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Nigeria: Second Review Under the Policy Support Instrument—Staff Report;Press Release on the Executive Board Discussion; and Statement by the Executive Director for Nigeria

In the context of the second 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 Second Review Under the Policy Support Instrument, prepared by a staff team of the IMF, following discussions that ended on November 10, 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 December 5, 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 Press Release summarizing the views of the Executive Board as expressed during its December 20, 2006 discussion of the staff report that completed the review; and

- 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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INTERNATIONAL MONETARY FUND

NIGERIA

Second Review Under the Policy Support Instrument

Prepared by the African Department

Approved by Siddharth Tiwari and Carlo Cottarelli

December 5, 2006

Second review. All assessment criteria through end-September were met except for one civil service–related measure. Remedial measures have prevented the civil service reform program from being compromised. Four structural benchmarks, including two privatizations, were delayed.

Program Focus. Against the backdrop of improved macroeconomic performance and large oil wealth, focus is on achieving the Millennium Development Goals (MDGs) including through increased infrastructure spending. Targeted spending in the Niger Delta could help restore stability and boost Nigeria's economic growth. To accommodate these infrastructure projects, the fiscal stance incorporates greater spending than envisaged in the original Policy Support Instrument (PSI). Risks to the reform efforts arise from the April 2007 presidential, parliamentary, and gubernatorial elections, which could intensify spending pressures. More generally, managing the macroeconomic impact of the higher spending while ensuring the quality of spending is the main challenge.

Staff discussions. Staff held discussions in Abuja August 27–September 7, 2006 and November 8-10, 2006. The mission met with Mrs. Usman, Minister of Finance; Professor Soludo, Central Bank Governor; Dr. Ogbu, Economic Advisor to the President; and other government officials. The staff team comprised Mr. Nellor (Head), Ms. Murgasova, Ms. Roehler and Mr. Steinberg (all AFR); Mr. Villafuerte (FAD); Mr. Kelmanson (PDR); and Mr. Bell (Senior Resident Representative). Mr. Ukpong (Senior Advisor to the Executive Director) attended the discussions. Staff worked closely with the World Bank's Nigeria team.

Fund relations. Nigeria has no outstanding purchases with the Fund. Its exchange rate regime is a managed float with no preannounced target. The official exchange rate has remained broadly stable during 2006, reflecting a sizable increase in reserves. Meanwhile, the parallel market rate has appreciated substantially. Nigeria recently made further progress toward accepting Article VIII: It introduced a wholesale Dutch Auction System and measures that helped narrow the spread between the official and parallel market rates. The PSI was approved on October 17, 2005, and the first review was completed on April 17, 2006.

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Executive Summary

Performance under the PSI has been satisfactory. All assessment criteria through end-September were met except for a structural assessment criterion on civil service reform (owing to system-procurement delays). Four structural benchmarks, including two on privatization, were delayed.

The fiscal program for the rest of 2006 and for 2007 includes larger-than-envisaged infrastructure spending, focusing on the power, gas, and transportation sectors. Higher capital spending would ease infrastructure bottlenecks that hamper medium-term growth prospects, and could help restore stability in the Niger Delta. The spending increase is being accommodated through a modification of the fiscal stance compared to the original PSI. The 2007 consolidated government stance (measured by the non-oil primary balance less the import content of the large-infrastructure projects—the proxy domestic primary balance), is similar to that in 2005 and 2006.

The macroeconomic impact of the additional capital spending will need to be managed carefully. Core inflation remained above 10 percent in 2006; thus achieving the authorities' objective of single-digit inflation without unduly crowding out private sector credit will be a challenge. The high import content of infrastructure spending, however, should help mitigate inflationary pressures. A new interagency liquidity assessment group designed to improve liquidity forecasting should allow the Central Bank of Nigeria (CBN) to react quickly to liquidity pressures and to maintain the programmed tight reserve money path through increased foreign exchange and domestic asset sales.

The authorities should ensure that higher spending does not erode Nigeria's wealth. To help meet this challenge, medium-term budget planning, public financial management, and project evaluation need to be strengthened. In addition, a comprehensive debt- and asset-management strategy needs to be developed. Nonconcessional borrowing should be avoided. The authorities are looking to develop a set of principles and guidelines on the use of oil savings, and to ensure value for money for large infrastructure projects.

The elections, budget negotiations, and the pursuit of large-scale investment projects could give rise to additional spending and jeopardize the proposed 2007 fiscal stance. Spending pressures could emerge not only in the run-up to the elections, but also after the elections if policy priorities change. The authorities' commitment to stay within the targets is reassuring.

The authorities' ambitious structural agenda for the remainder of the PSI includes continuation of the civil service reform and privatization, as well as efforts to advance legislation that would institutionalize past reforms.

Staff recommends completion of the second review and modification of the year-end 2006 assessment criteria. Given the program risks, the authorities must remain vigilant to keep spending in line with commitments.

I. Sustaining Reforms in a Difficult Policy Environment

1. **Nigeria's reform program has laid the groundwork for a significant break from the past.** The reforms, which are based on the National Economic Empowerment and Development Strategy (NEEDS), have resulted in several positive outcomes, including:

- ***Faster growth.*** GDP growth and increases in per capita income have doubled in the last five years compared with the previous two decades.

- ***Improved macroeconomic indicators.*** Headline inflation declined to single digits in 2006, and the parallel and official exchange rates have converged, reflecting the unification of foreign exchange markets.

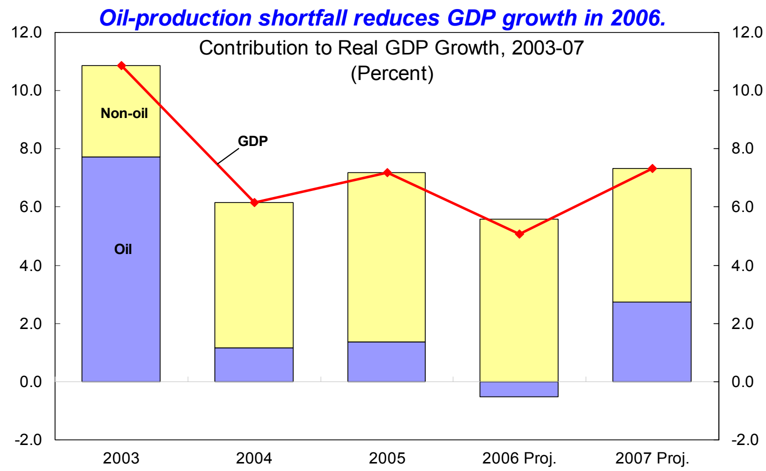
- ***A stronger external position.*** Reserves rose to US$41½ billion in October 2006 from just US$7 billion in 2003, despite the repayment of US$12½ billion to Paris Club creditors. The ratio of external debt to GDP is projected to fall to only 3 percent at end-2006, compared with an average of more than 60 percent in the 1990s, reflecting also the repayment of a portion of London Club debt in November 2006. Debt-service savings are being directed to poverty reduction programs.

2. **Performance under the PSI, which has supported Nigeria's program since mid-2005, has been positive.** Following the completion of the first review and the conclusion of the Paris Club debt relief, the authorities have maintained their commitment to the reform agenda. Regarding the assessment criteria through end-September, only the structural criterion on the Integrated Personnel and Payroll Information System (IPPIS) has not been met. To address system procurement delays, the authorities have adopted a new management structure, and the IPPIS is now expected to be introduced in the first half of 2007. Thus, the overall civil service reform program has not been compromised. Four structural benchmarks, two related to privatization, were also delayed (Sections IV and V).

3. **The authorities' program for the remainder of 2006 and 2007 aims to balance spending needs (Section II) against efforts to contain inflation (Section III) and to safeguard Nigeria's wealth (Section IV).** Moreover, the authorities remain committed to institutionalizing structural reforms before the administration's term expires (Section V).

4. **Nevertheless, the ongoing conflict in the Niger Delta and upcoming elections pose policy challenges.**

- ***The government is working to restore stability in the Niger Delta.*** Owing to oil production shortfalls, staff expects growth to fall to about 5 percent in 2006 and export earnings will likely be about US$4 billion lower than staff projections at the first review. Assuming Niger Delta production is restored in mid-2007, growth could reach about 7½ percent.[1]



Sources: Nigerian authorities, and Fund staff projections.

Growth and Export Implications of Oil Sector Developments, 2006-07

	2006 Proj.	2007 Proj.
Total real GDP growth (annual percentage change)		
I. Current projection: oil production recovers in Q2 2007	5.1	7.3
II. Low case scenario: oil production shortfall persists through 2007	5.1	6.2
Total export loss relative to full production ($ billions)		
I. Current projection: oil production recovers in Q2 2007	4.0	1.8
II. Low case scenario: oil production shortfall persists through 2007	4.0	4.5

Sources: Nigerian authorities and Fund staff estimates.

- ***The April 2007 presidential, parliamentary, and gubernatorial elections could intensify spending pressures.*** The authorities' cancellation of the 2006 supplementary budget, which would have been executed mostly in 2007, is a welcome sign of fiscal resolve; however, additional spending on power projects in 2006 has increased this year's consolidated fiscal envelope. Building National Assembly support for the proposed prudent 2007 budget will be challenging, and calls for expanding the fiscal envelope need to be resisted by both the outgoing and incoming governments in order to safeguard macrostability.

[1] The authorities have reestimated the GDP time series based on new data sources and methodological changes reflecting their efforts to implement SNA 1993. The staff is discussing these changes with the authorities, and plans to adopt a revised GDP time series at the time of the next Article IV. The revisions mainly increase the level of non-oil GDP, resulting in a higher share of non-oil GDP in total GDP, but growth rates are broadly unchanged. Using the authorities' weights, overall real GDP growth would be 5.8 percent in 2006, and 7.1 percent in 2007. The authorities' policy statement (Appendix I) reports GDP estimates according to the revised methodology.

II. Spending to Close the Infrastructure Gap

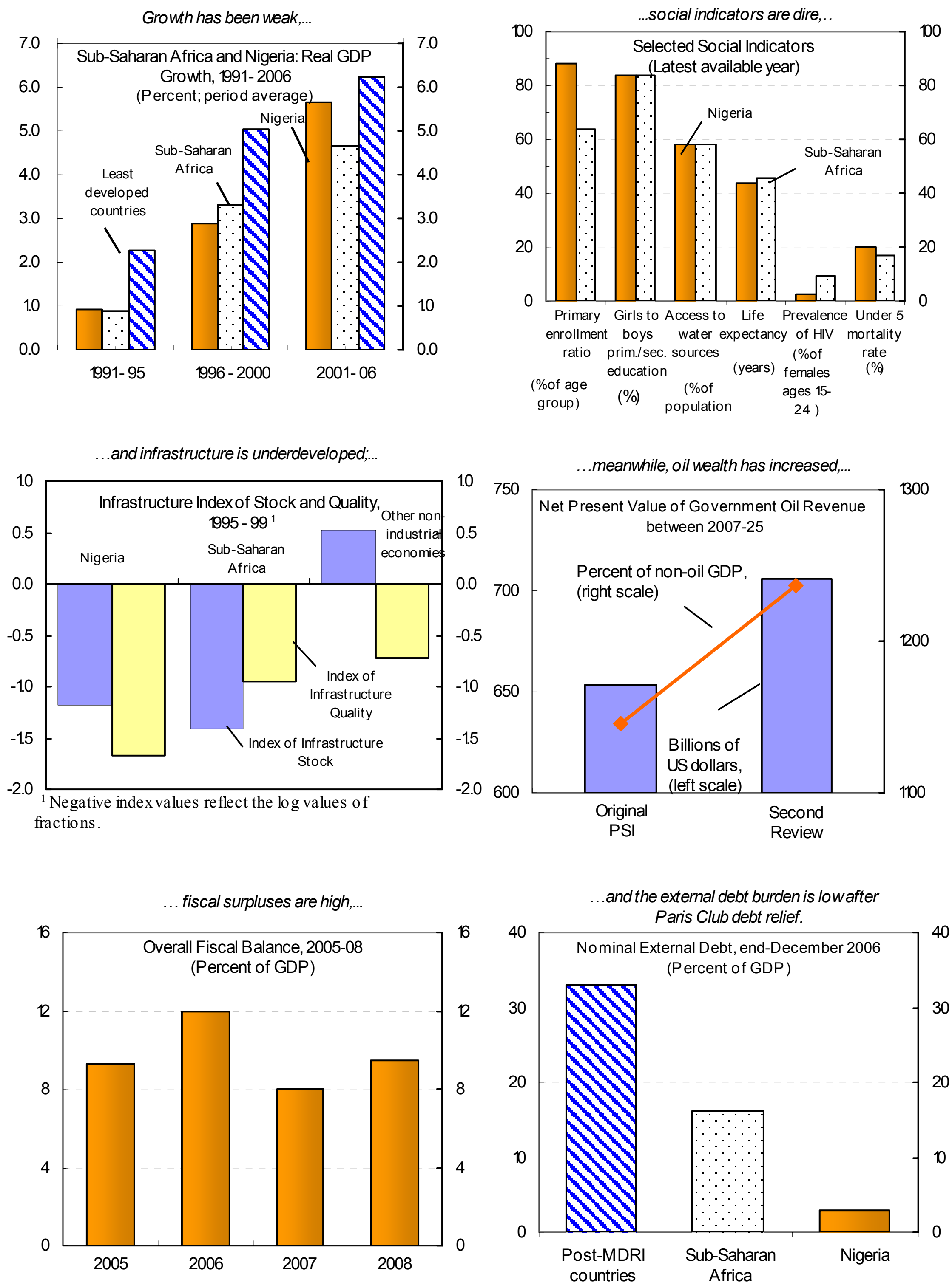
5. **The authorities' growth and poverty reduction policies are consistent with its increased oil wealth.** Growth, which has been weaker than in other less-developed countries (Figure 1), would benefit from significant infrastructure spending (Box 1). The authorities could finance this by drawing on the country's higher oil wealth, which increased by 91 percent of non-oil GDP in net present value terms over the past year (Table 8). Although large overall fiscal surpluses and low public debt should protect fiscal sustainability (Appendix IV), greater spending must have a sufficiently high import content to safeguard the single-digit inflation objective and to avoid crowding out of non-oil private sector activity. In light of the high levels of capital spending, strengthening of the initially weak public financial management practices is imperative to avoid the wasteful spending associated with past oil booms.

6. **The authorities accelerated capital spending, particularly on power plants, in 2006.** This spending reflects the authorities' efforts to address pressing infrastructure needs, and was made possible in part by improvements in budget implementation. The consolidated government non-oil primary balance is thus expected to increase to 42 percent of non-oil GDP in 2006 (from the 39½ percent envisaged at the first review). Given the purpose of the additional spending—to eliminate infrastructure bottlenecks and attract greater private investment—and its high import content, the staff recommends modifying the PSI's end-2006 fiscal target. Nonetheless, the authorities must be vigilant to ensure that spending is productive.

- ***At the federal government level, the period for executing 2005 capital warrants was extended through June 2006 to allow pending projects to be completed.*** The June fiscal assessment criterion, however, was still met, as the higher-than-programmed carryover from the 2005 budget was more than offset by spending delays linked to public sector reforms and the explicit fuel subsidy. Clearance of contractual and pension arrears (estimated at 2¾ percent of non-oil GDP) is proceeding, and the 2006 capital budget is being implemented on schedule, partly reflecting improved capacity at the Budget Monitoring and Price Intelligence Unit (BMPIU). To accommodate higher-than-envisaged capital spending for the year, the staff recommends increasing the end-December 2006 assessment criterion on the non-oil primary deficit of the federal government by ⅞ percent of non-oil GDP.

- ***At the consolidated government level, the authorities have expanded the scope of the extrabudgetary National Integrated Power Project (NIPP) by 2½ percent of non-oil GDP,*** consistent with the World Bank's recommendation to complement increased power generation with enhanced transmission and distribution. The investment is expected to boost private sector growth in the medium term and should have limited macroeconomic effects in the short term.

Figure 1. Spending Needs and Wealth



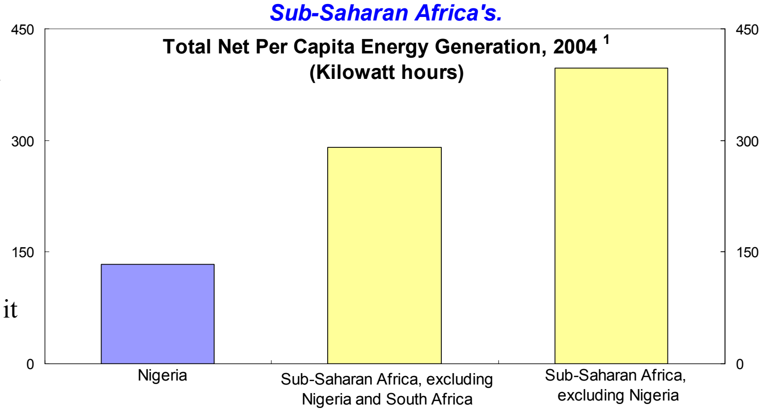
Sources: Nigerian authorities, Fund staff estimates and projections, and Calderon and Servén, 2004, "*The Effects of Infrastructure Development on Growth and Income Distribution,*" Policy Research Working Paper Series 3400, World Bank.

Box 1. The Infrastructure Gap

World Bank growth diagnostics recognize that lack of infrastructure impedes private sector development.[1] Improvements to the quality and stock of infrastructure would likely boost Nigeria's long-run growth rate.[2] The main focus of public investment is on electricity, roads, railways, and waterways.

Electricity. Current effective power generation, less than MW 3,000, is only about a third of estimated demand and less than half of the installed generation capacity. Owing to frequent power outages, manufacturers use oil-based generation to meet 70 percent of their power needs at a cost of N35 per Kwh (versus normal tariffs of N6.5 to N8.5 per Kwh). Planned investment projects, which include expanding the transmission and distribution infrastructure, are expected to triple generation capacity by 2008 and quintuple it by 2010. The government's National Integrated Power Project is expected to contribute about 4,500 MW of the increased capacity at a total cost of US$4.1 billion in 2005–07. The authorities are also allocating US$1.7 billion for four plants owned by the Power Holding Company of Nigeria (PHCN), and US$3.2 billion for a hydroelectric plant in Mambila.

Nigeria's electricity generation falls short of Sub-Saharan Africa's.



Sources: Energy Information Administration, *International Energy Annual 2004;* and IMF, *African Department database.*

[1] Total net electricity generation = net conventional thermal electricity generation + net hydroelectric power generation + net nuclear electric power generation + net geothermal, solar, wind, and wood and waste electric power generation.

Roads. The road network is limited and in poor condition. Only 31 percent is paved. The construction of the East-West Highway in the Niger Delta is the top priority.

Railroads. The upgrading and commercialization of Nigeria's three major railroads targets lower transportation costs. China is expected to participate in and partly finance through a loan the full reconstruction of the Western railway into a double-track standard-gauge line (at a total cost of US$8.5 billion). The Central Railway was recently concessioned, and discussions for improving the Eastern Railway are also underway.

Waterways. The dredging of the Niger River, combined with the construction of ports and jetties, aims to ease the transportation of both goods, especially agricultural, and passengers.

The authorities see a role for both the private and public sectors in addressing the infrastructure deficit. Restructuring of parastatals and government agencies into commercial entities, improvements to the legal framework, concessioning, and privatization have paved the way for stronger private sector participation in many areas. Nevertheless, some private sector involvement (e.g., in the power sector) will likely proceed only with government guarantees.

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[1] "*Nigeria: Competitiveness and Growth,*" June 2006, The World Bank.

[2] Calderon and Servén, 2004, "*The Effects of Infrastructure Development on Growth and Income Distribution,*" Policy Research Working Paper Series 3400, World Bank.

7. **The authorities' 2007 fiscal program balances spending priorities against efforts to sustain low inflation and preserve wealth.** Additional spending on power, roads, and transportation will be incorporated into the federal government 2007 budget and offset in part by reprioritization and scaled-back spending elsewhere. These infrastructure projects aim to help stabilize the Niger Delta, a development that could boost both Nigeria's economic growth as well as international oil supplies, and crowd in private sector investment. In addition, the president in his budget speech announced infrastructure projects in power, transportation and gas sectors worth $37 billion (55 percent of 2007 non-oil GDP) to be executed over the next three to four years. These outlays would be extra-budgetary and would be financed from the oil savings account (excess crude) that belongs to all levels of government. Based on discussions with the authorities and international experience with large projects, the fiscal program incorporates a longer and more realistic execution profile for these projects. The federal government financing from the excess crude account for the large-infrastructure projects consistent with the fiscal program is expected to be approved by the National Assembly in 2006.

- ***The 2007 consolidated government stance, as measured by the proxy domestic primary balance, would be similar to that in both 2005 and 2006.*** In recent years, the application of a reference oil price has been essential for preventing large spending increases in the face of rising oil prices. Similarly, a budgeted reference oil price of US$40 per barrel for all government levels in 2007 (compared with US$35 in 2006) would keep the non-oil primary deficit of the consolidated government (excluding the fuel subsidy) around 40 percent of non-oil GDP.[2,3] The planned 2007 deficit would be lower than in 2006, reflecting the commitment to rein in the capital spending carried over from the 2006 budget.

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[2] The increase in reference oil price is broadly in line with the five-year moving average proposed in the draft Fiscal Responsibility Bill. In recent years, the Nigerian oil reference price has been lower than that of other oil producers. The Nigerian oil reference price for the 2006 budget was 51 percent of the actual market price, compared to an average of 62 percent of the market price in a sample of 19 oil-producing countries.

[3] This implies an increase of 2¼ percentage points of non-oil GDP compared with the 2007 program approved in the first review.

Impact of Large Infrastructure Projects on the Consolidated Government Non-oil Primary Balance
(Billions of naira, unless otherwise indicated)

	2005	2006	2007	2008	2009
Balance excluding all projects	-2,373	-2,773	-3,080	-3,648	-4,202
(as a percent of non-oil GDP)	*-38.1*	*-38.0*	*-36.0*	*-37.0*	*-37.0*
Balance with projects	-2,423	-3,069	-3,424	-4,019	-4,607
(as a percent of non-oil GDP)	*-38.9*	*-42.0*	*-40.0*	*-40.8*	*-40.6*
Projects	50	296	344	371	405
Rail project	0	0	64	163	217
Power projects	50	296	280	208	188
NIPP	50	270	204	0	0
Mambila	0	26	76	122	102
PHCN plants (combined cycle)	0	0	0	86	86
Balance with domestic content of projects only	-2,383	-2,833	-3,155	-3,739	-4,304
(as a percent of non-oil GDP)	*-38.3*	*-38.8*	*-36.9*	*-37.9*	*-37.9*
Domestic content of projects	10	59	75	91	103
Rail project (30 percent)	0	0	19	49	65
Power projects (20 percent)	10	59	56	42	38
Non-oil GDP	6,223	7,305	8,549	9,859	11,356

Sources: Nigerian authorities and Fund staff estimates.

- ***Increasing fuel prices and limiting the fuel subsidy for 2007 to 1¼ percent of non-oil GDP will improve the allocation of economic resources.*** Despite the political pressures associated with the upcoming elections the government has decided to increase fuel prices in early 2007. The 2007 budget will allocate an additional 1¼ percent of non-oil GDP to finance fuel subsidies accrued in 2006. The authorities should develop a medium-term strategy to curtail future fuel subsidies.

- ***The fuel price increase and rationalization of other spending will open room for a shift in expenditures.*** Besides priority projects, the added room will accommodate the higher state and local government spending implied by the oil revenue sharing mechanism. The budget also accommodates a 15 percent general civil service wage increase—the first in several years—which is also expected to enhance the attractiveness of the civil service for skilled staff.

8. **The elections, budget negotiations, and the pursuit of large-scale investments could jeopardize the proposed prudent fiscal stance in 2007.** Spending pressures in the run-up to the elections, the final budgetary envelope for 2007 adopted by the National Assembly, as well as a potential shift in priorities after the elections, are factors that could strain current plans. Moreover, Nigeria's debt position would worsen by proceeding with plans to finance a large-scale railway investment with a nonconcessional loan.

Consolidated Government, 2005-07
(Percent of GDP, unless otherwise indicated)

	2005	2006		2007
	Prel.	Prog.	Est.	Proj.
Total revenue	43.5	48.5	45.4	46.2
Oil and gas revenue	36.8	42.0	38.9	39.2
Non-oil revenue	6.7	6.6	6.5	6.9
Total consolidated expenditure	32.8	32.1	33.5	38.2
Total federal government and statutory funds	17.2	16.7	16.8	20.9
State and local governments	15.2	13.7	13.7	14.1
Large-scale infrastructure projects	0.4	0.7	2.0	2.1
Explicit fuel subsidy	...	1.0	1.0	1.2
Overall balance (cash basis)	10.7	16.4	11.9	8.0
Non-oil primary balance (excl. fuel subsidy, % of non-oil GDP)	-38.9	-39.6	-42.0	-40.0

Sources: Nigerian authorities and Fund staff estimates.

III. Balancing Spending Needs with Macroeconomic Stability

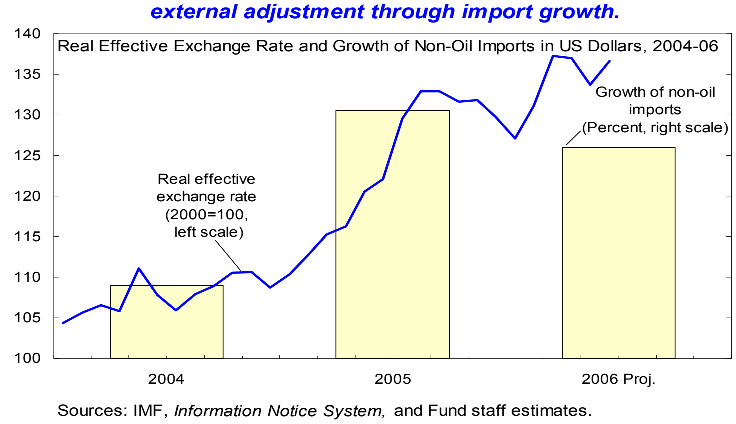
9. **The economic environment improved in 2006, suggesting that Nigeria's current fiscal stance has not jeopardized macroeconomic stability.**

- ***Headline CPI inflation fell to single digits and core inflation stabilized.*** The decline in headline inflation has largely been driven by supply factors: falling food price inflation was not fully offset by a rapid rise in energy prices. After reaching a low of 3 percent in July, year-on-year headline inflation was 6 percent in September, compared with 12 percent at end-2005. At the same time, core inflation remained above 10 percent throughout 2006.

- ***The parallel and official foreign exchange markets have been unified.*** In the wake of late-March measures to increase the foreign currency supply and extend official market access to Bureaux de Change (BDC), the parallel exchange rate appreciated, and the exchange rates largely converged. With a large and growing share of transactions conducted in the parallel and BDC markets, the exchange rate appreciation will likely dampen inflation. The official rate in 2006, however, has remained broadly unchanged, reflecting a build up of foreign exchange reserves.

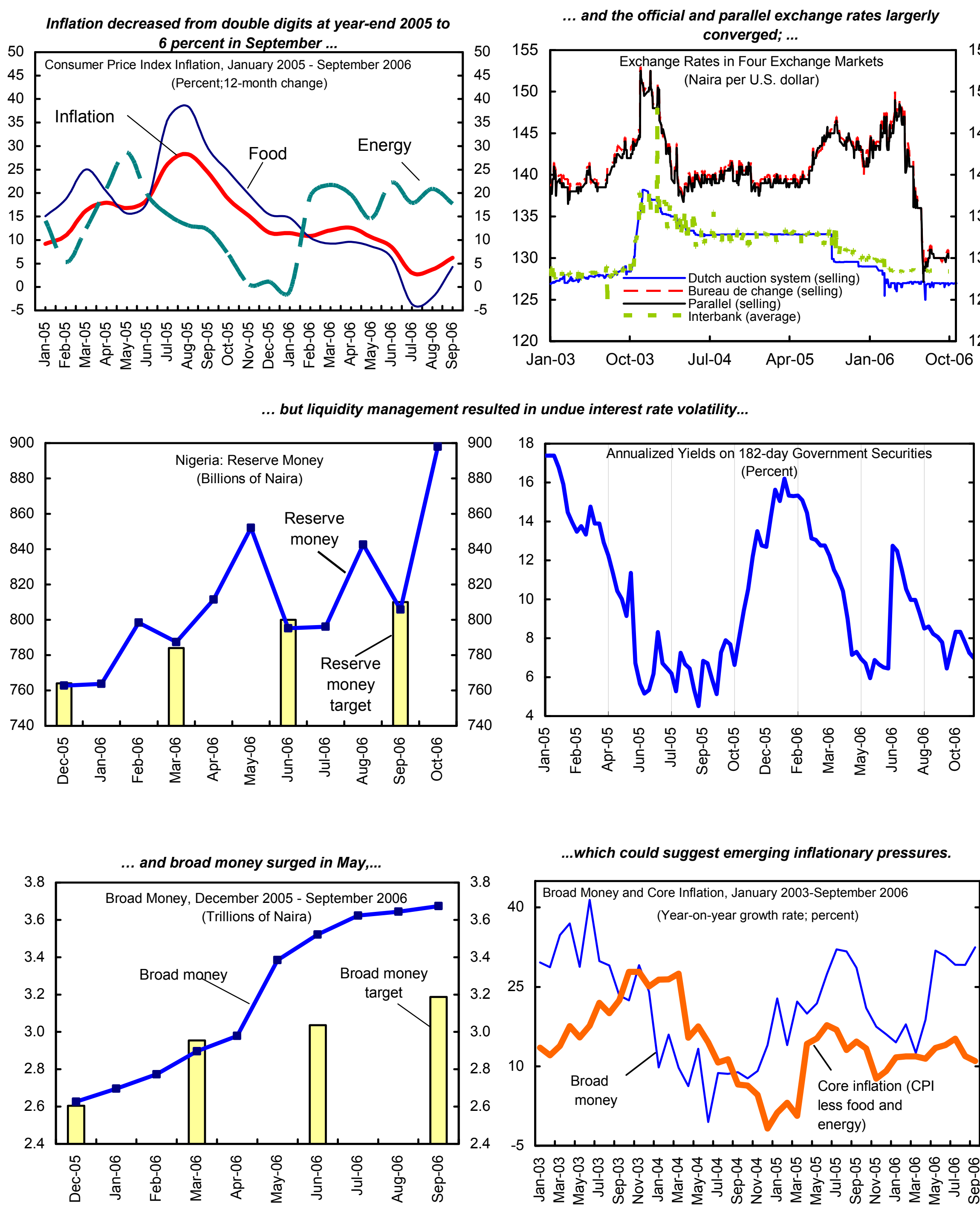
- ***Import growth has accelerated, allowing for a real transfer of resources.*** Given both the real exchange rate appreciation and trade reforms in late 2005, the value of non-oil imports (measured in US$) is expected to increase by 26 percent in 2006.

The real exchange rate appreciation should encourage external adjustment through import growth.



Sources: IMF, *Information Notice System,* and Fund staff estimates.

Figure 2. Monetary Policy and Inflation



Source: Nigerian authorities.

10. **Nevertheless, uneven liquidity management, the quality of monetary data, the fiscal stance, and the recent rise in broad money, pose challenges for macroeconomic management.**

- ***Liquidity management has been uneven, though the end-June and end-September reserve money targets were met.*** As evidenced by declining interest rates and high reserve money in April and May 2006, liquidity injections (arising from international portfolio inflows, rapid government capital spending, and enlarged capital bases among commercial banks owing to bank restructuring) were not consistently sterilized. Recognizing these concerns, the Monetary Policy Committee took corrective actions in June: it increased the key policy rate (the Minimum Rediscount Rate) from 13 to 14 percent, and intensified open market operations, causing reserve money to fall by 8 percent and interest rates to rebound quickly. As a result, the end-June target on reserve money was met, though not on a sustainable basis. Preliminary daily balance sheet data available since mid-year indicate that reserve money remained above program targets during the second half of 2006, with the exception of brief periods around end-July and end-September.

- ***The quality of monetary data remains weak.*** The consolidation of 89 banks to 25, and the transition to new software for central bank accounting and data transmission has given rise to challenges in compiling monetary statistics. The CBN has been working to resolve data inconsistencies, including on international reserves. The value of net foreign assets of the CBN could be lower by US$4 billion, which would also imply a lower forward-looking NFA path. The CBN has established a committee to address these issues, and an MCM technical expert is providing support. The staff will continue to work with the authorities, and report on the resolution of the problems.

- ***Fiscal policies will create liquidity pressures.*** The broadly unchanged fiscal stance (measured by the proxy domestic primary balance) implies that to maintain single-digit inflation, the CBN will need to mop up a similar amount of liquidity as in recent years. Because spending on infrastructure projects has a high import content, the impact on domestic demand will be limited. Moreover, since spending on capital projects more broadly should promote private investment in the medium term, some private sector crowding out may be justifiable in the short term. Indeed, commercial bank financing of federal government spending—including for the mopping up of liquidity and clearance of contractor and pension arrears—should reduce growth in credit to the private sector to 11 percent in 2006 if broad money growth is successfully reduced in the remaining months of this year.

Required Mop-up of Government Spending, 2003-07
(Percent of non-oil GDP)

	2003 Act.	2004 Act.	2005 Act.	2006 Proj.	2007 Proj.
Change in reserve money	2.4	0.9	0.5	0.8	1.1
Proxy for domestic balance	-38.6	-37.9	-41.5	-41.8	-39.9
Mop-up [1]	36.2	37.1	41.0	41.0	38.8
Of which: foreign exchange sales	29.1	23.6	20.2	16.5	20.0

Sources: Nigerian authorities and Fund staff estimates.
[1] Staff does not have adequate historical data on liquidity management to directly measure the scale of mop-up. This table uses the non-oil primary balance and the import content of large investment projects to proxy the domestic balance. The proxy for central bank intervention is, thus, the difference between the proxy domestic balance and the change in reserve money. It is indicative because it also captures the impact of the balance of payments, central bank profits, and other factors.

- ***Broad money growth could fuel inflation***. Broad money growth rates surged unexpectedly in May to year-on-year rates of around 30 percent and to even higher rates calculated on a monthly annualized basis. According to staff's initial analysis, this expansion, at least in part, reflects long-term investment credit to the oil sector with a limited impact on domestic demand. Nevertheless, short-term inflationary pressures cannot be ruled out (an observation also made by the Monetary Policy Committee), as there is no evidence of a shift in money demand, or an immediate supply response beyond the projected non-oil GDP growth rate.

Monetary Policy Indicators, 2005-September 2006

	2005	2006					
		Q1		Q2		Q3	
	Act.	Prog.	Act.	Prog.	Act.	Prog.	Act.
Reserve money (billion naira)	763	784	787	800	794	810	806
Broad money (billion naira)	2,626	2,954	2,897	3,036	3,522	3,187	3,674
Money multiplier	3.4	3.8	3.7	3.8	4.4	3.9	4.6
Treasury bill rate, 91-day (percent annualized, end of period)	12.2	...	8.7	...	11.8	...	4.6
Forex sales ($ billions)	9.6	2.4	0.4	1.8	2.8	2.8	3.7
Exchange rate (DAS/WDAS) (naira per $, end of period)	129	...	127	...	127	...	127
Exchange rate (parallel market) (naira per $, end of period)	142	...	147	...	131	...	130
Parallel market spread (percent)	10.1	...	15.7	...	3.1	...	2.4

Sources: Nigerian authorities and Fund staff estimates.

11. **The authorities' program includes measures to help manage inflationary risks.** Besides aiming to maintain single-digit inflation, the program accommodates some private sector credit growth and real exchange rate appreciation to facilitate imports.

- ***To rein in broad money growth, the program will maintain a tight reserve money path.*** The gradual alignment of the broad money path with 2007 nominal GDP growth rates will be a challenge (including due to the recent volatility of the money multiplier), but, if successful, could help avoid abrupt changes to private sector credit in 2007. A tight reserve money path should help achieve this objective. Once the elections are over and as long as economic stability persists, the staff expects money demand to pick up modestly and velocity to fall. Nonetheless, the projected velocity target for end-2007 is conservative, being only slightly lower than at end-2005.

- ***To manage liquidity injections resulting from the fiscal stance, the authorities plan to strengthen macroeconomic policy coordination.*** A liquidity assessment group comprising technical staff of the CBN, the Ministry of Finance, and other relevant agencies is being formed. This, together with the newly produced daily balance sheets, will enable the CBN to prepare more reliable short-term liquidity forecasts, and thus react quickly to inflationary pressures.

- ***Daily liquidity swings and interest rate variations will be addressed by streamlining the CBN's standing facilities*** (end-June 2007 assessment criterion). The existing discount window will be discontinued, and the authorities will broaden access to the new standing facility, as some banks currently are unable to use the interbank overnight market.

- ***The CBN will increase foreign exchange sales to encourage private sector imports and increase exchange rate flexibility to reinforce efforts to dampen inflationary pressures.*** The real appreciation (stemming from the domestic component of public spending) should lead to a widening of the non-oil current account deficit and greater private sector imports; this real transfer of resources should in turn help boost productivity and growth (Table 5). Foreign exchange sales, executed through the Wholesale Dutch Auction (WDAS) system, should increase by US$4 billion in 2007.

IV. Safeguarding Nigeria's Wealth

12. **The authorities are continuing to make progress in improving medium-term planning and public financial management.** However, they recognize that considerable challenges remain, owing to initially weak public financial management practices. Moreover, stronger processes are needed to ensure that accumulated oil savings are used for high quality spending and phased consistently with macroeconomic stability and administrative capacity, and that a comprehensive debt and asset management strategy is implemented.

13. **Ongoing reforms in the areas of medium-term sector planning, procurement, and accounting processes aim to improve quality of spending.** By reducing waste, these reforms have already resulted in savings.

- ***Medium-term planning at the sector level is being strengthened.*** Medium-term sector strategies (MTSS) formed the basis of the 2007 budget requests of 18 major federal government agencies responsible for three-quarters of all outlays. This is an increase of 11 agencies compared to 2006. Through the MTSS, the NEEDS goals and the MDGs are integrated into the budget. To anchor future spending requirements, the government has begun the process of preparing NEEDS 2 for 2007–11, which will include enhanced cost-benefit analysis building on the initial work in costing the MDGs and preparing the MTSS. Greater coordination with the states, which account for about half of all public spending, is being effected through the State Economic Empowerment and Development Strategies (SEEDS) that have been prepared by all states. SEEDS implementation will be monitored through a benchmarking process (end-June 2007 assessment criterion).

- ***Due-process procedures are being improved.*** To reinforce due-process procedures, a procurement manual was prepared, but its distribution to all agencies (structural benchmark for end-September) is pending National Assembly approval of the Procurement Bill. The BMPIU, as well as the MDG office (in its area of responsibility), are monitoring project implementation before releasing payments.

- ***Reforms in accounting and reporting are also continuing.*** The Automated Transaction Recording and Reporting System is being rolled out to additional agencies, and funding will be withheld from agencies that do not provide monthly reports.[4] However, delays in computerization are holding up the production of quarterly reports of spending in MDG-related sectors (end-September structural benchmark).

- ***Reforms have led to savings.*** The civil service reforms have eliminated nearly 60,000 workers and “ghost-workers” (for a savings of about ¾ percent of non-oil GDP). Detailed assessments reduced overhead costs by ½ percent of non-oil GDP, while projects totaling 1¾ percent of non-oil GDP were reprioritized, after being reevaluated against MTSS criteria.

14. **An action plan to safeguard oil savings is being developed.** The authorities will prepare a set of guidelines on the use of oil savings to ensure good governance in this area. To assure value for money and prevent inappropriate use of funds, these guidelines will

[4] A long-term FAD advisor will support implementation.

15. include criteria for the appraisal, selection, implementation, and monitoring of infrastructure projects for which the oil savings can be used. The authorities plan to organize a stakeholders' forum, supported by the IMF and the World Bank, in early 2007 to develop ideas that would lead to establishment of these guidelines.

- ***The government should fully implement solid cost-benefit analysis and appropriately phase all projects.*** Several recently scaled-up or accelerated projects underscore the need for proper costings. For example, the Western railroad project entails an ambitious track reconstruction and expansion, and power-generation projects are being accelerated, though the electricity sector's regulatory framework is still evolving, and electricity demand dynamics and revenue collection are uncertain.

- ***Complex contractual and financing arrangements that protect private partners and shift market-related risks to the government should be discouraged.***

16. **The authorities need to develop and implement a long-term debt and asset management strategy,** which should be based on a debt sustainability and asset accumulation analysis. Such a strategy would also help preserve the debt sustainability achieved through Paris Club debt relief.[5]

- ***The government is taking further steps to reduce gross external debt.*** With the Paris Club agreement completed, the authorities have bought back part of the outstanding London Club debt (par bonds worth $1.4 billion or about 1 percent of GDP), which reduces the already low level of external debt to about US$3.5 billion, or 3 percent of GDP by end-2006.

- ***However, Nigeria has increasingly received offers from emerging creditors to finance projects with commercial debt.*** Any new borrowing should be on concessional terms and grounded in a comprehensive debt-management framework. Such a framework should provide guidance on a long-term debt accumulation strategy and acceptable contractual terms (including on possible hidden costs, such as guarantees or priority rights for oil leases). Mechanisms to monitor contingent obligations and a framework for public-private partnerships should also be established. Moreover, projects linked to financing proposals that fall outside the regular budget appropriation process should be made an explicit part of the government's overall spending envelope, and be assessed in the context of overall fiscal plans on the basis of cost-benefit analysis.

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[5] A debt sustainability analysis (Appendix IV) finds that Nigeria's debt outlook remains relatively robust, though vulnerabilities would emerge in the event of a prolonged oil price decline or an additional fiscal expansion.

- ***On the asset side, the CBN will need to develop a clear strategy for managing international reserves.*** New regulations allow domestic banks to partner with international banks and investment institutions to manage a portion of official reserves. Full legal liability rests with the international banks, which are required to have an "A" credit rating from two of the three major international rating agencies. Currently, 14 domestic banks have been identified as potential partners and are expected to develop their operational capacity through their partnerships with international banks.

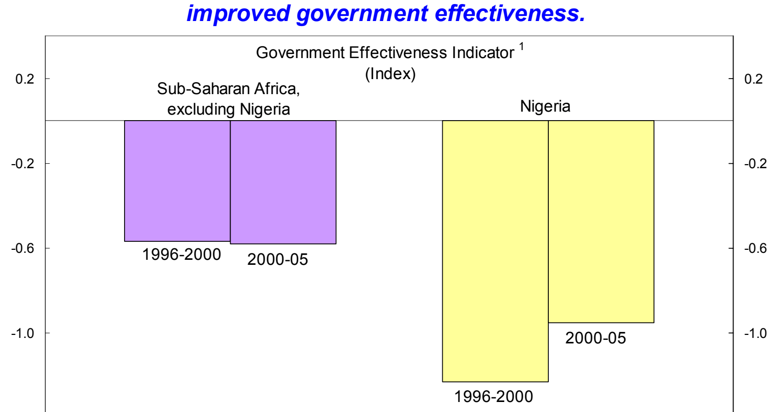
V. Institutionalizing and Consolidating Structural Reforms

17. **The authorities are making efforts to institutionalize reforms as well as to improve governance and efficiency.**

- ***The authorities are intensifying their dialogue with the National Assembly to secure passage of key legislation.*** Both the House and the Senate are discussing the bills related to fiscal responsibility, public procurement, the Nigeria Extractive Industry Transparency Initiative (NEITI), and tax reform, with the objective of bringing them all to a vote by year-end. While the authorities remain confident the legislation will pass, weakening of the bills and further delays could develop in the difficult preelection environment.

- ***The authorities are working toward improving governance.*** Nigeria's 1999–2004 NEITI audit reports were published, and remedial measures are being put in place to address identified weaknesses. The appointment of auditors to audit the oil and gas sector for 2005 and 2006 is expected by end-March 2007 (assessment criterion). Moreover, Nigeria was removed from the Financial Action Task Force list of noncompliant countries in the global fight against money laundering in mid-2006.

Despite progress in the past decade, there is still scope for improved government effectiveness.



Source: World Bank, *Worldwide Governance Indicators,* 2006.
[1] The government effectiveness indicator ranges from about -2.5 to 2.5, with higher values corresponding to more effectiveness.

- ***The ongoing civil service reform is likely to increase government efficiency.*** The reform includes a reduction in the size of the federal civil service, improvements to the qualifications and skill mix of civil servants, and the reorganization of ministries, departments, and agencies. The authorities have underscored their commitment to these reforms by making them subject to structural targets.

18. **Measures to improve the business environment have centered on privatization, banking consolidation, and trade reforms.** Additional measures over the next year aim to improve the provision of commercial services, support private sector growth, and help the government focus on its core mandate. The World Bank is broadly supportive of the authorities' reform agenda in these areas.

- ***The privatization agenda remains ambitious.*** Now that the power company has been unbundled, the commercialization of successor companies in generation, transmission, and distribution has become a top priority (assessment criteria for end-March and end-June 2007). In the transport sector, the Central Railway was concessioned before end-June (structural benchmark), and the Abuja airport in mid-November (a delay compared to the end-September structural benchmark). Another area of focus is the privatization of several oil and gas sector companies. However, one end-June structural benchmark (the opening of financial bids for the Kaduna and Port Harcourt refineries) was put on hold until the authorities can improve the regulatory environment to attract high-quality investors.

- ***Banking consolidation, which is near completion, should help strengthen financial institutions,*** though deposits at 14 failed banks must still be resolved. The authorities have obtained final court orders for seven of the banks, while three others have been sold for a total cost of about 1½ percent of non-oil GDP. Delays primarily reflect legal challenges and the National Assembly's pending approval of the Banking and Other Financial Institutions Bill.

- ***Trade reforms have helped limit real appreciation pressures.*** After a simplified custom tariffs structure was adopted in October 2005, investors saw formal and informal import bans among prime obstacles to private sector growth. The government is thus working to reduce, or eliminate, the remaining import bans by either January 2007 or a date consistent with the ECOWAS convergence criteria. The concessioning of all major ports has already reduced the average import time by eight days between 2005 and 2006.[6] The highest tariff rate, 50 percent, will be reviewed by end–2007, following a study on the impact of the recent tariff reform on the domestic economy. The authorities' focus in the near term, however, is on effectively implementing the new tariff structure and on trade facilitation.

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[6] World Bank Doing Business Indicators at http://www.doingbusiness.org/.

VI. Program Monitoring

19. **To monitor Nigeria's performance under its PSI, quantitative and structural assessment criteria, quantitative indicative targets, and structural benchmarks are being proposed through end-June 2007** (Appendix I). The quantitative targets, which will continue to be monitored quarterly, include the non-oil primary balance of the federal government, reserve money, net foreign assets of the CBN, and the continuous assessment criteria on nonaccumulation of external arrears and on contracting or guaranteeing of new nonconcessional external debt. The staff proposes revised quantitative targets for end-December 2006 (assessment criteria) on the federal government non-oil primary balance and net foreign assets of the CBN (due to new oil revenue projections), a revised path toward these end-year targets, new indicative targets for end-March 2007, and new assessment criteria for end-June 2007. Understandings have also been reached on structural assessment criteria and benchmarks in several areas. The standard exchange system and trade issue provisions that apply to the use of Fund finances are continuous assessment criteria under the PSI. The third review under the PSI will be based on year-end 2006 quantitative assessment criteria and structural assessment criteria through end-March 2007.

VII. Staff Appraisal

20. **The Nigerian authorities are to be commended for continuing the implementation of their reform program, which has been supported by a PSI since mid-2005.** The break with past policies has improved the country's growth performance, made prudent use of oil wealth, led to large savings, and reduced external debt through the implementation of the Paris Club agreement and repayment of London Club creditors.

21. **Continued commitment to the reform program ensured satisfactory progress under the PSI in the first half of 2006.** The government met all assessment criteria and structural benchmarks through end-September 2006, except for the end-September assessment criterion on the introduction of the Integrated Personnel and Payroll Information System (owing to delays in system procurement), the end-June benchmark on the opening of the financial bids for the Port Harcourt and Kaduna refineries (owing to weak interest in the tender process), the end-September benchmark on the opening of financial bids for the Abuja airport which was concessioned in mid-November (owing to delays in the due diligence process), delays in production of quarterly reports of spending in MDG-related sectors (owing to delays in computerization), and issuance of the procurement manual (which was prepared, but its distribution is pending the National Assembly's approval of the Procurement Bill).

22. **The staff supports the authorities' request to modify the 2006 fiscal program and to accommodate higher infrastructure spending in priority areas in the 2007 program.** Capital spending is needed to reduce the infrastructure bottlenecks that hamper medium-term growth prospects. Given Nigeria's increased oil wealth, higher infrastructure

spending will buttress private sector activity and reduce poverty. Moreover, restoring stability in the Niger Delta through increased infrastructure spending will be key to achieving favorable growth and boosting revenues.

23. **Carefully managing the macroeconomic impact of government spending will be a challenge for the authorities.** While much of the planned infrastructure spending will have a high import content, the domestic component of the spending could give rise to inflationary pressures—a risk that the CBN must manage by allowing adequate exchange rate and interest rate flexibility.

24. **The CBN must advance initiatives to improve liquidity management and the quality of monetary statistics.** Initial steps to establish the technical interagency liquidity assessment group are encouraging. Through frequent meetings, this group should enable the CBN to react quickly to liquidity pressures. Furthermore, implementation of the new policy interest rate using a standing facility should limit interest rate volatility and liquidity swings. More generally, policy implementation would be enhanced by strengthening monetary statistics.

25. **Preelection and postelection spending that endangers macroeconomic stability must be avoided.** By passing a 2007 budget built on a conservative reference oil price and consistent with the government's proposed budget, the National Assembly could mitigate such spending pressures. Similarly, a new administration needs to pursue its national priorities within the agreed fiscal envelope. Large-scale extrabudgetary projects need to be executed in line with macroeconomic stability, and the carryover of capital spending from one year to the next should be eliminated. The ability of the authorities to keep spending within program targets is the main program risk.

26. **The authorities should redouble their efforts to enhance spending quality**. Further strengthening of public financial management is essential, given the high levels of capital spending, and the weak starting point. All investment projects should be based on cost-benefit analysis and include a full assessment of obligations (a practice not yet fully employed within the government). Complex contractual and financing arrangements that protect private partners and shift market-related risks to the government should be discouraged. Eliminating the fuel subsidy in the medium-term would improve resource allocation. Establishing and implementing guidelines on the use of oil savings will be key to ensure value for money from infrastructure spending and prevent inappropriate use of funds.

27. **The staff recommends the development of a long-term debt- and asset-management strategy, which would help safeguard national wealth.** A comprehensive debt management framework would help prevent unsustainable debt accumulation; nonconcessional borrowing should be avoided. Regarding the management of international reserves, the CBN needs to ensure that the new regulations—which allow international banks

and investment institutions to manage a portion of official reserves in collaboration with domestic banks—do not lead to an erosion of Nigeria's wealth.

28. **Institutionalizing recent government reforms implemented over the past few years is critical.** The staff agrees with the priority the government has assigned to the passage of key economic legislation. Approval of key bills submitted by the government—the Fiscal Responsibility Bill, the Public Procurement Bill, the Tax Reform Bills and the NEITI Bill—would help secure past gains. A strong Fiscal Responsibility Bill is also important for preserving macroeconomic stability. The National Assembly's approval of the Banking and Other Financial Institutions Bill would help provide a resolution of deposits in failed banks and complete the restructuring of the banking sector. The staff further urges the authorities to monitor closely risks in the newly-consolidated banking sector.

29. **The authorities' pursuit of an ambitious structural agenda ahead of elections is commendable.** Right-sizing additional ministries, restructuring parastatals and the customs service, and efforts to build the skills and capacity of the civil service are important and will help sustain reforms. Privatization should improve the provision of commercial services, support private sector growth, and allow the government to focus on its core mandate.

30. **The staff recommends completion of the second review and modification of the end-2006 assessment criteria.** While the forward looking elements, particularly fiscal policy, involve important risks, the authorities have demonstrated both their commitment to preserving their reforms and an ability to manage challenging macroeconomic conditions. The staff therefore believes that such risks can be contained.

Table 1. Nigeria: Selected Economic and Financial Indicators, 2004–09

	2004	2005	2006		2007	2008	2009
	Act.	Act.	Prog.	Proj.	Proj.	Proj.	Proj.
National income and prices (annual percentage change, unless otherwise specified)							
Real GDP (at 1990 factor cost)	6.1	7.2	6.1	5.1	7.3	7.0	5.6
Oil GDP	3.5	4.2	4.3	-1.6	9.3	8.0	3.4
Non-oil GDP	7.4	8.6	7.0	8.2	6.5	6.5	6.6
Production of crude oil (million barrels per day)	2.50	2.51	2.52	2.35	2.53	2.71	2.76
Nominal GDP at market prices (billions of naira)	9,604	12,926	14,638	14,824	16,589	18,664	20,209
Nominal non-oil GDP at factor cost (billions of naira)	5,005	6,223	7,081	7,305	8,549	9,859	11,356
Nominal GDP per capita (U.S. dollars)	501	675	775	773	850	937	998
GDP deflator	20.3	25.5	6.2	9.1	4.3	5.2	2.5
Non-oil GDP deflator	14.5	14.5	9.2	8.5	9.9	8.2	8.1
Consumer price index (annual average)	15.0	17.9	9.4	9.0	10.3	8.6	8.5
Consumer price index (end of period)	10.1	11.6	8.5	12.2	9.5	8.5	8.5
Investment and savings (percent of GDP)							
Gross national savings	26.6	33.5	35.2	34.2	35.2	31.9	30.0
Public	20.8	22.0	28.1	25.0	23.5	22.3	18.8
Private	5.8	11.4	7.1	9.3	11.7	9.6	11.2
Investment	22.5	21.4	21.1	21.8	24.8	23.3	24.2
Public	9.1	9.6	9.0	10.4	12.7	10.7	11.5
Private	13.4	11.7	12.0	11.4	12.1	12.6	12.7
Current account balance	4.1	12.1	14.2	12.5	10.4	8.6	5.9
Public	11.7	12.4	19.1	14.6	10.8	11.6	7.3
Private	-7.6	-0.3	-4.9	-2.2	-0.3	-2.9	-1.5
Consolidated government operations (consists of federal, state, and local governments; percent of GDP)							
Total revenues and grants	43.0	43.5	48.5	45.4	46.2	44.0	41.3
Of which: oil and gas revenue	34.9	36.8	42.0	38.9	39.2	36.6	33.1
Total expenditure and net lending (commitment basis)	35.3	34.2	31.1	33.4	38.2	34.5	36.0
Overall balance (commitment basis)	7.7	9.3	17.5	12.0	8.0	9.5	5.4
Non-oil primary balance (percent of non-oil GDP)	-34.2	-38.9	-39.6	-42.0	-40.0	-40.8	-40.6
Money and credit (change in percent of broad money at the beginning of the period)							
Broad money	14.0	16.0	17.0	28.4	11.8	...	...
Net foreign assets	62.3	61.8	79.1	62.7	60.1	...	...
Net domestic assets	-49.9	-45.8	-62.2	-34.3	-48.3	...	...
Credit to consolidated government	-42.1	-17.4	-69.7	-35.1	-42.6	...	...
Credit to the rest of the economy	15.7	19.5	18.8	8.4	11.4	...	...
Velocity	2.2	2.4	2.3	2.2	2.3	...	...
Treasury bill rate (percent; end of period)	14.3	12.0	...	...	...	...	...
External sector (annual percentage change, unless otherwise specified)							
Exports, f.o.b.	36.8	41.5	11.8	11.3	8.5	10.4	0.7
Oil export volume	2.5	-4.3	0.5	-7.0	8.7	7.8	1.8
Imports, f.o.b.	13.1	30.7	17.3	19.5	20.6	14.8	8.5
Terms of trade	20.5	38.0	8.9	16.5	-2.3	0.6	-3.7
Price of Nigerian oil (U.S. dollars per barrel)	38.3	55.3	60.5	64.4	63.3	64.3	62.5
Nominal effective exchange rate (end of period)	-3.0	10.3	...	...	...	...	...
Real effective exchange rate (end of period)	3.7	19.4	...	...	...	...	...
External debt outstanding (billions of U.S. dollars)	35.9	20.5	4.8	3.5	3.7	4.1	4.8
Gross international reserves (billions of U.S. dollars)	17.0	28.3	45.8	46.5	62.4	83.7	101.8
(equivalent months of imports of goods and services)	6.0	8.6	13.1	12.0	14.2	17.8	20.6

Sources: Nigerian authorities and Fund staff estimates and projections.

Table 2a. Nigeria: Consolidated Government (Cash Basis), 2004-07

(Billions of Naira)

	2004	2005	2006				2007
			H1		Annual		
		Prel.	Prog.	Prel.	Prog.	Proj.	Proj.
Total revenue	4,127	5,621	3,539	3,257	7,107	6,731	7,663
Oil and gas revenue	3,355	4,759	3,078	2,836	6,143	5,770	6,511
Government crude receipts	1,440	1,938	997	1,069	1,999	2,032	2,044
Petroleum profit tax and royalty	1,184	1,905	1,292	1,058	2,563	2,276	2,919
Petroleum profit tax	826	1,312	989	795	1,964	1,753	2,222
Royalty	358	593	303	263	600	523	697
Upstream gas sales and Nigeria Liquefied Natural Gas (NLNG)	91	139	75	65	151	131	163
Other oil revenue (gas flared; pipeline fees)	5	5	18	1	37	18	35
Domestic crude	635	771	620	501	1,243	1,173	1,310
Signature bonus	0	0	76	141	151	141	40
Non-oil revenue	773	863	461	421	964	960	1,152
Import and excise duties	217	233	98	86	197	201	230
Companies income tax	130	162	115	106	230	230	299
Value-added tax	157	184	112	90	225	210	265
Education tax	17	22	8	8	15	15	20
Federal government independent revenue	59	55	17	17	75	75	86
State and local governments' internal revenue	157	175	95	98	190	196	215
Customs levies	35	32	16	16	32	32	37
Total consolidated expenditure	3,177	4,234	2,340	2,233	4,702	4,971	6,342
Total federal government and extrabudgetary expenditure	1,654	2,223	1,211	1,172	2,444	2,489	3,465
Recurrent expenditure	1,393	1,879	969	862	1,898	1,868	2,810
Goods and services	571	730	468	426	876	876	960
Interest payments	231	382	112	92	246	245	273
Domestic	189	200	99	79	220	220	259
External, cash	42	182	13	13	26	25	14
Transfers	591	767	388	343	776	747	1,577
Of which: Nigerian National Petroleum Corporation(NNPC) cash calls [1]	455	532	265	262	529	538	1,288
Federal government capital expenditure	261	343	242	311	545	621	655
Domestically financed [2]	231	254	225	286	511	571	609
Foreign financed	30	90	17	25	35	50	47
State and local governments	1,523	1,961	1,000	972	2,000	2,036	2,332
Primary expenditure	1,515	1,928	996	968	1,991	2,027	2,328
External interest payment, cash	8	33	4	4	9	8	5
Transfer to NNPC (explicit subsidy)	0	0	75	0	150	150	200
Large-scale infrastructure projects	...	50	54	88	108	296	344
Overall balance (cash basis)	951	1,387	1,199	1,024	2,405	1,760	1,321
Financing	-925	-1,182	-1,199	-1,395	-2,405	-1,673	-1,321
External	-155	-867	-611	-591	-625	-781	21
Borrowing	30	90	17	25	35	50	78
Amortization, cash	-185	-956	-31	-32	-62	-63	-58
Debt buyback	0	0	-597	-584	-597	-767	0
Domestic financing	-777	-394	-608	-812	-1,840	-922	-1,436
Central bank (net, consolidated government)	-975	-504	-702	-1,252	-1,987	-1,537	-1,535
Of which : increase in gross windfall oil receipts	-786	-1,944	-1,330	-1,090	-2,648	-2,266	-2,603
Commercial banks (net, federal government)	193	95	93	447	147	614	99
Commercial banks (net, states and local governments)	4	15	0	-6	0	0	0
Privatization proceeds	0	20	20	8	59	30	94
Recovered funds	7	59	0	0	0	0	0
Statistical discrepancy	26	205	0	-371	0	86	0
Non-oil primary balance, federation (including explicit fuels subsidy)	-1,710	-2,423	-1,498	-1,454	-2,954	-3,219	-3,624
Non-oil primary balance, state and local government	-1,060	-1,424	-749	-710	-1,499	-1,542	-1,756
Nominal GDP (billions of naira)	9,604	12,926	...	...	14,638	14,824	16,589
Non-oil GDP (billions of naira)	5,005	6,223	...	...	7,081	7,305	8,549

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

[1] Includes capital contributions to joint venture projects with oil companies for power plants.

[2] Actual cash spending

Table 2b. Nigeria: Federal Government Budget, 2004-07
(Billions of Naira)

	2004	2005	2006				2007
			H1		Annual		
	Act.	Prel.	Prog.	Prel.	Prog.	Proj.	Proj.
Total revenue [1]	1,486	2,058	1,360	1,284	2,757	2,588	2,895
Petroleum revenue	1,236	1,794	1,231	1,167	2,456	2,290	2,529
Nonpetroleum revenue	250	264	129	117	301	298	366
Import and excise duties	105	108	44	39	89	91	104
Companies' income tax	63	76	54	49	107	104	139
Value-added tax	23	25	15	12	30	28	37
Federal government independent revenue	59	55	17	17	75	75	86
Total expenditure	1,075	1,445	889	847	1,800	1,859	2,044
Recurrent expenditure	844	1,191	664	561	1,289	1,288	1,435
Goods and services	571	730	468	426	876	876	960
Personnel and pension	443	527	366	310	671	671	701
Personnel	370	443	264	267	528	541	572
Pensions	72	84	102	43	144	130	129
Overhead cost	128	203	102	116	205	205	259
Interest payments	231	382	112	92	246	245	273
Domestic	189	200	99	79	220	220	259
External, cash	42	182	13	13	26	25	14
Transfers [2]	42	79	83	43	167	167	202
Nigerian National Petroleum Corporation (NNPC)	0	0	38	0	75	75	100
National Judicial Council	28	33	18	18	35	35	43
Transfer to Niger Delta Development Commission	14	22	13	10	26	26	24
Universal Basic Education Commission	...	24	15	15	31	31	35
Capital expenditure	231	254	225	286	511	571	609
Domestic	231	254	225	286	511	571	609
Overall balance (cash basis)	411	613	471	437	958	729	851
Financing	-517	-961	-471	-710	-958	-1,008	-851
External	-155	-714	-471	-462	-494	-486	-43
Borrowing	30	0	0	0	0	0	0
Amortization, cash	-155	-714	-23	-24	-47	-48	-43
Debt buyback	0	0	-448	-438	-448	-438	0
Domestic financing	-369	-326	-20	-256	-523	-552	-902
Central bank (net)	-612	-421	-114	-703	-670	-1,166	-1,001
Of which : gross oil windfall proceeds	-332	-820	-561	-460	-1,117	-956	-1,098
Commercial banks (net)	193	95	93	447	147	614	99
Nonbank financing	50	0	0	0	0	0	0
Privatization proceeds	0	20	20	8	59	30	94
Recovered funds	7	59	0	0	0	0	0
Statistical discrepancy	-106	-348	0	-273	0	-280	0
Memorandum items:							
Primary spending	844	1,063	777	755	1,553	1,614	1,771
Non-oil primary balance (including explicit fuels subsidy)	-594	-799	-647	-638	-1,252	-1,316	-1,405
Budgetary revenue	1,486	2,058	1,360	1,284	2,757	2,588	2,895
Budgetary spending (including explicit fuels subsidy)	1,230	1,394	912	871	1,846	1,907	2,087
Balance on the budget (BOF definition, debt service above the line)	256	663	448	413	911	681	808

Sources: Nigerian authorities; and Fund staff estimates.

[1] Oil revenue net of cash call payments.

[2] Excluding transfer to the NNPC for cash call payments.

Table 2c. Nigeria: Consolidated and Federal Government, 2004-09

(Percent of GDP, unless otherwise specified)

	2004	2005	2006		2007	2008	2009
		Prel.	Prog.	Proj.	Proj.	Proj.	Proj.
Consolidated Government							
Total revenue	43.0	43.5	48.5	45.4	46.2	44.0	41.3
Oil and gas revenue	34.9	36.8	42.0	38.9	39.2	36.6	33.1
Non-oil revenue	8.0	6.7	6.6	6.5	6.9	7.4	8.3
Total consolidated expenditure	33.1	32.8	32.1	33.5	38.2	34.5	36.0
Total federal government and extrabudgetary expenditure	17.2	17.2	16.7	16.8	20.9	16.5	17.0
State and local governments	15.9	15.2	13.7	13.7	14.1	15.4	16.3
Large-scale infrastructure projects	...	0.4	0.7	2.0	2.1	2.0	2.0
Overall balance (cash basis)	9.9	10.7	16.4	11.9	8.0	9.5	5.4
Non-oil primary balance (excl fuels subsidy, % of non-oil GDP) [1]	-34.2	-38.9	-39.6	-42.0	-40.0	-40.8	-40.6
Non-oil primary balance (incl fuel price subsidy, % of non-oil GDP) [1]	-36.2	-43.6	-41.7	-45.4	-41.2	-41.9	-41.7
Federal Government							
Total revenue	15.5	15.9	18.8	17.5	17.5	...	...
Petroleum revenue	12.9	13.9	16.8	15.4	15.2	...	...
Nonpetroleum revenue	2.6	2.0	2.1	2.0	2.2	...	...
Total expenditure	11.2	11.2	12.3	12.5	12.3	...	...
Recurrent expenditure	8.8	9.2	8.8	8.7	8.7	...	...
Goods and services	5.9	5.7	6.0	5.9	5.8	...	...
Interest payments	2.4	3.0	1.7	1.7	1.6	...	...
Transfers [2]	0.4	0.6	1.1	1.1	1.2	...	...
Capital expenditure	2.4	2.0	3.5	3.9	3.7	...	...
Overall balance (cash basis)	4.3	4.7	6.5	4.9	5.1	...	...
Financing	-5.4	-7.4	-6.5	-6.8	-5.1	...	...
External	-1.6	-5.5	-3.4	-3.3	-0.3	...	...
Domestic financing	-3.8	-2.5	-3.6	-3.7	-5.4	...	...
Privatization proceeds	0.0	0.2	0.4	0.2	0.6	...	...
Recovered funds	0.1	0.5	0.0	0.0	0.0	...	...
Non-oil primary balance (incl explicit fuels subsidy, % of non-oil GDP)	-11.9	-12.8	-17.7	-18.0	-16.4	...	...
Non-oil revenue (% of non-oil GDP)	5.0	4.2	4.3	4.1	4.3	...	...

Sources: Nigerian authorities; and Fund staff estimates.

[1] Excluding oil revenue, cash call payments, and cash interest payments.

[2] Excluding the transfers to NNPC for cash call payments

Table 3a. Nigeria: Central Bank of Nigeria (CBN) Analytical Quarterly Balance Sheet, 2004-07

	2004	2005	2006						2007			
	Dec.	Dec.	Jun.		Sep.		Dec.		Mar.	Jun.	Sep.	Dec.
	Act.	Act.	Prog.	Prel.	Prog.	Prel.	Prog.	Proj.	Proj.	Proj.	Proj.	Proj.
	(Billions of naira)											
Net foreign assets [1]	2,250	3,671	4,344	4,926	5,003	4,902	5,649	5,135	5,557	6,048	6,583	7,163
Foreign assets [2]	2,479	3,715	4,421	5,133	5,080	5,670	5,726	5,903	6,325	6,815	7,351	7,931
Short-term foreign liabilities	-229	-44	-77	-207	-77	-768	-77	-768	-768	-768	-768	-768
Net domestic assets	-1,518	-2,909	-3,544	-4,131	-4,193	-4,097	-4,829	-4,315	-4,714	-5,182	-5,694	-6,249
Domestic credit	-718	-1,135	-1,974	-2,313	-2,623	-1,994	-3,259	-2,464	-2,764	-3,132	-3,545	-3,999
Net claims on consolidated government [3]	-681	-1,185	-2,051	-2,437	-2,700	-2,252	-3,336	-2,722	-3,022	-3,390	-3,803	-4,258
Of which: excess crude	-675	-979	-1,996	-1,799	-2,647	-1,146	-3,285	-1,828	-2,429	-3,056	-3,742	-4,431
Net claims on federal government	-238	-660	-720	-1,363	-1,001	-1,538	-1,276	-1,826	-2,021	-2,271	-2,529	-2,828
Of which: excess crude of the federal government	-313	-516	-726	-825	-1,007	-514	-1,282	-802	-1,056	-1,320	-1,610	-1,901
Net claims on state and local goverments	-363	-463	-1,267	-974	-1,635	-632	-1,996	-814	-918	-1,037	-1,191	-1,347
Of which: excess crude of the SLGs [4]	-363	-463	-1,270	-974	-1,640	-632	-2,002	-1,026	-1,373	-1,736	-2,132	-2,531
Net claims on nonfinancial public enterprises	-141	-20	-22	-47	-22	-33	-22	-33	-33	-33	-33	-33
Net claims on nonfinancial private sector	2	-2	-4	-3	-4	-3	-4	-3	-3	-3	-3	-3
Claims on deposit money banks	92	61	93	113	93	233	93	233	233	233	233	233
Other items net	-800	-1,774	-1,570	-1,818	-1,570	-2,103	-1,570	-1,851	-1,950	-2,049	-2,149	-2,250
Of which: CBN liquidity management bills	0	-144	-144	-122	-144	-343	-144	...	...	...	...	...
Reserve money	732	763	800	795	810	806	820	820	843	866	890	914
Currency in circulation	546	642	615	598	620	615	660	...	...	...	...	...
Banks reserves with the CBN	187	120	185	197	190	191	160	...	...	...	...	...
Memorandum items:	(Percent)											
Reserve money 12-month growth rate	6.3	4.2	7.0	6.3	0.2	-0.4	8.1	7.5	7.0	8.9	10.4	11.5
Reserve money q/q growth rate	12.6	-5.7	2.0	1.0	1.3	1.3	1.2	1.8	2.8	2.8	2.8	2.8

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

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

[2] Unresolved data inconsistencies within the CBN indicate that the June 2006 value could be lower by N493 billion.

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

[4] States and Local Governments (SLGs).

Table 3b. Nigeria: Monetary Survey, 2004-07

	2004	2005	2006						2007			
	Dec.	Dec.	Jun.		Sep.		Dec.		Mar.	Jun.	Sep.	Dec.
	Act.	Act.	Prog.	Prel.	Prog.	Prel.	Prog.	Proj.	Proj.	Proj.	Proj.	Proj.
						(Billions of naira)						
Net foreign assets	2,712	4,111	4,784	5,569	5,443	5,576	6,089	5,759	6,180	6,671	7,207	7,786
Central Bank of Nigeria (net)	2,250	3,671	4,344	4,926	5,003	4,902	5,649	5,135	5,557	6,048	6,583	7,163
Foreign assets [1]	2,479	3,715	4,421	5,133	5,080	5,670	5,726	5,903	6,325	6,815	7,351	7,931
Short-term foreign liabilities	-229	-44	-77	-207	-77	-768	-77	-768	-768	-768	-768	-768
Commercial and merchant banks (net)	462	440	440	643	440	673	440	623	623	623	623	623
Foreign assets	481	463	463	667	463	718	463	668	668	668	668	668
Foreign liabilities	-19	-23	-23	-24	-23	-44	-23	-44	-44	-44	-44	-44
Net domestic assets	-448	-1,485	-1,748	-2,047	-2,256	-1,901	-3,002	-2,387	-2,712	-3,105	-3,539	-4,015
Net domestic credit	1,285	1,335	1,124	840	636	1,205	-100	688	507	258	-32	-362
Consolidated government [2]	-224	-618	-1,316	-1,429	-1,945	-1,300	-2,548	-1,539	-1,809	-2,158	-2,560	-2,976
Federal government	253	-73	-41	-330	-301	-568	-543	-626	-791	-1,020	-1,268	-1,528
States and local governments	-398	-482	-1,212	-999	-1,581	-649	-1,942	-831	-936	-1,055	-1,209	-1,365
Claims on nonfinancial public enterprises	2	2	2	4	2	6	2	6	6	6	6	6
Other financial institutions	11	11	11	62	11	60	11	60	60	60	60	60
Claims on private sector	1,497	1,939	2,427	2,203	2,567	2,438	2,434	2,161	2,249	2,349	2,461	2,547
(y/y growth rate)	26.3	29.5	34.4	22.0	33.3	26.6	25.5	11.4	19.0	6.6	1.0	17.9
Other items (net)	-1,734	-2,820	-2,872	-2,887	-2,892	-3,106	-2,902	-3,075	-3,219	-3,363	-3,508	-3,653
Broad money	2,264	2,626	3,036	3,522	3,187	3,674	3,087	3,372	3,468	3,566	3,667	3,771
(y/y growth rate)	14.0	16.0	12.8	30.8	23.9	32.5	17.0	28.4	19.7	1.3	-0.2	11.8
Memorandum items:						(Contribution to broad money growth unless otherwise stated)						
Net foreign assets	62.3	61.8	29.7	55.5	54.7	55.8	79.1	62.7	12.5	27.1	42.9	60.1
Central Bank of Nigeria (net)	60.0	62.8	29.7	47.8	54.7	46.9	79.1	55.7	12.5	27.1	42.9	60.1
Commercial and merchant banks (net)	2.3	-1.0	0.0	7.7	0.0	8.9	0.0	7.0	0.0	0.0	0.0	0.0
Net domestic assets	-49.9	-45.8	-14.6	-21.4	-33.9	-15.9	-62.2	-34.3	-9.7	-21.3	-34.2	-48.3
Net domestic credit	-26.1	2.2	-4.5	-18.8	-23.0	-4.9	-51.0	-24.6	-5.4	-12.8	-21.4	-31.2
Net credit to the consolidated government	-42.1	-17.4	-23.1	-30.9	-46.9	-26.0	-69.7	-35.1	-8.0	-18.3	-30.3	-42.6
Net credit to the federal government	12.8	-14.4	-0.8	-9.8	-10.6	-18.8	-19.8	-21.0	-4.9	-11.7	-19.1	-26.8
Claims on private sector	15.7	19.5	18.5	10.1	23.8	19.0	18.8	8.4	2.6	5.6	8.9	11.4
Other items (net)	-23.7	-48.0	-10.1	-2.6	-10.8	-10.9	-11.2	-9.7	-4.3	-8.5	-12.8	-17.1
Broad money (percent change since year's end)	14.0	16.0	15.1	34.1	20.8	39.9	17.0	28.4	2.8	5.8	8.7	11.8
Velocity (non-oil GDP/broad money)	2.21	2.37	...	...	...	...	2.29	2.17	...	...	...	2.27
Gross international reserves (billions of US$)	17.0	28.3	35.1	40.4	40.3	42.7	45.8	46.5	49.8	53.7	57.9	62.4

Sources: Nigerian authorities and Fund staff estimates and projections.
[1] Unresolved data inconsistencies within the CBN indicate that the June 2006 value could be lower by N493 billion.
[2] Includes the windfall oil revenue savings by subnational governments and extrabudgetary funds.

Table 4. Nigeria: Balance of Payments, 2004-09
(Billions of U.S. dollars, unless otherwise indicated)

	2004	2005	2006		2007	2008	2009
	Act.	Act.	Prog.	Proj.	Proj.	Proj.	Proj.
Current account balance	2.9	11.9	16.5	14.4	13.6	12.7	9.4
Oil/gas (net)	15.1	27.0	33.3	31.7	35.5	39.0	39.1
Other (net)	-12.1	-15.1	-16.8	-17.3	-21.9	-26.2	-29.7
Trade balance	17.8	27.3	29.7	28.3	27.0	28.3	25.2
Exports	37.3	52.7	59.0	58.7	63.7	70.3	70.8
Oil/gas	36.4	52.0	58.2	57.9	62.8	69.4	69.8
Other	0.9	0.7	0.7	0.8	0.8	0.9	0.9
Imports	-19.4	-25.4	-29.2	-30.4	-36.6	-42.0	-45.6
Oil/gas	-8.9	-11.7	-12.6	-13.1	-13.8	-14.8	-14.7
Other	-10.5	-13.7	-16.6	-17.3	-22.8	-27.2	-30.9
Services (net)	-5.9	-6.7	-5.8	-5.9	-6.4	-8.1	-8.3
Receipts	1.7	2.0	3.3	3.4	3.5	2.5	2.6
Oil/gas	0.3	0.5	1.7	1.7	1.8	0.6	0.6
Other	1.3	1.5	1.6	1.6	1.7	1.9	2.0
Payments	-7.6	-8.7	-9.2	-9.3	-9.9	-10.6	-11.0
Oil/gas	-2.6	-3.0	-3.1	-3.1	-3.3	-3.5	-3.4
Other	-5.0	-5.7	-6.1	-6.1	-6.6	-7.0	-7.6
Income (net)	-11.7	-12.1	-10.8	-11.4	-10.4	-10.8	-10.8
Oil/gas	-10.2	-10.8	-10.9	-11.7	-11.9	-12.7	-13.3
Other	-1.6	-1.3	0.1	0.3	1.5	1.9	2.5
Of which: Interest due on public debt	-1.5	-1.6	-0.3	-0.3	-0.1	-0.1	-0.1
Transfers (net) [1]	2.8	3.4	3.4	3.4	3.4	3.4	3.4
Capital account balance	2.7	5.3	1.0	-4.7	2.3	8.5	8.7
Direct and portfolio investment (net)	4.4	6.4	6.1	7.4	2.2	8.1	8.0
Oil/gas	3.8	4.7	4.8	5.0	5.3	5.3	5.0
Other	0.7	1.7	1.3	2.4	-3.1	2.7	2.9
Official capital (net)	-1.3	-1.2	-0.2	-4.6	0.2	0.5	0.7
Disbursements	0.2	0.7	0.3	0.4	0.6	1.0	1.1
Amortization due	-1.5	-1.9	-0.5	-5.0	-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]	-0.5	0.1	-4.8	-7.5	0.0	0.0	0.0
Errors and omissions [3]	2.5	-0.9	0.0	-1.8	0.0	0.0	0.0
Overall balance	8.1	16.3	17.5	8.0	16.0	21.3	18.1
Net international reserves (increase -)	-9.5	-11.3	-17.5	-12.5	-16.0	-21.3	-18.1
Exceptional financing	1.4	-4.9	0.0	4.5	0.0	0.0	0.0
Net accumulation of arrears (decrease -)	1.3	-5.4	0.0	4.5	0.0	0.0	0.0
Other [4]	0.1	0.5	0.0	0.0	0.0	0.0	0.0
Memorandum items:							
Gross official reserves, end-of-period	17.0	28.3	45.8	46.5	62.4	83.7	101.8
In months of next year's GS imports	6.0	8.6	13.1	12.0	14.2	17.8	20.6
Current account (percent of GDP)	4.1	12.1	14.2	12.5	10.4	8.6	5.9
GS exports (percent of GDP)	54.4	55.5	53.6	53.6	51.4	49.3	45.6
GS imports (percent of GDP)	37.7	34.6	33.1	34.2	35.6	35.7	35.1
External debt [5, 6]	35.9	20.5	4.8	3.5	3.7	4.1	4.8
External debt (percent of GDP) [5, 6]	50.2	20.8	4.2	3.0	2.8	2.8	3.0
External debt (percent of GS exports) [5, 6]	92.3	37.4	7.8	5.7	5.5	5.7	6.5
External debt [5, 6, 7]	116.9	47.7	8.6	6.7	6.1	6.4	7.2
External debt service due (percent of GS exports)	7.8	6.5	1.2	8.5	0.9	0.9	0.8
GDP (at market prices)	71.5	98.7	116.2	115.8	130.6	147.5	161.0

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

[1] Includes capital transfers.
[2] In 2006, the prepayment of post-cutoff Paris Club debt ($0.3 billion) and the cost of the buy-back of remaining Paris Club debt ($4.3 billion).
[3] The 2006 value reflects unresolved data inconsistencies within the CBN.
[4] In 2002 debt buy-back, in 2003-05 recovery of looted funds.
[5] Nominal public sector short- and long-term debt, end of period.
[6] In 2005 (2006) reflecting also a $7.1 billion ($7.2 billion) write-off of Paris Club debt, and in 2006, reflecting the discount ($2.7 billion) on the $7.0 billion buy-back of remaining Paris Club debt.
[7] In percent of general government fiscal revenues.

Table 5. Nigeria: Non-oil Savings-Investment Balances, 2004-09[1]

(Percent of non-oil GDP)

	2004	2005	2006		2007	2008	2009
	Act.	Act.	Prog.	Proj.	Proj.	Proj.	Proj.
Income	103.1	104.3	106.1	106.2	107.0	106.5	106.2
Public	14.6	13.1	12.9	12.4	12.7	13.3	13.9
Private	88.5	91.2	93.1	93.8	94.2	93.2	92.3
Consumption	104.2	103.0	102.3	102.4	104.6	104.3	102.7
Public	36.2	38.4	36.9	36.0	34.8	36.0	35.8
Private	68.0	64.6	65.4	66.4	69.7	68.3	67.0
Savings	-1.1	1.3	3.7	3.8	2.4	2.2	3.5
Public	-21.6	-25.3	-24.0	-23.6	-22.1	-22.7	-21.8
Private	20.4	26.6	27.7	27.4	24.5	24.9	25.3
Investment	30.0	31.6	32.5	32.9	33.5	34.4	34.9
Public	12.4	15.0	14.3	16.6	16.4	16.4	17.1
Private	17.6	16.6	18.1	16.3	17.1	18.0	17.8
Current Account	-31.1	-30.3	-28.8	-29.0	-31.1	-32.2	-31.4
Public	-33.9	-40.3	-38.3	-40.2	-38.5	-39.1	-38.9
Private	2.8	10.0	9.6	11.1	7.4	6.9	7.5
Memorandum items (percentage change):							
Real private demand	4.1	3.0	9.4	10.0	12.0	5.8	4.7
Real private consumption	2.2	3.2	8.6	11.1	11.9	4.3	4.4
Real private investment	12.3	2.5	12.1	5.8	12.2	11.7	5.7

Sources: Nigerian authorities and Fund staff estimates and projections.

[1] This table is uses fiscal data on a commitment basis.

Table 6. Nigeria : Quantitative Assessment Criteria and Indicative Targets, 2006

(Billions of naira, unless otherwise indicated)

	2006								
	end-Mar.			end-Jun.			end-Sep.		
	Indicative Targets	Adjusted	Estimates	Assessment Criteria	Adjusted	Estimates	Indicative Targets	Adjusted	Estimates
Federal government non-oil primary balance (floor) [1]	-348	-348	-268	-647	-647	-638	-939	-939	...
Reserve money (ceiling)	784	784	787	800	800	795	810	810	806
Net foreign assets of the CBN (floor)	4,273	4,184	4,573	4,344	4,058	4,926	5,003	4,701	4,902
New nonconcessional external debt by the public sector (ceiling) [2]	0	0	0	0	0	0	0	0	0
External arrears [2]	0	0	0	0	0	0	0	0	0
Memorandum items:									
Oil production (million barrels per day)	2.52	...	2.39	2.52	...	2.28	2.52	...	2.34
Oil price (U.S. dollars per barrel) [3]	60.5	...	58.8	60.5	...	64.4	60.5	...	64.4
Petroleum profit tax	497	...	478	990	...	795	1,479	...	1,275
External debt service	22	...	24	641	...	633	663	...	657
State and local government non-oil primary balance	-365	...	-329	-727	...	-710	-1,091	...	-1,175

Sources: Nigerian authorities and Fund staff estimates and projections.

[1] Cumulative until the end of the period and including the fuel subsidy.

[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 7. Nigeria: Selected Millennium Development Goals

MDG Goal	Target for Nigeria	Status in 1990	Current Status
Halve proportion of people whose income is less than US$1/day	21.4 percent of population with income less than US$1/day	42.7 percent of population with income less than US$1/day	52 percent of population with income less than US$1/day
Provide primary education for all children	100 percent net primary enrolment	68 percent gross primary enrolment	60 percent gross primary enrolment
Reduce by two-thirds the under five mortality rate	Under-five mortality of 77 per 1,000 live births	Under-five mortality of 235 per 1,000 live births	Under-five mortality of 201 per 1,000 live births
Reduce by three-quarters the maternal mortality rate	92 percent of births attended by skilled personnel	33 percent of births attended by skilled personnel	36 percent of births attended by skilled personnel
Halt and begin to reverse incidence of HIV/AIDS, malaria and other major diseases	Keep HIV/AIDS incidence at no higher than 1.8 percent	HIV/AIDS incidence of 1.8 percent	HIV/AIDS incidence of 5 percent
Halve proportion of people without access to safe drinking water and basic sanitation	Increase access to clean water to 68 percent of population	Access to clean water: 36 percent	Access to clean water: 42 percent
	Increase access to basic sanitation to 70 percent	Access to basic sanitation: 34.2 percent	Access to basic sanitation: 40 percent

Sources: United Nations Development Programme, *Millenium Development Goals Report Nigeria,* 2004, http://www.undp.org/; and World Bank Staff.

Table 8. Nigeria: Structural Benchmarks and Assessment Criteria Under the PSI Program, 2006[1]

Structural Assessment Criteria	Expected Date of Achievement	Status
Federal Executive Council to adopt guidelines for the restructuring of at least five ministries and parastatals	End-June 2006	Observed
Publish the final Nigeria EITI 1999-2004 audit report	End-June 2006	Observed
Debt Management Office to establish a primary dealer structure for treasury paper	End-June 2006	Observed
Establish one-stop shop for investors, as described in paragraph 5	End-June 2006	Observed
Introduce Integrated Personnel and Payroll Information System (IPPIS)	End-September 2006	Delayed
Establish database of pensioners and estimate size of pension arrears	End-September 2006	Observed
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	Pending
The Central Bank of Nigeria to establish prudential standards for consolidated supervision and begin to supervise the banking groups on a consolidated basis	End-December 2006	Pending
Structural Benchmarks		
Continue publication of revenue allocation to the three tiers of government	Continuous	Observed
Financial bid opening of Port Harcourt and Kaduna refineries	End-June 2006	Delayed
Opening of financial bids for the concessioning of Central Railways Corporation	End-June 2006	Observed
Opening of financial bids for the concessioning of the Federal Airport (Abuja)	End-September 2006	Observed with delay
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	Delayed
Finalize and issue procurement manual	End September 2006	Delayed
Conduct transparency and anti-corruption survey in at least six pilot states	End-December 2006	Pending
Set up a tax policy unit in the Ministry of Finance	End-December 2006	Pending
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	Pending
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	Pending

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

Appendix I. The Authorities' Letter

December 4, 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 the remainder of 2006, 2007, 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 requests modification of assessment criteria for end-December 2006 for the third review expected to be considered by the Executive Board of the IMF by April 30, 2007 to reflect high priority infrastructure spending. It also proposes assessment criteria for end-June, 2007 for the fourth review expected to be considered by the Executive Board of the IMF by October 16, 2007. 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/

Mrs. Nenadi E. Usman
Minister of Finance

/sgd/

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

Attachment I. Policy Statement by the Government of Nigeria on the Third Phase of the Nigerian Economic Reform Program under the Policy Support Instrument

December 2006

This policy statement by the Government of Nigeria is on the third phase of Nigeria's Policy Support Instrument (PSI) following the conclusion of the Second Review of the PSI by the IMF. It summarizes recent developments on the reforms, the short- and medium-term objectives going forward, and the next set of quantitative targets, structural benchmarks and assessment criteria.

1. **This Policy Statement by the Government is on the third phase of the Policy Support Instrument (PSI), following earlier Statements dated October 6 2005 and March 2006. The Statement spells out the Government's economic reform program covering macroeconomic, structural and anti-corruption issues. The second review mission took place during August 28 to September 7, 2006. Nigeria's reform program, which was instituted by the Government of President Olusegun Obasanjo in 2003,** and based on the country's home-grown program, the National Economic Empowerment and Development Strategy (NEEDS), focuses on addressing the structural and institutional weaknesses of the economy, tackle corruption and overhaul public expenditure management. To ensure an objective assessment of the implementation of the program, the IMF has been monitoring on a quarterly basis since 2004 the implementation of the program at the invitation of the Government 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. Progress in these areas has provided a stable macroeconomic environment, which should enable **the private sector to play its role as the engine of economic growth.** Similarly, the anti-corruption drive of the Economic and Financial Crimes Commission (EFCC), and the work of the Nigerian Extractive Industries Transparency Initiative (N-EITI) in auditing the oil and gas industry are addressing 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 are helping to improve the public finances and quality of service. Finally, with the completion of the banking consolidation exercise and the adoption of a wholesale Dutch Auction System, the exchange rates on foreign exchange markets have converged.

3. **Significant progress has been made since the start of 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; a consolidated fiscal surplus of about 10 percent of GDP was recorded; savings on the excess crude oil account was $5.9 billion; while foreign reserves rose

from about $7 billion to about $17 billion. Monetary targets of the CBN were met, and inflation declined sharply.

4. **In 2005 and early 2006, the economy consolidated on the gains of 2004.** Real GDP in 2005 grew by 6.5 percent, with the non-oil sector growing at 8.9 percent; the projection for 2006 is 5.6 percent growth, with non-oil GDP growth of 8.9 percent.[1] The consolidated fiscal surplus at end-2005 increased to about 11 percent of GDP; the balance on the excess crude oil account in July 2006 stood at $9.03 billion and N389.2 billion (the latter reflecting the balance for the domestic crude oil component). Foreign reserves ended 2005 at about $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 neighbouring countries. As of July 2006, the level of international reserves had increased to about $38 billion while July to July inflation rate fell to 3 percent (average for the period was 13.5%). Proactive monetary policy by the CBN enabled it to meet its reserve money target while the introduction of the wholesale DAS has led to the convergence of the rates on the foreign exchange markets.

5. Following the favourable review of the performance of the reform program, and the successful negotiation of a debt reduction deal, Nigeria finally exited the Paris Club in April 2006 (with the deal being executed from the savings in the excess crude oil account). Similarly, it has partially cleared its London Club debt, leaving a total external debt equivalent to about 3% of GDP. 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. Building on the successful first PSI review of end-December 2005 targets, the quantitative targets and structural measures agreed for end-June 2006 were largely met. Most of the structural assessment criteria for the second review were met, many of them ahead of schedule. Similarly, the structural benchmarks were also achieved except the sale of the Kaduna and Port Harcourt refineries, which had to be put on hold because of difficulty in attracting high quality international investors, partly due to the fact that the liberalization of the downstream petroleum product market has not been fully implemented. Similarly, the full deployment of the Integrated Personnel and Payroll Information System (IPPIS), originally scheduled for end-September, is likely to be delayed until Q2 2007 due to delays in the procurement process arising from World Bank procedures. Going forward, the Government has set new targets as shown in tables 1 and 2.

[1] The projected decline in GDP growth rate for 2006 is attributable to the reduction in oil production due to disruptions in the Niger Delta.

6. **The 2007 budget was submitted to the National Assembly on October 11 but the strategy entails building on the gains of the last three years and in line with the medium term expenditure framework (MTEF)** 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). With the attainment of macroeconomic stability, the Government is now shifting emphasis to employment generation through the removal of bottlenecks, which the private sector has identified as constraining 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 Government also sees an urgent need to develop the nation's infrastructure, and plans a number of important projects to be financed in part by drawing on accumulated savings in the excess crude account. In implementing these projects, the Government aims to safeguard macroeconomic stability, including selecting projects with a high import content, and to ensure a high quality of spending. The short and medium-term macroeconomic framework and financial policies remain broadly as in the original PSI statement, as summarized below:

Short-Term Macroeconomic Policies

7. **Short-term macroeconomic policy will be dominated by the execution of the 2006 budget for the rest of the year, as well as by plans for extra expenditure on infrastructure**. The Federal Government recognizes the importance of a strong system of infrastructure as an essential pre-requisite for private sector-led growth.[2] Accordingly, it has decided to increase investment in roads, railways, electricity, and in the dredging of the River Niger to facilitate transportation through the inland waterways. This will be at an estimated total cost of N160 billion, of which an estimated 75-80 percent will be in the form of imports. Most of this money will come from the excess crude oil account. The oversight role of the Due Process Office will ensure that the quality of capital spending is not compromised. In order to ensure that the liquidity impact of the extra spending is managed properly, a system will be put in place to ensure close collaboration between the fiscal authorities and the CBN to enable the latter to have up-to-date information on the domestic component of this spending so it can make necessary plans to manage the liquidity. A Liquidity Management Committee comprising representatives of the Ministry of Finance, Budget Office, CBN, OAGF, NNPC, and FIRS has been set up to monitor expenditure developments and their liquidity implications. This is expected to result in a more transparent and efficient allocation of resources and minimize the volatility of interest rates. Similarly, in addition to provision already made in the 2007 budget to fund the cost of liquidity mop-up, further provision will be made in FY 2007 to augment

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[2] Numerous studies and feedback from the private sector in Nigeria clearly indicate that the poor state of infrastructure is the single most important constraint on economic growth.

available resources in this regard. Going forward, specific elements of the macroeconomic framework include the following:

- Crude oil production is expected to average 2.35 Mb/d in 2006 after the disruption experienced earlier in the year, with output projected to recover to 2.53 Mb/d in 2007.

- An oil price-based fiscal rule will continue to underpin the budgeting process although the exact benchmark price is yet to be determined.

- The targeted primary expenditure of the Federal Government in 2006 is estimated at about 10.5 percent of GDP. In the light of the higher capital spending, the consolidated non-oil primary deficit will rise to 42.0 percent of non-oil GDP in 2006.

- Because of the planned extra expenditure on infrastructure discussed above, fiscal policy shall target a non-oil primary deficit of 40.0 percent of non-oil GDP in 2007.[3]

- Excess revenue on the crude oil account will continue to be saved. Present estimates, based on current WEO oil price projections (of $64.40 per barrel average for Nigerian oil in 2006 and $63.30 per barrel in 2007) and a $40 per barrel oil benchmark price, suggest that the balance on the account would rise to about $54 billion at end 2007.

- Based on the above, the stock of international reserves is expected to rise to $44 billion at end 2006 and $65.6 billion at end 2007.[4]

- The Government recognizes the need to ensure that its capital expenditure, including the savings in the excess crude account, is used prudently and that the quality of spending is high. To this end, it plans to hold a stakeholders' forum in February 2007 to help develop principles for the efficient outlay on capital projects..

- With continued prudent fiscal policy and a proactive monetary policy, inflation is estimated to decline to below 11 percent at end-December 2006; and is expected to further decline to single digit level in 2007, with the Central Bank of Nigeria (CBN) estimating a year-on-year broad money growth rate of about 28 percent by end-December 2006, but with a reduction in the growth rate to about 12 percent in 2007.[5]

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[3] This compares with the original target of 39.6 percent of primary deficit.

[4] A note of caution is necessary here regarding the projected savings on the excess crude oil account and foreign reserve projections since they are based on WEO oil price projections that are known to be very volatile and subject to frequent revisions. Also, the volume of production has been affected in recent times as a result of militant activities in the Niger Delta region.

[5] The CBN explained that the higher M2 growth rate estimate for 2006 is due, in part, to the foreign currency lending by some banks to their local customers; these banks credited the accounts of such customers in domestic currency equivalent, which then swelled broad money.

Provision will be made in the budget for the cost of treasury bills, which will be complemented by other instruments to mop up any excess liquidity.

- A real non-oil GDP growth rate in the range of 7-10 percent is being targeted by the Government for 2007.

- With all 36 States having developed their counterpart to the NEEDS program, the State Economic Empowerment and Development Strategy (SEEDS), Government will intensify its efforts to deepen the reforms to the level of sub-national Governments by extending to more States the package of reforms currently being 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, with 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 CBN has streamlined its standing facilities to help reduce interest rate volatility. Combined with the role of the liquidity Management Committee, the new framework will help to bring about a more effective control of the liquidity situation.

- Institutionally, the CBN continues to be strengthened through an internal restructuring program to refocus it to deliver effectively on the conduct of monetary policy, including through the introduction of electronic platforms for a more effective operation.

- To ensure effective clean notes policy in Nigeria, the CBN is embarking on three major reforms as follows: the restructuring of the Nigerian Security Printing and Minting (NSPM, Plc), the restructuring of the four lower denominations (5, 10, 20, and 50 Naira) as well as issuing new coins (50kobo; N1; and N2). These measures are expected to lead to a reduction in the cost of currency issuance.

Medium-Term Macroeconomic Policy

8. **The Government expects to continue implementing the reform program in the medium term** so as to build on the achievements of the short term, including in the areas of macroeconomic stability and structural reforms. The framework will be based on the following assumptions:

- Crude oil production is expected to recover to about 2.53 Mb/d in 2007 and 2.71 Mb/d in 2008, and thereafter rise further in line with current Government plans to increase the production capacity. The oil price based fiscal rule will continue to underpin the budgeting process; Government shall target a benchmark oil price of about $40 per barrel in the 2007 budget 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 new monetary policy framework, with priority continuing to be given to price stability.

9. **Structural reforms are being deepened**. Several public enterprises listed for privatization in the rest of 2006 are on target for sale, including eleven oil service companies, the IPO for Government's 49 percent of Transcorp Hilton Hotel, and the Le Meridien-Sofitel Hotels.

The following enterprises are targeted for privatization in 2007:

- With the unbundling of the Power Holding Company of Nigeria (PHCN), Government plans to privatize three of the successor companies by 1Q 2007. The contract for the management of the Transmission Company of Nigeria will be awarded by end March 2007. Similarly, the bid opening for the Abuja Electrical Distribution Plc will be done by end-June, 2007.

- The Port Harcourt and Kaduna refineries are now slated to be offered for sale in 2Q 2007

- 8 oil service companies will be offered for sale in 2Q 2007

- 9 LPG plants will be offered for sale in 3Q 2007

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 (NCS) continues. In order to increase its efficiency, plans are underway to rationalize, realign and right-size the human resource system in the NCS.

- The National Planning Commission is working on the SEEDS benchmarking, and expects to complete and publish the outcome by end June 2007.

- Government successfully established, in March 2006, a one-stop shop for investors as part of efforts to improve the investment environment. It has now set up a Presidential Committee to study and make proposals on how to address other impediments to doing business in Nigeria.

- 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 Accounting Transaction Recording and Reporting System (ATRRS). The ATRRS will be made consistent with the proposed Integrated Financial Management System (IFMS) being developed with World Bank support.

- A Chart of Accounts has been developed by the Office of the Accountant General, and is now in full operation. It is now planned to roll out the ATRRS in Nigerian Missions/Embassies abroad for better financial control.

- Following the implementation of a tagging and tracking system for monitoring and evaluating spending of debt relief savings in MDG-related sectors, Government has now commenced the production of quarterly reports of spending in MDG-related sectors (covering the first two quarters of 2006 in the first instance).

- The payment of contractors commenced in July 2006 for contractors that are owed up to N100 million. Bonds are now being issued to cover the debt to contractors owed over N100 million.

- Similarly, a database of pension arrears has been put in place, while the payment of arrears for 2005 is now being cleared; bonds were issued in September for the pre-2005 arrears.

- The Debt Management Office (DMO) has successfully created a secondary market for bonds by establishing a primary dealer structure. It is now working to conclude the retirement of the par bonds and promissory notes (London Club debt) by 2Q 2007.

- The work of the Due Process Office in ensuring transparency and best practice in public procurement will continue; BMPIU is now working on a draft procurement manual, with a view to finalizing it once the Public Procurement Bill is passed into law.

- Progress continues to be made towards finalizing arrangements to pay off depositors whose funds are trapped in the 14 banks that failed to meet the new capitalization threshold. The delay stems primarily from legal challenges by some of them.

- The deregulation of the downstream oil market has continued, with an upward adjustment of the ex-depot price of diesel implemented from July, 2006. However, as the international oil price has continued to rise, an extra N50 billion is to be provided to augment the N150 billion provided in the 2006 budget for price support. As with the original plan, all 3 tiers of government are contributing to the petroleum support fund. A sum of N100 billion has been proposed as Federal Government's share of petroleum subsidy in the 2007 budget, of which N50 billion is for NNPC's subsidy expenses in 2006, as it hopes to further liberalize the downstream petroleum market.

- The micro-finance policy launched by the CBN in December 2005 towards helping to improve credit access to farmers and small entrepreneurs is continuing; this is part of Government efforts to translate the benefits of the reforms to the Nigerian public.

- The recapitalization of Community banks (from N5 million to N20 million within a time frame of 18 months) is continuing.

- The Civil Service reforms are being deepened. Full disengagement of 30,000 officers from the Civil Service with payment of severance benefits and training for smooth transition to post–retirement life 1st Quarter, 2007.

- As part of Government's policy to improve the quality of the Civil Service, a new pay regime designed to motivate retained officers will be introduced in 1st Quarter, 2007.

- It is planned that at least 11 core Ministries will be fully restructured in 1st Quarter, 2007

- Complete the restructuring of ministries, departments and agencies, (MDAs) and parastatals in 2nd Quarter, 2007

- The restructuring of the Federal Inland Revenue Service (FIRS) is continuing. The Agency is currently working to complete the implementation of its human resource management system.

- Progress is being made in Government's effort to strengthen macroeconomic statistics. The National Bureau of Statistics (NBS), in collaboration with the CBN, has completed a survey for developing a quarterly GDP database. Other surveys covering labour, capital inflows, manufacturing, and agriculture are also planned.

Transparency and fight against corruption

- The audit of the oil and gas industry under the auspices of the NEITI for the period, 1999-2004 (a structural assessment criterion), was completed in April and released to the public. Post-audit remedial measures are currently being put in place to address the areas of weakness identified in the reports, including by designing standard reporting templates for the relevant agencies and oil companies. Auditors to conduct the audit of the oil and gas sector for 2005 and 2006 will be appointed by end-March 2007.

- 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. In order to enable the EFCC carry out its work more effectively, its funding has been increased.

- The Government received an investigation delegation from the FATF secretariat in May, culminating in the de-listing of Nigeria from the category of non-cooperating countries and territories. As part of Government's effort to be in compliance with the FATF standards, and prior to the FATF visit, an anti-terrorism law had been submitted to the National Assembly.

10. **The process of trying to institutionalize the reforms is being given a new push** as the President has stepped up dialogue with the National Assembly to speed up the passage of several Bills presently under consideration by the National Assembly, including the following:

- The Fiscal Responsibility Bill has continued to make progress in the National Assembly, with some public hearings having been held.

- The Public Procurement Bill is still making its way through the National Assembly, and public hearings have also been held;

- The Tax Reform Bill continues to progress through the National Assembly; and

- The NEITI bill has continued to progress through the Senate, having been passed by the House of Representatives.

11. **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.

12. **Following the conclusion of the debt deal with the Paris Club of Creditors in October 2005, Nigeria finally completed the payment of $12.4 billion in April 2006 to wipe out the** external debt of about $30.5 billion. This has resulted in savings of about $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, and which has been set aside for investment in MDG-related spending.

13. **Program monitoring.** The Government proposes a continuation of the quantitative assessment criteria for the second half of 2006 and first half of 2007 and in the context of agreed quarterly quantitative indicative targets (see table 1). The Government also proposes to modify the fiscal target for 2006 as explained in paragraph 7 above. Structural assessment criteria and benchmarks (table 2) will continue to be used to assess performance of policy and reform implementation. We welcome the Fund's continued engagement with us to monitor the program performance under the IMF's Policy Support Instrument. The expected third review date to assess the performance up to December 2006 will be no later than April 30, 2007.

14. **The Government reiterates its commitment to seek only concessional financing in the period ahead** to help finance any gap in its investment program. In this context, a framework for a loan of $2.5 billion has been agreed with China towards the cost of building a railway system and other infrastructure projects. The terms of the loan are still under discussion, but the interest rate is likely to be about 3%, with a grace period of 3-5 years and a term of 15-25 years depending on the particular project. The Government believes that this one-off arrangement is essential to meet its desire to strengthen the infrastructural base to promote economic development. 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 - Quantitative Assessment Criteria and Indicative Targets, 2006-07
(Billions of naira, unless otherwise indicated)

	2006		2007	
	end-Dec.		end-Mar.	end-Jun.
	Assessment Criteria	Revised Criteria	Indicative Targets	Assessment Criteria
Federal government non-oil primary balance (floor)[1]	-1,252	-1,316	-390	-728
Reserve money (ceiling)	820	820	843	866
Net foreign assets of the CBN (floor)	5,649	5,135	5,557	6,048
New non-concessional external debt by the public sector (ceiling) [2]	0	0	0	0
External arrears [2]	0	0	0	0
Memorandum items:				
Oil production (in million barrels per day)	2.52	2.37	2.41	2.49
Oil price (in U.S. dollars per barrel) [3]	60.5	64.4	64.0	63.3
Petroleum Profit Tax	1,964	1,753	556	1,111
External debt service	685	681	19	39
State and local government non-oil primary balance	-1,455	-1,542	-439	-878

Sources: Nigerian authorities and staff estimates and projections.

[1] Cumulative until the end of the period and includes the fuel subsidy.

[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: 2007 Structural Benchmarks and Assessment Criteria under the PSI Program

S/N	**Structural Assessment Criteria**	**Expected date of achievement**
1	Management contract for the Transmission company of Nigeria will be awarded as set out in paragraph 9 of the statement	End-March 2007
2	Appoint auditors to conduct the audit of the oil and gas sector for 2005 and 2006 as set out in paragraph 9 of the statement	End-March 2007
3	Bid opening for sale of the Abuja Electricity Distribution Plc as set out in paragraph 9 of the statement	End June 2007
4	Issue report on SEEDS Benchmarking for 36 States to be published as set out in paragraph 9 of the statement	End-June 2007
5	Complete restructuring of MDAs as set out in paragraph 9 of the statement	End-May 2007
6	FIRS to complete implementation of human resource management system, including installation of HRM hardware and software for nationwide access, and conduct a competence assessment exercise to determine training needs.	End-June 2007
7	The Central Bank to introduce a new Standing Facility to help reduce interest rate volatility as stated in paragraph 7 of the statement.	End-June 2007
	Structural Benchmarks	
1	Continue publication of revenue allocation to the three tiers of Government	Continuous
2	Complete payment of severance benefits and training programs for retirees resulting from the Civil Service reform program in MDAs.	End-March 2007
3	Complete restructuring of 11 core Ministries as set out in paragraph 9 of the statement	End-March 2007
4	Complete restructuring of five parastatals in terms of right-sizing and right-staffing.	End-May 2007
5	Bid opening for sale of 8 Oil Service Companies	End-June 2007
6	Nigerian Customs Service to conduct staff survey to determine suitability of personnel for minimum requirements of service in preparation for rationalization, realignment and right-sizing its human resource system.	End-June 2007

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

Attachment II. Nigeria: Technical Memorandum of Understanding (TMU)

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

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

Memorandum Item: Definitions and Reporting Standards

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

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

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

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

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

Appendix II. Nigeria: Relations with the Fund
(As of October 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	1,753.11	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	1.82	1.16

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	1.52	6.28	6.30	6.28	6.28
Total	1.52	6.28	6.30	6.28	6.28

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 MCM 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 the Country Report 03/3.

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 Country Report 05/302 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	February–August 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
FAD	Public expenditure management advisor	October 2004–June 2005
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	August 29–September 13, 2005
FAD	Tax administration peripatetic advisor	July –December, 2005 (3 visits)
FAD	Public expenditure management advisor	October 2005–April 2006
MFD	Banking consolidation, monetary policy	November 9–22, 2005
MFD	Monetary operations advisor	December 11–17, 2005
STA	Money and banking statistics	January 26–February 8, 2006
MFD	Exchange rate management advisor	February 13–20, 2006
MFD	Banking consolidation, monetary policy	February 27–March 10, 2006
STA	Balance of payment statistics	March 15–28, 2006
MCM	Monetary policy peripatetic advisor	2 visits since May 2006

XI. **Resident Representative**:

Mr. Michael Bell entered on duty as Senior Resident Representative in Abuja on August 10, 2006.

Appendix III. Nigeria: Relations with the World Bank Group

Partnership for development

1. The government of President Olusegun Obasanjo has continued implementation of the National Economic Empowerment and Development Strategy (NEEDS), a program of reforms aimed at achieving economic and social transformation in Nigeria. This effort at the Federal level, working in parallel with State Economic Empowerment and Development Strategies (SEEDS) at the state level, is continuing to improve the environment for development assistance and strengthen the framework for aid effectiveness.

2. The World Bank assistance to Nigeria is based on a joint World Bank/DFID Country Partnership Strategy (CPS) prepared in consultation with government, civil society, private sector and other development partners and approved by the British Government and the Board of the World Bank on June 25, 2005. This strategy, which will guide the assistance of the Bank and UK's DFID to Nigeria for the period 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. Under the CPS, both the World Bank and UK's DFID are deepening engagement with Nigeria, in response to the improved policy environment and the importance of Nigeria for meeting the MDGs in Africa. The assistance is targeting more support at the level of states where constitutional responsibility for most functions related to achievement of the MDGs lies. At the same time, the Bank and DFID are more selective in approach, 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 and where development assistance can achieve the greatest impact on growth and poverty reduction.

4. Under the strategy the IDA lending envelope has been increased from about US$200 million to US$500 million annually for the first two years. This envelope has been determined on the basis of the performance-based allocation (PBA) system and is expected to increase as Nigeria's policy performance continues to improve. Indicative lending plans for the remaining two years of the CPS will be set during the mid-term review of the strategy in 2007. UK's DFID is increasing its assistance to Nigeria to about ₤ 100 million in grant resources annually in the same period.

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, public financial management, and 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. In 2006, the Bank and the IMF staff jointly updated the Debt Sustainability Analysis.

7. Bank and IMF staffs are beginning work with the Government on the macroeconomics of scaling up. This exercise will analyze options for scaling up to meet the MDGs in Nigeria in a manner consistent with macroeconomic stability objectives.

Lending activities

8. 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 (FY07) valued at about US$1.9 billion. As of September 2006 about US$580 million (IDA) has been disbursed out of this total commitment. The disbursement ratio in FY06 at about 23 percent improved greatly from about 14 percent in FY05. The significant improvement in disbursements follows the recent restructuring of the portfolio, which increased simplification and flexibility in the implementation process. The Bank will also continue to focus on addressing the portfolio's percent of projects at risk by continuing to increase disbursements, improve M&E systems, and ensuring that projects already approved achieve their development objectives.

9. The Bank's lending program in Nigeria comprises twenty-one projects including two GEF projects covering activities in various sectors of the economy: Infrastructure (36.8 percent), Human Development (17.5 percent), Energy (13.7 percent), Finance/Private Sector (13.4 percent), Agriculture/Environment (9.5 percent), and Economic Management/Governance (9.1 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

10. 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. Key analytical pieces include a Poverty Assessment (FY06), an Agricultural Sector Review (FY06),

a Public Expenditure Management and Financial Accountability Report (FY07), a Country Economic Memorandum on Competitiveness and Growth (FY07), an Education Sector Review (FY07), an Agriculture Financing Review, and an Investment Climate Survey in a sample of states (FY08).

International Finance Corporation (IFC) activities

11. Nigeria remains IFC's largest commitment portfolio in Sub-Sahara Africa with an outstanding portfolio of US$543 million in private sector investments as of June 2006. IFC's portfolio in the country represents approximately 30 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 of technical assistance initiatives. Highlights of IFC activities in the various sectors of Nigeria are described below.

12. **Financial sector.** Over the past five years, IFC has disbursed over US$150 million to five Nigerian banks in terms of credit lines. Besides providing long-term credit lines (which are in short supply in the country), IFC also recently signed on five Nigerian banks as issuing banks under the IFC Global Trade Finance Program. The total utilization of the trade finance facilities was approximately US$170 million in FY06, which was the first full year for this innovation. In addition, IFC is providing Nigerian banks with specialized financing facilities and technical assistance, to open up financing opportunities in new or untapped markets such as women entrepreneurs and construction finance. IFC's involvement 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 demand for IFC financing in the market. However, IFC is increasingly diversifying to finance non-bank financial institutions such as insurance and asset management companies. Lastly, IFC is able to provide naira long-term financing to both banks and project companies (e.g., manufacturing and agribusiness) because of the existence of long-term cross-currency swaps from naira into convertible currencies. As such, IFC is in advanced discussions with the Central Bank of Nigeria (CBN) seeking approval to provide long-term naira financing.

13. **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$925 million and IFC will be providing a US$75 million long-term loan as well as technical assistance to support best practices in HIV/AIDS prevention, and environmental and social development.

14. **Oil and gas, mining and petrochemicals.** IFC's strategy in this sector has been to target the services area in linkages to projects with the oil majors, as well as indigenous oil

and gas production and services companies. There have also been recent opportunities in the downstream petrochemicals area as a result of privatizations such as the Eleme petrochemicals project, where IFC has approved a US$75 million investment for rehabilitation and expansion of a petrochemicals plant.

15. **Health and education.** IFC recently approved a US$2.5 million investment for Socketworks to rollout ICT services to educational institutions, private companies and government agencies. The Nigerian Universities Commission has endorsed 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. IFC is in the process of considering a second investment to Socketworks to expand its business in Nigeria.

Advisory and technical assistance projects

16. **Private Enterprise Partnership (PEP) Africa.** As replacement to the African Project Development Facility (APDF), the 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 SME Entrepreneurship Development Initiative (core successor to APDF), the Oil Sector SME Linkages Project in coordination with INSOK from Norway, and the Better Business Initiative to assist in improving the investment climate, credit reference bureau (to help unlock consumer and retail financing), and bond market development with support of SIDA from Sweden.

17. **Technical assistance in aviation.** IFC is the lead adviser to the government for the privatization of Nigeria airports beginning with the Abuja airport. 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 sector and implementation of a privatization transaction.

18. **Power sector.** A joint World Bank/IFC Energy Team is working with the federal government through the Ministry of Finance and the 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 private electricity projects. Currently, IFC is evaluating two private power 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)

19. 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.

20. As a result of the increasing WBI focus on Nigeria, Nigerian participation in WBI programs has been growing rapidly, with participation strongest in the very popular Youth program *Debate to Action* that seeks to facilitate youth understanding and involvement in poverty reduction and other development issues. As in previous years, programs for journalists and newspaper editors, and for members of parliament and parliamentary staff continue to be among the most active. Other important programs for which WBI will continue to provide support under the 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.

21. With only 12 percent of participants reached through videoconferencing, distance learning still does not play a significant role in Nigeria. A Global Distance Learning Network—GDLN center is expected to be completed and functional before mid-2007. There has also been a significant increase in the number of Nigerian individuals who sign up for Web-based courses offered by WBI including in areas such as economic literacy of civil society organizations, private sector development (PSD), poverty analysis, gender analysis, and public finance.

Multilateral Investment Guarantee Agency (MIGA)

22. 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 (e.g., service, manufacturing, and infrastructure) of the Nigerian economy totaling about US$143.8 million in gross exposure (US$122.3 million in net exposure). The major stakes of MIGA in Nigeria has been in the services sector, where MIGA issued guarantees for two separate companies (SGS and Cotecna) for a total amount of US$81 million in FY06. The objective of the two projects are to modernize the ports screening facilities (land and sea) in Nigeria in order to reduce the time required for customs clearance and opportunities for graft. MIGA's second largest exposure is in the telecommunication sector, where it has issued guarantees worth about US$39 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.

III.1. Nigeria: IDA Credit Portfolio

(At September 25, 2006, US$ million)

Project ID	Project Name	Fiscal	Approved IDA	Disbursed	Undisbursed
P063622	Fadama II	2004	100.0	54.0	48.6
P065301	Economic Management Capacity Building	2000	20.0	18.2	1.7
P069892	Local Empowerment & Environment Management	2004	70.0	27.2	50.5
P069901	Community-based Urban Development	2002	110.0	27.3	102.5
P070290	2nd Health Systems Development	2002	127.0	83.9	66.0
P070291	HIV/AIDS Program Development	2002	90.3	73.6	30.6
P070293	Privatization Support Project	2001	114.3	54.9	76.9
P071075	Urban Water Sector Reform I	2004	120.0	11.68	109.1
P072018	Transmission Development	2002	100.0	64.9	50.6
P0749963	Lagos Urban Transport Project	2003	100.0	63.1	48.5
P080295	Polio Eradication	2003	80.4	57.7	21.3
P083082	Micro, Small & Medium Enterprise	2004	32.0	3.07	29.9
P086716	Sustainable Management of Mineral Resources	2005	120.0	13.9	104.4
P088150	Economic Reform and Governance	2005	140.0	17.98	120.3
P071391	Urban Water Sector Reform II	2006	200.0	6.96	190.1
P074447	State Governance and Capacity Building Project	2005	18.1	0.6	17.2
P090104	National Energy Development Project	2006	172.0	1.0	166.3
P100122	Avian Influenza Control	2006	50.0	0.0	51.7
P071340	Lagos Metropolitan Development and Governance	2007	200.0	0.0	206.2
	Overall result		1964.1	579.99	1,492.4

III. 2. Nigeria: Proposed Lending Summary, FY2007/09

(At September 25, 2006, US$ million)

	Malaria Control and Booster Project	180
FY 07	Aviation	10
	State Education	30
	Additional Financing CBPR	25
	Post Basic Education and Knowledge	135
Total		**380**
	HIV/AIDS	100
	State Education 2	30
	Fadama 3	200
FY 08	State Water (3)	40
	Infrastructure Guarantee	30
	Aviation	10
	LUTP	25
	Post Basic Education and Knowledge	100
Total		**535**
	Power project	150
FY 09	Federal Roads 2	200
	State Education 3	150
	State Agriculture	40
	State Health	50
	State Water (4)	100
	RAMP	50
	State Governance & Capacity Bldg. 2	20
Total		**760**

III.3. Nigeria: Proposed Non-lending Summary, FY2007/09

(At September 25, 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 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

III. 4. Nigeria: International Finance Corporation
Statement of IFC's Held and Disbursed Portfolio at June 30, 2006

Nigeria	Sector	Fiscal Year in which commitments were made	Total IFC	Loan	Equity	Quasi-loan/Quasi equity	Guarantee
					US$ millions		
AEF Global Fabri	Textiles	FY99	0.3	0.3	-	-	-
AEF Hercules	Education services	FY99	1.3	1.3	-	-	-
AEF Mid-East	Nonmetallic Mineral	FY96	0.0	-	-	0.0	-
AEF Oha Motors	Transportation & Warehousing	FY00	0.8	0.8	-	-	-
AEF Safety Center	Education services	FY00	0.4	0.4	0.0	-	-
AEF Vinfesen	Plastics & Rubber	FY95	1.0	-	-	1.0	-
Abuja Intl	Health Care	FY94	1.8	1.8	0.0	-	-
Accion Nigeria	Finance & Insurance	FY05	1.9	-	1.9	-	-
Adamac	Oil, Gas & Mining	FY03	25.0	25.0	-	-	-
Arewa Textiles	Textiles	FY64,66,70,89	0.0	-	0.0	-	-
CAPE FUND	Finance & Insurance	FY00	6.2	-	6.2		-
Delta Contractor	Finance & Insurance	FY01	15.0	-	-	15.0	-
Diamond Bank	Finance & Insurance	FY00,05,06	52.0	-	-	52.0	-
FSB	Finance & Insurance	FY00	9.0	5.3	-	3.8	-
FSDH	Finance & Insurance	FY92,93	0.9		0.9	-	-
GTB	Finance & Insurance	FY00,04,05,06	76.0	76.0	-	-	-
GTFP Access Bank	Finance & Insurance	FY06	39.7	-	-	15.0	24.7
GTFP Diamond Bank	Finance & Insurance	FY06	30.1	-	-	-	30.1
GTFP GTB Nigeria	Finance & Insurance	FY06	20.6	-	-	-	20.6
GTFP IBTC Plc.	Finance & Insurance	FY06	3.7	-	-	-	3.7
GTFP Zenith	Finance & Insurance	FY06	15.0	-	-	-	15.0
IBTC	Finance & Insurance	FY00,06	50.0	20.0	-	30.0	-
Ikeja Hotel	Accommodation & Tourism	FY81,85,88	0.1	-	0.1	-	-
MTNN	Information & Technology	FY02,05	85.0	70.0	15.0	-	-
NTEF	Finance & Insurance	FY02	20.0	-	-	-	20.0
Obajana Cement	Construction & Real Estate	FY05	75.0	75.0	-	-	-
SOCKETWORKS	Education services	FY06	2.5	-	-	2.5	-
UPDC Hotels Ltd.	Accommodation & Tourism	FY04	10.6	10.6	-	-	-
		Total	543.9	286.5	24.0	119.3	114.2

Appendix IV. Nigeria: External and Public Debt Sustainability Analysis (DSA)

1. This debt sustainability analysis examines Nigeria's external and public debt dynamics under various scenarios, including standardized and Nigeria-specific alternatives. This joint DSA utilizes the Bank-Fund debt template for low-income countries. The analysis suggests that Nigeria is at a low risk of debt distress. In the baseline scenario, and in the case of the standardized stress tests, Nigeria's debt outlook remains relatively robust. However, in the cases of a prolonged oil price shock, or sustained higher (non-oil primary) deficits, compensating policy measures would be required in order to avoid future debt sustainability problems.

A. The Baseline and Alternative Scenarios

2. The **baseline scenario** for 2006-2026 underlying this DSA incorporates the following assumptions:

- An average growth rate of 5.2 percent over the period reflecting buoyant growth of non-oil GDP of around 5.8 percent, and more modest growth of oil GDP of 3.4 percent.[1] Monetary policy will be geared towards maintaining single-digit inflation over the projection period.

- Based on the latest WEO projection, oil prices decline gradually to around US$58 per barrel by 2012, and remain constant in real terms thereafter.

- A consolidated government non-oil primary deficit (NOPD) of around 40 percent of non-oil GDP throughout the projection period. This is consistent with the medium-term projection underlying Nigeria's Policy Support Instrument (PSI), and assumes no change from the medium-term fiscal stance.[2] Such a stance is also consistent with the range of estimates derived from a permanent income hypothesis exercise.

- An increase in government debt by N200 billion in 2006 resulting from the securitization of past contractual and pension arrears, and efforts to help the central bank to manage monetary policy.

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[1] This compares to historical averages for overall GDP growth of 4.6 percent over the previous 10 years, and 5.7 percent over the previous five years. For non-oil GDP growth, these rates are 5.5 percent and 7.3, respectively.

[2] Hence, the government is assumed to be able to fend off pressures to loosen the current fiscal policy stance on the grounds of establishing a medium- and long-term sustainable fiscal position. This implies large but declining overall surpluses until 2013, when deficits appear and accrued financial assets start to be used.

- The balance of payments remains in surplus over the medium term, before turning into deficit after 2020. Reserve coverage is projected to average more than 22 months of imports over the projection period.

3. Various standardized stress tests and country-specific **alternative scenarios** are also examined (see Tables 2 and 4, and Figures 1 and 2):

- **Standardized alternative scenarios and stress tests** include holding key variables at their historical averages, financing on less concessional terms, and various bound tests. The most extreme bound test holds exports at their historical average minus one standard deviation in 2007-08.

- **Country-specific alternative scenarios** are designed to illustrate the impact on debt dynamics of: (i) a prolonged oil price shock (in light of Nigeria's high dependency on oil,[3] as well as the high level of oil prices projected over the medium term), and (ii) a higher deficit reflecting a prolonged period of elevated spending (in light of pressing infrastructure and social needs). The oil-price shock is calibrated as one standard deviation of Brent crude prices over the 1970-2006 period. This reduces future oil prices by US$19 per barrel, such that average prices are around US$38 per barrel in 2007 prices.[4] The higher deficit scenario holds the non-oil primary deficit of the consolidated government constant at its 2006 level (including the fuel price subsidy), i.e. at 45 percent of non-oil GDP, over the projection period.

B. External Sustainability[5]

4. Following implementation of the final phase of Nigeria's 2005 Paris Club Agreement by mid-2006, Nigeria's external public debt is projected to total US$3.5 billion, or 3 percent of GDP, at end-2006.[6] In the **baseline scenario** (Table 1 and Figure 1), the nominal external debt burden is projected to remain broadly unchanged through the medium term, before rising towards the end of projection period. The debt-service to export ratio falls from 8.5 percent in 2006 to under 1 percent throughout the projection period. The grant element of Nigeria's

[3] In 2005, oil revenue accounted for more than 80 percent of the consolidated government's revenue base and oil–related export proceeds for over 95 percent of Nigeria's export earnings.

[4] The impact of a two standard deviation shock to oil prices is discussed in footnote 9.

[5] The LIC debt sustainability framework (DSF) provides a methodology for assessing external debt sustainability which is guided by indicative, country-specific, debt burden thresholds based on the relative strength of a country's policies and institutions. In light of Nigeria's 3.14 rating in the 2005 IDA Resource Allocation Index, which is based on the World Bank's Country Policy and Institutional Assessment (CPIA), the relevant country-specific thresholds are: an NPV of debt to GDP of 30 percent, an NPV of debt to exports of 100 percent, and a debt service to exports ratio of 15 percent.

[6] The DSA incorporates the effects of the early repayment of Nigeria's par bonds in November 2006, which has the effect of reducing external debt by some US$1.4 billion.

external debt is projected to fall gradually from around 55 percent currently, to just over 35 percent by 2026, reflecting a shift towards commercial borrowing. Hence, the net present value (NPV) of debt-to-GDP ratio would be slightly lower than the nominal external-debt-to-GDP ratio, averaging around 3.7 percent over the period.

5. **Standardized stress tests** (Table 2 and Figure 1), even the most extreme, show that the external debt burden would likely not exceed 23 percent of GDP over the projection period, with debt service remaining low at around 2 to 4 percent of exports.

6. However, the **country-specific alternative scenarios** (Table 2 and Figure 1), illustrate the vulnerability of Nigeria's public finances, and consequently, its external debt position.

- In the case of the **prolonged oil price** shock, Nigeria's debt ratio could reach 117 percent of GDP (or 93 percent in NPV terms), and 406 percent of exports, by the end of the projection period, with debt service payments rising to around 6 percent of exports. Furthermore, in the oil shock scenario, international reserves would peak in 2007 at over 11 months of imports, compared to peaking in 2015 at over 28 months of imports in the baseline scenario.

- In the case of the **higher deficit scenario**, Nigeria's debt ratio could reach 73 percent of GDP (or 63 percent in NPV terms), and 223 percent of exports, by the end of the projection period, with debt service payments rising to around 2 percent of exports.

7. Nevertheless, Nigeria's robust starting position in terms of government deposits and international reserves, would provide sufficient time for fiscal policies to be adjusted to avoid the accumulation of debt projected in either scenario. As such, prudent fiscal and external policies would allow Nigeria to avoid the risks associated with such a scenarios.

C. Fiscal Sustainability

8. As a result of the application of a budget reference oil price rule, government deposits at the central bank are projected to surpass US$25 billion at end-2006. The **baseline scenario** (Table 3 and Figure 2) sees a continued accumulation of consolidated government deposits at the central bank, reaching around US$90 billion by 2015. Subsequently, such deposits are assumed to be drawn down gradually as oil revenues fall as a share of GDP, and the overall budget surplus turns into deficit. In light of the accumulation of such significant levels of government deposits, and the low level of gross debt,[7] the fiscal debt sustainability exercise for Nigeria utilizes a concept of *net deb*t, defined as gross consolidated government debt (external and domestic) less gross consolidated government assets (specifically, the balance in

[7] The NPV-of-public-sector-gross-debt burden would decline through the medium term, before rising towards the end of the projection period.

the excess crude account).[8] Net debt is negative in the baseline scenario throughout the bulk of the projection period as a result of the inclusion of these government assets. Nevertheless, net debt is expected to rise towards the end of the period and to reach about 49 percent of GDP in net present value terms.

9. As is the case with external sustainability, the fiscal sustainability baseline is relatively robust to the **standardized stress tests**, with public sector net debt rising only towards the end of the projection period and debt service averaging just under 10 percent of revenues over the projection period, and peaking at 18 percent, in the most extreme test (Table 4 and Figure 2).

10. However, as noted above, in the case of the **country-specific alternative scenarios** (Table 4 and Figure 2), Nigeria's fiscal position could weaken significantly in the absence of appropriate fiscal policy action.

(a) In the case of the **prolonged oil price** shock, government deposits at the central bank would be exhausted by 2012, and external and domestic borrowing would be needed to finance the ongoing deficit.[9] As a result, Nigeria's public debt to GDP ratio would reach 148 percent, debt to revenue 575 percent, and debt service to revenues over 28 percent in NPV terms at the end of the projection period (Table 4 and Figure 2).

(b) In the case of the **higher deficit scenario,** government deposits at the central bank would be exhausted by 2018, and external borrowing would be needed to finance the ongoing deficit. As a result, Nigeria's public debt to GDP ratio would reach 99 percent, debt to revenue 339 percent, and debt service to revenues over 10 percent in NPV terms at the end of the projection period.

D. Conclusion

11. Nigeria is at a low risk of debt distress. In the baseline scenario, and in the case of the standardized stress tests, Nigeria's debt outlook remains relatively robust notwithstanding a rise in debt ratios towards the end of the projection period. However, either a prolonged oil price shock, or a prolonged loosening of the non-oil primary deficit—without compensating policy measures— would seriously undermine the recent progress made in achieving macroeconomic and debt sustainability. But given Nigeria's strong financial starting position, timely policy action should be able to avert future sustainability problems.

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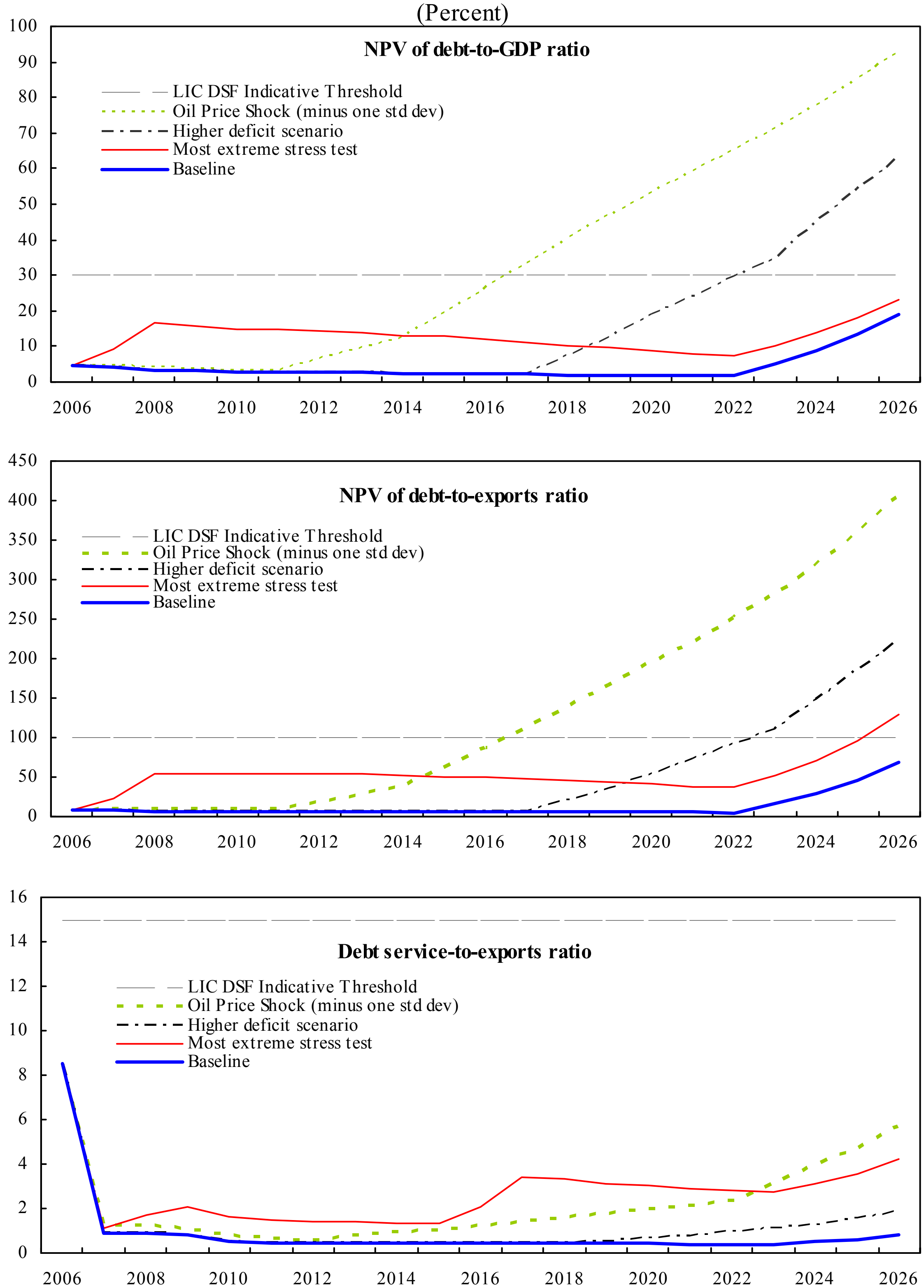
[8] For illustrative purposes, Figure 2 also presents the evolution of gross debt in the baseline scenario.

[9] For illustrative purposes, assuming an oil price shock of two standard deviations—thereby reducing prices to around $US22 per barrel in 2007 prices—and the current baseline fiscal deficit, government deposits at the central bank would be exhausted by 2008.

Figure 1. Nigeria: Indicators of Public and Publicly Guaranteed External Debt Under Alternative Scenarios, 2006–26[1]

(Percent)



Source: Staff projections and simulations.

[1] The most extreme stress test is the standard stress test that yields the highest ratio in 2016.

Table 1. Nigeria: External Debt Sustainability, Baseline Scenario, 2006-26[1]
(Percent of GDP, unless otherwise indicated)

	Actual										Historical Average[6]	Standard Deviation[6]
	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005		
External debt (nominal)[1]	**60.7**	**81.8**	**85.6**	**76.9**	**66.1**	**62.3**	**67.2**	**57.2**	**50.2**	**20.8**		
o/w public and publicly guaranteed (PPG)	60.7	81.8	85.6	76.9	66.1	62.3	67.2	57.2	50.2	20.8		
Change in external debt	-21.3	21.1	3.8	-8.7	-10.8	-3.8	5.0	-10.1	-6.9	-29.5		
Identified net debt-creating flows	-24.8	8.0	11.0	-4.7	-28.5	-11.5	8.5	-15.7	-21.4	-32.4		
Non-interest current account deficit	**-8.4**	**-9.8**	**2.6**	**3.1**	**-15.5**	**-7.7**	**8.4**	**0.0**	**-6.3**	**-13.8**	**-4.3**	**8.2**
Deficit in balance of goods and services	-8.0	-8.0	4.8	2.5	-22.1	-10.8	0.9	-8.2	-16.7	-20.9		
Exports	35.6	47.4	33.2	37.1	54.3	43.3	40.9	49.7	54.4	55.5		
Imports	27.7	39.3	38.0	39.5	32.2	32.5	41.8	41.5	37.7	34.6		
Net current transfers (negative = inflow)	-1.9	-5.2	-4.5	-3.3	-3.4	-2.7	-3.0	-3.6	-3.8	-3.4	-3.5	0.9
Other current account flows (negative = net inflow)	1.5	3.4	2.3	3.9	10.0	5.7	10.5	11.8	14.3	10.6		
Net FDI (negative = inflow)	**-2.7**	**-4.9**	**-3.9**	**-3.1**	**-2.7**	**-4.3**	**-5.4**	**-5.0**	**-6.2**	**-6.5**	**-4.5**	**1.4**
Endogenous debt dynamics[2]	**-13.8**	**22.7**	**12.3**	**-4.7**	**-10.4**	**0.5**	**5.5**	**-10.7**	**-9.0**	**-12.2**		
Contribution from nominal interest rate	4.0	4.7	6.3	5.3	3.8	3.2	3.4	2.7	2.2	1.7		
Contribution from real GDP growth	-4.3	-2.5	-0.3	-1.1	-3.4	-2.0	-1.0	-5.8	-2.8	-2.6		
Contribution from price and exchange rate changes	-13.5	20.4	6.2	-8.8	-10.8	-0.7	3.1	-7.6	-8.4	-11.2		
Residual (3-4)[3]	**3.5**	**13.1**	**-7.2**	**-3.9**	**17.7**	**7.7**	**-3.5**	**5.6**	**14.5**	**2.9**		
o/w exceptional financing	-6.9	-9.2	-8.8	-6.5	-3.8	-2.4	-3.8	-2.3	-1.9	5.0		
NPV of external debt[4]	...	...	...	...	...	...	...	...	...	10.3		
In percent of exports	...	...	...	...	...	...	...	...	...	18.6		
NPV of PPG external debt	**...**	**...**	**...**	**...**	**...**	**...**	**...**	**...**	**...**	**10.3**		
In percent of exports	...	...	...	...	...	...	...	...	...	18.6		
Debt service-to-exports ratio (in percent)	34.1	31.2	38.9	29.9	13.8	15.7	15.6	10.3	7.8	6.5		
PPG debt service-to-exports ratio (in percent)	34.1	31.2	38.9	29.9	13.8	15.7	15.6	10.3	7.8	6.5		
Total gross financing need (billions of U.S. dollars)	...	...	...	4.1	-4.9	-2.5	4.3	0.0	-5.8	-16.4		
Non-interest current account deficit that stabilizes debt ratio	12.9	-30.9	-1.2	11.8	-4.6	-3.9	3.4	10.1	0.7	15.7		
Key macroeconomic assumptions												
Real GDP growth (in percent)	6.6	3.2	0.3	1.5	5.4	3.1	1.5	10.7	6.0	7.2	4.6	3.2
GDP deflator in US dollar terms (change in percent)	19.7	-25.2	-7.1	11.5	16.3	1.1	-4.8	12.8	17.3	28.7	7.0	15.9
Effective interest rate (percent)[5]	6.2	6.0	7.2	7.0	6.0	5.1	5.2	5.1	4.7	4.6	5.7	0.9
Growth of exports of G&S (US dollar terms, in percent)	33.4	2.6	-34.7	26.3	79.4	-16.9	-8.7	52.0	36.0	40.5	21.0	34.8
Growth of imports of G&S (US dollar terms, in percent)	7.5	9.7	-9.9	17.6	-0.2	5.2	24.2	24.2	13.0	26.4	11.8	11.7
Grant element of new public sector borrowing (in percent)						...	...	...	...	...	...	...
Memorandym item:												
Nominal GDP (billions of US dollars)	45.8	35.4	33.0	37.3	45.7	47.7	46.1	57.6	71.5	98.7		

	Projections									
	2006	2007	2008	2009	2010	2011	2006-11 Average	2016	2026	2012-26 Average
External debt (nominal)[1]	**3.0**	**2.8**	**2.8**	**3.0**	**3.2**	**3.6**		**3.5**	**29.0**	**7.3**
o/w public and publicly guaranteed (PPG)	3.0	2.8	2.8	3.0	3.2	3.6		3.5	29.0	
Change in external debt	-17.7	-0.2	0.0	0.2	0.3	0.4		-0.1	8.0	
Identified net debt-creating flows	-19.8	-12.3	-14.3	-10.9	-11.6	-9.4		-5.8	7.5	
Non-interest current account deficit	**-12.7**	**-10.6**	**-8.7**	**-5.9**	**-7.0**	**-5.0**		**-2.3**	**11.9**	**2.2**
Deficit in balance of goods and services	-19.3	-15.8	-13.7	-10.5	-10.6	-8.4		-4.9	8.8	
Exports	53.6	51.4	49.3	45.6	44.2	42.3		38.3	28.2	
Imports	34.2	35.6	35.7	35.1	33.5	33.9		33.4	36.9	
Net current transfers (negative = inflow)	-2.9	-2.6	-2.3	-2.1	-1.9	-1.9		-1.4	-0.8	
Other current account flows (negative = net inflow)	9.6	7.9	7.2	6.6	5.5	5.2		4.1	4.0	
Net FDI (negative = inflow)	**-6.4**	**-1.7**	**-5.5**	**-5.0**	**-4.5**	**-4.4**		**-3.5**	**-3.6**	**-3.6**
Endogenous debt dynamics[2]	**-0.7**	**-0.1**	**-0.1**	**-0.1**	**-0.1**	**-0.1**		**-0.1**	**-0.8**	
Contribution from nominal interest rate	0.2	0.1	0.1	0.1	0.1	0.1		0.1	0.2	
Contribution from real GDP growth	-0.9	-0.2	-0.2	-0.1	-0.2	-0.1		-0.1	-0.9	
Contribution from price and exchange rate changes	...	...	...	...	...	...		...	...	
Residual (3-4)[3]	**2.0**	**12.1**	**14.3**	**11.1**	**11.9**	**9.8**		**5.8**	**0.5**	
o/w exceptional financing	-3.9	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
NPV of external debt[4]	4.7	4.0	3.4	3.1	2.9	2.9		2.3	19.1	
In percent of exports	8.8	7.9	7.0	6.8	6.6	6.8		6.1	67.9	
NPV of PPG external debt	**4.7**	**4.0**	**3.4**	**3.1**	**2.9**	**2.9**		**2.3**	**19.1**	**4.7**
In percent of exports	8.8	7.9	7.0	6.8	6.6	6.8		6.1	67.9	
Debt service-to-exports ratio (in percent)	8.5	0.9	0.9	0.8	0.5	0.5		0.4	0.8	
PPG debt service-to-exports ratio (in percent)	8.5	0.9	0.9	0.8	0.5	0.5		0.4	0.8	
Total gross financing need (billions of U.S. dollars)	-16.8	-15.4	-20.3	-17.0	-19.9	-17.2		-15.2	48.5	
Non-interest current account deficit that stabilizes debt ratio	5.0	-10.3	-8.7	-6.1	-7.3	-5.4		-2.2	3.9	
Key macroeconomic assumptions										
Real GDP growth (in percent)	5.1	7.3	7.0	5.6	7.2	4.8	6.2	4.3	4.7	4.8
GDP deflator in US dollar terms (change in percent)	11.6	5.1	5.6	3.3	2.6	1.0	4.9	2.7	2.9	2.8
Effective interest rate (percent)[5]	1.3	4.2	3.9	3.6	3.3	3.1	3.3	2.6	0.8	1.9
Growth of exports of G&S (US dollar terms, in percent)	13.4	8.3	8.4	0.9	6.5	1.2	6.4	3.6	3.9	4.8
Growth of imports of G&S (US dollar terms, in percent)	16.2	17.3	13.1	7.5	5.0	6.8	11.0	8.0	10.1	8.3
Grant element of new public sector borrowing (in percent)	56.9	56.9	56.9	56.9	56.9	56.9	56.9	56.9	35.6	51.3
Memorandym item:										
Nominal GDP (billions of US dollars)	115.8	130.6	147.5	161.0	177.1	187.4		271.3	568.8	

Source: Staff simulations.

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

Table 2. Nigeria: Sensitivity Analyses for Key Indicators of Public and Publicly Guaranteed External Debt, 2006-26
(Percent)

		Projections						
	2006	2007	2008	2009	2010	2011	**2016**	2026
NPV of debt-to-GDP ratio								
Baseline	5	4	3	3	3	3	**2**	19
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2007-26[1]	5	6	7	7	8	8	**2**	...
A2. New public sector loans on less favorable terms in 2007-26[2]	5	4	4	3	3	3	**3**	27
A2. Oil Price Shock (-$19)[7]	5	5	4	4	3	3	**26**	93
A3. Higher deficit scenario [8]	5	4	3	3	3	3	2	63
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2007-08	5	4	4	3	3	3	**3**	21
B2. Export value growth at historical average minus one standard deviation in 2007-08 3/	5	9	17	16	15	15	**12**	23
B3. US dollar GDP deflator at historical average minus one standard deviation in 2007-08	5	5	5	4	4	4	**3**	26
B4. Net non-debt creating flows at historical average minus one standard deviation in 2007-08	5	3	4	3	3	3	**3**	19
B5. Combination of B1-B4 using one-half standard deviation shocks	5	6	8	7	7	7	**5**	24
B6. One-time 30 percent nominal depreciation relative to the baseline in 2007[5]	5	6	5	4	4	4	**3**	27
NPV of debt-to-exports ratio								
Baseline	9	8	7	7	7	7	**6**	68
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2007-26 [1]	9	11	15	16	18	18	**4**	...
A2. New public sector loans on less favorable terms in 2007-26[2]	9	8	7	7	7	8	**8**	94
A2. Oil Price Shock (-$19)[7]	9	11	10	10	9	10	**87**	406
A3. Higher deficit scenario [8]	9	8	7	7	7	7	6	223
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2007-08	9	8	7	7	7	7	**6**	68
B2. Export value growth at historical average minus one standard deviation in 2007-08[3]	9	22	54	55	54	55	**50**	129
B3. US dollar GDP deflator at historical average minus one standard deviation in 2007-08	9	8	7	7	7	7	**6**	68
B4. Net non-debt creating flows at historical average minus one standard deviation in 2007-08[4]	9	7	8	8	7	8	**7**	68
B5. Combination of B1-B4 using one-half standard deviation shocks	9	10	14	14	14	14	**13**	77
B6. One-time 30 percent nominal depreciation relative to the baseline in 2007[5]	9	8	7	7	7	7	**6**	68
Debt service ratio								
Baseline	9	1	1	1	1	0	**0**	1
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2007-26[1]	9	1	1	1	1	1	**0**	...
A2. New public sector loans on less favorable terms in 2007-26[2]	9	1	1	1	1	1	**1**	3
A2. Oil Price Shock (-$19)[7]	9	1	1	1	1	1	**1**	6
A3. Higher deficit scenario [8]	9	1	1	1	1	0	0	2
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2007-08	9	1	1	1	1	0	**0**	1
B2. Export value growth at historical average minus one standard deviation in 2007-08[3]	9	1	2	2	2	2	**2**	4
B3. US dollar GDP deflator at historical average minus one standard deviation in 2007-08	9	1	1	1	1	0	**0**	1
B4. Net non-debt creating flows at historical average minus one standard deviation in 2007-08[4]	9	1	1	1	1	0	**0**	2
B5. Combination of B1-B4 using one-half standard deviation shocks	9	1	1	1	1	1	**1**	2
B6. One-time 30 percent nominal depreciation relative to the baseline in 2007[5]	9	1	1	1	1	0	**0**	1
Memorandum item:								
Grant element assumed on residual financing (i.e., financing required above baseline)[6]	52	52	52	52	52	52	**52**	52

Source: Staff projections and simulations.

[1] Variables include real GDP growth, growth of GDP deflator (in U.S. dollar terms), non-interest current account in percent of GDP, and non-debt creating flows.

[2] Assumes that the interest rate on new borrowing is 2 percentage points higher than in the baseline, while grace and maturity periods are the same.

[3] Exports values are assumed to remain permanently at the lower level, but the current account as a share of GDP is assumed to return to its baseline level after the shock (implicitly assuming an offsetting adjustment in import levels).

[4] Includes official and private transfers and FDI.

[5] Depreciation is defined as percentage decline in dollar/local currency rate, such that it never exceeds 100 percent.

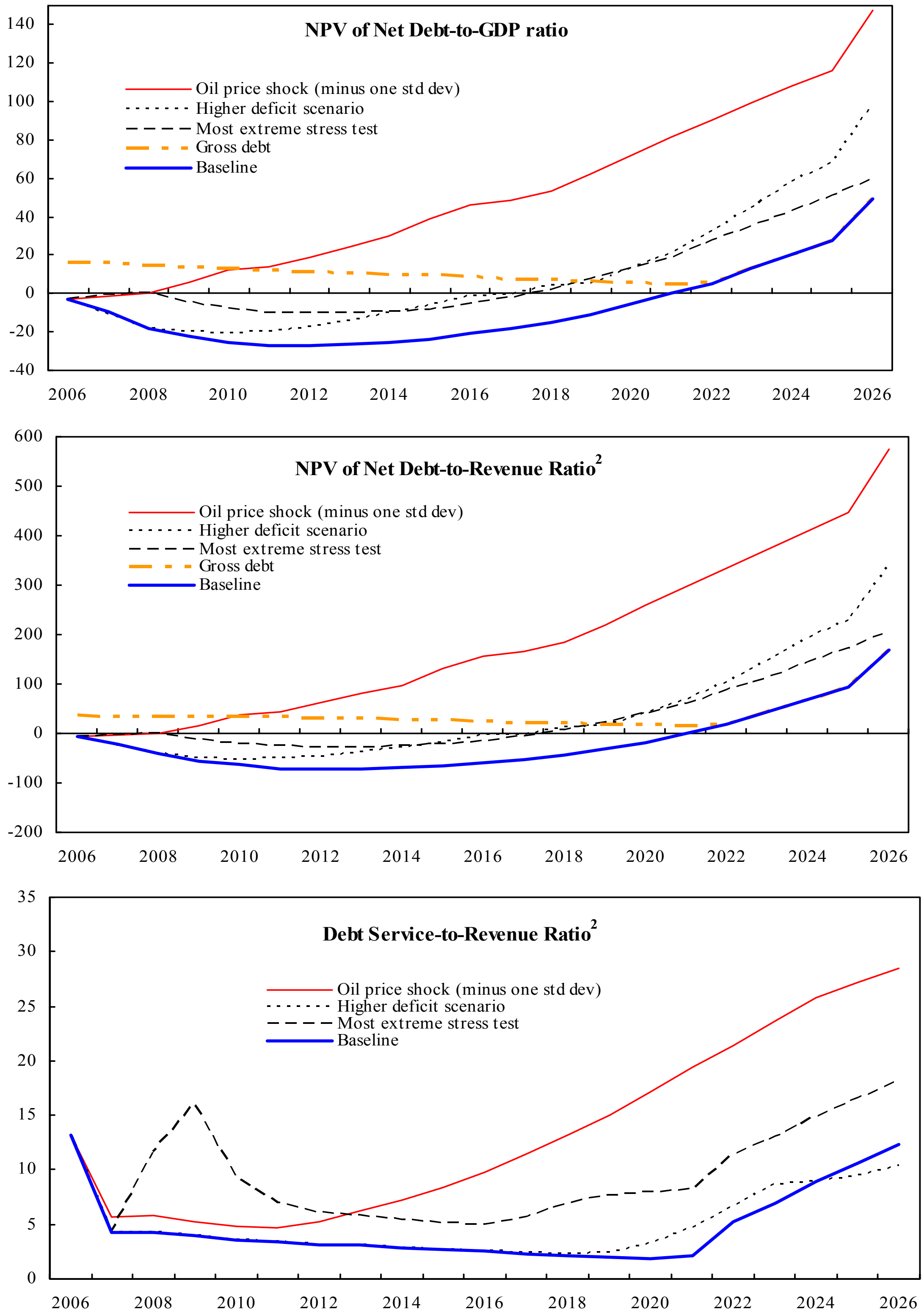
[6] Applies to all stress scenarios except for A2 (less favorable financing) in which the terms on all new financing are as specified in footnote 2.

[7] The oil price shock scenario assumes that, in addition to domestic borrowing, from 2017 onwards external debt is contracted to cover the fiscal deficit arising from lost oil revenues, while keeping the deficit unchaged.

[8] The higher deficit shock assumes that external borrowing is undertaken from 2018 onwards to finance the fiscal deficit.

Figure 2. Nigeria: Indicators of Public Net Debt Under Alternative Scenarios, 2006-26[1]

(Percent)



Source: Staff projections and simulations

[1] The most extreme stress test is the standard stress test that yields the highest ratio in 2016.

[2] Revenue including grants.

Table 3. Nigeria: Public Sector Net Debt Sustainability, Baseline Scenario, 2006-26

(Percent of GDP, unless otherwise indicated)

				Projections									
	2005	Historical Average [5]	Standard Deviation [5]	2006	2007	2008	2009	2010	2011	2006-11 Average	2016	2026	2012-26 Average
Public sector debt [1]	22.6			-4.4	-10.9	-19.1	-22.8	-25.1	-26.3		-19.5	59.0	
o/w foreign-currency denominated	20.8			3.0	2.8	2.8	3.0	3.2	3.6		3.5	29.0	
Change in public sector debt	-33.8			-27.0	-6.5	-8.2	-3.7	-2.3	-1.2		2.9	11.6	
Identified debt-creating flows	-25.1			-15.3	-8.1	-8.3	-3.9	-0.9	1.2		5.0	11.2	
Primary deficit	-12.1	-5.6	5.5	-13.6	-9.6	-11.0	-6.7	-4.7	-2.4	-8.0	1.8	12.4	5.2
Revenue and grants	43.5			45.4	46.2	44.0	41.3	39.7	38.0		35.4	29.1	
of which : grants	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Primary (noninterest) expenditure	31.4			31.8	36.6	33.0	34.6	35.0	35.6		37.2	41.5	
Automatic debt dynamics	-12.9			-1.5	2.1	2.7	2.8	3.8	3.6		3.2	-1.2	
Contribution from interest rate/growth differential	0.9			1.0	2.4	3.0	3.0	3.9	3.7		3.4	0.3	
of which : contribution from average real interest rate	0.9			1.0	2.4	3.0	3.0	3.9	3.7		3.4	0.3	
of which : contribution from real GDP growth	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Contribution from real exchange rate depreciation	-13.8			-2.6	-0.3	-0.3	-0.2	-0.2	-0.1		...	...	
Other identified debt-creating flows	-0.2			-0.1	-0.6	0.0	0.0	0.0	0.0		0.0	0.0	
Privatization receipts (negative)	-0.2			-0.1	-0.6	0.0	0.0	0.0	0.0		0.0	0.0	
Recognition of implicit or contingent liabilities	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Debt relief (HIPC and other)	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Other (specify, e.g. bank recapitalization)	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Residual, including asset changes	-8.6			-11.7	1.6	0.1	0.2	-1.4	-2.4		-2.2	0.4	
NPV of public sector debt	12.2			-2.7	-9.6	-18.4	-22.6	-25.4	-27.0		-20.7	49.1	
o/w foreign-currency denominated	10.3			4.7	4.0	3.4	3.1	2.9	2.9		2.3	19.1	
o/w external	10.3			4.7	4.0	3.4	3.1	2.9	2.9		2.3	19.1	
NPV of contingent liabilities (not included in public sector debt)	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Gross financing need [2]	-7.4			-7.6	-7.6	-9.1	-5.1	-3.3	-1.1		2.7	16.0	
NPV of public sector debt-to-revenue ratio (in percent) [3]	27.9			-6.0	-20.9	-41.9	-54.7	-64.1	-71.1		-58.5	168.8	
o/w external	23.8			10.4	8.8	7.8	7.5	7.3	7.5		6.6	65.6	
Debt service-to-revenue ratio (percent) [3, 4]	10.9			13.2	4.3	4.3	3.9	3.5	3.4		2.5	12.4	
Primary deficit that stabilizes the debt-to-GDP ratio	21.7			13.4	-3.1	-2.8	-3.0	-2.3	-1.2		-1.1	5.2	
Key macroeconomic and fiscal assumptions													
Real GDP growth (in percent)	0.0	3.2	2.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Average nominal interest rate on forex debt (percent)	4.5	6.3	1.3	1.3	4.2	3.9	3.6	3.4	3.3	3.3	2.7	0.8	2.0
Average real interest rate on domestic currency debt (percent)	-7.1	6.7	198.5	65.6	-31.3	-21.5	-13.4	-15.1	-13.1	-4.8	-13.0	1.9	-9.0
Real exchange rate depreciation (percent, + indicates depreciation)	-26.7	-3.7	19.2	...	...	...	...	...	...	...	...	...	...
Inflation rate (GDP deflator, in percent)	34.6	17.9	15.1	14.7	11.9	12.5	8.3	11.8	10.1	11.5	11.4	12.1	12.1
Growth of real primary spending (deflated by GDP deflator, in percent)	-1.1	13.0	20.8	1.2	15.1	-9.9	5.0	1.2	1.7	2.4	1.5	1.3	1.0
Grant element of new external borrowing (percent)	...	...	...	56.9	56.9	56.9	56.9	56.9	56.9	56.9	56.9	35.6	51.3

Sources: Country authorities and Fund staff estimates and projections.

[1] Net debt of the consolidated government.

[2] Gross financing need is defined as the primary deficit plus debt service plus the stock of short-term debt at the end of the last period.

[3] Revenues including grants.

[4] Debt service is defined as the sum of interest and amortization of medium and long-term debt.

[5] Historical averages and standard deviations are derived over the past 10 years.

Table 4. Nigeria: Sensitivity Analyses for Key Indicators of Public Sector Net Debt , 2006-26

	2006	2007	2008	2009	2010	2011	2016	2026
NPV of Debt-to-GDP Ratio								
Baseline	-3	-10	-18	-23	-25	-27	-21	49
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	-3	-6	-10	-13	-16	-21	-36	-58
A2. Primary balance is unchanged from 2006	-3	-13	-24	-35	-46	-57	-107	-190
A3. Permanently lower GDP growth [1]	-3	-9	-18	-22	-24	-25	-13	0
A4. Oil price shock (-$19 per barrel) [2]	-3	-2	0	6	12	14	46	148
A5. Higher deficit scenario	-3	-11	-18	-20	-21	-20	-1	99
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviation in 2007-08	-3	-10	-20	-25	-28	-31	-28	35
B2. Primary balance is at historical average minus one standard deviation in 2007-08	-3	-1	0	-5	-8	-10	-6	60
B3. Combination of B1-B2 using one half standard deviation shocks	-3	-3	-5	-10	-13	-15	-10	57
B4. One time 30 percent real depreciation in 2007	-3	-8	-17	-21	-25	-26	-20	46
B5. 10 percent of GDP increase in other debt-creating flows in 2007	-3	0	-10	-14	-18	-20	-17	50
NPV of Debt-to-Revenue Ratio [3]								
Baseline	-6	-21	-42	-55	-64	-71	-59	169
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	-6	-13	-22	-31	-42	-54	-102	-201
A2. Primary balance is unchanged from 2006	-6	-29	-55	-84	-115	-151	-303	-653
A3. Permanently lower GDP growth [1]	-6	-21	-41	-53	-61	-66	-37	0
A4. Oil price shock (-$19 per barrel) [2]	-6	-4	0	16	37	44	156	575
A5. Higher deficit scenario	-6	-24	-41	-49	-53	-52	-3	339
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviation in 2007-08	-6	-22	-45	-60	-71	-81	-80	119
B2. Primary balance is at historical average minus one standard deviation in 2007-08	-6	-2	0	-12	-20	-26	-16	205
B3. Combination of B1-B2 using one half standard deviation shocks	-6	-7	-11	-23	-32	-38	-28	195
B4. One time 30 percent real depreciation in 2007	-6	-17	-39	-52	-62	-69	-57	159
B5. 10 percent of GDP increase in other debt-creating flows in 2007	-6	1	-22	-35	-46	-54	-48	173
Debt Service-to-Revenue Ratio [3]								
Baseline	13	4	4	4	4	3	2	12
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	13	4	7	8	6	3	-7	-27
A2. Primary balance is unchanged from 2006	13	4	1	0	-4	-8	-26	-85
A3. Permanently lower GDP growth [1]	13	4	4	4	4	4	6	0
A4. Oil price shock (-$19 per barrel) [2]	13	6	6	5	5	5	10	28
A5. Higher deficit scenario	13	4	4	4	4	3	3	10
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviation in 2007-08	13	4	4	3	2	2	0	6
B2. Primary balance is at historical average minus one standard deviation in 2007-08	13	4	12	16	9	7	5	18
B3. Combination of B1-B2 using one half standard deviation shocks	13	4	9	12	7	5	4	17
B4. One time 30 percent real depreciation in 2007	13	4	4	4	4	4	3	13
B5. 10 percent of GDP increase in other debt-creating flows in 2007	13	4	4	4	4	3	2	12

Sources: Country authorities and Fund staff estimates and projections.

[1] Assumes that real GDP growth is at baseline minus one standard deviation divided by the square root of 20 (i.e., the length of the projection period).

[2] Permanent oil price shock (in current U.S. dollars).

[3] Revenues are defined inclusive of grants.

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International Monetary Fund
Washington, D.C. 20431 USA

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

The Executive Board of the International Monetary Fund (IMF) today completed the second 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, Mr. John Lipsky, First Deputy Managing Director and Acting Chair, made the following statement:

“The authorities are to be commended for Nigeria’s continued positive economic performance and their commitment to the program, as demonstrated by the successful completion of the second review. The program, which meets upper credit tranche conditionality, continues to be guided by the National Economic Empowerment and Development Strategy (NEEDS), and aims to balance spending needs with maintaining macroeconomic stability. Non-oil GDP growth prospects remain robust, external vulnerabilities have decreased with the external debt reduction stemming from the agreements with Paris Club and London Club creditors, and reserves continue to grow. Inflation has been in single-digits since mid-2006, although higher core inflation indicates some underlying pressures. Good progress has also been made with the ambitious structural reform agenda, despite some delays.

“The authorities are committed to addressing the considerable challenges that lie ahead. While infrastructure spending is clearly justified, a further fiscal expansion needs to be resisted, including from potential pre-election spending pressures. Continued adherence to the budgetary oil price rule will be essential. As the burden of macroeconomic stability will fall on monetary policy, liquidity management should be improved. Establishment of a liquidity assessment group and full implementation of the new standing facility and the new monetary policy rate by the central bank could assist in this regard. Improving the quality and accuracy of macroeconomic data would also help support decision making.

“To safeguard Nigeria’s oil wealth, oil savings management guidelines will be needed, and thorough cost-benefit analyses for project selection will need to be undertaken. Improvements in public financial management and due-process procedures, and the design of prudent international reserves management regulations, will help to ensure the effective allocation of resources and combat waste. External borrowing should be on concessional terms, in order to preserve debt sustainability.

“The authorities’ focus on institutionalizing structural reforms in 2007 is welcome. Right-sizing ministries, restructuring parastatals, building a more skilled civil service, and privatization will all contribute to a more effective public administration. Timely passage of important legislation by the National Assembly, including the Fiscal Responsibility Bill, would help to sustain recent reforms,” Mr. Lipsky said.

Statement by Peter Gakunu, Executive Director for Nigeria and Godwill Efiong Ukpong, Senior Advisor to the Executive Director December 20, 2006

1. The Nigerian authorities are broadly in agreement with the main thrust of the analyses, and the conclusions and recommendations in the staff report, particularly with respect to the remaining economic and policy challenges, and the future direction of policy. They appreciate staff's valuable policy inputs and useful exchange of views during the discussions. The authorities also express gratitude to the Fund's Board and management for supporting Nigeria's economic reform program, the successful implementation of which has led to the sustenance of strong macroeconomic performance since 2004. The economy has registered significant gains, including faster growth, a decline in inflation to single digits in 2006, and a robust external position.

2. The authorities are aware that the impressive performance under the reform program notwithstanding, many developmental challenges remain, including the need to sustain high growth rates to reduce poverty; improve infrastructure; strengthen public institutions; create a business environment conducive to private sector economic activities; and ensure soundness of financial institutions for improved intermediation supportive of the credit needs of the economy as a whole. My authorities consider that these challenges are surmountable over time and are committed to continuous implementation of sound macroeconomic, structural and sectoral policies to achieve program objectives.

Recent Economic Developments

3. Nigeria's macroeconomic policies in 2006 have been consistent with the objectives of achieving macroeconomic stability and fostering growth. Overall, real GDP growth for the year is projected at 6.1 percent; non-oil GDP is expected to grow by 7.4 percent, largely on account of agricultural growth induced by improved macroeconomic environment and policies. Prudent fiscal management and savings by the government, underpinned by a conservative oil price-based fiscal rule, resulted in a large overall budget surplus, while monetary policy tightening contributed to reduce year-on-year headline inflation to 6 percent at end December 2006, compared with 12.0 percent at end 2005. The fiscal discipline and tight monetary policy, coupled with improved terms of trade, resulted in a build up of external reserves, projected at US $45.8 billion (13.1 months of imports), compared with US $28.3 billion (8.6 months of imports) at end 2005.

4. Implementation of structural reforms by the authorities has been sustained. Important reforms initiated to enhance accountability and transparency of public sector policies and institutions are ongoing, including the publication of monthly oil revenue to all tiers of government, civil service reform, insistence on strict adherence to a conservative oil price-

based fiscal rule, privatization, and crackdown on corruption. Although the pace of privatization is generally not easy to fast track, the Nigerian authorities are committed to completing the process, bearing in mind domestic constraints and the need to build confidence and public support.

Performance under the Policy Support Instrument (PSI)

5. Macroeconomic performance under the PSI has been positive, with all assessment criteria and structural benchmarks through end-June 2006 met. However the end-September assessment criterion on the introduction of the Integrated Personnel and Payroll Information System was delayed because of the problems with the procurement system. The end-June benchmark on the opening of financial bids for the Abuja airport was met in mid-November owing to delays in the due diligence process. The production of quarterly reports on MDG-related spending has been completed though late, owing to delays in computerization. The authorities have since taken remedial action.

6. Fiscal developments were encouraging, with a large overall budget surplus. At the same time, prudent monetary policy kept inflation relatively low, while the stock of net international reserves of the Central Bank of Nigeria remained at a very high level. Strong monetary and exchange rate policies have resulted in the convergence of official and interbank exchange rates.

Economic Outlook for 2006-2007 and the Medium Term

7. The authorities are aware of the need to build macroeconomic policy framework on the achievements of the last few years. As in 2005, the main objectives of policy in 2006-2007 include increase in output; reduction in inflation; improvement in fiscal and monetary management; and poverty reduction. Against this background, real GDP is projected to grow by 7.3 percent, largely on account of higher level of gas production; improved infrastructure and policy initiatives, including removal of distortions; while non-oil GDP growth would be about 6.5 percent. Inflation is to be kept under single digit, underpinned by sustained tight monetary policy and fiscal prudence. Towards that end, the Central Bank of Nigeria (CBN) will adopt appropriate measures, in coordination with the fiscal authorities. Domestic risks, likely to arise from large spending on elections and infrastructure will be closely monitored. In general, the authorities are convinced that a successful medium term outlook hinges on the government's ability to consolidate the progress it has made in macroeconomic stability, strengthening public expenditure management, and significantly implementing structural reforms on improving governance, liberalizing trade, enhancing public service delivery, strengthening the financial system and tax administration, and completing the privatization agenda.

Fiscal Policy

8. The authorities recognize that the 2007 Federal Government Appropriations Bill may pose substantial risks to fiscal prudence, especially in relation to spending on elections and the power sector. They have therefore, identified measures to contain spending, improve overall public expenditure management and focus on funding priority areas which would enhance growth, poverty reduction, private sector activities and the attainment of the MDGs. Such measures, under the medium term expenditure framework, include continuation with the oil price-based fiscal rule, observance of due process in public procurement, saving of oil windfall in excess of the $40 benchmark price, and restoration of stability in the Niger Delta. In order to address the concern about the likely inflationary impact of the budgetary operations of government, the authorities recognize the imperative of effective spending and absorption to minimize the prospect of uncontrollable spending contributing to macroeconomic instability. In addition, the large overall fiscal surplus and low public debt are expected to enhance fiscal sustainability. In contracting any new debts, the authorities are committed to ensuring debt sustainability. The government is also exploring additional sources of revenue including a planned fuel price increase in early 2007.

Monetary Management and Exchange Rate Policy

9. The Central Bank's tightening of monetary policy has contributed to meeting its monetary policy objective of disinflation. In order to rein in broad money growth, the Bank will maintain a tight reserve money path. The authorities are working on further strengthening of macroeconomic policy coordination for improved management of liquidity injection emanating from the fiscal stance. A liquidity assessment group, comprising technical staff of the Bank, the Ministry of Finance and other relevant agencies, is being formed. In addition, the newly produced daily balance sheets will assist the Bank to prepare more reliable short-term liquidity forecast for quick response to inflationary pressures. Concerning the level of short term interest rates and exchange rate, the authorities are ready to take appropriate actions as developments warrant. The bank will increase exchange rate sales to encourage exchange rate flexibility and private sector activity to reinforce efforts to dampen inflation. In recognition of the important role of a sound financial system in the economy, the monetary authority is strengthening risk- based supervision of the recently consolidated banking sector.

Structural and other reforms

10. The authorities are intensifying structural reforms in many areas, including introduction of medium-term sector planning, procurement and accounting processes to improve the quality of spending. The Medium-term Sector Strategies (MTS), through which the 2007 budget requests of 18 major federal government agencies, accounting for 75 percent of all outlays, were harmonized, form the basis for integrating the goals of the National Economic Program and the MDGs. The strategy is aimed at enhancing cost-benefit analysis

of spending and greater coordination with state governments. A procurement manual has been prepared to reinforce due-process procedures. Implementation of projects is actively monitored before payments are released. Reforms in accounting are also continuing, and the Automated Transaction and Reporting System is being rolled out to additional agencies to strengthen their operations, while funding will be withheld from agencies that do not produce monthly reports. On the monetary side, the Central Bank is exploring ways of developing improved strategy for managing international reserves as new regulations allow domestic banks to partner with international banks to manage a portion of official reserves.

11. In recognition of the need for good governance, transparency and the fight against corruption, several measures have already been taken to institutionalize reforms made in these areas. Since the audit of the oil and gas industry by the Nigerian Extractive Industries Transparency Initiative for the period 1999-2004 was completed, remedial measures have been taken, including the appointment of auditors to audit the oil and gas sector for 2005 and 2006. Following the successful and sustained fight against corruption, advanced fee fraud, and cyber crimes by the Independent Corrupt Practices Commission and the Economic and Financial Crimes Commission, Nigeria has been delisted from the list of non-compliant countries. The authorities want the legislations enacted quickly to help institutionalize the reforms intended to contribute to creating a conducive environment for private sector activity, economic growth, poverty reduction and development. The need to speed up action in passing the Bills into laws is however being balanced against the desirability of having them discussed and agreed not only by the National Assembly and civil servants in the federal and state governments, but also to have local governments and rural population make inputs as the laws will be enforced nation-wide.

Conclusion

12. The authorities appreciate the Fund’s commitment to assisting Nigeria in its quest for economic stability and increased real growth, as well as in its efforts in poverty reduction, capacity and institutional building. They want the Fund to remain engaged with the country and continue to contribute to effective management of the economy through regular consultations, policy dialogue, and TA support, while showing understanding for difficult challenges the country still faces. The authorities remain committed to taking appropriate policy actions to address the challenges. They therefore, request for adoption of the proposed decision which would allow for modification of end-2006 assessment criteria and completion of the second review of the PSI arrangement.