INTERNATIONAL MONETARY FUND

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NIGERIA

2012 ARTICLE IV CONSULTATION

May 2013

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 2012 Article IV consultation with Nigeria, the following documents have been released and are included in this package:

- **Staff Report** for the 2012 Article IV consultation, prepared by a staff team of the IMF, following discussions that ended on November 15, 2012, with the officials of Nigeria on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on January 23, 2013. The views expressed in the staff report are those of the staff team and do not necessarily reflect the views of the Executive Board of the IMF.
- **Debt Sustainability Analysis** prepared by the staffs of the IMF and the World Bank.
- **Informational Annex** prepared by the IMF.
- **Supplementary Information** updating poverty data.
- **Public Information Notice** (PIN) summarizing the views of the Executive Board as expressed during its February 6, 2013 discussion of the staff report that concluded the Article IV consultation.
- **Statement by the Executive Director** for Nigeria.

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STAFF REPORT FOR THE 2012 ARTICLE IV CONSULTATION

January 23, 2013

Context: Strong growth on the order of 6 percent a year has been sustained over the last decade, but the official unemployment rate has increased over the period and poverty remains high. To make growth more inclusive, the authorities initiated a comprehensive program in 2012, prioritizing macroeconomic stability and reforms to boost competitiveness and productivity, especially in labor-intensive sectors. Initial outcomes have been generally favorable although progress in some areas has been slower than originally envisaged.

Outlook and Risks: In 2013, growth is projected to remain strong and inflation to fall to single digits. The key downside risks are (i) a large drop in world oil prices; and (ii) ongoing slow progress in building consensus around key fiscal reforms.

KEY ISSUES

Creating fiscal space while ensuring macroeconomic stability: Achieving the planned fiscal consolidation for 2013–15 will enable the rebuilding of buffers and create necessary fiscal space for additional public investment. Ambitious reorientation of spending at the federal level towards increased capital formation needs to be supported by efforts to boost non-oil revenue, strengthen PFM, and build broad public support for the eventual full deregulation of fuel prices.

Improving the fiscal framework: The authorities should continue to prioritize the transition from the Excess Crude Account to the Sovereign Wealth Fund, which has a stronger legal foundation, and should seek to reach understandings with the legislature on a rules-based approach to setting the budget oil price.

Monetary policy should continue to be focused on a single-digit inflation objective.

Strengthening financial stability: With the 2009 banking crisis now resolved, the FSAP pointed to the need to boost capacity for consolidated supervision of banks with cross-border operations and for measures to promote access to credit for SMEs.

Structural reforms should focus on key impediments to improving competitiveness. The momentum of the reforms in the power sector should be maintained. Targeted efforts to modernize agriculture could contribute to major gains in employment and poverty reduction but the authorities will need to avoid reliance on protectionist measures.

Approved By
by Seán Nolan and Martin Mühleisen

Discussions took place in Lagos and Abuja during November 5–15, 2012. The staff comprised Messrs. Alleyne (head of the mission), Hussain, Gueye and Konuki (all AFR), and Mr. Woo (FAD). Mr. Rogers (Senior Res. Rep.) assisted the mission. Mr. Enoch (Deputy Director, MCM) joined the mission in the second week to present the FSAP recommendations and discuss next steps. Mr. Uwatt (OED) also participated in the discussions. The staff team met with the ministers of finance and agriculture; the chief economic advisor to the President and other senior government officials; the governor of the Central Bank of Nigeria; members of the National Assembly; and senior representatives of the banking and manufacturing sectors.

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CONTEXT

1. **The overarching policy challenge facing Nigeria is to make substantial inroads in reducing widespread poverty and unemployment**. Strong growth, maintained even during the global financial crisis, has been one of the highest in the region over the last decade. However, with growth mainly concentrated in the large informal economy, low quality government spending, and ongoing governance challenges, over 60 percent of the population still live below the poverty line; the official unemployment rate has risen steadily from 15 percent in 2003 to 24 percent in 2011;[1] and Nigeria places 157 out of 187 on the 2011 Human Development Index. (Table 1). The authorities have laid out a comprehensive plan, the Transformation Agenda, for achieving strong inclusive growth.[2] These plans were supported by Directors at the time of the 2011 Article IV Consultation and, over the past year, the authorities' policies have been generally in line with Directors' recommendations. The 2012 consultation discussions focused on the implementation of the Transformation Agenda thus far, including areas where revisions have been or may need to be made.

RECENT DEVELOPMENTS AND OUTLOOK

A. Recent Economic and Policy Developments

2. **In 2012, macroeconomic performance has been broadly positive, underpinned by buoyant international oil prices and prudent fiscal and monetary policies.** Real GDP growth decelerated slightly to 6.3 percent, reflecting the impact of the nationwide strike in early 2012, floods in Q4 of 2012, and continued security problems in the north, which affected agriculture and commerce (Table 2). Inflation increased from 10.3 percent at end-2011 to 12.3 percent (y-o-y) in November 2012, owing mainly to the adjustment of administrative prices of fuel and electricity; large increases in import tariffs on rice and wheat; and the impact of floods in Q3 (Figure 1). The external position has strengthened and international reserves rose from $32.6 billion at end-2011 to almost $46 billion in November 2012 (5 ½ months of prospective imports), helped by sustained high oil prices, stricter administration of the gasoline subsidy regime, and strong portfolio inflows (Table 3 and Figure 2).

3. **Fiscal consolidation is taking place and fiscal buffers are being rebuilt**. Expenditure restraint, including the reduction in the gasoline subsidy at the beginning of 2012, is expected to have reduced the non-oil primary fiscal deficit (NOPD) of the consolidated government from 36 percent in 2011 to 30½ percent of non-oil GDP in 2012 (Figure 3). The overall fiscal balance is

[1] The official unemployment definition counts as unemployed those working less than 40 hours a week. Using the ILO definition, the unemployment rate would be around 1.7 percent.

[2] See SM/12/28, pp. 34–35 for a description of the main pillars of the Transformation Agenda.

also expected to have improved slightly, while the combined balances of the Excess Crude Account and Sovereign Wealth Fund reached US$9.7 billion at end-2012, up from US$4.6 billion at end-2011 (Table 4).

4. **Monetary policy remained tight in 2012 and there was continued improvement in the health of the financial sector**. The CBN maintained its policy interest corridor (12 percent +/- 200 basis points) but, in July, raised the cash reserve requirement for banks from 8 percent to 12 percent and also lowered banks' allowable open foreign exchange position from 3 percent to 1 percent of capital. These actions helped keep money and credit growth under control (Figure 4) and supported a nominal and real appreciation of the naira. Financial soundness indicators have improved markedly since 2011, reflecting the successful recovery from the 2009 banking crisis (Table 6).

B. Medium Term Outlook and Risks

5. **Under the current WEO baseline projection for oil prices, the macroeconomic outlook is positive**. In 2013, growth is expected to recover to above 7 percent, driven, in part, by the positive effects of World Bank-supported agriculture and electricity reforms. Inflation is projected to decline below 10 percent, with a tight monetary policy stance supported by ongoing fiscal consolidation. Based on the 2013 budget, staff projects that the NOPD will narrow to around 28 percent of non-oil GDP. Over the medium term, continued progress on key structural reforms and on fiscal consolidation broadly consistent with the targets of the authorities' plans should lead to a gradual increase in the growth rate and a generally more resilient economy, characterized by a low risk of debt distress[3] and positive external stability indicators (Box 1)**.**

6. **However, downside risks to this outlook are significant (Table 7)**. The main risk is a sharp decline in oil prices. While buffers are being rebuilt, they are still below the pre-crisis peak. A large decline in oil prices would create financing problems, because oil revenue comprises about 75 percent of government revenue and 95 percent of exports. While the 2013 budget appears to build in a large safety margin by framing the budget on a reference oil price of $79 per barrel, much of the apparent savings to be made from the large difference between this reference price and the world price for Nigerian oil (projected be $104 per barrel) are pre-committed to extra-budgetary outlays, leaving the fiscal position vulnerable to a relatively moderate decline in world oil prices (Box 2 and Figure 5).

7. **A second downside risk relates to the authorities' difficulty in building a consensus for key reforms that could durably strengthen the fiscal framework (e.g., full removal of fuel subsidies, full implementation of the Sovereign Wealth Fund mechanism)**. As long as these reforms are not implemented, there is a risk that the medium-term fiscal program could be undermined. Finally, an intensification of the ongoing violence in northern Nigeria could adversely impact growth prospects.

[3] See the accompanying Debt Sustainability Analysis.

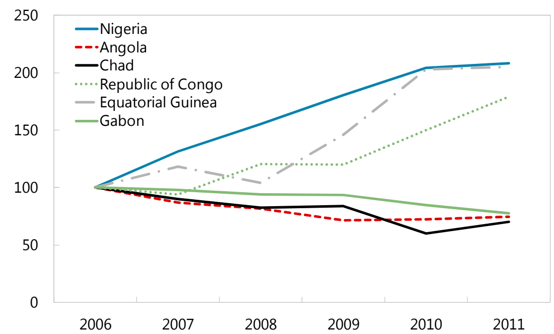
Box 1. External Sector Stability

Nigeria's indicators of external sector stability are generally positive. CGER-based analysis suggests that the real exchange rate is not misaligned and the projected external current account is consistent with economic fundamentals and a sustainable net foreign asset position (Appendix 3). Over the last couple years, the capital and financial account has improved significantly, reflecting improved confidence from better macroeconomic management and increased oil prices and higher yield spreads (Table 3). Foreign direct investment (FDI) and private sector portfolio inflows are estimated to have increased to $12.3 billion (4.6 percent of GDP), from $7.8 billion (3.4 percent of GDP) in 2010. These positive developments have contributed to a sharp increase in international reserves to US$45 billion, equivalent to 6 months of import cover. Furthermore, under the staff's baseline medium-term projections, reserves would grow to over 7½ months of import cover, in line with staff's estimate of optimal reserves for a low-middle income commodity exporter (5–8 months of import coverage) (Appendix 4).

Nevertheless, concentration of exports and volatility of oil prices remain important sources of vulnerability. Despite an increase the global market share of non-oil exports (albeit from a very low base), exports remain highly concentrated; oil exports comprise over 95 percent of total exports. As such, Nigeria is highly exposed to oil price volatility. As described in the oil price shock scenario, a sustained decrease in oil prices, by 25 percent relative to the WEO baseline, would significantly weaken the current account and reserves position (Figure 6).

AFR Oil Exporters: Market share of non-oil exports

(Percent of world's non-oil imports; Index, 2006=100)



Source: IMF staff estimates.

Recent strong capital inflows are also subject to risk but their impact should be manageable. The elimination in 2011 of a restriction requiring foreign investors to hold their securities for one year increases the risk of capital flow reversals in the event of a change in risk appetite, for example from a decline in oil prices or spillover effects of deteriorating financial sector conditions in Europe. However, these portfolio inflows, estimated at US$11 billion and carefully tracked by the central bank, are relatively modest compared with total reserves. Heightened global financial risk is likely to have a relatively small impact on Nigeria's financial system because banks are mainly domestically-owned and do not currently rely significantly on external funding.

Box 2. The Budget Reference Oil Price – Has it Been an Effective Tool for Fiscal Policy Management?

To cope with large oil revenue volatility, the authorities established an oil price-based fiscal rule in 2004.[1] The budget is framed around a "reference oil price," intended to reflect long-run average price trends, with the savings generated when oil revenues exceed budgeted revenues being placed in the Excess Crude Account (ECA), which can then be drawn down in years where oil revenues are below budget. The reference oil price used in the budget is not set by formula but rather through negotiations between the government and legislature.

Setting the reference oil price below expected market prices suggests that there will be a significant accumulation of savings in the ECA, but caution is needed in drawing this inference. ECA resources are used to finance substantial extra-budgetary outlays (fuel subsidies, ad hoc distributions) and compensate for any shortfall in non-oil revenues. The accumulation of savings in the ECA is thus much smaller than suggested by the headline oil price differential, and indeed can be negative even in years where the market oil price exceeds the budget reference price.

The experience of 2011 provides a good illustration of the mechanisms involved. The reference oil price in the 2011 budget was set at $75 per barrel (pb); the average price realized in 2011 was $109, a $34 "windfall" over the budgeted price, providing the government with additional revenues of about US$18 billion. But $16 billion of this amount (some 6½ percent of GDP) was used to finance shortfalls in non-oil revenue, fuel subsidies, and unusually large ad hoc distributions from the ECA. In the event, the accumulation of savings in the ECA in 2011 was about $2 billion, equivalent to the government's take from an oil price "windfall" of $4 pb.

Nigeria's fiscal position is thus more vulnerable to a drop in oil prices than a simple comparison of the expected market price with the budget reference would suggest. For 2013, staff projects that the accumulation of funds in the ECA will be on the order of $6 billion, equivalent to the government's take from an oil price "windfall" of about $9 pb. Thus, a decline of even $10 per barrel in Nigerian crude prices (relative to the current WEO projection of $104) would, absent a policy response, result in a decline in ECA balances in 2013; a one standard deviation shock to oil prices (a drop of $32) would wipe out the existing ECA buffer within a year.

[1] Oil revenue volatility has also been associated with output volatility, most recently during unrest in the Niger Delta in 2006–09.

8. **To illustrate these risks, staff developed two alternative scenarios**. The first scenario is closely related to the alternative scenario in the October 2012 WEO that depicts a prolonged growth slowdown in advanced economies (Figure 6). The second scenario looks at the implication of smaller fiscal consolidation, with increased spending that is not growth enhancing (Figure 7). In the first scenario, the drop in oil prices by about 25 percent would put substantial pressure on the fiscal and external accounts. Under this scenario, the public debt to GDP ratio would rise to 19½ percent of GDP by 2015 while the ECA would be exhausted by 2015. The exhaustion of the ECA means that macroeconomic policies assumed in the baseline could not be maintained, and a significant procyclical adjustment of fiscal policy would be needed. In the second scenario, government spending is assumed to increase by 1 percent of GDP relative to baseline in 2013–2017, in the context of a decline in world oil prices. Higher inflation and much lower fiscal buffers would jeopardize macroeconomic stability and increase the economy's vulnerability to an oil price shock.

9. **Under the baseline scenario, developments in Nigeria would have favorable effects on its neighbors, though spillovers are estimated to be relatively small (Appendix 2)**. Nigeria is an important (though not substantial) export market for a number of West African countries, and shocks to Nigerian output appear to have a negligible impact on output in the rest of the region. The main spillover channels are through Nigeria's informal agricultural exports and illegal fuel exports which impact regional inflation; and cross-border activities of Nigerian banks, which could impact regional financial sector stability. In this context, the projected improvements in agricultural productivity and banking system stability in Nigeria should augur well for the broader region.

10. **Authorities' views**. The authorities had a broadly similar view on the outlook and risks. There was agreement on the need to continue to rebuild fiscal buffers to mitigate possible oil price shocks. In this context, the authorities indicated that they had agreed with the states to build the ECA to $10 billion by end-2012 and planned for further increases over the medium term. Moreover, the authorities reiterated their commitment to the fiscal consolidation targets in their original medium-term expenditure framework proposal. Although the projected fiscal deficits over the medium term are similar, the authorities project much higher federal capital spending and sharply lower real recurrent spending than are contained in the staff's projections (Figure 8).

PROMOTING INCLUSIVE GROWTH AND REDUCING VULNERABILITIES

A. Building on Fiscal Consolidation While Creating Space for Higher Investment

11. **The fiscal targets in the 2013 budget and the authorities' medium-term fiscal consolidation plan are consistent with maintaining medium-term macroeconomic stability**. The budget is also consistent with building ECA balances to around $20 billion by end-2013, which

would represent an adequate buffer against a moderate oil shock lasting 2–3 years[4]. By 2016, the non-oil fiscal deficit of the consolidated government would decline to 23 percent of non-oil GDP. Building on the progress in 2012, the planned fiscal consolidation is timely, especially as the economy is growing strongly, and would complement the monetary policy efforts to reduce inflation and keep public debt below 18 percent of GDP. However, strong efforts on many fronts, as discussed below, will be needed to achieve these fiscal objectives.

12. **Mobilizing non-oil revenue, including at the sub-national government levels**. Given that oil revenues in real terms are projected to decline over the medium term on account of moderating international oil prices, it will be important for the authorities to significantly boost non-oil revenues in order to avoid a sharp contraction in spending. This is particularly urgent at the sub-national government (SNG) level, where dependence on oil revenues is acute (Appendix 5). Technical assistance (TA) from the Fund has been aimed at modernizing internal revenue administration but it appears that progress in implementation has lagged this year, in part because of delays in appointing a new head of the Inland Revenue Service. The authorities are programming a substantial decline in real recurrent spending over the medium term to offset the decline in oil revenues and make room for planned higher capital spending (Figure 8). Efforts are underway to rationalize some agencies and strengthen payroll administration to restrain recurrent spending. However, these efforts would need to be complemented with additional civil service reforms to ensure that the programmed savings are achievable and sustainable. Staff noted that such ambitious cuts may not be consistent with the authorities' goal of improving public service delivery, especially in areas of education and health.

13. **Authorities' views**. The authorities pointed to early gains from cleaning up public payrolls and removing ghost workers. They agreed on the urgent need to boost non-oil revenues and outlined a number of initiatives that were underway, including measures to increase remittances from revenue-generating agencies and profit-making state enterprises, and expressed their intention to follow through on key TA recommendations. The authorities also noted a major push by a number of states to boost their internally-generated revenue.

14. **Moving toward full deregulation of fuel prices**. The elimination of untargeted gasoline subsidies would create substantial fiscal space for scaled up social and investment spending. Experience from other countries indicates that successful subsidy reform requires a strong public communication campaign to show true costs and beneficiaries of the subsidies; mitigating measures to compensate the most vulnerable households; and convincing stakeholders that the subsidy savings will be used for the public good. Staff recognized that time was needed for the government to build public support for further reform. At the same time, they encouraged the authorities to (i) set a ceiling on subsidy costs at the present level to contain fiscal risks and be ready to increase prices if the amounts budgeted for subsidy payments are exhausted; (ii) publish the monthly costs

[4] The size for the buffer-covering federal as well as state and local governments-is estimated by means of value-at-risk (Appendix 4).

of fuel subsidies and fund them directly from government budgets rather than from the ECA, to increase transparency; (iii) continue to communicate progress on the implementation of the Subsidy Re-investment and Empowerment (SURE) program;[5] and (iv) deal aggressively with subsidy abuses.

15. **Authorities' views.** The authorities reiterated their commitment to the eventual deregulation of fuel prices—this policy is set out in the Petroleum Industry Bill that is now before the Assembly (paragraph 29). However, they thought that it was inopportune to make any changes to the subsidy regime at this time. They considered that building consensus for the elimination of the subsidy was best done by demonstrating the positive results of the SURE program and by continuing to improve the management of the subsidy regime. They noted that SURE interventions had already facilitated the completion of a major north-south national railway project and improved maternal and child care services in 500 primary health care centers. They also pointed to their success in weeding out abuses in the subsidy program, which had resulted in a number of arrests of oil marketers and a substantial decline in petroleum imports.

B. Strengthening the Fiscal Framework and Public Finances Management

16. **Nigeria's fiscal framework consists of a budget reference oil price, to facilitate smoothing of expenditure in the face of volatile oil revenues; an ECA that receives any excess oil revenue or funds any shortfall; and a fiscal responsibility law (FRL)**.[6] The ability of the framework to serve as an effective fiscal anchor, ensure adequate fiscal buffers, and contain procyclical spending has been mixed in recent years. In particular: (a) as the budget oil price is not formally instituted, bargaining between the federal government and the legislature play an important role in its determination;[7] (b) as the ECA is based on a political agreement among federal, state, and local governments and not a legal one, it is subject to many discretionary withdrawals; and (c) the FRL does not cover the subnational governments (SNGs), which receive over half of total oil revenue as prescribed in the constitution. These factors imply that the federal government has only limited control over macro-fiscal management. This has resulted in the budget oil price being set at a level that generates a federal fiscal deficit, in part to enforce spending discipline on SNGs, which have limited borrowing capacity. However, this process is inefficient, because it forces the federal government to issue relatively expensive debt, even as the ECA builds up deposits earning little interest.

[5] This program was established to re-invest savings from the January 2012 partial removal of the gasoline subsidy in key social welfare and infrastructure projects. (SM/12/28, pp. 37–38 for details.)

[6] The 2007 Fiscal Responsibility Act prescribes an annual ceiling for the federal deficit (3 percent of GDP); and a ceiling on government debt (25 percent of GDP). For details on the fiscal framework, (SM/12/28, p. 8).

[7] The government originally proposed a budget oil price of US$75 per barrel for 2013. The National Assembly subsequently raised it to US$79 per barrel.

17. **To improve the current fiscal framework, staff pressed the case for adopting a formal rule-based budget oil price and urged the authorities to continue to take steps to fully operationalize the Sovereign Wealth Fund**. Adopting a formalized rule-based approach to setting the budget oil price, and enshrining it in the FRL, would depoliticize the setting of the price and enhance the credibility of the FRL as a fiscal anchor. However, even if the budget oil price rule were enshrined in the FRL, its effectiveness would still hinge on the extent to which excess oil revenues were actually saved in good times to offset shortfalls during an adverse oil price shock. In this context, it is crucial to transition as quickly as possible from the ECA to the Sovereign Wealth Fund(SWF), which has a stronger legal framework, with better-defined rules for saving and using excess oil revenue. The sub-national governments, as co-owners of the fund, have already agreed to make the SWF operational but have resisted any additional transfers from the ECA to the SWF beyond the initial distribution of US$1 billion that was made in late 2011. They have cited a number of outstanding issues, including dissatisfaction with the existing revenue sharing arrangement; and the cash-strapped situation of a few states, which left them with no funds for saving.

18. **PFM indicators are low by Sub-Saharan Africa standards**. In addition, the execution rate of the federal capital budget remains low (62 percent in 2011) and further capacity building, especially in evaluating and implementing projects, is urgently needed to ensure that the planned scaling up of capital spending will be effective. However, going forward, a number of ongoing reforms are expected to substantially improve PFM. For example, Fund and World Bank-supported reforms to expand coverage of the treasury single account (TSA) and GIFMIS systems will strengthen expenditure management and budget execution. Recently a PEFA assessment has been conducted to help guide additional reforms in the areas of PFM.

19. **Authorities' views**. The authorities expressed interest in learning more about how rules-based approaches for setting the benchmark oil price had worked in other countries (Appendix 6). They acknowledged that the replacement of the ECA with the SWF would need to proceed more slowly than originally planned; continued progress toward building trust between the federal and sub-national governments was needed first. In the meantime, the SWF management was finalizing its investment strategy for submission to its executive board before the end of 2012 and the authorities indicated that they were considering channeling a portion of their share of excess crude revenues into the SWF and inviting like-minded states to do the same. The authorities noted that SWF legislation sets the management of the fund in line with the international best practices, including for audit, oversight, and public disclosure procedures.

C. Enhancing Monetary and Exchange Rate Policy

20. **While core inflation appears to have peaked, it would be premature to begin easing monetary policy at this juncture**. Given that the rate of economic growth is still strong and inflation remains above the central bank's "single-digit" target, staff recommended that the current tight stance be maintained pending signals pointing to a durable reduction in inflation pressures. Staff suggested further rationalization of policy instruments, in particular, scaling back reliance on

the cash reserve ratio, while more actively using open market operations to guide short-term interest rates within the interest rate corridor. Similarly, while the central bank is a structural net supplier of foreign exchange, it has relied, at times, too heavily on such sales to sterilize liquidity or lean against pressures on the currency.[8]

21. **Authorities' views.** Staff and the authorities concurred on the monetary policy stance. The authorities also noted that the tight policy had contributed to portfolio inflows and the buildup in reserves, which had provided valuable confidence to investors during a troubling period for the global economy. In the authorities' view, the increases in the cash reserve ratio had been used to mop up structural excess liquidity and had proven to be very effective. They argued that exchange rate stability played an important role in formulating inflation expectations, given high pass-through as well as the country's high import dependence. The central bank's intervention policy was designed to avoid volatility of the exchange rate that could potentially be large because of lumpy foreign exchange transactions related to the oil sector. The authorities also argued that their periodic interventions had been aimed at smoothing temporary fluctuations, and not leaning against durable market trends.

D. Consolidating Financial System and Reform

22. **The recent FSAP Update concluded that the banking system had recovered well from the 2009 crisis but that additional reforms were needed to further strengthen the system (see the accompanying FSSA report)**. The authorities' strategy has resulted in the recapitalization of the intervened banks to levels satisfying prudential requirements and allowed for the unwinding of most of the crisis resolution measures (e.g., central bank guarantees of interbank loans and purchases of nonperforming loans (NPLs) by AMCON (paragraph 21)). By mid-2012, NPLs had fallen to 5 percent of total loans (from a high of 35 percent in 2010), in part reflecting AMCON purchases; and stress test results suggest that most Nigerian banks can withstand large credit or exchange rate shocks (Appendix 7).

23. **The FSAP recommended formally establishing a sunset provision for the Nigerian asset management corporation (AMCON)**. The corporation had been set up to handle the post-2009 cleanup of the banking system and has been a central element in the authorities' response to the crisis. However, now that banking sector stability had been restored, AMCON's acquisition of problem loans should be discontinued and a credible exit strategy devised to ensure a smooth winding up of its operations by end-2017. This was important to minimize fiscal risks and avoid potential moral hazard behavior by the banks. In addition, while Nigeria has a flexible crisis resolution toolkit in place, additional reforms are needed to increase the authorities' preparedness

[8] Nigeria's exchange rate regime is classified as "other managed" Nigeria is an Article XIV member. Multiple prices are a technical characteristic of the central bank's Dutch auction system and give rise to a multiple currency practice (MCP). Staff does not recommend approval of this MCP.

for crisis management, including establishing a longer-term emergency liquidity facility and amending laws to minimize the legal challenges to the resolution process.

24. **The FSAP also recommended strengthening aspects of the supervisory and regulatory framework**. It welcomed the marked improvement in bank supervision in recent years, including through the introduction of risk-based supervision. However, it noted that the central bank's capacity for cross-border supervision and crisis resolution needed to be enhanced further in conjunction with regional bank supervisors. While the CBN has signed many memoranda of understanding (MoUs) on cross-border supervision and cooperation (including one with BCEAO), it would also be important to agree with regional supervisors on ex ante crisis management and resolution arrangements, possibly through amending the MoUs. Boosting the CBN's capacity for consolidated supervision of banks is also a priority, especially given the sizeable and growing operations of Nigerian banks across Africa. The FSAP cited the need for further capacity building to effectively implement the International Financial Reporting Standards (IFRS) that were introduced in banks starting in 2012. On AML/CFT, the FSAP recommended stronger efforts to address strategic deficiencies identified in Nigeria's 2008 Mutual Evaluation Report. Staff encouraged the authorities to fully implement the action plan agreed with the Financial Action Task Force, and ensure the effective implementation of the recently-adopted laws on money laundering and terrorism financing

25. **Authorities' views**. The authorities broadly agreed with the key recommendations of the FSAP mission and indicated that they had already begun to address gaps in consolidated and cross-border supervision. They agreed that AMCON should not purchase any more assets or issue any more debt and should focus instead on disposing of acquired assets. The central bank favors a longer period for disposal of AMCON assets than proposed by staff, in the hope of minimizing the fiscal cost to the government and not disrupting asset markets. In an attempt to reduce fiscal costs, the levy on bank assets earmarked to pay down AMCON's debt has been raised from 0.3 percent to 0.5 percent. On AML/CFT issues, the authorities acknowledged the technical assistance from the Fund and other development partners and reaffirmed their commitment to addressing the deficiencies.

KEY STRUCTURAL REFORMS FOR PROMOTING INCLUSIVE GROWTH

26. **There is an urgent need for policies that will better translate positive growth outcomes into meaningful employment gains and declines in poverty.** Growth has been mainly in the subsistence-based and informal agricultural and trade sectors and there is evidence that wage jobs have declined following the privatization of various parastatals in the mid 2000s, the 2009 banking crisis, and the decline of labor-intensive manufacturing industries, notably textiles. The authorities see economic diversification and increased competitiveness as vital to creating more formal sector jobs and achieving strong inclusive growth. Their strategy of quickly addressing major infrastructure gaps (mainly in power and transportation) and enhancing access to credit (especially for agriculture and SMEs) would be major steps toward achieving their objectives. In this context, their view, supported by staff, is that the level of the real exchange rate is not a major factor inhibiting

the development of the non-oil economy. Staff's analysis indicates the exchange rate is broadly in line with the economic fundamentals (Appendix 3). In addition, adopting new legislation to reform the oil and gas sector will open the doors for new investments in that sector and eventually for increased public revenues.

27. **Power supply is improving and reforms are progressing**. The authorities have taken significant actions in the electricity sector, including raising power tariffs to near cost-recovery levels, increasing power supply, advancing the process for the privatization of the generation and distribution companies, and continuing improvements in gas-to-power infrastructure (Appendix 9). In the near term, completing the privatization of the power generation and distribution companies should be the top priority. The continued provision of lifeline tariffs for poor households with low consumption is welcome. Finally, as the transmission company is to remain in government hands, the authorities should ensure adequate and timely investments to increase transmission capacity—and to reap the full benefits of privatization.

28. **Transforming agriculture is the linchpin of the reform program**. Transforming agriculture—which employs more than 50 percent of the labor force—from a subsistence into a commercial sector with value-chain linkages to manufacturing holds a great potential for reducing poverty. The authorities' strategy involves targeting infrastructure spending on areas that increase agriculture potential; an agricultural credit insurance scheme; a privately-managed subsidized fertilizer scheme for poor farmers; and increased import tariffs (e.g., on rice and wheat) and other tax incentives. Staff urged the authorities to avoid protectionist measures, emphasizing that the focus should remain on correcting structural bottlenecks and reducing the costs of doing business. Protectionist measures have not been successful in the past, typically resulting in large-scale smuggling via Benin and Togo.

29. **Promoting the financial sector's role in development is a key policy priority**. As in many developing economies, small and medium enterprises (SMEs) in Nigeria have very limited access to bank credit or other financial services—in 2011, less than 10 percent of SMEs had a loan or line of credit and only 5 percent of bank lending went to SMEs. Not surprisingly, in various business climate surveys, access to finance has been identified as one of the biggest obstacles to doing business. To boost access will require efforts in many areas, including training for entrepreneurs in the preparation of adequate business plans; improving credit reporting systems; and strengthening enforcement of lenders' rights over collateral. While these and other financial infrastructure reforms are being instituted, specialized credit schemes targeted at the SMEs (e.g., CBN schemes and planned SME development fund) could fill the gap in the interim, provided they are implementedeffectively. The FSAP recommended a performance review of recent central bank credit and guarantee schemes to help improve their effectiveness and draw lessons for the planned new fund. It also recommended that such schemes be run by institutions outside the central bank and funded from fiscal sources.

30. **The passage of a sound Petroleum Industry Bill (PIB) is crucial for ensuring strong growth in the sector and boosting oil revenues**. Attempts to pass omnibus legislation to regulate and manage the petroleum sector have been underway since 2008. Uncertainty over the new legislation has had an adverse impact on oil-related FDI in the past few years. In July, yet another draft of the PIB was submitted to the National Assembly. This bill combines a multitude of laws and regulations into a single consistent piece of legislation that modifies the fiscal regime; overhauls the national oil company and other key executive and regulatory agencies; sets the stage for deregulation of downstream activities; and introduces measures to improve transparency and accountability (Appendix 10).

31. **Staff welcomed these developments, but also proposed adjustments aimed at strengthening the fiscal regime and the bills' transparency and accountability provisions**. In particular, staff recommended including royalty rates in the legislation instead of leaving them to be implemented via subsequent ministerial regulation. In addition, staff argued that providing the President the power to grant oil licenses without an open and competitive bidding process was a structural loophole that could undermine implementation over time. Another key issue is the wide difference of opinion between the oil companies and the government regarding the impact of the PIB on future oil production and government's share in oil revenues, partly because of different assessments of industry costs. The cost issue is mainly a technical question that, in principle, could be resolved by contracting internationally-renowned (and independent) oil experts.

32. **Authorities' views**. The authorities reaffirmed their commitment to implementing the Transformation Agenda and pointed to many completed and ongoing difficult reforms to this effect. They argued that tariff measures for supporting the development of the agriculture sector are needed to offset many structural bottlenecks that impede the sector's development and are intended to be temporary; the goal is to make agriculture a vibrant export sector. The authorities were open to the staff's feedback on the PIB. Acknowledging that some aspects of the PIB are controversial, they noted that all concerns regarding the Bill would be fully aired during the debate in the National Assembly, which is expected to vote on the bill by mid-2013. The authorities agreed that it would be crucial to ensure that the final legislation retains the spirit and objectives of the original bill, which aimed to significantly enhance transparency and accountability in the sector.

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33. **Nigeria's continued strong growth performance is welcome**. Macroeconomic performance was broadly positive in 2012, underpinned by buoyant international oil prices and prudent fiscal and monetary policies. In 2013, growth is projected to recover from the modest dip in 2012 and inflation is expected to fall to single digits. The real effective exchange rate is broadly in line with macroeconomic fundamentals and the risks to external stability appear low in the baseline. The main downside risks relate to a possible decline in oil prices and a weaker fiscal policy stance over the medium term. Although fiscal buffers are being rebuilt, a moderate oil price shock would put pressure on budget financing and the balance of payments.

34. **The fiscal targets for the 2013 budget and the authorities' medium-term fiscal consolidation plan are consistent with supporting macroeconomic stability and creating fiscal space for much needed additional investment and social spending**. The planned fiscal consolidation, which is timely given the current strong economic growth, would keep debt at low sustainable levels and allow for the rebuilding of an adequate fiscal buffer.

35. **However, additional policy measures will be needed to achieve the fiscal targets**. The authorities' large projected savings in recurrent spending will require comprehensive public sector reforms that may not be feasible in the short term. In this context, it will be important to build consensus for the phasing out of fuel subsidies by making transparent their cost and beneficiaries; continuing the aggressive efforts to improve the administration of the subsidy regime; and continuing to ensure and publicize the productive deployment of the subsidy savings via the SURE program. To reduce fiscal risks, staff also recommends capping subsidy spending at the current level, adjusting retail prices if needed.

36. **There is also an urgent need to mobilize non-oil revenues by moving quickly to improve tax administration in line with Fund TA recommendations**. Important savings could also be achieved by advancing on the Fund and World Bank-supported reforms in public financial management. PFM reforms will be needed to effectively scale up capital spending as planned.

37. **Continued efforts are needed to strengthen the fiscal framework as its effectiveness in delivering adequate fiscal buffers or preventing procyclical spending has been mixed**. In particular, excess oil revenues have not been saved as envisaged and the budget oil price has been subject to political bargaining, reducing its effectiveness in promoting fiscal stability over the medium term. In this regard, adopting a formalized rule-based approach to setting the budget oil price that is enshrined in the fiscal responsibility legislation would enhance macroeconomic performance. In addition, full transition from the ECA to the SWF by making the latter fully operational should remain a priority; ongoing efforts to build support for this policy with the states are welcome.

38. **Maintaining the tight monetary policy stance, pending signals pointing to a durable reduction in inflation pressures, is appropriate**. Growth remains strong, inflation is still above the authorities' single digit objective, and the risk of a negative oil price shock puts a premium on safeguarding international reserves.

39. **The health of the banking system has improved considerably following the authorities' vigorous actions in handling the 2009 banking crisis**. Going forward, the authorities are urged to quickly address the remaining gaps in the bank supervisory and regulatory framework in line with FSAP recommendations. In particular, enhancing consolidated and cross-border bank supervision, building capacity for effective implementation of the IFRS, and adopting quickly a macro-prudential framework are key priorities. Regarding the AML/CFT framework, the authorities should move quickly to implement the action plan agreed with the FATF before the next assessment date.

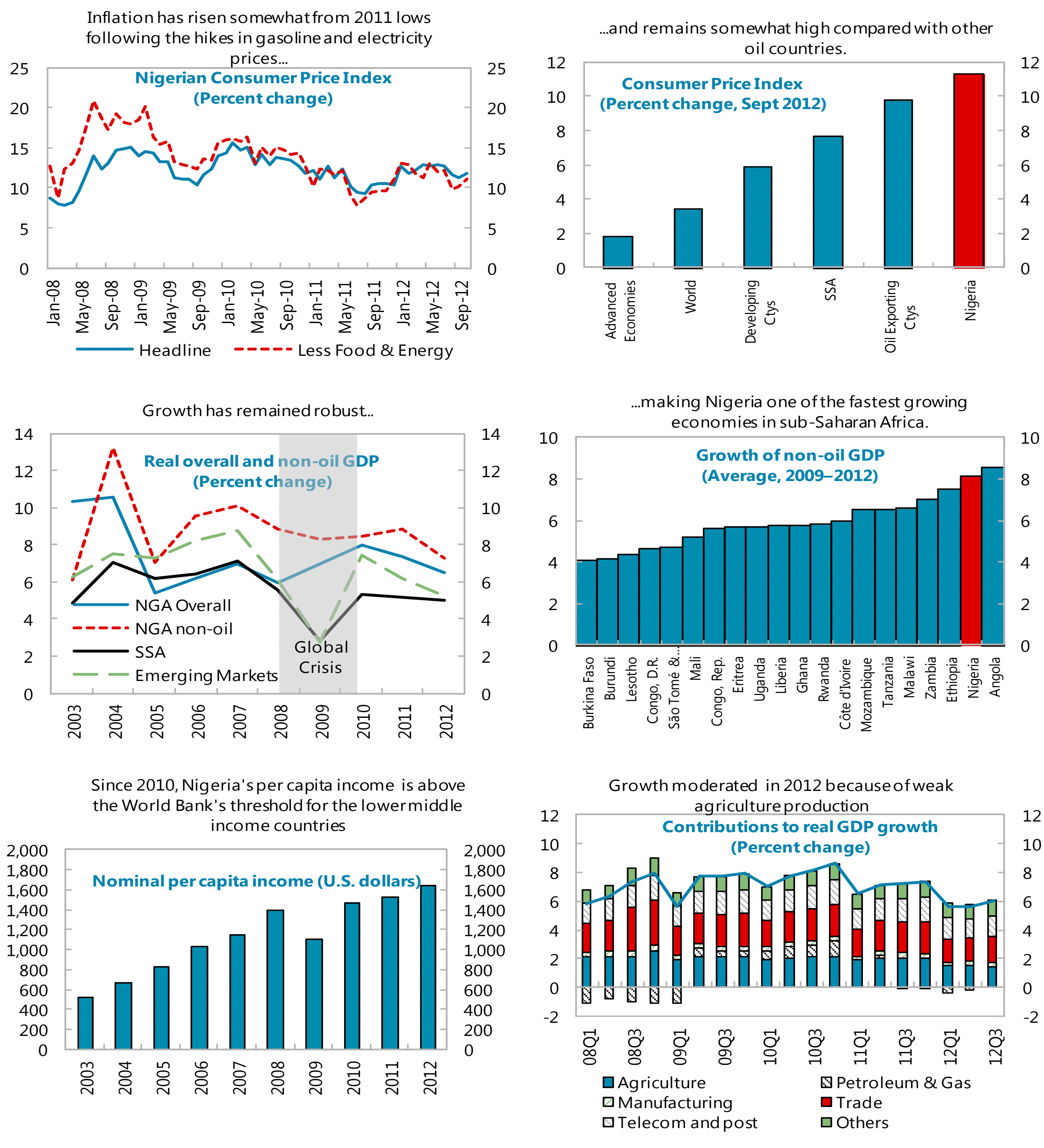
40. **A formal sunset provision on AMCON operations is needed to minimize potential fiscal and moral hazard risks**. While retaining a readily available vehicle as a tool to respond quickly to possible future banking crises is appropriate, the authorities should aim at winding up all AMCON operations associated with the 2009 crisis within the next five years. In this context, the authorities' statement that AMCON would no longer purchase any assets from banks or issue new debt is welcome.

41. **Planned structural reforms can substantially boost prospects for inclusive growth**. Staff commends the authorities for bold reforms underway in the energy sector, and urges them to complete the privatization process expeditiously, while ensuring adequate and timely investment in the transmission subsector to reap the full benefit of expanded generation capacity. Initiatives to transform agriculture into a commercially-oriented, higher-productivity sector are welcome. The authorities are urged to ensure that recently-introduced tariff and tax incentives in support of the sector are temporary and strictly time-bound; policies should instead focus on resolving key structural bottlenecks as soon as possible in order to encourage private investment and boost competitiveness in this and other sectors. A key bottleneck is the low access to credit and other financial services by SMEs. The authorities are encouraged to undertake reforms of the financial infrastructure, including by improving credit reporting systems and strengthening enforcement of lenders' rights over collateral, complemented with prudent use of specialized credit promotion schemes in the interim. The authorities should also prioritize the passage of the PIB, making sure that the approved bill retains the key objectives of the original bill while including stronger provisions for transparency and accountability.

42. **Nigeria's macroeconomic statistics are generally adequate for surveillance and policy making**. However, improvements in a number of areas, in particular, national income accounts and state and local fiscal accounts are urgently needed; work on updating the national income accounts is currently underway.

43. **Staff recommends that Nigeria remain on the standard 12-month Article IV consultation cycle**.

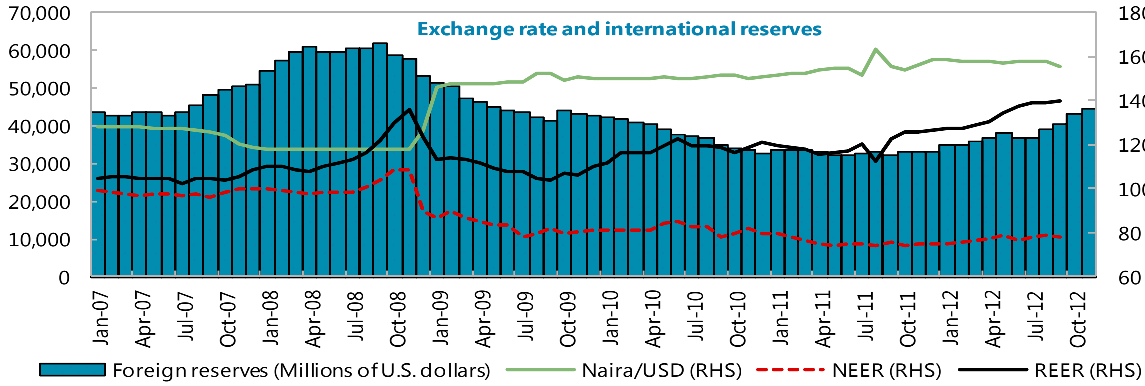
Figure 1. Nigeria: Comparative Inflation and Growth Performance, 2003–2012

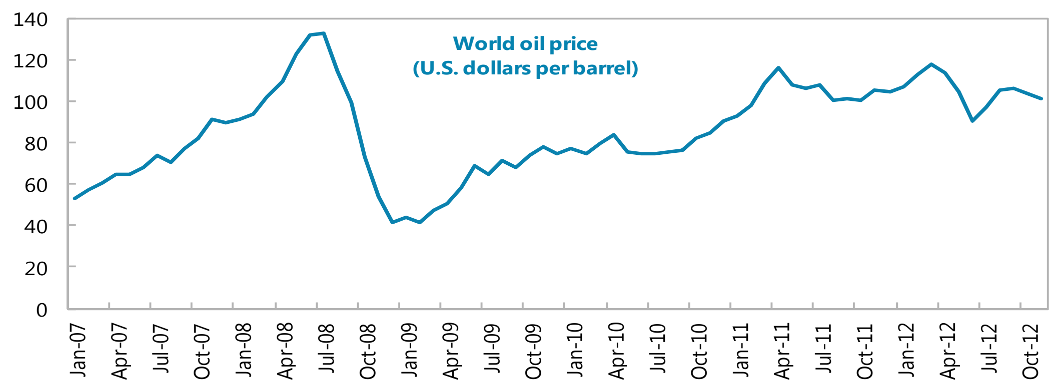


Sources: Nigerian authorities and staff estimates.

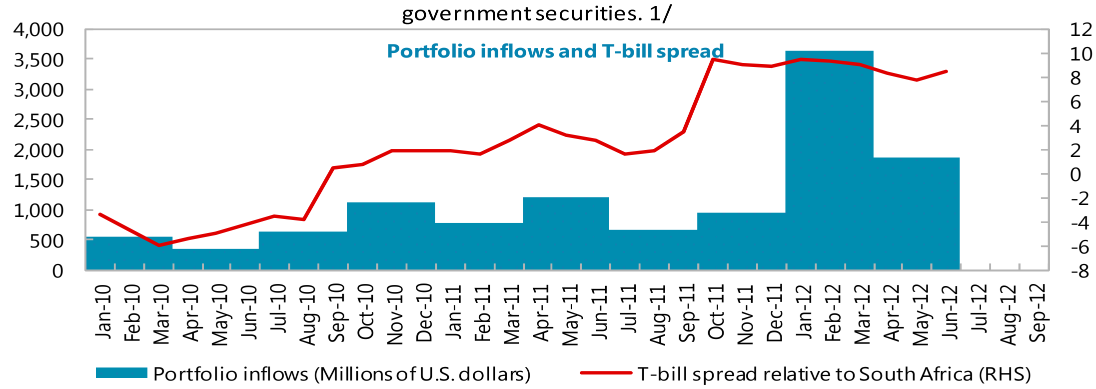
Figure 2. Nigeria: External and Exchange Rate Developments, 2007–2012

In 2012, international reserves surged and the Naira appreciated.



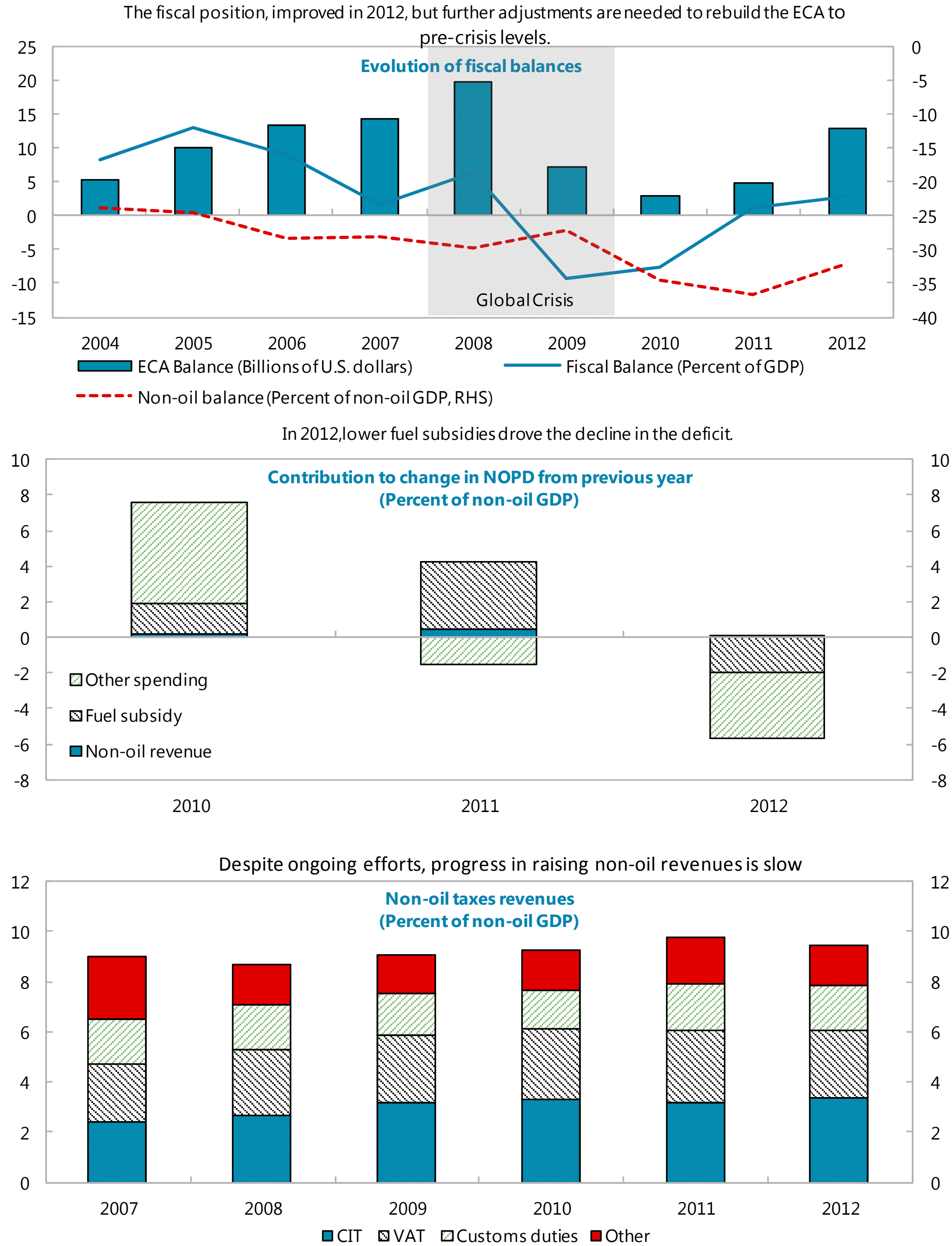


...and an increase in portfolio inflows associated with higher relative yields on government securities. 1/



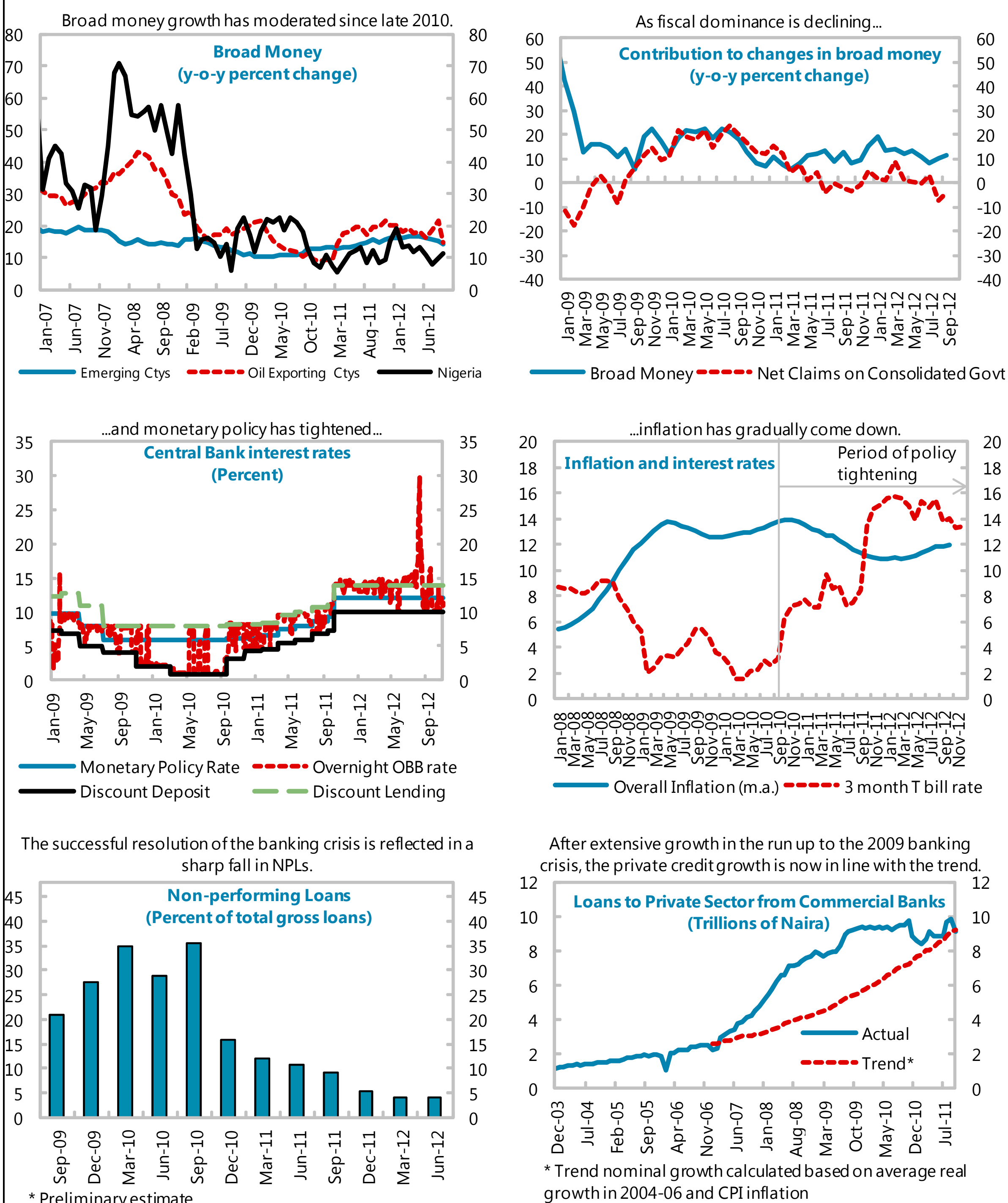
Sources: Nigerian authorities and staff estimates.
1/ Inflows are also induced by JPMorgan's decision to include Nigeria's local currency bonds to its EM indices since October 2012. Barclays will initiate similar action in March 2013.

Figure 3. Nigeria: Fiscal Developments, 2004–2012



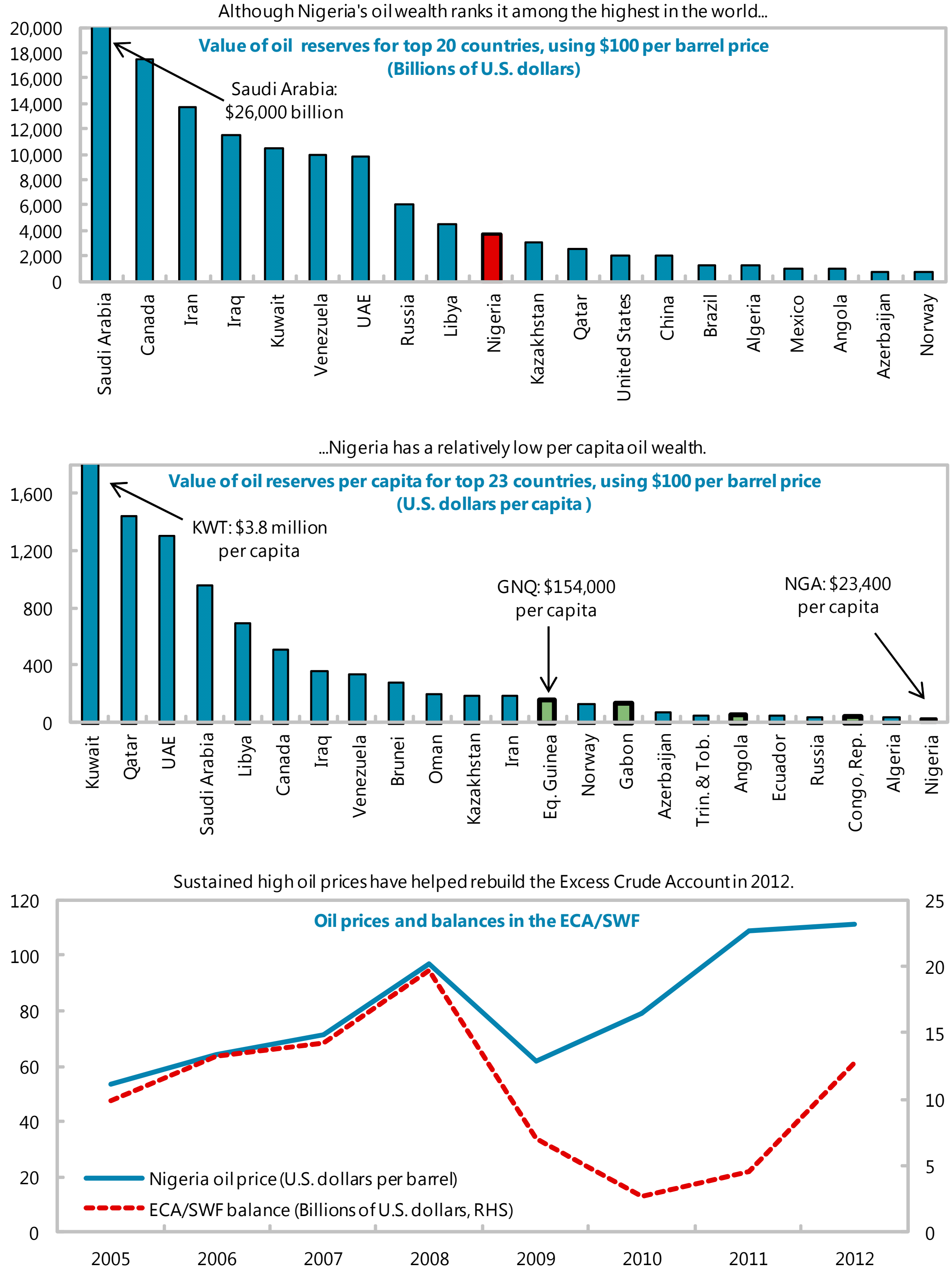
Sources: Nigerian authorities and staff estimates.

Figure 4. Nigeria: Monetary and Financial Developments, 2007–2012



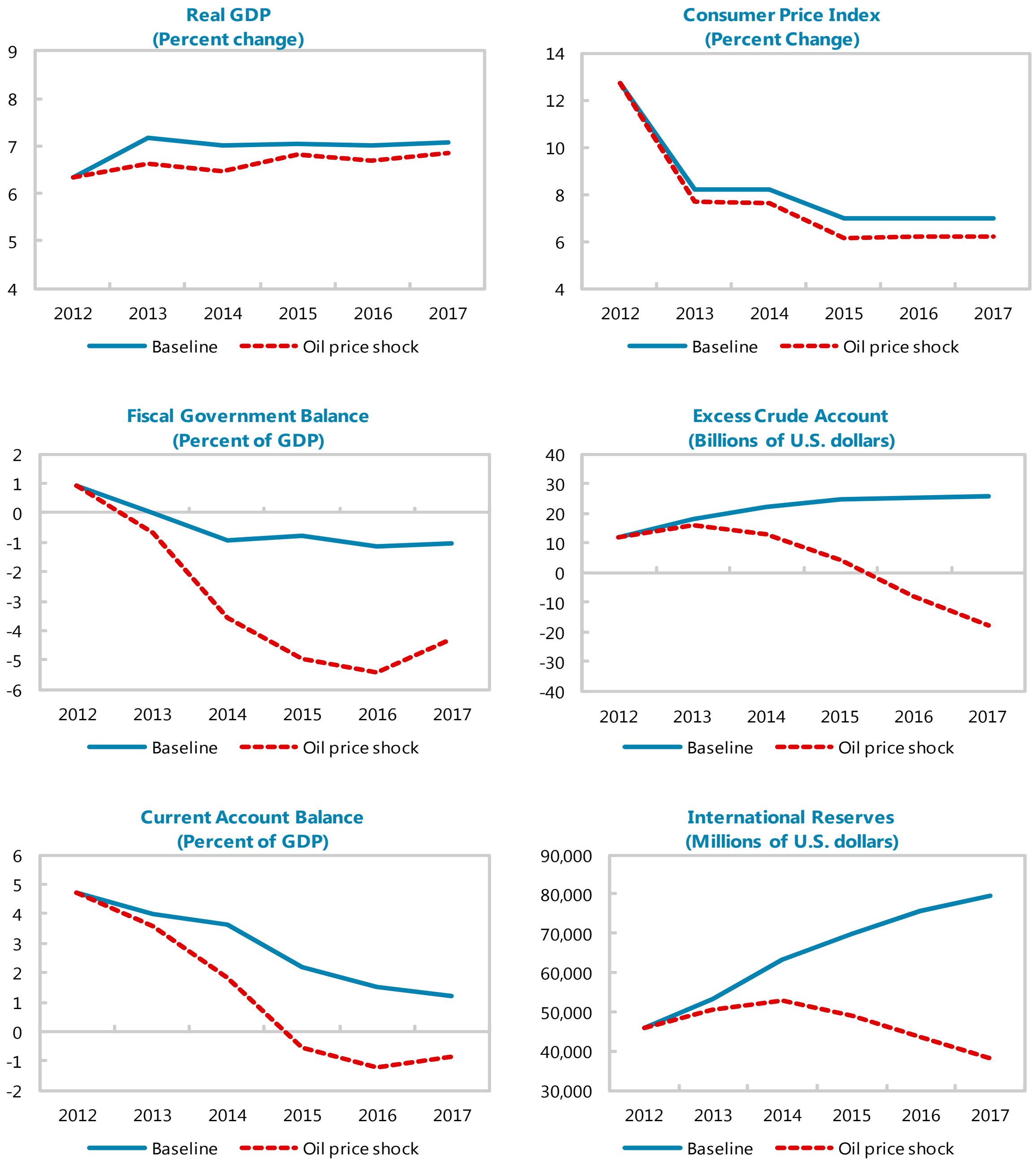
Sources: Nigerian authorities and staff estimates.

Figure 5. Nigeria: Key Indicators of the Oil Sector, 2005–2012



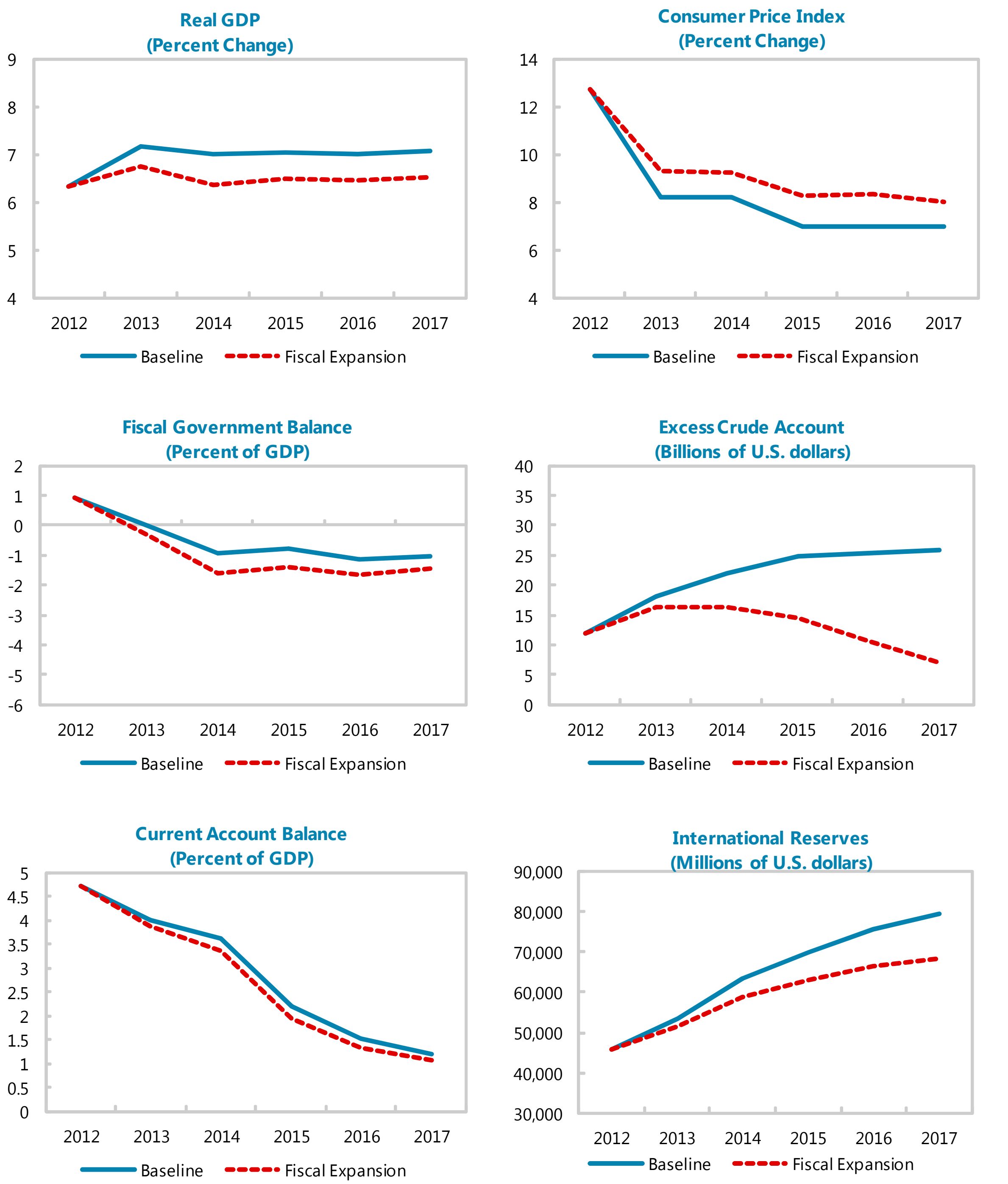
Source: Nigerian authorities, EIA and staff estimates.

Figure 6. Nigeria: Oil Price Shock Scenario, 2012–17



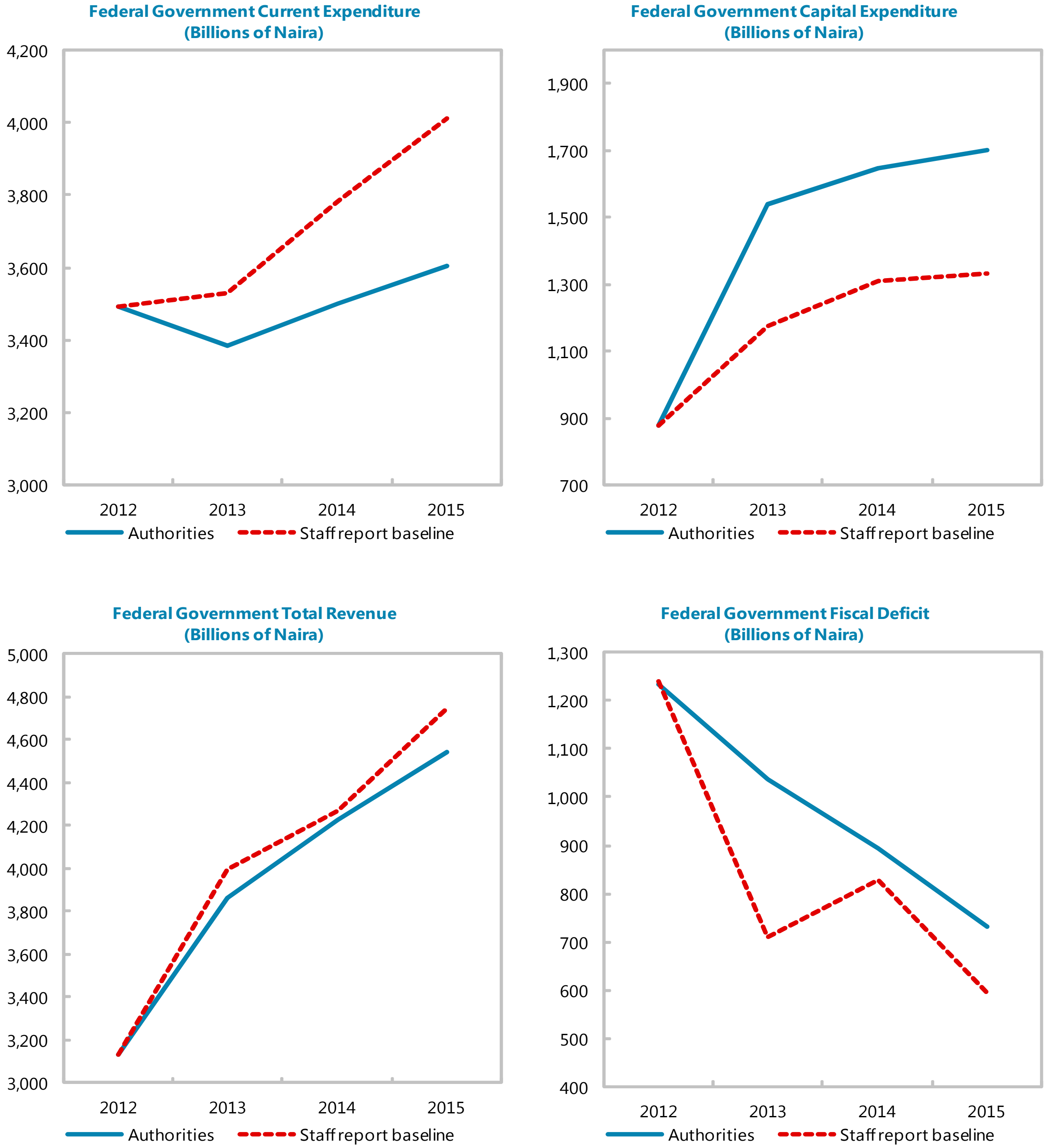
Source: 2012 AFR Fall REO, and IMF Staff estimates.
Oil price shock scenario: Economic agents gradually realize that the potential output is lower than baseline in advanced and emerging markets, which also implies more subdued external prospects for emerging economies and commodity exporters. Thus, the scenario assumes that the global real GDP level falls and stays below the baseline for a prolonged period, and weak global demand depresses oil prices, which fall by 3.85 percent in 2013 and are on average 24.25 percent below the levels in the baseline in 2014–17.

Figure 7. Nigeria: Fiscal Expansion Scenario, 2012–17



The budget oil price is set at $82 per barrel in 2013-17 (compared with $79 in the baseline for 2013 and $75 afterwards) and ad hoc withdrawals from the ECA are assumed to continue as in the recent past, financing spending that is not growth enhancing.

Figure 8. Nigeria: Comparison between Staff and Authorities' Medium-Term Fiscal Projections, 2012–15 [1]



Source: Nigerian authorities and staff projections
1/ The authorities' MTEF assumes $75 a barrel budget oil price; staff's projections are based on a $79 a barrel budget price for 2013, and $75 a barrel thereafter.

Table 1. Nigeria: Millennium Development Goals

	1990	1995	2000	2005	2010
Goal 1: Eradicate extreme poverty and hunger					
Employment to population ratio, 15+, total (%)	53	53	52	51	51
Employment to population ratio, ages 15–24, total (%)	29	30	31	32	32
Income share held by lowest 20%	4	5	..	5	4
Poverty gap at $1.25 a day (PPP) (%)	31	32	..	29	34
Poverty headcount ratio (3000 calories consumption per day) (% of population)[1]	..		..	64.2	62.6
On adult equivalency basis[1]				48.4	46
Goal 2: Achieve universal primary education					
Literacy rate, youth female (% of females ages 15–24)	62	..	..	61	65
Literacy rate, youth male (% of males ages 15–24)	81	..	..	78	78
Persistence to last grade of primary, total (% of cohort)	..	..	73	78	80
Total enrollment, primary (% net)	..	..	65	67	..
Goal 3: Promote gender equality and empower women					
Proportion of seats held by women in national parliaments (%)	..	..	3	6	7
Ratio of female to male primary enrollment (%)	79	83	82	85	91
Ratio of female to male secondary enrollment (%)	78	..	85	84	88
Ratio of female to male tertiary enrollment (%)	33	..	79	71	..
Share of women employed in the nonagricultural sector (% of total nonagricultural employment)	..	..	18.6	21.1	..
Goal 4: Reduce child mortality					
Immunization, measles (% of children ages 12–23 months)	54	44	33	41	71
Mortality rate, infant (per 1,000 live births)	127	125	113	96	81
Mortality rate, under-5 (per 1,000 live births)	214	211	188	156	129
Goal 5: Improve maternal health					
Births attended by skilled health staff (% of total)	31	..	42	35	39
Maternal mortality ratio (modeled estimate, per 100,000 live births)	1100	1000	970	820	630
Pregnant women receiving prenatal care (%)	57	..	64	58	58
Goal 6: Combat HIV/AIDS, malaria, and other diseases					
Children with fever receiving antimalarial drugs (% of children under age 5 with fe\	..	..	..	34	49
Condom use, population ages 15–24, female (% of females ages 15–24)	..	..	7	8	12
Condom use, population ages 15–24, male (% of males ages 15–24)	..	..	32	38	40
Incidence of tuberculosis (per 100,000 people)	128	139	172	175	133
Prevalence of HIV, total (% of population ages 15–49)	1.3	4	3.9	3.7	3.6
Tuberculosis case detection rate (%, all forms)	16	9	12	26	40
Goal 7: Ensure environmental sustainability					
Forest area (% of land area)	18.9	..	14.4	12.2	9.9
Improved sanitation facilities (% of population with access)	37	36	34	32	31
Improved water source (% of population with access)	47	50	53	57	58
Goal 8: Develop a global partnership for development					
Internet users (per 100 people)	0	0	0.1	3.5	24
Mobile cellular subscriptions (per 100 people)	0	0	0	13	55
Other					
GNI per capita, Atlas method (current US dollar)	260	210	270	630	1170
Life expectancy at birth, total (years)	46	45	46	49	51

Source: World Bank's World Development Indicators.

[1] Number in the 2005 column refers to 2004.

Table 2. Nigeria: Selected Economic and Financial Indicators, 2009–2016

	2009	2010	2011	2012	2013	2014	2015	2016
	Act.	Act.	Est.	Proj.	Proj.	Proj.	Proj.	Proj.
National income and prices	(Annual percentage change, unless otherwise specified)							
Real GDP (at 1990 basic prices)	7.0	8.0	7.4	6.3	7.2	7.0	7.1	7.0
Oil and Gas GDP	0.5	5.2	-0.6	1.8	4.9	3.3	2.3	2.2
Non-oil GDP	8.3	8.5	8.9	7.1	7.5	7.6	7.8	7.7
Production of crude oil (million barrels per day)	2.2	2.5	2.4	2.4	2.5	2.6	2.7	2.7
Nominal GDP at market prices (trillions of naira)	25.1	34.4	37.8	43.1	48.1	53.7	59.4	65.8
Nominal non-oil GDP (trillions of naira)	17.7	19.9	22.5	26.9	31.1	36.0	41.4	47.5
Nominal GDP per capita (US$)	1,110	1,465	1,522	1,637	1,686	1,769	1,859	1,958
GDP deflator	-4.4	26.8	2.3	7.4	4.2	4.3	3.3	3.6
Non-oil GDP deflator	5.7	3.5	4.0	11.6	7.7	7.7	6.6	6.6
Consumer price index (annual average)	12.5	13.7	10.8	12.7	8.2	8.2	7.0	7.0
Consumer price index (end of period)	13.9	11.7	10.3	11.0	9.5	7.0	7.0	7.0
FGN gross debt (percent of GDP)	15.2	15.5	17.2	17.8	17.8	17.9	17.5	17.0
Of which: domestic debt (percent of GDP)	12.9	13.2	14.9	15.4	14.5	14.3	13.7	12.9
Investment and savings	(Percent of GDP)							
Gross national savings	40.2	31.7	26.1	27.2	27.9	28.2	26.6	25.8
Public	-1.3	1.7	7.6	7.7	8.2	7.7	7.6	7.0
Private	41.5	30.0	18.5	19.5	19.8	20.4	19.0	18.8
Investment	31.9	25.8	22.5	22.4	23.9	24.5	24.4	24.2
Public	7.7	8.1	6.1	6.4	7.8	8.3	8.1	7.8
Private	24.3	17.8	16.4	16.1	16.1	16.2	16.3	16.4
Current account balance [1]	8.3	5.9	3.6	4.7	4.0	3.6	2.2	1.5
Consolidated government operations [2]	Consistents of federal, state, and local governments; percent of GDP)							
Total revenues and grants	17.8	20.0	29.9	28.1	26.7	25.4	25.1	24.0
Of which: oil and gas revenue	10.6	14.0	23.4	21.5	19.9	18.4	17.7	16.4
Total expenditure and net lending	27.3	26.9	29.4	27.1	26.7	26.4	25.9	25.1
Of which: fuel subsidies[3]	1.3	2.3	4.7	3.6	1.8	1.8	1.7	1.6
Overall balance	-9.5	-6.9	0.5	0.9	0.0	-0.9	-0.8	-1.1
Non-oil primary balance (percent of non-oil GDP)	-26.8	-34.3	-36.0	-30.4	-28.3	-26.6	-24.6	-22.5
Excess Crude Account / Sovereign Wealth Fund (US$ billions)	7.1	2.7	4.6	9.7	18.1	22.1	24.7	25.2
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)	17.1	6.9	15.4	10.0	18.1	18.3	17.2	17.2
Net foreign assets	-10.9	-10.3	5.5	13.9	12.4	12.2	8.0	6.6
Net domestic assets	28.0	17.2	9.9	-3.9	5.7	6.1	9.2	10.6
Credit to consolidated government	9.7	12.3	4.9	-9.6	-3.0	-4.0	-0.1	1.4
Credit to the rest of the economy	21.3	-4.2	36.5	7.9	11.7	11.6	10.8	10.6
Velocity of broad money (ratio; end of period)	1.6	1.7	2.0	1.8	1.8	1.7	1.7	1.7
Treasury bill rate (percent; end of period)	4.0	7.5	14.3	…	…	…	…	…
External sector	(Annual percentage change, unless otherwise specified)							
Exports of goods and services	-33.4	36.5	20.1	6.5	0.7	1.7	0.5	0.3
Imports of goods and services	-22.6	36.6	27.2	4.2	3.5	7.4	5.4	5.3
Terms of trade	-16.3	10.0	9.1	1.0	-2.1	-1.1	-1.2	-1.4
Price of Nigerian oil (US dollar per barrel)	61.8	79.0	109.0	110.1	104.4	101.2	98.4	95.5
Nominal effective exchange rate (end of period)	82.2	83.6	82.2	…	…	…	…	…
Real effective exchange rate (end of period)	110.0	120.7	119.4	…	…	…	…	…
External debt outstanding (US$ billions)	4.0	5.1	5.6	6.5	9.4	11.2	12.9	14.7
Gross international reserves (US$ billions)	42.4	32.3	32.6	45.9	53.4	63.2	69.8	75.7
(equivalent months of imports of goods and services)	7.4	4.5	4.3	5.9	6.4	7.2	7.5	7.7

Sources: Nigerian authorities and IMF staff estimates and projections.

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

[2] The budget oil price is US$72 a barrel for 2012, and projected to be US$78 for 2013 and US$75 a barrel thereafter.

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

Table 3. Nigeria: Balance of Payments, 2010–16
(Billions of U.S. dollars, unless otherwise specified)

	2010	2011	2012	2013	2014	2015	2016
	Act.	Est.	Proj.	Proj.	Proj.	Proj.	Proj.
Current account balance	13.4	8.8	12.7	11.4	11.2	7.3	5.5
Trade balance	30.6	31.1	33.8	30.3	25.8	22.2	17.9
Exports	77.4	93.3	99.2	99.8	100.9	101.2	101.2
Oil/gas	74.7	90.1	95.7	95.8	96.0	95.3	94.5
Other	2.7	3.2	3.5	4.0	4.9	5.9	6.7
Imports	-46.8	-62.2	-65.4	-69.5	-75.1	-79.0	-83.3
Oil/gas	-11.2	-19.3	-18.2	-18.6	-19.4	-20.3	-21.2
Other	-35.5	-42.8	-47.2	-50.9	-55.7	-58.7	-62.0
Services (net)	-18.5	-21.4	-21.4	-20.3	-21.0	-22.2	-23.2
Income (net)	-19.7	-23.0	-21.3	-20.7	-16.7	-16.9	-14.5
Of which: Interest due on public debt	-0.1	-0.2	-0.1	-0.2	-0.3	-0.3	-0.3
Transfers (net) [1]	21.0	22.0	21.6	22.1	23.0	24.2	25.3
Capital and Financial account balance	-8.0	-5.1	3.8	-0.5	2.0	2.6	3.6
Capital Account (net)	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financial Account (net)	-8.0	-5.1	3.8	-0.5	2.0	2.6	3.6
Direct Investment (net)	5.2	8.1	5.4	6.3	6.5	6.7	6.7
Portfolio Investment (net)	2.6	3.6	6.9	2.8	2.8	2.5	2.2
Other Investment (net)	-15.8	-16.8	-8.5	-6.0	-5.0	-5.0	-5.0
ECA/SWF Investment (net)	…	…	0.0	-3.6	-2.4	-1.6	-0.3
Errors and omissions	-15.5	-3.3	-3.3	-3.3	-3.3	-3.3	-3.3
Overall balance	-10.0	0.3	13.2	7.6	9.8	6.6	5.8
Net international reserves (increase -)	10.0	-0.3	-13.2	-7.6	-9.8	-6.6	-5.8
Memorandum items:							
Gross official reserves, end-of-period	32.3	32.6	45.9	53.4	63.2	69.8	75.7
In months of next year's imports of goods and services	4.5	4.3	5.9	6.4	7.2	7.5	7.7
SWF foreign investment balances, end-of-period	…	…	0.0	3.6	6.0	7.6	
Current account (percent of GDP)	5.9	3.6	4.7	4.0	3.6	2.2	1.5
Exports of goods and services (percent of GDP)	35.2	39.6	38.2	36.3	34.3	31.9	29.6
Imports of goods and services (percent of GDP)	29.9	35.6	33.6	32.8	32.7	31.9	31.1
External debt[2]	5.1	5.6	6.5	9.4	11.2	12.9	14.7
External debt (percent of GDP)	2.2	2.3	2.4	3.3	3.6	3.9	4.1
External debt (percent of exports of goods and services)	6.4	5.8	6.3	9.0	10.6	12.1	13.8
External debt (Percent of general government fiscal revenues)	11.2	7.7	8.6	12.3	14.3	15.5	17.0
External debt service due (percent of exports of goods and services)	0.5	0.4	0.3	0.4	0.4	0.4	0.4
Real imports of goods and services (percent of real GDP)	40.5	39.9	39.1	39.0	39.8	39.8	39.8
GDP (at market prices)	229	244	270	285	308	332	360

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

[1] Includes capital transfers.

[2] Nominal public sector short- and long-term debt, end of period.

Table 4a. Nigeria: Federal Government Operations, 2010–16
(Billions of naira)

	2010	2011	2012	2013	2014	2015	2016
	Act.	Est.	Proj.	Proj.	Proj.	Proj.	Proj.
Total revenue	2,181	2,839	3,131	4,015	4,254	4,753	5,180
Oil revenue (at budget reference oil price)	1,506	2,045	2,190	2,913	2,964	3,269	3,470
Non-oil revenue	675	794	941	1,102	1,291	1,484	1,710
Import and excise duties	139	190	217	247	279	301	326
Companies' income tax	306	334	428	508	603	710	836
Value-added tax	76	87	97	117	140	165	195
Federal government independent revenue	154	182	200	231	268	308	353
Total expenditure	3,980	4,070	4,379	4,698	5,097	5,347	5,643
Recurrent expenditure	3,080	3,357	3,500	3,525	3,787	4,017	4,246
Personnel	1,564	1,854	1,806	1,860	2,013	2,154	2,304
Overheads	916	636	573	552	579	608	639
Interest	352	535	702	733	773	808	826
Transfers[1]	248	332	419	380	421	447	477
Capital expenditure	900	713	879	1,173	1,310	1,330	1,397
Overall balance	-1,799	-1,232	-1,248	-683	-843	-594	-463
Financing	1,666	1,181	1,248	683	843	594	463
External	45	50	-17	164	-20	-16	-18
Borrowing	75	77	0	185	0	0	0
Amortization	-30	-27	-17	-22	-20	-16	-18
Domestic	1,621	1,131	1,265	520	863	610	482
Domestic borrowing	1,324	1,071	995	360	695	442	382
ECA/SWF financing for FGN budget	…	511	0	0	0	0	0
Changes in deposits at central bank	180	-471	250	150	150	150	100
Statistical discrepancy/Financing gap	133	50	0	0	0	0	0
Memorandum items :							
FGN Total Debt	5,323	6,494	7,660	8,555	9,627	10,415	11,182
Domestic	4,552	5,623	6,618	6,977	7,672	8,114	8,495
Foreign	772	871	1,042	1,578	1,955	2,301	2,687
Budget oil price[3]	60	75	72	79	75	75	75
Price of Nigerian oil (US dollar per barrel)	79	109	110	104	101	98	96
FGN overall balance (percent of GDP)	-5.2	-3.3	-2.9	-1.4	-1.6	-1.0	-0.7

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

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

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

[3]For 2013–15, the budget oil prices are assumed as envisioned in the authorities' MTEF (as of November, 2012).

Table 4b. Nigeria: Consolidated Government, 2010–16

(Billions of naira)

	2010	2011	2012	2013	2014	2015	2016
	Act.	Est.	Proj.	Proj.	Proj.	Proj.	Proj.
Total revenue	6,883	11,285	12,092	12,852	13,667	14,876	15,766
Oil revenue	4,809	8,834	9,278	9,566	9,887	10,538	10,779
Of which: implicit fuel subsidy	381	975	697	0	0	0	0
Non-oil revenue	2,074	2,451	2,814	3,286	3,780	4,338	4,987
Import and excise duties	309	422	480	547	619	668	724
Companies' income tax	657	717	919	1,091	1,296	1,525	1,795
Value-added tax	563	649	720	867	1,045	1,230	1,448
Other (education tax and customs levies)	166	236	230	263	240	268	299
Federal government independent revenue	154	182	200	231	268	308	353
SLGs independent revenue	225	245	265	288	312	339	368
Total expenditure	9,244	11,093	11,700	12,845	14,160	15,353	16,522
Federal government	3,980	4,070	4,379	4,698	5,097	5,347	5,643
Extrabudgetary funds[1]	431	656	701	798	820	904	983
State and local government	3,300	4,332	4,600	5,505	5,863	6,547	7,134
Spending from ECA/SWF	981	786	1,053	1,507	2,031	2,197	2,373
Of which: explicit fuel subsidy	416	786	873	881	957	1,010	1,057
Shared infrastructure and social spending	565	0	180	626	1,074	1,188	1,316
Implicit fuel subsidy	381	975	697	0	0	0	0
Foreign-financed capital spending	170	273	270	337	349	358	390
Overall balance	-2,361	192	392	7	-493	-477	-756
Non-oil primary balance	-6,814	-8,100	-8,178	-8,816	-9,596	-10,195	-10,697
Financing	2,746	263	-143	-7	493	477	1,232
External	130	237	247	-130	-100	49	309
Borrowing [2]	170	273	270	523	349	358	390
Amortization	-40	-36	-23	-29	-26	-21	-24
Foreign asset acquisition (ECA/SWF)	…	…	0	-624	-424	-288	-56
Domestic	2,616	26	-391	123	594	428	923
Bank Financing [3]	1,175	362	-1,262	-598	-865	-212	114
Non-bank financing	1,324	-356	851	710	1,440	621	809
Other financing	117	20	20	10	18	19	0
Statistical discrepancy/Financing gap	-384	-455	-249	0	0	0	-475
Memorandum items:							
Budget oil price (US dollar a barrel)	60	75	72	79	75	75	75
Overall balance (% of GDP)	-6.9	0.5	0.9	0.0	-0.9	-0.8	-1.1
ECA/SWF balance (billions of US dollar)	2.7	4.6	9.7	18.1	22.1	24.7	25.2

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

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

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

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

Table 4c. Nigeria. Government Operations, 2010–16
(Percent of GDP)

	2010	2011	2012	2013	2014	2015	2016
	Act.	Act.	Proj.	Proj.	Proj.	Proj.	Proj.
Consolidated Government							
Total revenue	20.0	29.9	28.1	26.7	25.4	25.1	24.0
Oil revenue	14.0	23.4	21.5	19.9	18.4	17.7	16.4
Non-oil revenue	6.0	6.5	6.5	6.8	7.0	7.3	7.6
Total expenditure	26.9	29.4	27.1	26.7	26.4	25.9	25.1
Federal government expenditure	11.6	10.8	10.2	9.8	9.5	9.0	8.6
Extrabudgetary funds (incl. from ECA\SWF)	4.1	3.8	4.1	4.8	5.3	5.2	5.1
State and local government	9.6	11.5	10.7	11.4	10.9	11.0	10.8
Foreign-financed capital spending	0.5	0.7	0.6	0.7	0.7	0.6	0.6
Other	1.1	2.6	1.6	0.0	0.0	0.0	0.0
Overall balance	-6.9	0.5	0.9	0.0	-0.9	-0.8	-1.1
Financing	8.0	0.7	-0.3	0.0	0.9	0.8	1.9
External	0.4	0.6	0.6	-0.3	-0.2	0.1	0.5
Borrowing	0.5	0.7	0.6	1.1	0.7	0.6	0.6
Amortization	-0.1	-0.1	-0.1	-0.1	0.0	0.0	0.0
Domestic	7.6	0.1	-0.9	0.3	1.1	0.7	1.4
Bank Financing	3.4	1.0	-2.9	-1.2	-1.6	-0.4	0.2
Non-bank financing	3.9	-0.9	2.0	1.5	2.7	1.0	1.2
Statistical discrepancy/Financing Gap	-1.1	-1.2	-0.6	0.0	0.0	0.0	-0.7
Federal Government							
Total revenue	6.3	7.5	7.3	8.3	7.9	8.0	7.9
Oil revenue (at budget reference oil price)	4.4	5.4	5.1	6.1	5.5	5.5	5.3
Non-oil revenue	2.0	2.1	2.2	2.3	2.4	2.5	2.6
Total expenditure	11.6	10.8	10.2	9.8	9.5	9.0	8.6
Recurrent expenditure	9.0	8.9	8.1	7.3	7.1	6.8	6.5
Personnel	4.6	4.9	4.2	3.9	3.7	3.6	3.5
Overheads	2.7	1.7	1.3	1.1	1.1	1.0	1.0
Interest	1.0	1.4	1.6	1.5	1.4	1.4	1.3
Transfers	0.7	0.9	1.0	0.8	0.8	0.8	0.7
Capital expenditure	2.6	1.9	2.0	2.4	2.4	2.2	2.1
Overall balance	-5.2	-3.3	-2.9	-1.4	-1.6	-1.0	-0.7
Financing	4.8	3.1	2.9	1.4	1.6	1.0	0.7
External	0.1	0.1	0.0	0.3	0.0	0.0	0.0
Domestic	4.7	3.0	2.9	1.1	1.6	1.0	0.7
Of which: borrowing	3.9	2.8	2.3	0.7	1.3	0.7	0.6
Statistical discrepancy/Financing gap	0.4	0.1	0.0	0.0	0.0	0.0	0.0
Memorandum items:							
Spending from ECA/SWF (all tiers of government)	2.9	2.1	2.4	3.1	3.8	3.7	3.6
Of which: Federal government spending	1.3	1.0	1.1	1.4	1.7	1.7	1.7

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

4d. Nigeria: State and Local Governments, 2011–16

(Percent of GDP)

	2011	2012	2013	2014	2015	2016
	Projection					
Revenue	10.7	11.8	13.3	13.0	13.1	12.8
Oil revenue	7.3	8.3	9.7	9.3	9.2	8.7
Oil revenue	4.9	5.8	7.1	6.9	6.9	6.6
Derivation grant (13 percent)	2.4	2.6	2.6	2.4	2.3	2.1
Non-oil revenue	3.4	3.4	3.6	3.8	3.9	4.1
CIT	0.9	1.0	1.0	1.1	1.2	1.2
Customs	0.5	0.5	0.5	0.5	0.5	0.5
VAT	1.4	1.4	1.5	1.6	1.7	1.8
Internal revenue	0.6	0.6	0.6	0.6	0.6	0.6
Expenditure[1]	11.5	11.4	11.4	10.9	11.0	10.8
Overall Balance[2]	-0.8	0.3	1.8	2.1	2.1	2.0
Domestic financing	0.8	-0.3	-1.8	-2.1	-2.1	-2.0

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

[1]Expenditure is equal to the sum of revenue and financing (net claims on SLGs from monetary survey).

[2]By construct, overall balance matches the amount of financing.

4e. Nigeria: Extrabudgetary Funds (including ECA/SWF), 2011—15

(Percent of GDP)

	2011	2012	2013	2014	2015
	Projection				
Revenue	11.7	10.7	6.9	6.6	6.0
Extrabudgetary funds[1]	1.7	1.6	1.7	1.5	1.5
Changes in ECA/SWF balances	7.4	7.4	5.3	5.1	4.5
Implicit fuel subsidy	2.6	1.6	0.0	0.0	0.0
Expenditure	6.4	5.7	4.8	5.3	5.2
Extrabudgetary funds[1]	1.7	1.6	1.7	1.5	1.5
Spending from the ECA/SWF	2.1	2.4	3.1	3.8	3.7
Explicit fuel subsidy and social spending	2.1	2.0	1.8	1.8	1.7
Implicit fuel subsidy	2.6	1.6	0.0	0.0	0.0
Overall balance (net change in ECA/SWF)	5.3	5.0	2.2	1.3	0.8

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

[1]Includes federal government extrabudgetary funds (ecology, stabilization, development of natural resources, FCT), collection costs for FIRS and NCS, custom levies, and education tax.

[2] Federal government extrabudgetary funds are ecology, stabilization, development of natural resources, and FCT.

[3] Collection cost for FIRS is 4% on CIT and VAT, and for NCS is 7% on excise and customs.

Table 5a. Nigeria: Central Bank of Nigeria (CBN) Analytical Balance Sheet, 2010–15

(Billions of Naira)

	2010	2011				2012			2012	2013	2014	2015
	Dec.	Mar.	Jun.	Sep.	Dec.	Mar.	Jun.	Sep	December			
	Estimate	Estimate							Projections			
Net foreign assets[1]	5,372	5,723	4,923	5,267	5,824	5,756	6,028	6,389	7,544	9,213	11,161	12,624
Net domestic assets	-3,527	-4,017	-2,858	-3,359	-3,040	-3,228	-3,516	-3,271	-4,382	-5,479	-6,744	-7,447
Net domestic credit	-2,205	-2,563	-1,994	-1,719	977	1,719	701	982	-132	-867	-1,912	-2,348
Net claims on consolidated government	-2,944	-3,530	-2,972	-3,439	-3,780	-3,262	-4,087	-4,031	-5,817	-6,844	-8,210	-8,985
Net claims on federal government [2]	-2,944	-3,530	-2,972	-3,439	-3,780	-3,262	-4,087	-4,031	-5,817	-6,844	-8,210	-8,985
Claims	605	519	560	646	415	637	627	472	-400	-1,261	-2,495	-3,229
Deposits	-3,549	-4,048	-3,532	-4,085	-4,195	-3,899	-4,714	-4,502	-5,417	-5,583	-5,715	-5,757
Of which: ECA/SWF	-406	-840	-1,052	-758	-730	-863	-946	-1,241	-1,952	-2,368	-2,650	-2,842
FGN	-186	-385	-482	-348	-335	-396	-434	-569	-895	-1,086	-1,215	-1,303
SLGs [2]	-220	-455	-569	-410	-395	-467	-512	-672	-981	-1,190	-1,331	-1,427
Net claims on state and local governments 2/	0	0	0	0	0	0	0	0	0	0	0	0
Claims on deposit money banks	765	877	748	1,404	793	978	750	956	948	1,097	1,272	1,461
Other net claims	-27	90	230	317	3,964	4,003	4,038	4,056	4,738	4,880	5,026	5,177
Other items net	-1,321	-1,454	-863	-1,641	-4,016	-4,947	-4,217	-4,253	-9,936	-10,589	-11,130	-11,737
Reserve money	1,846	1,706	2,065	1,908	2,784	2,528	2,512	3,117	3,161	3,735	4,417	5,177
Currency in circulation	1,378	1,416	1,354	1,342	1,566	1,433	1,364	1,349	1,354	1,674	2,056	2,480
Banks reserves with the CBN	468	290	711	566	1,218	1,095	1,149	1,768	1,808	2,061	2,361	2,696
Memorandum items:												
Reserve money y/y growth rate	11.6	-5.8	34.5	41.9	50.8	48.2	21.7	63.4	13.6	18.1	18.3	17.2
Money multiplier	6.6	7.2	6.2	6.9	4.9	5.4	5.5	4.6	4.6	4.6	4.6	4.6

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

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

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

Table 5b. Nigeria: Monetary Survey, 2010–15

	2010	2011				2012			2012	2013	2014	2015
	Dec.	Mar.	Jun.	Sep.	Dec.	Mar.	Jun.	Sep.	December			
	Act.	Actual				Estimate			Projections			
	(Billions of naira)											
Net foreign assets	6,507	6,988	6,454	6,670	7,139	7,307	7,525	8,252	8,990	10,804	12,911	14,549
Central Bank of Nigeria (net)	5,372	5,723	4,923	5,267	5,824	5,756	6,028	6,389	7,544	9,213	11,161	12,624
Commercial and merchant banks (net)	1,134	1,265	1,531	1,402	1,315	1,551	1,497	1,863	1,446	1,591	1,750	1,925
Net domestic assets	5,019	4,666	5,718	5,948	6,165	5,962	5,955	5,786	5,640	6,479	7,529	9,409
Net domestic credit	8,648	8,079	8,651	9,772	13,421	13,614	13,191	12,910	13,184	14,452	15,761	17,950
Net claims on consolidated government	-812	-991	-887	-939	-249	33	-916	-1,418	-1,531	-1,969	-2,668	-2,683
Net claims on FGN [1]	-1,182	-1,368	-1,307	-1,339	-762	-505	-1,503	-2,017	-2,025	-2,622	-3,487	-3,699
Of which: ECA/SWF	-406	-840	-1,052	-758	-730	-863	-946	-1,241	-1,952	-2,368	-2,650	-2,842
Claims on SLG	370	377	420	400	513	538	586	599	493	654	819	1,016
Claims on private sector	8,869	8,673	8,831	9,860	9,131	9,012	9,492	9,699	10,175	11,882	13,890	16,094
Other Claims	592	397	707	850	4,539	4,570	4,616	4,630	4,539	4,539	4,539	4,539
Other items	-3,630	-3,413	-2,932	-3,824	-7,256	-7,652	-7,236	-7,125	-7,544	-7,974	-8,232	-8,541
Broad money	11,526	11,654	12,172	12,618	13,303	13,269	13,481	14,037	14,630	17,283	20,440	23,958
Currency outside banks	1,082	1,113	1,016	1,012	1,245	1,141	1,088	1,071	1,374	1,623	1,919	2,250
Demand deposits	4,489	4,312	4,621	4,991	5,526	5,379	5,509	5,316	5,698	6,731	7,961	9,331
Time and savings deposits	5,954	6,229	6,535	6,616	6,532	6,748	6,883	7,651	7,558	8,929	10,560	12,377
Memorandum items:												
Broad money (y-o-y,%)	6.9	5.7	12.2	12.4	15.4	13.9	10.7	11.2	10.0	18.1	18.3	17.2
Credit to the private sector (y-o-y,%)	-5.2	-6.7	-6.3	4.2	3.0	3.9	7.5	-1.6	11.4	16.8	16.9	15.9
Velocity (non-oil GDP/broad money)	1.69	…	…	…	1.99	…	…	…	1.80	1.76	1.73	1.69
Gross international reserves (billions of US dollar)	32.3	33.2	31.9	31.7	32.9	35.6	36.7	n.a.	45.9	53.4	63.2	69.8

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

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

Table 6. Nigeria: Financial Soundness Indicators

	Dec-08	Dec-09	Dec-10	Dec-11	Jun-12
Growth Rates					
Total Assets	46.6	-3.6	-8.8	36.9	-2.2
Total Loans	62.3	0.2	-10.8	21.3	5.4
Deposits	65.0	18.4	-11.3	30.2	-1.6
Due from banks in Nigeria	119.3	-69.7	-25.8	20.2	-47.5
Due from banks abroad	61.9	-18.3	-3.0	41.5	10.3
Government securities	-23.4	13.4	45.2	96.3	-9.9
Capital Adequacy					
Core Capital/Risk-Weighted Assets	21.5	4.9	2.2	18.4	17.8
Total Qualifying Capital/RWA	21.9	4.1	1.8	18.2	17.7
NPLs-Net of provisions to capital	9.1	106.8	192.7	9.4	5.1
Asset Quality					
NPLs/Total Loans	6.3	27.6	15.7	4.8	4.0
Specific provisions/NPLs				55.5	67.9
Earning Assets/Total Asset	94.6	93.6	94.0	94.8	95.3
Earnings and Profitability					
Return on Average Assets	3.7	-8.9	3.0	-0.1	1.2
Return on Average Equity	20.7	-222.8	39.4	-0.4	8.9
Net Interest Margin			6.0	4.5	3.2
Interest margin to gross income	58.3	57.8	53.7	45.2	64.6
Personnel expenses to non-interest expenses	44.8	47.6	42.8	36	43.6
Liquidity					
Liquid Assets/Total Assets	17.6	16.5	17.2	25.7	39.0
Liquid Assets/Total Deposits	52.9	36.5	39.2	58.9	56.5
Loans/Total Deposits	66.6	56.4	56.6	52.8	56.5

Sources: Nigerian Authorities; and IMF staff calculations.

Table 7. Nigeria: Risk Assessment Matrix

Nature/source of main risks	Likelihood of realization in the next three years	Expected impact on economy if risk is realized
Oil price shock	*MEDIUM* • The risk of a substantial oil price shock remains significant because of uncertainties facing the global economy.	*MEDIUM to HIGH* • Given Nigeria's high dependence on oil, a large oil price shock affects the whole economy. • An adverse oil price scenario is reported in Figure 6, which shows a fall in international reserves to just 4 months of imports. The exhaustion of fiscal buffers in 2015 would require a strongly pro-cyclical fiscal contraction.
Weaker fiscal policy stance	*MEDIUM* • The failure to strengthen the fiscal framework will continue to put pressure on spending potentially undermine the authorities' fiscal consolidation plans. The Assembly's decision to increase the 2013 budget oil price by $5 per barrel above the authorities' proposal and the continuing ad hoc withdrawals from the Excess Crude Account highlight this risk..	*MEDIUM* • A weaker fiscal stance is depicted in Figure 7. Pro-growth spending is assumed to be crowded out and macroeconomic stability is jeopardized as inflation rises and fiscal buffers decline.
Substantial deterioration of security in the north of Nigeria	*LOW* • The campaign of violence currently being waged by Boko Haram has adversely impacted agriculture and commerce in the north, contributing to deceleration in overall growth in 2012. Were the conflict to intensify, the adverse impact on economic activity would be more marked.	*MEDIUM* • Little oil sector fallout envisaged but non-oil growth and investor confidence could be adversely affected.

Note: This risk assessment is based on staff views at the time of the discussions with the authorities.

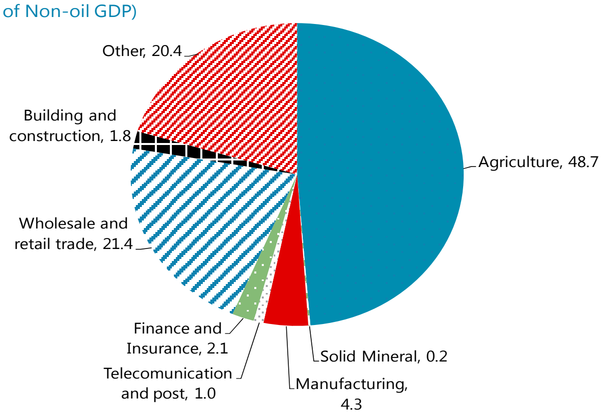
Appendix 1. Nexus Between Growth, Unemployment and Poverty and Quality of Public Spending[1]

Over the last decade, the Nigerian economy has been growing strongly. However, the official unemployment rate, which includes all those working for less than 40 hours a week, has risen steadily from14.8 percent in 2003 to 24 percent in 2010 and the poverty rate is still above 60 percent. This note explores the causes of the high unemployment and poverty rates despite the strong growth performance.

Sources of growth

1. **Growth has been largely driven by the non-oil sector, in particular agriculture, trade, and selective services**.

Contribution to Non-oil growth. Average 2001-2011
(Percent of Non-oil GDP)



Sources: National Bureau of Statistics

Sectoral average growth rate, 2003-2011

Non-Oil GDP	8.5
Agriculture	6.6
Solid Mineral	10.9
Manufacturing	8.3
Telecomunication and post	32.3
Finance and Insurance	2.5
Wholesale and retail trade	12.2
Building and construction	12.0
Other	4.0

Observations for 2004 were excluded

Agriculture, which averaged 6.6 percent annual growth during 2003-2011, contributed 48 percent of the non-oil growth over the last decade. It was followed by the trade (21 percent) and services sectors (21 percent, including telecommunications). Structural reforms in the services sector, for instance privatization of the telecommunication company in the early to mid-2000s, have translated into strong growth.

Explaining high unemployment and poverty

2. With growth concentrated in the pro-poor, labor-intensive agriculture and trade sectors, the disappointing outcomes in unemployment and poverty reduction are somewhat puzzling. Notwithstanding problems with data,[2] deeper analysis offers some explanation to this conundrum.

[1] Prepared by Cheikh Gueye, African Department.

[2] STA technical assistance has identified problems with the national income accounts, in particular, the outdated base year (1990).

Various household surveys show that the proportion of the working age population with wage jobs declined in Nigeria, from 15 percent in 1999 to 10 percent in 2006 (Haywood, 2007, and Haywood and Teal, 2008). During the same period, jobs among the self employed in the non agricultural sector also decreased from 24 percent to 22.9 percent. Only employment in family agriculture rose from 31 percent to 38 percent. Complementing these studies, a recent report issued by the National Bureau of Statistics showed that, over the last five years, new entrants into the labor market averaged around 1.8 million per year.

3. **This growing unemployment reflects five developments**:

- The two main growing sectors, agriculture and trade are largely subsistence-based and informal. In these sectors, an important part of employment tends to be irregular and less than 40 hours a week; therefore the official definition would tend not to capture some jobs created in these sectors.[3] Moreover, the growth in agriculture has been attributable to increasing land under cultivation, rather than increases in productivity, so that the impact on poverty reduction could be small. The other growth sector, telecommunications, require specialized skills and is not labor intensive.

- The retrenchment of civil servants following the privatization of many parastatals has led to a decline in public service employment which had long dominated total employment;

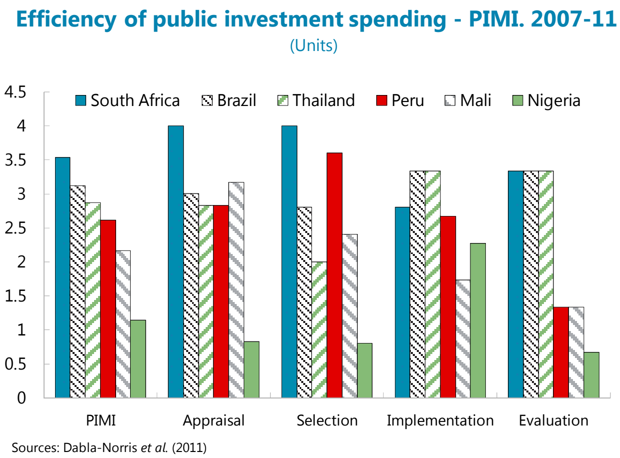
- Some industries with large wage employment, notability the textile industry, have been in decline for a number of years and have shed a considerable part of their work force; A mismatch between required skills by the job market and new graduates' skills has also exacerbated the job market crisis. The education system still gives priority to general secondary education and various kinds of tertiary education, at the expense of vocational education.

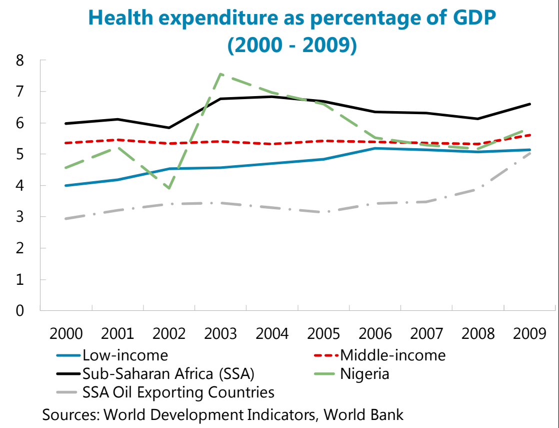
- Demographic dynamics: (i) female participation in the labor force has been increasing; and (ii) because of the global economic crisis, many Nigerian across the Diaspora losing their jobs are returning home.

[3] Unemployment is officially defined as people in the labor force, which covers those who, between the ages of 15 and 65 not in school, are looking for a job but unable to find one. Also counted as unemployed are those working less than 40 hours a week. Using ILO definition unemployment would be around 1.7 percent.

Low level and low quality of government spending for key delivery sectors

4. **Low levels and low quality of public spending in key service delivery sectors have also contributed to high unemployment and low attainment of MDGs**.





Over the last five years, public spending on health services has been less stable compared to peers, though sometimes higher. Critical problems persist in the area of education as enrollment rate in primary education has decreased from 84.2 percent in 1990 to 83.3 percent in 2010; in health, Nigeria is not on track to fulfill the MDGs 4 and 5 (reduction in maternal and child mortality). More generally, efficiency of public spending has lagged that of similar countries.[4] These relative low levels and quality of spending can be associated with the Nigeria's high unemployment and poverty rates compared to sub-Saharan Africa, Brazil, and India.

5. The World Bank also cites other factors contributing to the low service delivery in health and education, including (i) more spending on personnel instead of on materials, supplies, or capital spending; (ii) a lack of effective coordination across federal, state, and local levels; and (iii) low quality of teachers.

[4] The efficiency of public spending is assessed based on the public investment management index (PIMI) computed by Era Dablas-Norris et al. from data collected during the 2007-2010 period for 71 countries. Each country's index (1 –less efficient to 4-more efficient) is computed by scoring the projects' phases: appraisal, evaluation, implementation, and evaluation. The scores are based on data from different sources, in particular the PEFA and PEMFAR of countries (Era Dabla-Norris (references).

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Appendix 2. Nigeria Spillovers to Sub-Saharan Africa[1, 2]

1. **Trade links between Nigeria and a number of West African countries are important**. Official trade data point to Nigeria as a significant, though not substantial market for West African exports. In terms of exporting country GDP, exports to Nigeria during 2008-10 were most important for Niger (6 percent of GDP), Togo (4 percent) and Côte d'Ivoire (3 percent). Meanwhile, imports from Nigeria (predominantly oil) measured in terms of importing country GDP, were more sizeble, especially for Democratic Republic of Congo (17 percent), Equatorial Guinea (12 percent), and Cote d'Ivoire (7 percent). At the same time, various studies point to important informal trade links, in particular in petroleum products and food cereals: Nigeria meets 70 percent of the cereals needs of Niger and Chad. Nigeria's highly subsidized gasoline contributes to substantial illegal exports to neighboring countries. Most notably, over 80 percent of gasoline consumed in Benin is smuggled from Nigeria.

2. **Another potential source of spillover from Nigeria to other sub-Saharan African countries is the expanding cross-border activity of Nigerian-based banks**. Since the consolidation of the banking system in 2004, the number of foreign subsidiaries increased from a total of just 3 in 2002, to 44 now operating in 21 sub-Saharan African countries outside Nigeria. In at least 15 of these countries there is at least one Nigerian subsidiary that accounts for more than 10 percent of system wide deposits or credit. However, the 2009–10 Nigerian banking crises did not lead to systemic contagion across the region. This is partly because the banks with the largest cross-border operations, accounting for more than half of the number of foreign subsidiaries, were not among the troubled banks. Another factor that minimized systemic contagion was that the banking systems of the host countries are mainly funded by local deposits and therefore do not significantly depend on Nigerian funding.

3. **Notwithstanding these stylized facts, systematic linkages between fluctuations in growth rates in Nigeria and neighboring countries are difficult to identify**. Correlations between Nigerian GDP and that of neighboring countries are generally weak and these results are reinforced with SVAR analysis, i.e., after controlling for common global factors, shocks to Nigerian GDP have a negligible impact on GDP in neighboring countries.

4. **On the other hand, SVAR analysis suggests that inflation in neighboring countries is quite responsive to inflation dynamics in Nigeria**. A one standard deviation (3 percent) shock to inflation in Nigeria would raise inflation by at least 1 percent in nearly all the neighboring countries. Shocks are also mostly transmitted fairly quickly—with the impact taking place within the same year.

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[1] Prepared by Cheikh Gueye, African Department.

[2] For a more detailed account of Nigeria's links with the rest of the region, see Chapter 2 of the Fall 2012 AFR REO: "Nigeria and South Africa: Spillovers to the rest of sub-Saharan Africa."

The spillovers are strongest in Niger (2 percent) and Chad (2 percent), which is consistent with their close informal sector trading relationships with Nigeria. The integrated grain market within the region seems to be one of the main transmission channels, as food prices react strongly to shocks to food inflation in Nigeria. smuggled fuel from Nigeria is also another important channel: in January 2012, Nigeria's decision to cut fuel subsidies by half was immediately and fully passed through to the informal gasoline market in Benin, increasing average inflation from 1.8 percent in the last quarter of 2011 to 6.5 percent in the first quarter of 2012, and dampening domestic demand as households adjusted to higher fuel prices.

Appendix 3. Nigeria—Staff Assessment of Real Exchange Rate[1]

1. **This assessment uses the CGER-based methodologies for oil exporters to determine whether the level of the Nigerian real exchange rate is in line with fundamentals, taking into account some of the key characteristics of the Nigerian economy**. The three methodologies provide complementary perspectives on the exchange rate assessment for Nigeria, but the results must be treated with caution. Differences arise due to the potential instability of the underlying macroeconomic links or to the inherent difficulty of incorporating critical country-specific information into cross-country approaches. These differences are most prominent for low-income countries and for oil exporters, which obviously complicates the assessment for Nigeria. Defining a current account norm is complex because of the relatively poor BOP data quality. This assessment is based on data as of November 2012.

2. **This assessment suggests that there is no fundamental misalignment of the exchange rate** (see Text Table below). Two methods—equilibrium real exchange rate (RER) and macroeconomic balance approaches—suggest that the naira is broadly in line with fundamentals. The external sustainability approach, comparing the projected current account surplus with the level needed to stabilize net foreign assets, suggests that the naira is overvalued by 6½ percent.

Table A3.1.Nigeria: Assessment of Real Exchange Rate, Preliminary Results

	Equilibrium RER approach	Macroeconomic balance approach	External sustainability approach
		Percent of GDP	
Current account norm	…	-0.9	2.8
Underlying current account balance [1]	…	1.2	1.2
Current account gap	…	-0.3	1.6
Estimated elasticity of current account balance in Nigeria	…	-0.24	-0.24
		Percent	
Real exchange rate gap [2]	3.4	-1.4	6.5

[1] Current account balance projected for 2017 (output gap is assumed to close by 2017).
[2] Positive numbers indicates overvaluations.

The Equilibrium RER Approach

3. **Equilibrium RER approach resulted in small overvaluation (3.4 percent) in 2012**. The equilibrium RER regression results by panel DOLS estimates for oil exporting countries presented by Bems and de Carvalho Filho (2009, IMF WP/09/281) were applied to Nigeria.[2] In calculating the determinants of the Equilibrium real effective exchange rate (REER) level (commodity terms of trade, government consumption to GDP, net foreign assets to GDP, and relative productivity differentials),

[1] Prepared by Tetsuya Konuki, African Department.

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

the latest projections for 2012 were used for Nigeria while projections for 2012 under the September 2012 WEO were used for global variables and trading partners. As to the level of REER in 2012, the average level of REER during the first eight months of 2012 was used as a proxy.

The Macroeconomic Balance Approach

4. **Macroeconomic balance approach resulted in slight undervaluation in 2012**. To estimate the current account norm for Nigeria, panel regression results for oil exporting countries presented by Bems and de Carvalho Filho (2009, IMF WP/09/281) were applied to Nigeria. In calculating the determinants of the current account norm (non-oil fiscal balance, oil balance, relative income, lagged current account, relative growth, dependency ratio, and population growth), the latest projections for 2017 were used for Nigeria while projections for 2017 under the September 2012 WEO were used for trading partners.[3] It yields a current account norm for Nigeria of +0.9 percent of GDP. Nigeria's projected current account balance is +1.2 percent of GDP in 2017. Given the estimated elasticity of current account balance in Nigeria, the exchange rate is estimated to be undervalued by 1.4 percent.

The External Sustainability Approach

5. **Based on the medium-term projections for real growth and inflation, an external current account surplus of 2.8 percent of GDP would stabilize net foreign assets at the projected end-2012 level over the medium term**. This is somewhat higher than staff's projected medium-term current account surplus of 1.2 percent of GDP, which suggests that the currency is overvalued by6.5 percent. However, determining the appropriate target level for net foreign assets in Nigeria is not straightforward. As an oil producer, it could be argued that Nigeria should be seeking to accumulate financial assets via a higher current account surplus to preserve oil wealth for future generation. On the other hand, as a low-income country with substantial investment needs, there is also a strong case for using its oil savings for infrastructure investments.

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

Appendix 4. Nigeria—Staff Assessment of Reserve Adequacy[1]

1. **The current level of international reserves is estimated to be close to the optimal levels**. Staff analyzed the import coverage of Nigeria's international reserves, as reported in the staff report, using the standard methodology for low-income countries.[2] This assessment assumes that the authorities implement the projected fiscal consolidation and structural reforms. In addition to policy conduct, changes in the projected economic outlook could also affect this assessment, which, therefore, call for caution in interpreting the results.

2. **This assessment method takes account of both costs and benefits of holding reserves**. In this framework, the optimal level of reserves is determined when the crisis prevention and mitigation benefits of reserves are balanced against the net financial cost of holding reserves, where financial cost is defined as the difference between marginal product of capital foregone and the earnings on reserves. The optimal level of reserves estimated under this method is interpreted as the optimal level in the face of large external shocks, given the country's fundamentals (fiscal balance, institution, and exchange rate regime).

3. **Key assumptions**. Except for aid, external shock variables were set at the bottom 10 percentile of Nigeria-specific distribution over the last decade (2002–2011). The shock to foreign aid is assumed to be zero given Nigeria's little reliance on aid. Fundamentals are set under the baseline as follows: the CPIA score was set at the latest year (2011); the fiscal balance was set at the average level realized during 2007–2011; the exchange rate regime was set at "not flexible" given that it is heavily managed. These assumptions are summarized in Text table A2.1 below.

4. **Optimal reserves**. Under these assumptions, the optimal level of reserves varies from 4.2 months to 8.1 months of next year's imports of goods and services, depending on the unit cost of holding reserves (Text table A2.2). Staff analyzed impact of a wider fiscal deficit (5 percent of GDP) than the levels projected in the baseline case. This more expansionary fiscal policy scenario requires higher optimal levels of reserves than those in the baseline.

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[1] Prepared by Tetsuya Konuki, African Department

[2] This methodology is described in the Board Paper (SM/11/31) and the working paper in 2011 (WP/11/249).

Table A4.1. Baseline Assumptions	
External shock variables	
External demand growth, percent[1]	4.0
Terms of trade growth[1]	-6.3
Change in FDI to GDP[1]	-4.8
Change in aid to GDP	0.0
Fundamental variables	
Government balance, percent of GDP[2]	-1.5
CPIA score[3]	3.43
Flexible ER regime dummy	No

[1]Bottom 10th percentile of the distribution during 2002-11.
[2]Average during 2007–11.
[3]As of 2011. Estimated by the World Bank.

Table A4.2. Preliminary Results				
Unit cost of holding reserves, percent	3.0	4.0	5.0	6.0
Estimated Optimal Level of Reserves				
(in months of next year's imports of goods and services)				
Baseline scenario (staff report)	8.1	6.3	5.1	4.2
Wider fiscal deficit (5 percent of GDP)	8.9	7.1	5.8	4.7

Source: Staff calculations.

5. **Opportunity cost of reserves**. In light of the large infrastructure investment needs in Nigeria, the opportunity cost of holding reserve could be relatively high, say 4 to 5 percent. This suggest that, as long as the fiscal consolidation and structural reform take place as planned, the end-2012 level of reserves in the staff report (5½ months of prospective imports) would be close to optimal for Nigeria.[3] However, in light of high uncertainty about economic outlook and policy conduct, this However, in light of high uncertainty about economic outlook and policy conduct, this result should be interpreted with caution.

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

Appendix 5. The Optimal Size of Stabilization Buffer in Nigeria[1]

1. **An oil stabilization buffer helps protect public spending from excessive volatility in revenue, which primarily emanates from oil prices**. The optimal size of such a buffer depends on a number of factors: the size and duration of oil revenue volatility, the extent of dependence on oil revenue, and the degree of aversion to spending swings. In practice, two methods have been used to estimate the optimal size of the buffer: benchmarking and value-at-risk (VaR) modeling.

- **Benchmarking** can be used to estimate the buffer size for a specific oil price shock. For example, a price shock of ½ standard deviation of oil prices—a decline of about $11 a barrel—for a period of three years would require a buffer of around $25 billion to protect spending. Benchmarking can also be done based on cross-country comparisons. The 2008 Presidential Panel assessed the appropriate size of the Nigeria Sovereign Wealth Fund at 15.5 percent of GDP ($30 billion at that time), equivalent to the average size of SWFs of a "peer group" of oil producing countries.

- **The VaR method** is, however, preferred over benchmarking because VaR estimates can take into account cross-country differences in fiscal regimes, the degree of dependency on oil revenues, or reserve and production horizons. The size of the stabilization buffer depends on the stochastic properties of the revenue volatility and assumptions on shock persistence, the desired insurance horizon, and the desired degree of confidence to avoid buffer depletion.

2. **Oil stabilization buffer for Nigeria**. Assuming a budget oil price rule based on an eight-year moving average of oil prices (actual prices for past 5 years and projected prices for the next 3 years), a buffer of 55 percent of annual consolidated government oil revenues or $20 billion would provide a high degree of confidence (a likelihood of 75–85 percent) in achieving the stabilization objective (Table 1). In case of a sharp decline in oil prices, spending levels could be maintained over a three years by drawing down the buffers. This provides room for designing plans for expenditure adjustment within the rolling medium-term expenditures framework, and executing such plans in case the price shock appears to be persistent. Different price rules (e.g., 10-year or 5-year historical averages) imply different degrees of smoothing to a given shock and thus have a different level of confidence. In sum, both VaR and benchmarking methods suggest that around $20–$25 billion will provide a high degree of confidence in achieving government spending smoothing in the face of a negative oil price shock for a period of three years.

[1] Prepared by Jaejoon Woo, Fiscal Affairs Department

Table 1. Stabilization Buffers, Confidence Levels, and Budget Price Rules

Size of Buffers (in billion US dollars)	Size of Buffers (in percent of total budget oil & gas	Confidence Level under Each Budget Price Rule (in percent)		
		MA (5 HIS)	MA (10 HIS)	MA (5 HIS, 3 FWD)
0	0	39	35	37
3.1	9	45	41	46
10	27	59	54	65
20	**55**	**71**	**66**	**82**
27.5	75	78	72	89

Source: IMF TA report (2010)
Note: 1/ Confidence level = likeklihood that the stabilization buffer will not be depleted (thus not requiring spending cuts) against negative shocks for a period of three years.
2/ MA=moving average; HIS=historical; FWD=forward

Appendix 6. Public Finances of States and Local Governments in Nigeria[1]

1. **In Nigeria, the sub-national governments (SNGs), accounting for about half of consolidated revenue and expenditure, are important in understanding the nation's public finances**. The SNGs, comprised of 36 state and 774 local governments, receive over half of oil revenue and a large portion of selected taxes. However, policymakers in Nigeria face challenges in formulating fiscal policy and monitoring its implementations because of lack of official fiscal data on SNGs, particularly on their expenditures, with the harmonized definitions and classifications comparable to those for the federal government (FGN).[2] This appendix sheds some light on the public finance of the state governments by utilizing data from Central Bank of Nigeria's survey returns from 36 states.

2. **Most of public revenues are shared between the Federal government and SNGs while the state governments have fiscal and budgetary autonomy**. Under the fiscal federal system, all oil and gas revenue and two categories of tax revenues (company income tax (CIT) and customs) are pooled in the Federation Account, with VAT revenue separately in the VAT Pool, for sharing among all tiers of governments. Legal provisions for the revenue sharing formula for oil and gas revenue, which accounts for over 75 percent of total revenue, are prescribed in the Constitution:[3] after allocating 13 percent to all oil revenue to producing states, the remainder is shared as following: federal government (48.5 percent), states (26.7 percent), local governments (20.6 percent); and extra-budgetary funds (4.2 percent). The same formula applies to the distribution of CIT and customs. The allocation of VAT revenue follows a different formula: federal government (15 percent), states (50 percent), and local governments (35 percent). Internally generated revenue, which is relatively small, is excluded from the sharing and retained by the collecting governments (FGN or SNGs).

3. **A large variation in allocation of revenue across states is observed**. On the revenue side, excluding the 13 percent derivation charge accruing to the oil producing states, the allocation of other revenues among the 36 states is in part determined by the population size of each state.[4]

[1] Prepared by Jaejoon Woo, Fiscal Affairs Department.

[2] In many states, efforts are underway to systematically collect and report fiscal data in the standard format as part of broad PFM modernizations and in preparation of the Fiscal Responsibility Law with technical assistance from World Bank and other donors (e.g., UK DFID). Staff's estimates of SNG spending shown in the fiscal accounts are based on the revenue and financing (net claims on SNGs from monetary survey).

[3] The currently used formula is a modification of the original formula, which was based on an Act of National Assembly by virtue of Section 315 of 1999 Constitution, by the Honorable Minister of Finance (Letter No AGF/TRY/796/VOL.IV/41, dated January 15, 2004).

[4] In exercising its constitutional responsibility, the Revenue Mobilization Allocation and Finance Commission proposed a new revenue allocation formula based on several variables, including constitutional provisions, tax jurisdiction and responsibilities of all tiers, socio-economic as well as political conditions. However, this proposal has stalled in the National Assembly.

There is a large variation across states in terms of amount of "shared" revenue allocated to each state—from 0.8 percent of GDP in Rivers to 0.13 percent in Abia (Figure 1).[5] When compared in terms of allocated revenue per capita, the gap between richest and poorest states is also large (about 7-fold difference)—from N120,750 (about US$800) per person in Bayelsa to N17,310 (US$112) per person in Abia (Figure 2).

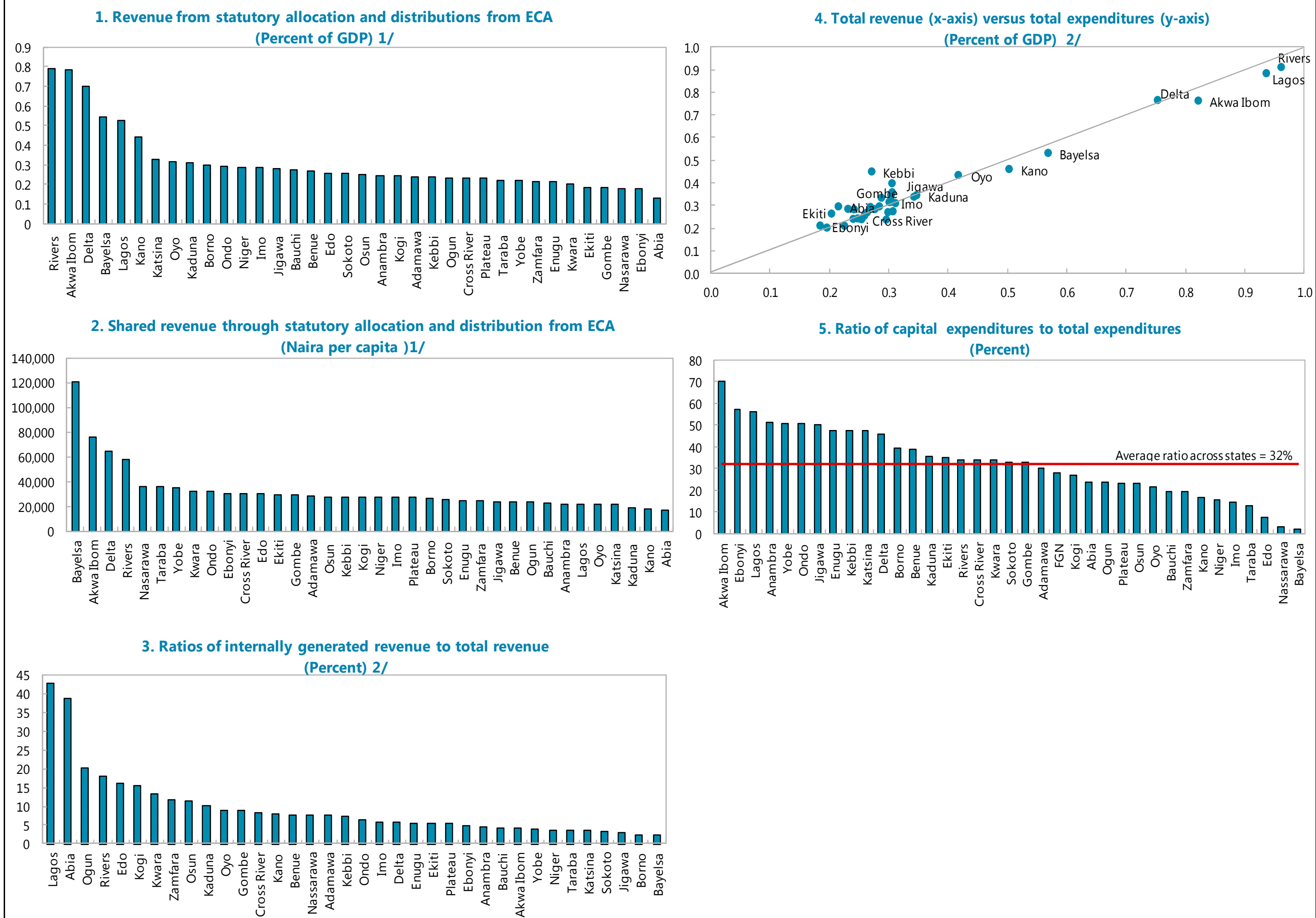
4. **Public spending in most states is heavily dependent on shared revenue**. With limited borrowing capacity and little effort in mobilizing internally generated revenue (except for a few states such as Lagos and Abia as shown in Figure 3), many SNGs rely almost entirely on shared revenues to finance their budgets, resulting in large differences in the amount of expenditure across states as well (Figure 4). This restricted budget space has left some states dissatisfied with the existing vertical and horizontal revenue sharing arrangements and created stronger incentives for some cash-strapped states to demand full distribution of oil revenue, including withdrawals from the ECA. This also makes it more difficult for the federal government to fully engage SNGs with the fiscal framework built around the ECA/SWF.

5. **SNGs allocate a considerable portion of their revenue for capital projects and social programs**. Over half of the states allocate more than 30 percent of the budget to capital expenditures (Figure 5). The state governments allocate about 15 percent of their total spending for key social sectors (education, health, agriculture, water, and housing).[6]

[5] The "shared" revenue includes statutory allocations of the oil (including the derivation charge) and non-oil tax revenue (CIT, customs, and VAT) as well as distributions from the ECA (i.e., budget augmentation and ad hoc distributions).

[6] Central Bank of Nigeria Annual Report 2011 (pp. 134-135). These figures do not include the local governments' expenditures.

Figure A4. Nigeria: Public Finances of State and Local Governments, 2011



Sources: Central Bank of Nigeria Annual Report 2011, IMF Staff estimates

1/ Statutory allocations include shared revenue (oil revenue, companies income tax, customs) and VAT. The revenue of each state includes the revenues of its local governments.

2/ Total revenue includes statutory allocations, distributions from the ECA, internally generated revenue and others.

Appendix 7. Oil-Price Based Fiscal Rules and the Budget Oil Price[1]

1. **Many resource-dependent countries must deal with very volatile exports, revenues, and GDP growth**. A price-based rule can help insulate the public finances against resource price volatility and thereby reduce the pressure for procyclical fiscal policies.

2. **A key decision is the reference price used to determine savings for stabilization purposes (i.e., how much of the oil revenue to save or spend)**. Two approaches are possible: the reference price could be set by using an automatic formula or by an independent committee. In practice, the former approach is more common. Chile is an exception where an independent committee of experts makes a judgment on medium- to long-term reference prices. In most developing countries, limited institutional capacity and lack of a deep pool of independent experts suggest that price-based rules should rely on automatic formulas. In principle, both approaches can bolster credibility and protect fiscal policy from the spending pressures of the political cycle, provided that they are carefully designed and formally written into law, such as a Fiscal Responsibility Law (FRL), along with supporting measures including strict withdrawal rule.

3. **In practice, the price smoothing formula can take a number of possible specifications and may operate as either a fiscal rule or a budgeting procedure to forecast resource revenue**.

- Mexico uses a weighted-average of the 10-year historical average of oil prices (25 percent weight), the short-term futures price (50 percent weight), and medium-term futures prices (25 percent weight). In addition, there are three oil revenue stabilization funds – for the federal government, state-owned PEMEX, and state governments to reduce oil-related volatility in the budget. This reflected a desire to avoid unplanned budget cuts if prices declined. The rules of the funds were defined in the 2006 FR, which also included provisions for setting a budget reference price for oil.

- Ghana's petroleum revenue legislation projects revenues on the basis of a 7-year moving average of benchmark oil prices, including three future years.

4. **In Nigeria, however, the budget oil price is determined through negotiations between the federal government and the National Assembly.** In the case of Chile, an explicit fiscal rule was adopted in 2000 restricting overall central government spending to an estimate of trend central government revenue consistent with trend estimates for GDP and the price of copper, with a 1 percent of GDP target for the structural balance. In 2002, and as way to enhance the rule's credibility, the government nominated an independent panel of experts to determine this price.

[1] Prepared by Jaejoon Woo, Fiscal Affairs Department.

The authorization to delegate to an independent panel the determination of the long-term copper prices was enshrined in the FRL enacted in 2006. This copper panel meets once a year to define the long-term copper price that determines the budget envelope for the following year. In 2010, the independent commission (similar to an independent fiscal council) was also established to monitor the enforcements of the fiscal rule. The rule's credibility is strong, partly because of the government's decision to rely on two independent panels of experts to determine critical inputs for the estimation of the structural balance. To enhance transparency and accountability, statements identifying the members and documenting the panels' results are published by the Budget Directorate on a regular basis.[2]

5. **These countries' experiences have important implications**. First, a robust fiscal framework for successful management of natural resources requires some legal backing (e.g., formalization of the fiscal rule in the FRL), a quality institutional setup, and fundamentally strong political commitment. Second, establishing an independent panel of experts to determine the reference oil price can be considered as a good alternative to adopting a price-smoothing formula. In the absence of its formalization with a firm and transparent legal backing and a strong institutional framework, however, the objective of setting up the independent expert panel could be seriously undermined. Also, limited institutional capacity and a lack of a deep pool of independent experts may act as a potential constraint for this option. Finally, best international practices strongly suggest that a clear and simple rule with a credible enforcement mechanism can support fiscal discipline.

[2] See IMF (2012–2010) and Schmidt-Hebbel (2012) for more about the fiscal framework in Chile.

Appendix 8. Nigeria: Key FSSA Findings and Recommendations[1]

The FSSA is based on the Financial Sector Assessment Program (FSAP) Update for Nigeria, which was undertaken in September 2012. The key macro-relevant findings and recommendations of the FSSA are the following.

Health of Nigerian Banking System

1. ***Findings:*** The Nigerian banking system is well capitalized, liquid, and profitable. Non-performing loans fell to 5 percent of gross loans by mid-2012, as bad assets of all banks above this threshold were transferred to AMCON. By mid-2012, return on assets for the industry rose to 1.2 percent, and return on equity to 8.9 percent. Stress test analysis suggests that most banks could withstand extreme credit shocks; and risks from exchange rate shocks are minimal given the stringent net open position limits and the limited foreign currency lending to unhedged borrowers. Although systemic risk has declined since the peak of the 2009 crisis, the financial system is still exposed to a variety of risks from both global and domestic factors. Thus, further strengthening of the supervisory and regulatory framework is needed to be able to prepare timely responses to emerging risks.

2. ***Key recommendations***:

- Finalize and implement the draft consolidated supervision framework, the draft code of corporate governance, and the framework for financial holding company structures.
- Review and update the Banking Act (BOFIA), last amended in 1999, in light of changes to the generally accepted sound framework for bank regulation and supervision.
- Build capacity for macroprudential oversight, including by improving quality of data.

Crisis Management and Resolution Preparedness

3. ***Findings:*** The CBN and the Nigeria Deposit Insurance Corporation have a broad resolution toolkit which was put to use during the crisis to resolve the intervened banks. At the time of the crisis, the CBN had an overnight standing lending facility, a repurchase facility (up to 90 days, with an option to roll over) and a rediscount facility. However, the CBN was able to utilize the flexibility of the existing framework for longer-term liquidity. An expanded discount window facility, with loans up to 360 days, was utilized during the crisis and the range of eligible collateral was increased to include non-federal government securities. To enhance systemic liquidity, the CBN granted a blanket guarantee on interbank claims and provided substantial liquidity through subordinated loans. However, a longer term liquidity facility is missing. The authorities arranged mergers and acquisitions, set up bridge banks to take over assets and liabilities of problem banks, and

[1] Prepared by Mumtaz Hussain, African Department, based on the accompanying FSSA report.

established an asset management company (AMCON) to deal with NPLs and recapitalization of banks. However, many of these crisis resolution measures invoked legal and procedural challenges.

4. ***Key recommendations***:

- Establish a longer-term emergency liquidity facility with clear policies and guidelines for solvency tests, eligibility requirements, applicable interest rates and acceptable collaterals. Banks that access such a facility should be subject to enhanced supervision.

- Take measures to minimize the disruption to the resolution process caused by legal challenges. For example, amend laws to provide that (a) in the event that there is any challenge to resolution actions, there should be no suspension of resolution proceedings; and (b) redress for wrongful measures should take the form of monetary compensation.

- Devise a credible exit strategy for AMCON, and establish end–2017 as the sunset on AMCON operations, disallow further acquisition of assets, and use surplus funds to buy back bonds

- Shorten the 90-day payout term for the mainstream banking system to 30 days.

Cross Border Risk Management

5. ***Findings***. While Nigeria's banking system is dominated by domestic banks, international linkages are increasing as these banks expand beyond Nigeria. In addition, the Ecobank, headquartered outside Nigeria and active in over 30 African countries, has its largest subsidiary in Nigeria. The CBN has introduced a number of initiatives to enhance cross-border oversight, including establishing a dedicated unit for cross-border supervision and executing many bilateral MoUs on cross-border supervision and cooperation (including one with BCEAO signed in 2012). It has commenced joint examinations of Nigerian banks with host central banks in West African countries, and initiated a process for establishing specific Colleges of Supervisors for foreign subsidiaries of Nigerian banks. However, a number of difficulties remain, including differences in quality of supervision, reporting requirements, data reliability in some weaker jurisdictions, and off-site monitoring systems.

6. ***Key recommendations***:

- Enhance supervisory oversight over banks with cross-border operations, including through joint inspections in cases where Nigeria is host and where it is the home authority. In particular, when a bank is systemically important, ensure that the CBN understands the consolidated health of the institution.

- Establish ex ante arrangements on what to do in the event of crisis; most signed MoUs do not have a clear crisis management module.

Appendix 9. Nigeria: Power Sector Reforms[1]

In August 2010, President Goodluck Jonathan launched an ambitious plan for power sector reforms to eliminate chronic power shortages. Since then, significant progress has been made and a number of important reforms are ongoing.

Chronic Problem of Power Shortages

1. **Nigeria's power sector has not been able to supply adequate and reliable power**. While access to power is at levels close to middle-income countries in SSA, installed capacity (per million people) in Nigeria is only about 5 percent of these countries' average capacity. Moreover, about one-third of its capacity is not in operation. The power situation worsened in the second half of the last decade, as stagnant supply could not keep pace with increasing electricity demand, partly because of sustained high economic growth. Consequently, average electricity consumption per capita declined from 152 kWh in the mid-2000s to about 108 kWh in late 2000s.[2] The economic impact of protracted power shortages have been substantial: enterprise surveys show that 83 percent of businesses identified the lack of power as the biggest obstacle to doing business; over 60 percent of businesses own backup generators, while the cost of self-generation is very high (estimated at $0.40 per kWh); and formal sector firms lost about 10 percent of their revenue because of power outages.

2. **Despite many attempts at reforms, power utilities remained inefficient and inadequately financed**. Despite the end of the state's monopoly in the supply of electricity in 1998, limited change occurred in the subsequent decade. The 2005 Electric Power Sector Reform Act envisaged dividing the national power authority into a number of successor generation and distribution companies. The Power Holding Company of Nigeria (PHCN) was created and subsequently 17 generation and distribution units were formed under PHCN. However, by 2010, not much privatization of these successor companies was realized. The National Electricity Regulatory Commission (NERC) began to regulate the power sector and has issued about 29 power generation licenses to independent power producers since 2006. Although operational inefficiency in power utilities was reduced by 2010, the remaining inefficiencies were considerable: average collection rate was at 88 percent and line power losses were close to 20 percent. More importantly, however, the average effective tariff rate was about one-third of the average total cost of producing one unit of electricity. These inefficiencies and tariffs well below the cost recovery levels have discouraged investment in new generation and distribution infrastructure.

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[1] Prepared by Mumtaz Hussain, African Department

[2] Foster and Pushak (2011), Nigeria's Infrastructure: A Continental Perspective, World Bank Research Paper.

Reform Targets in the Power Sector Roadmap

3. **There are two key goals of the Reform Roadmap**: (a) privatizing the successor generation and distribution companies to induce large private investments to meet demand for electricity and help develop a competitive electricity market; and, (b) improving service delivery throughout the transition period and after, to maintain broad support for reforms. To achieve these objectives, the following actions were planned.[3]

a) Removing obstacles to private sector investment

- Achieving cost-reflective electricity tariffs to ensure financial viability for successor companies and to induce competitive bidding for these companies. The Nigerian Electricity Regulatory Commission will prepare a proposal for cost-reflective tariffs, with a view to maintain appropriate lifeline tariffs to protect vulnerable consumers.

- Establishing a bulk power purchaser to carry out contract management and bulk trading until such time as the industry has developed capacity for successful bilateral contracting

- Activating the Nigerian Electricity Liability Management Company (NELMCO to assume and manage non-performing assets, legacy liabilities and other obligations that could not be easily transferred from PHCN to any of the successor companies.

- Contracting out the management of the Transmission Company of Nigeria (TCN) to a private company which has both the requisite project management and technical expertise, to ensure adequate investment in transmission segment.

- Clarifying the government's strategy on the divestiture of the PHCN successor companies. The 3 hydro power generating plants will be subject to concessions for the operation because of the magnitude of the capital requirements and associated water rights issues

- The thermal generating plants and the distribution companies will be privatized via the sale of a minimum of 51 percent equity to core investors that clearly demonstrate the technical and financial ability to operate and expand production and service.

[3] Government of Nigeria (2010), "Roadmap for Power Sector Reform: A Sector-wide Plan to Achieve Stable Power Supply."

b) Improving service delivery throughout the transition

- Transition to principally privately owned and controlled power sector cannot happen overnight. In the interim period, the government will be accountable for service delivery across large parts of the electricity value chain.

- In short term, a substantial increase in the total power delivered to electricity consumers is necessary step. By end-2013, at least double power supply from the mid-2010 levels.

Implementation of the Power Sector Roadmap

4. Substantial progress has been made on many targets of the roadmap.

- Power supply has improved significantly (a new all-time record generation was achieved in August 2012 with an available supply of nearly 4500 MW); power stability has improved; and revenue collection increased from N 8 billion a month to N 11 billion in the last 12 months;

- The role of the regulator (NERC) has been strengthened and made more independent;

- The bulk trader company has been established and activated.

- In June 2012, power tariffs were raised to cost-reflective levels, while lowering the lifeline tariff for low consumption levels of low-income consumers;

- PHCN's six successor generation companies are being privatized and most received participation from international and reputable partners; transfer of ownership is proceeding;

- PHCN's 10 successor distribution companies also privatized, and transfer of ownership is underway;

- To reduce risks to private investors from future policy actions, the government has entered into a partial risk guarantee arrangement with the World Bank;

- A 5-year management contract for the Nigerian Transmission Company with a Canadian firm has been activated to improve efficiency; and there has been continued strengthening of the fuel-to-power segment, through additional investment in gas pipelines and increased prices for gas feedstock.

5. Looking ahead, the ongoing privatization process will require sustained commitment to overcome any hurdles may appear in such a complicated reform process.

Appendix 10. The Petroleum Industry Bill[1]

1. **Since 2008, many attempts have been made to overhaul the regulatory and supervisory framework for the petroleum sector**. The first Petroleum Industry Bill (PIB), submitted to the National Assembly in 2008, was stalled for many years and led to irreconcilable versions of the Bill in the two houses of the National Assembly. In January 2012, following the partial removal of the gasoline subsidy, the Minister of Petroleum Resources constituted a Task Force to revise and reconcile various previous versions of the PIB with the goal of expediting its passage into law. The revised PIB, after approval by the Cabinet, was submitted to the National Assembly in July.

2. **The Bill is aimed at a wide-range of reforms in the oil and gas sector**. This bill combines a multitude of laws and regulations into a single consistent legislation. For example, it proposes modifications in the fiscal regime; a complete overhaul of the national oil company (NNPC) and other key executive and regulatory agencies; additional measures to improve transparency and accountability; and the deregulation of the downstream activities. The issues involved are complex, and their resolution can be expected to have significant implications for investment flows, industry activity, and government revenues.

3. **A key objective of the PIB is to raise the government take from operations under production sharing contracts (PSCs)—one of the two main oil production contracts enforced in Nigeria**. For this purpose, the PIB proposes replacing the petroleum profit tax (PPT) with the corporate income tax (CIT) and a new national hydrocarbon tax (NHT). While combined rates for NHT and CIT for onshore operations remains at 85 percent (same as the current PPT rate), the combined tax on deepwater operations is proposed to be raised to 55 percent from the current PPT rate of 50 percent. Also, replacing the investment tax credit with a general production allowance for PSCs executed before July 1998 will increase government take.

4. **However, some aspects of the proposed fiscal regime may require careful reconsideration**. For example, introducing royalty rates—another important determinant of the overall take of the government—by subsequent regulations instead of setting them in the law increases the risk of regime instability. Investors may feel a significant risk of future changes, which may discourage investment. Discretionary power by the Minister to change the rates or to impose additional differentiation of royalties could lead to a very complex system and increase incentives for rent seeking. Similarly, the bill assigns borrowing authority to multiple institutions, which could lead to potential fiscal risks. Ideally, borrowing powers, especially for foreign loans, should be conferred only if essential and should be subject to a centralized oversight process.

[1] Prepared by Mumtaz Hussain, African Department.

5. **While some institutional reforms are needed, the proposed institutional setup is complex and unwieldy**. Attempts to separate the management of the state's assets and investments in oil sector from the regulatory and supervisory functions are welcome—currently all these functions are housed in a single entity (NNPC). However, the proposed institutional changes could easily become too complex and costly. For example, the current operations of NNPC are proposed to be divided up into four companies: a National Oil Company, an Assets Management Corporation to management government investments in the upstream industry, an Assets Management Company to take over joint ventures—accounting for majority of oil production—and existing debt liabilities, and a National Gas Company. This multiplicity risks (a) high administrative costs; (b) conflicts in responsibility among the agencies involved and significant uncertainties on the allocation of inflows (e.g., petroleum revenues); (c) increased potential for corruption or political bargaining; and (d) lack of certainty for investors. In this context, streamlining the proposed institutional setup is desired.

6. **Transparency and accountability provisions could be strengthened**. The PIB recommends an open, transparent and competitive bidding process for granting petroleum licenses and leases. However, it also empowers the President to grant a license or lease without subjecting these powers to the same transparency requirements, which is not in line with best practices. Allowing many of the proposed institutions to accept gifts or grants, especially from the same industry they regulate or operate in, is problematic and can create opportunities for rent seeking. The bill should also require independent audits and disclosure of financial reports for the National Oil Company and other companies/corporations to promote further transparency.

7. **The government and the oil industry have very different views on pre-tax economics of Nigerian oil projects and the effect of the PIB on these**. A process should be initiated to bridge these technical gaps, including through detailed independent cost audit of existing projects, technical review of industry's development plans and projected costs by independent experts, and expert advice on appropriate required rates of return for IOCs investments in Nigeria.

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NIGERIA

STAFF REPORT FOR THE 2012 ARTICLE IV CONSULTATION—DEBT SUSTAINABILITYANALYSIS[1]

January 24, 2013

Approved By
Seán Nolan and Martin Mühleisen (IMF) and Jeffrey D. Lewis and Marcelo Giugale (IDA)

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

Based on the joint Bank-IMF low-income country debt sustainability analysis (DSA), Nigeria remains at a low risk of debt distress. In the baseline scenario and in the case of the standardized stress tests, Nigeria's debt outlook remains robust. For the customized stress test, which simulates a persistent oil price shock, all indicators deteriorate compared to the baseline results, but generally remain within all of the country specific thresholds relevant for Nigeria. The main finding of the DSA—Nigeria is at a low risk of debt distress—is the same as that for the last DSA, published in July 2012. But the findings from the stress scenarios also show that, without significant compensating policy measures, a prolonged negative oil price shock or permanent real GDP growth shock could undermine the recent progress made in achieving macroeconomic and debt sustainability. Nevertheless, given Nigeria's strong starting position, timely policy action should be able to avert future sustainability problems. The assumptions used for this DSA are also broadly similar to those used in the previous DSA, although with a slightly higher oil price and real GDP growth projected throughout the baseline forecast period while incorporating estimated fiscal costs arising from Asset Management Corporation of Nigeria's (AMCON) bonds. The analysis is complicated by the still large errors and omissions in the balance of payments data, and the DSA does not incorporate debt of the state and local governments due to data limitations.

[1] Prepared by the IMF and IDA staffs in collaboration with the Nigerian authorities. Debt data, sustainability issues, and the new debt limit policy were discussed with the authorities in the course of the 2012 Article IV consultation. This DSA follows the IMF and World Bank Staff Guidance Note on the Application of the Joint Fund-Bank Debt Sustainability Framework for Low-Income Countries, January 22, 2010 (available at http://www.imf.org/external/pp/longres.aspx?id=4419 and http://go.worldbank.org/JBKAT4BH40). The analysis updates the 2011 DSA (IMF Country Report for Nigeria 12/194).

BACKGROUND

1. **The previous DSA for Nigeria was undertaken as part of the 2011 Article IV consultation and published in July 2012**.[2] Following the final phase of Nigeria's Paris Club Agreement in 2006, which led to an $18 billion reduction in Nigeria's external debt, external public debt is projected to total US$6.5 billion, or 2.4 percent of GDP, at end-2012.[3] Approximately $5.3 billion of that total external debt stock is multilateral debt, of which about 87 percent is owed to IDA. The breakdown for external debt by main creditor is as follows:

Nigeria's External Debt Stock, in millions of US dollars, end-2012

Category	Balance Outstanding
Multilateral	5,267
World Bank Group	
IBRD	0
IDA	4,570
IFAD	83
African Development Bank Group	
ADB	32
ADF	448
EDF	103
IDB	22
Others	9
Bilateral	671
Commercail	584
Total	**6,522**

Source: staff estimates based on information provided by the Debt Management Office (DMO) in Nigeria.

2. **One important limitation of this DSA is that it only applies to debt contracted at the consolidated central government level**. Data on state and local governments' borrowing are currently not available. While sub-national borrowing is currently limited and tightly regulated, there

[2] IMF (2012), Country Report for Nigeria, 12/194.

[3] Public and publicly guaranteed external debt stock increased by US$0.9 billion during the year of 2012 (from US$5.6 billion at end-2011) mostly due to infrastructure loans.

is scope for State Governments to expand their exposure to domestic creditors. Public debt data analysis is also complicated by a multiplicity of off budget funds. Figures for Nigeria's debt stock do not include debts contracted by public enterprises.

A. Macroeconomic Assumptions

3. **The assumptions in the baseline scenario for 2012–32 underlying this DSA are as follows**:

- Average GDP growth of 7 percent over the period 2012–31 (somewhat below the average of 7.5 percent for 2009–2011) reflecting buoyant growth of non-oil GDP of around 7.5 percent (on the basis of continued structural reform efforts) and modest growth of oil and gas GDP of 1.7 percent.

- A recovery in capital inflows, including in foreign direct investment to the oil sector, which will be sensitive to political developments and the outcome of the Petroleum Industry Bill. In line with the latest WEO projections, the analysis assumes a Nigerian oil price of US$110.1 per barrel in 2012, moderating to US$93.1 per barrel by 2017, and then staying at US$90.7 per barrel thereafter. Crude oil production per day is assumed to gradually increase from 2.4 million barrels in 2012 to 3 million barrels in 2021 and then staying at that level thereafter. As a result, oil exports will hover in the range of US$83½ - 88 billion throughout the projection period.

- A consolidated government non-oil primary deficit (NOPD) would decline from36 percent of non-oil GDP in 2011 to around 20 percent of non-oil GDP in 2017. It would continue to decline gradually thereafter.[4] This is broadly consistent with the medium-term projections outlined in the government's medium-term fiscal strategy for 2013-15. Such a stance would also be consistent with what staff assesses is needed to achieve long-term fiscal sustainability while preserving oil and gas wealth for future generations. In addition, it is assumed that the oil-price-based fiscal rule continues to be applied, with a budget oil price assumed to be on average around 20 percent below the projected oil price.[5]

- After strong export growth during 2010–12 driven by a recovery of oil prices, exports are projected to stagnate during 2013–17 because of easing oil prices, while imports are projected to grow strongly reflecting a buoyant domestic demand growth. As a result, the current account

[4] The DSA is based on the projections on Brent crude prices assumed in the December 2012 WEO updates. Nigerian oil price is projected by using the past relations between the Nigerian oil prices and Brent oil prices.

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

balance would decline to about ½ percent of GDP by 2017. After that, it would hover around zero until 2032: growth in non-oil exports will partially offset the declining oil exports in the medium term.

- Euro bond issuance of US$1.1 billion in 2013 to finance infrastructure investments (including gas pipelines).

- Drawing on the infrastructure loans from China in the amount of about US$450 million during 2013–17.[6]

- As for the contingent liabilities from AMCON bonds, a total of N607 billion is assumed to materialize as ultimate fiscal cost for the federal government in 2022 (equivalent to 0.5 percent of GDP), which implies that public debt path increases by this amount and stays flat through 2032.[7]

4. **At the time of the 2011 DSA, Nigeria's external public debt was projected to total $6.3 billion, or 2.5 percent of GDP, at end-2011, while domestic public debt was projected to reach 15.6 percent of GDP at end-2011**. It turned out that external debt totaled 2.4 percent of GDP, while domestic public debt was 14.9 percent of GDP. The assumptions made in the 2011 DSA have proven broadly accurate. However, the current account in 2011 was considerably weaker than forecast in the previous DSA and it is likely that the current account surplus in 2012 will fall significantly short of the last DSA forecast. The weaker-than-projected current account position in 2011 was largely due to higher-than-projected imports. The fiscal stance in 2011 turned out to somewhat better than anticipated because of revenue over performance. The fiscal stance is projected to have improved significantly in 2012 due to restraint in recurrent spending. Overall growth in 2011–12 was broadly in line with that projected at the time of the 2011 DSA. Finally, global oil prices were slightly higher in 2011–12 than had been forecast at the time of the previous DSA.

5. **It is important to note two issues with external sector data for Nigeria that complicate the debt sustainability analysis**. First, there are still large errors and omissions in the presentation of the balance of payments statistics, which may reflect an underestimation of current account debit transactions, and which leads to the observed large residuals in the DSA presentation. There is also a break in the balance of payments series between 2005 and 2006, where the authorities' data is used for the first time. Given the change in methodology to estimates the imports in 2010, there is another break in the balance of payments data between 2009 and 2010.

[6] The loans from China would be for 20 years with a 2.5 percent interest rate.

[7] The estimated fiscal cost under the baseline scenario is computed as the AMCON borrowing (about N3.2 trillion as of end-November 2012) net of the expected asset recovery (about 42%) and contribution from the sinking fund (raised by 0.5% levy on banks' assets and CBN contributions).

B. External Sustainability[8]

Baseline

6. **In the baseline scenario, the nominal external debt burden is projected to increase for the next five years but decline gradually thereafter (Figure 1 and Table1)**. The external debt to GDP ratio would rise from 2.4 percent in 2011 to 4.3 percent in 2017, reflecting external borrowing to finance scaled-up public investment during the next five years. Then it falls gradually and it will decline to 0.5 percent by 2032. The debt service to exports and the debt service to revenue ratios also decline gradually after reaching peak in 2017. All debt and debt service indicators remain well below their respective threshold levels throughout the projection period.

Alternative Scenarios and Stress Tests

7. **Standardized stress tests were carried out (Figure 1 and Table2)**. Under the most extreme case (i.e., the export shock), (i) the PV of the debt-to-GDP ratio is not likely to exceed 10 percent of GDP throughout the projection period; and (ii) the PV of debt-to-exports ratio reaches a peak of around 35 percent, far below its indicative debt burden threshold of 150 percent.

8. **A country-specific alternative scenario was also examined**. This scenario is designed to illustrate the impact on the external accounts and the debt dynamics of a prolonged oil price shock (in light of Nigeria's high dependency on oil, as well as the high level of oil prices projected over the medium term).[9] The impact of the oil price shock on the external accounts is calibrated such that the oil price is lower than the baseline by 30 percent during 2013–17. All indicators worsen considerably from the baseline under this country-specific scenario but remain within the country-specific thresholds relevant for Nigeria, with the exception of the PV of the debt-to-exports ratio, which exceeds in one year (2017).

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[8] The LIC debt sustainability framework (DSF) provides a methodology for assessing external debt sustainability which is guided by indicative, country-specific, debt burden thresholds based on the relative strength of a country's policies and institutions. Given Nigeria's rating of 3.5 (medium performer), which is the three year average of the World Bank's Country Policy and Institutional Assessment (CPIA), the relevant country-specific thresholds are a PV of debt to GDP of 40 percent, a PV of debt to exports of 150 percent, and a debt service to exports ratio of 20 percent.

[9] This country-specific scenario provides only partial equilibrium perspective: it looks only at the impacts on current account balance and external debt dynamics arising from the severe oil price shocks but its impacts on the GDP and fiscal accounts are not analyzed. To analyze the debt dynamics under general equilibrium perspective, the Staff Report analyzes debt dynamics under an alternative scenario which assumes a more complete adverse scenario: lower GDP and worse fiscal balance compared with the baseline for several years arising from negative oil price shocks caused by prolonged slow growth in advanced economies.

C. Fiscal Sustainability

9. **Consolidated government gross debt outstanding is estimated at 17¾ percent of GDP at end-2012, and is projected to decline steadily over the long run**. The current maturity structure of domestic debt is favorable, with the short-term debt accounting for slightly less than 30 percent of total debt. Under the baseline scenario (Figure 2 and Table 3), consolidated government debt to GDP ratio would first increase marginally to 18 percent by 2014 and then only gradually decline to 16½ percent in 2017, because the projected level of fiscal surpluses during the period is not large enough to achieve more aggressive debt reduction while simultaneously accumulating the projected amount of assets in the Excess Crude Account (ECA)/Sovereign Wealth Fund (SWF) (Table 2 in the accompanying staff report). Net debt, i.e., gross debt less the assets in the ECA/SWF, is also projected to decline from 13 percent of GDP at end-2012 towards 9½ percent by 2017. In ensuing years, the gross public debt to GDP ratio gradually declines. As for the contingent liabilities from AMCON bonds over the medium-term, a total of N607 billion (equivalent to 0.5 percent of GDP) is assumed to materialize as ultimate fiscal cost for the federal government in 2022, which implies that the domestic debt stock jumps up by this amount and then stays flat throughout 2032, translating into a smoothly declining path from 9¾ percent of GDP in 2022 towards around 3 percent of GDP by 2032. This is largely due to the continued efforts of fiscal consolidation at the general government level and sustained growth assumed under the baseline scenario.

10. **The standardized stress tests underscore the need for fiscal policy to adjust to the economic environment**. In particular, the present value of public debt to GDP ratio would creep up to 26 percent throughout the projection period under a permanently lower real GDP growth scenario, as fiscal balance in each year would worsen significantly compared with the baseline scenario. [10] With oil prices stabilizing over the medium term, public debt dynamics would become more susceptible to negative economic growth shock. In such an adverse scenario, fiscal policy will need to adjust by about 1 percent of GDP each year to bring the public debt stock path to the same path under the baseline (Figure 2 and Table 4).

D. Conclusion

12 **Nigeria is at low risk of external debt distress**. In the baseline scenario and in the standardized stress tests, Nigeria's debt outlook remains robust throughout the projection period. However, the findings from the stress scenarios also show that, without significant compensating policy measures, a prolonged oil price shock or deterioration in the growth could undermine the

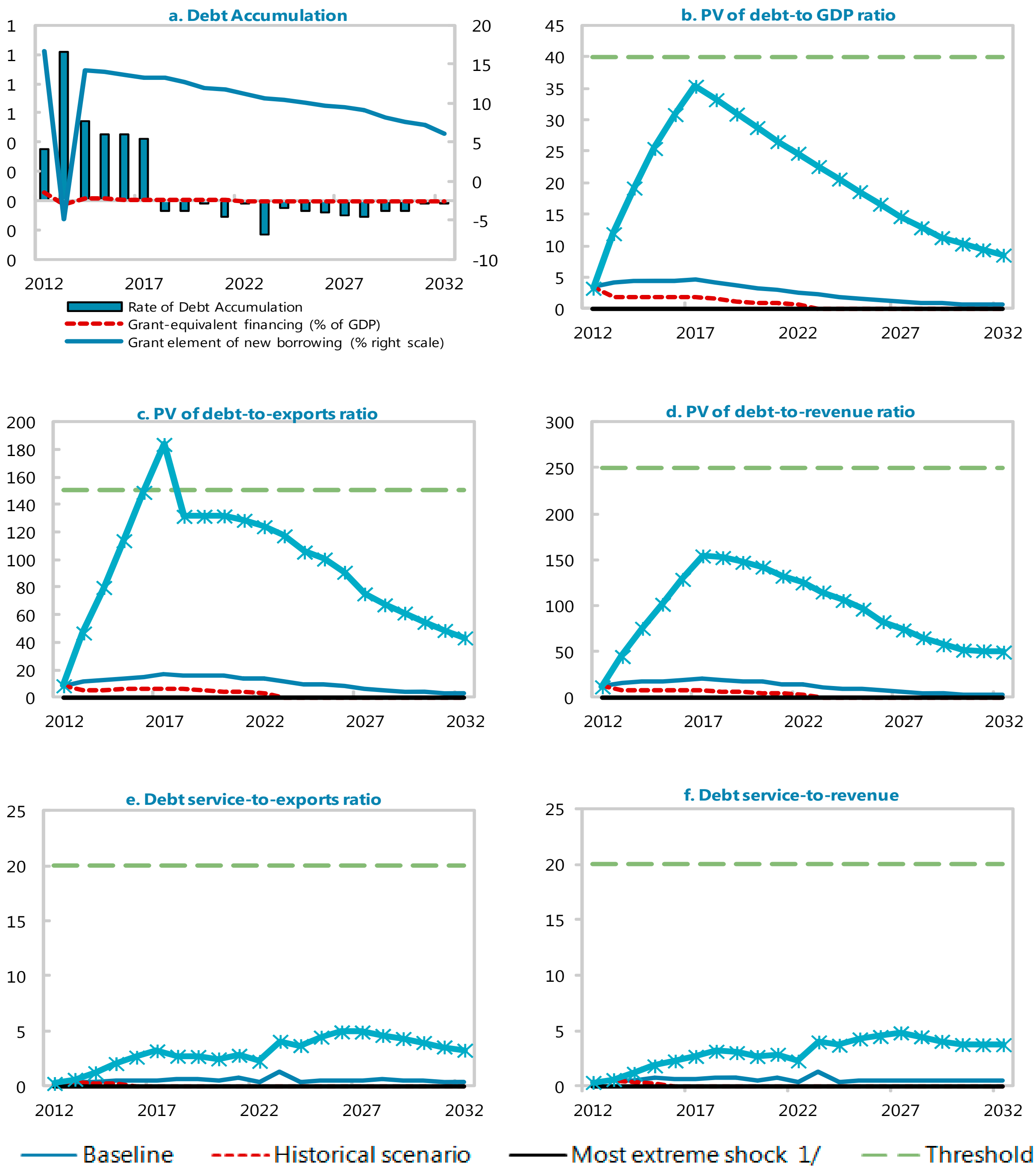
[10] Under the alternative scenario in the Staff Report, which assumes lower GDP and worse fiscal balance compared with the baseline for several years as a result of negative oil price shocks caused by prolonged slow growth in advanced economies, the public debt to GDP ratio would rise to around 19½ percent of GDP by 2015.

recent progress made in achieving macroeconomic and public debt sustainability. Nonetheless, given Nigeria's strong financial starting position, timely policy action should be able to avert future sustainability problems.

Authorities Views

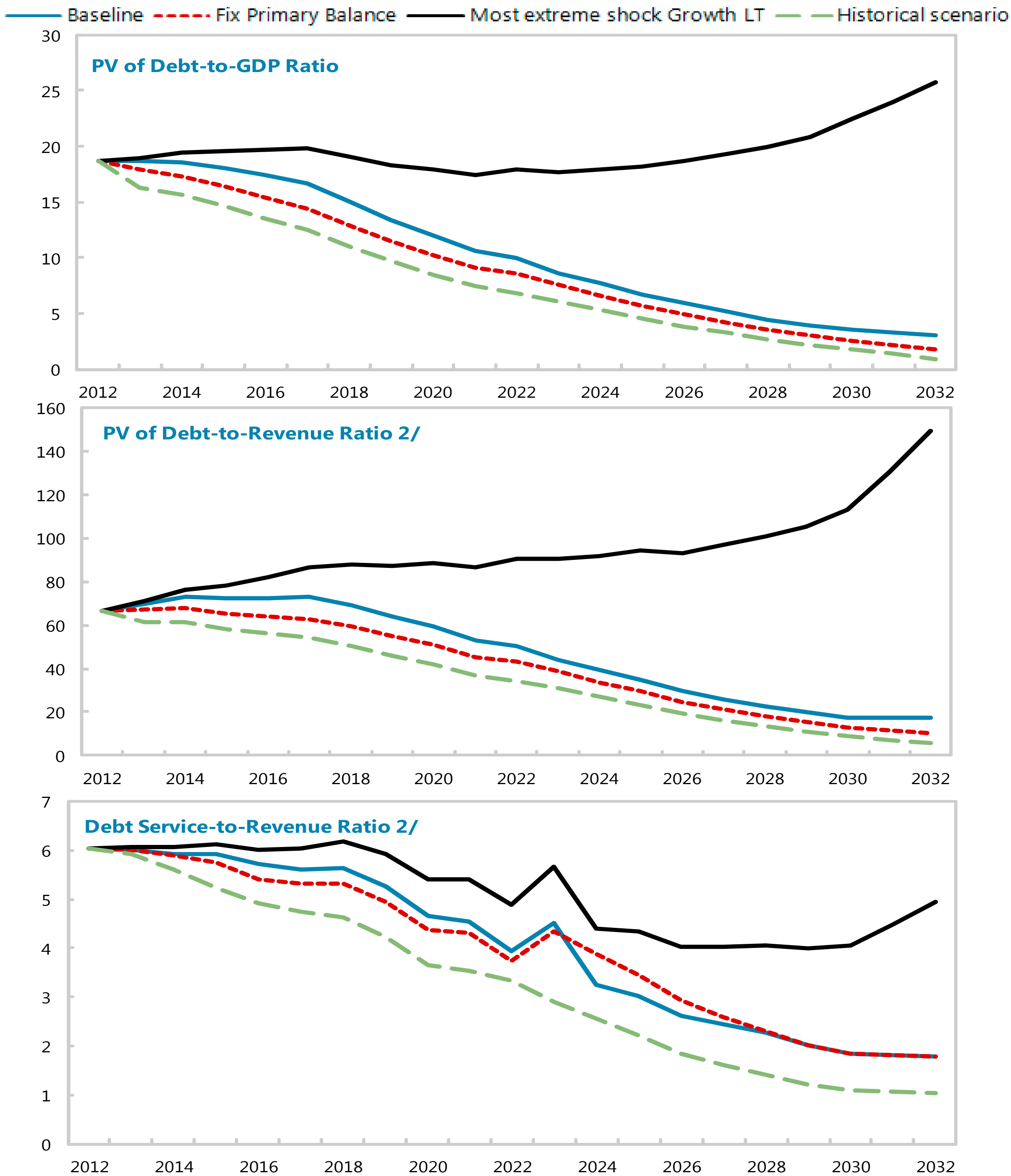
13. **The authorities were in agreement with the staff's main conclusions**. The staff's finding of low external debt risk was consistent with their view. They agreed that timely policy adjustments would be necessary in the event of a prolonged adverse oil price or economic growth shock.

Figure 1. Nigeria: Indicators of Public and Publicly Guaranteed External Debt under Alternative Scenarios, 2012–2032 1/



Sources: Country authorities; and staff estimates and projections.
1/ The most extreme stress test is the test that yields the highest ratio in 2022.
In figure b. it corresponds to an exports shock; in c. to an exports shock;
in d. to an exports shock; in e. to an exports shock and in figure f. to an exports shock.

Figure 2. Nigeria: Indicators of Public Debt under Alternative Scenarios, 2012–2032 1/



Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio in 2022.

2/ Revenues are defined inclusive of grants.

Table 1. Nigeria: External Debt Sustainability Framework: Baseline Scenario, 2009–2032 [1]

(In percent of GDP, unless otherwise indicated)

	Actual			Historical [6/] Average	Standard [6/] Deviation	Projections									
	2009	2010	2011			2012	2013	2014	2015	2016	2017	2012-2017 Average	2022	2032	2018-2032 Average
External debt (nominal) 1/	**2.5**	**2.3**	**2.4**			**2.5**	**3.4**	**3.7**	**3.9**	**4.1**	**4.3**		**2.4**	**0.5**	
of which: public and publicly guaranteed (PPG)	2.4	2.3	2.4			2.5	3.4	3.7	3.9	4.1	4.3		2.4	0.5	
Change in external debt	0.0	-0.1	0.1			0.0	0.9	0.3	0.2	0.2	0.1		-0.3	-0.1	
Identified net debt-creating flows	-11.9	-8.8	-7.1			-6.9	-6.4	-6.0	-4.5	-3.7	-3.0		-1.9	-1.9	
Non-interest current account deficit	**-8.4**	**-5.9**	**-3.7**	**-7.8**	**10.1**	**-4.8**	**-4.1**	**-3.7**	**-2.3**	**-1.6**	**-1.3**		**-0.2**	**-0.8**	-0.4
Deficit in balance of goods and services	-5.3	-5.3	-4.0			-4.6	-3.5	-1.6	0.0	1.5	2.6		2.3	1.5	
Exports	35.0	35.2	39.6			38.2	36.3	34.3	31.9	29.6	27.5		19.9	19.7	
Imports	29.7	29.9	35.6			33.6	32.8	32.7	31.9	31.1	30.1		22.2	21.2	
Net current transfers (negative = inflow)	-11.6	-9.2	-9.0	-7.5	4.1	-8.0	-7.8	-7.5	-7.3	-7.0	-6.8		-5.1	-2.9	-4.4
of which: official	-0.9	-0.6	-0.7			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Other current account flows (negative = net inflow)	8.6	8.6	9.4			7.9	7.2	5.3	5.0	3.9	3.0		2.5	0.5	
Net FDI (negative = inflow)	**-4.2**	**-2.3**	**-3.3**	**-3.8**	**0.9**	**-2.0**	**-2.2**	**-2.1**	**-2.0**	**-1.9**	**-1.6**		**-1.6**	**-1.1**	-1.4
Endogenous debt dynamics 2/	**0.7**	**-0.6**	**-0.1**			**-0.1**	**-0.1**	**-0.1**	**-0.2**	**-0.2**	**-0.2**		**-0.1**	**0.0**	
Contribution from nominal interest rate	0.1	0.0	0.1			0.1	0.1	0.1	0.1	0.1	0.1		0.0	0.0	
Contribution from real GDP growth	-0.2	-0.1	-0.2			-0.1	-0.2	-0.2	-0.2	-0.3	-0.3		-0.2	0.0	
Contribution from price and exchange rate changes	0.8	-0.5	0.0			...	...	...	...	...	...		...	...	
Residual (3-4) 3/	**11.9**	**8.6**	**7.2**			**6.9**	**7.2**	**6.3**	**4.7**	**3.9**	**3.1**		**1.7**	**1.9**	
of which: exceptional financing	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
PV of external debt 4/	...	...	3.4			3.4	4.1	4.3	4.4	4.5	4.5		2.6	0.6	
In percent of exports	...	...	8.7			8.8	11.4	12.5	13.8	15.2	16.5		13.2	2.9	
PV of PPG external debt	**...**	**...**	**3.3**			**3.4**	**4.1**	**4.3**	**4.4**	**4.5**	**4.5**		**2.6**	**0.6**	
In percent of exports	**...**	**...**	**8.4**			**8.8**	**11.4**	**12.5**	**13.8**	**15.2**	**16.5**		**13.2**	**2.9**	
In percent of government revenues	**...**	**...**	**11.2**			**12.0**	**15.5**	**16.9**	**17.6**	**18.8**	**19.8**		**13.3**	**3.3**	
Debt service-to-exports ratio (in percent)	**1.2**	**1.7**	**1.3**			**0.3**	**0.4**	**0.4**	**0.6**	**0.6**	**0.6**		**0.4**	**0.4**	
PPG debt service-to-exports ratio (in percent)	**1.2**	**1.7**	**1.3**			**0.3**	**0.4**	**0.4**	**0.6**	**0.6**	**0.6**		**0.4**	**0.4**	
PPG debt service-to-revenue ratio (in percent)	**2.4**	**3.0**	**1.7**			**0.4**	**0.5**	**0.5**	**0.7**	**0.7**	**0.7**		**0.4**	**0.4**	
Total gross financing need (Billions of U.S. dollars)	-20.5	-17.3	-15.8			-17.9	-17.5	-17.5	-13.7	-11.9	-10.4		-10.7	-27.6	
Non-interest current account deficit that stabilizes debt ratio	-8.3	-5.8	-3.8			-4.8	-5.0	-4.0	-2.5	-1.8	-1.4		0.0	-0.8	
Key macroeconomic assumptions															
Real GDP growth (in percent)	7.0	8.0	7.4	8.9	4.6	6.3	7.2	7.0	7.0	7.0	7.1	6.9	6.8	7.2	7.0
GDP deflator in US dollar terms (change in percent)	-23.9	25.6	-0.6	10.0	14.7	3.9	-1.2	0.7	0.9	1.1	1.5	1.2	2.8	-0.4	2.3
Effective interest rate (percent) 5/	2.4	2.6	2.8	3.6	1.4	2.4	3.6	2.7	2.3	2.0	1.8	2.5	1.2	0.8	1.0
Growth of exports of G&S (US dollar terms, in percent)	-33.4	36.5	20.1	19.4	24.4	6.5	0.7	1.7	0.5	0.3	0.9	1.8	6.0	9.2	7.1
Growth of imports of G&S (US dollar terms, in percent)	-22.6	36.6	27.2	20.3	19.7	4.2	3.5	7.4	5.4	5.3	5.2	5.2	5.5	8.5	7.0
Grant element of new public sector borrowing (in percent)	...	...	...	...	...	16.6	-4.8	14.2	14.1	13.7	13.3	11.2	11.2	6.2	10.0
Government revenues (excluding grants, in percent of GDP)	17.8	20.0	29.9			28.1	26.7	25.4	25.1	24.0	22.9		19.8	17.2	19.8
Aid flows (in Billions of US dollars) 7/	0.3	0.2	0.2			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
of which: Grants	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
of which: Concessional loans	0.3	0.2	0.2			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Grant-equivalent financing (in percent of GDP) 8/	...	...	...			0.1	0.0	0.0	0.0	0.0	0.0		0.0	0.0	0.0
Grant-equivalent financing (in percent of external financing) 8/	...	...	...			16.6	-4.8	14.2	14.1	13.7	13.3		11.2	6.2	10.0
Memorandum items:															
Nominal GDP (Billions of US dollars)	168.6	228.6	244.0			269.7	285.5	307.7	332.2	359.5	390.8		618.3	1515.2	
Nominal dollar GDP growth	-18.6	35.6	6.7			10.5	5.9	7.8	8.0	8.2	8.7	8.2	9.8	6.8	9.5
PV of PPG external debt (in Billions of US dollars)			8.0			8.8	11.5	13.1	14.5	16.0	17.5		16.1	8.7	
(PVt-PVt-1)/GDPt-1 (in percent)						0.3	1.0	0.5	0.5	0.5	0.4	0.5	0.0	0.0	-0.1
Gross workers' remittances (Billions of US dollars)	18.4	19.8	20.6			21.5	22.0	22.9	24.0	25.2	26.5		31.2	43.3	
PV of PPG external debt (in percent of GDP + remittances)	...	...	3.1			3.1	3.8	4.0	4.1	4.2	4.2		2.5	0.6	
PV of PPG external debt (in percent of exports + remittances)	...	...	6.9			7.3	9.4	10.3	11.3	12.3	13.2		10.5	2.6	
Debt service of PPG external debt (in percent of exports + remittanc	...	...	1.0			0.2	0.3	0.3	0.5	0.5	0.5		0.3	0.3	

Sources: Country authorities; and staff estimates and projections.

1/ Includes public and publicly guaranteed external debt.

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

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

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

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

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

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

8/ Grant-equivalent financing includes grants provided directly to the government and through new borrowing (difference between the face value and the PV of new debt).

Table 2a. Nigeria: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2012–2032

(In percent)

	Projections							
	2012	2013	2014	2015	2016	2017	**2022**	2032
PV of debt-to GDP ratio								
Baseline	3	4	4	4	5	5	**3**	1
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2012-2032 1/	3	2	2	2	2	2	**1**	0
A2. New public sector loans on less favorable terms in 2012-2032 2	3	4	3	3	3	3	**1**	0
A3. Alternative Scenario : Oil price shock	3	12	19	25	31	35	**25**	9
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2013-2014	3	4	4	5	5	5	**3**	1
B2. Export value growth at historical average minus one standard deviation in 2013-2014 3/	3	6	9	9	8	8	**5**	1
B3. US dollar GDP deflator at historical average minus one standard deviation in 2013-2014	3	4	5	5	5	5	**3**	1
B4. Net non-debt creating flows at historical average minus one standard deviation in 2013-2014 4/	3	7	9	9	9	9	**6**	2
B5. Combination of B1-B4 using one-half standard deviation shocks	3	3	0	1	2	2	**2**	0
B6. One-time 30 percent nominal depreciation relative to the baseline in 2013 5/	3	6	6	6	6	6	**4**	1
PV of debt-to-exports ratio								
Baseline	9	11	13	14	15	16	**13**	3
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2012-2032 1/	9	5	6	6	6	7	**3**	0
A2. New public sector loans on less favorable terms in 2012-2032 2	9	10	10	10	10	9	**6**	0
A3. Alternative Scenario : Oil price shock	9	47	80	114	149	184	**124**	43
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2013-2014	9	11	12	14	15	16	**13**	3
B2. Export value growth at historical average minus one standard deviation in 2013-2014 3/	9	16	29	30	32	34	**30**	8
B3. US dollar GDP deflator at historical average minus one standard deviation in 2013-2014	9	11	12	14	15	16	**13**	3
B4. Net non-debt creating flows at historical average minus one standard deviation in 2013-2014 4/	9	18	27	28	30	31	**28**	8
B5. Combination of B1-B4 using one-half standard deviation shocks	9	8	1	3	6	8	**8**	2
B6. One-time 30 percent nominal depreciation relative to the baseline in 2013 5/	9	11	12	14	15	16	**13**	3
PV of debt-to-revenue ratio								
Baseline	12	15	17	18	19	20	**13**	3
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2012-2032 1/	12	7	7	8	8	8	**3**	0
A2. New public sector loans on less favorable terms in 2012-2032 2	12	14	14	13	12	11	**6**	0
A3. Alternative Scenario : Oil price shock	12	45	75	102	129	154	**125**	50
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2013-2014	12	16	18	18	20	21	**14**	4
B2. Export value growth at historical average minus one standard deviation in 2013-2014 3/	12	21	34	34	35	36	**27**	8
B3. US dollar GDP deflator at historical average minus one standard deviation in 2013-2014	12	16	18	19	20	21	**14**	4
B4. Net non-debt creating flows at historical average minus one standard deviation in 2013-2014 4/	12	25	36	36	37	38	**28**	9
B5. Combination of B1-B4 using one-half standard deviation shocks	12	11	2	5	7	10	**9**	3
B6. One-time 30 percent nominal depreciation relative to the baseline in 2013 5/	12	22	24	25	27	28	**19**	5

Table 2b. Nigeria: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2012–2032 (continued)

Debt service-to-exports ratio

Baseline	0	0	0	1	1	1	**0**	0
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2012-2032 1/	0	0	0	0	0	0	**0**	0
A2. New public sector loans on less favorable terms in 2012-2032 2	0	0	0	0	0	0	**0**	0
A3. Alternative Scenario : Oil price shock	0	1	1	2	3	3	**2**	3
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2013-2014	0	0	1	1	1	1	**1**	0
B2. Export value growth at historical average minus one standard deviation in 2013-2014 3/	0	0	1	1	1	1	**1**	1
B3. US dollar GDP deflator at historical average minus one standard deviation in 2013-2014	0	0	1	1	1	1	**1**	0
B4. Net non-debt creating flows at historical average minus one standard deviation in 2013-2014 4/	0	0	1	1	1	1	**1**	1
B5. Combination of B1-B4 using one-half standard deviation shocks	0	0	0	0	0	1	**0**	0
B6. One-time 30 percent nominal depreciation relative to the baseline in 2013 5/	0	0	1	1	1	1	**1**	0

Debt service-to-revenue ratio

Baseline	0	1	1	1	1	1	**0**	0
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2012-2032 1/	0	1	0	0	0	0	**0**	0
A2. New public sector loans on less favorable terms in 2012-2032 2	0	1	1	1	1	1	**0**	0
A3. Alternative Scenario : Oil price shock	0	1	1	2	2	3	**2**	4
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2013-2014	0	1	1	1	1	1	**1**	1
B2. Export value growth at historical average minus one standard deviation in 2013-2014 3/	0	1	1	1	1	1	**1**	1
B3. US dollar GDP deflator at historical average minus one standard deviation in 2013-2014	0	1	1	1	1	1	**1**	1
B4. Net non-debt creating flows at historical average minus one standard deviation in 2013-2014 4/	0	1	1	1	1	1	**1**	1
B5. Combination of B1-B4 using one-half standard deviation shocks	0	1	1	1	1	1	**0**	0
B6. One-time 30 percent nominal depreciation relative to the baseline in 2013 5/	0	1	1	1	1	1	**1**	1
Memorandum item:								
Grant element assumed on residual financing (i.e., financing required above baseline) 6/	28	28	28	28	28	28	**28**	28

Sources: Country authorities; and staff estimates and projections.

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

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

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

4/ Includes official and private transfers and FDI.

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

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

Table 3. Nigeria: Public Debt Sustainability Framework, Baseline Scenario, 2009–2032

(In percent of GDP, unless otherwise indicated)

	Actual					Estimate	Projections								
	2009	2010	2011	Average 5/	Standard Deviation 5/	2012	2013	2014	2015	2016	2017	2012-17 Average	2022	2032	2018-32 Average
Public sector debt 1/	15.2	15.5	17.3			17.8	17.9	18.0	17.6	17.0	16.4		9.7	2.9	
of which: foreign-currency denominated	2.4	2.3	2.4			2.5	3.4	3.7	3.9	4.1	4.3		2.4	0.5	
Change in public sector debt	3.4	0.3	1.8			0.6	0.0	0.1	-0.4	-0.5	-0.6		-0.7	-0.2	
Identified debt-creating flows	9.4	2.6	-2.0			-3.0	-1.8	-0.9	-0.8	-0.5	-0.6		-1.0	-0.9	
Primary deficit	8.2	5.6	-2.1	-4.4	7.5	-2.6	-1.6	-0.5	-0.6	-0.1	-0.1	-0.9	-0.6	-1.0	-0.8
Revenue and grants	17.8	20.0	29.9			28.1	26.7	25.4	25.1	24.0	22.9		19.8	17.2	
of which: grants	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Primary (noninterest) expenditure	26.1	25.6	27.7			25.5	25.1	24.9	24.5	23.8	22.8		19.2	16.2	
Automatic debt dynamics	1.2	-3.1	0.1			-0.4	-0.2	-0.3	-0.3	-0.4	-0.4		-0.3	0.0	
Contribution from interest rate/growth differential	0.9	-3.1	0.0			-0.5	-0.3	-0.4	-0.3	-0.4	-0.5		-0.4	0.0	
of which: contribution from average real interest rate	1.7	-1.9	1.1			0.5	0.9	0.8	0.8	0.7	0.6		0.3	0.2	
of which: contribution from real GDP growth	-0.8	-1.1	-1.1			-1.0	-1.2	-1.2	-1.2	-1.2	-1.1		-0.7	-0.2	
Contribution from real exchange rate depreciation	0.3	0.0	0.1			0.1	0.1	0.1	0.1	0.1	0.1		...	...	
Other identified debt-creating flows	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Privatization receipts (negative)	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Recognition of implicit or contingent liabilities	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Debt relief (HIPC and other)	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Other (specify, e.g. bank recapitalization)	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Residual, including asset changes	-6.1	-2.3	3.8			3.6	1.8	1.0	0.4	-0.1	-0.1		0.3	0.7	
Other Sustainability Indicators															
PV of public sector debt	...	...	18.2			18.7	18.6	18.6	18.1	17.4	16.7		9.9	3.0	
of which: foreign-currency denominated	...	...	3.3			3.4	4.1	4.3	4.4	4.5	4.5		2.6	0.6	
of which: external	...	...	3.3			3.4	4.1	4.3	4.4	4.5	4.5		2.6	0.6	
PV of contingent liabilities (not included in public sector debt)	...	...	...			...	...	...	...	...	...		...	...	
Gross financing need 2/	12.8	10.3	3.7			3.4	4.5	5.2	5.1	5.3	4.9		2.4	0.1	
PV of public sector debt-to-revenue and grants ratio (in percent)	...	...	61.0			66.7	69.8	73.0	72.1	72.7	72.8		50.1	17.5	
PV of public sector debt-to-revenue ratio (in percent)	...	...	61.0			66.7	69.8	73.0	72.1	72.7	72.8		50.1	17.5	
of which: external 3/	...	...	11.2			12.0	15.5	16.9	17.6	18.8	19.8		13.3	3.3	
Debt service-to-revenue and grants ratio (in percent) 4/	8.4	8.0	6.3			6.0	6.0	5.9	5.9	5.7	5.6		3.9	1.8	
Debt service-to-revenue ratio (in percent) 4/	8.4	8.0	6.3			6.0	6.0	5.9	5.9	5.7	5.6		3.9	1.8	
Primary deficit that stabilizes the debt-to-GDP ratio	4.9	5.3	-3.9			-3.1	-1.6	-0.7	-0.2	0.4	0.5		0.0	-0.8	
Key macroeconomic and fiscal assumptions															
Real GDP growth (in percent)	7.0	8.0	7.4	8.9	4.6	6.3	7.2	7.0	7.0	7.0	7.1	6.9	6.8	7.2	7.0
Average nominal interest rate on forex debt (in percent)	2.6	2.7	2.9	3.9	1.6	2.5	3.6	2.7	2.3	2.0	1.8	2.5	1.2	0.8	1.0
Average real interest rate on domestic debt (in percent)	16.9	-12.8	8.8	0.2	8.7	4.5	6.2	6.1	6.6	6.0	5.6	5.8	4.9	9.8	5.1
Real exchange rate depreciation (in percent, + indicates depreciation	12.8	0.7	5.0	3.7	7.4	4.0	...	...	...	...	...	...	...	...	...
Inflation rate (GDP deflator, in percent)	-4.4	26.8	2.3	13.1	9.9	7.4	4.2	4.3	3.3	3.6	3.9	4.4	5.2	-0.4	4.5
Growth of real primary spending (deflated by GDP deflator, in percer	0.1	0.1	0.2	0.1	0.2	0.0	0.1	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0
Grant element of new external borrowing (in percent)	...	...	...	...	...	16.6	-4.8	14.2	14.1	13.7	13.3	11.2	11.2	6.2	...

Sources: Country authorities; and staff estimates and projections.

1/ Gross debt contracted at the consolidated central government is used.

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

3/ Revenues excluding grants.

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

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

Table 4. Nigeria: Sensitivity Analysis for Key Indicators of Public Debt 2012–2032

	Projections							
	2012	2013	2014	2015	2016	2017	2022	2032
PV of Debt-to-GDP Ratio								
Baseline	19	19	19	18	17	17	10	3
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	19	16	16	15	14	12	7	1
A2. Primary balance is unchanged from 2012	19	18	17	16	15	14	9	2
A3. Permanently lower GDP growth 1/	19	19	19	20	20	20	18	26
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2013-20	19	20	21	21	22	22	17	12
B2. Primary balance is at historical average minus one standard deviations in 2013-201	19	22	24	24	23	22	13	5
B3. Combination of B1-B2 using one half standard deviation shocks	19	19	19	19	18	18	11	5
B4. One-time 30 percent real depreciation in 2013	19	20	20	19	19	18	11	3
B5. 10 percent of GDP increase in other debt-creating flows in 2013	19	26	25	24	23	22	14	5
PV of Debt-to-Revenue Ratio 2/								
Baseline	67	70	73	72	73	73	50	17
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	67	61	61	58	56	54	35	5
A2. Primary balance is unchanged from 2012	67	67	68	65	64	63	43	11
A3. Permanently lower GDP growth 1/	67	71	76	78	82	87	90	149
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2013-20	67	74	83	86	90	94	85	71
B2. Primary balance is at historical average minus one standard deviations in 2013-201	67	82	96	94	94	94	68	27
B3. Combination of B1-B2 using one half standard deviation shocks	67	73	76	76	77	78	57	28
B4. One-time 30 percent real depreciation in 2013	67	75	78	77	77	77	54	20
B5. 10 percent of GDP increase in other debt-creating flows in 2013	67	96	99	97	98	98	71	29
Debt Service-to-Revenue Ratio 2/								
Baseline	6	6	6	6	6	6	4	2
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	6	6	6	5	5	5	3	1
A2. Primary balance is unchanged from 2012	6	6	6	6	5	5	4	2
A3. Permanently lower GDP growth 1/	6	6	6	6	6	6	5	5
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2013-20	6	6	6	6	6	6	5	3
B2. Primary balance is at historical average minus one standard deviations in 2013-201	6	6	6	6	6	6	4	2
B3. Combination of B1-B2 using one half standard deviation shocks	6	6	6	6	6	6	4	2
B4. One-time 30 percent real depreciation in 2013	6	6	6	6	6	6	4	2
B5. 10 percent of GDP increase in other debt-creating flows in 2013	6	6	6	7	6	6	4	2

Sources: Country authorities; and staff estimates and projections.
1/ Assumes that real GDP growth is at baseline minus one standard deviation divided by the square root of the length of the projection period.
2/ Revenues are defined inclusive of grants.

INTERNATIONAL MONETARY FUND

NIGERIA

STAFF REPORT FOR THE 2012 ARTICLE IV CONSULTATION—INFORMATIONAL ANNEX

January 24, 2013

Prepared By | The African Department

CONTENTS

RELATIONS WITH THE FUND

(As of November 30, 2012)

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

II. General Resources Account:	**SDR Million**	**%Quota**
Quota	1,753.20	100.00
Fund holdings of currency (Exchange Rate)	1,753.11	100.00
Reserve Tranche Position	0.14	0.01

III. SDR Department:	**SDR Million**	**%Allocation**
Net cumulative allocation	1,675.38	100.00
Holdings	1,675.19	99.99

IV. Outstanding Purchases and Loans: None

V. Latest Financial Arrangements:

Type	Date of Arrangement	Expiration Date	Amount Approved (SDR Million)	Amount Drawn (SDR Million)
Stand-By	Aug 04, 2000	Oct 31, 2001	788.94	0.00
Stand-By	Jan 09, 1991	Apr 08, 1992	319.00	0.00
Stand-By	Feb 03, 1989	Apr 30, 1990	475.00	0.00

VI. Projected Payments to Fund [1/]

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

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

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

VII. Implementation of HIPC Initiative: Not Applicable

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

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

X. Exchange Rate Arrangement

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

XI. Safeguards Assessment

Under the Fund's safeguards assessment policy, the Central Bank of Nigeria (CBN) was subject to a full safeguards assessment with respect to the Stand-By Arrangement that expired on October 31, 2001. The assessment, which included an on-site visit, was completed on November 28, 2001. The assessment concluded that vulnerabilities existed in the areas of financial reporting and legal structure of the Central Bank.

XII. Article IV Consultation

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

XIII. Technical Assistance (TA) since January 2003:

Department	Purpose of TA mission	Duration
MCM	Bank Restructuring	July 23, 2010
MCM	Monetary Operations	July 24, 2010
MCM	Bank Supervision	January 19, 2011
STA	Quarterly National Accounts	January 24–February 4, 2011
MCM	Diagnostic Assessment of Banking System Stability	January 30–February 3, 2011
FAD	Self-assessment in Tax administration	February 18–March 28, 2011
MCM	Bank Restructuring	April 30, 2011
MCM	Bank Restructuring and Financial Supervision	April 27–May 6, 2011
LEG	AML/CFT Structures and Tools	June 13, 2011
LEG	AML/CFT Structures ant Tools	June 20, 2011
LEG	TA in Fiscal Law	July 20, 2011
LEG	Fiscal Law	July 20–27, 2011
MCM	Banking Restructuring	July 23, 2011 - July 22, 2012
MCM	Monetary Operations	July 24, 2011
LEG	TA in Fiscal Law	August 2, 2011
FAD	Tax Administration Expert Visit	August 15, 2011
LEG	AML.CFT Work at home	August 18, 2011
LEG	Work at home – Desk Review TA Report	September 16, 2011
FAD	TA Conference	October 5, 2011
FAD	Tax Administration	October 5–14, 2011
FAD	Tax Administration Review Visit	October 10, 2011

LEG	AML/CFT Structures and Tools	November 7, 2011
MCM	Medium term debt management strategy	November 9–18, 2011
FAD	Participation in FAD mission	November 21, 2011
FAD	Self-assessment in Tax administration	November 21-December 2, 2011
STA	Balance of Payments Statistics	November 21-December 2, 2011
FAD	Tax Administration Follow-up	November 21, 2011
FAD	Tax Administration Visit 2 of 2	November 23, 2011
FAD	Effective Taxpayer Services Program	November 23-December 6, 2011
LEG	AML/CFT Structures and Tools	January 16, 2012
MCM	Bank Supervision	January 19 - June 3, 2012
MCM	Financial Stability	January 31, 2012
LEG	TA in Fiscal Law	February 29, 2012
FAD	General Tax Policy	February 29, 2012
FAD	TA in Strengthening the Taxpayer Audit Program	March 5, 2012
LEG	Egmont Strategic Analysis Training	March 12, 2012
LEG	Tax Workshop (Fiscal Law)	March 19, 2012
STA	DFID: STE: Quarterly National Accounts	March 19, 2012
STA	DFID: STE: BOP/IIP	March 26 - April 6, 2012
MCM	Financial Stability	April 4 - 13, 2012
LEG	AML/CFT Module V – NFIU	June 11 - 20, 2012
LEG	AML/CFT Module V – SEC	June 22 - 29, 2012
FAD	Managing Taxpayer Compliance	August 13 - 24, 2012
LEG	AML/CFT Module V - NAICOM & SCUML	August 27 - September 9, 2012
STA	Quarterly National Accounts	September 3 - 17, 2012
LEG	AML/CFT Structures and Tools - WAH	September 11, 2012
STA	Assessment/Evaluation	October 22 - 26, 2012
FAD	PFM Review - BTB - GHA13FA143 and SLL13FA144	November 5 - 16, 2012
MCM	Bank Resolution	November 13-December 3, 2012
FAD	Follow-Up Tax Administration	December 4 - 18, 2012
FAD	Participation in HQ mission to NGA	December 4 - 17, 2012
ICD	Bank of Nigeria. Advice on opening training center	December 5 - 7, 2012

XIV. **Resident Representative**:

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

JOINT WORLD BANK-IMF WORK PROGRAM, 2012–13

(As of December 31, 2012)

The IMF and World Bank staffs collaborate closely in their work on Nigeria. Bank staff participates in IMF missions, while the Bank's analysis and advice to the government in key structural reform areas informs Fund surveillance. Bank and IMF staffs collaborated on assistance related to the Petroleum Industry Bill, FSAP update and financial sector deepening, and public financial management reform.

Title	Products	Provisional timing of missions (if relevant)	Expected delivery date
	A. Mutual Information on Relevant Work Programs		
Bank work program in next 12 months	*(i) Lending Programs*		
	Lagos Development Policy Operation (II)	May, 2012	2013
	Edo Development Policy Operation (I)	April, 2012	March, 2012
	Economic Reform and Governance Project	June, 2012	Ongoing
	Nigeria Electricity and Gas Improvement Project	Continuous	Ongoing
	Power Sector Guarantees Project	April 2012	March 2013
	National Energy Development Project	June 2012	Ongoing
	Public/Private Partnership Initiative APL Program	Continuous	Ongoing
	Growth, Employment, and Markets in States (GEMS)	March, 2012	Ongoing
	Second State Governance and Capacity Building Project	-	Ongoing
	State Expenditure Effectiveness for Opportunities and Results (SEEFOR)	-	March 6, 2012
	Nigeria Petroleum Sector Reform Project	-	Ongoing
	Sustainable Management of Mineral Resources Project	-	Ongoing

Title	Products	Provisional timing of missions (if relevant)	Expected delivery date
	A. Mutual Information on Relevant Work Programs (continued)		
	(ii) Analytical and Advisory Activities		
	Transforming Nigeria into an African Lion	Continuous	2013
	Public Expenditure Management and Financial Accountability Reviews (PEMFARs) - various states and initial planning for federal	-	Ongoing
	SME Finance Study	February, 2012	2012
	Housing Finance Study	February, 2012	2012
	(iii) Trust Funds, other analyses, and on-going dialogue		
	Governance Partnership Facility: Nigeria-Strengthening Sector Governance & Promoting Partnerships in Service Delivery	Continuous	2013
	Multi-donor Trust Fund Facility: Studies on Effects of Multiple Taxation, Service Sectors, and Transnational Border Markets	-	Ongoing
	Multi-Donor Trust Fund for the Extractive Industries Transparency Initiative	-	Ongoing
	Trade Facilitation Facility	-	Ongoing
	Poverty and Social Impact Analysis (PSIA) of Removing the Petroleum Subsidy	Continuous	2012

Title	Products	Provisional timing of missions (if relevant)	Expected delivery date
	A. Mutual Information on Relevant Work Programs (concluded)		
IMF work program in next 12 months	*Article IV Consultation*	November, 2012	Board: February 2013
	Technical assistance		
	(i) *Fiscal issues*		
	Public Financial Management (STA)	November 2012	
	Oil and Gas Unit at the MoF	FY2012 and FY2013	
	Tax administration	TBD	
	Tax Policy Unit at the MOF	FY2013 (tentative)	
	(ii) *Monetary and financial issues*		
	Banking supervision	Long-term expert	Until 2013
	Bank restructuring	Long-term expert	Until 2013
	FSAP update (jointly by Bank and Fund staffs)	August-September 2012	
	FSSA	November 2012	February 2013
	AML/CFT diagnostic	September 2012	
	(iii) *Statistics*		
	Quarterly National Accounts	September 2012	
	Quarterly National Accounts	March 2013	

B. Request for Work Program Inputs

Fund request to Bank	Summary of Bank analysis and support for public financial management at all tiers of governments (including PERs)		
Bank request to Fund	Assessment letter for Development Policy Operation		2012
	Regular update of Fund macroeconomic projections		Ongoing

C. Agreement on Joint Products and Missions

Joint products	Joint Bank-Fund Debt Sustainability Analysis	November-December 2012	December 2012

STATISTICAL ISSUES

(As of December 30, 2012)

I. Assessment of Data Adequacy for Surveillance
General: Macroeconomic data are broadly adequate for surveillance; however serious data deficiencies—in particular inadequate information on subnational public finances, and large errors and omissions in the balance of payments—continue to hamper policy design and monitoring. The Statistics Act passed in 2007, which established the National Bureau of Statistics (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. Nevertheless, a number of problems continue to prevent the compilation of timely and internally consistent data, in particular, lack of good source data and insufficient computerization.
National accounts: Statistical methods used to derive production-based GDP have been improved through the development of more comprehensive estimates for a number of individual industries, although a number of statistical challenges remain. As reported in IMF Country Report No. 8/64, revisions to the national accounts published in late-2007 led to some apparent discontinuities in the series for non-oil GDP, and in particular agricultural output in 2002 and 2004, which complicates analysis of historical economic activity. Work is ongoing to conduct a new agricultural census, which should lead to improvements in the measurement of agricultural production—a key sector accounting for over half non-oil GDP—which is currently estimated on the basis of outdated survey information. Basic statistics are extensively available for the compilation of national accounts, but their quality is not always satisfactory due to high non-response rates and inaccuracy of reported data. The reliance on the consumer price index to construct the constant price GDP series leads to weaknesses. The introduction of additional indices, such as a producer price index, would facilitate more accurate estimation of the constant price measure. The base year for the national accounts (1990) is in urgent need of updating given the significant chances to the structure of the economy since then, and the authorities have recently requested Fund Technical Assistance (TA) in this regard. Recent TA has advised on implementing supply and use tables for the compilation of GDP, in accord with international standards. A work plan has been agreed with the NBS to update the base year of national accounts during 2013. **Prices statistics**: The official monthly consumer price index (CPI), a composite of urban and rural price data, is available on a timely basis. The index has been re-referenced to November 2009=100, using the 2003/04 National Consumer Expenditure Survey to update the 1996/97 survey-based expenditure weights.
Government finance statistics: Fiscal data are opaque and complicated not only by the federal structure but also by a multiplicity of off-budget funds. The most pressing shortcomings are related to inadequate data coverage, particularly of the subnational governments which comprise almost one-half of total government expenditure. The federal government has limited information on the subnational fiscal accounts which makes it difficult for it to play a stabilizing role by targeting a consolidated fiscal balance; efforts to address this issue have been stymied by constitutional restrictions. Although a recent STA TA Evaluation mission found that the CBN has gathered

a substantial amount of data on state and local governments, these data are yet to be processed and are subject to further technical assistance. To facilitate the timely preparation of a consolidated set of fiscal accounts, governments at all levels need to use budget classification, chart of accounts, and accounting systems that will allow consistent classifications of the data. There is also a need to formalize the publication of government accounts on a monthly or quarterly basis and to increase coverage to also report on the operations of parastatals.
Monetary and financial statistics: There have been significant improvements in the compilation of monetary statistics. Earlier problems with the CBN accounting framework and IT issues, which had contributed to significant distortions in reported monetary data, have now been resolved. There is a need for a clearer measure of commercial banks' foreign assets and liabilities that captures both their on- and off-balance sheet exposures. The definition of the other depository corporations (ODCs) sector should also be extended beyond commercial banks to include all deposit-taking nonbank financial institutions, such as microfinance banks and primary mortgage institutions. **Financial soundness indicators**: A broad range of information on the financial sector, including both core and a number of non-core financial soundness indicators, is compiled by the CBN. The CBN is currently working to methodologically strengthen the estimation of FSIs and is also more closely supervising banks to ensure accurate disclosure practices.
Balance of payments: There have been significant efforts to improve the compilation of Nigeria's balance of payments data in recent years. Supported by IMF technical assistance, the authorities have expanded the range and improved the quality of data sources used to compile the balance of payments statistics. There are however still large errors and omissions in the balance of payments, which complicate the assessment of external sustainability. It will be important, therefore, to further strengthen the measurement of the balance of payments and the international investment position. There is a need for improved validation of transactions reported by banks, measurement of transactions outside the banking system, appropriate treatment of transactions of enterprises in free trade zone as residents of the Nigerian territory, and improved coverage of estimates of the external assets and liabilities of the banking sector. The DFID/GDDS Phase III Module, launched in 2010 to cover a five-year period, carries on the previous project work and is assisting the country to improve their source data by collecting additional data on the cross-border private capital flows and stocks. The authorities have not yet initiated compilation of international reserves data in line with the Data Template on International Reserves and Foreign Currency Liquidity. **External debt**: Public external debt data are of good quality and available on a timely basis. The Debt Management Office (DMO) is currently working, in tight collaboration with the CBN, to extend the coverage of their database to include private sector liabilities and foreign investment in domestically issued debt securities.

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

TABLE OF COMMON INDICATORS REQUIRED FOR SURVEILLANCE

(As of end-December 2012)

	Date of latest observation	Date received	Frequency of Data[7]	Frequency of Reporting[7]	Frequency of Publication[7]
Exchange Rates	Sept 2012	Oct. 2012	D	D	D
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[1]	Oct 2012	Nov 2012	M	M	M
Reserve/Base Money	Oct. 2012	Dec. 2012	M	M	M
Broad Money	Oct. 2012	Dec. 2012	M	M	M
Central Bank Balance Sheet	Oct. 2012	Dec. 2012	M	M	M
Consolidated Balance Sheet of the Banking System	Oct. 2012	Dec. 2012	M	M	M
Interest Rates[2]	Dec. 2012	Dec. 2012	D	D	D
Consumer Price Index	Nov.. 2012	Dec. 2012	M	M	M
Revenue, Expenditure, Balance and Composition of Financing[3] – General Government[4]	2011	Nov. 2012	A	A	A
Revenue, Expenditure, Balance and Composition of Financing[3]– Central Government	Sep. 2012	Dec 2012	M	M	M
Stocks of Central Government and Central Government-Guaranteed Debt[5]	Sep. 2012	Dec 2012	A	A	A
External Current Account Balance	June 2012	Nov. 2012	Q	Q	A
Exports and Imports of Goods and Services	June 2012	Nov. 2012	Q	Q	A
GDP/GNP	Sep. 2012	Nov. 2012	Q	Q	Q
Gross External Debt	Sep. 2012	Dec 2012	A	A	A
International Investment Position[6]	2011	Nov. 2012	A	A	A

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

INTERNATIONAL MONETARY FUND

NIGERIA

February 4, 2013

STAFF REPORT FOR THE 2012 ARTICLE IV CONSULTATION—SUPPLEMENTARY INFORMATION

Approved By **Seán Nolan and Martin Mühleisen**

Since the issuance of the staff report, staff have received revised data that point to a slight decline in the overall poverty rate from 2004, a conclusion that contrasts with the slight increase in poverty levels identified in previously published data. The National Bureau of Statistics of Nigeria, with the support of the World Bank and other development partners, has calculated new poverty statistics based on extensive surveys of Nigerian households in both 2003–2004 and 2009–2010. On this basis, they now estimate that the headcount poverty rate fell from 64.2 percent in 2004 to 62.6 percent in 2010, while, on an adult equivalency basis, the rate declined from 48.3 percent to 46 percent.

This new information does not change the thrust of the staff appraisal.

Table 1. Nigeria: Millennium Development Goals

	1990	1995	2000	2005	2010
Goal 1: Eradicate extreme poverty and hunger					
Employment to population ratio, 15+, total (%)	53	53	52	51	51
Employment to population ratio, ages 15–24, total (%)	29	30	31	32	32
Income share held by lowest 20%	4	5	..	5	4
Poverty gap at $1.25 a day (PPP) (%)	31	32	..	29	34
Poverty headcount ratio (3000 calories consumption per day) (% of population)[1]	..		..	64.2	62.6
On adult equivalency basis[1]				48.4	46
Goal 2: Achieve universal primary education					
Literacy rate, youth female (% of females ages 15–24)	62	..	..	61	65
Literacy rate, youth male (% of males ages 15–24)	81	..	..	78	78
Persistence to last grade of primary, total (% of cohort)	..	..	73	78	80
Total enrollment, primary (% net)	..	..	65	67	..
Goal 3: Promote gender equality and empower women					
Proportion of seats held by women in national parliaments (%)	..	..	3	6	7
Ratio of female to male primary enrollment (%)	79	83	82	85	91
Ratio of female to male secondary enrollment (%)	78	..	85	84	88
Ratio of female to male tertiary enrollment (%)	33	..	79	71	..
Share of women employed in the nonagricultural sector (% of total nonagricultural employment)	..	..	18.6	21.1	..
Goal 4: Reduce child mortality					
Immunization, measles (% of children ages 12–23 months)	54	44	33	41	71
Mortality rate, infant (per 1,000 live births)	127	125	113	96	81
Mortality rate, under-5 (per 1,000 live births)	214	211	188	156	129
Goal 5: Improve maternal health					
Births attended by skilled health staff (% of total)	31	..	42	35	39
Maternal mortality ratio (modeled estimate, per 100,000 live births)	1100	1000	970	820	630
Pregnant women receiving prenatal care (%)	57	..	64	58	58
Goal 6: Combat HIV/AIDS, malaria, and other diseases					
Children with fever receiving antimalarial drugs (% of children under age 5 with fev	..	..	..	34	49
Condom use, population ages 15–24, female (% of females ages 15–24)	..	..	7	8	12
Condom use, population ages 15–24, male (% of males ages 15–24)	..	..	32	38	40
Incidence of tuberculosis (per 100,000 people)	128	139	172	175	133
Prevalence of HIV, total (% of population ages 15–49)	1.3	4	3.9	3.7	3.6
Tuberculosis case detection rate (%, all forms)	16	9	12	26	40
Goal 7: Ensure environmental sustainability					
Forest area (% of land area)	18.9	..	14.4	12.2	9.9
Improved sanitation facilities (% of population with access)	37	36	34	32	31
Improved water source (% of population with access)	47	50	53	57	58
Goal 8: Develop a global partnership for development					
Internet users (per 100 people)	0	0	0.1	3.5	24
Mobile cellular subscriptions (per 100 people)	0	0	0	13	55
Other					
GNI per capita, Atlas method (current US dollar)	260	210	270	630	1170
Life expectancy at birth, total (years)	46	45	46	49	51

Source: World Bank's World Development Indicators.

[1] Number in the 2005 column refers to 2004.

INTERNATIONAL MONETARY FUND
Public Information Notice
EXTERNAL
RELATIONS
DEPARTMENT

Public Information Notice (PIN) No. 13/36
FOR IMMEDIATE RELEASE
March 28, 2013

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

IMF Executive Board Concludes 2012 Article IV Consultation with Nigeria

On February 6, 2013, the Executive Board of the International Monetary Fund (IMF) concluded the 2012 Article IV consultation with Nigeria.[1]

Background

Macroeconomic performance has been broadly positive over the past year. Real gross domestic product (GDP) growth is projected to have decelerated slightly to 6.3 percent, reflecting the effects of the nationwide strike in early 2012, floods in the fourth quarter of 2012, and continued security problems in the north. Annual inflation increased from 10.3 percent (end-of-period) in 2011 to 12.3 percent in 2012, owing mainly to the adjustment of administrative prices of fuel and electricity; large increases in import tariffs on rice and wheat; and the impact of floods in Q3. The external position has strengthened and international reserves rose from US$32.6 billion at end-2011 to US$44 billion at end-2012 (5½ months of prospective imports), driven by sustained high oil prices, stricter administration of the gasoline subsidy regime, and strong portfolio inflows.

The fiscal policy stance was tightened in 2012 and fiscal buffers are being rebuilt. The non-oil primary deficit of the consolidated government is estimated to have narrowed from about 36 percent of non-oil GDP in 2011 to 30.5 percent in 2012, mainly due to expenditure restraint. Monetary policy remained tight in 2012 in response to inflationary pressures. The central bank

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

kept its policy rate unchanged during the year but raised the cash reserve requirement for banks from 8 percent to 12 percent and lowered allowable open foreign exchange position for banks. Financial soundness indicators point to continued improvements in the health of the banking system.

In 2013, growth is expected to recover to above 7 percent. Inflation is projected to decline below 10 percent, supported by the tight monetary policy stance and ongoing fiscal consolidation. The key downside risks are a large drop in world oil prices; and slow progress in building consensus around key fiscal reforms.

Executive Board Assessment

Executive Directors agreed with the thrust of the staff appraisal. They commended the authorities for prudent macroeconomic policies that have underpinned a strong economic performance in recent years. Looking ahead, Directors agreed that widespread unemployment and poverty remain key challenges for policymakers, and called for renewed efforts to make economic growth more broad-based and inclusive.

Directors supported the authorities' strategy of consolidating the fiscal position while opening up policy space for needed investment in infrastructure and human capital. To this end, they underscored the need to improve tax administration, better prioritize public expenditure, strengthen public financial management, and improve the fiscal framework. In particular, they encouraged the authorities to reduce poorly-targeted fuel subsidies, adopt a rule to set the reference oil price in the budget, and fully operationalize the Sovereign Wealth Fund as soon as possible. Efforts to mobilize public support for these reforms should be intensified.

Directors considered the current tight monetary stance to be consistent with the authorities' objective of reducing inflation to single digits. They also took note of the staff's assessment that the exchange rate in real effective terms is broadly in line with fundamentals.

Directors commended the authorities' success in restoring financial stability after the 2009 banking crisis. In light of this achievement, they recommended winding down the operations of the asset management company to curb moral hazard and fiscal risks. Directors welcomed the central bank's commitment to address supervisory and regulatory gaps identified in the Financial Stability Assessment Update, particularly the need to strengthen cross-border supervision and the regime against money laundering and terrorism financing.

Directors concurred that wide-ranging reforms are key to make growth more inclusive. They agreed on the importance of supporting sectors with high employment potential, not through protectionist measures or tax incentives but rather with initiatives to improve governance, the investment climate, and competiveness. Directors welcomed reforms underway in the energy sector, and looked forward to an early passage of the Petroleum Industry Bill which would boost investment, government revenue, and fiscal transparency. They also encouraged the authorities to promote market-based access to credit for small and medium-sized enterprises.

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

Nigeria: Selected Economic and Financial Indicators, 2009–2013

	2009 Act.	2010 Act.	2011 Act.	2012 Act.	2013 Proj.
National income and prices	(Annual percentage change, Unless otherwise specified)				
Real GDP (at 1990 factor cost)	7.0	8.0	7.4	6.3	7.2
Oil and Gas GDP	0.5	5.2	-0.6	1.8	4.9
Non-oil GDP	8.3	8.5	8.9	7.1	7.5
Production of crude oil (million barrels per day)	2.2	2.5	2.4	2.4	2.5
Nominal GDP at market prices (trillions of naira)	25.1	34.4	37.8	43.1	48.1
Nominal non-oil GDP at factor cost (trillions of naira)	17.7	19.9	22.5	26.9	31.1
Nominal GDP per capita (US$)	1,110	1,465	1,522	1,637	1,686
Consumer price index (end of period)	12.5	13.7	10.8	12.7	8.2
Current account balance (percent of GDP) [1]	8.3	5.9	3.6	4.7	4.0
Consolidated government operations	(Percent of GDP)				
Total revenues and grants	17.8	20.0	29.9	28.1	26.7
Of which: oil and gas revenue	10.6	14.0	23.4	21.5	19.9
Total expenditure and net lending	27.3	26.9	29.4	27.1	26.7
Overall balance	-9.5	-6.9	0.5	0.9	0.0
Non-oil primary balance (percent of non-oil GDP)	-26.8	-34.3	-36.0	-30.4	-28.3
Excess Crude Account / SWF (US$ billions) [2]	7.1	2.7	4.6	9.7	18.1
Money and credit	(Changed in percent of broad money at the beginning of the period, unless otherwise specified)				
Broad money	17.1	6.9	15.4	10.0	18.1
Net foreign assets	-10.9	-10.3	5.5	13.9	12.4
Net domestic assets	28.0	17.2	9.9	-3.9	5.7
Treasury bill rate (percent; end of period)	4.0	7.5	14.3	...	...
External sector	(Annual percentage change, Unless otherwise specified)				
Exports of goods and services	-33.4	36.5	20.1	6.5	0.7
Imports of goods and services	-22.6	36.6	27.2	4.2	3.5
Terms of trade	-16.3	10.0	9.1	1.0	-2.1
Price of Nigerian oil (US$ per barrel)	61.8	79.0	109.0	110.1	104.4
Nominal effective exchange rate (end of period)	82.2	83.6	82.2	...	...
Real effective exchange rate (end of period)	110.0	120.7	119.4	…	…
Gross international reserves (US$ billions) [3]	42.4	32.3	32.6	45.9	53.4
(equivalent months of imports of goods and services)	7.4	4.5	4.3	5.9	6.4

Sources: Nigerian authorities and IMF staff estimates and projections.
[1]Large errors and omissions in the balance of payments suggest that the current account surplus is overestimated by a significant (but unknown) amount.
[2]Consistents of federal, state, and local governments.

Statement by Momodou Bamba Saho, Executive Director for Nigeria

February 6, 2013

We welcome staff's comprehensive assessment of Nigeria's macroeconomic and policy environment in 2012 and the outlook. My Nigerian authorities are quite appreciative of the mission's constructive engagement, and acknowledgement of measures and policies implemented so far to put Nigeria on a sustainable growth path. The various concerns raised particularly on the oil-price based fiscal rule and the Excess Crude Account/Sovereign Wealth Fund are well noted and the authorities are cautiously addressing them given the complex fiscal federalism in operation, and the constitutional provisions. The good news is that the government actions are beginning to bear fruit and more progress is expected in the coming years given the authorities unwavering commitment to the implementation of the Transformation Agenda.

Economic Conditions in 2012 and Outlook

Strong growth underpinned by consistent macroeconomic policies and favorable international fuel prices continued in 2012. In spite of the initial slowdown in the first quarter of the year on account of the negative impact of partial fuel subsidy removal, the economy grew by 6.6 per cent during the year. A tight monetary policy and a broadly prudent fiscal policy ensured that inflation pressures arising partly from adjustments in the energy and import tariffs, heightened domestic liquidity situation, and flooding were kept under control. The year-on-year average headline inflation stood at 12.24 per cent, while that of core and food inflation were 13.87 and 11.32 percent respectively. The financial system has stabilized with continuous improvement in basic financial indicators while the Nigerian Stock Exchange has made a bullish come-back amidst significant gains in 2012. Accretion to external reserves continued to improve with an end year figure of about US$44billion compared with US$33 billion at end 2011.

Overall, the medium-term outlook remains broadly positive on account of the authorities' perseverance with the implementation of the reform program, and notwithstanding the downside risks to the economy posed by the uncertain external economic environment including a possible fall in international oil prices, and domestic security challenges. These risks are well understood by the authorities and allowance has been made for them in the fiscal plan as indicated in the 2013-2015 Medium Term Expenditure Framework (MTEF) and Fiscal Strategy Paper (FSP).

Fiscal Policy

The authorities are resolute with prudent fiscal policy. Fiscal consolidation which began with the 2011 budget and registered significant gains in 2012 would be sustained in 2013 and beyond. A combination of improved non-oil revenue mobilization and public expenditure rationalization is expected to help build fiscal buffers. Steps have been initiated to increase revenues by blocking leakages from various sources, improving corporate tax collection, and boosting internally generated revenue. On the expenditure side, the focus is on freeing resources from recurrent expenditure toward capital spending. This is to be achieved through reduction in overhead spending, elimination of waste, inefficiency, corruption, and duplication. Limiting the fiscal deficit to below 3 percent of GDP and restraint on public borrowing are other important measures.

The authorities are also intensifying efforts to improve on public financial management. To this end, a Treasury Single Account is being established to better manage cash balances, reduce corruption and inefficiency in the allocation of resources. The Government Integrated Financial Management Information System has also been introduced to make the process of budget preparation and execution more efficient and transparent.

Oil-Price Based Fiscal Rule

The Fiscal Responsibility Act (FRA) 2007 provides for the adoption of oil-price based fiscal rule although no specific oil price benchmark is stipulated. In line with this provision, the fiscal authorities often adopt a cautious oil price benchmark based on the model of 10-year and 5-year moving averages with some adjustments in the preparation of the budget. The expectation is that revenues in excess of the benchmark price will be set aside in the Excess Crude Account (ECA)/Sovereign Wealth Fund which by the existing fiscal arrangement belongs to the federal(central) and sub-national governments. However, the Parliament, in approving the MTEF/FSP and the federal budget, often adjusts upward the oil price benchmark based on the argument that there is little sense in keeping the oil price benchmark very low and at the same time running fiscal deficits and stepping up public borrowing. Sub-national governments on their part often argue that they cannot be coerced into the ECA arrangement since the constitution provides that all monies in the Federation Account (ECA inclusive) belong to all levels of government and must be shared on an agreed revenue sharing formula. Thus a sustainable oil-price based fiscal rule has to start with consensus building between the federal and sub-national governments on the one hand, and between the Executive arm of the federal government and the Parliament on the other. The authorities are fully aware of this and are intensifying efforts to arrive at a common ground - inclusive consensus. Once this is done, enactment/amendment of relevant laws to enforce an oil-based fiscal rule including adoption of best international practices would be easy.

Subsidy

One major challenge facing the fiscal authorities is eliminating the huge fuel subsidy (which is currently funded from the ECA) in order to free resources for enhanced social and productive public investment. Attempts at this in early 2012 was vehemently resisted leading to only partial removal of the subsidy and the proceeds invested in viable capital projects and provision of safety nets for the poor and vulnerable groups under the Subsidy Reinvestment and Empowerment Program (SURE-P). The authorities then resorted to a review of the fuel subsidy scheme to enhance greater transparency and accountability. While the ultimate goal of government is to completely eliminate the fuel subsidy, the authorities are currently intensifying consensus building processes through communication and consultation with major stakeholders, improving the local petroleum refining capacity to reduce imports of petroleum products, and successful execution of projects under the SURE-P. In the interim, budgetary provisions would continue to be made for the subsidy.

Monetary Policy

Price and exchange rate stability remain the focus of the monetary authorities. In response to the heightened inflationary pressures, the monetary authorities maintained tight monetary policy stance using appropriate mix of policy instruments in 2012. This policy stance is expected to continue, as the recent decision of the Monetary Policy Committee indicates, until the near term inflation trajectory becomes clearer. The ultimate goal is to achieve single digit inflation. On exchange rate, the authorities have demonstrated strong preference for stability with necessary adjustments to align it to economic fundamentals. So far the existing exchange rate management polices and instruments have achieved the desired objectives and there is no urgent need for a change.

Financial Stability

With the domestic financial sector crisis now over, the attention of the authorities has turned to strengthening the financial system and repositioning it to play a greater role in the transformation of the economy. It is in this sense that the authorities sought an independent external assessment of the financial system to determine additional measures needed. The Financial Sector Assessment Program (FSAP) update was conducted in September, 2012 and the report -The Financial Sector Stability Assessment Report - confirms the recovery and relative stability of the banking system. The authorities' value the FSAP recommendations some of which have reached advanced stages of implementation.

Going forward, the authorities will continue to strengthen the risk-based and cross border supervision frameworks and ensure transparency in the operation of the financial system. They are also strengthening the legal and institutional frameworks for financial sector regulation and crisis resolution, particularly the Financial Stability Committee within the central bank, Financial Services Regulation Coordinating Committee (FSRCC), and the Asset Management Corporation of Nigeria (AMCON). The authorities are assiduously working on the appropriate exit strategy for AMCON bearing in mind the potential fiscal and moral hazard risks. They are also seriously addressing the AML/CFT deficiencies. Already the relevant laws on money laundering and terrorism financing are in place.

Structural reforms

The authorities view steadfast implementation of structural reforms encapsulated in the transformation agenda as the most sensible way to diversify the economy and alleviate poverty. The focus is on developing a viable value chain within the agricultural sector, entertainment industry, non-oil minerals, and real estate as well as improvement in power, road and port infrastructure, education, and health. Equally important is enhancement of credit access for agriculture and small and medium scale enterprises.

Power Sector

Remarkable achievements have been recorded in the power sector. Power supply in many parts of the country has improved significantly while sustained efforts at rehabilitation of existing power infrastructure yielded up to 1000 megawatts of additional electricity in 2012. The completion of all projects under the National Integrated Power Project later in the year is expected to add additional 1055 megawatts. This is complemented by enhanced efforts to improve gas supply to the power generating companies as well as upgrading of the transmission and distribution infrastructures. The cost-recovery energy tariff structure is already in place. More importantly, the authorities are in the final stages of the privatization of the generating and distribution companies created from the unbundling of the state-owned Power Holding Company of Nigeria. The successful handing over of these companies to the preferred bidders slated for the second quarter of 2013 will further improve the power supply situation.

Agriculture

Agriculture is regarded as a veritable tool for job creation and poverty alleviation. The authorities' target is to create 3.5 million jobs in this sector by 2015. Detailed programs of action have been developed for the major crops with significant export potentials such as rice, cassava, sorghum, oil palm, cocoa, and cotton. Implementation of these programs is progressing steadily. This is complemented by a targeted subsidized fertilizer scheme and an agricultural credit insurance scheme.

Oil and gas sector

The key to this sector's reform is the speedy passage of the revised Petroleum Industry Bill now before the parliament. There is a consensus in the parliament to give it expedited attention this year. The government committee charged with the responsibility of ensuring quick passage of the Bill is actively engaging the parliament and other stakeholders. On the divergence of views related to the fiscal regime, the authorities consider it as normal especially as it involves reining in more revenue for the government. The resistance of the major players in the oil industry is very much expected. The authorities do not see immediate need for contracting "internationally-renowned (and independent) oil experts" to advise on the cost structure informing the fiscal regime as there is no convincing evidence that the committee that prepared the Bill did not do so. The authorities are confident that the gray areas in the Bill will be resolved in the interest of all stakeholders.

Conclusion

In the past year, my Nigerian authorities have recorded milestone achievements in the implementation of structural reforms and in ensuring macroeconomic stability under a volatile external environment. This has resulted in strong growth although unemployment and poverty reduction remain major challenges. Given the authorities' unswerving commitment to the implementation of the structural reforms, these challenges would be adequately addressed in the medium to long term. Meanwhile, continuous investment in priority areas for job creation and inclusive growth particularly on roads, ports, railways, and airport infrastructure upgrades as well as human capital development including health care and education remain the cornerstone of government polices going forward. My authorities gratefully acknowledge the encouragement received from the Fund through technical assistance and policy advice.