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NIGERIA

2011 ARTICLE IV CONSULTATION

July 2012

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 2011 Article IV consultation with Nigeria, the following documents have been released and are included in this package:

- **Staff Report** for the 2011 Article IV consultation, prepared by a staff team of the IMF, following discussions that ended on December 8, 2011, 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 February 8, 2012. 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** prepared by the staffs of the IMF and the World Bank.
- **Informational Annex** prepared by the IMF.
- **Public Information Notice** (PIN) summarizing the views of the Executive Board as expressed during its February 22, 2012 discussion of the staff report that concluded the ArticleIV consultation.
- **Statement by the Executive Director** for Nigeria.

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

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

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NIGERIA

STAFF REPORT FOR THE 2011 ARTICLE IV CONSULTATION

February 8, 2012

KEY ISSUES

Context: Nigeria has shown robust growth during the past decade, with rates among the highest in sub-Saharan Africa. However, unemployment rates have risen and the public finances and balance of payments remain vulnerable to a fall in oil prices.

Outlook and Risks: Inflation is projected to rise slightly in 2012 owing to the reduction in the fuel subsidy, while growth is projected to remain strong at 7 percent. The principal downside risk is a larger than envisaged deterioration in the global environment that substantially reduces world oil prices.

Rebuilding fiscal buffers: The government's planned fiscal consolidation for 2012–15 will be essential for rebuilding fiscal buffers in the uncertain global environment and safeguarding macroeconomic stability.

Clarifying the monetary framework and reducing pressures on foreign exchange reserves: The monetary authorities should focus on a clear inflation objective and allow the naira to gradually adjust in response to market conditions.

Restoring financial system stability: The resolution of the 2009 banking crisis has been largely completed. Comprehensive reforms to strengthen supervision and the regulatory framework have been initiated.

Promoting Inclusive Growth: The authorities aim to boost prospects for inclusive growth by improving the business climate, addressing infrastructure gaps, and implementing reforms that promote sectors with high employment potential.

Approved By
Saul Lizondo and David Marston

Discussions took place in Abuja and Lagos on October 17–23, 2011 (first mission) and December 1–8 (second mission), 2011. The staff comprised Messrs. Rogers (head of first mission), Alleyne (head of second mission), Hussain and Salinas, (all AFR), Mr. Woo (FAD), Mr. Anthony (MCM), and Mr. Konuki (SPR). Mr. Uwatt (OED) and Mr. Nolan (AFR Senior Advisor) also participated in the discussions. The team met with Finance Minister Okonjo-Iweala, Central Bank of Nigeria Governor Sanusi, other senior officials, bankers, and business community representatives. The Managing Director visited Nigeria during December 18–20, 2011.

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INTRODUCTION

1. **The Nigerian economy has grown robustly even during the 2008–09 global crisis, partly due to the effective implementation of countercyclical policies.** Non-oil GDP growth has remained stable despite a considerable decline in oil prices and a domestic banking crisis in 2009. A strong countercyclical policy stance prior to the global crisis allowed Nigeria to accumulate substantial fiscal savings and international reserves and to later use them up to minimize the crisis's impact on the domestic economy.

2. **While growth has been strong, it has not been fully inclusive.** Although Nigeria's growth rate over the last decade has been among the highest in sub-Saharan Africa and there is some evidence of income gains for the rural poor,[1] the official unemployment rate has risen in recent years, reaching 24 percent in 2011 (Figure 1), and the achievement of many of the Millennium Development Goals is still a long way away (Table 6).[2]

3. **The 2011 Article IV consultation discussions centered on the policies needed to rebuild buffers amid the uncertain global environment, safeguard macroeconomic stability, and make growth more inclusive**. Discussions also focused on reforms to improve management of the oil sector and oil revenues; and on the steps taken to resolve the recent bank crisis and strengthen the supervisory and regulatory framework. This policy agenda reflects the main issues covered in the authorities' *Transformation Agenda* (Appendix I). During 2011, the authorities' policies were broadly in line with recommendations from the 2010 Article IV consultation, including commencing with fiscal consolidation; tightening monetary policy; establishing the Sovereign Wealth Fund; and moving ahead with bank resolution and banking reforms.

ECONOMIC CONTEXT

A. Recent Economic Developments

4. **Economic growth remains strong and inflation has declined** (Figure 1)**.** Non-oil GDP growth held relatively stable at 8.3 percent in 2011. A decline in oil and gas output in the first half of the year is expected to have resulted in an overall real GDP growth rate of about 6.7 percent. Inflation declined to 10.2 percent in December 2011 (y-o-y), compared with 11.7 percent a year earlier, in response to monetary tightening by the Central Bank of Nigeria (CBN) and moderation of food prices (Table 1).

[1] See World Bank (2009), Report No. 51564-NG. "Nigeria – Employment and Growth Study"

[2] Nigeria's National Bureau of Statistics has a relatively broad definition of unemployment. It considers as employed only those members of the work force that work 40 or more hours per week, whereas the ILO definition has no minimum threshold for hours worked.

5. Despite historically high oil prices, international reserves remained flat (Figure 2)**.** Notwithstanding an estimated sharp improvement in the external current account in 2011, international reserves remained flat in the face of net capital outflows, reflecting political uncertainty prior to the April 2011 general elections; a global flight to safety in the second half of the year; and intervention by the CBN during the first three quarters of the year to avoid a depreciation of the currency. In November 2011, the authorities adjusted the soft exchange rate band (+/-3 percent) around the naira-US$ bilateral rate by some 3 percent to accommodate continuing downward exchange market pressures.[3]

6. A modest fiscal consolidation took place in 2011. (Figure 3)**.** The non-oil primary deficit (NOPD) of the consolidated government is estimated to have narrowed slightly from about 34.6 percent of non-oil GDP in 2010 to 32.9 percent in 2011, mainly due to expenditure restraint at the federal government level. Higher oil prices helped shrink the overall fiscal deficit from 7.7 percent of GDP in 2010 to about 0.2 percent of GDP in 2011.

7. The authorities had planned the removal of the gasoline subsidy to be a key source of fiscal saving in 2012 but the measure, after being introduced on January 1, was partially rescinded just two weeks later. The subsidy cost about 4 percent of GDP in 2011. Its removal caused the gasoline price to rise by 116 percent and proved to be extremely unpopular. After a week-long national strike, the government rescinded the measure, rolling back the price to 50 percent above the old subsidized price of N65 per liter (Appendix II).

8. Monetary policy was tightened substantially in 2011. After lowering its overnight deposit rate to one percent in mid-2010 to support the fragile banking system, the CBN has increased the rate by 900 bps since September 2010 (Figure 4). Market rates have risen accordingly and real short-term interest rates are now positive for the first time in nearly four years, fluctuating at around 4-6 percent.

9. Financial soundness indicators point to continued improvements in the health of the banking system. Non-performing loans have declined sharply following their purchase by the Asset Management Company of Nigeria (AMCON) and credit has stopped declining (Figure 5).

[3] Nigeria's exchange rate regime is classified as "other managed". Nigeria is an Article XIV member. 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. Staff is currently conducting a comprehensive review of Nigeria's exchange system to identify the extent of any further restrictions and multiple currency practices subject to Fund approval.

B. Outlook and Risks

10. The baseline economic growth outlook remains positive. Non-oil GDP growth is projected to moderate to 7.8 percent in 2012, reflecting the tighter monetary and fiscal policies and a softer global economy, while overall GDP growth would rise slightly to 6.9 percent on the basis of a moderate rebound in oil output. Over the medium term, non-oil growth is projected to moderate further, reflecting continued fiscal adjustment, and then level off at about 7 percent. Oil production would grow gradually, rising from 2.4 million barrels per day in 2011 to 2.6 million barrels per day in 2015.

11. The baseline macroeconomic projections assume the implementation of the authorities' fiscal consolidation plan. Based on the draft 2012 budget and the partial removal of the fuel subsidy, the NOPD of the consolidated government would decline to 27.9 percent of non-oil GDP in 2012. The authorities' *2012–15 Medium Term Expenditure Framework* (MTEF) contains strong restraint in recurrent spending, which is projected to reduce the NOPD further to 18 percent of non-oil GDP in 2015.[4] The accumulation of oil revenue savings is projected to boost international reserves from US$33 billion in 2011 to US$61 billion in 2015. Staff's assessment of reserve adequacy indicates that the projected path of gross reserves could be close to the estimated optimal range (Appendix III).

12. Inflation is projected to rise temporarily as a result of the increase in gasoline price. Inflation is forecast to peak at around 12–13 percent in the middle of year and then decline to 11–12 percent by year's end, reflecting effects of the monetary tightening in 2011 and the authorities' planned fiscal consolidation. Over the medium term, inflation is projected to fall to the 5–8 percent range.

13. Risks to the short-term outlook are skewed to the downside. A larger than envisaged deterioration in the global environment could result in substantially lower world oil prices, thereby limiting the possibilities for fiscal consolidation and the buildup of international reserves (Figure 6). Based on the limited data available to staff, spillovers from potential eurozone banking problems appear small as domestic banks rely relatively little on external funding. Failure to implement the authorities' planned fiscal adjustment measures would result in faster accumulation of domestic debt, and put an undue burden on monetary policy to contain inflation and prevent pressures on the naira and international reserves. Finally, the ongoing violence in the northern Nigeria could adversely impact growth prospects, particularly if it spreads to other parts of the country.

Authorities' Views

14. The authorities had a broadly similar view on the outlook and risks. They expressed serious concern about the heightened global economic uncertainty and the possible contagion effects for Nigeria. Indeed, the authorities revised down the budget reference price in the MTEF to US$70 per barrel for the 2012–15 from a previously announced US$75 per barrel.

[4] These staff projections assume fiscal measures that would offset half of the remaining subsidy cost in 2012.

REBUILDING FISCAL BUFFERS

15. The authorities' fiscal strategy aims to rebuild fiscal buffers, reorient spending from recurrent to capital; and keep debt levels low.[5] The projected NOPD in the medium term is also in line with staff's estimates of the long-run sustainable NOPD (Appendix IV). Staff endorsed the fiscal objectives as well as the key policy measures designed to achieve them:

- Given its high cost, eliminating, or at least substantially reducing the gasoline subsidy is essential to the success of any fiscal adjustment effort.

- Medium-term fiscal adjustment is to be driven mainly by restricting the growth of recurrent spending; the wage bill, when adjusted for inflation, is projected to decline on average by 2 percent a year after having risen by 23 percent in 2010.

- The setting of a budget oil reference price at US$70 per barrel will induce fiscal restraint at the state and local government levels, given their relatively limited borrowing capacity (Box 1).

- Intensified efforts to improve non-oil revenue collections will help to reduce fiscal vulnerability to oil price shocks.

16. During the discussions, the authorities anticipated that the elimination of the subsidy would be unpopular but viewed the subsidy as fiscally unsustainable and highly distortionary. Moreover, the removal of the subsidy was key to creating fiscal space for infrastructure spending and well targeted social safety net programs that were important to drive the authorities' inclusive growth agenda. Evidence from a number of countries shows that gasoline subsidies are regressively distributed, with by far the largest benefits accruing to the richest households.[6] In Nigeria, the subsidy has discouraged private investment in domestic refining capacity, resulting in a drain on foreign reserves through the importation of petroleum products. Moreover, given rampant rent-seeking behavior and smuggling, a significant portion of Nigeria's fuel subsidy benefits accrue to people in neighboring countries.[7] In an effort to address concerns leading to opposition to the measure, the authorities launched a public information campaign and established the *Subsidy Reinvestment and Empowerment (SURE)* program, which includes a transparent monitoring framework for the subsidy savings and the specific projects that are to be funded by the savings. These projects include road, railway, and petroleum refinery construction; the expansion of urban mass transit systems; youth employment programs; and conditional cash transfers for pregnant women (see Appendix II).

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[5] Staff analysis indicates that Nigeria is at low risk of debt distress. However, a prolonged oil price shock without offsetting measures could undermine the recent progress made in public debt sustainability.

[6] See Coady et al., *Petroleum Product Subsidies: Costly, Inequitable, and Rising* (IMF Staff Position Note, SPN/10/05, 2010). Using evidence from 13 countries (not including Nigeria), this study found that over 80 percent of total benefits from gasoline subsidies accrued to the richest 40 percent of households.

[7] According to the authorities, estimated daily gasoline consumption in the first half of 2011 was about 39 million liters, while subsidy claims were made on about 51 million liters.

Box 1. The Fiscal Framework in Nigeria

Nigeria's complex fiscal federalism is comprised of three tiers of governments (federal, states, and local governments (SLGs)) and many extra-budgetary funds. All oil and gas revenue and most of non-oil revenues are pooled and then shared by all tiers of governments. The sharing formula for oil and gas revenue, which accounts for over 75 percent of total revenue, is prescribed in the Constitution: after allocating 13 percent to producing areas, the remainder is shared as following: federal government (48.5 percent), states (26.7 percent), local governments (20.6 percent); and extra-budgetary funds (4.2 percent).

The authorities have made many attempts to improve the management of oil and gas revenues. In 2004, the budget oil price-based rule was established along with the Excess Crude Account (ECA)—a stabilization fund. The inflows into (outflows from) the ECA were the oil revenues in excess of (below) the budget benchmark revenues, which was determined, ex ante, by the budget oil price and projected oil and gas production. The money allocated to the budget and the deposits into the ECA accrued to the various tiers of government according to the constitutionally determined sharing formula. The final budget oil price was typically the outcome of negotiation between the executive branch and the National Assembly. As the budget oil price sets the portion of the oil revenue that is directly distributed to the levels of government, it is a key instrument to constrain spending, especially for the SLGs, which have limited borrowing capacity.

The ECA has lost traction in recent years. As the ECA accumulated large balances, spending pressures built up and a variety of discretionary withdrawals nearly depleted the fund by the end of 2010. In this context, the authorities replaced the ECA with the Sovereign Wealth Fund (SWF), which has a much stronger legal foundation. The SWF, which was launched in October 2011, is jointly owned and supervised by all three tiers of the government, and has three separate components, each of which is allocated 20 percent of "excess" oil revenue above the budget benchmark revenue: a stabilization fund; an infrastructure fund (to finance domestic infrastructure development); and an inter-generational saving fund. The governing board has the discretion to allocate the remaining 40 percent among the three funds. The stabilization fund will be better protected against ad hoc withdrawals with stricter withdrawal rules than under the ECA. However, the legislation is silent on the mechanism for determining how much oil revenue is allocated to the SWF, as the benchmark budget oil price remains subject to negotiation between the executive and legislative branches.

In an oil producing country, the non-oil primary deficit (NOPD) should ideally serve as the anchor for fiscal policy. The authorities agreed and noted that they use the NOPD in their own fiscal policy analysis. However, given the authorities' lack of control over SLG spending, which comprises around 50 percent of total general government spending; they are not able to directly target the NOPD. Thus, the budget oil price-based rule, together with ceilings on the federal government deficit (3 percent of GDP) and debt (25 percent of GDP) prescribed by the 2007 Fiscal Responsibility Act, constitutes the fiscal anchor in Nigeria. Looking forward, it will be important to further strengthen the framework by adopting a rules-based approach to setting the budget benchmark revenue and strengthening compliance provisions for the Fiscal Responsibility Law.

17. The partial reinstatement of the subsidy is estimated to cost 2 percent of GDP in 2012. Staff recommends that the authorities come up with additional measures to offset at least half of this cost in order not to jeopardize the buildup of reserves in the Sovereign Wealth Fund (the likely source of funding for the subsidy).[8] The authorities have publicly announced that they remain committed to a full removal of the subsidy but have not specified any timeline. In the meantime, they have established a formal process to deepen consultations with stakeholders (including labor unions) and begun to address issues raised by them, including fast-tracking the rehabilitation of refineries and initiating an audit of the state-owned petroleum company. At the time the staff report was written, the authorities were still determining their revised fiscal strategy for 2012.

18. Staff also noted that the planned contraction of the real wage bill and other recurrent spending would need to be handled carefully. In particular, measures would need to be underpinned by comprehensive reforms in order to ensure that the fiscal savings were sustainable and consistent with the goal of improved public service delivery. Reforms currently being implemented to improve public expenditure management systems are also crucial.[9]

19. With a flat outlook for oil revenues, the limited growth in government spending will not result in a substantial improvement in the overall fiscal balance. As a result, the projected accumulated fiscal surpluses would fall well short of the formula-driven inflows into the Sovereign Wealth Fund (SWF, see Box 1). Some of this difference is reflected in the accumulation of federal government domestic debt, which is projected to rise from 15 percent of GDP in 2011 to 17 percent in 2015, and whose cost of servicing substantially exceeds the projected return from the SWF financial assets. In the discussions, staff noted that the asset-liability mix might not be optimal and could be addressed by linking inflows into the intergenerational savings and infrastructure components of the SWF to the generation of fiscal surpluses. However, given that the SWF legislation was passed into law only last year (and requiring considerable political effort) it is too soon to propose revisiting the framework.

20. In light of the risks to the global economy, staff recommended that priority be given to rapidly building up the SWF's precautionary balances. Thus, during 2012-13, the SWF's stabilization fund should be allocated close to the maximum allowable 60 percent of gross SWF inflows. Staff also discussed short-term options to minimize the issuance of domestic debt. Two options to explore are (i) utilizing some of the substantial federal government bank deposits (around 8 percent of GDP) instead of borrowing; and/or replacing debt financing with funding from the infrastructure fund to finance the capital projects in the budget.

[8] Some savings may come from scaling back infrastructure programs whose funding was tied to the subsidy savings.

[9] The authorities have completed an inventory of all government bank accounts, and have set up a Treasury Single Account (TSA) technical committee under the Accountant General. However, more work is required to articulate the scope and structure of the TSA, and formulate and approve a cash management policy.

(continued)

21. The erosion of oil revenues (in terms of non-oil GDP) over the medium term highlights the importance of strengthening the focus on non-oil revenues. The authorities' efforts to boost non-oil revenues are appropriately focused on improving tax administration. They anticipate a substantial gain in collections from operational improvements and reforms at tax collection agencies, and new rules requiring income-generating government agencies and enterprises to make remittances to the treasury based on their gross instead of net revenues. Notwithstanding positive gains from these measures, staff argued that tax policy measures would also be needed in the medium term. Tax rates on the non-oil sector are substantially below the African average and there are also widespread exemptions. Staff recommended that work on tax policy reform, incorporating Fund TA advice, be accelerated so that it could begin to be implemented in the next few years.

Authorities' Views

22. The authorities indicated that they would seek to maximize the allocation to the SWF's stabilization fund in the near term. They also agreed on the urgency to raise non-oil revenues. However, they felt that it was important to focus on the successful implementation of their tax administration reforms before turning to tax policy reform, to maximize the latter's effectiveness. They were also confident that the measures they had initiated to boost revenues collections, in particular from government agencies, would surpass staff projections.

CONTROLING HIGH INFLATION AND FOREIGN EXCHANGE PRESSURES

23. Staff supported the tightening of monetary policy over the past year and the adjustment of the soft exchange rate band last October. The reversal of the overly accommodative policy stance was needed to contain inflation and to counter continued pressures on international reserves. Staff discussed the CBN's decision to intervene heavily in the foreign exchange market during much of 2011 to avoid a depreciation of the currency (Figure 4). Staff considered that this policy could have risked excessively depleting reserves.

24. Staff recommended focusing on a clear inflation objective and allowing gradual adjustment of the naira over time in response to market conditions. It indicated that more empirical work on the pass-through from exchange rates to inflation would strengthen the CBN's ability to detect and respond to inflationary pressures. With increased openness of the capital account, the exchange rate will become more sensitive to interest rate differentials and shifts in international investor sentiment. In this context, attempts to stabilize the currency at a specific exchange rate could frustrate the CBN's desire to pursue an independent monetary policy oriented toward price stability. Staff's analysis of the exchange rate, based on CGER-based methodologies, suggests that the currency is broadly in line with fundamentals (Appendix V).

25. Following the 275 basis point increase in the policy rate in October, staff sees merit in a "wait and see" approach before taking further action on interest rates. The full impact of October's strong tightening measures and November's shift of the exchange rate band is most likely yet to be fully realized. Moreover, the authorities should not react to the temporary rise in inflation caused by the partial removal of the fuel subsidy provided second round effects do not materialize. Staff supports the CBN's intentions to scale back reliance on the cash reserve ratio and more actively use open market operations to guide short-term interest rates. This will make the monetary policy rate a more effective signaling tool and improve the monetary transmission mechanism.

Authorities' Views

26. The authorities noted that early in 2011, monetary policy was still focused on supporting the fragile banking system. The accommodative monetary conditions may have contributed to high inflation and excessive foreign exchange demand. At the same time, they intervened in the foreign exchange market and resisted a depreciation of the currency fearing that a depreciation could add to the financial market nervousness already arising from the banking crisis and the presidential election campaign and further fuel inflation. Nevertheless, the CBN emphasized that it was not in favor of defending the exchange rate at all costs and agreed that the naira should be allowed to adjust to changes in market conditions. It also agreed that more empirical research would help to better shed light on the impact of exchange rate movements on inflation.

27. The CBN reiterated its commitment to bring inflation down into the single digits. It emphasized that the government needed to deliver on its promised fiscal adjustment so that the burden of macroeconomic management could be more evenly shared. While the CBN believed that recent tightening measures were still to make their full impact on inflation, it explained that it would not shy away from additional hikes in the policy rate if required. Moreover, the CBN regarded the elimination of the fuel subsidy as crucial for relieving pressures on the currency and facilitating accumulation of international reserves.

RESTORING FINANCIAL SYSTEM STABILITY

28. The recapitalization of the intervened banks was completed in late 2011, and with it, the resolution of the 2009 banking crisis has been largely achieved.[10] Nonperforming loans were purchased by the Asset Management Company of Nigeria (AMCON) in exchange for tradable three-year zero coupon bonds to bring five of the eight insolvent banks to zero equity. Merger/acquisition agreements were reached

[10] In 2009, 8 out of 24 banks (one third of the system by assets) had to be intervened because of either insolvency or serious undercapitalization. The authorities intervened decisively by injecting liquidity into the troubled banks, providing broad guarantees, (continued) and setting up the Asset Management Company of Nigeria to address balance sheet problems.

for private investors to inject capital sufficient for these banks to meet prudential requirements. The other three (smaller) banks have been temporarily nationalized and fully recapitalized by AMCON. About N3.6 trillion (face value) in bonds (16 percent of 2011 non-oil GDP) was issued to finance these operations and AMCON recently requested an increase in its borrowing limit to N4.5 trillion. The authorities removed the CBN guarantees on all interbank liabilities at the end of 2011, based on their assessment that there had been no new problems with the recapitalized banks.

29. Staff stressed that the operations of AMCON need to minimize fiscal and moral hazard risks. With the cleanup of financial institutions completed, staff supported AMCON's decision to halt purchases of new NPLs. Staff expressed concern that the absence of a sunset clause for AMCON and its authority to purchase NPLs outside of a crisis resolution framework could encourage moral hazard behavior by banks in the future. It recommended that AMCON aim to wrap up all operations associated with the recent crisis in 12 years as planned. To deal with the purchase of NPLs outside of a crisis resolution framework, staff recommended that the authorities explore options to facilitate the development of private distressed asset firms.

30. AMCON's financial operations envisage the repayment of its financial liabilities after 12 years with no need for cashflow support by the government. The funds for repaying the recapitalization bonds are expected to come from an annual 0.3 percent levy on bank assets; the sale of assets securing the acquired NPLs; and grants (N500 billion over 10 years) funded from the CBN's net profits. Staff considered that AMCON's projection of no funding gap was based on reasonable assumptions and fairly robust in the face of less favorable parameters. At the same time, the mission urged continued focus on strengthening AMCON's operational capabilities in order to maximize asset recoveries—a key parameter for its financial viability.

31. Staff welcomed the many initiatives underway to strengthen the regulatory and supervisory framework (Appendix VI). Stricter regulations on corporate governance and risk management; programs to improve the CBN's ability to assess systemic risks; and initiatives to boost cross-agency and cross-border cooperation among regulators will help to avoid a repeat of conditions that prevailed prior to the 2009 crisis. While steps have been taken towards improving the AML/CFT regime, staff encourages the authorities to address the remaining AML/CFT-related deficiencies and to continue the process of implementing the action plan they agreed with the Financial Action Task Force (FATF).[11]

Authorities' Views

32. The CBN recognizes that, following three years of financial sector turmoil and the implementation of a number of reforms, a comprehensive evaluation of the soundness and stability of the banking system is needed. It expressed a strong interest in undergoing an FSAP Update in 2012, which would serve as an excellent means to take stock of all the measures taken thus far (including in the AML/CFT area) and provide a

[11] The Fund has been providing technical assistance in the areas of risk-based and consolidated supervision, corporate governance, and AML/CFT issues.

road map for remaining reforms. Regarding moral hazard risks associated with AMCON, the authorities agreed that it would be important to facilitate the operations of private distressed asset firms. They noted that absence of such firms was due mainly to a legal framework that made it extremely difficult to secure collateral on non-performing loans; AMCON's success in this regard was due to the special legal powers accorded to it. The authorities clarified that the absence of a sunset clause for AMCON was not aimed at making AMCON a permanently active institution, but at avoiding a potentially time-consuming legislative process to establish another such vehicle in case of future need. In this context, staff saw merit in "mothballing" AMCON, so as to have it as a readily available tool to respond quickly to eventual future banking crises.

REFORMS AGENDA

A. Oil Wealth Management

33. Staff welcomed the establishment of the Sovereign Wealth Fund last year, given its stronger legal framework compared with that of the ECA. In November 2011, the SWF was capitalized with a transfer of US$1 billion from the Excess Crude Account, which will be gradually wound down. The hiring of the SWF management team is underway while operating rules governing withdrawals from the infrastructure fund, and investment of SWF resources still need to be articulated (Fund technical assistance is scheduled for early 2012). The authorities expected that the SWF would be fully operational by June 2012. Staff emphasized the importance of ensuring that the SWF was able to improve the transparency of the administration and use of oil revenues, including the revenues accruing to sub-national governments. Staff reiterated recommendations made during the 2010 Article IV consultation that spending funded from the SWF should be channeled through the budget.

34. The authorities plan to move ahead on the Petroleum Industry Bill, which has been stalled in the National Assembly for about three years. The draft bill, which benefitted from TA from the World Bank and the Fund, contains comprehensive reforms that, among other things, redefines the roles of key executive and regulatory agencies and the national oil company, and outlines a new fiscal regime governing oil and gas. A key objective of the new fiscal regime is to increase the government take from operations under production sharing contracts. The authorities agreed that it would be crucial to ensure that the final legislation retains the spirit and objectives of the original bill, which aimed to significantly enhance transparency and accountability in the sector.

B. Policies for Promoting Competitiveness and Inclusive Growth

35. The authorities see economic diversification and increased competitiveness as vital to achieving their goal of strong, sustainable inclusive growth. The increase in the official unemployment rate likely reflects, to an important degree, a growing informalization of the labor market.[12] Indeed, in recent years, the main sources of growth have been agriculture and wholesale/retail trade, both predominantly informal sectors and likely to have work weeks less than 40 hours. The authorities' approach is to focus on reversing the trend toward informality, while simultaneously facilitating the growth of labor-intensive sectors. Policy initiatives in this direction are focused on (i) boosting infrastructure, particularly in transportation and electricity generation; and (ii) improving the business climate (Appendix I). In this latter area, the 2012 World Bank's Doing Business Report noted a need to address difficulties in paying taxes, registering property, and carrying out international trade, and the high cost and inadequate supply of electricity.[13] Staff supported the reforms in the energy sector, in particular the plan to introduce cost-reflective pricing (scheduled for the first half of 2012), aimed at increasing investment and boosting electricity supply. Staff also supported the authorities' intention to protect the most vulnerable users, including through lifeline electricity tariffs. Staff endorsed efforts to scale up public investment to address gaps in infrastructure within the expenditure envelope envisaged in the MTEF; and reforms to transform agriculture from a subsistence to a modern, commercially oriented sector with strong linkages to the manufacturing sector.

36. A key medium-term challenge is to increase credit access for the productive sectors of the economy. Staff welcomed initiatives that have been launched to strengthen credit bureaus, expand options to collateralize credit, and pro-actively develop domestic capital markets. The FSAP update could flesh out a concrete set of proposals to enhance access to credit for enterprises.

STAFF APPRAISAL

37. Nigeria has shown robust growth during the past decade, with rates among the highest in sub-Saharan Africa. It emerged largely unscathed from the global financial crisis as the government used up the large buffers accumulated during the previous oil boom.

38. Economic growth is projected to remain strong in 2012 but risks are skewed to the downside. A larger than envisaged deterioration in the global environment could result in substantially lower world oil prices, thereby limiting the possibilities for fiscal consolidation and the buildup of international reserves. Failure to implement politically difficult fiscal adjustment measures could result in faster accumulation of domestic debt, and put an undue burden on monetary policy to contain inflation and prevent pressures on the naira and international reserves.

[12] See World Bank, 2009, *Nigeria: Employment and Growth Study* p.9).

[13] 13Nigeria has just tenth the electricity generation capacity of South Africa,while having four times its population.

39. Implementation of the MTEF is key to rebuilding fiscal buffers, lowering inflation, and maintaining economic stability. Staff believes that the planned fiscal adjustment path will allow for a rebuilding of precautionary reserves in the Sovereign Wealth Fund and keep debt at appropriately low levels. Staff supports the fiscal adjustment measures, in particular, setting the budget oil reference price at US$70 per barrel for 2012-15; phasing out the fuel subsidy with due social safeguards; restricting the growth of recurrent spending; and intensifying efforts to improve non-oil revenue collections.

40. Given the global risks, the decision to set the budget reference oil price at the relatively conservative level is appropriate. Furthermore, excess revenues that accrue to the SWF should be allocated to build up the stabilization fund as rapidly as possible. Once this is achieved, proportionately more of the SWF inflows can be allocated to the infrastructure fund, which should be used to finance projects that are included in the budget.

41. The reduction in the gasoline subsidy in January 2012 and planned use of some of the savings to fund better targeted safety net programs and high priority infrastructure projects has a number of potential benefits. The subsidy has been costly, poorly targeted, and has led to major economic distortions, such as discouraging investment in domestic refining capacity; and rent-seeking behavior, including smuggling to neighboring countries. Efforts to further reduce fuel subsidies could be guided by an evaluation of the experience in early 2012. The reduction in the gasoline subsidy should be supported by aggressively following through on reforms aimed at improving public financial management systems and the management of the country's oil resources. In this regard, the Sovereign Wealth Fund (SWF) and the Petroleum Industry Bill (PIB) are crucial reforms. Important SWF operational procedures remain to be clarified to ensure that the government is able to improve its control of the overall stance of fiscal policy.
A rules-based approach to setting the budget oil price would further strengthen the fiscal framework and the SWF. The authorities should also prioritize the passage of the PIB, making sure that it retains the key objectives of the original bill, including better transparency and accountability.

42. The projected decline of oil revenues relative to the non-oil GDP over the medium term highlights the importance of strengthening the focus on non-oil revenues. While the current focus on strengthen tax administration is well founded, staff recommends that work on tax policy reform, incorporating Fund TA advice, be accelerated so that it could begin to be implemented in the next few years.

43. The tightening of monetary policy over the past year and the recent adjustment of the soft exchange rate band are welcome, and come in the wake of a period of overly accommodative monetary policy. Staff sees merit in a "wait and see" approach before taking further action on interest rates and sees no need to react to the first round increase in inflation arising from the reduction in the fuel subsidy. The decision in late November to adjust the soft exchange rate band around the naira-US$ bilateral rate by some 3 percent was a sensible move to accommodate foreign exchange market pressures, which have since abated. Staff's analysis does not point to a fundamental misalignment of the exchange rate. Looking ahead, staff recommends focusing on a clear inflation objective and allowing a gradual adjustment of the naira over time in response to market conditions.

44. The authorities' actions to resolve the recent banking crisis have been commendable. The recapitalization process is complete and financial soundness indicators point to continued improvements in the health of the banking system**.** Based on the limited data available to staff, spillovers from potential eurozone banking problems appear small.

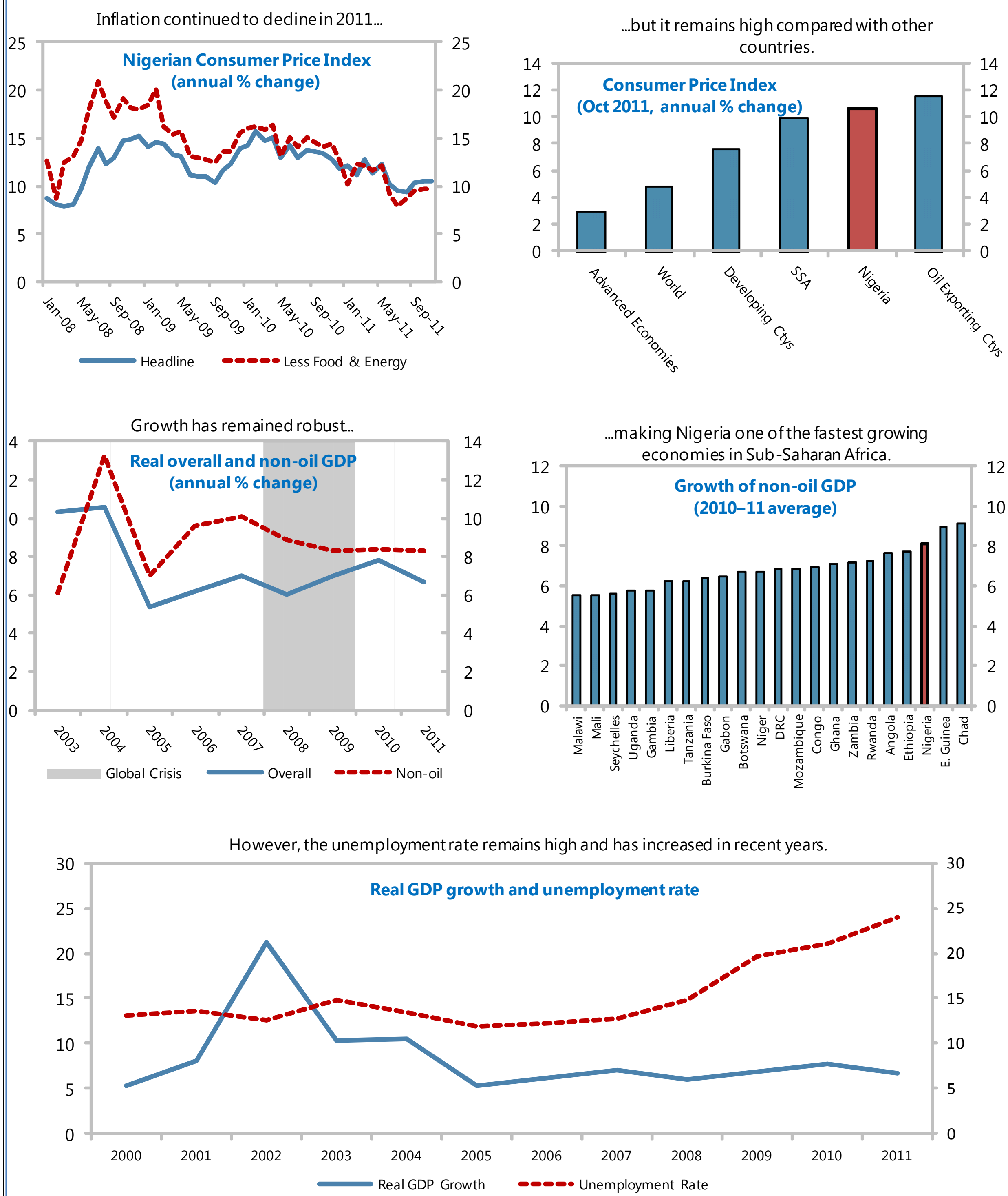
45. The operations of AMCON need to minimize fiscal and moral hazard risks. The operational capabilities of AMCON should continue to be strengthened in order to maximize asset recoveries. With the cleanup of financial institutions virtually completed, the staff supports AMCON's decision to halt purchases of new NPLs. AMCON should aim to winding up all operations associated with the recent crisis within the envisaged 12-year period. At the same time, staff sees merit in mothballing AMCON, so as to have it as a readily available tool to respond quickly to future eventual banking crises.

46. Staff welcomes the many initiatives underway to strengthen regulation and supervision. Stricter regulations on corporate governance and risk management; programs to improve the CBN's ability to assess systemic risks; and initiatives to boost cross-agency and cross-border cooperation among regulators will help to avoid a repeat of conditions that prevailed prior to the 2009 crisis. The reforms to strengthen the AML/CFT framework are also positive and the authorities should continue to implement the action plan agreed with the FATF. Staff shares the authorities' view that an FSAP update in 2012 would serve as an excellent means to take stock of all the reforms undertaken thus far and provide a road map for remaining reforms.

47. The initiatives now underway to improve the business climate and reform sectors with high employment potential can substantially boost prospects for inclusive growth. Staff supports the scaling up of public investment within the expenditure envelope envisaged in the MTEF; initiatives to reform the energy sector, in particular increasing power supply and the introduction of cost-reflective pricing; and market-based reforms to improve access to credit for productive sectors.

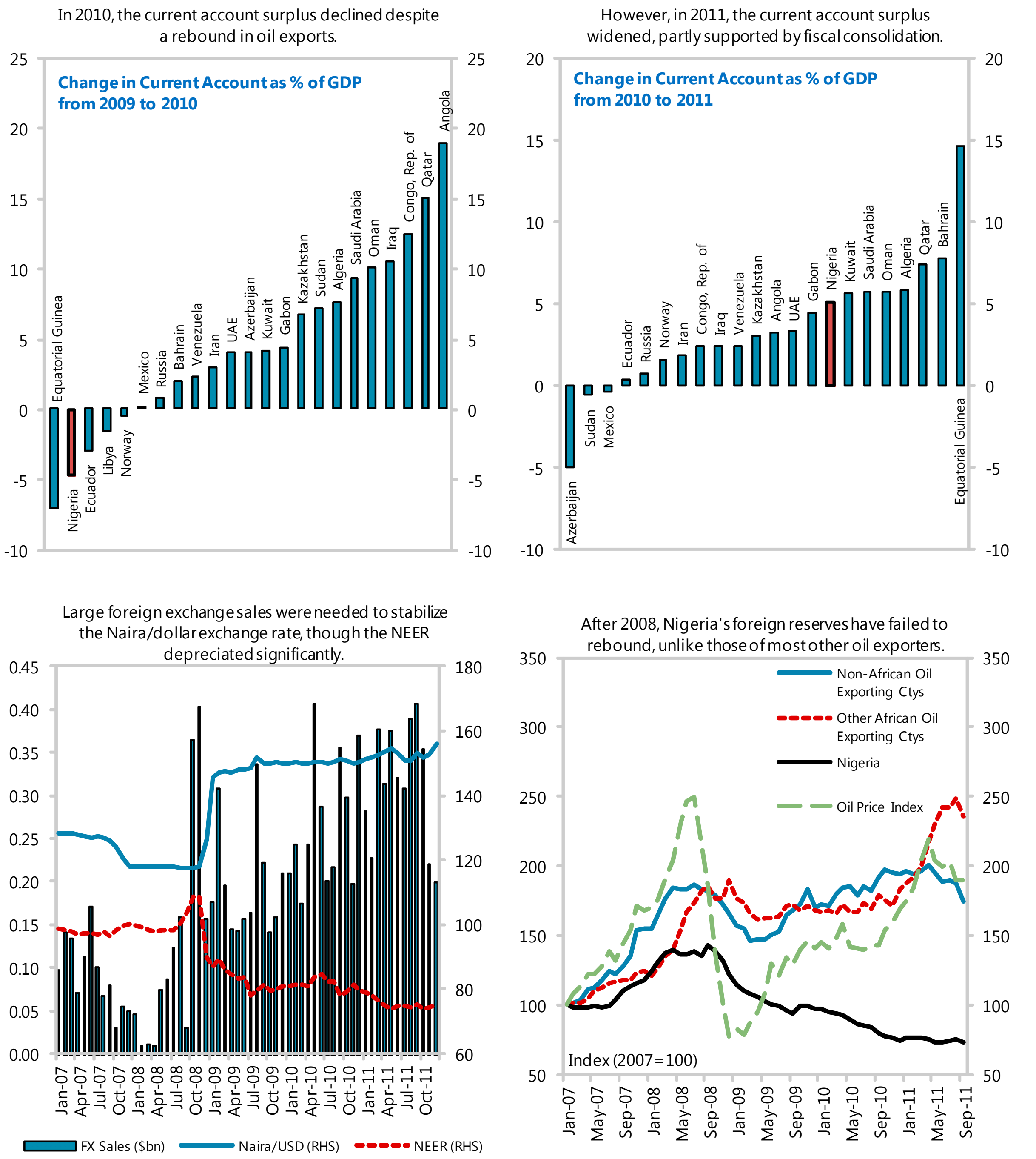
48. Staff recommends that Nigeria remains on the standard 12-month Article IV consultation cycle.

Figure 1. Nigeria: Comparative Inflation and Growth Performance



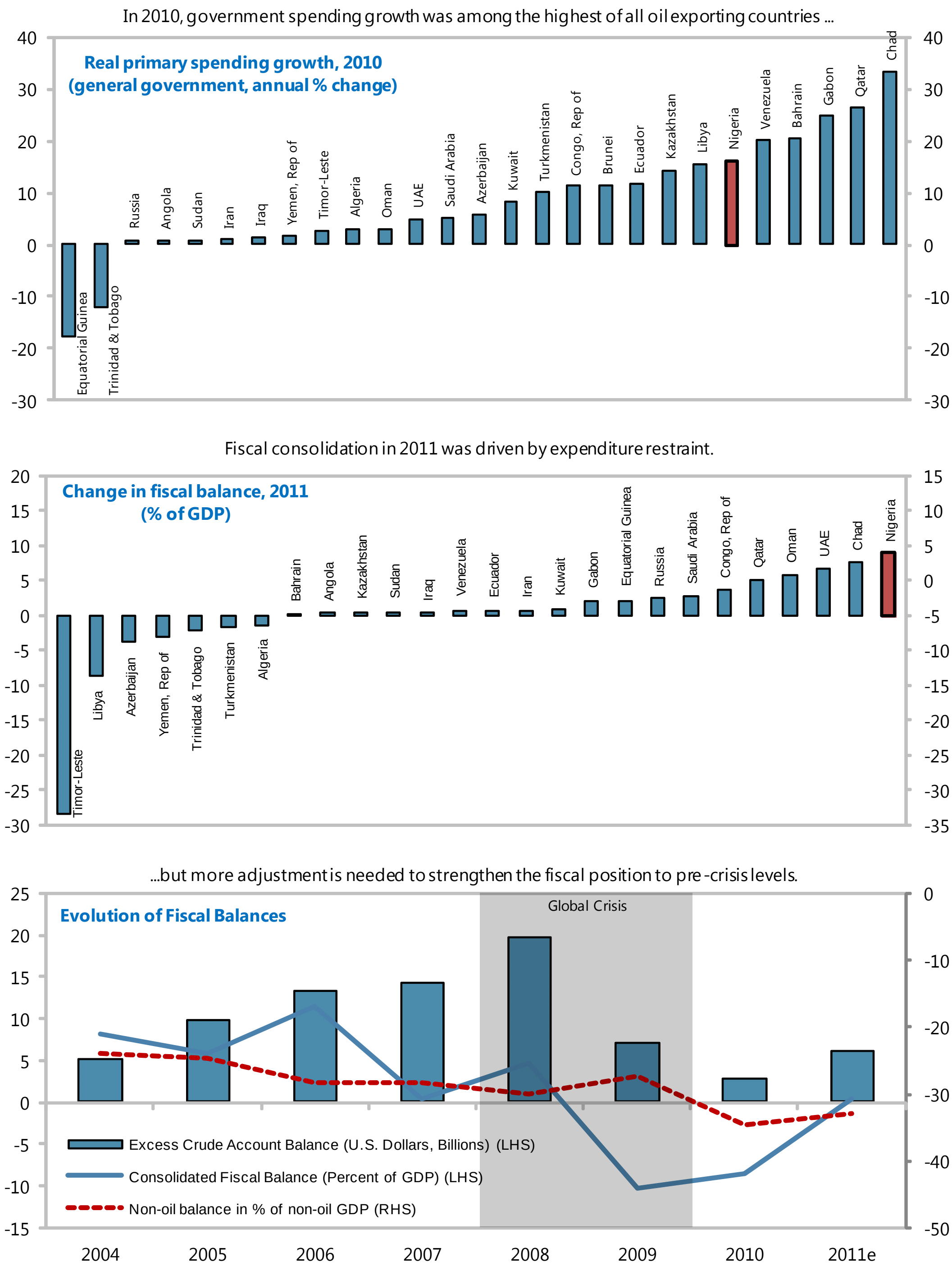
Source: National authorities, IFS, and staff estimates.

Figure 2. Nigeria: External and Exchange Rate Developments



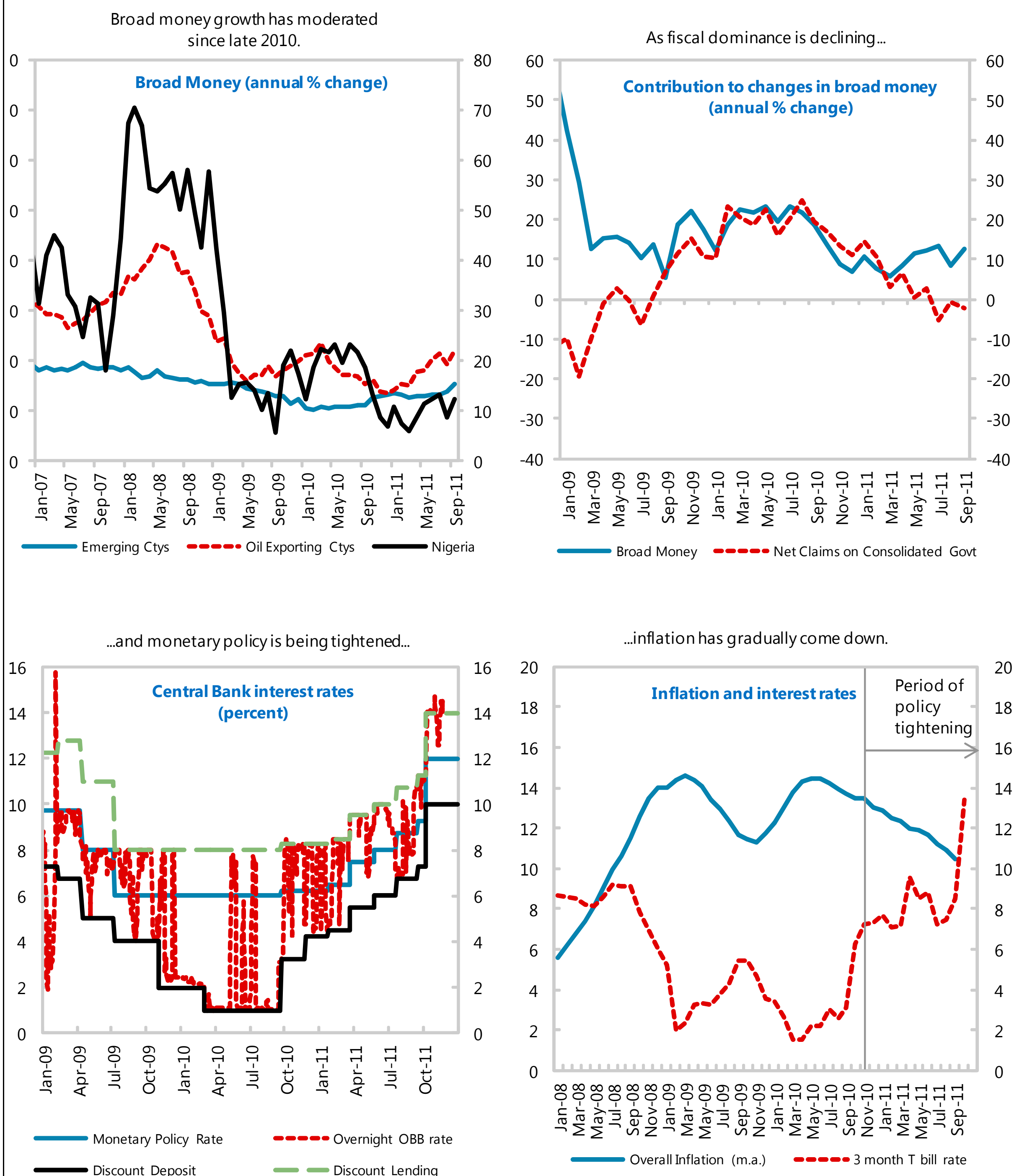
Source: Nigerian authorities and staff estimates

Figure 3. Nigeria: Fiscal Developments



Source: Nigerian authorities and staff estimates.

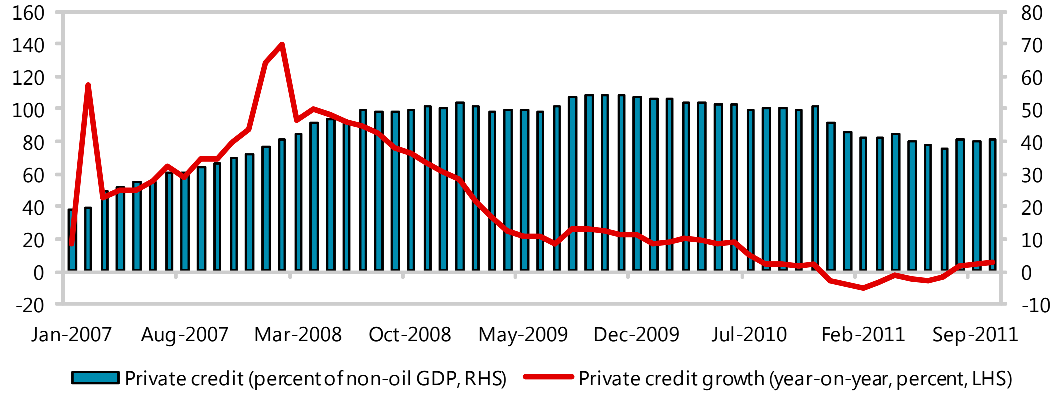
Figure 4. Nigeria: Monetary and Financial Developments



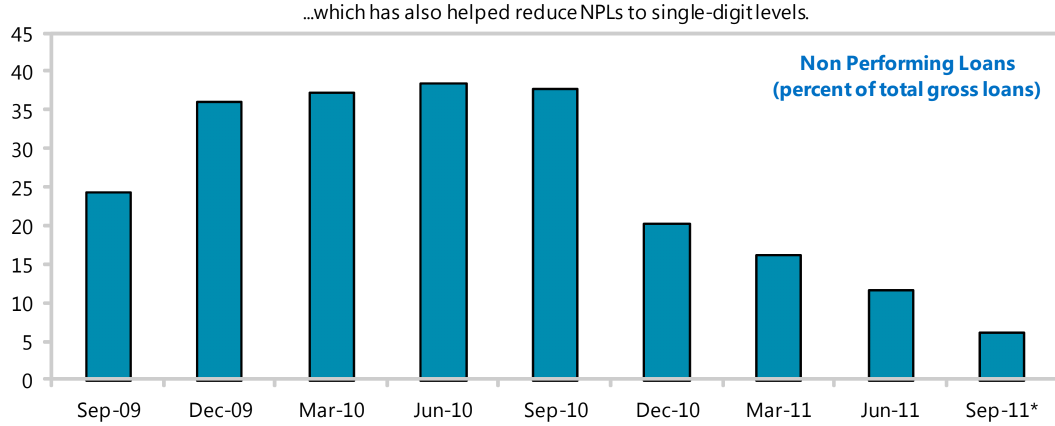
Source: Nigerian authorities and staff estimates

Figure 5. Nigeria: Credit Evolution and Remaining Challenges

Growth of credit to the private sector has contracted as a result of the authorities' intervening in problem banks...

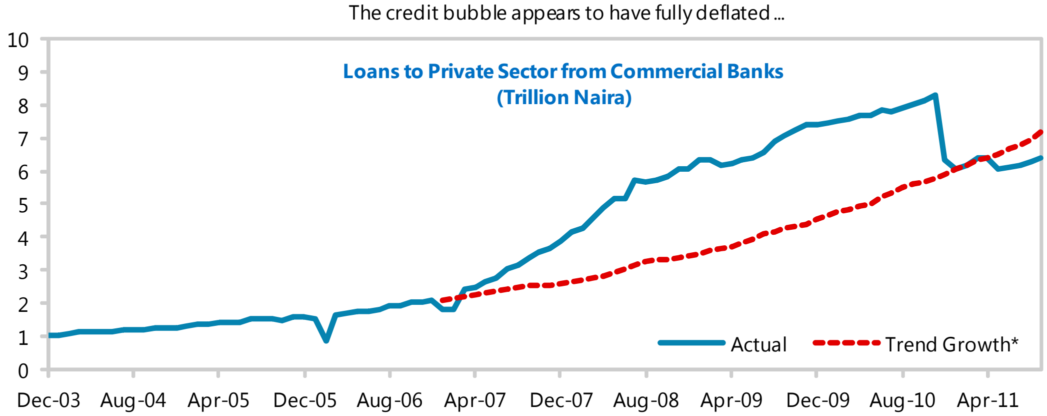


...which has also helped reduce NPLs to single-digit levels.



* Preliminary estimate

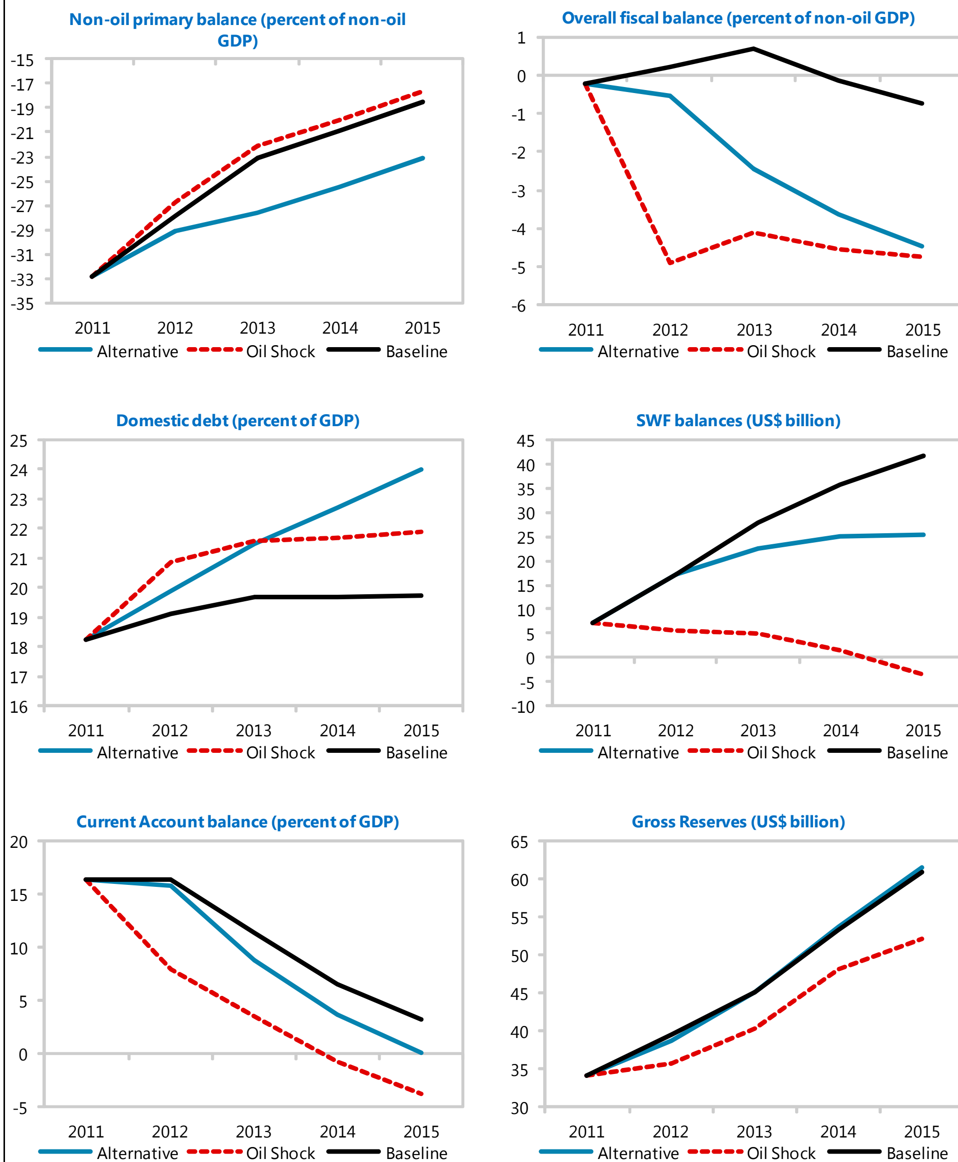
The credit bubble appears to have fully deflated ...



* Trend nominal growth calculated based on average real growth in 2004-06 and CPI inflation

Source: Nigerian authorities and staff estimates.

Figure 6. Nigeria: Comparison of Baseline with Alternative Scenarios



Oil price shock scenario assesses the impact of a 20 percent price decline (around $20 a barrel) relative to the baseline. As the resulting oil price remains above the budget reference price for oil, no adjustment in public spending is assumed. Non-oil GDP and non-oil exports are also assumed unchanged.

Alternative scenario assumes that some key reforms are not implemented. In particular (a) real recurrent spending is held constant in contrast to the real reduction outlined in the authorities' MTEF; (b) remaining fuel subsidies are not removed and financed through the SWF. While building the SWF, preference is given to stabilization fund.

Source: IMF staff estimates and projections.

Table 1. Nigeria: Selected Economic and Financial Indicators, 2007–15

	2007 Act.	2008 Act.	2009 Act.	2010 Act.	2011 Est.	2012 Proj.	2013 Proj.	2014 Proj.	2015 Proj.
National income and prices	(Annual percentage change, unless otherwise specified)								
Real GDP (at 1990 factor cost)	6.4	6.0	7.0	7.8	6.7	6.9	6.4	6.3	6.3
Oil and Gas GDP	-4.5	-6.2	0.5	5.0	-2.2	1.9	2.1	1.4	1.2
Non-oil GDP	9.5	9.0	8.3	8.4	8.3	7.8	7.0	7.0	7.0
Production of crude oil (million barrels per day)	2.22	2.09	2.16	2.46	2.44	2.48	2.54	2.58	2.60
Nominal GDP at market prices (trillions of naira)	20.9	24.6	25.1	29.6	36.3	40.7	45.9	50.9	56.4
Nominal non-oil GDP at factor cost (trillions of naira)	13.1	15.2	17.4	19.5	22.5	26.6	31.2	36.0	41.1
Nominal GDP per capita (US$)	1,153	1,401	1,110	1,261	1,479	1,545	1,608	1,676	1,766
GDP deflator	4.3	11.0	-4.4	9.3	15.0	4.9	6.1	4.4	4.3
Non-oil GDP deflator	3.3	6.4	5.7	3.5	6.5	10.0	9.6	7.7	6.6
Consumer price index (annual average)	5.4	11.6	12.5	13.7	10.8	10.8	10.2	8.2	7.0
Consumer price index (end of period)	6.6	15.1	13.9	11.7	10.3	11.0	9.5	7.0	7.0
FGN gross debt (percent of GDP)	12.8	11.6	15.2	17.7	18.2	19.1	19.7	19.7	19.7
Of which: domestic debt (percent of GDP)	10.4	9.5	12.9	15.4	15.6	16.6	17.1	17.4	17.4
Investment and savings	(Percent of GDP)								
Gross national savings	43.6	36.0	37.0	26.8	28.7	29.0	27.7	26.2	25.2
Public	10.2	13.2	-1.7	1.6	6.2	7.7	8.7	7.9	7.3
Private	33.4	22.8	38.7	25.2	22.5	21.4	19.0	18.3	17.9
Investment	26.3	22.0	28.6	25.2	21.9	22.6	23.5	23.9	24.1
Public	7.1	5.5	6.0	7.7	4.9	5.7	6.3	6.5	6.5
Private	19.2	16.5	22.6	17.4	17.0	16.8	17.1	17.5	17.6
Current account balance [1]	16.8	13.6	7.9	1.3	6.9	6.4	4.2	2.3	1.0
Consolidated government operations	(Consists of federal, state, and local governments; percent of GDP)								
Total revenues and grants	26.9	32.0	17.8	23.3	28.2	27.3	25.8	24.2	22.6
Of which: oil and gas revenue	20.4	25.8	10.6	16.3	21.6	20.0	18.1	16.2	14.3
Total expenditure and net lending	25.3	25.7	27.2	31.0	28.4	27.0	25.1	24.4	23.3
Overall balance	1.6	6.3	-9.4	-7.7	-0.2	0.3	0.7	-0.2	-0.7
Non-oil primary balance (percent of non-oil GDP)	-28.2	-29.9	-27.2	-34.6	-32.9	-27.9	-23.2	-20.9	-18.6
Excess Crude Account / Sovereign Wealth Fund (US$ billions) [2]	14.2	19.7	7.1	2.7	4.7	14.8	25.8	33.6	39.4
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	7.0	9.8	18.6	17.6	17.6	16.4
Net foreign assets	23.5	23.3	-10.9	-10.3	7.0	12.0	10.1	10.8	9.0
Net domestic assets	20.8	34.5	28.4	17.4	2.8	6.6	7.5	6.9	7.4
Credit to consolidated government	-10.5	-11.7	10.5	11.0	-8.6	-6.6	-2.3	-3.8	-2.4
Credit to the rest of the economy	59.6	50.6	21.7	-4.0	11.8	16.3	12.6	12.0	11.2
Velocity	2.3	1.7	1.6	1.8	1.8	1.8	1.8	1.7	1.7
Treasury bill rate (percent; end of period)	7.8	5.6	4.0	7.5	15.1	…	…	…	…
External sector	(Annual percentage change, unless otherwise specified)								
Exports of goods and services	13.9	30.1	-33.4	31.2	26.9	3.4	-0.6	-0.8	1.0
Imports of goods and services	29.8	37.4	-22.6	52.7	5.9	8.0	5.2	6.0	7.0
Terms of trade	1.4	11.8	-17.2	10.6	9.5	-2.2	-1.8	-1.7	-0.4
Price of Nigerian oil (US$ per barrel)	71.1	97.0	61.8	79.0	109.2	103.7	99.9	96.3	95.3
Nominal effective exchange rate (end of period)	100.3	101.6	82.2	83.6	81.7	…	…	…	…
Real effective exchange rate (end of period)	108.5	122.9	109.9	120.7	128.8	…	…	…	…
External debt outstanding (US$ billions)	4.0	4.5	4.0	4.6	6.3	6.5	6.9	6.6	7.2
Gross international reserves (US$ billions) [3]	51.3	53.0	42.4	32.3	32.9	39.2	44.9	53.2	60.9
(equivalent months of imports of goods and services)	9.5	12.7	6.7	4.8	4.5	5.1	5.5	6.1	6.7

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)

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

[3] Includes $2.6 billion in 2009 on account of the SDR allocation. From 2012 onward, it reflects accumulation in the stabilization component of the SWF.

Table 2. Nigeria: Balance of Payments, 2009–15
(Billions of U.S. dollars, unless otherwise specified)

	2009 Act.	2010 Act.	2011 Est.	2012 Proj.	2013 Proj.	2014 Proj.	2015 Proj.
Current account balance	13.3	2.5	16.4	16.4	11.4	6.6	3.3
Trade balance	25.6	20.4	35.7	33.1	29.1	23.7	19.1
Exports	56.7	74.3	95.2	98.0	97.2	96.1	96.9
Oil/gas	54.8	71.6	92.0	94.5	93.3	91.3	91.1
Other	2.0	2.7	3.2	3.4	3.9	4.8	5.7
Imports	-31.1	-53.9	-59.5	-64.9	-68.1	-72.3	-77.7
Oil/gas	-6.9	-14.0	-16.5	-16.9	-17.4	-18.0	-19.0
Other	-24.2	-39.9	-43.0	-48.0	-50.6	-54.3	-58.7
Services (net)	-16.7	-19.4	-18.4	-18.9	-20.0	-21.0	-22.2
Income (net)	-14.6	-18.8	-21.2	-19.1	-19.4	-18.9	-17.4
Of which: Interest due on public debt	-0.1	-0.1	-0.1	-0.2	-0.2	-0.2	-0.2
Transfers (net) [1]	18.9	20.3	20.3	21.2	21.8	22.7	23.7
Capital and Financial account balance	2.7	-7.1	-9.2	-4.6	-0.3	7.2	9.9
Capital Account (net)	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financial Account (net)	2.7	-7.1	-10.4	-4.6	-0.3	7.2	9.9
Direct Investment (net)	7.1	5.2	5.8	6.8	7.3	8.7	9.6
Portfolio Investment (net)	-0.3	2.6	1.8	2.0	2.2	2.2	2.2
Other Investment (net)	-4.1	-14.9	-18.0	-7.9	-3.2	1.0	1.5
SWF Investment (net) [2]	…	…	…	-5.5	-6.6	-4.7	-3.4
Errors and omissions	-26.6	-5.5	-5.5	-5.5	-5.5	-5.5	-5.5
Overall balance	-10.6	-10.0	0.6	6.3	5.7	8.3	7.7
Net international reserves (increase -)	10.6	10.0	-0.6	-6.3	-5.7	-8.3	-7.7
Memorandum items:							
Gross official reserves, end-of-period [3]	42.4	32.3	32.9	39.2	44.9	53.2	60.9
In months of next year's imports of goods and services	6.7	4.8	4.5	5.1	5.5	6.1	6.7
SWF foreign investment balances, end-of-period	…	…	…	5.5	12.1	16.8	20.2
Current account (percent of GDP)	7.9	1.3	6.9	6.4	4.2	2.3	1.0
Exports of goods and services (percent of GDP)	35.0	39.3	41.4	39.9	37.1	34.4	32.1
Imports of goods and services (percent of GDP)	29.7	38.8	34.1	34.3	33.8	33.4	33.0
External debt[4]	4.0	4.6	6.3	6.5	6.9	6.6	7.2
External debt (percent of GDP)	2.3	2.3	2.7	2.5	2.5	2.3	2.3
External debt (percent of exports of goods and services)	6.7	6.0	6.4	6.4	6.9	6.6	7.2
External debt (Percent of general government fiscal revenues)	13.2	10.1	9.5	9.3	9.9	9.3	10.2
External debt service due (percent of exports of goods and services)	0.8	0.5	0.2	0.3	0.4	0.4	0.3
Real imports of goods and services (percent of real GDP)	37.4	45.8	37.8	39.3	39.6	40.3	40.8
GDP (at market prices)	169	197	237	255	272	292	316

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

[1]Includes capital transfers.
[2]Reflects accumulation in the intergenerational and infrastructure components of the SWF in each year.
[3]Includes $2.6 billion in 2009 on account of the SDR allocation. From 2012 onward, it reflects accumulation in the stabilization component of the SWF.
[4]Nominal public sector short- and long-term debt, end of period.

Table 3a. Nigeria: Federal Government Operations, 2009–15

(Billions of naira)

	2009 Act.	2010 Act.	2011 Est.	2012 Proj.	2013 Proj.	2014 Proj.	2015 Proj.
Total revenue	1,701	2,229	2,712	3,183	3,569	3,885	4,090
Oil revenue (at budget reference oil price)	1,166	1,555	1,924	2,180	2,326	2,429	2,413
Non-oil revenue	535	675	788	1,003	1,243	1,456	1,677
Import and excise duties	134	139	153	178	198	220	244
Companies' income tax	264	306	367	453	553	662	775
Value-added tax	63	76	91	112	137	164	191
Federal government independent revenue	73	154	177	260	355	409	467
Total expenditure	2,768	3,980	4,145	4,522	4,842	5,038	5,199
Recurrent expenditure	2,205	3,080	3,342	3,460	3,697	3,806	3,885
Personnel	1,148	1,564	1,661	1,835	1,926	2,023	2,033
Overheads	564	916	727	556	647	647	647
Interest	284	352	500	623	729	794	853
Transfers[1]	209	248	455	446	394	342	352
Capital expenditure	562	900	803	1,062	1,145	1,232	1,315
Overall balance	-1,067	-1,751	-1,434	-1,339	-1,273	-1,153	-1,109
Financing	1,371	1,521	1,434	1,339	1,273	1,153	1,109
External	66	46	72	-23	-24	-23	-16
Borrowing	100	75	76	0	0	0	0
Amortization	-34	-29	-5	-23	-24	-23	-16
Domestic	1,305	1,475	1,362	1,362	1,297	1,176	1,125
Domestic borrowing	908	1,324	1,092	1,092	1,130	1,008	957
SWF financing for FGN budget	…	…	…	0	0	0	0
Changes in deposits at central bank	360	34	250	250	150	150	150
Other financing[2]	37	117	20	20	17	18	19
Statistical discrepancy / financing gap	-305	230	0	0	0	0	0
Memorandum items:							
FGN Total Debt	3817	5245	6612	7770	9034	10025	11126
Domestic	3228	4552	5644	6736	7866	8874	9830
Foreign	589	693	968	1034	1168	1151	1295
Budget oil price[3]	45	60	75	70	70	70	70
WEO oil price	62	79	109	104	100	96	95
Overall balance (percent of GDP)	-4.2	-5.9	-4.0	-3.3	-2.5	-2.3	-2.0
Spending from ECA/SWF (all tiers of government)	436	981	716	1124	725	972	1176
Of which: Federal government spending	200	450	328	515	332	445	539

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

[1]Includes earmarked spending for National Judicial Council, Universal Basic Education, Niger Delta Development Corporation, and Multi-Year Tariff Order subsidy.

[2]Includes proceeds from privatization and sales of government properties.

[3]For 2012–15, the budget oil prices are assumed as envisioned in the authorities' MTEF (as of December, 2011).

Table 3b. Nigeria: Consolidated Government, 2009–15

	2009 Act.	2010 Act.	2011 Est.	2012 Proj.	2013 Proj.	2014 Proj.	2015 Proj.
Total revenue	4,471	6,883	10,226	11,087	11,826	12,322	12,746
Oil revenue	2,660	4,809	7,823	8,147	8,293	8,255	8,066
Of which: implicit fuel subsidy	203	381	766	0	0	0	0
Non-oil revenue	1,811	2,074	2,403	2,941	3,534	4,067	4,680
Import and excise duties	298	309	338	395	440	489	540
Companies' income tax	568	657	789	973	1,187	1,422	1,664
Value-added tax	468	563	675	833	1,016	1,218	1,425
Other (education tax and customs levies)	201	166	179	215	248	216	245
Federal government independent revenue	73	154	177	260	355	409	467
SLG independent revenue	204	225	245	265	288	312	339
Total expenditure	6,830	9,169	10,289	10,985	11,506	12,400	13,167
Federal government	2,768	3,980	4,145	4,522	4,842	5,038	5,199
Extrabudgetary funds[1]	481	431	540	671	741	742	799
State and local government	2,856	3,300	3,928	4,443	4,924	5,353	5,650
Spending from ECA	436	981	716	900	0	0	0
Of which: explicit fuel subsidy	196	416	716	900	0	0	0
Shared infrastructure and social spending	240	565	0	0	0	0	0
Spending from SWF	0	0	0	224	725	972	1,176
Of which: shared infrastructure and social spendin	0	0	0	224	725	972	1,176
Implicit fuel subsidy	203	381	766	0	0	0	0
Foreign-financed capital spending	85	95	196	225	276	296	343
Overall balance	-2,358	-2,286	-63	102	320	-78	-421
Non-oil primary balance	-4,730	-6,739	-7,382	-7,414	-7,236	-7,531	-7,626
Financing	2,136	2,077	506	-102	-320	78	421
External	55	131	266	-716	-890	-564	-303
Borrowing[2]	100	170	272	225	276	296	343
Amortization	-45	-39	-6	-30	-33	-30	-22
Foreign asset acquisition (SWF)	…	…	…	-911	-1,133	-830	-624
Domestic	2,081	1,946	240	614	570	642	724
Bank Financing[3]	921	1,029	-1,048	-961	-478	-831	-683
Non-bank financing	1,123	800	1,268	1,555	1,031	1,456	1,388
Other financing	37	117	20	20	17	18	19
Statistical discrepancy/Financing gap	223	202	-441	2	2	1	1
Memorandum items:							
Budget oil price (US$ a barrel)	45.0	60.0	75.0	70.0	70.0	70.0	70.0
Overall balance (% of GDP)	-9.4	-7.7	-0.2	0.3	0.7	-0.2	-0.7
Implicit fuel subsidy (billions of naira)	203	381	766	0	0	0	0
Public capital costs in oil and gas (billions of naira)	810	963	1,066	1,161	1,263	1,334	1,393
ECA balance (billions of USD)	7.1	2.7	3.7	0.0	0.0	0.0	0.0
SWF balance (billions of USD)	…	…	1.0	14.8	25.8	33.6	39.4
Of which: stabilization fund (billions of USD)	…	…	1.0	9.3	13.7	16.8	19.1

Sources: Nigerian authorities; and IMF staff 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 projects not included in the FGN budget, even though funds are on lent by FGN.

[3]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.

Table 3c: Nigeria. Government Operations. 2009–15
(in percent of GDP)

	2009 Act.	2010 Act.	2011 Est.	2012 Proj.	2013 Proj.	2014 Proj.	2015 Proj.
Consolidated Government							
Total revenue	17.8	23.3	28.2	27.3	25.8	24.2	22.6
Oil revenue	10.6	16.3	21.6	20.0	18.1	16.2	14.3
Non-oil revenue	7.2	7.0	6.6	7.2	7.7	8.0	8.3
Total expenditure	27.2	31.0	28.4	27.0	25.1	24.4	23.3
Federal government expenditure	11.0	13.5	11.4	11.1	10.6	9.9	9.2
Extrabudgetary funds (incl. from ECA\SWF)	3.7	4.8	3.5	4.4	3.2	3.4	3.5
State and local government	11.4	11.2	10.8	10.9	10.7	10.5	10.0
Foreign-financed capital spending	0.3	0.3	0.5	0.6	0.6	0.6	0.6
Other	0.8	1.3	2.1	0.0	0.0	0.0	0.0
Overall balance	-9.4	-7.7	-0.2	0.3	0.7	-0.2	-0.7
Financing	8.5	7.0	1.4	-0.3	-0.7	0.2	0.7
External	0.2	0.4	0.7	-1.8	-1.9	-1.1	-0.5
Borrowing	0.4	0.6	0.8	0.6	0.6	0.6	0.6
Amortization	-0.2	-0.1	0.0	-0.1	-0.1	-0.1	0.0
Domestic	8.3	6.6	0.7	1.5	1.2	1.3	1.3
Bank Financing	3.7	3.5	-2.9	-2.4	-1.0	-1.6	-1.2
Non-bank financing	4.5	2.7	3.5	3.8	2.2	2.9	2.5
Statistical discrepancy / Financing Gap	0.9	0.7	-1.2	0.0	0.0	0.0	0.0
Federal Government							
Total revenue	6.8	7.5	7.5	7.8	7.8	7.6	7.2
Oil revenue (at budget reference oil price)	4.6	5.3	5.3	5.4	5.1	4.8	4.3
Non-oil revenue	2.1	2.3	2.2	2.5	2.7	2.9	3.0
Total expenditure	11.0	13.5	11.4	11.1	10.6	9.9	9.2
Recurrent expenditure	8.8	10.4	9.2	8.5	8.1	7.5	6.9
Personnel	4.6	5.3	4.6	4.5	4.2	4.0	3.6
Overheads	2.2	3.1	2.0	1.4	1.4	1.3	1.1
Interest	1.1	1.2	1.4	1.5	1.6	1.6	1.5
Transfers	0.8	0.8	1.3	1.1	0.9	0.7	0.6
Capital expenditure	2.2	3.0	2.2	2.6	2.5	2.4	2.3
Overall balance	-4.2	-5.9	-4.0	-3.3	-2.8	-2.3	-2.0
Financing	5.5	5.1	4.0	3.3	2.8	2.3	2.0
External	0.3	0.2	0.2	-0.1	-0.1	0.0	0.0
Domestic	5.2	5.0	3.8	3.3	2.8	2.3	2.0
Of which: borrowing	3.6	4.5	3.0	2.7	2.5	2.0	1.7
Statistical discrepancy / financing gap	-1.2	0.8	0.0	0.0	0.0	0.0	0.0
Memorandum items:							
Spending from ECA/SWF (all tiers of governmen	1.7	3.3	2.0	2.8	1.6	1.9	2.1
Of which: Federal government spending	0.8	1.5	0.9	1.3	0.7	0.9	1.0

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

Table 3d. Nigeria: Consolidated Government, 2009–15
(Percent of non-oil GDP, unless otherwise stated)

	2009 Act.	2010 Act.	2011 Est.	2012 Proj.	2013 Proj.	2014 Proj.	2015 Proj.
Consolidated government							
Total revenue	25.7	35.4	45.5	41.6	37.9	34.2	31.0
Oil and gas revenue	15.3	24.7	34.8	30.6	26.5	22.9	19.6
Of which: implicit subsidy	1.2	2.0	3.4	0.0	0.0	0.0	0.0
Non-oil revenue	10.4	10.7	10.7	11.0	11.3	11.3	11.4
Total consolidated expenditure	39.3	47.1	45.8	41.3	36.8	34.4	32.1
Federal government	15.9	20.5	18.5	17.0	15.5	14.0	12.7
Extrabudgetary	2.8	2.2	2.4	2.5	2.4	2.1	1.9
State and local government	16.4	17.0	17.5	16.7	15.8	14.9	13.8
Spending from ECA	2.5	5.0	3.2	3.4	0.0	0.0	0.0
Of which: explicit fuel subsidy	1.1	2.1	3.2	3.4	0.0	0.0	0.0
Spending from SWF	0.0	0.0	0.0	0.8	2.3	2.7	2.9
Implicit fuel subsidy	1.2	2.0	3.4	0.0	0.0	0.0	0.0
Foreign-financed capital spending	0.5	0.5	0.9	0.8	0.9	0.8	0.8
Overall balance	-13.6	-11.7	-0.3	0.4	1.0	-0.2	-1.0
Overall balance (percent of GDP)	-9.4	-7.7	-0.2	0.3	0.7	-0.2	-0.7
Non-oil primary balance[1]	-27.2	-34.6	-32.9	-27.9	-23.2	-20.9	-18.6
Federal government							
Total revenue	9.8	11.5	12.1	12.0	11.4	10.8	10.0
Oil and gas revenue	6.7	8.0	8.6	8.2	7.4	6.7	5.9
Non-oil revenue	3.1	3.5	3.5	3.8	4.0	4.0	4.1
Total expenditure	15.9	20.5	18.5	17.0	15.5	14.0	12.7
Recurrent expenditure	12.7	15.8	14.9	13.0	11.8	10.6	9.5
Personnel	6.6	8.0	7.4	6.9	6.2	5.6	4.9
Overheads	3.2	4.7	3.2	2.1	2.1	1.8	1.6
Interest	1.6	1.8	2.2	2.3	2.3	2.2	2.1
Transfers	1.2	1.3	2.0	1.7	1.3	0.9	0.9
Capital expenditure	3.2	4.6	3.6	4.0	3.7	3.4	3.2
Overall balance (percent of GDP)	-4.2	-5.9	-4.0	-3.3	-2.8	-2.3	-2.0
Non-oil primary balance	-6.1	-9.0	-6.4	-5.0	-4.1	-3.2	-2.7
Memorandum items:							
Fuel subsidy (% of non-oil GDP)	1.9	4.1	6.6	3.4	0.0	0.0	0.0

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

[1] Non-oil primary balance includes explicit and implicit fuel subsidy as part of non-oil primary expenditure.

3e. Nigeria: State and Local Governments, 2011–15
(in percent of GDP)

	2011	2012	2013	2014	2015
		Projection			
Revenue	9.9	11.3	11.1	10.8	10.3
Oil revenue	6.3	7.5	7.0	6.5	5.8
Oil revenue	4.0	4.9	4.7	4.4	4.0
Derivation grant (13 percent)	2.2	2.6	2.3	2.1	1.8
Non-oil revenue	3.6	3.8	4.0	4.3	4.4
CIT	1.0	1.1	1.2	1.3	1.3
Customs	0.4	0.4	0.4	0.4	0.4
VAT	1.5	1.7	1.8	2.0	2.1
Internal revenue	0.7	0.7	0.6	0.6	0.6
Expenditure[1]	10.8	10.9	10.7	10.5	10.0
Overall Balance[2]	(1.0)	0.4	0.3	0.3	0.2
Domestic financing	1.0	(0.4)	(0.3)	(0.3)	(0.2)

Sources: Nigerian authorities; and IMF staff estimates and projections.
[1]Expenditure is equal to the sum of revenue and financing (net claims on SLGs from monetary survey)
[2]By construct, overall balance matches the amount of financing.

3f. Nigeria: Extrabudgetary Funds (including ECA/SWF), 2011-–15
(in percent of GDP)

	2011	2012	2013	2014	2015
		Projection			
Revenue	10.1	8.6	7.3	6.1	5.3
Extrabudgetary funds[1]	1.5	1.6	1.6	1.5	1.4
Changes in ECA balances	6.5	…	…	…	…
Changes in SWF balances	…	6.9	5.7	4.6	3.9
Implicit fuel subsidy	2.1	0.0	0.0	0.0	0.0
Expenditure	5.6	4.4	3.2	3.4	3.5
Extrabudgetary funds[1]	1.5	1.6	1.6	1.5	1.4
Spending from ECA	2.0	2.2	0.0	0.0	0.0
Fuel subsidy and social spending	2.0	2.2	0.0	0.0	0.0
Spending from SWF	…	0.6	1.6	1.9	2.1
Implicit fuel subsidy	2.1	0.0	0.0	0.0	0.0
Overall balance (net change in ECA/SWF)	4.5	4.2	4.1	2.7	1.8

Sources: Nigerian authorities; and IMF staff estimates and projections.
[1]Includes federal government extrabudgetary funds (ecology, stabilization, development of natural resources, FCT), collection costs for FIRS and NCS, custom levies, and education tax.

Table 4a. Nigeria: Central Bank of Nigeria (CBN) Analytical Balance Sheet, 2008–15

(Billions of Naira)

	2008	2009	2010			2011			2011	2012	2013	2014	2015
	Dec.	Dec.	Jun.	Sep.	Dec.	Mar.	Jun.	Sep.	Dec.				
	Estimate	Estimate	Estimate			Estimate			Projections				
Net foreign assets[1]	7,341	6,547	5,401	5,226	5,372	5,723	4,923	5,268	5,903	7,279	8,640	10,373	12,063
Foreign assets	7,341	6,547	5,406	5,236	5,411	5,905	5,004	5,271	5,907	7,283	8,644	10,377	12,068
Foreign liabilities	0	0	-5	-9	-39	-182	-82	-3	-4	-4	-4	-5	-5
Net domestic assets	-5,792	-4,894	-3,866	-3,882	-3,527	-4,017	-2,858	-3,359	-3,970	-4,987	-5,943	-7,200	-8,370
Net domestic credit	-4,364	-3,199	-2,567	-2,379	-2,205	-2,426	-1,979	-1,293	-2,451	-3,149	-3,757	-4,807	-5,729
Net claims on consolidated government	-4,532	-3,732	-3,273	-3,037	-2,944	-3,530	-2,967	-3,436	-4,299	-5,341	-6,329	-7,771	-9,110
Net claims on federal government [2]	-4,532	-3,732	-3,273	-3,037	-2,944	-3,530	-2,967	-3,436	-4,299	-5,341	-6,329	-7,771	-9,110
Claims	637	256	117	407	605	519	560	646	-341	-846	-1,229	-2,268	-3,341
Deposits	-5,169	-3,987	-3,390	-3,444	-3,549	-4,048	-3,527	-4,082	-3,959	-4,495	-5,100	-5,504	-5,769
Of which: ECA/SWF	-2,670	-1,153	-639	-386	-406	-840	-900	-603	-730	-1,491	-2,247	-2,800	-3,216
FGN	-1,224	-528	-293	-177	-186	-385	-413	-277	-335	-684	-1,030	-1,284	-1,474
Statutory funds	67	11	-4	12	-17	8	7	12	-4	27	57	79	96
SLGs [2]	-1,446	-624	-346	-209	-220	-455	-487	-327	-399	-781	-1,160	-1,437	-1,646
Net claims on state and local governments 2/	0	0	0	0	0	0	0	0	0	0	0	0	0
Claims on deposit money banks	222	685	752	748	765	1,014	748	1,813	1,879	2,228	2,614	3,013	3,438
Other net claims	-54	-152	-47	-90	-27	90	240	330	-31	-36	-43	-49	-56
Other items net	-1,429	-1,695	-1,298	-1,503	-1,321	-1,591	-879	-2,066	-3,368	-4,030	-4,758	-5,357	-6,023
Reserve money	1,549	1,654	1,535	1,344	1,846	1,706	2,065	1,909	1,934	2,292	2,697	3,172	3,693
Currency in circulation	1,155	1,182	1,064	1,125	1,378	1,416	1,354	1,343	1,360	1,613	1,897	2,232	2,598
Banks reserves with the CBN	394	472	471	219	468	290	711	566	573	680	799	940	1,095
Memorandum items:													
Reserve money y/y growth rate	29.6	6.8	18.9	6.5	11.6	-5.8	34.5	42.0	4.8	18.6	17.6	17.6	16.4
Money multiplier	6.26	6.95	7.51	8.83	6.58	7.19	6.19	6.91	6.54	6.54	6.54	6.54	6.54

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

[1]Long-term liabilities are included in other items net.

[2]The SLGs share of the ECA is included under the Net Claims on the FGN, as the FGN is the signatory of the ECA in the CBN. It is assumed that the domestic portion of sovereign wealth fund will have similar accounting treatment.

Table 4b. Nigeria: Monetary Survey, 2008–15

	2008	2009	2010			2011			2011	2012	2013	2014	2015
	Dec.	Dec.	Jun	Sep.	Dec.	Mar.	Jun.	Sep.	Dec.				
	Estimate	Estimate	Estimate			Estimate			Projections				
	(Billions of naira)												
Net foreign assets	8,621	7,619	6,485	6,454	6,507	6,988	6,454	6,670	7,314	8,831	10,347	12,250	14,128
Central Bank of Nigeria (net)	7,341	6,547	5,401	5,226	5,372	5,723	4,923	5,268	5,903	7,279	8,640	10,373	12,063
Commercial and merchant banks (net)	1,280	1,071	1,084	1,228	1,134	1,265	1,531	1,402	1,411	1,552	1,707	1,878	2,065
Net domestic assets	546	3,149	4,361	4,771	5,019	4,666	5,724	5,951	5,339	6,170	7,299	8,508	10,039
Net domestic credit	4,952	7,904	8,613	9,310	8,648	8,079	8,672	9,791	9,276	10,503	12,054	13,511	15,334
Net claims on consolidated government	-2,958	-1,992	-1,171	-685	-812	-991	-881	-935	-1,801	-2,640	-2,980	-3,648	-4,153
Net claims on FGN [1]	-3,108	-2,302	-1,490	-1,026	-1,182	-1,368	-1,302	-1,335	-2,037	-2,998	-3,476	-4,308	-4,991
Of which: ECA/SWF	-2,670	-1,153	-639	-386	-406	-840	-900	-603	-730	-1,491	-2,247	-2,800	-3,216
Claims on SLG	150	310	319	341	370	377	420	400	236	359	497	659	837
Claims on private sector	7,657	9,359	9,423	9,466	8,869	8,673	8,852	9,876	10,227	12,292	14,184	16,309	18,638
Other Claims	253	537	361	529	592	397	701	850	850	850	850	850	850
Other items	-4,406	-4,755	-4,252	-4,539	-3,630	-3,413	-2,948	-3,839	-3,937	-4,332	-4,755	-5,002	-5,295
Broad money	9,167	10,767	10,845	11,225	11,526	11,654	12,177	12,621	12,653	15,001	17,646	20,758	24,167
Currency outside banks	893	927	795	881	1,082	1,113	1,016	1,012	1,188	1,409	1,657	1,949	2,269
Demand deposits	3,965	4,077	4,123	4,375	4,489	4,312	4,626	4,993	4,928	5,843	6,873	8,085	9,413
Time and savings deposits	4,310	5,764	5,928	5,969	5,954	6,229	6,535	6,616	6,537	7,750	9,116	10,724	12,485
Memorandum items:													
Broad money (y-o-y,%)	57.8	17.5	19.5	18.7	7.0	5.8	12.3	12.4	9.8	18.6	17.6	17.6	16.4
Credit to the private sector (y-o-y,%)	61.5	22.2	18.1	4.3	-5.2	-6.7	-6.1	4.3	15.3	20.2	15.4	15.0	14.3
Velocity (non-oil GDP/broad money)	1.66	1.61	…	…	1.69	…	…	…	1.77	1.77	1.77	1.73	1.70
Velocity (GDP/broad money)	2.68	2.33	…	…	2.57	…	…	…	2.87	2.71	2.60	2.45	2.33
Gross international reserves (billions of US$)	53.0	42.4	37.4	34.6	32.3	33.2	31.9	31.7	34.1	40.4	46.1	54.4	62.1
Non-oil GDP (in billions of naira)	15,199	17,376	…	…	19,458	…	…	…	22,454	26,622	31,238	35,998	41,074

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

[1] The SLGs share of the ECA is included under the Net Claims on the FGN, as the FGN is the signatory of the ECA in the CBN. It is assumed that the domestic portion of sovereign wealth fund will have similar accounting treatment.

Table 5. Nigeria: Financial Soundness Indicators, 2007–11

(In percent, unless otherwise indicated)

	2007	2008	2009	2010	2011 June
Capital Adequacy					
Regulatory capital to risk weighted assets	23.4	22.6	20.9	7.0	9.9
Regulatory Tier I capital to risk-weighted assets	22.0	22.3	18.8	4.1	6.3
Capital (net worth) to assets [1]	17.0	18.5	15.2	3.2	3.9
Asset quality and composition					
Nonperforming loans to total gross loans	9.5	7.2	36.1	20.1	11.6
Nonperforming loans net of loan-loss provision to capital	9.9	8.8	41.5	64.2	34.7
Earnings and profitability					
Return on assets	0.5	0.4	-1.5	2.1	0.2
Return on equity	3.0	1.9	-9.6	65.4	4.5
Interest margin to gross income	62.1	57.4	115.8	46.8	53.8
Noninterest expenses to gross income	60.4	63.1	408.4	33.8	71.3
Personnel expenses to noninterest expenses	52.1	45.1	74.0	39.0	53.8
Liquidity					
Liquid asset to total assets	24.2	18.8	17.3	18.0	23.3
Liquid assets to short term liabilities	30.2	24.2	22.1	19.8	25.7
Customer deposit to total (non-interbank) loans	131.4	135.1	122.2	154.5	173.3

Source: Nigerian authorities

[1] The average ratio for the 14 non-intervened banks is considerably above the minimum regulatory threshold of 10 percent.

Table 6. Nigeria: Millennium Development Goals, 1990–2009[1]

	1990	1995	2000	2005	2009
Goal 1: Eradicate extreme poverty and hunger					
Employment to population ratio, 15+, total (%)	*53*	52	52	52	*52*
Employment to population ratio, ages 15-24, total (%)	*29*	29	28	26	*24*
Income share held by lowest 20%	..	*5*	..	*5*	..
Poverty headcount ratio at $1.25 a day (PPP) (% of population)	..	*69*	..	*64*	..
Goal 2: Achieve universal primary education					
Literacy rate, youth female (% of females ages 15-24)	..	..	..	*61*	*65*
Literacy rate, youth male (% of males ages 15-24)	..	..	..	*78*	*78*
Persistence to last grade of primary, total (% of cohort)	..	..	*73*	*75*	..
Total enrollment, primary (% net)	..	..	64	67	*63*
Goal 3: Promote gender equality and empower women					
Proportion of seats held by women in national parliaments (%)	..	..	*3*	6	7
Ratio of female to male primary enrollment (%)	77	82	80	84	*88*
Ratio of female to male secondary enrollment (%)	76	..	82	81	*77*
Ratio of female to male tertiary enrollment (%)	..	..	*77*	70	..
Share of women employed in the nonagricultural sector (% of total nonagricultural employment)	..	..	18.6	21.1	..
Goal 4: Reduce child mortality					
Immunization, measles (% of children ages 12-23 months)	54	44	33	41	41
Mortality rate, infant (per 1,000 live births)	126	125	114	97	86
Mortality rate, under-5 (per 1,000)	212	211	190	159	138
Goal 5: Improve maternal health					
Adolescent fertility rate (births per 1,000 women ages 15-19)	..	..	135	129	118
Births attended by skilled health staff (% of total)	33	..	*42*	*35*	*39*
Contraceptive prevalence (% of women ages 15-49)	6	..	*15*	*13*	*15*
Maternal mortality ratio (modeled estimate, per 100,000 live births)	1,100	1,100	980	900	*840*
Pregnant women receiving prenatal care (%)	57	..	*64*	*58*	*58*
Unmet need for contraception (% of married women ages 15-49)	21	..	*17*	*17*	..
Goal 6: Combat HIV/AIDS, malaria, and other diseases					
Children with fever receiving antimalarial drugs (% of children under age 5 with fever)	..	..	..	*34*	*33*
Condom use, population ages 15-24, female (% of females ages 15-24)	..	..	*7*	*8*	*36*
Condom use, population ages 15-24, male (% of males ages 15-24)	..	..	*32*	*38*	*50*
Incidence of tuberculosis (per 100,000 people)	130	190	270	330	295
Prevalence of HIV, total (% of population ages 15-49)	0.7	2.2	3.1	3.2	3.6
Tuberculosis case detection rate (all forms)	16	6	8	14	19
Goal 7: Ensure environmental sustainability					
CO2 emissions (metric tons per capita)	0	0	1	1	*1*
Forest area (% of land area)	18.9	16.7	14.4	12.2	*11.3*
Improved sanitation facilities (% of population with access)	37	36	34	32	*32*
Improved water source (% of population with access)	47	50	53	57	*58*
Goal 8: Develop a global partnership for development					
Debt service (PPG and IMF only, % of exports, excluding workers' remittances)	22	14	8	15	1
Internet users (per 100 people)	0.0	*0.0*	0.1	3.5	28.4
Mobile cellular subscriptions (per 100 people)	0	0	0	13	47
Other					
Fertility rate, total (births per woman)	7	6	6	6	6
GNI per capita, Atlas method (current US$)	260	210	270	620	1,190
Life expectancy at birth, total (years)	45	45	46	47	48
Literacy rate, adult total (% of people ages 15 and above)	*55*	..	..	*55*	61

Source: World Development Indicators

[1]Figures in italics refer to periods other than those specified.

Appendix I—Transformation Agenda

President Goodluck Jonathan and his economic team have announced a 'Transformation Agenda' that sets out the economic goals and policies of his administration for 2012–15. It is compatible with Nigeria's development strategy (Vision 20:2020), which is an elaborate economic and social strategy aimed at making Nigeria one of the 20 leading economies by 2020. The key features of the Agenda are highlighted below.

1. Macroeconomic Policy and Objectives

- Inclusive growth. Maintain real GDP growth in the 7–8 percent range, but with substantially better results in job growth (unemployment rate is 24 percent), than has been achieved thus far.

- Fiscal consolidation. Reduce the deficit of the federal government from 3½ percent in 2010 to 1½ percent by 2015 and to maintain domestic debt at 16½ percent of GDP.

- Other key fiscal policy objectives. (i) Remove the fuel subsidy, which cost over 4 percent of GDP in 2011; (ii) Increase capital spending from 25 percent to 32 percent of total spending by 2015, including by containing the growth of the public sector wage bill; (iii) Boost non-oil revenues, including through administrative reforms, and requiring autonomous government entities to transfer 25 percent of their gross revenues to the federal government; (iv) Establish a Sovereign Wealth Fund as a vehicle to promote acyclical spending, intergenerational saving, and funding of infrastructure projects.

2. Structural reforms

- Improving the business climate. Boost power infrastructure, (via privatization, public investment, reform of the tariff regime, and removal of subsidies); invest in transportation networks (including with Public-Private Partnerships); and address other areas flagged by the World Bank Group's report on "Doing Business Indicators" so as to raise Nigeria's ranking by 10 places.

- Promoting investment in sectors that foster economic diversification and job creation. Highlighted sectors include power; transportation; agriculture (focusing on R&D, marketing reform, and promoting value chains); and security (labor-intensive, although the primary objective is to provide a safer environment for both business and citizens).

- Improving human development and accelerating progress towards the Millennium Development Goals. On education, the aim is to build a more competitive labor force by increasing secondary school enrollment and completion rates by 10 percent (with a focus on females). Also, there are initiatives to improve healthcare and the targeting and delivery of social safety net programs (e.g., school feeding, youth employment, maternal and child services).

- Tackling Corruption. Early actions in this area would include strengthening the Extractive Industries Transparency Initiative; government procurement reform; publication of detailed fiscal data for all levels of government; and a "name and shame" program aimed at large tax delinquents.

Appendix II—The Fuel Subsidy[1]

Developments in Fuel Subsidy

1. **In Nigeria, fuel subsidy costs have been rising.** While diesel was deregulated some years ago, two key fuel products (gasoline and kerosene) continued to be subsidized by the government. Despite substantial increases in the international market prices of these products, their regulated prices in Nigeria remained almost constant for the last 6 years. Consequently, the cost of the subsidy has almost quadrupled over that period (text table). For 2011, the total subsidy cost is estimated at about US$9 billion (4.1 percent of GDP)—larger than the capital budget—with gasoline accounting for over 75 percent of the total.

Text Table. Nigeria. Developments in Fuel Prices and Fuel Subsidies

	2006	2007	2008	2009	2010	2011 Est.	2012 Proj.
Fuel subsidy (billion Naira)	251	290	637	399	804	1482	900
Fuel subsidy (in percent of GDP)	1.3	1.4	2.6	1.6	2.7	4.1	2.2
Fuel prices (Naira per litre)							
Diesel (deregulated)	81	90	118	94	112	152	144
Kerosene (subsidized)	50	50	50	50	50	50	50
Gasoline (subsidized)	65	70	70	65	65	65	97

Source: Nigerian authorities and IMF Staff calculations and projections.

2. **Not only is the gasoline subsidy costly, but it is poorly targeted and has introduced major distortions.** The poor derive relatively little direct benefit from Nigeria's gasoline subsidy, except through public transportation. The subsidy has discouraged private investment in domestic refining capacity, resulting in a drain on foreign reserves through the importation of petroleum products. Given rampant rent-seeking behavior and smuggling, a significant portion of Nigeria's fuel subsidy benefits accrue to people in neighboring countries.

3. **In this context, on January 1, 2012, the government eliminated the subsidy on gasoline.** The subsidy on kerosene was not adjusted. Following the move, the price of a liter of gasoline has more than doubled, from N65 (US$0.42) to N141 (US$0.91). Some of the savings from gasoline subsidy removal was expected to be used for targeted social safety net programs and key infrastructure projects (see details on SURE below). In addition, the government appointed an independent board of prominent persons and government officials to oversee the use of the resources freed up by the removal of the subsidy.

4. **However, the removal of the fuel subsidy set off widespread criticism and protests across the country, led mainly by labor unions.** A widely supported nationwide

[1] Prepared by Mumtaz Hussain.

strike started on Monday January 9, with protesters demanding the full reinstatement of the gasoline subsidy. One week later, the government agreed to scale back the price increase and reinstate a portion of subsidy. The government's decision prevented a disruption of oil production, as oil workers had planned to join the national strike.

5. **The authorities have publicly announced that they remain committed to a full removal of the subsidy but have not specified any timeline.** In the meantime, they have established a formal process to continue consultations with stakeholders (including labor unions) and have begun to address issues raised by them. In this context, the authorities are fast-tracking the rehabilitation of some refineries and are initiating an audit of the state-owned petroleum company. They also announced plans to launch an investigation into possible irregular practices in the petroleum importing sector; and prioritize passage of the Petroleum Industry Bill.

6. **The remaining subsidy will have significant fiscal costs in 2012.** The new gasoline price is fixed at N97 (US$0.60) per liter, which is 50 percent higher than the old regulated price of N65 (US$0.42) but well below the deregulated price of N140-N145. According to staff's preliminary estimate, the reduced subsidy on gasoline and the continued subsidy on kerosene will cost close to US$6 billion (2.2 percent of GDP) in 2012. The estimate is based on projected slight decline in oil prices in 2012 and assumes that increased efforts to tackle corruption associated with the importation of petroleum products will generate savings, as will the impact of the higher regulated price on gasoline consumption (assumed to drop by 10 percent).

The Subsidy Reinvestment and Empowerment (SURE) Program

7. **The government prepared a detailed program—SURE—to earmark and use savings from the subsidy removal for targeted social safety net programs and infrastructure projects.** In addition, to address government's credibility gap, a board made up of government officials and representatives from a wide cross-section of civil society will oversee the calculation of the subsidy saving amounts, monitor the allocation of those funds, and evaluate the execution of the funded projects. The SURE program has two objectives:

- Mitigate the immediate impact of the removal of the subsidy on the poor, and lay foundation for successful development of better-targeted national safety net program.
- Accelerate economic transformation through investments in critical infrastructure.

8. **The SURE program includes a variety of social safety net programs to mitigate the impact of removal of the subsidy on the poor segment of population.** These include:

- *Urban Mass Transit* – Increase mass transit availability by facilitating the procurement of diesel-run vehicles (subsidized loans, reduced import tariffs, etc.) to established operators. In the first step of this program, the government is expected to import and distribute 1600 buses within months.

- *Maternal and child health services* - Expand conditional cash transfer program for pregnant women in rural areas; and increase basic equipment, supplies, and trained midwives at clinics.

- *Public works* – Temporary employment to youth and women from the poorest populations in environmental projects and rehabilitation and maintenance of education and health facilities.

- *Vocational training* – Establishment of vocational training centers across the country to help tackle problem of youth unemployment.

9. The SURE program has already identified some key infrastructure projects that could be financed by the savings from removal of subsidy.

- *Roads* – Completion of six specific core inter-urban highway and bridge projects that will significantly improve transportation of people and goods across the country.

- *Railway* – Completion of six specific railway rehabilitation and restoration projects.

- *Water and Irrigation* – Irrigation projects tied to increase local production of rice and other food crops. Water supply projects aimed at increasing national access from 58 to 75 percent.

- *Electricity generation* – Counterpart funding for the construction of the large Mambilla hydroelectric plant and other smaller projects.

- *Petroleum* – Counterpart funding to build three new refineries (400 thousand barrels per day) allowing Nigeria to become net exporter of gasoline; and rehabilitate 2,500 km of pipelines.

Appendix III—Staff Analysis of Reserve Adequacy[1]

1. A new methodology for reserve adequacy assessment for low-income countries was applied to Nigeria.[2] Although the results should be interpreted with caution given the uncertainty in macroeconomic outlook and fiscal policy, they suggest that the import coverage of Nigeria's reserves projected for 2012–15 in the Staff Report would be close to the estimated optimal level, as long as the authorities implement the planned fiscal consolidation.

2. The method takes account of both costs and benefits of holding reserves. In this framework, the optimal level of reserves is determined by balancing the crisis prevention and mitigation benefits of reserves against the net financial cost of reserves, defined as foregone investment opportunities measured by the marginal product of capital. The optimal level of reserves estimated under this method is interpreted as the optimal level in the face of large external shocks, given the country's fundamentals (fiscal balance, institutions, and exchange rate regime).

3. To apply the model to Nigeria, shock variables (i.e., proxy for adverse scenario: terms of trade, external demand, FDI to GDP ratio), except for the foreign aid to GDP ratio, were set at the bottom 10 percentile of the Nigeria-specific distribution over the past ten years (2001-2010), in order to simulate "worst case" conditions. Given Nigeria's low reliance on foreign aid, the foreign aid shocks were assumed to be zero. Fundamentals are set under the baseline as follows: CPIA was set at their 2009 level (latest available data); fiscal balance was set at the 2007–10 average; the exchange rate regime was classified as "not flexible" given its heavily managed nature. The values used for the baseline analysis are summarized in the text table below.

4. Under these baseline assumptions, the optimal level of reserves varies from 3.7 months to 7.4 months of next year's imports of goods and services, depending on the unit cost of holding reserves (see the text table below).

Baseline Assumptions	
External shock variables	
External demand growth, percent 1/	3.9
Terms of trade growth 1/	-8.9
Change in FDI to GDP 1/	-4.5
Change in aid to GDP	0.0
Fundamental variables	
Government balance, percent of GDP 2/	-2.3
CPIA 3/	3.5
Flexible ER regime dummy	No

1/ Bottom 10th percentile of the distribution during 2001-10
2/ Average during 2007-10.
3/ As of 2009. Estimated by the World Bank.

5. Two alternative scenarios were run: (i) a strong fiscal consolidation scenario, where the fiscal balance is set at the 2011-15 average projected in this Staff Report; and (ii) a weaker fiscal scenario, where the fiscal deficit is more than twice as high as in the baseline. Alternative scenario (i) produces an optimal level of reserves that is lower than in the baseline; while the alternative scenario (ii) leads to the optimal level that is higher than in the baseline.

[1] Prepared by Tetsuya Konuki.

[2] See "Assessing Reserve Adequacy" (SM/11/31) and "Optimal Precautionary Reserves for Low-Income Countries: A Cost-Benefit Analysis" (WP/11/249).

Unit cost of holding reserves, percent	3.0	4.0	5.0	6.0
Optimal Level of Reserves				
(in months of next year's imports of goods and services)				
Baseline	7.4	5.8	4.6	3.7
Fiscal Consolidation as Planned in MEFF 1/	6.7	5.1	4.0	3.2
Wider fiscal deficit (5 percent of GDP)	8.1	6.4	5.1	4.1

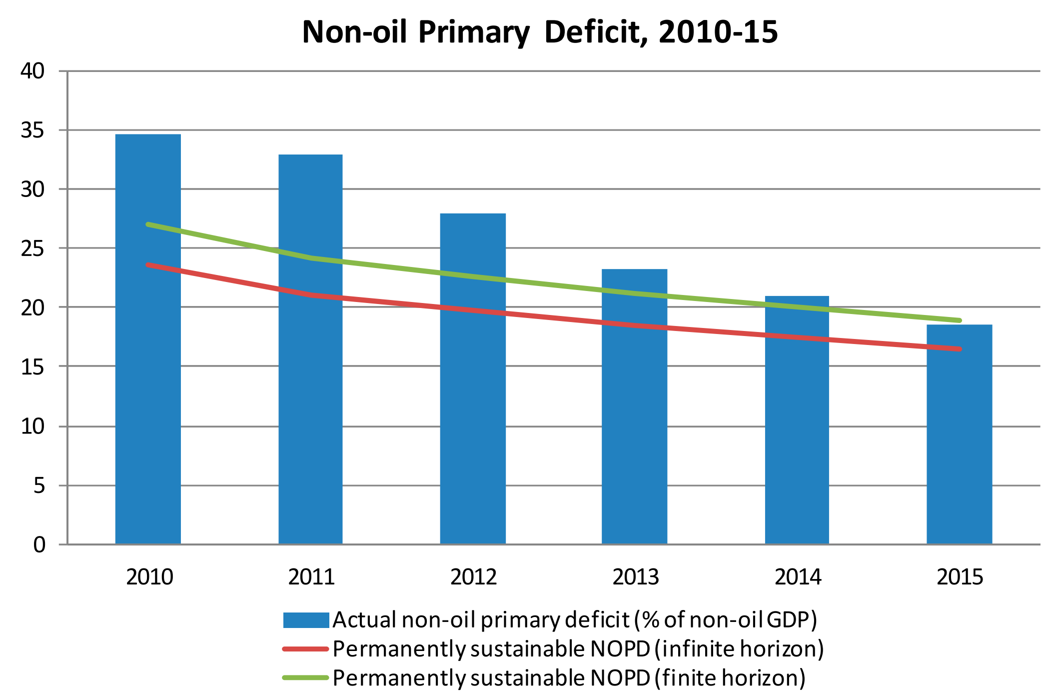
1/ Fiscal deficit would be at the average during 2011-15 projected in the Staff Report.

6. **In light of the large infrastructure investment needs in Nigeria, the opportunity cost of reserve holding could be relatively high, say 4 to 5 percent.** This suggests that, as long as the fiscal consolidation takes place as planned, the projected level of reserves in the Staff Report (between 4¾ and 6½ months of prospective imports) would be appropriate.[3] However, in light of heightened uncertainty about macroeconomic outlook and fiscal policy, this result should be interpreted with caution.

[3]This estimated level of optimal reserve coverage is close to the level suggested for low-income, commodity-exporting countries with fixed exchange rate regime in general in the Board Paper SM/11/31.

Appendix IV—Permanent Income Hypothesis the Permanently Sustainable Non-oil Primary Deficit[1]

A popular approach to assessing long-term fiscal sustainability in countries with finite oil reserves is based on the permanent income hypothesis (PIH). Under this 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 (i.e., net present value of oil revenue). This in turn can be translated into a sustainable path for the non-oil primary deficit (PSNOPD), providing an upper bound for the permissible government deficit over the long term that can be financed out from the use of oil revenue. The PSNOPD can be used as one benchmark to assess the sustainability of actual policies and/or to consider alternative policy scenarios that are consistent with long-term fiscal sustainability.



Note: See 2010 Nigeria Staff Report, Appendix 3 for details on methodology

[1] 1 Prepared by Jaejoon Woo

In the PIH model, the government chooses an expenditure policy that maximizes a social welfare function subject to an intertemporal government budget constraint. In its simplest form, the solution yields a constant amount of government spending, G, which is equal to the return on the net present discounted value of all future oil and gas revenue (plus non-oil revenue)?

In the case of a simple infinite horizon model, where the real value of oil wealth is maintained forever, the PSNOPD is then given by

$$\overline{G} - T = \frac{r}{1+r}\sum_{s=0}^{N}\left(\frac{1}{1+r}\right)^{s} Z_s - rB_{t-1}$$

where B_{t+T} is government debt at the end of period *t*; *r* is the long-run interest rate; G_t the level of primary government expenditure, T non-oil revenue (assumed to be constant); Z_t oil revenue; and N is the last year oil dries up. Similarly, in a finite horizon model, where the oil wealth is assumed to be consumed over time, the PSNOPD is given by

$$\overline{G} - T = \frac{r}{1+r}\left(1 - \frac{1}{(1+r)^{T+1}}\right)^{-1} \left\{\sum_{s=0}^{N}\left(\frac{1}{1+r}\right)^{s} Z_s - (1+r)B_{t-1} + \frac{B_{t+T}}{(1+r)^{T}}\right\}$$

where B_{t+T} is government debt at the end of time T. For simplicity, we assume that $B_{t+T}$is equal to $(1+r)^{T+1}B_{t-1}$ in the calculation of PSNOPD in the finite horizon case shown in the figure. Here, the oil wealth is assumed to be consumed after 75 years, which is also equal to N. See Appendix 3 of the 2010 Nigeria Staff report for more details on the methodology.

Caution is needed in interpreting the above results. First, the benchmark presented here is based on 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 remaining constant in real terms. Second, all the government spending is treated as consumption, although spending oil wealth on infrastructure and human capital could lead to higher non-oil GDP growth and a possibly larger sustainable NOPD. Third, the estimated PSNOPD is sensitive to underlying assumptions and parameters. Since the PIH approach is based on smoothing consumption spending and not all spending (which would include investment spending), the PIH-based benchmark for the NOPD may be too stringent in certain cases.

Appendix V—Staff Analysis of the Real Exchange Rate[1]

Introduction

1. **This assessment uses the CGER methodologies to determine whether the level of Nigerian real exchange rate is in line with fundamentals, taking into account some of the key characteristics of the Nigerian economy.** The three methodologies provide complementary perspectives on the exchange rate assessment for Nigeria, but the results must be treated with caution. Differences arise due to the difficulty of properly modeling the underlying macroeconomic links and the inherent difficulty of incorporating critical country-specific information into cross-country approaches. These differences are most prominent for low-income countries and for oil exporters, which complicates the assessment for Nigeria. Defining a current account norm is complex also because of the relatively poor BOP data quality. The current assessment is based on data as of December 2011.

2. **This assessment suggests that there is no fundamental misalignment of the exchange rate** (see Text Table below). One method—relating the value of the naira to its fundamental determinants— suggests that the naira is in line with equilibrium. Two other methods give mixed results: the macroeconomic balance approach suggests an undervaluation of 10¼ percent, reflecting projected current account balance that is stronger than the norm; while the external sustainability approach, comparing the projected current account surplus with the level needed to stabilize net foreign assets, suggests that the naira is overvalued by 8½ percent.

Nigeria: Assessment of Real Exchange Rate

	Equilibrium RER approach	Macroeconomic Balance Approach	External Sustainability Approach
		(In percent of GDP)	
Current account norm	...	-2.1	2.4
Underlying current account balance 1/	...	0.4	0.4
Current account gap	...	-2.5	2.0
Estimated elasticity of current account balance in Nigeria	...	-0.2	-0.2
		(In percent)	
Real exchange rate gap 2/	0.7	-10.3	8.5

1/ Current account balance projected for 2016 (output gap is assumed to close by 2016).
2/ Positive numbers indicates overvaluation.

[1] Prepared by Tetsuya Konuki

The Equilibrium REER Approach

3. Equilibrium real exchange rate (RER) approach resulted in a marginal overvaluation (0.7 percent) in 2011. The equilibrium RER regression results by panel DOLS estimates for oil exporting countries presented by Bems and de Carvalho Filho (2009, IMF WP/09/281) was applied to Nigeria.[2] In calculating the determinants of the equilibrium REER level (commodity terms of trade, government consumption to GDP, net foreign assets to GDP, and relative productivity differentials), the 2011 estimates reported in this Staff Report were used for Nigeria while projections for 2011 from the September 2011 WEO were used for global variables and trading partners. As to the level of real effective exchange rate (REER) in 2011, the average level of REER during the first nine months of 2011 was used as a proxy.

The Macroeconomic Balance Approach

4. Macroeconomic balance approach suggests in some undervaluation in 2011. To estimate the current account norm for Nigeria, panel regression results for oil exporting countries presented by Bems and de Carvalho Filho (2009, IMF WP/09/281) was applied to Nigeria. In calculating determinants of current account norm (non-oil fiscal balance, oil balance, relative income, lagged current account, relative growth, dependency ratio, and population growth), projections for 2016 underlying this Staff Report were used for Nigeria while projections for 2016 from the September 2011 WEO were used for trading partners.[3] The estimated current account norm for Nigeria is -2.1 percent of GDP. Nigeria's projected current account balance is +0 .4 percent of GDP in 2016. Given the estimated elasticity of current account balance in Nigeria, the exchange rate is estimated to be undervalued by 10.3 percent. This result should be treated with caution, however, given uncertainties about the estimated current account norm.

The External Sustainability Approach

5. Based on the medium-term projections for real growth and inflation, an external current account surplus of 2.4 percent of GDP would stabilize net foreign assets at the end-2011 level over the medium term. This is somewhat higher than staff's projected medium-term current account surplus of 0.4 percent of GDP, which suggests that the currency is overvalued by 8.5 percent. However, determining the appropriate target level for net foreign assets in Nigeria is not straightforward. As an oil producer seeking to preserve oil wealth for future generation, Nigeria should be seeking to accumulate financial assets via a higher current account surplus. On the other hand, as a low-income country with substantial investment needs, there is also a case for using its oil savings for infrastructure investments.

[2] See "Exchange Rate Assessments: Methodologies for Oil Exporting Countries" (WP/09/281).

[3] As to the non-oil fiscal balance, date were available only for Nigeria and Russia. As to the trading partners' non-oil fiscal balance other than Russia, overall fiscal balance was used as a proxy.

Appendix VI—Recent Bank Regulatory and Supervision Reforms[1]

1. In response to the banking sector crisis in Nigeria the Central Bank of Nigeria (CBN) has undertaken a series of reform measures to ensure financial sector stability; enhance the quality of banks; foster a healthy financial sector evolution; and ensure that the financial system supports sustainable economic growth. This appendix discusses some of the key reforms.

2. Repeal of universal banking guidelines. As part of the regulatory reform, the CBN has repealed earlier universal banking guidelines, which authorized banks to engage in noncore banking financial activities and reintroduced a narrow banking model.[2] This action stems from the conclusion that the universal banking model had exposed banks to higher operating risks, increased their propensity to put depositors' funds into risky nonbanking business, and consequently heightened the risk of financial system. Under the new arrangement, Nigerian banks no longer are allowed to perform nonbanking activities and, to the extent that they are commercial or non-interest banks, have to opt for either a regional, national, or international license (each having its own minimum capital requirements). In essence, this is a return to a more restrictive set of conforming banking activities established in the Bank and Other Financial Institution Act (BOFIA); namely (i) commercial banking; (ii) merchant banking; and (iii) specialized banking. Banks are required to submit to the CBN a plan of divestiture of nonbanking assets. Once the plan is agreed by the CBN, banks have until May 14, 2012 to complete divestitures of nonbanking activities. The implementation of the new arrangement will reshape the structure of the financial sector, as various banking groups will have to modify their organizational structures and divest insurance and/or securities activities that they may currently perform. It is likely that some banks will opt for a holding company structure which will provide new supervisory challenges for the authorities.

3. Implementing a risk-based supervision (RBS) framework.[3] The key objective of the RBS framework is to provide an effective process to assess the safety and soundness of banks and other financial institutions. This is achieved by evaluating their risk profile, financial condition, risk management practices and compliance with applicable laws and regulations. The RBS framework enables a better evaluation of risks through the separate assessment of inherent risks and risk management processes. As a forward-looking dynamic process it places greater emphasis on the early identification of emerging risks and system-wide issues. RBS is

[1] Prepared by Myrvin Anthony.

[2] CBN regulation, "Regulation on the Scope of Banking Activities and Ancillary Matters No. 3," 2010, issued November 2010.

[3] See, "Supervisory Framework for Banks and Other Financial Institutions in Nigeria", CBN, July 2008 and "Supervisory Intervention Guidelines", CBN, February 2011.

applied on a consolidated basis and allows the supervisor to prioritize efforts and focus on significant risks by directing efforts to banks that that have higher risk profiles. Further, the implementation of the RBS framework supports the need to comply fully with the Basel Core Principles on Supervision and to prepare an enabling environment for the eventual implementation of the Basel II Capital Accord.

4. Strengthening cross-border supervision. The CBN has taken a series of steps to make more robust its cross-border supervision of Nigerian banks, including setting out a clear framework for banks engaged in cross-border activities, consistent with the BOFIA.[4] In addition, cross-border collaboration among regional supervisors the CBN is to be strengthened through establishment of memoranda of understanding with host regulatory/supervisory agencies as a prerequisite for the establishment of Nigerian bank operations within those jurisdictions. Enhanced information sharing and exchange of best practices through the West African College of Supervisors will also foster regional collaboration among regulatory/supervisory agencies.

5. Improving the CBN's financial stability oversight and coordination with other supervisory authorities. The key features of this pillar center on strengthening the Financial Stability Committee (FSC) within the CBN; establishment of a macroprudential framework; and making the Financial Services Regulation Coordinating Committee (FSRCC) a more effective tool for the coordination of regulatory and supervisory activities in the Nigerian financial sector.

6. Tackling money laundering and terrorism financing. Although not directly related to the banking crisis, the authorities have taken various reforms to ensure compliance with Anti-Money Laundering/Combating of Financing of Terrorism (AML/CFT) legislation enacted in 2009. The reforms include the development of an AML/CFT RBS framework to guide bank examiners in carrying out AML/CFT risk-based examinations of financial institutions. The AML/CFT framework is designed to be compatible with sound industry practices and to ensure consistency in the application of the AML/CFT requirements. The authorities believe that these reforms and a clear demonstration of AML/CFT effective compliance would allow Nigeria to be removed from Financial Action Task Force's (FATF) shame list when it is next assessed in 2012.

7. Successful implementation of these reforms is critical for a robust and stable financial sector in Nigeria. Strengthening of financial sector policies and supervisory capacity will also benefit the wider African region, given Nigeria's leadership as a major economy in the African region and the significant outreach of its banks in neighboring countries.

[4] See "Framework for Cross Border Supervision of Banks", CBN April 2011.

Appendix VII. Nigeria—Transition to GFSM 2001[1]

1. **The federal government fiscal operations in Table 3a of the staff report are broadly consistent with the national presentation of the budget.** The accounting of government operations in Nigeria is on a cash basis, covers only the federal government and is not yet compatible with the GFSM 2001 format. The Nigerian authorities are in the process of moving to GFSM, but its implementation been slow. Some initiatives towards the adoption of GFSM 2001 were taken. For example, a new chart of accounts was introduced at the federal government level that broadly complies with the GFS (with some exceptions). Yet, fiscal data at the federal government level are not yet publicly disseminated following the GFS structure.

2. **The sub-national governments have not introduced reporting based on international standards, and the existing information on the sub-national fiscal accounts is also limited**. This data constraint makes it impossible to create consolidated fiscal accounts from readily available data in the full GFSM 2001 format. Nonetheless, to promote international comparability of government operations, fiscal accounts for the consolidated government in a GFSM 2001 compatible format are presented in this appendix (Table VII.1).

[1] Prepared by Jaejoon Woo

Appendix Table VII.1. Nigeria: Consolidated Government, 2007–15 (GFSM2001 Format)

(Billions of Naira)

	2009	2010	2011	2012	2013	2014	2015
			Projections				
Revenue	4,471	6,883	10,226	11,087	11,826	12,322	12,746
Taxes	2,381	3,015	4,362	4,809	5,207	5,600	5,829
Taxes on income, profits, and capital gains	1,415	1,977	3,170	3,367	3,504	3,677	3,619
Payable by corporations and other enterprises[1]	1,415	1,977	3,170	3,367	3,504	3,677	3,619
Of which: Petroleum Profit Tax	847	1,320	2,381	2,394	2,317	2,254	1,955
Taxes on goods and services[2]	468	563	675	833	1,016	1,218	1,425
Taxes on international trade and transactions[3]	498	475	517	609	687	705	785
Import and excise duties	298	309	338	395	440	489	540
Education and customs levies	201	166	179	215	248	216	245
Other revenue	2,090	3,868	5,864	6,278	6,619	6,722	6,917
Property Income related to oil and gas[4]	484	625	872	912	909	911	925
Sales of goods and services	1,329	2,864	4,570	4,840	5,067	5,090	5,186
Crude oil sales[5]	1,192	2,818	4,414	4,663	4,736	4,694	4,723
Gas and other sales	137	46	156	177	331	396	463
Miscellaneous revenue	277	379	422	525	643	722	806
Federal government independent revenue	73	154	177	260	355	409	467
SLG Independent revenue	204	225	245	265	288	312	339
Total expenditure	6,830	9,169	10,289	10,985	11,506	12,400	13,167
Federal government	2,768	3,980	4,145	4,522	4,842	5,038	5,199
Extrabudgetary funds[6]	481	431	540	671	741	742	799
State and local government	2,856	3,300	3,928	4,443	4,924	5,353	5,650
Spending from ECA	436	981	716	900	0	0	0
Fuel subsidy and social spending	196	416	716	900	0	0	0
Shared infrastructure spending	240	565	0	0	0	0	0
Spending from NSIA				224	725	972	1,176
Of which: financing for FGN budget spending				0	0	0	0
Foreign-financed capital spending	85	95	196	225	276	296	343
Implicit fuel subsidy	203	381	766	0	0	0	0
Net Lending (+)/borrowing(-)	-2,358	-2,286	-63	102	320	-78	-421
Net acquisition of financial assets	-978	86	1,951	1,106	2,200	1,759	1,229
Domestic	-978	86	1,951	195	1,067	929	605
Banking	-978	86	1,951	195	1,067	929	605
Non-Banking							
Foreign	0	0	0	911	1,133	830	624
Net incurrence of liabilities	1,158	2,163	2,456	1,003	1,880	1,837	1,650
Domestic	1,103	2,032	2,190	809	1,637	1,571	1,329
Banking	-57	1,115	903	-766	588	97	-78
Non-Banking	1,160	917	1,288	1,575	1,048	1,474	1,407
Foreign	55	131	266	195	243	266	321
Net cash inflow from financing activities	2,136	2,077	506	-102	-320	78	421
Statistical discrepancy / Financing Gap	-223	-209	443	0	0	0	0
Memorandum items:							
Oil revenue	2,660	4,809	7,823	8,147	8,293	8,255	8,066
Non-oil revenue	1,811	2,074	2,403	2,941	3,534	4,067	4,680

Source: Nigerian authorities and IMF staff estimates and projections.

[1] Includes CIT (companies income taxes) and PPT (petroleum profit taxes)

[2] Include value-added taxes

[3] Includes custom and excise duties.

[4] Includes royalty on crude production and signature bonus.

[5] It is net of cashcalls, but includes implicit fuel subsidy.

[6] Includes statutory transfers to various federal commissions and bodies.

INTERNATIONAL MONETARY FUND

NIGERIA

February 9, 2012

STAFF REPORT FOR THE 2011 ARTICLE IV CONSULTATION—DEBT SUSTAINABILITY ANALYSIS[1]

Approved By
Saul Lizondo and David Marston (IMF) and Jeffrey D. Lewis and Marcelo Giugale (World Bank)

Prepared by IMF and World Bank staffs in collaboration with the Nigerian authorities.

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 main 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 February 2011. But the findings from the stress scenarios also show that, without significant compensating policy measures, a prolonged negative oil price shock or permanent real GDP growth shock could undermine the recent progress in achieving macroeconomic and debt sustainability. Nevertheless, given Nigeria's strong financial starting position, timely policy action should be able to avert future sustainability problems. The assumptions used for this DSA are broadly similar to those used in the previous DSA, although with a higher oil price projected throughout the baseline forecast period. The analysis is complicated by the still large errors and omissions in the balance of payments, and the DSA does not incorporate debt of the state and local governments due to data limitations.

[1] Debt data, sustainability issues, and the new debt limit policy were discussed with the authorities in the course of the 2011 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).

BACKGROUND

1. The previous DSA for Nigeria was undertaken as part of the 2010 Article IV consultation and published in February 2011.[2] 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 estimated at total US$6.3 billion, or 2.7 percent of GDP, at end-2011.[3] Approximately $4.8 billion of that total external debt stock is multilateral debt, of which about 85 percent is owed to IDA. The breakdown for external debt by main creditor is as follows:

Nigeria's External Debt Stock, in millions of US dollars, end-2011

Category	Balance Outstanding
Multilateral	4,760
World Bank Group	
IBRD	7
IDA	4,023
IFAD	71
African Development Bank Group	
ADB	103
ADF	428
EDF	112
IDB	8
Others	8
Bilateral	547
Commercail	1,020
Total	**6,327**

2. One important limitation of this DSA is that it only applies to debt contracted at the consolidated central government level. Data on state and local governments' borrowing are 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. Figures for Nigeria's debt stock do not include debts contracted by public enterprises.

[2] IMF (2011), Country Report for Nigeria 11/57.

[3] External debt stock increased by US$1.5 billion during the year of 2011 due to the Euro bond issuance (US$0.5 billion) and infrastructure loans (about US$1 billion).

MACROECONOMIC ASSUMPTIONS

3. The assumptions in the baseline scenario for 2011–31 underlying this DSA are as follows:

- Average GDP growth of 6½ percent over the period 2011–31 (somewhat below the average of 7 percent for 2008–10) reflecting buoyant annual growth of non-oil GDP of around 7.2 percent (on the basis of continued structural reform efforts) and modest growth of oil and gas GDP of 1.8 percent.

- A recovery in capital inflows, including in foreign direct investment to the oil sector, which would be highly sensitive to political developments and the outcome of the Petroleum Industry Bill. In line with WEO projections, the analysis assumes a Nigerian oil price of US$103.7 per barrel in 2012, moderating to US$88.9 per barrel by 2017, and then increasing ½–1 percent in nominal terms thereafter.[4]

- A consolidated government non-oil primary deficit (NOPD) would decline from 34½ percent of non-oil GDP in 2010 to around 18½ percent of non-oil GDP in 2015. It would continue to decline 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 the real value of 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 around 20 percent below the projected oil price.[5]

- After a strong export growth during 2010-11 driven by a recovery of oil prices, exports are projected to stagnate during 2012–16 and then grow by 5½ percent a year afterwards. Imports are projected to grow strongly during 2012–16, reflecting buoyant economic growth. The current account surplus would continue to decline to about ½ percent of GDP by 2016 because of stagnant oil price and strong imports, and then hover around zero thereafter.

4. At the time of the 2010 DSA, Nigeria's external public debt was projected to total $4.8 billion, or 2.2 percent of GDP, at end-2010, while domestic public debt was projected to reach 14.1 percent of GDP at end-2010. In the event, external debt totaled 2½ percent of GDP, while domestic public debt was 15½ percent of GDP. The current account surpluses in 2010–11 were significantly lower than

[4] The DSA is based on WEO projections for crude prices as of December, 2011. Nigerian oil price is projected by using the past relationship between the Nigerian crude price and average global oil price.

[5] The government is assumed to establish a medium-and long-term sustainable fiscal position. The long-term sustainable fiscal position is calculated on the basis of a constant consumption of oil wealth in real terms. This implies a decline in the consumption of oil wealth (the non-oil fiscal deficit) as a percent of non-oil GDP over time. Oil reserves are sufficient to sustain oil production at or above current levels throughout the projection period. The discount in the budget oil price relative to the actual oil price and prudent expenditure policy provides for overall surpluses and an accumulation in financial assets throughout.

forecasted in the 2010 DSA largely due to the change in methodology to estimate imports. The fiscal stance in 2010 was substantially weaker compared with what was envisaged at the time of the previous DSA, reflected in the depletion of the Excess Crude Account. However, the fiscal stance is estimated to have improved moderately in 2011, with an estimated primary surplus in the year being slightly higher than projected in the 2010 DSA. While overall growth in 2010–11 was slightly lower than the level projected at the time of the 2010 DSA, non-oil growth outcomes were better than the projected levels. Finally, oil prices are broadly in line with the levels projected for the 2010 DSA.

5. **The assessment makes the assumption that the Nigerian authorities would not issue another Eurobond in the near term, but draw on the infrastructure loan from the Chinese authorities in the amount of about US$ 500 million during 2012–13.**[6] It also assumes that the China loan would be on concessional terms.

6. **It is important to note two issues with the external sector data for Nigeria that complicate the debt sustainability analysis.** First, there are still large errors and omissions in the presentation of the balance of payments statistics, which may reflect an underestimation of current account debit transactions, and which lead to the observed large residuals in the DSA presentation. Second, there is also a break in the balance of payments series between 2009 and 2010, given the change in 2010 of the methodology to estimates imports

EXTERNAL SUSTAINABILITY[7]

A. Baseline

7. **In the baseline scenario (Table 1 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, while the PV of debt-to-GDP ratio averages less than 2 percent over the period. The debt service to exports and the debt service to revenue ratios also decline gradually throughout the projection period. All debt and debt service indicators remain well below their respective policy-dependent threshold levels throughout the projection period.

B. Stress Tests and Alternative Scenarios

8. **Standardized stress tests (Table 2 and Figure 1) were carried out.** Under the most extreme case (i.e., export shock), (i) the PV of the debt-to-GDP ratio is not likely to exceed 15 percent of GDP throughout the projection period; and (ii) the PV of debt-to-exports ratio reaches a peak of around 58 percent, far below its indicative policy-dependent 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 debt dynamics of a prolonged large oil price shock (oil price is assumed to be 30 percent

[6] As planned, the authorities issued a US$500 million Eurobond in early 2011. The loan from China would be for 20 years with a 2.5 percent interest rate.

[7] 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.

(continued)

below the baseline during 2012–16 and to go back to the baseline level in 2017). All indicators worsen considerably relative to the baseline but remain within the policy-dependent thresholds relevant for Nigeria.

FISCAL SUSTAINABILITY

10. Consolidated government gross debt outstanding is estimated at about 18 percent of GDP at end-2011, and is projected to decline to about 3½ percent of GDP by 2031. The current maturity structure of domestic debt is favorable, with the short-term debt accounting for only a quarter of total debt. Under the baseline scenario (Table 3 and Figure 2), consolidated government debt to GDP ratio would steadily increase slightly from 18 percent in 2011 to about 19¾ percent in 2014, because the projected level of accumulated fiscal surpluses during the period would fall short of the accumulation of external assets in the sovereign wealth fund (SWF). After 2015, the public debt to GDP ratio would gradually decline and come down to single digits by 2023. This is largely due to the continued efforts of fiscal consolidation at the general government level and sustained growth assumed under the baseline scenario.

11. The standardized stress tests underscore the need for fiscal policy to adjust to the economic environment. In particular, present value of public debt to GDP ratio would creep up to 25 percent throughout the projection period under a permanently lower real GDP growth scenario.[8] With oil prices stabilizing over the medium term, public debt dynamics would become more susceptible to negative economic growth shocks. In such an adverse scenario, fiscal policy will need to adjust by about 1 percent of GDP each year to bring the public debt stock path to the same path under the baseline. (Table 4 and Figure 2).

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. However, the findings from the stress scenarios also show that, without significant compensating policy measures, a prolonged oil price shock or deterioration in the growth could undermine the recent progress made in achieving macroeconomic and public debt sustainability. Nonetheless, given Nigeria's strong financial starting position, timely policy action should be able to avert future sustainability problems.

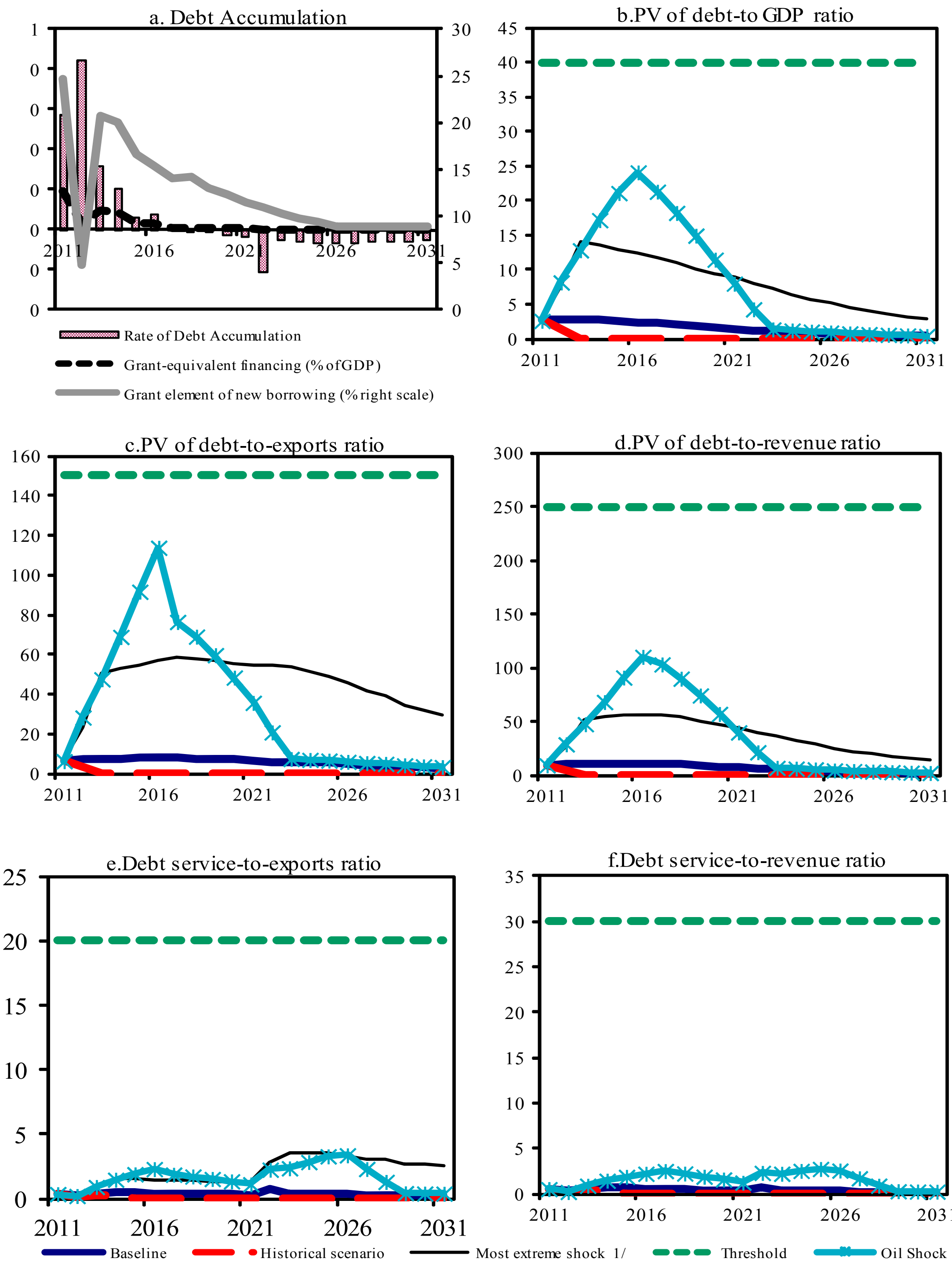
Authorities' Views

13. The authorities were in agreement with the staff's main conclusions. The staff's finding of low external debt risk was consistent with their views. In addition, they agreed that timely policy adjustments would need to be made in the event of a prolonged negative oil price shock.

Given Nigeria's rating of 3.5 (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 external debt to GDP of 40 percent, a PV of external debt to exports of 150 percent, and an external debt service to exports ratio of 20 percent.

[8] Under the alternative scenario in the Staff Report, which assumes that some key fiscal reforms are not implemented during 2012–15, the public debt to GDP ratio would rise to about 24 percent of 2015.

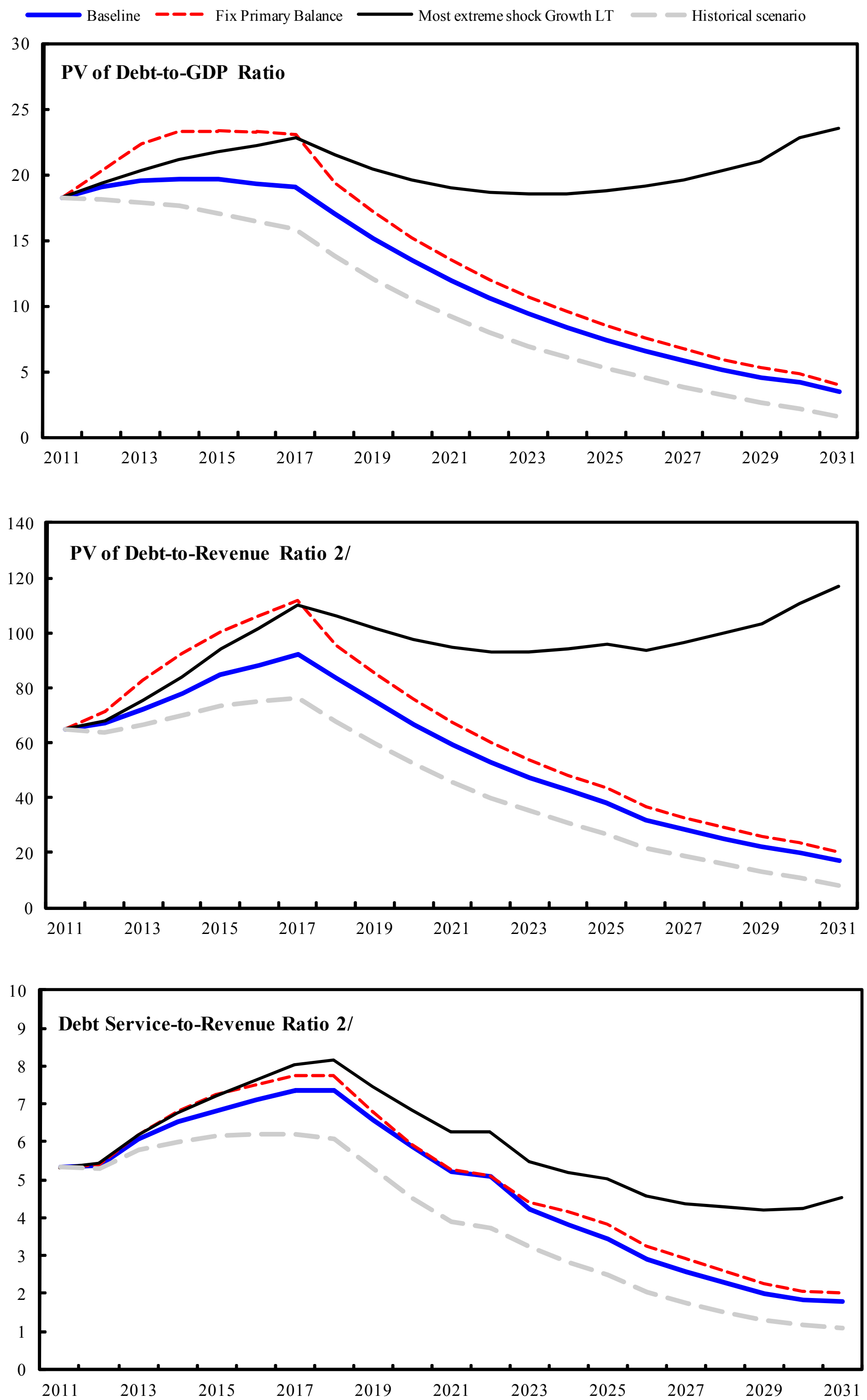
Figure 1. Nigeria: Indicators of Public and Publicly Guaranteed External Debt under Alternatives Scenarios, 2011-2031 1/



Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio in 2021. In figure b. it corresponds to a Exports shock; in c. to a Exports shock; in d. to a Exports shock; in e. to a Exports shock and in figure f. to a shock

Figure 2.Nigeria: Indicators of Public Debt Under Alternative Scenarios, 2011-2031 1/



Sources: Country authorities; and staff estimates and projections.
1/ The most extreme stress test is the test that yields the highest ratio in 2021.
2/ Revenues are defined inclusive of grants.

Table 1. Nigeria: External Debt Sustainability Framework: Baseline Scenario, 2008–2031 1/

(In percent of GDP, unless otherwise indicated)

	Actual			Historical Average 6/	Standard Deviation 6/	Projections									
	2008	2009	2010			2011	2012	2013	2014	2015	2016	2011-2016 Average	2021	2031	2017-203 Average
External debt (nominal) 1/	**2.4**	**2.4**	**2.6**			**2.5**	**2.7**	**2.6**	**2.6**	**2.4**	**2.3**		**1.3**	**0.3**	
o/w public and publicly guaranteed (PPG)	2.4	2.4	2.6			2.5	2.7	2.6	2.6	2.4	2.3		1.3	0.3	
Change in external debt	0.1	-0.1	0.3			-0.1	0.2	0.0	-0.1	-0.2	-0.2		-0.2	-0.1	
Identified net debt-creating flows	-17.6	-11.5	-4.2			-9.2	-9.6	-7.4	-5.7	-4.4	-3.1		-1.4	0.6	
Non-interest current account deficit	**-13.7**	**-8.0**	**-1.3**	**-7.7**	**10.2**	**-6.7**	**-6.9**	**-4.7**	**-2.7**	**-1.3**	**-0.9**		**-0.6**	**0.0**	0.2
Deficit in balance of goods and services	-11.6	-5.3	-0.5			-7.0	-6.8	-4.6	-2.0	0.4	1.8		2.3	1.4	
Exports	42.8	35.0	39.3			41.4	41.3	38.5	35.6	32.9	30.2		22.4	13.1	
Imports	31.2	29.7	38.8			34.4	34.5	33.9	33.6	33.3	32.0		24.8	14.5	
Net current transfers (negative = inflow)	-9.4	-11.2	-10.3	-6.9	4.3	-8.6	-8.2	-7.8	-7.6	-7.4	-7.2		-4.6	-1.8	-3.8
o/w official	-0.3	-0.5	-0.4			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Other current account flows (negative = net inflow)	7.3	8.6	9.5			8.9	8.0	7.7	7.0	5.8	4.5		1.7	0.4	
Net FDI (negative = inflow)	**-3.5**	**-4.2**	**-2.6**	**-3.7**	**0.7**	**-2.4**	**-2.6**	**-2.6**	**-2.9**	**-3.0**	**-2.1**		**-0.8**	**0.6**	-0.4
Endogenous debt dynamics 2/	**-0.4**	**0.6**	**-0.3**			**-0.1**	**-0.1**	**-0.1**	**-0.1**	**-0.1**	**-0.1**		**-0.1**	**0.0**	
Contribution from nominal interest rate	0.1	0.1	0.1			0.0	0.1	0.1	0.1	0.1	0.0		0.0	0.0	
Contribution from real GDP growth	-0.1	-0.2	-0.2			-0.1	-0.2	-0.2	-0.2	-0.2	-0.1		-0.1	0.0	
Contribution from price and exchange rate changes	-0.3	0.8	-0.2			…	…	…	…	…	…		…	…	
Residual (3-4) 3/	**17.7**	**11.5**	**4.5**			**9.1**	**9.8**	**7.4**	**5.7**	**4.2**	**2.9**		**1.3**	**-0.7**	
o/w exceptional financing	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
PV of external debt 4/	...	...	2.9			2.7	2.9	2.8	2.7	2.5	2.4		1.5	0.4	
In percent of exports	...	...	7.3			6.5	6.9	7.3	7.6	7.7	7.9		6.6	2.8	
PV of PPG external debt	**...**	**...**	**2.9**			**2.7**	**2.9**	**2.8**	**2.7**	**2.5**	**2.4**		**1.5**	**0.4**	
In percent of exports	**...**	**...**	**7.3**			**6.5**	**6.9**	**7.3**	**7.6**	**7.7**	**7.9**		**6.6**	**2.8**	
In percent of government revenues	**...**	**...**	**12.4**			**9.5**	**10.1**	**10.4**	**10.7**	**10.9**	**10.9**		**7.3**	**1.8**	
Debt service-to-exports ratio (in percent)	**0.5**	**0.7**	**0.5**			**0.4**	**0.2**	**0.3**	**0.5**	**0.4**	**0.4**		**0.3**	**0.2**	
PPG debt service-to-exports ratio (in percent)	**0.5**	**0.7**	**0.5**			**0.4**	**0.2**	**0.3**	**0.5**	**0.4**	**0.4**		**0.3**	**0.2**	
PPG debt service-to-revenue ratio (in percent)	**0.7**	**1.4**	**0.8**			**0.6**	**0.3**	**0.5**	**0.6**	**0.6**	**0.5**		**0.3**	**0.2**	
Total gross financing need (Billions of U.S. dollars)	-35.1	-20.1	-7.4			-21.3	-24.7	-20.1	-16.3	-13.2	-10.0		-7.1	9.2	
Non-interest current account deficit that stabilizes debt ratio	-13.8	-7.9	-1.6			-6.6	-7.1	-4.7	-2.6	-1.1	-0.8		-0.4	0.1	
Key macroeconomic assumptions															
Real GDP growth (in percent)	6.0	7.0	7.8	9.0	4.6	6.7	6.9	6.4	6.3	6.3	6.3	6.5	6.8	6.7	6.6
GDP deflator in US dollar terms (change in percent)	17.8	-23.9	8.3	7.2	14.9	12.8	2.9	0.6	0.3	1.1	1.6	3.2	3.2	3.5	2.9
Effective interest rate (percent) 5/	3.1	2.6	2.7	3.9	1.4	2.1	2.8	2.6	2.6	2.5	2.2	2.5	1.5	1.4	1.6
Growth of exports of G&S (US dollar terms, in percent)	30.1	-33.4	31.2	15.2	26.5	26.8	9.6	-0.1	-1.4	-0.9	-0.6	5.5	4.3	3.2	3.8
Growth of imports of G&S (US dollar terms, in percent)	37.4	-22.6	52.7	20.1	22.0	6.8	10.1	5.3	5.7	6.3	4.0	6.4	0.9	2.2	4.1
Grant element of new public sector borrowing (in percent)	...	...	...	...	...	24.7	4.8	20.8	20.1	16.6	15.5	17.1	11.5	8.9	10.6
Government revenues (excluding grants, in percent of GDP)	32.0	17.8	23.3			28.1	28.3	26.9	25.2	23.2	21.9		20.1	20.1	20.1
Aid flows (in Billions of US dollars) 7/	0.2	0.2	0.2			0.0	0.0	0.0	0.0	0.0	0.0		0.0	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	0.2	0.2	0.2			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Grant-equivalent financing (in percent of GDP) 8/	...	...	...			0.1	0.0	0.0	0.0	0.0	0.0		0.0	0.0	0.0
Grant-equivalent financing (in percent of external financing) 8/	...	...	...			24.7	4.8	20.8	20.1	16.6	15.5		11.5	8.9	10.6
Memorandum items:															
Nominal GDP (Billions of US dollars)	207.1	168.6	196.8			237.0	260.5	278.6	297.1	319.2	344.9		548.8	1384.9	
Nominal dollar GDP growth	24.8	-18.6	16.8			20.4	10.0	6.9	6.6	7.4	8.1	9.9	10.2	10.5	9.7
PV of PPG external debt (in Billions of US dollars)			5.7			6.2	7.2	7.6	7.9	8.0	8.1		8.0	4.9	
(PVt-PVt-1)/GDPt-1 (in percent)						0.3	0.4	0.2	0.1	0.0	0.0	0.2	0.0	0.0	0.0
Gross workers' remittances (Billions of US dollars)	19.2	18.4	19.8			20.2	21.1	21.7	22.6	23.6	24.7		25.3	25.3	
PV of PPG external debt (in percent of GDP + remittances)	...	...	2.6			2.5	2.6	2.6	2.5	2.4	2.2		1.4	0.4	
PV of PPG external debt (in percent of exports + remittances)	...	...	5.8			5.4	5.8	6.0	6.2	6.3	6.4		5.4	2.4	
Debt service of PPG external debt (in percent of exports + remittances)	...	...	0.4			0.3	0.2	0.3	0.4	0.4	0.3		0.2	0.2	

Sources: Country authorities; and staff estimates and projections.

1/ Includes public and publicly guaranteed external debt.

2/ Derived as [r - g - ρ(1+g)]/(1+g+ρ+gρ) times previous period debt ratio, with r = nominal interest rate; g = real GDP growth rate, and ρ = growth rate of GDP deflator in U.S. dollar terms.

3/ Includes exceptional financing (i.e., changes in arrears and debt relief); changes in gross foreign assets; and valuation adjustments. For projections also includes contribution from price and exchange rate changes.

4/ Assumes that PV of private sector debt is equivalent to its face value.

5/ Current-year interest payments divided by previous period debt stock.

6/ Historical averages and standard deviations are generally derived over the past 10 years, subject to data availability.

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 2. Nigeria: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2011–2031
(In percent)

	Projections							
	2011	2012	2013	2014	2015	2016	2021	2031
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 2011-2031 1/	3	1	0	0	0	0	0	0
A2. New public sector loans on less favorable terms in 2011-2031 2	3	3	3	3	3	2	2	0
A3. Alternative scenario: Oil Shock (oil price 30 percent lower than the baseline during 2012-16)	3	8	13	17	21	24	8	0
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2012-2013	3	3	3	3	3	2	2	0
B2. Export value growth at historical average minus one standard deviation in 2012-2013 3/	3	8	14	14	13	12	9	3
B3. US dollar GDP deflator at historical average minus one standard deviation in 2012-2013	3	3	3	3	3	3	2	0
B4. Net non-debt creating flows at historical average minus one standard deviation in 2012-2013 4/	3	6	9	8	8	8	5	2
B5. Combination of B1-B4 using one-half standard deviation shocks	3	6	9	9	9	8	6	2
B6. One-time 30 percent nominal depreciation relative to the baseline in 2012 5/	3	4	4	4	4	3	2	0
PV of debt-to-exports ratio								
Baseline	6	7	7	8	8	8	7	3
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2011-2031 1/	6	4	0	0	0	0	0	0
A2. New public sector loans on less favorable terms in 2011-2031 2	6	7	7	8	8	8	7	3
A3. Alternative scenario: Oil Shock (oil price 30 percent lower than the baseline during 2012-16)	6	28	48	69	92	114	36	3
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2012-2013	6	7	7	7	8	8	6	3
B2. Export value growth at historical average minus one standard deviation in 2012-2013 3/	6	23	50	53	55	57	55	30
B3. US dollar GDP deflator at historical average minus one standard deviation in 2012-2013	6	7	7	7	8	8	6	3
B4. Net non-debt creating flows at historical average minus one standard deviation in 2012-2013 4/	6	14	23	24	24	25	24	13
B5. Combination of B1-B4 using one-half standard deviation shocks	6	16	24	26	26	27	26	14
B6. One-time 30 percent nominal depreciation relative to the baseline in 2012 5/	6	7	7	7	8	8	6	3
PV of debt-to-revenue ratio								
Baseline	10	10	10	11	11	11	7	2
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2011-2031 1/	10	5	0	0	0	0	0	0
A2. New public sector loans on less favorable terms in 2011-2031 2	10	10	10	11	11	11	8	2
A3. Alternative scenario: Oil Shock (oil price 30 percent lower than the baseline during 2012-16)	9	29	48	68	91	110	40	2
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2012-2013	10	10	11	11	11	11	8	2
B2. Export value growth at historical average minus one standard deviation in 2012-2013 3/	10	27	52	54	56	56	44	14
B3. US dollar GDP deflator at historical average minus one standard deviation in 2012-2013	10	11	12	13	13	13	9	2
B4. Net non-debt creating flows at historical average minus one standard deviation in 2012-2013 4/	10	21	32	33	35	35	27	8
B5. Combination of B1-B4 using one-half standard deviation shocks	10	23	34	36	37	37	29	9
B6. One-time 30 percent nominal depreciation relative to the baseline in 2012 5/	10	14	14	15	15	15	10	2

Table 2.Nigeria: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2011-2031 (concluded)
(In percent)

	Projections							
	2011	2012	2013	2014	2015	2016	2021	2031
Debt service-to-exports ratio								
Baseline	0	0	0	0	0	0	0	0
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2011-2031 1/	0	0	0	0	0	0	0	0
A2. New public sector loans on less favorable terms in 2011-2031 2	0	0	0	0	0	0	0	0
A3. Alternative scenario: Oil Shock (oil price 30 percent lower than the baseline during 2012-16)	0	0	1	1	2	2	1	0
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2012-2013	0	0	0	0	0	0	0	0
B2. Export value growth at historical average minus one standard deviation in 2012-2013 3/	0	0	1	2	2	1	1	3
B3. US dollar GDP deflator at historical average minus one standard deviation in 2012-2013	0	0	0	0	0	0	0	0
B4. Net non-debt creating flows at historical average minus one standard deviation in 2012-2013 4/	0	0	1	1	1	1	1	1
B5. Combination of B1-B4 using one-half standard deviation shocks	0	0	1	1	1	1	1	1
B6. One-time 30 percent nominal depreciation relative to the baseline in 2012 5/	0	0	0	0	0	0	0	0
Debt service-to-revenue ratio								
Baseline	1	0	0	1	1	1	0	0
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2011-2031 1/	1	0	0	0	0	0	0	0
A2. New public sector loans on less favorable terms in 2011-2031 2	1	0	0	1	1	1	1	0
A3. Alternative scenario: Oil Shock (oil price 30 percent lower than the baseline during 2012-16)	1	0	1	1	2	2	1	0
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2012-2013	1	0	1	1	1	1	0	0
B2. Export value growth at historical average minus one standard deviation in 2012-2013 3/	1	0	1	2	2	1	1	1
B3. US dollar GDP deflator at historical average minus one standard deviation in 2012-2013	1	0	1	1	1	1	1	0
B4. Net non-debt creating flows at historical average minus one standard deviation in 2012-2013 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 2012 5/	1	0	1	1	1	1	1	0
Memorandum item:								
Grant element assumed on residual financing (i.e., financing required above baseline) 6/	39	39	39	39	39	39	39	39

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.

Table 3. Nigeria: Public Sector Debt Sustainability Framework, Baseline Scenario, 2008–2031

(In percent of GDP, unless otherwise indicated)

	Actual			Average 5/	Standard Deviation 5/	Estimate	Projections								
	2008	2009	2010			2011	2012	2013	2014	2015	2016	2011-16 Average	2021	2031	2017-31 Average
Public sector debt 1/	11.9	15.2	18.0			18.1	18.8	19.3	19.6	19.5	19.2		11.8	3.4	
o/w foreign-currency denominated	2.4	2.4	2.6			2.5	2.7	2.6	2.6	2.4	2.3		1.3	0.3	
Change in public sector debt	-0.8	3.4	2.8			0.1	0.7	0.5	0.2	-0.1	-0.3		-1.5	-0.7	
Identified debt-creating flows	-8.0	9.4	5.4			-3.0	-4.1	-4.3	-2.9	-1.8	-2.2		1.4	3.4	
Primary deficit	-7.3	8.2	6.5	-4.2	7.7	-1.2	-3.4	-3.9	-2.7	-1.5	-1.8	-2.4	1.9	3.5	2.2
Revenue and grants	32.0	17.8	23.3			28.1	28.3	26.9	25.2	23.2	21.9		20.1	20.1	
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	24.7	26.1	29.8			26.9	24.9	23.1	22.5	21.7	20.0		22.0	23.6	
Automatic debt dynamics	-0.6	1.2	-1.1			-1.8	-0.7	-0.5	-0.2	-0.2	-0.3		-0.5	-0.1	
Contribution from interest rate/growth differential	-0.9	0.9	-1.1			-1.9	-0.8	-0.6	-0.3	-0.3	-0.4		-0.5	-0.1	
of which: contribution from average real interest rate	-0.2	1.7	0.0			-0.8	0.3	0.6	0.9	0.9	0.8		0.3	0.1	
of which: contribution from real GDP growth	-0.7	-0.8	-1.1			-1.1	-1.2	-1.1	-1.1	-1.2	-1.2		-0.8	-0.3	
Contribution from real exchange rate depreciation	0.2	0.3	0.0			0.1	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	7.1	-6.1	-2.6			3.1	4.8	4.8	3.2	1.7	1.9		-2.9	-4.1	
Other Sustainability Indicators															
PV of public sector debt	...	...	18.3			18.3	19.0	19.5	19.7	19.6	19.3		11.9	3.5	
o/w foreign-currency denominated	...	...	2.9			2.7	2.9	2.8	2.7	2.5	2.4		1.5	0.4	
o/w external	...	...	2.9			2.7	2.9	2.8	2.7	2.5	2.4		1.5	0.4	
PV of contingent liabilities (not included in public sector debt)	...	...	...			...	...	...	...	...	...		...	...	
Gross financing need 2/	-3.3	12.6	11.4			4.4	2.6	2.4	3.9	5.1	4.8		6.4	5.0	
PV of public sector debt-to-revenue and grants ratio (in percent)	…	…	78.5			64.9	67.0	72.3	78.2	84.6	88.4		59.5	17.2	
PV of public sector debt-to-revenue ratio (in percent)	…	…	78.5			64.9	67.0	72.3	78.2	84.6	88.4		59.5	17.2	
o/w external 3/	…	…	12.4			9.5	10.1	10.4	10.7	10.9	10.9		7.3	1.8	
Debt service-to-revenue and grants ratio (in percent) 4/	3.7	7.5	5.7			5.3	5.4	6.1	6.5	6.8	7.1		5.2	1.8	
Debt service-to-revenue ratio (in percent) 4/	3.7	7.5	5.7			5.3	5.4	6.1	6.5	6.8	7.1		5.2	1.8	
Primary deficit that stabilizes the debt-to-GDP ratio	-6.5	4.9	3.7			-1.2	-4.1	-4.4	-2.9	-1.5	-1.5		3.4	4.2	
Key macroeconomic and fiscal assumptions															
Real GDP growth (in percent)	6.0	7.0	7.8	9.0	4.6	6.7	6.9	6.4	6.3	6.3	6.3	6.5	6.8	6.7	6.6
Average nominal interest rate on forex debt (in percent)	3.1	2.6	2.7	4.1	1.6	2.1	2.8	2.6	2.6	2.5	2.2	2.5	1.5	1.4	1.6
Average real interest rate on domestic debt (in percent)	-0.2	16.9	1.1	2.9	9.6	-3.6	3.0	4.2	5.6	5.6	5.0	3.3	3.5	3.9	3.8
Real exchange rate depreciation (in percent, + indicates depreciation)	12.4	12.8	0.7	3.5	7.4	3.7	...	...	...	...	...	...	...	...	...
Inflation rate (GDP deflator, in percent)	11.0	-4.4	9.3	10.7	9.6	14.9	7.4	6.1	3.9	3.5	4.1	6.6	5.6	6.0	5.4
Growth of real primary spending (deflated by GDP deflator, in percent)	0.1	0.1	0.2	0.1	0.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.0	0.1
Grant element of new external borrowing (in percent)	...	...	...	…	…	24.7	4.8	20.8	20.1	16.6	15.5	17.1	11.5	8.9	...

Sources: Country authorities; and staff estimates and projections.

1/ [Indicate coverage of public sector, e.g., general government or nonfinancial public sector. Also whether net or gross debt is used.]

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 4. Nigeria: Sensitivity Analysis for Key Indicators of Public Debt 2011–2031
(In percent)

	Projections							
	2011	2012	2013	2014	2015	2016	2021	2031
PV of Debt-to-GDP Ratio								
Baseline	18	19	19	20	20	19	12	3
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	18	18	18	18	17	16	9	2
A2. Primary balance is unchanged from 2011	18	20	22	23	23	23	13	4
A3. Permanently lower GDP growth 1/	18	19	20	21	22	22	19	23
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2012-2013	18	20	21	22	23	23	17	10
B2. Primary balance is at historical average minus one standard deviations in 2012-2013	18	23	28	28	27	27	17	6
B3. Combination of B1-B2 using one half standard deviation shocks	18	21	23	23	23	23	14	5
B4. One-time 30 percent real depreciation in 2012	18	20	21	21	21	20	13	4
B5. 10 percent of GDP increase in other debt-creating flows in 2012	18	25	25	25	25	24	16	5
PV of Debt-to-Revenue Ratio 2/								
Baseline	65	67	72	78	85	88	59	17
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	65	64	66	70	74	75	46	8
A2. Primary balance is unchanged from 2011	65	72	83	93	101	106	67	20
A3. Permanently lower GDP growth 1/	65	68	75	84	94	102	95	117
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2012-2013	65	70	80	89	98	105	84	50
B2. Primary balance is at historical average minus one standard deviations in 2012-2013	65	81	103	110	117	122	86	30
B3. Combination of B1-B2 using one half standard deviation shocks	65	74	86	93	100	104	72	23
B4. One-time 30 percent real depreciation in 2012	65	71	76	82	89	93	63	19
B5. 10 percent of GDP increase in other debt-creating flows in 2012	65	88	93	100	107	111	78	26
Debt Service-to-Revenue Ratio 2/								
Baseline	5	5	6	7	7	7	5	2
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	5	5	6	6	6	6	4	1
A2. Primary balance is unchanged from 2011	5	5	6	7	7	7	5	2
A3. Permanently lower GDP growth 1/	5	5	6	7	7	8	6	5
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2012-2013	5	6	6	7	7	8	6	3
B2. Primary balance is at historical average minus one standard deviations in 2012-2013	5	5	6	7	8	8	6	3
B3. Combination of B1-B2 using one half standard deviation shocks	5	5	6	7	7	7	5	2
B4. One-time 30 percent real depreciation in 2012	5	5	6	7	7	7	5	2
B5. 10 percent of GDP increase in other debt-creating flows in 2012	5	5	7	7	7	8	6	2
Debt Service-to-GDP Ratio								
Baseline	1	2	2	2	2	2	1	0
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	1	1	2	2	1	1	1	0
A2. Primary balance is unchanged from 2011	1	2	2	2	2	2	1	0
A3. Permanently lower GDP growth 1/	1	2	2	2	2	2	1	1
A4. Alternative Scenario :[Costumize, enter title]	1	2	2	2	2	2	1	0
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2012-2013	1	2	2	2	2	2	1	1
B2. Primary balance is at historical average minus one standard deviations in 2012-2013	1	2	2	2	2	2	1	1
B3. Combination of B1-B2 using one half standard deviation shocks	1	2	2	2	2	2	1	0
B4. One-time 30 percent real depreciation in 2012	1	2	2	2	2	2	1	0
B5. 10 percent of GDP increase in other debt-creating flows in 2012	1	2	2	2	2	2	1	0

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.

INTERNATIONAL MONETARY FUND

NIGERIA

February 8, 2012

STAFF REPORT FOR THE 2011 ARTICLE IV CONSULTATION—INFORMATIONAL ANNEX

Prepared By | The African Department

CONTENTS

NIGERIA—RELATIONS WITH THE FUND

(As of December 31, 2011)

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 (Exchange Rate)	1,753.11	100.00
Reserve Tranche Position	0.14	0.01

III. SDR Department:	**SDR Million**	**%Allocation**
Net cumulative allocation	1,675.38	100.00
Holdings	1,675.19	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 [1/]

(SDR Million; based on existing use of resources and present holdings of SDRs):

	Forthcoming				
	2012	2013	2014	2015	2016
Principal					
Charges/Interest	0.02	0.02	0.02	0.02	0.02
Total	0.02	0.02	0.02	0.02	0.02

[1/] When a member has overdue financial obligations outstanding for more than three months, the amount of such arrears will be shown in this section.

VII. Implementation of HIPC Initiative: Not Applicable

VIII. Implementation of Multilateral Debt Relief Initiative (MDRI): Not Applicable

IX. Implementation of Post-Catastrophe Debt Relief (PCDR): Not Applicable

X. Exchange Rate Arrangement

The de jure exchange rate arrangement is other managed arrangement. The CBN explicitly aims to maintain an exchange rate fundamentally driven by market forces but intervenes to reduce volatility and to counteract speculative attacks on the national currency. In recent years it has maintained an exchange rate band vis-à-vis the US dollar and has recently allowed adjustment of the band's mid-point in response to market forces. The de facto exchange rate arrangement is also other managed arrangement. In spite of some stability of the Naira-US dollar exchange rate, the nominal effective exchange rate has fluctuated considerably in recent years. The CBN publishes information on its interventions through auctions on its website; however, data on interventions in the interbank market are not disseminated. Nigeria participates in the W-ERM II of the WAMZ, which requires that the spot exchange rate between the naira and the U.S. dollar be maintained within ±15% around the central rate. The CBN has not implemented this regime.

XI. 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.

XII. Article IV Consultation

Nigeria is on the standard 12-month Article IV consultation cycle. The previous Article IV consultation was concluded on February 11, 2011.

XIII. 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 (3 visits)	September 2008–June 2009
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	Self-assessment in 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
STA	Quarterly National Accounts	January 24–February 4, 2011
FAD	Self-assessment in Tax administration	February 18–March 28, 2011
MCM	Bank Restructuring and Financial Supervision	April 27–May 6, 2011
LEG	Fiscal Law	July 20–27, 2011
FAD	Tax Administration	October 5–14, 2011
MCM	Medium term debt management strategy	November 9–18, 2011
FAD	Self-assessment in Tax administration	November 21–December 2, 2011
FAD	Effective Taxpayer Services Program	November 23–December 6, 2011
STA	Balance of Payments Statistics	November 21–December 2, 2011
MCM	Diagnostic Assessment of Banking System Stability	January 30–February 3, 2011

XIV. Resident Representative:

Mr. W. Scott Rogers is the IMF’s Senior Resident Representative in Abuja since August 2010.

NIGERIA—JOINT WORLD BANK-IMF WORK PROGRAM, 2011–12

(As of December 31, 2011)

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 collaborated on assistance related to the Petroleum Industry Bill, financial sector deepening, and public financial management reform.

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 (II)	May, 2012	2013
	Edo Development Policy Operation (I)	April, 2012	March, 2012
	Economic Reform and Governance Project	June, 2012	Ongoing
	Nigeria Electricity and Gas Improvement Project	Continuous	Ongoing
	Nigeria Electricity and Gas Improvement Project (Additional Financing)	Continuous	March 2012
	Power Sector Guarantees Project	April 2012	March 2013
	National Energy Development Project	June 2012	Ongoing
	Public/Private Partnership Initiative APL Program	Continuous	Ongoing
	Growth, Employment, and Markets in States (GEMS)	March, 2012	Ongoing
	Second State Governance and Capacity Building Project	-	Ongoing
	State Expenditure Effectiveness for Opportunities and Results (SEEFOR)	-	March 6, 2012
	Nigeria Petroleum Sector Reform Project	-	Ongoing
	Sustainable Management of Mineral Resources Project	-	Ongoing

Title	Products	Provisional timing of missions (if relevant)	Expected delivery date
	A. Mutual Information on Relevant Work Programs (continued)		
	(ii) Analytical and Advisory Activities		
	Transforming Nigeria into an African Lion	Continuous	2013
	Public Expenditure Management and Financial Accountability Reviews (PEMFARs) - various states and initial planning for federal	-	Ongoing
	SME Finance Study	February, 2012	2012
	Housing Finance Study	February, 2012	2012
	(iii) Trust Funds, other analyses, and on-going dialogue		
	Governance Partnership Facility: Nigeria-Strengthening Sector Governance & Promoting Partnerships in Service Delivery	Continuous	2013
	Multi-donor Trust Fund Facility: Studies on Effects of Multiple Taxation, Service Sectors, and Transnational Border Markets	-	Ongoing
	Multi-Donor Trust Fund for the Extractive Industries Transparency Initiative	-	Ongoing
	Trade Facilitation Facility	-	Ongoing
	Poverty and Social Impact Analysis (PSIA) of Removing the Petroleum Subsidy	Continuous	2012
IMF work program in next 12 months	*Article IV Consultation*	October and December, 2011	Board: February 2012
	Technical assistance		
	(i) *Fiscal issues*		
	Self-Assessment in Taxation	December, 2011	
	Fiscal Unit for Oil and Gas	FY2012	
	Public Financial Management	TBD	

Title	Products	Provisional timing of missions (if relevant)	Expected delivery date
	A. Mutual Information on Relevant Work Programs (concluded)		
	Tax Policy Unit at the MOF	FY2013 (tentative)	
	(ii) *Monetary and financial issues*		
	Banking supervision	Long-term expert	until mid 2012
	Monetary operations	Peripatetic Expert	In 2012
	Bank restructuring	Long-term expert	until mid 2012
	Bank Restructuring	May 2011	
	AML/CFT diagnostic	TBD	
	Assessment of Risks in Banking System	March 2012	
	FSAP update	2012 2nd half (tentative)	
	(iii) *Statistics*		
	Quarterly National Accounts	March 2012	
	BOP/ IIP	December 2011	
	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		February-March, 2012
	Regular update of Fund macroeconomic projections		Ongoing
	C. Agreement on Joint Products and Missions		
Joint products	Joint Bank-Fund Debt Sustainability Analysis	December 2011-January 2012	January 2012

NIGERIA—STATISTICAL ISSUES APPENDIX

(As of December 31, 2011)

I. Assessment of Data Adequacy for Surveillance
General: Macroeconomic data are broadly adequate for surveillance; however serious data deficiencies—in particular 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, and the authorities have recently requested Fund Technical Assistance in this regard. The compilation of GDP using the expenditure approach would facilitate analysis of savings-investment balances. **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 November 2009=100, using 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. The CBN is currently working to methodologically strengthen the estimation of FSIs and is also more closely supervising banks to ensure accurate disclosure practices.

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).

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-January 2012)

	Date of latest observation	Date received	Frequency of Data[7]	Frequency of Reporting[7]	Frequency of Publication[7]
Exchange Rates	Dec 2011	Dec 2011	D	D	D
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[1]	Oct 2011	Jan 2012	M	M	M
Reserve/Base Money	Oct 2011	Jan 2012	M	M	M
Broad Money	Oct 2011	Jan 2012	M	M	M
Central Bank Balance Sheet	Oct 2011	Jan 2012	M	M	M
Consolidated Balance Sheet of the Banking System	Oct 2011	Jan 2012	M	M	M
Interest Rates[2]	Dec 2011	Jan 2012	D	D	D
Consumer Price Index	Dec 2011	Jan 2012	M	M	M
Revenue, Expenditure, Balance and Composition of Financing[3] – General Government[4]	2010	Dec 2011	A	A	A
Revenue, Expenditure, Balance and Composition of Financing[3] – Central Government	Oct 2011	Dec 2011	M	M	M
Stocks of Central Government and Central Government-Guaranteed Debt[5]	Jun 2011	Dec 2011	A	A	A
External Current Account Balance	Sep 2011	Dec 2011	Q	Q	A
Exports and Imports of Goods and Services	Sep 2011	Dec 2011	Q	Q	A
GDP/GNP	Sep 2011	Dec 2011	Q	Q	Q
Gross External Debt	Sep 2011	Dec 2011	A	A	A
International Investment Position[6]	Jun 2011	Dec 2011	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. However, the expenditure data for state and local governments are not available.
[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. 12/20
FOR IMMEDIATE RELEASE
February 28, 2012

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

IMF Executive Board Concludes 2011 Article IV Consultation with Nigeria

On February 22, 2012, the Executive Board of the International Monetary Fund (IMF) concluded the 2011 Article IV consultation with Nigeria.[1]

Background

Economic growth remains strong in Nigeria, with non-oil real gross domestic product (GDP) estimated to have grown at 8.3 percent in 2011 and overall real GDP at about 6.7 percent. Inflation slightly declined to 10.3 percent in December 2011 (year-on-year) from 11.7 percent a year earlier, in response to monetary tightening by the Central Bank of Nigeria (CBN) and moderation of food prices.

A modest fiscal consolidation took place in 2011. The non-oil primary deficit (NOPD) of the consolidated government is estimated to have narrowed slightly from about 34.6 percent of non-oil GDP in 2010 to 32.9 percent in 2011, mainly due to expenditure restraint at the federal government level. Higher oil prices helped shrink the overall fiscal deficit from 7.7 percent of GDP in 2010 to about 0.2 percent of GDP in 2011. Monetary policy was tightened substantially in 2011 in response to high inflation and strong foreign exchange demand. The central bank has gradually increased its overnight deposit rate by 900 basis points since September 2010 and tightened regulatory requirements. In November, it adjusted downward its soft band around the naira-US dollar exchange rate, and depreciation pressures on the naira have since abated.

[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.

Financial soundness indicators point to continued improvements in the health of the banking system.

Growth is projected to remain robust in 2012 and inflation is projected to increase temporarily as a result of the increase in gasoline prices. The main downside risks to the short-term outlook are a further deterioration in the global environment and an exacerbation of current violence in northern Nigeria.

Executive Board Assessment

Executive Directors commended the authorities for countercyclical policies that have supported economic activity in challenging circumstances. Directors considered that the medium-term growth outlook remains favorable, although subject to external downside risks. Accordingly, they emphasized the continued need for policies to safeguard macroeconomic stability, diversify the economy, and make growth more inclusive.

Directors supported the authorities' strategy to rebuild fiscal buffers through a better prioritization of public expenditure, continued subsidy reform, and improved tax administration. Efforts in these areas will also provide the necessary resources for targeted social programs and needed infrastructure. Directors endorsed the use of conservative oil price assumptions in the preparation of the budget but noted that only a comprehensive tax reform will reduce the budget's dependence on oil revenues over the medium term.

Directors highlighted the importance of improving public financial management, including a stronger framework for managing Nigeria's oil wealth. They welcomed the establishment of a Sovereign Wealth Fund (SWF) and underscored that a rules-based approach to setting the budget reference oil price would strengthen the budgetary process and the operations of the SWF. In this regard, Directors recommended that outlays from the SWF's infrastructure fund be integrated into the budget and medium-term expenditure plans.

Directors noted the monetary authorities' commitment to further reduce inflation but considered that a pause in the tightening cycle is at present warranted. More broadly, they agreed that a monetary framework better focused on a clear inflation objective should help anchor inflation expectations and support disinflation. Greater exchange rate flexibility will also facilitate the pursuit of price stability.

Directors commended the authorities for their actions to resolve the recent banking crisis. The modalities of operation of the asset management corporation should continue to make sure that fiscal risks and moral hazard are minimized. Directors supported the central bank's focus on strengthening supervision and the regulatory framework, including by addressing remaining deficiencies in the Anti-Money Laundering/Combating the Financing of Terrorism regime. They also agreed that a Financial Sector Assessment Program update will help take stock of the progress so far and provide a road map for remaining reforms in the financial sector.

Directors concurred that wide-ranging reforms are needed to make growth more inclusive. They welcomed the authorities' initiatives to improve the business climate and reform sectors with high employment potential, particularly agriculture. Directors encouraged the authorities to persevere with planned reforms in the energy sector under appropriate social safeguards.

Public Information Notices (PINs) form part of the IMF's efforts to promote transparency of the IMF's views and analysis of economic developments and policies. With the consent of the country (or countries) concerned, PINs are issued after Executive Board discussions of Article IV consultations with member countries, of its surveillance of developments at the regional level, of post-program monitoring, and of ex post assessments of member countries with longer-term program engagements. PINs are also issued after Executive Board discussions of general policy matters, unless otherwise decided by the Executive Board in a particular case.

Nigeria: Selected Economic and Financial Indicators, 2007–12

	2007 Act.	2008 Act.	2009 Act.	2010 Act.	2011 Est.	2012 Proj.
National income and prices	(Percentage change, unless otherwise specified)					
Real GDP (at 1990 factor cost)	6.4	6.0	7.0	7.8	6.7	6.9
Oil and Gas GDP	-4.5	-6.2	0.5	5.0	-2.2	1.9
Non-oil GDP	9.5	9.0	8.3	8.4	8.3	7.8
Production of crude oil (million barrels per day)	2.22	2.09	2.16	2.46	2.44	2.48
Nominal GDP at market prices (trillions of naira)	20.9	24.6	25.1	29.6	36.3	40.7
Nominal non-oil GDP at factor cost (trillions of naira)	13.1	15.2	17.4	19.5	22.5	26.6
Nominal GDP per capita (US$)	1,153	1,401	1,110	1,261	1,479	1,545
Consumer price index (end of period)	6.6	15.1	13.9	11.7	10.3	11.0
Current account balance (percent of GDP) [1]	16.8	13.6	7.9	1.3	6.9	6.4
Consolidated government operations	(percent of GDP)					
Total revenues and grants	26.9	32.0	17.8	23.3	28.2	27.3
Of which: oil and gas revenue	20.4	25.8	10.6	16.3	21.6	20.0
Total expenditure and net lending	25.3	25.7	27.2	31.0	28.4	27.0
Overall balance	1.6	6.3	-9.4	-7.7	-0.2	0.3
Non-oil primary balance (percent of non-oil GDP)	-28.2	-29.9	-27.2	-34.6	-32.9	-27.9
Excess Crude Account / SWF (US$ billions) [2]	14.2	19.7	7.1	2.7	4.7	14.8
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	7.0	9.8	18.6
Net foreign assets	23.5	23.3	-10.9	-10.3	7.0	12.0
Net domestic assets	20.8	34.5	28.4	17.4	2.8	6.6
Treasury bill rate (percent; end of period)	7.8	5.6	4.0	7.5	15.1	...
External sector	(Percentage change, unless otherwise specified)					
Exports of goods and services	13.9	30.1	-33.4	31.2	26.9	3.4
Imports of goods and services	29.8	37.4	-22.6	52.7	5.9	8.0
Terms of trade	1.4	11.8	-17.2	10.6	9.5	-2.2
Price of Nigerian oil (US$ per barrel)	71.1	97.0	61.8	79.0	109.2	103.7
Nominal effective exchange rate (end of period)	100.3	101.6	82.2	83.6	81.7	...
Real effective exchange rate (end of period)	108.5	122.9	109.9	120.7	128.8	…
Gross international reserves (US$ billions) [3]	51.3	53.0	42.4	32.3	32.9	39.2
(equivalent months of imports of goods and services)	9.5	12.7	6.7	4.8	4.5	5.1

Sources: Nigerian authorities and IMF staffs' 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]Includes all components of the sovereign wealth fund (SWF).

[3]Includes $2.6 billion in 2009 on account of the SDR allocation. From 2012 onward, it reflects accumulation in the stabilization component of the SWF.

Statement by Mr. Moeketsi Majoro, Executive Director for Nigeria

February 22, 2012

On behalf of my Nigerian authorities, I would like to thank the mission team for the focused, open, frank, and constructive discussions on macroeconomic development and policy issues in Nigeria. The team visited Nigeria at the time the country was finalizing her policies and programs geared towards transforming the economy and their inputs were quite valuable. The visit of the Managing Director, Ms Largarde shortly after the mission further enhanced policy dialogue between the authorities and the Fund. My authorities are in broad agreement with the analysis and policy thrust in the staff papers.

Economic Conditions in 2011

The economy continued its growth momentum in the fourth quarter of 2011 driven mainly by non-oil production activities including agriculture and services sectors. Besides the extra-budgetary spending on petroleum products subsidy, fiscal activities remained largely on track with modest consolidation achieved and the deficit within target. Public debt level remained low and sustainable while monetary policy was generally tight. Consequently, inflationary pressures eased with headline inflation closing at 10.3 per cent in December, 2011. Lending and money market real interest rates turned positive in response to upward adjustments in policy rate and lower inflation.

Financial stability was restored following the resolution of the banking crisis through the purchase of non-performing loans (NPLs) of banks by the Asset Management Company of Nigeria (AMCON), mergers and acquisition of the ailing banks as well as recapitalization of some banks. Credit to the economy including to the private sector increased while growth in aggregate money supply hovered around the indicative growth benchmark of 13.75 percent. External sector performed well due largely to improved domestic oil production and favorable international oil prices. In spite of these, accretion to external reserves was minimal due to high demand for foreign exchange and the need to stabilize the exchange rate. However, reserves remained adequate to cover at least four months of imports of goods and services.

Outlook for 2012 and beyond

Developments in the advanced economies, particularly the demand for crude oil, crude oil prices as well as international food and commodity prices are key to Nigeria’s medium-term economic performance. Political instability arising from various social tensions could also pose some threats. Despite the downside risks associated with these developments, the medium-term economic outlook is quite positive on account of expected increase in domestic oil production, fairly high international oil prices, and improved performance of the non-oil sector. The authorities’ economic diversification strategy which focuses on agriculture, entertainment industry, non-oil minerals, and real estate (growth drivers), and infrastructure, power, roads, ports, education, and health (enablers), will drive and sustain robust GDP growth going forward. The initial uptick in inflation due to partial removal of subsidy on petroleum products and the expected hike in electricity tariff would eventually moderate.

Policies going forward

The overall policy objective is to ensure a stable macroeconomic environment through a strong and prudent fiscal policy anchored on an oil-price-based fiscal rule, manageable deficits, sustainable debt-GDP ratio of no more than 30%, and a proactive monetary policy. These measures would constrain inflation to single digit, engender a stable and competitive exchange rate, build foreign reserves, and promote inclusive growth.

Fiscal Policy

The authorities have expressed strong commitment to fiscal consolidation that began in 2011. The objective is to increase non-oil revenue, reduce recurrent expenditure, increase the effectiveness of capital expenditure, and build fiscal buffers. This rebalancing of the distribution of government spending also includes reduction in overhead expenditure and government borrowing, and limiting fiscal deficit to below 3 percent of GDP in line with the Fiscal Responsibility Act (FRA).

Steps have been initiated to increase revenues by blocking leakages from various sources, improving corporate tax collection, and boosting internally generated revenue. Reducing recurrent expenditure to sustainable level through elimination of waste, inefficiency, corruption and duplication is receiving attention. Additionally, capital expenditures are being prioritized to ensure appropriate funding and completion of the large portfolio of on-going projects while also taking on flagship projects already identified in the Transformation Agenda.

A key policy stance of the government is the removal of the remaining subsidy on petroleum products and eventual deregulation of the downstream sector of the oil industry. The saving from the subsidy removal is expected to be invested in viable capital projects and provision of safety nets for the poor and vulnerable groups as stated in the Subsidy Reinvestment and Empowerment (SURE) program.

Monetary Policy

Price stability remains a major challenge to monetary authorities, particularly in an import dependent economy with low non-oil exports, high government spending, and huge demand for foreign exchange. In spite of this, the monetary authorities continue to focus on maintaining price and exchange rate stability. While no specific rate of inflation is targeted, there is a common understanding that a single digit rate is appropriate for the economy. On exchange rate, the authorities have demonstrated strong preference for stability with necessary adjustments to align to economic fundamentals.

Financial Stability

The monetary authorities are also focusing on the health of the financial sector. Owing to various policy actions taken, the banking sector is now more stable and healthier than in the pre-crisis period with non-performing loans (NPL) reduced significantly while system-wide capital adequacy ratio (CAR) is at a comfortable level. The risk to the financial system of the Euro crisis so far is minimal. Recapitalization of the remaining banks would be completed while all mergers/acquisition arrangements will be fully consummated.

Both risk-based and cross border supervision have been instituted with reasonable micro-and macro- prudential policies. Going forward, the authorities intend to continue to pay attention to supervision, prudential issues, sectoral exposure of banks, transparency and disclosure, as well as strengthening of the legal and institutional frameworks for financial sector regulation and crisis resolution, particularly the Financial Stability Committee within the central bank, Financial Services Regulation Coordinating Committee (FSRCC), and AMCON. More agreements with regulatory/supervisory agencies in countries with Nigerian banks will be signed for effective cross-border supervision.

An important element of the financial sector reforms is the abolition of the universal banking system and the categorization of banking operations into commercial, merchant and specialized banks with the latter including non-interest banks (islamic banking), microfinance banks, development banks and mortgage banks. The commercial banks are authorized to carry on banking business on a regional, national or international basis while the non-interest banks will carry on banking business on regional or national basis. Already two banks – JAIZ bank and Stanbic bank – have been licensed to operate the non-interest bank window. The new banking model which is expected to take effect this year is not designed to restrict banking activities. Rather it is intended to reposition the banking sector for effective contribution to the Nigerian economy. The possible supervisory challenges will be promptly addressed.

Structural reforms

At the center of the economic transformation agenda are structural reforms. The major programs either undertaken or proposed include the following:

Liberalization and privatization of the power sector based on the Power Sector Roadmap. The state power company – Power Holding Company of Nigeria, PHCN - has been unbundled into eleven distribution companies, six generation companies and a transmission company. The distribution and generating companies are earmarked for privatization. Upward adjustment in electricity tariff is also expected to take effect shortly.

Ports and customs reforms to reduce the cost of doing business and shorten the time for goods clearance. The overall goal is to ensure 48 hours cargo clearance. Already the number of agencies at the port has been reduced from 14 to 6, and the 24 hours operation at the ports has commenced.

Speedy passage of the Petroleum Industry Bill (PIB). A special task force and a technical sub-committee on PIB are already in place to interface with the parliament in this regard. The passage of the bill will pave the way for full deregulation of the oil sector and is expected to increase private investment.

Improving governance and building institutions. The major actions include promotion of transparency and accountability in the management of public funds, implementation of the Freedom of Information Act, fight against corruption through strengthening of anti-corruption agencies (the Independent Corrupt Practices Commission, ICPC, and the Economic and Financial Crimes Commission, EFCC), and reform of the public service for optimal service delivery.

Investing in priority areas for job creation and inclusive growth. This cuts across security including more support for the police, defense and counterterrorism operations; critical infrastructure including power, roads and railways; and human capital development particularly health care and education. Government will continue with its multifaceted National Job Creation Scheme including the Youth Enterprise With Innovation in Nigeria (YouWin) and Public Works and Women/Youth Employment (PW/WYE) programs.

Of particular interest is agriculture which is undergoing transformation from traditional farming to modern commercial agriculture for both small and large scale farmers. The objectives are to ensure food security and promote exports of commodities such as rice, cassava, sorghum, oil palm, cocoa, and cotton where there is comparative advantage. Already a risk sharing arrangement where the government guarantees 70% of bank loans to the private sector for agricultural activities is in place. Other measures include, development of private sector-driven marketing institutions, substitution of high quality cassava flour for wheat flour in bread baking, and zero import duty on machinery and specified equipment for agricultural activities effective January 31st 2012.

Conclusion

In the past year, my Nigerian authorities have shown tremendous commitment towards developing the Nigerian economy and ensuring macroeconomic stability. The economic transformation agenda has been put in place and an Economic Management Team (EMT) chaired by the President, and an Economic Management Implementation Team (EMIT) have been established to drive the process. The authorities are confident that the policies implemented so far and those proposed are generally in the right direction. This has resulted in the recent upgrade of Nigeria by Fitch Ratings and Standard & Poor’s. No doubt the challenges are enormous but the authorities would persevere. The Fund’s role in the transformation process especially through policy advice is highly appreciated by my authorities.