INTERNATIONAL MONETARY FUND

IMF Country Report No. 15/84

NIGERIA

March 2015

2014 ARTICLE IV CONSULTATION—STAFF REPORT; PRESS RELEASE; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR NIGERIA

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of the 2014 Article IV consultation with Nigeria, the following documents have been released and are included in this package:

- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on February 27, 2015, following discussions that ended on December 15, 2014, 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 17, 2015.
- A **Debt Sustainability Analysis** prepared by the staffs of the IMF and the World Bank.
- An **Informational Annex** prepared by the IMF.
- A **Supplement** of February 24, 2015 updating information on recent developments.
- A **Press Release** summarizing the views of the Executive Board as expressed during its February 27, 2015 consideration of the staff report that concluded the Article IV consultation with Nigeria.
- A **Statement by the Executive Director** for Nigeria.

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

Selected Issues Paper

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

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International Monetary Fund
Washington, D.C.

NIGERIA

STAFF REPORT FOR THE 2014 ARTICLE IV CONSULTATION

February 17, 2015

KEY ISSUES

Context. Nigeria has a large and diverse economy that has achieved a decade of strong growth, averaging 6.8 percent a year. However, Nigeria still lags peers in critical infrastructure and has high rates of poverty and income inequality. The sharp decline in oil prices in the second half of 2014 underscores the challenging but compelling need to address remaining development challenges.

Outlook and Risks. In 2015, oil exports are projected to decline by 6 percentage points (ppts) of GDP and oil revenue by 2.4 ppts of GDP from 2014 levels, with a reduction in the current account balance and loss in international reserves. A sharp contraction in public investment and domestic demand is projected to reduce growth to 4¾ percent, with inflation increasing to 11½ percent from the effects of exchange rate depreciation. These developments also increase risks to the banking sector, given its significant exposure to the oil industry and the potential for capital outflows. The outlook is subject to significant risks, both external (changes in oil market developments and investor sentiment) and domestic (uncertainty from the election outcome and security situation).

Managing adjustment. The authorities adopted bold policy actions in November 2014—an adjustment in the official foreign exchange rate and band, tightening of monetary policy rates, and spending cuts totaling 1.7 ppts of GDP in the proposed 2015 budget. As the oil price fall appears more permanent than temporary, additional policies will be needed, including greater flexibility in the exchange rate and further fiscal adjustment, particularly in state and local governments. It will be essential to ensure that fiscal adjustment is achieved without endangering the delivery of critical public services.

Boosting inclusive growth. The authorities have a comprehensive economic transformation agenda, designed to boost growth, create new job opportunities, and reduce poverty. With recent oil market developments, however, non-oil revenue mobilization (including an increase in VAT rate) is more urgent than ever and is critical for creating the fiscal space necessary to implement the transformation agenda. Further, the national infrastructure investment plan needs careful prioritization, as financing the entire plan would be a challenge, even with more supportive financial conditions and good progress in financial inclusion.

Approved By
David Robinson and Ranil Salgado

Discussions took place in Abuja and Lagos, December 1–15, 2014. The staff comprised Mr. Leon (head), Mr. El Said, Ms. Saito (all AFR), Ms. Holland (MCM), Mr. Soto (FAD), Mr. Swiston (SPR), and Mr. Ogiji (RR Office). Mr. Uwatt (OED) also participated in the discussions.

CONTENTS

TABLES

ANNEXES

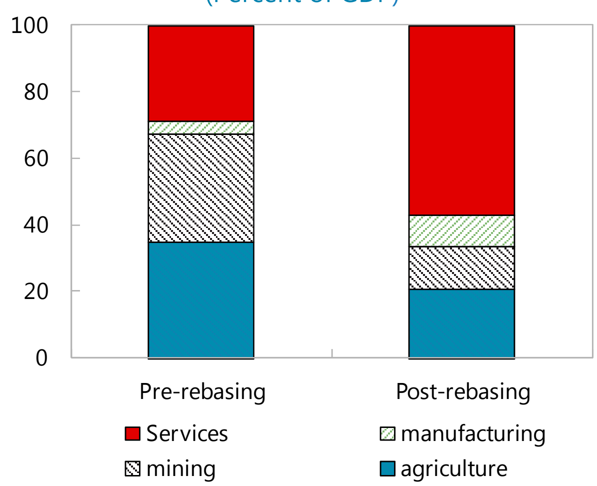
CONTEXT

1. **Nigeria has achieved a decade of strong growth from a large and diverse economy.** Economic growth averaged 6.8 percent a year over the past decade, with the economy accounting for 35 percent of the GDP for Sub-Saharan Africa. While the economy is diverse, with services accounting for over 50 percent and oil only 13 percent of GDP in 2013, the oil sector remains a critical source for fiscal revenues and foreign exchange (Figures 1 and 2). Growth has been driven by the non-oil-sector and private consumption, but Nigeria still lags peers in critical infrastructure (Figures 3 and 4), has high rates of poverty (33 percent in 2012/13) and income inequality, and faces development challenges (Annex 1).

2. **The sharp decline in oil prices in the second half of 2014 underscores the challenging but compelling need to address remaining development challenges**. Sharply lower oil revenues to each tier of government will strain efforts to address social and economic disparities. In addition, the international environment is less accommodating, with uncertainty about the future of oil prices and the implications of the election (in March 2015) outcome increasing investors' risk aversion.

Figure 1. GDP by Sector, 2013

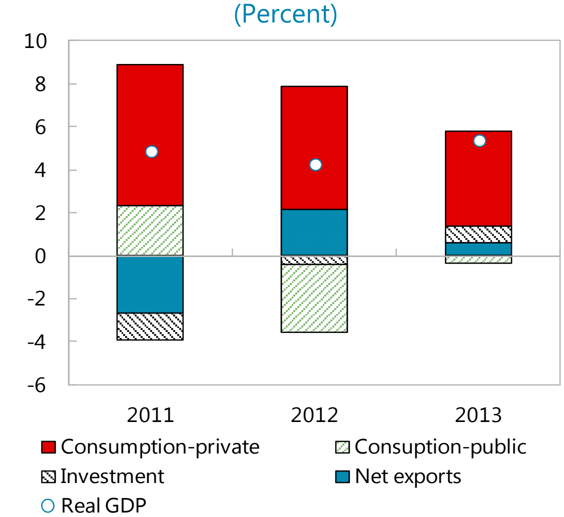
(Percent of GDP)



Source: National Bureau of Statistics.

Figure 2. Consumption-led Growth, 2011-13

(Percent)



Source: National Bureau of Statistics.

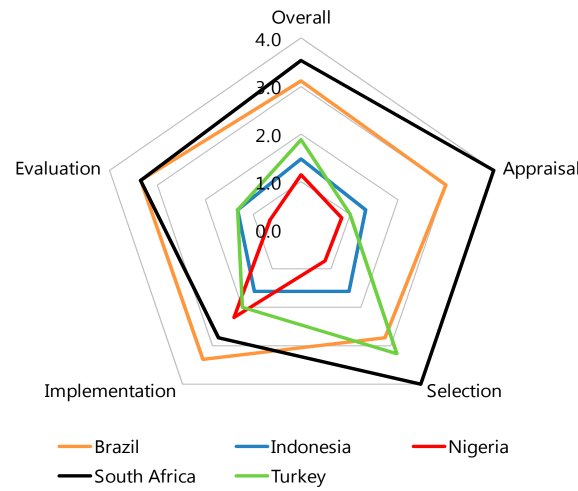
3. **The authorities continue to advance their policy agenda, drawing on past discussions with staff** (Annex 2). Public financial management systems have been strengthened by expanding the coverage of the Treasury Single Account (TSA) and information management systems to most Ministries, Departments, and Agencies (MDAs). Financial sector supervision has advanced through the implementation of Basel II/III, adoption of the International Financial Reporting Standards (IFRS), implementation of the framework for consolidated supervision, strengthening of cross-border supervision (e.g., the use of memoranda of understanding (MOUs), joint inspections, and

participation in various Colleges of Supervisors), and enhancements in macroprudential oversight. The legacy debt overhang in the power sector was solved, paving the way for investment to increase gas production; the seed and fertilizer program helped improve food security to rural farm households (including women farmers); and institutions and instruments have been established to boost affordable housing, promote skills acquisition and entrepreneurship training, and improve access to finance for small- and medium-sized enterprises.

Figure 3. Investment to GDP Ratio, 2013
(Percent)

Source: IMF.

Figure 4. Public Investment Effectiveness Index
(Units. Higher values reflect better performance)



Source: Dabla-Norris *et al*. (2011).

RECENT ECONOMIC DEVELOPMENTS

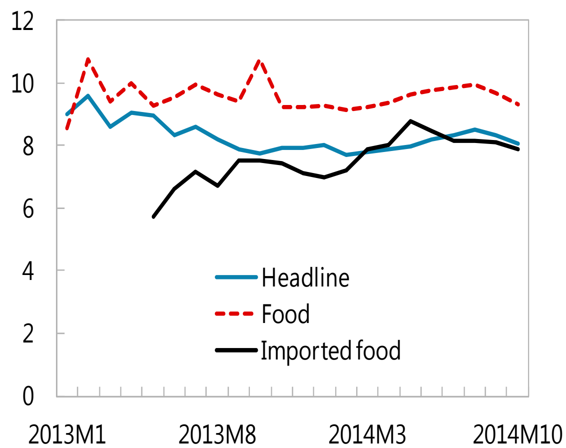
4. Recent macroeconomic performance has been strong.

- Real GDP grew by 6.1 percent in Q3 2014 (y-o-y): the non-oil sector (crop production, textiles and footwear, telecommunications, and real estate) remained robust (up 7.3 percent), but the oil sector declined by 3.6 percent, mostly driven by an increase in intermediate costs.

- Inflation remained within the Central Bank of Nigeria's (CBN) 6-9 percent target range, declining to 8 percent at end-2014. (Figure 5).

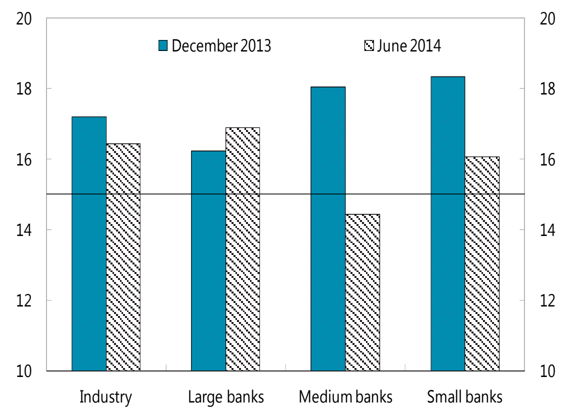
- Key banking system financial soundness indicators remain above prudential norms and CBN stress tests indicate overall resilience. This is despite slight declines in overall capital adequacy, liquidity, and profitability, and a small increase in non-performing loans in the first half of 2014 (Figures 6, 7 and 8, Annex 3). Earnings have been affected by the commencement of banks' annual payments (of 0.5 percent of total assets) into the Banking Sector Resolution Cost Fund. Banking sector performance has varied by institution-size (Figures 6 and 7), with medium and small banks underperforming larger banks, and two smaller banks requiring some recapitalization in the second half of 2014 after falling below the 10 percent minimum capital adequacy ratio. The risk profile of banks has also evolved, with increased foreign currency exposures, both on the lending and funding sides, though the net open foreign exchange position remains small (about 6 percent of total capital) (Annex 3).

Figure 5. CPI Inflation
(Percent)



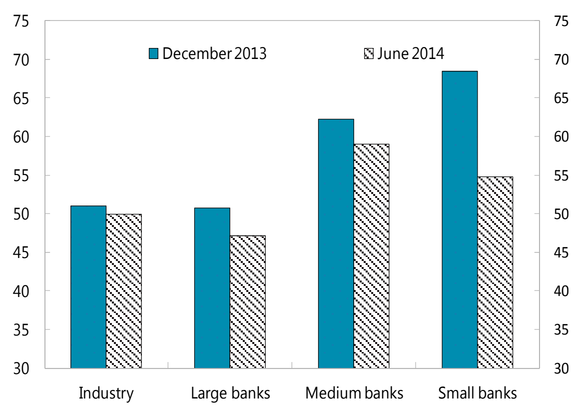
Source: CBN.

Figure 6. Capital Adequacy Ratio (by bank type)
(Percent)



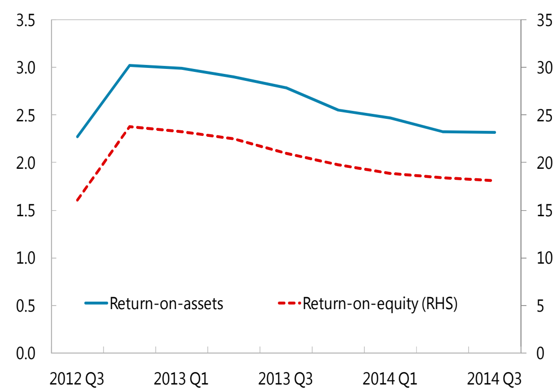
Note the minimum prudential requirement for banks with an international banking license is 15 percent and 10 percent otherwise.
Source: CBN

Figure 7. Liquidity Ratio (by bank type)
(Percent)



Note the minimum prudential ratio is 30 percent.
Source: CBN

Figure 8. Profitability of Large Nigerian Banks
(Percent)



Note based on the reported financial statements of the seven largest banks in Nigeria.
Source: Bloomberg

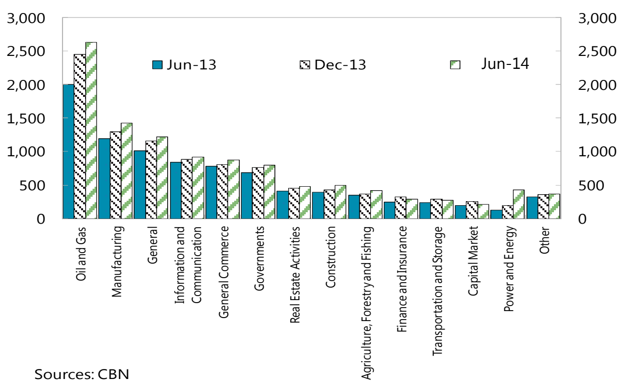
- Credit to the private sector grew 28½ percent in 2014, compared with 24 percent in 2013. Lending to the oil and gas, construction, and power and energy sectors have grown particularly fast, though exposures to the construction and power and energy sectors remain relatively small (at 5 percent and 4 percent of total loans respectively) (Figure 9).

- The spread between prime and maximum lending rates widened to 9.5 percentage points. (Figure 10).

- The trade surplus, $43.8 billion (or 8.4 percent of GDP) for 2013, is about 23 percent lower (2014 Q1-Q3), from lower oil exports and continued strong growth in imports. Remittances and income outflows (mostly oil profit repatriation) have been steady, with fluctuations in capital flows (including errors and omissions) driving reserve movements (Figures 11 and 12).

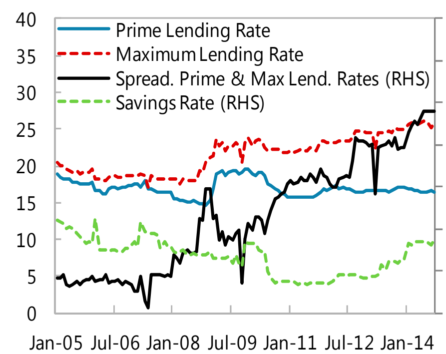
Figure 9 Lending by Sector, 2013-14

(Naira billions)



Sources: CBN

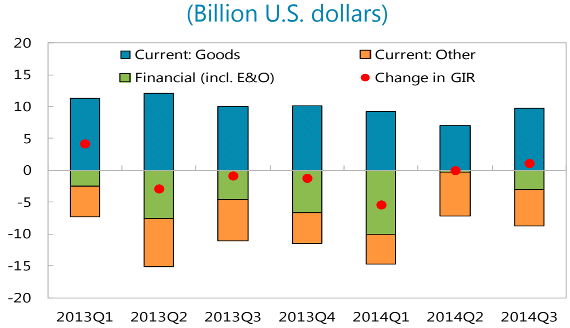
Figure 10. Interest Rates



Source: CBN.

Figure 11. Balance of Payments

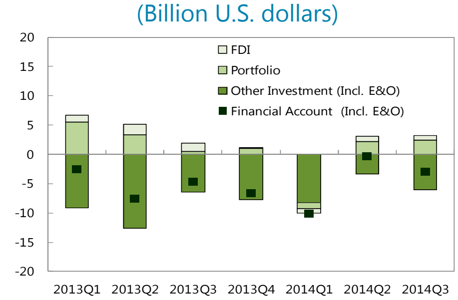
(Billion U.S. dollars)



Source: CBN.

Figure 12. Capital and Financial Accounts

(Billion U.S. dollars)



Source: CBN.

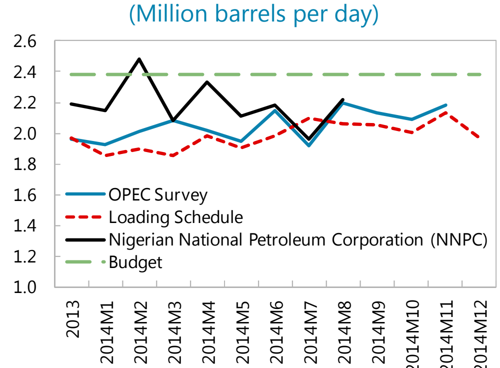
- The risk of debt distress remains low (Debt Sustainability Analysis). Total debt is 12.4 percent of GDP, with external debt only 1.7 percent of GDP and mostly from International Financial Institutions (IFIs) on concessional terms. However, about 30-40 percent of Federal Government (FG) domestic debt was held by non-residents at end-2013. Moreover, FG debt service on total public debt is nearly 9 percent of general government revenue, a high ratio compared to an average of 5.5 percent in developing and emerging economies.

5. The authorities have taken bold policy actions to manage near-term vulnerabilities, but challenges remain.

- With oil production below the budget target of 2.38 million barrels per day (bpd) (Figure 13) and the sharp fall in the oil price (Figure 14) the 2014 FG deficit is projected to increase by 0.2 percentage points of GDP above its target of 1 percent of GDP. The ***Excess Crude Account (ECA)*** reached $2.0 billion by end-2014—well below the $6.3 billion required to cover a one-half standard deviation shock to oil receipts. The fiscal authorities responded swiftly to the oil price developments by submitting a revised 2015 Medium Term Expenditure Framework (MTEF) in December, with a benchmark oil price of $65 per barrel (pb) compared to the $78 pb in the original MTEF (submitted in October).

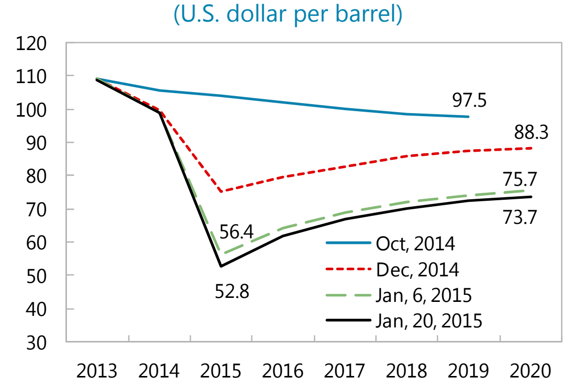
- The November 24-25 Monetary Policy Committee (MPC) adjusted the exchange rate and tightened the monetary policy stance. The midpoint of the official retail Dutch Auction System (rDAS) rate was adjusted from N155 to N168 per U.S. dollar (a 8 percent adjustment), and the band widened from ± 3 to ± 5 percent, bringing the rDAS rate more in line with the interbank foreign exchange market (IFEM) rate. In parallel, to maintain market confidence, the central bank also raised the monetary policy rate (MPR) from 12 percent to 13 percent and the cash reserve requirement on private sector deposits from 15 percent to 20 percent. Initial market reaction was positive, but pressures re-emerged as oil prices fell further.

Figure 13. Oil Production
(Million barrels per day)



Sources: Nigerian authorities, Bloomberg L.P.

Figure 14. Oil Price
(U.S. dollar per barrel)



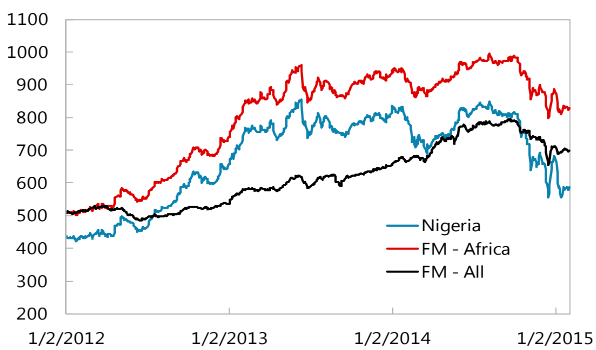
Source: IMF

6. The equity market also declined sharply in 2014 as oil price continued to decline (Figure 15).

7. ***Gross international reserves*** (GIRs) stood at $34.25 billion at end-2014, a decline of $8.5 billion from end-2013 (Figure 16). After stabilizing in the middle of the year, reserves declined in the fourth quarter as the CBN intervened to support the exchange rate in the face of falling oil prices and increased capital outflows.

Figure 15. Selected Markets: MSCI Index. 2012–15

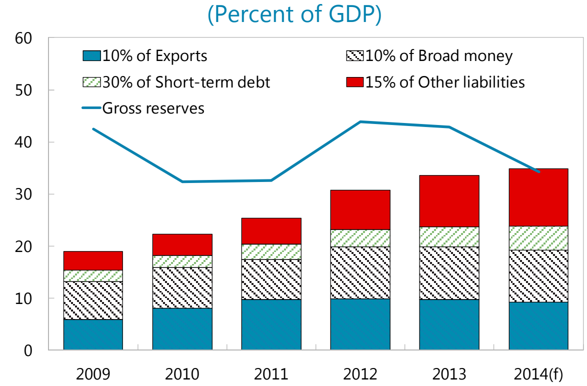
(Units)



Source: Datastream, Reuters.

Figure 16. Contributions to Reserve Adequacy Metric

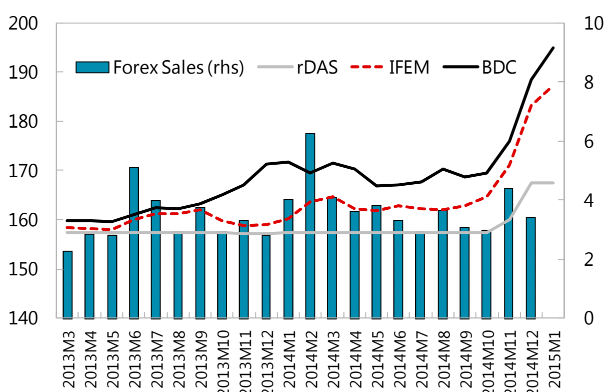
(Percent of GDP)



Source: IMF.

Figure 17. Exchange Rates and CBN Forex Sales 2013–15

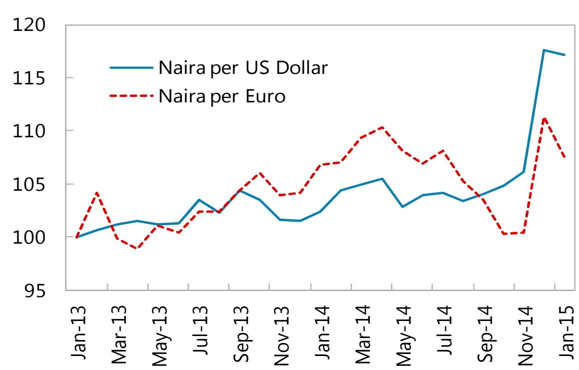
(Naira per U.S. dollars; billion dollars)



Source: CBN.

Figure 18. IFEM Exchange Rates vis-à-vis $,Euro

(Units, Jan 2013 = 100)



Source: Reuters Datastream.

8. ***Exchange rate***. The foreign exchange market remains segmented, with the IFEM and Bureau de Change (BDC) rates trading at premia over the rDAS rate (Figure 17), creating market distortions. Although the wedge narrowed on the November MPC decision, pressures persist and the IFEM continues to trade outside the 5 percent official band; the spread between the period average IFEM and rDAS rates reached 12 percent in January. In effective terms, the value of the naira changed by less in 2014, as the year-end adjustment offset an earlier appreciation, in line with the dollar

(Figure 18). For regional trade, movements in naira per euro (to which CFA francs are pegged) matters more.[1]

OUTLOOK, RISKS, AND SPILLOVERS

9. The outlook is for growth to moderate as the economy adjusts to permanently lower oil prices. In 2015, oil exports are projected to be \$52 billion (down from \$88 billion in 2014), a reduction of 6 percentage points of GDP, which is projected to reduce the external current account balance and international reserves. Fiscal oil revenues are projected at 3.4 percent of GDP (down from 5.8 percent in 2014), limiting fiscal spending. Staff projects that these aggregate demand shocks could lower growth by about 1½ percentage point from 2014 to 4¾ percent in 2015—the overall impact on non-oil sector GDP will come from cuts in public investment and a reduction in real purchasing power of oil receipts (see Selected Issues Paper (SIP)[2] for a more complete discussion). The depreciation of the exchange rate will add to inflation, reflecting the pass-through of higher domestic prices for imports, but the effect is likely to be contained, in part due to lower food prices from increased local production of staple food crops. The outlook is compromised by low fiscal and external buffers, which have reduced the capacity to absorb shocks relative to the experience of the 2008-09 financial crisis.

Authorities' views: The authorities reiterated their determination to implement appropriate measures to manage risks. They agreed that the oil price shock is significant and, at least in part, permanent, but saw a smaller effect on economic activity than staff, owing to measures targeted at sectors critical for growth (agriculture, power, small enterprises) and the impact of remittances. They noted that rising food self-sufficiency would limit the pass-through to inflation and activity in housing construction would continue.

10. Risks are on the downside (Risk Assessment Matrix, Box 1).

- **External**. Investor sentiment could deteriorate rapidly depending on a further decline in oil prices, and developments in the region and the rest of the world (e.g., outlook for AEs and EMs). Any of these could trigger capital outflows, putting pressure on the exchange rate and GIRs.

- **Domestic**. Security risks could increase owing to election-related violence, as well as an intensification of the insurgency. Election results if disputed could lead to a prolonged period of uncertainty, disrupting reform efforts, and in turn adversely affect the investor sentiment.

[1] Nigeria currently maintains a multiple currency practice (MCP) related to the CBN rDAS.

[2] Drawing on input-output tables, staff estimates the fiscal multiplier to be about 0.4.

Box 1. Risk Assessment Matrix (RAM)[1]

Source of Risks	Relative Likelihood	Expected impact	Source of impact	Policy response
I - Financial sector and capital market risks				
• **Side-effects from global financial conditions** ◦ A surge in financial volatility ◦ Financial imbalances from protracted period of low interest rates continue to build ◦ Persistent dollar strength • **Bond market stress from a reassessment in sovereign risk** ◦ Japan ◦ Euro area/USA	High Medium Medium Medium Low	High High	• Nigeria's exposure to global financial market volatility is high. Given the relatively open capital account, central government and the private sector (especially banks) have issued international markets in recent years ($1.5 billion (sovereign) and $4.95 billion (private sector) since 2007), and there have been substantial inflows of non-resident investment in federal government domestic debt. Total capital importation since 2012 is over $50 billion. Nigeria would be affected by both side-effects from global financial conditions and bond market volatility.	• The ***monetary and exchange rate policy framework*** needs to be revisited, including allowing greater flexibility in the DAS rate. • Nigeria needs to (i) develop a ***contingency plan***; (ii) monitor key indicators and hence preparedness to act accordingly; and (iii) continue sound policies to reduce vulnerabilities, while implementing measures to address structural liquidity issues. • Enhance ***prudential supervision***. • Strengthen the supervisory and regulatory framework, especially as it pertains to cross-border banking activity and oversight of holding companies, and to address weaknesses in corporate governance.
II - Inconsistent and partial implementation of financial regulatory reforms				
◦ National approaches, introduced in the absence of an international standard, leading to increased fragmentation (short-term).	Medium	Low	• Lack of international consensus on the design of cross-border resolution regimes could impede efforts to agree on an effective regime for pan-African banks (PABs) based and operating in Nigeria. This could raise costs of resolution in the event of any PAB failure.	• Enhance coordination with national supervision agencies of parent/subsidiary banks.
III - Protracted period of slower growth				
• **Advanced economies**	High	Medium	• A further slowdown in growth in advanced economies, especially Europe (35 percent of Nigeria's exports destinations) would	• Nigeria needs to accelerate ***non-oil revenue mobilization,*** a key fiscal priority, and ***diversify its exports*** both in terms of export products and trading partners. Nigeria needs to continue improving the

Box 1. Risk Assessment Matrix (RAM)[1] (concluded)

Source of Risks	Relative Likelihood	Expected impact	Source of impact	Policy response
• **Emerging markets**	High	Medium	negatively affect trade balance, through both lower oil price and lower demand. This would also affect external and fiscal buffers. • A slowdown in growth in emerging markets, or China would also affect the country through lower global demand and its potential impact on oil prices.	business environment to boost ***productivity and competitiveness*** (e.g., streamlining business regulations, contract enforcement, and affirmation of investors' rights as well as improving trade facilitation). • Nigeria needs to address ***infrastructure gap*** (Annex 1). Significant investments are needed to expand capacity and achieve the 2020 targets.
IV - Regional geopolitical risks				
• **Geopolitical fragmentation that erodes the globalization process and fosters inefficiency**: ◦ Russia Ukraine	Medium	Medium	• Tensions leading to a slowdown in growth would adversely impact Nigeria's exports.	• Enhance competitiveness (see above).
V - Nigeria-specific risks				
• **Deterioration of security in the North of Nigeria** • **Political risk** • **Oil theft** • **Development in the region** (e.g., Ghana)	High Medium Medium Low	Small Medium Medium Small	• Worsening of security situation is adversely affecting agriculture and commerce in the North. • Election results, if disputed, could lead to a prolonged period of uncertainty, disrupting reform efforts. • Oil production losses have abated in 2014 (less frequent pipeline shutdowns), but vandalism/theft continue and could increase. Lower oil production affects both exports and fiscal. • Investor sentiment could deteriorate, possibly putting pressure on exchange rate or preventing much needed FDI inflows.	• Ensure ***service delivery*** in key areas (e.g., education, health). • Staff suggests improving further the coordination across the different levels of government. This can include improving the monitoring of State and Local Government budgets. In the long term, reviewing the ***fiscal federalism system*** could help address the socio-economic disparities across states more efficiently. • Continue with reforms in the agriculture sector. • Improve oil sector oversight by strengthening the regulatory framework (e.g., passing a sound PIB) and security arrangements and engage in a multi-country partner strategy, and make full use of the AML framework.

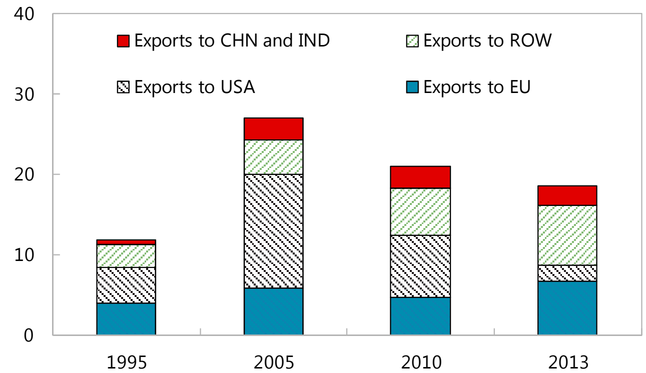
[1] The Risk Assessment Matrix (RAM) shows events that could materially alter the baseline path (the scenario most likely to materialize in the view of IMF staff). The relative likelihood is the staff's subjective assessment of the risks surrounding the baseline ("low" is meant to indicate a probability below 10 percent, "medium" a probability between 10 percent and 30 percent, and "high" a probability between 30 percent and 50 percent). The RAM reflects staff views on the source of risks and overall level of concern as of the time of discussions with the authorities. Non-mutually exclusive risks may interact and materialize jointly.

11. Inward and outward spillovers through trade channels can amplify risks.

- The source of inward trade spillovers is shifting from traditional (EU and USA) trading partners to Asian countries, in particular China and India, reflecting the evolution of global energy markets (Figure 19).

Figure 19. Exports

(Percent of GDP)



Source: IMF Direction of Trade Statistics.

- Although small, Nigeria's exports to Economic Community of West African States (ECOWAS) countries have been increasing, from $1 billion in 1990 to about $6 billion in 2013. The implementation in January 2015 of the Common External Tariffs (CET) for ECOWAS member countries is expected to reduce incentives for informal trade and simplify customs procedures, potentially increasing recorded trade volumes (SIP: Promoting Economic Transformation).

- Moreover, the slowdown in Nigeria will adversely affect informal exports to Nigeria. Anecdotal evidence indicates that goods that are subject to import restrictions in Nigeria (e.g., rice) have become key export goods for neighboring countries. Those informal exports to Nigeria are important sources of income for some neighboring countries and outward spillovers may be nontrivial.

12. Growing cross-border activity of Nigerian-based banks has increased the scope for spillovers through financial channels, along with regulatory and supervisory challenges. Nine banks have a significant presence in Benin, the Gambia, Ghana, Liberia, and Sierra Leone. For example, United Bank of Africa has a meaningful market share (assets between 3 percent and 7 percent of GDP) in Liberia, Benin, and Burkina Faso, while Guaranty Trust Bank is systemically important (assets greater than 7 percent of GDP) for the Gambia. The effectiveness of cross-border supervisory cooperation was recently demonstrated when two subsidiaries operating in the Gambia were subject to regulatory action in May with minimal spillovers.

POLICIES

13. **Discussions focused on policies and reforms to support the authorities' strategic objectives of preserving macroeconomic stability, sustaining inclusive growth, and reducing poverty and inequality**. Staff sees the need to balance monetary, fiscal, and financial sector policies in the short term to address increased vulnerabilities, while implementing broad structural reforms to foster higher and more inclusive growth. In particular, opening up fiscal space to allow for investment in productivity-enhancing infrastructure, especially in power and transportation, would facilitate the transition from consumption-led growth to private-investment led growth.

A. Addressing Near-Term Vulnerabilities

Monetary and Exchange Rate Policies

14. **Recent developments have highlighted the challenges facing the monetary authorities, and risks to the current monetary and exchange rate policy framework**. Monetary policy is driven by the CBN's commitment to maintain a stable official exchange rate. Thus, international reserves have to adjust to balance supply and demand in the foreign exchange market, and the CBN has less room to manage its inflation target via monetary expansion or contraction. Moreover, the increased use of administrative measures in the money market, liquidity injections through intervention schemes that have contributed to increases in private sector credit, and the maintenance of a tight monetary policy stance can send mixed signals to market participants. Further, structural liquidity cycles have added to volatility in financial markets, resulting in sharp spikes in overnight rates.[3] *Staff sees clear tensions in the current operation of the monetary and exchange rate policy framework that attempts to maintain a peg against a strongly appreciating U.S. dollar while the economy attempts to adjust to a large adverse terms-of-trade shock. Staff sees the appropriate focus as allowing greater flexibility in the exchange rate to facilitate the adjustment to external shocks. In this context, a further tightening may be needed to avoid a disorderly adjustment of the exchange rate.*

Authorities' views: The authorities view exchange rate stability as a key plank in maintaining macroeconomic stability, and consider that a stable naira is not incompatible with managing inflation through open market operations and other monetary instruments.

15. **The 2014 period average exchange rate was moderately overvalued** (Annex 4, Text Table 1). The official exchange rate did depreciate in November, but the widening gap with the interbank market rate along with a further fall in the oil price suggest a continued misalignment. Reserves are six months of prospective imports, but slightly below the lower-end of the

[3] The CBN faces *"structural" liquidity cycles,* which can amplify shocks and increase risks, including the monthly disbursements by the Federation Account Allocation Committee (FAAC) to State and Local Governments (SLGs), which hold bank accounts in deposit money banks (DMBs). The introduction of the Treasury Single Account (TSA) attempts to address the issue, but TSA coverage is still incomplete and has not extended to the SLGs.

100-150 percent of the emerging market reserve adequacy metric, in large part owing to the fall in reserves in 2014 and the buildup of liabilities to non-residents in recent years.

16. Further liberalization of the foreign exchange market would facilitate macroeconomic adjustment. Staff welcomes the authorities' intention to gradually move toward greater flexibility in the exchange rate, while noting that the stable naira policy has helped underpin market confidence. Staff encourages measures to minimize the wedge across or unify the segments of the foreign exchange market, rather than through administrative measures taken in recent months, and to develop market-based hedging instruments. Nigeria continues to avail itself of the transitional arrangements of Article XIV, although it no longer maintains any restrictions under Article XIV. Staff encourages the authorities to accept the obligations under Article VIII, noting the enhanced integration with international markets.

Authorities' views: The authorities consider the current level of the official exchange rate to be close to its equilibrium value. Further, strong growth prospects suggest that Nigeria would remain an attractive prospect for foreign investors, implying continued capital inflows. The authorities monitor closely the various segments of the forex market and indicated their commitment to pursue intervention and prudential measures to preserve the smooth functioning of the market.

Text Table 1. Nigeria: Assessment of Real Exchange Rate

	Current Account Regression[1]	External Sustainability Approach	Equilibrium RER Regression
Current account reference	2.2	0.2	--
Current account norm[2]	3.8	2.0	--
Current account gap	-1.7	-1.8	--
Real exchange rate gap[3]	13.7	14.9	12.5

Source: IMF staff estimates.

[1] Based on External Balance Assessment Methodology (IMF Working Paper 13/272).

[2] Current account norm is adjusted upward for errors and omissions.

[3] Positive numbers indicate overvaluation. Elasticity of current account to real exchange rate gap is 0.12.

17. Financial stability has been maintained, but challenges to asset quality are emerging (Annex 3). Loan portfolios are vulnerable to the decline in oil prices given their concentration in the oil sector (24 percent of total loans as of 2014 Q2) and a significant proportion of total loans are denominated in foreign currency (21 percent as of 2013 Q4), only some of which will be mitigated by natural hedges. Consequently, movements in the exchange rate can impact credit quality. Large banks have strengthened their capital, providing greater capacity to absorb losses, but medium and smaller banks may be more vulnerable to an increase in NPLs. *Staff welcomes the new prudential guidelines to limit foreign currency exposure, increased capital weighting on concentrated exposures,* *and efforts to enforce compliance with the existing provisions controlling SLG access to credit. Staff recommends continued vigilance, including through stress testing of individual banks' balance sheets, and enhanced supervisory oversight of those banks that are relatively weaker. Also, to mitigate potential foreign currency liquidity risks, staff sees merit in considering a reserve requirement on foreign currency deposits, which now represent about 20 percent of total deposits*.

Authorities' views: The authorities agreed that continued vigilance is needed, noting that they remain fully committed to sustaining financial stability and that their recent prudential actions highlight their readiness to introduce "speed bumps" where systemic vulnerabilities are emerging.

Fiscal Policies

18. Given limited buffers, the draft budget appropriately tightens the fiscal stance. Relative to 2014, staff projects that oil revenue will drop by 2.4 percentage points of GDP. The MTEF envisages a gradual increase in non-oil revenues (0.1 percent of GDP in 2015), with a reduction in expenditure of 1.7 percent of GDP (1 percent from lower fuel subsidies, 0.2 from lower capital spending, and 0.5 from adjustment by SLGs). The projected overall impact is an increase of 0.3 percentage points of GDP in the consolidated government deficit. However, fiscal buffers remain weak and, absent additional fiscal adjustments, staff projects that the ECA could be depleted by end-2015 (SIP: Oil Sector Developments). In addition, with FG capital spending envisaged at 0.4 percent of GDP, the ability to delay capital spending as an informal buffer, as has happened in previous years, is limited. *Staff welcomes the announced steps to increase revenue through enhanced revenue administration and excise taxes and fees on luxury goods and services. Nevertheless, staff sees the need to identify additional contingency measures to contain recurrent expenditures and boost non-oil revenues in 2015—such as accelerating potential reforms to VAT and CIT (¶20)—to prevent the ECA from being fully depleted.* .

Authorities' views: The authorities noted they would take measures to preserve the ECA at least at $1billion in 2015, highlighting that they contained ECA withdrawals in 2014, a pre-election year. Also, they indicated they have identified measures for curtailing recurrent expenditure.

19. State and local governments face a challenging adjustment. Staff estimates that the existing revenue sharing formulas imply that SLG revenues fall by about a quarter billion dollars for each $1 drop in oil prices. In addition, given the low levels of the ECA, SLGs may not have recourse to augmentation or special distributions (equivalent to an average of 9 percent of their revenue over 2011-2013) to fund their expenditures. With limited room for financing and, absent increases in independently generated revenue, the revised MTEF implies an adjustment in SLG expenditure of about 15 percent in real terms relative to 2014. Achieving such a rationalization without impeding delivery of critical public services or the accumulation of arrears will require careful prioritization, especially in capital projects (45 percent of SLG expenditures), and better monitoring of the evolution of SLG accounts payable. *Staff encourages the authorities to further improve public financial management across all levels of government, including through improved coordination and capacity-enhancement activities. In the long-term, it could be important to review the fiscal federalism arrangements—minimizing the duplication of programs (and taxes) and enhancing accountability—to* *help address more efficiently the socio-economic disparities across states* (SIP: Promoting Economic Transformation).

Authorities' views: The authorities have started to engage subnational governments on the need for budget adjustment. Following the budget price adjustments, the Federal authorities have informed the states of the much lower oil revenue expected for 2015 and the need to prioritize spending. The authorities acknowledge the benefits of a state-by-state approach, recognizing that the states with lower capacity are likely the ones with little internally generated revenue. The authorities aim to build capacity at the SLG level, including through collaboration with the State Commissioners of Finance and workshops with international experts.

20. There are near-term refinancing uncertainties. The government faces significant refinancing needs in the first four months of 2015, including a benchmark bond (about N500 billion) falling due in April, but financing costs have risen significantly—the spread between the Nigeria 2023 Eurobond and the reference U.S. Treasury was 442 basis points at end-December, over 220 basis points wider than the low for 2014 (Annex 5). *Staff noted that active engagement with investors and preserving cash buffers can help mitigate refinancing risk.*

Authorities' views: The authorities are monitoring market developments closely and noted that they are projecting financing costs to increase in 2015. However, they remain confident that demand from domestic investors, especially pension funds, would ensure sufficient demand for new bonds and facilitate a smooth refinancing.

B. Medium- to Long-Term Growth Agenda

21. Non-oil revenue mobilization is a key fiscal priority. Non-oil revenue is just 4½ percent of non-oil GDP—compared to an average of 10-15 percent of non-oil GDP for other oil producers—providing inadequate financing for infrastructure and social needs, and leaving the budget vulnerable to oil shocks. A feasible target could be to raise non-oil revenue by 1½ percentage points of GDP by 2017, to achieve a sustainable non-oil primary balance (Text Table 2). This will require continued efforts for enhancing revenue administration and policy adjustments consistent with Nigeria's well-diversified economy:

- *Administration:* On-going reforms are gradually bearing fruit—CIT collections, for example, improved by 0.2 percent of non-oil GDP in 2014 after being stagnant during 2010-13. To ensure the durability of these reforms it will be important to establish qualitative benchmarks, such as the average length of the audit cycle, share of tax filings submitted before due date, and amounts recovered out of tax debt outstanding.

- *Policy:* The authorities' ongoing initiatives to modernize and simplify tax laws provide an opportunity to enhance tax policy. For VAT, the existing 5 percent rate is among the lowest in the world. Reforms should aim to maintain a single rate, keep exemptions to a minimum, and could allow input credits for capital goods and services. For CIT, the priority would be to limit the renewal of exemptions, in particular those derived from pioneer status, to broaden the tax base.

Authorities' views: The authorities agreed that non-oil revenue effort was low and that revenue mobilization was essential to meet capital investment and social expenditure. In this context, they shared the achievements to date of the tax administration reforms and planned improvements in registration, auditing, and communications, which are expected to yield an additional $0.5-1.0 billion in 2015. They acknowledged the low VAT rate and pointed to the potential importance of higher VAT collections for the SLGs —85 percent of VAT receipts are distributed to subnational governments. The authorities reiterated the importance they attach to further enhancing tax administration and increasing remittances from revenue-generating agencies, but considered broad tax reform, including VAT and CIT reforms as essential to their medium-term fiscal strategy.

Text Table 2. Nigeria: Fiscal Scenario

	2014	2015	2016	2017
Baseline				
Revenue	9.9	7.7	8.4	8.7
of which: non-oil revenue	4.1	4.3	4.3	4.4
Expenditure	12.3	10.6	11.2	11.2
Overall balance	-2.5	-2.8	-2.8	-2.5
Non-oil revenue (percent of non-oil GDP)	4.6	4.6	4.7	4.7
Non-oil primary balance (percent of non-oil GDP)	-8.1	-5.5	-6.2	-6.3
Adjustment scenario				
Revenue	9.9	8.2	9.7	10.2
of which: non-oil revenue	4.1	4.8	5.6	5.9
Expenditure	12.3	11.0	11.2	11.2
Overall balance	-2.5	-2.8	-1.5	-1.0
Non-oil revenue (percent of non-oil GDP)	4.6	5.1	6.0	6.4
Non-oil primary balance (percent of non-oil GDP)	-8.1	-5.5	-4.8	-4.6
Sustainable non-oil primary balance (percent of non-oil GDP)	-4.9	-4.7	-4.8	-4.6

Note: The sustainable non-oil primary balance is based on the permanent income hypothesis, which provides a long-term benchmark for fiscal sustainability in an oil-rich country.

22. Ensuring efficiency of public spending is critical. The absolute level of consolidated government expenditure, at 12 percent of GDP in 2014, is low by international standards: an average of 20 percent for low income, 31 for the emerging, and 41 for the advanced economies. Infrastructure gaps and social needs suggest scope for scaling and composition tilting, subject to resource availability. With projected revenue tightening further in 2015, it will be important to ensure that available resources are used efficiently to meet government's priorities. Key actions include the implementation of ongoing efforts to prioritize the limited capital expenditure budget and control of recurrent expenditure via Public Financial Management (PFM) reforms (including expanding TSA, the Integrated Personnel and Payroll Management System (IPPIS) and the Government Integrated Financial Management System (GIFMIS) to all MDAs). *Staff noted that enhancing the efficiency of expenditure is crucial to muster support for envisaged tax reforms. Staff encourages the authorities to conduct a selective review of expenditure to identify durable efficiency enhancing reforms. Ideally, this review, together with the ongoing prioritization of capital projects, should become a part of the budget preparation process. Staff welcomes the discussion of contingent liabilities in the MTEF and encourages the full and transparent disclosure of all current and future budgetary costs and fiscal risks related to Public-Private Partnerships (PPP)s, which are likely to gain prominence in the years to come as Nigeria attempts to close the infrastructure gap.*

Authorities' views: The authorities aim to remain fiscally prudent. Although the level of spending is relatively low, the authorities still see scope to curtail further current spending in the short term while protecting key programs in priority areas, including health, education, infrastructure, and security. They aim also to reprioritize capital projects to improve efficiency. In the medium term, any expansion of the spending envelope should be supported by additional non-oil revenue. On PPPs, the authorities agreed on the need for a careful approach, but indicated that these risks are minimal at present—strict selection criteria are being observed and only a handful of PPPs have been approved, with very little government exposure. The authorities agree with the need for disclosure, but questioned whether the MTEF is the right vehicle.

23. Financing the infrastructure investment plan will be a challenge. The National Infrastructure Investment Plan (NIIP) has identified new investment needs of about $30-50 billion a year. With domestic savings sufficient to finance about a third of the NIIP, this risks crowding out private sector investment (SIP: Promoting Economic Transformation), especially in the event of reduced foreign portfolio inflows. Consequently, external financing may be needed to fill the gap. (Annex 5). *Staff recommends that to minimize risks to debt sustainability, especially given the deterioration in financing conditions, implementation of the NIIP should be carefully prioritized and program objectives adjusted as needed.*

Authorities' views: The authorities agreed that implementation of the NIIP would need to be scaled to resource availability, including through careful prioritization. In that context, they consider that implementation of the new manual on project selection will prove very effective. They indicated, however, that they do not see external market borrowing as a solution and that new external borrowing will be focused on available concessional sources.

24. Lower oil prices provide an opportunity to phase out fuel subsidies. The recent drop in crude oil prices (and lower petrol and kerosene prices) could facilitate the completion of the subsidy reform, which started in 2012. *Staff recommends introducing an independent price-setting mechanism to smoothly pass through international price changes to domestic prices and gradually eliminate fuel subsidies. This could generate fiscal savings of about 0.5 percent of GDP per year in the medium term. Staff encourages the authorities to review possible mitigating measures to protect the most vulnerable, including boosting targeted cash transfers through the Subsidy Reinvestment and Empowerment Program (SURE-P), and to transparently communicate the government's strategy in this regard.*

Authorities' views: The authorities expressed their commitment to subsidy reform, and indicated they were considering options, timing, and modalities of implementing these reforms in light of the decline in oil prices.

25. There is scope to improve budget preparation and reporting. Oil revenue projections have been inaccurate, assuming higher revenue-to-market value of oil production than actually realized. As a result, realized oil revenue is only slightly higher than projected in the budget even when market oil prices are substantially higher than the budget oil price. In addition, reporting of implicit oil subsidies could be enhanced. *Staff encourages the authorities to review oil revenue forecasting, and recommends expanding fiscal reports from the Office of the Accountant General of the Federation (OAGF) to show gross and net oil revenues and implicit subsidies.*

Authorities' views: The authorities noted that improved revenue forecasting would be helpful and information on subsidies could be reported better, but cautioned about potential delays in reporting given that source data are preliminary and often subject to revisions.

26. Significant progress has been made in strengthening the supervisory and regulatory framework of the banking system, based on the recommendations of the 2012 FSAP. In addition to the implementation of IFRS and Pillars I and II of Basel II/III, the authorities have implemented a framework for the enhanced supervision of systemically important banks (DSIBs). Work continues on strengthening cross-border supervision, and collaboration with host regulators continues to deepen (Annex 3). These trends are also reflected in other domestic supervisory counterparts (e.g., the Securities and Exchange Commission, National Insurance Commission), with the Financial Supervision and Regulation Coordinating Committee (FSRCC) helping to deepen internal supervisory collaboration, contributing to enhanced oversight of holding companies, the implementation of the framework for consolidated supervision, and preliminary work on systemic risk monitoring. *Staff welcomed the progress and encouraged the authorities to sustain their focus on these issues. In particular, staff looks forward to the implementation of the new framework for oversight of holding companies; the completion of the ongoing work on recovery and resolution planning; and further efforts to address weaknesses in banking sector corporate governance, and strengthen cross-border and consolidated supervision.*

Authorities' views: The authorities reiterated their commitment to ensuring the stability and integrity of the financial system.

27. Enhancing financial inclusion will promote inclusive growth. Financial inclusion is low (only a third of the adult population has a deposit at a financial institution). Initiatives are underway that could significantly increase the penetration of formal financial services. These initiatives, some organically grown and others public sector led, are found in the banking, pension fund, and insurance sectors, with many seeking to leverage mobile payments platforms and agents networks (SIP: Promoting Economic Transformation). Some mobile payment services are also considering expanding to quasi-deposit-taking services, complementing traditional/informal group savings clubs. *Staff stressed the importance of ensuring the stability and integrity of the financial system to build confidence and ensure meaningful financial inclusion. In particular, the authorities should* *remain watchful that gaps in regulatory oversight do not emerge given the multiplicity of parties involved in delivery (agents, payments systems, financial institution). For instance, protection of quasi-deposits held in e-wallets should be reviewed and mobile payment systems should also be subject to the Anti-Money Laundering (AML)/Combating the Financing of Terrorism (CFT) requirements in line with international best practices*.

Authorities' views: The authorities acknowledge that the regulatory framework will need to evolve as new products emerge. The effectiveness of these efforts will be supported by the in-house expertise of CBN staff employed from the industry and engagement with stakeholders through the National Payment Systems Board.

28. Private sector-led growth would benefit from competitiveness-enhancing improvements to the business climate and reforms to facilitate trade. Staff noted that accelerating the power and oil sector reforms, including the passage of a sound Petroleum Industry Bill, could lead to a significant reduction in the cost of electricity, a key constraint for many businesses. Further, coordinating the enforcement of the tax regime amongst the federal government and the state and local governments could relieve a significant cost of doing business. Staff encourages a review of tariff policy (removal of import bans and levies on imports) to maximize the benefits of trade agreements such as the Economic Community of West African States (ECOWAS)'s Common External Tariff and to continue to work on agreements that would facilitate trade.

Authorities' views: The authorities view power as a priority sector and key to promoting growth. They noted that funding issues associated with legacy debt of the newly privatized power generation companies have been addressed by the CBN providing funding through the Power and Aviation Intervention Fund. They noted the need for a unified market for gas to complement reforms in transmission and distribution in the power sector. The authorities acknowledge the need to continue to enhance the business climate, including in terms of coordination with tax authorities at the state level to address tax duplication issues. They indicated that the terms of the Economic Partnership Agreement (EPA) with the European Union (EU) remain under discussion, including on ensuring appropriate market access for Nigerian exports to the EU (SIP: Promoting Economic Transformation).

29. Efforts are underway to make growth more inclusive and generate additional jobs. A skills mismatch and the gap between the rate of job creation in the formal sector versus the number of youth entering the job market are resulting in youth unemployment and underemployment, which could become more acute as the economy slows. Ongoing initiatives include expanded vocational training, grants to foster entrepreneurial talent, and job creation via YouWin and the Graduate Transient Job Creation program funded by SURE-P. *Staff noted the importance of protecting funding for these programs, as well as other programs aimed to improve maternal health, keep children in school, and promote higher female participation and gender equality in the workplace. Standardization of application processes, post-program evaluations (as in the case of SURE-P), and clear exit strategies could also help ensure the cost effectiveness of these programs*.

Authorities' views: The authorities stressed the importance of achieving the Millennium Development Goals (MDGs) and their commitment to protect associated social programs, such as the budget for polio vaccinations, Malaria, and HIV, education, security, and core infrastructure (power, critical road transportation and agriculture). With World Bank assistance, the authorities also plan to continue building the social safety net, including developing a conditional cash transfer scheme to promote primary and secondary education and improve maternal and child care.

30. Special financing schemes for private sector growth need to be carefully evaluated. Such schemes constitute quasi-fiscal activities, implying the spending of public resources (Box 2 and SIP: Promoting Economic Transformation). While there is some evidence of a positive impact on capacity and employment, the relative effectiveness and costs of each scheme (or the totality of the schemes) has not been assessed and the implicit subsidies can have distortive effects on resource allocation. *Staff recommends that interventions should be carefully targeted with a clear exit strategy, and with a clear assessment of how the results of each program contribute to the sustainability of funding. In addition, staff emphasized the broader benefits of focusing resources on improving the enabling environment for business through infrastructure investment and improved administrative efficiency*.

Authorities' views: The authorities are committed to ensuring interventions are well-targeted and transparent. However, they see these as an appropriate policy focus and in line with the unconventional monetary policy actions taken in other jurisdictions.

Box 2. Quasi-Fiscal Activities—Subsidized Credit from Public Financial Institutions

The Central Bank of Nigeria (CBN) and other public financial institutions (PFIs) play a role as agents of fiscal policy in Nigeria. These activities affect the overall public sector balance without affecting the FGN budget deficit. The implicit subsidies associated with subsidized lending (or on-lending)—calculated as the maximum lending rate minus subsidized interest rate times the credit extended since inception—through the CBN is estimated at about N140 billion in 2014, about 17 percent of FG capital expenditure.

Key schemes are: the commercial agriculture credit scheme (CACS); the agricultural credit support scheme (ACSS); the refinancing and rediscounting scheme (RRF) operated by the Bank of Industry (BOI) to restructure banks' existing loan portfolios to manufacturers; and the power and aviation intervention fund (PAIF) also operated by the BOI.

Implicit Interest Subsidies

(Billion naira)

	Max lend. rate	Subsidized rate	Amount outstanding	Interest subsidies
CACS	25.8	9.0	239.0	40.0
ACSS	25.8	6.0	0.9	0.2
RRF	25.8	10.0	360.7	56.8
PAIF	25.8	7.0	233.6	43.8
Total				140.8

Sources: CBN and Staff estimates.

31. Ongoing efforts to enhance transparency and monitoring of oil sector transactions could help reduce oil theft/deferred production. Oil production losses fell to about 150 thousand bpd in 2014, reflecting less frequent pipeline shutdowns, but theft and vandalism continue. *Staff welcomed the authorities' development of a strategic analysis, including trends and typologies, of the financing of terrorism within the AML/ CFT framework. It supported plans to undertake and publish in 2015 a similar analysis of oil theft, and require financial and non-financial sector supervisors to use risk-based approaches in controlling oil theft/money-laundering and report all suspicious activities to the relevant authorities. Staff supports the on-going efforts for the automation of oil-related data collections by Nigerian Extractive Industry Transparency Initiatives (NEITI) to improve the timeliness of data reconciliation and urged the publication of the PriceWaterhouseCoopers audit report of Nigerian National Petroleum Corporation (NNPC).*

32. Data have improved significantly, but more needs to be done. Nigeria has come far (e.g., the rebasing of the national accounts, a new General Household Survey, and regular publication of FSIs). Continued efforts are needed in: (i) BOP—large errors and omissions, large other investment flows, and greater use of survey data; (ii) refining the CPI and PPI; and (iii) completing censuses of business and agriculture, and the Household Living Conditions Survey to improve the basis for compiling macroeconomic data, including the next rebasing (2015) of the national accounts (Box 3, Annex 5, and SIP: Promoting Economic Transformation).

Box 3. Improving External Sector Data

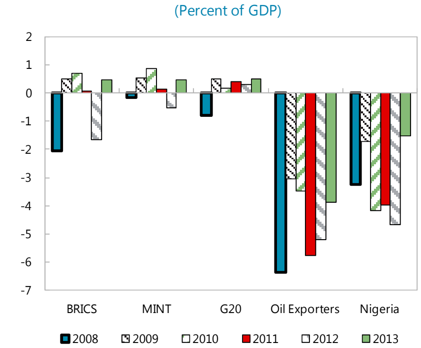
Nigeria has been improving external sector data, with the support of the IMF and other partners (Informational Annex). The quality of current account data has improved: for example, the size of discrepancies between Nigeria's imports from the world and the world exports to Nigeria has narrowed significantly, with the size now in line with that of other countries.

On the financial account, there have been improvements in capturing inflows. For example, the Certificate of Capital Importation (CCI) data provides a detailed monthly series.

Challenges remain in capturing capital outflows, in particular in other investment outflows where sizeable net outflows are reported relative to peers. Such a scale of outflows is not necessarily reflected in the change in net loans positions of BIS reporting banks (BIS Locational Banking Statistics). The authorities are also working to better capture inter-company transfers, particularly of International Oil Companies (IOCs).

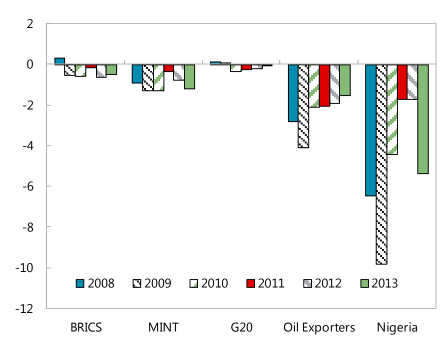
However, errors and omissions remain very large.

Selected Economies: Other Investment Net Inflows, 2008-13[1]
(Percent of GDP)



Source: IMF BOP Database .

Selected Economies: Errors and Omissions
(Percent of GDP)



Source: BOP Database, IMF.

STAFF APPRAISAL

33. Nigeria has achieved several years of strong growth, gradually diversifying the economy away from oil, but challenges remain. Growth has been driven by the non-oil sector and private consumption, but is yet to reduce poverty and income inequality has widened. Infrastructure gaps and weak institutions constrain growth prospects.

34. The adjustment to a lower level of oil prices will slow growth and create difficult policy choices. The oil price collapse, which is expected to be at least partially permanent, has significantly impacted the economy. The initial policy response—tightening of fiscal policy, gradual exchange rate depreciation, use of some of the reserve buffer—has been appropriate, but further adjustment will be needed in 2015. To this end, achieving the proposed fiscal consolidation in 2015 will require determined efforts to improve the efficiency and prioritization of spending, ensuring essential public services are not impaired and the implementation of the capital budget is carefully scrutinized. As much of the burden of adjustment falls on the state and local governments, it will be critical to provide appropriate support to these administrations to ensure effective budgeting.

35. Mobilizing additional non-oil revenues will be critical to expanding fiscal space and public service provision over the medium-term. Non-oil revenues are substantially below the levels of other commodity-based economies. Ongoing initiatives to strengthen tax administration have produced welcome improvements in collections, but determined efforts to rein in exemptions would help to broaden the tax net, while tax rates should also be kept under review. Improving oil revenue management, while scaling back fuel subsidies, would also provide additional fiscal space and enable a shift in the composition of expenditures towards pressing social and development needs. In the long term, it might be appropriate to review the revenue sharing arrangements to help address the socio-economic regional disparities.

36. The effectiveness of the monetary and exchange rate policy framework can be improved, including by allowing greater flexibility in the rDAS exchange rate. It is important for the CBN to maintain its focus on inflation. While exchange rate stability helps contain inflationary pressure given the high dependency on imports, exchange rate adjustment can play a key role in enabling the economy to adjust to a large external shock, whereas the rigidity in the rDAS had given rise to a situation where the current level of exchange rate is considered moderately overvalued with respect to the level implied by Nigeria's fundamentals and reserves are low relative to EM metrics. The wedge between the rDAS and IFEM exchange rates perpetuate distortions and should be eliminated, preferably by unifying the market rather than through administrative measures.

37. Vulnerabilities remain high. With both fiscal and external buffers lowered further in 2014, prolonged uncertainty about future oil prices and domestic political and security developments could adversely impact investor sentiment and the overall assessment of the economy. Financial sector data and stress tests show resilience, but the concentration of risks and foreign currency exposures need to be monitored carefully. Recent progress in strengthening supervision/regulation both for DSIBs and cross-border should be continued and it is important to advance work on deepening financial market development, including for introducing hedging instruments. Moreover, communication is especially critical in helping sustain foreign investor confidence and mitigate the risk of capital flight and disorderly markets.

38. Data are broadly adequate for surveillance, but there are some areas for improvement. Progress has been made in strengthening national accounts data and new household survey, but additional efforts are needed on BOP data, in particular on capital outflows.

39. The longer-term challenge is to successfully position the economy on a path to lower oil-dependency and a diversified and competitive non-oil sector. The on-going transformation agenda establishes a clear strategic direction, but greater prioritization would be helpful to ensure rapid progress on key reforms and the efficient use of available resources. Further development of core infrastructure, reducing business environment costs, encouraging high value-chain sectors, improving access to finance, promoting employment of youth and female populations, and advancing human capital development are all key steps for not only raising growth, but also making it more inclusive.

40. It is proposed that the next Article IV consultation be held on the standard 12-month cycle.

Table 1. Nigeria: Millennium Development Goals, 1990–2012

	1990	1995	2000	2005	2010	2011	2012
Goal 1: Eradicate extreme poverty and hunger							
Employment to population ratio, 15+, total (%)	53	53	52	51	51	52	52
Employment to population ratio, ages 15–24, total (%)	29	30	31	32	32	32	32
Income share held by lowest 20%	4	5	..	5	4	..	..
Poverty gap at $1.25 a day (PPP) (%)	31	32	..	29	34	..	..
Poverty headcount ratio (adult equivalent)[1]	..	..	..	*48.4*	46	..	33
Goal 2: Achieve universal primary education							
Literacy rate, youth female (% of females ages 15-24)	62	..	..	61	*58*	..	..
Literacy rate, youth male (% of males ages 15-24)	81	..	..	78	*76*	..	..
Persistence to last grade of primary, total (% of cohort)	..	..	73	78	*79*	..	..
School enrollment, primary (% net)	..	..	65	67	64	..	..
Goal 3: Promote gender equality and empower women							
Proportion of seats held by women in national parliaments (%)	..	..	3	6	7	7	7
Ratio of female to male primary enrollment (%)	79	83	82	85	92	..	..
Ratio of female to male secondary enrollment (%)	78	..	85	84	89	..	..
Ratio of female to male tertiary enrollment (%)	33	..	79	71	..	..	..
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	56	57	42
Mortality rate, infant (per 1,000 live births)	127	125	113	96	83	80	78
Mortality rate, under-5 (per 1,000 live births)	214	211	188	156	132	128	124
Goal 5: Improve maternal health							
Births attended by skilled health staff (% of total)	31	..	42	35	..	49	..
Maternal mortality ratio (modeled estimate, per 100,000 live births)	1100	1000	970	820	610	*610*	..
Pregnant women receiving prenatal care (%)	57	..	64	58	..	66	..
Goal 6: Combat HIV/AIDS, malaria, and other diseases							
Children with fever receiving antimalarial drugs (% of children under age 5 with fever)	..	..	..	34	49	45	..
Condom use, population ages 15–24, female (% of females ages 15–24)	..	..	7	8	*12*	..	..
Condom use, population ages 15–24, male (% of males ages 15–24)	..	..	32	38	*40*	..	..
Incidence of tuberculosis (per 100,000 people)	128	139	172	175	133	118	108
Prevalence of HIV, total (% of population ages 15-49)	1.3	4	3.9	3.7	3	3	3
Tuberculosis case detection rate (%, all forms)	16	9	12	26	40	45	51
Goal 7: Ensure environmental sustainability							
Forest area (% of land area)	18.9	..	14.4	12.2	10	9	..
Improved sanitation facilities (% of population with access)	37	36	34	32	29	28	28
Improved water source (% of population with access)	47	50	53	57	63	63	64
Goal 8: Develop a global partnership for development							
Internet users (per 100 people)	0	0	0.1	3.5	24.0	28.4	32.8
Mobile cellular subscriptions (per 100 people)	0	0	0	13	54.7	58.0	66.8
Other							
GNI per capita, Atlas method (current US dollar)	260	210	270	630	1460	1710	2490
Life expectancy at birth, total (years)	46	45	46	49	51	52	52

Source: World Bank's World Development Indicators.

Table 2. Nigeria: Selected Economic and Financial Indicators, 2012–19

	2012	2013	2014	2015	2016	2017	2018	2019
	Act.		Projections					
National income and prices	(Annual percentage change, unless otherwise specified)							
Real GDP (at 2010 market prices)	4.3	5.4	6.1	4.8	5.0	5.3	5.5	5.8
Oil and Gas GDP	-4.9	-13.1	-2.5	-1.6	-1.4	0.1	0.8	0.7
Non-oil GDP	5.9	8.3	7.2	5.5	5.6	5.8	6.0	6.2
Production of crude oil (million barrels per day)	2.34	2.19	2.20	2.28	2.33	2.41	2.44	2.45
Nominal GDP at market prices (trillions of naira)	72.6	81.0	90.2	95.4	111.1	128.5	147.2	165.8
Nominal non-oil GDP (trillions of naira)	61.3	70.7	80.6	89.2	102.8	118.3	135.7	153.1
Nominal GDP per capita (US$)	2,835	3,082	3,302	2,894	2,880	3,008	3,154	3,272
GDP deflator	9.3	5.9	4.9	0.9	11.0	9.8	8.6	6.5
Non-oil GDP deflator	9.9	6.6	6.3	5.0	9.0	8.9	8.2	6.2
Consumer price index (annual average)	12.2	8.5	8.1	9.5	10.2	8.5	7.7	7.2
Consumer price index (end of period)	12.0	7.9	7.9	11.5	9.0	8.0	7.5	7.0
FGN gross debt (percent of GDP)	10.4	10.5	10.5	11.9	11.8	11.4	11.2	11.0
Of which: domestic debt (percent of GDP)	9.0	8.8	8.8	9.9	9.8	9.5	9.3	9.3
Investment and savings	(Percent of GDP)							
Gross national savings	19.3	18.6	17.4	16.0	17.0	17.4	17.3	17.3
Public	4.5	1.7	1.2	0.4	1.0	1.4	1.6	1.8
Private	14.8	16.8	16.1	15.6	16.0	16.0	15.7	15.5
Investment	14.6	14.5	14.9	15.5	15.9	16.2	16.3	16.6
Public	3.6	3.3	2.9	2.4	2.8	3.0	2.9	2.8
Private	11.1	11.1	12.0	13.1	13.1	13.2	13.4	13.7
Current account balance	4.4	3.9	2.2	0.2	0.8	0.9	0.7	0.4
Consolidated government operations [1]	(Percent of GDP)							
Total revenues and grants	14.3	11.0	9.9	7.7	8.4	8.7	8.8	8.8
Of which: oil and gas revenue	10.4	7.1	5.8	3.4	4.1	4.4	4.4	4.3
Total expenditure and net lending	14.7	13.4	12.3	10.6	11.2	11.2	11.0	10.7
Of which: fuel subsidies [2]	2.2	0.9	0.7	0.0	0.3	0.5	0.5	0.5
Overall balance	-0.3	-2.4	-2.5	-2.8	-2.8	-2.5	-2.2	-2.0
Non-oil primary balance (percent of non-oil GDP)	-11.6	-9.7	-8.1	-5.5	-6.2	-6.3	-6.0	-5.7
ECA (US$ billions)	10.0	2.8	2.1	0.0	0.0	0.0	0.0	0.0
SWF (US$ billion)	1.0	1.0	1.5	1.5	1.5	1.5	1.5	1.5
Money and credit	(Change in percent of broad money at the beginning of the period, unless otherwise specified)							
Broad money (percent change; end of period)	29.1	0.9	7.3	10.8	15.3	15.2	14.7	12.9
Net foreign assets	15.9	-3.4	-7.4	-0.1	-0.2	2.8	2.3	2.1
Net domestic assets	2.3	4.3	14.6	10.9	15.5	12.5	12.5	10.8
Claims on consolidated government	-14.4	7.3	-4.1	9.6	11.0	9.4	7.8	7.1
Claims on the rest of the economy	8.1	8.5	10.3	10.2	8.0	5.4	6.6	5.4
Velocity of broad money (ratio; end of period)	3.9	4.5	4.8	4.8	4.8	4.8	4.8	4.8
Treasury bill rate (percent; end of period)	13.3	11.5	13.0	...	...	...	...	...
External sector	(Annual percentage change, unless otherwise specified)							
Exports of goods and services	1.8	-0.9	-5.1	-37.4	15.5	10.9	6.4	4.5
Imports of goods and services	-10.6	-4.9	9.7	-16.6	7.0	7.7	7.6	6.5
Terms of trade	1.0	0.4	-2.6	-25.6	7.5	3.8	2.0	0.8
Price of Nigerian oil (US dollar per barrel)	110.0	109.0	100.6	52.8	61.6	66.9	70.2	72.3
Nominal effective exchange rate index (end of period)	95.9	96.7	99.0	...	...	...	...	...
Real effective exchange rate index (end of period)	111.3	118.8	128.4	...	...	...	...	...
External debt outstanding (US$ billions)	6.5	8.8	9.9	10.4	10.8	11.1	11.3	10.5
Gross international reserves (US$ billions)	43.8	42.8	34.3	28.4	26.5	27.8	29.1	30.5
(equivalent months of imports of G&Ss)	7.1	6.3	6.1	4.7	4.1	4.0	3.9	3.9

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

[1]The budget oil price is US$72 a barrel for 2012, US$79 for 2013, $77.5 for 2014, and $65 for 2015 and thereafter.

[2]For 2012, includes one-off payment of about 1 percent of GDP to settle arrears accrued in 2011.

Table 3. Nigeria: Balance of Payments, 2012–17

(Billions of U.S. dollars, unless otherwise specified)

	2012	2013	2014	2015	2016	2017
	Actual		Projections			
Current account balance	20.4	20.1	12.5	1.3	4.2	5.1
Trade balance	42.5	43.8	34.7	10.0	15.7	18.5
Exports	96.0	95.1	90.5	56.3	65.0	72.0
Oil/gas	93.0	90.6	86.7	52.1	60.3	66.7
Other	3.0	4.5	3.8	4.2	4.7	5.3
Imports	-53.6	-51.4	-55.8	-46.3	-49.4	-53.5
Oil/gas	-19.2	-15.1	-13.9	-7.9	-9.9	-11.5
Other	-34.4	-36.2	-41.8	-38.4	-39.5	-42.0
Services (net)	-21.7	-20.1	-23.2	-19.6	-21.1	-22.2
Income (net)	-22.3	-25.7	-21.9	-12.9	-15.0	-16.9
Of which: Interest due on public debt	-0.2	-0.2	-0.3	-0.3	-0.3	-0.3
Transfers (net)	22.0	22.2	22.9	23.8	24.7	25.6
Capital and Financial account balance	-1.3	6.8	-7.6	-1.1	0.0	2.8
Capital Account (net)	0.0	0.0	0.0	0.0	0.0	0.0
Financial Account (net)	-1.3	6.8	-7.6	-1.1	0.0	2.8
Direct Investment (net)	5.6	4.4	2.2	2.0	2.7	3.6
Portfolio Investment (net)	15.1	10.4	3.0	3.5	3.6	3.8
Other Investment (net)	-22.0	-8.0	-12.9	-6.7	-6.3	-4.7
ECA/SWF Investment (net)	0.0	0.0	0.0	0.0	0.0	0.0
Errors and omissions	-8.0	-27.9	-12.1	-6.0	-6.1	-6.6
Overall balance	11.2	-1.0	-7.2	-5.8	-1.9	1.3
Net international reserves (increase -)	-11.2	1.0	7.2	5.8	1.9	-1.3
Memorandum items:						
Gross official reserves, end-of-period	43.8	42.8	34.3	28.4	26.5	27.8
In months of next year's imports of goods and services	7.1	6.3	6.1	4.7	4.1	4.0
SWF foreign investment balances, end-of-period	0.0	0.0	0.0	0.0	0.0	0.0
Current account (percent of GDP)	4.4	3.9	2.2	0.2	0.8	0.9
Exports of goods and services (percent of GDP)	21.1	18.7	16.1	11.2	12.7	13.1
Imports of goods and services (percent of GDP)	16.6	14.2	14.1	13.1	13.7	13.7
External debt[1]	6.5	8.8	9.9	10.4	10.8	11.1
External debt (percent of GDP)	1.4	1.7	1.7	2.0	2.0	2.0
External debt (percent of exports)	6.6	9.0	10.7	17.9	16.2	15.0
External debt (percent of consolidated fiscal revenues)	9.7	15.3	17.5	25.9	24.3	22.5
External debt service due (percent of exports)	0.3	0.5	0.4	0.7	0.6	0.6
Real imports of goods and services (percent of real GDP)	32.6	29.7	32.3	35.7	34.0	33.4
GDP (at market prices)	467	522	574	517	529	568

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

[1]Nominal public sector short- and long-term debt, end of period. Guaranteed external debt is not included.

Table 4a. Nigeria: Federal Government Operations, 2012–17

(Billions of Naira)

	2012	2013	2014	2015	2016	2017
	Actual		Projections			
Total revenue	2,763	3,000	3,114	2,848	3,654	4,287
Oil revenue	1,851	1,977	1,819	1,403	1,960	2,311
Non-oil revenue	912	1,023	1,295	1,446	1,694	1,976
Import and excise duties	214	195	257	278	325	373
Companies' income tax	395	459	569	646	764	902
Value-added tax	95	107	111	127	150	177
Federal government independent revenue	207	262	357	395	455	525
Total expenditure	4,153	4,438	4,220	4,447	5,060	5,547
Recurrent expenditure	3,409	3,597	3,713	4,066	4,310	4,447
Personnel	1,811	1,861	2,000	2,029	2,128	2,128
Overheads	590	526	440	592	527	527
Interest	701	822	890	1,032	1,257	1,386
Transfers[1]	307	388	384	413	399	406
Capital expenditure	744	842	507	381	750	1,100
Overall balance	-1,391	-1,438	-1,107	-1,599	-1,406	-1,260
Overall balance (incl. ECA financing)	-1,002	-735	-1,107	-1,535	-1,406	-1,260
Financing	1,282	1,259	767	1,599	1,406	1,260
External	-21	-26	-18	-18	-22	-26
Borrowing	0	0	0	0	0	0
Amortization	-21	-26	-18	-18	-22	-26
Domestic	1,303	1,285	785	1,616	1,428	1,287
Bank financing	-1,427	344	-839	1,107	867	649
o/w ECA/SWF financing	388	703	0	64	0	0
Nonbank financing	2,710	931	1,606	490	542	619
Other financing[2]	20	10	18	19	19	19
Statistical discrepancy/Financing gap	108	179	340	0	0	0
Memorandum items:						
FGN Total Debt	7,552	8,489	9,460	11,372	13,162	14,695
Domestic	6,538	7,119	7,904	9,457	10,885	12,171
Foreign	1,014	1,370	1,556	1,915	2,277	2,523
Budget oil price[3]	72	79	78	65	65	65
Oil revenue (in the budget)	1,899	2,301	2,066	1,907	1,922	1,982
Price of Nigerian oil (US dollar per barrel)	110	109	101	53	62	67
FGN overall balance (percent of GDP)	-1.9	-1.8	-1.2	-1.7	-1.3	-1.0
FGN overall balance incl. ECA financing (percent of GDP)	-1.4	-0.9	-1.2	-1.6	-1.3	-1.0

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]Projections for 2015–17 are based on a constant oil price of $65 for the period of MTEF.

Table 4b. Nigeria: Consolidated Government, 2012–17

(Billions of Naira)

	2012	2013	2014	2015	2016	2017
	Actual		Projections			
Total revenue	10,416	8,949	8,886	7,389	9,379	11,225
Oil revenue	7,583	5,774	5,209	3,270	4,567	5,627
Non-oil revenue	2,833	3,176	3,677	4,118	4,812	5,598
Import and excise duties	475	433	571	616	721	826
Companies' income tax	849	986	1,222	1,388	1,640	1,937
Value-added tax	710	796	829	942	1,112	1,314
Other (education tax and customs levies)	306	390	364	406	478	558
Federal government independent revenue	207	262	357	395	455	525
SLGs independent revenue	286	309	334	372	406	438
Total expenditure	10,637	10,876	11,109	10,084	12,436	14,400
Federal government	4,153	4,438	4,220	4,447	5,060	5,547
State and local government	4,531	4,795	4,731	4,357	5,537	6,506
Extrabudgetary funds (incl. SURE-P) [1]	1,804	1,347	1,848	945	1,465	1,973
Foreign-financed capital spending	148	297	310	335	374	373
Overall balance	-221	-1,927	-2,223	-2,696	-3,057	-3,175
Non-oil primary balance	-7,096	-6,869	-6,532	-4,921	-6,353	-7,400
Financing	295	2,136	1,883	2,696	3,057	3,175
External	121	231	266	301	339	334
Borrowing [2]	148	297	310	335	374	373
Amortization	-27	-34	-24	-23	-29	-35
Foreign asset acquisition (ECA/SWF)	0	-31	-19	-10	-5	-4
Domestic	174	1,904	1,616	2,394	2,718	2,841
Bank financing [3]	-1,751	989	-285	1,662	1,869	1,865
o/w ECA financing	847	1,534	0.0	139	0	0
Nonbank financing	1,904	906	1,883	714	830	957
Other financing	20	10	18	19	19	19
Statistical discrepancy/Financing gap	-74	-209	340	0	0	0
Memorandum items:						
Budget oil price (US dollar a barrel)	72	79	78	65	65	65
Oil revenue (in the budget)	4,607	5,581	5,011	4,625	4,663	4,808
Overall balance (% of GDP)	-0.3	-2.4	-2.5	-2.8	-2.8	-2.5

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 4c. Nigeria. Government Operations, 2012–17

(Percent of GDP)

	2012	2013	2014	2015	2016	2017
	Actual		Projections			
Consolidated Government						
Total revenue	14.3	11.0	9.9	7.7	8.4	8.7
Oil revenue	10.4	7.1	5.8	3.4	4.1	4.4
Non-oil revenue	3.9	3.9	4.1	4.3	4.3	4.4
Total expenditure	14.7	13.4	12.3	10.6	11.2	11.2
Federal government expenditure	5.7	5.5	4.7	4.7	4.6	4.3
State and local government	6.2	5.9	5.2	4.6	5.0	5.1
Extrabudgetary funds (incl. from SURE-P)	2.5	1.7	2.0	1.0	1.3	1.5
Foreign-financed capital spending	0.2	0.4	0.3	0.4	0.3	0.3
Overall balance	-0.3	-2.4	-2.5	-2.8	-2.8	-2.5
Non-oil primary balance (percent of non-oil GDP)	-11.6	-9.7	-8.1	-5.5	-6.2	-6.3
Financing	0.4	2.6	2.1	2.8	2.8	2.5
External	0.2	0.3	0.3	0.3	0.3	0.3
Borrowing	0.2	0.4	0.3	0.4	0.3	0.3
Amortization	0.0	0.0	0.0	0.0	0.0	0.0
Domestic	0.2	2.4	1.8	2.5	2.4	2.2
Bank financing	-2.4	1.2	-0.3	1.7	1.7	1.5
o/w ECA financing	1.2	1.9	0.0	0.1	0.0	0.0
Nonbank financing	2.6	1.1	2.1	0.7	0.7	0.7
Statistical discrepancy/Financing Gap	-0.1	-0.3	0.4	0.0	0.0	0.0
Federal Government						
Total revenue	3.8	3.7	3.5	3.0	3.3	3.3
Oil revenue (at budget reference oil price)	2.5	2.4	2.0	1.5	1.8	1.8
Non-oil revenue	1.3	1.3	1.4	1.5	1.5	1.5
Total expenditure	5.7	5.5	4.7	4.7	4.6	4.3
Recurrent expenditure	4.7	4.4	4.1	4.3	3.9	3.5
Personnel	2.5	2.3	2.2	2.1	1.9	1.7
Overheads	0.8	0.6	0.5	0.6	0.5	0.4
Interest	1.0	1.0	1.0	1.1	1.1	1.1
Transfers	0.4	0.5	0.4	0.4	0.4	0.3
Capital expenditure	1.0	1.0	0.6	0.4	0.7	0.9
Overall balance	-1.9	-1.8	-1.2	-1.7	-1.3	-1.0
Overall balance (incl. ECA financing)	-1.4	-0.9	-1.2	-1.6	-1.3	-1.0
Financing	1.8	1.6	0.8	1.7	1.3	1.0
External	0.0	0.0	0.0	0.0	0.0	0.0
Domestic	1.8	1.6	0.9	1.7	1.3	1.0
Bank financing	-2.0	0.4	-0.9	1.2	0.8	0.5
o/w ECA financing	0.5	0.9	0.0	0.1	0.0	0.0
Nonbank financing	3.7	1.1	1.8	0.5	0.5	0.5
Statistical discrepancy/Financing gap	0.1	0.2	0.4	0.0	0.0	0.0
Memorandum items:						
Spending from Sure-P and others (all tiers of government)	0.6	0.7	1.2	0.2	0.5	0.7
Of which: Federal government spending	0.3	0.3	0.6	0.1	0.2	0.3

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

Table 4d. Nigeria: State and Local Governments, 2012–17

(Percent of GDP)

	2012	2013	2014	2015	2016	2017
	Actual		Projections			
Revenue	5.4	5.2	4.6	4.0	4.3	4.4
Oil revenue	3.4	3.2	2.5	1.8	2.2	2.3
Shared revenue	2.2	2.3	1.8	1.4	1.7	1.7
Derivation grant (13 percent)	1.2	0.9	0.7	0.4	0.5	0.6
Non-oil revenue	2.0	2.0	2.0	2.1	2.1	2.1
CIT	0.5	0.6	0.6	0.7	0.7	0.7
Customs	0.3	0.2	0.3	0.3	0.3	0.3
VAT	0.8	0.8	0.8	0.8	0.8	0.8
Internal revenue	0.4	0.4	0.4	0.4	0.4	0.3
Expenditure	6.2	5.9	5.2	4.6	5.0	5.1
Overall Balance	-0.8	-0.8	-0.7	-0.6	-0.6	-0.7
Financing	1.1	1.2	0.7	0.6	0.6	0.7
External	0.0	0.0	0.0	0.0	0.0	0.0
Domestic	1.1	1.3	0.7	0.6	0.7	0.7
Bank financing	2.2	1.3	0.4	0.4	0.4	0.4
o/w ECA financing	0.6	1.0	0.0	0.1	0.0	0.0
Nonbank financing	-1.1	0.0	0.3	0.2	0.3	0.3
other	0.0	0.0	0.0	0.0	0.0	0.0
Statistical discrepancy/Financing gap	-0.3	-0.5	0.0	0.0	0.0	0.0

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

Table 4e. Nigeria: Extrabudgetary Funds (including ECA/SWF), 2012–17

(Percent of GDP)

	2012	2013	2014	2015	2016	2017
	Actual		Projections			
Revenue	5.1	2.2	1.8	0.8	0.8	1.0
Extrabudgetary funds[1]	1.0	0.9	0.8	0.8	0.8	0.8
Contributions to the ECA/SWF	3.2	1.2	1.0	0.0	0.0	0.2
Expenditure	2.5	1.7	2.0	1.0	1.3	1.5
Extrabudgetary funds[1]	1.0	0.9	0.8	0.8	0.8	0.8
Spending from Sure-P and others	0.6	0.7	1.2	0.2	0.5	0.7
Explicit fuel subsidy and social spending	0.4	0.5	0.7	0.0	0.3	0.5
Shared infrastructure spending	0.2	0.2	0.5	0.2	0.2	0.2
Financing	-2.6	-0.5	0.2	0.2	0.5	0.5
External financing	0.0	0.0	0.0	0.0	0.0	0.0
Foreign asset acquisition (ECA/SWF)	0.0	0.0	0.0	0.0	0.0	0.0
Domestic bank financing	-2.6	-0.5	0.2	0.2	0.5	0.5
Memo item: Net change in ECA/SWF ("-" accumulation)	-1.5	1.4	0.2	0.4	0.5	0.5

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 5a. Nigeria: Central Bank of Nigeria (CBN) Analytical Balance Sheet, 2012–17

(Billions of Naira)

	2012	2013				2014				2015	2016	2017
	Dec.	Mar.	Jun.	Sep.	Dec.	Mar.	Jun.	Sep.	Dec.	December		
	Act.	Act.				Act.			Prel.	Projections		
Net foreign assets[1]	7,394	7,992	7,414	7,178	6,899	5,950	6,200	6,293	6,389	5,716	5,808	6,491
Net domestic assets	-2,643	-3,466	-3,698	-2,204	-943	-325	-1,189	-1,108	-192	677	1,560	1,999
Net domestic credit	2,186	2,587	2,244	2,807	4,075	5,166	2,726	3,062	3,163	4,920	6,007	6,834
Net claims on consolidated government	-3,574	-3,376	-3,375	-2,991	-2,102	-2,097	-2,730	-2,388	-2,534	-1,460	-716	-265
Net claims on federal government [2]	-3,574	-3,376	-3,375	-2,991	-2,102	-2,097	-2,730	-2,388	-2,534	-1,460	-716	-265
Claims	733	414	447	526	747	667	641	659	893	932	1,177	1,127
Deposits	-4,308	-3,790	-3,822	-3,517	-2,849	-2,764	-3,371	-3,047	-3,427	-2,392	-1,892	-1,392
Of which: ECA/SWF	-1,708	-1,250	-1,087	-799	-434	-403	-561	-665	-335	0	0	0
FGN	-783	-573	-498	-366	-199	-185	-257	-305	-154	0	0	0
SLGs [2]	-925	-677	-588	-433	-235	-218	-304	-360	-181	0	0	0
Other items net	-4,829	-6,053	-5,942	-5,011	-5,018	-5,491	-3,915	-4,170	-3,355	-4,243	-4,447	-4,835
Reserve money	4,751	4,526	3,716	4,974	5,956	5,625	5,012	5,184	6,197	6,392	7,368	8,490
Currency in circulation	1,632	1,509	1,426	1,474	1,777	1,574	1,497	1,548	1,798	1,908	2,750	3,306
Banks reserves with the CBN	2,073	2,403	1,811	3,176	3,782	3,462	3,226	3,334	4,167	4,484	4,617	5,184
Memorandum items:												
Reserve money y/y growth rate	40.2	44.9	19.1	33.7	25.3	44.6	9.7	8.8	4.0	3.2	15.3	15.2
Money multiplier	3.3	3.5	4.2	2.9	2.6	2.8	3.2	3.2	2.7	2.9	2.9	2.9

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 5b. Nigeria: Monetary Survey, 2012–17

(Billions of Naira)

	2012	2013				2014				2015	2016	2017
	Dec.	Mar.	Jun.	Sep.	Dec.	Mar.	Jun.	Sep.	Dec.	December		
	Act.	Act.			Est.	Act.			Est.	Projections		
Net foreign assets	9,042	9,684	9,014	8,921	8,511	7,605	7,683	7,613	7,361	7,341	7,298	7,888
Central Bank of Nigeria (net)	7,394	7,992	7,414	7,178	6,899	5,950	6,200	6,293	6,389	5,716	5,808	6,491
Commercial and merchant banks (net)	1,648	1,692	1,600	1,743	1,612	1,654	1,482	1,320	973	1,626	1,490	1,398
Net domestic assets	6,439	5,978	6,571	5,419	7,102	8,008	8,185	8,886	9,386	11,213	14,089	16,755
Net domestic credit	12,695	12,713	13,215	13,008	14,957	15,252	15,082	16,147	15,984	19,295	22,818	25,971
Net claims on consolidated government	-1,633	-1,696	-1,599	-2,346	-509	-517	-893	-534	-1,153	447	2,484	4,487
Net claims on FGN [1]	-2,454	-2,533	-2,437	-3,233	-1,505	-1,480	-1,826	-1,451	-2,078	-582	849	2,200
Of which: ECA/SWF	-1,708	-1,250	-1,087	-799	-434	-403	-561	-665	-335	0	0	0
Claims on SLG	821	837	838	887	996	962	933	917	925	1,029	1,635	2,288
Claims on private sector	9,649	9,683	10,140	10,563	10,553	10,869	11,296	12,011	12,291	14,003	15,488	16,638
o/w credit to the private sector	7,034	7,152	7,641	8,169	8,731	9,120	9,508	10,199	11,220	12,782	14,139	15,188
Other Claims	4,679	4,725	4,674	4,791	4,912	4,900	4,679	4,670	4,846	4,846	4,846	4,846
Other items	-6,256	-6,735	-6,644	-7,589	-7,855	-7,244	-6,897	-7,261	-6,598	-8,081	-8,729	-9,216
Broad money	15,480	15,662	15,584	14,340	15,612	15,612	15,867	16,498	16,748	18,555	21,386	24,643
Currency outside banks	1,302	1,243	1,129	1,169	1,448	1,228	1,164	1,244	1,368	1,516	1,747	2,013
Demand deposits	5,070	5,076	5,326	4,793	5,161	5,059	5,125	5,055	4,658	5,345	6,200	7,153
Time and savings deposits	8,062	8,728	8,649	8,054	8,607	8,736	9,289	9,898	10,490	11,694	13,440	15,477
Memorandum items:												
Broad money (y-o-y,%)	29.1	18.0	15.6	2.0	0.9	0.4	2.9	13.0	7.3	10.8	15.3	15.2
Credit to the private sector (y-o-y,%)	15.3	18.1	11.7	17.5	24.1	29.9	28.1	27.9	28.5	13.9	10.6	7.4
Velocity (non-oil GDP/broad money)	3.90	4.00	4.17	4.69	4.47	4.62	4.70	4.67	4.76	4.76	4.76	4.76
Gross international reserves (billions of US dollar)	43.8	47.9	45.0	44.1	42.8	37.4	37.3	38.3	34.3	28.4	26.5	27.8

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 6. Nigeria: Financial Soundness Indicators, 2009-14

(Percent; otherwise specified)

	2009 Q4	2010 Q4	2011 Q4	2012 Q4	2013 Q1	2013 Q2	2013 Q3	2013 Q4	2014Q1	2014Q2
Capital adequacy										
Regulatory Capital to Risk-Weighted Assets	4.1	1.8	17.9	18.3	19.6	18.9	18.0	17.1	17.1	16.4
Regulatory Tier 1 Capital to Risk-Weighted Assets	4.9	2.2	18.1	18.0	19.3	18.5	17.6	17.1	17.1	16.1
Non-performing Loans Net of Provisions to Capital	106.8	192.7	10.1	6.1	3.4	5.9	5.5	5.8	5.1	5.6
Asset quality										
Non-performing Loans to Total Gross Loans	27.6	15.7	5.3	3.5	4.0	3.9	3.6	3.4	3.8	3.7
Sectoral Distribution of Total Loans: Residents	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Deposit-takers	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other Financial Corporations	4.3	3.2	1.3	0.8	0.0	0.0	0.0	0.0	0.0	0.0
General Government	3.8	5.1	7.2	8.3	6.4	6.0	6.3	6.1	5.8	5.4
Nonfinancial Corporations	90.5	89.9	89.8	88.7	91.5	92.0	91.9	92.1	92.6	93.0
Other Domestic Sectors	1.4	1.8	1.7	2.1	2.1	2.0	1.8	1.7	1.6	1.6
Earnings and profitability										
Return on Assets	-8.8	3.9	0.2	2.3	2.8	2.9	2.6	2.3	2.5	2.5
Return on Equity	-222.8	266.0	2.2	21.1	23.1	23.7	21.1	18.9	21.0	20.7
Interest Margin to Gross Income	59.1	53.6	31.0	62.0	62.6	65.2	65.8	63.9	63.9	62.7
Non-interest Expenses to Gross Income	137.4	50.2	24.4	64.8	63.4	62.7	69.7	68.1	65.2	65.5
Liquidity										
Liquid Assets to Total Assets (Liquid Asset Ratio)	10.5	12.0	25.4	24.6	20.5	13.7	11.5	16.8	13.5	11.7
Liquid Assets to Short Term Liabilities	13.6	13.3	30.1	28.4	28.1	19.0	16.1	23.1	19.0	16.6
Sensitivity to market risk										
Net open position in foreign exchange to capital	...	...	...	...	...	...	...	...	...	...

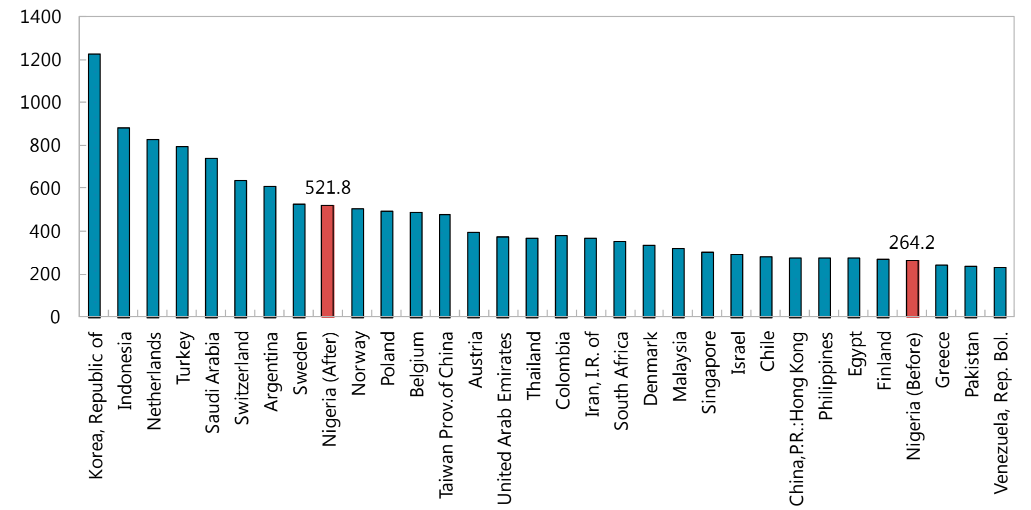
Source: Financial Soundness Indicators (FSI)

Annex 1. Benchmarking: Moving Forward but with Challenges

- Nigerian economy is doing well and the country has become an important player in the global context.

Figure A1.1. Gross Domestic Product, Nominal, 2013

(U.S. dollars)

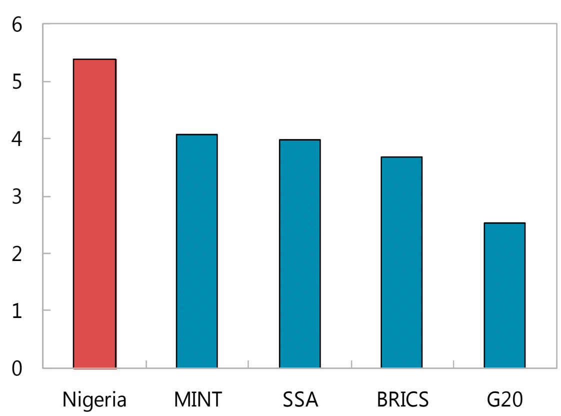


Sources: Nigerian authorities; and IMF estimates.

- Nigeria's economy is growing faster than its peers, driven by the non-oil sector.

Figure A1.2 Real GDP Growth, 2013

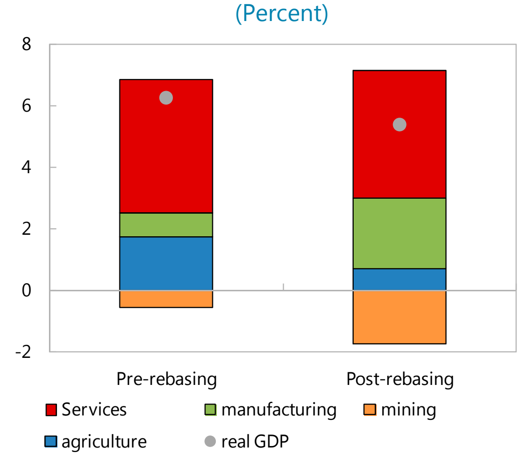
(Percent)



Sources: Nigerian authorities; and IMF estimates.

Figure A1.3 Sectoral Contribution to GDP growth, 2013

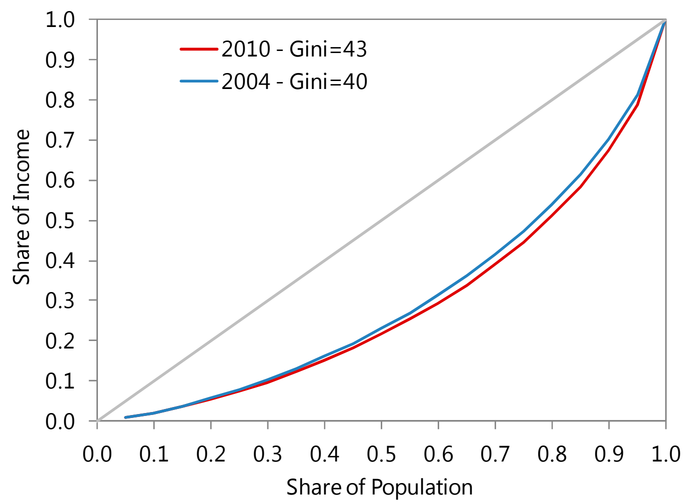
(Percent)



Sources: Nigerian authorities; and IMF estimates.

- But Challenges remain. Inequality has deepened.

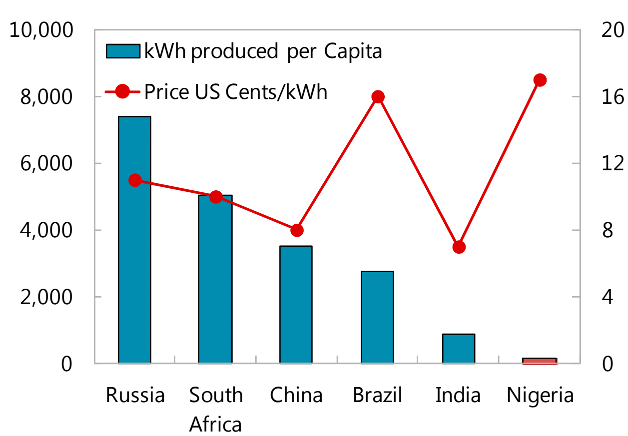
Figure A1.4. Lorenz Curve, 2004 and 2011



Sources: Nigerian authorities, and IMF estimates.

- There are significant gap in terms of infrastructure, as well as in key indicators like credit to the economy, revenue mobilization, export diversification and quality of exports.

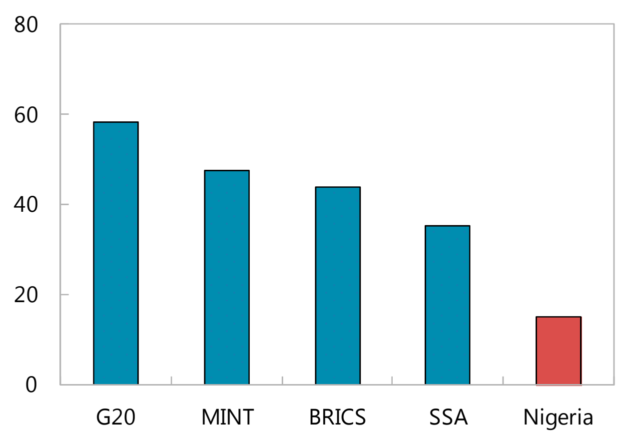
Figure A1.5. Electricity production and price, 2011



Sources: World Bank; Nigerian authorities; and IMF estimates.

Figure A1.6. Paved Roads, 2011

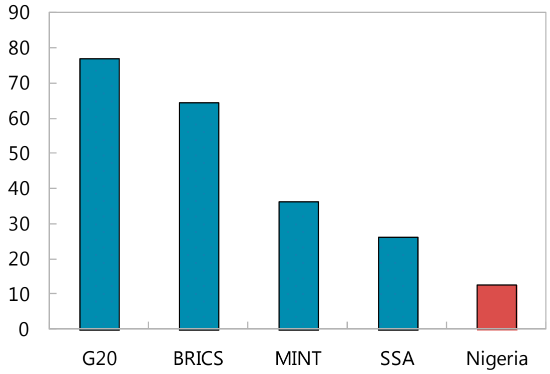
(Percent of total roads)



Source: World Bank.

Figure A1.7. Credit to private sector, 2013

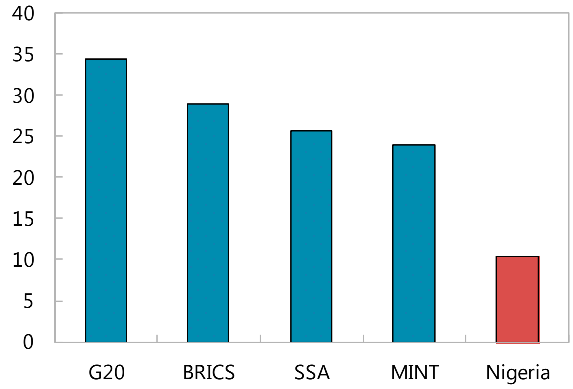
(Percent of GDP)



Source: World Bank.

Figure A1.8. Government Revenue, 2013

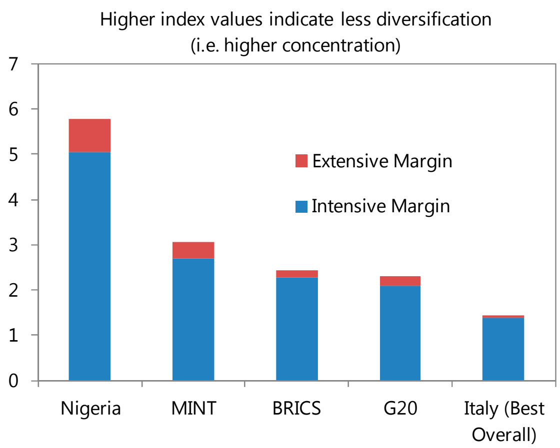
(Percent of GDP)



Sources: World Bank; Nigerian authorities; and IMF estimates.

Figure A1.9. Product Diversification, 2010

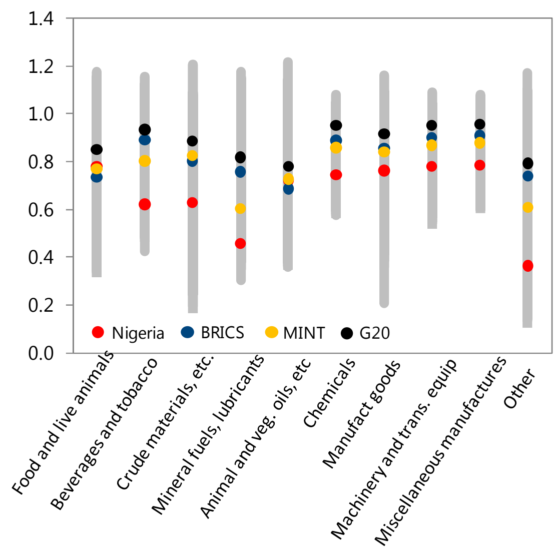
(Units)



The extensive margin measures the number of product lines in exports while the intensive margin measures the average value (quality) of exports per product line. The diversification index can improve either by exporting more product lines, higher quality goods, or the combination of the two.

Figure A1.10. Export Quality Index, 2010

(Units - Higher values indicate higher quality levels)

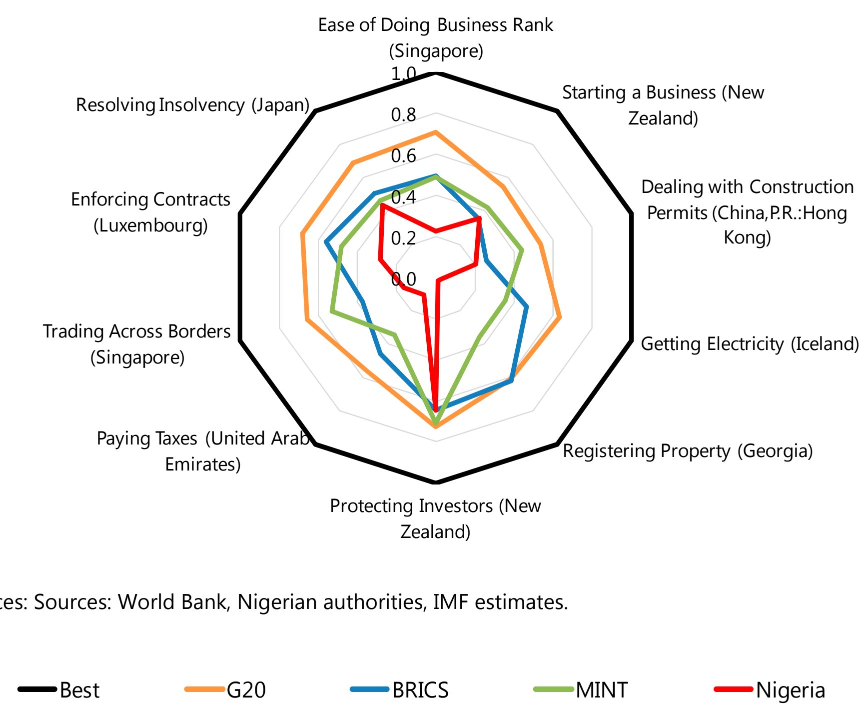


Sources: World Bank; Nigerian authorities; IEA; EIA; National Energy Agencies; and IMF estimates.

- Business environment and governance indicators are still lagging peers.

Figure A1.11. Selected Economies: Doing Business Indicators, 2014

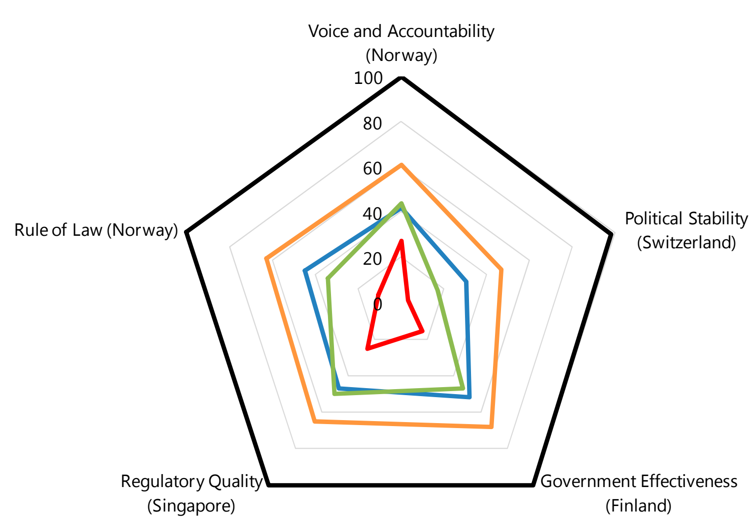
(Normalized ranking, 1 = Best, 0 = Worst. In parenthesis best country for indicator)



Sources: Sources: World Bank, Nigerian authorities, IMF estimates.

Figure A1.12 Selected Economies: Governance Indicators, 2012

(Percentile Rank 100 = Best, 0 = Worst)

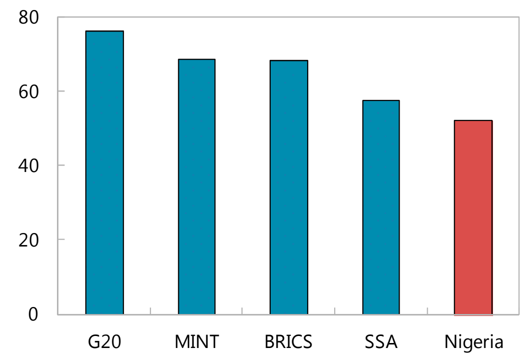


Sources: Sources: World Bank, Nigerian authorities, IMF estimates.

- Health and education levels show also an important gap.

Figure A1.13. Life expectancy at birth, 2012

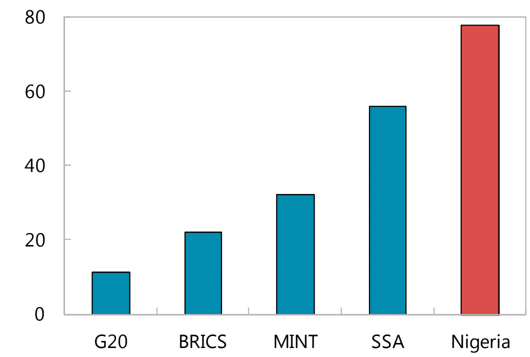
(Years)



Source: World Bank.

Figure A1.14. Infant Mortality, 2012

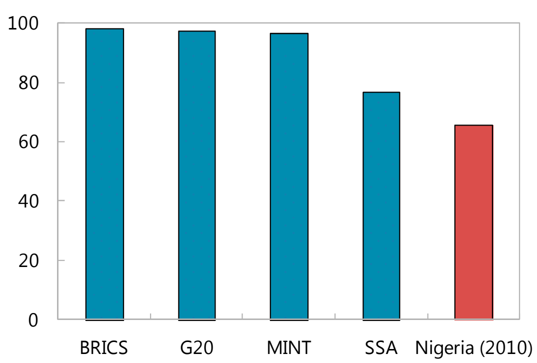
(per 1'000 live births)



Source: World Bank.

Figure A1.15. Primary Education, Net Enrollment Rate, 2011

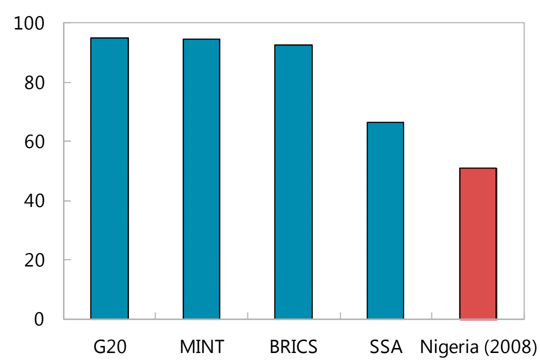
(Percent of primary school age children)



Source: World Bank.

Figure A1.16. Literacy rate, adult total, 2011

(Percent of people ages 15 and above)



Source: World Bank.

Annex 2. IMF Surveillance: Follow-up on Policy Recommendations

In its continued effort to best serve member countries, the IMF follows up on policy advice and recommendation discussed during its past annual Article IV surveillance mission. The following is a list of policy issues and recommendations that were discussed in the past Article IV mission and were also covered in the last staff report.

The 2013 Article IV Staff Report noted that polices should focus on:

- Boosting external and rebuilding fiscal buffers.
- Avoiding spending pressures from the political cycle.
- Improving oil-revenue management.
- Undertaking structural reforms to boost growth and job creation.
- Strengthening governance frameworks.

Authorities Feedback:
Reserves declined by $8.5 billion in 2014, bringing them to the bottom of the Fund's reserve adequacy range. Reserves could fall below the range starting in 2015, suggesting that rebuilding external buffers should remain a high priority. The authorities also acknowledged the need to continue their efforts to enhance the business climate, including in terms of coordination with the tax authorities at the state level to address issues of tax duplication. They also noted the number of initiatives they are undertaking to boost growth and job creation (SIP: Promoting Economic Transformation on Current Initiatives).

On Fiscal Issues:

- Adoption of a conservative oil benchmark price and oil production level in the 2014 Budget.
- Freezing allocations for salaries.
- Focusing on completing existing capital projects in the 2014 budget.
- PFM reforms-—notably the extension of the TSA and information systems in key federal institutions.
- Improving oil revenue management.
- Programs to fight poverty and alleviate inequalities are welcome.
- Implementation of strong monitoring and evaluation frameworks should help improve service delivery at low cost.

Authorities Feedback:
The authorities pointed to progress on several of these fronts, including using conservative budget assumptions for the oil price and production, a declining wage bill as a share of GDP, and a realistic capital budget reflecting execution capacity. PFM reforms are well underway with the TSA covering 551 out of 821 FG entities and accounting for 75 percent of the FG budget. To improve oil revenue management, the authorities are including kerosene subsidies explicitly in the 2015 budget and are

considering implementing a rule-based budget oil price. The authorities are taking actions to strengthen the social safety net, including plans to introduce a conditional cash transfer program tailored around school attainment and maternal and child care health clinic visitations.

Monetary and Exchange Rate Policies:

- Staff encouraged greater reliance on open market operations to guide short-term interest rates.
- In the event of persistent pressures, greater flexibility in the exchange rate may be needed to respond to shocks.

Authorities Feedback:

Authorities confirmed that they actively use OMOs to guide short-term interest rates.
The official exchange rate was devalued by 8 percent and the band around it was increased to +/-5 percent from +/-3 percent. The authorities intend to move gradually toward greater flexibility.

Financial:

- Implementation of key recommendations of the 2012 FSAP Update.
- Enhanced onsite inspections of Nigerian banks operating abroad, particularly in countries where the supervisory framework is less developed than in Nigeria.

Authorities Feedback:

Significant steps to address these recommendations have been taken as outlined in the Annex. Key actions still outstanding include the recommended update to the BOFI and NDIC Acts; however, draft Bills are with the National Assembly and will hopefully be passed in 2015.

The authorities have undertaken 15 onsite inspections of Nigerian bank subsidiaries in the past two years and have participated in a range of College of Supervisors' meetings.

Structural Reforms:

- Increase the delivery of power.
- Broaden the agricultural base.
- Increase access to finance for SMEs.
- Recently introduced high tariffs on selected agricultural products create distortions and should be temporary, with sectoral growth underpinned by improvements in competitiveness rather than by protectionist measures.
- Regular reviews of specialized credit and guarantee schemes should be undertaken to detect problems early and improve effectiveness.

Authorities Feedback:

The authorities view the power sector as the key for unleashing Nigeria's growth prospects. They noted that the debt issues of the newly privatized power generation companies have been resolved and investment plans for building capacity are on track. In addition, the authorities noted that implementation of the agriculture transformation agenda is yielding positive economic effects. Higher productivity through the growth enhancement support (GES) program, using the E-wallet to provide targeted support for seeds and fertilizers, generated higher incomes for farmers, and contributed to the creation 2.7 million jobs over the last two years. In addition, improvements to the business environment have increased private investment, generating returns in the form of increased food supply. The authorities reaffirmed their commitments to ensure that interventions are targeted and transparent.

Annex 3. Update on Financial Sector Assessment Program (FSAP)

The 2012 FSAP update analyzed developments in Nigeria's financial sector since the 2009 banking crisis and highlighted some key risks. This annex provides a brief update on developments in the banking sector since then.

The resilience of the banking sector has improved significantly since the banking crisis; however, there has been some small deterioration in the first half of 2014. The industry-wide capital adequacy ratio (CAR) declined by 0.8 percentage points to 16.4 percent (Figure A3.1), the liquidity ratio declined marginally by 1.1 percentage points (Figure A3.2), while non-performing loans increased marginally by 0.3 percentage points to 3.5 percent (Figure 3.3); however, these remain better than the prudential minimum standards. This deterioration in CAR has been concentrated in small- and medium-sized banks (down by 3.6 and 2.3 percentage points to 14.4 percent and 16 percent respectively). In particular, the CAR of two banks temporarily fell below the statutory minimum of 10 percent requiring an increase of capital. Looking ahead, banks' ability to raise fresh capital at a reasonable cost will be constrained by the negative developments in sovereign spreads and general decline in the stock market (Figure A3.4).

The risk profile of banks has also changed, with foreign currency exposures (both assets and liabilities) increasing. In particular, dollarization has increased from 15 percent of deposits in 2011 to 23 percent by end-2014(Figure A3.5). In addition, banks have taken advantage of supportive global conditions to access international capital markets, issuing $3.7 billion of debt since 2011, implying that about 20 percent of total liabilities are now denominated in foreign currency. While this level of exposure would not necessarily point to any need for immediate concern, the relative importance of these liabilities will automatically increase with the depreciation of the exchange rate. Similarly, the exchange rate impact on the asset side will also increase the relative importance of foreign currency loans, which were 21 percent of total loans as of end-2013 (Figure A3.6). Given the exchange rate pressures, it will be important to monitor the credit quality of foreign currency assets (which may be linked to exchange rate developments), and potential liquidity mismatches that could also expose banks on the liabilities side. To contain such exposures the CBN has reduced the upper limit on foreign currency borrowing from 200 percent to 75 percent of shareholders' funds and required banks to (i) maintain a stock of high-quality liquid foreign-currency assets; and (ii) establish foreign currency contingency funding arrangements with other financial institutions.[1]

Credit concentration continues to be a concern, especially given the decline in the oil price and its impact on the fiscal position. Lending to sectors most exposed to these negative shocks—oil and gas, power and energy, and state governments—represent 24, 4 percent and 7 percent of the loan book respectively. To help mitigate concentration risk going forward, the CBN has increased the capital risk weighting on any industry exposure representing more than 20 percent of

[1] CBN circular BSD/DIR/GEN/LAB/07/037, October 24, 2014.

total credit from 100 percent to 150 percent, proposed a risk weighting of 125 percent if total lending to the oil and gas sector exceed 20 percent, emphasized the importance of strong credit assessment and risk management of these exposures, and required banks to undertake a stress test to evaluate the impact of oil prices (including on public sector credit) on banks' balance sheets.

Cross-border risks are also evolving, given some deterioration in operating conditions in other African countries. After a period of expansion into other parts of Africa (bringing the number of foreign subsidiaries of Nigerian banks to 64 as of end-2013), two banks divested themselves of their operations in West and East Africa in 2014, while one has yet to commence (approved) operations in Southern Africa. In addition, two other foreign subsidiaries of Nigerian banks were subject to regulatory actions and intervened by the Central Bank of the Gambia, of which one remains under the direct control of the supervisor.

Nevertheless, as noted in the CBN's June 2014 *Financial Stability Report,* the system remains resilient to significant shocks to credit, interest and exchange rates. The authorities' analysis did illustrate, however, the relative vulnerability of small banks. In particular, a 200 percent increase in NPLs, which would be equivalent to a complete loss on 7 percent of all loans, would result in eight small banks becoming insolvent.[2]

Supervisory examinations point to some continuing weaknesses in governance, which were also highlighted in the 2012 FSAP update. Ongoing examinations of the deposit money banks by the CBN, including jointly with the Nigerian Deposit Insurance Company (NDIC), confirms that these remain a source of vulnerability. In addition, compliance with regulations on foreign exchange transactions is weak, potentially constraining the effectiveness of both monetary and prudential policies. However, there has been welcome progress in strengthening internal audit and financial analysis. In addition, the authorities have recently issued a new *Code of Corporate Governance for Banks and Discount Houses* and they have taken the first steps in ensuring the competency of bank directors by undertaking a baseline assessment against the newly introduced Competency Framework. This baseline assessment indicated that only 35 percent of directors were considered to have met the minimum requirements, largely due to a lack of professional qualifications. Banks have been required to submit remedial plans which will be monitored by the authorities.

Deficiencies in risk management have also been revealed by these examinations. In response, the CBN has held some workshops for banks' risk management officers, and banks have been reminded to minimize currency and maturity mismatch with respect to foreign currency borrowing and lending.[3]

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[2] The stress scenario tested by the CBN is a single factor shock. Staff estimates suggest any required recapitalization of these banks to the minimum 10 percent CAR could cost about N200 billion (¼ percent of GDP.

[3] CBN circular BSD/DIR/GEN/LAB/07/037, October 24, 2014.

AMCON

Two of the three bridge banks acquired by AMCON at the time of the crisis have been sold. AMCON had recapitalized three bridge banks at a cost of N737 billion with a 25 percent target recovery rate (or N184 billion).[4] The sales of Mainstreet and Enterprise bank were completed in October 2014, with HBC Investment Services (a unit of Nigerian Heritage Banking Company) acquiring Enterprise and Skye Bank acquiring Mainstreet. The recovery on the sales was 42 percent and 32 percent of the initial investment (relative to the target 25 percent). The sale of Keystone is slated for 2015; in anticipation, Keystone has divested itself of its businesses in Sierra Leone, and Liberia and has been advised to enter its Gambia subsidiary into voluntary liquidation following the loss of its banking license. Keystone is also planning to sell its insurance and healthcare units.

As of October 31, 2014, all remaining AMCON bonds held by the private sector (N867 billion) have been redeemed. This followed the earlier redemption of bonds maturing in December 2013 (N734 billion in private sector hands). To help finance these redemptions, bonds held by the CBN (N3.5 trillion) were restructured into a 10 year bond (N 3.8 trillion) carrying a 6 percent coupon. The residual redemption needs were financed from the proceeds of asset sales (including N165 billion in recoveries on non-performing loans and the sale of the bridge banks) and the Banking Sector Resolution Cost Fund, with part of the proceeds met by the transfer of government securities from AMCON to bondholders. The authorities indicate they are confident that the remaining liabilities (all held by the CBN) can be met from the expected proceeds of asset recoveries and anticipated contributions (including an annual N50 billion from the CBN) to the Banking Sector Resolution Cost Fund. All banks have paid their 2013 contributions of 0.5 percent of total assets.

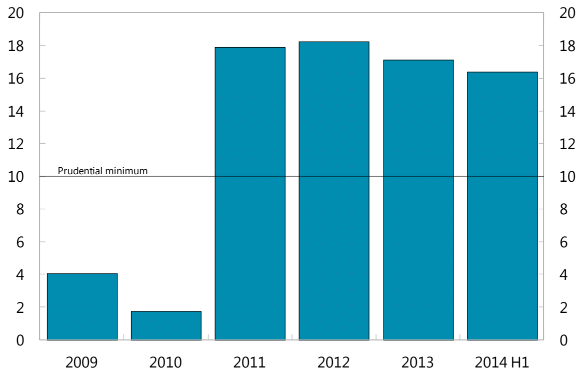
The ongoing status of AMCON remains unclear. In September 2013, AMCON assumed ownership of and recapitalized, an insolvent discount house at a cost of about N100 billion. The authorities believe this intervention was warranted given the exposure of a number of pension funds to the institution; plans are underway to transform the entity into a merchant bank and sell it in 2015. Despite this action, the authorities indicated the intention that AMCON should no longer purchase distressed assets remains in force.

[4] AMCON Management Presentation 2013.

Key Developments in Banking Sector

Figure A3.1. Capital Adequacy Ratio (CAR)

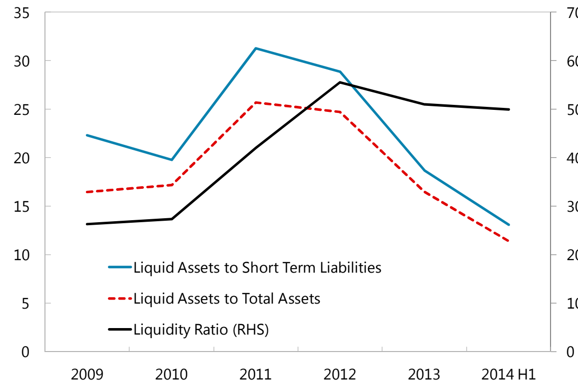
(Percent)



Sources: CBN

Figure A3.2. Liquidity Ratios

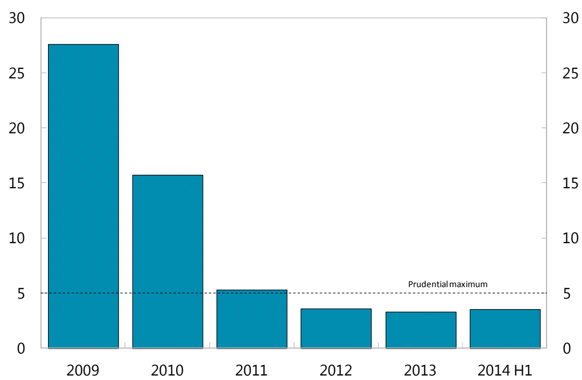
(Percent)



Sources: CBN

Figure A3.3. Non-performing Loans Ratio

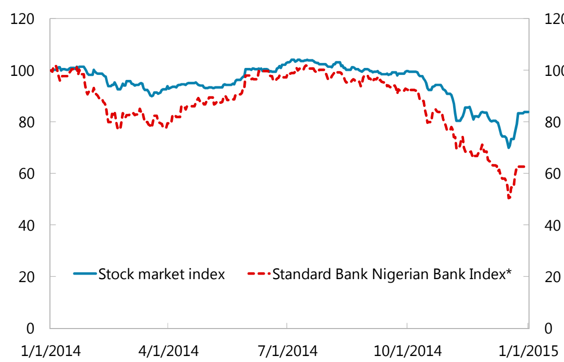
(Percent)



Sources: CBN

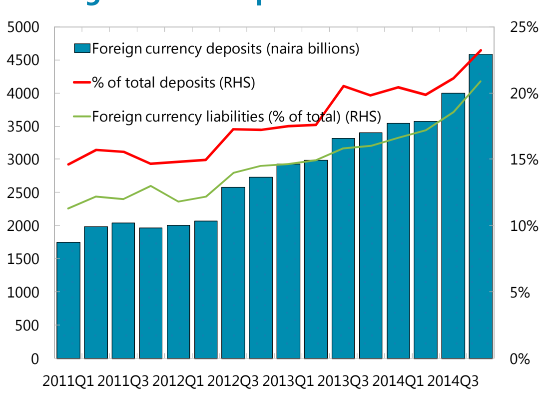
Figure A3.4. Relative Stock Performance

(Index: Jan 1, 2014 = 100)



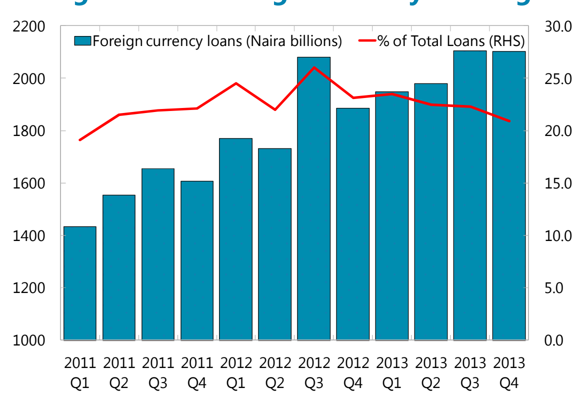
* Based on the stock performance of the seven largest Nigerian banks.
Source: Bloomberg

Figure A3.5. Deposit Dollarization



Sources: CBN, staff estimates

Figure A3.6. Foreign Currency Lending



Sources: IMF FSI database

Regulatory and Supervisory Development

The authorities continue to take important steps to strengthen their supervisory and regulatory framework.

- **Oversight of domestic systemically important banks (DSIBs)**. Eight DSIBs were initially identified (May 2013); however, as of December 2014, only seven still qualified. This has been followed by the introduction of an enhanced framework for their regulation and supervision (Sept 2014), which will come into effect in March 2015. Under this framework, the identified DSIBs would be required to meet higher capital adequacy requirements: a minimum CAR of 15 percent; Tier 1 capital should constitute at least 75 percent of the bank's qualifying capital; and would face an additional (higher loss absorbing (HLA)) capital surcharge of 1 percent to be met with Common Equity Tier 1 capital.[5] They will also be required to carry out solvency and liquidity stress tests (under standardized parameters advised by the CBN) on a quarterly basis (to be reviewed by the CBN), be subject to more intensive supervisory effort (including an expanded reporting requirement), and to maintain and update a recovery plan (by January 1 of each year).

- **Implementation of Basel II/III**. Full implementation of Pillar I commenced on October 1, 2014, following a parallel run of Basel I and II capital adequacy ratio computations from January to September 2014, based on the CBN guidance note released in December 2013. In addition, all banks and discount houses have submitted their Internal Capital Adequacy Assessment Process in compliance with Pillar II. Implementation of Pillar III (on disclosure requirements) has also begun.

- **Adoption of IFRS**. IFRS has been adopted by the banking sector, with two rounds of annual financial statements now produced under IFRS. The standard is also being rolled out to non-bank financial institutions, with discount houses, credit bureaux, and some other financial institutions issuing IFRS-compliant financial statements for year ending December 2013.

- **Cross-border supervision**. The CBN is focusing on executing Memorandum of Understandings (MOUs) (to facilitate information sharing and joint supervisory activities) and engaging in Colleges of Supervisors and cross-border examinations. As of end-2013, 14 MOUs had been executed with host countries, including where Nigerian subsidiaries are systemic in their jurisdictions, and one is about to be signed (with Mauritius). On-site examinations of 13 foreign subsidiaries were undertaken in 2013, eight of which were joint with the host supervisor; two more were undertaken in 2014. A college of supervisors for the United Bank of Africa (UBA) was inaugurated in 2014. In parallel, work on a crisis management framework for cross-border institutions is ongoing. The authorities indicate that MOUs have proved effective and that cross-border collaboration with other supervisors is good. For instance, the CBN was fully

[5] Currently the minimum capital adequacy ratio is 10 percent for national/regional banks and 15 percent banks with international banking license respectively.

informed of the circumstances surrounding the intervention of the two subsidiaries in the Gambia.

- **Consolidated supervision and supervision of holding companies**. The Financial Services Regulation Coordination Committee (FSRCC) has developed a *Framework for Consolidated Supervision of Financial Institutions* (August 2013), which has been implemented since January 2014. In addition, the CBN has issued guidelines (in 2014) to facilitate the regulation, supervision and operation of financial holding companies.

- **Macroprudential oversight**. The FSRCC has begun taking steps to transform itself into a more comprehensive Financial System Stability Committee. In particular, the Financial Sector Soundness Sub-Committee has been tasked with developing a financial stability dashboard, with the initial version discussed in November 2014. The dashboard is focused on facilitating the ready monitoring of risk as it evolves in key areas, including not only the macroeconomic environment but also each of the key financial sectors, and summarizing the key vulnerabilities and potential policy responses.

- **AML/CFT**. Since the 2012 FSAP update, the authorities have been active in strengthening the framework for Anti-Money Laundering (AML)/Countering the Financing of Terrorism (CFT). To support the broader financial inclusion agenda, tiered-Know Your Customer requirements have been introduced to facilitate account opening and operation (within limits) even with basic identification (e.g., a telephone number). In addition, several CBN circulars have been issued relating to different aspects of AML/CFT; the Financial Intelligence Unit (FIU) has issued a strategic analysis on terrorism financing, providing clear guidance on indicators of terrorism finance that can be monitored; and the authorities have provided training to the financial sector on various aspects. These efforts have led to Nigeria being removed from the Financial Action Task Force (FATF) list of jurisdictions with significant deficiencies in their AML/CFT regimes. Nigeria is due to undergo a FATF mutual evaluation in 2016; in that context, the Presidential Committee on Financial Action Task Force is overseeing the preparation of a national risk assessment, which is anticipated to be completed in 2015. In addition, the FIU is planning additional strategic analyses covering fraud and oil & gas theft issues within the next year. With new channels of financial activity likely to emerge, especially within the context of financial inclusion, staff encouraged enhanced vigilance and broadened oversight to adequately capture these in the framework and ensure the continued integrity of the financial system.

- **Building supervisory capacity**. The CBN and NDIC continue to deepen their supervisory capacity, including through a variety of training activities, in particular in the areas of IFRS and its interaction with prudential guidelines, and on key aspects of Basel II/III. In addition, the FSRCC facilitates a range of joint initiatives, including on IFRS and consolidated risk-based supervision, to enhance capacity across national financial supervisors.

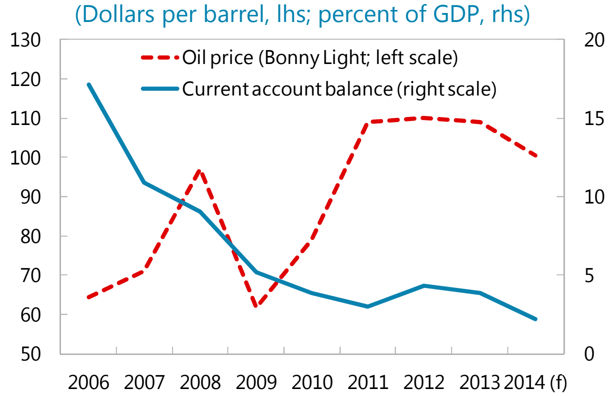
Annex 4. External Sector Assessment

Current and financial accounts and exchange rate

Nigeria's current account balance has been falling despite high oil prices (Figure A4.1). Oil and natural gas exports predominate, comprising over 90 percent of total exports of goods and services, but have stagnated in recent years, declining from over 25 percent of GDP before 2009 to about 15 percent of GDP in 2014. Other items in the current account have not compensated, as non-oil exports remain below 1.5 percent of GDP and the current account deficit excluding petroleum products has fluctuated at between 9 percent and 13 percent of GDP (Figure A4.2).

Figure A4.1. Oil Price and Current Account

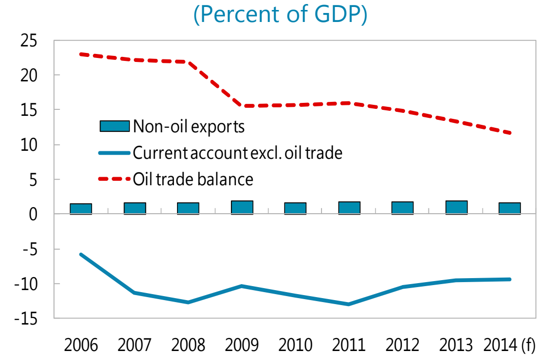
(Dollars per barrel, lhs; percent of GDP, rhs)



Source: Nigerian Authorities, IMF estimates

Figure A4.2. Components of International Trade

(Percent of GDP)

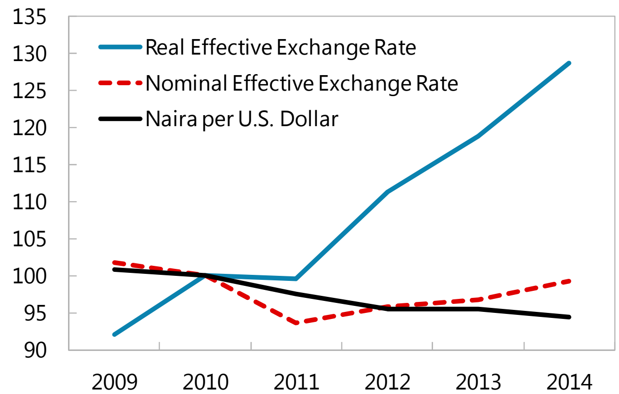


Source: Nigerian Authorities, IMF estimates

The real effective exchange rate (REER) has appreciated by a cumulative 29 percent since 2011 (Figure A4.3). This is largely the result of faster inflation than among trading partners, as the central bank has kept its official rate for the naira in a narrow range against the U.S. dollar. The stronger dollar has led to an appreciation of 6 percent in the nominal effective exchange rate since 2011.

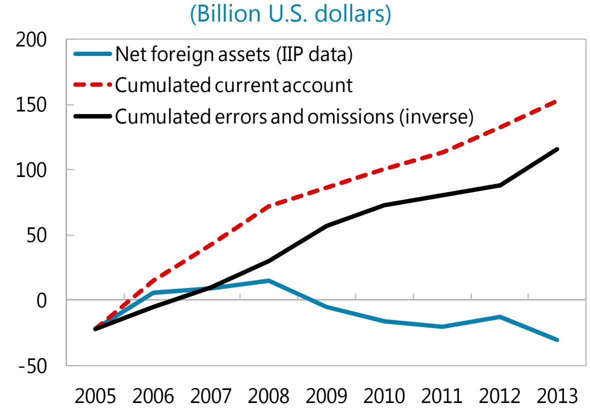
Caution is warranted in interpreting the valuation of the naira for both theoretical and practical reasons. As an oil producer, Nigeria should be seeking to accumulate financial assets via current account surpluses to preserve at least a portion of the oil wealth for future generations. On the other hand, as a low-income developing country with substantial development needs, a case could be made for using the oil proceeds for infrastructure investment. Data gaps also add uncertainty to the estimates, as errors and omissions outflows in the balance of payments since 2005 have been nearly as large as the sum of current account surpluses (Figure A4.4), suggesting imprecision in existing estimates of the current account balance and/or the net foreign asset position. Since these unrecorded outflows have been large and persistent, they are factored into the assessment. Finally, there were large shifts in fundamentals—namely, the oil price—at the end of 2014, to which the economy is in the midst of adjusting.

Figure A4.3. Exchange Rate Developments
(Index 2010=100, increase is appreciation)



Source: IMF

Figure A4.4. Measures of Foreign Asset Accumulation
(Billion U.S. dollars)



Source: Nigerian Authorities, IMF estimates

Estimates of external equilibrium suggest the naira is moderately overvalued. In particular:

- Under the External Balance Assessment methodology,[1] the current account balance is modeled as a function of its fundamentals (fiscal balance, private credit, change in reserves, net foreign assets, oil and gas trade balance, relative income, relative GDP growth, demographics, institutional environment, terms of trade gap, and output gap). The norm is raised by the amount of errors and omissions outflows as maintaining external sustainability would require running a higher current account balance to compensate (on the grounds that the errors and omissions are a combination of unrecorded current account debits and structural capital outflows). On this basis, the current account norm is estimated to be a surplus of 3.8 percent of GDP (Table A3.1). The current account balance is forecast at a surplus of 2.2 percent of GDP for 2014, suggesting a gap of 1.7 percent of GDP and an overvaluation of 14 percent of GDP.[2] Policies reduced the gap by 0.3 percent of GDP, suggesting that the overall macroeconomic policy stance was not significantly hindering external sustainability. These findings point to the need for structural policies to boost non-oil exports from their current low levels.

- Under the external sustainability approach, the current account norm including errors and omissions is set at the level that would stabilize net foreign assets-to-GDP at the end-2014 level, taking into account the medium-term forecast. Given Nigeria's status as an oil exporter and the associated volatility of its current account receipts, the liquid component of net foreign assets is emphasized. For this reason, Nigeria's net foreign direct investment position (minus 13 percent of GDP at end-2014) was excluded; other net foreign assets are estimated at about 7 percent of

[1] IMF Working Paper 13/272. The EBA model was used as it fits the historical behavior of Nigeria's current account better than the EBA-lite model did.

[2] Accounting for only half of errors and omissions outflows in the norm does not change the finding of moderate overvaluation.

GDP at end-2014. On this basis, the estimated norm is 2.0 percent of GDP, compared to a medium-term forecast for the current account balance of 0.2 percent of GDP. A depreciation of 15 percent would be sufficient to reach the norm (Table A4.1).

- A price-based approach that directly models the equilibrium real exchange rate (ERER) as a function of its fundamentals (the terms of trade, relative income, government consumption, net foreign assets, and remittances) within a panel framework finds that the naira is overvalued by about 12 percent. However, given the historical volatility of Nigeria's REER and the fit of the model, the moderate overvaluation suggested by this approach should be viewed with caution.

Table A4.1. Nigeria: Assessment of Real Exchange Rate

	Current Account Regression[1]	External Sustainability Approach	Equilibrium RER Regression
Current account reference	2.2	0.2	--
Current account norm[2]	3.8	2.0	--
Current account gap	-1.7	-1.8	--
Real exchange rate gap[3]	13.7	14.9	12.5

Source: IMF staff estimates.

[1] Based on External Balance Assessment Methodology (IMF Working Paper 13/272).

[2] Current account norm is adjusted upward for errors and omissions.

[3] Positive numbers indicate overvaluation. Elasticity of current account to real exchange rate gap is 0.12.

The results from the three approaches, viewed together with other information, suggest that the exchange rate is moderately overvalued with respect to the level implied by Nigeria's fundamentals. In particular, the margin between the interbank and official exchange rates remained at 8-10 percent in late 2014 despite the devaluation of the official rate, suggesting that demand at the official rate continues to outstrip supply.

Reserve adequacy

Gross international reserves peaked in 2008, and have since fallen in both absolute terms and relative to balance of payments flows. Reserves were $34.3 billion at end-December, down from $42.8 billion at end-2013, and sufficient to cover 6 months of the next year's projected imports (Figure A4.5). Import cover ranged from 8-12 months through 2008.

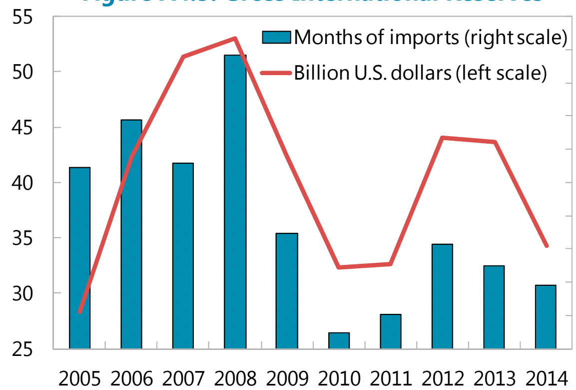
Capital flows are becoming increasingly important to the reserves position as financial integration is rising (Figure A4.6). Inflows to domestic government debt securities have been particularly strong since 2011, amounting to over $18 billion or more than 3 percent of GDP (Figure A4.7).

Given these developments, reserve adequacy is being assessed against the emerging market reserve adequacy metric instead of the metric for low-income countries.[3] The emerging market metric assesses reserves against potential balance of payments pressures: exports, broad money, short-term external liabilities, and medium- and long-term external liabilities. The latter two categories include all portfolio investment and other investment liabilities to non-residents, irrespective of the place of issuance. The metric applies coefficients to each of these quantities based on their behavior in previous episodes of balance of payments pressure. The coefficients vary depending on exchange rate regime, with floating regimes requiring a lower level of reserves than other regimes. Given the stability of the naira against the dollar since 2011, predominantly reflecting central bank intervention, the regime is classified as a managed arrangement. The approach recommends reserves amounting to 100-150 percent of the estimated metric—reserves beyond this range were not found to have an additional impact on the frequency or severity of balance of payments crises.

By this metric, the level ($34.3 billion) of reserves at end-December 2014 is below the low end of the 100-150 percent ($35-$52 billion) range (Figure A4.8). Reserves had been above the upper bound of the adequate range through 2009 and in the upper half of the range through 2013. The reduction relative to the metric owes to the decline in reserves in 2014 and increase in liabilities to non-residents in recent years (Figure A4.9).

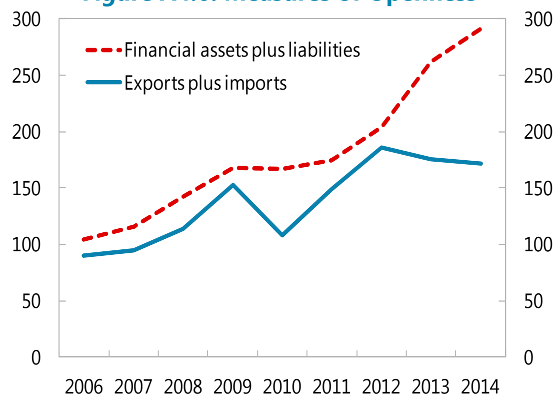
[3] The emerging market metric assigns a greater role to capital flows than does the metric for low-income countries. See *Assessing Reserve Adequacy* (SM 11/31).

Figure A4.5. Gross International Reserves



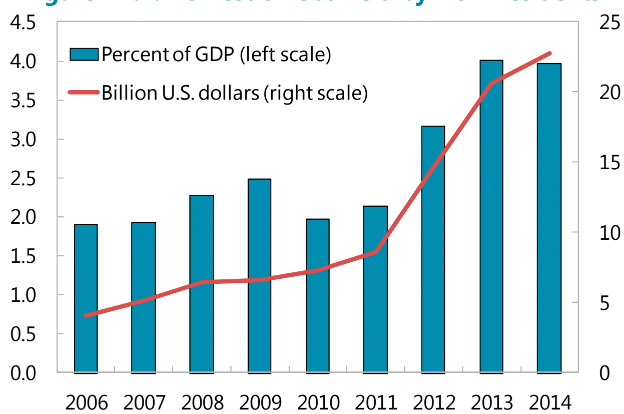
Source: Haver, IMF

Figure A4.6. Measures of Openness



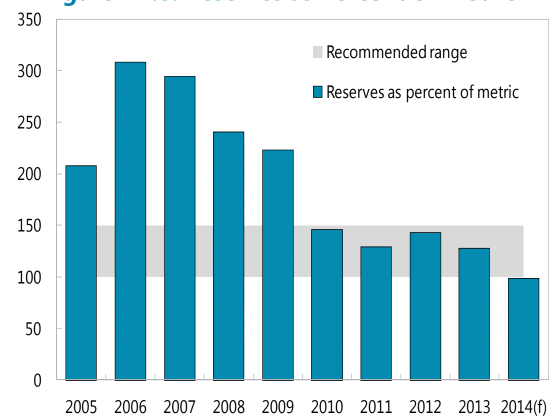
Source: Nigerian Authorities

Figure A4.7. Domestic Debt Held by Non-Residents



Source: Haver, IMF

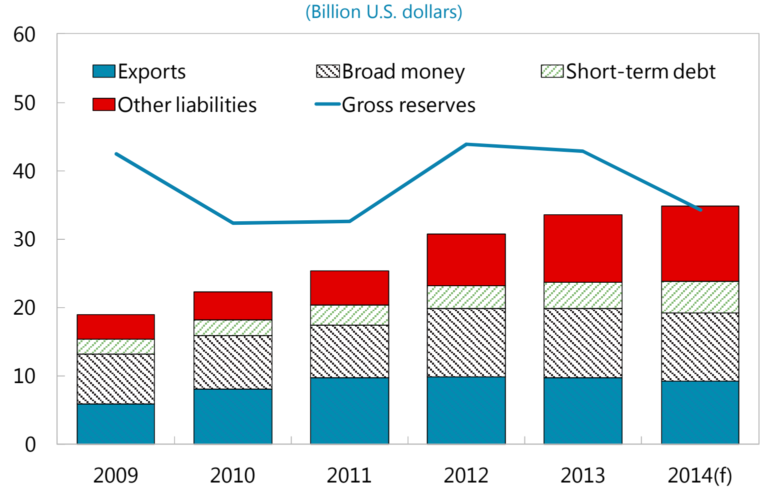
Figure A4.8. Reserves as Percent of Metric



Source: IMF

Figure A4.9. Contributions to Reserve Adequacy Metric

(Billion U.S. dollars)



Source: IMF.

Annex 5. Debt Portfolio Analysis

Effective management of federal government debt remains a policy priority. While, overall, Nigeria's federal government debt is relatively low (10 percent of GDP), the debt servicing burden is substantial with interest payments alone absorbing about 29 percent of revenues.

There is significant exposure to market risk in the portfolio. 85 percent is in the form of debt securities and consequently vulnerable to changes in market sentiment (Figure A5.1). This risk is concentrated in refixing (or interest rate) risk; exchange rate risk is relatively low at present with only 13 percent of the portfolio denominated in foreign currency (comprising both Eurobonds and multilateral and bilateral loans).[1]

Refixing risk is significant with N 3.3 trillion (43 percent of debt securities or 4 percent of GDP) of domestic bond and Treasury bills falling due in 2015. Further, almost 60 percent of these securities are due by end-April (Figure A5.2 and A5.3). Nigeria has enjoyed good quality market access—both in international capital markets and in the domestic market—readily issuing long-term fixed rate bonds (up to 20-years in the domestic market). Consequently, the residual maturity of the securities portfolio is relatively long at 4.5 years.

Highlighting that vulnerability has been the recent deterioration in market conditions. Nigeria has underperformed in the international markets—for example, the spread to Gabon (also BB-) has widened over 40 basis points since its low in July (Figure A5.4). Similarly, conditions in the domestic market have also deteriorated, with yields having increased by around 280 basis points since September.

The authorities have set specific strategic targets with respect to the portfolio composition. In particular, the proportion of foreign currency debt is anticipated to increase to about 40 percent. This would add significantly to exchange rate risk. In contrast, the goal is to reduce refixing risk in the domestic debt portfolio by reducing the proportion of short-term debt to 25 percent of the total (from 36 percent currently), which coupled with more external debt would result in an overall reduction in refixing risk.

Simulating a medium-term financing strategy consistent with these goals, and taking account of current market conditions and projected economic environment, indicates that debt will remain contained to about 11 percent of GDP by 2019. In particular, this strategy envisages an increase in external borrowing from all sources. The authorities indicate that existing official sector arrangements provide for substantial new disbursements, including from China's EXIM bank and India on the bilateral side, and ADF and IDA on the multilateral side (though new multilateral debt will now be on commercial terms). External market-based borrowing is also likely to increase—plans

[1]Exchange rate risk is further mitigated by the relatively long residual maturity of the Eurobond portfolio of 6.2 years, with the first redemption due in 2018.

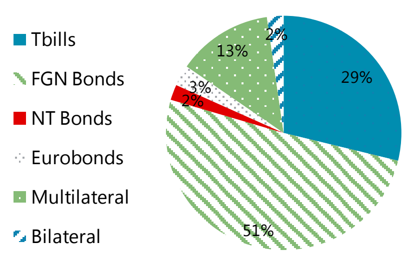
to launch a Diaspora bond are well advanced with a target of up to $300 mn for the inaugural issue, and the authorities are actively lobbied by market participants for a new Eurobond issue. However, reflecting the assumed increase in borrowing costs, which would see the average interest cost on the overall portfolio increase from about 10 percent to over 11 percent, the debt servicing would increase from 29 percent of revenues to over 35 of revenues by 2019.

The resilience of the debt portfolio also looks to be contained, even assuming significant new external borrowing and a general deterioration in financing costs relative to the past. In particular, stress scenarios that explore the impact of a widening of sovereign spreads, an increase in domestic yields, and further exchange rate depreciation suggests that debt-to-GDP would only increase by a maximum of 0.5 percent relative to the baseline.

However, the extent of the debt servicing burden means prudent management of debt should remain a policy priority. While the overall debt burden would remain contained under stress, the interest burden would increase further by an additional 4 percent of revenues bringing the total burden to around 40 percent of revenues. Consequently, to ensure sufficient space to finance desired investment, the authorities should continue to follow a prudent approach to borrowing, remain vigilant to the trade-offs between cost and risk, and ensure the proceeds from borrowing is managed to secure the maximum return on investment.

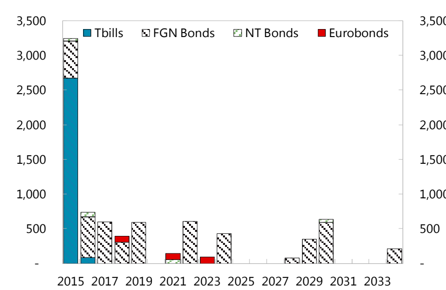
Federal Government Debt

Figure A5.1 Debt Composition
(December 2014 est.)



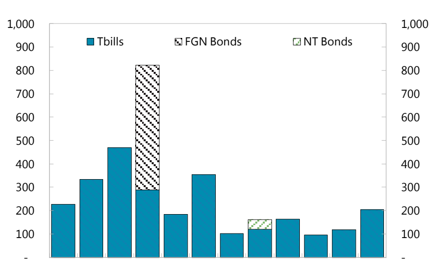
Sources: DMO, CBN, Bloomberg

Figure A5.2 Debt Securities Redemption Profile
(Annual, billions of naira)



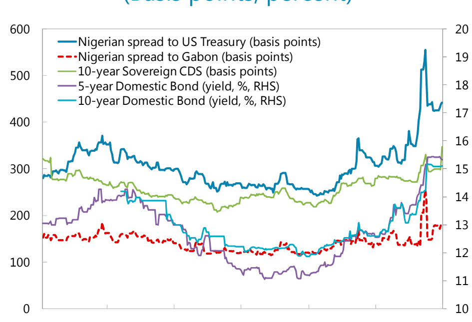
Sources: Bloomberg, CBN

Figure A5.3 Debt Securities Redemption Profile
(2015, billions of naira)



Sources: Bloomberg, CBN

Figure A5.4 Financing Costs
(Basis points, percent)



Sources: Bloomberg

NIGERIA

STAFF REPORT FOR THE 2014 ARTICLE IV CONSULTATION—DEBT SUSTAINABILITY ANALYSIS

February 13, 2015

Approved By
Ranil Salgado and David Robinson (IMF) and John Panzer (IDA)

Prepared by the staffs of the International Monetary Fund (IMF) and the International Development Association (IDA)

Nigeria remains at a low risk of public external debt distress under both the baseline macroeconomic assumptions and in stress scenarios.[1] *This holds even with a baseline scenario incorporating the sharp decline in oil prices in late 2014. Overall public debt is at a low risk of distress under the baseline, with implementation of the authorities' fiscal consolidation plans important for maintaining public debt sustainability. Stress scenarios suggest that a permanent shock to economic growth or a further decline in global oil prices would put pressure on the debt ratio unless offsetting measures were taken. In particular, the public debt service-to-revenue ratio is high, underlining the importance of mobilizing revenues. Data deficiencies suggest caution, especially regarding large errors and omissions in the balance of payments (possibly reflecting an underestimation of current account debit transactions)*[2] *which lead to large observed residuals in the external DSA presentation.*

[1] The LIC debt sustainability framework (DSF) provides a methodology for assessing external debt sustainability which is guided by indicative, country-specific, debt burden thresholds based on the relative strength of a country's policies and institutions. Given Nigeria's rating of 3.5 (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.

[2] For instance, errors and omissions averaged -4.4 percent of GDP from 2009-2013.

A. Background

1. At end-September 2014, external debt of the federal and state governments is $9.5 billion (1.7 percent of GDP), comprised by:[3]

Nigeria's External Debt Stock, End-September 2014

(Millions of U.S. dollars)

Category	Balance Outstanding
Multilateral	6,825
World Bank Group	
IDA	5,885
IFAD	90
African Development Bank Group	
ADB	150
ADF	580
EDF	91
IDB	26
Others	4
Bilateral	1,188
Commercial (including Eurobonds)	1,506
Total	**9,519**

B. Macroeconomic Assumptions

2. The assumptions used in the baseline scenario for 2014–34 are:

- GDP grows as in the staff report baseline through 2020 before accelerating in the medium term as structural reforms take hold, averaging 6.1 percent in 2014–34 (below the average of 6.8 percent assumed for the 2013–33 analysis, and below the 6.8 percent historical average).
- Consistent with the recent decline in oil prices and their expected path in the medium term (based on the January 2015 *World Economic Outlook* (WEO) projections), the analysis assumes a Nigerian oil price of $100 per barrel in 2014, falling to $52.8 per barrel in 2015, recovering moderately by 2020 to $73.7 dollars per barrel, remaining constant in real terms thereafter.[4]
- The non-oil primary deficit (NOPD) of the general government is expected to decline from 8.1 percent of non-oil GDP in 2014 to about 4.7 percent of non-oil GDP in 2020. In the baseline scenario, given Nigeria's current low levels of government expenditure, this

[3] External debt data provided by the authorities does not include publically-guaranteed debt.

[4] The Nigerian oil price is projected by holding constant the margin between the prices for Bonny Light oil and Brent oil.

is implemented as keeping primary expenditure-to-GDP relatively flat at its planned 2015 level and increasing non-oil revenue.[5] This takes into account the consolidation plans embedded in the 2015–17 Medium-Term Expenditure Framework, including policies to raise non-oil revenue and control operating expenses. On that basis, the Excess Crude Account accumulates gradually, reaching about 1 percent of GDP by 2020. With the importance of oil revenue to the economy and fiscal accounts expected to decline over time, the NOPD would continue to adjust, arriving at a deficit of about 2.5 percent of GDP in 2034.

- Given the expected behavior of oil prices and production volumes that are projected to be flat, exports are assumed to grow less rapidly than the rest of the economy notwithstanding the projected continuation of the recent rapid growth in non-oil exports.[6] Imports are projected to grow in line with the non-oil economy. Consequently, the current account surplus declines to 0.2 percent of GDP by 2020, and turns into a deficit of ½ percent of GDP by 2034.
- N400 billion of contingent liabilities from the Asset Management Company of Nigeria (AMCON) bonds are assumed to materialize as ultimate fiscal cost for the federal government in 2023 (equivalent to 0.16 percent of GDP in 2023).[7]

C. External Sustainability

Baseline

3. In the baseline scenario (Table 1 and Figure 1), the nominal gross external debt burden is projected to gradually increase. The external debt-to-GDP ratio would rise from 1.7 percent in 2013 to 5.5 percent in 2034. The debt service-to-exports and the debt service-to-revenue ratios also rise gradually during the projection period. All debt and debt service indicators remain well below their respective threshold levels throughout the projection period.

Stress Tests

4. Standardized stress tests were carried out (Table 2 and Figure 1). The scenario shocking export values was run for 2016-17, since the baseline for 2015 already incorporates a large decline due to the fall in oil prices. Under all scenarios: (i) the PV of debt is not likely to exceed

[5] See "Raising Non-Oil Revenue" in *Nigeria: Selected Issues* for a discussion of options.

[6] Oil exports account for over 90 percent of exports and through 2013 about 70 percent of government revenue.

[7] The Sinking Fund is estimated to be worth N6.1 trillion at the end of 2023 based on annual contributions of 0.5 percent of total assets by Deposit Money Banks (DMBs) (about N24 trillion at end-2013) and N50 billion annual contributions by the CBN, all accruing a 10 percent nominal return. The fund will be used to pay net interest expenses on its bonds and to fill the gap in AMCON's balance sheet (assets and liabilities were about N2.5 trillion and N6.0 trillion, respectively, as of end-2013).

10 percent of GDP throughout the projection period; and (ii) the PV of debt-to-exports ratio is far below its indicative debt burden threshold of 150 percent.

D. Fiscal Sustainability

Baseline

5. Gross debt of the federal and state governments is estimated at 13.4 percent of GDP at end-2014, up from less than 10 percent of GDP through 2010, and is projected to rise modestly during the forecast horizon (Table 3). Debt service and debt-to-revenue ratios are also projected to increase relative to recent history and previous forecasts, as a result of the rising level of debt and the recent decline in oil prices and oil price futures. This illustrates Nigeria’s reliance on oil revenue in government funding, and underscores the importance of mobilizing non-oil revenue to reduce its exposure to fluctuations in oil prices. The current structure of domestic debt is favorable, with all debt carrying a fixed interest rate and the average maturity at 4.5 years. Similarly, external debt is largely on concessional terms other than the Eurobonds, and is contracted at long maturities. The forecast assumes an increase in the share of external debt contracted at commercial terms, with the grant element of external disbursements falling to less than 10 percent during the projection period. Oil and gas revenue is projected to decline as a share of GDP due to the recent drop in prices and flat production volumes going forward. It is assumed that the authorities will reduce expenditure or raise non-oil revenue in the medium term to offset this decline. Thus, these findings are highly sensitive to the resolute implementation of fiscal consolidation.

Alternative Scenarios and Stress Tests

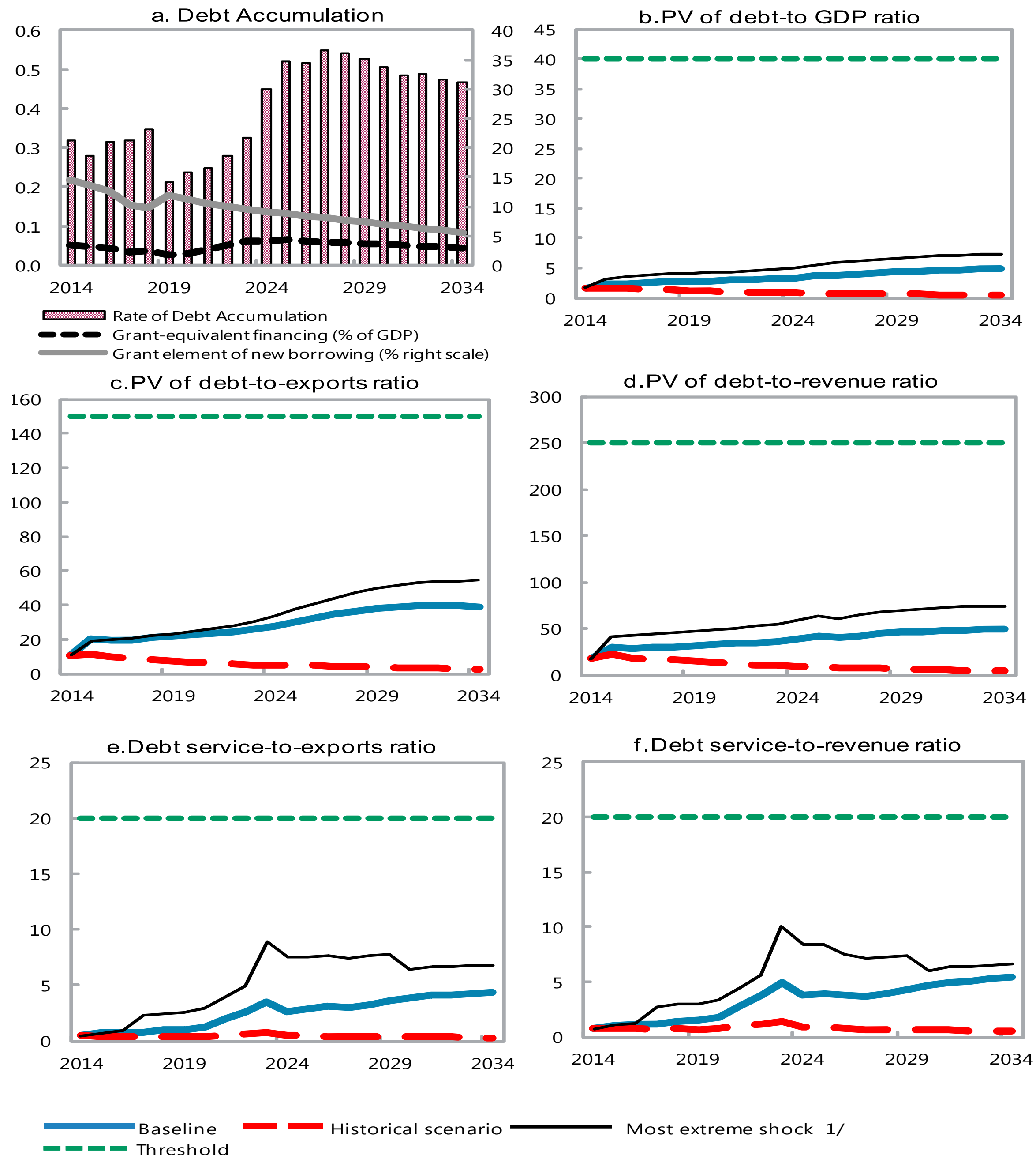
6. The stress tests underscore the need for fiscal policy to adjust to the economic environment. In particular, the present value of debt in 2034 would increase to 40 percent of GDP if the primary balance is kept unchanged at its 2014 level (Table 4 and Figure 2). Public debt dynamics could also become adverse if growth is permanently lower than in the baseline, with gross public debt rising to 33 percent of GDP in 2034. In such adverse scenarios, the debt service-to-revenue ratio would increase substantially from current levels and fiscal policy would need to adjust accordingly. Temporary shocks would be unlikely to significantly alter the conclusion that the risk of debt distress is low, as the other macroeconomic shocks considered do not bring about significant changes in the projected debt ratio.[8] However, in the presence of shocks to either the primary balance or to other debt-creating flows (contingent liabilities), debt service-to-revenue ratios would increase, illustrating the importance of rebuilding fiscal buffers over the medium term. To the extent that the staff’s fiscal policy assumptions under the baseline scenario (including gradual improvements in the primary deficit over the medium term) do not materialize, risks to debt sustainability would be higher.

[8] The shock to the primary balance is performed for 2016-2017, with half the shock coming from lower revenues. This scenario illustrates the impact from oil prices remaining at about current levels over that period.

E. Authorities' views

7. The authorities concurred that both external and overall public debt risks were low provided that their fiscal consolidation plans are implemented as intended. They agreed, however, that timely policy responses would be necessary in the event of a prolonged economic growth shock or further substantial decline in oil prices.

Figure 1. Nigeria: Indicators of Public and Publicly Guaranteed External Debt under Alternative Scenarios, 2014-34[1]



Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio on or before 2024. In figure b. it corresponds to a one-time depreciation shock; in c. to a lending terms shock; in d. to a one-time depreciation shock; in e. to a exports shock and in figure f. to a exports shock.

Table 1. Nigeria: External Debt Sustainability Framework, Baseline Scenario, 2011-34

(In percent of GDP, unless otherwise indicated)

	Actual			Historical 5/ Average	Standard 5/ Deviation	Estimate	Projections									
	2011	2012	2013			2014	2015	2016	2017	2018	2019	2014-19 Average		2024	2034	2020-34 Average
External debt (nominal)	**1.4**	**1.4**	**1.7**			**2.0**	**2.6**	**2.8**	**2.9**	**3.0**	**3.0**			**3.7**	**5.5**	
of which: public and publicly guaranteed (PPG)	1.4	1.4	1.7			2.0	2.6	2.8	2.9	3.0	3.0			3.7	5.5	
Change in external debt	0.0	0.0	0.3			0.3	0.6	0.2	0.1	0.1	0.0			0.2	0.1	
Identified net debt-creating flows	-4.2	-5.7	-4.8			-2.7	-0.7	-1.4	-1.7	-1.6	-1.4			-0.4	-0.7	
Non-interest current account deficit	**-2.1**	**-4.4**	**-3.9**	**-6.8**	**4.6**	**-2.2**	**-0.3**	**-0.9**	**-1.0**	**-0.8**	**-0.5**			**0.4**	**0.2**	0.4
Deficit in balance of goods and services	-2.3	-4.4	-4.5			-2.0	1.9	1.0	0.6	0.8	1.0			2.1	1.9	
Exports	23.1	21.1	18.7			16.1	11.2	12.7	13.1	12.9	12.7			12.1	12.3	
Imports	20.8	16.6	14.2			14.1	13.1	13.7	13.7	13.7	13.7			14.2	14.2	
Net current transfers (negative = inflow)	-5.2	-4.7	-4.3	-5.4	2.1	-4.0	-4.6	-4.7	-4.5	-4.4	-4.2			-3.8	-2.5	-3.4
of which: official	-0.4	-0.4	-0.3			-0.3	-0.4	-0.4	-0.4	-0.3	-0.3			-0.3	-0.2	
Other current account flows (negative = net inflow)	5.4	4.7	4.9			3.8	2.4	2.8	2.9	2.8	2.7			2.1	0.8	
Net FDI (negative = inflow)	**-1.9**	**-1.2**	**-0.8**	**-2.2**	**1.0**	**-0.4**	**-0.4**	**-0.5**	**-0.6**	**-0.8**	**-0.8**			**-0.8**	**-0.8**	-0.8
Endogenous debt dynamics 1/	**-0.1**	**-0.1**	**-0.1**			**0.0**	**0.0**	**0.0**	**0.0**	**-0.1**	**-0.1**			**-0.1**	**-0.1**	
Contribution from nominal interest rate	0.0	0.0	0.0			0.0	0.1	0.1	0.1	0.1	0.1			0.1	0.2	
Contribution from real GDP growth	-0.1	-0.1	-0.1			-0.1	-0.1	-0.1	-0.1	-0.1	-0.2			-0.2	-0.3	
Contribution from price and exchange rate changes	-0.1	-0.1	-0.1			...	...	...	...	...	...			...	...	
Residual (3-4) 2/	**4.2**	**5.7**	**5.1**			**2.9**	**1.4**	**1.6**	**1.8**	**1.7**	**1.4**			**0.7**	**0.8**	
of which: 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 3/	...	...	1.4			1.7	2.3	2.4	2.6	2.7	2.7			3.4	4.8	
In percent of exports	...	...	7.6			10.5	20.2	19.2	19.5	20.8	21.5			27.7	39.0	
PV of PPG external debt	...	...	**1.4**			**1.7**	**2.3**	**2.4**	**2.6**	**2.7**	**2.7**			**3.4**	**4.8**	
In percent of exports	...	...	**7.6**			**10.5**	**20.2**	**19.2**	**19.5**	**20.8**	**21.5**			**27.7**	**39.0**	
In percent of government revenues	...	...	**12.9**			**17.2**	**29.2**	**28.8**	**29.2**	**30.6**	**31.0**			**38.8**	**48.7**	
Debt service-to-exports ratio (in percent)	**0.4**	**0.3**	**0.5**			**0.5**	**0.7**	**0.8**	**0.8**	**0.9**	**1.0**			**2.7**	**4.3**	
PPG debt service-to-exports ratio (in percent)	**0.4**	**0.3**	**0.5**			**0.5**	**0.7**	**0.8**	**0.8**	**0.9**	**1.0**			**2.7**	**4.3**	
PPG debt service-to-revenue ratio (in percent)	**0.6**	**0.5**	**0.8**			**0.7**	**1.1**	**1.1**	**1.2**	**1.4**	**1.5**			**3.7**	**5.4**	
Total gross financing need (Billions of U.S. dollars)	-16.6	-25.8	-24.3			-14.6	-3.2	-6.9	-8.6	-8.7	-7.6			-0.4	-1.8	
Non-interest current account deficit that stabilizes debt ratio	-2.1	-4.4	-4.2			-2.5	-0.9	-1.0	-1.1	-0.9	-0.6			0.1	0.1	
Key macroeconomic assumptions																
Real GDP growth (in percent)	4.9	4.3	5.4	8.3	2.8	6.1	4.8	5.0	5.3	5.5	5.8	5.4		6.1	6.8	6.4
GDP deflator in US dollar terms (change in percent)	6.8	7.0	6.0	10.8	14.1	3.7	-14.0	-2.6	1.9	2.1	0.7	-1.4		0.8	1.8	1.1
Effective interest rate (percent) 4/	2.9	2.7	3.7	3.3	1.2	3.0	2.9	3.2	3.4	3.6	3.6	3.3		4.3	4.7	4.5
Growth of exports of G&S (US dollar terms, in percent)	20.1	1.8	-0.9	15.1	21.5	-5.1	-37.4	15.5	10.9	6.4	4.5	-0.9		5.7	10.8	7.4
Growth of imports of G&S (US dollar terms, in percent)	27.2	-10.6	-4.9	12.5	21.6	9.7	-16.6	7.0	7.7	7.6	6.5	3.6		7.5	8.8	7.8
Grant element of new public sector borrowing (in percent)	...	...	...	...	...	14.6	13.5	12.6	10.1	9.8	11.9	12.1		9.2	5.6	8.1
Government revenues (excluding grants, in percent of GDP)	17.7	14.3	11.0			9.9	7.7	8.4	8.7	8.8	8.8			8.6	9.9	9.3
Aid flows (in Billions of US dollars) 6/	0.0	0.0	0.0			0.3	0.2	0.2	0.1	0.1	0.1			0.1	0.0	
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	
of which: Concessional loans	0.0	0.0	0.0			0.3	0.2	0.2	0.1	0.1	0.1			0.1	0.0	
Grant-equivalent financing (in percent of GDP) 7/	...	...	...			0.0	0.0	0.0	0.0	0.0	0.0			0.1	0.0	0.1
Grant-equivalent financing (in percent of external financing) 7/	...	...	...			14.6	13.5	12.6	10.1	9.8	11.9			9.2	5.6	8.1
Memorandum items:																
Nominal GDP (Billions of US dollars)	418.8	467.1	521.8			574.4	517.2	528.9	567.6	611.6	651.7			865.2	1933.8	
Nominal dollar GDP growth	12.0	11.5	11.7			10.1	-9.9	2.3	7.3	7.8	6.6	4.0		7.0	8.7	7.5
PV of PPG external debt (in Billions of US dollars)			7.4			9.1	10.7	12.3	14.0	16.0	17.3			28.7	92.3	
(PVt-PVt-1)/GDPt-1 (in percent)						0.3	0.3	0.3	0.3	0.3	0.2	0.3		0.5	0.5	0.4
Gross workers' remittances (Billions of US dollars)	20.6	20.5	20.7			21.4	22.2	23.0	23.9	24.9	25.8			31.1	45.0	
PV of PPG external debt (in percent of GDP + remittances)	...	...	1.4			1.6	2.2	2.3	2.4	2.6	2.6			3.2	4.7	
PV of PPG external debt (in percent of exports + remittances)	...	...	6.3			8.5	14.6	14.3	14.7	15.8	16.4			21.4	32.8	
Debt service of PPG external debt (in percent of exports + remittances)	...	...	0.4			0.4	0.5	0.6	0.6	0.7	0.8			2.1	3.6	

Sources: Country authorities; and staff estimates and projections.

1/ 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.

2/ 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.

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

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

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

6/ Defined as grants, concessional loans, and debt relief.

7/ 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, 2014-34

(In percent)

	Projections							
	2014	2015	2016	2017	2018	2019	**2024**	2034
PV of debt-to GDP ratio								
Baseline	2	2	2	3	3	3	**3**	5
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2014-2034 1/	2	2	2	1	1	1	**1**	0
A2. New public sector loans on less favorable terms in 2014-2034 2	2	2	2	3	3	3	**4**	7
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2015-2016	2	2	2	2	3	3	**3**	5
B2. Export value growth at historical average minus one standard deviation in 2016-2017 3/	2	2	2	2	2	2	**2**	3
B3. US dollar GDP deflator at historical average minus one standard deviation in 2015-2016	2	2	2	2	2	2	**3**	4
B4. Net non-debt creating flows at historical average minus one standard deviation in 2015-2016 4/	2	2	2	2	2	2	**3**	4
B5. Combination of B1-B4 using one-half standard deviation shocks	2	2	2	2	2	2	**2**	4
B6. One-time 30 percent nominal depreciation relative to the baseline in 2015 5/	2	3	4	4	4	4	**5**	7
PV of debt-to-exports ratio								
Baseline	11	20	19	20	21	21	**28**	39
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2014-2034 1/	11	11	9	9	8	7	**5**	3
A2. New public sector loans on less favorable terms in 2014-2034 2	11	19	20	20	22	23	**34**	54
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2015-2016	11	18	18	19	20	21	**27**	39
B2. Export value growth at historical average minus one standard deviation in 2016-2017 3/	11	18	23	27	27	27	**26**	33
B3. US dollar GDP deflator at historical average minus one standard deviation in 2015-2016	11	18	18	19	20	21	**27**	39
B4. Net non-debt creating flows at historical average minus one standard deviation in 2015-2016 4/	11	18	18	18	19	20	**22**	30
B5. Combination of B1-B4 using one-half standard deviation shocks	11	11	12	13	13	14	**18**	26
B6. One-time 30 percent nominal depreciation relative to the baseline in 2015 5/	11	18	18	19	20	21	**27**	39
PV of debt-to-revenue ratio								
Baseline	17	29	29	29	31	31	**39**	49
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2014-2034 1/	17	22	18	17	16	14	**9**	4
A2. New public sector loans on less favorable terms in 2014-2034 2	17	28	29	30	33	34	**47**	68
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2015-2016	17	27	27	28	29	30	**38**	48
B2. Export value growth at historical average minus one standard deviation in 2016-2017 3/	17	27	31	32	33	32	**30**	32
B3. US dollar GDP deflator at historical average minus one standard deviation in 2015-2016	17	24	25	25	27	27	**34**	43
B4. Net non-debt creating flows at historical average minus one standard deviation in 2015-2016 4/	17	27	27	27	28	28	**31**	38
B5. Combination of B1-B4 using one-half standard deviation shocks	17	22	21	21	22	23	**29**	36
B6. One-time 30 percent nominal depreciation relative to the baseline in 2015 5/	17	41	42	43	46	46	**59**	74

Table 2. Nigeria: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2014-34 (concluded)

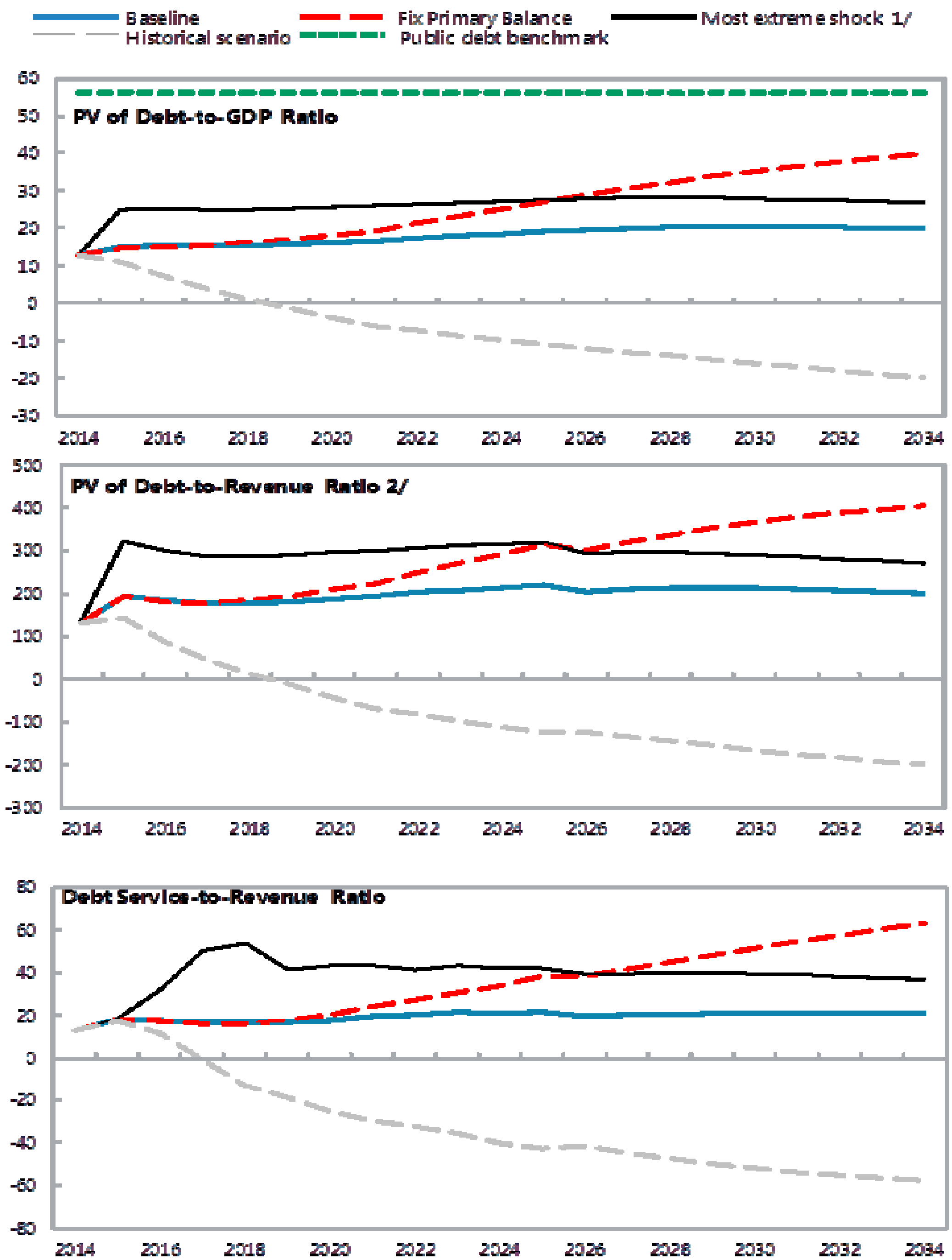
(In percent)

	Projections							
	2014	2015	2016	2017	2018	2019	**2024**	2034
Debt service-to-exports ratio								
Baseline	0	1	1	1	1	1	**3**	4
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2014-2034 1/	0	0	0	0	0	0	**0**	0
A2. New public sector loans on less favorable terms in 2014-2034 2	0	1	1	1	1	1	**3**	6
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2015-2016	0	1	1	1	1	1	**3**	4
B2. Export value growth at historical average minus one standard deviation in 2016-2017 3/	0	1	1	2	2	3	**7**	7
B3. US dollar GDP deflator at historical average minus one standard deviation in 2015-2016	0	1	1	1	1	1	**3**	4
B4. Net non-debt creating flows at historical average minus one standard deviation in 2015-2016 4/	0	1	1	1	1	1	**4**	4
B5. Combination of B1-B4 using one-half standard deviation shocks	0	0	1	1	1	1	**2**	3
B6. One-time 30 percent nominal depreciation relative to the baseline in 2015 5/	0	1	1	1	1	1	**3**	4
Debt service-to-revenue ratio								
Baseline	1	1	1	1	1	1	**4**	5
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2014-2034 1/	1	1	1	1	1	1	**1**	0
A2. New public sector loans on less favorable terms in 2014-2034 2	1	1	1	1	1	2	**4**	8
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2015-2016	1	1	1	1	1	1	**4**	5
B2. Export value growth at historical average minus one standard deviation in 2016-2017 3/	1	1	1	3	3	3	**8**	7
B3. US dollar GDP deflator at historical average minus one standard deviation in 2015-2016	1	1	1	1	1	1	**3**	5
B4. Net non-debt creating flows at historical average minus one standard deviation in 2015-2016 4/	1	1	1	2	2	2	**5**	6
B5. Combination of B1-B4 using one-half standard deviation shocks	1	1	1	1	1	1	**3**	4
B6. One-time 30 percent nominal depreciation relative to the baseline in 2015 5/	1	2	2	2	2	2	**6**	8
Memorandum item:								
Grant element assumed on residual financing (i.e., financing required above baseline) 6/	0	0	0	0	0	0	**0**	0

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 2 percentage points higher than in the baseline., while grace and maturity periods are the same as in the baseline.
3/ Incorporates the 2015 oil price shock plus additional shocks in 2016-2017. Export 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.

Figure 2. Nigeria: Indicators of Public Debt Under Alternative Scenarios, 2014-34[1]



Sources: Country authorities; and staff estimates and projections.
1/ The most extreme stress test is the test that yields the highest ratio on or before 2024.
2/ Revenues are defined inclusive of grants.

Table 3. Nigeria: Public Sector Debt Sustainability Framework, Baseline Scenario, 2011-34

(In percent of GDP, unless otherwise indicated)

	Actual					Estimate			Projections						
	2011	2012	2013	Average 5/	Standard Deviation 5/	2014	2015	2016	2017	2018	2019	2014-19 Average	2024	2034	2020-34 Average
Public sector debt 1/	12.1	12.5	12.6			13.4	15.5	15.8	15.8	16.0	16.3		19.0	20.6	
of which: foreign-currency denominated	1.4	1.4	1.7			2.0	2.6	2.8	2.9	3.0	3.0		3.7	5.5	
Change in public sector debt	2.6	0.4	0.1			0.7	2.2	0.3	0.0	0.2	0.3		0.6	-0.1	
Identified debt-creating flows	-1.6	-1.8	1.0			1.3	2.5	0.7	0.5	0.4	0.3		-0.2	-0.8	
Primary deficit	-1.5	-1.5	1.1	-2.4	5.2	1.2	1.4	1.3	1.0	0.8	0.5	1.0	-0.2	-0.6	-0.3
Revenue and grants	17.7	14.3	11.0			9.9	7.7	8.4	8.7	8.8	8.8		8.6	9.9	
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	16.3	12.8	12.1			11.1	9.2	9.7	9.7	9.6	9.2		8.4	9.3	
Automatic debt dynamics	-0.1	-0.3	0.0			0.1	1.1	-0.5	-0.5	-0.4	-0.2		0.0	-0.2	
Contribution from interest rate/growth differential	-0.1	-0.2	0.0			0.0	0.7	-0.5	-0.5	-0.4	-0.2		0.0	-0.2	
of which: contribution from average real interest rate	0.3	0.3	0.7			0.7	1.3	0.2	0.3	0.4	0.7		1.1	1.1	
of which: contribution from real GDP growth	-0.4	-0.5	-0.6			-0.7	-0.6	-0.7	-0.8	-0.8	-0.9		-1.1	-1.3	
Contribution from real exchange rate depreciation	0.0	-0.1	-0.1			0.1	0.4	0.0	0.0	0.0	0.0		...	...	
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	4.2	2.2	-1.0			-0.6	-0.3	-0.5	-0.5	-0.2	0.0		0.8	0.6	
Other Sustainability Indicators															
PV of public sector debt	...	...	12.4			13.1	15.2	15.4	15.5	15.7	16.0		18.6	20.0	
of which: foreign-currency denominated	...	...	1.4			1.7	2.3	2.4	2.6	2.7	2.7		3.4	4.8	
of which: external	...	...	1.4			1.7	2.3	2.4	2.6	2.7	2.7		3.4	4.8	
PV of contingent liabilities (not included in public sector debt)	...	...	...			...	...	...	...	...	...		...	...	
Gross financing need 2/	2.0	2.3	5.0			5.1	5.6	5.6	5.3	5.0	4.7		4.7	4.7	
PV of public sector debt-to-revenue and grants ratio (in percent)	...	...	111.9			132.7	195.8	183.0	177.1	178.1	182.0		215.1	202.1	
PV of public sector debt-to-revenue ratio (in percent)	...	...	111.9			132.7	195.8	183.0	177.1	178.1	182.0		215.1	202.1	
of which: external 3/	...	...	12.9			17.2	29.2	28.8	29.2	30.6	31.0		38.8	48.7	
Debt service-to-revenue and grants ratio (in percent) 4/	6.3	8.9	11.9			12.8	18.4	17.9	17.2	17.0	17.1		20.8	20.9	
Debt service-to-revenue ratio (in percent) 4/	6.3	8.9	11.9			12.8	18.4	17.9	17.2	17.0	17.1		20.8	20.9	
Primary deficit that stabilizes the debt-to-GDP ratio	-4.0	-1.9	1.0			0.5	-0.7	1.0	1.0	0.6	0.2		-0.8	-0.4	
Key macroeconomic and fiscal assumptions															
Real GDP growth (in percent)	4.9	4.3	5.4	8.3	2.8	6.1	4.8	5.0	5.3	5.5	5.8	5.4	6.1	6.8	6.4
Average nominal interest rate on forex debt (in percent)	2.9	2.7	3.7	3.4	1.4	3.0	2.9	3.2	3.4	3.6	3.6	3.3	4.3	4.7	4.5
Average real interest rate on domestic debt (in percent)	4.3	3.2	6.0	0.6	8.5	6.9	11.4	1.6	2.4	3.3	5.1	5.1	7.1	7.0	6.8
Real exchange rate depreciation (in percent, + indicates depreciation	-2.1	-7.2	-4.2	-6.8	12.8	4.5	...	...	...	...	...	...	...	...	...
Inflation rate (GDP deflator, in percent)	9.5	9.3	5.9	12.2	9.4	4.9	0.9	11.0	9.8	8.6	6.5	7.0	3.5	3.8	4.0
Growth of real primary spending (deflated by GDP deflator, in percer	6.6	-17.7	-0.4	-1.1	6.2	-3.1	-13.3	11.0	5.6	3.7	2.4	1.0	6.3	7.7	6.5
Grant element of new external borrowing (in percent)	...	...	...	...	...	14.6	13.5	12.6	10.1	9.8	11.9	12.1	9.2	5.6	...

Sources: Country authorities; and staff estimates and projections.
1/ Gross debt of the federal government and gross external debt of state governments.
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 2014-34

	Projections							
	2014	2015	2016	2017	2018	2019	2024	2034
PV of Debt-to-GDP Ratio								
Baseline	13	15	15	15	16	16	19	20
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	13	11	7	4	1	-1	-10	-20
A2. Primary balance is unchanged from 2014	13	15	15	15	16	17	25	40
A3. Permanently lower GDP growth 1/	13	15	16	16	17	17	22	33
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviation in 2015-2016	13	15	15	15	15	15	17	18
B2. Primary balance is at historical average minus one standard deviation in 2016-2017	13	15	17	19	19	19	22	22
B3. Combination of B1-B2 using one half standard deviation shocks	13	14	13	12	12	12	13	13
B4. One-time 30 percent real depreciation in 2015	13	16	17	17	17	17	20	22
B5. 10 percent of GDP increase in other debt-creating flows in 2015	13	25	25	25	25	25	27	27
PV of Debt-to-Revenue Ratio 2/								
Baseline	133	196	183	177	178	182	215	202
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	133	141	86	45	12	-15	-111	-200
A2. Primary balance is unchanged from 2014	133	193	180	177	184	196	293	406
A3. Permanently lower GDP growth 1/	133	198	187	184	188	196	259	332
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviation in 2015-2016	133	194	179	172	172	175	202	182
B2. Primary balance is at historical average minus one standard deviation in 2016-2017	133	197	222	240	215	219	250	225
B3. Combination of B1-B2 using one half standard deviation shocks	133	176	150	142	140	140	156	128
B4. One-time 30 percent real depreciation in 2015	133	211	196	190	190	195	230	224
B5. 10 percent of GDP increase in other debt-creating flows in 2015	133	324	299	288	286	289	317	270
Debt Service-to-Revenue Ratio 2/								
Baseline	13	18	18	17	17	17	21	21
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	13	18	12	-1	-13	-19	-40	-58
A2. Primary balance is unchanged from 2014	13	18	18	17	16	18	34	63
A3. Permanently lower GDP growth 1/	13	19	18	18	18	19	28	44
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviation in 2015-2016	13	18	18	17	16	16	18	17
B2. Primary balance is at historical average minus one standard deviation in 2016-2017	13	18	20	22	24	29	28	26
B3. Combination of B1-B2 using one half standard deviation shocks	13	18	16	11	8	8	10	6
B4. One-time 30 percent real depreciation in 2015	13	19	19	18	18	18	25	30
B5. 10 percent of GDP increase in other debt-creating flows in 2015	13	18	32	50	54	42	42	37

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

STAFF REPORT FOR THE 2014 ARTICLE IV CONSULTATION—INFORMATIONAL ANNEX

February 13, 2015

Prepared By

The African Department

CONTENTS

FUND RELATIONS

(As of December 31, 2014)

Membership Status: Joined: March 30, 1961; Article XIV

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

SDR Department:	**SDR Million**	**%Allocation**
Net cumulative allocation	1,675.38	100.00
Holdings	1,675.15	99.99

Outstanding Purchases and Loans: None

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

Projected Payments to Fund[1]
(SDR Million; based on existing use of resources and present holdings of SDRs):

	Forthcoming				
	2014	2015	2016	2017	2018
Principal					
Charges/Interest	0.01	0.01	0.01	0.01	0.01
Total	**0.01**	**0.01**	**0.01**	**0.01**	**0.01**

[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.

Implementation of HIPC Initiative: Not Applicable
Implementation of Multilateral Debt Relief Initiative (MDRI): Not Applicable
Implementation of Post-Catastrophe Debt Relief (PCDR): Not Applicable

Exchange Rate Arrangement

The de jure exchange rate arrangement is other managed arrangement. The Central Bank of Nigeria (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 U.S. dollar (the band was increased from ±3% to ±5% in 2014) and has recently allowed adjustment of the band's midpoint in response to market forces (the last adjustment in November 2014). The de facto exchange rate arrangement is also other managed arrangement. In spite of some stability of the Naira-U.S. 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; and data on interventions in the interbank market are disseminated. Nigeria is a signatory to 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 opted to use a narrower band. The foreign exchange market comprises the Dutch Auction System (DAS), the interbank, and bureau de change segments. Multiple currency prices are a technical characteristic of the Dutch auction system and give rise to a multiple currency practice under Article VIII of the Articles of Agreement.

Safeguards Assessment

Under the Fund's safeguards assessment policy, the 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.

Article IV Consultation

Nigeria is on the standard 12-month Article IV consultation cycle. The previous Article IV consultation was concluded on February 21, 2014.

Technical Assistance (TA) since January 2013:

Department	Purpose of TA mission	Duration
MCM	Bank Restructuring	January 21 - February 8, 2013
MCM	Evaluation Mission	January 23 - January 30, 2013
LEG	AML/CFT Module IV: Structures & Tools	February 20 - February 28, 2013
STA	National Accounts - Quarterly	March 4 - 15, 2013
MCM	Bank Resolution	April 10 - May 7, 2013
STA	International Investment Position	April 29 - May 10, 2013
LEG	Follow up TA of implementation of the recommendations	May 22 – 23, 2013
STA	National Accounts	June 10 – 21, 2013
MCM	Bank Resolution	June 26 - July 15, 2013
FAD	Follow up TA on process improvement and automation	July 18 - 31, 2013
STA	International Investment Position	August 12 – 23, 2013
LEG	Follow up TA of implementation of the recommendations	August 13 – 14, 2013
STA	National Accounts	September 9 - 27, 2013
STA	TA Evaluation	September 16 – 22, 2013
STA	Consumer Prices/Producer Price	September 16 - 27, 2013
FAD	STX visit (JSA4)	October 1 – 14, 2013
MCM	Financial Stability	November 11 - 15, 2013
MCM	Bank Resolution	November 11 - 15, 2013
LEG	Follow up TA of implementation of the recommendations	November 19 – 20, 2013
FAD	Gap analysis on fiscal reporting and transparency	November 26 – December 6, 2013
FAD	JSA Fiscal transparency & reporting (JSA4)	November 28 - December 6, 2013
MCM	Bank Supervision - Briefing	December 11 - 12, 2013
FAD	TSA and cash management	January 1 -14, 2014
FAD	JSA Fiscal transparency & reporting (JSA4)	January 10 -23, 2014
MCM	Bank Supervision	January 12, 2014 – January 11, 2015
MCM	Bank Resolution	January 15 – 24, 2014
STA	Collaboration with AfDB on Open Data Platform	January 20 - 24, 2014
STA	Balance of Payments Statistics	April 22 – May 5, 2014
STA	National Accounts Statistics	May 12 - 23, 2014
LEG	Fiscal Tax	May 12 - 16, 2014
STA	FSI: Financial Soundness Indicators	May 19 - 23, 2014

Department	Purpose of TA mission	Duration
FAD	Public Financial Management	July 1 - 12, 2014
FAD	Public Financial Management	August 4 - 15, 2014
MCM	Monetary and Foreign Exchange Policy	August 25 – September 5, 2014
STA	National Accounts Statistics	September 15 - 26, 2014
STA	Consumer Prices/Producer Price	September 15 - 26, 2014
FAD	Tax Administration	October 1 - 12, 2014
FAD	Public Financial Management	October 1 - 12, 2014
MCM	Bank Restructuring	October 1 - 30, 2014
STA	Balance of Payments Statistics	November 17 - 28, 2014
FAD	Public Financial Management	December 1 - 12, 2014
MCM	Bank Restructuring	December 1 - 30, 2014
FAD	Tax Administration	December 15 - 26, 2014
FAD	Program Budgeting, TSA and Cash Management Performance	January 22 – February 4, 2015
STA	Balance of Payments Statistics	March 16 - 27, 2015
MCM	IFRS Provisioning	March 23 – 27,
MCM	Training Workshop on Financial Holding Companies Supervision	March 30 – April 2, 2015
STA	Price Statistics	April 13 – 24, 2015
MCM	Review of Monetary Policy Framework	April 20 – May 05, 2015

Resident Representative:

Mr. Gene Leon is the IMF’s Senior Resident Representative in Abuja since September 2013.

JOINT WORLD BANK-IMF WORK PROGRAM, 2014–15

(As of December 31, 2014)

The IMF and World Bank staff 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, FSAP update and 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 (III)	January & February 2015	2015
	Edo Development Policy Operation (II)	February 2015	2015
	Nigeria PFM Reform & Statistical Capacity Building Project	January 2015	2016
	Nigeria Electricity Transmission Project		2015
	Nigeria Electricity and Gas Improvement Project	Continuous	Ongoing
	Power Sector Guarantees Project		2015
	Public/Private Partnership Project	Continuous	Ongoing
	Growth, Employment, and Markets in States (GEMS)	Continuous	Ongoing
	Public Sector Reform and Governance Development Project	Continuous	Ongoing
	State Expenditure Effectiveness for Opportunities and Results (SEEFOR)	Continuous	Ongoing
	Reform of Nigeria Development Finance Sector		2015
	Agriculture DPO 2		2015

Title	Products	Provisional timing of missions (if relevant)	Expected delivery date
	A. Mutual Information on Relevant Work Programs (continued)		
	(ii) Analytical and Advisory Activities		
	Nigeria Economic Report	Continuous	2015
	Boosting Financial Inclusion in Nigeria	-	2015
	Programmatic Poverty Assessment	-	2015
	(iii) Trust Funds, other analyses, and on-going dialogue		
	Governance Partnership Facility Phase 2: Oil Revenue Model Sub-Component	Continuous	Starting in 2015[1]
	Policy Engagement Notes[2]		2015
	Unlocking Nigeria's Gas Potential	-	2015
IMF work program in next 12 months	*Article IV Consultation*	December , 2014	Board: February 27, 2015
	Technical assistance		
	(i) *Fiscal issues*		
	TSA and cash management, program budgeting and IFMIS (FAD)	January - February 2015	

[1] The oil revenue model will be delivered in phases, the first version of which will allow testing of different oil prices, production levels, and costs using the current fiscal regime.

[2] These will be short (3 pages maximum) policy notes prepared in collaboration with other development partners that will provide a basis for policy dialogue with the Government during the transition period. Areas to be covered are still being discussed but based on discussions so far, they are likely to include macro-fiscal management, jobs, evidence-based decision making, and regional inequalities.

Title	Products	Provisional timing of missions (if relevant)	Expected delivery date
	A. Mutual Information on Relevant Work Programs (concluded)		
	TA in fiscal law	FY2015 (tentative)	
	(ii) *Monetary and financial issues*		
	Bank supervision (MCM)	Long-term expert	Until Jan. 2016
	Bank resolution (MCM)	Long-term expert	Until Jan. 2015
	Foreign Exchange Regulation—Article VIII	FY2015 (tentative)	
	Financial Stability Indicators	FY2015 (tentative)	
	(iii) *Statistics*		
	National Accounts (SUT)	May 2015 (tentative)	
	Balance of Payments Statistics –IIP Development (STA)	March 2015	
	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)		Ongoing
Bank request to Fund	Regular update of Fund macroeconomic projections		Ongoing
	C. Agreement on Joint Products and Missions		
Joint products	Joint Bank-Fund Debt Sustainability Analysis	December 2014	Board: February 2015

STATISTICAL ISSUES

(As of December 31, 2014)

I. Assessment of Data Adequacy for Surveillance
General: Macroeconomic data are broadly adequate for surveillance; however data deficiencies—in particular, inadequate information on subnational public finances and large errors and omissions in the balance of payments—remain. The Statistics Act of 2007, which established the National Bureau of Statistics (NBS) 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. There has been an improvement in the compilation of timely and internally consistent data, for example, the Government Integrated Financial Management Information System (GIFMIS) is now used for budget preparations and the coverage of the Treasury Single Account (TSA) is increasing. These efforts however need to be extended to the subnational levels.
National accounts: Basic statistics are extensively available for the compilation of national accounts and the NBS employed major methodological updates in 2014 by adopting the System of National Accounts (SNA 2008 version), the International Standard Industrial Classification (ISIC revision 4). The weaknesses associated with the reliance on the consumer price index to construct the constant price GDP series has improved by developing the supply and use table (SUT) framework (first time in its history) and collecting producer price data. The introduction of additional indices, such as a producer price index, would facilitate more accurate estimation of the constant price measure. The authorities have received and continue to receive Technical Assistance (TA) from the Fund, World Bank, and African Development Bank in completing a GDP rebasing exercise and for the next rebasing in 2015. The rebased GDP (base year=2010) and supply and use table reflected the significant change that has taken place in the structure of the economy since the previous rebasing in 1990. In addition, the conduct of a census of businesses, a census of agriculture, and a household living conditions survey in 2014 will contribute to further improvements in the measurement of GDP. **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. Work is also underway to assess the concepts and methods used to compile the consumer price index (CPI).
Government finance statistics: The most pressing shortcoming is 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, making it difficult to target a consolidated fiscal balance; efforts to address this issue have been stymied by constitutional restrictions. The CBN disseminates survey data on state and local governments budgets, but responses do not necessarily follow the same definitions, and these data are not consolidated with data from other levels of government. To facilitate the timely preparation of a consolidated set of fiscal accounts, however, governments at all levels need to use budget classification, chart of accounts, and accounting systems that will allow consistent

classifications of the data. Current plans for nationwide adoption of International Public Sector Accounting Standards (IPSAS) on a cash basis at the Federal and State levels by end-2015 should be instrumental to this end. There is also a need to formalize the publication of government accounts on a monthly or quarterly basis and to increase coverage to report on the operations of parastatals.	
Monetary and financial statistics: There have been significant improvements in the compilation of monetary statistics. There is need for more granular measures of commercial banks' foreign assets and liabilities. The definition of the other depository corporations (ODCs) sector should also be extended beyond commercial banks to also capture other deposit-taking financial institutions, such as merchant banks and non-interest banks. **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 with support from STA to improve the methodology used to compile FSIs and enhance the consolidation basis to capture cross-border activities of Nigerian bank subsidiaries and branches.	
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, aimed at strengthening the balance of payments and producing an international investment position. There are however still large errors and omissions in the balance of payments, which complicate the assessment of external sustainability. There is a need for improved validation of transactions reported by banks, measurement of transactions outside the banking system, appropriate treatment of transactions of enterprises in free trade zone (using a residency criterion) and improved coverage of estimates of the external assets and liabilities of the banking sector. The DFID/GDDS Phase III Module, launched in 2010 and covering a five-year period, is helping improve source data by recording more accurately cross-border private capital flows and stocks. 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) is collaborating closely with the CBN 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 2015)

	Date of latest observation	Date received	Frequency of Data[1]	Frequency of Reporting[1]	Frequency of Publication[1]
Exchange Rates	Dec. 2014	Jan. 2015	D	D	D
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[2]	Dec. 2014	Jan. 2015	M	M	M
Reserve/Base Money	Dec. 2014	Jan. 2015	M	M	M
Broad Money	Dec. 2014	Jan. 2015	M	M	M
Central Bank Balance Sheet	Dec. 2014	Jan. 2015	M	M	M
Consolidated Balance Sheet of the Banking System	Dec. 2014	Jan. 2015	M	M	M
Interest Rates[3]	Dec. 2014	Jan. 2015	D	D	D
Consumer Price Index	Dec. 2014	Jan. 2015	M	M	M
Revenue, Expenditure, Balance and Composition of Financing[4] – General Government[5] and Central Government	2013	Dec. 2014	A	A	A
Revenue, Expenditure, Balance and Composition of Financing[4] – General Government[5] and Central Government	Nov. 2014	Jan. 2015	M	M	M
Stocks of Central Government and Central Government-Guaranteed Debt[6]	Sep. 2014	Dec. 2014	Q	Q	Q
External Current Account Balance	Sep. 2014	Jan. 2015	Q	Q	A
Exports and Imports of Goods and Services	Sep. 2014	Jan. 2015	Q	Q	A
GDP/GNP	Sep. 2014	Dec. 2014	Q	Q	Q
Gross External Debt	Sep. 2014	Dec. 2014	A	A	A
International Investment Position[7]	2013	Dec. 2014	A	A	A

[1]Daily (D); weekly (W); monthly (M); quarterly (Q); annually (A); irregular (I); and not available (NA).
[2]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.
[3]Both market-based and officially-determined, including discount rates, money market rates, rates on treasury bills, notes and bonds.
[4]Foreign, domestic bank, and domestic nonbank financing.
[5]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.
[6]Including currency and maturity composition.
[7]Includes external gross financial asset and liability positions vis-à-vis nonresidents.

INTERNATIONAL MONETARY FUND

NIGERIA

February 24, 2015

STAFF REPORT FOR THE 2014 ARTICLE IV CONSULTATION—SUPPLEMENTARY INFORMATION

Prepared By	African Department

This supplement provides information that has become available since the issuance of the staff report on February 17, 2015. The information does not alter the thrust of the staff appraisal.

1. Political and Economic Developments.

- On Saturday, February 7, the Independent National Electoral Commission announced that it was postponing general elections by six weeks—Presidential and parliamentary elections are now scheduled for March 28, and state elections for April 11. The postponement was based on the advice of the security forces that they could not guarantee the peaceful conduct of elections given the launch of a major offensive against Boko Haram.

- Financial markets continue to weaken and remain volatile. In the week following the postponement of the elections, the Nigeria Stock Exchange lost 6 percent, bond yields widened 100 basis points, and sovereign spreads by almost 40 basis points, and in the interbank foreign exchange market (IFEM), the naira depreciated by 4½ percent with the spread between the rates in the IFEM and the retail Dutch Auction System (rDAS) window exceeding 20 percent.

- Reflecting ongoing intervention in the IFEM, gross international reserves (30-day moving average), which ended 2014 at $34.5 billion, have further declined to $32.3 billion as of February 19.

2. Policy Development.

- On February 18, the Central Bank of Nigeria (CBN) closed the rDAS window at which it had been providing foreign exchange for a specific list of activities at a rate of N168 per U.S. dollar with a band of ±5 percent. All foreign exchange demand is now to be met in the IFEM, with the CBN committing to intervene in the IFEM to meet legitimate demands for foreign exchange. The Naira has been trading in the IFEM at about N198 per U.S. dollar, so that the move implies an 18 percent devaluation in the official exchange rate.

- The Medium Term Expenditure Framework, which sets the 2015 budget, passed the second reading in the National Assembly and was sent to the Joint Committee on Finance for deliberation whilst the National Assembly went on recess ahead of the February 14 scheduled election. The authorities are continuing discussions and anticipate submitting soon a revised set of budget assumptions to the National Assembly.

3. Implications.

- The closure of the rDAS window is in line with staff advice and removes a major economic distortion. However, as the CBN remains the largest single supplier of foreign exchange, it will be important for the CBN to intermediate this supply in a transparent and efficient manner, while facilitating price discovery.

- The impact of this change on growth, inflation, and the balance of payments is likely to be modest as the bulk of transactions were already at the IFEM rate. Market reaction to the change has been broadly positive and rates have stabilized; however, liquidity in the market is reportedly thin.

- The recent recovery in oil prices—the Brent futures average price for 2015 has recovered from $53/barrel on January 20 to $61/barrel on February 20—together with a possible revision to the 2015 budget, suggest that the fiscal position might improve relative to what is projected in the Staff Report.

- In view of the closure of the rDAS window, the description of the "Exchange Rate Arrangement" contained in the Informational Annex should be amended to:

Exchange Rate Arrangement

The de jure exchange rate arrangement is other managed arrangement. The Central Bank of Nigeria (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 U.S. dollar (the band was increased from ±3 percent to ±5 percent in November, 2014) and has allowed adjustment of the band's midpoint in response to market forces (the last adjustment in November 2014). On February 18, 2015, the CBN announced the closure of its Dutch Auction System (DAS) window and requested all foreign exchange transactions to be effected through the interbank market. The de facto exchange rate arrangement remains other managed arrangement. In spite of some stability of the Naira-U.S. dollar exchange rate, the nominal effective exchange rate has fluctuated considerably in recent years. Nigeria is a signatory to 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 percent around the central rate. The foreign exchange market comprises the interbank and bureau de change segments.

INTERNATIONAL MONETARY FUND
COMMUNICATIONS DEPARTMENT

Press Release No. 15/91
FOR IMMEDIATE RELEASE
March 4, 2015

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IMF Executive Board Concludes 2014 Article IV Consultation with Nigeria

On February 27, 2015, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation[1] with Nigeria.

Nigeria has a large and diverse economy that has achieved a decade of strong growth, averaging 6.8 percent a year, and now accounts for 35 percent of Sub-Saharan Africa's gross domestic product (GDP). Inflation has remained in single digits for two years, and the banking sector, which has a strong capital base, is expanding credit. The trade surplus has been declining since the second quarter of 2013 on lower oil exports and continued strong growth of imports, and gross international reserves have been falling. Meanwhile, the general government fiscal deficit and public debt have been kept low. However, Nigeria still lags its peers in critical infrastructure and has high rates of poverty and income inequality. While the economy is diverse, with services accounting for over 50 percent of GDP in 2013, and oil only 13 percent, the oil sector remains a critical source for revenue and foreign exchange. With limited fiscal and external buffers ($2 billion in the excess crude account and $34.25 billion in gross international reserves, respectively at the end of 2014), the sharp decline of oil prices in the second half of 2014 underscores the challenging but compelling need to address remaining development challenges.

The authorities have responded to a sharp decline in oil prices. On February 18, 2015, the Central Bank of Nigeria closed the Dutch Auction System (rDAS) window, unifying the rDAS rate with interbank foreign exchange market rate. On February 25, 2015, the Senate approved the third revision to the 2015 budget, tightening the fiscal envelope by lowering the budget benchmark oil price to $52/barrel.

[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.

In 2015, oil exports are projected to decline by 6 percent of GDP from the 2014 level, and oil revenue by 2 percent. A sharp contraction of public investment and domestic demand is projected to reduce growth to 4.75 percent in 2015 from 6.3 percent in 2014. Inflation is projected to rise to 11.5 percent by the end of 2015 from 8 percent at end 2014, reflecting the pass through from exchange rate depreciation. The outlook is subject to downside risks, both external (changes in oil market developments and investor sentiment) and domestic (uncertainty over the election outcome and the security situation).

Executive Board Assessment[2]

Executive Directors commended the authorities for progress in promoting Nigeria's economic diversification and for their macroeconomic response to collapsing export prices. Directors noted, however, that vulnerabilities remain high in view of the uncertainties about oil price, security, and the political situation, and concurred that additional policy adjustments and broader structural reforms will be necessary in the period ahead to reconstitute buffers, mitigate risks, and meet pressing development needs.

Directors agreed that tightening fiscal policy and allowing the exchange rate to depreciate while using some of the reserve buffer were appropriate responses to the recent fall in oil prices. Nonetheless, Directors stressed that achieving the authorities' fiscal targets will require a careful prioritization of public spending and a cautious implementation of capital projects. They also highlighted the importance of improved budgeting at the level of state and local governments to help better manage their fiscal adjustment.

Directors agreed that mobilizing additional non oil revenues is critical to open up fiscal space and improve public service delivery over the medium term. They welcomed ongoing initiatives to strengthen tax administration, and encouraged the authorities to also rein in exemptions, keep tax rates under review, persevere with subsidy reform, and improve the management of oil revenue. Furthermore, Directors saw merit in reviewing the current revenue sharing arrangements to help address regional disparities over the longer term and ensure that social and development needs are addressed.

Directors welcomed the recent unification of the foreign exchange rates, noting that greater exchange rate flexibility could help cushion external shocks. As the largest single supplier of foreign exchange, it will be important for the central bank to intermediate this supply in a transparent, efficient, and fair manner.

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[2] 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 summing up can be found here: http://www.imf.org/external/np/sec/misc/qualifiers.htm.

Directors noted that financial soundness indicators remain above prudential norms, but the concentration of credit risks and foreign currency exposures call for continued close oversight. They welcomed progress in strengthening supervision and regulation, including of cross border activities, and encouraged additional initiatives to foster financial market development, including of hedging instruments, and improve financial inclusion.

Directors emphasized that Nigeria's longer term prospects rest on lowering oil dependency and strengthening private sector's participation in economic activity. Lasting and more inclusive growth calls for improving the business environment, promoting youth and female employment, and advancing human capital development.

Directors noted that Nigeria's economic data are broadly adequate for surveillance. Nonetheless, they encouraged the authorities to further improve statistics, in particular as regards the balance of payments.

Nigeria: Selected Economic and Financial Indicators, 2012–2015

Nominal GDP (2013, billion U.S. dollars)	521.8	Quota (million SDR)	1,753.2
GNI per capita, Atlas method (2013, US$)	2,710	Population (2012, million)	168.8
Poverty headcount ratio (adult equivalent, 2009-10)	46.0	GINI index (2010)	48.8
Life expectancy at birth (2011, years)	52		

	2012	2013	2014 Prel.	2015 Proj.
National income and prices	(Annual percentage change, unless otherwise specified)			
Real GDP (at 2010 Basic Prices)	4.3	5.4	6.3	4.8
Oil and Gas GDP	-4.9	-13.1	-1.3	-1.6
Non-oil GDP	5.9	8.3	7.3	5.5
Production of crude oil (million barrels per day)	2.3	2.2	2.2	2.3
Consumer price index (end of period)	12.0	7.9	7.9	11.5
Consolidated government operations[1]	(Percent of GDP)			
Total revenues and grants	14.3	11.0	9.9	7.7
Of which: oil and gas revenue	10.4	7.1	5.8	3.4
Total expenditure and net lending	14.7	13.4	12.3	10.6
Overall balance	-0.3	-2.4	-2.5	-2.8
Non-oil primary balance (percent of non-oil GDP)	-11.6	-9.7	-8.1	-5.5
Excess Crude Account / SWF (billions of US$)	11.0	3.8	3.6	1.5
Money and credit	(Contribution to broad money growth, unless otherwise specified)			
Broad money (percentage change; end of period)	29.1	0.9	7.3	10.8
Net foreign assets	15.9	-3.4	-7.4	-0.1
Net domestic assets	2.3	4.3	14.6	10.9
Treasury bill rate (percent; end of period)	13.3	11.5	13.0	...
External sector	(Annual percentage change, unless otherwise specified)			
Exports of goods and services	1.8	-0.9	-5.1	-37.4
Imports of goods and services	-10.6	-4.9	9.7	-16.6
Current account balance (percent of GDP)[2]	4.4	3.9	2.2	0.2
Terms of trade	1.0	0.4	-2.6	-25.6
Price of Nigerian oil (US$ per barrel)	110.0	109.0	100.6	52.8
Nominal effective exchange rate (end of period)	95.9	96.7	99.0	...
Real effective exchange rate (end of period)	111.3	118.8	128.4	...
Gross international reserves (US$ billions)	43.8	42.8	34.3	28.4
(Equivalent months of next year's imports)	7.1	6.3	6.1	4.7

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

[1] Consists of federal, state, and local governments.

Statement by Ms. Kapwepwe, Executive Director for Nigeria and Mr. Uwatt, Senior Advisor to the Executive Director February 27, 2015

In spite of the severe negative oil price shock since the second half of 2014, the Nigerian economy has maintained its decade long strong performance amidst enormous but manageable developmental challenges. This was made possible by the adoption of contingency policy measures to deal with the oil shock and at the same time implementing the reform agenda which is aimed at placing the economy on a more diversified, sustainable, and inclusive growth trajectory. While the authorities recognize the negative effect of the oil shock on the economy, they expect that the impact would be less than envisaged by staff on account of measures put in place. They are equally aware of the various concerns raised by staff in the report including revenue redistribution mechanism for dealing with regional disparity and poverty reduction. They are focused on addressing these issues within the provision of the law and subsisting political arrangements some of which were achieved after complex compromises. Overall, the authorities are grateful to staff for the fruitful discussions during the mission and the Executive Board for the support.

Macroeconomic developments and outlook

Economic performance in 2014 was good with real GDP growth estimated at about 6.23 percent compared to 5.49 percent in 2013 and 5.94 in the fourth quarter of 2014. Growth was generally driven by the non-oil sector. Headline inflation moderated to 8.0 percent y-o-y in December 2014 pretty much within the 6-9 percent Central Bank of Nigeria (CBN) target band on account of discreet monetary policy stance and improved domestic food production.

Fiscal management, particularly in the last quarter of the year, was challenging due to oil revenue underperformance occasioned by lower international oil prices and domestic production. This notwithstanding, fiscal deficit is projected to remain within the target one percent of GDP and the overall public debt, particularly public external debt, is at low risk of distress. In addition, the pressure on the external sector increased with the current account deficit projected to worsen on account of the oil shock. The exchange rate was broadly stable until the recent speculative attack and international reserves, though declining, were still adequate to cover at least six months of imports.

Uncertainties surrounding oil price movements, global economic growth and domestic political and security environments pose significant downside risks to the economy. With the measures currently being implemented to contain these risks, the macroeconomic outlook is expected to remain favorable.

Fiscal policy

The authorities' focus is on addressing the emerging fiscal risk, particularly oil revenue shortfall with the overall objective of achieving fiscal and debt sustainability in the medium-term. Accordingly, serious attention would continue to be given to non-oil revenue mobilization, including tax reforms (VAT and CIT), broadening of the tax revenue base, and improvement in tax administration. In this regard, significant actions to boost revenue have already been outlined in the 2015 budget and further measures are expected to be taken as warranted. Efforts are also underway to enhance transparency of fiscal operations of all public institutions that collect revenues, including ensuring that excess funds are deposited into the Government Consolidated Revenue Fund.

Public spending would continue to be oriented towards social and productive sectors, including transportation and energy infrastructure. In doing this, steps would be taken to consistently align expenditures to expected revenues and ensure that the near-term fiscal deficit target is met. This would involve prioritization of projects and greater involvement of private investors in the execution of those projects considered critical to growth. Moreover, the authorities do not intend to close the financing gap under the National Infrastructure Investment Plan through external borrowing.

The authorities have continued to improve public financial management through the use of the right technologies such as biometrics and digitizing government payments. Discussions are going on regarding how to extend this to subnational level. Oil subsidy reform remains a key priority of the government. However, in view of the highly sensitive nature of the exercise, the timing has to be appropriate to avoid social and political consequences as witnessed in January 2012. The various options, timing and modalities for implementation of the reform are under consideration by the various stakeholders.

Monetary and exchange rate policies

Monetary policy would continue to support the broader macroeconomic policy objectives of government, including maintaining low and stable inflation, exchange rate stability, and enhancing access to banking services for the under-banked. In the past years, a cautious monetary policy stance helped keep inflation within single digit. This monetary policy stance is expected to continue in the near-to-medium term with adjustments to contain any emerging vulnerabilities.

On exchange rate, government's intention is to allow market forces to drive its movement with exchange rate flexibility remaining the first line of defense in the presence of external shocks. Intervention in the foreign exchange market would be limited to smoothening excessive volatility of the exchange rate and liquidity management in response to disorderly market conditions. This has been demonstrated by the recent closure by the CBN of its Dutch Auction System (retail and wholesale) foreign exchange window in order to avert the emergence of a multiple exchange rate regime occasioned by the widening margin between the rates at the interbank and retail Dutch Auction System window. This action marks a significant move towards a unified foreign exchange market (the interbank foreign exchange market) where there is basically only one exchange rate determined largely by market forces. Going forward, the authorities will continue to monitor closely developments in the interbank foreign exchange market and take intervention and prudential measures that would ensure the smooth functioning of the market.

Financial sector policies

The financial system remains stable, adequately capitalized, profitable and liquid. It is also resilient to significant shocks to credit, interest and exchange rates. This has been made possible by the strengthening of the regulatory and supervisory framework for the banking and non-bank financial institutions including their foreign subsidiaries. Moreover, collaboration among the regulatory authorities of the financial system has been enhanced through the Financial Supervision and Regulation Coordinating Committee. Going forward, the authorities would continue to work towards ensuring financial sector resilient through improvement of the corporate governance framework, recovery and resolution framework, oversight of holding companies, as well as consolidated and cross-border supervision.

The implementation of the financial inclusion policy under the 2012 National Financial Inclusion Strategy is progressing as planned. The aim is to reduce the percentage of Nigerian adults that are excluded from financial services from 46.3 percent in 2010 to 20 percent in 2020. As at 2014, the exclusion rate has reduced to 39.5 percent. Some progress has also been made in usage of financial services (payments, savings, credit, insurance, and pensions), and access channels. Notwithstanding this progress, the authorities are mindful of the regulatory/supervisory challenges which may emerge in the process. Accordingly, they are working to strengthen internal capacity within the CBN and improve engagement with stakeholders through the National Payment Systems Board.

Structural policies

The authorities' are implementing bold and comprehensive structural reform measures to raise potential growth, diversify the economy and improve competitiveness and the business climate. The overall strategy is to create a private sector driven economy supported by appropriate government policies and incentives. In this regard, priority attention has been given to sectors considered as growth drivers and enhancers including power, roads, agriculture, manufacturing, oil and gas, creative industries, housing, and information and communication technology. There are also targeted special financing schemes for the private sector including small and medium scale enterprises (SMEs).

The authorities are also intensifying job creation efforts through several initiatives targeted at youths and women which combine training with financial assistance that will enable beneficiaries set up their businesses. The authorities are equally working closely with the World Bank to build social safety nets that would include conditional cash transfer for the promotion of primary and secondary education and improvement of maternal and child care.

Conclusion

2014 was a particularly difficult year as revenue shortfall occasioned by the oil price shock affected economic performance. The fiscal outlook for the medium-term is likely to be equally challenging unless there is a significant rebound in the oil price. Whichever direction the oil price goes, there is obviously no alternative to a resilient, diversified, and more inclusive non-oil economy. It is in this regard that the authorities are focused on deepening and widening the diversification drive through the implementation of the various reform measures. These measures are expected to accelerate the pace of decline in poverty and reduce income inequality and regional disparity in the medium-to-long term.