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IMF Country Report No. 06/180

Nigeria: First Review Under the 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 first review under the Policy Support Instrument for Nigeria, the following documents have been released and are included in this package:

- the staff report for the First Review Under the Policy Support Instrument, prepared by a staff team of the IMF, following discussions that ended on February 28, 2006, 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 March 31, 2006. 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 April 17, 2006 updating information on recent developments.

- a Press Release summarizing the views of the Executive Board as expressed during its April 17, 2006 discussion of the staff report that completed the review.

- 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*
Technical Memorandum of Understanding*

*Also be included in Staff Report

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

To assist the IMF in evaluating the publication policy, reader comments are invited and may be sent by e-mail to publicationpolicy@imf.org.

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NIGERIA

First Review Under the Policy Support Instrument

Prepared by the African Department

Approved by Siddharth Tiwari and Carlo Cottarelli

March 31, 2006

- Discussions were held in Abuja during February 15-28, 2006 with Dr. (Mrs.) Okonjo-Iweala, Minister of Finance; Professor Soludo, Governor of the Central Bank of Nigeria (CBN); and other senior officials. The staff team comprised Mr. Nellor (head), Ms. Murgasova, Messrs. Bartsch and van Selm, and Ms. Dawood (all AFR), Mr. Villafuerte (FAD), Mr. Nielsen (PDR), and Mr. Thiam (Senior Resident Representative). Mr. Gakunu (Alternate Executive Director for Nigeria) and Mr. Ukpong (Senior Advisor to the Executive Director for Nigeria) attended the discussions. Staff worked closely with the World Bank country office in Nigeria.

- Nigeria's Policy Support Instrument (PSI) was approved by the Executive Board on October 17, 2005 (see Country Report No. 05/432 at www.imf.org/external/country/nga/index.htm). Executive Directors commended the Nigerian authorities for their reform program that is supported at all levels of government and has broad domestic ownership. Directors expressed concern over the expansionary fiscal and monetary policies in the first half of 2005 and welcomed the government's announced policy tightening for the rest of 2005 and for 2006.

- Staff recommends completion of the first scheduled review on the basis of strong performance under the PSI in 2005, and a sound macroeconomic framework and ambitious structural reform agenda for 2006.

- The authorities intend to publish both the staff report and the policy statement. Appendix I contains the authorities' supplementary policy statement for 2006 setting forth economic and financial policies to be assessed and endorsed under the PSI.

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EXECUTIVE SUMMARY

The authorities' successful implementation of their homegrown economic reform agenda in 2004 and 2005 has created new opportunities for growth and poverty reduction.

Macroeconomic developments in 2005 were dominated by strong economic growth and a continued rise in gross international reserves. Reserves increased by US$11 billion to US$28 billion. Preliminary data suggest that GDP grew by almost 7 percent in 2005, driven by strong growth in the non-oil sector (8 percent). All three tiers of government continued to adhere to the fiscal rule by which oil revenue stemming from prices higher than US$30 per barrel were set aside at the CBN. End-December quantitative targets under the Policy Support Instrument were met.

The programmed increase in government spending in 2005 led to a policy mix that shifted the burden of macroeconomic stabilization to monetary policy. Monetary policy implementation improved in the second half of the year, and the 12-month rate of inflation ended the year at about 12 percent, below the range targeted in the PSI. While limited exchange and interest rate flexibility constrained the CBN's ability to mop up excess liquidity, the 12-month growth in broad money was in line with the target.

Structural reforms are proceeding in line with the National Economic Empowerment and Development Strategy (NEEDS) and the authorities' commitments under the PSI. In 2006, the authorities aim to build on ongoing reforms (e.g. in privatization), extend reform programs that are being implemented at the federal level to the states, and ringfence reforms by seeking parliamentary approval of key legislation, including the Fiscal Responsibility Bill.

The 2006 federal government budget aims at financing important reforms and priority sectors. The budget implies a consolidated government non-oil primary deficit on a cash basis of 39.6 percent of non-oil GDP, slightly lower than the 2005 outturn, although above the target set earlier. As in 2005, the burden of maintaining macroeconomic stability will rest on monetary policy. Continued efforts to strengthen public financial management at all levels of government are needed to ensure that the increased spending is well-focused.

Increased exchange and interest rate flexibility is needed to facilitate efforts to dampen inflationary pressures. In this regard, it is encouraging that the recent policy statement issued by the CBN reaffirmed that price stability is the primary objective of monetary policy and clarified that foreign exchange sales will not be constrained by an exchange rate band in 2006. The successful introduction of a wholesale market for foreign exchange in February 2006 should also help to strengthen monetary policy operations.

Staff recommends completion of the first scheduled review. Completion of the first review under the PSI would enable Nigeria and its Paris Club creditors to fully implement their debt relief agreement.

I. Recent Economic Developments and Performance under the PSI

1. **The authorities' successful implementation of their homegrown economic reform agenda in 2004 and 2005 has created new opportunities for the Nigerian economy.** The reforms have improved the environment for private sector growth and investment, as evidenced by the BB- rating that two major international rating agencies (Fitch and Standard & Poor's) awarded to Nigeria in early 2006.

Nigeria: Macroeconomic Indicators 2004-05
(Annual percentage changes, unless otherwise specified)

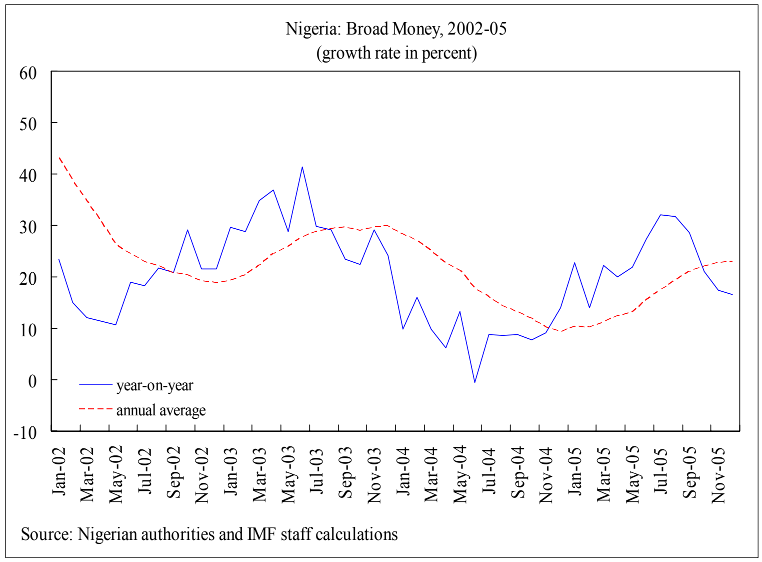
	2004	2005 Est.
Price of Nigerian oil (U.S. dollars per barrel)	38.3	55.2
Real GDP (at 1990 factor cost)	6.1	6.9
Non-oil GDP (at 1990 factor cost)	7.4	8.2
Consumer price index (annual average)	15.0	17.9
Consumer price index (year-on-year)	10.1	11.6
Overall fiscal balance (commitment basis, in percent of GDP)	7.7	9.9
Non-oil primary fiscal balance (cash basis, in percent of non-oil GDP)	-35.2	-39.8
External current account balance (in percent of GDP)	4.6	12.6
Gross external reserves (billions of U.S. dollars)	17.0	28.3
in months of imports of goods and services	6.1	8.8

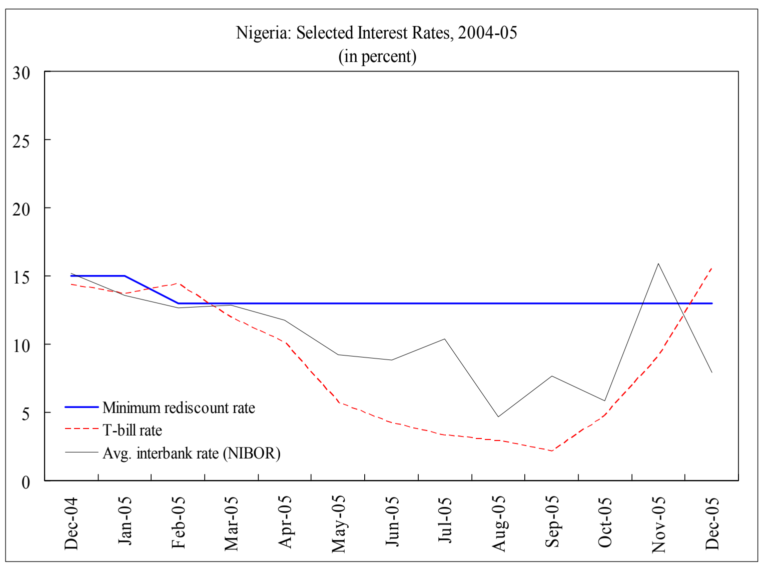
Sources: Nigerian authorities and IMF staff estimates.

2. **Macroeconomic developments in 2005 were dominated by strong economic growth.** Preliminary data suggest that GDP grew by almost 7 percent in 2005, driven by strong growth in the non-oil sector (8 percent). The agricultural sector, which accounts for more than half of non-oil GDP and is key for employment, grew by 7 percent. Double-digit growth rates were recorded in various services, including retail and wholesale trade and communications. All end-December quantitative targets under the PSI were met (Table 7).

3. **Fiscal developments in 2005 were in line with the targets under the PSI-supported program.** All three tiers of government continued to adhere to the fiscal rule by which oil revenue from prices higher than US$30 per barrel were set aside at the CBN, contributing to an increase in international reserves to US$28 billion by year end, after setting aside US$8 billion for the Paris Club debt relief agreement. The non-oil primary deficit of the federal government was comfortably below the end-December assessment criterion. Higher recurrent non-debt spending was offset by lower execution of the capital budget. The 2005 primary non-oil deficit of the consolidated government is estimated at about 40 percent of non-oil GDP, slightly lower than anticipated, but still higher than in 2004.

4. **Following substantial liquidity expansion and inflationary pressures in mid-2005, the CBN tightened liquidity in the second half of the year.** Measures included the issuance of CBN bills and treasury bills for monetary purposes and additional sales of foreign exchange using special wholesale auctions. This resulted in a sharp increase in interest rates and a 3 percent appreciation of the naira against the US dollar, taking the rate to the upper limit of the exchange rate band announced in February 2005. With reserve money still trending well above the end-year target, in December the CBN reduced the cash reserve requirement from 11 percent to 5 percent and concurrently banks placed the freed reserves into CBN-held treasury bonds at below-market interest rates for a 91-day period.[1] The 12-month growth in broad money was in line with the target, and the end-December PSI targets for net foreign assets and reserve money were met. Several steps were taken to enhance the liquidity-management capacity of the CBN. The CBN established a Monetary

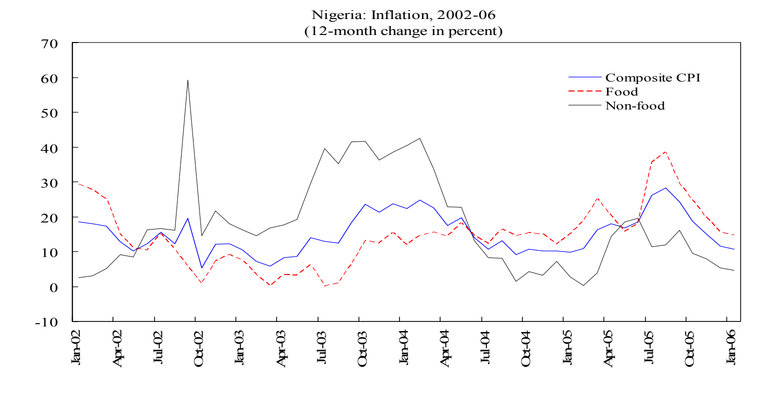


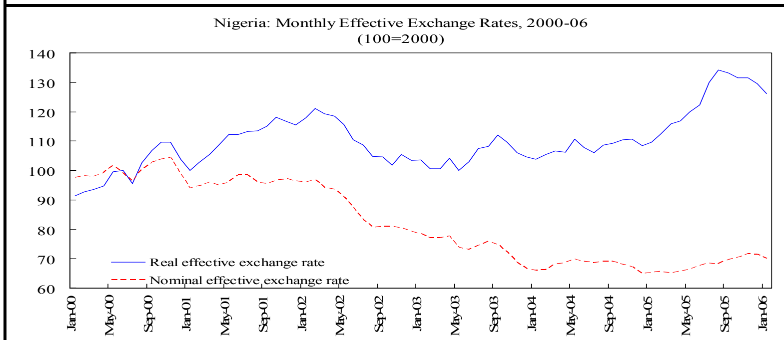


[1] Without the reduction in reserve requirements and the related placement of freed reserves into treasury bonds, the end-December 2005 reserve money target would likely have been missed by a large margin. The transaction improved the financial position of commercial banks, because the CBN previously only remunerated cash reserves above 8 percent of deposits. In early March 2006, these bonds were rolled over at the same 3 percent interest rate for another 91 days. The CBN initially planned to use t-bills approved in the 2006 federal budget for monetary operations for the transaction in March 2006, but without a mandate signed by the Minister of Finance, the CBN did not have the legal authority to use these t-bills.

Policy Department to improve liquidity forecasting and a Monetary Policy Implementation Committee to ensure implementation on a timely basis. In support of these efforts, further work to improve the timeliness and reliability of monetary statistics is ongoing.

5. **Tighter monetary policy and an abatement of the food shortages in neighboring countries led to lower inflation.** Consumer price inflation declined from 28 percent year-on-year in August to 12 percent in December, well below the 17-21 percent range targeted in the PSI. This decline reflected a reduction in both food prices increases (from 38 percent to 15 percent) and in non-food price inflation (from 12 percent to 5 percent). Inflation fell further to 11 percent in January 2006.





Source: Nigerian authorities and IMF staff calculations.

6. **The effects of the 2005 macroeconomic policy mix on crowding out of the private sector were relatively contained.** Against the background of a 40 percent terms of trade gain and the scaling up of government expenditure, savings-investment balances presented in Table 6 show some evidence of a decline in private non-oil demand as a percent of non-oil GDP in 2005, but private non-oil investment was broadly unchanged. The 2005 policy stance did not preclude robust private sector growth in the non-oil sector, and banking sector credit to the private sector increased rapidly. Moreover, while the strong 2005 real exchange rate appreciation of about 19 percent could harm Nigeria's international competitiveness over time, there is little evidence of a significant negative impact on the economy in 2005.

7. **The authorities' ambitious bank consolidation program, aimed at strengthening the financial sector and enhancing its ability to provide credit to the private sector, is on track.** On January 3, 2006, the CBN announced that 25 banks or banking groups containing 75 out of the original 89 banks, accounting for 94 percent of the deposit share of the market, met the new capital requirement (N 25 billion) by end-December 2005. The licenses of banks that did not meet the new requirement have been revoked, but the resolution of the failed banks is being delayed because their owners are contesting the liquidation order.

8. **Major changes in the economic landscape have enhanced economic efficiency and improved the business climate.** Structural reforms, which were in line with the National Economic Empowerment and Development Strategy (NEEDS) and the authorities' commitments under the PSI, included liberalization of the foreign trade regime (Box 1), privatization (Box 2) and governance (Box 3). All 2005 structural assessment criteria and benchmarks were met, except the publicizing of a draft report of the Nigeria Extractive Industries Transparency Initiative (EITI) oil sector audit by end-December 2005 (Table 8). The draft report was ready by the end of the year, but publicizing was delayed until January 12, 2006. As this is a minor deviation from the program target that has been corrected, staff supports the granting of a waiver for nonobservance.

Box 1. Nigeria: The October 2005 Tariff Reform

In a major break with past policies—and as foreshadowed in the 2004 NEEDS—Nigeria liberalized its import protection regime in October 2005. Nigeria adopted the proposed ECOWAS common external tariff (clustering most tariffs in four bands of 0, 5, 10, and 20 percent with raw materials and intermediate products attracting lower tariffs and consumer goods attracting higher tariffs) but maintained some import bans (until January 2007) and a 50 percent tariff rate (to be reviewed by January 2008) to provide selected items with additional protection for a transitional period. Agricultural tariffs have been lowered significantly more than other tariffs, but agriculture remains the most sheltered sector with average tariff protection about 50 percent higher than that in industry.

With this first major tariff reform in a decade, the level and dispersion of import tariff protection have fallen significantly. The new tariff schedule reduces the number of tariff bands from 19 to 5, lowers the unweighted average tariffs from 29 percent to 12 percent, and the maximum tariff from 150 percent to 50 percent.

The reform reduced the tariff on cigarettes from 150 percent to 50 percent, but in order to maintain the pre-reform level of protection, a new 100 percent levy on cigarette imports was introduced. The tariff on rice was lowered from 100 percent to 50 percent, but at the same time the import levy was increased from 10 percent to 50 percent. The border protection of rice production thus fell from 110 percent to 100 percent, but as the rice levy is earmarked for development of domestic production the effective protection in the rice sector may well have increased as a result of the tariff reform.

Nigeria: October 2005 Tariff Reform

	Before	After
Number of bands	19	5
Unweighted average tariff (in percent)	28.6	12.1
of which: Agricultural products	51.0	16.4
Industrial products	24.8	11.4
Minimum tariff (in percent)	2.5	0.0
Maximum tariff (in percent)	150.0	50.0
Standard deviation (in percent)	22.3	9.1

Source: IMF staff calculations

Box 2. Nigeria: The 2005-06 Privatization Program

Excellent progress in privatizing state-owned enterprises (SOEs) was made in 2005 and early 2006. Of the 21 enterprises targeted for privatization or concessioning in 2005 and 2006, goals had been realized for 16 by end-2005:

- Nine enterprises were **sold to core investors**: Delta Steel Co. Ltd., Central Packages Nigeria Ltd., Nigeria Bricks and Clay, Federal Superphosphate Fertiliser Co., Nigerian Mining Corporation Quarries, Ihechiowa Oil Palm Company, Nicon Hilton Hotel, Nicon Insurance, and Leyland Nigeria Ltd.
- Three **key ports**—at Apapa, Port Harcourt, and Tin Can Island—**were concessioned**;
- Shares in two SOEs, Afribank Nigeria Plc and the Nigeria Aviation Handling Company, were floated;
- Two SOEs were **liquidated**: Sunti Sugar Company and the National Fertiliser Company of Nigeria (NAFCON).

Some of these cases required major pre-privatization restructuring, including substantial retrenchment. In the case of the ports, for example, some 10,000 personnel were laid off prior to privatization.

The remaining enterprises are at various advanced stages of privatization. The unbundling of the Power Holding Company of Nigeria (PHCN) was completed with the incorporation in October 2005 of successor companies in generation, transmission and distribution, in preparation for the subsequent privatization of these entities in 2006 and early 2007. Other major privatizations scheduled for 2006 include the Port Harcourt and Kaduna refineries, Central Railways, and Abuja Airport (see Appendix I).

While the structural benchmark on opening of the financial bids for the privatization of NITEL, the Nigerian State Telecommunications Company, was met, the authorities have not yet succeeded in selling this enterprise to a direct investor. NITEL is now scheduled to be privatized by June 2006.

The government's desire to accelerate privatization was highlighted in NEEDS. The privatization program gained momentum in early 2005. The Bureau of Public Enterprises (BPE) attributes its excellent recent progress to new leadership, better procedures to ensure greater transparency and investor confidence, more effective program planning, a more aggressive marketing drive, an improved publicity campaign, closer collaboration with critical stakeholders, and success in attracting professional staff with the relevant experience.

Box 3. Nigeria: Improving Governance

The Nigerian authorities are making good progress in their efforts to improve governance and reduce corruption, but huge challenges remain. In recognition of recent achievements, Nigeria's ranking in Transparency International's (TI) *Corruption Perception Index 2005* improved to 152nd out of 158, after years of being bottom or second to bottom. Nigeria scored 1.9 points out of possible 10 in the latest TI survey (where 10 is highly clean and zero highly corrupt), compared with 1.4 points in 2004.

NEEDS identifies improvements in governance as one of the main pillars of the authorities' economic reform strategy. Key elements of the anti-corruption program include:

- The ***Economic and Financial Crimes Commission*** (EFCC), established in 2002, enforces laws relating to banking, money laundering, advance-fee fraud (also known as "419" fraud) and other laws relating to economic and financial crimes. It actively investigates high-level officials suspected of corruption, has arrested several key "419" operators, and has recovered substantial assets. In December 2005, for the first time, a sitting state governor was impeached on corruption charges.
- In 2004, the **Nigerian Financial Intelligence Unit**, an autonomous intelligence agency that analyzes financial transactions to detect money-laundering activities, was established within the EFCC. Nigeria is also working to be removed from the Financial Action Task Force's list of non-compliant countries by June 2006 (see Appendix 1).
- The work of the **Budget Monitoring and Price Intelligence Unit** has reduced abuses in awarding government contracts. Firms participating in a recent World Bank enterprise survey reported a significant decline in bribery in procurement between 2002 and 2005. A Public Procurement Bill that would establish a Public Procurement Bureau to oversee all public procurement has been submitted to the National Assembly. The government's efforts to strengthen public financial management, described in Box 5, are also components of its anti-corruption strategy.
- The authorities have also made significant progress in advancing their commitment to the **Extractive Industries Transparency Initiative (EITI)**. A preliminary report of the 2003 and 2004 oil and gas accounts of both the government and oil companies was prepared by an international auditor and published in January 2006. Nigeria's approach to the EITI has been centered on broad-based stakeholder participation. The Nigeria EITI bill, which would provide a legal basis for collecting and publishing oil revenue data, is expected to be passed by the National Assembly in mid-2006.

9. **The concessional debt relief agreement between Nigeria and its Paris Club creditors that was reached on October 20, 2005 is now being implemented.** Creditors have cancelled 33 percent of their outstanding claims against Nigeria, following an end-October deposit of US$6.4 billion into an escrow account at the Bank for International Settlements (BIS). In December, an additional US$1.3 billion was transferred to the BIS to clear arrears to Paris Club creditors. Most bilateral debt agreements have now been signed.[2] Implementation of the final stage of the agreement (which will entail creditors cancelling an additional 34 percent of their claims and Nigeria paying its post cut-off date debt of US$0.3 billion and repurchasing the balance of its obligations for a cash payment of US$4.5 billion) is contingent upon completion of the first review under the PSI. Full implementation of the Paris Club agreement is projected to reduce Nigeria's external public debt to 4 percent of GDP by end-2006.

II. Macroeconomic and Structural Policies for 2006 and the Medium Term

10. **Primary objectives of the authorities' economic reform program, as laid out in their Policy Statement (Appendix I), include entrenching macroeconomic stability, strengthening public financial management, and reducing the costs of doing business.** While economic reforms in 2004 and 2005 have laid the foundations for sustainable growth, Nigeria continues to face huge challenges in achieving the Millennium Development Goals (MDGs). The program's macroeconomic framework is premised on 7 percent real GDP growth in the non-oil sector in 2006 and 5-6 percent real growth over the medium term.[3] The medium-term outlook for the oil sector is also favorable, with continued high prices and the exploration of new off-shore oil fields expected to boost production. With presidential and parliamentary elections scheduled for April 2007, the authorities view 2006 as a crucial window of opportunity to entrench recent gains in macroeconomic management. They are working with the National Assembly toward the approval of key legislation, such as the Fiscal Responsibility Bill, the Procurement Bill, the Tax Reform Bill and the Nigeria Extractive Industries Transparency Initiative (NEITI) Bill, to ringfence the reforms.

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[2] Bilateral agreements have been signed with twelve creditor countries: Belgium, Brazil, Finland, France, Germany, Italy, Japan, the Netherlands, Spain, Switzerland, the United Kingdom, and the United States. They remain under negotiation with three countries: Austria, Denmark, and Russia.

[3] The 2006 financial program is based on the lower bound of the authorities' targeted 7-10 percent real non-oil GDP growth rate. The authorities are closely monitoring several recent developments. The upsurge of violence in the Niger Delta Region is worrisome but the authorities have so far not revised their estimates of oil production for 2006. Likewise, avian flu and localized sectarian violence, while of considerable social concern, do not pose an immediate threat to economic prospects.

A. Entrenching Macroeconomic Stability

11. **The 2006 federal government budget aims at financing various important reforms and priority sectors.** The budget was approved by both houses of the National Assembly and signed into law on February 22, 2006, the earliest approval of a budget in recent years. Intensive communication during budget deliberation ensured that changes introduced to the budget by the National Assembly were relatively small. The government-proposed increase in the VAT rate from 5 to 10 percent has been postponed pending approval by the National Assembly, and is now expected to take effect in 2007. The budget is based on a reference oil price of US$35 per barrel and assumes that the Paris Club agreement will be fully implemented, allowing an allocation of US$1 billion—Nigeria's annual debt service payment to the Paris Club in recent years—to a virtual poverty fund for programs related to achieving the MDGs (see Box 5).[4] Special reform-related outlays in the 2006 budget include public sector restructuring (retrenchment expenses), elimination of contractor arrears, a population census, and equipment for the 2007 election. Additional spending in power, water, roads, education, health and agriculture sectors will increase their share in total primary spending (excluding transfers) from 34½ to 37 percent. Effective government spending in these areas could remove key obstacles to private sector growth.

Nigeria: Fiscal Accounts (Cash Basis) 2003-06
(In billions of naira, unless otherwise specified)

	2003	2004	2005 Prel.	2006 Proj.
Oil price (in U.S. dollars per barrel)	28.9	38.3	55.2	60.5
Federal government				
Total revenue	964	1,486	2,058	2,757
Oil revenue	740	1,236	1,794	2,456
Non-oil revenue	224	250	264	301
Total expenditure	1,049	1,075	1,442	1,800
of which : MDG-related spending from debt service savings	...	...	...	100
Recurrent expenditure	792	844	1,188	1,289
Capital expenditure	257	231	254	511
Overall balance	-85	411	616	958
(In percent of GDP)	-1.1	4.3	4.7	6.5
Non-oil primary balance (including explicit fuel subsidy)	-583	-594	-799	-1,252
(In percent of non-oil GDP, including explicit fuel subsidy)	-14.3	-12.2	-13.1	-17.7
Consolidated government				
Non-oil primary balance (In percent of non-oil GDP) 1/	-34.4	-35.2	-39.8	-39.6
Including implicit or explicit fuel subsidies (in percent of non-oil GDP)	n/a	-37.3	-44.5	-41.7
Non-oil primary expenditure (in percent of non-oil GDP)	51.4	51.1	53.9	53.2
Non-oil revenue (in percent of non-oil GDP)	16.9	15.9	14.1	13.6
Non-oil primary balance (commitment basis, in percent non-oil GDP)	-33.8	-36.4	-41.5	-39.6
Primary balance (in percent of GDP)	3.4	12.4	13.9	18.2
Overall balance (in percent of GDP)	0.0	9.9	10.6	16.4
Oil production (millions of barrels per day)	2.45	2.49	2.51	2.52

Sources: Nigerian authorities; and Fund staff estimates.
1/ Excludes implicit or explicit fuel subsidies.

[4] Of the US$1 billion in debt relief gains, US$750 million accrues to the federal government, and the remainder to state and local governments.

12. **For the benefits of this fiscal program to be fully realized, safeguards are needed to ensure that macroeconomic stability be maintained, and that the additional spending be well-focused.** The 2006 federal government budget implies a consolidated government non-oil primary deficit on a cash basis of 39.6 percent of non-oil GDP—1½ percent of non-oil GDP higher than the projection in the authorities' original PSI program. This reflects scaling up of outlays in social areas and on major infrastructure to promote medium-term growth and reach the MDGs. Relaxation of the 2006 fiscal stance (compared to the original PSI program) is justified by the lower-than-targeted 2005 inflation outcome. Relative to the 2005 outturn, the 2006 fiscal program still entails fiscal tightening, in particular when implicit and explicit fuel subsidies are taken into account (a 3-percentage points of non-oil GDP reduction). Continued public financial management (PFM) reforms are envisaged to ensure that the additional spending is well-focused (see below). Furthermore, most of the increase in budgeted spending is at the federal level, where good progress in strengthening PFM has already been made. As in 2005, this fiscal program will put the burden of maintaining macroeconomic stability on monetary policy.

13. **Increased exchange and interest rate flexibility is needed to facilitate efforts to dampen inflationary pressures.** In this regard, it is encouraging that the recent policy statement issued by the CBN reaffirmed that price stability is the primary objective of monetary policy and clarified that foreign exchange sales will no longer be constrained by an exchange rate band in 2006, thereby removing an important obstacle to effective liquidity management. The statement also announced that the new 5 percent cash reserve requirement would be maintained.[5]

14. **The CBN is implementing a monetary framework aimed 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. The authorities' monetary program for 2006 is based on conservative money velocity assumptions, keeping broad money growth closely aligned with projected nominal non-oil GDP growth, at 17 percent.

15. **The recent unification of the official foreign exchange auction system with the interbank market for foreign exchange has enhanced the effectiveness of foreign exchange intervention as a monetary policy tool (Box 4).** This reform is also an important step toward accepting the obligations of Article VIII, sections 2, 3 and 4 of the IMF's Articles of Agreement. A comprehensive assessment by MFD and LEG is now needed to identify the extent of the remaining restrictions and multiple currency practices.

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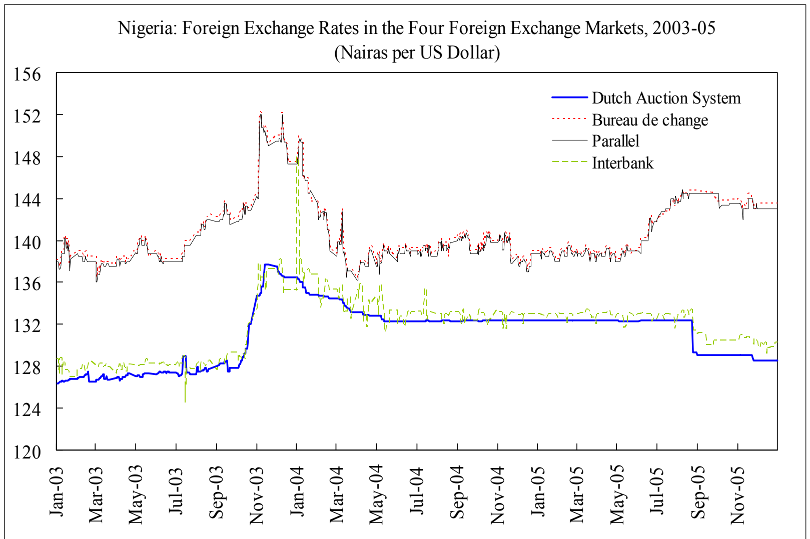
[5] Against this background, the introduction of a program adjuster on reserve money for changes in cash reserve requirements was not seen as essential.

Box 4. Nigeria: Exchange Rate Unification

On February 20, 2006, the CBN held its first auction under the new wholesale Dutch Auction System (DAS), a structural assessment criterion for end-February 2006. The introduction of the wholesale DAS with free sale of foreign exchange to the interbank market is an important step towards unification of the two major foreign exchange markets—the retail market for nonfinancial traders and investors and the interbank market. The naira also continues to be traded in two markets for small-scale cash transactions—the bureau de change market and the curb market. In the view of the CBN, new documentation requirements for access to the official market and reduced supply to the parallel market contributed to the increased spread between the official and curb market exchange rate in the second half of 2005.



Source: Authorities data

Only a relatively small amount of foreign exchange (US$320 million) was sold during the first eight auctions and demand for foreign exchange in the DAS remained weak in the first quarter of 2006, reportedly owing, among other reasons, to a pickup of portfolio inflows that saturated the market. The exchange rate appreciated by 1 percent vis-á-vis the US dollar to a level outside of the band prevailing in 2005.

Under preparation during most of 2005, the reform has benefited from significant technical assistance by MFD. The foreign exchange reform was timed to await the completion of the banking consolidation exercise because the CBN considered it too risky to pursue two major reforms concurrently. It was considered appropriate to introduce the foreign exchange reform right on the heels of consolidating the banking system because it would bolster the new banking system. Prior to launching of the wholesale auction, relevant IT applications were strengthened to allow auctions to be conducted at short intervals while accurately reporting participating commercial banks' net open positions. In the new unified foreign exchange market, transferability of funds will enable banks to exploit arbitrage opportunities which in turn should lead to increased market efficiency and better liquidity.

16. **The authorities plan to manage post-consolidation bank restructuring issues carefully with the support of ongoing technical assistance from MFD.** Major challenges remain, including the full integration of newly merged banks, and the passage of enabling legislation critical for the effective resolution of non-performing loans. The CBN has issued an in-principle blanket guarantee covering all private deposits in the fourteen banks that failed to meet the new capital requirement, estimated at N 70 billion, or about ½ percent of GDP, but a legal framework to support this guarantee has not yet been developed. The CBN intends to contain the possible quasi-fiscal cost of this guarantee by using a "selective purchase and assumption" strategy, whereby these private-sector deposits would be offered to other healthy banks, who would also be permitted to cherry-pick the particular failed-bank's assets. Where the value of the deposits exceeds the value of the assets chosen, the buying bank will be provided with the value of the insured portion of the deposits by the Nigeria Deposit Insurance Corporation (NDIC), plus a three-year CBN promissory note to make up the difference. Legislation to facilitate this operation and increase the insured portion of deposits to N 200,000 (about US$1,500) per depositor has been submitted to the National Assembly. The authorities also intend to put in place a system of risk-based banking supervision, and to submit legislation to the National Assembly to improve the enforcement of rights of creditors for loan collection and liquidation of collateral.

17. **The CBN has developed plans to invest some of its international reserves in higher-yield financial assets, and allow domestic banks to bid to be custodians for the investments**. This project aims to encourage domestic banks to forge partnerships with foreign banks, allowing them to become global financial players. Guidelines for domestic banks that wish to participate, issued by the CBN in January 2006, will help mitigate the intrinsic risks of this project. Nonetheless, in light of the poor international experience with domestic banks managing international reserves, the authorities are advised to develop additional safeguards, in close cooperation with MFD.

B. Strengthening Public Financial Management

18. **The authorities are strengthening public financial management (PFM) to improve the quality of spending.** They are undertaking reforms in several areas, including legislation, budget preparation, execution and reporting (Box 5). The draft 2006 budget contains well-identified allocations for poverty-reducing programs and is, for the first time, accompanied by sectoral strategies developed within a three-year medium-term fiscal framework. Budget classification has been improved, and a 'virtual poverty fund' to track specific program spending towards achieving the MDGs has been established. Several state governments are initiating reforms to strengthen their PFM systems and align their budgets with the country's development requirements (state and local governments account for about half of public spending).

Box 5. Nigeria: Progress Report on PFM Reforms

Measure	Status	Comment
Fiscal Responsibility Bill	At committee stage after passing second reading in both houses of the National Assembly.	Coverage intended for all levels of government. Formalizes a fiscal rule, a budget process around a medium-term fiscal framework, and fiscal transparency and reporting standards. The Finance Minister has established a working group to prepare implementation as soon as the bill is passed. Regarding the legislative process, an outreach plan has been scheduled.
Public Procurement Bill	Passed by the Senate, awaiting passage in the House.	Establishes a Public Procurement Bureau to oversee all public procurement. Institutionalizes open and competitive procurement procedures currently successfully applied by the federal government.
Nigerian Extractive Industries Transparency Initiative Bill	Passed by the House. Senate pending. Interim EITI audit reports have been issued and the final report covering 1999-2004 will be issued by end-June 2006.	Formalizes the Nigerian EITI, which will ensure transparency and accountability in the revenue receipts of the government from the extractive industries. Work on the 2005 audit has commenced.
Auditor-General's Bill	Submitted to National Assembly.	Fills a gap in the existing legal framework. Strengthens the capacity and independence of Nigeria's supreme audit institution.
Budget reporting	Report on the implementation of the 2004 budget was published last November.	A Transaction Recording and Reporting System (TRRS) will be operational in all federal line ministries and pay offices by end-2006. The backlog of audited financial reports is being reduced.
Medium-term Sectoral Strategies (MTSS)	During the preparation of the 2006 budget, key line ministries prepared medium-term sectoral strategies linked to the achievement of goals under NEEDS and MDGs.	The MTSS will be extended to other line ministries, to cover at least 75 percent of total federal government outlays during the preparation of the 2007 federal budget.
Virtual Poverty Fund	N100 billion in MDG-related expenditure are specifically identified in the 2006 budget. The chart of accounts was modified accordingly to allow for tracking this spending.	Starting in the fourth quarter of 2006, quarterly reports on MDG-related spending funded by the debt relief will be produced and publicized. Monitoring and evaluation framework being finalized.
Public investment reviews	To be undertaken annually.	Budget office and line ministries staff are to be trained on cost-benefit analysis of large public investment projects
Extension of civil service reform	Guidelines have been approved to extend reforms to other ministries and parastatals. Pilot cases have resulted in significant retrenchments.	Significant provision in the budget for this action, in addition to financial and technical support from donors. The emphasis is on capacity building to consolidate overall reform process. An Integrated Personnel and Payroll Information System (IPPIS) will be introduced by end-2006.
Public Expenditure and Financial Accountability (PEFA) assessment by the World Bank	Assessment is being undertaken in the federal government and four state governments.	This will help to identify binding constraints within existing PFM systems and to design and prioritize future reforms, particularly at the state government level.

19. **The stock of arrears to both contractors and pensioners is being addressed.** An audit of contractor arrears in excess of N 1 billion (a structural benchmark under the PSI) has been completed. The overall size of contractor arrears is estimated at about N 275 billion (1.8 percent of GDP). The authorities intend to settle contractor arrears smaller than N 100 million in cash in 2006 (the draft budget contains N 25 billion for that purpose), while bonds would be issued to settle larger contractor arrears. A framework for clearing pension liabilities should be in place by end-2006, following the establishment of a database of pensioners. It is estimated that pension arrears under the pay-as-you-go system amount to about N 100 billion.

20. **Implicit fuel price subsidies have been reduced and made explicit.** Following the decision in August 2005 to allow gasoline prices to increase by about 25 percent (thereby increasing prices to the equivalent of about US$51 per barrel of crude oil), the President has announced that there will be no price increases in 2006. The announcement came in response to mounting tensions and threats of strike actions and civil disturbances. The draft 2006 federal government budget explicitly provides N 75 billion (0.5 percent of GDP) to subsidize fuel products, and state and local governments have agreed to match that amount, for a total of N 150 billion. Staff estimates that this would be sufficient at world market oil prices of about US$60 per barrel. The authorities will review remaining fuel price subsidies in the context of the preparation of the 2007 budget.

C. Providing an Enabling Environment for Economic Growth

21. **The authorities' structural reform agenda is motivated by the need to improve the business environment, promote private investment, and create jobs, especially in the non-oil sector.** Key elements of the agenda are efforts to reform the tax system, further liberalize trade policy, promote privatization, improve infrastructure, and reduce corruption, as described in Appendix I.

22. **A major overhaul of the tax policy and administration is underway.** The Federal Inland Revenue Service (FIRS) is being restructured and the tax system reformed with technical assistance on revenue administration from FAD. The reforms aim at improving revenue collection and tax services delivery, broadening the tax base and addressing distortions. Draft legislation being discussed by the National Assembly would give the FIRS human-resource autonomy and funding based on a fraction of non-oil revenue collections (which was introduced in mid-2005 based on an administrative action). In addition, the draft legislation strengthens inter-agency coordination for oil-revenue collection, simplifies and harmonizes tax procedures, and strengthens FIRS auditing powers. On tax policy, the main amendments being envisaged are the zero-rating of non-oil exports, a new set of procedures to facilitate the VAT refund payment mechanism, and a simplified personal income tax schedule. In addition, a tax policy unit at the Ministry of Finance is to be created by end-2006. Going forward, there is still a need to establish a VAT registration threshold and a simplified taxation system for small business taxpayers. The FIRS will conduct nationwide taxpayer enumeration as a basis for the introduction of taxpayer identification numbers.

23. **The authorities plan to build on recent gains in liberalizing the foreign trade regime.** They will work towards reducing or eliminating remaining import bans by January 2007 and the 50 percent tariff band will be reviewed by January 2008, after studying the impact of the tariff reform on the economy. The reform of the Nigeria Customs Service will be accelerated, including by expanding the operations of the Large Importers/Exporters Unit to handle at least 50 percent of foreign trade.

24. **The authorities have developed an ambitious privatization agenda for 2006.** Key elements of the program include the privatization of the telecommunications company (NITEL) and the successor companies of the now unbundled power company (PHCN) (Appendix I). Further progress in power-sector privatization and reform is especially important, as unreliable electricity is Nigeria's single largest obstacle to private-sector development. The authorities are also strengthening the regulatory framework to ensure an enabling environment for private sector development.

25. **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. After having published the preliminary oil-industry account audits for 2003 and 2004, a final audit report is expected to be published by end-June 2006 (Appendix I). The preliminary reports have pointed out weaknesses in accounting and monitoring procedures in the government agencies handling oil revenue (CBN, FIRS, and the Department of Petroleum Resources). The NEITI stakeholder working group will now develop work programs to address these weaknesses.

III. Capacity Building

26. **Nigeria still requires technical assistance in strengthening its institutional capacity to implement sound economic policies and the ambitious structural reform agenda.** Key priority areas are bank restructuring and supervision, tax policy and administration, and public financial management. Furthermore, improving the quality and timeliness of economic and social statistics is critical to support the formulation and monitoring of macroeconomic policies. The need to improve monetary data is especially urgent. The authorities have requested additional Fund technical assistance in both monetary and fiscal policies.

27. **New survey-based national accounts series are being developed.** While the implied growth rates are broadly consistent with the old series, the level of non-oil GDP is now estimated to be about 40-50 percent higher. Pending further refinements in the new series, the macroeconomic framework remains based on the old GDP series. A National Core Welfare Indicators Survey—currently underway—and the 2006 national population census should help improve social statistics as a base for strengthening social policy formulation. The authorities have requested technical assistance from STA to help improve macroeconomic statistics.

IV. Program Risks

28. **The program continues to entail significant, but manageable, risks.** These include possible mounting spending pressure in light of high oil prices and upcoming presidential and parliamentary elections. In addition, state and local governments may face difficulties in cutting spending to adjust to the programmed real decline in 2006. Changes in the framework for sharing of oil revenue with state and local governments or off-budget spending of accumulated windfall oil revenue could therefore lead to higher expenditure. Risks for expenditure increases by state and local governments are partly offset by the likely underexecution of federal capital spending. While the program assumes 90 percent execution of the 2006 federal government capital budget, a much lower rate was realized in recent years.

V. Program Monitoring

29. **To monitor Nigeria's performance under the PSI, quantitative and structural assessment criteria, quantitative indicative targets, and structural benchmarks have been set.** These can be found 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 nonaccumulation of external arrears and on contracting or guaranteeing of new nonconcessional external debt. Revised quantitative targets are proposed for March, June (assessment criteria), and September 2006, and new assessment criteria are proposed for December 2006. In addition, understandings have been reached on structural assessment criteria and benchmarks in a number of areas. The standard provisions on the exchange system and trade issues that apply to the use of the Fund's financial resources apply as continuous assessment criteria under the PSI. The second review under the PSI will be based on end-June assessment criteria, and is expected to be conducted by end-October 2006. The staff encourages 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.

VI. Staff Appraisal

30. **Nigeria is to be commended for impressive progress in implementing its homegrown reform program involving macroeconomic stabilization and extensive structural reforms in 2004 and 2005.** The reforms covered many sectors and tackled deeply rooted systemic impediments to growth and poverty reduction, such as corruption. Since mid-2005, this reform program has been supported by a PSI.

31. **The ambitious reform program has improved the environment for private sector growth and laid the foundation for a debt relief agreement between Nigeria and its Paris Club creditors.** The agreement will free up resources to address social and infrastructural needs. It has also improved investor confidence, as evidenced by the

BB-rating that two major international rating agencies (Fitch and Standard & Poor's) awarded to Nigeria in early 2006.

32. **Macroeconomic objectives under the PSI have been achieved and all end-December 2005 quantitative assessment criteria and benchmarks were met.** The increase in government spending in 2005 led to inflationary pressures that required active macroeconomic stabilization measures from the CBN. Following failure to sterilize the buildup of excess liquidity in the first half of 2005, the CBN took stronger measures to reduce money growth in the second half of the year. However, without the reduction in reserve requirements and the related placement of freed reserves into treasury bonds, the end-December 2005 reserve money target would likely have been missed by a large margin. Nevertheless, broad money grew in line with program objectives, and inflation ended the year well below expectations.

33. **While all monetary targets were met, greater reliance on indirect instruments of monetary policy would have been appropriate.** Additional sales of foreign exchange using special wholesale auctions and issuance of CBN bills and treasury bills played an important role in meeting the targets. However, the exchange rate reached the upper limit of its announced band and while treasury bill interest rates rose from between 2 and 4 percent in mid-2005 to 12 percent in December, the announced rediscount rate limited further interest rate adjustments.

34. **Progress in implementing the structural reform agenda has been excellent with all assessment criteria and benchmarks satisfied, albeit one assessment criteria with a short delay.** Reforms under the PSI included an ambitious bank consolidation, liberalization of Nigeria's import tariff regime, the introduction of a wholesale auction for foreign exchange, efforts to improve governance and reduce corruption, and impressive progress in restructuring and privatizing state-owned enterprises. Staff supports the granting of a waiver for the short delay in publicizing a draft audit report under the Nigeria EITI.

35. **Focus in 2006 has shifted to accelerating growth, particularly in the non-oil sector, and the government aspires to achieve growth of 10 percent.** Macroeconomic stability is to be preserved through maintaining the fiscal rule under which all three tiers of government set aside oil revenues stemming from prices higher than the oil reference price and a monetary policy that targets stable and single digit inflation. An ambitious reform program aims to provide an enabling environment for private-sector-led activity. Extending the reforms to the state level and institutionalizing the reforms through passage of key legislation, such as the Fiscal Responsibility Bill and broad-based civil service reform, are important challenges in the coming months.

36. **The 2006 federal government budget involves a scaling up of spending in priority sectors and outlays related to key reforms.** Staff commends the authorities for their strategy of cooperation and communication which secured relatively expeditious approval of the budget by the National Assembly, and recognizes that the increase in expenditure can make a crucial contribution to the authorities' reform program. It is

important that safeguards be set in place to ensure that fiscal targets are met, macroeconomic stability is maintained and the additional spending is well-focused.

37. **Monetary policy will anchor macroeconomic stability against the background of a wider than originally envisaged fiscal deficit.** Staff welcomes the monetary policy guidelines issued in February 2006 that provide the CBN with more effective indirect instruments of monetary policy to dampen inflationary pressures. The introduction of a wholesale foreign exchange auction should also contribute to a more effective monetary policy toolkit. Moreover, efforts to strengthen the CBN's ability to conduct monetary policy through establishing a Monetary Policy Department to improve liquidity forecasting and a Monetary Policy Implementation Committee to ensure implementation on a timely basis are welcome developments. Nonetheless, further efforts in strengthening data reliability and liquidity forecasting capability are still needed.

38. **Post-consolidation bank restructuring issues will need to be carefully managed.** It is especially important that enabling legislation be passed to support the effective resolution of non-performing loans and the blanket guarantee covering private deposits in failed banks. The authorities are encouraged to develop, in close cooperation with MFD, additional safeguards to mitigate the risks of international reserve management by domestic banks.

39. **The structural reform program for 2006 is ambitious and strong, despite the upcoming elections.** Clear, measurable assessment criteria and benchmarks have been developed. The ongoing reform agenda covers four broad areas: (i) real-sector development aimed at removing impediments to growth and strengthening institutions, (ii) public sector reform, including the civil service reform, (iii) privatization, and (iv) entrenching reforms. Two areas have been added to the reform agenda for 2006: customs reform and trade facilitation and extending reforms to the states in the areas of public financing management, procurement and due process, and the fight against corruption.

40. **Staff recommends completion of the first scheduled review.** Although the program continues to entail significant risks, the authorities have demonstrated their capacity to implement economic reforms in a challenging environment, and their commitment to the ambitious structural reform agenda. The staff therefore remains confident that the risks to the program are manageable.

Table 1. Nigeria: Selected Economic and Financial Indicators, 2003–09

	2003	2004	2005	2006	2007	2008	2009
			Est.		Proj.		
	(Annual percentage changes, unless otherwise specified)						
National income and prices							
Real GDP (at 1990 factor cost)	10.9	6.1	6.9	6.1	5.2	5.4	4.8
Oil GDP	26.5	3.5	4.2	4.3	5.0	5.2	3.4
Non-oil GDP	4.4	7.4	8.2	7.0	5.3	5.4	5.5
Real GDP per capita	7.9	3.3	4.3	3.5	2.7	2.8	2.3
GDP per capita (in U.S. dollars)	415	500	678	775	829	856	874
Non-oil GDP per capita (in U.S. dollars)	201	204	224	253	318	375	403
GDP deflator (period average)	20.8	19.9	26.9	6.2	5.6	4.0	2.1
Non-oil GDP deflator (period average)	15.8	11.0	17.4	9.2	6.4	5.4	4.2
Consumer price index (annual average)	14.0	15.0	17.9	9.4	6.5	5.5	4.2
Consumer price index (end of period)	23.8	10.1	11.6	8.5	6.2	4.9	3.7
External sector							
Exports, f.o.b.	53.8	36.8	41.5	11.8	9.6	5.3	2.3
Imports, f.o.b.	25.6	11.3	30.2	17.3	11.2	4.3	6.1
Oil export volume 1/	33.7	2.5	-4.3	0.5	2.9	4.3	1.8
Volume of import of goods and services	10.2	2.0	21.3	14.1	9.1	3.5	4.9
Terms of trade	2.5	20.5	37.8	8.9	3.5	-1.1	-2.1
Nominal effective exchange rate (end of period; - indicates depreciation)	-17.0	-3.0	10.3	...	...	...	...
Real effective exchange rate (end of period; - indicates depreciation)	0.4	3.7	19.4	...	...	...	...
Consolidated government operations 1/							
Total revenue and grants	36.1	47.7	36.2	26.4	13.2	6.2	4.7
Oil revenue	42.7	59.3	41.8	29.1	8.5	4.0	2.4
Non-oil revenue	19.4	12.2	11.7	11.7	43.5	16.8	14.7
Total expenditure and net lending	26.2	17.4	27.8	5.0	14.4	8.0	8.4
Current expenditure 2/	25.3	16.4	25.3	2.5	13.2	10.6	7.5
Capital expenditure and net lending 2/	28.8	20.4	35.1	11.5	17.3	1.8	10.7
Money and credit							
Net foreign assets 3/	5.5	62.3	56.9	79.1	...	...	...
Net domestic assets 3/	19.0	-49.9	-40.4	-62.2	...	...	...
Net domestic credit 3/	29.7	-23.1	-4.5	-51.0	...	...	...
Net credit to consolidated government 3/	13.8	-39.1	-24.0	-69.7	...	...	...
Net credit to the federal government 3/	13.6	12.8	-12.1	-19.8	...	...	...
Credit to the rest of the economy 3/	15.7	15.7	19.5	18.8	...	...	...
Credit to the rest of the economy 4/	24.1	26.3	29.6	25.5			
Broad money	24.1	14.0	16.5	17.0	...	...	...
Velocity (non-oil GDP as a multiple of end-of-period broad money)	2.0	2.1	2.3	2.3	...	...	...
Treasury bill rate (percent; end of period)	14.9	14.3	12.0	...	...	...	...
Discount rate (percent; end of period)	16.5	15.0	13.0	...	...	...	...
	(In percent of GDP; unless otherwise specified)						
Investment and saving							
Investment	23.9	22.4	20.9	21.1	22.3	21.7	24.1
Public fixed investment	9.7	9.1	9.1	9.0	9.5	8.8	9.1
Private fixed investment	14.2	13.2	11.8	12.0	12.8	12.8	15.0
of which non-oil fixed investment	9.5	9.4	8.4	9.1	10.1	10.4	12.7
Gross national savings	21.1	26.9	33.4	35.2	37.6	37.3	38.5
Public	13.2	20.9	22.1	28.1	28.7	26.8	25.5
Private	7.9	6.0	11.3	7.1	8.9	10.5	13.0
Consolidated government operations 1/							
Total revenues and grants	37.1	43.1	43.3	48.5	49.5	47.9	46.9
Of which oil and gas revenue	28.0	35.0	36.6	42.0	41.0	38.9	37.2
Total expenditure and net lending (commitment basis)	38.4	35.4	33.4	31.1	32.0	31.5	31.9
Overall balance (commitment basis)	-1.3	7.7	9.9	17.5	17.5	16.4	15.0
Non-oil primary balance (in percent of non-oil GDP, cash basis)	-34.4	-35.2	-39.8	-39.6	-37.8	-35.9	-35.0
Gross domestic debt	15.5	13.9	10.5	10.4	12.5	12.2	11.9
External sector							
Current account balance	-2.7	4.6	12.6	14.2	15.3	15.7	14.4
External debt outstanding (in billions of U.S. dollars)	32.9	35.9	20.5	4.8	4.8	4.7	4.9
External debt service due (in percent of exports of goods and services)	10.3	7.8	6.4	1.2	1.0	1.1	0.9
	(In billions of U.S. dollars, unless otherwise specified)						
Current account balance	-1.6	3.3	12.4	16.5	19.5	21.1	20.3
Overall balance of payments	-1.6	8.1	16.3	17.5	25.6	27.2	26.7
Gross international reserves (end of period)	7.5	17.0	28.3	45.8	71.4	98.5	125.2
(equivalent months of goods and services)	3.4	6.1	8.8	13.1	19.6	25.5	30.4
Price of Nigerian oil (U.S. dollars per barrel)	28.9	38.3	55.3	60.5	63.0	62.8	62.0
Production of crude oil (million barrels per day)	2.45	2.50	2.51	2.52	2.59	2.69	2.73
Including oil and gas equivalent	2.72	2.81	2.93	3.06	3.21	3.38	3.49
DAS official exchange rate (naira per U.S. dollar; average)	130.9	134.3	131.0	...	...	...	...
Nominal GDP at market prices (in billions of naira)	7,533	9,575	12,990	14,638	16,267	17,833	19,090

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.
4/ Year-on-year change in percent.

Table 2a. Nigeria: Fiscal Operations (Cash Basis), 2003-09

	2003	2004	2005		2006		2007	2008	2009
			Annual		Country Report				
			Prog.	Est.	05/432	Annual	Proj.	Proj.	Proj.
Oil price (in U.S. dollars per barrel)	28.9	38.3	54.2	55.3	60.5	60.5	63.0	62.8	62.0
	(In billions of naira)								
Total revenue	2,795	4,127	5,488	5,621	7,315	7,107	8,048	8,548	8,948
Oil and gas revenue	2,106	3,355	4,630	4,759	6,126	6,143	6,665	6,934	7,097
Government crude receipts	967	1,440	1,805	1,938	2,052	1,999	2,099	2,080	2,155
Petroleum profit tax and royalty	683	1,184	1,962	1,905	2,690	2,563	2,921	3,289	3,351
Upstream gas sales and Nigeria Liquefied Natural Gas (NLNG)	32	91	105	139	160	151	164	176	187
Other oil revenue (gas flared; pipeline fees)	38	5	3	5	36	37	36	38	38
Domestic crude	386	635	756	771	1,189	1,243	1,293	1,352	1,366
Signature bonus	0	0	0	0	0	151	153	0	0
Non-oil revenue	689	773	859	863	1,188	964	1,382	1,614	1,851
Import and excise duties	195	217	190	233	197	197	230	270	300
Companies income tax	115	130	174	162	233	230	270	329	397
Value-added tax	136	157	193	184	439	225	540	640	737
Education tax	10	17	22	22	16	15	18	22	26
Federal government independent revenue	54	59	65	55	75	75	86	99	124
State and local governments' internal revenue	139	157	178	175	197	190	201	211	219
Customs levies	39	35	33	32	32	32	37	43	48
Total consolidated expenditure	2,795	3,177	4,241	4,230	4,653	4,702	5,370	5,805	6,291
Total federal government and extrabudgetary expenditure	1,605	1,654	2,194	2,220	2,333	2,444	2,629	2,769	3,008
Goods and services	514	571	683	730	803	876	899	916	978
Interest payments	242	231	329	379	246	246	279	281	277
Domestic	170	189	150	200	226	220	256	259	257
External, cash	72	42	179	179	20	26	23	22	20
Transfers	581	591	757	767	813	776	796	846	901
of which, NNPC cash calls	451	455	539	532	560	529	549	569	593
Federal government capital expenditure	267	261	451	343	470	545	656	727	852
Domestically financed 1/	257	231	386	254	420	511	605	660	770
Foreign financed	10	30	65	90	50	35	51	66	81
State and local governments	1,190	1,523	1,954	1,961	2,226	2,000	2,434	2,852	3,083
Primary expenditure	1,178	1,515	1,919	1,928	2,219	1,991	2,427	2,844	3,077
External interest payment, cash	12	8	35	33	7	9	8	7	7
Transfer to NNPC (explicit subsidy)	0	0	0	0	...	150	165	185	200
Purchase of power plants	...	...	94	50	94	108	141	0	0
Overall balance (cash basis)	0	951	1,248	1,391	2,662	2,405	2,677	2,743	2,657
Financing	182	-925	-1,292	-1,199	-2,662	-2,405	-2,677	-2,743	-2,657
External	-153	-155	-700	-870	-20	-625	-9	-5	67
Borrowing	10	30	65	90	50	35	51	66	81
Amortization, cash	-163	-185	-765	-960	-70	-62	-60	-71	-15
Debt buyback	0	0	0	0	0	-597	0	0	0
Domestic financing	305	-777	-592	-408	-2,707	-1,840	-2,668	-2,738	-2,723
Central bank (net, consolidated government)	415	-975	-823	-662	-2,752	-1,987	-2,818	-2,838	-2,803
Of which: increase in gross windfall oil receipts	...	-786	-1,829	-1,944	-2,899	-2,648	-3,631	-3,878	-3,800
Commercial banks (net, federal government)	-116	193	231	244	45	147	150	100	80
Commercial banks (net, states and local governments)	6	4	0	10	0	0	0	0	0
Privatization proceeds	0	0	0	20	0	59	0	0	0
Recovered funds	30	7	0	59	65	0	0	0	0
Statistical discrepancy	182	26	-69	192	0	0	0	0	0
Non-oil primary balance, federation (incl explicit fuels subsidy)	-1,401	-1,710	-2,479	-2,423	-2,772	-2,954	-3,153	-3,335	-3,563
Non-oil primary balance, state and local government	-777	-1,060	-1,506	-1,424	...	-1,499	-1,628	-1,908	-2,008

Table 2a. Nigeria: Fiscal Operations (Cash Basis), 2003-09 (continued)

	2003	2004	2005		2006		2007	2008	2009
			Annual		Country Report 05/432	Annual			
			Prog.	Est.			Proj.	Proj.	Proj.
Oil price (in U.S. dollars per barrel)	28.9	38.3	54.2	55.3	60.5	60.5	63.0	62.8	62.0
					(in percent of GDP)				
Total revenue	37.1	43.1	43.5	43.3	49.3	48.5	49.5	47.9	46.9
Oil and gas revenue	28.0	35.0	36.7	36.6	41.3	42.0	41.0	38.9	37.2
Non-oil revenue	9.1	8.1	6.8	6.6	8.0	6.6	8.5	9.1	9.7
Total consolidated expenditure	37.1	33.2	33.6	32.6	31.4	32.1	33.0	32.6	33.0
Total federal government and extrabudgetary expenditure	21.3	17.3	17.4	17.1	15.7	16.7	16.2	15.5	15.8
State and local governments	15.8	15.9	15.5	15.1	15.0	13.7	15.0	16.0	16.2
Purchase of power plants	...	...	0.7	0.4	0.6	0.7	0.9	0.0	0.0
Overall balance (cash basis)	0.0	9.9	9.9	10.7	17.9	16.4	16.5	15.4	13.9
Financing	2.4	-9.7	-10.5	-9.2	-17.9	-16.4	-16.5	-15.4	-13.9
External	-2.0	-1.6	-5.8	-6.7	-0.1	-4.3	-0.1	0.0	0.3
Domestic	4.0	-8.1	-4.7	-3.1	-18.2	-12.6	-16.4	-15.4	-14.3
Recovered funds	0.4	0.1	0.0	0.5	0.4	0.0	0.0	0.0	0.0
Statistical discrepancy	2.4	0.3	-0.6	1.5	0.0	0.0	0.0	0.0	0.0
Memorandum items:									
Non-oil primary balance (excl fuels subsidy, in percent of non-oil GDP) 2	-34.4	-35.2	-41.4	-39.8	-38.0	-39.6	-37.8	-35.9	-35.0
Implicit fuel price subsidy (in billions of naira)	n/a	100.0	250	289	120	0	0	0	0
Non-oil primary balance (incl fuel price subsidy, in % of non-oil GDP) 2/	n/a	-37.3	-45.6	-44.5	-39.7	-41.7	-39.9	-38.0	-37.1
Non-oil revenue (in percent of non-oil GDP)	16.9	15.9	14.4	14.2	17.0	13.6	17.5	18.4	19.2
Primary balance (in percent of GDP)	3.4	12.4	12.8	13.9	19.6	18.2	18.2	17.0	15.4
Non-oil primary balance, commitment basis (in percent of non-oil GDP)	-33.8	-36.4	-41.4	-41.5	-38.0	-39.6	-37.8	-35.9	-35.0
Nominal GDP (in billions of naira)	7,533	9,575	12,604	12,990	14839	14,638	16,267	17,833	19,090
Non-oil GDP (in billions of naira)	4,069	4,855	5,980	6,095	6,978	7,081	7,911	8,770	9,616

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

Table 2b. Nigeria: Fiscal Accounts, Federal Government Budget, 2003-06

	2003	2004	2005		2006			
			Annual		Country	Proj.		
			Prog.	Est.	Report 05/432	Q1	Q2	Q3
Oil price (in U.S. dollars per barrel)	29.0	38.3	54.2	55.3	60.5			
					(in billions of naira)			
Total revenue 1/	964	1,486	1,991	2,058	2,683	679	681	712
Petroleum revenue	740	1,236	1,726	1,794	2,349	614	617	616
Nonpetroleum revenue	224	250	264	264	334	65	64	96
Import and excise duties	95	105	89	108	89	22	22	22
Companies' income tax	56	63	82	76	109	27	27	27
Value-added tax	20	23	27	25	61	7	8	8
Federal government independent revenue	54	59	65	55	75	9	7	40
Total expenditure	1,049	1,075	1,488	1,442	1,554	468	421	455
Recurrent expenditure	792	844	1,102	1,188	1,133	303	361	312
Goods and services	514	571	683	730	803	209	259	204
Personnel	304	370	418	443	519	132	132	132
Pensions	64	72	141	84	145	26	76	21
Overhead cost	146	128	124	203	139	51	51	51
Interest payments	242	231	329	379	246	55	58	67
Domestic	170	189	150	200	226	48	51	60
External, cash	72	42	179	179	20	7	7	7
Transfers 2/	35	42	90	79	84	40	44	42
NNPC	0	0	0	0	0	19	19	19
National Judicial Council	26	28	33	33	35	8	9	9
Transfer to Niger Delta Development Commission	9	14	29	22	20	7	7	7
UBE Commission	...	...	29	24	29	6	9	8
Capital expenditure	257	231	386	254	420	165	60	143
Domestic	257	231	386	254	420	165	60	143
Overall balance (cash basis)	-85	411	502	616	1,129	211	260	257
Financing	191	-517	-507	-678	-1,129	-211	-260	-257
External	-138	-155	-572	-717	-52	-12	-459	-12
Amortization, cash	-138	-155	-572	-717	-52	-12	-12	-12
Debt buyback	0	0	0	0	0	0	-448	0
Domestic financing	299	-369	65	-40	-1,142	-205	184	-260
Central bank (net)	415	-612	-166	-285	-1,187	-279	166	-281
Of which: gross oil windfall proceeds	...	-332	-772	-820	-1,266	-279	-282	-281
Commercial banks (net)	-116	193	231	244	45	75	19	21
Non-bank financing	0	50	0	0	0	0	0	0
Privatization proceeds	0	0	0	20	0	5	15	15
Recovered funds	30	7	0	59	65	0	0	0
Statistical discrepancy	106	-106	-47	-63	0	0	0	0
Memorandum items:								
Primary spending	807	844	1,202	1,063	1,308	414	363	388
Non-oil primary balance (including explicit fuels subsidy)	-583	-594	-937	-799	-974	-348	-299	-292
Budgetary revenue	964	1,486	1,991	2,058	2,683	679	681	712
Budgetary spending (incl explicit fuels subsidy)	1,187	1,230	1,470	1,394	1,606	480	432	467
Balance on the budget (BOF definition, debt service above the line)	-222	256	521	663	1,076	200	248	245

Table 2b. Nigeria: Fiscal Accounts, Federal Government Budget, 2003-06 (continued)

	2003	2004	2005		2006					
			Annual		Country	Proj.				
			Prog.	Est.	Report 05/432	Q1	Q2	Q3	Q4	Proj.
Oil price (in U.S. dollars per barrel)	29.0	38.3	54.2	55.3	60.5					60.5
					(in percent of GDP)					
Total revenue	12.8	15.5	15.8	15.8	18.1					18.8
Petroleum revenue	9.8	12.9	13.7	13.8	15.8					16.8
Nonpetroleum revenue	3.0	2.6	2.1	2.0	2.2					2.1
Total expenditure	13.9	11.2	12.1	11.1	10.5					12.3
Recurrent expenditure	10.5	8.8	8.7	9.1	7.6					8.8
Goods and services	6.8	6.0	5.4	5.6	5.4					6.0
Interest payments	3.2	2.4	2.6	2.9	1.7					1.7
Transfers 2/	0.5	0.4	0.7	0.6	0.6					1.1
Capital expenditure	3.4	2.4	3.4	2.0	2.8					3.5
Overall balance (cash basis)	-1.1	4.3	3.6	4.7	7.6					6.5
Financing	2.5	-5.4	-4.0	-5.2	-7.6					-6.5
External	-1.8	-1.6	-4.5	-5.5	-0.4					-3.4
Domestic financing	4.0	-3.9	0.5	-0.3	-7.7					-3.6
Privatization proceeds	0.0	0.0	0.0	0.2	0.0					0.4
Recovered funds	0.4	0.1	0.0	0.5	0.4					0.0
Statistical discrepancy	1.4	-1.1	-0.4	-0.5	0.0					0.0
Memorandum items:										
Non-oil primary balance (incl explicit fuels subsidy, in % of non-oil GDF	-14.3	-12.2	-15.7	-13.1	-14.0					-17.7
Non-oil revenue (in percent of non-oil GDP)	5.5	5.2	4.4	4.3	4.8					4.3
Balance on the budget (BOF definition)	-3.0	2.7	4.1	5.1	7.3					6.2
External debt service (FGN share, in millions of U.S. dollars)	1,357	1,316	5,729	6,840	546					579
Nominal GDP (in billions of naira)	7,533	9,575	12,604	12,990	14,839					14,638
Nominal non-oil GDP (in billions of naira)	4,069	4,855	5,980	6,095	6,978					7,081

Source: Authorities; and Fund staff estimates

Table 3a. Nigeria: CBN Analytical Quarterly Balance Sheet, 2003-06

	2003	2004	2005						2006			
		Est	Q1	Q2	Q3		Q4		Q1	Q2	Q3	Q4
			Est.		Progr.	Est.	Progr.	Est.		Proj.		
						(In billions of naira)						
Net foreign assets 1/	1,059	2,250	2,773	3,073	3,577	3,664	3,303	3,561	4,273	4,344	5,003	5,649
Foreign assets	1,065	2,479	2,834	3,177	3,681	3,783	3,407	3,638	4,350	4,421	5,080	5,726
Short-term foreign liabilities	-6	-229	-60	-104	-104	-119	-104	-77	-77	-77	-77	-77
Net domestic assets	-370	-1,518	-2,036	-2,325	-2,807	-2,855	-2,539	-2,802	-3,489	-3,544	-4,193	-4,829
Domestic Credit	82	-718	-1,140	-1,525	-1,844	-1,536	-1,576	-1,272	-1,919	-1,974	-2,623	-3,259
Net Claims on Consolidated Government 2/	294	-681	-1,148	-1,585	-1,772	-1,623	-1,504	-1,349	-1,996	-2,051	-2,700	-3,336
Of which: Excess Crude	-29	-675	-1,101	-1,299	-1,599	-1,619	-1,235	-1,292	-1,940	-1,996	-2,647	-3,285
Net claims on federal government	374	-238	-471	-801	-808	-666	-404	-607	-886	-720	-1,001	-1,276
Of which: Excess Crude of the Federal Government	-13	-313	-505	-596	-735	-742	-341	-613	-893	-726	-1,007	-1,282
Net claims on state and local goverments	0	-363	-596	-703	-884	-877	-1,020	-679	-1,047	-1,267	-1,635	-1,996
Of which: Excess Crude of the SLGs	-16	-363	-596	-703	-864	-877	-893	-679	-1,047	-1,270	-1,640	-2,002
Net claims on non-financial public enterprises	-235	-141	-92	-47	-183	-22	-183	-22	-22	-22	-22	-22
Net claims on non-financial private sector	1.3	2	-4	2	1	2	1	-4	-4	-4	-4	-4
Claims on Deposit Money Banks	15.6	92	93	93	99	95	99	93	93	93	93	93
Net Claims on other Financial Institutions	6.8	11	11	11	11	11	11	11	11	11	11	11
Other Items Net	-453	-800	-896	-800	-963	-1,319	-963	-1,530	-1,570	-1,570	-1,570	-1,570
Of which: CBN liquidity management bills		0	0	0	-60	-46	-60	-144	-144	-144	-144	-144
Reserve money	689	732	737	748	770	809	764	759	784	800	810	820
Currency in circulation	502	546	513	495	492	513	488	642	615	615	620	660
Currency outside of banks	412	459	429	416	412	445	409	563	535	534	539	578
Banks Reserves with the CBN	186	187	224	253	278	295	276	117	169	185	190	160
Required reserves	152	158	185	201	252	257	242	101	124	130	135	137
Excess reserves	34	29	39	52	26	38	34	15	45	55	55	23
Memorandum items:						(In percent)						
Reserve Money 12-month growth rate	16.4	6.3	16.0	14.3	18.4	24.3	4.3	3.6	6.4	7.0	0.2	8.1
Reserve Money q/q growth rate	7.2	12.6	0.6	1.5	2.1	8.1	-0.8	-6.1	3.3	2.0	1.3	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, 2003-06

	2003	2004	2005						2006			
			Q1	Q2	Q3		Q4		Q1	Q2	Q3	Q4
			Est.		Progr.	Est.	Progr.	Est.	Proj.			
			(In billions of naira)									
Net foreign assets	1,476	2,712	3,247	3,507	4,010	4,111	3,736	4,001	4,713	4,784	5,443	6,089
Central Bank of Nigeria (net)	1,059	2,250	2,773	3,073	3,577	3,664	3,303	3,561	4,273	4,344	5,003	5,649
Foreign assets	1,065	2,479	2,834	3,177	3,681	3,783	3,407	3,638	4,350	4,421	5,080	5,726
Short-term foreign liabilities	-6	-229	-60	-104	-104	-119	-104	-77	-77	-77	-77	-77
Commercial and merchant banks (net)	417	462	474	433	433	447	433	440	440	440	440	440
Foreign assets	438	481	493	450	450	468	450	463	463	463	463	463
Foreign liabilities	-21	-19	-19	-16	-16	-22	-16	-23	-23	-23	-23	-23
Net domestic assets	541	-448	-679	-815	-1,438	-1,338	-1,132	-1,363	-1,759	-1,748	-2,256	-3,002
Net domestic credit	1,804	1,345	1,152	939	580	1,014	986	1,244	998	1,124	636	-100
Consolidated Government 1/	612	-165	-493	-882	-1,084	-926	-704	-708	-1,280	-1,316	-1,945	-2,548
Federal Government		253	162	-119	-157	-15	318	-20	-225	-41	-301	-543
States and local governments		-338	-575	-683	-847	-831	-942	-625	-992	-1,212	-1,581	-1,942
Claims on non-financial public enterprises	0	2	2	4	4	3	4	2	2	2	2	2
Other financial institutions	7	11	11	11	11	11	11	11	11	11	11	11
Claims on private sector	1,185	1,497	1,632	1,805	1,649	1,926	1,675	1,939	2,265	2,427	2,567	2,434
(y/y growth rate)	24	26.3	19.8	24.3	10.2	28.7	11.9	29.6	38.8	34.4	33.3	25.5
Other items (net)	-1,263	-1,793	-1,831	-1,754	-2,017	-2,352	-2,118	-2,607	-2,757	-2,872	-2,892	-2,902
Other items net-CBN	-453	-800	-896	-800	-963	-1,319	-963	-1,530	-1,570	-1,570	-1,570	-1,570
Other items net-banks	-810	-954	-870	-893	-993	-956	-1,094	-1,011	-1,126	-1,241	-1,256	-1,271
Of which: CBN liquidity management bills				0	0	46	60	144	144	144	144	144
Banks' Bond and Money Market Instruments	-32	-39	-66	-61	-61	-77	-61	-65	-61	-61	-65	-61
Broad money	1,985	2,264	2,575	2,692	2,573	2,774	2,604	2,638	2,954	3,036	3,187	3,087
(y/y growth rate)	24.1	14.0	22.2	27.4	19.3	28.6	15.0	16.5	14.7	12.8	23.9	17.0
Memorandum items:												
			(Contribution to broad money growth unless otherwise stated)									
Net foreign assets	5.5	62.3	20.8	29.5	50.5	50.4	39.3	56.9	27.0	29.7	54.7	79.1
Central Bank of Nigeria (net)	3.2	60.0	20.3	30.6	51.6	51.0	40.4	57.9	27.0	29.7	54.7	79.1
Commercial and merchant banks (net)	2.3	2.3	0.4	-1.1	-1.1	-0.6	-1.1	-1.0	0.0	0.0	0.0	0.0
Net domestic assets	19.0	-49.9	-9.0	-13.6	-38.5	-32.1	-26.2	-40.4	-15.0	-14.6	-33.9	-62.2
Net domestic credit	29.7	-23.1	-7.5	-15.1	-29.8	-11.9	-13.8	-4.5	-9.3	-4.5	-23.0	-51.0
Net credit to the consolidated government	13.8	-39.1	-12.8	-26.6	-35.7	-27.5	-20.7	-24.0	-21.7	-23.1	-46.9	-69.7
Net credit to the federal government	13.6	12.8	-3.6	-13.8	-16.0	-9.7	2.5	-12.1	-7.8	-0.8	-10.6	-19.8
Claims on private sector	15.7	15.7	5.2	11.5	5.9	15.5	6.8	19.5	12.4	18.5	23.8	18.8
Other items (net)	-10.7	-26.7	-1.5	1.5	-8.7	-20.1	-12.4	-35.9	-5.7	-10.1	-10.8	-11.2
Broad money (percent change since year's end)	24.1	14.0	13.7	18.9	13.6	22.5	15.0	16.5	12.0	15.1	20.8	17.0
Velocity (non-oil GDP/broad money)	2.0	2.1	...	...	...	...	2.3	2.3	...	...	...	2.3
Gross International Reserves (in million US$)	7,468	16,955	21,808	23,890	27,887	28,656	26,409	28,279	34,117	35,083	40,314	45,805
Non-oil GDP (in billions of naira)	4,069	4,855	...	...	...	...	5,980	6,095	...	...	...	7,081

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, 2003-09
(In billions of U.S. dollars; unless otherwise indicated)

	2003	2004	2005	2006	2007	2008	2009
			Prel.		Projection		
Current account balance	-1.6	3.3	12.4	16.5	19.5	21.1	20.3
Oil/gas (net)	9.9	15.1	27.0	33.3	38.7	41.0	41.4
Other (net)	-11.5	-11.8	-14.6	-16.8	-19.2	-19.9	-21.2
Trade balance	10.1	18.1	27.8	29.7	32.1	34.1	33.6
Exports	27.3	37.3	52.7	59.0	64.6	68.0	69.6
Oil/gas	26.5	36.4	52.0	58.2	63.8	67.2	68.7
Other	0.7	0.9	0.7	0.7	0.8	0.8	0.9
Imports	-17.2	-19.1	-24.9	-29.2	-32.5	-33.9	-36.0
Oil/gas	-7.6	-8.9	-11.7	-12.6	-13.2	-13.4	-13.8
Other	-9.6	-10.2	-13.3	-16.6	-19.3	-20.5	-22.2
Services (net)	-5.3	-5.9	-6.7	-5.8	-6.1	-7.5	-7.9
Receipts	1.4	1.7	2.0	3.3	3.5	2.4	2.5
Oil/gas	0.3	0.3	0.5	1.7	1.8	0.6	0.6
Other	1.1	1.3	1.5	1.6	1.7	1.8	1.9
Payments	-6.7	-7.6	-8.7	-9.2	-9.5	-9.9	-10.4
Oil/gas	-2.5	-2.6	-3.0	-3.1	-3.1	-3.1	-3.2
Other	-4.2	-5.0	-5.7	-6.1	-6.4	-6.8	-7.2
Income (net)	-8.4	-11.7	-12.1	-10.8	-9.9	-8.9	-8.9
Oil/gas	-6.8	-10.2	-10.8	-10.9	-10.5	-10.3	-11.0
Other	-1.6	-1.6	-1.2	0.1	0.6	1.3	2.1
Of which: Interest due on public debt	-1.6	-1.5	-1.6	-0.3	-0.2	-0.2	-0.2
Transfers (net) 1/	2.1	2.8	3.4	3.4	3.4	3.4	3.4
Capital account balance	1.6	3.1	4.8	1.0	6.1	6.0	6.4
Direct and portfolio investment (net)	2.9	4.4	6.4	6.1	6.1	6.1	6.2
Oil/gas	2.6	3.8	4.7	4.8	4.7	4.5	4.5
Other	0.3	0.7	1.7	1.3	1.5	1.6	1.8
Official capital (net)	-1.3	-1.3	-1.2	-0.2	-0.1	0.0	0.2
Disbursements	0.1	0.2	0.7	0.3	0.4	0.5	0.6
Amortization due	-1.4	-1.5	-1.9	-0.5	-0.5	-0.5	-0.4
Private borrowing (net)	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other capital (net) 2/	0.0	-0.1	-0.4	-4.8	0.0	0.0	0.0
Errors and omissions	-1.5	1.8	-1.0	0.0	0.0	0.0	0.0
Overall balance	-1.6	8.1	16.3	17.5	25.6	27.2	26.7
Net international reserves (increase -)	0.2	-9.5	-11.3	-17.5	-25.6	-27.2	-26.7
Exceptional financing	1.3	1.4	-5.0	0.0	0.0	0.0	0.0
Net accumulation of arrears (decrease -)	1.1	1.3	-5.4	0.0	0.0	0.0	0.0
Other 3/	0.2	0.1	0.5	0.0	0.0	0.0	0.0
Memorandum items:							
Gross official reserves, end-of-period	7.5	17.0	28.3	45.8	71.4	98.5	125.2
In months of next year's GS imports	3.4	6.1	8.8	13.1	19.6	25.5	30.4
Current account (percent of GDP)	-2.7	4.6	12.6	14.2	15.3	15.7	14.4
GS exports (percent of GDP)	49.7	54.6	55.2	53.6	53.4	52.2	51.1
GS imports (percent of GDP)	41.5	37.4	33.9	33.1	33.0	32.5	32.9
External debt 4/ 5/	32.9	35.9	20.5	4.8	4.8	4.7	4.9
External debt (percent of GDP) 4/ 5/	57.2	50.4	20.7	4.2	3.7	3.5	3.5
External debt (percent of GS exports) 4/ 5/	115.0	92.3	37.4	7.8	7.0	6.7	6.8
External debt 4/ 5/ 6/	154.1	116.9	47.7	8.6	7.6	7.3	7.4
External debt service due (percent of GS exports)	10.3	7.8	6.4	1.2	1.0	1.1	0.9
GDP (at market prices)	57.6	71.3	99.1	116.2	127.4	134.8	141.1

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

1/ Includes capital transfers.
2/ In 2006, the pre-payment of post-cut off Paris Club debt ($0.3 billion) and the cost of the buy-back of remaining Paris Club debt ($4.3 billion).
3/ In 2002 debt buy-back, in 2003-05 recovery of looted funds.
4/ Nominal public sector short- and long-term debt end of period.
5/ In 2005 (2006) reflecting also a $7.1 billion ($7.2 billion) write-off of Paris Club debt and in 2006 the discount ($2.7 billion) on the $7.0 billion buy-back of remaining Paris Club debt.
6/ In percent of general government fiscal revenues.

Table 5. Nigeria - Oil and Gas Sector Overview, 2003-09

	2003	2004	2005	2006	2007	2008	2009
			Est.		Proj.		
Physical balances	(in millions of barrels per day, unless otherwise indicated)						
Crude oil							
Oil price (in U.S. dollars per barrel)	28.9	38.3	55.3	60.5	63.0	62.8	62.0
Production of crude oil	2.45	2.50	2.51	2.52	2.59	2.69	2.73
Crude	2.30	2.42	2.45	2.44	2.49	2.58	2.62
Condensates	0.15	0.07	0.06	0.08	0.10	0.11	0.11
Domestic allocation to NNPC	0.43	0.42	0.44	0.44	0.44	0.44	0.44
Domestic refining	0.12	0.11	0.22	0.22	0.22	0.22	0.22
Exports of crude oil	2.33	2.39	2.29	2.30	2.37	2.47	2.51
Of which exports out of domestic allocation	0.31	0.31	0.22	0.22	0.22	0.22	0.22
OPEC quota	2.01	2.02	...	...	...	...	...
Natural gas	(in billions of cubic feet, unless otherwise indicated)						
Total production	1,829	2,120	2,047	2,057	2,111	2,309	2,451
For Nigeria Liquefied Natural Gas (NLNG)	438	523	704	812	989	1,130	1,271
For natural gas liquids production (NGL)	104	137	165	287	287	287	287
Other	177	202	222	244	268	295	325
Reinjection	286	421	422	424	435	443	439
Flaring	824	837	534	290	132	154	129
Gas sales (LNG and NGL feed; in millions of barrels per day oil equivalent)	0.26	0.32	0.42	0.54	0.62	0.69	0.76
Flaring (in percent of total gas produced)	45.0	39.5	26.1	14.1	6.3	6.7	5.3
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)	25,903	34,935	50,627	55,674	59,500	61,736	61,812
Exports	24,611	33,435	46,141	50,764	54,387	56,629	56,781
Domestic use	1,280	1,483	4,487	4,909	5,112	5,092	5,031
Recurrent costs	3,492	3,087	3,425	3,442	3,532	3,680	3,729
Investment	5,326	4,756	5,629	6,082	6,218	5,964	6,010
Foreign direct investment	2,185	2,740	3,471	3,621	3,628	3,431	3,447
Profit remittances 1/	5,858	8,682	7,976	7,068	5,682	4,767	4,899
Gas							
Gas sales	558	858	1,450	2,407	2,570	2,666	2,760
NGL 2/	221	461	915	1,790	1,818	1,807	1,793
NLNG 3/	337	397	535	617	751	859	966
LNG Exports	1,918	3,034	5,898	7,445	9,438	10,743	11,941
Recurrent costs	217	264	348	439	510	567	623
Investment	863	1,983	2,500	2,250	2,050	2,050	2,050
Foreign direct investment	440	1,011	1,275	1,148	1,046	1,046	1,046
Profit remittances 4/	940	1,508	2,827	3,862	4,857	5,488	6,063
Oil and gas GDP (percentage change)	26.6	3.6	4.1	4.3	5.0	5.2	3.4
Production of crude oil (percentage change)	25.1	2.01	0.5	0.5	2.6	3.9	1.6
Gas sales (LNG and NGL feed; percentage change)	41.4	21.8	31.6	26.5	16.1	11.1	10.0
Government revenue							
Oil							
Export of federation crude	7,302	10,741	14,233	15,756	16,444	15,727	15,930
PPT	3,369	6,180	13,483	15,479	17,411	18,902	18,800
Royalties, incl. rent	1,899	2,679	4,443	5,231	5,467	5,964	5,971
Domestic crude & tax on petroleum products	2,813	4,732	8,297	8,962	10,122	10,222	10,093
Miscellaneous oil revenue (pipeline fees)	254	121	260	261	268	279	283
Gas							
NGL	108	221	448	877	891	886	879
LNG feed gas	165	192	278	321	391	447	502
LNG dividends 5/	223	223	2,088	2,679	3,549	4,055	4,505
Flaring 6/	37	29	41	23	10	11	9
Government share of costs	3,500	3,400	4,056	4,200	4,300	4,300	4,386
Net oil and gas revenue	12,448	21,718	37,649	44,798	49,383	51,687	52,135

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, 2003-09

	2003	2004	2005	2006	2007	2008	2009
	(In billions of naira, unless otherwise indicated)						
Total non-oil demand	5,822	6,801	8,538	9,911	11,163	12,329	13,537
Public	2,064	2,541	3,392	3,767	4,370	4,764	5,214
Private	3,758	4,260	5,146	6,143	6,793	7,565	8,323
Non-oil consumption	4,604	5,251	6,532	7,523	8,242	9,179	9,673
Public	1,562	1,893	2,477	2,714	3,098	3,473	3,768
Private	3,042	3,358	4,055	4,809	5,144	5,706	5,905
Non-oil investment	1,218	1,550	2,006	2,388	2,921	3,149	3,864
Public	502	648	916	1,054	1,272	1,290	1,446
Private	717	903	1,090	1,334	1,648	1,859	2,418
Public investment	727	875	1,182	1,318	1,547	1,575	1,743
oil	226	227	266	265	537	537	553
non-oil	502	648	916	1,054	1,272	1,290	1,446
Private investment	1,070	1,266	1,528	1,763	2,078	2,289	2,860
oil	354	364	437	429	429	430	443
non-oil	717	903	1,090	1,334	1,648	1,859	2,418
Net non- oil exports of goods and services	-1,568	-1,748	-2,190	-2,559	-2,968	-3,259	-3,605
Non-oil exports of goods and services	243	292	286	294	315	346	377
Exports of goods	3,566	5,004	6,910	7,428	8,248	8,999	9,418
oil	3,470	4,890	6,818	7,334	8,148	8,889	9,298
nonoil	96	114	92	94	100	110	119
Exports of services	180	224	259	420	443	318	342
oil	33	47	64	220	229	82	85
nonoil	147	177	194	200	215	236	257
Non-oil imports of goods and services	1,811	2,040	2,477	2,854	3,283	3,605	3,982
Non-oil GDP at market prices	4,254	5,053	6,348	7,352	8,195	9,069	9,932
	(In percent of non-oil GDP)						
Non-oil Demand	136.9	134.6	134.5	134.8	136.2	135.9	136.3
Public	48.5	50.3	53.4	51.2	53.3	52.5	52.5
Private	88.3	84.3	81.1	83.6	82.9	83.4	83.8
Non-oil consumption	108.2	103.9	102.9	102.3	100.6	101.2	97.4
Public	36.7	37.5	39.0	36.9	37.8	38.3	37.9
Private	71.5	66.4	63.9	65.4	62.8	62.9	59.5
Non-oil investment	28.6	30.7	31.6	32.5	35.6	34.7	38.9
Public	11.8	12.8	14.4	14.3	15.5	14.2	14.6
Private	16.8	17.9	17.2	18.1	20.1	20.5	24.3
Net exports of non-oil goods and services	-36.9	-34.6	-34.5	-34.8	-36.2	-35.9	-36.3
Nonoil Exports of goods and services	5.7	5.8	4.5	4.0	3.8	3.8	3.8
Nonoil Imports of goods and services	-42.6	-40.4	-39.0	-38.8	-40.1	-39.8	-40.1
Balance on non-oil current account	-35.3	-31.4	-30.1	-28.8	-29.9	-29.0	-28.8
of which: non-oil net factor income and transfers	1.5	3.2	4.4	6.1	6.3	6.9	7.5
Gross domestic non-oil savings	-8.2	-3.9	-2.9	-2.3	-0.6	-1.2	2.6
Public	-20.5	-22.2	-25.4	-23.8	-20.9	-20.5	-19.3
Private	12.3	18.3	22.5	21.5	20.4	19.3	21.9
Gross national non-oil savings	-6.7	-0.7	1.5	3.7	5.7	5.7	10.1
Public	-20.8	-22.3	-25.6	-24.0	-21.1	-20.6	-19.4
Private	14.1	21.6	27.2	27.7	26.8	26.3	29.5
Memorandum items:							
Real non-oil public consumption	13.2	9.1	11.5	0.4	7.3	6.4	4.1
Real non-oil private consumption	4.7	-0.6	2.9	8.6	0.6	5.2	-0.7
Real non-oil private demand	2.1	2.1	2.9	9.4	3.9	5.7	5.6
Real nonoil public investment	10.5	16.3	20.5	5.4	13.5	-3.8	7.5
Real nonoil private investment	-7.4	13.4	2.9	12.1	16.1	7.0	24.8
Non-oil GDP deflator	15.8	11.0	17.4	9.2	6.4	5.4	4.2

Sources: Nigerian authorities; and staff estimates and projections.

Table 7. Nigeria: Quantitative Assessment Criteria and Indicative Targets, 2005
(In billions of naira, unless otherwise indicated)

	2004	2005							
		end-Mar.	end-Jun.	end-Sep.			end-Dec.		
	Estimate	Estimates		Indicative Targets	Adjusted Targets	Estimates	Assessment Criteria	Adjusted	Estimates
Federal government non-oil primary balance (floor) 1/	-594	-147	-354	-652	-652	-566	-937	-937	-799
Reserve money (ceiling)	732	737	748	770	770	809	764	764	759
Net foreign assets of the CBN (floor)	2,250	2,773	3,073	3,577	3,545	3,664	3,303	3,139	3,561
New non-concessional external debt by the public sector (ceiling) 2/	...	0	0	0	0	0	0	0	0
External arrears 2/	...	0	0	0	0	0	0	0	0
Memorandum items:									
Oil production (in million barrels per day)	2.50	2.42	2.45	2.37	...	2.56	2.57	...	2.63
Oil price (in U.S. dollars per barrel) 3/	36.5	42.0	50.2	53.6	...	53.6	58.6	...	62.6
Petroleum Profit Tax	826	393	200	429	...	326	425	...	393
External debt service	227	53	53	53	...	53	783	...	979
State and local government non-oil primary balance	-1,117	-313	-684	-1,109	...	-1,106	-1,540	...	-1,625

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.
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 8. Nigeria: 2005 Structural Assessment Criteria and Benchmarks under the PSI program

	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	Observed
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	Observed
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	Observed
4	CBN to move from retail to wholesale auction system, as described in paragraph 4 of the Policy Statement.	End-February 2006	Observed
5	Completion and publicizing of draft report of the Nigeria EITI audit, as described in paragraph 5 of the Policy Statement.	End-December 2005	Not observed
6	Unbundling of NEPA by establishing successor companies (generation, transmission and distribution), as described in paragraph 5 of the Policy Statement.	End-December 2005	Observed
	Structural Benchmarks		
1	Continue publication of revenue allocation to the three tiers of Government.	Continuous	Observed
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	Observed
3	Submission of the Asset Management Company Bill to the National Assembly.	End-November 2005	Observed
4	Complete the audit of contractor arrears in excess of N1 billion	End-February 2006	Observed
5	Opening of the financial bids for the privatization of the State Telecommunications Company, NITEL	End-December 2005	Observed
6	Opening of financial bids for the concessioning of Tin Can Island port	End-December 2005	Observed
7	Opening of the financial bids for sale of Nicon Hilton Hotel	End-March 2006	Observed
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	Observed

March 30, 2006

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. The Policy Statement outlines our broad macroeconomic objectives and policies for 2006 and for the medium term. These policies are based on our National Economic Empowerment and Development Strategy (NEEDS), which was completed in 2004 and formally presented to the Executive Boards of the Fund and Bank in 2005.

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 Policy Statement proposes assessment criteria for review dates of end-June and end-December 2006 for the second and third reviews, expected to be conducted by October 31st 2006 and March 31st 2007 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,

/sgd/ /sgd/

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

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

The Second Phase of the Nigerian Economic Reform Program Under the Policy Support Instrument: Policy Statement by the Government of Nigeria

March 2006

This note represents the Government's policy statement on the second phase of Nigeria's Policy Support Instrument (PSI) following the conclusion of the First Review of the PSI by the IMF. It summarizes the outcome of the reforms in 2004 and 2005, the short- and medium-term objectives, as well as quantitative targets, structural benchmarks and assessment criteria.

1. **This is an update on the Policy Statement by the Government on the Policy Support Instrument (PSI) dated October 6 2005, which spelt out the Government's economic reform program covering macroeconomic, structural and anti-corruption issues. As agreed with the Fund, the first review is now being conducted (February 2006). Nigeria's reform program instituted by the Government of President Olusegun Obasanjo in 2003,** and couched within the framework of the country's home-grown program known as the National Economic Empowerment and Development Strategy (NEEDS) is designed to address the structural and institutional weaknesses of the economy, tackle corruption and overhaul public expenditure management. In order to provide an objective assessment of the implementation of the program, the Fund, at the invitation of the Government, has been monitoring the program since 2004 on a quarterly basis within the context of intensified surveillance.

2. **The broad goals of NEEDS are poverty reduction, wealth creation and employment generation through the development of an enabling environment in the form of** fiscal discipline through an oil price-based fiscal rule improved public expenditure management, better public procurement systems and better service delivery combined with more efficient revenue collection, tax reforms and customs reforms. This would provide a stable macroeconomic environment to enable the private sector play the lead role in spearheading economic growth. Similarly, the anti-corruption work of the Economic and Financial Crimes Commission (EFCC), and that of the Nigerian Extractive Industries Transparency Initiative (N-EITI) in auditing the oil and gas industry would address lapses in governance and transparency within that sector. Furthermore, ongoing reforms to the public service would bring about efficiency, just as market liberalization and privatization of key public enterprises is helping to improve our public finances and quality of service. Finally, with the completion of the banking consolidation exercise, the sale of foreign exchange is now to be conducted through a wholesale Dutch Auction System as against the retail system that prevailed hitherto.

3. **Significant progress has been made over the last two years in implementing the reforms, with increased macroeconomic stability and growth. In 2004,** real GDP grew by 6.1 percent, of which non-oil GDP rose by 7.4 percent (surpassing the target of 5 percent under NEEDS); the diligent implementation of the budget resulted in a consolidated fiscal surplus of about 10 percent of GDP; $5.9 billion was saved in the excess crude oil account;

and foreign reserves rose from about $7 billion to about $17 billion. The strong fiscal performance coupled with CBN proactive liquidity management led to the meeting of the monetary targets and the lowering of inflation. In 2005, the economy consolidated on the gains of 2004. Real GDP is estimated to have grown by 6.3 percent, with the non-oil sector growing at about 8 percent. It is estimated that a consolidated fiscal surplus of about 11 percent of GDP was recorded; the excess crude oil account increased by $5 billion and foreign reserves rose to $28 billion. Inflation, however, inched upward to 11.6 percent at end December 2005, reflecting the impact of the ongoing phasing out of petroleum product subsidy and the increased demand for Nigerian foodstuffs arising from the drought situation in neighboring countries. Broad money grew by about 16 percent (versus a target of 14-16 percent); 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 under 5 percent during this period while the inter-bank exchange rate practically converged with the official rate. On the basis of the above performance, the Government successfully negotiated a debt reduction deal with the Paris Club, resulting in a debt write-off of 60 percent of its external debt of $30.5 billion. The balance of $12.4 billion is being paid off with the savings from the saved excess crude oil revenue. Further, the Government invited international rating agencies (Fitch and Standard & Poor's) to undertake the first ever ratings for the country. Both came out with a BB- rating with stable outlook. All end-December 2005 quantitative targets under the PSI program were met and the Government undertook all structural measures agreed under the PSI. Going forward, the Government has set new targets as shown in Tables 1 and 2.

4. **The strategy under the 2006 budget, and in the medium term, is to build on the previous two and half years** 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 a continuation of the privatization exercise, including deregulation of key sectors, extending the reforms to the rest of the public sector and strengthening of trade facilitation (such as customs reform). The budgeting system will continue to be couched within the Medium-Term Expenditure Framework (MTEF) so as to ensure better planning, prioritization of projects, matching of expenditure to expected revenue inflows, etc. Going forward, the Government is laying increasing emphasis on employment generation, removing physical bottlenecks, which the private sector has identified as the single most constraining factor on its activities, promoting real sector activities (including through a more vigorous implementation of the local content policy), human capital development, and improved service delivery. The short and medium-term macroeconomic framework and financial policies remain as in the original PSI statement, as summarized below:

Short-Term Macroeconomic Policies

- Crude oil production is expected to rise from 2.4 Mb/d in 2005 to about 2.5 Mb/d in 2006.

- An oil price based fiscal rule will continue to underpin the budgeting process; the 2006 budget as passed by the National Assembly is based on $35 per barrel ($2/b higher than the level proposed by the Executive).[6]

- The preparation of the 2006 budget was done within the context of the MTEF; Line Ministries formulated their medium-term objectives in line with the NEEDS program and the MDGs so as to ensure overall consistency of policy for sectoral spending programs.

- The targeted primary expenditure of the Federal Government in 2006 is estimated at about 11 percent of GDP.

- Fiscal policy shall target a consolidated government non-oil primary deficit of 39.6 percent of non-oil GDP in 2006. Excess revenue on the crude oil account will continue to be saved. Present estimates, based on WEO oil price projections (of $60.50 per barrel average for Nigerian oil in 2006) and a $35 per barrel oil benchmark price, suggest that the balance on the account would rise to about $26 billion at end 2006.[7]

- Based on the above, the stock of international reserves is expected to rise to about $46 billion at end 2006 after taking account of the payment of the second tranche.[8]

- With continued prudent fiscal policy and a proactive monetary policy, inflation should decline to a single digit level in 2006, with the Central Bank of Nigeria (CBN) having adequate instruments for liquidity management, to enable it keep year-on-year broad money growth to the 15-17 percent range by end-December 2006. Aside from the use of treasury bills, other instruments include foreign exchange sales and more active open market operations to mop up excess liquidity.

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[6] We had cautioned in the original PSI that the National Assembly might raise the benchmark price, as is their prerogative. It should be pointed out that this was partly because of one-off expenditure items like the 2006 national census and preparations for the 2007 national elections.

[7] This takes into account the payment of US$7.58 billion already made to the Paris Club of creditors following the debt deal and of a projected exit payment of US$4.82 billion in 2006. It should be emphasized that these projections are based on the present WEO oil price profile, which is subject to large swings.

[8] 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.

- A real non-oil GDP growth rate in the range of 7-10 percent is being targeted by the Government for 2006.

- With all 36 States having developed their counterpart to the NEEDS program, the State Economic Empowerment and Development Strategy (SEEDS), Government strategy is focused at deepening the reforms to the level of sub-national Governments through a package of reforms to be implemented in 6 pilots States in the areas of public expenditure management, debt management, Public Procurement, tax reforms, and privatization. The passage of key legislation, such as the Fiscal responsibility bill and public procurement bill will help to underpin the reforms at the State level. Furthermore, the framework for the implementation of SEEDS is being developed by the National Planning Commission, paying particular attention to the attainment of the MDGs.

- The monetary program continues to be based on zero net lending to the Government by the CBN although 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 15-17 percent in 2006 consistent with the targeted non-oil GDP growth rate and inflation.

- The CBN will continue to use its minimum rediscount rate (MRR) as a signalling device for monetary policy, varying the rate in line with inflation and liquidity conditions.

- For a more effective supervision of the banking system following the conclusion of the first phase of the consolidation exercise, the CBN is to introduce by end-December 2006 a risk-based supervision system within the framework of Basel-II Accord.

- Institutionally, the CBN is being strengthened through an ambitious restructuring program to refocus it to deliver effectively on the conduct of monetary policy. For example, a new Monetary Policy Department has been created; the monetary policy implementation committee meets every other day and the Monetary Policy Committee (MPC) meets every quarter; the frequency of CBN analytical balance sheet has been increased from monthly to daily series to ensure effective liquidity management; deployment of five new IT solutions, including the electronic financial analysis and surveillance system (eFASS), RTG, Terminos 24 and ERP; etc.)

- The CBN has developed a liquidity forecasting framework, with assistance from the IMF, which it is using to strengthen its daily open market operations; it will continue to withdraw as needed public sector deposits from commercial banks.

- The move by CBN to a Wholesale Dutch Auction System in February 2006 is expected to lead to a convergence of the DAS and Inter-bank rates.

- To ensure effective clean notes policy in Nigeria, the CBN is embarking on three major reforms as follows:

- The CBN has taken over the Nigerian Security Printing and Minting (NSPM, Plc) and is restructuring it to be a world-class institution, with the target of stopping (by end-December 2006) the over US$100 million annual importation of finished bank notes into Nigeria, as well as position it to serve the rest of West Africa.

- The CBN is embarking on the restructuring of the four lower denominations (5, 10, 20, and 50 Naira) as well as issuing new coins (50kobo; N1; and N2) and there will be a currency exchange of these lower denominations by end December 2006. It is expected that the currency reforms would lead to at least 20 per cent reduction in the cost of currency issuance.

- Heavy investment in equipment and institution to process currency notes and also destroy dirty notes.

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.[9]

- The oil price based fiscal rule will continue to underpin the budgeting process; Government shall continue to target a benchmark oil price in 2007 and 2008 in the range of about $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.

- The monetary program in the medium term will continue as envisaged under the short term program with regard to broad monetary targets, and the Minimum Rediscount Rate (MRR); top priority will continue to be given to price stability.

[9] The figure may well be higher than these levels because of the coming onstream of the Bonga field in late 2005, and expected production from Erha. However, it should be noted that while these developments would affect overall real GDP, there will be no increase in Government revenue for a number of years because these projects are production sharing contracts (PSCs). Companies are allowed to recoup their entire costs before Government starts sharing in the profits.

5. **Structural reforms are being deepened**. Following on the success of 2005, ten enterprises are listed for privatization or concessioning in 2006 and early 2007, while the establishment of regulatory authorities for the relevant sectors to provide oversight functions for these sectors is continuing apace. The following enterprises are targeted for privatization:

- NITEL is being repackaged for a new offer following the very low bid received at the financial bid opening in December 2005. The financial bid opening took place as scheduled in December 2005, but the offers were below the reserve price, resulting in a decision to do another round of bidding.

- Following the unbundling of Power Holding Company of Nigeria (PHCN) into 18 successor companies and the setting up of a regulatory commission, arrangements are now underway to privatize 3 of the companies by 1Q 2007.

- The Port Harcourt refinery would be offered for sale, with the opening of the financial bid expected by June 2006.

- Eleven oil service companies will be offered for sale in 3Q 2006

- The IPO for Government's 49 percent of Transcorp Hilton Hotel (51 percent was already sold in 2005 to Transcorp), will take place in Q4 2006.

- The Le Meridien-Sofitel Hotels would be offered for sale in Q4 2006

- Six brick and clay companies would be offered for sale by end April 2006

- Following the successful concessioning of a number of seaports in 2005, the Central Railways Corporation will be concessioned in 2Q 2006, followed in 3Q 2006 by the concessioning of the Abuja Airport.

Other structural reforms

- Following the adoption of the five-band customs tariff in October 2005 under the Common External Tariff (CET) of the West African regional economic bloc, ECOWAS, the Government will now work towards reducing or eliminating the prohibition list (list of banned items) 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.

- The reform of the Nigeria Customs Service will be accelerated. The fast track window already created for large Importers/Exporters will be expanded to handle by December 2006 at least 40 percent of the trade (by value), with a view to reducing by half the average number of days it takes to clear goods from the ports.

- In order to strengthen the management of public accounts, the Government will computerize the Budget Office and Office of the Accountant General of the Federation (OAGF), and interconnect their operations with those of the Budget Monitoring and Price Intelligence Unit (BMPIU) and CBN in order to reinforce the Transaction Recording and Reporting System (TRRS). The TRRS will be made consistent with the proposed Integrated Financial Management System (IFMS) that is to be developed with World Bank support, and will be extended by September 2006 to other Ministries beyond the pilot MDAs.

- A Chart of Accounts has been developed by the Office of the Accountant General, and is currently being tested. This will come into full operation by end April 2006.

- Government will implement by August 2006 a tagging and tracking system for monitoring and evaluating spending of debt relief savings in MDG-related sectors.

- Government will produce quarterly reports of spending in MDG-related sectors (Health, Education, Power, Water, Roads and Agriculture) to cover Q1 and Q2 in the first instance.

- Following the conclusion of the audit of contractor arrears in February 2006, arrangements are now underway to pay off by end December 2006 all contractors that are owed up to N100 million. Bonds are to be issued by end August 2006 to cover 50 percent of the debt to half of the contractors owed over N100 million, while bonds for the remaining 50 percent will be issued bonds by end April 2007.

- A database of pension arrears and quantification of the amount of arrears will be ready by end September 2006. The arrears of 2005 will be cleared by end September 2006, while bonds will be issued by the same date for the pre-2005 arrears.

- The Debt Management Office (DMO) is to create by June 2006 a secondary market for bonds by establishing a primary dealer structure.

- Cost benefit analysis of the 20 largest projects are being undertaken, with a view to improving the quality of the portfolio.

- In order to promote investment, Government will establish, by June 2006, a one-stop shop for investors.

- The work of the Due Process Office in ensuring transparency and best practice in public procurement will continue, with steps taken to reduce by 50 percent the turnaround time for reviewing procurement documents. Government will finalize and issue a procurement manual by September 2006. The Public Procurement bill has been passed by the Senate, and is now awaiting passage by the House of Representatives. Once passed, implementation of the Bill, including the establishment of the Public Procurement Bureau, will be a key area of focus.

- The work of the Cash Management Committee, which is driving the implementation of the budget and ensuring improved public expenditure management, will continue.

- With the conclusion of the banking sector consolidation program by the CBN, and the revocation of the licences of the 14 banks that failed to meet the new capitalization threshold, depositors whose funds are trapped in the failed banks will be paid off when the banks are liquidated by the Nigerian Deposit Insurance Corporation (NDIC).

- The downstream oil market has been largely deregulated, and most of the subsidies phased out. However, some price support still remains because of the high level of international oil price (as with many other countries). Government has taken steps in the 2006 budget to explicitly reflect the price support in the budget, with all 3 tiers of government contributing to the petroleum support fund of N150 billion.

- The CBN launched a micro-finance policy on December 15 2005 to improve credit access to farmers and small entrepreneurs. Under the policy, Community banks are required to recapitalize from N5 million to N20 million within a time frame of 18 months.

- The Civil Service reforms are being broadened to cover the rest of the Civil Service. Government is to deepen the reform of the public sector; guidelines for restructuring of Ministries and parastatals have been adopted by the Federal Executive Council (FEC); the restructuring of an additional 5 key Ministries and Agencies is targeted by end 2006, which would bring the total number to eleven. 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. An Integrated Personnel and payroll Information System (IPPIS), to help monitor staffing numbers in the Service, is being introduced; full deployment will commence in September 2006.

- The restructuring of the Federal Inland Revenue Service (FIRS) is continuing. The Agency is to conduct by end December 2006 a nationwide taxpayer enumeration in preparation for introducing an automated tax administration system, which will include Individual Tax Identification Number (TIN). In a related context, Government will set up a tax policy unit in the Ministry of Finance by December 2006.

- In an effort to strengthen macroeconomic statistics, the National Bureau of Statistics (NBS), in collaboration with the CBN, has completed a survey towards developing a quarterly GDP database. It is also making arrangements to conduct 5 other surveys covering labour, capital inflows, manufacturing, and agriculture. In addition, economic, social and poverty-related data collection, processing and distribution will be improved.

- Strengthening and consolidation of the insurance sector, to be completed by end 2006.

Transparency and fight against corruption

- Following the release of the 1999-2004 interim financial audit report of the oil and gas sector initiated by the NEITI (structural assessment criterion), the final reports are expected by end March 2006. Going forward, NEITI plans to undertake an audit of the 2005 oil industry accounts, and also initiate quarterly audits for 2006.

- The publication of the revenue allocation to the 3 tiers of Government is being continued.

- The EFCC has continued to make progress in the fight against corruption, including arrest and prosecution of public officials and advance fee fraudsters; several convictions have also been secured. An anti-corruption survey covering at least six States is expected to begin by Q2 2006 (and running to end 2006), using an independent consultant. EFCC funding is being increased in order to make the Agency more effective.

- The Government expects to complete by June its work towards getting Nigeria delisted from the FATF list of non-compliant countries with the expectation that the FATF Secretariat will complete necessary work to remove the country from the list by this date. As part of this effort, the anti-terrorism law, which is in the National Assembly, is now expected to be passed in 2006.

6. **Steps are being taken to institutionalize the reforms.** Several Bills are either under consideration by the National Assembly or already passed into law, including the following:

- The Fiscal Responsibility Bill has made progress in the National Assembly. Present expectations are that it will be passed into law in Q3 2006. Meanwhile, Government will prepare by June 2006 an implementation manual/guideline in readiness for the enactment of the Fiscal Responsibility Act;

- The Public Procurement Bill has been passed by the Senate and awaiting passage by the House of Representatives; it is now expected that it would be passed into law in Q2 2006;

- The Tax Reform Bill is still making its way through the National Assembly, but there are indications that it will be passed also in Q2 2006; and

- The NEITI bill has been passed by the House of Representatives, and now awaiting passage by the Senate. It is expected that it would be passed by the Senate in Q2.

7. **Serious challenges remain, however, particularly in transmitting the benefits of the reforms to ordinary Nigerians.** The Government is keen to emphasize those areas of economic activity that will enable the benefits of the economic reforms to reach the Nigerian public, in the form of delivering the MDG targets (as also captured under the NEEDS program)—poverty reduction, wealth creation, employment generation, etc. This will entail

greater investment in physical and human infrastructure (education and health), productive activities, and a more vigorous pursuit of the indigenous participation agenda. This will enable the private sector to play the lead role as engine of growth. In this context, the Government is targeting an annual real GDP growth rate of about 7-10 percent (it is estimated that a 7 percent growth rate 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. Preparations for the second phase of the NEEDS program, targeting 2007-2011, will be launched soon.

8. **Nigeria concluded a debt deal with the Paris Club of Creditors in October 2005,** under which the country will be given a total discount equivalent to 60 percent of its external debt of about $30.5 billion after a comprehensive debt treatment and buy-back program that will result in a total exit from the Paris Club by around April 2006 after the conclusion of the PSI review. Payment of the balance of the debt of $12.4 billion is currently underway, with most of the required bilateral agreements already signed. As earlier indicated, $1 billion per annum in debt service payments (of which $750 million is from the Federal Government) that will no longer have to be made has been set aside for investment in MDG-related spending.

9. **Program monitoring.** The Government proposes a continuation of the quantitative assessment criteria for the next phase of the PSI program for an end-June 2006 review, and in the context 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 the Fund to continue with its monitoring of the program performance under the IMF's Policy Support Instrument. The expected second review date to assess the performance up to June will be no later than October 31st 2006.

10. **The Government reiterates its commitment to seek only concessional financing in the period ahead** to help finance any gap in its investment program. It believes that the implementation of Nigeria's home-grown program supported under the PSI and its financing, as described above, will go a long way in helping the country achieve the MDGs. It further renews its commitment not to request the use of IMF or PRGF resources in the course of implementation of its home-grown program.

Table 1. Nigeria: 2006 Quantitative Assessment Criteria and Indicative Targets

(In billions of naira, unless otherwise indicated)

	2005	2006			
		end-Mar.	end-Jun.	end-Sep.	end-Dec.
	Estimate	Indicative Targets	Assessment Criteria	Indicative Targets	Assessment Criteria
Federal government non-oil primary balance (floor) 1/	-799	-348	-647	-939	-1,252
Reserve money (ceiling)	759	784	800	810	820
Net foreign assets of the CBN (floor)	3,561	4,273	4,344	5,003	5,649
New non-concessional external debt by the public sector (ceiling) 2/	0	0	0	0	0
External arrears 2/	0	0	0	0	0
Memorandum items:					
Oil production (in million barrels per day)	2.63	2.52	2.52	2.52	2.52
Oil price (in U.S. dollars per barrel) 3/	62.6	60.5	60.5	60.5	60.5
Petroleum Profit Tax	393	497	493	489	485
External debt service	977	22	619	22	22
State and local government non-oil primary balance	-1,625	-365	-727	-1,091	-1,455

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.

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: 2006 Structural Benchmarks and Assessment Criteria under the PSI Program[1]

	Structural Assessment Criteria	**Expected date of achievement**
1	Federal Executive Council to adopt guidelines for the restructuring of at least five ministries and parastatals	End-June 2006
2	Publish the final Nigeria EITI 1999-2004 audit report.	End-June 2006
3	Debt Management Office to establish a primary dealer structure for treasury paper	End-June 2006
4	Establish one-stop shop for investors, as described in paragraph 5	End-June 2006
5	Introduce Integrated Personnel and Payroll Information System (IPPIS)	End-September 2006
6	Establish database of pensioners and estimate size of pension arrears	End-September 2006
7	FIRS to conduct nationwide taxpayer enumeration in preparation for introducing automated tax administration system, including TIN as set out in paragraph 5 of the statement	End-December 2006
8	The CBN to establish prudential standards for consolidated supervision and begin to supervise the banking groups on a consolidated basis	End-December 2006
	Structural Benchmarks	
1	Continue publication of revenue allocation to the three tiers of Government	Continuous
2	Financial bid opening of Port Harcourt and Kaduna refineries	End-June 2006
3	Opening of financial bids for the concessioning of Central Railways Corporation	End-June 2006
4	Opening of financial bids for the concessioning of the Federal Airport (Abuja)	End-September 2006
5	Produce quarterly report of spending in MDG-related sectors (Health, Education, Power, Water, Roads and Agriculture) to cover Q1 and Q2 in the first instance	End-September 2006
6	Finalize and issue Procurement Manual	End September 2006
7	Conduct transparency and anti-corruption survey in at least six pilot States	End-December 2006
8	Set up a tax policy unit in the Ministry of Finance	End-December 2006
9	Settle contractor arrears in cash for creditors with claim of up to N100 million and issue bonds to cover 50 percent of debts owed to larger creditors	End-December 2006
10	Continue reform of Nigeria Customs Service by expanding the operations of the Large Importers/Exporters Unit to handle at least 50 percent of the trade	End-December 2006

[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)

March 2006

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 March 2006.

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).[10] 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.[11] 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.

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

Nigeria: Relations with the Fund
(As of January 31, 2006)

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			
	2006	2007	2008	2009	2010
Principal					
Charges/Interest	5.03	5.13	5.15	5.13	5.13
Total	5.03	5.13	5.15	5.13	5.13

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. On February 20, 2006, the CBN executed its first auction under the new wholesale Dutch Auction System (DAS). The introduction of the wholesale DAS with free sale to the interbank market is an important step towards unification of the two major foreign exchange markets—the retail market for nonfinancial traders and investors and the interbank market. The naira also continues to be traded in two markets for small-scale cash transactions—the bureau de change market and the curb market. The introduction of the wholesale DAS also represents an important step toward accepting the obligations of Article VIII, sections 2, 3 and 4 of the IMF's Articles of Agreement, although the new system may still entail a multiple currency practice. A comprehensive assessment by MFD and LEG is now needed to identify the extent of remaining restrictions and multiple currency practices.

VIII. **Safeguards Assessment**

Under the Fund's safeguards assessment policy, the Central Bank of Nigeria (CBN) was subject to a full safeguards assessment with respect to the Stand-By Arrangement, which expired on October 31, 2001. The assessment, which included an on-site visit, was completed on November 28, 2001. The assessment concluded that vulnerabilities existed in the areas of financial reporting and legal structure of the Central Bank. Staff findings and proposed recommendations are reported in SM/02/361.

IX. **Article IV Consultation**

Executive Board endorsement of Nigeria's request for a Policy Support Instrument automatically placed Nigeria on the 24-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 (SM/05/227) was discussed by the Executive Board and the consultation concluded on July 18, 2005.

X. **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–February 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	December 5–15, 2001
MAE	FSAP	February 4–20, 2002
FAD	Public expenditure management	January 29–February 8
STA	Government finance statistics	February 28–March 13, 2002
FAD	Resident budget advisor	April 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
MFD	Banking consolidation and supervision, Currency reforms	September 1–13, 2005
MFD	Banking consolidation, monetary policy	November 9–22, 2005
STA	Money and banking statistics	January 26–February 8, 2006
MFD	Banking consolidation, monetary policy	February 27–March 10, 2006

XI. **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 government of President Olusegun Obasanjo has remained committed to the implementation of Nigeria's National Economic Empowerment and Development Strategy (NEEDS), a framework that includes a comprehensive program of reforms aimed at achieving economic and social transformation in Nigeria. This effort at the Federal level, working in parallel with the State Economic Empowerment and Development Strategy (SEEDS) of state governments has continued to improve the environment for development assistance and strengthen the framework for aid effectiveness.

2. In June 2005, the Board approved a World Bank/DFID Country Partnership Strategy (CPS) that was prepared in consultation with government, civil society, private sector and other development partners. This strategy, which will guide the Bank and UK DFID's assistance to Nigeria for the next four years (FY06 to FY09); supports 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.

3. The CPS aims to deepen engagement between the World Bank/DFID and Nigeria, through the commitment of more resources targeted towards accelerating growth and achieving the MDGs. This deeper engagement with Nigeria is justified by the improved policy environment and the importance of Nigeria for meeting the MDGs in Africa. The Bank and DFID will also be more selective in their engagement, concentrating assistance on supporting activities at the Federal level and in a set of lead states that are strongly committed to economic and governance reforms.

4. The implementation of the CPS is financed with an IDA envelope of US$500 million per year, for the first two years. This IDA allocation which was determined on the basis of the performance-based allocation (PBA) system is expected to increase if Nigeria's policy performance continues to improve.[12] UK-DFID is expected to increase its assistance to Nigeria to about £ 100 million in grant resources annually in the same period.

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[12] Indicative lending plans for the remaining two years of the CPS will be set at the time of mid-term review of the strategy in 2007.

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 (including the financial sector and public financial management, statistics), through collaboration on analytical work, and through joint technical assistance missions. The Bank staff is regularly invited to join IMF macroeconomic missions. The Bank's work and support to Government on key structural reform areas informs the PSI program

6. In 2005, the Bank and the IMF staff collaborated on a Debt Sustainability Analysis for Nigeria and prepared a Joint Staff Assessment Note on the NEEDS which was discussed by both the Boards of the World Bank and the IMF.

Lending activities

7. The World Bank's portfolio in Nigeria has continued to grow, rising from about US$1.2 billion in FY04 to about US$ 1.5 billion in FY05 and currently (FY06) valued at about $1.8 billion. As at March 2006 about US$527 million has been disbursed out of this total commitment, an almost 100 percent increase from the figure of March 2005. This significant improvement in disbursements follows the recent re-structuring of the portfolio, which increased simplification and flexibility in implementation processes.

8. The Bank's lending program in Nigeria comprises nineteen projects covering activities in various sectors of the economy: Health (19.5 percent), Education (7.7 percent), Transportation (7.3 percent), Energy and Mining (18.4 percent); Public Administration/Law (21.5 percent), Agriculture (3.8 percent); Water Supply and Sanitation (18.9 percent), Finance (1.3 percent), Industry and Trade (1.6 percent). The Bank has continued to mainstream cross-cutting issues like environment, HIV/AIDS, gender and conflict into its programs in Nigeria.

Non-lending activities

9. The World Bank is expanding its program of economic and sector analysis as part of its efforts to strengthen policy dialogue and raise the quality of its investment operations. The program has a strong focus on public expenditure management and is now also paying attention to competitiveness and growth, to understanding poverty and trends in the social sector. During the CPS period, new work will be started to broaden the knowledge base especially at the state level. Key analytical pieces include a Public Expenditure Management and Financial Accountability Report (FY06), a Country Economic Memorandum on Competitiveness and Growth (FY06), a Poverty Assessment (FY06), an Education Sector Review (FY06); an Agricultural Sector Review (FY06) and an Investment Climate Survey in a sample of states (FY07).

International Finance Corporation (IFC) activities

10. Nigeria remains IFC's largest commitment portfolio in Sub-Sahara Africa with US$414 million committed to various activities in the private sector. IFC's portfolio in the country represents approximately 25 percent of the Sub-Sahara Africa region's portfolio, having grown from US$143 million in 2001. While IFC continues to make direct investments in projects that will assist Nigeria diversify its economy from the oil sector, IFC has worked with the other donor agencies to encourage and support development of Micro, Small and Medium Enterprises (MSMEs) through a range to Technical Assistance initiatives. Key highlights of IFC activities in the various sectors of Nigeria include:

11. **Financial sector:** Over the past 5 years, IFC has disbursed over US$150 million to five Nigerian financial institutions. Besides providing long-term credit line (which is in short supply in the country), IFC recently signed on 5 Nigerian banks as issuing banks under the IFC Global Trade Finance Program. IFC's involvement in the sector has helped its portfolio banks strengthen their governance and risk management capabilities. Today, IFC's portfolio banks are considered to be among the best financial institutions in the country, and their success with IFC has created a bigger appetite for IFC financing in the market.

12. **General manufacturing services***:* Over the years, IFC under the African Enterprise Funds has invested in a variety of general manufacturing related projects and recently disbursed part of a long-term loan of US$75 million for the Obajana Cement Company. This is a green field cement plant south of Abuja with an annual capacity of 4.4 million tons. The Project also includes a 135MW power plant, a 92 KM natural gas pipeline, a water supply dam and other support facilities. The Project cost is estimated at US$870 million and IFC will be providing US$75 million long-term loan as well as Technical Assistance to support best practice in HIV/AIDS prevention and Environmental and Social development aspects.

13. **Health and education:** IFC recently approved a US$2.5 million investment a Socketworks to rollout ICT services to educational institutions, private companies and government agencies. The Nigerian Universities Commission has endorsed the Socketworks as the most suitable for Nigerian universities and the company has designed and deployed packaged software to help automate registration processes (student admissions and registration, course selection, etc.) that are currently implemented manually. Socketworks also provides connectivity and computer centers, which gives students needed computer literacy skills.

Advisory and technical assistance projects

14. **PEP Africa***:* As replacement to African Project Development Facility (APDF), the Private Enterprise Partnership (PEP) initiative designs and implements programs to support the development of the private sector in three areas: improving the investment climate, proactively identifying investment opportunities, and supporting SME development. Under PEP Africa, the leading projects include the Oil sector SME Linkages project in coordination

with INSOK from Norway and the Better Business Initiative to assist in improving the investment climate.

15. **Technical assistance in aviation**: IFC is the lead adviser to the Government for the privatization of Nigeria airports beginning with Abuja Airports. IFC is working on a mandate to privatize Abuja Airport, which became effective in February, 2005. The work involves a strategic review of the entire airport's sector and implementation of a privatization transaction of the Airport.

16. **Power sector:** A joint World Bank/IFC Energy Team is working with the Federal Government through its privatization agency (Bureau of Public Enterprise) on sector reform and strategies for privatization. IFC will also assist in discrete privatization roles on a demonstration project basis and will actively participate in the financing of electricity privatization projects. Currently, IFC is evaluating two such privatization projects: Geometric Power Limited, a 105MW gas fired power plant with an estimated project cost of US$120 million; and Negris Limited, a 30MW gas-fired power plant with an estimated project cost of US$25 million.

World Bank Institute activities (WBI)

17. Nigeria is a WBI Focus Country. The strategic entry points provided by the Country Partnership Strategy (CPS) include governance, accountability, and transparency where WBI contributes through its programs for the Media and Parliament, and through governance diagnostics. WBI also aims to strengthen levers for the future through programs in support of science & technology. Among other means, it does so by supporting the launch of the African Institute of Science and technology (AIST) and, more specifically, assisting AIST Secretariat in establishing business plans for the Nigerian and other three campuses.

18. As a result of the increasing WBI focus on Nigeria, FY05 saw the largest ever Nigerian participation in WBI programs (4,132 participants, the largest in Africa), due essentially to the very popular Youth program *Debate to Action* that seeks to facilitate youth understanding and involvement in poverty reduction and other development issues (2,445 participants). As in previous years, programs for journalists and newspaper editors and for MPs and parliamentary staff were among the most active in FY05. Other important programs for which WBI will continue to provide support under the new CPS include: Support for NEEDS Implementation and HIV/AIDS, and building capacity in Nigerian youth organizations in the context of the support for NEEDS/SEEDS implementation.

17. With only 12 percent of participants reached through videoconferencing, distance learning still does not play a significant role in Nigeria (the Global Distance Learning Network—GDLN center has still not yet been built). However, it is worth mentioning the significant increase in the number of Nigerian individuals who sign up for Web-based courses offered by WBI. In FY05, there were 264 such participants, mostly in economic literacy of civil society organizations, private sector development (PSD), poverty analysis, gender analysis, and public finance.

Multilateral Investment Guarantee Agency (MIGA)

18. 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 $120.6 million in gross exposure ($95 million in net exposure). The major stakes of MIGA in Nigeria has been in the telecommunication sector, where it has issued guarantees worth about $45 million for Ericsson's loan to Vee-Network GSM Nigeria for the installation, operation and maintenance of a country-wide mobile telephone network based on GSM technology. In consonance with the CPS, it is expected that MIGA will continue to support investors in the non-oil related sectors of the economy in Nigeria.

Nigeria: IDA Credit Portfolio

(As at March 15, 2006—US$ million)

Project ID	Project Name	Fiscal Year	Approved IDA Amount	Disbursed	Undisbursed
P063622	Fadama II	2003	100.0	31.4	69.0
P065301	Economic Mgt. Capacity Bldg.	2000	20.0	17.8	2.1
P069086	Comm.-Based Pov. Reduction	2000	60.0	65.4	2.6
P069892	Local Empowerment & Envir. Mgmt.	2003	70.0	12.8	63.5
P069901	Community-based Urban Dev.	2002	110.0	21.58.4	105.2
P070290	2nd Health Systems Dev.	2002	127.0	60.4	86.8
P070291	HIV/AIDS Program Dev.	2001	90.3	55.5	47.6
P070293	Privatization Support Project	2001	114.3	46.2	83.0
P071075	Urban Water Sector Reform I	2004	120.0	7.8	109.8
P071494	Universal Basic Education	2002	101.0	35.3	74.7
P072018	Transmission Development	2001	100.0	55.3	58.2
P0749963	Lagos Urban Transport Project	2002	100.0	41.3	68.6
P080295	Polio Eradication	2003	80.4	51.5	26.5
P083082	Mico, Small & Medium Enterprise	2003	32.0	1.9	30.3
P086716	Sustainable Mgt. of Mineral Resources	2004	120.0	7.5	107.6
P088150	Economic Reform and Governance	2004	140.0	12.5	140.2
P071391	Urban Water Sector Reform II	2005	200.0	2.7	188.6
P074447	State Governance and Capacity Building Project	2005	18.1	0.3	17.0
P090104	National Energy Development Project	2005	172.0	0.0	161.9
	Overall result		**1,875.1**	**527.1**	**1,424.7**

Nigeria: Proposed Lending Summary, FY2007/09

(as at February 28, 2006—in million of US dollars)

	Community and Social Development Project	200
	Malaria control and Booster Project	180
	State Education	50
FY 07	Aviation	30
	Rural Access and Mobility Project 1	40
	FADAMA 3	200
	State Governance 2	50
	Post Basic Education	150
Total		**900**
	HIV/AIDS	100
	State Education 2	100
	State Agriculture	100
FY 08	State Water (3)	100
	Infrastructure Guarantee	50
	State Governance	50
	Federal Roads	250
	Rural Access and Mobility P 2	50
Total		**800**
	Power project (3)	150
FY 08	Federal Roads 2	250
	State Education 3	100
	State Agriculture 2	100
	State Water (4)	100
	RAMP 3	50
	State Governance 4	50
Total		**800**

Nigeria: Proposed Non-Lending Summary, FY2007/09

(as at February 28, 2006)

FY 07	Community Based Poverty Reduction Implementation Completion Report (ICR) Universal Basic Education ICR HIV/AIDS ICR Polio Eradication ICR Economic Management and Capacity-building Project (EMCAP) ICR Education Sector Review – National level Fiscal Federalism Study Tourism study Country Assistance Strategy (CAS) progress report Donor conference IDF Financial Management IDF procurement reform
FY 08	Public Expenditure Review (PER) - Agriculture PER - infrastructure Agriculture Finance study
FY 09	CAS Donors' conference
On going **FY 07 – 08 - 09**	**On going FY 07 – 08 - 09** Country Economic Memorandum (CEM) - States Public Expenditure Management and Financial Accountability Review (PEMFAR) - States Education Sector Review - States Health Sector review - States Investment Climate Assessment - State Corruption and Governance Risks Assessment Natural Resources Management/Environmental Policy Dialogue Nigeria Extractive Industry Transparency Initiative (NEITI) Legal reforms—Technical Assistance (TA) Niger Delta Community Foundation Results Monitoring IDF Country Portfolio Performance Review (CPPR) Implementation support – M&E and PFMU Human Development Outcome Dialogue Non-oil Growth Outcome Dialogue Governance Outcome Dialogue Kaduna State Development Dialogue Cross River State Development Dialogue Enugu State Development Dialogue Lagos State Development Dialogue Kano State Development Dialogue Donor Harmonization Economic Monitoring Support to the National Assembly Civil Society Outreach Private Sector Outreach Communication Outreach and Academia

Nigeria: International Finance Corporation
Statement of IFC's Held and Disbursed Portfolio as of June 30, 2005

Nigeria	Sector	Fiscal Year In which Commitments were made	Total IFC	Total Syndications	Loans	Equity	Total Loans and Equity
			US$ millions				
Abuja International Diagnostic	Health Care	FY97	2.5	-	1.8	0.7	2.5
Accion Nigeria	Finance & Insurance	FY05	1.9	-	-	1.9	1.9
Adamac Industries Limited	Oil, gas, & Mining	FY03	25.0	15.0	25.0	-	25.0
African Reinsurance Corporation	Finance & Insurance	FY05	10.4	-	-	10.4	10.4
Andchristie Company Limited	Information	FY97	0.2	-	0.1	-	0.1
Ansbby Nigeria Limited	Chemicals	FY99	0.1	-	0.1	-	0.1
Arewa Textiles, Limited	Textiles, Apparel, & Leather	FY64, 67 70, 92	6.6	0.7	-	0.6	0.6
Capital Alliance Private Equity (Mauritius), Limited	Collective Investment Vehicles	FY00	7.5	-	-	7.5	7.5
Diamond Bank	Finance & Insurance	FY01,05	50.0	-	36.0	-	36.0
FSB International Bank	Finance & Insurance	FY01	22.5	-	17.1	-	17.1
First Securities Discount House	Finance & Insurance	FY93	0.9	-	-	0.9	0.9
Global Fabrics Manufacturers Ltd	Textiles, Apparel, & Leather	FY00	0.3	-	0.3	-	0.3
Guaranty Trust Bank	Finance & Insurance	FY0, 04, 05	60.0	-	50.0	-	50.0
Hercules Tyres Manufacturing Nig. Ltd.	Plastics & Rubber	FY00	1.3	-	1.3	-	1.3
Hygeia Nigeria Limited	Health Care	FY00	0.6	-	-	0.2	0.2
Ikeja Hotel Limited	Accommodation & Tourism	FY81, 85, 88	12.6	-	-	1.5	1.5
Investment Banking and Trust Co. Ltd.	Finance & Insurance	FY01	20.0	-	20.0	-	20.0
Mid-East Nigeria Limited	Nonmetalic Mineral	FY96	0.1	-	0.1	-	0.1
Niger Delta Contractor Revolving Credit Facility	Finance & Insurance	FY02	15.0	-	15.0	-	15.0
Obajana Cement Plc	Construction & Real Estate	FY05	75.0	-	75.0	-	75.0
Oha Motors (Nigeria) Limited	Transportation & Warehousing	FY01	0.9	-	0.8	-	0.8
Safety Center International Limited	Education Services	FY01	0.6	-	0.5	0.1	0.6
UPDC Hotels Limited	Accommodation & Tourism	FY04	11.0	-	11.0	-	11.0
Vinfessen Industries Limited	Plastics & Rubber	FY96	1.0	-	1.0	-	1.0
		Total *	**326.0**	**15.7**	**255.1**	**23.8**	**278.9**

*** This figure is as at June 30, 2005 and does not include recently approved and committed investments**

Statement by the IMF Staff Representative
April 17, 2006

1. This statement contains information that has become available since the staff report for the first review under the Policy Support Instrument was issued to the Board on April 3, 2006 (EBS/06/45). The thrust of the staff appraisal remains unchanged.

2. **Economic developments and policy implementation have continued the trend of the last quarter of 2005 during the first months of 2006.** International reserves rose to US$34 billion at end-February, while inflation stabilized at about 11 percent year-on-year. The exchange rate appreciated to 127.3 naira per U.S. dollar by early April from N129 at end-2005. Implementation of the authorities' fiscal and monetary programs was in line with program projections.

3. **Recent data show that crude oil production fell short by about 550,000 barrels per day on average in the past two months.** The authorities believe that it should be possible to bring this production back onstream, and they have so far not revised their estimates of oil production in 2006.

4. **In late March, the Central Bank of Nigeria (CBN) initiated a number of actions to reduce the spread between official and parallel foreign exchange markets.** In particular, in recognition that the recent increase in the spread was partly due to a reduction in supply of foreign exchange to the parallel market, the CBN now allows licensed bureaux de change to buy foreign exchange in the official market to supply to retail clients. On the demand side, some steps towards easing of administrative requirements and limits on currency purchases were also introduced.

5. **To underscore its commitment to more market-based implementation of its monetary program, the CBN has converted at market interest rates the December 2005 placement of freed bank reserves into treasury bonds.** Following an agreement with the Minister of Finance, the CBN used 91-day treasury bills at 6 percent to buy back the bonds.

6. **The final Nigeria EITI audit report for 1999-2004 was published on April 10, 2006, in compliance with an end-June 2006 structural assessment criterion under the PSI.** The report shows discrepancies between payments reported by international oil companies and receipts reported by the government, describes weaknesses in accounting and data management, and suggests that the government and oil companies continue their efforts to reconcile mutual accounts.

7. **The last three outstanding bilateral agreements with Paris Club creditors (Austria, Denmark, and Russia) have been signed.** Nigeria therefore stands ready to conclude the debt buy back operation agreed with its Paris Club creditors in October 2005.

8. **The 2007 budget formulation process has begun with the issuance of guidelines for the preparation of medium-term sector strategies (MTSS) in late March**. These guidelines extend the coverage of MTSS to line ministries representing about 80 percent of total line ministries' outlays.

Press Release No. 06/73
FOR IMMEDIATE RELEASE
April 17, 2006

International Monetary Fund
Washington, D.C. 20431 USA

IMF Executive Board Completes the First Review under the Policy Support Instrument for Nigeria

The Executive Board of the International Monetary Fund (IMF) today completed the first review under a two-year Policy Support Instrument (PSI) for Nigeria. The PSI was approved on October 17, 2005 (see Press Release No. 05/229).

The IMF's framework for PSIs is designed for low-income countries that may not need IMF financial assistance, but still seek close cooperation with the IMF in preparation and endorsement of their policy frameworks. PSI-supported programs are based on country-owned poverty reduction strategies adopted in a participatory process involving civil society and development partners. 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 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, made the following statement:

"The authorities are to be commended for Nigeria's performance under their program, which the Fund is supporting with a Policy Support Instrument (PSI). Strong macroeconomic performance and the implementation of an ambitious reform agenda are improving the environment for private sector growth and increasing investor confidence. Non-oil sector GDP growth has accelerated and inflationary pressures have subsided, while the reform efforts have also laid the foundation for a debt relief agreement between Nigeria and its Paris Club creditors, which will free up resources to address social and infrastructure needs. Looking ahead, the authorities are committed to continue the ambitious macroeconomic and structural policies to entrench macroeconomic stability, strengthen public financial management, and reduce the costs of doing business further.

"The 2006 budget envisages increased outlays in social areas and for major infrastructure projects, which will promote medium-term growth and help achieve the Millennium Development Goals, but will require careful public financial management, also at the state level. In this context, it will be important that safeguards are in place to ensure that fiscal targets are met and that the additional spending is well-focused. Meanwhile, adherence to the fiscal rule will ensure that all three tiers of government set aside oil revenue in excess of the reference oil price.

“Monetary policy is anchoring macroeconomic stability. Sales of foreign exchange through auctions and the issuance of CBN and Treasury bills play an important role in this regard, and the authorities are encouraged to increase the use of these indirect policy instruments and to allow greater exchange rate and interest rate flexibility to dampen inflationary pressures effectively.

“Substantial progress has been made in implementing the authorities structural agenda, including an ambitious bank consolidation, the liberalization of Nigeria’s import tariff regime, the introduction of a wholesale auction for foreign exchange, continued efforts to reduce corruption, and progress in restructuring and privatizing state-owned enterprises. The authorities will continue their strong structural agenda including by further efforts to remove impediments to growth, and by strengthening institutions through the passage of a Fiscal Responsibility Bill, a public sector and civil service reform, improved governance and transparency in the oil and gas sector, and the continued privatization or strengthening of state-owned enterprises,” Ms. Krueger said.

Statement by Peter J. Ngumbullu, Executive Director for Nigeria and Godwill Efiong Ukpong, Senior Advisor to Executive Director
April 17, 2006

Introduction

1. The Nigerian authorities express appreciation to the Executive Board and Management of the Fund for the continued engagement with the country and support for the authorities' comprehensive reform agenda. They also express gratitude to staff for preparing a balanced and informative report on the performance of the Nigerian economy, under the Policy Support Instrument (PSI). They note the analysis and comments in the staff report and agree broadly with the conclusions and recommendations therein.

Recent Macroeconomic Developments

2. The report indicates that since 2004, the authorities have made commendable progress in the implementation of their reform program, the National Economic Empowerment Development Strategy (NEEDS), which has been supported by a PSI arrangement from mid-2005. The successful implementation of the reform program, which covers many sectors and tackles deeply rooted systemic impediments to growth and poverty reduction, is yielding many positive and tangible results. These include the attainment of macroeconomic stability, consistent with the objectives of the program; increased non-oil GDP growth; enhanced public expenditure management; a strong international rating of the economy, associated with evolving conducive environment for private sector investment and high growth; and emergence of fewer, but stronger banks from a far reaching bank consolidation exercise undertaken by the authorities during the period.

3. In 2005, the economy consolidated the gains made during 2004 as it was dominated by strong growth and continued rise in gross international reserves. Real GDP grew by 7 percent, driven by non-oil sector growth of 8 percent. A consolidated fiscal surplus of about 12 percent of GDP was recorded, while foreign reserves rose by US $11 billion to $28 billion by end-December 2005. The end-December 2005 headline inflation, at 12 percent, reflected largely the impact of the phasing out of petroleum subsidy and the increased demand for food from Nigeria by drought-stricken neighboring countries. That level of inflation was, however, below the program target of 17-21 percent. Broad money grew by about 16 percent, relative to a target of 14-16 percent. On the foreign exchange market, prudent fiscal and tight monetary stance helped narrow the spread between official and inter-bank rates.

Performance Under the Program

4. Notwithstanding major challenges, including strong pressure to increase expenditure on pro-poor programs given pervasive poverty, weak infrastructure base, and the complexity of reform issues to be sorted out, the macroeconomic objectives under the PSI were achieved, with all end-December 2005 quantitative assessment criteria and benchmarks being met. Monetary targets under the PSI were also met, while progress in implementing the structural

reform agenda has been excellent, with all assessment criteria and benchmarks satisfied. However, one of the assessment criteria, namely, publicizing a completed audit report of the Nigerian Extractive Industries Transparency Initiative was met, with slight delay, as the period for publicizing coincided with end-of-year holidays during which most stake holders were away.

Fiscal Policy

5. The authorities ensured that fiscal development in 2005 were in line with the targets under the PSI-supported program. All three tiers of government adhered to the fiscal rule whereby oil revenue from prices higher than US $30 per barrel were set aside at the Central Bank of Nigeria (CBN), contributing to the increase in reserve build up by year end, even after making provision for about US $8 billion for the Paris Club debt relief agreement. The 2005 primary non-oil deficit of the Federal Government, at 39.6 percent of non-oil GDP, was to a considerable extent below the end-December assessment criterion of 41.4%.

Monetary and Financial Policies

6. As the economy faced the problem of excess liquidity up to mid 2005, the Central Bank adopted several measures to tighten liquidity in the second half of the year, including the issuance of its bills and treasury bills as well as additional sales of foreign exchange in special wholesale auctions. Additional steps, to enhance its liquidity management capacity, were taken by the Bank. Among these were the establishment of a Monetary Policy Department to improve liquidity forecasting, and a Monetary Policy Implementation Committee for timely implementation of monetary policy decisions taken by the Monetary Policy Committee. Tighter monetary policy and the easing of food shortages in neighboring countries largely contributed to headline inflation declining from 28 percent, year-on-year, in August to 12 percent in December 2005, well below the 17-21 percent range targeted in the PSI. The authorities' ambitious bank consolidation program, aimed at strengthening the financial sector, resulted in the emergence of 25 banks or banking groups accounting for 75 out of the original 89 banks, and 94 percent of the deposit share of the market, and for the rise in lending to the private sector during the year. The licenses of the 14 banks, which did not meet the new capital requirement of N25 billion at end –December 2005, have been revoked, while the authorities are exploring ways of expediting payment of their depositors.

Structural Reforms

7. Effective and sustained implementation of structural reforms by the authorities have enhanced economic efficiency and improved the business climate. Reforms implemented, which have been in line with the NEEDS and the authorities' commitment under the PSI, include the liberalization of the external trade regime (Staff report Box 1), privatization (Box 2), and improvement in governance (Box 3). The rationalization of the tariff regime (in line with ECOWAS External Tariff requirements), the speed and extent of privatization of public enterprises, and the anti-corruption stance of the government, including high profile convictions secured by the Economic and Financial Crimes Commission, have combined to create a conducive business environment and improvement of investor confidence. This is

evidenced by the BB- rating that two major international rating agencies (Fitch and Standard & Poor) awarded Nigeria in early 2006.

Macroeconomic Policies for 2006 and the Medium Term

8. The primary objectives of the economic reform program, as laid out by the authorities in their Policy Statement (Appendix 1), include entrenching macroeconomic stability, strengthening public finance management, and reducing the cost of doing business in Nigeria. While these economic reforms have induced high growth in recent years, especially since 2004, the authorities still face the challenge of achieving a significantly higher level of growth if the MDGs are to be met. A real non-oil GDP growth rate in the range of 7-10 percent is, therefore, being targeted by the Federal Government for 2006, and 5-6 percent real growth (lower bound) over the medium term. The lower-bound targets (of the authorities) cited by staff take into account some developments the authorities are closely monitoring, including occasional disturbances in the Niger Delta Region of the country. The medium-term outlook for the oil sector is, however, favorable, and the exploration of new off-shore oil fields and continued high prices are expected to boost output.

9. As regards inflation, the CBN is implementing a monetary policy framework aimed at lowering inflation to single-digit levels in 2006 and beyond. The Bank will continue to pursue a money-targeting approach to control inflation, while putting in place the instruments needed to move to inflation targeting over the long term.

Fiscal Policy

10. The 2006 Federal Government budget implies a consolidated government non-oil primary deficit on a cash basis of 39.6 percent of non-oil GDP. This reflects modest scaling up of outlays in the social sector and on major infrastructure to promote medium-term growth and reach the MDGs. Relative to the 2005 outturn, the 2006 fiscal program still entails fiscal tightening, especially when implicit and explicit fuel subsidies are taken into account (a 3-percentage points of non-oil GDP reduction). The authorities see the need for ensuring that any additional spending is well-focused and they expect their continued and improved public financial management to address that concern. In this regard, they are strengthening capacity in budget preparation and reporting (Box 5) and auditing the stock of contractors’ arrears with a view to effecting payment.

Monetary and Financial Policies

11. The authorities’ monetary program for 2006 will broadly keep money growth closely aligned with projected nominal non-oil GDP growth, at 17 percent. The recent unification of the official foreign exchange auction system with interbank market for foreign exchange is enhancing the effectiveness of foreign exchange interventions as a monetary policy tool going forward (Box 4). The CBN is encouraging domestic banks to forge partnerships with foreign banks to acquire experience in the management of international reserves and become global players in this regard. Risk-based supervision is being introduced to ensure soundness of banks and the financial system, following the recent successful bank consolidation.

Structural Reforms

12. The authorities' structural reforms agenda seeks not only to improve the business environment, but also to promote private investment, and create employment, especially in the non-oil sector. In this connection, a major overhaul of tax policy and administration is being undertaken, including reform of the tax system as a whole, and restructuring of the Federal Inland Revenue Service, with TA from FAD. A legislation being considered by the National Assembly is aimed at strengthening inter-agency coordination for oil-revenue collection, simplifying and harmonizing tax procedures and enhancing FIRS auditing powers. Other legislations, awaiting passage, and intended to entrench the reform agenda, cover many areas, including Public institutions, civil service, the Nigerian Customs Service, and Privatization. Reforms in the areas of trade, public finance management, procurement, due process and the fight against corruption are now being extended to States.

Conclusion

13. The entrenchment and ringfencing of the key reforms undertaken is considered to be of paramount importance by the authorities in view of forthcoming National elections in 2007. As pointed out in the staff report, they remain confident that any risks to the reform program can be managed and they are fully committed to implementation of the reform program under the PSI arrangement, with the newly agreed assessment criteria and structural benchmarks. They, therefore, urge the Executive Board to consider and grant waiver for the nonobservance of the end-December 2005 structural assessment criterion on publicizing a draft report on the Nigerian EITI audit and approve completion of the first review under the PSI arrangement. It is anticipated that the Fund and the international community will continue to support Nigeria in its reform agenda necessary for creating a conducive environment for higher growth, poverty reduction and for achieving the MDGs.