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Nigeria: 2005 Article IV Consultation—Staff Report; Staff Supplement; and Public Information Notice on the Executive Board Discussion

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 2005 Article IV consultation with Nigeria, the following documents have been released and are included in this package:

- the staff report for the 2005 Article IV consultation, prepared by a staff team of the IMF, following discussions that ended on March 25, 2005, 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 June 24, 2005. The views expressed in the staff report are those of the staff team and do not necessarily reflect the views of the Executive Board of the IMF.

- a staff supplement of July 14, 2005, updating information on recent economic developments.

- a Public Information Notice (PIN) summarizing the views of the Executive Board as expressed during its July 18, 2005 discussion of the staff report that concluded the Article IV consultation.

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

Selected Issues Paper

The policy of publication of staff reports and other documents allows for the deletion of market-sensitive information.

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INTERNATIONAL MONETARY FUND

NIGERIA

Staff Report for the 2005 Article IV Consultation

Prepared by Staff Representatives for the 2005 Consultation with Nigeria

Approved by Michael Nowak and Carlo Cottarelli

June 24, 2005

- **The 2005 Article IV consultation discussions were held in Abuja and Lagos during March 8-25, 2005**. The staff team comprised Messrs. Katz (Head), and Bartsch, Ms. Gobat (all AFR), Mr. Villafuerte (FAD), Mr. Nielsen (PDR), and Mr. Thiam (Senior Resident Representative). Mr. Ukpong (Senior Advisor to the Executive Director) attended some of the discussions. Staff worked closely with an overlapping Monetary and Financial Systems Department (MFD) technical assistance (TA) mission and the World Bank resident mission.
- **Discussions were held with** President Obasanjo; Dr. (Mrs.) Okonjo-Iweala, Minister of Finance (MoF); Mr. Nasir El-Rufai, Minister of Federal Capital Territory (FCT); Mrs. Usman, Minister of State for Finance; Professor Soludo, Governor of the Central Bank of Nigeria (CBN); and other senior officials. The mission also met with Dr. Adewusi, Honorable Commissioner for Finance of Lagos State, and representatives of the private sector, civil society, and the international community.
- **At the conclusion of the 2004 Article IV consultation on July 16, 2004, Directors welcomed the improvement in Nigeria's prospects for sustained adjustment and economic reform and, in particular, the articulation of the National Economic Empowerment and Development Strategy (NEEDS).** See http://www.imf.org/external/pubs/ft/scr/2004/cr04239.pdf. Directors fully agreed with its overall policy thrust and viewed the reform priorities as broadly consistent with the recommendations of the 2002 Article IV consultation. Directors stressed that consistent implementation of NEEDS, backed by complementary reforms at the subnational government level, was essential for Nigeria to confront the daunting challenges that lay ahead. They generally endorsed intensified surveillance, which involved quarterly staff visits and six-monthly staff reports for the information of the Executive Board. A semiannual staff report was issued to the Board. (http://www.imf.org/external/pubs/ft/scr/2005/cr0537.pdf).
- **Nigeria has not yet accepted Article VIII obligations (Sections 2-4)**, but no longer maintains restrictions under Article XIV.
- **While staff considers the current quality of data provision adequate for surveillance purposes, there remains significant room for improvement.**
- **The authorities intend to publish this staff report and the accompanying selected issues paper.**

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Executive Summary

Nigeria's macroeconomic policies in 2004 were consistent with the objectives of achieving macroeconomic stability, and reducing the economy's vulnerability to oil price shocks. All three tiers of government adhered to a conservative oil price-based fiscal rule, resulting in a large overall budget surplus. Monetary policy tightening contributed to lower inflation, a more stable exchange rate, and a significant buildup of international reserves. GDP growth was robust, benefiting from the improved macroeconomic environment and policy initiatives to spur agricultural production.

The authorities also made good progress in implementing their structural reform program. They took measures to tackle public sector corruption, improve the transparency of public policies, advance the civil service reform and the Extractive Industries Transparency Initiative (EITI), and strengthen budgetary procedures. The authorities have continued to resist pressure to reverse the liberalization of the downstream petroleum sector. The pace of privatization, however, was disappointing.

The economic outlook for 2005 is positive, although downside risks bear close monitoring. Given favorable terms of trade, gross international reserves are projected to increase substantially. The economy is expected to benefit from improved infrastructure and policy initiatives aimed at spurring non-oil GDP growth, and removal of distortions. The administration recognizes that the 2005 federal government appropriations act poses substantial risks and has identified measures to contain spending. Nevertheless, the non-oil fiscal deficit will increase significantly, putting pressure on domestic resources. The burden of containing inflation will thus fall on monetary policy. Short-term interest rates should be allowed to adjust as needed to meet the monetary targets, and the exchange rate should be market-determined. However, it may be difficult to keep inflation within the authorities' original target range.

The medium-term outlook hinges on the government's ability to consolidate the progress it has made in macroeconomic stability, strengthen public expenditure management, and progress significantly in implementing structural reforms. Staff agrees with the authorities' ambitious structural reform agenda, which focuses on improving governance, enhancing public service delivery, strengthening the financial system, unifying the foreign exchange markets, liberalizing trade, and improving customs and tax administration. Reform implementation should boost productivity, allow for more efficient resource allocation, and accelerate growth. As a matter of urgency, the national statistical system should be overhauled.

The authorities have requested that the Fund support the implementation of their reform program under a possible non-borrowing instrument if it becomes operational. Staff is committed to providing policy advice and helping build capacity in Nigeria.

I. INTRODUCTION

1. **Over the past year, the authorities have made notable progress in implementing their homegrown program.** Their macroeconomic policies and structural reforms have been broadly in line with the Executive Board's recommendations (Box 1). All three tiers of government participated in an oil price-based fiscal rule,[1] thus containing the fiscal stimulus within acceptable levels. A tight monetary policy helped lower inflation and build up large international reserves.

2. **Despite Nigeria's recent progress in policy and reform implementation, the economy continues to feel the effects of more than two decades of economic mismanagement, neglect of infrastructure and social service provision, and disregard for market-based institutions**. Social indicators for Nigeria continue to compare unfavorably with those of even other sub-Saharan African countries; nearly 60 percent of the population lives in poverty. Nigeria's infrastructure and public utilities rank among the worst in the world. Corruption, infrastructure, and weak public institutions are the major obstacles to higher growth in the non-oil economy and to improvements in social welfare.

Nigeria: Selected Social Indicators 1/

	Nigeria	Sub-Saharan Africa	Low-Income	Lower-Middle Income
Gross National Income per capita (current U.S. dollars)	350	500	440	1490
Rank in UNDP Human Development Index	151	152	131	...
Population living on less than US$1 a day, 2000	57	46	...	...
Life expectancy at birth (years)	45	46	58	69
HIV prevalence rate (percent of female population, age 15-24)	6	9	3	1
Infant mortality (per 1,000)	98	101	80	31
Access to an improved water source (percent of population), 2002	60	58	75	82
Adult literacy (percent of population age 15+), 2002	67	65	61	...
Gross primary enrollment (percent of school-age population)	82	86	95	95
Telephone mainlines (per 1,000 people), 2002	6	15	28	164
Internet users (per 1,000 people)	6	20	16	63

Source: World Bank, World Development Indicators, and UNDP, *Human Development Report.*
1/ Data reported for 2003 unless otherwise stated.

3. **Economic management is further complicated by provisions in the 1999 constitution that allocate about half of all oil revenue to the state and local governments (SLGs)**. The authorities' reforms have also met resistance from various vested interest groups. Administrative and technical capacity constraints affect the pace of reform implementation, requiring careful reform prioritization, focused technical assistance, and stronger donor coordination.

[1] The windfall oil revenue in excess of the budget reference price of US$25 per barrel was set aside in deposit accounts with the CBN.

Box 1: Nigeria—Key Recommendations of 2004-05 Article IV Consultations	
2004 Article IV Consultation	
Recommendations	**Implementation**
Fiscal Policy	
• Continued fiscal tightening and participation of states in the oil price-based fiscal rule in 2004.	• Done. All states participated in the fiscal rule. Consolidated fiscal stance restrained.
• Timely passage of the Fiscal Responsibility Bill.	• Ongoing. Bill expected to be discussed by the National Assembly in second half of 2005.
• Begin the 2005 budget cycle early.	• Done. The budget cycle began mid-2004; Executive submitted draft budget to parliament in October 2004. However, this did not lead to the timely approval of the 2005 budget.
• Design a strategy to address domestic arrears	• Partially done. Due diligence of contractor arrears will be completed by Q3 2005, clearance will begin in Q4 2005. Need to address pension arrears.
Develop a medium-term expenditure framework consistent with NEEDS.	• Ongoing. Expected to be ready by 2006.
Monetary Policy	
• Implement a credible monetary policy framework aimed at achieving price stability and rebuilding international reserves.	• Done. Inflation markedly reduced and international reserves increased.
• Increase reliance on indirect monetary policy instruments, apply stricter access limits to the discount window, and allow for market-clearing interest rates in the primary government securities market.	• Partially done. New settlement bank system reduced need for CBN overdraft facility; market-clearing rates allowed since Q3 2004; daily open market operations since end-2003.
• Develop an effective strategy for public communication of the objectives and stance of monetary policy.	• More work needed.
Banking	
• Adopt zero tolerance for misreporting and under-provisioning; develop an exit strategy for weak banks.	• Ongoing. CBN announced zero tolerance policy toward misreporting and increased banks' minimum. capital requirement to N25 billion at end-2005;
Foreign Exchange Markets	
• Unify the foreign exchange markets.	• Pending. The authorities announced that they would introduce a wholesale Dutch auction early 2006. This would unify the current retail Dutch Auction system with the interbank market.
Others	
• Improve statistics; revamp Federal Office of Statistics (FOS) as a matter of priority.	• Little progress.
• Introduce tariff reform in line with ECOWAS common external tariff; discontinue reliance on import bans.	• Pending. Comprehensive tariff reform planned for July 1, 2005; import bans to be phased out by end-2006.
• Develop a treasury bill market to help restructure the domestic debt and reduce rollover risks.	• Ongoing. Six-month T-bill issued and bunching of 91-day T-bill addressed.
• Accelerate privatization program.	• Little progress.

Box 1: Nigeria—Key Recommendations of 2004-05 Article IV Consultations (concluded)

2005 Article IV Consultation Recommendations

Fiscal Policy

- Implement a quarterly fiscal framework consistent with a prudent spending level; save all windfall oil revenue above reference oil price of US$30 per per barrel.
- Pass the Fiscal Responsibility Bill.
- Undertake a Fiscal Report on the Observance of Codes.
- Introduce a single treasury account.
- Introduce functional budget classification.
- Design an equitable and sustainable strategy to address pension arrears.
- Develop a medium-term expenditure framework consistent with NEEDS.
- Encourage public expenditure reforms at subnational level.

Monetary and Exchange Rate Policy

- Implement a credible monetary policy framework aimed at achieving single digit inflation.
- Allow for market-determined exchange rate; allow interest rates to adjust to achieve money targets.
- Phase out the government's overdraft facility.
- Remove the CBN from the primary market of government securities.
- Introduce daily liquidity forecasting.
- Improve communication with the public.

Banking

- Establish high level steering committee.
- Develop an exit strategy for weak banks.
- Strengthen laws and regulations to allow for exit of insolvent banks and for the creation of asset management companies.
- Implement zero tolerance for misreporting and under-provisioning.
- Strengthen regulations governing insider lending, large exposure, and loan classification.
- Introduce electronic financial analysis system and daily bank reporting.
- Move to consolidated banking supervision.

Foreign Exchange Markets

- Implement the action plan developed with assistance from the Monetary and Financial Systems Department to ensure operational and regulatory framework is in place to allow for timely move to wholesale auction.
- Unify the DAS and interbank foreign exchange markets.
- Simplify foreign exchange regulations in line with the new foreign exchange market framework.

Other Structural Reforms

- Improve statistics; revamp FOS as a matter of priority and provide timely data on key economic indicators.
- Lengthen further the maturity structure on treasury bills.
- Intrroduce a new tariff system based on ECOWAS's CET and consider accelerating the removal of import bans and the temporary 50 percent tariff rate.

4. **In spite of these enormous challenges, Nigeria now has an opportunity to embark on difficult reforms that could dramatically improve its medium-term prospects for more rapid and sustainable growth.** Indeed, its positive performance in 2004 and improved outlook for 2005, relative political stability (with presidential elections slated for early 2007), and the strong reform commitment of the president and his economic team provide a unique window of opportunity to accelerate, broaden, and lock in the gains realized so far.

II. Background

5. **Preliminary official data suggest that GDP, benefiting from the improved macroeconomic environment, grew robustly in 2004**. Real GDP is estimated to have increased by about 6 percent, stemming largely from higher growth in the non-oil economy, in particular agriculture, and some areas within manufacturing and services. The authorities reported about US$2 billion in new foreign direct investment commitments in the non-oil economy, mainly in food processing, leather goods, power, and telecommunications. However, employment growth remained sluggish, and the cost of doing business in Nigeria continued to be high. Moreover, in the presence of a widening non-oil fiscal deficit and tighter monetary policy, private sector demand growth was low with respect to non-oil GDP.

Nigeria: Core Indicators, 2003-04
(Annual percentage changes, unless otherwise indicated)

	2003	2004 Prel.
Consumer prices (eop.)	23.8	10.0
Real GDP growth	10.9	6.1
o/w non-oil GDP	4.4	7.4
o/w oil and gas GDP	26.5	3.5
Federal government non-oil primary balance, cash basis (in % of non-oil GDP)	-14.3	-12.2
Consolidated government non-oil primary balance, cash basis (in % of non-oil GDP)	-34.4	-35.2
Broad money (12-month rate, eop.)	24.1	14.0
Reserve money (12-month rate, eop.)	16.4	6.3
Current account balance (in percent of GDP)	-2.4	4.8
Gross international reserves (in billions of U.S. dollars)	7.5	17.0

Nigeria: Federal Government Budget (Cash Basis) 2004-05
(In billions of naira, unless otherwise specified)

	2003 Prel.	2004 Auth. Rev. Prog.	2004 Staff Est.
Oil price (in U.S. dollars per barrel)	28.9	35.8	38.3
Total revenue	964	1,422	1,486
Oil revenue	740	1,115	1,236
Non-oil revenue	224	306	250
Total expenditure	1,049	1,157	1,075
Recurrent expenditure	792	862	844
Capital expenditure	257	295	231
Overall balance	-85	265	411
(In percent of GDP)	-1.1	2.7	4.3
Non-oil primary balance	-583	-624	-594
(In percent of non-oil GDP)	-14.3	-12.8	-12.2
Memorandum items:			
Non-oil primary balance, consolidated (In percent of non-oil GDP)	-34.4	-37.2	-35.2
Non-oil primary expenditure (in percent of non-oil GDP)	51.4	51.9	51.1
Non-oil revenue (in percent of non-oil GDP)	16.9	14.7	15.8
Non-oil primary balance (commitment basis, in percent non-oil GDP)	-33.8		-36.4
Primary balance, consolidated (in percent of GDP)	3.4	9.2	12.4
Overall balance, consolidated (in percent of GDP)	0.0	6.6	9.9
Oil revenue windfall savings (consolidated, in billions of U.S. dollars) 1/	...	3.3	5.9
(In percent of non-oil GDP)	...	9.2	16.2
Oil production (millions of barrels per day)	2.45	2.46	2.49

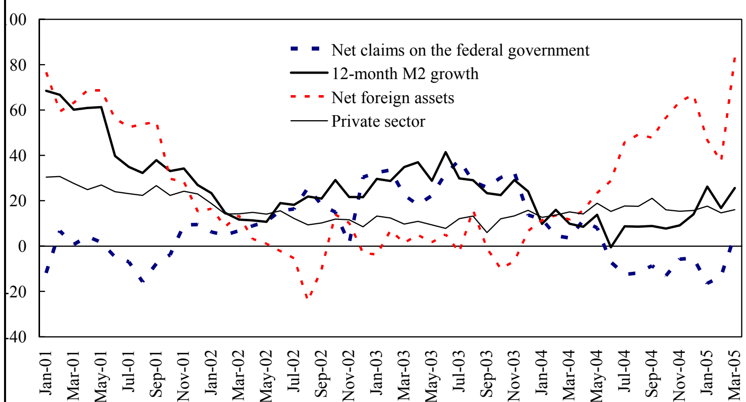
Sources: Nigerian authorities; and Fund staff estimates.
1/ The windfall is calculated as the difference between oil revenue at the budget reference oil price and at the excess of *WEO* oil price.

6. **The consolidated government fiscal stance was prudent in 2004, despite the large increase in oil revenue, and the fiscal position strengthened significantly.** Oil revenue increased as a result of higher oil prices and production and the removal of the price subsidy on domestic crude oil sales to the Nigerian National Petroleum Corporation (NNPC). All three tiers of government

adhered to a conservative oil price-based fiscal rule, which was strictly implemented. Public spending was kept in check, thus containing the widening of the non-oil primary deficit as a percent of non-oil GDP.[2] The consolidated government's overall surplus increased to 10 percent of GDP from a balance position in 2003. The windfall oil revenue of about US$6 billion was set aside.[3]

7. **The CBN tightened monetary policy to meet the disinflation objective**. For the first time in well over two decades, it met its monetary policy targets. Certain reforms—in line with staff's recommendations—helped improve the effectiveness of monetary policy. These included (i) introducing the new settlement bank system in April that resulted in a one-off liquidity withdrawal;[4] (ii) moving to daily open market operations at end-2003; and (iii) the CBN withdrawing as a buyer from the primary market for government securities and the gradual shift to market-clearing interest rates starting in the third quarter of 2004.[5] However, in early 2005 the CBN failed to sterilize a build-up of excess liquidity in the banking system, which resulted in a 25 percent increase in broad money in the 12-months to March 2005.

Contribution to 12-month M2 growth, January 2001-March 2005
(In percent)



Sources: Nigerian authorities; and Fund staff estimates.

[2] The non-oil primary deficit on a cash basis widened by 0.8 percentage points of non-oil GDP, while the widening on a commitment basis was more sizable (2.6 percentage points of non-oil GDP).

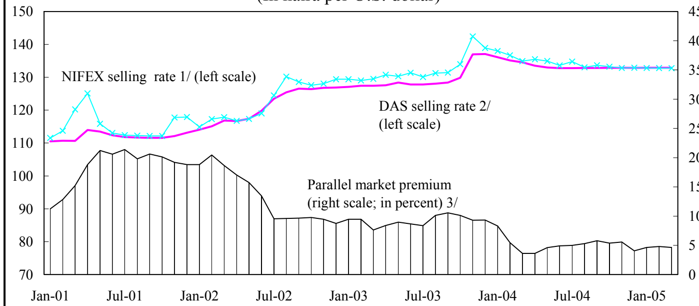
[3] Deposits would have been about US$1.1 billion higher had the windfall oil revenue on domestic crude oil sales been set aside as well.

[4] The seven designated settlement banks deposited the equivalent of about 14 percent of end-2003 base money in settlement collateral with the CBN.

[5] In April 2004, the CBN in coordination with the Debt Management Office, began smoothing the maturity profile on three-month treasury bills. In October, it introduced a six-month treasury bill.

8. **The monetary tightening also dampened foreign exchange market pressures in 2004**. Foreign exchange sales in the Dutch Auction System (DAS) were virtually the same as in 2003. The naira appreciated against the U.S. dollar by about 4 percent in the first quarter of 2004 and has remained stable since. The spread between the interbank and DAS exchange rate averaged 0.2 percent, while the parallel market premium remained stable at about 5 percent. The exchange rate appreciated moderately in real terms in 2004.

The Exchange Rate of the Naira, January 2001-March 2005
(In naira per U.S. dollar)

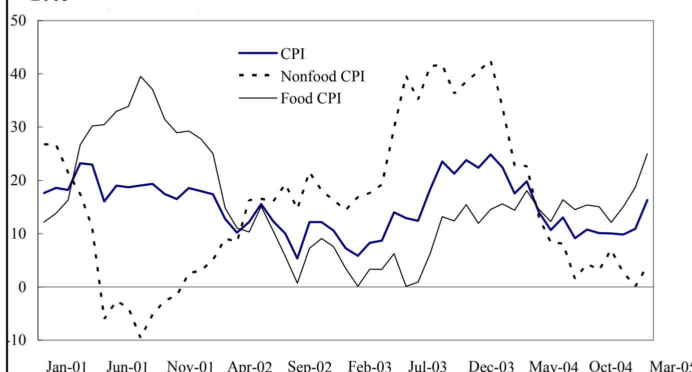


Sources: Nigerian authorities; and Fund staff estimates.

1/ The Nigeria interbank foreign exchange index (NIFEX) reflects the exchange rate on the interbank market.
2/ The "DAS" represents the official foreign market (the exchange rate reported is the average of the highest and lowest bids).
3/ Defined as the difference between the parallel market selling rate and the DAS selling rate.

9. **Monetary tightening and the strengthening of the naira helped lower inflation**. The 12-month inflation rate decelerated sharply to 10 percent at end-2004 from 23.8 percent at end-2003, notwithstanding domestic fuel price increases of about 25 percent in October 2004. However, the 12-month inflation jumped to 16 percent in March, reflecting primarily a sharp increase in food prices as food price inflation—which accounts for about two-thirds of the CPI—rose to 25 percent, while inflation for the nonfood price index remained moderate (3.6 percent).

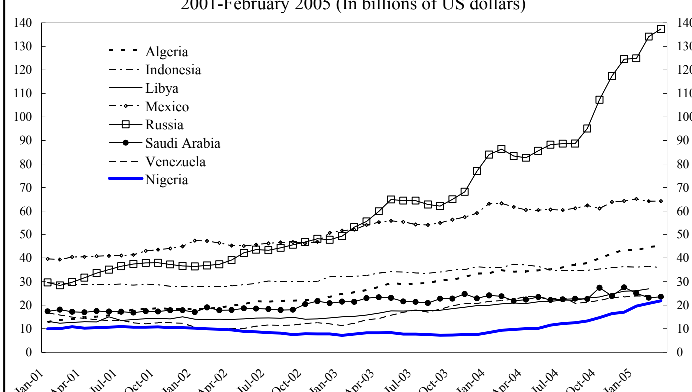
Consumer Price Index (CPI), Food, and Nonfood, January 2001 - March 2005



Sources: Nigerian authorities; and Fund staff estimates.

10. **The improvement in Nigeria's terms of trade helped strengthen Nigeria's external position.** The external current account shifted to a surplus and the non-oil current account also improved. International reserves rose considerably to US$22 billion (7.7 months of 2006 imports of goods and services or 10.8 months of imports of goods in 2005) at end-April 2005 from US$7.5 billion (3.4 months of imports of 2005 goods and services or 3.6 months of imports of goods in 2004) at end-2003.

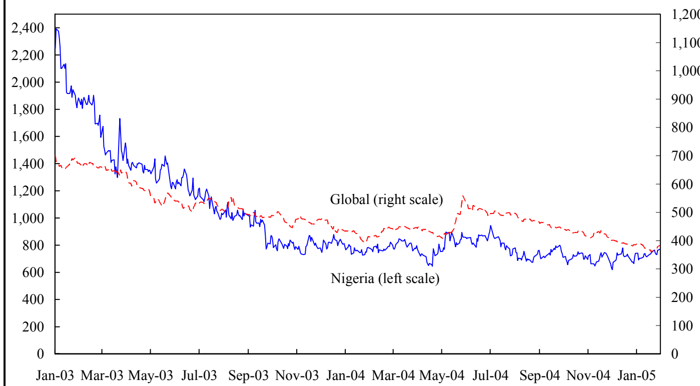
Developments in International Reserves in Major Oil Exporting Countries, January 2001-February 2005 (In billions of US dollars)



Sources: IMF, International Financial Statisitcs; Central Bank of Nigeria.

11. **Gross external public debt declined in 2004 relative to GDP and exports.**[6] However, arrears continued to accumulate. The government serviced its commercial and multilateral external debt obligations, but paid only about half of its obligations to Paris Club creditors. The Nigerian authorities consulted with the Paris Club on the allocation of the debt service among creditors and made further progress in concluding bilateral negotiations under the 2000 rescheduling agreement, with only one bilateral agreement pending at end-2004.

JP Morgan Emerging Market Bond Index: Development in Spread over U.S. Treasury, January 2003-January 2005 (In basis points; daily data)



Sources: Credit Suisse First Boston; and Datastream International.

12. **Sovereign risk spreads suggest a stable outlook for the Nigerian economy.** In response to both an increased appetite for emerging market debt and the improved external outlook, spreads have come down since their highs of late 2002. However, they still remain about 400 basis points above the global emerging market spread. The Nigerian government is seeking a Standard and Poor's credit rating.

13. **Since the 2004 Article IV consultation, Nigeria has made good progress in implementing its structural reform agenda.** This progress is summarized in Box 2. The overall pace of privatization was, however, disappointing. To reenergize the privatization process, the top management of the Bureau of Public Enterprises (BPE) was replaced in March 2005. The authorities also withstood pressures to reverse the liberalization of the downstream petroleum sector. The NNPC did not, however, fully pass on the higher costs of fuel products to the domestic market. It has covered these costs by cutting operating expenses, including retrenching about 40 percent of its staff, and deferring payments on imports of petroleum products and domestic crude oil purchases to its main international suppliers and the government.[7]

[6] External debt fell from 115 percent of exports in 2003 to 92 percent in 2004. Arrears to Paris Club creditors amounted to US$5.7 billion at end-2004.

[7] The extent of these costs will become clear with the release of the 2004 audited accounts of NNPC later this year.

Box 2. Implementation of Structural Reforms, July 2004-March 2005

Governance and Transparency Reforms

- As part of Nigeria's commitment under EITI, an external auditor was selected in March 2005, for conducting the oil sector audits. The authorities have published what revenue was distributed to the three tiers of government since 1999.
- The Economic and Financial Crimes Commission (EFCC) has seized about US$700 million in assets. Including indictments by the Independent Corrupt Practices Commission, about 100 high-level public officials are being investigated for economic crimes and corruption.
- In early 2005, two ministers were dismissed and a high-level parliamentarian was forced to resign over corruption allegations.
- The Federal Capital Territory (FCT) computerized its land records, uncovered forgery of certificates of occupancy, and is validating more than 50,000 plot allocations made over the past two decades.

Civil Service Reform

- Monetization of in-kind benefits, restructuring of pilot ministries, the NNPC, and CBN led to the retrenchment of 17,000 employees and elimination of 5,000 ghost workers.
- Pilot ministries have completed payroll surveys, assessed skills needs and moved to retraining and retrenchment. Core ministries (education, health, power, works) have taken initial steps to follow.

Tax and Customs Administration Reform

- The Federal Inland Revenue Service has been restructured along functional lines to provide integrated taxpayer services, enhance tax collection and audit functions.
- One-third of customs administration's management was replaced. A three-year reform program has been launched to enhance customs' efficiency.

Pension Reform

- The authorities replaced the pay-as-you-go pension system by a contributory, fully funded pension system.

Public Expenditure Reforms

- Capital planning has been integrated into the MoF, a new chart of accounts was introduced, and line ministries' capital accounts have been consolidated to a central capital account.
- Due process units have been established in line ministries to strengthen capital budget implementation. A new procurement bill has been sent to parliament.

Deregulation and Privatization

- A major power sector reform bill was signed into law in March 2005. A public-private partnership bill has been submitted to parliament. An international company was awarded a concession to manage Nigeria's biggest port, the Apapa Port in Lagos, in March 2005.

14. **In July 2004, the CBN announced a major bank restructuring reform**. The minimum capital requirement will be increased from about US$15 million to US$190 million at end-2005. The capitalization program is supported by measures to encourage bank consolidation through mergers and acquisitions. As of March 2005, 22 banks have offered shares to the public. Six of them have completed their share offerings, raising about N 86 billion. In addition, 11 groups, comprising 39 banks, have agreed to merge. The CBN also announced reforms to address major weaknesses in banking supervision. In line with recommendations made in the 2002 Financial Sector Assessment Program (FSAP) report, it would adopt a policy of zero-tolerance toward violations of prudential regulations, aim to move toward a risk-based supervisory framework, and strengthen supervision over nonbank financial institutions. The CBN has requested technical assistance from the Monetary and Financial Systems Department (MFD) on the design and implementation of certain elements of its banking reform program.

15. **Despite the authorities' efforts to strengthen the banking sector, banks' financial condition deteriorated in 2004.** The authorities reported that the number of unsound banks increased to 17 out of 89 banks, from 12 at end-2003. They also noted that another 16 banks were marginally sound, up from 6 banks at end-2003.

Nigeria: Financial Soundness Indicators for the Banking Sector, 2001-04
(In percent, unless otherwise indicated)

	2001	2002	2003	2004
Regulatory capital to risk-weighted assets	16.2	18.1	17.8	14.7
Regulatory Tier 1 capital to risk-weighted assets	14.2	16.0	15.7	13.4
Non-performing loans to gross loans	19.7	21.4	19.8	21.6
Non-performing loans net of provisions to capital*	19.9	22.9	18.1	17.3
Liquid assets to total assets	29.2	31.5	27.8	31.2

Source: Nigerian authorities.

III. Macroeconomic Policies for 2005

16. **After protracted negotiations between the executive and the national assembly, President Obasanjo signed a highly expansionary 2005 appropriations bill into law on April 12, 2005**. It implies a 57 percent increase in federal primary spending compared with 2004, financed by higher oil revenue, the use of one half of the 2004 savings of the windfall oil revenue, and projected sales of government assets and privatization receipts. The budget reference oil price was raised from US$25 to US$30 per barrel.

17. **Full implementation of the appropriations act, along with the distribution of higher oil revenue to the state and local governments, would lead to a sharp widening of the consolidated non-oil primary deficit and could threaten macroeconomic stability.** The non-oil primary deficit could widen to 45 percent of non-oil GDP from 36 percent in 2004. The consolidated government would still record a sizable cash surplus at the oil price of US$49.5 per barrel (March 2005 projections of the World Economic Outlook (WEO)). However, the authorities indicated that they would scale back the spending increase in 2005 (see baseline scenario below).

18. **The sharp spending increase in the federal budget reflects primarily the government's desire to address the country's vast development requirements, consistent**

with NEEDS. The budget's focus is on removing the existing structural impediments to growth and poverty reduction and on funding public expenditure reform programs. Its goals are to (i) attain the government's universal primary education target and health-related Millennium Development Goals (MDGs), (ii) complete existing road and electricity projects, (iii) fund the new pension system, and (iv) improve internal security. The budget also allocates funds for the clearance of outstanding domestic contractor arrears and the recapitalization of three development banks.

19. **In early February, the CBN announced that it was revising its monetary framework for 2005.** It would limit the fluctuation of the naira to a range of (+/-) 3 percent against the U.S. dollar to anchor inflation expectations; immediately cut the minimum rediscount rate (MRR) by 2 percentage points to 13 percent; and begin to review, on a quarterly basis, the appropriateness of the MRR in view of developments in inflation. In line with staff's recommendations, the statutory limit on the federal government's overdraft account has been lowered from 12½ percent of current projected revenue to 5 percent.

IV. Report on the Discussions

20. **The focus of this year's consultation discussions was twofold**: (i) the management of short-term risks stemming from the expansionary fiscal stance and the bank consolidation program; and (ii) Nigeria's medium-term prospects and the government's reform priorities to accelerate growth and poverty reduction. The discussions of the government's reforms centered on four main themes: how to solidify progress made on macroeconomic stability; how to strengthen public expenditure management to ensure public spending is pro-poor and pro-growth; how to significantly lower the cost of doing business and boost productivity and external competitiveness; and how to upgrade public sector governance, tackle deep-rooted corruption, and secure property rights.[8]

A. Economic Outlook and Vulnerabilities

21. **Staff broadly shared the authorities' positive outlook for 2005.** Real GDP is projected to grow by 3½ percent. Crude oil and gas GDP would remain almost constant. The non-oil economy would grow by 5 percent as a result of higher infrastructure spending, new investment commitments, and policies aimed at accelerating agricultural output.[9] End-year inflation is expected to be contained to a range of 12-15 percent, above the authorities' initial target range (7-9 percent). Tight monetary policy, and the stable exchange rate, should help dampen inflationary pressures in spite of the fiscal expansion. However, some crowding out of private sector demand is likely to occur, with the ratio of the latter to non-oil GDP falling

[8] The accompanying selected issues paper discusses a few of these issues, including pension reform, the appropriate level of liquidity reserves, trade reform, and obstacles to growth.

[9] All three tiers of government have launched initiatives aimed at promoting agricultural production and facilitating market and credit access.

further. Given the favorable terms of trade, the external current account surplus is expected to widen, despite higher import demand, and gross international reserves to increase by about US$11.5 billion to US$28.5 billion at end-2005 (equivalent to 10 months of imports of goods and services).

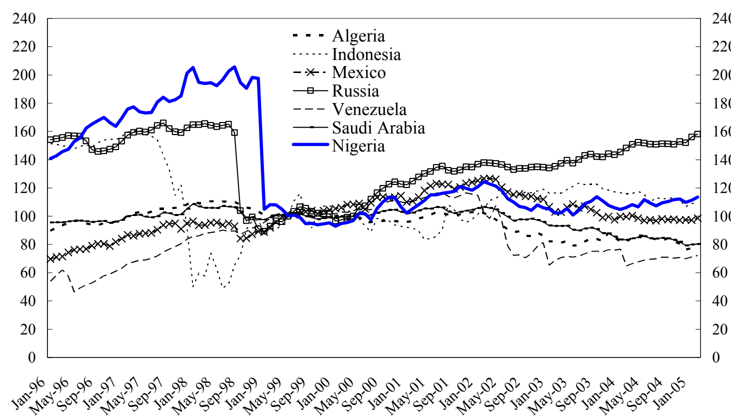
22. **Staff agreed that the downside risks would bear close monitoring**. In addition to the uncertain external outlook caused by highly volatile oil prices, social tensions in the Niger Delta oil-producing region could disrupt oil production and agricultural output is vulnerable to climatic conditions. Furthermore, the expansionary fiscal stance, as envisaged in the 2005 appropriations act, could jeopardize the inflation objective and exert pressure on real interest rates and the real exchange rate, undermining prospects for higher growth in the non-oil economy (see below). Fuel prices could weigh on the inflation outlook. Finally, there is some concern that enforcing banks' new minimum capital requirement by end-year, if not properly managed, could exert pressures on the financial system and impact capital flows.

Nigeria: Business Climate Indicators, Removing Obstacles to Growth

	Nigeria	Sub-Saharan Africa	OECD Avg.
Starting a business			
number of procedures	10	11	6
avg. number of days	44	60	25
Registering Property			
number of procedures	21	7	4
number of days	274	114	34
Enforcing Contracts			
number of days	730	434	229
cost to enforce; in percent of debt	37	43	11
Hiring and firing workers			
Rigidity of Employment Index	44	56	34
Rigidity of Hours Index	80	64	50
Closing Business (recovery rate, cents on dollar)	33	17	72

Source: Doing Business in 2005, World Bank

REER in Major Oil Producing Countries, Jan. 1996- Feb. 2005 (1999=100)



Source: IFS; Central Bank of Nigeria.

23. **The medium-term outlook hinges on the government's ability to consolidate the progress it made in achieving macroeconomic stability in 2004, strengthen public expenditure management, and progress significantly on structural reforms.** Staff emphasized that to deliver higher sustained growth in key labor-intensive sectors, reforms were necessary to significantly boost productivity, address distortions, and allocate resources more efficiently. It pointed out that various studies confirmed Nigeria's difficult business environment, identifying poor infrastructure, excessive and costly regulations, limited access to credit, and policy

uncertainty as major obstacles to growth.[10] To this end, staff welcomed the authorities' comprehensive reform program aimed at tackling corruption in public institutions, improving infrastructure, strengthening the financial system, unifying the foreign exchange markets, liberalizing trade, and enhancing the efficiency of customs and tax administration. In staff's view, these pro-growth and export-oriented reforms, along with prudent fiscal, exchange rate and monetary management, will boost external competitiveness over the medium term and offset any real exchange rate appreciation that may ensue in 2005 as a result of higher oil prices and the expansionary fiscal stance. Staff considers the current level of the exchange rate to be broadly appropriate, as evidenced by the narrow spread between the official and parallel exchange rate, robust growth in non-oil GDP and relative stability in the real exchange rate despite the sharp terms of trade improvement.

24. **In this context, staff presented its medium-term macroeconomic framework under a range of scenarios, illustrating the economy's vulnerability to an expansionary fiscal stance, lower oil prices, and policy slippages.** In the staff's **baseline scenario,** the non-oil economy grows at 5-5½ percent a year, benefiting from growth-oriented and business-friendly policies and improvements in the investment climate. The main growth drivers are expected to be agriculture, light manufacturing, solid minerals, and services. Inflation is projected to decline to 3 percent by 2010, and the non-oil primary balance to improve gradually as the authorities implement an oil price-based rule, limiting the budget deficit to 1-2 percent of GDP at US$25 per barrel in constant 2002 U.S. dollars.[11] Despite the increase in public spending in 2005, the fiscal stance is consistent with maintaining oil and gas wealth over the long run.[12] Whereas the external current account worsens with declining oil prices, the non-oil current account deficit narrows and net capital inflows increase, reflecting the improved investment climate and external competitiveness.

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[10] According to the 2002 World Bank private sector assessment survey, manufacturing firms considered inadequate infrastructure as their most severe business constraint in Nigeria; over 90 percent of firms surveyed provide their own power supply. The 2004 *Africa Competitiveness Report* ranked Nigeria's infrastructure second to last among 25 African countries and third to last of 102 countries surveyed in the world.

[11] This is consistent with the authorities' deficit target of no more than 3 percent of GDP over the medium term, including amortization of external debt in their definition.

[12] Staff updated its analysis of long-run fiscal sustainability in a non-renewable resource-dependent economy (see IMF Country Report 03/60). In view of a higher oil price outlook, it increased its estimate of the real long term reference oil price to US$25 per barrel in constant 2002 U.S. dollars. Staff also assumed higher proven and probable oil and gas reserves in line with recent discoveries. A fiscal stance with a non-oil primary deficit of 37-41 percent of non-oil GDP is consistent with maintaining real government wealth over the long term.

25. **The mission also presented two alternative scenarios**:

- The "**high growth"** scenario reflects the authorities' aim to increase annual average growth for the non-oil economy to 7-8 percent, the rate deemed necessary to produce 2 million new jobs a year, and achieve the poverty MDG. To accelerate growth significantly, private investment would have to rise to about 25 percent of GDP from the baseline scenario level of 13 percent, equivalent to about US$4-5 billion a year in additional foreign savings. Faster reform implementation and productivity gains than assumed in the baseline could significantly accelerate growth over time.

- The "**muddle through"** scenario reflects domestic policy slippages, notably the failure to implement a prudent fiscal framework and control spending. The economy grows below potential as fiscal spending increases as a percent of non-oil GDP, private sector investment is crowded out, and there are delays in implementing the growth-oriented reform agenda. The external current account weakens sharply in the face of aggregate demand pressures. International reserves fall rapidly as the monetary authorities attempt to defend an overvalued exchange rate.

Nigeria: Medium-term Macroeconomic Scenarios 2004-10
(Annual percentage changes, unless otherwise specified)

	2004 Est.	2005 Proj.	2006	Average 2006-09	2010
Price of Nigerian oil (U.S. dollars per barrel)	38.3	49.5	48.8	45.4	44.0
Baseline					
Real GDP (at 1990 factor cost)	6.1	3.4	8.0	6.1	6.4
Non-oil GDP (at 1990 factor cost)	7.4	4.9	5.0	5.3	5.5
Consumer price index (annual average)	15.0	16.3	7.3	5.9	3.0
Overall balance (commitment basis, in percent of GDP)	7.7	9.9	11.3	9.6	8.8
Non-oil primary balance (commitment basis, in percent of non-oil GDP)	-36.4	-40.7	-39.6	-38.1	-37.0
Deviation from permanent price rule, balanced budget at 2002 oil prices (in percent)	-7.9	-7.5	-6.0	-5.1	-4.7
External current account balance (in percent of GDP)	4.6	5.8	8.4	6.8	6.1
Gross external reserves (billions of U.S. dollars)	17.0	28.5	41.9	59.8	90.7
High growth					
Real GDP (at 1990 factor cost)	6.1	3.4	9.4	7.7	8.8
Non-oil GDP (at 1990 factor cost)	7.4	4.9	7.0	7.8	9.0
Consumer price index (annual average)	15.0	16.3	7.3	5.9	3.0
Overall balance (commitment basis, in percent of GDP)	7.7	9.9	10.9	9.2	7.4
Non-oil primary balance (commitment basis, in percent of non-oil GDP)	-36.4	-40.7	-40.3	-37.1	-34.7
Deviation from permanent price rule, balanced budget at 2002 oil prices (in percent)	-7.9	-7.5	-6.4	-5.2	-5.3
External current account balance (in percent of GDP)	4.6	5.8	8.2	5.8	3.1
Gross external reserves (billions of U.S. dollars)	17.0	28.5	41.6	58.1	83.1
Muddle-through					
Real GDP (at 1990 factor cost)	6.1	1.9	6.5	4.4	4.7
Non-oil GDP (at 1990 factor cost)	7.4	2.8	2.8	2.8	2.8
Consumer price index (annual average)	15.0	20.0	21.1	19.9	18.5
Overall balance (commitment basis, in percent of GDP)	7.7	5.3	10.2	1.6	-5.7
Non-oil primary balance (commitment basis, in percent of non-oil GDP)	-36.4	-52.2	-47.6	-58.8	-68.6
Deviation from permanent price rule, balanced budget at 2002 oil prices (in percent)	-7.9	-11.6	-8.2	-13.9	-19.8
External current account balance (in percent of GDP)	4.6	5.6	4.8	1.6	-1.0
Gross external reserves (billions of U.S. dollars)	17.0	28.5	30.0	24.4	8.0

Sources: Nigerian authorities; and Fund staff estimates.

26. **Staff also discussed with the authorities the results of the debt sustainability analysis (DSA) using the Bank-Fund template for low-income countries.** The results suggest that Nigeria's external debt is sustainable at current and projected oil prices. However, country-specific sensitivity analysis shows that the debt sustainability is highly vulnerable to oil price shocks. An oil price shock of more than one half of a standard deviation (equivalent to oil prices falling by more than US$4 per barrel compared with the baseline scenario), and assuming unchanged fiscal policy, would render the external debt unsustainable. In light of these vulnerabilities, staff reiterated the importance of sustained commitment to reform implementation and a sound fiscal and public debt management framework. This would help diversify the economy and cushion it against future oil price

shocks and to lower the public debt burden to a level more commensurate with the country's level of economic and financial market development.

27. **The authorities welcomed the development of the medium-term scenarios and the DSA, but stated categorically that the "muddle-through" scenario was not an option and that policy implementation would be consistent with the baseline scenario**. Nonetheless, they viewed the external debt burden as unsustainable given the country's level of development, vulnerability to oil sector shocks, and the substantial additional resources necessary to attain the MDGs.[13] They indicated that they were in discussions with their Paris Club creditors about a possible agreement that would result in the clearing of external arrears and a significant reduction in their external debt.

B. Fiscal Policy

28. **Staff expressed concern about the significant relaxation of fiscal policy as envisaged in the 2005 appropriations act, stressing that its full implementation would entail serious macroeconomic risks**. Moreover, staff reviewed the authorities' revenue projections, expressing some concern over what it believed to be an overly optimistic projection for petroleum profit taxes at the budget reference oil price. Staff also emphasized that distributing the windfall oil revenue from domestic crude oil sales, as occurred in 2004, could greatly increase subnational government spending and jeopardize the

Nigeria: Federal Government Budget, 2004-05
(Commitment basis, in billions of naira, unless otherwise specified)

	2004	2005	
	Est.	Appropr. Act	Staff Proj.
Oil price (in U.S. dollars per barrel)	38.3	30.0	49.5
Total revenue	1,486	1,492	1,938
Oil revenue	1,236	1,184	1,674
Non-oil revenue	250	308	265
Total expenditure	1,246	1,712	1,530
Recurrent expenditure	957	1,095	1,089
of which: debt service (interest)	345	268	347
Capital expenditure	289	582	441
Overall balance	239	-220	409
(In percent of GDP)	2.5	-1.9	3.4
Non-oil primary balance	-652	-1,136	-917
(In percent of non-oil GDP)	-13.4	-19.4	-15.6
Memorandum items:			
Non-oil primary balance, consolidated (cash basis, in percent of non-oil GDP)	-35.2	...	-40.1
Non-oil primary balance (commitment basis, in percent of non-oil GDP)	-36.4	...	-40.7
Primary balance, consolidated (in percent of GDP)	11.8	...	13.3
Overall balance, consolidated (in percent of GDP)	7.7	...	9.9
Oil revenue windfall gross deposits (consolidated, in billions of U.S. dollars) 4/	5.9	...	12.7
(In percent of non-oil GDP)	16.2	...	28.8
Oil production (millions of barrels per day)	2.49	...	2.40

Sources: Nigerian authorities; and Fund staff estimates.
1/ Includes clearance of arrears.
2/ Commitment basis plus carry over from previous year minues carry over into next year.
3/ Includes amortization.
4/ The windfall is calculated as the difference between oil revenue at the budget reference oil price and actual or *WEO* oil price.

[13] See Appendix III for an update of the DSA and the main findings of the World Bank DSA, which builds on the IMF's baseline scenario to include a higher level of public spending and economic growth rate in order to achieve the MDGs. According to the World Bank, achieving the MDGs under such a scenario would require about US$12½ billion in additional resources per year and render public debt unsustainable. However, Bank staff viewed the MDG cost estimates as preliminary and noted further refinement was needed, including reviewing gains from redistributing current public spending toward pro-MDG programs and activities.

disinflation objective. Staff also discussed the authorities' strategy for clearing their arrears, recommending that they undertake a proper inventory and due diligence of the stock of domestic arrears and that the clearance strategy ensure equitable burden sharing. Finally, it questioned whether such a considerable increase in public spending could be effectively absorbed while getting value for money.

29. **The authorities agreed that full implementation of the 2005 appropriations act entailed significant macroeconomic risks and reiterated their commitment to implement a fiscal policy consistent with macroeconomic stability and the economy's absorptive capacity**. They underscored, however, that higher spending was warranted given the country's enormous needs and the substantial increase in oil prices that had occurred. To achieve a more prudent fiscal stance, the authorities stated that they would set aside the oil revenue in excess of the budget reference oil price, including the windfall domestic crude oil revenue, and distribute oil revenue to the three tiers of government on the basis of calculated receipts at the reference oil price of US$30 per barrel. In addition, they would limit the increase in primary spending to below 20 percent in real terms over 2004 by (i) executing 75 percent of the capital budget helped by the fact that the first quarter has lapsed and strictly applying due process and procurement practices; (ii) containing overhead costs to 80 percent of the budget; and (iii) revisiting the contractor arrears clearance strategy and holding off payments on the budgeted amount until due diligence is completed.[14]

30. **On this basis, the consolidated government non-oil primary deficit would widen by about 4½ percentage points to about 41 percent of non-oil GDP in 2005**. Staff welcomed this decision, which would reduce the pressure on domestic resources. However, it noted that the authorities' approach for containing spending, in the absence of a revision of budget appropriations, carried risks and emphasized the need for discipline, policy coordination and strong monitoring. Moreover, even the more limited spending plans involved a considerable fiscal expansion and made monetary management more difficult, with implications for the attainment of the authorities' inflation target and for private sector crowding out.[15] Finally, the rapid increased in spending run the risk of causing spending inefficiencies. The authorities indicated that the cash management committee and quarterly fiscal programs together with the due process certification requirements will help ensure that the lower spending limits are met. The authorities intend to publish a semi-annual budget report, as in 2004.

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[14] Once due diligence is completed, the authorities indicated they would issue special bonds with maturities of 3-10 years to clear arrears above a certain threshold and pay cash for the rest.

[15] Private sector non-oil demand is projected to rise by 2.3 percent in real terms in 2005, well below the projected growth rate of non-oil GDP.

C. Monetary and Exchange Rate Policy

31. **The main challenge facing the CBN is to implement a credible monetary framework that will lower inflation and keep it in a single digit over the medium term.** The expansionary fiscal stance in the face of an underdeveloped domestic money market and unsound banks will challenge liquidity management in 2005.

32. **Staff discussed exchange rate policy and its consistency with the money targeting framework.** While maintaining an exchange rate band and targeting money seem feasible in the short term, given Nigeria's high foreign reserves and favorable projected oil prices, staff emphasized that this would unnecessarily restrict the CBN's ability to use the exchange rate as a cushion against shocks. Furthermore, by lowering inflation sharply in 2004, the money-targeting regime acquired credibility as a nominal anchor for inflation control. The authorities clarified that the exchange rate band objective would be subordinated to the money target should it turn out to be inconsistent and the exchange rate would be allowed to adjust. They intended to continue with money targeting as their operational framework, but to better understand factors affecting inflation, they would look at a broader range of indicators, including developments in the exchange rate and foreign exchange demand and supply.

33. **For 2005, the CBN's monetary program targets 12-month base money growth of 11 percent and broad money growth of 15 percent.** The CBN noted that it would still have to sterilize some excess liquidity to meet the base money target. To achieve this, it will rely on market-based monetary operations, including sales of treasury bills, CBN securities, and foreign exchange consistent with the net international reserve target. It will also consider shifting the deposits of nonfinancial public enterprises from commercial banks to the CBN.

34. **Staff welcomed the focus on monetary targets, but noted that it may be difficult to keep inflation below 10 percent this year, in light of the price pressure that emerged early this year and the fiscal expansion.** Moreover, it recommended that the withdrawal of public sector deposits be seen as a one-off operation, but cautioned that, given the ongoing bank consolidation reforms, the withdrawal might neither be feasible nor desirable. Staff reiterated the importance of allowing short-term interest rates to adjust to meet the monetary targets, but agreed with the CBN officials that fiscal policy needed to be aligned with the objectives of achieving macroeconomic stability to avoid placing an undue burden on monetary and exchange rate policies.

35. **Staff also encouraged the CBN to consider more far-reaching reforms to enhance the effectiveness of monetary policy with the aim of moving, once conditions are right, toward an inflation-targeting regime**. It emphasized that the CBN should (i) phase out the government's overdraft facility by end-2006; (ii) lengthen further the maturity structure for treasury bills and fully withdraw from the primary treasury bill market; (iii) expedite the introduction of the liquidity forecasting framework to enhance the effectiveness of daily open market operations; (iv) adopt a proactive and forward-looking framework, whereby monetary decisions are made in relation to expected developments in

money supply and inflation; and (v) improve its communication with the public, including through frequent assessments of the monetary and inflation outlook.

D. Medium-Term Fiscal Reforms

36. **A primary challenge facing the government is to strengthen public expenditure management (PEM) to ensure that spending is effective, efficient, and clearly linked to the objectives of NEEDS**. While substantial progress has been made to improve budget formulation and overall expenditure control, staff pointed out that the current federal government budget system still does not allow for adequate monitoring and tracking of budgeted and actual outlays or for assessing their pro-poor and pro-growth content. To this end, staff encouraged the authorities to further strengthen overall financial management by increasing automation, moving more quickly to functional and program budget classification, and developing an effective medium-term expenditure framework (MTEF). Staff also called for a public investment review, covering the capacity to assess, prioritize, and manage public investment. It also recommended moving to a single treasury account, which should strengthen cash control and improve budget transparency.

37. **Recognizing the need to strengthen PEM, the authorities noted that they were addressing several shortcomings**. They also pointed out that several state and local governments are strengthening their PEM systems and aligning their budgets with the country's development requirements. This is an important reform because subnational governments account for about 60 percent of the consolidated government's non-oil primary spending and play an essential role in working toward the poverty MDGs.

Federal Government PEM Reforms

- Introduce functional budget classification on the basis of line ministries' 2005 budget submissions using the new chart of accounts;
- Establish a special unit within the MOF to conduct cost/benefit analyses of large investment projects;
- Undertake a fiscal module of a Report on the Observance of Standards and Codes (Fiscal ROSC) for assessing transparency of fiscal management practices;
- Introduce a virtual poverty fund (VPF) to develop a poverty-reducing expenditure tracking system with donor assistance;
- Roll out the Transactions Recording and Reporting System to all line ministries to enhance budget automation;
- Plan to build on the success of the CCA and establish a single treasury account;
- Build the 2006 budget process around a "top-down" MTEF. Major line ministries will have to formulate their objectives in line with the NEEDS, and link spending programs to these objectives within a medium-term framework.

Subnational Government PEM Reforms

- All states have committed to preparing their own development strategies—State Economic Empowerment and Development Strategy (SEEDS)—which will be coordinated with NEEDS.
- Donors and the federal government have developed an incentive system with matching grants based on measurable benchmarks to assess progress in implementing SEEDS. Almost all states have agreed to be evaluated.
- The VPF will develop a strategy for close collaboration with SLGs;
- The MOF will extend training programs to 8 pilot states on cost/benefit analysis of investment projects.
- One third of SLGs will introduce due process procedures similar to those in the federal government.

38. **The authorities further noted that, as part of the PEM reforms, they planned to roll out the civil service reforms to all federal line ministries and begin to restructure the federal parastatals**. Wages, which account for about 60 percent of recurrent expenditure, are the main driver of cost, and there remains room for streamlining. Once the core civil service has been restructured, the authorities plan to reform the more than 500 federal parastatals.[16] The aim is to stop funding commercial parastatals, subject them to independent audits and privatize them. Semicommercial entities (including universities) will be required to undergo annual audits. Once the federal civil service is restructured, the authorities will review civil service wages. Staff urged that automation of payroll and personnel data be accelerated to enhance payroll transparency and strengthen expenditure control.

39. **Another priority is to improve intergovernmental fiscal relations and clarify the role of the executive and the legislature in the budget process.** The authorities noted that the Fiscal Responsibility Bill (FRB) would address these issues.[17] Considerable time and effort has been dedicated to educating various stakeholders of the importance of this bill. The authorities indicated that incorporating comments made by stakeholders has delayed the submission of the draft bill to the National Assembly, which is now expected around mid-2005. The administration and outside observers feel that the bill will face difficulties because states are concerned that it encroaches on their constitutional autonomy. As an alternative, albeit less attractive, option, the authorities would limit its coverage to the federal government while continuing to build support for the implementation of similar legislation at the state and local government level.

40. **Finally, a major overhaul of tax administration and policy is underway.** The main goal is to broaden the tax base, make the budget less vulnerable to oil price shocks, and address tax distortions. In line with international best practices, staff encouraged the authorities to reform the value-added tax regime, including by expanding input credits, zero rating non-oil exports, and introducing a registration threshold.

E. Banking Sector Reform

41. **Overall, the Nigerian banking system has not fostered financial stability nor supported economic development**. The presence of unsound banks with poor governance practices, such as widespread insider lending, misreporting, and systemic underprovisioning, has compromised the effectiveness of monetary policy, undermined public confidence, and discouraged financial intermediation, savings, and investment.[18]

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[16] Including the federal parastatals, there are over a million civil service employees.

[17] The FRB sets out transparency requirements, sanctions for noncompliance, guidelines for budgetary practices, and a fiscal framework centered on an oil price-based rule.

[18] The problems in the Nigerian banking system were discussed in the 2002 and 2004 Article IV consultation reports, and in the 2002 FSAP.

42. **Staff supports the authorities' objective to strengthen the banking system, but stressed that the CBN's strategy contains significant risks**. Given concerns about balance sheet weaknesses in the banking system and the likely difficulty a significant number of banks will have in achieving the new minimum capital requirement, the strategy could lead to a loss of confidence, exert pressure on the financial system, and, if not properly managed, lead to high fiscal costs. The CBN officials believe that about 20 percent of banks, accounting for 15 percent of banking sector assets, will probably not meet the new capital requirement and that about 15-20 banks or groups of banks out of 89 banks will survive.[19] The postconsolidation phase will also pose serious challenges to banking supervision, because bigger banks will be looking for ways to achieve an acceptable return on the additional capital, possibly leading them to expand into unduly risky activities.

43. **To address these concerns, staff urged the authorities to implement the recommendations of recent MFD technical assistance missions**. The CBN agreed with these recommendations and indicated that the legislative reviews were proceeding. In early April 2005, the CBN issued guidelines governing the merger process, requiring also that all banks submit monthly reports to the CBN.

Key MFD recommendations in banking consolidation and supervision

- Establish a high-level steering committee that would assess the fiscal cost of the consolidation program, agree on incentives, and prepare contingency plans and a sound exit strategy for banks that will not meet the minimum capital requirement at end-2005.
- Remove legal and judicial impediments to the consolidation process, introduce legislation to allow for asset management companies, and issue guidelines for purchasing assets.
- Evaluate the mergers and acquisition proposals and ensure that merged banks have undergone due diligence.
- Develop and disseminate guidance for asset valuation.
- Strengthen the risk assessment capacity of CBN supervisors (on site and off site) and regulations governing large exposure limits, insider lending, loan classification and provisioning; speed up the implementation of the electronic financial analysis information system project; and develop guidelines for conducting consolidated supervision.

[19] The CBN noted that, to encourage strong banks to take over weak banks, it would write off past overdraft loans (about 0.7 percent of GDP). The extent of the bank consolidation costs are, however, not known in part because of weak reporting practices.

F. Foreign Exchange Reform

44. **Nigeria's foreign exchange markets remain segmented and a source of distortion**.[20] The difference between the official DAS rate and other exchange rates gives rise to a multiple currency practice (MCP) in the absence of a mechanism to ensure that spreads between the official rate and the other rates do not exceed 2 percent at any given time. The Dutch multiple price auction also gives rise to an MCP. Staff does not recommend approval of these MCPs. In addition, Nigeria has certain exchange measures relating to requirements to provide tax clearance certificates, a ceiling on travel allowances, restrictions on family maintenance allowance, administrative and documentation requirements, and import bans. At this time, staff has insufficient information to determine whether these exchange measures give rise to exchange restrictions subject to approval under Article VIII of the Fund's Articles of Agreement.

45. **The authorities announced in early February 2005 that they would move to a wholesale auction to unify the current retail DAS and the interbank market for foreign exchange**. The new system will be introduced in the first quarter of 2006, once bank consolidation has been successfully completed and the conditions for the wholesale auction are met. In discussions with staff, CBN officials expressed concern that moving faster would seriously affect bank valuation, because not all banks would be allowed to participate as authorized dealers and their exclusion could be perceived as a weakness. They were of the view that it would be best to strengthen prudential regulations and put in place the necessary information technology infrastructure to allow banking supervisors to monitor open positions on a daily basis.

46. **Following extensive discussions with market participants, staff concurred with the authorities that it would be prudent to introduce the wholesale auction system only after banking consolidation was complete**. Furthermore, given that the technical preconditions for the wholesale auction system could not be met until September 2005, staff agreed that the benefits of waiting until early 2006 outweighed the risks of introducing the new framework earlier. MFD assisted the CBN in designing a detailed action plan to ensure timely implementation of the foreign exchange market reform.

47. **Reducing the size and importance of the parallel market will require additional reforms**. To this end, staff welcomed the trade reform slated for July 2005, and encouraged the authorities to streamline foreign exchange regulations, particularly by lowering banks' documentation requirements, and ensuring that regulations were consistent with the new framework.

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[20] There are two main markets for foreign exchange—the DAS and the interbank market. There is also a *bureau de change* and the parallel market. Funds are not transferable between the retail DAS and the interbank market.

G. Governance and Transparency Reforms

48. **Staff welcomed the significant progress Nigeria has made in tackling corruption in the public sector and in advancing its commitment to the EITI.** The government has raised the profile of its anticorruption drive through the arrest and trial of high-level officials. It is also undertaking public awareness campaigns, signaling that corruption in the public sector is no longer tolerated. However, the authorities noted that the judicial system needed to be reformed to enable it to handle high-profile corruption cases effectively. The approach adopted to advance Nigeria's commitments under the EITI has been centered on broad-based stakeholder participation. Passage of an EITI bill, expected before end-2005, will provide the legal basis for collecting and publishing oil revenue data. Furthermore, an independent international firm will audit the oil and gas accounts of 1999-2004; the results are expected to be made public before end-2005.

49. **Staff also welcomed Nigeria's progress in strengthening its anti–money laundering (AML) framework**. Enforcement has been strengthened with the passage of the amended AML Act, the establishment of the Financial Intelligence Unit (FIU) within the Economic and Financial Crimes Commission (EFCC), and a doubling of the EFCC's budget. The CBN and the Nigeria Deposit Insurance Corporation are cooperating in providing sensitive banking data to the FIU. The authorities are hoping that these reforms will lead to Nigeria's removal from the Financial Action Task Force list of non-compliant countries.

H. Privatization

50. **The authorities are committed to accelerating the privatization program and indicated that they had developed a realistic program for 2005**. One aim is to accelerate the liquidation of the nonviable companies and privatize about 30 companies. For 2005, the BPE expects to complete the sales of an aluminum smelter company and the Nigeria Telecom Company. Given the success of the concessioning of the Lagos Apapa Port, BPE expects to concession the remaining ports more rapidly. Passage of a draft transportation bill will allow for the emergence of new ports and the establishment of an independent regulatory agency.

51. **The authorities further outlined their plan to restructure the Nigeria Electric Power Agency (NEPA)**. With the power bill signed in early March 2005, the NEPA will be unbundled into 17 companies (generation, transmission, and distribution), and a regulatory commission will be established. The BPE also believes one refinery could be privatized in 2005. Staff, however, noted the difficulties of such an operation because of the uncertain regulatory framework for petroleum product pricing, the refineries' inefficiencies, and labor issues.

I. Trade Reforms

52. **A major tariff reform is scheduled to take effect in July, 2005.**[21] The new tariff system, which will be based on ECOWAS' common external tariff (CET) has four tariff bands (0, 5, 10, and 20 percent). A temporary 50 percent tariff band will be applied to selected locally produced import-competing goods. Duty concessions will no longer be granted. Import bans will be phased out by end-2006 and the 50 percent tariff band by end-2007, respectively.

53. **The authorities believe that the tariff reform will enhance growth**. The average unweighted tariff will drop to below 20 percent from about 30 percent, the tariff structure will be simplified, and the medium-term predictability of trade policies enhanced. Furthermore, the reform will redress the antiexport bias in the current regime and diminish incentives for smuggling and parallel market foreign exchange transactions.

54. **The authorities have introduced a three-year program to improve customs administration.** Administrative inefficiencies constitute a major trade barrier and have a negative effect on investors' perception of Nigeria. Recognizing this problem, the authorities established a task force on customs reform in June 2004 and replaced management. The program aims at lowering costs, expediting the movement of goods, and making customs procedures more predictable and transparent. In addition, a separate revenue-collection plan has been put in place. Customs restructuring together with port concessioning and the tariff reform aim to reduce by 2007 the time needed to clear cargo from over 3 weeks to 48 hours.

J. Other Issues

55. **Staff reiterated the importance of improving the reliability and timeliness of economic and social statistics to support the formulation and monitoring of macroeconomic policies**. Staff expressed concern over the limited progress made in improving statistics—particularly with regard to government finances, balance of payment, and national accounts—stressing that accurate, comprehensive and timely data are critical for policy formulation and monitoring. The key problems are the lack of computerization and automation, weak technical capacity and poor coordination among the main government agencies responsible for gathering and disseminating data. As a matter of urgency, staff called on the authorities to revamp the Federal Office of Statistics (FOS) and to implement the main recommendations of previous Statistics Department technical assistance reports for strengthening quality and coverage of statistics.

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[21] The reforms were postponed from mid-2004 to mid-2005 in order to build consensus within the private sector. Nigeria's trade system has been among the most restrictive in Africa (see accompanying selected issues paper).

56. **Staff emphasized that the Fund remains committed to helping build capacity in Nigeria to support the NEEDS.** The primary areas of focus are tax administration and policy, public expenditure management, banking supervision, liquidity management, foreign exchange market unification, and statistics. In general, technical assistance will need to concentrate on those areas where the authorities have demonstrated a commitment to effective implementation.

57. **The authorities have requested that the Fund support the implementation of their reform program under a possible non-borrowing instrument if it becomes operational**.

V. Staff Appraisal

58. **Nigeria's overall macroeconomic performance in 2004 under the authorities' homegrown reform program was commendable and signaled a break from the imprudent macroeconomic policies of the past.** The authorities achieved their objectives, namely to lower inflation, enhance predictability and transparency of policies, and reduce the economy's vulnerability to oil price shocks. Although the pace of privatization was disappointing, the authorities also made important strides in improving transparency and fighting corruption as well as in initiating ambitious structural reforms.

59. **Despite this progress, Nigeria continues to face formidable challenges.** It suffers from the legacy of decades of massive economic mismanagement, chronic neglect of social service delivery and infrastructure, and a disregard for market-based institutions. Furthermore, the reforms still meet resistance from entrenched interests.

60. **Nevertheless, Nigeria now has an opportunity to carry out difficult reforms that could considerably enhance its medium-term prospects for more rapid and sustainable growth.** Indeed, its 2004 performance, the improved outlook for its economy, relative political stability, and the strong reform commitment of the president and his team provide a unique opportunity to deepen and broaden the reform process and make it difficult to reverse.

61. **Nigeria's main policy challenge will be to build on the progress it made in 2004 and broaden the reform agenda.** Macroeconomic policies will need to be consistent with the objectives of fiscal prudence and fostering an environment conducive to investment and sustainable economic growth. The government must continue to deepen fiscal reforms to ensure more transparent, predictable, and effective use of public resources at all levels of government. Structural reforms are also required to lower the cost of doing business in Nigeria and to bolster external competitiveness.

62. **The administration recognizes the substantial risks posed by the 2005 appropriations act.** Nevertheless, fiscal policy will remain expansionary and will involve significant challenges. First, keeping fiscal development in line with the government target will necessitate a high degree of coordination and careful monitoring. Second, the pressure on domestic resources from the wider non-oil fiscal deficit will complicate the management

of monetary policy, with the authorities' inflation target likely to be exceeded and possibly some crowding out. Third, there is a risk that the increase in public spending will lead to bottlenecks and spending inefficiencies.

63. **A pressing challenge is to strengthen public expenditure management to ensure that public spending helps achieve the NEEDS objectives and the MDGs**. Recent PEM reforms have resulted in some improvement in the effectiveness of public spending, but a great deal more is needed to improve public services. Staff welcomes the creation of the virtual poverty fund and the cost-benefit analysis unit for large investment projects, but calls on the authorities to expeditiously introduce budget classification systems that will allow it to track poverty-alleviating spending. Subnational governments should be encouraged to undergo similar reforms.

64. **In this context, the Fiscal Responsibility Bill is of critical importance.** The bill's passage and full implementation would markedly enhance fiscal transparency and accountability at all levels of government, introduce formal fiscal rules into the budget process, and lay the foundation for medium-term fiscal sustainability.

65. **In light of the envisaged fiscal expansion, more of the burden of controlling inflation will fall on the central bank.** Given the sharp increase in monetary aggregates in early 2005, staff calls on the CBN to take prompt action to limit broad money growth. Staff encourages the CBN to use market-based instruments to sterilize excess liquidity. For sterilization operations to be effective, short-term interest rates and the exchange rate should be allowed to adjust as needed to meet the monetary targets. In this context, staff welcomes the lowering of the statutory limit on the federal government's overdraft account, notes progress in relying more on indirect instruments for liquidity management, and encourages the CBN to consider more far-reaching reforms to enhance the effectiveness of monetary policy.

66. **Staff welcomes the authorities' intention to continue with money targeting as the operational framework for anchoring inflationary expectations.** Staff considers that moving to a narrow exchange rate band is very much a second-best option to continuing with money targeting as a means of anchoring inflation expectations**.** By lowering sharply inflation in 2004, the money targeting regime has acquired credibility as nominal anchor. A market-based exchange rate regime will allow the CBN flexibility to respond to shocks. Staff recommends that the CBN move, once conditions are right, to an inflation-targeting regime.

67. **While staff recognizes that bank consolidation is intended to increase the soundness of the banking system, the CBN's strategy carries significant risks.** As a matter of urgency, staff calls on the CBN to set up a high-level steering committee, develop a strategic plan to deal with failing banks, strengthen its legal powers to close failing banks, and enhance banking supervision. It further calls on the authorities to ensure that sound accounting standards are applied in valuing banks' assets and to advance the legal processes for establishing asset management companies to minimize budgetary costs.

68. **Staff welcomes the CBN's commitment to introduce a daily wholesale auction for foreign exchange management in early 2006.** It calls on the CBN to state this commitment publicly and put in place the necessary infrastructure and implementing regulations, consistent with its action plan. It further urges the authorities to streamline current foreign exchange regulations and work toward accepting the obligations of Article VIII.

69. **Staff agrees with the priorities of the authorities' structural reform agenda.** The agenda is ambitious and is appropriately focused on improving governance and transparency, enhancing public service delivery, streamlining the role of the government in the economy, and improving the business environment. Implementation of these reforms should help stimulate broad-based economic growth and sustained poverty reduction. Staff supports plans to institutionalize reforms through legislative initiatives. It also welcomes the revamping of the BPE and agrees with the ambitious agenda for privatization. Staff also agrees with the authorities' emphasis on broad-based participation in advancing the country's commitment to improve transparency in the oil and gas sector under EITI.

70. **Staff welcomes the authorities' tariff reforms scheduled to go into effect in July 2005.** The reforms should reduce distortions and rent-seeking. While also welcoming the authorities' intention to phase out all import bans by end-2006 and fully adopt ECOWAS' Common External Tariff by end-2007, staff recommends that the authorities consider accelerating the timetable for the implementation of these two reforms.

71. **Staff calls on the authorities to regularize relations with its external creditors and pursue options that are mutually agreeable**. Regarding the authorities' strategy for clearing domestic expenditure arrears, it suggests that high importance be accorded to verification and equitable burden sharing.

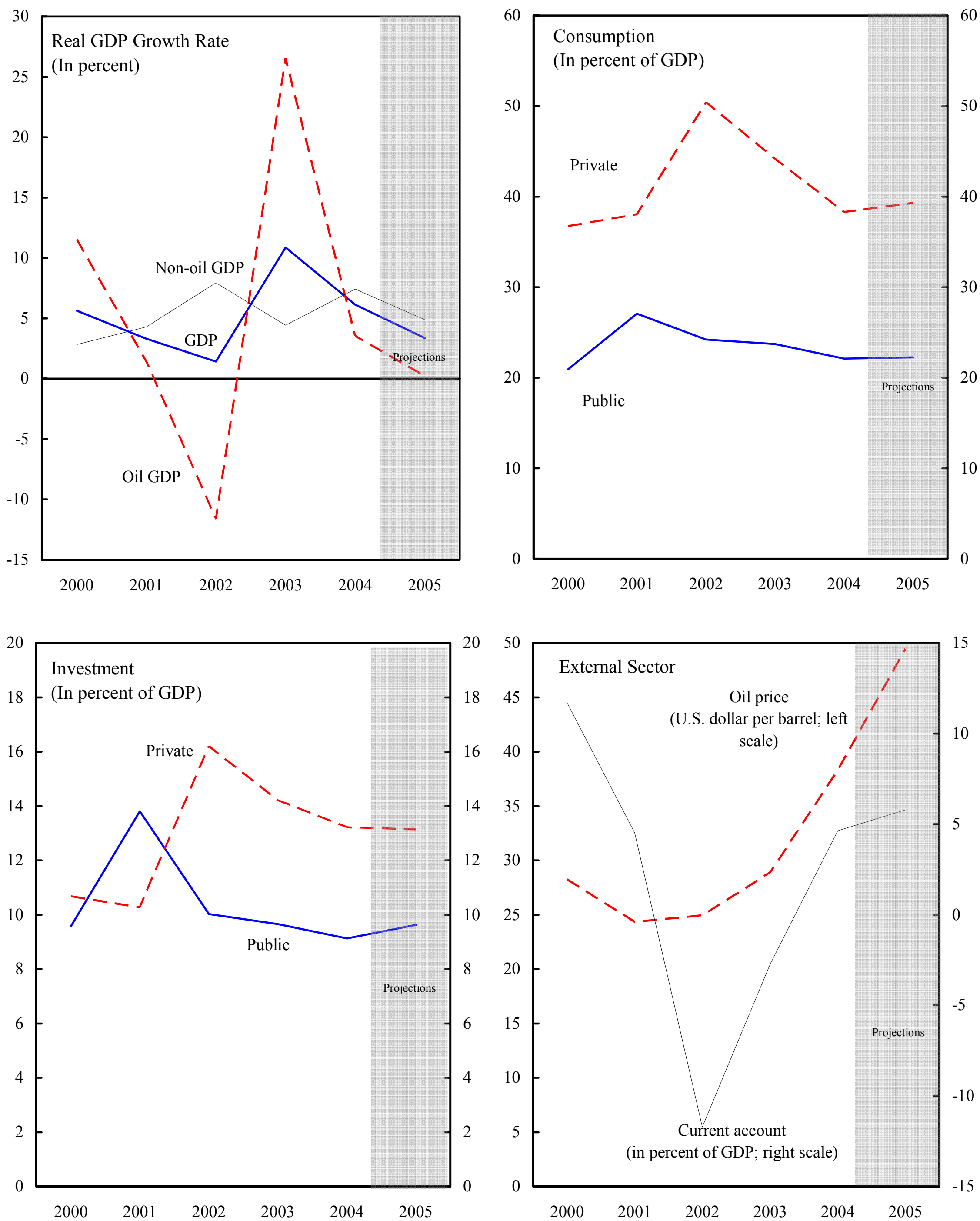
72. **Staff stresses the importance of improving the reliability and timeliness of economic statistics to support the formulation and monitoring of macroeconomic and social policies**. While progress has been made in some areas, the authorities need to address ongoing weaknesses. There are serious deficiencies in data availability, reliability, and coverage. Staff calls on the authorities to revamp the FOS as a matter of urgency and reiterates that Nigeria needs to provide key economic data monthly for intensified surveillance.

73. **The staff believes the enhanced policy dialogue and monitoring of policy implementation under intensified surveillance has served Nigeria well during 2004, and is ready to continue with a close policy dialogue.**

74. **The Fund remains committed to helping build capacity in Nigeria to support the NEEDS**. Key areas of possible future technical assistance are tax administration and policy, public expenditure management, banking supervision, liquidity management, foreign exchange market unification, and the quality of statistics.

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

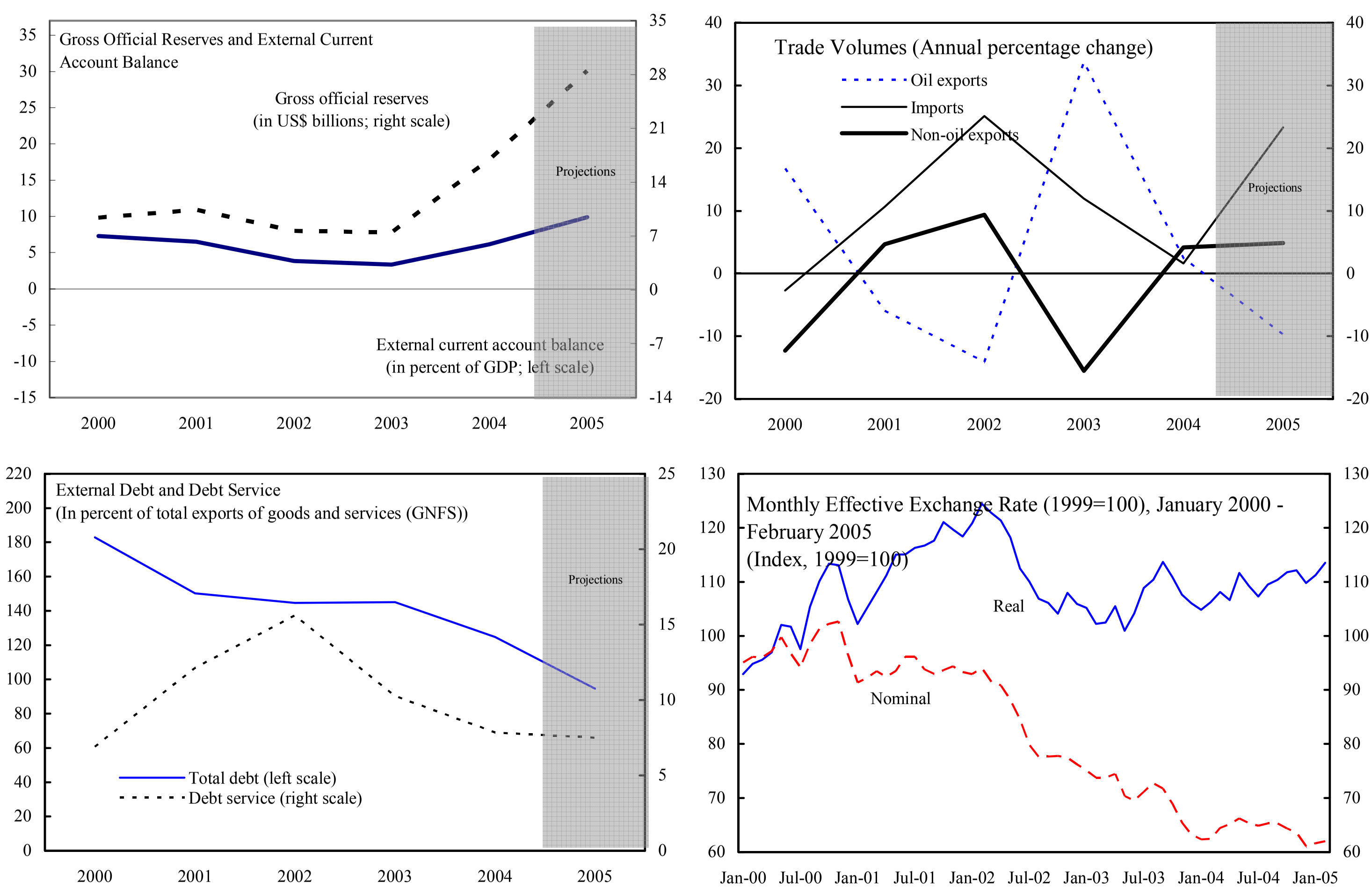
Figure 1. Nigeria: Real Sector Developments, 2000–05 1/



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

1/ 2005 staff estimates.

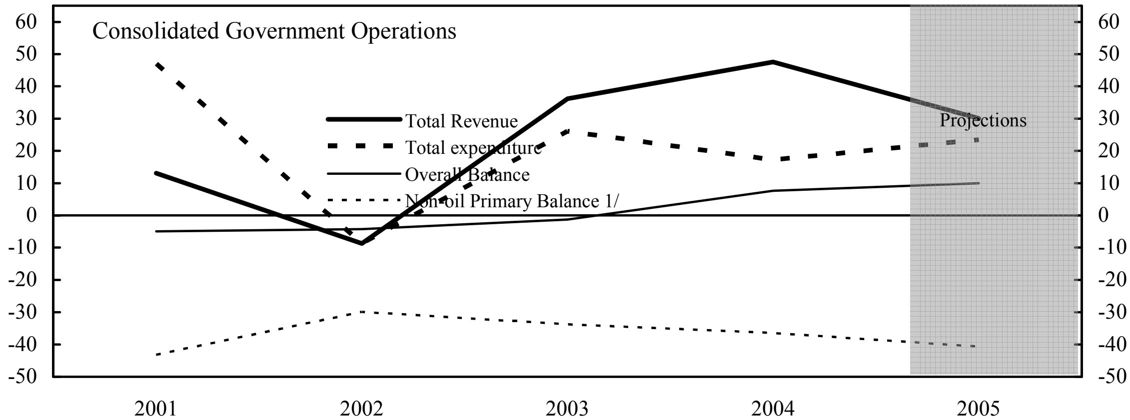
Figure 2. Nigeria: External Sector, 2000-05 1/



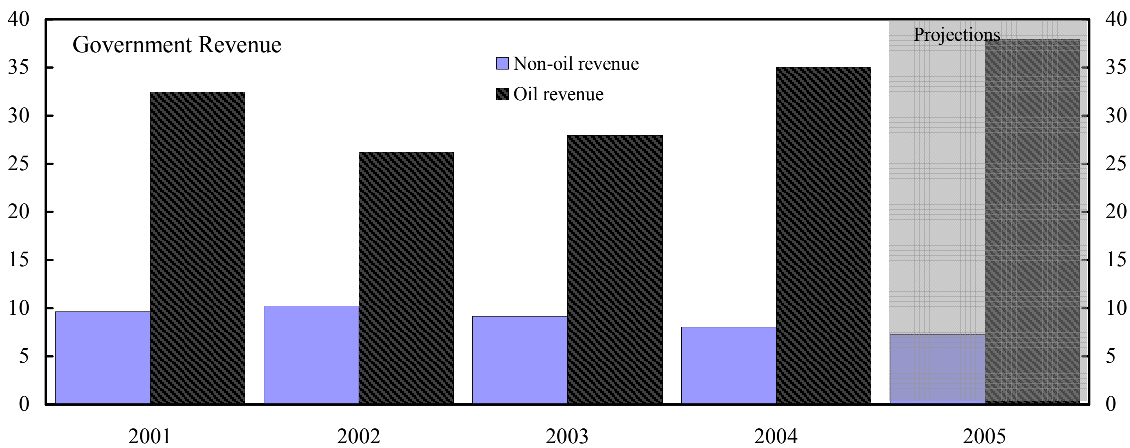
Sources: Nigerian authorities; IMF Information Notice System; and Fund staff estimates and projections.

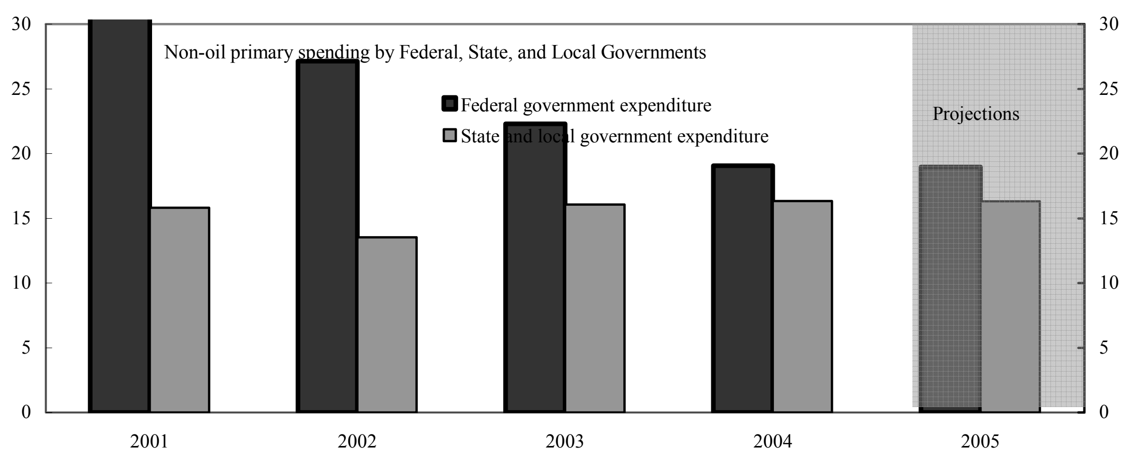
1/ Staff estimates.

Figure 3. Nigeria: Consolidated Government Operations, 2001–05 1/
(In percent of GDP)



1/ Non-oil primary balance in percent of non-oil GDP.

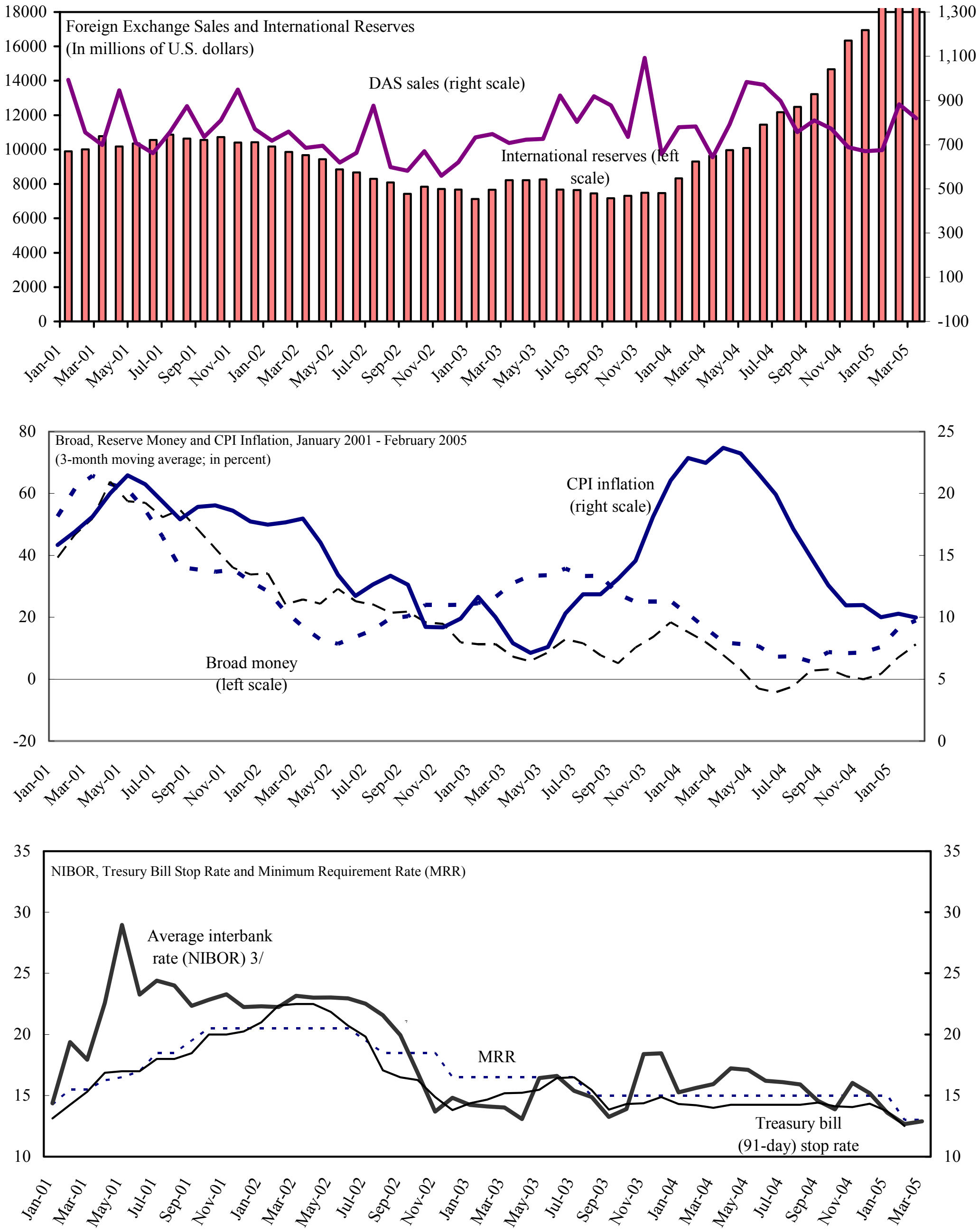




Sources: Nigerian authorities; and Fund staff estimates and projections.

1/ Staff estimates.

Figure 4. Nigeria: Monetary Indicators, January 2001–March 2005
(In percent, unless otherwise indicated)



Source: Nigerian authorities, and Fund staff estimates.

1/ The Nigeria interbank foreign exchange index (NIFEX) reflects exchange rate on the open interbank market.
2/ The interbank foreign exchange market (IFEM) and, beginning July 23, 2002, the Dutch Auction System (DAS) represent the official interbank market (the exchange rate reported is the average of the highest and lowest bids).
3/ The interbank interest rate is a weighted average of the 7-day call rate (49 percent weight and the 30-, 90-day rates (20 percent weight each).

Table 1. Nigeria: Selected Economic and Financial Indicators, 2002–10

	2002	2003	2004	2005	2006	2007	2008	2009	2010
			Est.			Proj.			
	(Annual percentage changes, unless otherwise specified)								
National income and prices									
Real GDP (at 1990 factor cost)	1.4	10.9	6.1	3.4	8.0	5.0	6.6	4.7	6.4
Oil GDP	-11.6	26.5	3.5	0.2	14.5	4.3	8.9	3.3	8.2
Non-oil GDP	8.0	4.4	7.4	4.9	5.0	5.4	5.5	5.5	5.5
Agriculture	4.3	6.5	6.5	4.7	4.7	5.0	5.2	5.2	5.2
Industry	8.9	6.4	9.6	7.0	7.5	8.0	8.0	8.0	8.0
Services	13.0	1.2	8.1	4.5	4.6	5.0	5.0	5.0	5.0
Real GDP per capita	-1.3	7.9	3.3	0.8	5.3	2.4	4.0	2.2	3.8
GDP per capita (in U.S. dollars)	341	415	500	610	661	665	690	703	734
Non-oil GDP per capita (in U.S. dollars)	180	201	204	224	253	301	322	336	351
GDP deflator (period average)	3.9	20.8	19.9	20.0	5.5	2.8	3.6	2.1	2.0
Non-oil GDP deflator (period average)	5.5	15.8	11.0	15.2	6.9	6.1	5.1	4.0	2.8
Consumer price index (annual average)	13.7	14.0	15.0	16.3	7.3	6.5	5.5	4.2	3.0
Consumer price index (end of period)	12.2	23.8	10.0	13.5	6.8	6.2	4.9	3.7	3.0
External sector									
Exports, f.o.b. 1/	-9.8	54.2	36.9	21.1	12.8	-0.3	6.9	1.7	7.7
Imports, f.o.b.	28.9	26.1	11.3	28.0	6.4	5.5	5.1	6.2	5.9
Non-oil export volume	9.3	-15.5	4.2	4.9	5.0	5.4	5.5	5.5	5.5
Oil export volume 1/	-14.1	33.7	2.5	-9.8	14.6	2.1	9.2	1.8	8.6
Volume of import of goods and services	20.2	10.5	2.0	19.2	4.6	4.7	4.2	4.9	4.8
Terms of trade	-0.5	2.5	20.5	23.6	-1.7	-5.0	-3.3	-2.5	-1.8
Nominal effective exchange rate (end of period; - indicates depreciation)	-18.3	-17.0	0.6	...	...	...	...	...	...
Real effective exchange rate (end of period; - indicates depreciation)	-10.5	0.9	4.9	...	...	...	...	...	...
Consolidated government operations 2/									
Total revenue and grants	-8.7	36.1	47.5	30.1	13.5	3.9	9.9	4.0	9.9
Oil revenue	-14.8	42.7	59.3	34.3	12.3	1.4	8.7	1.7	9.8
Non-oil revenue	12.1	19.4	11.6	11.9	20.1	16.3	15.1	12.9	10.2
Total expenditure and net lending	-8.7	26.2	17.3	23.6	9.0	9.1	8.4	8.7	7.7
Current expenditure 3/	-2.6	25.3	16.3	21.1	7.8	7.4	8.8	7.6	6.9
Capital expenditure and net lending 3/	-23.5	28.8	20.2	30.7	12.1	13.4	7.7	11.6	9.5
Money and credit									
Net foreign assets 4/	-3.5	5.5	62.3	57.3	...	...	...	...	...
Net domestic assets 4/	25.0	19.0	-49.9	-44.2	...	...	...	...	...
Net domestic credit 4/	48.3	29.7	-23.1	-41.9	...	...	...	...	...
Net credit to consolidated government	37.6	13.8	-39.1	-50.1	...	...	...	...	...
Net credit to the federal government	38.5	13.6	-5.4	-16.8	...	...	...	...	...
Credit to the rest of the economy	10.8	15.7	15.7	8.2	...	...	...	...	...
Broad money	21.6	24.1	14.0	15.0	...	...	...	...	...
Velocity (non-oil GDP as a multiple of end-of-period broad money)	2.1	2.0	2.1	2.3	...	...	...	...	...
Treasury bill rate (percent; end of period)	14.9	14.9	14.3	...	...	...	...	...	...
Discount rate (percent; end of period)	18.5	16.5	15.0	...	...	...	...	...	...
	(In percent of GDP; unless otherwise specified)								
Investment and saving									
Investment	26.2	23.9	22.4	22.8	22.8	23.5	23.5	25.0	24.8
Public fixed investment	10.0	9.7	9.1	9.6	9.5	10.0	9.7	10.2	10.3
Private fixed investment	16.2	14.2	13.2	13.1	13.3	13.5	13.8	14.9	14.5
of which non-oil fixed investment	7.0	6.7	6.8	7.4	7.7	8.2	8.1	8.5	8.7
Gross national savings	14.5	21.1	27.0	28.6	31.2	29.9	30.5	30.6	30.9
Public	12.2	13.2	20.9	22.9	24.1	22.3	22.2	20.7	21.4
Private	2.3	7.9	6.1	5.6	7.1	7.6	8.3	9.9	9.6
Consolidated government operations 2/									
Total revenues and grants	36.4	37.1	43.1	45.2	45.1	43.5	43.4	42.2	42.8
Of which oil and gas revenue	26.2	28.0	35.0	37.9	37.5	35.2	34.7	33.1	33.5
Total expenditure and net lending (commitment basis)	40.7	38.4	35.4	35.3	33.8	34.2	33.6	34.2	34.0
Overall balance (commitment basis)	-4.2	-1.3	7.7	9.9	11.3	9.3	9.7	8.0	8.8
Non-oil primary balance (in percent of non-oil GDP, commitment basis)	-29.9	-33.8	-36.4	-40.7	-39.6	-38.4	-37.2	-37.0	-37.0
Gross domestic debt	18.1	15.5	13.9	12.1	10.4	13.1	11.9	11.1	10.3
External sector									
Current account balance	-11.7	-2.7	4.6	5.8	8.4	6.4	7.0	5.5	6.1
External debt outstanding (in billions of U.S. dollars)	31.0	32.9	35.9	36.2	36.4	36.7	37.2	37.9	38.9
External debt service due after rescheduling, 2000–01 (in percent of exports of goods and services)	6.4	5.1	4.3	3.9	3.4	2.9	2.9	2.8	2.4
	(In billions of U.S. dollars, unless otherwise specified)								
Current account balance	-5.4	-1.6	3.3	5.2	8.3	6.5	7.6	6.3	7.5
Overall balance of payments	-4.5	-1.6	8.1	9.2	11.7	10.4	11.1	10.0	11.4
Gross international reserves (end of period)	7.7	7.5	17.0	28.5	41.9	53.5	66.2	77.8	90.7
(equivalent months of goods and services)	3.9	3.4	6.2	9.9	13.8	16.8	19.7	21.9	24.0
Price of Nigerian oil (U.S. dollars per barrel)	25.0	28.9	38.3	49.5	48.8	46.5	45.3	44.5	44.0
Production of crude oil (million barrels per day)	1.96	2.45	2.49	2.40	2.69	2.74	2.98	3.03	3.27
Including oil and gas equivalent	2.15	2.72	2.81	2.82	3.23	3.37	3.67	3.79	4.10
Interbank Foreign Exchange Market/DAS exchange rate (naira per U.S. dollar; average)	122.2	130.9	134.3	...	...	...	...	...	...
Nominal GDP at market prices (in billions of naira)	5,632	7,533	9,575	11,872	13,507	14,564	16,057	17,157	18,595

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

1/ Export volumes fall more than total production because of an increase in the domestic allocation of crude oil to the Nigerian Naional Petroleum Corporation (NNPC) in 2002 from 2001.
2/ Consists of the federal, state, and local governments.
3/ Assumes that two-thirds of state and local government expenditure is recurrent expenditure.
4/ Change in percent of broad money at the beginning of the period.

Table 2a. Nigeria: Fiscal Operations (Cash Basis), 2002-05

	2002	2003	2004	2005	
			Est.	Appr. Act	Proj. Annual
Oil price (in U.S. dollars per barrel)	25.0	28.9	38.3	49.5	49.5
	(In billions of naira)				
Total revenue	2,053	2,795	4,124	5,890	5,361
Oil and gas revenue	1,476	2,106	3,355	4,992	4,506
Government crude receipts	719	967	1,440	1,535	1,592
Petroleum profit tax and royalty	393	683	1,184	2,306	1,783
Petroleum profit tax	224	438	826	1,860	1,301
Royalty	169	246	358	446	482
Upstream gas sales and Nigeria Liquefied Natural Gas (NLNG)	34	32	91	87	111
Other oil revenue (gas flared; pipeline fees)	25	38	5	37	30
Gas flaring penalty	4	5	4	5	6
Other taxes	21	33	1	32	25
Domestic crude	304	386	635	1,027	990
Non-oil revenue	577	689	769	899	856
Import and excise duties	181	195	217	204	204
Companies income tax	89	115	130	186	186
Value-added tax	109	136	157	174	174
Education tax	10	10	17	24	24
Federal government independent revenue	68	54	59	105	62
State and local governments' internal revenue	100	139	153	174	174
Customs levies	20	39	35	32	32
Total consolidated expenditure	2,196	2,795	3,173	4,332	4,044
Total federal government and extrabudgetary expenditure	1,434	1,605	1,654	2,399	2,112
Recurrent expenditure	1,109	1,338	1,393	1,777	1,692
Goods and services	478	514	571	737	652
Personnel and pensions	368	368	443	546	519
Personnel	...	304	370	416	389
Pensions	...	64	72	130	130
Overhead cost	109	146	128	191	133
Interest payments	213	242	231	268	268
Domestic	171	170	189	186	186
External, cash	42	72	42	82	82
Transfers	419	581	591	772	771
Nigerian National Petroleum Corporation (NNPC) cash calls	346	451	455	539	539
NNPC priority projects	6	0	0	0	0
National Judicial Council	15	26	28	33	33
Transfer to Niger Delta Dev. Comm.	14	9	14	29	29
Customs levies funds	20	39	35	32	32
Education fund	10	10	17	24	24
FIRS and NCS	...	...	...	29	29
Universal Basic Education commission	...	...	...	28	28
Federal government extrabudgetary funds	8	46	42	58	58
Federal government capital expenditure	318	267	261	622	421
Domestically financed 1/	305	257	231	582	381
Foreign financed	13	10	30	40	40
State and local governments	762	1,190	1,519	1,898	1,910
Primary expenditure	762	1,178	1,511	1,871	1,882
External interest payment, cash	0	12	8	27	27
Clearance of arrears and recapitalizations	...	...	...	35	22
Overall balance (cash basis)	-143	0	951	1,558	1,317
Overall balance (excluding clearance of arrears)	...	...	...	1,593	1,339
Financing	284	182	-925	-1,558	-1,258
External	-105	-153	-155	-77	-77
Borrowing	13	10	30	40	40
Amortization, cash	-101	-163	-185	-117	-117
Federal government	...	...	-155	-88	-88
States	...	...	-30	-29	-29
Debt buyback	-18	0	0	0	0
Domestic financing	369	305	-777	-1,660	-1,359
Central bank (net, consolidated government)	138	415	-975	-1,613	-1,254
Of which: increase in gross windfall oil receipts	...	...	-786	-1,317	-1,690
Commercial banks (net, federal government)	261	-116	193	-47	-47
Commercial banks (net, states and local governments)	-30	6	4	0	-58
Privatization proceeds	20	0	0	114	114
Recovered funds	0	30	7	65	65
Statistical discrepancy	140	182	26	0	60
Non-oil primary balance, federation	-1,061	-1,401	-1,710	-2,599	-2,354
Non-oil primary balance, excluding arrears clearance	-1,061	-1,401	-1,710	-2,564	-2,332

Table 2a. Nigeria: Fiscal Operations (Cash Basis), 2002-05 (concluded)

	2002	2003	2004	2005	
			Est.	Appr. Act	Proj. Annual
Oil price (in U.S. dollars per barrel)	25.0	28.9	38.3	49.5	49.5
	(in percent of GDP)				
Total revenue	36.4	37.1	43.1	49.6	45.2
Oil and gas revenue	26.2	28.0	35.0	42.0	37.9
Non-oil revenue	10.2	9.1	8.0	7.6	7.2
Total consolidated expenditure	39.0	37.1	33.1	36.5	34.1
Total federal government and extrabudgetary expenditure	25.5	21.3	17.3	20.2	17.8
Recurrent expenditure	19.7	17.8	14.5	15.0	14.2
Goods and services	8.5	6.8	6.0	6.2	5.5
Interest payments	3.8	3.2	2.4	2.3	2.3
Domestic	3.0	2.3	2.0	1.6	1.6
External, cash	0.8	1.0	0.4	0.7	0.7
Transfers	7.4	7.7	6.2	6.5	6.5
Federal government capital expenditure	5.6	3.5	2.7	5.2	3.5
Domestically financed 1/	5.4	3.4	2.4	4.9	3.2
Foreign financed	0.2	0.1	0.3	0.3	0.3
State and local governments	13.5	15.8	15.9	16.0	16.1
Clearance of arrears and recapitalizations	...	...	...	0.3	0.2
Overall balance (cash basis)	-2.5	0.0	9.9	13.1	11.1
Overall balance (excluding clearance of arrears)	...	...	...	13.4	11.3
Financing	5.0	2.4	-9.7	-13.1	-10.6
External	-1.9	-2.0	-1.6	-0.7	-0.7
Domestic	6.6	4.0	-8.1	-14.0	-11.4
Recovered funds	0.0	0.4	0.1	0.5	0.5
Statistical discrepancy	2.5	2.4	0.3	0.0	0.5
Memorandum items:					
Non-oil primary balance (in percent of non-oil GDP) 2/	-31.5	-34.4	-35.2	-44.3	-40.1
Non-oil primary balance (excluding arrears clearance, in percent of non-oil G	-31.5	-34.4	-35.2	-43.7	-39.8
Non-oil primary balance (excluding 2004 windfall spending, in percent of no	...	...	...	-39.1	-34.9
Non-oil revenue (in percent of non-oil GDP)	17.1	16.9	15.8	15.3	14.6
Primary balance (in percent of GDP)	1.2	3.4	12.4	15.6	13.6
Nominal GDP (in billions of naira)	5,632	7,533	9,575	11,872	11,872
Non-oil GDP (in billions of naira)	3,365	4,069	4,855	5,864	5,864

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

1/ Actual cash spending

2/ Excluding oil revenue, cash call payments, and cash interest payments.

Table 2b. Nigeria: Fiscal Operations (Commitment Basis), 2002-10

	2002	2003	2004	2005	2006	2007	2008	2009	2010
			Est.			Proj.			
	(In billions of naira)								
Total revenue	2,053	2,795	4,124	5,366	6,093	6,333	6,961	7,237	7,952
Oil and gas revenue	1,476	2,106	3,355	4,506	5,059	5,131	5,578	5,674	6,230
Government crude receipts	719	967	1,440	1,592	1,941	2,005	2,284	2,343	2,738
Petroleum profit tax and royalty	393	683	1,184	1,783	1,866	1,866	2,014	2,039	2,186
Upstream gas and NLNG	34	32	91	111	129	133	142	152	165
Other oil revenue	25	38	5	30	40	39	44	44	47
Domestic crude	304	386	635	990	1,082	1,089	1,095	1,096	1,094
Non-oil revenue	577	689	769	860	1,033	1,201	1,383	1,562	1,722
Tax revenue	509	635	710	798	891	1,031	1,183	1,347	1,486
Taxes on international trade and transactions	201	235	252	236	250	285	321	358	393
Import duties and excises	181	195	217	204	215	246	276	308	338
Customs levies	20	39	35	32	35	40	45	50	55
Taxes on net income, profits, and capital gains	199	263	300	386	434	502	579	663	722
Company income tax	89	115	130	189	233	286	349	421	470
Education tax	10	10	17	24	16	19	23	28	31
State and local governments' internal revenue 1/	100	139	153	174	185	197	206	214	220
Domestic taxes on goods and services	109	136	157	176	207	243	283	326	371
Value-added tax (VAT)	109	136	157	176	207	243	283	326	371
Petroleum tax	0	0	0	0	0	0	0	0	0
Nontax revenue	68	54	59	62	143	171	201	216	236
Federal government independent revenue	68	54	59	62	143	171	201	216	236
Total consolidated expenditure	2,290	2,890	3,389	4,187	4,563	4,976	5,397	5,868	6,318
Total federal expenditure	1,529	1,680	1,825	2,251	2,397	2,640	2,850	3,104	3,344
Federal government recurrent expenditure	1,257	1,439	1,507	1,771	1,775	1,868	2,025	2,128	2,236
Goods and services	478	514	571	652	666	717	817	880	948
Personnel cost	368	368	443	519	540	575	634	690	742
Overhead cost	109	146	128	133	126	142	184	190	205
Pension arrears clearance	0	0	0	0	0	0	0	0	0
Interest payments due	361	343	345	347	392	384	383	376	368
Domestic	171	170	189	186	231	215	207	196	184
Foreign	190	174	156	161	160	169	176	180	184
Transfers	419	581	591	771	716	767	825	872	920
Nigerian National Petroleum Corporation (NNPC) cash calls	346	451	455	539	477	509	538	561	580
NNPC priority projects	6	0	0	0	0	0	0	0	0
National Judicial Council	15	26	28	33	37	39	41	42	43
Transfer to Niger Delta Dev. Comm	14	9	14	29	20	20	20	20	20
Customs levies funds	20	39	35	32	35	40	45	50	55
Education fund	10	10	17	24	16	19	23	28	31
FIRS and NCS	...	...	...	29	33	38	45	51	57
Universal Basic Education commission	...	...	...	28	32	33	36	38	41
Federal government extrabudgetary funds	8	46	42	58	68	69	77	81	91
Federal government capital expenditure	264	241	319	481	623	772	826	977	1,108
Domestically financed	251	231	289	441	572	708	744	879	1,001
Foreign financed	13	10	30	40	51	64	81	98	107
Net lending	7	0	0	0	0	0	0	0	0
Recapitalization	0	0	0	0	0	0	0	0	0
State and local governments	762	1,210	1,563	1,936	2,165	2,337	2,546	2,764	2,974
Primary expenditure	762	1,178	1,511	1,882	2,112	2,280	2,488	2,704	2,913
External interest payments due	...	32	52	54	53	56	59	60	61
Overall balance (commitment basis) 2/	-238	-95	735	1,178	1,530	1,357	1,565	1,368	1,634
Financing	407	270	-767	-1,152	-1,530	-1,357	-1,565	-1,368	-1,634
External	43	-32	3	28	29	52	71	107	146
Borrowing	13	10	30	40	51	64	81	98	107
Amortization due	-168	-179	-203	-254	-242	-200	-231	-238	-195
Federal government	…	-151	-152	-190	-182	-150	-173	-178	-146
States	…	-28	-51	-63	-61	-50	-58	-59	-49
Arrears, rescheduling, and debt buyback	197	137	175	242	221	187	220	247	234
Domestic	399	299	-777	-1,359	-1,615	-1,453	-1,655	-1,495	-1,800
Central bank	138	415	-975	-1,254	-1,615	-1,453	-1,655	-1,495	-1,800
Commercial banks	261	-116	198	-105	0	0	0	0	0
Privatization proceeds	20	0	0	114	55	45	20	20	20
Recovered funds	0	30	7	65	0	0	0	0	0
Carryover of unspent capital mandates 3/	-54	-26	0	0	0	0	0	0	0
Statistical discrepancy	170	175	-32	26	0	0	0	0	0
Memorandum item:									
Non-oil balance	-1,368	-1,750	-2,165	-2,788	-3,052	-3,266	-3,475	-3,745	-4,017
Non-oil primary balance 4/	-1,007	-1,375	-1,768	-2,387	-2,607	-2,825	-3,034	-3,308	-3,587
Primary balance	123	248	1,132	1,580	1,975	1,797	2,006	1,805	2,063

Table 2b. Nigeria: Fiscal Operations (Commitment Basis), 2002-10 (concluded)

	2002	2003	2004	2005	2006	2007	2008	2009	2010
			Est.			Proj.			
	(In percent of GDP; unless otherwise indicated)								
Total revenue	36.4	37.1	43.1	45.2	45.1	43.5	43.4	42.2	42.8
Petroleum revenue	26.2	28.0	35.0	37.9	37.5	35.2	34.7	33.1	33.5
Government crude receipts	12.8	12.8	15.0	13.4	14.4	13.8	14.2	13.7	14.7
Petroleum profit tax and royalty	7.0	9.1	12.4	15.0	13.8	12.8	12.5	11.9	11.8
Petroleum profit tax	4.0	5.8	8.6	11.0	10.1	9.3	9.0	8.5	8.4
Royalty	3.0	3.3	3.7	4.1	3.7	3.5	3.5	3.3	3.3
Upstream gas and NLNG	0.6	0.4	0.9	0.9	1.0	0.9	0.9	0.9	0.9
Other oil revenue	0.4	0.5	0.0	0.3	0.3	0.3	0.3	0.3	0.3
Domestic crude	5.4	5.1	6.6	8.3	8.0	7.5	6.8	6.4	5.9
Nonpetroleum revenue	10.2	9.1	8.0	7.2	7.7	8.2	8.6	9.1	9.3
Tax revenue	9.0	8.4	7.4	6.7	6.6	7.1	7.4	7.8	8.0
Taxes on international trade and transactions	3.6	3.1	2.6	2.0	1.9	2.0	2.0	2.1	2.1
Taxes on net income, profits, and capital gains	3.5	3.5	3.1	3.3	3.2	3.4	3.6	3.9	3.9
Domestic taxes on goods and services	1.9	1.8	1.6	1.5	1.5	1.7	1.8	1.9	2.0
Nontax revenue	1.2	0.7	0.6	0.5	1.1	1.2	1.2	1.3	1.3
Total consolidated expenditure	40.7	38.4	35.4	35.3	33.8	34.2	33.6	34.2	34.0
Total federal expenditure	27.1	22.3	19.1	19.0	17.7	18.1	17.8	18.1	18.0
Federal government recurrent expenditure	22.3	19.1	15.7	14.9	13.1	12.8	12.6	12.4	12.0
Goods and services	8.5	6.8	6.0	5.5	4.9	4.9	5.1	5.1	5.1
Personnel cost	6.5	4.9	4.6	4.4	4.0	3.9	3.9	4.0	4.0
Overhead cost	1.9	1.9	1.3	1.1	0.9	1.0	1.1	1.1	1.1
Pension arrears clearance	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Interest payments due	6.4	4.6	3.6	2.9	2.9	2.6	2.4	2.2	2.0
Domestic	3.0	2.3	2.0	1.6	1.7	1.5	1.3	1.1	1.0
Foreign	3.4	2.3	1.6	1.4	1.2	1.2	1.1	1.1	1.0
Transfers	7.4	7.7	6.2	6.5	5.3	5.3	5.1	5.1	4.9
NNPC cash calls	6.1	6.0	4.8	4.5	3.5	3.5	3.3	3.3	3.1
NNPC priority projects	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
National Judicial Council	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.2	0.2
Transfer to Niger Delta Dev. Comm	0.2	0.1	0.1	0.2	0.1	0.1	0.1	0.1	0.1
Customs levies	0.4	0.5	0.4	0.3	0.3	0.3	0.3	0.3	0.3
Education Fund	0.2	0.1	0.2	0.2	0.1	0.1	0.1	0.2	0.2
Federal government extrabudgetary funds	0.1	0.6	0.4	0.5	0.5	0.5	0.5	0.5	0.5
Federal government capital expenditure	4.7	3.2	3.3	4.0	4.6	5.3	5.1	5.7	6.0
Domestic financed	4.5	3.1	3.0	3.7	4.2	4.9	4.6	5.1	5.4
Foreign financed	0.2	0.1	0.3	0.3	0.4	0.4	0.5	0.6	0.6
State and local governments	13.5	16.1	16.3	16.3	16.0	16.0	15.9	16.1	16.0
Primary expenditure	13.5	15.6	15.8	15.9	15.6	15.7	15.5	15.8	15.7
External interest payments due	…	0.4	0.5	0.5	0.4	0.4	0.4	0.4	0.3
Overall balance (commitment basis) 2/	-4.2	-1.3	7.7	9.9	11.3	9.3	9.7	8.0	8.8
Financing	7.2	3.6	-8.0	-9.7	-11.3	-9.3	-9.7	-8.0	-8.8
External	0.8	-0.4	0.0	0.2	0.2	0.4	0.4	0.6	0.8
Borrowing	0.2	0.1	0.3	0.3	0.4	0.4	0.5	0.6	0.6
Amortization due	-3.0	-2.4	-2.1	-2.1	-1.8	-1.4	-1.4	-1.4	-1.0
Federal government	...	-2.0	-1.6	-1.6	-1.3	-1.0	-1.1	-1.0	-0.8
States	…	-0.4	-0.5	-0.5	-0.4	-0.3	-0.4	-0.3	-0.3
Arrears, rescheduling, and debt buyback	3.5	1.8	1.8	2.0	1.6	1.3	1.4	1.4	1.3
Domestic	7.1	4.0	-8.1	-11.4	-12.0	-10.0	-10.3	-8.7	-9.7
Privatization proceeds	0.3	0.0	0.0	1.0	0.4	0.3	0.1	0.1	0.1
Recovered funds	0.0	0.4	0.1	0.5	0.0	0.0	0.0	0.0	0.0
Carryover of unspent capital mandates 3/	-1.0	-0.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Statistical discrepancy	3.0	2.3	-0.3	0.2	0.0	0.0	0.0	0.0	0.0
Memorandum items:									
Non-oil revenue (in percent of non-oil GDP)	17.1	16.9	15.8	14.7	15.7	16.3	17.0	17.5	17.8
Non-oil balance (in percent of GDP)	-24.3	-23.2	-22.6	-23.5	-22.6	-22.4	-21.6	-21.8	-21.6
Non-oil primary balance (in percent of non-oil GDP) 4/	-29.9	-33.8	-36.4	-40.7	-39.6	-38.4	-37.2	-37.0	-37.0
Primary balance (in percent of GDP)	2.2	3.3	11.8	13.3	14.6	12.3	12.5	10.5	11.1
Primary expenditure at price based rule	1,154	1,677	1,780	2,353	2,827	3,194	3,770	4,063	4,433
Actual primary expenditure	1,584	2,064	2,537	3,247	3,640	4,027	4,418	4,871	5,309
Target for overall balance (permanent price rule, in percent of GDP)	2.8	3.9	15.6	17.5	17.3	15.0	13.8	12.7	13.5
Deviation from target (permanent price rule, in percent of GDP)	-7.0	-5.1	-7.9	-7.5	-6.0	-5.7	-4.0	-4.7	-4.7
Nominal GDP (in billions of naira)	5,632	7,533	9,575	11,872	13,507	14,564	16,057	17,157	18,595
Non-oil GDP (in billions of naira)	3,365	4,069	4,855	5,864	6,581	7,356	8,155	8,943	9,699

Source: Nigerian authorities; and Fund staff estimates and projections.

1/ State and local governments collect their own revenue (such as income tax and property tax).
2/ External debt service is on a commitment basis. Capital spending for 2002 excludes the cash overhang of N 160 billion accumulated in 2001.
3/ This reflects the drawdown of unspent capital mandates to finance capital expenditure committed in previous years. Insufficient data prevent the inclusion of actual commitments in 2000-01.
4/ Excluding oil revenue, cash call payments, and interest payments.

Table 2c. Nigeria: Fiscal Accounts, Federal Government Budget, 2003-2005

	2003	2004	2005	
		Est.	Appr. Act	Proj. Annual
Oil price (in U.S. dollars per barrel)	29.0	38.3	30.0	49.5
	(in billions of naira)			
Total revenue 1/	964	1,486	1,492	1,938
Petroleum revenue	740	1,236	1,184	1,674
Nonpetroleum revenue	224	250	308	265
Import and excise duties	95	105	92	92
Companies' income tax	56	63	87	87
Value-added tax	20	23	24	24
Federal government independent revenue	54	59	105	62
Total expenditure	1,049	1,075	1,712	1,412
Recurrent expenditure	792	844	1,095	1,010
Personnel	304	370	416	389
Pensions	64	72	130	130
Overhead cost	146	128	191	133
Interest payments	242	231	268	268
Domestic	170	189	186	186
External, cash	72	42	82	82
Transfers 2/	35	42	90	90
National Judicial Council	26	28	33	33
Transfer to Niger Delta Development Commission	9	14	29	29
UBE Commission	...	...	28	28
Capital expenditure	257	231	582	381
Domestic	257	231	582	381
Clearance of arrears and recapitalizations	...	...	35	22
Overall balance (cash basis)	-85	411	-220	526
Overall balance (excluding clearance of arrears and recapitalizations)	...	...	-185	548
Financing	191	-517	220	-411
External	-138	-155	-88	-88
Amortization, cash	-138	-155	-88	-88
Domestic financing	299	-369	130	-502
Central bank (net)	415	-612	241	-390
Of which: gross oil windfall proceeds	...	-332	0	-714
Commercial banks (net)	-116	193	-47	-47
Non-bank financing	0	50	-65	-65
Privatization proceeds	0	0	114	114
Recovered funds	30	7	65	65
Statistical discrepancy	106	-106	0	115
Memorandum items:				
Non-oil primary balance	-583	-594	-1,136	-879
Non-oil primary balance (excluding clearance of arrears)	-583	-594	-1,101	-857
Budgetary revenue	964	1,486	1,492	1,938
Budgetary spending	1,187	1,230	1,800	1,500
Balance on the budget (BOF definition, debt service above the line)	-222	256	-308	438
	(in percent of GDP)			
Total revenue	12.8	15.5	12.6	16.3
Petroleum revenue	9.8	12.9	10.0	14.1
Nonpetroleum revenue	3.0	2.6	2.6	2.2
Total expenditure	13.9	11.2	14.4	11.9
Recurrent expenditure	10.5	8.8	9.2	8.5
Goods and services	6.8	6.0	6.2	5.5
Interest payments	3.2	2.4	2.3	2.3
Transfers 2/	0.5	0.4	0.8	0.8
Capital expenditure	3.4	2.4	4.9	3.2
Overall balance (cash basis)	-1.1	4.3	-1.9	4.4
Overall balance (excluding arrears' clearance and recapitalizations)	...	...	-1.6	4.6
Financing	2.5	-5.4	1.9	-3.5
External	-1.8	-1.6	-0.7	-0.7
Domestic financing	4.0	-3.9	1.1	-4.2
Privatization proceeds	0.0	0.0	1.0	1.0
Statistical discrepancy	1.4	-1.1	0.0	1.0
Memorandum items:				
Non-oil primary balance (in percent of non-oil GDP)	-14.3	-12.2	-19.4	-15.0
Non-oil primary balance (excl. arrears' clearance, in percent of non-oil GDP)	-14.3	-12.2	-18.8	-14.6
Non-oil revenue (in percent of non-oil GDP)	5.5	5.2		4.5
Balance on the budget (BOF definition)	-3.0	2.7	-2.6	3.7
External debt service (FGN share, in millions of U.S. dollars)	1,357	1,316	1,278	1,278
Nominal GDP (in billions of naira)	7,533	9,575	11,872	11,872
Nominal non-oil GDP (in billions of naira)	4,069	4,855	5,864	5,864

Source: Authorities; and Fund staff estimates

1/ Oil revenue net of cash call payments.
2/ Excluding transfer to the NNPC for cash call payments.

Table3a. Nigeria: CBN Analytical Balance Sheet, 2003-2005

	2003	2004 Est	2005 Proj.
	(In billions of naira, end of period)		
Net foreign assets 1/	1,059	2,250	3,730
Foreign assets	1,065	2,479	3790
Short-term foreign liabilities	-6	-229	-60
Net domestic assets	-370	-1,518	-2,914
Domestic Credit	82	-718	-2,005
Net Claims on Consolidated Government 2/	294	-681	-1,936
Net claims on federal government	374	-238	-628
Net claims on non-financial public enterprises	-235	-141	-171
Net claims on non-financial private sector	1.3	2	-5
Claims on Deposit Money Banks	15.6	92	96
Net Claims on other Financial Institutions	6.8	11	11
Other items net	-453	-800	-909
Reserve money	689	732	813
Currency in circulation	502	546	538
Currency outside of banks	412	459	437
Banks Reserves with the CBN	186	187	275
Required reserves	152	158	195
Penalty deposit	0	0	0
Excess reserves	34	29	80
Memorandum item:			
Reserve Money 12-month growth rate	16.4	6.3	11.0
	(Contribution to reserve money growth; unless otherwise stated)		
Net foreign assets	...	6.2	18.3
Net domestic assets	...	-5.2	-17.3
of which: net credit to the federal government	...	-2.7	-15.5
of which: other items (net)	...	-2.2	-1.4
Broad money	1,985	2,264	2,604
quarterly percent change	0.2	4.9	-0.5
Broad money (annual percent change)	24.1	14.0	15.0
Broad money multiplier	2.88	3.09	3.20
Narrow money multiplier	1.78	1.82	2.00
Currency held by non-bank public /total deposit ratio	0.26	0.25	0.20
Required Reserve/total deposit ratio	0.10	0.09	0.09
Total bank reserves/total deposit ratio	0.18	0.15	0.17

Sources: CBN, staff estimates and projections.
1/ CBN presents long-term liabilities in other items net.
2/ Includes the windfall oil revenue savings by subnational governments and extrabudgetary funds.

Table 3b. Nigeria: Monetary Survey, 2003-2005

'(in billions of naira)

	2003	2004 Est.	2005 Proj.
Net foreign assets	1,476	2,712	4,204
Central Bank of Nigeria (net) 1/	1,059	2,250	3,730
Foreign assets	1,065	2,479	3,790
Short-term foreign liabilities	-6	-229	-60
Commercial and merchant banks (net)	417	462	474
Net domestic assets	541	-448	-1,600
Net domestic credit	1,804	1,345	255
Consolidated Government 2/	612	-165	-1,469
Claims on non-financial public enterprises	0	2	2
Other financial institutions	7	11	11
Claims on private sector	1,185	1,497	1,711
(y/y growth rate)	27	26.3	14.3
Other items (net)	-1,263	-1,793	-1,855
Broad money	1,985	2,264	2,604
(y/y growth rate)	...	14.0	15.0
Memorandum items:			
	(Contribution to broad money growth unless otherwise stated)		
Net foreign assets	5.5	62.3	57.3
Central Bank of Nigeria (net)	3.2	60.0	56.8
Commercial and merchant banks (net)	2.3	2.3	0.4
Net domestic assets	19.0	-49.9	-44.2
Net domestic credit	29.7	-23.1	-41.9
Net credit to the consolidated government	13.8	-39.1	-50.1
Net credit to the federal government	13.6	12.8	-16.8
Claims on private sector	15.7	15.7	8.2
Other items (net)	-10.7	-26.7	-2.4
Broad money (percent change since year's end)	24.1	14.0	15.0
Velocity (non-oil GDP/broad money)	2.0	2.1	2.3
Gross International Reserves (in million US$)	7,468	16,955	28,499
Non-oil GDP (in billions of naira)	4,069	4,855	5,864

Sources: Nigerian authorities and staff estimates and projections.

1/ CBN presents long-term liabilities in other items net.

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

Table 4. Nigeria: Balance of Payments, 2002-10

(In millions of U.S. dollars; unless otherwise indicated)

	2002	2003	2004	2005	2006	2007	2008	2009	2010
			Est.			Projections			
Current account balance	-5,400	-1,568	3,302	5,164	8,343	6,547	7,605	6,273	7,457
Oil/gas (net)	4,653	9,915	15,099	19,896	24,890	24,322	26,603	26,767	29,528
Other (net)	-10,053	-11,483	-11,798	-14,732	-16,546	-17,774	-18,997	-20,494	-22,071
Trade balance	4,041	10,058	18,165	20,668	24,881	23,292	25,410	24,561	27,021
Exports	17,672	27,250	37,297	45,160	50,942	50,789	54,309	55,242	59,510
Oil/gas	16,935	26,515	36,420	44,205	49,959	49,769	53,232	54,100	58,296
Other	738	735	877	955	984	1,020	1,077	1,142	1,213
Imports	-13,631	-17,193	-19,132	-24,492	-26,062	-27,498	-28,899	-30,681	-32,489
Oil/gas	-5,604	-7,552	-8,928	-11,080	-10,587	-10,621	-10,736	-10,962	-11,192
Other	-8,027	-9,641	-10,204	-13,412	-15,475	-16,877	-18,163	-19,719	-21,297
Services (net)	-4,438	-5,325	-5,888	-6,675	-6,559	-6,816	-7,066	-7,397	-7,697
Receipts	1,119	1,379	1,671	1,855	1,982	2,063	2,193	2,306	2,458
Oil/gas	164	256	349	416	470	463	494	498	536
Other	955	1,123	1,322	1,439	1,513	1,600	1,699	1,808	1,922
Payments	-5,557	-6,703	-7,558	-8,530	-8,541	-8,879	-9,259	-9,703	-10,155
Oil/gas	-1,920	-2,505	-2,573	-3,051	-2,781	-2,786	-2,789	-2,819	-2,837
Other	-3,637	-4,198	-4,985	-5,479	-5,760	-6,093	-6,469	-6,884	-7,318
Income (net)	-6,401	-8,388	-11,727	-12,030	-13,178	-13,128	-13,939	-14,090	-15,067
Oil/gas 1/	-4,922	-6,799	-10,168	-10,595	-12,171	-12,504	-13,598	-14,050	-15,275
Other	-1,479	-1,589	-1,559	-1,435	-1,008	-624	-341	-40	209
Of which: Interest due on public debt	-1,557	-1,569	-1,548	-1,616	-1,570	-1,583	-1,585	-1,590	-1,604
Transfers (net) 2/	1,398	2,086	2,751	3,200	3,200	3,200	3,200	3,200	3,200
Capital account balance	785	1,562	3,059	4,069	3,398	3,830	3,533	3,717	3,901
Direct and portfolio investment (net)	2,484	2,891	4,409	5,678	4,800	4,782	4,546	4,641	4,474
Oil/gas	1,732	2,626	3,751	4,955	4,005	3,907	3,583	3,582	3,310
Other	752	266	657	723	795	875	962	1,059	1,164
Official capital (net)	-1,268	-1,291	-1,286	-1,609	-1,402	-952	-1,013	-924	-573
Disbursements	106	76	223	300	375	450	550	650	700
Amortization due	-1,373	-1,368	-1,509	-1,909	-1,777	-1,402	-1,563	-1,574	-1,273
Private borrowing (net)	0	0	0	0	0	0	0	0	0
Other capital (net)	-431	-39	-64	0	0	0	0	0	0
Errors and omissions	111	-1,549	1,775	0	0	0	0	0	0
Overall balance	-4,503	-1,556	8,135	9,233	11,741	10,377	11,138	9,990	11,358
Net international reserves (increase -)	2,742	213	-9,487	-11,544	-13,360	-11,691	-12,629	-11,623	-12,887
Exceptional financing	1,761	1,343	1,352	2,311	1,619	1,314	1,490	1,632	1,529
Net accumulation of arrears (decrease -)	1,900	1,127	1,302	1,821	1,619	1,314	1,490	1,632	1,529
Other 3/	-139	216	50	490	0	0	0	0	0
Memorandum items:									
Gross official reserves, end-of-period	7,681	7,468	16,955	28,499	41,859	53,550	66,179	77,801	90,688
In months of next year's GS imports	3.9	3.4	6.2	9.9	13.8	16.8	19.7	21.9	24.0
Current account (percent of GDP)	-11.7	-2.7	4.6	5.8	8.4	6.4	7.0	5.5	6.1
Non-oil/gas current account 4/	-36.5	-36.9	-32.6	-33.4	-34.3	-34.5	-34.4	-34.6	-34.8
GS exports (percent of GDP)	40.8	49.7	54.6	52.7	53.4	51.7	52.0	50.7	51.0
Non-oil/gas GS exports 4/	6.1	6.0	6.1	5.4	5.2	5.1	5.0	5.0	5.0
GS imports (percent of GDP)	41.6	41.5	37.4	37.0	34.9	35.6	35.1	35.6	35.1
Non-oil/gas GS imports 4/	42.4	44.5	42.0	42.9	44.0	44.5	44.6	45.0	45.2
External debt 5/	30,993	32,917	35,945	36,158	36,374	36,735	37,213	37,921	38,877
Of which: Arrears	2,416	3,573	5,651	7,472	9,091	10,404	11,895	13,527	15,056
External debt (percent of GDP) 5/	67.2	57.2	50.4	40.5	36.7	36.0	34.2	33.4	32.0
External debt (percent of GS exports) 5/	164.9	115.0	92.2	76.9	68.7	69.5	65.9	65.9	62.7
External debt 5/ 6/	184.5	154.1	117.0	89.6	81.4	82.7	79.0	79.2	74.9
External debt service due (percent of GS exports)	15.6	10.3	7.8	7.5	6.3	5.6	5.6	5.5	4.6
Oil export price (U.S. dollars per barrel)	25.0	28.9	38.3	49.5	48.8	46.5	45.3	44.5	44.0
GDP (at market prices)	46,090	57,564	71,318	89,257	99,098	102,148	108,712	113,540	121,428

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

1/ Includes taxes due but not paid in 2004, to be paid in 2005.
2/ Includes capital transfers.
3/ In 2002 debt buy-back, in 2003-05 recovery of looted funds.
4/ In percent of non-oil/gas GDP (at factor costs).
5/ Nominal public sector short- and long-term debt end of period.
6/ In percent of general government fiscal revenues.

Table 5. Nigeria - Oil and Gas Sector Overview, 2002-10

	2002	2003	2004	2005	2006	2007	2008	2009	2010
						Proj.			
Physical balances									
				(in millions of barrels per day, unless otherwise indicated)					
Crude oil									
Oil price (in U.S. dollars per barrel)	25.0	28.9	38.3	49.5	48.8	46.5	45.3	44.5	44.0
Production of crude oil	1.96	2.45	2.49	2.40	2.69	2.74	2.98	3.03	3.27
Crude	1.83	2.30	2.42	2.31	2.59	2.63	2.85	2.90	3.13
Condensates	0.13	0.15	0.07	0.09	0.10	0.11	0.12	0.13	0.14
Domestic allocation to NNPC	0.44	0.43	0.42	0.44	0.44	0.44	0.44	0.44	0.44
Domestic refining	0.22	0.12	0.11	0.24	0.22	0.22	0.22	0.22	0.22
Exports of crude oil	1.74	2.33	2.39	2.16	2.47	2.52	2.75	2.80	3.04
Of which exports out of domestic allocation	0.23	0.31	0.31	0.21	0.22	0.22	0.22	0.22	0.22
OPEC quota	1.79	2.01	2.02	...	...	...	...	...	...
				(in billions of cubic feet, unless otherwise indicated)					
Natural gas									
Total production	1,772	1,829	2,120	1,954	2,197	2,239	2,557	2,715	2,931
For Nigeria Liquefied Natural Gas (NLNG)	279	438	523	704	812	989	1,130	1,271	1,412
For natural gas liquids production (NGL)	104	104	137	165	287	287	287	287	287
Other	248	177	202	222	244	268	295	325	357
Reinjection	273	286	421	404	454	462	493	489	518
Flaring	667	824	837	460	401	233	352	343	356
Gas sales (LNG and NGL feed; in millions of barrels per day oil equivalent)	0.19	0.26	0.32	0.42	0.54	0.62	0.69	0.76	0.83
Flaring (in percent of total gas produced)	37.6	45.0	39.5	23.5	18.2	10.4	13.8	12.6	12.2
Financial Balances									
				(in millions of U.S. dollars, unless otherwise indicated)					
National accounts and balance of payments									
Crude oil									
Production of crude oil (including condensates)	17,853	25,903	34,935	43,253	47,916	46,577	49,292	49,140	52,450
Exports	15,878	24,611	33,435	38,929	43,960	42,804	45,610	45,529	48,880
Domestic use	1,974	1,280	1,483	4,324	3,956	3,773	3,672	3,611	3,571
Recurrent costs	2,862	3,492	3,087	3,272	3,678	3,748	4,076	4,132	4,460
Investment	3,870	5,326	4,756	5,782	4,618	4,722	4,413	4,428	4,173
Foreign direct investment	1,362	2,185	2,740	3,680	2,857	2,862	2,538	2,537	2,264
Profit remittances 1/	4,434	5,858	8,660	8,159	9,306	9,273	10,025	10,093	10,900
Gas									
Gas sales	575	558	858	1,305	1,897	1,853	1,906	2,000	2,139
NGL 2/	362	221	461	770	1,280	1,102	1,048	1,034	1,066
NLNG 3/	213	337	397	535	617	751	859	966	1,073
LNG Exports	1,056	1,918	3,034	5,276	5,999	6,966	7,747	8,571	9,416
Recurrent costs	153	217	264	348	439	510	567	623	680
Investment	726	863	1,983	2,500	2,250	2,050	2,050	2,050	2,050
Foreign direct investment	370	440	1,011	1,275	1,148	1,046	1,046	1,046	1,046
Profit remittances 4/	488	940	1,508	2,436	2,864	3,231	3,573	3,957	4,376
Oil and gas GDP (percentage change)	-11.6	26.6	3.5	0.2	14.5	4.3	8.9	3.3	8.2
Production of crude oil (percentage change)	-13.3	25.1	1.88	-3.9	12.4	1.9	8.5	1.6	7.9
Gas sales (LNG and NGL feed; percentage change)	10.5	41.4	21.8	31.6	26.5	16.1	11.1	10.0	9.1
Government revenue									
Oil									
Export of federation crude	4,163	7,302	10,741	11,540	14,241	14,064	15,461	15,505	17,878
PPT	1,852	3,369	6,180	9,104	9,982	9,481	9,836	9,698	10,225
Royalties, incl. rent	1,391	1,899	2,679	3,350	3,711	3,603	3,799	3,796	4,051
Domestic crude & tax on petroleum products	2,381	2,813	4,732	7,718	7,269	7,639	7,415	7,253	7,141
Miscellaneous oil revenue (pipeline fees)	172	254	121	248	279	284	309	313	317
Gas									
NGL	177	108	221	377	627	540	513	507	522
LNG feed gas	105	165	192	278	321	391	447	502	558
Flaring 5/	33	37	29	35	29	16	23	23	21
Government share of costs	3,088	3,500	3,400	4,000	3,500	3,570	3,641	3,714	3,789
Net oil and gas revenue	7,186	12,448	21,495	28,650	34,930	34,785	36,748	36,735	40,087

Sources: Nigerian authorities; and Fund staff estimates.

1/ Calculated as foreign partner exports minus PPT and royalties minus foreign partner share of operating costs.

2/ Projection calculated as NGL export revenue minus operating and capital cost (netback value for feed gas).

3/ Projection assumes price of US$0.68 per cubic feet of feed gas.

4/ Calculated as foreign partner share of dividends for LNG; foreign partner share in feed gas delivery for NGL.

5/ Projection calculated as residual and assuming a price of N10 per cubic feet.

Table 6. Nigeria: Selected Vulnerability Indicators, 2000-04

	2000	2001	2002	2003	2004	As at
Key Economic and Market Indicators						
Real GDP growth (in percent)	5.6	3.3	1.4	10.9	6.1	
CPI inflation (period average, in percent)	6.9	18.0	13.7	14.0	15.0	
Short-term (ST) interest rate (in percent, end of period)	14.6	20.0	13.8	15.0	15.0	Dec-04
EMBI secondary market spread (bps, end of period)	2,037	1,488	2,212	732	733	
Exchange rate NC/US$ (end of period)	102.2	112.0	122.2	130.9	134.3	Dec-04
External Sector						
Exchange rate regime	managed float	managed float	float	float	float	
Current account balance (percent of GDP)	10.5	3.0	-11.0	-2.4	4.9	
Net FDI inflows (percent of GDP)	2.8	4.4	5.6	5.1	6.3	
Export growth (US$ value, GNFS)	79.4	-16.9	-8.9	52.4	36.1	
Real effective exchange rate (1995 = 100)	103.3	114.7	102.6	107.2	108.6	Nov-04
Gross international reserves (GIR) in US$ billion	9.4	10.4	7.7	7.5	17.0	
GIR in percent of ST debt at remaining maturity	273.7	320.9	262.1	254.3	554.7	
Total gross external debt in percent of GDP 1/	68.1	64.2	69.4	58.6	51.5	
Total gross external debt in percent of exports of GNFS 1/	121.8	143.8	164.9	115.0	92.2	
Public Sector 2/						
Overall balance (percent of GDP)	6.0	-4.9	-4.2	-1.3	7.7	
Primary balance (percent of GDP) 3/	12.0	1.2	2.2	3.3	11.8	
Non-oil primary balance (percent of non-GDP)	-34.8	-43.2	-29.9	-33.8	-36.4	
Debt-stabilizing primary balance (percent of GDP) 3/	...	...	...	-0.5	-0.3	
Gross public sector financing requirement (in percent of GDP)	-2.2	8.5	7.2	3.6	-5.6	
Public sector gross debt (PSGD, in percent of GDP) 1/	85.3	81.3	87.9	74.8	65.4	
o/w External debt from official creditors (in percent of total PSGD) 1/	68.5	68.0	70.1	70.9	72.3	
External debt from private creditors (in percent of total PSGD) 1/	8.9	8.6	6.4	5.5	4.8	
Domestic debt linked to foreign currency (in percent of total PSGD)	...	...	...	...	...	
Domestic debt at variable interest rate (in percent of total PSGD)	11.7	13.5	14.8	14.6	14.8	
Public sector net debt (in percent of GDP)	65.4	64.0	76.8	70.3	53.6	
Financial Sector 4/						
Capital adequacy ratio (in percent)	17.5	16.2	18.1	17.8	14.7	
NPLs in percent of total loans	22.6	19.7	21.4	19.8	21.6	
NPLs net of provisions to capital	43.8	19.9	22.9	18.1	17.3	
Return on average assets (in percent)	4.0	3.3	2.4	1.7	3.1	
FX deposits (in percent of total deposits)	5.4	4.8	9.0	7.8	8.1	Feb-05
FX deposits (in percent of gross international reserves)	4.2	4.0	11.6	12.5	7.1	Feb-05

Source: Nigerian authorities, staff estimates.

1/ Includes external arrears.
2/ The fiscal data are for the consolidated government. The debt data are only for the federal government.
3/ Primary balance is balance before net interest payments, and stabilizing ratio refers to gross debt/GDP.
4/ Banking System

Table 7. Nigeria: Financial Soundness Indicators for the Banking Sector, 2000-04
(In percent, unless otherwise indicated)

	2000	2001	2002	2003	2004
Capital Adequacy					
Regulatory capital to risk-weighted assets*	17.5	16.2	18.1	17.8	14.7
Regulatory Tier 1 capital to risk-weighted assets*	14.8	14.2	16.0	15.7	13.4
Capital (net worth) to assets*	7.4	7.5	10.4	8.6	9.9
Asset composition and quality					
Sectoral distribution of loans to total loans					
Government	2.5	5.0	5.4	4.5	4.2
Manufacturing	30.6	20.0	26.6	25.1	22.5
Agriculture	8.8	5.6	6.5	5.3	4.9
Commerce	25.3	24.1	23.3	23.7	23.6
FX loans to total loans 1/	….	….	….	….	….
NPLs to gross loans*	22.6	19.7	21.4	19.8	21.6
NPLs net of provisions to capital*	43.8	19.9	22.9	18.1	17.3
Spread between highest and lowest interbank rates					
Earnings and Profitability					
ROA*	4.0	3.3	2.4	1.7	3.1
ROE*	….	43.7	28.1	19.8	27.4
Interest margin to gross income*	38.6	41.4	43.2	39.6	37.6
Trading and fee income to total income	….	25.6	22.4	29.9	30.9
Trading and fee income to gross income	….	….	….	….	45.1
Noninterest expenses to gross income*	46.4	45.5	49.7	57.6	53.9
Liquidity					
Liquid assets t*o total assets**	51.4	29.2	31.5	27.8	31.2
Percent of liquid assets held in government securities	….	35.2	50.8	44.4	54.1
Liquid assets to total deposits*	99.9	49.3	78.0	54.5	47.5
Customer deposits to total (non-interbank) loans	161.6	….	….	….	….
FX liabilities to total liabilities	5.1	….	….	….	….
Memorandum items:					
Total Loans (in billions of naira)	….	788	929	1,154	1,463
Total Assets (in billions of naira)	….	2,028	2,476	2,758	3,393

Source: Nigerian authorities.

* Included in the "core set" of FSIs.

1/ Data is not available, but the evidence is that FXI loans were virtually zero until very recently.

Table 8. Nigeria: Medium-term Non-oil Savings-Investment Balances, 2003-10

	2003	2004	2005	2006	2007	2008	2009	2010
	(In billions of naira, unless otherwise indicated)							
Total non-oil demand	5,822	6,797	8,267	9,353	10,487	11,625	12,772	13,870
Public	2,064	2,537	3,247	3,640	4,027	4,418	4,871	5,309
Private	3,758	4,260	5,019	5,713	6,460	7,208	7,902	8,561
Non-oil consumption	4,604	5,248	6,286	6,887	7,709	8,500	9,148	9,928
Public	1,562	1,891	2,374	2,598	2,829	3,124	3,407	3,689
Private	3,042	3,358	3,912	4,289	4,880	5,376	5,741	6,239
Non-oil investment	1,218	1,549	1,981	2,466	2,778	3,125	3,624	3,942
Public	502	647	873	1,042	1,197	1,294	1,464	1,620
Private	717	903	1,107	1,424	1,581	1,831	2,160	2,323
Net non- oil exports of goods and services	-1,568	-1,744	-2,194	-2,554	-2,901	-3,228	-3,574	-3,902
Non-oil exports of goods and services	243	295	318	340	374	410	446	480
Non-oil imports of goods and services	1,811	2,039	2,513	2,894	3,275	3,638	4,020	4,382
Non-oil GDP at market prices	4,254	5,053	6,072	6,799	7,586	8,397	9,198	9,968
	(In percent of non-oil GDP)							
Non-oil Demand	136.9	134.5	136.1	137.6	138.3	138.4	138.9	139.1
Public	48.5	50.2	53.5	53.5	53.1	52.6	53.0	53.3
Private	88.3	84.3	82.7	84.0	85.2	85.8	85.9	85.9
Non-oil consumption	108.2	103.9	103.5	101.3	101.6	101.2	99.5	99.6
Public	36.7	37.4	39.1	38.2	37.3	37.2	37.0	37.0
Private	71.5	66.4	64.4	63.1	64.3	64.0	62.4	62.6
Non-oil investment	28.6	30.7	32.6	36.3	36.6	37.2	39.4	39.5
Public	11.8	12.8	14.4	15.3	15.8	15.4	15.9	16.2
Private	16.8	17.9	18.2	20.9	20.8	21.8	23.5	23.3
Net exports of non-oil goods and services	-36.9	-34.5	-36.1	-37.6	-38.3	-38.4	-38.9	-39.1
Nonoil Exports of goods and services	5.7	5.8	5.2	5.0	4.9	4.9	4.8	4.8
Nonoil Imports of goods and services	-42.6	-40.4	-41.4	-42.6	-43.2	-43.3	-43.7	-44.0
Balance on non-oil current account	-35.3	-31.3	-32.3	-33.2	-33.4	-33.4	-33.7	-33.9
of which: non-oil net factor income and transfers	1.5	3.2	3.9	4.4	4.8	5.0	5.2	5.2
Gross domestic non-oil savings	-8.2	-3.9	-3.5	-1.3	-1.6	-1.2	0.5	0.4
Public	-20.5	-22.2	-24.9	-23.0	-21.5	-20.7	-20.1	-19.7
Private	12.3	18.3	21.4	21.7	19.8	19.5	20.6	20.1
Gross national non-oil savings	-6.7	-0.7	0.3	3.1	3.2	3.8	5.7	5.6
Public	-20.8	-22.4	-24.9	-23.0	-21.5	-20.7	-20.1	-19.7
Private	14.1	21.7	25.3	26.1	24.7	24.5	25.8	25.4
	(Growth rates in percent)							
Memorandum items:								
Real non-oil public consumption	13.2	9.0	9.0	2.4	2.6	5.0	4.9	5.3
Real non-oil private consumption	4.7	-0.6	1.2	2.6	7.2	4.8	2.7	5.7
Real non-oil private demand	2.1	2.1	2.3	6.5	6.6	6.1	5.4	5.4
Real nonoil public investment	10.5	16.1	17.3	11.6	8.3	2.8	8.8	7.6
Real nonoil private investment	-7.4	13.4	6.5	20.3	4.6	10.2	13.4	4.6
Non-oil GDP deflator	15.8	11.0	15.2	6.9	6.1	5.1	4.0	2.8

Sources: Nigerian authorities; and staff estimates and projections.

Nigeria: Relations with the Fund
(As of April 30, 2005)

I. **Membership Status:** Joined: 03/30/1961; Article XIV

II. **General Resources Account:**	**SDR Million**	**%Quota**
Quota	1,753.20	100.00
Fund Holdings of Currency	1,753.12	100.00
Reserve position in the Fund	0.14	0.01

III. **SDR Department:**	**SDR Million**	**%Allocation**
Net cumulative allocation	157.16	100.00
Holdings	1.08	0.69

IV. **Outstanding Purchases and Loans:** None

V. **Latest Financial Arrangements**:

Type	**Approval Date**	**Expiration Date**	**Amount Approved (SDR million)**	**Amount Drawn (SDR million)**
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

VI. **Projected Obligations to Fund** (SDR Million; based on existing use of resources and present holdings of SDRs):

		Forthcoming			
	2005	2006	2007	2008	2009
Principal					
Charges/Interest	2.87	3.90	3.90	3.91	3.90
Total	2.87	3.90	3.90	3.91	3.90

VII. **Exchange Rate Arrangement**:

Nigeria's current exchange rate arrangement is classified in the Fund's Annual Report on Exchange Arrangements and Exchange Restrictions as a managed float with no preannounced target for the exchange rate of the naira. The inter-bank foreign exchange market is segmented into two sub-markets. The Central Bank of Nigeria (CBN) sells foreign exchange to legitimate end-users through banks that bid, with requests having to be supported by the required documentation. The open Nigerian inter-bank market (NIFEX) is the market for foreign exchange obtained from other sources than the CBN, including non-oil exports and personal transfers, and the NIFEX rate is freely negotiable among commercial banks as well as among customers. On February 20, 2001, the CBN issued a circular which forbid banks from transferring funds obtained from the CBN to other banks through the NIFEX, effectively segmenting the two markets. On July 22, 2002, the authorities adopted the Dutch Auction System (DAS) for selling official foreign exchange to end-users. The DAS is a sealed-bid multiple price auction system with the marginal rate being the rate that clears the market. Auctions take place twice a week and the CBN announces the amount on offer the day before the auction and the auction results the day after. Funds purchased from the CBN shall be used for eligible transactions only, subject to stipulated documentation requirements. Such funds are not transferable in the inter-bank foreign exchange market.

Currently, there are four exchange rates: the DAS auction rate, the NIFEX rate quoted by a group of commercial banks, the *Bureaux de change* rate, and the parallel market rate.

The following exchange rates were quoted on April 15, 2005:

IFEM/DAS	US$1 = N132.9.
NIFEX	US$1 = N131.5.
Bureaux de change/parallel market	US$1 = N139.0.

The exchange rate for the SDR on April 15, 2005 was N193.5 = SDR 1.

VIII. Article IV Consultation

Nigeria is on the standard 12-month Article IV consultation cycle. The last Article IV consultation discussions were held in Lagos and Abuja during the period March 23-April 8 and May 12-19, 2004. The staff report (IMF Country Report No. 04/239) was discussed by the Executive Board and the consultation concluded on July 16, 2004.

IX. Technical Assistance (TA) Since 2000:

Department	Purpose of TA mission	Duration
FAD	Fiscal regime for oil and gas	February 8–26, 2000
STA	Balance of payments statistics	November 8–21, 2000
FAD	Resident treasury advisor	November. 25, 2000–Feb. 25–2001 and April 8–July 7, 2001
FAD	Resident budget advisor	January 11–March 11, 2001
FAD	Fiscal federalism	January 24–Feb. 11, 2001
STA	Government finance statistics	January 21–Feb. 3, 2001
FAD	Expenditure Management	February 2–10, 2001
STA	Money and banking statistics	March 22–April 4, 2001
MAE	Foreign exchange management	May 28–June 8, 2001

FAD	Resident budget advisor	October 2000 – Dec. 2001
MAE	FSAP	Dec. 5 – Dec. 15, 2001
MAE	FSAP	Feb. 4 – Feb. 20, 2002
FAD	Public Expenditure Management	January 29 – February 8
STA	Government Finance Statistics	Feb. 28 – March 13, 2002
FAD	Resident budget advisor	Apr. 19 2002– June, 2003
MFD	Domestic Debt Management	February 25-March 5, 2003
STA	General Data Dissemination Standards	July 2-15, 2003
STA	National Accounts	July 24-August 12, 2003
FAD	Budget Process Reforms	August 20-29, 2003
FAD	Pension Reform	October 20-29, 2003
FAD	Public Expenditure Management Advisor	January–December 2004
MFD	Domestic Debt Management	February 5-17, 2004
LEG	FIU Creation and Organization	May 31 - June 04, 2004
LEG	Legislative Drafting/FIU	July 12-16, 2004
FAD	Tax Administration	July 19-August 3, 2004
MFD	Monetary Operations/Foreign Exchange	August 26-September 10, 2004
LEG	Exchange Rates Systems	November 16- 22, 2004
MFD	Bank Supervision/Restructuting	November 16-29, 2004
STA	Balance of Payment Statistics	February 2-16, 2005
FAD	Tax Administration	February 8-21, 2005
MFD	Banking supervision, Financial, Exchange Market, and Currency Reforms	March 9-24, 2005

X. **Resident Representative**:

Mr. Idrissa Thiam has entered on duty as Senior Resident Representative in Abuja on December 20, 2003.

Nigeria: Relations with the World Bank Group

Partnership for Development

1. The second administration of President Obasanjo has provided a much improved environment and framework for development assistance and effectiveness. A homegrown poverty reduction strategy, The National Economic Empowerment and Development Strategy (NEEDS) has been prepared and is being implemented at the federal level, in parallel with State Economic Empowerment and Development Strategies (SEEDS). The NEEDS/SEEDS framework include a comprehensive program of reforms aimed at the economic and social transformation of Nigeria.

2. In June 2004, the Board approved a Second Interim Strategy Progress Report which endorsed an expanded World Bank engagement in Nigeria and in particular, a move from the low case lending envelope of $200 million annually to the base case of $500 million on average per annum. This strategy continued to focus on three main pillars: (i) improving economic governance (ii) promoting accelerated private sector led growth, particularly in the non-oil economy, and (iii) empowering communities to take an active role in their own development.

3. Presently, work has reached an advanced stage in the development of a joint World Bank/DFID Country Partnership Strategy (CPS), that will guide the Bank's and UK DFID's assistance to Nigeria for the next four year (FY06 to FY09). This strategy is being prepared in a participatory manner with the involvement of government, civil society, private sector and other development partners. It will support selected priorities under the three broad pillars of the NEEDS/SEEDS framework namely: (i) empowering people through improved service delivery for human development; (ii) promoting private enterprise through improved business environment for non-oil growth and improved access to productive infrastructure; and (iii) changing the way government does its work through improved transparency and accountability.

4. The CPS proposes a deepened engagement between the World Bank/DFID and Nigeria through a larger lending envelope targeted towards accelerating growth and achieving the MDGs. This proposed deeper engagement is motivated by the good policy environment and the importance of Nigeria for meeting the MDGs in Africa. The Bank and DFID will also be more selective, concentrating their assistance on supporting activities at the Federal level and in a set of lead states, which are showing strong commitment to economic and governance reforms.

World Bank-IMF relations

5. The IMF and World Bank staffs maintain a close collaborative relationship on Nigeria. Both institutions are coordinating their policy advice to the government in several different areas through collaboration on analytical work, and through joint technical

assistance missions. The Bank staff is regularly invited to join IMF macroeconomic missions, and both are members of a multi-donor thematic group on economic governance that seeks to coordinate donor advice and work in this area.

6. In September 2003, at the request of the Nigerian government, the Bank and the IMF carried out a joint technical assistance mission for the Budget Office. A similar joint mission to advise government on the proposed Pension Reform Bill was carried out in November 2003. The Bank and the IMF have recently collaborated on the preparation of a Debt Sustainability Analysis for Nigeria.

Lending Activities

7. The World Bank's portfolio in Nigeria has been on the increase; growing from about \$911 million in FY03 to about \$1.2 billion in FY04 and currently (FY05) stands at about \$1.5 billion. As at March 31, 2005 about \$247 million has been disbursed out of this total commitment. The portfolio is being re-structured to ensure that implementation and impact are improved. This effort includes simplifying Bank processes and providing greater implementation flexibility.

8. Currently, the Bank's lending program in Nigeria comprises sixteen projects covering activities in various sectors of the economy: Health (18 percent), Education (7 percent), Private Sector Development (10 percent), Urban Development (8 percent), Rural Sector (12 percent); Transport (7 percent) Energy & Mining (8 percent) Social Development/Social Protection (4 percent), Economic Policy (11 percent), Power (7 percent) and Water Supply & Sanitation (8 percent). The mainstreaming of cross-cutting issues like environment, HIV/AIDS, gender and conflict etc. into all Bank projects has remained a priority.

Non-lending Activities

9. The World Bank has continued to engage in rigorous analytical works and placed increased emphasis on policy dialogue. These non-lending activities have been very supportive of the Bank's lending program. Previous work has focused on public expenditure management through public expenditure reviews at both federal and state levels, a report on state finances, and a report on the states' governance and capacity. Others include pension reform dialogue, procurement reform, anticorruption and sub-national debt management, which benefited immensely from the collaboration with the Debt Management Office. During the CPS period, new work will be started to broaden the knowledge base especially at the state level, and support the implementation of the huge lending program proposed in the CPS. Key analytical work includes Public Expenditure Management and Financial Accountability Report (FY06), Country Economic Memorandum on Competitiveness and Growth (FY06), Poverty Assessment (FY05/06), Agricultural Sector Review (FY06), EITI Management/Gas and Oil Sector Policy.

International Finance Corporation (IFC) Activities

10. Nigeria is IFC's largest country portfolio in Africa with US$289 million committed with activities in various sectors including finance and insurance; oil, gas and mining; and private equity funds. IFC continues to encourage and support Small and Medium Enterprises (SMEs), and invests in private sector development, including the banking industry and infrastructure.

11. IFC also seeks to promote projects that will assist Nigeria in diversifying its economy from the oil sector and removing bottlenecks faced by the non-oil private sector. IFC activities include:

12. *Small and Medium Enterprises (SMEs)*: IFC provides a broad range of financing and technical support to small businesses in Nigeria. Jointly with UNIDO, support was provided to NGOs (the FATE Foundation and the Onitsha/Nnewi/Aba Cluster program) through the Support Training Entrepreneurship Program (STEP), which provides business development services to micro enterprises. Other initiatives include a financing and capacity-building facility for small-scale oil service companies in the Niger Delta region. A comprehensive program with support from the World Bank is also being designed to provide additional support for small business access to finance, business development services and for help in improving the SME business environment.

13. *Telecommunications Sector*: In FY02 IFC approved an investment of $100 million for MTN Nigeria, a large mobile telecommunication company, for the expansion of its nationwide GSM (Global System for Mobile Communications) cellular telecommunications network in Nigeria, and by February 2006, the company expects to have well in excess of 15 million subscribers in accordance with its license requirements. IFC is playing the role of fostering competition, supporting private sector development, and improving the telecommunications market and services.

14. *Financial Sector*: Since scaling up of IFC operations began in 1999–2000, IFC has worked with seven commercial banks, extending term facilities totaling over $160 million. With no long-term funding options available in Nigeria, banks have used the IFC credits to offer medium-term financing to a range of clients in expanding their businesses. IFC is expanding this relationship with leading banks to support more small business financing options, and also to build the nascent corporate bond market.

World Bank Institute activities (WBI)

15. Nigeria is one of the WBI's six focus countries in Africa. The number of Nigerian participants in WBI programs has significantly increased in the last two years (from 280 participants in FY01, to 1,600 in FY04). The sharp increase in the number of participants was due to the increased use of Distance Learning as a delivery mode and the larger number of events held locally. The professional groups and communities of practice that took the fullest advantage of WBI programs were public expenditure managers, individuals involved

in social protection/social risk management programs, parliamentarians, and journalists. This concentration of efforts is in line with the World Bank's strategy to help Nigeria manage its public resources and help strengthen the voice of the poor at the community level. However, irrespective of the well-targeted WBI assistance, it is unlikely to make a lasting impact on capacity, if the Institute does not adequately leverage its efforts with those of the Africa Region and other development partners. For this reason, the Institute is taking steps to increase its involvement in the context of the WBI *Country Program Brief* endorsed by the Nigeria Country Team. Thematically, in coming years, the WBI program will be more focused on developing the capacity of members of the civil society working to make their voices heard and forge a national consensus. For this reason, the Institute is carrying out a major effort to identify capacity building needs at the community level through the Capacity Enhancement Needs Assessment (*CENA*) methodology. The pursuit of the World Bank's strategic objectives has also led to a better integration of WBI staff into the Nigeria Country Team and IDA project teams.

Multilateral Investment Guarantee Agency (MIGA)

16. MIGA has continued to increase its involvement in the promotion of foreign direct investment in Nigeria by offering guarantees against non-commercial risks to foreign investors, providing technical assistance to the Nigerian Investment Promotion Council (NIPC) in investment promotions and the provision of investment information services. MIGA has issued guarantees to investors in different sectors (service, manufacturing and infrastructure etc.) of the Nigerian economy totaling about $130 million in exposure. The major stakes of MIGA in Nigeria has been in the telecommunication sector, where it has issued guarantees worth about $60 million to both Econet Wireless Limited ($10 million) and MTN International Limited ($50 million) for their investments in the installation, operation and maintenance of a country-wide mobile telephone network based on GSM technology.

Nigeria: IDA Credit Portfolio
(As at March 31, 2005)

Project ID	Project Name	Fiscal Year	Approved IDA Amount	Disbursed	Undisbursed
P063622	Fadama II	2003	100.0	12.2	92.4
P065301	Economic Mgt. Capacity Bldg.	2000	20.0	15.0	5.1
P069086	Comm.-Based Pov. Reduction	2000	60.0	37.1	31.9
P069892	Local Empowerment & Envir. Mgmt.	2003	70.0	4.3	74.9
P069901	Community-based Urban Dev.	2002	110.0	8.4	123.6
P070290	2nd Health Systems Dev.	2002	127.0	27.1	125.3
P070291	HIV/AIDS Program Dev.	2001	90.3	25.2	80.8
P070293	Privatization Support Project	2001	114.3	30.1	103.8
P071075	Urban Water Sector Reform	2004	120.0	3.4	122.3
P071494	Universal Basic Education	2002	101.0	6.7	108.4
P072018	Transmission Development	2001	100.0	29.5	88.0
P0749963	Lagos Urban Transport Project	2002	100.0	17.4	97.3
P080295	Polio Eradication	2003	80.4	30.0	50.7
P083082	Mico, Small & Medium Enterprise	2003	32.0	0.2	33.9
P086716	Sustainable Mgt. of Mineral Resources	2004	120.0	-	120.3
P088150	Economic Reform and Governance	2004	140.0	-	140.2
	Overall result		**1,485.0**	**246.6**	**1,398.9**

Note: Undisbursed amount may be than approved amount due to exchange rate fluctuations vis-à-vis SDR.

Nigeria: Summary of Non-lending Operations
(As at March 31, 2005)

Products	**Completion Fiscal Year (FY)**
Recent Completions:	
Strategic Conflict Assessment	2004
Service Delivery Survey	2004
Macro & Growth	2004
Education CSR	2004
Lagos SPAR	2004
Lagos CFAR	2004
Pension Reform Dialogue	2004
Risk and Vulnerability Assessment	2004
Anticorruption	2004
Sub-national Debt Management	2004
Power Sector Policy	2004
EFA Preparation Support Strategy	2004
Country Gender Assessment	2005
Basic Agricultural Services	2005
Oil Revenue Management	2005
Underway:	
Agriculture Sector Review	2005
Lagos Strategy for Economic Dev. & Poverty Reduction	2005
Debt Management	2005
Poverty Assessment	2006
Health CSR	2006
Planned:	
CEM on Diversification, Sources of Growth	2006
Public Expenditure Review	2006
Education Sector Analysis	2006
Financial Sector Assessment Program (FSAP)	2006

Nigeria: IDA Proposed Lending Summary FY05–FY07
(As at March 31, 2005)

Fiscal Year	Project Name	Amount (US$(M)
2005	Urban Youth Employment & Empowerment	300.0
	Niger-Delta Development	25.0
	State Governance and Capacity Buiding	100.0
	Supplemental Polio Eradication	22.0
	Result	**447.0**
2006	Adult Civic Education & Empowerment	27.0
	Lagos Metropolitan Development	60.0
	Lagos Water Restructuring	100.0
	Rural Access and Mobility	100.0
	Private Provision of Rural Infrastructure	70.0
	National Electricity Development	200.0
	Result	**557.0**
2007	Health Systems Development III	100.0
	Fadama III	30.0
	Community-based Poverty Reduction II	0.2
	Federal Roads Development	100.0
	Universal Basic Education II	100.0
	Result	**330.2**
	Overall result	**1,334.2**

International Finance Corporation
Nigeria—Statement of IFC's Held and Disbursed Portfolio
(Amounts in millions of U.S. dollars)

		Held				Disbursed			
FY Approval	Company	Loan	Equity	Quasi	Partic.	Loan	Equity	Quasi	Partic.
1998	AEF Ansbby	0.1	0.0	0.0	0.0	0.1	0.0	0.0	0.0
1999	AEF Global Fabri	0.3	0.0	0.0	0.0	0.3	0.0	0.0	0.0
1999	AEF Hercules	1.3	0.0	0.0	0.0	1.3	0.0	0.0	0.0
1999	AEF Hygeia	0.0	0.2	0.0	0.0	0.0	0.2	0.0	0.0
2000	AEF Oha Motors	0.8	0.0	0.0	0.0	0.8	0.0	0.0	0.0
1997	AEF Radmed	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2000	AEF Safety Center	0.5	0.1	0.0	0.0	0.5	0.1	0.0	0.0
1997	AEF Telipoint	0.1	0.0	0.0	0.0	0.1	0.0	0.0	0.0
1995	AEF Vinfesen	1.0	0.0	0.0	0.0	1.0	0.0	0.0	0.0
1994	Abuja International	1.8	0.7	0.0	0.0	1.8	0.7	0.0	0.0
2003	Adamac	25.0	0.0	0.0	15.0	11.6	0.0	0.0	6.9
2000	CAPE FUND	0.0	7.5	0.0	0.0	0.0	5.4	0.0	0.0
2000	Citibank (Nig)	6.4	0.0	0.0	0.0	6.4	0.0	0.0	0.0
2001	Delta Contractor	15.0	0.0	0.0	0.0	0.2	0.0	0.0	0.0
2000	Diamond Bank	10.0	0.0	0.0	0.0	10.0	0.0	0.0	0.0
2000	FSB	9.5	0.0	11.3	0.0	9.5	0.0	6.8	0.0
1992	FSDH	0.0	0.9	0.0	0.0	0.0	0.9	0.0	0.0
2000/04	GTB	20.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2000	IBTC	20.0	0.0	0.0	0.0	20.0	0.0	0.0	0.0
1981/88	Ikeja Hotel	0.0	0.3	0.0	0.0	0.0	0.3	0.0	0.0
2002	NTEF	20.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2001	UBA	0.0	0.0	10.0	0.0	0.0	0.0	0.0	0.0
2004	UPDC Hotels Ltd	11.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total portfolio:		**142.8**	**9.6**	**21.3**	**15.0**	**63.6**	**7.5**	**6.8**	**6.9**

Approval pending effectiveness

		Loan	Equity	Quasi	Partic.
2005	Zenith Bank	30.0	6.0	4.0	0.0
Total pending commitment:		**30.0**	**6.0**	**4.0**	**0.0**

Nigeria: External and Public Debt Sustainability Analysis (DSA)

1. This appendix assesses the sustainability of Nigeria's external and public debt under the staff's baseline scenario and a number of standardized shocks in the low-income country (LIC) DSA framework. It also examines the implications for debt sustainability of alternative oil price assumptions.

A. The Baseline Scenario

2. The baseline scenario for 2005-25 underlying this DSA incorporates the following assumptions:

- Growth will average 5 percent reflecting buoyant growth in non-oil GDP of around 5½ percent, as agriculture and light manufacturing respond favorably to the market-oriented reforms, and modest growth of oil GDP of 3½ percent.

- Monetary policy is geared toward achieving the government's objective of lowering inflation to 3 percent by 2010 and remaining at that level thereafter.

- The CPI-based real effective exchange rate increases significantly in 2005 and remains constant thereafter.

- Oil prices average US$49.5 per barrel in 2005, decline gradually to US$35 per barrel in 2019 and remain constant in real terms in the outer years, growing at about 2 percent per annum in nominal terms.[22]

- Fiscal policy leads to a non-oil primary deficit (NOPD) of 41 percent of non-oil GDP in 2005-06, and around 40 percent in 2007-15. Thereafter, the fiscal deficit is gradually lowered to 31 percent of non-oil GDP by 2025 in order to limit the overall deficit to less than 5 percent of GDP.

- With the favorable outlook for oil prices and the assumed fiscal stance, the balance of payments over the medium-term will remain comfortably in surplus resulting in a significant build-up of gross international reserves.

B. External Sustainability

3. With the favorable external outlook and policies implemented along the lines described above, the nominal external debt burden falls from 50 percent of GDP in 2004 to below 40 percent in 2005 and to close to 20 percent in 2025 (Table 1).

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[22] This is consistent with information available on future oil market prices at the time the discussions with the Nigerian authorities took place.

4. The grant element of Nigeria's external debt is insignificant as most debt is contracted on commercial terms. Over the medium term, the share of concessional credits will increase, but so will arrears and the grant element is not projected to significantly improve. As such, the NPV-of-debt-to-GDP ratio and the nominal external-debt-to-GDP ratio do not diverge by much over the medium term. The NPV-of-debt-to-GDP ratio falls from 48 percent in 2004 to 39 percent in 2005, to below 30 percent in 2010, and to below 20 percent by end-2025.

5. Standard stress tests and alternative scenarios (excluding the country specific oil price shock scenarios, see below) show that the external debt burden would lessen over the medium term (Table 2). However, the most severe short-term impact, with external debt peaking at 50 percent in 2007, would occur if growth in the U.S. dollar GDP deflator in 2006-07 was one standard deviation less than the historical average.

C. External Debt Sustainability Limits

6. In the World Bank's preliminary Country Policy and Institutional Assessment (CPIA) for 2004, Nigeria is rated a "2.8." Given this relatively weak policy performance[23] the relevant external debt sustainability thresholds for Nigeria are NPV of debt in percent of exports, government revenues, and GDP of 100, 200, and 30, respectively, and debt service ratio thresholds of 15 percent of exports and 25 percent of government revenues. Whereas Nigeria's debt and debt service are well below the four exports- and revenue-related thresholds, the NPV-of-debt-to-GDP ratio at end-2004 was 48 percent and that ratio is not expected to fall to below 30 percent until towards the end of the decade.

7. The thresholds, of course, are not rigid ceilings and they should only be seen as guideposts for informing the DSA; nonetheless the DSA suggests that Nigeria should approach new borrowing very carefully in the immediate period ahead.

D. Fiscal Sustainability

8. The baseline scenario assumes that domestic arrears are eliminated in 2006 through the issuance of N500 billion in domestic securities. In the early part of the projection period, high oil prices and a stable non-oil primary deficit (NOPD) at around 40 percent of non-oil GDP up to 2015, allows for a significant accumulation of financial assets at the central bank, with the deposits of the consolidated government exceeding US$60 billion by end-2015. These, however, are gradually drawn down as oil prices fall and the overall budget surplus turns to a deficit by 2021. Notwithstanding, the NPV-of-public-sector-gross-debt burden falls

[23] In the LIC DSA framework, countries are considered weak performers if their CPIA rating is less than or equal to 3.25. The CPIA scale goes from "1: Very weak" over "3: Moderately weak" to "6: Very strong". For further details please visit http://siteresources.worldbank.org/IDA/Resources/CPIA2004questionnaire.pdf.

over the medium term, from 63 percent of GDP in 2004 to 48 percent in 2005 and to below 40 percent from 2010 onwards (Table 3).

9. As is the case with external sustainability, the fiscal sustainability baseline is relatively robust to the standard stress tests and alternative scenarios (Table 4). In the baseline, the NPV-of-debt-to-GDP ratio falls gradually from 51 percent in 2005 to 39 percent in 2010, but it would jump to 72 percent in 2007 if the primary balance was at the historical average minus one standard deviation in 2006-07.

E. Country-Specific Alternative Scenarios

10. Past economic experience suggests that Nigeria's economy is highly vulnerable to developments in the oil sector. In 2004, oil revenue accounted for 80 percent of the consolidated government's revenue base and oil–related export proceeds for over 90 percent of Nigeria's total export earnings. In light of the large dependency on oil as well as the high level of oil prices projected over the medium term relative to the historical average price, country-specific alternative scenarios were developed to examine the robustness of the DSA results to an oil price shock. The Nigerian authorities are pursuing discussions for debt relief from Paris Club creditors, and this section therefore also looks at the sustainability of Nigeria's debt under different debt reduction scenarios.

11. In the baseline projection, high oil prices over the medium term would allow Nigeria to build considerable reserves that could be used to finance fiscal deficits later on when oil prices fall back to their historical averages. The sensitivity analysis shows that already with a negative oil price shock of US$6 per barrel, under unchanged fiscal policies, the reserves cushion would be exhausted by 2018, and additional financing would be needed to cover fiscal deficits. Additional borrowing would then quickly lead to Nigeria's debt becoming unsustainable.

12. The following assumptions were used:

- The baseline projection for oil prices has a mean of US$32 per barrel (in constant 2002 U.S. dollars), or about one standard deviation above the historical average.[24] This section reports on sensitivity analyses with negative oil price shocks of US$6 and US$8 per barrel. The price reductions in the scenarios are permanent in constant U.S. dollar terms from 2006 onwards.

[24] Nigeria's oil is sold at prices that are very close to the Brent marker crude prices in the international oil market. Since it began trading in 1976, Brent crude traded at an average price of US$23.6 (in constant 2002 U.S. dollars), the median price was US$20.2, and prices fell in a range between US$12.7 and US$46.2. The standard deviation was US$8.8.

- The alternative scenarios differ only in terms of assumptions about oil prices and the stock of debt at end-2005; other parameters, including fiscal policy, are left unchanged from the baseline scenario.

- Fiscal financing gaps are covered with new concessional loans (IDA conditions).

13. Under these assumptions, the sensitivity analyses show the following:

- A permanent reduction of oil prices by US$6 or US$8 per barrel would lead to quickly rising debt ratios from 2018 onwards. The debt ratio would increase above the sustainability threshold (NPV of debt to GDP of 30 percent) by 2022.

F. World Bank MDG-related DSA

14. The World Bank assessed Nigeria's debt sustainability in a scenario with additional spending measures needed for Nigeria to achieve the MDGs. In the Bank's MDG scenario, higher spending results in higher growth and real exchange rate appreciation compared to the Fund's baseline. Financing the spending needed to achieve the MDGs would raise public debt to the threshold of 60 percent of GDP by 2012. A rapidly rising fiscal gap would emerge thereafter and its financing would have a net present value well above Nigeria's current debt stock. Scenarios in which oil price assumptions are weaker than in the baseline would yield less favorable public debt dynamics. Bank staff viewed the MDG cost estimates as preliminary and recognized that they needed further refinement.

Table 1. Nigeria: External Debt Sustainability Framework, Baseline Scenario, 2002-25 1/
(In percent of GDP, unless otherwise indicated)

	Actual			Historical Average 6/	Standard Deviation 6/	Projections									
	2002	2003	2004			2005	2006	2007	2008	2009	2010	2005-10 Average	2015	2025	2011-25 Average
External debt (nominal) 1/	**67.2**	**57.2**	**50.4**			**40.5**	**36.7**	**36.0**	**34.2**	**33.4**	**32.0**		**29.2**	**21.7**	
o/w public and publicly guaranteed (PPG)	67.2	57.2	50.4			40.5	36.7	36.0	34.2	33.4	32.0		29.2	21.7	
Change in external debt	5.0	-10.1	-6.8			-9.9	-3.8	-0.7	-1.7	-0.8	-1.4		-0.4	-0.7	
Identified net debt-creating flows	8.5	-15.7	-21.8			-13.5	-16.1	-12.8	-13.4	-11.1	-11.8		-3.3	2.8	
Non-interest current account deficit	**8.3**	**0.0**	**-6.8**	**-3.5**	**6.9**	**-7.6**	**-10.0**	**-8.0**	**-8.5**	**-6.9**	**-7.5**	**-8.1**	**-0.2**	**6.9**	**2.5**
Deficit in balance of goods and services	0.9	-8.2	-17.2			-15.7	-18.5	-16.1	-16.9	-15.1	-15.9		-7.7	-0.9	
Exports	40.8	49.7	54.6			52.7	53.4	51.7	52.0	50.7	51.0		45.0	34.4	
Imports	41.6	41.5	37.4			37.0	34.9	35.6	35.1	35.6	35.1		37.3	33.5	
Net current transfers (negative = inflow)	-3.0	-3.6	-3.9	-3.4	1.0	-3.6	-3.2	-3.1	-2.9	-2.8	-2.6	-3.1	-2.3	-1.6	-2.1
Other current account flows (negative = net inflow)	10.5	11.8	14.3			11.7	11.7	11.3	11.4	11.0	11.1		9.7	9.3	
Net FDI (negative = inflow)	**-5.4**	**-5.0**	**-6.2**	**-4.0**	**1.3**	**-6.4**	**-4.8**	**-4.7**	**-4.2**	**-4.1**	**-3.7**	**-4.6**	**-2.9**	**-4.0**	**-3.5**
Endogenous debt dynamics 2/	**5.5**	**-10.7**	**-8.9**			**0.5**	**-1.3**	**-0.2**	**-0.7**	**-0.1**	**-0.6**		**-0.1**	**-0.1**	
Contribution from nominal interest rate	3.4	2.7	2.2			1.8	1.6	1.5	1.5	1.4	1.3		1.2	0.9	
Contribution from real GDP growth	-1.0	-5.8	-2.8			-1.3	-2.8	-1.7	-2.2	-1.5	-2.0		-1.2	-1.0	
Contribution from price and exchange rate changes	3.1	-7.6	-8.3			…	…	…	…	…	…		…	…	
Residual (3-4) 3/	**-3.5**	**5.6**	**15.1**			**3.6**	**12.3**	**12.1**	**11.6**	**10.3**	**10.4**		**2.9**	**-3.5**	
o/w exceptional financing	-3.8	-2.3	-1.9			-2.6	-1.6	-1.3	-1.4	-1.4	-1.3		-1.7	-0.5	
NPV of external debt 4/	...	...	47.6			38.2	34.6	33.8	32.0	31.1	29.6		26.7	19.7	
In percent of exports	...	...	87.2			72.5	64.7	65.2	61.6	61.3	58.1		59.3	57.2	
NPV of PPG external debt	**...**	**...**	**47.6**			**38.2**	**34.6**	**33.8**	**32.0**	**31.1**	**29.6**		**26.7**	**19.7**	
In percent of exports	...	...	87.2			72.5	64.7	65.2	61.6	61.3	58.1		59.3	57.2	
Debt service-to-exports ratio (in percent)	15.6	10.3	7.8			7.5	6.3	5.6	5.6	5.5	4.6		5.5	2.8	
PPG debt service-to-exports ratio (in percent)	15.6	10.3	7.8			7.5	6.3	5.6	5.6	5.5	4.6		5.5	2.8	
Total gross financing need (billions of U.S. dollars)	4.3	0.0	-6.2			-8.9	-11.4	-9.9	-10.6	-9.3	-10.7		-1.0	10.2	
Non-interest current account deficit that stabilizes debt ratio	3.3	10.1	0.0			2.3	-6.2	-7.2	-6.7	-6.1	-6.1		0.1	7.6	
Key macroeconomic assumptions															
Real GDP growth (in percent)	1.5	10.7	6.0	4.1	3.2	3.3	7.8	4.9	6.5	4.6	6.3	5.6	4.4	4.5	4.7
GDP deflator in US dollar terms (change in percent)	-4.8	12.8	16.9	14.1	33.2	21.2	3.0	-1.7	0.0	-0.2	0.6	3.8	-0.2	1.8	0.7
Effective interest rate (percent) 5/	5.2	5.1	4.7	5.9	0.9	4.5	4.3	4.4	4.3	4.3	4.2	4.3	4.1	4.1	4.1
Growth of exports of G&S (US dollar terms, in percent)	-8.9	52.4	36.1	18.8	34.2	20.7	12.6	-0.1	6.9	1.9	7.7	8.3	0.3	4.1	2.7
Growth of imports of G&S (US dollar terms, in percent)	23.8	24.5	11.7	11.2	11.2	23.7	4.8	5.1	4.9	5.8	5.6	8.3	6.2	4.3	5.1
Grant element of new public sector borrowing (in percent)	...	...	...	...	...	56.9	56.9	56.9	56.9	56.9	56.9	56.9	56.9	56.9	56.9
Memorandum item:															
Nominal GDP (billions of US dollars)	46.1	57.6	71.3			89.3	99.1	102.1	108.7	113.5	121.4		153.6	266.9	

Source: Staff simulations.

1/ Includes both public and private sector external debt.
2/ Derived as [r - g - ρ(1+g)]/(1+g+ρ+gρ) times previous period debt ratio, with r = nominal interest rate; g = real GDP growth rate, and ρ = growth rate of GDP deflator in U.S. dollar terms.
3/ Includes exceptional financing (i.e., changes in arrears and debt relief); changes in gross foreign assets; and valuation adjustments. For projections also includes contribution from price and exchange rate changes.
4/ Assumes that NPV of private sector debt is equivalent to its face value.
5/ Current-year interest payments devided by previous period debt stock.
6/ Historical averages and standard deviations are derived over the past 10 years.

Table 2. Nigeria: Sensitivity Analyses for Key Indicators of Public and Publicly Guaranteed External Debt, 2005-25
(In percent)

	Projections							
	2005	2006	2007	2008	2009	2010	**2015**	2025
NPV of debt-to-GDP ratio								
Baseline	38	35	34	32	31	30	**27**	20
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2006-25 1/	38	35	32	30	27	25	**9**	-24
A2. New public sector loans on less favorable terms in 2006-25 2/	38	35	34	32	32	30	**28**	21
A3. Oil price shock (-$8) 7/	38	37	36	34	33	32	**29**	81
A4. Oil price shock (-$6) 7/	38	36	35	33	33	31	**28**	60
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2006-07	38	37	37	36	34	33	**30**	22
B2. Export value growth at historical average minus one standard deviation in 2006-07 3/	38	40	48	46	45	43	**39**	26
B3. US dollar GDP deflator at historical average minus one standard deviation in 2006-07	38	44	52	49	48	46	**41**	30
B4. Net non-debt creating flows at historical average minus one standard deviation in 2006-07 4/	38	36	36	35	34	32	**29**	21
B5. Combination of B1-B4 using one-half standard deviation shocks	38	41	44	42	41	39	**35**	25
B6. One-time 30 percent nominal depreciation relative to the baseline in 2006 5/	38	49	48	45	44	42	**38**	28
NPV of debt-to-exports ratio								
Baseline	73	65	65	62	61	58	**59**	57
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2006-25 1/	73	66	62	57	53	48	**21**	-69
A2. New public sector loans on less favorable terms in 2006-25 2/	73	65	66	62	62	59	**62**	62
A3. Oil price shock (-$8) 7/	73	72	72	69	70	67	**73**	277
A4. Oil price shock (-$6) 7/	73	68	68	65	66	63	**68**	191
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2006-07	73	65	65	62	61	58	**59**	57
B2. Export value growth at historical average minus one standard deviation in 2006-07 3/	73	100	144	137	138	132	**138**	119
B3. US dollar GDP deflator at historical average minus one standard deviation in 2006-07	73	65	65	62	61	58	**59**	57
B4. Net non-debt creating flows at historical average minus one standard deviation in 2006-07 4/	73	67	70	66	66	63	**65**	61
B5. Combination of B1-B4 using one-half standard deviation shocks	73	77	80	76	76	72	**75**	69
B6. One-time 30 percent nominal depreciation relative to the baseline in 2006 5/	73	65	65	62	61	58	**59**	57
Debt service ratio								
Baseline	7	6	6	6	5	5	**6**	3
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2006-25 1/	7	6	5	4	4	3	**2**	-1
A2. New public sector loans on less favorable terms in 2006-25 2/	7	6	6	6	6	5	**6**	3
A3. Oil price shock (-$8) 7/	7	7	6	6	6	5	**7**	6
A4. Oil price shock (-$6) 7/	7	7	6	6	6	5	**6**	5
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2006-07	7	6	6	6	5	5	**6**	3
B2. Export value growth at historical average minus one standard deviation in 2006-07 3/	7	8	9	9	9	8	**9**	7
B3. US dollar GDP deflator at historical average minus one standard deviation in 2006-07	7	6	6	6	5	5	**6**	3
B4. Net non-debt creating flows at historical average minus one standard deviation in 2006-07 4/	7	6	6	6	6	5	**6**	3
B5. Combination of B1-B4 using one-half standard deviation shocks	7	7	6	6	6	5	**6**	4
B6. One-time 30 percent nominal depreciation relative to the baseline in 2006 5/	7	6	6	6	5	5	**6**	3
Memorandum item:								
Grant element assumed on residual financing (i.e., financing required above baseline) 6/	57	57	57	57	57	57	**57**	57

Source: Staff projections and simulations.

1/ Variables include real GDP growth, growth of GDP deflator (in U.S. dollar terms), non-interest current account in percent of GDP, and non-debt creating flows.
2/ Assumes that the interest rate on new borrowing is by 2 percentage points higher than in the baseline, while grace and maturity periods are the same as in the baseline.
3/ Exports values are assumed to remain permanently at the lower level, but the current account as a share of GDP is assumed to return to its baseline level after the shock (implicitly assuming an offsetting adjustment in import levels).
4/ Includes official and private transfers and FDI.
5/ Depreciation is defined as percentage decline in dollar/local currency rate, such that it never exceeds 100 percent.
6/ Applies to all stress scenarios except for A2 (less favorable financing) in which the terms on all new financing are as specified in footnote 2.
7/ Permanent reduction in oil prices.

Table 3. Nigeria: Public Sector Debt Sustainability Framework, Baseline Scenario, 2004-25
(In percent of GDP, unless otherwise indicated)

				Projections									
	2004	Historical Average 5/	Standard Deviation 5/	2005	2006	2007	2008	2009	2010	2005-10 Average	2015	2025	2011-25 Average
Public sector debt 1/	65.4			52.4	50.8	49.1	46.1	44.5	42.3		36.9	25.8	
o/w foreign-currency denominated	50.4			40.5	36.7	36.0	34.2	33.4	32.0		29.2	21.7	
Change in public sector debt	-9.5			-13.0	-1.5	-1.8	-2.9	-1.6	-2.2		-0.8	-1.0	
Identified debt-creating flows	-25.5			-22.6	-16.2	-11.8	-13.4	-10.5	-12.0		-2.7	2.4	
Primary deficit	-11.3	-5.2	5.2	-12.9	-14.2	-12.0	-12.1	-10.2	-10.8	-12.0	-2.7	3.1	-0.7
Revenue and grants	43.1			45.2	45.1	43.5	43.4	42.2	42.8		38.2	30.6	
of which : grants	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Primary (noninterest) expenditure	31.8			32.3	30.9	31.5	31.2	32.0	32.0		35.5	33.6	
Automatic debt dynamics	-14.2			-9.7	-1.6	0.5	-1.2	-0.2	-1.1		0.0	-0.6	
Contribution from interest rate/growth differential	-3.6			-2.1	-2.2	-0.8	-1.7	-0.7	-1.5		-0.6	-0.7	
of which : contribution from average real interest rate	0.6			0.0	1.6	1.6	1.3	1.3	1.2		1.0	0.5	
of which : contribution from real GDP growth	-4.2			-2.1	-3.8	-2.4	-3.0	-2.0	-2.6		-1.6	-1.2	
Contribution from real exchange rate depreciation	-10.6			-7.7	0.6	1.3	0.5	0.5	0.3		...	...	
Other identified debt-creating flows	0.0			0.0	-0.4	-0.3	-0.1	-0.1	-0.1		-0.1	0.0	
Privatization receipts (negative)	0.0			0.0	-0.4	-0.3	-0.1	-0.1	-0.1		-0.1	0.0	
Recognition of implicit or contingent liabilities	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Debt relief (HIPC and other)	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Other (specify, e.g. bank recapitalization)	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Residual, including asset changes	16.0			9.6	14.7	10.0	10.5	8.9	9.8		1.9	-3.5	
NPV of public sector debt	62.6			48.4	47.3	45.6	42.8	41.2	39.0		33.8	23.5	
o/w foreign-currency denominated	47.6			36.5	33.2	32.5	30.9	30.0	28.7		26.1	19.4	
o/w external	47.6			36.5	33.2	32.5	30.9	30.0	28.7		26.1	19.4	
NPV of contingent liabilities (not included in public sector debt)	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Gross financing need 2/	-5.6			-7.8	-9.5	-7.9	-8.3	-6.6	-7.7		0.3	4.2	
NPV of public sector debt-to-revenue ratio (in percent) 3/	145.4			107.0	104.8	104.8	98.7	97.6	91.2		88.6	76.9	
o/w external	110.6			80.8	73.5	74.7	71.3	71.2	67.2		68.3	63.6	
Debt service-to-revenue ratio (in percent) 3/ 4/	13.3			11.2	10.4	9.2	8.8	8.5	7.1		7.7	3.7	
Primary deficit that stabilizes the debt-to-GDP ratio	-1.8			0.2	-12.7	-10.2	-9.2	-8.6	-8.5		-1.9	4.1	
Key macroeconomic and fiscal assumptions													
Real GDP growth (in percent)	6.0	4.1	1.8	3.3	7.8	4.9	6.5	4.6	6.3	5.6	4.4	4.5	4.7
Average nominal interest rate on forex debt (in percent)	4.8	6.5	1.1	4.5	4.4	4.6	4.5	4.4	4.3	4.4	4.1	4.1	4.1
Average real interest rate on domestic currency debt (in percent)	-8.0	-12.7	18.1	-9.0	6.7	5.4	4.1	4.9	4.3	2.7	5.1	1.5	3.7
Real exchange rate depreciation (in percent, + indicates depreciation)	-19.0	-3.7	19.5	...	...	...	...	...	...	...	...	...	...
Inflation rate (GDP deflator, in percent)	19.9	19.3	18.6	20.0	5.5	2.8	3.6	2.1	2.0	6.0	0.8	2.7	1.7
Growth of real primary spending (deflated by GDP deflator, in percent)	-0.3	11.8	22.4	5.1	2.9	7.1	5.4	7.3	6.2	5.7	6.9	3.0	5.0
Grant element of new external borrowing (in percent)	...	...	...	56.9	56.9	56.9	56.9	56.9	56.9	56.9	56.9	56.9	56.9

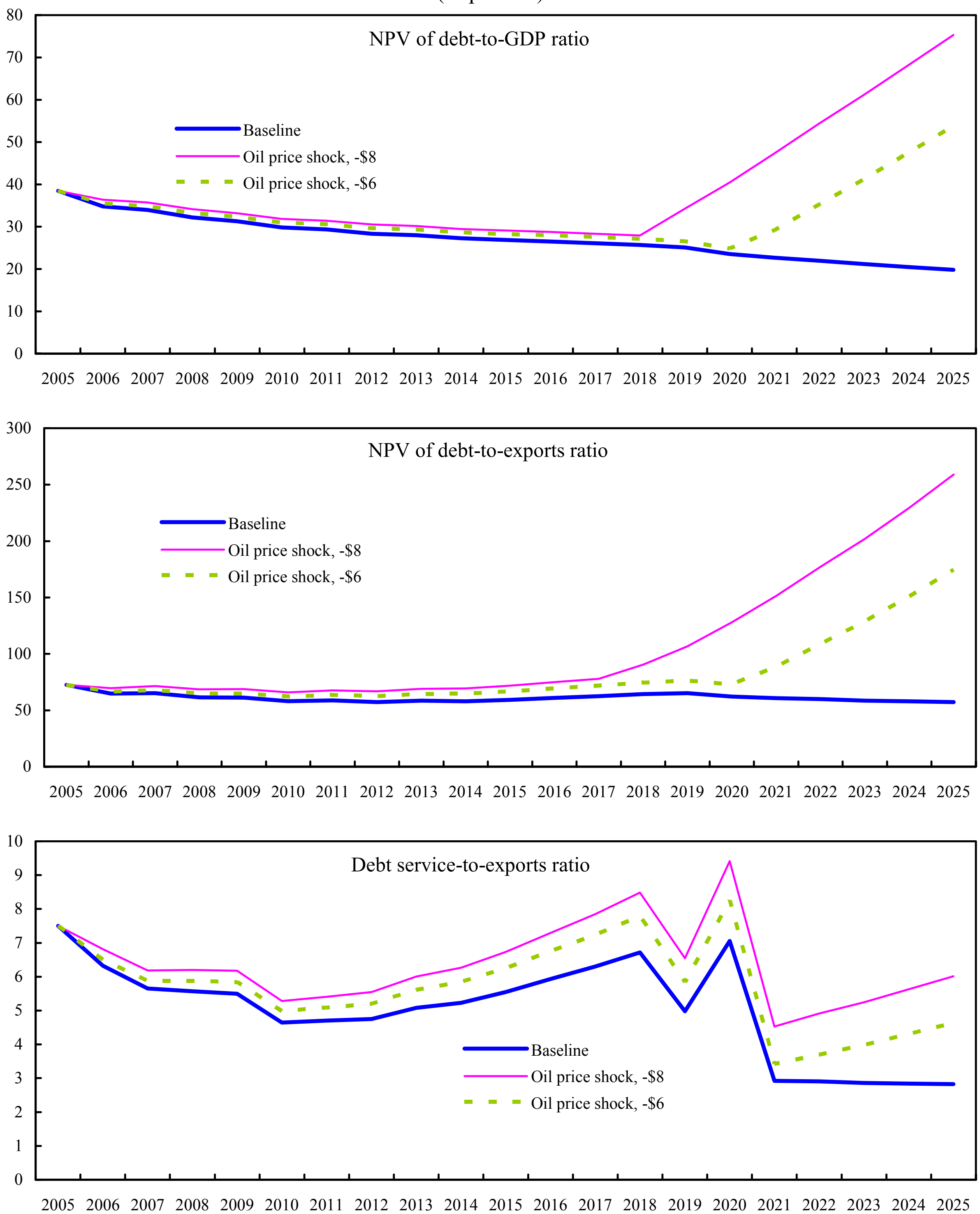
Sources: Country authorities; and Fund staff estimates and projections.
1/ Gross debt of the consolidated government.
2/ Gross financing need is defined as the primary deficit plus debt service plus the stock of short-term debt at the end of the last period.
3/ Revenues including grants.
4/ Debt service is defined as the sum of interest and amortization of medium and long-term debt.
5/ Historical averages and standard deviations are derived over the past 10 years.

Table 4. Nigeria: Sensitivity Analyses for Key Indicators of Public Sector Debt , 2005-25

	Projections							
	2005	2006	2007	2008	2009	2010	2015	2025
NPV of Debt-to-GDP Ratio								
Baseline	48	47	46	43	41	39	34	24
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	48	58	64	70	74	80	87	8
A2. Primary balance is unchanged from 2005	48	49	46	43	38	34	-3	-134
A3. Permanently lower GDP growth 1/	48	48	46	44	43	42	43	50
A4. Oil price shock (-$8) 2/	48	51	50	47	45	43	38	59
A5. Oil price shock (-$6) 2/	48	50	48	46	44	42	37	53
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviation in 2006-2007	48	52	55	55	56	57	66	74
B2. Primary balance is at historical average minus one standard deviation in 2006-2007	48	60	70	66	64	61	56	43
B3. Combination of B1-B2 using one half standard deviation shocks	48	61	69	66	65	63	59	43
B4. One time 30 percent real depreciation in 2006	48	64	63	59	57	55	49	38
B5. 10 percent of GDP increase in other debt-creating flows in 2006	48	57	55	51	49	46	39	26
NPV of Debt-to-Revenue Ratio 3/								
Baseline	107	105	105	99	98	91	89	77
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	107	129	147	161	176	186	227	25
A2. Primary balance is unchanged from 2006	107	108	106	98	91	81	-8	-439
A3. Permanently lower GDP growth 1/	107	106	107	102	103	98	113	165
A4. Oil price shock (-$8) 2/	107	111	115	110	109	105	108	296
A5. Oil price shock (-$6) 2/	107	107	109	104	104	99	101	189
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviation in 2006-2007	107	116	126	127	133	133	172	241
B2. Primary balance is at historical average minus one standard deviation in 2006-2007	107	134	160	152	152	144	147	139
B3. Combination of B1-B2 using one half standard deviation shocks	107	135	159	152	154	146	153	142
B4. One time 30 percent real depreciation in 2006	107	142	144	137	136	128	129	124
B5. 10 percent of GDP increase in other debt-creating flows in 2006	107	127	126	118	116	108	103	86
Debt Service-to-Revenue Ratio 3/								
Baseline	11	10	9	9	8	7	8	4
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	11	11	17	18	20	18	18	5
A2. Primary balance is unchanged from 2005	11	10	10	9	8	5	-4	-52
A3. Permanently lower GDP growth 1/	11	10	9	9	9	8	10	13
A4. Oil price shock (-$8) 2/	11	11	10	10	9	8	9	7
A5. Oil price shock (-$6) 2/	11	10	9	9	9	7	9	5
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviation in 2006-2007	11	11	12	13	13	12	16	24
B2. Primary balance is at historical average minus one standard deviation in 2006-2007	11	10	20	22	15	11	11	14
B3. Combination of B1-B2 using one half standard deviation shocks	11	11	19	21	15	12	12	14
B4. One time 30 percent real depreciation in 2006	11	11	11	11	11	9	10	8
B5. 10 percent of GDP increase in other debt-creating flows in 2006	11	10	9	9	8	7	8	4

Sources: Country authorities; and Fund staff estimates and projections.
1/ Assumes that real GDP growth is at baseline minus one standard deviation divided by the square root of 20 (i.e., the length of the projection period).
2/ Permanent oil price shock (in constant U.S. dollars).
3/ Revenues are defined inclusive of grants.

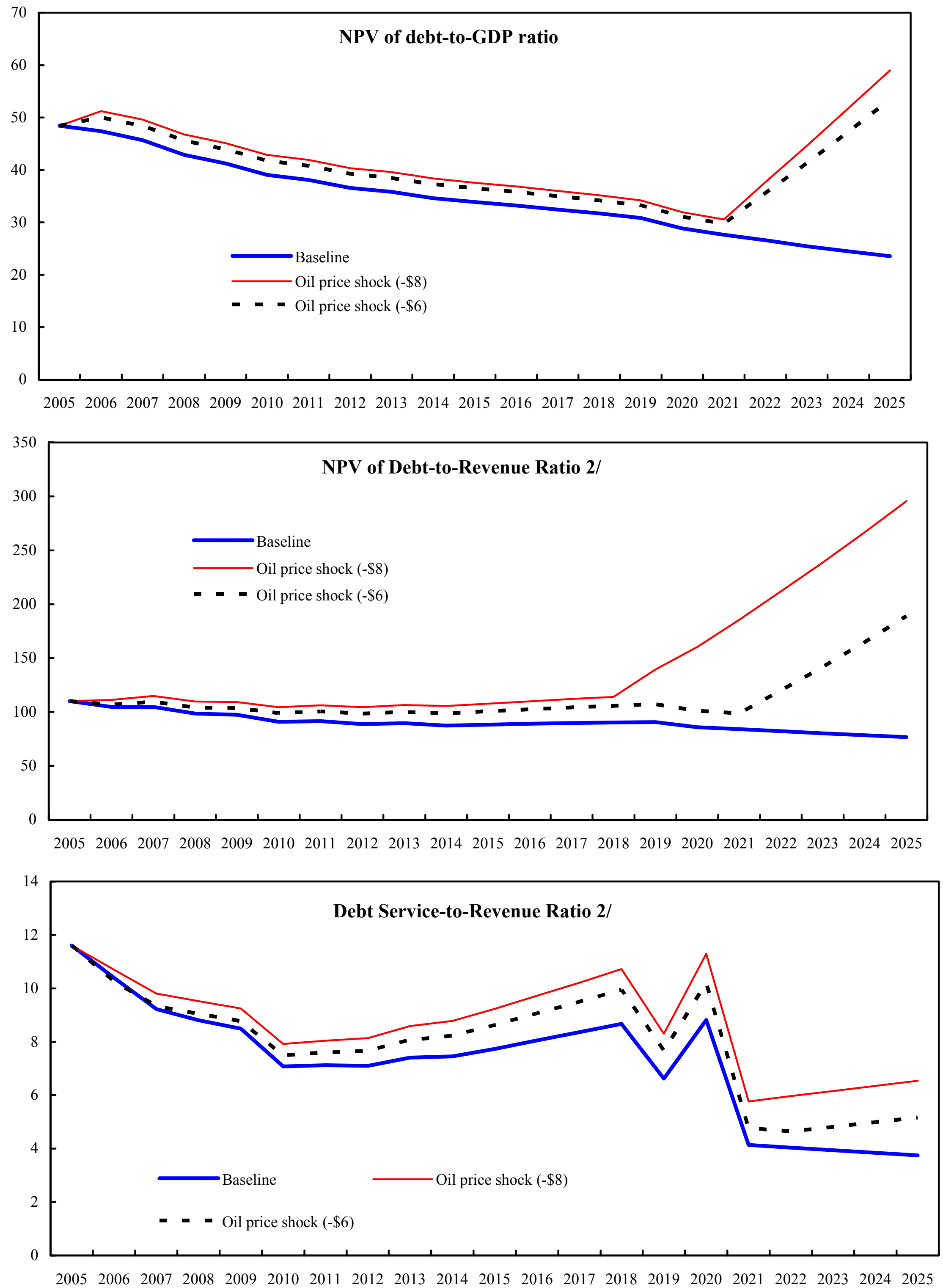
Figure 1. Nigeria: Indicators of Public and Publicly Guaranteed External Debt Under Alternative Scenarios, 2005-25
(In percent)



Source: Staff projections and simulations.

1/ Permanent reduction in oil prices of $16 per barrel equal to two standard deviations of Brent oil prices over the 1976-2004 period.

Figure 2. Nigeria: Indicators of Public Debt Under Alternative Scenarios, 2004-25 1/
(In percent)



Source: Staff projections and simulations.
1/ Most extreme stress test is test that yields highest ratio in 2015.
2/ Revenue including grants.

Nigeria: Statistical Issues

1. Nigeria's statistical base continues to suffer from serious deficiencies that hamper surveillance, policy design, and monitoring. These deficiencies are across the board, but particularly affect the national accounts, government finance, money and banking, and the external accounts, including major inconsistencies between balance of payments and customs data on trade. Numerous problems prevent the compilation of timely and internally consistent data, in particular lack of data sharing between data producing and collecting agencies, and insufficient use of computerization in the compilation of statistics. In addition, the 1957 Statistical Act no longer addresses the requirements of data collection and dissemination within a federal structure. The authorities recognize these problems, and intend to address them as part of NEEDS. In April 2003, Nigeria began participation in the Fund's General Data Dissemination System (GDDS), and posted its metadata on the Fund's dissemination standards bulletin board (DSBB).

National accounts

2. Annual national accounts statistics are published by the Federal Office of Statistics (FOS) with about a one-year lag. The national accounts statistics are of poor quality, largely owing to a deterioration in business and household surveys. Estimates of value added for agriculture, mining (oil), industry, transportation, and financial and other services are based on old surveys with extrapolations that use out-of-date ratios and other indicators. Many sectoral deflators are not soundly based and have a number of inconsistencies. In the past, the use of the official exchange rate has resulted in a gross understatement of value added in the oil and export sectors. The expenditure accounts suffer from unreliable external trade and government budgetary data.

3. A July 2003 mission to help the authorities implement the GDDS recommendations in the area of National Accounts and provide guidance on institutional reforms in the statistical system, found that progress has been made and that the authorities were receiving significant technical assistance from DfID and others such as the World Bank. Together with donor help the authorities have developed a master plan. Results of a 2003 household living standards survey are now available. The base year has been updated to 1990 from 1984 to better reflects the economic structure of the economy.

Prices

4. The official monthly consumer price index (CPI) is a composite of urban and rural price data, and the consumption weights are based on the 1985–86 National Consumer Survey. Some data on producer prices are collected, but these statistics are not comprehensive and no producer price index is compiled. As a consequence, some sectoral GDP deflator indices are based not on producer prices, but on consumer price subindices and ad hoc assumptions. Expenditure deflators also suffer from methodological shortcomings. There are short term plans to update the weighting to 1996/97 using a National Consumer Survey.

Government finance

5. Fiscal data in Nigeria have historically been opaque and complicated not only by the federal structure, but also by a multiplicity of off-budget funds and by accounting practices that underestimate the actual size of public expenditure. The multisector statistics mission that visited Nigeria during September 6-21, 1999 noted that the most pressing shortcomings related to inadequate data coverage, the lack of monthly and quarterly compilation, and timeliness.

6. A government finance statistics (GFS) mission in early 2001 found that authorities had implemented few of the recommendations made by the multisector statistics mission that visited Nigeria in 1999. Following the creation of a National Committee on Government Finance Statistics (NCGFS), another GFS mission visited Abuja in March 2002 and found no further progress had been made by the NCGFS, notably owing to insufficiently clear institutional arrangements and lack of staff. The mission also identified inconsistencies and difficulties of interpretation across the various source data. The mission conducted a compilation exercise using data for 2000 that showed substantial room for progress improvement in the consistency of source data and reconciliation between above- and below-the-line data. This exercise compiled data for the consolidated central government and general government, with special effort to capture the numerous special funds and dedicated accounts that carry out large financial transactions. It The mission used the new *Government Finance Statistics Manual 2001* (*GFSM 2001*) framework (but on a cash basis), which has the advantages of integrating stocks and flows and facilitating the presentation of the consolidation of fiscal data.

7. The mission also laid out a detailed 3-stage "action plan" and recommended: 1) Firstly, for immediate action to: expand the NCGFS and increase GFS unit staffing; improve the consistency of OAGF and Central Bank of Nigeria (CBN) source data; expand CBN work to reconcile government financing data (available in-house); have the GFS unit document an inventory of source data. The action plan suggested that a second step f; 2) focus on improving the coverage of reporting to includeof state and local government operations, as well asand ensuring ensure adequate GFS dissemination of GFS data; and 3) focusand that a third step focus on a more complete application of the guidelines contained in *GFSM 2001*.

8. A follow up mission in July 2003 found that the authorities had implemented very few of the recommendations/work plan that were put forward by the 2002 mission, including on the proposed strategy for transition to the GFSM 2001. The mission did not reach its full potential, largely because of limited access to some of the relevant agencies. The authorities had expected that more time would be devoted to general training. The mission was told that the work plan proposed by the 2002 mission had been approved, but was unable to confirm specific progress. The expert was unable to successfully review the issues on source data raised by the 2002 mission. On the other hand, the mission reported progress in specific areas, in particular in regard to the work of the CBN.

9. Annual fiscal data are not reported for inclusion in the GFS Yearbook, but aggregated annual fiscal data are reported for inclusion in the IFS. No quarterly or monthly data for inclusion in the IFS are reported.

Monetary accounts

10. The authorities have taken steps toward implementing the key recommendations of past STA money and banking technical assistance missions and the 1999 STA multisector mission. However, a March 2001 follow-up mission found that problems remained, in particular regarding the consistency of the interbank positions. Large and volatile discrepancies in interbank positions, both among the commercial banks and between the CBN and the commercial banks distort monetary aggregates and undermine the usefulness of monetary statistics for policy analysis and decision making. In addition, central government deposits at the CBN are currently reported within unclassified liabilities. Moreover, the lags in publishing monetary data remain considerable, and the presentation of monetary data makes identification of the net financial position of the government difficult.

Balance of payments

11. Balance of payments statistics are compiled from the foreign exchange records in the banking system and from data derived from surveys. However, oil sector data are weakened by the low response rate to survey requests from oil businesses. In the non-oil sectors, only enterprises with foreign capital participation are surveyed. The estimates of non-oil imports of goods and services are based on banking data. Private capital movements are underrecorded and the trade data reported by the FOS (based on customs data) sharply differ from those reported by the CBN (based on banking data). Based on comparisons with counterparty data, the former are likely to significantly under-report informal trade. The 1999 STA multisector mission identified actions to be taken for improving the quality of balance of payments data. However, a November 2000 follow-up mission found that no progress had been made by the authorities in implementing the recommendations of the 1999 STA mission, and the slowness of progress was noted again during a February 2005 STA mission. After a hiatus of several years, the CBN has recently resumed submitting balance of payments data to STA; however, the balance of payments contain very large negative errors of omissions, which probably reflect an underestimation of current account debit transactions. Except for some methodological changes, the compilation of balance of payments continues to be severely affected by organizational weaknesses and resource constraints in the FOS, customs and the CBN. The Nigerian authorities have not yet initiated compiling international reserves data in line with the Data Template on International Reserves and Foreign Currency Liquidity. Moreover, staff has been unable to assess whether data on official reserve assets is in principle consistent with the template; the data may not be adequate for monitoring because they may not adequately reflect foreign currency liabilities or distinguish other foreign currency assets.

External debt

12. To address problems with the data on external debt, a United Kingdom-financed technical assistance effort was launched in October 1998. After initial delays, the Debt Management Office was established in August 2000, and good progress has been made in verifying individual loan accounts with creditors' statements and improving the efficiency of debt management in Nigeria. An audit of Nigeria's loan portfolio for correctness and duplication was carried out after the two separate databases of the Federal Ministry of Finance and the CBN were merged. In September 2000, the process of reconciling Nigeria's external obligations to multilateral creditors began. Following the Paris Club agreement of December 13, 2000, the verification of individual loan accounts with each individual Paris club creditor was also launched and, by October 2001, was reported to be complete. The authorities do not collect data on private sector external debt, but over time should work to extend the coverage of their database to include private sector liabilities.

NIGERIA: TABLE OF COMMON INDICATORS REQUIRED FOR SURVEILLANCE

AS OF APRIL 29, 2005

	Date of latest observation	Date received	Frequency of Data[6]	Frequency of Reporting[6]	Frequency of publication[6]
Exchange Rates	4/19/05	4/19/05	D	D	D
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[1]	Mar 2004	Apr 2004	M	M	M
Reserve/Base Money	Feb 2005	4/27/05	M	M	M
Broad Money	Dec 2004	3/11/05	M	M	M
Central Bank Balance Sheet	Feb 2005	4/27/05	M	M	M
Consolidated Balance Sheet of the Banking System	Feb 2005	4/27/05	M	M	M
Interest Rates[2]	4/19/04	4/19/04	D	D	D
Consumer Price Index	Jan 2005	Apr 2005	M	M	M
Revenue, Expenditure, Balance and Composition of Financing[3] – General Government[4]	Feb 2005	Apr 2005	M	M	M
Revenue, Expenditure, Balance and Composition of Financing[3] – Central Government	Feb 2005	Apr 2005	M	M	M
Stocks of Central Government and Central Government-Guaranteed Debt[5]	Dec 2004	Mar 2005	A	A	A
External Current Account Balance	Dec 2003	Sept 2003	A	A	A
Exports and Imports of Goods	Dec 2004	Jan 2005	Q	Q	A
GDP/GNP	2004	Apr 2005	A	A	A
Gross External Debt	Dec 2003	Feb 2004	A	A	A

[1] Includes reserve assets pledged or otherwise encumbered as well as net derivative positions.
[2] Both market-based and officially-determined, including discount rates, money market rates, rates on treasury bills, notes and bonds.
[3] Foreign, domestic bank, and domestic nonbank financing.
[4] The general government consists of the central government (budgetary funds, extra budgetary funds, and social security funds) and state and local governments.
[5] Including currency and maturity composition.
[6] Daily (D), Weekly (W), Monthly (M), Quarterly (Q), Annually (A); Irregular (I); Not Available (NA)

Nigeria and the Millennium Development Goals[1/]

Goals[2/]	1990	1995	2001	2002
1. Eradicate extreme poverty and hunger	*2015 target = halve 1990 $1 a day poverty and malnutrition rates*			
Population below $1 a day (percent)	..	70.2	..	..
Poverty gap at $1 a day (percent)	..	34.9	..	..
Percentage share of income or consumption held by poorest 20 percent	..	4.4	..	..
Prevalence of child malnutrition (percent of children under 5)	35.3	39.1	30.7	..
Population below minimum level of dietary energy consumption (percent)	13.0	..	7.0	..
2. Achieve universal primary education	*2015 target = net enrollment to 100*			
Net primary enrollment ratio (percent of relevant age group)	..	..	..	..
Percentage of cohort reaching grade 5 (percent)	..	..	..	..
Youth literacy rate (percent ages 15-24)	73.6	81.1	87.8	88.6
3. Promote gender equality	*2005 target = education ratio to 100*			
Ratio of girls to boys in primary and secondary education (percent)	75.8	79.9	..	..
Ratio of young literate females to males (percent ages 15-24)	82.3	89.2	94.7	95.3
Share of women employed in the nonagricultural sector (percent)	..	..	..	..
Proportion of seats held by women in national parliament (percent)	..	..	3.0	3.0
4. Reduce child mortality	*2015 target = reduce 1990 under 5 mortality by two-thirds*			
Under 5 mortality rate (per 1,000)	190.0	187.0	183.0	182.0
Infant mortality rate (per 1,000 live births)	114.0	112.0	110.0	109.0
Immunization, measles (percent of children under 12 months)	54.0	44.0	40.0	..
5. Improve maternal health	*2015 target = reduce 1990 maternal mortality by three-fourths*			
Maternal mortality ratio (modeled estimate, per 100,000 live births)	..	1,100.0	..	..
Births attended by skilled health staff (percent of total)	30.8	..	41.6	..
6. Combat HIV/AIDS, malaria and other diseases	*2015 target = halt, and begin to reverse, AIDS, etc.*			
Prevalence of HIV, female (percent ages 15-24)	..	..	5.8	..
Contraceptive prevalence rate (percent of women ages 15-49)	6.0	..	15.3	..
Number of children orphaned by HIV/AIDS (thousand)	..	..	1,000.0	..
Incidence of tuberculosis (per 100,000 people)	..	..	305.1	..
Tuberculosis cases detected under DOTS (percent)	..	9.0	12.0	..
7. Ensure environmental sustainability	*2015 target = various (see notes)*			
Forest area (percent of total land area)	19.2	..	14.8	..
Nationally protected areas (percent of total land area)	..	3.3	3.3	3.3
GDP per unit of energy use (PPP $ per kg oil equivalent)	1.0	1.1	1.2	..
CO_2 emissions (metric tons per capita)	0.9	0.8	0.3	..
Access to an improved water source (percent of population)	53.0	..	62.0	..
Access to improved sanitation (percent of population)	53.0	..	54.0	..
Access to secure tenure (percent of population)	..	..	..	..

Nigeria and the Millennium Development Goals (concluded)

	1990	1995	2001	2002
8. Develop a Global Partnership for Development	*2015 target = various (see notes)*			
Youth unemployment rate (percent of total labor force ages 15-24)	..	..	..	..
Fixed line and mobile telephones (per 1,000 people)	..	4.0	8.9	..
Personal computers (per 1,000 people)	..	4.8	6.8	..
General indicators				
Population (million)	96.2	111.3	129.9	132.8
Gross national income ($ billion)	25.5	23.6	37.8	38.7
GNI per capita ($)	270.0	210.0	290.0	290.0
Adult literacy rate (percent of people ages 15 and over)	48.7	56.4	65.4	66.8
Total fertility rate (births per woman)	6.0	5.7	5.2	5.1
Life expectancy at birth (years)	49.1	49.9	46.1	45.3
Aid (percent of GNI)	1.0	0.8	0.5	..
External debt (percent of GNI)	130.7	131.7	80.0	..
Investment (percent of GDP)	14.7	16.3	20.1	23.3
Trade (percent of GDP)	72.2	86.5	84.3	81.3

Source: *World Development Indicators database, April 2002*

[1/] **In some cases the data are for earlier or later years than those stated.**

[2/] The goals are as follows:

Goal 1 targets: Halve, between 1990 and 2015, the proportion of people whose income is less than one dollar a day. Halve, between 1990 and 2015, the proportion of people who suffer from hunger.

Goal 2 target: Ensure that, by 2015, children everywhere, boys and girls alike, will be able to complete a full course of primary schooling.

Goal 3 target: Eliminate gender disparity in primary and secondary education preferably by 2005 and to all levels of education no later than 2015.

Goal 4 target: Reduce by two-thirds, between 1990 and 2015, the under-five mortality rate.

Goal 5 target: Reduce by three-quarters, between 1990 and 2015, the maternal mortality ratio.

Goal 6 targets: Have halted by 2015, and begun to reverse, the spread of HIV/AIDS. Have halted by 2015, and begun to reverse, the incidence of malaria and other major diseases.

Goal 7 targets: Integrate the principles of sustainable development into country policies and programs and reverse the loss of environmental resources. Halve, by 2015, the proportion of people without sustainable access to safe drinking water. By 2020, to have achieved a significant improvement in the lives of at least 100 million slum dwellers.

Goal 8 targets: Develop further an open, rule-based, predictable, non-discriminatory trading and financial system. Address the Special Needs of the Least Developed Countries. Address the Special Needs of landlocked countries and small island developing states. Deal comprehensively with the debt problems of developing countries through national and international measures in order to make debt sustainable in the long term. In cooperation with developing countries, develop and implement strategies for decent and productive work for youth. In cooperation with pharmaceutical companies, provide access to affordable, essential drugs in developing countries. In cooperation with the private sector, make available the benefits of new technologies, especially information and communications.

Nigeria—Work Program for 2005-06

March 2005	2005 Article IV Consultation Discussions
June 2005	Staff Visit to discuss continued Intensified Surveillance
September 2005	Quarterly Staff Visit
November 2005	Quarterly Staff Visit
March /April 2006	2006 Article IV Consultation Discussions

INTERNATIONAL MONETARY FUND

NIGERIA

Staff Report for the 2005 Article IV Consultation

Supplementary Information

Prepared by the African Department

Approved by Michael Nowak and Carlo Cottarelli

July 14, 2005

1. This supplement contains information that has become available since the staff report for the 2005 Article IV consultation was issued to the Board on June 27, 2005. The thrust of the staff appraisal remains unchanged.

2. **In late June, the Central Bank of Nigeria (CBN) initiated a number of actions to contain the increase in broad money.** These included open market operations, increased sales of foreign exchange, the transfer of public deposits from commercial banks to the CBN (N60 billion in public enterprise deposits equivalent to 8 percent of reserve money at end-March), and a small increase in reserve requirements. The 12-month consumer price inflation increased to almost 18 percent in April from 10 percent at end-2004.

3. **The CBN has created a high-level steering committee in line with recommendations from the Monetary and Financial Systems Department of the Fund to help guide the bank consolidation process.**

4. **Despite the liberalization of the downstream petroleum sector in 2003, the Nigerian National Petroleum Corporation (NNPC) has not fully passed on crude oil price increases to consumers of petroleum products.** Attempts to adjust pump prices to the higher international prices have been met with general strikes and civil unrest. This has led to an implicit subsidy on petroleum products (of about 1 percent of non-oil GDP in the first half of 2005) and reduced the amount of windfall oil earnings being sterilized. The government intends to develop a medium-term strategy to reduce the gap between international prices and domestic prices for petroleum products, and meanwhile give explicit financing to NNPC to cover its losses out of general government resources.

5. **The authorities have replaced the top management of the Federal Office of Statistics and merged the office with the National Data Bank to create the National Bureau of Statistics.** The intention is to improve the availability, quality, and timeliness of statistics.

6. **Paris Club creditors recently agreed in principle to a phased approach in which Nigeria would clear its arrears in full, receive a debt write-off up to Naples terms, and buy back the remainder of its debt.** The agreement is conditional on a favorable review of its macroeconomic and structural policies supported by the Fund under a possible non-borrowing instrument. Paris Club creditors expressed their readiness to invite Nigeria to negotiate in Paris the elements of the agreement left open—including the overall rate of debt cancellation, the length of the phasing period, and possible trigger clauses—in the event such an instrument were in place for Nigeria.

7. **In the meantime, the authorities have requested a continuation of Fund monitoring of their program under intensified surveillance**. In this connection, the authorities have provided their quarterly fiscal and monetary targets designed in consultation with staff, as well as an update of their structural reform matrix (see Appendix VII of IMF Country Report No. 04/239), including their assessment (see last column of the matrix) of the status of implementation of their program (see attachment). The quarterly profiles are consistent with the annual targets, reversing the build up in liquidity in the first five months of the year. As to fiscal policy, with the approval of the budget in April 2005, capital spending is projected to pick up consistent with the authorities' overall macroeconomic framework. The matrix has been updated in several areas, including public expenditure management, exchange rate system, local government reform, statistics, and liberalization (NNPC).

Table 1. Nigeria: Fiscal Accounts, Federal Government Budget, 2003-2005

	2003	2004	2005					
		Est.	Appr. Act	Est.	Proj.			Proj.
				Q1	Q2	Q3	Q4	Annual
Oil price (in U.S. dollars per barrel)	29.0	38.3	30.0	47.6				49.5
				(in billions of naira)				
Total revenue 1/	964	1,486	1,492	471	470	488	509	1,938
Petroleum revenue	740	1,236	1,184	416	409	412	438	1,674
Nonpetroleum revenue	224	250	308	55	62	77	72	265
Import and excise duties	95	105	92	26	22	22	22	92
Companies' income tax	56	63	87	16	24	24	24	87
Value-added tax	20	23	24	7	6	6	6	24
Federal government independent revenue	54	59	105	7	10	25	20	62
Total expenditure	1,049	1,075	1,712	261	340	405	405	1,412
Recurrent expenditure	792	844	1,095	195	310	252	252	1,010
Personnel	304	370	416	91	104	97	97	389
Pensions	64	72	130	23	42	33	33	130
Overhead cost	146	128	191	17	49	33	33	133
Interest payments	242	231	268	52	83	67	67	268
Domestic	170	189	186	31	62	47	47	186
External, cash	72	42	82	21	21	21	21	82
Transfers 2/	35	42	90	12	34	22	22	90
National Judicial Council	26	28	33	4	13	8	8	33
Transfer to Niger Delta Development Commission	9	14	29	0	14	7	7	29
UBE Commission	...	...	28	7	7	7	7	28
Capital expenditure	257	231	582	66	30	142	142	380
Domestic	257	231	582	66	30	142	142	380
Clearance of arrears and recapitalizations	...	...	35	0	0	11	11	22
Overall balance (cash basis)	-85	411	-220	210	130	83	104	527
Overall balance (excluding clearance of arrears and recapitalizations)	...	...	-185	210	130	94	115	549
Financing	191	-517	220	-95	-130	-83	-104	-411
External	-138	-155	-88	-22	-22	-22	-22	-88
Amortization, cash	-138	-155	-88	-22	-22	-22	-22	-88
Domestic financing	299	-369	130	-73	-108	-163	-159	-502
Central bank (net)	415	-612	241	-214	98	-163	-112	-390
Of which: gross oil windfall proceeds	...	-332	0	-178	-168	-171	-197	-714
Commercial banks (net)	-116	193	-47	141	-141	0	-47	-47
Non-bank financing	0	50	-65	0	-65	0	0	-65
Privatization proceeds	0	0	114	0	0	37	77	114
Recovered funds	30	7	65	0	0	65	0	65
Statistical discrepancy	106	-106	0	115	0	0	0	115
Memorandum items:								
Non-oil primary balance	-583	-594	-1,136	-154	-196	-262	-267	-879
Non-oil primary balance (excluding clearance of arrears)	-583	-594	-1,101	-154	-196	-251	-256	-857
Budgetary revenue	964	1,486	1,492	471	470	488	509	1,938
Budgetary spending	1,187	1,230	1,800	283	362	427	427	1,500
Balance on the budget (BOF definition, debt service above the line)	-222	256	-308	188	108	61	82	439
				(in percent of GDP)				
Total revenue	12.8	15.5	12.6					16.3
Petroleum revenue	9.8	12.9	10.0					14.1
Nonpetroleum revenue	3.0	2.6	2.6					2.2
Total expenditure	13.9	11.2	14.4					11.9
Recurrent expenditure	10.5	8.8	9.2					8.5
Goods and services	6.8	6.0	6.2					5.5
Interest payments	3.2	2.4	2.3					2.3
Transfers 2/	0.5	0.4	0.8					0.8
Capital expenditure	3.4	2.4	4.9					3.2
Overall balance (cash basis)	-1.1	4.3	-1.9					4.4
Overall balance (excluding arrears' clearance and recapitalizations)	...	...	-1.6					4.6
Financing	2.5	-5.4	1.9					-3.5
External	-1.8	-1.6	-0.7					-0.7
Domestic financing	4.0	-3.9	1.1					-4.2
Privatization proceeds	0.0	0.0	1.0					1.0
Statistical discrepancy	1.4	-1.1	0.0					1.0
Memorandum items:								
Non-oil primary balance (in percent of non-oil GDP)	-14.3	-12.2	-19.4					-15.0
Non-oil primary balance (excl. arrears' clearance, in percent of non-oil GDP)	-14.3	-12.2	-18.8					-14.6
Non-oil revenue (in percent of non-oil GDP)	5.5	5.2						4.5
Balance on the budget (BOF definition)	-3.0	2.7	-2.6					3.7
External debt service (FGN share, in millions of U.S. dollars)	1,357	1,316	1,278					1,278
Nominal GDP (in billions of naira)	7,533	9,575	11,872					11,872
Nominal non-oil GDP (in billions of naira)	4,069	4,855	5,864					5,864

Source: Authorities; and Fund staff estimates

1/ Oil revenue net of cash call payments.
2/ Excluding transfer to the NNPC for cash call payments.

Table 2. Nigeria: CBN Analytical Quarterly Balance Sheet, 2003-2005

	2003	2004	2005			
			Q1	Q2	Q3	Q4
		Est	Est			Proj.
	(In billions of naira, end of period)					
Net foreign assets 1/	1,059	2,250	2,852	3,170	3,436	3,730
Foreign assets	1,065	2,479	2,912	3,268	3,515	3,790
Short-term foreign liabilities	-6	-229	-60	-98	-79	-60
Net domestic assets	-370	-1,518	-2,107	-2,420	-2,667	-2,917
Domestic Credit	82	-718	-1,198	-1,369	-1,742	-2,070
Net claims on consolidated government 2/	294	-681	-1,129	-1,265	-1,608	-1,936
Other Items Net	-453	-800	-909	-1,051	-925	-847
Reserve money	689	732	741	750	769	813
Currency in circulation	502	546	513	493	498	538
Banks Reserves with the CBN	186	187	228	256	271	275
Required reserves	152	158	185	221	228	232
Excess reserves	34	29	43	35	43	43
Memorandum items:						
Reserve Money 12-month growth rate	16.4	6.3	16.7	14.6	18.2	11.0
Reserve Money q/q growth rate	7.2	12.6	1.2	1.2	2.5	5.7

Sources: Nigerian authorities and staff estimates and projections.
1/ CBN presents long-term liabilities in other items net.
2/ Includes the windfall oil revenue savings by subnational governments and extrabudgetary funds.

Table 3. Nigeria: Monetary Survey, 2003-2005
(in billions of naira)

	2003	2004	2005			
			Est.	Proj		
			Q1	Q2	Q3	Q4
Net foreign assets	1,476	2,712	3,326	3,644	3,933	4,204
Central Bank of Nigeria (net) 1/	1,059	2,250	2,852	3,170	3,436	3,730
Foreign assets	1,065	2,479	2,912	3,268	3,515	3,790
Short-term foreign liabilities	-6	-229	-60	-98	-79	-60
Commercial and merchant banks (net)	417	462	474	474	497	474
Foreign assets	438	481	493	493	516	493
Foreign liabilities	-21	-19	-19	-19	-19	-19
Net domestic assets	541	-448	-684	-985	-1,307	-1,600
Net domestic credit	1,804	1,345	1,170	974	727	496
Consolidated Government 2/	612	-165	-475	-752	-1,095	-1,470
Claims on private sector	1,185	1,497	1,632	1,740	1,836	1,987
(y/y growth rate)	27	26.3	19.8	19.7	22.6	32.8
Other items (net)	-1,263	-1,793	-1,855	-1,959	-2,035	-2,096
Broad money	1,985	2,264	2,647	2,659	2,626	2,604
(y/y growth rate)	...	14.0	25.3	25.8	21.7	15.0

Sources: Nigerian authorities and staff estimates and projections.
1/ CBN presents long-term liabilities in other items net.
2/ Includes the windfall oil revenue savings by subnational governments and extrabudgetary funds.

Authorities' Core Economic Reform Program and Their Assessment of Implementation
Preliminary Matrix of Measures With Sequencing and Phasing
Macroeconomic Stability

Reform Component	Objective	Specific Measures and Targets	Implementation Timing	Expected Impact	Accountable Agency/ Individual	Status as at end-March 2005
(A) Maintain macroeconomic stability	Provide a conducive economic environment for growth and development.	Prepare National Economic Empowerment and Development Strategy (NEEDS).	End-January 2004	Articulated poverty reduction, wealth and jobs creation, national strategy for the medium term.	National Planning Commission (Economic Adviser and team).	Done. NEEDS document finalized and launched—May 29, 2004.
		5 percent per annum GDP growth, 7-8 percent per annum nonoil GDP growth.	End-2004 with quarterly monitoring and reporting by FOS	Hold poverty in check by creating jobs.		2004 target surpassed with GDP growth at 6 percent. Nonoil GDP growth at 7.4 percent.
		6 percent per annum GDP growth contingent upon implementation of Reform Program. 8-9 percent per annum nonoil GDP growth.	2005, 2006	Reduce poverty level.		
		Fairly stable market - determined-exchange rates through Dutch foreign exchange auction and other measures.	Continuous	Predictability for businesses and households.		Dutch Auction System expected to continue for foreseeable future. But move from retail to wholesale aucction expected first quarter 2006 once banking sector consolidation is completed.
		Ensure inflation not greater than 11 percent.	1st Quarter of 2004 and thereafter			Average inflation of 15 percent in 2004 down from 22 percent in 2003. Point to point inflation down to 9.5 percent Dec. 2004 compared to 23 percent Dec. 2003.
		Foreign exchange reserves at 6 months of imports and maintained.	End 2004			Foreign exchange reserves at \$16.9 billion and 14 months of imports at end-2004. By end-March 2005, reserves at \$20.9 billion.
		Foreign exchange reserves at 8 months of imports.	End 2005			

Authorities' Core Economic Reform Program and Their Assessment of Implementation
Preliminary Matrix of Measures With Sequencing and Phasing
Macroeconomic Stability

Reform Component	Objective	Specific Measures and Targets	Implementation Timing	Expected Impact	Accountable Agency/ Individual	Status as at end-March 2005
		Financeable fiscal deficit at no more than 3 percent of GDP in medium term 2004-2006.				Fiscal deficit in 2004 budget 1.5 percent GDP at $25 a barrel budget price. Actual situation is one of slight surplus for the 2004 budget. For 2005 budget projected fiscal deficit of 2.8 percent of GDP at $30 a barrel oil price is within the NEEDS medium-term target.
(B) External debt management		Conclude bilateral agreements with Paris Club creditors.	January 2004		Debt Management Office (DMO)	Bilateral agreements concluded.
		Continue to pay about US$1 billion to Paris Club creditors in 2004 and 2005.	January 2004			Approximately $1 billion of Paris Club debt service in 2004 and also $1 billion in 2005.
		Ensure timely debt service payment of budgeted amounts.	Continuous starting November 2003			Debt service payments of budgeted amounts are being made.
		Restructure commercial debt portfolio through debt exchange or other measures that keep in view comparability with Paris Club subject to appropriate consultations.	June 2004	Obtain NPV savings and reduce debt service requirement over medium term.		
(C) Domestic debt management	Restructure domestic debt portfolio and limit monetary financing of deficits.	Limited recourse to issuance of FGN bonds; retire Treasury Bills, and finance budget deficits appropriately.	October 2003 and continuous.	Reduce cost of government borrowing and roll-over risk.	DMO	Successful launch of FGN bond program November, 2003. N150 billion medium- and long-term bonds launched. N78 billion subscribed.
		Progressively reduce ratio of domestic debt to GDP.	Continuous			Restructuring of domestic debt is essential and ongoing. For the first time, there was no recourse to monetary financing of deficit in 2004.
	Sub-national borrowing and				DMO	Approximately N65 billion in bonds was issued by CBN on behalf of MOF end-2004 as

Authorities' Core Economic Reform Program and Their Assessment of Implementation
Preliminary Matrix of Measures With Sequencing and Phasing
Macroeconomic Stability

Reform Component	Objective	Specific Measures and Targets	Implementation Timing	Expected Impact	Accountable Agency/ Individual	Status as at end-March 2005
	debt framework.					temporary cover for the $500 million looted Swiss funds that were slated to finance the deficit but did not arrive. Bonds will be retired as soon as looted funds are released.
		Adopt a framework for sub-national government borrowing consistent with fiscal discipline and macro stability				Some guidelines on subnational borrowing embedded in Fiscal Responsibility Bill.

Authorities' Core Economic Reform Program and Their Assessment of Implementation
Preliminary Matrix Of Measures, Sequencing And Phasing,
Public Expenditure And Public Service Reforms

Reform component	Objective	Specific Measures and Target	Implementation Timing	Expected Impact	Principal Accountable Agency/Indiv.	Status as at end March 2005
(A) Public expenditure/ budget reforms	Improve fiscal discipline at all tiers of government. Reduce Federal Government budget deficit and curtail deficit spending. Introduce order into budget formulation and implementation.	On budget formulation, introduce fiscal strategy paper as a tool for specifying priorities and facilitating trade-offs engaging the Executive, Legislature. Introduce notion of Medium-Term Expenditure Framework (MTEF).	October 31, 2003	More orderly budget process, greater ownership of budget by both Executive and Legislature. Greater transparency and increased fiscal discipline.	Ministry of Finance	Done.
		Introduce sectoral/ministerial expenditure ceilings as a budget tool in 2004 budget call circular.	November 15, 2003		Ministry of Finance	Done.
		Clean up Capital and Recurrent Budgets to introduce clarity in budget classification.	October 31, 2003 through October 31, 2004		Ministry of Finance	Budget Classification exercise completed end-June 2004. New codes now in use for 2005 budget. However, complete clarity yet to be attained. Additional work needed on budget classification.
		Stock taking census on contractor arrears in system.	End-November 2003		Ministry of Finance	Stock taking on contractor arrears now completed. Strategy being put in place to pay down and securitize arrears. Total contractor arrears over N500 billion.
		Develop plan to eliminate all contractor arrears by 2006 and 2007	November 30, 2003		Ministry of Finance	Expected pace of pay down at about N50 billion a year. Strategy to pay off small-scale contractors owed less than N1 billion first followed by larger contractors. However, all categories of contractors will receive some level of pay off each year until debts are liquidated. Contractor arrears will take up to 10 years to eliminate.

Authorities' Core Economic Reform Program and Their Assessment of Implementation
Preliminary Matrix Of Measures, Sequencing And Phasing,
Public Expenditure And Public Service Reforms

Reform component	Objective	Specific Measures and Target	Implementation Timing	Expected Impact	Principal Accountable Agency/Indiv.	Status as at end March 2005
		Eliminate 20 percent by 2004				About 7 percent to be eliminated by end-2004.
		Eliminate 25 percent by 2005 and 25 percent by 2006. Eliminate balance by 2007.	2005 and 2006		Ministry of Finance	The stock of arrears is much larger than expected. About 10 percent will be eliminated by 2005. A plan for securitization and phased elimination over a longer time horizon, e.g., 10 years, is being prepared (see above).
		Review and list backlog of uncompleted projects. Identify viable projects for completion with emphasis on priority sectors of agriculture, education, health, roads, power, water supply. End funding for those that are unviable or not in conformity with government development objectives.	December 31, 2003		Ministry of Finance	List of 500 viable uncompleted projects in Due Process database. Viable projects have been identified for completion in most priority sectors: Health, Works, and Water. Others ongoing. Identification of unviable projects has begun and list should be ready by end-Sept. 2005. Some unviable projects have already been dropped from financing by the budget or they have been taken over by the private sector, e.g., Ajaokuta, Delta Steel.
		Make budgets publicly available, publish on government website, sale in bookshops. Increase transparency of government use of revenue allocations.	End-January 2004 for 2004 budget		Ministry of Finance	Budget summary booklet circulated since end-March 2004. Completed budget published on Ministry website www.fmf.gov.ng. Monthly publication in local newspapers of State, Federal and Local Govt. shares of the Federation account is ongoing. This is having tremendous impact as citizens and media are now focusing more on issue of use of government resources at all tiers of government. Booklet showing allocations to all tiers of government since 1999 has been published end-Sept. 2004 as part of Transparency in Action series of the Federal Ministry of Finance. Continued transparency of budget and allocations expected in 2005 and beyond. Please note that despite the passage by National Assembly of a N1.8 trillion budget for 2005, the National Assembly has agreed with the president that this is too large and that implementation will be anchored

Authorities' Core Economic Reform Program and Their Assessment of Implementation
Preliminary Matrix Of Measures, Sequencing And Phasing,
Public Expenditure And Public Service Reforms

Reform component	Objective	Specific Measures and Target	Implementation Timing	Expected Impact	Principal Accountable Agency/Indiv.	Status as at end March 2005
						on a budget of N1.7 trillion to which further reductions may be applied based on emerging revenue profile of Federation Account.
		Quarterly reports on budget implementation and outcomes	Quarterly starting March 31, 2004		Ministry of Finance	Due to late passage of Appropriations bill in March 2004, a half yearly monitoring report has been done and transmitted to the National Assembly on Sept. 21. Full year report is under prepartion with expected completion by end-June 2005. Again late passage of 2005 budget (despite earlier preparation and submission to National Assembly in October 2004) and late signing in April 2005, means only half yearly and full year monitoring reports will be prepared in 2005.
		Introduce special monitoring of 15 largest capital projects. Develop templates for Monitoring in conjunction with Budget Monitoring and Pricing Intelligence Unit (BMPIU). Introduce Cost Benefit Analysis of new projects to improve quality of government portfolio.	March 30, 2004			A team has been put together from Budget Office of Finance led by an economist on secondment to set up a cost benefit analysis of projects and implementation monitoring of 15 largest projects in government's portfolio. States have been invited to participate in the training.
		Create computerized budget monitoring system and essentially better link and concurrently computerized Budget & Accountant General of the Federation (AGF) Office. Also strengthen AGF functions in line with Ministries as part of the introduction of the Financial Management System (FMS). Shift budgeting functions from Admin to Finance & Accounts.	.			AGF's Office undergoing pilot computerization exercise. However, plans are underway for a financial management system linking AGF to Budget Office with implementation in 2005, 2006. Efforts are underway on four pilot Ministries to strengthen AGF functions and shift budgeting functions from Administration to Finance & Account.

Authorities' Core Economic Reform Program and Their Assessment of Implementation
Preliminary Matrix Of Measures With Sequencing And Phasing
Fighting Corruption, Improving Transparency And Accountability

Reform component	Objective	Specific Measures and Target	Implementation Timing	Expected Impact	Principal Accountable Agency/Indiv.	Status as at end-March 2005
(A) Extractive Industries Transparency Initiative (EITI)	Transparency of Oil and Gas Accounts	Enrol country on Initiative	July 29, 2003	Increased trust by domestic and external public improved country image	SSA/Head, BMPIU for overall accountability of component	Done
		Announce intentions and specific measures on EITI and identify responsible agencies	November 2003		Mr. President/ Minister of Finance/Oby Ezekwesili	Done
		Selective stakeholder consultations and formation/announcement stakeholder working group	November 2003	Better accounting for oil revenues in budget		Done Feb. 18, 2004
		Sensitize stakeholders and hold workshop. NGOs, Civil Society, NNPC, Chevron, Shell, other oil companies, etc.	End Jan. 2004	Better accounting for oil revenues in budget	EFCC-Nuhu Ribadu.	Done Feb. 19-20, 2004
		Issue request for proposals for consultants to draft TORs for auditors to review annual accounts and tax filings of oil companies, audit government oil accounts including MOF, NNPC, CBN, NDDC accounts and oil companies..	December 2003			Done. Adverts for consultants in international newspapers by the National Stakeholders Working Group (NSWG). Selection of consultants Sept. 27, 2004.
		Finalize selection of auditor.	May 1, 2004	Better handle on oil (Revenues) inflows and outflows.	Head BMPIU/Oby Ezekwesili	Selecting auditors for this specialized type of work has been far more complicated than initially expected, hence the delays.
		Initiate Audit 1999-2004.	May 2004			
		Interim Audit Report	Sept. 2004			

Authorities' Core Economic Reform Program and Their Assessment of Implementation
Preliminary Matrix Of Measures With Sequencing And Phasing
Fighting Corruption, Improving Transparency And Accountability

Reform component	Objective	Specific Measures and Target	Implementation Timing	Expected Impact	Principal Accountable Agency/Indiv.	Status as at end-March 2005
		Final Audit Report for 2003	December 2004			Auditors (Hart of U.K.) selected January 2005 through a careful and transparent internationally competitive process. Physical process and financial audits now underway. Preliminary report expected end-June 2005. Final report December 2005.
		Public Dissemination	End December 2004			
		Develop templates for reporting on a semi annual basis	End January 2005			
		Develop templates for reporting on semi-annual gas production, sales, revenues, etc.	End January 2005			Slippage in template development due to focus on and time taken by audit of oil accounts.
		First semi-annual oil account report shared with public and posted on Economic Reform/NEEDS website, newspaper publication, civil society monitoring.	June 30, 2005			
		Establish Oil and Gas Accounts Modeling and oversight unit in Ministry of Finance	End December 2004	Provide back up technical support to EITI and provide better handle on oil (revenues) inflows and outflows	Ministry of Finance	Done. Head of the Unit is in place since mid-January 2004. Multidisciplinary team to support the work has been assembled as of end-August. Model is in place and work has commenced.
			December 2003	Provide forecasting economic capability of the sector, Oil & Gas.		Some initial studies have already unearthed considerable additional tax/royalty payments owed by oil companies, 2003-04, to the tune of $300 million plus. Recovery of these monies by Federal Inland RevenueService (FIRS) is in process.

Authorities' Core Economic Reform Program and Their Assessment of Implementation
Preliminary Matrix Of Measures With Sequencing And Phasing
Fighting Corruption, Improving Transparency And Accountability

Reform component	Objective	Specific Measures and Target	Implementation Timing	Expected Impact	Principal Accountable Agency/Indiv.	Status as at end-March 2005
(B) Support to Economic and Financial Crimes Commission (EFCC)	Show that economic crimes have consequences	Increase EFCC officer strength to 400 staff	June 2004	Noticeable drop in domestic and internationally reported (Law 419 in the Nigerian Criminal Code) financial and other related crimes	EFCC-Nuhu Ribadu	EFCC staff strength has increased from 80 to 315 (including seconded staff from other agencies) more than 53 cases are under prosecution in just over a year of serious operational work including cases involving three of the most important "419" kingpins presently under arrest. Due to the adversarial natue of the judicial system, prosecutions take time and there has been one conviction thus far. 500 people are in custody, however, and over $750 million worth of goods have been seized. EFCC has chalked up some additional important and successful investigations and indictments in Feb.-April, 2005. Several high profile cases are either in court or before the ICPC. The former IG Police, a former Minister, several legislators, and the former Senate president who was forced to step down on corruption charges.
	Demonstrate Nigeria's willingness to fight money laundering, meet FATF conditions.	Provide supporting investigative resources and physical enabling environment	Budget 2004 appropriation by Feb. 15, 2004			EFCC and other security agencies constitute important priorities for support in budget 2004. Appropriation for EFCC for both recurrent and capital budget was approximately N752 million for 2004 compared to a N400 million take off grant in 2003. EFCC, ICPC and other agencies continue to receive priority attention in Budget 2005 with a budget of N1.5 billion for EFCC. EFCC is also supported by considerable donor funding from EU, DFID and the World Bank.
		Establish Financial Intelligence Unit, staffed and working.	January 15, 2004			Done. Financial Intelligence Unit (FIU) established and opening with 21 staff.
		Review money laundering legislation to conform with FATF.	September 2003			Done. Legislation that meets FATF guidelines has been passed by National Assembly in May 2004. Nigeria has successfully cleared the first

Authorities' Core Economic Reform Program and Their Assessment of Implementation
Preliminary Matrix Of Measures With Sequencing And Phasing
Fighting Corruption, Improving Transparency And Accountability

Reform component	Objective	Specific Measures and Target	Implementation Timing	Expected Impact	Principal Accountable Agency/Indiv.	Status as at end-March 2005
						phase of requirements for delisting from FATF. Nigeria has also prepared an Anti-Money Laundering (AML/CFT) Strategy and implementation plan for submission to FATF September 17, 2004 submission of the plan marks the beginning of the second phase of the processes that will lead to the delisting of Nigeria by FATF. Nigeria has now complied with delisting requirements and expects action by FATF at its plenary in June 2005 or December 2005.
		Launch communications campaign against financial fraud (Law 419).	End November 30, 2003			
		Deploy database program for "419"	June 2004			
		Establish EFCC training school for capacity and specialized training of personnel.	December 2004			Campaign has been launched. Database program is on track and plans for EFCC School are also on track.
(C) Strengthen Independent Corrupt Practices Commission (ICPC)	Show that corruption does not pay and will be vigorously dealt with.	Amend ICPC legislation to accelerate prosecution	End December 2003	Improved TI corruption perception index ranking for Nigeria from 2nd to last to 4th to last by December 30, 2004, continued improvement 6th from bottom by December 30, 2005.	ICPC	Done. 62 plus cases in process with ICPC, several in court including high profile cases of ex-public officials, legislators, ministers, top civil servants, judges (some recently fired from public service). Note that TI corruption perception index did improve but by one point to 3rd to last by end-December 2004 still aiming for 6th from bottom by end-December 2005.

Authorities' Core Economic Reform Program and Their Assessment of Implementation
Preliminary Matrix Of Measures With Sequencing And Phasing
Fighting Corruption, Improving Transparency And Accountability

Reform component	Objective	Specific Measures and Target	Implementation Timing	Expected Impact	Principal Accountable Agency/Indiv.	Status as at end-March 2005
		Get amended legislation passed	End March 2004			
		Set up an independent steering committee of civil society, private sector and public sector for oversight of ICPC conduct.	June 2004	Accountability and transparency of the ICPC to the public		
(D) Legal and Judicial Reforms	Strengthen rule of law, speed up court cases.	Draft Legal and Judicial Reform Strategy, appropriately costed with implementation plan.	June 2004	Rule of Law entrenched speedy resolution of cases with beneficial impact on households and business	Ministry of Justice and Judiciary	Draft Strategy now completed. Next step is presentation to Economic Management Meeting in October 2004 and Development of Implementation Plan.
	Ensure conducive legal environment for public safety and conduct of business for the private sector	Begin implementation of strategy	July 2004		Ministry of Justice	Strategy recently completed. Implementation Plan still awaited. Presentation of strategy to Economic Management Team still awaited.
		Average time for processing cases halved.	December 30, 2005			
(E) Police Reform	Improve security for Nigeria households and businesses	Police draft reform strategy.	December 2003	Improved sense of physical security by Nigerians measured by a sample survey. Drop in number of crime cases, car snatching, assassinations.	Ministry of Police Affairs/Inspector General of Police	Done. Police force increased by 130,000 to 240,000 by February 2004. Police strength now 310,000 as of March 2005.

Authorities' Core Economic Reform Program and Their Assessment of Implementation
Preliminary Matrix Of Measures With Sequencing And Phasing
Fighting Corruption, Improving Transparency And Accountability

Reform component	Objective	Specific Measures and Target	Implementation Timing	Expected Impact	Principal Accountable Agency/Indiv.	Status as at end-March 2005
		Continue to increase size of police force up to 300,000.	June 2004	Drop in number of crime cases, car snatching, assassinations.		Car snatching cases have dropped considerably from 2002 levels (some estimates are by up to two-thirds since the car snatch regional kingpin, Ahmed Tijani, was apprehended in Mali in November 2003 by a joint regional security effort and brought to Nigeria for trial). Security continues to receive top presidential attention.
		Design and begin implementation and training.	December 2005		Ministry of Police Affairs/Inspector General of Police	Clean up of Police Force has been initiated with recent departure of former Inspector General (IGP) on corruption charges and appointment of new acting IGP.
		Improve supply of equipment, materials and improve police barracks and training schools (Ikeja), etc.	October 2003 and continuous			Training in community policing ongoing, with help of U.K.
		Strengthen community policing	December 2005			
		Substantially reduce number of ethnic clashes				
(F) Reform of government procurement and enhancement of due process mechanism	Value for money and transparency in government contracting	Extension of due process to cover all government agencies and parastatals not presently included.	December 30, 2003	Improved quality of government contracting through cost savings of an average N40 billion by end-2004 for a higher public expenditure efficiency ratio.	Head, BMPIU	Done. Savings from Due Process Certification process about N140 billion by February 2004.
				50% reduction in the number of requests for contract award of Due Process Certificate that are declined for		(Oct. 2001-Sept. 2004) Done with training and technical assistance from the Due Process Unit; there have been improvements.

Authorities' Core Economic Reform Program and Their Assessment of Implementation
Preliminary Matrix Of Measures With Sequencing And Phasing
Fighting Corruption, Improving Transparency And Accountability

Reform component	Objective	Specific Measures and Target	Implementation Timing	Expected Impact	Principal Accountable Agency/Indiv.	Status as at end-March 2005
				noncompliance by end-2004 (1 in every 5 requests currently fail the Due Process).		
		Publication and dissemination of New Procurement Guidelines to government agencies and the public.	December 30, 2003		Head, BMPIU	Conversation ongoing with Agencies.
		Set up Resident Due Process teams in all federal ministries, agencies and parastatals to complement departmental tender boards and Federal Tender Boards.	March 30, 2004			Resident Due Process teams (RDPT) have been set up in most Ministries and Agencies, including Defence, NDDC, two major contracting agencies. Plans currently underway to set up Resident Due Process Team in NNPC, NPA, INEC, etc. All NNPC contracts must now under go due process. Effective decentralization of due process is underway.
		Set up BMPIU as the supporting secretariat for Public Procurement Reform and Implementation.		To improve leadership of procurement reforms		Note that several states have sent staff for Due Process training in March 2005 with a view to setting up State Due Process Units.
		Recruit Task Officer for the PRIC at the BMPIU Local/Int. Consultants	December 30, 2003			Done.
		Organize a stakeholders workshop and review of procurement policy and procurement bill.	February 29, 2004	To crystalize an organic process for procurement policy and regime among various stakeholders		Done.
		Withdraw Procurement Policy Commission Bill from National Assembly for review and			Head, BMPIU	Done

Authorities' Core Economic Reform Program and Their Assessment of Implementation
Preliminary Matrix Of Measures With Sequencing And Phasing
Fighting Corruption, Improving Transparency And Accountability

Reform component	Objective	Specific Measures and Target	Implementation Timing	Expected Impact	Principal Accountable Agency/Indiv.	Status as at end-March 2005
		broader stakeholders consultation				
		Setting up of Procurement Commission.				September 2005
		Procurement Legislation to National Assembly.	March 1, 2004			Done. Procurement legislation sent to National Assembly December 2004. First vote taken in Lower House Bill narrowly defeated 169 to 164. Second vote expected by end-August 2005. Upper House vote also expected by this time. Passage expected September 2005.
		Begin implementation – New Procurement Framework.	June 30, 2004			
	Increase use of Public Sector Audits	Issue and make Public Auditor General's reports.	Recommence January 1, 2004			Auditor General's reports beginning to be made public through work of National Assembly Public Accounts Committee which has held hearing on several audit reports including BPE and CBN. Executive has had to respond and make recommendation to rectify a series of anomalies found in public accounts.

Authorities' Core Economic Reform Program and Their Assessment of Implementation
Preliminary Matrix Of Measures With Sequencing And Phasing
Governance And Institutional Strengthening

Reform component	Objective	Specific Measures and Target	Implementation Timing	Expected Impact	Prinncipal Accountable Agency/Indiv.	Status as of end-March 2005
(A) Local Government Reform	To promote stability, accountability, efficiency, service delivery and grassroots democracy	Committee on Local Government Reform, White Paper, Public enlightenment implementation of white paper recommendations	November 2003, Receive Report	Contain violence instability	Mr. President and Minister Intergovernmental Affairs	Done
		Bills to National Assembly as necessary	January 2004 – Get White Paper	Promote quality governance and leadership		Discussion and debate on recommendations ongoing but Local Government Bill passed and signed into law in April 2005, designed to ensure local government funds fully disbursed to LGs from the joint State/Local Government Accounts.
		Constitutional amendment as necessary	May 2004 – Initiate discussions with NASS	Eliminate waste and corruption		
(B) NNPC Reforms		Restructuring and Commercialization				NNPC Management changed in November 2003. Restructuring and reorganization in process. About 7000 staff laid off and new skills brought in.
(C) Policy and Program Monitoring	To promote systematic information gathering sharing and lessons learning on government programs and policies. To help reinforce accountability for outputs and outcomes.	Clarify role of various monitoring agencies and units –BMPIU, Federal Office of Statistics, CBN, National Planning Commission, Presidency Monitoring Unit, Ministry of Finance, PRS Unit, NEIC in monitoring and evaluation.	End January 2004	Improve monitoring processes/ procedures	Mr. Julius Ihovnbere Office of Policy and Program Monitoring, Presidency.	In process
		Fully establish Presidency Monitoring Unit with clear TORs as	End January 2004	Ensure effective follow-up to all decisions		

Authorities' Core Economic Reform Program and Their Assessment of Implementation
Preliminary Matrix Of Measures With Sequencing And Phasing
Governance And Institutional Strengthening

Reform component	Objective	Specific Measures and Target	Implementation Timing	Expected Impact	Prinncipal Accountable Agency/Indiv.	Status as of end-March 2005
		a one-stop shop or clearing house on policy and program monitoring.				
		Realign and redefine monitoring priorities and stategies and check waste, corruption and inefficiency	End June 2004	Monitor implementation of policies		Done
(D) Reform of National Statistics and Data Gathering	Provide reliable and systematic database of information on the country's key economic and social indicators	Develop statistics master plan to guide collection of statistics	End June 2004	Greater confidence in National Statistics	National Planning Commission Economic Adviser to Mr. President	Done
		Review role and structure of FOS and measures for strengthening	End March 2004			Done
		Begin implementation of statistics master plan	End August 2004			Federal Office of Statistics (FOS) new Corporate Headquarters in Abuja now partially occupied by the constituted Statistical Master Plan Implementation Unit (SMPIU). Every department is also represented in the new building. EU has put in place the services of two key consultants to fast track the implementation of the SMPIU. High level stakeholders workshop is being organized to sensitize key stakeholders on the implementation of the Statistical Master Plan and the new Statistical Act that will transform FOS into the new National Bureau of Statistics (NBS). Final list of officers and staff to be disengaged is ready for implementation. Pre-retirement workshop is being organized while disengagement benefits have been computed to ensure that safety nets are put in place before final disengagement.

Authorities' Core Economic Reform Program and Their Assessment of Implementation
Preliminary Matrix Of Measures With Sequencing And Phasing
Accelerated Privatisation And Liberalisation

Reform componento	Objective	Specific Measures and Target	Implementation Timing	Expected Impact	Principal Accountable Agency/Indiv.	Status as at end-March 2005
(A) Liberalization, Deregulation of Petroleum Sector	Improved efficiency of sector by getting government out and allowing market forces to work to improve supply and availability of petroleum products under appropriate regulatory regime that balances consumer and supplier interests	Complete liberalization of pricing and marketing of petroleum products.	October 1, 2003	Prices for petrol move to import parity approximately N40 a litre minimum as of October 1, 2003.	President and Petroleum Products Pricing Agency (PPPRA), NNPC	This measure was implemented on October 1, 2003 along with the phase out of government subsidies to NNPC on the purchase of Domestic Crude implemented on October 22, 2003. As a result of these measures, NNPC pays international price for domestic crude refined in country and the price of gas at the pump moved to import parity prices. However, Labour initiated a serious strike against the fuel price which had climbed to N50-N52 a litre at the start of the deregulation. The court issued an injunction requesting the National Labour Congress (NLC) to halt its strike action and asked the government and fuel marketers to go back to the pump price of N38-N40 a litre that obtained at the start of deregulation on October 1. Since the injunction, the NNPC has, on a temporary basis, used its accumulated reserves to subsidize the petrol price to the tune of N350 million a day July – August as no money has been available from the government treasury for this purpose. NNPC reserves have been virtually exhausted. The government is sticking by its deregulation policy and is working to get the court injunction lifted. In the meantime the government is also looking at mechanisms and good practice globally for assisting the poor and vulnerable population in a more targeted fashion to weather the impact of high petroleum prices. Note that court injunction has now been lifted. As at September 25, 2004, petrol prices at the pump are at import parity levels, N52-N60 per litre depending on location. Continued high oil prices has triggered a revolt by Labour Unions and Civil Society leading to N48-N55 per litre depending on location in the country. This is N10-N16 per litre above the import parity prices at deregulation in October 2003. NNPC continues to bear a subsidy of N172 million a day to keep prices from rising beyond this point. Given difficult international oil price situation, the government has adopted a policy of providing an explicit subsidy of N2 billion a month for 3 months in the first instance to kerosene, the fuel used by the poor people for cooking and lighting. The government is also considering a one-time explicit support to

Authorities' Core Economic Reform Program and Their Assessment of Implementation
Preliminary Matrix Of Measures With Sequencing And Phasing
Accelerated Privatisation And Liberalisation

Reform componento	Objective	Specific Measures and Target	Implementation Timing	Expected Impact	Principal Accountable Agency/Indiv.	Status as at end-March 2005
						the NNPC of N54 billion to help cushion the impact of the subsidy on its operations. For the medium term, a price modulation mechanism for petrol pump prices is being developed.
		Phase out of government price subsidies to NNPC on domestic crude, i.e., move NNPC to international spot price.	October 22, 2003	Improve supply of petrol after a few weeks transition period to solve logistical problems		Done. Savings of approximately N109 billion per year to treasury (Budget 2004 Estimates). Please note that these savings refer to the last move $18 to $23 a barrel. The price at which oil is sold to NNPC for the domestic market has been gradually increased over the last two years, and is now the same as the world price. NNPC continues to pay international prices for its domestic crude. Hard budget constraint has led NNPC to lay off 7000 workers and improve efficiency. Goal is for NNPC to fully commercialize.

INTERNATIONAL MONETARY FUND
Public Information Notice
EXTERNAL RELATIONS DEPARTMENT

Public Information Notice (PIN) No. 05/110
FOR IMMEDIATE RELEASE
August 10, 2005

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

IMF Executive Board Concludes 2005 Article IV Consultation with Nigeria

On July 18, 2005, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation with Nigeria.[1]

Background

Macroeconomic performance in 2004 was commendable. Preliminary official data suggest that GDP benefited from the improved macroeconomic environment. Real GDP is estimated to have increased by about 6 percent, stemming largely from higher growth in the non-oil economy, in particular agriculture, and some areas within manufacturing and services.

The consolidated government's fiscal stance was prudent in 2004, despite the large increase in oil revenue, and the fiscal position strengthened significantly. Oil revenue rose as a result of higher oil prices and production and the removal of the price subsidy on domestic crude oil sales to the Nigerian National Petroleum Corporation (NNPC). All three tiers of government adhered to a conservative oil price based fiscal rule, thereby achieving fiscal discipline. Public spending was kept in check and a windfall oil revenue of about US$6 billion was set aside.

The Central Bank of Nigeria (CBN) tightened its monetary policy to achieve the disinflation objective and the CBN met its monetary policy targets. Monetary tightening and the strengthening of the naira helped lower inflation. The 12-month inflation rate decelerated to 16 percent in March 2005, from 24 percent at end-2003. Certain reforms helped improve the

[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. 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.

effectiveness of monetary policy, including the CBN's withdrawal as a buyer from the primary market for government securities.

Prudent macroeconomic policies also resulted in exchange rate stability, and the spreads between the Dutch auction official rate, the interbank market, and the parallel market remained low. The exchange rate appreciated moderately in real terms in 2004. International reserves rose considerably to US$23 billion at end-May 2005.

The gross external public debt declined in 2004 relative to GDP and exports. However, arrears continued to accumulate. The government serviced its commercial and multilateral external debt obligations, but paid US$1 billion (about half of its obligations) to Paris Club creditors, while maintaining a dialogue with them.

Since the 2004 Article IV consultation, Nigeria has made good progress in implementing its structural reform agenda. The authorities took measures to tackle public sector corruption, improve the transparency of public policies, advance the civil service reform and the Extractive Industries Transparency Initiative (EITI), and strengthen budgetary procedures. They have also largely withstood pressure to reverse the liberalization of the downstream petroleum sector. The overall pace of privatization was, however, disappointing. To reenergize the privatization process, the top management of the Bureau of Public Enterprises (BPE) was replaced in March 2005.

In July 2004, the CBN announced a major bank restructuring reform built around a large increase in the minimum capital requirement to force bank consolidation. Some banks are in talks for mergers and acquisition, while others have offered shares to the public in order to raise sufficient capital. The CBN also announced reforms to address major weaknesses in bank and non-bank financial institution supervision.

Executive Board Assessment

Executive Directors commended the authorities for Nigeria's strong economic performance in 2004 under the homegrown reform program, as articulated in the National Economic Empowerment and Development Strategy (NEEDS). A number of key priorities of the program have been achieved, including enhanced predictability and transparency of policies, growth in the non-oil economy including the agricultural sector, and reduced vulnerability to oil price shocks. Moreover, fiscal restraint allowed much of the oil windfall to be saved in 2004, resulting in lower inflation and a sharp increase in international reserves.

Directors cautioned that, despite the recent progress, Nigeria's economic transformation continues to face formidable challenges, owing to weak institutions, administrative and technical capacity constraints, resistance from entrenched interests, and the legacy of decades of economic mismanagement. They encouraged the authorities to persevere in their efforts, building on the progress made in 2004 and broadening the reform agenda.

Directors observed that a prudent fiscal policy in 2004 had contributed importantly to the macroeconomic stabilization effort. From that perspective, they expressed concern about the expansionary fiscal policy stance in 2005 and consequent larger non-oil deficit, which could complicate the management of monetary policy, lead to spending inefficiencies, and crowd out export activities and private investment. Directors considered that these potential consequences of the planned loosening of the fiscal stance made it all the more important to strengthen public expenditure management to ensure that public spending helps achieve the NEEDS objectives and the Millennium Development Goals. In this light, they welcomed the establishment of a virtual poverty fund to track poverty-reducing spending, and the creation of a cost-benefit analysis unit in the Ministry of Finance to examine large investment projects. They called on the authorities to further improve the government's budget classification systems to enable adequate monitoring of the pro-poor and growth-supporting aspects of the budget. Directors welcomed the provisions of the Fiscal Responsibility Bill, which, if passed, will enhance fiscal transparency and accountability at all levels of government, introduce formal fiscal rules into the budget process, and lay the foundations for medium-term fiscal sustainability. They took note of the authorities' efforts to garner broad support for the Bill in the National Assembly.

Directors emphasized that, in the light of the fiscal expansion, more of the burden of controlling inflation would fall on the Central Bank of Nigeria (CBN). Given the sharp increase in monetary aggregates in early 2005, Directors supported the recent actions of the CBN to limit broad money growth. They welcomed progress in relying more on indirect instruments of monetary management, and urged the authorities to allow short-term interest rates and the exchange rate to adjust as needed to meet the monetary targets. Directors concurred with the authorities' intention to continue with money targeting as the operational framework for anchoring inflationary expectations. Several Directors recommended that the authorities consider moving to an inflation targeting regime in the shortest possible time after appropriate preparations and contingent upon a strengthening of the financial sector.

Directors regretted the deterioration in the financial condition of some banks in 2004, and noted that major challenges remain for promoting a healthy and vital financial sector. At the same time, they welcomed the measures taken by the authorities in this area, including the capitalization program and the recent establishment of a high-level steering committee to guide the bank restructuring and consolidation program. They urged the CBN to develop a strategic plan to deal with banks that will not meet the minimum capital requirement at end-2005, strengthen its legal powers to close insolvent banks, and enhance banking supervision. They called on the authorities to ensure that sound accounting standards are applied in valuing banks' assets, and to advance the legal processes for establishing asset management companies to minimize the budgetary costs associated with liquidation of some banks. Directors supported the authorities' request for Fund technical assistance on the banking reform program. They welcomed the progress made in strengthening the anti-money laundering framework with the establishment of a Financial Intelligence Unit in the Economic and Financial Crimes Commission.

Directors called for steps toward reform of Nigeria's foreign exchange markets, which remain segmented and a source of distortions. In this vein, they welcomed the CBN's commitment to introduce a wholesale auction for foreign exchange in early 2006, which should unify the exchange system. The CBN should expedite work to put in place the necessary infrastructure and regulations for the auction. Directors urged the authorities to further streamline current foreign exchange regulations and to take the steps necessary for accepting the obligations of Article VIII of the Fund's Articles of Agreement.

Directors considered that the authorities' ambitious structural reform agenda is focused appropriately on strengthening governance and transparency, enhancing public service delivery, streamlining the role of government in the economy, and improving the business environment. They welcomed the revamping of the Bureau of Public Enterprises (BPE) and encouraged the authorities to expedite the overall pace of privatization, bearing in mind the need to rally public support for it. They also welcomed the authorities' emphasis on broad-based participation in advancing the country's commitment to improve transparency in the oil and gas sector under the Extractive Industries Transparency Initiative (EITI).

Directors supported the authorities' tariff reform program, as lower tariffs will benefit Nigeria's international competitiveness. They commended the authorities' intention to phase out all import bans by end-2006 and fully adopt the ECOWAS Common External Tariff by end-2007, but recommended that the timetable for implementing these reforms be accelerated.

Directors were encouraged by the readiness of Nigeria's external creditors to negotiate a comprehensive debt relief agreement with the country.

Directors stressed the importance of improving the reliability and timeliness of economic statistics to better support the formulation and monitoring of macroeconomic and social policies. To this end, they welcomed the recent merging of the Federal Office of Statistics with the National Data Bank to create the National Bureau of Statistics.

All Directors welcomed a continuing close dialogue of the Fund with Nigeria on policy formulation and implementation, in the most appropriate and effective form, including in the context of a possible non-borrowing relationship.

Nigeria: Selected Economic and Financial Indicators, 2002-05

	2002	2003	2004 Est.	2005 Proj.
	(Annual percentage changes, unless otherwise specified)			
National income and prices				
Real GDP (at 1990 factor cost)	1.4	10.9	6.1	3.4
Oil GDP	-11.6	26.5	3.5	0.2
Non-oil GDP	8.0	4.4	7.4	4.9
Real GDP per capita	-1.3	7.9	3.3	0.8
GDP per capita (in U.S. dollars)	341	415	500	610
Non-oil GDP per capita (in U.S. dollars)	180	201	204	224
GDP deflator (period average)	3.9	20.8	19.9	20.0
Consumer price index (end of period)	12.2	23.8	10.0	13.5
External sector				
Exports, f.o.b. 1/	-9.8	54.2	36.9	21.1
Imports, f.o.b.	28.9	26.1	11.3	28.0
Terms of trade	-0.5	2.5	20.5	23.6
Real effective exchange rate (end of period; - indicates depreciation)	-10.5	0.9	4.9	...
Consolidated government operations 2/				
Total revenue and grants	-8.7	36.1	47.5	30.1
Oil revenue	-14.8	42.7	59.3	34.3
Non-oil revenue	12.1	19.4	11.6	11.9
Total expenditure and net lending	-8.7	26.2	17.3	23.6
Money and credit				
Net foreign assets 3/	-3.5	5.5	62.3	57.3
Net domestic assets 3/	25.0	19.0	-49.9	-44.2
Net domestic credit 3/	48.3	29.7	-23.1	-41.9
Net credit to consolidated government	37.6	13.8	-39.1	-50.1
Net credit to the federal government	38.5	13.6	-5.4	-16.8
Credit to the rest of the economy	10.8	15.7	15.7	8.2
Broad money	21.6	24.1	14.0	15.0
Velocity (non-oil GDP as a multiple of end-of-period broad money)	2.1	2.0	2.1	2.3
Treasury bill rate (percent; end of period)	14.9	14.9	14.3	...
Discount rate (percent; end of period)	18.5	16.5	15.0	...
	(In percent of GDP, unless otherwise specified)			
Investment and saving				
Investment	26.2	23.9	22.4	22.8
Public fixed investment	10.0	9.7	9.1	9.6
Private fixed investment	16.2	14.2	13.2	13.1
Gross national savings	14.5	21.1	27.0	28.6
Public	12.2	13.2	20.9	22.9
Private	2.3	7.9	6.1	5.6

Nigeria: Selected Economic and Financial Indicators, 2002-05

	2002	2003	2004 Est.	2005 Proj.
Consolidated government operations 2/				
Total revenues and grants	36.4	37.1	43.1	45.2
Total expenditure and net lending (commitment basis)	40.7	38.4	35.4	35.3
Overall balance (commitment basis)	-4.2	-1.3	7.7	9.9
Non-oil primary balance (in percent of non-oil GDP, commitment basis)	-29.9	-33.8	-36.4	-40.7
Gross domestic debt	18.1	15.5	13.9	12.1
External sector				
Current account balance	-11.7	-2.7	4.6	5.8
External debt outstanding (in billions of U.S. dollars)	31.0	32.9	35.9	36.2
External debt service due after rescheduling, 2000–01				
(in percent of exports of goods and services)	6.4	5.1	4.3	3.9
	(In billions of U.S. dollars, unless otherwise specified)			
Current account balance	-5.4	-1.6	3.3	5.2
Overall balance of payments	-4.5	-1.6	8.1	9.2
Gross international reserves (end of period)	7.7	7.5	17.0	28.5
(equivalent months of goods and services)	3.9	3.4	6.2	9.9
Price of Nigerian oil (U.S. dollars per barrel)	25.0	28.9	38.3	49.5
Production of crude oil (million barrels per day)	1.96	2.45	2.49	2.40
Including oil and gas equivalent	2.15	2.72	2.81	2.82
Interbank Foreign Exchange Market/DAS exchange rate (naira per U.S. dollar; average)	122.2	130.9	134.3	...
Nominal GDP at market prices (in billions of naira)	5,632	7,533	9,575	11,872

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

1/ Export volumes fall more than total production because of an increase in the domestic allocation of crude oil to the Nigerian Naional Petroleum Corporation (NNPC) in 2002 from 2001.

2/ Consists of the federal, state, and local governments.

3/ Change in percent of broad money at the beginning of the period.