

**Nigeria: 2019 Article IV Consultation-Press
Release; Staff Report; and Statement by the
Executive Director for Nigeria**



NIGERIA

April 2019

2019 ARTICLE IV CONSULTATION—PRESS RELEASE; STAFF REPORT; 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 2019 Article IV consultation with Nigeria, the following documents have been released and are included in this package:

- A **Press Release** summarizing the views of the Executive Board as expressed during its March 27, 2019 consideration of the staff report that concluded the Article IV consultation with Nigeria.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on March 27, 2019, following discussions that ended on January 30, 2019, with the officials of Nigeria on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on March 13, 2019.
- An **Informational Annex** prepared by the IMF staff.
- A **Staff Supplement** updating information on recent developments.
- A **Statement by the Executive Director** for Nigeria.

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

Selected Issues

The IMF's transparency policy allows for the deletion of market-sensitive information and premature disclosure of the authorities' policy intentions in published staff reports and other documents.

Copies of this report are available to the public from

International Monetary Fund • Publication Services
PO Box 92780 • Washington, D.C. 20090
Telephone: (202) 623-7430 • Fax: (202) 623-7201
E-mail: publications@imf.org Web: <http://www.imf.org>
Price: \$18.00 per printed copy

International Monetary Fund
Washington, D.C.



INTERNATIONAL MONETARY FUND



Press Release No. 19/99
FOR IMMEDIATE RELEASE
April 3, 2019

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

IMF Executive Board Concludes 2019 Article IV Consultation with Nigeria

On March 27, 2019, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation¹ with Nigeria.

Nigeria's economy is recovering. Real GDP increased by 1.9 percent in 2018, up from 0.8 percent in 2017, on the back of improvements in manufacturing and services, supported by spillovers from higher oil prices, ongoing convergence in exchange rates and strides to improve the business environment. Headline inflation fell to 11.4 percent at end-2018, reflecting declining food price inflation, weak consumer demand, a relatively stable exchange rate and tight monetary policy during most of 2018, but remains outside of the central bank's target range of 6-9 percent. Record holdings of mostly short-term local debt and equity and a current account surplus lifted gross international reserves to a peak in April 2018, while the three-times oversubscribed November 2018 Eurobond helped cushion the impact of outflows later in the year.

However, persisting structural and policy challenges continue to constrain growth to levels below those needed to reduce vulnerabilities, lessen poverty and improve weak human development outcomes, such as in health and education. A large infrastructure gap, low revenue mobilization, governance and institutional weaknesses, continued foreign exchange restrictions, and banking sector vulnerabilities are dampening long-term foreign and domestic investment and keeping the economy reliant on volatile oil prices and production.

Under current policies, the outlook remains therefore muted. Over the medium term, absent strong reforms, growth would hover around 2½ percent, implying no per capita growth as the economy faces limited increases in oil production and insufficient adjustment four years after the oil price shock. Monetary policy focused on exchange rate stability would help contain inflation but worsen competitiveness if greater flexibility is not accommodated when needed. High

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.

financing costs, on the back of little fiscal adjustment, would continue to constrain private sector credit, and the interest-to-revenue ratio would remain high.

Risks are moderately tilted downwards. On the upside, oil prices could rise, prompted by global political disruptions or supply bottlenecks. Bold reform efforts, following the election cycle, could boost confidence and investments, especially given relatively conservative baseline projections. On the downside, additional delays in reform implementation, a persistent fall in oil prices, reduced oil production, increased security tensions, or tighter global financial market conditions could undermine growth, provoke a market sell-off, and put additional pressure on reserves and/or the exchange rate.

Executive Board Assessment²

Executive Directors welcomed Nigeria's ongoing economic recovery, accompanied by reduced inflation and strengthened reserve buffers. They noted, however, that the medium-term outlook remains muted, with risks tilted to the downside. In addition, long standing structural and policy challenges need to be tackled more decisively to reduce vulnerabilities, raise per capita growth, and bring down poverty. Directors, therefore, urged the authorities to redouble their reform efforts, and supported their intention to accelerate implementation of their Economic Recovery and Growth Plan.

Directors emphasized the need for revenue-based consolidation to lower the ratio of interest payments to revenue and make room for priority expenditure. They welcomed the authorities' tax reform plan to increase non-oil revenue, including through tax policy and administration measures. They stressed the importance of strengthening domestic revenue mobilization, including through additional excises, a comprehensive VAT reform, and elimination of tax incentives. Securing oil revenues through reforms of state owned enterprises and measures to improve the governance of the oil sector will also be crucial.

Directors highlighted the importance of shifting the expenditure mix toward priority areas. They welcomed, in this context, the significant increase in public investment but underlined the need for greater investment efficiency. They also recommended increasing funding for health and education. They noted that phasing out implicit fuel subsidies while strengthening social safety nets to mitigate the impact on the most vulnerable would help reduce the poverty gap and free up additional fiscal space. Directors recommended stronger coordination for more effective public debt and cash management.

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 summings up can be found here: <http://www.imf.org/external/np/sec/misc/qualifiers.htm>.

With inflation still above the central bank target, Directors generally considered that a tight monetary policy stance is appropriate. They encouraged the authorities to enhance transparency and communication and to improve the monetary policy framework, including by using more traditional methods, such as raising the monetary policy rate or cash reserve requirements. Directors also urged ending direct central bank intervention in the economy to allow focus on the central bank's price stability mandate.

Directors commended the authorities' commitment to unify the exchange rate and welcomed the increasing convergence of foreign exchange windows. They noted that a unified market based exchange rate and a more flexible exchange rate regime would support inflation targeting. Directors also stressed that elimination of exchange restrictions and multiple currency practices would remove distortions and facilitate economic diversification.

Directors welcomed the decline in nonperforming loans and the improved prudential banking ratios but noted that restructured loans and undercapitalized banks continue to weigh on financial sector performance. They suggested strengthening capital buffers and risk based supervision, conducting an asset quality review, avoiding regulatory forbearance, and revamping the banking resolution framework. Directors also recommended establishing a credible time bound recapitalization plan for weak banks and a timeline for phasing out the state backed asset management company AMCON.

Directors urged the authorities to reinvigorate implementation of structural reforms to diversify the economy and achieve the Sustainable Development Goals. They pointed to the importance of improving the business environment, implementing the power sector recovery program, deepening financial inclusion, reforming the health and education sectors, and implementing policies to reduce gender inequities. Directors also emphasized the need to strengthen governance, transparency, and anti-corruption initiatives, including by enhancing AML/CFT and improving accountability in the public sector.

Directors welcomed improvements in the quality and availability of economic statistics and encouraged continued efforts to address remaining gaps, including through regular funding.

Table 1. Selected Economic and Financial Indicators, 2016–20

	2016	2017	2018	2019	2020
			Est.	Projections	
National income and prices	(Annual percentage change, unless otherwise specified)				
Real GDP (at 2010 market prices)	-1.6	0.8	1.9	2.1	2.5
Oil and Gas GDP	-14.4	4.7	1.1	4.4	6.1
Non-oil GDP	-0.3	0.5	2.0	1.9	2.2
Production of crude oil (million barrels per day)	1.81	1.89	1.93	2.00	2.10
Nominal GDP at market prices (trillions of naira)	102.6	114.9	129.1	144.6	161.2
Nominal GDP per capita (US\$)	2,254	1,995	2,049	...	...
GDP deflator	9.5	11.1	10.2	9.6	8.8
Consumer price index (annual average)	15.7	16.5	12.1	11.7	11.7
Consumer price index (end of period)	18.5	15.4	11.4	12.1	11.7
Investment and savings	(Percent of GDP)				
Gross national savings	16.0	18.2	15.8	13.8	13.9
Public	-0.1	-0.7	0.8	-0.1	-0.1
Private	16.1	18.9	15.0	13.9	14.0
Investment	15.4	14.7	13.2	13.7	13.6
Public	2.2	3.1	3.3	3.0	2.8
Private	13.2	11.6	9.9	10.7	10.8
Current account balance	0.7	2.8	2.1	-0.4	-0.2
Consolidated government operations	(Percent of GDP)				
Total revenues and grants	5.5	6.2	8.0	7.0	7.3
Of which: oil and gas revenue	2.1	2.6	4.6	3.2	3.4
Total expenditure and net lending	9.5	11.6	12.5	12.1	11.9
Overall balance	-4.0	-5.4	-4.5	-5.1	-4.6
Non-oil primary balance	-4.8	-6.7	-7.4	-6.8	-6.9
Non-oil revenue	3.4	3.6	3.4	3.6	3.7
Public gross debt ¹	23.4	25.3	28.4	30.1	31.4
Of which: FGN debt	20.5	22.4	25.2	26.8	27.7
FGN interest payments (percent of FGN revenue)	61.9	58.4	60.0	63.0	50.7
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)	24.0	9.1	15.4	15.6	15.1
Net foreign assets	5.8	23.4	6.9	-4.5	-2.6
Net domestic assets	3.4	-26.0	8.5	20.1	17.6
o/w Claims on consolidated government	10.7	-2.4	4.4	15.5	14.6
Credit to the private sector (y-o-y,%)	22.3	-3.3	-6.7	3.9	2.3
Velocity of broad money (ratio; end of period)	3.7	3.8	3.4	3.4	3.4
External sector	(Annual percentage change, unless otherwise specified)				
Exports of goods and services	-21.6	32.3	28.9	-8.5	5.7
Imports of goods and services	-34.7	8.4	29.9	8.5	2.6
Terms of trade	-6.1	10.3	12.5	-7.2	-0.5
Price of Nigerian oil (US dollar per barrel)	44.6	54.4	71.1	61.8	61.5
External debt outstanding (US\$ billions) ²	45.7	50.6	63.4	69.8	76.6
Gross international reserves (US\$ billions)	27.6	39.8	42.6	38.5	35.6
(equivalent months of imports of G&Ss)	6.5	7.2	7.1	6.3	5.7

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

¹ Gross debt figures for the Federal Government and the public sector include overdrafts from the Central Bank of Nigeria (CBN) and AMCON bonds (N 4.1 trillion). On a net basis, the overdrafts and government deposits at the CBN almost cancel out, and AMCON net debt reduces to N 2.4 trillion.

² Includes both public and private sector.

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

¹ Gross debt figures for the Federal Government and the public sector include overdrafts from the Central Bank of Nigeria (CBN) and AMCON bonds (N 4.1 trillion). On a net basis, the overdrafts and government deposits at the CBN almost cancel out, and AMCON net debt reduces to N 2.4 trillion.

² Includes both public and private sector.



NIGERIA

STAFF REPORT FOR THE 2019 ARTICLE IV CONSULTATION

March 13, 2019

KEY ISSUES

Context. Nigeria's economy is still recovering from the substantial terms-of-trade shock that triggered the 2016 recession. Over the past two years, the rebound in oil prices, a tight monetary policy, and a convergence in foreign exchange windows have helped reduce inflation and rebuild external buffers. However, persistent structural and policy challenges—including a large infrastructure gap, low revenue mobilization, and high dependence on hot money—constrain growth to below the level needed to reduce vulnerabilities and improve development outcomes. With elections now complete, there is a greater chance for faster policy implementation.

Outlook and risks. Under current policies, the outlook remains muted with growth hovering around 2½ percent, amidst limited increases in oil production and insufficient policy adjustment four years after the oil price shock. Risks are moderately tilted downwards, driven by additional delays in reform implementation, a persistent fall in oil prices, increased security tensions, and tighter global financial markets.

Authorities' plans and reform priorities. The authorities' Economic Recovery and Growth Plan priorities—particularly on non-oil revenue mobilization, power sector reforms, anti-corruption, and the business environment—remain appropriate and should be urgently implemented. A comprehensive package of policy reforms to address vulnerabilities and raise growth to about 4.5 percent within a five-year period requires:

- **Revenue-based fiscal consolidation** to create space for higher capital and priority spending—including on social safety nets, health and education—while improving spending efficiency and strengthening governance.
- Maintaining a **tight monetary policy** while improving the policy framework and adopting a **unified market-determined exchange rate**.
- Enhancing **banking sector resilience** through strengthened capital buffers and banking resolution framework, credible time-bound recapitalization plans for weak banks, phasing out regulatory forbearance, and properly assessing asset quality.
- Addressing **structural challenges** to tackle longstanding weaknesses that inhibit economic diversification, including in the business environment, governance, public investment efficiency, health and education, power sector and financial inclusion.

Approved By
David Owen and
Maria Gonzalez

Discussions took place in Lagos (January 16-19) and Abuja (January 20-30). The team comprised Mr. Mati (Mission Chief and Senior Resident Representative), Mr. Tsangarides, Ms. Newiak and Mr. O'Sullivan (all AFR); Mr. Alfi (MCM); Mr. Hosny (SPR); and Messrs. Purcell and Di Benedetta (LEG). Ms. Mangga, Ms. Bonet, and Mr. Okafor (Resident Representative office) assisted the mission. Mr. Odonye (OED), and Ms. Lee and Ms. Timmis (World Bank) participated in most policy discussions. Mr. Obiora (OED) also joined the concluding meetings. The mission held discussions with Finance Minister Ahmed, Budget and Planning Minister Udoma, Central Bank of Nigeria (CBN) Governor Emefiele, and other senior government officials. The mission also held discussions with parliamentarians, and representatives of financial institutions, private sector, development partners, and civil society. Ms. Canales, Ms. Liu and Ms. Ibrahim provided excellent assistance for the preparation of this report.

CONTENTS

BACKGROUND: RECOVERING BUT NOT FAST ENOUGH	<u>4</u>
RECENT MACROECONOMIC DEVELOPMENTS	<u>5</u>
OUTLOOK AND RISKS	<u>7</u>
POLICY DISCUSSIONS: AN URGENT REFORM PACKAGE	<u>10</u>
A. Fiscal Policy: Increase Non-Oil Revenue and Make Room for Priority Expenditures	<u>11</u>
B. Monetary and Exchange Rate Policies: Toward an Integrated Framework and Unified Rate	<u>15</u>
C. Macro-Financial: Contain Banking Sector Risks	<u>19</u>
D. Structural Reforms to Support Diversification and Inclusive Growth, and Achieve the SDGs	<u>22</u>
OTHER SURVEILLANCE ISSUES	<u>26</u>
STAFF APPRAISAL	<u>27</u>
BOXES	
1. Refined Oil Production—A Potential Game Changer for Nigeria	<u>9</u>
2. Power Sector Reforms—Where Does the Sector Stand?	<u>25</u>
FIGURES	
1. Real Sector Developments	<u>30</u>
2. Inflation and Monetary Sector Developments	<u>31</u>

3. External Sector Developments	32
4. Fiscal Sector Developments	33
5. Non-Resident Holdings in Nigeria: Internal or External Driven?	34
6. Financial Sector Developments	35
7. Banking Sector Developments	36
8. Performance of the Five Largest Banks Through September 2018	37
9. Diversification	38
10. Human Development Indicators	39
11. Governance and Transparency	40

TABLES

1. Selected Economic and Financial Indicators, 2016–24	41
2. Balance of Payments, 2016–24	42
3. Federal Government Operations, 2016–24	43
4. Consolidated (General) Government, 2016–24	44
5. Government Operations, 2016–24	45
6. State and Local Governments, 2016–24	46
7. Central Bank of Nigeria (CBN) Analytical Balance Sheet, 2016–24	47
8. Monetary Survey, 2016–24	48
9. Financial Soundness Indicators. 2013Q4 - 18Q4	49
10. Monitoring of the Sustainable Development Goals	50
11. Progress on 2013 FSAP Recommendations	51

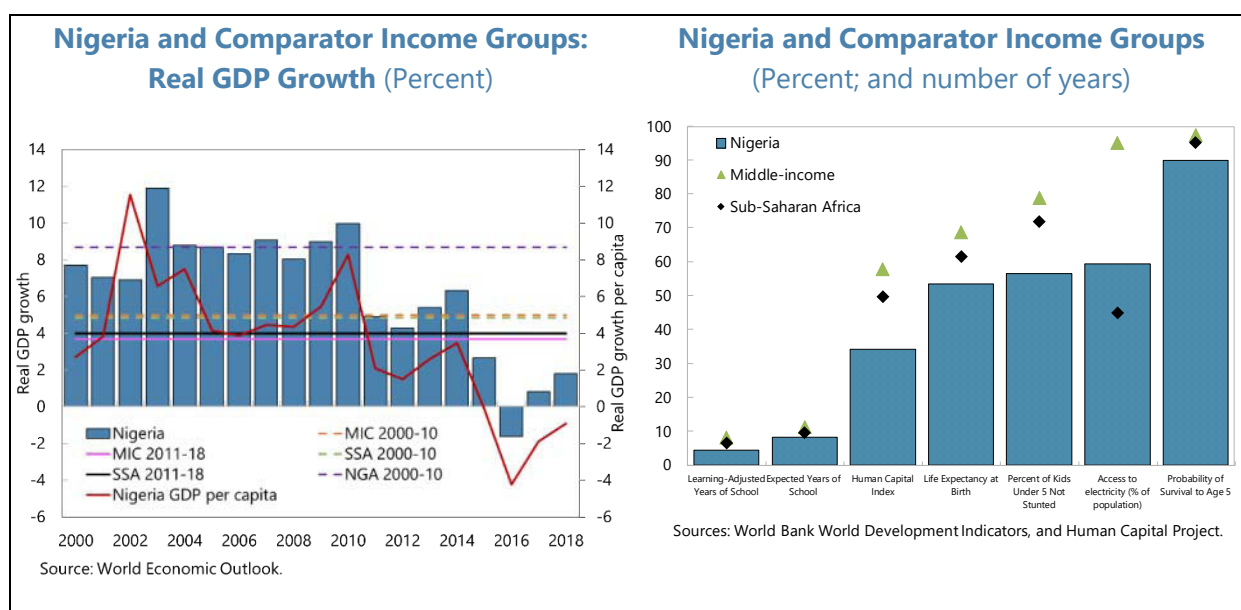
ANNEXES

I. Status of Key Recommendations for the 2019 Article IV Consultation	52
II. Risk Assessment Matrix	53
III. Evaluating the Impact of Staff's Adjustment Scenario Using the FSGM Model	55
IV. Debt Sustainability	58
V. Estimating the Inflation-Growth Threshold in Nigeria	69
VI. External Stability Assessment	70
VII. Financial Development and Inclusion	76
VIII. Capacity Development Strategy for FY 2019—Summary January 2019	83

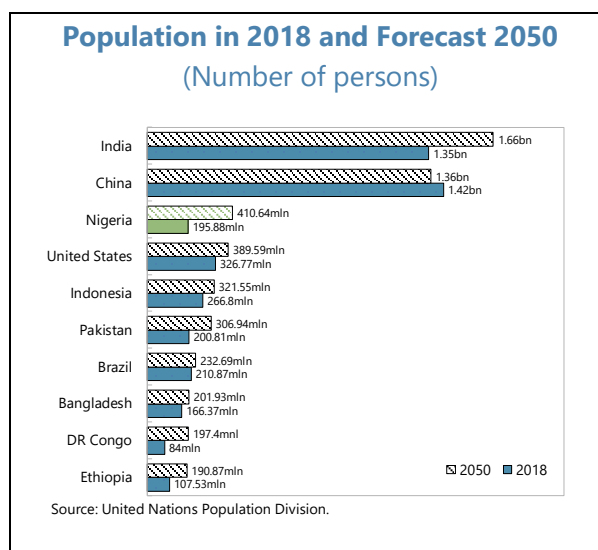
BACKGROUND: RECOVERING BUT NOT FAST ENOUGH

1. Nigeria's economy is recovering. Recovery from the massive oil price shock which started in mid-2014 and the subsequent 2016 recession—the country's first since 1991—is continuing and has accelerated in the latter part of 2018. In addition to oil prices averaging about double their 2016 trough, a tight monetary policy, greater convergence towards a unified exchange rate, increased access to international markets, and strides in improving the business climate have helped support the economic recovery, reduce inflation, and strengthen external buffers.

2. However, persisting structural and policy challenges continue to constrain Nigeria's economic performance to levels below what is necessary to improve development outcomes. A large infrastructure gap, low revenue mobilization, governance and institutional weaknesses, continued foreign exchange (FX) market restrictions, and banking sector vulnerabilities are dampening long-term foreign and domestic investment and keeping the economy reliant on volatile oil prices and production. This combination of factors is contributing to keeping growth rates below historical trends, falling real GDP per capita, and weak human development outcomes. More recently, hot money inflows into Nigeria also increased vulnerabilities.



3. Policy action to address these challenges is urgent and should not be delayed. Current demographic trends suggest that Nigeria could be the third most populous country in the world by 2050, highlighting the importance of faster per capita growth. This will be necessary to reduce high unemployment and poverty and transform Nigeria into a diversified and more inclusive economy, including through financing the growing need for education and health services that are already under strain at current population levels (Selected Issues Paper V).

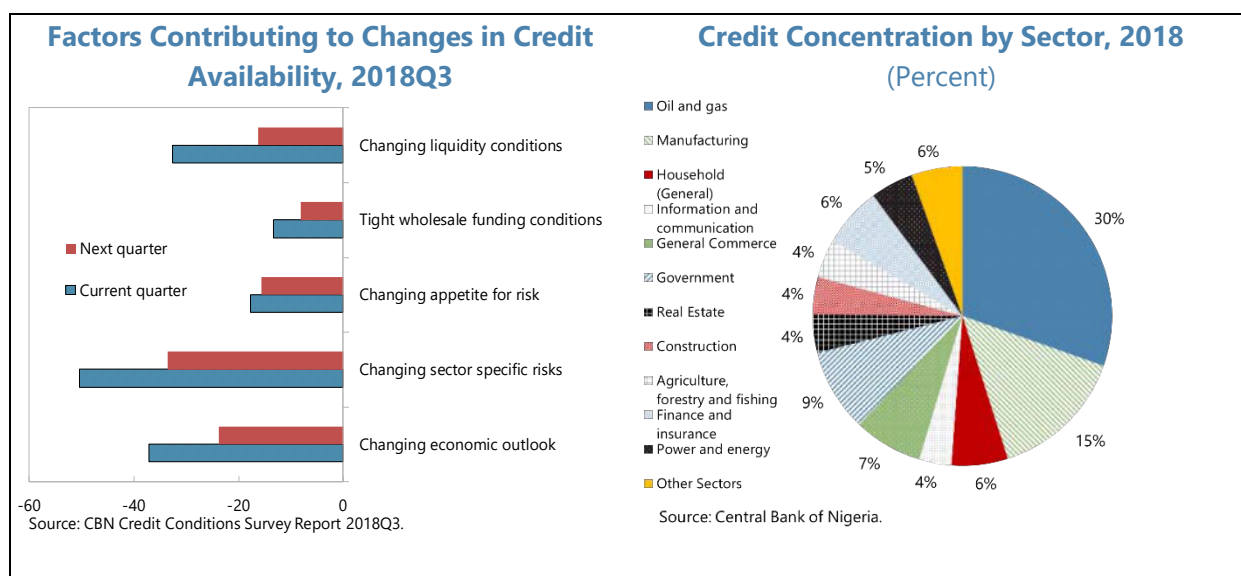


4. The reelection of President Buhari to another four-year term should provide new impetus to faster implementation of the authorities' Economic Recovery and Growth Plan (ERGP). Key priorities under the ERGP—including advancing on revenue mobilization, power sector reforms, and accelerating anti-corruption efforts—remain consistent with staff's past recommendations (Annex I) and should be accelerated now and not await the appointment of a new Cabinet (expected to be sworn in by late May 2019). The parliamentary majority obtained by the governing All Progressives Congress (APC) party should also help the government advance more forcefully the key legislative reforms—notably in taxation and the oil sector—currently underpinning the ERGP.

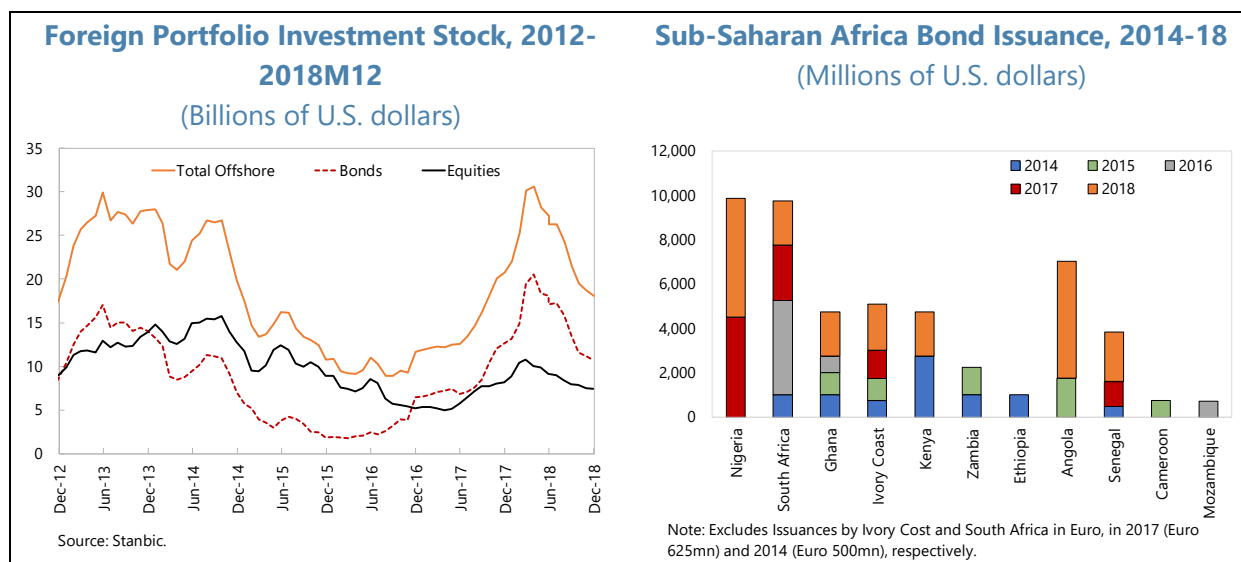
RECENT MACROECONOMIC DEVELOPMENTS

5. Growth has picked up but remains low (Figure 1). Output increased by 1.9 percent in 2018—up from 0.8 percent in 2017 and accelerating rapidly in the last quarter of 2018—driven by improvements in manufacturing and services, which also benefited from spillovers from a higher oil price. Growth in the agricultural sector—about 47 percent of the workforce and 25 percent of GDP—remained below the historical trend of 3–4 percent because of floods and farmers/herders' clashes. Unemployment continued to increase, reaching 23.1 percent in the third quarter of 2018, up from 20.4 percent the fourth quarter of 2017, with the labor force growing by 4½ percent over the same period.

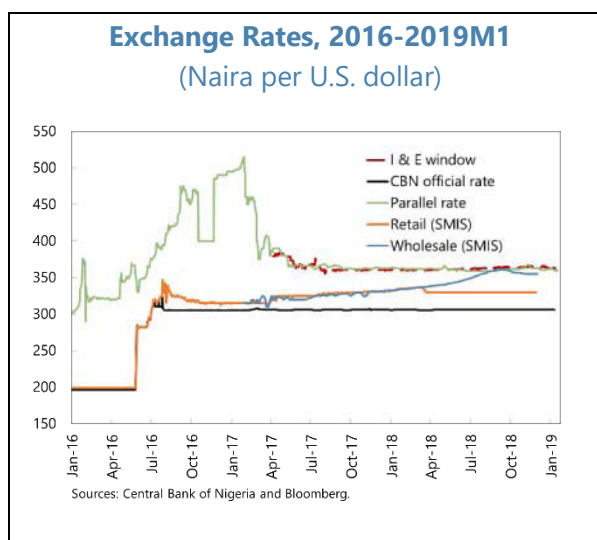
6. Inflation has fallen significantly but remains above the Central Bank of Nigeria's (CBN) target of 6–9 percent (Figure 2). Headline inflation fell to 11.4 percent at end-2018, from 18½ percent at end-2016, reflecting declining food price inflation, weak consumer demand, a relatively stable exchange rate and tight monetary policy during most of 2018. Core inflation has also declined in 2018 to 10.4 percent. Credit to the private sector continued to contract amidst tight monetary policy, banks' risk aversion and preference for high-yield risk-free fixed income securities, despite reduced government domestic bond issuance and lower lending rates.



7. Recovering oil prices, Eurobond issuances and hot money inflows have contributed to a modest increase in external buffers in 2018 (Figure 3). Record holdings of mostly short-term local debt and equity (about \$30 billion at end-March 2018) and a current account surplus driven by recovering oil prices lifted gross international reserves to a peak of \$47.5 billion in April 2018. A sell-off during the emerging market turmoil—which coincided with dividend repatriation—along with investors' concerns about FX repatriation following the fine imposed on MTN (South African telecom company) in September 2018 and some pre-election jitters resulted in outflows of about \$9 billion during April–November 2018. The impact on reserves was cushioned by the three-times oversubscribed November 2018 \$2.86 billion Eurobond issuance, which helped gross reserves close the year at \$42.5 billion.



8. The CBN allowed greater convergence in FX windows and used FX interventions to limit exchange rate movements. The convergence of FX windows accelerated in the latter part of the year as outflows increased, which resulted in moving the retail and wholesale rate closer to the rate in the Investor and Exporter (IEFX) window. This window represents 70–80 percent of the transactions and stayed relatively stable at around N/\$360–365. The CBN’s increasing intervention in the market—effectively moving from being a net purchaser earlier in the year to selling in the latter part of 2018 about 35–40 percent of the FX traded in the IEFX window—helped keep the rate in check. However, market segmentation remains through the CBN’s official window of N/\$305 (mainly for petroleum imports and in limited pre-determined quantities for some banks), increased sales to invisibles, SMEs, and Bureau de Change (BDCs) (mainly at N/\$360) and the retail SMIS window (N/\$330–345), distorting economic decision making.



OUTLOOK AND RISKS

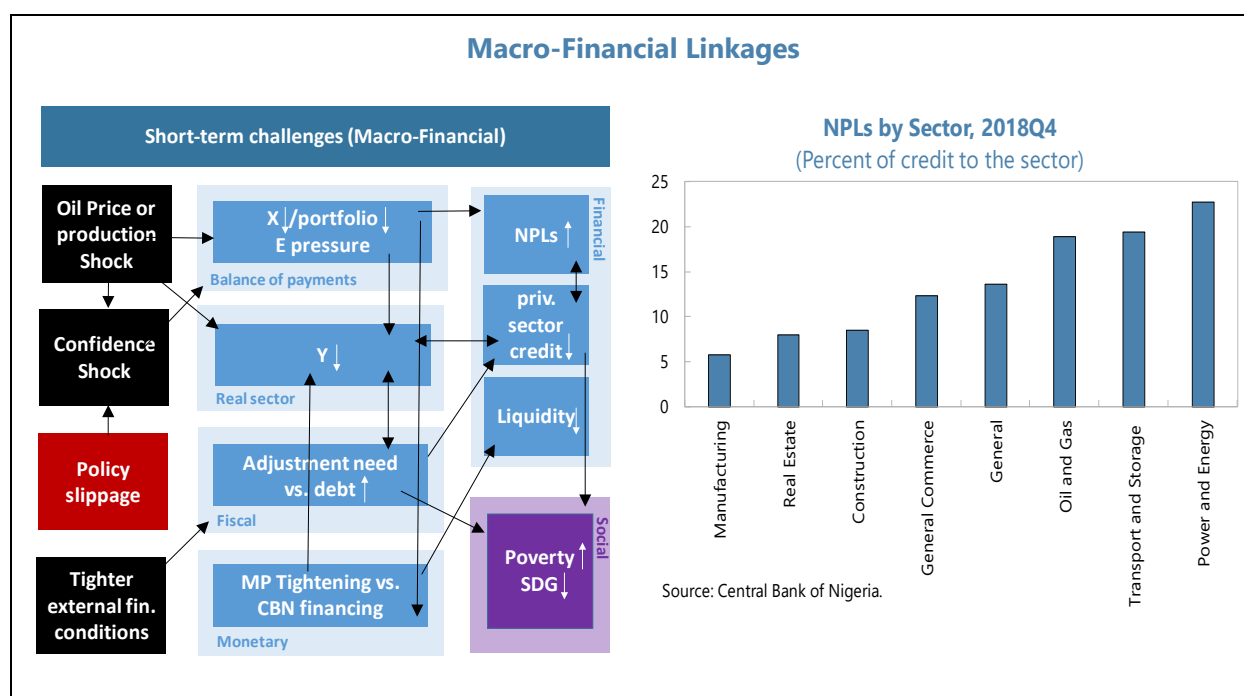
9. Under current policies, the outlook remains muted. Over the medium term, absent strong structural reforms, growth would hover around 2½ percent, implying no per capita growth as the economy faces limited increases in oil production and insufficient adjustment four years after the oil price shock. Non-oil non-agricultural growth is projected to remain sluggish, with a modest pick-up reflecting current trends of accelerated growth in the non-oil non-agriculture sectors (2.7 percent y-o-y in the second half of 2018), backed-up by a large oil refinery becoming operational (Box 1). The CBN’s monetary policy focus on exchange rate stability would help contain inflation in the medium term but worsen competitiveness as the exchange rate becomes more overvalued. High financing costs would continue to constrain private sector credit.

Selected Economic Indicators Summary (Annual percentage change, unless otherwise specified)									
	2016	2017	2018	2019	2020	2021	2022	2023	2024
	Est.			Projections					
Real GDP (at 2010 market prices)	-1.6	0.8	1.9	2.1	2.5	2.4	2.7	2.6	2.6
non-oil, non agriculture real GDP	-1.7	-0.6	2.0	1.8	2.0	2.1	2.4	2.4	2.4
Consumer price index (annual average)	15.7	16.5	12.1	11.7	11.7	11.3	11.4	11.1	11.0
Current account balance (percent of GDP)	0.7	2.8	2.1	-0.4	-0.2	-0.1	0.1	0.1	0.0
Gross international reserves (US\$ billions)	27.6	39.8	42.6	38.5	35.6	33.3	33.4	33.8	34.6
(equivalent months of imports of G&Ss)	6.5	7.2	7.1	6.3	5.7	5.1	5.1	4.9	4.5

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

10. Risks are moderately tilted downwards (Annex II). On the upside, oil prices could rise, prompted by global political disruptions or supply bottlenecks. Bold reform efforts, following the election cycle, could boost confidence and investments, especially given relatively conservative baseline projections. Increased investments in the oil sector could boost oil production and subsiding farmer/herder clashes would leave room for faster expansion of agricultural production. On the downside, additional delays in reform implementation, a persistent fall in oil prices, reduced oil production, increased security tensions, or tighter global financial market conditions could undermine growth, provoke a market sell-off, and put additional pressure on reserves and/or the exchange rate. Fiscal sustainability would be at risk if interest rate costs rise further.

11. Strong macro-financial linkages would magnify risks. Banks' vulnerability to oil price and production shocks is high given their large exposure to the sector (about one third of their loan book). In response to shocks, NPLs in the sector would increase further, worsening banks' risk aversion and shrinking private sector credit, thus constraining non-oil growth. The resulting decrease in oil and non-oil revenues would reduce liquidity in the system, put pressure on FX availability, and worsen fiscal outcomes, resulting in lower fiscal space for priority expenditures and increased government borrowing. This would exacerbate the crowding-out effect experienced over the past two years as increased risk aversion and rising exposure of banks to zero-risk weighted government bonds diverts much-needed funds from the private sector.

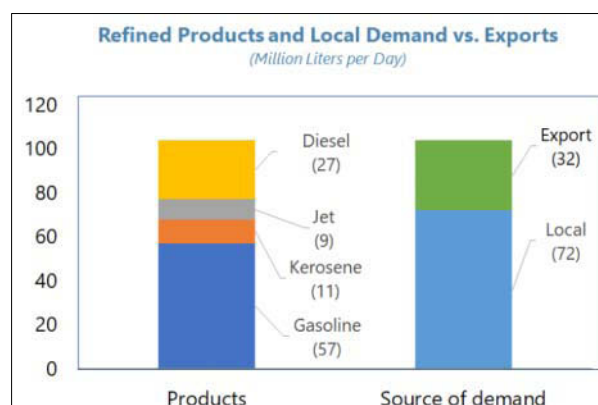


Box 1. Refined Oil Production—A Potential Game Changer for Nigeria

Despite being a longtime crude oil exporter, Nigeria continues to import refined oil to meet domestic demand. A refinery project under construction near Lagos—likely to become operational in the next 2-3 years—could transform the country's petroleum industry, boost growth, turn the country into an exporter of refined products, improve the balance of payments, and transform regional trade patterns.

Potential to refine oil in Nigeria. With a crude oil production of almost 2 million barrels per day (mbpd), Nigeria is Africa's biggest oil producer and one of the largest oil exporters globally. Yet, only a small fraction of Nigeria's crude oil production is refined domestically—on average only about 0.08 mbpd have been delivered to local refineries between 2008 and 2017, just a fraction of the theoretical refining capacity of 0.445 mbpd (broadly covering domestic demand) including due to under-investment into the refinery. This leaves a substantial opportunity for value added to meet domestic demand for Gasoline, Kerosene, Jet, and Diesel, and thus to reduce the import bill while diversifying exports. A new oil refinery constructed by the Dangote Group in the Lagos State promises to double Nigeria's refining capacity and boost activities in the downstream sector.

Getting more from oil. Once operational, with a maximum refining capacity of 0.65 mbpd, the privately-operated Dangote refinery could meet all domestic demand for liquid products and still have sufficient surplus for exports. In particular, this would translate into reduced imports of refined products by 0.45 mbpd and increasing exports of refined products by 0.2 mbpd, while decreasing net exports of crude oil to refine oil by 0.65 mbpd. Under the currently envisaged mix of refined products, this would boost the country's growth by 0.3-0.4 percentage points in 2022, and improve the trade balance by \$2 billion per year (net after reducing both net crude exports and refined oil imports). These benefits could materialize as soon as 2020, the current target year to make the refinery operational, but are included from 2022 onwards in staff estimates, thus providing upside potential to current projections.



Additional economic benefits could be significant. At the current construction stage, the refinery is directly or indirectly employing over 180,000 people including through on-site contractors. Once operational, additional job opportunities would materialize, e.g., through indirect employment through retail outlets, filling stations, and in transport. Potential positive spillover effects to West and Central Africa include increased supply and reduced costs for refined products.

12. Spillovers from links between Nigeria and neighboring countries will likely be contained. The CBN's continued preference for naira stability will help sustain partners' exports, which is particularly important as Nigeria accounts for 70 percent of Economic Community of West African States (ECOWAS) exports. Current growth projections for Nigeria imply neither a shock to Nigeria's neighbors nor a lift (1 ppt increase in Nigeria's growth is estimated to increase regional growth by 1/3 ppt). Remaining FX restrictions continue to increase food imports in neighboring countries, a good part of which is reportedly smuggled into Nigeria.

Authorities' Views

13. The authorities considered the significant decline in inflation, the gradual convergence of FX windows, and improved external buffers as important policy successes. They expect consumption and investment to pick up further following the elections, boosting growth to 3 percent in 2019, and close to 4 percent in 2020, while recognizing that the initial 7 percent target in the ERGP may have been too ambitious. They agreed that growth prospects would remain subdued due to the slow implementation of measures to strengthen the business climate, reform the power sector, accelerate anti-corruption efforts, and without new capital investment to boost oil production. They considered softening oil prices, geopolitical trade tensions, delays in budget execution, persistent security challenges arising from insurgency in the Northeast and farmer/herder clashes in some parts of the country and tightening global conditions as the main risks to the near-term outlook. The authorities highlighted they will back their efforts on structural reforms by adequate legislative provisions to guarantee continuity and consistency of reform implementation.

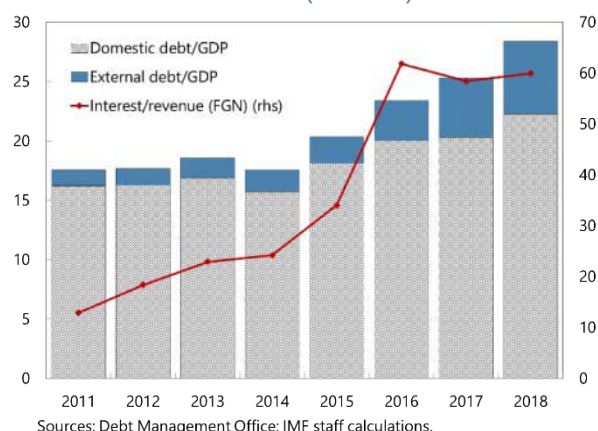
POLICY DISCUSSIONS: AN URGENT REFORM PACKAGE

14. A comprehensive package of urgent policy reforms is required to address vulnerabilities and raise growth over the medium term. The proposed reform scenario includes revenue-based fiscal consolidation while increasing social and capital spending that is aligned with improved spending efficiency and strengthened governance, tight monetary policy while improving the CBN's policy framework, a unified and more flexible exchange rate, and a stronger banking sector. In parallel, structural reforms will be needed to tackle longstanding weaknesses that inhibit economic diversification. These policies, which are consistent with the authorities' ERGP, could boost growth to about 4.5 percent within a five-year period—with about +1 ppt from appropriate macroeconomic policies in a context of reduced vulnerabilities (Annex III).

A. Fiscal Policy: Increase Non-Oil Revenue and Make Room for Priority Expenditures

15. Oil revenue helped improve the overall fiscal position while debt servicing costs remain high (Figure 4). The provisional federal government (FG) deficit remained flat at 4 percent of GDP in 2018, as higher oil and gas revenue helped offset a 35 percent year-on-year increase in capital expenditures. Non-oil revenue collection was lower than budgeted for all items and did not improve further—despite continuing improvements in tax administration—as planned increases in excises (alcohol, tobacco) have not been fully implemented and the tax base continues to narrow (e.g., new VAT exemption for airlines). Low revenues and relatively high domestic yields have kept interest payments-to-FG revenue ratio high at 60 percent in 2018 (Annex IV). Meanwhile, state and local governments' incomes benefited from higher oil revenues and Paris Club refunds from the FG, reducing their estimated combined deficit. Amidst a generally comparatively small government size, priority expenditure, such as on health and education, remains among the lowest worldwide.

Debt-to-GDP and Interest-to-Revenue Ratios, 2011-18 (Percent)



16. The revised medium-term fiscal framework (MTFF) rightly targets considerable fiscal improvement in 2019 but relies on optimistic revenue targets. The MTFF projects the FG's overall fiscal deficit declining by 2.3 percent of GDP in 2019. This consolidation assumes revenue increasing to 4.8 percent of GDP, mainly driven by oil revenues (+1 ppt) and one-off gains (domestic recoveries; proceeds from oil assets divestments) that are unlikely to materialize in the given timeframe. Budgeted spending would remain relatively flat,

Federal Government: MTFF vs. Projections
(Percent of GDP)

	2018 Est.	2018 Budget	2019 Proj.	2019 MTFF
Total revenue and grants ¹	2.8	5.6	2.6	4.8
Oil revenue	1.6	2.3	1.2	2.6
Non-oil revenue	1.2	1.7	1.2	1.4
Import and excise duties	0.2	0.3	0.3	0.2
Companies' income tax	0.5	0.6	0.5	0.6
Value-added tax	0.1	0.2	0.1	0.2
Federal government independent revenue	0.3	0.7	0.3	0.4
Grants	0.0	0.2	0.1	0.1
Other ²		1.3		0.7
Total expenditure ³	6.8	7.3	7.3	6.5
Recurrent expenditure	5.5	4.8	6.0	4.7
Personnel	1.9	2.0	1.9	1.9
Overheads	0.4	0.5	0.5	0.5
Interest	1.7	1.6	1.6	1.5
Transfers and other expenditures	1.5	0.8	1.7	0.8
Arrears clearance	0.0	0.0	0.2	0.0
Capital expenditure	1.3	2.4	1.3	1.8
Overall balance	-4.0	-1.7	-4.7	-1.7
Memo: Price of Nigerian Oil (US\$ per barrel)	71.1	51.0	61.8	60.0

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

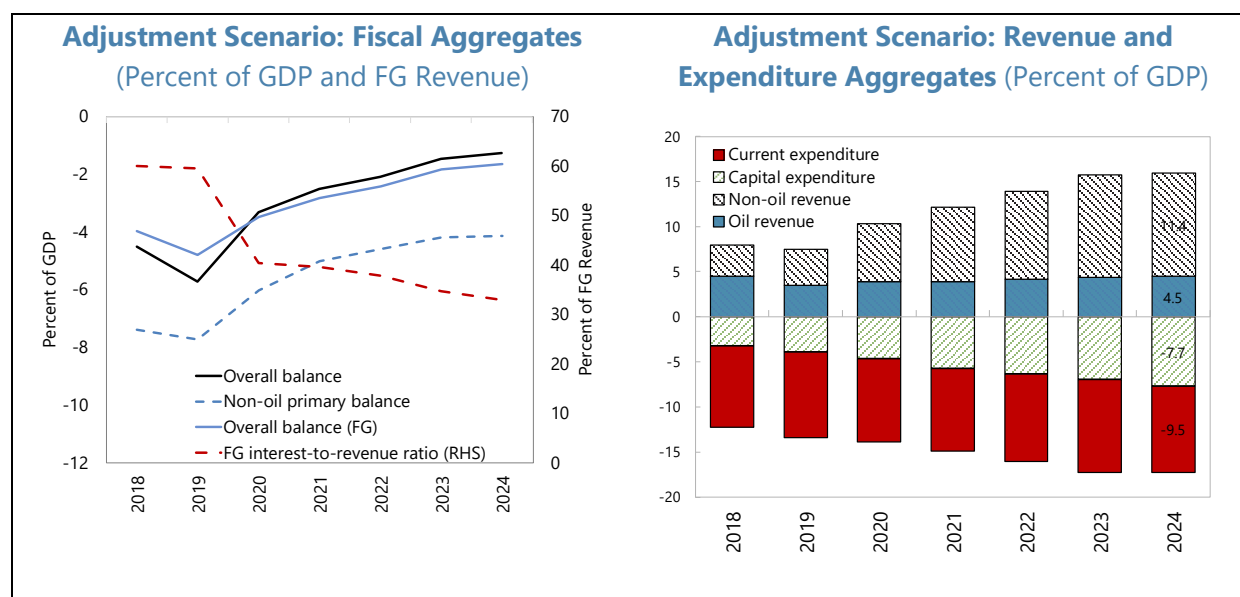
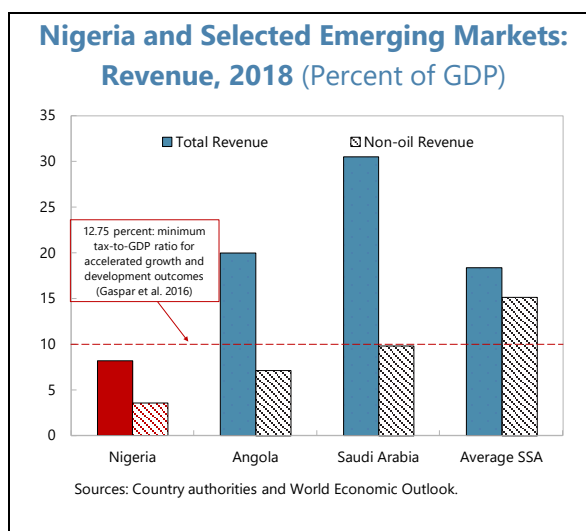
¹Excludes revenues from government-owned entities (GOE) presented in MTFF

²Includes domestic recoveries, proceeds of oil asset, ownership restructuring, signature bonus etc.

³Excludes GOE spending presented in MTFF

with lower recurrent spending offset by higher capital spending. The impact of the proposed minimum wage—an increase from N18,000 to N30,000—if passed on moderately to other salary grades as currently planned—would be contained and is largely accounted for in the budget. Absent major revenue reforms, and accounting for non-budgeted expenditures such as electricity subsidies, the overall FG deficit-to-GDP ratio would expand to 4.7 percent in 2019 and hover around just below 4 percent in the medium term. This would increase the consolidated government debt-to-GDP ratio to almost 36 percent by 2024 and the interest payments-to-FG revenue ratio to 74.6 percent. Fiscal space is at risk (Annex IV).

17. Fiscal consolidation—based on front-loaded non-oil revenue mobilization as envisaged in the ERGP—is needed to foster inclusive growth. Staff’s proposed adjustment scenario—starting fully in 2020—is anchored on reducing the overall consolidated government non-oil primary deficit from 7.4 percent of GDP in 2018 to 4.1 percent of GDP by 2024, consistent with ensuring sustainability by containing interest payments to below one-third of FG revenue (the 2015 level and in line with the authorities’ target). The non-oil revenue-to-GDP ratio would improve significantly, by an ambitious +8 ppt, while capacity improvements would allow higher capital (+4½ ppt) and recurrent spending (+½ ppt), including on health and education, appropriately timed and calibrated once revenue measures have been secured.



18. A comprehensive tax reform to sustainably increase non-oil revenue is urgently needed. The authorities' recently-launched Strategic Revenue Growth Initiative (SRGI) that calls for the appointment of a high-powered steering committee to guide reforms and monitor progress through the office of the Minister of Finance covers several welcome initiatives. Staff's proposal to increase the non-oil revenue ratio by 8 percent of GDP by 2024 through a comprehensive policy package in its adjustment scenario is ambitious, yet feasible given that other countries (such as Georgia, Ukraine, and Liberia) did achieve it over a relatively short period and that Nigeria's initial non-oil revenue (3.4 percent of GDP for the consolidated government) is one of the lowest worldwide. Building revenues would mitigate the risks of necessary abrupt spending adjustments and requires high political commitment to succeed and help reduce revenue leakages through:

- Tax policy.** A move towards a VAT with full crediting of input tax, increased compliance monitoring of tax incentives, and broad-based use of excises, are welcome initiatives. Additional measures to be considered include a comprehensive VAT reform in line with technical assistance advice, additional excises (broader scope of products beyond luxury; higher rates increasing to at least ECOWAS levels), an aggressive removal of tax exemptions/incentives, which instead should be rules based, an increase in the telecom airtime fee (while protecting initial usage for vulnerable households) and removing customs duty waivers. New tax exemptions—such as the recently introduced exemption on airlines—narrow the tax base and should be avoided. Reforms to ensure the capital gains tax is implemented are also needed.

Set of Possible Tax Policy and Administration Measures
(Cumulative Impact of Reforms 2019-24, Percent of GDP)

Tax Policy and Administration Measures	7.4
VAT	3.2
Increase compliance to 65 percent by 2023	
Reform base, remove exemptions, increase threshold, and increase rate to 10 percent (in 2020)	3.2
CIT and education tax (close loopholes, remove exemptions)	1.8
Excises and levies (rate increase/compliance)	1.3
Removal of customs duty waivers	0.2
FGN Internally Generated Revenue (compliance)	0.4
Capital Gains Tax	...
Property Tax	0.5
Other Tax Administration	2.1
Risk-based compliance	1.1
Managing arrears	0.1
Improving filing and registration integrity	1.0

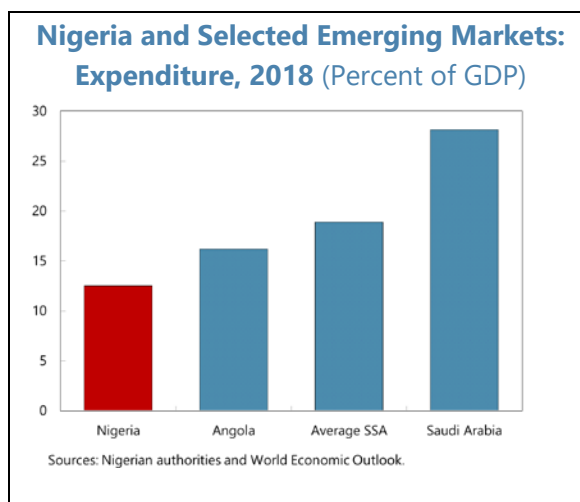
Source: TADAT (2018), IMF (2018), IMF staff calculations.

19. Reforms to secure oil revenues—including through improved oversight and monitoring of State-Owned Enterprises (SOEs)—are also necessary to improve governance (Selected Issues Paper I). The implementation throughout 2018 of new funding requirements (cash

calls) for joint ventures in the oil sector are welcome as they ensured on-time payments for cost recovery and help avoid new government arrears. Key priorities also include:

- Ensuring that the ongoing work on new **petroleum legislation** brings an appropriate government take while not discouraging foreign investment. The proposed incremental royalty linked to the daily production rate, with royalty payments starting on the first day production, is therefore welcome. To avoid loss in revenue, any sales of oil assets should be preceded by changes in legislation (Petroleum Profit Tax Act, PPTA) to ensure revenues of the new operator are not exempted.
- Passing legislative reforms to strengthen the **SOE framework**, including through information sharing and coordination among revenue collecting institutions, establishing a clear mandate to fund the national oil company's (NNPC) operations, and creating a binding budgetary process for NNPC. The creation of an oversight unit for SOEs to monitor fiscal risks would be important. Improving the transparency for NNPC's joint venture operations, including through clear information on revenue flows and transfers, will also be important.

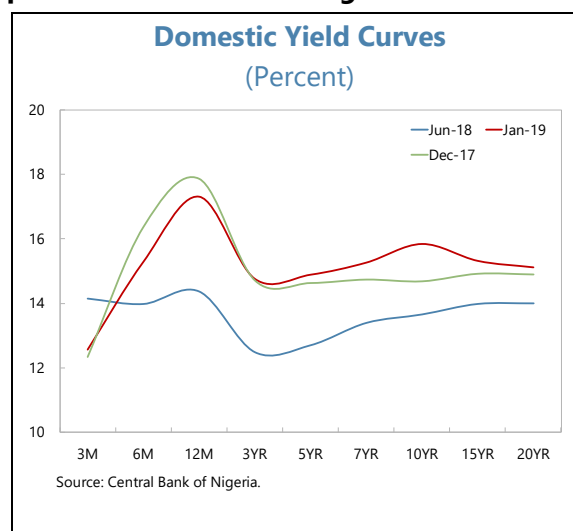
20. Increasing public investment and shifting the expenditure mix towards priority areas is critical. Public spending levels in Nigeria are low, and staff's adjustment scenario is based on a broad-based expenditure increase and a shift from non-priority to priority spending. To that end, the increase in public investment over the past year is welcome, albeit greater efficiency is needed to strengthen governance (¶47). An automatic fuel price-setting mechanism would sustainably remove inefficiencies from implicit fuel subsidies (0.5 percent of GDP in 2018). Compensating the poor for the negative impact of this reform would require only a fraction of the revenue gain but requires a significant scale up and strengthening of social safety nets (Selected Issues Paper II), including through building the capacity to deliver at scale. Meanwhile, explicitly budgeting the loss due to retail fuel distribution would increase fiscal transparency and consistency.



21. Stronger coordination between the Office of the Accountant General of the Federation, the Debt Management Office and the CBN is necessary for more effective cash management. In view of idle cash balances at the TSA, staff encourages the authorities to use more forcefully the cash released to government agencies that remains unused, which would ensure a more effective use of the TSA and be closely coordinated with debt issuances. Improvements in cash flow forecasting and better coordination between CBN bills and T- bill issuances would also help.

22. The government's strategy to use Eurobond proceeds to retire maturing T-Bills is welcome.

As a result, domestic yields were significantly reduced earlier in 2018, but increased issuance of CBN bills and turmoil in emerging markets reversed this trend. Staff supports the authorities' strategy to move towards a 60:40 domestic/external debt mix (from 70:30 currently), in view of the relatively lower external borrowing cost, lengthened maturity, and rising domestic yields, but cautions that careful monitoring of the associated exchange rate risk is needed (Selected Issues Paper III). Staff welcomes the authorities' plans to clear the outstanding stock of domestic arrears (N.2.7 trillion), of which N1 trillion through promissory notes was already approved by Parliament (Annex IV).



23. Monitoring of State and Local Governments (SLGs) should be intensified. Lower oil prices and increased minimum wages are expected to affect the fiscal space of SLGs, increasing the risk of arrears accumulation. Enforcing an accountability and results framework—including by ensuring better compliance with the 22-point Fiscal Sustainability Plan prior to states receiving any additional budget support—would help maintain budget discipline and better monitor risks. SLGs would contribute through automatic revenue increases which should be complemented by increased SLG internal revenue generation (e.g., property tax).

Authorities' Views

24. The authorities broadly agreed with the proposed reforms. They indicated that the recently-launched SRGI and revenue proposals from the recently formed Committee on Minimum wages will help generate sustainable revenues, optimize capital and recurrent expenditures, and properly manage global and domestic risks. To generate additional revenue within 2019, they plan to introduce measures that do not require new legislation (e.g., higher rates on excises or broaden the list of products subject to excises). More transformative reforms—such as on VAT, the capital gains tax, or removing exemptions—are on the agenda but could only come into effect in 2020 after amendments to existing legislation are passed. The authorities plan to amend the PPTA to ensure that sales of oil assets do not generate new tax exemptions. They welcomed staff's analysis on the benefits and costs of increasing the ratio of external-to-domestic debt. They plan to strengthen their cash management approach to reduce idle cash balances held in the CBN's Treasury Single Account.

B. Monetary and Exchange Rate Policies: Toward an Integrated Framework and Unified Rate

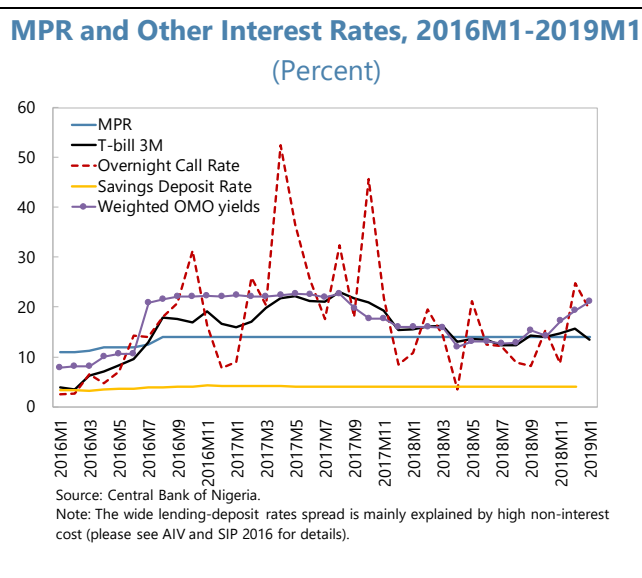
25. Monetary and exchange rate policies can be better aligned to reach the desired inflation target range. The primacy of price stability should be clearly communicated, including

through a transparent and functioning policy instrument. While inflation and exchange rate objectives may sometimes be attained simultaneously if reserves are allowed to move, the attempt to also stimulate growth—including through targeted interventions—reduces policy effectiveness as multiple instruments pull in different directions.

Monetary Policy: Keep Tight and Increase Framework Transparency

26. Monetary policy has remained relatively tight, despite an unchanged monetary policy rate (MPR) and cash reserve requirements (CRRs). This materialized using an overnight rate that is often above the MPR (despite some accommodation mid-year), and increased liquidity draining operations through issuance of CBN Bills at increasing maturities (365 days) and costing N1.5 trillion in 2018. The CBN supplemented those policies through non-traditional methods that included: (i) re-introducing special Open Market Operations (OMOs)—on average, twice per month in December-January, all of which were unannounced and not conducted through auctions albeit at the market rate of the day's auction; and (ii) a CRR for banks applied using an asymmetric rule (regulatory CRR of 22.5 percent when deposits increase, but no cash is released when deposits fall), which effectively reached 50-60 percent for certain well-capitalized banks.

27. Raising the MPR would re-establish the rate as the anchor for managing inflation and improve signaling. This measure would be essential to strengthen the monetary policy framework by re-establishing the policy rate as the anchor for managing inflation that remains stuck above the CBN's target range, improve signaling, and support the move towards a more flexible exchange rate. Signaling would also be improved by adopting a higher and symmetrically applied CRR to all banks. Pending a decision on the MPR or CRR, a temporary widening of the interest rate corridor (e.g., to a symmetrical ± 5 percent to replace the current $-5/+2$ percent corridor) would help accommodate an adjustment of market rates to the upper band of the corridor, which could be narrowed once money market rates are better aligned with the policy rate.



28. The transparency of monetary operations should be strengthened further by:

- **Strengthening CBN's communication policy.** The appointment in 2018 of new CBN Board and Monetary Policy Committee (MPC) members helped strengthen CBN independence, which can be used to restore the full implementation of the monetary policy framework. Staff also urged more discussion of forward looking indicators in the MPC communiqué, which should reemphasize that the CBN's objective is to reach its inflation target range and explain how the

pursuit of multiple objectives remains consistent with that target. Analysis by staff suggests that inflation levels above the CBN's single digit target hurt growth (Annex V).

- **Ending the recently resumed practice of unannounced OMOs**, as such operations increase uncertainty in banks' behavior and distort their liquidity management operations.
- **Discontinuing development financing through the central bank**, including those targeted to the agriculture and power sectors and by owning financial institutions such as Bank of Agriculture and Bank of Industry. Instead, if such development interventions are warranted, they should be undertaken by the federal government and be transparently costed and budgeted. The CBN can then better focus on its price stability mandate and on its supervisory role in ensuring appropriate regulation and financial stability. The use of overdrafts should be limited to unplanned and unexpected cash shortfalls.

29. Using CBN bills to manage structural liquidity exacerbates vulnerabilities to capital flows. The large share of CBN bills held by non-residents (27 percent, about \$10 billion at end-2018) has increased the vulnerability to capital flight. Transparently-conducted OMOs should be used to remove excess naira liquidity, and not to support external reserve accumulation. As is typical for liquidity management, limiting OMOs tenors to typical shorter maturities (e.g., 14 days), to not compete with the government NTB space, while using other measures to remove excess liquidity would be more appropriate. The implementation of these changes should be carefully managed to avoid short-term adverse effects on reserves and investor confidence.

Measures to address Excess Liquidity

- Selling government assets on the CBN balance sheet: converted bonds (N 1.6 trillion) and AMCON bonds (N 4.2 trillion)
- Issue long-term bonds only if excess liquidity persists
- Remove the N 7.5 billion placement limit on the Standing Deposit Facility

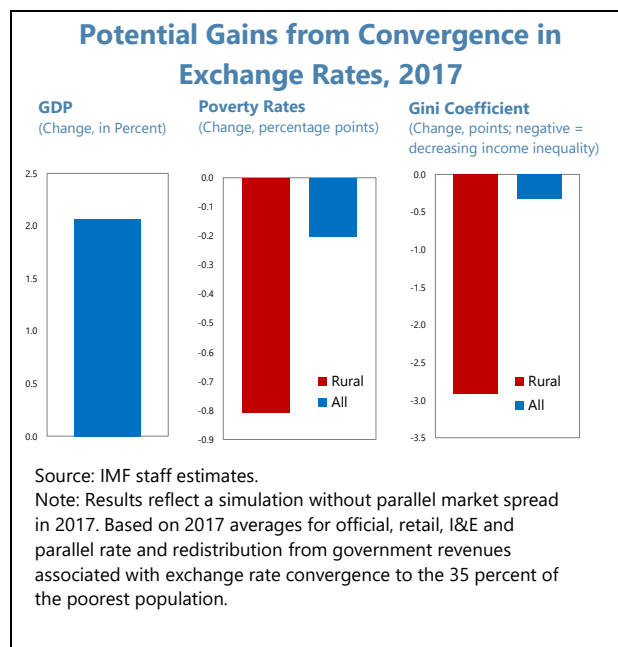
Authorities' Views

30. The authorities argued that CBN policies succeeded in achieving the bank's mandate to contain inflation but also promote growth, ensure exchange rate stability, and safeguard financial stability. They noted that their heterodox policies—which do not rely on changes in the policy rate or the regulatory CRR—are appropriate to keep liquidity tight and successfully control pressures on the exchange rate. They acknowledged the dual role of OMOs in both attracting portfolio investment and managing liquidity and saw special OMOs as necessary to keep costs of liquidity management in check. While acknowledging that current CBN financing for the power or agricultural sector are outside the CBN's core mandate, they saw such practices as necessary to maintain proper electricity generation and boost agricultural production.

Exchange Rate Policy: Move toward a Market-Based Exchange Rate

31. The continued convergence of exchange rate windows is welcome, but greater exchange rate flexibility at a unified rate should be allowed to respond to shocks.

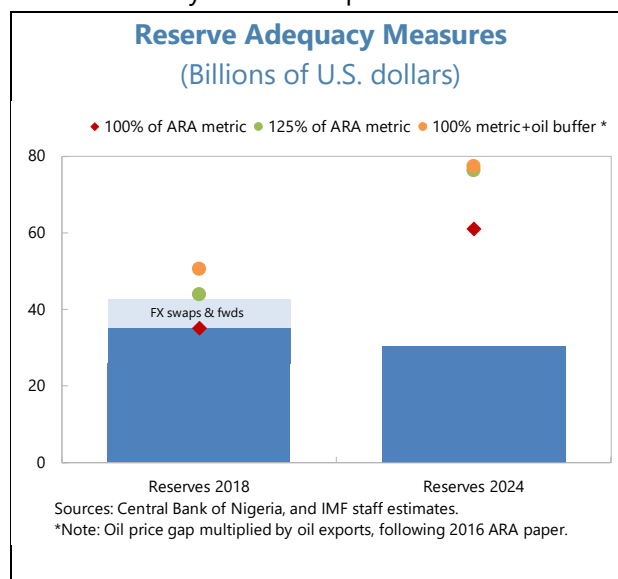
The retail and wholesale rates have been gradually closing the gap with the IEFX rate, which is now close to the parallel market rate. To help increase confidence and transparency for all market participants, staff urged removing Multiple Currency Practices (MCPs) and unifying the multiple exchange rates around the market-based IEFX rate while allowing it to move as appropriate to reflect fundamentals. Staff suggested that FX interventions should be limited to containing excessive fluctuations to safeguard reserves. The recent CBN decision to reduce the \$500,000 daily sales to banks to \$100,000 at the 305N/\$ rate is welcome, and staff recommends stopping it altogether as it is not used for any market transactions except for fuel imports and the budget.



32. Staff's assessment suggests that Nigeria's overall external position in 2018 is moderately weak. The assessment is subject to some uncertainty due to the presence of FX restrictions and the multiplicity of exchange rates at which transactions occur (Annex VI).

33. Eliminating restrictions to FX access and other capital flow management (CFM) measures remains important to remove distortions. The restriction in late December 2018 on FX access for fertilizer products expanded FX restrictions to 42 categories of products (more than 741 items). Removing these restrictions would help eliminate the parallel market premium in a more sustained manner, even in periods of oil price collapses/outflows, and help limit vulnerabilities to corruption. This would encourage

investments in certain industries, particularly where banned items are used as intermediate goods. Distortions from recently introduced or tightened CFM measures—such as payment limits on naira-denominated credit cards for overseas transactions, and the prohibition of FX purchases in the official market for foreign currency bond and equity investments—should be removed in line with



the IMF's Institutional View on capital flows,¹ and in view of the substantial room available for implementing warranted changes in macroeconomic policies.

34. Strengthening external buffers would help mitigate increasing risks from capital flow reversals. At end 2018, reserves excluding FX swaps and forwards are estimated at 70 percent of the ARA metric adjusted for an oil buffer, below the suggested adequacy range of 100-150 percent, with adequacy expected to decline over the medium term (Annex VI). Portfolio inflows have supported reserves but are susceptible to a sudden stop driven by global and/or domestic factors (Figure 5). Stronger policies can aid reserve accumulation and reduce vulnerabilities to capital flight (Annex VI).

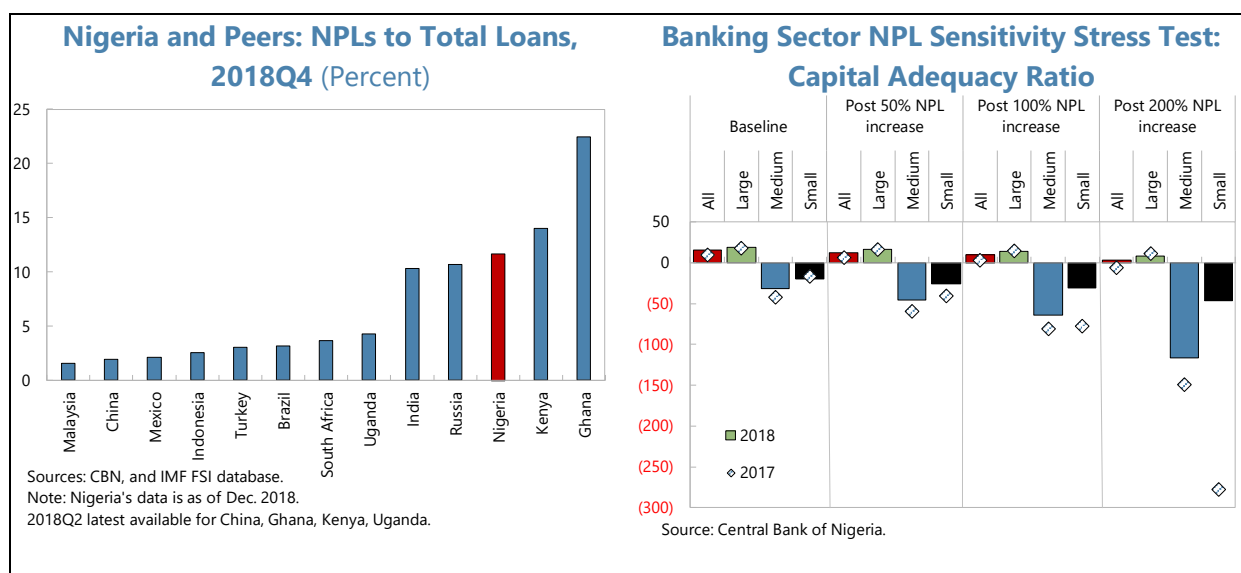
Authorities' Views

35. The authorities feel vindicated by their successful approach towards a gradual convergence of the exchange rate windows, which they consider less disruptive to macroeconomic stability than immediately moving towards a unified rate. That said, barring an unforeseen exogenous shock, they remain optimistic all exchange rates could soon be unified around the market driven I&E FX rate. The authorities agreed on the need to accumulate external buffers and argued that recent increases in FX sales were necessary to limit excessive fluctuations and were not an attempt to fix the exchange rate. The authorities also emphasized that, while FX restrictions are not expected to subsist on a permanent basis, they see no merit in removing the restrictions at this time, while the diversification of the real sector remains work in progress and as the strategy proved successful in almost achieving "self-sufficiency" in rice production. The authorities remain skeptical on removing CFM measures (e.g., payment limits on naira-denominated credit cards), which have been longstanding measures in Nigeria, which has a non-convertible currency, and whose removal would add undue pressure on reserves and the exchange rate. The authorities are not requesting Board approval of the FX restrictions and MCPs.

C. Macro-Financial: Contain Banking Sector Risks

36. Prudential ratios are improving, but undercapitalized banks continue to weigh on banking sector performance (Figures 6-8). NPLs have fallen to 11.7 percent at end-2018, helped by higher oil prices and the sale of NPLs to private asset management companies (AMCs). However, restructured loans—particularly in the oil and gas sector—reportedly average 3 to 30 percent of total loans, possibly masking further asset quality deterioration. Solvency ratios improved markedly by 5 percentage points to 15.3 percent by end-2018, with the introduction of three-year transitional arrangements for IFRS9 reducing the need for the additional provisioning costs expected by end-2018. Bank profitability has remained relatively flat as fees offset declining net interest margins that used to be propped up by higher yields on government securities. Stress tests indicate that large banks' resilience to credit and concentration risks have improved, while small and medium-sized banks remain vulnerable.

¹ See IMF, 2012, *The Liberalization and Management of Capital Flows: An Institutional View*.



37. The CBN intervened in one private bank and continues to allow regulatory forbearance for others. Making shareholders of Skye bank bear the full losses before the CBN intervened is welcome. However, the CBN's capital injection into Skye Bank through AMCON makes the CBN the formal owner of a non-systemic bank that has been intervened in the past. This conflicts with the CBN's regulatory role. Moral hazard also persists, as three other insolvent banks and one undercapitalized bank (less than 5 percent of assets) continue to depend on CBN's liquidity support and regulatory forbearance (solvency ratios for the banking system would improve by 350 basis points after exclusion of the four undercapitalized banks). In addition, the use of AMCON to bail out banks contributes to increased moral hazard, exposes the CBN to credit risk (as it is its main creditor), and creates additional contingent liabilities for the federal government.

38. The CBN is working on several initiatives to support financial stability. These include the completion of IFRS 9 implementation and a move by most banks to reflect an exchange rate closer to market transactions in their books. Both operations have led to increased provisions. The CBN also took initiatives to improve risk-based supervision through onsite risk-based reviews and the initiation of Basel's Internal Capital Adequacy Assessment Program (ICAAP), which would allow a comprehensive assessment of banks' capital needs and risk profiles. The mission welcomes the CBN's recent announcement to start enforcing Basel III requirements—such as liquidity and leverage ratios—by 2019Q2 and urges strict adherence to that deadline.

39. Staff suggested that strengthening banking sector resilience requires increasing capital buffers. This includes extending the no dividend distribution rule to all banks with high restructured loans (not just those with NPLs above 5 percent). Staff also recommended that the 5 percent profit tax imposed by the CBN on banks be retained as capital instead of being earmarked for agricultural or manufacturing sector lending. Finally, staff reiterated its urgent call for an Asset Quality Review of the 10 largest banks (84 percent of banking assets) to help identify the true potential capital needs of banks.

40. Supervision and monitoring of the banking system should be further strengthened.

The establishment of the early warning system for banks is welcome, and staff encouraged its full integration with the supervisory and early intervention frameworks. The CBN should also expand the scope of monitoring and stress testing to monitor macro-financial linkages and test against banking sector resilience to macroeconomic shocks. Greater transparency around all regulatory forbearance, including on loan restructuring (where a reasonable probation period must be applied before the loans are considered performing), depleted capital, and net open positions, is needed, with staff calling for a quick phasing out.

41. The framework for banking resolution should be enhanced. This includes enhancing the operational and legal frameworks allowing powers to write down capital, overriding shareholders' rights, and amending the bank liquidation regime. The CBN should also reduce its exposure to banks' balance sheets through unsecured lending, and act only as a Lender of Last Resort. Credible time-bound recapitalization plans for weak banks and the liquidation of small insolvent non-viable banks that have been perennial users of central bank liquidity should be implemented. The use of bridge banks owned by the CBN to resolve banks in difficulties should be avoided as it creates a conflict of interest with the CBN's role as supervisor and provider of emergency liquidity support. Stronger coordination among relevant supervisory authorities (including CBN, NDIC, and the Ministry of Finance) in the resolution framework—including in defining roles and objectives—is vital.

42. An exit strategy for the state-backed asset management company (AMCON) is urgently needed. AMCON, which poses high contingent liability risk (around 4.8 percent of GDP), was established to resolve stressed banks during the 2008/09 crisis, with its mandate limited to that purpose. Staff recommended that AMCON stops the purchase of distressed assets, formally sets a sunset to its existence, earmarks its cash flows to buy back bonds, sets annual disposal targets, implements a plan to divest AMCON's interests in companies and banks, improves its legal power to recover assets and is gradually phased out. It is also important that the CBN withdraws its ownership in AMCON—including by transferring it to the fiscal authorities—to avoid conflicts with its mandate of supervising AMCON and the banking system (Selected Issues Paper IV). In line with international standards, staff also recommended that AMCON liabilities be recognized as public sector government domestic debt (Annex IV).

Authorities' Views

43. The authorities noted that NPLs and solvency ratios have improved markedly, with large banks with capital requirements comfortably above Basel regulatory requirements. They believe their recent intervention in bailing out one weak bank and an upcoming merger of two other banks will help increase buffers in the system, and do not see a need for an asset quality review for the largest banks given their close monitoring. As for restructured loans, they do not consider them as regulatory forbearance as they believe those loans are now performing. On continued liquidity injections to insolvent and undercapitalized banks, the CBN believes it is playing its role of lender of last resort to avoid contagion to the banking sector, considering all banks in question systemic because of the importance of their deposit base and employment impact. With regards to AMCON, the authorities agreed that an exit strategy is necessary but that this would require time.

D. Structural Reforms to Support Diversification and Inclusive Growth, and Achieve the SDGs

44. Longstanding structural constraints continue to hamper growth and economic diversification (Figures 9-11). Every third Nigerian reports having paid bribes. The infrastructure gap is 35 percent of GDP compared to emerging market economies, with major challenges in the electricity sector, low and inefficient capital spending, and road and port infrastructure constraining transport and trade. Financial access is one of the main constraints to businesses' activity (Annex VII).

45. Human capital accumulation poses a severe challenge. At 0.5 and 1.7 percent of GDP, spending on health and education are among the lowest worldwide. Education and health outcomes are among the worst globally, with Nigeria ranking among the bottom six countries according to the World Bank's Human Capital Index. Nigeria hosts the largest number of out-of-school children (about 13-15 million) of primary age worldwide. Access to education is particularly difficult for the poor, and for girls, resulting in large GDP losses (Selected Issues Paper V). On average, one in nine children dies before reaching the age of five (750,000 deaths each year)—most from conditions that are treatable. At current population growth rates, the strain on public services will likely increase further in the next decades.

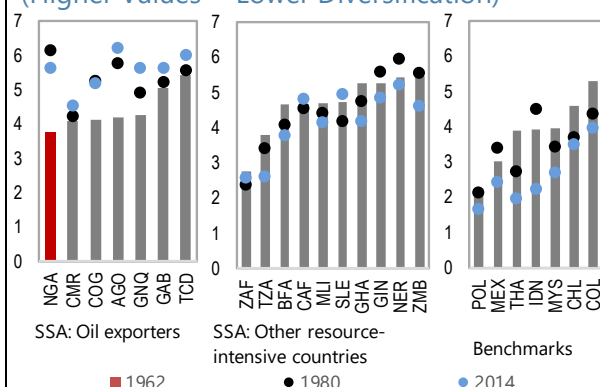
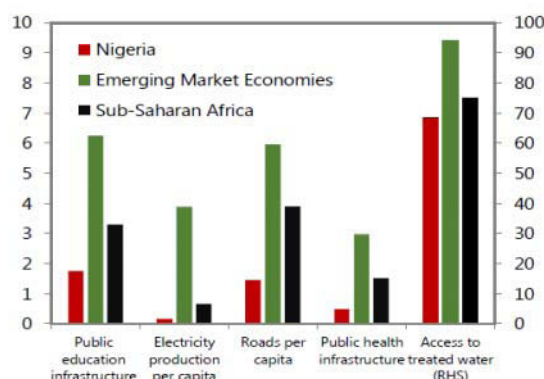
46. Recognizing weaknesses, the Nigerian government initiated several reforms. Structural reforms efforts in line with the ERGP's objectives are continuing and include the following welcome initiatives:

- *Improvements in the business environment* through the Presidential Enabling Business Environment Council (PEBEC). Nigeria has implemented 140 reforms and improved its Ease of Doing Business score over the past three years. Some of the reforms include the introduction of a collateral and credit registry and of PEBEC terminals, and simplification of procedures/regulations through several 60-day action plans.
- *Progress in deepening financial inclusion.* The update of the government's financial inclusion strategy rightly points to priorities in the sector, and the new payment service regulation that allows telecom companies to acquire licenses for mobile payments operations is expected to contribute to the expansion of mobile payment services (Annex VII).
- *Efforts to improve healthcare and education.* Plans for the universal health care fund and the launch of the Second National Strategic Health Development Plan for 2018-22 that rightly identifies challenges, priorities and financing requirements for the sector are welcome, as are ongoing programs to improve access to education, such as through the school feeding program.

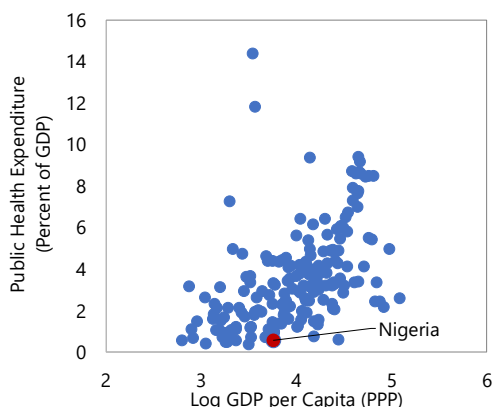
Indicators of Diversification and Inclusive Growth

Export Diversification

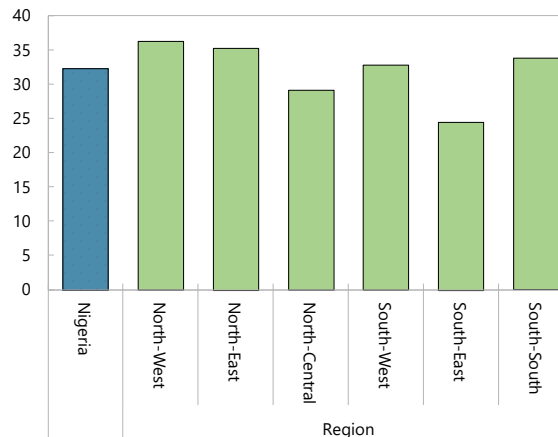
(Higher Values = Lower Diversification)

Indicators of Public Infrastructure¹

Log GDP per Capita and Public Health Expenditure



Prevalence of Bribery (Percent)



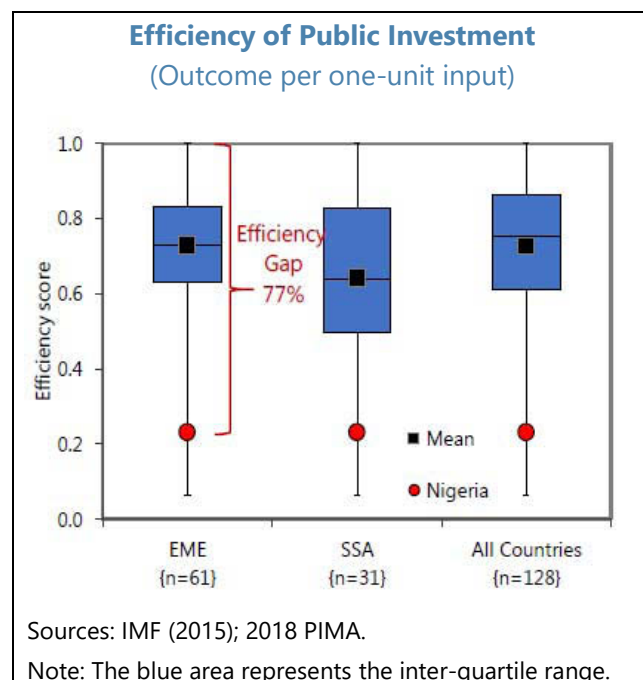
Sources: IMF (2017), IMF diversification toolkit, NBS survey; World Bank Human Capital Project; World Bank Enterprise Survey.

¹Note: Left hand side: Public education infrastructure (secondary teachers per 1,000 persons); electricity production per capita (thousands of kWh per person); roads (per capita as km per 1,000 persons); and public health infrastructure (hospital beds per 1,000 persons). Right hand axis: Access to treated water (percent of population).

- *Continued steps towards improved governance.* The NFIU Act, additional resources for the EFCC and initiatives, such as the Whistle-blower policy and the open government initiative are welcome steps towards improving governance. The 2019 Extractive Industry Transparency Initiative (EITI) Board found that Nigeria has fully addressed the corrective actions from the its first validation and made overall satisfactory progress with implementing the EITI Standard.

47. Overcoming constraints to economic diversification requires efforts in several dimensions. Staff highlighted the need to:

- *Strengthen the business environment.* The authorities' objective is to reach top 100 in the World Bank's Doing Business index. Associated reforms would include passing the Companies and Allied Matters Act (CAMA) and the Omnibus bill that combine a range of reforms, including in the area of creditor and insolvency rights, deepening the Subnational Ease of Doing Business project, "naming and shaming" agencies that have not met targets, and mainstreaming PEBEC terminals to gather information on service delivery.
- *Increase public investment efficiency,* including through improved procurement and fiscal transparency, and increasing fiscal spending on education and health is essential to achieve the SDGs. Improved information sharing and continued development of the GIFMIS-based database to include all FGN projects would strengthen coordination of national planning of capital investment of states. Establishing a comprehensive single pipeline of appraised projects as the only basis for new project selection would strengthen project prioritization.
- *Accelerate the implementation of the Power Sector Recovery Plan (Box 2),* including through reforms necessary to meet financing shortfalls for the power sector, pending a review of the multi-year tariff schedule. To maintain the sustainability of the sector, government agencies must continue paying their bills regularly.
- *Implement the government's updated financial inclusion strategy,* by reforming the regulatory framework, strengthening consumer protection, targeting women to improve financial inclusion, and continued implementation of the registry for movable property.
- *Step up efforts to improve education and health outcomes,* including by increasing the budget allocation and regularly releasing funds to ensure predictable program implementation. Pursuing a comprehensive reform to strengthen service delivery, including to improve access for poorer families and for girls, would also be important (Selected Issues Paper V).



Box 2. Power Sector Reforms—Where Does the Sector Stand?

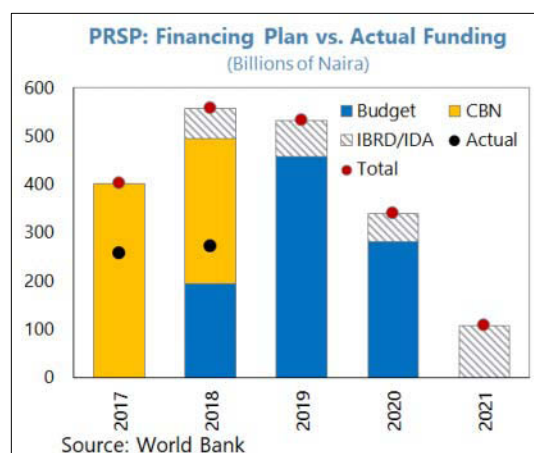
Unreliable power supply is hindering economic development and the sector is increasingly a source of fiscal burden, including because of tariff shortfalls. The implementation of the authorities' Power Sector Recovery Plan (PSRP) remains key to addressing the sector's financial viability and improving power delivery.

Context. While the installed electricity generation capacity is about 13,000MW, electricity service delivery in Nigeria remains poor, with energy sent out often below 4000 MW/hour. Lack of access to electricity and unreliable electricity supply are key constraints to Doing Business in Nigeria, estimated to result in economic losses of about \$29 billion annually (PSRP estimate).

Challenges/Issues. The privatization of the generation and distribution segments in 2013 did not succeed in using the efficiency of the private sector to narrow the infrastructure financing gap and improve service delivery. Distribution companies (DISCOS) were unable to make investments and meet their payment obligations, resulting in insufficient payment to generation companies, which, in turn, were not able to pay their gas suppliers. Main reasons include:

- **Insufficient tariffs for cost-recovery** after the naira depreciation in 2016. Tariff shortfalls, estimated at \$2.4 billion in 2015-17, would need to be addressed through a combination of cost reduction and a tariff adjustment (of at least a 50 percent rate increase according to some industry analysts).
- **Underperformance.** DISCOS did not reduce the high technical, commercial, and collections losses and did not invest in distribution infrastructure update and expansion. Inadequate enforcement of contracts and government agencies not paying their electricity bills also contributed to the underperformance.

Authorities' initiatives. Cognizant of these weaknesses, the authorities have prepared a comprehensive package of policy, legal and regulatory reforms under the PSRP, approved by the Federal Executive Council in March 2017. The PSRP envisaged clearing the historical shortfalls while ensuring that new "tariff shortfalls" will be fully funded by the government during the transition period while costs are reduced, service delivery is improved, and tariffs are gradually adjusted. However, the financing plan (text chart) has only been partially implemented, as accompanying actions—including implementation of



Performance Improvement Plans for DISCOs—have not started. Instead, the government has pursued other initiatives—such as the “eligible customer” policy and the meter asset provider program—which may not be enough to ensure sector sustainability and would need to be harmonized with PSRP implementation. In the meantime, the sector depends on CBN financing (N701 billion approved to date) to meet existing shortfalls.

Urgent reform priorities under the PSRP include securing funding for tariff shortfalls. This should be budgeted, not financed through the CBN, and disbursed conditional upon PSRP implementation. With tariffs below cost recovery, a sustainable solution to reduce the contribution of the government will require improving DISCOs' performance on the basis of Performance Improvements Plans and tariff adjustments. Governance in the sector would also be improved by the appointment of the Boards of Directors for key sector companies.

48. Addressing gender gaps is critical to boost human capital and generate more inclusive growth (Selected Issues Paper V). This could be achieved by moving ahead with passing and enforcing a number of initiatives, some of which are already under consideration by the authorities, including: (i) passing the “Gender and Equal Opportunities Bill” into law at national and state levels; (ii) enforcing civil and criminal law, e.g. by working with traditional leaders and providing paralegal services for women; (iii) providing adequate and safe access to water and sanitation facilities the lack of which poses a disproportional risk to women and girls, including when attending school; and (iv) ensuring gender-responsive health services.

49. Strengthening governance, transparency and anti-corruption initiatives is also essential (Selected Issues Paper I). Recommendations include: (i) reforming the legal and institutional framework to improve accountability in the public sector, especially the extractive industry as NNPC should work further towards disclosing all revenue transfers and its remittances to the Federation Account; (ii) ensuring transparency (e.g., on beneficial ownership); (iii) more consistently and comprehensively addressing the risks posed by politically exposed persons and reinforcing the asset declaration regime; and (iv) strengthening AML/CFT supervision. Broader governance reforms proposed elsewhere in this report to strengthen tax administration, procurement, market regulation, central bank governance, FX policies, and financial sector oversight would further reduce vulnerabilities to corruption.

Authorities’ Views

50. The authorities reiterated that they are fully cognizant of Nigeria’s structural impediments including inadequate infrastructure, bottlenecks in improving the business environment, and governance weaknesses. They remain committed to implementing the ERGP’s diversification agenda, including through developing industrialization, agriculture, and the power sector, and strengthening anti-corruption efforts. They noted that reforms in the power sector are ongoing, with increased electricity generation, ongoing initiatives to improve metering and through the eligible customer program able to sustain the viability of the sector. The authorities emphasized their commitment to improving health and education outcomes, including through allocating 1 percent of consolidated revenues to the universal health care fund and continuing efforts towards universal basic education.

OTHER SURVEILLANCE ISSUES

51. Data provided to the Fund are assessed to be broadly adequate for surveillance. Efforts to improve statistical data are welcome. Further improvements in national accounts, CPI, BOP, and cross-border banking statistics are ongoing with help from Fund technical assistance. Further improvements are needed in SLG fiscal data, SOE fiscal operations, and domestic arrears monitoring. Continuing to adhere to a regular schedule to produce high frequency statistics is important for continued credibility of statistics, which require consistent funding.

52. Technical assistance (Annex VIII)—including through AFRITAC West—is expected to support the authorities’ key policy objectives highlighted in Fund surveillance. Capacity development

focuses on key policy areas including non-oil revenue mobilization, PFM, debt management and statistics. While these focal areas are appropriate, further commitment to achieving the authorities' objectives is needed, particularly as regards to non-oil revenue mobilization. The authorities agree with the priorities identified and value the importance of Fund technical assistance and training—including on tax policy and on DSA/PPP training. They suggested that results could be further enhanced through better delivery methods focused on a limited number of key areas and more training being held in Nigeria.

STAFF APPRAISAL

53. Nigeria's economic recovery is ongoing but remains insufficient to reduce vulnerabilities and poverty. Non-oil growth is picking up, inflation has fallen significantly, exchange rate windows are converging, and reserve buffers have strengthened. However, inflation remains high, non-oil revenue mobilization is low, foreign exchange markets are still segmented, and reserves are highly dependent on hot money. A combination of factors—including a large infrastructure gap and governance weaknesses—are also contributing to keeping growth rates below historical trends, per capita growth negative, and human development outcomes weak.

54. The outlook remains challenging. Under current policies, overall growth would hover around 2½ percent over the medium term—implying no progress in per capita growth—as the economy continues to be hampered by insufficient policy adjustment and progress in structural reforms. Risks to the outlook are moderately tilted downwards, reflecting additional delays in policy and reform implementation, falling oil prices and tighter global financial market conditions.

55. The priorities of the government's Economic Recovery and Growth Plan (ERGP) remain valid and should be implemented. There has been some progress in foreign exchange market reforms, increasing external buffers, keeping a tight monetary policy to reduce inflation, stronger tax administration, strengthening the business climate and implementing part of the anti-corruption strategy. However, the pace of reforms still falls short of the ERGP objectives, particularly in increasing revenue, reducing unemployment, or reforming the power/petroleum industries.

56. A set of comprehensive and coherent policy actions—most of them in line with the ERGP—is urgently needed to address existing vulnerabilities and raise growth. This includes critical actions on a revenue-based fiscal consolidation while increasing social and capital spending, maintaining a tight monetary policy with an improved policy framework and a unified market determined exchange rate, and faster implementation of the structural reform agenda to tackle longstanding weaknesses inhibiting economic diversification. Delays in policy and reform implementation could make the inevitable adjustment more difficult and costlier, particularly in view of Nigeria's current demographic trends.

57. The authorities are encouraged to pursue a revenue-based fiscal consolidation. Staff agrees with the MTFF's focus on fiscal consolidation and welcomes the authorities' plans to increase non-oil revenue through tax policy and administration measures. Achieving an increase in non-oil

revenue of 8 percentage points of GDP by 2024 would require additional excises, and implementing a comprehensive VAT reform (e.g., through an annual registration threshold and a rate increase). Staff regrets the introduction last year of new tax incentives and VAT exemptions, which have not been costed and narrow the tax base. A fiscal adjustment of about 3 percent of GDP based on revenue mobilization is needed over the medium term to ensure an interest payment-to-FG revenue ratio that is sustainable and in line with the authorities' own target, while creating space for priority spending.

58. Shifting the expenditure mix towards priority areas is critical to achieve the SDGs and diversification. The full implementation of the automatic fuel price-setting mechanism would remove inefficiencies and generate additional space for priority spending, even after scaling up social safety nets to mitigate the impact on the most vulnerable. Staff welcomes the significant increase in public investment last year, but this needs to be accompanied by improved public investment efficiency—including through improved procurement and fiscal transparency. Increasing the budget allocation and regular release of funds for health and education will be essential to allow for predictable implementation of programs in these sectors.

59. Stronger coordination is needed to increase the efficiency of public debt management and improve cash management. This includes making more effective use of the Treasury Single Account, while ensuring greater coordination of open market operations and T-bill issuances. The strategy aimed at increasing the share of external debt to 40 percent of total debt remains appropriate but will require careful monitoring of the associated exchange rate risk.

60. With inflation still above target, maintaining a tight monetary policy remains appropriate. Staff welcomes the CBN's tightening bias in 2018. However, it recommends that existing heterodox policies be replaced by more traditional methods, such as raising the MPR or CRR. Unannounced special OMOs, asymmetric application of CRR, and direct central bank interventions in the economy should be ended as they complicate liquidity management and the conduct of monetary policy. CBN bills, to be issued at shorter maturities, should be used to manage liquidity only.

61. Moving towards a unified market-based exchange rate would support diversification and inclusive growth and reduce vulnerabilities. Nigeria's external position was moderately weaker in 2018 than implied by medium-term fundamentals and desirable policies. The progress towards convergence of exchange rate windows is welcome and should be pursued towards full unification around the market-based rate. Removing FX restrictions, including restrictions to FX access for 42 categories of products, and other capital flow management measures would remove distortions in private and public decision making, increase transparency, and facilitate the move towards a more diversified economy. At the same time, continuing to strengthen external buffers would mitigate risks from capital flow reversals.

62. Banking sector resilience should be strengthened and the framework for banking resolution enhanced. Improved prudential ratios are welcome. However, restructured loans and undercapitalized banks continue to weigh on financial sector performance. This needs to be

addressed through strengthened capital buffers, risk-based supervision, no more regulatory forbearance, and credible time-bound recapitalization plans for weak banks. To help contain risks, better coordination amongst supervising authorities and a revamped banking resolution framework are necessary, including through establishing a timeline for phasing out AMCON, which should no longer purchase distressed assets. To ensure potential capital needs in the banking sector are adequately assessed, the authorities are encouraged to conduct an Asset Quality Review of the ten largest banks.

63. Supporting economic diversification and SDGs requires improved infrastructure, a better business climate, stronger governance, and addressing gender inequality. Urgently implementing the power sector recovery program, adopting the Petroleum Industry Governance Bill, strengthening governance and transparency initiatives, and reforms within the health and education sectors are essential to increase human and physical capital, boost productivity and diversify the economy. These initiatives—which are all part of the ERGP priorities—should be complemented by the implementation of the government’s financial inclusion strategy and policies to reduce gender inequities, particularly in access to education and health services.

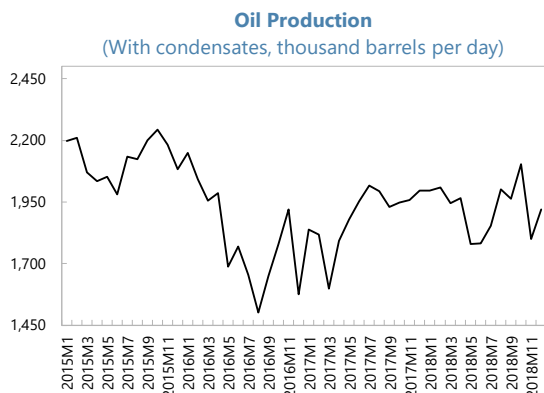
64. Staff does not support the exchange measures that have given rise to the exchange restrictions and multiple currency practices. In the absence of a clear timetable for their removal, staff is not in a position to recommend approval of the exchange restrictions and MCPs. Staff urges the authorities to articulate a speedy and monitorable strategy for their removal to help strengthen the functioning of the foreign exchange market and allow further convergence of the multiple exchange rates.

65. The quality and availability of economic statistics continue to improve, including through technical assistance. Efforts should continue to strengthen data quality further, by addressing remaining gaps, notably in national accounts, BOP, and fiscal statistics including SLG and SOE operations. Regular funding is essential for ensuring high frequency and regular publication of statistics, which is key for its continued credibility.

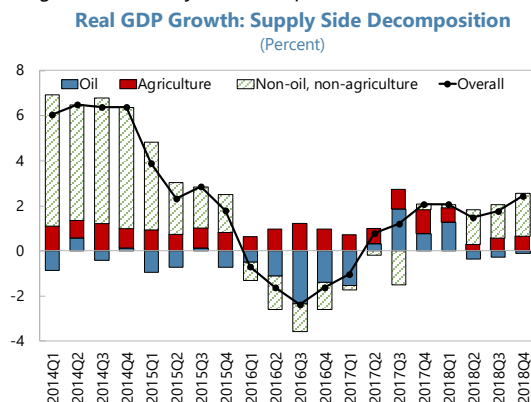
66. It is recommended that the next Article IV consultation take place on the standard 12-month cycle.

Figure 1. Nigeria: Real Sector Developments

Oil production came up at 1.93 mbpd, still lower than pre-2016 levels ...

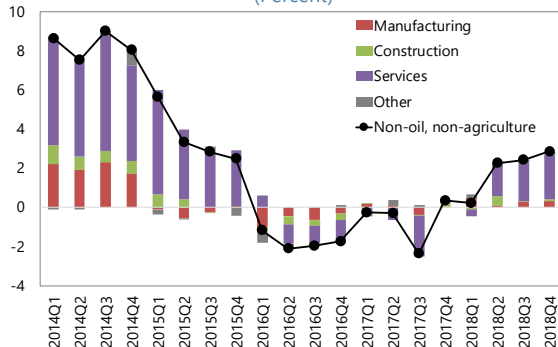


... adding to slower agricultural production, which kept overall growth for the year at 1.9 percent ...



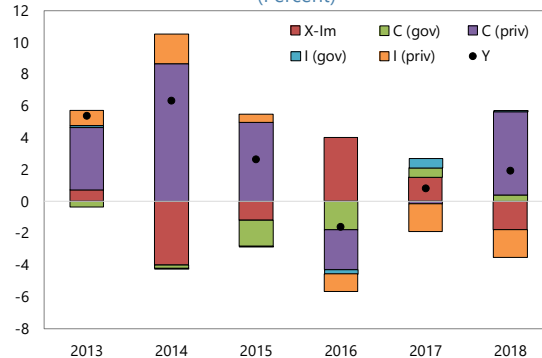
...despite a pick-up in the remainder in the economy, driven by services, and particularly in the last quarter of the year.

Non-oil Non-agriculture Growth and Decomposition
(Percent)



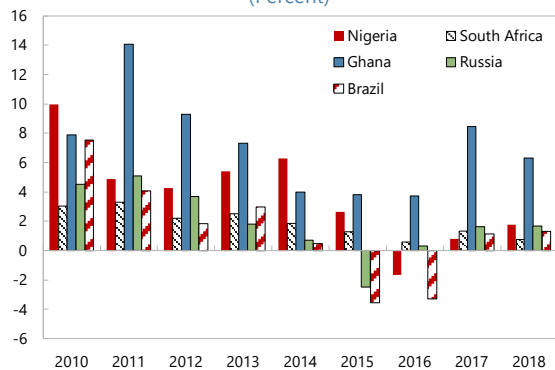
Investment is expected to continue to be a drag on growth.

Real GDP Growth: Demand Side Decomposition
(Percent)



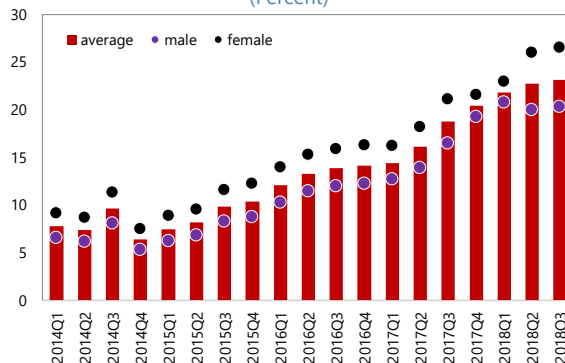
Growth would remain far below other commodity exporters in the region...

Nigeria and Selected Emerging Markets: Real GDP Growth
(Percent)



...while unemployment continues to rise.

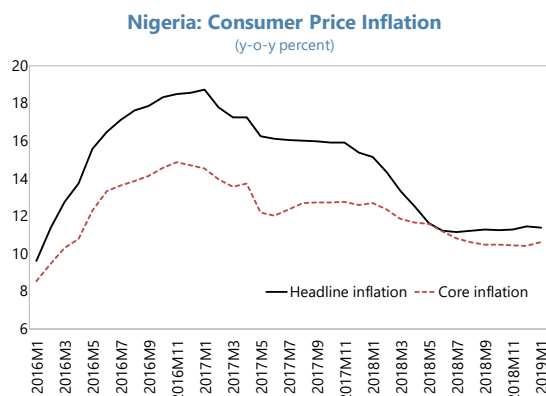
Unemployment Rate
(Percent)



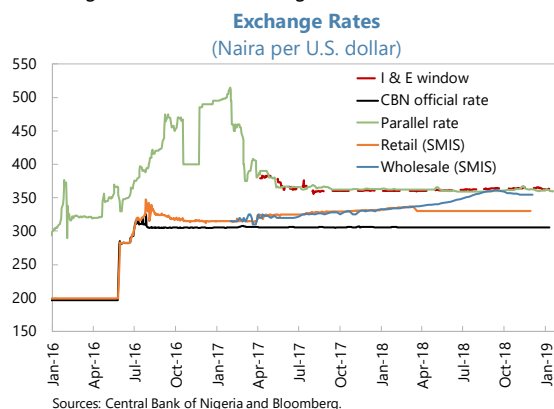
Sources: Central Bank of Nigeria, National Bureau of Statistics, Nigerian National Petroleum Corporation, World Economic Outlook and IMF staff calculations.

Figure 2. Nigeria: Inflation and Monetary Sector Developments

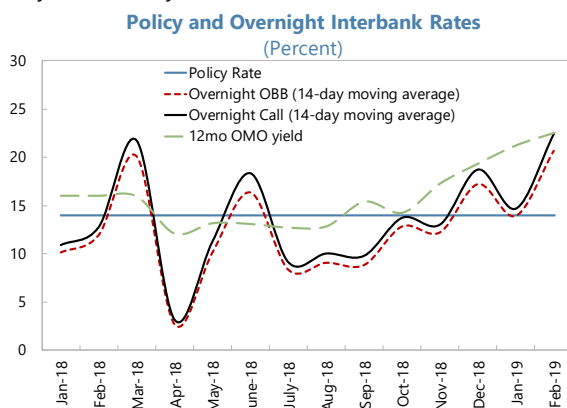
Both headline and core inflation have declined....



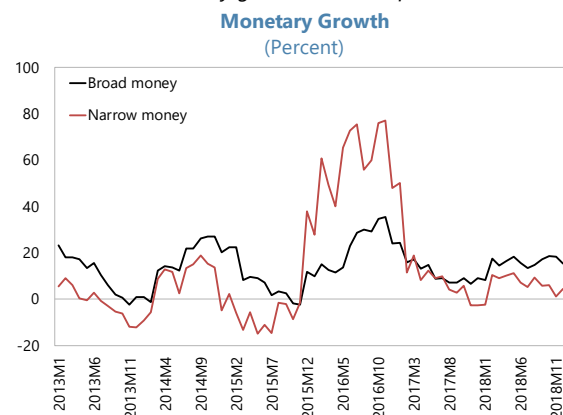
...helped by a stable exchange rate although the foreign exchange market remains segmented.



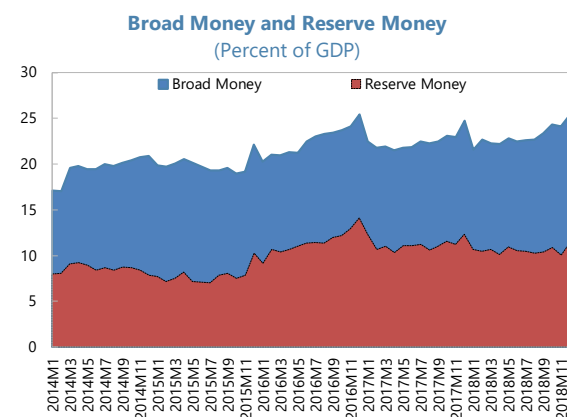
Money market rates and OMO rates have been above the policy rate recently...



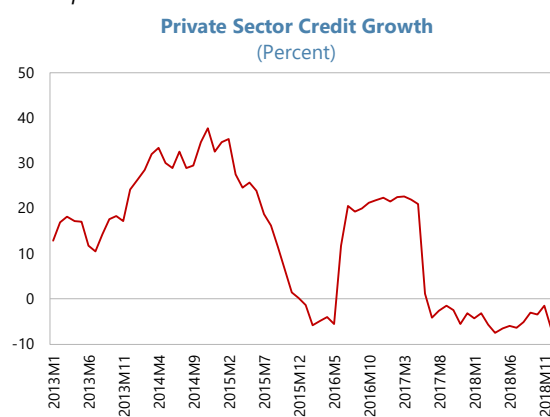
...with tighter monetary policy contributing to a significant slowdown in monetary growth over the past 18 months...



...stabilizing its share in GDP...



...while negative private sector credit growth in nominal terms persists.

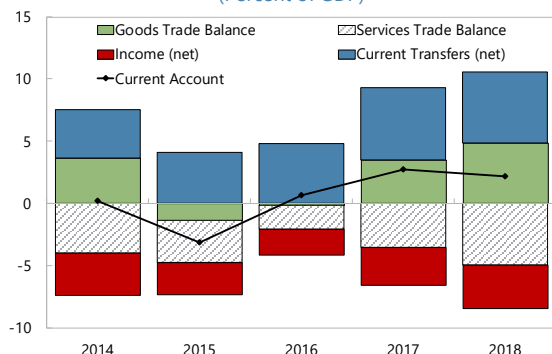


Source: Central Bank of Nigeria.

Figure 3. Nigeria: External Sector Developments

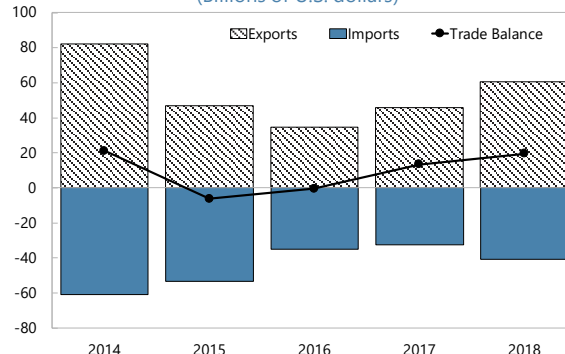
The current account surplus is estimated to have remained stable in 2018...

Current Account, 2014-18
(Percent of GDP)



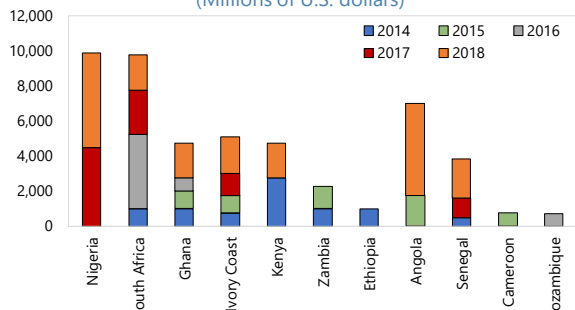
...as exports recovered on the back of favorable oil prices.

Trade Balance
(Billions of U.S. dollars)



The financial account has benefited from the inflow of sizable Eurobond issuances...

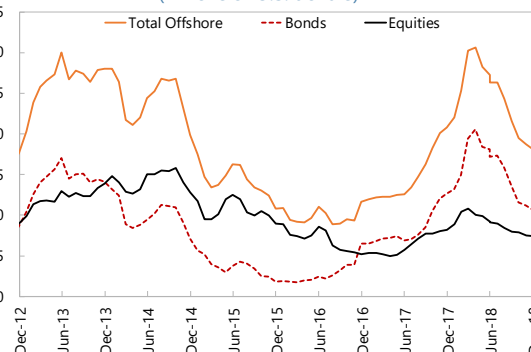
Sub-Saharan African Bond Issuance
(Millions of U.S. dollars)



Note: Excludes Issuances by Ivory Coast and South Africa in Euro, in 2017 (Euro 625mn) and 2014 (Euro 500mn), respectively.

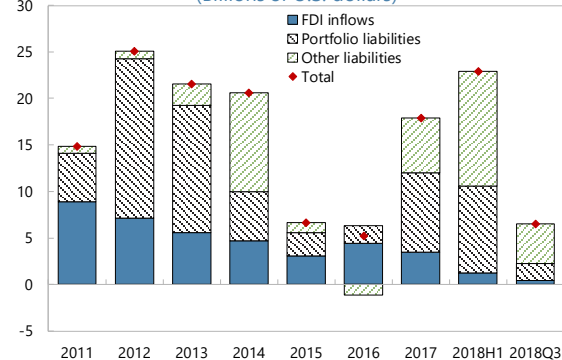
...but the stock of foreign portfolio investment has decreased sharply in the second half of 2018...

Foreign Portfolio Investment Stock
(Billions of U.S. dollars)



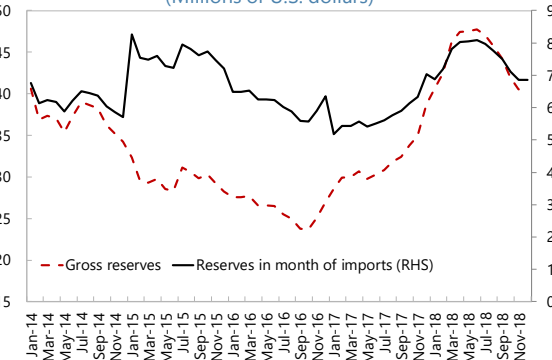
...while FDI continues to decline.

Net Capital Inflows
(Billions of U.S. dollars)



International reserves have declined from peak levels earlier in 2018.

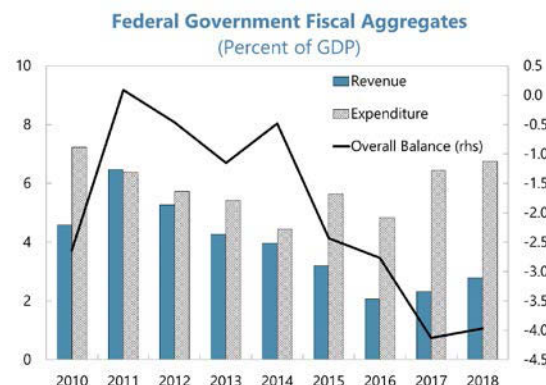
International Reserves
(Millions of U.S. dollars)



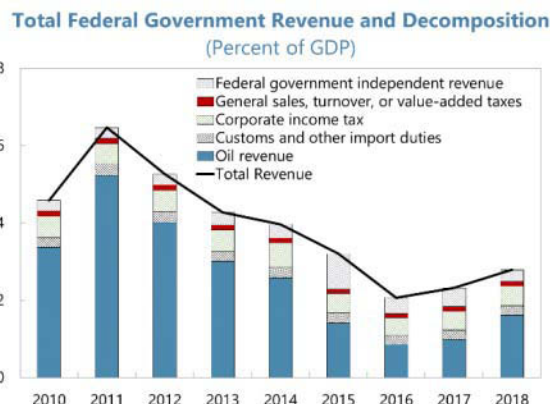
Sources: Central Bank of Nigeria, custodian data, and IMF staff calculations.

Figure 4. Nigeria: Fiscal Sector Developments

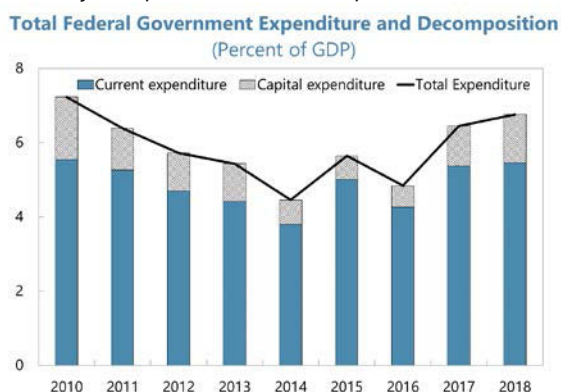
Low revenue mobilization has kept the deficit high...



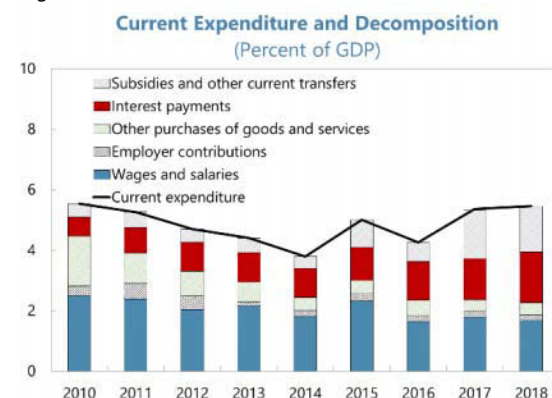
...despite a pick-up in oil revenues within a highly undiversified revenue base.



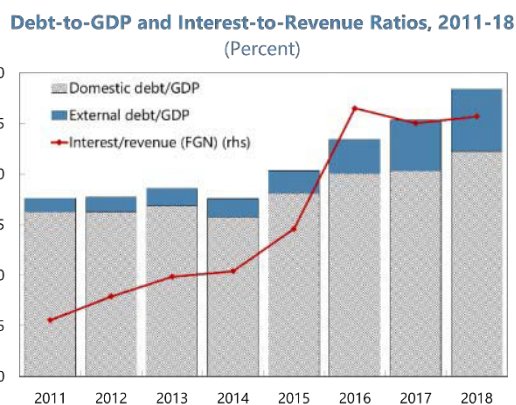
Expenditures remain low and are largely driven by recent recovery in capital and recurrent expenditures...



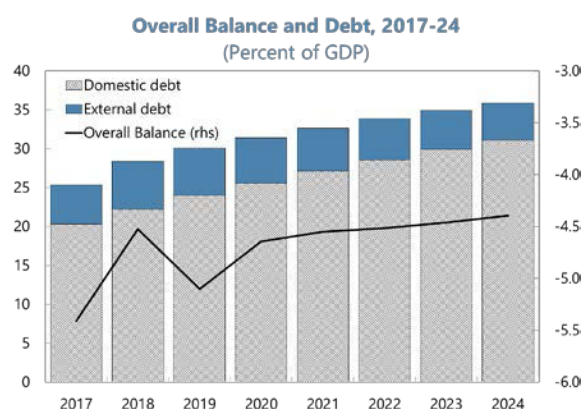
...the latter themselves driven mainly by the interest and wage bill.



The consolidated debt-to-GDP ratio remains low, but interest payments continue to absorb a significant share of Federal Government revenues.



Under current policies, the fiscal deficit is projected to remain high over the medium term.

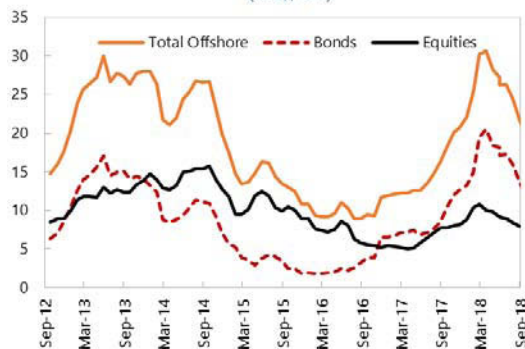


Sources: Central Bank of Nigeria, Debt Management Office, OAGF, and IMF staff calculations.

Figure 5. Non-Resident Holdings in Nigeria: Internal or External Driven?

Non-resident holdings have been rising ...

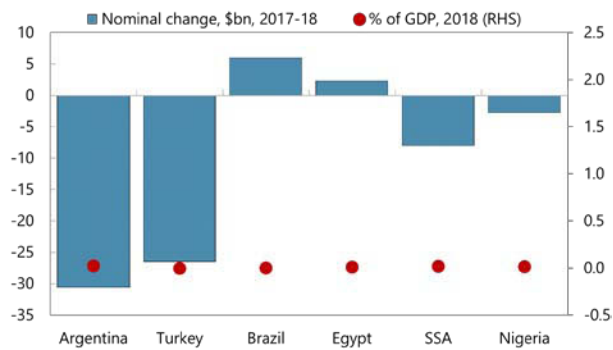
Nigeria: Portfolio Investment Stock
(US\$, bn)



Source: Stanbic Bank.

... but started to reverse recently.

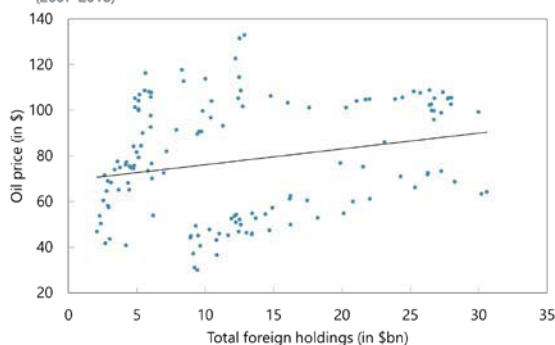
Portfolio flows in Nigeria vs EMs
(2017-2018)



Sources: Nigerian authorities, and World Economic Outlook

Oil prices are important ...

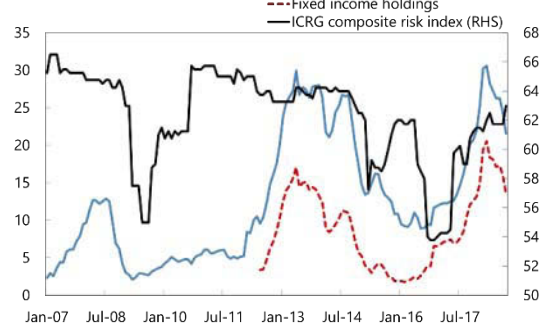
Nigeria: Foreign Holdings and Oil Prices
(2007-2018)



Sources: Staff Calculations based on CBN data.

... as well as domestic risk factors.

Nigeria: Foreign Holdings and Risk
(2007-2018)



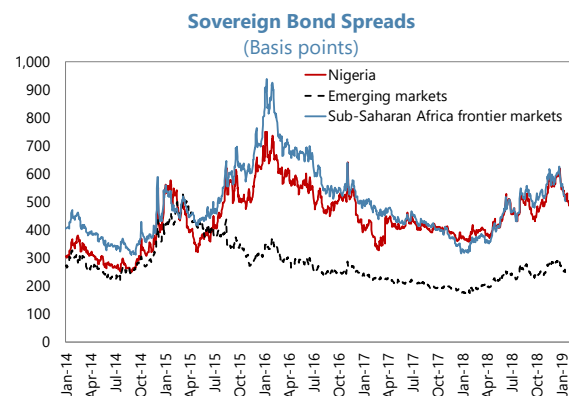
Sources: Staff Calculations based on CBN data.

An Autoregressive Distributed Lag (ARDL) regression confirms importance of both domestic and global factors.

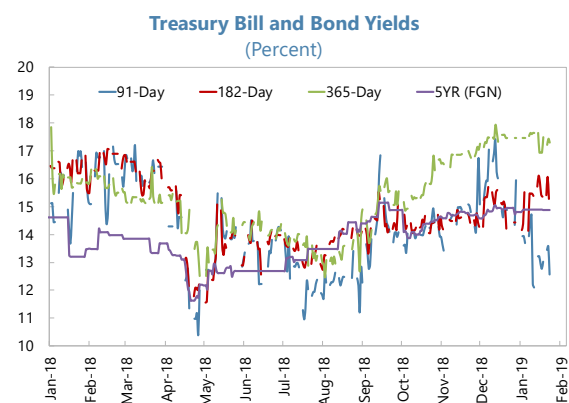
VARIABLES	(1)	(2)
Domestic factors		
NTB rate	0.779*** (0.252)	0.760*** (0.246)
ICRG	-3.147 (2.473)	0.553 (2.745)
Global factors		
Oil price	0.243 (0.435)	0.555 (0.379)
VIX	-1.462*** (0.350)	-1.840*** (0.376)
US dep rate		1.532 (7.866)
ARDL	1,4,0,4,0	1,4,5,2,2,1
Observations	137	136
R-squared	0.491	0.568
F-test	6.354***	7.593***
Sample	2007M1-18M9	2007M1-18M9
Standard errors in parentheses		
*** p<0.01, ** p<0.05, * p<0.1		

Figure 6. Nigeria: Financial Sector Developments

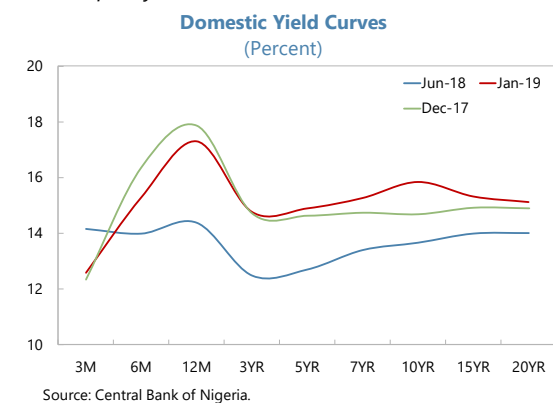
External financing conditions tightened for most of 2018, before improving more recently in line with emerging market sentiments.



...even as domestic yields are increasing ...

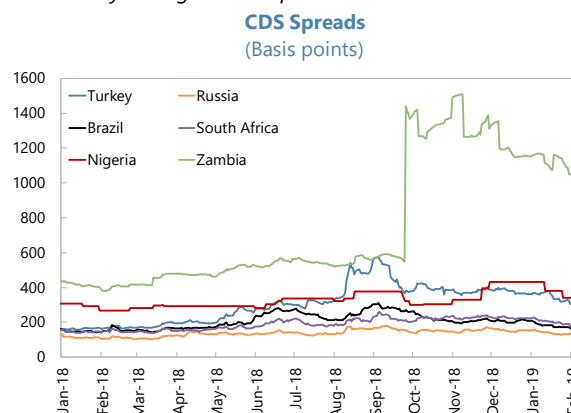


Short-term yields have risen in response to recent monetary tightening with costs at longer maturities rising over the past year.

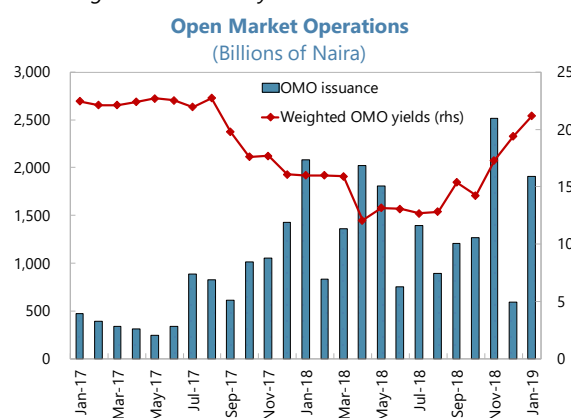


Sources: Bloomberg, Central Bank of Nigeria, and IMF staff calculations.

CDS spreads have picked up significantly in EMs but Nigeria has not been among the worst affected reflecting its relatively strong external position...



High CBN bills sales reflect monetary tightening amidst increasing maturities and yields...



Record stock market gains have been wiped out in 2018 amidst increasing portfolio outflows.

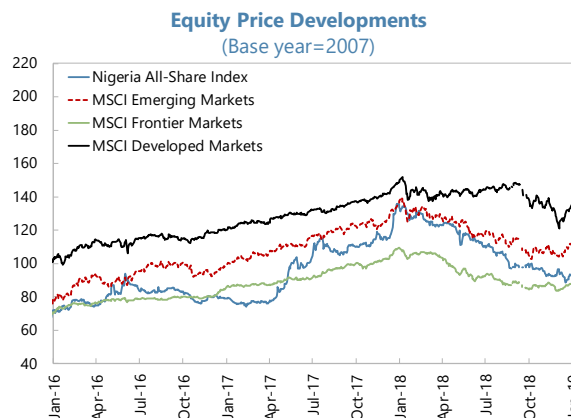
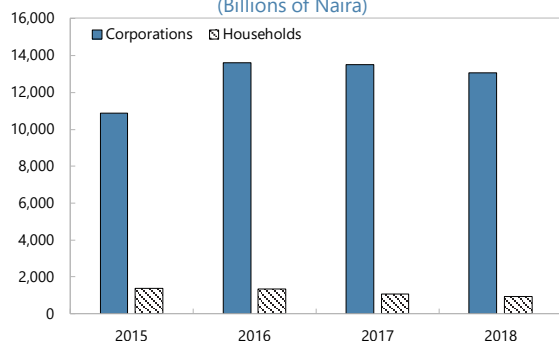


Figure 7. Nigeria: Banking Sector Developments

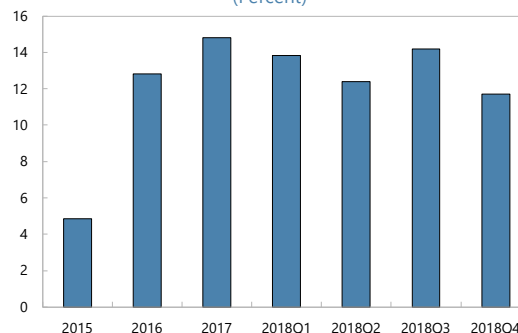
Credit to both corporates and households decreased in line with an overall contraction in credit to the private sector.

Credit Allocation by Corporates and Households
(Billions of Naira)



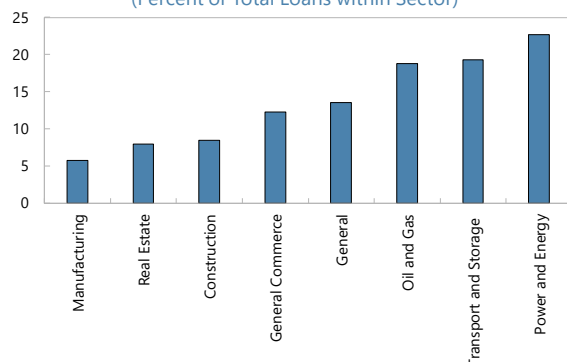
NPL ratios improved, albeit these could possibly be higher in view of high restructured loans ...

Banking Sector NPLs to Total Loans
(Percent)



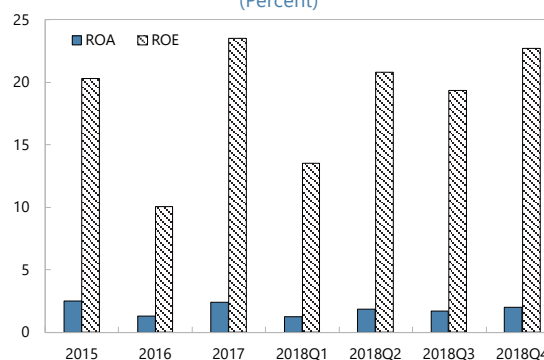
...with high concentration in vulnerable sectors, particularly Oil and Gas, Transportation, and Power.

NPLs by Sector, 2018Q4
(Percent of Total Loans within Sector)



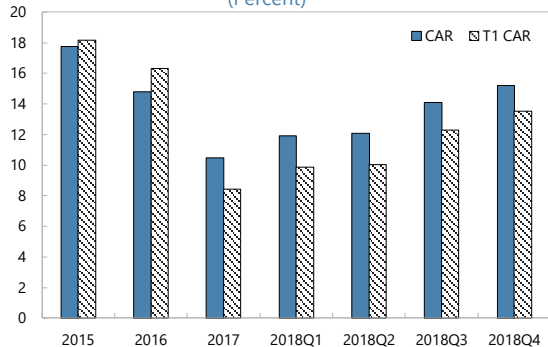
Profitability improved steadily during 2018, albeit still slightly below 2017 as net interest margins declined with yields earlier in the year.

Banking Sector Profitability
(Percent)



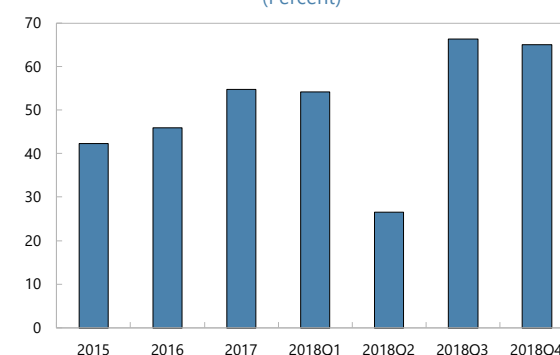
Solvency continued to improve since 2017 as the economy recovered...

Capital Adequacy Ratios
(Percent)



...while liquidity returned above the 30 percent prudential threshold, after a sharp decline in 2018Q2.

Banking Sector Liquidity Ratios
(Percent)



Sources: Central Bank of Nigeria and Financial Soundness Indicators.

Figure 8. Nigeria: Performance of the Five Largest Banks Through September 2018

Capital buffers remain above the prudential requirement of 15 percent for the largest banks—suggesting they would be able to absorb shocks despite large concentration ratio.



Liquidity has deteriorated for at least two of the largest banks, relative to their 2017 levels— but banks' liquidity resilience remains strong, helped also by the CBN's high cash reserve ratio.



The loan to deposit ratio is declining, as shrinking credit growth does not keep pace with deposits.



First Bank—the largest bank by assets—saw an improvement in its NPLs— which remained 5 times higher than other large banks.



Deposits remain the main source of funding. Interest bearing deposits, including time deposits, increased representing around 36 percent of total liabilities in Q1 2018 as opposed to 18 percent for demand deposits, which represents a more stable funding source.



Interest income contributes to the bulk of profits. Commission fees, however, remains important contributing to more than 14 percent of the five largest banks' total revenue and gaining momentum since the end of 2017.

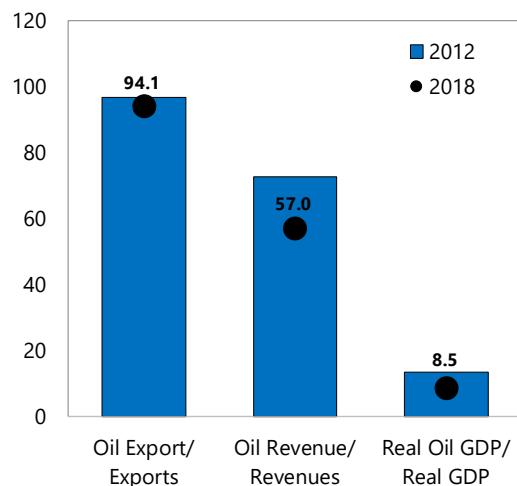


Sources: Bloomberg and IMF staff calculations.

Figure 9. Nigeria: Diversification

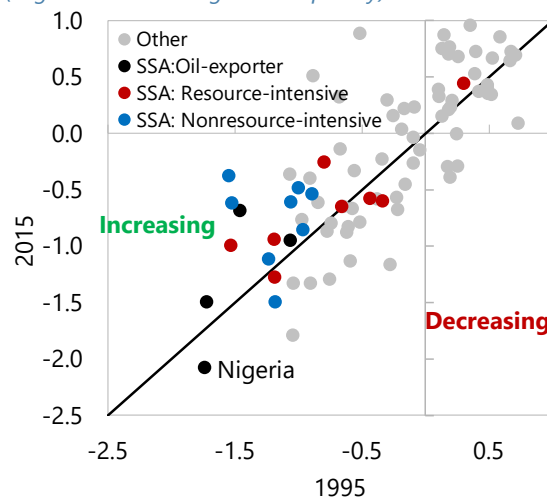
Nigeria's exports and fiscal revenues are highly dependent on oil.

Share of Oil in Different Aggregates
(Percent)



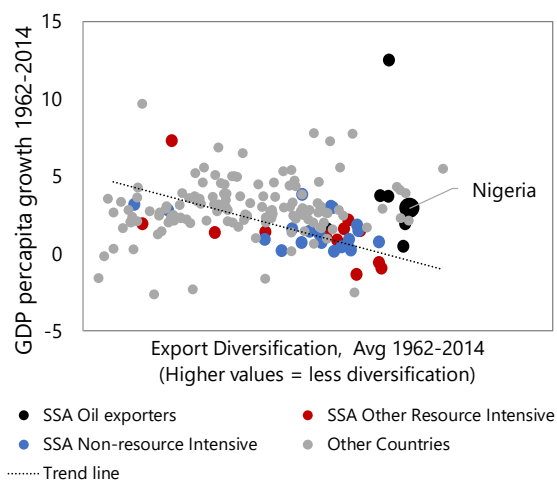
Export complexity has been decreasing over the past two decades.

Export Complexity Index
(Higher Values = Higher Complexity)



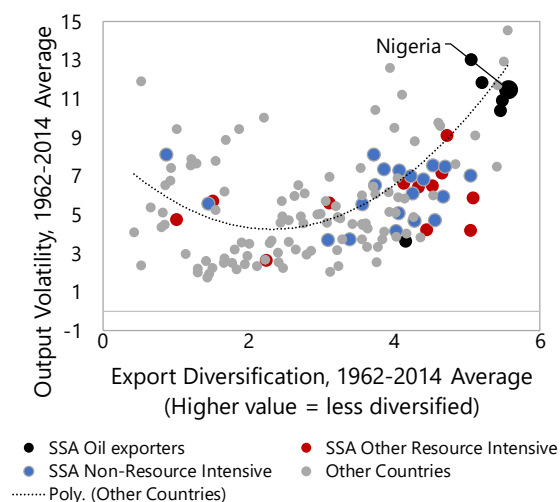
Stronger export diversification could boost growth...

Export Diversification
and Real GDP per Capita Growth, 1962-2014



... and reduce output volatility.

Export Diversification
and Output Volatility, 1962-2014

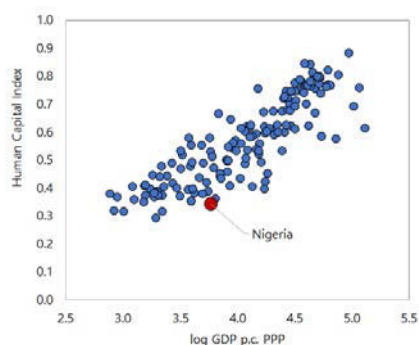


Source: IMF (2017).

Figure 10. Human Development Indicators

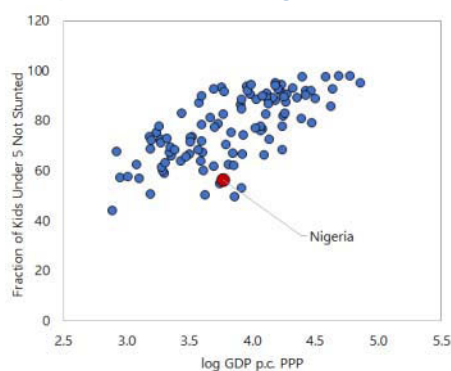
Human capital outcomes in Nigeria have been weak in absolute terms and compared to peers...

GDP per Capita (PPP) and Human Capital Index



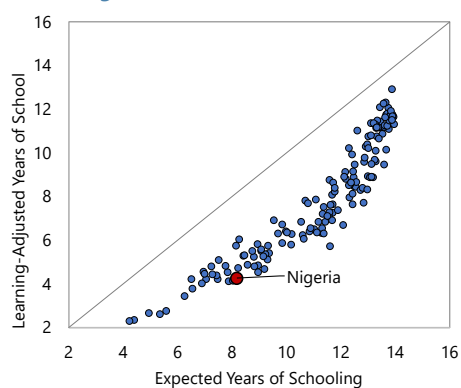
...and almost half of kids suffering from stunting.

GDP per Capita (PPP) and Stunting



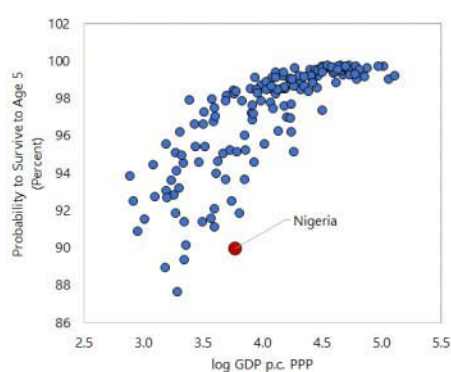
...and the quality at which it is provided is relatively poor.

Expected Years of Education and Quality Adjusted Years of Learning (Years)



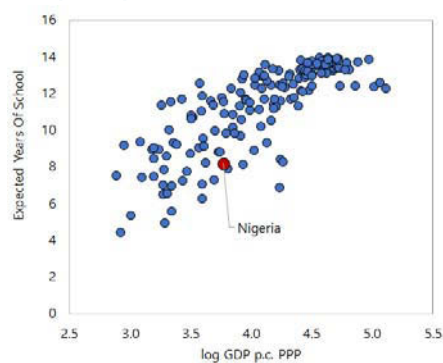
...with child mortality among the highest worldwide...

GDP per Capita (PPP) and Child Mortality



Expected education is lagging being peers...

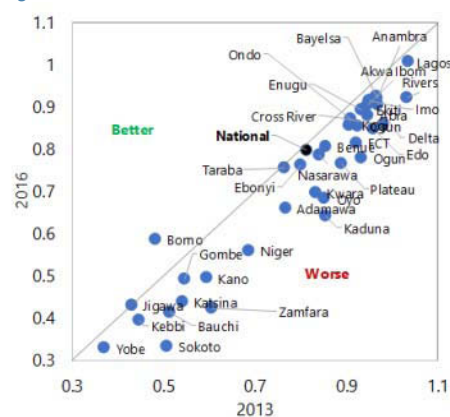
GDP per Capita (PPP) and Years of Education



Education varies strongly across states.

Education Index

(Higher =better)

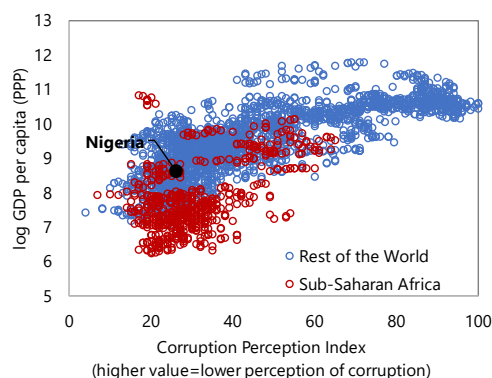


Source: Nigeria National Bureau of Statistics; World Bank Human Capital Project.

Figure 11. Nigeria: Governance and Transparency

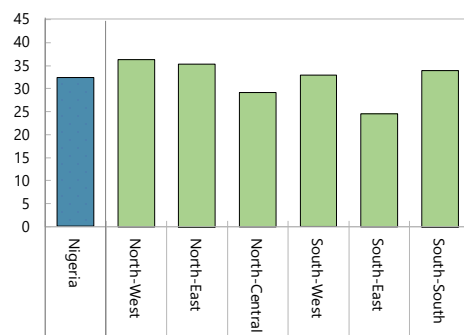
Corruption in Nigeria is perceived to be high...

GDP per Capita and Perception of Corruption¹



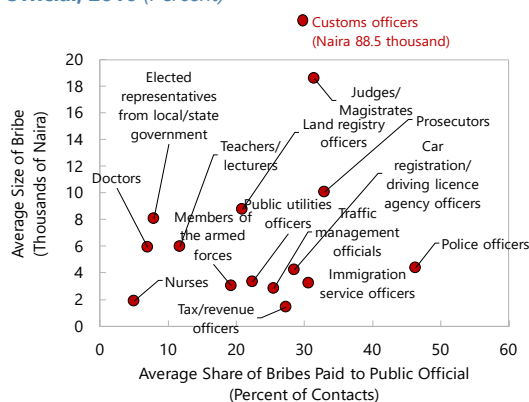
About a third of Nigerians have experience with bribes...

Experience with Bribery by Geographic Zone (Percent)



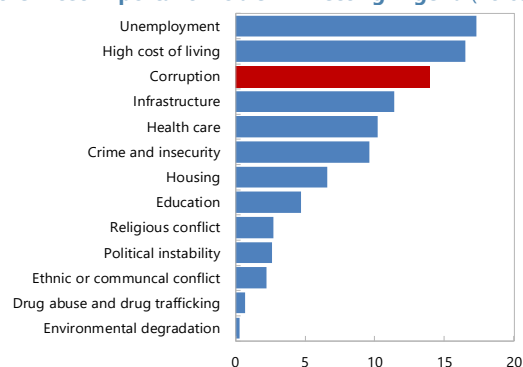
...in the context of dealing with various public agencies.

Experience with Bribes and Amounts Paid, by Public Official, 2016 (Percent)



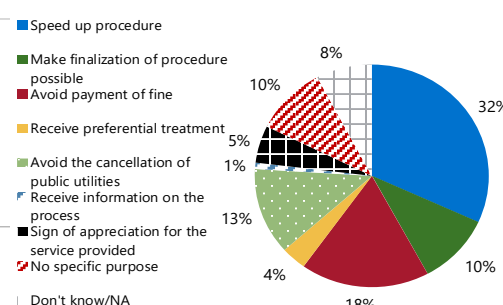
...and the population is considering corruption one of the most pressing issues for the country.

Share of Population Considering Selected Issues to be the Most Important Problem Affecting Nigeria (Percent)



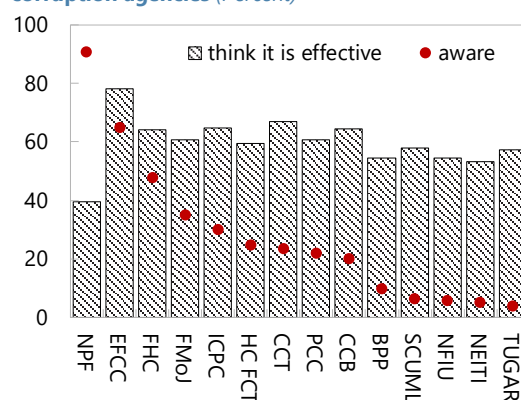
...and have paid it often to speed up procedures...

Reasons for Paying the Bribe (Percent)



Education varies strongly across states.

Awareness and Perceived Effectiveness of Anti-corruption agencies (Percent)²



Source: National Bureau of Statistics; UNODC (2017); Transparency International.

¹ Note: Use of these indicators should be considered carefully, as they reflect perceptions-based data.

² BPP = Bureau of Public Procurement, CCB = Code of Conduct Bureau, CCT = Code of Conduct Tribunal, EFCC = Economic and Financial Crimes Commission, FHC = Federal High Court, FMOJ = Federal Ministry of Justice, HC FCT = High Court of the Federal Capital Territory, ICPC = Independent Corrupt Practices Commission, NEITI = Nigeria Extractive Industries Transparency Initiative, NFIU = Nigeria Financial Intelligence Unit, NPF = Nigeria Police Force, PCC = Public Complaints Commission, SCUML = Special Control Unit Against Money Laundering, TUGAR = Technical Unit on Governance and Anti-Corruption Reform.

Table 1. Nigeria: Selected Economic and Financial Indicators, 2016–24

	2016	2017	2018	2019	2020	2021	2022	2023	2024
	Est.			Projections					
National income and prices	(Annual percentage change, unless otherwise specified)								
Real GDP (at 2010 market prices)	-1.6	0.8	1.9	2.1	2.5	2.4	2.7	2.6	2.6
Oil and Gas GDP	-14.4	4.7	1.1	4.4	6.1	3.0	3.3	0.8	0.8
Non-oil GDP	-0.3	0.5	2.0	1.9	2.2	2.4	2.7	2.7	2.7
Production of crude oil (million barrels per day)	1.81	1.89	1.93	2.00	2.10	2.15	2.20	2.20	2.20
Nominal GDP at market prices (trillions of naira)	102.6	114.9	129.1	144.6	161.2	179.1	199.5	221.6	245.8
Nominal GDP per capita (US\$)	2,254	1,995	2,049	...	...	...	...	...	...
GDP deflator	9.5	11.1	10.2	9.6	8.8	8.4	8.4	8.3	8.1
Consumer price index (annual average)	15.7	16.5	12.1	11.7	11.7	11.3	11.4	11.1	11.0
Consumer price index (end of period)	18.5	15.4	11.4	12.1	11.7	11.5	11.3	11.0	11.0
Investment and savings	(Percent of GDP)								
Gross national savings	16.0	18.2	15.8	13.8	13.9	13.9	14.1	14.1	14.0
Public	-0.1	-0.7	0.8	-0.1	-0.1	0.1	0.2	0.5	0.7
Private	16.1	18.9	15.0	13.9	14.0	13.8	13.9	13.6	13.3
Investment	15.4	14.7	13.2	13.7	13.6	13.5	13.4	13.4	13.4
Public	2.2	3.1	3.3	3.0	2.8	2.8	2.8	2.8	2.8
Private	13.2	11.6	9.9	10.7	10.8	10.7	10.7	10.6	10.6
Current account balance	0.7	2.8	2.1	-0.4	-0.2	-0.1	0.1	0.1	0.0
Consolidated government operations	(Percent of GDP)								
Total revenues and grants	5.5	6.2	8.0	7.0	7.3	7.2	7.3	7.4	7.5
Of which: oil and gas revenue	2.1	2.6	4.6	3.2	3.4	3.3	3.4	3.6	3.6
Total expenditure and net lending	9.5	11.6	12.5	12.1	11.9	11.7	11.8	11.9	11.9
Overall balance	-4.0	-5.4	-4.5	-5.1	-4.6	-4.5	-4.5	-4.5	-4.4
Non-oil primary balance	-4.8	-6.7	-7.4	-6.8	-6.9	-6.4	-6.2	-6.1	-6.0
Non-oil revenue	3.4	3.6	3.4	3.6	3.7	3.8	3.8	3.9	3.8
Public gross debt ¹	23.4	25.3	28.4	30.1	31.4	32.7	33.8	34.9	35.9
Of which: FGN debt	20.5	22.4	25.2	26.8	27.7	28.5	29.4	30.4	31.3
FGN interest payments (percent of FGN revenue)	61.9	58.4	60.0	63.0	50.7	58.9	65.6	70.6	74.6
	(Change in percent of broad money at the beginning of the period, unless otherwise specified)								
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)	24.0	9.1	15.4	15.6	15.1	14.6	14.2	13.7	13.4
Net foreign assets	5.8	23.4	6.9	-4.5	-2.6	-1.8	0.0	0.2	0.4
Net domestic assets	3.4	-26.0	8.5	20.1	17.6	16.4	14.2	13.5	13.0
o/w Claims on consolidated government	10.7	-2.4	4.4	15.5	14.6	14.4	14.7	14.2	13.2
Credit to the private sector (y-o-y,%)	22.3	-3.3	-6.7	3.9	2.3	2.2	2.1	2.5	2.9
Velocity of broad money (ratio; end of period)	3.7	3.8	3.4	3.4	3.4	3.3	3.2	3.2	3.1
External sector	(Annual percentage change, unless otherwise specified)								
Exports of goods and services	-21.6	32.3	28.9	-8.5	5.7	2.6	11.0	2.3	2.5
Imports of goods and services	-34.7	8.4	29.9	8.5	2.6	1.3	5.8	0.5	3.5
Terms of trade	-6.1	10.3	12.5	-7.2	-0.5	-1.0	-0.8	-0.3	-0.7
Price of Nigerian oil (US dollar per barrel)	44.6	54.4	71.1	61.8	61.5	60.8	60.4	60.6	60.6
External debt outstanding (US\$ billions) ²	45.7	50.6	63.4	69.8	76.6	83.8	91.5	99.4	108.0
Gross international reserves (US\$ billions)	27.6	39.8	42.6	38.5	35.6	33.3	33.4	33.8	34.6
(equivalent months of imports of G&Ss)	6.5	7.2	7.1	6.3	5.7	5.1	5.1	4.9	4.5

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

¹Gross debt figures for the Federal Government and the public sector include overdrafts from the Central Bank of Nigeria (CBN) and AMCON bonds (N 4.1 trillion). On a net basis, the overdrafts and government deposits at the CBN almost cancel out, and AMCON net debt reduces to N 2.4 trillion.²Includes both public and private sector.

Table 2. Nigeria: Balance of Payments, 2016–24
(Billions of U.S. dollars)

	2016	2017	2018	2019	2020	2021	2022	2023	2024
	Est.			Projections					
Current account balance	2.7	10.4	8.5	-1.6	-1.0	-0.7	0.9	0.8	0.1
Trade balance	-0.5	13.1	19.2	10.8	12.1	11.1	12.6	11.3	10.5
Exports	34.7	45.8	60.2	54.6	57.8	59.2	66.1	67.5	69.1
Oil/gas	32.0	42.3	55.3	48.9	51.4	51.9	57.6	57.8	57.8
Other	2.7	3.5	5.0	5.6	6.4	7.4	8.5	9.8	11.3
Imports	-35.2	-32.7	-41.0	-43.7	-45.7	-48.1	-53.5	-56.2	-58.6
Oil/gas	-9.0	-8.2	-11.4	-9.7	-9.7	-9.7	-13.1	-13.2	-13.2
Other	-26.3	-24.5	-29.7	-34.0	-36.0	-38.4	-40.3	-43.0	-45.4
Services (net)	-8.0	-13.2	-19.8	-22.6	-22.2	-20.6	-19.3	-16.6	-16.7
Receipts	3.7	5.0	5.3	5.4	5.7	5.9	6.2	6.4	6.7
Payments	-11.8	-18.3	-25.1	-28.0	-27.9	-26.5	-25.4	-23.1	-23.4
Income (net)	-8.6	-11.5	-13.8	-13.5	-15.4	-16.7	-18.8	-21.1	-21.9
Of which: Interest due on public debt	-0.3	-0.3	-0.3	-0.3	-0.4	-0.4	-0.4	-0.3	-0.3
Transfers (net)	19.9	22.0	22.9	23.7	24.5	25.4	26.3	27.3	28.2
Capital and Financial account balance	0.7	7.9	13.0	-2.6	-1.9	-1.5	-0.8	-0.4	0.7
Capital Account (net)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financial Account (net)	0.7	7.9	13.0	-2.6	-1.9	-1.5	-0.8	-0.4	0.7
Direct Investment (net)	3.1	2.2	1.1	2.2	2.4	2.7	3.0	3.3	3.7
Portfolio Investment (net)	1.7	8.5	11.2	3.0	3.5	3.5	4.0	4.0	4.8
Other Investment (net)	-4.2	-2.8	0.7	-7.7	-7.7	-7.7	-7.7	-7.7	-7.7
Errors and omissions ¹	-4.4	-6.1	-18.7	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance	-1.0	12.2	2.8	-4.1	-2.9	-2.3	0.1	0.4	0.8
Net international reserves (increase -)	1.0	-12.2	-2.8	4.1	2.9	2.3	-0.1	-0.4	-0.8
Memorandum items:									
Gross official reserves, end-of-period	27.6	39.8	42.6	38.5	35.6	33.3	33.4	33.8	34.6
In months of next year's imports of goods and services	6.5	7.2	7.1	6.3	5.7	5.1	5.1	4.9	4.5
Current account (percent of GDP)	0.7	2.8	2.1	-0.4	-0.2	-0.1	0.1	0.1	0.0
Exports of goods and services (percent of GDP)	9.5	13.5	16.5	13.5	12.8	11.8	11.8	10.8	10.0
Imports of goods and services (percent of GDP)	11.6	13.5	16.6	16.1	14.8	13.5	12.9	11.6	10.8
Public external debt	16.4	23.6	34.9	38.6	42.6	46.6	50.6	54.5	58.8
In percent of GDP	4.0	6.3	8.8	8.7	8.6	8.5	8.2	8.0	7.8
In percent of exports of G&S ²	42.5	46.4	53.3	64.3	67.1	71.6	70.1	73.7	77.6
In percent of consolidated fiscal revenues ²	72.8	101.6	109.9	124.4	118.1	118.0	113.7	107.7	103.9
Private external debt	29.4	27.0	28.5	31.2	34.1	37.2	40.8	44.9	49.2
External debt service due (percent of exports of G&S) ²	-4.6	-3.7	-3.8	-3.6	-3.4	-4.1	-3.1	-3.8	-3.7

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

¹The 2018 number reflects the outturn and a zero forecast for the remaining quarters.

²Nominal public short- and long-term debt, end of period. Guaranteed external debt not included. External public debt for the purpose of BoP is based on a residency definition.

Table 3. Nigeria: Federal Government Operations, 2016–24
(Billions of Naira)

	2016	2017	2018	2019	2020	2021	2022	2023	2024
			Est.	Projections					
Total revenue and Grants	2,123	2,665	3,602	3,719	4,355	4,770	5,263	6,018	6,765
Oil revenue	879	1,132	2,076	1,737	2,114	2,253	2,672	3,106	3,549
Non-oil revenue	1,245	1,533	1,526	1,772	2,021	2,288	2,591	2,912	3,216
Import and excise duties	247	283	318	382	421	449	471	503	531
Companies' income tax	460	562	666	786	924	1,086	1,279	1,473	1,645
Value-added tax	109	129	147	171	192	216	242	271	303
Federal government independent revenue	428	559	395	434	484	537	599	665	737
Grants	0	0	0	210	220	229	0	0	0
Total expenditure	4,965	7,406	8,727	10,558	10,576	11,409	12,927	14,581	16,300
Recurrent expenditure	4,369	6,164	7,045	8,697	8,614	9,230	10,500	11,885	13,309
Personnel	1,875	2,278	2,417	2,813	3,152	3,527	3,956	4,425	4,941
Overheads	536	437	517	694	777	870	975	1,091	1,218
Interest	1,313	1,557	2,160	2,341	2,210	2,808	3,452	4,249	5,048
Transfers ¹	644	1,842	1,950	2,499	2,125	2,026	2,117	2,120	2,102
<i>of which electricity subsidies</i>	0	252	272	531	339	107	0	0	0
<i>of which net transfers to SLGs³</i>	270	1,150	1,222	1,191	231	188	190	161	210
Arrears Clearance	0	50	0	350	350	0	0	0	0
Capital expenditure	596	1,242	1,682	1,861	1,962	2,179	2,427	2,696	2,990
Overall balance	-2,841	-4,742	-5,125	-6,839	-6,221	-6,639	-7,664	-8,563	-9,534
Financing	2,841	4,742	5,125	6,839	6,221	6,639	7,664	8,563	9,534
External	71	2,183	1,820	711	732	597	603	513	667
Borrowing	133	1,521	1,423	557	612	668	668	668	668
Amortization	-24	-26	-176	-69	-111	-259	-255	-317	-211
Foreign asset acquisition (ECA/SWF)	-38	0	0	0	0	0	0	0	0
Net External Lending to SLGs	..	687	573	224	231	188	190	161	210
Domestic	2,761	913	2,864	6,128	5,489	6,042	7,062	8,050	8,868
Bank financing	2,101	-985	1,231	4,552	4,285	4,765	6,011	6,783	7,327
Nonbank financing	641	1,898	1,526	1,237	865	1,040	1,051	1,267	1,541
Other financing	19	0	0	0	0	0	0	0	0
Asset Disposal			107	339	339	237	0	0	0
Statistical discrepancy/Financing gap	10	1,645	440	0	0	0	0	0	0
<i>Memorandum items:</i>									
FGN Total Debt	21,054	25,767	32,584	38,809	44,691	51,093	58,757	67,320	76,854
Domestic ²	17,576	19,989	24,616	30,148	35,298	41,103	48,165	56,215	65,083
Foreign	3,479	5,778	7,967	8,660	9,392	9,989	10,592	11,105	11,771
Price of Nigerian oil (US dollar per barrel)	44.6	54.4	71.1	61.8	56.5	60.8	60.4	60.6	60.6
FGN overall balance (percent of GDP)	-2.8	-4.1	-4.0	-4.7	-3.9	-3.7	-3.8	-3.9	-3.9

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

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

²Gross debt figures for the Federal Government and the public sector include overdrafts from the Central Bank of Nigeria (CBN). Please see footnote 1 of SEI

³Net transfers to SLGs include Paris Club refunds, Budget Support Facility, and on-lending by the FGN.

Table 4. Nigeria: Consolidated (General) Government, 2016–24
(Billions of Naira)

	2016	2017	2018	2019	2020	2021	2022	2023	2024
	Est.			Projections					
Total revenue and Grants	5,681	7,085	10,322	10,085	11,715	12,831	14,474	16,452	18,403
Oil revenue	2,187	2,993	5,879	4,658	5,548	5,873	6,861	7,893	8,943
Of which: implicit fuel subsidy	0	146	623	541	539	533	529	531	531
Non-oil revenue	3,493	4,092	4,444	5,217	5,946	6,729	7,613	8,559	9,460
Import and excise duties	549	628	705	848	934	995	1,045	1,115	1,177
Companies' income tax	988	1,206	1,430	1,687	1,985	2,332	2,746	3,164	3,533
Value-added tax	811	957	1,090	1,269	1,429	1,607	1,803	2,017	2,252
Other (education tax and customs levies)	318	312	331	429	488	548	614	685	748
Federal government independent revenue	428	559	395	434	484	537	599	665	737
SLGs independent revenue	399	429	491	550	626	709	806	913	1,013
Grants	0	0	0	210	220	229	0	0	0
Total expenditure	9,735	13,301	16,162	17,461	19,205	20,977	23,481	26,335	29,210
Federal government	4,695	6,256	7,505	9,368	10,345	11,221	12,737	14,420	16,090
State and local government	4,465	6,270	6,999	6,684	7,318	8,106	8,946	9,956	11,012
Extrabudgetary funds, ECA and implicit fuel subs	576	774	1,658	1,410	1,541	1,650	1,797	1,959	2,108
Extrabudgetary funds ¹	576	628	768	869	1,002	1,117	1,268	1,428	1,577
Spending from Excess Crude Account	0	0	267	0	0	0	0	0	0
Of which: explicit fuel subsidy	0	0	0	0	0	0	0	0	0
Of which: Shared infrastructure and soci	0	0	0	0	0	0	0	0	0
Other	0	0	267	0	0	0	0	0	0
Implicit fuel subsidy	0	146	623	541	539	533	529	531	531
Overall balance	-4,054	-6,215	-5,840	-7,377	-7,490	-8,146	-9,006	-9,883	-10,807
Non-oil primary balance	-4,928	-7,652	-9,558	-9,903	-11,049	-11,441	-12,416	-13,526	-14,702
Non-oil revenue	3.4	3.6	3.4	3.6	3.7	3.8	3.8	3.9	3.8
Financing	4,054	6,215	5,840	7,377	7,490	8,146	9,006	9,883	10,807
External	-46	2,182	1,820	711	732	597	603	513	667
Borrowing ²	27	2,221	2,078	813	894	975	975	975	975
Amortization	-35	-38	-258	-101	-162	-378	-372	-462	-308
Foreign asset acquisition (ECA/SWF)	-38	0	0	0	0	0	0	0	0
Domestic	3,088	1,315	2,836	6,666	6,758	7,550	8,404	9,370	10,140
Bank financing	2,107	-583	1,203	5,090	5,554	6,273	7,353	8,103	8,599
CBN		145	647	5,090	5,554	6,273	7,152	7,867	8,329
of which ECA financing		-151	-42	0	0	0	0	0	0
Commercial Banks		-728	556	0	0	0	200	236	270
Nonbank financing	962	1,898	1,526	1,237	865	1,040	1,051	1,267	1,541
Other financing	19	0	0	0	0	0	0	0	0
Asset Disposal			107	339	339	237	0	0	0
Statistical discrepancy/Financing gap	1,012	2,718	1,184	0	0	0	0	0	0
<i>Memorandum items:</i>									
SLGs External Financing		687.5	573.4	224.0	230.6	188.0	189.9	161.4	210.0
Budget oil price (US dollar a barrel)	38.0	44.5	47.0	61.8	61.5	60.8	60.4	60.6	60.6
Overall balance (% of GDP)	-4.0	-5.4	-4.5	-5.1	-4.6	-4.5	-4.5	-4.5	-4.4

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

¹Includes 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.

²Includes projects not included in the FGN budget, even though funds are on lent by FGN.

Table 5. Nigeria: Government Operations, 2016–24
(Percent of GDP)

	2016	2017	2018	2019	2020	2021	2022	2023	2024
	Est.			Projections					
Consolidated Government									
Total revenue	5.5	6.2	8.0	7.0	7.3	7.2	7.3	7.4	7.5
Oil revenue	2.1	2.6	4.6	3.2	3.4	3.3	3.4	3.6	3.6
Of which: implicit fuel subsidy	0.0	0.1	0.5	0.4	0.3	0.3	0.3	0.2	0.2
Non-oil revenue	3.4	3.6	3.4	3.6	3.7	3.8	3.8	3.9	3.8
Total expenditure	9.5	11.6	12.5	12.1	11.9	11.7	11.8	11.9	11.9
Federal government expenditure	4.6	5.4	5.8	6.5	6.4	6.3	6.4	6.5	6.5
State and local government	4.4	5.5	5.4	4.6	4.5	4.5	4.5	4.5	4.5
Extrabudgetary funds, ECA and implicit fuel subsidies	0.6	0.7	1.3	1.0	1.0	0.9	0.9	0.9	0.9
Overall balance	-4.0	-5.4	-4.5	-5.1	-4.6	-4.5	-4.5	-4.5	-4.4
Non-oil primary balance	-4.8	-6.7	-7.4	-6.8	-6.9	-6.4	-6.2	-6.1	-6.0
Financing	4.0	5.4	4.5	5.1	4.6	4.5	4.5	4.5	4.4
External	0.0	1.9	1.4	0.5	0.5	0.3	0.3	0.2	0.3
Borrowing	0.0	1.9	1.6	0.6	0.6	0.5	0.5	0.4	0.4
Amortization	0.0	0.0	-0.2	-0.1	-0.1	-0.2	-0.2	-0.2	-0.1
Domestic	3.0	1.1	2.2	4.6	4.2	4.2	4.2	4.2	4.1
Bank financing	2.1	-0.5	0.9	3.5	3.4	3.5	3.7	3.7	3.5
Nonbank financing	0.9	1.7	1.2	0.9	0.5	0.6	0.5	0.6	0.6
Asset Disposal			0.1	0.2	0.2	0.1	0.0	0.0	0.0
Statistical discrepancy/Financing Gap	1.0	2.4	0.9	0.0	0.0	0.0	0.0	0.0	0.0
Federal Government									
Total revenue	2.1	2.3	2.8	2.6	2.7	2.7	2.6	2.7	2.8
Oil revenue	0.9	1.0	1.6	1.2	1.3	1.3	1.3	1.4	1.4
Non-oil revenue	1.2	1.3	1.2	1.2	1.3	1.3	1.3	1.3	1.3
Total expenditure	4.8	6.4	6.8	7.3	6.6	6.4	6.5	6.6	6.6
Recurrent expenditure	4.3	5.4	5.5	6.0	5.3	5.2	5.3	5.4	5.4
Personnel	1.8	2.0	1.9	1.9	2.0	2.0	2.0	2.0	2.0
Overheads	0.5	0.4	0.4	0.5	0.5	0.5	0.5	0.5	0.5
Interest	1.3	1.4	1.7	1.6	1.4	1.6	1.7	1.9	2.1
Transfers	0.6	1.6	1.5	1.7	1.3	1.1	1.1	1.0	0.9
Arrears clearance	0.0	0.0	0.0	0.2	0.2	0.0	0.0	0.0	0.0
Capital expenditure	0.6	1.1	1.3	1.3	1.2	1.2	1.2	1.2	1.2
Overall balance	-2.8	-4.1	-4.0	-4.7	-3.9	-3.7	-3.8	-3.9	-3.9
Financing	2.8	4.1	4.0	4.7	3.9	3.7	3.8	3.9	3.9
External	0.1	1.9	1.4	0.5	0.5	0.3	0.3	0.2	0.3
Domestic	2.8	0.8	2.2	4.2	3.4	3.4	3.5	3.6	3.6
Bank financing	1.8	-0.9	1.0	3.1	2.7	2.7	3.0	3.1	3.0
Nonbank financing	0.9	1.7	1.2	0.9	0.5	0.6	0.5	0.6	0.6
Statistical discrepancy/Financing gap	0.0	1.4	0.3	0.0	0.0	0.0	0.0	0.0	0.0

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

Table 6. Nigeria: State and Local Governments, 2016–24
(Percent of GDP)

	2016	2017	2018	2019	2020	2021	2022	2023	2024
	Est.			Projections					
Revenue	2.8	4.0	4.8	4.3	3.8	3.7	3.8	3.9	4.0
Oil revenue	1.1	1.3	2.1	1.5	1.7	1.6	1.7	1.8	1.9
Shared revenue	0.8	0.9	1.5	1.2	1.3	1.2	1.3	1.4	1.4
Derivation grant (13 percent)	0.3	0.3	0.5	0.4	0.4	0.4	0.4	0.4	0.4
Non-oil revenue	1.7	1.8	1.8	1.9	1.9	2.0	2.0	2.0	2.0
Corporate Income Tax	0.4	0.5	0.5	0.5	0.6	0.6	0.6	0.6	0.7
Customs	0.2	0.2	0.2	0.3	0.3	0.2	0.2	0.2	0.2
VAT	0.6	0.7	0.7	0.7	0.7	0.7	0.7	0.7	0.7
Internal revenue	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4
Net Transfers from FGN		1.0	0.9	0.8	0.1	0.1	0.1	0.1	0.1
Expenditure	4.4	5.5	5.4	4.6	4.5	4.5	4.5	4.5	4.5
Overall Balance	-1.6	-1.4	-0.6	-0.4	-0.8	-0.8	-0.7	-0.6	-0.5
Financing	1.6	1.4	0.6	0.4	0.8	0.8	0.7	0.6	0.5
External	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Domestic	0.4	0.5	0.6	0.4	0.8	0.8	0.7	0.6	0.5
Statistical discrepancy/Financing gap	1.3	0.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0

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

Table 7. Nigeria: Central Bank of Nigeria (CBN) Analytical Balance Sheet, 2016–24
(Billions of Naira)

	2016	2017	2018				2019	2020	2021	2022	2023	2024
	Dec.	Dec.	Mar.	Jun.	Sep.	Dec.	Dec.					
	Act.	Act.	Est.				Projections					
Net foreign assets	6,536	12,563	11,822	13,202	14,447	14,660	13,032	11,905	10,977	10,800	10,725	10,764
Foreign assets	9,249	15,313	18,388	18,205	18,493	18,182	16,730	15,788	15,054	15,081	15,220	15,484
Foreign liabilities	-2,713	-2,751	-6,566	-5,003	-4,046	-3,522	-3,698	-3,883	-4,077	-4,281	-4,495	-4,720
Net domestic assets	2,562	-3,105	-2,287	-3,870	-4,888	-4,409	-1,180	1,734	4,654	7,049	9,571	12,619
Net domestic credit	7,340	7,827	10,320	8,876	8,889	9,928	14,393	18,679	23,444	29,255	35,801	42,858
Net claims on consolidated government	410	287	2,300	680	565	999	5,465	9,750	14,515	20,326	26,873	33,929
Net claims on federal government ¹	109	-354	1,644	23	-91	342	4,808	9,093	13,859	19,669	26,216	33,273
Claims	5,217	5,875	7,156	6,124	7,015	8,125	12,677	16,962	21,728	27,538	34,085	41,142
Deposits	-5,107	-6,229	-5,512	-6,100	-7,106	-7,783	-7,869	-7,869	-7,869	-7,869	-7,869	-7,869
Net claims on state and local governments	300	640	657	657	657	657	657	657	657	657	657	657
Claims on deposit money banks	1,632	1,669	1,761	1,776	1,893	2,354	2,354	2,354	2,354	2,354	2,354	2,354
Other net claims	5,298	5,871	6,258	6,420	6,432	6,575	6,575	6,575	6,575	6,575	6,575	6,575
Other items net	-4,778	-10,932	-12,607	-12,746	-13,778	-14,337	-15,574	-16,945	-18,790	-22,205	-26,231	-30,239
Reserve money	9,097	9,458	9,536	9,331	9,559	10,251	11,851	13,639	15,630	17,850	20,295	23,383
Currency in circulation	2,179	2,157	2,039	1,901	1,926	2,330	2,693	3,100	3,552	4,057	4,612	5,599
Banks reserves with the CBN	6,918	7,300	7,496	7,431	7,632	7,921	9,158	10,539	12,078	13,793	15,683	17,784
<i>Memorandum items:</i>												
Reserve money y/y growth rate	29.2	4.0	18.2	15.9	16.8	8.4	15.6	15.1	14.6	14.2	13.7	15.2
Money multiplier	2.9	3.0	3.0	3.1	3.2	3.2	3.2	3.2	3.2	3.2	3.2	3.2

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

¹The 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 8. Nigeria: Monetary Survey, 2016–24
(Billions of Naira)

	2016	2017	2018				2019	2020	2021	2022	2023	2024
	Dec.	Dec.	Mar.	Jun.	Sep.	Dec.	Dec.					
	Act.	Act.	Est.				Projections					
Net foreign assets	6,883	12,990	12,273	13,758	15,065	14,963	13,483	12,513	11,748	11,744	11,849	12,078
Central Bank of Nigeria (net)	6,536	12,563	11,822	13,202	14,447	14,660	13,032	11,905	10,977	10,800	10,725	10,764
Commercial and merchant banks (net)	347	428	451	557	618	303	451	607	771	943	1,124	1,314
Net domestic assets	19,169	15,441	16,535	15,275	15,184	17,845	24,446	31,138	38,276	45,383	53,105	61,580
Net domestic credit	26,704	25,603	26,909	25,246	25,621	26,784	32,375	38,229	44,797	52,445	60,905	69,927
Net claims on consolidated government	9,544	9,115	10,368	8,877	8,718	10,360	15,450	21,004	27,277	34,630	42,733	51,333
Net claims on FGN ¹	8,561	7,576	8,743	7,254	7,378	8,808	13,360	17,645	22,411	28,421	35,205	42,532
CBN	3,930	3,673	5,559	3,990	3,919	4,349	8,901	13,186	17,951	23,762	30,309	37,366
Commercial Banks	4,631	3,903	3,183	3,264	3,459	4,459	4,459	4,459	4,459	4,659	4,896	5,166
Claims on SLG	983	1,539	1,625	1,623	1,340	1,552	2,090	3,359	4,866	6,208	7,528	8,801
Claims on private sector ²	16,062	15,395	14,997	14,746	15,269	14,650	15,150	15,451	15,745	16,041	16,398	16,820
o/w credit to the private sector	14,164	13,703	13,226	12,947	13,489	12,789	13,289	13,590	13,884	14,180	14,537	14,959
Other Claims	1,098	1,093	1,544	1,623	1,633	1,775	1,775	1,775	1,775	1,775	1,775	1,775
Other items	-7,535	-10,162	-10,374	-9,971	-10,436	-8,940	-7,928	-7,091	-6,521	-7,062	-7,801	-8,348
Broad money ³	26,052	28,432	28,809	29,034	30,249	32,807	37,929	43,651	50,024	57,127	64,953	73,657
Currency outside banks	1,820	1,783	1,668	1,520	1,607	2,057	2,378	2,737	3,136	3,582	4,073	4,618
Demand deposits	9,429	9,362	9,347	9,157	9,053	10,137	12,182	14,465	17,009	19,844	22,968	26,442
Time and savings deposits	12,147	12,758	13,105	13,827	14,299	14,270	17,026	20,105	23,535	27,358	31,569	36,254
CBN Bills held by resident nonbank sector	2,655	4,529	4,688	4,530	5,290	6,343	6,343	6,343	6,343	6,343	6,343	6,343
<i>Memorandum items:</i>												
Broad money (y-o-y,%)	24.0	9.1	14.6	15.5	17.3	15.4	15.6	15.1	14.6	14.2	13.7	13.4
Credit to the private sector (y-o-y,%)	22.3	-3.3	-5.7	-6.0	-3.0	-6.7	3.9	2.3	2.2	2.1	2.5	2.9
Velocity (non-oil GDP/broad money)	3.69	3.8	3.8	3.9	3.8	3.4	3.4	3.4	3.3	3.2	3.2	3.1
Gross international reserves (billions of US dollar)	27.0	39.3	46.7	47.2	42.6	42.5	38.5	35.6	33.3	33.4	33.8	34.6

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

¹The 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.

² Does not include AMCON bonds

³ Broad money is based on an M3 definition.

Table 9. Nigeria: Financial Soundness Indicators. 2013Q4 - 18Q4
(Percent; unless otherwise specified)

	2013Q4	2014Q4	2015Q4	2016Q1	2016Q2	2016Q3	2016Q4	2017Q1	2017Q2	2017Q3	2017Q4	2018Q1	2018Q2	2018Q3	2018Q4
Regulatory Capital to Risk-Weighted Assets	17.1	18.6	17.7	16.6	14.7	15.0	14.8	13.5	11.5	10.6	10.5	11.9	12.1	14.1	15.2
Regulatory Tier 1 Capital to Risk-Weighted Assets	17.1	15.5	18.1	17.6	15.6	15.6	16.3	13.2	10.4	10.8	8.4	9.9	10.0	12.3	13.5
Non-Performing Loans Net of Provisions to Capital	5.9	3.8	5.5	20.2	28.5	34.9	36.2	43.2	40.3	43.0	23.9	9.9	-2.1	9.7	0.1
Non-Performing Loans to Total Gross Loans	3.4	3.0	4.9	9.7	10.7	13.4	12.8	14.7	15.0	15.1	14.8	13.8	12.4	14.2	11.7
Return on Assets	2.3	2.5	2.5	3.0	2.3	1.3	1.3	2.3	2.6	2.4	2.4	1.2	1.8	1.7	2.0
Return on Equity	18.9	21.2	19.7	22.6	17.8	10.0	10.0	17.6	21.6	20.5	23.5	13.5	20.8	19.3	22.7
Interest Margin to Gross Income	63.9	51.2	62.2	62.4	61.4	50.0	67.6	72.7	57.7	67.4	61.2	69.6	59.3	60.9	67.3
Non-interest Expenses to Gross Income	68.1	56.9	63.1	58.0	54.6	63.8	62.8	58.3	52.0	60.1	58.2	64.5	64.1	70.7	60.9
Liquid Assets to Total Assets (Liquid Asset Ratio)	16.8	11.4	18.5	17.4	14.0	15.0	16.2	17.0	17.4	17.3	18.8	19.1	20.1	20.1	22.6
Liquid Assets to Short Term Liabilities	23.1	16.7	27.1	25.7	21.6	23.1	24.5	25.6	25.8	25.5	27.2	28.0	29.5	30.0	34.1
Source: Central Bank of Nigeria.															

Table 10. Nigeria: Monitoring of the Sustainable Development Goals

	Nigeria			Sub-Saharan Africa
	2005	2010	2015 (or latest)	latest
Poverty		53.5		
Proportion of population below international poverty line (Percent)				
Proportion of population below national poverty line (Percent)	48.4	46.0		
Proportion of population covered by at least one social protection benefit (Percent)			4.4	12.9
Prevalence of severe food insecurity in the adult population (Percent)			24.5	29.3
Health				
Maternal mortality ratio (100,000 live births)	946	867	555	555
Infant mortality rate (deaths per 1,000 live births)		81	64.6	51.8
Under-five mortality rate (deaths per 1,000 live births)	157	130	100	76
Malaria incidence per 1,000 population at risk (per 1,000 population)	458	400	350	237
Tuberculosis incidence (per 100,000 population)			219	262
Adolescent birth rate (per 1,000 women aged 15-19 years)	55	113	145	101
Education				
School enrollment, primary, male (% gross) (Percent, gross)	109.8	89.1	95.2	100.0
School enrollment, primary, female (% gross) (Percent, gross)	92.6	80.9	92.8	94.6
School enrollment, secondary, male (Percent, gross)	38.1	47.1	58.8	45.7
School enrollment, secondary, female (% gross) (Percent, gross)	31.7	41.2	53.5	39.6
School enrollment, tertiary, male (% gross) (Percent, gross)	12.3	11.0		10.2
School enrollment, tertiary, female (% gross) (Percent, gross)	8.7	8.1		7.4
Inclusion				
Proportion of seats held by women in national parliaments (% of total number of seats)	47.1	7.0	5.6	23.6
Proportion of women who make their own informed decisions regarding sexual relations, contraceptive use and reproductive health care (% of women aged 15-49 years)		47.1	50.8	46.7
Proportion of population using safely managed drinking water services (Percent)	18.5	19.3	19.4	23.7
Proportion of population with access to electricity, rural (Percent)	23.9	34.9	41.1	22.8
Proportion of adults (15 years and older) with an account at a financial institution or mobile-money-service provider (% of adults aged 15 years and older)		29.7	39.7	42.6
Climate				
Carbon dioxide emissions per unit of GDP (Kilogrammes of CO ₂ per constant 2010 United States dollars)	0.1	0.1	0.2	0.5
Global Partnership				
Total official development assistance to medical research and basic health sectors (Gross disbursement/millions of constant 2016 United States dollars)	74	178	534	

Sources: UN SDG Indicators Global Database; World Development Indicators, and national authorities.

Table 11. Nigeria: Progress on 2013 FSAP Recommendations

Recommendation	Progress
Central Bank of Nigeria (CBN)	
1. Further enhance supervisory oversight over banks with international presence.	On-site examination of subsidiaries take place regularly, and the CBN continues to monitor and supervise subsidiaries through the parent bank. Information is shared frequently and regularly between regional supervisors. A memorandum of understanding with host regulatory/supervisory agencies have been signed. A college of supervisors of the West African Monetary Zone (CSWAMZ) meet regularly. Joint examination takes place with foreign supervisor agencies of foreign subsidiaries of Nigerian banks in WAMZ. A crisis resolution framework for cross border banks is being finalized by the West African Monetary Institute. The Financial Stability Board Regional Consultative Group for Sub-Saharan Africa (FSB RCG-SSA) meets regularly.
2. Strengthen macro-prudential oversight and crisis preparedness by enhancing the functioning of the FSRCC.	The role of FSRCC has been enhanced to include a financial stability function. A framework that underpins the duties of FRSCC has been drafted; it will set out the macro prudential analytical framework and crisis and resolution framework that it will be overseeing.
3. Strengthen capacity of supervisors and establish clarity regarding their regulatory authority; and improve availability and quality of data for macro prudential analysis.	Capacity building is an on-going process. The CBN receives training from the IMF and WB. For example, an Early Warning System (EWS) has been put in place and scenario stress testing are in the process of being incorporated.
4. Review and update the BOFIA to reflect internationally accepted framework for bank regulation and supervision.	Amendments to the BOFIA and NDIC Act are suspended by the National Assembly until further notice.
5. Implement HRD plan for a new category of BSD specialists with a separate career path.	Completed
6. Withdraw the CBN circular restricting recapitalization of foreign subsidiaries by Nigerian parent banks.	The CBN considers a request for recapitalization of foreign subsidiaries on a case-by-case basis. The premise for the old circular was to ensure Nigerian subsidiaries were not discriminated against. Indeed, according to the recent FSR, CBN gave approval to recapitalize a number of
7. Unwind crisis response measures and revert to the conventional financial safety nets that are already in place, including the DIS.	No update received.
8. Establish end-2017 as the sunset for AMCON, disallow further acquisition of assets, and use surplus funds to buy back bonds.	AMCON continues to exist and acquire bad assets including its recent purchase of Skye bank (renamed to Polaris) in Sep. 2018. It is expected to remain operating beyond 2023, especially with its recent issuance of 25-year bonds
9. Review the licensing of the microfinance banks, to offer two types of license.	License requirements differ by types of microfinance: unit, state and national.
10. Divest CBN's interest in DFIs to the FMOF and/or the private sector as appropriate.	The CBN is committed in utilizing DFI as conduits to provide finance to the real sector. To this end, there is no plan to divest CBN's interest in the DFI, at least not in the short-run.
11. Review the design and performance of the Development Finance Schemes.	The CBN is reviewing its policy on Development Finance, a strategy with the objective to reduce the Bank's exposure and outlining a more structured approach to the Bank's intervention is underway. In addition, an internal evaluation of some interventions is scheduled to take place.
12. Revise the 2009 Regulatory Framework for Mobile Payment Services to level the playing field and intensify competition.	Regulatory requirements continue to be strengthened. Regulations distinguish between Bank and Non-Bank led operators. Capital requirements have also been increased.
National Insurance Commission (NAICOM)	
13. Upgrade the solvency regime, as well as valuation and the reserve requirements, to better capture risk.	Adopted risk-based reserve requirements, guidance was issued. IFRS accounting was introduced in 2013, therefore reserve requirement and valuations are at par with international practice. Ground work is progressing to identify the necessary requirements for adopting Solvency II framework.
14. Put high priority on enforcement of mandatory insurance.	NAICOM is working closely with respective counterparts to enforce mandatory insurance. For example, the brigade for fire insurance, the Federal Road Safety Commission for enforcing car insurance.
Pension Commission (PENCOM)	
15. Establish a database of employers required to comply with the Pension Reform Act, 2004.	Pencom has been in consultation with the Ministry of Budget and Planning, the government ministry that has the legal right to request such, to compile a database of employers. The consultation is at advanced stage.
16. Develop Nigerian specific mortality tables for pricing annuities and programmed withdrawals.	Developing mortality tables will need input from several government agencies including the Ministry of Budget and National Planning and NAICOM. To this end, Pencom has taken the lead by writing to the Government of the Federation requesting for the relevant agencies of government to be asked to work on developing the necessary tables.
Securities and Exchange Commission	
17. Expeditiously nominate the new Board members of the SEC.	The SEC board was nominated soon after the FSAP mission left, but it was abolished following the election in 2015.
18. Ensure that broker-dealers are subject to higher risk-based capital requirements and other prudential requirements as well as sufficient entity-level supervision, including regular on-site inspections.	Adopted risk-based provision. Moving to risk based capital requirement with minimum capital requirement. A regulatory framework following the Malaysia and the USA models is under design.
Federal Ministry of Finance	
19. Create central unit to monitor contingent fiscal commitments and develop a strategy as regards further commitments.	The government has increased its monitoring of fiscal activity, including identifying arrears and requiring state and local governments to report regularly. There is no explicit strategy to limit further commitments.

Annex I. Status of Key Recommendations for the 2019 Article IV Consultation

Recommendation	Status
<p><i>Fiscal</i></p> <ul style="list-style-type: none"> - <i>A growth friendly fiscal adjustment based on frontloaded revenue mobilization is where new policy action is most urgently needed.</i> <p><i>Monetary and Exchange Rate</i></p> <ul style="list-style-type: none"> - <i>Monetary policy should remain tight until inflation is within the single digit target range.</i> - <i>Moving toward a unified and market-based exchange rate is essential.</i> <p><i>Financial</i></p> <ul style="list-style-type: none"> - Enhance banking sector resilience through tighter prudential requirements, intensified monitoring, strengthened regulations, and recapitalization of banks. <p><i>Structural</i></p> <ul style="list-style-type: none"> - Implement structural reforms in the power and integrated transportation sectors, health and education, governance, and the business environment. 	<ul style="list-style-type: none"> - The authorities continued to focus their efforts on tax administration—including through a tax amnesty, new tax payer registry and cross-data matching— but this has not been enough to increase non-oil revenue particularly since no major tax policy change was implemented whereas planned excise increases did not materialize, and new exemptions were granted. - The authorities plan further fiscal consolidation in 2019, but revenues remain overoptimistic relying mostly on increases in SOE surplus revenues and further divestment of oil assets. New minimum wage proposals will put additional pressure on the fiscal stance. - In line with the CBN's objective of keeping inflation close to its 6-9 target range, monetary policy has de-facto been maintained tight, despite an unchanged MPR since July 2016. Inflation has declined significantly but remains above the target range. - Convergence of exchange rates in different windows has been ongoing, albeit the CBN has been continuing its interventions to keep the more market determined rate (I&E window) at the N/\$ 360-365 range. Important distortions in the FX market due to multiple rates and continued ban on FX access for certain import items remain. - Increased provisioning, strict limits on net FX positions, and prohibition of dividend payments for banks with high NPLs continue. However, undercapitalized banks remain, the banking resolution framework has not been strengthened, and regulatory forbearance persists. - The implementation of the ERGP remains a priority, but key reform areas in the power and oil and gas sector have been delayed, while scores in Doing Business have improved but have not kept up with last year's progress.

Annex II. Risk Assessment Matrix

Nigeria: Risk Assessment Matrix ¹				
Sources of Risk	Relative Likelihood	Time Horizon	Impact on Nigeria	Policy Responses
External Risks				
Rising protectionism and retreat from multilateralism. In the near term, escalating and sustained trade actions threaten global and regional collaboration. Additional barriers and the threat of new actions reduce growth both directly and through adverse confidence effects (increasing financial market volatility). In the medium term, geopolitical competition and fraying consensus about the benefits of globalization lead to economic fragmentation and undermine the global rules-based order, with adverse effects on growth and stability.	High	Short to Medium Term	Medium	<ul style="list-style-type: none"> • Rebuild fiscal and external buffers including via non-oil revenue mobilization and greater exchange rate flexibility, to counter trade and/or financial shortfalls. • Continue improving the business environment to boost productivity and competitiveness (e.g., streamlining business regulations, contract enforcement, and improving trade facilitation). This, in a reform package with sound fiscal and monetary policies, would help diversify exports, both in terms of export products (away from oil) and trading partners. • Address the infrastructure gap.
Weaker-than-expected global growth. The global growth slowdown could be synchronized as weakening outlooks in the U.S., Europe and China feed off each other and impact on earnings, asset prices and credit performance.	Medium (U.S., China) / High (Europe)	Short to Medium Term	Medium	Significant public and private investment is needed to improve power generation, improve logistics and expand capacity.
Sharp tightening of global financial conditions. This causes higher debt service and refinancing risks; stress on leveraged firms, households, and vulnerable sovereigns; capital account pressures; and a broad-based downturn. The tightening could be a result of market expectation of tighter U.S. monetary or sustained rise in risk premium.	Low (U.S. monetary policy) / Medium (risk premium)	Short Term	High	<ul style="list-style-type: none"> • Fiscal consolidation to ensure continued access to international capital markets, and free resources to other public spending and private credit. • Strengthen the supervisory and regulatory framework, especially as it pertains to cross-border banking activity and oversight of holding companies; improve corporate governance; and address weaknesses in bank resolution framework. • Strengthen monetary and exchange rate policy frameworks, especially considering potential capital reversals, including by allowing greater flexibility now to avoid eventual future sharp devaluations; with stronger emphasis on price stability as the primary objective of monetary policy; and unwinding central bank quasi fiscal activities. • If tight financial conditions lead to weaker global growth, then above policy recommendations also apply.
Intensification of security risks in parts of Africa, Asia, Europe, Latin America, and/or the Middle East cause regional socio-	High	Short to Medium Term	Medium	<ul style="list-style-type: none"> • If this leads to weaker global growth and trade disruptions, then greater exchange rate flexibility to preserve external buffers

economic and political disruptions, with potential global spillovers.				and structural reforms to enhance economic diversification and efficiency. Also, fiscal consolidation to ensure continued access to international capital markets. • If this leads to higher oil prices, then the impact would be positive for Nigeria, and good resource management practices including efforts on PIMA are recommended.
Large swings in energy prices. In the near term, uncertainty surrounding the shocks translates to elevated price volatility, complicating economic management and adversely affecting investment in the energy sector. As shocks materialize, they may cause large and persistent price swings. While, on aggregate, higher oil prices would harm global growth, they would benefit oil exporters.	Medium	Short to Medium Term	High (if oil prices decline)	• Non-oil revenue mobilization to shield against declines in oil revenue. • Contain recurrent expenditure to conserve scarce resources for public investment. • Allow greater exchange rate flexibility to support adjustment to external shocks and reflect economic fundamentals, supported by a tighter monetary stance to prevent capital outflows and bolster reserves. • Structural reforms to improve economic efficiency and enhance diversification.
Cyber-attacks on critical global financial, transport or communication infrastructure and broader private and public institutions trigger systemic financial instability or widespread disruptions in socio-economic activities.	Medium	Short to Medium Term	Low	• Strengthen the supervisory and regulatory framework , especially as it pertains to oversight of holding companies; improve corporate governance; and address weaknesses in the bank resolution framework.
Nigeria-specific Risks				
Speed of reform implementation , post the election period, could go in either direction with associated confidence, investment, and growth effects.	High	Short Term	High	• Need for an integrated policy package (including communication strategy) to address near-term vulnerabilities that could arise from a sudden stop and support the transition to a more diversified economy. As discussed above, this includes policies to strengthen monetary and exchange rate frameworks as well as structural reforms and more enabling business environments. • Strengthen security and investment environment in the oil and gas sector. • Design and implement effectively targeted anti-money laundering measures to facilitate the detection and investigation of illicit financial flows related to theft and corruption, particularly in the oil sector. • Increase banks' capital and provisioning for NPLs, while enhancing banking supervision .
Disruption of oil production in the Niger Delta and deterioration of security conditions and/or insurgency-related humanitarian crisis in the North East.	High	Medium Term	High	
Continued deterioration in banking sector Financial Stability Indicators.	High	Short Term	High	

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 and 30 percent, and "high" a probability between 30 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. "Short term" and "medium term" are meant to indicate that the risk could materialize within 1 year and 3 years, respectively.

Annex III. Evaluating the Impact of Staff's Adjustment Scenario Using the FSGM Model¹

The IMF's Flexible System of Global Models (FSGM) is used to assess the impact of staff's macro-economic policies. These include fiscal consolidation to reduce debt but with three quarters of the revenue increase spent on priority spending, improved efficiency in public investment, a tight monetary policy, and a flexible exchange rate. The scenario delivers 7 percent higher GDP by 2025, which implies an average annual growth dividend of about 1 percentage point over 2019-2025. This growth increase is expected to be larger once structural reforms, including of the financial sector and which are not modeled in the FSGM, are taken into account.

A. Assumptions Under Staff's Adjustment Scenario

1. The FSGM—a Fund-developed semi-structural global general equilibrium model that can be calibrated to specific country circumstances and analyze relevant policy changes²—is used to assess the impact of the following policies:

- Growth-friendly fiscal consolidation based on (i) increasing non-oil revenue by 8 percentage points of GDP over the medium term (for simplification purposes, this is assumed through VAT); and (ii) oil revenue also improving as oil production increases by 5 percent in 2019 about 10.5 percent in 2020-21 and 9 percent from 2022 onward (to 2.4 mbpd). This is coupled with a substantial increase in public spending on infrastructure (4.5 percent of GDP over the medium term) and social projects (1.6 percent of GDP over the medium term). Over time, debt-to-GDP is reduced to 28.8 percent as revenues exceed spending including interest and GDP increases.
- Full exchange rate flexibility is assumed, whereas monetary policy is used to contain the initial inflation impact. An alternative simulation for the adjustment scenario—under a peg of the Naira—is also provided to illustrate the role of the exchange rate regime in shaping the macro effects.
- Higher public investment efficiency, capturing reforms to improve fiscal transparency.

B. Simulations and Results

- **Growth impact.** Simulations suggest that the team's adjustment scenario under a flexible exchange rate that reduces volatility and smooths fluctuations of macroeconomic variables in the short to medium term results in an overall increase in GDP of about 7 percent (on a permanent basis) by 2025 compared to the baseline. GDP picks up gradually as public investment reforms start to increase productivity and spur incentives to private investment, resulting in higher GDP levels. By 2025, the cumulative direct growth impact of the unified and

¹ Prepared by Marika Santoro (RES) and the Nigeria team.

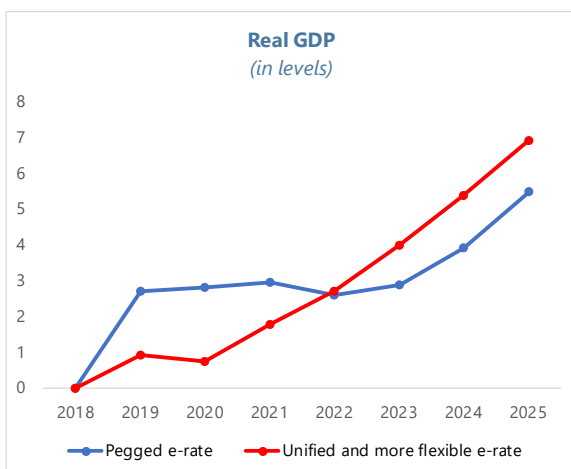
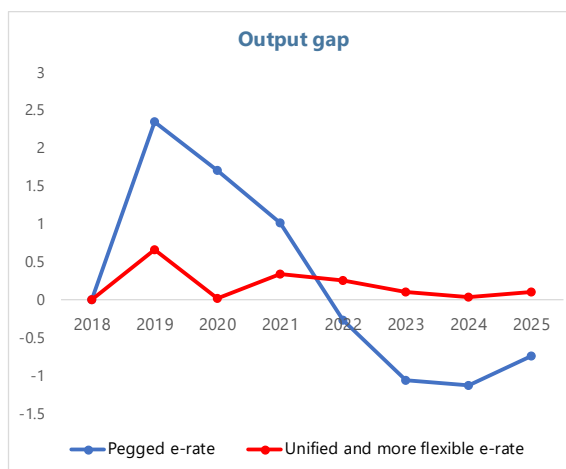
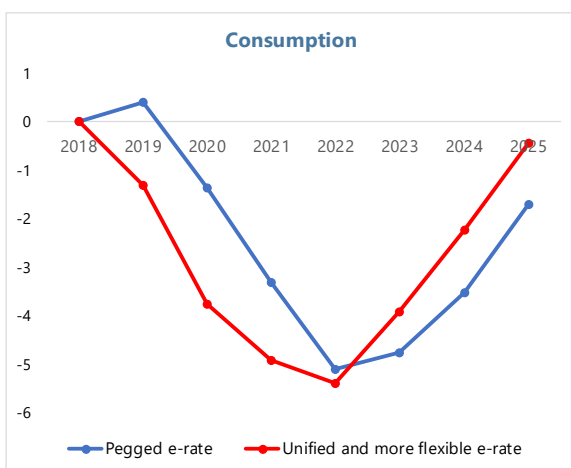
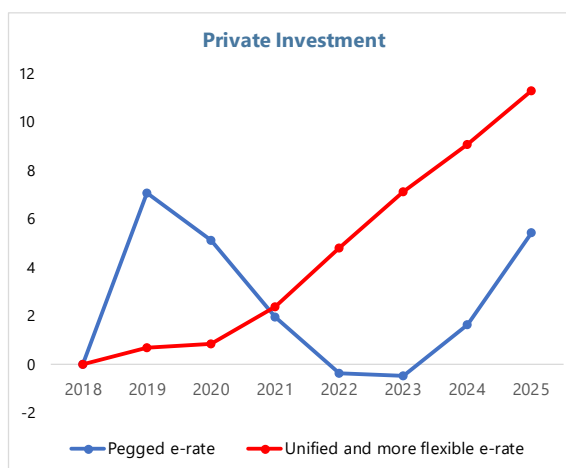
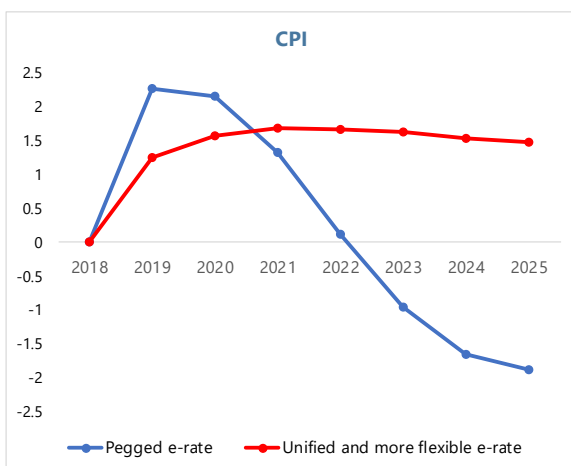
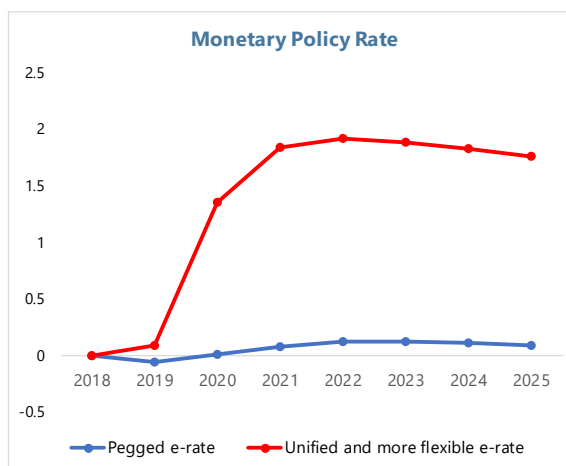
² A comprehensive description of the FSGM model can be found in the IMF Working Paper by Andrieu et al. (2015).

more flexible exchange rate is estimated to be about 7 percentage points higher than the baseline or about 1 percentage point on average per year.

- **Investment, consumption, and total factor productivity.** Under the adjustment scenario, the increase in government consumption and investment stimulates private investment, especially as increased tax revenues finance most of these expenses. Investment steadily increases by 11 percent by the end of the simulation period, leading to higher public capital and resulting in increases in TFP levels. The tax increase has a significantly negative impact on consumption (-5 percent by the end of 2022), later mitigated by higher production and employment that mitigates the VAT effect. Part of the social programs are also targeted to reduce the impact of the reform for the most vulnerable households.
- **Inflation and monetary policy response.** The VAT increase results in increases in consumer price inflation, while the investment impulse and higher public spending contributes to inflationary pressures. Under a flexible exchange rate, tighter monetary policies in the short-term—illustrated here by a 9 and 135 basis points increase in the policy rate in 2019 and 2020 respectively—and the appreciation of the naira smooths out the fluctuation in investment and GDP, reducing swings in inflation.

C. Structural Reforms

2. The simulated scenario presented in this Annex examines the impact of macro-economic policies on the economy resulting in a cumulative growth effect of about 7 percentage points by the end of the period. The overall growth effects are expected to be higher once structural reforms—currently not included in the simulation—are incorporated. These include power sector reforms, diversification, doing business, less corruption, reduced gender inequality, increased access to finance, and a stronger banking sector, which are expected to have significant impact in improving investor confidence and boosting growth towards staff's estimated overall potential growth rate of about 4.5 percent in the medium term. In addition, further investment in the extractive industry could boost oil production to 2.5 mbpd in the medium term, as envisaged under the ERGP, presenting additional upside potential for growth. This outcome is contingent on a stable macroeconomic and external environment.

Figure 1. Nigeria: FSGM Simulations Relative to the Baseline*Higher GDP levels under unified and more flexible Naira...**...output gap stable...**...negative VAT effect on consumption...**...private investment is expected to pick up...**...CPI more stable....**...monetary policy rare supporting the flexible exchange rate.*

Sources: FSGM and IMF staff calculations.

Annex IV. Debt Sustainability

A. Public Debt Sustainability Analysis

Nigeria's debt-to-GDP level, while higher than in the past decade, remains relatively low compared to other frontier market economies. Liquidity-based indicators, driven by low revenue mobilization, remain concerning, with the interest bill projected to absorb almost three fourths of federal government revenues if current policies persist. Nigeria's fiscal space is at risk. Stress scenarios confirm vulnerability of public debt to a low-growth/wide primary deficit scenario. A comprehensive policy package, including fiscal consolidation based on front loading non-oil revenue mobilization over the medium term is essential to reduce the interest payments-to-revenue ratio to more sustainable levels.

Baseline Projections

- 1. Nigeria's level of public debt has continued to increase.** Fiscal deficits—driven by weak revenue mobilization—are expected to increase gross public debt levels to about 28.4 percent of GDP in 2018, even after some recovery in oil prices.¹ A lower overall balance, on the back of higher oil revenues, has decreased government financing needs to below 5 percent of GDP in 2018 but Federal Government interest payments continue to absorb three fifths of federal government revenue.
- 2. Nigeria's public debt is rising under baseline projections.** Mostly domestic, the public debt-to-GDP ratio is forecast to increase to 35.9 percent in 2024, with more than 80 percent of this increase driven by the federal government. Debt includes non-interest bearing promissory notes issued to oil marketing companies (N177 billion) and state governments (N153 billion) issued in December 2018 and 671 billion naira in 2019. The "imputed" primary deficit is projected to narrow to below 2½ percent of GDP in the medium term, down from 2.8 percent in 2018 but remains the main driver of the debt increase in the medium term as the contribution of growth and negative real interest rates to debt reduction will not be large enough to offset adverse dynamics from the fiscal deficits (Figure 1).
- 3. Under current policies, Nigeria's financing needs in the medium term will average about 7 percent of GDP.** Financing pressures are primarily driven by interest payments, which are projected to approach 75 percent of federal government revenue in 2024, up from 60 percent in 2018. The government's strategy to use Eurobond proceeds to retire maturing Treasury Bills significantly reduced domestic yields earlier in 2018, but increased issuance of CBN bills and turmoil in emerging markets has reversed this trend. External borrowing continued in 2018 as the

¹ This DSA is based on general government (federal plus state and local government) debt. This measure differs from those published by Nigeria's Debt Management Office as it includes the Federal Government's overdrafts from the Central Bank of Nigeria (CBN) and bonds issued following the establishment of the Asset Management Company of Nigeria (AMCON) in 2010. However, net debt—which corrects for government deposits held at the CBN that almost fully match overdrafts (6.4 percent of GDP) and assets held by AMCON (1.3 percent of GDP)—averages 20.7 percent of GDP in 2018, a ratio more in line with the authorities' debt concept.

authorities successfully raised \$2.86 billion in a through a multi-tranche Eurobond issuance in November 2018, which followed a \$2.5billion placement in February 2018,

4. The authorities continue to pursue a strategy of moving towards an 40-60 mix between external and domestic debt ratio (currently 30-70). The aim is to lower interest payments and lengthen maturity. However, in line with this strategy to increase the share of external debt, exchange rate risk exposure has been increasing, particularly since Eurobond financing now accounts for 55 percent of external debt financing. Eurobond bullet repayments pose significant refinancing risk when they become due and need to be managed carefully. However, longer maturities associated with Eurobond financing confer significant advantages in minimizing near-term refinancing risk and hence reduce the gross external financing need.

5. Baseline assumptions do not point to a systematic bias in the forecast track record, which is broadly in line with those observed in other surveillance countries (Figure 3). Reflecting the oil price volatility, past projections of the primary balance and growth show some optimistic bias pre-2018.

Stress Tests

6. Debt and gross financing needs do not worsen significantly under the stress scenarios, masking possible unsustainability of liquidity-based indicators. While debt-to-GDP indicators remain sustainable, higher interest rates will further increase Nigeria's vulnerabilities by placing a principal risk on debt service. In particular, an interest rate shock would increase the FG interest-to-FG revenue ratio to almost 125 percent. A standardized combined macro-fiscal shock that captures a combination of shocks, such as to real GDP growth, the deflator, revenues and expenditures, financing costs and exchange rate depreciation, would increase the ratio to above 149 percent. A contingency shock—increasing non-interest expenditures by 10 percent of the banking sector, lower growth by one standard deviation in 2019 and 2020 and increasing inflation and interest cost—would increase the ratio to above 104 percent.

7. The fan charts indicate that there is significant uncertainty around the baseline. The width of the symmetric fan chart, estimated of some 30 percent of GDP, illustrates the degree of uncertainty for equal probability upside and downside shocks (Figure 4). In an asymmetric fan chart, an extreme downside shock that constrains growth to zero results in a more upward-sloping debt path, reflecting a balance of risks skewed to the downside.

Heat Map

8. The heat map identifies market perception as principal risk to debt sustainability, with increased vulnerability compared to the last Article IV assessment.

Figure 1. Nigeria Public Sector Debt Sustainability Analysis (DSA) - Baseline Scenario

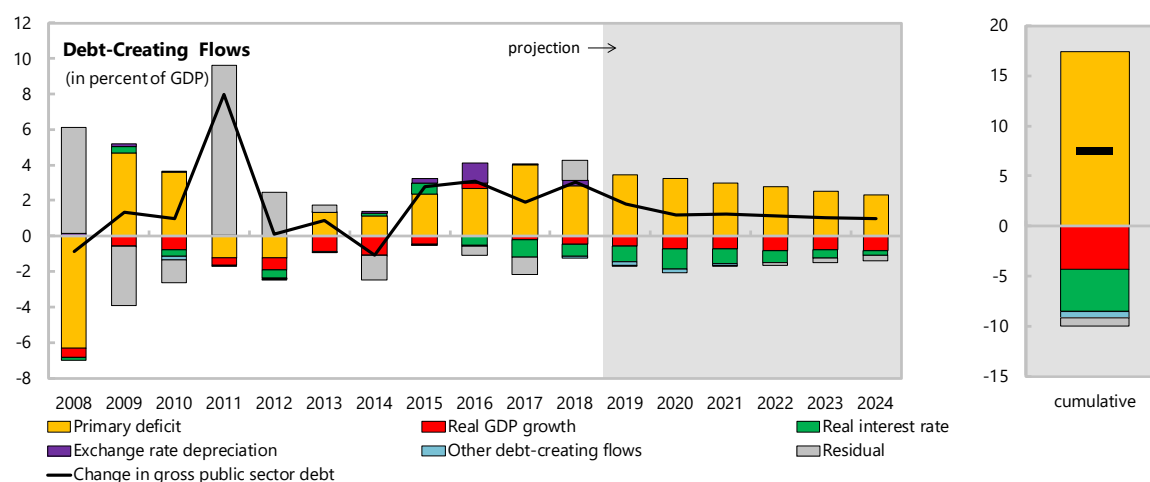
(in percent of GDP unless otherwise indicated)

Debt, Economic and Market Indicators ^{1/}

	Actual			Projections						As of February 22, 2019		
	2008-2016 ^{2/}	2017	2018	2019	2020	2021	2022	2023	2024			
Nominal gross public debt	15.6	25.3	28.4	30.2	31.4	32.7	33.8	34.9	35.9	Sovereign Spreads		
Public gross financing needs	1.7	5.4	4.7	7.8	7.2	7.1	6.7	6.4	6.7	EMBIG (bp) 3/		
Real GDP growth (in percent)	5.4	0.8	1.9	2.1	2.5	2.4	2.7	2.6	2.6	5Y CDS (bp)		
Inflation (GDP deflator, in percent)	7.7	11.1	10.2	9.6	8.8	8.4	8.4	8.3	8.1	Ratings		
Nominal GDP growth (in percent)	13.6	12.0	12.4	12.0	11.5	11.1	11.4	11.1	10.9	Moody's		
Effective interest rate (in percent) ^{4/}	7.8	6.5	7.4	6.4	4.6	5.7	6.4	7.1	7.5	S&P's		
Adjusted Effective interest rate (in percent) ^{5/}	8.0	7.3	8.4	8.5	6.1	7.9	9.5	11.2	12.5	Fitch		
										Foreign		
										Local		
										B2		
										B		
										B+		

Contribution to Changes in Public Debt ^{6/}

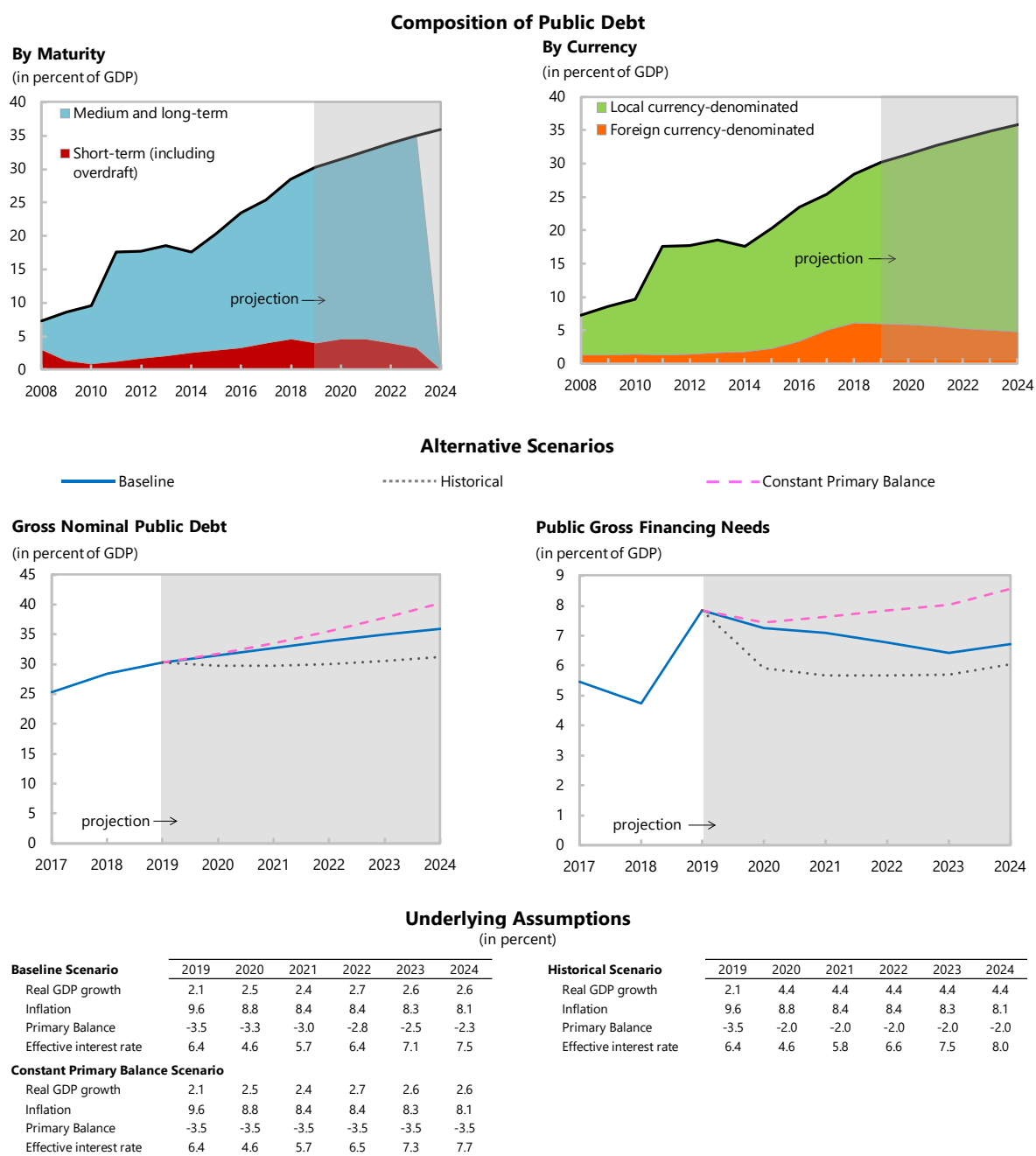
	Actual			Projections						cumulative	debt-stabilizing primary balance ^{11/}
	2008-2016	2017	2018	2019	2020	2021	2022	2023	2024		
Change in gross public sector debt	1.7	1.9	3.1	1.8	1.2	1.3	1.1	1.1	1.0	7.5	
Identified debt-creating flows	0.4	2.9	1.9	1.8	1.2	1.3	1.3	1.3	1.3	8.3	
Primary deficit	0.8	4.1	2.8	3.5	3.3	3.0	2.8	2.5	2.3	17.4	
Primary (noninterest) revenue and grants	12.1	6.2	8.0	7.0	7.3	7.2	7.3	7.4	7.5	43.6	
Primary (noninterest) expenditure	12.9	10.2	10.8	10.5	10.5	10.1	10.0	10.0	9.8	61.0	
Automatic debt dynamics ^{7/}	-0.4	-1.1	-0.8	-1.4	-1.9	-1.5	-1.5	-1.2	-1.1	-8.6	
Interest rate/growth differential ^{8/}	-0.6	-1.2	-1.1	-1.4	-1.9	-1.5	-1.5	-1.2	-1.1	-8.6	
Of which: real interest rate	0.0	-1.0	-0.7	-0.9	-1.2	-0.8	-0.7	-0.4	-0.3	-4.2	
Of which: real GDP growth	-0.5	-0.2	-0.4	-0.5	-0.7	-0.7	-0.8	-0.8	-0.8	-4.3	
Exchange rate depreciation ^{9/}	0.2	0.0	0.3	...	...	...	...	...	...	...
Other identified debt-creating flows	0.0	0.0	-0.1	-0.2	-0.2	-0.1	0.0	0.0	0.0	-0.6	
Net privatization proceeds (negative)	0.0	0.0	-0.1	-0.2	-0.2	-0.1	0.0	0.0	0.0	-0.6	
Contingent liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Please specify (2) (e.g., ESM and Euroarea)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Residual, including asset changes ^{10/}	1.3	-1.0	1.1	0.0	0.0	-0.1	-0.2	-0.3	-0.3	-0.8	



Source: IMF staff.

^{1/} Public sector is defined as general government.^{2/} Based on available data.^{3/} Long-term bond spread over U.S. bonds.^{4/} Defined as interest payments divided by debt stock (excluding guarantees) at the end of previous year.^{5/} Defined as interest payments divided by debt stock (excluding guarantees and debt that do not carry interest payments) at the end of previous year.^{6/} Gross debt includes overdraft from the central bank.^{7/} Derived as $[(r - \pi(1+g) - g + ae(1+r))/(1+g+\pi+g\pi)]$ times previous period debt ratio, with r = interest rate; π = growth rate of GDP deflator; g = real GDP growth rate; a = share of foreign-currency denominated debt; and e = nominal exchange rate depreciation (measured by increase in local currency value of U.S. dollar).^{8/} The real interest rate contribution is derived from the numerator in footnote 5 as $r - \pi(1+g)$ and the real growth contribution as $-g$.^{9/} The exchange rate contribution is derived from the numerator in footnote 5 as $ae(1+r)$.^{10/} Includes asset changes and interest revenues (if any). For projections, includes exchange rate changes during the projection period.^{11/} Assumes that key variables (real GDP growth, real interest rate, and other identified debt-creating flows) remain at the level of the last projection year.

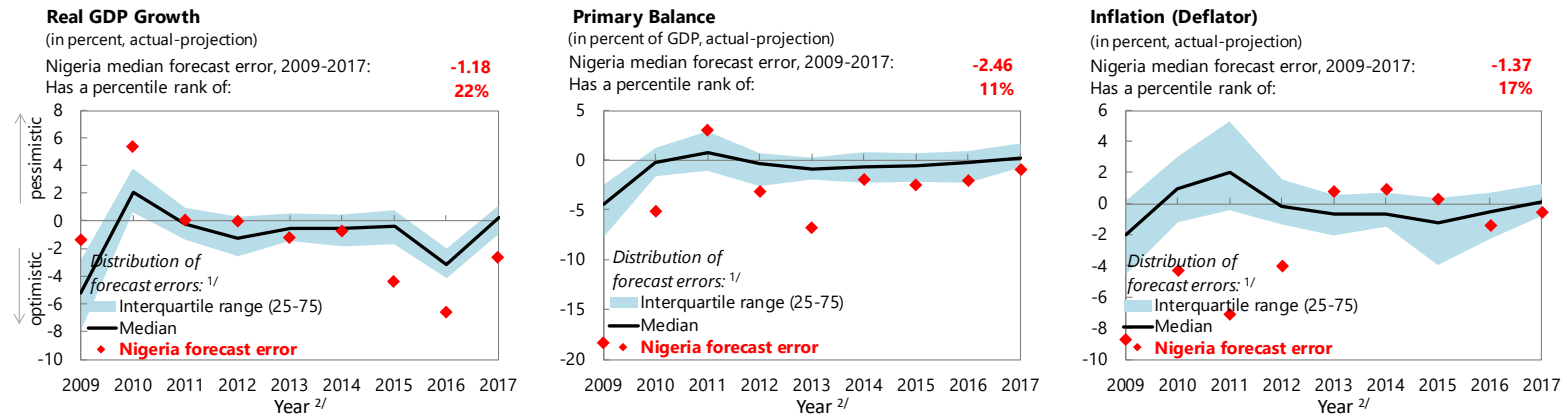
Figure 2. Nigeria Public DSA - Composition of Public Debt and Alternative Scenarios



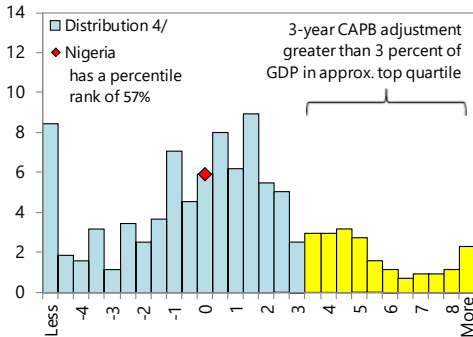
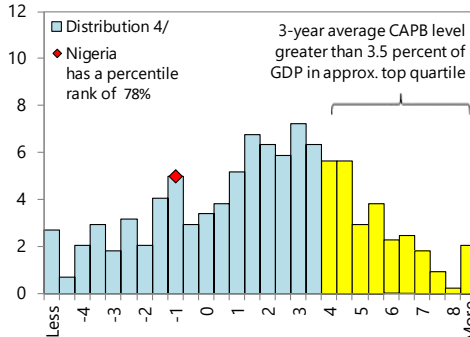
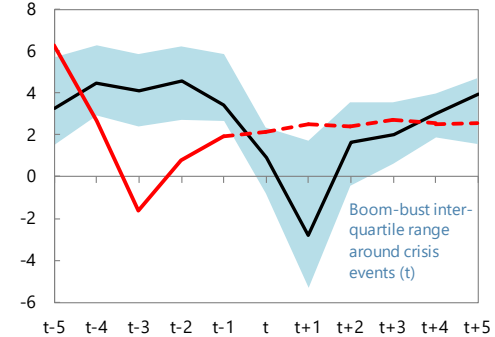
Source: IMF staff.

Figure 3. Nigeria Public DSA - Realism of Baseline Assumptions

Forecast Track Record, versus surveillance countries



Assessing the Realism of Projected Fiscal Adjustment

3-Year Adjustment in Cyclically-Adjusted Primary Balance (CAPB)
(Percent of GDP)3-Year Average Level of Cyclically-Adjusted Primary Balance (CAPB)
(Percent of GDP)Boom-Bust Analysis^{3/}Real GDP growth
(in percent)

Source : IMF Staff.

1/ Plotted distribution includes surveillance countries, percentile rank refers to all countries.

2/ Projections made in the spring WEO vintage of the preceding year.

3/ Nigeria has had a positive output gap for 3 consecutive years, 2016-2018. For Nigeria, t corresponds to 2019; for the distribution, t corresponds to the first year of the crisis.

4/ Data cover annual observations from 1990 to 2011 for advanced and emerging economies with debt greater than 60 percent of GDP. Percent of sample on vertical axis.□

Figure 4. Nigeria Public DSA Risk Assessment

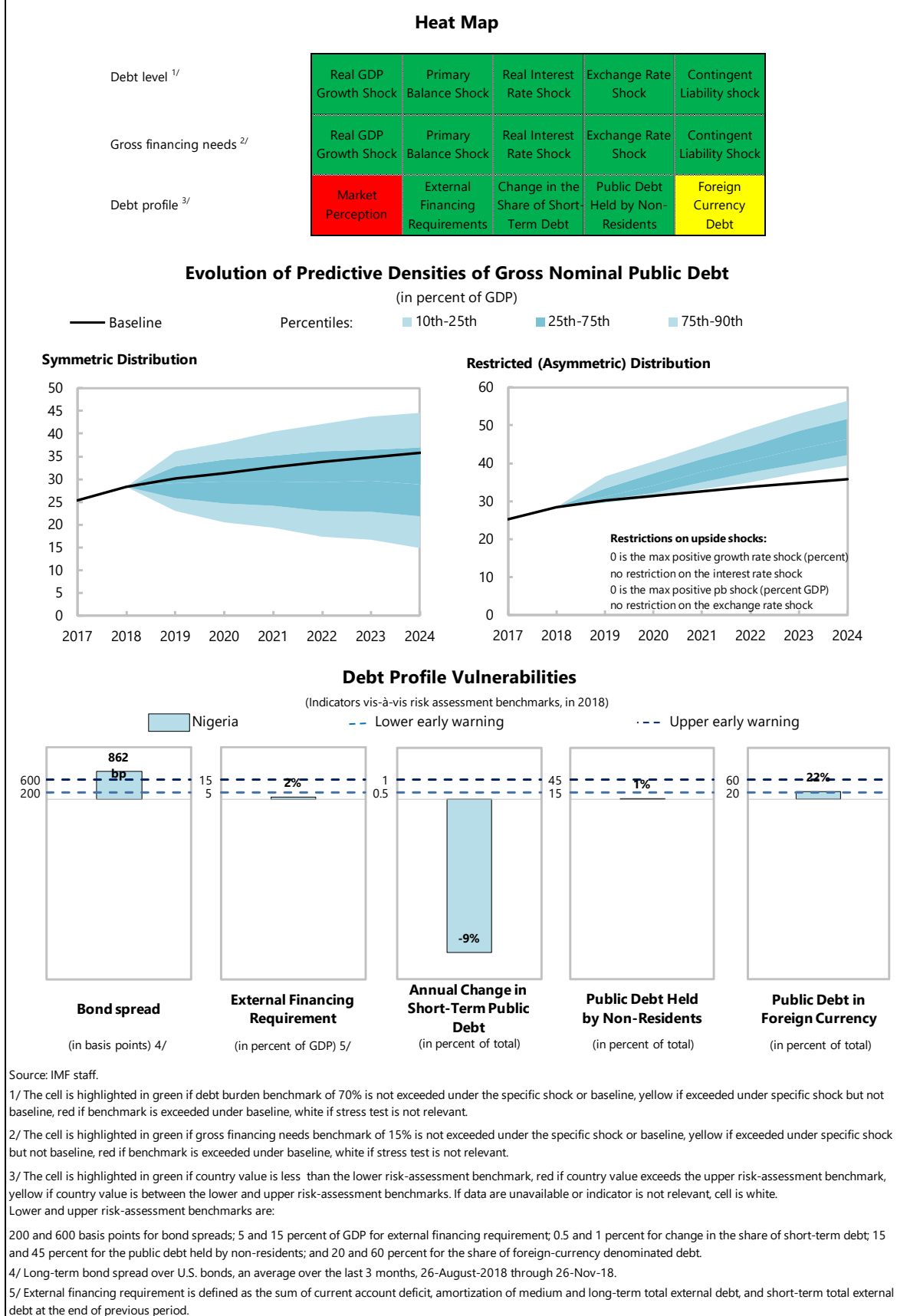
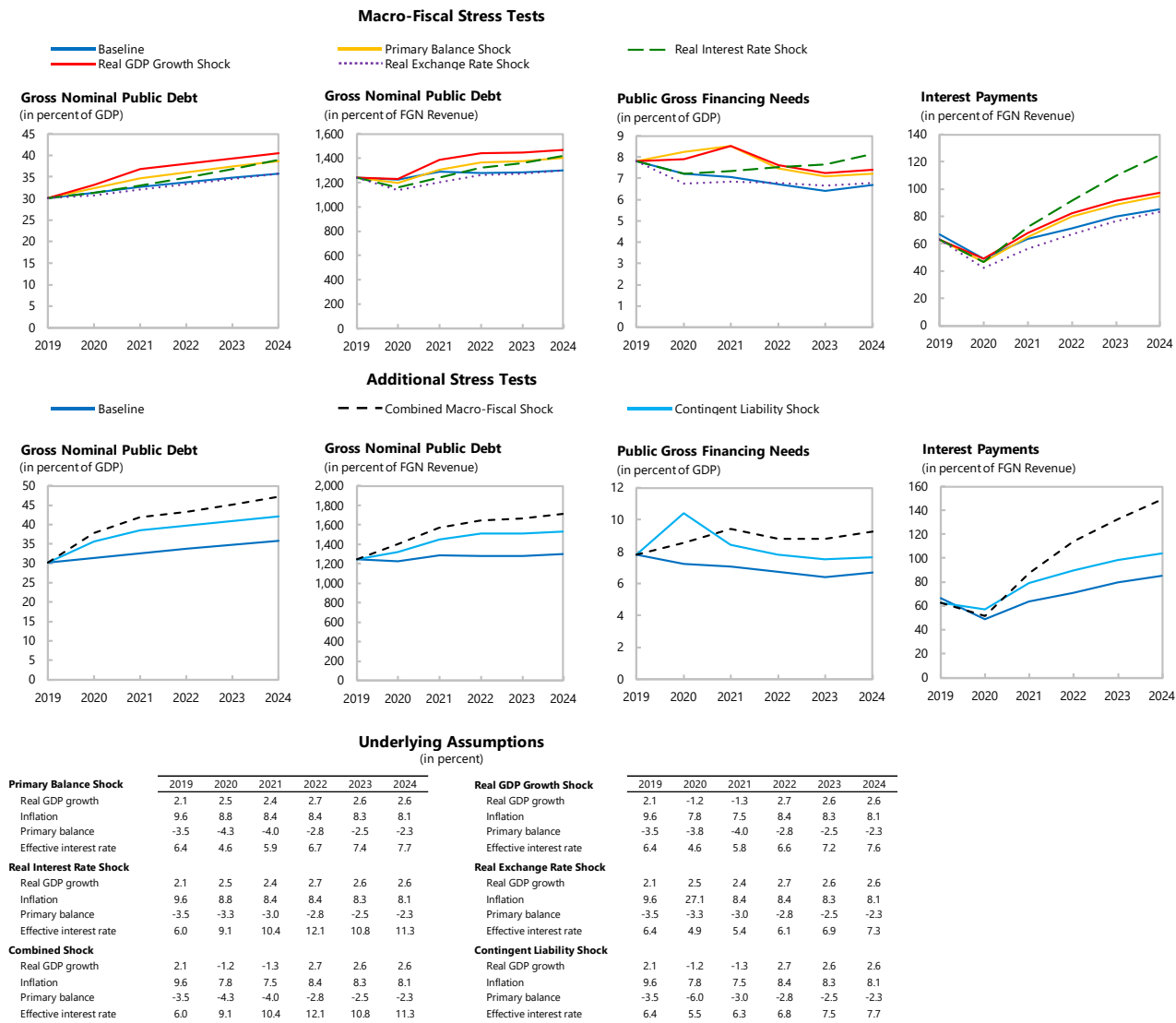


Figure 5. Nigeria Public DSA - Stress Tests



Source: IMF staff.

B. External Debt Sustainability Analysis

9. External debt is low and projected to remain broadly unchanged relative to the size of the economy under baseline projections. The level of (public and private) external debt is low, projected at 16 percent of GDP in 2018 (Table 1).² It has risen modestly since 2013 owing to capital inflows and the weakening of the naira in 2015–16. The external debt-to-exports ratio almost tripled since 2013 reaching around 100 percent in 2018, mainly due to the decline in oil exports in 2015–16. Gross external financing needs remain small relative to the size of the economy.

10. Under baseline projections,³ external debt would increase broadly in line with the size of the economy, and gross external financing needs are projected to remain below 4 percent of GDP in the medium term. With only mild recoveries in oil prices and economic activity, private sector external borrowing is projected to grow in line with the economy. The public sector is expected to continue to draw on financing from bilateral and commercial external sources. Nominal interest rates are expected to continue to contribute to external debt accumulation, given relatively tight global financial conditions and Nigeria's macroeconomic risk profile. To some extent, the interest rate risk may be contained due to the historically concessional nature of a large proportion of public external debt compared to peers, although recently there has been increased international bond issuances (\$4.8 billion in 2017 and \$5.3 billion in 2018). The stock of external debt is expected to increase further over the medium term, albeit a longer horizon would likely be needed to reach the 60:40 domestic to external debt mix up objective of the authorities.

11. Stress tests are used to illustrate the sensitivity of debt levels to various potential shocks (see Figure 7). Higher interest rates or a slowdown in economic growth would not, by themselves, lead to outcomes substantially different from the baseline. On the other hand, a shock to the non-interest current account, which given the structure of Nigeria's trade can be interpreted as a substantial decline in oil exports, would place the external debt-to-GDP ratio on an upward path. This result is driven by the high historical volatility of Nigeria's current account balance, which owes largely to fluctuations in oil exports and prices. However, as has been experienced in the recent oil shock, it is likely that the impact would be buffered largely by import compression and income debits. A combined (interest rate, growth, current account) shock has a similar impact on the debt path, driven by the current account dynamics. A one-time real depreciation of 30 percent in the first projection year would cause an upward level shift in debt, but not place it on an upward path.

² The analysis is subject to gaps in the data on Nigeria's International Investment Position and remaining maturity of external obligations. Staff estimates are used for portfolio investment liabilities based on the estimated stock of non-resident holdings of government securities issued on the domestic market, capital markets data on securities issued abroad, and average interest rates on such securities.

³ For more details, see IMF (2008) "Staff Guidance Note on Debt Sustainability Analysis for Market Access Countries", IMF Board Paper SM/08/221, (Washington, D.C.: International Monetary Fund).

Figure 6.

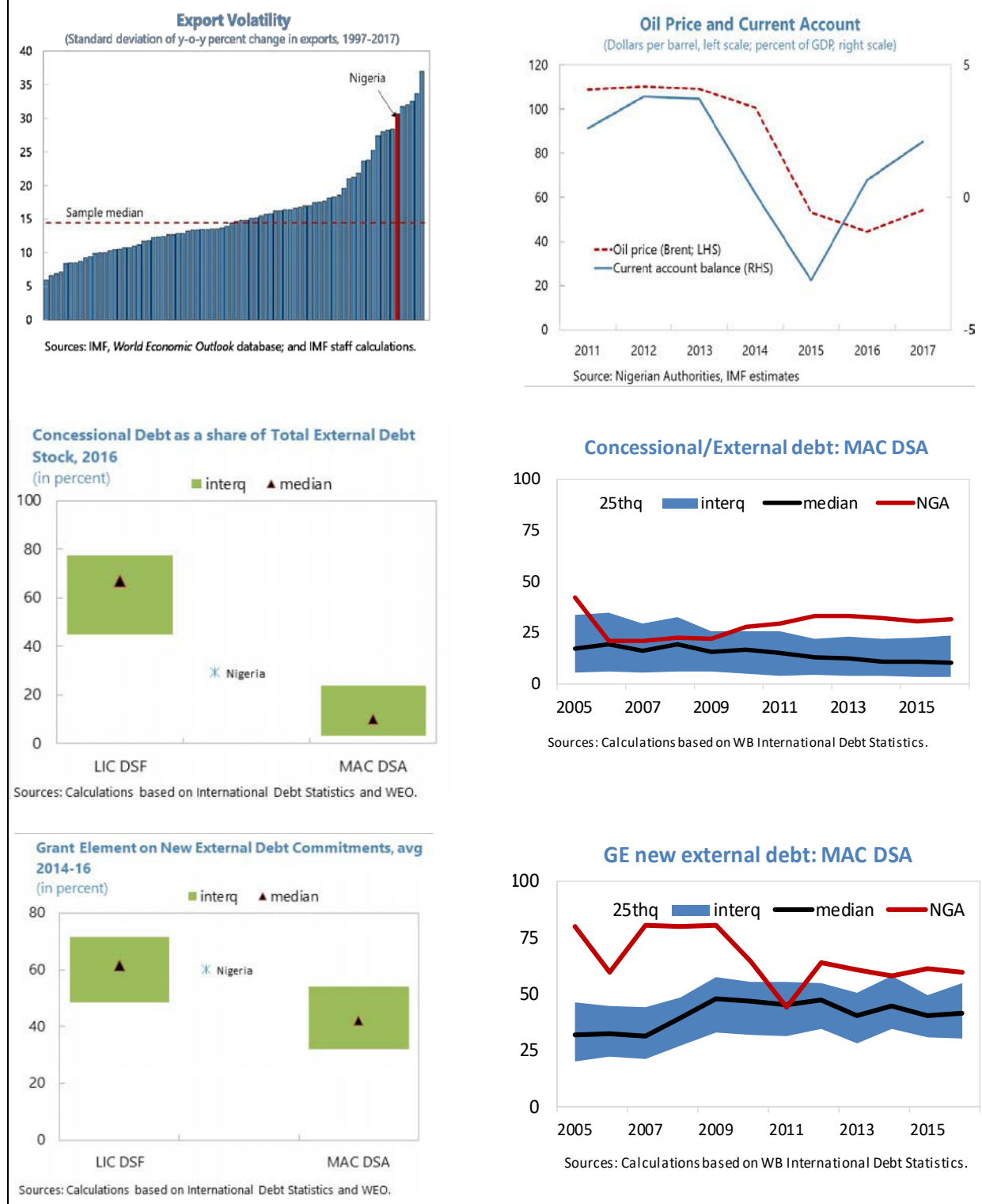


Table 1. Nigeria: External Debt Sustainability Framework, 2014–24
(In percent of GDP, unless otherwise indicated)

	Actual					Projections							Debt-stabilizing non-interest current account 7/
	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024		
Baseline: External debt 1/	8.3	9.6	11.0	13.4	16.0	15.7	15.4	15.2	14.9	14.6	14.3	-1.5	
Change in external debt	1.0	1.3	1.4	2.4	2.5	-0.3	-0.2	-0.2	-0.3	-0.3	-0.3		
Identified external debt-creating flows (4+8+9)	-1.2	4.4	0.4	-3.5	-4.6	-0.8	-1.0	-1.0	-1.3	-1.2	-1.2		
Current account deficit, excluding interest payments	-0.5	2.7	-1.3	-3.5	-2.9	-0.4	-0.6	-0.6	-0.9	-0.8	-0.7		
Deficit in balance of goods and services	0.3	4.6	2.1	0.0	0.1	2.6	2.0	1.7	1.1	0.8	0.8		
Exports	14.9	9.9	9.3	13.5	16.5	13.5	12.8	11.8	11.8	10.8	10.0		
Imports	15.1	14.6	11.4	13.5	16.6	16.1	14.8	13.5	12.9	11.6	10.8		
Net non-debt creating capital inflows (negative)	-0.2	0.0	-0.8	-1.4	-1.7	-0.8	-0.8	-0.8	-0.8	-0.8	-0.8		
Automatic debt dynamics 2/	-0.4	1.7	2.5	1.3	0.0	0.4	0.4	0.4	0.3	0.4	0.3		
Contribution from nominal interest rate	0.3	0.5	0.6	0.7	0.7	0.7	0.8	0.7	0.7	0.7	0.7		
Contribution from real GDP growth	-0.4	-0.3	0.2	-0.1	-0.2	-0.3	-0.4	-0.3	-0.4	-0.3	-0.3		
Contribution from price and exchange rate changes 3/	-0.3	1.5	1.6	0.7	-0.5	...	...	...	...	...	...
Residual, incl. change in gross foreign assets (2-3) 4/	2.1	-3.1	1.1	5.9	7.1	0.5	0.7	0.8	1.0	0.9	0.9		
External debt-to-exports ratio (in percent)	55.5	96.5	118.9	99.4	96.7	116.3	120.8	128.8	126.6	134.4	142.5		
Gross external financing need (in billions of US dollars) 5/	11.1	31.3	13.9	4.4	6.5	16.5	17.9	20.6	18.1	20.6	23.5		
in percent of GDP	2.0	6.3	3.4	1.2	1.6	3.7	3.6	3.7	3.0	3.0	3.1		
Scenario with key variables at their historical averages 6/						15.3	16.6	18.1	20.2	22.4	24.7	-0.7	
Key Macroeconomic Assumptions Underlying Baseline						10-Year Historical Average	10-Year Standard Deviation						
Real GDP growth (in percent)	6.3	2.7	-1.6	0.8	1.9	4.4	3.7	2.1	2.5	2.4	2.7	2.6	
GDP deflator in US dollars (change in percent)	3.8	-15.4	-16.6	-7.9	3.5	-1.8	11.1	9.6	8.8	8.4	8.3	8.1	
Nominal external interest rate (in percent)	4.5	4.9	5.5	5.9	5.8	5.7	0.9	5.1	5.4	5.3	5.2	5.2	
Growth of exports (US dollar terms, in percent)	-13.3	-42.0	-21.6	32.3	28.9	0.9	28.7	-8.5	5.7	2.6	11.0	2.3	
Growth of imports (US dollar terms, in percent)	16.5	-16.4	-34.7	8.4	29.9	2.9	24.4	8.5	2.6	1.3	5.8	0.5	
Current account balance, excluding interest payments	0.5	-2.7	1.3	3.5	2.9	2.8	2.5	0.4	0.6	0.6	0.9	0.7	
Net non-debt creating capital inflows	0.2	0.0	0.8	1.4	1.7	1.5	1.0	0.8	0.8	0.8	0.8	0.8	

Sources: National authorities; International Monetary Fund, country desk data; and IMF staff estimates. □

1/ Includes public and private sector liabilities; on a residence basis, i.e., includes non-resident investment in liabilities issued domestically.

2/ Derived as $[r - g - r(1+g) + ea(1+r)] / (1+g+r+gr)$ times previous period debt stock, with r = nominal effective interest rate on external debt; r = change in domestic GDP deflator in US dollar terms, g = real GDP growth rate, e = nominal appreciation (increase in dollar value of domestic currency), and a = share of domestic-currency denominated debt in total external debt.

3/ The contribution from price and exchange rate changes is defined as $[-r(1+g) + ea(1+r)] / (1+g+r+gr)$ times previous period debt stock. r increases with an appreciating domestic currency ($e > 0$) and rising inflation (based on GDP deflator).

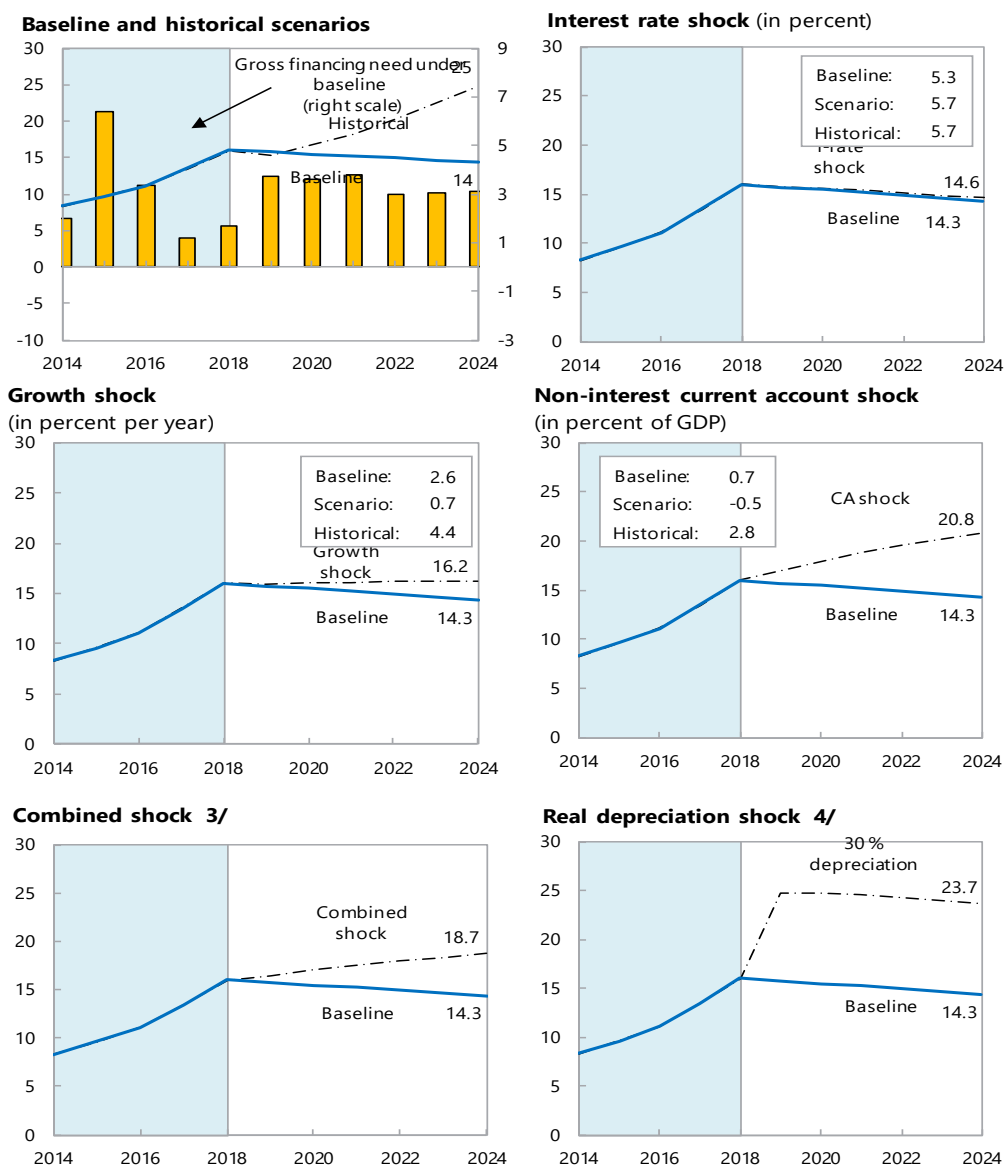
4/ For projection, line includes the impact of price and exchange rate changes.

5/ Defined as current account deficit, plus amortization on medium- and long-term debt, plus short-term debt at end of previous period.

6/ The key variables include real GDP growth; nominal interest rate; dollar deflator growth; and both non-interest current account and non-debt inflows in percent of GDP.

7/ Long-run, constant balance that stabilizes the debt ratio assuming that key variables (real GDP growth, nominal interest rate, dollar deflator growth, and non-debt inflows in percent of GDP) remain at their levels of the last projection year.

Figure 7. Nigeria: External Debt Sustainability: Bound Tests ^{1/2/}
(External Debt in percent of GDP)



Sources: National authorities; International Monetary Fund, country desk data; and IMF staff estimates.
1/ Shaded areas represent actual data. Individual shocks are permanent one-half standard deviation shocks. Figures in the boxes represent average projections for the respective variables in the baseline and scenario being presented. Ten-year historical average for the variable is also shown.

2/ For historical scenarios, the historical averages are calculated over the ten-year period, and the information is used to project debt dynamics five years ahead.

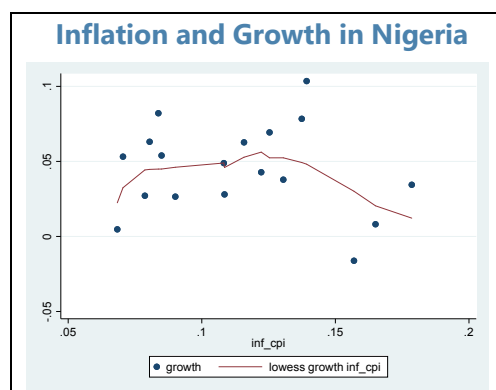
3/ Permanent 1/4 standard deviation shocks applied to real interest rate, real growth rate, and current account balance.

4/ One-time real depreciation of 30 percent occurs in 2018.

Annex V. Estimating the Inflation-Growth Threshold in Nigeria

1. Is inflation good or bad for growth? The theoretical and empirical literature is undecided, exhibiting great variance across countries or over time.

Recently, a consensus is that a non-linear relationship exists between the two variables. We answer this question for Nigeria using OLS and Hansen's (2000) threshold regression, using annual 1990-2017 and quarterly 2010Q1-2018Q2 data.



2. OLS results suggest a non-linear relationship exists. Using the following specification, for both the annual and quarterly samples, estimated coefficients of the first inflation variable is positive, while that of quadratic inflation is negative, confirming the non-linear relationship. Other RHS variables include capital and current expenditure, private sector credit and the trade balance.

$$GDPgrowth_t = \beta_0 + \beta_1 inflation_t + \beta_2 inflation_t^2 + \sum_{i=3}^k \beta_i X_{it} + \varepsilon_t$$

3. Threshold regression results suggest a threshold level of inflation of 10-12 percent after which inflation hurts growth. Hansen's (1996; 2000) methodology allows the coefficient of

interest to differ across a low inflation and a high inflation regime. Results shown, for the quarterly data sample, suggest an inflation threshold in the range of 10-12 percent, under which inflation can contribute positively to growth, but above which inflation hurts growth. Results are robust using the annual sample and different specifications. These results are independent of the inflation target, which remains

appropriate at a single digit range, as it is a monetary phenomenon not necessarily informed by growth considerations.

OLS Results

	Annual 1997-2017		Quarterly 2011Q1-2018Q2		
	OLS	OLS	OLS	OLS	OLS
Inflation	0.401 (0.603)	0.785* (0.423)	1.068*** (0.116)	1.204** (0.522)	0.706* (0.363)
Inflation^2		-2.412* (1.175)	-0.063*** (0.007)	-0.068*** (0.020)	-0.048*** (0.014)
Capital Expenditure	3.678** (1.500)	-0.304 (0.238)		0.193 (0.713)	-0.801 (0.485)
Current Expenditure		0.695 (0.688)			
Credit private sector	-0.003 (0.091)				-3.521 (4.140)
Trade balance					0.493*** (0.137)
Observations	15	21	30	30	24
R-squared	0.410	0.517	0.771	0.772	0.943

Robust standard errors in parentheses

*** p<0.01, ** p<0.05, * p<0.1

Threshold Regression Results

Dep: Growth	(Model 1)		(Model 2)		(Model 3)	
VARIABLES	Below threshold	Above threshold	Below threshold	Above threshold	Below threshold	Above threshold
Inflation	0.425*** (0.045)	-0.005 (0.035)	0.228* (0.138)	-0.381* (0.199)	-0.028 (0.316)	-0.469** (0.189)
Capital Exp			-0.633* (0.362)	-1.583** (0.704)	1.587* (0.892)	-0.139 (1.404)
Current Exp					-3.543 (2.320)	8.139*** (2.258)
Threshold	12.8569		10.2872		10.3399	
SSR	125.7431		138.8345		76.6870	
AIC	46.9913		53.9626		44.1561	
Sample	2011Q1 – 2018Q2		2011Q1 – 2018Q2		2011Q1 – 2018Q2	
Observations	30	30	30	30	30	30

Robust standard errors in parentheses

*** p<0.01, ** p<0.05, * p<0.1

Annex VI. External Stability Assessment

The external position of Nigeria in 2018 is moderately weaker than implied by fundamentals and desirable policy settings. There are vulnerabilities from reserves adequacy and capital flows. The assessment is subject to some uncertainty due to the presence of FX restrictions and the multiplicity of exchange rates at which transactions occur.

A. Current Account and Exchange Rate

1. The analysis is based on the revised EBA-Lite methodology, which replaced EBA-Lite 1.0 introduced in 2015.¹ The review involved: (1) expanding the fundamentals and policy determinants in the EBA-Lite CA and REER regression models; (2) identifying complementary approaches to regression-based methods for the external assessment of large exporters of exhaustible commodities; and (3) a revised approach for the deterministic assessment of external sustainability.

Module I: EBA-Lite Regression Methods

2. CA and REER EBA-lite models suggest moderate misalignment. Revised EBA-Lite models suggest a slight real overvaluation (Table 1). Specifically:

- **Current account approach.** The revised EBA-lite methodology models the CA balance as a function of the fundamentals of the economy, including the role of policy and financial variables.² The model finds that the CA in 2018 was broadly in line with the norm, with macroeconomic policies contributing -1.8 percent of GDP to the CA gap. This suggests the actual current account would have been further into surplus if policies – particularly the fiscal deficit and reserves – had been at their recommended settings.
- **Equilibrium REER approach.**³ This price-based approach directly models a REER norm within a panel framework as a function of cyclical and structural variables. The introduction of new explanatory variables—such as armed conflict, health expenditure and growth of credit—in the revised EBA-Lite model seems to have reduced the regression residual compared to the previous EBA-Lite specification, while the still large inflation differential with trading partners is depreciating the exchange rate in real terms. The model suggests the real exchange rate is broadly in line with fundamentals and desirable policies.

¹ See IMF Working Paper 13/272 and the 2016 [Methodological Note on EBA-Lite](#) for information about EBA-Lite 1.0.

² The key revisions to the EBA-Lite CA regression model focus on clarifying the role of remittances and aid in the external balance; incorporating shocks (natural disasters and armed militarized conflicts) to better capture the determinants of the external balance in EBA-Lite countries; and, expanding the policy determinants by introducing social insurance policies and revising the financial policy variables.

³ In parallel with the revised CA model, analogous changes will be made to the revised EBA-Lite REER regression model. The REER model will use the indicative policy norms for the credit-to-GDP ratio, credit growth, and public health policy.

Table 1. EBA-Lite CA and REER Regression Results

	Current Account Regression ¹	Equilibrium REER Regression ¹
CA/REER reference ²	1.7	4.7
CA/REER norm ³	2.6	4.7
Current account gap	-0.8	..
o/w: Policy gap	-1.8	1.1
Residual	0.4	-2.7
Natural Disasters and Conflicts	1.0	1.7
Real exchange rate gap ⁴	6.8	0.1

Source: IMF staff estimates.

¹ Based on the revised EBA-Lite methodology (2018).

² For CA regression, 2018 cyclically adjusted CA value. For REER regression, 2018 REER value.

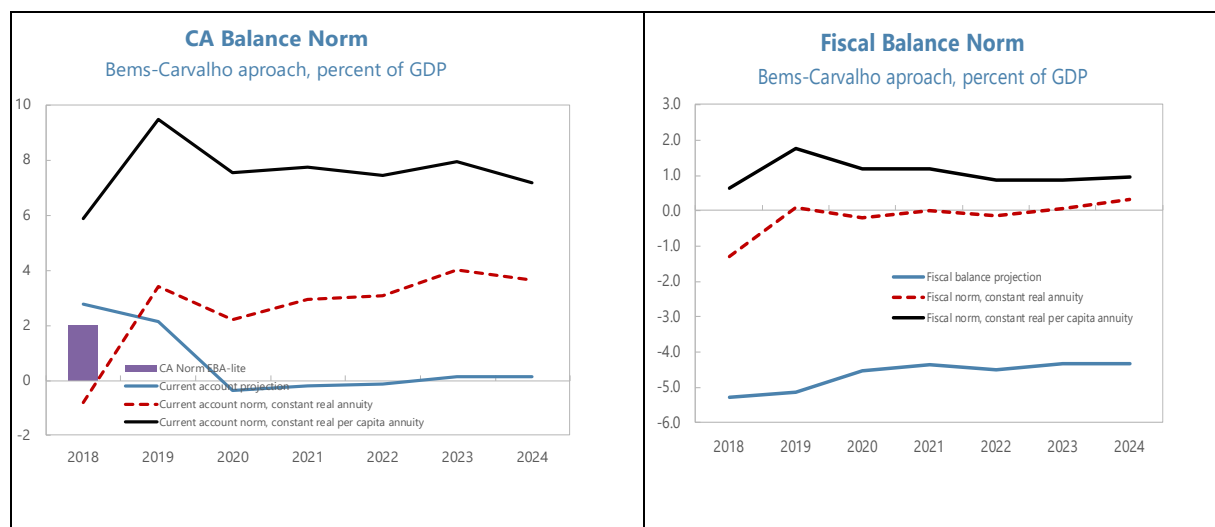
³ For CA regression, this is the multilaterally consistent adjusted CA norm.

⁴ Positive numbers indicate overvaluation. Elasticity of CA to REER gap is 0.12.

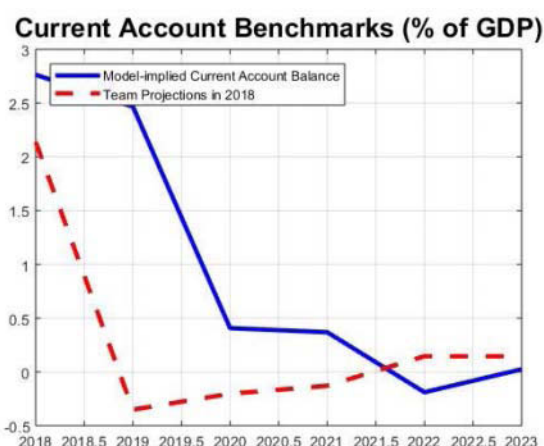
Module II: Non-Regression-Based Approach for Exporters of Exhaustible Resources

3. The revised EBA-Lite approach introduces consumption allocation and investment needs modules. These non-regression-based approaches consider how exhaustible resources generate income streams and benefits from smoothing absorption. Specifically, the first approach is based on the allocation of resource wealth for consumption across periods. The second approach explicitly incorporates investment in a dynamic, small open-economy model to account for investment needs, which are generally acute in many commodity exporters.

- The consumption-allocation rules suggest positive medium-term CA and fiscal norms. The medium-term norm (which is free from cyclical considerations) under constant real per capita annuity (which represents intergenerational equity) suggests CA and fiscal norms of around 7 and 1 percent, respectively, suggesting negative CA and fiscal gaps. The large CA gap seems to be driven primarily by the large fiscal balance gap. The norms under constant real annuity are almost half these amounts, which highlights the negative effect of population growth. By construction, consumption-allocation rules typically report higher CA norms compared to CA regression model because the volatile revenue flows motivate more precautionary savings to smooth consumption.



- The investments-need model analyzes the need for commodity exporters to finance investments with their resource revenue windfalls. An important input to this model is the assumption on efficiency of public investments. Results, using NGA specific investment efficiency (efficiency of 0.2, from IMF 2015 and PIMA 2018) suggest a positive CA norm, largely in line with baseline projections. If we assume the efficiency gap with the SSA is closed, and use the SSA average efficiency (0.6), results would suggest a lower CA norm as expected. This highlights the importance of improving investment efficiency and the supporting institutional frameworks.



Module III: External Sustainability Approach

4. A revised External Sustainability (ES) approach. This approach calculates the REER adjustment required to satisfy the inter-temporal budget constraint as a measure of the external adjustment required to restore external sustainability. Specifically, the approach derives a CA norm as the medium-term balance that would allow net foreign assets (NFA) to reach a certain benchmark level. The revised EBA-Lite methodology (2018) introduces the role of revaluation of NIIP, rates of returns differentials and discounted future debt. Results suggest a CA gap of 1.9% and a corresponding REER gap of about -15%. These results are of less relevance, as the ES approach is designed primarily for countries with high levels of debt and debt sustainability issues, which is not the case in Nigeria where external debt is low and highly concessional compared to MAC peers (as shown in the External DSA annex).

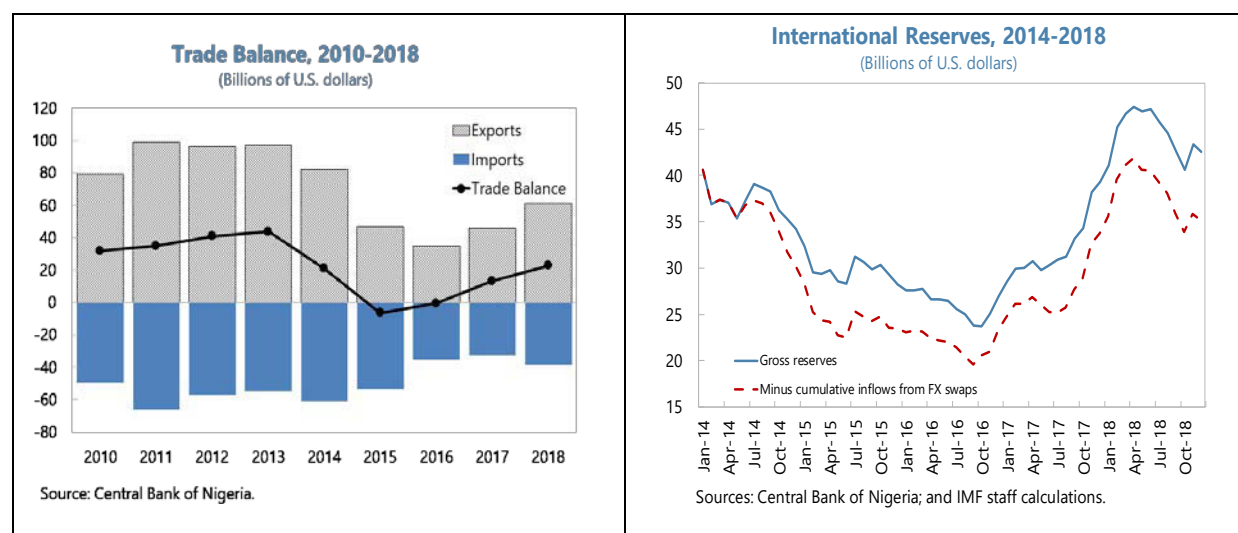
Conclusion

5. This assessment is subject to a degree of uncertainty because of the presence of FX restrictions and the multiplicity of exchange rates at which transactions occur. For example, the CA approach uses multiple exchange rates, albeit effectively closer to the I&E rate of 360 N/\$ which reflects majority of transactions. FX restrictions and MCPs further complicate the assessment. Data gaps also add uncertainty, as large swings in errors and omissions suggest imprecision in reported values of the CA and/or the NFA position.⁴

6. The bottom-line assessment is drawn on the CA regression approach. This is explained by (i) the EBA-Lite CA regression implicitly uses an effective exchange rate reflecting transactions undertaken across all FX market segments including the more depreciated and flexible I&E rate – this is more in line with the reality of underlying BOP transactions than the REER regression approach; and (ii) The CA approach includes variables under the control of policy makers and as such links the CA/REER adjustment to sound fiscal and/or monetary policies. That said, the consumption-allocation rules provide useful insight on the potential negative dynamics of high population growth on medium-term external sustainability, while the investments-need model highlights the importance of investment efficiency and institutions. The inputs from these two complementary approaches also point toward moderate overvaluation of REER.

B. Reserve Adequacy

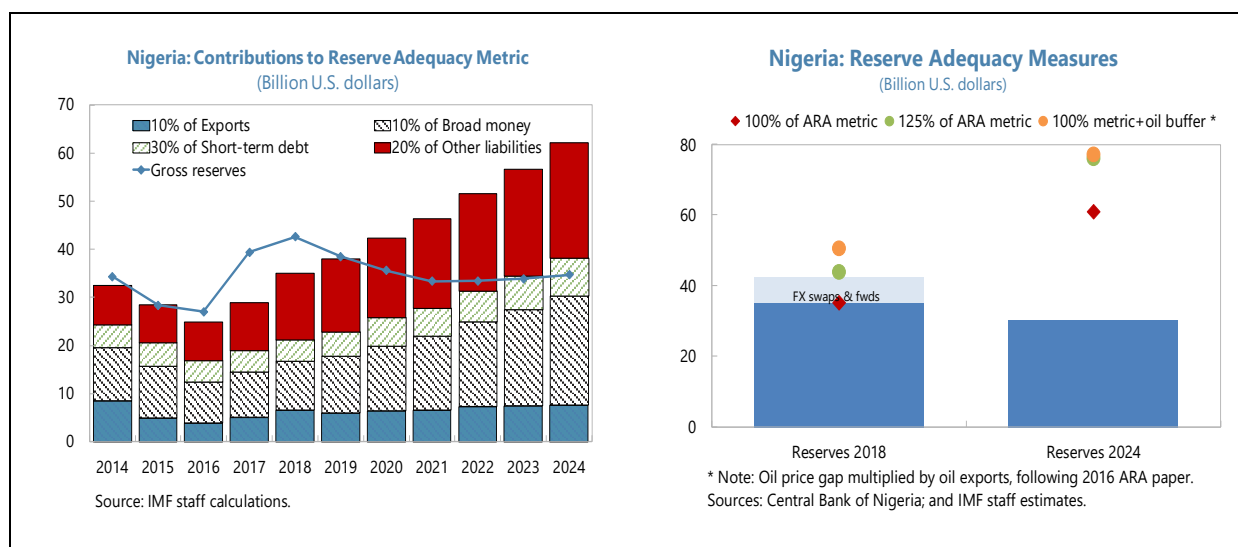
7. Gross international reserves have improved but are still below comfortable levels. Gross reserves recovered from less than \$24 billion in September 2016 to \$42.5 billion at end-December 2018, driven by improved trade balance and capital inflows.



⁴ FX restrictions that constrain outflows could be accounting for some of the positive residual in the CA approach but may not be fully incorporated into the contribution of policy variables. Thus, the gap under this approach might move toward overvaluation if FX restrictions were removed.

- **Gross reserves in 2018 are within the suggested adequate Assessment of Reserve Adequacy (ARA) metric range.** Reserves of \$42.5 billion at end-2018 correspond to an ARA metric coverage of about 120 percent, within the suggested adequate range of 100-150 percent.
- **Excluding FX swaps and forwards, reserves represent 100 percent of the metric.** The headline reserves figure likely overstates resources available to the central bank to meet BOP needs. Gross international reserves excluding these predetermined FX flows are projected at \$35.2 billion by year-end, or 100 percent of the ARA metric.
- **Adjusting for an oil buffer reduces reserve adequacy even further.** End-2018 reserves excluding FX swaps and forwards would represent only 70 percent of the ARA metric adjusted for an oil buffer in 2018. The metric with an oil buffer, calculated as an oil price gap multiplied by oil exports, is the most relevant to Nigeria, with the recommended target range of 100-150 percent.⁵

8. Under baseline projections, reserves are expected to steadily decline to around \$35 billion by 2024, equivalent to 44 percent of the metric correcting for an oil buffer, below the suggested adequate range of 100-150 percent.

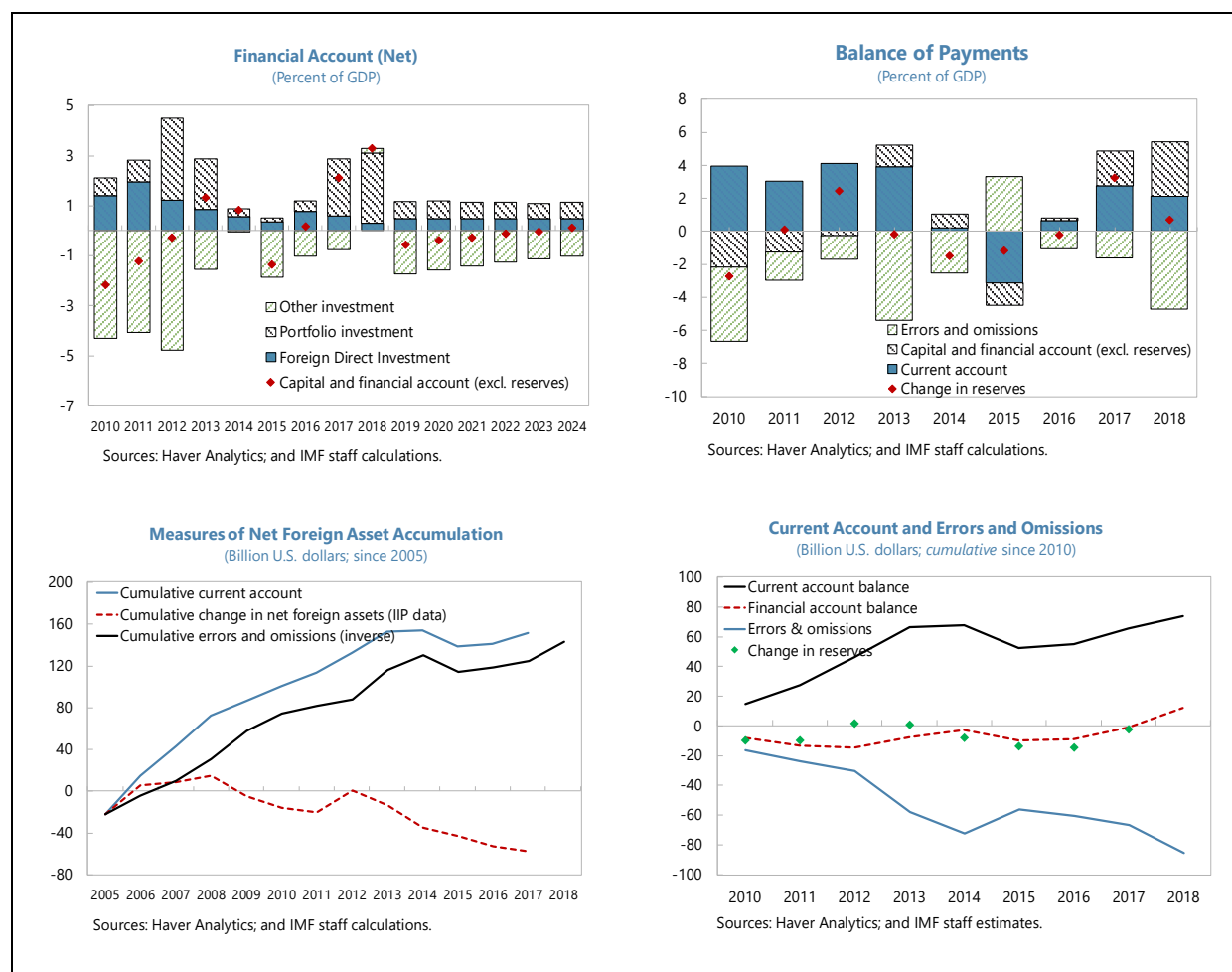


C. Capital Flows

9. Capital flows were subdued in 2014-16 before improving in 2017-18, while data gaps continue as reflected in large errors and omissions (E&Os). Net inflows (liabilities to non-residents) fell below 1.0 percent of GDP in 2014-16, before improving in 2017-18 largely driven by strong net portfolio inflows coming through the IEFX window. E&Os remain around 3 percent of

⁵ See the [2016 ARA Board paper](#).

GDP on average, amounting to as large as current account surpluses in some years, suggesting imprecision in existing estimates of the BOP and/or NFA position (also see 2016 SIP).



D. Overall Assessment

10. Taken together, the above analysis suggests that the external position of Nigeria in 2018 was moderately weaker than implied by medium-term fundamentals and policy settings. This is supported by a wide range of evidence, including the estimated contribution of policies to the current account balance, weak non-oil exports, inadequate FX buffers under baseline projections, and volatile capital inflows. The assessment is subject to a high degree of uncertainty because of the presence of FX restrictions and the multiplicity of exchange rates at which transactions occur. Reserves remain below adequate level and there are additional vulnerabilities due to volatile capital flows. Adjustment of other policies—notably fiscal, monetary, and structural—in line with staff’s recommendations would contribute to reducing the estimated gaps.

Annex VII. Financial Development and Inclusion

Closing gaps in financial development and inclusion in Nigeria could yield additional real per capita GDP growth of more than 0.8 percentage points per year. Across Nigeria, access to financial services varies strongly across demographic groups and is particularly low for the poor, the less educated, and women—contributing to income inequality. Recognizing these challenges, the government has launched a number of initiatives and reforms, aligned with its updated financial inclusion strategy. Reforms to increase the use of mobile payments system could substitute for a potentially more difficult build-up in traditional financial infrastructure and therefore help accelerate the provision of financial access to a wider part of the population.

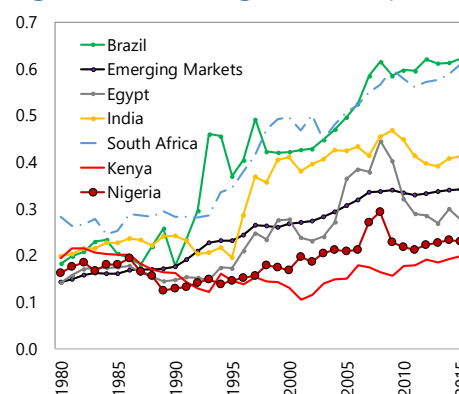
A. Introduction

1. Credit growth has suffered in Nigeria over the past two years, driven by cyclical and policy-induced factors. Credit to the private sector has declined in 2017 (-3.3 percent) in the aftermath of a historical oil price shock and fell by an additional 6 percent in 2018 as worsening asset quality feeds the risk aversion behavior of financial institutions. Large issuances of treasury bills and bonds to finance a wider fiscal deficit coupled with CBN bills to manage liquidity and attract foreign portfolio investment have further increased crowding out, as banks prefer to hold high yielding zero-risk weighted securities. Declining private sector credit further constrained firms in an area that they already considered the largest impediment to their business activity as lack of access to finance was already a constraint in 2015 when private sector growth was still favorable (Selected Issues Paper VI).

2. Declining private sector credit, while striking, captures only one dimension of financial development in Nigeria. More comprehensive indicators of financial development—capturing financial access and efficiency across financial institutions and markets—suggest that financial development may lag more structurally behind peer economies (Figure A1). In particular, while financial development in Nigeria was similar in the 1980s to current emerging market and frontier economies—such as Brazil, Egypt, and India, it has barely improved over the past three decades.

3. Increasing financial development could boost growth. Using the marginal effect of financial

Figure 1. Nigeria and Comparators: Financial Development (1980-2015)
(Higher Values = Higher Development)



Source: Sahay and others (2015).

development on growth¹ and keeping other determinants of growth constant, suggests that raising financial development to the average level in emerging market economies could boost annual real GDP per capita growth in Nigeria by more than 0.8 percentage points—or even higher levels for more ambitious targets. It also impacts firms’ economic performance and economic diversification (Selected Issues Paper VI).

4. Stronger financial access has also been linked to a more equal income distribution and is the focus of this annex. Access to financial services that varies between individuals with different demographic characteristics creates inequities in economic opportunities, contributing to income inequality. With high poverty rates and income inequality in Nigeria, increasing financial access is an important part of the agenda to achieve the sustainable development goals and therefore the main topic of this annex.

B. Benchmarking Financial Access

5. Indicators of financial access have been lagging those of peer countries across a range of dimensions, some have decreased over the past three years (Figure A2). The World Bank’s 2018 Findex helps benchmark a range of indicators of financial access across countries for three waves of surveys. The results show that, on average, financial access has increased significantly between 2011 and 2017, e.g. increasing from just below 30 to almost 40 percent if measured by ownership of an account at a financial institution but has remained relatively flat between 2014 and 2017. Other indicators, likely hit by an unfavorable economic environment, have been declining compared to their 2011 levels (formal savings made at a financial institution, informal savings) or their 2014 level (borrowing, digital payments). Performance against the average middle-income country has been mixed in terms of indicators of pure access and transactions but weaker in terms of borrowing. At 5.6 percent of the population, ownership of mobile money accounts has been low compared to other economies in sub-Saharan Africa.

6. Access to services varies strongly across demographic groups (Figure A3). With the exception of informal savings through savings clubs and persons outside of family, 2017 has seen a strong access divide between demographic groups. Specifically, account ownership (at financial institutions or mobile money accounts), digital payment activity and savings about half as likely for the bottom 40 percent of the income distribution and women than for the rest of the population, and with even stronger variations with respect to educational attainment, suggesting financial literacy issues as an additional constraint.

7. Access to physical financial infrastructure and mobile phones is at similar levels as in Kenya, which has successfully leveraged mobile payments in the past decade (Figure A4). At 5½ branches for 100,000 people, physical financial infrastructure is similar in Nigeria and Kenya. With more than three phones for each four persons, coverage of mobile phones is also comparable

¹ Based on Regional Economic Outlook: Sub-Saharan Africa (2016): “[Financial Development and Sustainable Growth](#)” (Chapter 3), that find a non-linear relationship between Financial Development (FD) and growth (marginal effect: 27-67.7*FD).

between the two countries. The potential to send remittances via phone transactions appears to be higher in Nigeria, given the absolute market size but also the relative size of remittances (close to 6 percent of GDP). However, Kenyans are about nine times more likely to receive remittances via phone than Nigerians, despite a doubling of that probability in Nigeria over the past three years, suggesting scope to use new technologies to increase the efficiency of foreign inflows. The potential of using mobile payments for other transactions is also large, with four out of five utility bills paid over the phone in Kenya, but just about 4 percent in Nigeria where sustainability of the power sector is dependent on reliable and timely payment of bills.

C. Government Initiatives

8. The government's updated financial inclusion strategy aims to address these challenges. The government's 2012 financial inclusion strategy targeted reducing financial exclusion from over 46 percent in 2010 to 20 percent by 2020. By 2017 (2018 Findex), financial exclusion was reduced to below 37 percent. To accelerate the process, the government engaged in reviewing and refreshing the strategy with a focus on (i) global changes in regulatory, socio-economic landscape and technology; (ii) changes in macroeconomic and security environment; (iii) critical barriers to financial inclusion and addressing appropriately; and (iv) high-impact initiatives. The adopted new strategy now focuses on five key gaps, including regional financial exclusion divide, with two thirds of the population excluded in the North East and North West combined, and gaps in age, gender, rural vs. urban locations, and access to finance for small and medium enterprises.

9. In line with the strategy, the government has initiated a number of reforms. The CBN and the Nigerian Communications Commission signed a memorandum of understanding agreeing to jointly implement a payment systems framework. The Shared Agent Network Expansion Facility (SANEF) initiative targets a rollout of a network of 500,000 Agents. The new payment service regulation issued in 2018 that allows telecom companies to acquire licenses for mobile payment operations is expected to contribute to the expansion of mobile payment services. The Financial Inclusion Secretariat has been established and is operational, while the governance arrangement for implementing financial inclusion strategy at Federal and State levels has been put in place (see also [National Financial Inclusion Strategy \(Revised\), October 2018](#)).

D. Leveraging the Potential for Mobile Payments

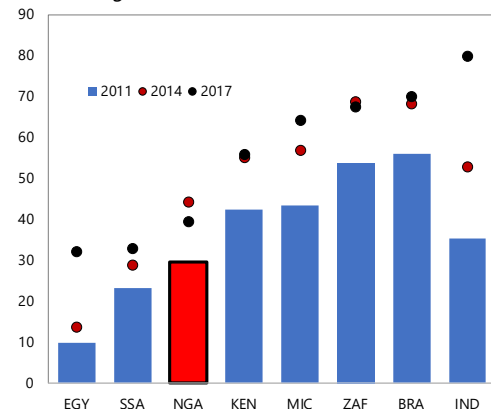
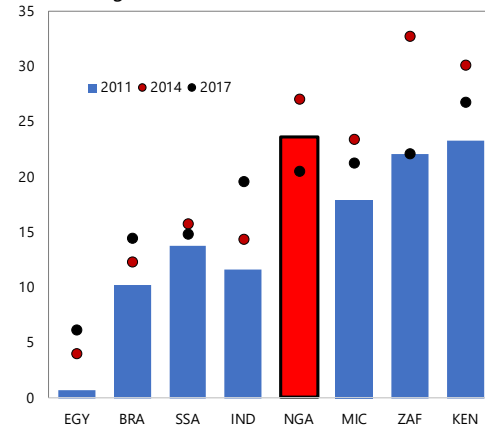
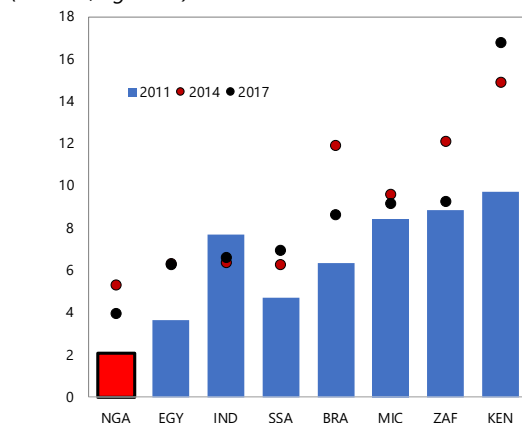
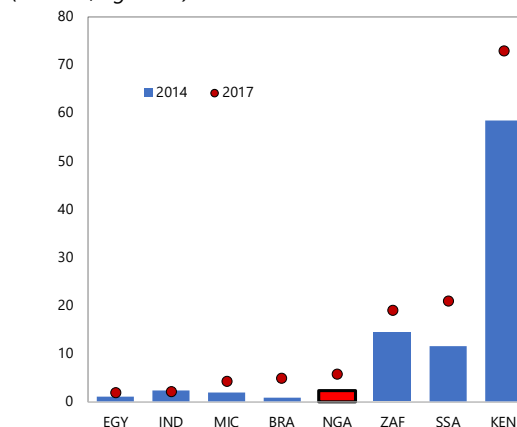
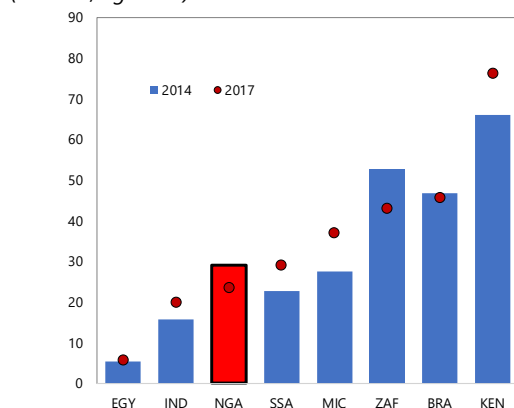
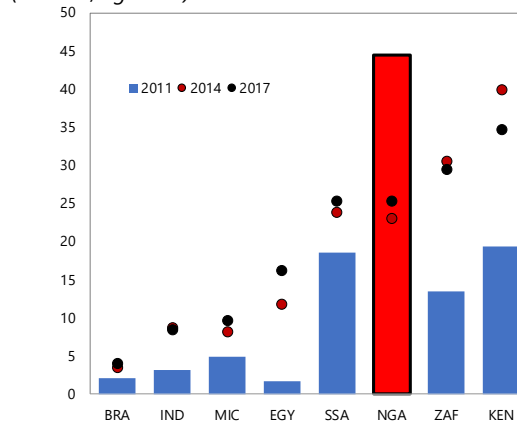
10. A range of further reforms could help leverage the potential of the mobile payment system to include a wider range of the population into the financial sector:²

- **The revised regulatory framework** should be implemented to allow subsidiaries of mobile network operators to apply for mobile money operators' licenses. The roll-out of Payment

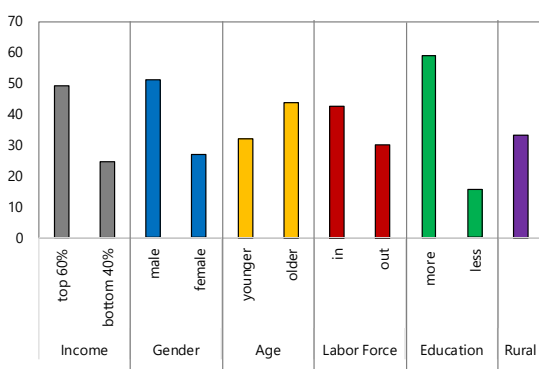
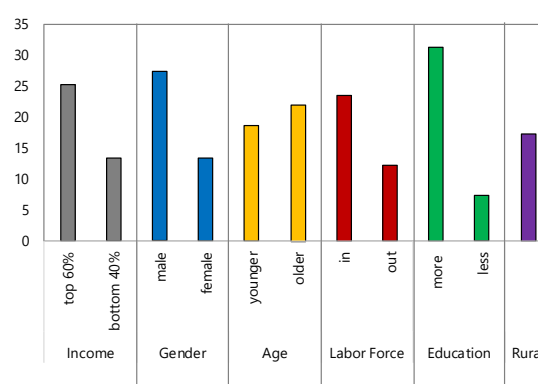
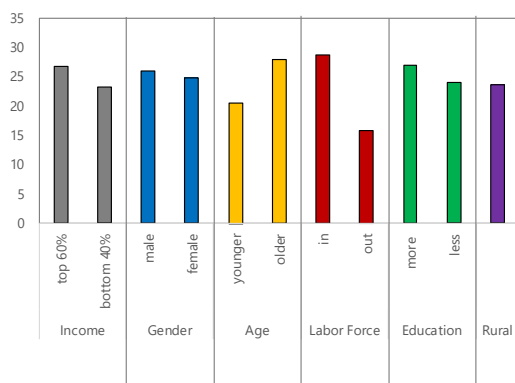
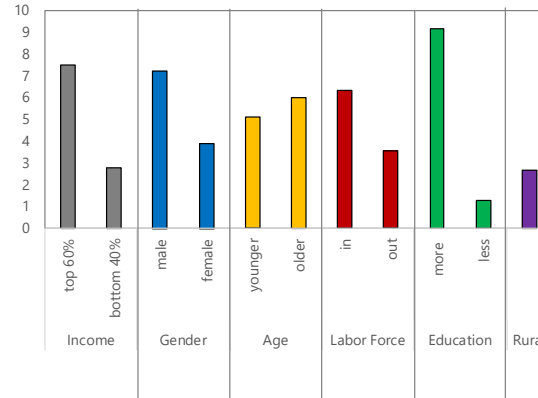
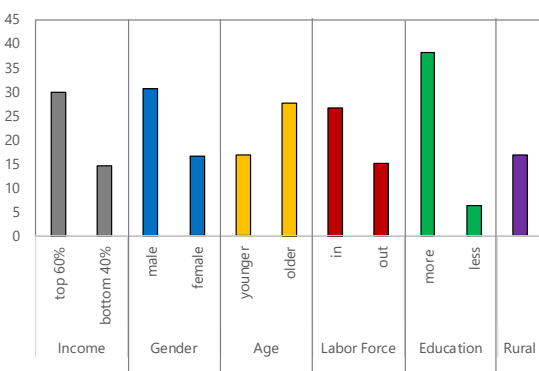
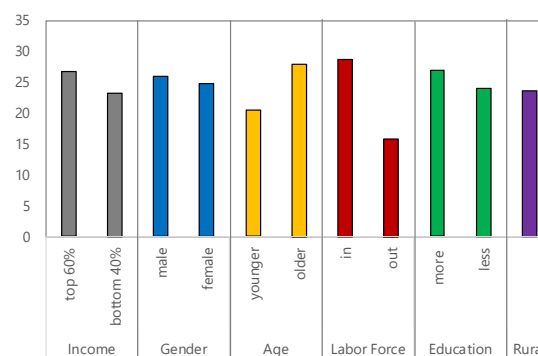
² Based on World Bank recommendations: Klapper and Popovich (2018): "[Five Ways Nigeria Can Realize Mobile Technologies Potential for the Unbanked](#)".

Service Banks guidelines that allows licensing of telco subsidiaries is welcome and should be implemented.

- In line with the CBN' strategy, the **agent network should be expanded** to provide the sufficient density of network of mobile agents to make the system reliable and sustainable. The CBN could allow mobile network operators to issue mobile money to expand mobile networks where financial service providers are traditionally less present (North of the country). A step into this direction includes ensuring reliable mobile network coverage, an issue in several geographic zones of the country. In addition, expedited implementation of the action plan of the strategic roadmap for developing digital identification will also be important.
- **Routine cash payments**, particularly from and to the government should be digitized. Moving unbanked Nigerians—currently often paid in cash in the private and public sector—into accounts would increase mobile money adoption and financial inclusion. Digitizing all transfer, wage and pension payments could deepen financial inclusion, while reducing potential leakages.
- **Enforcing consumer protection**, such as by safeguarding client funds, mistaken and unauthorized payments, by requiring fee disclosure, and ensuring data protection and privacy, will be also important. This requires development and implementation of relevant consumer protection guidelines, currently planned by the CBN.
- **Reviewing, revisiting, and enforcing tiered know-your-customer (KYC) regulations.** MNO subsidiaries would need to follow already introduced tiered KYC regulations to offer mobile money products. The integration with National ID systems will allow stricter monitoring of transactions, which would need to be accompany by CBN standards for training on AML risks for mobile money agents.
- **Leveraging mobile payments to target low-income individuals and women** would help address inequities in financial access across demographic groups. This strategy would ideally be combined with initiatives aimed at increasing awareness and digital financial literacy skills as part of the adoption, operationalization, and implementation of the financial education strategy.

Figure 2. Nigeria: Benchmarking Indicators of Financial Inclusion**Account at a Financial Institution***(Percent, age 15+)***Saved at a Financial Institution***(Percent, age 15+)***Borrowed from a Financial institution***(Percent, age 15+)***Mobile Money Account***(Percent, age 15+)***Made Digital Payments in the Past Year***(Percent, age 15+)***Saved: Savings Club/Person Outside Family***(Percent, age 15+)*

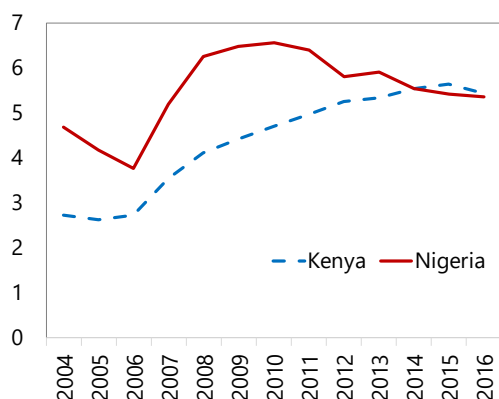
Source: World Bank, Global Findex 2018.

Figure 3. Nigeria: Use of Financial Services by Demographic Groups**Account at a Financial Institution***(Percent, age 15+)***Saved at a Financial Institution***(Percent, age 15+)***Borrowed from a Financial institution***(Percent, age 15+)***Mobile Money Account***(Percent, age 15+)***Made Digital Payments in the Past Year***(Percent, age 15+)***Saved: Savings Club/Person Outside Family***(Percent, age 15+)*

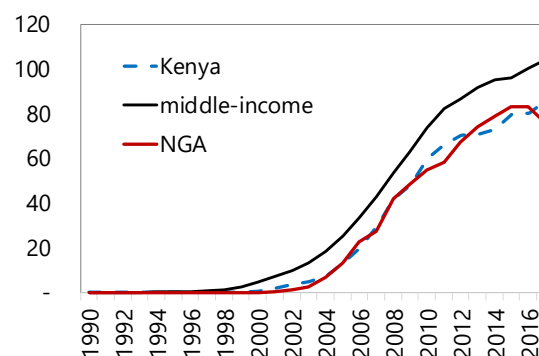
Source: World Bank, Global Findex 2018.

Figure 4. Nigeria: Supply-side Indicators of Financial Access**Number of Branches, Commercial Banks, 2014-2016**

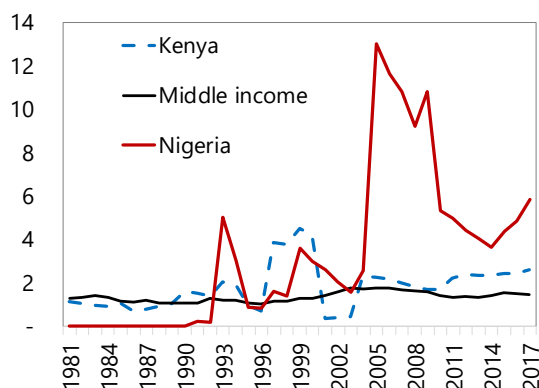
(Per 100,000 Adults)

**Mobile cellular subscriptions, 1990-2016**

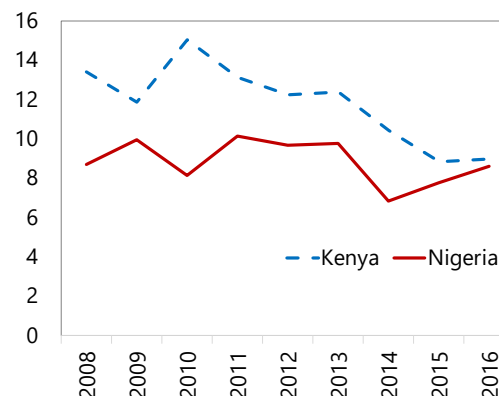
(per 100 people)

**Personal Remittances**

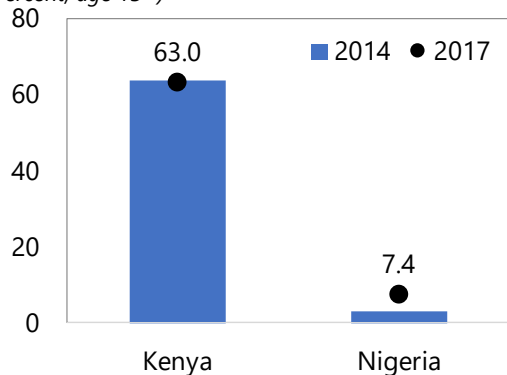
(Percent of GDP)

**Cost of Sending 200 USD to Select Country, 2008-2016**

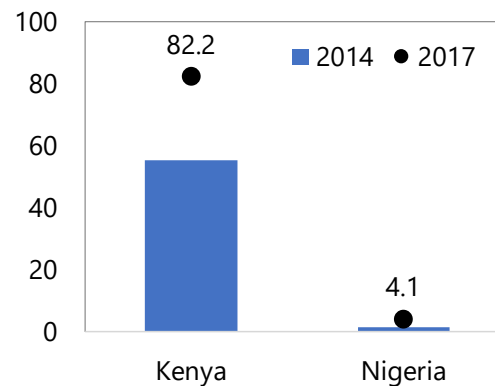
(Percent)

**Sent or Received Domestic Remittances: through a Mobile Phone**

(Percent, age 15+)

**Paid Utility Bills: Using a Mobile Phone**

(Percent paying utility bills, age 15+)



Source: World Bank, Global Findex 2018; World Development Indicators, FinStats 2018, FAS.

Annex VIII. Nigeria: Capacity Development Strategy for FY 2019—Summary January 2019

(i) Macro challenges and policy priorities. Given the prospects of continuing oil price volatility, increasing financing constraints and challenging macroeconomic conditions, significant macroeconomic adjustment is urgent. In particular, adjustments in sources of fiscal revenue and forex earnings are essential for importing intermediate inputs and capital goods and for development and social spending.

(ii) Technical Assistance (TA) priorities could focus on areas where progress or growing commitment has been seen recently:

- a. Non-oil revenue mobilization, through tax and customs administration.
- b. Public financial management (PFM) in the federal government;
- c. Capacity development in banking supervision and strengthening or implementing supervisory tools;
- d. Improving compilation of macroeconomic statistics – in particular, government finance, real sector, public debt, and balance of payments statistics.

(iii) Challenges in/lessons on the implementation of recent TA recommendations.

- a. The largest share of TA resources has been allocated to PFM, tax administration, and tax policy, supplemented by legal drafting of tax codes that require amendment. The implementation record for recommendations on PFM has been good, but that for tax policy has been weak, with advice contributing to the policy debate but commitment not yet materializing. Traction on tax administration recommendations has been good and is picking up through an action plan to implement TADAT recommendations.
- b. A significant share of TA resources had been allocated to monetary operations, banking supervision, and bank resolution, with a long-term expert (LTX), funded by the Department of International Development (DFID), currently residing in Abuja. Progress in banking supervision has been moderate, with some concerns about the level of absorption, while that in monetary operations is resuming now through peripatetic visits from AFRITAC West, mostly through training.
- c. TA allocated to improving statistics (national accounts, CPI, monetary and financial statistics, financial soundness indicators) has been substantial, with a steady implementation record and a commitment by the authorities to strengthen data-based decision making. However, improvements in national accounts and CPI have been hampered by serious data quality issues in the 2009/10 Living Standards Survey (NLSS).

(iv) Main risks to the impact of capacity development and how they can be mitigated.

- a. The areas of focus are appropriate, but more efforts on the authorities' side and follow-up TAs would be needed in non-oil revenue mobilization through tax administration. No new TA on tax policy is currently envisaged pending a clearer demonstration of the authorities' commitment in that area.
- b. It is important to continue TA on bank supervision/resolution issues being conducted through the posting of resident expert. Training on monetary policy operations through AFRITAC West should also continue.
- c. Implementation track record should be stressed, as this has become an important factor in the allocation of the Fund's limited TA resources. Intake of TA advice will improve through additional training to strengthen capacity at government agencies, which is not helped by turnover and retirements in some key positions.
- d. The authorities are encouraged to continue increasing their use of Africa's Regional Technical Assistance Center West 2, to help Nigeria build its institutional and policy implementation capacity, and to actively participate in the Steering Committee.
- e. The authorities are making full use of training opportunities, through courses in HQ or at the Africa Training institute, with particular emphasis on fiscal risks, debt sustainability, financial programming. Training in country, such as on petroleum revenue forecasting, DSA, External Assessment or Public Private Partnership risk management—are appreciated and are in greater demand as they can accommodate more participants from Nigeria.

(v) Authorities' views.

The Nigerian authorities agree with the above-mentioned priorities and consider IMF TA valuable and regularly seek the Fund's advice to guide reform strategies in areas such as PFM, tax policy, revenue administration, debt management, financial supervision, monetary policy, and Central Bank operations. They underscored the importance of our tax policy advice in framing their strategy to increase excises, and plan to follow up on other areas of staff's tax policy advice. They also underlined their appreciation of training opportunities, including customized training tailored to specific needs.

The authorities believe TA delivery could be improved to achieve better results. There are occasional complaints about frequency of missions that often puts an undue burden on the same individuals on the authorities' side. They have suggested focusing TA on a few key priority areas they have identified. These should be supported through peripatetic expert visits or long-term resident experts that provide more hands-on support to complement the written recommendations left in the reports. Peer exchanges to learn from other countries are also considered useful.



NIGERIA

March 13, 2019

STAFF REPORT FOR THE 2019 ARTICLE IV CONSULTATION—INFORMATIONAL ANNEX

Prepared By

The African Department

CONTENTS

FUND RELATIONS	2
RELATIONS WITH OTHER INTERNATIONAL FINANCIAL INSTITUTIONS	6
STATISTICAL ISSUES	7

FUND RELATIONS

(As of January 31, 2019)

Membership Status: Joined: March 30, 1961;			<u>Article XIV</u>				
General Resources Account:			SDR Million	%Quota			
<u>Quota</u>			2,454.50	100.00			
<u>IMF's Holdings of Currency (Holdings Rate)</u>			2,279.09	92.85			
<u>Reserve Tranche Position</u>			175.47	7.15			
SDR Department:			SDR Million	%Allocation			
<u>Net cumulative allocation</u>			1,675.38	100.00			
<u>Holdings</u>			1,499.18	89.48			
Outstanding Purchases and Loans: None							
<u>Latest Financial Arrangements:</u>							
<u>Type</u>	<u>Date of Arrangement</u>	<u>Expiration Date</u>	<u>Amount Approved (SDR Million)</u>	<u>Amount Drawn (SDR Million)</u>			
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			
Overdue Obligations and Projected Payments to Fund ^{1/}							
(SDR Million; based on existing use of resources and present holdings of SDRs):							
			<u>Forthcoming</u>				
			<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>	<u>2023</u>
Principal							
Charges/Interest			<u>1.97</u>	<u>1.98</u>	<u>1.98</u>	<u>1.98</u>	<u>1.98</u>
Total			<u>1.97</u>	<u>1.98</u>	<u>1.98</u>	<u>1.98</u>	<u>1.98</u>
^{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.							

^{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 Catastrophe Containment and Relief (CCR): Not Applicable

Exchange Rate Arrangement

The de jure exchange rate arrangement is floating, with the CBN beginning operations on a flexible exchange rate regime on June 20, 2016. The CBN explicitly aims to maintain an exchange rate principally driven by market forces but intervenes to reduce volatility and to counteract speculative attacks on the national currency. The de facto exchange rate has been reclassified twice: first to other managed from stabilized, effective June 21, 2016, and then to stabilized from other managed, effective August 26, 2016. Nigeria participates in the W-ERM II of the WAMZ, which requires maintaining the spot exchange rate between the naira and the U.S. dollar within $\pm 15\%$ of the central rate, but the CBN has not implemented this regime.

Nigeria maintains the following exchange restrictions subject to Fund approval under Article VIII, Section 2(a) of the IMF's Articles of Agreement: (i) an exchange restriction arising from the prohibition to access foreign exchange at the Nigerian foreign exchange markets for the payment of imports of 42 categories of items;¹ (ii) an exchange restriction arising from the rationing of foreign exchange in the CBN's IFEM and SMIS windows, and its allocation based on the CBN's determination of priority categories of transactions; and (iii) an exchange restriction arising from existing limits on the amounts of foreign exchange available when traveling abroad (BTA/PTAs), which cannot be exceeded even upon verification of the bona fide nature of the transaction. In addition, Nigeria maintains the following MCPs subject to Fund approval under Article VIII, Section 3 of the IMF's Articles of Agreement: (i) an MCP arising from the intervention practice of the CBN that results in the establishment of an official exchange rate for use in all official transactions, which in practice differs by more than 2 percent from the rate used by commercial banks in the CBN FX windows (SMIS, SME, IEFX and Invisibles), and by money transfer operators; and (ii) an MCP arising from the large spread between the official exchange rate and the rates in the parallel market, caused by the CBN's limitation on the availability of foreign exchange which channels current international transactions to such market; and (iii) an MCP arising from the potential spread of more than 2 percent in the exchange rates at which the CBN sells foreign exchange to successful auction bidders in the SMIS window.

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.

¹ The CBN issued a December 2018 circular that added fertilizer to the list of import items not eligible for access to foreign exchange, bringing the number of items on the list to 42.

Article IV Consultation

Nigeria is on the standard 12-month Article IV consultation cycle. The previous Article IV consultation was concluded on March 5, 2018.

Technical Assistance (TA) since January 2017		
Department	Purpose of TA mission	Duration
STA	Balance of Payments Statistics	January 23 – February 3, 2017
FAD	Assessment of proposed petroleum fiscal regime reforms	February 13–24, 2017
FAD	Tax and Customs Administration	April 26 – May 8, 2017
FAD	Tax policy and revenue mobilization	July 20 – August 3, 2017
FAD	Fiscal Regime of the Oil Sector Follow-up	November 2–13, 2017
STA	Price Statistics	May 22–26, 2017
STA	Price Statistics	September 18–22, 2017
STA	National Accounts	September 25 – October 6, 2017
STA	Price Statistics	November 13–24, 2017
STA	Real Sector Statistics	December 4–8, 2017
STA	Government Finance Statistics	March, 2018
STA	National Accounts	November, 2018
MCM	Nigeria Securities Exchange Commission: Risk Based Supervision	January 15–26, 2018
FAD	Cash Management/Debt Management SOEs	April 25- May 3, 2018
FAD	Post-TADAT Follow-up	July 18-31, 2018
FAD	Tax regime for natural gas and CB in revenue modeling	September 18-28, 2018
FAD	PIMA	September 20-October 3, 2018
STA	Government Finance Statistics	November 19-November 30, 2018
MCM	Financial Stability: Early Warning System	April 9-20, 2018
MCM	BIS/IMF Symposium on Capacity Building in Financial Sector Regulation and Supervision	February 7–9, 2018

West Africa Regional Technical Assistance Center 2 (AFRITAC 2)

Department	Purpose of TA mission	Duration
STA	Price Statistics	January 30 – February 10, 2017
FAD	Strengthening Cash Flow Forecasting and Cash Management	February 1–11, 2017
FAD	Develop Project Governance Framework	February 20 – March 3, 2017
FAD	Strengthen Business Analysis Capabilities	February 20 – March 3, 2017
STA	National Accounts	February 27 – March 3, 2017
FAD	Develop Change Management Program	April 17, 2017
FAD	Develop Project Governance Framework for FIRS	April 17, –28, 2017
FAD	Mission on Tax & Customs Policy and Administration	May 1–10, 2017
STA	Consumer Price Index	May 22–26, 2017
FAD	Audit Training Exchange Program	6/12/2017
FAD	Audit Training Exchange Program	June 12–23, 2017
MCM	Monetary Policy Operations - A Stock Taking	June 12–16, 2017
MCM	Basel II – ICAAP/SREP Review	July 24 – August 11, 2017
FAD	Data Matching Project Exchange program for FIRS	July 24 – August 11, 2017
FAD	Accounting Data Quality and Financial Reporting	August 16 – 28, 2017
FAD	Advancing TSA Implementation and Cash Management (sub-national)	August 29 – September 8, 2017
STA	Consumer Price Index	September 18–22, 2017
STA	National Accounts	September 25 – October 6, 2017
FAD	Strengthening Oversight of Federal Government-Owned Enterprises	October 4–17, 2017
MCM	IFRS 9 Implementation	October 9–20, 2017
FAD	Review of TTF Program	October 9–18, 2017
FAD	Compliance Improvement Program (FIRS)	October 30 – November 8, 2017
FAD	Audit Training Exchange Program	November 6–17, 2017
STA	Prices and Index Numbers	November 13–24, 2017
MCM	Risk Based Supervision (RBS) Framework	December 11–15, 2017
FAD	Develop Project Governance Framework	January 8–19, 2018
MCM	Risk Based Supervision (RBS) Framework	January 23 – February 3, 2018
FAD	Develop Operational Plans for Support Groups (FIRS)	February 5–16, 2018
MCM	Implementation of the Pillar II of the Basel framework	February 12–23, 2018
FAD	Customs Risk Management	February 19 – March 2, 2018
STA	National Accounts	March 5–16, 2018
FAD	Post Clearance (PCA) Mentoring Support (Phase 1)	March 12–23, 2018
FAD	Project Management Training for Customs	March 12–23, 2018
STA	Prices and Index Numbers	March 12–16, 2018
FAD	Support Kaduna State Revenue Reforms	April 2–13, 2018

FAD	Support Kaduna State Revenue Reforms	April 2–13, 2018
FAD	HQ-led PIMA Mission	April 9–20, 2018
FAD	Compliance Improvement for Lagos State	April 9–20, 2018
FAD	Leadership & Management Development Training	April 18 – May 2, 2018
MCM	RBS: Enhancing Credit Risk Analysis	June 25 - 29, 2018
FAD	HQ Led TADAT	July 16 - 31, 2018
FAD	Develop a compliance management program	July 18 - 31, 2018
MCM	Diagnostic Mission on Macroeconomic and Monetary Policy Analysis and Monetary Operations	August 22 - 31, 2018
MCM	Regional Workshop on Monetary Policy Communication	September 10 - 14, 2018
FAD	VAT Compliance and Data Matching	September 17 - 28, 2018
FAD	HQ Led PIMA Mission	September 20 - October 3, 2018
FAD	PCA Mentoring Support (Phase 2)	October 29 - 9, 2018
FAD	Implementation of NCS Strategic Plan and Development of Key Performance Indicators	October 29 - 9, 2018
STA	National Accounts	November 19 - 30, 2018
FAD	Development of RM Strategy, RM Committee & Support with the Establishment of an RM Unit (Phase 2)	December 3 - 14, 2018
MCM	Developing Forward Looking Monetary Policy Analysis	December 3 - 7, 2018
MCM	Professional Attachment (Bank of Liberia)	January 15 - 18, 2019

Senior Resident Representative:

Mr. Amine Mati is the IMF's Senior Resident Representative (and Mission Chief) in Abuja since February 2017.

Resident Technical Assistance Advisor:

Mr. Leonard Chumo is the IMF resident advisor for banking supervision at the Central Bank of Nigeria, since February 2017.

RELATIONS WITH OTHER INTERNATIONAL FINANCIAL INSTITUTIONS

A: World Bank:

<https://www.worldbank.org/en/country/nigeria>

B: African Development Bank

<https://www.afdb.org/en/countries/west-africa/nigeria/>

STATISTICAL ISSUES

(As of February 2019)

I. Assessment of Data Adequacy for Surveillance

General: Data are broadly adequate for surveillance. However, some data shortcomings remain. In particular, information on subnational public finances and large errors and omissions in the balance of payments. Efforts to improve data in those areas are ongoing, including STA TA on national accounts, monetary, government finance and external sector statistics. 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 effort to improve the compilation of timely and internally consistent data, for example, participation in e-GDDS (although some data domains, including fiscal data, have not been maintained), the use of Government Integrated Financial Management Information System (GIFMIS) for budget preparations, a fully operational Treasury Single Account (TSA), and a reduction in the balance of payments errors and omissions. These efforts however need to be extended to the subnational levels.

National accounts: The NBS implemented the new base year 2010, the International Standard Industrial Classification (ISIC revision 4), and the Supply and Use Table (SUT) framework. The authorities continue to receive TA from the Fund, World Bank, and African Development Bank in completing a GDP rebasing exercise, including producing a GDP back-casted series. The NBS is planning to implement the new base year 2019, which will be published in 2022.

Prices statistics: The official monthly consumer price index (CPI), a composite of urban and rural price data, is available on a timely basis. However, the index weights and basket are based on expenditures derived from the 2003/04 National Consumer Expenditure Survey and are therefore unlikely to be representative of current expenditure patterns. The update of the CPI should be finalized as a matter of urgency. Compilation of an updated producer price index (PPI) is ongoing but funding for the survey is uncertain. The NBS continues to receive TA from the Fund on price statistics but high turnover of staff presents ongoing challenges.

Government finance statistics: GFS in Nigeria has several weaknesses. The most pressing shortcoming is related to inadequate data coverage, this includes incomplete coverage of federal government institutions and limited data at the subnational governments level, which accounts for almost one half of total government expenditure. The federal government is working with SLGs to improving the quality, coverage, and timeliness of fiscal reports to facilitate the preparation of a consolidated set of fiscal accounts. This requires the governments at all levels to follow a standardized budget classification, chart of accounts, and accounting systems that will allow consistent classifications of the data, including use of International Public Sector Accounting Standards (IPSAS)—cash basis—at the Federal and State levels. 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 state-owned enterprises as well as improve the delineation of the public sector between general government units and public nonfinancial and financial corporations

IMF TA missions conducted by FAD have supported the Federal Government of Nigeria (FGN) in the design and implementation of public financial management reforms, in particular related to the treasury single account (TSA), cash management, and budgeting most recently in September 2018. In addition, the IMF's regional technical assistance center (AFW2) continues to support the authorities' efforts to extend these reforms to interested States. Additional TA support by FAD involved a review of the institutional structures of Federal Government Owned Enterprises (FGOE) and providing a roadmap to strengthen fiscal oversight. A GFS TA mission visited Abuja in November 2018, as what is hoped will be the start of sustained engagement in this area. Prior to this mission the only GFS capacity building during the last several years was a regional training course that took place in Lagos in June 2017.

Nigeria does not report any GFS data to STA, though quarterly debt data is reported to the IMF / World Bank Quarterly Public Sector Debt Database.

Monetary and financial statistics: There have been significant improvements in the compilation of monetary statistics. Further work would be needed including to extend the other depository corporations (ODCs) sector beyond commercial banks and to improve reporting of monetary aggregates. In addition, Nigeria is expected to report data for other financial corporations sector (OFCs) through the IMF standardized Report Forms (SRFs). In view of the substantial volume of recent sales of CBN bills, it is important that the Monetary Survey properly reflects both domestic and nonresident holdings.

Financial soundness indicators (FSIs): A broad range of information on the financial sector, including all core and eleven encouraged FSIs, is compiled by the CBN (though publishing FSIs on a timely basis would be needed). 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 TA, the authorities have expanded the range and improved the quality of data sources, aimed at strengthening the balance of payments, in particular progress in reducing the large errors and omissions, and producing an international investment position.

Nevertheless, more needs to be done to further reduce the 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 zones (using a residency criterion) and improved coverage of estimates of the external assets and liabilities of the banking sector. TA efforts helped CBN diversify the data collection for the improvement of the ESS, including through introducing private financial flows and stocks surveys. Further progress was made by CBN in developing a database for stock and transactions. A survey of private transfers should foster improvements in the estimates of private transfers, especially those received through informal channels and for the in-kind values, which are currently not estimated. TA focusing on improving the IIP compilation by preparing integrated IIP statements and developing partner-country portfolio investment statistics is planned for early FY20.

The authorities have not yet initiated the 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. In addition, IMF and World Bank staff worked with the DMO to develop analytical capacity to formulate a debt management strategy based on detailed cost-risk analysis.

II. Data Standards and Quality

Participant in the enhanced General Data Dissemination System (e-GDDS) since April 2017. As of February 13, 2018, Nigeria was meeting 33 percent of the timeliness set for 14 data categories disseminated through the National Summary Data Page.

No Data ROSC.

Nigeria: Table of Common Indicators Required for Surveillance

(As of February 26, 2019)

	Date of latest observation	Date received	Frequency of Data ¹	Frequency of Reporting ¹	Frequency of Publication ¹
Exchange Rates	Dec. 2018	Feb. 2018	M	M	M
International Reserve Assets and Reserve Liabilities of the Monetary Authorities ²	Oct. 2018	Dec. 2018	M	M	M
Reserve/Base Money	Oct. 2018	Dec. 2018	M	M	M
Broad Money	Oct. 2018	Dec. 2018	M	M	M
Central Bank Balance Sheet	Oct. 2018	Dec. 2018	M	M	M
Consolidated Balance Sheet of the Banking System	Oct. 2018	Dec. 2018	M	M	M
Interest Rates ³	Nov. 2018	Dec. 2018	D	D	D
Consumer Price Index	Dec. 2018	Jan. 2018	M	M	M
Revenue, Expenditure, Balance and Composition of Financing ⁴ – Central Government	Dec. 2017	Jan. 2018	M	M	M
Revenue, Expenditure, Balance and Composition of Financing ⁴ – General Government ⁵ and Central Government	Dec. 2017	Jan. 2018	M	M	M
Stocks of Central Government and Central Government-Guaranteed Debt ⁶	Dec. 2016	Feb. 2017	Q	Q	Q
External Current Account Balance	Jun. 2018	Oct. 2018	Q	Q	Q
Exports and Imports of Goods and Services	Jun. 2018	Oct. 2018	Q	Q	Q
GDP/GNP	2017	Dec. 2018	Q	Q	Q
Gross External Debt	2015	Dec. 2016	A	A	A
International Investment Position ⁷	2017	Aug. 2018	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.



NIGERIA

March 22, 2019

STAFF REPORT FOR THE 2019 ARTICLE IV CONSULTATION—SUPPLEMENTARY INFORMATION

Approved By
David Owen (AFR)
Maria Gonzalez (SPR)

Prepared by the African Department in consultation with other Departments.

This supplement reports on the latest economic and policy developments since the Staff Report was issued to the Board. It does not alter the thrust of the staff appraisal.

- 1. Following the Presidential elections of February 23, 2019, a transition Committee—chaired by the Vice President—has been put in place to prepare the priorities of the new Cabinet expected to be sworn in after May 29th.** Tasks of the Committee include an assessment of the implementation of past reform initiatives and projects of the outgoing administration. The Committee is also planning to produce a detailed report laying out the reform priorities and a clear road map—still expected to be aligned with the Economic Recovery and Growth Plan—for the next administration to facilitate implementation soon after inauguration.
- 2. Elections for governors and state assembly were held for 29 of 36 states on March 9, 2019, with President Buhari's APC party winning a majority of governorships so far.** Latest results announced by Nigeria's Independent National Electoral Commission (INEC) indicate that the ruling party APC candidates have won 13 states while the main opposition party (PDP) won 9 states. Elections in 6 other states were declared inconclusive, while voting was suspended in one state. The INEC announced that re-runs will be held on March 23, 2019 in the six states with inconclusive results.
- 3. Foreign investors are retaking positions in Nigeria's financial markets after the end of the presidential elections and the more patient approach to US monetary policy normalization.** Estimated total non-resident holdings increased by \$1.6 billion in February (a 9 percent increase from January), with most of the increase directed towards fixed income securities (\$1.4bn). In the two-week period after the presidential election, turnover in the foreign exchange Investors and Exporters (I&E) window was \$6.1 billion, the highest on record for a single two-week period.

Increased liquidity in the financial system has resulted in lower one-year OMOs clearing rates by 68bps to 17.5 percent, lower FGN bond yields (-275 bps to 14.5 percent), and lower NTB yields in the secondary market (three-month (-253 bps to 13.1 percent), six-month (-169 bps to 15.1 percent), and one-year (-40bps to 17.4 percent)).

4. Inflation remains sticky. Headline inflation reached 11.3 percent year-on-year in February 2019, down from 11.4 percent in January. The decline was a result of lower inflation in almost all categories of the basket, Annual core inflation eased to 9.8 percent in February from 9.9 percent in January.

**Statement by Mr. Kingsley Obiora, Alternate Executive Director for Nigeria, and
Mr. Osana Jackson Odonye, Senior Advisor to the Executive Director**

March 27, 2019

On behalf of the Nigerian authorities, we appreciate the continued engagement with the Fund and the constructive discussions with staff during the 2019 Article IV Consultation. The authorities welcome staff's analysis, assessment and advice but wish that some of the economic outcomes reported therein were better attributed to the policies of the government.

With the 2019 General Elections over, and the incumbent President re-elected, the authorities are now prioritizing the accelerated implementation of the country's Economic Recovery and Growth Plan (ERGP), which underpinned the response to the 2016 recession, and engendered a relatively-quick recovery. Under the ERGP, reform priorities include intensifying non-oil revenue mobilization, completing power sector reforms, accelerating anti-corruption efforts, improving the business environment, and fast-tracking job-creation efforts to boost inclusive growth. The authorities are convinced that these reforms would provide the impetus needed to improve economic growth in the near- to medium-term.

Economic Developments and Prospects

Economic activity expanded by 1.9 percent in 2018 compared with 0.8 percent in 2017, mainly driven by improvements in manufacturing and services as well as sustained production of crude oil. In 2019, the government's scheduled investments in the oil sector are expected to further boost oil production. At the same time, agricultural production will pick up significantly in light of diminishing clashes between farmers and herders. The authorities are also implementing various schemes and policies to diversify the sources of growth to include sectors such as manufacturing, solid minerals, construction, and real estate. With respect to solid minerals, for example, the government has been integrating artisanal miners into the formal sector, clarifying the tax and regulatory frameworks for mining activities, improving the archiving of geo-data, harmonizing their format, and promoting their dissemination. These developments are expected to make for much brighter economic prospects for the country.

Reflecting sustained tight monetary policy, declining food prices, and stability in the exchange rate, inflationary pressures continued decelerating from its peak of 18.5 percent at end-2016. As at December 2018, the country's inflation rate stood at 11.4 percent, down from 15.1 percent in January 2018. More recent performance indicates headline inflation has further declined to 11.3 percent in February 2019, while core inflation is in single digit levels at 9.8 percent.

Foreign exchange (FX) reserves closed the year at about \$42.5 billion, exceeding 7 months of imports. The latest data from the Central Bank of Nigeria (CBN) indicate that the reserves have grown further to \$44.92 billion as at March 20, 2019. The improvement in external reserves largely benefitted from recovery in oil prices, increased local sourcing of raw materials and intermediate inputs by manufacturers, as well as sustained inflows of foreign exchange at the Investor and Exporter (I&E) window.

Fiscal Policy

The authorities remain committed to a prudent fiscal policy, which creates room for priority expenditures, improves non-oil revenue, and manages public debt in a sustainable manner. In 2018, the estimated Federal Government (FG) deficit improved slightly to 4 percent of GDP from 4.1 percent the previous year. With the expected improvement in fiscal outturns, the authorities have projected a decline in the deficit to 2.3 percent of GDP in 2019, having accounted for the recently-approved increase in the minimum wage. In line with government's Medium-Term Expenditure Framework (MTEF), revenue is expected to increase to 4.8 percent of GDP in 2019, mainly attributable to higher oil receipts and gains from divestment of oil assets.

For non-oil revenue, the authorities have launched the Strategic Revenue Growth Initiative (SRGI), a comprehensive plan for tax reforms. The SRGI will be overseen by a high-powered steering committee under the office of the Minister of Finance, to guide reforms and monitor progress. The authorities have also embraced a number of policy initiatives, including introducing a VAT with full crediting of input tax, increased compliance monitoring of tax incentives, and broad-based use of excises. On tax administration, notable accomplishments include creating taxpayers' awareness, increased use of Integrated Tax Administration IT System (ITAS), increased frequency of tax audits, and greater use of technology in the collection process. These measures are part of the efforts to address the weaknesses identified in the recent Tax Administration Diagnostic Assessment Tools (TADAT). In the near term, they plan to improve the taxpayer register, develop a filing and arrears management system, and establish an automated interface between the Federal Inland Revenue Service (FIRS) and the Treasury Single Account (TSA).

The authorities concur with staff on the importance of stronger coordination amongst relevant government agencies for more effective cash management. In this respect, they are already revamping the existing coordination structure, which includes the Office of the Accountant General of the Federation, the Debt Management Office and the Central Bank of Nigeria (CBN). In their continued quest to increase the net benefits of public debt, the authorities adopted the strategy of retiring maturing T-Bills with Eurobond proceeds.

Furthermore, they are prioritizing concessional loans over bonds to reduce rising interest payments.

Monetary Policy

Monetary policy is delivering as envisaged in the areas of exchange rate, the FX market, inflation, and portfolio flows. The Bank's tight monetary policy stance is taming inflation as stated earlier. Since the end of the general elections just about 4 weeks ago, portfolio investments into the country have risen by \$6 billion, a further testament to continuing investors' confidence in the economy. Factoring this confidence, as well as the existence of ample reserves, staff's concern about capital flow reversals may not be appropriate.

In a boost to Monetary Policy formulation and communication, the government acted promptly to replace retiring members of the Monetary Policy Committee (MPC) with eminent Economists, drawn from both the public and private sectors, a move that has led to more expansive consideration of policy options by the Committee and better communication of monetary policy decisions.

With respect to the Foreign Exchange market, the CBN remains committed to the unification of exchange rates in the medium-term. There has already been considerable convergence of rates in the market, mostly reflecting strong oversight on the market, adequate liquidity levels, and market signaling from the I&E window. In a significant additional step towards unification, the CBN recently reduced the \$500,000 daily sales to banks to \$100,000 at the ₦305/US\$1 rate. While agreeing that strengthening external buffers is essential for the CBN, the authorities differ with staff's advice to discontinue limits on the use of naira-denominated debit or credit cards overseas. Buttressing their position, the authorities argue that since the local currency is neither convertible nor tradable, an unrestricted use of these local-currency cards abroad would exert undue pressure on FX reserves, and on the exchange rate.

Financial Sector

The banking sector has significantly increased its resilience in recent years, with much stronger levels of capitalization. In addition, NPLs have fallen from 16.2 percent in February 2018 to 11.7 percent at end-2018. This outcome was partly driven by pick-up in economic growth and sale of NPLs to private asset management companies (AMCs), as well as higher oil prices, which enabled affected debtors to service their loans. Solvency ratios improved markedly by 5 percentage points to 15.3 percent at end-2018, with the introduction of three- year transitional arrangements for IFRS9. Bank profitability has remained relatively unchanged with fees moderating the declining net interest margins. Staff's stress tests confirmed that large banks' resilience to credit and concentration risks have improved.

On sustaining financial stability, the CBN is intensifying several initiatives such as the completion of IFRS 9 implementation and a move by most banks to reflect an exchange rate closer to the market in their books. It has also taken initiatives to strengthen risk-based supervision through onsite reviews and the initiation of Basel's Internal Capital Adequacy Assessment Program (ICAAP), providing a comprehensive assessment of banks' capital needs and risk profiles. Going forward, it will assess banks on requirements of Basel III, including on liquidity and leverage ratios from the second half of 2019.

Structural Reforms

The authorities have continued to make progress on implementing structural reforms in line with the ERGP goals. Notable achievements include improved monitoring of State-Owned Enterprises (SOEs) to curtail fiscal risks, and initiation of new funding requirements for joint ventures in the oil sector. These have enhanced timely payments for cost recovery and avoided new government arrears. The government is also prioritizing the completion of the new

petroleum legislation and passage of legislative reforms aimed at strengthening the SOE framework. For the non-oil SOEs, the governance reforms include closer monitoring of revenue earnings, improved efficiency of collections, and better tracking of remittance of operational surpluses to the government.

Owing to the establishment of Credit Reference Bureaus and a modern Online Collateral Registry, the business environment has improved significantly, especially for small- and medium-scale enterprises. Building on this success, the government plans to legislate and enforce deadlines for the issuance of government licenses and permits, as well as simplify customs, immigration, investment, and trade procedures. A major structural reform is also underway with the implementation of the Power Sector Recovery Program (PSRP). Given that Nigeria's Power Sector is largely owned by private companies, the authorities have been implementing measures to improve the financial viability of operators, strengthen contract enforcement and sector governance, and de-risk the sector for further investments. Partly due to these efforts, Power Generation reached a milestone of 7,000 Megawatts as of December 2018.

Human Capital Development

In the area of human capital development, the government has prioritized financing for high impact human capital interventions to address the low ranking of Nigeria on the recently published World Bank Human Capital Index. They have also taken active steps to institutionalize human capital development through high level advocacy and engagement. To underscore the importance of this to the government, these efforts are being led by a high- level Working Group, chaired by the Vice President.

Conclusion

There is ample resolve and commitment to accelerate implementation of Nigeria's Economic Recovery and Growth Plan (ERGP), aimed at ensuring sustainable, inclusive growth. The authorities are determined to pursue policies that would focus on growth-friendly fiscal measures, market-sensitive monetary actions, and investment-boosting structural reforms.

Attention will also be maintained on reducing inflation, containing vulnerabilities in the banking sector, and sustaining key structural reforms. The authorities value Fund advice in guiding economic policies and technical assistance in improving economic outcomes. They look forward to continuing these engagements, which have borne favorable outcomes for the country.