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Nigeria: Request for a Two-Year Policy Support Instrument—Staff Report; Staff Statement; Press Release on the Executive Board Discussion; and Statement by the Executive Director for Nigeria

In the context of the request for a two-year Policy Support Instrument, the following documents have been released and are included in this package:

- the staff report for the Request for a Two-Year Support Instrument, prepared by a staff team of the IMF, following discussions that ended in August 15, 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 October 7, 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 statement of October 17, 2005 updating information on recent developments.

- a Press Release summarizing the views of the Executive Board as expressed during its October 17, 2005 discussion of the staff report that completed the request.

- a statement by the Executive Director for Nigeria.

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

Letter of Intent sent to the IMF by the authorities of Nigeria*
Nigerian Economic Reform Program—Policy Statement*
Poverty Reduction Strategy Paper—National Economic Empowerment and Development Strategy
Poverty Reduction Strategy Paper—National Economic Empowerment and Development Strategy—Joint Staff Advisory Note
Technical Memorandum of Understanding*
*Also included in the Staff Report

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

Request for a Two-Year Policy Support Instrument

Prepared by the African Department

Approved by Michael Nowak and Carlo Cottarelli

October 7, 2005

- Discussions on the authorities' program under intensified surveillance were conducted in Abuja June 29-July 7, 2005, and August 9-15, 2005. The focus of the program was subsequently changed to one that could be supported by the Policy Support Instrument (PSI). The staff team comprised Messrs. Katz (head), McDonald, Bartsch, and van Selm (all AFR), Mr. Villafuerte (FAD), Mr. Nielsen (PDR), and Mr. Thiam (Senior Resident Representative). Mr. Ukpong (Senior Advisor to the Executive Director for Nigeria) attended the discussions. Staff worked closely with the World Bank country office in Nigeria.

- Discussions were held with Dr. (Mrs.) Okonjo-Iweala, Minister of Finance (MOF); Mr. El Rufai, Minister of the Federal Capital Territory; Professor Soludo, Governor of the Central Bank of Nigeria (CBN); Professor Ojowu, Economic Advisor to the President; and other senior officials.

- The 2005 Article IV consultation with Nigeria was concluded on July 18, 2005 (see Country Report No. 05/302 at www.imf.org/external/country/nga/index.htm). Executive Directors commended the authorities for Nigeria's strong economic performance in 2004 under the National Economic Empowerment and Development Strategy (NEEDS). However, Directors noted that Nigeria continues to face significant challenges from decades of economic mismanagement.

- Appendix I contains the authorities' request letter and policy statement setting forth economic and financial policies to be assessed and endorsed under the requested PSI. The authorities intend to publish both the staff report and the policy statement. The program to be supported under the requested PSI covers the period July 1, 2005-June 30, 2007.

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Executive Summary

Over the past 18 months, Nigeria has made commendable progress in implementing its homegrown economic reform program, aimed at accelerating economic growth, reducing poverty, and meeting the Millennium Development Goals (MDGs). Macroeconomic policies in 2004 were broadly consistent with the objectives of achieving macroeconomic stability and reducing the economy's vulnerability to oil shocks. Since 2004, non-oil GDP growth has picked up and gross international reserves have risen significantly.

Developments in the first half of 2005 were dominated by a continued rise in gross international reserves and a sharp increase in broad money. Concurrently, the 12-month consumer price inflation reached 26 percent in July. In light of the liquidity expansion in the first half of the year, the monetary program for the remainder of 2005 has been tightened, and the CBN is implementing a monetary framework that aims at lowering inflation to single-digit levels in 2006 and beyond. Fiscal policy was expansionary although budgetary developments in the first seven months of 2005 were consistent with the government's commitment to contain spending.

The medium-term outlook is broadly positive and the authorities' aim is to tighten macroeconomic policy and improve the mix of fiscal and monetary policies to meet their macroeconomic objectives. The medium-term fiscal program will be based on a reduction of the consolidated non-oil primary balance from 41 percent of non-oil GDP in 2005 to 35 percent in 2008. Formulation of the 2006 budget has begun with the aim of reducing the non-oil fiscal deficit, thus making the budget more supportive of the disinflation policy.

The authorities have also initiated a broad and ambitious structural reform program aimed at improving public service delivery and the business environment. This program includes measures to strengthen budgetary procedures, advance civil service reforms, restructure the banking system, unify the foreign exchange markets, rationalize the external tariff system, and improve governance and transparency.

Against this backdrop, the authorities request a Policy Support Instrument (PSI) from the Fund. They believe that a close relationship with the Fund that is targeted to assist them develop a well-articulated and sound policy framework, including prudent macroeconomic policies, a strengthening of institutions, and ensuring a governance structure conducive to private sector activity, will support the next phase of reform.

The authorities have been discussing a possible debt-restructuring agreement with Paris Club creditors. On June 29, the Paris Club announced that it had agreed in principle on a phased approach whereby Nigeria would clear its arrears in full, receive a debt write-off of up to Naples terms, and buy back the remainder of its debt. The creditors expressed their readiness to invite Nigeria to negotiate the elements left open as soon as Nigeria had concluded a nonborrowing agreement with the Fund.

Given Nigeria's demonstrated policy commitment and ambitious structural reform agenda, the staff considers that the Nigerian program meets the standards for upper credit tranche conditionality. It therefore recommends that the Executive Board assess and endorse Nigeria's program and approve the requested Policy Support Instrument.

I. Introduction

1. **Over the past 18 months, Nigeria has made commendable progress in implementing its homegrown economic reform program, marking a clear break from the imprudent policies of the past.**[1] Macroeconomic policies have been managed more cautiously than in previous periods of strong oil price increases, although they have been somewhat more relaxed in 2005. All three tiers of government have adhered to a conservative oil price-based fiscal rule, resulting in large overall budget surpluses and a significant build-up of international reserves. The authorities have also initiated a broad structural reform program. GDP growth has been robust, benefiting from the improved macroeconomic environment and policies initiatives to spur agricultural production, and the medium-term growth outlook is favorable. The authorities' economic and structural reform program was launched in 2003 and has been monitored under Fund intensified surveillance since 2004.

2. **Against this background, the authorities request a two-year PSI to support their reform efforts.** They seek to sustain and strengthen their macroeconomic performance and to enhance prospects for an increase in non-oil GDP growth. They believe that a close relationship with the Fund, which is targeted to assist them develop a well articulated and sound policy framework, will support this next phase of reform. Moreover, Executive Board assessment and endorsement of the reform program will be supportive of their efforts to increase flows of foreign investment, and facilitate debt relief.

3. **The authorities have been discussing a possible debt-restructuring agreement with Paris Club creditors.** On June 29, 2005, the Paris Club announced that it had agreed in principle to a phased approach whereby Nigeria would clear its arrears in full, receive a debt write-off of up to Naples terms, and buy back the remainder of its debt. This phased approach is based on Board approval of a nonborrowing arrangement and satisfactory performance under the program. The creditors expressed their readiness to invite

Nigeria: Core Indicators, 2003-05
(Annual percentage changes, unless otherwise indicated)

	2003	2004	2005	
			June	Dec.
		Est.	Est.	Proj.
Consumer prices (end of period)	23.8	10.1	18.6	18.5
Real GDP growth	10.9	6.1	...	4.0
non-oil GDP	4.4	7.4	...	4.9
oil and gas GDP	26.5	3.5	...	2.0
Federal government non-oil primary balance, cash basis (in percent of non-oil GDP)	-14.3	-12.2	...	-15.7
Consolidated government non-oil primary balance, commitment basis (in percent of non-oil GI	-34.4	-35.2	...	-41.4
Broad money (12-month rate, end of period)	24.1	14.0	33.8	15.0
Reserve money (12-month rate, end of period)	16.4	6.3	15.3	4.3
Current account balance (in percent of GDP)	-2.7	4.6	...	9.8
Gross international reserves (in billions of U.S. dollars)	7.5	17.0	24.4	26.4

Sources: Nigerian authorities; and Fund staff estimates.

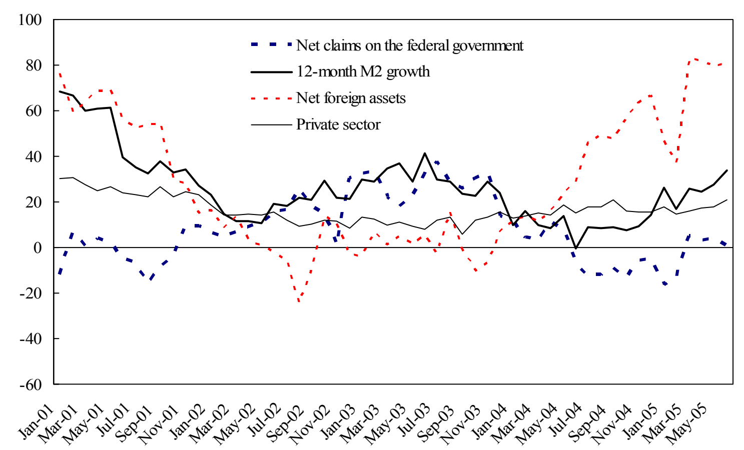
[1] The 2005 Article IV Staff Report (IMF Country Report No. 05/302) elaborates on the implementation of the authorities' policies and economic performance in 2004 and early 2005.

Nigeria to negotiate the elements of the agreement left open—including the overall rate of debt cancellation, the length of the phasing period, and possible trigger clauses—as soon as Nigeria had concluded a nonborrowing arrangement with the Fund.

II. Recent Developments

4. **Developments in the first half of 2005 were dominated by a continued rise in gross international reserves and a sharp increase in broad money, reflecting both higher oil prices and capital inflows.** The central bank failed to sterilize the buildup of excess liquidity in the banking system that stems in part from larger private capital inflows and looser fiscal policy than in 2004. Broad money expanded by 38 percent at a seasonally adjusted, annualized rate in the first six months of 2005, which is more than double the authorities' target for the year. Expansionary macroeconomic policies, combined with a sharp increase in food prices related to the food crisis in neighboring countries, pushed the 12-month consumer price inflation to 26 percent in July.[2]

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



Sources: Nigerian authorities; and Fund staff estimates.

5. **Measures initiated by the CBN in June and July to contain the increase in broad money and to reverse the buildup of inflationary pressures were largely ineffective.** They included increased sales of foreign exchange in the Dutch Auction System (DAS), and an increase in banks' cash reserve requirements (CRR) by 50 basis points to 10 percent. However, the transfer of the deposits of selected public enterprises from commercial banks to the CBN could not be carried out because the national oil company preferred to keep its deposits with commercial banks, where returns are higher.

6. **To further reduce excess liquidity, the CBN offered for sale in August and September US$1.1 billion in extraordinary wholesale foreign exchange auctions in**

[2] Consumer prices increased by more than 5 percent in July (seasonnally adjusted) on the back of higher food prices, in particular in northern states bordering Niger which experienced acute food shortages. The general price level had been edging upward in preceding months from the impact of higher government spending and liquidity expansion.

addition to the twice-weekly regular retail DAS. However, banks bought only US$0.4 billion in these auctions, with the naira appreciating by almost 3 percent. The premium on the interbank market halved to 1.5 percent. The CRR was raised by an additional 100 basis points to 11 percent.[3] In addition, the CBN sold N 46 billion in CBN bills in September.

7. **Fiscal developments in the first seven months of 2005 were consistent with the government's commitment to contain spending.** Primary spending of the consolidated government grew by about 22 percent year on year. Execution of the 2005 federal capital budget started only in May because of the late approval of the budget, although there was a substantial carryover from 2004. Windfall oil revenues of US$6.2 billion were saved by all tiers of government during the first seven months of the year, while US$1.7 billion of last year's oil windfall savings was distributed to the consolidated government.

III. Macroeconomic and Structural Policies for 2005 and the Medium Term

8. **The medium-term economic outlook is broadly positive, and the authorities aim to improve the mix of fiscal and monetary policies to meet their macroeconomic objectives.** The staff projects non-oil GDP growth of 5 percent per annum, and gross international reserves to reach 8 months of import coverage by end-2005 and 14 months by end-2006.[4] With the CBN's commitment to return to tight monetary policy, end-year inflation is expected to be contained to a range of 17-21 percent. However, taking account of lags in the transmission mechanism and the recent increase in petroleum prices (see paragraph 22), inflation is likely to end up close to the upper bound of the range. The end-period inflation rate would decline to single digits in 2006, helped by a continuation of the tight monetary stance and a more prudent fiscal policy than in 2005. In the staff's view, these pro-growth and export-oriented reforms, along with prudent fiscal, exchange rate and monetary management, will boost external competitiveness

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

	2004 Est.	2005	2006	2007	2008 Proj.
Price of Nigerian oil (U.S. dollars per barrel)	38.3	54.2	60.5	58.5	57.5
Real GDP (at 1990 factor cost)	6.1	4.0	5.0	5.6	5.4
Non-oil GDP (at 1990 factor cost)	7.4	4.9	5.0	5.4	5.5
Consumer price index (annual average)	15.0	18.8	11.9	6.5	5.5
Overall balance (commitment basis, in percent of GDP)	7.7	9.9	17.9	17.4	17.1
Non-oil primary balance (commitment basis, in percent of non-oil GDP)	-36.4	-41.4	-38.0	-37.9	-35.1
External current account balance (in percent of GDP)	4.6	9.8	14.3	12.2	12.8
Gross external reserves (billions of U.S. dollars)	17.0	26.4	48.3	68.0	89.0

Sources: Nigerian authorities; and Fund staff estimates.

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[3] The CBN remunerates cash reserves above 8 percent of deposits at the 91-day treasury bill rate.

[4] The authorities aim for higher non-oil GDP growth rates, but the staff is more cautious about the supply response to the reform program. The authorities' financial program is based on the more conservative growth projections.

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.

9. **The medium-term fiscal program will be based on reducing the consolidated non-oil primary deficit from 41 percent of non-oil GDP in 2005 to 35 percent by 2008.**[5] A non-oil primary fiscal deficit of these magnitudes would allow a crowding in of the private sector. Further, the planned reforms to enhance the efficiency of public spending should ensure that priority social spending and key infrastructure projects are adequately funded.

10. **The authorities' macroeconomic and structural policies for July 2005-June 2006 are focused on consolidating the gains made in achieving macroeconomic stability in 2004.** Key objectives include achieving a steady decline in inflation, strengthening public expenditure management, and reducing the costs of doing business in Nigeria.

11. **The authorities' structural reform program is significantly front-loaded.** As indicated in their policy statement (Appendix I), structural assessment criteria and benchmarks are set in key areas.

A. Fiscal Policy and Public Sector Reforms

12. **The 2005 federal government Appropriations Act envisaged unduly large spending increases.** Recognizing the risks, the authorities identified measures to contain the increase in federal government primary spending to 25 percent in real terms. On this basis, the non-oil primary deficit of the federal government would increase by 4 percentage points of non-oil GDP (to 16 percent of non-oil GDP in 2005) and that of the consolidated government by 5 percentage points of non-oil GDP (to 41 percent of non-oil GDP in 2005). However, the tighter budget still involves considerable fiscal expansion and has made monetary policy more difficult.

13. **The authorities' determination to contain spending is being helped by a number of factors.** First, oil production is likely to continue to be well below the level envisaged when the budget was formulated. Second, and partly as a result of the lower oil

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[5] The staff estimates that this range for the non-oil primary deficit would be consistent with maintaining real wealth over the long run. The non-oil primary balance is 40 percent of non-oil GDP in 2005, excluding a planned importation of natural gas–fired power plants for seven Niger Delta States for a total of US$2.3 billion (during 2005-07) to be financed from oil windfall deposits. This project, which is subject to approval by the National Assembly, would have limited domestic demand incidence, given its high import content. Initial outlays would amount to US$700 million in 2005 (1½ percent of non-oil GDP). The ratios do not include the implicit subsidy on petroleum product prices (projected at 4 percent of non-oil GDP in 2005 and 2 percent of non-oil GDP in 2006).

revenues, the authorities have maintained a close dialogue with the National Assembly on the need to contain federal government expenditures in 2005. Successful management of the risks will require continued fiscal discipline, policy coordination and strong monitoring.

14. **The authorities' fiscal program assumes that Nigeria's arrears with Paris Club creditors will be regularized.** All estimated Paris Club arrears are assumed to be settled by end-2005. Following the expected elimination of all remaining Paris Club debt in 2006, there would be no additional debt service to the Club in 2006.[6] Nigeria's external public debt will decrease from US$36 billion (US$33 billion in net present value (NPV) terms) as of end-2004 to US$5 billion (US$4½ billion in NPV terms) as of end-2006. Relative to GDP, exports, and fiscal revenue, this NPV debt would amount to 4 percent (47 percent), 7 percent (85 percent), and 8 percent (108 percent), respectively, as of end-2006 (end-2004). The authorities do not intend to borrow on nonconcessional terms in the period ahead, and the program therefore includes a zero limit on new nonconcessional borrowing.

15. **Formulation of the 2006 budget has begun with the aim of reducing the non-oil fiscal deficit.** The authorities envisage a 2006 federal budget with an implied consolidated non-oil primary fiscal deficit of 38 percent of non-oil GDP. The staff believes that this fiscal stance is appropriate as it will be more supportive of the disinflation policy.

16. **For the first time, the federal budget is being prepared in the context of a medium-term expenditure framework (MTEF).** Eight major line ministries are formulating their objectives in line with NEEDS and are linking spending programs to these objectives within the MTEF. A conservative oil-price-based rule will continue to anchor fiscal policy for all tiers of government. In contrast to that of 2005, the 2006 federal budget does not envisage using any of the oil revenue windfall from previous years to finance additional spending in 2006 (except for the planned procurement of power plants mentioned in footnote 4). Instead, the windfall from 2005 (and part of 2006) will be used to finance the anticipated debt-relief agreement with Paris Club creditors. To enhance the prospects for a quick passage of the federal budget, the authorities have intensified their dialogue with the

[6] Paris Club debt amounted to 86 percent of total debt as of end-2004. The staff's recent debt sustainability analysis (IMF Country Report No. 05/302) showed that Nigeria's external debt was sustainable, albeit vulnerable from about 2020 onwards to a sustained oil price shock commencing in 2006. With the expected elimination of all Paris Club debt in 2006 and an upward revision of expected oil prices over the medium term, the point at which external debt becomes vulnerable in the face of a permanent oil price shock is outside the current projection horizon (2025). Pending the outcome of the negotiations with the Paris Club on a comprehensive debt treatment, the projections do not include a specific amount paid by Nigeria to buy back its remaining debt to Paris Club creditors (after clearing its arrears and receiving a debt write-off).

National Assembly, focusing on reaching an agreement on the main assumptions that will underlie the budget and the broad outlines of revenues and expenditures.

17. **The 2006 budget aims to strengthen expenditures on poverty-reducing programs.** An extra allocation of US$1 billion has been made to well-defined programs related to achieving the Millennium Development Goals at both the federal and subnational government levels. This allocation represents the expected saving in debt service in light of the proposed restructuring of Nigeria's Paris Club debt.

18. **The draft Fiscal Responsibility Bill is currently under consideration in the National Assembly.** The bill aims to strengthen overall fiscal management and improve coordination of fiscal policies among the three tiers of government. It also contains several elements to improve public expenditure management at both the federal and state levels and sets out a fiscal framework centered on transparency requirements, sanctions for noncompliance, guidelines for budgetary practices, and an oil-price-based rule.

19. **Fiscal structural reforms are being implemented in several other areas.** As part of the overall public administration reform, the authorities are extending civil service reform from the pilot ministries and agencies to all federal line ministries and parastatal enterprises by end-2005 (Appendix I). In addition to the retrenchments that have already taken place in the public service (11,000 personnel, or 4 percent of the core civil service, since early 2004), the authorities have identified an additional 5,000 public servants for retrenchment by end-2005. Although the target for additional retrenchments in 2005 may seem modest, the speed of the process is inevitably constrained by the availability of financing for severance payments. The World Bank and donors are expected to support the operation.

20. **For adequate tracking of poverty-reducing spending, the authorities aim to further strengthen public expenditure management (PEM).** To allay efficiency and absorptive capacity concerns regarding the allocation of the expected savings from debt service to the Paris Club, the authorities are setting up a virtual poverty fund and improving the budget classification systems.[7] Although the virtual poverty fund will not be sufficient to assess changes in the overall composition of spending toward pro-poor areas because it tracks only a subset of the budget, it represents an important start, given the limited capacity of the PEM system. Several state and local governments are also strengthening their PEM systems and aligning their budgets with the country's development requirements.

[7] The virtual poverty fund will monitor a list of budget line items that have an impact on indicators related to the Millennium Development Goals. Given the state and local governments' role in service delivery, some of their spending will also be included in the monitoring system.

21. **In an effort to clear domestic payments arrears, the authorities are undertaking a due diligence on contractor arrears.** These arrears are estimated at about N 300 billion (2 percent of GDP). Once the due diligence is completed, the arrears will be cleared through issuance of bonds with maturities of 3-10 years and, subject to budgetary constraints, through cash payments. Regarding pension arrears, the authorities plan to establish a central database of pensioners and public servants to help determine the stock of arrears, as well as the costs of transition from the pay-as-you-go system to the new defined-contribution scheme. It is estimated that pension arrears under the pay-as-you-go system amount to between N 100-200 billion. The authorities are considering settling arrears in cash at a discount or by issuing bonds.

22. **The resistance to fully pass on crude oil price increases to consumers led to the accumulation of arrears on payments for crude oil bought for domestic refining by the Nigerian National Petroleum Corporation (NNPC) equivalent to 2 percent of non-oil GDP as of end-July, 2005.** This reduced the amount of the oil windfall earnings that was sterilized. Following an assessment of the NNPC's costs, the regulatory authority decided to allow gasoline prices to increases by about 25 percent on August 26, 2005. Organized labor has threatened protests, but so far these have been relatively muted. With this increase, domestic prices are near import parity at a WEO price of US$51 per barrel. However, if oil prices remain at current levels for the rest of 2005 and there are no further adjustments in petroleum product prices, the subsidy for the year would amount to N 250 billion (4 percent of non-oil GDP). In 2006, the implicit subsidy would amount to N 120 billion (2 percent of non-oil GDP) unless international crude prices fell below current projections or domestic prices were further increased.[8] The authorities intend to make the remaining subsidy explicit in the 2006 budget documentation so that the true fiscal burden can be identified. They have commissioned a study on the benefit incidence of the current subsidy, with the aim of identifying ways of limiting the subsidy and targeting it to the poor.

23. **A major overhaul of the customs administration and the Federal Inland Revenue Service (FIRS) is under way**. The authorities have introduced a three-year program to improve customs administration and have replaced its management. Customs restructuring, together with port concessioning and the tariff reform, aims to reduce the time needed to clear cargo in Nigeria's major ports from over 3 weeks to 48 hours by 2007. The FIRS is being restructured, with technical assistance from FAD, and the tax system reformed in order to broaden the tax base and address distortions, as well as to make the budget less vulnerable to oil price shocks.

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[8] Without the recent price change, implicit subsidies would have amounted to 5½ and 6 percent of non-oil GDP in 2005 and 2006, respectively.

B. Monetary and Financial Sector Policies

24. **The CBN is implementing a monetary framework that aims at lowering inflation to single-digit levels in 2006 and beyond.** For the time being it will continue to pursue a money-targeting approach—based on a reserve money program—to control inflation while putting in place the elements needed to move to inflation targeting over the longer term. Implementation of this monetary policy framework will require interest rate and exchange rate flexibility. The authorities have reiterated their position that the exchange rate band objective would be subordinated to the money target and the exchange rate would be allowed to adjust, if necessary.[9]

25. **The monetary program for 2005 has been revised in light of liquidity developments in the first half of the year.** The reserve money growth target has been reduced from 11 percent in the original program to 4 percent. Developments in the money multiplier associated with the increase in capital requirement of banks (as the demand for cash fell), should allow the CBN to meet its target of broad money growth of 15 percent. To achieve the lower reserve money target, foreign exchange sales in the DAS and in direct sales to commercial banks are expected to increase from the equivalent of an average of US$0.8 billion a month in the first six months of the year to an average of US$1.1 billion a month in the second half of the year. The CBN also plans to issue central bank bills shortly and, in doing so, is prepared to allow interest rates to rise. Finally, the CBN is taking additional steps to transfer to its balance sheet public enterprise deposits currently in commercial banks.

26. **The CBN and the government are undertaking reforms to enhance the effectiveness of monetary policy.** They have limited the government's overdraft facility to 5 percent of projected revenue and are lengthening further the maturity structure for treasury bills. The CBN also plans to (i) introduce a liquidity forecasting framework to enhance the effectiveness of daily open market operations; (ii) adopt a forward-looking framework, whereby monetary decisions are made in relation to expected developments in money supply and inflation; and (iii) improve communications with the public to convey its assessments of the monetary and inflation outlook, its monetary objectives, and the instruments that it will use to achieve those ends.

27. **The authorities are carrying out a highly ambitious bank consolidation exercise (see IMF Country Report No. 05/302).** By mid-August 2005, 21 groups of banks had emerged involving 65 banks out of a total of 89. Given concerns about balance sheet weaknesses in the banking system, the exercise could exert pressure on the financial system and, consequently, result in high fiscal costs. The authorities are implementing

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[9] In February 2005, the CBN announced that the exchange rate would be allowed to fluctuate within a (+/-) 3 percent band.

recommendations from the Fund's Monetary and Financial Systems Department (MFD) to mitigate these risks. Nevertheless, implementation risks remain considerable, and developments will have to be closely monitored.

28. **A high-level steering committee to guide the bank consolidation—a key recommendation of MFD—is now operational.** The authorities have prepared a detailed contingency plan to deal with a potential loss of confidence in the banking system. This plan has been reviewed and discussed with MFD experts and is considered satisfactory. In addition, the authorities are finalizing an exit strategy for failed or weak banks that are unable to meet the capital requirement by end-2005. Legislation is also being drafted to set up an asset management company to take on nonperforming loans and to strengthen the CBN's regulatory power. The authorities agreed to develop other operational measures, including: (i) conducting a proper valuation of banks prior to merging; (ii) ensuring appropriate pricing of shares offered on the stock exchange; and (iii) supervising effective horizontal and vertical integration of merging banks. Adequate actions to enhance bank supervision, including monitorable steps to strengthen off-site supervision, are also needed. Additional Fund technical assistance has been requested in bank restructuring and in implementing foreign exchange market reforms (discussed below).

29. **The authorities announced in early February 2005 that they would move to a wholesale auction with a view to unifying the current retail DAS and the interbank market for foreign exchange.** This reform represents an important step toward accepting the obligations of Article VIII, sections 2, 3 and 4 of the IMF's Articles of Agreement.[10] The new system will be introduced in the first quarter of 2006, following the implementation of an action plan developed in consultation with the Fund. The action plan includes refinements to definitions on open positions for banks and the development of online information technology that would allow real-time monitoring of banks' open positions.

C. Other Structural Reforms

30. **Other structural reforms cover a range of ambitious policy initiatives.** In the World Bank's Doing Business in 2006: Creating Jobs, Nigeria was ranked 94 out of 155 countries on a variety of indicators.[11] Its structural reform agenda is therefore motivated by the need to improve the delivery of public services and the business environment, promote private investment, and create jobs in the non-oil sector. The structural reform program is significantly front loaded, with most target dates set within calendar year 2005, or before the scheduled completion of the first review of the PSI-supported program in April 2006. Among the key reform measures are a major rationalization of tariffs in line with the common

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[10] A wholesale Dutch auction may still entail a multiple currency practice.

[11] See www.doingbusiness.org, also Country Report No. 05/303 of 8/26/05.

external tariff of the Economic Community of West-African States (ECOWAS), a revitalization of the privatization program, and a comprehensive audit of the oil sector under the Nigerian Extractive Industries Transparency Initiative (NEITI).

31. **A major tariff reform program is scheduled to take effect by end-October 2005 that will reduce the unweighted average tariff from 29 to below 20 percent.**[12] The new tariff system has four tariff bands (0, 5, 10, and 20 percent). A temporary 50 percent tariff will be applied to selected locally produced import-competing goods. Duty concessions will no longer be granted. There will be no new import bans, and all existing ones will be phased out by end-January 2007. The 50 percent tariff band will be reviewed by end-2007, following a study of the impact of the tariff reform on the economy. The tariff structure will be consistent with ECOWAS requirements.

32. **The authorities have developed a realistic program to accelerate the pace of privatization.** Their aim is to privatize, or offer for concession 21 enterprises in 2005 and 2006. The privatization process is transparent. The bidding process involves a combination of technical analysis of bids and a financial analysis based on offered price. The Bureau of Public Enterprise (BPE) is mounting an aggressive publicity campaign to explain the benefits of privatization. Key elements of the BPE's program include the privatization of the telecommunications company (NITEL) and the unbundling and subsequent privatization of the power company (NEPA) (Appendix I).[13]

33. **The fight against corruption and improvements in governance remain top priorities of the government.** The publication of monthly oil revenue distributions to the three tiers of government will be continued. Following the appointment in March 2005 of an independent international firm to audit oil and gas accounts of the industry for 1999-2004 under the NEITI, the authorities intend to publish preliminary audit results by December 2005. They have stepped up the fight against corruption through the Economic and Financial Crimes Commission with several recent high-level arrests. To further institutionalize the reforms, the NEITI and Public Procurement Bills have been presented to the National Assembly.

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[12] The reforms were postponed from mid-2004 to 2005 in order to a build consensus within the private sector. The tariff reform was approved by the Federal Executive Council on September 28, 2005.

[13] Proceeds from accelerated privatization have not been reflected in the fiscal projections because of uncertainties in the value and timing of the proceeds.

IV. Capacity Building

34. **Nigeria will continue to require technical assistance to strengthen its institutional capacity to implement sound economic policies.** The authorities have identified key priority areas as exchange rate unification, bank restructuring, tax policy and administration, and public expenditure management. Further, they have agreed that improving the quality and timeliness of economic and social statistics are critical to support the formulation and monitoring of macroeconomic policies. In this regard, they have recently taken steps to strengthen their statistical capacity (see Country Report No. 05/302) with technical assistance from, among others, the U.K. Department for International Development, the European Union, the World Bank, and the IMF.

V. Program Monitoring

35. **To monitor Nigeria's performance under the PSI, quantitative and structural assessment criteria, quantitative indicative targets, and structural benchmarks have been set.** These are contained in the quantitative macroeconomic table and matrix of structural measures in the authorities' policy statement (Appendix I). The quantitative targets will be monitored on a quarterly basis and include the non-oil primary balance of the federal government, reserve money, net foreign assets of the CBN, along with the continuous assessment criteria on the nonaccumulation of external arrears and on the contracting or guaranteeing of new nonconcessional external debt. In addition, the authorities have identified structural assessment criteria and benchmarks in a number of areas. Quantitative assessment criteria are proposed for December 2005 and June 2006, while indicative targets are proposed for September 2005 and March and September 2006. The standard provisions on the exchange system and trade issues that apply to the use of the Fund's financial resources will apply as continuous assessment criteria under the PSI. Legislative approval of a 2006 budget in line with the program will be key for completion of the first review of performance under a PSI. Program reviews will be held every six months.

36. **A technical memorandum of understanding has been prepared with clear definitions, adjusters, and reporting requirements.** In particular, program targets will be adjusted to reflect deviations from program assumptions on oil revenue and external debt service payments.

37. **The authorities have confirmed that they have no intention of requesting the use of Fund resources.** The staff has encouraged the authorities to have a Safeguard Assessment conducted by the Fund on a voluntary basis; such an assessment could strengthen the CBN's operations. The authorities indicated that they will consider that option.

38. **The authorities have submitted their NEEDS document to the Executive Boards of the IMF and the World Bank.** The NEEDS document contains the authorities' poverty reduction strategy and is in all respects equivalent to a full poverty reduction strategy paper (PRSP). Accordingly, it is being submitted to the Board as a full PRSP. A Joint Staff

Advisory Note of this document prepared by the staffs of the IMF and the World Bank has also been submitted to the Executive Boards for their consideration. The staffs encouraged the authorities to update their poverty reduction strategy in the NEEDS document in light of recent macroeconomic developments and the experience they have gained so far in implementing the strategy.

39. Executive Board endorsement of Nigeria's request for support under the PSI would automatically place Nigeria on the 24-month Article IV consultation cycle.

VI. Staff Appraisal

40. **The authorities have developed an economic and structural reform program that entails broad domestic ownership at all levels of government.** The staff views Fund assessment and endorsement of the program under a PSI as critical in cementing the reform achievements so far and for shoring up support for a continuation of the process.

41. **Nigeria is to be commended for breaking from the boom-bust policies under its economic and structural reforms.** The government's commitment to contain spending in 2005 below budget appropriations is welcomed; however, the projected increase is still large. This has led to a policy mix that shifts the burden of macroeconomic stabilization to the CBN.

42. **Following failure to sterilize the buildup of excess liquidity in the first half of 2005, the CBN has taken stronger measures—including increased sales of foreign exchange, more aggressive open market operations, and a further increase in cash reserve requirements—to reduce money growth.** In reducing money growth, it is imperative that interest rates be allowed to adjust and the exchange rate to appreciate to allow for a credible disinflation strategy. The CBN should be vigilant in ensuring that the monetary program is successfully implemented and that monetary targets are met.

43. **The authorities' decision to allow oil marketers to increase gasoline prices by about 25 percent is an important step toward eliminating distortions.** Domestic prices are now at import parity levels for crude prices of about US$51 per barrel. The staff supports the government's intention to make the remaining subsidy explicit in the 2006 budget documentation so that the true fiscal burden can be identified.

44. **The government should aim to build on the success of its economic policies in 2004.** Expansionary monetary and fiscal policies that have been pursued so far in 2005 threaten to undermine the gains achieved in macroeconomic stabilization. The buildup of liquidity in the banking system, in particular, risks undoing the recent gains in reducing inflation. The government's announced policy tightening for the rest of 2005 and for 2006 reflects a recognition of these risks, and its policies are appropriate for maintaining macroeconomic stability. The budget envisaged for 2006 is prudent and should change the mix of fiscal and monetary policies to enhance the prospects for lowering inflation. In

meeting the fiscal objective, the staff would urge the government to adopt a conservative reference price for oil. The staff supports the early dialogue with the National Assembly aimed at facilitating the quick passage of the budget for 2006.

45. **The staff supports the authorities' structural reform agenda, which is ambitious but realistic.** Clear, measurable assessment criteria and benchmarks have been developed. Moreover, the reforms are front-loaded, with most measures expected by end-2005 or early 2006.

46. **The staff commends the authorities for the submission of the Fiscal Responsibility Bill to the National Assembly.** The bill will greatly facilitate macroeconomic management by strengthening the coordination of fiscal policies among all tiers of government and institutionalizing an oil-price-based fiscal policy rule. While the significant increase in government spending in 2005 raises questions about the ability to effectively absorb such resources, the authorities are also pursuing important reforms in public expenditure management at all levels of government to improve the overall efficiency of government operations and reduce waste over the medium term.

47. **The reforms in the banking and financial sector will not only strengthen the soundness of the sector, but will also improve the effectiveness of monetary policy implementation.** To manage the considerable risks inherent in the bank consolidation process, the authorities are urged to implement the recommendations of the various MFD technical assistance missions and to follow up with further technical assistance requests as needed. The authorities' strategy for dealing with failing banks calls for the passage of key pieces of legislation, and they are urged to adhere to the timetable for submitting these bills to the National Assembly.

48. **The planned foreign exchange market reforms are welcome.** The adoption of a wholesale auction for foreign exchange should lead to the unification of the foreign exchange markets, representing an important step toward allowing Nigeria to accept the obligations of Article VIII, sections 2, 3, and 4 of the Articles of Agreement. However, the implementation of this reform by the target date requires that the authorities move with deliberate speed to take the necessary preparatory steps, including putting in place the requisite information infrastructure to allow the monitoring of open positions of banks.

49. **The staff believes that the trade reforms will enhance growth of the non-oil sector by reducing the anti-export bias and exposing the economy to greater competition.** The reforms will also streamline the trade regime and enhance the predictability of trade policies, and should contribute to an elimination of parallel market transactions in international trade.

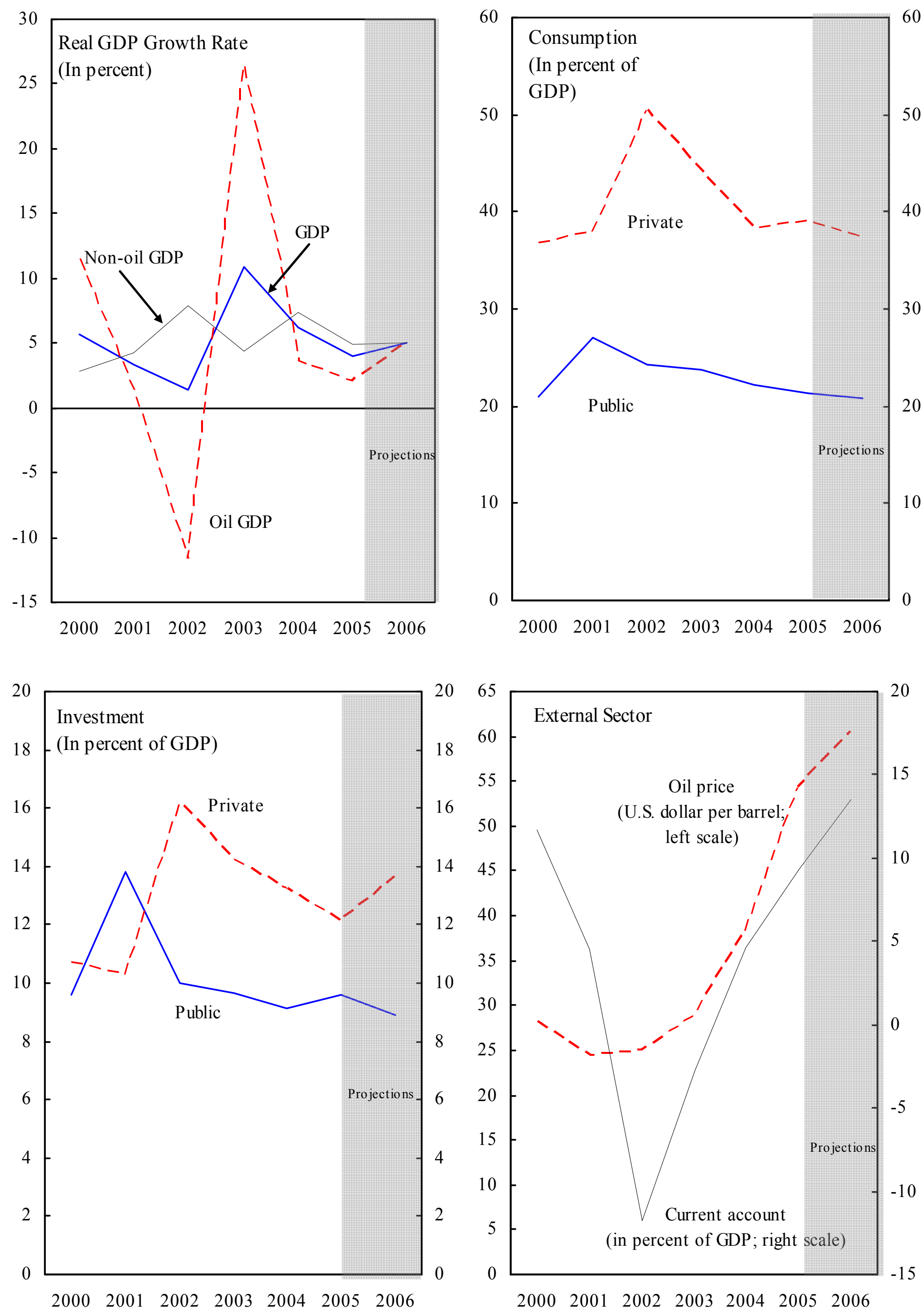
50. **The staff agrees with the authorities' continued emphasis on improving governance and transparency.** Given Nigeria's unfavorable ranking in various corruption indices, efforts in this area will need to be sustained.

51. **The staff welcomes the agreement in principle that has been reached to regularize relations with Nigeria's Paris Club creditors.** The proposed debt-relief package should free up resources for poverty reduction and improve investor confidence.

52. **Implementation of the authorities' reform agenda will require a strengthening of institutional capacity.** Priority areas for future technical assistance are tax policy and administration, public expenditure management, banking supervision, liquidity management, the foreign exchange market, and statistics.

53. **The staff considers that Nigeria's program meets the standard for upper credit tranche conditionality.** Although the program entails significant risks from rising inflation, a possible loss of confidence in the banking system, mounting spending pressure in light of high oil prices, and opposition to structural reforms from vested interest groups, the authorities have demonstrated their capacity to implement economic reforms in a challenging environment, and their commitment to the envisaged tightening of macroeconomic policies and the ambitious structural reform agenda. The staff is therefore confident that the risks to the program are manageable. It therefore recommends that the Executive Board assess and endorse the authorities' program and approve the requested Policy Support Instrument for Nigeria.

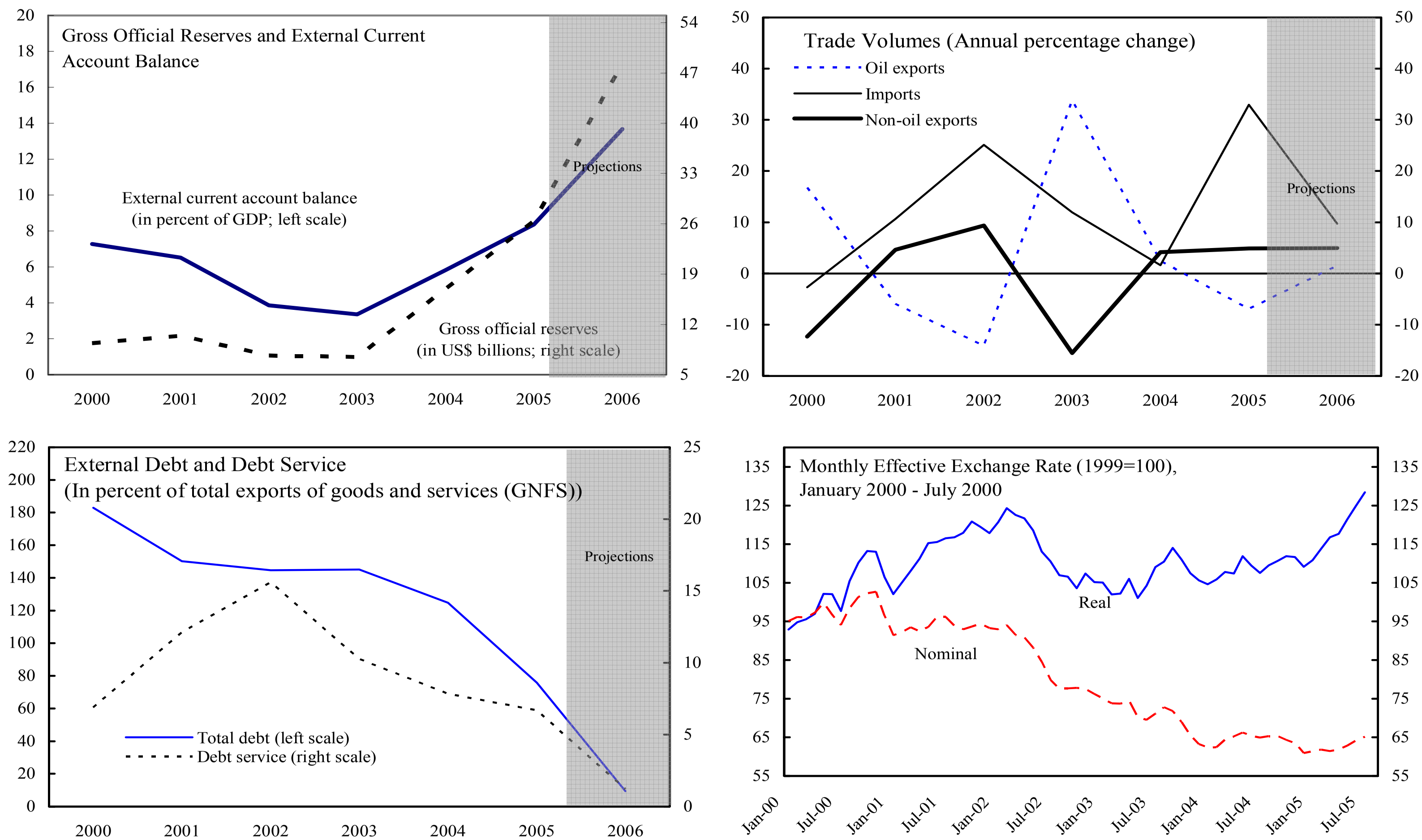
Figure 1. Nigeria: Real Sector Developments, 2000–06 1/



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

1/ 2006 staff estimates.

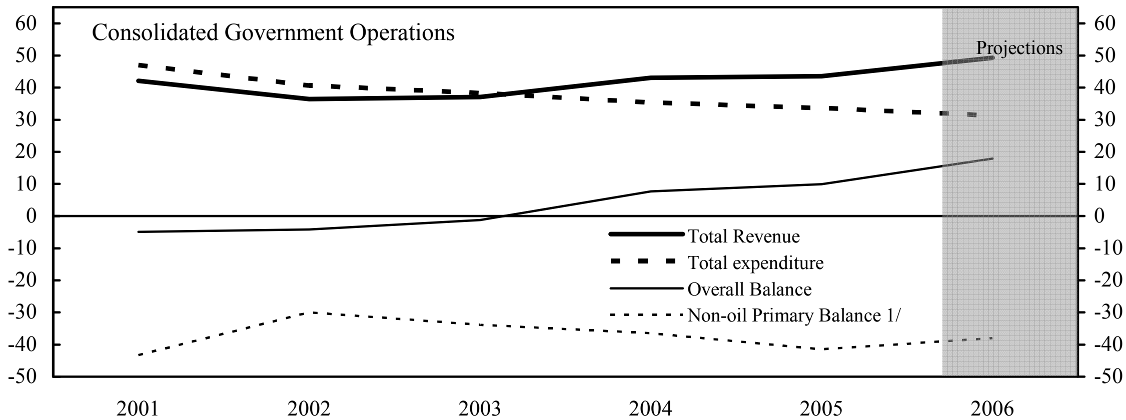
Figure 2. Nigeria: External Sector, 2000-06 1/



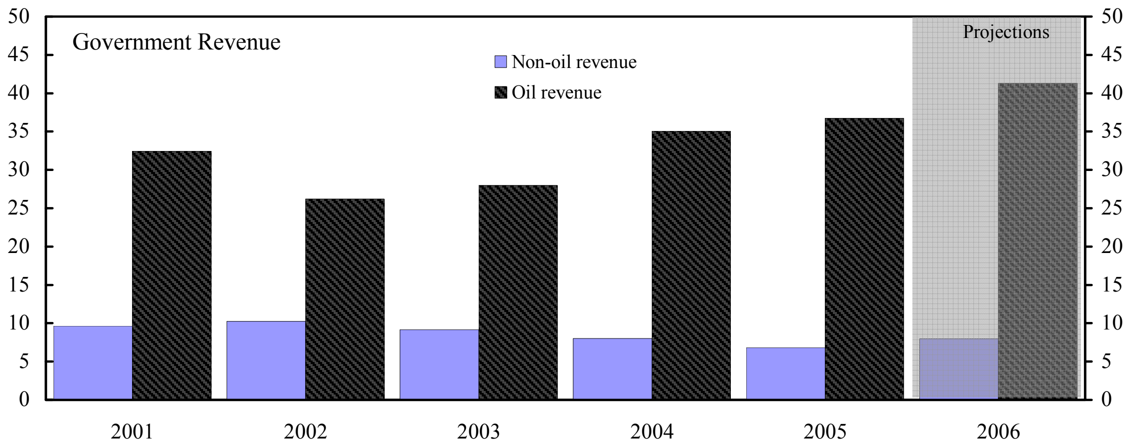
Sources: Nigerian authorities; IMF Information Notice System; and Fund staff estimates and projections.

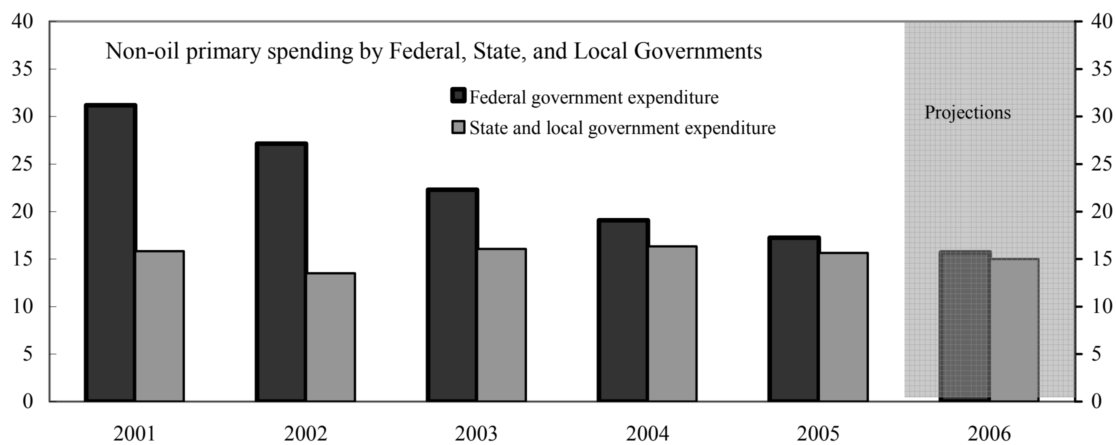
1/ Staff estimates.

Figure 3. Nigeria: Consolidated Government Operations, 2001–06 1/
(In percent of GDP)



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

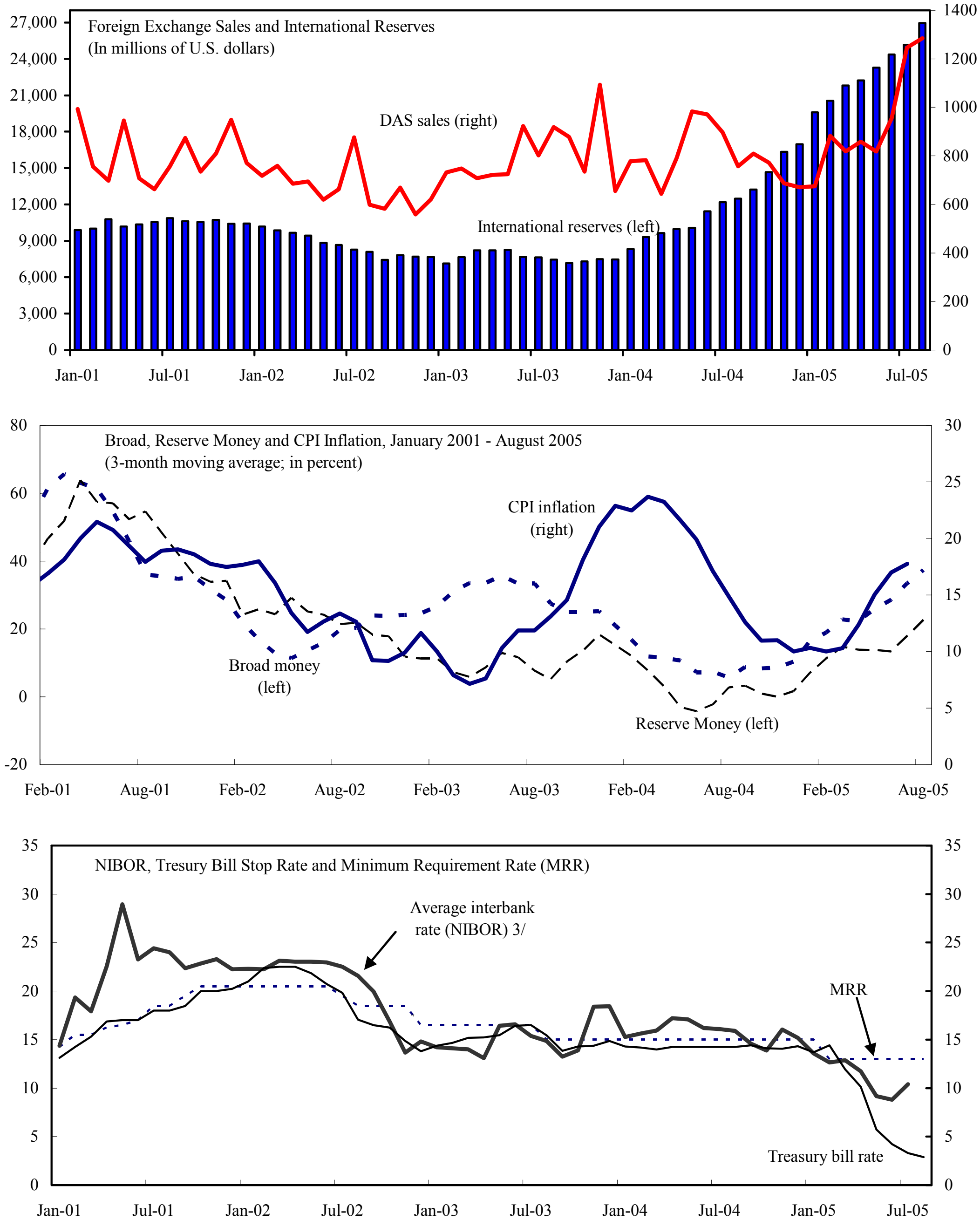




Sources: Nigerian authorities; and Fund staff estimates and projections.

1/ Staff estimates.

Figure 4. Nigeria: Monetary Indicators, January 2001–August 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, 2002–08

	2002	2003	2004	2005	2006	2007	2008
			Est.		Proj.		
	(Annual percentage changes, unless otherwise specified)						
National income and prices							
Real GDP (at 1990 factor cost)	1.4	10.9	6.1	4.0	5.0	5.6	5.4
Oil GDP	-11.6	26.5	3.5	2.0	5.1	6.1	5.2
Non-oil GDP	8.0	4.4	7.4	4.9	5.0	5.4	5.5
Agriculture	4.3	6.5	6.5	4.7	4.7	5.0	5.2
Industry	8.9	6.4	9.6	7.0	7.5	8.0	8.0
Services	13.0	1.2	8.1	4.5	4.6	5.0	5.0
Real GDP per capita	-1.3	7.9	3.3	1.4	2.5	3.0	2.8
GDP per capita (in U.S. dollars)	341	415	500	658	743	755	774
Non-oil GDP per capita (in U.S. dollars)	180	201	204	224	253	312	349
GDP deflator (period average)	3.9	20.8	19.9	26.6	12.1	4.0	3.3
Non-oil GDP deflator (period average)	5.5	15.8	11.0	18.3	11.7	6.4	5.4
Consumer price index (annual average)	13.7	14.0	15.0	18.8	11.9	6.5	5.5
Consumer price index (end of period)	12.2	23.8	10.1	18.5	8.5	6.2	4.9
External sector							
Exports, f.o.b.	-9.8	54.2	36.9	36.1	14.8	3.1	3.9
Imports, f.o.b.	28.9	26.1	11.3	38.0	9.9	14.3	4.9
Non-oil export volume	9.3	-15.5	4.2	4.9	5.0	5.4	5.5
Oil export volume 1/	-14.1	33.7	2.5	-6.9	1.5	4.4	4.2
Volume of import of goods and services	20.2	10.5	2.0	26.1	8.4	11.4	3.9
Terms of trade	-0.5	2.5	20.5	35.2	11.0	-3.8	-2.3
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 1/							
Total revenue and grants	-8.7	36.1	47.5	33.1	33.2	9.9	6.3
Oil revenue	-14.8	42.7	59.3	38.0	32.3	8.5	4.2
Non-oil revenue	12.1	19.4	11.6	11.7	38.2	16.8	16.4
Total expenditure and net lending	-8.7	26.2	17.3	22.3	10.0	11.2	8.6
Current expenditure 2/	-2.6	25.3	16.3	20.7	9.7	10.5	8.6
Capital expenditure and net lending 2/	-23.5	28.8	20.2	37.7	9.8	14.5	-0.1
Money and credit							
Net foreign assets 3/	-3.5	5.5	62.3	39.3	95.1	...	...
Net domestic assets 3/	25.0	19.0	-49.9	-26.2	-82.8	...	...
Net domestic credit 3/	48.3	29.7	-23.1	-13.8	-80.8	...	...
Net credit to consolidated government	37.6	13.8	-39.1	-20.7	-91.2	...	...
Net credit to the federal government	38.5	13.6	12.8	2.5	-37.0	...	...
Credit to the rest of the economy	10.8	15.7	15.7	6.8	10.4	...	...
Broad money	21.6	24.1	14.0	15.0	14.0	...	...
Velocity (non-oil GDP as a multiple of end-of-period broad money)	2.1	2.0	2.1	2.3	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	21.6	22.4	23.2	22.5
Public fixed investment	10.0	9.7	9.1	9.6	8.9	9.3	8.5
Private fixed investment	16.2	14.2	13.2	12.1	13.5	13.9	14.0
of which non-oil fixed investment	11.9	9.5	9.4	8.6	9.7	11.0	11.3
Gross national savings	14.5	21.1	27.0	31.4	36.7	35.4	35.3
Public	12.2	13.2	20.9	22.3	28.6	28.2	27.0
Private	2.3	7.9	6.1	9.1	8.1	7.2	8.3
Consolidated government operations 1/							
Total revenues and grants	36.4	37.1	43.1	43.5	49.3	49.3	48.2
Of which oil and gas revenue	26.2	28.0	35.0	36.7	41.3	40.8	39.1
Total expenditure and net lending (commitment basis)	40.7	38.4	35.4	33.6	31.3	31.9	31.0
Overall balance (commitment basis)	-4.2	-1.3	7.7	9.9	17.9	17.4	17.1
Non-oil primary balance (in percent of non-oil GDP, commitment basis)	-29.9	-33.8	-36.4	-41.4	-38.0	-37.9	-35.1
Gross domestic debt	18.1	15.5	13.9	10.9	9.1	11.3	10.4
External sector							
Current account balance	-11.7	-2.7	4.6	9.8	14.3	12.2	12.8
External debt outstanding (in billions of U.S. dollars)	31.0	32.9	35.9	30.4	4.8	4.7	4.8
External debt service due (in percent of exports of goods and services)	6.4	5.1	4.3	3.7	0.7	0.6	0.5
	(In billions of U.S. dollars, unless otherwise specified)						
Current account balance	-5.4	-1.6	3.3	9.4	15.9	14.1	15.5
Overall balance of payments	-4.5	-1.6	8.1	13.4	21.4	19.7	21.1
Gross international reserves (end of period)	7.7	7.5	17.0	26.4	48.3	68.0	89.0
(equivalent months of goods and services)	3.9	3.4	5.8	8.4	13.7	18.4	22.7
Price of Nigerian oil (U.S. dollars per barrel)	25.0	28.9	38.3	54.2	60.5	58.5	57.5
Production of crude oil (million barrels per day)	1.96	2.45	2.49	2.45	2.48	2.58	2.68
Including oil and gas equivalent	2.15	2.72	2.81	2.87	3.02	3.20	3.37
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	12,604	14,839	16,291	17,737

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

1/ Consists of the federal, state, and local governments.
2/ Assumes that two-thirds of state and local government expenditure is recurrent expenditure.
3/ Change in percent of broad money at the beginning of the period.

Table 2a. Nigeria: Fiscal Operations (Cash Basis), 2002-08

9/30/2005 12:51	2002	2003	2004	2005					2006					2007	2008
				Prel.	Prel.	Proj.			Proj.						
				Q1	Q2	Q3	Q4	Annual	Q1	Q2	Q3	Q4	Annual	Annual	Annual
Oil price (in U.S. dollars per barrel)	25.0	28.9	38.3	47.6	51.5			54.2					60.5	58.5	57.5
	(In billions of naira)														
Total revenue	2,053	2,795	4,124	1,323	1,150	1,403	1,614	5,488	1,762	1,804	1,871	1,877	7,315	8,037	8,546
Oil and gas revenue	1,476	2,106	3,355	1,125	950	1,164	1,390	4,630	1,476	1,519	1,554	1,577	6,126	6,648	6,931
Government crude receipts	719	967	1,440	378	458	433	535	1,805	490	508	522	531	2,052	2,158	2,086
Petroleum profit tax and royalty	393	683	1,184	506	320	565	572	1,962	655	668	679	688	2,690	2,944	3,263
Petroleum profit tax	224	438	826	393	200	429	425	1,446	505	513	522	530	2,070	2,232	2,469
Royalty	169	246	358	113	120	136	147	515	150	155	157	158	620	712	794
Upstream gas sales and Nigeria Liquefied Natural Gas (NLNG)	34	32	91	45	41	9	9	105	40	40	40	40	160	166	177
Other oil revenue (gas flared; pipeline fees)	25	38	5	3	1	0	0	3	9	9	9	9	36	36	37
Domestic crude	304	386	635	193	131	157	275	756	282	295	304	309	1,189	1,344	1,367
Non-oil revenue	577	689	769	198	200	238	223	859	286	285	317	300	1,188	1,388	1,616
Import and excise duties	181	195	217	54	57	39	39	190	49	49	49	49	197	231	271
Companies income tax	89	115	130	33	33	54	54	174	58	58	58	58	233	274	334
Value-added tax	109	136	157	46	44	52	52	193	110	110	110	110	439	534	627
Education tax	10	10	17	6	6	6	6	22	4	4	4	4	16	18	22
Federal government independent revenue	68	54	59	7	5	34	19	65	8	6	39	22	75	86	99
State and local governments' internal revenue	100	139	153	45	45	45	45	181	49	49	49	49	197	209	219
Customs levies	20	39	35	8	8	8	8	33	8	8	8	8	32	37	44
Total consolidated expenditure	2,196	2,795	3,173	852	955	1,184	1,250	4,241	1,247	1,120	1,143	1,143	4,653	5,194	5,508
Total federal government and extrabudgetary expenditure	1,434	1,605	1,654	433	492	597	672	2,194	597	563	586	586	2,333	2,530	2,739
Recurrent expenditure	1,109	1,338	1,393	358	451	442	518	1,769	454	454	477	477	1,862	1,976	2,118
Goods and services	478	514	571	132	199	180	172	683	201	201	201	201	803	867	967
Personnel	...	304	370	97	120	101	100	418	130	130	130	130	519	552	608
Pensions	...	64	72	18	17	55	52	141	36	36	36	36	145	155	171
Overhead cost	109	146	128	17	62	24	20	124	35	35	35	35	139	160	188
Interest payments	213	242	231	53	51	67	157	329	50	50	73	73	246	239	229
Domestic	171	170	189	31	29	45	45	150	45	45	68	68	226	219	211
External, cash	42	72	42	22	22	22	112	179	5	5	5	5	20	20	18
Transfers	419	581	591	173	201	195	188	757	203	203	203	203	813	870	922
Nigerian National Petroleum Corporation (NNPC) cash calls	346	451	455	140	139	130	130	539	140	140	140	140	560	604	626
National Judicial Council	15	26	28	4	12	8	8	33	9	9	9	9	35	37	38
Transfer to Niger Delta Dev. Comm.	14	9	14	0	14	7	7	29	5	5	5	5	20	18	19
Customs levies funds	20	39	35	8	8	8	8	33	8	8	8	8	32	37	44
Education fund	10	10	17	6	6	6	6	23	4	4	4	4	16	18	22
FIRS and NCS	...	...	...	0	0	7	7	14	10	10	10	10	41	48	57
Universal Basic Education commission	...	...	...	0	7	14	7	29	7	7	7	7	29	28	30
Federal government extrabudgetary funds	8	46	42	15	15	15	15	58	20	20	20	20	81	80	85
Federal government capital expenditure	318	267	261	76	40	155	155	425	142	109	109	109	470	554	621
Domestically financed 1/	305	257	231	66	30	145	145	386	130	97	97	97	420	491	541
Foreign financed	13	10	30	10	10	10	10	39	12	12	12	12	50	63	80
State and local governments	762	1,190	1,519	418	464	526	544	1,952	557	557	557	557	2,226	2,542	2,769
Primary expenditure	762	1,178	1,511	414	459	522	522	1,917	555	555	555	555	2,219	2,535	2,763
External interest payment, cash	0	12	8	4	4	4	22	35	2	2	2	2	7	7	6
Purchase of power plants	...	...	...	0	0	61	33	94	94	0	0	0	94	123	0
Overall balance (cash basis)	-143	0	951	471	195	218	364	1,248	515	684	728	735	2,662	2,842	3,038
Overall balance (excluding purchase of power plants)	...	...	...	471	195	279	398	1,342	609	684	728	735	2,756	2,965	3,038
Financing	284	182	-925	-386	-349	-218	-364	-1,317	-515	-684	-728	-735	-2,662	-2,842	-3,038
External	-105	-153	-155	-21	-21	-21	-661	-726	-5	-5	-5	-5	-20	-5	9
Borrowing	13	10	30	10	10	10	10	39	12	12	12	12	50	63	80
Amortization, cash	-101	-163	-185	-31	-31	-31	-671	-765	-17	-17	-17	-17	-70	-68	-71
Federal government	...	...	-155	-26	-26	-26	-493	-572	-13	-13	-13	-13	-52	-51	-53
States	...	...	-30	-5	-5	-5	-178	-193	-4	-4	-4	-4	-17	-17	-18
Debt buyback	-18	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Domestic financing	369	305	-777	-365	-327	-197	297	-592	-510	-679	-723	-795	-2,707	-2,838	-3,047
Central bank (net, consolidated government)	138	415	-975	-448	-378	-265	268	-823	-533	-692	-732	-795	-2,752	-2,838	-3,047
Of which: increase in gross windfall oil receipts	...	...	-786	-419	-272	-456	-682	-1,829	-669	-712	-747	-770	-2,899	-3,493	-3,588
Commercial banks (net, federal government)	261	-116	193	141	50	40	0	231	23	13	9	0	45	0	0
Commercial banks (net, states and local governments)	-30	6	4	-58	1	28	29	0	0	0	0	0	0	0	0
Privatization proceeds	20	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Recovered funds	0	30	7	0	0	0	0	0	0	0	0	65	65	0	0
Statistical discrepancy	140	182	26	85	-154	0	0	-69	0	0	0	0	0	0	0
Non-oil primary balance, federation	-1,061	-1,401	-1,710	-456	-561	-744	-716	-2,479	-769	-644	-611	-628	-2,652	-2,957	-3,032
Non-oil primary balance, excluding purchase of power plants	-1,061	-1,401	-1,710	-456	-561	-683	-683	-2,385	-675	-644	-611	-628	-2,558	-2,834	-3,032

Table 2a. Nigeria: Fiscal Operations (Cash Basis), 2002-08

	2002	2003	2004	2005					2006					2007	2008
				Prel.	Prel.	Proj.			Proj.						
				Q1	Q2	Q3	Q4	Annual	Q1	Q2	Q3	Q4	Annual	Annual	Annual
Oil price (in U.S. dollars per barrel)	25.0	28.9	38.3	47.6	51.5			54.2					60.5	58.5	57.5
								(in percent of GDP)							
Total revenue	36.4	37.1	43.1					43.5					49.3	49.3	48.2
Oil and gas revenue	26.2	28.0	35.0					36.7					41.3	40.8	39.1
Non-oil revenue	10.2	9.1	8.0					6.8					8.0	8.5	9.1
Total consolidated expenditure	39.0	37.1	33.1					33.6					31.4	31.9	31.1
Total federal government and extrabudgetary expenditure	25.5	21.3	17.3					17.4					15.7	15.5	15.4
Recurrent expenditure	19.7	17.8	14.5					14.0					12.5	12.1	11.9
Goods and services	8.5	6.8	6.0					5.4					5.4	5.3	5.5
Interest payments	3.8	3.2	2.4					2.6					1.7	1.5	1.3
Domestic	3.0	2.3	2.0					1.2					1.5	1.3	1.2
External, cash	0.8	1.0	0.4					1.4					0.1	0.1	0.1
Transfers	7.4	7.7	6.2					6.0					5.5	5.3	5.2
Federal government capital expenditure	5.6	3.5	2.7					3.4					3.2	3.4	3.5
Domestically financed 1/	5.4	3.4	2.4					3.1					2.8	3.0	3.1
Foreign financed	0.2	0.1	0.3					0.3					0.3	0.4	0.5
State and local governments	13.5	15.8	15.9					15.5					15.0	15.6	15.6
Clearance of arrears and recapitalizations	...	...	...					0.7					0.6	0.8	0.0
Overall balance (cash basis)	-2.5	0.0	9.9					9.9					17.9	17.4	17.1
Overall balance (excluding purchase of power plants)	...	...	...					10.6					18.6	18.2	17.1
Financing	5.0	2.4	-9.7					-10.5					-17.9	-17.4	-17.1
External	-1.9	-2.0	-1.6					-5.8					-0.1	0.0	0.1
Domestic	6.6	4.0	-8.1					-4.7					-18.2	-17.4	-17.2
Recovered funds	0.0	0.4	0.1					0.0					0.4	0.0	0.0
Statistical discrepancy	2.5	2.4	0.3					-0.6					0.0	0.0	0.0
Memorandum items:															
Non-oil primary balance (in percent of non-oil GDP) 2/	-31.5	-34.4	-35.2					-41.4					-38.0	-37.9	-35.1
Non-oil primary balance (excluding purchase of power plants, in percent of non-oil (	-31.5	-34.4	-35.2					-39.9					-36.7	-36.3	-35.1
Subsidy on domestic petroleum products (in billions of naira)	n/a	n/a	n/a					250					120	...	...
Non-oil primary balance (including subsidy on domestic petroleum products, in perc	n/a	n/a	n/a					-45.6					-39.7	...	...
Non-oil revenue (in percent of non-oil GDP)	17.1	16.9	15.8					14.4					17.0	17.8	18.7
Primary balance (in percent of GDP)	1.2	3.4	12.4					12.8					19.6	19.0	18.5
Nominal GDP (in billions of naira)	5,632	7,533	9,575					12,604					14,839	16,291	17,737
Non-oil GDP (in billions of naira)	3,365	4,069	4,855					5,980					6,978	7,801	8,649

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), 2002-08

	2002	2003	2004	2005	2006	2007	2008
			Est.		Proj.		
			(In billions of naira)				
Total revenue	2,053	2,795	4,124	5,488	7,313	8,034	8,543
Oil and gas revenue	1,476	2,106	3,355	4,630	6,126	6,648	6,931
Non-oil revenue	577	689	769	859	1,187	1,386	1,613
Import duties and excises	181	195	217	190	197	231	271
Customs levies	20	39	35	33	30	34	41
Company income tax	89	115	130	174	233	274	334
Education tax	10	10	17	22	16	18	22
State and local governments' internal revenue 1/	100	139	153	181	197	209	219
Value-added tax (VAT)	109	136	157	193	439	534	627
Petroleum tax	0	0	0	0	0	0	0
Federal government independent revenue	68	54	59	65	75	86	99
Total consolidated expenditure	2,290	2,890	3,389	4,238	4,651	5,192	5,505
Total federal expenditure	1,529	1,680	1,825	2,174	2,331	2,527	2,736
Federal government recurrent expenditure	1,257	1,439	1,507	1,749	1,861	1,973	2,115
Goods and services	478	514	571	683	803	867	967
Personnel cost	368	368	443	559	664	707	779
Overhead cost	109	146	128	124	139	160	188
Pension arrears clearance	0	0	0	0	0	0	0
Interest payments due	361	343	345	309	246	239	229
Domestic	171	170	189	150	226	219	211
Foreign	190	174	156	159	20	20	18
Transfers	419	581	591	757	811	868	919
Nigerian National Petroleum Corporation (NNPC) cash calls	346	451	455	539	560	604	626
NNPC priority projects	6	0	0	0	0	0	0
National Judicial Council	15	26	28	33	35	37	38
Transfer to Niger Delta Dev. Comm	14	9	14	29	20	18	19
Customs levies funds	20	39	35	33	30	34	41
Education fund	10	10	17	23	16	18	22
FIRS and NCS	...	...	...	14	41	48	57
Universal Basic Education commission	...	...	...	29	29	28	30
Federal government extrabudgetary funds	8	46	42	58	81	80	85
Federal government capital expenditure	264	241	319	425	470	554	621
Domestically financed	251	231	289	386	420	491	541
Foreign financed	13	10	30	39	50	63	80
State and local governments	762	1,210	1,563	1,970	2,226	2,542	2,769
Primary expenditure	762	1,178	1,511	1,917	2,219	2,535	2,763
External interest payments due	...	32	52	53	7	7	6
Purchase of power plants	...	...	...	94	94	123	...
Overall balance (commitment basis) 2/	-238	-95	735	1,250	2,662	2,842	3,038
Financing	407	270	-767	-1,317	-2,662	-2,842	-3,038
External	43	-32	3	-726	-20	-5	9
Borrowing	13	10	30	39	50	63	80
Amortization due	-168	-179	-203	-250	-70	-68	-71
Federal government	…	-151	-152	-188	-52	-51	-53
States	…	-28	-51	-63	-17	-17	-18
Arrears, rescheduling, and debt buyback	197	137	175	-515	0	0	0
Domestic	399	299	-777	-592	-2,707	-2,838	-3,047
Central bank	138	415	-975	-823	-2,752	-2,858	-3,067
Commercial banks	261	-116	198	231	45	20	20
Privatization proceeds	20	0	0	0	0	0	0
Recovered funds	0	30	7	0	65	0	0
Carryover of unspent capital mandates 3/	-54	-26	0	0	0	0	0
Statistical discrepancy	170	175	-32	-67	0	0	0
Memorandum item:							
Non-oil balance	-1,368	-1,750	-2,165	-2,841	-2,905	-3,202	-3,267
Non-oil primary balance 4/	-1,007	-1,375	-1,768	-2,479	-2,652	-2,957	-3,032
Primary balance	123	248	1,132	1,612	2,915	3,088	3,273

Table 2b. Nigeria: Fiscal Operations (Commitment Basis), 2002-08

	2002	2003	2004	2005	2006	2007	2008
			Est.		Proj.		
	(In percent of GDP; unless otherwise indicated)						
Total revenue	36.4	37.1	43.1	43.5	49.3	49.3	48.2
Petroleum revenue	26.2	28.0	35.0	36.7	41.3	40.8	39.1
Government crude receipts	12.8	12.8	15.0	14.3	13.8	13.2	11.8
Petroleum profit tax and royalty	7.0	9.1	12.4	15.6	18.1	18.1	18.4
Petroleum profit tax	4.0	5.8	8.6	11.5	13.9	13.7	13.9
Royalty	3.0	3.3	3.7	4.1	4.2	4.4	4.5
Upstream gas and NLNG	0.6	0.4	0.9	0.8	1.1	1.0	1.0
Other oil revenue	0.4	0.5	0.0	0.0	0.2	0.2	0.2
Domestic crude	5.4	5.1	6.6	6.0	8.0	8.3	7.7
Nonpetroleum revenue	10.2	9.1	8.0	6.8	8.0	8.5	9.1
Tax revenue	9.0	8.4	7.4	6.3	7.5	8.0	8.5
Taxes on international trade and transactions	3.6	3.1	2.6	1.8	1.5	1.6	1.8
Taxes on net income, profits, and capital gains	3.5	3.5	3.1	3.0	3.0	3.1	3.2
Domestic taxes on goods and services	1.9	1.8	1.6	1.5	3.0	3.3	3.5
Nontax revenue	1.2	0.7	0.6	0.5	0.5	0.5	0.6
Total consolidated expenditure	40.7	38.4	35.4	33.6	31.3	31.9	31.0
Total federal expenditure	27.1	22.3	19.1	17.2	15.7	15.5	15.4
Federal government recurrent expenditure	22.3	19.1	15.7	13.9	12.5	12.1	11.9
Goods and services	8.5	6.8	6.0	5.4	5.4	5.3	5.5
Interest payments due	6.4	4.6	3.6	2.5	1.7	1.5	1.3
Transfers	7.4	7.7	6.2	6.0	5.5	5.3	5.2
Federal government capital expenditure	4.7	3.2	3.3	3.4	3.2	3.4	3.5
State and local governments	13.5	16.1	16.3	15.6	15.0	15.6	15.6
Primary expenditure	13.5	15.6	15.8	15.2	15.0	15.6	15.6
External interest payments due	…	0.4	0.5	0.4	0.0	0.0	0.0
Overall balance (commitment basis) 2/	-4.2	-1.3	7.7	9.9	17.9	17.4	17.1
Financing	7.2	3.6	-8.0	-10.5	-17.9	-17.4	-17.1
External	0.8	-0.4	0.0	-5.8	-0.1	0.0	0.1
Borrowing	0.2	0.1	0.3	0.3	0.3	0.4	0.5
Amortization due	-3.0	-2.4	-2.1	-2.0	-0.5	-0.4	-0.4
Arrears, rescheduling, and debt buyback	3.5	1.8	1.8	-4.1	0.0	0.0	0.0
Domestic	7.1	4.0	-8.1	-4.7	-18.2	-17.4	-17.2
Privatization proceeds	0.3	0.0	0.0	0.0	0.0	0.0	0.0
Recovered funds	0.0	0.4	0.1	0.0	0.4	0.0	0.0
Carryover of unspent capital mandates 3/	-1.0	-0.4	0.0	0.0	0.0	0.0	0.0
Statistical discrepancy	3.0	2.3	-0.3	-0.5	0.0	0.0	0.0
Memorandum items:							
Non-oil revenue (in percent of non-oil GDP)	17.1	16.9	15.8	14.4	17.0	17.8	18.6
Non-oil balance (in percent of GDP)	-24.3	-23.2	-22.6	-22.5	-19.6	-19.7	-18.4
Non-oil primary balance (in percent of non-oil GDP) 4/	-29.9	-33.8	-36.4	-41.4	-38.0	-37.9	-35.1
Primary balance (in percent of GDP)	2.2	3.3	11.8	12.8	19.6	19.0	18.5
Nominal GDP (in billions of naira)	5,632	7,533	9,575	12,604	14,839	16,291	17,737
Non-oil GDP (in billions of naira)	3,365	4,069	4,855	5,980	6,978	7,801	8,649

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, 2003-06

9/30/2005 12:52	2003	2004	2005						2006				
			Appr. Act	Prel.	Prel.	Proj.			Proj.				
				Q1	Q2	Q3	Q4	Annual	Q1	Q2	Q3	Q4	Annual
Oil price (in U.S. dollars per barrel)	29.0	38.3	30.0	47.6	51.5			54.2					60.50
						(in billions of naira)							
Total revenue 1/	964	1,486	1,492	471	398	520	601	1,991	636	653	700	693	2,683
Petroleum revenue	740	1,236	1,184	416	342	436	532	1,726	564	582	596	607	2,349
Nonpetroleum revenue	224	250	308	55	56	84	69	264	73	71	104	87	334
Import and excise duties	95	105	92	26	28	18	18	89	22	22	22	22	89
Companies' income tax	56	63	87	16	16	25	25	82	27	27	27	27	109
Value-added tax	20	23	24	7	6	7	7	27	15	15	15	15	61
Federal government independent revenue	54	59	105	7	5	34	19	65	8	6	39	22	75
Total expenditure	1,049	1,075	1,712	255	314	450	512	1,531	445	369	392	392	1,597
Recurrent expenditure	792	844	1,095	189	284	277	352	1,102	272	272	295	295	1,133
Goods and services	514	571	737	132	199	180	172	683	201	201	201	201	803
Personnel	304	370	416	97	120	101	100	418	130	130	130	130	519
Pensions	64	72	130	18	17	55	52	141	36	36	36	36	145
Overhead cost	146	128	191	17	62	24	20	124	35	35	35	35	139
Interest payments	242	231	268	53	51	67	157	329	50	50	73	73	246
Domestic	170	189	186	31	29	45	45	150	45	45	68	68	226
External, cash	72	42	82	22	22	22	112	179	5	5	5	5	20
Transfers 2/	35	42	90	4	33	30	23	90	21	21	21	21	84
National Judicial Council	26	28	33	4	12	8	8	33	9	9	9	9	35
Transfer to Niger Delta Development Commission	9	14	29	0	14	7	7	29	5	5	5	5	20
UBE Commission	...	...	28	0	7	14	7	29	7	7	7	7	29
Capital expenditure	257	231	582	66	30	145	145	386	130	97	97	97	420
Domestic	257	231	582	66	30	145	145	386	130	97	97	97	420
Purchase of power plants	...	...	35	0	0	28	15	43	43	0	0	0	43
Overall balance (cash basis)	-85	411	-220	216	84	71	89	459	191	284	309	301	1,086
Overall balance (excluding purchase of power plants)	...	...	-185	216	84	99	104	503	235	284	309	301	1,129
Financing	191	-517	220	-99	-248	-71	-89	-507	-191	-284	-309	-301	-1,086
External	-138	-155	-88	-26	-26	-26	-493	-572	-13	-13	-13	-13	-52
Amortization, cash	-138	-155	-88	-26	-26	-26	-493	-572	-13	-13	-13	-13	-52
Debt buyback	0	0	0	0	0	0	0	0	0	0	0	0	0
Domestic financing	299	-369	130	-73	-221	-45	404	65	-178	-271	-295	-354	-1,099
Central bank (net)	415	-612	241	-214	-271	-85	404	-166	-201	-284	-304	-354	-1,144
Of which: gross oil windfall proceeds	...	-332	0	-177	-115	-192	-288	-772	-282	-301	-315	-325	-1,223
Commercial banks (net)	-116	193	-47	141	50	40	0	231	23	13	9	0	45
Non-bank financing	0	50	-65	0	0	0	0	0	0	0	0	0	0
Privatization proceeds	0	0	114	0	0	0	0	0	0	0	0	0	0
Recovered funds	30	7	65	0	0	0	0	0	0	0	0	65	65
Statistical discrepancy	106	-106	0	116	-164	0	0	-47	0	0	0	0	0
Memorandum items:													
Primary spending	807	844	1,444	202	263	382	355	1,202	395	319	319	319	1,351
Non-oil primary balance	-583	-594	-1,136	-147	-207	-298	-285	-937	-322	-248	-215	-232	-1,017
Non-oil primary balance (excluding purchase of power plants)	-583	-594	-1,101	-147	-207	-270	-270	-894	-279	-248	-215	-232	-974
Budgetary revenue	964	1,486	1,492	471	398	520	601	1,991	636	653	700	693	2,683
Budgetary spending	1,187	1,230	1,055	282	340	448	400	1,470	458	382	405	405	1,606
Balance on the budget (BOF definition, debt service above the line)	-222	256	437	189	58	73	201	521	178	271	295	288	1,076
						(in percent of GDP)							
Total revenue	12.8	15.5	11.8					15.8					18.1
Petroleum revenue	9.8	12.9	9.4					13.7					15.8
Nonpetroleum revenue	3.0	2.6	2.4					2.1					2.2
Total expenditure	13.9	11.2	13.6					12.1					10.8
Recurrent expenditure	10.5	8.8	8.7					8.7					7.6
Goods and services	6.8	6.0	5.8					5.4					5.4
Interest payments	3.2	2.4	2.1					2.6					1.7
Transfers 2/	0.5	0.4	0.7					0.7					0.6
Capital expenditure	3.4	2.4	4.6					3.4					2.8
Overall balance (cash basis)	-1.1	4.3	-1.7					3.6					7.3
Overall balance (excluding arrears' clearance and recapitalizations)	...	...	-1.5					4.0					7.6
Financing	2.5	-5.4	1.7					-4.0					-7.3
External	-1.8	-1.6	-0.7					-4.5					-0.4
Domestic financing	4.0	-3.9	1.0					0.5					-7.4
Privatization proceeds	0.0	0.0	0.9					0.0					0.0
Statistical discrepancy	1.4	-1.1	0.0					-0.4					0.0
Memorandum items:													
Non-oil primary balance (in percent of non-oil GDP)	-14.3	-12.2	-19.0					-15.7					-14.6
Non-oil primary balance (excl. purchase of power plants, in percent of non-oil GDP)	-14.3	-12.2	-18.4					-15.0					-14.0
Non-oil revenue (in percent of non-oil GDP)	5.5	5.2						4.4					4.8
Balance on the budget (BOF definition)	-3.0	2.7	3.5					4.1					7.3
External debt service (FGN share, in millions of U.S. dollars)	1,357	1,316	5,729					5,729					546
Nominal GDP (in billions of naira)	7,533	9,575	12,604					12,604					14,839
Nominal non-oil GDP (in billions of naira)	4,069	4,855	5,980					5,980					6,978

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 Quarterly Balance Sheet, 2003-2006

	2003	2004	2005				2006			
		Est	Est.		Proj.		Proj.			
9/30/05 12:52			Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
					(In billions of naira)					
Net foreign assets 1/	1,059	2,250	2,852	3,209	3,577	3,303	3,856	4,568	5,322	6,127
Foreign assets	1,065	2,479	2,912	3,313	3,681	3,407	3,960	4,672	5,426	6,231
Short-term foreign liabilities	-6	-229	-60	-104	-104	-104	-104	-104	-104	-104
Net domestic assets	-370	-1,518	-2,107	-2,482	-2,807	-2,539	-3,072	-3,764	-4,496	-5,291
Domestic Credit	82	-718	-1,198	-1,579	-1,844	-1,576	-2,109	-2,801	-3,533	-4,328
Net Claims on Consolidated Government 2/	294	-681	-1,129	-1,507	-1,772	-1,504	-2,037	-2,729	-3,461	-4,256
Of which: Excess Crude	-29	-675	-1,101	-1,299	-1,599	-1,429	-2,004	-2,843	-3,590	-4,360
Net claims on federal government	374	-238	-452	-724	-808	-404	-606	-890	-1,194	-1,548
Of which: Excess Crude of the Federal Government	-13	-313	-505	-596	-735	-430	-694	-1,080	-1,423	-1,776
Net claims on state and local goverments	0	-363	-596	-703	-884	-1,020	-1,351	-1,759	-2,187	-2,628
Of which: Excess Crude of the SLGs	-16	-363	-596	-703	-864	-998	-1,309	-1,763	-2,167	-2,584
Net claims on non-financial public enterprises	-235	-141	-171	-183	-183	-183	-183	-183	-183	-183
Net claims on non-financial private sector	1.3	2	-5	1	1	1	1	1	1	1
Claims on Deposit Money Banks	15.6	92	96	99	99	99	99	99	99	99
Net Claims on other Financial Institutions	6.8	11	11	11	11	11	11	11	11	11
Other Items Net	-453	-800	-909	-903	-963	-963	-963	-963	-963	-963
Of which: CBN liquidity management bills		0	0	0	-60	-60	-60	-60	-60	-60
Reserve money	689	732	741	754	770	764	784	805	826	836
Currency in circulation	502	546	513	495	492	488	489	489	490	490
Currency outside of banks	412	459	429	416	412	409	409	409	409	409
Banks Reserves with the CBN	186	187	228	260	278	276	295	315	336	345
Required reserves	152	158	185	201	252	242	251	261	271	282
Excess reserves	34	29	43	59	26	34	44	54	65	64
Memorandum items:					(In percent)					
Reserve Money 12-month growth rate	16.4	6.3	16.7	15.3	18.4	4.3	5.8	6.6	7.2	9.4
Reserve Money q/q growth rate	7.2	12.6	1.2	1.8	2.1	-0.8	2.6	2.6	2.6	1.2

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 3b. Nigeria: Monetary Survey, 2003-2006

30-Sep-05										
12:52 PM	2003	2004	2005				2006			
			Est.		Proj.		Proj			
			Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
			(In billions of naira)							
Net foreign assets	1,476	2,712	3,326	3,643	4,010	3,736	4,289	5,002	5,755	6,560
Central Bank of Nigeria (net)	1,059	2,250	2,852	3,209	3,577	3,303	3,856	4,568	5,322	6,127
Foreign assets	1,065	2,479	2,912	3,313	3,681	3,407	3,960	4,672	5,426	6,231
Short-term foreign liabilities	-6	-229	-60	-104	-104	-104	-104	-104	-104	-104
Commercial and merchant banks (net)	417	462	474	433	433	433	433	433	433	433
Foreign assets	438	481	493	450	450	450	450	450	450	450
Foreign liabilities	-21	-19	-19	-16	-16	-16	-16	-16	-16	-16
Net domestic assets	541	-448	-675	-841	-1,308	-1,132	-1,598	-2,221	-2,881	-3,590
Net domestic credit	1,804	1,345	1,170	1,016	710	986	534	-73	-719	-1,413
Consolidated Government 1/	612	-165	-475	-804	-1,001	-704	-1,214	-1,893	-2,616	-3,411
Federal Government		253	180	-41	-86	318	140	-131	-427	-780
States and local governments		-338	-575	-683	-835	-942	-1,274	-1,682	-2,109	-2,551
Claims on non-financial public enterprises	0	2	2	4	4	4	4	4	4	4
Other financial institutions	7	11	11	11	11	11	11	11	11	11
Claims on private sector	1,185	1,497	1,632	1,805	1,697	1,675	1,734	1,805	1,883	1,983
(y/y growth rate)	27	26.3	19.8	24.3	13.4	11.9	6.3	0.0	11.0	18.4
Other items (net)	-1,263	-1,793	-1,845	-1,858	-2,018	-2,118	-2,133	-2,148	-2,163	-2,177
Other items net-CBN	-453	-800	-909	-903	-963	-963	-963	-963	-963	-963
Other items net-banks	-810	-954	-870	-894	-994	-1,094	-1,109	-1,124	-1,139	-1,154
Banks' Bond and Money Market Instruments	-32	-39	-66	-61	-61	-61	-61	-61	-61	-61
Broad money	1,985	2,264	2,647	2,828	2,703	2,604	2,691	2,781	2,874	2,970
(y/y growth rate)	...	14.0	25.7	33.8	25.3	15.0	1.7	-1.7	6.3	14.0
Memorandum items:										
			(Contribution to broad money growth unless otherwise stated)							
Net foreign assets	5.5	62.3	23.2	32.9	48.0	39.3	20.6	45.5	70.3	95.1
Central Bank of Nigeria (net)	3.2	60.0	22.7	33.9	49.1	40.4	20.6	45.5	70.3	95.1
Commercial and merchant banks (net)	2.3	2.3	0.4	-1.0	-1.1	-1.1	0.0	0.0	0.0	0.0
Net domestic assets	19.0	-49.9	-8.6	-13.9	-31.8	-26.2	-17.3	-39.2	-60.9	-82.8
Net domestic credit	29.7	-23.1	-6.6	-11.6	-23.5	-13.8	-16.8	-38.1	-59.3	-80.8
Net credit to the consolidated government	13.8	-39.1	-11.7	-22.6	-30.9	-20.7	-19.0	-42.8	-66.5	-91.2
Net credit to the federal government	13.6	12.8	-2.8	-10.4	-12.5	2.5	-6.6	-16.2	-25.9	-37.0
Claims on private sector	15.7	15.7	5.1	10.9	7.4	6.8	2.2	4.7	7.2	10.4
Other items (net)	-10.7	-26.7	-2.0	-2.3	-8.3	-12.4	-0.6	-1.1	-1.6	-2.0
Broad money (percent change since year's end)	24.1	14.0	17.0	24.9	19.4	15.0	3.3	6.8	10.3	14.0
Velocity (non-oil GDP/broad money)	2.0	2.1	...	...	...	2.3	2.6	2.5	2.4	2.3
Gross International Reserves (in million US$)	7,468	16,955	21,808	24,913	27,887	26,409	30,696	36,220	42,059	48,299
Non-oil GDP (in billions of naira)	4,069	4,855	...	...	...	5,980	6,978	6,978	6,978	6,978

Sources: Nigerian authorities and staff estimates and projections.

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

Table 4. Nigeria: Balance of Payments, 2002-08
(In billions of U.S. dollars; unless otherwise indicated)

	2002	2003	2004 Est.	2005	2006	2007	2008
				Projections			
Current account balance	-5.4	-1.6	3.3	9.4	15.9	14.1	15.5
Oil/gas (net)	4.7	9.9	15.1	25.7	32.3	34.1	36.6
Other (net)	-10.1	-11.5	-11.8	-16.3	-16.4	-19.9	-21.1
Trade balance	4.0	10.1	18.2	24.4	29.3	26.9	27.6
Exports	17.7	27.3	37.3	50.8	58.3	60.1	62.4
Oil/gas	16.9	26.5	36.4	49.8	57.3	59.0	61.3
Other	0.7	0.7	0.9	1.0	1.0	1.0	1.1
Imports	-13.6	-17.2	-19.1	-26.4	-29.0	-33.2	-34.8
Oil/gas	-5.6	-7.6	-8.9	-11.5	-12.4	-12.5	-12.6
Other	-8.0	-9.6	-10.2	-14.9	-16.6	-20.6	-22.1
Services (net)	-4.4	-5.3	-5.9	-6.6	-6.8	-7.1	-7.3
Receipts	1.1	1.4	1.7	1.9	2.0	2.1	2.3
Oil/gas	0.2	0.3	0.3	0.5	0.5	0.5	0.6
Other	1.0	1.1	1.3	1.4	1.5	1.6	1.7
Payments	-5.6	-6.7	-7.6	-8.5	-8.9	-9.2	-9.6
Oil/gas	-1.9	-2.5	-2.6	-3.0	-3.1	-3.1	-3.1
Other	-3.6	-4.2	-5.0	-5.5	-5.8	-6.1	-6.5
Income (net)	-6.4	-8.4	-11.7	-11.5	-9.7	-8.9	-8.0
Oil/gas	-4.9	-6.8	-10.2	-10.1	-10.0	-9.9	-9.5
Other	-1.5	-1.6	-1.6	-1.4	0.3	1.0	1.5
Of which: Interest due on public debt	-1.6	-1.6	-1.5	-1.6	-0.2	-0.2	-0.2
Transfers (net) 1/	1.4	2.1	2.8	3.2	3.2	3.2	3.2
Capital account balance	0.8	1.6	3.1	3.9	5.5	5.5	5.5
Direct and portfolio investment (net)	2.5	2.9	4.4	5.6	5.6	5.6	5.5
Oil/gas	1.7	2.6	3.8	4.8	4.8	4.7	4.5
Other	0.8	0.3	0.7	0.7	0.8	0.9	1.0
Official capital (net)	-1.3	-1.3	-1.3	-1.6	-0.1	0.0	0.1
Disbursements	0.1	0.1	0.2	0.3	0.4	0.5	0.6
Amortization due	-1.4	-1.4	-1.5	-1.9	-0.5	-0.5	-0.5
Private borrowing (net)	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other capital (net)	-0.4	0.0	-0.1	0.0	0.0	0.0	0.0
Errors and omissions	0.1	-1.5	1.8	0.0	0.0	0.0	0.0
Overall balance	-4.5	-1.6	8.1	13.4	21.4	19.7	21.1
Net international reserves (increase -)	2.7	0.2	-9.5	-9.5	-21.9	-19.7	-21.1
Exceptional financing	1.8	1.3	1.4	-3.9	0.5	0.0	0.0
Net accumulation of arrears (decrease -)	1.9	1.1	1.3	-3.9	0.0	0.0	0.0
Other 2/	-0.1	0.2	0.1	0.0	0.5	0.0	0.0
Memorandum items:							
Gross official reserves, end-of-period	7.7	7.5	17.0	26.4	48.3	68.0	89.0
In months of next year's GS imports	3.9	3.4	5.8	8.4	13.7	18.4	22.7
Current account (percent of GDP)	-11.7	-2.7	4.6	9.8	14.3	12.2	12.8
Non-oil/gas current account 3/	-36.5	-36.9	-32.6	-35.6	-31.3	-35.9	-35.4
GS exports (percent of GDP)	40.8	49.7	54.6	54.8	54.2	53.6	53.1
Non-oil/gas GS exports 3/	6.1	6.0	6.1	5.2	4.8	4.7	4.7
GS imports (percent of GDP)	41.6	41.5	37.4	36.3	34.0	36.5	36.4
Non-oil/gas GS imports 3/	42.4	44.5	42.0	44.7	42.8	48.1	48.1
External debt 4/ 5/	31.0	32.9	35.9	30.4	4.8	4.7	4.8
Of which: Arrears	2.4	3.6	5.7	1.7	...	...	...
External debt (percent of GDP) 4/	67.2	57.2	50.4	31.6	4.3	4.1	3.9
External debt (percent of GS exports) 4/	164.9	115.0	92.2	57.7	7.9	7.6	7.4
External debt 4/ 6/	184.5	154.1	117.0	72.6	8.7	8.3	8.2
External debt service due (percent of GS exports)	15.6	10.3	7.8	6.7	1.2	1.1	1.0
GDP (at market prices)	46.1	57.6	71.3	96.2	111.4	116.0	121.9

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

1/ Includes capital transfers.
2/ In 2002 debt buy-back, in 2003-06 recovery of looted funds.
3/ In percent of non-oil/gas GDP (at factor costs).
4/ Nominal public sector short- and long-term debt end of period.
5/ In early 2006 Nigeria is expected to extinguish its $25 billion debt to the Paris Club through a combination of debt forgiveness and a buy-back of remaining debt. Pending the conclusion of negotiations between the parties, neither the debt forgiveness nor the buy-back (to be financed out of reserves) are reflected in the balance of payments.
6/ In percent of general government fiscal revenues.

Table 5. Nigeria - Oil and Gas Sector Overview, 2002-08

	2002	2003	2004	2005	2006	2007	2008
			Est.		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	54.2	60.5	58.5	57.5
Production of crude oil	1.96	2.45	2.49	2.45	2.48	2.58	2.68
Crude	1.83	2.30	2.42	2.39	2.40	2.49	2.58
Condensates	0.13	0.15	0.07	0.06	0.08	0.09	0.10
Domestic allocation to NNPC	0.44	0.43	0.42	0.44	0.44	0.44	0.44
Domestic refining	0.22	0.12	0.11	0.22	0.22	0.22	0.22
Exports of crude oil	1.74	2.33	2.39	2.22	2.26	2.36	2.45
Of which exports out of domestic allocation	0.23	0.31	0.31	0.22	0.22	0.22	0.22
OPEC quota	1.79	2.01	2.02	...	...	...	...
Natural gas	(in billions of cubic feet, unless otherwise indicated)						
Total production	1,772	1,829	2,120	1,996	2,023	2,104	2,300
For Nigeria Liquefied Natural Gas (NLNG)	279	438	523	704	812	989	1,130
For natural gas liquids production (NGL)	104	104	137	165	287	287	287
Other	248	177	202	222	244	268	295
Reinjection	273	286	421	412	418	434	442
Flaring	667	824	837	493	263	126	146
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
Flaring (in percent of total gas produced)	37.6	45.0	39.5	24.7	13.0	6.0	6.3
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	48,432	54,761	55,031	56,313
Exports	15,878	24,611	33,435	44,031	49,852	50,287	51,637
Domestic use	1,974	1,280	1,483	4,402	4,909	4,744	4,664
Recurrent costs	2,862	3,492	3,087	3,341	3,387	3,522	3,666
Investment	3,870	5,326	4,756	5,713	6,137	6,228	5,978
Foreign direct investment	1,362	2,185	2,740	3,554	3,676	3,638	3,444
Profit remittances 1/	4,434	5,858	8,660	7,324	6,131	5,453	4,607
Gas							
Gas sales	575	558	858	1,424	2,407	2,373	2,437
NGL 2/	362	221	461	889	1,790	1,621	1,578
NLNG 3/	213	337	397	535	617	751	859
LNG Exports	1,056	1,918	3,034	5,786	7,445	8,758	9,839
Recurrent costs	153	217	264	348	439	510	567
Investment	726	863	1,983	2,500	2,250	2,050	2,050
Foreign direct investment	370	440	1,011	1,275	1,148	1,046	1,046
Profit remittances 4/	488	940	1,508	2,757	3,862	4,410	4,910
Oil and gas GDP (percentage change)	-11.6	26.6	3.5	2.0	5.1	6.1	5.2
Production of crude oil (percentage change)	-13.3	25.1	1.88	-1.8	1.4	4.0	3.8
Gas sales (LNG and NGL feed; percentage change)	10.5	41.4	21.8	31.6	26.5	16.1	11.1
Government revenue							
Oil							
Export of federation crude	4,163	7,302	10,741	13,360	15,342	15,362	14,339
PPT	1,852	3,369	6,180	13,166	15,479	15,895	16,968
Royalties, incl. rent	1,391	1,899	2,679	4,357	5,231	5,067	5,455
Domestic crude & tax on petroleum products	2,381	2,813	4,732	8,133	8,956	9,572	9,393
Miscellaneous oil revenue (pipeline fees)	172	254	121	253	257	267	278
Gas							
NGL	177	108	221	435	877	794	773
LNG feed gas	105	165	192	278	321	391	447
LNG dividends 5/	0	223	223	2,033	2,679	3,216	3,612
Flaring 6/	33	37	29	38	19	9	10
Government share of costs	3,088	3,500	3,400	4,056	4,200	4,300	4,300
Net oil and gas revenue	7,186	12,448	21,718	36,189	44,314	45,735	46,580

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/ Paid in the following year.

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

Table 6. Nigeria: Medium-term Non-oil Savings-Investment Balances, 2003-08

	2003	2004	2005	2006	2007	2008
	(In billions of naira, unless otherwise indicated)					
Total non-oil demand	5,822	6,797	8,544	10,032	11,599	12,879
Public	2,064	2,537	3,337	3,838	4,342	4,644
Private	3,758	4,260	5,207	6,193	7,257	8,234
Non-oil consumption	4,604	5,248	6,532	7,501	8,592	9,675
Public	1,562	1,891	2,403	2,747	3,131	3,446
Private	3,042	3,358	4,130	4,754	5,461	6,229
Non-oil investment	1,218	1,549	2,012	2,531	3,007	3,204
Public	502	647	934	1,092	1,211	1,198
Private	717	903	1,078	1,439	1,796	2,005
Public investment	727	874	1,204	1,322	1,513	1,511
oil	226	227	270	280	592	592
non-oil	502	647	934	1,092	1,211	1,198
Private investment	1,070	1,266	1,520	1,996	2,269	2,480
oil	354	364	442	457	473	474
non-oil	717	903	1,078	1,439	1,796	2,005
Net non- oil exports of goods and services	-1,568	-1,744	-2,362	-2,652	-3,387	-3,755
Non-oil exports of goods and services	243	295	314	333	368	404
Non-oil imports of goods and services	1,811	2,039	2,676	2,984	3,755	4,159
Non-oil GDP at market prices	4,254	5,053	6,227	7,236	8,073	8,936
	(In percent of non-oil GDP)					
Non-oil Demand	136.9	134.5	137.2	138.6	143.7	144.1
Public	48.5	50.2	53.6	53.0	53.8	52.0
Private	88.3	84.3	83.6	85.6	89.9	92.2
Non-oil consumption	108.2	103.9	104.9	103.7	106.4	108.3
Public	36.7	37.4	38.6	38.0	38.8	38.6
Private	71.5	66.4	66.3	65.7	67.6	69.7
Non-oil investment	28.6	30.7	32.3	35.0	37.3	35.9
Public	11.8	12.8	15.0	15.1	15.0	13.4
Private	16.8	17.9	17.3	19.9	22.2	22.4
Net exports of non-oil goods and services	-36.9	-34.5	-37.9	-36.6	-42.0	-42.0
Nonoil Exports of goods and services	5.7	5.8	5.0	4.6	4.6	4.5
Nonoil Imports of goods and services	-42.6	-40.4	-43.0	-41.2	-46.5	-46.5
Balance on non-oil current account	-35.3	-31.3	-34.2	-30.2	-34.7	-34.3
of which: non-oil net factor income and transfers	1.5	3.2	3.7	6.4	7.3	7.7
Gross domestic non-oil savings	-8.2	-3.9	-4.9	-3.0	-6.4	-8.3
Public	-20.5	-22.2	-24.8	-22.2	-21.6	-20.5
Private	12.3	18.3	19.9	19.3	15.2	12.2
Gross national non-oil savings	-6.7	-0.7	-1.2	3.5	0.8	-0.5
Public	-20.8	-22.4	-24.8	-22.2	-21.6	-20.5
Private	14.1	21.7	23.6	25.7	22.5	20.0
Memorandum items:						
Real non-oil public consumption	13.2	9.0	7.4	2.3	7.1	4.4
Real non-oil private consumption	4.7	-0.6	4.0	3.1	7.9	8.2
Real non-oil private demand	2.1	2.1	3.3	6.5	10.1	7.6
Real nonoil public investment	10.5	16.1	22.1	4.6	4.2	-6.1
Real nonoil private investment	-7.4	13.4	0.9	19.6	17.2	5.9
Non-oil GDP deflator	15.8	11.0	18.3	11.7	6.4	5.4

Sources: Nigerian authorities; and staff estimates and projections.

October 6, 2005

Mr. Rodrigo de Rato
Managing Director
International Monetary Fund
700 19th Street N.W.
Washington, DC 20431

Dear Mr. de Rato:

The attached Policy Statement describes economic and financial policies that the government of Nigeria has been pursuing and wants to continue to implement.We request the assessment and endorsement of the policies by the International Monetary Fund under a two-year Policy Support Instrument (PSI) arrangement. The Policy Statement outlines our broad macroeconomic objectives and policies for 2005 and for the medium term. These policies are based on our National Economic Empowerment and Development Strategy (NEEDS), which was completed in 2004. NEEDS has earlier been presented and discussed under previous IMF Article IV missions and World Bank Country Partnership Strategy discussions. We understand that a joint staff assessment of NEEDS will be formally presented to the Executive Boards of the Fund and Bank shortly.

The Government of Nigeria believes that the policies set forth in the attached statement are adequate to achieve the objectives of our PSI program. Given our interests in macroeconomic stability, we stand ready to take additional measures as may be necessary to achieve needed objectives. Our PSI proposes assessment criteria for review dates of end-December 2005 and end-June 2006 for the first and second reviews, expected to be completed on March 31st 2006 and September 30th 2006 respectively. We stand ready to work with the Fund and the Bank in partnership in the implementation of our home grown program and will naturally consult in advance should revisions be contemplated to the policies contained in the PSI.

Sincerely yours,

/s/ /s/

Dr. (Mrs.) Ngozi Okonjo-Iweala
Minister of Finance

Professor Charles C. Soludo
Governor of the Central Bank of Nigeria

The Nigerian Economic Reform Program: Policy Statement

October 6, 2005

This note summarizes the ongoing reforms in Nigeria, the achievements made so far, present challenges, medium-term objectives, quantitative targets, structural benchmarks and assessment criteria. It ends with the Government's case for debt relief.

1. **The Government of President Olusegun Obasanjo instituted a reform program in 2003,** designed to address the structural and institutional weaknesses of the economy, tackle corruption and overhaul public expenditure management. These policies were encapsulated in an all-embracing home-grown program known as the National Economic Empowerment and Development Strategy (NEEDS). In order to provide an objective assessment of the efficacy of the reforms, the Government invited the Fund to monitor, on a quarterly basis, the implementation of the policies and reforms in the context of intensified surveillance. A major weakness of past adjustment programs in Nigeria had to do with the fact that they were not homegrown, and there was no sense of ownership by Nigerians. Consequently, even for needed appropriate policies, the perception was that they were imposed from outside, thereby robbing the programs of local support and scuttling any chance of successful implementation. The home-grown nature of NEEDS has engendered a sense of ownership among Nigerians, with sub-national Governments now developing equivalent programs at the State and Local Government levels. Indeed, given the depth and breadth of the reforms, it is clear that only a true sense of ownership would elicit the degree of support needed to drive the process forward.

2. **The broad goals of NEEDS could be summarized as poverty reduction, wealth creation and employment generation through the empowerment of the private sector, and a reorientation of national values.** This was to entail a redefinition of the role of government in the economy, creating an enabling environment for private sector growth, and improving social services delivery. The pursuit of fiscal discipline through an oil price-based fiscal policy rule and improved public expenditure management, combined with better revenue collection, tax reforms and customs reforms, would foster macroeconomic stability, while reforms to the public procurement system through the due process mechanism and membership of the EITI would address lapses in governance and transparency. Similarly, reforms to the public service would bring about efficiency and improved public service delivery, just as market liberalization and privatization of key public enterprises would help our public finances and quality of service. Finally, far-reaching reforms are being introduced in the banking sector, with a view to consolidating and strengthening the financial sector, after which a wholesale Dutch Auction System would be adopted to replace the present retail system.

3. **Significant progress has been made under the reform program,** as evidenced by the macroeconomic performance of 2004. Real GDP growth of 6.1 percent was recorded, of which non-oil GDP rose by 7.4 percent (surpassing the target of 5 percent); the diligent implementation of an oil price-based fiscal rule meant that for the first time in the history of Nigeria, public

expenditure was de-linked from oil revenue receipts, resulting in the saving of the oil windfall and the highest ever level of foreign reserves in the nation's history. The coordination of fiscal and monetary policies also meant that the Central Bank of Nigeria met its monetary target for the first time in decades, and helped to reduce inflation, from about 24 percent in December 2003 to 10 percent in December 2004. On the foreign exchange market, the tight fiscal and monetary stance also helped to reduce the spread between the official and parallel market rates to about 5 percent.

4. **The strategy under the 2005 budget, and in the medium term, is to build on the success of 2004.** This would be accomplished through a continuation of the oil price-based fiscal rule, continued prudence in public expenditure management, observance of due process in public procurement, intensification of the fight against corruption, and an acceleration of the privatization exercise. In this context, the Government has adopted a Medium-Term Expenditure Framework (MTEF) designed to usher in a multi-year budgeting system that will ensure better planning, prioritization of projects, matching of expenditure to expected revenue inflows and generally improving project implementation. The short and medium-term macroeconomic framework and financial policies may be summarized as follows:

Short-Term Macroeconomic Policies

- Crude oil production is expected to rise from 2.4 Mb/d in 2005 to 2.5 Mb/d in 2006.
- An oil price based fiscal rule will continue to drive the budgeting process, with the benchmark price at $30 per barrel in 2005. The government intends to submit a draft 2006 budget based on a benchmark price of $33 per barrel to the National Assembly by end-2005. [1]
- The MTEF has been prepared as part of the 2006 budget process. In this context, line ministries will formulate their medium-term objectives in line with NEEDS, as guides for sectoral spending programs.
- The targeted primary expenditure of the Federal Government in 2005 is estimated at about 10 percent of GDP, with present estimates suggesting that this variable will fall to 9 percent in 2006.
- Fiscal policy shall target a non-oil primary deficit of about 41 and 38 percent of non-oil GDP in 2005 and 2006, respectively.
- Excess revenue on the crude oil account will continue to be saved, in accordance with the specifications of the Fiscal Responsibility Bill that was recently submitted to the National Assembly. Present estimates, based on the WEO oil price projections (or $51.10 per barrel average for Nigerian oil in 2005) and a $30 per barrel oil benchmark price,

[1] The increase of the benchmark price to $33/b in 2006 is due to the fact that there will be no sharing of excess crude oil proceeds in 2006 based on the planned utilization of the savings for the debt buy-back.

suggest that the balance on the account will rise to $11 billion at end 2005 and $33 billion at end 2006.[2]

- Based on the above, the level of international reserves would increase to $26½ billion by end-2005 and $48 billion at end-2006.[3]
- With continued prudent fiscal and monetary policies, inflation should decline to a single digit level in 2006. In the first half of 2005, monetary aggregates increased more rapidly than anticipated; the 12-month increase in broad money amounted to 34 percent by end-June--more than double the target for the year. Concurrently, year-on-year inflation increased to 26 percent by end-July 2005. The CBN has now taken decisive measures to reign in money growth, with a view to reduce year-on-year broad money growth to 15 percent by end-December 2005. These measures include stepped up foreign exchange sales compared to the first half of 2005 and more active open market operations to mop up excess liquidity. In addition, the cash reserve requirement was increased from 9.5 percent in June to 11 percent in August. The exchange rate band will be subordinated to the money target and the exchange rate will be allowed to adjust as needed.
- A real GDP growth rate of about 6 percent is expected for 2005, with non-oil GDP growth rate of about 7 percent.
- Towards better macroeconomic coordination, all 36 States have developed their counterpart to the NEEDS program, the SEEDS; 35 of them have volunteered to be benchmarked and assessed on their performance. The SEEDS benchmarks cover fiscal policy, communication and transparency, service delivery and budget management. The reviews will be completed by end-December 2005.
- The monetary program envisages zero net lending to Government by the CBN. However, in exceptional circumstances, it would lend to the Government but keep such lending at no more than 5.0 percent of the previous year's retained revenue, and the loan must be cleared to zero by the end of the quarter.
- The growth of broad money shall continue to be monitored, with a target growth rate of 14-16 percent in 2006-2008 consistent with the targeted non-oil GDP growth rate and inflation.
- The CBN will now use its minimum rediscount rate (MRR) as a signalling device for monetary policy, varying the rate in line with inflation and liquidity conditions.

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[2] This takes into account the payment of US$6 billion arrears due to Paris Club creditors after the debt relief negotiations, but not payment of a further projected US$6.4 billion in 2006 after the negotiations with the Paris Club on a comprehensive debt treatment. In any case, it must be emphasized that these projections are based on the present WEO oil price profile, which is subject to large swings.

[3] Again, a note of caution is necessary here regarding the foreign reserve projections since they are based on oil price projections that are known to be very volatile and subject to frequent revisions.

- The CBN will also develop a liquidity forecasting framework, with assistance from the IMF, to strengthen its daily open market operations, and withdraw as needed public sector deposits from commercial banks.
- The CBN will also move to a wholesale Dutch auction system by end-February 2006, with a view to achieving a convergence of the DAS and Inter-bank rates (a structural assessment criterion).

Medium Term Macroeconomic Policy

The Government expects to continue implementing the reform program in the medium term so as to build on the achievements of the short term. The framework will be based on the following assumptions:

- Crude oil production is expected to rise to 2.6 Mb/d in 2007 and 2.7 Mb/d in 2008.
- The oil price based fiscal rule will continue to underpin the budgeting process; the projected benchmark price in 2007 and 2008 is $30 per barrel, subject to the concurrence of the National Assembly.
- The targeted primary expenditure of the Federal Government in 2007 and 2008 is estimated at about 10 percent of GDP.
- Efforts will be made to bring down the non-oil primary deficit to about 38 percent in 2007-2008.
- The monetary program in the medium term will continue as envisaged under the short term program with regard to broad monetary targets, the MRR and inflation.

5. **Structural reforms are being intensified**. In this context, 21 enterprises are listed for privatization or concessioning in 2005 and 2006, while the Government is also establishing regulatory authorities for the relevant sectors to provide oversight functions for these sectors. The enterprises targeted for privatization include the following:

- The State Telecommunications Company, NITEL is being prepared for offer for sale; the opening of the financial bid will be done by December 2005.
- A new Power Sector Act was signed into law in March 2005, paving the way for the reform and privatization of the National electricity company (NEPA). The government will unbundle NEPA into 18 successor companies by end December 2005, i.e. into generation, transmission and distribution companies. A regulatory commission was set up during the second quarter of 2005 as part of the preparation for privatization (structural assessment criterion).
- The Port Harcourt refinery would be offered for sale, with the opening of the financial bid expected by December 2005
- The sale of Government shares in Afribank will be completed in 3 Q 2005
- Steyr Assembly Plant would be offered for sale by 4Q 2005
- Eleme Petrochemical Company would be brought to point of sale by 4Q 2005
- Eleven oil service companies will be offered for sale in 2006

- 51 percent of the shares of Nicon Hilton Hotel will be offered for sale by the end of 2005; the opening of the financial bid will be done by end December 2005. The plan is to subsequently have an IPO for the rest of the shares
- The Le Meridien-Sofitel Hotels would be offered for sale in 2006
- Six brick and clay companies would be offered for sale by 1Q 2006
- The Apapa Ports complex was concessioned in 1Q 2005; the Port Harcourt ports would be concessioned in September 2005; and the Tin Can Island Port would be concessioned by end December 2005.

Other structural reforms

- A five-band customs tariff (0, 5, 10, 20, and 50 percent), based on the Common External Tariff (CET) of ECOWAS, will be implemented by October 2005 (structural assessment criterion). The temporary 50 percent tariff band will apply to a list of selected items competing with locally produced goods, and import bans will be phased out by January 2007 or such date as is consistent with the date for ECOWAS convergence criteria. The 50 percent tariff rate will be reviewed by end-2007, following a study on the impact of the tariff reform on the economy. In any case, the tariff structure will be consistent with ECOWAS requirements.
- A list of contractor arrears is presently being compiled and the claims are to be audited; a framework for clearing the arrears would be developed in 2005, mainly through issuance of 3-10 year bonds.
- A framework for clearing pension liabilities and arrears will be developed and put in place by end June 2006. In preparation for this, the government will establish a computerized database for the management of public servants and pensioners, as well as payroll, pension liabilities and arrears, during the second quarter of 2006.
- An expenditure tracking system is being developed within the medium-term expenditure framework for the health, education, water, agriculture, power and roads sectors. The structure is expected to be in place by December 2005, but for the current year, the preliminary focus will be on HIV/AIDS, anti-polio immunization program, malaria, water (including provision of boreholes), and education infrastructure (classrooms for students and toilets for female students). A program of full tracking would be undertaken in 2006. A virtual poverty fund will be established; public investment reviews will be conducted annually; and cost-benefit analyses will be carried out for large public investment projects as part of efforts to ensure high quality in capital spending. Government will also include in the development of the Transaction Recording and Reporting System (TRRS) and the I.T. infrastructure requirements, the needs of the Oversight of Public Expenditure in Nigeria (OPEN).
- The work of the Due Process Office in ensuring transparency and best practice in public procurement, which has saved billions of dollars for Government in the last 3 years, is continuing with a legislative instrument to underpin its work now in the National Assembly.

- The work of the Cash Management Committee, which is driving the implementation of the budget and ensuring improved public expenditure management, will continue. In a related context, oversight units are being set up for certain areas, including the participation of NGOs.
- The TRRS developed by the OAGF, with assistance from the IMF, will be rolled out in all line ministries and federal pay offices by the 2nd quarter of 2006 to strengthen public accounting at the federal level. This will be made consistent with the proposed Integrated Financial Management System (IFMS) to be developed with World Bank support. The government has moved to a Single Treasury Account.
- The CBN is carrying out a banking sector consolidation program designed to strengthen the financial system and to raise shareholders' funds to N25 billion for each bank by end-December 2005, including through mergers and acquisitions. In this context, a number of milestones have been set that will culminate in the attainment of the final objective. Also, a high-level steering committee was established in June 2005 to oversee aspects of the process. The CBN has also prepared contingency plan to deal with any loss of confidence in the banking system. In addition, bank supervision will continue to be strengthened. In this regard, amendments to the CBN Act and to the Bank and Other Financial Institutions Act (BOFIA) will be submitted to the National Assembly shortly. The amendments are, inter alia, aimed at establishing an administrative liquidation process for closed banks. The CBN will finalize an exit strategy to deal with banks that do not meet the new capital requirement as of December 31, 2005. The strategy will specify how the cost of banks that will be resolved will be financed (structural assessment criterion). The draft bill for the establishment of the Asset Management Company (AMC) will be submitted to the National Assembly by end-November 2005 to help recover non-performing loans and minimize budgetary costs. Towards developing an electronic banking system, the CBN is introducing the Real Time Gross Settlement (RTGS), the Electronic Financial Analysis and Surveillance System (e-FASS) and GLOBUS systems, which will become operational by November 2005.
- The downstream oil market has been deregulated, and most of the subsidies phased out. The present high crude oil price has made it difficult to implement a full pass through to consumers (as with many other countries). However, prices were raised from a level approximately equivalent to $40 per barrel to one equivalent to about $51 per barrel. Government intends to fully implement a deregulated market over the medium term. Whatever price support there is in the transition period would be clearly identified in the budget. The government has also commissioned a study on the benefit incidence of the current subsidy, with issues of sustainability and better targeting it to the poor in mind.
- The Civil Service reforms are being broadened to cover the rest of the Civil Service (beyond the pilot ministries) by December 2005, and will be extended to the rest of the public service as well. The objective is to strengthen the public service, build capacity, bring in the right skills and let go those skills that are no longer needed. Already 11,000 personnel have been let go from the public service; with further departures expected before end 2005 while recruitment of the top 1,000 graduates has also been launched. An Integrated Personnel Information System (IPIS), to help monitor staffing numbers in the Service, is being tested in readiness for full deployment in Q4 2005.

- The Federal Inland Revenue Service (FIRS) is being restructured for a more effective performance, with new leadership now in place. Among other things, FIRS plans to introduce a unique Tax Identification Number (TIN) by 1Q 2006.
- A Chart of Accounts has been developed by the Office of the Accountant General, which is currently undergoing tests. This will come into full operation by 1Q 2006.
- Central data gathering agencies have been consolidated into the National Bureau of Statistics (NBS), and a new leadership was installed at the NBS in 2Q 2005 as part of Government's efforts to improve macroeconomic statistics. The NBS, in collaboration with the CBN, is working to complete a survey towards developing a quarterly GDP database. This is expected to be completed by December 2005. NBS also plans to revive 5 other surveys by end-2005, covering labour, establishment, and agriculture. In addition, economic, social and poverty-related data collection, processing and distribution will be improved.

Transparency and fight against corruption

- The Nigerian Extractive Industries Transparency Initiative audit of the oil and gas industry is presently ongoing, with a preliminary audit report expected to be published by December 2005 (structural assessment criterion).
- The publication of the revenue allocation to the 3 tiers of Government is being continued.
- A Guideline for public procurement will be introduced by September 2005, and a Federal Tenders Journal before end-2005. A Public Procurement Bureau is expected to be established in 2Q 2006. Also, in 1Q 2006, an online bidding platform will be introduced.
- The Economic and Financial Crimes Commission (EFCC) has continued the fight against corruption, with a number of senior public officials arrested in recent months. These are now being prosecuted. The EFCC has also seized a number of assets judged to have been corruptly acquired; it has made progress in the fight against advance fee fraud and cyber-crime. Similarly the Independent Corrupt Practices Commission (ICPC) is investigating dozens of cases. A country anti-corruption survey is expected to be conducted by March 2006, using an independent consultant. In order to make for a more effective operation, EFCC funding is being increased.
- Nigeria is working towards being ready (including by introducing an electronic reporting system) for on-site visit by the FATF by December 2005, with a target of February 2006 for being delisted from the list of non-compliant countries. The anti-terrorism law is expected to be passed by early 2006.

6. **Steps are being taken to institutionalize the reforms.** In this context, several Bills are either under consideration by the National Assembly or already passed into law. Bills in the National Assembly include:

- The Fiscal Responsibility Bill designed to coordinate fiscal policy among the 3 tiers of Government,

- Public Procurement Bill to ensure efficiency and transparency in this area;
- the Tax Reform Bill, and
- the EITI Bill.

Those already passed are the Power Sector Bill and the Pension Reform Act.

7. **Serious challenges remain, however.** The push to meet the MDGs and the objectives of the NEEDS program—poverty reduction, wealth creation, employment generation, etc.—cannot be met without significant investment in infrastructure, education, and health. Poor infrastructure has been identified as the single most important constraint to development in Nigeria. The private sector cannot be expected to play the role of engine of growth without an improvement in infrastructure. It is estimated that an annual real GDP growth of 7 percent is needed in order to achieve the objectives of NEEDS. Current estimates indicate that there is a financing gap of about $4 billion per annum if Nigeria is to meet the NEEDS/MDG objectives. This is consistent with the requirements for meeting the MDGs by the target date of 2015. Yet, Nigeria has the lowest aid per capita among sub-Saharan countries, at about $2 per capita, compared to the region's average of $28.2. In addition, given Nigeria's current fiscal situation, it will be impossible to achieve the MDGs and NEEDS objectives if the external debt of about US$35 billion (of which Paris Club is US$30 billion) is to be fully serviced. As of now, Nigeria has remained current on its debt service obligations to its multilateral and other creditors while maintaining dialogue with its Paris Club creditors; the Government is paying only the interest obligations of its bilateral debt. This, in itself, has put enormous pressure on the nation's resources.

8. **Nigeria has sought debt relief and reached an accommodation with the Paris Club.** On the basis of the above arguments, Nigeria now needs the full support and cooperation of the international community to bring its debt stock to a sustainable level—a level that would enable the country meet its obligations, while also addressing its development needs, including the MDGs. Our analysis indicates that the debt is unsustainable when the historical average oil price is used for the debt sustainability analysis. Furthermore, when the cost of the MDGs is taken into account, a sizeable financing gap emerges. In the face of opposition from powerful interest groups against change, some quick wins (mostly in the form of debt relief) became imperative to sustain the momentum of reforms and lock it in for the long term. Having demonstrated its commitment to the reforms, the Federal Government will re-engage the Paris Club when the PSI is approved by the IMF, to finalize negotiations on relief of Nigeria's debt burden with the aim of achieving debt sustainability. Considering the huge needs of Nigeria and the challenge of meeting the MDGs, the Government has made clear, and the Paris Club agrees, that a highly concessional debt relief, on conditions comparable to Naples terms, is necessary.

9. **Program monitoring.** The Government proposes quantitative assessment criteria for end-December 2005 and end-June 2006 on the basis of agreed quarterly quantitative indicative targets (see table 1), and structural assessment criteria and benchmarks (table 2) to assess performance of policy and reform implementation. We would like to request the Fund to monitor program performance under the IMF's new Policy Support Instrument. Review dates for

quantitative assessment will be set on a semi-annual basis, and we expect that the first review date will be December 31, 2005, with conclusion of the first review no later than March 31st 2006.

10. **The Government will seek only concessional financing in the period ahead** to help finance its investment program. It also believes that the implementation of Nigeria's home-grown program supported under the PSI and its financing, as described above, will enable the country to achieve its medium-term objectives and remain current on its external debt service obligations. The Government does not intend to request the use of IMF or PRGF resources in the course of implementation of its home-grown program.

Table 1: Nigeria - Quarterly Quantitative Assessment Criteria and Indicative Targets, 2005-06
(In billions of naira, unless otherwise indicated)

	2004	2005				2006		
		end-Mar.	end-Jun.	end-Sep.	end-Dec.	end-Mar.	end-Jun.	end-Sep.
	Estimate	Estimates		Indicative Targets	Assessment Criteria	Indicative Targets	Assessment Criteria	Indicative Targets
Federal government non-oil primary balance (floor) 1/	-594	-147	-354	-652	-937	-322	-570	-785
Reserve money (ceiling) 1/	732	741	754	770	764	784	805	826
Net foreign assets of the CBN (floor) 1/	2,250	2,852	3,209	3,577	3,303	3,856	4,568	5,322
New non-concessional external debt by the Federal government and the CBN (ceiling) 2/	...	0	0	0	0	0	0	0
External arrears 2/	...	0	0	0	0	0	0	0
Memorandum items:								
Oil production (in million barrels per day)	2.50	2.42	2.43	2.37	2.57	2.48	2.48	2.48
Oil price (in U.S. dollars per barrel) 3/	36.5	42.0	50.2	53.6	58.6	60.0	60.5	60.5
Petroleum Profit Tax	826	393	200	429	425	505	513	522
External debt service 4/	227	53	53	53	783	23	23	23
State and local government non-oil primary balance	-1,117	-310	-663	-1,109	-1,540	-447	-843	-1,239

Sources: Nigerian authorities and staff estimates and projections.
1/ Cumulative until the end of the period.
2/ Applies on a continuous basis.
3/ Actual and projected prices lagged by two months to allow for pass-through to government revenue.
4/ Payment of US$6 billion arrears to Paris Club creditors accounted for in 2005, but no debt service to Paris Club included for 2006, pending the outcome of the negotiations with the Paris Club on a comprehensive debt treatment.
Note: The net foreign assets target will be adjusted upward (downward) for positive (negative) deviations of oil prices, oil and gas production, and Petroleum Profit Tax collection, and for negative (positive) deviations for debt service payments from program assumptions.

Table 2. Nigeria: Structural Benchmarks and Assessment Criteria under the PSI Program [1]

S/N	**Structural Assessment Criteria**	**Expected date of achievement**	**Remarks**
1	Finalization of an exit strategy for banks that do not meet the capital requirements, as described in paragraph 5 of the Policy Statement.	End-October 2005	
2	Adopt and implement a five-band customs tariff regime (0, 5, 10, 20, and 50 percent), based on the Common External Tariff (CET) of ECOWAS, as described in paragraph 5 of the Policy Statement.	End-October 2005	
3	Submit Bills for amendments to the CBN Act and Bank and Other Financial Institutions Act (BOFIA) to the National Assembly to strengthen CBN's regulatory capacity, as described in paragraph 5 of the Policy Statement.	End-November 2005	
4	CBN to move from retail to wholesale auction system, as described in paragraph 4 of the Policy Statement.	End-February 2006	
5	Completion and publicizing of draft report of the Nigeria EITI audit, as described in paragraph 5 of the Policy Statement.	End-December 2005	
6	Unbundling of NEPA by establishing successor companies (generation, transmission and distribution), as described in paragraph 5 of the Policy Statement.	End-December 2005	
	Structural Benchmarks		
1	Continue publication of revenue allocation to the three tiers of Government.	Continuous	
2	Identify specific MDG-related expenditures in the six MDG sectors (Health, Education, Power, Water, Roads and Agriculture). Modify the Chart of Accounts to incorporate the identified MDG expenditure items in the six sectors.	End-December 2005	
3	Submission of the Asset Management Company Bill to the National Assembly.	End-November 2005	
4	Complete the audit of contractor arrears in excess of N1 billion	End-February 2006	
5	Opening of the financial bids for the privatization of the State Telecommunications Company, NITEL	End-December 2005	
6	Opening of financial bids for the concessioning of Tin Can Island port	End-December 2005	
7	Opening of the financial bids for sale of Nicon Hilton Hotel	End-March 2006	
8	CBN is to make operational a Real Time Gross Settlement system (RTGS), an Electronic Financial Analysis and Surveillance System (e-FASS) and a Banking Application System (Termenos 24) as part of the movement to electronic banking.	End-November 2005	

[1] Assessment criteria will also apply on a continuous basis to exchange and import measures as in Fund supported programs.

Nigeria: Technical Memorandum of Understanding (TMU)

October 6, 2005

1. This Memorandum of Understanding between the Nigerian authorities and the IMF staff sets out the definitions of performance targets, as well as reporting requirements for the Nigerian reform program supported under the Policy Support Instrument (PSI). The performance targets are reported in Table 1 of the authorities' policy statement dated October 6, 2005.

Quantitative Performance Targets: Definitions and Reporting Standards

A. Floor on Federal Government Non-Oil Primary Balance

2. **Definition:** The non-oil primary balance of the federal government will be measured on a cash basis and will be defined as non-oil-and-gas-related revenue minus total expenditure excluding interest payments. Non-oil-and-gas-related revenue consists of the federal government's share of imports and excise duties, companies' income tax, and value-added tax, as well as the federal government's independent revenue. Federal government expenditure includes recurrent and capital expenditure, as well as any clearance of expenditure arrears and recapitalizations. Capital expenditure on a cash basis is defined as the utilization of capital releases from the current and previous budgets during the relevant period. Interest payments consist of domestic and external interest payments. The non-oil primary balance target is defined as non-oil revenue received less non-interest expenditures incurred from the beginning of the year.

3. **Supporting material:** Data on federally collected revenue and federal expenditure will be provided by the Office of the Accountant General of the Federation (OAGF) to the Fund within six weeks of the end of each month. The OAGF will also provide to the Fund monthly federal government capital account balances within six weeks of the end of each month, and a quarterly summary of capital releases and utilization (for each budget year) within six weeks of the end of each quarter.

B. Ceiling on Reserve Money

4. **Definition:** Reserve money is defined as currency in circulation and deposit money banks' deposits at the Central Bank of Nigeria (CBN). The reserve money target is defined as the end-of-period stock.

5. **Supporting material:** The CBN balance sheet is to be transmitted to the Fund on a monthly basis within six weeks of the end of each month.

C. Floor on Net Foreign Assets of the CBN

6. **Definition:** Net Foreign Assets (NFA) of the CBN are defined as foreign assets minus short-term foreign liabilities of the CBN. The NFA target is defined as the end-of-period stock.

7. **Adjustment clauses**: The floor will be adjusted to reflect cumulative deviations from program assumptions on (a) oil revenue and (b) external debt service payments. The floor will be adjusted upward (downward) to the extent that receipts of oil revenue into the federation account of the CBN exceed (fall short of) the programmed levels on account of higher (lower) than programmed oil and gas prices and production volumes, and upward (downward) to the extent that petroleum profit tax collections exceed (fall short of) programmed levels. The floor will be adjusted upward (downward) to the extent that external debt service payments fall short of (exceed) the programmed level. Programmed levels of oil prices and volumes and of external debt payments are specified in Table 1 of the authorities' policy statement.

8. **Supporting material:** Data on NFA, foreign assets, foreign liabilities will be provided by the CBN and data on oil revenue into the federation account of the CBN and on petroleum profit tax collection will be provided by the OAGF to the Fund on a monthly basis within six weeks of the end of each month. Data on external debt service payments (principal, interest, and total) broken down by creditor will be supplied by the Debt Management Office (DMO) to the Fund on a monthly basis within four weeks of the end of each month.

D. Non-Accumulation of External Arrears

9. **Definition:** During the period of the PSI, the federal government and the CBN will not incur any payment arrears on external debt service obligations to creditors. Official external payment arrears are defined as unpaid debt service by the federal government and the CBN beyond the due date. This definition excludes arrears subject to future rescheduling according to agreements with the Paris Club or bilateral creditors. The assessment target on non-accumulation of external arrears is continuous.

10. **Supporting material:** Details of arrears accumulated on interest and principal payments to creditors will be reported by the DMO to the Fund within two weeks from the due date of the missed payment.

E. Ceiling on Contracting or Guaranteeing of New Non-Concessional External Debt by the Federal Government and the CBN

11. **Definition:** Non-concessional external loans are defined as loans from lenders other than the IMF with a grant element of less than 35 percent of the value of the loan. The grant element is to be calculated by using currency-specific discount rates reported by the OECD

(CIRRs).[1] For maturities of less than 15 years, the grant element will be calculated based on six-month averages of commercial interest rates. For maturities longer than 15 years, the grant element will be calculated based on 10-year averages. This assessment criterion applies to debt and to commitments contracted or guaranteed for which value has not been received.[2] Previously contracted non-concessional external debt that has been rescheduled will be excluded from the definition of "new debt" for the purposes of this assessment criterion.

12. **Supporting material:** Details of all new commitments and government guarantees for external borrowing, with detailed explanations, will be provided by the Ministry of Finance to the Fund on a monthly basis within two weeks of the end of each month.

Memorandum Item: Definitions and Reporting Standards

F. Floor on Non-oil Primary Balance of States and Local Governments (SLGs)

13. **Definition:** The non-oil primary balance of the SLGs will be measured as the non-oil-and-gas-related revenue minus primary expenditure. Non-oil-and-gas-related revenue consists of the SLGs' share of imports and excise duties, companies' income tax, and value-added tax. SLGs primary expenditure will be computed as (i) the non-oil-and-gas-related revenue; plus (ii) the oil-and-gas-related revenue including derivation and the distribution of accumulated excess crude proceeds; plus (iii) change in net claims on SLGs by the banking system (excluding changes in excess crude deposits); minus (iv) external debt service on a cash basis.

14. **Supporting material:** Data on SLGs revenue will be provided by the Office of the Accountant General of the Federation (OAGF) to the Fund within six weeks of the end of each month. The CBN will provide data on changes in net claims (excluding changes in excess crude deposits) on SLGs by the banking system.

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[1] An electronic spreadsheet file that shows the relevant discount rates reported by the OECD (CIRRs) will be provided on a periodic basis by Fund staff.

[2] For this purpose, debt is defined as in IMF guidelines on external debt.

Nigeria: Relations with the Fund
(As of July 31, 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	1.16	0.74

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	2.03	4.11	4.11	4.13	4.11
Total	2.03	4.11	4.11	4.13	4.11

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 July 29, 2005:

IFEM/DAS	US$1 = N132.4.
Bureaux de change/parallel market	US$1 = N141.8.

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 8-25, 2005. The staff report (IMF Country Report No. 05/302) was discussed by the Executive Board and the consultation concluded on July 18, 2005.

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/Restructuring	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 Building	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**

Statement by the IMF Staff Representative
October 17, 2005

1. The following information has become available since the issuance of the staff report to the Board on October 7, 2005. The thrust of the staff appraisal remains unchanged.

2. **The Federal Executive Council (FEC) approved a draft 2006 budget on October 12, 2005.** The approved budget is in line with the understandings reached with the staff as described in the staff report. The draft budget will be submitted to the National Assembly for its consideration before end-December. The FEC also approved the tariff reform as described in the staff report. Implementation does not require parliamentary approval

3. **Preliminary data indicate that there has been a decline in base money growth in September, although not as strong as expected.** Reserve money declined, in both unadjusted and seasonally adjusted terms, although it is likely to have exceeded the end-September indicative target by some N 50 billion.

4. **Both management and staff have been engaged in intensive discussions with the authorities in recent weeks.** The authorities are fully aware of the risks to their program, including from expansionary fiscal policies, the ambitious bank restructuring exercise, and the resistance against reforms by vested interests. They have repeatedly demonstrated their commitment to take bold action and management and staff are therefore confident that program risks are manageable. To further reduce the growth of monetary aggregates, the CBN has taken additional measures after the staff report was circulated, including a requirement that banks keep the N 40 billion capital that they have raised in the market in an escrow account at the CBN; N 22 billion has already been transferred and the remaining N 18 billion is expected in the coming days. The CBN intends to intensify open market operations during the fourth quarter of 2005. To facilitate this, the Minister of Finance signed an agreement in early October to provide the CBN with N 70 billion in treasury bills to be used for monetary policy purposes. These would be supplemented with CBN bills, as necessary.

INTERNATIONAL MONETARY FUND
EXTERNAL RELATIONS DEPARTMENT

Press Release No. 05/229
FOR IMMEDIATE RELEASE
October 17, 2005

International Monetary Fund
Washington, D.C. 20431 USA

IMF Executive Board Approves a Two-Year Policy Support Instrument for Nigeria

The Executive Board of the International Monetary Fund (IMF) today approved a two-year Policy Support Instrument (PSI) for Nigeria under the IMF's newly created PSI framework, and which is intended to support the nation's economic reform efforts.

Nigeria's PSI is based on the National Economic Empowerment and Development Strategy (NEEDS), Nigeria's Poverty Reduction Strategy, and focuses on rapid and sustainable non-oil growth and poverty reduction. The PSI will assist Nigeria to develop a well-articulated and sound policy framework, including prudent macroeconomic policies, a strengthening of institutions, and to ensure a governance structure conducive to private sector activity. Approval of a PSI for Nigeria signifies IMF endorsement of the policies outlined in the program.

The IMF's framework for PSIs is designed for low-income countries that may not need, or want, IMF financial assistance, but still seek IMF advice, monitoring and endorsement of their policies. PSIs are voluntary and demand driven. PSI-supported programs are based on country-owned poverty reduction strategies adopted in a participatory process involving civil society and development partners and articulated in a Poverty Reduction Strategy Paper (PRSP). This is intended to ensure that PSI-supported programs are consistent with a comprehensive framework for macroeconomic, structural and social policies to foster growth and reduce poverty. Members' performance under a PSI is normally reviewed semi-annually, irrespective of the status of the program. (see Public Information Notice No. 05/145).

In commenting on the Executive Board decision, Ms. Anne O. Krueger, First Deputy Managing Director and Acting Chair, stated:

"Over the past 18 months, Nigeria has made commendable progress in implementing its economic reform program, aimed at accelerating economic growth, reducing poverty, and meeting the Millennium Development Goals. More recently, the authorities requested a Policy Support Instrument in support of a comprehensive reform program based on their National Economic Empowerment and Development Strategy.

“ The authorities’ program is designed to sustain and strengthen macroeconomic performance and encourage economic growth and diversification with front-loaded structural reforms. The program emphasizes pro-growth and export-oriented reforms that—along with prudent fiscal, exchange rate, and monetary management—will boost external competitiveness over the medium term. It is formulated with quantitative and structural assessment criteria that reflect policies meeting the IMF’s standard of upper credit tranche conditionality—the same policy standard that would warrant IMF financial support beyond the first credit tranche. The continuing close relationship with the Fund envisaged under the PSI approved today should support Nigeria in developing a well-articulated and sound policy framework and implementing the next phase of reforms, and promote and facilitate private sector activity and debt relief.

“A key challenge going forward will be to maintain an appropriate stance and mix of fiscal and monetary policies, in view of the importance of reversing the upsurge in inflation that was associated with the expansionary monetary and fiscal policies in early 2005. While the government is committed to containing spending in 2005 below budget appropriations, the projected increase in spending is still large, and the resulting fiscal expansion will place more of the burden of controlling inflation on the central bank. Following the failure to sterilize the buildup of excess liquidity in the first half of the year, the Central Bank of Nigeria (CBN) has recently taken stronger measures to reduce money growth—including increased sales of foreign exchange, more aggressive open market operations, and a further increase in cash reserve requirements—which have put the year-end monetary targets within reach. In addition, the prospective adoption of a 2006 budget that reduces the primary non-oil deficit well below the projected outturn for 2005 will further improve the policy mix. At the same time, the government aims to strengthen expenditures on poverty-related programs, allocating an extra US$1 billion to well-defined programs related to the Millennium Development Goals.

“The authorities have initiated a broad and ambitious structural reform program aimed at improving public service delivery and the business environment. The program includes measures to strengthen budget procedures, advance civil service reforms, restructure the banking system, unify foreign exchange markets, rationalize the external tariff system, and improve governance and transparency. The authorities’ recent decision to allow oil marketers to increase gasoline prices by about 25 percent will help reduce allocation distortions and implicit subsidies.

“Implementation of the agreement in principle that Nigeria has reached with Paris Club creditor countries should improve investor confidence and free up resources for poverty reduction. Negotiations on a comprehensive debt treatment are expected to take place in the near future.

“The authorities’ homegrown program supported by the PSI provides an important opportunity for Nigeria to consolidate the gains achieved so far and address the significant remaining challenges stemming from past economic mismanagement and resistance to reform from vested interests. Achievement of the program objectives hinges on timely and rigorous implementation of the envisaged polices. The authorities fully recognize these challenges and are firmly committed to strict adherence to the program. The broad domestic ownership and support at all levels of government bode well for the success of the program. The continued provision of technical assistance will be essential for bolstering implementation capacity. More generally, the support of the international community for Nigeria's economic reform program is crucial at this juncture," Ms. Krueger said.

ANNEX

Recent Economic Developments

Over the past 18 months, Nigeria has made commendable progress in implementing its homegrown economic reform program, aimed at accelerating economic growth, reducing poverty, and meeting the Millennium Development Goals. Macroeconomic policies were broadly consistent with the objectives of achieving macroeconomic stability and reducing the economy's vulnerability to oil shocks. Since early 2004, all three tiers of government have adhered to a conservative oil price-based fiscal rule, resulting in large overall budget surpluses and a significant build-up in international reserves. GDP growth has been robust, benefiting from the improved macroeconomic environment and policy initiatives to spur agricultural production.

Developments in the first half of 2005 were dominated by a continued rise in gross international reserves and a sharp increase in broad money. The Central Bank failed to sterilize the build-up of liquidity in the banking system that stems in part from larger private capital inflows and looser fiscal policy, but took decisive action to tighten policy starting in August. Expansionary macroeconomic policies, combined with a sharp increase in food prices related to the food crisis in neighboring countries, pushed the 12-month consumer price inflation to 26 percent in July. Fiscal policy evolved broadly in line with the government's plan to contain spending below that implied by the highly expansionary 2005 budget passed by the National Assembly in April. Under this plan, however, the increase in spending is still large and the non-oil primary deficit is projected to widen by 5 percent of non-oil GDP. In August 2005, domestic fuel prices were increased by about 25 percent to reduce implicit subsidies.

Program Summary

Nigeria's program under the PSI meets the Fund's standards for upper credit tranche conditionality. The program has been developed in the context of a positive medium-term macroeconomic outlook characterized by continued high oil prices, rising oil production and robust non-oil growth. A main pillar of the PSI is a tightening of macroeconomic policy and improvement of the mix of fiscal and monetary policies to achieve single digit inflation from 2006. The medium-term fiscal program aims at a gradual reduction of the consolidated non-oil primary balance from 41 percent of non-oil GDP in 2005 to 35 percent in 2008.

The program under the PSI also targets a strong accumulation of international reserves (to reach US$26 billion at end-2005), and tight reserve money growth of 4 percent in 2005. Formulation of the 2006 budget has begun with the aim of strengthening expenditures on poverty-related programs. An extra allocation of US$1 billion has been made to well-defined programs related to the Millennium Developments Goals. This allocation represents the expected saving in debt service in light of the proposed restructuring of Nigeria's Paris Club debt.

The authorities have also initiated a broad and ambitious structural reform program to improve public service delivery and the business environment. This program includes measures to strengthen budgetary procedures, advance civil service reforms, restructure the banking system, unify the foreign exchange markets, rationalize the external tariff system, and improve governance and transparency.

Table 1. Nigeria: Selected Economic and Financial Indicators, 2003–06

	2003	2004 Est.	2005 Proj.	2006
	(Annual percentage changes, unless otherwise specified)			
National income and prices				
Real GDP (at 1990 factor cost)	10.9	6.1	4.0	5.0
Real GDP per capita	7.9	3.3	1.4	2.5
GDP deflator (period average)	20.8	19.9	26.6	12.1
Consumer price index (end of period)	23.8	10.1	18.5	8.5
External sector				
Exports, f.o.b.	54.2	36.9	36.1	14.8
Imports, f.o.b.	26.1	11.3	38.0	9.9
Terms of trade	2.5	20.5	35.2	11.0
Real effective exchange rate (end of period; - indicates depreciation)	0.9	4.9	...	...
Consolidated government operations 1/				
Total revenue and grants	36.1	47.5	33.1	33.2
Total expenditure and net lending	26.2	17.3	22.3	10.0
Current expenditure 2/	25.3	16.3	20.7	9.7
Capital expenditure and net lending 2/	28.8	20.2	37.7	9.8
Money and credit				
Net foreign assets 3/	5.5	62.3	39.3	95.1
Net domestic assets 3/	19.0	-49.9	-26.2	-82.8
Net domestic credit 3/	29.7	-23.1	-13.8	-80.8
Broad money	24.1	14.0	15.0	14.0
	(In percent of GDP; unless otherwise specified)			
Investment and saving				
Investment	23.9	22.4	21.6	22.4
Public fixed investment	9.7	9.1	9.6	8.9
Private fixed investment	14.2	13.2	12.1	13.5
Gross national savings	21.1	27.0	31.4	36.7
Public	13.2	20.9	22.3	28.6
Private	7.9	6.1	9.1	8.1
Consolidated government operations 1/				
Total revenues and grants	37.1	43.1	43.5	49.3
Total expenditure and net lending (commitment basis)	38.4	35.4	33.6	31.3
Overall balance (commitment basis)	-1.3	7.7	9.9	17.9
External sector				
Current account balance	-2.7	4.6	9.8	14.3
External debt outstanding (in billions of U.S. dollars)	32.9	35.9	30.4	4.8
	(In billions of U.S. dollars, unless otherwise specified)			
Current account balance	-1.6	3.3	9.4	15.9
Overall balance of payments	-1.6	8.1	13.4	21.4
Gross international reserves (end of period)	7.5	17.0	26.4	48.3
(equivalent months of goods and services)	3.4	5.8	8.4	13.7
Nominal GDP at market prices (in billions of naira)	7,533	9,575	12,604	14,839

Sources: Nigerian authorities; and Fund staff estimates and projections.
1/ Consists of the federal, state, and local governments.
2/ Assumes that two-thirds of state and local government expenditure is recurrent expenditure.
3/ Change in percent of broad money at the beginning of the period.

Statement by Peter J. Ngumbullu, Executive Director for Nigeria and Godwil Efiong Ukpong, Senior Advisor to Executive Director October 17, 2005

Introduction

1. We would like on behalf of the Nigerian authorities, to thank the Fund Management and staff for an informative set of papers on economic developments in Nigeria and for the appreciation of the authorities' effort and commitment to the authority's reform agenda. Since 2004, the authorities have been implementing a strong, nationally owned reform program, designed by them to restore macroeconomic stability, address structural and institutional weaknesses in the economy, overhaul and improve public expenditure management, strengthen the financial sector, tackle corruption, enhance growth and reduce poverty in order to meet the Millennium Development Goals (MDGs). The policy measures being implemented to facilitate the attainment of these goals are articulated in an all-embracing home-grown reform and PRS program the National Economic Empowerment and Development Strategy (NEEDS), which is an outcome of an extensive, consultative and participatory process that became necessary to ensure successful implementation of the program in the short, medium and long-term. The need for wide consultation and domestic ownership of the program arose from the recognition, by authorities, that failures of the country's previous reform and adjustment programs were associated mainly with lack of a sense of ownership and support by Nigerians. The authorities are convinced that the depth and breadth of current domestic ownership of the on-going reforms, will continue to be critical and necessary to elicit the degree of support needed to progressively drive the program forward.

2. As staff has acknowledged, the authorities have made commendable progress in the implementation of their strong and comprehensive home-grown economic reform program since 2004, namely: (i) macroeconomic policies have been broadly consistent with the objectives of achieving stability and reducing the economy's vulnerability to external shocks; (ii) non-oil GDP growth has picked up and gross international reserves have risen significantly; (iii) the role of government in the economy has been redefined to one of creating and maintaining macroeconomic stability, facilitating an enabling environment for private sector investment and growth and improvement of infrastructure and social services delivery; (iv) fiscal discipline has been pursued through an oil price-based fiscal policy rule and improved expenditure management; (v) public procurement has been strengthened through a due process mechanism; (vi) Nigeria's membership of the EITI has helped address hitherto lapses in governance and transparency; and, (vii) banking sector reforms have been deepened .

3. Since the designing and inception of the NEEDS, the authorities invited Fund staff to provide an objective and independent assessment of the efficacy of the reform program, through technical assistance for refining the program and monitoring implementation of policy measures on a quarterly basis, in the context of intensified surveillance. The Nigerian authorities, like staff, know that the progress made in many fronts

notwithstanding, important challenges still remain. These include a high level of poverty, weak infrastructure, insufficiently diversified economy, weak institutions and a huge debt burden. While expressing profound appreciation to the Fund for its past supportive responses, including TA, the authorities welcome the Institution's continued fruitful relationship. In this context, the authorities are requesting for a PSI arrangement (the details of which are provided in their Request Letter, Policy Statement, and Technical Memorandum of Understanding) to further strengthen Fund's support of their reform effort and for assessment and endorsement of their policies. The authorities are of the view that the ongoing strong domestic social and political support to the program meets the test of strong ownership, while the strong policies already implemented and those envisaged in the next two years and beyond meet the standards of upper credit tranche conditionality, both key requirements under a PSI. The endorsement of the authorities' request for a PSI is critical in the ongoing negotiations between the authorities and the Paris Club and other creditors for debt relief.

Recent Economic Developments

4. Staff report affirms that macroeconomic policies have been managed more prudently than in previous periods of oil price increases, with developments in the first seven months of 2005 dominated by both higher oil prices and capital inflows. While the authorities seized the opportunity to increase international reserves, these developments posed challenges for money supply growth. In addition, the sharp increase in food prices related to the food crisis in neighboring countries, higher government infrastructure and social spending, and the impact of a 25 percent upward adjustment in domestic petroleum products' prices in August 2005, contributed to an increase in the12-monthly consumer inflation to about 26 percent. The authorities, however, adopted necessary measures to contain these inflationary pressures. In June and July 2005, they increased sales of foreign exchange in the Dutch Auction System (DAS) and increased banks' cash reserve ratio (CRR) by 50 basis points to 10 percent. The Central Bank of Nigeria (CBN) has been taking additional steps to reduce inflation. These include offer for sale in August and September of US $1.1 billion in extraordinary wholesale foreign exchange auctions in addition to the twice-weekly regular DAS. The CRR has also been raised by an additional 100 basis points to 11 percent, while the CBN has sold N46 billion in its bills in addition. Fiscal developments during the same period have been consistent with the government's commitment to contain spending, with windfall oil revenues of US $6.2 billion being saved by all three tiers of government. Modalities are being completed for implementation of the remaining identified structural reforms, including privatization of slated public enterprises during 2005 and early 2006.

Macroeconomic and Structural Policies for 2005 and the Medium Term

5. In the medium-term, the authorities aim at further improving the mix of fiscal and monetary policies to achieve macroeconomic objectives of 2005 and beyond. While the staff projects non-oil GDP growth of 5 percent per annum, and gross international reserves of 8 months of import coverage by end-2005 and 14 months by end 2006, the authorities as well as private sector players in Nigeria are convinced that growth in 2005

will exceed the 6.1 percent attained in 2004. Staff also maintains that given the CBN's committed return to tight monetary policy, 2005 end-year inflation would be 17-21 percent, with a decline to single digits in 2006, assisted by continuation of tight monetary stance and a more prudent fiscal policy than in 2005. The monetary authority, however, expects end-2005 inflation rate of about 10 percent (implying a repeat of the success of reducing end-period inflation rate from 24 percent in 2003 to 10 percent in 2004) as monetary policies currently being implemented take effect, the sub-regional food situation improves and the pass-through impact of domestic petroleum price increase subsides. The medium-term fiscal program will be based on reducing the consolidated non-oil primary deficit from 41 percent of non-oil GDP in 2005 to 35 percent by 2008 to allow for crowding-in of the private sector. The authorities' significant front-loaded macroeconomic and structural reform policies, including tariff reforms are aimed at improving public expenditure management, achieving macroeconomic stability and reducing the cost of doing business in the country. Both the authorities and staff agree that the export-oriented and pro-growth reforms, along with prudent fiscal and monetary management, will boost external competitiveness over the medium term and offset any real exchange rate appreciation that may ensue in the remainder of 2005 as a result of higher oil prices and possible increases in spending.

Fiscal Policy and Public Sector Reforms

6. The authorities are determined to contain large increases in spending in 2005 by limiting the increase in federal government primary spending to 25 percent in real terms. Reliance on a more conservative assumption on oil price than originally envisaged while preparing the budget and maintenance of a close dialogue with the National Assembly on the need to curb government expenditures would enhance the desired fiscal prudence. The authorities' 2005 fiscal program assumes regularization of arrears with the Paris Club by 2006. In addition, it is the authorities' intention to eliminate the remaining Paris Club debt once an agreement has been reached under current negotiations. They do not intend to borrow on nonconcessional terms in the period ahead, while formulation of the 2006 budget has begun with the objective of reducing non-oil fiscal deficit, in part to support the disinflation policy.

7. The federal budget, for the first time, is being prepared in the context of a medium-term expenditure framework (MTEF), with 8 major line ministries reformulating their objectives in line with the NEEDS and linking spending programs to objectives within the MTEF. The states' governments have also agreed to implement the priorities of the States' Economic Empowerment and Development Strategies (SEEDS). The authorities have decided that a conservative oil-price based rule will continue to guide fiscal policy for all levels of government, while unlike in the past, no oil revenue windfall from previous years will be used to finance additional spending in 2006. Such revenue windfall would be used to finance anticipated debt-relief agreement with Paris Club Creditors.

8. To adequately track poverty reducing expenditures, the authorities aim to create a virtual poverty fund to monitor allocations for poverty reduction from debt relief savings. The 2006 budget also contains provisions for increasing poverty-reducing spending, with an

extra allocation of US $1 billion following expected saving in debt service from Paris Club debt relief to well-defined programs for achieving the MDGs at all tiers of government. This is in addition to the existing provisions for poverty reducing expenditures under the NEEDS. The authorities would welcome donor support in this regard. The authorities have resolved to have passed as soon as possible the draft Fiscal Responsibility Bill, being considered by the National Assembly and which contains provisions to improve public expenditure management at federal and state levels and sets out fiscal framework on transparency requirements, sanctions for noncompliance, and an oil price-based rule.

9. Fiscal-related structural reforms being implemented in other areas include the extension of civil service reform from pilot ministries and agencies to all federal line ministries and parastatals enterprises by end-2005, and improving the budget classification and management systems to allay the efficiency and absorptive capacity concerns on the allocation of the expected savings from debt service to the Paris Club to poverty reducing expenditures. This is an important step towards assessment of changes in overall composition of spending on pro-poor programs. Towards the clearance of domestic payment arrears, authorities are undertaking due diligence on such arrears before issuance of bonds with maturities of 3-10 years. After allowing a 25 percent increase in domestic petroleum products' prices in August 2005, authorities intend to make any remaining subsidy explicit in the 2006 budget. Meanwhile, a study has been commissioned with a view to limiting subsidy and targeting the poor. Customs restructuring, ports' concessioning, and tariff reforms are underway to reduce cargo clearing time at Nigerian ports from 3 weeks to 48 hours by 2007, while TA from FAD is assisting restructure the Federal Inland Revenue to broaden its tax base and make budget less vulnerable to oil price shocks.

Monetary and Financial Sector Policies Reforms.

10. The CBN is implementing a monetary program which aims at reducing inflation to single digit levels in 2006 and beyond. Thus, the monetary authority and the government are undertaking reforms to enhance the effectiveness of its policy, with government's overdraft facility limited to 5 percent of previous year's estimated revenue and maturity structure for treasury bills further lengthened. The Bank is working on modalities to introduce an appropriate liquidity forecasting framework to enhance the effectiveness of daily open market operations; adopt a forward-looking framework which allows for monetary decisions to be made in relation to expected developments in money supply and inflation; and improve its communications with the public to better convey its assessments of monetary and inflation outlook. Concerns about the state of some balance sheets and the pressure that on-going bank consolidation exercise could exert on the financial system are being addressed through implementation of measures that the monetary authority deems appropriate including those recommended by the Fund's Monetary and Financial Systems Department (MFD) to mitigate risks. A high-level steering committee to guide the bank consolidation, earlier recommended by MFD, is now operational. In addition, the monetary authority is committed to moving to a

wholesale auction in the first quarter of 2006 with a view to unifying the DAS and the interbank market for foreign exchange as announced in February 2005.

Other Structural Reforms

11. Important policy initiatives are being undertaken in other areas of the Nigerian economy requiring reforms. A major tariff reform program effective end-October 2005 would reduce the unweighted average tariff from 29 to below 20 percent. The new tariff system has four tariff bands: 0, 5, 10, and 20 percent, consistent with ECOWAS requirements. The existing import restrictions will be phased out by end January 2007. The authorities have developed a realistic program to accelerate the pace of privatization. They have decided to privatize or offer for concession 21 enterprises in 2005 and 2006. The privatization process is adjudged by the authorities, private sector and staff as transparent. The bidding process involves a combination of technical analysis of bids and financial analysis based on offered price under the guidance of the Bureau of Public Enterprise (BPE). The fight against corruption and improvements in governance are top priorities of the government. The Nigerian authorities want the publication of monthly oil revenue distributions to the three tiers of government to continue. They intend to publish the preliminary audit results of an independent international firm appointed in March 2005 to audit oil and gas accounts of the industry for 1999 to 2004 under the Nigerian Extractive Industries Transparency Initiative (NEITI). In addition, the authorities have also stepped up the fight against corruption through the Economic and Financial Crimes Commission with several recent high-level arrests and prosecutions. In this connection, the authorities wish to underscore that their experience has shown, just like that in fighting against money laundering, that cooperation with other countries, especially developed countries is critical if the fight against corruption in developing countries is to yield results. On statistical improvements for monitoring the PSI program, a National Bureau of Statistics has been established, with new top management, to achieve that objective.

Conclusion

12. The Nigerian authorities consider that their home-grown program, for which consideration and approval under a PSI arrangement is being requested, is strong and meets the standard for upper credit tranche conditionality. The staff agrees with this view, while pointing out possible risks from spending and inflationary pressures. The authorities have accepted to meet the challenge associated with such risks and are fully committed to the implementation of the NEEDS, within the proposed PSI, with the rigorous macroeconomic, structural reform and quantitative assessment criteria and benchmarks accompanying the program. Their commitment and resolve to implement the program are reinforced by the already established strong and impressive track record of implementation of earlier reforms during 2004 and the first half of 2005 despite facing many challenges to the program. However, the authorities note the staff concerns about risks, but wish to underscore that there are hardly any human endeavors that are risk free; yet with ownership and commitment, risks are frequently successfully managed. The depth and breadth of reforms being undertaken by the authorities would not have been contemplated without their total commitment and ownership by the citizenry. We,

therefore, urge the Board to dispassionately consider and approve the request by the Nigerian authorities for a two-year PSI on the strength of the program, ownership and their commitment. It is also expected that the international community will join these efforts and assist Nigeria in its endeavors to reduce poverty, achieve the MDGs and significantly contribute to global stability.