INTERNATIONAL MONETARY FUND

IMF Country Report No. 18/63

NIGERIA

March 2018

2018 ARTICLE IV CONSULTATION—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR NIGERIA

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of the 2018 Article IV consultation with Nigeria, the following documents have been released and are included in this package:

- A **Press Release** summarizing the views of the Executive Board as expressed during its March 5, 2018 consideration of the staff report that concluded the Article IV consultation with Nigeria.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on March 5, 2018 following discussions that ended on December 20, 2017, with the officials of Nigeria on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on February 15, 2018.
- An **Informational Annex** prepared by the IMF staff.
- A **Supplementary Information**
- A **Statement by the Executive Director** for Nigeria.

The document listed below have been or will be separately released.

Selected Issues

The IMF's transparency policy allows for the deletion of market-sensitive information and premature disclosure of the authorities' policy intentions in published staff reports and other documents.

Copies of this report are available to the public from

International Monetary Fund • Publication Services
PO Box 92780 • Washington, D.C. 20090
Telephone: (202) 623-7430 • Fax: (202) 623-7201
E-mail: publications@imf.org Web: http://www.imf.org
Price: $18.00 per printed copy

International Monetary Fund
Washington, D.C.

Press Release No. 18/76
FOR IMMEDIATE RELEASE
March 7, 2018

International Monetary Fund
700 19th Street, NW
Washington, D. C. 20431 USA

IMF Executive Board Concludes 2018 Article IV Consultation with Nigeria

On March 5, 2018, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation[1] with Nigeria.

The Nigerian economy is exiting recession but remains vulnerable. New foreign exchange measures, rising oil prices, attractive yields on government securities, and a tighter monetary policy have contributed to better foreign exchange availability, increased reserves to a four-year high, and contained inflationary pressures. Economic growth reached 0.8 percent in 2017, driven mainly by recovering oil production. Inflation declined to 15.4 percent year-on-year by end-December, from 18.5 percent at end-2016.

Reforms under the government's Economic Recovery and Growth Plan have resulted in significant strides in strengthening the business environment and steps to improve governance. However, all these factors have not yet boosted non-oil non-agricultural activity, brought inflation close to the target range, contained banking sector vulnerabilities, or reduced unemployment. A higher fiscal deficit driven by weak revenue mobilization amidst still tight domestic financing conditions has raised bond yields, and crowded out private sector credit.

Higher oil prices are supporting the near-term projections, but medium-term projections indicate that growth would remain relatively flat, with continuing declines in per capita real GDP under unchanged policies. The improved outlook for oil prices is expected to provide welcome relief from pressures on external and fiscal accounts, and growth would pick up to 2.1 percent in 2018, helped by the full year impact of greater foreign exchange availability and recovering oil production. Renewed import growth would reduce gross reserves despite continued access to international markets. After arrears clearance in 2018, the fiscal deficit would narrow, and public debt levels would remain relatively low, but the interest payments-to-Federal Government revenue ratio would remain high.

---

[1] Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board.

Risks are balanced. Lower oil prices and tighter external market conditions are the main downside risks. Domestic risks include heightened security tensions, delayed fiscal policy response, and weak implementation of structural reforms. Stress scenarios highlight sensitivity of external and public debt, particularly to oil exports and naira depreciation. Faster than expected implementation of infrastructure projects are an upside risk. A further uptick in international oil prices would provide positive spillovers into the non-oil economy.

Executive Board Assessment[2]

Executive Directors agreed with the thrust of the staff appraisal. They welcomed Nigeria's exit from recession and the strong recovery in foreign exchange reserves, helped by rising oil prices and new foreign exchange measures. They commended the progress in implementing the Economic Recovery and Growth Plan, including the start of a convergence in foreign exchange windows, tight monetary policy, improvements in tax administration, and significant strides in improving the business environment. Directors noted, however, that important challenges remain, as growth in the non-oil, non-agricultural sector has not picked up; inflation remains high and sticky; unemployment is rising; and poverty is high. To address these vulnerabilities, they stressed that comprehensive and coherent policy actions remain urgent.

Directors emphasized the need for a growth-friendly fiscal adjustment, which frontloads non-oil revenue mobilization and rationalizes current expenditure to reduce the ratio of interest payments to revenue to a more sustainable level and create space for priority social and infrastructure spending. In addition to ongoing efforts to improve tax administration, Directors underlined the need for more ambitious tax policy measures, including through reforming the value-added tax, increasing excises, and rationalizing tax incentives. The implementation of an automatic fuel price-setting mechanism, sound cash and debt management, improved transparency in the oil sector, increased monitoring of the fiscal position of state and local governments, and substantially scaled-up social safety nets should support the adjustment.

Directors commended the central bank's tightening bias in 2017, which should continue until inflation is within the single digit target range. They recommended continued strengthening of the monetary policy framework and its transparency, with a number of Directors urging consideration of a higher monetary policy rate, a symmetric application of reserve requirements, and no direct central bank financing of the economy. A few Directors urged confirmation of the appointments of the central bank's board of directors and members of the monetary policy committee.

Directors commended the recent foreign exchange measures and recent efforts to strengthen external buffers to mitigate risks from capital flow reversals. They welcomed the authorities'

---

[2] At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities. An explanation of any qualifiers used in summings up can be found here: http://www.imf.org/external/np/sec/misc/qualifiers.htm.

commitment to unify the exchange rate and urged additional actions to remove remaining restrictions and multiple exchange rate practices.

Directors stressed that rising banking sector risks should be contained. They welcomed the central bank's commitment to help increase capital buffers by stopping dividend payments by weak banks. They called for an asset quality review to identify any potential capital need. They noted that an enhanced risk-based banking supervision, strict enforcement of prudential requirements, and a revamped resolution framework would help contain risks.

Directors emphasized that structural reform implementation should continue to lay the foundation for a diversified private-sector-led economy. They noted that, building on recent improvements in the business environment, implementing the power sector recovery plan, investing in infrastructure, accelerating efforts to strengthen anti-corruption and transparency initiatives, and updating and implementing the financial inclusion and gender strategies remain essential.

Directors welcomed the continued improvement in the quality and availability of economic statistics and encouraged further efforts to address remaining gaps.

It is expected that the next Article IV consultation with Nigeria will take place on the standard 12-month cycle.

Nigeria: Selected Economic and Financial Indicators, 2016–19

	2016	2017	2018	2019
		Prel.	Projections	
	(Annual percentage change, unless otherwise specified)			
National income and prices				
Real GDP (at 2010 market prices)	-1.6	0.8	2.1	1.9
Oil and Gas GDP	-14.4	7.6	10.8	5.7
Non-oil GDP	-0.3	0.2	1.3	1.5
Production of crude oil (million barrels per day)	1.81	1.90	2.10	2.20
Nominal GDP at market prices (trillions of naira)	102.6	121.0	142.9	166.2
Nominal non-oil GDP (trillions of naira)	97.2	113.1	131.4	154.7
Nominal GDP per capita (US$)	2,254	2,099	2,268	2,567
GDP deflator	9.5	17.0	15.7	14.2
Consumer price index (annual average)	15.7	16.5	14.0	14.8
Consumer price index (end of period)	18.5	15.4	14.5	16.6
Investment and savings	(Percent of GDP)			
Gross national savings	13.2	14.9	13.3	13.6
Public	-0.1	-0.8	0.3	0.6
Private	13.3	15.7	13.0	13.1
Investment	12.6	12.9	13.3	13.4
Public	2.2	2.9	2.7	2.8
Private	10.4	10.0	10.5	10.6
Current account balance	0.7	2.0	0.1	0.2
Consolidated government operations	(Percent of GDP)			
Total revenues and grants	5.6	5.7	7.4	7.1
Of which: oil and gas revenue	2.1	2.5	3.7	3.3
Total expenditure and net lending	9.5	11.2	11.9	11.6
Overall balance	-3.9	-5.5	-4.5	-4.4
Non-oil primary balance (percent of non-oil GDP)	-5.1	-7.0	-7.6	-6.7
Non-oil revenue (percent of non-oil GDP)	3.6	3.4	3.9	4.0
Public gross debt (percent of GDP) [1]	19.6	22.3	25.3	26.0
Of which: FGN debt (percent of GDP)	16.7	18.4	20.8	20.7
FGN interest payments (percent of FGN revenue)	61.7	71.9	59.7	68.0
Money and credit	(Change in percent of broad money at the beginning of the period, unless otherwise specified)			
Broad money (percent change; end of period)	17.4	1.6	14.0	17.9
Net foreign assets	9.2	27.4	1.5	-2.8
Net domestic assets	8.2	-25.9	12.5	20.7
o/w Claims on consolidated government	11.8	-3.2	22.2	21.5
Credit to the private sector (y-o-y,%)	22.3	-3.3	1.0	2.1
External sector	(Annual percentage change, unless otherwise specified)			
Exports of goods and services	-21.6	25.7	30.1	0.0
Imports of goods and services	-34.7	2.5	34.3	2.9
Terms of trade	-6.3	9.5	10.7	-3.9
Price of Nigerian oil (US dollar per barrel)	44.6	54.4	67.8	63.9
External debt outstanding (US$ billions) [2]	46.1	56.5	65.0	71.2
Gross international reserves (US$ billions) [3]	27.0	39.2	39.2	36.6
(equivalent months of imports of G&Ss)	6.7	7.3	7.1	6.2

Sources: Nigerian authorities; and IMF staff estimates and projections.

[1]Gross debt figures for the Federal Government and the public sector include overdrafts from the Central Bank of Nigeria (CBN). However, on net debt basis, obligations to and from the CBN cancel out since government deposits held at the CBN are of similar magnitude as overdrafts, public net debt in percent of GDP was 15.4 in 2016.

[2]Includes both public and private sector.

[3]In 2016, includes about $2 billion in reclassified TSA funds, which are at the central bank but under government control.

INTERNATIONAL MONETARY FUND

NIGERIA

STAFF REPORT FOR THE 2018 ARTICLE IV CONSULTATION

February 15, 2018

KEY ISSUES

Context. The Nigerian economy is slowly exiting recession but remains vulnerable. Rising oil prices, new foreign exchange (FX) measures, attractive yields on government securities, and a tighter monetary policy have contributed to better FX availability, increased reserves to a four-year high, and contained inflationary pressures. Economic growth in the third quarter of 2017 was positive for the second consecutive quarter, driven mainly by recovering oil production. However, these improvements have not yet boosted non-oil non-agricultural activity, brought inflation closer to the target range, contained banking sector vulnerabilities, or reduced unemployment. A higher fiscal deficit driven by weak revenue mobilization amidst still tight domestic financing conditions has raised bond yields, and crowded out private sector credit.

Outlook and Risks. Under current policies, higher oil prices would support an outlook where growth is expected to remain flat and the interest payments-to-revenue ratio high. Lower oil prices, tighter external market conditions, heightened security issues, and delayed policy responses are the main downside risks.

Policy Recommendations. Reforms initiated under the authorities' Economic Recovery and Growth Plan (ERGP) are welcome, notably the start of convergence in foreign exchange windows, some improvements in tax administration, and significant strides in improving the business environment and anti-corruption efforts. Containing vulnerabilities and achieving high per capita growth rates require urgent implementation of comprehensive policies, which must not be delayed by rising oil prices and approaching elections:

- Promoting a growth-friendly **fiscal policy** centered on stronger efforts to increase non-oil revenue mobilization, prioritized capital spending, sound debt management, and a well-targeted and scaled-up social safety net;
- Keeping **monetary policy** tight to contain inflation, based on transparent monetary policy tools, and discontinuation of quasi-fiscal activities;
- Removing distortions in the **foreign exchange market**, which should be unified and contribute to strengthening reserve buffers;
- Enhancing **banking sector** resilience through a proper assessment of asset quality, strengthened capital buffers, and phasing out regulatory forbearance;
- Implementing **structural reforms** by building on recent successes to improve the business environment, accelerating the power sector reform, strengthening governance, and updating the financial inclusion and gender strategies.

Approved By
David Owen and Zeine Zeidane

Discussions took place in Lagos (December 6–8) and Abuja (December 11–20). The team comprised Mr. Mati (Mission Chief and Senior Resident Representative), Ms. Newiak, Mr. O'Sullivan, and Mr. Tsangarides (all AFR); Ms. Luca (FAD); Ms. Tamene (MCM); Mr. Hosny (SPR); and Ms. Chen (LEG). Ms. Mangga, Ms. Bonet, and Mr. Olusegun (Resident Representative office) assisted the mission. Mr. Owen (AFR) participated in the Lagos part of the mission. Mr. Odonye (OED), and Ms. Timmis (World Bank) participated in most policy discussions. The mission held discussions with Finance Minister Adeosun, Budget and Planning Minister Udoma, Central Bank of Nigeria (CBN) Governor Emefiele, and other senior government officials. The mission also held discussions with parliamentarians, and representatives of financial institutions, private sector, development partners, and civil society. Ms. Koulefianou and Ms. Ibrahim provided excellent assistance for the preparation of this report.

CONTENTS

BACKGROUND: FRAGILE RECOVERY 4

RECENT MACRO-FINANCIAL DEVELOPMENTS 5

OUTLOOK AND RISKS 9

POLICY DISCUSSIONS: URGENT REFORMS FOR MACROECONOMIC STABILITY AND GROWTH 12

A. Fiscal Policy: Reduce Oil Revenue Dependence and Create Space for the Private Sector 13
B. Monetary Policy: A Tight Stance and Stronger Framework 17
C. Exchange Rate Policy: Move to a Market-Based Exchange Rate 18
D. Macro-Financial: Safeguard Financial Stability and Contain Banking Sector Risks 20
E. Structural Policies: Reforms to Support Inclusive Growth and Employment 22

OTHER SURVEILLANCE ISSUES 25

STAFF APPRAISAL 25

BOX

1. A Growth Generating Adjustment Scenario 11

FIGURES

1. Real Sector and Inflation Developments 28
2. External Sector Developments 29
3. Fiscal and Monetary 30

4. Performance of the Five Largest Banks Through end-September 2017 31
5. Diversification 32
6. Indicators of Corruption (Survey Results) 33
7. Recent Statistics on Income Inequality and Poverty 34

TABLES

1. Selected Economic and Financial Indicators, 2016–23 35
2. Balance of Payments, 2016–23 36
3. Federal Government Operations, 2016–23 37
4. Consolidated Government, 2016–23 38
5. Government Operations, 2016–23 39
6. State and Local Governments, 2016–23 40
7. Central Bank of Nigeria (CBN) Analytical Balance Sheet, 2016–23 41
8. Monetary Survey, 2016–23 42
9. Financial Soundness Indicators, 2013Q4–17Q3 43
10. Risk Assessment Matrix 44

ANNEXES

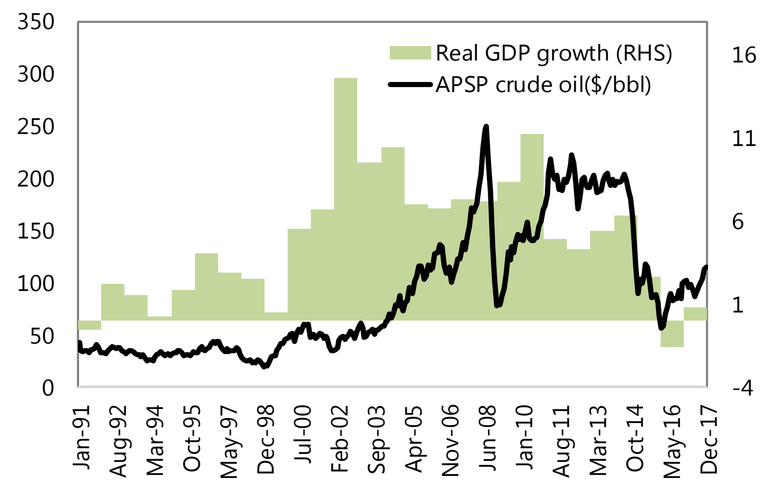
I. Status of Key Recommendations for the 2017 Article IV Consultation 47
II. Public and External Debt Sustainability 48
III. Assessing Public Investment Efficiency in Nigeria 59
IV. External Sustainability Assessment 63
V. Multiple Exchange Rate Practices (MERP)—What Does Country Experience Suggest? 67
VI. Progress on 2013 FSAP Recommendations 70

BACKGROUND: FRAGILE RECOVERY

1. **A historic terms of trade shock—exacerbated by falling oil production and inadequate policy implementation—has taken a major toll on Nigeria's economy.** Output contracted for the first time in more than two decades in 2016, while external and fiscal buffers dwindled considerably. The initial policy response—including increases in electricity and fuel prices and a more depreciated exchange rate—did not yield the expected benefits, as sabotage of oil infrastructure, foreign exchange restrictions, and delayed implementation of structural reforms worsened investor confidence, increased borrowing costs, and crowded out private sector credit.

Crude Oil Price Index and Real GDP Growth, 1991–2017

(2005=100, simple average of three spot prices and percent, annual)



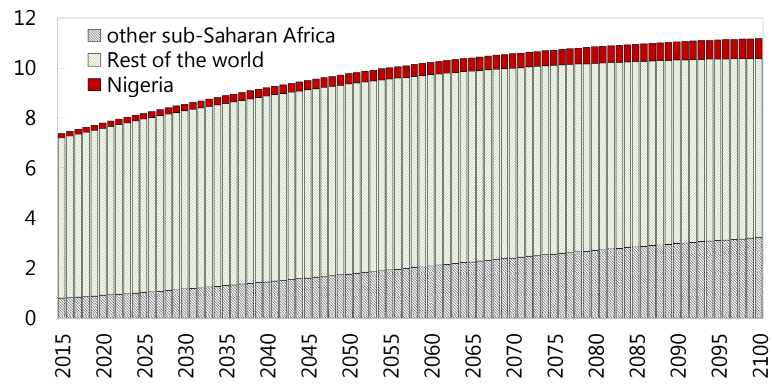
2. **New policies and recovering oil prices are supporting Nigeria's slow exit from recession.** The doubling of oil prices from their early 2016 levels, new foreign exchange (FX) measures—including the introduction of a new investor and exporter FX window (IEFX)—and a tighter monetary policy have contributed to better FX availability, a significant narrowing of the parallel market exchange rate premium, contained inflationary pressures, a soaring financial market, and reserve buffers that reached a four-year high. This performance was accompanied by positive economic growth for two consecutive quarters in 2017, propped up by recovering oil production. Reforms under the government's Economic Recovery and Growth Plan (ERGP) have resulted in significant strides in Nigeria's latest Doing Business Ranking and steps to improve governance.

3. **However, important vulnerabilities persist.** Non-oil non-agricultural economic activity has yet to pick up. Fiscal dominance—driven by weak revenue mobilization—has complicated monetary policy and increased the ratio of interest payments to Federal Government revenue to unsustainable levels. Supply factors are keeping inflation high, banking sector vulnerabilities are rising, and foreign exchange market distortions are slowing efforts to attract long-term investment and diversify the economy. A large infrastructure gap, high gender and income inequality, pervasive corruption, low financial inclusion, and the ongoing humanitarian crisis in the North East remain continuous concerns.

4. **Policy action to address current and longer-standing challenges remains urgent and should not be delayed by approaching elections and rising oil prices.** Demographic trends imply that Nigeria could be the third most populous country in the world by 2050—requiring faster growth

to improve per capita incomes and significantly reduce high unemployment and poverty. The need for strong policy implementation—particularly of the ERGP—for the most part aligned with the recommendations of the 2017 Article IV consultation (Annex I)—remains as urgent as it was in 2016–17 but could be delayed by political jockeying ahead of the 2019 elections.

Nigeria and the World: Population Projections, 2015–2100
(Billions of People)

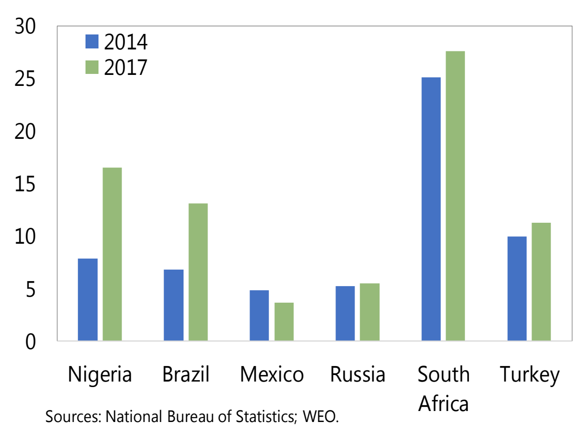


Source: United Nations Population Division.

RECENT MACRO-FINANCIAL DEVELOPMENTS

5. Growth picked up but is still lackluster. After five quarters of recession, economic activity expanded by 0.8 percent in the second quarter and by 1.4 percent y-o-y in the third quarter of 2017, driven by recovering oil production and agriculture. However, economic activity in the non-oil-non-agricultural sector—about 65 percent of the economy—contracted by 1 percent in the first three quarters of 2017 compared to the same period in the previous year. Difficulties in accessing financing amidst tight liquidity conditions in an environment of fiscal dominance, lending risk aversion, and high inflation continued to weigh on companies' performance and consumer demand. Unemployment rose to 18.8 percent in the third quarter of 2017 from 14.2 percent at end-2016. Insurgency-driven acute food insecurity in the North East remains a concern.

Unemployment Rate[1/]
(Percent, annual average)



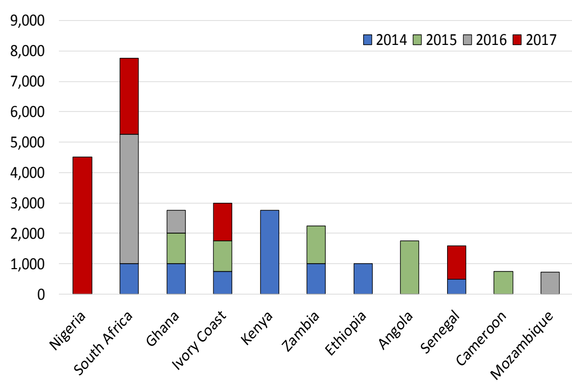
Sources: National Bureau of Statistics; WEO.
1/ The 2017 average for Nigeria is based on Q1-Q3 data.

6. Inflation is still high, despite tight monetary policy. Inflation declined to 15.4 percent y-o-y by end-December 2017, from 18½ percent at end-2016. Core inflation has remained below 13 percent since May, and m-o-m inflation has dropped to 0.6 percent—beginning to reflect tighter liquidity. However, food price inflation—representing more than 50 percent of the headline Consumer Price Index (CPI) basket—remains persistently high (above 19 percent y-o-y), partly explained by price pressures from increased exports into neighboring zone Franc countries, businesses keeping a high markup as they continue repairing their balance sheets, high local food prices due to transportation and processing costs, items banned from official FX access, and unfavorable security conditions in the North East.

7. External reserves are at a four-year high. The trade balance turned into a surplus for the first time in two years as imports compressed and recovering oil prices and production boosted exports. Sovereign and corporate bond issuances, swaps, other private and portfolio inflows—including a $3 billion Eurobond issued in November—lifted gross reserves above $39 billion (below $34 billion excluding FX swaps) in the beginning of January 2018, representing 7½ (6½) months of next year's imports of goods and services.

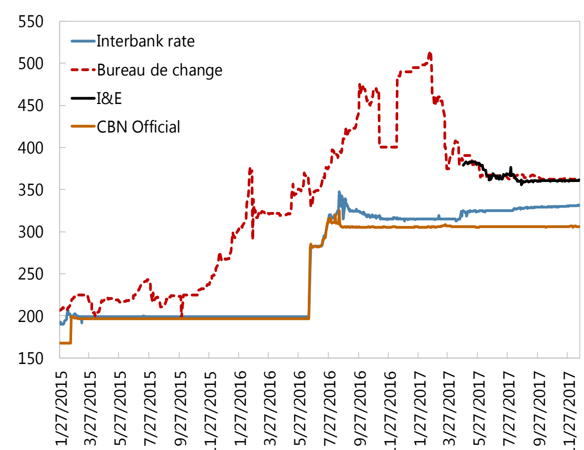
8. There is significant relief in the FX market but it remains segmented. Sustained provision of FX in various windows (over $12 billion in 2017) propped up by an improved external environment, the removal of the “60/40” rule for prioritized FX allocations for manufactured goods in February 2017, and last April's introduction of the IEFX window, have helped narrow the parallel market premium to about 20 percent against the official rate (N/$305), from a peak of 60 percent in February 2017. The ability to freely repatriate profits boosted portfolio flows as IEFX transactions attained $22 billion ($6 billion net inflows). The IEFX rate has remained relatively stable around N/$ 360 for the past eight months, benefiting from high FX inflows, as well as recent CBN purchases in the IEFX window of about $3.25 billion.

Sub-Saharan Africa Bond Issuance, 2014–17 /1
(Million U.S. dollars)

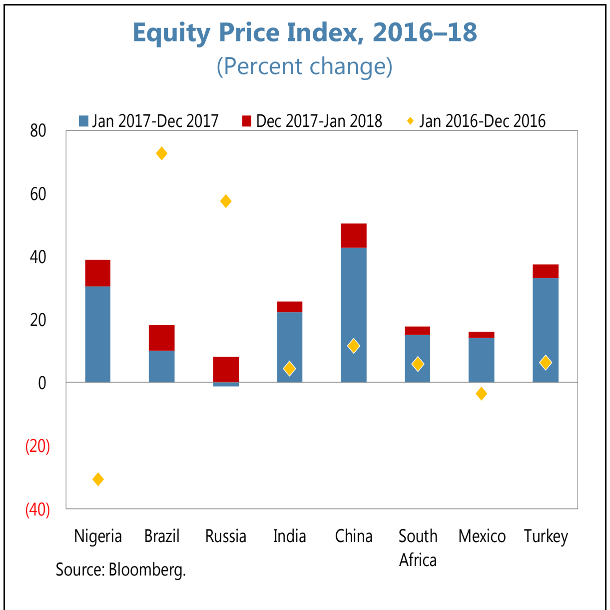


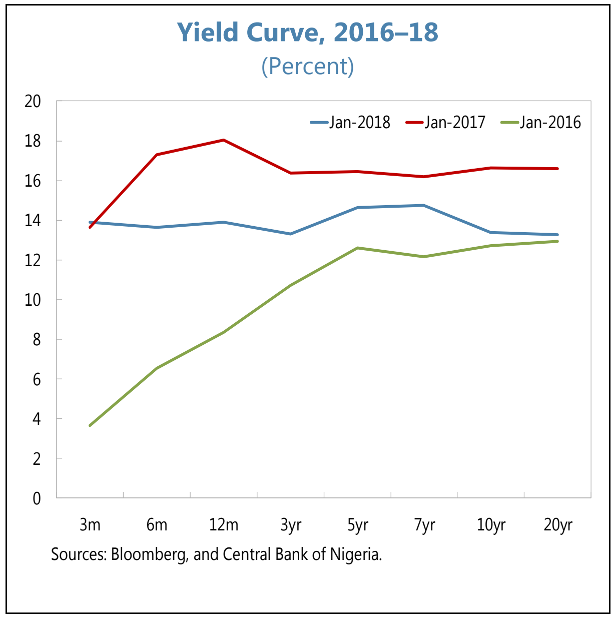
Source: Bloomberg.
1/ Excludes Issuances by Ivory Cost and South Africa in Euro, in 2017 (Euro 625mn) and 2014 (Euro 500mn), respectively.

Exchange Rates, 2015M1–2017M12
(Naira per U.S. dollar, daily)

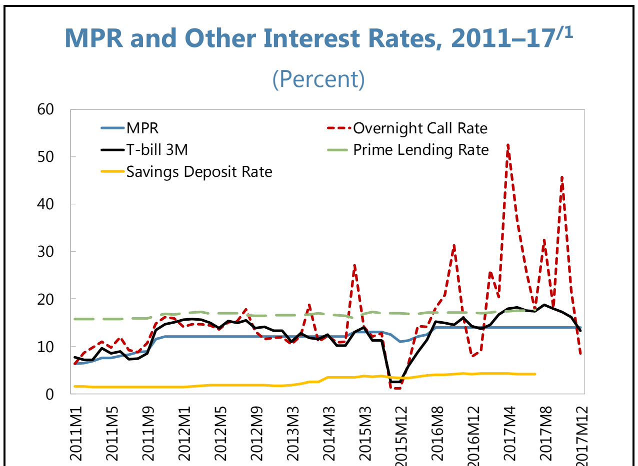


9. Financial markets have been rallying. The Nigerian Stock exchange has gained 60 percent in value from end-2016 to mid-January 2018—led primarily by financial sector stocks (+70 percent). Since the beginning of 2017, offshore investors have increased their exposure to equities and government securities by $2 billion and $6 billion, respectively, with their interest shifting from equities towards government securities. While yields continue to remain attractive, the yield curve has shifted down over the past few weeks by as much as 430 bps at the shorter end; -330 bps at longer maturities) (see Selected Issues Paper V: Explaining Government Bond Yields).





10. Monetary policy is significantly tighter. While cash reserve requirements (CRR at 22.5 percent) and the monetary policy rate (MPR) have been unchanged since March and July 2016, respectively, liquidity draining operations—notably through the sale of CBN bills—have until recently kept money market rates at, on average, twice the 14 percent MPR, and banks face a CRR of 27 percent when measured on the stock of eligible deposits due to the CBN applying reserve requirements asymmetrically.[3] Special Open Market Operations (OMOs; three in May/June and one in November—all of which were unannounced and not conducted through auctions), in part at below market rates, have also been used to remove excess liquidity, which declined by 50 percent over the past year. As a result, broad money increased by only 1.6 percent in 2017, despite some easing on liquidity in December as overnight rates declined to 4 percent (from more than 30 percent on average since the start of the year).



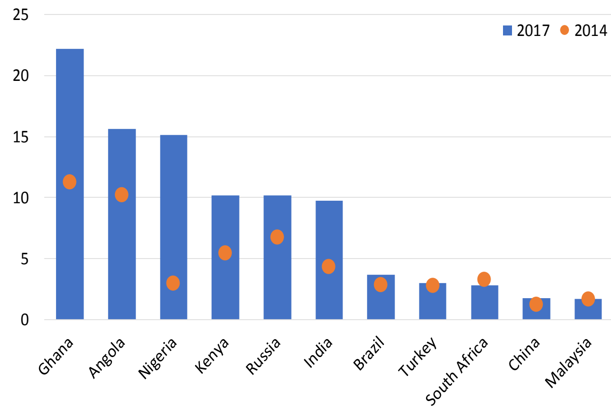
Source: Central Bank of Nigeria.
1/ The wide lending-deposit rates spread is mainly explained by high non-interest cost (please see AIV and SIP 2016 for details).

11. Overall banking system vulnerabilities persist. Banks' solvency ratios have declined from 14.8 to 10.5 percent between December 2016 and October 2017, reflecting difficulties in four small and medium-sized undercapitalized banks (including one insolvent bank); some of these banks are

[3] In practice, the CBN operates a 22.5 percent CRR based on the marginal increase in deposits while no adjustment occurs if deposits fall.

kept afloat through continuous recourse to the CBN's lending facilities. Non-performing loans (NPLs) have increased from 5 percent of total loans in June 2015 to 15.6 percent in October 2017.[4] Commercial banks managed to contain a more significant deterioration in reported asset quality through pre-emptive restructuring of loans to avoid a shift into NPL territory—particularly for loans in the oil, gas and power sector where restructured loans are reported to range between 2 and 30 percent of total loans (averaging 10 percent) for the largest banks. In contrast, higher net interest margins, mainly from high yielding government securities, improved bank profitability, with returns on equity increasing from 10 percent at end-2016 to 20.5 percent by end-September 2017.

Non-Performing Loans to Total Gross Loans/1
(Percent)



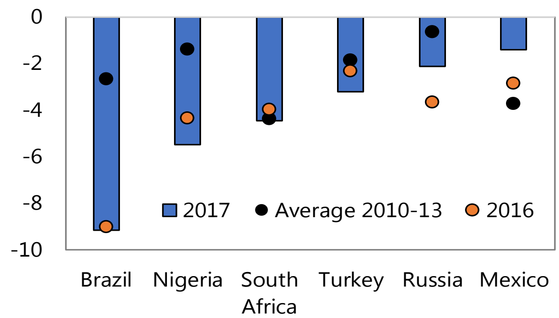
Sources: Financial Soundness Indicators, IMF Staff Report, and the authorities.
1/ Latest data for Kenya and Turkey is 2017 Q2, South Africa August 2017, and Angola September 2016.

12. A high fiscal deficit is crowding out the private sector. The provisional Federal Government (FG) overall fiscal deficit for 2017 (4.3 percent of GDP) is 50 percent higher than in 2016 given significant increases in both recurrent and investment spending (1.5 percent of GDP relative to 2016, including a doubling of capital expenditures). Revenues declined marginally, as higher oil receipts were offset by shortfalls in FG independent revenue (80 percent relative to budget). Higher financing requirements—albeit some of it increasingly met through external sources towards year-end—and increased banks' risk aversion have crowded out private sector lending (-3.3 percent year-on-year). With bond issuances keeping pressure on yields, the FG interest payments-to-FG revenue ratio rose to 63 percent to end September 2017 and is estimated at 72 percent for 2017 as a whole.

13. State and local governments balance sheets remain fragile. Backlogs in the payment of salaries, debt to contractors, slow progress in generating internal revenue (despite ongoing efforts to improve tax administration and inflows from Ministries Departments and Agencies) and 11 percent of Paris Club refunds outstanding, are weighing on the reform environment. The Budget Support Facility, intended to run out in May 2017, has continued to transfer N700 million per month per state (N126 billion between June and October 2017), even though some states have not met the associated conditions for disbursements set out in the 22 points Fiscal Sustainability Plan.

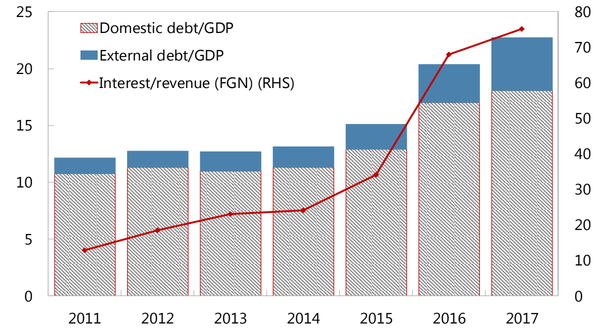
[4] About 82 percent of NPLs are fully provisioned.

Overall Fiscal Balance
(Percent of GDP)



Source: World Economic Outlook database, country authorities, and IMF staff estimates

Debt-to-GDP and Interest-to-Revenue Ratio, 2011–17
(Percent)

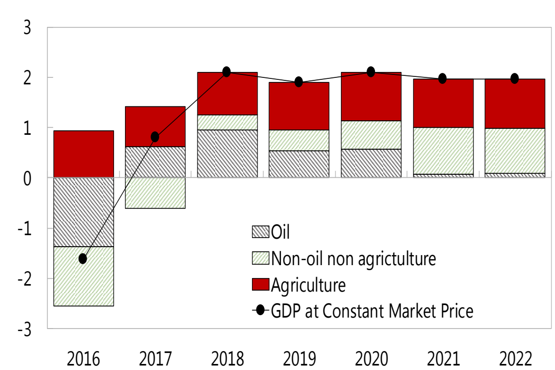


Sources: Debt Management Office; IMF staff calculations.

OUTLOOK AND RISKS

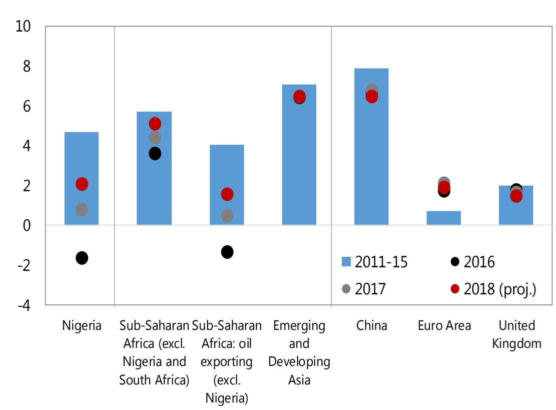
14. Higher oil prices are supporting the near-term outlook, but medium-term projections indicate a "muddle through" outcome, with continuing declines in per capita real GDP under unchanged policies. The improved outlook for oil prices is expected to provide welcome relief from pressures on the external and fiscal accounts. Under the baseline scenario, growth would pick up to 2.1 percent in 2018, from 0.8 percent in 2017, helped by the full year impact of greater FX availability and recovering oil production. Reforms in the oil sector—including new funding requirements preventing new arrears from the government's cash calls in joint ventures—would boost oil production over the medium term. Inflation would remain above the announced inflation target range following some monetary policy accommodation to support fiscal policy and as the authorities expect a faster inflation deceleration path than staff. Renewed import growth would reduce gross reserves despite continued access to international markets. After arrears clearance in 2018, the fiscal deficit would narrow, and public debt levels would remain relatively low. However, the interest payments-to-FG revenue ratio would still average 82 percent by 2023.

Nigeria: Real GDP Growth and Components
(Percent)



Sources: NBS Nigeria, and staff projections.

Nigeria: Real GDP Growth, 2011–18
(Percent)



15. An adjustment scenario—based on upfront implementation of a comprehensive policy package—would increase confidence, reduce vulnerabilities, and boost growth. Frontloading non-oil revenue mobilization measures while increasing public investment, accompanied by tight monetary policy in the short term and a unified and more flexible exchange rate, would help boost investor confidence, raise growth, and reduce inflation to single digits (Box 1). Reduced government financing needs—reinforced through increased capital buffers in the banking sector—would increase lending to the private sector. Structural measures to address large infrastructure gaps and increase productivity would support export diversification, raising non-oil growth to 5 percent in the medium term. Reforms in the oil sector would restore oil production to 2010 levels.

Text Table 1. Baseline vs. Adjustment Scenario

	2017	2018	2019	2020	2021	2022	2023	2018	2019	2020	2021	2022	2023
	Baseline							Adjustment Scenario					
National income and prices	(Annual percentage change, unless otherwise specified)												
Real GDP (at 2010 market prices)	0.8	2.1	1.9	2.1	2.0	2.0	2.0	3.0	3.9	4.2	4.6	4.6	4.6
Non-oil GDP	0.2	1.3	1.5	1.7	2.1	2.1	2.1	2.2	3.2	4.1	4.6	5.0	5.0
Non-oil non-agricultural GDP	-0.9	0.4	0.6	0.9	1.5	1.4	1.4	1.7	2.8	4.0	4.6	5.2	5.2
Production of crude oil (million barrels per day)	1.9	2.1	2.2	2.3	2.3	2.3	2.3	2.1	2.3	2.4	2.5	2.5	2.5
Consumer price index (end of period)	15.4	14.5	16.6	14.0	14.0	14.0	14.0	14.0	10.0	8.0	7.0	7.0	7.0
Investment and savings	(Percent of GDP)												
Gross national savings	14.9	13.3	13.6	14.0	14.3	14.0	13.9	16.0	16.5	18.0	17.9	18.8	20.0
Investment	12.9	13.3	13.4	13.6	13.9	13.8	13.8	14.2	15.1	16.1	17.1	18.0	19.2
Public	2.9	2.7	2.8	2.7	2.6	2.6	2.6	3.1	3.7	4.2	4.5	5.0	5.7
Private	10.0	10.5	10.6	10.9	11.2	11.2	11.1	11.1	11.4	12.0	12.6	13.0	13.5
Current account balance	2.0	0.1	0.2	0.5	0.5	0.2	0.1	1.8	1.4	1.9	0.9	0.8	0.8
Consolidated government operations	(Percent of GDP)												
Total revenues and grants	5.7	7.4	7.1	7.1	6.7	6.8	7.0	8.0	9.4	11.4	12.6	14.3	16.3
Of which: oil and gas revenue	2.5	3.7	3.3	3.1	2.7	2.7	2.6	3.7	3.6	3.9	3.9	4.1	4.4
Total expenditure and net lending	11.2	11.9	11.6	11.0	10.8	10.7	10.9	12.0	12.4	13.3	13.7	14.4	15.4
Capital Expenditure	2.9	2.7	2.8	2.7	2.6	2.6	2.6	3.1	3.7	4.2	4.5	5.0	5.7
Overall balance	-5.5	-4.5	-4.4	-4.0	-4.1	-3.9	-3.9	-3.9	-3.0	-1.9	-1.1	-0.1	0.9
Non-oil primary balance (percent of non-oil GDP)	-7.0	-7.6	-6.7	-5.8	-5.3	-4.9	-4.8	-7.0	-5.6	-4.8	-3.8	-3.1	-2.5
Non-oil revenue (percent of non-oil GDP)	3.4	3.9	4.0	4.1	4.2	4.3	4.5	4.6	6.1	8.0	9.4	10.9	12.6
Public gross debt (percent of GDP)	22.3	25.3	26.0	26.0	26.4	26.6	26.8	24.7	24.7	24.0	22.8	20.8	17.7
FGN interest payments (percent of FGN revenue)	71.9	59.7	68.0	73.6	80.0	81.8	82.3	52.0	49.4	40.6	34.3	28.3	22.0
Money and credit	(Change in percent of broad money at the beginning of the period, unless otherwise specified)												
Broad money (percent change; end of period)	1.6	14.0	17.9	18.6	18.4	18.2	16.9	11.3	9.0	12.3	11.8	11.7	11.8
Net foreign assets	27.4	1.5	-2.8	-0.3	-0.6	-0.5	0.3	12.4	10.2	13.3	6.3	6.5	8.1
Net domestic assets	-25.9	12.5	20.7	18.9	19.0	18.7	16.6	-1.1	-1.2	-1.0	5.5	5.2	3.7
Credit to the private sector (y-o-y,%)	-3.3	1.0	2.1	2.3	2.4	2.6	2.9	7.9	7.2	11.3	12.6	13.2	13.7
External sector	(Annual percentage change, unless otherwise specified)												
Price of Nigerian oil (US dollar per barrel)	54.4	67.8	63.9	61.1	59.6	59.1	59.0	67.8	63.9	61.1	59.6	59.1	59.0
Gross international reserves (US$ billions)	39.2	39.2	36.6	35.6	35.4	34.4	33.6	47.1	50.6	56.9	59.5	62.1	65.6
(equivalent months of imports of G&Ss)	7.3	7.1	6.2	6.0	5.7	5.4	4.8	8.1	8.0	8.4	8.4	8.5	8.4

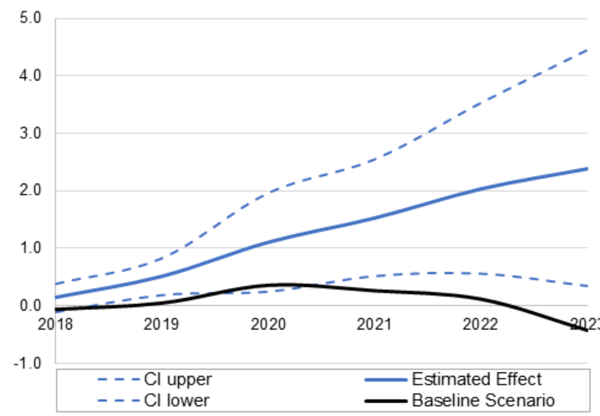
Sources: Nigerian authorities; and IMF staff estimates and projections.

Box 1. Nigeria: A Growth Generating Adjustment Scenario

The adjustment scenario is predicated on upfront implementation of a coordinated, and comprehensive package of policies that improves confidence and provides the basis for a private sector supply response.

A **growth-friendly fiscal consolidation**— driven by the frontloading of non-oil revenue mobilization measures yielding an additional 8.3 percent of GDP by 2023 while increasing public investment—would raise growth and reduce the ratio of interest payments to FG revenue towards more sustainable levels. As an illustration, leveraging the analysis in the October 2017 sub-Saharan Africa Regional Economic Outlook (REO),[1] Figure 1 shows the cumulative growth impact for up to five years under the fiscal adjustment scenario. Other things being equal, future increases in public expenditure and tax revenue over the period 2018–23 result in growth increasing by about one percentage point within two years, and two percentage points in the medium term.

Figure 1. Adjustment Scenario: Cumulative Effect on Growth after the 2018–23 Changes in Public Investment and Public Consumption, and Tax Revenue



Note: The shocks correspond to increases in the ratios of real public investment, public consumption, and tax revenue to GDP by an average of 0.7, 0.6, and 1.5 percentage points per year, respectively, over 2018-2013.

Monetary policy would be tightened in the short term to lower inflation to the CBN target range of 6–9 percent and loosened in the medium term once inflation has stabilized.

A **unified and market-determined exchange** rate— accompanied by the immediate removal of FX restrictions and a tight monetary policy— would help boost investor confidence and further increase external buffers.

Higher capital buffers in the **banking sector**—supported by reduced government financing needs—would permit higher lending to the private sector albeit at higher rates. Weak banks are expected to acquire new capital, including through mergers and acquisition. Strengthened prudential standards and banking supervision would help safeguard the stability of the financial sector.

Structural Reforms to address large infrastructure gaps and increase productivity would support export diversification. Reforms in the oil sector would restore oil production to pre-2010 levels (2.5 mbpd).

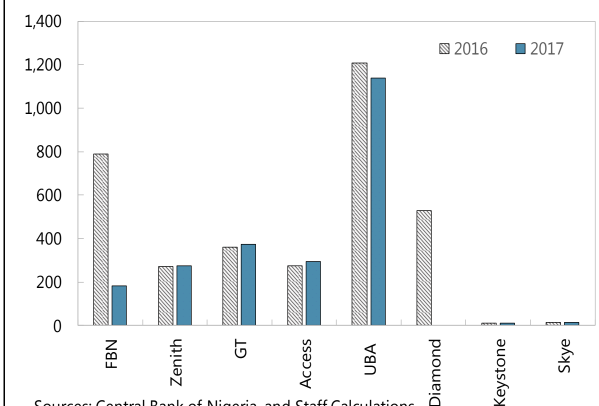
To mitigate the impact of the reform package on the most vulnerable, **transfers** from existing social safety nets would be expanded to 400 billion Naira annually (see SIP).

1/ The analysis in the REO uses a technique to identify the causal effects of unanticipated changes in fiscal policy on output growth and traces the short- and medium-term responses of output to the unanticipated changes in different fiscal variables for up to five periods ahead.

16. Risks are mostly balanced. Lower oil prices and tighter external market conditions are the main external downside risks (Table 10). Domestic risks include heightened security issues, delayed fiscal policy response resulting in an unsustainable interest-to-revenue ratio, banking sector vulnerabilities constraining a pick-up in private sector lending, and weak implementation of structural reforms. Stress scenarios highlight sensitivity of external and public debt, particularly to oil exports and naira depreciation (Annex II). A further or sustained uptick in international oil prices and/or faster than expected implementation of infrastructure projects are upside risks, with positive links to reducing non-performing loans and increasing non-oil growth.

17. Nigerian developments have a strong impact on neighboring countries. With Nigeria accounting for an estimated 70 percent of ECOWAS exports, the weaker naira impacts partner country exports negatively. FX restrictions have led to increasing food imports in neighboring countries, reportedly smuggled through porous borders. Spillover risk from the banking sector—measured through net claims to subsidiaries—has declined by 34 percent over the past year.

Banks' Net Exposure to Sub-Saharan Africa [1]
(Billions of Naira)



Sources: Central Bank of Nigeria, and Staff Calculations

1/ Net exposure represents loans less deposits. On November 8, 2017, Diamond Bank sold all its SSA subsidiaries, bringing its net exposure to zero in 2017.

18. Authorities' views. The authorities project that the proposed reforms under their ERGP—which are for the most part aligned with those discussed in staff's adjustment scenario—would increase growth to around 3.5 percent in 2018 and reduce inflation rates to lower double digit rates. Stronger execution of the capital budget, structural reforms that would boost private sector investment, and higher oil production would raise growth to 7 percent in the medium term. On risks, the authorities are also of the view that the ERGP will result in more robust policy implementation, including through stronger revenue mobilization, which would help reduce the interest-payments to revenue ratio to 30 percent by 2022.

POLICY DISCUSSIONS: URGENT REFORMS FOR MACROECONOMIC STABILITY AND GROWTH

19. Policy action based on a comprehensive package of measures remains urgent. Discussions focused on measures to: (i) initiate a growth-friendly fiscal consolidation; (ii) establish a more transparent monetary policy to reduce inflation to single digits; (iii) move towards a market-determined exchange rate; (iv) properly assess and contain banking sector risks; and (v) advance decisively on structural reforms. Actions in all these areas would lay the foundation for a diversified private-sector led economy and help achieve growth rates that can make a significant dent in reducing poverty and unemployment.

A. Fiscal Policy: Reduce Oil Revenue Dependence and Create Space for the Private Sector

20. The draft 2018 budget—which is expected to be approved by Parliament in March 2018—is targeting a significant fiscal consolidation, with the FG's overall fiscal deficit declining from 4.3 percent of GDP in 2017 to 1.4 percent of GDP in 2018. This consolidation relies on tripling non-oil revenue based on improved compliance and enforcement, higher excises (0.1 percent of GDP), an increase in public enterprises' (SOEs') surplus revenue (0.4 percent of GDP), a review of the fiscal regime for oil Production Sharing Contracts (0.2 percent of GDP), and divestment of oil assets (0.5 percent of GDP of privatization proceeds). Budgeted spending would remain relatively flat, with savings in recurrent spending offset by a doubling of the capital budget (text table).

Nigeria: Federal Government, 2017–18

(Percent of GDP)

	2017	2018	
	Proj.	Budget	Proj.
Total revenue and grants	2.0	4.6	2.4
Oil revenue	0.9	1.8	1.1
Non-oil revenue	1.1	2.7	1.1
Import and excise duties	0.2	0.3	0.3
Companies' income tax	0.5	0.6	0.5
Value-added tax	0.1	0.1	0.1
Federal government independent revenue /1	0.2	1.0	0.2
Other revenue /2		0.8	
Grants		0.1	0.1
Total expenditure	6.3	6.0	6.0
Recurrent expenditure	5.3	4.3	5.0
Personnel and pensions	1.9	1.7	1.7
Overheads and other SWV (incl Presidential Amnesty)	0.4	0.3	0.3
Interest payment	1.4	1.4	1.4
Transfers and other expenditure /3	0.6	1.0	1.2
o//w statutory transfers and special interventions	0.4	0.6	0.5
o/w SWV Power Sector Reform Programme	0.3	0.1	0.7
Arrears clearance	0.0		0.2
Net transfers to SLGs /4	0.9		0.2
Capital expenditure	1.0	1.7	1.0
Overall balance	-4.3	-1.4	-3.6
Financing			
Domestic	0.5	0.6	2.9
External	1.8	0.6	0.7
Privatization proceeds, including oil assets disposal	0.0	0.2	0.1
Memorandum items:			
Oil price (US$/bbl)	54.4	47.0	67.8
Interest payments (percent of FGN revenue)	71.9	30.5	56.2

1/ FG independent revenue includes cash asset recoveries and provisions for foreign debt.

2/ Other revenue under 2018 Budget includes: mineral revenue, amnesty income, balances in special accounts, and restructuring of JV equity. For staff projections, amnesty income is incorporated in income tax revenue, while restructuring of JV equity is treated as privatization proceed (assumed to materialize after 2018).

3/ Other expenditure under Budget includes special interventions and sinking fund. The latter is treated as financing item and thus not included in other expenditure under Staff projection.

4/ Net transfers to SLGs include Paris Club refunds, Budget Support Facility, and on-lending by the FGN.

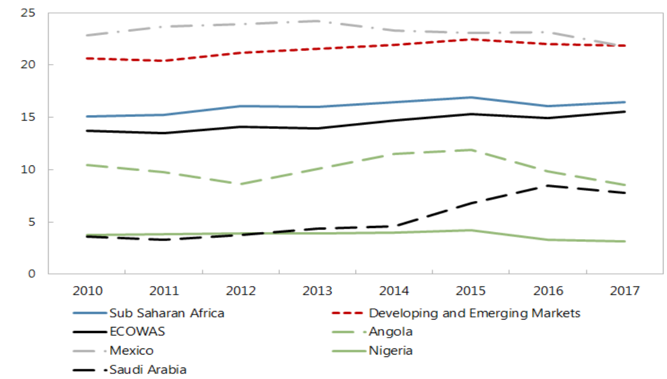
Sources: Nigerian authorities and IMFstaff estimates and projections.

21. However, even with projected oil prices 30 percent higher than budgeted, the 2018 budget deficit could turn out to be at least twice as high. Staff estimates an overall budget deficit of 3.6 percent of GDP in 2018 after accounting for: (i) unbudgeted spending pressures, such as pension and salary arrears repayment (0.2 percent of GDP) and the full cost of electricity subsidies and past historical deficits (0.7 percent of GDP) associated with the power sector reform; and (ii) more conservative projected yields on tax collection and oil revenue measures (including divestment from oil assets) that are likely to take time to materialize. Net oil revenue gains available to the FG would also be limited by the national oil company distributing fuel products at a loss (retail prices are currently 15 to 20 percent lower than the implied market price) and some savings accruing to the Excess Crude Oil Account. The likely under-execution of the capital budget is not expected to offset the spending overruns and revenue shortfalls.

22. Strengthening non-oil revenue mobilization to reduce financing constraints and avoid crowding out of private sector credit should anchor fiscal policy over the medium term. This anchor would require moving towards reducing the non-oil primary deficit below 3 percent of non-oil GDP to ensure sustainability in case of an oil price collapse. This would be achieved by increasing the non-oil revenue-to-GDP ratio from 3.2 percent in 2017 to close to 13 percent by 2023, with State and Local Governments (SLG) contributing through automatic revenue increases linked to revenue sharing arrangements and higher mobilization of internally generated revenue (e.g. property tax). These efforts—which are consistent with the authorities' plans—would allow Nigeria to catch up with its peers, relative to which it has one of the lowest revenue ratios (text chart). As a result, the FG interest payments-to-revenue ratio would decrease towards the authorities' 30 percent objective by 2022. Priority social cash transfers and public investment would be increased to 0.2 and close to 6 percent of GDP, respectively, over the medium term. Supporting the adjustment would require:

Nigeria and Comparators: Non-Oil Revenue, 2000–17

(Percent of GDP)



Source: World Economic Outlook Database.

- **Mobilizing non-oil revenue through a two-pronged strategy** (Selected Issues Paper I: Mobilizing Tax Revenues in Nigeria). A comprehensive tax reform—guided by a strengthened tax policy unit, consistent with IMF technical assistance—could increase revenues by 1.1 percent of GDP within a year and 8.3 percent of GDP by 2023, respectively—text table). Main planks of the reform would include:

  - **Tax administration measures to double the compliance rate to at least 50 percent**. Steps taken to increase tax audits, use e-filing, conduct data matching exercises to close collection loopholes, strengthen tax enforcement, and combat corruption in tax offices are welcome. A stronger focus on large taxpayers would help sustain revenue collection and move beyond reliance on one-off improvements, such as last July's nine-month tax

Nigeria: Tax Policy and Administration Revenue Yield by Measure, 2018–23

(Gains compared to 2017)

(Percent of GDP)	2018	2018-23
Tax policy measures		
VAT (increase compliance to 65% by 2022)	0.2	3.4
VAT (reform base, remove exemptions, and increase rate to 10 percent) /1	0.2	
CIT (close loopholes and exemptions) /2	0.3	2.1
Excises and levies (rate increase/compliance) /3	0.3	1.6
Removal of customs duty waivers	0.07	0.2
FGN Internally Generated Revenue (compliance)	0.007	0.4
Property tax	-	0.5
Total	**1.0**	**8.3**

(in billion Naira)	2018
Tax administration measures	
Data matching exercise	[tbd]
Recovery of tax arrears	150
Expand tax filing base by making use of 3rd party information	[tbd]
Customs (better targeting/enforcement)	15
Total	**165**
in percent of GDP	**0.1**

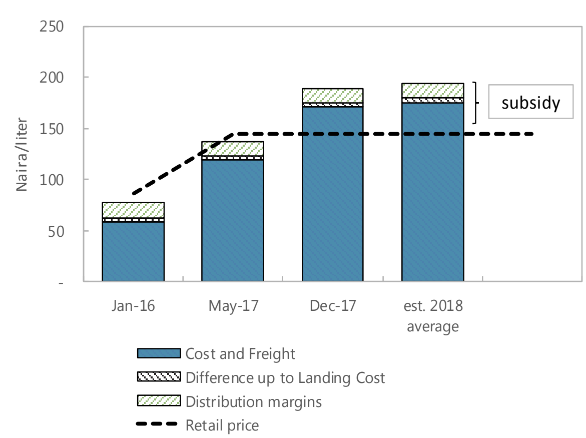
1/ Mid-year implementation
2/ Includes yield from education tax
3/ Tobacco and alcohol indirect taxes, and telecom airtime fees.
Source: IMF staff calculations

amnesty. The upcoming Tax Administration Diagnostic Assessment Tool (TADAT) exercise will establish performance benchmarks necessary to anchor comprehensive tax administration reform.

- **Tax policy**. Staff welcomes recent proposals to increase excises on tobacco and alcohol, review stamp duties, and introduce a registration threshold for VAT. Additional reforms needed at the FG level would imply: (i) broadening the pool of products subject to excises; (ii) undertaking a comprehensive reform of the VAT regime—including revising the design of the tax to allow input credits on capital goods, broadening the base by removing exemptions, and increasing the VAT rate; and (iii) rationalizing tax incentives and exemptions. The publication of tax expenditures with the annual budget will help identify and quantify revenue foregone from incentives while strengthening transparency.

- **Improving the transparency of government operations in the oil and energy sectors**. Staff welcomes the recent adoption of the longstanding Petroleum Industry Governance Bill (PIGB)—a bill pending since 2008, which will create new regulatory independent agencies and allow the national oil company to be run on a commercial basis. To support this aim, and with import fuel prices rising relative to the retail structure established in 2016 (text chart), staff recommends a full implementation of the fuel price adjustment mechanism to avoid further losses accumulating at the national oil company for refined product retail sales. Such losses are expected to lower the operating surplus to the federation account in 2018 by an estimated 0.45 percent of GDP, and could put pressure on the national oil company's ability to fund JV commitments. Staff also recommends that the full costs of the power sector reform be budgeted (see Section E).

Premium Motor Spirit (PMS) Pricing, 2016–18
(Formula and implied subsidy)



Sources: IMF staff estimates, PPRA, NNPC, NBS

- **Adopting a draft petroleum fiscal legislation that balances revenue mobilization aims with the viability of new investments.** Staff supports the authorities' objective to ensure that the government take from oil exploration is appropriate. To that end, it welcomes the minimum royalty payment on all oil and gas production but notes that the proposed combination of price-based and production-based royalties is overly complicated and risks posing an unnecessary barrier to investment. Some proposals to be considered could include: (i) avoiding a price-based royalty while having the Nigerian Hydrocarbon Tax become the main fiscal tool to capture mineral rents; and (ii) modifying the proposed tax inversion penalty to soften the adverse impact on investment and marginal production.

- **Continuing to rationalize current expenditures to make room for much needed capital spending to close the infrastructure gap.** To this end, overhead and personnel costs should be contained—including through cost auditing, full use of the whistleblower policy, and continuous payroll audit—as well as resisting pressures to increase minimum wages or deviate from approved budget appropriations.

- **Strengthening public financial management and explore savings from public investment efficiency (Annex III).** This should happen through closer coordination of central financial agencies, stronger expenditure controls and auditing functions to avoid arrears accumulation, an efficient procurement process that includes rolling out e-procurement and open contracting, strengthening multi-year budgeting, and the creation of a single SOE oversight unit to monitor fiscal risks, which could be presented in the budget as part of a fiscal risk statement.

- **Improving debt management.** The strategy to substitute a quarter of outstanding T-Bills with Eurobonds—$3 billion, with expected savings of N60 to N70 billion in 2017/2018—and to increase FX borrowing (Annex II), is welcome, in view of the low external debt-to-GDP ratio, negligible external interest payments, lengthened maturity, and the fiscal space created for private sector credit. Looking ahead, the long-term objective of achieving an external-to domestic-debt ratio of 40 percent may need to be reviewed in view of lumpy redemptions in the future and the doubling of the exchange rate risk.

- **Clearing domestic arrears.** Staff welcomes the authorities' plan to clear the outstanding stock of arrears (N2.7 trillion). It recommends speedy parliamentary approval of the Bill that would allow cash payments in 2018–20 for salary/pension arrears and the issuance of ten-year promissory notes for contractors' arrears.

- **Strengthening coordination between cash management, debt management and central bank operations.** CBN's mopping-up operations and T-bill issuances should be more closely coordinated. Staff welcomes the Ministry of Finance's actions of moving funds away from government agencies that are not immediately using the cash released to them. Staff recommends a more effective use of the Treasury Single Account to ensure that overdrafts from the CBN are avoided while large idle government cash deposits are available (N6 trillion by end-2017). Additionally, through better longer-term government cash flow forecasts, cash management operations can be supported through adjustments in T-bill issuances to limit unremunerated cash balances at the central bank.

- **Increasing SLG monitoring, including to reduce arrears accumulation and increase internally generated revenue.** Ensuring strict compliance with the 22-point Fiscal Sustainability Plan—including on fiscal reporting—prior to states receiving any additional budget support would help maintain budget discipline and better monitor risks from SLGs. Additional internal revenue could be generated from tax reforms, such as the introduction of a property tax and an overhaul of the personal income tax, reinforced by improvements in compliance.

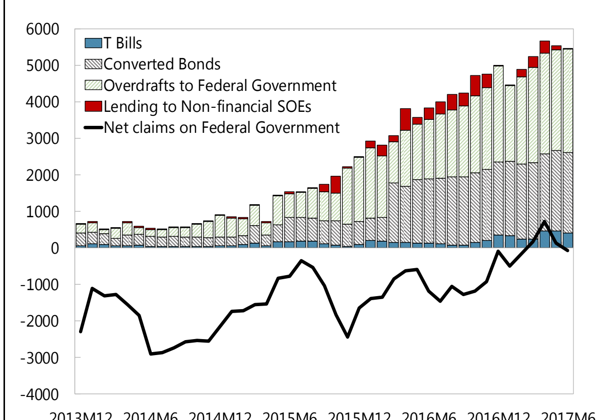
23. Social safety nets should be expanded and transfers scaled up to mitigate the impact of fiscal reforms on the most vulnerable. Plans to expand the national cash transfer program are welcome and should be accelerated. As the proposed revenue reforms under the adjustment scenario will have an impact on households' purchasing power and thus could increase poverty (albeit expected to decrease inequality), existing cash transfers would also be used to target the poorest households as a mitigating measure. An illustrative scenario (doubling the VAT rate, increasing compliance to 70 percent) shows that cash transfers of about N400 billion would be needed to keep the poverty gap unchanged relative to current levels. As social safety nets are likely not fully scalable in the short term, complementary measures (lifeline tariff; increase in health and education spending) will be needed as part of the reform package (see Selected Issues Paper II: The Distributional Impact of Fiscal Reforms in Nigeria).

24. Authorities' views. The government agrees with the proposed structural fiscal reforms and is determined to increase non-oil revenue—a key priority under the ERGP. The immediate focus is on improving collection through tax administration efforts, including through widening the base by implementing the Voluntary Asset Income Declaration Scheme, expected to yield $1 billion by end-March 2018. The government is also presenting to Parliament a Finance Bill—comprising increases in excises, reform of the VAT (e.g., introducing a VAT registration threshold and removing exemptions) and stamp duties—which will help increase revenues from 2018 onwards. The oil asset divestment strategy, including possible privatization of the Nigeria Petroleum Development Company's assets, is in progress and would yield proceeds in 2018. An additional focus would be on auditing the operations of the national oil company (NNPC) to ensure there is a full understanding of its arrears and oil revenue remitted. The authorities do not intend to reintroduce fuel subsidy provisions into the budget.

B. Monetary Policy: A Tight Stance and Stronger Framework

25. Current macroeconomic challenges require keeping monetary policy tight and strengthening the policy framework. The significant reduction in broad money—the CBN's intermediate target—is welcome. Mopping up operations should continue to support the announced objective of lowering inflation closer to the CBN's 6 to 9 percent target range through specific policy actions that are clearly communicated. However, allowing money market rates to trade consistently above the MPR—combined with CBN development finance interventions aimed at supporting growth—hinders the signaling impact of monetary policy and the effectiveness of the communications of the Monetary Policy Committee. CBN's direct lending to the government through overdrafts is unnecessary, particularly when the government is a net creditor, and it further weakens monetary policy transmission.

CBN Lending, 2013–17
(Billions of Naira)



Source: Central Bank of Nigeria.

26. Increasing the MPR to positive real levels would more transparently reflect CBN intentions, help anchor inflation expectations, and signal forward-looking policy. If a sudden increase in MPR is judged difficult in the short term, a symmetrical interest rate corridor (e.g. +/-5 percent to replace the current +2/-5 percent corridor) could temporarily accommodate a gradual adjustment of market rates to the upper band of the corridor. A narrower corridor could be restored once money market rates become better aligned to MPR movements (see Selected Issues Paper VI: Nigeria's Monetary Policy Framework).

27. CBN operations should be clarified and direct interventions in the economy discontinued by:

- **More transparent operations**. Unannounced special OMOs, which have been done at slightly below market rates and not conducted through auctions, should be discontinued as they distort banks' liquidity management practices and introduce uncertainty to their lending behavior. Adopting a higher and symmetrically applied CRR—based on an average stock of deposits—could achieve the same liquidity draining objective sought by the CBN.

- **Improving the communication policy of the CBN** through more discussion of forward looking indicators. It will also be important to reinforce price stability as the key CBN mandate and avoid confusing signals implied by the pursuit of multiple objectives. The confirmation of the newly appointed Directors of the CBN Board and members of the MPC would also be important signals for CBN independence.

- **Ending development financing interventions**, which should be undertaken by other public institutions or through industrial policy transparently costed in the budget. The use of overdrafts should be restricted to unplanned and unexpected cash shortfalls.

28. Authorities' views. Monetary policy tightening has been directed at reducing pressures on the exchange rate, which they consider a key channel for controlling inflation. An increase in the MPR is not needed and the monetary stance could be loosened if gross reserve accumulation continues and headline inflation drops below 12 percent. They believe their practice of applying CRR on deposit flows—as opposed to eligible stocks—has merits for Nigeria, which suffers from structural surplus liquidity. They agreed that some current CBN practices lie outside its core mandate, but highlighted such policies were necessary to boost agricultural growth, spur bank lending into priority sectors, and control foreign exchange market pressures.

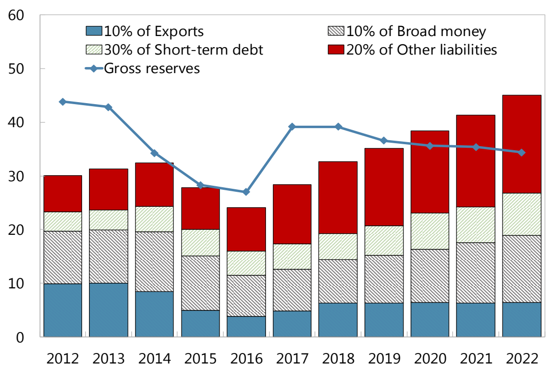
C. Exchange Rate Policy: Move to a Market-Based Exchange Rate

29. The ongoing convergence of exchange rate windows is welcome, but a multitude of exchange rates remain. These include: (i) the CBN official window (N/$305, mainly for petroleum imports and government expenditures); (ii) a retail/wholesale window (N/$325–330, accounting for about 30 percent of non-official transactions, taking place mostly at the 30 to 60-day forward rate); and (iii) the IEFX window (about N/$360 since September, reportedly, accounting for close to 70 percent of non-official transactions). The CBN also sells FX for invisible transactions, Bureau de

Changes and SMEs separately (at about N/$360–365), while some government transactions (e.g., FAAC allocation) occur at a rate closer to N/$320–325. Nigeria maintains exchange restrictions and multiple currency practices subject to Fund approval under Article VIII, Section 2(a) and 3 (see Informational Annex).

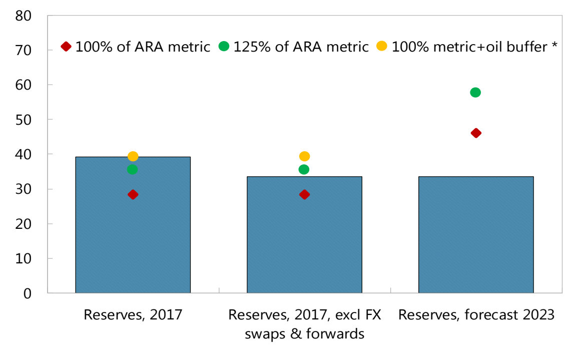
30. Staff's External Balance Assessment suggests that Nigeria's external position was moderately weaker in 2017 than the level consistent with its medium-term fundamentals and desirable policies. The exchange rate misalignment was found to be negligible using current account models while the real effective exchange rate model implies a real overvaluation of about 12 percent relative to the official exchange rate of N/$305 in 2017 (Annex IV).

Contributions to Reserve Adequacy Metric
(Billion U.S. dollars)



Source: IMF staff calculations.

Reserve Adequacy Measures
(Billion U.S. dollars)



* Note: Oil price gap multiplied by oil exports, following 2016 ARA paper.
Sources: Central Bank of Nigeria; and IMF staff estimates.

Text Table 2. Current Account and Real Exchange Rate Assessment Results

	Current Account Regressions		External Sustainability	Equilibrium RER
	EBA-lite[1]	EBA-Oil[2]	Approach[1]	Regression[1]
CA/REER reference[3]	2.0	2.0	0.1	4.7
CA/REER norm	2.2	1.4	0.2	4.5
Current account gap	-0.1	0.6	0.0	--
o/w: Policy gap	-1.3	-1.5	--	2.0
Residual	1.2	2.1		9.9
Real exchange rate gap[4]	1.1	-5.3	0.2	11.9

Source: IMF staff estimates.
[1] Based on External Balance Assessment (EBA) methodology (IMF WP 13/272) and EBA-Lite Methodological Note 2016.
[2] Based on Behar, Alberto, and Armand Fouejieu, 2016, "External Adjustment in Oil Exporters: The Role of Fiscal Policy and the Exchange Rate," IMF Working Paper 16/107.
[3] For CA regression, 2017 CA value. For ES approach, 2023 CA value. For REER regression, 2017 REER value.
[4] Positive numbers indicate overvaluation. Elasticity of current account to real exchange rate gap is 0.11.

31. Moving towards a unified exchange rate should be pursued as soon as possible. Staff recommends:

- **Removing multiple currency practices and unifying the exchange rate as quickly as possible (Annex V and Informational Annex).** Exchange rate unification for all transactions and interventions should be supported by sound macroeconomic and structural policies. The unification would increase confidence, remove market distortions, and increase transparency, including in public financial reporting.

- **Immediately removing restrictions on FX access for 40 categories of goods and existing capital flow restrictions.** The removal would help eliminate the parallel market premium in a sustainable manner, and could encourage investments in certain industries, in particular, where banned items are used as intermediate goods. Distortions also arise from capital flow management (CFM) measures—such as payment limits on naira-denominated credit cards for overseas transactions, a repatriation/surrender requirement on export proceeds, and the prohibition of FX purchases in the official market for foreign currency bond and share investments—which should be removed in line with the Fund's institutional view,[5] and in view of the substantial room available for implementing warranted changes in macroeconomic policies.

- **Strengthening external buffers to reduce potential risks from capital reversals and uncertainties surrounding oil prices.** At end-December 2017, gross reserves of $39 billion would represent about 100 percent of the IMF reserve adequacy metric, adjusted for an oil buffer—which is based on plausible risks to exports, short-term debt, portfolio flows and capital flight—compared to a recommended level of 100 to 150 percent according to this metric.

32. Authorities' views. A move to a unified exchange rate is part of their strategy as underscored in the ERGP. The two main windows are already converging as forward transactions in the wholesale/retail window are effectively pushing the exchange rate closer to the IEFX rate. The CBN noted that there is sufficient liquidity in the IEFX window, with no backlog demand, and operators who want a more appreciated rate can wait for the FX in the SMIS retail and wholesale windows. The restriction on FX for 40 categories of products has been successful in increasing competitiveness of targeted local industries and reducing imports. They consider such restrictions to be temporary and still plan to remove them once reserve buffers reach more comfortable levels. They are not requesting Board approval of the restrictions and MCPs. The authorities agreed with staff on the need to accumulate international buffers to provide additional margins for FX interventions should BOP pressures arise, particularly in case of a sudden stop. Finally, the authorities remain skeptical about the use of the 2 percent rule to determine MCPs from spot transactions, which they believe, is arbitrary.

D. Macro-Financial: Safeguard Financial Stability and Contain Banking Sector Risks

33. Banking system resilience needs to be strengthened to support growth. The banking system's previously healthy capital buffers have dwindled over the past two years, with the capital

[5] See IMF, 2012, *The Liberalization and Management of Capital Flows: An Institutional View*.

adequacy ratio (CAR) remaining marginally above the Basel II regulatory 8 percent ratio albeit higher for large banks (Figure 4). Furthermore, loan restructuring may mask an underlying deterioration in asset quality. Notwithstanding the recent signs of risk appetite returning, capital market funding has not met the gap left by banks' retrenching their loan book in favor of liquid assets. Attractive returns on government securities have helped banks maintain healthy profits and freed up scarce capital, while higher oil prices may alleviate lingering concerns about potential further credit loss (the oil and gas sector accounts for 45 percent of the loan book). However, falling bond yields may reduce profits, with additional pressures arising from the planned move to IFRS 9 and to an exchange rate more reflective of transactions undertaken by banks (i.e., a rate closer to N/$330–360) could further reduce solvency ratios by an additional 2 to 3 percentage points.[6] Staff recommends:

- **Requiring the ten largest banks to conduct an Asset Quality Review (AQR)** through a recognized international auditing firm to help assess the true nature of asset quality and identify any potential capital need. This review should be linked to scenario stress testing on the 10 largest banks (95 percent of assets).

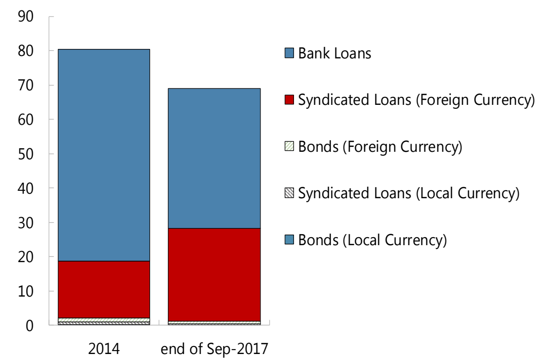
- **Adopting a more prudent approach to the treatment of doubtful loans.** Staff recommends that the CBN investigates the extent to which banks are resorting to "ever-greening" of potentially problematic loans—a practice that should be discontinued. Staff supports the 2 percent general provisioning of loans in place and calls on the CBN to take a conservative approach to assessing doubtful loans, which should be fully provisioned. Non-performing loans that have been fully provisioned for should be written off.

- **Phasing out regulatory forbearance.** Staff welcomes actions taken to end forbearance on single obligor limits and calls on a quick phasing out of the remaining one on net open FX positions.

- **Increasing available capital buffers.** The CBN should call on banks to increase capital, including by requiring them to withhold dividend payments, in view of the upcoming move to IFRS 9 implementation and the adoption of a rate closer to the IEFX window rate for financial reporting.

Corporate Sector Outstanding Loans and Bonds, 2014 and 2017 /1

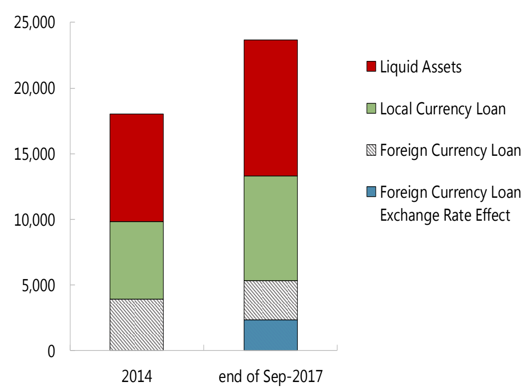
(USD billion)



Sources: Dealogic, Monetary Survey; and IMF staff calculations
1/For companies with parent company incorporated in Nigeria. For example, Dangote.

Banks' Loan Book and Liquid Assets, 2014 and 2017 /1

(Naira billion)

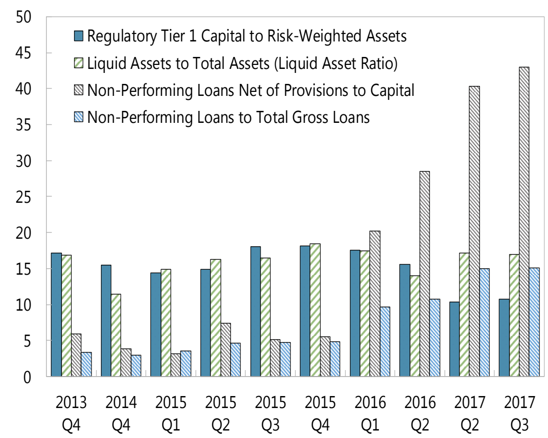


Sources: Bloomberg, and IMF staff calculations
1/ Based on banks that account for 82 percent of the industry's total asset.

[6] The authorities continue to make progress on implementing past FSAP recommendations (Annex VI).

Recapitalizing the four undercapitalized banks (7 to 10 percent of total assets) is long overdue and if delayed further, risks undermining financial stability. Maintaining a tight capital position would continue to stagnate credit flows, and impede economic activity.

Financial Soundness Indicators, 2013–17
(Percent)



Source: Central Bank of Nigeria.

- **Enhancing banking supervision,** by intensifying risk-based on-site inspections and strict enforcement of prudential requirements. Staff recommends undertaking robust macroeconomic scenario stress testing to capture the risk from the strong sovereign-bank nexus that currently exists and vulnerabilities to external shocks.

- **Strengthening the resolution framework** through an enhanced legal framework allowing powers to write down capital, override shareholders' rights, and amend the bank liquidation regime-a precondition to resolve non-viable banks expeditiously. The revision to the contingency planning framework should be in line with international best practices to bolster confidence and minimize risks to the CBN's balance sheet, including from undercapitalized banks that continue to receive CBN liquidity support.

- **Respecting the timeline for winding down the state-backed Asset Management Company,** which poses contingent liability risk (4 percent of GDP).

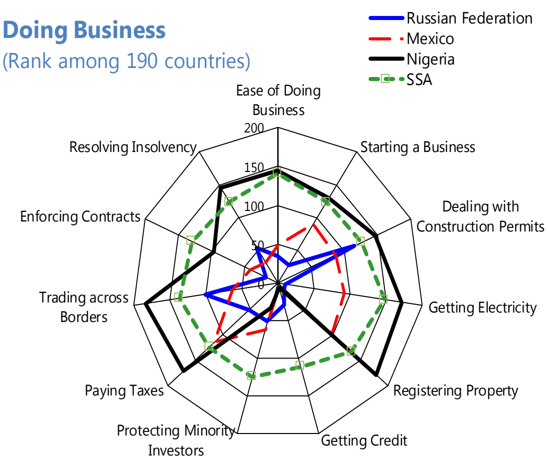
34. Authorities' views. The CBN has already asked banks to conduct their own stress testing scenarios and does not believe an AQR is needed. Therefore, steps taken by the CBN to monitor sectors with highest NPLs (such as oil and gas) and the withholding of dividends will be sufficient to keep capital buffers above regulatory ratios, which already adhere to stricter standards for internationally active banks than required under Basel II. Capital buffers are strong enough to withstand financial reporting at a more market determined exchange rate as well as a move towards IFRS9 from January 2018 onwards. On the resolution framework, the CBN has intervened in a weak bank in the past, and would do so if bank recapitalization plans were not implemented in a timely manner; the CBN has given banks six months to come up with plans to increase their capital. With regard to regulatory forbearance, the CBN does not believe a common deadline is effective, as the balance sheet structure of banks differs with each bank working on a timeline agreed with the CBN.

E. Structural Policies: Reforms to Support Inclusive Growth and Employment

35. Structural impediments, including a large infrastructure gap, hamper the recovery of the economy and Nigeria's diversification objective. Export diversification (Figure 5) has decreased in recent decades, reflecting longstanding structural issues: a large infrastructure gap and logistical challenges, a weak business climate and burdensome regulations, and high corruption. Nigeria ranks 136 among 176 countries in the Corruption Perceptions Index and one out of three Nigerians reports having paid bribes (Figure 6).[7] Weak financial inclusion and inequality of opportunity and income constrain a large share of the population (Figure 7). Gender inequality is very high by most measures, with Nigeria ranking 122 among 144 countries (World Economic Forum). Narrowing the infrastructure and gender gaps could respectively boost growth by more than ¾ percentage points and 1¼ percentage point a year, with varying growth impacts across states, (Annex III; and Selected Issues Paper III: The Macroeconomic Costs of Gender Inequality in Nigeria).

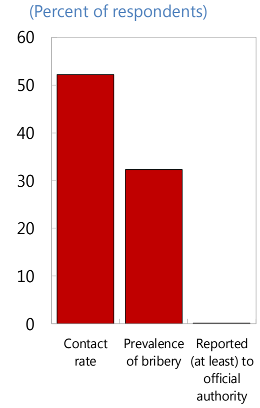
Indicators of the Business Environment

Doing Business
(Rank among 190 countries)

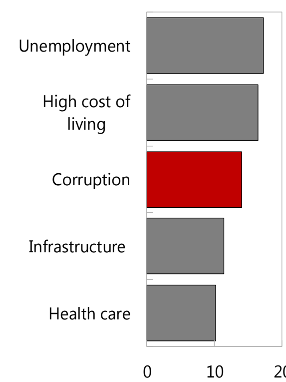


Source: World Bank Doing Business 2018.

Experience with Bribery
(Percent of respondents)

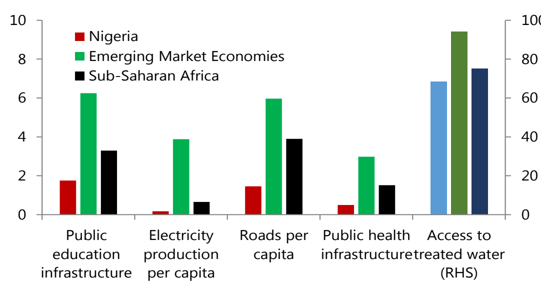


First most Important Issue Affecting Nigeria
(Percent of respondents)



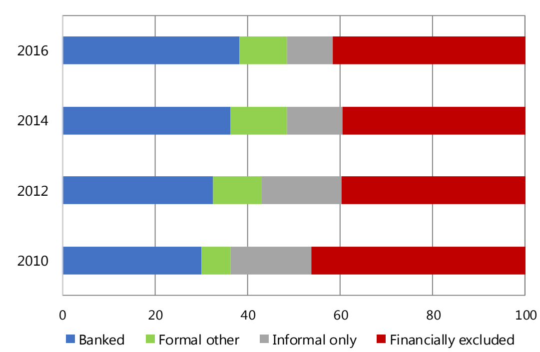
Source: Nigeria National Bureau of Statistics.

Indicators of Public Infrastructure/1



Source: IMF staff estimates.
1/ Units vary to fit scale. Left hand axis: Public education infrastructure is measured as secondary teachers per 1,000 persons; Electricity production per capita as thousands of kWh per person; Roads per capita as km per 1,000 persons; and Public health infrastructure as hospital beds per 1,000 persons. Right hand axis: Access to treated water is measured as percent of population.

Financial Inclusion, 2010–16
Percent of population



Sources: CBN, EFInA 2010, 2016)

[7] The *Corruption Perception Index* and other rankings used in this Staff Report, such as the *Doing Business Ranking* or the United Nation's *Gender Inequality Index*, are subject to uncertainty around the point estimate. Rankings reflect the relative, not the absolute, performance of the country.

36. Addressing structural impediments is a priority of the Nigerian government and its ERGP. Notable actions initiated so far include:

- **Doing Business.** Nigeria's ranking among the 10 economies showing the most improvement in the recent World Bank Doing Business Rankings (rising by 24 places to 145th place) is commendable. Welcome actions include the significant decrease in documents required to import and export, the implementation of the 48-hour electronic visa, and the establishment of a collateral registry.

- **Power sector and infrastructure.** Actions under the Power Sector Recovery Plan (PSRP) have included increased power supply generation (a new record peak generation of 5100MW in the grid in December 2017), appointment of new boards for sector agencies, appropriate budget provisions to ensure government agencies pay their electricity bills and enable the Bulk Trader to pay in full for generated power, and an off-grid electrification strategy. The PSRP aims to restore financial viability, technical stability, regulatory certainty and governance in the sector to attract much needed private sector investment throughout the value chain. In addition, the ERGP aims at partnering with the private sector through public-private partnerships to scale up infrastructure investment more generally.

- **Anti-corruption and transparency.** Staff welcomes the development and adoption in August 2017 of the National Anti-Corruption Strategy (NACS) , the recent passing of the PIGB by the House of Representatives, initial efforts taken to digitize public officials' asset declarations, the publication of the first national money laundering and terrorist financing risk assessment report, and the ongoing development of the action plan to address risks identified (Selected Issues Paper IV: Strengthening Transparency and Governance in Nigeria).

37. To continue the structural reform agenda, staff recommends:

- **Further strengthening the business environment,** including through completing reforms under the second 60-day Doing Business plan, pushing for further simplification of administrative and tax procedures, increasing the speed and efficiency of conflict resolution, and launching the 24 hours accelerated pilot port operations. The planned submission of the "Omnibus Bill" to parliament would help achieve quick-wins in removing administrative constraints.

- **Urgently implementing the PSRP.** In line with World Bank technical assistance, the review of the multi-year tariff schedule should be accelerated to help reset the revenue requirements and cost recovery levels with a view of setting the stage for tariff increases in 2019. The tariff review would provide more time to improve collection (through metering) and further increase power delivery in a reliable manner.

- **Accelerating ongoing plans to revise the financial inclusion strategy**—which aims at reducing exclusion from 41 percent overall (80 percent in the North) to 20 percent by 2020. Key priorities include developing reliable and inclusive wholesale and retail payment systems, mobile money and agent expansion, and creation of a harmonized biometric citizens' database.

- **Strengthening governance and transparency initiatives,** including through (i) streamlining the legal and institutional framework to improve the effectiveness of investigation, prosecution and conviction of corruption and facilitate asset recovery; (ii) advancing efforts to enhance transparency, particularly in the extractive sector in line with the EITI standard; (iii) strengthening the asset declaration regime; (iv) continuing to strengthen AML/CFT measures by formulating prioritized policies to address identified risks and target CBN's AML/CFT supervision; and (v) addressing risks posed by politically-exposed persons and vulnerabilities of BDCs.

- **Implementing policies to level the playing field for men and women,** including through executing and updating the 2006 national gender strategy (notably on adopting equal legal rights); allocating more funds to the health sector; improving awareness and protection against gender-based violence; and reinvigorating efforts with respect to gender-based budgeting. The provision of gender-disaggregated data should be strengthened.

38. Authorities' views. The authorities are fully cognizant that Nigeria suffers from perceptions of widespread corruption and that infrastructure is inadequate. The establishment of an ERGP implementation unit at the VP's office (coordinated by the Ministry of Budget and National Planning) and "new workshop" labs starting in January 2018 are expected to accelerate delivery on policies to develop industrialization, agriculture, and the power sector (where implementation will also benefit from development partners' technical assistance). The authorities remain committed to advance anti-corruption efforts, including by implementing the NACS and fulfilling its commitments under the open government partnership. The authorities remain concerned about low financial inclusion, but consider that risks associated with mobile money banking need to be fully assessed before being encouraged further.

OTHER SURVEILLANCE ISSUES

39. Data provided to the Fund are assessed to be broadly adequate for surveillance. Further improvements in national accounts, CPI and BOP statistics are ongoing with help from Fund technical assistance. There is considerable room for improvements in SLG fiscal data, SOE fiscal operations, and domestic arrears monitoring.

STAFF APPRAISAL

40. Nigeria is slowly exiting recession but the economy remains vulnerable. The economy is recovering from stagflation and external pressures caused by the sharp fall in oil prices/production and an inadequate policy response. Rising oil prices and new foreign exchange measures have contributed to soaring financial markets and helped boost reserves to a four-year high. However, growth in the non-oil-non-agricultural sector has not picked up, inflation continues to be sticky, unemployment is rising, and poverty remains high.

41. The outlook has improved but remains challenging. Higher oil prices would support a recovery in 2018 but a "muddle-through" outlook is projected for the medium term under current policies, with fiscal dominance and structural constraints leading to continuing falls in real GDP per capita. Key risks to the outlook include additional delays in policy and reform implementation in a pre-election year, increasing security tensions, and a fall in oil prices, which could trigger a capital flow reversal.

42. The authorities have made some progress in implementing their Economic Recovery and Growth Plan (ERGP). In particular, they have started a convergence in foreign exchange windows and maintained a tight monetary policy. They also made some improvements in tax administration, introduced new excises, and realized significant gains in improving the business environment, including through efforts to strengthen anti-corruption initiatives. These reforms are in line with past IMF advice.

43. However, comprehensive and coherent policy actions to address existing challenges remain urgent and must not be delayed by approaching elections and recovering oil prices. These actions require urgent initiation of fiscal consolidation that frontloads non-oil revenue mobilization measures, a tight monetary policy, full exchange rate unification allowing the accumulation of additional buffers, a stronger banking sector, and faster implementation of the structural reform agenda underpinning the authorities' ERGP. Further delays in policy action—including because of pre-election pressures—can only make the inevitable adjustment more difficult and costlier. More structurally, demographic trends require faster growth to significantly reduce unemployment.

44. A growth friendly fiscal adjustment based on frontloaded revenue mobilization is where new policy action is most urgently needed. This requires increasing non-oil revenues by 8 percentage points over the next five years to help reduce the interest payments to revenue ratio to a more sustainable level and create space for a significant scaling up of priority capital and social spending. In addition to increases in excises and recent improvements in tax administration, revenue mobilization would require a strengthened focus on large taxpayers and more ambitious tax policy measures, including through reforming the VAT and rationalizing tax incentives. These reforms, along with the full implementation of an automatic fuel price-setting mechanism, should be accompanied by a substantially scaled up social safety net scheme that would not only mitigate their impact on the most vulnerable but also reduce poverty.

45. More can be done to strengthen the efficiency of public financial and debt management, including through closer coordination of central financial agencies and stronger expenditure controls. The strategy to replace some existing T-bills with Eurobonds is welcome in view of the low external debt-to-GDP ratio, but the increased exchange rate risk from the long-term objective of achieving an external-to domestic-debt ratio of 40 percent will require careful monitoring. A more effective use of the Treasury Single Account would also be needed.

46. Monetary policy should remain tight until inflation is within the single digit target range. Staff commends the Central Bank's tightening bias in 2017 but recommends that a more transparent policy explicitly anchored on a higher monetary policy rate be implemented. As a second-best option, a wider interest rate corridor could be applied. Unannounced special auctions conducted at below market rates, asymmetric application of reserve requirements, and direct central bank interventions in the economy should be ended. Speedy Resolution of the issues that have been holding up the confirmation of the newly appointed CBN's Board of Directors and MPC members is essential to maintain the credibility and independence of monetary policy.

47. Moving toward a unified and market-based exchange rate is essential. Nigeria's external position was moderately weaker in 2017 than the level consistent with its medium-term fundamentals and desirable policies. Staff welcomes the progress made towards unifying some of the exchange rate windows and the authorities' recent efforts to strengthen external buffers to mitigate potential risks from capital flow reversals. However, more needs to be done to ensure full exchange rate unification and immediate removal of existing restrictions on access to foreign exchange for 40 categories of products. Such actions would help reduce the parallel market premium in a sustainable manner, remove distortions in private and public decision making, and facilitate the move towards a more diversified economy.

48. Rising banking sector risks should be contained. Declining bank solvency ratios and asset quality highlight the importance of increasing banks' capital, including through withholding dividend payments. An asset quality review would help identify any potential capital need. Further delay in recapitalizing the four undercapitalized banks risks undermining financial stability. An enhanced risk-based banking supervision, strict enforcement of prudential requirements, and a revamped resolution framework would also help contain risks.

49. Structural reform implementation should continue to lay the foundation for a diversified private-sector led economy. Building on the recent success to improve the business environment, policy priorities—as underlined in the ERGP—should be on urgently implementing the power sector recovery plan, strengthening governance and transparency initiatives, and updating and implementing the financial inclusion and gender strategies.

50. Staff does not support the exchange measures that have given rise to the exchange restrictions and multiple currency practices. In the absence of a clear timetable for their removal, staff is not in a position to recommend approval of the exchange restrictions and MCPs. Staff urges the authorities to articulate a speedy and monitorable strategy for their removal to allow improved functioning of the foreign exchange market and convergence of the multiple exchange rates.

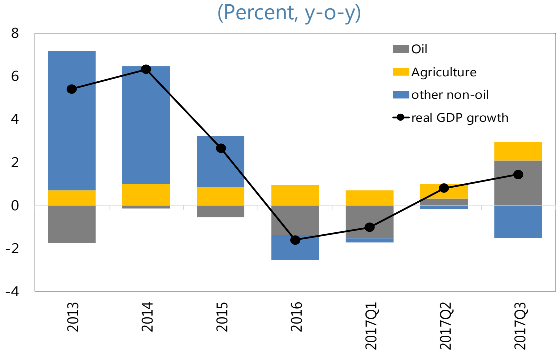
51. The quality and availability of economic statistics continue to improve—including through technical assistance. Efforts should continue to address remaining gaps, notably in national accounts, BOP, and fiscal statistics.

52. It is recommended that the next Article IV consultation take place on the standard 12-month cycle.

Figure 1. Nigeria: Real Sector and Inflation Developments

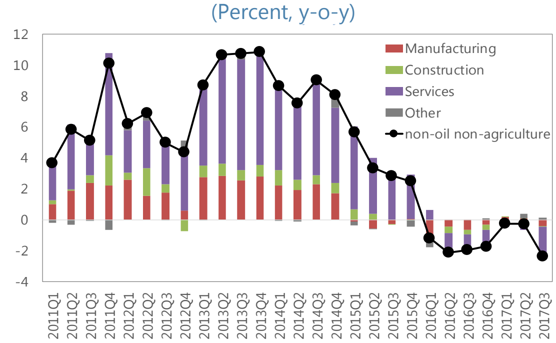
The economy has exited the recession in the second quarter of 2017, on the back of agriculture and oil production…

Real GDP Growth and Components
(Percent, y-o-y)



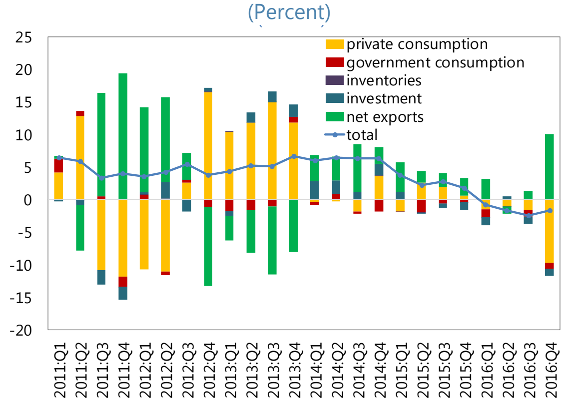
…but performance in the rest of the economy remains weak.

Non-Oil, Non-Agriculture Growth and Components
(Percent, y-o-y)



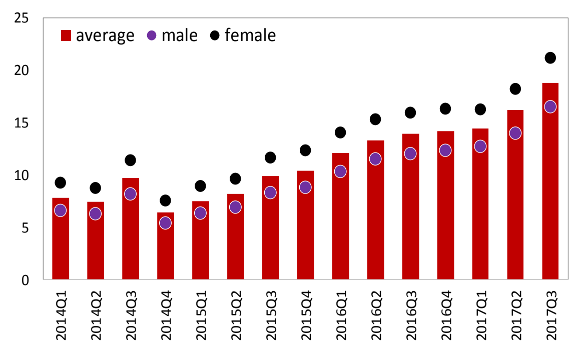
Consumption has taken a hit, while net exports have been driving most of the growth on the demand-side.

Real GDP Growth: Demand-side Decomposition, 2014–16
(Percent)



Unemployment rates have increased, in particular for women.

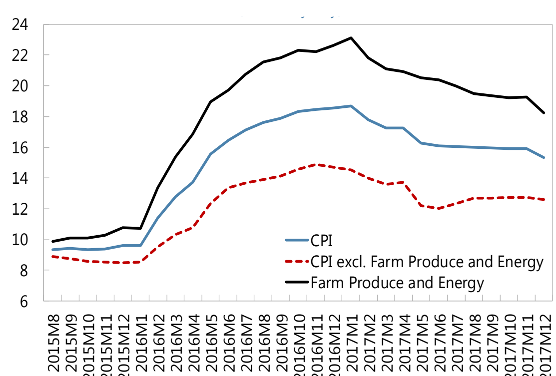
Unemployment Rate, 2014–17Q3
(Percent)



Source: National Bureau of Statistics

Inflation has declined but remains high, especially for food

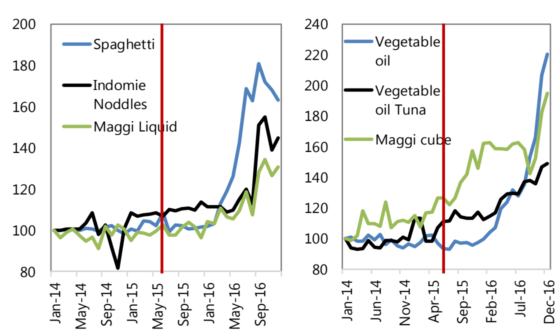
CPI Inflation, 2015–17M12
(Percent, y-o-y)



Sources: National Bureau of Statistics; IMF staff calculations.

The ban on certain products from accessing foreign exchange has coincided with inflated prices.

Selected Product Prices, 2014–16
(Index 2014 = 100)



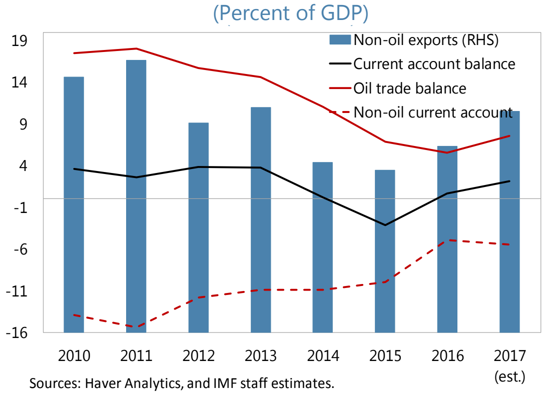
Source: National Bureau of Statistics Nigeria
Note: Red line corresponds to introduction of ban on FX access for certain items.

Figure 2. Nigeria: External Sector Developments

The current account balance has improved...

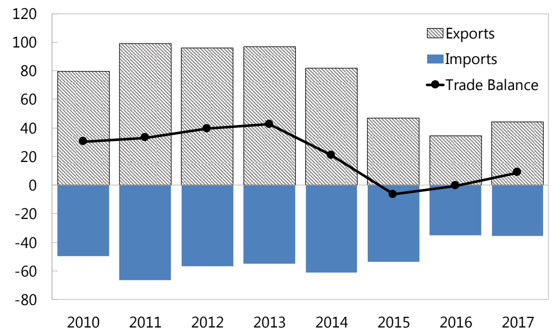
... on the back of compressed imports, and some recovery in exports.

Current Account Balance, 2010–17(e)
(Percent of GDP)



Sources: Haver Analytics, and IMF staff estimates.

Trade Balance, 2010–17
(Billions of U.S. dollars)

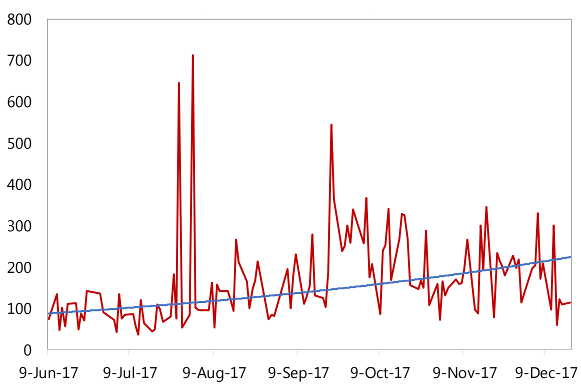


Source: Central Bank of Nigeria.

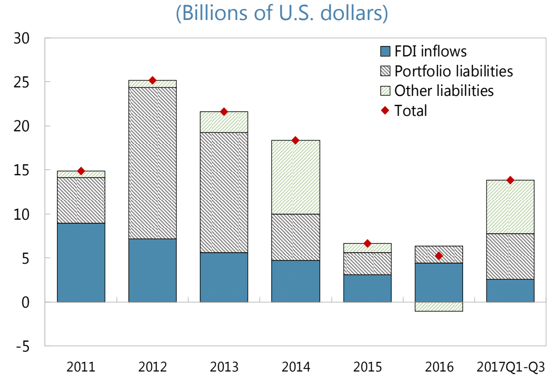
The Investor & Exporter FX window has brought back investor confidence, and trading volumes have increased.

Relatedly, financial inflows into the BOP—mostly short-term—have recovered.

Daily Volume Traded at I&E Window, 2017M6–2017M12
(Millions of U.S. dollars)



Net Capital Inflows, 2011–17
(Billions of U.S. dollars)

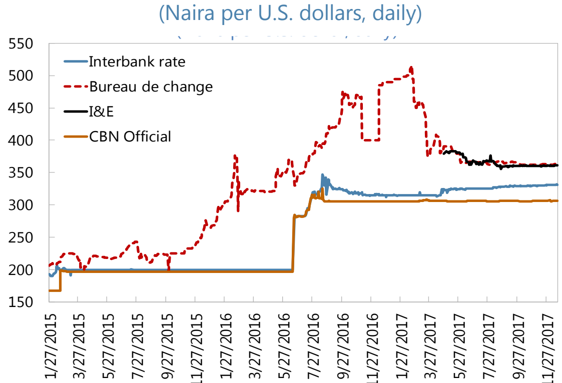


Sources: Central Bank of Nigeria and IMF staff calculations.

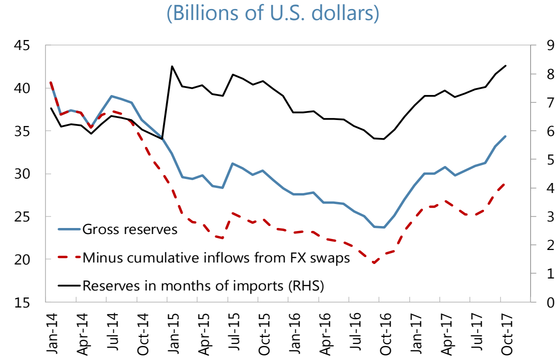
The parallel market spread has narrowed ...

...and international reserves have recovered to four year-highs.

Exchange Rates, 2015M1-2017M12
(Naira per U.S. dollars, daily)



International Reserves, 2014M1-2017M10
(Billions of U.S. dollars)

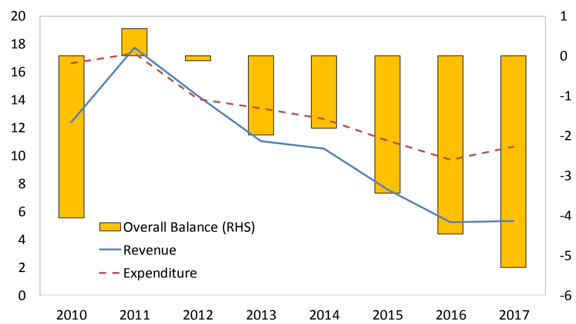


Sources: Central Bank of Nigeria; and IMF staff calculations.

Figure 3. Nigeria: Fiscal and Monetary

Important revenue shortfalls are increasing the fiscal deficit

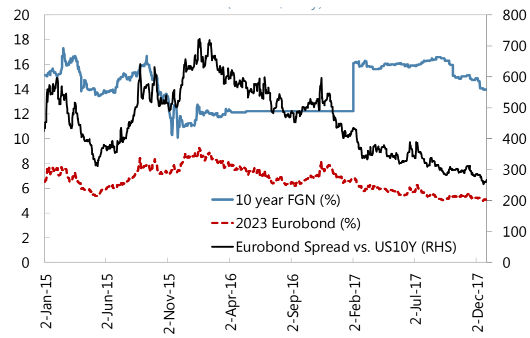
Recent Fiscal Developments, 2010–17
(Percent of GDP)



Sources: Nigerian authorities; IMF staff calculations.

Domestic financing costs have risen.

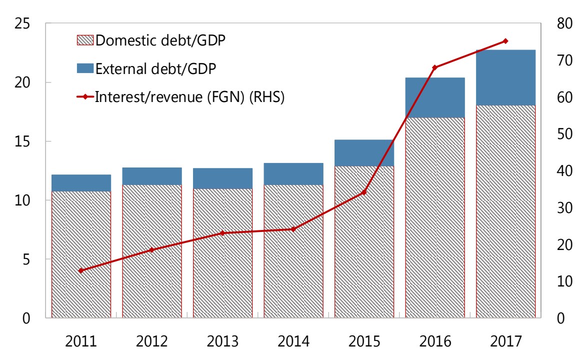
Bond Yields, 2015–17
(Percent, daily)



Source: Bloomberg.

Public debt has risen from low levels, driven by domestic borrowing; the interest-to-revenue ratio is not sustainable.

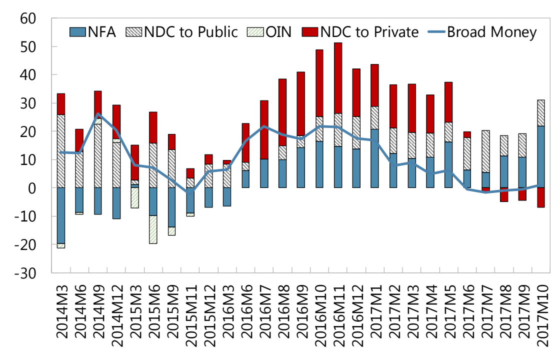
Debt-to-GDP and Interest-to-Revenue Ratio, 2011–17
(Percent)



Sources: Debt Management Office; IMF staff calculations.

Monetary policy has tightened...

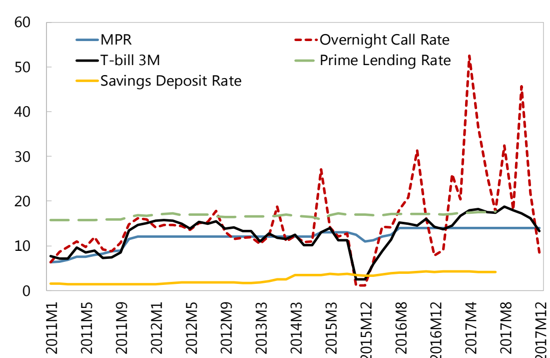
Contributions to Broad Money Growth, 2014–17
(Percent)



Sources: Central Bank of Nigeria; IMF staff calculations.

...the overnight call rate is consistently above the monetary policy rate.

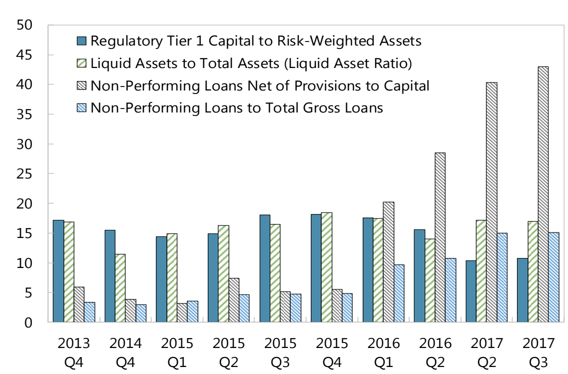
MPR and Other Interest Rates, 2011–17[1/]
(Percent)



Source: Central Bank of Nigeria.
1/ The wide lending-deposit rates spread is mainly explained by high non-interest cost (please see AIV and SIP 2016 for details).

Banking system asset quality continues to deteriorate.

Nigeria: Financial Soundness Indicators, 2013–17
(Percent)

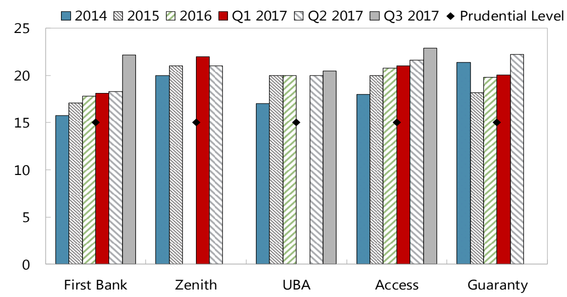


Source: Central Bank of Nigeria.

Figure 4. Nigeria: Performance of the Five Largest Banks Through end-September 2017

Reported capital buffers suggest banks could sustain shocks; although the FSR show the industry to be insolvent if credit to the five biggest borrowers has to be written off.

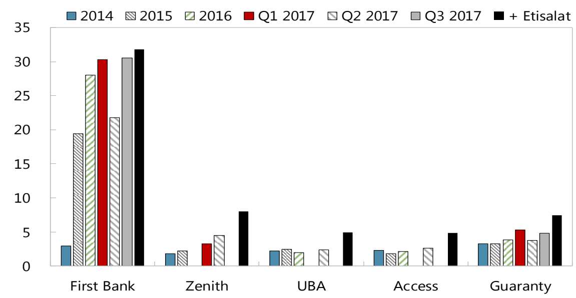
Capital Adequacy Ratio
(Percent)



Source: Bloomberg

The largest bank, First Bank, carries 20 percent of the system's NPLs; if Etisalat's loan (USD 1.3bn), a recently failed mobile company, is included NPLs could be higher.

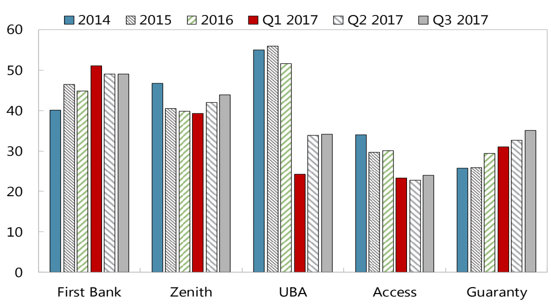
Non-Performing Loans to Total Loans
(Percent)



Sources: Bloomberg, and IMF Staff Calculations

Banks' liquidity resilience remains strong, explained partly by regulatory requirement and monetary policy (high cash reserve ratio), and partly attractive bond yields. Banks liquid assets are up by 21 percent since end 2015.

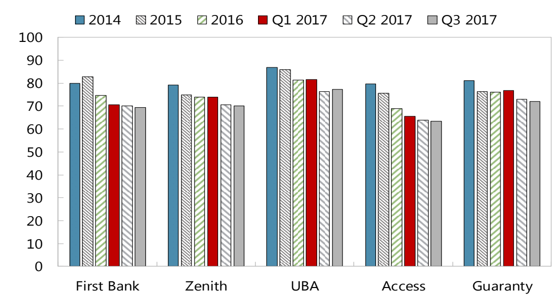
Liquid Assets to Total Assets
(Percent)



Sources: Bloomberg and IMF Staff Calcuations

Deposits continue to be the main source of funding. That said, interest bearing liabilities, including time deposits, have increased by 30 percent in absolute terms since 2015, but only account for 44 percent of total liabilities.

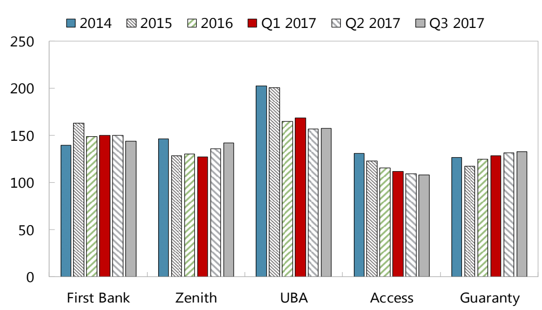
Deposits to Total Liabilities
(Percent)



Sources: Bloomberg; and IMF Staff Calculations

Long-term assets including loans (of maturity greater than a year) make up 30 percent of assets, which are repriced every 90 days. Consequently, the maturity and interest rate mismatch between assets and liabilities is contained.

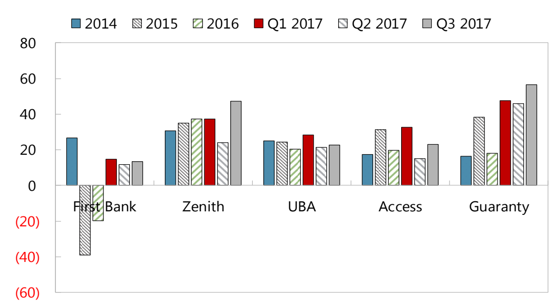
Deposits to Loans Ratio
(Percent)



Sources: Bloomberg, and IMF Staff Calculations

Profits are primarily driven by interest income. However, earnings from fees, primarily related to FX transactions, remain important, after declining for most of 2016, Q3 saw gains by 3 percentage point of total revenue (y-o-y).

Profit Margin: Net Income to Revenue
(Percent)

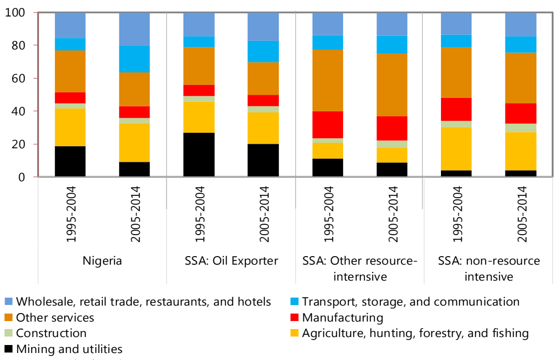


Sources: Bloomberg, and IMF Staff Calculations

Figure 5. Nigeria: Diversification

The primary sector dominates Nigeria's output structure, similarly to other oil exporters in the region...

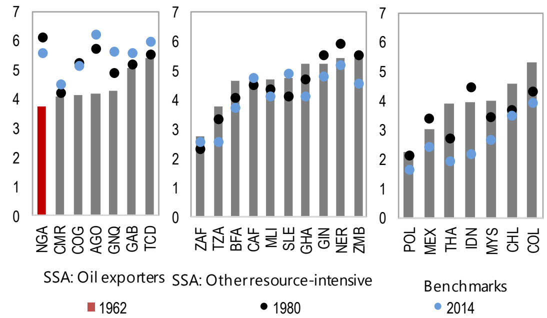
Sectoral Shares in Real GDP, 1995–2014
(Percent)



Source: United Nations

...and export product diversification remains low.

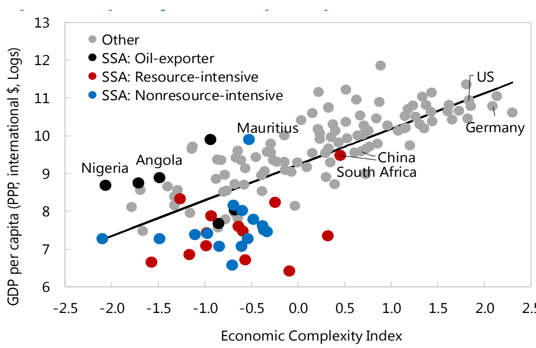
Goods Export Diversification, 1962–2014
(Theil Index, Higher Values = Less Diversification)



Sources: IMF (2014); IMF (2017).

Export products are less complex than elsewhere, even controlling for the level of development...

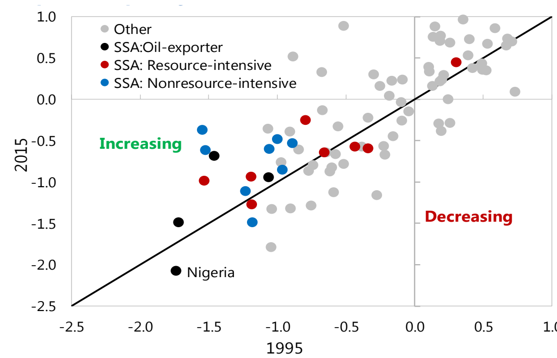
Export Complexity and GDP per Capita, 2015



Sources: Observatory of Economic Complexity and World Bank World Development Index

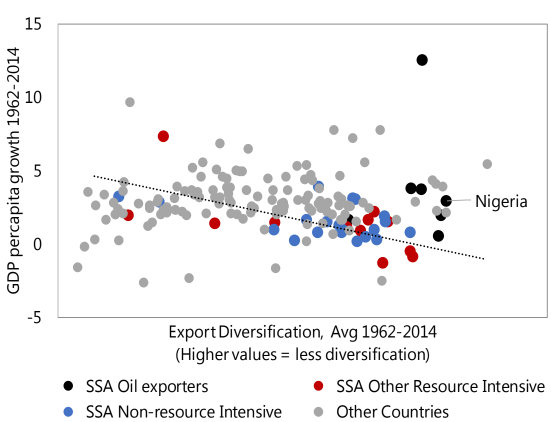
...and it has declined over the past two decades.

Export Complexity Index, 2015



Stronger export diversification could have boosted GDP per capita. growth in the past decades...

Export Complexity and GDP per Capita, 2015



...and mitigated output volatility.

Export Diversification and Output Volatility, 2014

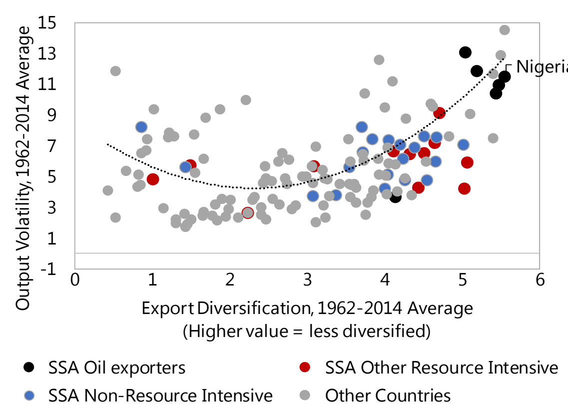
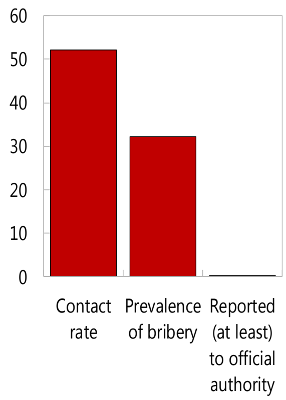


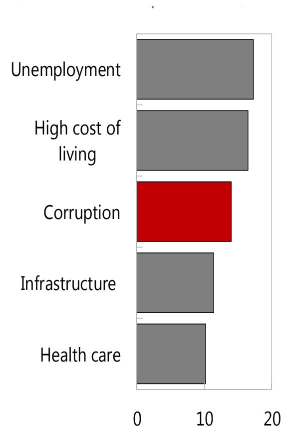
Figure 6. Nigeria: Indicators of Corruption (Survey Results)

Most respondents have been in direct contact with corruption, and it is perceived a main issue.

Experience with Bribery
Percent of respondents

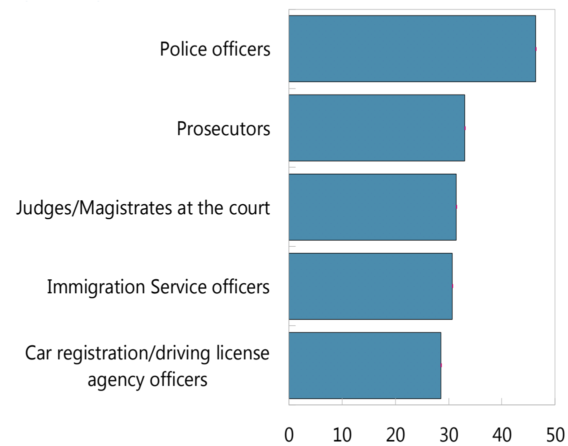


First most Important Issue Affecting Nigeria
(Percent of respondents)



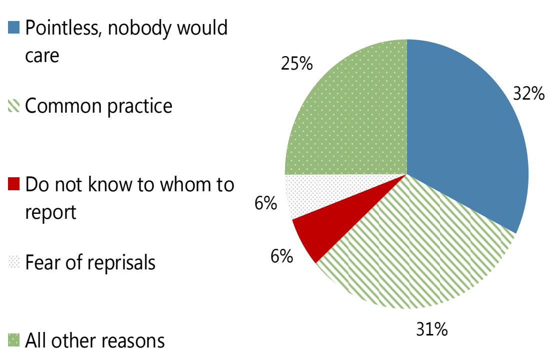
Bribery is wide-spread.

Prevalence of Bribery by Type of Public Official
(Percent)



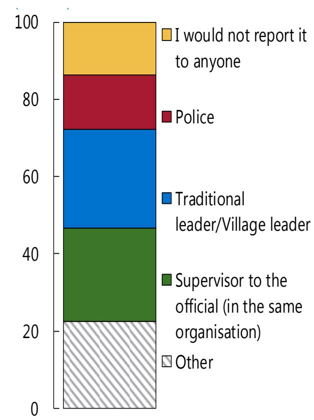
Lack of anti-corruption enforcement appears as a major reason for not reporting bribery.

Reasons for not Reporting Bribery
(Percent of respondents reporting not to have reported)

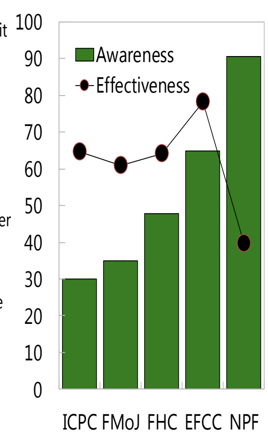


Informal resolution mechanisms are prevalent and perceptions about anti-corruption agencies vary.

Institution Considered as most Important for Reporting
(Percent)



Awareness and Perceived Effectiveness of Institutions
(Percent of Respondents)

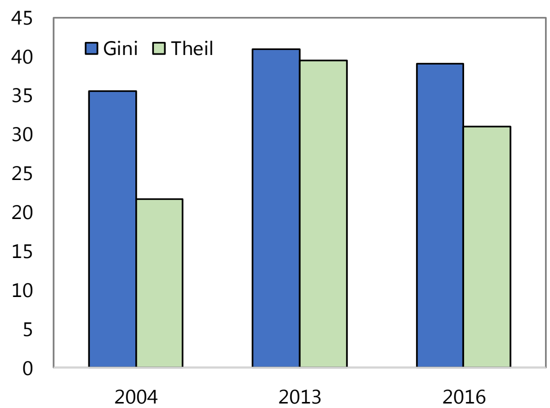


Note: ICPC = Independent Corrupt Practices Commission; FMoJ = Federal Ministry of Justice; FHC = Federal High Court; EFCC= Economic and Financial Crimes Commission; NPF =Nigeria Police.

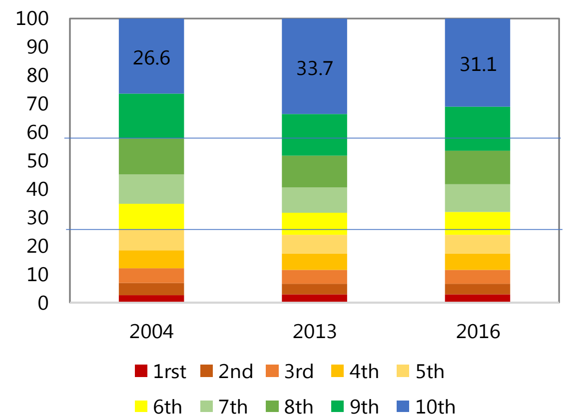
Source: National Bureau of Statistics.

Figure 7. Recent Statistics on Income Inequality and Poverty

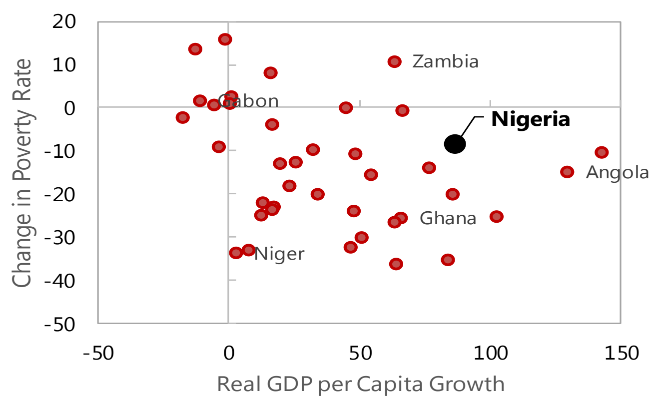
Nigeria: Income Inequality
(Higher values = higher income inequality)



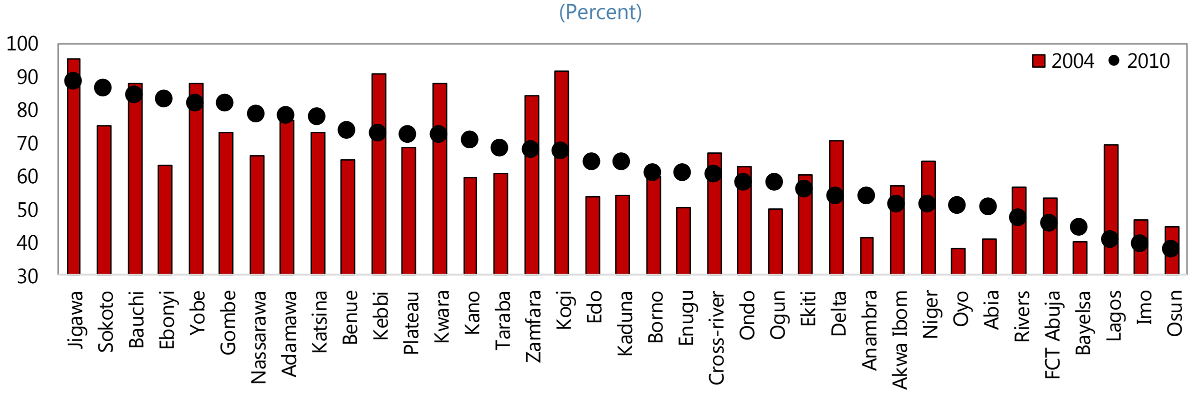
Nigeria, Share of Consumption by Deciles
(Percent)



Nigeria: Poverty Headcount by State
(Percent)



Nigeria: Poverty Headcount by State
(Percent)



Sources: National Bureau of Statistics; Solt, Frederick. 2014. "The Sandardized World Income Inequality Database; IMF staff calculations; World Bank World Development Indicators, PovcalNet.

Table 1. Nigeria: Selected Economic and Financial Indicators, 2016–23

	2016	2017	2018	2019	2020	2021	2022	2023
		Prel.			Projections			
National income and prices	(Annual percentage change, unless otherwise specified)							
Real GDP (at 2010 market prices)	-1.6	0.8	2.1	1.9	2.1	2.0	2.0	2.0
Oil and Gas GDP	-14.4	7.6	10.8	5.7	5.8	0.8	0.8	0.8
Non-oil GDP	-0.3	0.2	1.3	1.5	1.7	2.1	2.1	2.1
Production of crude oil (million barrels per day)	1.81	1.90	2.10	2.20	2.30	2.30	2.30	2.30
Nominal GDP at market prices (trillions of naira)	102.6	121.0	142.9	166.2	194.8	226.1	262.8	305.4
Nominal non-oil GDP (trillions of naira)	97.2	113.1	131.4	154.7	183.2	214.6	251.3	293.9
Nominal GDP per capita (US$)	2,254	2,099	2,268	2,567	2,928	3,307	3,741	4,232
GDP deflator	9.5	17.0	15.7	14.2	14.8	13.8	14.0	14.0
Consumer price index (annual average)	15.7	16.5	14.0	14.8	15.2	14.0	14.0	14.0
Consumer price index (end of period)	18.5	15.4	14.5	16.6	14.0	14.0	14.0	14.0
Investment and savings	(Percent of GDP)							
Gross national savings	13.2	14.9	13.3	13.6	14.0	14.3	14.0	13.9
Public	-0.1	-0.8	0.3	0.6	1.0	0.7	0.9	1.0
Private	13.3	15.7	13.0	13.1	13.0	13.6	13.1	12.9
Investment	12.6	12.9	13.3	13.4	13.6	13.9	13.8	13.8
Public	2.2	2.9	2.7	2.8	2.7	2.6	2.6	2.6
Private	10.4	10.0	10.5	10.6	10.9	11.2	11.2	11.1
Current account balance	0.7	2.0	0.1	0.2	0.5	0.5	0.2	0.1
Consolidated government operations	(Percent of GDP)							
Total revenues and grants	5.6	5.7	7.4	7.1	7.1	6.7	6.8	7.0
Of which: oil and gas revenue	2.1	2.5	3.7	3.3	3.1	2.7	2.7	2.6
Total expenditure and net lending	9.5	11.2	11.9	11.6	11.0	10.8	10.7	10.9
Overall balance	-3.9	-5.5	-4.5	-4.4	-4.0	-4.1	-3.9	-3.9
Non-oil primary balance (percent of non-oil GDP)	-5.1	-7.0	-7.6	-6.7	-5.8	-5.3	-4.9	-4.8
Non-oil revenue (percent of non-oil GDP)	3.6	3.4	3.9	4.0	4.1	4.2	4.3	4.5
Public gross debt (percent of GDP) [1]	19.6	22.3	25.3	26.0	26.0	26.4	26.6	26.8
Of which: FGN debt (percent of GDP)	16.7	18.4	20.8	20.7	20.4	20.6	20.7	20.9
FGN interest payments (percent of FGN revenue)	61.7	71.9	59.7	68.0	73.6	80.0	81.8	82.3
Money and credit	(Change in percent of broad money at the beginning of the period, unless otherwise specified)							
Broad money (percent change; end of period)	17.4	1.6	14.0	17.9	18.6	18.4	18.2	16.9
Net foreign assets	9.2	27.4	1.5	-2.8	-0.3	-0.6	-0.5	0.3
Net domestic assets	8.2	-25.9	12.5	20.7	18.9	19.0	18.7	16.6
o/w Claims on consolidated government	11.8	-3.2	22.2	21.5	20.1	20.4	18.4	16.1
Credit to the private sector (y-o-y,%)	22.3	-3.3	1.0	2.1	2.3	2.4	2.6	2.9
Velocity of broad money (ratio; end of period)	4.1	4.7	4.8	4.9	4.9	4.7	4.7	4.7
External sector	(Annual percentage change, unless otherwise specified)							
Exports of goods and services	-21.6	25.7	30.1	0.0	1.6	-0.7	0.8	1.4
Imports of goods and services	-34.7	2.5	34.3	2.9	6.4	1.4	3.9	3.0
Terms of trade	-6.3	9.5	10.7	-3.9	-2.9	-2.0	-0.7	-0.2
Price of Nigerian oil (US dollar per barrel)	44.6	54.4	67.8	63.9	61.1	59.6	59.1	59.0
External debt outstanding (US$ billions) [2]	46.1	56.5	65.0	71.2	78.2	85.9	94.4	103.9
Gross international reserves (US$ billions) [3]	27.0	39.2	39.2	36.6	35.6	35.4	34.4	33.6
(equivalent months of imports of G&Ss)	6.7	7.3	7.1	6.2	6.0	5.7	5.4	4.8

Sources: Nigerian authorities; and IMF staff estimates and projections.

[1]Gross debt figures for the Federal Government and the public sector include overdrafts from the Central Bank of Nigeria (CBN). However, on net debt basis, obligations to and from the CBN cancel out since government deposits held at the CBN are of similar magnitude as overdrafts, public net debt in percent of GDP was 15.4 in 2016.

[2]Includes both public and private sector.

[3]In 2016, includes about $2 billion in reclassified TSA funds, which are at the central bank but under government control.

Table 2. Nigeria: Balance of Payments, 2016–23

(Billions of U.S. dollars, unless otherwise specified)

	2016	2017	2018	2019	2020	2021	2022	2023
		Prel.			Projections			
Current account balance	2.7	8.1	0.4	1.3	2.9	3.1	1.8	1.3
Trade balance	-0.5	8.6	9.2	9.0	5.7	4.5	2.5	1.3
Exports	34.7	44.5	58.8	58.7	59.5	58.9	59.3	60.0
Oil/gas	32.0	41.0	55.3	54.7	55.0	53.8	53.5	53.5
Other	2.7	3.4	3.5	4.0	4.5	5.1	5.8	6.5
Imports	-35.2	-35.8	-49.6	-49.6	-53.8	-54.4	-56.8	-58.7
Oil/gas	-9.0	-10.9	-13.1	-12.1	-11.5	-11.4	-11.6	-11.8
Other	-26.3	-24.9	-36.5	-37.5	-42.3	-43.0	-45.2	-46.9
Services (net)	-8.0	-8.5	-11.0	-12.8	-12.7	-13.0	-13.2	-13.5
Receipts	3.7	3.9	4.1	4.2	4.3	4.5	4.6	4.8
Payments	-11.8	-12.3	-15.1	-17.0	-17.1	-17.5	-17.9	-18.2
Income (net)	-8.6	-12.7	-19.2	-17.3	-13.2	-12.3	-12.2	-12.2
Of which: Interest due on public debt	-0.3	-0.3	-0.2	-0.2	-0.3	-0.2	-0.2	-0.2
Transfers (net)	19.9	20.6	21.5	22.3	23.2	24.0	24.8	25.6
Capital and Financial account balance	0.7	17.2	-0.4	-3.9	-3.9	-3.4	-2.8	-2.1
Capital Account (net)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financial Account (net)	0.7	17.2	-0.4	-3.9	-3.9	-3.4	-2.8	-2.1
Direct Investment (net)	3.1	3.0	3.0	3.0	3.0	3.5	4.1	4.7
Portfolio Investment (net)	1.7	8.8	4.5	1.0	1.0	1.0	1.0	1.0
Other Investment (net)	-4.2	5.4	-7.9	-7.9	-7.9	-7.9	-7.9	-7.9
Errors and omissions[1]	-4.4	-13.1	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance	-1.0	12.2	0.0	-2.6	-0.9	-0.2	-1.0	-0.8
Net international reserves (increase -)	1.0	-12.2	0.0	2.6	0.9	0.2	1.0	0.8
Memorandum items:								
Gross official reserves, end-of-period[2]	27.0	39.2	39.2	36.6	35.6	35.4	34.4	33.6
In months of next year's imports of goods and services	6.7	7.3	7.1	6.2	6.0	5.7	5.4	4.8
Current account (percent of GDP)	0.7	2.0	0.1	0.2	0.5	0.5	0.2	0.1
Exports of goods and services (percent of GDP)	9.5	12.2	14.3	12.3	10.7	9.1	7.9	6.9
Imports of goods and services (percent of GDP)	11.6	12.2	14.7	13.0	11.8	10.3	9.2	8.2
Public external debt[3]	16.4	27.9	34.0	36.4	38.6	41.1	43.4	45.7
In percent of GDP[3]	4.0	7.0	7.7	7.1	6.4	5.9	5.4	4.9
In percent of exports of G&S[3]	42.5	57.7	54.1	57.9	60.5	64.9	67.9	70.5
In percent of consolidated fiscal revenues[3]	72.7	123.4	104.0	100.2	91.2	88.6	79.1	69.6
Private external debt	29.7	28.6	31.0	34.8	39.6	44.8	51.0	58.2
External debt service due (percent of exports of G&S)[3]	-4.5	-4.2	-3.6	-2.5	-2.3	-2.8	-1.7	-1.0
GDP in billion U.S. dollars	414	396	440	511	599	696	808	940

Sources: Nigerian authorities; and IMF staff estimates and projections.

[1]The 2017 number reflects the outturn and a zero forecast for the remaining quarters.

[2]From 2016, includes about $2 billion in reclassified TSA funds, which are at the central bank but under government control.

[3]Nominal public sector short- and long-term debt, end of period. Guaranteed external debt is not included.

Table 3. Nigeria: Federal Government Operations, 2016–23

(Billions of Naira)

	2016	2017	2018	2019	2020	2021	2022	2023
		Prel.			Projections			
Total revenue and Grants	2,129	2,418	3,435	4,055	4,814	5,129	6,132	7,421
Oil revenue	884	1,143	1,597	1,768	2,080	2,135	2,492	2,953
Non-oil revenue	1,245	1,275	1,638	2,077	2,514	2,995	3,640	4,468
Import and excise duties	247	283	442	476	564	602	665	724
Companies' income tax	460	562	732	905	1,126	1,425	1,837	2,407
Value-added tax	109	129	162	197	240	290	350	421
Federal government independent revenue	428	302	303	499	584	678	788	916
Grants	0	0	200	210	220	0	0	0
Total expenditure	4,965	7,564	8,584	9,034	10,572	12,059	14,148	16,720
Recurrent expenditure	4,369	6,401	7,158	7,362	8,610	9,783	11,502	13,645
Personnel	1,875	2,273	2,465	2,904	3,440	4,032	4,724	5,527
Overheads	536	486	485	572	677	794	930	1,088
Interest	1,313	1,738	1,931	2,615	3,379	4,102	5,013	6,109
Transfers[1]	644	1,903	2,044	1,038	880	855	835	920
of which electricity subsidies	0	320	952	373	181	107	0	0
of which net transfers to SLGs[2]	270	1,143	330	171	151	125	126	112
Arrears Clearance	0	0	233	233	233	0	0	0
Capital expenditure	596	1,163	1,426	1,672	1,962	2,276	2,646	3,075
Overall balance	-2,836	-5,146	-5,150	-4,978	-5,758	-6,929	-8,016	-9,299
Financing	2,836	5,146	5,150	4,978	5,758	6,929	8,016	9,299
External	71	2,162	1,047	543	481	397	398	356
Borrowing	133	1,522	887	447	426	480	435	480
Amortization	-24	-41	-170	-75	-97	-208	-163	-236
Foreign asset acquisition (ECA/SWF)	-38	-1	0	0	0	0	0	0
Net External Lending to SLGs	..	681	330	171	151	125	126	112
Domestic	2,761	649	4,103	4,436	5,277	6,532	7,618	8,943
Bank financing	2,101	-1,250	3,491	3,406	4,438	5,376	5,915	5,836
CBN	..	-522	3,177	2,871	4,078	4,783	4,956	4,265
Commercial Banks	..	-728	314	535	360	593	959	1,570
Nonbank financing	641	1,899	505	691	501	920	1,703	3,108
Other financing	19	0	0	0	0	0	0	0
Asset Disposal			107	339	339	237	0	0
Statistical discrepancy/Financing gap	4	2,335	0	0	0	0	0	0
Memorandum items:								
FGN Total Debt	17,160	22,316	29,721	34,361	39,780	46,473	54,489	63,788
Domestic[3]	13,687	16,670	22,666	26,763	31,702	37,998	45,615	54,558
Foreign	3,473	5,646	7,055	7,598	8,078	8,475	8,874	9,229
Budget oil price	38.0	44.5	47.0	63.9	61.1	59.6	59.1	59.0
Price of Nigerian oil (US dollar per barrel)	44.6	54.4	67.8	63.9	61.1	59.6	59.1	59.0
FGN overall balance (percent of GDP)	-2.8	-4.3	-3.6	-3.0	-3.0	-3.1	-3.1	-3.0

Sources: Nigerian authorities; and IMF staff estimates and projections.

[1] Includes earmarked spending for National Judicial Council, Universal Basic Education, Niger Delta Development Corporation, and Multi-Year Tariff Order subsidy.

[2] Net transfers to SLGs include Paris Club refunds, Budget Support Facility, and on-lending by the FGN.

[3] Gross debt figures for the Federal Government and the public sector include overdrafts from the Central Bank of Nigeria (CBN). Please see footnote 2 of SEI table.

Table 4. Nigeria: Consolidated Government, 2016–23

(Billions of Naira)

	2016	2017	2018	2019	2020	2021	2022	2023
		Prel.			Projections			
Total revenue and Grants	5,694	6,899	10,623	11,808	13,765	15,078	17,810	21,344
Oil revenue	2,200	3,020	5,345	5,442	6,071	6,158	6,980	8,091
Of which: implicit fuel subsidy	0	146	633	597	571	557	552	551
Non-oil revenue	3,493	3,879	5,078	6,156	7,474	8,920	10,830	13,254
Import and excise duties	549	628	979	1,056	1,250	1,334	1,475	1,606
Companies' income tax	988	1,206	1,571	1,944	2,418	3,061	3,945	5,169
Value-added tax	811	957	1,206	1,463	1,785	2,155	2,601	3,134
Other (education tax and customs levies)	318	322	460	530	644	753	909	1,110
Federal government independent revenue	428	302	303	499	584	678	788	916
SLGs independent revenue	399	464	559	663	793	938	1,112	1,319
Grants	0	0	200	210	220	0	0	0
Total expenditure	9,726	13,550	16,993	19,203	21,498	24,372	28,156	33,352
Federal government	4,695	6,421	8,255	8,863	10,420	11,934	14,022	16,608
State and local government	4,455	6,343	6,705	8,063	8,695	9,905	11,331	13,543
Extrabudgetary funds, ECA and implicit fuel subs	576	785	2,034	2,277	2,383	2,533	2,804	3,201
Extrabudgetary funds [1]	576	639	1,401	1,680	1,813	1,976	2,251	2,650
Spending from Excess Crude Account	0	0	0	0	0	0	0	0
Implicit fuel subsidy	0	146	633	597	571	557	552	551
Overall balance	-4,033	-6,650	-6,371	-7,395	-7,733	-9,295	-10,346	-12,008
Non-oil primary balance	-4,920	-7,932	-9,984	-10,433	-10,645	-11,351	-12,313	-13,989
Non-oil revenue (Percent of Non-oil GDP)	3.6	3.4	3.9	4.0	4.1	4.2	4.3	4.5
Financing	4,033	6,650	6,371	7,395	7,733	9,295	10,346	12,008
External	121	2,162	1,047	543	481	397	398	356
Borrowing [2]	194	2,221	1,295	653	622	701	636	701
Amortization	-35	-59	-249	-110	-142	-304	-237	-345
Foreign asset acquisition (ECA/SWF)	-38	-1	0	0	0	0	0	0
Domestic	3,015	1,012	5,324	6,853	7,253	8,897	9,948	11,653
Bank financing	2,355	-887	4,712	5,823	6,413	7,741	8,245	8,545
CBN		-159	4,398	5,288	6,053	7,148	7,286	6,974
of which ECA financing		-151	-54	654	571	542	522	0
Commercial Banks		-728	314	535	360	593	959	1,570
Nonbank financing	641	1,899	505	691	501	920	1,703	3,108
Other financing	19	0	0	0	0	0	0	0
Asset Disposal			107	339	339	237	0	0
Statistical discrepancy/Financing gap	897	3,477	0	0	0	0	0	0
Memorandum items:								
SLGs External Financing		681.1	329.7	171.0	151.4	125.1	125.5	112.0
Budget oil price (US dollar a barrel)	38.0	44.5	47.0	63.9	61.1	59.6	59.1	59.0
Overall balance (% of GDP)	-3.9	-5.5	-4.5	-4.4	-4.0	-4.1	-3.9	-3.9

Sources: Nigerian authorities; and IMF staff estimates and projections.

[1] Includes spending of customs levies and education tax; transfers to FIRS and NCS; spending from the ecology, stabilization, development of natural resources accounts; and FCT spending.

[2] Includes projects not included in the FGN budget, even though funds are on lent by FGN.

Table 5. Nigeria: Government Operations, 2016–23

(Percent of GDP)

	2016	2017	2018	2019	2020	2021	2022	2023
	Prel.	Projections						
Consolidated Government								
Total revenue	5.6	5.7	7.4	7.1	7.1	6.7	6.8	7.0
Oil revenue	2.1	2.5	3.7	3.3	3.1	2.7	2.7	2.6
Of which: implicit fuel subsidy	0.0	0.1	0.4	0.4	0.3	0.2	0.2	0.2
Non-oil revenue	3.4	3.2	3.6	3.7	3.8	3.9	4.1	4.3
Total expenditure	9.5	11.2	11.9	11.6	11.0	10.8	10.7	10.9
Federal government expenditure	4.6	5.3	5.8	5.3	5.3	5.3	5.3	5.4
State and local government	4.3	5.2	4.7	4.9	4.5	4.4	4.3	4.4
Extrabudgetary funds, ECA and implicit fuel subsidies	0.6	0.6	1.4	1.4	1.2	1.1	1.1	1.0
Overall balance	-3.9	-5.5	-4.5	-4.4	-4.0	-4.1	-3.9	-3.9
Non-oil primary balance (percent of non-oil GDP)	-5.1	-7.0	-7.6	-6.7	-5.8	-5.3	-4.9	-4.8
Financing	3.9	5.5	4.5	4.4	4.0	4.1	3.9	3.9
External	0.1	1.8	0.7	0.3	0.2	0.2	0.2	0.1
Borrowing	0.2	1.8	0.9	0.4	0.3	0.3	0.2	0.2
Amortization	0.0	0.0	-0.2	-0.1	-0.1	-0.1	-0.1	-0.1
Domestic	2.9	0.8	3.7	4.1	3.7	3.9	3.8	3.8
Bank financing	2.3	-0.7	3.3	3.5	3.3	3.4	3.1	2.8
CBN		-0.1	3.1	3.2	3.1	3.2	2.8	2.3
Commercial Banks		-0.6	0.2	0.3	0.2	0.3	0.4	0.5
Nonbank financing	0.6	1.6	0.4	0.4	0.3	0.4	0.6	1.0
Asset Disposal			0.1	0.2	0.2	0.1	0.0	0.0
Statistical discrepancy/Financing Gap	0.9	2.9	0.0	0.0	0.0	0.0	0.0	0.0
Federal Government								
Total revenue	2.1	2.0	2.4	2.4	2.5	2.3	2.3	2.4
Oil revenue	0.9	0.9	1.1	1.1	1.1	0.9	0.9	1.0
Non-oil revenue	1.2	1.1	1.1	1.2	1.3	1.3	1.4	1.5
Total expenditure	4.8	6.3	6.0	5.4	5.4	5.3	5.4	5.5
Recurrent expenditure	4.3	5.3	5.0	4.4	4.4	4.3	4.4	4.5
Personnel	1.8	1.9	1.7	1.7	1.8	1.8	1.8	1.8
Overheads	0.5	0.4	0.3	0.3	0.3	0.4	0.4	0.4
Interest	1.3	1.4	1.4	1.6	1.7	1.8	1.9	2.0
Transfers	0.6	1.6	1.4	0.6	0.5	0.4	0.3	0.3
Arrears clearance	0.0	0.0	0.2	0.1	0.1	0.0	0.0	0.0
Capital expenditure	0.6	1.0	1.0	1.0	1.0	1.0	1.0	1.0
Overall balance	-2.8	-4.3	-3.6	-3.0	-3.0	-3.1	-3.1	-3.0
Financing	2.8	4.3	3.6	3.0	3.0	3.1	3.1	3.0
External	0.1	1.8	0.7	0.3	0.2	0.2	0.2	0.1
Domestic	2.7	0.5	2.9	2.7	2.7	2.9	2.9	2.9
Bank financing	2.0	-1.0	2.4	2.0	2.3	2.4	2.3	1.9
Nonbank financing	0.6	1.6	0.4	0.4	0.3	0.4	0.6	1.0
Statistical discrepancy/Financing gap	0.0	1.9	0.0	0.0	0.0	0.0	0.0	0.0

Sources: Nigerian authorities; and IMF staff estimates and projections.

Table 6. Nigeria: State and Local Governments, 2016–23
(Percent of GDP)

	2016	2017	2018	2019	2020	2021	2022	2023
		Prel.	Projections					
Revenue	2.8	3.9	3.5	3.4	3.4	3.3	3.4	3.5
Oil revenue	1.1	1.2	1.3	1.4	1.4	1.2	1.2	1.2
Shared revenue	0.8	0.9	1.0	1.0	1.0	0.9	0.9	0.9
Derivation grant (13 percent)	0.3	0.3	0.4	0.3	0.3	0.3	0.3	0.3
Non-oil revenue	1.7	2.7	2.1	2.0	2.1	2.1	2.2	2.3
Corporate Income Tax	0.4	0.5	0.5	0.5	0.6	0.6	0.7	0.8
Customs	0.2	0.2	0.3	0.3	0.3	0.3	0.2	0.2
VAT	0.6	0.6	0.7	0.7	0.7	0.8	0.8	0.8
Internal revenue	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4
Net Transfers from FGN		0.9	0.2	0.1	0.1	0.1	0.0	0.0
Expenditure	4.3	5.2	4.7	4.9	4.5	4.4	4.3	4.4
Overall Balance	-1.6	-1.4	-1.2	-1.5	-1.0	-1.0	-0.9	-0.9
Financing	1.6	1.4	1.2	1.5	1.0	1.0	0.9	0.9
External	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Domestic	0.4	0.3	1.2	1.5	1.0	1.0	0.9	0.9
Bank financing	0.4	0.3	1.2	1.5	1.0	1.0	0.9	0.9
Nonbank financing	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Statistical discrepancy/Financing gap	1.1	1.1	0.0	0.0	0.0	0.0	0.0	0.0

Sources: Nigerian authorities; and IMF staff estimates and projections.

Table 7. Central Bank of Nigeria (CBN) Analytical Balance Sheet, 2016–23

(Billions of Naira)

	2016	2017				2018	2019	2020	2021	2022	2023
	Dec.	Mar.	Jun.	Sep.	Dec.	December					
	Act.	Act.				Projections					
Net foreign assets[1]	8,091	7,624	8,379	9,870	14,427	14,759	13,872	13,473	13,242	12,736	12,261
Net domestic assets	1,007	440	-325	-1,685	-5,116	-4,224	-1,451	1,259	4,200	7,880	11,839
Net domestic credit	7,039	8,115	8,106	7,766	7,213	10,774	14,174	18,865	24,313	30,022	35,139
Net claims on consolidated government	410	571	729	400	170	3,287	6,158	10,236	15,019	19,974	24,239
Net claims on federal government [1]	109	191	233	-138	-420	2,697	5,568	9,645	14,428	19,384	23,649
Claims	5,217	5,559	5,545	5,716	5,598	8,775	11,646	15,724	20,507	25,462	29,727
Deposits	-5,107	-5,367	-5,312	-5,854	-6,018	-6,078	-6,078	-6,078	-6,078	-6,078	-6,078
Net claims on state and local governments[2]	300	379	496	538	590	590	590	590	590	590	590
Claims on deposit money banks	1,632	1,751	1,685	1,833	1,764	2,050	2,415	2,861	3,353	3,929	4,597
Other net claims	4,998	5,793	5,692	5,533	5,279	5,437	5,600	5,768	5,941	6,120	6,303
Other items net	-6,033	-7,674	-8,431	-9,451	-12,329	-14,998	-15,625	-17,606	-20,114	-22,142	-23,300
Reserve money	9,097	8,065	8,054	8,185	9,312	10,535	12,421	14,731	17,442	20,616	24,101
Currency in circulation	2,179	1,984	1,874	1,781	2,157	2,378	2,804	3,325	3,937	4,653	5,440
Banks reserves with the CBN	6,918	6,081	6,180	6,404	7,154	8,157	9,618	11,406	13,505	15,963	18,661
Memorandum items:											
Reserve money y/y growth rate	29.2	9.5	6.5	6.4	2.4	13.1	17.9	18.6	18.4	18.2	16.9
Money multiplier	2.6	2.7	2.7	2.7	2.6	2.6	2.6	2.6	2.6	2.6	2.6

Sources: Nigerian authorities; and IMF staff estimates and projections.

[1]The SLGs share of the ECA is included under the Net Claims on the FGN, as the FGN is the signatory of the ECA in the CBN. It is assumed that the domestic portion of sovereign wealth fund will have similar accounting treatment.

[2] Includes the windfall oil revenue savings by subnational governments and extrabudgetary funds.

Table 8. Nigeria: Monetary Survey, 2016–23

(Billions of Naira)

	2016	2017				2018	2019	2020	2021	2022	2023
	Dec.	Mar.	Jun.	Sep.	Dec.	December					
	Act.	Act.				Projections					
Net foreign assets	8,438	7,657	8,489	10,107	14,855	15,214	14,466	14,358	14,144	13,912	14,075
Central Bank of Nigeria (net)	8,091	7,624	8,379	9,870	14,427	14,759	13,872	13,473	13,242	12,736	12,261
Commercial and merchant banks (net)	347	33	110	236	428	454	593	885	902	1,176	1,813
Net domestic assets	14,959	14,453	13,280	11,625	8,909	11,881	17,479	23,529	30,714	39,109	47,908
Net domestic credit	26,704	27,324	26,879	26,572	25,535	30,938	37,049	43,786	51,875	60,502	69,483
Net claims on consolidated government	5,656	6,184	6,230	5,971	4,911	10,177	15,999	22,413	30,153	38,398	46,943
Net claims on FGN [1]	4,672	5,101	5,055	4,720	3,422	6,914	10,320	14,757	20,133	26,048	31,883
CBN	41	18	157	-209	-481	2,697	5,568	9,645	14,428	19,384	23,649
Commercial Banks	4,631	5,083	4,897	4,929	3,903	4,217	4,752	5,112	5,705	6,664	8,234
Claims on SLG	983	1,083	1,175	1,251	1,489	3,263	5,680	7,655	10,020	12,350	15,060
Claims on private sector	16,062	15,738	15,464	15,617	15,395	15,532	15,821	16,144	16,493	16,875	17,311
o/w credit to the private sector	14,164	14,028	13,775	13,912	13,703	13,840	14,129	14,452	14,801	15,183	15,620
Other Claims	4,987	5,403	5,186	4,984	5,229	5,229	5,229	5,229	5,229	5,229	5,229
Other items	-11,745	-12,871	-13,600	-14,947	-16,626	-19,056	-19,570	-20,257	-21,161	-21,393	-21,575
Broad money	23,397	22,110	21,769	21,732	23,763	27,095	31,945	37,887	44,858	53,022	61,983
Currency outside banks	1,820	1,663	1,477	1,435	1,783	2,033	2,396	2,842	3,365	3,978	4,650
Demand deposits	6,180	6,131	6,114	5,981	6,389	10,471	12,288	14,513	17,125	20,183	23,540
Time and savings deposits	12,147	11,895	11,603	11,691	12,758	14,592	17,261	20,531	24,368	28,861	33,793
Memorandum items :											
Broad money (y-o-y,%)	17.4	9.0	-0.5	-0.4	1.6	14.0	17.9	18.6	18.4	18.2	16.9
Credit to the private sector (y-o-y,%)	22.3	22.6	1.2	-1.5	-3.3	1.0	2.1	2.3	2.4	2.6	2.9
Velocity (non-oil GDP/broad money)	4.11	4.5	4.7	4.8	4.5	4.8	4.9	4.9	4.7	4.7	4.7
Gross international reserves (billions of US dollar)	27.0	30.0	30.3	32.0	37.0	39.2	36.6	35.6	35.4	34.4	33.6

Sources: Nigerian authorities; and IMF staff estimates and projections.

[1] The SLGs share of the ECA is included under the Net Claims on the FGN, as the FGN is the signatory of the ECA in the CBN. It is assumed that the domestic portion of sovereign wealth fund will have similar accounting treatment.

Table 9. Nigeria: Financial Soundness Indicators, 2013Q4–17Q3

(Percent; otherwise specified)

	2013 Q4	2014 Q4	2015Q4	2016Q1	2016Q2	2016Q3	2016Q4	2017Q1	2017Q2	2017Q3
Regulatory Capital to Risk-Weighted Assets	17.1	18.6	17.7	16.6	14.7	15.0	14.8	13.5	11.5	10.6
Regulatory Tier 1 Capital to Risk-Weighted Assets	17.1	15.5	18.1	17.6	15.6	15.6	16.3	13.2	10.4	10.8
Non-Performing Loans Net of Provisions to Capital	5.9	3.8	5.5	20.2	28.5	34.9	36.2	43.2	40.3	43.0
Non-Performing Loans to Total Gross Loans	3.4	3.0	4.9	9.7	10.7	13.4	12.8	14.7	15.0	15.1
Return on Assets	2.3	2.5	2.5	3.0	2.3	1.3	1.3	2.3	2.6	2.4
Return on Equity	18.9	21.2	19.7	22.6	17.8	10.0	10.0	17.6	21.6	20.5
Interest Margin to Gross Income	63.9	51.2	62.2	62.4	61.4	50.0	67.6	72.9	57.8	67.5
Non-interest Expenses to Gross Income	68.1	56.9	63.1	58.0	54.6	63.8	62.8	58.3	52.0	60.0
Liquid Assets to Total Assets (Liquid Asset Ratio)	16.8	11.4	18.5	17.4	14.0	15.0	16.2	16.7	17.2	17.0
Liquid Assets to Short Term Liabilities	23.1	16.7	27.1	25.7	21.6	23.1	24.5	25.7	25.9	25.5

Source: Central Bank of Nigeria.

Table 10. Nigeria: Risk Assessment Matrix[1]

Sources of Risk	Relative Likelihood	Time Horizon	Impact on Nigeria	Policy Responses
External Risks				
Retreat from cross-border integration. Fraying consensus about the benefits of globalization leads to protectionism and economic isolationism, resulting in reduced global and regional policy collaboration with negative consequences for trade, capital and labor flows, sentiment, and growth.	Medium	Short to Medium Term	Medium	• ***Diversify exports***, both in terms of export products and trading partners. • Continue improving the ***business environment*** to boost productivity and competitiveness (e.g., streamlining business regulations, contract enforcement, and improving trade facilitation).
Policy and geopolitical uncertainties: **Policy uncertainty,** including two-sided risks to U.S. growth; uncertainties associated with post-Brexit arrangements and NAFTA and associated market fragmentation risks; and evolving political processes, including elections in several large economies, weigh on the whole on global growth.	Medium	Short to Medium Term	Medium	• Greater ***exchange rate flexibility*** in a unified market should be allowed to cushion the impact of related shocks and structural reforms advanced to enhance economic efficiency and diversification.
Intensification of risks of fragmentation/security dislocation in part of the Middle East, Africa, and Europe, leading socioeconomic disruptions.	High	Short to Medium Term	Medium	• Aim to ***rebuild fiscal buffers and reserves*** *to cushion against any shortfall in trade and financial flows. (risk will be mitigated if this leads to increasing international oil prices)*
Financial conditions: **Tighter global financial conditions.** Against the backdrop of continued monetary policy normalization and increasingly stretched valuations across asset classes, an abrupt change in global risk appetite (e.g., due to higher-than-expected inflation in the U.S) could lead to sudden, sharp increases in interest rates and associated tightening of financial conditions. Higher debt service and refinancing risks could stress leveraged firms, households, and vulnerable sovereigns, including through capital account pressures in some cases.	High	Short to Medium Term	High	• Up-front measures for ***fiscal consolidation*** to ensure continued access to international capital markets. • The ***monetary and exchange rate policy framework*** needs to be strengthened, including allowing greater flexibility in a unified interbank exchange rate; placing a stronger emphasis on price stability as the primary policy objective of monetary policy; reducing monetary growth to its benchmark rate; and unwinding the central bank quasi fiscal activities.
Further pressure on traditional bank business models: Legacy problems, and potential competition from non-banks curtail banks' profitability globally. Loss of confidence if such profitability challenges are not addressed could increase the risk of distress at one or more major banks with possible knock-on effects on the broader financial sector and for sovereign yields in vulnerable economies. Migration of activities outside of the traditional banking sector, including provision of financial services by fintech intermediaries, raises competitive pressures on traditional banks, making risk monitoring and mitigation more difficult.	Medium	Medium Term	Low	• Strengthen the ***supervisory and regulatory framework***, especially as it pertains oversight of holding companies; improve corporate governance; and address weaknesses in the bank resolution framework.

Table 10. Nigeria: Risk Assessment Matrix (continued)

Sources of Risk	Relative Likelihood	Time Horizon	Impact on Nigeria	Policy Responses
Weaker-than-expected global growth:				
Structurally weak growth in key advanced economies: Low productivity growth (U.S., euro area and Japan), high debt, and failure to fully address crisis legacies by undertaking structural reforms amidst persistently low inflation (euro area and Japan) undermine medium-term growth.	High	Medium Term	Medium	• ***Diversify exports*** both in terms of export products and trading partners to cushion against any demand shortfall for oil exports. • Continue improving the ***business environment*** to boost productivity and competitiveness (e.g., streamlining business regulations, contract enforcement, and improving trade facilitation). • Address the ***infrastructure gap***. Significant public and private investment is needed to improve power generation, improve logistics and expand capacity.
Significant U.S. slowdown and its spillovers: As the current recovery ages and vulnerabilities build up, the risks of a sharper-than-expected slowdown increase. The proximate causes could be a fiscal contraction associated with the eventual planned withdrawal of the tax stimulus or market fears of overheating. A sharp adjustment necessitated by relatively limited fiscal policy space would create global spillovers.	Medium	Medium Term	Medium	
Significant China slowdown and its spillovers: While ongoing efforts by the Chinese authorities to "de-risk" the financial system are welcome, too fast an adjustment and improper sequencing of actions may adversely affect near-term growth (low likelihood). Over the medium term, overly ambitious growth targets, including by over reliance on credit stimulus and investment, lead to unsustainable policies, reducing fiscal space, further increasing financial imbalances. A sharp adjustment would weaken domestic demand, with adverse international spillovers, including a pullback in capital flows to EMs (medium likelihood).	Low/ Medium	Short to Medium Term	High	
Lower energy prices, driven by weakening OPEC/Russia cartel cohesion and/or recovery of oil production in the African continent.	Low	Short to Medium Term	High	• ***Non-oil revenue mobilization*** is priority as it will shield the country from declines in oil revenue. • ***Contain recurrent expenditure*** to conserve scarce resources for public investment. • Greater ***exchange rate flexibility*** to support adjustment to external shocks and reflect economic fundamentals, supported by a tighter monetary to prevent capital outflows and bolster reserves. • ***Structural reforms*** should be advanced to improve economic efficiency and enhance diversification.

Table 10. Nigeria: Risk Assessment Matrix (concluded)

Sources of Risk	Relative Likelihood	Time Horizon	Impact on Nigeria	Policy Responses
Cyber-attacks on interconnected financial systems and broader private and public institutions that trigger systemic financial instability or widely disrupt socio-economic activities.	Medium	**Short to Medium Term**	Medium	• Strengthen the ***supervisory and regulatory framework***, especially as it pertains to cross-border banking activity and oversight of holding companies; improve corporate governance; and address weaknesses in the bank resolution framework.
		Nigeria-specific Risks		
Prolonged policy uncertainty, including delayed policy actions ahead of the elections, could drag on confidence and investment, undermining growth and increase pressure on the currency **Worsening of SLG finances.** **Prolonged disruption of oil production in the Niger Delta and deterioration of insurgency-related humanitarian crisis in the North East of Nigeria.** **Continued deterioration in banking sector Financial Stability Indicators.**	High High High High	**Short Term** **Medium Term** **Medium Term** **Short Term**	High High High High	• Urgent need for an ***integrated package of policies*** (including communication strategy) to address near-term vulnerabilities and support the transition to a more diversified economy. • In addition to the fiscal sustainability program, a clear picture is needed on how SLGs plan to adjust to the projected lower oil revenue allocations and bolster internally generated revenues. • Continue to encourage reform of budget preparation and execution and strengthening of ***public financial management***, including the adoption by SLGs of Treasury Single Account, cash management reforms, and improved fiscal reporting. • Strengthen security arrangements and the investment environment in ***oil and gas*** sector. • Increase **banks' capital** and provisioning for NPLs, while enhancing banking supervision. • Implement effectively targeted ***anti-money laundering*** measures to help detect and investigate illicit financial flows related to theft and corruption in the oil sector. • Address ***infrastructure gaps*** & income/developmental disparities among states, while instituting appropriate social safety nets.

[1] The Risk Assessment Matrix (RAM) shows events that could materially alter the baseline path (the scenario most likely to materialize in the view of IMF staff). The relative likelihood is the staff's subjective assessment of the risks surrounding the baseline ("low" is meant to indicate a probability below 10 percent, "medium" a probability between 10 and 30 percent, and "high" a probability between 30 and 50 percent). The RAM reflects staff views on the source of risks and overall level of concern as of the time of discussions with the authorities. Non-mutually exclusive risks may interact and materialize jointly. "Short term" and "medium term" are meant to indicate that the risk could materialize within 1 year and 3 years, respectively.

Annex I. Status of Key Recommendations for the 2017 Article IV Consultation

Recommendation	Status
Fiscal - Promote a sustainable and growth-friendly fiscal policy centered on non-oil revenue mobilization, prioritized capital spending, sound debt management, and a well-targeted social safety net.	- The authorities have focused their fiscal policy efforts on improving tax administration, including through new registrations of corporates, collection of arrears, and targeted tax audits. No major tax policy change was implemented to increase non-oil revenue. - The draft 2018 budget relies on tripling non-oil revenue on the basis of improved compliance and enforcement, an increase in SOEs' surplus revenue, and divestment of oil assets. There are no major tax policy initiatives yet implemented, except for some excises increases.
Monetary and Exchange Rate - Tighten monetary policy to contain inflation and to protect reserves. - Remove distortions in the foreign exchange regime.	- In line with the CBN's objective of keeping inflation close to its 6-9 target range, monetary policy has been significantly tightened in 2017, despite an unchanged MPR since July 2016. Inflation has declined but remains sticky. - New FX measures helped significantly decrease the parallel market premium to about 20 percent against the official rate (from 60 percent in February 2017). These include a sustained intervention of the CBN in the FX market, and the introduction of the Investor and Exporter window. However, distortions in the FX market due to multiple rates and continued ban on FX access for certain import items remain.
Financial - Enhance banking sector resilience through tighter prudential requirements, intensified monitoring, strengthened regulations, and recapitalization of banks.	- The authorities have undertaken several measures to contain risks to financial stability and strengthen banking sector resilience, including increased provisioning, strict limits on net FX positions, and prohibition of dividend payments. However, banking system vulnerabilities persist.
Structural - Implement structural reforms in the power and integrated transportation sectors, health and education, governance, and the business environment.	- The authorities continued addressing structural impediments, and focused on reforms to boost growth and improve governance, also as part of their ERGP. Nigeria was among the ten fastest reform economies this year, moving up 25 places (to 145) in the World Bank Doing Business survey. Other developments include actions under the Power Sector Recovery Plan which have improved power supply and ensured government agencies pay their electricity bills; adoption of the Petroleum Industry Governance Bill, and intensified investigations by the Economic and Financial Crimes Commission and the dismissal of two high government officials for alleged corruption.

Annex II. Public and External Debt Sustainability

A. Public Debt Sustainability Analysis

Debt as a share of GDP stands at comfortable levels, but remains high relative to historical averages and on an upward trajectory. However, interest payments as a share of federal government revenue rise to unsustainable levels under unchanged policies, to above 80 percent by 2022. Stress scenarios highlight the vulnerability of public debt to shocks related to growth and primary balance shocks. Fiscal consolidation based on front loading non-oil revenue mobilization over the next five years is essential to reduce the interest payments to revenue ratio to more sustainable levels. The debt-stabilizing primary balance is estimated at 1.8 percent of GDP.

Baseline Projections

1. **Nigeria's level of public debt has been increasing relative to historical performance**. Higher-than-historical fiscal deficits and a challenging macroeconomic environment pushed up public debt from 12 percent to 19.6 percent of GDP during the period 2014–16. In addition, public gross debt figures now reflect Federal Government's overdrafts from CBN, which account for 2.6 percent of GDP in 2016. However, public net debt—which include deposits—has been lower, since government's deposits have been in excess of overdrafts (about 5 percent of GDP in 2016).[1] Gross financing needs are estimated to have more than doubled in 2017 relative to the average of the previous two years. The Federal Government interest payments-to-revenue almost tripled from 27 percent in 2014 to an estimated 71.9 percent in 2017.

2. **Nigeria's public debt is rising under baseline projections**. Mostly domestic, the public debt-to-GDP ratio is forecast to increase from 22.3 percent in 2017 to 26.6 percent in 2022, largely driven by deficits and liabilities from State and Local Governments. Arrears in the amount of N2 trillion are included as part of debt stock in 2018, where payments will be over 10 years in equal amount in form of promissory notes that carry no coupon. The "imputed" primary deficit is projected to narrow to 2 percent of GDP by 2022, down from 4.1 percent in 2017. The contribution of growth and lower real interest rates to debt reduction will not be large enough to offset adverse dynamics from the fiscal deficits (Figure 1).

3. **Under current policies, Nigeria's financing needs in the medium term will average about 6.4 percent of GDP**. Financing pressures are primarily driven by interest payments which are

[1] Gross debt projections include overdrafts, which assume to have medium to long-term maturity, in line with the government's practice of converting overdrafts, above 5 percent of revenue of the previous year (generally a small amount), into government securities that bear interest rate, as opposed to overdrafts that carry no interest rate. The rationale behind the inclusion of central bank financing through overdraft/converted bonds is to take into account the governance framework on annual net domestic financing and foreign currency borrowing, which are both capped by Parliament. The limits are derived based on the government's budget which differ from staff's projections, hence generating additional domestic financing.

projected to reach 81.7 percent of federal government revenue in 2022, up from 61.7 percent in 2016. Part of the government's debt management strategy includes replacing maturing short-term debt (Treasury bills), worth $3 billion, with Eurobond issuances, which should result in reducing borrowing cost over 2018.[2] Indeed, the yield rates on T-bills are down by 390 bps since the start of 2018.

4. Baseline assumptions do not point to a significant bias in the forecast track record, which is broadly in line with those observed in other surveillance countries (Figure 3). Reflecting the volatility of oil price, past projections of the primary balance show some optimistic bias.

Stress Tests

5. Projections for debt and gross financing needs are particularly sensitive to growth and primary balance shocks. Higher interest rates will further increase Nigeria's vulnerabilities by placing a principal risk on debt service. Interest payments are already high at 71.9 percent of FG revenue in 2017 and projected to increase to 81.8 percent by 2022. With an interest rate shock, they would increase to 104 percent of FG revenue by 2022. Contingent liability shocks could also undermine debt sustainability. In the absence of data provision on, or concrete estimates of contingent liabilities, a hypothetical one-time bail out of the financial sector is assumed, which increases non-interest expenditures by 10 percent of banking sector assets.[3] Such a shock would push the ratio of interest payments to FG revenue to 98 percent by 2022. A combined macro-fiscal shock would push this ratio close to 130 percent.

6. The fan charts indicate that there is significant uncertainty around the baseline. The width of the symmetric fan chart, estimated at about 25 percent of GDP, illustrates the degree of uncertainty for equal probability upside and downside shocks (Figure 4). In an asymmetric fan chart, an extreme downside shock that constrains growth to zero results in a more upward-sloping debt path, reflecting a balance of risks skewed to the downside.

Heat Map

7. The heat map identifies market perception as principal risk to debt sustainability. Decisive fiscal actions are essential to curb financing pressures. Strengthening non-oil revenue mobilization at levels envisaged in the authorities' ERGP could help achieve this objective.

---

[2] Some of the proceeds from Eurobond issuances in 2017, roughly $500 million, have been used to retire T-bills maturing in December 2017 and some in January 2018.

[3] Additional potential contingent liabilities risks are those arising from PPPs and state-owned enterprises. Available information suggests that such costs might be limited. For instance, the power sector contingent liabilities are estimated at about 1.7 percent of GDP.

Figure 1. Public Sector Debt Sustainability Analysis (DSA) - Baseline Scenario

(Percent of GDP unless otherwise indicated)

Debt, Economic and Market Indicators 1/

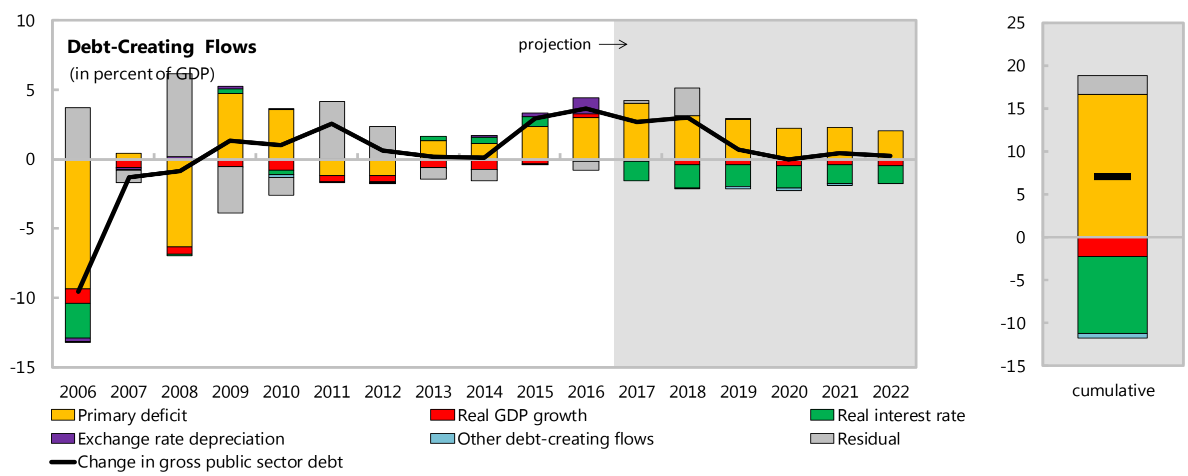
	Actual			Projections					
	2006-2014 2/	2015	2016	2017	2018	2019	2020	2021	2022
Nominal gross public debt	10.4	16.0	19.6	22.3	25.3	26.0	26.0	26.4	26.6
Public gross financing needs	0.2	3.5	4.3	8.8	7.5	6.7	6.1	5.9	5.7
Real GDP growth (in percent)	6.9	2.7	-1.6	0.8	2.1	1.9	2.1	2.0	2.0
Inflation (GDP deflator, in percent)	9.4	2.9	9.5	17.0	15.7	14.2	14.8	13.8	14.0
Nominal GDP growth (in percent)	16.9	5.6	7.8	17.9	18.1	16.3	17.2	16.0	16.2
Effective interest rate (in percent) 4/	8.6	9.0	8.6	8.6	7.2	7.3	7.8	8.1	8.4
Adjusted Effective interest rate (in percent) 5/	8.8	9.5	9.8	9.9	8.0	8.3	8.7	8.9	9.0

As of November 10, 2017		
Sovereign Spreads		
EMBIG (bp) 3/		410
5Y CDS (bp)		308
Ratings	Foreign	Local
Moody's	B2	B2
S&Ps	B	B
Fitch	B+	B

Contribution to Changes in Public Debt 6/

	Actual			Projections						
	2006-2014	2015	2016	2017	2018	2019	2020	2021	2022	cumulative
Change in gross public sector debt	-0.7	2.9	3.6	2.7	3.0	0.7	0.0	0.4	0.3	7.0
Identified debt-creating flows	-1.6	3.0	4.3	2.5	1.0	0.7	0.0	0.4	0.3	4.8
Primary deficit	-0.8	2.4	3.0	4.1	3.1	2.9	2.2	2.3	2.0	16.6
Primary (noninterest) revenue and grants	14.9	7.0	5.5	5.7	7.4	7.1	7.1	6.7	6.8	40.8
Primary (noninterest) expenditure	14.2	9.4	8.5	9.8	10.5	10.0	9.3	9.0	8.8	57.4
Automatic debt dynamics 7/	-0.8	0.7	1.2	-1.5	-2.1	-2.0	-2.1	-1.8	-1.8	-11.2
Interest rate/growth differential 8/	-0.8	0.4	0.1	-1.5	-2.1	-2.0	-2.1	-1.8	-1.8	-11.2
Of which: real interest rate	-0.2	0.7	-0.2	-1.4	-1.7	-1.6	-1.6	-1.3	-1.3	-8.9
Of which: real GDP growth	-0.6	-0.3	0.2	-0.1	-0.4	-0.4	-0.5	-0.4	-0.4	-2.3
Exchange rate depreciation 9/	0.0	0.3	1.2	…	…	…	…	…	…	…
Other identified debt-creating flows	0.0	0.0	0.0	0.0	-0.1	-0.2	-0.2	-0.1	0.0	-0.6
Net privatization proceeds (negative)	0.0	0.0	0.0	0.0	-0.1	-0.2	-0.2	-0.1	0.0	-0.6
Contingent liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Please specify (2) (e.g., ESM and Euroarea	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Residual, including asset changes 10/	1.0	-0.1	-0.6	0.1	2.0	0.0	0.0	0.0	0.0	2.2

debt-stabilizing primary balance 11/
-1.8



Source: IMF staff.

1/ Public sector is defined as general government.

2/ Based on available data.

3/ Long-term bond spread over U.S. bonds.

4/ Defined as interest payments divided by debt stock (excluding guarantees) at the end of previous year.

5/ Defined as interest payments divided by debt stock (excluding guarantees and debt that do not carry interest payments) at the end of previous year.

6/ Gross debt includes overdraft from the central bank.

7/ Derived as [(r - π(1+g) - g + ae(1+r)]/(1+g+π+gπ)) times previous period debt ratio, with r = interest rate; π = growth rate of GDP deflator; g = real GDP growth rate; a = share of foreign-currency denominated debt; and e = nominal exchange rate depreciation (measured by increase in local currency value of U.S. dollar).

8/ The real interest rate contribution is derived from the numerator in footnote 5 as r - π (1+g) and the real growth contribution as -g.

9/ The exchange rate contribution is derived from the numerator in footnote 5 as ae(1+r).

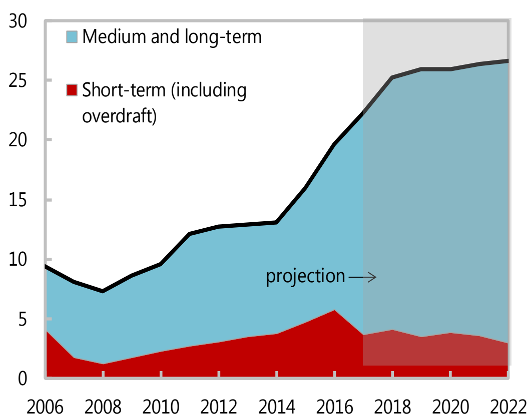
10/ Includes asset changes and interest revenues (if any). For projections, includes exchange rate changes during the projection period.

11/ Assumes that key variables (real GDP growth, real interest rate, and other identified debt-creating flows) remain at the level of the last projection year.

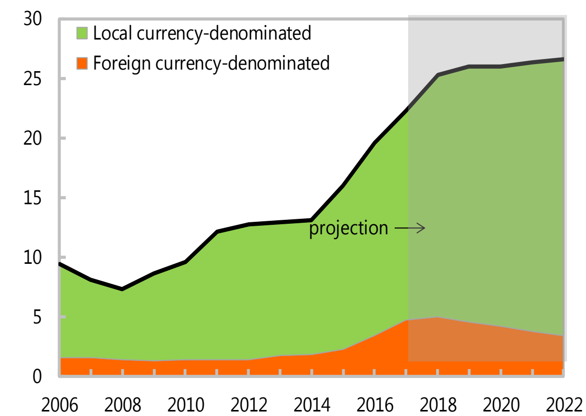
Figure 2. Public DSA - Composition of Public Debt and Alternative Scenarios

Composition of Public Debt

By Maturity
(in percent of GDP)



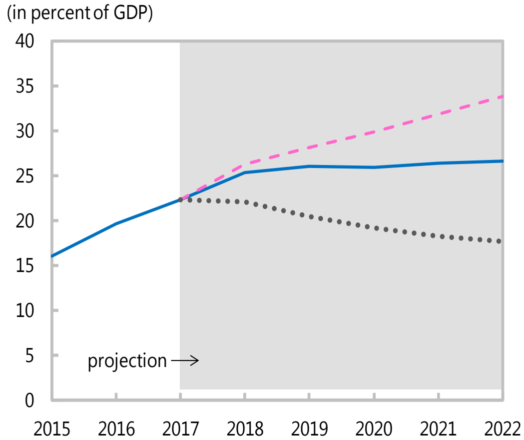
By Currency
(in percent of GDP)



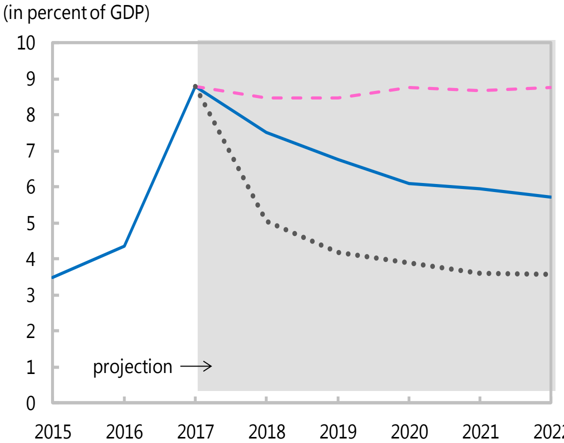
Alternative Scenarios

Baseline   Historical   Constant Primary Balance

Gross Nominal Public Debt
(in percent of GDP)



Public Gross Financing Needs
(in percent of GDP)



Underlying Assumptions
(in percent)

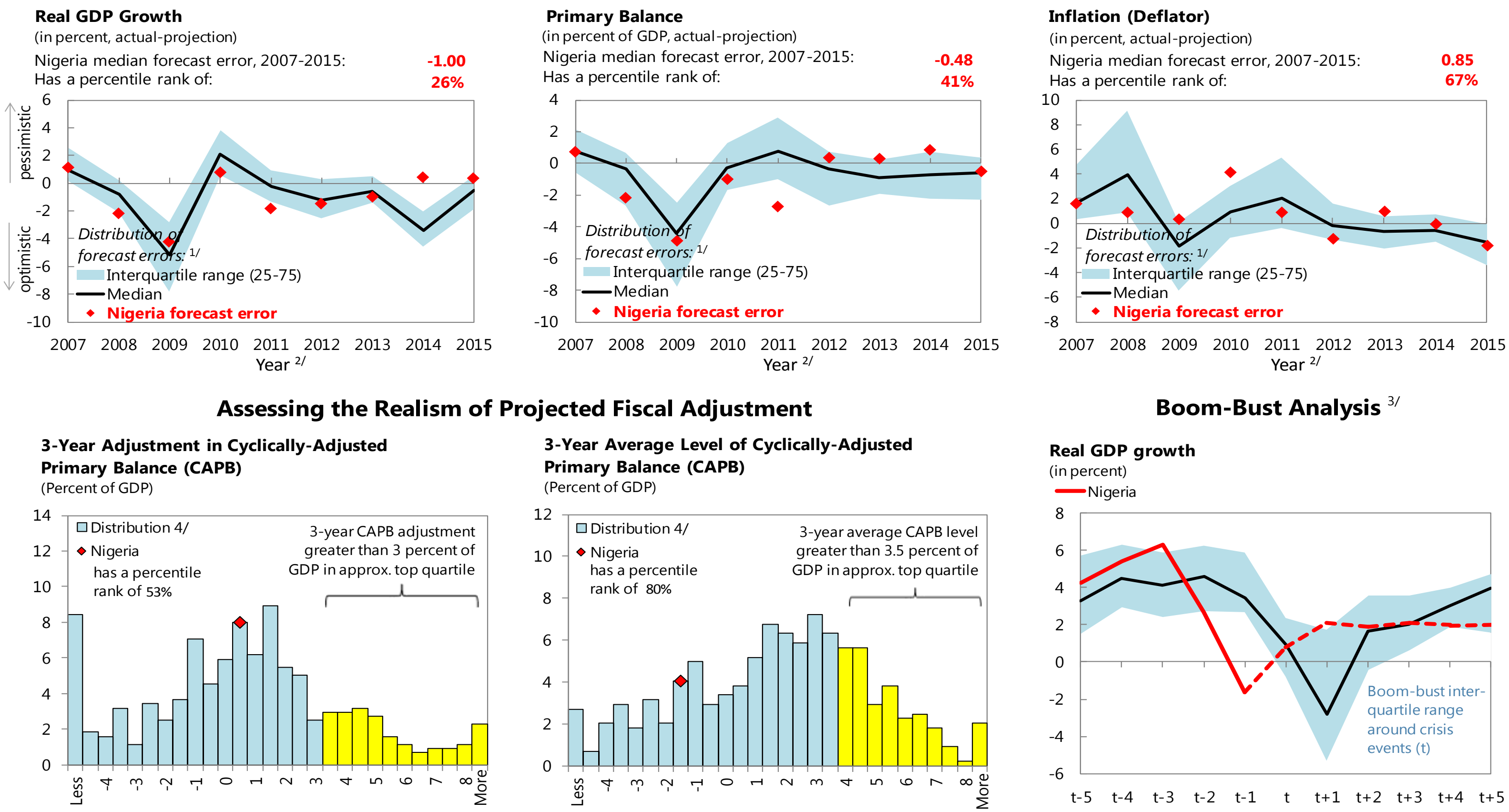
Baseline Scenario	2017	2018	2019	2020	2021	2022
Real GDP growth	0.8	2.1	1.9	2.1	2.0	2.0
Inflation	17.0	15.7	14.2	14.8	13.8	14.0
Primary Balance	-4.1	-3.1	-2.9	-2.2	-2.3	-2.0
Effective interest rate	8.6	7.2	7.3	7.8	8.1	8.4
Constant Primary Balance Scenario						
Real GDP growth	0.8	2.1	1.9	2.1	2.0	2.0
Inflation	17.0	15.7	14.2	14.8	13.8	14.0
Primary Balance	-4.1	-4.1	-4.1	-4.1	-4.1	-4.1
Effective interest rate	8.6	7.2	7.4	8.1	8.5	8.8

Historical Scenario	2017	2018	2019	2020	2021	2022
Real GDP growth	0.8	5.6	5.6	5.6	5.6	5.6
Inflation	17.0	15.7	14.2	14.8	13.8	14.0
Primary Balance	-4.1	-0.8	-0.8	-0.8	-0.8	-0.8
Effective interest rate	8.6	7.2	8.3	9.4	10.2	11.1

Source: IMF staff.

Figure 3. Public DSA - Realism of Baseline Assumptions

Forecast Track Record, versus surveillance countries



Source : IMF Staff.

1/ Plotted distribution includes surveillance countries, percentile rank refers to all countries.

2/ Projections made in the spring WEO vintage of the preceding year.

3/ Nigeria has had a positive output gap for 3 consecutive years, 2014-2016. For Nigeria, t corresponds to 2017; for the distribution, t corresponds to the first year of the crisis.

4/ Data cover annual obervations from 1990 to 2011 for advanced and emerging economies with debt greater than 60 percent of GDP. Percent of sample on vertical axis.

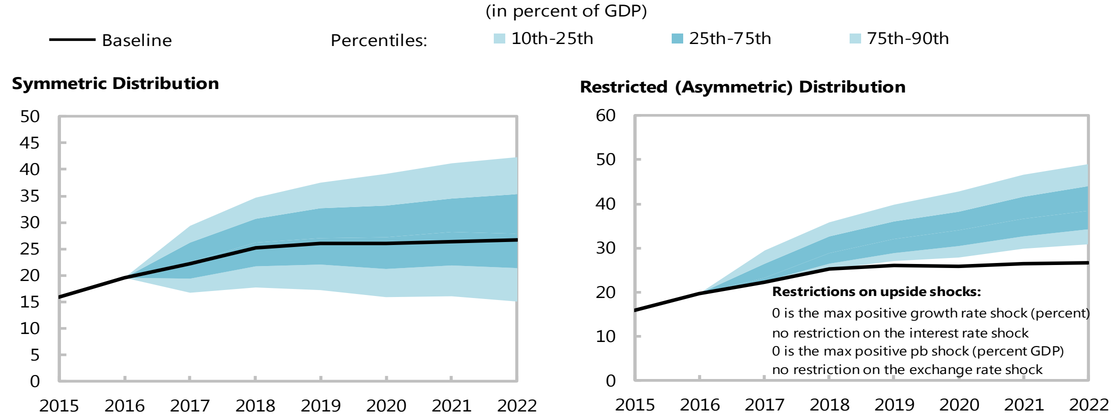
Figure 4. Nigeria: Public DSA Risk Assessment

Heat Map

Debt level [1/]	Real GDP Growth Shock	Primary Balance Shock	Real Interest Rate Shock	Exchange Rate Shock	Contingent Liability shock
Gross financing needs [2/]	Real GDP Growth Shock	Primary Balance Shock	Real Interest Rate Shock	Exchange Rate Shock	Contingent Liability Shock
Debt profile [3/]	Market Perception	External Financing Requirements	Change in the Share of Short-Term Debt	Public Debt Held by Non-Residents	Foreign Currency Debt

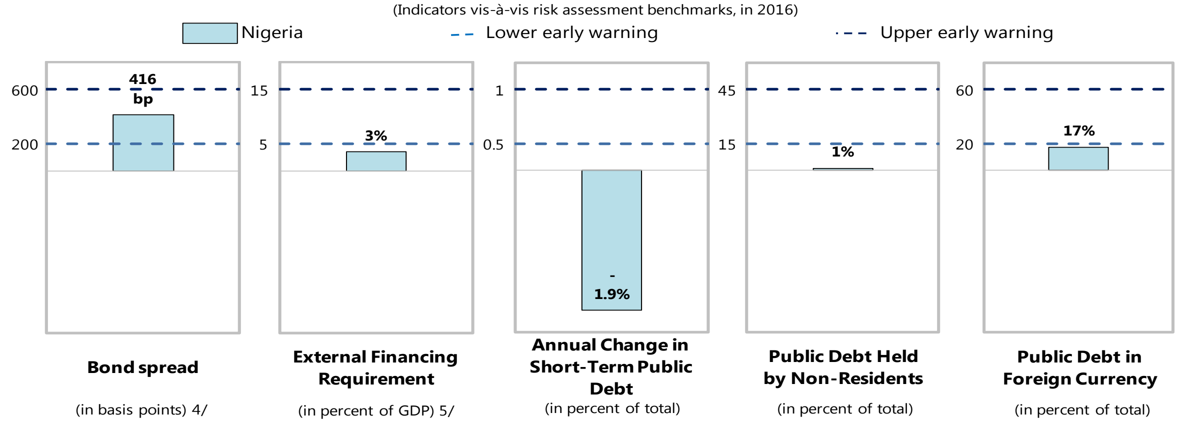
Evolution of Predictive Densities of Gross Nominal Public Debt

(in percent of GDP)



Debt Profile Vulnerabilities

(Indicators vis-à-vis risk assessment benchmarks, in 2016)



Source: IMF staff.

1/ The cell is highlighted in green if debt burden benchmark of 70% is not exceeded under the specific shock or baseline, yellow if exceeded under specific shock but not baseline, red if benchmark is exceeded under baseline, white if stress test is not relevant.

2/ The cell is highlighted in green if gross financing needs benchmark of 15% is not exceeded under the specific shock or baseline, yellow if exceeded under specific shock but not baseline, red if benchmark is exceeded under baseline, white if stress test is not relevant.

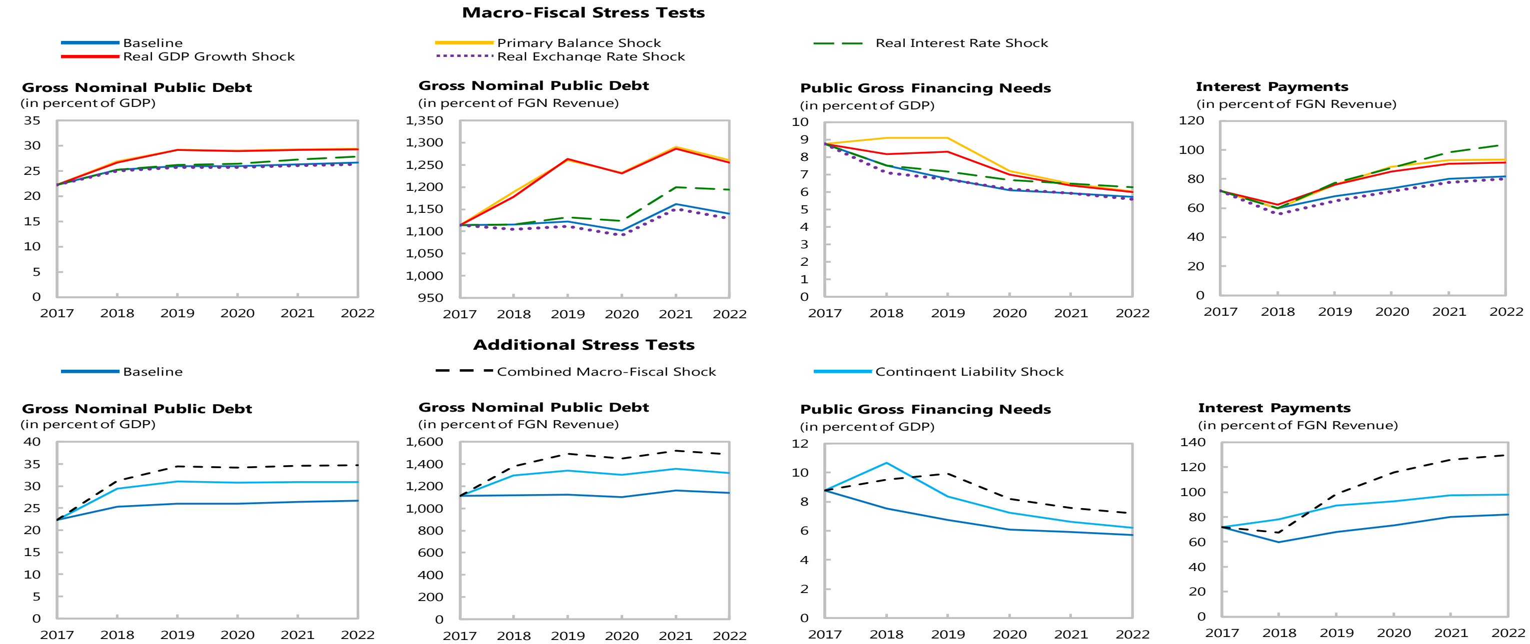
3/ The cell is highlighted in green if country value is less than the lower risk-assessment benchmark, red if country value exceeds the upper risk-assessment benchmark, yellow if country value is between the lower and upper risk-assessment benchmarks. If data are unavailable or indicator is not relevant, cell is white.
Lower and upper risk-assessment benchmarks are:

200 and 600 basis points for bond spreads; 5 and 15 percent of GDP for external financing requirement; 0.5 and 1 percent for change in the share of short-term debt; 15 and 45 percent for the public debt held by non-residents; and 20 and 60 percent for the share of foreign-currency denominated debt.

4/ Long-term bond spread over U.S. bonds, an average over the last 3 months, 16-Oct-2017 through 15-Jan-18.

5/ External financing requirement is defined as the sum of current account deficit, amortization of medium and long-term total external debt, and short-term total external debt at the end of previous period.

Figure 5. Nigeria: Public DSA - Stress Tests



Underlying Assumptions
(in percent)

	2017	2018	2019	2020	2021	2022
Primary Balance Shock						
Real GDP growth	0.8	2.1	1.9	2.1	2.0	2.0
Inflation	17.0	15.7	14.2	14.8	13.8	14.0
Primary balance	-4.1	-4.7	-4.5	-2.2	-2.3	-2.0
Effective interest rate	8.6	7.2	7.6	8.4	8.4	8.7
Real Interest Rate Shock						
Real GDP growth	0.8	2.1	1.9	2.1	2.0	2.0
Inflation	17.0	15.7	14.2	14.8	13.8	14.0
Primary balance	-4.1	-3.1	-2.9	-2.2	-2.3	-2.0
Effective interest rate	6.0	9.1	10.4	12.1	10.8	11.3
Combined Shock						
Real GDP growth	0.8	-1.4	-1.6	2.1	2.0	2.0
Inflation	17.0	14.8	13.3	14.8	13.8	14.0
Primary balance	-4.1	-4.7	-4.5	-2.2	-2.3	-2.0
Effective interest rate	6.0	9.1	10.4	12.1	10.8	11.3

	2017	2018	2019	2020	2021	2022
Real GDP Growth Shock						
Real GDP growth	0.8	-1.4	-1.6	2.1	2.0	2.0
Inflation	17.0	14.8	13.3	14.8	13.8	14.0
Primary balance	-4.1	-3.6	-3.8	-2.2	-2.3	-2.0
Effective interest rate	8.6	7.2	7.3	8.1	8.2	8.5
Real Exchange Rate Shock						
Real GDP growth	0.8	2.1	1.9	2.1	2.0	2.0
Inflation	17.0	34.0	14.2	14.8	13.8	14.0
Primary balance	-4.1	-3.1	-2.9	-2.2	-2.3	-2.0
Effective interest rate	8.6	7.7	7.0	7.7	8.0	8.3
Contingent Liability Shock						
Real GDP growth	0.8	-1.4	-1.6	2.1	2.0	2.0
Inflation	17.0	14.8	13.3	14.8	13.8	14.0
Primary balance	-4.1	-5.7	-2.9	-2.2	-2.3	-2.0
Effective interest rate	8.6	9.0	7.8	8.2	8.4	8.6

Source: IMF staff.

B. External Debt Sustainability

External debt is low and is projected to remain broadly unchanged relative to the size of the economy under baseline projections. Stress scenarios highlight sensitivity of external debt, particularly to oil exports and naira depreciation.

7. The level of (public and private) external debt is low, at 11.1 percent of GDP in 2016 (Table 1).[4] It has risen modestly since 2013 owing to capital inflows in 2014 and the weakening of the naira in 2015–16. On average, public sector debt accounts for just over a third of total external debt, with most of public external debt on concessional terms – much higher than peers. The external debt-to-exports ratio has more than tripled since 2012 reaching around 120 percent in 2016, mainly due to the decline in oil exports. Gross external financing needs remain small relative to the size of the economy.

8. Under baseline projections,[5] external debt would increase broadly in line with the size of the economy, and gross external financing needs are projected to remain around 3 percent of GDP in the medium term. With only mild recoveries in oil prices and economic activity, private sector external borrowing is projected to be below the levels prevailing in 2011–14. The public sector is expected to draw on financing from multilateral, bilateral, and commercial external sources, while the recent lower level of participation of foreign investors in the domestic debt market is expected to pick up, as has been the case in 2017. An increase in interest rates on external debt is projected, given the expected normalization of monetary policy in advanced economies and Nigeria's macroeconomic risk profile, though the increase is contained to some extent by the fixed-rate, concessional nature of a large proportion of public external debt.

9. Stress tests are used to illustrate the sensitivity of debt levels to various potential shocks (see Figure 7). Higher interest rates or a slowdown in economic growth would not, by themselves, lead to outcomes substantially different from the baseline. On the other hand, a shock to the non-interest current account, which given the structure of Nigeria's trade can be interpreted as a substantial decline in oil exports, would place the external debt-to-GDP ratio on an upward path. This result is driven by the high historical volatility of Nigeria's current account balance, which owes largely to fluctuations in oil exports. However, as has been experienced in the recent oil shock, it is likely that the impact would be buffered largely by import compression and income debits. A combined (interest rate, growth, current account) shock has a similar impact on the debt path, driven by the current account dynamics. A one-time real depreciation of 30 percent in 2017 would cause an upward level shift in debt, but not place it on an upward path.

---

[4] The analysis is subject to gaps in the data on Nigeria's International Investment Position and remaining maturity of external obligations. Staff estimates are used for portfolio investment liabilities based on the estimated stock of non-resident holdings of government securities issued on the domestic market, capital markets data on securities issued abroad, and average interest rates on such securities.

[5] For more details, see IMF (2008) "Staff Guidance Note on Debt Sustainability Analysis for Market Access Countries", IMF Board Paper SM/08/221, (Washington, D.C.: International Monetary Fund).

Figure 6. External and Debt Indicators

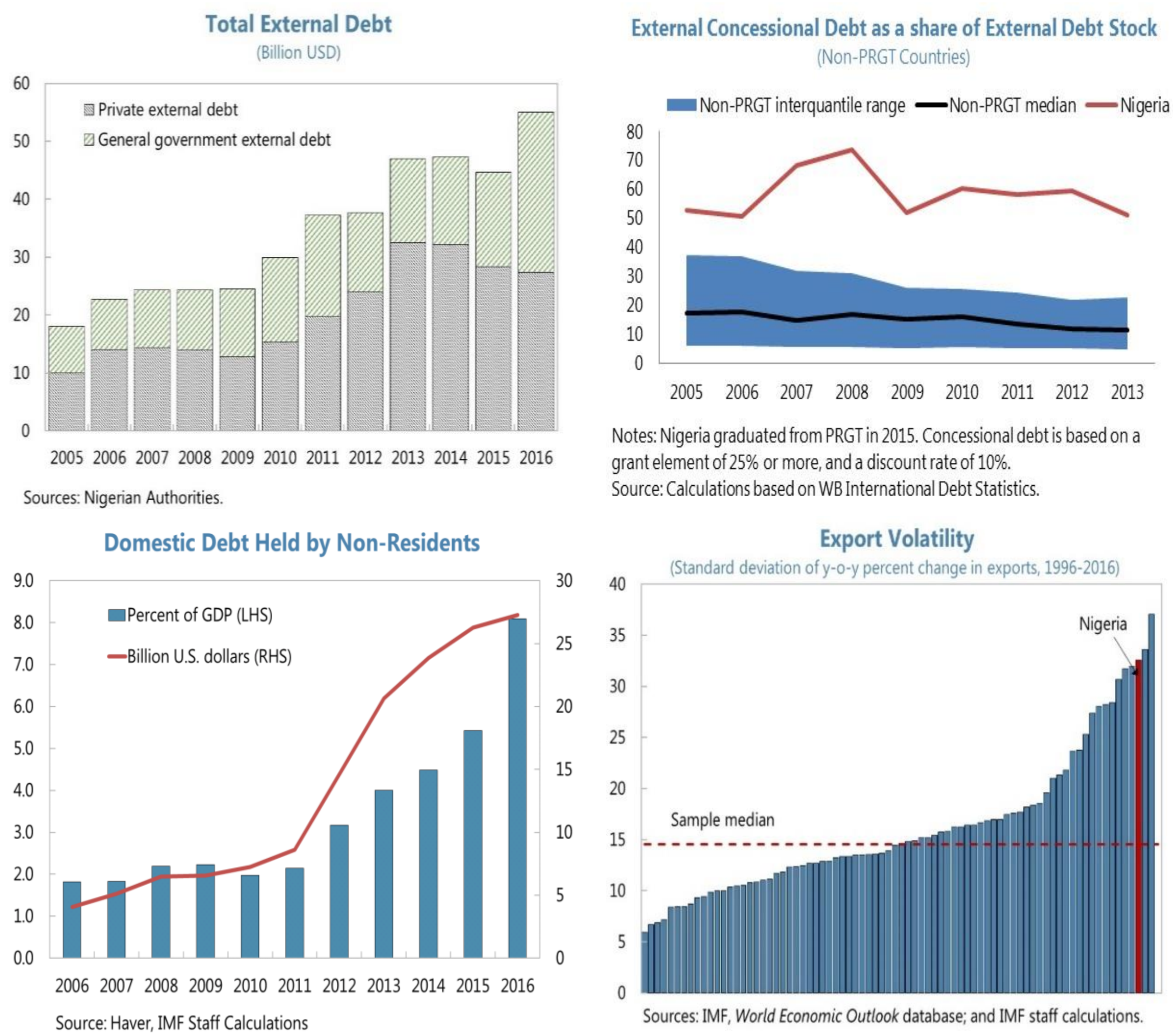


Table 1. Nigeria: External Debt Sustainability Framework, 2012–22

(in percent of GDP, unless otherwise indicated)

	Actual							Projections						
	2012	2013	2014	2015	2016			2017	2018	2019	2020	2021	2022	Debt-stabilizing non-interest current account 7/
Baseline: External debt 1/	8.1	7.3	8.3	9.6	11.1			**14.0**	**14.5**	**13.6**	**12.8**	**12.1**	**11.4**	**-1.6**
Change in external debt	0.9	-0.8	1.0	1.3	1.5			2.9	0.5	-0.8	-0.9	-0.7	-0.7	
Identified external debt-creating flows (4+8+9)	-7.5	-6.0	-1.1	4.2	0.2			-3.9	-1.5	-1.1	-1.3	-1.2	-1.0	
Current account deficit, excluding interest payments	-4.3	-4.1	-0.5	2.6	-1.3			-2.7	-0.8	-0.9	-1.1	-1.1	-0.8	
Deficit in balance of goods and services	-3.9	-4.5	0.3	4.6	2.1			0.0	0.4	0.7	1.2	1.2	1.3	
Exports	21.5	19.5	14.9	9.9	9.3			11.9	14.0	12.0	10.4	8.9	7.7	
Imports	17.7	15.0	15.2	14.6	11.4			11.9	14.4	12.8	11.6	10.1	9.0	
Net non-debt creating capital inflows (negative)	-3.0	-1.4	-0.2	0.0	-1.0			-1.8	-1.2	-0.7	-0.6	-0.6	-0.6	
Automatic debt dynamics 2/	-0.2	-0.5	-0.4	1.6	2.5			0.6	0.4	0.5	0.4	0.4	0.4	
Contribution from nominal interest rate	0.5	0.4	0.3	0.5	0.7			0.7	0.7	0.7	0.7	0.6	0.6	
Contribution from real GDP growth	-0.3	-0.4	-0.4	-0.3	0.2			-0.1	-0.3	-0.2	-0.2	-0.2	-0.2	
Contribution from price and exchange rate changes 3/	-0.5	-0.5	-0.3	1.3	1.6			...	...	...	...	...	...	
Residual, incl. change in gross foreign assets (2-3) 4/	8.3	5.2	2.1	-2.9	1.3			6.8	2.0	0.3	0.4	0.5	0.3	
External debt-to-exports ratio (in percent)	37.5	37.6	55.5	96.5	119.8			117.0	103.4	113.3	122.5	135.6	147.7	
Gross external financing need (in billions of US dollars) 5/	-6.7	-7.3	11.5	31.3	13.9			6.8	15.3	14.9	15.7	19.3	20.6	
in percent of GDP	-1.5	-1.4	2.0	6.3	3.4			1.7	3.4	2.9	2.6	2.7	2.5	
Scenario with key variables at their historical averages 6/						10-Year Historical Average	10-Year Standard Deviation	**13.6**	**14.5**	**14.5**	**14.8**	**15.2**	**15.5**	**-0.3**
Key Macroeconomic Assumptions Underlying Baseline														
Real GDP growth (in percent)	4.3	5.4	6.3	2.7	-1.6	5.6	3.5	0.8	2.1	1.9	2.1	2.0	2.0	
GDP deflator in US dollars (change in percent)	6.7	6.0	3.8	-15.4	-16.6	1.3	12.7	-3.1	8.7	14.2	14.8	13.8	14.0	
Nominal external interest rate (in percent)	8.3	4.9	5.0	5.1	5.8	5.8	1.4	5.8	5.5	5.6	5.7	5.6	5.5	
Growth of exports (US dollar terms, in percent)	-3.8	0.9	-15.6	-42.0	-21.6	-0.6	27.9	25.7	30.1	0.0	1.6	-0.7	0.8	
Growth of imports (US dollar terms, in percent)	-10.9	-5.2	11.9	-16.8	-34.7	6.0	27.6	2.5	34.3	2.9	6.4	1.4	3.9	
Current account balance, excluding interest payments	4.3	4.1	0.5	-2.6	1.3	4.1	4.2	2.7	0.8	0.9	1.1	1.1	0.8	
Net non-debt creating capital inflows	3.0	1.4	0.2	0.0	1.0	0.1	3.6	1.8	1.2	0.7	0.6	0.6	0.6	

Sources: National authorities; International Monetary Fund, country desk data; and IMF staff estimates.

1/ Includes public and private sector liabilities; on a residence basis, i.e., includes non-resident investment in liabilities issued domestically.

2/ Derived as [r - g - r(1+g) + ea(1+r)]/(1+g+r+gr) times previous period debt stock, with r = nominal effective interest rate on external debt; r = change in domestic GDP deflator in US dollar terms, g = real GDP growth rate, e = nominal appreciation (increase in dollar value of domestic currency), and a = share of domestic-currency denominated debt in total external debt.

3/ The contribution from price and exchange rate changes is defined as [-r(1+g) + ea(1+r)]/(1+g+r+gr) times previous period debt stock. r increases with an appreciating domestic currency (e > 0) and rising inflation (based on GDP deflator).

4/ For projection, line includes the impact of price and exchange rate changes.

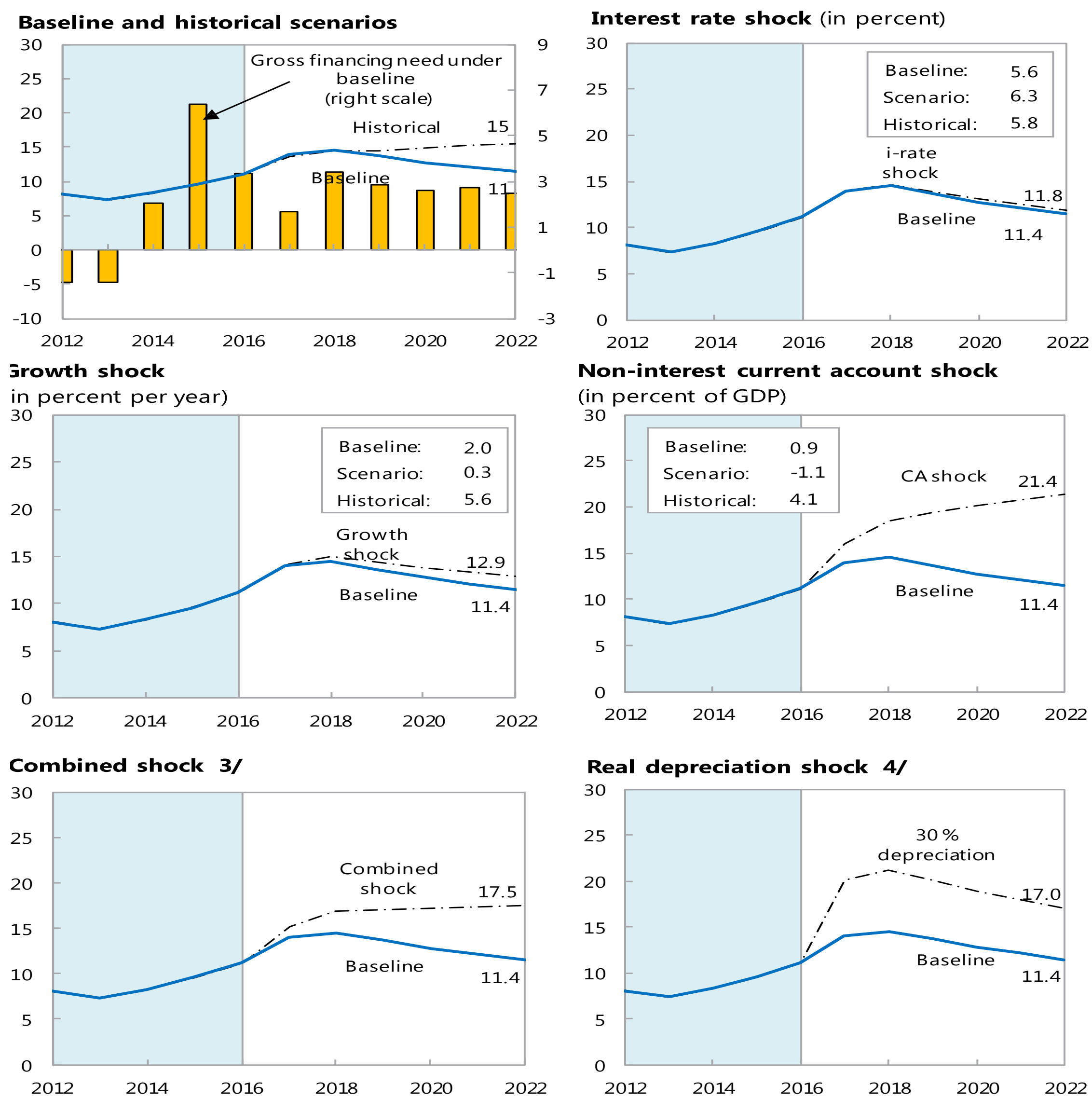
5/ Defined as current account deficit, plus amortization on medium- and long-term debt, plus short-term debt at end of previous period.

6/ The key variables include real GDP growth; nominal interest rate; dollar deflator growth; and both non-interest current account and non-debt inflows in percent of GDP.

7/ Long-run, constant balance that stabilizes the debt ratio assuming that key variables (real GDP growth, nominal interest rate, dollar deflator growth, and non-debt inflows in percent of GDP) remain at their levels of the last projection year.

Figure 7. Nigeria: External Debt Sustainability: Bound Tests 1/ 2/

(External Debt in percent of GDP)



Sources: National authorities; International Monetary Fund, country desk data; and IMF staff estimates.
1/ Shaded areas represent actual data. Individual shocks are permanent one-half standard deviation shocks. Figures in the boxes represent average projections for the respective variables in the baseline and scenario being presented. Ten-year historical average for the variable is also shown.
2/ For historical scenarios, the historical averages are calculated over the ten-year period, and the information is used to project debt dynamics five years ahead.
3/ Permanent 1/4 standard deviation shocks applied to real interest rate, real growth rate, and current account balance.
4/ One-time real depreciation of 30 percent occurs in 2017.

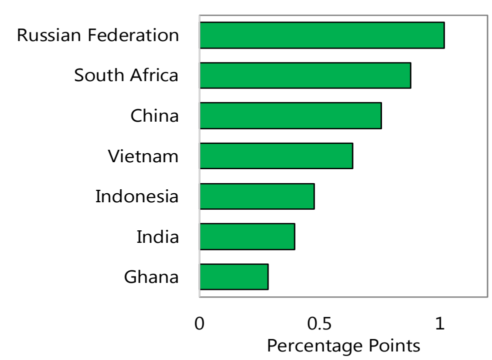
Annex III. Assessing Public Investment Efficiency in Nigeria

The government's Economic Growth and Recovery Plan envisions a large scale up in public and private investment to close Nigeria's large infrastructure gap (35 percent of GDP shortfall relative to emerging market average). Against this background, this annex reviews trends in public investment and the state of infrastructure in the country, quantifies the growth impact from scaling up infrastructure, and highlights areas to improve public investment management. Preliminary results indicate that Nigeria's public capital stock is low, and of relatively poor quality, both in absolute terms and relative to benchmark countries. Capital expenditures have been smaller than elsewhere and less efficient. Scaling up infrastructure would yield significant growth gains but doing so efficiently will require improvements in general institutional quality and actions in most areas of the investment process.

1. Low public capital accumulation over the past decades has left Nigeria with insufficient and low-quality infrastructure (Figure 1). Within a generally low budgetary envelope, public investment represents less than 15 percent of total expenditures, and budgeted capital expenditures have been consistently under-executed. As a result, Nigeria's capital stock has grown more slowly than in benchmark countries, and its public capital stock per head is relatively low. In particular, both in terms of economic capital (electricity, roads) and social capital (education and health infrastructure), Nigeria's infrastructure is generally less than half the size than in the average sub-Saharan Africa country and only a fraction of that in emerging market economies. The perceived quality of the infrastructure is low.

2. Public investment spending efficiency is relatively weak (Figure 2). Following IMF (2015a), the "*bang for the buck*" of each dollar spent by the public sector on infrastructure is assessed according to three indicators: (i) a physical measure of infrastructure (capturing indicators of economic and social infrastructure as listed in Figure 1, panel 5) measuring the *quantity* of infrastructure; (ii) a survey based measure based on the World Economic Forum's survey of business leader's impressions of the *quality* of key infrastructure services; and (iii) a hybrid measure of infrastructure quantity and quality. Figure 2 highlights that, for each indicator, Nigeria's output of infrastructure is far from the *efficiency frontier*—the level of infrastructure countries with similar characteristics can achieve for a certain level of inputs. Efficiency gaps compared to the frontier suggest that, with similar inputs, the quality and quantity of infrastructure could be higher by as much as 39 percent and 87 percent, respectively.

Infrastructure to Selected Benchmark Countries



3. These weaknesses have resulted in growth slippages. The empirical results from a global panel estimation that accounts for a large set of growth determinants helps quantify the impact on growth from a scaling-up in infrastructure, as measured by access to electricity, water and telephones (IMF 2015b). The results highlight that real growth in Nigeria could have been higher by 0.3 to more than 1 percentage points if infrastructure levels had been that of benchmark countries (Text Chart).

4. Stronger institutions could substantially shrink the inefficiency gap, thus helping scale up infrastructure faster and at lower costs. In countries with weak institutional quality, governments may use capital spending as a vehicle for rent-seeking leading to inefficient public investment (Albino-War and others 2014; Grigoli and Mills 2014; Gelb and Grassman 2010). A quantification based on panel regressions for a sample of sub-Saharan African countries (Barhoumi and others 2016), implies that improving Nigeria's regulatory quality rating to best-practice levels in sub-Saharan Africa (Mauritius), would reduce the efficiency gap by almost 8 percentage points, therefore increasing the amount of infrastructure and thus growth dividend from each dollar invested in public capital.

5. More specifically, boosting public investment efficiency will require work in most areas of the public investment process. Previous constraint analysis of public investment efficiency in Nigeria highlighted a number of weaknesses throughout the investment process (World Bank 2012; Text Chart). These constraints, which will be followed-up upon and reassessed in forthcoming Fund technical assistance missions, include:

Nigeria: Performance in Key Areas of Public Investment Management

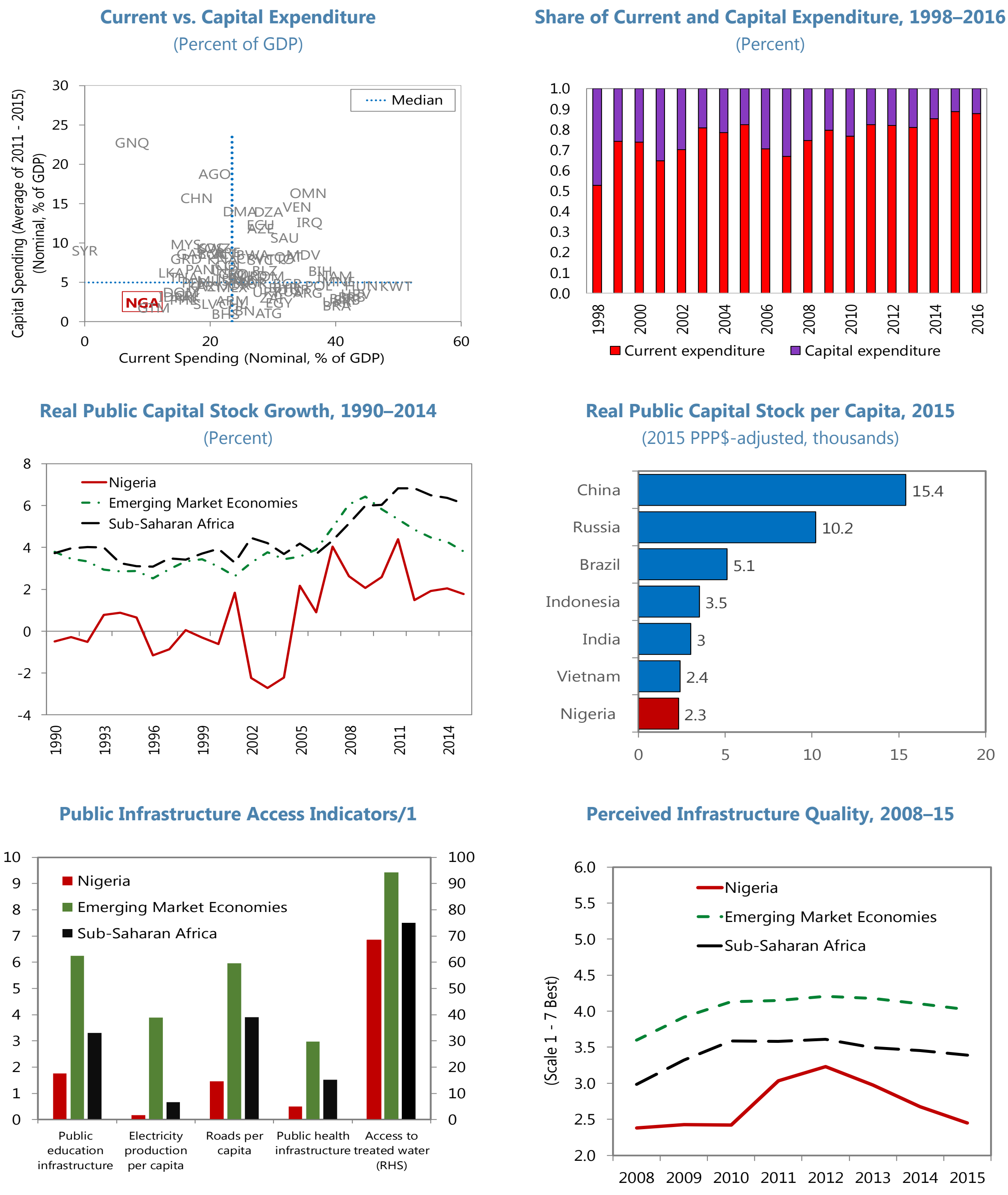
	Rating
Strategic guidance, project development, and preliminary screening	Improvements between non- and partial compliance
Formal project appraisal	Significant non-compliance
Independent review of appraisal	Significant non-compliance
Project budgeting and selection	Partial compliance
Project implementation	Improvements between non- and partial compliance
Project adjustment	Partial compliance
Facility operation	Significant non-compliance
Basic completion review and evaluation	Significant non-compliance

Legend:
Compliant
Partial compliance
Improvements between non- and partial compliance
Significant non-compliance

Source: World Bank, 2012.

- *Project appraisal.* There is no assessment of the social and economic costs and benefits of projects, and the responsibility of an independent project review is not attached to a specific agency. A project identification and appraisal phase should be instituted as part of the budget preparation cycle, and projects be selected from a pool of appraised projects.
- *Facility operation.* There is no asset register of public sector property, equipment, vehicles that would help assess the change in value of public capital. Going forward, Ministries, Department and Agencies (MDAs) could be required to create comprehensive asset registers, with incentives for compliance.
- *Project evaluation.* A formal process could be introduced, including information on, e.g., whether the project finished within the original budget/timeframe, delivered specified outputs, and had unintended impacts.
- *An efficient procurement process* through (i) a central online procurement portal with all relevant procurement notices and documents, (ii) full incorporation of a procurement module in the full roll-out of GIFMIS at Federal level, (iii) wider use of the procurement model of GIFMIS across FGN (at present, about 100 out of the over 900 Ministries Departments Agencies are using it)
- *Strengthening multi-year budgeting.* A predictable medium-term expenditure framework, based on reliable macro-fiscal forecasting would facilitate project planning for spending agencies.

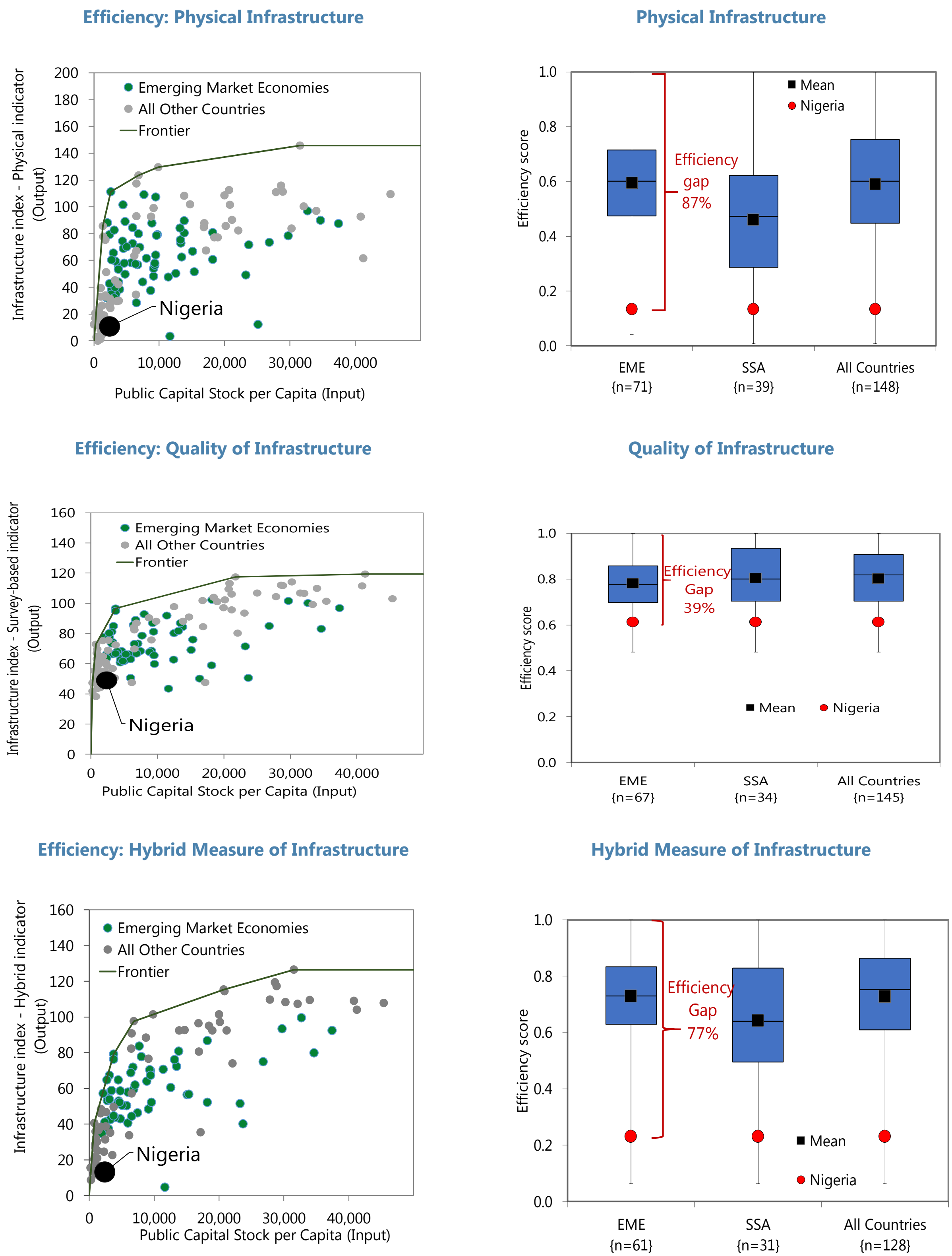
Figure 1. Nigeria Trends in Investment and Infrastructure Upgrading



Source: IMF (2015a), IMF staff estimates.

[1/] Left hand side: Public education infrastructure (secondary teachers per 1,000 persons); electricity production per capita (thousands of kWh per person); roads (per capita as km per 1,000 persons); and public health infrastructure (hospital beds per 1,000 persons). Right hand axis: Access to treated water (percent of population).

Figure 2. Nigeria: Public Investment Efficiency



Source: IMF (2015a).

Annex IV. External Sustainability Assessment

Evidence suggests that Nigeria's external position was moderately weaker in 2017 than the level consistent with its medium-term fundamentals and desirable policies. The current account balance is improving, but the Fund's reserve adequacy metric suggests that buffers are below adequate levels, with the gap projected to widen over time.

A. Current Account and Exchange Rate

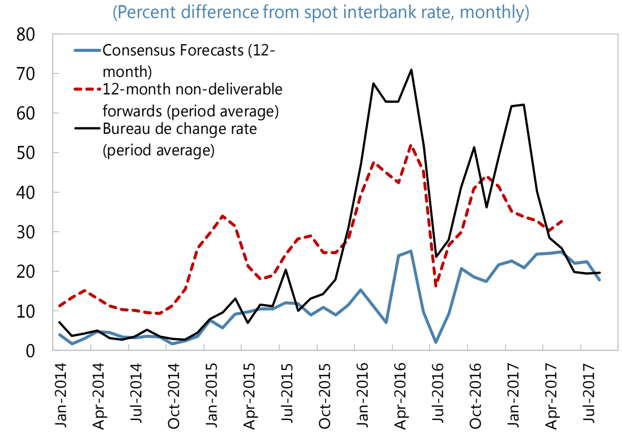
1. **Exchange rate assessment models give a wide range of results.** Current account models that reflect all transactions do not find misalignment, while a real effective exchange rate model suggests a real overvaluation in the official exchange rate of about 12 percent. Specifically:

- ***Current account approach.*** The EBA-lite approach models the CA balance as a function of the fundamentals of the economy.[1] Nigeria's current account was also assessed using a variant estimated for oil-exporting economies.[2] The models find the CA in 2017 was broadly in line with the norm, with macroeconomic policies contributing -1.3 and -1.5 percent of GDP to the CA gap in EBA-Lite and EBA-Oil, respectively (Table 1). This suggests the actual current account would have been further into surplus if policies – particularly the fiscal deficit and change in reserves—had been at their recommended settings.

- ***External sustainability approach.*** This approach derives a CA norm as the medium-term balance that would allow net foreign assets (NFA) to reach a benchmark level, which was set at zero percent of GDP, the difference between its current level and that which would permit accumulation of international reserves sufficient to reach 100 percent of the reserve adequacy metric by 2023. On this basis, the projected 2023 CA is broadly in line with the norm (Table 1).

- ***Equilibrium REER approach.*** This price-based approach directly models a REER norm within a panel framework as a function of fundamentals, suggesting an exchange rate gap of about 12 percent (Table 1). This in line with indicators of market expectations – the exchange rate implied by non-deliverable naira forwards traded offshore, the outlook from Consensus Forecasts, and the margin between the interbank and *Bureau de Change* exchange rates.

Indicators of Exchange Rate Expectations
(Percent difference from spot interbank rate, monthly)



Sources: Bloomberg, LP; Consensus Forecasts; Haver Analytics; and IMF staff calculations.

---

[1] See IMF Working Paper 13/272 and *Methodological Note on EBA-Lite*.

[2] See IMF Working Paper 16/107 and Behar and Fouejieu, 2016, "EBA-Oil: A Macrobalance Toolkit for Undiversified Oil Exports," unpublished manuscript.

2. The assessment is subject to a degree of uncertainty because of the presence of FX restrictions and the multiplicity of exchange rates at which transactions occur. The REER approach uses the CBN official rate as an input, whereas the CA and ES approaches implicitly use an effective exchange rate reflecting transactions undertaken across all FX market segments including the parallel rate. Data gaps also add uncertainty, as large swings in errors and omissions suggest imprecision in reported values of the CA and/or the NFA position.

Table 1. Current Account and Real Exchange Rate Assessment Results

	Current Account Regressions		External Sustainability	Equilibrium RER
	EBA-lite[1]	EBA-Oil[2]	Approach[1]	Regression[1]
CA/REER reference[3]	2.0	2.0	0.1	4.7
CA/REER norm	2.2	1.4	0.2	4.5
Current account gap	-0.1	0.6	0.0	--
o/w: Policy gap	-1.3	-1.5	--	2.0
Residual	1.2	2.1		9.9
Real exchange rate gap[4]	1.1	-5.3	0.2	11.9

Source: IMF staff estimates.

[1] Based on External Balance Assessment (EBA) methodology (IMF WP 13/272) and EBA-Lite Methodological Note 2016.

[2] Based on Behar, Alberto, and Armand Fouejieu, 2016, "External Adjustment in Oil Exporters: The Role of Fiscal Policy and the Exchange Rate," IMF Working Paper 16/107.

[3] For CA regression, 2017 CA value. For ES approach, 2023 CA value. For REER regression, 2017 REER value.

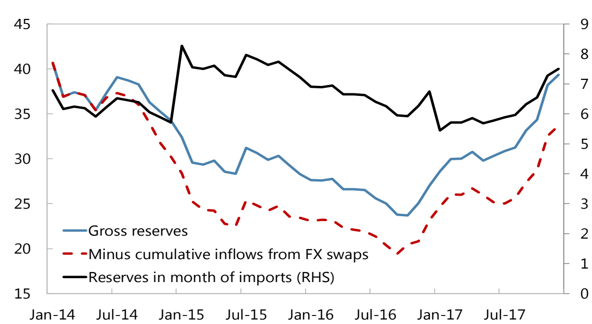
[4] Positive numbers indicate overvaluation. Elasticity of current account to real exchange rate gap is 0.11.

B. Reserve Adequacy and Capital Flows

3. Gross international reserves are still below comfortable levels. Gross reserves recovered from less than $24 billion in September 2016 to above $39 billion at end-December 2017, representing around 100 percent of the ARA metric adjusted for an oil buffer (calculated as an oil price gap multiplied by oil exports)[3]. This figure, however, likely overstates the resources available to the central bank to meet BOP needs, due to the presence of FX swaps and forwards. Inflows due to FX swaps have amounted to about $5.4 billion since 2014 while outstanding forward FX sales by the central bank amount to $0.2 billion. Gross reserves excluding these predetermined FX outflows were $33.7 billion at end-December, suggesting gross reserves at year-end would be just about 85 percent of the ARA metric adjusted for an oil buffer, compared to a suggested adequate range of 100–150 percent. Under baseline projections, reserves are expected to steadily decline to around $33 billion by 2023, equivalent to only 66 percent of the ARA metric.

Gross International Reserves

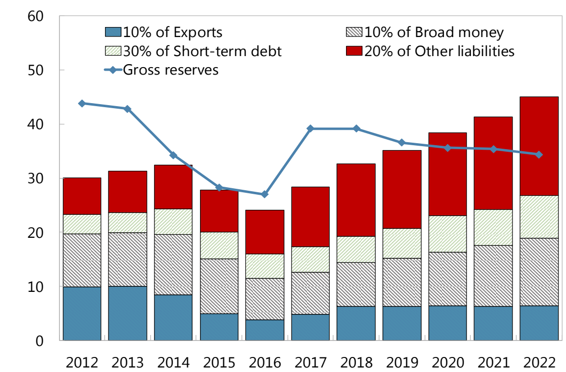
(Billions of U.S. Dollar and Month of Future Imports)



Sources: Central Bank of Nigeria; and IMF staff calculations.

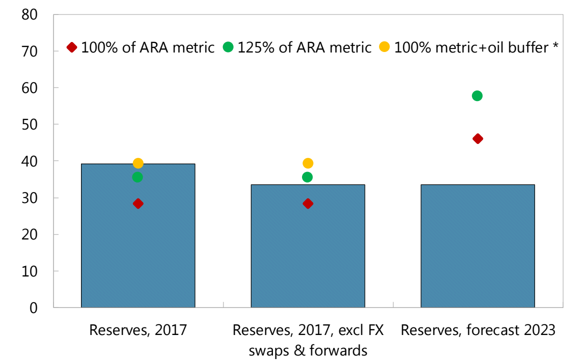
[3] See 2016 ARA Board paper.

Contributions to Reserve Adequacy Metric
(Billion U.S. dollars)



Source: IMF staff calculations.

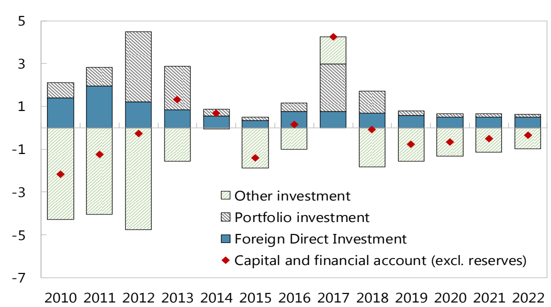
Reserve Adequacy Measures
(Billion U.S. dollars)



* Note: Oil price gap multiplied by oil exports, following 2016 ARA paper.
Sources: Central Bank of Nigeria; and IMF staff estimates.

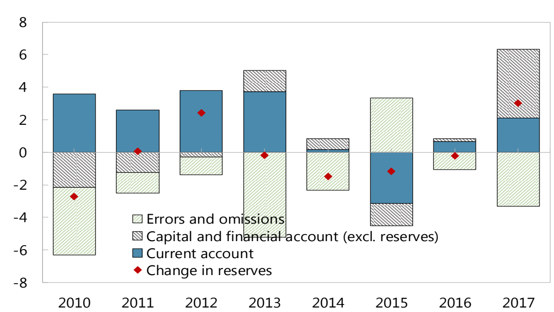
4. Capital flows remained subdued in 2016 before improving in 2017, while data gaps continue as reflected in large errors and omissions (E&Os). Net Inflows (liabilities to non-residents) fell below 1.0 percent of GDP in 2016, but are estimated to reach above 4 percent of GDP in 2017 largely driven by strong net portfolio inflows coming through the IEFX window. E&Os remain around 3 percent of GDP on average, amounting to as large as current account surpluses in some years, suggesting imprecision in existing estimates of the BOP and/or NFA position (also see 2016 SIP).

Financial Account (Net)
(Percent of GDP)



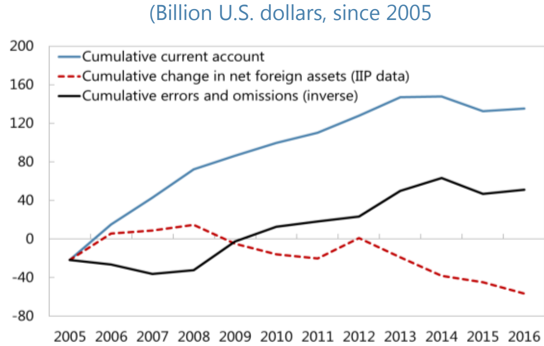
Sources: Haver Analytics; and IMF staff calculations.

Balance of Payments
(Percent of GDP)



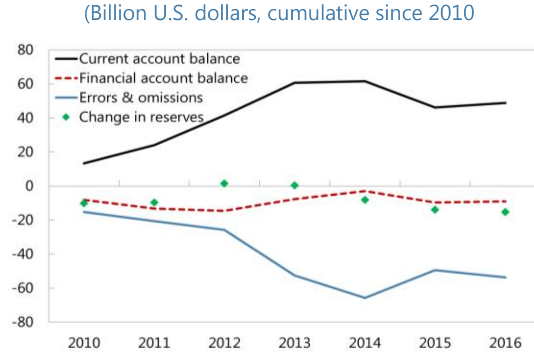
Sources: Haver Analytics; and IMF staff calculations.

Measures of Net Foreign Asset Accumulation
(Billion U.S. dollars, since 2005)



Sources: Haver Analytics; and IMF staff calculations.

Current Account and Errors and Omissions
(Billion U.S. dollars, cumulative since 2010)



Sources: Haver Analytics; and IMF staff estimates.

C. Overall Assessment

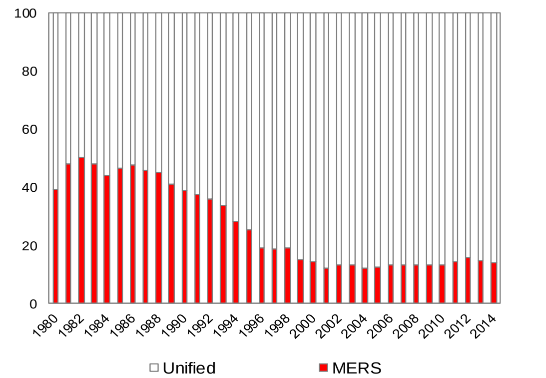
5. Taken together, the above analysis suggests that in 2017 the external position was moderately weaker than that implied by medium-term fundamentals and desirable policies, with a real exchange rate gap of less than 12 percent relative to the official exchange rate. This is supported by a wide range of evidence, including the estimated contribution of policies to the current account balance, weak non-oil exports, inadequate FX buffers under baseline projections, slow and volatile capital inflows. The assessment is subject to a high degree of uncertainty because of the presence of FX restrictions and the multiplicity of exchange rates at which transactions occur. Adjustment of other policies—notably fiscal, monetary, and structural—in line with staff's recommendations would contribute to reducing the estimated gaps.

Annex V. Multiple Exchange Rate Systems (MERS)—What Does Country Experience Suggest?

1. Multiple exchange rate systems (MERS) are characterized by the existence of market segmentation, with separate groups of transactions conducted at different exchange rates.[1] Parallel markets—in which transactions take place at more than one exchange rate and the parallel exchange rate is market-determined— represent a subset of the broader category of multiple exchange rate regimes.

Figure 1. Proportion of Countries with Dual/Multiple/Parallel Exchange Rates

(In percent)



2. Frequently, MERS are present in situations of balance of payments disequilibria as a temporary alternative to uniform exchange rate adjustments. In Nigeria—in line with other country experiences—MERS cause distortions on relative prices and large efficiency losses in resource allocation between sectors and products, which is raising concerns about lack of a level playing field and delaying long-term investment.

3. General trends and stylized facts across country experiences with MERS show:[2]

- *Fewer countries with MERS today than in the past.* The share of member countries with MERS has been declining from about 40 percent in 1980 to 14 percent in 2014, although progress slowed since 2000. Most MERS are found in emerging and developing economies. They are more common in pegs and intermediate exchange rate regimes.

Table 1. Classification of MERS by Exchange Rate Regime 1980–2014

(In percent of observations)

	Full Sample	Sub-samples			
	1980-2014	Advanced	Emerging	Developing	o/w SSA
Pegs with MERS	38.3	34.4	27.5	42.7	22.4
Intermediate with MERS	55.2	56.3	68.5	50.0	65.8
Floats with MERS	6.5	9.4	4.1	7.3	11.8

Source: IMF, Annual Report on Exchange Arrangements and Exchange Restrictions (AREAER) database; Ilzetzki, Reinhart and Rogoff (2017); and IMF staff estimates.

- *Higher inflation in MERP countries.* During 1980–2014, median inflation in countries with MERS was 11 percent, compared to

[1] If the market segmentation is caused by official action, the multiplicity of exchange rates may give rise to a multiple currency practice under Article VIII, Section 3 of the Articles of Agreement.

[2] Data on MERS are drawn from Ilzetzki, Reinhart and Rogoff (2017) which identifies countries with dual, multiple, or parallel exchange rates. Data on the exchange rate regime classification are based on the IMF's AREAER and the methodology in Ghosh, Qureshi, and Tsangarides (2014) which is an extension of the classification in IMF Occasional Paper 270.

4 percent under unified rates. Similar patterns hold at all levels of income, where MERS are associated with 5 to 11 percent higher inflation than under unified rates.

- *Worse economic growth rates*. Median per capita income annual growth rate in countries with dual exchange rates was about 1.8 percent, compared to 2.1 percent at unified rates. These preliminary results suggest that the notion that MERS are useful to reduce the impact of exchange rate adjustment on the overall price level does not seem to hold. Also, efficiency losses associated with MCPs—as the exchange rate spread effectively acts as a tax on exports and a subsidy on imports— may be associated with lower growth.

Figure 2. Median Inflation
(in percent)

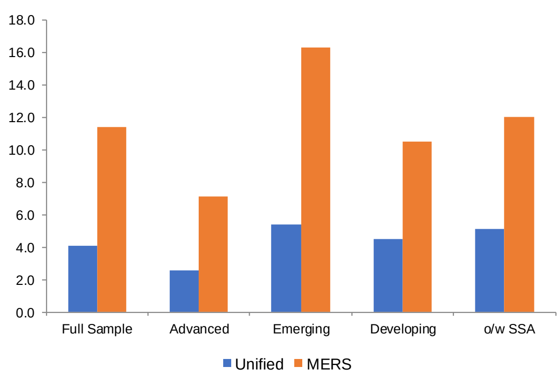
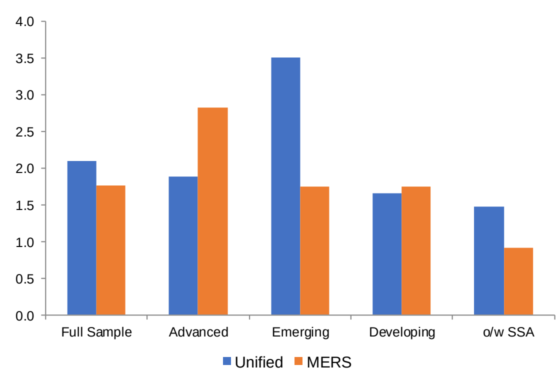


Figure 3. Median Growth Rate
(in percent)



4. Robustness tests controlling for other factors that are likely to affect inflation and growth performance suggest broadly similar results. To go beyond unconditional averages and stylized facts, we use (separate) regression analysis to account for factors that are likely to determine inflation and growth, following the approach used in the IMF *Occasional Paper 270* and the October 2016 SSA Regional Economic Outlook.[3]

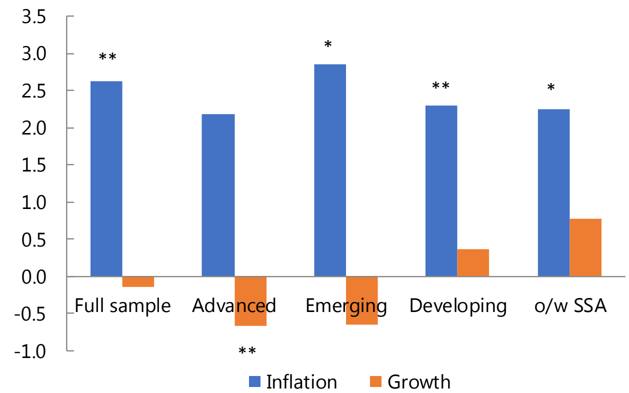
- Controlling for various potential factors affecting inflation performance confirms the picture presented in Figure 2. Across all levels of income, countries with MERS are associated with 2–3 percentage points higher inflation than those with unified exchange rates.

[3] Specifically, for inflation, in addition to MERS, we control for other factors that are likely to determine inflation, namely, dummy variables for pegged and intermediate exchange rate regimes (with the floating regime as the excluded category); growth in broad money; real GDP growth; trade openness; central bank independence (proxied by the central bank governor turnover rate); fiscal balance; and terms of trade shocks. Similarly, we estimate the relationship between growth and potential determinants, namely, the exchange rate regime, the investment to GDP ratio, human capital (proxied by average years of schooling), trade openness, fiscal balance, population growth, government expenditure as a fraction of output, inflation, price volatility, real exchange rate volatility, an overvalued real exchange rate, and initial income. Results are robust to lagging the MERS variable to address potential reverse causality.

- Investigating the relationship between MERS and per capita growth controlling for additional potential determinants suggests that, overall, per capita growth is lower in countries with MERS than those with unified rates (Figure 4). However, these differences are not statistically significant except for the Advanced economies sample where MERS are indeed associated with 0.7 percentage points lower per capita growth than countries with unified exchange rates. In sum, preliminary evidence from both analyzing the raw data and the empirical analysis on inflation and growth performance determinants suggests that (i) the notion that MERS are useful to reduce the impact of exchange rate adjustment on the overall price level does not seem to hold—inflation appears to be h*igher* in countries with MERS compared to countries with unified rates; and (ii) efficiency losses associated with MERS—as the exchange rate spread effectively acts as a tax on exports and a subsidy on imports—may be associated with lower growth.

Figure 4. Inflation and Growth Regressions: Estimated Effect of MERS

(Percent, Various Samples)



Note: * = significant at the 10-percent level; ** = significant at the 5-percent level.

Annex VI. Progress on 2013 FSAP Recommendations

Central Bank of Nigeria (CBN)

1. **Recommendation: Further enhance supervisory oversight over banks with international presence**

   Progress

   - Completed.

2. **Strengthen macro-prudential oversight and crisis preparedness by enhancing the functioning of the Financial Services Regulation Coordinating Committee (FSRCC)**.

   Progress

   - The role of FSRCC is being enhanced to include a financial stability function. A framework that underpins the duties of FSRCC has been drafted—it covers the macro-prudential and crisis and resolution frameworks that the FSRCC will be overseeing. The framework has yet to be finalized.

3. **Strengthen capacity of supervisors and establish clarity regarding their regulatory authority; and improve availability and quality of data for macro prudential analysis.**

   Progress

   - Capacity building is an on-going process. The CBN receives training from the IMF, WB, the Federal Reserve Board, the Federal Deposit Insurance Corporation, and other institutions.
   - For example, an Early Warning System (EWS) to prevent bank failure has been put in place and scenario stress testing has been incorporated; it is in the process of being implemented to predict failure of banks based on movement of selected risk parameters and/or macroeconomic variables. A comprehensive model of top down scenario solvency stress test has been developed. Technical assistance from the Fund is being sought to operationalize the framework.

4. **Review and update the BOFIA to reflect internationally accepted framework for bank regulation and supervision.**

   Progress

   - Amendments to the BOFIA and NDIC Act are before the National Assembly.

5. **Implement HRD plan for a new category of BSD specialists with a separate career path.**

   Progress

   - Completed.

6. **Withdraw the CBN circular restricting recapitalization of foreign subsidiaries by Nigerian parent banks.**

   Progress

   - Completed.

7. **Unwind crisis response measures and revert to the conventional financial safety nets that are already in place, including the Deposit Insurance Scheme.**

- The authorities will consider these actions when the economic situation becomes more favorable.

8. Establish end–2017 as the sunset for AMCON, disallow further acquisition of assets, and use surplus funds to buy back bonds.

Progress

- There is no immediate plan to wind up AMCON. However, CBN is the only institution holding AMCON bonds. The Corporation has stopped further purchase of Eligible Bank Assets (EBAs) from banks; and efforts are being made to recover EBAs previously purchased.

9. Review the licensing of the microfinance banks, to offer two types of license.

Progress

- Completed: license requirements differ by types of microfinance: unit, state and national

10. Divest CBN's interest in DFIs to the FMoF and/or the private sector as appropriate.

Progress

- The CBN is committed in utilizing DFI as conduits to provide finance to the real sector. To this end, there is no plan to divest CBN's interest in the DFI, at least not in the short-run since the Acts of the DFIs has a 60:40 shareholding (FGN: CBN) provision. Any divestment attempt will require parliamentary approval.

11. Review the design and performance of the Development Finance Schemes.

Progress

- The CBN continues to review its policy on development financing, the strategy is to gradually to reduce the Bank's exposure, have exit dates for all the Bank's interventions.
- In addition, an impact assessment of some interventions is taking place.

12. Revise the 2009 Regulatory Framework for Mobile Payment Services to level the playing field and intensify competition.

Progress

- Regulatory requirements continue to be strengthened. Regulations distinguish between Bank and non-Bank led operators. Capital requirements have also been increased.

National Insurance Commission (NAICOM)

13. Upgrade the solvency regime, as well as valuation and the reserve requirements, to better capture risk.

Progress

- Adopted risk-based reserve requirements and guidance was issued.
- IFRS accounting was introduced in 2013, therefore reserve requirement and valuations are at par with international practice.
- Ground work is progressing to identify the necessary requirements for adopting Solvency II framework.

14. Put high priority on enforcement of mandatory insurance.

Progress

- NAICOM is working closely with respective counterparts to enforce mandatory insurance—for example, the Brigade for fire insurance and the Federal Road Safety Commission for car insurance.

Pension Commission (PENCOM)

15. Establish a database of employers required to comply with the Pension Reform Act, 2004.

Progress

- Pencom has been in consultation with the Ministry of Budget and Planning, the government ministry that has the legal right to request such, to compile a database of employers. The consultation is at advanced stage.

16. Develop Nigerian specific mortality tables for pricing annuities and programmed withdrawals.

Progress

- Developing mortality tables will need input from several government agencies including the Ministry of Budget and National Planning and NAICOM. To this end, Pencom has taken the lead by writing to the Government of the Federation requesting for the relevant agencies of government to be asked to work on developing the necessary tables.

Securities and Exchange Commission

17. Expeditiously nominate the new Board members of the SEC.

Progress

- The SEC board was nominated soon after the FSAP mission left, but it was dissolved following the election in 2015.

18. Ensure that broker-dealers are subject to higher risk-based capital requirements and other prudential requirements as well as sufficient entity-level supervision, including regular on-site inspections.

Progress

- Adopted risk-based provision.
- Moving to risk-based capital requirement with minimum capital requirement.
- A regulatory framework following the Malaysia and the USA models is under design.

Federal Ministry of Finance

19. Create central unit to monitor contingent fiscal commitments and develop a strategy as regards further commitments. ¶

Progress

- The government has increased its monitoring of fiscal activity, including identifying arrears and requiring state and local governments to report regularly.

NIGERIA

February 15, 2018

STAFF REPORT FOR THE 2018 ARTICLE IV CONSULTATION—INFORMATIONAL ANNEX

Prepared By | The African Department

CONTENTS

FUND RELATIONS ____ 2

JOINT WORLD BANK-IMF WORK PROGRAM, 2017–18 ____ 7

JOINT AFRICAN DEVELOPMENT BANK-IMF WORK PROGRAM, 2017–18 ____ 10

STATISTICAL ISSUES ____ 11

FUND RELATIONS

(As of December 31, 2017)

Membership Status: Joined: March 30, 1961; Article XIV

General Resources Account:	**SDR Million**	**%Quota**
Quota	2,454.50	100.00
IMF's Holdings of Currency (Holdings Rate)	2,279.09	92.85
Reserve Tranche Position	175.47	7.15

SDR Department:	**SDR Million**	**%Allocation**
Net cumulative allocation	1,675.38	100.00
Holdings	1,499.51	89.50

Outstanding Purchases and Loans: None

Latest Financial Arrangements:

Arrangement Type	**Date of Arrangement**	**Expiration Date**	**Amount Approved (SDR Million)**	**Amount Drawn (SDR Million)**
Policy Support Instrument	Oct. 17, 2005	Oct. 16, 2007	n.a.	n.a.
Stand-By	Aug 04, 2000	Oct 31, 2001	788.94	0.00
Stand-By	Jan 09, 1991	Apr 08, 1992	319.00	0.00
Stand-By	Feb 03, 1989	Apr 30, 1990	475.00	0.00

Overdue Obligations and Projected Payments to Fund [1]
(SDR Million; based on existing use of resources and present holdings of SDRs):

	Forthcoming				
	2018	2019	2020	2021	2022
Principal					
Charges/Interest	1.34	1.35	1.35	1.35	1.35
Total	**1.34**	**1.35**	**1.35**	**1.35**	**1.35**

[1]When a member has overdue financial obligations outstanding for more than three months, the amount of such arrears will be shown in this section.

Implementation of HIPC Initiative: Not Applicable

Implementation of Multilateral Debt Relief Initiative (MDRI): Not Applicable

Implementation of Post-Catastrophe Debt Relief (PCDR): Not Applicable

Exchange Rate Arrangement

The de jure exchange rate arrangement is floating, with the CBN beginning operations on a flexible exchange rate regime on June 20, 2016. The CBN explicitly aims to maintain an exchange rate principally driven by market forces, but intervenes to reduce volatility and to counteract speculative attacks on the national currency. In 2016, the naira was stable against the U.S. dollar until June, when the official rate depreciated by about 55% before stabilizing anew since August. Accordingly, the de facto exchange rate has been reclassified twice: first to other managed from stabilized, effective June 21, 2016, and then to stabilized from other managed, effective August 26, 2016. The CBN publishes information on the amount of foreign exchange it supplies to the Inter-Bank Foreign Exchange Market (IFEM) on its website while the banks are required to publish the utilization in the national newspapers. Nigeria participates in the W-ERM II of the WAMZ, which requires maintaining the spot exchange rate between the naira and the U.S. dollar within ±15% of the central rate, but the CBN has not implemented this regime.

Nigeria maintains the following exchange restrictions subject to Fund approval under Article VIII, Section 2(a) of the IMF's Articles of Agreement: (i) an exchange restriction arising from the prohibition to access foreign exchange at the Nigerian foreign exchange markets for the payment of imports of 40 categories of items; (ii) an exchange restriction arising from the rationing of foreign exchange in the CBN's IFEM and SMIS windows, and its allocation based on the CBN's determination of priority categories of transactions; and (iii) an exchange restriction arising from existing limits on the amounts of foreign exchange available when traveling abroad (BTA/PTAs), which cannot be exceeded even upon verification of the *bona fide* nature of the transaction. In addition, Nigeria maintains the following MCPs subject to Fund approval under Article VIII, Sections 2(a) and 3 of the IMF's Articles of Agreement: (i) an MCP arising from the intervention practice of the CBN that results in the establishment of an official exchange rate for use in all official transactions, which in practice differs by more than 2 percent from the rate used by commercial banks in the CBN FX windows (SMIS, SME, IEFX and Invisibles), and by money transfer operators; and (ii) an MCP arising from the large spread between the official exchange rate and the rates in the parallel market, caused by the CBN's limitation on the availability of foreign exchange which channels current international transactions to such market; and (iii) an MCP arising from the potential spread of more than 2 percent in the exchange rates at which the CBN sells foreign exchange to successful auction bidders in the SMIS window.

Since the last Article IV consultation the description above has been adjusted to take into account the introduction of the IEFX window in April 2017, and the operation of the other FX windows by the CBN. Likewise, the rationing and prioritization of foreign exchange in the IFEM and SMIS windows by the CBN give rise to an exchange restriction, with the latter (SMIS windows) also giving rise to an MCP.

Safeguards Assessment

Under the Fund's safeguards assessment policy, the CBN was subject to a full safeguards assessment with respect to the Stand-By Arrangement that expired on October 31, 2001. The assessment, which included an on-site visit, was completed on November 28, 2001. The assessment concluded that vulnerabilities existed in the areas of financial reporting and legal structure of the Central Bank.

Article IV Consultation

Nigeria is on the standard 12-month Article IV consultation cycle. The previous Article IV consultation was concluded on March 29, 2017.

Technical Assistance (TA) since January 2016:

Department	Purpose of TA mission	Duration
LEG	AML.CFT reform agenda	January 11–25, 2016
MCM	Banking Supervision (Long-term Expert)	January 12, 2016 – January 11, 2017
STA	Monetary and financial statistics	January 18–29, 2016
FAD	Budget preparation, expenditure review, treasury single account, and cash management reforms	January 20–February 9, 2016
FAD	Fiscal reporting/EBFs	February 1–14, 2016
FAD	Program Budgeting, TSA and Cash Management Performance	February 5–9, 2016
MCM	Developing Medium Term Debt Management Strategy	February 11 – 18, 2016
STA	Enhanced General Data Dissemination System (e-GDDS)	February 15–19, 2016
FAD	Tax Policy and Administration	March 30 – April 13, 2016
MCM	Building Early Warning System - Bank Supervision and Regulations	July 11 – 21, 2016
MCM	Building Early Warning System - Bank Supervision and Regulations	July 11 – 21, 2016
MCM	Building Early Warning System - Bank Supervision and Regulations	August 20 – 22, 2016
MCM	Building Early Warning System - Bank Supervision and Regulations	October 3 – November 11, 2016
STA	National Accounts – Developing Source data (EDDI2)	November 27 – December 2, 2016
FAD	Oversight of SOEs	December 1–14, 2016
STA	Balance of Payments Statistics	January 23 – February 3, 2017
FAD	Assessment of proposed petroleum fiscal regime reforms	February 13–24, 2017
FAD	Tax and Customs Administration	April 26 – May 8, 2017
FAD	Tax policy and revenue mobilization	July 20 – August 3, 2017
FAD	Fiscal Regime of the Oil Sector Follow-up	November 2–13, 2017
STA	Price Statistics	May 22–26, 2017
STA	Price Statistics	September 18–22, 2017
STA	National Accounts	September 25 – October 6, 2017
STA	Price Statistics	November 13–24, 2017
STA	Real Sector Statistics	December 4–8, 2017
MCM	Nigeria Securities Exchange Commission: Risk Based Supervision	January 15–26, 2018
MCM	Financial Stability: Early Warning System	January 29 – February 9, 2018
MCM	BIS/IMF Symposium on Capacity Building in Financial Sector Regulation and Supervision	February 7–9, 2018

West Africa Regional Technical Assistance Center 2 (AFRITAC 2)

Department	Purpose of TA mission	Duration
FAD	Tax Administration	January 18–29, 2016
FAD	Public Financial Management	January 20 – February 9, 2016
MCM	Monetary and Forex Operations, including Islamic Banking	February 8–19, 2016
MCM	Banking Legislation	February 22–26, 2016
FAD	Tax Administration	February 22 – March 4, 2016
FAD	Tax Administration	March 7–30, 2016
FAD	Assist FIRS in Developing Strategic Plan	March 14–24, 2016
FAD	Customs Compliance Improvement	March 30 – April 12, 2016
FAD	Develop Compliance Risk Management Strategy	April 4–12, 2016
STA	Consumer Price Index	April 4–15, 2016
FAD	Advancing TSA implementation	June 6–17, 2016
MCM	Enhancing Basel II/III	August 22 – September 9, 2016
FAD	Support the Federal Inland Revenue Service (FIRS) to finalize Strategic Plan	September 9–19, 2016
FAD	Develop a compliance improvement program	September 26 – October 7, 2016
STA	National Accounts	October 3–7, 2016
STA	National Accounts	October 3–7, 2016
FAD	Cash Flow Forecasting and Cash Management (sub-national)	October 8–14, 2016
FAD	Cash Flow Forecasting and Cash Management (sub-national)	October 10–14, 2016
FAD	Strengthening SOE Oversight	December 1–16, 2016
MCM	Compliance with CPMI-IOSCO Principles for Financial Market Infrastructures: Challenges and Strategy	December 5–8, 2016
STA	Price Statistics	January 30 – February 10, 2017
FAD	Strengthening Cash Flow Forecasting and Cash Management	February 1–11, 2017
FAD	Develop Project Governance Framework	February 20 – March 3, 2017
FAD	Strengthen Business Analysis Capabilities	February 20 – March 3, 2017
STA	National Accounts	February 27 – March 3, 2017
FAD	Develop Change Management Program	April 17, 2017
FAD	Develop Project Governance Framework for FIRS	April 17, –28, 2017
FAD	Mission on Tax & Customs Policy and Administration	May 1–10, 2017
STA	Consumer Price Index	May 22–26, 2017
FAD	Audit Training Exchange Program	6/12/2017
FAD	Audit Training Exchange Program	June 12–23, 2017
MCM	Monetary Policy Operations - A Stock Taking	June 12–16, 2017
MCM	Basel II – ICAAP/SREP Review	July 24 – August 11, 2017

FAD	Data Matching Project Exchange program for FIRS	July 24 – August 11, 2017
FAD	Accounting Data Quality and Financial Reporting	August 16 – 28, 2017
FAD	Advancing TSA Implementation and Cash Management (sub-national)	August 29 – September 8, 2017
STA	Consumer Price Index	September 18–22, 2017
STA	National Accounts	September 25 – October 6, 2017
FAD	Strengthening Oversight of Federal Government-Owned Enterprises	October 4–17, 2017
MCM	IFRS 9 Implementation	October 9–20, 2017
FAD	Review of TTF Program	October 9–18, 2017
FAD	Compliance Improvement Program (FIRS)	October 30 – November 8, 2017
FAD	Audit Training Exchange Program	November 6–17, 2017
STA	Prices and Index Numbers	November 13–24, 2017
MCM	Risk Based Supervision (RBS) Framework	December 11–15, 2017
FAD	Develop Project Governance Framework	January 8–19, 2018
MCM	Risk Based Supervision (RBS) Framework	January 23 – February 3, 2018
FAD	Develop Operational Plans for Support Groups (FIRS)	February 5–16, 2018
MCM	Implementation of the Pillar II of the Basel framework	February 12–23, 2018
FAD	Customs Risk Management	February 19 – March 2, 2018

Senior Resident Representative:
Mr. Amine Mati is the IMF's Senior Resident Representative (and Mission Chief) in Abuja since February 2017.

Resident Technical Assistance Advisor:
Mr. Leonard Chumo is the IMF resident advisor for banking supervision at the Central Bank of Nigeria, since February 2017.

JOINT WORLD BANK-IMF WORK PROGRAM, 2017–18

(As of January 24, 2018)

The IMF and World Bank staff collaborate closely in their work on Nigeria. Bank staff participates in IMF missions, while the Bank's analysis and advice to the government in key structural reform areas informs Fund surveillance. Bank and IMF staffs collaborated on assistance related to the Power Sector Recovery Plan, petroleum fiscal regime reforms, fiscal policy measures on poverty and income inequality, financial sector, sub-national fiscal data, domestic revenue mobilization, and public financial management reform.

Title	Products	Provisional timing of missions (if relevant)	Expected delivery date
	A. Mutual Information on Relevant Work Programs		
Bank work program in next 12 months	*(i) Lending Programs*		
	Power Sector Recovery Performance Based Operation (PforR)		FY18Q4
	State Fiscal Transparency, Accountability and Sustainability PforR		FY18Q4
	Nigeria Fiscal Governance and Institutions Project		FY19Q1
	Nigeria Electricity Transmission Project		FY18Q3
	Nigeria Electrification Project		FY18Q4
	Nigeria Power Sector Guarantees Project	Continuous	ongoing
	Nigeria Electricity and Gas Improvement Project	Continuous	ongoing
	Youth Employment & Social Support Operation	Continuous	ongoing
	Community & Social Development Project	Continuous	ongoing
	National Social Safety Nets Project	Continuous	ongoing
	State Employment and Expenditure	Continuous	Ongoing
	State and Local Governance Reform (TF)	Continuous	Ongoing
	Housing Finance Development	Continuous	Ongoing

	Development Finance Project	continuous	Ongoing
	Nigeria Bi-Annual Economic Update	continuous	Ongoing
	Nigeria Federal Government Public Expenditure Review	*continuous*	Ongoing
	Nigeria Subnational Fiscal Management Support	continuous	Ongoing
	Nigeria Programmatic Approach to Financial Sector Development	continuous	Ongoing
	Nigeria Strengthening Capacity in Banking Supervision	continuous	Ongoing
	Nigeria Financial Inclusion	Continuous	Ongoing
	Strengthening Nigerian Petroleum Sector Policy and Governance	Continuous	Ongoing
	(ii) Analytical and Advisory Activities		
	Nigeria Systematic Country Diagnostic		June 2017
	Nigeria Growth and Trade Study	-	2017
	Programmatic Poverty Assessment	-	Ongoing
	Nigeria Federal Public Expenditure Review		June 2018
	Strengthening Sub-National Fiscal Management		June 2018
	(iii) Trust Funds, other analyses, and on-going dialogue		
	Governance Partnership Facility Phase 2: State-Peer Learning and Exchange - Managing Fiscal Crisis; Support to the Federal DPF and economic policy dialogue		
IMF work program in next 12 months	*Article IV Consultation*	December 2017	Board: March, 2018
	Work on gender and income inequality	ongoing	

Title	Products	Provisional timing of missions (if relevant)	Expected delivery date
	A. Mutual Information on Relevant Work Programs (continued)		
	Technical Assistance		
	(i) *Fiscal issues*		
	Public Investment Management Assessment (PIMA)		
	Petroleum fiscal issues	ongoing	
	Tax and Customs Administration	March 2018	
	(ii) *Monetary and financial issues*		
	Bank supervision (MCM)	Long-term expert	Until Jan. 2018
	(iii) *Statistics*		
	Price Statistics	March 2018	
	National Accounts	March 2018	
	B. Request for Work Program Inputs		
Fund request to Bank	Summary of Bank analysis and support for public financial management at all tiers of governments (including PERs)		Ongoing
	Continuous update on power sector reform operation supported by the World Bank		ongoing
	Poverty and social impact analysis (PSIA) of policy measures on poorest households		Ongoing

JOINT AFRICAN DEVELOPMENT BANK-IMF WORK PROGRAM, 2017–18

(As of January 31, 2018)

The IMF and AfDB staff collaborate closely in their work on Nigeria. AfDB staff participates in IMF missions, and the IMF provides an assessment letter in support of AfDB budget support operations in Nigeria.

Title	Products	Provisional Timing of Missions (if relevant)	Expected Delivery Date
AfDB work program in next 12 months	***(i) Lending Programs***		
	Santa Clara Medical Facility	February 2018	March 2018
	Jigawa Solar Project PV (IPP)	February and April 2018	June 2018
	Bauchi Solar Power Project	February and April 2018	June 2018
	Cassava Industrialization Facility	March and April 2018	July 2018
	Skypower Solar Project	April and June 2018	September 2018
A. Mutual Information on Relevant Work Programs (continued)			
	(ii) Analytical and Advisory Activities		
	Nigeria Country Strategy Paper 2019–23	September 2018	Qtr2 2019
	iii) Trust Funds, other analyses, and on-going dialogue		
	a. Innovative Approaches to Domestic Resources Mobilization (DRM) In Nigeria	January 2018	June 2018
	b. Sectoral Growth Diagnostics and Implications for Nigeria	January 2018	June 2018
	c. Participation & Empowerment In AFDB Projects in Nigeria – a Study in Social Inclusion	January 2018	June 2018
	d. Fiscal policy and debt sustainability analysis	January 2018	Sept/Oct 2018
	B. Request for Work Program Inputs		
AfDB request to Fund	Regular update of Fund macroeconomic projections and knowledge products (Country briefs, etc.) on Nigeria.		Ongoing

STATISTICAL ISSUES

(As of February 13, 2018)

I. Assessment of Data Adequacy for Surveillance

General: Data are broadly adequate for surveillance. However, some data shortcomings remain. In particular, information on subnational public finances and large errors and omissions in the balance of payments. Efforts to improve data in those areas are ongoing, including Technical Assistance (TA) support on State and Local Governments (SLGs) fiscal data and external sector statistics. The Statistics Act of 2007, which established the National Bureau of Statistics (NBS) as the main coordinating agency for data management, has led to a number of improvements, including better information sharing between data producing and collecting agencies. There has been an improvement in the compilation of timely and internally consistent data, for example, the implementation of e-GDDS, the use of Government Integrated Financial Management Information System (GIFMIS) for budget preparations, a fully operational Treasury Single Account (TSA), and a reduction in the balance of payments errors and omissions. These efforts however need to be extended to the subnational levels.

National accounts: The NBS implemented the new base year 2010, the International Standard Industrial Classification (ISIC revision 4), and the Supply and Use Table (SUT) framework. The authorities continue to receive TA from the Fund, World Bank, and African Development Bank in completing a GDP rebasing exercise, including producing a GDP back-casted series

Prices statistics: The official monthly consumer price index (CPI), a composite of urban and rural price data, is available on a timely basis. However, the index weights and basket are based on expenditures derived from the 2003/04 National Consumer Expenditure Survey and are therefore unlikely to be representative of current expenditure patterns. The update of the CPI should be finalized as a matter of urgency. Compilation of an updated producer price index (PPI) is ongoing but funding for the survey is uncertain. The NBS continues to receive TA from the Fund on price statistics but high turnover of staff presents ongoing challenges.

Government finance statistics: The most pressing shortcoming is related to inadequate data coverage, particularly at the subnational governments level, which accounts for almost one half of total government expenditure. The federal government is working with SLGs to improving the quality, coverage, and timeliness of fiscal reports to facilitate the preparation of a consolidated set of fiscal accounts. This requires the governments at all levels to follow a standardized budget classification, chart of accounts, and accounting systems that will allow consistent classifications of the data, including use of International Public Sector Accounting Standards (IPSAS)—cash basis—at the Federal and State levels. There is also a need to formalize the publication of government accounts on a monthly or quarterly basis and to increase coverage to report on the operations of state-owned enterprises as well as improve the delineation of the public sector between general government units and public nonfinancial and financial corporations

IMF TA missions conducted by FAD have supported the Federal Government of Nigeria (FGN) in the design and implementation of public financial management reforms, in particular related to the treasury single account (TSA), cash management, and budgeting--most recently in January/February 2017. In addition, the IMF's regional technical assistance center (AFW2) continues to support the authorities' efforts to extend these reforms to interested States, particularly Kaduna State. Additional TA support by FAD involved a review of the institutional structures of Federal Government Owned Enterprises (FGOE) and providing a roadmap to strengthen fiscal oversight. There has not been a GFS TA mission in Nigeria since 2002, though a regional training course on GFS did take place in Lagos in June 2017. Nigeria does not report any GFS data to STA, though quarterly debt data is reported to the IMF / World Bank Quarterly Public Sector Debt Database.
Monetary and financial statistics: There have been significant improvements in the compilation of monetary statistics. Further work would be needed including to extend the other depository corporations (ODCs) sector beyond commercial banks and to improve reporting of monetary aggregates. In addition, Nigeria is expected to report data for other financial corporations sector (OFCs) through the IMF standardized Report Forms (SRFs). **Financial soundness indicators (FSIs)**: A broad range of information on the financial sector, including both core and a number of non-core FSIs, is compiled by the CBN (though publishing FSIs on a timely basis would be needed). The CBN is currently working with support from STA to improve the methodology used to compile FSIs and enhance the consolidation basis to capture cross-border activities of Nigerian bank subsidiaries and branches.
Balance of payments: There have been significant efforts to improve the compilation of Nigeria's balance of payments data in recent years. Supported by IMF TA, the authorities have expanded the range and improved the quality of data sources, aimed at strengthening the balance of payments, in particular progress in reducing the large errors and omissions, and producing an international investment position. Nevertheless, more needs to be done to further reduce the errors and omissions in the balance of payments, which complicate the assessment of external sustainability. There is a need for improved validation of transactions reported by banks, measurement of transactions outside the banking system, appropriate treatment of transactions of enterprises in free trade zones (using a residency criterion) and improved coverage of estimates of the external assets and liabilities of the banking sector. The DFID project (2010-14) helped CBN diversify the data collection for the improvement of the ESS. Recent TA (2017) helped with the validation and grossing-up of the results of 2013 and 2014 private financial flows and stocks surveys. It noted good progress by CBN in developing a database for stock and subsequent transactions and advised on further enhancements. A survey of private transfers, whose results were expected by end-2017, should foster improvements in the estimates of private transfers, especially those received through informal channels and for the in-kind values, which are currently not estimated.

The authorities have not yet initiated the compilation of international reserves data in line with the Data Template on International Reserves and Foreign Currency Liquidity. **External debt**: Public external debt data are of good quality and available on a timely basis. The Debt Management Office (DMO) is collaborating closely with the CBN to extend the coverage of their database to include private sector liabilities and foreign investment in domestically-issued debt securities. In addition, IMF and World Bank staff worked with the DMO to develop analytical capacity to formulate a debt management strategy based on detailed cost-risk analysis.	
II. Data Standards and Quality	
Participant in the enhanced General Data Dissemination System (e-GDDS) since April 2017. As of February 13, 2018, Nigeria was meeting 33 percent of the timeliness set for 14 data categories disseminated through the National Summary Data Page.	No Data ROSC.

Nigeria: Table of Common Indicators Required for Surveillance

(As of February 13, 2018)

	Date of latest observation	Date received	Frequency of Data[1]	Frequency of Reporting[1]	Frequency of Publication[1]
Exchange Rates	Oct. 2017	Nov. 2017	D	D	D
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[2]	Sep. 2017	Nov. 2017	M	M	M
Reserve/Base Money	Dec. 2017	Feb. 2018	M	M	M
Broad Money	Dec. 2017	Feb. 2018	M	M	M
Central Bank Balance Sheet	Dec 2017	Feb.2018	M	M	M
Consolidated Balance Sheet of the Banking System	Dec. 2017	Feb. 2018	M	M	M
Interest Rates[3]	Dec. 2017	Feb. 2018	D	D	D
Consumer Price Index	Dec. 2017	Jan. 2018	M	M	M
Revenue, Expenditure, Balance and Composition of Financing[4] – Central Government	Dec. 2017	Jan. 2018	M	M	M
Revenue, Expenditure, Balance and Composition of Financing[4] – General Government[5]	Dec. 2017	Jan.2018	M	M	M
Stocks of Central Government and Central Government-Guaranteed Debt[6]	Dec. 2016	Feb. 2017	Q	Q	Q
External Current Account Balance	2016	Oct. 2017	Q	Q	A
Exports and Imports of Goods and Services	Sept. 2017	Jan. 2018	Q	Q	A
GDP/GNP	2016	Dec. 2017	Q	Q	Q
Gross External Debt	2015	Dec. 2016	A	A	A
International Investment Position[7]	2016	Oct. 2017	A	A	A

[1]Daily (D); weekly (W); monthly (M); quarterly (Q); annually (A); irregular (I); and not available (NA).

[2]Any reserve assets that are pledged or otherwise encumbered should be specified separately. Also, data should comprise short-term liabilities linked to a foreign currency but settled by other means as well as the notional values of financial derivatives to pay and to receive foreign currency, including those linked to a foreign currency but settled by other means.

[3]Both market-based and officially-determined, including discount rates, money market rates, rates on treasury bills, notes and bonds.

[4]Foreign, domestic bank, and domestic nonbank financing.

[5]The general government consists of the central government (budgetary funds, extra budgetary funds, and social security funds) and state and local governments. However, the expenditure data for state and local governments are not available.

[6]Including currency and maturity composition.

[7]Includes external gross financial asset and liability positions vis-à-vis nonresidents.

INTERNATIONAL MONETARY FUND

NIGERIA

STAFF REPORT FOR THE 2018 ARTICLE IV CONSULTATION—SUPPLEMENTARY INFORMATION

February 28, 2018

Prepared By | The African Department

This supplement reports on the latest economic and policy developments since the Staff Report was issued to the Board. These developments do not alter the thrust of the staff appraisal.

1. **GDP growth outturn in 2017 was in line with expectations, albeit with some change in composition.** The latest estimates from the National Bureau of Statistics, published on February 27, indicate that real GDP expanded by 1.9 percent y-o-y in the fourth quarter of 2017, mainly driven by the oil sector (+8.4 percent) and agriculture (+4.2 percent). During the same period, the non-oil non-agricultural sector grew by 0.4 percent y-o-y, the first quarter of positive y-o-y growth after seven quarters of contraction. Based on these outcomes, real GDP grew by 0.8 percent in 2017 (in line with staff projections), although the composition differed somewhat, with non-oil growth coming in stronger (0.5 percent vs. 0.2 in staff's estimate), and oil growth lower (from 7.6 to 4.8 percent). These revisions have no significant impact on staff's projections for 2018 and beyond.

2. **Headline inflation continues to decline**, easing to 15.1 percent year-on-year in January, from 15.4 percent in December 2017. The decline was mostly the result of lower food inflation, which fell to 18.9 percent from 19.4 percent in December 2017. Looking at the rest of the inflation basket, most sub categories reported slightly higher inflation, except for clothing, utilities and restaurants.

3. **The authorities successfully launched a $2.5 billion Eurobond issuance on February 15, 2018**. The issuance was undertaken in dual tranches, each comprising $1.25 billion with 12-year and 20-year maturity and attracted significant interest from leading global institutional investors with a peak order book of over $11.5 billion (4.5 times oversubscribed). Pricing was favorable compared with a year ago, with the 12 year and 20 year pricing 435 and 455 basis points (bps) above US Treasuries, respectively, in comparison to the 15 year note issued February 2017 that priced at a spread of 548 bps.

4. Reserve accumulation is continuing apace. Foreign exchange reserves amount today to $45.2 billion, after receipt of the Eurobond proceeds. This accumulation follows regular CBN purchase of foreign exchange in the Investor and Exporters window, with CBN purchases in that window since August amounting to $6 billion. Foreign investors' purchases in debt markets have picked up, with non-resident holdings now amounting to $10 billion (from $6 billion at end-December 2017).

5. The CBN issued a new circular prohibiting banks with low solvency ratios or high NPLs from paying a dividend, which is in line with staff advice. This will be necessary to help prop up banks' capital buffers in an environment of rising non-performing loans.

6. The Economic Recovery and Growth Plan is attracting investors' interest. Workshop labs in various sectoral areas have resulted in expressions of interest that already amount to $25 billion in possible investments.

Statement by Mr. Mkwezalamba, Executive Director and Mr. Odonye, Senior Advisor to Executive Director on Nigeria
March 5, 2018

Our Nigerian authorities thank staff for the constructive engagement during the Article IV consultation. They broadly concur with staff's assessment of the macroeconomic challenges facing the country and their policy recommendations.

Following five successive quarters of recession, the Nigerian economy has rebounded, driven by policy responses tailored to lay a strong foundation for inclusive growth and sustainable development. During the second quarter of 2017, economic activity picked up on the back of strong implementation of macro policies initiated under the Economic Recovery and Growth Plan (ERGP). The ERGP was developed in response to the recession, with the goal to fundamentally change the direction of national economic development. Its key priorities include stabilization of the macroeconomic environment and achieving low inflation, stable exchange rates, and sustainable fiscal and external balances.

Our authorities, however, wish to register their displeasure with the phrase "muddle through" outlook in the staff assessment and failure to appreciate government efforts despite several initiatives to strengthen the fiscal situation and promote growth. Equally, they find the reference to "pervasive/widespread corruption" in Nigeria inappropriate, given that corruption is relative across the globe, and it relies on Third Party Indicators (TPIs), some of which are questionable owing to the quality and reliability of their sources and methodologies. Going forward, the authorities request staff to correct the errors and use proper phrases to reflect actual situations.

Economic Developments and Outlook

The Nigerian economy posted a 0.8 percent growth in 2017, driven mainly by recovery in oil production and prices as well as rising agricultural performance. With steadfast implementation of the reform efforts under the ERGP, the authorities estimate that growth will reach 3.5 percent in 2018. It is further estimated that growth will rise substantially in the medium term following strong execution of the capital budget, a rebound in private sector investment supported by the implementation of structural reforms, and higher oil production.

Foreign exchange (FX) availability has improved, from $27.0 billion in 2016 to a four-year high of $39.2 billion in 2017, owing to greater exchange rate flexibility and a tighter monetary policy stance, and a rebound in oil exports. That said, the exchange rate has stabilized, and the parallel market premium declined from 60 percent in February 2017 to 20 percent in December 2017. At the same time, financial markets soared, gaining 60 percent in value from end-2016 to mid-January 2018.

On the other hand, inflation declined to 15.4 percent year-on-year by end-December 2017, from 18½ percent at end-2016. It has since moderated to 15.1 percent in January 2018, and maintained the trend indicating twelfth consecutive month of decline, and is expected to reach lower double-digit rates by the end of 2018.

Fiscal Policy

To address the fiscal deterioration occasioned by the sharp fall in oil prices, the authorities are determined to reduce dependence on oil revenue and create space for private sector investment. Going forward, they aim to implement structural fiscal reforms, focusing on increasing non-oil revenue. In this context, the 2018 budget presented to the National Assembly in November 2017 targets a significant fiscal consolidation and a reduction of the overall fiscal deficit from 4.3 percent of GDP in 2017 to 1.4 percent of GDP in 2018. This conforms with plans under the ERGP to progressively cut deficits and contain borrowing.

The authorities are making determined efforts to improve tax collection and strengthen tax administration, including widening the tax base. In this regard, they plan to implement measures to double the tax compliance rate to about 50 percent through undertaking tax audits, using e-filing, conducting data matching exercises to close collection loopholes, strengthening tax enforcement, and combating corruption in tax offices. In addition, the authorities are examining the need to focus on large taxpayers to boost collection and establish a more dependable revenue base. Further, proposals have been tabled in parliament to increase excises on tobacco and alcohol, review stamp duties, and introduce a registration threshold for VAT. Furthermore, the authorities are reviewing the requirements for publication of tax expenditures together with the annual budget as part of an effort to strengthen transparency. In a drive to comprehensively reform tax administration, current efforts would be supplemented by recommendations from the upcoming Tax Administration Diagnostic Assessment Tool (TADAT) exercise.

Implementation of the Voluntary Asset Income Declaration Scheme (VAIDS) is expected to positively impact revenue collections by end-March 2018. Going forward, the authorities plan to table before parliament a Finance Bill containing proposals to increase excise rates, reform the Value Added Tax (VAT) system by introducing registration thresholds and removing exemptions, and introducing stamp duties. Implementation of the Oil Asset Divestment Strategy, together with possible privatization of the Nigeria Petroleum Development Company, is expected to yield additional revenues. The authorities are also advancing efforts to complete the audit of the Nigerian National Petroleum Corporation (NNPC), to determine its financial position in respect of arrears and revenue due to government.

The authorities plan to maintain expenditures at budgeted levels, and savings from recurrent costs will offset the increase in planned capital investment. Further, they have no plans to reintroduce fuel subsidy in the budget. The authorities are also committed to the ongoing rationalization of current expenditures to create space for capital spending to close the infrastructure gap, and remain committed to improving public expenditure efficiency. In addition, they intend to improve public debt management, through closer coordination among the central financial agencies and reinforcing expenditure controls. Furthermore, a strategy to replace a portion of existing T-bills with Eurobonds will be pursued, while plans to strengthen the capital market will be implemented. The authorities have also stepped-up efforts in monitoring fiscal activities, including the identification of arrears and the requirement for state and local governments to provide financial reports regularly. Finally, the authorities are strengthening the implementation of the Treasury Single Account (TSA) mechanism to effectively utilize idle resources, and reduce domestic borrowing.

Monetary Policy

The Central Bank of Nigeria (CBN) has pursued a tight monetary policy stance since July 2016 when the monetary policy rate (MPR) was raised from 12 percent to 14 percent to address inflationary pressures. The CBN will continue to be vigilant, and anticipate any fiscal and liquidity pressures ahead of the 2019 elections. In this regard, the Monetary Policy Committee (MPC) will be proactive in managing liquidity to achieve CBN’s price stability objective, while implementing measures to strengthen financial sector stability and inclusive growth. The CBN will also continue to strengthen the transmission mechanism to enhance monetary policy impulse.

Some areas in the staff assessment need further clarifications. For instance, from its experience, the MPC would emphasize that an increase in the MPR at this stage would be unwarranted since monetary policy tightening has been directed at reducing pressures on the exchange rate, a key factor for Nigeria’s inflation dynamics. This addresses the staff’s recommendation that increasing the MPR to positive real levels would more transparently reflect the CBN’s intentions, help anchor inflation expectations, and signal forward-looking policy. Consistent with CBN’s experience and the staff’s findings on the study to understand monetary policy in Nigeria (SIP: P.86), the MPC would continue to finetune the monetary policy framework while deploying a range of instruments, including the MPR, open market operations (OMO), and cash reserve ratio (CRR), to contain inflationary pressures.

On the CRR, the MPC has restated its position that the rate remains 22.5 percent on eligible deposits as reflected in the latest MPC communique issued in November 2017. Further, the MPC has reiterated that applying CRR on deposit flows has merits for Nigeria, which suffers from structural liquidity surpluses, as opposed to CRR on deposit stocks recommended by staff. Lastly, the CBN would maintain its commitment to the development finance mandate as provided in the Act, and were the change to happen, it will take a medium to long term for a parliamentary approval regarding the divestment of interest in development finance institutions (DFIs) advised by staff.

Exchange Rate

As encapsulated in the ERGP, the authorities are committed to the unification of exchange rates in the medium-term. In this regard, the CBN has started implementing measures to stabilize the exchange rate. These include encouraging increased flows from remittances through licensed international money transfer organizations (IMTOs), more CBN sales in the interbank market, and the establishment of the investor and exporter foreign exchange (IEFX) window. In addition, the CBN is monitoring convergence of the two major FX windows between the forward transactions in the wholesale/retail window and the IEFX rate. Prospects are strengthening and foreign reserves have risen to $42.8 billion as at February 2018 on the back of large rice production capacity promoted by the CBN anchor borrower program. Going forward, the CBN intends to remove restrictions in the FX market for the 40-category products, once reserve buffers improve to comfortable levels.

Financial Sector

Apart from rising non-performing loans (NPLs) in a few sectors, Nigeria's financial sector remains broadly stable. The banks are adhering to stricter standards for internationally active players than required under Basel II, and balance sheets remain strong. Capital buffers can withstand financial reporting at a more market determined exchange rate, including the January 2018 transition to IFRS9 on which bank examiners are expected to harmonize recommended provisions with bank impairment charge.

In response to the rising NPLs, commercial banks have implemented stricter adherence to revised repayment plans for restructured loans and moved out of the NPL territory, especially for loans to the oil, gas and power sector. The reference to banks resorting to "ever-greening" of potentially problematic loans is unsubstantiated since loan restructuring provides for recognition of macroeconomic effects on expected cash flows.

That said, in line with its guardianship role over the banking system, the CBN is further strengthening its supervisory oversight and deployment of early warning systems to identify vulnerabilities and manage emerging risks in the financial system.

Structural Reforms

Authorities have continued to make progress on implementing structural reforms as envisioned by the ERGP. To this end, they have prioritized the resolution of structural impediments and committed to building on the progress made to improve the business environment, accelerating the power sector reform, strengthening governance, and promoting financial inclusion and gender equality, among others. Progress under the Power Sector Recovery Plan (PSRP) has included increased power supply generation which reached a new peak of 5100MW in the grid in December 2017; appointment of new boards for sector agencies; appropriate budget provisions to ensure government agencies pay their electricity bills and enable the bulk trader to pay in full for generated power; and an off-grid electrification strategy. The ERGP Implementation Unit established in the Vice President's office is expected to accelerate delivery on policies to develop industrialization, agriculture, and power sectors. In this context, the authorities plan to approach international development partners to secure technical assistance.

One of the targets the government set for gauging its progress in creating an enabling environment for business was to achieve a positive movement in the World Bank Ease of

Doing Business. According to a recent World Bank business index ranking, Nigeria moved 24 places to 145th position in 2017, and was among the top 10 reforming countries in the world.

To pursue a gender-sensitive, pro-poor and inclusive growth, the 2018 Budget appropriation plan has retained the social intervention program noted for creating jobs, supporting small businesses, and providing finance and economic opportunities to the vulnerable people. Relating to governance and transparency, the authorities have adopted the National Anti-Corruption Strategy (NACS) and have committed to digitizing public officials' asset declarations, and the publication of the first national money laundering and terrorist financing risk assessment report.

Authorities acknowledge the remaining shortcomings in the data and are working to close those gaps, including seeking TA support to state and local governments fiscal data, reduction in the balance of payments errors and emissions, and continuous enhancement of the Debt Management Office to extend coverage to private sector liabilities and foreign investments.

Conclusion

The Nigerian authorities reiterate their commitment to sustain implementation of ongoing reforms and implement urgent comprehensive policies to support durable and inclusive growth. Pursuing a growth-friendly fiscal policy that is complemented by tight monetary and flexible exchange rate policies to contain vulnerabilities in the economy remains the focus. Policies would be anchored on stronger execution of the capital budget, investment-sensitive structural reforms and higher oil production. Additional priorities include actions to boost non-oil sector activity, reduce inflation to the target range, contain emerging banking sector vulnerabilities, and address unemployment. Lastly, the authorities value Fund advice and technical assistance, which have helped shape the policy direction over the years.