Nigeria after the elections: no recovery without reforms

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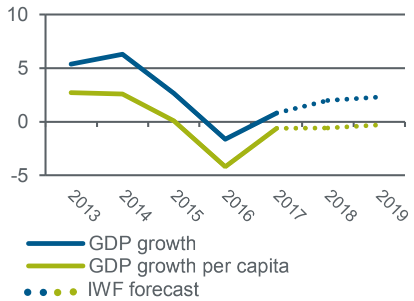
One Pager

Author: Dr Tim Heinemann, phone +49 69 7431-4784, tim.heinemann@kfw.de

Muhammadu Buhari has won the presidential elections in Nigeria for the second time – a surprise! Many experts had predicted a victory by Atiku Abubakar from the largest opposition party. He had run his election campaign primarily on an economic reform platform, thereby attacking Buhari in a policy area where the incumbent had no visible achievements to show. Whether the economic situation would have changed fundamentally if Abubakar had won remains doubtful. The forces of inertia are very strong in Nigeria. There was controversy on the reform agenda even within Abubakar's party. The country urgently needs a different economic policy.

Figure 1: Nigeria's economic growth

In per cent



Sources: Eikon Reuters, IMF, own calculations

Economic policy with no outcome

Buhari attempted in vain to strengthen employment with public investment, particularly in infrastructure and small business, as well as agriculture. Although these are the right priorities, not enough funds reached the economy because of institutional deficits such as corruption and skill deficits in government agencies. The country slipped into recession in 2016 as a result of the drop in the oil price, which additionally dampened the economic policy effects. The oil sector accounts for some 80% of import revenue. The various ethnic conflicts also hampered investment in agriculture and led to crop losses. As a consequence, economic growth fell behind population growth. That led to unemployment, especially among the young, and poverty (around 50% of the population lives on less than USD 1.90 a day, a higher rate than in India).

Floating exchange rate could strengthen domestic economy

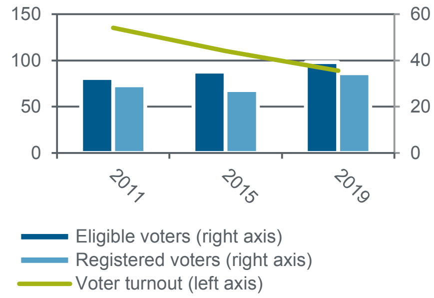
Although Nigeria is Africa's largest oil producer, it had to import refined oil worth some USD 7 billion in 2017 (about 20% of the entire value of imports). At the same time, the country's refineries are running at a mere 15% of capacity. This is due to the foreign exchange regime and fuel subsidies (around USD 3.85 billion p.a.). The artificial overvaluation of the naira, however, is adversely affecting other sectors as well. A floating exchange rate would also be good for strengthening the local economy as a whole as it would make imports more costly and local producers more competitive. Floating the exchange rate, however, currently appears to be impossible. Many entrepreneurs and public servants benefit from privileged access to hard currency. An elimination or reduction of fuel subsidies appears more likely. Funds freed up could be used to improve the resources and skills of government agencies.

Oil industry needs to be clearly structured

Although the oil industry is crucial to the country's development, it is not being managed effectively. A law to reform the oil sector is ready for signing in the presidential palace after 16 years of drafting but Buhari has so far been hesitant to sign it. It would be desirable for him to sign it soon. This would enable an independent regulator to be established which would administer oil licenses and award contracts and would enable the oil company to be split up into a holding for exploration and production and an asset management agency. That would restrict politicians' access to the oil sector, improve the investment environment and give institutions a bit more strength. At institutional level the country has major deficits even in comparison with peers in Sub-Saharan Africa.

Figure 2: Presidential election turnout

In per cent / in millions



Sources: Reuters, World Bank, own calculations

Strengthening institutions and trust

Nigeria has not improved on Transparency International's corruption index since 2015, even though fighting corruption was one of Buhari's key policies. The country's young have lost faith in the political class. The clearest proof of this is the renewed drop in voter turnout. The new government should take this as a warning and adopt determined countermeasures by strengthening the institutions because Africa's most populous and largest economy will not be able to recover without restoring faith in politics and institutions. The chances of this happening are not very good, however. Rather, it appears that Nigeria is unable to generate any impetus – neither for its own development nor for the continent as a whole. ■