INTERNATIONAL MONETARY FUND

NIGERIA

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

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

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

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

A. Background

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

Nigeria's External Debt Stock, End-September 2014

(Millions of U.S. dollars)

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

B. Macroeconomic Assumptions

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

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

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

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

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

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

C. External Sustainability

Baseline

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

Stress Tests

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

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

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

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

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

D. Fiscal Sustainability

Baseline

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

Alternative Scenarios and Stress Tests

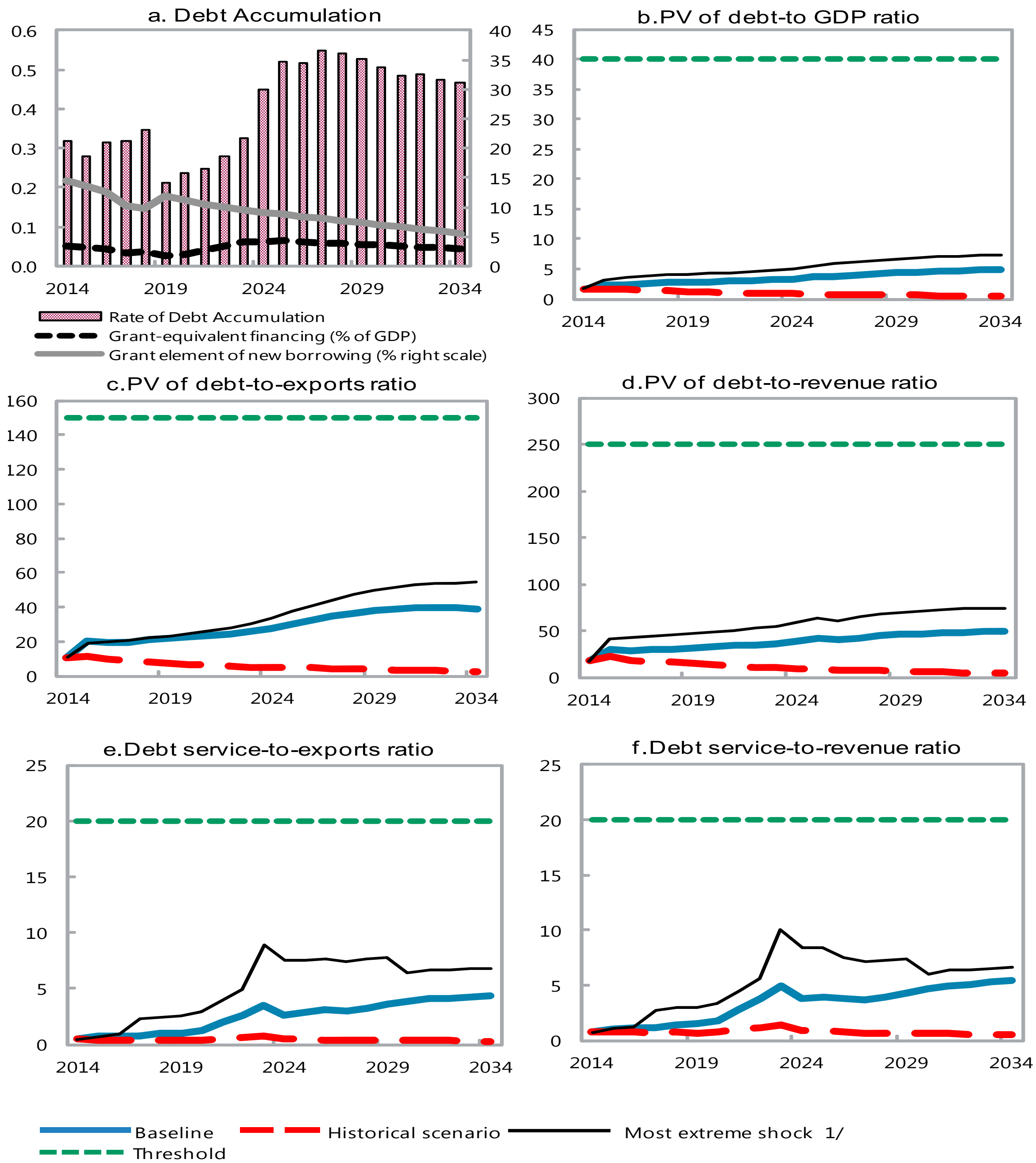
6. The stress tests underscore the need for fiscal policy to adjust to the economic environment. In particular, the present value of debt in 2034 would increase to 40 percent of GDP if the primary balance is kept unchanged at its 2014 level (Table 4 and Figure 2). Public debt dynamics could also become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

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

E. Authorities' views

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

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



Sources: Country authorities; and staff estimates and projections.

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

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

(In percent of GDP, unless otherwise indicated)

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

Sources: Country authorities; and staff estimates and projections.

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

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

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

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

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

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

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

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

(In percent)

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

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

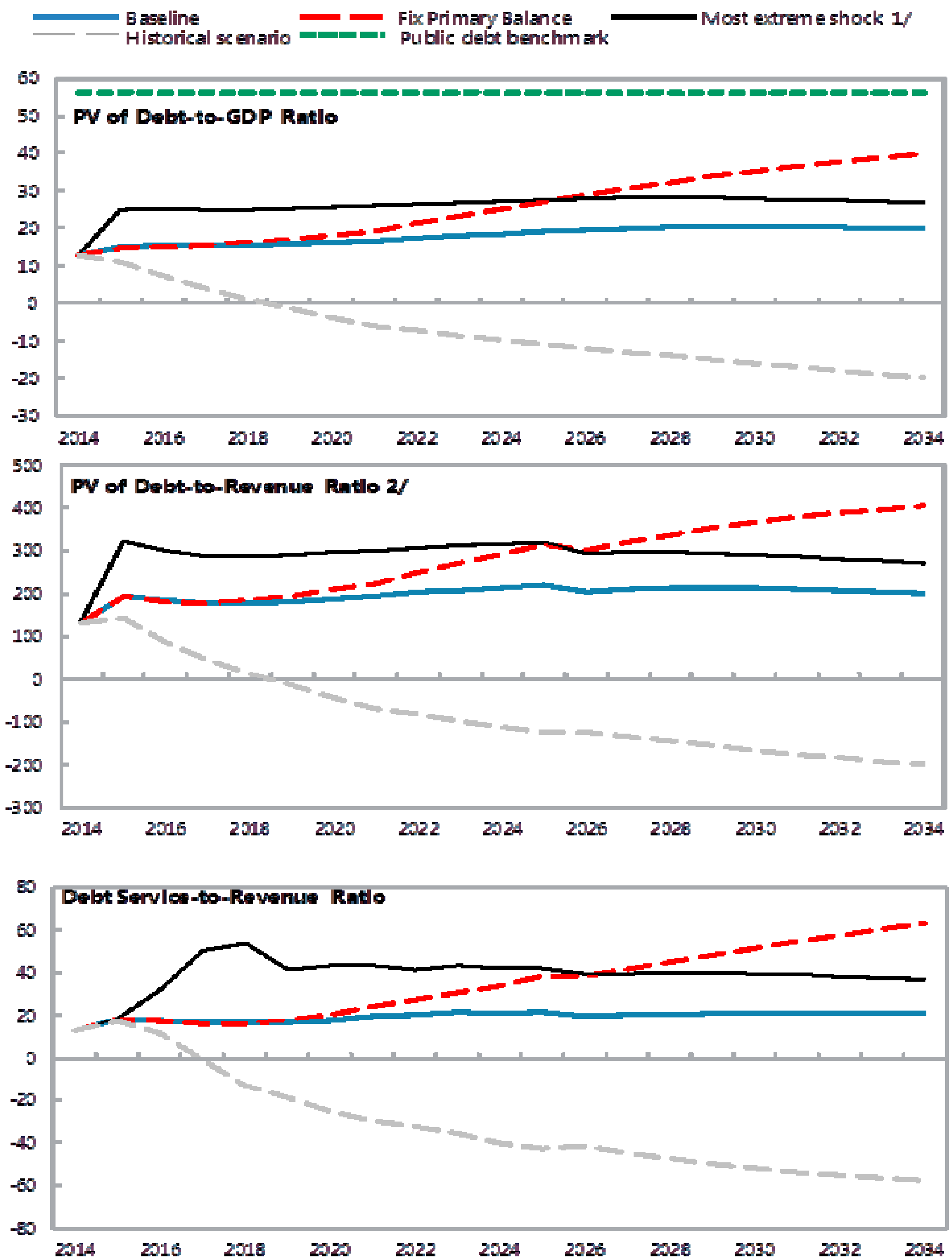
(In percent)

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

Sources: Country authorities; and staff estimates and projections.

1/ Variables include real GDP growth, growth of GDP deflator (in U.S. dollar terms), non-interest current account in percent of GDP, and non-debt creating flows.
2/ Assumes that the interest rate on new borrowing is 2 percentage points higher than in the baseline., while grace and maturity periods are the same as in the baseline.
3/ Incorporates the 2015 oil price shock plus additional shocks in 2016-2017. Export values are assumed to remain permanently at the lower level, but the current account as a share of GDP is assumed to return to its baseline level after the shock (implicitly assuming an offsetting adjustment in import levels).
4/ Includes official and private transfers and FDI.
5/ Depreciation is defined as percentage decline in dollar/local currency rate, such that it never exceeds 100 percent.
6/ Applies to all stress scenarios except for A2 (less favorable financing) in which the terms on all new financing are as specified in footnote 2.

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



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

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

(In percent of GDP, unless otherwise indicated)

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

Sources: Country authorities; and staff estimates and projections.

1/ Gross debt of the federal government and gross external debt of state governments.

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

3/ Revenues excluding grants.

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

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

Table 4. Nigeria: Sensitivity Analysis for Key Indicators of Public Debt 2014-34

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

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

INTERNATIONAL MONETARY FUND

NIGERIA

STAFF REPORT FOR THE 2014 ARTICLE IV CONSULTATION—INFORMATIONAL ANNEX

February 13, 2015

Prepared By | The African Department

CONTENTS

FUND RELATIONS

(As of December 31, 2014)

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

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

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

Outstanding Purchases and Loans: None

Latest Financial Arrangements:

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

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

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

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

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

Exchange Rate Arrangement

The de jure exchange rate arrangement is other managed arrangement. The Central Bank of Nigeria (CBN) explicitly aims to maintain an exchange rate fundamentally driven by market forces, but intervenes to reduce volatility and to counteract speculative attacks on the national currency. In recent years it has maintained an exchange rate band vis-à-vis the U.S. dollar (the band was increased from ±3% to ±5% in 2014) and has recently allowed adjustment of the band's midpoint in response to market forces (the last adjustment in November 2014). The de facto exchange rate arrangement is also other managed arrangement. In spite of some stability of the Naira-U.S. dollar exchange rate, the nominal effective exchange rate has fluctuated considerably in recent years. The CBN publishes information on its interventions through auctions on its website; and data on interventions in the interbank market are disseminated. Nigeria is a signatory to the W-ERM II of the WAMZ, which requires that the spot exchange rate between the naira and the U.S. dollar be maintained within ±15% around the central rate. The CBN has opted to use a narrower band. The foreign exchange market comprises the Dutch Auction System (DAS), the interbank, and bureau de change segments. Multiple currency prices are a technical characteristic of the Dutch auction system and give rise to a multiple currency practice under Article VIII of the Articles of Agreement.

Safeguards Assessment

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

Article IV Consultation

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

Technical Assistance (TA) since January 2013:

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

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

Resident Representative:

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

JOINT WORLD BANK-IMF WORK PROGRAM, 2014–15

(As of December 31, 2014)

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

Title	Products	Provisional timing of missions (if relevant)	Expected delivery date
	A. Mutual Information on Relevant Work Programs		
Bank work program in next 12 months	*(i) Lending Programs*		
	Lagos Development Policy Operation (III)	January & February 2015	2015
	Edo Development Policy Operation (II)	February 2015	2015
	Nigeria PFM Reform & Statistical Capacity Building Project	January 2015	2016
	Nigeria Electricity Transmission Project		2015
	Nigeria Electricity and Gas Improvement Project	Continuous	Ongoing
	Power Sector Guarantees Project		2015
	Public/Private Partnership Project	Continuous	Ongoing
	Growth, Employment, and Markets in States (GEMS)	Continuous	Ongoing
	Public Sector Reform and Governance Development Project	Continuous	Ongoing
	State Expenditure Effectiveness for Opportunities and Results (SEEFOR)	Continuous	Ongoing
	Reform of Nigeria Development Finance Sector		2015
	Agriculture DPO 2		2015

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

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

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

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

STATISTICAL ISSUES

(As of December 31, 2014)

I. Assessment of Data Adequacy for Surveillance
General: Macroeconomic data are broadly adequate for surveillance; however data deficiencies—in particular, inadequate information on subnational public finances and large errors and omissions in the balance of payments—remain. The Statistics Act of 2007, which established the National Bureau of Statistics (NBS) as the main coordinating agency for data management, has led to a number of improvements, including better information sharing between data producing and collecting agencies. There has been an improvement in the compilation of timely and internally consistent data, for example, the Government Integrated Financial Management Information System (GIFMIS) is now used for budget preparations and the coverage of the Treasury Single Account (TSA) is increasing. These efforts however need to be extended to the subnational levels.
National accounts: Basic statistics are extensively available for the compilation of national accounts and the NBS employed major methodological updates in 2014 by adopting the System of National Accounts (SNA 2008 version), the International Standard Industrial Classification (ISIC revision 4). The weaknesses associated with the reliance on the consumer price index to construct the constant price GDP series has improved by developing the supply and use table (SUT) framework (first time in its history) and collecting producer price data. The introduction of additional indices, such as a producer price index, would facilitate more accurate estimation of the constant price measure. The authorities have received and continue to receive Technical Assistance (TA) from the Fund, World Bank, and African Development Bank in completing a GDP rebasing exercise and for the next rebasing in 2015. The rebased GDP (base year=2010) and supply and use table reflected the significant change that has taken place in the structure of the economy since the previous rebasing in 1990. In addition, the conduct of a census of businesses, a census of agriculture, and a household living conditions survey in 2014 will contribute to further improvements in the measurement of GDP. **Prices statistics**: The official monthly consumer price index (CPI), a composite of urban and rural price data, is available on a timely basis. The index has been re-referenced to November 2009=100, using the 2003/04 National Consumer Expenditure Survey to update the 1996/97 survey-based expenditure weights. Work is also underway to assess the concepts and methods used to compile the consumer price index (CPI).
Government finance statistics: The most pressing shortcoming is related to inadequate data coverage, particularly of the subnational governments, which comprise almost one half of total government expenditure. The federal government has limited information on the subnational fiscal accounts, making it difficult to target a consolidated fiscal balance; efforts to address this issue have been stymied by constitutional restrictions. The CBN disseminates survey data on state and local governments budgets, but responses do not necessarily follow the same definitions, and these data are not consolidated with data from other levels of government. To facilitate the timely preparation of a consolidated set of fiscal accounts, however, governments at all levels need to use budget classification, chart of accounts, and accounting systems that will allow consistent

classifications of the data. Current plans for nationwide adoption of International Public Sector Accounting Standards (IPSAS) on a cash basis at the Federal and State levels by end-2015 should be instrumental to this end. There is also a need to formalize the publication of government accounts on a monthly or quarterly basis and to increase coverage to report on the operations of parastatals.
Monetary and financial statistics: There have been significant improvements in the compilation of monetary statistics. There is need for more granular measures of commercial banks' foreign assets and liabilities. The definition of the other depository corporations (ODCs) sector should also be extended beyond commercial banks to also capture other deposit-taking financial institutions, such as merchant banks and non-interest banks. **Financial soundness indicators**: A broad range of information on the financial sector, including both core and a number of non-core financial soundness indicators, is compiled by the CBN. The CBN is currently working with support from STA to improve the methodology used to compile FSIs and enhance the consolidation basis to capture cross-border activities of Nigerian bank subsidiaries and branches.
Balance of payments: There have been significant efforts to improve the compilation of Nigeria's balance of payments data in recent years. Supported by IMF technical assistance, the authorities have expanded the range and improved the quality of data sources, aimed at strengthening the balance of payments and producing an international investment position. There are however still large errors and omissions in the balance of payments, which complicate the assessment of external sustainability. There is a need for improved validation of transactions reported by banks, measurement of transactions outside the banking system, appropriate treatment of transactions of enterprises in free trade zone (using a residency criterion) and improved coverage of estimates of the external assets and liabilities of the banking sector. The DFID/GDDS Phase III Module, launched in 2010 and covering a five-year period, is helping improve source data by recording more accurately cross-border private capital flows and stocks. The authorities have not yet initiated compilation of international reserves data in line with the Data Template on International Reserves and Foreign Currency Liquidity. **External debt**: Public external debt data are of good quality and available on a timely basis. The Debt Management Office (DMO) is collaborating closely with the CBN to extend the coverage of their database to include private sector liabilities and foreign investment in domestically issued debt securities.

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

Nigeria: Table of Common Indicators Required for Surveillance

(As of end-January 2015)

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

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

INTERNATIONAL MONETARY FUND

NIGERIA

February 24, 2015

STAFF REPORT FOR THE 2014 ARTICLE IV CONSULTATION—SUPPLEMENTARY INFORMATION

Prepared By	African Department

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

1. Political and Economic Developments.

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

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

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

2. Policy Development.

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

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

3. Implications.

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

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

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

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

Exchange Rate Arrangement

The de jure exchange rate arrangement is other managed arrangement. The Central Bank of Nigeria (CBN) explicitly aims to maintain an exchange rate fundamentally driven by market forces, but intervenes to reduce volatility and to counteract speculative attacks on the national currency. In recent years it has maintained an exchange rate band vis-à-vis the U.S. dollar (the band was increased from ±3 percent to ±5 percent in November, 2014) and has allowed adjustment of the band's midpoint in response to market forces (the last adjustment in November 2014). On February 18, 2015, the CBN announced the closure of its Dutch Auction System (DAS) window and requested all foreign exchange transactions to be effected through the interbank market. The de facto exchange rate arrangement remains other managed arrangement. In spite of some stability of the Naira-U.S. dollar exchange rate, the nominal effective exchange rate has fluctuated considerably in recent years. Nigeria is a signatory to the W-ERM II of the WAMZ, which requires that the spot exchange rate between the naira and the U.S. dollar be maintained within ±15 percent around the central rate. The foreign exchange market comprises the interbank and bureau de change segments.

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FOR IMMEDIATE RELEASE
March 4, 2015

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

IMF Executive Board Concludes 2014 Article IV Consultation with Nigeria

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

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

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

[1] Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board.

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

Executive Board Assessment[2]

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

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

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

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

[2] At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities. An explanation of any qualifiers used in summing up can be found here: http://www.imf.org/external/np/sec/misc/qualifiers.htm.

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

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

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

Nigeria: Selected Economic and Financial Indicators, 2012–2015

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

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

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

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

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

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

Macroeconomic developments and outlook

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

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

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

Fiscal policy

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

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

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

Monetary and exchange rate policies

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

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

Financial sector policies

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

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

Structural policies

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

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

Conclusion

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