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Nigeria: 2010 - Article IV Consultation—Staff Report; Debt Sustainability Analysis; Informational Annex; Public Information Notice on the Executive Board Discussion; and Statement by the Executive Director for Nigeria

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of the 2010 Article IV consultation with Nigeria, the following documents have been released and are included in this package:

- The staff report for the 2010 Article IV consultation, prepared by a staff team of the IMF, following discussions that ended on November 18, 2010 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 January 28, 2011. 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.
- Debt Sustainability Analysis.
- Informational Annex.
- A Public Information Notice (PIN) summarizing the views of the Executive Board as expressed during its February 11, 2011 discussion of the staff report that concluded the Article IV consultation.
- A statement by the Executive Director for Nigeria.

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

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

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NIGERIA

Staff Report for the 2010 Article IV Consultation

Prepared by the Staff Representatives for the 2010 Consultation with Nigeria

Approved by Sean Nolan and James Roaf

January 27, 2011

EXECUTIVE SUMMARY

Context: A large buffer of international reserves and low debt helped mitigate the impact of the global crisis on Nigeria. Growth is strong and oil revenues have rebounded. Nevertheless, there are substantial challenges: the fiscal stance weakened sharply in 2010, inflation averaged some 14 percent, and reserves fell steadily. National elections, expected in April 2011, are putting pressure on the government to spend, while monetary policy has focused on supporting the exchange rate and keeping interest rates low.

Focus: Discussions focused on the case for fiscal consolidation, the appropriate stance and instruments of monetary policy, the desirability of establishing a strong oil revenue-based fiscal rule, and the steps needed to resolve the banking crisis.

Policy Advice:

- Fiscal consolidation—on the order of 6 to 7 percent of non-oil GDP—should commence with the 2011 budget, both to rebuild policy buffers and to support monetary policy in reducing inflation.
- Monetary policy should focus on reducing inflation, while allowing for more flexibility in interest rates and the exchange rate. The increases in policy rates in September and November are steps in the right direction.
- A strong oil revenue-based fiscal rule would insulate the economy from the volatility in oil revenues. Addressing the legal and institutional weaknesses of the current stabilization mechanism by establishing a sovereign wealth fund could help if appropriate safeguards are put in place. Embedding an oil revenue rule in legislation would strengthen macroeconomic management.
- Bank resolution needs to be pursued quickly and transparently, with the emphasis on ensuring that costs are fully covered. Macro-prudential supervision should be strengthened to enhance capacity to contain future risks to the banking system.

Mission: The staff team conducted discussions in Abuja and Lagos during November 4-18, 2010. The team comprised Messrs. Rogers (head), Hussain, Salinas (all AFR), Gregory (SPR), and Woo (FAD). The team met with Finance Minister Aganga, CBN Governor Sanusi, Planning Minister Usman, senior officials, bankers, and business community representatives. World Bank staff participated in the discussions.

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I. Context: Rapid Growth, High Inflation, Low Interest Rates, and Declining Reserves

1. **The Nigerian economy has weathered both the global economic recession and its own domestic banking crisis reasonably well.** The economy expanded more rapidly than expected in 2009 and continued to gain strength in 2010.[1] The amnesty extended to rebels in the oil producing region led to a sharp recovery in oil production while non-oil GDP growth has remained high. Real GDP grew by 7.5 percent in the first half of 2010 (H1/H1) and is projected to have risen to 8½ percent for the year as a whole. Growth in the non-oil sector has been moderating since 2007, but remained robust at 8.3 percent in the first half of 2010, with many sectors growing at double digit rates (Figure 1 and Table 1). Strong growth and targeted public expenditures have helped Nigeria make some progress towards achieving the Millennium Development Goals (Table 6). Nonetheless, policy slippages emerged during the last year: commitment to the oil revenue rule weakened, leading to a pro-cyclical fiscal stance; inflation remained high (Figure 1); and foreign reserves fell even as oil prices have rebounded (Table 2).

2. **Fiscal policy has become highly pro-cyclical**. After rising by 10 percent in 2009, consolidated government spending increased by 37 percent in 2010. This was due primarily to a surge in recurrent spending at the federal level, including a significant wage increase for the public service (Table 3). The overall consolidated fiscal deficit contracted somewhat because of high oil revenues, but the non-oil primary deficit increased by 5 percentage points to 32.2 percent of non-oil GDP. In contrast to Nigeria, most oil exporting countries are running fiscal surpluses (Figure 2).

3. **The pro-cyclical fiscal stance reflects the lack of adherence to the oil revenue rule**. The current rule and the associated Excess Crude Account (ECA) were established in 2004 to manage revenue volatility and improve the conduct of fiscal policy across all levels of government (see Appendix I). It had been effective until recently, with the pro-cyclicality of public spending declining substantially during 2005-8 as surplus oil revenues were sterilized in the ECA. However, in the absence of a sound legal foundation, the implementation of the oil rule and savings in the ECA depended on the informal agreement among various tiers of government, leading to ad hoc disbursements from the account. Thus, despite world oil prices and domestic oil production well in excess of the budget benchmarks in 2010, the government spent all current oil revenues and drew on savings in the ECA at a time when stabilization called for a rebuilding of ECA balances.

4. **Monetary policy has been accommodative, with a focus on maintaining exchange rate stability and low nominal interest rates.** Inflation has been stuck in the low double

[1] Real GDP growth in 2009 was 7 percent, compared with the projection of 2.9 percent made at the time of the last Article IV discussion.

digits for the past two years (12.7 percent in November) and has become pervasive across sectors (Figure 1). Nigeria may be experiencing the lingering effects of the rapid monetary expansion of 2006-09, when broad money growth frequently exceeded 40 percent (Table 4). Despite high inflation, the CBN reduced the rate on its standing deposit facility from 4 percent in 2009 to 1 percent early in 2010 (see Figure 3 and Appendix II). Consequently, real short-term interest rates have been highly negative, contributing to pressure on prices and the exchange rate. Rather than raise interest rates or let the exchange rate depreciate, the CBN sold reserves, which declined steadily throughout 2010 by some 20 percent despite strong oil revenues (Figure 4).[2] The CBN raised the interest rate on its standing deposit facility to 3.25 percent in September and to 4.25 percent in November. Short-term market rates have since increased, but remain negative in real terms and reserves continued to decline. With double digit inflation and a stable nominal exchange rate, the real effective exchange rate appreciated by some 10 percent between mid-2009 and September 2010 and conventional measures now point to an over-valued exchange rate (Box 1).

Box 1. Assessment of the Real Exchange Rate Level for Nigeria

The assessment of Nigeria's real exchange rate is based on the IMF's CGER methodology, adapted for Nigeria's circumstances, using data as of September 2010. The staff assessment concludes that the real exchange rate is now overvalued. One method that relates the value of the naira to its fundamental determinants suggests that the naira was in line with its predicted value. However, two other methods point to an overvaluation. The macroeconomic balance approach suggests an overvaluation of 14 percent, reflecting projected current account surpluses that are below the Nigeria-specific norm. The external sustainability approach, which compares the projected current account surplus with the level needed to stabilize net foreign assets, indicates an overvaluation of some 15 percent. These results should be treated with caution, however, given uncertainties about the estimated current account norm and balance of payments data limitations.

	Macroeconomic balance /1	Equilibrium real exchange rate /1	External sustainability /1
Current account norm	6.9	…	7.1
Current account projection /2	3.5	…	3.5
Current account gap	-3.4	…	-3.6
Calcultated Elasticity	-0.24	…	-0.24
RER gap /3	**14**	**2**	**15**

Source: Staff estimates.

1 The methodological details for these three approaches are explained in the 2006 IMF Board Paper, which is available at "www.imf.org/external/np/pp/eng/2006/110806.pdf".

2 These projections are adjusted to account for large errors and omissions in the balance of payments.

3 Extent of overvaluation (- is undervaluation) between norm and projected real exchange rate.

[2] Nigeria's exchange rate regime is classified as "other managed". Nigeria is an Article XIV member. As reported at the time of the last Article IV consultation, multiple prices are a technical characteristic of the central bank's Dutch auction system and can give rise to a multiple currency practices (MCP). Staff does not recommend approval of this MCP. A comprehensive assessment by MCM and LEG is needed to identify the extent of remaining restrictions and multiple currency practices. The authorities have committed to participate in such an assessment.

5. **Nigeria's external balance deteriorated in 2010 despite a favorable external environment**. The terms of trade improved by 13 percent, following a drop of some 22 percent the previous year. With oil production and oil prices up sharply, oil export values jumped 25 percent. However, the current account surplus declined from 13 percent of GDP to 6.6 percent as imports of (nonoil) goods and services surged by some 33 percent. The capital and financial account—particularly foreign direct investment—also deteriorated as investors wait on the outcome of the Petroleum Industry Bill, which remains under consideration with the National Assembly.[3] International reserves fell to about 6.6 months of (next year) import cover by the end of the year. These developments are in sharp contrast to the experience of other oil exporting countries, where current account positions improved on average by 3 percentage points and international reserves are generally rising. Nigeria's external debt remains low, at about 2.2 percent of GDP, and the joint Bank-Fund debt sustainability analysis (see Supplement) indicates that the risk of external debt stress is low.

II. Positive Growth Outlook and Balanced Risks

6. **The growth outlook remains positive.** The authorities are projecting real GDP growth of 7 percent in 2011 and 7½ percent in the medium term, with an inflation target of 9 percent in 2011, falling to 8½ percent in the outer years. The authorities expect that oil production will hold steady in 2011 at 2.36 mbpd and will gradually rise to 2.45 mbpd by 2013, which the staff believes is achievable. Staff shares the authorities' outlook for growth in 2011, but is less optimistic about the medium term. Non-oil GDP growth has been declining steadily for the past three years. Agriculture is the dominant non-oil activity and growth in the sector has not come from rising productivity, but from the expansion of area under cultivation indefinitely; a process that cannot sustain high rates of economic growth. On this basis, staff is projecting GDP growth to trend down to about 6¼ by 2013. The authorities' inflation target is achievable, subject to the adoption of appropriate macroeconomic policies.

7. **Risks to the outlook tend to the downside in the short term, but are otherwise generally balanced.** With oil production nearly at capacity, there is a greater risk of lower rather than high production levels being realized in the immediate future. The inflation risk hinges crucially on the 2011 budget. The National Assembly could pass a more expansionary budget for 2011 than was submitted, undermining the CBN's ability to deliver on inflation. Finally, speculation against the naira could become intense should reserves continue to fall, forcing the hand of the CBN to react quickly, resulting in either excessively high interest

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[3] The distinction between current and capital account balances should be interpreted with caution as errors and omissions exceed both. The Information Annex details the data quality issues, particularly large errors and omissions that complicate any assessment of Nigeria's external position.

rates or a sharp depreciation. On the upside, a shift in government spending towards capital formation and planned reforms in the power sector could boost growth in non-oil sectors in the medium term, and passage of the Petroleum Industry Bill could unlock additional investments in the oil sector. Risks to world oil markets generally point to higher rather than lower prices. Other risks, notably weather and political uncertainty, are broadly symmetric.

III. Policy Discussions: Rebuilding Buffers and Restoring Financial Stability

8. **Discussions focused on the appropriate policy mix to sustain growth and reduce inflation.** Key issues included the need for fiscal consolidation (while addressing key infrastructure bottlenecks), the appropriate monetary policy stance and framework, and the completion of bank resolution. A highly expansionary fiscal stance and an accommodative monetary policy are keeping inflation high and exerting pressure on the naira. In the near term, balancing the need for expenditures on infrastructure and social programs with the need to rebuild safety buffers and reduce inflation will be the main challenge for macroeconomic policy.

A. Using Fiscal Policy to Rebuild Safety Buffers and Support Monetary Policy

9. **The authorities have proposed a sharp contraction of fiscal deficits at all levels of government and a substantial rebuilding of safety buffers**.[4] The authorities' fiscal framework is based on a budget oil reference price of $65 dollars through 2013, which implies a large reduction in real expenditures in 2011 and modest growth thereafter. The non-oil primary deficit (NOPD) of consolidated government would be on the order of 24.9 percent of non-oil GDP in 2011, a contraction of some 7 percentage points, with nearly two-thirds of the adjustment occurring at the federal level.[5] While revenues are projected to rise moderately in 2011, the adjustment comes mostly from a near 19 percent reduction in real primary spending by the federal government, mostly on recurrent outlays, though capital spending is also budgeted to decline in real terms. The NOPD would continue to contract in the medium term, reaching 19 percent of non-oil GDP in 2013.

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[4] Based on 'Medium-Term Expenditure Framework and Fiscal Strategy Paper for 2011-2013', issued in September 2010 by Budget Office of the Ministry of Finance, Nigeria.

[5] The MTEF does not propose or project a consolidated government fiscal position, but only the budget reference price for oil and the federal government budget. However, given the dependency on shared oil revenues by the state and local governments, and their limited ability to borrow, the budget reference price effectively contains state and local government spending and deficits. Using the authorities' proposed spending at the federal level, and staff revenue projections, staff project the consolidated government fiscal position.

10. **Savings of oil revenues would be substantial**. Savings of surplus oil revenues would amount to $11.8 billion (4.8 percent of GDP) in 2011 and a cumulative $40 billion through 2013.[6] Though the government's debt-to-GDP ratio would rise from about 16 percent of GDP in 2010 to 22½ percent by 2013, its net financial position would improve as balances in the proposed sovereign wealth fund would rise by a greater amount.

11. **The staff supports the proposed fiscal consolidation.** This adjustment would mitigate demand pressures and support the CBN in achieving the authorities' inflation objective. The expenditure cuts appear achievable. While the reduction in outlays compared to 2010 is substantial, total real spending would still be some 8 percent higher than in 2009, with cuts at the federal level coming from reductions in fuel subsidies, overhead costs, and the absence of certain large one-off expenditures in 2010. Capital outlays at the federal level are budgeted to fall to 2.8 percent of GDP in 2011, from an already low 3.6 percent in 2010.[7] However, the MTEF understates total expenditures and the likely size of the NOPD by excluding expenditures on domestic infrastructure projects that might be undertaken by the proposed sovereign wealth fund (section B below). Moreover, no provision is made for the costs of bank resolution, which the authorities expect to be covered from an off-budget sinking fund.[8] Nonetheless, the NOPD of the consolidated government for 2011 and for the outer years is within the range determined by staff's own assessment of fiscal sustainability (Appendix III).

12. **A further reallocation of resources from recurrent to capital projects would be more supportive of long-term growth and poverty reduction**. An Expenditure Review Committee, with participation from government, academia, civil society and the private sector has been established to suggest long-term savings on recurrent outlays to support fiscal consolidation and release resources for capital projects. The authorities recognize that insufficient implementation capacity—not the availability of financing—has been the major constraint to increasing spending on infrastructure and they are working to increase the capacity to implement capital projects.

13. **In the medium term, fiscal policy needs to be anchored by a strong oil-revenue rule that helps build an appropriate safety buffer for a counter-cyclical policy stance at all tiers of government.** Staff recommended that the medium-term fiscal framework should

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[6] Based on projected oil production, the budget reference price of oil, and the WEO forecast of world oil prices as at January 2011. This projection also assumes that no withdrawals would be made from the ECA/SWF during the next three years.

[7] The composition of spending at the state and local government level is not known, though staff makes rough estimates in compiling the consolidated expenditure accounts.

[8] Staff estimates that, were the costs of bank recapitalization incorporated in the budget, they would raise the NOPD by some 0.9 percent of non-oil GDP in 2011, with the relative impact diminishing over time.

be built on a simple multi-year moving average oil-revenue rule that allows for a rebuilding of an appropriate stabilization buffer over the next 2-3 years. It further recommended that the rule be embedded in law to avoid ad hoc changes in the benchmark oil revenue during the budget process that could undermine the working of the Nigerian Sovereign Investment Authority (NSIA). While the authorities recognized the weaknesses in the current rule, there are currently no plans to entrench an oil-revenue rule in the draft legislation establishing the NSIA.

14. **Efforts are also underway to improve expenditure efficiency and strengthen public financial management and non-oil revenues.** For better cash management, a census of government accounts has been completed. As a first step, capital accounts of all ministries at the CBN are to be consolidated in 2011 and performance-based budgeting (PBB) is being considered on a pilot basis in a few selected ministries/agencies**.** Once fully established, PBB would help in assessing the effectiveness of public spending and facilitate the setting of expenditure priorities. As part of this process, key performance indicators have been agreed with spending units. An integrated financial management information system, which is at the final stage of procurement, will be implemented in phases and will support both the Treasury Single Account and PBB initiatives. The authorities also pointed to efforts that are underway to strengthen non-oil revenue, including a tax audit of key revenue generating agencies, and to establish a sovereign risk unit within the Ministry of Finance.

B. Nigerian Sovereign Investment Authority

15. **The authorities are proposing a Nigerian Sovereign Investment Authority—a sovereign wealth fund—to replace the current oil savings mechanism.** It will have three separate components: a stabilization fund, a fund for future generations, and a domestic infrastructure fund (Appendix 1). The proposed legislation (currently with the National Assembly) would establish a Governing Council that would include representatives from civil society organizations, academics, and other private sector representatives. The council would advise the Board of Directors on broad objectives of the Authority. The proposed legislation would also require an annual external audit and publication of an annual report. A minimum of 20 percent of surplus oil revenues would be allocated to each of the three components in any given year, with the remaining 40 percent allocated by the Board of Directors among the three funds.[9] The infrastructure fund would finance investments in power generation, distribution and transmission, water and sewage treatment and delivery, roads, port, rail and airport facilities and other infrastructure-related projects within Nigeria.

16. **The proposed NSIA would represent an improvement on some aspects of the current oil savings mechanism, but it also has some weaknesses.** Withdrawals from the stabilization fund would be subject to approval of the Minister of Finance and could occur

[9] The surplus revenue is defined as the realized oil revenue less the benchmark (budgeted) oil revenue.

only when actual hydro-carbon revenues fall below projected revenues. This would reduce, if not eliminate, discretionary withdrawals from the stabilization fund, and abolish the current 80/20 rule. However, spending from the domestic infrastructure fund could undermine the stabilization function of the NSIA, a point appreciated by the authorities and one that would be taken into consideration when making investment decisions. Staff argued that the federal, state and local government budgets remain the most appropriate vehicles for allocating public resources to domestic infrastructure and that domestic investments by the NSIA could undermine the budget process. However, the authorities stated that the NSIA would adhere to the Santiago Principles and noted that the draft legislation requires that such investments by the NSIA be consistent, to the extent possible, with budget investment programs. Staff queried the appropriateness of building foreign assets for future generations while simultaneously issuing debt to finance deficits, noting that the only way to accumulate net financial assets for future generations was to run fiscal surpluses.

C. Clarifying the Objectives of Monetary and Exchange Rate Policy

17. **The CBN pursues an eclectic monetary policy with multiple objectives.** Price stability is one of these, but recent Monetary Policy Committee (MPC) statements also cite exchange rate stability as a prime objective and in addition point to the importance of maintaining low interest rates as a tool for promoting growth (Appendix II). CBN officials recognize that there are trade-offs involved in pursuing these various goals, but rely on judgment to balance competing objectives as economic developments unfold. They noted that inflation in Nigeria was significantly influenced by structural factors (limited supply response, non-competitive market structures), and hence was only weakly influenced by monetary policy; that exchange rate stability played an important role in containing inflation and inflationary expectations; and that the difficult (if now-easing) situation in the banking sector had constrained monetary policy flexibility. These factors had favored an accommodative monetary stance during 2010, coupled with intervention to support the exchange rate. Reserve losses had been manageable, and had been significantly influenced by a series of one-off transactions. Furthermore, while inflation remains above the government's target, it has been falling slowly for the past few months. That said, the CBN began to raise policy interest rates in September 2010 (Figure 3), and official indicated that they would consider further tightening in due course, if warranted.

18. **The staff argued that a commitment to a more specific inflation objective in the range of 5-10 percent would help reduce and anchor inflation expectations**. At the same time, a more flexible approach to exchange rate management would prevent the emergence of one-way bets against the naira. Quantitative monetary targeting, currently in place but not adhered to, would help anchor expectations, but instability of money demand in recent years suggests caution in sticking rigidly to such a framework. The proposed fiscal retrenchment in 2011 would undoubtedly help reduce inflation, but the CBN must stand ready to let nominal interest rates adjust as needed to reduce inflation should the approved budget not deliver sufficient or timely support. For the very near term, staff recommended that the CBN raise its

entire interest rate corridor if interbank rates were fall below the current MPR (6.25 percent) and should stand ready to raise the corridor further should inflation and exchange rate pressures persist. Looking forward, the staff supports the CBN's previously stated plans to move to an inflation-targeting regime after the necessary preparatory work has been completed.

19. **The CBN has been concerned at the sharp slowdown in bank lending to the private sector in 2010, along with the presence of (long-standing) high interest rate spreads.** Private credit has contracted slightly in real terms since the CBN intervened in ten banks in August 2009 (Figure 5), due partly to increased emphasis on credit quality by the banks but also to weaker demand for credit. In addition to keeping interest rates low to spur private credit, the CBN has expanded the operations of its Development Finance Directorate to provide direct loans (at below-market interest rates) and to guarantee loans to preferred sectors and SMEs (Box 2). CBN credit to the private sector now amounts to about 3 percent of GDP.[10] The CBN sees such intervention as necessary to ensure credit is extended to productive sectors at affordable (below-market) interest rates; absent such intervention, the pattern of lending would be focused on large well-established customers and would entail excessively high interest rates.

Box 2. CBN Development Finance Initiatives

Intervention Fund for Industry and Power: The CBN has created a N500 billion fund in 2009 to support credit to the power (N300 billion) and SME manufacturing sector (N200 billion). In May 2010, it announced that part of the N300 billion for the power facility would also be used to help restructure loans to Nigerian airlines. Domestic financial institutions will channel these funds to the targeted sectors. The loans will carry a fixed 7 percent annual interest rate with 15 year maturity. These institutions will pay a 1 percent management fee to the Bank of Industry for the funds, but bear all the credit risk. To access this facility, banks will need to provide credible collateral. While the facility for SME manufacturing has been fully utilized, there is no disbursement from the power sector facility. The CBN is considering 5 loan requests from the aviation industry.

Loan Guarantees for SMEs. In addition, the CBN announced a guarantee scheme (N 300 billion) for new loans to SMEs from domestic banks and other financial institutions. These loans to SMEs will be provided at banks' prime lending rate (about 4-5 percent less than the regular rate) and only SMEs with no non-performing existing loans will qualify. The CBN and the creditor institution will split the risk on an 80/20 basis.

Commercial Agriculture Credit Scheme. This N200 billion (0.6 percent of GDP) scheme was created in April 2009, and funds are being channeled through domestic banks to commercial agriculture producers. These loans carry an interest rate not exceeding 9 percent with a maximum maturity of 7 years. So far, about half of the amount earmarked under this facility has been utilized—mostly in 2010.

[10] Based on the CBN's September 2010 balance sheet.

20. **Staff argued that the slowdown in credit in the aftermath of a credit bubble is not unexpected and that the CBN should be cautious about pushing for higher credit growth at this time**. Pursuing policies to expand credit in the near-term could create additional inflationary pressures. The diversification of lending to SMEs, agriculture and other under-served sectors should be addressed through targeted reforms, such as strengthening the credit risk bureaus, improving collateral execution and bankruptcy procedures including through expansion of commercial courts, and strengthening of the land registry. These actions would also help reduce interest rate spreads, which could be reduced further by reforms to reduce the cost of doing business in general. Staff also noted that the special development initiatives of the CBN pose on and off-balance sheet risks and constitute quasi-fiscal activities that should be undertaken, if at all, within the context of the federal government budget.[11]

D. Completing Bank Resolution and Preserving Financial Stability

21. **In 2009, special examinations of all banks by the CBN revealed that 10 banks—accounting for about a third of banking system assets—were either insolvent or undercapitalized.** The banking crisis had its origins in the forced consolidation of the sector in 2005-06, which sought to reduce the number of banks while increasing their individual size. However, the consolidation was not accompanied by sufficient supervision to verify that the capital of merged institutions was adequate. In addition, this period of consolidation was accompanied by a highly expansionary monetary policy, with the growth rate of credit to the private sector peaking at over 140 percent per year in early 2008. Most of the expanded credit was used to purchase equities, and in many cases in the stocks of domestic commercial banks that were extending the credit. When the equity bubble burst, non-performing loans (NPLs) of many banks began to mount rapidly; the ten troubled banks were particularly hit hard because of their large exposure to equity-related loans.

22. **The quick and firm actions by the CBN in the second half of 2009 likely prevented a systemic banking crisis.** The CBN's actions included: (i) liquidity injections of N 620 billion (2.5 percent of 2009 GDP) to the troubled banks in the form of subordinated debt; (ii) guarantees for all interbank transactions, foreign credit lines, and pension deposits; (iii) replacing management in 8 of the intervened banks; and (iv) announcing a commitment to protect depositors and creditors against losses. These quick actions stabilized the banking system and gave the authorities the time to design a strategy for resolving the intervened banks.[12]

[11] Some of the loans are collateralized by government securities pledged by intermediary banks, mitigating the risk to the CBN.

[12] MCM is providing extensive technical assistance, including through resident advisors, in both the bank resolution and banking supervision areas.

23. **The newly-established Asset Management Corporation of Nigeria (AMCON) has begun to purchase the NPLs at a price in excess of book values, with a view to restoring the equity of the intervened banks to zero**. The cost of cleaning up the balance sheets and recapitalizing the 10 intervened banks is estimated by the authorities at about N 2.4 trillion (7.5 percent of GDP). The authorities expect to cover the cost of bank recapitalization through grants from the CBN, a levy on banking assets, and by selling NPLs at a premium as asset prices rise. The initial recapitalization bonds are three-year, zero-coupon instruments that will be replaced at maturity with longer-term coupon-bearing bonds. Once equity in the insolvent banks is brought to zero, the banks would be sold to private investors who would bring in additional capital sufficient to meet statutory requirements.

24. **Staff urged the authorities to incorporate the recapitalization costs into the federal budget so adequate provision could be formally appropriated.** Staff also advised against using the CBN to finance what are essentially fiscal costs of recapitalization. Staff pointed out that the funding plan could result in a financing shortfall and/or inadequate capital for the troubled banks and therefore could undermine the success of the recapitalization effort. In response, the authorities noted that the costs to be borne by the CBN are small (less than 0.2 percent of GDP per year for a decade) and that their assumptions regarding revaluation and recovery rates of assets were conservative, largely eliminating the risk of any revenue shortfall and hence any need for budget resources. The CBN plans to remove the guarantees on pension deposits, interbank lending, and foreign credit lines in the middle of 2011, believing that these guarantees are no longer needed in the context of restored confidence in the banking system.

25. Substantial progress has been made in strengthening banking supervision since the full extent of the banking crisis came to light. On-site examinations are under way for all non-intervened banks. Lax enforcement was one of the key factors contributing to the banking crisis, so it will be important to rigorously follow up with any corrective measures that may be necessary. The CBN has already started implementing risk-based supervision on a pilot basis, and full implementation will enhance the CBN's capacity for early detection of stress.

E. The Longer-Term Development Strategy

26. **The authorities have established a highly ambitious development agenda for the next decade.** The strategy (Vision 20:2020) aims for an average annual growth rate of 13½ percent over the next 10 years. This would be unprecedented and require a massive increase in the economy-wide investment rate and far-reaching changes in the overall business environment.[13] While the authorities expect the bulk of the investment to come from the private sector, the annual federal government investment needs contained in the first

[13] The MTEF for 2011-13 does not incorporate these investment requirements. For this reason, they have also been excluded from the DSA.

implementation plan amount to about 7 percent of GDP, equivalent to some 250 percent of the expected capital spending in 2010. Staff cautioned that achieving such an increase in public investment while adhering to a strong counter-cyclical fiscal stance would require a major shift in outlays from recurrent to capital spending, substantial increases in non-oil revenue, and a marked improvement in project implementation capacity.

IV. Staff Appraisal

27. **Nigeria's growth remains strong and its medium-term prospects are favorable.** Reforms initiated earlier this decade, which yielded large oil savings, helped mitigate the impact of the global economic crisis. The economy is expected to grow above trend this year. Continued rapid growth is projected over the medium term, based on robust (though declining) growth in non-oil sectors. Social and poverty indicators are generally improving and are expected to continue doing so if growth remains strong.

28. **The fiscal consolidation contained in the proposed 2011 budget and medium-term expenditure framework is welcome.** Fiscal policy in 2010 has been overly expansionary and the fiscal adjustment envisaged in the 2011 budget would help to rebuild safety buffers and provide much needed support to monetary policy. However, the needed fiscal consolidation is large and could be difficult to achieve in an election year. If a looser budget is passed by the National Assembly, monetary policy would need to be correspondingly tighter to stem inflationary and exchange rate pressures.

29. **A strong transparent fiscal rule would help make counter-cyclical fiscal policy a permanent feature of Nigeria's public finances and put an end to the boom-bust cycles caused by swings in oil prices.** The government's plan to tackle the difficult issue of institutionalizing the oil stabilization fund through the NSIA is welcome, although the proposed spending on domestic infrastructure projects risks undermining the Authority's stabilization function and duplicating or frustrating on-budget public investment. Channeling such expenditures through government budgets in accordance with a transparent oil-revenue rule embedded in legislation would strengthen the stabilization function of the NSIA.

30. **The government's proposed measures to strengthen public finance management and non-oil revenues are appropriate.** Performance-based budgeting will help assess the efficacy of spending and facilitate the prioritization of expenditures. This will be critical if the authorities are to substantially raise public investment spending without undermining service provision or macroeconomic stability. The proposed introduction of a single treasury account system will help improve cash management and provide additional support to the conduct of monetary policy. While oil receipts will continue to dominate revenues for the coming years, efforts to improve non-oil revenue collections will strengthen the overall fiscal position and reduce the vulnerability of public spending to volatile oil prices in the longer term.

31. **Addressing infrastructure bottlenecks is critical for sustained high growth.** However, public investment spending should be executed at a pace that does not jeopardize macroeconomic stability. In addition, while the infrastructure deficit in Nigeria is substantial, an increase in public investment could be a source of considerable waste if adequate quality control mechanisms are not put in place. The NSIA-sponsored investments in infrastructure would need to be closely coordinated with the fiscal authorities to ensure that they are consistent with budget-funded infrastructure projects and do not undermine the stabilization function of the Authority.

32. **Continued inflationary pressures and the steady decline in international reserves call for a tightening of monetary policy**. The recent increases in policy rates by the CBN are welcome, but additional increases will likely be needed if fiscal consolidation is not sufficient or timely.

33. **Monetary policy needs a well-defined nominal anchor**. The pursuit of multiple objectives by the monetary authorities sends unclear signals regarding the future path of prices, interest rates, and international reserves. Moving toward an inflation-targeting regime in the medium term would be an effective way to lower and firmly anchor inflation expectations. A more flexible exchange rate would help ensure that one-way bets against the naira do not emerge, and provide an additional policy response to external shocks. The CBN should unwind its special development finance initiatives and focus more on its core mandate of ensuring price and financial sector stability.

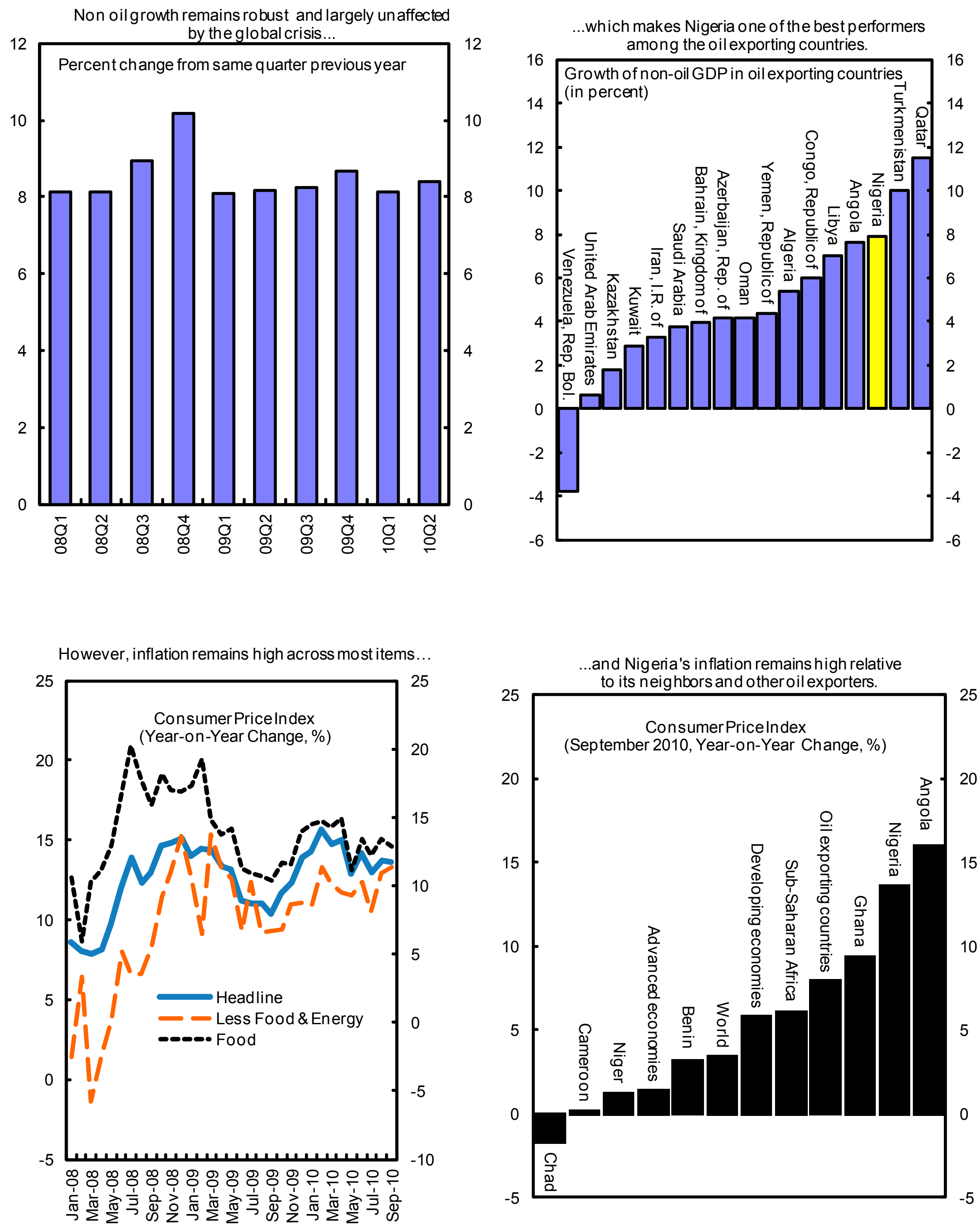
34. **Recapitalization of the insolvent banks has begun and the authorities' plan to return these banks to private ownership is welcome**. Ensuring adequate resources to cover the costs of recapitalization will be important and the government should stand ready to provide budgetary resources if necessary. Publishing AMCON's operations and financial results is important for promoting good governance and accountability.

35. **Continued progress in strengthening the financial supervision framework is welcome.** Full implementation of risk-based and consolidated supervision and stress testing would help the CBN detect emerging problems in the banking sector. Regulatory forbearance contributed to the emergence of Nigeria's banking crisis, so strong enforcement measures should be a key component of the supervision framework.

36. **The authorities' long-term development strategy sets highly ambitious growth and investment targets**. The emphasis on private-sector led growth is appropriate, as is the focus on spending more on public infrastructure. It is important, however, that the medium-term expenditure framework continue to give priority to maintaining macroeconomic stability.

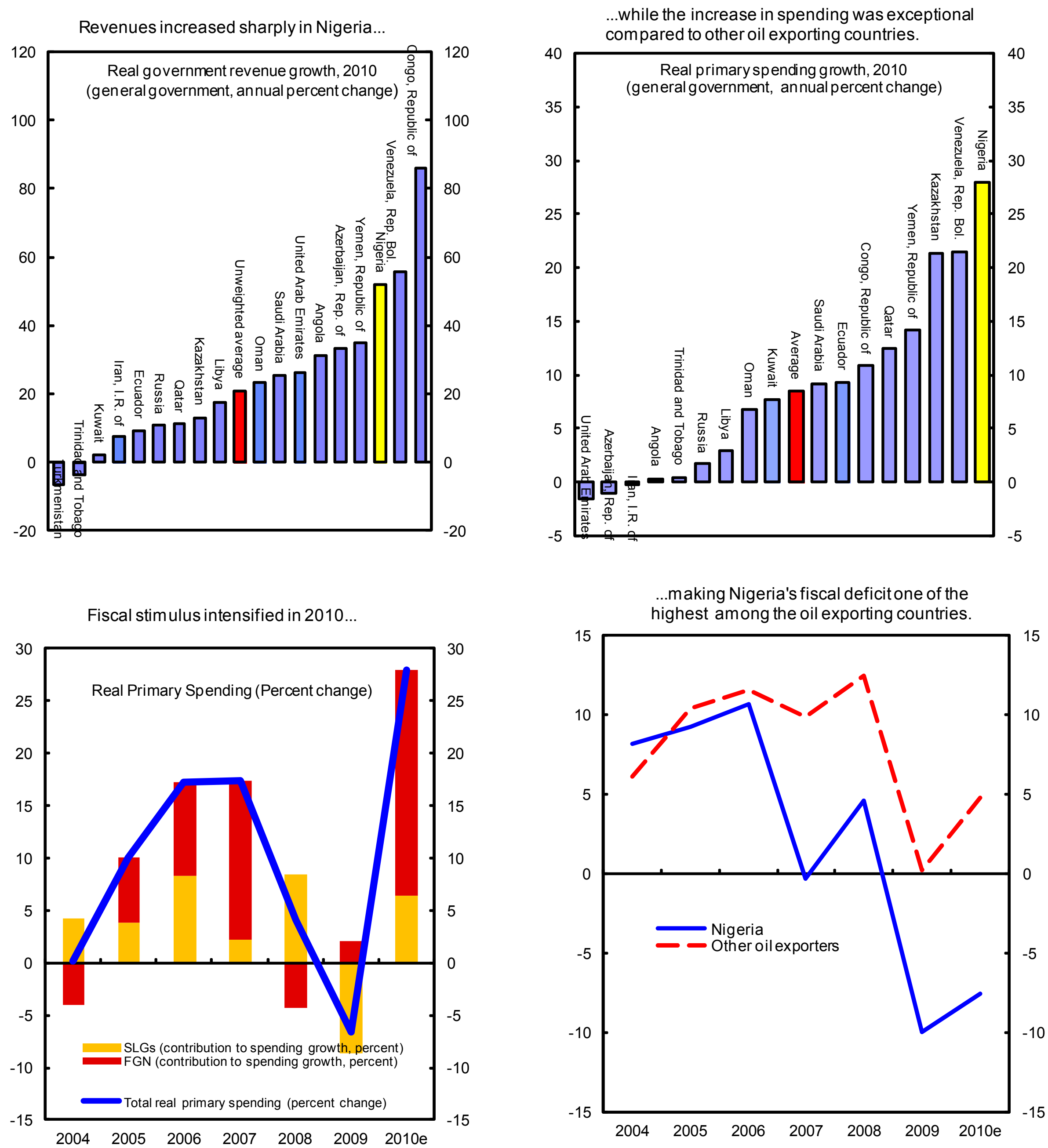
37. **Staff recommends that the next Article IV consultation be held on the standard 12-month cycle.**

Figure 1. Nigeria: Comparative Growth and Inflation Performance



Sources: National authorities; and staff estimates.

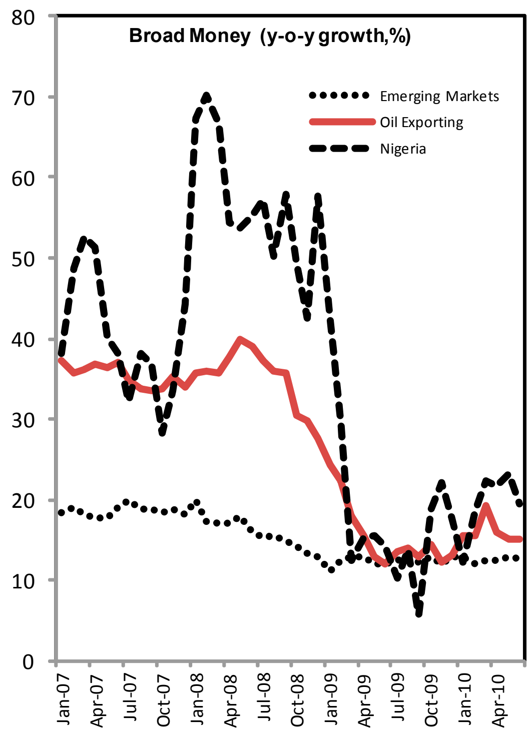
Figure 2. Nigeria: Fiscal Developments



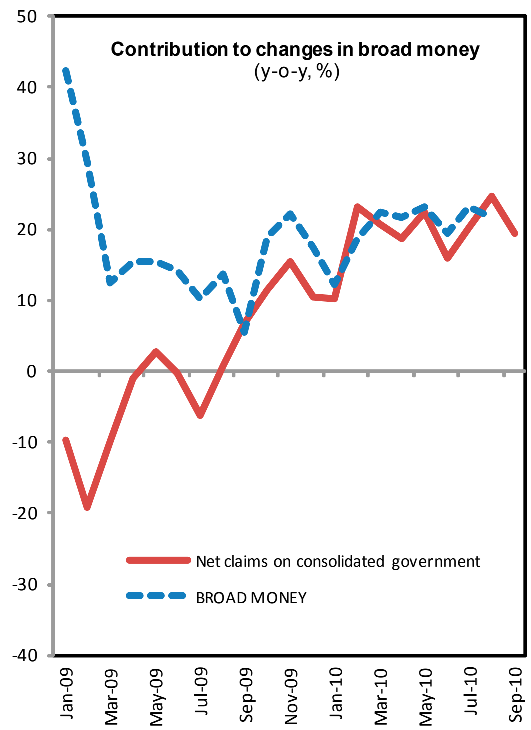
Sources: Nigerian authorities; and staff estimates.

Figure 3. Nigeria: Monetary and Financial Developments

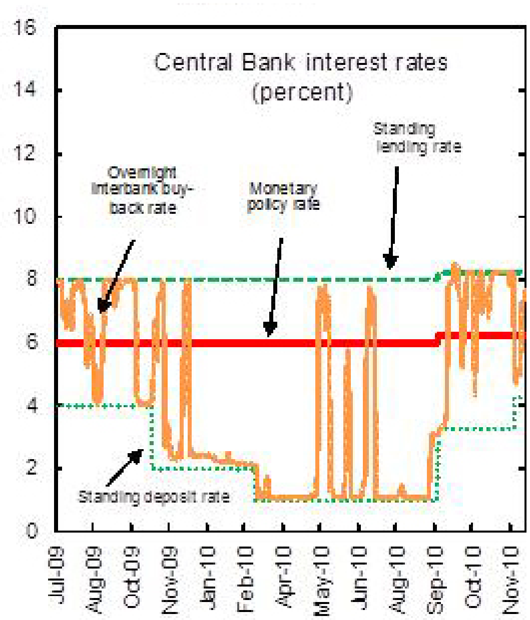
Growth of broad money has declined sharply, albeit from exceptionally high rates....



....but fiscal dominance has begun to emerge.



Monetary policy rates and interbank rates remain low…



…leaving Nigeria with some of the most negative real short-term interest rates in Africa and also among oil exporting countries.

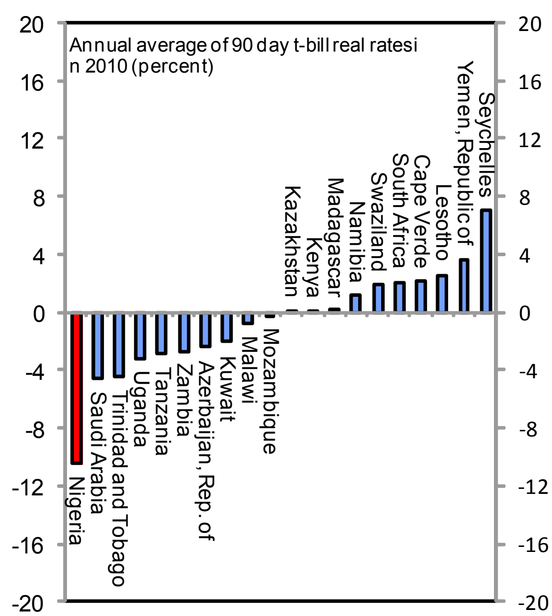
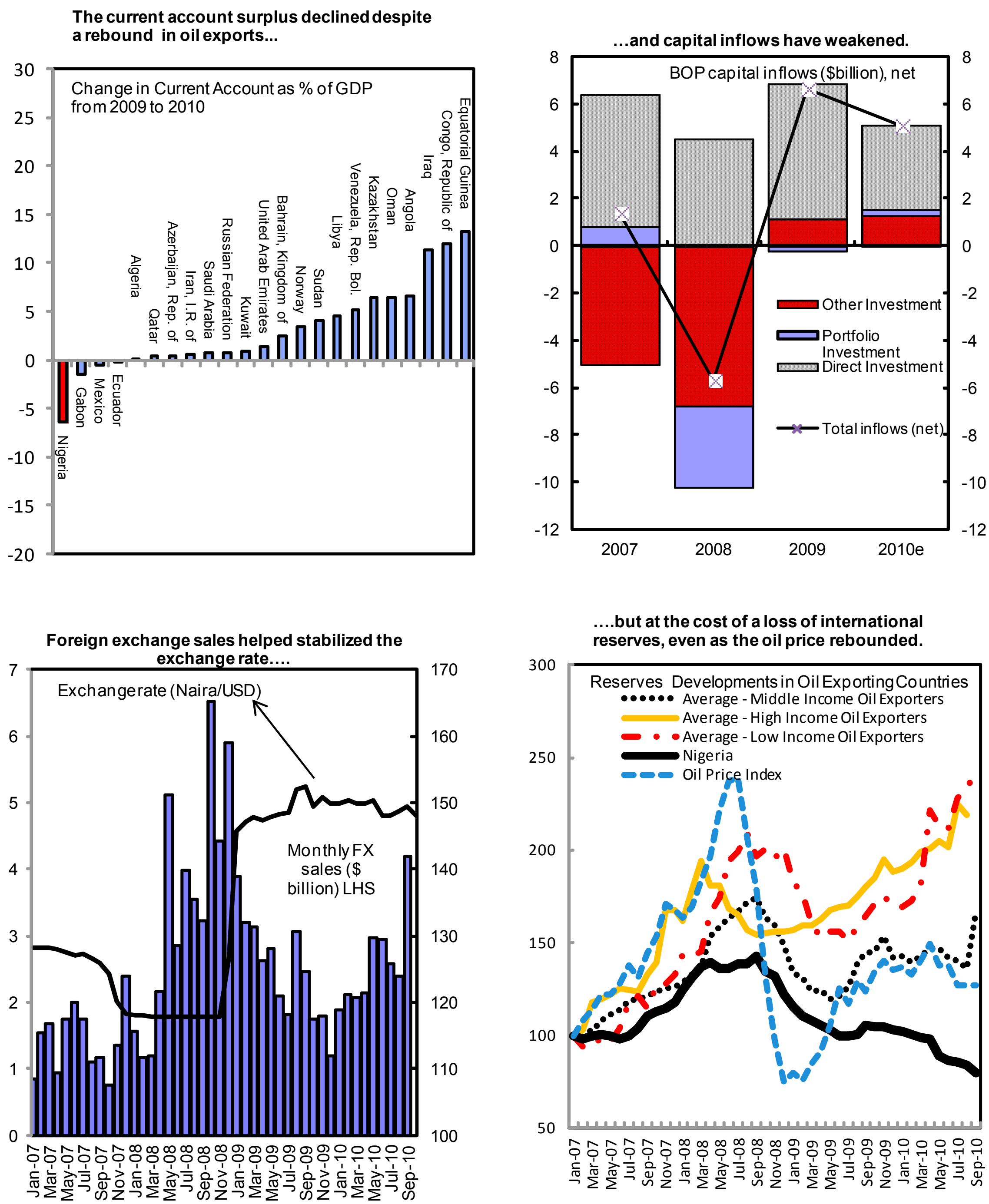
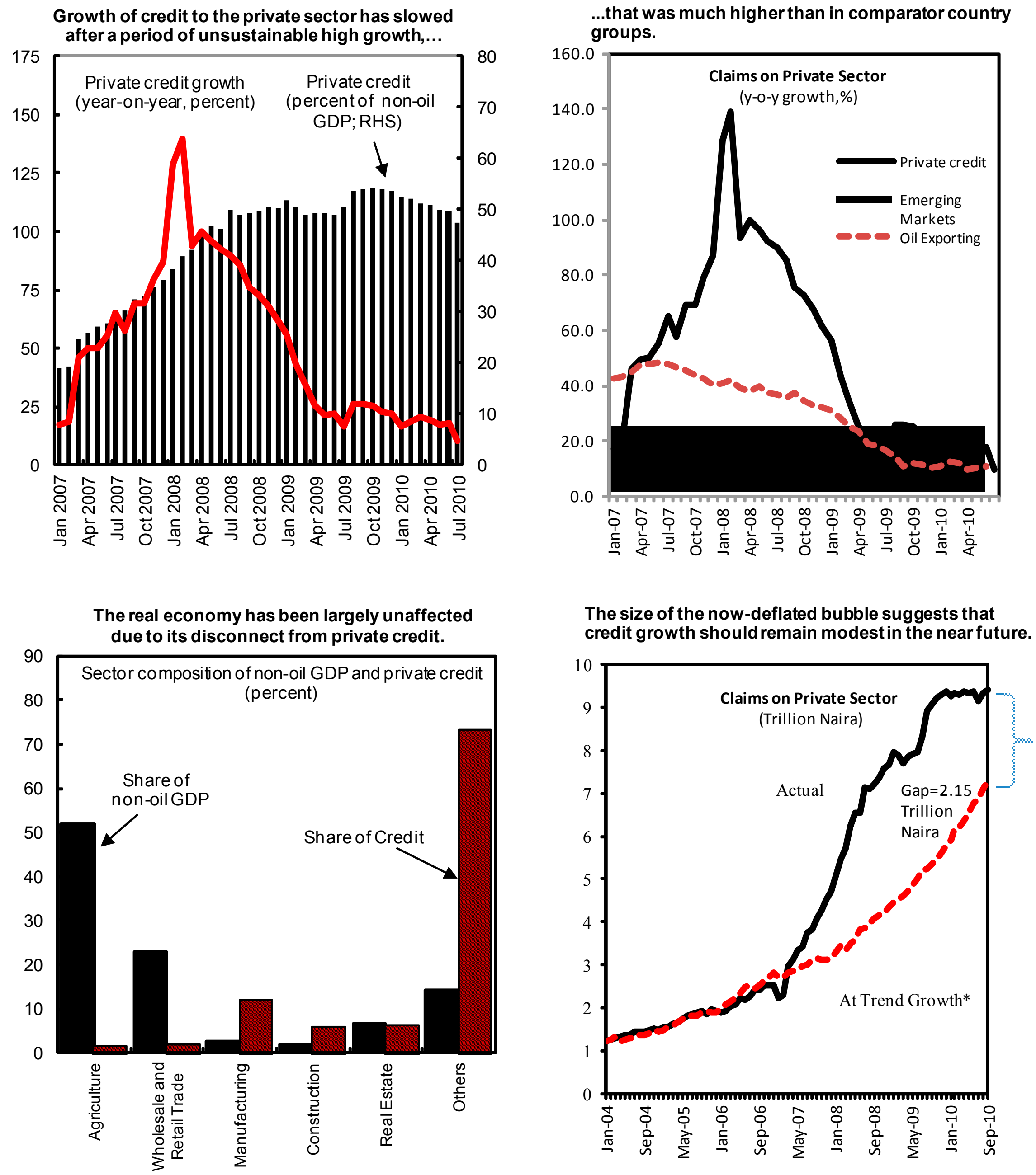


Figure 4. Nigeria: BOP and Exchange Rate Developments



Source: Nigerian authorities; and staff estimates.

Figure 5. Nigeria: Credit Bubble and Implications for the Real Economy



* Trend Growth calculated based on averge growth of credit to the private sector in 2004-06

Source: Nigerian authorities; and staff estimates.

Table 1. Nigeria: Selected Economic and Financial Indicators, 2007–13

				Projections			
	2007	2008	2009	2010	2011	2012	2013
National income and prices	(Annual percentage change, unless otherwise specified)						
Real GDP (at 1990 factor cost)	6.4	6.0	7.0	8.4	6.9	6.6	6.3
Oil and Gas GDP	-4.5	-6.2	0.5	11.1	2.6	1.8	1.7
Non-oil GDP	9.5	9.0	8.3	7.9	7.7	7.5	7.1
Production of crude oil (million barrels per day)	2.21	2.09	2.16	2.36	2.36	2.40	2.45
Nominal GDP at market prices (trillions of naira)	20.9	24.6	25.1	32.3	38.4	43.3	48.8
Nominal non-oil GDP at factor cost (trillions of naira)	13.1	15.2	17.4	21.4	25.4	29.6	34.2
Nominal GDP per capita (US$)	1,153	1,401	1,112	1,387	1,579	1,671	1,762
GDP deflator	4.3	11.0	-4.4	18.8	11.1	5.9	5.9
Non-oil GDP deflator	3.5	6.3	5.5	13.8	10.4	8.1	8.1
Consumer price index (annual average)	5.4	11.6	12.5	13.8	10.8	8.7	8.5
Consumer price index (end of period)	6.6	15.1	13.9	12.8	9.0	8.5	8.5
Investment and savings	(Percent of GDP)						
Gross national savings	41.6	39.8	41.0	31.0	34.9	33.8	32.7
Public	10.1	13.3	-1.8	3.9	9.1	10.0	9.4
Private	31.5	26.5	42.8	27.2	25.8	23.8	23.3
Investment	22.8	24.0	27.6	24.5	22.7	22.5	22.2
Public	9.4	7.7	7.4	9.2	7.9	7.4	7.1
Private	13.4	16.4	20.2	15.2	14.8	15.1	15.1
Current account balance [1]	18.7	15.4	13.0	6.6	12.2	11.3	10.5
Consolidated government operations							
Total revenues and grants	28.4	32.8	19.9	25.5	26.6	25.9	24.8
Of which: oil and gas revenue	21.9	26.6	13.0	19.0	20.2	19.4	18.0
Total expenditure and net lending	28.7	28.2	30.4	32.3	27.0	25.2	24.6
Overall balance	-0.4	4.6	-10.4	-6.9	-0.4	0.7	0.2
Non-oil primary balance (percent of non-oil GDP) [2]	-29.1	-28.4	-27.3	-32.2	-24.9	-21.4	-19.0
Excess Crude Account / Sovereign Wealth Fund (US$ billions) [3]	14.2	19.7	7.1	3.4	15.2	28.6	42.0
Money and credit	(change in percent of broad money at the beginning of the period, unless otherwise specified)						
Broad money	44.2	57.8	17.5	12.1	20.3	16.2	15.7
Net foreign assets	23.5	23.3	-10.9	-12.0	19.7	18.2	17.6
Net domestic assets	20.8	34.5	28.4	24.1	0.6	-2.0	-1.9
Credit to consolidated government	-10.5	-11.7	10.5	18.1	-10.9	-10.5	-8.0
Credit to the rest of the economy	59.6	50.6	21.7	3.3	13.4	10.8	8.7
Velocity	2.3	1.7	1.6	1.8	1.8	1.8	1.8
Treasury bill rate (percent; end of period)	8.7	5.4	3.4	...	...	...	...
External sector	(Annual percentage change, unless otherwise specified)						
Current account balance (percent of GDP) [1]	18.7	15.4	13.0	6.6	12.2	11.3	10.5
Exports, f.o.b.	14.1	26.9	-28.0	24.1	15.3	2.8	1.8
Oil and gas export volume	4.2	-7.5	11.1	-2.5	0.0	2.2	1.7
Imports, f.o.b.	49.5	24.0	-12.7	37.5	-9.4	-0.8	-0.3
Terms of trade	1.2	16.6	-21.6	13.0	5.1	-0.1	0.0
Price of Nigerian oil (US$ per barrel)	71.1	97.0	61.8	78.9	89.5	89.8	89.5
Nominal effective exchange rate (end of period)	99.8	100.6	82.2	...	...	...	...
Real effective exchange rate (end of period)	109.5	123.8	109.7	…	…	…	…
External debt outstanding (US$ billions)	4.0	4.5	4.0	4.8	5.8	6.4	6.8
Gross international reserves (US$ billions) [4]	51.3	53.0	42.4	34.1	40.1	45.7	52.1
(equivalent months of imports of goods and services)	10.1	13.1	8.0	6.6	7.6	8.5	8.8

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

[1] Large errors and omissions in the balance of payments suggest that the current account surplus is overestimated by a significant (but unknown) amount.

[2] If the costs of the bank recapitalization were incorporated in the budget, they would raise the NOPD by some 0.9 percent of non-oil GDP in 2011, with the relative impact diminishing over time.

[3] Includes all components of the proposed sovereign wealth fund.

[4] Includes $2.6 billion in 2009 on account of the SDR allocation.

Table 2. Nigeria: Balance of Payments, 2007–13
(Billions of U.S. dollars, unless otherwise specified)

	2007	2008	2009	2010	2011	2012	2013
		Actual			Projections		
Current account balance	31.1	31.8	21.9	14.2	30.8	31.0	31.3
Trade balance	38.1	47.0	29.4	33.4	40.8	46.5	47.9
Exports	66.6	84.1	60.0	74.6	86.0	88.3	89.7
Oil/gas	65.0	82.0	58.0	72.3	82.0	84.0	85.2
Other	1.6	2.1	2.0	2.3	4.0	4.3	4.6
Imports	-28.5	-37.1	-30.6	-41.2	-45.2	-41.9	-41.8
Oil/gas	-5.6	-10.7	-6.9	-7.9	-9.7	-10.4	-11.1
Other	-22.9	-26.4	-23.7	-33.3	-35.6	-31.4	-30.7
Services (net)	-13.1	-21.6	-15.5	-19.5	-14.1	-18.5	-19.6
Receipts	1.5	2.3	2.3	2.6	3.0	3.2	3.4
Payments	-14.6	-23.9	-17.8	-22.1	-17.1	-21.7	-23.1
Income (net)	-11.9	-12.4	-10.1	-16.9	-15.9	-16.9	-17.4
Oil/gas	-12.5	-12.8	-9.7	-16.3	-15.0	-15.9	-16.3
Other	0.7	0.4	-0.4	-0.7	-0.8	-1.0	-1.1
Of which: Interest due on public debt	-0.6	-0.1	-0.1	-0.1	-0.1	-0.2	-0.2
Transfers (net) [1]	18.0	18.9	18.2	17.2	20.0	20.0	20.5
Capital and Financial account balance	1.4	-5.7	6.7	4.6	2.3	1.8	2.2
Capital Account (net)	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financial Account (net)	1.4	-5.7	6.7	4.6	2.3	1.8	2.2
Direct Investement (net)	5.6	4.5	5.7	3.6	6.0	6.6	6.9
Portfolio Investment (net)	0.8	-3.4	-0.2	0.2	2.4	2.6	2.9
Other Investment (net)	-5.0	-6.8	1.1	0.8	1.1	0.6	0.4
ECA/SWF [2]					-7.1	-8.0	-8.0
Errors and omissions	-23.5	-24.5	-39.2	-27.1	-27.1	-27.1	-27.1
Overall balance	9.0	1.7	-10.6	-8.3	6.0	5.6	6.4
Net international reserves (increase -)	-9.0	-1.7	10.6	8.3	-6.0	-5.6	-6.4
Memorandum items :							
Gross official reserves, end-of-period[3]	51.3	53.0	42.4	34.1	40.1	45.7	52.1
In months of next year's imports of goods and services	10.1	13.1	8.0	6.6	7.6	8.5	8.8
Current account (percent of GDP)	18.7	15.4	13.0	6.6	12.2	11.3	10.5
Exports of goods and services (percent of GDP)	41.0	41.7	36.9	35.7	35.2	33.3	31.2
Imports of goods and services (percent of GDP)	26.0	29.5	28.6	29.3	24.6	23.1	21.7
External debt[4]	4.0	4.5	4.0	4.8	5.8	6.4	6.8
External debt (percent of GDP)[4]	2.4	2.2	2.3	2.2	2.3	2.3	2.3
External debt (percent of exports of goods and services)[4]	5.9	5.2	6.4	6.2	6.5	7.0	7.3
External debt[4, 5]	8.6	6.6	11.8	8.6	8.7	9.0	9.3
External debt service due (percent of exports of goods and services)	2.3	0.6	0.7	0.6	0.4	0.4	0.5
GDP (at market prices)	165.9	207.1	168.8	216.4	253.2	275.2	298.3

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

[1]Includes capital transfers.
[2]Includes only intergenerational and infrastructure funds. Stabilization component is included in international reserves.
[3]Includes $2.4 billion in 2009 on account of the SDR allocation. Projections include the stabilization component of the Sovereign Wealth Fund.
[4]Nominal public sector short- and long-term debt, end of period.
[5]Percent of general government fiscal revenues.

Table 3a. Nigeria: Federal Government, 2007-13
(Billions of naira)

	2007	2008	2009	2010	2011	2012	2013
					Projections		
Total revenue	2,311	3,029	1,614	2,852	3,739	3,992	4,279
Oil revenue	1,767	2,539	1,079	2,193	2,951	3,091	3,230
Non-oil revenue	544	490	535	659	788	901	1,050
Import and excise duties	109	127	134	141	153	140	142
Companies' income tax	152	194	264	313	388	469	564
Value-added tax	41	54	63	79	97	118	142
Federal government independent revenue	243	115	73	126	150	174	202
Total expenditure	2,425	2,784	2,952	4,602	4,294	4,799	5,400
Recurrent expenditure	1,593	2,075	2,294	3,444	3,211	3,627	4,130
Personnel	915	1,081	1,148	1,360	1,547	1,797	1,977
Overheads	347	471	564	536	334	352	395
Other service wide votes	0	0	0	707	441	463	493
Interest	205	242	283	475	612	796	1,049
Transfers[1]	126	282	299	366	278	219	216
Of which: FGN share of explicit fuel subsidy	24	119	90	117	58	0	0
Capital expenditure[2]	833	710	658	1,158	1,083	1,172	1,269
Of which: FGN's contribution to power projects	0	0	0	258	0	0	0
Overall balance	-114	245	-1,338	-1,751	-555	-807	-1,120
Financing	-634	-357	1,204	1,751	555	807	1,120
External	16	12	60	113	-25	-22	-26
Borrowing	59	43	96	150	0	0	0
Amortization	-43	-31	-36	-36	-25	-22	-26
Debt buyback	0	0	0	0	0	0	0
Domestic	-650	-370	1,144	1,638	580	829	1,147
Bank Financing	-163	-236	-16	1,521	-644	-450	-194
Nonbank financing	-488	-134	1,160	117	1,224	1,279	1,340
Of which: other financing[3]	12	0	37	117	251	58	61
Statistical discrepancy / Financing Gap	748	113	134	0	0	0	0
Memorandum items:							
FGN Total Debt	2678	2849	3816	5286	6638	8558	10857
Domestic	2170	2320	3228	4575	5754	7550	9739
Foreign	508	529	588	711	884	1008	1119
Budget oil price[4]	40.0	59.0	45.0	60.0	65.0	65.0	65.0
WEO oil price	71.1	97.0	61.8	78.9	89.5	89.8	89.5

Sources: Nigerian authorities; and IMFstaff estimates and projections.
[1]Includes earmarked spending for National Judicial Council, Universal Basic Education, Niger Delta Development Corporation, Multi-Year Tariff Order, and FGN share of explicit fuel subsidy.
[2]Includes FGN share of shared infrastructure investment funded from ECA.
[3]Includes proceeds from privatization and sales of government properties.
[4]For 2011-13, the budget oil prices are assumed as envisioned in the authorities' MTEF (as of September, 2010).

Table 3b: Nigeria. Federal Government, 2007-13
(In percent of nominal GDP)

	2007	2008	2009	2010	2011	2012	2013
				Projections			
Total revenue	11.1	12.3	6.4	8.8	9.7	9.2	8.8
Oil revenue	8.5	10.3	4.3	6.8	7.7	7.1	6.6
Non-oil revenue	2.6	2.0	2.1	2.0	2.1	2.1	2.2
Import and excise duties	0.5	0.5	0.5	0.4	0.4	0.3	0.3
Companies' income tax	0.7	0.8	1.1	1.0	1.0	1.1	1.2
Value-added tax	0.2	0.2	0.3	0.2	0.3	0.3	0.3
Federal government independent revenue	1.2	0.5	0.3	0.4	0.4	0.4	0.4
Total expenditure	11.6	11.3	11.8	14.2	11.2	11.1	11.1
Recurrent expenditure	7.6	8.4	9.1	10.7	8.4	8.4	8.5
Personnel	4.4	4.4	4.6	4.2	4.0	4.1	4.1
Overheads	1.7	1.9	2.2	1.7	0.9	0.8	0.8
Other service wide votes	0.0	0.0	0.0	2.2	1.1	1.1	1.0
Interest	1.0	1.0	1.1	1.5	1.6	1.8	2.2
Transfers	0.6	1.1	1.2	1.1	0.7	0.5	0.4
Capital expenditure	4.0	2.9	2.6	3.6	2.8	2.7	2.6
Of which: FGN's contribution to power projects	0.0	0.0	0.0	0.8	0.0	0.0	0.0
Overall balance	-0.5	1.0	-5.3	-5.4	-1.4	-1.9	-2.3
Financing	-3.0	-1.5	4.8	5.4	1.4	1.9	2.3
External	0.1	0.0	0.2	0.4	-0.1	-0.1	-0.1
Borrowing	0.3	0.2	0.4	0.5	0.0	0.0	0.0
Amortization	-0.2	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1
Debt buyback	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Domestic	-3.1	-1.5	4.6	5.1	1.5	1.9	2.4
Bank Financing	-0.8	-1.0	-0.1	4.7	-1.7	-1.0	-0.4
Nonbank financing	-2.3	-0.5	4.6	0.4	3.2	3.0	2.7
Statistical discrepancy / Financing Gap	3.6	0.5	0.5	0.0	0.0	0.0	0.0
Memorandum items:							
FGN Total Debt	12.8	11.6	15.2	16.3	17.3	19.7	22.3
Domestic	10.4	9.5	12.9	14.1	15.0	17.4	20.0
Foreign	2.4	2.2	2.3	2.2	2.3	2.3	2.3

Table 3c. Nigeria: Consolidated Government, 2007-13
(Billions of naira)

	2007	2008	2009	2010	2011	2012	2013
				Projections			
Total revenue	5,926	8,063	5,003	8,231	10,212	11,223	12,084
Oil revenue	4,564	6,535	3,192	6,151	7,737	8,391	8,794
Non-oil revenue	1,362	1,529	1,811	2,080	2,475	2,831	3,290
Import and excise duties	241	281	298	312	339	311	315
Companies' income tax	327	417	568	673	833	1,007	1,212
Value-added tax	302	405	468	585	724	875	1,054
Other (education tax and customs levies)	92	129	201	158	184	198	220
Federal government independent revenue	243	115	73	126	150	174	202
SLG independent revenue	158	182	204	225	245	265	288
Total expenditure	6,001	6,934	7,619	10,449	10,374	10,938	12,009
Federal government	2,425	2,784	2,952	4,602	4,294	4,799	5,400
Extrabudgetary funds[1]	367	265	481	450	560	618	676
State and local government	2,156	2,886	3,092	3,960	4,074	4,258	4,601
Foreign-financed capital spending	59	43	81	94	196	119	107
Other[2]	789	956	1,013	1,342	1,250	1,144	1,224
Overall balance	-74	1,129	-2,616	-2,218	-161	285	76
Financing	-694	-1,326	2,210	2,043	-61	-292	-84
External	2	2	129	196	162	90	73
Borrowing [3]	59	43	177	244	196	119	107
Amortization	-57	-41	-48	-49	-33	-30	-35
Domestic	-696	-1,328	2,081	1,847	-223	-382	-157
Bank Financing [4]	-208	-1,194	921	1,730	-1,447	-1,661	-1,497
Non-bank financing	-488	-134	1,160	117	1,224	1,279	1,340
Statistical discrepancy/Financing gap	756	197	369	58	-28	-50	-49
Memorandum items:							
Budget oil price	40.0	59.0	45.0	60.0	65.0	65.0	65.0
Overall balance (% of GDP)	-0.3	4.6	-10.4	-6.9	-0.4	0.7	0.1
Non-oil primary balance (% of non-oil GDP) [5]	-25.2	-28.4	-27.3	-32.2	-24.9	-21.4	-16.5
Implicit fuel subsidy	239	377	203	388	194	0	0
Gross domestic debt (% of GDP)	10.4	9.5	12.9	14.1	15.0	17.4	20.0
ECA/SWF balance (billions of naira)	1664	2611	1056	506	2339	4485	6716
ECA/SWF balance (billions of USD)	14.2	19.7	7.1	3.4	15.2	28.6	42.0

Sources: Nigerian authorities; and IMFstaff estimates and projections.

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

[2] Includes cash calls and implicit fuel subsidy.

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

[4] Equal to the change in net claims on the consolidated government in the monetary survey, minus the change in state and local government deposits that are part of broad money.

[5] If the costs of bank recapitalization were incorporated in the budget, they would raise the NOPD by some 0.9 percent of non-oil GPD in 2011, with the relative impact diminishing over time.

Table 3d. Nigeria: Consolidated Government, 2007-13
(In percent of nominal GDP)

	2007	2008	2009	2010	2011	2012	2013
				Projections			
Total revenue	28.4	32.8	19.9	25.5	26.6	25.9	24.8
Oil revenue	21.9	26.6	12.7	19.0	20.2	19.4	18.0
Non-oil revenue	6.5	6.2	7.2	6.4	6.4	6.5	6.7
Total expenditure	28.7	28.2	30.4	32.3	27.0	25.2	24.6
Federal government expenditure	11.6	11.3	11.8	14.2	11.2	11.1	11.1
Extrabudgetary funds	1.8	1.1	1.9	1.4	1.5	1.4	1.4
State and local government	10.3	11.8	12.3	12.2	10.6	9.8	9.4
Shared infrastructure spending	1.0	0.0	0.0	0.0	0.0	0.0	0.0
Foreign-financed capital spending	0.3	0.2	0.3	0.3	0.5	0.3	0.2
Other	3.8	3.9	4.0	4.2	3.3	2.6	2.5
Overall balance	-0.4	4.6	-10.4	-6.9	-0.4	0.7	0.2
Financing	-3.3	-5.4	8.8	6.3	-0.2	-0.7	-0.2
External	0.0	0.0	0.5	0.6	0.4	0.2	0.1
Domestic	-3.3	-5.4	8.3	5.7	-0.6	-0.9	-0.3
Bank Financing	-1.0	-4.9	3.7	5.4	-3.8	-3.8	-3.1
Non-bank financing	-2.3	-0.5	4.6	0.4	3.2	3.0	2.7
Statistical discrepancy / Financing Gap	3.6	0.8	1.5	0.2	-0.1	-0.1	-0.1

Table 3e. Nigeria: Consolidated and Federal Governments, 2007-13
(Percent of non-oil GDP, unless otherwise stated)

	2007	2008	2009	2010	2011	2012	2013
			Projections				
Consolidated government							
Total revenue	45.2	53.1	28.8	38.5	40.1	38.0	35.3
Oil and gas revenue	34.8	43.0	18.4	28.8	30.4	28.4	25.7
Non-oil revenue	10.4	10.1	10.4	9.7	9.7	9.6	9.6
Total consolidated expenditure	45.7	45.6	43.8	48.9	40.8	37.0	35.1
Federal government	18.5	18.3	17.0	21.5	16.9	16.2	15.8
Extrabudgetary	2.8	1.7	2.8	2.1	2.2	2.1	2.0
State and local government	16.4	19.0	17.8	18.5	16.0	14.4	13.4
Shared infrastructure spending	1.6	0.0	0.0	0.0	0.0	0.0	0.0
Other	6.5	6.6	6.3	6.7	5.7	4.3	3.9
Overall balance	-0.6	7.4	-15.1	-10.4	-0.6	1.0	0.2
Overall balance (percent of GDP)	-0.4	4.6	-10.4	-6.9	-0.4	0.7	0.2
Non-oil primary balance	-29.1	-28.4	-27.3	-32.2	-24.9	-21.4	-19.0
Statistical discrepancy/Financing gap	5.8	1.3	2.1	0.3	-0.1	-0.2	-0.1
Federal government							
Total revenue	17.6	19.9	9.3	13.3	14.7	13.5	12.5
Oil and gas revenue	13.5	16.7	6.2	10.3	11.6	10.5	9.4
Non-oil revenue	4.1	3.2	3.1	3.1	3.1	3.0	3.1
Total expenditure [1]	18.5	18.3	17.0	21.5	16.9	16.2	15.8
Recurrent expenditure	12.1	13.7	13.2	16.1	12.6	12.3	12.1
Personnel	7.0	7.1	6.6	6.4	6.1	6.1	5.8
Overheads	2.6	3.1	3.2	2.5	1.3	1.2	1.2
Other service wide votes	0.0	0.0	0.0	3.3	1.7	1.6	1.4
Interest	1.6	1.6	1.6	2.2	2.4	2.7	3.1
Transfers	1.0	1.9	1.7	1.7	1.1	0.7	0.6
Capital expenditure	6.3	4.7	3.8	5.4	4.3	4.0	3.7
Overall balance (percent of GDP)	-0.5	1.0	-5.3	-5.4	-1.4	-1.9	-2.3
Non-oil primary balance [2]	-12.8	-13.5	-12.3	-16.2	-11.4	-10.5	-9.6
Statistical discrepancy/Financing gap	5.7	0.7	0.8	0.0	0.0	0.0	0.0

Sources: Nigerian authorities; and IMFstaff estimates and projections.

[1]For 2011-13, the federal government expenditure figures are assumed as envisioned in 2010 MTEF (Sept. 2010).

[2] If the costs of bank recapitalization were incorporated in the budget, they would raise the NOPD by some 0.9 percent of non-oil GPD in 2011, with the relative impact diminishing over time.

Table 4a. Nigeria: Central Bank of Nigeria (CBN) Analytical Balance Sheet, 2007–13
(Billions of Naira)

	2007	2008	2009				2010				2011	2012	2013
	December		Mar.	Jun.	Sep.	Dec.	Mar.	Jun.	Sep.	Dec.	December		
	Estimate		Estimate				Estimate				Projections		
Net foreign assets 1/	5,983	7,341	7,032	6,712	5,883	6,547	6,113	5,401	5,141	5,060	7,293	9,778	12,570
Foreign assets	5,983	7,341	7,032	6,712	5,883	6,547	6,113	5,406	5,150	5,069	7,302	9,787	12,579
Foreign liabilities	0	0	0	0	0	0	0	-5	-9	-9	-9	-9	-9
Net domestic assets	4,788	5,792	5,648	5,421	4,621	4,894	4,302	3,866	3,796	3,451	5,359	7,530	9,968
Net domestic credit	-1,444	-4,364	-3,920	-3,799	-3,471	-3,199	-2,755	-2,567	-2,379	-1,934	-3,647	-5,539	-7,603
Net claims on consolidated government	-1,824	-4,532	-4,658	-4,349	-3,971	-3,732	-3,434	-3,273	-3,037	-2,592	-4,431	-6,450	-8,657
Net claims on federal government 2/	-1,824	-4,532	-4,658	-4,349	-3,971	-3,732	-3,434	-3,273	-3,037	-2,592	-4,431	-6,450	-8,657
Of which: ECA/SWF	694	1,224	1,009	893	704	528	352	293	386	500	2,353	4,588	6,995
Claims on deposit money banks	215	222	705	505	506	685	668	752	748	748	891	1035	1198
Other net claims	166	-54	33	45	-6	-152	11	-47	-90	-90	-107	-124	-144
Other items net	3,344	1,429	1,728	1,622	1,150	1,695	1,547	1,298	1,417	-1,517	-1,711	-1,990	-2,364
Reserve money	1,195	1,549	1,384	1,291	1,262	1,654	1,811	1,535	1,344	1609	1935	2248	2602
Currency in circulation	961	1,155	1,038	1,007	1,032	1,182	1,086	1,064	1,125	1347	1620	1882	2178
Banks reserves with the CBN	234	394	346	285	230	472	724	471	219	262	315	366	424
Memorandum items:													
Reserve money y/y growth rate	31.2	29.6	15.3	-14.9	1.2	6.8	30.8	18.9	6.5	-2.7	20.3	16.2	15.7
Money multiplier	4.9	5.9	6.5	7.0	6.2	6.5	6.1	7.1	8.3	7.5	7.5	7.5	7.5

Sources: Nigerian authorities; and IMF staff estimates and projections.
1/ Long-term liabilities are included in other items net.
2/ The SLG component of the ECA is included under the Net Claims on the FGN, as the FGN is the signatory of the ECA in the CBN.

Table 4b. Nigeria: Monetary Survey, 2007–13

	2007	2008	2009				2010				2011	2012	2013
	December		Mar.	Jun.	Sep.	Dec.	Mar.	Jun	Sep.	Dec.	December		
	Estimate		Estimate				Estimate			Proj.	Projections		
	(Billions of naira)												
Net foreign assets	7,267	8,621	8,176	7,713	6,911	7,619	7,253	6,485	6,368	6,321	8,698	11,340	14,305
Central Bank of Nigeria (net)	6,570	7,341	7,032	6,712	5,883	6,547	6,113	5,401	5,141	5,060	7,293	9,778	12,570
Foreign assets	6,570	7,341	7,032	6,712	5,883	6,547	6,113	5,406	5,150	5,069	7,302	9,787	12,579
Of which: SWF 1/	...	...	...	...	...	...	...	...	...	...	1,111	2,453	3,897
Reserve assets	...	...	...	...	...	...	...	...	...	5,069	6,191	7,334	8,682
Foreign liabilities	0	0	0	0	0	0	0	-5	-9	-9	-9	-9	-9
Commercial and merchant banks (net)	696	1,280	1,144	1,001	1,028	1,071	1,139	1,084	1,228	1,261	1,404	1,562	1,735
Net domestic assets	-1,457	546	822	1,364	2,548	3,149	3,757	4,361	4,857	5,745	5,813	5,524	5,211
Net domestic credit	2,688	4,952	4,821	5,677	6,991	7,904	8,388	8,613	9,318	10,207	10,516	10,560	10,682
Net claims on consolidated government	-2,281	-2,958	-3,195	-2,628	-2,525	-1,992	-1,328	-1,171	-677	-40	-1,350	-2,880	-4,228
Net claims on FGN 2/	-2,368	-3,108	-3,406	-2,880	-2,820	-2,302	-1,649	-1,490	-1,018	-428	-2,075	-3,736	-5,233
Of which: ECA/SWF	1,514	2,670	2,200	1,948	1,535	1,153	767	639	386	500	2,353	4,588	6,995
Claims on SLG 2/	88	150	211	252	295	310	322	319	341	388	725	856	1,004
Claims on private sector	4,740	7,657	7,709	7,977	9,078	9,359	9,293	9,423	9,466	9,717	11,337	12,910	14,381
Other Claims	229	253	306	329	438	537	423	361	529	529	529	529	529
Other items (net)	-4,145	-4,406	-3,999	-4,313	-4,443	-4,755	-4,631	-4,252	-4,461	-4,461	-4,703	-5,036	-5,470
Broad money	5,810	9,167	8,998	9,077	9,458	10,767	11,010	10,845	11,225	12,067	14,511	16,863	19,517
Currency outside banks	738	893	804	746	779	927	834	795	881	947	1,139	1,323	1,532
Demand deposits	2,378	3,965	3,863	3,738	3,555	4,077	4,120	4,123	4,375	4,703	5,656	6,573	7,607
Time and savings deposits	2,694	4,310	4,331	4,592	5,125	5,764	6,057	5,928	5,969	6,417	7,716	8,967	10,378
Memorandum items:													
Broad money (y-o-y,%)	44.2	57.8	12.5	14.2	5.6	17.5	22.4	19.5	18.7	12.1	20.3	16.2	15.7
Credit to the private sector (y-o-y,%)	87.3	61.5	34.6	21.8	25.8	22.2	20.5	18.1	4.3	3.8	16.7	13.9	11.4
Velocity (non-oil GDP/broad money)	2.26	1.66	...	...	...	1.61	...	...	...	1.77	1.75	1.75	1.75
Velocity (GDP/broad money)	3.59	2.68	...	...	...	2.33	...	...	...	2.68	2.65	2.57	2.50
Gross international reserves (billions of US$)	51.3	53.0	47.1	43.6	40.9	42.4	40.7	37.4	36.5	34	40	46	52
Non-oil GDP (in billions of naira)	13,124	15,199	...	...	...	17,376	...	...	...	21,374	25,446	29,571	34,224

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

1/ Excludes stabilization component of SWF, which is considered part of reserves assets.

2/ The SLG component of the ECA is included under the Net Claims on the FGN, as the FGN is the signatory of the ECA in the CBN.

Table 5. Nigeria: Financial Soundness Indicators, 2007-10
(In percent, unless otherwise indicated)

	2007	2008	2009	2010 June
Capital Adequacy				
Regulatory capital to risk weighted assets	23.4	22.6	20.9	6.9
Regulatory Tier I capital to risk-weighted assets	22.0	22.3	18.8	4.4
Capital (net worth) to assets 1/	17.0	18.5	15.2	3.6
Asset quality and composition				
Nonperforming loans to total gross loans 2/	9.5	0.3	29.1	30.1
Nonperforming loans net of loan-loss provision to capital	9.9	-6.7	18.6	64.1
Earnings and profitability				
Return on assets	0.5	0.4	-1.5	0.4
Return on equity	3.0	1.9	-9.6	11.8
Interest margin to gross income	62.1	57.4	115.8	5.6
Noninterest expenses to gross income	60.4	63.1	408.4	60.9
Personnel expenses to noninterest expenses	52.1	45.1	74.0	40.8
Trading and fee income to total income	1.0	-0.1	7.5	2.1
Liquidity				
Liquid asset to total assets	24.2	18.8	17.3	17.7
Liquid assets to short term liabilities	30.2	24.2	22.1	19.4
Customer deposit to total (non-interbank) loans	131.5	135.1	122.2	124.4

Source: Nigerian authorities.

1/ The average ratio for the 14 non-intervened banks is considerably above the minimum regulatory threshold of 10 percent, while it remains negative for the 10 intervened banks.

2/ The average ratio for the 14 non-intervened banks remains stable at around 10 percent.

Table 6. Nigeria: Millennium Development Goals—Status at a Glance

Goal	1990	2000	2008	Target 2015
1. Eradicate Extreme Poverty and Hunger				
Percentage of population living in relative poverty	43	66	51.5 [2004]	21
Percentage of population living below minimum level of dietary energy consumption	39	29	34 [2007]	14.5
Percentage of underweight children (under five)	36	31	23	18
2. Achieve Universal Education				
Net enrolment ratio in primary education	68	95	89 [2007]	100
Proportion of pupils starting grade one who reach grade five	67	97	74 [2007]	100
Grade six completion rate	58	77	68	100
Literacy rate of 15–24 years old	71	64	80	100
3. Promote Gender Equality and Empower Women				
Ratio of girls to boys in primary education (girls per 100 boys)	76	78	85	100
Ratio of girls to boys in secondary education (girls per100 boys)	75	81	80	100
Ratio of girls to boys in tertiary education (girls per 100 boys)	46	66	67	100
Share of women in wage employment in the non-agriculture sector (percent)	66	79 [2004]	…	100
Proportion of seats held by women in national parliament (percent)	1	3	8	30
4. Reduce Child Mortality				
Infant mortality rate (per 1000 live births)	91	81	75	30
Under-five mortality rate (per 1000 live births)	191	184	157	64
Percentage of one-year-olds fully immunized against measles	46	33	60	100
5. Improve Maternal Health				
Maternal mortality rate (per 100,000 live births)	…	704	545	100
Proportion of births attended to by skilled health personnel	45	42	39	100

Table 6. Nigeria: Millennium Development Goals—Status at a Glance (concluded)

Goal	1990	2000	2008	Target 2015
6. Combat HIV/AIDS, Malaria and Other Diseases				
HIV prevalence among pregnant women aged 15–24	…	5.8 [2001]	4.2	
Contraceptive prevalence (percent)	…	44 [2003]	64	
Number of children (millions) orphaned by HIV/AIDS	…	…	1.97 [2005]	
Prevalence and death rates associated with malaria	…	…	…	
Prevalence and death rates associated with tuberculosis	…	…	…	
7. Ensure Environmental Stability				
Proportion of land area covered by forests	…	15	10	20
Proportion of gas flared	68	53	32	0
Proportion of total population with access to safe drinking water	54	54	58.9	100
Proportion of people with access to secure tenure	…	38	61	100
Carbon dioxide emissions (per capita)	…	4799	2500 [2005]	…
Proportion of total population with access to basic sanitation	39	43	51.6	100
Residential housing construction index (ACI) (Proxy)	…	53	31 [2005]	
8. Develop a Global Partnership for Development				
Per capita official development assistance to Nigeria (US$)	3.0	1.47	81.67	
Debt service as a percentage of exports of goods and services	…	9	0.5	
Private sector Investment (US$ million)	50	75	8100	
Telephone-density (per 1000 people)	0.45	0.73	27.41	
Personal computers (per 1000 people)	…	6.38	6.74	
Internet access (percent)	0.1	0.1	15.8	

Source: Nigerian authorities: *Millennium Development Goals Report 2010* .

Appendix I. Nigeria: Current Oil Stabilization Mechanism and Key Features of the Proposed NSIA

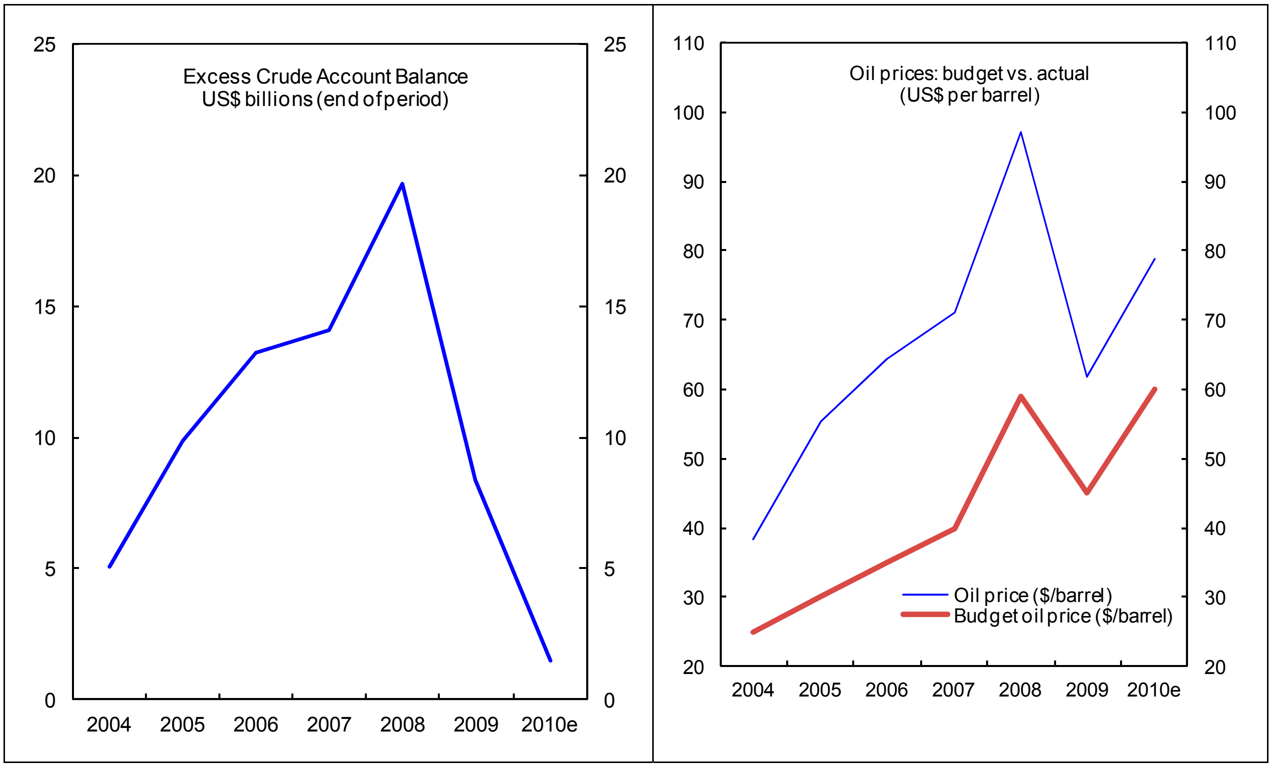
Background: The constitution provides that all tiers of government–federal, state, and local - share in oil revenues. All oil revenue inflows are received into the Federation Account. The constitution provides that oil-producing states receive 13 percent upfront as derivation grants. Of the remaining 87 percent, the federal government receives 52.7 percent, states 26.7 percent, and local governments 20.6 percent. A key fiscal policy challenge in Nigeria has been managing volatility of oil revenues in this complex federal fiscal system.

A. The Current Oil Revenue Stabilization Mechanism

Adoption of an oil-revenue based rule: An oil revenue fiscal rule was adopted in 2004. The rule is based on an informal political agreement among various levels of government and is not rooted in legislation. The agreement provided for allocation of benchmark oil revenues, which are based on a budget benchmark oil price and projected oil production. The budget oil price is politically agreed and approved by parliament. Any oil revenues in excess of the benchmark level are transferred into the "Excess Crude Account (ECA)" at the central bank in the names of the various tiers of government. A Fiscal Responsibility Act (FRA) was adopted by the federal government in 2007—partly as an attempt to formalize the "voluntary" oil revenue-based fiscal rule. The view of many legal observers, however, is that the FRA cannot bind other levels of government. In September 2007, a political agreement was reached under which all states would pass fiscal responsibility legislation, but progress in promulgating similar legislations is so far limited.

Early experience with the oil revenue rule: In early years, a conservative budget oil price relative to world market prices was used, which produced significant fiscal surpluses and sizable balances in the ECA (text figure). The ECA balances were used for debt buyback operations with official creditors and debt relief (in 2005-06), which resulted in a sharp substantial reduction in Nigeria's external debt. Despite payments for debt buyback and the financing of power projects, the ECA balances peaked at $20 billion in 2008. In the Nigerian context, this simple fiscal rule based on budget oil price was easily understood by all participants in the political process and achieved some traction in the media, which regularly reports on the Federation Account Allocation Committee's monthly meetings and changes in the ECA balances.

Recent experience with the oil revenue rule: The sharp decline in oil prices starting in late 2008 tested the fiscal rule and the savings account for the first time. In addition, increased unrest in the oil producing region the Niger Delta led to a decline in oil production. Consequently, the authorities withdrew resources from the ECA to offset the shortfall in oil revenue. However, a recovery in oil prices and in production (owing to an amnesty in Niger Delta) during the second half of 2009 did not halt withdrawals from the ECA. The 80/20 rule, whereby 80 percent of the excess revenues saved in the ECA in the previous year would be disbursed regardless of movements in world oil prices, and other ad hoc withdrawals from the account, have almost depleted the ECA and undermined its stabilization function.



Strengthening the legal and the institutional framework for managing the oil savings will require addressing a number of key issues. First, the oil revenue-based fiscal rule needs to be well-defined—for example a moving average of prices—and to be consistent with rebuilding the buffers and macroeconomic stability objective. Second, the objective of the oil fund (stabilization and/or savings), governance arrangements, and funding and withdrawal rules should be robust and transparent. Third, all spending financed from the oil account/fund should be integrated into fiscal strategies, budgets, and accounts. The authorities are working to establish a sovereign wealth fund—Nigerian Sovereign Investment Authority (NSIA)—that would address many of these issues.

B. Key Features of the Proposed NSIA

Institutional set up: The NSIA will be owned by all three tiers of the government and a Governing Council of owners will supervise the Authority. In addition to representatives of all owners, the Governing Council will also include members from academia, civil society and youth organizations, and other private sector representatives. A professional Board of Directors will oversee management of the NSIA.

Scope: The NSIA will comprise three funds: a stabilization fund (to offset shortfalls in hydrocarbon revenues), an infrastructure fund (to develop infrastructure), and a saving fund (for future generations). Each of these funds will be ring-fenced—there will be no cross-financing from one fund to another.

Oil revenue-based rule: The draft legislation does not specify any oil revenue rule. The final determination of the benchmark hydrocarbon revenue and the underlying oil-price benchmark is left to the National Assembly. The surplus hydrocarbon revenue is defined as the realized revenue less the benchmark revenue.

Funding: Initial funds equivalent to US$1 billion are to be transferred from the ECA. Thereafter, in years with excess hydrocarbon revenue, each of the three funds will receive at least 20 percent of the total excess amount disbursed into the NSIA and the Board will allocate the remaining 40 percent among the three funds. In addition, the NSIA's affiliates and subsidiaries will be able to borrow (including in foreign currency).

Spending: The stabilization fund will be used to offset shortfalls in hydrocarbon revenues from the benchmark levels, on a quarterly basis and ex post. The infrastructure fund will invest in priority infrastructure and social projects. It will be able to make private equity investments in reputable firms engaged in infrastructure activities, co-invest directly in infrastructure projects, and participate in infrastructure funds with multiple outside investors. The spending from the infrastructure fund will be guided by the Authority's rolling five-year investment plan and will initially focus on power generation and distribution, water services, and transport networks (roads, ports, rail and airport facilities).

Transparency: The NSIA accounts will be audited annually by an internationally recognised auditing firm. The NSIA will make its Annual Reports and quarterly financial reports accessible to the public.

Appendix II: Nigerian Monetary Policy Regime

The CBN pursues multiple monetary policy objectives. The CBN pursues both price and exchange rate stability without formally announcing an explicit target for either. In its monetary policy statement for 2011/20, the CBN asserts that it "would strive to achieve the government's overall inflation objective" and sets out broad money growth targets for the two years.[1] At the same time, the communiqués of the Monetary Policy Committee site "exchange rate stability" as a prime objective.[2] While officially recorded capital flows are small, Nigeria is regarded as having a fairly open capital account, rendering the simultaneous achievement of these objectives difficult.[3] In addition, the CBN keeps its policy rates low (currently negative in real terms) to encourage banks to lend and provides direct loans and loan guarantees to preferred sectors at below-market interest rates. In 2010, the CBN demonstrated a revealed preference for exchange rate stability, as the exchange rate remained practically unchanged while inflation was above the government's target.

While the CBN does not announce an exchange rate target, for the past year its auction rate has not deviated from the period average by more than 1 percent. This has effectively stabilized the interbank exchange rate as well. This is achieved by the CBN's meeting all effective demand for foreign exchange at its semi-weekly auctions (the Wholesale Dutch Auction System – or WDAS) at the preferred exchange rate. The effective demand for foreign exchange presented to the CBN window is likely affected by policies to prevent speculation. These include prohibiting commercial banks from reselling foreign exchange purchased from the CBN in the interbank market, allowing purchases from the CBN only for the immediate demand of dealers' clients, and requiring the return of all foreign exchange purchased through the auction but not sold to clients within 5 days.

Central components of monetary policy are the Monetary Policy Rate (MPR) and the standing lending and deposit facilities. This is a fairly standard set of instruments used to guide both the level and the volatility of short-term interest rates. The CBN rarely intervenes in domestic money markets at the MPR, thus there is no market interest rate that tracks it. On the other hand, the standing facilities do create an upper and lower band for the interest rate on secured inter-bank lending. By raising, lowering, and narrowing the band, the CBN can affect both the period average and intra-period volatility of the interbank rate. Thus, when the

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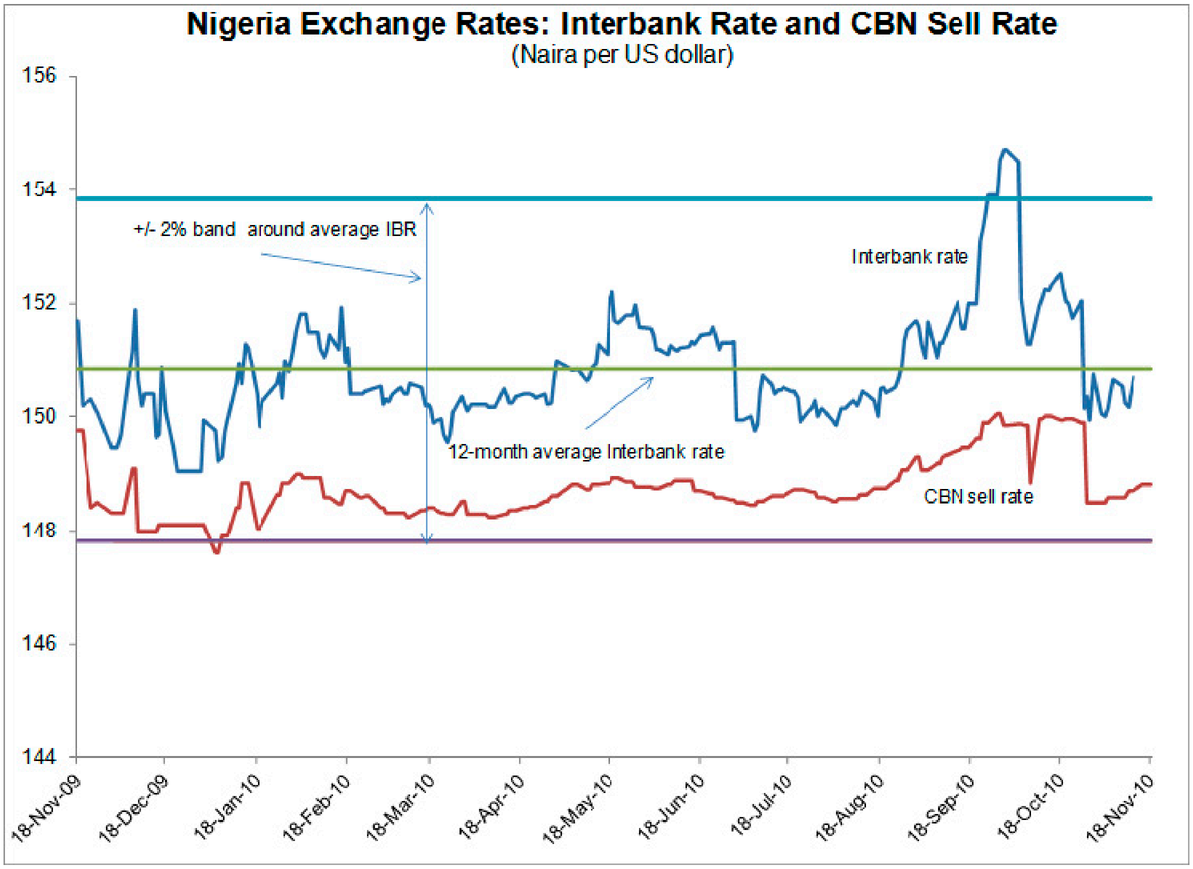
[1]See "Monetary, Credit, Foreign Trade, and Exchange Policy Guidelines for Fiscal Years 2010/11" p. 9, and "Medium Term Expenditure Framework and Fiscal Strategy Paper (Revised) 2010-2012" p. 29. The government's inflation targets were set at 10.1 percent for 2010 and 8.5 percent for 2011. The broad money growth targets were set at 29 and 27 percent for the same two years, respectively.

[2] See in particular the communiqués of September 21 and November 21-22, 2010.

[3] Quantification of capital movements is made difficult by large errors and omissions in the balance of payments. Foreign investors can enter and leave equity markets at will but must hold government securities for at least one year.

corridor ranged from 1.0-8.0 percent during March-September 2010, the interbank rate averaged 2.0 percent. Since raising the corridor, the interbank rate has averaged 6.9 percent.

The Cash Reserve Ratio and the liquidity ratio are additional tools for managing liquidity. The CRR has been reduced gradually over the years from 9.5 percent in 2004 to 1 percent in 2009. The LR was reduced from 40 percent in 2008 to 20 percent in 2009.



Appendix III: An Analysis of Long-Term Fiscal Sustainability in Nigeria[1]

1. Introduction

The appendix provides an estimate of a long-term fiscal sustainability benchmark for Nigeria, using the permanent income hypothesis (PIH) approach. The management of fiscal policy in Nigeria has been challenging because of the country's heavy dependence on oil and gas revenue that is uncertain, volatile and exhaustible. High volatility of oil revenue and difficulties in forecasting future oil prices make budgetary planning and execution difficult. The exhaustibility of oil raises complex issues of long-term fiscal sustainability and intergenerational equity.

Under the PIH approach, the government spends the net oil wealth at a gradual pace that ensures a constant share for each generation according to some welfare criteria – that is, government consumption smoothing over time in line with expected permanent income from oil reserves.[2] This in turn can be translated into a sustainable path for the non-oil primary deficit, providing an upper bound for the permissible government non-oil deficit over the long term that can be funded from the use of oil revenue. It can be used to assess the sustainability of present policies against the benchmark and to consider alternative policy scenarios that are consistent with long-term fiscal sustainability.

2. Data and Assumptions

Forecasting future real oil and gas revenue requires projections for the oil and gas prices and the volume of oil and gas production. As for the future oil production, Nigeria is reported to have proven reserves of about 36.2 billion barrels (see BP Statistical Review of World Energy, June 2008). The proven gas reserves are reported to be 33.3 billion barrels of oil equivalent (Figure 1). Following scenarios are evaluated (Table 1):

- **In baseline I,** oil prices are based on the IMF's World Economic Outlook (WEO) projections for 2010-15 and the assumption that the (long-run) oil price will remain at the 2015 level (US$79.53/barrel) indefinitely.
- **In baseline II,** oil price projections are based on the WEO projections for 2010-15 and the long-run real oil price of US$122.81 per barrel in 2035 which is from the U.S. Energy Information Administration's Annual Energy Outlook 2010 (AEO).
- **Alternative scenarios:** Two additional price paths, higher long-run oil price ($202 per barrel in 2035) and lower long-run oil price ($42.49 per barrel in 2035) from

[1] Prepared by Jaejoon Woo based on Woo J. (2010) "An Analysis of Long-Term Fiscal Sustainability in Nigeria" IMF, Unpublished Working Paper, October.

[2] Barnett, S. and R. Ossowski, (2003) "Operational Aspects of Fiscal Policy in Oil-Producing Countries," in *Fiscal Policy Formulation and Implementation in Oil-Producing Countries* ed. by J. Davis, R. Ossowski, and A. Fedelino (Washington: International Monetary Fund), pp. 45–81.

AEO, are also considered. The gas price projections (baseline, higher price, and lower price scenarios) are taken from AEO. Additionally, two alternative scenarios based on reserves are explored.

The baseline long-run real interest rate is assumed to be 3 percent which is broadly in line with the historical average yields of 10-year government bonds in industrial countries minus inflation rate. Two alternative scenarios, higher (4 percent) and lower (2 percent) real long-run interest rates, are also considered. The oil tax take is kept constant at the 2006-08 average level of 67.7 percent of total value of oil production, and the gas take is also kept constant at the 2004-08 average of 6.74 percent of total gas production value.

3. Main Results and Issues for Consideration

Under the baseline assumptions, the permanently sustainable non-oil primary deficit (PSNOPD) in Nigeria is estimated to be around 24-29 percent of non-oil GDP. See Table 1. However, the PSNOPD estimate is sensitive to the underlying assumptions on prices and parameters. Under the baseline parameters, the lower price scenario yields a PSNOPD of 13.6 percent of non-oil GDP, whereas the higher price scenario produces an estimate of 48.5 percent of non-oil GDP for PSNOPD. With 2 percent real interest rate and other baseline parameters, the PSNOPD ranges from 10.7 to 38.9 percent of non-oil GDP under various price scenarios. Nonetheless, the results suggest that under conservative (but not pessimistic) assumptions on oil and gas prices (baseline scenarios I and II), the estimated PSNOPD is around 24-29 percent of non-oil GDP, on average, for various alternative parameters.

In general, the PIH provides some useful sustainability benchmark to guide fiscal policy over the medium term. However, the design of a sustainability benchmark needs to take into account the specific circumstances of the country. For example, the design of such a benchmark will be dependent on the social welfare criteria, which in turn is dependent on the country's preferences and circumstances. The above analysis is implicitly based on the constant distribution criteria under which the social objective is to maintain the purchasing power of the oil wealth distributed every year, with the government spending a constant amount in real terms. This will imply a declining annuity over the years as a share of non-oil GDP as non-oil GDP grows. By 2013, for example, the above estimate of PSNOPD under the baseline assumptions falls to a range of 19-23 percent of non-oil GDP.

Second, the analysis treats all the government spending as consumption, although spending oil wealth on infrastructure and human capital could lead to higher non-oil GDP growth (and a higher sustainable non-oil primary deficit). Thus, evaluating fiscal sustainability without considering the potential positive effects on growth of government investment should be viewed as providing a conservative benchmark.

Finally, there is substantial uncertainty over the oil and gas wealth estimates due to unknown factors such as future oil and gas prices, reserves, production costs, extraction rates, and interest rates. Thus, it is important to update the sustainability benchmark regularly to incorporate new information, using conservative assumptions.

Figure 1. Long-Term Production Profile of Oil and Gas: Nigeria

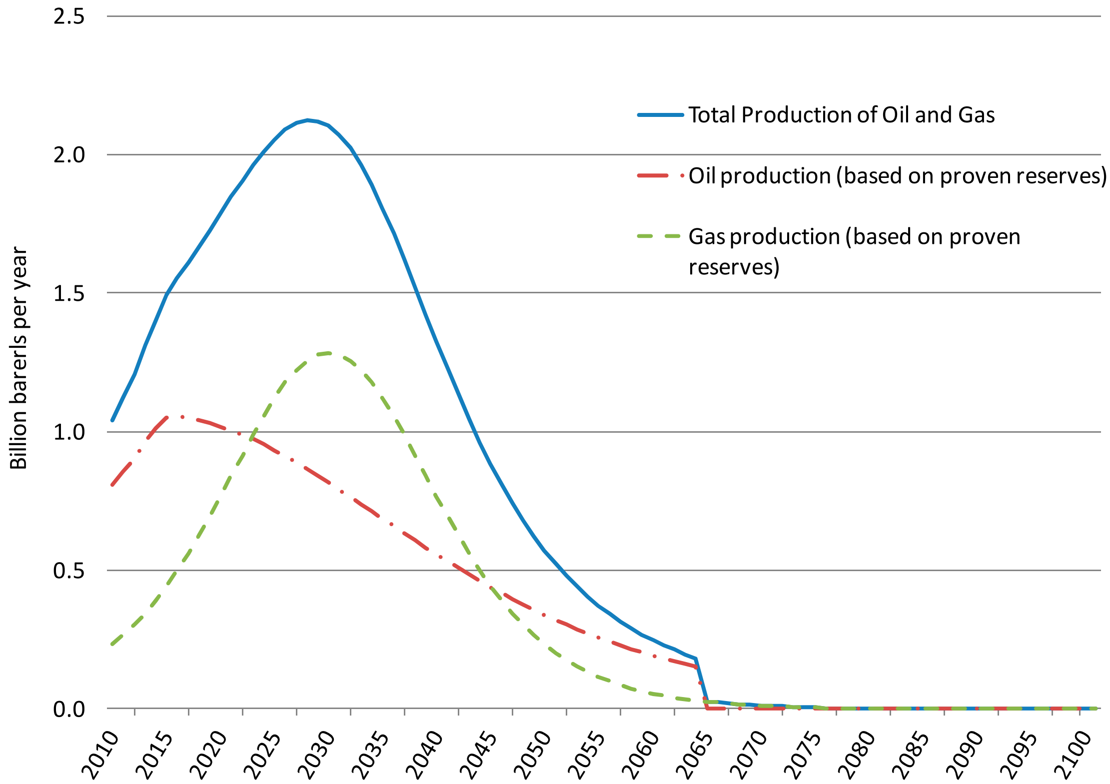


Table 1. Permanently Sustainable Non-oil Primary Deficit: Main Results and Sensitivity Analysis

Variable	Value	Unit	**Low price Scenario**	**Baseline Scenario I**	**Baseline Scenario II**	**High Price Scenario**
			Assuming a Long-run Oil price of [2/]			
			$42.49/bbl	US$79.53/bbl	$122.81/bbl	$202.02/bbl
			Assuming a Long-run Gas price of [2/]			
			$11.52/tcuft	$12.20/tcuft	$12.20/tcuft	$12.77/tcuft
			Permanently Sustainable Non-oil Primary Deficit (US$ in bn, 2009 prices)			
Baseline parameters			19.5	**33.8**	**41.4**	69.3
			Permanently Sustainable Non-oil Primary Deficit (percent of non-oil GDP)			
Baseline parameters			13.6	**23.6**	**29**	48.5
Sensitivity analysis						
Oil and Gas reserves (baseline)	100	percent				
Higher reserves (new discoveries)	125	percent	17	**29.5**	**36.1**	60.5
Lower reserves (uneconomic exploitation)	75	percent	10.3	**17.8**	**21.8**	36.4
Effective gas tax take (baseline) [1/]	6.7	percent				
Higher gas tax take	15	percent	15.4	**25.6**	**30.9**	50.5
Real interest rate (baseline)	3	percent				
Higher discount rate	4	percent	15.6	**27.1**	**32.6**	54.5
Lower discount rate	2	percent	10.7	**18.6**	**23.2**	38.9
Average			14	**24**	**29**	48

Note: 1/ Gas tax take as a percent of total gas production value.
2/ Quoted oil and gas prices are in 2009 US dollars.

INTERNATIONAL MONETARY FUND AND
INTERNATIONAL DEVELOPMENT ASSOCIATION

NIGERIA

Joint Bank-Fund Debt Sustainability Analysis for 2010 Under the Debt Sustainability Framework for Low Income Countries[1]

Prepared by the staffs of the International Monetary Fund and
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January 27, 2011

Based on the joint Bank-IMF low-income country debt sustainability analysis (DSA), Nigeria remains 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 robust. For the customized stress test, which simulates a persistent oil price shock, all indicators deteriorate when compared to the baseline results, but remain within all of the country-specific thresholds relevant for Nigeria. The central finding of the DSA, that Nigeria is at a low risk of debt distress, is the same as that for the last DSA, published in November 2009. However, the findings from the customized scenarios also show that, without significant compensating policy measures, a prolonged oil price shock or deterioration in the current account balance could 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 debt sustainability problems. The *assumptions used for this DSA are broadly similar to those used in 2009, although with a higher oil price projected throughout the baseline forecast period. The analysis is complicated by the large errors and omissions in the balance of payments for Nigeria, and the DSA only applies to debt at the federal level.*

[1] Prepared by IMF and IDA staffs in collaboration with the Nigerian authorities. Debt data, sustainability issues, and the new debt limit policy were discussed with the authorities in the course of the 2010 Article IV consultation. This DSA follows the IMF and World Bank Staff Guidance Note on the Application of the Joint Fund-Bank Debt Sustainability Framework for Low-Income Countries, January 22, 2010 (available at http://www.imf.org/external/pp/longres.aspx?id=4419 and http://go.worldbank.org/JBKAT4BH40). The analysis updates the 2009 DSA (IMF Country Report for Nigeria 09/315).

A. Background

1. The previous DSA for Nigeria was undertaken as part of the 2009 Article IV consultation and published in November 2009. Following the final phase of Nigeria's Paris Club Agreement in 2006, which led to an $18 billion reduction in Nigeria's external debt, external public debt is projected to total US$4.8 billion, or 2.2 percent of GDP, at end-2010. Approximately $4bn of that total external debt stock is multilateral debt, of which over 90 percent is owed to IDA. The breakdown for external debt by main creditor is as follows:

Table 1: Nigeria's External Debt Stock ($m)

Category	**Balance Outstanding**
Multilateral	
World Bank Group	
IBRD	35
IDA	3617
IFAD	62
African Development Bank Group	
ADB	101
ADF	451
EDF	120
IDB	16
Bilateral	164
Commercial	202
Total	**4768**

2. One important limitation of this DSA is that it only applies to debt contracted at the federal level. Data on sub-national borrowing is currently not available. While sub-national borrowing is currently limited and tightly regulated, there is scope for state governments to expand their exposure to domestic creditors. Public debt data analysis is also complicated by a multiplicity of off-budget funds, and the lack of data to include debts contracted by public enterprises.

B. Macroeconomic Assumptions

3. The assumptions underlying this DSA, covering the period 2010–30, are as follows:

- Average GDP growth of 6 percent over the period 2010-30 (somewhat below the average of 6.6 percent for 2007-2009), reflecting buoyant growth of non-oil GDP of around 6.4 percent and more modest growth of oil and gas GDP of 3.4 percent (which assumes a pick up relative to 2008-2009 as security-related disruptions ease, and a gradual increase in the utilization of Nigeria's extensive reserves of gas).

- There will be a recovery in capital inflows, including in foreign direct investment to the oil sector. The scale of which will be influenced by political developments and the specific terms and features of the Petroleum Industry Bill, currently under consideration in the National Assembly. In line with WEO projections, the analysis assumes an oil price of US$76.2 per barrel in 2010, increasing to US$84.75 per barrel by 2013, and then remaining constant in real terms thereafter.[2]

- A consolidated government non-oil primary deficit (NOPD) averaging around 25 percent of non-oil GDP over the medium term and declining gradually thereafter. This is broadly consistent with the medium-term projections outlined in the government's medium-term fiscal strategy. Such a stance would also be consistent with preserving oil and gas wealth for future generations based on estimates derived from a permanent income hypothesis exercise. In addition, it is assumed that the oil-price-based fiscal rule continues to be applied, with a budget oil price assumed to be on average $10 per barrel below the projected oil price.[3]

- Following an annual decline in export growth in 2009 because of lower oil prices, export growth resumes in 2010, returning to around 6 percent per year by 2016. The acceleration in export growth is driven largely by developments in the oil and gas sectors. Imports are also expected to have increased in 2010, reflecting a strongly expansionary fiscal policy and the real appreciation of the Naira. The current account balance continues to improve throughout the forecast period as strong non-oil imports are more than offset by increasing oil and gas exports. This trend then reverses after 2023 as oil and gas production plateaus, while non-oil imports continue to grow in line with non-oil GDP.

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[2] The DSA is based on WEO oil price projections as of October, 2010. The recent upward revision in the oil price projections would have a more beneficial impact on debt sustainability.

[3] The government is assumed to resist pressures to loosen the current fiscal policy stance and instead establishes a medium- and long-term sustainable fiscal position.

4. At the time of the last DSA, Nigeria's external public debt was projected to total $4.5 billion, or 2.2 percent of GDP, at end-2009, while domestic public debt was projected to reach 12 percent of GDP at end-2009. In the event, external debt totaled 2.4 percent of GDP, while domestic public debt was 13.3 percent of GDP. The assumptions made in the 2009 DSA have proven broadly accurate, with a higher oil price and improved current account surplus seen in 2009/10 than had been forecast at that time. However, the fiscal stance has weakened substantially over what was envisaged at the time of the previous DSA, where a series of disbursements from the Excess Crude Account at the central bank in 2009 and 2010 have depleted the Account.

5. The assessment makes the assumption that the Nigerian authorities issue a $500m Eurobond, and draw on the $500 infrastructure loan that has been negotiated with the Chinese authorities for which a memorandum of understanding has been extended through 2011. Both of these disbursements are projected to take place in 2011. The analysis also assumes that, if taken forward, the China loan would be on concessional terms.[4]

6. It is important to note two issues with the external sector data for Nigeria that complicate the debt sustainability analysis. First, there are large errors and omissions in the presentation of the balance of payments, which may reflect an underestimation of current account debit transactions, and which leads to the observed large residuals in the DSA presentation. There is also a break in the balance of payments series between 2005 and 2006, where the authorities' data is used for the first time.

C. External Sustainability[5]

Baseline

7. In the baseline scenario (Table 3a and Figure 1), the nominal external debt burden is projected to be broadly unchanged throughout the projection period. The present value (PV) of external debt falls consistently throughout the projection period, and the PV of external debt-to-GDP ratio also declines steadily, reaching 0.2 percent by 2030. The debt service to exports and the debt service to revenue ratios also decline consistently throughout the projection period. All debt and debt service indicators remain below their respective thresholds throughout the projection period.

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[4] The authorities announced in December 2010 that the loan from China would be for 20 years with a 2.5 percent interest rate.

[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. Given Nigeria's rating of 3.44 (medium performer), which is the three year average of the World Bank's Country Policy and Institutional Assessment (CPIA), the relevant country-specific thresholds are a PV of debt to GDP of 40 percent, a PV of debt to exports of 150 percent, and a debt service to exports ratio of 20 percent.

Alternative Scenarios and Stress Tests

8. Standardized stress tests (Table 3b and Figure 1), even the most extreme, show that the PV of the external debt-to-GDP ratio is not likely to exceed 15 percent of GDP over the projection period. Under the most extreme standardized stress test (i.e., the export shock), the PV of debt-to-exports ratio reaches a peak of over 60 percent, far below its indicative debt burden threshold of 150 percent.

9. A country-specific alternative scenario was also examined. This scenario is designed to illustrate the impact on the external accounts and the debt dynamics of a prolonged oil price shock (in light of Nigeria's high dependency on oil, as well as the high level of oil prices projected over the medium term relative to a trend such as 10-year moving average price). The impact of the oil price shock on the external accounts is calibrated as one standard deviation of Brent crude prices over the 1970-2010 period. This reduces future oil prices by US$20 per barrel. To reflect the likely policy response, changes were also made to government expenditure projections, for example in 2012 this moved government expenditure from 28.6 of GDP in the baseline to 26 percent of GDP in the alternative scenario. All indicators worsen as a result of this second country-specific scenario but remain within the country-specific thresholds relevant for Nigeria.

D. Fiscal Sustainability

10. The amount of domestic debt outstanding (as of September 2010) is about 13.2 percent of GDP, and is projected to be 1.2 percent of GDP in 2030. The current maturity structure of domestic debt is favorable, with the short-term debt only accounting for a quarter of total debt. In the baseline scenario (Table 1 and Figure 2) consolidated government deposits continue to accumulate at the central bank, reaching more than US$70 billion by 2030. The accumulation in deposits will begin to slow beyond 2030 in line with the eventual decline in oil production. In light of the accumulation of such significant levels of government deposits, and the low level of gross debt,[6] 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 the ECA).[7]

11. The standardized stress tests underscore the need for fiscal policy to adjust to the economic environment. In particular, debt may become very high if the primary balance is unchanged from the 2010 level. Despite the ongoing recovery of oil revenue from the sharp drop during the global financial crisis, the expansionary fiscal stance in 2010 is expected to result in a sizeable primary deficit of 6.4 percent of GDP, compared to a projection of 2.7 percent of GDP in 2011 in the baseline scenario. With oil prices stabilizing and economic

[6] The PV of the public sector's gross debt burden would decline throughout with no further accumulation in gross debt from 2017 when the overall balance swings to a surplus.

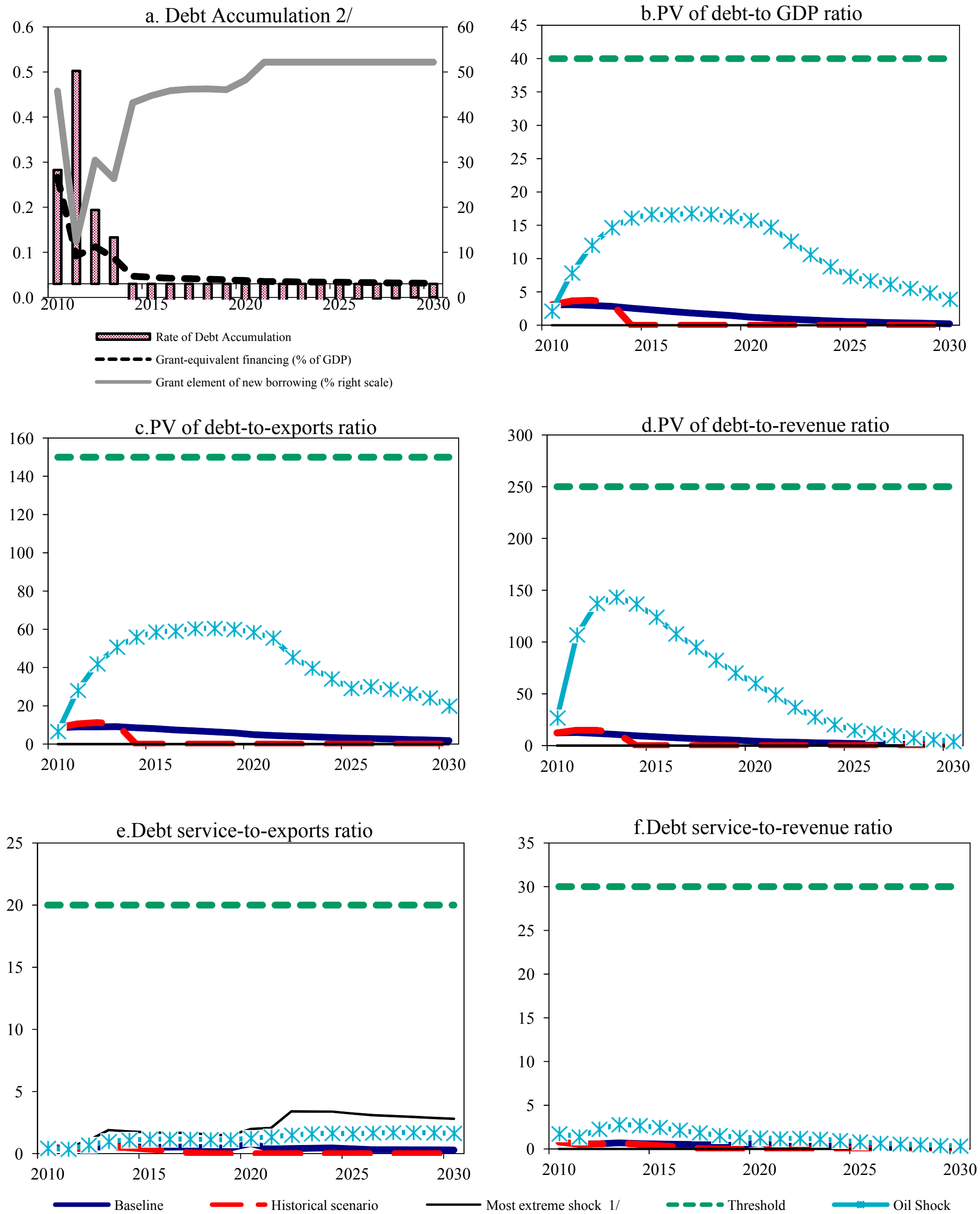
[7] For illustrative purposes, Figure 1 also traces the evolution of gross debt in the baseline scenario.

growth continuing as assumed in the baseline, fiscal policy will need to adjust accordingly. (Table 2 and Figure 2). To the extent that the staff's fiscal policy assumptions under the baseline scenarios, which assume significant fiscal improvements over the medium term, are not materialized, the debt outlook will be negatively affected, although the resulting risk to the debt sustainability assessment is still likely to be low.

E. Conclusion

12. Nigeria is at low risk of external debt distress. In the baseline scenario and in the standardized stress tests, Nigeria's debt outlook remains robust throughout the projection period. Including domestic debt in the analysis would not significantly alter the debt outlook. However, the findings from the customized scenarios also show that, without significant compensating policy measures, a prolonged oil price shock or deterioration in the current account balance could 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.

Figure 1. Nigeria: Indicators of Public and Publicly Guaranteed External Debt under Alternatives Scenarios, 2010-2030 1/

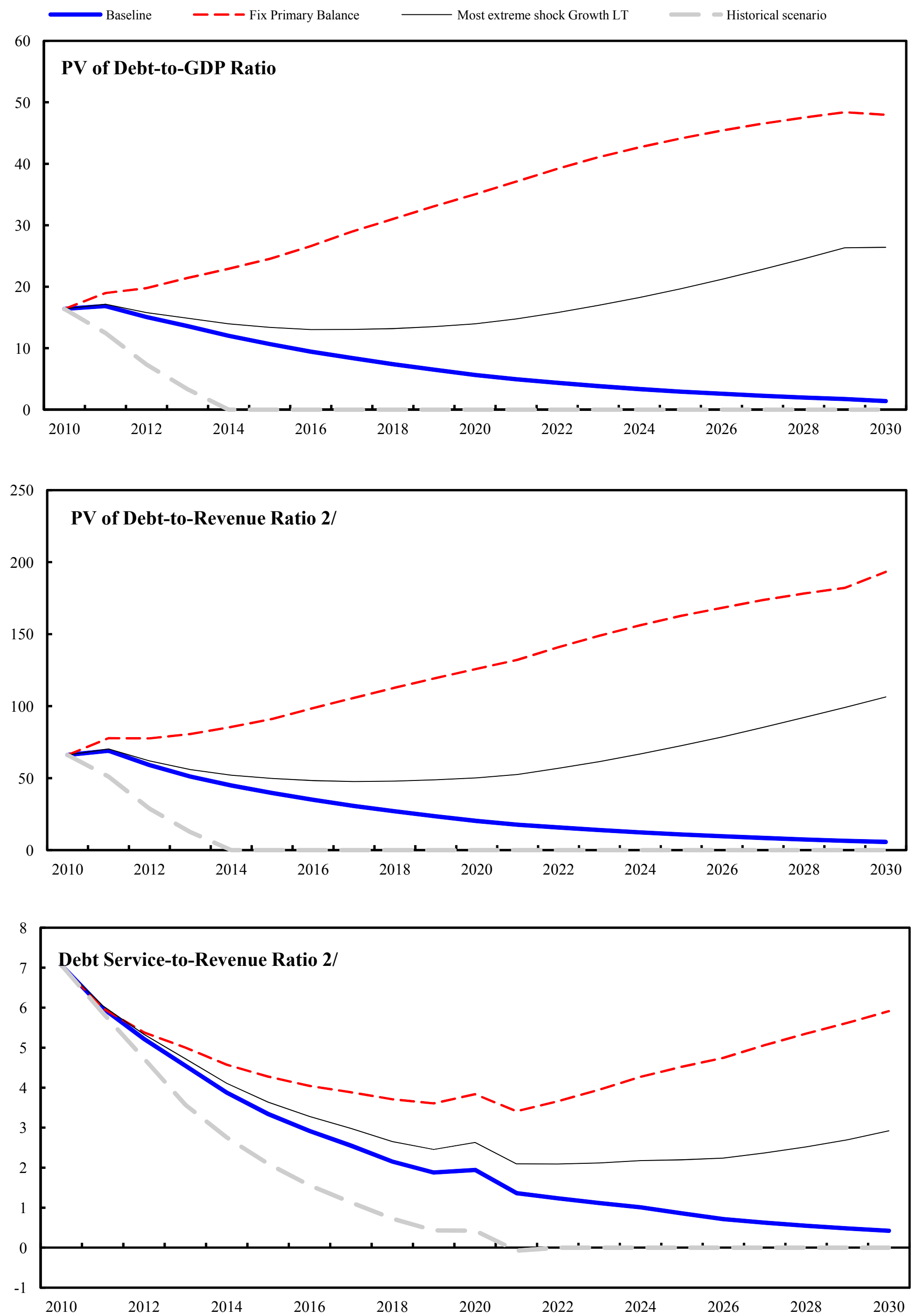


Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio in 2020. In figure b. it corresponds to an Oil shock; in c. to an Oil shock; in d. to an Oil shock; in e. to an Exports shock and in figure f. to an Oil shock.

2/ The large jump in the % of grant borrowing results from having just IDA disbursements projected from 2014.

Figure 2. Nigeria: Indicators of Public Debt Under Alternative Scenarios, 2010-2030 1/



Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio in 2020.

2/ Revenues are defined inclusive of grants.

Table 1.Nigeria: Public Sector Debt Sustainability Framework, Baseline Scenario, 2007-2030
(In percent of GDP, unless otherwise indicated)

	Actual			Average	Standard Deviation	Estimate	Projections								
	2007	2008	2009			2010	2011	2012	2013	2014	2015	2010-15 Average	2020	2030	2016-30 Average
Public sector debt 1/	12.7	11.9	15.2			16.3	17.3	19.8	22.2	19.6	17.4		9.1	2.3	
o/w foreign-currency denominated	2.3	2.4	2.4			2.2	2.3	2.3	2.3	2.0	1.8		0.9	0.2	
Change in public sector debt	0.9	-0.8	3.4			1.1	1.0	2.5	2.5	-2.6	-2.3		-1.3	-0.5	
Identified debt-creating flows	-0.3	-4.8	7.6			3.6	-2.4	-2.6	-2.3	-2.4	-1.9		0.9	-1.6	
Primary deficit	-0.2	-4.1	6.4	-4.5	5.8	5.5	-1.5	-2.5	-2.3	-1.7	-1.3	-0.7	1.2	-1.3	1.3
Revenue and grants	28.4	32.8	19.9			25.5	26.6	25.9	24.8	24.1	23.4		21.2	19.1	
of which: grants	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Primary (noninterest) expenditure	28.2	28.7	26.3			31.0	25.1	23.4	22.4	22.4	22.0		22.4	17.8	
Automatic debt dynamics	-0.1	-0.6	1.2			-1.9	-0.9	0.0	0.1	-0.7	-0.5		-0.3	-0.3	
Contribution from interest rate/growth differential	0.1	-0.9	0.9			-1.9	-1.0	-0.1	0.0	-0.7	-0.6		-0.3	-0.3	
of which: contribution from average real interest rate	0.8	-0.2	1.6			-0.7	0.1	1.0	1.1	0.6	0.5		0.2	-0.1	
of which: contribution from real GDP growth	-0.8	-0.7	-0.8			-1.2	-1.1	-1.1	-1.2	-1.3	-1.1		-0.6	-0.2	
Contribution from real exchange rate depreciation	-0.2	0.2	0.3			0.0	0.1	0.1	0.1	0.1	0.1		...	...	
Other identified debt-creating flows	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Privatization receipts (negative)	0.0	0.0	0.0			0.0	0.0	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		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		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		0.0	0.0	
Residual, including asset changes	1.2	4.0	-4.2			-2.5	3.4	5.0	4.8	-0.2	-0.4		-2.2	1.0	
Other Sustainability Indicators															
PV of public sector debt	10.4	9.5	16.5			17.2	18.1	20.4	22.8	20.2	17.9		9.4	2.4	
o/w foreign-currency denominated	0.0	0.0	3.7			3.0	3.1	3.0	2.8	2.6	2.3		1.2	0.2	
o/w external	...	...	3.7			3.0	3.1	3.0	2.8	2.6	2.3		1.2	0.2	
PV of contingent liabilities (not included in public sector debt)	...	...	...			...	...	...	...	...	...		...	...	
Gross financing need 2/	4.1	-0.1	10.7			10.4	4.1	3.8	5.0	6.0	5.5		4.9	-0.3	
PV of public sector debt-to-revenue and grants ratio (in percent)	36.6	28.8	83.0			67.5	67.9	78.8	92.1	83.6	76.4		44.2	12.5	
PV of public sector debt-to-revenue ratio (in percent)	36.6	28.8	83.0			67.5	67.9	78.8	92.1	83.6	76.4		44.2	12.5	
o/w external 3/	…	…	18.5			12.0	11.6	11.5	11.5	10.6	9.9		5.6	1.1	
Debt service-to-revenue and grants ratio (in percent) 4/	5.5	3.6	6.7			6.4	6.4	7.5	9.2	8.2	7.5		4.9	1.4	
Debt service-to-revenue ratio (in percent) 4/	5.5	3.6	6.7			6.4	6.4	7.5	9.2	8.2	7.5		4.9	1.4	
Primary deficit that stabilizes the debt-to-GDP ratio	-1.0	-3.3	3.0			4.4	-2.5	-5.0	-4.8	0.9	0.9		2.5	-0.8	
Key macroeconomic and fiscal assumptions 5/															
Real GDP growth (in percent)	7.0	6.0	7.0	8.7	4.8	8.4	6.9	6.6	6.3	6.3	6.0	6.7	6.0	5.8	5.8
Average nominal interest rate on forex debt (in percent)	18.2	3.1	2.5	5.2	5.3	2.8	2.4	3.9	4.0	3.8	4.0	3.5	8.0	8.0	6.1
Average real interest rate on domestic debt (in percent)	6.0	-0.2	16.8	1.2	11.4	-3.8	1.8	7.1	7.2	3.3	3.3	3.2	2.7	-4.0	2.4
Real exchange rate depreciation (in percent, + indicates depreciation)	-8.0	12.4	12.8	4.6	7.8	-0.5	...	...	...	...	...	...	...	...	...
Inflation rate (GDP deflator, in percent)	4.3	11.0	-4.4	13.3	12.3	18.8	11.1	5.9	5.9	6.7	6.7	9.2	7.4	14.9	7.8
Growth of real primary spending (deflated by GDP deflator, in percent)	0.2	0.1	0.0	0.1	0.2	0.3	-0.1	0.0	0.0	0.1	0.0	0.0	0.1	-0.1	0.0
Grant element of new external borrowing (in percent)	...	...	...	…	…	45.8	12.4	30.5	26.3	43.2	44.8	33.8	48.2	52.2	...

Sources: Country authorities; and staff estimates and projections.

1/ As explained in the introduction, covers federal debt only. Public-sector debt is treated on a net basis.

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 excluding 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 generally derived over the past 10 years, subject to data availability.

Table 2. Nigeria: Sensitivity Analysis for Key Indicators of Public Debt 2010-2030

	Projections							
	2010	2011	2012	2013	2014	2015	2020	2030
PV of Debt-to-GDP Ratio								
Baseline	16	17	15	14	12	11	6	1
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	16	12	7	3	0	0	0	0
A2. Primary balance is unchanged from 2010	16	19	20	21	23	25	35	48
A3. Permanently lower GDP growth 1/	16	17	16	15	14	13	14	26
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2011-2012	16	18	17	16	15	15	12	11
B2. Primary balance is at historical average minus one standard deviations in 2011-2012	16	17	15	14	12	11	6	1
B3. Combination of B1-B2 using one half standard deviation shocks	16	15	12	10	9	8	4	2
B4. One-time 30 percent real depreciation in 2011	16	18	16	15	13	12	6	2
B5. 10 percent of GDP increase in other debt-creating flows in 2011	16	23	21	19	17	15	9	3
PV of Debt-to-Revenue Ratio 2/								
Baseline	66	69	59	51	45	40	20	6
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	66	51	29	13	0	0	0	0
A2. Primary balance is unchanged from 2010	66	78	78	81	85	91	126	193
A3. Permanently lower GDP growth 1/	66	70	62	56	52	50	50	106
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2011-2012	66	72	67	61	57	55	45	45
B2. Primary balance is at historical average minus one standard deviations in 2011-2012	66	68	59	51	45	40	20	6
B3. Combination of B1-B2 using one half standard deviation shocks	66	60	45	39	34	30	15	7
B4. One-time 30 percent real depreciation in 2011	66	74	64	55	48	43	23	7
B5. 10 percent of GDP increase in other debt-creating flows in 2011	66	93	81	71	63	57	33	12
Debt Service-to-Revenue Ratio 2/								
Baseline	7	6	5	5	4	3	2	0
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	7	6	5	4	3	2	0	0
A2. Primary balance is unchanged from 2010	7	6	5	5	5	4	4	6
A3. Permanently lower GDP growth 1/	7	6	5	5	4	4	3	3
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2011-2012	7	6	6	5	4	4	2	2
B2. Primary balance is at historical average minus one standard deviations in 2011-2012	7	6	5	5	4	3	2	0
B3. Combination of B1-B2 using one half standard deviation shocks	7	6	5	4	4	3	2	0
B4. One-time 30 percent real depreciation in 2011	7	6	5	5	4	4	2	1
B5. 10 percent of GDP increase in other debt-creating flows in 2011	7	6	6	5	4	4	2	1

Sources: Country authorities; and staff estimates and projections.

1/ Assumes that real GDP growth is at baseline minus one standard deviation divided by the square root of the length of the projection period.

2/ Revenues are defined inclusive of grants.

Table 3a. Nigeria: External Debt Sustainability Framework, Baseline Scenario, 2007-2030 1/
(In percent of GDP, unless otherwise indicated)

	Actual			Historical Average	Standard Deviation	Projections									
	2007	2008	2009			2010	2011	2012	2013	2014	2015	2010-2015 Average	2020	2030	2016-2030 Average
External debt (nominal) 1/	**2.3**	**2.4**	**2.4**			**2.2**	**2.3**	**2.3**	**2.3**	**2.0**	**1.8**		**0.9**	**0.2**	
o/w public and publicly guaranteed (PPG)	2.3	2.4	2.4			2.2	2.3	2.3	2.3	2.0	1.8		0.9	0.2	
Change in external debt	-0.1	0.1	-0.1			-0.2	0.2	0.0	-0.1	-0.2	-0.2		-0.2	-0.1	
Identified net debt-creating flows	-22.4	-18.0	-15.8			-8.4	-14.1	-13.8	-13.0	-11.4	-9.8		-8.1	0.1	
Non-interest current account deficit	**-19.1**	**-15.4**	**-13.0**	**-9.4**	**11.4**	**-6.6**	**-11.6**	**-11.3**	**-10.5**	**-9.0**	**-7.7**		**-7.1**	**0.4**	-4.6
Deficit in balance of goods and services	-15.0	-12.3	-8.2			-6.4	-9.8	-10.3	-9.6	-8.2	-6.8		-6.6	0.6	
Exports	41.0	41.7	36.9			35.6	34.5	33.3	31.3	30.0	28.8		24.0	12.1	
Imports	26.0	29.5	28.6			29.2	24.7	23.0	21.7	21.9	22.0		17.4	12.6	
Net current transfers (negative = inflow)	-10.9	-9.1	-10.8	-6.0	4.0	-8.0	-7.9	-7.2	-6.8	-6.4	-6.0		-4.3	-2.1	-3.7
o/w official	0.1	0.0	0.1			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Other current account flows (negative = net inflow)	6.8	5.9	5.9			7.8	6.2	6.2	5.9	5.5	5.2		3.9	2.0	
Net FDI (negative = inflow)	**-3.4**	**-2.2**	**-3.4**	**-3.5**	**0.9**	**-1.7**	**-2.5**	**-2.5**	**-2.4**	**-2.3**	**-2.1**		**-1.1**	**-0.4**	-0.9
Endogenous debt dynamics 2/	**0.1**	**-0.4**	**0.6**			**-0.1**	**-0.1**	**-0.1**	**0.0**	**-0.1**	**0.0**		**0.0**	**0.0**	
Contribution from nominal interest rate	0.4	0.1	0.1			0.1	0.0	0.1	0.1	0.1	0.1		0.1	0.0	
Contribution from real GDP growth	-0.1	-0.1	-0.2			-0.2	-0.1	-0.1	-0.1	-0.1	-0.1		-0.1	0.0	
Contribution from price and exchange rate changes	-0.2	-0.3	0.8			…	…	…	…	…	…		…	…	
Residual (3-4) 3/	**22.3**	**18.1**	**15.7**			**8.3**	**14.3**	**13.8**	**12.9**	**11.1**	**9.6**		**7.9**	**-0.1**	
o/w exceptional financing	5.4	0.8	-6.3			-3.8	1.9	2.1	2.2	2.3	2.0		3.0	-1.8	
PV of external debt 4/	...	...	3.7			3.0	3.1	3.0	2.8	2.6	2.3		1.2	0.2	
In percent of exports	...	...	10.0			8.5	9.0	9.0	9.1	8.5	8.0		4.9	1.8	
PV of PPG external debt	**...**	**...**	**3.7**			**3.0**	**3.1**	**3.0**	**2.8**	**2.6**	**2.3**		**1.2**	**0.2**	
In percent of exports	**...**	**...**	**10.0**			**8.5**	**9.0**	**9.0**	**9.1**	**8.5**	**8.0**		**4.9**	**1.8**	
In percent of government revenues	**...**	**...**	**18.5**			**12.3**	**12.7**	**11.7**	**10.7**	**9.5**	**8.6**		**4.3**	**0.9**	
Debt service-to-exports ratio (in percent)	**1.6**	**0.5**	**0.7**			**0.6**	**0.4**	**0.4**	**0.6**	**0.6**	**0.5**		**0.8**	**0.3**	
PPG debt service-to-exports ratio (in percent)	**1.6**	**0.5**	**0.7**			**0.6**	**0.4**	**0.4**	**0.6**	**0.6**	**0.5**		**0.8**	**0.3**	
PPG debt service-to-revenue ratio (in percent)	**2.3**	**0.7**	**1.3**			**0.8**	**0.5**	**0.6**	**0.7**	**0.6**	**0.6**		**0.7**	**0.1**	
Total gross financing need (Billions of U.S. dollars)	-36.3	-36.0	-27.3			-17.6	-35.0	-37.5	-38.1	-36.4	-34.2		-44.2	1.3	
Non-interest current account deficit that stabilizes debt ratio	-19.0	-15.6	-13.0			-6.5	-11.7	-11.3	-10.5	-8.8	-7.5		-6.9	0.5	
Key macroeconomic assumptions 5/															
Real GDP growth (in percent)	7.0	6.0	7.0	8.7	4.8	8.4	6.6	7.0	6.3	6.3	6.0	6.7	6.0	5.8	5.8
GDP deflator in US dollar terms (change in percent)	6.7	17.8	-23.8	8.6	15.7	18.2	9.0	2.4	2.0	2.8	2.8	6.2	3.4	10.7	3.8
Effective interest rate (percent) 6/	18.2	3.1	2.5	5.2	5.3	2.8	2.4	3.9	4.0	3.8	4.0	3.5	8.0	8.0	6.1
Growth of exports of G&S (US dollar terms, in percent)	14.1	26.9	-28.0	20.2	32.3	23.9	12.6	5.5	1.9	4.9	4.5	8.9	6.0	2.8	3.6
Growth of imports of G&S (US dollar terms, in percent)	36.9	41.4	-20.7	14.6	22.2	30.6	-1.8	2.1	2.2	10.2	9.4	8.8	5.1	12.5	5.8
Grant element of new public sector borrowing (in percent)	...	...	...	...	...	45.8	12.4	30.5	26.3	43.2	44.8	33.8	48.2	52.2	50.3
Government revenues (excluding grants, in percent of GDP)	28.4	32.8	19.9			24.8	24.4	25.5	26.6	26.8	26.9		27.8	24.8	27.1
Aid flows (in Billions of US dollars) 7/	0.3	0.2	0.2			1.0	0.2	0.2	0.1	0.1	0.1		0.1	0.0	
o/w Grants	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
o/w Concessional loans	0.3	0.2	0.2			1.0	0.2	0.2	0.1	0.1	0.1		0.1	0.0	
Grant-equivalent financing (in percent of GDP) 8/	...	...	...			0.2	0.1	0.1	0.1	0.0	0.0		0.0	0.0	0.0
Grant-equivalent financing (in percent of external financing) 8/	...	...	...			45.8	12.4	30.5	26.3	43.2	44.8		48.2	52.2	50.3
Memorandum items:															
Nominal GDP (Billions of US dollars)	165.9	207.1	168.8			216.3	251.3	275.4	298.6	326.3	355.3		554.8	1439.1	
Nominal dollar GDP growth	14.1	24.8	-18.5			28.1	16.2	9.6	8.4	9.2	8.9	13.4	9.7	17.1	9.8
PV of PPG external debt (in Billions of US dollars)			6.2			6.6	7.6	8.0	8.3	8.2	8.1		6.5	3.1	
(PVt-PVt-1)/GDPt-1 (in percent)						0.3	0.5	0.2	0.1	0.0	0.0	0.2	-0.1	0.0	-0.1
Gross workers' remittances (Billions of US dollars)	17.9	19.2	18.4			17.1	19.8	19.8	20.3	20.8	21.3		24.0	30.4	
PV of PPG external debt (in percent of GDP + remittances)	...	...	3.3			2.8	2.9	2.8	2.7	2.4	2.2		1.1	0.2	
PV of PPG external debt (in percent of exports + remittances)	...	...	7.7			7.0	7.3	7.4	7.5	7.0	6.6		4.2	1.5	
Debt service of PPG external debt (in percent of exports + remittances)	...	...	0.5			0.5	0.3	0.4	0.5	0.5	0.4		0.7	0.3	

Sources: Country authorities; and staff estimates and projections.

1/ Includes both public and private sector external debt.
2/ Derived as [r - g - ρ(1+g)]/(1+g+ρ+gρ) times previous period debt ratio, with r = nominal interest rate; g = real GDP growth rate, and ρ = growth rate of GDP deflator in U.S. dollar terms.
3/ Includes exceptional financing (i.e., changes in arrears and debt relief); changes in gross foreign assets; and valuation adjustments. For projections also includes contribution from price and exchange rate changes.
Large residuals through the forecast period arise due to large errors and omissions on the current account.
4/ Assumes that PV of private sector debt is equivalent to its face value.
5/ Historical averages and standard deviations are generally derived over the past 10 years, subject to data availability.
6/ Current-year interest payments divided by previous period debt stock.
7/ Defined as grants, concessional loans, and debt relief.
8/ Grant-equivalent financing includes grants provided directly to the government and through new borrowing (difference between the face value and the PV of new debt).

Table 3b. Nigeria: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2010-2030
(In percent)

	Projections							
	2010	2011	2012	2013	2014	2015	**2020**	2030
PV of debt-to GDP ratio								
Baseline	3	3	3	3	3	2	**1**	0
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2010-2030 1/	3	4	4	3	2	0	**0**	0
A2. New public sector loans on less favorable terms in 2010-2030 2/	3	3	3	3	3	2	**1**	0
A3. Alternative Scenario :Oil	2	8	12	15	16	16	**16**	4
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2011-2012	3	3	3	3	3	2	**1**	0
B2. Export value growth at historical average minus one standard deviation in 2011-2012 3/	3	8	15	14	13	12	**9**	3
B3. US dollar GDP deflator at historical average minus one standard deviation in 2011-2012	3	4	4	4	3	3	**2**	0
B4. Net non-debt creating flows at historical average minus one standard deviation in 2011-2012 4/	3	6	9	9	8	8	**5**	1
B5. Combination of B1-B4 using one-half standard deviation shocks	3	8	12	11	10	10	**7**	2
B6. One-time 30 percent nominal depreciation relative to the baseline in 2011 5/	3	4	4	4	3	3	**2**	0
PV of debt-to-exports ratio								
Baseline	9	9	9	9	9	8	**5**	2
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2010-2030 1/	9	11	12	11	6	0	**0**	0
A2. New public sector loans on less favorable terms in 2010-2030 2/	9	9	9	10	9	9	**6**	3
A3. Alternative Scenario :Oil	7	29	43	51	56	58	**58**	19
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2011-2012	9	9	9	9	8	8	**5**	2
B2. Export value growth at historical average minus one standard deviation in 2011-2012 3/	9	30	67	68	66	65	**55**	33
B3. US dollar GDP deflator at historical average minus one standard deviation in 2011-2012	9	9	9	9	8	8	**5**	2
B4. Net non-debt creating flows at historical average minus one standard deviation in 2011-2012 4/	9	18	27	28	27	26	**21**	12
B5. Combination of B1-B4 using one-half standard deviation shocks	9	23	35	35	35	34	**28**	16
B6. One-time 30 percent nominal depreciation relative to the baseline in 2011 5/	9	9	9	9	8	8	**5**	2
PV of debt-to-revenue ratio								
Baseline	12	12	12	11	11	10	**6**	1
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2010-2030 1/	12	15	15	14	0	0	**0**	0
A2. New public sector loans on less favorable terms in 2010-2030 2/	12	11	12	12	11	11	**6**	2
A3. Alternative Scenario :Oil	27	112	140	144	136	123	**59**	4
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2011-2012	12	12	12	12	11	10	**6**	1
B2. Export value growth at historical average minus one standard deviation in 2011-2012 3/	12	30	56	56	54	52	**41**	14
B3. US dollar GDP deflator at historical average minus one standard deviation in 2011-2012	12	13	15	15	13	13	**7**	1
B4. Net non-debt creating flows at historical average minus one standard deviation in 2011-2012 4/	12	24	35	35	33	32	**24**	8
B5. Combination of B1-B4 using one-half standard deviation shocks	12	30	45	45	43	42	**32**	10
B6. One-time 30 percent nominal depreciation relative to the baseline in 2011 5/	12	16	16	16	14	13	**8**	2

Table 3b. Nigeria: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2010-2030 (continued)
(In percent)

	Debt service-to-exports ratio							
Baseline	1	0	0	1	1	1	**1**	0
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2010-2030 1/	1	0	0	1	0	0	**0**	0
A2. New public sector loans on less favorable terms in 2010-2030 2/	1	0	0	1	0	0	**1**	0
A3. Alternative Scenario :Oil	0	0	1	1	1	1	**1**	2
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2011-2012	1	0	0	1	1	1	**1**	0
B2. Export value growth at historical average minus one standard deviation in 2011-2012 3/	1	0	1	2	2	2	**2**	3
B3. US dollar GDP deflator at historical average minus one standard deviation in 2011-2012	1	0	0	1	1	1	**1**	0
B4. Net non-debt creating flows at historical average minus one standard deviation in 2011-2012 4/	1	0	1	1	1	1	**1**	1
B5. Combination of B1-B4 using one-half standard deviation shocks	1	0	1	1	1	1	**1**	1
B6. One-time 30 percent nominal depreciation relative to the baseline in 2011 5/	1	0	0	1	1	1	**1**	0
	Debt service-to-revenue ratio							
Baseline	1	0	1	1	1	1	**1**	0
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2010-2030 1/	1	0	1	1	1	0	**0**	0
A2. New public sector loans on less favorable terms in 2010-2030 2/	1	0	1	1	1	1	**1**	0
A3. Alternative Scenario :Oil	2	1	2	3	3	2	**1**	0
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2011-2012	1	1	1	1	1	1	**1**	0
B2. Export value growth at historical average minus one standard deviation in 2011-2012 3/	1	0	1	2	1	1	**1**	1
B3. US dollar GDP deflator at historical average minus one standard deviation in 2011-2012	1	1	1	1	1	1	**1**	0
B4. Net non-debt creating flows at historical average minus one standard deviation in 2011-2012 4/	1	0	1	1	1	1	**1**	1
B5. Combination of B1-B4 using one-half standard deviation shocks	1	1	1	1	1	1	**1**	1
B6. One-time 30 percent nominal depreciation relative to the baseline in 2011 5/	1	1	1	1	1	1	**1**	0
Memorandum item:								
Grant element assumed on residual financing (i.e., financing required above baseline) 6/	40	40	40	40	40	40	**40**	40

Sources: Country authorities; and staff estimates and projections.

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

INTERNATIONAL MONETARY FUND

NIGERIA

Informational Annex

Prepared by the African Department

January 27, 2011

Content | Page

NIGERIA—RELATIONS WITH THE FUND

(As of November 30, 2010)

I. Membership Status: Joined: March 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	0.14	0.01
Holdings Exchange Rate		

III. SDR Department:	**SDR Million**	**%Allocation**
Net cumulative allocation	1,675.38	100.00
Holdings	1,675.21	99.99

IV. Outstanding Purchases and Loans: None

V. Latest Financial Arrangements:

Type	Date of Arrangement	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 Payments to Fund
(SDR Million; based on existing use of resources and present holdings of SDRs):

	Forthcoming				
	2009	2010	2011	2012	2013
Principal					
Charges/Interest	0.00	0.01	0.01	0.01	0.01
Total	0.00	0.01	0.01	0.01	0.01

VII. Exchange Rate Arrangement

The de facto exchange rate arrangement is classified as ‘other managed arrangement’. The Central Bank of Nigeria (CBN) intervenes periodically in the interbank market and sells foreign exchange to banks and exchange bureaus through wholesale Dutch auctions (WDAS) normally held twice a week. The CBN publishes information on the results of the auctions on its web site; however, data on interventions in the interbank market are not published.

Nigeria participates in the W-ERM II of the WAMZ, which requires that the spot exchange rate between the naira and the dollar be maintained within ±15% around the central rate. The CBN has not implemented this regime. The CBN sets monetary growth targets to guide policy implementation, although these targets have not been effective in recent years.

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 that expired on October 31, 2001. The assessment, which included an on-site visit, was completed on November 28, 2001. The assessment concluded that vulnerabilities existed in the areas of financial reporting and legal structure of the Central Bank.

IX. Article IV Consultation

Nigeria is on the standard 12-month Article IV consultation cycle. The previous Article IV consultation was concluded on October 16, 2009.

X. Technical Assistance (TA) since January 2003:

Department	Purpose of TA mission	Duration
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
MCM	Monetary policy long-term advisor	December 2006 – January 2009
MCM	Central bank accounting	February–September, 2007 (3 visits)
FAD	Public financial management	February 14–23, 2007
STA	Monetary statistics	February 20–27, 2007
FAD	Public financial management advisor	June 2007–June 2008
MCM	Financial sector strategy	June 17–22, 2007
STA	National accounts (GDDS 2 project)	June 11–July 6, 2007
MCM	Baseline analysis of the financial sector	September 26-October 10, 2007
STA	Balance of payments (GDDS 2 project)	October 2–12, 2007
STA	Balance of payments and IIP	October 17−November 2, 2007
STA	National accounts (GDDS 2 project)	October 29–November 16, 2007
FAD	Tax policy	December 4–18, 2007
MCM	Banking supervision advisor	January 2008–
FAD	Public private partnerships	February 28–March 13, 2008
STA	Balance of payments and IIP	June 11–24, 2008
STA	National accounts (GDDS 2 project)	June 23–July 4, 2008
FAD	Public financial management peripatetic advisor	September 2008–June 2009 (3 visits)
MCM	Inflation targeting	September 4–18, 2008
STA	Balance of payments (GDDS 2 project)	September 15–October 3, 2008
FAD	Public financial management	October 21–November 3, 2008
STA	Monetary and financial statistics	November 5–19, 2008
STA	National accounts (GDDS 2 project)	January 26–February 9, 2009
STA	Balance of payments (GDDS 2 project)	April 20–May 5, 2009
STA	Balance of payments and IIP	June 23–25, 2009
MCM	Financial stability	July 9–23, 2009
MCM	Bank restructuring	September 7-18, 2009
FAD	Fiscal, financial, and governance assessment of the Petroleum Industry Bill	October 12-23, 2009
MCM	Issues in bank restructuring	October 28–November 11, 2009
MCM	Bank supervision	January 20, 2010 – January 19, 2011
MCM	Medium term debt management strategy	February 9-19, 2010
FAD	Reforming the Customs Service	March 3-17, 2010
STA	Multitopic statistics mission	March 4-17, 2010
FAD	Treasury single account and cash management	April 6-19, 2010
MCM	Financial stability analysis and reporting	April 13-20, 2010

MCM	Bank restructuring	May 4-12, 2010
MCM	Asset management company	June 4-11, 2010
LEG	Fiscal Law (VAT)	June 13-30, 2010
FAD	Establishing a sovereign wealth fund	July 7-19, 2010
MCM	Bank restructuring long term advisor	July 23, 2010 –
MCM	Monetary operations long term advisor	July 24, 2010 –
MCM	Macro-prudential supervision	September 2-9, 2010
FAD	Tax administration	October 18-29, 2010
STA	Balance of payments (GDDS 2 project)	October 25-November 5, 2010
MCM	Macro-prudential supervision	December 17-22, 2010

XI. Resident Representative:

Mr. W. Scott Rogers took up the Senior Resident Representative position in Abuja in August 2010.

NIGERIA—JOINT WORLD BANK-IMF WORK PROGRAM, 2010-11

As of December 31, 2010

The IMF and World Bank staffs collaborate closely in their work on Nigeria. Bank staff participates in IMF missions, while the Bank's analysis and advice to the government in key structural reform areas informs Fund surveillance. Bank and IMF staffs collaborate on the Petroleum Industry Bill and on assistance related to financial sector deepening, public financial management (PFM) reform, and the establishment of a sovereign wealth fund in Nigeria.

Title	Products	Provisional timing of missions (if relevant)	Expected delivery date
	A. Mutual Information on Relevant Work Programs		
Bank work program in next 12 months	*(i) Lending Programs*		
	Lagos Development Policy Operation (I and II)	Dec (2010), Mar (2011), June (2011)	DPO I Board: Q3, 2011
	Edo Development Policy Operation (I)	Oct/Nov (2010), Jan (2011), Apr (2011)	Board: October, 2011
	Economic Reform and Governance Project (ERGP)	Nov (2010), April (2011)	Ongoing
	Financial Authorities Strengthening Technical Assistance (FASTA)	Oct/Nov (2010)	Tentative Boar d Date: Q4, 2011
	Nigeria Electricity and Gas Improvement Project	TBD	TBA
	Public/Private Partnership Initiative APL Program	Sept (2010)	TBA
	Growth, Employment, and Markets in States (GEMS)	TBD	Ongoing
	First and Second State Governance and Capacity Building Projects	Oct/Nov (2010), Feb/Mar (2011), June (2011)	Ongoing
	State Expenditure Effectiveness for Opportunities and Results (SEEFOR)	Oct/Nov (2010), Feb/Mar (2011), June (2011)	Board Date: Q4, 2011
	Support to the Nigeria Extractive Industries Transparency Initiative	TBD	TBA
	Nigeria Petroleum Sector Reform Project	Oct/Nov, 2010	Ongoing
	Sustainable Management of Mineral Resources Project	TBD	TBA

Title	Products	Provisional timing of missions (if relevant)	Expected delivery date
	A. Mutual Information on Relevant Work Programs (Continued)		
	Sustainable Management of Mineral Resources Project	TBD	TBA
	(ii) Analytical and Advisory Activities		
	Employment and Growth Study	-	Ongoing follow-up activities
	Public Expenditure Management and Financial Accountability Reviews (PEMFARs) - various states and initial planning for federal	-	July 2011
	Social Economic Assessment	-	September 2011
	(iii) Trust Funds, other analyses, and on-going dialogue		
	Governance Partnership Facility: Nigeria- Strengthening Sector Governance & Promoting Partnerships in Service Delivery	TBD	TBA
	Multi-donor Trust Fund Facility: Studies on Effects of Multiple Taxation, Service Sectors, and Transnational Border Markets	Oct/Nov (2010)	Ongoing
	Trade Facilitation Facility	-	Ongoing
	Report on the Observance of Standards and Codes – Accounting & Auditing (ROSC-A&A)	Oct/Nov (2010)	April 2011
	Support to the establishment of a Sovereign Risk Management Unit	Sept(2010)	Ongoing
	Dealing with Nigeria's "Credit Squeeze"	-	Ongoing
	Study on Effect of Removing Import Bans	-	Ongoing
	Poverty and Social Impact Analysis (PSIA) of Removing the Petroleum Subsidy	-	Ongoing
	Introduction of Performance Based Budgeting	-	Ongoing

Title	Products	Provisional timing of missions (if relevant)	Expected delivery date
	A. Mutual Information on Relevant Work Programs (Continued)		
IMF work program in next 12 months	*Article IV Consultation*	November 2010	Board: February 2011
	Technical assistance		
	(i) *Fiscal issues*		
	Establishing a SWF in Nigeria	July 2010	Report: September 2010
	Fiscal Regime for Oil and Gas	FY2011	
	Public Financial Management	TBD	
	Revenue administration	October 2010	
	(ii) *Monetary and financial issues*		
	Banking supervision	Long-term expert	until early 2011
	Monetary operations	Long-term expert	until 2011
	Bank restructuring	Long-term expert	until 2011
	Macro-prudential supervision	September and December 2010	
	AML/CFT diagnostic	TBD	
	(iii) *Statistics*		
	Quarterly National Accounts	TBD	
	BOP/ IIP	TBD	
	BOP-GDDS	November 2010	
	B. Request for Work Program Inputs		
Fund request to Bank	Summary of Bank analysis and support for public financial management at all tiers of governments (including PERs)		
Bank request to Fund	Assessment letter for Development Policy Operation		March 2010
	Regular update of Fund macroeconomic projections		Ongoing
	C. Agreement on Joint Products and Missions		
Joint products	Joint Bank-Fund Debt Sustainability Analysis	November 2010	January 2011

NIGERIA—STATISTICAL ISSUES APPENDIX

As of December 31, 2010

I. Assessment of Data Adequacy for Surveillance
General: Macroeconomic data are broadly adequate for surveillance; however serious data deficiencies—in particular a lack of high frequency data on economic activity, inadequate information on subnational public finances, and large errors and omissions in the balance of payments—continue to hamper policy design and monitoring. The Statistics Act passed in 2007, which established the National Bureau of Statistics as the main coordinating agency for data management, has led to a number of improvements, including better information sharing between data producing and collecting agencies. Nevertheless, a number of problems continue to prevent the compilation of timely and internally consistent data, in particular lack of good source data, and insufficient computerization.
National accounts: Statistical methods used to derive production-based GDP have been improved through the development of more comprehensive estimates for a number of individual industries, although a number of statistical challenges remain. As reported in IMF Country Report No. 8/64, revisions to the national accounts published in late-2007 led to some apparent discontinuities in the series for non-oil GDP, and in particular agricultural output in 2002 and 2004, which complicates analysis of historical economic activity. Work is ongoing to conduct a new agricultural census, which should lead to improvements in the measurement of agricultural production—a key sector accounting for over half non-oil GDP—which is currently estimated on the basis of outdated survey information. The reliance on the consumer price index to construct the constant price GDP series leads to weaknesses. The introduction of additional indices, such as a producer price index, would facilitate more accurate estimation of the constant price measure. The base year for the national accounts (1990) is in urgent need of updating given the significant chances to the structure of the economy since then. The compilation of GDP using the expenditure approach would facilitate analysis of savings-investment balances. A lack of good quality high-frequency data on economic activity makes it difficult to assess current and recent economic performance. **Prices statistics:** The official monthly consumer price index (CPI), a composite of urban and rural price data, is available on a timely basis. The index has been re-referenced to May 2003=100, and there are plans to use the 2003/04 National Consumer Expenditure Survey to update the 1996/97 survey-based expenditure weights.
Government finance statistics: Fiscal data are opaque and complicated not only by the federal structure but also by a multiplicity of off-budget funds. The most pressing shortcomings are related to inadequate data coverage, particularly of the subnational governments which comprise almost one-half of total government expenditure. The federal government has limited information on the subnational fiscal accounts which makes it difficult for it to play a stabilizing role by targeting a consolidated fiscal balance; efforts to address this issue have been stymied by constitutional restrictions. To facilitate the timely preparation of a consolidated set of fiscal accounts, governments at all levels need to use consistent budget classification, chart of accounts, and accounting systems. There is also a need to formalize the publication of government accounts on a monthly or quarterly basis and to report on the operations of parastatals.

Monetary and financial statistics: There have been significant improvements in the compilation of monetary statistics. Earlier problems with the CBN accounting framework and IT issues, which had contributed to significant distortions in reported monetary data, have now been resolved. There is a need for a clearer measure of commercial banks' foreign assets and liabilities that captures both their on- and off-balance sheet exposures. The definition of the other depository corporations (ODCs) sector should also be extended beyond commercial banks to include all deposit-taking nonbank financial institutions, such as microfinance banks and primary mortgage institutions.

Financial soundness indicators: A broad range of information on the financial sector, including both core and a number of non-core financial soundness indicators, is compiled by the CBN. However, weaknesses in transparency and disclosure practices among banks undermine the reliability of this data. [The requirements to move to a common year-end reporting period by the end of 2009 and adopt IFRS accounting standard from the beginning of 2010 will be key steps in enhancing the credibility of this information.]

Balance of payments: There have been significant efforts to improve the compilation of Nigeria's balance of payments data in recent years. Supported by IMF technical assistance, the authorities have expanded the range and improved the quality of data sources used to compile the balance of payments statistics.

There are however still large errors and omissions in the balance of payments, which complicate the assessment of external sustainability. It will be important, therefore, to further strengthen the measurement of the balance of payments and the international investment position. There is a need for improved validation of transactions reported by banks, measurement of transactions outside the banking system and the possible under invoicing of imports, and verification of estimates of the external assets and liabilities of the banking sector (which are difficult to reconcile with other sources, such as data from Bank of International Settlements reporting banks). Nigeria has recently agreed to participate in the IMF's Coordinated Direct Investment Survey, which should facilitate improvements in the measurement of the international investment position.

The authorities have not yet initiated compilation of international reserves data in line with the Data Template on International Reserves and Foreign Currency Liquidity.

External debt: Public external debt data are of good quality and available on a timely basis. The Debt Management Office (DMO) should work to extend the coverage of their database to include private sector liabilities and foreign investment in domestically issued debt securities.

II. Data Standards and Quality

Participant in the General Data Dissemination System (GDDS) since 2003. Metadata need updating.	No Data ROSC.

NIGERIA—TABLE OF COMMON INDICATORS REQUIRED FOR SURVEILLANCE

As of end-December 2010

	Date of latest observation	Date received	Frequency of Data[7]	Frequency of Reporting[7]	Frequency of Publication[7]
Exchange Rates	Dec 2010	Dec 2010	D	D	D
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[1]	Aug 2010	Sept 2010	M	M	M
Reserve/Base Money	Sept 2010	Nov 2010	M	M	M
Broad Money	Sept 2010	Nov 2010	M	M	M
Central Bank Balance Sheet	Sept 2010	Nov 2010	M	M	M
Consolidated Balance Sheet of the Banking System	Sept 2010	Nov 2010	M	M	M
Interest Rates[2]	Dec 2010	Dec 2010	D	D	D
Consumer Price Index	Nov 2010	Dec 2010	M	M	M
Revenue, Expenditure, Balance and Composition of Financing[3] – General Government[4]	2008	July 2009	A	A	A
Revenue, Expenditure, Balance and Composition of Financing[3]– Central Government	Nov 2010	Dec 2010	M	M	M
Stocks of Central Government and Central Government-Guaranteed Debt[5]	Mar 2010	June2010	A	A	A
External Current Account Balance	Sep 2010	Nov 2010	Q	Q	A
Exports and Imports of Goods and Services	Sep 2010	Nov 2010	Q	Q	A
GDP/GNP	Jun 2010	Sept 2010	Q	Q	Q
Gross External Debt	Sep 2010	Nov 2010	A	A	A
International Investment Position[6]	Jul 2010	Jul 2010	A	A	A

[1] Any reserve assets that are pledged or otherwise encumbered should be specified separately. Also, data should comprise short-term liabilities linked to a foreign currency but settled by other means as well as the notional values of financial derivatives to pay and to receive foreign currency, including those linked to a foreign currency but settled by other means.
[2] Both market-based and officially-determined, including discount rates, money market rates, rates on treasury bills, notes and bonds.
[3] Foreign, domestic bank, and domestic nonbank financing.
[4] The general government consists of the central government (budgetary funds, extra budgetary funds, and social security funds) and state and local governments.
[5] Including currency and maturity composition.
[6] Includes external gross financial asset and liability positions vis-à-vis nonresidents.
[7] Daily (D); weekly (W); monthly (M); quarterly (Q); annually (A); irregular (I); and not available (NA).

INTERNATIONAL MONETARY FUND
Public Information Notice
EXTERNAL RELATIONS DEPARTMENT

Public Information Notice (PIN) No. 11/25
FOR IMMEDIATE RELEASE
February 17, 2011

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

IMF Executive Board Concludes 2010 Article IV Consultation with Nigeria

On February 11, 2011, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation with Nigeria.[1]

Background

Nigeria has weathered the global economic recession and its own domestic banking crisis reasonably well. Economic growth in the first half of 2010 remained above 7½ percent and is expected to reach about 8½ percent for the whole year on the back of a recovery in oil production and continued strong growth in other sectors. However, inflation has been stuck in the low double digits for the past two years and foreign reserves have been falling as the Central Bank of Nigeria has focused on maintaining exchange rate stability and low interest rates.

The fiscal stimulus intensified in 2010, notwithstanding the already solid growth performance and high inflation. After rising by 10 percent in 2009, consolidated public spending increased

[1] Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board. At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities. An explanation of any qualifiers used in summings up can be found here: http://www.imf.org/external/np/sec/misc/qualifiers.htm.

by 37 percent in 2010. The non-oil primary deficit has increased by 5 percentage points to 32 percent of non-oil GDP. Despite world oil prices well in excess of the budget benchmark price, the government spent all current oil revenues and drew on savings in the Excess Crude Account, at a time when stabilization called for a rebuilding of buffers. Despite high inflation, the CBN reduced the rate on its standing deposit facility. In response to pressure on the currency, the CBN sold reserves rather than raise interest rates or let the exchange rate depreciate. The CBN recently raised interest rates, but short-term real interest rates remain negative.

The economic outlook remains positive and risks are generally balanced. Nigeria's economy is projected to grow by 7 percent in 2011, moderating gradually in subsequent years. Inflation is projected to decline to 9 percent by the end of 2011. Near-term risks to growth mostly relate to domestic factors. On the upside, a shift in government spending towards capital formation and planned reforms in the power sector could boost growth, and passage of the Petroleum Industry Bill could unlock additional investments in the oil sector. On the downside, there is a greater risk of lower rather than higher oil production. The inflation risk hinges crucially on the 2011 budget. The National Assembly could pass a more expansionary budget for 2011 than was submitted, undermining the CBN's ability to deliver on inflation. Finally, speculation against the naira could become intense should reserves continue to fall.

Executive Board Assessment

Executive Directors noted that Nigeria's strong external position and low debt helped mitigate the impact of the global financial crisis. However, a pro-cyclical fiscal stance and an accommodative monetary policy have resulted in high inflation and a loss in international reserves.

Directors supported the authorities' planned fiscal consolidation to rebuild fiscal space and contain price pressures. They welcomed efforts underway to strengthen nonoil revenues, as well as the draft budget for 2011, which aims to reverse the expansion in real public spending in 2010. Directors also saw the need for a strong oil-revenue rule to prevent policy pro-cyclicality going forward. In this regard, they welcomed the authorities' intention to establish sovereign wealth funds under the Nigerian Sovereign Investment Authority (NSIA) to shield the budget from oil-revenue volatility and enhance the management of oil wealth. However, noting that one of the NSIA funds would finance infrastructure projects, they encouraged the authorities to channel such expenditures through the budget in order to safeguard the stabilization function of the NSIA and the quality of public investment.

Directors considered the central bank's recent increase in policy rates appropriate. Further monetary tightening may be needed should inflation pressures continue. Directors took note of the staff's assessment of an overvaluation of the naira, and stressed that greater exchange rate flexibility would prevent one-way bets in the foreign exchange market and cushion external shocks.

Directors expressed concerns about potentially conflicting objectives of monetary policy and advised that the policy framework should focus more clearly on price stability. They generally agreed that moving gradually toward an inflation-targeting regime, once the necessary institutional underpinnings are in place, would help anchor inflation expectations. Directors generally supported scaling back the central bank's development finance initiatives as soon as feasible while protecting the central bank's balance sheet and pursuing reforms to deepen capital markets.

Directors commended the authorities for their actions to stabilize the financial sector. They welcomed the establishment of an asset management corporation to clean up bank balance sheets and encouraged the authorities to maintain full transparency in bank resolution.

Nigeria: Selected Economic and Financial Indicators, 2007–10

	2007	2008	2009	Est. 2010
	(Annual percentage change, unless otherwise specified)			
National income and prices				
Real GDP (at 1990 factor cost)	6.4	6.0	7.0	8.4
Oil and Gas GDP	-4.5	-6.2	0.5	11.1
Non-oil GDP	9.5	9.0	8.3	7.9
Production of crude oil (million barrels per day)	2.21	2.09	2.16	2.36
Nominal GDP at market prices (trillions of naira)	20.9	24.6	25.1	32.3
Nominal non-oil GDP at factor cost (trillions of naira)	13.1	15.2	17.4	21.4
Nominal GDP per capita (US$)	1,153	1,401	1,112	1,387
Consumer price index (annual average)	5.4	11.6	12.5	13.8
Consumer price index (end of period)	6.6	15.1	13.9	12.8
Consolidated government operations	(Percent of GDP)			
Total revenues and grants	28.4	32.8	19.9	25.5
Of which: oil and gas revenue	21.9	26.6	13.0	19.0
Total expenditure and net lending	28.7	28.2	30.4	32.3
Overall balance	-0.4	4.6	-10.4	-6.9
Non-oil primary balance (percent of non-oil GDP)	-29.1	-28.4	-27.3	-32.2
Excess Crude Account / Sovereign Wealth Fund (US$ billions) [1]	14.2	19.7	7.1	3.4
	(Change in percent of broad money at the beginning of the period)			
Money and credit				
Broad money	44.2	57.8	17.5	12.1
Net foreign assets	23.5	23.3	-10.9	-12.0
Net domestic assets	20.8	34.5	28.4	24.1
Credit to consolidated government	-10.5	-11.7	10.5	18.1
Credit to the rest of the economy	59.6	50.6	21.7	3.3
Treasury bill rate (percent; end of period)	8.7	5.4	3.4	...
	Percentage change, unless otherwise specified)			
External sector				
Current account balance (percent of GDP) [2]	18.7	15.7	13.3	6.6
Exports, f.o.b.	14.1	26.9	-28.0	24.1
Oil and gas export volume	4.2	-7.5	11.1	-2.5
Imports, f.o.b.	49.5	24.0	-12.7	37.5
Terms of trade	1.2	16.6	-21.6	13.0
Price of Nigerian oil (US$ per barrel)	71.1	97.0	61.8	78.9
Nominal effective exchange rate (end of period)	99.8	100.6	82.2	...
Real effective exchange rate (end of period)	109.5	123.8	109.7	…
External debt outstanding (US$ billions)	4.0	4.5	4.0	4.8
Gross international reserves (US$ billions) [3]	51.3	53.0	42.4	34.1
(equivalent months of imports of goods and services)	10.1	13.1	8.0	6.6

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

[1] Includes all components of the proposed sovereign wealth fund.

[2] Large errors and omissions in the balance of payments suggest that the current account surplus is overestimated by a significant (but unknown) amount.

[3] Includes $2.6 billion in 2009 on account of the SDR allocation.

Statement by Moeketsi. Majoro Executive Director for Nigeria
February 11, 2011

My Nigerian authorities are in agreement with the overall staff analysis particularly the recent economic performance and the medium term outlook as well as the policy advice. They also support the staff recommendation that the next Article IV consultation be carried out on the standard 12-month cycle. My authorities note the various concerns raised in the report especially on the medium term growth prospects, oil production capacity, infrastructural development, the lack of adherence to the oil revenue rule, the eclectic monetary policy and the dwindling international reserves due to fiscal expansion with potential downside risk to economic growth. They wish to assure the Executive Board that adequate measures are already put in place to address them. I, therefore, wish to re-emphasize my authorities' commitment to fiscal consolidation; implementation of strong oil-revenue based fiscal rule, more focused monetary and financial sector policies, quick resolution of the banking crisis and strategic economic reforms.

Real Sector

The medium term growth would be achieved through increased focus on the agriculture. A key element of this is the shift to higher value crops in addition to new lands under cultivation in order to increase yield and productivity. Also, the Central Bank of Nigeria (CBN)'s Agricultural Credit Scheme of N200 billion, and the massive investment in irrigation facilities and storage facilities, including silos for storing surplus grains would further boost productivity in this sector.

The crude oil production expected in 2011 could be slightly less than the 2.36 million barrels per day (mbpd) as reported by staff. However, recent estimates by the Nigerian National Petroleum Corporation (NNPC) indicated that crude oil production capacity is between 2.71 and 3.0 mbpd. This indicates that there is still a substantial margin to be exploited before reaching capacity.

To address the infrastructural needs of Nigeria, it is noteworthy that one of the many independent power projects (IPPs) has been completed and has injected 250MW into the national grid while quite a number of others are nearing completion and will soon feed the national grid. This would significantly boost prospects for growth in the medium term.

Fiscal Consolidation

In the last two years, my authorities have played an active role in providing stimulus to the economy as necessary. The surge in government spending, particularly in 2010, was occasioned by the unanticipated expenditure on wage increase for civil servants, medical personnel, university lecturers, etc. In realization of this, the Federal Government took proactive step to set up a special committee to review the recurrent spending in the budget in September 2010. Additionally, my authorities are optimistic that the Legislature would not pass a budget that is significantly expansionary.

In the medium term, my authorities intend to continue with direct spending on priority projects, particularly in the area of critical infrastructure taking into consideration the need for fiscal consolidation. The authorities' fiscal consolidation has commenced with the 2011 budget. In this regard, the fiscal consolidation efforts of the authorities are expected to reduce the budget deficit from the envisaged 6.1 percent of GDP in 2010 to 2.7 percent in 2013. This is very much in line with the fiscal deficit of 3 percent of GDP provided for in the 2007 Fiscal Responsibility Act (FRA). Although the deficit is expected to be financed largely by borrowing, this does not pose any risk as the debt-sustainability analysis conducted independently by my authorities and the joint Bank-Fund team shows that the debt level will remain sustainable under a number of unfavorable economic scenarios in the medium to long term.

The focus of fiscal policy will be to foster inclusive growth and job creation; optimize capital spending by rationalizing recurrent expenditure and maximizing government's revenues; accelerate the implementation of reforms to enhance the quality and efficiency of public expenditure; and reinstate greater prudence in the management of the nation's financial resources.

Going forward, the overall fiscal strategy will seek to: (i) promote fiscal discipline and diversification in revenue sources, (ii) outline fiscal policy which will work in consonance with monetary policies to create an environment of macroeconomic stability, (iii) adhere to prudent limits for expenditure to ensure relatively low fiscal deficits with little public sector borrowing and sustainable levels of public debt; and (iv) create a framework within which public funds can be allocated optimally.

On the revenue side, the authorities are fully committed to expand the revenue base and improve the efficiency of revenue collection. Measures are already in place to accelerate the identification and resolution of revenue leakages. These include the strengthening of pre-shipment inspection for crude oil and gas; conducting audits of all revenue generating agencies and those required to remit internally generated revenue to the treasury; and fast-tracking the implementation of key reforms by the Federal Inland Revenue Service and the Nigerian Customs Service.

Oil Revenue-Based Fiscal Rule

The authorities have resolved to adhere to a strong oil revenue-based fiscal rule, which is already embedded in the Fiscal Responsibility Act (FRA) 2007. The rule allows the Minister of Finance to modify the benchmark depending on utilization. The essence is to ensure that any excess accruals provide an avenue to leverage other public private partnership funding partners to participate in any identified investment program of government.

With regard to the infrastructural component of the proposed sovereign wealth fund, the model to be used by the Federal Government within the Medium Term Fiscal Framework would involve the private sector such that any additional expenditure would not impair macroeconomic stability. In this regard, the Fiscal Responsibility Act (FRA) and the Procurement Act enacted in 2007 would be strictly adhered to by the Federal Government. Furthermore, once the Nigerian Sovereign Investment Authority (NSIA) bill is passed, the three components of stabilization, infrastructure and savings for future generation would be properly ring fenced with no cross funding from each other. Additionally, the governance structure being proposed would ensure that the activities of the NSIA comply with the highest standard of accountability and transparency. Moreover, in view of the joint ownership of the proposed sovereign wealth fund by the three tiers of government, the investment activities of the NSIA would be properly discussed and agreed.

To further protect government earnings against the volatilities in the oil market, my authorities intend to adopt an oil price hedging strategy which will provide the option of transferring the risks associated with downside movement in the oil price to a third party.

Monetary and Financial Sector Policies

The primary objective of monetary policy in Nigeria is the maintenance of price stability. The CBN is committed to lowering inflation which is essential for sustainable growth in the economy. After periods of accommodative monetary policy in the aftermath of the global financial crisis and domestic banking crisis to address financial stability concerns, the recognition of inflationary pressures on the system led to monetary tightening starting with the monetary policy decision of September 2010, which raised Monetary Policy Rate (MPR) by 25 basis points from 6 to 6.25 percent. The recent monetary policy committee meeting of January 25, 2011 further increased the MPR to 6.5 percent. Cash Reserve Requirement (CRR) was also raised by 100 basis points and Liquidity Raito (LR) increased from 25 to 30 percent.

CBN remains committed to the goal of single digit inflation. However, since inflation in Nigeria is significantly influenced by structural factors and not monetary policy alone, adopting inflation targeting now will not be feasible. The focus is on addressing the structural impediments that influence inflation in Nigeria, and once those are addressed, inflation targeting can be considered. Furthermore, the National Bureau of Statistics (NBS) made adjustments to the CPI calculation in which reduced weights were assigned to local food production and higher weights assigned to other factors including imports. This change will increase the impact of imports on the inflation.

Concerning exchange rate, the management of exchange rate volatility by the CBN is critical to achieving price stability, being an import dependent economy**.** The speed and degree of exchange rate pass-through in Nigeria is relatively high; therefore, the management of exchange rate volatility is necessary to achieve price stability. In this regard, the CBN will only intervene in the foreign exchange market to minimize speculative demand and smoothen market volatilities.

In the aftermath of the global financial crisis, pressure was put on reserves as foreign investors divested in Nigeria to meet financial obligations at home. While the CBN stands committed to meeting all legitimate foreign exchange demand, it is taking steps to curtail sources of leakages in the system. For example, licenses to category "A" *bureau de change* were revoked and reserve build-up has commenced, starting November 2010. In addition, CBN will soon commence foreign exchange forward sales to reduce the pressure on spot demand and to cut down on speculative demand.

Credit growth to the private sector after the banking crisis dried up as banks struggled to keep afloat. The intervention by the Central Bank in the credit market is to achieve two broad objectives: to encourage credit market to function properly and to increase access to finance to the private sector. Following the Central Bank intervention in the banking sector, growth in credit to the private sector slowed, affecting economic activities and access to credit for business and households. Many sectors, firms, and households that depend on bank financing resorted to costly alternative avenues for financing, as commercial banks scaled back their lending. Noting that the slowdown in credit growth was constraining recovery in the short run, in addition to limiting prospects for longer-term growth, the CBN intervened.

The intervention in the credit market was targeted at areas of the economy with the most spillover effect on the rest of the economy, such as power, small businesses and agriculture. These are sectors that have the potential to increase employment and contribute to long-run growth. Furthermore, the consequences of not intervening would have been more costly to long-term growth as credit and economic activities almost came to a standstill. While preliminary data indicates that the intervention contributed positively to growth in economic activities, a full assessment of the impact of the intervention on CBN balance sheet is currently being undertaken. In addition, the CBN is working on other targeted reforms aimed at strengthening access to credit to the private sector.

The various monetary and financial sector policies adopted since 2009 have ensured a return of financial system stability as the banking system no longer poses any systemic risk to the nation's economy. My authorities are fully committed to continue adjusting these policies where necessary, to take care of any downside risks that may arise. Accordingly, ongoing reforms at creating commercial, merchant and specialized banks that will enhance the funding of productive activities will be vigorously pursued. My authorities are also committed to reforms in the capital market as an alternative source of funding to the private sector.

Banking Crisis Resolution

My authorities are committed to quick resolution of the banking sector crisis. In the past two years, the authorities through the CBN have carried out comprehensive reforms of the banking system. It is expected that these reforms would be completed in 2011, given the critical role the banking sector plays in achieving the economic growth objectives. One notable channel for the resolution is the establishment of the Asset Management Company of Nigeria (AMCON) in 2010 which has successfully issued N1.03 trillion (US$ 10 billion) worth of consideration bonds to 21 banks in exchange for non-performing loans (NPLs) and intends to absorb all the bad loans by end of March and resolve the banking crisis by end-June 2011. The successful disposal of these risky assets will leave the banks with cleaner balance sheets that will facilitate their access to credit markets for raising capital and enable them to carry out their traditional role of financial intermediation. Furthermore, the authorities will strengthen macro-prudential regulation and supervision and ensure good governance in the banking system.

Structural Reforms

My authorities have shown their increasing commitment to far reaching structural reforms that will reposition the economy on the path of sustainable growth. This year marks the commencement of the implementation of the First National Implementation Plan (NIP) under the Vision 20:2020 economic blueprint. One key area of considerable emphasis is public financial management (PFM).

In this regard, the implementation of wide-ranging PFM reforms to (i) improve the quality and efficiency of spending; (ii) maximize, protect and diversify government revenues, and (iii) instill greater fiscal prudence in the management of the nation's financial resources have commenced. A high-level Expenditure Review Committee has been established to work out practical measures to rationalize recurrent expenditure without compromising the quality of service delivery capacities. Furthermore, the Integrated Pay-roll and Personnel Information System has been introduced in sixteen Ministries, Departments and Agencies (MDAs) which have so far saved government over 12 billion naira (about USD80 million) in personnel cost. In 2011, the system will be extended to the remaining MDAs.

While increasing the quantum of capital outlays is important, my authorities feel that enhancing the quality and efficiency of public expenditure is more critical. As a result, they intend to engage global project management firms to enhance capital project management and delivery. This will complement the Construction Sector Transparency Initiative governance structure which has been introduced to enhance transparency and accountability in the execution of capital projects. Also the deployment of the Government Integrated Financial Management Information System and a revised chart of accounts will facilitate the tracking of the tangible deliverables achieved by MDAs in terms of measurable outputs and outcomes.

Conclusion

I would like to reiterate my authorities' commitment to the design and implementation of good macroeconomic policies. In this regard, the continuous dialogue with and assistance of the Fund is highly appreciated.