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Opening Remarks by IMF Mission Chief Ms. Jesmin Rahman

Good morning and good afternoon everyone and a warm welcome. The IMF recently concluded the 2021 Article IV consultation with Nigeria. The staff report and background papers were published yesterday. In these remarks, I will offer some highlights from our report.

Let me start with the broad context. Nigeria, just like the rest of the world, has weathered by now almost two years of COVID-19 pandemic. The authorities have handled the pandemic well keeping infection and fatality rates low through proactive policies. However, the pandemic continues to pose risks. Increasing vaccination rates and securing adequate supply remains very important.

A few words on to recovery. The economy exited recession in the fourth quarter of 2020, earlier than expected, supported by agriculture, trade, and ICT sectors. We are seeing the recovery becoming more broad-based, thanks to policy support, rising oil prices and international financial assistance. For 2021, we estimate real GDP growth to be 3 percent. Inflation is on the decline since its peak in March last year, but food inflation remains high. High food inflation, together with rising poverty and food insecurity, demonstrates the pandemic's lasting imprint on the poor.

Let me now move to the outlook. Without stronger reforms, we see real GDP growth to hover around the population growth rate, essentially maintaining a stagnant per capita income. We project growth to be 2.7 percent in 2022 and to remain around that level in the medium term. Growth is mostly driven by various non-oil sectors, as the oil sector continues to suffer from weaknesses arising from technical and security related challenges.

Inflation is projected to decline to its pre-pandemic level by end-2023 but remain above the CBN's 6 to 9 percent target range in the medium term. With the decision to postpone the removal of oil subsidies, the fiscal deficit is projected to be 6½ and a half percent of GDP and remain above 6 percent in the medium term.

A few words on risks. Risks to the growth outlook are largely balanced. On the downside, there are pandemic related uncertainties, security challenges and implications from higher interest rates in advanced economies. There are also upside risks from Dangote refinery producing at full capacity next year, higher oil prices and large infrastructure investment as envisaged in the National Development Plan.

But risks to the fiscal, balance of payments and inflation are mostly on the downside. Fiscal deficit and financing face risks from pre-election expenditure pressures and possibly higher borrowing costs. The external sector faces risks from lower capital inflows, and abrupt exchange rate adjustment, while rising food prices abroad and possible exchange rate adjustment pose risks to inflation.

Let me now say some words about policy priorities. Nigeria has had a stagnant per capita income since 2014. At the same time, an estimated 54 million people are entering the labor force in the next 10 years. To absorb such a large number of new entrants and reverse the stagnant living standard, Nigeria needs much stronger growth. This, in turn, requires a bold and comprehensive set of reforms. Let me break it down by sectors, starting with fiscal policy.

On fiscal policy, the priority is to create policy space. At 6 to 7 percent of GDP, Nigeria's revenue level is one of the lowest in the world and inadequate to undertake large spending needed to improve vital social indicators, like health, and education, as well as infrastructure, and, also to counter shocks like the one we are having now, the pandemic.

Although debt levels compare favorably with emerging and developing country averages, a third of consolidated government revenues and over 80 percent of federal government revenues are spent on debt servicing. So, creating fiscal policy is urgent and we see three priority measures. First, redouble efforts to improve tax administration and compliance rates. Second, remove oil subsidies which mostly benefit the well-off with targeted social assistance to cushion the impact on the poor. And third, as the recovery strengthens, increase, and align VAT and excise rates with those in ECOWAS countries. This package of medium-term measures could create fiscal savings of over 5 percent of GDP in the next 5 years. The IMF is providing significant technical assistance, including a long-term resident advisor, to help achieve these goals.

Let me now turn to monetary and exchange rate policies. Our analysis shows that Nigeria's persistently higher inflation relative to its peers and to the CBN’s target range, mostly reflects procyclical monetary policy, a lack of a clear anchor and large and periodic exchange rate adjustments.

Since the pandemic, the private sector has faced persistent FX shortages against the backdrop of inadequate exchange rate adjustment and capital outflow pressures. The external position is also assessed to be weaker than warranted by fundamentals and desired policies. Reducing inflation and durably addressing FX shortages will require multi-year, steady reforms on monetary and exchange fronts.

We would highlight the following three priorities. First, refocus monetary policy on price stability by reforming the 2007 CBN Act while improving and simplifying the monetary policy framework which is very complex. Second, allow greater adjustment in the I&E exchange rate to address prolonged effect shortages. And third, take clear and concrete steps to fully unify various exchanges rates.

Let me move to structural policies next starting with the key weaknesses as we see it. Nigeria's economy remains heavily dependent on oil with limited roles played by the tradable sector and exports. Productivity in most sectors is low which results in weak growth, high under unemployment and very low levels of foreign direct investment. There are also governance weaknesses, which have negative implications. A poor perception of government effectiveness and civil service has kept tax morale low.

We would highlight the following three structural measures as priority. First, reduce corruption through greater transparency in the oil sector and fiscal operations and undertaking civil service reforms. Second, enhance productivity, particularly in high potential sectors such as agriculture, finance, and digital services, through simplified business environment, better connectivity, and investment in human capital. And third, lower trade barriers and reduce customs processing time and requirements to boost the tradable sector and help diversification. These reforms are also important to fully harness the potential from the African Continental Free Trade Agreement that Nigeria has signed, along with many other countries.

Finally, on the financial sector. The financial sector has weathered the crisis pretty well thanks to ample pre-crisis buffers and prudent credit policies during the pandemic. To safeguard and continue this stability, we recommend the following three measures. First, allow the time-bound pandemic related support measures to expire in February as planned. Particularly given that economic recovery is broadening. Second, speed up reforms to address weaknesses in the AML/CFT framework to avoid potential grey listing by FATF. And third, maintain a vigilant and gradual approach to eNaira rollout, which is what the authorities are planning, because the eNaira promises significant benefits, including increased financial inclusion.

Thanks everyone.