NESG MACROECONOMIC OUTLOOK 2018

Growing Beyond Numbers: Will Nigeria's Growth Be Inclusive in 2018 and Beyond?

Foreword

In 2017, the Nigerian economy recovered from its recessionary trend as Gross Domestic Product (GDP) growth bounced back into the positive territory from -0.9% in the first quarter to 0.72% and 1.4% in the second and third quarters, respectively. The year also saw improvements, albeit modest, in key economic indicators such as inflation, which closed the year at 16% from 18.6% in December 2016; external reserves, which rose to over US$38 billion and exchange rate, which remained relatively stable during the year. In addition, Nigeria recorded significant improvement in the World Bank's Ease of Doing Business ranking, moving up 24 places to 145th from 169th in the previous year.

Whilst these achievements are laudable, key socio-economic indicators did not fare well. For instance, the latest report of the National Bureau of Statistics (NBS) showed that unemployment and underemployment rate rose from 35.2% in 2016Q4 to 40% as at 2017Q3, implying that over 4 million Nigerians lost their jobs in the same period. Likewise, over 85 million Nigerians lived below the national poverty line, even as Nigeria remains in the category of countries with low Human Development Indicators (HDI), according to the World Bank's HDI Report. This points to one fundamental fact that Nigeria's economic growth needs to be inclusive to provide employment opportunities and lift millions out of poverty.

Considering the urgent need to address the apparent dilapidating socio-economic fabric of the Nigerian state, the *NESG's Macroeconomic Outlook Report for 2018* emphasises the need for Nigeria to set a sustainable path in achieving inclusive growth and development in 2018 and beyond. In setting out key policy directions towards achieving this goal, the report examines three pillars of inclusive growth and proposes policy measures to achieve broad-based and sustained growth in 2018 and beyond. In addition to a macroeconomic review of the Nigerian economy in 2017, this report provides forecast for key economic variables premised on plausible economic dynamics in 2018. Finally, the report examines government policies, events and interventions that would shape economic outcomes in 2018. This report is unique in the sense that it introduces a *Policy Efficiency variable,* which examines the efficacy of the Nigerian government to implement the proposed reforms that will lead to inclusive growth.

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CEO, NESG

In this report

Section 1:
Review of 2017 and Expectations for 2018

INTRODUCTION

From a shaky beginning to a promising ending
From 2016 to Q12017, the Nigerian economy went through one of its worst GDP growth performances. However, the double whammy of economic contraction and policy uncertainty receded towards the later part of 2017. With no major policy reset underpinnings, different from that of 2016's, the monetary policy strategy of the Central Bank of Nigeria (CBN) played a catch-up in ensuring stability and improving market sentiment. On the other hand, fiscal measures eventually stepped into the spotlight in 2017 in a bid to prevent negative growth from further escalating. Eventually, the fearful grip in the economy dissipated and after a five-quarter slide, Nigeria's economic growth changed course and clawed its way back up to positive trajectory.

…but not without semblance of normalcy witnessed in the oil and external sectors
The crude oil price gathered momentum and outperformed consensus predictions in 2017. Starting the year at $55 per barrel (pb), brent crude price steadily perked up to $64pb. This represents the second-year consecutive build up after witnessing its lowest dip of $26pb in the current cycle in January 2016. On the local front, crude oil production peaked 2 million barrels per day (mbpd) in the year and averaged 1.8 mbpd, an increase of 20% from 2016 production level. These are obvious reasons foreign reserves recuperated in 2017. For example, after its sharp fall to $23 billion in 2016, Nigeria's foreign reserves position built up to $38 billion in 2017, approaching the pre-crisis level of $40 billion in 2014.

The rebound in the external sector provided the fertile ground for CBN and the Federal Government of Nigeria (FGN) to roll out policy interventions which had been lying in lurk since the onset of the economic recession. For the first time after the introduction of new foreign exchange (FX) policy framework in June 2016, the CBN stepped up its unorthodox FX management practices by adopting Multiple Currency Practices (MCP). Its introduction of a special FX window for Small and Medium Enterprises (SMEs) earlier in the year was accompanied by the establishment of the Nigerian Autonomous Foreign Exchange Rate Fixing (NAFEX) that created benchmark FX rate for Investors & Exporters. These actions proved to be effective in easing the FX liquidity crisis, narrowing the FX premium and converging multiple rates in the market. Since its inception, the parallel market rate has appreciated by about 28% to N365/US$; NAFEX has generated close to $23billion in FX trading, and banks have disbursed close to $141 million to SMEs.

While CBN's approach to FX management appeared to have a bearing on the FX liquidity, some of the FGN's fiscal management strategies were also helpful in stirring the apex bank to expand its FX interventions without putting pressure on reserves in 2017. The deliberate effort of the FGN to tilt debt portfolios towards external sources through sales of Eurobond, diaspora bond or multilateral loan, raked in roughly $4 billion into the country's financial account. The FGN also rolled out the Economic Recovery and Growth Plan (ERGP) to set the tone for the long-awaited fiscal intervention and also implemented 31 reforms under its day 60-Day National Action Plan on Ease of Doing Business.

…. the multiplier effect kicked off with surge in investment inflows and business confidence

The relative stability in the FX environment as well as promises of the ERGP to support non-oil sector and expand growth, perhaps restored confidence in the economy in 2017. For instance, NESG Business Confidence Monitor (BCM) report showed that business confidence surged for two consecutive quarters from Q1 (15.1) to Q2 (19.4) and a pent-up demand for more investment reflected in the earnings of some companies listed on the Nigerian Stock Exchange. The CBN's Purchasing Manager Index (PMI) for manufacturing and non-manufacturing sectors picked up after a 15-month contraction to a more synchronised expansion phase that ended the year with 59 and 62 points respectively. Capital importation received a boost from the policy backdrop and surging external reserve position, as the economy experienced a return of offshore investors to the financial market. Driven by portfolio investment, the value of investment inflows in the first three quarters was estimated at US$6.9 billion. This represents an increase of 91% compared to the corresponding period in 2016. In 2017Q3, portfolio investment more than tripled on a quarter-on-quarter basis to US$2.8 billion.

…and the accelerator effect on growth is equally telling

After its successive decline for five quarters, the economy welcomed a pick-up in production activities that ended Nigeria's fourth recession in the post-civil war period. What seemed to be a tentative sign of rebound in output growth of 0.7% y-on-y in the second quarter of the year was consolidated in the third quarter with 1.4% y-on-y. The cyclical pick-up in the economy reflected the strong performance of the oil sector which increased by 25.9% y-on-y, the highest since 2010 and well above its growth of 3.5% y-on-y in the second quarter. However, the non-oil sector growth contracted in Q3 to -0.8% y-on-y, re-emphasising the fact that Nigeria's growth trajectory has been oil-fueled.

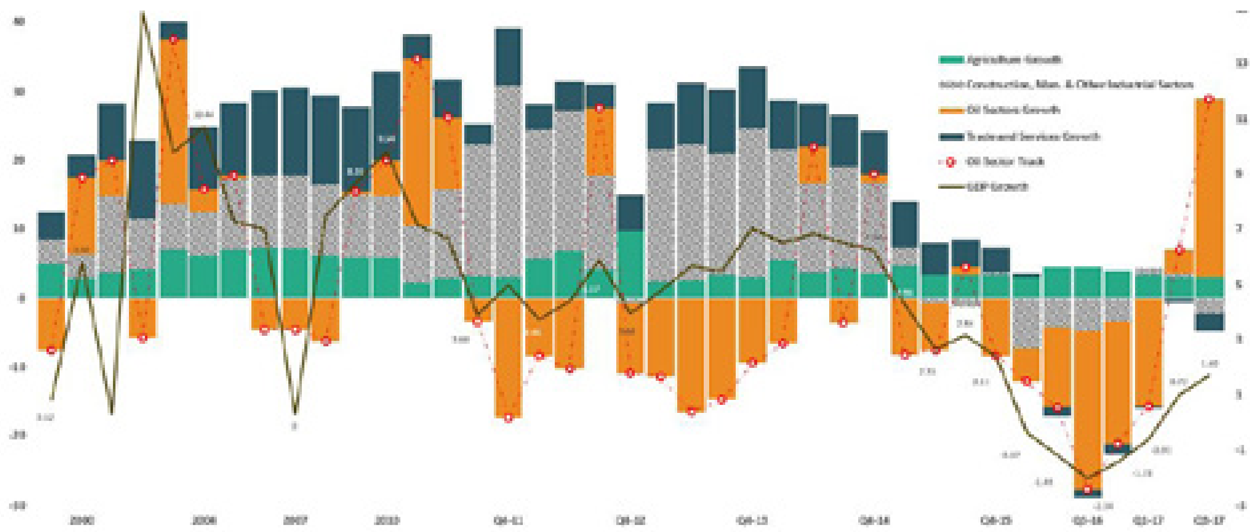
The path to full recovery presents more hurdles ahead, and could be affected by Nigeria's faulty growth model

In 2018 and beyond, the recent stability in the macroeconomic environment, if sustained, will keep growth afloat in 2018 and beyond. The concern for the economy should go beyond the narrative of mere growth. The emphasis should be on ensuring that more resources are efficiently utilized; the benefits of growth are equitably distributed and resilience is built against downside risks.

While the recent experience followed the historical behaviour of Nigeria's recessionary cycle, which lasts for about four to five quarters, it has proven to be a slower economic recovery compared to the previous recovery cycles. This suggests that the race to achieving potential output may take a longer time.

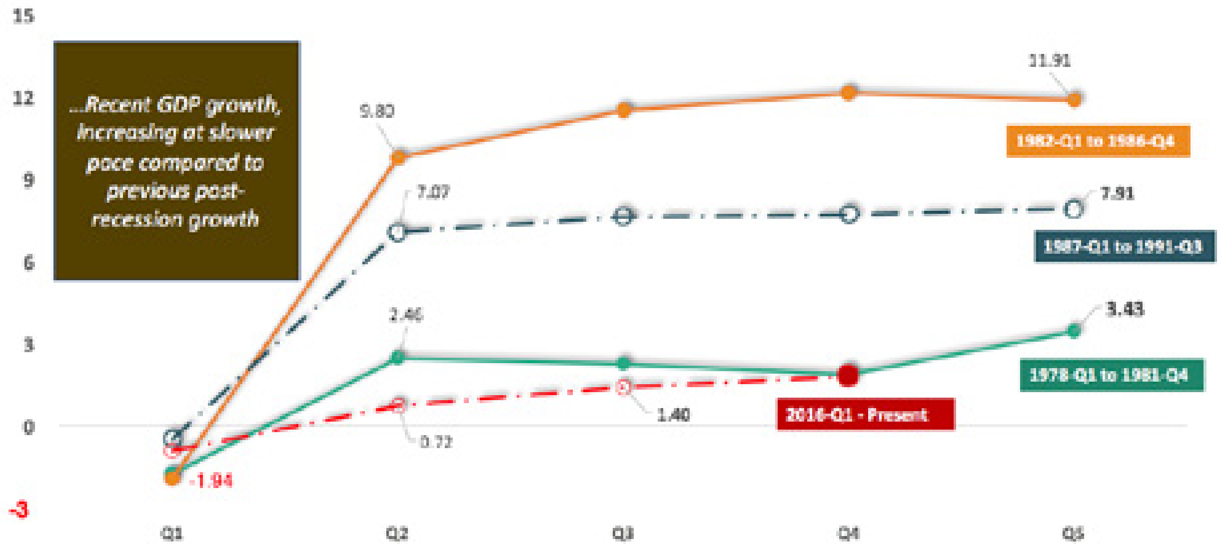
The concern for the economy should go beyond the narrative of mere growth. The emphasis should be on ensuring that more resources are efficiently utilized; the benefits of growth are equitably distributed and resilience is built against downside risks.

Figure 1: Historical Trend of Oil Sector Growth and GDP Growth In Nigeria



Source: NBS, NESG Research

Figure 2: Nigeria's GDP Growth in post-recession era since 1978



Source: NBS, CBN, NESG Research

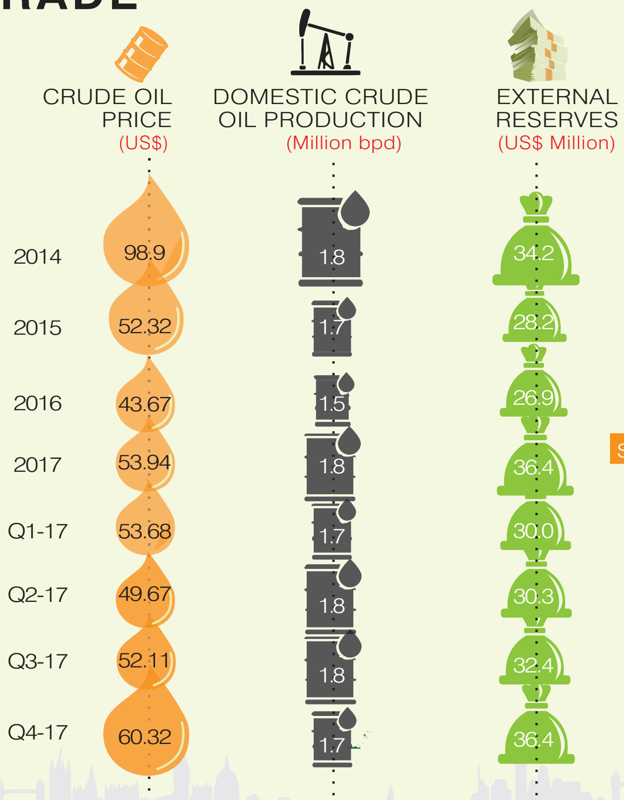
Nigeria's growth model needs a rethink and placing priority on inclusiveness should be a pre-eminent consideration. Making growth inclusive is not a negotiable priority for the government. Good enough, the ERGP prioritises job creation by deepening the existing job creation programmes as well as launching new ones. Its assumption on the growth path is clear and with the help of supportive monetary policy, economic expansion could gain momentum. This is however conditioned on a favourable outlook in the oil sector. In the case of a decline in oil revenue, the CBN would likely step down FX supply than empty the reserves in order to preserve sovereign creditworthiness, which essentially would starve the real sector. Lower revenue would suggest that the increasing debt profile would be running at an unsustainable pace and prove to be destabilising. Eventually, the return of policy uncertainty cannot be ruled out. However, efficient utilisation of resources in the production process could forestall a lot of downside risks as well as make growth resilient along its journey to a potential level.

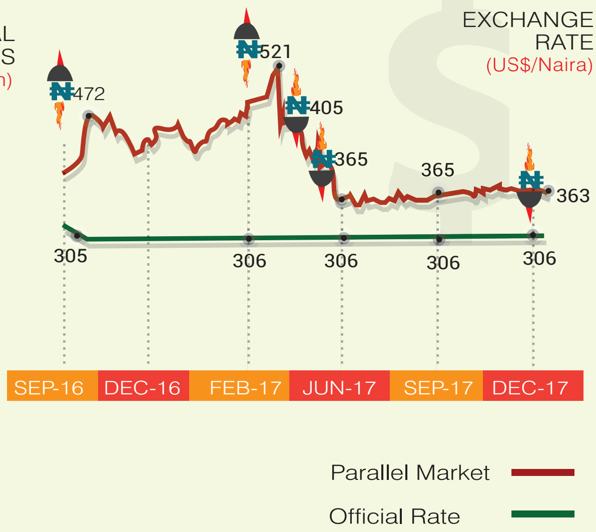
Section 2:
Nigeria in 2017


Uyo, Akwa-Ibom

STYLIZED FACTS: NIGERIA IN 2017

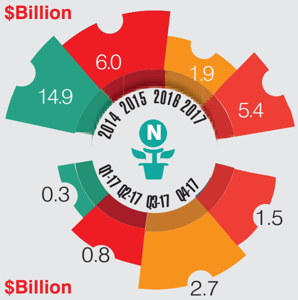
TRADE





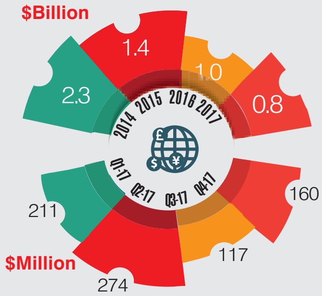
INVESTMENT

93% Increase from 2016 to 2017



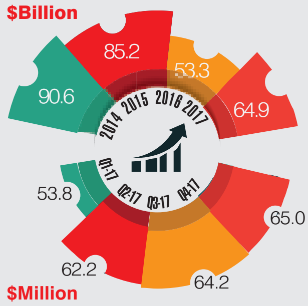
PORTFOLIO INVESTMENTS

-19% decrease from 2016 to 2017



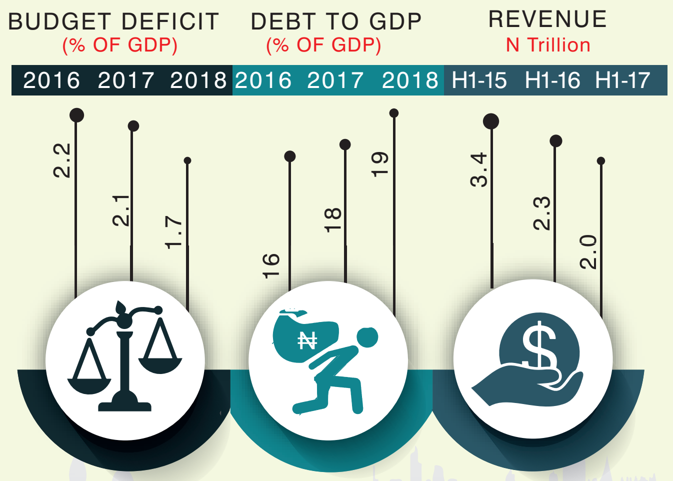
FOREIGN DIRECT INVESTMENT

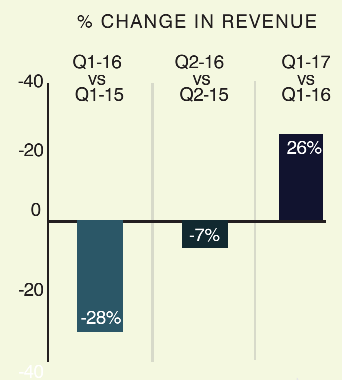
22% Increase from 2016 to 2017



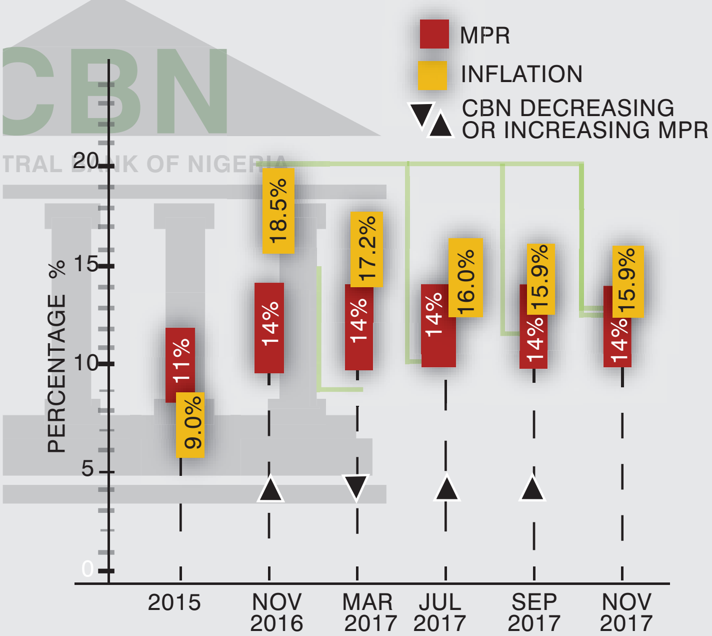
TOTAL MARKET CAPITALISATION

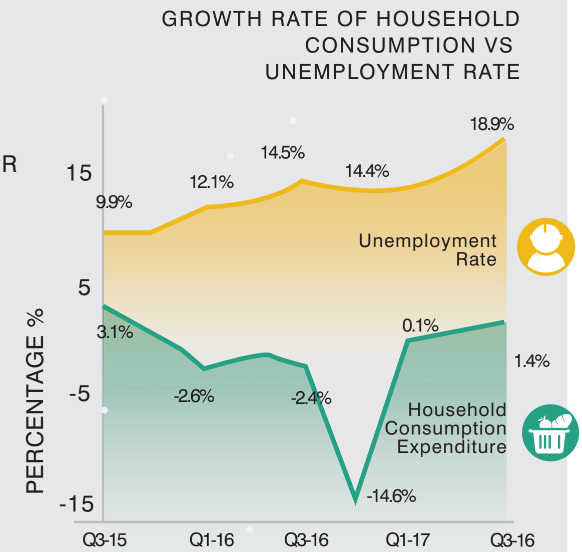
GOVERNMENT





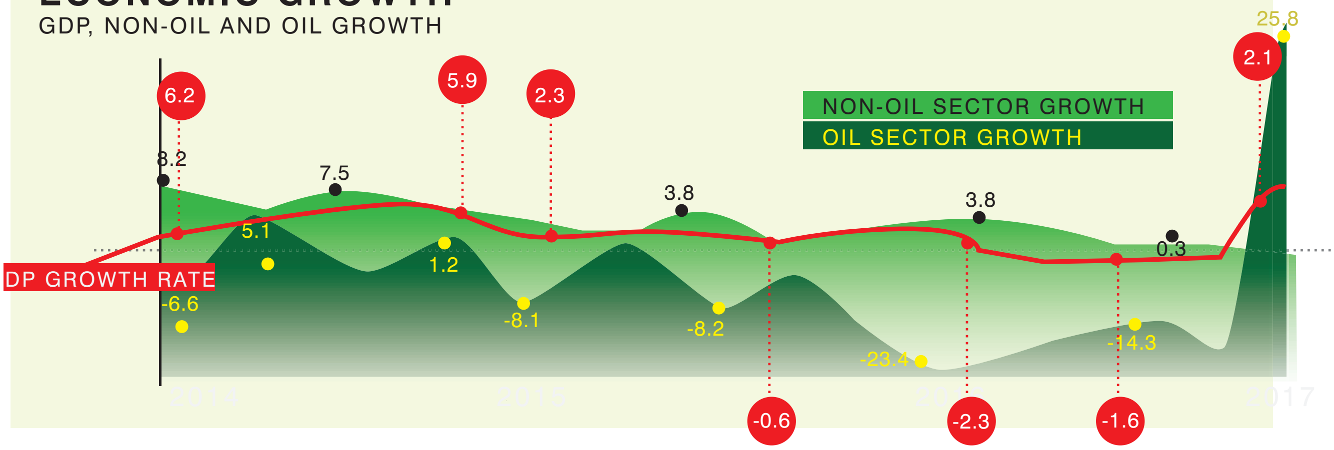
PRICES AND CONSUMPTION





ECONOMIC GROWTH

GDP, NON-OIL AND OIL GROWTH



Policies, Events and Interventions that Shaped 2017

Happenings we predicted

Late passage of the 2017 budget
Nigeria's N7.44 trillion 2017 budget was passed in June 2017.

Impact: This delayed passage of the budget affected its implementation, especially the capital component of the budget

Creation of ERGP Implementation Unit
The ERGP, the Nigerian government's response plan to the recession in 2016 was completed and launched in April 2017. During the year, the government established the ERGP implementation unit to ensure delivery of the plan.

Impact: Provided direction for federal government activities

Implementation of Social Investment Programs (SIPs)
The federal government in 2017 stepped up the implementation of its SIPs, which targeted the poor and vulnerable segments of the population. Funds were released for N-Power, Home Grown School Feeding (HGSFP), Conditional Cash Transfer (CCT) and Government Enterprises Entrepreneurship Programme (GEEP).

Impact: According to the Presidency, the N-Power programme has employed 200,000 graduates. Also, 14 states are presently participating in the Home Grown School Feeding Programme with about 12 million children being fed

The Niger Delta New Vision
The federal government embarked on the Oghoni Land clean-up and engaged stakeholders in the region.

Impact: Appreciable peace in the region led to stability in crude oil output

Exchange rate reforms
Following the stable and higher oil price in 2017, the CBN injected over US$14 billion into the interbank foreign exchange market and created investors and exporters (I&E) window.

Impact: This resulted in relative stability in the country's exchange rate. Official exchange rate relatively stabilized at about N310/$1 with a narrower forex margin

Ease of Doing Business Reforms
The Presidential Enabling Business Environment Council implemented series of reforms including revising the timeline for company registration, digitizing business incorporation process and simplified the Visa-On-Arrival process. In addition, NESG through NASSBER ensured the passage of the National Collateral Registry Bill and the Credit Bureau Services Bill.

Impact: The initiatives resulted in Nigeria's improved in the World Bank Ease of Doing Business ranking, from 169th to 145th position in the world

Whistle-blower policy
Initiated in December 2016, the whistleblowing policy of the federal government led to the disclosure of looted public funds.

Impact: The policy led to the recovery of $9.8million from a former government official and the recovery of $43.3 million, N23.3 million, and 27,800 euro

Mounting debt profile and debt rebalancing to favour external debt
The surge in Nigeria's total public debt stock partly led to the rising debt servicing costs, which stood at 1.66 trillion or 33% of federal government revenue. To stem this rising costs given the high domestic interest rate environment, the government announced rebalancing of the debt profile in favour of external loans. The Senate therefore approved a US$5.5 billion external loan.

Impact: Money market interest rates declined in December 2017 as the government failed to roll-over matured short-term securities

Happenings we did not predict

Release of 3 Executive Orders by the Presidency
The Orders were on (1) Budgets; (2) Support for Local Content in Public Procurement by the Federal Government; and (3) Promotion of Transparency and Efficiency in the Business Environment.

Impact: Minimised bureaucracies and bottlenecks leading to a more efficient and transparent business environment

Shut down of Refineries
During the year, two of the nation's main refineries (Kaduna and Warri) were shut over high operational costs and to allow for turnaround maintenance.

Impact: This led to the decline in output of refined product. It also resulted in a contraction in oil refining subsector, which largely contributed to the overall decline in manufacturing GDP.

Passage the Petroleum Industry Governance Bill (PIGB)
The National Assembly in 2017 passed the Petroleum Industry Governance Bill (PIGB) which provides for proper governance and institutional framework for the petroleum industry and for other related matters.

Impact: The passage of this bill represented a landmark achievement in the oil and gas industry and could hasten the passage of other segments of the Petroleum Industry Bill

Approval of the National Gas Policy (NGP)
In June 2017, the Federal Executive Council approved the NGP, which creates a framework for operations and regulation of the Gas Industry in Nigeria.

Impact: It is expected that the implementation of the NGP will provide clear regulatory framework and attract investments of about US$500million into the industry

Concession of the narrow gauge railway line to General Electric (GE)
The concessioning of the Lagos-Kano and Port Harcourt-Maiduguri old narrow gauge railway lines to GE represented a major milestone in PPP projects in Nigeria.

Impact: The arrangement is expected to bring in an investment of US$2 billion in the rail sector

OPEC Concession
In 2017, OPEC provided Nigeria with a crude oil production concession duel to Nigeria's recession and crude oil vandalism

Impact: Nigeria achieved unrestricted crude oil output and also benefited from the gains arising from higher oil prices

Voluntary Assets and Income Declaration Scheme (VAIDS)
VAIDS was launched in 2017 to provide an opportunity for Nigerians with assets and income that are undeclared as well as outside of the tax dragnet to declare those assets and income.

Impact: The tax amnesty program is expected to increase government revenue

Increase in Internally Displaced Persons (IDPs)
The insecurity challenges particularly in the northeast triggered a humanitarian crisis, with over 7 million people displaced from their homes. Managing the IDP camps proved to be challenging for both the government and the international agencies.

Impact: Growing demands of housing, food and other facilities/services for the IDPs

The Paris Club Refund to 35 States
In 2017, the federal government disbursed the Paris Club Refund to bailout State governments many of which faced pressures in settling accumulated salaries, pension and gratuities to stimulate economic activities and improve worker's welfare.

Impact: Improved workers' welfare as outstanding salaries were paid

Source: NBS, CBN, NESG Research

Happenings we predicted | Happenings we did not predict

Section 3:
Will Nigeria's Growth in 2018 be Inclusive to Reduce Poverty and Unemployment?

OVERVIEW

From both theoretical and empirical fronts, the concept of inclusive growth is a largely debated phenomenon across economies. Nigeria's growth experience in the 2000s was accompanied by rising unemployment and poverty rates, thus, making the concept of inclusiveness imperative to achieve widespread development. The economic recession in 2016 and the process of recovery in 2017, both of which were triggered by developments in the oil sector, raise concerns about the pattern and quality of economic growth in the medium term. Undoubtedly, the Nigerian economy will grow in 2018. However, beyond the growth narrative, the big questions for policymakers are clear:

- How inclusive will Nigeria's growth be?
- What measures are required to achieve inclusive growth?
- How do we measure progress towards social and economic inclusion?

In this section, we review the theoretical and conceptual framework for inclusive growth and examine pillars of inclusive growth in Nigeria.

3.1 Theoretical foundation and Conceptualisation of Inclusive growth

Theoretical Foundation

The theoretical argument on inclusive growth emanated from the Neoclassical, Keynesian and Monetarist synthesis on the relationship between economic growth, poverty and inequality in the late 1950s and the early 1970s. The arguments began from the Kuznets' inverted-U shape hypothesis, which revealed that economic growth in poor countries will at first lead to greater inequality and subsequently close the inequality gap even as the economy develops. In the same spirit, the Solow growth model posits that poor countries will grow faster than rich countries due to diminishing returns to capital. It further argued that countries will converge on growth provided they have the right institutions and social cohesion. The Keynesians' and Monetarists' positions centered on state intervention, industrial policy, redistribution of income and free market policies.

Building on Washington Consensus (WC)-type economic policies, monetarism and the new classical economic ideology between the mid-1970s and the late 1980s shifted the narrative of development theory by investigating the trickle-down effect of the dividend of growth on poverty reduction. After this period, the Post WC took over as a result of the failure of WC strategies and the pressure on international organizations, non-governmental organizations (NGOs), universities and social movements to address inequality and poverty reduction. The dichotomy between WC and Post WC in the late 1980s originated the concept of pro-poor growth, which essentially represents *growth that lifts people out of poverty*. However, in the late 2000s, the paradigm shifted to inclusive growth so as to consider a broad-based growth that includes those below and above the poverty line and addresses inequalities (Alfedo, 2010).

[1]Washington Consensus (WC)-type economic policies are 10 policies that constituted the "standard" reform package promoted for crisis-wrecked developing countries by Washington, D.C.–based institutions such as the International Monetary Fund (IMF), World Bank, and the US Treasury Department (Williamson, 1989).

Conceptualisation of inclusive economic growth

In the quest of achieving sustainable poverty reduction, several debates have been raised. Following the paradigm shift of pro-poor growth to inclusive growth, several authors and international organisations have adopted different approaches to explaining inclusive growth. In what follows, these approaches are briefly reviewed (See Table 1).

Inclusive Growth Review in Nigeria

Following the global approaches to inclusive growth, several authors (Adamu, 2017; Ogbu, 2017; Ogujiuba and Alehile, 2011 among others) in Nigeria have empirically studied the determinants of inclusive growth. In brief, they recognized the following as key determinants of inclusive growth in Nigeria:

- Equitable redistribution of public expenditure
- Development of human capital,
- Increasing rate of job creation
- Growth in the industrial sector
- Economic diversification
- Social protection
- Impartiality in dealings and establishment of the institution and good governance.

Table 1: Approaches of Inclusive Growth

The World Bank Approach • Broad-based sustainable growth across all sectors of the economy (Ianchovichina and Lundstrom, 2009). • Pace and pattern of growth are critical for achieving sustainable growth and poverty reduction. • Equity, equality of opportunity in terms of access to resources and unbiased regulatory environment.	**The African Development Bank (AfDB) Approach** • Sustainable social economic opportunities created by the growth process. • Access to sustainable socio-economic opportunities for all • Fair environment, equity in term of distribution and a political plurality (AfDB, 2012).
The Asian Development Bank (ADB) Approach • High, efficient, and sustained growth to create productive jobs and economic opportunity • Social inclusion to ensure equal access to economic opportunity, and • Social safety nets. These pillars are backed by good governance and strong institutions (Ali and Son, 2007).	**The Organisation for Economic Co-operation and Development (OECD) Approach** • Greater job satisfaction and higher life expectancy through increased material prosperity are determinants of inclusive growth. • Equitable distribution of income across all social strata (OECD, 2015).

3.2 Pillars of Inclusive Growth in Nigeria

From the above review, we define inclusive growth in Nigeria as broad-based economic growth that leads to a significant reduction in unemployment and poverty rates. To achieve this, the average citizen must contribute to and benefit from the growth process. In this respect, we adopt three pillars of inclusive growth following the ADB approach (i) Broad-based economic growth (ii) Social Inclusion (iii) Social Safety Nets, all of which are based on good governance and strong institutions.

Figure 3: Pillars of Inclusive Growth

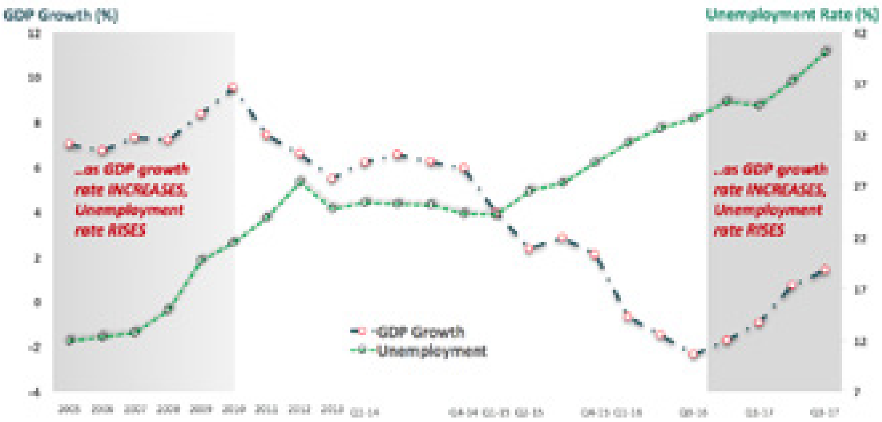
Source: Adapted from ADB

Pillar 1: High, Broad-based and Sustained Growth to Create Jobs and Economic Opportunity

In addressing unemployment and poverty challenges, there is need to ensure high economic growth that creates jobs and economic opportunities. This pillar emphasises the need to stimulate economic activities through the opening up of sectors, thereby creating job opportunities within the country.

Since the year 2000, Nigeria's economic growth has not delivered significant poverty and unemployment reduction. As depicted in figure 4, while GDP growth increased from 6.7% in 2006 to 9.5% in 2010, unemployment rate moved from 12.3% to 21.4% in the same period. By the year 2015 prior to the economic recession, unemployment and underemployment rate had reached a peak of 29%. That same year, life expectancy was 53.1, lower than those of Brazil (74.7) and Ghana (61.5). In addition, 46% of the country's population lived below the national poverty line, according to the World Bank's Human Development Indicators (HDI) Report.

Figure 4: Nigeria's GDP growth and unemployment/underemployment rates

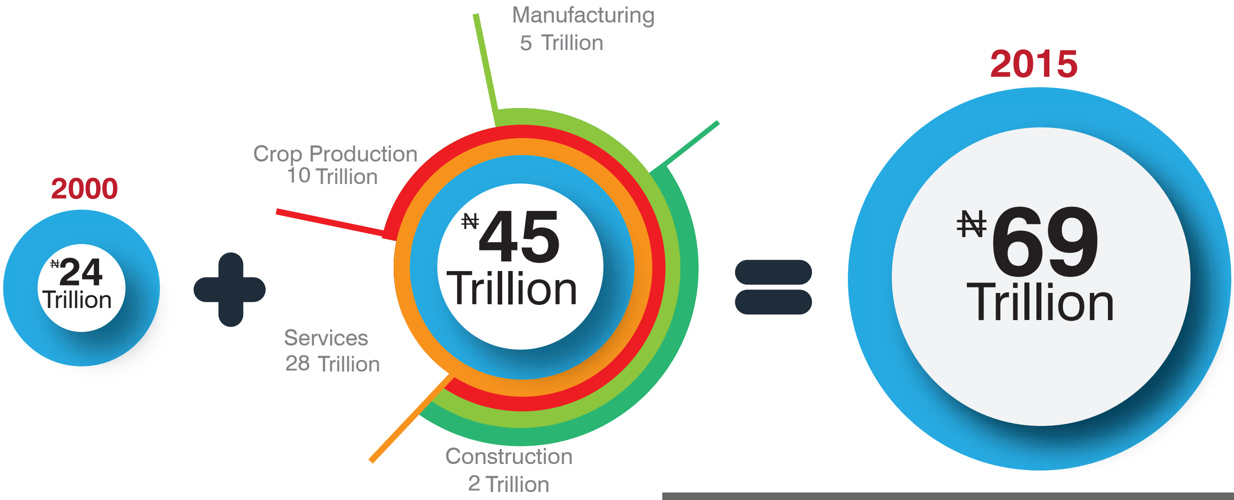


Source: National Bureau of Statistics and NESG Research

Failure to achieve inclusiveness is largely as a result of the fact that economic growth was not broad-based. A major reason why GDP growth has not translated into improved living standards can be found in the pattern of economic growth over the last two decades. Nigeria's economic growth pattern can be simply explained by the phrase "service-led growth". From 2000 to 2015, the services sector contributed 61% to real GDP growth. Key subsectors such as trade, telecoms, real estate and financial services contributed significantly to this growth. On the other hand, the productive sectors such as manufacturing, construction and agro-processing only accounted for 15% of overall growth during the same period. The growing services sector and rising unemployment rate suggests that value addition in the service sector is low, relative to the productive sector.

Because growth was driven by a few activity sectors, the number of jobs created in the formal sector did not match the number of entrants into the labour market. For instance, according to the National Bureau of Statistics (NBS), an average of 2 million people entered into the labour market between 2006 and 2011 while about 1.2 million jobs were created annually.

Fligure 5: Nigeria's Real GDP and Sectoral Contribution to Growth



Source: National Bureau of Statistics and NESG Research

Between 2000 and 2015, N45trillion was added to Nigeria's GDP. This was contributed by the following sectors: Services: N28 trillion; Crop Production N10 trillion; Manufacturing N5 trillion and Construction N2 trillion

Between the first and third quarter of 2016, the economy created a net job of 422, 133, while 3.7 million people entered into the labour in the same period. Also in the first three quarters of 2017, over four million jobs were lost as unemployment and unemployment rate climbed to 40%. This implies that within the next five years, the economy needs to create over 3 million jobs per annum to maintain current unemployment rate.

Unfortunately, the private sector cannot step up to meet this demand in the short term, unless government embarks on key reforms to open up sectors that are strategic to job creation. At the current pace, the level of investments is not matching the required number of jobs, therefore, exacerbating the problem of youth unemployment. This will remain a huge challenge for policy makers and economic actors in the short to medium term.

As indicated in Table 2, the share of service sector in total employment increased, while that of the industrial sector declined. During the service-led growth era, Nigeria experienced an increase in the share of people employed in the service sector vis-à-vis total employment. From 2000 to 2010, the service sector accounted for an average of 43% of total employment in the economy. This share increased to an average of 57% from 2010 to 2017. However, the industrial sector which includes manufacturing and oil & gas experienced a decline in the share of total employment, from 46% in 2000 - 2010 to 28% in 2010 - 2017.

In addition to the skewed growth pattern, leakages arising from corruption and inefficiencies in government led to poor implementation of government budgets at both federal and state levels. The consequences of these imbalances were evident in the increasing unemployed individuals, creating widespread inequality.

Table 2: Share of Sectors in total Employment (%)

	Agriculture	Industry	Services
2000-2005	11.9	49.0	39.1
2006-2010	10.5	42.5	47.0
2011-2015	14.9	28.4	56.7
2016	14.7	28.0	57.3
2017	14.7	27.9	57.4

Source: World Bank

Furthermore, the role of supply-side constraints on economic competitiveness and productivity has been widely acknowledged. These constraints, namely global input cost, cheaper imported products, infrastructure deficit etc. weaken the capacity of the economy to be resilient in the face of external shocks.

To ensure high, broad-based economic growth that is inclusive, what should we do differently?

To achieve economic growth that delivers unemployment and poverty reduction, efforts are required to alter the pattern of GDP growth by developing the productive sectors. Nigeria needs to implement reforms that will open up and attract investments into key subsectors within the manufacturing and agro-processing sector, thus, creating opportunities along value chains. Macroeconomic stability, good governance and provision of infrastructure are supporting factors that will improve productivity and output across sectors. For Nigeria's economic growth to be inclusive and translate into job creation, the narrative for 2018 must change

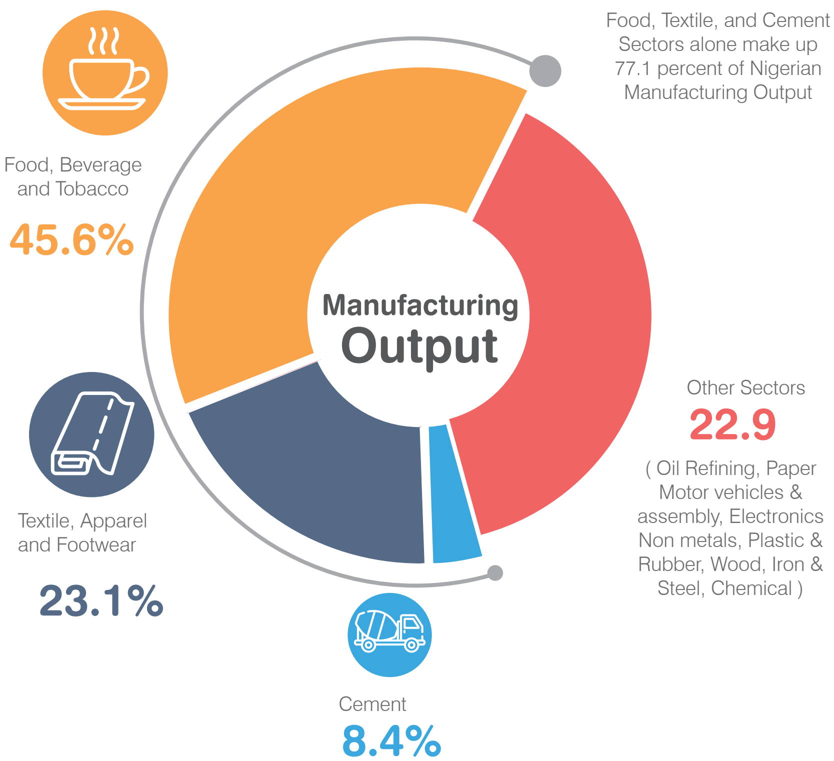
To achieve economic growth that delivers unemployment and poverty reduction, efforts are required to alter the pattern of GDP growth by developing the productive sectors. Nigeria needs to implement reforms that will open up and attract investments into key subsectors within the manufacturing and agro-processing sector, thus, creating opportunities along value chains.

• First, the economy needs to grow at a rate of 7% per annum, in line with the 2020 target set in the ERGP. As data shows, unemployment and poverty rates approach higher levels at periods of lower or negative GDP growth rate. Although a high GDP growth does not guarantee a reduction in unemployment and poverty rates, it is a necessary condition in achieving inclusiveness, even if it does not assure it. Growth must be broad-based, emcompassing all sectors of the economy. By achieving 7% growth per annum from 2019 (a year earlier than scheduled), Nigeria will more than double its GDP by 2030, ranking among the top 20 largest economies in the world.

• Second, to address poverty and unemployment, GDP growth must be led by the productive sectors. The growth pattern in 2018 and beyond must be different from that of the pre-recession era. Inclusive growth embraces the need for a strong industry-led economy. For instance, industrial sectors such as manufacturing, agro-processing, and construction should be the engine of economic transformation. Rapid expansion of the manufacturing and agro-processing sectors will lead to massive job creation, diversification of export earnings and reduction in importation of foods and other items that can easily be produced locally.

• Third, growth within productive sectors must be widespread and include major subsectors. This emphasises the need for diversification within manufacturing, agriculture, construction and other key sectors. In manufacturing, only 3 subsectors (food & beverage, cement and textile) account for 77% of manufacturing output. The remaining 23% is shared by the other ten subsectors (See figure 6). Similarly, in agriculture, crop production accounts for 91% of agricultural output, leaving the remaining 9% for fishery, forestry and livestock. To move a step closer to achieving inclusiveness, deliberate policy interventions are required to open up these subsectors.

Figure 6: Breakdown of Nigeria's Manufacturing Sector Output (Q1-Q3, 2017)



Source: NBS, NESG Research

RECOMMENDATIONS FOR ACHIEVING BROAD-BASED GROWTH

Ensure macroeconomic stability

- Maintain exchange rate stability by sustaining existing policies that ensure foreign exchange (FX) availability.
- Ensure price stability by intervening urgently to prevent fuel scarcity, provide interventions in the agricultural sector to increase food supply and ensure availability of FX.
- Implement growth enhancing policies (including intervention funds) for sectors such as agriculture, manufacturing, construction and transportation.
- Maintain favourable interest rate, which will spur economic growth.

Implement ease of doing business reforms across states

- Implement reforms to reduce regulatory bottlenecks across sectors.
- Review and passv of ease of doing business legislations to open up key sectors for investment.
- Work with state governments to review and implement reforms aimed at improving business environment, based on World Bank's Ease of Doing Business Indicators.

Review and Implement the Nigerian Industrial Revolution Plan (NIRP).

The Economic Recovery and Growth Plan (ERGP) promises to accelerate the implementation of the NIRP, which provides a clear strategy to develop sectors such as light manufacturing, agro-processing, metals & solid minerals, oil & gas and services. The NIRP also identifies seven support structures to include infrastructure, skills, innovation, investment climate, standards, local patronage and finance. We believe that if the NIRP is appropriately implemented, Nigeria will achieve:

- a well-diversified economy, with the productive sectors contributing significantly to GDP growth and unemployment reduction.
- a well-diversified government revenue base, export and FX earnings as a result of expansion in manufacturing and agricultural sectors.

Increase the capital budget performance to stimulate the construction sector and enhance provision of infrastructure

- Embark on procurement reforms to reduce delays and inefficiencies in the budget process.
- Strengthen monitoring and evaluation capacity within government.
- Focus on targeted infrastructure projects that can spur growth of the industrial sector.
- Implement the debt rebalancing strategy to reduce interest payments on government debt and free-up funds for capital projects.

Pillar 2: Social Inclusion to Ensure Equal Access to Economic Opportunity

Development of human capabilities is crucial in the quest of achieving inclusive growth. Equal access to quality education and healthcare are basic rights of citizens and as such, government policies must support the development of both sectors to improve living standard.

Reforms in education and health accompanied by strategic investments are necessary to improve the quality of life and educational outcomes across the country. While Nigeria hosts the highest number of out-of-school children (10.5 million) in the world according to the World Bank, the country faces the basic challenge of defining the purpose of its education system. Learning outcomes at all levels are still far below those of peer countries (BRICS for instance). At the tertiary level, the relevance of education remains unclear. It is apparent that the educational system is raising graduates that find it difficult to fit into the workplace even as innovation and entrepreneurship learning are not picking up as expected.

Healthcare in Nigeria is in a dire state. This is evident in the high infant and under-five mortality rates of 69.4 and 108.8 per 1,000 live births respectively. Also, high expenditure on medical tourism, which hovers around US$1billion annually and the incessant outbreak of communicable diseases such as Lassa fever, monkeypox, cholera and meningitis are symptons of the inherent weakness of the sector.

Growth in Nigeria's population, which is expected to reach 399 million by 2050, will increase the demand for jobs and social services. This implies that job creation needs to be urgently up-scaled to maintain current unemployment/underemployment rate at 40%. The social sector can help in filling this job gap through skills development to boost productivity and reduce the number of unemployed citizens. In addition, government spending and urgent reforms must support the development of the social sectors towards improving literacy rates; learning outcomes; access to quality health and education; and gender equality. Interestingly, the ERGP recognises the importance of developing these sectors and outlines several reforms to be implemented by the government.

[ii]Brazil, Russia, India, China and South Africa

RECOMMENDATIONS FOR ACHIEVING SOCIAL INCLUSION

Provision of socio-economic data that measures progress.

The government should provide frequent and timely data on poverty, learning outcomes, out-of-school children, mortality rates, unemployment rates to track Nigeria's performance on improving quality of life.

Establish a National Skills Policy and Programme

This will address the skills and capability challenges across all sectors in Nigeria. In addition, more interventions are required to strengthen school-to-work transition and linkages. In the light of this, we propose that the Graduate Internship Scheme (GIS) needs to be reviewed and implemented to encourage synergies between the private sector and the fresh graduates.

Reform the healthcare system

The ERGP proposed to revitalise 10,000 primary health care centres and establish at least one functional Primary Healthcare Centre (PHC) in each ward to improve access to health care. It also promises the expansion of the NHIS towards universal health care coverage. We believe these recommendations are crucial and should be fast-tracked by the government

Nigeria needs holistic structural reforms for the education sector.

The purpose of education in Nigeria needs to be clearly defined, while issues of account-ability and governance of the sector must be given utmost attention. Nigeria's curriculum must be up-to-date with the rapidly changing skills-need of the country. To achieve this, the Nigerian government must strengthen public-private approaches in the review of the curricula at different levels. The reviewed curricula must prioritize the development and application of knowledge across major sectors and must be in line with the future skills-need of industries. Entrepreneurial studies need to be included in the secondary school curricula and teachers must be adequately trained to impart relevant knowledge.

Pillar 3: Social Safety Nets

Social safety nets are vital in protecting the poor and highly vulnerable citizens from shocks that could keep them trapped in poverty circles. This, therefore, makes this pillar important in ensuring inclusive growth and development. Several countries such as Brazil and South Korea that have lifted a significant number of its population out of poverty have implemented programmes on social safety net.

Over the years, Nigeria has initiated several social protection programmes which span across areas such as education, health, employment, financial inclusion, gender equality among others. In the 2018 Budget, the government committed about 4% of its planned expenditure to the Social Investment Programme (SIP) to cater for a significant proportion of the poor, underprivileged and the youth. Currently at the federal level, some of the SIPs include Government Enterprises and Empowerment Programme (GEEP), N-Power, National Home-grown School Feeding Programme and Conditional Cash Transfer Program. As at June 2017, the Nigerian government has spent about N41.7 billion implementing the these programmes (See table below).

Figure 7: Government Social Investment Programmes

N7.3 billion

Government Enterprises and Empowerment Programme (GEEP)

Provides interest-free loans to market women and traders, artisans, youth and farmers.

N26.4 billion

N-Power

Provides a structure for relevant work skills acquisition and development while linking its core and objectives to fixing inadequate public services and stimulating the larger economy.

N6.2 billion

National Homegrown School Feeding Programme

Provides one meal a day to public primary school children across the country. Targets 5.5 million children for 200 school days to increase enrolment rates, reduce absenteeism and provide food security.

N800 million

Conditional Cash Transfer Programme

- To break the cycle of poverty in households.
- Targets the poor and vulnerable citizens and provides N1 million extremely poor Nigerian with N5,000 monthly.

Source: Presidency

Amount disbursed as at June 2017

We outline several challenges that need to be addressed to enhance impacts of the SIPs on overall citizens' welfare. The challenges include:

- Low programme coverage due to the shortage of manpower. The Micro-Credit Scheme known as the Government Enterprise and Empowerment Programme (GEEP) implemented by the federal government through the Bank of Industry (BoI) runs a lean office with a very ambitious target of disbursing N50,000 loans to 4 million traders, artisans and farmers on or before December 2020.

- Slow conception and implementation of these programmes. Due to administrative bureaucracy, SIPs have suffered setbacks over the years. This therefore leaves the government with a short period of time for implementation.

- Lack of proper coordination of government agencies. In the delivery of these social programmes, in some cases, there is the disconnect between the implementing unit in the Presidency and the relevant Ministries, Department and Agencies (MDAs). This dichotomy often results in implementation challenges.

- Changes in government administration affect programs' continuity. A change in government administration raises the risks of abandonment of government programs. For instance, several government programmes in the past such as SURE-P, YouWin, Graduate Internship Scheme, etc. have suffered from lack of continuity.

- There is also the challenge of determining the impacts of these programmes on social welfare.

Some proposed recommendations to improve the delivery of these programs include:

- Need for proper coordination between the Presidency and the relevant MDAs on designing and implementing social programmes
- The Presidency should enhance collaboration with State Governments to increase coverage of the SIPs across the country.
- The SIPs must have clear developmental objectives and the federal government must strengthen the monitoring and evaluation (M&E) aspects of these programmes.

While these programmes are crucial in uplifting the vulnerable citizens and achieving social inclusion, social safety nets on their own will not deliver lasting improvements in living standards. These programmes must be supported by industrialization, investment in the social sectors such as Education and Health and institutional reforms.

Good Governance and Strong Institutions as drivers of Inclusive Growth pillars

Efficient markets and macroeconomic stability are essential for inclusive growth but the diverse nature of inclusive growth calls for a capacity to deal with complex problems and to ensure strong levels of policy coherence. How well economic growth translates to better living standards in the society depends on the institutional framework and capacities that shape the quality and equity of human capital development. Good governance and strong institutions, therefore, are backbones of achieving inclusive growth and development, as they ensure that government policies and programs are appropriately designed and implemented.

Good governance and strong institutions are important in ensuring inclusive growth. The Nigerian government has made recent progress in implementing key reforms geared at improving the business environment. Establishment of the Presidential Enabling Business Environment Council (PEBEC) in 2016 spearheaded critical reforms captured in the 60-day National Action Plan on Ease of Doing Business in Nigeria. This intervention led to the implementation of 31 reforms in 8 priority areas, thereby moving Nigeria's ranking on the World Bank Ease of Doing Business from 169th to 145th in just a year. The result of these reforms underscores the importance of institutional reforms in easing regulation, improving the business environment and attracting investments.

Despite the achievements made in the last one year, Nigeria ranks very low in the recent Corruption Perception Index (136th out of 176th). According to World Economic Forum's Global Competitiveness Report (2016-2017), Nigeria ranks low on key governance indicators such as diversion of public funds (127th out of 138th), irregular payments and bribes (129th), efficiency of government spending (126th), burden of government regulation (107th) and transparency of government policymaking (113th). These rankings show that more actions are needed to simplify government activities, improve transparency & accountability, reduce red-tapism across government institutions and remove regulatory burdens on businesses.

Corruption, inefficiencies, weak institutions and poor accountability structures have largely contributed to the redistribution of wealth in favour of the political elites. These challenges have resulted in an expanding infrastructure deficit as monies allocated for projects are not effectively utilized (for instance in the Power sector in the 2000s), insecurity of lives and properties and lower levels of investments into key sectors.

Some progress has been recorded in recent times though. In 2016, the Nigerian government joined the Open Government Partnership (OGP), which aims to improve transparency and accountability through the use of technology and open data.

The government also implemented the Treasury Single Account (TSA) to improve transparency and accountability of public funds. As stated in the ERGP, four key priority areas to improve the effectiveness of governance include: Fighting Corruption, Reinforcing Public Safety and Security, Reforming the Public Service and Strengthening Sub-national Coordination.

Recommendations

Voice and Accountability – In ensuring good governance and stronger institutions to deliver inclusive growth in Nigeria, it is vital to improve the extent in which citizens' perception is captured in the decision-making process as well as making information on public funds and data easily accessible to citizens. The government must:

- Uphold implementation of the Freedom of Information (FOI) act
- Ensure timely releases of government reports such as the Budget Implementation report, NNPC annual reports and bulletins
- Ensure citizens' participation in budget process- continuation of public hearing on the appropriation bill

Political Stability and Combating Violence/terrorism – While government interventions in addressing the issues of militancy in the Niger Delta Region, Boko Haram and secession agitators in the South-East have yielded relative peace, there is the need to find a lasting solution to these agitations to ensure peace and security in the affected regions.

Government Effectiveness – Nigerian public service needs to undergo reforms to reduce red-tapism and undue bureaucracy. In achieving this, there is need for the following:

- Organize regular training and retraining of public servants
- Re-positioning of the Nigerian Police Force for effective service delivery through reforms
- Improve reward system in the civil service to encourage better output

Regulatory Quality – Private sector development in Nigeria is very vital in creating jobs and also ensuring inclusive growth. Therefore, the government must focus on making policies across all sectors of the economy to attract foreign and local investments. This requires the following:

- Continued implementation of ease of doing business reforms across states in Nigeria
- Providing tax incentives to start-ups to encourage growth.

Rule of Law – Restoration of citizens' confidence in the rules of the society depends on the extent at which laws are enforced without fear or favour. This can only be achieved when institutions charged with enforcement of these laws discharge their duties efficiently. This necessitates government attention in ensuring that such institutions are independent of external interference and political pressure. To do this, there is need to:

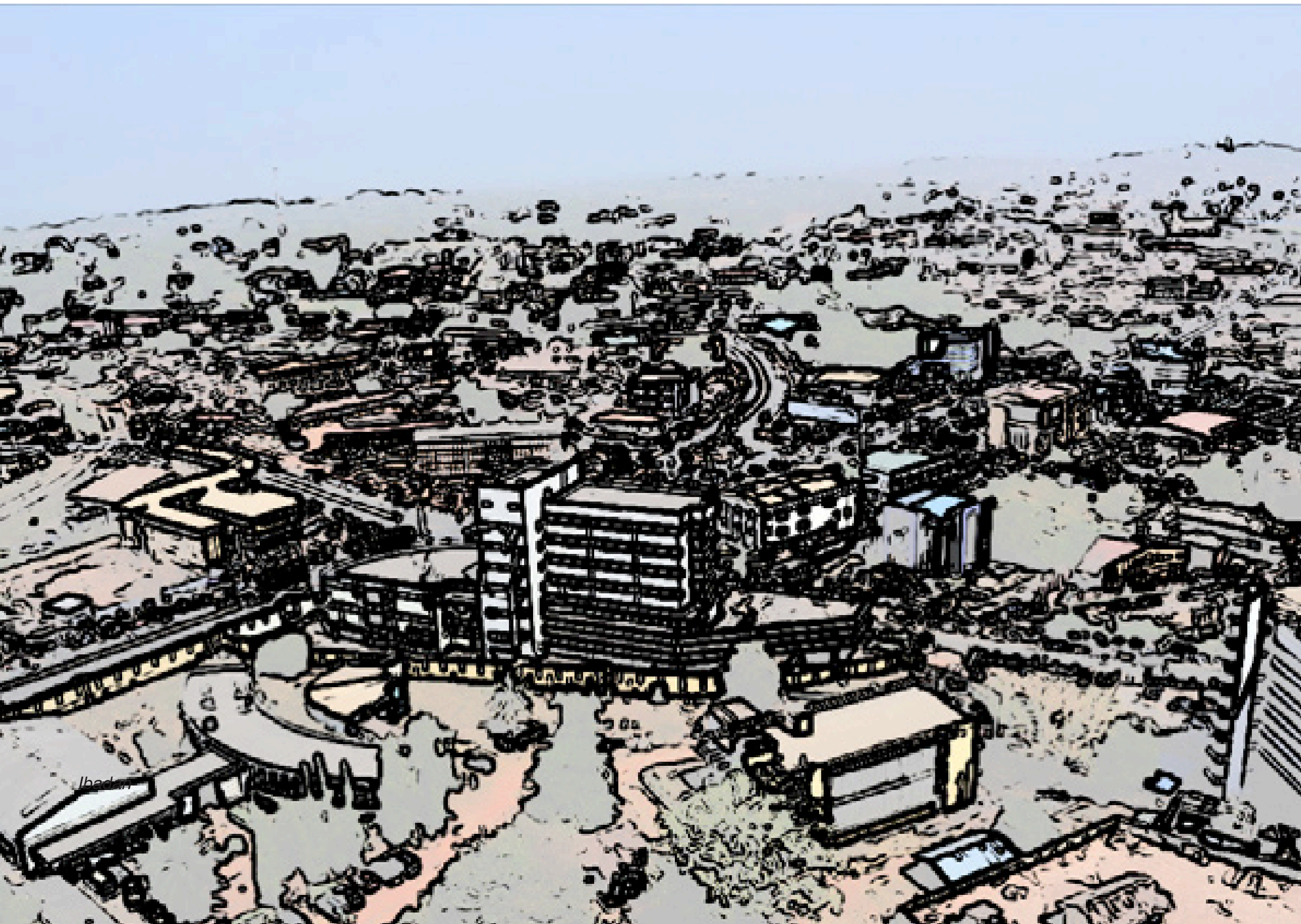
- Ensure that all citizens are equal before the law
- Timely hearing and ruling at courts
- Political office holders must appoint technocrats to lead MDAs or government programs.

Control of Corruption – The existence of so many leakages in government and the absence of proper monitoring and evaluation mechanisms make it profitable for government officials to engage in corrupt practices. This necessitates the need for government to fight against corruption in an holistic manner.

- Transparency in asset declaration of all public officials
- Proper monitoring/confirmation of assets declared
- Digitisation of all payment platforms for government revenue generating agencies to curb leakages
- Privatisation of certain entreprises

Source: NESG Research

Section 4:
Policies and Events That Will Shape 2018



Policies And Events That Will Shape 2018

Implementation of Business Reforms

Ease of Doing Business reforms will continue in 2018 and Nigeria will experience further improvement in the World Bank Doing Business Rankings

2019 Elections

- Government spending relating to elections will increase

Global Events

- Favorable Global Oil Market outlook
- Growth and monetary policy development in advanced countries such as the US

Fiscal Policy, Budget Processes and Implementation

- Delayed passage of the 2018 Budget. This will affect implementation of capital projects
- Rebalancing of government debt in favour external debts. This could result in lower borrowing costs for government and reduce interest rate on government securities
- Increased pressure to generate revenue from taxes and other non-oil sources. Continued enforcement of VAIDS schemes
- Whistle Blowing Policy

Country Case Study

BRAZIL

Brazil, the world's ninth largest economy, has the second largest industrial sector in the Americas. After a two-year recession, the economy grew by 0.7% in 2017. The witnessed growth was driven majorly by activities in the informal economy and the public sector.

Brazil's sustained economic growth over the last two decades resulted in employment generation, poverty reduction and economic diversification. During this period, about 29 million people were lifted out of poverty, while income level increased by 40%, boosting its Gini coefficient index. Brazil has been able to create more and better jobs; providing more support to the bottom 40 percent low-income earners; making growth greener, more resilient, and strengthened the institutional capacity of public sectors.

The major reforms within the period includes: strengthening welfare programs through social sectors reforms and social assistance, health and education reforms, privatization and regulatory reforms to boost private sectors, energy policies reforms, pension and tax reforms, labour market and minimum wage policies in order to increase the minimum wage, Structural fiscal and financial sector reforms to increase access to credit among lower income groups.

THAILAND

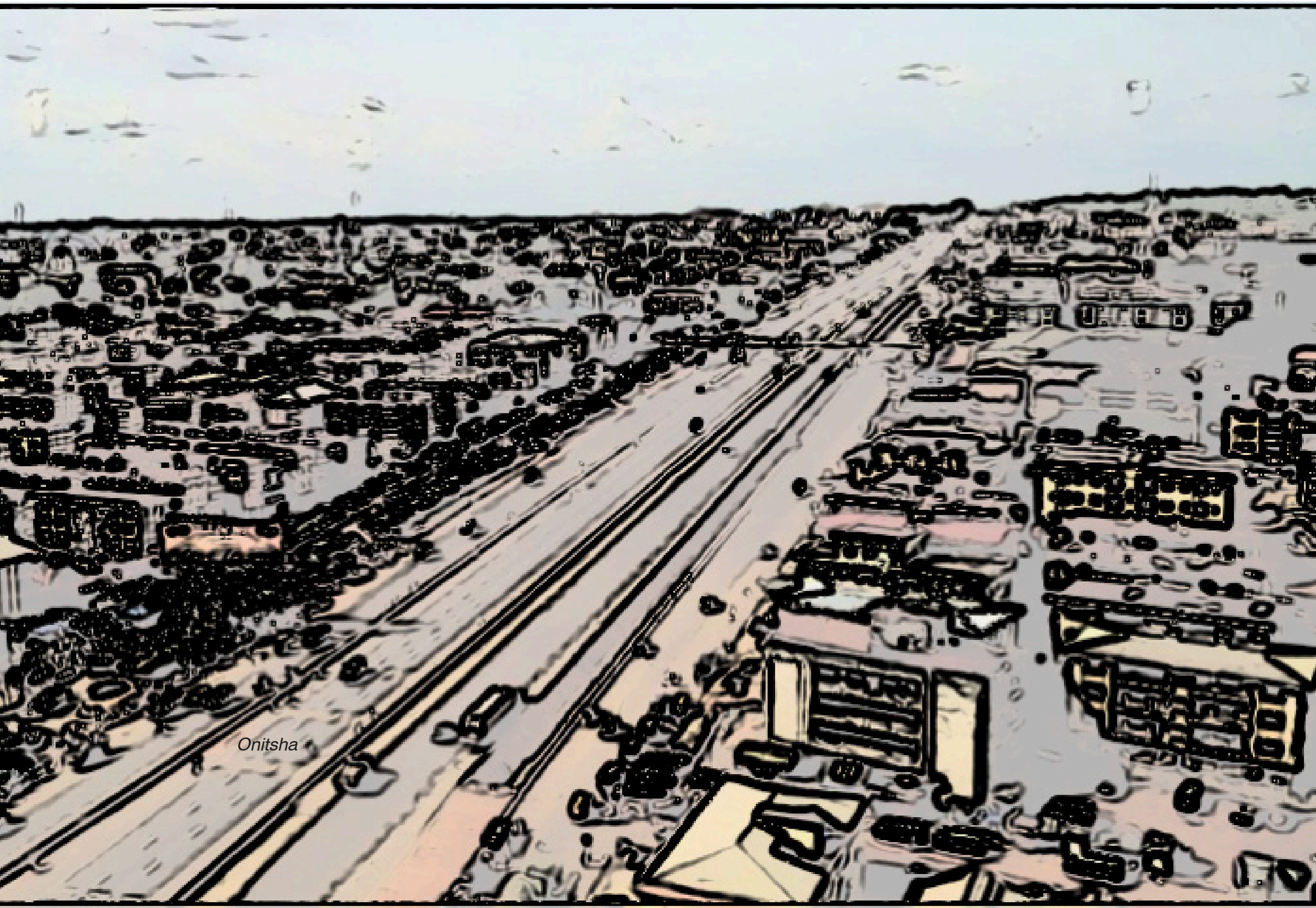
Thailand is the second largest economy in Southeast Asia, with an upper- middle-income Transparency in asset declaration of all public officialsThese resulted in a GDP growth rate of 2.9% in 2015, thereby creating millions of jobs that has pulled millions of people out of poverty.

The proper implementation of its social and economic reforms has helped in reducing poverty drastically from 42.3% in 2000 to 10.5% in 2015, thereby lowering unemployment, advancing welfare in quality education for all and boosting shared prosperity. Thailand seeks to address economic stability, human capital, equal economic opportunities, environmental sustainability, competitiveness, and effective government bureaucracies through its 20 -Year National Strategy (2017 – 2036) for attaining developed country status through broad reforms.

Thailand's key reforms include the following:

- proper implementation of large multi-year public infrastructure projects on railways dual tracking
- initiation of regulatory reforms aimed at improving ease of doing business
- establishment of State Enterprise Policy Committee(SEPC) to improve state-owned enterprise governance
- ensuring supervisory oversight of specialized financial institutions to the Bank of Thailand
- approval of progressive inheritance and property taxes
- launch of the National Savings Fund as retirement safety net for informal workers.

Section 5:
NESG Macroeconomic Projection for 2018



Our projection was done using the Nigerian Economic Summit Group Macro-Econometric Model (NESG–MACMOD). The model was constructed to simulate and analyse impacts of different policies on key macroeconomic indicators and sectors and forecast their future values. It is structured into six blocks, namely; demand, supply, fiscal, monetary, employment and external. These blocks are made up of a total of 53 equations; out of which 32 are behavioural equations, 13 are identities and the remaining 6 are theoretical definitions.

Scenario 1 is optimistic. It assumes that crude oil price will average US$67 per barrel in 2018, which is above the 2018 budget benchmark price of US$45 per barrel. On crude oil output, we assume attainment of the 2018 budget assumption of 2.3 million barrels per day on the backdrop of continued peace in the Niger Delta. This Scenario also assumes a High Policy Efficiency (HPE) in the range of 0.5 to 1. This implies that the government implements a significant number of recommendations proposed in the Inclusive Growth Pillars (i.e. Pillar 1, 2 and 3).

	Assumptions	Outcome
Scenario 1: Optimistic Case	• Crude oil price averages US$67per barrel in 2018 • Crude oil production averages 2.3 million barrels per day • High Policy Efficiency (HPE) in the range of 0.5 to 1.	• Real GDP grows by 3.5% in 2018 • Inflation rate reaches 15% in 2018 • Government revenue increases by 30% to N3.6 trillion in 2018 • Exchange rate stabilizes due to increase in FOREX inflows • Unemployment rate reaches 30% in 2018
Scenario 2: Business as Usual	• Crude oil price averages US$60 per barrel in 2018 • Crude oil production averages 1.9 million barrels per day • Moderate Policy Efficiency (MPE) in the range of -0.4 to 0.4	• Real GDP grows by 2.3% in 2018 • Inflation rate stood at 16% in 2018 • Government revenue increases by 25% to N2.44 trillion in 2017 • Exchange rate faces moderate pressure due to 2019 election uncertainties • Unemployment rate reaches 35%
Scenario 3: Pessimistic Case	• Crude oil price averages US$48 per barrel in 2018 • Crude oil production averages 1.4 million barrels per day • Low Policy Efficiency (MPE) in the range of -0.5 to -1	• Real GDP grows by 1.5% in 2018 • Inflation rate at 17% in 2018 • Government revenue decreases by 7% to N1.85 trillion in 2018 • Unemployment/underemployment increases to 44% in 2018. • Exchange rate faces signficant pressure due to 2019 election uncertainties

[iii]See appendix for note of Policy Efficiency

Scenario 2 is business as usual. This scenario acknowledges that crude oil price and output will remain the same as in 2017. In view of this, it assumes that crude oil price and production will average US$60 per barrel and 1.9 million barrels per day in 2018 respectively. This Scenario also assumes a Moderate Policy Efficiency (MPE) in the range of -0.4 to 0. This implies that the government implements a few recommendations proposed in the Inclusive Growth Pillars (i.e. Pillar 1, 2 and 3).

Scenario 3 is pessimistic. It assumes a lower crude oil price and output of US$48 per barrel and 1.4 million barrels per day in 2018, respectively. This Scenario also assumes a Low Policy Efficiency (LPE) in the range of -0.5 to -1. This implies that the government implements a little or none of the recommendations proposed in the Inclusive Growth Pillars (i.e. Pillar 1, 2 and 3).

Rationale and Outcomes for each scenario

Optimistic Scenario

Global demand for crude oil continues to grow strong in 2018 to 98.5 million barrels per day as OPEC and non-OPEC members extend the agreement to adjust output. We also assume that the increased demand of crude by refineries in China experienced in December 2017 will continue into the first quarter of 2018, thus, raising the prospects of crude oil price in the international market.

Regarding crude oil output, a key project such as the Ogoni clean-up and constant engagement with stakeholders in the Niger Delta will assist in sustaining peace in the region and reduce the incidence of pipeline vandalism. This will result in an average production of 2.3 million barrels per day.

As regards policy efficiency, the Scenario assumes an implementation of key government reforms to ensure high and broad-based growth in 2018 and beyond. We assume a 65% implementation rate of federal government capital budget in 2018, which is an injection of N1.58 trillion into the economy. In addition, we anticipate a significant increase in government expenditures on education and health as well as a stable monetary policy rate at 14%.

Outcome

The outcome of this scenario is largely positive. Real GDP grows by 3.5% in 2018, driven by agriculture and manufacturing sectors. Furthermore, oil revenue for 2018 increases by 30% to N3.6 trillion when compared with the budgeted figure of N2.44 trillion. Unemployment and underemployment rate stands at 32% while inflation rate hovers around 15% in 2018, largely as a result of exchange rate stability and lower inflation rate during the year.

Business as usual Scenario

Global crude oil demand remains the same as in 2017. OPEC and non-OPEC members relax output quotas for the most part of 2018, which results in an average price of US$60 per barrel in the year. Within Nigeria, uncertainties persist in the oil and gas industry and as a result, industry players are unable to scale up output to meet the 2018 budget target of 2.3 million barrels per day. Regarding the policy efficiency, implementation of capital expenditure stands at 55%, which implies an injection of N1.3 trillion into the economy. We also assume normal implementation of health and education budgets and moderate implementation of reforms to improve both sectors.

Outcome

Real GDP grows by 2.3% in 2018, led by services and agriculture. Oil revenue increases by 25% to N 2.44 trillion as budgeted by FGN. Exchange rate and external reserves face moderate pressure due to FX outflows arising from uncertainties from the upcoming 2019 elections. Inflation rate hovers around 16% while unemployment/underemployment rates fell to 35% in 2018.

Pessimistic Scenario

US crude production increases in 2018 following the recovery of the oil industry after Hurricane Harvey in the late August of 2017. OPEC and non-OPEC members' fallout on a deal to control output in a bid to gain market shares. Global demand of crude oil by developing and emerging markets decline gradually as growth in China slows. In Nigeria, political uncertainty results in instability in the Niger Delta and crude oil output averages 1.4 million barrels per day. Federal government implements only 42% of the capital budget, an injection of N1trillion while actual expenditures on education and health decline.

Outcome

Real GDP grows by 1.5% in 2018 led by the service sector. Manufacturing sector output growth slows. Oil revenue decreased by 7% to N 1.85 trillion from the budgeted figure in 2018. Inflation rate averages 17% due to fuel scarcity and food shortages. Unemployment/underemployment increased to 44% in 2018.

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About The NESG

The NESG is an independent, non-partisan, non-sectarian organization, committed to fostering open and continuous dialogue on Nigeria's economic development.
The NESG strives to forge a mutual understanding between leaders of thought so as to explore, discover and support initiatives directed at improving Nigeria's economic policies, institutions and management.

Our views and positions on issues are disseminated through electronic and print media, seminars, public lectures, policy dialogues, workshops, specific high level interactive public-private sessions and special presentations to the executive and legislative arms of government.

OUR VISION
"To become Nigeria's leading private sector think-tank committed to the development of a modern globally competitive economy"

OUR MISSION
"The NESG has a mandate to promote and champion the reform of the Nigerian economy into an open, globally competitive economy"

AIMS AND OBJECTIVES
Build a first class research institution that supports the ability to execute with the required credibility and clout to succeed.
Articulate appropriate programs and strategies in response to any emerging trends in national and world economy.
Build an effective world-class secretariat that can enhance the internal governance and management capacity of the NESG.
Have a clear economic action agenda (which indicates economic activities as the NESG may see them from time to time.)

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