February 2008
IMF Country Report No. 08/64

Nigeria: 2007 Article IV Consultation—Staff Report; Staff Supplement and Statement; Public Information Notice on the Executive Board Discussion; and Statement by the Executive Director for Nigeria

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of the 2007 Article IV consultation with Nigeria, the following documents have been released and are included in this package:

- The staff report for the 2007 Article IV consultation, prepared by a staff team of the IMF, following discussions that ended on November 20, 2007, 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 22, 2008. 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.

- A staff supplement on the joint IMF/World Bank debt sustainability analysis.

- A staff statement of February 13, 2008 updating information on recent developments.

- A Public Information Notice (PIN) summarizing the views of the Executive Board as expressed during its February 13, 2008 discussion of the staff report that concluded the Article IV consultation.

- A statement by the Executive Director for Nigeria.

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

Selected Issues Paper

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

To assist the IMF in evaluating the publication policy, reader comments are invited and may be sent by e-mail to publicationpolicy@imf.org.

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INTERNATIONAL MONETARY FUND

NIGERIA

Staff Report for the 2007 Article IV Consultation

Prepared by the Staff Representatives
for the 2007 Consultation with Nigeria

Approved by Saul Lizondo and Anthony R. Boote

January 22, 2008

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EXECUTIVE SUMMARY

The success of Nigeria's reforms brings new policy challenges for preserving and building on the reform gains. Economic performance has improved since the last Article IV consultation and the immediate outlook is promising. Growth is high, inflation is in single digits, and external and fiscal positions are strong. The recapitalized banking sector and newly active financial markets are supporting private activity. These gains reflect implementation of Nigeria's reform program under the Policy Support Instrument while benefiting from favorable agriculture conditions and high oil prices.

Macroeconomic absorptive capacity—and not oil market developments—should drive government spending. In this regard, the national government's fiscal strategy provides a good road map. The road map can only be effective, however, if state-level budgets are consistent with the strategy. State governments are pressuring to increase spending by distributing oil savings to all levels of government in line with constitutional shares. These oil savings reflect the success of the oil-price-based fiscal rule in containing spending to levels consistent with macroeconomic stability. This rule was central to the turnaround in economic performance and without a comparable policy anchor in the future, the gains made are at risk.

The monetary and financial stability challenges of the burgeoning financial sector need to be met. Nigeria is integrating rapidly into global financial markets, including through a fivefold increase in government securities trading and a fourfold increase in stock market capitalization since 2005. An important growth dividend is now within reach. At the same time, the challenge for monetary policy and of preserving financial stability will only intensify. Bank supervision will need to be strengthened further to reflect these developments.

The private sector is benefiting from reforms but much more needs to be done. The consolidated banking sector is playing an important role in supporting growth. Liberalizing the communications sector and privatization has paid off. Yet, these gains underscore the need to address other bottlenecks in the business environment, particularly infrastructure. Fiscal space within the government's fiscal strategy is adequate to make meaningful progress in addressing this infrastructure gap.

The balance of payments outlook is consistent with external stability. The current account is expected to be in moderate surplus in the medium term, reflecting a balance between Nigeria's status as an oil producer and a low-income country. External vulnerabilities are much reduced owing to the substantive reduction of external debt.

The authorities' macroeconomic policy priorities are centered on meeting the challenges brought about by the success of the reform program. The authorities recognize that managing oil savings and revenues consistent with macroeconomic stability and in line with the constitution is essential. Beyond this, they propose to develop a medium-term economic strategy that reflects the policy challenges in providing an enabling environment for private sector activity. They are considering how the Fund might support these efforts.

I. DEVELOPMENTS AND OUTLOOK[1]

Nigeria's economic performance has been strong since the 2005 Article IV discussions (Figure 1), and the immediate outlook is favorable.

1. **Economic growth has been strong and prospects are good.** Non-oil sector growth is expected to stay robust at about 9 percent. Public and private demand has contributed, with the latter supported by credit growth. Risks relate to the large share of agriculture that is weather dependent. In the oil and gas sector, growth is constrained by unrest in the Niger Delta, but will benefit from the recently completed West African gas pipeline. In the medium term, the authorities anticipate a 50 percent increase in oil production from current levels. Box 1 describes revisions to the national accounts.

Nigeria: Selected Economic Indicators
(Percent of GDP, unless otherwise stated)

	2005	2006	2007	2008	2009	2010	2011	2012
	Act.		Est.			Proj.		
Real GDP growth (percent)	6.5	6.0	6.3	9.0	8.3	7.0	7.0	8.1
Consumer price inflation, annual average (percent)	17.8	8.3	5.4	7.3	8.5	8.5	8.5	8.5
Overall fiscal balance	9.4	7.7	0.4	6.2	4.8	4.6	3.9	4.1
Non-oil primary fiscal balance (percent non-oil GDP)	-27.2	-28.3	-27.1	-25.0	-25.0	-25.0	-25.0	-25.0
Current account balance	7.1	9.4	0.8	4.7	2.4	3.1	2.9	3.4

Sources: Nigerian authorities and IMF staff.

2. **Fiscal spending has been contained during the oil boom to manage demand pressures.** Unlike in past oil booms, domestic demand was contained by an oil-price-based fiscal rule and by directing revenue windfalls to an oil savings account at the central bank. Execution of the 2007 budget was mostly as projected at the fourth review of the Policy Support Instrument (PSI). The government's medium-term fiscal strategy is consistent with macroeconomic objectives.

3. **The central bank met its inflation target.** Liquidity mop up, effective appreciation of the naira (including through unification of the foreign exchange market), a pick up in money demand, and easing food prices helped bring inflation to about 5 ½ percent on average at end-2007. Core inflation, while more variable, is also in single digits. Keeping headline inflation in single digits remains the policy goal. Supply-side developments—particularly in agriculture—will impact the headline rate.

[1] Discussions were held November 7–20, 2007. The staff team comprised Mr. Nellor (Head), Ms. Roehler, and Mr. Steinberg (all AFR), Mr. Kelmanson (PDR), Mr. Ramírez (FAD), and Mr. Swaray (MCM). Mr. Bell (senior resident representative) and Ms. Nnaji, of the resident representative office, participated.

4. **Challenges in meeting monetary targets are being addressed.** The reserve money program was difficult to implement owing to the large infusion of oil revenues and to weak and delayed data. Moreover, available operational instruments were limited. These issues are being addressed, and implementation has improved considerably through a Monetary Policy Implementation Committee. To improve the operation of the short-term interbank market, the central bank is using a standing facility and a daily two-way quote in the market.

5. **Fiscal and external sustainability have improved.** Oil proceeds were used to build savings and repay most external debt. This was complemented by Paris Club debt relief. External reserves increased steeply, boosting both investor confidence and Nigeria's sovereign ratings, giving the private sector greater access to international financial markets.

6. **Integration into global financial markets, developments in domestic markets, and improved fundamentals have resulted in a growing financial sector.** Much improved domestic fundamentals, global liquidity conditions, and investors' search for yield have drawn investor flows. In addition, remittances have risen as investment opportunities have opened up. The banking sector has taken advantage of investor interest to build further on the increase in capital that was achieved when the 89 banks in the sector were consolidated into 25 banks by end-2005.

7. **The authorities' policy program, supported by the PSI, was in accord with the Board's conclusions at the 2005 Article IV consultation.**[2] Directors encouraged the authorities to continue efforts to stabilize the economy; improve public expenditure management, including through passage of fiscal responsibility legislation; restructure and better capitalize the banking system; unify the foreign exchange market; and pursue structural reforms that would improve government operations and the business environment. Significant progress has been made in these areas.

Box 1. Revised National Accounts

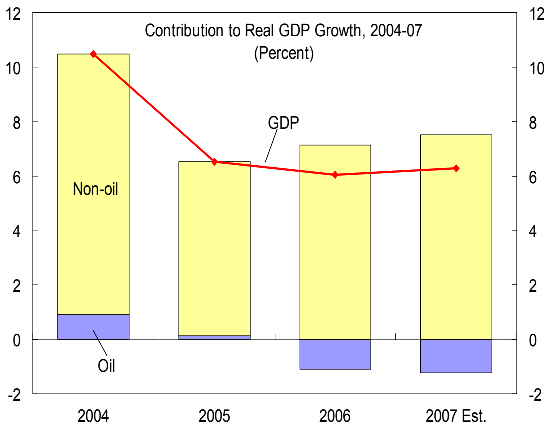
Nigeria published revised national accounts in October 2007 (Table 6). A revised series, for 1981–2006, was made possible by new surveys that resulted in a significant upward revision of nominal non-oil GDP and some revisions to real growth estimates. Nominal GDP in 2006 is 26 percent higher than in the old series (Table 7). This means that compared with previous staff reports, ratios of economic variables, such as fiscal balances to non-oil GDP, are much lower. The share of the oil sector in 2006 GDP declines from 48 to 37 percent.

Efforts to strengthen national accounts statistics are ongoing. The compilation methodologies for sector data, including natural gas and agriculture, and the deflator are being reviewed owing to weaknesses in these areas (see Annex III). The IMF and others are providing technical assistance.

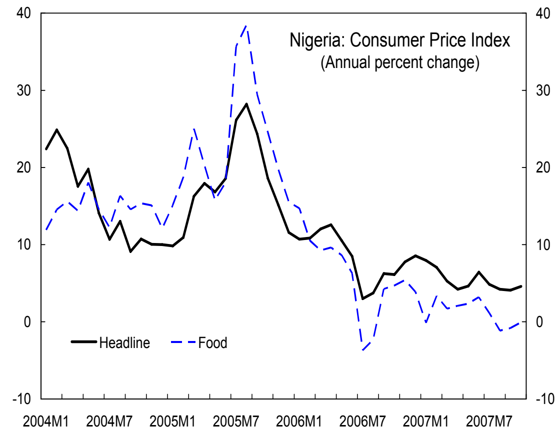
[2] The last Article IV consultation was concluded on July 18, 2005 (IMF Country Report No. 05/302). A PSI was approved on October 17, 2005 and expired on October 16, 2007. Developments from mid-2005 to mid-2007—the period covered by the PSI—were reviewed in detail at the fourth review under the PSI (IMF Country Report No. 07/353).

Figure 1. Recent Developments

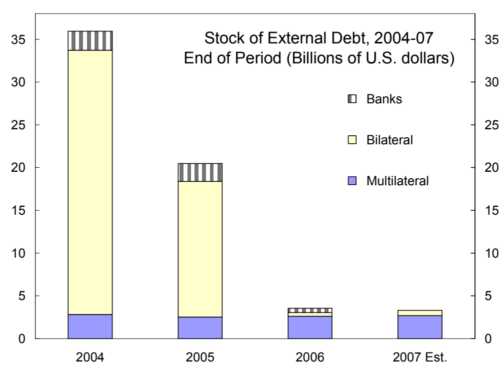
The non-oil sector drives growth, oil production remains below potential.



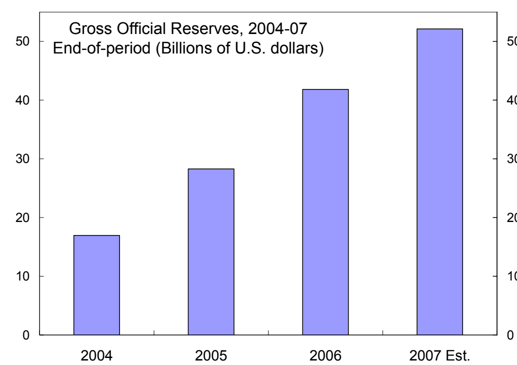
Inflation declined to single digits, aided by lower food prices.



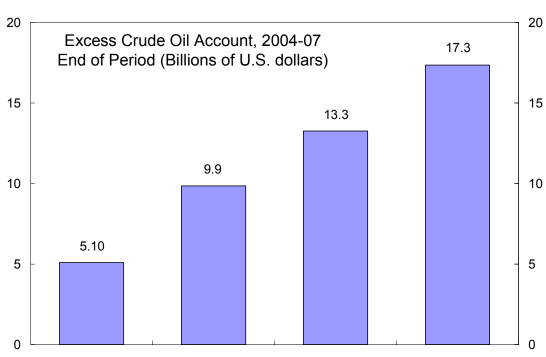
Debt relief and buybacks sharply reduced external debt...



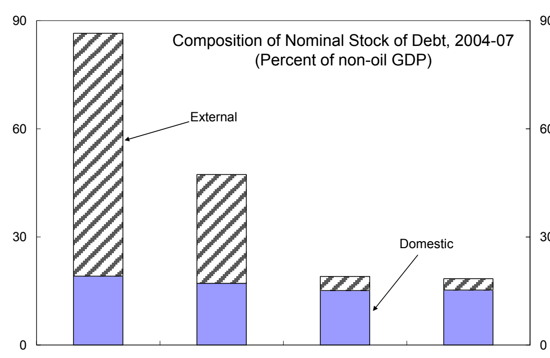
…and high oil prices boosted reserves.



Prudent fiscal policies led to oil savings...



...and public debt is moderate.



Sources: Nigerian authorities and IMF staff estimates.

II. Managing Oil Revenue: Developing Key Fiscal Institutions

The success of past fiscal policy, which resulted in mounting oil savings, and continued high oil prices have resulted in pressures by state governments to spend more. Agreement on the use of oil revenues by all tiers of government must be reached to avoid spending that goes beyond what the economy can absorb and to preserve macroeconomic stability.

8. **The authorities' medium-term fiscal strategy 2008–10 (MTFS) is a road map for preserving macroeconomic stability**. The consolidated government non-oil primary fiscal deficit, projected to stay at about 25 percent of non-oil GDP, in line with recent years, is consistent with macroeconomic stability. The implementation of these deficit targets is supported by an oil-price-based fiscal rule (see Box 2). This oil-price-based fiscal rule is enshrined in the recently approved Fiscal Responsibility Act as a framework to guide budget allocations. The MTFS assumes oil revenues are distributed based on a budget oil price of about $55 per barrel. The overall fiscal position is expected to stay in surplus.[3]

Nigeria: Staff Estimate of the Non-Oil Consolidated Government Balance
(Percent of non-oil GDP)

	2007	2008	2009	2010
	Est.		Proj.	
Non-oil revenue	9.9	9.4	9.5	9.6
Non-oil primary expenditures	37.0	34.4	34.5	34.6
Federal government	16.8	16.6	16.5	16.5
State and local governments	18.5	16.5	16.5	16.7
Large-scale infrastructure projects	1.7	1.3	1.5	1.4
Non-oil primary balance	-27.1	-25.0	-25.0	-25.0

Sources: Nigerian authorities and IMF staff.

9. **The federal government's budget for 2008 is consistent with the MTFS**. The consolidated government non-oil primary deficit, based on a budget oil price of $53.83 per barrel, is projected to be about 22 percent of non-oil GDP. For purposes of the macroeconomic framework, a higher deficit, consistent with macroeconomic stability, of 25 percent of non-oil GDP is used. This larger deficit could allow for the resumption of large infrastructure projects that were put on hold for review by the incoming government, capital outlays from the 2007 budget that could carry over into 2008, or allocations of oil savings to reimburse states that contributed to the Paris Club debt buyback in excess of their own obligations.

[3] At current extraction rates proven and probable oil and gas reserves would last more than 50 years, and possible reserves well above 100 years. Reflecting these levels of resources, a fiscal path in line with the MTFS is sustainable, as is also evident in the debt sustainability analysis (see footnote 4), and means the policy focus is on the macroeconomic stability implications of the spending of oil revenues.

10. **The immediate challenge in implementing the MTFS is to manage pressures to spend oil savings.** State governments are reasserting their constitutional right to receive oil savings and revenues (Box 2). Oil receipts are a shared revenue source and, in recent years, oil revenue distributions were based on a budget oil price, with oil revenues above budgeted amounts saved. This oil-price-based fiscal rule delinked fiscal spending at all tiers of government from oil revenue fluctuations. The rule was instrumental in keeping spending in line with absorptive capacity and improving macroeconomic stability.

Box 2. Oil Revenues and the Constitution

The constitution provides that all tiers of government – federal, state, and local - share in oil revenues. All oil revenue inflows (as well as certain taxes) are received into the Federation Account. The revenue sharing formulas are set by an act of the National Assembly, based on a recommendation from the Revenue Mobilization, Allocation and Fiscal Commission. For natural resource revenues, the constitution provides that oil-producing states receive 13 percent upfront as derivation grants. Of the remaining 87 percent, the federal government receives 52.7 percent, states 26.7 percent, and local governments 20.6 percent.

The oil-price-based fiscal rule in place since 2004 was based on political agreement. The agreement provided for an allocation of oil revenues, according to the above shares, based on a budget oil price and volume of production. Oil revenues in excess of the budget oil price and production level are transferred into the "excess crude account" at the central bank in the names of the various government entities. It was planned that the recently signed Fiscal Responsibility Act would institutionalize this voluntary use of the oil-price-based fiscal rule.

The view of many legal observers is that a federal Fiscal Responsibility Act cannot bind other levels of government. The act prescribes procedures for setting a macroeconomic and medium term expenditure framework for the federation. However, most of the provisions are legally binding only on the federal government while encouraging states to adhere to the same framework. In September 2007, a political agreement was reached under which all states would pass fiscal responsibility legislation. Such legislation could provide the foundation for better fiscal coordination; the specific mechanisms for harmonizing fiscal plans between different government entities have to be defined.

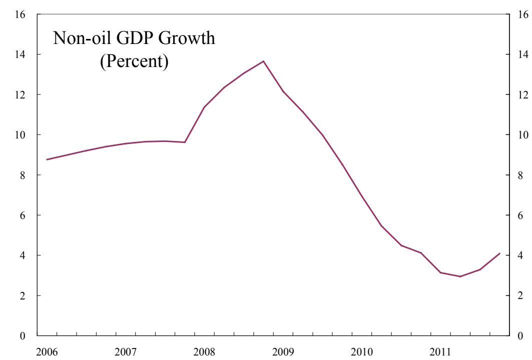
11. **Sizable domestic spending from oil savings would likely result in macroeconomic instability.** If some part of oil savings, estimated to total about $17 billion (16 percent of non- oil GDP) at end 2007, were distributed, it is likely that state and local governments would spend the additional resources. The federal government would be expected to adhere to budgeted expenditures and save the distribution. Overall, depending on the scale of the savings distributed and the amount spent domestically, the consequences of the implied fiscal shock could be considerable. Following an immediate stimulus to growth, the spending would likely destabilize the economy. The implications of additional state government

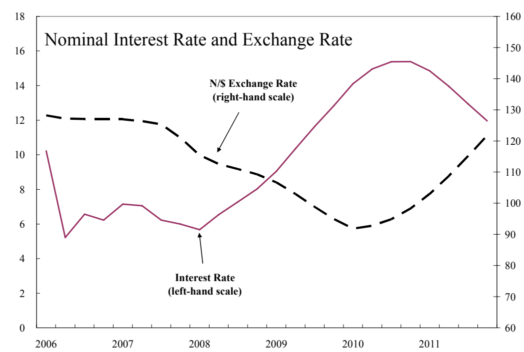
spending from a partial distribution of savings under one hypothetical example are shown in Box 3.

Box 3. Impact of Higher State Spending

The impact of a hypothetical increase in state spending, resulting in a higher fiscal deficit of 5 percentage points of non-oil GDP in each year in 2008–10, is estimated using a simple structural model of the Nigerian economy (see accompanying selected issues paper). The additional spending would likely exceed the absorptive capacity of the economy if it is spent domestically.

As shown below, after initially accelerating, growth would slow sharply as the central bank raised interest rates to keep inflation in single digits. (Alternatively, inflation would rise steeply.) Higher interest rates would, in turn, squeeze credit and dampen private sector activity, causing the naira to appreciate. The loss of competitiveness would further constrain the private sector. Knock-on effects on the financial sector would be likely, as demand for credit declines and financial profits flag. Lower bank earnings would increase already high price-to-earnings ratios and leading investors to pull out of the stock market.





12. **The authorities, recognizing that the oil-price-based fiscal rule has improved economic outturns, are seeking ways to manage oil savings consistent with macroeconomic stability.** They hope to reach a long-lasting consensus that respects the constitutional rights of each tier of government. Apart from agreeing that states would pass their own fiscal responsibility legislation, the federal government is proposing mechanisms that would limit the harmful consequences of any allocation of oil savings by (i) distributing only a small share of oil savings, (ii) encouraging state and local governments to adopt savings funds, and (iii) suggesting that states participate in infrastructure projects with high import content to minimize domestic demand pressures from new spending.

III. Monetary and Financial Stability: Challenges of Global Integration

Nigeria is integrating rapidly into global financial markets and could see a tremendous growth dividend. At the same time, the challenge of managing monetary policy and preserving financial stability will intensify as capital flows increase, new financial instruments are introduced, and commercial bank trading capacity expands. The central bank faces policy challenges increasingly like those faced by emerging markets.

13. **Private sector interest in naira assets has risen reflecting improved macroeconomic conditions, reduced external vulnerability, and favorable global conditions.**

- **Macroeconomic conditions.** Improved growth and inflation performance, along with high world oil prices, has boosted domestic and foreign confidence in Nigeria's economic prospects and led investors to anticipate a strengthening naira. Foreign interest in a second-round increase of capital at Nigerian banks has already exceeded $11 billion and is just one indicator of this interest (Figure 2).

- **External vulnerabilities.** External debt fell considerably after Paris Club debt relief, triggering investor interest. External reserves have continued to mount. As a result, as shown in the staff's debt sustainability analysis, Nigeria's debt outlook appears robust under the baseline scenario and standardized stress tests.[4]

- **Global conditions.** Strong global liquidity and search for yield have fueled investor interest in naira assets. Recent financial market turbulence in developed markets since mid-2007 has not measurably stemmed such interest as evident, for example, in the pick up in government securities trading in the third quarter of 2007 and ongoing foreign interest in the banking sector (Figure 2).

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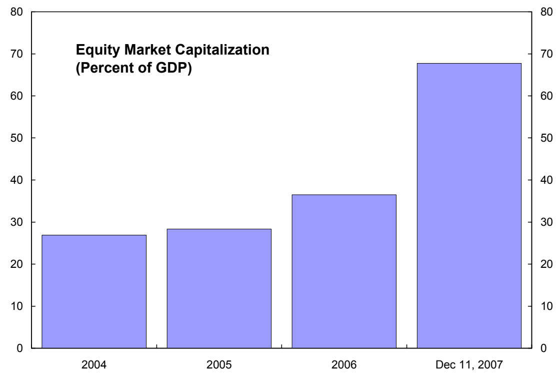
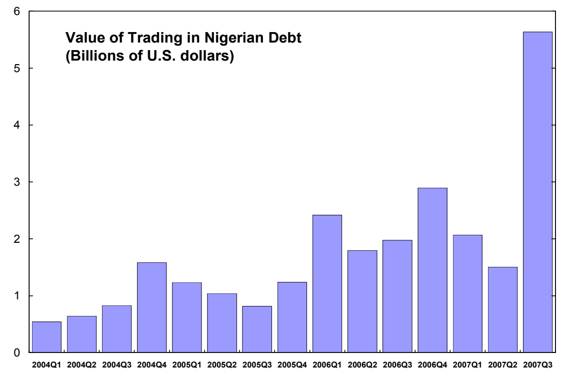
[4] The updated debt sustainability analysis (see Appendix I) concludes that Nigeria has a low risk of debt distress. In the baseline scenario, and in the case of the standardized stress tests, Nigeria's debt outlook remains robust, while offsetting policy measures would be required in the medium term to keep debt sustainable in the event of a prolonged oil price shock or sustained higher non-oil primary deficit. The authorities own DSA, based also on the low-income country template, reaches similar conclusions. Informed by their own DSA, the authorities are in the process of finalizing a comprehensive debt management framework.

Figure 2. Financial Markets

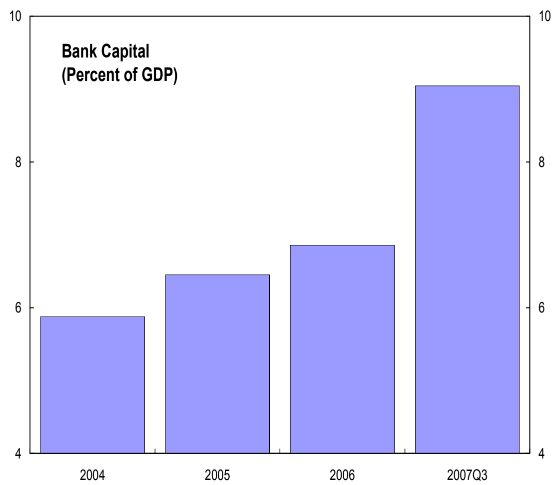
The stock market, dominated by financial institutions, is booming...



...as is international interest in Nigerian assets.



Banks' capitalization has increased …



…thanks to capital-raising exercises since consolidation, aided by capital inflows.

Bank Capital Raising Activities, 2006–07

	IPO/PO (N billions)	GDR [1] (US$ millions)
Afribank	100.0	...
Fidelity	48.0	...
First Bank	471.6	...
GTB	...	824.2
Intercontinental	99.8	...
Oceanic	174.6	...
UBA	102.6	...
WEMA [2]	85.0	541.7
Zenith [2]	185.6	...
Total	1,267.2	1,365.9

[1] Global Depository Receipts.
[2] WEMA and N 130 billion of Zenith are still in the market.

Sources: Nigerian authorities, EMTA, and IMF staff estimates.

14. **Banks are pursuing activities motivated in part by the need to generate returns on their much increased capital base.** The return on equity is now about half its rate since consolidation, and is well below that in comparator countries. Banks are seeking to enhance returns by:

- **Expanding credit to the private sector.** Private sector credit has doubled since banks consolidated two years ago. With higher bank capital, Nigerian banks have been able to participate in the oil and gas sector; banks are also active in communications and are exploring infrastructure financing. Retail credit has begun to expand, with banks identifying customers through corporate relationships.

- **Increasing treasury activity.** Banks are expanding their treasury capacity and the related range of products. Larger banks are importing staff to develop products offered in other emerging markets. The interbank foreign exchange market is operating effectively and, for the first time, is offering forward positions in the naira. Large banks are the main conduit for foreign investor activity in the domestic securities market—both physical securities as well as derivatives.

- **Pursuing cross-border and cross-sector activities.** Universal banking groups have emerged, with more than half the banks having insurance and securities subsidiaries. As part of a regional expansion, about half the banks have set up cross-border operations that, while small, are growing rapidly. Operations have been established in many countries including in South Africa, Ghana, The Gambia, Sierra Leone, the United Kingdom, and the United States.

15. **Changes in the banking sector underscore the need to strengthen the regulatory framework and supervision.** The central bank has developed a legal, regulatory, and operational framework for risk-based and consolidated supervision. It has also increased information sharing and coordination among the domestic supervisors of the various sectors and coordination with foreign supervisors. The challenge for the central bank is to implement these frameworks. The Fund is providing technical assistance in this area. The central bank will also need to build human capacity to understand the complex new instruments being transplanted from emerging markets.

16. **The banking system is largely robust but needs careful monitoring** (Table 4). Bank restructuring has increased capital and enabled a significant share of nonperforming loans to be written off. Standard stress tests suggest the banking sector is resilient to most quantifiable shocks (Box 4). However, shocks have been calibrated only for standard scenarios, where the asset allocation is constant and banks reduce their capital base. Given the sector's large capital base, it is not surprising that bank solvency remains resilient. There is a need to monitor links between macroeconomic developments and the financial sector, including for example, the impact of a change in market sentiment on bank valuations and knock-on effects to general banking activities.

Box 4. Banking System Stability

Recent bank consolidation has strengthened the sector (see accompanying selected issues paper). Most banks are well capitalized, liquid, and profitable; the capital adequacy ratio, at 18.6 percent, is well above the minimum regulatory requirement of 10 percent; holding of liquid assets is a robust 62.2 percent; and loan portfolio quality has improved. Overall provisioning levels are high, although they have dipped recently as nonperforming loans have fallen.

Banks are resilient to most quantifiable shocks that could harm loan portfolios according to stress tests. A credit risk shock, the largest quantifiable risk facing banks, is manageable: only a small number of banks accounting for less than 25 percent of assets would be undercapitalized if nonperforming loans doubled, and only a very limited number of small banks, accounting for less than 5 percent of system assets, would become insolvent. Direct foreign exchange risk is small and any exposure is within the net open position limits set by the central bank. Interest rate risk is also minimal since banks are heavily capitalized.

Sensitivity to Credit and Interest Rate Risk
(Regulatory Capital to Risk-Weighted Assets)

		NPL increase		Interest rate	
Bank group	Before	25%	50%	+10%	-10%
All banks	18.6	17.2	16.6	23.8	13.5
First-tier banks	16.6	15.6	15.2	21.6	11.7
Second-tier banks	20.2	18.9	18.2	26.1	14.3
Third-tier banks	19.9	16.1	14.8	24.9	14.8
Foreign banks	30.9	30.5	30.4	34.7	27.0

The situation still bears close monitoring, especially in light of rapid credit growth and structural changes in the banking system. Encouragingly, part of the credit growth reflects the new access of the domestic banking sector to well-secured lending activities in the oil sector, but circumstances vary across banks. Older, well-established banks and newer-generation banks that significantly increased their capital as the sector consolidated are faring best. Banks formed by multiple mergers have faced more integration challenges. This and the pressure to rapidly deploy capital to boost returns in new domestic and cross-border activities underscores the importance of vigilant risk-oriented supervision.

17. **Rapidly changing financial markets along with greater global integration have led the authorities to consider adopting inflation targeting.** On the external side, there has been a pickup in various forms of capital flows. On the domestic side, despite improvements in monetary policy, developments in the banking sector and unification of the exchange rate in 2006 have made it more difficult to set monetary aggregate targets. The central bank believes that an inflation targeting regime might be more effective in this environment where money demand is less stable (Box 5).

18. **The authorities recognize that several challenges need to be addressed before inflation targeting can be implemented.** The 2007 Central Bank of Nigeria Act made the central bank more independent. A credible mechanism for setting the inflation target (including possibly by the government) will be needed, as well as a strong internal and external communication policy. The large liquidity injections from oil-financed fiscal spending will continue to be a challenge, but fiscal policy in recent years has been more predictable.

Box 5. Developments in Money Demand

In addition to increased confidence in the banking system, staff analysis suggests that three factors have made money a more attractive asset. First, unification of the exchange rate reduced the return on holding foreign exchange cash; there was no longer a profit to be made from conducting foreign exchange transactions outside of the official banking sector. Second, the decline in inflation reduced the return on holding durable goods as assets. Finally, treasury bill rates fell to levels below rates paid on time deposits of similar maturity, making deposits the more attractive asset.

Looking forward, several factors will impact monetary management. The emerging financial sector will not only facilitate further financial deepening, but may increase the length of the transmission lags to inflation from money. Increasing global capital flows could increase the volatility in money demand.

19. **The central bank needs to improve its understanding of inflation dynamics and the monetary transmission mechanism.** The link between the central bank's policy interest rate and bank's lending and savings rates needs to be strengthened. Staff discussed a basic structural model with the central bank, and provided some input on nonstructural time-series models of inflation. The central bank will also need to build its understanding of market expectations of inflation and improve its measure of core inflation.

20. **The central bank was in agreement on the challenges of adopting inflation targeting.** It recognized that adopting the new regime in 2009 was ambitious and will adjust its timeline as needed. Meanwhile, it plans to build on training and seminars already conducted and to address relevant issues with Fund technical assistance.

21. **Monetary aggregates will remain the anchor of monetary policy, as the central bank transitions to an inflation-targeting regime.** The targeted growth rate in broad money reflects projected developments in nominal non-oil GDP and the expected impact of further financial deepening on money demand. Inflation is expected to move toward the targeted level as the positive supply impact of good weather diminishes, and supply constraints could emerge due to strong growth.

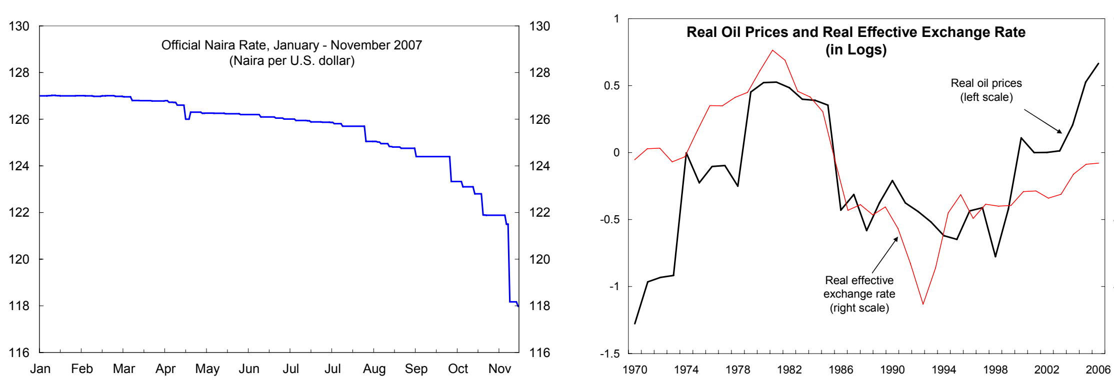
22. **Mounting interest in naira assets and the related strengthening of the interbank foreign exchange market have increased exchange rate flexibility; this can help put monetary objectives in reach.** The foreign exchange market has increasingly been driven by the interbank market on account of a rapid growth in supply of foreign exchange from sources other than the central bank. These other sources include portfolio inflows, instruments to finance bank capital, remittances, and involvement of the national oil company. After being relatively stable for an extended period, the naira has appreciated by about 5 percent against the dollar in the last quarter of 2007 (Figure 3).

23. **The central bank welcomes the increased role of the interbank foreign exchange market.** It expects the interbank market to become the main determinant of the exchange rate. The greater importance of private capital flows underscores the need to maintain sound macroeconomic policy, pursue exchange rate management practices that ensure investors face two-way risk, and monitor the banking sector because it will be the main conduit for these flows. Recent developments in the exchange rate are consistent with the classification of the rate as a managed float without a pre-determined path.

Figure 3. Exchange Rates

After being stable for much of the year, the Naira started to appreciate.

The real effective exchange rate is closely correlated with real oil prices.



Sources: Nigerian authorities and IMF staff estimates.

24. **The balance of payments outlook is consistent with external stability (**Box 6). The current account is expected to be in moderate surplus in the medium term. By some measures, the real exchange rate was somewhat undervalued at end 2006 relative to various estimates of its equilibrium. The central bank did not dispute the possibility of an undervaluation, but doubted the validity of quantitative estimates, citing data quality and structural changes in the economy. More generally, the central bank identified the risks of too rapid an appreciation of the naira and overshooting as possibly negatively impacting the non-oil sector. In this context, it is likely that nonprice factors dominate any overall measure of competitiveness (see Section IV).

Box 6. Assessing External Stability

The balance of payments outlook is consistent with external stability. The current account surplus is expected to moderate, averaging 1 to 3 percent of GDP over the medium term, as both public and private investment boost imports. This reflects Nigeria's status as an oil-producing, low-income country. Nigeria, as an oil producer, would appropriately have a current account surplus during a period of high oil prices; but as a low-income country, it should use foreign savings. Estimates show the naira as both over- and undervalued. On balance, staff concludes the naira may have been somewhat undervalued at end-2006. Data limitations and multiple structural breaks complicate the analysis. Some approaches to assessing the value of the naira are summarized below.

Equilibrium real effective exchange rate (REER). There is a strong long-term relationship between the REER and real oil prices. Estimates for 1974–2006 suggest that the equilibrium exchange rate appreciated steadily in recent years as oil prices surged. Since 2000 movements in the real effective exchange rate have been more moderate. By this approach, the naira was undervalued by about 19 percent at end-2006.

Macro balance. Estimating a "current account norm" is complicated by Nigeria's status as both an oil producer and a low-income country. A current account norm of 7 percent of GDP was derived using the CGER coefficients; this result is in line with that found for other oil producers. With this current account norm, the naira is overvalued by around 15 percent. However, a current account deficit could be appropriate in light of Nigeria's low-income status. Balancing these two considerations (averaging the 'oil' norm with an assumed 'low-income' norm of a 2 percent deficit), a current account norm of a 2.5 percent of GDP surplus was used. This analysis suggests the naira is undervalued by about 2 percent.

External sustainability. Like the current account norm, estimating the appropriate level of net foreign assets is complicated by Nigeria's status as an oil producer and a low-income country. As such, various target levels of net foreign assets ranging from the current 14 percent of GDP to 100 percent of GDP were considered. On this basis, and netting-off from the trade balance outflows to the international oil companies, the naira was estimated to be in the range of overvalued by 14 percent to undervalued by 3 percent.

IV. Growth: Policy Priorities

The private sector is benefiting from reform but much more needs to be done. Measures such as liberalizing the communications sector and privatization have paid off. Yet, these gains have underscored the need to address other bottlenecks in the business environment, particularly infrastructure. In this context, the MTFS provides an adequate spending envelope to make meaningful progress in addressing the infrastructure gap. Identifying the role of the private sector, prioritizing outlays, and strengthening public financial management are priorities.

25. **An infrastructure gap is the main impediment to private sector growth.** Limited power generation and weak distribution along with a severe lack of transportation raises the cost of business (Figure 4). By some estimates, the cost of power to the private sector is six or seven times the price paid by international competitors. Nigeria also ranks poorly in its provision of other basic requirements for growth. Addressing these basic requirements, such as providing a sound regulatory framework, can have a high pay-off. This payoff is evident from the strong performance of the telecommunications and banking sectors. The developments in these sectors reflect also Nigeria's stronger ranking on efficiency-enhancing and innovation-driven factors for growth.

Nigeria: Global Competitiveness Index 2007-08

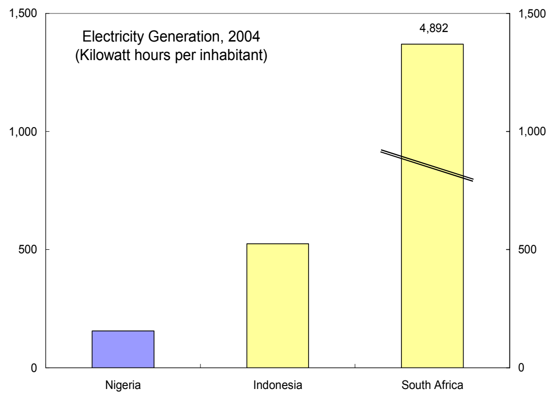
	Overall rank (out of 131)	Score (1 to 7)
Global Competitiveness 07-08	**95**	**3.7**
Global Competitiveness 05-06 (of 117)	108	3.7
Basic requirements	**108**	**3.7**
1st pillar: Institutions	103	3.3
2nd pillar: Infrastructure	119	2.2
3rd pillar: Macroeconomy	28	5.6
4th pillar: Health and primary education	124	3.6
Efficiency enhancers	**77**	**3.8**
5th pillar: Higher education and training	109	3.0
6th pillar: Market efficiency	65	4.2
7th pillar: Labor market efficiency	75	4.2
8th pillar: Financial market sophistication	56	4.5
9th pillar: Tecnological readiness	97	2.6
10th pillar: Market size	52	4.0
Innovation and sophistication	**69**	**3.6**
11th pillar: Business sophistication	74	4.0
12th pillar: Innovation	66	3.2

Source: World Economic Forum.

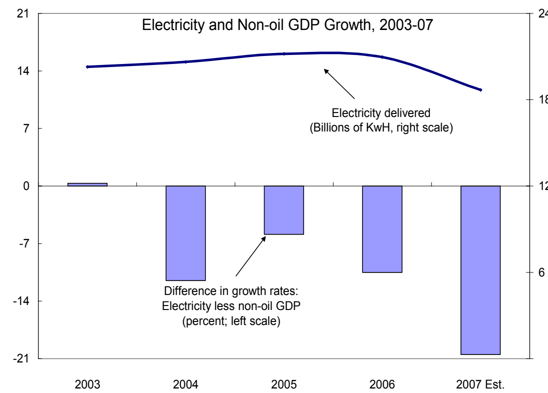
26. **The MTFS provides adequate fiscal space for beginning to address infrastructure and other goals.** The expansion of resources for priority spending between 2004 and 2007—federal government capital and priority project spending increased 300 percent—within a prudent fiscal framework demonstrates the scale of resources available. The immediate policy priority rests with ensuring value for money from these already higher spending levels.

Figure 4. The Infrastructure Gap

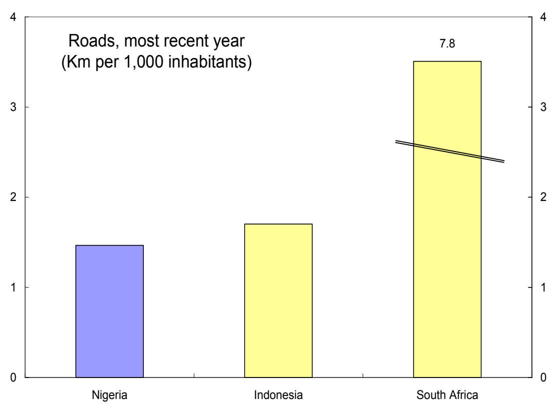
Electricity falls short of peer countries ...



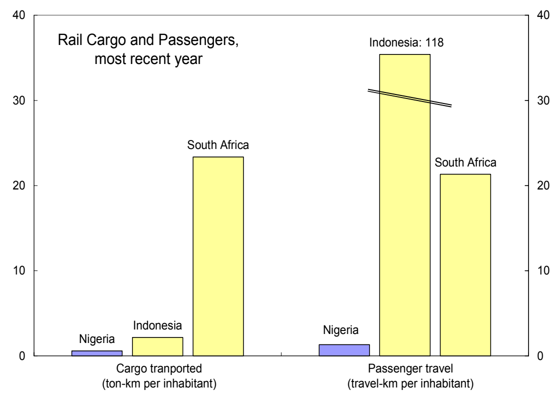
...and has not increased with economic growth.



The road network...



...and railway system are poor.



Sources: Nigerian authorities, International Energy Agency, The Economist, and World Bank Development Indicators.

27. There is scope to increase fiscal space within the MTFS envelope.

- **Identify areas where the government may not need to be involved.** The privatization program has transferred commercial operations to the private sector, reduced subsidies and enhanced efficiency. The port concessioning, for example, has greatly improved port operations while underscoring bottlenecks elsewhere (e.g., infrastructure and customs) that slow the movement of goods. To fund infrastructure projects and bring to bear private sector expertise, the authorities are considering public private partnerships (PPPs), and further privatizations. Staff highlighted the importance of establishing and implementing a clear regulatory, legal, and institutional framework

Nigeria: Effects of Port Concessioning

	Before	2007
Container dwelling times (days)	28–32	3–4
Ship waiting time (days)	7–8	3–4
Berth occupancy rate (percent)	50	80–85
Employed port workers	26,000	5,000

Source: Nigerian authorities.

for PPPs to ensure appropriate risk allocation between parties and successful delivery of value for money.

- **Clearly set government spending priorities and ensure that projects are completed.** Unfinished projects in the power and other sectors have absorbed fiscal resources without generating benefits. Better prioritization, stronger sequencing, and a commitment to complete projects would make spending more efficient. The authorities have already focused 2008 capital budget resources on the completion of ongoing projects, and plan to improve capital budgeting further for the 2009 budget.

- **Policies need to be costed explicitly to inform policy decisions and ensure resources are directed to priority areas.** If costs are fully estimated and transparent, policy makers and the public could better assess the tradeoffs between alternative uses of revenues. Examples where such transparency would better inform policymaking include: recognizing the lower revenue transfers to government from the national oil company resulting from the provision of subsidized petroleum (1.3 percent of GDP in 2007); and, investment policies in the oil sector that address development and social needs by providing low cost domestic gas and power.

- **Strengthen public financial management to improve value for money.** Much has been done at the national level, especially for public procurement, culminating in the Public Procurement Act. Next steps include extending procurement reform to all levels of government. Efforts to improve project selection based on consistent cost-benefit analysis in the context of a solid investment planning framework should have high pay-offs. Operationalizing the budgeting and reporting aspects of the Fiscal Responsibility Act, including timely budget execution reports, will support decision making and budget monitoring.

- **Boost non-oil revenues.** Nigeria's tax rates are no higher than rates elsewhere. However, the non-oil tax ratio is low, suggesting that the tax base should be broadened and tax administration strengthened. The authorities are discussing a *National Tax Strategy* to improve the tax system, which provides an opportunity to address concerns for the business environment.

Nigeria: Doing Business—Taxation

	Nigeria	SSA	OECD
Tax rates			
Profit tax (%)	19.4	24.4	20.0
Labor tax (%)	9.7	13.3	22.8
Paying taxes (hours/year)	1,120	32.1	183

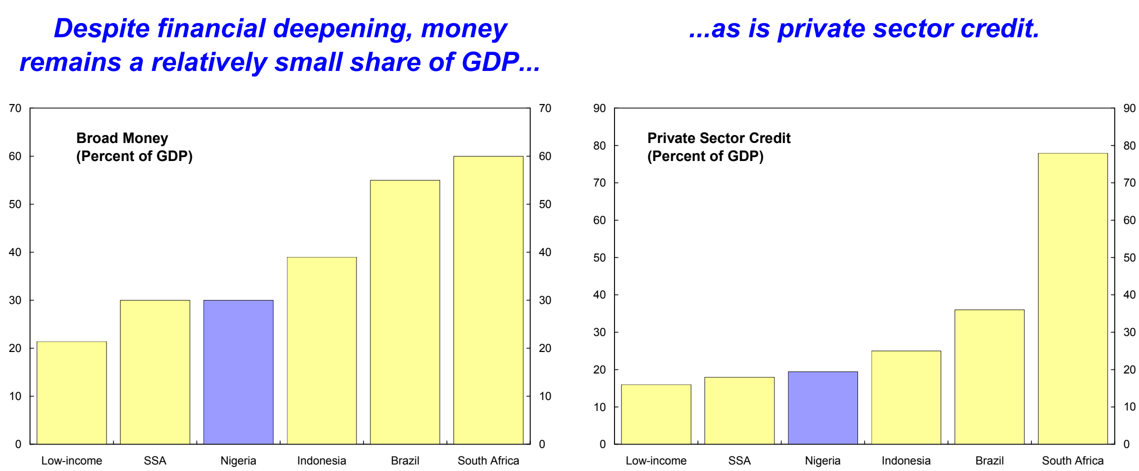
Source: World Bank Doing Business Report, 2007.

28. **The financial sector will play an important role in supporting private sector activity.** The financial sector has grown dramatically but remains shallow by international measures, suggesting it has strong growth potential. Credit to the private sector and deposits in the banking system have almost doubled in nominal terms since consolidation of the sector beginning 2006. The number of bank branches increased by about one third in 2007 and the

product base is growing. Capital markets and the nonbank sector have also grown; in the pension fund industry, assets under management were an estimated N 300 billion (US$2.5 billion) in mid-2007; another N 300 billion are expected to be added by end-2007. The insurance sector is also undergoing a consolidation process similar to the banking sector.

29. **Still, further development of the financial sector is needed.** Intermediation ratios are still low: M2 to GDP is an estimated 21 percent and private sector credit to GDP an estimated 19 percent (Figure 5). Capital and asset growth have yet to translate into funding long-term productive investment and better access to finance for small- and medium-sized enterprises. Key in this regard are structural reforms to bolster creditor rights, remove impediments to secured (mortgage) lending, and strengthen disclosure and corporate governance. A strategy is also needed for financing infrastructure development.

Figure 5. Money and Private Sector Credit



Sources: Nigerian authorities and IMF staff estimates.

30. **Translating growth into a widespread increase in living standards and poverty reduction will continue to be a challenge.** Poverty is estimated at about 55 percent based on the 2004 household survey and development indicators are low (Table 8). Many households are vulnerable to idiosyncratic shocks even when growth is high. Population growth and urbanization are placing pressure on resources, social services, and local infrastructure. Moreover, the quality of public services including primary health and education vary widely across the country, not least because of uneven administrative capacity of the state and local governments to which they have been devolved.

31. **The authorities are moving forward with targeted interventions under the virtual poverty fund that are financed from debt relief resources**. The virtual poverty fund aims to provide seed funding, matching grants or funding for mainstreaming activities in MDG priority areas. It is expected to be part of the budget framework until at least 2015, even though no official commitment was made to Paris Club creditors. A first round of MDG

costings has been conducted with UN support. Further work is underway to align MDG-focused spending with an expenditure envelope consistent with macroeconomic stability, clarify overlaps and gaps with other spending programs, and identify synergies.

V. Article VIII, Governance, and Statistical Issues

32. **Much progress has been made in Nigeria's foreign exchange system since the last Article IV consultation.** Foreign exchange is readily available, with demand being met through the Wholesale Dutch Auction System (WDAS) and increasingly through the interbank market. The Bureau de Change rate effectively converged with the official rate since mid-2006, and a parallel exchange market has not re-emerged. Nigeria is not an Article VIII member. As reported at the time of the last Article IV consultation, the multiple prices, which are a technical characteristic of a Dutch Auction system, give rise to a multiple currency practice (MCP), and staff does not recommend approval of this MCP.

33. **Efforts to strengthen economic governance are ongoing.** The new government has emphasized that "rule of law" will be its guiding principle in policy decisions and believes that steps in this direction will lead to an improved business environment. The Economic and Financial Crimes Commission has prosecuted additional public officials for misuse of public funds. Perception-based indices suggest anti-corruption efforts will have a positive impact; a majority anticipates an improvement. Nigeria was removed from the Financial Action Task Force list of noncompliant countries in the global fight against money laundering in mid-2006. The authorities are now working to implement recommendations of the recent mutual evaluation conducted by the Inter-Governmental Action Group Against Money Laundering in West Africa.

Corruption remains high but is being addressed.

Corruption Indicators

	Nigeria		Median country [2]
	2003	2007	2007
WB, Governance Indicators: Control of corruption [1]	25	24	45
TI, Corruption Perception Index [1]	14	22	40
TI, Global Corruption Barometer			
Affirmative answer to question (percent respondents)			
Pay bribe for service?		40	13
Corruption will improve in next 3 years?	38	62	20
Government effort to fight corruption is effective?		64	28

Sources: World Bank (WB), and Transparency International (TI).

[1] Indicators have been scaled to the range 0 (highly corrupt) to 100 (very clean).

[2] TI Global Corruption Barometer is the world average.

34. **Macroeconomic data are broadly adequate for surveillance, but weaknesses remain**. The authorities are continuing efforts to improve data quality in several areas including to support the introduction of inflation targeting. Technical assistance from the IMF and other partners is ongoing, particularly on national accounts, fiscal accounting, monetary statistics, and the balance of payments (see Annex III).

VI. STAFF APPRAISAL

35. **Nigeria has had strong growth, lower inflation, and much reduced external vulnerability since the last Article IV consultation.** This reflects implementation of the PSI supported reform program as well as high oil prices and favorable agricultural conditions. While much progress has been made in institutionalizing reforms, including through passage of the Fiscal Responsibility Act, much more needs to be done to entrench reform gains. Moreover, the challenges in reducing poverty are daunting.

36. **The immediate economic outlook is favorable.** The prospects for growth, supported by public and private demand, are promising. In the oil sector, an increase in production is anticipated; however, further set backs in the Niger Delta are a downside risk. The non-oil sector, particularly in services and agriculture, has been growing strongly and, subject to weather conditions, is on course for further growth. The buoyant financial sector is providing added impetus to growth. The strong naira helps put inflation targets within reach; weather conditions are the main risk.

37. **The success of reforms has brought new challenges that will jeopardize gains if not addressed.** With the success of reforms, Nigeria's financial wealth has increased, as evidenced by its growing reserves and lower debt. Macroeconomic stability, the improved growth outlook, and expectations of a strong naira have also buoyed interest in naira assets. These developments have given rise to policy challenges that must be addressed if Nigeria is to sustain and build on the gains made to date.

38. **The immediate challenge is to enshrine a fiscal institution that ensures fiscal policy is consistent with macroeconomic stability.** An oil-price-based fiscal rule has been an effective device for securing prudent fiscal deficits by containing spending to levels consistent with absorptive capacity. The oil savings that flowed from implementing this rule were initially used to meet various external obligations, including the buyback element of the Paris Club debt agreement. However, with high oil prices, these savings have continued to grow and, according to the constitution, are to be shared by each tier of government. State governments are now lobbying to receive their share of the savings and plan to spend these resources. An agreement between all tiers of government must be reached on a fiscal framework that ensures that any spending of oil savings and revenues is in accord with macroeconomic stability.

39. **Nigeria's integration into the global economy brings new challenges for ensuring financial stability.** Successful bank consolidation, along with improved macroeconomic conditions, has transformed the financial sector. Accounting for about one third of sub-Saharan Africa GDP (excluding South Africa), Nigeria is attracting great interest from global financial markets. The potential growth dividend, already evident in the form of increased intermediation, requires ongoing financial stability. The central bank needs to redouble its efforts to keep pace with the dramatic changes in the sector and to ensure that its supervisory capacity is commensurate with growth and activities in the banking sector.

40. **Monetary policy has strengthened.** The central bank has successfully brought inflation to single digits, from more than 20 percent at the last Article IV consultation. Nonetheless, monetary policy implementation has been difficult because of large swings in liquidity, stemming from the injection of oil-related revenues, as well as limited policy instruments and data weaknesses. Economic developments triggered by the reforms have resulted in greater uncertainty regarding money demand. Against this background, the authorities' interest in considering an inflation targeting regime is understandable. Such a regime, however, poses its own challenges, and staff welcomes the authorities' view that, while pursuing their ambitious timeline for its adoption, flexibility is important to ensure that the right conditions are in place.

41. **The balance of payments outlook is consistent with external stability.** To underpin external stability, the staff welcomes efforts to finalize a comprehensive debt management strategy and stresses the importance of a prudent approach to any new borrowing. The outlook for a modest current account surplus is appropriate, reflecting a balance between Nigeria's status as a low-income country and as an oil producer. In the staff's view, the level of the naira is broadly consistent with external stability though may be somewhat undervalued. The staff welcomes the increased flexibility of the exchange rate in recent months; while enabling the exchange rate to find its equilibrium, this development should, in the short term, help support Nigeria's monetary objectives.

42. **Non-oil sector growth can only be sustained with supportive macroeconomic policies and a resolution of the infrastructure gap.** Successes of recent reforms are evident and signs in key sectors like telecommunications, where a regulatory and enabling framework has been put in place, are encouraging. The government's spending envelope in its MTFS is adequate to make meaningful progress in eliminating the infrastructure gap. In fact, substantial increases in public capital spending have already taken place. The focus should be on improving the effectiveness of public spending and establishing a policy environment conducive to private sector activity.

43. **The outlook is positive as long as the reforms are sustained and extended.** The government is compiling a medium-term national framework, laying out its reform agenda and encompassing, among other plans, a successor to its NEEDs. In the meantime, it is important for the government to move decisively to sustain past gains and meet its new policy challenges. The staff stands ready to support these efforts.

44. The staff recommends that the next Article IV consultation be held on the standard 12-month cycle.

Table 1. Nigeria: Selected Economic and Financial Indicators, 2004–12

	2004	2005	2006	2007	2008	2009	2010	2011	2012
		Act.		Est.			Proj.		
National income and prices (annual percentage change, unless otherwise specified)									
Real GDP (at 1990 factor cost)	10.5	6.5	6.0	6.3	9.0	8.3	7.0	7.0	8.1
Oil GDP	3.3	0.5	-4.5	-5.6	9.0	7.5	2.5	2.0	8.2
Non-oil GDP	13.2	8.6	9.4	9.6	9.0	8.5	8.1	8.1	8.1
Production of crude oil (million barrels per day)	2.50	2.51	2.36	2.16	2.36	2.54	2.60	2.65	2.87
Nominal GDP at market prices (billions of naira)	11,674	14,735	18,710	20,845	24,893	27,672	31,500	36,192	42,374
Nominal non-oil GDP at factor cost (billions of naira)	7,163	8,907	11,582	13,438	15,669	18,419	21,597	25,380	29,833
Nominal GDP per capita (U.S. dollars)	656	824	1,049	1,158	1,427	1,557	1,666	1,738	1,849
GDP deflator	20.7	19.8	19.5	4.8	9.6	2.6	6.4	7.4	8.3
Non-oil GDP deflator	10.1	14.5	18.8	5.8	7.0	8.3	8.5	8.7	8.7
Consumer price index (annual average)	15.0	17.8	8.3	5.4	7.3	8.5	8.5	8.5	8.5
Consumer price index (end of period)	10.1	11.6	8.5	5.6	8.5	8.5	8.5	8.5	8.5
Consolidated government operations (consists of federal, state, and local governments; percent of GDP)									
Total revenues and grants	35.4	38.1	34.1	28.2	31.1	30.7	30.9	30.3	30.3
Of which: oil and gas revenue	28.7	32.3	29.1	21.9	25.2	24.4	24.4	24.0	24.0
Total expenditure and net lending (commitment basis)	29.1	30.0	26.4	27.3	24.9	25.9	26.4	26.4	26.2
Overall balance (commitment basis)	6.3	8.1	7.7	0.9	6.2	4.8	4.6	3.9	4.1
Non-oil primary balance (percent of non-oil GDP)	-23.9	-27.2	-28.3	-27.1	-25.0	-25.0	-25.0	-25.0	-25.0
Excess crude account (billions of U.S. dollars) [1]	5.1	9.9	13.3	17.3	...	...	...	...	...
Money and credit (change in percent of broad money at the beginning of the period)									
Broad money	14.0	16.0	39.9	28.3	23.1	...	...	...	...
Net foreign assets	62.3	61.8	68.6	27.1	50.1	...	...	...	...
Net domestic assets	-49.9	-45.8	-28.7	1.3	-27.0	...	...	...	...
Credit to consolidated government	-42.1	-17.4	-34.5	-31.2	-33.2	...	...	...	...
Credit to the rest of the economy	15.7	19.5	20.0	51.6	23.4	...	...	...	...
Velocity	3.2	3.4	3.2	2.9	2.7	...	...	...	...
Treasury bill rate (percent; end of period)	15.5	12.2	7.4	...	...	...	...	...	...
External sector (annual percentage change, unless otherwise specified)									
Exports, f.o.b.	34.0	36.1	17.8	3.6	28.8	1.8	4.8	4.4	10.0
Oil export volume	2.5	-3.5	-2.7	-9.5	5.3	8.2	2.7	2.2	9.0
Imports, f.o.b.	-6.0	32.2	21.4	24.6	14.3	12.5	5.8	5.8	6.0
Terms of trade	20.5	38.0	18.2	11.4	19.6	-7.1	-0.4	-2.4	-2.0
Price of Nigerian oil (U.S. dollars per barrel)	38.3	55.3	65.3	73.0	88.5	83.0	83.5	83.3	83.3
Nominal effective exchange rate (end of period)	-2.8	10.4	-6.0	...	...	...	...	...	...
Real effective exchange rate (end of period)	4.0	19.7	-0.5	...	...	...	...	...	...
External debt outstanding (billions of U.S. dollars)	35.9	20.5	3.5	3.3	3.4	4.2	5.2	6.2	7.2
Gross international reserves (billions of U.S. dollars)	17.0	28.3	41.8	52.1	73.2	91.0	111.8	133.4	158.0
(equivalent months of imports of goods and services)	5.8	8.3	10.1	11.2	14.1	16.6	19.2	21.5	23.8

Sources: Nigerian authorities and IMF staff estimates and projections.

[1] Including the naira-denominated component.

Table 2a. Nigeria: Consolidated Government (Cash Basis), 2004–10

(Billions of naira)

	2004	2005	2006	2007	2008	2009	2010
		Act.		Est.		Proj.	
Total revenue	4,127	5,621	6,376	5,886	7,741	8,510	9,752
Oil and gas revenue	3,355	4,759	5,445	4,555	6,262	6,762	7,681
Government crude receipts	1,440	1,938	1,994	1,452	2,474	2,674	2,870
Petroleum profit tax and royalty	1,184	1,905	2,038	1,766	2,377	2,455	2,683
Petroleum profit tax	826	1,312	1,442	1,203	1,721	1,846	2,043
Royalty	358	593	597	562	656	609	640
Gas sales	91	139	190	234	256	387	500
Other oil revenue (gas flared; pipeline fees)	5	5	3	2	1	3	0
Domestic crude	635	771	1,062	1,020	1,126	1,243	1,628
Signature bonus	0	0	158	83	28	0	0
Non-oil revenue	773	863	931	1,331	1,479	1,747	2,071
Import and excise duties	217	233	178	246	291	349	445
Companies income tax	130	162	245	335	391	469	566
Value-added tax	157	184	227	300	364	449	527
Education tax	17	22	30	43	50	59	72
Federal government independent revenue	59	55	33	168	120	130	135
State and local governments' internal revenue	157	175	190	200	217	236	256
Customs levies	35	32	29	40	47	56	72
Total consolidated expenditure	3,177	4,234	4,933	5,795	6,190	7,170	8,315
Total federal government and extrabudgetary expenditure	1,654	2,223	2,428	3,022	3,384	3,853	4,404
Recurrent expenditure	1,393	1,879	1,866	2,246	2,468	2,703	2,939
Goods and services	571	730	888	1,139	1,210	1,354	1,468
Personnel and pensions	443	527	665	864	943	1,023	1,115
Personnel	370	443	528	700	780	859	936
Pensions	72	84	137	164	163	164	178
Overhead cost	128	203	223	275	267	332	353
Interest payments	231	382	187	208	203	233	246
Transfers	591	767	791	899	1,055	1,116	1,225
Of which: NNPC cash calls [1]	455	532	528	563	586	581	602
Federal government capital expenditure	261	344	562	776	916	1,150	1,465
Domestically financed [2]	231	254	495	705	850	1,081	1,388
Foreign financed	30	90	67	71	65	69	78
State and local governments	1,523	1,961	2,308	2,498	2,595	3,043	3,617
Primary expenditure	1,515	1,928	2,301	2,491	2,591	3,039	3,613
External interest payment, cash	8	33	7	7	4	3	4
Explicit fuel subsidy	0	0	4	40	0	0	0
Large-scale infrastructure projects	0	50	194	235	211	275	294
Overall balance (cash basis)	951	1,387	1,443	92	1,552	1,340	1,438
Financing	-925	-1,183	-1,637	-1,096	-1,552	-1,340	-1,438
External	-155	-868	-761	-52	14	119	132
Borrowing	30	90	67	71	65	127	138
Amortization, cash	-185	-958	-60	-124	-52	-9	-6
Debt buyback	0	0	-767	0	0	0	1
Domestic financing	-777	-393	-905	-1,145	-1,565	-1,459	-1,569
Central bank (net, consolidated government)	-975	-503	-1,306	-1,227	-1,765	-1,759	-1,669
Commercial banks (net, federal government)	193	95	398	82	200	300	100
Commercial banks (net, states and local governments)	4	15	4	0	0	0	0
Privatization proceeds	0	20	30	102	0	0	0
Recovered funds	7	59	0	0	0	0	0
Statistical discrepancy	26	204	-194	-1,004	0	0	0
Non-oil primary balance, federation (incl. explicit fuels subsidy)	-1,710	-2,424	-3,280	-3,686	-3,917	-4,605	-5,392
Non-oil primary balance, state and local government	-1,060	-1,424	-1,809	-1,801	-1,766	-2,064	-2,467
Nominal GDP (billions of naira)	11,674	14,735	18,710	20,845	24,893	27,672	31,500
Non-oil GDP (billions of naira)	7,163	8,907	11,582	13,438	15,669	18,419	21,597

Sources: Nigerian authorities and IMFstaff estimates and projections.

[1] Includes capital contributions to joint venture projects with oil companies for power plants.

[2] Actual cash spending

Table 2b. Nigeria: Federal Government Budget, 2004–08

(Billions of naira)

	2004	2005	2006	2007	2008
		Act.		Est.	Proj.
Total revenue [1]	1,486	2,058	2,424	2,211	2,895
Petroleum revenue	1,236	1,794	2,166	1,734	2,411
Crude receipts, net of cash calls and derivation	603	800	926	683	1,105
Petroleum profit tax and royalty	574	924	989	851	1,153
Petroleum profit tax	401	636	699	580	835
Royalty	173	288	289	271	318
Upstream gas sales and NLNG	44	67	92	117	124
Other oil revenue (gas flared; pipeline fees)	2	2	2	1	0
Signature bonus		0	158	83	28
Nonpetroleum revenue	250	264	258	476	484
Import and excise duties	105	108	80	111	131
Companies' income tax	63	76	114	156	182
Value-added tax	23	25	31	42	51
Federal government independent revenue	59	55	33	168	120
Total expenditure	1,075	1,445	1,664	2,176	2,451
Recurrent expenditure	844	1,192	1,169	1,471	1,600
Goods and services	571	730	888	1,139	1,210
Personnel and pension	443	527	665	864	943
Personnel	370	443	528	700	780
Pensions	72	84	137	164	163
Overhead cost	128	203	223	275	267
Interest payments	231	382	187	208	203
Domestic	189	200	167	184	191
External, cash	42	182	20	24	12
Transfers [2]	42	79	94	141	188
Nigerian National Petroleum Corporation (NNPC)	0	0	4	40	0
National Judicial Council	28	33	35	42	78
Transfer to Niger Delta Development Commission	14	22	26	24	70
Customs levies	35	...	...	...	...
Education Fund	17	...	...	...	...
Universal Basic Education Commission	...	24	30	35	40
Capital expenditure	231	254	495	705	850
Overall balance (cash basis)	411	612	760	35	444
Financing	-517	-963	-1,433	-614	-444
External	-155	-716	-621	-93	-39
Borrowing	30	0	0	0	0
Amortization, cash	-155	-716	-45	-93	-39
Debt buyback	0	0	-576	0	0
Domestic financing	-369	-326	-841	-623	-406
Central bank (net)	-612	-421	-1,239	-705	-606
Commercial banks (net)	193	95	398	82	200
Nonbank financing	50	0	0	0	0
Privatization proceeds	0	20	30	102	0
Of which: sales of real estate assets		15	15	15	0
Recovered funds	7	59	0	0	0
Statistical discrepancy	-106	-350	-673	-578	0
Memorandum items:					
Primary spending	844	1,063	1,477	1,967	2,247
Non-oil primary balance (including explicit fuels subsidy)	-594	-799	-1,219	-1,491	-1,764
Budgetary revenue	1,486	2,058	2,424	2,211	2,895
Budgetary spending (including explicit fuels subsidy)	1,230	1,396	1,710	2,268	2,489
Balance on the budget (BOF definition, debt service above the line)	256	661	714	-57	406

Sources: Nigerian authorities and IMF staff estimates and projections.

[1] Oil revenue net of cash call payments.

[2] Excluding transfer to the NNPC for cash call payments. Includes fuel subsidy payments to independent marketers

Table 2c. Nigeria: Consolidated and Federal Government, 2004–10

(Percent of GDP, unless otherwise specified)

	2004	2005	2006	2007	2008	2009	2010
		Act.		Est.		Proj.	
Consolidated Government							
Total revenue	35.4	38.1	34.1	28.2	31.1	30.8	31.0
Oil and gas revenue	28.7	32.3	29.1	21.9	25.2	24.4	24.4
Non-oil revenue	6.6	5.9	5.0	6.4	5.9	6.3	6.6
Total consolidated expenditure	27.2	28.7	26.4	27.8	24.9	25.9	26.4
Total federal government and extrabudgetary expenditure	14.2	15.1	13.0	14.5	13.6	13.9	14.0
of which : Capital expenditure	2.2	2.3	3.0	3.7	3.7	4.2	4.7
State and local governments (recurrent and capital)	13.0	13.3	12.3	12.0	10.4	11.0	11.5
Large-scale infrastructure projects	...	0.3	1.0	1.1	0.8	1.0	0.9
Overall balance (cash basis)	8.1	9.4	7.7	0.4	6.2	4.8	4.6
Non-oil primary balance (excl. fuel subsidy, percent of non-oil GDP) [1]	-23.9	-27.2	-28.3	-27.1	-25.0	-25.0	-25.0
Proxy domestic balance (percent of non-oil GDP) [2]	-26.5	-29.0	-28.4	-26.5	-25.1	-25.0	-25.0
Federal Government							
Total revenue	12.7	14.0	13.0	10.6	11.6	…	…
Petroleum revenue	10.6	12.2	11.6	8.3	9.7	…	…
Nonpetroleum revenue	2.1	1.8	1.4	2.3	1.9	…	…
Total expenditure	9.2	9.8	8.9	10.4	9.8	…	…
Recurrent expenditure	7.2	8.1	6.2	7.1	6.4	…	…
Goods and services	4.9	5.0	4.7	5.5	4.9	…	…
Interest payments	2.0	2.6	1.0	1.0	0.8	…	…
Transfers [3]	0.4	0.5	0.5	0.7	0.8	…	…
Capital expenditure	2.0	1.7	2.6	3.4	3.4	…	…
Overall balance (cash basis)	3.5	4.2	4.1	0.2	1.8	…	…
Financing	-4.4	-6.5	-7.7	-2.9	-1.8	…	…
External	-1.3	-4.9	-3.3	-0.4	-0.2	…	…
Domestic financing	-3.2	-2.2	-4.5	-3.0	-1.6	…	…
Privatization proceeds	0.0	0.1	0.2	0.5	0.0	…	…
Recovered funds	0.1	0.4	0.0	0.0	0.0	…	…
Non-oil primary balance (includes explicit fuel subsidy, percent of non-oil GDP)	-8.3	-9.0	-10.5	-11.1	-11.3	…	…
Non-oil revenue (percent of non-oil GDP)	3.5	3.0	2.2	3.5	3.1	…	…

Sources: Nigerian authorities and IMFstaff estimates and projections.

[1] Excluding oil revenue, cash call payments, and cash interest payments. Projections from 2007 reflect revised nominal GDP.

[2] Estimates domestic demand impact of fiscal stance. Defined as non-oil balance (excluding fuel subsidy) less estimated foreign content of large infrastructure projects and foreign interest.

[3] Excluding the transfers to NNPC for cash call payments.

Table 3a. Nigeria: Central Bank of Nigeria (CBN) Analytical Quarterly Balance Sheet, 2004-08

	2004	2005	2006				2007				2008
	Dec.	Dec.	Mar.	Jun.	Sep.	Dec.	Mar.	Jun.	Sep.	Dec.	Dec.
					Act.					Est.	Proj.
	(Billions of naira)										
Net foreign assets[1]	2,250	3,671	4,573	4,926	4,902	5,312	5,415	5,301	5,927	6,202	8,564
Foreign assets	2,479	3,715	4,645	5,133	5,670	5,312	5,415	5,301	5,927	6,202	8,564
Short-term foreign liabilities	-229	-44	-73	-207	-768	0	0	0	0	0	0
Net domestic assets	-1,518	-2,909	-3,844	-4,128	-4,097	-4,401	-4,573	-4,419	-5,003	-5,118	-7,270
Domestic credit	-718	-1,135	-1,707	-2,313	-1,994	-2,451	-2,246	-2,049	-3,489	-3,712	-5,477
Net claims on consolidated government[2]	-681	-1,185	-1,785	-2,437	-2,252	-2,491	-2,329	-2,095	-3,495	-3,718	-5,483
Net claims on federal government	-238	-660	-844	-1,363	-1,510	-1,887	-1,785	-1,486	-2,588	-2,592	-3,197
Statutory funds	-80	-62	-90	-101	-110	-92	-76	-95	-101	-110	-197
Net claims on state and local goverments	-363	-463	-851	-974	-632	-511	-467	-514	-807	-1,016	-2,089
Net claims on nonfinancial public enterprises	-141	-20	-20	-47	-33	-100	-9	-3	-3	-3	-3
Net claims on nonfinancial private sector	2	-2	-16	-3	-3	3	3	0	0	0	0
Claims on deposit money banks	92	61	103	113	233	130	89	3	0	0	0
Net claims on other financial institutions	11	11	11	62	60	7	-1	46	9	9	9
Other items net	-800	-1,774	-2,137	-1,815	-2,103	-1,950	-2,327	-2,370	-1,514	-1,406	-1,793
Reserve money	732	763	729	798	806	911	841	882	945	1,084	1,294
Currency in circulation	546	642	564	603	615	779	727	715	722	...	...
Banks reserves with the CBN	187	120	165	195	191	132	114	167	223	...	...
Memorandum items:	(Percent)										
Reserve money y/y growth rate	6.3	4.2	-1.1	6.6	-0.4	19.5	15.4	10.6	17.3	19.0	19.4
Money multiplier	3.09	3.44	3.90	4.42	4.56	4.03	4.75	4.63	4.72	4.35	4.49
Seasonally adjusted currency ratio	0.21	0.22	0.20	0.19	0.18	0.19	0.18	0.16	0.15	0.15	0.14
Excess reserves ratio	0.06	0.05	0.05	0.04	0.03	0.04	0.04	0.07	0.07	0.07	0.06

Sources: Nigerian authorities and IMF staff estimates and projections.
[1] CBN presents long-term liabilities in other items net.
[2] Includes the windfall oil revenue savings by subnational governments and extrabudgetary funds.

Table 3b. Nigeria: Monetary Survey, 2004–08

	2004	2005	2006				2007				2008
	Dec.	Dec.	Mar.	Jun.	Sep.	Dec.	Mar.	Jun.	Sep.	Dec.	Dec.
					Act.					Est.	Proj.
					(Billions of naira)						
Net foreign assets	2,712	4,111	5,109	5,569	5,576	5,914	6,042	6,160	6,634	6,909	9,271
Central Bank of Nigeria (net)	2,250	3,671	4,573	4,926	4,902	5,312	5,415	5,301	5,927	6,202	8,564
Foreign assets	2,479	3,715	4,645	5,133	5,670	5,312	5,415	5,301	5,927	6,202	8,564
Short-term foreign liabilities	-229	-44	-73	-207	-768	0	0	0	0	0	0
Commercial and merchant banks (net)	462	440	536	643	673	602	628	859	707	707	707
Foreign assets	481	463	557	667	718	638	713	954	838	838	838
Foreign liabilities	-19	-23	-21	-24	-44	-36	-86	-96	-131	-131	-131
Net domestic assets	-448	-1,485	-2,268	-2,043	-1,901	-2,240	-2,044	-2,080	-2,175	-2,193	-3,468
Net domestic credit	1,285	1,335	745	840	1,205	963	1,128	1,710	1,527	1,701	1,237
Consolidated government[1]	-224	-618	-1,161	-1,429	-1,300	-1,523	-1,793	-1,689	-2,528	-2,668	-4,233
Federal government	253	-73	-194	-330	-540	-903	-1,203	-1,006	-1,522	-1,526	-1,932
States and local governments	-398	-482	-877	-999	-649	-527	-514	-588	-905	-1,032	-2,104
Satutory funds	-80	-62	-90	-101	-110	-92	-76	-95	-101	-110	-197
Claims on nonfinancial public enterprises	2	2	5	4	6	13	13	0	0	0	0
Other financial institutions	11	11	11	62	60	7	-1	46	9	9	9
Claims on private sector	1,497	1,939	1,889	2,203	2,438	2,465	2,908	3,353	4,046	4,360	5,461
(y/y growth rate)[2]	26.3	29.5	15.8	22.0	26.6	27.1	53.9	52.2	66.0	76.9	35.0
Other items (net)	-1,734	-2,820	-3,014	-2,883	-3,106	-3,203	-3,172	-3,791	-3,702	-3,894	-4,705
Broad money	2,264	2,626	2,841	3,526	3,674	3,675	3,998	4,080	4,459	4,715	5,803
(q/q s.a. growth rate)[2]	...	...	2.4	21.8	5.7	6.1	3.3	-0.2	10.7	12.5	...
(y/y growth rate)[2]	14.0	16.0	10.3	31.0	32.5	39.9	40.8	15.7	21.3	28.3	23.1
Memorandum items :					(Contribution to broad money growth, unless otherwise specified)						
Net foreign assets	62.3	61.8	38.0	55.5	55.8	68.6	3.5	6.7	19.6	27.1	50.1
Central Bank of Nigeria (net)	60.0	62.8	34.3	47.8	46.9	62.5	2.8	-0.3	16.7	24.2	50.1
Commercial and merchant banks (net)	2.3	-1.0	3.7	7.7	8.9	6.2	0.7	7.0	2.9	2.9	0.0
Net domestic assets	-49.9	-45.8	-29.8	-21.2	-15.9	-28.7	5.3	4.3	1.8	1.3	-27.0
Net domestic credit	-26.1	2.2	-22.4	-18.8	-4.9	-14.2	4.5	20.3	15.4	20.1	-9.8
Net credit to the consolidated government	-42.1	-17.4	-20.7	-30.9	-26.0	-34.5	-7.4	-4.5	-27.4	-31.2	-33.2
Net credit to the federal government	12.8	-14.4	-4.6	-9.8	-17.8	-31.6	-8.2	-2.8	-16.8	-16.9	-8.6
Claims on private sector	15.7	19.5	-1.9	10.1	19.0	20.0	12.1	24.2	43.0	51.6	23.4
Other items (net)	-23.7	-48.0	-7.4	-2.4	-10.9	-14.6	0.8	-16.0	-13.6	-18.8	-17.2
Broad money (percent change since year's end)	14.0	16.0	8.2	34.3	39.9	39.9	8.8	11.0	21.3	28.3	23.1
Velocity (non-oil GDP/broad money)	3.16	3.39	...	...	...	3.15	...	...	...	2.85	2.70
Gross international reserves (billions of US$)	17.0	28.3	36.2	36.5	40.5	41.8	42.6	42.6	47.9	52.1	73.2

Sources: Nigerian authorities and IMF staff estimates and projections.
[1] Includes the windfall oil revenue savings by subnational governments and extrabudgetary funds.
[2] y/y: year-on-year; q/q: quarter-on-quarter; s.a.: seasonally adjusted.

Table 4. Nigeria: Financial Soundness Indicators for the Banking Sector, 2004–07
(Percent, unless otherwise indicated)

	2004	2005	2006	2007 June
Capital Adequacy				
Regulatory capital to risk-weighted assets [1]	14.7	17.8	22.6	18.6
Regulatory Tier I capital to risk-weighted assets [1]	13.4	16.5	21.8	17.5
Capital (net worth) to assets	9.9	12.4	14.7	13.3
Asset quality and composition				
NPLs to gross loans [1]	21.6	18.1	8.8	7.7
NPLs net of provisions to capital [1]	90.0	64.4	21.3	23.4
Sectoral distribution of loans [1]				
Manufacturing	22.5	18.6	16.9	13.6
Trade and services	23.6	21.1	22.0	19.4
Energy and minerals	9.4	8.9	10.1	11.9
Agriculture	4.9	3.9	2.3	1.9
Construction and property	7.6	7.5	6.2	5.6
Households				
Government	4.2	4.6	7.6	1.9
Other	29.4	35.8	38.0	41.3
Earnings and profitability				
ROA [1]	3.1	0.9	1.6	1.8
ROE [1]	27.4	7.1	10.4	13.8
Interest margin to gross income [1]	37.6	38.1	39.6	43.9
Noninterest expenses to gross income [1]	53.9	59.2	52.7	47.0
Personnel expenses to noninterest expenses	0.0	37.3	42.7	39.0
Trading and fee income to total income	45.1	31.7	33.3	32.4
Liquidity				
Liquid assets to total assets [1]	…	…	61.1	62.2
Liquid assets to short term liabilities [1]	…	…	…	…
Customer deposits to total (non-interbank) loans	…	77.4	73.6	67.3
Foreign exchange liabilities to total liabilities	…	5.9	12.5	6.7

Source: Central Bank of Nigeria (CBN).

[1] Included in the "core set" of financial soundness indicators.

NPL - non performing loans; ROA - return on assets; ROE - return on equities.

Table 5. Nigeria: Balance of Payments, 2004–12
(Billions of U.S. dollars, unless otherwise specified)

	2004	2005	2006	2007	2008	2009	2010	2011	2012
		Act.		Est.			Proj.		
Current account balance	4.3	8.0	13.8	1.3	10.0	5.7	7.9	8.1	10.5
Oil/gas (net)	16.3	23.0	31.2	25.4	37.6	38.7	43.0	45.3	50.5
Other (net)	-12.0	-15.0	-17.4	-24.0	-27.6	-33.1	-35.1	-37.2	-40.0
Trade balance	17.5	24.5	28.0	22.5	34.6	30.4	31.4	32.1	37.5
Exports	36.9	50.2	59.1	61.3	78.9	80.3	84.1	87.9	96.7
Oil/gas	35.7	49.2	58.1	60.1	77.6	78.9	82.7	86.3	94.9
Other	1.2	1.0	1.0	1.2	1.3	1.4	1.5	1.6	1.7
Imports	-19.4	-25.6	-31.1	-38.8	-44.3	-49.9	-52.7	-55.8	-59.1
Oil/gas	-8.9	-12.0	-13.4	-15.3	-18.2	-18.4	-19.2	-20.1	-21.2
Other	-10.5	-13.7	-17.7	-23.5	-26.2	-31.5	-33.5	-35.6	-38.0
Services (net)	-6.1	-7.1	-6.4	-7.6	-8.6	-9.4	-9.9	-10.7	-11.5
Receipts	1.8	2.1	3.5	3.2	3.1	3.0	3.3	3.6	3.9
Oil/gas	0.3	0.5	1.8	1.2	1.0	0.7	0.8	0.8	0.9
Other	1.4	1.6	1.7	1.9	2.1	2.3	2.5	2.8	3.1
Payments	-7.9	-9.2	-9.9	-10.7	-11.7	-12.5	-13.2	-14.3	-15.4
Oil/gas	-2.6	-3.2	-3.2	-3.4	-3.7	-3.7	-3.7	-3.7	-3.8
Other	-5.3	-6.1	-6.6	-7.3	-8.0	-8.8	-9.6	-10.5	-11.6
Income (net)	-9.7	-12.8	-11.3	-17.0	-19.4	-18.8	-17.0	-16.9	-19.2
Oil/gas	-8.2	-11.6	-11.9	-17.2	-19.1	-18.9	-17.5	-17.9	-20.4
Other	-1.6	-1.3	0.7	0.2	-0.3	0.1	0.5	1.0	1.2
Of which: Interest due on public debt	-1.5	-1.6	-0.2	-0.2	-0.1	-0.1	-0.1	-0.1	-0.2
Transfers (net) [1]	2.8	3.4	3.4	3.4	3.4	3.5	3.5	3.6	3.6
Capital and Financial account balance	3.1	5.4	1.8	8.7	11.0	12.2	12.8	13.5	14.0
Capital Account (net)	0.0	7.3	10.7	0.0	0.0	0.0	0.0	0.0	0.0
Debt Forgiveness	0.0	7.3	10.7	0.0	0.0	0.0	0.0	0.0	0.0
Financial Account (net)	3.1	-1.9	-8.8	8.7	11.0	12.2	12.8	13.5	14.0
Direct and portfolio investment (net)	4.8	6.5	9.1	10.3	11.0	11.4	11.9	12.5	13.0
Oil/gas	4.1	4.9	5.0	5.8	6.0	5.9	5.9	5.9	5.7
Other	0.7	1.7	4.1	4.5	5.0	5.5	6.0	6.6	7.3
Official capital (net)	-1.3	-8.6	-16.6	-0.4	0.1	0.8	0.9	1.0	1.1
Disbursements	0.2	0.7	0.5	0.6	0.6	1.1	1.1	1.2	1.2
Amortization due	-1.5	-9.2	-17.1	-1.0	-0.4	-0.3	-0.2	-0.2	-0.2
Private borrowing (net)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other capital (net)[2]	-0.4	0.1	-1.3	-1.2	-0.1	0.0	0.0	0.0	0.0
Errors and omissions	0.7	2.9	-1.7	0.2	0.1	0.0	0.0	0.0	0.0
Overall balance	8.1	16.3	13.9	10.3	21.1	17.8	20.7	21.6	24.5
Net international reserves (increase -)	-9.5	-11.3	-13.9	-10.3	-21.1	-17.8	-20.7	-21.6	-24.5
Exceptional financing	1.4	-4.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net accumulation of arrears (decrease -)	1.3	-5.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other[3]	0.1	0.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items:									
Gross official reserves, end-of-period	17.0	28.3	41.8	52.1	73.2	91.0	111.8	133.4	158.0
In months of next year's GS imports	5.8	8.3	10.1	11.2	14.1	16.6	19.2	21.5	23.8
Current account (percent of GDP)	5.0	7.1	9.4	0.8	4.7	2.4	3.1	2.9	3.4
GS exports (percent of GDP)	44.4	46.5	42.6	38.7	38.9	35.2	33.6	32.8	33.0
GS imports (percent of GDP)	31.4	31.0	27.9	29.7	26.6	26.3	25.4	25.1	24.5
External debt [4, 5]	35.9	20.5	3.5	3.3	3.4	4.2	5.2	6.2	7.2
External debt (percent of GDP)[4, 5]	41.3	18.2	2.4	2.0	1.6	1.8	2.0	2.2	2.4
External debt (percent of GS exports)[4, 5]	93.1	39.2	5.7	5.1	4.2	5.1	5.9	6.7	7.2
External debt[4, 5, 6]	116.9	47.8	7.1	7.0	5.2	5.8	6.4	7.3	7.8
External debt service due (percent of GS exports)	7.9	20.8	27.7	1.9	0.7	0.5	0.4	0.4	0.3
GDP (at market prices)	86.9	112.2	146.9	166.6	211.0	236.5	259.9	278.7	304.6

Sources: Nigerian authorities and IMF staff estimates and projections.

[1] Includes capital transfers.

[2] In 2006, the prepayment of post-cutoff Paris Club debt ($0.3 billion) and the cost of the buy-back of remaining Paris Club debt ($4.3 billion).

[3] In 2002 debt buy-back, in 2003-05 recovery of looted funds.

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

[5] In 2005 (2006) reflecting also a $7.1 billion ($7.2 billion) write-off of Paris Club debt, and in 2006, reflecting the discount ($2.7 billion) on the $7.0 billion buy-back of remaining Paris Club debt.

[6] Percent of general government fiscal revenues.

Table 6. Nigeria: National Accounts—Sector Composition, 1997–2006 [1]

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
	Act.									
	(Billions of naira)									
Nominal GDP	2,907	2,816	3,312	4,717	4,910	7,128	8,743	11,674	14,735	18,710
Nominal GDP at factor costs	2,802	2,708	3,194	4,582	4,725	6,912	8,487	11,411	14,572	18,565
Oil	1,069	737	1,024	2,187	1,669	1,799	2,742	4,248	5,665	6,983
Non-oil	1,733	1,972	2,170	2,395	3,056	5,114	5,745	7,163	8,907	11,582
Agriculture	954	1,058	1,128	1,193	1,595	3,357	3,625	3,904	4,773	5,940
Non-oil non-agriculture	779	914	1,042	1,203	1,461	1,756	2,121	3,260	4,134	5,641
Solid Minerals	3	4	4	5	6	7	8	13	17	27
Manufacturing	144	141	151	168	199	237	288	349	413	479
Telecommunication	1	1	1	1	7	10	13	22	40	166
Wholesale and retail trade	392	444	486	527	643	772	922	1,484	1,868	2,742
Building and construction	19	25	28	31	41	48	59	166	216	250
Other	221	299	373	471	566	682	830	1,225	1,581	1,978
Taxes less subsidies	105	108	118	135	184	216	256	263	163	145
	(In percent)									
Real GDP growth rates	2.8	2.7	0.5	5.3	8.2	21.2	10.3	10.6	5.4	6.2
Real GDP at factor costs	2.8	2.9	0.4	5.4	8.4	21.3	10.2	10.5	6.5	6.0
Oil	1.5	2.2	-7.5	11.1	5.2	-5.7	23.9	3.3	0.5	-4.5
Non-oil	3.5	3.3	4.4	2.9	10.0	33.8	5.8	13.2	8.6	9.4
Agriculture	4.3	4.1	5.3	2.9	3.9	55.2	7.0	6.3	7.1	7.4
Non-oil non-agriculture	2.7	2.5	3.4	2.9	16.9	12.3	4.2	23.0	10.5	11.8
Solid Minerals	6.3	6.0	3.8	3.8	9.9	4.3	5.4	17.6	9.5	10.3
Manufacturing	0.4	-6.9	3.4	3.4	7.0	10.1	5.7	11.9	9.6	9.4
Telecommunication	5.8	5.9	6.1	6.7	595.3	27.0	23.8	55.8	29.6	33.7
Wholesale and retail trade	1.5	3.0	2.5	1.6	2.5	6.5	5.8	36.7	13.5	15.3
Building and construction	6.4	6.0	3.8	4.0	12.0	4.3	8.7	-6.8	12.1	13.0
Other	4.3	4.9	4.3	3.9	31.7	18.4	0.9	17.2	6.1	6.6
Taxes less subsidies	2.3	-4.3	2.5	1.1	-1.8	14.6	14.5	14.7	-37.0	17.7

Sources: Nigeria National Bureau of Statistics: *National Accounts of Nigeria 1981–2006*, October 2007

[1] The staff notes several concerns about these estimates, including the high non-oil growth rates in 2002 and 2004 (see Informational Annex)

Table 7. Nigeria: Comparison of Revised and Previous GDP, 2004–12

	2004	2005	2006	2007	2008	2009	2010	2011	2012
		Act.		Est.			Proj.		
Revised GDP									
Nominal GDP					(Billions of naira)				
GDP	11,674	14,735	18,710	20,845	24,893	27,672	31,500	36,192	42,374
GDP at factor costs	11,411	14,572	18,565	20,678	24,697	27,441	31,229	35,875	42,002
Oil GDP	4,248	5,665	6,983	7,239	9,028	9,022	9,632	10,495	12,169
Non-oil GDP	7,163	8,907	11,582	13,438	15,669	18,419	21,597	25,380	29,833
Real GDP growth rate					(In percent)				
GDP	10.6	5.4	6.2	6.4	9.0	8.3	7.0	7.0	8.1
GDP at factor costs	10.5	6.5	6.0	6.3	9.0	8.3	7.0	7.0	8.1
Oil GDP	3.3	0.5	-4.5	-5.6	9.0	7.5	2.5	2.0	8.2
Non-oil GDP	13.2	8.6	9.4	9.6	9.0	8.5	8.1	8.1	8.1
Per capita GDP (US$)	656	824	1,049	1,158	1,427	1,557	1,666	1,738	1,849
PSI 4th Review Staff Report (IMF Country Report No. 07/353)									
Nominal GDP					(Billions of naira)				
GDP	9,604	12,939	14,838	15,681	17,661	19,689	21,886	24,653	28,362
GDP at factor costs	9,376	12,656	14,504	15,301	17,225	19,188	21,308	23,985	27,588
Oil GDP	4,371	6,433	7,160	6,939	7,652	8,170	8,595	9,284	10,567
Non-oil GDP	5,005	6,223	7,344	8,361	9,573	11,018	12,712	14,701	17,021
Real GDP growth rate					(In percent)				
GDP	6.0	7.2	5.6	4.3	8.0	7.5	5.8	5.6	7.1
GDP at factor costs	6.1	7.2	5.6	4.2	8.0	7.5	5.8	5.6	7.1
Oil GDP	3.5	4.2	-2.8	-5.0	10.9	8.8	2.7	1.8	7.2
Non-oil GDP	7.4	8.6	9.4	8.0	7.0	7.0	7.0	7.0	7.0
Per capita GDP (US$)	501	674	777	810	901	988	1,041	1,074	1,132
Percentage change of level of nominal GDP (Revised GDP/ PSI 4th Review)									
Nominal GDP					(In percent)				
GDP	21.6	13.9	26.1	32.9	41.0	40.5	43.9	46.8	49.4
GDP at factor costs	21.7	15.1	28.0	35.1	43.4	43.0	46.6	49.6	52.2
Oil GDP	-2.8	-11.9	-2.5	4.3	18.0	10.4	12.1	13.0	15.2
Non-oil GDP	43.1	43.1	57.7	60.7	63.7	67.2	69.9	72.6	75.3
Per capita GDP	30.8	22.2	35.0	43.1	58.4	57.7	60.0	61.8	63.4

Sources: Nigerian authorities and IMF staff estimates and projections.

Table 8. Nigeria: Millennium Development Goals—Status at a Glance

Goal	1990	1996	2004	2005	Target 2015	Progress Toward Target
1. Eradicate Extreme Poverty and Hunger						
Percentage of population living in relative poverty	43 [1992]	66	54	54 [2004]	21	Slow
Percentage of population living in extreme poverty (consuming 2,900 calories or lower daily)	…	…	35	35 [2004]	…	Insufficient data
Percentage of underweight children (under five)	36	31	30	30 [2004]	18	Slow
2. Achieve Universal Education						
Net enrolment ratio in primary education	68	81.1	81.1	84.26	100	Good
Proportion of pupils starting grade one who reach grade five	67	71	74	74	100	Good
Grade six completion rate	58	64	69.2	67.5	100	Worsened in 2005
Literacy rate of 15–24 years old	70.7 [1991]	-	76.2	80.2	100	Good
3. Promote Gender Equality and Empower Women						
Ratio of girls to boys in primary education (girls per 100 boys)	82	…	79	81	100	Good
Ratio of girls to boys in secondary education (girls per 100 boys)	106	…	79	81	100	Good
Ratio of girls to boys in tertiary education (girls per 100 boys)	46 [1991]	…	72 [2003]	72 [2003]	100	Good
Share of women in wage employment in the non-agriculture sector (percent)	66 [1991]	…	79 [2003]	…	…	Good/ insufficient data
Proportion of seats held by women in national parliament (percent)	1.0 [1991]	…	5.76 [2003]	5.76 [2003]	30	Slow
4. Reduce Child Mortality Infant mortality rate (per 1000 live births)	91	…	100 [2003]	110	30.3	Worsening
Under-five mortality rate (per 1000 live births)	191	…	201 [2003]	197 [2004]	63.7	Marginal improvement
Percentage of one-year-olds fully immunized against measles	46	…	31.4 [2003]	50 [2004] Male: 48.38 Female: 51.62	100	Slow
5. Improve Maternal Health						
Maternal mortality rate (per 100,000 live births)	…	…	704 [1999]	800 [2004]	<75	Worsening/ Weak database
Proportion of births attended to by skilled health Personnel	45.0	…	36.3 [2003]	44.0	>60	

Table 8. Nigeria: Millennium Development Goals—Status at a Glance (continued)

Goal	1990	1996	2004	2005	Target 2015	Progress Toward Target
6. Combat HIV/AIDS, Malaria and Other Diseases						
HIV prevalence among pregnant women aged 15–24	…	5.7 [1999]	5.2 [2003]	4.4 [2005]	1.8	Good
Percentage of young people aged 15–24 reporting the use of condom during sexual intercourse with a non-regular sexual partner	…	…	Female 24.0 [2003] Male 46.3 [2003]	Female 39.5 Male 49.7	100	Slow/ Insufficient data
Number of children orphaned by AIDS	…	…	1.8 mil.	1.97 mil.		Insufficient data
Prevalence and death rates associated with Tuberculosis	…	…	…	7.07 [2004] 1.50 [2004]	… …	Insufficient data
Prevalence of HIV among TB patients (percent)	2.2	…	19.1 [2000]	27	…	Worsening
TB detection rate	…	…	14 [2000]	27	70	Slow
TB treatment success rate	…	…	79 [2000]	80	85	Good
7. Ensure Environmental Stability						
Proportion of land area covered by forests	10.0	14.6	13.0	12.6	20	Worsened in 2005
Proportion of gas flared	68.0	53.8	43.0	40.0	0	Good
Proportion of total population with access to safe drinking water	54.0	…	57	60	80	Slow/weak database
Proportion of people with access to secure tenure	…	…	31.0	…	100	Insufficient data
Carbon dioxide emissions (per capita)	…	0.3 [2000]	0.2	0.1	…	Insufficient data
Proportion of total population with access to basic Sanitation	39.0	…	38.0	…	100	Worsened/ Insufficient data
Residential housing construction index (ACI) (Proxy)	…	45.8 [1999]	50.4 [2003]	…	…	Insufficient data
8. Develop a Global Partnership for Development						
Per capita official development assistance to Nigeria (US$)	3.0	2.0	2.3	4.0	…	Slow
Debt services as a percentage of exports of goods and services	22.3	8.9	7.4	3.4	…	Good
Private sector Investment (US$ million)	…	50 [1999]	…	6080	…	Slow
Telephone-density (per 1000 people)	0.45	…	…	15.72	…	Insufficient data
Personal computers (per 1000 people)	…		30	30 [2004]		Insufficient data
Internet access (percent)	7	0.1 [2003]	…	1.9	…	Insufficient data

Source: Nigerian authorities: *Millennium Development Goals Information Kit 2007*

Appendix I. Joint IMF/World Bank Debt Sustainability Analysis 2007 Under the Debt Sustainability Framework for Low Income Countries

1. *Exit from the Paris Club and subsequent London Club operations significantly reduced Nigeria's external debt burden. This, combined with a sustained period of high oil prices, along with prudent fiscal policy stemming from the application of an oil- price based fiscal rule, have transformed Nigeria's debt outlook. This debt sustainability analysis (DSA) concludes that Nigeria is at a low risk of debt distress (the same finding as in 2006). In the baseline scenario, and in the case of the standardized stress tests, Nigeria's debt outlook remains robust. However, a prolonged oil price shock, or sustained higher (non-oil primary) deficits, would require compensating policy measures in the medium-term to avoid debt sustainability problems.*[1]

A. The Baseline and Alternative Scenarios

2. The **baseline scenario** for 2007–27 underlying this DSA assumes the following:

- Average growth of 7.1 percent over the period reflecting buoyant growth of non-oil GDP of around 7.8 percent and more modest growth of oil GDP of 3.0 percent.[2]
- Monetary policy geared towards maintaining single-digit inflation.
- In line with WEO projections, increasing oil prices in the short term, before falling back to levels just above US$80 per barrel by 2012, and remaining constant in real terms thereafter.[5]
- A consolidated government non-oil primary deficit (NOPD) averaging around 24 percent of non-oil GDP. This is consistent with the medium-term projections outlined in the government's medium-term fiscal strategy, and with the framework that underpinned Nigeria's previous Policy Support Instrument (PSI).[6] Such a stance is also consistent with the range of estimates derived from a permanent income hypothesis exercise. In addition, it is assumed that the oil-price-based fiscal rule continues to be applied.
- Export growth of around 6 percent per year driven largely by developments in the oil and gas sectors, and import growth of around 9 percent per year. The balance of payments

[1] This DSA updates the analysis presented in the Country Report 07/20 and utilizes the updated Bank-Fund debt template for low-income countries.

[2] This DSA is based on new estimates for the GDP time series provided by the authorities in November 2007. Compared to GDP estimates previously used by the IMF, 2006 nominal GDP is higher by 26.1 percent for overall GDP and 57.7 percent for non-oil GDP. Based on the revised GDP series, historical averages for real growth over the previous 10 years were 7.0 percent for overall GDP and 9.2 percent for non-oil GDP respectively.

[5] The DSA is based on WEO oil price projections as of December 7, 2007

[6] The government is assumed to resist pressures to loosen the current fiscal policy stance and establish a medium- and long-term sustainable fiscal position. This implies large but declining overall surpluses until 2020. At that time, deficits appear and are financed by previously accumulated financial assets.

remains in surplus over the medium term, before turning into deficit after 2020. Reserve coverage is projected to average 25 months of imports over the projection period.

3. Various standardized stress tests and country-specific alternative scenarios are also examined (see Tables 1b and 2b, and Figures 1 and 2):

- Standardized alternative scenarios and stress tests include holding key variables at their historical averages, financing on less concessional terms, and various bound tests. The most extreme bound tests hold export values and GDP at their historical averages minus one standard deviation in 2008-09.

- Country-specific alternative scenarios are designed to illustrate the impact on debt dynamics of (i) a prolonged oil price shock (in light of Nigeria's high dependency on oil,[7] as well as the high level of oil prices projected over the medium term), and (ii) a higher deficit reflecting a prolonged period of elevated spending (in light of pressing infrastructure and social needs). The oil price shock is calibrated as one standard deviation of Brent crude prices over the 1970-2006 period. This reduces future oil prices by US$19 per barrel, such that average prices are around US$61 per barrel.[8] The higher deficit scenario holds the non-oil primary deficit of the consolidated government constant at just over 27 percent of non-oil GDP over the projection period. These alternative scenarios start in 2008.

- New debt placement assumptions. In the higher deficit scenario, it is assumed that the authorities split the additional debt required to finance the deficit between domestic and external issuance. However, in the oil shock scenario, in addition to financing the deficit, the sharp balance of payments deterioration requires a greater share of external issuance to ensure adequate reserve coverage (especially in the later years).

B. External Sustainability[9]

4. Following the final phase of Nigeria's 2005 Paris Club Agreement in 2006, early repayment of its par bonds in November 2006, and efforts to address related oil warrants in March 2007, Nigeria's external public debt is projected to total US$3.3 billion, or 2.0 percent of GDP, at end-2007. In the baseline scenario (Table 1a and Figure 1), the nominal external debt burden is

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[7] In 2006, oil revenue accounted for 78 percent of the consolidated government's revenue base and oil–related export proceeds for over 95 percent of Nigeria's export earnings.

[8] The impact of a two standard deviation shock to oil prices is discussed in footnote 11.

[9] 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 3.07, which is the three year average of the World Bank's Country Policy and Institutional Assessment (CPIA), the relevant country-specific thresholds are an NPV of debt to GDP of 30 percent, an NPV of debt to exports of 100 percent, and a debt service to exports ratio of 15 percent.

projected to be broadly unchanged throughout the projection period.[10] The debt-service to export ratio falls from 1.9 percent in 2007 to an average of 0.3 percent throughout the projection period. The grant element of Nigeria's external debt is projected to decline from over 50 percent, to around 30 percent by 2027, reflecting a shift towards less concessional borrowing (including Nigeria’s graduation to IBRD financing). Hence, the net present value (NPV) of debt-to-GDP ratio would be slightly lower than the nominal external-debt-to-GDP ratio, averaging under 2 percent over the period.

5. Standardized stress tests (Table 1b and Figure 1), even the most extreme, show that the NPV of the debt-to-GDP ratio is not likely to exceed 16 percent of GDP over the projection period, with debt service remaining below 5 percent of exports.

6. However, the country-specific alternative scenarios (Table 1b and Figure 1), illustrate the vulnerability of Nigeria’s public finances, and consequently, its external debt position.

- In the case of the prolonged oil price shock scenario, Nigeria’s external debt ratio could reach 37 percent of GDP (or 30 percent in NPV terms), and 166 percent of exports, by the end of the projection period, while debt service payments would remain low at around 1 percent of exports. Furthermore, in the oil shock scenario, international reserves would peak in 2009 (at over 17 months of imports), against 2019 in the baseline scenario (at around 32 months).

- In the case of the higher deficit scenario, Nigeria’s external debt ratio could reach 13 percent of GDP (or 9 percent in NPV terms), and 41 percent of exports, by the end of the projection period, with debt service payments rising to around 1 percent of exports.

7. Nevertheless, Nigeria’s robust starting position in terms of government deposits and international reserves, would enable the authorities to avoid the accumulation of debt projected in either scenario, if fiscal policies are adjusted in time. As such, prudent fiscal and external policies would allow Nigeria to prevent the risks associated with either scenario from materializing.

C. Fiscal Sustainability

8. As a result of the application of a budget reference oil price fiscal rule, government deposits at the central bank are projected to reach around US$23 billion at end-2007. In the baseline scenario (Table 2a and Figure 2) consolidated government deposits continue to accumulate at the central bank, reaching around US$240 billion by 2021. Subsequently, these deposits are assumed to be drawn down gradually as oil revenues decline as a share of GDP, and the overall budget surplus turns into deficit. In light of the accumulation of such significant levels of government deposits, and

[10] Given Nigeria’s federal structure, sub-national borrowing is possible but is constrained by various regulations. While at present such borrowing is limited, careful management and monitoring at the sub-national level will be crucial to support future debt sustainability. In this regard, inclusion of a sub-national debt strategy in the national Debt Management Framework is welcome.

the low level of gross debt,[11] the fiscal debt sustainability exercise for Nigeria utilizes a concept of *net deb*t, defined as gross consolidated government debt (external and domestic) less gross consolidated government assets (specifically, the balance in the excess crude account).[12] As a result of the inclusion of these government assets, net debt is projected to be negative throughout the baseline scenario.

9. As is the case with external sustainability, the fiscal sustainability baseline is relatively robust to the standardized stress tests, with public sector net debt becoming positive only towards the end of the projection period. Debt service is projected to average around 2 percent of revenues over the projection period in the baseline, and peak at 31 percent, in the most extreme test (Table 2b and Figure 2).

10. However, as noted above, in the case of the country-specific alternative scenarios (Table 2b and Figure 2), Nigeria's fiscal position could weaken significantly in the absence of an appropriate fiscal policy response.

(a) In the case of the prolonged oil price shock scenario, government deposits at the central bank would be exhausted around 2019, and external and domestic borrowing would be needed to finance the deficit.[13] As a result, Nigeria's public debt to GDP ratio would reach 46 percent, debt to revenue 258 percent, and debt service to revenues 10 percent in NPV terms by the end of the projection period (Table 2b and Figure 2).

(b) In the case of the higher deficit scenario, government deposits at the central bank would be exhausted in 2026, just before the end of the projection period, after which external and domestic borrowing would be needed to finance the deficit. As a result, Nigeria's public debt to GDP ratio would reach 12 percent, debt to revenue 58 percent, and debt service to revenues 6 percent in NPV terms by the end of the projection period.

D. Conclusion

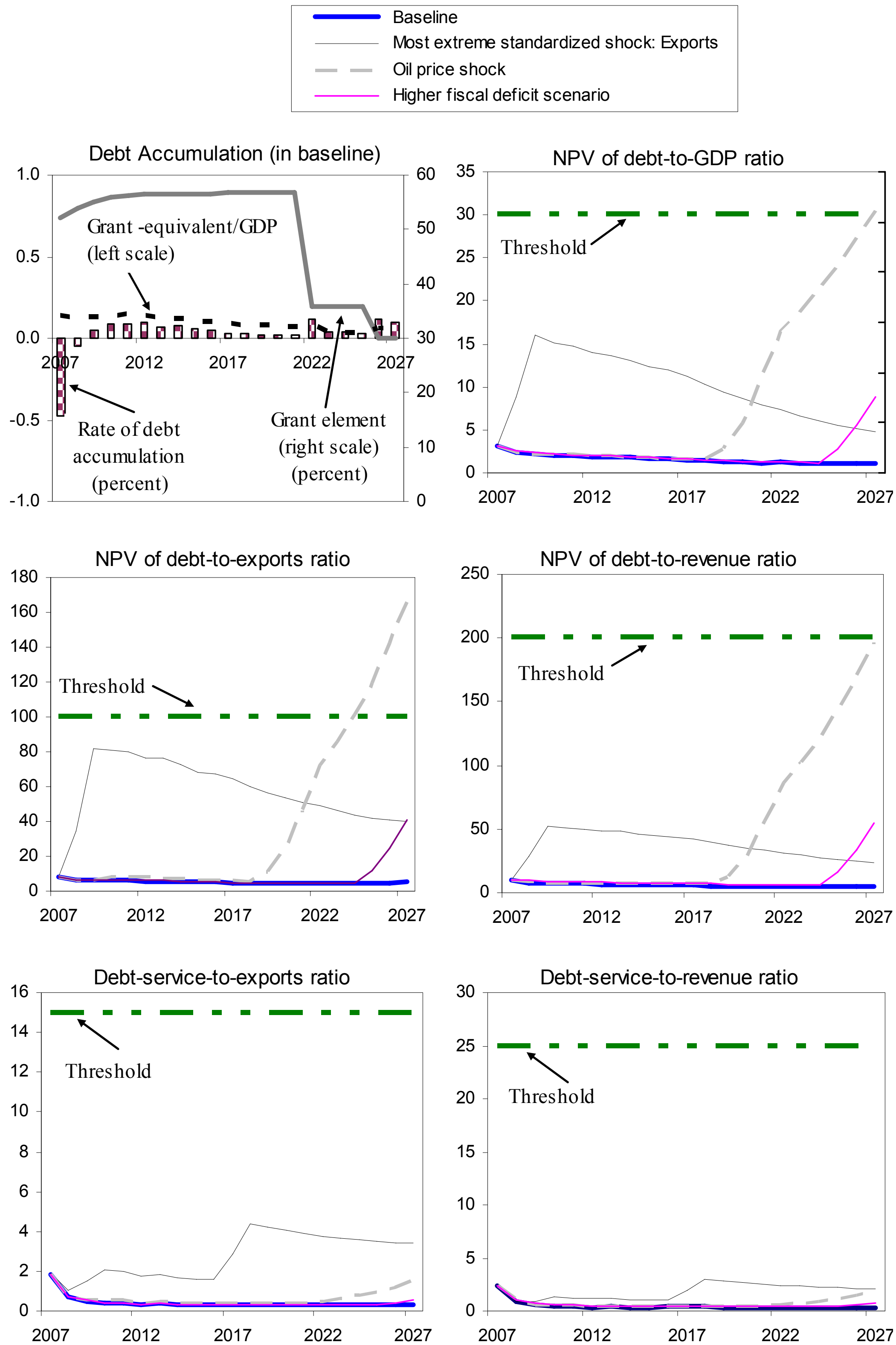
11. Nigeria is at a low risk of debt distress. In the baseline scenario, and in the case of the standardized stress tests, Nigeria's debt outlook remains relatively robust throughout the projection period. However, either a prolonged oil price shock or a prolonged loosening of the non-oil primary deficit—without compensating policy measures—would undermine the recent progress made in achieving macroeconomic and debt sustainability. But given Nigeria's strong financial starting position, timely policy action should be able to avert future sustainability problems.

[11] The NPV of the public sector's gross debt burden would decline through the medium term, before rising towards the end of the projection period.

[12] For illustrative purposes, Figure 1 also traces the evolution of gross debt in the baseline scenario.

[13] For illustrative purposes, assuming an oil price shock of two standard deviations—thereby reducing prices to around US$43 per barrel in 2007 prices—and the current baseline fiscal deficit, government deposits at the central bank would be exhausted by 2011.

Figure 1. Nigeria. Country: Indicators of Public and Publicly Guaranteed External Debt Under Alternative Scenarios, 2007–27



Source: Staff projections and simulations.

Table 1a. Nigeria: External Debt Sustainability Framework, Baseline Scenario, 2004–27[1]

(Percent of GDP, unless otherwise indicated)

	Actual			Historical Average[6]	Standard Deviation[6]	Projections									
	2004	2005	2006			2007	2008	2009	2010	2011	2012	2007-12 Average	2017	2027	2013-27 Average
External debt (nominal)[1]	**41.3**	**18.2**	**2.4**			**2.0**	**1.6**	**1.8**	**2.0**	**2.2**	**2.4**		**2.3**	**1.4**	
o/w public and publicly guaranteed (PPG)	41.3	18.2	2.4			2.0	1.6	1.8	2.0	2.2	2.4		2.3	1.4	
Change in external debt	-7.9	-23.1	-15.8			-0.4	-0.4	0.2	0.2	0.2	0.2		-0.1	-0.1	
Identified net debt-creating flows	-21.9	-22.2	-19.9			-7.1	-10.1	-7.3	-7.7	-7.5	-7.9		-6.8	4.3	
Non-interest current account deficit	**-6.8**	**-8.6**	**-9.5**	**-3.2**	**8.4**	**-0.9**	**-4.8**	**-2.4**	**-3.1**	**-3.0**	**-3.5**		**-2.6**	**8.9**	0.9
Deficit in balance of goods and services	-13.0	-15.5	-14.7			-8.9	-12.3	-8.9	-8.3	-7.7	-8.6		-7.6	4.3	
Exports	44.4	46.5	42.6			38.7	38.9	35.2	33.6	32.8	33.0		31.2	21.5	
Imports	31.4	31.0	27.9			29.7	26.6	26.3	25.4	25.1	24.5		23.6	25.7	
Net current transfers (negative = inflow)	-3.2	-3.0	-2.3	-3.4	0.9	-2.0	-1.6	-1.5	-1.3	-1.3	-1.2		-0.9	-0.5	-0.8
o/w official	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Other current account flows (negative = net inflow)	9.4	10.0	7.5			10.1	9.1	7.9	6.5	6.0	6.3		5.9	5.2	
Net FDI (negative = inflow)	**-5.5**	**-5.8**	**-6.2**	**-4.6**	**1.1**	**-6.2**	**-5.2**	**-4.8**	**-4.6**	**-4.5**	**-4.3**		**-4.2**	**-4.6**	-4.3
Endogenous debt dynamics[2]	**-9.6**	**-7.9**	**-4.2**			**0.0**	**-0.1**	**-0.1**	**-0.1**	**-0.1**	**-0.1**		**-0.1**	**-0.1**	
Contribution from nominal interest rate	1.8	1.5	0.1			0.1	0.1	0.0	0.0	0.1	0.1		0.0	0.0	
Contribution from real GDP growth	-4.0	-1.7	-0.9			-0.1	-0.1	-0.1	-0.1	-0.1	-0.2		-0.1	-0.1	
Contribution from price and exchange rate changes	-7.4	-7.6	-3.4			…	…	…	…	…	…		…	…	
Residual (3-4)[3]	**14.0**	**-0.9**	**4.1**			**6.7**	**9.7**	**7.5**	**7.9**	**7.8**	**8.0**		**6.8**	**-4.4**	
o/w exceptional financing	-1.6	4.4	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
NPV of external debt[4]	...	...	4.0			3.1	2.4	2.2	2.1	2.0	1.9		1.5	1.1	
In percent of exports	...	...	9.4			8.1	6.2	6.2	6.2	6.1	5.9		4.9	5.1	
NPV of PPG external debt	**...**	**...**	**4.0**			**3.1**	**2.4**	**2.2**	**2.1**	**2.0**	**1.9**		**1.5**	**1.1**	
Percent of exports	**...**	**...**	**9.4**			**8.1**	**6.2**	**6.2**	**6.2**	**6.1**	**5.9**		**4.9**	**5.1**	
Percent of government revenues	**...**	**...**	**11.7**			**10.5**	**7.7**	**7.1**	**6.9**	**6.9**	**6.6**		**5.7**	**5.5**	
Debt service-to-exports ratio (percent)	**7.9**	**20.8**	**27.7**			**1.9**	**0.7**	**0.5**	**0.4**	**0.4**	**0.3**		**0.3**	**0.3**	
PPG debt service-to-exports ratio (percent)	**7.9**	**20.8**	**27.7**			**1.9**	**0.7**	**0.5**	**0.4**	**0.4**	**0.3**		**0.3**	**0.3**	
PPG debt service-to-revenue ratio (percent)	**9.9**	**25.0**	**34.6**			**2.4**	**0.9**	**0.6**	**0.4**	**0.4**	**0.4**		**0.4**	**0.3**	
Total gross financing need (billions of U.S. dollars)	-7.6	-5.3	-5.8			-10.7	-20.6	-16.8	-19.6	-20.4	-23.3		-30.1	42.7	
Non-interest current account deficit that stabilizes debt ratio	1.2	14.5	6.3			-0.5	-4.5	-2.6	-3.3	-3.2	-3.7		-2.5	9.0	
Key macroeconomic assumptions															
Real GDP growth (in percent)	10.6	5.4	6.2	7.0	6.3	6.4	9.0	8.3	7.0	7.0	8.1	7.6	6.9	6.9	6.8
GDP deflator in US dollar terms (change in percent)	17.7	22.5	23.2	6.4	16.5	6.7	16.2	3.5	2.7	0.2	1.1	5.1	1.2	0.9	1.1
Effective interest rate (percent)[5]	4.7	4.6	1.0	5.2	1.7	6.1	4.2	3.3	2.9	2.7	2.6	3.6	2.1	1.0	1.7
Growth of exports of G&S (US dollar terms, in percent)	33.6	35.3	19.9	18.9	33.9	2.9	27.2	1.7	4.9	4.6	10.0	8.5	6.4	2.5	5.0
Growth of imports of G&S (US dollar terms, in percent)	-0.3	27.7	17.5	13.3	15.1	20.9	13.1	11.2	5.9	6.2	6.4	10.6	8.1	9.6	8.4
Grant element of new public sector borrowing (percent)	...	...	...	...	...	52.2	53.8	55.0	55.9	56.3	56.6	55.0	56.9	30.0	47.6
Aid flows (in billions of US dollars)[7]	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
o/w Grants	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
o/w Concessional loans	222.9	264.8	499.2			453.3	510.3	564.1	640.7	730.4	720.5		711.4	700.0	
Grant-equivalent financing percent of GDP)[8]	...	...	...			0.1	0.1	0.1	0.1	0.1	0.1		0.1	0.1	0.1
Grant-equivalent financing (percent of external financing)[8]	...	...	...			52.2	53.8	55.0	55.9	56.3	56.6		56.9	30.0	47.6
Memorandum items:															
Nominal GDP (billions of US dollars)	86.9	112.2	146.9			166.6	211.0	236.5	259.9	278.7	304.6		453.4	964.8	
(NPVt-NPVt-1)/GDPt-1 (percent)						-0.5	-0.1	0.0	0.1	0.1	0.1	0.0	0.0	0.1	0.1

Source: Staff simulations.

[1] Includes both public and private sector external debt.

[2] Derived as [r - g - r(1+g)]/(1+g+r+gr) times previous period debt ratio, with r = nominal interest rate; g = real GDP growth rate, and r = 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. .
Residual at end of period is driven by financing of the current account deficit by reserve draw down

[4] Assumes that NPV 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 NPV of new debt).

Table 1b. Nigeria: Sensitivity Analyses for Key Indicators of Public and Publicly Guaranteed External Debt, 2007–27
(Percent)

	Projections							
	2007	2008	2009	2010	2011	2012	**2017**	2027
NPV of debt-to-GDP ratio								
Baseline	3	2	2	2	2	2	**2**	1
A. Alternative scenarios								
A1. Key variables at their historical averages in 2008-27[1]	3	4	3	2	1	1	**...**	...
A2. New public sector loans on less favorable terms in 2008-27[2]	3	2	2	2	2	2	**2**	2
A3. Oil Price Shock (-$19)	3	2	2	2	2	2	2	30
A4. Higher Deficit Scenario	3	3	2	2	2	2	2	9
B. Bound tests								
B1. Real GDP growth at historical average minus one standard deviation in 2008-09	3	3	3	2	2	2	**2**	1
B2. Export value growth at historical average minus one standard deviation in 2008-09[3]	3	9	16	15	15	14	**11**	5
B3. US dollar GDP deflator at historical average minus one standard deviation in 2008-09	3	3	3	3	3	3	**2**	2
B4. Net non-debt creating flows at historical average minus one standard deviation in 2008-09[4]	3	3	3	3	3	2	**2**	1
B5. Combination of B1-B4 using one-half standard deviation shocks	3	7	12	11	11	10	**8**	4
B6. One-time 30 percent nominal depreciation relative to the baseline in 2008[5]	3	3	3	3	3	3	**2**	1
NPV of debt-to-exports ratio								
Baseline	8	6	6	6	6	6	**5**	5
A. Alternative scenarios								
A1. Key variables at their historical averages in 2007-26[1]	8	9	7	6	4	3	**...**	...
A2. New public sector loans on less favorable terms in 2007-26[2]	8	6	7	7	7	7	**6**	8
A3. Oil Price Shock (-$19)	8	6	6	8	8	8	6	166
A4. Higher Deficit Scenario	8	6	6	6	6	6	5	41
B. Bound tests								
B1. Real GDP growth at historical average minus one standard deviation in 2008-09	8	6	6	6	6	6	**5**	5
B2. Export value growth at historical average minus one standard deviation in 2008-09[3]	8	34	81	81	80	76	**64**	40
B3. US dollar GDP deflator at historical average minus one standard deviation in 2008-09	8	6	6	6	6	6	**5**	5
B4. Net non-debt creating flows at historical average minus one standard deviation in 2008-09[4]	8	7	8	8	8	8	**6**	6
B5. Combination of B1-B4 using one-half standard deviation shocks	8	19	30	30	30	28	**24**	16
B6. One-time 30 percent nominal depreciation relative to the baseline in 2008[5]	8	6	6	6	6	6	**5**	5
NPV of debt-to-revenue ratio								
Baseline	10	8	7	7	7	7	**6**	6
A. Alternative scenarios								
A1. Key variables at their historical averages in 2007-26[1]	10	11	8	7	4	3	**...**	...
A2. New public sector loans on less favorable terms in 2007-26[2]	10	8	8	8	8	8	**7**	8
A3. Oil Price Shock (-$19)	10	9	8	8	8	8	7	196
A4. Higher Deficit Scenario	10	9	8	8	8	8	7	55
B. Bound tests								
B1. Real GDP growth at historical average minus one standard deviation in 2008-09	10	8	8	8	8	8	**7**	6
B2. Export value growth at historical average minus one standard deviation in 2008-09[3]	10	28	52	51	50	48	**42**	24
B3. US dollar GDP deflator at historical average minus one standard deviation in 2008-09	10	10	11	10	10	10	**9**	8
B4. Net non-debt creating flows at historical average minus one standard deviation in 2008-09[4]	10	9	9	9	9	9	**7**	6
B5. Combination of B1-B4 using one-half standard deviation shocks	10	24	38	37	37	35	**31**	19
B6. One-time 30 percent nominal depreciation relative to the baseline in 2008[5]	10	10	10	9	9	9	**8**	7

Table 1b. Nigeria: Sensitivity Analyses for Key Indicators of Public and Publicly Guaranteed External Debt, 2007–27 (continued)
(Percent)

Debt service-to-exports ratio

Baseline	2	0.7	0.5	0.4	0.4	0.3	**0.3**	0.3
A. Alternative scenarios								
A1. Key variables at their historical averages in 2008-27[1]	2	1	1	0	0	0	**0**	...
A2. New public sector loans on less favorable terms in 2008-27[2]	2	1	1	0	0	0	**0**	1
A3. Oil Price Shock (-$19)	2	1	1	1	1	0	0	1
A4. Higher Deficit Scenario	2	1	1	0	0	0	0	1
B. Bound tests								
B1. Real GDP growth at historical average minus one standard deviation in 2008-09	2	1	0	0	0	0	**0**	0
B2. Export value growth at historical average minus one standard deviation in 2008-09[3]	2	1	1	2	2	2	**3**	3
B3. US dollar GDP deflator at historical average minus one standard deviation in 2008-09	2	1	0	0	0	0	**0**	0
B4. Net non-debt creating flows at historical average minus one standard deviation in 2008-09[4]	2	1	1	0	0	0	**0**	0
B5. Combination of B1-B4 using one-half standard deviation shocks	2	1	1	1	1	1	**1**	1
B6. One-time 30 percent nominal depreciation relative to the baseline in 2008[5]	2	1	0	0	0	0	**0**	0

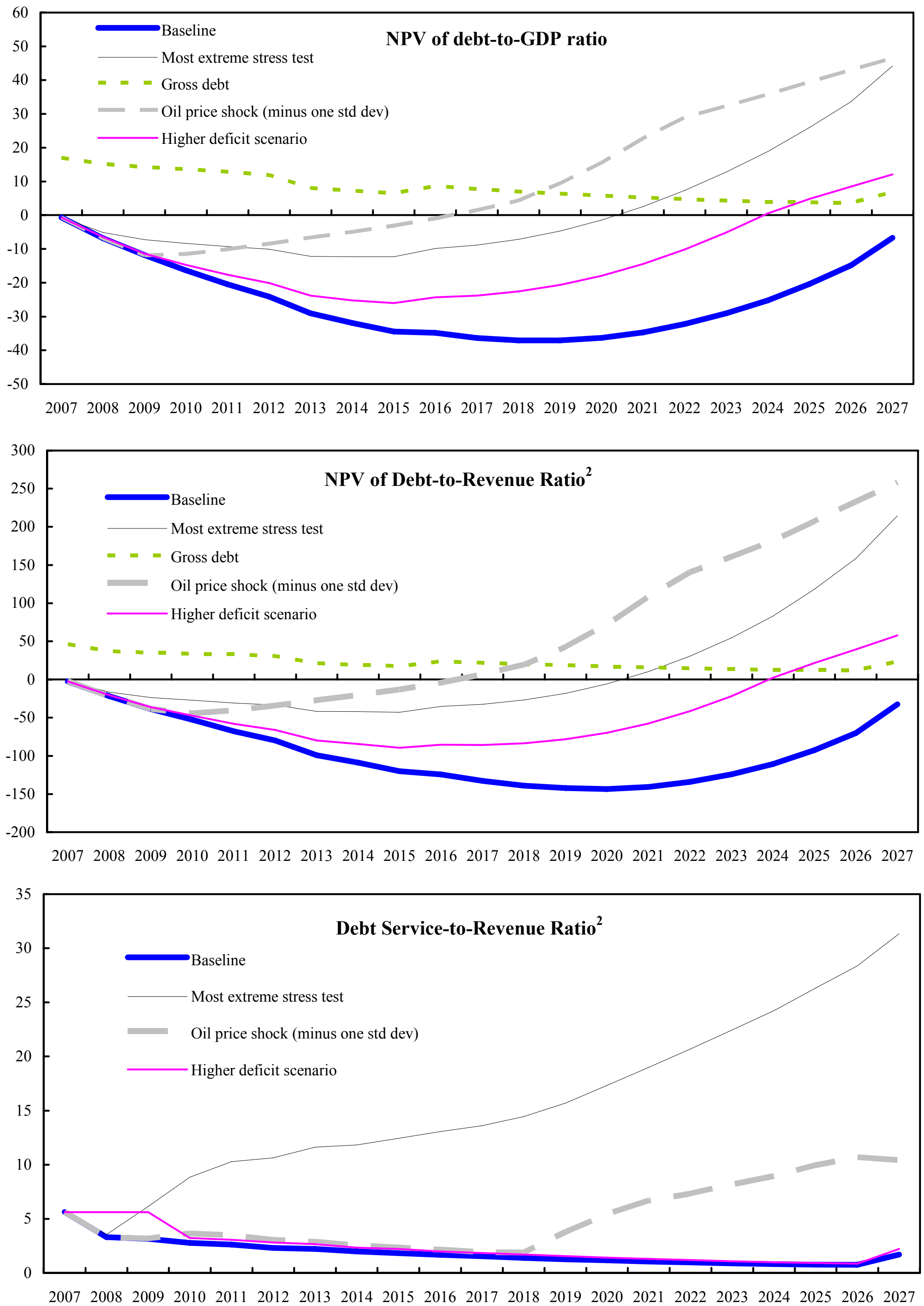
Debt service-to-revenue ratio

Baseline	2	0.9	0.6	0.4	0.4	0.4	**0.4**	0.3
A. Alternative scenarios								
A1. Key variables at their historical averages in 2008-27[1]	2	1	1	0	0	0	**0**	...
A2. New public sector loans on less favorable terms in 2008-27[2]	2	1	1	0	0	0	**1**	1
A3. Oil Price Shock (-$19)	2	1	1	1	1	0	0	2
A4. Higher Deficit Scenario	2	1	1	1	1	0	0	1
B. Bound tests								
B1. Real GDP growth at historical average minus one standard deviation in 2008-09	2	1	1	1	1	0	**0**	0
B2. Export value growth at historical average minus one standard deviation in 2008-09[3]	2	1	1	1	1	1	**2**	2
B3. US dollar GDP deflator at historical average minus one standard deviation in 2008-09	2	1	1	1	1	1	**1**	1
B4. Net non-debt creating flows at historical average minus one standard deviation in 2008-09[4]	2	1	1	0	0	0	**1**	0
B5. Combination of B1-B4 using one-half standard deviation shocks	2	1	1	1	1	1	**2**	2
B6. One-time 30 percent nominal depreciation relative to the baseline in 2008[5]	2	1	1	1	1	0	**1**	1
Memorandum item:								
Grant element assumed on residual financing (i.e., financing required above baseline)[6]	50	50	50	50	50	50	**50**	50

Source: Staff projections and simulations.

[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.

Figure 2. Nigeria: Indicators of Public Debt Under Alternative Scenarios, 2007-27 [1]



Source: Staff projections and simulations.
[1] Most extreme stress test is test that yields highest ratio in 2017.
[2] Revenue including grants.

Table 2a. Nigeria: Public Sector Debt Sustainability Framework, Baseline Scenario, 2004-2027
(In percent of GDP, unless otherwise indicated)

	Actual					Estimate					Projections				
	2004	2005	2006	Historical Average 5/	Standard Deviation[5]	2007	2008	2009	2010	2011	2012	2007-12 Average	2017	2027	2013-27 Average
Public sector debt[1]	46.3	19.9	-2.1			-1.8	-7.6	-12.3	-16.4	-20.2	-23.7		-35.9	-6.4	
o/w foreign-currency denominated	41.3	18.2	2.4			2.0	1.6	1.8	2.0	2.2	2.4		2.3	1.4	
Change in public sector debt	-14.3	-26.5	-21.9			0.3	-5.8	-4.7	-4.2	-3.8	-3.5		-1.5	5.4	
Identified debt-creating flows	-29.3	-7.6	-12.1			-33.1	-6.0	-4.1	-3.0	-1.6	-1.0		2.0	7.5	
Primary deficit	-9.2	-10.6	-8.7	-5.5	5.0	-1.9	-7.0	-5.7	-5.4	-4.6	-4.7	-4.9	-3.2	4.7	-0.4
Revenue and grants	35.4	38.1	34.1			28.2	31.1	30.7	30.9	30.3	30.3		27.3	20.6	
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	27.5	25.4			26.3	24.0	25.1	25.6	25.6	25.5		24.1	26.1	
Automatic debt dynamics	-13.2	-8.2	-3.4			1.1	1.1	1.6	2.4	3.0	3.7		5.2	2.4	
Contribution from interest rate/growth differential	-11.3	-7.9	-3.6			1.2	1.0	1.6	2.3	3.0	3.7		5.2	2.4	
of which: contribution from average real interest rate	-5.5	-5.6	-2.5			1.0	0.9	1.0	1.5	1.9	2.2		3.0	1.4	
of which: contribution from real GDP growth	-5.8	-2.4	-1.2			0.1	0.1	0.6	0.8	1.1	1.5		2.2	0.9	
Contribution from real exchange rate depreciation	-2.0	-0.3	0.2			-0.1	0.1	0.0	0.1	0.0	0.0		...	...	
Other identified debt-creating flows	-6.8	11.2	0.0			-32.3	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)	-6.8	0.0	0.0			-32.3	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Other (specify, e.g. bank recapitalization)	0.0	11.2	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Residual, including asset changes	15.0	-18.8	-9.8			33.4	0.2	-0.6	-1.2	-2.2	-2.5		-3.5	0.3	
NPV of public sector debt	5.0	1.6	-4.5			-0.7	-6.8	-11.8	-16.3	-20.4	-24.1		-36.4	-6.7	
o/w foreign-currency denominated	0.0	0.0	0.0			3.1	2.4	2.2	2.1	2.0	1.9		1.8	1.1	
o/w external	...	...	...			3.1	2.4	2.2	2.1	2.0	1.9		1.8	1.1	
NPV of contingent liabilities (not included in public sector debt)	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Gross financing need[2]	-4.6	0.1	4.0			-0.3	-6.0	-4.7	-4.5	-3.8	-4.0		-2.8	5.9	
NPV of public sector debt-to-revenue and grants ratio (in percent)	14.1	4.2	-13.2			-2.3	-21.8	-38.5	-52.7	-67.5	-79.7		-133.0	-32.5	
NPV of public sector debt-to-revenue ratio (in percent)	14.1	4.2	-13.2			-2.3	-21.8	-38.5	-52.7	-67.5	-79.7		-133.0	-32.5	
o/w external 3/	...	...	...			11.0	7.8	7.1	6.7	6.7	6.4		6.5	5.4	
Debt service-to-revenue and grants ratio (in percent)[4]	13.3	28.0	37.2			5.6	3.3	3.1	2.8	2.6	2.3		1.5	1.7	
Debt service-to-revenue ratio (in percent)[4]	13.3	28.0	37.2			5.6	3.3	3.1	2.8	2.6	2.3		1.5	1.7	
Primary deficit that stabilizes the debt-to-GDP ratio	5.0	15.9	13.3			-2.2	-1.3	-1.0	-1.2	-0.8	-1.3		-1.7	-0.7	
Key macroeconomic and fiscal assumptions															
Average nominal interest rate on forex debt (in percent)	4.8	4.5	1.0	5.7	2.0	6.0	4.0	3.3	3.0	2.9	2.8	3.7	2.2	1.0	1.8
Average real interest rate on domestic currency debt (in percent)	-5.7	4.4	40.4	8.8	209.2	-25.1	-30.4	-11.9	-11.6	-10.8	-10.5	-16.7	-8.7	-9.4	-8.6
Real exchange rate depreciation (in percent, + indicates depreciation)	-5.0	-0.8	1.5	0.4	4.1	-4.6	...	...	...	...	...	...	...	...	...
Inflation rate (GDP deflator, in percent)	20.7	19.8	19.5	13.5	12.7	4.8	9.6	2.6	6.4	7.4	8.3	6.5	8.4	8.1	8.3
Growth of real primary spending (deflated by GDP deflator, in percent)	-0.9	11.2	-1.9	17.2	24.0	9.9	-0.4	12.9	9.3	7.2	7.7	7.8	7.0	8.0	7.0
Grant element of new external borrowing (in percent)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	...

Sources: Country authorities; and Fund staff estimates and projections.

[1] Gross debt of the consolidated government less gross consolidated government assets.

[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 2b. Nigeria: Sensitivity Analysis for Key Indicators of Public Debt 2007-2027

	Projections							
	2007	2008	2009	2010	2011	2012	2017	2027
NPV of Debt-to-GDP Ratio								
Baseline	-1	-7	-12	-16	-20	-24	-36	-7
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	-1	-5	-10	-15	-20	-25	-43	-67
A2. Primary balance is unchanged from 2007	-1	-2	-4	-5	-7	-9	-15	-20
A3. Permanently lower GDP growth[1]	-1	-7	-11	-15	-18	-21	-24	48
A4. Oil price shock (-$19 per barrel) [2]	-1	-7	-12	-11	-10	-8	2	46
A5. Higher deficit scenario	-1	-6	-11	-15	-18	-20	-24	12
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2008-2009	-1	-5	-7	-8	-9	-10	-9	44
B2. Primary balance is at historical average minus one standard deviations in 2008-2009	-1	-1	-1	-6	-11	-15	-28	-1
B3. Combination of B1-B2 using one half standard deviation shocks	-1	-3	-6	-11	-15	-19	-32	-3
B4. One-time 30 percent real depreciation in 2008	-1	-6	-11	-16	-20	-24	-36	-6
B5. 10 percent of GDP increase in other debt-creating flows in 2008	-1	3	-3	-8	-12	-16	-30	-2
NPV of Debt-to-Revenue Ratio[2]								
Baseline	-2	-22	-39	-53	-68	-80	-133	-32
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	-2	-17	-34	-49	-66	-81	-158	-328
A2. Primary balance is unchanged from 2007	-2	-6	-13	-18	-25	-30	-55	-98
A3. Permanently lower GDP growth[1]	-2	-21	-36	-48	-60	-68	-86	233
A4. Oil price shock (-$19 per barrel) [2]	-2	-22	-39	-44	-40	-34	7	258
A5. Higher deficit scenario	-2	-20	-36	-47	-58	-66	-86	58
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2008-2009	-2	-17	-24	-27	-31	-33	-32	215
B2. Primary balance is at historical average minus one standard deviations in 2008-2009	-2	-2	-5	-20	-35	-49	-104	-6
B3. Combination of B1-B2 using one half standard deviation shocks	-2	-10	-20	-35	-50	-63	-117	-15
B4. One-time 30 percent real depreciation in 2008	-2	-18	-36	-50	-66	-78	-131	-30
B5. 10 percent of GDP increase in other debt-creating flows in 2008	-2	8	-10	-25	-40	-54	-109	-10
Debt Service-to-Revenue Ratio[2]								
Baseline	6	3	3	3	3	2	2	2
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	6	3	5	4	3	2	-1	-32
A2. Primary balance is unchanged from 2007	6	3	8	9	9	8	9	-5
A3. Permanently lower GDP growth[1]	6	3	4	4	4	5	9	32
A4. Oil price shock (-$19 per barrel)[2]	6	3	3	4	3	3	2	10
A5. Higher deficit scenario	6	3	3	3	3	2	2	6
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2008-2009	6	4	6	9	10	11	14	31
B2. Primary balance is at historical average minus one standard deviations in 2008-2009	6	3	10	11	6	5	3	6
B3. Combination of B1-B2 using one half standard deviation shocks	6	3	8	8	6	5	4	5
B4. One-time 30 percent real depreciation in 2008	6	3	3	3	3	2	2	2
B5. 10 percent of GDP increase in other debt-creating flows in 2008	6	3	13	7	5	4	3	5

Sources: Country authorities; and Fund staff estimates and projections.

[1] Assumes that real GDP growth is at baseline minus one standard deviation divided by the square root of 20 (i.e., the length of the projection period).

[2] Revenues are defined inclusive of grants.

ANNEX I. NIGERIA: RELATIONS WITH THE FUND

(As of December 31, 2007)

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	1,753.11	100.00
Reserve Position	0.14	0.01
Holdings Exchange Rate		

III. **SDR Department:**	**SDR Million**	**%Allocation**
Net cumulative allocation	157.16	100.00
Holdings	0.55	0.35

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

	Forthcoming				
	2008	2009	2010	2011	2012
Principal					
Charges/Interest	5.51	5.49	5.49	5.49	5.49
Total	5.51	5.49	5.49	5.49	5.49

VII. **Exchange Rate Arrangement**

Nigeria's exchange rate arrangement is classified as a managed float without a pre-determined path for the exchange rate of the naira. On February 20, 2006, the CBN executed its first auction under the new wholesale Dutch Auction System (DAS). The introduction of the wholesale DAS with sales direct to interbank market participants was an important step towards unification of the two major foreign exchange markets—the retail market for nonfinancial traders and investors and the interbank market. The naira also continues to be traded in two markets for small-scale cash transactions—the bureau de change market and the curb market. Since May 2006 the exchange rate has effectively been unified. The introduction of the wholesale DAS also represents an important step toward accepting the obligations of Article VIII, sections 2, 3 and 4 of the IMF's Articles of Agreement, although the multiple prices, which are a technical characteristic of a Dutch Auction system, give rise to a multiple currency practice. A comprehensive assessment by MCM and LEG is needed to identify the extent of remaining restrictions and multiple currency practices.

VIII. **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, which 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. Staff findings and proposed recommendations are reported in the Country Report No. 03/3.

IX. **Article IV Consultation**

Following the expiration of the Policy Support Instrument on October 16, 2007, Nigeria is on the standard 12-month Article IV consultation cycle. The previous Article IV consultation was concluded on July 18, 2005.

X. **Technical Assistance (TA) Since 2002**:

Department	**Purpose of TA mission**	**Duration**
MAE	FSAP	February 4–20, 2002
FAD	Public expenditure management	January 29–February 8, 2002
STA	Government finance statistics	February 28–March 13, 20
FAD	Resident budget advisor	April 19 2002–June, 2003
MFD	Domestic debt management	February 25–March 5, 2003
STA	General data dissemination standards	July 2–15, 2003
STA	National accounts	July 24-August 12, 2003
FAD	Budget process reforms	August 20–29, 2003
FAD	Pension reform	October 20–29, 2003
FAD	Public expenditure management advisor	February–August 2004
MFD	Domestic debt management	February 5–17, 2004
LEG	FIU creation and organization	May 31–June 04, 2004
LEG	Legislative drafting/FIU	July 12–16, 2004
FAD	Tax administration	July 19–August 3, 2004
MFD	Monetary operations/foreign exchange	August 26–September 10, 2004
FAD	Public expenditure management advisor	October 2004–June 2005
LEG	Exchange rates systems	November 16–22, 2004
MFD	Bank supervision/restructuring	November 16–29, 2004
STA	Balance of payment statistics	February 2–16, 2005

FAD	Tax administration	February 8–21, 2005
MFD	Banking supervision, financial, exchange Market, and currency reforms	March 9–24, 2005
MFD	Banking consolidation and supervision, Currency reforms	August 29–September 13, 2005
FAD	Tax administration peripatetic advisor	July–December, 2005 (3 visits)
FAD	Public expenditure management advisor	October 2005–April 2006
MFD	Banking consolidation, monetary policy	November 9–22, 2005
MFD	Monetary operations advisor	December 11–17, 2005
STA	Money and banking statistics	January 26–February 8, 2006
MFD	Exchange rate management advisor	February 13–20, 2006
MFD	Banking consolidation, monetary policy	February 27–March 10, 2006
STA	Balance of payment statistics	March 15–28, 2006
MCM	Monetary policy peripatetic advisor	Since May 2006 4 visits (some joint with HQ staff)
MCM	Financial sector development	November 17–24, 2006
MCM	Monetary policy long-term advisor	since December 18, 2006
MCM	Central bank accounting	Since February 2007 3 visits
FAD	Public financial management	February 14–23, 2007
STA	Monetary statistics	February 20–27, 2007
FAD	Public financial management advisor	Since June 3, 2007
MCM	Financial sector strategy	June 17–22, 2007
STA	National accounts (GDDS 2 project)	June 11–July 6, 2007
MCM	Baseline analysis of the financial sector	September 26-October 10, 2007
STA	Balance of payments (GDDS 2 project)	October 2–12, 2007
STA	Balance of payments, and IIP	October 17−November 2, 2007
STA	National Accounts (GDDS 2 project)	October 29–November 16, 2007

XI. **Resident Representative**:

Mr. Michael Bell entered on duty as Senior Resident Representative in Abuja on August 10, 2006.

ANNEX II. NIGERIA: RELATIONS WITH THE WORLD BANK

Partnership for development

1. The Nigerian government has been making progress with implementation of the National Economic Empowerment and Development Strategy (NEEDS), a program of reforms aimed at achieving economic and social transformation in Nigeria. President Yar'Adua's 7-Point Agenda builds on the NEEDS and focuses on the following 7 areas of priority: (i) ensuring sustainable growth in the real sector of the economy; (ii) building physical infrastructure—power, energy and transportation; (iii) supporting agriculture; (iv) enhancing human capital development—education and health; (v) strengthening security, law and order; (vi) combating corruption; and (vii) developing the Niger Delta. These efforts at the Federal level, working in parallel with state development plans, are continuing to improve the environment for development assistance and strengthen the framework for aid effectiveness.

2. The World Bank assistance to Nigeria is based on a joint World Bank/DFID Country Partnership Strategy (CPS) prepared in consultation with government, civil society, private sector and other development partners and approved by the British Government and the Board of the World Bank on June 28, 2005. This strategy, which is guiding the assistance of the Bank and UK's DFID to Nigeria for the period FY06 to FY09, supports selected priorities under the three broad pillars of the NEEDS/state development plans framework, namely: (i) empowering people through improved service delivery for human development; (ii) promoting private enterprise through improved business environment for non-oil growth and improved access to productive infrastructure; and (iii) changing the way government does its work through improved transparency and accountability.

3. Under the CPS, both the World Bank and UK's DFID are deepening engagement with Nigeria, in response to the improved policy environment and the importance of Nigeria for meeting the MDGs in Africa. More support is provided to states where constitutional responsibility for most functions related to achievement of the MDGs lies. At the same time, the Bank and DFID are more selective in approach, concentrating assistance at the Federal level and in a set of lead states that are strongly committed to reforms and where development assistance can achieve the greatest impact on growth and poverty reduction. Currently, the Partners have signed State Partnership Agreements with four of such lead states. In the last two years, the partnership has also been extended to include USAID, particularly at the state level, and cooperation with UNDP, EU and the African Development Bank.

4. Under the strategy, IDA expended financial support to Nigeria for FY06 and FY 07 of about US$1.17 billion. Indicative lending plans for the remaining two years of the CPS will be set during the mid-term review of the CPS which will go to the Board in March 2008

(based on an expected increased IDA allocation, as Nigeria's performance has been improving).

5. The Progress Report assesses progress made to date in supporting Nigeria's development objectives and makes adjustments to better align partner support to the emerging priorities of the Administration, as articulated in the 7 point agenda. While the strategy and its approaches remain relevant to Nigeria's needs and the Government program, in the next two years increased emphasis will be placed on supporting the power sector, state governance reforms, and addressing the Niger Delta issues.

World Bank–IMF relations

6. The IMF and World Bank staffs maintain a close collaborative relationship on Nigeria. Both institutions are coordinating their policy advice to the government in several areas (including the financial sector, public financial management, and statistics) through collaboration on analytical work, and through joint technical assistance missions. The Bank staff is regularly invited to join IMF macroeconomic missions. The Bank's work and support to Government in key structural reform areas informed the PSI program. Nigeria is also a pilot project for enhanced Bank-Fund collaboration in the area of management of natural resources. Efforts under this pilot project have identified a range of joint Bank-Fund activities aimed at strengthening the legal and regulatory framework for the management of natural resources.

7. In 2005, the Bank and the IMF staff collaborated on a Debt Sustainability Analysis for Nigeria and prepared a Joint Staff Assessment Note on the NEEDS which was discussed by both the Boards of the World Bank and the IMF. In 2006 and 2007, the Bank and the IMF staff jointly updated the Debt Sustainability Analysis.

Lending activities

8. The IDA commitment in Nigeria continued to show an upward trend; growing from about US$1.5 billion in FY05, to current US$2.6 billion; out of which only about 16 percent is at risk by amount. This represents a significant improvement compared to 79 percent in FY03 and 43 percent in FY05 respectively. This portfolio comprises 23 IDA projects covering activities in various sectors of the economy. About 41 percent of the portfolio is in infrastructure (water supply, power and transport). About 32 percent is in human development covering health, education and HIV/AIDS. The remaining projects support rural development (10 percent), private sector development (10 percent), and economic management and governance (7 percent)

9. As of December 2007, about US$1.07 billion has been disbursed out of the total IDA commitment of US$2.6 billion. While the disbursement ratio reached 24.5 percent at end FY07, it is currently in FY08 at 8.6 percent. Overall disbursement has gone down somewhat due to the number and volume of projects entering the portfolio at end FY07–08, the new

administration, and implementation of new projects. However, efforts are being made to speed up implementation of new projects and improve overall disbursements. The Bank is also continuing to focus on strengthening monitoring and evaluation (M&E) arrangements to ensure that projects in the portfolio achieve their development objectives.

Non-lending activities

10. The World Bank has continued to expand its program of economic and sector analysis as part of its efforts to strengthen policy dialogue and improve on the quality of its investment operations. The current Economic and Sector Work program has a strong focus on public expenditure management, competitiveness and growth, and power. It is also has been paying growing attention to regional integration agenda, poverty analysis, and trends in the social sector. Key proposed analytical pieces include a Fiscal Federalism study (FY08), an Agriculture Financing Review (FY08), an Agriculture PER (FY08), an Employment and Growth study (FY09), a Poverty Assessment (FY10) and a Trade and Regional Integration study (FY10).

International Finance Corporation (IFC) activities

11. Nigeria remains IFC's largest commitment portfolio in Sub-Sahara Africa with an outstanding portfolio of US$553 million in private sector investments as of November 30, 2007. IFC's outstanding portfolio in the country represents over 37 percent of the sub-Saharan Africa region's portfolio, having grown from US$42 million on June 30, 2001. IFC's strategy for Nigeria involves collaboration with the Bank and UK's DFID and is driven by both IFC's Sub-Saharan Africa Strategy and the CPS for Nigeria. The strategy focuses on:
(i) proactive project development in the key sectors of financial markets, infrastructure, manufacturing & services, indigenous oil-gas-petrochemicals, agribusiness and healthcare;
(ii) diversification within financial markets to include trade finance, housing finance including mortgages and securitizations, insurance, MSME finance, microfinance;
(iii) utilizing technical assistance to enhance private sector development in Nigeria such as improving investment climate and developing the local fixed income capital market; and,
(iv) designing and implementing select financing and technical assistance pilots to support Bank/DFID initiatives such as exploring the potential of sub-national financing of the four lead states for which the Bank has signed States Partnership Agreements. Further highlights of IFC activities in the various sectors of Nigeria are described below.

12. **Financial sector.** Over the past five years, IFC has disbursed over US$220 million to five Nigerian banks in terms of long-term credit lines. It also signed on seven Nigerian banks as issuing banks under the IFC Global Trade Finance Program. The total utilization of the trade finance facilities was approximately US$315 million in FY07. In addition, IFC is providing Nigerian banks with specialized financing facilities and technical assistance, to open up financing opportunities in new or untapped markets such as women entrepreneurs, construction finance, retail and consumer banking through assisting with establishment of a

private credit bureau, mortgages and securitization, and corporate governance. IFC's involvement has helped its portfolio banks strengthen their governance and risk management capabilities. Moreover, IFC is increasingly diversifying to finance non-bank financial institutions such as insurance and asset management companies. IFC has been able to provide naira long-term financing to both banks and real sector companies because of the existence of long-term cross-currency swaps from naira into convertible currencies.

13. **General manufacturing services.** In recent years, IFC has increased its exposure significantly in a variety of general manufacturing projects including a US$75 million investment in the Obajana Cement Company. This is a Greenfield cement plant with an annual capacity of 5 million tons, and includes a 135 MW power plant, a 92km natural gas pipeline, a water supply dam and other support facilities. IFC is also providing technical assistance to design and implement community development programs in the rural Obajana, as well as improve the supply chain management for SME distribution of cement across Nigeria. Other notable investments in the sector include a US$40 million investment in UPDC, a real estate development and management company, and a US$10 million investment in Star Paper Mills Ltd.

14. **Oil and gas, mining and petrochemicals.** IFC's strategy in this sector has been to target the services area in linkages to projects with the oil majors, as well as indigenous oil and gas production and services companies. There have also been recent opportunities in the petrochemicals sector as a result of privatizations, such as the Eleme petrochemicals project, where IFC has approved a US$75 million investment for rehabilitation and expansion of capacity, and is providing technical assistance for establishment of a community development program.

15. **Advisory and technical assistance projects.** Private Enterprise Partnership (PEP) Africa initiative designs and implements programs to support the development of the private sector in three areas: improving the investment climate, proactively identifying investment opportunities, and supporting SME development. In Nigeria, under PEP Africa, the leading projects include the SME Entrepreneurship Development Initiative, the Oil Sector SME Linkages Project in coordination with INSOK from Norway, corporate governance program for banks, and fixed income capital market development. IFC is also the lead adviser to the government for the privatization of Nigeria airports, beginning with the Abuja airport. In the power sector, a joint World Bank/IFC Energy Team is working with the federal government on sector reform and strategies for privatization.

World Bank Institute activities (WBI)

16. Nigeria is a WBI Focus Country. WBI has continued to partner with relevant stakeholders in building capacity for the implementation of programs that will empower communities, improve economic governance and ensure non-oil private sector development. WBI also aims to strengthen the national parliament, increase civil society participation in

governance through youth programs, facilitate the development of good quality and pluralistic media, and support science and technology developments by assisting the African Institute of Science and Technology (AIST). A Global Distance Learning Network (GDLN) center is expected to be completed and functional in Abuja before end-2007. WBI cooperates with the Federal Center for Health Systems Studies through its training programs of key managers and decision makers involved in health sector reforms. Other important WBI programs include support for NEEDS Implementation, HIV/AIDS, and building capacity in Nigerian youth organizations.

Multilateral Investment Guarantee Agency (MIGA)

17. MIGA is one of few political risk insurance providers that offers long-term coverage in Nigeria, and is committed to be a productive partner in the government's NEEDS strategy and assist in its efforts to diversify the economy away from the hydrocarbon sector.

18. Currently, MIGA's gross exposure in Nigeria is $102.9 million and consists of five projects in support of the country's manufacturing and services sectors. In its FY08 pipeline, the Agency expects to provide coverage of two additional investments, in the agribusiness, and infrastructure (power) sectors. These projects, to be sponsored by investors from the United Kingdom and Lebanon, have an anticipated combined gross exposure of $106.6 million.

19. MIGA's online investment promotion services (www.fdi.net and www.pri-center.com) are unique web portals that offer free country analyses and information relating to foreign direct investment (FDI) and political risk management and insurance for 175 countries. These initiatives contribute to MIGA's mandate of promoting FDI in developing countries as a way to enhance growth and development. At present, these services feature 221 documents on investment opportunities and the related business, legal and regulatory environment in Nigeria.

Table 1. Nigeria: IDA Credit Portfolio

(As of December 6, 2007, US$ million)

Project ID	Project Name	Fiscal Year	Approved IDA Amount	Disbursed	Undisbursed
P065301	Economic Mgt. Capacity Building	2000	20.0	19.3	0.8
P069892	Local Empowerment & Environment Management	2004	70.0	57.4	22.8
P069901	Community-based Urban Development	2002	110.0	46.3	90.6
P070290	2nd Health Systems Development	2002	127.0	134.0	18.3
P070291	HIV/AIDS Program Development	2002	140.3	102.3	54.9
P070293	Privatization Support Project	2001	114.3	74.5	62.1
P071075	Urban Water Sector Reform I	2004	120.0	29.3	99.0
P072018	Transmission Development	2002	100.0	98.3	18.6
P074963	Lagos Urban Transport Project	2003	150.0	90.7	74.1
P080295	Polio Eradication	2003	80.4	75.7	3.5
P083082	Micro, Small & Medium Enterp.	2004	32.0	7.1	27.9
P063622	Fadama	2004	100.0	86.7	17.7
P086716	Sustainable Management of Mineral Resources	2005	120.0	29.6	95.8
P088150	Economic Reform and Governance	2005	140.0	37.8	108.1
P071391	Urban Water Sector Reform II	2006	200.0	17.4	193.4
P074447	State Governance & Capacity Bldg.	2005	18.1	1.8	17.1
P090104	National Energy Development Project	2006	172.0	18.0	160.4
P100122	Avian Influenza Control	2006	50.0	26.1	27.6
P071340	Lagos Metropolitan Development and Governance	2007	200.0	16.9	201.9
P102966	Community-based Poverty Reduction	2001	85.0	80.7	13.4
P097921	Malaria Control Booster Project	2007	180.0	19.7	172.4
P096151	State Education Sector Project	2007	65.0	0	69.2
P074132	Science and Tech. Educ. In Post-Basic	2007	180.0	0	186.5
	Total		**2,574.1**	**1069.6**	**1736.3**

Table 2. Nigeria: Proposed Lending Summary, FY2008/10

(As of December 6, 2007, US$ million)

FY 08	Fadama 3	250
	Community Social Development	200
	Total	**450**
FY 09	State Health	50
	Federal Roads	327
	Rural Access and Mobility (RAMP 1)	50
	Polio Supplement	50
	Health Systems Development Supplement	50
	State Education 2	70
	Growth Poles	80
	HIV/AIDS	100
	Commercial Agriculture	100
	Total	**877**
FY 10	Commercial Agriculture/Rural Finance	100
	Federal Roads 2	250
	RAMP 2	100
	State and Local Government/Justice	50
	State Education 3	50
	State Water	50
	Conditional Cash Transfer /Maternal and Child Health	100
	Total	**700**

Table 3. Nigeria: Non-lending Summary, FY2008/10

(As of December 6, 2007)

Proposed	
FY08	Energy Policy Notes Economic Management and Capacity-building Project (EMCAP) ICR Agriculture Public Expenditure Review Fiscal Federalism Study Niger Delta Social and Conflict Analysis Financing Agriculture Study CPS Progress Report Petroleum Pricing Study
FY 09	Governance of Service Delivery Review Human Development Strategy Note NEITI Report Employment and Growth Study Transport and Economic Growth Study Health CSR2 Community Based Health and Nutrition Interventions Study Access to Justice study
FY 10	Poverty Assessment Trade and Regional Integration Study Non-Bank Financial Institutions Study
Ongoing (IDF/TA/policy dialogue)	
FY 08-09	Investment Climate Assessment - State Corruption and Governance Risks Assessment Nigeria Extractive Industry Transparency Initiative (NEITI) Legal reforms—Technical Assistance (TA) Niger Delta Community Foundation Results Monitoring IDF Country Portfolio Performance Review (CPPR) Implementation support—M&E and PFMU Human Development Outcome Dialogue Non-oil Growth Outcome Dialogue Governance Outcome Dialogue Donor Harmonization Economic Monitoring Support to the National Assembly Civil Society Outreach Private Sector Outreach Communication Outreach and Academia

Table 4. Nigeria: International Finance Corporation
Statement of IFC's Held and Disbursed Portfolio at August 31, 2007

Commitment Fiscal Year	Institution Short Name	LN Cmtd-IFC	ET Cmtd-IFC	QL+QE Cmtd-IFC	GT Cmtd-IFC	All Cmtd-IFC	All Cmtd-Part	LN Out-IFC	ET Out-IFC	QL+QE Out-IFC	GT Out-IFC	All Out-IFC
2000	AEF Global Fabri	0.32	-	-	-	0.32	-	0.32	-	-	-	0.32
2000	AEF Hercules	1.30	-	-	-	1.30	-	1.30	-	-	-	1.30
2000/ 2007	AEF Hygeia	3.28	-	-	-	3.28	-	2.02	-	-	-	2.02
1997	AEF Mid-East	-	-	0.00	-	0.00	-	-	-	0.00	-	0.00
2001	AEF Oha Motors	0.00	-	-	-	0.00	-	0.00	-	-	-	0.00
2001/ 2003	AEF SafetyCenter	0.30	0.00	-	-	0.30	-	0.30	0.00	-	-	0.30
1996/ 1998/ 2000	AEF Vinfesen	-	-	1.00	-	1.00	-	-	-	1.00	-	1.00
1997	Abuja Intl	1.75	0.00	-	-	1.75	-	1.75	0.00	-	-	1.75
2005	Accion Nigeria	-	1.89	-	-	1.89	-	-	0.57	-	-	0.57
2003	Adamac	11.56	-	-	-	11.56	6.94	11.56	-	-	-	11.56
1964/ 1967/ 1970/ 1990/ 1992	Arewa Textiles	-	0.00	-	-	0.00	-	-	0.00	-	-	0.00
2000	CAPE FUND	-	0.41	-	-	0.41	-	-	0.00	-	-	0.00
2001/ 2005/ 2006/ 2008	Diamond Bank	20.00	-	47.27	-	67.27	-	-	-	47.27	-	47.27
2007	Eleme	54.25	-	15.00	-	69.25	70.80	50.25	-	9.00	-	59.25
2001	FSB	2.10	-	1.50	-	3.60	-	2.10	-	1.50	-	3.60
1993	FSDH	-	0.86	-	-	0.86	-	-	0.86	-	-	0.86
2001/ 2004/ 2005/ 2006	GTB	72.00	-	-	-	72.00	-	57.00	-	-	-	57.00
2006/ 2007/ 2008	GTFP Access Bank	-	-	15.00	28.78	43.78	-	-	-	15.00	28.67	43.67
2006/ 2007/ 2008	GTFP Diamond Bnk	-	-	-	56.12	56.12	-	-	-	-	55.76	55.76
2006/ 2007/ 2008	GTFP GTB Nigeria	-	-	-	6.47	6.47	-	-	-	-	6.46	6.46
2006/ 2007/ 2008	GTFP IBTC Plc.	-	-	-	1.17	1.17	-	-	-	-	1.17	1.17
2006/ 2007/ 2008	GTFP Zenith	-	-	-	4.40	4.40	-	-	-	-	4.40	4.40
2001/ 2006	IBTC	-	-	14.57	-	14.57	-	-	-	14.57	-	14.57
1981/ 1988/ 1990/ 1993	Ikeja Hotel	-	0.07	-	-	0.07	-	-	0.07	-	-	0.07
2007/ 2008	IntCon Bank	-	-	-	39.32	39.32	-	-	-	-	39.32	39.32
2007	Leadway	-	13.30	-	-	13.30	-	-	13.30	-	-	13.30
2004/ 2005/ 2007	MTNN	-	16.75	-	-	16.75	-	-	16.32	-	-	16.32
2004	NTEF	-	-	-	20.00	20.00	-	-	-	-	-	-
2005	OCC	71.28	-	-	-	71.28	-	70.74	-	-	-	70.74
2006/ 2007	SOCKETWORKS	4.00	-	2.22	-	6.22	-	2.80	-	2.22	-	5.02
2007	Star Paper	10.00	-	-	-	10.00	-	10.00	-	-	-	10.00
2002/ 2004/ 2007	UBA	-	-	50.00	-	50.00	-	-	-	50.00	-	50.00
2007	UPDC	40.00	-	-	-	40.00	-	25.00	-	-	-	25.00
2004	UPDC Hotels Ltd.	10.62	-	-	-	10.62	-	10.62	-	-	-	10.62
Total Portfolio:		**302.76**	**33.28**	**146.56**	**156.26**	**638.87**	**77.74**	**245.76**	**31.11**	**140.56**	**135.79**	**553.23**

ANNEX III. NIGERIA: STATISTICAL ISSUES

1. Macroeconomic data are broadly adequate for surveillance; however serious data deficiencies continue to hamper policy design and monitoring. These deficiencies affect the national accounts, government finance, monetary and external accounts—including major inconsistencies between balance of payments and customs data on trade. Numerous problems prevent the compilation of timely and internally consistent data, in particular lack of data sharing between data producing and collecting agencies, and insufficient computerization.

2. Nigeria participates in the Fund's General Data Dissemination System (GDDS) and as one of 22 participants in the Fund's GDDS Project for Anglophone African Countries (funded by the U.K. Department for International Development (DFID), it has undertaken to use the GDDS as a framework for the development of its national statistical systems. In phase 2 of the GDDS project Nigeria has joined the external sector statistics and the national accounts modules.

National accounts

3. The national accounts statistics are of poor quality, largely owing to a deterioration in business and household surveys. Estimates of value added for agriculture, mining (oil), industry, transportation, and financial and other services are based on old surveys with extrapolations that use out-of-date ratios and other indicators. Where more recent survey information is used, the survey data suffer from poor response rates. Many sector deflators are not soundly based and have a number of inconsistencies. In the past, the use of the official exchange rate resulted in a gross understatement of value added in the oil and export sectors. The expenditure accounts suffer from unreliable external trade and government budgetary data.

4. A July 2003 mission helped the authorities implement the GDDS recommendations in the area of national accounts and provided guidance on institutional reforms in the statistical system. A new Statistics Act was enacted in 2007, giving autonomy to the National Bureau of Statistics. Results of a 2003 household living standards survey are now available. Moreover, the GDP methodology has been amended for estimates from 2004 onward, and a spliced series constructed back to 1981, in a move toward the *SNA 1993* and to incorporate new data sources. The authorities published a revised series dated October 2007, but the estimates continue to be reviewed in the context of the IMF/ DFID GDDS Phase 2 Project for Anglophone Africa. The revised estimates of October 2007 resulted in a shift in the level of GDP of over one-third, particularly stemming from GDP estimates for "agriculture and fishing." However, this increase in agriculture output was inconsistent with available data and inadequately documented. There are also methodological concerns regarding petroleum output, exclusion of natural gas, and deflators. A rebasing of the series (the current base year is 1990) is needed in light of the structural changes in the economy.

Prices

5. The official monthly consumer price index (CPI) is a composite of urban and rural price data, and the consumption weights are based on the 1996/97 National Consumer Expenditure

Survey. The weights are price-updated to May 2003 which is the new reference period for the index. Some data on producer prices are collected, but these statistics are not comprehensive and no producer price index is compiled. As a consequence, some sector GDP deflator indices are based not on producer prices, but on consumer price subindices and ad hoc assumptions. Expenditure deflators also suffer from methodological shortcomings.

Government finance

6. Fiscal data have historically been opaque and complicated not only by the federal structure, but also by a multiplicity of off-budget funds and by accounting practices that underestimate the actual size of public expenditure. Most pressing shortcomings are related to inadequate data coverage, the lack of monthly and quarterly compilation, and inadequate timeliness.

7. Despite the creation of a National Committee on Government Finance Statistics (NCGFS), progress has been limited in implementing past technical assistance recommendations notably owing to an unclear institutional arrangement and lack of sufficient staff. In 2002, a STA mission conducted a compilation exercise using data for 2000 that showed substantial room for improvement in the consistency of source data and reconciliation between above- and below-the-line data. This exercise compiled data for the consolidated central government and general government, with special effort to capture the numerous special funds and dedicated accounts that carry out large financial transactions. The mission used the *Government Finance Statistics Manual 2001* (*GFSM 2001*) framework (on a cash basis).

8. The 2002 mission also laid out a detailed 3-stage "action plan" and recommended to expand the NCGFS and increase GFS unit staffing; improve the consistency of OAGF and Central Bank of Nigeria (CBN) source data; expand CBN work to reconcile government financing data (available in-house); and have the GFS unit document an inventory of source data. Also, the action plan suggested that a second step focus on improving the coverage of reporting to include state and local government operations, as well as to ensure adequate dissemination of GFS data. In addition, a subsequent step was to focus on a more complete application of the guidelines contained in *GFSM 2001*.

9. Annual fiscal data are not reported for inclusion in the GFS Yearbook, but aggregated fiscal data are reported for inclusion in the IFS, although no quarterly or monthly data on financing are reported.

Monetary accounts

10. The reporting of monetary data for *IFS* was recently interrupted because of major unresolved accounting problems at the CBN. Throughout 2006, the CBN took steps to change its core accounting system, but no provision was made for a transition period in which the old and the new accounting systems would run in parallel to test the operational reliability of the new system. As a result, a number of serious distortions arose in the accounting records of the CBN, including erroneous recording of some asset balances as liabilities and vice versa, and failure to capture a number of large foreign currency transactions. Many of these issues have now been resolved and in

June 2007 a new monetary survey was introduced. The most recent central bank data published in the STA database are those for September 2006, while monthly data for the other depository corporations are those for April 2007.

Balance of payments

11. Balance of payments statistics are mostly compiled from the foreign exchange records in the banking system. Private capital movements are under-recorded and the trade data reported by the NBS (based on customs data) sharply differ from those reported by the CBN (based on banking data). Based on comparisons with counterparty data, both sets of statistics appear to significantly understate imports. Oil and gas exports are estimated by the CBN based on information provided by the Nigeria National Petroleum Company (NNPC).

12. After a hiatus of several years, the CBN has recently resumed submitting balance of payments data to STA; however, the balance of payments include large negative errors of omissions, which probably reflect an underestimation of current account debit transactions.

13. An October 2007 technical assistance mission guided the CBN compilers in developing new methodologies for external sector statistics, including for the estimation of oil and gas exports and for the recording of private capital flows and stocks. Revised balance of payments data were constructed for 2006 and a partial international investment position statement was developed for end-2005 and end-2006. Both sets of statistics can be further improved in the short-term with the processing of information from the financial statements of oil and gas, and the telecommunications sectors, and with the implementation of other key recommendations of the mission.

14. The authorities have not yet initiated compilation of international reserves data in line with the Data Template on International Reserves and Foreign Currency Liquidity. Moreover, the staff has been unable to assess whether data on official reserve assets are in principle consistent with the template; the data may not adequately reflect foreign currency liabilities or distinguish other foreign currency assets.

External debt

15. Following its establishment in August 2000 the Debt Management Office (DMO) has made significant progress in collecting, recording, reconciling, and disseminating public external debt data. This facilitated the recent Paris Club and London Club debt operations.

16. The DMO does not collect data on private sector external debt, and should work to extend the coverage of their database to include private sector liabilities and foreign investment in domestically issued debt securities.

Nigeria: Table of Common Indicators Required for Surveillance

As of December 19, 2007

	Date of latest observation	Date received	Frequency of Data[6]	Frequency of Reporting[6]	Frequency of publication[6]
Exchange Rates	Dec 2007	Dec 2007	D	M	D
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[1]	Nov 2007	Dec 2007	M	M	M
Reserve/Base Money	Oct 2007	Dec 2007	M	M	M
Broad Money	Oct 2007	Dec 2007	M	M	M
Central Bank Balance Sheet	Oct 2007	Dec 2007	M	M	M
Consolidated Balance Sheet of the Banking System	Oct 2007	Dec 2007	M	M	M
Interest Rates[2]	Oct 2007	Dec 2007	D	D	D
Consumer Price Index	Nov 2007	Dec 2007	M	M	M
Revenue, Expenditure, Balance and Composition of Financing[3] – General Government[4]	Sept 2007	Nov 2007	M	M	M
Revenue, Expenditure, Balance and Composition of Financing[3]– Central Government	Sept 2007	Nov 2007	M	M	M
Stocks of Central Government and Central Government-Guaranteed Debt[5]	Dec 2006	Nov 2007	A	A	A
External Current Account Balance	Dec 2006	Nov 2007	A	A	A
Exports and Imports of Goods	Jun 2007	Nov 2007	Q	Q	A
GDP/GNP	2006	Nov 2007	A	A	A
Gross External Debt	Dec 2006	Nov 2007	A	A	A

[1] Includes reserve assets pledged or otherwise encumbered as well as net derivative positions.

[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.

[5] Including currency and maturity composition.

[6] Daily (D), Weekly (W), Monthly (M), Quarterly (Q), Annually (A); Irregular (I); Not Available (NA)

INTERNATIONAL MONETARY FUND
Public Information Notice
EXTERNAL RELATIONS DEPARTMENT

Public Information Notice (PIN) No. 08/16
FOR IMMEDIATE RELEASE
February 15, 2008

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

IMF Executive Board Concludes 2007 Article IV Consultation with Nigeria

On February 13, 2008, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation with Nigeria.[1]

Background

Nigeria's economic performance has been strong since the last Article IV consultation. Output has grown strongly, inflation reduced to single digits, and the external and fiscal positions strengthened significantly. A burgeoning financial sector is supporting private activity. These gains reflect the implementation of an ambitious reform program that was guided by the homegrown Nigeria Economic Empowerment and Development Strategy (NEEDS) and supported by a Policy Support Instrument 2005–07, as well as a favorable external environment and debt relief.

Economic growth is buoyed by strong performance of the tertiary sector against the backdrop of solid agriculture growth. Oil sector output at currently about 2.2. million barrel per day of crude remains below potential due to the unrest in the Niger Delta. The main obstacle to non-oil growth is the infrastructure gap, especially the lack of electricity. The recent strong performance of the telecommunication and financial sectors demonstrate the growth potential once regulatory frameworks are established and macroeconomic conditions are favorable.

Poverty remains high despite several years of solid growth. Poverty is estimated at about 55 percent based on the 2004 household survey and development indicators are low. The authorities are making efforts to achieve the Millennium Development Goals and have

[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.

established targeted programs financed, for example, through a virtual poverty fund with debt relief resources.

An oil-price-based fiscal rule was instrumental for realizing the benefits of the current oil boom and avoiding a repeat of past boom-bust cycles. This rule—centered on a prudent budget oil price—delinks fiscal spending from oil market developments and thereby helps manage domestic demand pressures in line with absorptive capacity. Oil revenue windfalls were directed into the “excess crude account” and used to build up savings and repay most external debt. The budget oil price is also an important parameter for macroeconomic planning in the recently signed federal Fiscal Responsibility Act.

Nigeria is increasingly integrating into global financial markets. Interest in naira assets has been spurred by improved macroeconomic conditions, reduced external vulnerabilities, and global liquidity developments. Hence, since 2005 bank capital has increased two fold, government securities trading five fold, and stock market capitalization four fold.

The financial sector is expanding rapidly, supporting private sector activity. A bank consolidation and recapitalization program—effective from 2006—has formed stronger banks. Banks are increasing their lending to the private sector including for larger projects, for example, in the oil sector. They are strengthening their treasury capacity to offer new products found in other emerging markets, and they are expanding into cross-border and cross-sector activities.

Inflation has been brought down to single digits, while the changes in macroeconomic conditions and the financial market bring new challenges for monetary management. With increasing capital flows, reduced inflation and a unified exchange rate, money demand is expanding and less stable. Hence, targeting of monetary aggregates is becoming less reliable and the central bank is planning to adopt inflation targeting.

Nigeria’s external position is favorable. International reserves exceed US$54 billion as of end-January 2008. The remaining external debt of US$3.3 billion at end-2007 is largely to multilateral creditors. Foreign exchange markets have improved. The introduction of the Wholesale Dutch Auction System (WDAS) in early 2006 replaced a retail DAS. Regulatory changes in 2006 led to a unification of foreign exchange markets. More recently, the interbank foreign exchange market has become more important owing to an increase in private foreign exchange flows.

Executive Board Assessment

Executive Directors commended the authorities for Nigeria’s strong macroeconomic performance during the last several years. Growth is high, inflation is in single digits, and external debt is low. The economic outlook is favorable, provided that appropriate policies are maintained.

Directors highlighted the essential role that prudent fiscal policies—in particular, the oil-price-based fiscal rule—have played in achieving macroeconomic stability. They encouraged the authorities to secure agreement with the states on a fiscal framework that would continue to delink spending from oil revenue flows, and thus protect macroeconomic stability and the positive outlook for faster growth, reducing poverty, and attaining the Millennium Development Goals.

Directors considered the government's medium-term fiscal strategy a sound foundation for fiscal policies, and encouraged the authorities to adhere to the strategy's deficit targets. Spending on priority areas has increased appropriately during the last few years within a prudent resource envelope and in line with absorptive capacity, providing scope to address pressing infrastructure needs. At the same time, Directors cautioned that if overall spending were to again increase significantly, medium-term prospects for non-oil growth would likely deteriorate, to the detriment of development and poverty alleviation efforts.

Directors encouraged the authorities to finalize and implement the debt management framework, including at the level of state and local governments. They supported the authorities' intention to rely only on concessional external financing, to avoid the re-accumulation of unsustainable debt.

Directors recognized the challenges for monetary management arising from less predictable money demand, owing to the rapidly changing financial system and increased capital flows. They took note of the central bank's plans to introduce inflation targeting at the appropriate juncture, while emphasizing the importance of improving the understanding of the inflation process and the monetary policy transmission mechanism. In this regard, they welcomed the authorities' intention to move forward with an inflation targeting regime only once the institutional underpinnings for it are firmly in place.

Directors welcomed Nigeria's increasing integration into global financial markets and the growth opportunities this creates. This is attributable in large part to the successful bank consolidation program, which has strengthened the banking sector. Directors encouraged the authorities to stay ahead of developments in the financial sector, and move forward with plans to further strengthen banking supervision.

Directors agreed that the balance of payments outlook is consistent with external stability, and that the projected modest current account surplus reflects an appropriate balance between Nigeria's status as a low-income country and as an oil producer. Most Directors viewed favorably the increased flexibility in Nigeria's exchange rate, which should help support the authorities' monetary policy objectives.

Directors emphasized the need for ongoing structural reforms to maintain the growth momentum. The private sector environment has been strengthened, but more needs to be done. Directors encouraged the authorities to move forward to address the infrastructure gap and to strengthen further the public financial management system.

Directors welcomed the authorities' intention to maintain a close ongoing dialogue with the Fund, possibly in the context of a second Policy Support Instrument.

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. The staff report (use the free Adobe Acrobat Reader to view this pdf file) for the YEAR Article IV Consultation with COUNTRY is also available.

Nigeria: Selected Economic and Financial Indicators, 2004–12

	2004	2005	2006	2007	2008	2009	2010	2011	2012
		Act.		Est.			Proj.		
National income and prices	(annual percentage change, unless otherwise specified)								
Real GDP (at 1990 factor cost)	10.5	6.5	6.0	6.3	9.0	8.3	7.0	7.0	8.1
Oil GDP	3.3	0.5	-4.5	-5.6	9.0	7.5	2.5	2.0	8.2
Non-oil GDP	13.2	8.6	9.4	9.6	9.0	8.5	8.1	8.1	8.1
Production of crude oil (million barrels per day)	2.50	2.51	2.36	2.16	2.36	2.54	2.60	2.65	2.87
Nominal GDP at market prices (billions of naira)	11,674	14,735	18,710	20,845	24,893	27,672	31,500	36,192	42,374
Nominal non-oil GDP at factor cost (billions of naira)	7,163	8,907	11,582	13,438	15,669	18,419	21,597	25,380	29,833
Nominal GDP per capita (U.S. dollars)	656	824	1,049	1,158	1,427	1,557	1,666	1,738	1,849
GDP deflator	20.7	19.8	19.5	4.8	9.6	2.6	6.4	7.4	8.3
Non-oil GDP deflator	10.1	14.5	18.8	5.8	7.0	8.3	8.5	8.7	8.7
Consumer price index (annual average)	15.0	17.8	8.3	5.4	7.3	8.5	8.5	8.5	8.5
Consumer price index (end of period)	10.1	11.6	8.5	5.6	8.5	8.5	8.5	8.5	8.5
Consolidated government operations	(consists of federal, state, and local governments; percent of GDP)								
Total revenues and grants	35.4	38.1	34.1	28.2	31.1	30.7	30.9	30.3	30.3
Of which: oil and gas revenue	28.7	32.3	29.1	21.9	25.2	24.4	24.4	24.0	24.0
Total expenditure and net lending (commitment basis)	29.1	30.0	26.4	27.3	24.9	25.9	26.4	26.4	26.2
Overall balance (commitment basis)	6.3	8.1	7.7	0.9	6.2	4.8	4.6	3.9	4.1
Non-oil primary balance (percent of non-oil GDP)	-23.9	-27.2	-28.3	-27.1	-25.0	-25.0	-25.0	-25.0	-25.0
Excess crude account (billions of U.S. dollars) [1]	5.1	9.9	13.3	17.3	...	...	...	...	...
Money and credit	(change in percent of broad money at the beginning of the period)								
Broad money	14.0	16.0	39.9	28.3	23.1	...	...	...	...
Net foreign assets	62.3	61.8	68.6	27.1	50.1	...	...	...	...
Net domestic assets	-49.9	-45.8	-28.7	1.3	-27.0	...	...	...	...
Credit to consolidated government	-42.1	-17.4	-34.5	-31.2	-33.2	...	...	...	...
Credit to the rest of the economy	15.7	19.5	20.0	51.6	23.4	...	...	...	...
Velocity	3.2	3.4	3.2	2.9	2.7	...	...	...	...
Treasury bill rate (percent; end of period)	15.5	12.2	7.4	...	...	...	...	...	...
External sector	(annual percentage change, unless otherwise specified)								
Exports, f.o.b.	34.0	36.1	17.8	3.6	28.8	1.8	4.8	4.4	10.0
Oil export volume	2.5	-3.5	-2.7	-9.5	5.3	8.2	2.7	2.2	9.0
Imports, f.o.b.	-6.0	32.2	21.4	24.6	14.3	12.5	5.8	5.8	6.0
Terms of trade	20.5	38.0	18.2	11.4	19.6	-7.1	-0.4	-2.4	-2.0
Price of Nigerian oil (U.S. dollars per barrel)	38.3	55.3	65.3	73.0	88.5	83.0	83.5	83.3	83.3
Nominal effective exchange rate (end of period)	-2.8	10.4	-6.0	...	...	...	...	...	...
Real effective exchange rate (end of period)	4.0	19.7	-0.5	...	...	...	...	...	...
External debt outstanding (billions of U.S. dollars)	35.9	20.5	3.5	3.3	3.4	4.2	5.2	6.2	7.2
Gross international reserves (billions of U.S. dollars)	17.0	28.3	41.8	52.1	73.2	91.0	111.8	133.4	158.0
(equivalent months of imports of goods and services)	5.8	8.3	10.1	11.2	14.1	16.6	19.2	21.5	23.8

Sources: Nigerian authorities and IMF staff estimates and projections.
[1] Including the naira-denominated component.

Statement by the IMF Staff Representative
February 13, 2008

1. This statement reports on developments since the staff report for the Article IV was issued to the Board on January 22, 2008. Some of these developments confirm the spending pressures highlighted in the staff appraisal. The thrust of the staff appraisal remains unchanged.

2. **The external position remains robust.** International reserves stood at US$54.2 billion (equivalent to about 10 months of imports) at end-January 2008.

3. **Nigeria has not been affected by the recent volatility in financial markets.** Capital inflows into the domestic bond and stock markets are reported to have continued. The stock market was up by 1 percent in January having traded in a fairly narrow range. The naira appreciated by 0.3 percent with respect to the U.S. dollar in January on the interbank market.

4. **Headline inflation increased to 6.6 percent year-on-year in December due to food price inflation.** Core inflation (less food and energy) was negative as tradable prices declined further on the strength of the naira. The increase in food price inflation largely reflects the impact of regional droughts and a stronger than normal seasonal pick up in prices. November monetary aggregates indicate a slight pick up in broad money as the expansion in private sector credit continued.

5. **The National Assembly has yet to approve the 2008 federal budget.** It appears likely that the budget oil price will be increased to US$59 (from the proposed US$53.83) per barrel. The federal government plans to use about one half of the additional oil revenue disbursements to reduce domestic debt financing and the remainder on infrastructure projects. The higher budget oil price is expected to result in higher oil revenue allocations to state and local government. Implications for the fiscal balance cannot be assessed until the budget details are issued following parliamentary passage.

6. **Additional allocations from oil savings (the excess crude account) have been made.** An amount of US$1.8 billion (0.9 percent of GDP) was allocated to a number of states to compensate them for their financing of the Paris Club debt settlement in excess of their own state debt obligations. The allocations were made in foreign currency accounts that can be drawn upon either by conversion to naira through the interbank foreign exchange market or by direct import spending. Hence, these allocations will not inject naira liquidity into the economy. It is reported that in early February, the various tiers of government reached understandings on an additional distribution of US$4 billion (1.9 percent of GDP) from the excess crude account. This amount will also be allocated in foreign currency and released in three separate installments. While it is understood that subnational governments are being encouraged to use the funds for budgeted investment, staff does not have sufficient detail to determine the impact on fiscal balances.

7. **The government has authorized the national oil company to seek commercial financing for its investment needs in joint venture oil and gas projects**. This financing would be tied to the project and be non-recourse to both the government and the national oil company.

Statement by Peter Gakunu, Executive Director for Nigeria
and Godwill Efiong Ukpong, Alternate Director
February 13, 2008

1. The Nigerian authorities appreciate the constructive dialogue with the Fund on their economic and structural reform policies aimed at sustaining macroeconomic stability and high growth necessary for poverty reduction and attainment of the MDGs. They thank staff for the lucid and comprehensive set of papers and broadly agree with their analyses and recommendations.

Economic Developments and Outlook

2. The implementation of prudent macroeconomic policies and ambitious structural reforms, supported by a favorable external environment, including high oil prices, has contributed to impressive macroeconomic performance since the last Article IV consultation in July 2005. Real GDP growth rose from 6.5 percent in 2005 to a projected rate of 9.0 percent in 2008; inflation has declined substantially and is now in the low single digits; the exchange rate has stabilized; and there has been strong fiscal and external positions.

3. The immediate economic outlook is favorable. Real GDP growth is expected to be robust, at 8.3 percent in 2009 and 8.1 percent in 2012, supported mainly by sound sectoral policies and private and public demand. The authorities expect an increase in oil and gas production as new investments come on stream and downside risk in the Niger Delta is mitigated through government mediation efforts and public-private sector development activities in the area. Non-oil sector growth, especially agriculture, communications and financial services, which has been very strong, is expected to be sustained in the medium-term in line with increased investments in the sector. Inflation is projected to rise slightly to 7.3 percent in 2008, compared to 5.4 percent in 2007 because of pressure from factors underlying expected higher real GDP growth, but increasingly more effective monetary policy of ensuring price stability would ensure that it remains at its relatively low level. Fiscal spending has been increasingly contained during high oil prices to manage demand pressures by saving revenue windfalls in an oil savings account. The monetary authority's success in facilitating much needed bank consolidation, along with improved macroeconomic conditions, has not only enhanced rapid growth of private sector credit, but is also driving the fast pace of integration of the country's financial sector into the global financial system.

4. Notwithstanding the many policy achievements and relatively favorable medium-term prospects, significant challenges still remain, including sustaining high GDP growth, with low inflation; saving oil revenue through reliance on the oil price-based fiscal rule; maintaining fiscal prudence; further improving the effectiveness of bank supervision; safeguarding gains made through structural reforms by strengthening related new institutions; and having the benefits of economic growth reach all segments of the population.

Fiscal Policy

5. The authorities have made considerable progress in implementing prudent fiscal policy, the success of which has continued to result in high oil savings and consolidated budget balance since 2005. The authorities consider their medium-term fiscal strategy (MTFS) for 2008-10 as an adequate guideline for preserving macroeconomic stability. The implementation of the consolidated non-oil primary fiscal deficit, projected to remain at about 25 percent of non-oil GDP in line with the levels in recent years, and supported by the Fiscal Responsibility Act's oil price-based fiscal rule, is also deemed consistent with macroeconomic stability. The non-oil deficit target envisaged would accommodate resumption of large infrastructure projects previously put on hold.

6. The federal government has continued to emphasize the importance of saving oil revenues against lean times. Its success in making such savings in recent years has generated pressure from state and local governments for increased sharing and spending of some saved oil revenues. The federal government has resisted these pressures and has encouraged and supported the two tiers of government to adopt and apply the provisions of the Fiscal Responsibility Act and the Procurement Act of 2007. In this regard, the National Economic Council (NEC), the apex body responsible for coordinating economic policies of the various tiers of Government, has approved that all states should pass similar versions of the two Acts. At present, the process for adoption of the Acts has reached advanced stage in all the States. Additional measures being proposed by the federal government to enhance oil revenue savings by the two tiers of government and eliminate adverse macroeconomic effects of allocation of oil savings include: distribution of a small proportion of oil savings; adoption of savings fund; and participation in high import-content infrastructure development to suppress demand pressure.

7. Regarding the development of relevant institutions, fiscal institutions such as the Federal Inland Revenue Service (FIRS) and the Office of Accountant General of the Federation (OAGF) are being strengthened through Fund TA. The Staff's Debt Sustainability Analysis indicates that the authorities have developed a debt management strategy for effective debt management; and that the country faces a low risk of debt distress. The federal government has reaffirmed its commitment to limit borrowing to concessional sources so as to preserve the current strong external position, while states are being provided TA on setting up their Debt Management offices.

Monetary Policy

8. A judicious combination of suitable policy instruments by the Central Bank of Nigeria (CBN), and increased coordination of monetary and fiscal policies have strengthened the conduct and effectiveness of monetary policy in Nigeria. The Bank has, thus, been successful in bringing inflation to single digits from a rate of more than 20 percent during the last Article IV consultation. In order to further strengthen the capacity to meet inflation

objective going forward, the authorities have the intention to put in place a credible mechanism for setting realistic inflation targets through increased alignment of fiscal and monetary policies. However, they would only do so once they are satisfied that all the requisite conditions, including the necessary capacity, are in place. As there is pressing need to spend on essential infrastructure (power, transport, water supply, security), any assessment of possible inflationary impact of fiscal expansion should take into account the composition of the increase in public spending.

9. The adoption of the whole-sale Dutch Auction System and increasing role of the interbank foreign exchange market have strengthened the flexible foreign exchange regime, while the exchange rate has been stable. The authorities, therefore find it difficult to agree with staff characterization of the exchange rate regime as "a managed float". The Bank has reservations about the validity of quantitative estimates of possible undervaluation of the exchange rate on grounds of data quality and structural changes in the economy, while it remains vigilant to ensure that banks are the main conduit for foreign exchange inflows to avoid undue appreciation of the exchange rate that would be inimical to real sector economic activities and exports. The authorities are of the view that the need to increase interest rate in response to the estimated output gap should be nuanced, in the light of the challenges involved in establishing output gap for a country like Nigeria and the fact that core inflation remains very low. The Bank is also having its research efforts focused on better understanding of the link between its policy lending rate and banks' lending and deposit rates, given the antecedent of past wide-spread loan delinquency rates and high lending rates.

10. On banking and financial sector stability, it is evident that the bank consolidation undertaken by the Central Bank in the last three years, has significantly strengthened soundness of the sector. The banks are now well capitalized, liquid, profitable, and resilient to shocks according to stress tests by staff, while portfolio quality has improved, and provisioning levels high. A key challenge is how to manage monetary policy effectively and preserve financial stability as strong economic fundamentals induce increased capital flows; and new financial instruments and products are introduced at a fast pace by highly capitalized banks seeking profitable outlets. The monetary authority's strategy for addressing these challenges include ongoing Fund TA on the development of capacity to better assess risks and carry out effective risk-based supervision; strengthening of prudential regulations and ensuring better compliance; deepening the financial sector; and encouraging improved economy-wide financial intermediation, given banks' huge capital base.

Structural Reforms

11. The authorities have implemented extensive structural reforms under the recently completed PSI arrangements, including privatization of many public enterprises, liberalization of the communications sector, and concessioning of ports. They, however consider that much remains to be done. Infrastructure gap has been identified as the main impediment to private sector growth. The authorities are committing huge resources to

infrastructure development, especially power generation, while ensuring value for money. They have therefore, instituted and are relying on the Public Procurement Act, which provides due process in public contract awards and procurements. To fund new infrastructure projects, with private sector expertise, the authorities are considering a cooperative public private partnership (PPPs), with clear regulatory and legal framework. The authorities have provided resources in the 2008 budget to help address concerns about uncompleted and delayed projects, especially in the power sector. While the authorities are aware that following due process in order to institutionalize the reforms may give the impression of delayed visible results, such an approach would lead eventually to a robust legal and regulatory framework and serve as a building block for acceleration of economic activities and future reforms.

12. The authorities recognize further development of the financial sector as a priority since financial intermediation ratios are still low and capital and asset growth of financial institutions have not been significantly translated into financing of long-term productive investments and improved access to credit for small and medium-sized enterprises. The CBN is focusing on meeting these priority needs, including adoption of suitable strategies in the context of vision 20/20 financial sector development.

Conclusion

The authorities have sustained an encouraging record of economic performance and are committed to continued implementation of necessary reforms to maintain macroeconomic stability essential for growth and meeting the country's MDGs. They value the Fund's policy advice and engagement and look forward to continued strong support for the country by the International community, including the Fund.