INTERNATIONAL MONETARY FUND

IMF Country Report No. 22/33

# NIGERIA

February 2022

## 2021 ARTICLE IV CONSULTATION—PRESS RELEASE; STAFF REPORT; STAFF STATEMENT, 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 2021 Article IV consultation with Nigeria, the following documents have been released and are included in this package:

- A **Press Release** summarizing the views of the Executive Board as expressed during its January 31, 2022 consideration of the staff report that concluded the Article IV consultation with Nigeria.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on January 31, 2022, following discussions that ended on November 15, 2021, 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 December 14, 2021.
- An **Informational Annex** prepared by the IMF staff.
- A **Staff Statement** updating information on recent developments.
- A **Statement by the Executive Director** for Nigeria.

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

Selected Issues

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

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**International Monetary Fund**
**Washington, D.C.**

PRESS RELEASE

PR22/26

# IMF Executive Board Concludes 2021 Article IV Consultation with Nigeria

**FOR IMMEDIATE RELEASE**

**Washington, DC:** On January 31, 2022, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation[1] with Nigeria.

The Nigerian economy is recovering from a historic downturn benefitting from government policy support, rising oil prices and international financial assistance. Nigeria exited the recession in 2020Q4 and output rose by 4.1 percent (y-o-y) in the third quarter, with broad-based growth except for the oil sector, which is facing security and technical challenges. Growth is projected at 3 percent for 2021. Headline inflation rose sharply during the pandemic reaching a peak of 18.2 percent y-o-y in March 2021 but has since declined to 15.6 percent in December helped by the new harvest season and opening of land borders. Reported unemployment rates (end 2020) are yet to come down but more recent COVID-19 monthly surveys show employment back at its pre-pandemic level.

Despite the recovery in oil prices, the general government fiscal deficit is projected to widen in 2021 to 5.9 percent of GDP, reflecting implicit fuel subsidies and higher security spending. Moreover, the consolidated government revenue-to-GDP ratio at 7.5 percent remains among the lowest in the world. After registering a historic deficit in 2020, the current account improved in 2021 and gross FX reserves have improved, supported by the IMF's SDR allocation and Eurobond placements in September 2021.

Notwithstanding the authorities' proactive approach to contain COVID-19 infection rates and fatalities and the recent growth improvement, socio-economic conditions remain a challenge. Levels of food insecurity have risen and the poverty rate is estimated to have risen during the pandemic.

The outlook faces balanced risks. On the downside, low vaccination rates expose Nigeria to future pandemic waves and new variants, including the ongoing Omicron variant, while higher debt service to government revenues (through higher US interest rates and/or increased borrowing) pose risks for fiscal sustainability. A worsening of violence and insecurity could also derail the recovery. On the upside, the non-oil sector could be stronger, benefitting from its recent growth momentum, supportive credit policies, and higher production from the new Dangote refinery. Nigeria's ratification of the African Continental Free Trade Agreement could also yield a positive boost to the non-oil sector while oil production could rebound, supported by the more generous terms of the Petroleum Industry Act.

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

**Executive Board Assessment**[2]

Executive Directors agreed with the thrust of the staff appraisal. They commended the authorities' proactive management of the COVID-19 pandemic and its economic impacts. They noted, however, that the outlook remains subject to significant risks, including from the pandemic trajectory, oil price uncertainty, and security challenges. Looking ahead, they emphasized the need for major reforms in the fiscal, exchange rate, trade, and governance areas to lift long-term, inclusive growth.

Directors highlighted the urgency of fiscal consolidation to create policy space and reduce debt sustainability risks. In this regard, they called for significant domestic revenue mobilization, including by further increasing the value-added tax rate, improving tax compliance, and rationalizing tax incentives. Directors also urged the removal of untargeted fuel subsidies, with compensatory measures for the poor and transparent use of saved resources. They stressed the importance of further strengthening social safety nets.

Directors welcomed the removal of the official exchange rate and recommended further measures towards a unified and market-clearing exchange rate to help strengthen Nigeria's external position, taking advantage of the current favorable conditions. They notedthat exchange rate reforms should be accompanied by macroeconomic policies to contain inflation, structural reforms to improve transparency and governance, and clear communications regarding exchange rate policy.

Directors considered it appropriate to maintain a supportive monetary policy in the near term, with continued vigilance against inflation and balance of payments risks. They encouraged the authorities to stand ready to adjust the monetary stance if inflationary pressures increase. Directors recommended strengthening the monetary operational framework over the medium term—focusing on the primacy of price stability—and scaling back the central bank's quasi-fiscal operations.

Directors welcomed the resilience of the banking sector and the planned expiration of pandemic-related support measures. They agreed that while the newly launched eNaira couldhelp foster financial inclusion and improve the delivery of social assistance, close monitoringof associated risks will be important. They also encouraged further efforts to address deficiencies in the AML/CFT framework. Directors emphasized the need for bold reforms in the trade regime and agricultural sector, as well as investments, to promote diversification and job-rich growth and harness thegains from the African Continental Free Trade Agreement. Improvement in transparency andgovernance are also crucial for strengthening business confidence and public trust. Directors called for stronger efforts to improve transparency of COVID-19 emergency spending.

Directors noted that Nigeria's capacity to repay the Fund is adequate. They encouraged addressing data gaps to allow timely and clear assessments of reserve adequacy.

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

## Table 1. Nigeria: Selected Economic and Financial Indicators, 2018–22 [1]

| | 2018 | 2019 | 2020 | 2021 | 2022 |
|---|---|---|---|---|---|
| | | | | Projections | |
| | (Annual percentage change, unless otherwise specified) | | | | |
| **National income and prices** | | | | | |
| Real GDP (at 2010 market prices) | 1.9 | 2.2 | -1.8 | 2.6 | 2.7 |
| Oil and Gas GDP | 1.0 | 4.6 | -8.9 | -0.7 | 3.2 |
| Non-oil GDP | 2.0 | 2.0 | -1.1 | 2.9 | 2.6 |
| Non-oil non-agriculture GDP | 2.0 | 1.8 | -2.4 | 3.5 | 2.8 |
| Production of crude oil (million barrels per day) | 1.93 | 2.00 | 1.83 | 1.65 | 1.70 |
| Nominal GDP at market prices (trillions of naira) | 129.1 | 145.6 | 154.3 | 183.0 | 212.1 |
| Nominal non-oil GDP (trillions of naira) | 115.7 | 133.2 | 144.1 | 166.9 | 195.2 |
| Nominal GDP per capita (US$) | 2,153 | 2,230 | ... | ... | ... |
| GDP deflator | 10.2 | 10.4 | 7.8 | 15.6 | 12.9 |
| Consumer price index (annual average) | 12.1 | 11.4 | 13.2 | 15.9 | 14.3 |
| Consumer price index (end of period) | 11.4 | 12.0 | 15.8 | 14.9 | 13.8 |
| **Investment and savings** | (Percent of GDP) | | | | |
| Gross national savings | 20.5 | 21.4 | 24.7 | 26.8 | 26.2 |
| Public | -1.1 | -1.2 | -2.2 | -2.1 | -2.3 |
| Private | 21.6 | 22.6 | 26.9 | 28.9 | 28.5 |
| Investment | 19.0 | 24.6 | 28.6 | 29.5 | 28.5 |
| Public | 3.0 | 3.0 | 2.5 | 3.2 | 3.1 |
| Private | 16.0 | 21.7 | 26.2 | 26.3 | 25.4 |
| Current account balance | 1.5 | -3.3 | -4.0 | -2.8 | -2.3 |
| **Consolidated government operations** | (Percent of GDP) | | | | |
| Total revenues and grants | 8.5 | 7.8 | 6.3 | 7.4 | 7.0 |
| *Of which:* oil and gas revenue | 2.8 | 4.4 | 2.2 | 3.0 | 2.6 |
| Total expenditure and net lending | 12.8 | 12.5 | 12.0 | 13.7 | 13.4 |
| *Of which*: fuel subsidies | 0.5 | 0.4 | 0.1 | 1.0 | 0.5 |
| Overall balance | -4.3 | -4.7 | -5.7 | -6.3 | -6.4 |
| Non-oil primary balance | -7.2 | -6.7 | -5.8 | -7.3 | -6.7 |
| Non-oil revenue | 0.0 | 4.1 | 4.1 | 4.3 | 4.3 |
| Public gross debt [2] | 0.0 | 29.2 | 34.5 | 36.0 | 37.5 |
| *Of which*: FGN debt | -0.2 | 26.5 | 31.0 | 32.1 | 33.4 |
| *Of which:* External debt | 2.6 | 6.2 | 8.2 | 8.8 | 8.8 |
| FGN interest payments (percent of FGN revenue) | 60.8 | 54.9 | 88.8 | 85.5 | 92.6 |
| Interest payments (percent of consolidated revenue) | 19.9 | 21.4 | 33.5 | 29.0 | 32.8 |
| **Money and credit** | (Change in percent of broad money at the beginning of the period, unless otherwise specified) | | | | |
| Broad money (percent change; end of period) | 15.0 | 6.4 | 13.5 | 16.5 | 18.3 |
| Net foreign assets | 3.0 | -18.0 | 3.4 | 1.4 | -0.2 |
| Net domestic assets | 12.0 | 24.5 | 10.2 | 15.1 | 18.5 |
| o/w Claims on consolidated government | 5.1 | 16.2 | 7.2 | 16.1 | 17.3 |
| Credit to the private sector (y-o-y,%) | -11.9 | 23.5 | 15.8 | 21.6 | 8.6 |
| Velocity of broad money (ratio; end of period) | 3.5 | 3.8 | 3.6 | 3.6 | 3.5 |
| **External sector** | (Annual percentage change, unless otherwise specified) | | | | |
| Exports of goods and services | 29.9 | 5.9 | -42.9 | 41.8 | -1.2 |
| Imports of goods and services | 40.6 | 40.7 | -28.4 | 18.5 | 0.1 |
| Terms of trade | 13.3 | -5.9 | -20.0 | 20.7 | -1.9 |
| Price of Nigerian oil (US dollar per barrel) | 71.6 | 64.0 | 42.3 | 66.9 | 65.9 |
| External debt outstanding (US$ billions) [3] | 99.9 | 102.3 | 105.5 | 111.6 | 117.8 |
| Gross international reserves (US$ billions) | 42.8 | 38.1 | 36.5 | 36.4 | 35.5 |
| (equivalent months of imports of G&Ss) | 5.1 | 6.3 | 5.1 | 5.1 | 5.1 |

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

[1] Historical data up to date as of December 15, 2021.

[2] Gross debt figures for the Federal Government and the public sector include overdrafts from the Central Bank of Nigeria (CBN). External debt figures are based on currency of issuance.

[3] Includes both public and private sector.

INTERNATIONAL MONETARY FUND

# NIGERIA

## STAFF REPORT FOR THE 2021 ARTICLE IV CONSULTATION

December 14, 2021

## KEY ISSUES

**Context.** The economy is recovering from a historic downturn thanks to policy support, rebounding oil prices and international financial assistance. Benefiting from the authorities' pro-active approach, COVID-19 infection rates and fatalities have been contained. With higher oil prices and the country entering into the 2023 Presidential election cycle, there are risks of delays in much needed fiscal and exchange rate reforms. Macroeconomic and structural policies should build confidence and ensure a robust exit from the crisis.

**Policy Issues**

**Fiscal Policy.** Significant additional domestic revenue mobilization is critical to reducing fiscal vulnerabilities and creating policy space. Key near-term measures would include a permanent removal of fuel subsidies in line with the Petroleum Industry Act (PIA), combined with compensatory measures for the poor and efficient and transparent use of the saved resources.

**Exchange Rate Policies.** A key move toward strengthening the external position would be to establish a unified and market-clearing exchange rate. Favorable external conditions provide a good opportunity. Clear communications regarding exchange rate policy going forward, and complementary macroeconomic and structural policies are required to preserve competitiveness gains from any exchange rate adjustment.

**Monetary and Financial Sector Policies**. In the near term, monetary policy will need to support the ongoing recovery and guard against inflationary expectations becoming entrenched. In the medium term, a strengthened operational framework and the primacy of price stability are required to tackle structurally high inflation. The financial sector is stable, including amid continued Central Bank support and regulatory forbearance, and warrants continued vigilance. Timely actions against undercapitalized banks and the introduction of additional macroprudential instruments are important to preserve stability.

**Structural Policies**. While the government has taken measures in recent years to improve transparency, further efforts are needed to reduce vulnerabilities to corruption through improving government efficiency, initiating civil service reforms, and ensuring full transparency and accountability of COVID-19 spending. Bold trade and agricultural reforms are important to ensure a job-rich, and inclusive recovery.

Approved By
**Vivek Arora (AFR) and Maria Gonzalez (SPR)**

Discussions took place virtually during November 3-15, 2021 with some technical meetings during October 29-November 2. The team comprised Ms. Rahman (Mission chief), Mr. Aisen (Resident Representative), Messrs. Ree, Thomas (all AFR), Mr. Jung (FAD), Mr. Wezel (MCM), and Ms. Turk (SPR). Ms. Mangga, Mr. Shitile and Ms. Bonet (Resident Representative office) assisted the mission. Mr. Ekeocha (OED) and Mr. Saldarriaga (The World Bank) participated in most meetings. Ms. Bechara, Mr. El Khoury, Ms. Indulekha, (all LEG) participated in selected meetings. The mission held discussions with Vice President Osinbajo, Finance, Budget and Planning Minister Ahmed, Central Bank of Nigeria Governor Emefiele, and other senior government officials. The mission also met with representatives of financial institutions, private sector, development partners, and civil society. Ms. Delcambre, Ms. Pilouzoue and Ms. Synak provided excellent assistance for the preparation of this report.

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**TABLES**

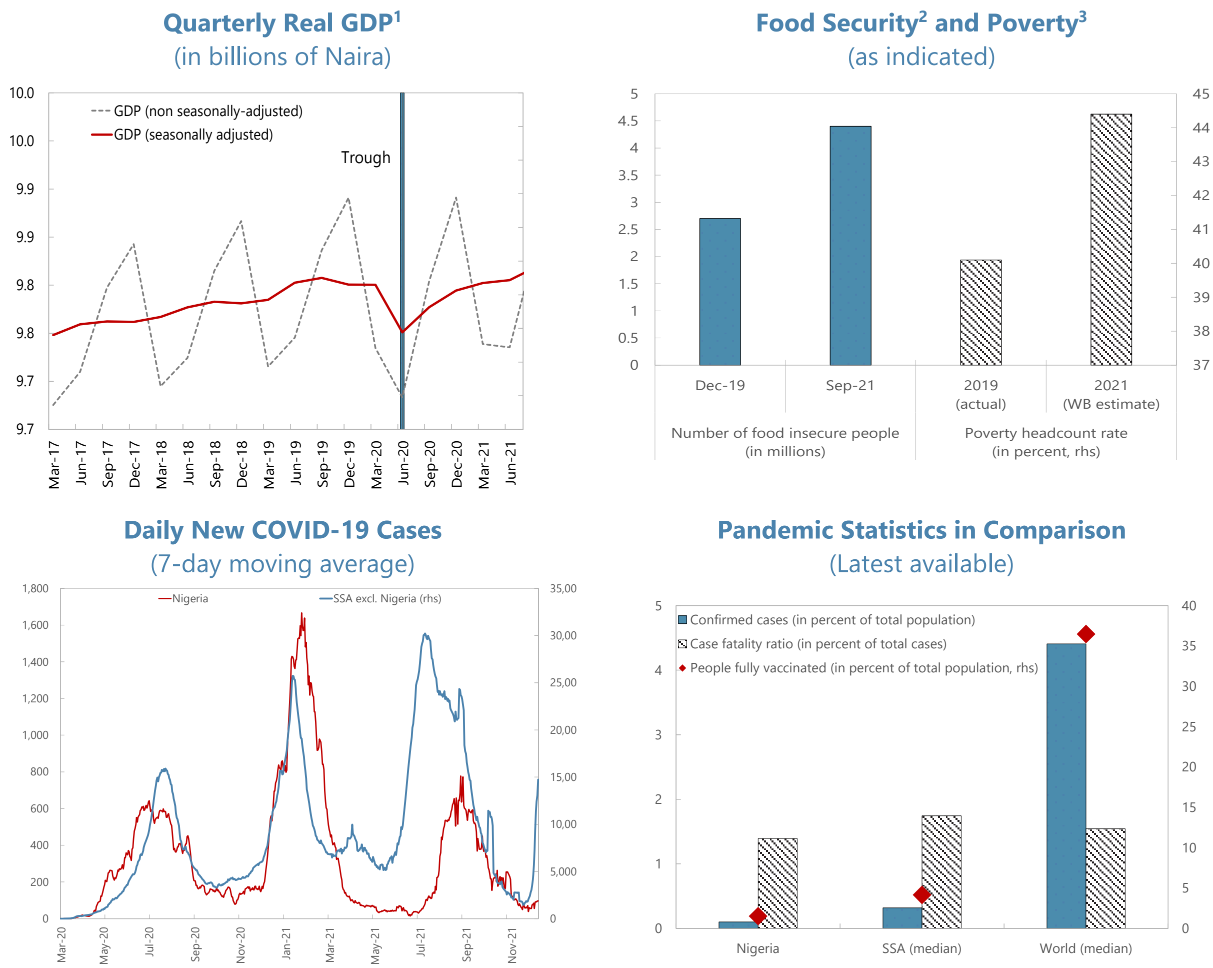


**ANNEXES**

# BACKGROUND

1. **The economy is recovering from a historic downturn.** Helped by policy support, the rebound in oil prices, and international financial aid, Nigeria exited the recession in 2020Q4, earlier than expected. The COVID-19 pandemic, however, is leaving a lasting imprint on the vulnerable with an increased number of people facing food insecurity and poverty (Figure 1). As much of the rest of Sub-Saharan Africa (SSA), Nigeria underwent a third wave of the pandemic in August 2021. The authorities' proactive actions, including a robust infection tracking system and strong coordination across various levels of government, have helped keep infection and fatality rates lower than in many other countries despite Nigeria's relatively limited access to vaccines.

**Figure 1. Nigeria: 1½ Years into the COVID-19 Pandemic**




Sources: Haver and IMF staff calculations, NBS COVID-19 National Longitudinal Phone Survey (COVID-19 NLPS), Our World in Data, National Primary Health Care Development Agency (NPHCDA) and The World Bank (WB).

[1] Seasonal adjustment was done using Census X-13 ARIMA method.

[2] The COVID-19 NLPS is a monthly (12 rounds) phone survey consisting of a nationally representative sample of 1,950 households, weighted to adjust for nonresponses and under coverage.

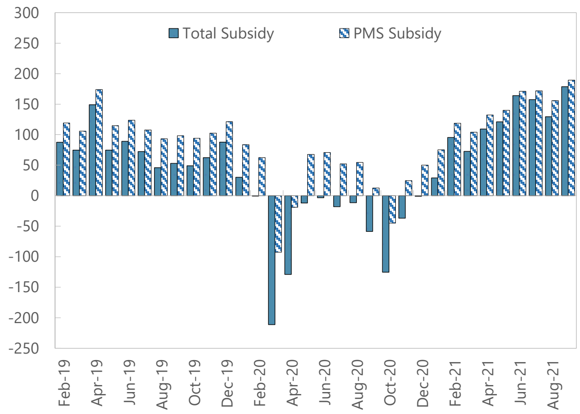
[3] Estimates exclude Borno state. Real consumption deflated temporally and spatially to compare with the national poverty line. Pass-through from per capita real GDP growth to household consumption is set to 1.

2. **Policy developments since the 2020 Article IV consultation have been mixed.** Fuel subsidies resurfaced at end-2020 as the authorities did not adopt a market-based fuel pricing

mechanism (Figure 2), one of the policy commitments made under the Rapid Financing Instrument (RFI) loan agreement (Annex 1). In August 2021, the long-awaited Petroleum Industry Act (PIA) was enacted providing clarity for the oil and gas sector (Box 1). The authorities discontinued the official exchange rate in May 2021—a welcome step toward unification—but have maintained the system of multiple exchange rate windows at the Central Bank of Nigeria (CBN) serving multiple purposes along with administrative restrictions (Figure 2).

## Figure 2. Nigeria: Implementation of Reforms

### Monthly Implicit Fuel Subsidy Estimates
(in billions of Naira)



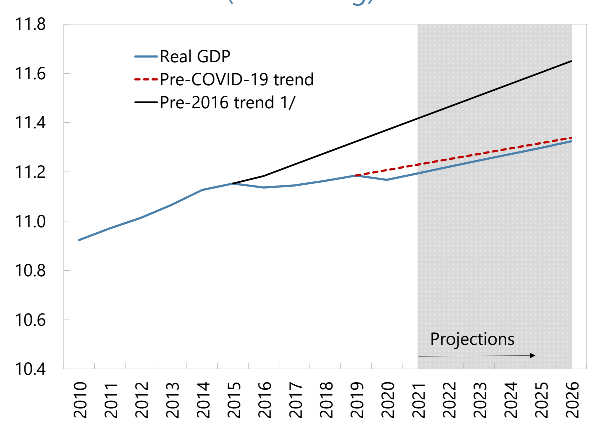

### Nigeria: Exchange Rate Windows
(as of November 15, 2021)

| Window | Eligible transactions/participants | Rate (Naira per USD) |
|---|---|---|
| Investors & Exporters (I&E) | Exporters, investors, other willing buyers and sellers, including the CBN. | 411.00 – sale rate |
| Secondary Market Intervention sales (SMIS) Wholesale | Banks to supply FC for firms considered critical in the production and supply value chain. | Suspended |
| Secondary Market Intervention sales (SMIS) Retail | Firms considered critical in the production and supply value chain. | 400.00-476.00 |
| Small and Medium Size Enterprises | Small and micro enterprises for purchase of equipment and machinery. | Closing rate of I&E minus N2.00 |
| Invisibles | Eligble for school fees, medical needs, personal and business travel allowances (PTA/BTA). | 411 |
| Bureau De Change (BDC) | Open to all | 550-574 |

Sources: Nigerian authorities, IMF staff calculations, Central Bank of Nigeria, National Bureau of Statistics (NBS), FMDQ Group.

**3. Against this backdrop, the priority is to safeguard a durable and robust exit from the pandemic.** Rejuvenating the reform agenda is urgent to secure a robust recovery.[1] Nigeria's recovery from the 2015/16 crisis has been weak with a significantly lower real GDP trajectory (Figure 3). With volatile oil prices and the country entering into the 2023 Presidential election cycle, there are risks that reforms, including much needed fiscal and exchange rate reforms, could wane further. If that were to happen, economic loss inflicted by the pandemic could be deeper and more lasting.

## Figure 3. Nigeria: Real GDP, 2010-26
(natural log)




Sources: Haver Analytics and IMF staff estimates.
1/ Based on 2013-2014 average growth rate.

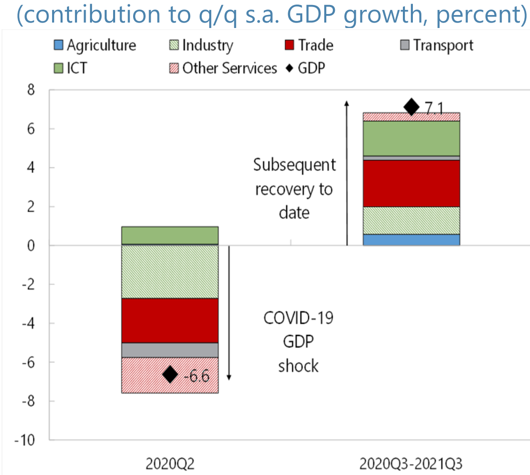
[1] The reform agenda includes significant revenue mobilization through tax administration and tax policy reforms, establishing a market-clearing unified exchange rate, reforming the monetary policy framework to improve transmission and better anchor price expectations, and implementing structural reforms to reduce protectionism, improve governance and reduce corruption risks. See SM/20/176 for details.

# RECENT MACROECONOMIC DEVELOPMENTS

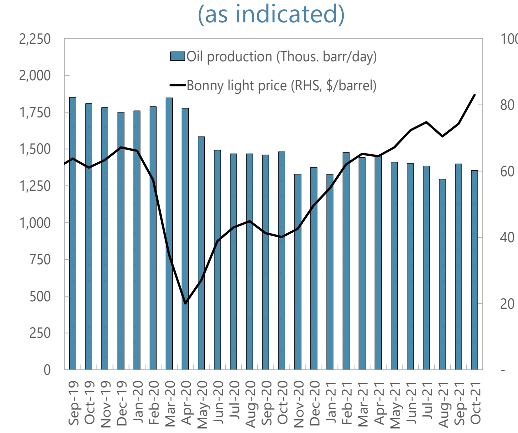
**4. The economic recovery is well underway.** Following a 6.6 percent (q/q, sa) contraction in 2020Q2, real GDP grew by a cumulative 7.1 percent (q/q, sa) in the subsequent five quarters. Growth has been supported by a trade recovery as lockdown measures were lifted and the information and communication technology sector that was strengthened during the pandemic (Figure 4). The 2021Q3 data shows real GDP recovery broadening to the manufacturing sector and November Purchasing Managers' Index shows four out of five indicators in the positive territory. Notwithstanding the overall rebound in oil prices since 2020, oil production, which accounts for roughly 10 percent of GDP, has remained subdued reflecting security and technical challenges and an ageing infrastructure. Headline inflation rose sharply during the pandemic reaching a peak of 18.2 percent y-o-y in March 2021. It declined to 16 percent by October helped by the new harvest season and re-opening of land borders. Reported unemployment rates (through end 2020) are still increasing although COVID-19 monthly surveys (through May 2021) show the employment level back at its pre-pandemic level, demonstrating labor market recovery.

**Figure 4. Nigeria: Growth, Inflation and Unemployment**

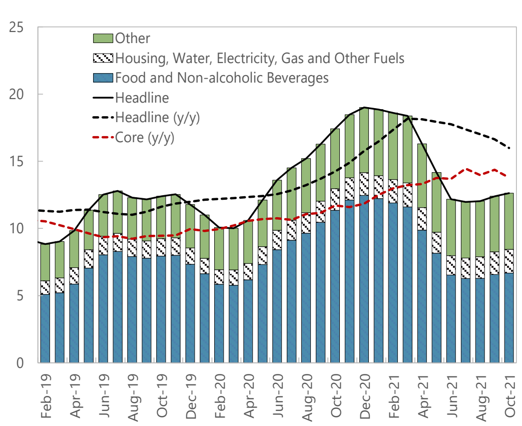
**GDP Recovery by Sector**
(contribution to q/q s.a. GDP growth, percent)



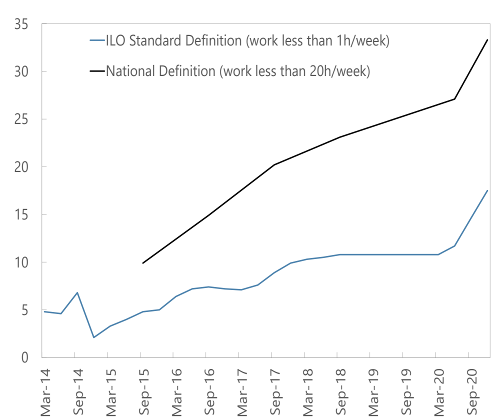

**Oil Production and Price**
(as indicated)




**CPI Inflation and Contribution**
(m/m annualized 3-m moving average unless otherwise indicated, in percent)




**Unemployment Rate**
(in percent of total labor force)

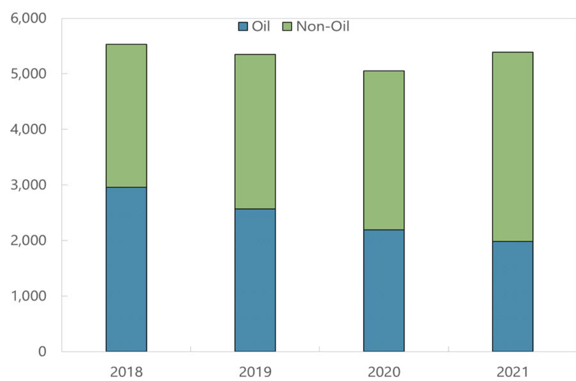



Sources: Haver, Organization of Petroleum Exporting Countries (OPEC), Bloomberg and IMF staff calculations.

**5. Fiscal developments have been mixed.** The resurgence of implicit oil subsidies has resulted in lower year-to-date oil revenues compared to 2020. Non-oil revenues, meanwhile, are increasing with the recovery (Figure 5). The authorities have deployed an in-house integrated tax administration system (TaxPro) and adopted plans for e-customs, but overall progress in tax administration reforms has been slow. The parliament passed a 2021 supplementary budget in July that increased spending to address the deteriorating security situation and, to a lesser degree, for the COVID-19 vaccination program.

**Figure 5. Nigeria: 2021 Revenue Performance and Supplementary Budget**

**Year-to-date[1] Fiscal Revenues**
(in billions of Naira)




**Additional Spending in the 2021 Supplementary Budget**
(in billions of Naira)

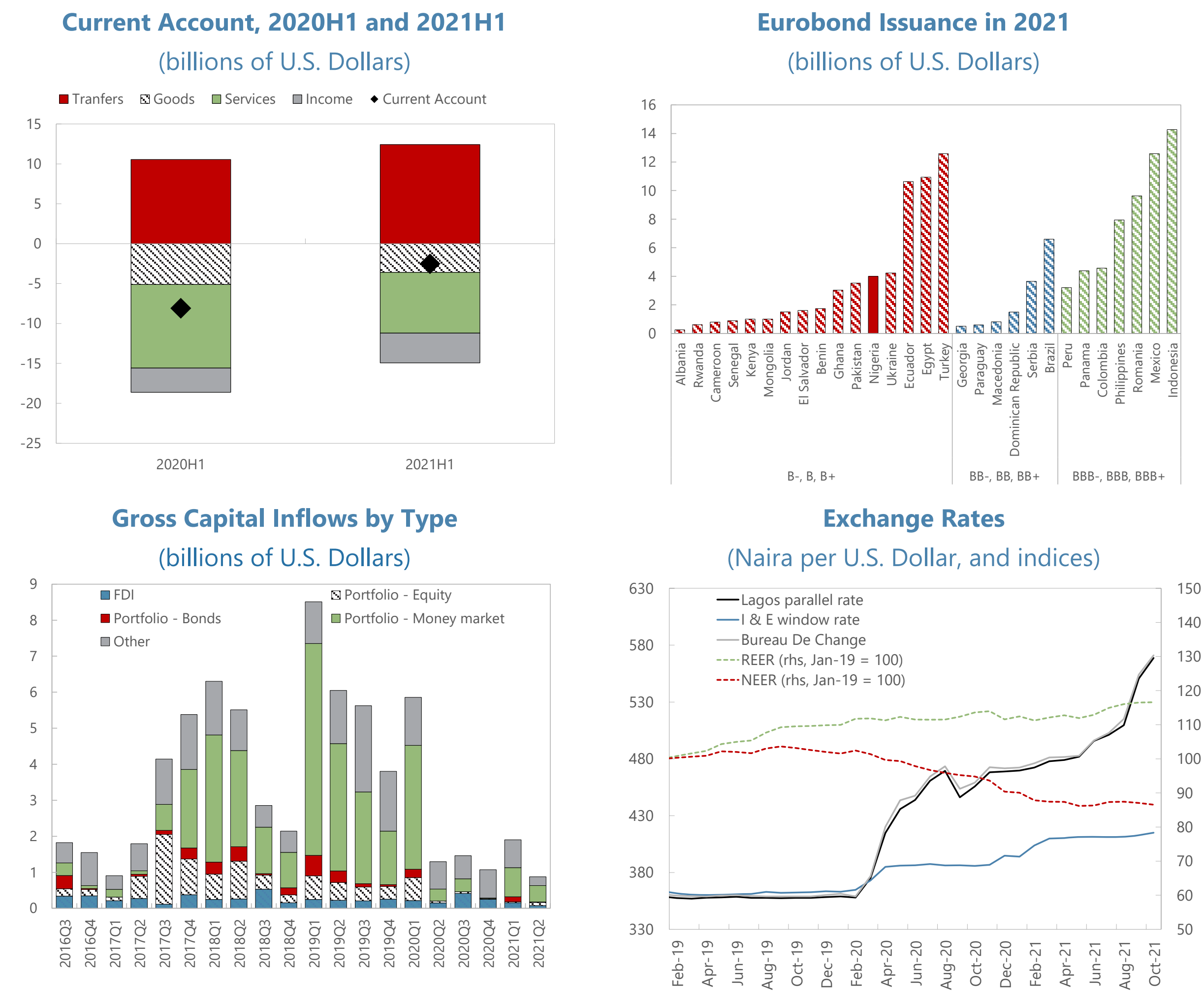
| | |
|---|---|
| **Total Expenditure** | **982.7** |
| **Security Spending** | **912.5** |
| Capital Spending for Police, Intelligence, and Defense | 734.7 |
| Other Government Agencies | 52.8 |
| Current Spending | 51.4 |
| Others | 73.6 |
| **Health Spending** | **70.2** |
| COVID-19 Vaccine Procurement (Johnson & Johnson) | 60.7 |
| Procurement and Installation of New Oxygen Plants nationwide and repairs of Oxygen Plants in FCT Hospitals | 6.7 |
| Procurement of Molecular Laboratory Equipment to Hospitals, and etc. | 2.8 |

Sources: Nigerian authorities and IMF staff calculations.
[1]January – September.

**6. The balance of payments (BOP) is improving.** After registering a historic deficit in 2020, preliminary CBN data shows that the current account (CA) deficit narrowed in 2021H1 owing to increases in the trade balance and official transfers (Figure 6). The authorities placed several Eurobonds in September amidst strong investor interest. However, foreign capital inflows into domestic markets remain limited reflecting slow FX reforms, uncertainties regarding the ability to repatriate funds and negative real interest rates. Gross reserves stood at $36.5 billion at end-2020 (equivalent to 72 percent of the IMF's Assessment of Reserve Adequacy (ARA) metric including the oil buffer) and rose to $41.3 billion at end-October 2021 buoyed by the SDR allocation and Eurobond receipts.

**7. Exchange rate developments show limited adjustment.** The nominal effective exchange rate (NEER), based on the Investor and Exporters window rate (I&E rate), which is considered the main market rate, depreciated by 4.3 percent during January-October 2021, while high inflation relative to trading partners resulted in a slight appreciation of the real effective exchange rate (REER) (Figure 6). The premiums in the parallel market and the Bureau de Change (BDCs) exchange rates have stayed elevated and widened further following the authorities' decision to discontinue FX supply to the BDCs in July 2021.

**Figure 6. Nigeria: External Sector and Exchange Rate Developments**

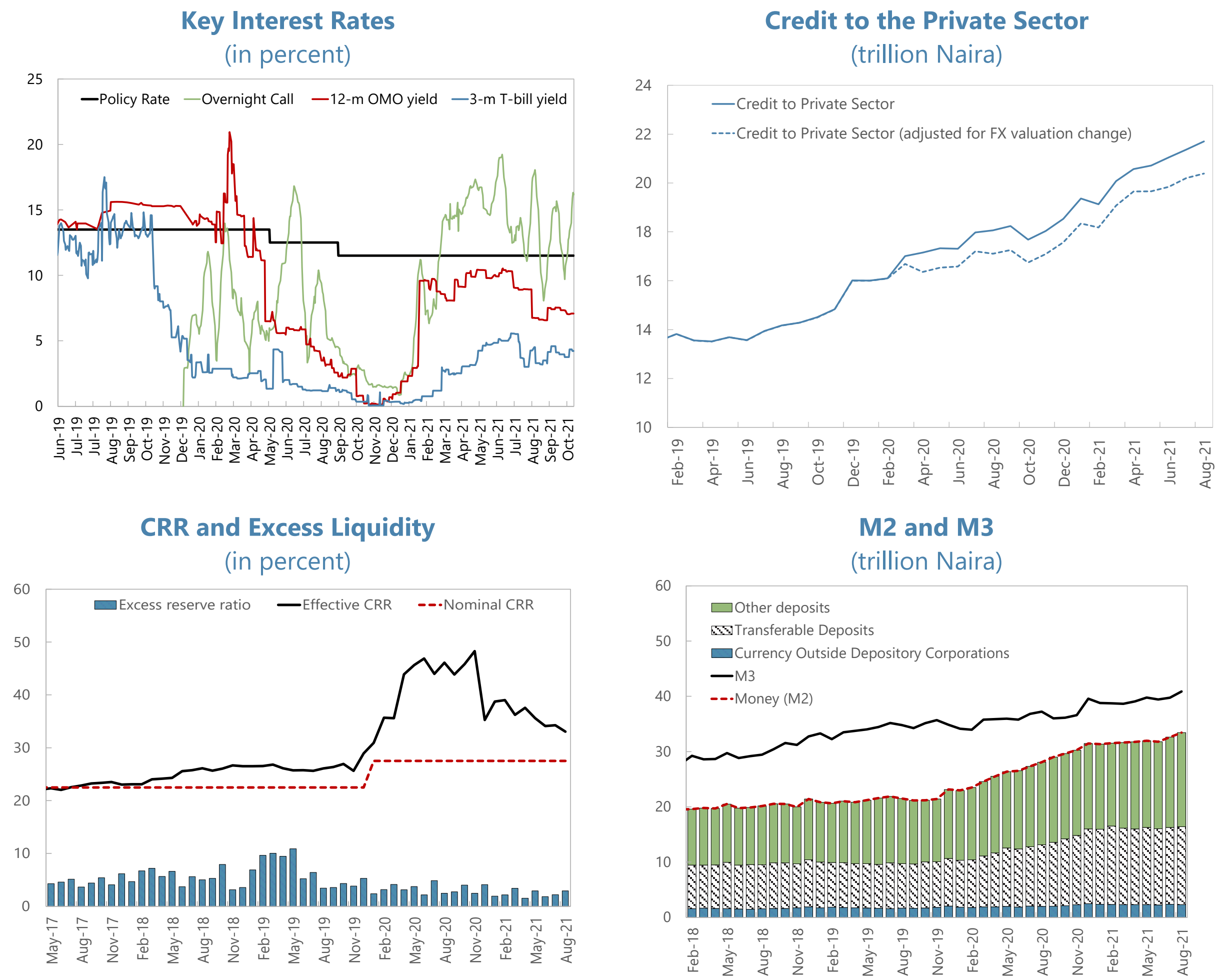



Sources: CBN, Bloomberg, National Bureau of Statistics (NBS), FMDQ Group, and staff calculations.
Note: The REER and NEER calculations are based on the I&E exchange rate.

8. **On balance, monetary policy has been accommodative.** The CBN has left the Monetary Policy Rate (MPR) unchanged since September 2020 to support the recovery (Figure 7). Real lending rates have been negative which has helped increase credit to the economy, including through the CBN's intervention programs. The segmentation of the interbank and domestic capital markets remains, although key interest rates have moved closer. The authorities continue to keep interbank liquidity tight through the discretionary use of the unremunerated Cash Reserve Ratio (CRR) and, more recently, through the issuance of CBN special bills (Figure 7). Meanwhile, the policy to preclude non-bank domestic investors from reinvesting in the CBN Open Market Operations (OMO) bills since October 2019 increased deposits in the banking system leading to a surge in M2. Growth in M3 has been less pronounced due to the structural shift in components from OMO to deposits. In March 2021, the CBN extended the possibility for optional loan restructuring on a case-by-case basis through end-February 2022. With the launching of eNaira on October 25, Nigeria became one of the first countries in the world to introduce a Central Bank Digital Currency (CBDC) that is open to public (Box 2). The launch was motivated by the desire to leverage digital technology to improve

financial inclusion, increase remittances inflows and reduce informality. The initial take up has been strong with about half a million people downloading the consumer wallets in the first two weeks.

**Figure 7. Nigeria: Key Interest Rates, Liquidity and Credit Growth**



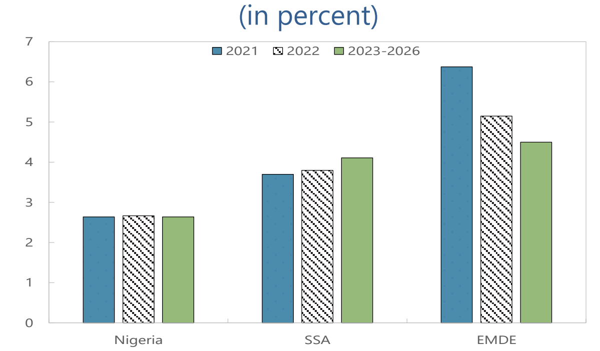

Sources: CBN, FMDQ Group, Haver, CEIC Data and IMF staff calculations.

# OUTLOOK AND RISKS

**9. Under current policies, the growth outlook is subdued.** Real GDP growth is projected at 2.6 and 2.7 percent respectively, for 2021 and 2022, remaining at that level in the medium term. Oil production is expected to increase gradually as security and technical challenges dissipate but to remain below the 2019 level. Non-oil growth is projected to broaden and receive a boost from the Dangote refinery coming on stream, but overall to remain sluggish owing to inward-looking policies, protracted FX shortages, and

**Figure 8. Real GDP Growth: Nigeria and Peers**

(in percent)




Sources: World Economic Outlook database.

infrastructure and utility gaps.[2] The projected medium-term growth rate would be only slightly above Nigeria's population growth rate of 2½ percent and below the average growth rates in SSA and emerging market and developing countries (EMDEs) (Figure 8). Headline inflation is projected to settle in the low double digits, as supply-side shocks taper off, after increasing temporarily in 2022-23 due to the removal of fuel subsidies.[3] The current account deficit is expected to decline on the back of improving trade balances. Modest levels of foreign capital inflows will likely result in limited accumulation of FX reserves in the medium term (Tables 1 and 2).

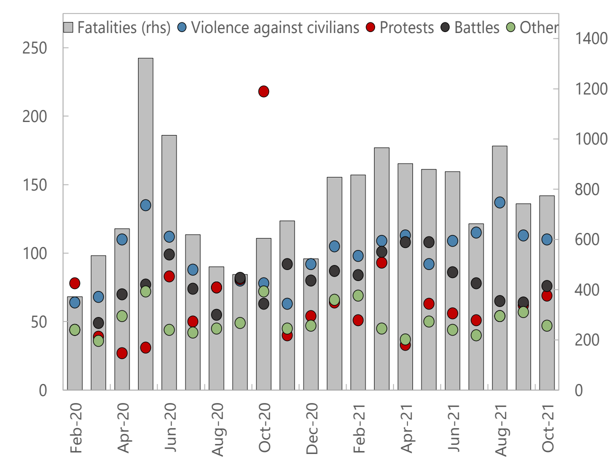
**10. The outlook faces balanced risks** (Annex II)**.** On the downside, low vaccination rates partly owing to low supply continue to expose Nigeria to future pandemic waves and new variants. Uncertainties surrounding the ongoing omicron variant add to these risks including through adverse spillovers via oil prices (Figure 9). A worsening of violence and insecurity could become macro-critical, negatively affecting growth and inflation. Fiscal risks are clearly on the downside (¶14). Higher U.S. interest rates would raise the cost of market financing, and high debt service to government revenues would pose risks for fiscal sustainability (Annex III). On the upside, the non-oil sector's recovery could be stronger benefiting from ongoing credit support policies, and from higher production from the Dangote refinery. The PIA's more generous fiscal terms could bring in higher foreign investment in the oil sector. Nigeria's ratification of the African Continental Free Trade Agreement (AfCFTA) could also yield a positive boost if accompanied by a reduction in trade barriers and improvement in trade logistics (see discussions in ¶24-¶25).

### Figure 9. Nigeria: Near-Term Risks

**Vaccination**
(in percent of total population)

| | 2021 | 2022 |
|---|---|---|
| **Goal** | **40%** | **70%** |
| ***Vaccinated so far*** [1] | | |
| Fully vaccinated | 1.5% | |
| At least one dose | 2.7% | |
| ***Doses of vaccines delivered so far (in millions)*** [1] | **24.9** | |
| COVAX | 22.8 | |
| African Union | 1.8 | |
| Donations | 0.4 | |

**Event Count and Fatalities**




Sources: National Primary Health Care Development Agency and Armed Conflict Location & Event Data (ACLED).
[1] As of November 15, 2021.

[2] The production of refined products is considered part of manufacturing. The authorities expect production at the Dangote refinery to be 650,000 barrels per day starting in 2022. Staff's baseline projections assume production of 50,000 barrels per day in 2022 increasing to 300,000 barrels per day by 2026. The more conservative assumptions reflect lack of production details and delays incurred so far (the refinery was originally scheduled to have started production in 2016).

[3] Petroleum Motor Spirit (PMS) prices are assumed to rise in mid-2022 by around 40 percent with an immediate impact on the CPI inflation (2 percent of the CPI basket). Transportation prices are assumed to rise in three steps in July 2023, January 2024, and July 2024 (0.8 percent of the CPI basket, assuming only the fuel component is affected).

***Authorities' Views***

**11. The authorities are more optimistic about growth projections while acknowledging large uncertainties.** They indicated that new investments made in conjunction with the government's 2021-25 National Development Plan (NDP), including the Lagos-Ibadan railway and highway, Lagos mass transit, Abuja-Kano road, as well as the Dangote refinery and its petrochemical by-products, are likely to result in much higher real GDP growth than projected by the staff. They acknowledged that the positive real per capita growth over the medium term would depend on further reforms. On the inflation outlook, the authorities shared staff's views but expected higher impacts on inflation from fuel subsidy removal due to possible second-round effects on wages.

**12. The authorities acknowledged the need to remain vigilant on the COVID-19 response.** On-going initiatives—such as a mass information campaign—would help reduce vaccine hesitancy. As these initiatives take root, however, supply-side challenges—in particular delayed vaccine delivery and limited availability—will need to be addressed with an increased sense of urgency.

# POLICY DISCUSSIONS

*A consistent macroeconomic policy mix, supported by a comprehensive capacity development strategy, is needed to ensure a robust recovery (Annex V). A multi-year revenue-based fiscal consolidation is urgent to create policy space and reduce sustainability risks together with establishing a market-clearing unified exchange rate to address persistent and prolonged FX shortages and improve FX buffers. A supportive monetary policy remains appropriate for now, but a gradual tightening will be required to reduce structurally high inflation. In the medium term, better monetary transmission mechanism, deeper trade reforms, and significant improvement in governance and corruption are required to enhance macroeconomic stability, growth, and public trust in reforms. Potential near-term negative impacts on the vulnerable from some of these measures will need to be cushioned through targeted social assistance.*

## A. Fiscal Policy: Create Policy Space

**13. Staff's baseline projections point to fiscal deficits remaining elevated in the medium term.** Despite the recovery in oil prices vis-a-vis 2020, the general government (GG) fiscal deficit is projected to widen in 2021 to 6.3 percent of GDP, mainly reflecting implicit fuel subsidies (1 percentage point of GDP) and higher spending in the supplementary budget (0.5 percentage point of GDP). Under the baseline, oil prices are expected to moderate over the medium

**Text Table 1. Nigeria: Staff's Fiscal Projections for the General Government under the Baseline**
(percent of GDP)

| | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 |
|---|---|---|---|---|---|---|---|
| **Total revenue** | 6.3 | 7.4 | 7 | 6.8 | 6.7 | 6.7 | 6.6 |
| o.w. oil revenue | 2.2 | 3 | 2.6 | 2.3 | 2.1 | 2 | 1.9 |
| o.w. non-oil revenue | 4.1 | 4.3 | 4.3 | 4.4 | 4.5 | 4.6 | 4.7 |
| **Total expenditure** | 12 | 13.7 | 13.4 | 12.4 | 12.6 | 12.8 | 12.9 |
| o.w. fuel subsidy | 0.1 | 1 | 0.5 | - | - | - | - |
| o.w. covid-19 fund | 0.3 | - | - | - | - | - | - |
| **Overall balance** | -5.7 | -6.3 | -6.4 | -5.7 | -5.9 | -6.2 | -6.3 |
| **Public Debt** | 34.5 | 36 | 37.5 | 38.5 | 40 | 41.5 | 42.9 |
| *Memorandum items* | | | | | | | |
| GG interest/revenue | 33.5 | 29 | 32.8 | 36.6 | 41.7 | 46.3 | 51.2 |
| FGN interest/revenue | 88.8 | 85.5 | 92.6 | 96.3 | 110.9 | 124.9 | 139 |
| Oil price (US$/barrel) | 42.3 | 66.9 | 65.9 | 63 | 61 | 59.4 | 58.4 |

Source: IMF staff projections.
Note: In line with the enacted PIA and the draft 2022 budget, the baseline assumes no fuel subsidies beyond mid-2022 and no increase in tax rates. Limited gains in non-oil revenues result from ongoing tax administration reforms (TaxPro and e-customs).

term, and fiscal deficits are projected to stay elevated and above the pre-pandemic average (4.3 percent of GDP during 2014-2019) in the medium term.

**14. There are significant downside risks to the fiscal outlook**. These arise from the ongoing pandemic, adverse oil price shocks, security challenges, and spending pressures associated with the electoral cycle. Staff advised expenditure reprioritization and use of the SDR allocation if pandemic and security-related risks materialized but recommended resistance of all other spending pressures to preserve the fiscal space. Staff also recommended transparent accounting of the use of SDR allocation, which should not support unsustainable fiscal or exchange rate policies. Public debt is projected to increase to over 42 percent of GDP in the medium term and is deemed sustainable but subject to high risks with interest payments-to-revenue ratio remaining elevated relative to EMDE peers (Annex III).

**15. Given limited policy space, elevated risks and continued dependence on central bank financing, fiscal consolidation is urgent.** Staff recommended the following measures which would produce a cumulative net savings of 5.1 percent of GDP over 2022-26, keep public debt-to-GDP ratio below 40 percent, reduce GG interest payments-to-revenue ratios, and create room for additional social assistance (Figure 10).

## Figure 10. Nigeria: Fiscal Policy Recommendations

### Estimated Gains from Recommended Fiscal Measures
(in percent of GDP)

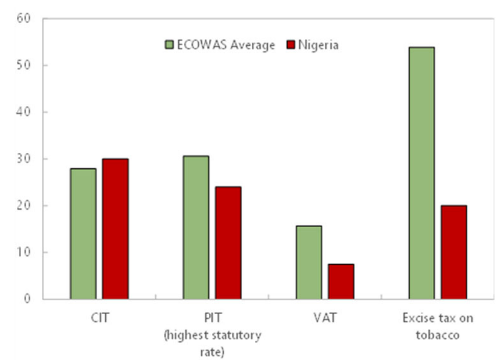
| | 2022 | 2023-2026 |
|---|---|---|
| **Total** | **0.9** | **4.2** |
| **Revenue** | **0.4** | **5** |
| VAT | 0.3 | 2.2 |
| Increase rate to 15 percent[1/] | 0.3 | 1.7 |
| Improve compliance | - | 0.5 |
| CIT and Custom duties | 0.1 | 1.2 |
| Rationalize tax incentives | - | 0.6 |
| Improve efficiency (e-customs) | 0.1 | 0.6 |
| Excises (rate increase and base broadening) | - | 1 |
| PAYE tax (improve efficiency) | - | 0.6 |
| **Expenditure** | **0.5** | **-0.8** |
| Fuel subsidy removal[2/] | 0.5 | - |
| Electricity tariff increase[2/] | 0.2 | - |
| Strengthening social safety nets | -0.2 | -0.8 |

Source: IMF staff estimates.

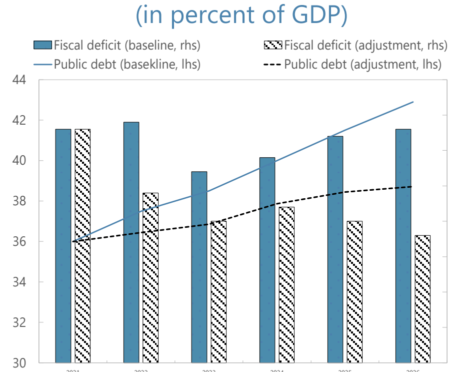
[1]/ The adjustment scenario assumes increasing VAT rate to 10 percent in 2022, to 12.5 percent in 2025 and to 15 percent in 2026.

2/ Under the baseline, fuel subsidy is assumed to be removed in mid-2022. An earlier removal as of January 2022 would yield additional savings. Similarly, the removal of electricity subsidy by end-December 2021 will yield additional savings.

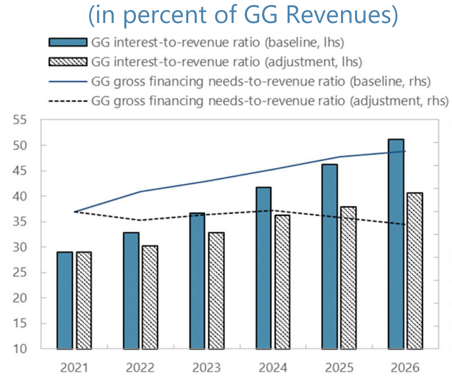
### Nigeria and peers (ECOWAS): Main Tax Rates
(in percent)




### GG Fiscal Deficit and Public Debt: Baseline and Adjustment Scenarios
(in percent of GDP)




### GG Interest Payments-to-Revenue Ratio: Baseline and Adjustment Scenarios
(in percent of GG Revenues)



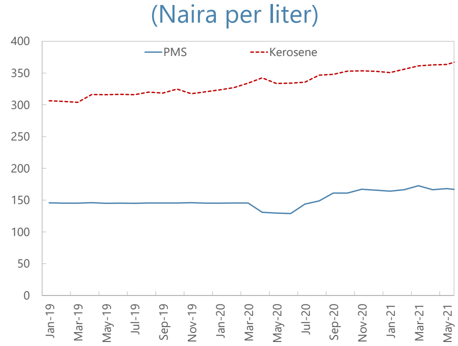

Sources: IMF staff calculations, Nigerian authorities, PwC Worldwide Tax Summaries, and Tesche J, Van Walbeek C. *Measuring the effects of the new ECOWAS and WAEMU tobacco excise tax directives.*

- **Tax administration measures**. In line with IMF TA advice, staff recommended the following near-term measures (i) e-customs reforms, including efficient procedures and controls; (ii) reduction of customs and excise fraud; and (iii) broadened entry criteria for the Large Taxpayer Office (LTO). In the medium-term, the focus should be on (iv) developing a basic VAT Compliance Improvement Program; (v) improving compliance across large, medium, and micro/small taxpayers including reviewing the penalty regime; (vi) rationalizing tax incentives and customs duty waivers; (vii) improving the effectiveness of the State Internal Revenue Service (IRS)'s administration of the Pay-As-You-Earn (PAYE) system. The IMF, at the authorities' request, is in the process of placing a long-term resident expert in Abuja (Annex V). Implementation of key reforms will need to be stepped up to achieve envisaged revenue gains.

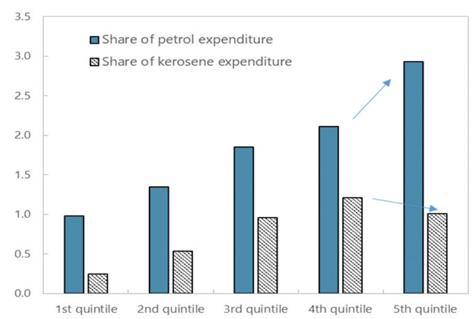
- **Tax policy measures**. As the recovery gains strength and compliance improves, the authorities are encouraged to consider adopting tax rates comparable to Nigeria's peers in the Economic Community of West African States (ECOWAS). These include (i) further increasing the VAT rate to at least 10 percent by 2022 and to 15 percent by 2026 to be aligned with the ECOWAS average (Figure 10); and (ii) increasing the excise rates on alcoholic and tobacco products combined with a broadening of the base.

### Figure 11. Nigeria: Fuel Subsidies, Beneficiaries, and Impacts of the Removal

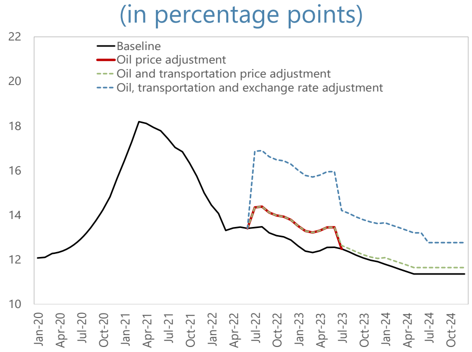
**PMS and Kerosene Prices**
(Naira per liter)



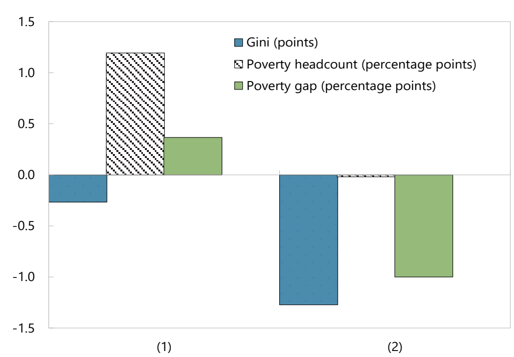

**Petroleum/Kerosene Expenditure's Share in Total Spending by Income Quintile**




**Market-Based Fuel Pricing and Inflation**
(in percentage points)




**Subsidy Removal and Impact on the Poor**
(in percent)




Sources: IMF staff calculations and Nigerian authorities.
Note. Scenario (1) shows the impact of fuel price increase to cost-recovery level (40% increase; average gap in Jan-Sep 2021) without any social transfers, while scenario (2) shows the impact with social transfers for the poor to keep poverty headcount constant. Under scenario (2), the estimated cost of transfers is NGN 239 billion (0.13 percent of 2021 GDP).

- **Fuel and electricity subsidies**. The full and permanent removal of fuel subsidies including through a move to a market-based pricing mechanism in early 2022 as stipulated in the 2021

Petroleum Industry Act (PIA) is critical. Without this reform, the overall fiscal deficit is projected to be 1 percentage of GDP higher annually based on the current subsidies. Staff analysis shows that untargeted subsidies provided to consumers of Petroleum Motor Spirit (PMS) disproportionately benefit the population in upper income quintiles. Its removal is expected to lessen inequality, and targeted social assistance to the poor would cushion negative impacts and cost less than the current costs of subsidies (Figure 11).[4] Nigeria's past experiences with fuel subsidy removal, which were short-lived, indicate the importance of building consensus and trust through public communication campaign and credibly demonstrating plans to protect the poor through transparent use of the saved resources. The authorities are also undertaking electricity pricing reforms associated with the Power Sector Recovery Plan (PSRP). Staff emphasized the need to implement cost-reflective electricity tariffs as of January 2022.

**16. Nigeria needs to improve coverage and efficiency of its social assistance programs**. As of 2018, around a fifth of the vulnerable population (the bottom 60 percent of the population) receives some kind of social assistance with a small fraction receiving cash transfers. Despite recent improvements, for example, adding one million households to the social registry, Nigeria's social safety net still suffers from limited coverage and weak targeting. The authorities, in collaboration with the World Bank (WB), are developing a well-targeted cash transfer program to support those affected by the removal of fuel subsidies and strengthen the social protection systems. Measures include developing and utilizing the National Social Registry (NSR) for adequate beneficiary selection, improving coordination and integration between state and national registers, and establishing a strong information management system. Staff supported these measures and recommended increasing social spending by up to 1 percent of GDP cumulatively for 2022-2026 (around 0.2 percent of GDP each year) for well-targeted programs (Figure 10).

**17. Staff welcomed the recent passage of the Petroleum Industry Act (PIA) and stressed its timely implementation.** The PIA aims to improve administration and governance in the petroleum sector, introduce a market-based fuel pricing mechanism and attract higher investment in the sector. Preliminary assessments by the IMF and the WB suggest that the approved fiscal terms will provide greater incentives to invest in the oil and gas industry but could reduce the fiscal take from new and converted fields (Box 1). The authorities have also announced an ambitious conversion plan from petrol- to gas-run vehicles which intends to convert one million vehicles by end-2021 and 40 percent of its fleets in the next decade as a way to durably reduce transportation prices. Staff highlighted the high costs involved in such a transition and recommended weighing these against potential benefits (Text Table 2).

[4] See "The Impact of Fuel Subsidy Reemergence in Nigeria" IMF Selected Issues Paper (2021) *forthcoming*.

**Text Table 2. The Estimated/Illustrative Medium-term Costs of Nigeria's Conversion Plan**

| Category | Coverage | Calculation | Estimated costs |
|---|---|---|---|
| **Vehicle Conversion costs** | (i) **Public vehicles** | 8 million vehicles (public vehicles currently present in Nigeria) × $400 (conversion cost per vehicle) | **$3.2 billion** |
| | (ii) **All vehicles** (public + private) | 22 million vehicles (= 8 million public vehicles + 14 million private vehicles) × $400 (conversion cost per vehicle) | **$8.8 billion** |
| **Infrastructure costs** | (iii) CNG filling stations, storages, and etc. | Additional costs vary, dependent on the country-specific infrastructure plans. (The detailed plan is not yet available) | |

Sources: Azeez, (2021) "DPR: Petrol Price may Increase to N1,000 per liter If Subsidy is Removed", July 19, 2021, and the Department of Petroleum Resources.
Note: The detailed conversion plans are not yet available for now, since the Nigerian government has not yet announced the details. The above estimated costs are just ballpark figure as an example.

***Authorities' Views***

**18. The authorities expected the fiscal situation to improve in the medium term benefitting from higher growth and ongoing administration reforms.** The 2021-25 NDP and the Strategic Revenue Growth Initiative (SRGI) aim to increase general government revenue to 15 percent of GDP by 2025. The authorities mentioned significant scope for revenue gains through blocking leakages, removing tax duplication, and digitalizing tax identification, as well as rationalizing tax incentives. They stressed the need to defer tax increases until after notable compliance improvement had occurred, likely associated with progress in tax administration reforms, including the recently deployed TaxPro, the installation of scanners in three major ports to facilitate customs clearance and the planned e-customs system.

**19. The authorities expressed strong commitment to fully remove fuel subsidies by mid-2022 at the latest.** To cushion the impact of higher fuel prices, they are planning to provide temporary monthly cash transfers to vulnerable urban households, and negotiations are ongoing with the labor unions. They assess the public debt to be sustainable but are conscious of debt-servicing risks arising from high GG interest payment-to-revenue ratios. They plan to keep the recently allocated SDR allocation as contingent fiscal financing in case of a shortfall or higher costs in external borrowing next year.

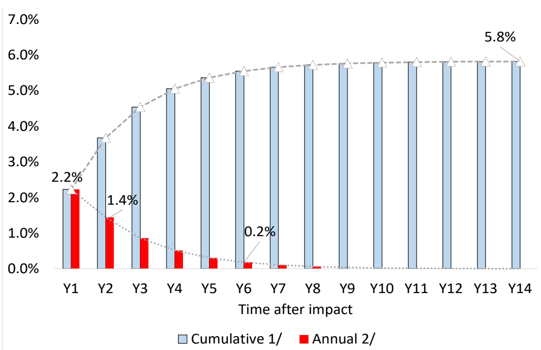
## B. External Sector: Restore Confidence and Competitiveness

**20. The external position in 2021 is preliminarily assessed as weaker than implied by fundamentals and desirable policy settings.** Current trends imply an estimated CA gap of about -3 percent of GDP, corresponding to a 15 percent overvaluation in the REER (see Annex IV). While this assessment points to a strengthening relative to the substantially weaker position in 2020, reserves are below the levels recommended by the IMF's ARA metric (see ¶6) and capital inflows remain modest.

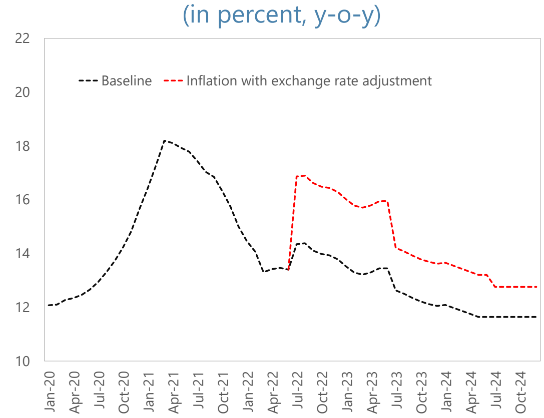
**21. The much-needed move to a market-clearing exchange rate should be further eased by Nigeria's improved outlook.** The FX shortages experienced by the private sector since the onset of the pandemic are unlikely to be resolved by demand management policies and administrative controls alone. Exchange restrictions resulting from administrative control of foreign exchange allocation, including for imports of basic necessities, tend to generate distortions in private and public decision making, hinder transparency, and hamper the move towards a more diversified economy. Allowing further adjustment in the I&E rate, where the price is heavily managed by the CBN with a sustained divergence of around 30 percent with respect to the rates in the BDCs and the parallel market, would help remove misalignment, alleviate persistent FX pressures, and enable effective price discovery. A sudden adjustment in the exchange rate without forward guidance and supportive macroeconomic policies could undermine confidence with significant adverse consequences for the real economy.

**Figure 12. Nigeria: CPI Response to 15 Percent Depreciation of the I&E Rate**

**Annual and Cumulative Impacts**
(in percent)




**CPI Inflation: Baseline and with Exchange Rate Depreciation**
(in percent, y-o-y)




Sources: IMF staff estimates.
1/ Impact on CPI level in t years after the shock.
2/ Impact on annual inflation in t year after the shock.

**22. The inflationary impacts of a depreciation in the I&E rate are likely to be manageable**. For example, a 15 percent depreciation in the I&E rate is estimated to eventually lift Nigeria's price level by 5.8 percent with its peak impact on annual inflation at 2.2 percent (Figure 12). The subdued impact reflects the fact that an estimated 63 percent of the naira's depreciation as reflected in the BDC rate has already been passed through to inflation (Box 3). This may be due to manufacturers partly resorting to purchasing FX from the parallel market or the BDCs, factoring in the costs of queuing for the FX and/or bandwagon effects—where companies price their products using the most depreciated rate, rather than the rate they actually pay to purchase imports. To preserve competitiveness gains, any exchange rate adjustment will need to be accompanied by a clear medium-term fiscal consolidation plan (¶15), monetary policy framework reforms (¶30-¶31), and clear communications to guide expectations.

**23. Greater clarity on exchange rate policy direction will help form expectations**. The discontinuation of the official exchange rate in May 2021 goes in the direction of staff's previous recommendations although it does not yet fully unify exchange rates. To this end, institutional removal of multiple FX windows at the CBN and allowing all FX transactions to take place in the I&E market are important. In the medium term, the CBN is encouraged to step back from its role of main FX intermediator in the country, limiting interventions to smoothing market volatility and allowing banks to freely determine FX buy-sell rates. The gradual removal of Capital Flow Measures (CFMs) will need to be done in a properly timed and sequenced manner, considering external vulnerability risks and progress made with reforms to foster the necessary institutional and financial development and in line with the IMF's Institutional View on Liberalization and Management of Capital Flows.[5]

**24. A restrictive trade regime impedes Nigeria's external competitiveness and non-oil exports.**[6] While tariff rates have been decreased substantially since the early 2000s, they are higher than the average rates in peer countries and generally display positive escalation.[7] Such escalation increases the cost of delivery to the final consumer exponentially when production stages take place across tariff-ridden borders and work as a hurdle to integration in the global value chains and higher trade (Figure 13).[8] Non-tariff measures (NTMs), mostly comprising customs inspection processes and costs associated with port storage and demurrage, are pervasive and trade logistics are problematic. These issues have held back Nigeria's trade with ECOWAS members despite having a preferential trade agreement (PTA) since 1993, with exports as a share of GDP declining over time and remaining highly concentrated in oil and gas (Figure 13). In addition, FX access for certain imports has been restricted since 2015 including for many basic necessities.

**25. Bold reforms are needed to allow Nigeria to maximize its gains from the African Continental Free Trade Agreement (AfCFTA).** If Nigeria is to reap gains from this PTA through higher and more diversified exports, the following measures are important, in addition to establishing a market-clearing and unified exchange rate and clear exchange rate policy: (i) reducing tariff escalation and aligning the average tariff rate in line with the agreement under the AfCFTA; (ii) streamlining import documentation requirements and reducing customs clearance time; (iii) improving the customs capacity to enforce preferential rules of origin and detect abuse; and (iv) keeping land borders open while addressing smuggling concerns through stepped-up customs reform.

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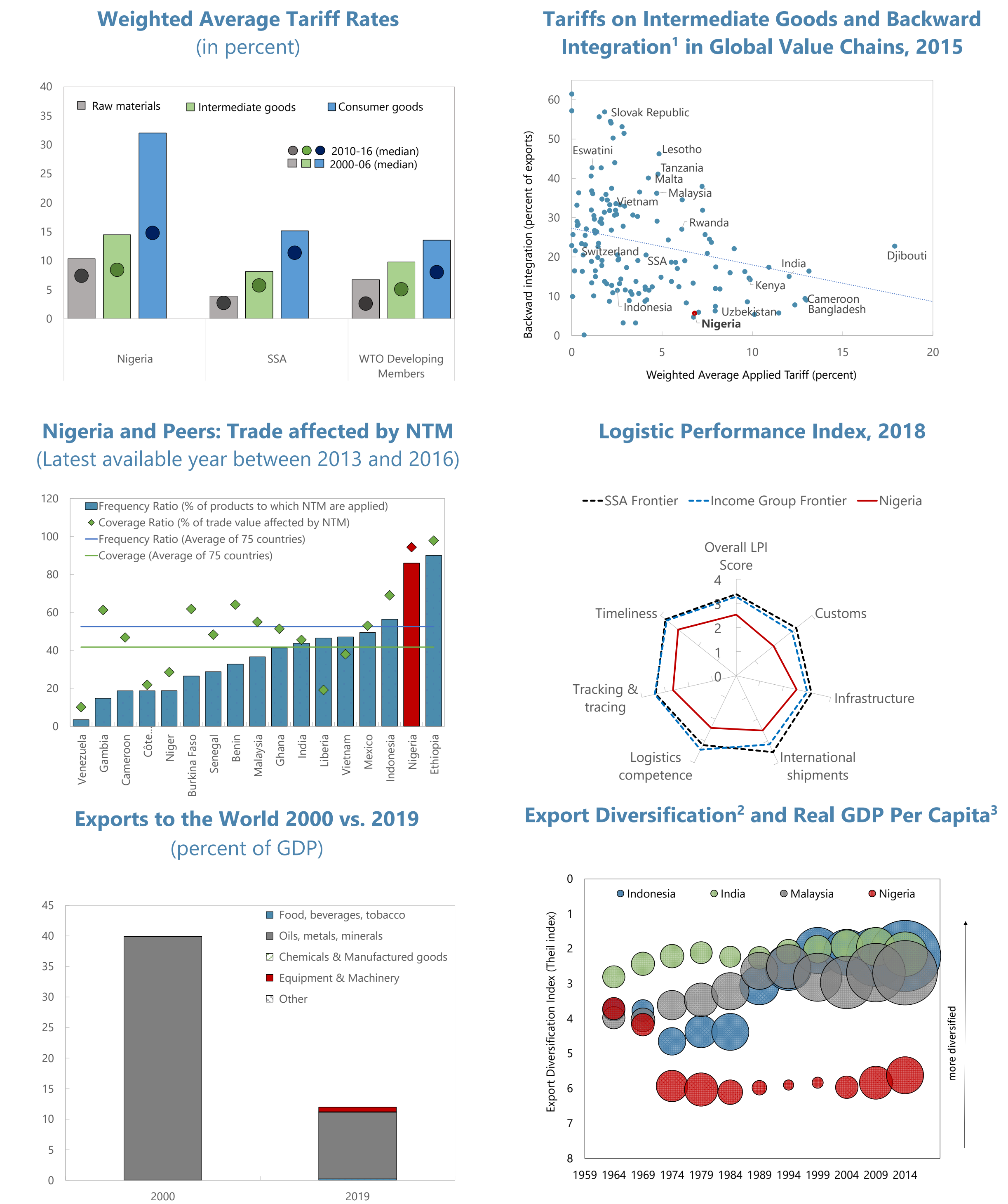
[5] The list of CFMs is unchanged relative to the last Article IV consultation (see footnote 1 in IMF Country Report No. 21/33). They include the prohibition of FX purchases in the official market for foreign currency bond and equity instruments, payment limits on naira-denominated credit and debit cards for overseas transactions, and repatriation of oil (non-oil) export proceeds within 90 (180) days of the date of shipment.

[6] See "Trade Diversification in Nigeria: How to Get there?", Selected Issues Paper (2021) *forthcoming*.

[7] Tariff escalation occurs when tariffs on intermediate goods are higher than tariffs on raw materials, and when tariffs on final products are higher than those on intermediate goods. In Nigeria, tariffs display positive escalation in most industries, including food and beverages, textiles and apparels, wood products, paper, printing, and publishing (World Trade Organization, 2017).

[8] See "The long road towards supply chain trade in Africa" (2020).

## Figure 13. Nigeria: Impediments to Trade




Sources: UNCTAD-TRAINS database, UNCTAD-Eora Global Value Chain database, World Integrated Trade Solutions, and The World Bank Logistic Performance Index. Penn World Tables, Papageorgiou, Spatafora, and Wang 2015, IMF DOT database.

[1] Backward integration reflects the extent to which a country uses foreign inputs in its exports.

[2] The export diversification index is the sum of within (intensive margin) and between (extensive margin) Theil indices calculated following the methodology in Cadot et al. 2011.

[3]Bubble size represents real income per capita indexed at 1964 =100

***Authorities' Views***

**26. The authorities view the recent FX measures as necessary and appropriate to curb FX demand, at least in the short run.** They consider the exchange rate to be unified, with the I&E rate serving as the reference rate in the economy and the anchor for rates in various CBN windows within acceptable margins (i.e., ±2 percent). While acknowledging that the CBN's recent FX sales to some foreign portfolio investors (FPIs) were made at higher premia, they attributed the rate deviation to the differentiated features of these transactions. The authorities indicated that they plan to eventually remove exchange rate restrictions but argued that FX management policies represent deliberate efforts to mute excess demand for frivolous imports and are both necessary and effective to protect local industries. Further, they did not deem that parallel market rates represented the fair value of the naira, given market imperfections. They consider that the exchange rate misalignment has narrowed substantially following the depreciation of the official exchange rate.

**27. The authorities expect continued improvement in the BOP.** The recovery in oil price since the start of the pandemic and higher remittances are expected to significantly improve the BOP outlook. This will help maintain healthy FX reserves while meeting legitimate FX demand. The authorities are committed to implementing the AfCFTA and reducing trade barriers and see significant benefits for Nigeria particularly given its sophisticated banking system, vibrant digital economy, and ongoing customs reforms.

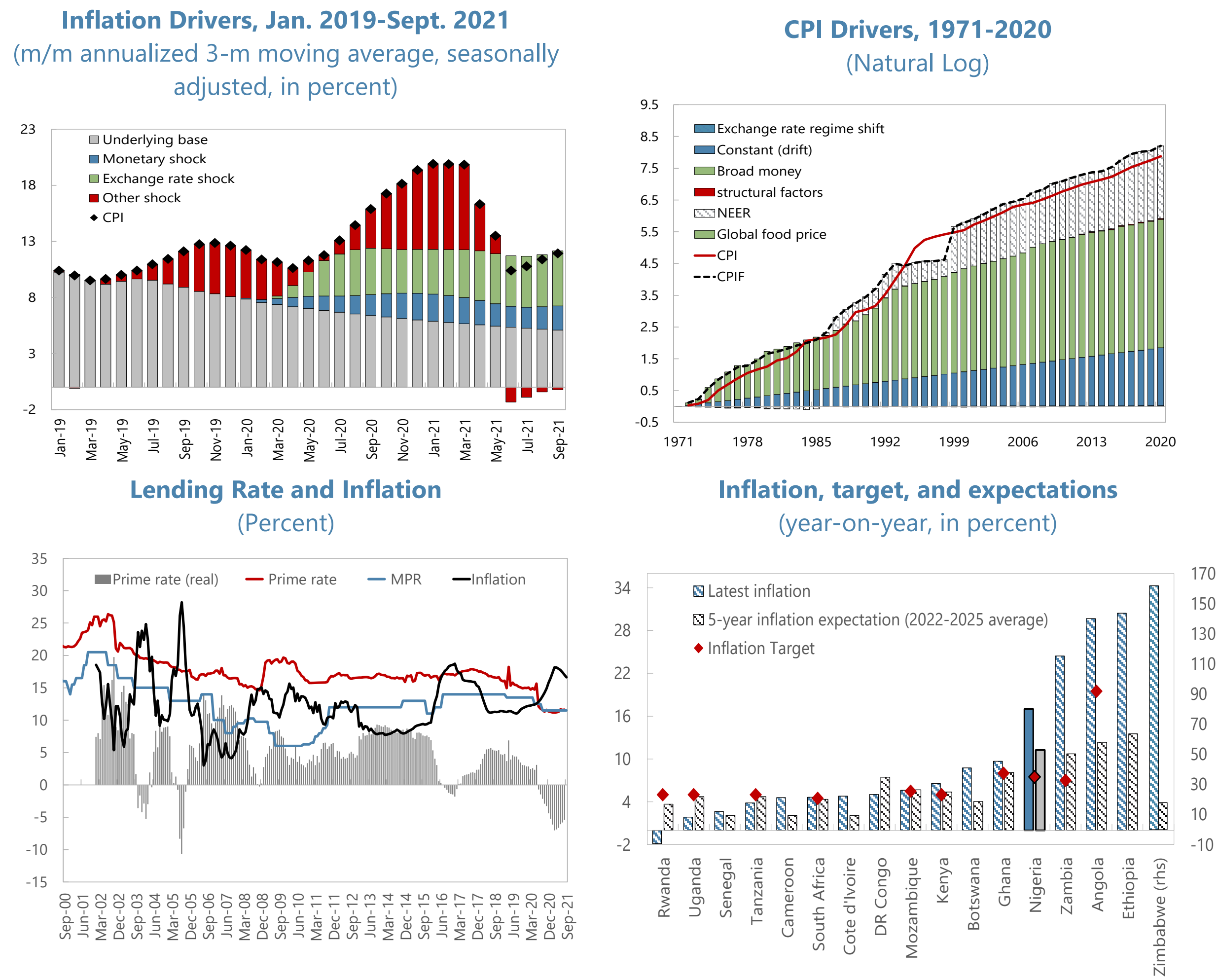
## C. Monetary Policy: Support the Recovery Mindful of Inflationary Risks

**28. Staff analysis shows that the uptick in inflation experienced during the pandemic has mostly been driven by transitory factors**. Staff suggests that while four fifths of the increase in headline inflation since the onset of the pandemic is due to supply shortages and exchange rate depreciation, their effects appear to have dissipated or plateaued (Figure 14). Rising food supply from the new harvest season is projected to keep the headline inflation on a downward trend although there are risks from potentially higher divergences between the I&E rate and the rates in the BDCs and the parallel market.

**29. However, Nigeria's structurally high inflation is largely due to monetary and exchange rate factors**.[9] Long-term (1970-2020) average CPI inflation at 16 percent was higher than the average rates for both SSA (13 percent) and EMDEs (13.6 percent). Empirical analysis using a panel regression of 130 EMDEs over 1970-2020 shows that about half of the average inflation during this period in Nigeria is explained by M3 growth, another quarter by nominal exchange rate depreciation, and the remainder by country-specific effects which may be interpreted as unidentifiable structural factors (Figure 14). This is largely in line with the drivers of inflation in other SSA countries and EMDEs. Long-term high inflation also owes to the lack of a well-functioning monetary policy operational framework (see SM/20/175).

[9] See " Nigeria's inflation persistence—causes and policy response", Selected Issues Paper (2021), *forthcoming*.

**Figure 14. Nigeria: Long-Term Inflation Dynamics and Recent Surge**




Sources: CBN, Haver, FocusEconomics, and Staff estimates.

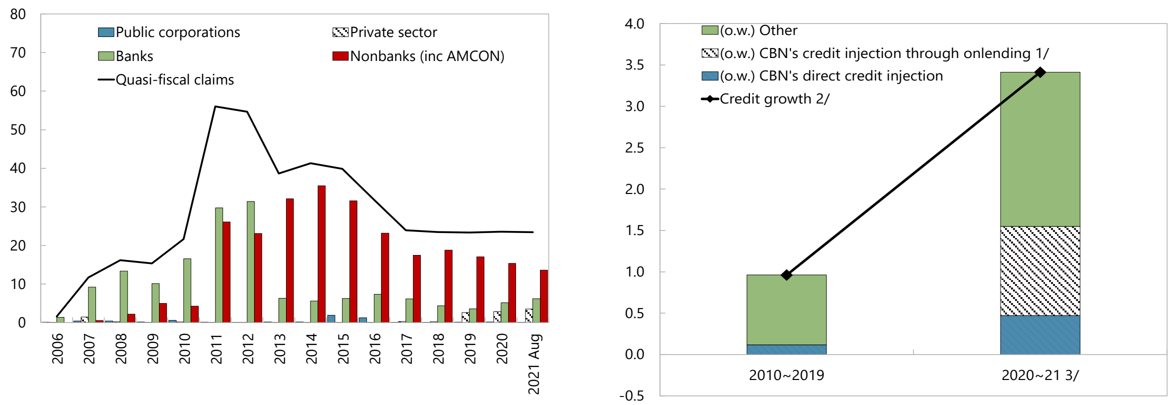
**30. A supportive monetary stance is appropriate in the current juncture, but a gradual tightening is needed to reduce the structurally high inflation base.** With the recovery yet to be broad-based, the projected decline in inflation, limited fiscal policy space, and contained financial sector risks (see section D), supportive monetary policy is appropriate unless exchange rate pressures intensify, or inflationary pressures resurface. Staff recommended vigilance to prevent possible adverse feedback loops between elevated inflation and periodic exchange rate adjustments if monetary policy were to become excessively accommodative. The still high underlying base of inflation calls for gradual tightening of monetary policy with due consideration to the recovery. Together with fiscal consolidation, such tightening will help prevent further build-up of REER misalignment. The discretionary use of the CRR continues to pose uncertainties to the banking system and may impede monetary policy transmission channels. Staff reiterated its previous advice to (i) modernize the 2007 CBN Act to establish primacy of price stability; (ii) facilitate integration of the interbank and debt markets; and (iii) use central bank or government bills of short maturity as the main liquidity management tool.

**31. As the recovery firms up, the CBN also needs to scale back its credit intervention programs, which were ramped up as part of the COVID-19 crisis response.** The CBN's credit injection to the private sector, both direct lending and on-lending through banks, accounts for about 45 percent of credit growth since 2020—significantly above the average of 12 percent in pre-pandemic years (Figure 15). As banks exercised restraints in lending, CBN interventions have provided financing to underserved markets (e.g., agriculture) and mitigated the impact of the pandemic. However, they cannot be expanded indefinitely given likely efficiency costs and market distortions and its thorough review will be warranted.

**Figure 15. Nigeria: Strength of Quasi-Fiscal Activities**

**CBN's Quasi-fiscal Credit, 2006-21**
(in percent of total assets)

**Credit Growth Breakdown**
(trillion Naira, annual average)




Source: Authorities and IMF staff estimation.
1/ All of CBN's credit to banks are assumed to be on lent to the private sector.
2/ Private sector loans by Deposit Corporations.
3/ 2021 is from January to August.

32. **A safeguards assessment of the CBN was completed in April 2021 but progress on implementation of recommendations has been limited.** The CBN's internal and external audit mechanisms broadly adhere to international standards. However, the CBN Act needs to be modernized to strengthen the central bank's autonomy and governance, and to establish price stability as its primary objective. The CBN's involvement in quasi-fiscal operations and developmental lending activities should be phased out, and financial reporting practices bolstered through full adoption of International Financial Reporting Standards and resumed publication of annual financial statements. Thus far, limited traction has been seen on implementation of the recommendation and staff continues to engage with the authorities on these issues.

***Authorities' Views***

33. **The authorities believe that the need for shepherding a frail recovery amidst very limited fiscal space justifies the CBN's multi-faceted role.** Unconventional policy instruments, notably the CRR, have been vital in controlling excess liquidity, while selectively allowing its use for providing credit to priority sectors. The intervention programs have been targeted to sectors with a large empirical elasticity vis-à-vis job creation. The authorities also did not view Nigeria's inflation as a monetary phenomenon, particularly in the short run—stressing the importance of structural factors—including credit gaps—as a critical driver of supply-side inflation. While agreeing with the need to shift away from intrusive measures, such as discretionary CRR, in the medium term, they view that the uncertain pandemic outlook and frictions around monetary transmission mechanism

do not warrant an immediate abandoning of this tool which has proved to be quite potent. Likewise, the envisaged phasing out of quasi-fiscal activities can only be resumed once the crisis is over.

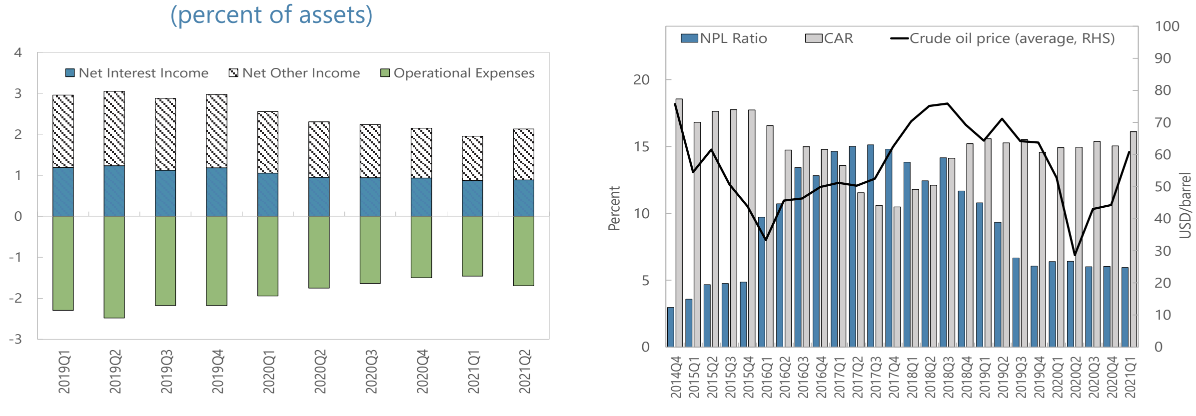
## D. Banking Sector: Maintain Stability and Guard Against Risks

**34. Overall, the banking sector weathered the crisis well thanks to ample pre-crisis buffers and prudent credit policies during the pandemic**. Capitalization has remained adequate in aggregate with the exception of some smaller undercapitalized banks. Owing to banks' conservative lending policies, regulatory forbearance and CBN credit intervention programs (Figure 15), NPL ratios remained broadly stable during the pandemic (Figure 16). Tighter market liquidity due to the CRR debits and restricted access to the CBN discount window are raising banks' funding costs. Still, profitability has held up, buoyed by soaring e-banking revenues, although results vary considerably across individual banks. Credit risk from the impact of possible exchange rate depreciation on borrowers in FX is lower as the share of loan and deposit dollarization have fallen during the pandemic (both by about 5 percentage points to 32 and 21 percent, respectively).

**Figure 16. Nigeria: Banking Sector Developments**

**Large banks: Quarterly Bank Income and Expenses**
(percent of assets)

**Oil price, NPL ratio and Capital Adequacy Ratio**
(as indicated)




Sources: Bloomberg and FSI databases.

**35. Staff stressed the need for vigilance and supported the authorities' plan to allow expiration of the optional loan restructuring.** Regulatory forbearance and a prolonged spell of low interest rates, particularly for corporate bonds and bills, may lead to a buildup of systemic risks through high corporate indebtedness and compromised credit standards. The share of restructured loans, while declining, remains sizable at almost a quarter of total bank credit. Stress tests conducted by the CBN show that a doubling of NPLs and significant migration of restructured loans to NPLs would erode the system's capital buffers. In light of the ongoing economic recovery and the need to assess underlying loan quality, staff supported the authorities' plan to allow expiration of the optional loan restructuring at end-February 2022.

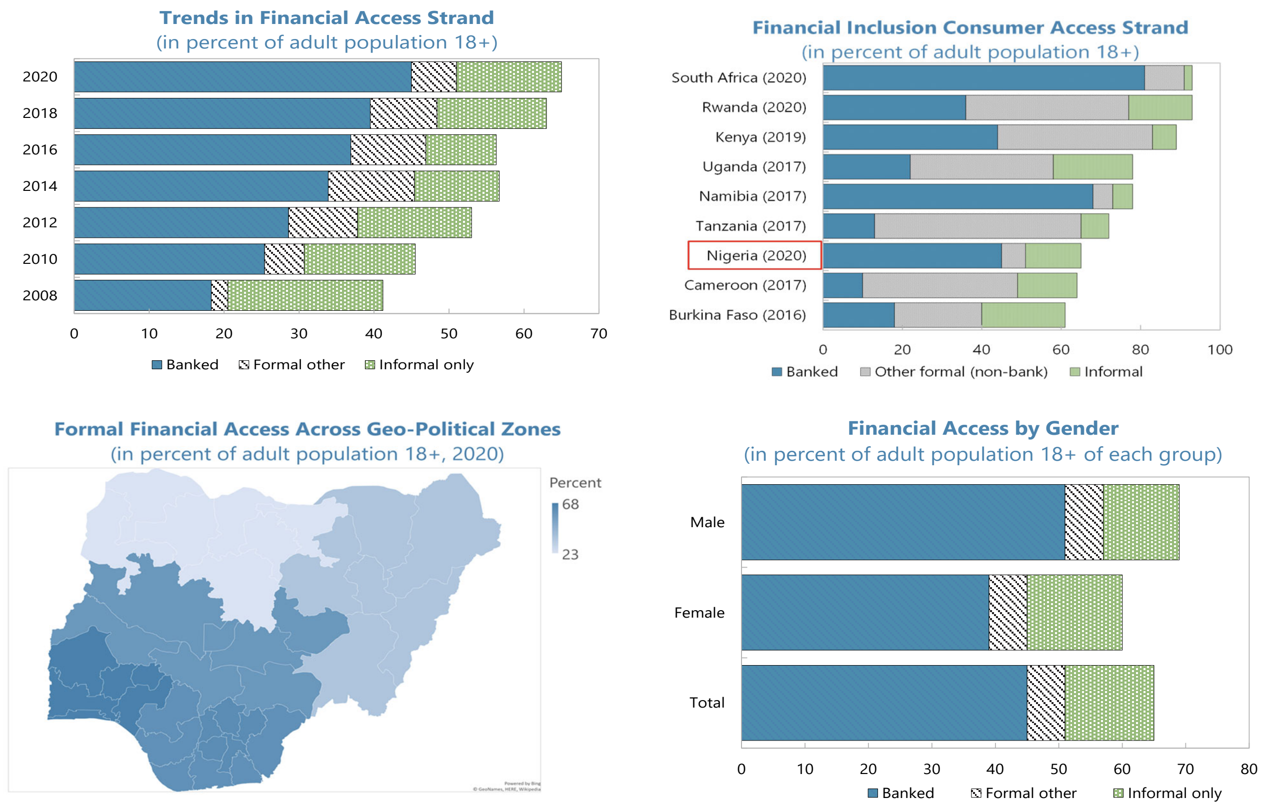
**36. Bank oversight is being enhanced through several initiatives.** The banking law (BOFIA) was revamped in late 2020, introducing, among others, a bank resolution fund, bail-in instruments, special tribunals for asset recovery, and enhancements to banks' corporate governance (e.g., independent board members). Once fully implemented, the new provisions should facilitate bank resolution and help forestall cases of chronic capital insufficiency. In addition, the CBN is about to implement a suite of Basel II/III instruments, notably Liquidity Coverage Ratio, Capital Conservation Buffer, Leverage Ratio, and capital and liquidity planning regulations. To mitigate cyclical and household leverage risks, staff recommended adoption of key macroprudential policy tools, such as a Countercyclical Capital Buffer and Debt service-to-Income Ratio.

**37. Asset recovery by the public asset management company (AMCON) has encountered obstacles, leaving a large financing gap ahead of its planned closure in end-2023.** The collection on large delinquent borrowers has been slow during the pandemic, leaving a shortfall relative to the debt owed to the CBN of more than 3 trillion naira. Recoveries are set to accelerate thanks to an amendment to the AMCON act passed in April 2021 facilitating property foreclosures. Banks will likely continue to finance recovery operations and AMCON debt amortization beyond AMCON's closure which could sustain the negative impact on banks' profitability.

**38. The recent introduction of the eNaira promises several potential benefits, including higher financial inclusion, but poses some risks (Box 2).** Staff welcomed the gradual rollout of the CBDC and highlighted the need for vigilance to various risks, including for monetary policy implementation, bank funding, cyber security, operational resilience, and financial integrity and stability, through regular risk assessment and contingency planning. The eNaira offers low-cost and phone-enabled financial transactions outside established channels. This could potentially increase financial inclusion over time in rural areas (Figure 17) and help meet the authorities' ambitious target to increase the share of financially included adults to 95 percent. Staff noted significant financial integrity risks that could arise from wide accessibility of eNaira and stressed the need to fix existing deficiencies in the AML/CFT framework (see ¶39) which could exacerbate these risks. While preventive measures and the planned AML/CFT regulations for eNaira intermediaries are welcome, a money laundering/terrorist financing risk assessment of domestic and cross-border uses of eNaira and the adoption and implementation of the regulation along with putting in place risk-sensitive mitigation measures should be a priority. Staff noted that a dynamic digital lending ecosystem dominated by fintechs implies greater competition with traditional service providers but also raises consumer protection issues.

**39. Staff stressed the need for further actions to improve the effectiveness of the AML/CFT framework**. The recently published mutual evaluation report of Inter-Governmental Action Group against Money Laundering (GIABA) identifies significant deficiencies that could result in a Financial Action Task Force (FATF) grey listing as early as next year with broader implications on the financial sector. The authorities have commenced action at the highest level to mitigate these deficiencies including by creating a national committee to develop an AML/CFT action plan, capacity building initiatives for key AML/CFT institutions and proposed amendments to money laundering and terrorism prevention legislations. Nigeria would benefit from speeding-up these efforts and taking sustained action in line with a prioritized and clear action plan to mitigate identified deficiencies. Priorities include (i) improving the understanding of money laundering and terrorism financing risks, (ii) enhancing risk-based supervision and compliance of reporting entities, (iii) improving the availability of adequate, (iv) accurate and updated beneficial ownership (BO) information, (v) strengthening enforcement against money laundering/terrorist financing and confiscation of ill-gotten proceeds, and (vi) properly implementing targeted financial sanctions in line with relevant United Nations Security Council Resolutions related to terrorism, terrorism financing, and proliferation financing.

**Figure 17. Nigeria: Financial Inclusion**




Source: Enhancing Financial Innovation and Access Report (EFInA), 2020

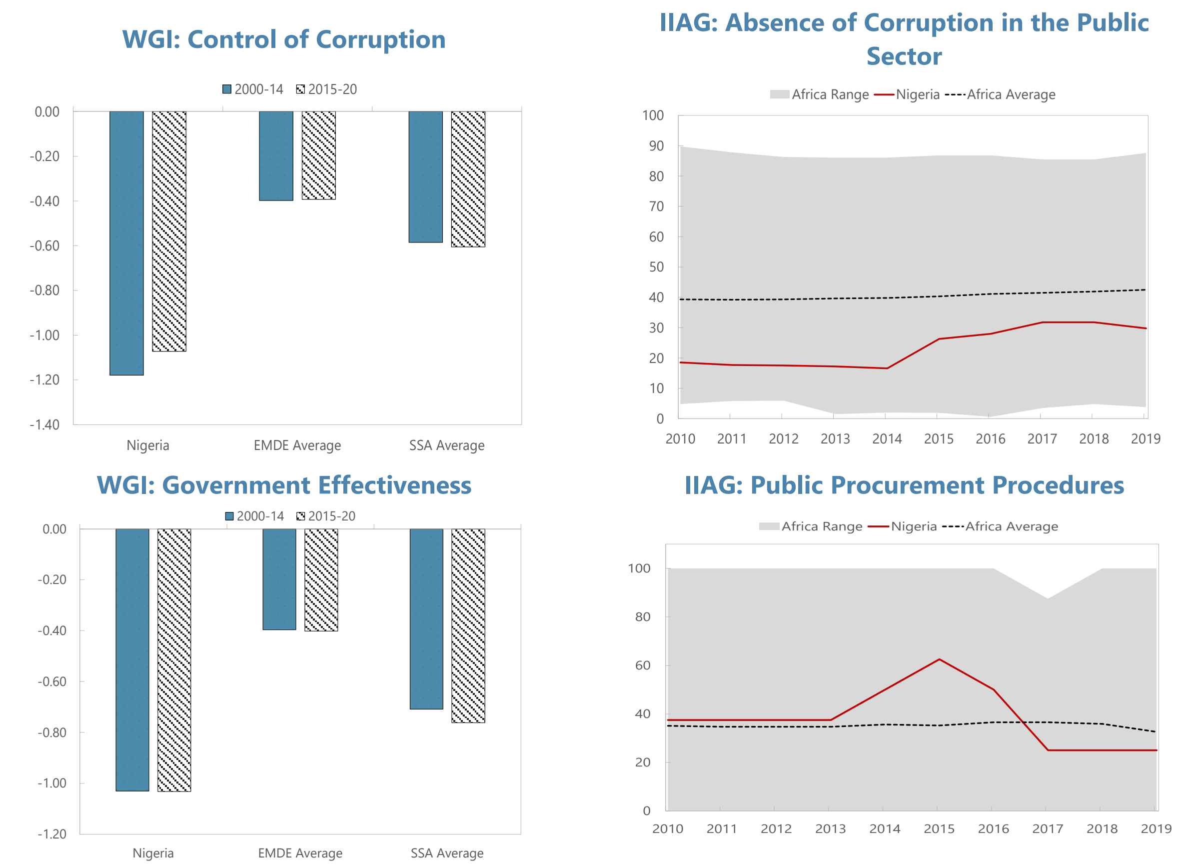
***Authorities' Views***

**40. The authorities deem risks to the financial sector as manageable.** They viewed the risk of a significant deterioration in the quality of restructured loans as low and pointed to the mandatory provisioning of these loans. In addition, the implementation of the new banking law (BOFIA) provisions should be instrumental in improving the financial safety net. The authorities are closely monitoring the undercapitalized banks and expect to find a solution within months. They considered the safeguards measures undertaken in the context of the CBDC implementation as sufficient. The authorities also pointed to vigilance with respect to the thriving Fintech sector through introduction of a regulatory sandbox, increased use of code-based phone transactions, and mandated data sharing between banks and fintechs ("open banking" concept) and are considering adopting centralized regulation of digital lending.

## E. Structural Policies: Ensure a Robust, Job-rich and Inclusive Recovery

**41. The post pandemic recovery provides an opportunity for greater inclusion and diversification.** Despite the oil and gas sector accounting for only around 10 percent of GDP, the Nigerian economy remains relatively undiversified with many non-oil sectors heavily tied to oil price developments, and a high dependence of both fiscal and export revenues on the oil and gas sector (see SM/20/177). The economies of scale advantages associated with Nigeria's population and market sizes, and its vibrant services sectors provide important opportunities to use the AfCFTA as an impulse to become a regional manufacturing and services hub that is well-integrated with global value chains. The projected expansion of the labor force by 54 million in 10 years and stagnant per capita income since 2014 makes it imperative to pursue more robust and job-rich growth.

**Figure 18. Nigeria: Governance Reforms**




Sources: World Governance Indicators (WGI) and Ibrahim Index of African Governance (IIAG).
Notes: The WGI scores are calculated based on offcial data, expert judgement, opinion surveys of experts, business executives, and public-at-large. WGI estimates range from approximately -2.5 (weak) to 2.5 (strong) governance performance. The IIAG is a composite index consiting of 237 variables from 40 independent African and global institutions. IIAG scores are within standardized range of 0.0-100.0, where 100.0 is the best possible score.

**42. In addition to macroeconomic reforms discussed earlier, more robust growth will require a more effective government**. Nigeria has taken steps in recent years to improve transparency in line with staff recommendations (Figure 18). These include greater transparency in the oil sector through the publication of the last two annual statements of the National Oil Company NNPC, the adoption of the Companies and Allies Matters Act (CAMA) in January 2021 which requires publication of information of individuals with more than 5 percent ownership in new companies, and notable increases in the share of public officials submitting asset declarations. However, there has been little progress in the perception of effectiveness of government and the civil service, with the latter, beset by duplication of duties and ghost workers, largely viewed as not service-oriented (Figure 18). Staff supported the authorities' planned civil service reform and recommended addressing these shortcomings. Strengthening revenue administration (¶15), reforming SOEs, especially in the oil sector (¶17), and moving to a market-clearing exchange rate (¶21) would also reduce vulnerabilities to corruption.

43. **Progress in governance related RFI commitments has been slow with most measures being partially met or delayed**. Public access to information on COVID-19 spending and procurement contracts remains uneven, and the spending audits are just beginning (Annex 1). Nigeria's legal framework does not enable procurement agencies to collect and publish beneficial ownership information for companies participating in the procurement process. A secondary regulation requiring procurement agencies to collect beneficial ownership information from bidding companies participating in the COVID-19 related projects and publish the information for awarded companies would support meeting the commitment under the RFI. Broadening this regulation to a larger periphery of bidding processes, as the COVID-19 dedicated support retrenches, would further help reduce corruption risks in procurement.

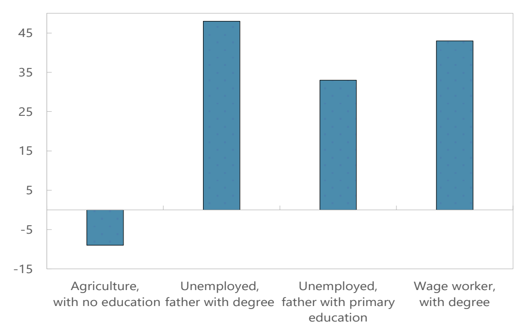
44. **With agriculture accounting for almost half of current employment and a third of GDP, improving agricultural productivity is critical**. Staff analysis, based on the household survey data, shows that, even though a large number of people work in agriculture, the marginal impact on welfare of being in the agricultural sector as measured by consumption per household is lower than that of being unemployed (Figure 19).[10] This is associated with low agricultural yields compared to regional peers, high food loss during delivery, and the subsistence nature of many agricultural activities. Raising agricultural productivity further will require structural policy measures, including increased supply and usage of inputs, adequate storage facilities, and consolidation of farm size to break the negative loop between subsistence farming and low human/physical capital accumulation.

**Figure 19. Nigeria: Agricultural Productivity and Welfare**

**Agricultural Yields**
(Kg per hectare)

| | Maize | Pulses | Wheat |
|---|---|---|---|
| Nigeria (2019) | 2500 | 900 | 1500 |
| Ethiopia (2017) | 3675 | 1485 | 2813 |
| Rwanda (2017) | 1540 | 868 | 1325 |
| Uganda (2017) | 1635 | 950 | no data |
| South Africa (2019) | 5400 | | 3300 |

**Welfare Coefficients by Work Type[1]**




Sources: FAO, Statistic offices of Rwanda, Ethiopia, and Uganda, Nigeria Household Survey and IMF staff calculations.
[1]Real per-capita consumption differences across categories.

45. **Nigeria is severely impacted by climate change through rising temperatures and more volatile precipitation and flooding**. The recently approved climate change act maps out Nigeria's response to climate change in terms of a lower carbon footprint, adaptation measures, and more

[10] See "Synthesis of the Nigerian Labor Market- Putting the Emphasis on Agriculture", Selected Issues (Paper 2021), *forthcoming*.

adaptation measures, and more climate-friendly energy policy. The authorities' National Determined Contribution (NDC) report submitted to COP26 clearly outlines their efforts to implement adaptation measures, especially in agriculture, forestry, and water management, which are expected to add jobs (Box 4). Moreover, the policies to reduce greenhouse gas emissions are clear. Despite being an enormous challenge, climate change also provides an opportunity for the economy to leapfrog through the development of the IT sector, with its smaller carbon footprint and strong role in recent growth, which could also help in providing vital weather and extension service information to farmers to make proper sowing and harvesting decisions.

***Authorities' Views***

**46. The authorities noted a number of positive developments but agreed with the need for continued action.** On diversification, they pointed out policy efforts to increase domestic sourcing of inputs, notably machinery and equipment, and agricultural products, especially sugar, maize, and rice. The CBN's Anchor Borrowers' Program, initiated in 2016 to provide lending to farmers has eased access to credit and contributed to recent improvements in maize and rice yields. Dangote's production of refined oil products is expected to ease FX shortages going forward through reduced imports of refined oil products and following the establishment of three urea plants, the country was now almost self-sufficient in fertilizer and domestic prices were far below import prices.

**47. The authorities recognized the need for improved government efficiency and further reduction in corruption**. The civil service reforms are looking into possible merging of ministries, greater use of biometrics and bank identification numbers, publication of cancelled positions, improved incentives to retire, and stronger oversight of the monthly public sector wage bill to enhance efficiency. The authorities acknowledged that the COVID-19 pandemic had shown that electronic delivery of some services was possible and could act as a potent anti-corruption tool. They are addressing technical issues on the transparency portal to improve access to COVID-19 spending and procurement information and assured staff that, once the audit of COVID 19 expenditures is complete, they will produce a comprehensive report on the usage of the funds.

**48. The authorities are cognizant of the need to contribute to the reduction of greenhouse gas emissions (GHG) but wanted to focus on adaptation**. They had embedded the adaptation measures in their developmental plan and, on mitigation, emphasized that advanced economies should support their use of gas as a transition fuel given the worldwide accepted goal of affordable energy to all, which is also embedded in the Sustainable Development Goals (SDGs).

# CAPACITY TO REPAY

**49. Nigeria's capacity to repay the Fund is adequate**. Following the 2020 disbursement under the RFI, the total amount of outstanding credit from the Fund reached SDR 2.45 billion (100 percent of quota and 9.7 percent of gross international reserves). With outstanding GRA credit above SDR 1.5 billion--the absolute threshold that requires a Post Financing Assessment (PFA)—staff conducted the PFA in the context of the Article IV discussions. Under the baseline, repayments to the Fund are projected to increase over the medium-term, peaking at SDR 1.24 billion in 2024, equivalent to 3.6

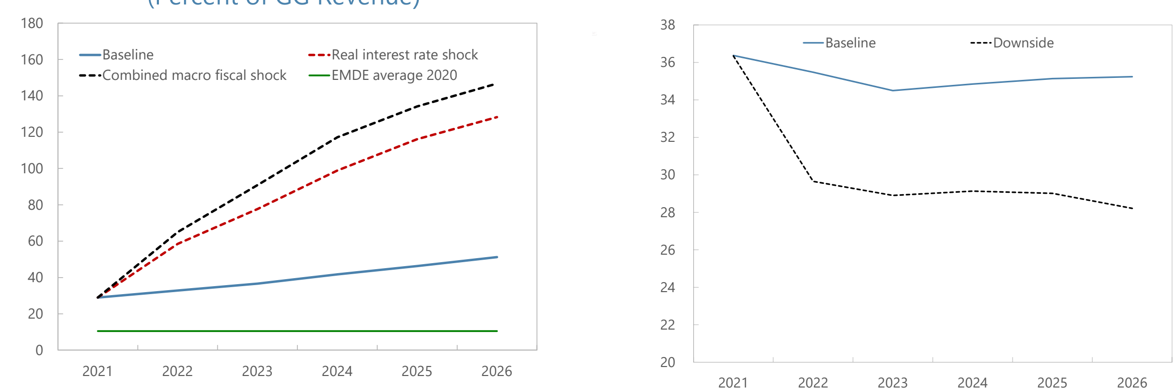
percent of exports, 5.3 percent of gross international reserves, and 6.9 percent of external debt service (Table 10).

**50. Key macroeconomic risks are posed by fiscal vulnerabilities, a weak external position, and limited buffers**. High interest payments relative to fiscal revenues expose Nigeria to interest rate and growth shocks (Figure 20, Annex III). Nigeria's external position is assessed to be weaker than warranted by fundamentals (see ¶7, Annex IV). External buffers are limited, with FX reserves projected to remain below 100 percent of the IMF's ARA metric in the medium term. Given still-significant naira asset holdings of FPIs, estimated at $16.9 billion as of September 2021, Nigeria remains vulnerable to capital outflow pressures notwithstanding the authorities' steady clearing of FX payments backlogs to FPIs. Further drains on FX reserves could come from existing FX swap arrangements for which details were not available.

**Figure 20. Nigeria: Reserves and GG Interest Payments Under Downside Risks**

**GG Interest Payments-to-Revenue Ratio: Baseline and Stress Test**
(Percent of GG Revenue)

**Gross International Reserves**
(Billions of USD)




Sources: IMF staff calculations and Nigerian authorities.
Note: The interest rate shock is calibrated to cause the average rate to reach historical maximum in the medium term; the combined macro-fiscal shock assumes a combination of reduced growth, higher expenditure, higher interest rate, and currency depreciation. See Annex IV for details. The downside scenario assumes a temporary oil price shock in 2022Q1 ($40 per barrel) which raises sovereign borrowing costs (by 100 bps) and higher capital outflows (75 percent rollover of existing foreign capital stock).

**51. Staff analysis shows that these risks are manageable although subject to uncertainty given gaps in information.** A downside scenario assuming lower oil prices, restricted Eurobond market access, and higher capital outflows could drop reserves to $29.1 billion in 2024 with repayments to the Fund rising to 3.7 percent of exports, 6.3 percent of reserves, and 7.9 percent of external debt service**.** The gaps in information on FX swaps pose a risk to this assessment although the authorities assess these swaps to be negligible**.**

***Authorities' Views***

**52. The authorities agreed that Nigeria's capacity to repay the Fund is adequate and considered the risks from fiscal vulnerabilities and limited buffers to be modest.** The authorities appreciated the IMF's swift financial support through the RFI and the SDR allocation, which have helped preserve FX reserves. They underscored that FX demand management policies have also been very effective in building buffers. They saw limited risks of capital outflows and highlighted their plan for an orderly exit for FPIs who want to leave Nigeria. They were confident that the fiscal and monetary agencies would coordinate to reduce fiscal vulnerabilities, including through ongoing measures to increase revenues.

# STAFF APPRAISAL

**53. The COVID-19 pandemic has been managed well so far, and a recovery is underway.** The authorities' proactive actions, including a robust infection tracking system and effective coordination across various levels of government, have helped keep infection and fatality rates lower than in many other countries. Economic recovery is broadening helped by the rebound in oil prices since the start of the pandemic, government policy support, and international financial aid. The social impacts of the pandemic may be more enduring with rising food insecurity and an increase in the already-high levels of poverty. Key downside risks to the outlook include future course of the pandemic including the ongoing omicron variant and its spillover on oil prices, a worsening security situation and rising borrowing costs, while upside risks include higher production by Dangote refinery, the new fiscal terms of the PIA ushering greater investment in the oil and gas sector, and trade opportunities created by the AfCFTA.

**54. Major reforms are needed in fiscal, exchange rate, trade, and governance areas to lift long-term growth**. Fiscal and external imbalances require the removal of fuel and electricity subsidies, further tax administration reforms, and clarity on exchange rate policy. Over the medium term, moving away from inward-looking policies through trade, monetary and foreign exchange reforms, enhancing public trust through improved governance and fiscal transparency, and increasing welfare through higher job creation and agricultural reforms are priorities.

**55. Fiscal consolidation is urgent to create policy space and reduce sustainability risks**. Significant additional domestic revenue mobilization is critical to put the public debt and debt-servicing capacity on a sustainable path, which requires stepping up of TA implementation. Near-term priorities include e-customs reforms, better VAT compliance and rationalization of tax incentives and customs duty waivers. As the recovery strengthens, the authorities are advised to adopt tax rates comparable to the ECOWAS average to raise revenues and keep public debt below 40 percent of GDP and reduce dependence on central bank financing. In line with the Petroleum Industry Act (PIA), fuel subsidies should be removed permanently through the introduction of a market-based pricing mechanism, combined with adequate compensatory measures for the poor and efficient and transparent use of the saved resources. Resource allocation for new TAs should continue to be merit-tested, including guided by the implementation record.

**56. The external position is assessed to be weaker than implied by Nigeria's fundamentals and desired policies**. A key move toward strengthening the external position would be to establish a unified and market-clearing exchange rate, together with policy clarity. The discontinuation of the official exchange rate is a step in the right direction. The favorable external conditions and improving BOP situation provide a good opportunity for completing this reform. To preserve competitiveness, any exchange rate adjustment should be accompanied by clear communications regarding exchange rate policy going forward, macroeconomic policies to contain inflation and structural policies to facilitate new investment.

**57. Supportive monetary policy is appropriate but warrants close monitoring**. With the recovery yet to be broad-based, inflation projected to decline, and limited fiscal policy space, monetary policy needs to support the recovery unless exchange rate pressures intensify, or inflationary pressures resurface. In the medium term, there is a need to strengthen monetary operational framework and establish the primacy of price stability through modernizing the 2007 CBN Act. As the recovery firms up, the CBN should consider scaling back its credit intervention programs as part of broader monetary structural reforms.

**58. The banking sector has weathered the crisis well**. Pre-existing buffers, banks' conservative lending policies, CBN's credit intervention programs and regulatory forbearance have helped keep the system stable. In light of the ongoing recovery, the planned expiration of the time-bound pandemic-related support measures in end-February 2022 is appropriate. To safeguard financial stability, staff recommended timely action against the chronically undercapitalized banks and introduction of additional macroprudential instruments to better manage systemic and cyclical risks. The launching of eNaira could bring significant benefits, including higher financial inclusion over time and efficient delivery of social assistance, and close monitoring of risks is recommended.

**59. Bold reforms are needed to ensure job-rich growth**. A less restrictive and protectionist trade regime is needed to enhance Nigeria's growth potential and harness the gains from the AfCFTA. With agriculture accounting for almost half of employment, its productivity is important for overall growth and employment.

**60. Improved transparency and governance would help to bolster business confidence and public trust in reforms**. Notable progress has been made in reducing corruption and improving transparency in recent years. A strengthening of public perceptions of government effectiveness and the civil service is needed to increase tax compliance and buy-in of reforms. It is important to pick up the implementation of transparency and accountability measures committed under the RFI. The planned civil service reforms are welcome and stronger efforts are needed to improve transparency of the COVID-19 pandemic spending and procurement information.

**61. Nigeria's capacity to repay the Fund remains adequate.** All indicators of Nigeria's capacity to repay remain adequate under the baseline and the downside scenarios. Risks arising from high interest payments as a share of fiscal revenues and limited foreign exchange buffers are manageable given an improving external position and low external indebtedness, although subject to uncertainty given gaps in information.

**62. It is proposed that the next Article IV consultation take place on the standard 12-month cycle.**

## Box 1. Petroleum Industry Act 2021

In August 2021, the Petroleum Industry Act (PIA) was enacted with the following key features.

**Ch.1. Governance and Institutions**

- The objective is to ensure good governance and accountability, and create a commercially oriented national petroleum company, and foster a good business environment for petroleum operations.
- Dual regulatory agencies are created: the Nigerian Upstream Regulatory Commission (the "Commission") and the Midstream and Downstream Petroleum Regulatory Authority (the "Authority").
- "NNPC Limited" is to be incorporated within 6 months and replace the NNPC entirely within 18 months. NNPC Limited is operated on a commercial basis without government funding and must publish annual reports and audited accounts. Government owns all shares in NNPC Limited through the Ministry of Finance & Ministry of Petroleum as shareholders while also controlling the selection of its management team. This structure is expected to pave the way for an invitation to the Nigerian public to own shares in the company in the future.

**Ch.2. Administration**

- The objective is to promote exploitation of petroleum resources for the benefit of Nigerian people and for sustainable development of the industry and to ensure transparency in the administration.
- Avoid economic distortions and ensure a competitive market for the sale and distribution of petroleum products and natural gas in Nigeria and avoid cross-subsidies among different categories of consumers (market-based pricing principle for petroleum products).
- When the authority regulates the tariffs and prices of a licensee, the authority shall allow the seller to recover reasonably and prudently incurred costs, including a reasonable return on the capital invested in the business.

**Ch.3. Host community development**

- The aim is to foster sustainable prosperity within host communities and enhance harmonious co-existence.
- An operating company or a company that has been issued with an oil prospecting license or mining lease is required to set up a host community development trust fund to support sustainable development within host communities. The company will contribute 3% of its actual operating expenditure in the upstream petroleum operations in the preceding calendar year to the trust fund.

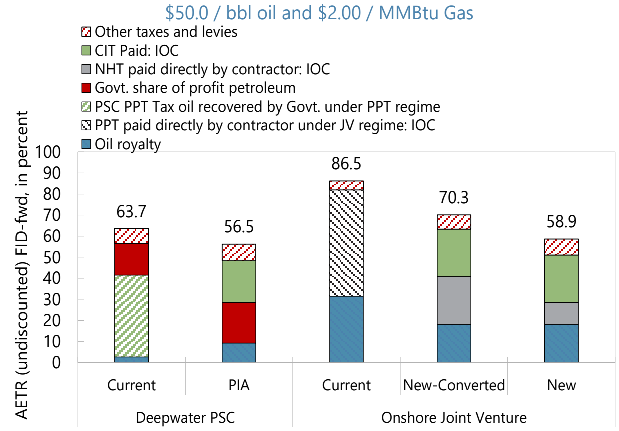
**Ch.4. Fiscal framework**

- The objective is to establish an adaptable fiscal framework to promote investment in the petroleum industry, given the changing global outlook for the sector.
- The new fiscal terms will provide greater incentives to invest in the oil and gas industry but could reduce the government take from new and converted fields. The short-term revenue impact will depend on the pace of conversion of existing fields to the new terms (text chart).

## Box 1. Petroleum Industry Act 2021 (Concluded)

- A new royalty combines a base rate with a variable rate linked to oil prices. The Petroleum Profits Tax (PPT) is replaced by the regular CIT at 30% and a new Hydrocarbon tax at rates from nil for offshore production to 15% or 30% for onshore production. This reduces the average effective tax rate for companies in the upstream sector to around 60~70% as opposed to the previous 85% rate.
- The Commission will collect rents, royalties, and production shares as applicable while the Authority will collect the gas flare penalty from midstream operations.
- A Frontier Exploration Fund will be financed through a 30% deduction of profit oil and gas in the production sharing, profit sharing and risk service contracts, which will be administered by NNPC.

**Government Take for Illustrative Projects, Average Effective Tax Rate**
$50.0 / bbl oil and $2.00 / MMBtu Gas




Source: IMF staff estimates using FAD FARI model.
Note: The FARI model calculates total government revenue from all fiscal instruments over the life of a petroleum extraction project with illustrative investments reflecting country-specific production and cost structures. The average effective tax rate presents the government revenue as a share of project cashflow.

- Gas flaring penalties will no longer be transferred to the Federation Account and will instead be used for gas infrastructure development or environmental remediation in the host communities.

**Ch.5. Miscellaneous provisions**

- The PIA repeals about 10 laws including the Associated Gas Reinjection Act; Hydrocarbon Oil Refineries Act; Motor Spirits (Returns) Act; NNPC (Projects) Act; NNPC Act; and PPPRA Act.

### Box 2. eNaira: Potential Benefits and Risks [1/]

The Central Bank of Nigeria (CBN) officially launched the "eNaira"—a central bank digital currency (CBDC)—on October 25, 2021. It is designed to circulate as a fiat money, and as such has intrinsic value.

The eNaira is envisaged to bring multiple benefits, which are expected to materialize gradually supported by a robust regulatory system:

- *Increased financial inclusion,* as the eNaira wallet coverage gets expanded from only people with bank accounts to anyone with a mobile phone.
- *Facilitation of remittances,* as the Nigerian diasporas are, in due course, allowed to obtain eNaira from international money transfer operators and digitally transfer it to Nigeria free of charge.
- *Reduced informality and illegal activities,* as eNaira transactions are in principle fully traceable.

However, the eNaira carries macro-financial, cyber security, operational, financial integrity and stability, and legal risks.

- eNaira wallets may be perceived as safer and more convenient than commercial bank deposits, which poses some disintermediation risks. The CBN is mitigating this by subjecting the transfer of funds from bank deposits to eNaira wallets to daily transactions limits.
- There are cybersecurity risks associated with the eNaira.
- Unforeseen legal issues, including for private law aspects of its operations (e.g., the exact nature of legal relationship between the wallet providers and CBDC holders), may subject eNaira to litigation and operational risks.
- There are financial integrity risks which are mitigated by using a tiered identity verification system and applying more stringent controls to relatively less verified users. Prospective expansion of eNaira use to cross-border fund transfers and agency bank networks may cause new money-laundering/financing of terrorism (ML/FT) risks.

[1/] The discussion in the box is based on 'Five Observations on Nigeria's Central Bank Digital Currency' (www.imf.org).

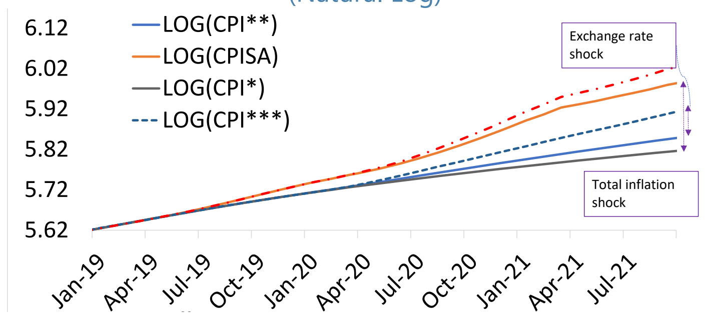
## Box 3. Inflationary Impact of Exchange Rate Depreciation

**There are two channels through which exchange rate passthrough to inflation takes place**. These are the prices of imported goods in the CPI basket and second-round effects that permeate through the input and output links. Currently, there are no official statistics on the total share of imported goods in the CPI basket. Staff estimates this share to be in the 13-20 percent range based on the share of imported food in the CPI basket (13.3 percent) and the share of imports in total private consumption (6.4 percent). The lack of granular input-output data makes direct calculation of second-round effects difficult. As an alternative, an econometric approach is used to estimate the total impact of exchange rate adjustment on inflation.

**Staff analysis shows that CPI inflation, to a large extent, reflects the exchange rates prevailing in the BDCs and in the parallel market**. The model is parsimonious. It uses M2, BDC exchange rate, and BDC-to-I&E exchange rate spread as exogenous variables for 1995M05-2021M7. This model shows that exchange rate shocks—captured by the parallel market rate depreciation—explain 38 percent of the overall CPI developments since 2019. The results take into account the offsetting effects of changes in the I&E exchange rate. It also shows that, despite a highly managed rate in the I&E window, 62 percent of the naira's depreciation as reflected in the BDC rate has already been passed through to inflation.

**CPI Decomposition** [1]

(Natural Log)




Source: NBS, Staff estimates.

[1] *, **. *** mean a counterfactual scenario (1) without any shock ( money and exchange rate assumed to remain at pre-2019 trend) (2) with monetary shock only; (3) with monetary and exchange rate shocks (4) with all shocks (including other) and without MCP (i.e., without parallel market spread due to rate unification).

**Staff estimates the cumulative impact on the CPI inflation from a further 15 percent depreciation in the I&E rate to be 5.8 percent during 2022-31.**[1/] This compares to first-round effects of 2-3 percent based on the estimated weights of imported goods in the CPI basket—which implies an imputed estimate of second round effect of 3-4 percent. The impact shows a peak at 2.2 percent in 2022 which tapers off to 0.3 percent in 2026. The muted impact is explained by the extent of exchange rate pass-through already made from the more depreciated rate prevailing in the BDCs and the parallel market, which leaves only residual effects to come from the I&E rate depreciation.

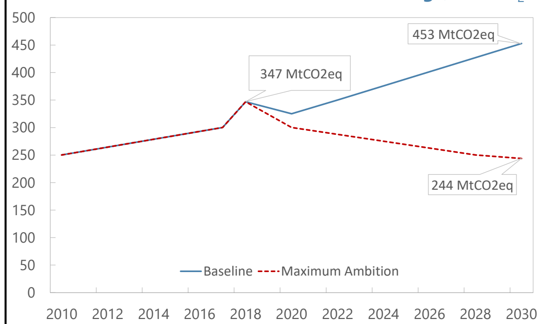
Note: The analysis in this Box is based on the "Nigeria's inflation persistence—causes and policy response", Selected Issues Paper (2021) *forthcoming*.

[1/] While ARDL model is known to be relatively free from it, there may be a possible endogeneity bias in the estimated exchange rate effect—which could have resulted in its overestimation.

## Box 4. Nigeria's Planned Climate Adaptation Policies[1]

**Nigeria's greenhouse gas emissions (GHG) are far below those of advanced economies.** The GHG rose to 347 million tons of CO2 equivalent in 2018, with the energy and agriculture sectors contributing to 60 and 25 percent of this increase, respectively. The government projects GHG to rise to 453 million tons of CO2 by 2030 based on a business-as-usual scenario and is committing to an unconditional limit of 362 million tons of CO2 in 2030, keeping the level slightly above its current estimated level, with a conditional limit of 247 million tons assuming considerable financial support (see below).

**GHG Emissions Under the Baseline Scenario and the Conditional Scenario based on Donor Funding** (in $MtCO_2eq$)




Source: Nigeria's Nationally Determined Contribution by the Federal Ministry of Environment.

**The authorities are focusing on adaptation measures given the likely severe impact of climate change on the Nigerian economy**. These are articulated in its National Adaptation Framework, published in 2020, that will guide policy developments and implementation going forward. Adaptation policies focus on five areas:

- **Agriculture** through better soil management to improve yields and thereby help reduce food insecurity;
- **Forestry** through improving forestry management to help reverse the loss in forest cover and aggressive afforestation (12 million trees to be planted in 2023);
- **Energy** through expanding sustainable energy sources (including solar) and decentralizing transmission to improve electricity availability in rural areas;
- **Water management** through improving the quality of water-producing ecosystems and sanitation services and strengthening the resilience of water supply infrastructure; and
- **Disaster preparedness** by transforming the focus of the national emergency management agency from relief to disaster management and introducing a Disaster management Act to secure budgetary funding.

**The implementation requires large foreign funding that is yet to materialize**. The government estimates the full cost of NDC implementation at $177 billion over 2021-30 (40 percent of Nigeria's 2021 GDP), with about two thirds for the electricity sector alone. The recently issued 2021-25 NDP has indicated a government contribution of 1.8 trillion naira over this period (1 percent of 2021 GDP) for the water sector and environment. Almost all funding would therefore need to come from the private sector and development partners.

1/ This box is based on Federal Government of Nigeria 2021 NDC Update.

## Table 1. Nigeria: Selected Economic and Financial Indicators, 2017–26

| | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 |
|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | Projections | | | | | |
| **National income and prices** | (Annual percentage change, unless otherwise specified) | | | | | | | | | |
| Real GDP (at 2010 market prices) | 0.8 | 1.9 | 2.2 | -1.8 | 2.6 | 2.7 | 2.7 | 2.6 | 2.6 | 2.7 |
| Oil and Gas GDP | 4.7 | 1.0 | 4.6 | -8.9 | -0.7 | 3.2 | 2.9 | 2.7 | 3.8 | 5.5 |
| Non-oil GDP | 0.5 | 2.0 | 2.0 | -1.1 | 2.9 | 2.6 | 2.6 | 2.5 | 2.5 | 2.5 |
| Non-oil non-agriculture GDP | -0.6 | 2.0 | 1.8 | -2.4 | 3.5 | 2.8 | 2.7 | 2.6 | 2.6 | 2.5 |
| Production of crude oil (million barrels per day) | 1.89 | 1.93 | 2.00 | 1.83 | 1.65 | 1.70 | 1.74 | 1.77 | 1.85 | 1.94 |
| Nominal GDP at market prices (trillions of naira) | 114.9 | 129.1 | 145.6 | 154.3 | 183.0 | 212.1 | 242.7 | 273.7 | 310.0 | 351.3 |
| Nominal non-oil GDP (trillions of naira) | 104.5 | 115.7 | 133.2 | 144.1 | 166.9 | 195.2 | 226.0 | 257.1 | 293.2 | 333.9 |
| Nominal GDP per capita (US$) | 1,969 | 2,153 | 2,230 | … | … | … | … | … | … | … |
| GDP deflator | 11.1 | 10.2 | 10.4 | 7.8 | 15.6 | 12.9 | 11.4 | 10.0 | 10.4 | 10.3 |
| Consumer price index (annual average) | 16.5 | 12.1 | 11.4 | 13.2 | 15.9 | 14.3 | 12.8 | 11.7 | 11.5 | 11.5 |
| Consumer price index (end of period) | 15.4 | 11.4 | 12.0 | 15.8 | 14.9 | 13.8 | 12.0 | 11.5 | 11.5 | 11.5 |
| **Investment and savings** | (Percent of GDP) | | | | | | | | | |
| Gross national savings | 18.1 | 20.5 | 21.4 | 24.7 | 26.8 | 26.2 | 25.9 | 24.4 | 23.1 | 22.0 |
| Public | -1.9 | -1.1 | -1.2 | -2.2 | -2.1 | -2.3 | -1.8 | -2.2 | -2.5 | -2.7 |
| Private | 20.0 | 21.6 | 22.6 | 26.9 | 28.9 | 28.5 | 27.7 | 26.6 | 25.6 | 24.7 |
| Investment | 14.7 | 19.0 | 24.6 | 28.6 | 29.5 | 28.5 | 28.0 | 26.0 | 24.4 | 23.0 |
| Public | 3.3 | 3.0 | 3.0 | 2.5 | 3.2 | 3.1 | 3.0 | 2.8 | 2.8 | 2.8 |
| Private | 11.5 | 16.0 | 21.7 | 26.2 | 26.3 | 25.4 | 25.0 | 23.1 | 21.6 | 20.2 |
| Current account balance | 3.4 | 1.5 | -3.3 | -4.0 | -2.8 | -2.3 | -2.1 | -1.6 | -1.3 | -1.0 |
| **Consolidated government operations** | (Percent of GDP) | | | | | | | | | |
| Total revenues and grants | 6.6 | 8.5 | 7.8 | 6.3 | 7.4 | 7.0 | 6.8 | 6.7 | 6.7 | 6.6 |
| *Of which:* oil and gas revenue | 1.3 | 2.8 | 4.4 | 2.2 | 3.0 | 2.6 | 2.3 | 2.1 | 2.0 | 1.9 |
| Total expenditure and net lending | 12.0 | 12.8 | 12.5 | 12.0 | 13.7 | 13.4 | 12.4 | 12.6 | 12.8 | 12.9 |
| *Of which*: fuel subsidies | 0.1 | 0.5 | 0.4 | 0.1 | 1.0 | 0.5 | 0.0 | 0.0 | 0.0 | 0.0 |
| Overall balance | -5.4 | -4.3 | -4.7 | -5.7 | -6.3 | -6.4 | -5.7 | -5.9 | -6.2 | -6.3 |
| Non-oil primary balance | -6.7 | -7.2 | -6.7 | -5.8 | -7.3 | -6.7 | -5.5 | -5.3 | -5.1 | -4.8 |
| Non-oil revenue | 4.0 | 4.0 | 4.1 | 4.1 | 4.3 | 4.3 | 4.4 | 4.5 | 4.6 | 4.7 |
| Public gross debt[1] | 25.3 | 27.7 | 29.2 | 34.5 | 36.0 | 37.5 | 38.5 | 40.0 | 41.5 | 42.9 |
| *Of which*: FGN debt | 22.4 | 25.0 | 26.5 | 31.0 | 32.1 | 33.4 | 34.3 | 35.7 | 37.2 | 38.7 |
| *Of which:* External debt | 5.0 | 6.4 | 6.2 | 8.2 | 8.8 | 8.8 | 8.8 | 8.8 | 9.0 | 9.3 |
| FGN interest payments (percent of FGN revenue) | 58.8 | 60.8 | 54.9 | 88.8 | 85.5 | 92.6 | 96.3 | 110.9 | 124.9 | 139.0 |
| Interest payments (percent of consolidated revenue) | 20.6 | 19.9 | 21.4 | 33.5 | 29.0 | 32.8 | 36.6 | 41.7 | 46.3 | 51.2 |
| **Money and credit** | (Change in percent of broad money at the beginning of the period, unless otherwise specified) | | | | | | | | | |
| Broad money (percent change; end of period) | -1.2 | 15.0 | 6.4 | 13.5 | 16.5 | 18.3 | 18.1 | 16.1 | 16.2 | 15.0 |
| Net foreign assets | 10.8 | 3.0 | -18.0 | 3.4 | 1.4 | -0.2 | -0.2 | 0.2 | 0.2 | 0.0 |
| Net domestic assets | -12.0 | 12.0 | 24.5 | 10.2 | 15.1 | 18.5 | 18.3 | 15.9 | 16.1 | 15.0 |
| o/w Claims on consolidated government | -1.0 | 5.1 | 16.2 | 7.2 | 16.1 | 17.3 | 13.5 | 13.7 | 13.5 | 12.4 |
| Credit to the private sector (y-o-y,%) | -1.8 | -11.9 | 23.5 | 15.8 | 21.6 | 8.6 | 10.2 | 7.8 | 8.0 | 7.1 |
| Velocity of broad money (ratio; end of period) | 3.8 | 3.5 | 3.8 | 3.6 | 3.6 | 3.5 | 3.5 | 3.4 | 3.3 | 3.3 |
| **External sector** | (Annual percentage change, unless otherwise specified) | | | | | | | | | |
| Exports of goods and services | 32.3 | 29.9 | 5.9 | -42.9 | 41.8 | -1.2 | -5.4 | -4.5 | -1.7 | 5.5 |
| Imports of goods and services | 8.4 | 40.6 | 40.7 | -28.4 | 18.5 | 0.1 | -1.6 | -3.1 | -2.3 | 2.2 |
| Terms of trade | 10.9 | 13.3 | -5.9 | -20.0 | 20.7 | -1.9 | -2.3 | -2.4 | -2.2 | -1.6 |
| Price of Nigerian oil (US dollar per barrel) | 54.8 | 71.6 | 64.0 | 42.3 | 66.9 | 65.9 | 63.0 | 61.0 | 59.4 | 58.4 |
| External debt outstanding (US$ billions)[2] | 95.3 | 99.9 | 102.3 | 105.5 | 111.6 | 117.8 | 124.8 | 132.8 | 142.6 | 155.4 |
| Gross international reserves (US$ billions) | 39.6 | 42.8 | 38.1 | 36.5 | 36.4 | 35.5 | 34.5 | 34.8 | 35.1 | 35.2 |
| (equivalent months of imports of G&Ss) | 6.6 | 5.1 | 6.3 | 5.1 | 5.1 | 5.1 | 5.1 | 5.2 | 5.2 | 5.2 |

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

[1]Gross debt figures for the Federal Government and the public sector include overdrafts from the Central Bank of Nigeria (CBN). External debt figures are based on currency of issuance.

[2]Includes both public and private sector.

## Table 2. Nigeria: Balance of Payments, 2017–26
(Billions of U.S. dollars, unless otherwise specified)

| | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 |
|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | Projections | | | | | |
| Current account balance | 12.7 | 6.3 | -14.6 | -17.0 | -12.8 | -11.8 | -12.2 | -10.5 | -9.7 | -8.2 |
| Trade balance | 13.1 | 20.5 | 2.9 | -16.4 | -9.1 | -7.6 | -8.7 | -9.6 | -10.3 | -9.8 |
| Exports | 45.8 | 61.2 | 65.0 | 35.9 | 51.7 | 50.8 | 47.6 | 44.0 | 41.6 | 42.5 |
| Oil/gas | 42.3 | 56.6 | 54.5 | 31.4 | 46.1 | 44.8 | 41.2 | 37.1 | 34.8 | 35.5 |
| Other | 3.5 | 4.7 | 10.5 | 4.5 | 5.6 | 6.1 | 6.4 | 6.9 | 6.9 | 6.9 |
| Imports | -32.7 | -40.8 | -62.1 | -52.3 | -60.8 | -58.4 | -56.3 | -53.6 | -52.0 | -52.3 |
| Oil/gas | -8.2 | -11.6 | -11.0 | -7.3 | -12.1 | -10.3 | -7.9 | -4.7 | -1.8 | -1.5 |
| Other | -24.5 | -29.2 | -51.1 | -45.0 | -48.7 | -48.1 | -48.4 | -48.9 | -50.2 | -50.8 |
| Services (net) | -13.2 | -26.1 | -33.8 | -15.8 | -19.8 | -22.0 | -22.6 | -21.5 | -19.8 | -19.4 |
| Receipts | 5.0 | 4.8 | 4.9 | 4.0 | 4.9 | 5.1 | 5.3 | 6.5 | 8.0 | 9.9 |
| Payments | -18.3 | -30.9 | -38.7 | -19.8 | -24.7 | -27.2 | -27.9 | -28.0 | -27.9 | -29.3 |
| Income (net) | -9.2 | -12.3 | -10.1 | -5.8 | -9.7 | -10.6 | -10.7 | -10.3 | -11.8 | -12.6 |
| *Of which:* Interest due on public debt | -0.3 | -0.8 | -1.0 | -1.2 | -1.3 | -1.7 | -2.1 | -2.5 | -3.0 | -3.5 |
| Transfers (net) | 22.0 | 24.1 | 26.4 | 21.0 | 25.8 | 28.5 | 29.8 | 30.9 | 32.2 | 33.5 |
| Capital and Financial account balance | 17.5 | 3.2 | 16.9 | 3.4 | 12.7 | 10.9 | 11.2 | 10.9 | 10.0 | 8.3 |
| Capital Account (net) | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Financial Account (net) | 17.5 | 3.2 | 16.9 | 3.4 | 12.7 | 10.9 | 11.2 | 10.9 | 10.0 | 8.3 |
| Direct Investment (net) | 2.1 | 0.2 | 2.0 | 2.7 | 4.0 | 3.4 | 3.7 | 3.7 | 3.5 | 2.5 |
| Portfolio Investment (net) | 10.3 | 0.0 | 3.1 | -3.6 | 3.9 | 3.0 | 3.5 | 3.3 | 3.2 | 3.0 |
| Other Investment (net) | 5.1 | 3.0 | 11.8 | 4.3 | 4.8 | 4.5 | 4.1 | 3.8 | 3.4 | 2.8 |
| *Of which:* SDR allocation | | | | | 3.4 | | | | | |
| Errors and omissions | -17.8 | -6.2 | -7.1 | 12.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Overall balance | 12.4 | 3.2 | -4.7 | -1.6 | -0.1 | -0.9 | -1.0 | 0.4 | 0.3 | 0.1 |
| RFI Disbursement | | | | 3.5 | | | | | | |
| Net international reserves (increase -) | -12.4 | -3.2 | 4.7 | -1.9 | 0.1 | 0.9 | 1.0 | -0.4 | -0.3 | -0.1 |
| Memorandum items: | | | | | | | | | | |
| Gross official reserves, end-of-period | 39.6 | 42.8 | 38.1 | 36.5 | 36.4 | 35.5 | 34.5 | 34.8 | 35.1 | 35.2 |
| In months of next year's imports of goods and services | 6.6 | 5.1 | 6.3 | 5.1 | 5.1 | 5.1 | 5.1 | 5.2 | 5.2 | 5.2 |
| Current account (percent of GDP) | 3.4 | 1.5 | -3.3 | -4.0 | -2.8 | -2.3 | -2.1 | -1.6 | -1.3 | -1.0 |
| Exports of goods and services (percent of GDP) | 13.5 | 15.7 | 15.6 | 9.3 | 12.2 | 10.8 | 9.0 | 7.6 | 6.6 | 6.1 |
| Imports of goods and services (percent of GDP) | 13.6 | 17.0 | 22.5 | 16.8 | 18.5 | 16.6 | 14.2 | 12.2 | 10.6 | 9.5 |
| Public external debt[1] | 40.3 | 39.0 | 46.6 | 47.8 | 53.9 | 59.9 | 66.3 | 73.5 | 82.3 | 94.0 |
| In percent of GDP | 10.7 | 9.3 | 10.4 | 11.1 | 11.6 | 11.6 | 11.2 | 11.0 | 10.9 | 11.0 |
| In percent of exports of G&S | 79.3 | 59.1 | 66.7 | 119.8 | 95.2 | 107.1 | 125.2 | 145.4 | 165.7 | 179.5 |
| In percent of consolidated fiscal revenues | 130.4 | 79.5 | 86.1 | 126.8 | 117.6 | 128.9 | 131.8 | 134.7 | 136.4 | 141.9 |
| Private external debt | 55.0 | 60.9 | 55.7 | 57.7 | 57.7 | 57.9 | 58.5 | 59.3 | 60.4 | 61.4 |

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

[1]Nominal public short- and long-term debt, end of period. Guaranteed external debt not included. External public debt for the purpose of BoP is based on a residency definition and includes CBN's debt.

## Table 3. Nigeria: Federal Government Operations, 2017–26

(Billions of Naira)

| | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 |
|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | Projections | | | | | |
| Total revenue and Grants | 2,647 | 3,596 | 4,449 | 3,672 | 4,600 | 5,234 | 6,249 | 6,867 | 7,658 | 8,572 |
| Oil revenue | 1,132 | 2,076 | 2,209 | 1,307 | 1,585 | 1,947 | 2,473 | 2,574 | 2,743 | 2,875 |
| Non-oil revenue | 1,515 | 1,520 | 2,240 | 2,272 | 2,794 | 3,224 | 3,712 | 4,229 | 4,852 | 5,633 |
| Import and excise duties | 283 | 318 | 748 | 396 | 509 | 543 | 568 | 597 | 637 | 670 |
| Companies' income tax | 544 | 660 | 695 | 674 | 843 | 1,083 | 1,291 | 1,513 | 1,780 | 2,093 |
| Value-added tax | 129 | 147 | 160 | 198 | 292 | 358 | 435 | 519 | 623 | 746 |
| Federal government independent revenue | 559 | 395 | 637 | 1,003 | 1,150 | 1,240 | 1,419 | 1,600 | 1,812 | 2,124 |
| Grants | 0 | 0 | 0 | 93 | 355 | 63 | 63 | 63 | 63 | 63 |
| Total expenditure | 7,406 | 9,046 | 10,981 | 11,492 | 14,497 | 17,243 | 18,572 | 21,505 | 25,239 | 29,297 |
| Recurrent expenditure | 6,164 | 7,364 | 8,896 | 9,891 | 11,122 | 13,592 | 14,694 | 17,468 | 20,666 | 24,115 |
| Personnel | 2,278 | 2,417 | 2,596 | 3,187 | 3,870 | 4,519 | 5,229 | 5,951 | 6,794 | 7,757 |
| Overheads | 437 | 517 | 1,131 | 1,269 | 1,560 | 2,384 | 1,986 | 2,260 | 2,380 | 2,045 |
| *of which COVID-19 fund* | | | | 214 | | | | | | |
| Interest | 1,557 | 2,186 | 2,442 | 3,261 | 3,930 | 4,846 | 6,019 | 7,614 | 9,565 | 11,912 |
| Transfers[1] | 1,842 | 1,912 | 2,147 | 1,735 | 1,562 | 1,643 | 1,460 | 1,643 | 1,927 | 2,401 |
| *of which electricity subsidies* | 252 | 272 | 524 | 600 | 300 | 300 | 0 | 0 | 0 | 0 |
| *of which net transfers to SLGs*[2] | 1,150 | 1,184 | 1,195 | 693 | 768 | 779 | 824 | 932 | 1,134 | 1,518 |
| *of which COVID-19 fund* | | | | 150 | | | | | | |
| Arrears Clearance | 50 | 331 | 580 | 439 | 200 | 200 | 0 | 0 | 0 | 0 |
| Capital expenditure | 1,242 | 1,682 | 2,084 | 1,602 | 3,374 | 3,651 | 3,878 | 4,037 | 4,573 | 5,183 |
| *of which COVID-19 fund* | | | | 200 | | | | | | |
| Overall balance | -4,759 | -5,450 | -6,532 | -7,820 | -9,897 | -12,009 | -12,323 | -14,638 | -17,581 | -20,725 |
| Financing | 4,759 | 5,450 | 6,532 | 7,820 | 9,897 | 12,009 | 12,323 | 14,638 | 17,581 | 20,725 |
| External | 2,183 | 2,142 | 725 | 2,037 | 2,439 | 2,472 | 2,614 | 2,959 | 3,600 | 4,819 |
| Borrowing | 1,521 | 1,423 | 556 | 2,581 | 1,996 | 2,013 | 2,374 | 2,728 | 3,245 | 3,561 |
| *of which RFI* | | | | 1,341 | | | | | | |
| Amortization | -26 | -176 | -60 | -544 | -325 | -320 | -583 | -701 | -779 | -260 |
| *of which RFI* | | | | | | | -369 | -743 | -374 | 0 |
| Net External Lending to SLGs | 687 | 573 | 228 | 693 | 768 | 779 | 824 | 932 | 1,134 | 1,518 |
| Domestic | 1,158 | 3,168 | 6,629 | 4,893 | 7,458 | 9,537 | 9,709 | 11,680 | 13,981 | 15,906 |
| Bank financing | -791 | 1,204 | 5,170 | 2,318 | 4,522 | 6,087 | 5,928 | 7,147 | 8,546 | 9,384 |
| CBN | -12 | 656 | 4,876 | 2,852 | 4,150 | 5,625 | 5,355 | 6,448 | 7,692 | 8,348 |
| Commercial Banks | -779 | 548 | 294 | -534 | 372 | 461 | 573 | 699 | 854 | 1,036 |
| Nonbank financing | 1,898 | 1,526 | 878 | 2,136 | 2,633 | 3,159 | 3,774 | 4,529 | 5,435 | 6,522 |
| Promissory notes | 50 | 331 | 580 | 439 | 200 | 200 | 0 | 0 | 0 | 0 |
| Asset Disposal | 0 | 107 | 0 | 0 | 103 | 91 | 7 | 3 | 0 | 0 |
| Statistical discrepancy | 1,419 | 140 | -821 | 890 | 0 | 0 | 0 | 0 | 0 | 0 |
| *Memorandum items*: | | | | | | | | | | |
| FGN Total Debt | 25,767 | 32,232 | 38,536 | 47,859 | 58,807 | 70,850 | 83,166 | 97,801 | 115,382 | 136,107 |
| Domestic[3] | 19,989 | 24,018 | 29,541 | 35,142 | 42,636 | 52,207 | 61,909 | 73,585 | 87,566 | 103,473 |
| Foreign | 5,778 | 8,214 | 8,995 | 12,718 | 16,171 | 18,643 | 21,257 | 24,216 | 27,816 | 32,634 |
| Price of Nigerian oil (US dollar per barrel) | 54.8 | 71.6 | 64.0 | 42.3 | 66.9 | 65.9 | 63.0 | 61.0 | 59.4 | 58.4 |
| FGN overall balance (percent of GDP) | -4.1 | -4.2 | -4.5 | -5.1 | -5.4 | -5.7 | -5.1 | -5.3 | -5.7 | -5.9 |

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

[1] Includes earmarked spending for National Judicial Council, Universal Basic Education, Niger Delta Development

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

[3] Gross debt figures for the Federal Government and the public sector include overdrafts from the Central Bank of Nigeria (CBN), promissory notes and AMCON debt.

## Table 4. Nigeria: Consolidated Government, 2017–26
(Billions of Naira)

| | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 |
|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | Projections | | | | | |
| Total revenue and Grants | 7,555 | 10,978 | 11,405 | 9,742 | 13,568 | 14,766 | 16,430 | 18,272 | 20,674 | 23,278 |
| Oil revenue | 1,478 | 3,616 | 6,436 | 3,386 | 5,406 | 5,509 | 5,588 | 5,827 | 6,226 | 6,541 |
| Non-oil revenue | 4,562 | 5,100 | 6,031 | 6,264 | 7,807 | 9,193 | 10,779 | 12,382 | 14,384 | 16,673 |
| Import and excise duties | 628 | 705 | 816 | 878 | 1,129 | 1,203 | 1,258 | 1,323 | 1,412 | 1,485 |
| Companies' income tax | 1,169 | 1,418 | 1,616 | 1,448 | 1,811 | 2,327 | 2,773 | 3,250 | 3,822 | 4,495 |
| Value-added tax | 957 | 1,090 | 1,172 | 1,475 | 2,171 | 2,662 | 3,234 | 3,864 | 4,633 | 5,554 |
| Other (education tax and customs levies) | 312 | 331 | 482 | 420 | 533 | 623 | 698 | 780 | 882 | 993 |
| Federal government independent revenue | 559 | 395 | 637 | 1,003 | 1,015 | 1,240 | 1,419 | 1,600 | 1,812 | 2,124 |
| SLGs independent revenue | 936 | 1,160 | 1,309 | 1,040 | 1,148 | 1,139 | 1,396 | 1,564 | 1,822 | 2,022 |
| Grants | 0 | 0 | 0 | 93 | 355 | 63 | 63 | 63 | 63 | 63 |
| Total expenditure | 13,777 | 16,549 | 18,236 | 18,475 | 25,087 | 28,339 | 30,209 | 34,552 | 39,805 | 45,408 |
| Federal government | 6,256 | 7,862 | 9,786 | 10,799 | 13,728 | 16,464 | 17,748 | 20,573 | 24,105 | 27,780 |
| *of which COVID-19 fund* | | | | 414 | | | | | | |
| State and local government | 5,096 | 7,029 | 7,297 | 6,969 | 8,434 | 9,623 | 11,047 | 12,398 | 13,909 | 15,607 |
| *of which COVID-19 fund* | | | | 150 | | | | | | |
| Extrabudgetary funds, ECA and implicit fuel subs | 771 | 1,657 | 1,155 | 707 | 2,925 | 2,253 | 1,414 | 1,581 | 1,791 | 2,021 |
| Extrabudgetary funds [1] | 625 | 767 | 596 | 522 | 1,013 | 1,228 | 1,414 | 1,581 | 1,791 | 2,021 |
| Spending from Excess Crude Account | 0 | 267 | 1 | 96 | 0 | 0 | 0 | 0 | 0 | 0 |
| Implicit fuel subsidy | 146 | 623 | 557 | 89 | 1,912 | 1,025 | 0 | 0 | 0 | 0 |
| Overall balance | -6,222 | -5,570 | -6,831 | -8,733 | -11,519 | -13,573 | -13,779 | -16,280 | -19,131 | -22,130 |
| Non-oil primary balance | -7,658 | -9,262 | -9,763 | -8,951 | -13,349 | -14,300 | -13,412 | -14,556 | -15,855 | -16,823 |
| Financing | 6,222 | 5,570 | 6,831 | 8,733 | 11,519 | 13,573 | 13,779 | 16,280 | 19,131 | 22,131 |
| External | 2,182 | 1,820 | 725 | 2,037 | 2,439 | 2,472 | 2,614 | 2,959 | 3,600 | 4,819 |
| Borrowing | 2,221 | 2,078 | 812 | 2,831 | 2,914 | 2,939 | 3,465 | 3,982 | 4,737 | 5,198 |
| o.w. RFI | | | | 1,341 | | | | | | |
| Amortization | -38 | -258 | -87 | -793 | -474 | -467 | -851 | -1,023 | -1,137 | -379 |
| Domestic | 1,485 | 3,377 | 6,555 | 5,896 | 8,945 | 11,101 | 11,165 | 13,322 | 15,531 | 17,312 |
| Bank financing | -463 | 1,413 | 5,096 | 2,129 | 6,010 | 7,651 | 7,384 | 8,789 | 10,096 | 10,789 |
| CBN | 315 | 865 | 4,802 | 2,663 | 4,150 | 5,625 | 5,355 | 6,474 | 7,718 | 8,374 |
| Commercial Banks | -779 | 548 | 294 | -534 | 1,860 | 2,026 | 2,028 | 2,315 | 2,378 | 2,415 |
| Nonbank financing | 1,898 | 1,526 | 878 | 2,136 | 2,633 | 3,159 | 3,774 | 4,529 | 5,435 | 6,522 |
| Other financing | 50 | 331 | 580 | 1,631 | 200 | 200 | 0 | 0 | 0 | 0 |
| Asset Disposal | 0 | 107 | 0 | 0 | 103 | 91 | 7 | 3 | 0 | 0 |
| Statistical discrepancy | 2,555 | 372 | -449 | 799 | 135 | 0 | 0 | 0 | 0 | 0 |
| *Memorandum items*: | | | | | | | | | | |
| SLGs External Financing | 687.5 | 573.4 | 228.3 | 693.3 | 768.3 | 778.6 | 823.5 | 931.9 | 1133.9 | 1518.0 |
| Budget oil price (US dollar a barrel) | 44.5 | 47.0 | 64.0 | 42.3 | 66.9 | 57.0 | 63.0 | 61.0 | 59.4 | 58.4 |
| Overall balance (% of GDP) | -5.4 | -4.3 | -4.7 | -5.7 | -6.3 | -6.4 | -5.7 | -5.9 | -6.2 | -6.3 |

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

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

## Table 5. Nigeria: Government Operations, 2017–26
(Percent of GDP)

| | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 |
|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | Projections | | | | | |
| **Consolidated Government** | | | | | | | | | | |
| Total revenue | 6.6 | 8.5 | 7.8 | 6.3 | 7.4 | 7.0 | 6.8 | 6.7 | 6.7 | 6.6 |
| Oil revenue | 1.3 | 2.8 | 4.4 | 2.2 | 3.0 | 2.6 | 2.3 | 2.1 | 2.0 | 1.9 |
| Non-oil revenue | 4.0 | 4.0 | 4.1 | 4.1 | 4.3 | 4.3 | 4.4 | 4.5 | 4.6 | 4.7 |
| Total expenditure | 12.0 | 12.8 | 12.5 | 12.0 | 13.7 | 13.4 | 12.4 | 12.6 | 12.8 | 12.9 |
| Federal government expenditure | 5.4 | 6.1 | 6.7 | 7.0 | 7.5 | 7.8 | 7.3 | 7.5 | 7.8 | 7.9 |
| *of which COVID-19 fund* | | | | 0.3 | | | | | | |
| State and local government | 4.4 | 5.4 | 5.0 | 4.5 | 4.6 | 4.5 | 4.6 | 4.5 | 4.5 | 4.4 |
| *of which COVID-19 fund* | | | | 0.1 | | | | | | |
| Extrabudgetary funds, ECA and implicit fuel subsidies | 0.7 | 1.3 | 0.8 | 0.5 | 1.6 | 1.1 | 0.6 | 0.6 | 0.6 | 0.6 |
| Overall balance | -5.4 | -4.3 | -4.7 | -5.7 | -6.3 | -6.4 | -5.7 | -5.9 | -6.2 | -6.3 |
| Non-oil primary balance | -6.7 | -7.2 | -6.7 | -5.8 | -7.3 | -6.7 | -5.5 | -5.3 | -5.1 | -4.8 |
| Financing | 5.4 | 4.3 | 4.7 | 5.7 | 6.3 | 6.4 | 5.7 | 5.9 | 6.2 | 6.3 |
| External | 1.9 | 1.4 | 0.5 | 1.3 | 1.3 | 1.2 | 1.1 | 1.1 | 1.2 | 1.4 |
| Borrowing | 1.9 | 1.6 | 0.6 | 1.8 | 1.6 | 1.4 | 1.4 | 1.5 | 1.5 | 1.5 |
| o.w.RFI | | | | 0.9 | … | … | … | … | … | |
| Amortization | 0.0 | -0.2 | -0.1 | -0.5 | -0.3 | -0.2 | -0.4 | -0.4 | -0.4 | -0.1 |
| Domestic | 1.3 | 2.6 | 4.5 | 3.8 | 4.9 | 5.2 | 4.6 | 4.9 | 5.0 | 4.9 |
| Bank financing | -0.4 | 1.1 | 3.5 | 1.4 | 3.3 | 3.6 | 3.0 | 3.2 | 3.3 | 3.1 |
| Nonbank financing | 1.7 | 1.2 | 0.6 | 1.4 | 1.4 | 1.5 | 1.6 | 1.7 | 1.8 | 1.9 |
| Other financing | 0.0 | 0.3 | 0.4 | 1.1 | 0.2 | 0.1 | 0.0 | 0.0 | 0.0 | 0.0 |
| Asset Disposal | | 0.1 | 0.0 | 0.0 | 0.1 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Statistical discrepancy | 2.2 | 0.3 | -0.3 | 0.5 | 0.1 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| **Federal Government** | | | | | | | | | | |
| Total revenue | 2.3 | 2.8 | 3.1 | 2.4 | 2.5 | 2.5 | 2.6 | 2.5 | 2.5 | 2.4 |
| Oil revenue | 1.0 | 1.6 | 1.5 | 0.8 | 0.9 | 0.9 | 1.0 | 0.9 | 0.9 | 0.8 |
| Non-oil revenue | 1.3 | 1.2 | 1.5 | 1.5 | 1.5 | 1.5 | 1.5 | 1.5 | 1.6 | 1.6 |
| Total expenditure | 6.4 | 7.0 | 7.5 | 7.5 | 7.9 | 8.1 | 7.7 | 7.9 | 8.1 | 8.3 |
| Recurrent expenditure | 5.4 | 5.7 | 6.1 | 6.4 | 6.1 | 6.4 | 6.1 | 6.4 | 6.7 | 6.9 |
| Personnel | 2.0 | 1.9 | 1.8 | 2.1 | 2.1 | 2.1 | 2.2 | 2.2 | 2.2 | 2.2 |
| Overheads | 0.4 | 0.4 | 0.8 | 0.8 | 0.9 | 1.1 | 0.8 | 0.8 | 0.8 | 0.6 |
| *of which COVID-19 fund* | | | | 0.1 | | | | | | |
| Interest | 1.4 | 1.7 | 1.7 | 2.1 | 2.1 | 2.3 | 2.5 | 2.8 | 3.1 | 3.4 |
| Transfers | 1.6 | 1.5 | 1.5 | 1.1 | 0.9 | 0.8 | 0.6 | 0.6 | 0.6 | 0.7 |
| *of which COVID-19 fund* | | | | 0.1 | | | | | | |
| Arrears clearance | 0.0 | 0.3 | 0.4 | 0.3 | 0.1 | 0.1 | 0.0 | 0.0 | 0.0 | 0.0 |
| Capital expenditure | 1.1 | 1.3 | 1.4 | 1.0 | 1.8 | 1.7 | 1.6 | 1.5 | 1.5 | 1.5 |
| *of which COVID-19 fund* | | | | 0.1 | | | | | | |
| Overall balance | -4.1 | -4.2 | -4.5 | -5.1 | -5.4 | -5.7 | -5.1 | -5.3 | -5.7 | -5.9 |
| Financing | 4.1 | 4.2 | 4.5 | 5.1 | 5.4 | 5.7 | 5.1 | 5.3 | 5.7 | 5.9 |
| External | 1.9 | 1.7 | 0.5 | 1.3 | 1.3 | 1.2 | 1.1 | 1.1 | 1.2 | 1.4 |
| Domestic | 1.0 | 2.5 | 4.6 | 3.2 | 4.1 | 4.5 | 4.0 | 4.3 | 4.5 | 4.5 |
| Bank financing | -0.7 | 0.9 | 3.5 | 1.5 | 2.5 | 2.9 | 2.4 | 2.6 | 2.8 | 2.7 |
| Nonbank financing | 1.7 | 1.2 | 0.6 | 1.4 | 1.4 | 1.5 | 1.6 | 1.7 | 1.8 | 1.9 |
| Other financing | 0.0 | 0.3 | 0.4 | 0.3 | 0.2 | 0.1 | 0.0 | 0.0 | 0.0 | 0.0 |
| Statistical discrepancy | 1.2 | 0.1 | -0.6 | 0.6 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |

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

**Table 6. Nigeria: State and Local Governments, 2017–26**
(Percent of GDP)

| | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 |
|---|---|---|---|---|---|---|---|---|---|---|
| | | | | Projections | | | | | | |
| Revenue | 4.8 | 5.4 | 4.7 | 3.6 | 3.7 | 3.7 | 4.0 | 3.9 | 4.0 | 4.0 |
| Oil revenue | 1.3 | 2.0 | 1.6 | 1.0 | 1.0 | 1.1 | 1.2 | 1.1 | 1.1 | 1.0 |
| Shared revenue | 0.9 | 1.5 | 1.2 | 0.8 | 0.7 | 0.8 | 0.9 | 0.8 | 0.8 | 0.7 |
| Derivation grant (13 percent) | 0.3 | 0.5 | 0.4 | 0.3 | 0.2 | 0.3 | 0.3 | 0.3 | 0.3 | 0.2 |
| Non-oil revenue | 2.5 | 2.5 | 2.3 | 2.1 | 2.3 | 2.3 | 2.4 | 2.5 | 2.6 | 2.6 |
| Corporate Income Tax | 0.5 | 0.5 | 0.5 | 0.4 | 0.4 | 0.5 | 0.5 | 0.5 | 0.6 | 0.6 |
| Customs | 0.2 | 0.2 | 0.2 | 0.3 | 0.3 | 0.2 | 0.2 | 0.2 | 0.2 | 0.2 |
| VAT | 0.7 | 0.7 | 0.7 | 0.8 | 1.0 | 1.0 | 1.1 | 1.2 | 1.2 | 1.3 |
| Internal revenue | 0.8 | 0.9 | 0.9 | 0.7 | 0.6 | 0.5 | 0.6 | 0.6 | 0.6 | 0.6 |
| Net Transfers from FGN | 1.0 | 0.9 | 0.8 | 0.4 | 0.4 | 0.4 | 0.3 | 0.3 | 0.4 | 0.4 |
| *of which COVID-19 fund* | | | | 0.1 | | | | | | |
| Expenditure | 4.4 | 5.4 | 5.0 | 4.5 | 4.6 | 4.5 | 4.6 | 4.5 | 4.5 | 4.4 |
| Overall Balance | 0.4 | -0.1 | -0.3 | -0.9 | -0.9 | -0.8 | -0.6 | -0.6 | -0.5 | -0.4 |
| Financing | -0.4 | 0.1 | 0.3 | 0.9 | 0.9 | 0.8 | 0.6 | 0.6 | 0.5 | 0.4 |
| External | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Domestic | 0.4 | 0.2 | 0.3 | 0.9 | 0.9 | 0.8 | 0.6 | 0.6 | 0.5 | 0.4 |
| Statistical discrepancy | -0.8 | -0.1 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |

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

## Table 7. Nigeria: Central Bank of Nigeria Analytical Balance Sheet, 2017–26

(Billions on Naira)

| | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 |
|---|---|---|---|---|---|---|---|---|---|---|
| | Dec. | Dec. | Dec. | Dec. | | | Dec. | | | |
| | | | | | | | Projections | | | |
| Net foreign assets | 10,826 | 12,127 | 7,797 | 8,325 | 7,711 | 7,343 | 6,940 | 7,085 | 7,204 | 7,244 |
| Foreign assets | 15,142 | 18,196 | 15,235 | 15,886 | 17,089 | 16,720 | 16,318 | 16,463 | 16,582 | 16,622 |
| Foreign liabilities | -4,316 | -6,069 | -7,438 | -7,560 | -9,378 | -9,378 | -9,378 | -9,378 | -9,378 | -9,378 |
| Net domestic assets | -4,342 | -4,947 | 884 | 4,778 | 7,061 | 9,586 | 12,416 | 15,277 | 18,789 | 22,656 |
| Net domestic credit | 7,831 | 10,292 | 16,459 | 20,576 | 23,801 | 29,626 | 34,981 | 41,429 | 49,121 | 57,469 |
| Net claims on consolidated government | 519 | 1,442 | 6,380 | 9,170 | 13,003 | 18,829 | 24,184 | 30,631 | 38,323 | 46,671 |
| Net claims on federal government [1] | -71 | 835 | 5,768 | 8,559 | 12,393 | 18,218 | 23,573 | 30,021 | 37,713 | 46,061 |
| Claims | 5,681 | 7,959 | 11,839 | 16,478 | 20,828 | 26,653 | 32,009 | 38,456 | 46,148 | 54,496 |
| Deposits | -5,752 | -7,123 | -6,071 | -7,919 | -8,435 | -8,435 | -8,435 | -8,435 | -8,435 | -8,435 |
| Net claims on state and local governments | 590 | 607 | 612 | 610 | 610 | 610 | 610 | 610 | 610 | 610 |
| Claims on deposit money banks | 1,870 | 1,646 | 1,745 | 2,499 | 2,499 | 2,499 | 2,499 | 2,499 | 2,499 | 2,499 |
| Other net claims | 5,442 | 7,204 | 7,828 | 8,908 | 8,299 | 8,299 | 8,299 | 8,299 | 8,299 | 8,299 |
| Other items net | -12,173 | -15,239 | -15,866 | -15,799 | -16,740 | -20,040 | -22,565 | -26,152 | -30,332 | -34,813 |
| Reserve money | 6,484 | 7,180 | 8,681 | 13,103 | 14,772 | 16,929 | 19,356 | 22,362 | 25,993 | 29,900 |
| Currency in circulation | 2,157 | 2,330 | 2,443 | 2,908 | 4,793 | 5,493 | 6,280 | 7,256 | 8,434 | 9,702 |
| Banks reserves with the CBN | 4,327 | 4,850 | 6,238 | 10,195 | 9,979 | 11,436 | 13,075 | 15,106 | 17,559 | 20,198 |
| *Memorandum items*: | | | | | | | | | | |
| Reserve money y/y growth rate | 10.9 | 10.7 | 21 | 50.9 | 12.7 | 14.6 | 14.3 | 15.5 | 16.2 | 15.0 |
| Money multiplier | 4.4 | 4.6 | 4 | 3.0 | 3.1 | 3.2 | 3.3 | 3.3 | 3.3 | 3.3 |

Sources: Nigerian authorities; and IMF staff estimates and projection:

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

## Table 8. Nigeria: Monetary Survey, 2017–26

| | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 |
|---|---|---|---|---|---|---|---|---|---|---|
| | Dec. | Dec. | Dec | Dec. | Dec. | | | | | |
| | | | | | Projections | | | | | |
| Net foreign assets | 10,977 | 11,838 | 6,235 | 8,109 | 10,038 | 9,933 | 9,807 | 9,953 | 10,072 | 10,111 |
| Central Bank of Nigeria (net) | 10,826 | 12,127 | 8,088 | 9,319 | 10,078 | 9,710 | 9,307 | 9,452 | 9,571 | 9,611 |
| Commercial and merchant banks (net) | 152 | -288 | -1,853 | -1,210 | -40 | 224 | 501 | 501 | 501 | 501 |
| | | | | | | | | | | |
| Net domestic assets | 17,454 | 20,917 | 28,907 | 32,454 | 38,416 | 46,942 | 56,914 | 67,158 | 79,172 | 92,193 |
| Net domestic credit | 25,603 | 26,784 | 36,715 | 42,554 | 52,921 | 62,847 | 72,719 | 83,598 | 96,013 | 109,033 |
| Net claims on consolidated government | 17,250 | 21,950 | 25,230 | 31,344 | 37,713 | 45,696 | 53,080 | 61,869 | 71,965 | 82,755 |
| Net claims on FGN [1] | 15,755 | 20,204 | 23,360 | 29,275 | 33,998 | 40,284 | 46,212 | 53,359 | 61,905 | 71,290 |
| CBN | 11,702 | 15,602 | 18,465 | 24,914 | 29,264 | 35,089 | 40,444 | 46,891 | 54,584 | 62,932 |
| Commercial Banks | 4,053 | 4,601 | 4,895 | 4,362 | 4,734 | 5,196 | 5,768 | 6,468 | 7,321 | 8,358 |
| Claims on SLG | 1,495 | 1,746 | 1,870 | 2,069 | 3,715 | 5,412 | 6,868 | 8,510 | 10,060 | 11,465 |
| Claims on private sector [2] | 14,767 | 13,227 | 16,250 | 18,714 | 22,711 | 24,653 | 27,142 | 29,232 | 31,551 | 33,781 |
| o/w credit to the private sector | 14,715 | 12,960 | 16,012 | 18,535 | 22,532 | 24,475 | 26,964 | 29,054 | 31,373 | 33,603 |
| Other Claims | -6,414 | -8,392 | -4,765 | -7,503 | -7,503 | -7,503 | -7,503 | -7,503 | -7,503 | -7,503 |
| Other items | -8,149 | -5,868 | -7,808 | -10,100 | -14,505 | -15,905 | -15,805 | -16,441 | -16,841 | -16,841 |
| | | | | | | | | | | |
| Broad money [3] | 28,432 | 32,755 | 34,851 | 39,570 | 46,087 | 54,508 | 64,355 | 74,743 | 86,877 | 99,937 |
| Currency outside banks | 1,783 | 1,907 | 2,023 | 2,496 | 2,907 | 3,438 | 4,059 | 4,714 | 5,479 | 6,303 |
| Demand deposits | 6,367 | 6,623 | 8,624 | 13,481 | 15,701 | 18,570 | 21,925 | 25,464 | 29,598 | 34,048 |
| Time and savings deposits | 14,465 | 16,053 | 18,232 | 21,728 | 25,307 | 29,931 | 35,338 | 41,043 | 47,705 | 54,877 |
| CBN Bills held by resident nonbank sector | 4,529 | 6,284 | 5,973 | 1,865 | 2,172 | 2,569 | 3,033 | 3,522 | 4,094 | 4,710 |
| | | | | | | | | | | |
| *Memorandum items*: | | | | | | | | | | |
| Broad money (y-o-y,%) | 9.1 | 15.2 | 6.4 | 13.5 | 16.5 | 18.3 | 18.1 | 16.1 | 16.2 | 15.0 |
| Credit to the private sector (y-o-y,%) | -1.8 | -11.9 | 23.5 | 15.8 | 21.6 | 8.6 | 10.2 | 7.8 | 8.0 | 7.1 |
| Velocity (non-oil GDP/broad money) | 3.8 | 3.6 | 3.8 | 3.6 | 3.6 | 3.5 | 3.5 | 3.4 | 3.3 | 3.3 |
| Gross international reserves (billions of US dollar) | 39.3 | 42.5 | 38.1 | 36.5 | 36.4 | 35.5 | 34.5 | 34.8 | 35.1 | 35.2 |

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

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

[2] Does not include AMCON bonds

[3] Broad money is based on an M3 definition.

**Table 9. Nigeria: Financial Soundness Indicators 2017–2021Q1**

(Percent, unless otherwise specified)

| | 2017 | 2018 | 2019 | 2020Q1 | 2020Q2 | 2020Q3 | 2020Q4 | 2021Q1 |
|---|---|---|---|---|---|---|---|---|
| Regulatory Capital to Risk-Weighted Assets | 10.5 | 15.2 | 14.6 | 14.9 | 14.9 | 15.4 | 15.1 | 16.1 |
| Regulatory Tier 1 Capital to Risk-Weighted Assets | 8.4 | 13.5 | 12.8 | 13.0 | 13.0 | 13.2 | 12.8 | 13.6 |
| Non-Performing Loans to Total Gross Loans | 14.8 | 11.7 | 6.1 | 6.4 | 6.4 | 6.0 | 6.0 | 6.0 |
| Return on Assets | 2.4 | 2.0 | 2.5 | 2.2 | 2.5 | 2.2 | 2.2 | 1.1 |
| Return on Equity | 23.5 | 22.7 | 26.9 | 23.7 | 27.9 | 25.0 | 24.8 | 12.3 |
| Interest Margin to Gross Income | 61.2 | 67.3 | 61.0 | 61.9 | 56.8 | 48.5 | 56.4 | 59.1 |
| Non-interest Expenses to Gross Income | 58.2 | 60.9 | 64.7 | 63.1 | 55.3 | 63.8 | 61.6 | 75.4 |
| Liquid Assets to Total Assets (Liquid Asset Ratio) | 18.8 | 22.6 | 23.0 | 21.1 | 18.2 | 18.5 | 22.6 | 22.0 |
| Liquid Assets to Short Term Liabilities | 27.2 | 34.1 | 35.3 | 32.8 | 27.4 | 27.0 | 32.6 | 32.1 |

Source: Central Bank of Nigeria.

## Table 10. Nigeria: Capacity to Repay, 2020–26

| | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 |
|---|---|---|---|---|---|---|---|
| **Existing and prospective Fund credit (SDR million)** | | | | | | | |
| Disbursements | 2,454.5 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Stock of existing and prospective Fund credit | 2,454.5 | 2,454.5 | 2,454.5 | 1,840.9 | 613.6 | 0.0 | 0.0 |
| Obligations | 26.1 | 6.5 | 26.0 | 638.7 | 1,241.9 | 616.2 | 0.2 |
| Principal (repayments/repurchases) | 0.0 | 0.0 | 0.0 | 613.6 | 1,227.3 | 613.6 | 0.0 |
| Charges and interest | 26.1 | 6.5 | 26.0 | 25.1 | 14.6 | 2.6 | 0.2 |
| **Fund obligations (repurchases and charges):** | | | | | | | |
| *In millions of:* | | | | | | | |
| SDRs | 26.1 | 6.5 | 26.0 | 638.7 | 1,241.9 | 616.2 | 0.2 |
| U.S. dollars | 37.5 | 9.3 | 37.7 | 935.2 | 1,833.2 | 915.5 | 0.3 |
| *In percent of:* | | | | | | | |
| Quota | 1.1 | 0.3 | 1.1 | 1.0 | 0.6 | 0.1 | 0.0 |
| GDP | 0.0 | 0.0 | 0.0 | 0.2 | 0.3 | 0.1 | 0.0 |
| Exports of goods and services | 0.1 | 0.0 | 0.1 | 1.8 | 3.6 | 1.8 | 0.0 |
| Gross international reserves | 0.1 | 0.0 | 0.1 | 2.7 | 5.3 | 2.6 | 0.0 |
| Consolidated government revenue | 0.1 | 0.0 | 0.1 | 2.3 | 4.1 | 1.8 | 0.0 |
| Federal government revenue | 0.4 | 0.1 | 0.3 | 6.2 | 11.1 | 4.9 | 0.0 |
| External debt service | 0.3 | 0.0 | 0.2 | 3.6 | 6.9 | 3.3 | 0.0 |
| **Fund credit outstanding:** | | | | | | | |
| *In millions of:* | | | | | | | |
| SDRs | 2,454.5 | 2,454.5 | 2,454.5 | 1,840.9 | 613.6 | 0.0 | 0.0 |
| U.S. dollars | 3,529.8 | 3,514.0 | 3,562.0 | 2,695.5 | 905.8 | 0.0 | 0.0 |
| *In percent of:* | | | | | | | |
| Quota | 100.0 | 100.0 | 100.0 | 75.0 | 25.0 | 0.0 | 0.0 |
| GDP | 0.8 | 0.8 | 0.7 | 0.5 | 0.1 | 0.0 | 0.0 |
| Exports of goods and services | 8.8 | 6.2 | 6.4 | 5.1 | 1.8 | 0.0 | 0.0 |
| Gross international reserves | 9.7 | 9.7 | 10.0 | 7.8 | 2.6 | 0.0 | 0.0 |
| Consolidated government revenue | 13.0 | 10.2 | 9.9 | 6.7 | 2.0 | 0.0 | 0.0 |
| Federal government revenue | 35.4 | 32.7 | 28.3 | 17.9 | 5.5 | 0.0 | 0.0 |
| External debt | 3.3 | 3.1 | 3.0 | 2.2 | 0.7 | 0.0 | 0.0 |
| **Memorandum items:** | | | | | | | |
| Quota (SDR million) | 2,454.5 | 2,454.5 | 2,454.5 | 2,454.5 | 2,454.5 | 2,454.5 | 2,454.5 |
| Gross domestic product (USD billion) | 429.4 | 463.1 | 517.0 | 591.4 | 667.0 | 755.5 | 856.2 |
| Exports of goods and services (USD billion) | 39.9 | 56.6 | 56.0 | 52.9 | 50.5 | 49.7 | 52.4 |
| Gross international reserves (USD billion) | 36.5 | 36.4 | 35.5 | 34.5 | 34.8 | 35.1 | 35.2 |
| Consolidated government revenue (USD billion) | 27.1 | 34.3 | 36.0 | 40.0 | 44.5 | 50.4 | 56.7 |
| Total external debt (USD billion) | 105.5 | 111.6 | 117.8 | 124.8 | 132.8 | 142.6 | 155.4 |
| *of which:* Public | 47.8 | 53.9 | 59.9 | 66.3 | 73.5 | 82.3 | 94.0 |
| External debt service (USD billion) | 12.7 | 24.0 | 24.4 | 25.8 | 26.7 | 27.6 | 26.4 |
| *of which:* Debt service due on public external debt | 4.9 | 15.9 | 16.3 | 17.7 | 18.5 | 19.3 | 17.9 |

Source: IMF staff calculations.

# Annex I. Policy Commitments Under the RFI

| Commitment | Status | Progress and remaining tasks |
|---|---|---|
| **Monetary and exchange rate policy** | | |
| Strengthen monetary and exchange rate policies with a view to move towards full exchange rate unification and greater exchange rate flexibility | Ongoing | • The official exchange rate has been discontinued.<br>• The I&E rate has depreciated by about 5 percent since April 2020.<br>• Full exchange rate unification, which would require institutional abolishing of the windows, has not been achieved.<br>• Exchange rate flexibility has not materially improved. |
| **Fiscal policy** | | |
| The recent introduction and implementation of an automatic fuel price formula will ensure fuel subsidies, which have been eliminated, do not reemerge. | Unmet | • Implicit fuel subsidies have reemerged since November 2020.<br>• The automatic market-based fuel price formula has not been introduced. |
| **Power sector reform** | | |
| Move to full cost-reflective tariffs in 2021 | On-going | • Delayed to January 1 2022. |
| **Governance** | | |
| (i) Create specific budget lines to facilitate the tracking and reporting of emergency response expenditures | Met | • Budget lines were created. |
| (ii) Report funds released and expenditures incurred monthly on the transparency portal | Partially met | • The quality of information on the transparency portal regarding funds and expenditure remains uneven as does public access. |
| (iii) Publish procurement plans, procurement notices for all the emergency response activities—including the name of awarded companies and of beneficial owners—on the Bureau of Public procurement website | Partially met | • Procurement contracts above N5 Million are published at the Ministry of Finance Portal. https://opentreasury.gov.ng/ (access remains uneven)<br>• Crisis-related Procurement Contracts are published according to specific guidelines (access remains uneven)<br>• Corporate Registry started to publish the list of Persons with Significant Control since January 2021 as the implementation of the new Companies and Allied Matter Act started. Companies incorporated prior to CAMA implementation date (January 3, 2021) have disclosed beneficial ownership, and the companies formed after the date are required to disclose it once their annual return for the first fiscal year is completed. https://post.cac.gov.ng/search/type/company |

| Commitment | Status | Progress and remaining tasks |
|---|---|---|
| (iv) Publish no later than three to six months after the end of the fiscal year the report of an independent audit into the emergency response expenditures and related procurement process, which will be conducted by the Auditor General of the Federation—who will be provided the resources necessary and will consult with external/third party auditors | Delayed | • The Office of the Accountant General (OAGF) has commissioned an audit unit to undertake financial audits of COVID-19 spending. The Auditor General's office is conducting audits of the spending utilization across procurement agencies—with the first audit recently conducted and the report being drafted. Given decentralized auditing authority due to Nigeria's Federal structure, a single national audit report is deemed infeasible. |
| **Article VIII** | | |
| Not to impose new or intensify existing restrictions on the making of payments and transfers for current international transactions, trade restrictions for balance-of payments purposes, or multiple currency practices, or to enter into bilateral payments agreements which are inconsistent with Article VIII of the IMF's Articles of Agreement. | Unmet | • A trade restriction was introduced for import of sugar. |

# Annex II. Risk Assessment Matrix[1]

| Sources of Risk | Likelihood | Time Horizon | Impact on Nigeria | Policy Responses |
|---|---|---|---|---|
| | | **External Risks** | | |
| **Uncontrolled COVID-19 local outbreaks and subpar/volatile growth in affected countries.** Outbreaks in slow-to-vaccinate countries force new lockdowns. For many Emerging Markets and Low-Income Countries, policy response to cushion the economic impact is constrained by a lack of policy space, with some market access countries facing additional financial tightening as a reassessment of growth prospects triggers capital outflows, depreciations, and debt defaults. | High | **Short to Medium Term** | High | • Allow greater ***exchange rate flexibility*** to preserve ***external buffers,*** **structural reforms** to enhance economic diversification and efficiency, and ***fiscal consolidation*** to ensure continued access to international capital markets. • Continue to focus on meeting the goal of vaccinating 70 percent of population by 2022, including through vaccine campaigns. • Continue with the proactive approach to closely monitor developments and prepare for new waves. |
| **Widespread social discontent and political instability.** Social tensions erupt as a withdrawal of pandemic-related policy support results in unemployment and, amid increasing prices of essentials, hurts vulnerable groups (often exacerbating pre-existing inequities). | Medium | **Short to Medium Term** | Medium | • Step up ***social spending*** by creating space through expenditure reprioritization, revenue mobilization and use of concessional financing resources. • Step up ***anti-corruption*** and ***governance*** efforts. |
| **Intensified geopolitical tensions and security risks.** Geopolitical tensions in selected countries/regions cause economic/political disruption, disorderly migration, higher volatility in commodity prices (if supply is disrupted), and lower confidence, with spillovers to other countries. | High | **Short Term** | Medium | • Allow greater ***exchange rate flexibility*** to preserve ***external buffers*** particularly in view of risks of commodity price volatility. |
| **Cyber-attacks** on critical infrastructure, institutions, and financial systems trigger systemic financial instability or widespread disruptions in socio-economic activities and remote work arrangements. | Medium | **Short to Medium Term** | Low | • Strengthen the ***supervisory and regulatory framework***, especially as it pertains to oversight of holding companies; improve corporate governance; and address weaknesses in the bank resolution framework. Strengthen contingency planning, and the institutional framework of emergency response. |
| **Higher frequency and severity of natural disasters** cause severe economic damage to smaller economies susceptible to disruptions. A sequence of severe events hits key infrastructure and large economies, which disrupts trade, reduces global GDP, and prompts a recalculation of risk and growth prospects. Disasters hitting key infrastructure or disrupting trade raise commodity price levels and volatility. | Medium | **Short to Medium Term** | High | • Rebuild fiscal and external buffers now to counter effects of future demand shortfalls particularly on vulnerable groups. • Continue improving the business environment to boost productivity and competitiveness, and to foster diversification to dampen negative effects. • Implement climate adaptation plan to limit the impact of natural disasters. |

[1] The Risk Assessment Matrix (RAM) shows events that could materially alter the baseline path (the scenario most likely to materialize in the view of IMF staff). The relative likelihood is the staff's subjective assessment of the risks surrounding the baseline ("low" is meant to indicate a probability below 10 percent, "medium" a probability between 10 and 30 percent, and "high" a probability between 30 and 50 percent). The RAM reflects staff views on the source of risks and overall level of concern as of the time of discussions with the authorities. Non-mutually exclusive risks may interact and materialize jointly. "Short term" and "medium term" are meant to indicate that the risk could materialize within 1 year and 3 years, respectively.

| Sources of Risk | Likelihood | Time Horizon | Impact on Nigeria | Policy Responses |
|---|---|---|---|---|
| **Nigeria-specific Risks** | | | | |
| **Speed of reform implementation**<br>• **Downside:** Continuation of implicit fuel subsidies will significantly reduce fiscal space and prolonged use of administrative measures to address higher FX demand could trigger a loss of confidence.<br>• **Upside:** The AfCFTA could yield a positive net export boost if accompanied by a reduction in trade barriers and improvement of trade logistics.<br><br>**Deterioration of security conditions which could further disrupt oil production in the Niger Delta and food supply**. Despite some success in fight against insurgency in the North East, the situation remains very volatile. | **Medium**<br><br>**Medium**<br><br>**High** | **Short Term**<br><br>**Medium Term**<br><br>**Near to Medium Term** | **High**<br><br>**High**<br><br>**High** | ***Implement the integrated policy package*** which includes adopting a market-clearing unified exchange rate, fiscal consolidation, strengthen monetary and exchange rate frameworks, and an improved business environment.<br>• Further expedite business-enabling structural reforms including more open trade policy.<br>• Strengthen security and investment environment in the ***oil and gas*** sector. A coordinated effort in both military and developmental fronts is essential to address security challenges. |
| **Slow progress in addressing corruption, tax evasion, and related money laundering.** A failure to make rapid progress could further discourage inward foreign investment and diminish international confidence in the Nigerian financial system. | **High** | **Short Term** | **High** | ***Step up anti-corruption and governance efforts*** including asset declaration, risks posed by politically exposed persons, transparency of beneficial ownership, and corporate governance.<br>***Strengthen the AML/CFT regime*,** to address weaknesses identified in the 2021 GIABA mutual assessment. |
| **Higher-than-projected production of refined products by the Dangote refinery** and higher investment in the petroleum sector from the adoption of the PIA. | **Medium** | **Medium Term** | **High** | Further expedite business-enabling structural reforms to maximize growth benefits from positive spillovers. |

# Annex III. Public Debt Sustainability Analysis

*Nigeria's public debt is assessed to be sustainable, but subject to high risks and uncertainties. Liquidity-based indicators—driven by weak revenue mobilization—remain concerning, with the interest payments still representing a high share of government revenue. This makes Nigeria's debt servicing capacity vulnerable to shocks. Stress scenarios show that the interest-to-revenue ratio and gross financing needs are particularly vulnerable to a real interest rate shock scenario. A comprehensive policy package, including fiscal consolidation based on non-oil revenue mobilization over the medium term, once the COVID-19 crisis passes, is essential to reduce the interest payments-to-revenue ratio to more sustainable levels.*

## Baseline Projections

1. **Nigeria's level of public debt increased sharply last year due to the COVID-19 crisis**. Public debt[1] had been on an increasing path in the last decade reaching 29 percent of GDP in 2019 from 9 percent in 2009, driven by primary deficits as weak non-oil revenue mobilization failed to compensate for falling oil revenues. In 2020, the sharp decline in oil revenues increased public debt further to 35 percent of GDP. The debt-to-GDP ratio is expected to increase in the medium term to 43 percent of GDP, despite favorable growth-interest rate dynamics. Gross financing needs are expected to increase to 8.9 percent of GDP in 2021 from 7.3 percent in 2020, and to 11.4 percent in the medium term.

2. **Nigeria's public debt is considered sustainable under the baseline**. The level of public debt compares favorably with the average EMDE general government gross debt stock (around 50 percent of GDP), and significantly lower than the MAC-DSA's benchmark of 70 percent. Due to gradual improvements in non-oil revenue collection and a reduction in pandemic-related spending, the primary deficit is projected to gradually improve but still surpass the debt-stabilizing level by the end of projection period. While medium and long-term debt still accounts for more than 70 percent of public debt, the relatively high GFN-to-GDP ratio, together with a recent increase in short-term debt, implies that the remaining maturity is likely to be shortening. Foreign currency denominated debt, mostly held by non-residents, has stayed at 20 percent of public debt, slightly above the lower early warning threshold.

3. **Weak revenue mobilization poses significant risks to the debt-servicing capacity**. Although interest payments were only 2 percent of GDP in 2020, about 89 percent of federal government revenues were absorbed by interest payments, reflecting poor domestic revenue mobilization capacity. The FG interest-to-revenue ratio is expected to slightly decline to around 86 percent in 2021 and rise steadily to reach 139 percent by 2026. High interest-to-revenue ratio puts fiscal space at risk and makes financing of current and capital spending highly dependent on debt financing.

[1] Public debt includes general government debt, CBN overdrafts, CBN financing of the power sector, Asset Management Company debt (AMCON), and non-interest-bearing promissory notes issued to clear payment arrears.

**4. Uncertainties arising from oil prices and interest rate movement, sizable short-term debt, and contingent liabilities present additional fiscal risks.** The revenue outlook remains subject to large uncertainties over the evolving trajectory of oil prices. With oil revenues projected to rebound, a slower-than-expected recovery of oil prices could put further strain on the government's capacity to service debt. Also, real interest rates under the baseline projection are significantly lower than the historical average. Debt dynamics would worsen if real rates turn out to be higher than expected. Moreover, the short-term debt, which increased significantly in 2020 due to COVID-19 crisis, is above the early warning threshold, although expected to decrease gradually in the medium term. According to the Debt Management Office (DMO), the explicit contingent liabilities of the federal government are around 2.9 percent of GDP in end-2020. In addition, non-guaranteed liabilities of government-owned entities and certain PPPs, for which no data are available, are likely to pose additional risks.

**5. With regard to the forecast track record, past projections of the primary balance and growth show some optimistic bias pre-2017, reflecting oil price volatility.** Forecast accuracy has improved since 2017 but remains subject to oil price volatility.

**Stress Tests**

**6. Debt level is vulnerable to the combined macro-fiscal shock.** Individual shocks to real GDP growth, primary balance, real interest rate, real exchange rate, as well as a contingent liability shock would push public debt no higher than 48 percent of GDP over the medium term. A standardized combined macro-fiscal shock that captures a combination of these shocks such as to real GDP growth, inflation, interest rate and exchange rate would increase the debt level to 54 percent of GDP by 2026, still below the 70 percent MAC-DSA benchmark, but close to the benchmark identified in the literature (40-58 percent of GDP) as safe and growth-supporting for countries like Nigeria, which is a lower-middle income country with poor/weak revenue mobilization capacity[2].

**7. Gross financing needs would worsen under stress scenarios, signaling risks to debt sustainability.** Gross financing needs would reach 13 percent of GDP under shocks to the real interest rate and almost 14.7 percent of GDP under the combined macro-fiscal shock, while under the other shocks, maintaining the level below 12 percent of GDP over the medium-term.

**8. The FG interest payments-to-revenue ratio is highly vulnerable to shocks.** Higher interest rates will increase Nigeria's vulnerabilities by placing a principal risk on debt service capacity. In particular, a real interest rate shock would increase the FG interest-to-revenue ratio to about 348 percent by 2026. A standardized combined macro-fiscal shock would increase the ratio to 398 percent. Other shocks to real GDP growth, primary balance and the exchange rate would increase the ratio to between 247 and 273 percent by 2026. The GG interest payments-to-revenue

[2] A. Pienkowski, *Debt Limits and the Structure of Public Debt*, IMF Working Paper, WP/17/117. *Modernizing the Framework for Fiscal Policy and Public Debt Sustainability Analysis*, International Monetary Fund Staff paper, August 2011 *Debt Sustainability Analysis Framework for Low-Income Countries*, The IMF and the World Bank, July 2018,

ratio, however, would be kept below 100 percent under shocks, except for the real interest rate and combined macro-fiscal shocks, under which the ratio would go up to 128 and 147 percent respectively.

**9. The fan charts indicate that there is significant uncertainty around the baseline.** The width of the symmetric fan chart, estimated at about 20 percent of GDP by the end of the projection period, illustrates the degree of uncertainty for equal probability of upside and downside shocks. In an asymmetric fan chart, an extreme downside shock that constrains growth to zero results in a more upward-sloping debt path, reflecting a balance of risks skewed to the downside.

### Heat Map

**10. The heat map signals some vulnerabilities associated with debt profile.** Overall, there are ten green cells (indicating low risk), four yellow cells (indicating medium risk) and one red cell (indicating high risk) in the heat map. The change in short-term debt, which increased significantly in 2020 due to COVID-19 crisis, presents a major vulnerability. Also, it shows that there are medium risks due to foreign currency debt, external debt, external financing requirements and market perception.

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

(in percent of GDP unless otherwise indicated)

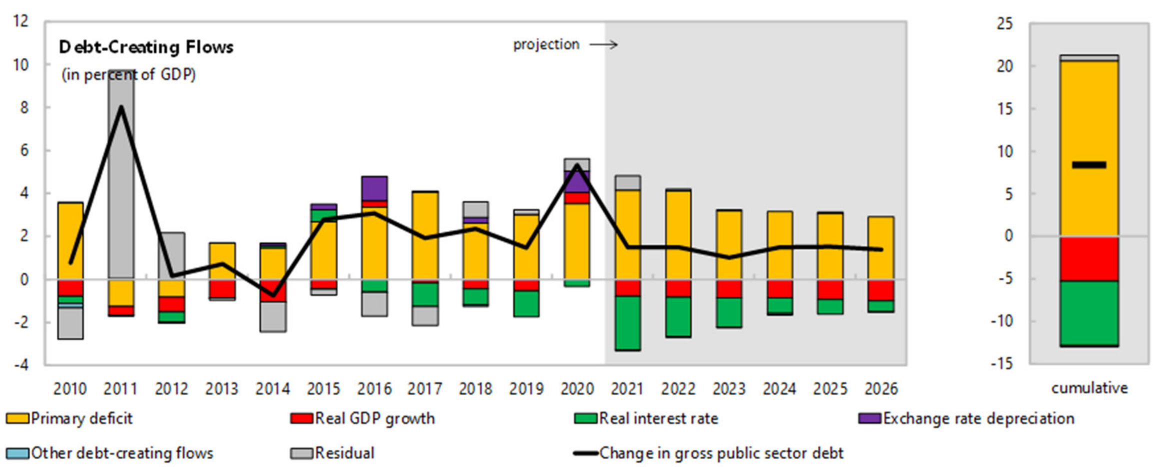
### Debt, Economic and Market Indicators [1]

| | Actual | | | Projections | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | 2010-2018 [2] | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 |
| Nominal gross public debt | 19.7 | 29.2 | 34.5 | 36.0 | 37.5 | 38.5 | 40.0 | 41.5 | 42.9 |
| Public gross financing needs | 3.1 | 4.8 | 7.3 | 8.9 | 9.5 | 9.9 | 10.5 | 11.2 | 11.4 |
| Real GDP growth (in percent) | 4.0 | 2.2 | -1.8 | 2.6 | 2.7 | 2.7 | 2.6 | 2.6 | 2.7 |
| Inflation (GDP deflator, in percent) | 8.4 | 10.4 | 7.8 | 15.6 | 12.9 | 11.4 | 10.0 | 10.4 | 10.3 |
| Nominal GDP growth (in percent) | 12.7 | 12.8 | 5.9 | 18.6 | 15.9 | 14.4 | 12.8 | 13.3 | 13.3 |
| Effective interest rate (in percent) [4] | 7.3 | 6.8 | 7.7 | 7.4 | 7.4 | 7.6 | 8.2 | 8.7 | 9.3 |
| Adjusted effective interest rate (in percent) [5] | 7.4 | 8.9 | 8.4 | 8.0 | 8.7 | 9.3 | 10.6 | 11.8 | 12.8 |

| As of November 09, 2021 | | |
|---|---|---|
| Sovereign Spreads | | |
| EMBIG (bp) 3/ | | 593 |
| 5Y CDS (bp) | | 431 |
| Ratings | Foreign | Local |
| Moody's | B2 | B2 |
| S&Ps | B- | B- |
| Fitch | B | B |

### Contribution to Changes in Public Debt [6]

| | Actual | | | Projections | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2010-2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 | cumulative | debt-stabilizing primary balance [11] |
| Change in gross public sector debt | 2.1 | 1.5 | 5.3 | 1.5 | 1.5 | 1.0 | 1.5 | 1.5 | 1.4 | 8.4 | -1.5 |
| Identified debt-creating flows | 1.3 | 1.3 | 4.7 | 0.8 | 1.4 | 1.0 | 1.6 | 1.5 | 1.4 | 7.7 | |
| Primary deficit | 1.9 | 3.0 | 3.5 | 4.1 | 4.1 | 3.2 | 3.2 | 3.1 | 2.9 | 20.6 | |
| Primary (noninterest) revenue and grants | 10.5 | 7.8 | 6.3 | 7.4 | 7.0 | 6.8 | 6.7 | 6.7 | 6.6 | 41.1 | |
| Primary (noninterest) expenditure | 12.4 | 10.8 | 9.9 | 11.6 | 11.1 | 10.0 | 9.8 | 9.8 | 9.5 | 61.7 | |
| Automatic debt dynamics [7] | -0.6 | -1.8 | 1.2 | -3.3 | -2.7 | -2.2 | -1.6 | -1.6 | -1.5 | -12.8 | |
| Interest rate/growth differential [8] | -0.8 | -1.8 | 0.2 | -3.3 | -2.7 | -2.2 | -1.6 | -1.6 | -1.5 | -12.8 | |
| Of which: real interest rate | -0.3 | -1.2 | -0.3 | -2.5 | -1.8 | -1.4 | -0.7 | -0.7 | -0.5 | -7.6 | |
| Of which: real GDP growth | -0.5 | -0.5 | 0.5 | -0.8 | -0.8 | -0.9 | -0.9 | -0.9 | -1.0 | -5.3 | |
| Exchange rate depreciation [9] | 0.2 | 0.0 | 1.0 | … | … | … | … | … | … | … | |
| Other identified debt-creating flows | 0.0 | 0.0 | 0.0 | -0.1 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | -0.1 | |
| Net privatization proceeds (negative) | 0.0 | 0.0 | 0.0 | -0.1 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | -0.1 | |
| Contingent liabilities | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | |
| Residual, including asset changes [10] | 0.8 | 0.2 | 0.6 | 0.7 | 0.1 | 0.0 | -0.1 | 0.0 | 0.0 | 0.7 | |




Source: IMF staff.

1/ Public sector is defined as general government.

2/ Based on available data.

3/ EMBIG.

4/ Defined as interest payments divided by debt stock (excluding guarantees) at the end of previous year.

5/ Defined as interest payments divided by debt stock (excluding guarantees and debt that do not carry interest payments) at the end of previous year.

6/ Gross debt includes general government debt, CBN overdrafts, CBN financing of the power sector and AMCON debt

7/ Derived as [(r - π(1+g) - g + ae(1+r)]/(1+g+π+gπ)) times previous period debt ratio, with r = interest rate; π = growth rate of GDP deflator; g = real GDP growth rate; a = share of foreign-currency denominated debt; and e = nominal exchange rate depreciation (measured by increase in local currency value of U.S. dollar).

8/ The real interest rate contribution is derived from the numerator in footnote 5 as r - π (1+g) and the real growth contribution as -g.

9/ The exchange rate contribution is derived from the numerator in footnote 5 as ae(1+r).

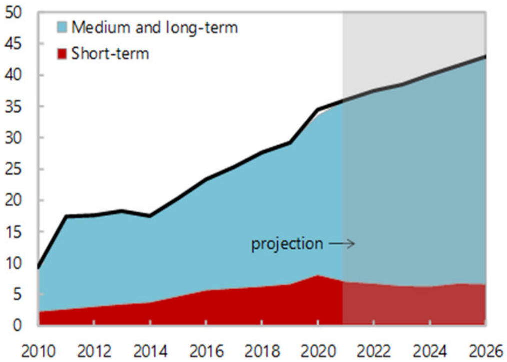
10/ Includes asset changes and interest revenues (if any). For projections, includes exchange rate changes during the projection period.

11/ Assumes that key variables (real GDP growth, real interest rate, and other identified debt-creating flows) remain at the level of the last projection year.

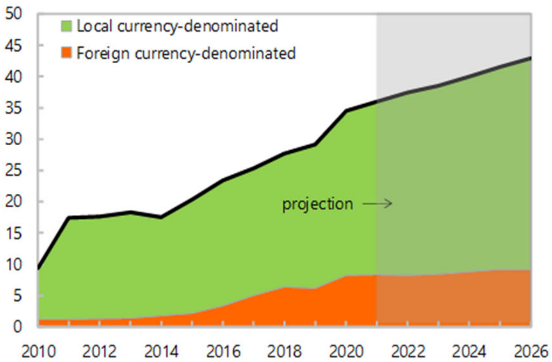
## Figure 2. Nigeria Public DSA - Composition of Public Debt and Alternative Scenarios

### Composition of Public Debt

**By Maturity**
(in percent of GDP)



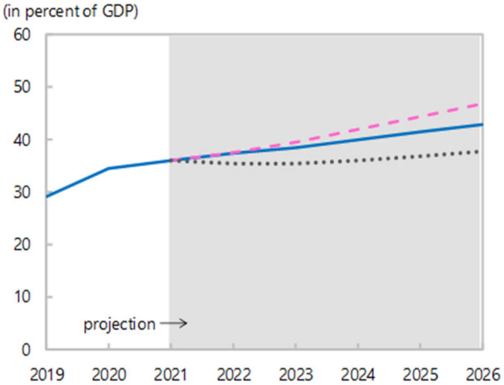

**By Currency**
(in percent of GDP)



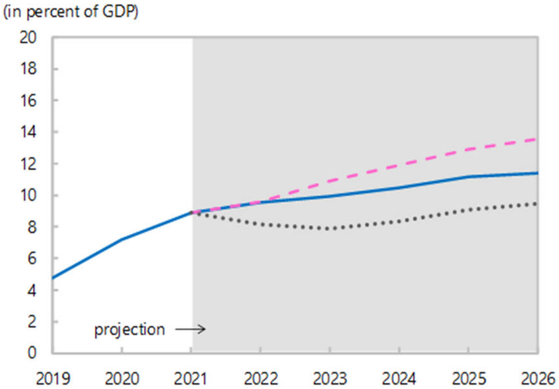

### Alternative Scenarios

Baseline    Historical    Constant Primary Balance

**Gross Nominal Public Debt**
(in percent of GDP)




**Public Gross Financing Needs**
(in percent of GDP)

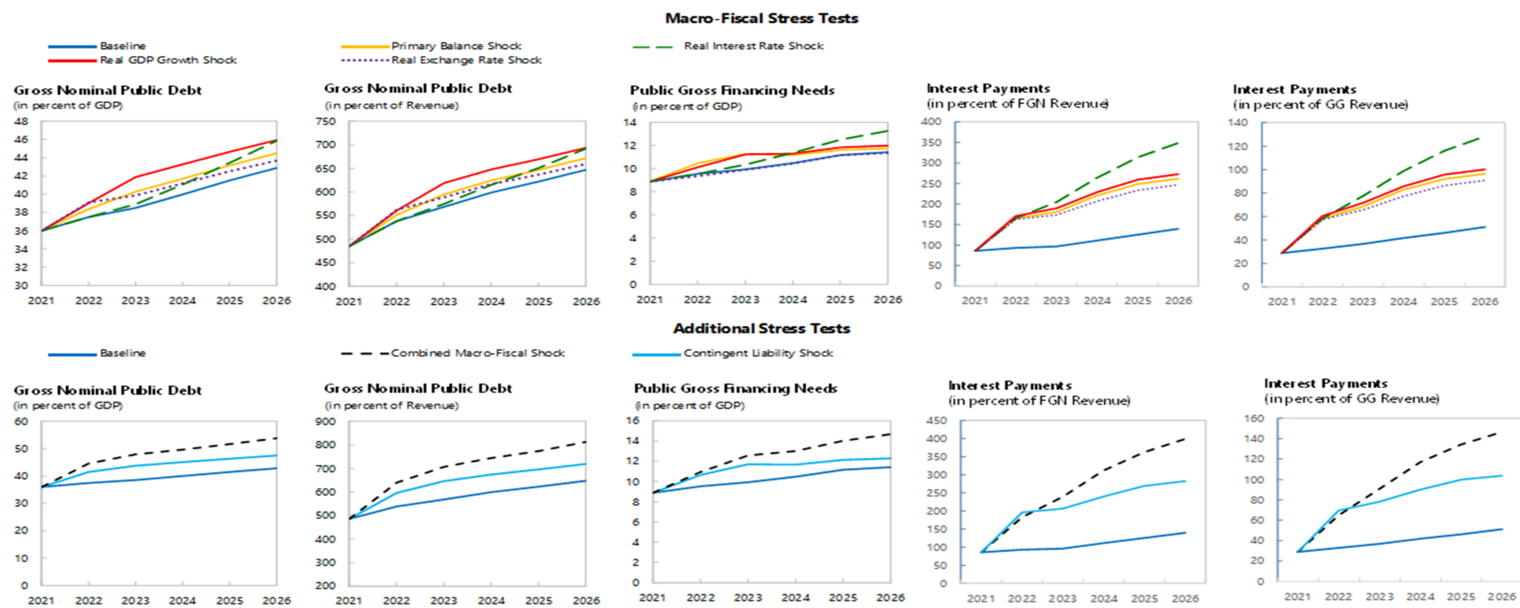



### Underlying Assumptions
(in percent)

| Baseline Scenario | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 |
|---|---|---|---|---|---|---|
| Real GDP growth | 2.6 | 2.7 | 2.7 | 2.6 | 2.6 | 2.7 |
| Inflation | 15.6 | 12.9 | 11.4 | 10.0 | 10.4 | 10.3 |
| Primary Balance | -4.1 | -4.1 | -3.2 | -3.2 | -3.1 | -2.9 |
| Effective interest rate | 7.4 | 7.4 | 7.6 | 8.2 | 8.7 | 9.3 |
| **Constant Primary Balance Scenario** | | | | | | |
| Real GDP growth | 2.6 | 2.7 | 2.7 | 2.6 | 2.6 | 2.7 |
| Inflation | 15.6 | 12.9 | 11.4 | 10.0 | 10.4 | 10.3 |
| Primary Balance | -4.1 | -4.1 | -4.1 | -4.1 | -4.1 | -4.1 |
| Effective interest rate | 7.4 | 7.6 | 7.7 | 7.9 | 8.7 | 9.0 |

| Historical Scenario | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 |
|---|---|---|---|---|---|---|
| Real GDP growth | 2.6 | 2.5 | 2.5 | 2.5 | 2.5 | 2.5 |
| Inflation | 15.6 | 12.9 | 11.4 | 10.0 | 10.4 | 10.3 |
| Primary Balance | -4.1 | -2.0 | -2.0 | -2.0 | -2.0 | -2.0 |
| Effective interest rate | 7.4 | 7.6 | 7.8 | 8.0 | 9.3 | 9.7 |

## Figure 3. Nigeria Public DSA - Stress Tests




### Underlying Assumptions
(in percent)

| Primary Balance Shock | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 |
|---|---|---|---|---|---|---|
| Real GDP growth | 2.6 | 2.7 | 2.7 | 2.6 | 2.6 | 2.7 |
| Inflation | 15.6 | 12.9 | 11.4 | 10.0 | 10.4 | 10.3 |
| Primary balance | -4.1 | -5.0 | -4.1 | -3.2 | -3.1 | -2.9 |
| Effective interest rate | 7.4 | 7.6 | 7.8 | 8.0 | 8.8 | 9.1 |
| **Real Interest Rate Shock** | | | | | | |
| Real GDP growth | 2.6 | 2.7 | 2.7 | 2.6 | 2.6 | 2.7 |
| Inflation | 15.6 | 12.9 | 11.4 | 10.0 | 10.4 | 10.3 |
| Primary balance | -4.1 | -4.1 | -3.2 | -3.2 | -3.1 | -2.9 |
| Effective interest rate | 7.4 | 7.6 | 9.0 | 9.9 | 11.3 | 12.1 |
| **Combined Shock** | | | | | | |
| Real GDP growth | 2.6 | -0.1 | -0.1 | 2.6 | 2.6 | 2.7 |
| Inflation | 15.6 | 12.2 | 10.7 | 10.0 | 10.4 | 10.3 |
| Primary balance | -4.1 | -5.0 | -4.1 | -3.2 | -3.1 | -2.9 |
| Effective interest rate | 7.4 | 8.1 | 8.6 | 9.5 | 10.8 | 11.6 |

| Real GDP Growth Shock | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 |
|---|---|---|---|---|---|---|
| Real GDP growth | 2.6 | -0.1 | -0.1 | 2.6 | 2.6 | 2.7 |
| Inflation | 15.6 | 12.2 | 10.7 | 10.0 | 10.4 | 10.3 |
| Primary balance | -4.1 | -4.5 | -3.9 | -3.2 | -3.1 | -2.9 |
| Effective interest rate | 7.4 | 7.6 | 7.7 | 8.0 | 8.9 | 9.2 |
| **Real Exchange Rate Shock** | | | | | | |
| Real GDP growth | 2.6 | 2.7 | 2.7 | 2.6 | 2.6 | 2.7 |
| Inflation | 15.6 | 23.3 | 11.4 | 10.0 | 10.4 | 10.3 |
| Primary balance | -4.1 | -4.1 | -3.2 | -3.2 | -3.1 | -2.9 |
| Effective interest rate | 7.4 | 8.1 | 7.3 | 7.5 | 8.4 | 8.7 |
| **Contingent Liability Shock** | | | | | | |
| Real GDP growth | 2.6 | -0.1 | -0.1 | 2.6 | 2.6 | 2.7 |
| Inflation | 15.6 | 12.2 | 10.7 | 10.0 | 10.4 | 10.3 |
| Primary balance | -4.1 | -6.7 | -3.2 | -3.2 | -3.1 | -2.9 |
| Effective interest rate | 7.4 | 8.7 | 7.9 | 8.0 | 8.9 | 9.2 |

urce: IMF staff.

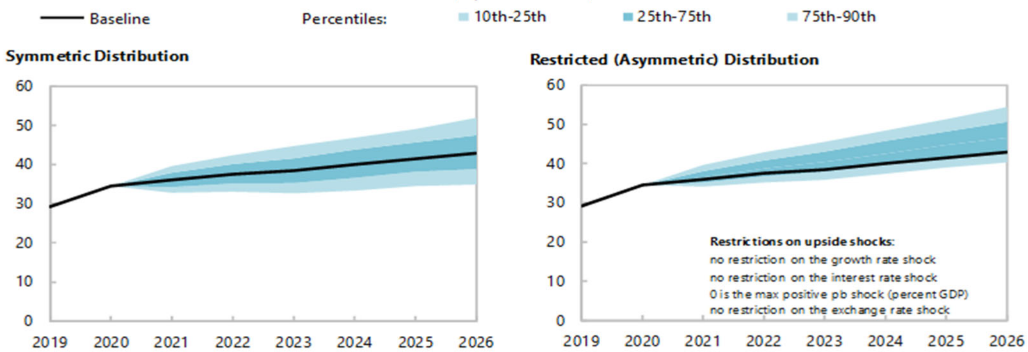
## Figure 4. Nigeria Public DSA Risk Assessment

### Heat Map

| | | | | | |
|---|---|---|---|---|---|
| Debt level 1/ | Real GDP Growth Shock | Primary Balance Shock | Real Interest Rate Shock | Exchange Rate Shock | Contingent Liability shock |
| Gross financing needs 2/ | Real GDP Growth Shock | Primary Balance Shock | Real Interest Rate Shock | Exchange Rate Shock | Contingent Liability Shock |
| Debt profile 3/ | Market Perception | External Financing Requirements | Change in the Share of Short-Term Debt | Public Debt Held by Non-Residents | Foreign Currency Debt |

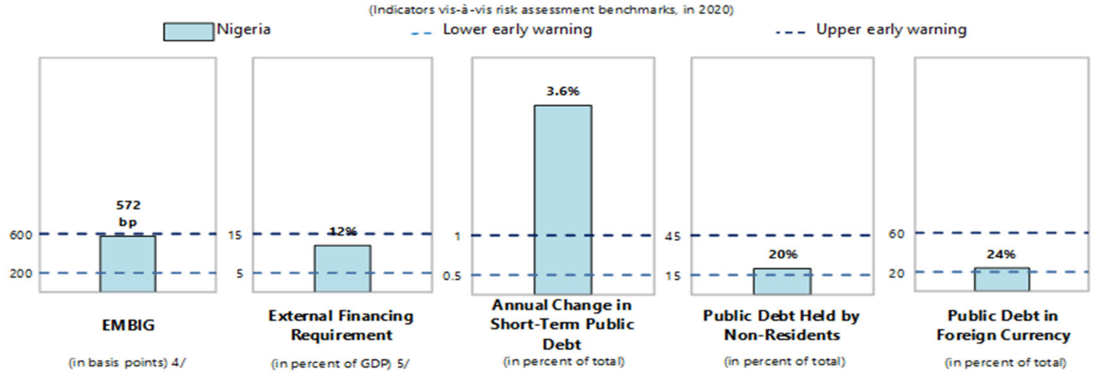
### Evolution of Predictive Densities of Gross Nominal Public Debt

(in percent of GDP)




### Debt Profile Vulnerabilities

(Indicators vis-à-vis risk assessment benchmarks, in 2020)




Source: IMF staff.

1/ The cell is highlighted in green if debt burden benchmark of 70% is not exceeded under the specific shock or baseline, yellow if exceeded under specific shock but not baseline, red if benchmark is exceeded under baseline, white if stress test is not relevant.

2/ The cell is highlighted in green if gross financing needs benchmark of 15% is not exceeded under the specific shock or baseline, yellow if exceeded under specific shock but not baseline, red if benchmark is exceeded under baseline, white if stress test is not relevant.

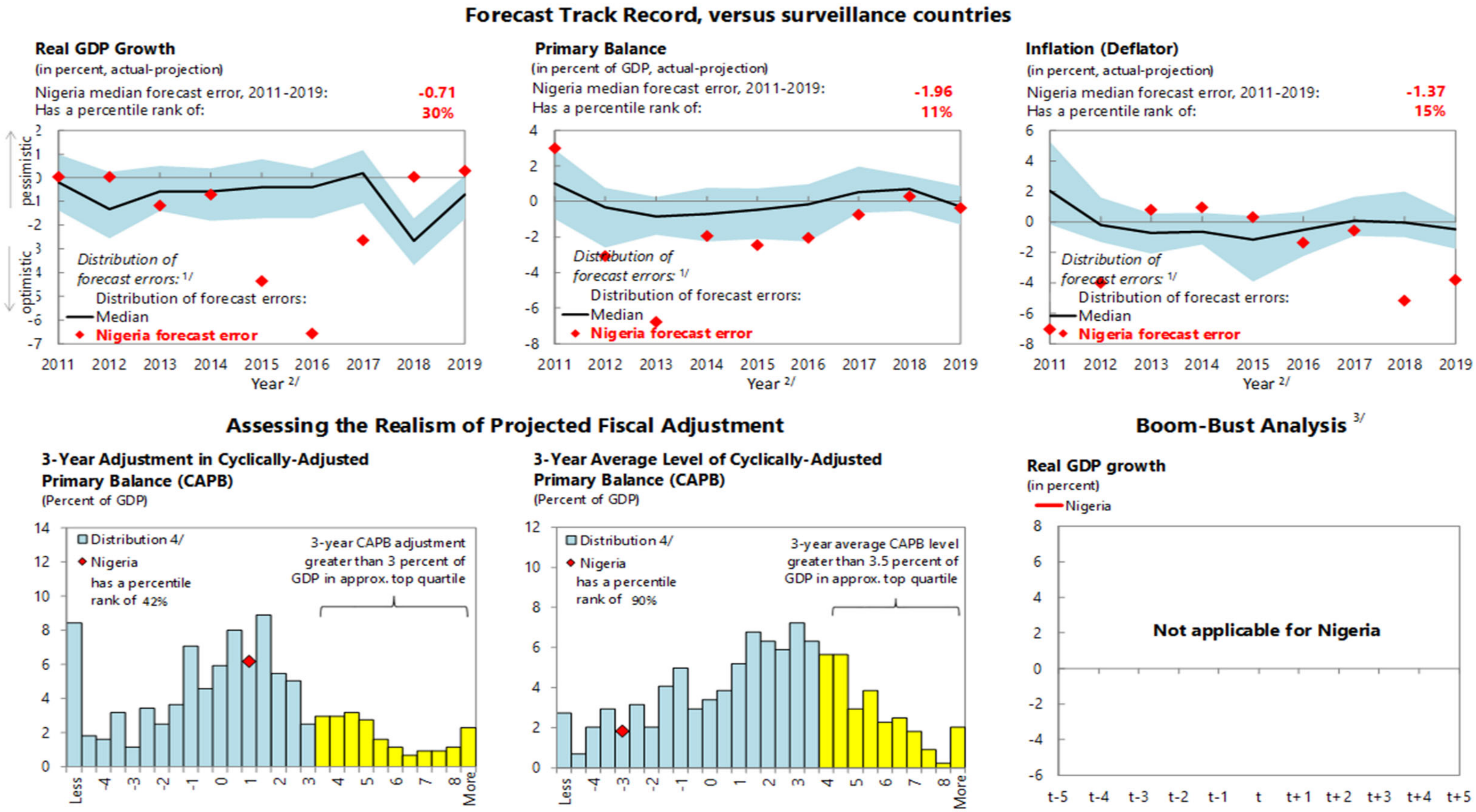
3/ The cell is highlighted in green if country value is less than the lower risk-assessment benchmark, red if country value exceeds the upper risk-assessment benchmark, yellow if country value is between the lower and upper risk-assessment benchmarks. If data are unavailable or indicator is not relevant, cell is white.
Lower and upper risk-assessment benchmarks are:

200 and 600 basis points for bond spreads; 5 and 15 percent of GDP for external financing requirement; 0.5 and 1 percent for change in the share of short-term debt; 15 and 45 percent for the public debt held by non-residents; and 20 and 60 percent for the share of foreign-currency denominated debt.

4/ EMBIG, an average over the last 3 months, 11-Aug-21 through 09-Nov-21.

5/ External financing requirement is defined as the sum of current account deficit, amortization of medium and long-term total external debt, and short-term total external debt at the end of previous period.

**Figure 5. Nigeria Public DSA - Realism of Baseline Assumptions**




Source : IMF Staff.

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

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

3/ Not applicable for Nigeria, as it meets neither the positive output gap criterion nor the private credit growth criterion.

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

# Annex IV. External Stability Assessment

*The external position of Nigeria in 2021 is preliminarily assessed as weaker than implied by fundamentals and desirable policies. Based on current trends, staff estimates a current account (CA) gap of -3 percent of GDP, which corresponds to a real effective exchange rate (REER) overvaluation of 15 percent. However, this assessment is preliminary, pending revisions and full-year data for 2021. Reserves at end-2020 corresponded to 72 percent of the Assessment of Reserve Adequacy (ARA) metric, including the oil buffer, but have recently improved further. Capital inflows remain modest relative to pre-pandemic years. External sector vulnerability remains a source of macroeconomic vulnerability, and greater exchange rate flexibility together with deep structural reforms would be required to bring the external position back into balance over the medium term.*

**Current Account Balances**

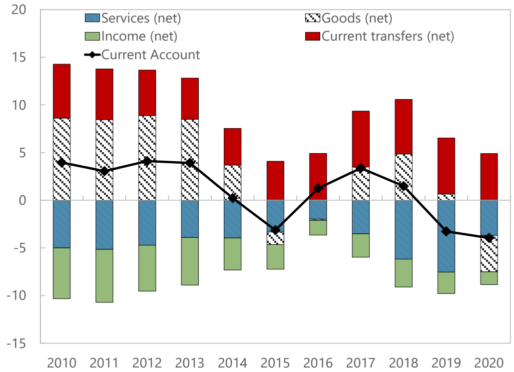
**1. The pandemic had a strong adverse impact on the current account balance in 2020.** The collapse in exports relative to 2019 (45 percent) was significantly more pronounced than that in imports (17 percent), leading to a large goods trade deficit. While the deficits in services trade and income were also reduced by almost a half, remittances dipped by 28 percent. As a result, the CA deficit widened to a historic 4 percent of GDP in 2020, continuing the trend that began in 2019 (a deficit of 3.3 percent), prior to which the CA registered continuous surpluses since 2004 except for 2015 when the BOP came under stress. For 2021H1, preliminary data suggests that the current account deficit narrowed significantly to 1.2 percent of GDP, though divergence in trade data between the CBN and the National Bureau of Statistics as well as large errors and omissions complicate interpretation.

**2. Financial inflows declined significantly in 2020 and remain subdued in 2021H1.** There were significant net portfolio outflows of $3.6 billion for the first time since the global financial crisis.[1] Preliminary data for 2021H1 shows a rebound in net portfolio inflows of $1.9 billion in 2021Q1 followed by net outflows of $0.5 billion in 2021Q2. In 2020, net other investment inflows declined significantly to $4.3 billion (from $7.7 billion in 2019), mostly on account of lower private sector net inflows, and preliminary data for 2021H1 shows persistent net outflows in the first two quarters of the year totaling $3 billion. In contrast, foreign direct investment picked up to $1.8 billion in 2021H1, sustaining the rising trend that began in 2019 and after reaching $2.7 billion in 2020. On the aggregate, net financial inflows held up better in 2020 relative to past crises[2] partly reflecting authorities' policies to restrict capital outflows, though they barely reached $0.5 billion in 2021H1.

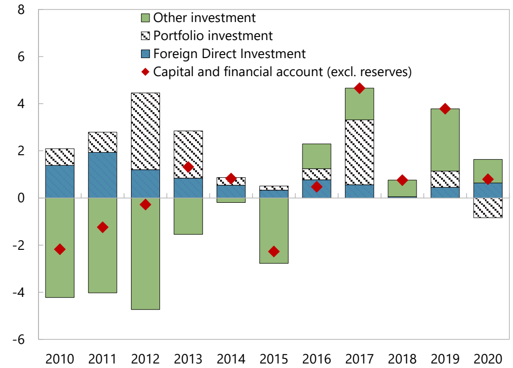
[1] In comparison, net portfolio outflows were $3.4 billion during the 2008 global financial crisis and, while net portfolio inflows also collapsed in 2015, they remained positive at $859 million.

[2] In 2015, net financial outflows peaked at $11.2 billion.

**Current Account Balance and Components**
(in percent of GDP)




**Financial Account Balance**
(in percent of GDP)

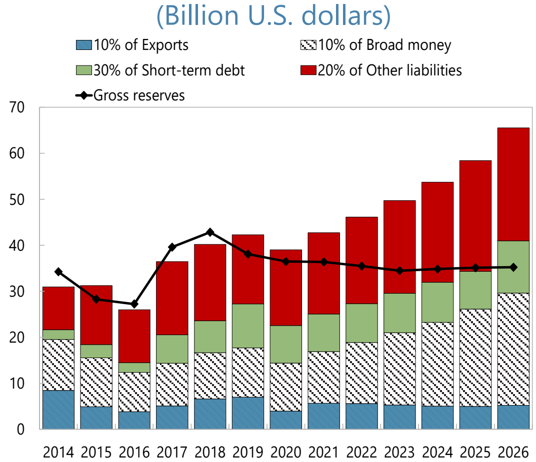



Sources: Sources: Haver Analytics and Central Bank of Nigeria.

## Reserve Adequacy

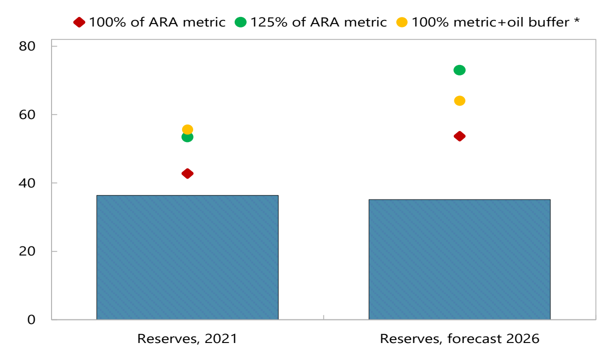
3. **Gross international reserves remain below comfortable levels.** Gross foreign exchange (FX) reserves declined to $36.5 billion at end-2020, equivalent to 72 percent of the Assessment of Reserve Adequacy (ARA) metric including the oil buffer.[3] More recently, the SDR allocation of $3.35 billion and the Eurobond issuance of $4 billion boosted reserves to $41.3 billion at end-October. Gross FX reserves are projected to decline from this level during the course of this year, partly owing to clearance of FX backlog owed to foreigners (estimated by the authorities at $1.7 billion as of end-October) and delivery of forward contracts. In the absence of major policy adjustments, including greater clarity on exchange rate policies, foreign capital inflows are projected to remain subdued in the medium term resulting in limited accumulation of FX reserves, which are projected to remain below 100 percent of the ARA metric.

**Contributions to Reserve Adequacy Metric**
(Billion U.S. dollars)




Source: Central Bank of Nigeria; and IMF staff estimates.

**Reserve Adequacy Measures**
(Billion U.S. dollars)




* Note: Oil price gap multiplied by oil exports, following 2016 ARA paper.
Sources: Central Bank of Nigeria; and IMF staff estimates.

[3] See the 2016 ARA Board paper.

## Exchange Rate Assessment

**4. The current account (CA) model in the Fund's external balance assessment (EBA)-Lite methodology suggests that the external position in 2021 was weaker than implied by fundamentals and desirable policies.** The EBA-Lite uses three different approaches to assess the REER: the CA model, the real exchange (REER) model, and the external stability (ES) approach (Table 1).

- The main vehicle for the external sector assessment in Nigeria is the **CA model**, which establishes a CA norm of -0.1 percent of GDP in 2021.[4] After considering the cyclical factors and COVID-19 related and other exceptional factors, the preliminary adjusted CA balance ends at -3.1 percent of GDP for 2021. The corresponding CA gap is -3 percent of GDP, suggesting an external position that is weaker than implied by fundamentals and desired policy settings. Based on a current account elasticity to the real exchange rate of -0.20, the CA gap corresponds to an REER overvaluation of 14.9 percent. These estimates are subject to considerable statistical uncertainties, including from large balance of payment (BoP) errors and omissions, and model uncertainties, giving rise to large unidentified residuals (-5.4 percent of GDP), potentially mirroring unexplained factors that are not captured by the model, such as structural impediments underpinning a lower saving-investment balance.

- The **REER model** is a price-based equilibrium approach that directly models a norm for the REER. It suggests that the real exchange rate in Nigeria is overvalued by 4.1 percent and broadly consistent with fundamentals and desirable policies.

- The **ES approach** calculates the REER adjustment that is required to satisfy the inter-temporal budget constraint as a measure of the external adjustment required to restore external sustainability. This approach suggests an overvaluation in the REER of 7.8 percent, which is moderately weaker than fundamentals reflecting Nigeria's low external debt (see Annex VI).

**5. Nigeria's complex exchange rate policy and multiple exchange rates remain a major source of vulnerability.** A unified and market-clearing exchange rate would foster competitiveness and alleviate BoP pressures in Nigeria. Further clarity on exchange rate is needed to help attract larger capital inflows, including foreign direct investments, which have been low for many years.

[4] The CA model is the preferred model for the external sector assessment because (i) the financing of the CA deficit in Nigeria remains a major source of vulnerability, and (ii) Nigeria's complex exchange rate policy and multiple exchange rates complicate a meaningful REER analysis.

**Nigeria: Model Estimates for 2021 (in percent of GDP)**

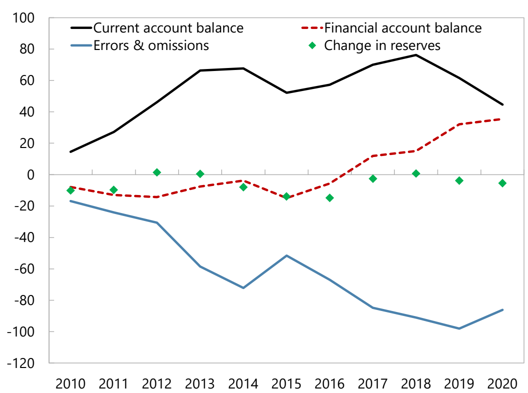
| | CA model | REER model | ES model |
|---|---|---|---|
| **CA-Actual** | **-2.8** | | |
| Cyclical contributions (from model) (-) | 0.3 | | |
| COVID-19 adjustor (+) 1/ | 0 | | |
| Natural disasters and conflicts (-) 1/ | 0 | | |
| **Adjusted CA** | **-3.1** | | |
| **CA Norm** (from model) 2/ | **-0.1** | | |
| **CA Gap** | **-3.0** | **-0.8** | **-1.6** |
| o/w Relative policy gap | 1.9 | | |
| Elasticity | -0.20 | | |
| **REER Gap (in percent) 3/** | **14.9** | **4.1** | **7.8** |

1/ Additional cyclical adjustment to account for the temporary impact of the pandemic on tourism is zero because observed shifts in net service receipts and security spending are expected to persist going forward (net services receipts are structurally negative in Nigeria and services payments are expected to exceed the level in 2019; and security spending is rising (see ¶5 in the PN) following the significant deterioration in domestic security conditions).

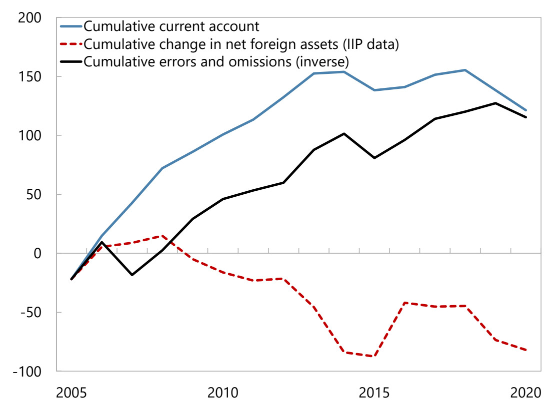
2/ Cyclically adjusted, including multilateral consistency adjustments.

3/ Positive numbers indicate overvaluation. Staff estimated the elasticity of the CA to the REER at -0.20, compared with the EBA model estimate of -0.09, reflecting increased sensitivity in years.

**Current Account and Errors and Omissions**
(Billion U.S. dollars; *cumulative* since 2010)




**Measures of Net Foreign Asset Accumulation**
(Billion U.S. dollars; since 2005)




Sources: Haver, CentralBank of Nigeria, and IMF saff calculations.

# Annex V. Capacity Development Strategy FY 2021

**Summary**

## A. CD Strategy

1. **IMF's surveillance in Nigeria calls for a comprehensive policy package.** The country's exceptionally low revenue performance, unorthodox monetary policy in the face of persistently high inflation, foreign exchange restrictions, and governance weaknesses have undermined growth performance while increasing vulnerabilities. In this context, IMF's capacity development (CD) work on Nigeria has been closely aligned with staff's policy recommendations.

2. **The proposed CD strategy continues to focus on revenue mobilization, public financial management, banking supervision, and macroeconomic statistics**—the same priorities as identified in the 2020 Article IV consultation staff report. While monetary and exchange rate policy is a key priority, the authorities have only indicated interest in training on modeling and have no interest in technical assistance on monetary policy operations, where past IMF advice has received limited traction.

3. **The current mix between HQ/RTAC missions (about 1:2) is adequate to leverage on continuous** regional engagement while also benefiting from strategic support from the HQ. Training activities should be gradually expanded—both as standalone and as part of TA missions.

**Key Overall CD Priorities Going Forward**

| Priorities | Objectives |
|---|---|
| Tax policy and revenue administration | **Traction:** TA advice on tax policy has been partially incorporated in the 2020 Finance Bill. However, the revision of petroleum fiscal regime has not fully aligned with on-going TA recommendations. The Strategic Revenue and Growth Initiative and future finance bills are expected to benefit from the most recent TA, including on priorities for revenue administration. A tax administration compliance plan—in line with IMF recommendations is being put in place by the new tax agency chairman.<br>**Going forward:** Revenue mobilization through comprehensive oil and non-oil tax policy reforms, including the rationalization of tax expenditures. Improved non-oil revenue mobilization by strengthening tax and customs administrations. |

| Priorities | Objectives |
|---|---|
| Public financial management | **Traction:** A Treasury Single Account has been put in place, and there has been good progress on the medium-term debt strategy and cash management, and budget planning. Only moderate progress is expected on the recommendations of the recently completed mission on the overseas revenues' integration with government accounting systems, in view of uncertain ownership.<br>**Going forward**: TA to focus on more integrated cash, asset, liability (including public debt) management, macro-fiscal forecasting, and fiscal risks management. |
| Financial Supervision and Regulation | **Traction**: Fair intake of policy advice on banking supervision, including towards Pillar implementation, and development of early warning system and risk-based supervision.<br>**Going forward:** Capacity development in banking supervision, including for onsite and offsite functions and bank resolution, will continue through AFRITAC West II. |
| Strengthen macroeconomic and financial statistics compilation | **Traction:** Progress on national accounts, CPI, and BOP statistics was disrupted by pandemic-induced delays in Census and surveys. Little intake or prioritization on GFS statistics from the budget office.<br>**Going forward:** Improving compilation of macroeconomic statistics – particularly those for national accounts and price statistics, is important. |

### Main Risks and Mitigation

**4. Progress has been made in implementing TA recommendations, albeit at a much slower pace for revenue mobilization and in statistics.** Absorptive capacity and data quality will likely remain as main risk factors; thus, continuing to require mitigating arrangements—such as a resident advisor program—for closer hands-on support. Resource allocation for new TAs should also continue to be merit-tested, including guided by the implementation record. The envisaged deployment of the long-term resident expert (LTX) on revenue mobilization will help bolster the traction—along with the World Bank's upcoming Program for Results on revenue mobilization.

### Authorities' Views

**5. The authorities agreed with the above-mentioned priorities and expressed renewed commitment and ownership.** They appreciated the ongoing rebalancing of resources toward hands-on support, including peripatetic expert visits and the placement of the long-term resident advisor. They reiterated their strong interest in receiving TA for budget reporting. The authorities appreciated MCM's rapid response to the request for CD support on the CBDC rollout.

# Annex VI. External Debt Sustainability Analysis

1. **External debt has been increasing but remains relatively low.** The level of (public and private) external debt is projected at 24.1 percent of GDP at end-2021 (Table 1).[1] Higher debt and lower exports in US$ terms have increased the external debt-to-exports ratio to about 262.2 percent in 2020 and are projected to rise over the medium term to almost 300 percent in 2026, up from just 145½ percent in 2015.

2. **Under the baseline,[2] external debt would decline slightly as share of GDP.** With continued weak growth, private sector external borrowing is projected to be on a downward trend. The public sector is expected to continue to draw on financing from bilateral and commercial external sources. To some extent, the interest rate risk may be contained by the historically concessional nature of a large proportion of public external debt compared to peers, although in recent years, there has been increased international bond issuances.

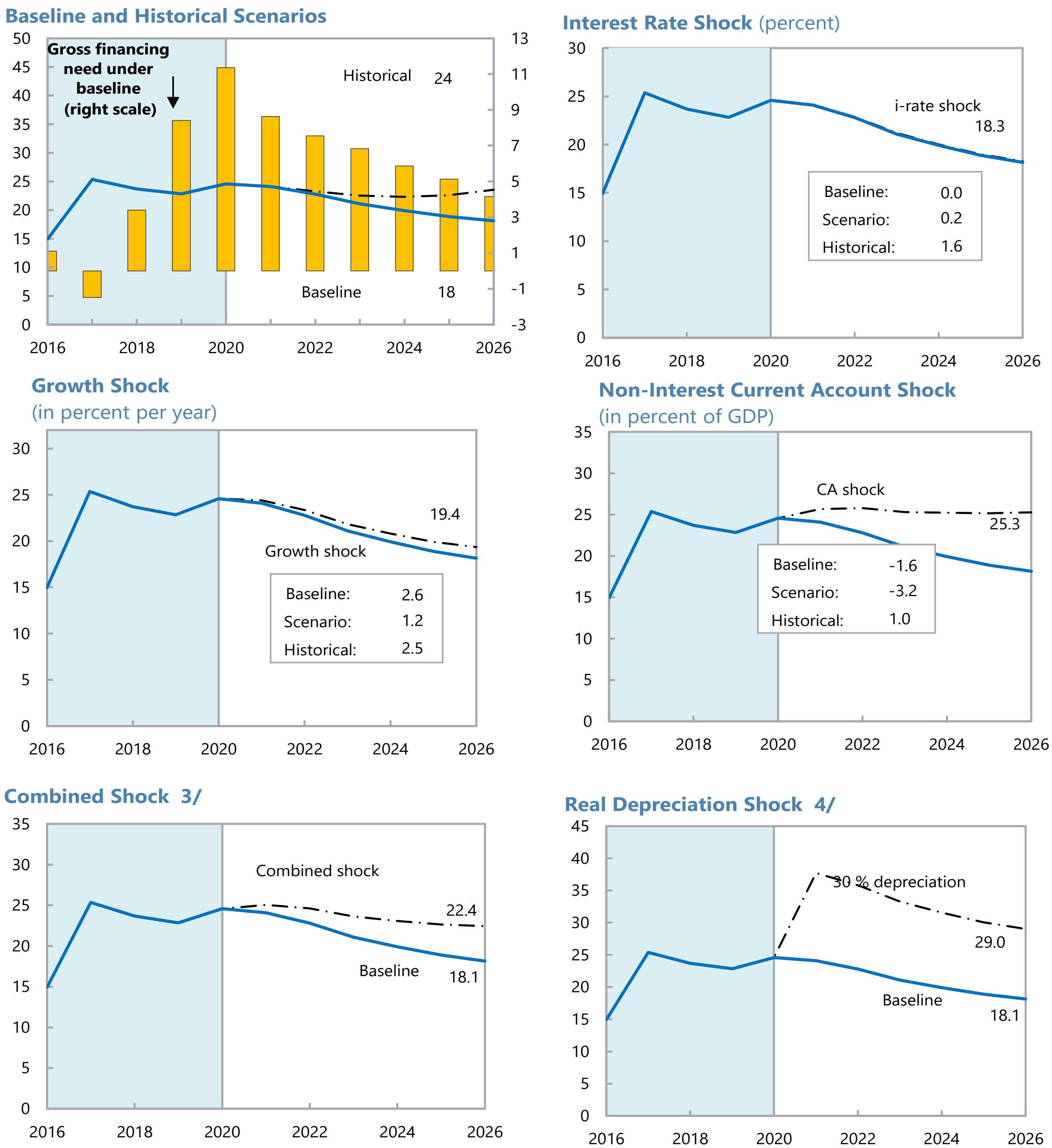
3. **Stress tests are used to illustrate the sensitivity of debt levels to various potential shocks (see Figure 1).** Higher interest rates or a slowdown in economic growth would not, by themselves, lead to outcomes substantially different from the baseline. On the other hand, a shock to the non-interest current account, which, given the structure of Nigeria's trade can be interpreted as a substantial decline in oil exports, would place the external debt-to-GDP ratio on a substantially higher path. This result is driven by the high historical volatility of Nigeria's current account balance, which owes largely to fluctuations in oil exports and prices. However, as was experienced during the last oil shock, it is likely that the impact would be buffered largely by import compression and income debits. A combined (interest rate, growth, current account) shock has a similar impact on the debt path, driven by the current account dynamics. A one-time real depreciation of 30 percent in the first projection year would cause an upward level shift in debt, but not place it on an upward path.

[1] The analysis is subject to gaps in data on remaining maturity of external obligations. Staff estimates are used for portfolio investment liabilities based on the estimated stock of non- resident holdings of government securities issued on the domestic market, capital market.

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

## Figure 1. Nigeria: External Debt Sustainability: Bound Tests 1/ 2/

(External Debt in percent of GDP)




Sources: National authorities; International Monetary Fund, country desk data; and IMF staff estimates.
1/ Shaded areas represent actual data. Individual shocks are permanent one-half standard deviation shocks. Figures in the boxes represent average projections for the respective variables in the baseline and scenario being presented. Ten-year historical average for the variable is also shown.
2/ For historical scenarios, the historical averages are calculated over the ten-year period, and the information is used to project debt dynamics five years ahead.
3/ Permanent 1/4 standard deviation shocks applied to real interest rate, real growth rate, and current account balance.
4/ One-time real depreciation of 30 percent occurs in 2018.

## Table 1. Nigeria: External Debt Sustainability Framework, 2016–26

(In percent of GDP, unless otherwise indicated)

| | Actual | | | | | | | Projections | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2016 | 2017 | 2018 | 2019 | 2020 | 10-Year Historical Average | 10-Year Standard Deviation | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 | Debt-stabilizing non-interest current account 6/ |
| 1 **Baseline: External debt 1/** | **15.0** | **25.4** | **23.7** | **22.8** | **24.6** | | | **24.1** | **22.8** | **21.1** | **19.9** | **18.9** | **18.1** | **-2.4** |
| 2 Change in external debt | 0.5 | 10.4 | -1.7 | -0.9 | 1.7 | | | -0.5 | -1.3 | -1.7 | -1.2 | -1.0 | -0.7 | |
| 3 Identified external debt-creating flows (4+8+9) | 1.1 | -3.1 | -4.5 | 1.6 | 4.0 | | | 1.3 | 1.0 | 0.9 | 0.5 | 0.3 | 0.2 | |
| 4 Current account deficit, excluding interest payments | -1.6 | -3.7 | -1.8 | 3.0 | 3.6 | | | 2.3 | 2.3 | 2.1 | 1.6 | 1.3 | 1.0 | |
| 5 Deficit in balance of goods and services | 2.1 | 0.0 | 1.3 | 6.9 | 7.5 | | | 6.2 | 5.7 | 5.3 | 4.7 | 4.0 | 3.4 | |
| 6 Exports | 9.5 | 13.5 | 15.7 | 15.6 | 9.3 | | | 12.2 | 10.8 | 9.0 | 7.6 | 6.6 | 6.1 | |
| 7 Imports | 11.6 | 13.6 | 17.0 | 22.5 | 16.8 | | | 18.5 | 16.6 | 14.2 | 12.2 | 10.6 | 9.5 | |
| 8 Net non-debt creating capital inflows (negative) | -0.8 | -0.9 | -0.3 | -0.1 | -0.5 | | | -0.9 | -0.7 | -0.7 | -0.6 | -0.5 | -0.3 | |
| 9 Automatic debt dynamics 2/ | 3.4 | 1.5 | -2.5 | -1.3 | 1.0 | | | -0.1 | -0.6 | -0.5 | -0.5 | -0.5 | -0.5 | |
| 10 Contribution from nominal interest rate | 0.3 | 0.3 | 0.3 | 0.3 | 0.3 | | | 0.5 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | |
| 11 Contribution from real GDP growth | 0.3 | -0.1 | -0.4 | -0.5 | 0.4 | | | -0.6 | -0.6 | -0.5 | -0.5 | -0.5 | -0.5 | |
| 12 Contribution from price and exchange rate changes 3/ | 2.9 | 1.3 | -2.3 | -1.0 | 0.2 | | | ... | ... | ... | ... | ... | ... | |
| External debt-to-exports ratio (in percent) | 157.4 | 187.4 | 151.3 | 146.3 | 264.2 | | | 197.0 | 210.6 | 235.7 | 262.9 | 287.2 | 296.7 | |
| **Gross external financing need (in billions of US dollars) 4/** | 4.5 | -5.6 | 14.4 | 37.6 | 48.8 | | | 40.0 | 39.0 | 40.4 | 39.2 | 38.8 | 35.6 | |
| in percent of GDP | 1.1 | -1.5 | 3.4 | 8.4 | 11.4 | | | 8.6 | 7.5 | 6.8 | 5.9 | 5.1 | 4.2 | |
| **Scenario with key variables at their historical averages 5/** | | | | | | | | **24.2** | **23.3** | **22.5** | **22.3** | **22.6** | **23.5** | **-1.0** |
| **Key Macroeconomic Assumptions Underlying Baseline** | | | | | | | | | | | | | | |
| Real GDP growth (in percent) | -1.6 | 0.8 | 1.9 | 2.2 | -1.8 | 2.5 | 2.8 | 2.6 | 2.7 | 2.7 | 2.6 | 2.6 | 2.7 | |
| GDP deflator in US dollars (change in percent) | -16.5 | -7.9 | 10.1 | 4.0 | -2.4 | -0.5 | 9.7 | 5.1 | 8.7 | 11.4 | 10.0 | 10.4 | 10.3 | |
| Nominal external interest rate (in percent) | 1.7 | 1.9 | 1.3 | 1.3 | 1.5 | 1.6 | 0.3 | 2.1 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | |
| Growth of exports (US dollar terms, in percent) | -21.6 | 32.3 | 29.9 | 5.9 | -42.9 | -3.2 | 27.2 | 41.8 | -1.2 | -5.4 | -4.5 | -1.7 | 5.5 | |
| Growth of imports (US dollar terms, in percent) | -34.7 | 8.4 | 40.6 | 40.7 | -28.4 | 3.8 | 27.2 | 18.5 | 0.1 | -1.6 | -3.1 | -2.3 | 2.2 | |
| Current account balance, excluding interest payments | 1.6 | 3.7 | 1.8 | -3.0 | -3.6 | 1.0 | 3.2 | -2.3 | -2.3 | -2.1 | -1.6 | -1.3 | -1.0 | |
| Net non-debt creating capital inflows | 0.8 | 0.9 | 0.3 | 0.1 | 0.5 | 0.9 | 1.0 | 0.9 | 0.7 | 0.7 | 0.6 | 0.5 | 0.3 | |

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

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

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

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

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

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

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

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

INTERNATIONAL MONETARY FUND

# NIGERIA

## STAFF REPORT FOR THE 2021 ARTICLE IV CONSULTATION—INFORMATIONAL ANNEX

December 14, 2021

Prepared By | The African Department

## CONTENTS

# FUND RELATIONS

(As of October 31, 2021)

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

| **General Resources Account:** | **SDR Million** | **%Quota** |
|---|---|---|
| Quota | 2,454.50 | 100.00 |
| IMF's Holdings of Currency (Holdings Rate) | 4,733.59 | 192.85 |
| Reserve Tranche Position | 175.47 | 7.15 |

| **SDR Department:** | **SDR Million** | **%Allocation** |
|---|---|---|
| Net cumulative allocation | 4027.90 | 100.00 |
| Holdings | 3,805.89 | 94.49 |

| **Outstanding Purchases and Loans:** | **SDR Million** | **%Quota** |
|---|---|---|
| Emergency Assistance [1/] | 2,454.50 | 100.00 |

[1/] Emergency Assistance may include ENDA, EPCA, and RFI.

**Latest Financial Commitments:**

**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 |

**Outright Loans:**

| Type | Date of Commitment | Date Drawn | Amount Approved (SDR million) | Amount Drawn (SDR million) |
|---|---|---|---|---|
| RFI | Apr 28, 2020 | Apr 30, 2020 | 2454.50 | 2454.50 |

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

| | Forthcoming | | | | |
|---|---|---|---|---|---|
| | 2021 | 2022 | 2023 | 2024 | 2025 |
| Principal | | | 613.63 | 1,227.25 | 613.63 |
| Charges/Interest | 6.52 | 25.95 | 25.95 | 14.61 | 2.56 |
| **Total** | 6.52 | 25.95 | 638.71 | 1,241.86 | 616.18 |

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

**Implementation of HIPC Initiative:** Not Applicable

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

**Implementation of Catastrophe Containment and Relief (CCR):** Not Applicable

## Exchange Rate Arrangement

The de jure exchange rate arrangement is described as floating by the authorities. The main objectives of exchange rate policy in Nigeria are to preserve the value of the domestic currency, maintain a favorable external reserves position and ensure external balance without compromising the need for internal balance and the overall goal of macroeconomic stability. The de facto exchange rate arrangement is classified as stabilized.

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

## Safeguards Assessment

A safeguards assessment of the CBN was completed in April 2021 but progress on implementation of recommendations has been limited. The CBN's internal and external audit mechanisms broadly adhere to international standards. However, the CBN Act needs to be modernized to enshrine price stability as the primary objective, strengthen the central bank's autonomy including by reducing the presence of government officials at the Board and the CBN's committees, and by safeguarding the independence and tenure of central bank officials. Legal amendments should also provide for independent oversight over the CBN, including by establishing a majority non-executive Board and an Audit Committee that is independent of executive management. Financial autonomy should be safeguarded through clear statutory limits on credit to government and prohibition of quasi-fiscal

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[1] One of the 42 items on the list is the foreign securities. The prohibition by the CBN to purchase FX for such securities on the Nigeria FX market constitutes a capital flow management measure (CFM) but not an exchange restriction for current international transactions.

[2] From May 10, 2021, the previously existing facility for banks to have access to US$50,000 per day on a rotating basis at the official exchange rate was eliminated.

[3] On March 2020, the CBN suspended sales to banks for wholesale SMIS window, however, SMIS retail is still functional for critical sectors.

operations and developmental lending activities, which need to be phased out. Financial reporting practices need to be bolstered through full adoption of International Financial Reporting Standards and resumed publication of annual financial statements. Thus far, limited traction has been seen on implementation of the recommendation and staff continues to engage with the authorities on these issues.

**Article IV Consultation**

Nigeria is on the standard 12-month Article IV consultation cycle. The previous Article IV consultation was concluded on January 27, 2021.

| Technical Assistance (TA) since January 2020 | | |
|---|---|---|
| Department | Purpose of TA Mission | Duration |
| FAD | Customs administration | July 13 – July 29, 2020<br>September 14-September 30, 2020<br>October 3 – October 18, 2020<br>December 9 – 24, 2020<br>January 17 – February 2, 2021<br>March 24 – April 9, 2021<br>November 16 – November 30, 2020 |
| FAD | Tax administration follow-up | January 26 – February 11, 2021<br>December 30, 2020 – January 18, 2021 |
| FAD | Tax and customs administration | August 8 – August 21, 2020 |
| FAD | Tax diagnostic tool assessment | February 12 – 26, 2021 |
| FAD | Tax policy | July 30 – August 3, 2020<br>December 22 – 31, 2020<br>December 7 – 12, 2020 |
| FAD | Public Finance Management | February 4 – 18, 2021<br>February 4 – 13, 2021<br>February 27 – March 3, 2021<br>March 9 – 21, 2021 |
| FAD | Assess Need to Support Nigerian FIRS on administering revenue for Extractive Industries (EI) | January 16 - January 29, 2020 |
| FAD | Cash Flow Forecasting | January 13 - January 17, 2020 |
| FAD | Customs Administration | February 06 - February 18, 2020 |
| FAD | Follow-up on petroleum tax reform and fiscal modeling | January 22 - January 29, 2020 |
| FAD | RETREAT FIRS CORPORATE | February 07 - February 07, 2020 |
| FAD | Support for the Implementation of the Customs Reform Strategy | February 06 - February 19, 2020 |
| FAD | Sustainable Development Goals (SDG) | January 29 - February 12, 2020 |
| MCM | Banking Supervision: Islamic Finance | September 02 - September 13,2019<br>May 11 – May 20, 2020<br>November 2 – November 13, 2020 |
| MCM | Project Assessment and TA Needs Assessment | February 17 - February 21, 2020 |
| MCM | Risk Based Supervision: Application of Inspection Procedures and Report Writing | February 24 - February 28, 2020 |
| STA | National Accounts | January 11 – 22, 2021 |
| STA | Price statistics - Rebasing of Price index numbers | March 4-14, 2021<br>August 17 – August 28, 2020 |

**Mission Chief and Resident Representative:**

Ms. Jesmin Rahman has been the IMF’s Mission Chief since May 2020. Mr. Ari Aisen has been the IMF’s Resident Representative since October 2020.

# RELATIONS WITH OTHER INTERNATIONAL FINANCIAL INSTITUTIONS

World Bank:

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

African Development Bank

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

# STATISTICAL ISSUES

(As of November 2021)

| I. Assessment of Data Adequacy for Surveillance |
|---|
| **General**: Data are broadly adequate for surveillance. However, some data shortcomings remain. In particular, information on subnational public finances and large errors and omissions in the balance of payments. Efforts to improve data in those areas are ongoing, including STA TA on national accounts, monetary, government finance and external sector statistics. The Statistics Act of 2007, which established the National Bureau of Statistics (NBS) as the main coordinating agency for data management, has led to a number of improvements, including better information sharing between data producing and collecting agencies. There has been an effort to improve the compilation of timely and internally consistent data, for example, participation in e-GDDS (although some data domains, including fiscal data, have not been maintained), the use of Government Integrated Financial Management Information System (GIFMIS) for budget preparations, a fully operational Treasury Single Account (TSA), and a reduction in the balance of payments errors and omissions. These efforts however need to be extended to the subnational levels. |
| **National accounts**: The NBS implemented the new base year 2010, the International Standard Industrial Classification (ISIC revision 4), and the Supply and Use Table (framework. The authorities continue to receive TA from the Fund headquarters, its regional technical assistance center AFRITAC West 2, World Bank, and African Development Bank in completing a new GDP rebasing exercise, including producing a GDP back-casted series. A National Business Sample Census was conducted in 2021 and the National Agriculture Survey Census is expected to be conducted in 2022. These surveys, which are necessary inputs for the GDP rebasing exercise, which is planned to be completed by the end of 2023. |
| **Prices statistics**: The official monthly consumer price index (CPI), a composite of urban and rural price data, is available on a timely basis. However, the index weights and basket are based on expenditures derived from the 2003/04 National Consumer Expenditure Survey. The weights are no longer representative of current expenditure patterns. The update of the CPI—using new weights from the 2018 National Household Livings Standards Survey—is expected in 2022. Compilation of an updated producer price index is ongoing but funding for the survey is uncertain. AFW2 plans to provide additional technical assistance to support the CPI update and improvements to Nigeria's price statistics. |

**I. Assessment of Data Adequacy for Surveillance (continued)**

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

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

**Monetary and financial statistics**: The CBN reports Monetary and Financial Statistics (MFS) to the Fund using the Standardized Report Forms (SRFs) for the central bank and other depository corporations (ODCs). In late 2020, the CBN began reporting data for other financial corporations (OFCs), covering the pension fund sector. The CBN is expected to gradually expand the coverage of the OFC sector to include finance companies, development finance institutions, and insurance companies.

Nigeria reports some data and indicators to the Financial Access Survey (FAS), including the two indicators (commercial bank branches per 100,000 adults and ATMs per 100,000 adults) adopted by the UN to monitor Target 8.10 of the Sustainable Development Goals (SDGs).

**Financial soundness indicators (FSIs)**: The CBN reports quarterly data for all of Nigeria's core and eleven encouraged FSIs for deposit takers. The CBN is working with support from STA to improve the methodology used to compile FSIs and enhance the consolidation basis to capture cross-border activities of Nigerian bank subsidiaries and branches.

| I. Assessment of Data Adequacy for Surveillance (concluded) | |
|---|---|
| **Balance of payments**: There have been significant efforts to improve the compilation of Nigeria's balance of payments data in recent years. Supported by IMF TA, the authorities have expanded the range and improved the quality of data sources, aimed at strengthening the balance of payments, in particular reducing the large errors and omissions, and improve consistency with the international investment position (IIP).<br><br>Nevertheless, more needs to be done to further reduce the errors and omissions in the balance of payments, which complicate the assessment of external sustainability. There is a need for improved validation of transactions reported by banks, measurement of transactions outside the banking system, appropriate treatment of transactions of enterprises in free trade zones (using a residency criterion) and improved coverage of estimates of the external assets and liabilities of the banking sector. TA efforts helped the CBN diversify the data collection for the improvement of the ESS, including through introducing private financial flows and stocks surveys. A survey of private transfers should foster improvements in the estimates of private transfers, especially those received through informal channels and for the in-kind values, which are currently not estimated. The June 2019 mission assisted CBN in addressing deficiencies in their source data (ITRS in particular) and further improving the measurement of transactions and positions data. More efforts need to be deployed to further improve the quality and frequency of foreign assets and liabilities currently collected via an annual survey. Collection of position data for both inward and outward portfolio investment with country breakdown needs also to be initiated to allow participation in the CPIS.<br><br>The authorities have not yet initiated the compilation of international reserves data in line with the Data Template on International Reserves and Foreign Currency Liquidity.<br><br>**External debt**: Public external debt data are of good quality and available on a timely basis. The Debt Management Office (DMO) is collaborating closely with the CBN to extend the coverage of their database to include private sector liabilities and foreign investment in debt securities issued domestically. In addition, IMF and World Bank staff worked with the DMO to develop analytical capacity to formulate a debt management strategy based on detailed cost-benefit analysis. | |
| **II. Data Standards and Quality** | |
| Nigeria has participated in the IMF's General Data Dissemination System (GDDS) since April 2003. In February 2016, Nigeria implemented the recommendations of the Enhanced General Data Dissemination System (e-GDDS) by publishing critical data through the National Summary Data Page (NSDP) as opposed to only metadata. | No Data ROSC is available. |

**Nigeria: Table of Common Indicators Required for Surveillance**
(As of November 19, 2021)

| | Date of latest observation | Date received | Frequency of Data[1] | Frequency of Reporting[1] | Frequency of Publication[1] |
|---|---|---|---|---|---|
| Exchange Rates | Oct. 2021 | Nov. 2021 | M | M | M |
| International Reserve Assets and Reserve Liabilities of the Monetary Authorities[2] | Aug. 2021 | Oct. 2021 | M | M | M |
| Reserve/Base Money | Aug. 2021 | Oct. 2021 | M | M | M |
| Broad Money | Aug. 2021 | Oct. 2021 | M | M | M |
| Central Bank Balance Sheet | Aug. 2021 | Oct. 2021 | M | M | M |
| Consolidated Balance Sheet of the Banking System | Aug. 2021 | Oct. 2021 | M | M | M |
| Interest Rates[3] | Aug. 2021 | Oct. 2021 | D | D | D |
| Consumer Price Index | Sept. 2021 | Nov. 2021 | M | M | M |
| Revenue, Expenditure, Balance and Composition of Financing[4] – Central Government | Sep. 2021 | Nov. 2021 | M | M | M |
| Revenue, Expenditure, Balance and Composition of Financing[4] – General Government[5] and Central Government | Sep. 2021 | Nov. 2021 | M | M | M |
| Stocks of Central Government and Central Government-Guaranteed Debt[6] | Jun. 2021 | Sep. 2021 | Q | Q | Q |
| External Current Account Balance | Jun. 2021 | Sep. 2021 | Q | Q | Q |
| Exports and Imports of Goods and Services | Jun. 2021 | Sep. 2021 | Q | Q | Q |
| GDP/GNP | Sep. 2021 | Nov. 2021 | Q | Q | Q |
| Gross External Debt | Jun. 2021 | Sep. 2021 | Q | Q | Q |
| International Investment Position[7] | Jun. 2021 | Nov. 2021 | Q | Q | Q |

[1] Daily (D); weekly (W); monthly (M); quarterly (Q); annually (A); irregular (I); and not available (NA).

[2] Any reserve assets that are pledged or otherwise encumbered should be specified separately. Also, data should comprise short-term liabilities linked to a foreign currency but settled by other means as well as the notional values of financial derivatives to pay and to receive foreign currency, including those linked to a foreign currency but settled by other means.

[3] Both market-based and officially-determined, including discount rates, money market rates, rates on treasury bills, notes and bonds.

[4] Foreign, domestic bank, and domestic nonbank financing.

[5] The general government consists of the central government (budgetary funds, extra budgetary funds, and social security funds) and state and local governments. However, the expenditure data for state and local governments are not available.

[6] Including currency and maturity composition.

[7] Includes external gross financial asset and liability positions vis-à-vis nonresidents.

**Statement by the Staff Representative on Nigeria January 24, 2022**

1. **This statement provides a factual update on developments since the issuance of the staff report on December 16, 2021**. The additional information does not change the thrust of the staff appraisal.

2. **Since its first detection in Nigeria in November, the Omicron variant of the COVID-19 pandemic appears to have passed its peak** with new cases falling to below 300 per day as of January 17 compared to a peak of over 6000 on December 22 (Johns Hopkins University data). The authorities are actively encouraging increased vaccination and are considering producing the vaccine domestically. As of January 11, less than 3 percent of the population have been vaccinated, compared to a median of 8 percent in Sub-Saharan Africa.

3. **More robust than projected non-oil growth, notwithstanding lower oil output, has led to an upward revision in real GDP growth for 2021 to 3 percent.** Nigerian oil output continued to decline through the fourth quarter of 2021, with daily oil production excluding condensates at 1.2 million barrels per day, down from a peak of 1.4 million barrels in the first quarter, and below the Organization of Petroleum Exporting Countries (OPEC) quota of 1.67 million barrels. Including condensates, oil and gas production amounted to 1.5 million barrels per day in the last quarter compared to 1.6 million barrels in the previous quarter. The decline in petroleum production is associated with continued security issues, especially in the Niger delta area. The non-oil sector continued to show robust growth through 2021Q4. The Stanbic purchasing manager's index rose by 1.4 units in December to 56.4 with manufacturing recording the strongest improvement and all 8 output indicators in expansion territory. The index is now at its highest level since late 2019. The staff projection of 2022 real growth remains unchanged at 2.7 percent, balancing possible higher non-oil growth from the current momentum against ongoing weaknesses in the oil sector.

4. **Lower than projected fiscal expenditures (January-November data) and imports (Q1-Q3 data) are likely to result in lower fiscal and current account deficits for 2021.** Staff estimates the 2021 overall fiscal deficit to be 5.9 percent of GDP compared to 6.3 percent in the staff report, mostly reflecting lower current spending. The current account deficit is estimated to be around 2.4 percent of GDP compared to 2.8 percent in the staff report although there are considerable uncertainties regarding the revised estimate given diverging trade statistics between the Central Bank of Nigeria and the National Bureau of Statistics. These developments do not alter staff's assessment of Nigeria's external position presented in the report.

5. **End-December 2021 CPI inflation at 15.6 percent (year over year) was higher than anticipated in the staff report (14.9 percent).** The higher inflation is mostly due to food inflation experiencing an uptick in December possibly reflecting higher demand during the holiday season as well as further uptick in some sub-components of the index (alcoholic beverages and housing and utilities).

**Statement by Ms. Ita Mary Mannathoko, Executive Director for Nigeria and, Mr. Patterson Chukwuemeka Ekeocha, Senior Advisor of the Executive Director on Nigeria**

**January 31, 2022**

## I. Introduction

1. Our Nigerian authorities welcome the constructive engagement with staff during the 2021 Article IV consultation. They share the broad thrust of staff's assessment of economic developments and key policy priorities. The topical selected issues papers are also appreciated.

2. The Nigerian economy is exhibiting nascent signs of recovery, following the 2020 contraction in output precipitated by the COVID-19 pandemic and downturn in oil prices. The impact of these twin shocks was considerable, as oil accounts for over 80 percent of exports and half of government revenues, in Nigeria, as well as a third of banking sector credit. The rebound in 2021 benefited from the authorities' proactive implementation of effective pandemic response measures that kept infection rates and fatalities firmly under control. Importantly, government policy support, coupled with external financial assistance, including under the Fund's Rapid Financing Instrument (RFI), provided the foundation for recovery.

3. Notwithstanding the recent rebound in oil prices, oil industry instability, including the sustained contraction in oil output due to shutdowns in the Forcados and Okono terminals, poses a significant threat to government revenue. At the same time, the Omicron variant poses renewed risks to the outlook, and for this reason the authorities remain vigilant, seeking to ensure a durable exit from the pandemic that will allow sustained, inclusive growth. They note among other things, that the labor market remains weak due to COVID-19 dynamics. Policy reforms continue. Various exchange rate and fiscal measures have been implemented in the past year with a view to developing more effective policy frameworks. The authorities are determined to effect reforms needed to achieve the objectives of the National Development Plan (NDP) 2021–25, securing sustained growth and development. Generally, they remain committed to deploying an appropriate mix of coordinated macroeconomic measures to safeguard recovery gains and steer the economy onto a more robust trajectory.

## II. Recent Economic Developments and Outlook

4. Real GDP growth rebounded by 4.4 percentage points, from -1.8 percent in 2020 to 2.6 percent in 2021, supported by the recovery in international oil prices. The lifting of restrictive measures as pandemic conditions improved, enabled recovery in trade, information and communication technology, and broad-based manufacturing activities. Looking ahead, projections imply constrained growth at 2.7 percent in 2022 and 2023, partly reflecting threats from the COVID-19 pandemic, and lingering security challenges. As such,

the authorities plan to ramp up vaccination to allow for broader and sustained recovery in economic activity. As of January 15, 2022, 10.1 percent of the population targeted for vaccination has received the first dose, while 4.4 percent is fully vaccinated. Inflation, meanwhile, has declined from a peak of 18.2 percent in March 2021 to 15.6 percent in December 2021, underpinned by deceleration in food inflation. Looking ahead, inflation is expected to decline to 14.3 percent and 12.8 percent in 2022 and 2023, respectively, supported by improved food supply.

5. The current account balance improved from -4.0 percent of GDP in 2020 to -2.8 percent of GDP in 2021, supported by the recovery in oil prices and improved external demand. Looking ahead, investment in the Dangote Refinery is expected to reduce imports of petroleum products and improve current account performance in 2022 and 2023. Gross official reserves remained stable at 5 months of import cover.

## III. Fiscal Policy

6. While the authorities have maintained an accommodative fiscal policy stance to support economic recovery and resilience, they are committed to medium-term revenue and expenditure reform measures needed to strengthen public finances, create fiscal space, and keep public debt on a sustainable path. To maintain debt sustainability, the authorities will continue to operate within the constraints of the Fiscal Responsibility Act 2007, restricting borrowing with a focus on capital expenditure and human development. Despite revenue challenges, the government has consistently met its debt service commitments, while Staff's post financing assessment shows adequate capacity to repay the Fund.

7. Extraordinary expenditure measures were implemented to contain the COVID-19 pandemic, protect the poor and vulnerable, and resuscitate the economy. The authorities also embarked on aggressive investment in critical infrastructure and enacted a supplementary budget to address challenges in the security and health sectors. All this limited the adverse impacts of the pandemic on the economy and people. The pandemic nevertheless revealed the urgent need to strengthen the health system, leading to a rise in nominal expenditure and the fiscal deficit alongside the public debt stock. Furthermore, the government's suspension of upward price adjustments and petrol subsidy removal to cushion the most vulnerable while engaging the labor union on the subject, significantly affected government revenues. Against this backdrop, the fiscal deficit widened amidst a sharp decline in revenue.

8. The authorities are committed to resuscitating revenues over the medium term, and measures under the Strategic Revenue Growth Initiative (SRGI) are set to improve government revenue and entrench fiscal prudence. They will make determined efforts to increase the revenue-to-GDP ratio from the current 8.0 percent to 15.0 percent by 2025. In addition, beyond 2025 the debt-service-to-revenue ratio will no longer be a critical concern, further supporting fiscal space. They expect revenue gains efficiency measures including digitalizing tax identification, and rationalizing tax incentives. The authorities expect to increase the efficiency of tax administration significantly, including with amendments to the Finance Act that will help grow government revenue by addressing loopholes to eliminate leakages, while ensuring equity in the taxation of different sectors of the economy, and reviewing tax incentives to better support revenue. Measures to remove tax duplication will support business viability, safeguarding production at the state level.

9. Once growth is more firmly entrenched, the authorities will strengthen fiscal consolidation: streamlining new taxes and intensifying expenditure control measures. In the meantime, they will continue to advance expenditure rationalization initiatives. The number of ministries, departments, and agencies (MDAs) captured on the integrated payroll and personnel information system has been increased to 711 to date, from 459 in 2017, with implications for personnel cost reduction. The recent passage of the Petroleum Industry Act 2021, which takes effect in early 2022, and the consequent incorporation of the Nigeria National Petroleum Corporation, will support elimination of oil subsidies and is expected to strengthen expenditure rationalization, enabling increased investment.

10. Negative impacts on the vulnerable from reform measures will be tempered through targeted social assistance. For example, the authorities are planning to provide temporary monthly cash transfers to vulnerable urban households to cushion the impact of higher fuel prices, when subsidies are lifted. The 2022 budget also reflects gender-responsive budgeting, which supports fairer distribution of resources, reaching vulnerable groups in society and promoting social inclusion. The authorities are also working to improve the coverage and efficiency social assistance programs, a process that will be facilitated by the eNaira (CBDC) which should enable efficient delivery of social assistance, alongside higher financial inclusion over time.

## IV. Monetary and Exchange Rate Policy

11. The authorities are cognizant of the impact of inflation, especially on vulnerable households, and intend to pursue a declining inflationary trend as current transitory pressures ease. As noted by staff, because monetary policy will need to support the ongoing recovery, it will be important to guard against inflationary expectations becoming entrenched. While supporting the nascent recovery, the CBN therefore remains vigilant against inflationary risks. Given that temporary pressure on headline inflation can be expected in 2022-23 with the removal of fuel subsidies, inflation should continue to decline thereafter, supported further by the tapering off of supply-side shocks. The authorities also expect the additional benefit of possible second-round effects on wages from the fuel subsidy removal. In the medium term as, further measures are undertaken with respect to the exchange rate and exchange restrictions, this too will enhance the efficacy of monetary policy transmission, while the authorities pursue other measures to address structural factors contributing to supply-side inflation. The central bank will thus periodically review the monetary policy program to ensure both consistency with evolving global and domestic macroeconomic conditions, and the effectiveness of monetary policy tools.

12. Consistent with Fund advice, the CBN phased out the official exchange rate by adopting the Nigerian Autonomous Foreign Exchange (NAFEX) market determined Investor and Exporters (I&E) rate as the reference rate in the economy. Exchange rate misalignment narrowed considerably following this abolition of the official exchange rate. The authorities maintain that automatic stabilizers and mechanisms have been allowed to counter exogenous shocks in the exchange rate market, with very little in discretionary policies at the moment. They have further indicated that they plan to eventually allow full market mechanisms, however careful planning and management of such a transition will be essential, especially given the eNaira's introduction, which implies consideration of additional risks. With the

recovery in oil prices and higher remittances, the authorities expect an improvement in the balance of payments, which will help maintain healthy foreign exchange (FX) reserves and improve the FX market's stability.

## V. Financial Sector Policy

13. The banking sector has remained resilient, enabled by ample pre-crisis capital buffers and prudent credit policies. Cognizant that regulatory forbearance deployed during the pandemic to help cushion the impact on commercial banks can lead to a build-up of risks, the CBN remains vigilant. It will sustain its tight prudential regime with a view to bringing the NPL ratio down further below the prudential benchmark of 5.0 percent. To ensure financial stability, monitoring of potential risks will continue alongside periodic stress tests, including loan reclassification, to gauge the banking sector's systemic health. Mandatory provisioning ensures that the risk of a significant deterioration in the quality of restructured loans remains low. The new banking law (BOFIA) also enhances bank oversight with provisions that facilitate bank resolution and help prevent cases of chronic capital insufficiency. The implementation of additional Basel instruments will further support this effort. For current undercapitalized bank cases, the authorities expect to have a workable solution to these banks in the near future. CBN also pays close attention to the thriving fintech sector, using a regulatory sandbox, increased use of code-based phone transactions, and mandated data sharing between banks and fintechs to help ensure a safe, sound, and stable financial system. Going forward, the CBN will push for increased intermediation to support the recovery and is weighing adopting centralized regulation of digital lending.

14. The CBN's recent introduction of the eNaira is expected to enhance the Nigerian payment ecosystem, increase financial inclusion, boost tax collection (and therefore revenue), aid targeted social interventions, improve remittance flows, and reduce informality, among others. The CBN mitigates potential risks through the Digital Currency Management System, which leverages blockchain-based distributed ledger technology, giving close consideration to privacy and data protection requirements and following the national data protection regulations. The system is also designed to prevent illicit flows and use of funds as it requires identifying transacting parties and details of their transactions. As a next step, the eNaira's features and uses will be expanded to include offline eNaira payments solutions, cross-border payments, interoperability with other CBDCs, and multiple signatory wallets, among other possibilities. The authorities appreciate continued Fund technical support and guidance at various stages of this initiative.

## VI. Structural Reforms

15. Diversification of the economy is a priority, consequently supportive infrastructure and reforms needed to lessen dependency on oil, reduce inequality and unemployment, build strong and effective institutions, and address governance issues, are components of the development plan. For this reason, the authorities have designed structural reforms with a view to improving competitiveness and increasing medium-term growth, while reducing high unemployment. The government has emphasized investment in public utilities, particularly transportation networks, electricity supply, education, and health, to improve the business environment and mitigate the adverse impacts of deficient infrastructure. The tertiary institutions' entrepreneurship scheme is expected to enhance employment, redirecting

graduates towards entrepreneurship development. Other measures are geared at enhancing SME credit access to boost production and improve the economy's foreign exchange-generating capacity. At the same time, the authorities are committed to implementing the African Continental Free Trade Agreement (AfCFTA) to bolster Nigeria's non-oil exports and build external competitiveness. Leveraging Nigeria's sophisticated banking system, vibrant digital economy, and ongoing customs reforms, the authorities will reduce trade barriers (tariff and non-tariff measures), according to the agreed protocols to support free trade.

16. Climate adaptation is essential for Nigeria's economic transition, with diversification a necessity given the implications for the structure of production. In addition, like many African countries Nigeria faces impacts from climate change through rising temperatures and more volatile precipitation and flooding, with impacts on agriculture and livelihoods. With this in mind, the authorities will continue to prioritize the selection of climate-smart infrastructure projects to address climate risks, even as they work to accelerate diversification of the economy. The climate change act outlines the country's response to the transition, including both adaptation and mitigation measures, recognizing the importance of sustainable economic growth. On mitigation, the authorities plan to intensify the conversion plan from petroleum to natural gas vehicles (NGVs), in addition to raising electricity tariffs to more cost-effective levels, to advance their carbon reduction initiatives. Recently, at COP26 in Glasgow, the authorities reiterated their commitment to cut carbon emissions and reach net-zero by 2060. To that effect, the climate bill has five-year emission budgets with a view to achieving net-zero greenhouse gas emissions between 2050 and 2070.

17. Progress is being made with efforts to intensify the fight against corruption and enhance transparency. Transparency has improved following a drastic reduction in the opaque process at the Nigerian National Petroleum Corporation (NNPC). To this end, the last two annual financial statements of NNPC have been published, reconciling gross and net oil revenues remitted to the Federation Account. Furthermore, the corporate registry has begun to publish information on individuals with significant control over newly established companies. Technical issues on the transparency portal are also being addressed to improve access to COVID-19 spending and procurement information, while a comprehensive report on the use of the funds will be produced once the audit of COVID-19 expenditures is completed. The whistleblower bill which facilitates reporting of corruption, is also being presented to Parliament for legislation.

18. In addition, the authorities have implemented a strengthened framework for managing performance of government-owned enterprises (GOE), to improve their operational efficiency, viability, and transparency. The Finance Act 2021 imposes a 50 percent cost-to-income ratio on GOEs that has contributed significantly to the limiting wasteful expenditures by several GOEs and increased the level of operating surpluses transferred to the Consolidated Revenue Fund. At the same time, allocations to the Tertiary Education Trust Fund (TETFUND) and the budgets of 63 GOEs are integrated into the 2022 federal budget proposal, to further reduce corruption and enhance possible mergers of ministries under proposed civil service reforms. The authorities are also committed to improving the effectiveness of the AML/CFT framework to align it with Financial Action Task Force (FATF) standards.

## VII. Conclusion

19. The authorities reaffirm their commitment to improving healthcare capacity and supporting economic recovery, while ensuring debt sustainability. They are committed to executing a macroeconomic policy mix that will achieve domestic and external balance while ensuring equitable growth. While implementing innovative measures to promote a solid and inclusive recovery, mitigation of pandemic-related risks is also being prioritized. They will intensify fiscal consolidation once higher growth is entrenched, generating fiscal space through increased revenue mobilization and expenditure management. The authorities appreciate Fund advice and technical support and look forward to Directors' support in concluding the 2021 Article IV consultation.