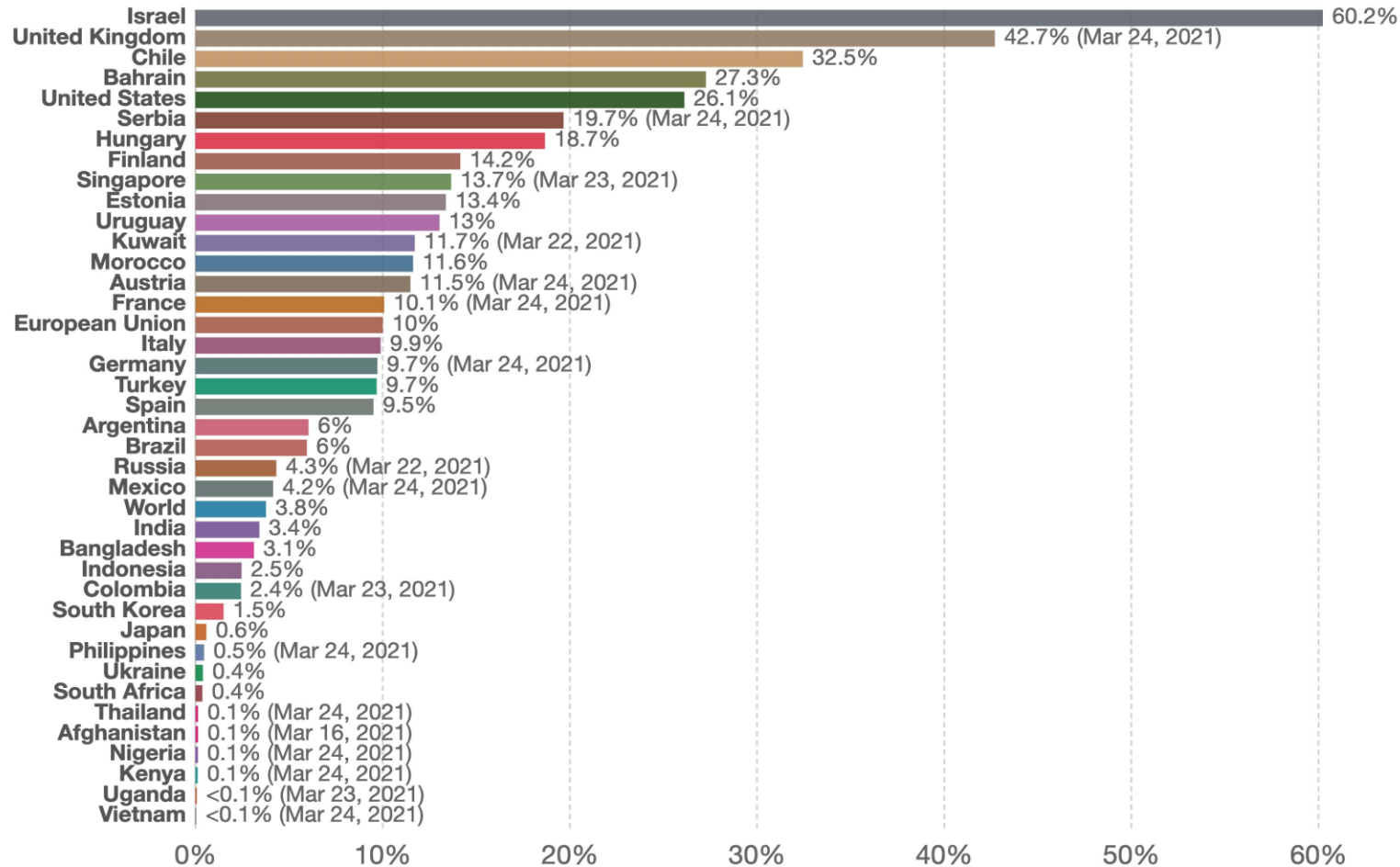
▶ Jan 28, 2020 ———— ○ Mar 28, 2021



Vaccination continues to accelerate in key countries – Sharp Disparities

Share of people who received at least one dose of COVID-19 vaccine, Mar 25, 2021

Share of the total population that received at least one vaccine dose. This may not equal the share that are fully vaccinated if the vaccine requires two doses.



Source: Official data collated by Our World in Data – Last updated 26 March, 08:40 (London time)

OurWorldInData.org/coronavirus • CC BY

..... Since our last meeting – Commodity prices have improved and projections for output growth around the world raised

- In consequence of improving global confidence as lockdowns eased, the most recent projections of activity and prices show significant improvement in the world economy
 - The IMF projection for global output growth in 2021 has been raised from 5.5percent to almost 6.1percent.
 - Commodity prices have improved. For example, at US\$66.7/barrel at the end of April 2021, the price of Bonny Light Crude has improved approximately 30percent compared to its price on the 1st Jan., 2021
- Important to note that as inflation increases abroad as a result of economic stimulus, Nigeria should expect to deal with higher interest rates and pressure on exchange rates



Current State of the Economy – Out of recession but very fragile

- The economy exited recession in Q4 '20, albeit with very slim growth of 0.1%
 - Return to growth driven by improvement in some non-oil sectors – including agriculture, solid minerals, ICT and Agric sector - and continued growth in the technology sector rather than broad-based growth
- Rising prices of goods and services continues to be a worry.
 - Main drivers of rising prices include disruption to farming activities and inter-state trade as a result of worsening security conditions. In addition, the effect of depreciation in the exchange rate and the residual impact of border closure contributed to higher prices.
 - As a result of the factors above, overall prices rose by 18.17percent whilst food prices increased by almost 23percent in March 2021 when compared with a year ago.



Current State of the Economy – Out of recession but very fragile

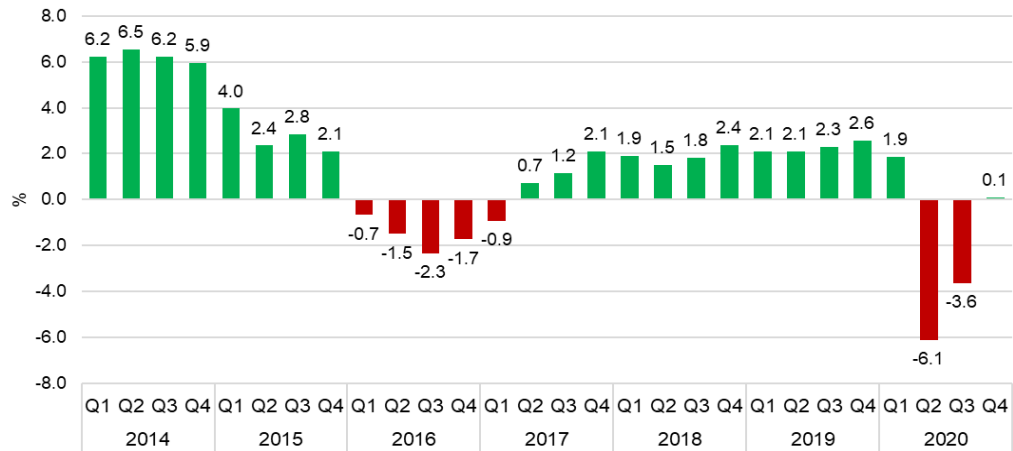
- Overall unemployment and youth unemployment were recorded at 33.3percent and 42.5percent at the end of 2020. The high level of unemployment is explained by factors which include -
 - Slow growth in output resulting from recession in 2016/17 and between March and Sept., 2020.
 - The sectors which significant growth use very little labour.
 - Council is currently working with various stakeholders to understand the dynamics of unemployment in Nigeria
- The adverse consequences of sharply rising prices are clear
 - Inflation affects all Nigerians – especially the poor - very adversely by reducing the value of savings and purchasing power
 - It also reinforces expectations and reduces Nigeria’s price competitiveness with regard to our trading partners



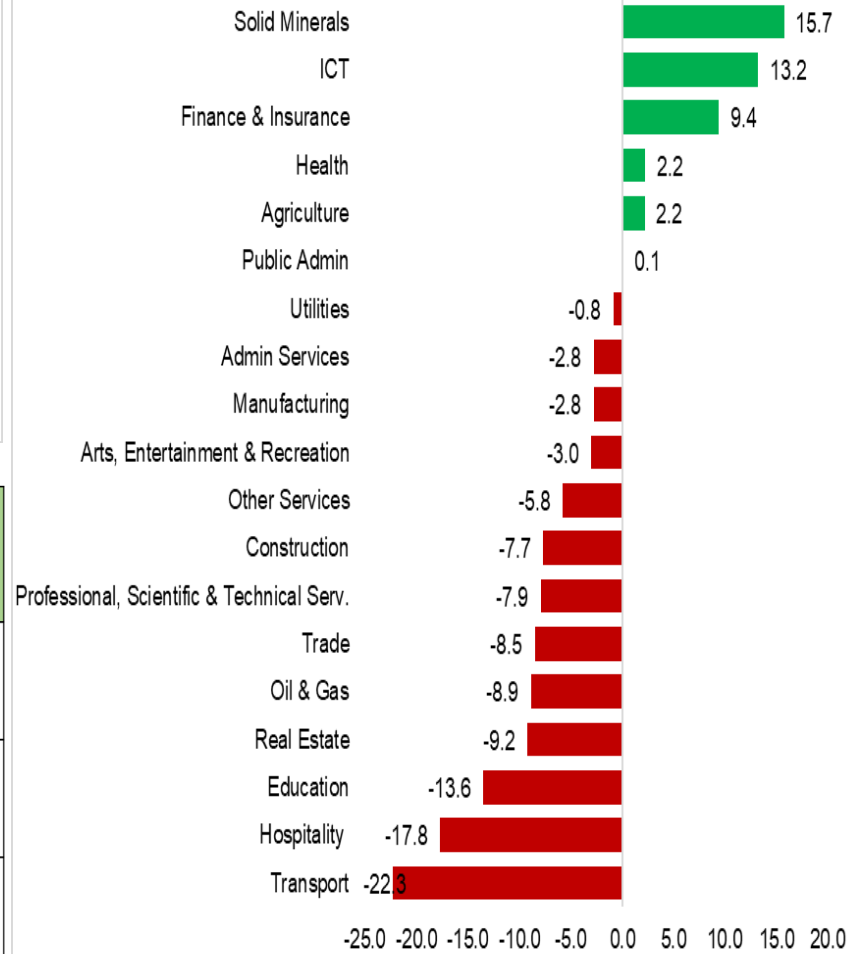
Steps to reduce post-harvest food losses, reduce cost of governance and redirect resources saved to development of rural infrastructure can have immediate impacts in reducing inflation

Current State of the Economy – Out of recession but fragile

Quarterly GDP Growth - YoY, %



Sector Growth, 2020, %



	2015	2016	2017	2018	2019	2020
Contracting sectors (% of GDP)	19.6	53.0	45.2	30.2	27.1	47.2
Slow-growing sectors (% of GDP)	9.3	19.1	19.9	55.1	50.2	34.6
Fast-growing sectors (% of GDP)	71.1	27.9	34.9	14.7	22.7	18.2

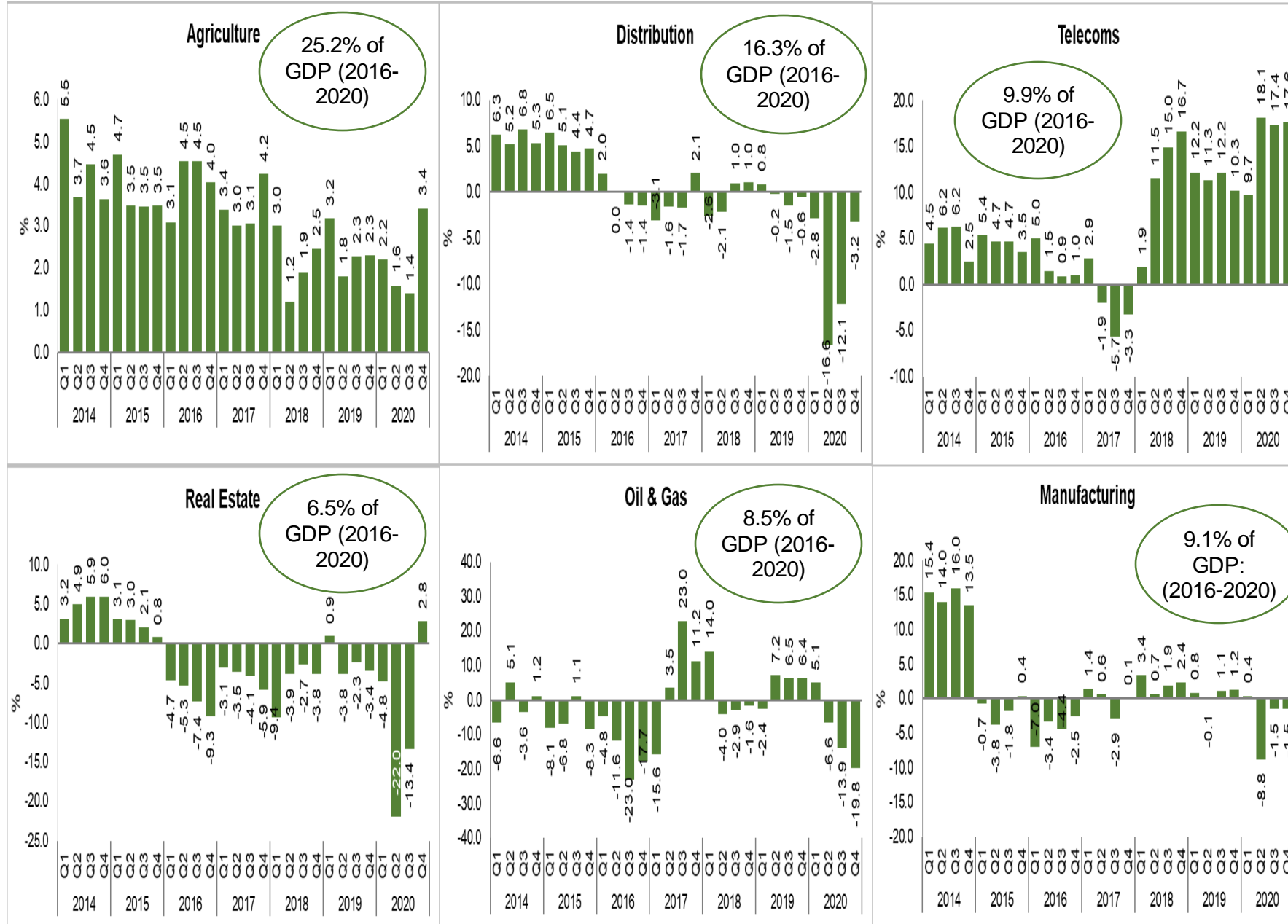


Since our last meeting – exited recession though activity remains weak and inflation, especially food, continues to rise

Leading Econ Indicators – High Frequency	Last Meeting	Latest
Output		
- Purchasing Managers' Index	51.8 (Dec)	37.1 (Apr)
Headline Price Inflation (%)	15.8 (Dec)	18.1 (Mar)
- Food Price Inflation (%)	19.6 (Dec)	23.0 (Mar)
Oil price (\$'pb) [monthly av.]	50.18 (Dec)	68.96 (May)
Gross external reserves (\$'bn) [month-end]	35.37 (Dec)	34.77 (May)
Exchange rate (N/\$) [monthly av.]		
- CBN	379.00 (Dec)	379.00 (May)
- Investment and Export Window	394.92 (Dec)	410.50 (May)
- Bureau de Change	471.62 (Dec)	475.00 (May)
Interest rates (% p.a.)		
- 91-day FGN Treasury Bill	0.3 (Dec)	4.1 (May)
- 10-yr FGN Bond	6.7 (Dec)	12.4 (May)



Current State of the economy: fragility of major sectors



Since our last meeting – Unemployment remains worryingly high

Leading Econ Indicators – Lower Frequency	Last Meeting	Latest
Output growth		
- GDP growth (%)	-3.8 (Q3'20)	0.1 (Q4'20)
Labour Force		
- Unemployment (%)	27.1 (Q2' 20)	33.3 (Q4 '20)
- Youth Unemployment (%)	34.9 (Q2' 20)	42.5 (Q4 '20)
External Balance		
- Y-T-D Trade Balance (\$ 'bn)	-12.0 (Sept '20)	-20.5 (FY '20)
- Trade Balance (% of GDP)	-6.1 (Q3 '20)	-6.3 (Q4 '20)
- Current Account Balance (% of GDP)	-3.8 (Q2 '20)	-3.2 (Q3 '20)
- Foreign Reserves (US\$bn)	35.373 (Dec '20)	34.757 (April '21)
Credit to Private Sector, YoY, %	12.9 (Dec)	10.6 (Mar)
Federation Accounts (₦bn)	619.3 (Dec)	680.0 (Apr)



Current State of the Economy – Savers losing money holding the Naira

- Continuing pressure on the Naira at the foreign exchange market suggests our external trading account remains weak – despite the increase in oil prices
 - Data shows cumulative trade deficit of N7.4trn between Jan-Sept., 2020
 - Current account deficit of -3.7percent of GDP in same period
 - Between Jan-Sept 2020, almost 30percent of foreign exchange used in Nigeria came from non-official sources
- Though Interest rates are now rising, the value of returns to savers and investors remain negative because prices are rising faster than interest.
 - In consequence, savers and investors are actually losing money by holding the Naira. This continues to provide an incentive for Nigerians moving money into foreign currency;
 - It also creates a distortion in capital markets resulting in misallocation of resources



Matters Requiring Urgent Attention



1. Matters requiring Urgent Attention – Improving Crude Oil Prices restores the Nigerian ‘Dilemma’

- The dilemma results from the conflicting implications of higher crude oil prices on the economy in Nigeria.
 - Rising crude oil prices improve public sector revenue and reserves of foreign currency
 - Higher crude oil prices mean that the cost of imported petrol should be higher than the N167/litre being paid at filling stations. In other words there is a subsidy.
- Restoration of subsidies creates a set of significant problems -
 - As there is no provision for subsidy payments in the 2021 budget, such payments will have to be done by NNPC thereby further reducing revenues accruing to the Federation Account;
 - The solvency of many state governments will worsen – this could take us back to 2015 when the Fed Government had to provide ‘bailout’ funding to the States;
 - Restoration of subsidy also makes investment in Nigeria’s downstream oil sector unattractive.



Matters requiring Urgent Attention – Improving Crude Oil Prices restores the Nigerian ‘Dilemma’

- Council’s understanding of government policy is that the regime of subsidy has been ended.
- Council advises as follows –
 - There is an URGENT need for clarity and consistency in petrol pricing policy
 - Subsidy on petrol be removed and a pricing regime which reflects the cost of petrol adopted. It is noteworthy that with the exception of Petrol, the prices of ALL other petroleum products have been deregulated; the cost of retaining the subsidy outweighs the benefits, or that the benefits of removing the subsidy are far greater than the costs
 - Data published by the National Bureau of Statistics also show that petrol prices are not the same across Nigeria. In March 2021, petrol prices range between N162.17 and N200.87/litre – the highest being in Lagos State whilst the lowest prices are obtained in Adamawa State
 - Council is especially concerned that in addition to further worsening government revenue, re-introduction of subsidies will jeopardise investment in the oil sector and ~~but~~ also create uncertainty about general government policy on pricing.



2. Matters requiring Urgent Attention – Worsening Security Environment

- There is a general consensus of a worsening of the security situation in Nigeria.
- The sources include –
 - ***Boko haram and other ethno-religious conflicts*** – Mostly caused by suspicion and distrust among various ethnic groups and among the major religions in the country. Examples are Boko-Haram, Southern Kaduna conflict, Herder/Farmer clashes in the Middle belt of region.
 - ***Political Violence*** - Reflecting the competition for power and ultimately resources. Usually more frequent around elections.
 - ***Economic and Resource Based Violence***: reflecting competition for economic opportunities. Examples are conflicts driven by illegal mining in some states, kidnapping for ransom, Niger Delta militants and pirates, and recent farmer herder conflicts
 - ***Organized violent groups***: Organized violent groups such as ethnic militia, vigilantes, secret cults in tertiary institutions and political thugs
 - ***Herders / Farmers / Settlers***: Violent conflicts between groups that previously co-existed peacefully, partly exacerbated by infiltration of foreigners, climate change and environmental challenges – insurgency, the spate of Kidnapping, Banditry, Herder/Farmer clashes, Cattle Rustling, ethnic agitation/tensions attest to the deterioration in security;
- In 2020, Global Terrorism Index ranked Nigeria 3rd out of 135 nations.



Matters requiring Urgent Attention – Implications of insecurity for the economy are multi-dimensional

Crisis creates human and economic costs

- ***Impact on human capital – out-of-school children, reduced life expectancy etc.***
 - Conflict and displacement in the northern regions is one of the main contributors to the large population of out of school children, low human capital outcomes, and low life expectancy.
- ***Impact on poverty and vulnerability.***
 - Poverty in Nigeria's conflict zones is accentuated by conflict and adds IDPs as a new dimension to the poverty situation.
 - Unemployment rate has steadily increased since 2014, in line with worsening security and adds to the numbers of persons that have fallen below the poverty line.
- ***Physical capital and infrastructure are often damaged,***
 - impacting on the efficiency of economic policy transmission and *creating further fiscal burden of replacement for governments. There are often widespread disruption and disorganization of economic production as businesses and farms close down.*
- ***Business and investment suffer.***
 - Conflicts and heightened insecurity reduce business confidence, manifested in declining foreign and domestic investment, deteriorating financial sector performance, higher fiscal cost and security spending.
- ***The economic cost of insecurity was estimated at 2.6 percent of GDP in 2020, or \$10.3 billion.***
 - From 2007 – 2019, a UNDP study estimates that Nigeria lost \$141.9 billion of production to security related violence.



Matters requiring Urgent Attention – Implications of insecurity for the economy are multi-dimensional

The higher cost that companies face on account of insecurity feeds through the economy.

- The latest estimate indicates that 2,088,124 or 429,442 households were recorded as displaced in the North East, impacting on access to physical and human capital.
- The cost of shipping goods into Nigerian ports is among the highest in the world,
 - Apapa port costing more than thrice Tema, Ghana, and nearly five times Durban, South Africa.
 - In addition, local transportation of containers in Nigeria is \$2,886.00, Tema/Ghana \$890, Durban \$636.
 - The Manufacturers Association of Nigeria (MAN) estimates that transportation between Lagos and Kano is more expensive than China to Lagos, mainly due to higher cost of security, insurance and infrastructure.
- Cost of security, insurance and higher wages (for expatriates) are often priced into investment and consumption decisions, making the country a high-cost destination and eroding competitiveness.
- Persistent conflict in the major food-producing regions of northeast and north-central Nigeria impacts on prices that consumers face. Average purchasing power has been gradually eroded, resulting in more and more people falling into poverty.



Matters requiring Urgent Attention – Structural Policies to address insecurity

- Defeat Boko Haram *decisively, as a* decisive defeat is necessary to permanently keep the insurgency at bay.
 - There is need to review strategy as to the way forward, examining all options - including seeking the assistance of external powers.
- Improve the implementation of policies aimed at improving access and quality of education in underserved areas.
 - Implement existing law on compulsory attendance of primary school to reduce the number of out of school children, a key recruiting ground for thugs.
- Resolve grievances around exclusion from access to power, opportunity, and representation through dialogue.
 - To be effective, government should involve civil society, the private sector, regional and international organizations focused on peace and conflict resolution in roundtable discussions aimed at resolution of grievances.



Matters requiring Urgent Attention – Structural Policies to address insecurity

- Increase security presence in coastal states prone to piracy, and in states with large scale artisanal mining, which are prone to violence.
- Improve the capacity of security forces to gather advanced intelligence, so as to act proactively rather than reactively.
- Increase co-ordination between stakeholders and regional organisations to improve safety for ships and their operatives.
- Hasten the implementation of agricultural reform policies especially transformation of livestock farming to reduce potential for conflict.
- Undertake a comprehensive exercise to reduce access to arms and ammunitions, including through cooperation and coordination with trading partners.
- From the budgetary releases for security, it is either that the resources are not used efficiently and effectively, or that the resources are inadequate, or a combination. The security funding needs detailed scrutiny.



3. Matters requiring Urgent Attention – PIB as a basis for revitalizing the Petroleum Industry

- Council notes the progress of the Petroleum Industry Bill (PIB) through the National Assembly
- The importance of this Bill to the national economy cannot be overstated. When enacted, this law will have a profound effect beyond the oil and gas sector.
- Potentially, this bill could provide a basis for building and industrial economy for Nigeria
- Implementation of the Paris Agreement has seen a continuous global transition away from fossil fuels towards renewables as primary energy source.
- The PIB will join the National Petroleum Policy and the National Gas policy in defining the environment for investment in the oil and gas sector and ~~but~~ also influence sentiment around Nigeria as an investment destination



3. Matters requiring Urgent Attention – Thoughts on PIB Provisions

Key PIB Concepts	Current Position of the PIB	Ideal Position
Single Regulator or Split Regulatory Institutions	Two Regulators have been provided for in the Bill – <ol style="list-style-type: none"> 1. A Commission for Upstream Regulation 2. An Authority to oversee mid and downstream regulation 	One regulator with relevant departments will be more efficient and allow for greater synergy in regulating the entire industry value-chain. Examples are Nigerian Communications Commission (NCC) and the Nig. Electricity Regulatory Commission (NERC)
Deregulation of Petroleum Product Prices	Price regulation continues for gas supply to Power and Gas-based Industries	Deregulation is key to stimulating investment. To avoid price shocks, a transitional arrangement can be included. Such arrangement must specify timeline to end price regulation
NNPC Commercialisation	Govt. to hold 100% shares in NNPC Ltd	Prepare company for Initial Public Offer so the enterprise can raise its own funding Board Composition should have more independent members for governance



3. Matters requiring Urgent Attention – Beyond the PIB

- Enactment of the Petroleum Industry Bill (PIB) through the National Assembly will not of itself immediately stimulate investment needed in the Oil & Gas sector
- Nigeria should identify key strategic projects that will enable achievement of the various objectives – ranging from increased oil production through expansion of gas pipelines
- These projects should then be the subject of discussion with Oil sector operators – International Oil Companies (IOCs) and Indigenous companies.
- A process of accelerated approval can be established – similar to NLNG model in 1982.
- The intention being to ensure that before the end of this Administration's tenure, investment decisions can be taken



The PEAC:



PEAC Since our last meeting

• Poverty Reduction

- Since our last meeting, your Excellency directed that the PEAC, working with the Office of the Secretary to the Government of the Federation, produce a Poverty Reduction Strategy that included collating the various programmes for job creation from specified MDAs.
- We thank your Excellency for the opportunity to undertake this work.
- The Federal Executive Council has since approved the Strategy for implementation and inclusion in the National Development Plan being prepared. The job creation programme will form part of the basis for the 2022 budget.

• Debt Sustainability

- Council is presently working on a detailed review of the sustainability of Nigeria debt position and strategy. We expect to be in a position to bring forward our conclusions and recommendations at our next meeting with Mr. President



PEAC Since our last meeting

- **Employment and Unemployment**

- Council is currently engaging with relevant stakeholders for a better understanding of the dynamics of the Labour Market.....the key drivers of unemployment

- **Agriculture and Irrigation**

- Mr. President will doubtless recall that in a previous meeting Council had drawn attention to the fact that only 2.2percent of land under cultivation in Nigeria is irrigated.
- In consequence, agriculture is necessarily rain-fed and thus seasonal. These characteristics, compounded by the very significant post-harvest food losses, ensure that food supply is less than it can and should be, leading to higher food prices
- Council will reflect on the nature of incentives and framework of policy needed to significantly expand, through private investment, irrigation in Nigeria





Thank You