August 2004
IMF Country Report No. 04/239

Nigeria: 2004 Article IV Consultation—Staff Report; and Public Information Notice on the Executive Board Discussion

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 2004 Article IV consultation with Nigeria, the following documents have been released and are included in this package:

- the staff report for the 2004 Article IV consultation, prepared by a staff team of the IMF, following discussions that ended on May 19, 2004 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 June 22, 2004. The views expressed in the staff report are those of the staff team and do not necessarily reflect the views of the Executive Board of the IMF.

- a Public Information Notice (PIN) summarizing the views of the Executive Board as expressed during its July 16, 2004 discussion of the staff report that concluded the Article IV consultation.

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

Selected Issues Paper

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

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

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International Monetary Fund
Washington, D.C.

INTERNATIONAL MONETARY FUND

NIGERIA

Staff Report for the 2004 Article IV Consultation

Prepared by the Staff Representatives for the
2004 Consultation with Nigeria

Approved by Michael Nowak and Carlos Muñiz

June 22, 2004

- **The 2004 Article IV consultation discussions were held in Abuja and Lagos during February 23-March 8 and May 12-19, 2004.** Staff representatives were Mr. Katz (Head), Mr. McDonald (March mission), Mr. Bartsch and Ms. Gobat (all AFR), Ms. Ongley (PDR), Mr. Baunsgaard (March mission), Mr. Villafuerte (May mission) (both FAD) and Mr. Thiam (Senior Resident Representative). The mission collaborated with the World Bank resident mission. Mr. Atoloye (Advisor to Mr. Usman, Executive Director for Nigeria) participated in the March discussions.

- **The mission met with a range of senior officials,** including the Minister of Finance, Minister of Federal Capital Territory, Governor of the Central Bank of Nigeria (CBN), Chief Economic Advisor to the President, Permanent Secretary of the Presidency, and other senior officials. The mission also met with representatives of the oil sector, business community, civil society, and international community in Nigeria, as well as members of the National Assembly and ruling party.

- **At the conclusion of the 2002 Article IV consultation in December 2002**, Directors expressed concern about the inconsistent progress in implementing reforms and the large and persistent macroeconomic imbalances. Directors endorsed the broad economic strategy recommended by staff. In particular, they agreed that, following the elections, it would be critical to formulate a coherent strategy centered on a prudent macroeconomic framework, measures to strengthen economic management, public sector transparency and accountability (starting with the oil sector), and financial sector and public debt management. This would set the stage for more far-reaching reforms to address Nigeria's deep rooted structural challenges.

- **Nigeria has not yet accepted the obligations of Article VIII** (Sections 2-4), but no longer maintains restrictions under Article XIV. Nigeria maintains multiple currency practices.

- **Further information is attached regarding Fund and World Bank relations with Nigeria (Appendices I and II, respectively);** a debt sustainability analysis (Appendix III); the statistical system (Appendix IV); the structural fiscal reform agenda (Appendix V); performance against the Millennium Development Goals (Appendix VI); a matrix of core reform measures of the authorities' NEEDS policy matrix (Appendix VII); a tentative work program (Appendix VIII); and a draft public information notice (Appendix VIX).

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EXECUTIVE SUMMARY

With the long legacy of poor overall macroeconomic management, achieving macroeconomic stability and sustainable growth in Nigeria continues to pose a formidable challenge. Overall economic performance over the past 18 months has been mixed. Real GDP growth accelerated in 2003 due to higher oil production. However, fiscal policy was procyclical, and monetary policy expansionary. As a result, inflation accelerated, international reserves declined and the currency appreciated in real terms.

However, macroeconomic developments in early 2004 have been encouraging, with considerable oil savings achieved through fiscal restraint, signaling a reversal of the expansionary policies of the past. Moreover, the new economic team has quickly articulated its homegrown reform program—the National Economic Empowerment and Development Strategy (NEEDS)—aimed at addressing Nigeria's deep-rooted macroeconomic and structural challenges. Reforms to enhance oil sector efficiency, public sector transparency and accountability, fight corruption, and strengthen the financial sector have been initiated.

The main challenges in 2004 are to restore macroeconomic stability, generate savings from the oil windfall to protect against future oil price declines, and enhance the transparency and predictability of macroeconomic policies. Progress has been made in strengthening the federal budget process, reducing nonpriority outlays, and increasing investments in key priority areas in line with the NEEDS' objectives, such as education, health, agriculture, water, and electricity. The critical challenge facing the authorities is to convince the states to participate in the fiscal rule to save windfall oil revenue. Timely passage of the Fiscal Responsibility Bill would provide the legal underpinning for prudent consolidated fiscal policy at all levels of government.

The conduct of monetary policy will be critical to supporting the disinflation strategy. The CBN should develop a credible communication strategy to enhance accountability for monetary policy. Interest rates should be allowed to adjust, and excess liquidity should be absorbed through market-determined instruments. Reforms also should be considered to strengthen the CBN's independence and further enhance the soundness and stability of the banking system. The exchange rate should be market-determined.

The development of NEEDS signals a clear break in Nigeria's macroeconomic management. NEEDS' commitments are broadly consistent with the recommendations of the 2002 Article IV consultations. Staff strongly supports the authorities' focus on fighting corruption and promoting good governance in public institutions, and welcomes Nigeria's participation in the Extractive Industries Transparency Initiative (EITI) and establishment of the Economic and Financial Crimes Commission (EFCC). However, the challenges facing the government are formidable. Consistent policy implementation will be essential to enhancing prospects for successful reforms. In this context, it would be important to begin the 2005 budget cycle early, develop a medium-term expenditure framework, and accelerate the structural reform agenda, particularly with regard to privatization, unification of the foreign exchange market, and civil service reforms. Staff welcomes the authorities' request to monitor as part of intensified surveillance efforts the implementation of their program on a quarterly basis, and is committed to providing policy advice and helping build institutional capacity in Nigeria.

I. Introduction

1. **Overcoming the long legacy of poor overall macroeconomic management poses a formidable challenge for achieving macroeconomic stability, sustainable growth and poverty reduction in Nigeria.** The high level of macroeconomic volatility brought about by boom-bust oil revenue cycles and procyclical fiscal policies have been a central impediment to achieving macroeconomic stability and sustainable growth. Oil windfall gains have led to rapid increases in government spending, and monetary policy has been accommodative of the pro-cyclical fiscal stance. Along with inflexible exchange rate policies, these procyclical macroeconomic policies have resulted in price volatility, appreciation of the real exchange rate as well as instances of currency instability.

2. **Inefficient public spending and mismanagement of oil revenues have impeded economic and social development.** Substantial increases in public spending over the past three decades have not been matched by an improvement in the country's standard of living. Most poverty and social indicators compare unfavorably to sub-Saharan African averages, with over two-thirds of the population living in poverty. In addition, Nigeria's infrastructure and public utilities are ranked among the worst internationally.[1] Together with the highly unpredictable macroeconomic environment, a protective trade regime, as well as disregard for the rule of law, these inefficiencies have distorted economic incentives, and resulted in widespread corruption and rent-seeking practices, and have adversely affected investment and development of the non-oil economy.

3. **Notwithstanding these challenges, prospects for far-reaching economic and structural reforms have improved significantly since the 2002 Article IV consultation.** In April 2003, Nigeria successfully achieved a peaceful transition from one civilian administration to another, for the first time since independence.[2] President Obasanjo announced a second and final-term commitment to implement far-reaching economic and social reforms, with a view to leaving a restructured, more dynamic Nigerian economy as his fundamental legacy. He subsequently appointed a new team of well-respected economic technocrats, who have moved quickly to define and begin implementing a medium-term reform agenda. **These commitments and appointments to the cabinet, along with the**

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[1] Of 24 countries assessed in the World Economic Forum's Africa Competitiveness Report (2000-01), Nigeria's roads, railways, ports, and airports ranked lowest, and telecommunications second to last. Frequent power outages, recurrent fuel shortages, costly, unreliable telecommunication services and inefficient port services (cargo congestion and high clearing costs) have added sharply to the cost of doing business in Nigeria.

[2] President Obasanjo won the presidential elections with 62 percent of the eligible votes cast. His People's Democratic Party also won the majority of seats in the National Assembly and succeeded at the state assembly and gubernatorial elections. International observers agreed that the conduct of the elections varied widely, with substantial irregularities in some areas. However, they concluded that President Obasanjo would have won the elections in the absence of these irregularities.

People's Democratic Party's (PDP) comfortable majority, present a unique window of opportunity to undertake meaningful reforms in Nigeria—a view shared by the international community. The window for reform is narrow, with the next election cycle expected to begin around mid-2006.

4. **Since mid-2003, the authorities have intensified their dialogue with staff**. Missions visited Abuja during August/September and October 2003 to assist in strengthening the budget process and developing a prudent macroeconomic and budget framework for 2004.[3] Furthermore, the authorities have developed a homegrown reform program—the National Economic Empowerment and Development Strategy (NEEDS), which is broadly consistent with the recommendations from the 2002 Article IV consultation. Most importantly, several recommendations have been implemented at the federal level such as the oil-price based fiscal rule, enhancing governance practices, starting with the oil sector, strengthening the budget process and improving policy coordination through the introduction of the Cash Management Committee. At this juncture, the authorities have indicated they will not seek formal Fund support, but have requested that the Fund monitor the implementation of their economic program on a quarterly basis as part of intensified surveillance efforts.

II. BACKGROUND

Economic performance over the past 18 months has been mixed. Despite favorable developments in the real economy, overall macroeconomic policies have been expansionary. However, the government moved quickly to articulate NEEDS, aimed at addressing Nigeria's deep-rooted macroeconomic and structural challenges. Moreover, macroeconomic developments so far in 2004 have been encouraging, with considerable oil savings achieved, signaling a reversal of the expansionary policies of the past years.

A. Recent Economic Developments

Nigeria: Core Indicators, 2001 - 2003
(Annual percent changes, unless otherwise specified)

	2001	2002	2003
Real GDP (at factor cost)	3.3	1.4	10.9
Non oil sector	4.3	8.0	4.4
Oil sector (incl. gas)	1.4	-11.6	26.5
Consumer prices (avg)	18.0	13.7	14.4
Consumer prices (eop)	16.5	12.2	23.8
Consolidated non-oil primary balance, cash basis (in % of non-oil GDP)	-39.1	-33.5	-34.5
Current account (in % of GDP)	2.6	-11.1	-2.7
Gross int. reserves (US$ billions)	10.4	7.7	7.5

5. **Real GDP growth in Nigeria accelerated in 2003 on account of sharply higher oil** and gas production and continued robust growth in the non-oil economy (Figure 1). Nigeria's oil and gas sector benefited from two Organization of Petroleum Exporting Countries (OPEC) production quota increases early during the year and expanded gas production capacity.[4] The non-oil economy—accounting for 95 percent of the labor force—is responding favorably to recent reform efforts in the area of agriculture

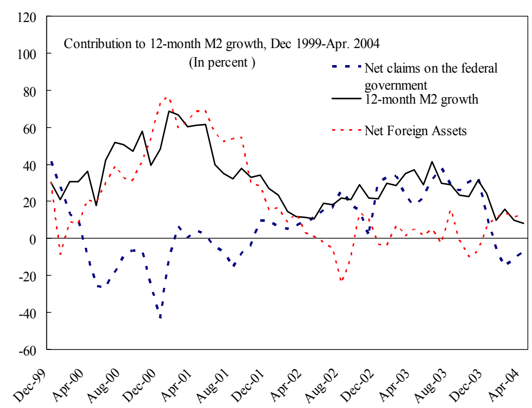
[3] The visits overlapped with joint FAD/World Bank technical assistance missions on budget preparation and pension reform. Additional discussions were held in London in July 2003, and in Washington with the Minister of Finance in late 2003 and early 2004.

[4] Total oil production increased by 25 percent to 2.45 million barrels per day (mbd) in 2003.

and telecommunications. The areas under cultivation and production of key crops have expanded over the past four years. The authorities noted that aside from another good rainfall year and firmer prices, the agricultural sector is reacting positively to initiatives aimed at enhancing harvesting techniques, farmers' access to credit and seedlings, as well as expanding irrigation systems and feeder roads. Due to favorable terms of trade developments, the **external current account deficit** narrowed sharply (Figure 2). This, however, masks rising non-oil import pressures and a widening non-oil external current account deficit.

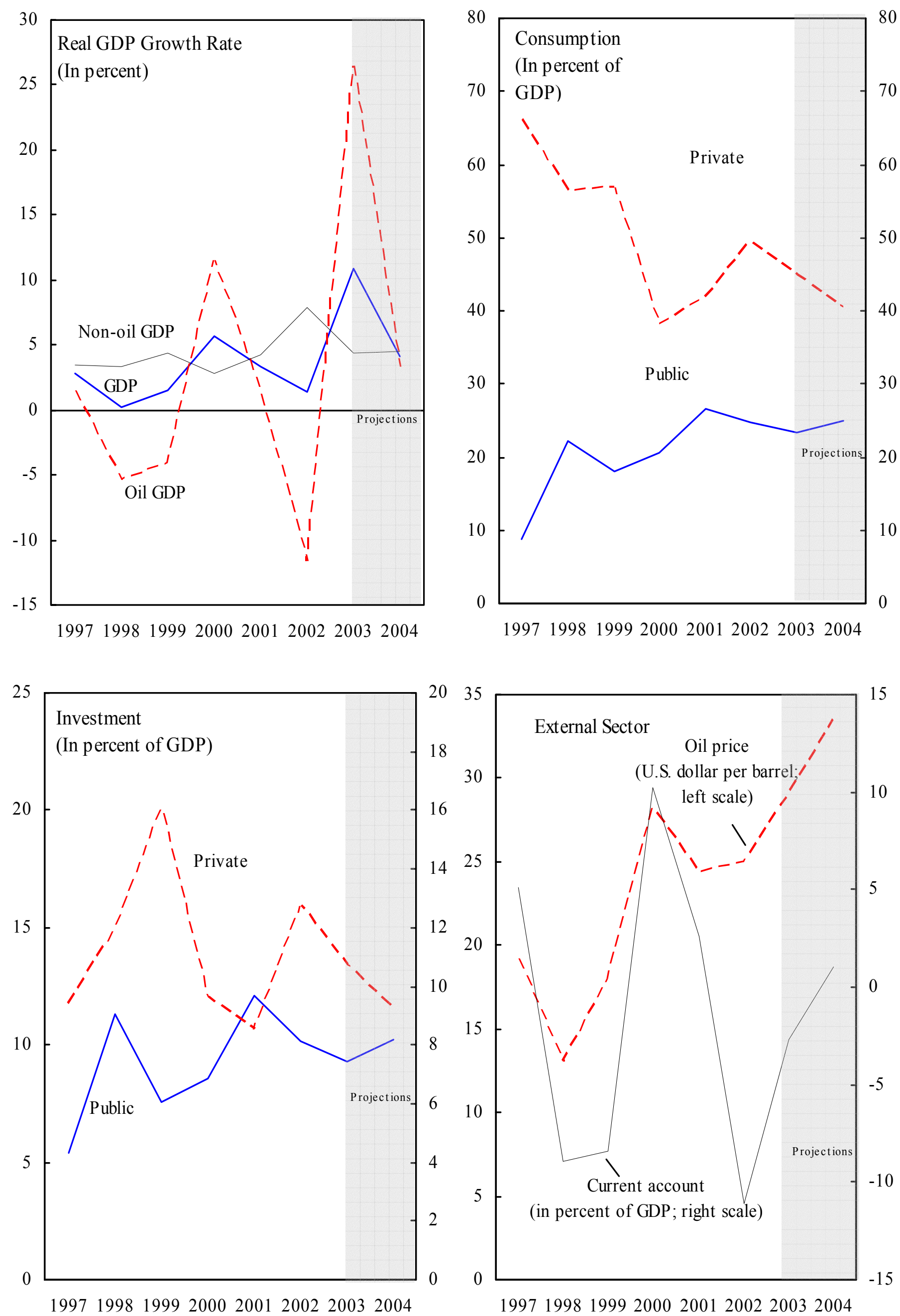
6. **Fiscal policy was procyclical and expansionary in 2003, with the non-oil primary balance deteriorating as a percent of non-oil GDP** (Figure 3). Although the federal government achieved some tightening, this was more than offset by higher spending of the oil windfall by state and local governments (SLGs). The expansionary policies reflected, in part, commitments carried over from 2002, including those related to the national elections and All-Africa games. The overall deficit would have been higher, had the federal authorities not introduced several measures to restrain spending in the second half of 2003, particularly with regard to the capital budget and the supplementary budget that was approved in early December 2003, and enhanced revenue collection.[5] Government oil revenue improved in the final quarter of 2003 after the Nigerian National Petroleum Corporation (NNPC) was required to pay the market price for crude oil allocated for domestic refining.

7. **Monetary policy was expansionary in 2003**. Net credit to the government expanded rapidly in the first three quarters of 2003, as the government borrowed heavily from the banking system, including through its overdraft facility with the CBN. The lax monetary stance permitted a rapid expansion in private sector credit. The CBN also provided liquidity support to weak banks throughout most of 2003. Notwithstanding signs of rising inflationary pressures, and well above target reserve and broad money growth, the CBN reduced the minimum rediscount rate (MRR) to 15 percent in July 2003—MRR is the policy interest rate applied to all transactions within the CBN's discount window—the third reduction within a year. Lax monetary conditions led to a monetary overhang and negative real short-term interest rates by end-2003 and early 2004 (Figure 4).



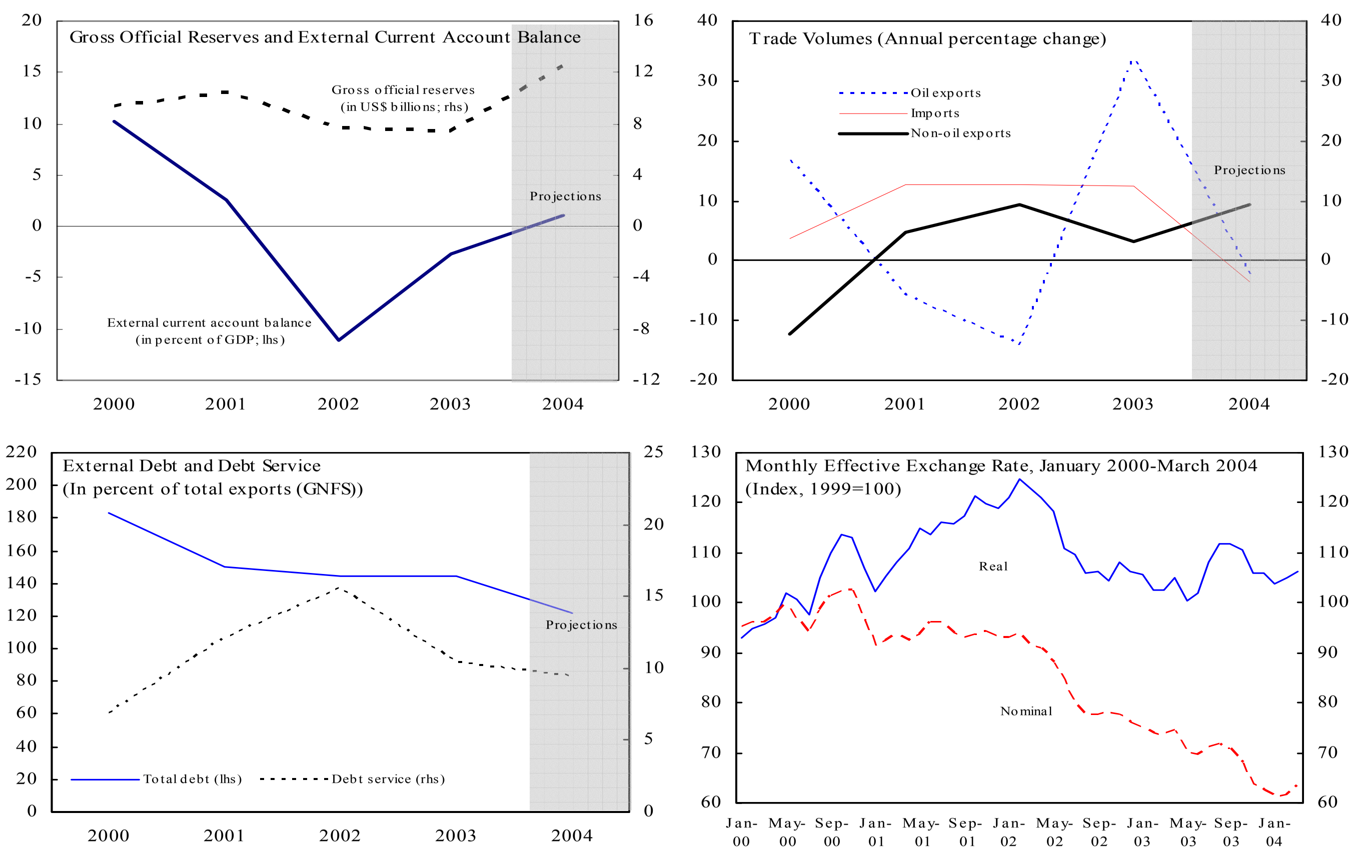
[5] Execution of the supplementary budget was largely limited to domestic debt servicing, underprovided in the 2003 budget. The president announced in June 2003, before the appointment of the new economic team, the monetization of in-kind benefits (such as housing and furniture allowances) and their extension to all federal government employees from a narrow group of senior officials. However, the monetization reforms were postponed to 2004 and reexamined for affordability.

Figure 1. Nigeria: Real Sector Developments, 1997–2004



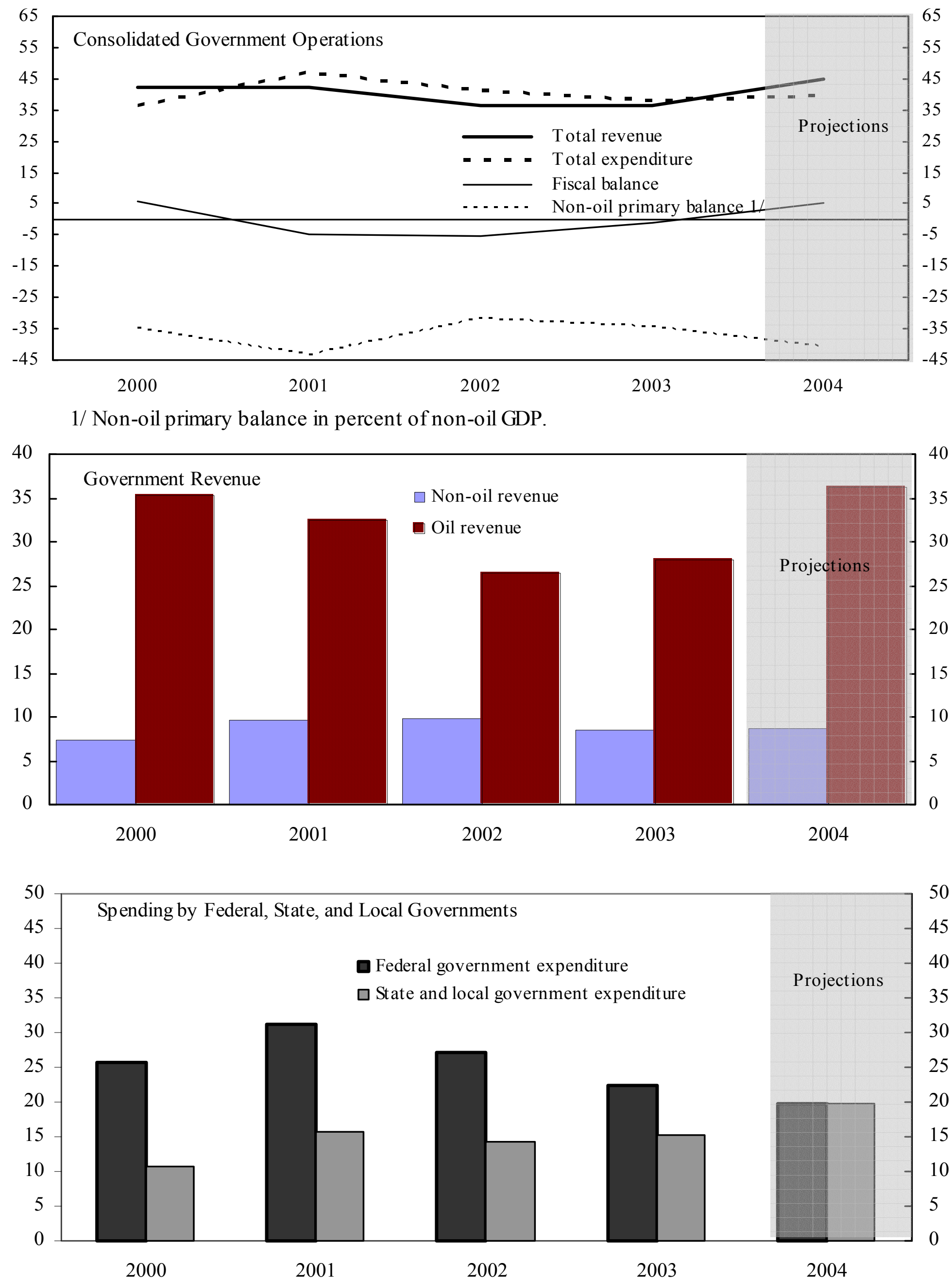
Sources: Nigerian authorities; and Fund staff estimates and projections.

Figure 2. Nigeria: External Sector, 2000-04



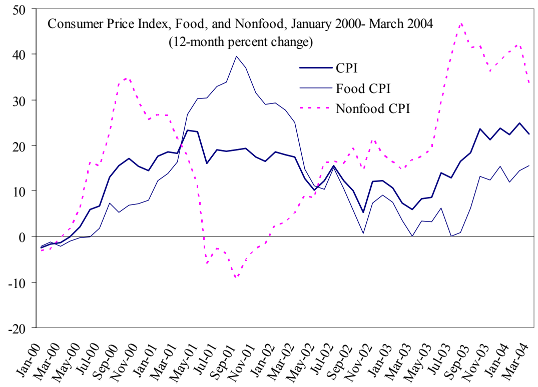
Sources: Nigerian authorities; IMF Information Notice System; and Fund staff estimates and projections.

Figure 3. Nigeria: Consolidated Government Operations, 2000–04
(In percent of GDP)



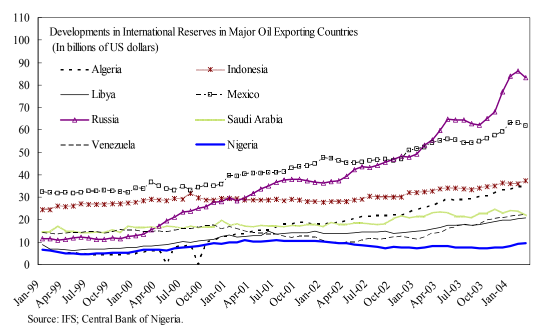
Sources: Nigerian authorities; and Fund staff estimates and projections.

8. **Inflation accelerated in 2003 on the back of expansionary macroeconomic policies and fuel price liberalization** (Figure 5). While nonfood inflation—30 percent of the consumer price index—began to pick up as first quarter of 2003, overall inflation accelerated sharply starting in the second half of 2003 with the government's policies to liberalize gasoline prices. The authorities estimate that fuel price liberalization directly impacted the consumer price index by at least seven percentage points in 2003.[6]



9. **Gross public debt continued to rise as the federal government resorted to a mixture of market-based and monetary financing to finance its expansionary policies**.[7] As a result of further arrears accumulation and valuation effects, external debt increased by US$2 billion to US$32.8 billion at end-2003 (57 percent of GDP).[8] Nevertheless, the authorities made efforts to improve relations with Paris Club creditors, through enhanced dialogue regarding the allocation of cash debt service payments and all but four bilateral negotiations concluded under the 2000 rescheduling agreement.

10. **Despite record high oil revenue**, and in contrast with developments in most major oil exporting economies, **international reserves** continued the downward trend that started in 2002. The decline moderated, following the introduction of the Dutch auction system (DAS) in mid-2002, but the authorities—through higher average DAS sales— resisted a depreciation for most of 2003. Although the CBN allowed for a



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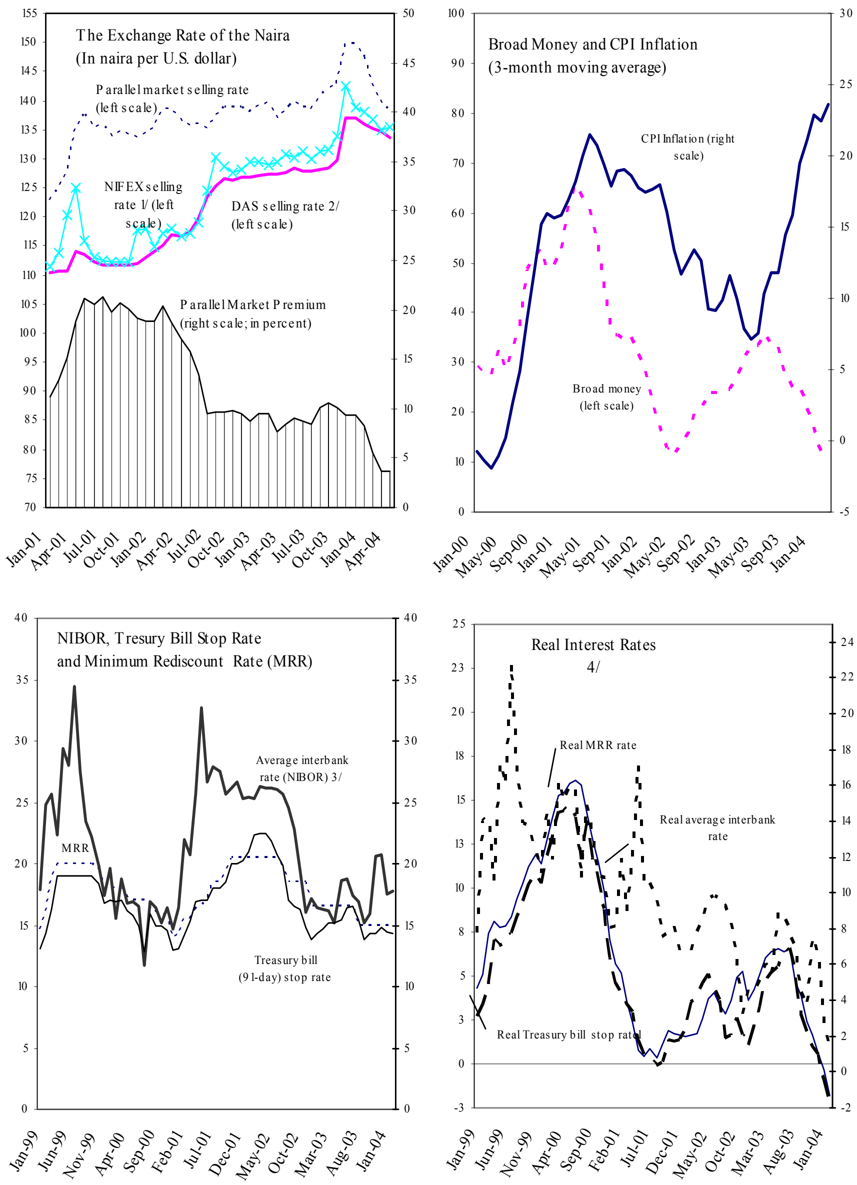
[6] This does not include second round effects. Fuel and transportation account for about 17 percent of the CPI. During 2003, gasoline prices rose at end-June to N 34 per liter from N 26 per liter, in October to N 40 per liter, and in December to N 44 per liter.

[7] The federal government issued N 72 billion in long-term domestic bonds to the market in October 2003—its first bond issue since 1987—and N 92 billion in 91-day treasury bills at end-2003, of which the CBN purchased about 90 percent.

[8] External debt service payments increased to US$1.8 billion in 2003 from US$1 billion in 2002, allowing Nigeria to fully service its commercial and multilateral debt, but still accumulating new arrears of US$1.2 billion in 2003 to Paris Club creditors.

Figure 4. Nigeria: Monetary Indicators, January 2001–April 2004
(In percent, unless otherwise indicated)

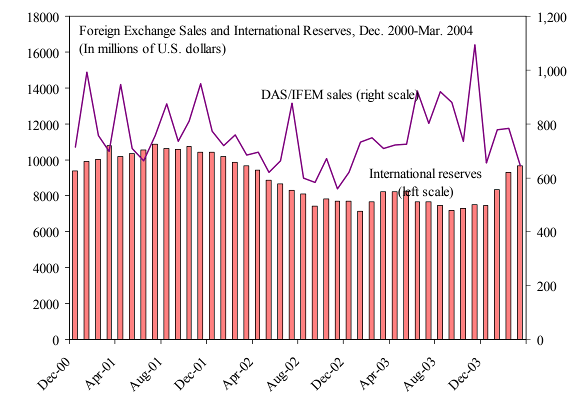


Source: Nigerian authorities, and Fund staff estimates.

1/ The Nigeria interbank foreign exchange index (NIFEX) reflects exchange rate on the open interbank market.
2/ The interbank foreign exchange market (IFEM) and, beginning July 23, 2002, the Dutch Auction System (DAS) represent the official interbank market (the exchange rate reported is the average of the highest and lowest bids).
3/ The interbank interest rate is a weighted average of the 7-day call rate (49 percent weight and the 30-, 90-day rates (20 percent weight each).
4/ Adjusted for annual average consumer price index inflation.

more rapid depreciation in late 2003, reserves fell for the year by US$213 million to US$7½ billion (3.8 months of imports). In line with the terms of trade improvement, expansionary fiscal stance and higher DAS sales, the **real exchange rate** has appreciated by 6 percent since end–2002, and remains about 11½ percent above its 1999 level (when it was generally considered correctly aligned).

11. **Macroeconomic conditions improved considerably since late 2003, due largely to fiscal prudence** (and the delay in appropriating the 2004 budget). The fiscal restraint that began in the last quarter of 2003 continued in the first four months of 2004. Around US$1.3 billion in oil revenue has been set aside by all tiers of government during this period. The fiscal restraint allowed a net repayment by the government to the banking system. In addition, the CBN shifted to daily open market operations—introduced in November 2003—which has helped lower excess liquidity in the banking system. Consequently, 12-month growth in broad money slowed considerably in the first four months, and foreign exchange market pressure eased, facilitating a sharp increase in gross international reserves to US$10 billion at end-April 2004, and a narrowing of the parallel market exchange rate premium to 4½ percent. In addition, inflation moderated in the first quarter to 22½ percent at end-March 2004.



12. **Structural reform efforts have been positive since mid-2003.** Several initiatives to improve oil sector efficiency and enhance public sector transparency and accountability were introduced as part of NEEDS (see below). First, the price subsidy to the Nigerian National Petroleum Company (NNPC) on its domestic crude allocation was eliminated in October 2003. Furthermore, prices on retail petroleum products were liberalized. The president also replaced the Group Managing Director of NNPC, a move widely seen as enhancing the efficiency and transparency of NNPC. Second, the authorities volunteered to participate in the EITI and agreed to participate in the African Peer Review Mechanism of the New Partnership for Africa's Development (NEPAD) and the G8 transparency initiative. Third, the financial sector and the payment system were strengthened in line with Financial Sector Assessment Program (FSAP) recommendations (Box 1).

13. **Overall trade protection, however, increased due to ad hoc changes to Nigeria's trade regime**. While Nigeria's tariff structure and the tariff gap with its trading partners remain largely unchanged,[9] numerous import bans were introduced,[10] leaving its rating on the

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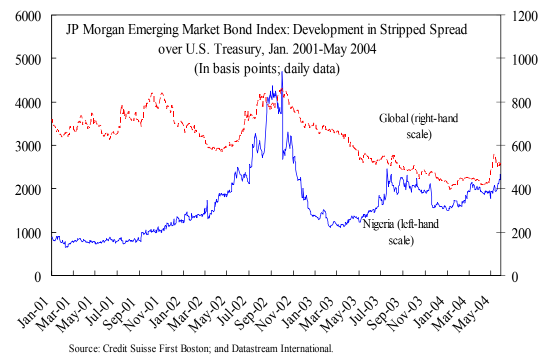
[9] Some effort was made in 2003 to reduce tariffs applied to certain goods which would have led to a lowering of the weighted average tariff.

Fund's trade restrictiveness index unchanged at 8 out of 10. However, the authorities have launched a formal review of the trade regime, with a view to streamlining Nigeria's tariff structure from 20 to 4 tariff bands (0, 5, 10 and 20 percent) in line with the Economic Community of West African States' (ECOWAS) common external tariff. These reforms are expected to take effect in mid-2004. Nonetheless, the authorities indicated that they would continue to use import bans as a protective instrument.



14. **Confidence in the Nigerian economy has improved since the elections, and with the appointment of the new economic team**. Nigeria's spread over the overall JP Morgan Emerging Market Bond Index Global has tightened by about 550 basis points since April 2003.

B. NEEDS and Initiation of Reforms

15. Within a relatively short time frame, the authorities have developed a comprehensive strategic vision for addressing Nigeria's deep-rooted macroeconomic and structural problems. NEEDS is Nigeria's federal government homegrown poverty reduction strategy that aims at achieving higher sustainable economic growth, lasting poverty reduction, and meeting the Millennium Development Goals (MDGs).[11] It signals a clear break from past practices of economic policy formulation: it is both wide-ranging in scope and specific in identifying key objectives, accompanying measures, timing and accountable agencies.

16. **The NEEDS priorities are broadly consistent with the recommendations of the 2002 Article IV consultation and, if implemented effectively, should lay the foundation for sustainable economic growth.** The core objectives are to create an environment conducive to investment, growth of the non-oil economy and poverty reduction by (i) achieving macroeconomic stability through the implementation of a transparent, rules-based fiscal framework and the adoption of a market-determined exchange rate system;

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[10] The current import prohibition list includes 28 categories banned for importation for commercial or retail purposes and 19 categories banned for commercial and personal use.

[11] See Appendix VI for the MDG goals and VII for the draft NEEDS policy matrix outlining key reform areas such as the macroeconomic framework, public expenditure and governance reforms, the fight against corruption, and privatization. Following consultations with stakeholders, NEEDS is expected to be cleared by the Federal Executive Council, President and National Executive Council, and then endorsed by the National Assembly around July 2004.

Box 1. Financial Sector Reforms

Since late 2002, the authorities have strengthened the overall effectiveness of the financial sector—including the payment system—in line with the recommendations of the 2002 FSSA report. The authorities have not addressed forcefully the problem of distressed banks, however. In part, this reflects weaknesses in the court system as well as some political interference in the process. Several reforms to upgrade the financial infrastructure are expected to go into effect in the third quarter of 2004. These should help improve banking supervision and effectiveness of liquidity management. The key reforms introduced or planned include:

- From January 1, 2004, the risk-weighted capital adequacy ratio was increased from 8 percent to 10 percent. Banks' minimum capital will be raised from N 1 billion to N 2 billion at end-2004. Banks raised their capital largely through rights issues.
- Consolidated banking supervision was enhanced through establishing the Financial Services Coordination Committee (including staff from the CBN and NDIC) and developing a common manual governing procedures for supervision, examination and assessment. The CBN and Nigeria Deposit Insurance Corporation (NDIC) have begun supervising the financially weak community banks.
- Amendments to the Banking and Other Financial Institutions (BOFI) Act are planned, but not yet signed into law by the National Assembly, to bring Nigeria's regulatory and supervisory framework in compliance with Basle Core Principles and FSAP recommendations.
- The CBN has strengthened regulations governing insider lending and large shareholders (e.g., defining lending to large shareholders and directors as part of insider lending) with stiffer penalties (e.g., loss of equity stake in the bank) for misreporting and noncompliance.
- All 21 CBN branches have been linked electronically under the wide area network since late 2003. This has helped improve day-to-day liquidity operations as the CBN can now capture daily consolidated movements of all bank deposits with the CBN headquarter and its branches.
- On April 1, 2004, a new settlement system went into effect. A small number of sound banks are now responsible for the clearing system. This is expected to reduce the incidence of overdrawn balances with the CBN, enhance monetary control in the process, and result in consolidation of the banking industry.
- Several important reforms will go into effect in the third quarter of 2004, including the real time gross settlement system (RTGS); global bank reporting system (Globus system); and electronic Banking Analysis System (eBAS). This will give the CBN access to daily bank returns, and allow a move to average reserve requirements. It would also allow the authorities to capture on a daily basis banks' naira and foreign exchange positions (including open positions), and better assess impact of open market operations on base and broad money. The eBAS also would help banking supervision, while moving toward RTGS would reduce settlement risks. The cost of developing RTGS is being borne by the CBN.

The authorities have requested a follow-up FSAP mission in order to assess progress made since the last assessment and identify further areas for strengthening.

(ii) enhancing the effectiveness and efficiency of public spending through public expenditure management, procurement and civil service reforms, and reorienting public spending toward pro-growth and pro-poor priorities such as water, electricity, roads, agriculture, health and education; (iii) promoting the private sector by addressing acute infrastructure bottlenecks, privatizing and deregulating the utilities and transportation sectors, liberalizing the trade regime, and strengthening the financial sector; and (iv) addressing systemic corruption and rent-seeking behavior through improved transparency and accountability of all public institutions. However, NEEDS falls short on spelling out the role of monetary policy and the financial sector in overall macroeconomic management and economic development in the Nigerian economy.

17. **NEEDS aims at achieving a medium-term annual growth of 7–8 percent in the non-oil economy, equivalent to real per capita income growth of about 4 percent, while maintaining single digit inflation, raising gross international reserve coverage to 7–8 months of imports (goods), and reducing the public debt burden to sustainable levels**. Such sustained high growth rates are necessary to halve poverty by 2015 to meet the MDGs.[12] The authorities estimate that about 7 million jobs will need to be created between 2004–2007 to absorb those currently under- and unemployed and those expected to join the labor force. They also note that policies to stimulate the rural economy will be critical as more than half of the population lives in rural areas where poverty remains widespread and deep.

18. **Central to the government's reform efforts is the emphasis on strengthening the accountability and transparency of public policies, fighting systemic corruption in public institutions, and enforcing the rule of law**. The authorities believe that weak governance practices have considerably eroded the effectiveness of public institutions and policies in Nigeria, and have been a root cause for Nigeria's poor economic performance and stalled reform efforts. In the area of fiscal reforms, important guidelines have been established to improve the process underlying the formulation, presentation, and implementation and monitoring of the 2004 budget (Box 2). In addition, several critical reforms have been launched to enhance transparency and tackle systemic corruption (Box 3). The key reform priorities in NEEDS on the budget process, civil service, privatization and deregulation, trade, debt management, governance as well as the financial sector are discussed in Chapter 3.

19. **The federal government has initiated discussions with subnational governments on a nationally coordinated reform strategy**. With half of the oil-related revenue transferred to the lower level of governments, policy coordination between the three tiers of government will be critical in achieving NEEDS' objectives. The subnational governments have, in principle, agreed to develop their own reform agenda—State Economic Empowerment and Development Strategy (SEEDS). This is intended to create, for the first

[12] The World Bank estimated in 1999 that about 70 percent of Nigeria's 130 million people live below US$1 a day.

Box 2. Budget and Fiscal Transparency Reforms

Under new leadership, the Ministry of Finance (MOF) has been at the forefront of the reform initiatives in Nigeria. Several steps have been taken to strengthen their ability to implement sound and consistent fiscal policies, and to enhance the predictability and transparency of fiscal policies. The MOF, along with the Bureau for Public Services and other agencies, has taken the lead in reforming the public expenditure management system with the aim to identify wasteful spending and reorient government priorities toward policies and programs that are pro-poor and pro-growth. Several of the budget process reform initiatives reflect recommendations of previous FAD missions and of the joint FAD/World Bank technical assistance mission that was conducted in August 2003 on budget preparation. Main reforms that have been undertaken over the past 9-12 months:

- The Budget Office of the Federation's (BOF) capacity has been upgraded through the hiring of qualified professionals. For the first time, a fiscal strategy paper has been put together for the preparation of the 2004 budget. This paper specified priorities and realistic macroeconomic assumptions, which facilitated internal discussions on trade-offs and priorities.

- The National Assembly was consulted early in the budget formulation process. This helped to improve working relations between the executive and legislative branches which had been a major reason for delays and unrealistic budgets in the past.

- As part of the fiscal strategy paper, indicative capital budget ceilings were set to help rationalize and streamline projects. Criteria for selecting projects were established (high completion rate, due process certification, and alignment with government priorities). Certain areas were given top priority, including agriculture, primary education, basic health, power, roads, and water.

- The Economic Team, headed by the president and including high level government officials involved in economic policy making, now meets on a weekly basis. In addition, a high level Cash Management Committee (CMC) was established to monitor and reconcile monthly expenditure releases and strengthen overall budget execution, and determine borrowing requirements.

- Major spending ministries have been asked to develop performance indicators and report on a monthly basis. A special monitoring unit was established for the largest capital projects.

The authorities upgraded the budget speech, and for the first time produced a budget overview booklet (following similar practices in Canada and South Africa). They also announced the intention to publish quarterly budget reports and the audited accounts of the federal government. This information, including the NEEDS policy matrix, can be found on the MOF's website: http://www.fmf.gov.ng.

Box 3. Transparency and Anti-Corruption Reforms

The authorities have undertaken several initiatives to enhance the transparency of public policies and the use of public resources as well as to fight corruption.

The authorities announced their participation in the **Extractive Industries Transparency Initiative** (EITI) in mid-2003. They have since established a broad-based stakeholder working group and developed terms of reference for a comprehensive independent audit of the oil sector (including the government's oil accounts, NNPC, and international oil companies). An internationally reputable auditor is expected to be selected by mid-2004. The Ministry of Finance has also established a unit to support EITI-related activities and strengthen its ability to forecast oil revenues.

The government has also agreed to participate in the **G8 Transparency Initiative**. Furthermore, the authorities have begun publishing on a monthly basis the revenue sharing among the three tiers of government.

The government also announced plans to **reform NNPC** and make it commercially oriented. As a first step, NNPC is now required to pay market prices for crude oil allocated for domestic production. NNPC's executive director was replaced and 10 percent of the workforce (1,400 workers) was retrenched in November 2003.

In terms of **public sector accountability** more generally, efforts are under way to reduce rent-seeking practices in customs, including a more streamlined management structure and a new Comptroller-General. Procurement reforms and extending due process to all ministries and parastatals are being pursued to reduce the government's operating costs and strengthen governance.

As part of their anti-corruption campaign, the Anti-Money Laundering (AML) Act was amended, and a Financial Intelligence Unit was established in January 2004 within the **Economic and Financial Crimes Commission** (EFCC), to investigate crimes under the Act. The authorities have requested technical assistance from LEG to review recent reform efforts in this area. Since its inception about a year ago, the EFCC has pursued aggressively the so-called "419" fraud and other crimes. Currently, 53 cases are under prosecution and about N 10 billion has been recovered. The EFCC's staff increased from 80 to 315, and its budget for 2004 doubled.

The **Independent Corrupt Practices Commission**'s (ICPC) existing 55 plus cases include several high profile cases of ministers, top civil servants, and judges. Also, the ICPC legislation was amended to allow for accelerated prosecution.

time, a coordinated macroeconomic policy framework, including sectoral strategies in priority areas (e.g., agriculture, basic health, primary education, roads, and water) and more clearly spelled out roles and responsibilities for the various tiers of government.

III. Report on the Discussions

20. **Discussions focused on short- and medium-term challenges as well as the appropriate policies to implement NEEDS**. Key parts of the economic strategy for 2004 is to reduce macroeconomic volatility, lower the inflation rate, generate savings from the oil windfall to protect against future oil price declines, and enhance transparency and predictability of macroeconomic policies. Overall, the implementation of a rules-based fiscal policy and a reserve money targeting framework would remove an important source of volatility and support the authorities' disinflation strategy. However, the critical challenge will be convincing all subnational governments to participate in the rules-based fiscal policy framework and having the CBN assume the leading role in the disinflation strategy.

21. **Given the magnitude of challenges and institutional capacity constraints, the discussion also centered on the need for prioritization and sequencing**. Entrenched governance concerns continue to portend significant risks for reform implementation. However, early policy actions aimed at promoting a streamlined and more effective government will require significant coalition building. For example, the authorities cited the need for broad-based support at all tiers of government, in order to receive approval for the proposed Fiscal Responsibility Bill. Hence, the immediate focus will need to be on a few meaningful reforms yielding the highest returns, to further garner public support.

A. Short-Term Outlook

22. **Overall, staff shared the authorities' view that the short-term outlook will be dominated by developments in the oil sector and fiscal policy implementation**. Staff concurs with the authorities' macroeconomic projections for 2004, including the overall GDP growth projection of 4.1 percent in 2004. This assumes average crude oil production of 2.5 mbd, slightly higher than the production level achieved in 2003. With a favorable outlook for oil prices, the external current account should move into a small surplus and gross international reserves would increase to US$12.5 billion (6.1 months of imports). Tighter monetary policy is aimed at reducing inflation to a 10-13 percent range by end–2004. However, the projected widening of the consolidated non-oil primary deficit makes it more difficult to achieve this target.

B. Fiscal Policy

23. **While the 2004 federal budget entails a tightening of fiscal policy, the consolidated fiscal stance is projected to remain expansionary**.

- The federal budget for 2004—signed into law by the President on April 21, 2004—aims at achieving substantial savings in oil revenue and a large cash surplus. The budget was framed at the conservative oil price of US$25 per barrel, and the crude oil production level of 2.5 mbd.[13] The federal government will save oil revenue in excess of this benchmark price and production level (equivalent to 4½ percent of GDP). At a projected average oil price of US$33.5 per barrel, there would be a cash surplus of about 4 percent of GDP for the year—an historical achievement, resulting also in a lower net public debt burden.[14]

- Whereas the consolidated overall balance is projected to reach a sizable cash surplus, the fiscal stance would be expansionary, reflected in the sharp deterioration of the non-oil primary balance as a percent of non-oil GDP.[15] This assumes that along with the federal government 12 out of 36 states will save the windfall oil revenue in excess of the benchmark price and production level. The Federal Government has reached informal understandings with these states to save the windfall oil revenue, and is seeking similar understandings with the remaining states. The oil export revenue windfall, equivalent to about US$ 4.7 billion, would be fully sterilized through the accumulation of savings deposits with the CBN. Full state participation would be needed to ensure an improvement in the non-oil primary balance.

Nigeria: Federal Government Budget, 2002-2004
(in percent of GDP, unless otherwise indicated)

	2002	2003	2004	
		Est.	Proj.	
Oil price (in U.S. dollars per barrel)		29.0	25.0	33.5
Total revenue 1/	13.4	13.4	12.7	17.2
Petroleum revenue (net of cash calls)	9.0	9.8	8.7	13.3
Nonpetroleum revenue	4.3	3.6	3.9	4.0
Total expenditure	19.0	14.7	13.4	13.5
Recurrent expenditure	13.3	11.1	9.5	9.5
Goods and services	8.5	6.8	5.8	5.8
Interest payments	3.8	3.2	2.6	2.7
Transfers 2/	1.0	1.1	1.0	1.0
Capital expenditure	5.6	3.5	4.0	4.0
Overall balance (cash basis)	-5.6	-1.3	-0.8	3.7
Non-oil primary balance (in percent of non-oil GDP)	-18.1	-14.6	-12.9	-12.9
Financing	5.5	1.1	0.8	-4.9
External	-1.9	-1.7	-1.2	-1.2
Domestic financing	7.1	2.4	1.0	-4.6
Privatization proceeds	0.3	0.0	0.0	0.0
Recovered funds	0.0	0.4	0.9	0.9
Statistical discrepancy	0.0	-0.2	0.0	-1.2
Memorandum items:				
Consolidated Overall balance (Cash basis) 3/	-3.6	0.1	0.1	6.8
Consolidated Non-oil primary balance (in percent of non-oil GDP) 3/	-33.5	-34.5	-33.3	-40.9

Source: Authorities and staff estimates
1/ Oil revenue net of cash call payments..
2/ Excluding transfer to the NNPC for cash call payments.
3/ This assumes that 12 out of 36 states participate in the price-based fiscal rule.

[13] The Executive budget proposal was initially framed at an oil price of US$ 23 per barrel, but this was subsequently revised upwards to US$ 25 per barrel by the National Assembly. The budget is based on 2.24 mbd crude oil production by the joint ventures between the NNPC and international oil companies and 0.26 mbd in production through alternative licensing arrangements to reach 2.5 mbd.

[14] The 2004 budget provides for cash debt service payments of US$1.8 billion, implying a further accumulation of external arrears to Paris Club creditors. The authorities are discussing with creditors the allocation of cash payments for 2004.

[15] The non-oil primary balance more appropriately reflects discretionary fiscal policy, and hence, is a better measure of the fiscal stance in an oil-producing economy such as Nigeria (see IMF Working Paper 02/177; Washington: International Monetary Fund).

24. **In line with the priority areas under NEEDS, the budget allows for higher non-oil investments** and key measures have been introduced to control government consumption: (i) limit monetization to existing recipients of in-kind benefits; (ii) enforce a civil service hiring freeze and conduct a payroll audit and physical verification of personnel in selected ministries; (iii) impose a hard budget constraint on federal parastatals; (iv) allow for pension payments to all retirees while developing an equitable and affordable strategy for clearing pension arrears; and (v) reduce overhead costs.

25. **Budget execution will be the critical test**. Discussions with the authorities focused on ways to strengthen budget execution and monitoring. Several of the staff recommendations to strengthen budget execution have been implemented. In particular, in early 2004, a Cash Management Committee (CMC) was established to monitor and reconcile monthly expenditure releases and determine borrowing requirements consistent with cash flow projections. The authorities noted that the CMC had been effective in ensuring fiscal restraint in the first four months and enhancing the transparency and certainty on timing of cash releases. Furthermore, with the assistance of staff, the authorities have developed quarterly paths for fiscal spending, revenue, and financing for monitoring the execution of the 2004 federal budget.[16]

26. **The authorities also recognize the risks posed by the pro-cyclical spending of subnational governments.** They noted that although excess oil proceeds from all three tiers of government had been set aside for the first four months, there remains the risk that the oil windfall will be spent. In their view, it would be prudent to assume for the baseline scenario that only 12 states will save the oil windfall in 2004. Gaining momentum to increase state participation is critical to achieving macroeconomic stability and will depend on a number of factors. Allowing the states to keep individual savings accounts at the CBN would be helpful, but for this to be meaningful, understandings on the triggers for use would need to be reached. The authorities reiterated the importance of the timely finalization and passage of the Fiscal Responsibility Bill, as this would provide the legal foundation for applying more formally a fiscal rule at all levels of government over the medium term. The consultative process with SLGs has already begun and presentation of the Bill to the National Assembly is expected in late 2004.

C. Monetary and Exchange Rate Policy

27. **Monetary policy has been operating in a highly volatile environment with fiscal dominance.** Under the new economic leadership and with commitment to fiscal prudence, staff discussed with the CBN the monetary framework for 2004 to ensure consistency with the disinflation objective and the need for the CBN to assume the leading role.

[16] A temporary domestic borrowing need may arise in the second quarter largely because of the bunching of the capital budget and the federal government's reluctance to draw on the oil revenue saved during the first four months, which has been placed in a blocked account with the CBN. If warranted, the authorities indicated that they plan to cover this financial need by going to the market and temporarily using its overdraft facility with the CBN.

28. **The CBN has developed a quarterly monetary framework consistent with the authorities' fiscal and macroeconomic framework**. The 2004 monetary program targets a twelve-month reserve money growth of about 8 percent and broad money growth of 16 percent, which is consistent with lowering inflation to a 10-13 percent range by end-2004.[17] The expected large cash surplus in 2004 by the federal government would result in a sharp decline in net claims on the federal government by the banking system and allow for an increase in international reserves. As designed, the monetary program provides for adequate private sector credit growth and gross international reserve accumulation of about US$5 billion. A key objective for 2004 is the rebuilding of international reserves to reduce the economy's vulnerability to sharp movements in the international price of oil.

29. **While staff considers the CBN's quarterly monetary policy framework appropriate, it pointed to the risks of achieving the end-2004 inflation target**, namely: (i) the expansionary fiscal policy stance at the consolidated level is not supportive of the disinflation process; (ii) inflation expectations may be deeply entrenched given the weak track record on macroeconomic stability; (iii) the component of the price index that may be directly affected by monetary policy is relatively small given the large share of food in the price index; (iv) the quarterly reserve money path is sensitive to assumptions on the money multiplier and velocity—both of which have displayed sharp variations; and (v) the CBN may lack instrument independence to pursue the disinflation objective.

30. **Staff discussed the implications of a situation in which the 12 states do not save the oil windfall.** This would result in an additional N 180 billion in monetized oil revenue, equivalent to 30 percent of end-March 2004 base money. The authorities indicated that they would mop up the increased liquidity through open-market operations, including, if warranted, the possibility of issuing CBN bills as they did in early 2001. They stressed, however, that if fiscal policy were to loosen significantly, it would be politically difficult for them to raise the MRR as this could lead to higher interest rates and be detrimental to NEEDS' objectives of higher economic growth. CBN officials would instead favor corrective fiscal measures. They emphasized that they would consider using direct controls such as raising the cash reserve requirement (CRR) and/or shifting of deposits of nonfinancial public enterprises from commercial banks to the CBN as well as allow for lower accumulation of net international reserves.

31. **Staff acknowledged that if all states were to spend the oil windfall, achieving the end-year inflation target could be costly to the non-oil economy.** In this event, there could be scope for some relaxation of the reserve money and international reserve targets while allowing for a higher inflation range. However, these deviations should be kept to a minimum, and it would be critical that the exchange rate and interest rate be allowed to adjust as needed to meet the authorities' targets. In this regard, staff stressed that the CBN's reluctance to raise the MRR in response to excess liquidity in the financial system was inconsistent with the reserve money targeting program and would undermine the disinflation

[17] CBN's operational inflation target is 11½ percent—the midpoint of the inflation target range. Reserve money declined by 7.8 percent in the first quarter of 2004.

objective. Staff further pointed out that raising the CRR and/or shifting the deposits of the public enterprises to the CBN would result in higher interest rates. Staff further stressed that such operations would be ineffective if the MRR were not allowed to adjust in line with tighter money market conditions as banks would have the incentive to turn to the CBN's discount window, undermining reserve money targeting.[18]

32. **Staff underscored the importance of allowing the exchange rate to be market-determined.** Since the real exchange rate could appreciate further owing to the terms of trade improvement and expansionary fiscal policies at the consolidated level, it would be important that the CBN avoid exerting additional upward pressure through excessive foreign exchange sales.

33. **More generally, staff highlighted the uncertainties in dampening inflation expectations and the importance of establishing a credible monetary program.** In this regard, regularly communicating the objectives, instruments and stance of monetary policy to the public would be critical. An effective communication strategy would (i) assess the monetary and inflation outlook; (ii) where applicable, explain the reasons for deviations in performance and the implications for the disinflation objective as well as policy measures to bring monetary policy back on track; and (iii) monitor closely economic indicators (such as parallel market premium and foreign exchange demand) that contain forward-looking information on inflationary expectations. The CBN representatives felt that their existing practices fulfilled many of these objectives, but staff contended that the information made available to the public should go beyond a general description of the movement of policy variables and focus more on an analysis of the factors driving monetary and inflation developments, and the policy response. Subsequently, the CBN agreed to reassess its communication policy.

34. **Staff also encouraged the CBN to consider further reforms to strengthen the conduct of monetary policy and the CBN's de facto independence.** More restrictive access to the discount window—by raising the cost of borrowing from the CBN above the interbank offer rates and above treasury bill rates—would strengthen the CBN's control over its reserve money base. Staff also recommended that the CBN advances to the federal government be reduced with the statutory limit on the overdraft facility gradually lowered from 12½ percent of current year projected revenues to 5 percent, in line with limits set in other African countries, and subsequently phased out. This would remove an important source of base money creation. Finally, the domestic debt management reform should permit the CBN to completely remove itself from the primary government securities market.

35. **Nigeria's foreign exchange markets are still segmented and a source of distortion**.[19] Nigeria is one of a few remaining countries with multiple markets and

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[18] On occasion, the MRR fell also below the treasury bill rate, creating an arbitrage opportunity for banks.

[19] There are two main markets—the Dutch Auction System (DAS) and the interbank market. There is also a Bureau de Change and a parallel market. Funds are not transferable between

(continued)

administrative and documentation requirements for purchasing foreign exchange are onerous.[20] Staff stressed the need to unify the foreign exchange markets and reduce the parallel market premium. Staff discussed the possibility of transforming the current retail foreign exchange auction to a wholesale auction, allowing banks to bid for foreign exchange on their own account and transact these resources among themselves. This would call for measures to strengthen prudential regulations on working balances, open positions, and reporting requirements. The authorities indicated that they had considered this option and their intention was to unify the foreign exchange markets, but felt that further technical assistance was needed to first strengthen the underlying market infrastructure. The CBN favored technical assistance that could jointly review foreign exchange and domestic liquidity management practices.

36. **Eliminating the parallel market premium will require complementary structural reforms, including streamlining foreign exchange documentation requirements and implementing trade reforms**. Staff observed that unifying foreign exchange markets would likely involve a modest exchange rate depreciation which could make the disinflation process more challenging.

37. **The authorities indicated their commitment to wider regional integration within the planned West African Monetary Zone (WAMZ), but clarified that these commitments do not yet constitute a legally binding agreement**. Staff suggested that moving to a fixed exchange rate by 2005 may not be feasible in light of lack of convergence of WAMZ economies and the asymmetric nature of external shocks. Although the establishment of fiscal discipline should help, the need for foreign exchange market unification and greater exchange rate flexibility to absorb shocks in Nigeria may be inconsistent with the conditions for joining a currency union.

D. Proposed Intensified Surveillance Framework

38. **The authorities believe that a formal Fund arrangement at this juncture would be politically unacceptable, but that they would strongly benefit from an enhanced dialogue with the Fund**. In their view, Fund policy advice and technical assistance in key reform areas are critical in helping them build capacity and ensure consistency of policy implementation. As such, they have asked staff to assist them in developing a quarterly fiscal

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the markets. The existence of an official exchange rate, together with the interbank rate gives rise to multiple currency practices in the absence of a mechanism to ensure that spreads between the official rate and the other rates do not exceed 2 percent at any given time. Similarly, the DAS, because it is a discriminatory auction, gives rise to a multiple currency practice. These practices are subject to Fund approval under Article VIII. The authorities also have not indicated immediate plans to accept the obligations of Article VIII.

[20] For instance, under the DAS, banks purchasing foreign exchange on behalf of their clients (end-users) are required to provide multiple documents to verify the "legitimacy" of "approved" transactions, and make detailed reports on the uses of the foreign exchange.

and monetary framework for their program and evaluate its implementation on a quarterly basis. Staff agreed to the authorities' request for intensified surveillance on the following basis:

(i) The authorities' 2004 macroeconomic program and structural reform agenda as described in this report—in particular, the quarterly projected budgetary and monetary paths (Tables 7, 8a and 8b) and a matrix of structural reforms in key areas of NEEDS (Appendix VII)—would provide the basis for the assessment;

(ii) The program and quarterly framework is wholly that of the authorities and has not been negotiated with staff;

(iii) Staff would visit Nigeria each quarter and would prepare six-month reports for the Executive Board's information, which will assess developments, focusing on core areas of Fund competence, update risks relating to the authorities' program, and in that light, provide advice on the policy changes that may be needed; and

(iv) Publication of these reports would not be required, but staff understands that the authorities plan to publish both this Article IV and subsequent interim staff reports.

39. Staff underscored the importance of timely and regular provision of key macroeconomic data.

E. Medium-Term Prospects

40. **Staff considers that NEEDS provides the basis for improved medium-term economic prospects in Nigeria**. Staff agreed with the overall policy thrust of NEEDS, but cautioned against overly optimistic medium-term growth projections, suggesting that it may take time to translate NEEDS into higher savings, investment and productivity gains. Substantially higher savings will be forthcoming when stability in policy-making firmly takes hold, financial sector soundness improves, and the government builds a credible track record of economic performance and good governance. Hence, staff was inclined to be more cautious about the supply response and prospects for accelerated growth.

41. **Staff's baseline scenario projects growth to average 5 percent over the medium term**, and assumes that the non-oil sector reaches its potential growth of 5–5½ percent as the private sector, in particular agriculture, responds to market-oriented reforms. The baseline scenario assumes that the Fiscal Responsibility Bill is signed into law by 2005 and that all subnational governments introduce an oil price-based rule by 2006. As such, the consolidated fiscal stance gradually converges to balance at the oil price of US$20 per barrel by 2008–09.[21] At the federal government level, capital spending increases to 5 percent of GDP, with a higher pro-poor and pro-growth content, while payroll and overheads decline in line

[21] For a further discussion on the application of the permanent oil price-based rule in Nigeria, see Nigeria: Selected Issues and Statistical Appendix, IMF Country Report No. 03/60.

with public expenditure reforms. Similar public expenditure management reforms among SLGs is assumed to adjust spending in real terms over the medium term. Inflation is projected to fall gradually to 5 percent by end-2009. Owing largely to higher public savings, national savings increase to 21 percent of GDP by 2009, and with improved fundamentals, private sector investment increases to about 17 percent of GDP, with non-oil private investment increasing to 11 percent of GDP in 2009.

42. **The non-oil external current account deficit is projected to narrow over the medium term due to fiscal consolidation**. More broadly, competitiveness will benefit from NEEDS' structural reforms. As assumed in NEEDS, annual external debt service payments over the medium term are expected to continue at around their current level, implying continued arrears accumulation.

43. **To illustrate the importance of policy choices, resource constraints and vulnerability to shocks, staff discussed two scenarios as alternatives to the baseline**:

- The **muddle-through** scenario reflects a continuation of past expansionary fiscal and accommodative monetary policies. Failure to undertake fiscal reforms and delayed structural reforms continue to undermine debt sustainability and the non-oil economy's performance. As a result, inflation stays high in double digits, and continued international reserve losses generate pressure for restrictions on imports and foreign exchange.

Nigeria: Medium-term Macroeconomic scenarios 2003-2009

	2003	2004	2005	Average 2005-08	2009
	Est.	Proj.			
(Annual percentage changes, unless otherwise specified)					
Baseline					
Real GDP (at 1990 factor cost)	10.9	4.1	6.4	5.2	4.9
Non-oil GDP (at 1990 factor cost)	4.4	4.5	4.9	5.2	5.5
Consumer price index (annual average)	14.4	16.5	11.5	7.1	5.2
Overall balance (commitment basis, in percent of GDP)	-1.3	5.3	3.8	5.1	5.9
Non-oil primary balance (in percent of non-oil GDP)	-34.6	-40.9	-36.5	-28.6	-21.5
Deviation from permanent US$ 20 oil price rule (in percent)	-10.6	-10.8	-8.5	-4.1	-0.4
External current account balance (in % GDP)	-2.7	1.0	-2.3	-3.5	-4.9
Gross external reserves (billions of U.S. dollars)	7.5	12.5	15.8	18.9	22.0
High growth (NEEDS)					
Real GDP (at 1990 factor cost)	10.9	4.1	7.1	6.9	7.3
Non-oil GDP (at 1990 factor cost)	4.4	4.5	6.1	7.6	8.9
Consumer price index (annual average)	14.4	16.5	11.5	7.1	5.2
Overall balance (commitment basis, in percent of GDP)	-1.3	5.3	3.7	4.9	5.5
Deviation from permanent US$ 20 oil price rule (in percent)	-10.6	-10.8	-8.5	-4.0	-0.2
Non-oil primary balance (in percent of non-oil GDP)	-10.6	-40.9	-36.0	-27.4	-18.7
External current account balance (in % GDP)	-2.7	0.6	-2.6	-4.2	-6.6
Gross external reserves (billions of U.S. dollars)	7.5	12.0	15.2	18.2	20.8
Muddle-through					
Real GDP (at 1990 factor cost)	10.9	3.0	5.0	3.7	3.1
Non-oil GDP (at 1990 factor cost)	4.4	2.8	2.8	2.8	2.8
Consumer price index (annual average)	14.4	22.0	20.2	21.7	21.7
Overall balance (commitment basis, in percent of GDP)	-1.3	5.1	3.1	2.4	1.1
Non-oil primary balance (in percent of non-oil GDP)	-34.6	-44.4	-42.2	-37.8	-33.4
Deviation from permanent US$ 20 oil price rule (in percent)	-10.6	-11.0	-9.1	-6.7	-5.1
External current account balance (in % GDP)	-2.7	-1.0	-5.3	-8.3	-11.2
Gross external reserves (billions of U.S. dollars)	7.5	11.1	12.4	10.1	2.2
Memorandum item:					
Oil price (in U.S. dollars per barrel)	29.0	33.5	30.5	27.9	25.8

- The **high-growth scenario** reflects the authorities' medium-term macroeconomic framework underlying NEEDS, and aims at achieving an annual average of 7 percent growth over the medium term—deemed necessary to meet the MDGs. To this end, private investment would have to increase to about 20 percent of GDP. This, in turn, would require US$4½ billion per year of additional foreign savings.

44. **The muddle-through scenario and debt sustainability analyses demonstrate that Nigeria remains highly vulnerable to policy implementation risks and oil-related shocks**.[22] This reflects a continued high public debt burden and dependence on oil, as well as high volatility in macroeconomic variables. Stress tests on the baseline scenario show that a two-standard deviation shock to revenues in 2005–06 would increase the public debt ratio to 115 percent of GDP by end-2009, compared with 43 percent in the baseline scenario. In contrast, a two-standard deviation shock to real interest rates and real economic growth in 2004 would increase the debt ratio to 65½ and 95¾ percent of GDP, respectively, by end-2009. These sensitivities highlight the urgency of putting the economy on a stable policy footing by strengthening fiscal management and rebuilding precautionary reserves, as well as the need to address the external debt burden.[23]

F. Budgetary Reform Priorities

45. **The main structural fiscal challenge facing the government over the next few years will be to further strengthen the budget process**.[24] As part of NEEDS, the authorities acknowledged the importance of further consolidating reforms in the area of budget formulation, execution and reporting. Staff encouraged the authorities to formulate a medium-term expenditure framework (MTEF) supported by an oil price-based fiscal rule. The authorities requested technical assistance in the preparation of the 2005 budget and in developing a MTEF. They also indicated that another priority will be verifying the stock of domestic expenditure arrears, and developing a strategy for their clearance by 2007.

46. **Subnational fiscal reforms will be crucial to macroeconomic stability, longer term growth and poverty reduction**, particularly given the constitutional responsibility of states to deliver essential social services. The authorities indicated that passage of the Fiscal Responsibility Bill, including the implementation of the fiscal policy rule, introduction of individual savings accounts for all states with the CBN and improved policy coordination, would help reduce the procyclicality of fiscal policy in Nigeria. They further indicated that they would encourage subnational governments to pursue similar public expenditure reforms.[25] In particular, the adoption of standardized economic and functional classification

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[22] See Appendix III for detailed description of the debt sustainability analysis.

[23] The external debt service due is equivalent to 108 percent of the federal government's 2004 capital budget.

[24] The fiscal strategy brief prepared with the assistance of FAD was used to guide the discussions regarding fiscal structural reforms, in particular those related to public expenditure management. See Appendix IV and accompanying selected issues paper for detailed description.

[25] The World Bank has taken the lead in assisting subnational governments strengthen their public expenditure management systems. Work has focused on expenditure reviews, state finances, governance and overall capacity building. Other elements include collaboration with the Debt Management Office on management of states' external and domestic debt.

systems would help them identify whether expenditure programs are properly targeted to meet the governments' development objectives. Some SLGs have agreed to receive technical assistance in developing SEEDS.

G. Civil Service Reforms

47. **Civil service reforms are critical to creating a professional administration commensurate with a smaller and more service-oriented government**. The civil service has grown rapidly over the last two decades, and accounts for the dominant share of government spending. Several steps need to be taken, including an audit and pay verification exercise, pay policy review, implementation of payroll controls, downsizing and right-fitting in order to address the skills mismatch.

48. **The civil service reforms are being developed with the support of the World Bank and other donors, and will be implemented in two phases**. In the first phase, five key ministries and agencies—the Federal Capital Territory, National Planning Commission, Ministry of Finance, State House/Office of the President, and the Ministry of Information—will be required to computerize their payroll, conduct a verification exercise to weed out ghost workers and develop a skills analysis and restructuring plan. The next stage will involve devising financial incentive packages to encourage or enable staff to leave, as well as for training programs. The authorities' plan is to expand the civil service reforms to the remaining ministries and agencies starting mid-2005. Nevertheless, they acknowledge this will be a difficult reform that will likely involve high budgetary costs for retrenchment, retraining and new hiring.

H. Federal Domestic Debt Management

49. **Federal debt management has not been efficient**. The debt burden is high, and the lack of a comprehensive debt strategy has led to an accumulation of external and domestic arrears, undermining Nigeria's international credit standing. The government is also exposed to high rollover and interest rate risks on its domestic debt, with over 60 percent concentrated in three-month instruments.

50. **Staff and the authorities agreed that an immediate priority should be to lengthen the maturity profile of domestic debt, and ensure a more even distribution to address the bunching problem**.[26] These objectives could be achieved by developing a treasury bill program in six-month and one-year maturities along with the current three-month program. Staff, however, pointed out that in the absence of credible fiscal and monetary policies, investments in longer-dated instruments would likely come at a much higher cost, and that it may be better to develop the short-end of the market. As macroeconomic stability takes root, the government's borrowing cost would decline, permitting the sustainable development of the government bond market. Staff further indicated that the projected cash surpluses over

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[26] An MFD technical assistance mission on domestic public debt management visited Abuja in mid-February 2004.

the medium term would provide the opportunity to restructure the debt portfolio and also lower the overall public debt burden. Overall, the domestic debt management reforms would strengthen liquidity management—through the formal separation of monetary and debt management operations—exert market pressure for fiscal discipline, improve oversight over public debt management, and spur capital market development.

I. Governance and Transparency Reforms

51. **The authorities expressed a strong commitment to improved transparency and accountability in the public sector**. This is critical as the quality of Nigeria's public institutions continue to rank unfavorably internationally, and their inefficiency remains a major deterrent to investment and growth. In the upcoming 2004 Africa Competitiveness Report, Nigeria's public institutions—measured by degree of corruption and the rules of contract and law—rank next to last of the 21 African countries assessed, and third to last out of the 80 countries assessed globally. Similarly, the 2002 Transparency International Report places Nigeria next to last on its Corruption Perception Index.

52. **Staff noted recent progress in initiating governance reforms in the public sector.** Nigeria's participation in the EITI and the intended oil sector audits would go a long way to improve accountability and transparency. The authorities plan to publish all relevant data on oil revenue and its uses. The procurement commission, to be in place before the end of 2004, should strengthen government expenditure management and help achieve considerable savings by bringing procurement practices in line with international practices. Publishing monthly oil revenue allocations to all three tiers of government as well as quarterly federal government budget reports, and the audited accounts of the federal government should help raise public awareness of the uses of oil and non-oil revenue. The authorities have requested technical assistance from both the Bank and the Fund on reconciling and improving the transparency of oil revenue and payment flows. The development of the performance indicators and reporting requirement for major line ministries should also help enhance accountability in public spending. In this regard, staff encouraged a review of auditing and accounting standards, to ensure their consistency with international best practice, as this would help build trust in the veracity of audited financial statements.[27] Strengthening the Economic and Financial Crimes Commission (EFCC) and expanding its investigation of economic crimes committed by civil servants would send a strong signal that rent-seeking behavior will not be tolerated in public institutions.

[27] During the 2001 on-site safeguard assessment of the CBN, notable shortcomings were reported in the conduct of audit and accounting practices, both falling short of International Auditing Standards (IAS) and Nigerian Statement of Accounting Standards (SAS). The staff stressed that these shortcomings—such as the retention of one audit firm for over 25 years, no oversight of the external audit process, and non-compliance with SAS—need to be addressed.

J. Privatization and Deregulation

53. **As part of the drive to streamline the role of government in the economy, the privatization program and deregulation efforts will need to be accelerated.** This would support the government's commitment to abandon past import-substitution strategies that have led to a highly protected economy and the establishment of large, in many cases nonviable, state-owned enterprises operating in all sectors of the economy. Well over 100 companies are still state-owned, and most are due for privatization over the next few years.

54. **The authorities have indicated that a top priority for 2004 will be the rehabilitation and privatization of NNPC's oil refineries**. The authorities also noted that steps are being taken to privatize the heavily indebted national power company (NEPA). The government has already outsourced collection to a private company to improve payment discipline and NEPA's overall effectiveness. The next step involves transferring NEPA's debt of N 340 billion to the Debt Management Office (DMO), unbundling NEPA into power generation, transmission and distribution, and setting up a regulatory commission for the electricity market.

55. **More generally, staff stressed that the government will need to intensify its privatization and deregulatory efforts, including putting in place the necessary regulatory and legal frameworks to ensure a level playing field, so that the public can begin benefiting from the fruits of privatization**. Privatization also needs to be carried out in a more transparent and fair manner—key to engendering investor confidence. The general impression remains that vested interests and political influences continue to interfere with the process. As a general principle, staff emphasized that it would be important to minimize the use of government funds for rehabilitating inefficient parastatals. The government's preferred option is outright asset sales or the sale of a 51 percent stake to a strategic partner, followed by an initial public offering. In some cases, concession arrangements are being considered, in particular with regard to rails, airports, and ports.

56. **Trade reforms will be essential to enhancing Nigeria's growth prospects**. While broadly agreeing with the proposed tariff reforms, staff noted several aspects that will determine the impact on the overall level of protection have yet to be finalized. A reduction in the weighted average tariff is likely, but will depend on the timing of the phased introduction of the new tariff bands and the allocation of traded goods among the tariff bands. The number and permanence of import bans, and the period over which any special taxes or levies would be phased out remain unclear. Staff noted that these import bans may be inconsistent with WTO rules and urged the government to refrain from using import bans as an instrument of protection as this would result in costly inefficiencies, including smuggling. Staff suggested a review of the costs and benefits of such nontariff barriers.

K. Strengthening the Financial Sector

57. **While developing a sound financial system is a critical component of NEEDS, the depth of measures included could be enhanced**. The level of financial intermediation in Nigeria's banking system is low as reflected in a narrow M2/GDP ratio and a large share of

cash transactions. Banks continue to be plagued by weak governance such as misreporting and systemic underprovisioning. High non-performing loans and operational inefficiencies, among others, have contributed to the large spread between deposit and lending rates. In addition, inefficiencies in the court system (delays and backlogs), difficulties in foreclosing and collecting nonperforming loans, as well as obtaining occupancy or land titles, are other factors contributing to the large spreads. Furthermore, many community banks and development finance institutions are facing balance sheet difficulties and have generally been ineffective in extending financial services to the rural economy.

58. **Against this backdrop, staff welcomed progress made in strengthening the banking system and urged the authorities to pass the amended Bank and Other Financial Institutions Act (BOFI), and enforce existing prudential standards**. A zero-tolerance policy should be adopted for misreporting and violating existing rules, as this would help strengthen the banking sector. The authorities' increased focus on the community banks is important given their role in the rural economy. Staff further stressed that it would be critical to address the structural impediments to credit creation and investment, such as the lack of credit history for small businesses, absence of land or occupancy titles; and court operating inefficiencies. The authorities agreed and are considering reforms to the justice system as well as land reforms. They noted that liquidation of nonviable banks through the courts has proven to be very difficult. In the meantime, options are being considered to introduce commercial courts as a means to address some of these inefficiencies. The authorities expressed a strong interest in a follow-up FSAP mission to identify areas needing further strengthening.

59. **Staff suggested that reforms of monetary management and the financial sector and capital market development, be incorporated more fully into NEEDS**. This would allow for strengthened reform efforts in other key government agencies such as the CBN, Nigerian Deposit Insurance Corporation (NDIC), and the Securities Exchange Commission.

L. Capacity Building and Reform of the Statistical System

60. **The overall effectiveness of technical assistance has improved as a result of enhanced ownership and better policy coordination; nonetheless, further strengthening is warranted.** In a number of areas, follow-up technical assistance missions have been provided—such as in fiscal and domestic debt management and government finance statistics. These missions have proven to be very effective as they deepen the institutional reform process. Their success is also a reflection of the weakening of the initial resistance to change. Given limited capacity in public institutions, staff urged the government to continue to make full use of technical assistance, and to prioritize their needs and follow up on the recommendations.

61. **There is broad agreement that the statistical system needs to be overhauled to develop accurate and timely data for monitoring economic performance and for formulating effective policy**. The poor quality of national accounts, government finance and customs data, unreliable and considerable publication lags and lack of an electronic database, as well as timely data sharing among responsible government agencies undermine the ability to monitor economic developments and ensure consistency of reform implementation.

Shortcomings in data sharing between the tiers of government, with the SLGs not publishing budgetary information, also hamper economic and social analysis.

62. **At the urging of staff, the authorities are establishing a central technical unit responsible for collating data from data-generating agencies and ensure consistency thereof**. The government has increased the budgetary allocation for the Federal Office of Statistics (FOS). In addition, in cooperation with the donor community, including assistance through Nigeria's participation in the Fund's General Data Dissemination Standards (GDDS) project for selective countries in Africa, the government has developed a strategic plan to address the legal and institutional framework governing the statistical system. This would include amendments to the 1957 Statistical Act to strengthen the independence of the FOS. Staff recommended that efforts be made to implement the main recommendations of recent STA missions, including in the areas of national accounts and government finance statistics. With regard to the latter, staff noted that the Planning, Research and Statistics Department in the Ministry of Finance should assume its responsibility for compiling fiscal data.

IV. Staff Appraisal

63. **Prospects for far-reaching economic and structural reforms have improved significantly since the 2002 Article IV consultation.** The new economic team has moved quickly to develop and articulate a strategic vision for addressing Nigeria's deep-rooted macroeconomic and structural problems and reducing poverty. The development of NEEDS signals a clear break from past shortcomings in economic policy formulation. Staff agrees with the overall direction and thrust of the government's vision and priority areas for tackling economic development and unleashing the growth potential of the non-oil economy. In addition, the early reform efforts are broadly consistent with the recommendations of the 2002 Article IV consultations, and should help lay the foundation for more effective economic policy formulation and implementation.

64. **The decisive actions already taken in several key areas should have an immediate impact on macroeconomic management, economic efficiency, and transparency and accountability**. The elimination of the subsidy on petroleum products was a particularly difficult and bold measure. Efforts to improve coordination among ministries and government agencies should also contribute to more effective policy implementation. Developments in the first four months of 2004 also signal a break from past expansionary policies.

65. **Staff endorses Nigeria's initiatives for fighting corruption and promoting good governance**. Staff strongly supports Nigeria's participation in the EITI and commends the authorities for successfully launching the initiative. The envisaged sector-wide audits and the objective of publishing key oil revenue data and their utilization should significantly strengthen transparency and accountability. Overall governance is also being enhanced by establishing EFCC and pursuing high visibility cases. The procurement commission, to be in place before end-2004, should also help strengthen government expenditure management, and the publication of monthly revenue allocations to all SLGs should play an important role in improving overall accountability.

66. **The risks and challenges facing the government are formidable.** Consistent policy implementation will be essential to successful reform. As borne out by earlier reform efforts, weak institutions, limited technical capacity, and resistance from entrenched interests will be especially challenging. Staff recognizes the importance of "quick wins" to build reform momentum, but feels that this should be done selectively with careful prioritization and sequencing of reforms, to avoid overstretching administrative capacity. In particular, emphasis on public service reforms and accountability and transparency will help establish key building blocks to strengthen institutions and facilitate the effective implementation of reforms that are resistant to reversal.

67. **The main challenge in 2004 will be to implement prudent macroeconomic policies to reverse the effects of expansionary policies in 2003**. This will require the continuation and reinforcement of recent fiscal tightening at the federal level, accompanied by appropriately tight monetary policy and convincing all states to save the oil windfall. More broadly, macroeconomic policies should be geared toward minimizing vulnerability to oil price shocks. The primary risk to effective macroeconomic management continues to be the procyclical stance of fiscal policies at the subnational level.

68. **The 2004 federal budget represents a major departure from past practices**. The adoption of an oil price-based fiscal policy framework should help achieve sizable cash savings to buffer against any future oil price shock and help contain a source of macroeconomic volatility. Actions to strengthen the budget process including the fiscal strategy paper and prioritization of the capital budget, as well as a dialogue with the legislature on the role of the budget are particularly welcome.

69. **However, the federal government faces a major challenge in getting states' agreement to save the oil windfall**. If not all states agree to save the oil windfall, the consolidated fiscal stance will remain expansionary. Achieving macroeconomic stability will therefore depend critically on the success of the federal government's negotiations with the states on their participation in the oil price rule. Passage of the Fiscal Responsibility Bill would provide the legal underpinning for prudent consolidated fiscal policy at all levels of government.

70. **While the passage of a prudent federal budget is praiseworthy, the more important test will be its execution**. In this regard, staff welcomes the setting up of the CMC to improve budgetary cash management and ensure that expenditure releases are made in accordance with cash flow projections. The highly restrained fiscal stance of early 2004, which enabled the government to sterilize excess oil revenue and significantly increase international reserves, is particularly encouraging. Staff calls on the government to build on the progress made on the 2004 budget process and begin the 2005 budget cycle early, strengthen the prioritization of capital projects, design a strategy to address domestic arrears, and develop an MTEF consistent with NEEDS.

71. **Staff encourages the CBN to implement a credible monetary policy framework in order to achieve its primary objective of price stability**. Given the monetary overhang from 2003 and current inflationary pressures, the CBN will have to be vigilant in implementing its monetary program in order to achieve its end-period inflation objectives.

The CBN should allow interest rates to adjust to ensure the conduct of monetary policy is consistent with its reserve money-targeting framework and disinflation objectives. An effective communication strategy to convey regularly the objectives and stance of monetary policy will help to instill discipline and accountability in policy formulation and be instrumental in establishing credibility.

72. **Staff welcomes the CBN's move to daily open-market operations, as this will enhance its ability to manage banking system liquidity**. The CBN should enforce stricter limits on the use of its discount window, particularly by weaker banks, in order to dissuade use of the facility to manage liquidity needs. It should also reduce its reliance on direct monetary controls and rely more on indirect market instruments to manage liquidity, as well as allow for market-clearing interest rates in the primary government securities market. The CBN, together with Nigeria Deposit Insurance Corporation, should continue to strengthen governance practices in the banking system, adopt zero tolerance for misreporting and violation of existing prudential regulations, and design a viable exit strategy for weak banks, as enhanced financial deepening will be critical to improving the transmission channels of monetary policy and achieving the authorities' growth objectives.

73. **The exchange rate should be market-determined, and foreign exchange markets should be unified**. Staff and the authorities concur that moving toward an interbank system for determining the exchange rate would require addressing critical institutional and operational issues in the banking system. In this regard, the CBN's request for technical assistance to further develop and unify the foreign exchange market and examine liquidity management practices is welcome. This would allow the authorities to work toward accepting the obligations of Article VIII. In the interim, staff does not recommend Board approval of the multiple currency practices.

74. **The implementation of the 2004 budget should enable the government to reduce its net public debt**, while the projected cash surpluses over the medium term should provide an opportunity to restructure its debt portfolio, thus reducing the rollover risk. Regarding external debt, the government's improved cooperation with the Paris Club is welcome. It will be important for the government to sustain improved relations with official creditors and ensure comparability of treatment among creditors. In terms of effective debt management and relations with creditors, staff urges the authorities to re-examine the trade-offs between using projected cash surpluses to accumulate international reserves, reducing domestic debt and raising external debt service payments. In this regard, the authorities should endeavor to service their debt to the fullest extent possible.

75. **The medium-term challenges are significant and prospects will depend on the effectiveness of implementing sound, pro-growth policies**. Staff notes that the authorities' growth targets as outlined in NEEDS, while necessary for meeting the MDGs, are ambitious and would require a quick and strong supply response to the envisaged reforms and substantial resource mobilization. Staff feels that a cautious growth assumption would be prudent, pending a more careful examination of the specific policies that could elicit such a response. In this context, it would be important to accelerate the structural reform agenda—particularly with regard to privatization, unifying the foreign exchange market, and civil service reforms. Moreover, given Nigeria's vulnerabilities to oil related shocks, staff

underscores the need to strengthen fiscal management, rebuild international reserves, and address the external debt burden.

76. **Staff welcomes the authorities' progress in reviewing the tariff structure, but cautions against continued reliance on import bans.** Trade polices should encourage external competitiveness rather than create a bias toward import substitution. Policy efforts should, therefore, focus on raising productivity by removing structural obstacles and reducing costs of production.

77. **The inadequate statistical system represents a risk to successfully implementing and monitoring NEEDS and policy formulation more generally**. Staff calls on the authorities to revamp the FOS as a matter of priority. Staff welcomes the government's agreement to the establishment of a technical committee that will have the authority to collect and ensure consistency of data from various government agencies.

78. **The Fund remains committed to providing policy advice and helping build capacity in Nigeria.** Staff welcomes the authorities' request to monitor, as part of intensified surveillance efforts, the implementation of their program on a quarterly basis and looks forward to carrying out a review of developments during the first six months of 2004, following the completion of the Article IV consultations**.**

79. **The next Article IV consultation with Nigeria** is expected to be held on the standard 12-month cycle.

Table 1. Nigeria: Selected Economic and Financial Indicators, 2001–09

	2001	2002	2003	2004	2005	2006	2007	2008	2009
			Est.	Proj.					
	(Annual percentage changes, unless otherwise specified)								
National income and prices									
Real GDP (at 1990 factor cost)	3.3	1.4	10.9	4.1	6.4	5.2	4.4	5.0	4.9
Oil GDP	1.4	-11.6	26.5	3.3	9.4	5.6	2.6	4.1	3.6
Non-oil GDP	4.3	8.0	4.4	4.5	4.9	5.0	5.3	5.5	5.5
Agriculture	3.9	4.3	6.5	4.3	4.7	4.7	5.0	5.2	5.2
Industry	8.7	8.9	6.4	6.0	7.0	7.5	8.0	8.0	8.0
Services	3.6	13.0	1.2	4.2	4.5	4.6	5.0	5.0	5.0
Real GDP per capita	0.6	-1.3	7.9	1.3	3.5	2.4	1.9	2.4	2.3
GDP per capita (in U.S. dollars)	362	341	415	471	483	480	483	492	505
Non-oil GDP per capita (in U.S. dollars)	199	180	201	204	224	250	269	278	288
GDP deflator (period average)	10.8	3.9	21.0	17.7	4.5	2.0	3.1	3.2	3.5
Non-oil GDP deflator (period average)	20.5	5.5	15.8	15.6	10.9	6.1	5.1	4.8	4.9
Consumer price index (annual average)	18.0	13.7	14.4	16.5	11.5	6.4	5.4	5.1	5.2
Consumer price index (end of period)	16.5	12.2	23.8	11.5	6.8	6.4	5.6	5.5	4.6
External sector									
Exports, f.o.b. 1/	-17.5	-9.8	55.1	14.7	-1.9	-3.5	-0.4	1.8	2.1
Imports, f.o.b.	8.8	16.2	26.6	3.4	8.8	0.1	1.9	3.0	3.7
Terms of trade	-10.4	-0.5	2.8	7.2	-8.6	-7.6	-4.1	-3.4	-2.8
Nominal effective exchange rate (end of period; - indicates depreciation) 2/	-3.3	-18.3	-8.8	...	...	...	...	...	...
Real effective ex. rate (end of period; - indicates depreciation) 2/	11.2	-10.4	6.4	...	...	...	...	...	...
Consolidated government operations 3/									
Total revenue and grants	13.1	-9.3	35.1	50.4	1.4	1.3	4.1	5.7	6.3
Petroleum revenue	5.3	-14.4	42.0	58.7	-1.4	-2.4	1.4	3.1	2.8
Capital expenditure and net lending 4/	61.2	-11.5	22.9	34.5	5.9	1.0	5.4	7.7	8.0
Money and credit									
Net foreign assets 5/	15.2	-3.1	6.6	28.8	...	...	...	...	...
Net domestic assets 5/	14.5	6.2	19.1	-21.4	...	...	...	...	...
Net domestic credit 5/	36.4	38.0	28.5	-21.4	...	...	...	...	...
Net credit to consolidated government	13.2	30.3	11.4	-32.4	...	...	...	...	...
Net credit to the federal government	9.5	30.3	11.2	-31.8	...	...	...	...	...
Credit to the rest of the economy	23.0	8.5	15.7	13.8	...	...	...	...	...
Broad money	27.2	21.6	24.1	16.0	...	...	...	...	...
Velocity (non-oil GDP/end-of-period broad money)	2.2	2.1	2.0	2.1	...	...	...	...	...
Treasury bill rate (percent; end of period)	20.3	13.8	17.3	...	...	...	...	...	...
Discount rate (percent; end of period)	20.5	16.5	15.0	...	...	...	...	...	...
	(In percent of GDP; unless otherwise indicated)								
Investment and saving									
Investment	22.8	26.1	22.7	21.8	23.8	25.3	25.6	25.8	26.0
Public fixed investment	12.1	10.2	9.3	10.3	9.8	9.2	9.0	9.0	8.9
Private fixed investment	10.7	15.9	13.4	11.6	14.0	16.1	16.6	16.8	17.1
Gross national savings	25.4	15.2	20.0	22.8	21.5	21.9	21.6	21.4	21.2
Public	15.6	11.5	13.2	19.9	17.5	17.8	17.5	17.1	16.9
Private	9.8	3.8	6.8	2.9	4.0	4.1	4.1	4.3	4.3
Consolidated government operations 3/									
Total revenues and grants	42.1	36.2	36.5	44.8	41.0	38.7	37.5	36.6	35.9
Of which: petroleum revenue	32.5	26.3	27.9	36.2	32.1	29.3	27.6	26.3	24.9
Total expenditure and net lending	47.0	41.4	37.8	39.5	37.2	33.5	31.9	31.0	30.0
Overall balance (commitment basis)	-4.9	-5.3	-1.3	5.3	3.8	5.3	5.6	5.6	5.9
Non-oil primary balance (in percent of non-oil GDP)	-43.2	-31.9	-34.6	-40.9	-36.5	-28.6	-25.5	-23.6	-21.4
Gross domestic debt	19.0	20.7	17.7	15.1	12.3	10.0	7.5	5.3	3.2
External sector									
Current account balance	2.6	-10.8	-2.7	1.0	-2.3	-3.4	-4.0	-4.4	-4.8
External debt outstanding (in billions of U.S. dollars)	29.7	31.0	32.8	32.7	32.5	32.4	32.3	32.2	32.0
External debt service due after rescheduling 2000–01									
(in percent of exports of goods and nonfactor services)	5.2	6.4	5.2	4.7	4.6	4.2	3.7	3.7	3.5
Current account balance	1,255	-4,999	-1,570	681	-1,641	-2,450	-3,003	-3,431	-3,950
Overall balance of payments	-98	-4,503	-1,606	3,062	1,849	1,173	963	171	-427
Gross international reserves (end of period)	10,423	7,681	7,468	12,474	15,760	18,184	20,097	21,340	22,001
(equivalent months of imports, c.i.f.)	7.6	4.9	3.8	6.1	7.1	8.1	8.7	9.0	8.9
Price of Nigerian oil (U.S. dollars per barrel)	24.3	25.0	29.0	33.5	30.5	28.0	27.0	26.3	25.8
Production of crude oil (million barrels per day)	2.26	1.96	2.45	2.50	2.59	2.66	2.70	2.77	2.83
Including oil and gas equivalent		2.15	2.72	2.81	3.07	3.24	3.33	3.46	3.59
Interbank Foreign Exchange Market/DAS exchange rate (naira per U.S. dollar; average)	112.0	122.2	130.9	...	...	...	...	...	...
Nominal GDP at market prices (in billions of naira) 6/	5,339	5,632	7,545	9,235	10,250	10,985	11,813	12,790	13,868

Sources: Nigerian authorities; and staff estimates and projections.

1/ Export volumes fall more than total production due to an increase in domestic allocation of crude oil to NNPC in 2002 from 2001.

2/ 2003 data are based on end-December 2002 over end-October 2003.

3/ Consists of the federal, state, and local governments.

4/ Assumes that two-thirds of state and local government expenditure is recurrent expenditure.

5/ In percent of broad money at the beginning of the period.

6/ The GDP series was updated in 2003 incorporating changes by the authorities to take account of developments in real activity and structural changes.

Table 2a. Nigeria Fiscal Operations (Cash Basis), 2002-04

	2002	2003	2004			
			Q1 Est.	Scenario I 12 states	Scenario II 36 states	Scenario III No states
Oil price (in U.S. dollars per barrel)	25.0	29.0		33.5	33.5	33.5
	(In billions of naira)					
Total revenue	2,038	2,752	926	4,140	4,140	4,140
Petroleum revenue	1,483	2,106	769	3,342	3,342	3,342
Government crude receipts	724	967	352	1,446	1,446	1,446
Petroleum profit tax and royalty	395	683	299	1,057	1,057	1,057
Petroleum profit tax	225	438	225	716	716	716
Royalty	170	246	73	341	341	341
Upstream gas sales and NLNG	34	32	10	46	46	46
Other oil revenue (gas flared; pipeline fees)	25	38	1	42	42	42
Gas flaring penalty	4	5	1	8	8	8
Other taxes	21	33	1	34	34	34
Domestic crude	304	386	108	751	751	751
Nonpetroleum revenue	554	646	157	798	798	798
Import and excise duties	181	195	51	220	220	220
Companies income tax	89	115	28	143	143	143
Value-added tax (VAT)	109	136	37	161	161	161
Education tax	10	10	5	18	18	18
Federal government independent revenue	68	54	2	118	118	118
State and local governments' internal revenue	78	96	27	107	107	107
Customs levies	20	39	8	30	30	30
Total consolidated expenditure	2,241	2,742	668	3,514	3,148	3,690
Total federal government and extrabudgetary expenditure	1,436	1,606	312	1,733	1,730	1,730
Recurrent expenditure	1,111	1,338	305	1,368	1,365	1,365
Goods and services	478	514	116	540	539	539
Personnel and pension	368	368	100	438	438	438
Personnel	...	304	83	368	368	368
Pensions	...	64	18	70	70	70
Overhead cost	109	146	16	102	102	102
Interest payments	213	242	40	248	245	245
Domestic	171	170	34	189	186	186
External, cash	43	72	7	59	59	59
Transfers	420	582	148	581	581	581
NNPC cash calls	347	452	120	440	440	440
NNPC priority projects	6	0	0	0	0	0
National Judicial Council	15	26	4	30	30	30
Transfer to Niger Delta Dev. Comm.	14	9	0	14	14	14
Customs levies funds	20	39	8	30	30	30
Education Fund	10	10	5	18	18	18
Federal government extrabudgetary funds	8	46	12	49	49	49
Federal government capital expenditure	318	267	7	365	365	365
Domestically financed 1/	305	257	3	350	350	350
Foreign financed	13	10	4	15	15	15
State and local governments	805	1,136	356	1,781	1,418	1,960
Primary expenditure	805	1,124	352	1,761	1,399	1,940
External interest payment, cash	0	12	5	20	20	20
Overall balance (cash basis)	-203	10	257	626	992	451
Financing	283	62	-366	-735	-1,061	-520
External	-106	-153	-13	-154	-154	-154
Borrowing	13	10	4	15	15	15
Amortization, cash	-101	-163	-17	-169	-169	-169
Domestic Financing	369	185	-353	-667	-992	-451
Central Bank (net, consolidated government)	138	295	-486	-842	-1,203	-451
Of which: excess oil receipts	0	...	-143	-637	-998	-451
Commercial banks (net, federal government)	261	-116	158	201	201	201
Commercial banks (net, states and local governments)	-30	6	-26	-26	-26	-26
Recovered funds	0	30	0	85	85	85
Statistical discrepancy	80	72	-109	-109	-69	-69
Non-oil primary balance, federation	-1,126	-1,402	-346	-2,008	-1,645	-2,187

Table 2a. Nigeria Fiscal Operations (Cash Basis), 2002-04 (Concluded)

	2002	2003	2004			
			Q1 Est.	Scenario I 12 states	Scenario II 36 states	Scenario III No states
Oil price (in U.S. dollars per barrel)	25.0	29.0		33.5	33.5	33.5
	(In percent of GDP; unless otherwise indicated)					
Total revenue	36.2	36.5	...	44.8	44.8	44.8
Petroleum revenue	26.3	27.9	...	36.2	36.2	36.2
Nonpetroleum revenue	9.8	8.6	...	8.6	8.6	8.6
Total consolidated expenditure	39.8	36.3	...	38.1	34.1	40.0
Total federal government and extrabudgetary expenditure	25.5	21.3	...	18.8	18.7	18.7
Recurrent expenditure	19.7	17.7	...	14.8	14.8	14.8
Goods and services	8.5	6.8	...	5.8	5.8	5.8
Interest payments	3.8	3.2	...	2.7	2.6	2.6
Domestic	3.0	2.2	...	2.1	2.0	2.0
External, cash	0.8	1.0	...	0.6	0.6	0.6
Transfers	7.5	7.7	...	6.3	6.3	6.3
Federal government capital expenditure	5.6	3.5	...	4.0	4.0	4.0
Domestically financed 1/	5.4	3.4	...	3.8	3.8	3.8
Foreign financed	0.2	0.1	...	0.2	0.2	0.2
Net lending	0.1	0.0	...	0.0	0.0	0.0
State and local governments	14.3	15.1	...	19.3	15.4	21.2
Overall balance (cash basis)	-3.6	0.1	...	6.8	10.7	4.9
Financing	5.0	0.8	...	-8.0	-11.5	-5.6
External	-1.9	-2.0	...	-1.7	-1.7	-1.7
Domestic	6.6	2.5	...	-7.2	-10.7	-4.9
Recovered funds	0.0	0.4	...	0.9	0.9	0.9
Statistical discrepancy	1.4	1.0	...	-1.2	-0.7	-0.7
Memorandum items:			...			
Non-oil primary balance (in percent of non-oil GDP) 2/	-33.5	-34.5	...	-40.9	-33.5	-44.5
Nominal GDP (in billions of naira)	5,632	7,545	...	9,235	9,235	9,235
Non-oil GDP (in billions of naira)	3,365	4,069	...	4,913	4,913	4,913

Sources: Nigerian authorities; and staff estimates and projections.

1/ Actual cash spending

2/ Excluding oil revenue, cash call payments, and cash interest payments.

Table 2b. Nigeria: Medium-Term Fiscal Operations (Commitment Basis), 2002-09

	2002	2003	2004	2005	2006	2007	2008	2009
		Est.			Proj.			
				(In billions of naira)				
Total revenue	2,038	2,752	4,140	4,200	4,257	4,430	4,680	4,977
Petroleum revenue	1,483	2,106	3,342	3,295	3,215	3,260	3,361	3,456
Government crude receipts	724	967	1,446	1,458	1,455	1,501	1,574	1,634
Petroleum profit tax and royalty	395	683	1,057	1,004	949	949	964	982
Upstream gas and NLNG	34	32	46	75	83	82	91	103
Other oil revenue	25	38	42	40	39	39	40	41
Domestic crude	304	386	751	718	688	689	693	696
Nonpetroleum revenue	554	646	798	906	1,042	1,170	1,319	1,521
Tax revenue	486	592	680	784	877	979	1,103	1,264
Taxes on international trade and transactions	201	235	250	306	330	356	394	447
Import duties and excises	181	195	220	258	280	304	336	382
Customs levies	20	39	30	48	50	52	57	65
Taxes on net income, profits, and capital gains	176	221	269	286	323	362	407	466
Company income tax	89	115	143	161	189	219	254	304
Education tax	10	10	18	11	13	15	17	20
State and local governments' internal revenue 1/	78	96	107	114	122	129	136	142
Domestic taxes on goods and services	109	136	161	192	224	260	302	351
Value-added tax (VAT)	109	136	161	192	224	260	302	351
Petroleum tax	0	0	0	0	0	0	0	0
Nontax revenue	68	54	118	121	165	191	216	257
Federal government independent revenue	68	54	118	121	165	191	216	257
Total consolidated expenditure	2,335	2,854	3,648	3,814	3,677	3,769	3,960	4,165
Total federal expenditure	1,530	1,697	1,833	1,982	2,052	2,091	2,151	2,215
Federal government recurrent expenditure	1,259	1,445	1,468	1,546	1,548	1,545	1,551	1,551
Goods and services	478	514	540	595	609	610	609	609
Personnel cost	368	368	438	474	484	484	483	483
Overhead cost	109	146	102	106	110	110	110	110
Pension arrears clearance	0	0	0	15	15	15	15	15
Interest payments due	361	349	348	336	299	272	253	231
Domestic	171	170	189	173	131	101	78	55
Foreign	190	179	159	163	168	171	175	176
Transfers	420	582	581	615	640	663	690	711
NNPC cash calls	347	452	440	435	456	475	493	508
NNPC priority projects	6	0	0	0	0	0	0	0
National Judicial Council	15	26	30	32	34	36	38	40
Transfer to Niger Delta Dev. Comm	14	9	14	20	20	20	20	20
Customs levies funds	20	39	30	48	50	52	57	65
Education Fund	10	10	18	11	13	15	17	20
Federal government extrabudgetary funds	8	46	49	70	67	66	65	57
Federal government capital expenditure	264	252	365	436	504	546	600	664
Domestically financed	251	242	350	412	470	506	560	630
Foreign financed	13	10	15	24	34	40	40	35
Net lending	7	0	0	0	0	0	0	0
State and local governments' expenditure	805	1,157	1,814	1,832	1,625	1,678	1,809	1,950
Primary expenditure	805	1,124	1,761	1,778	1,569	1,621	1,751	1,891
External interest payments, due	...	33	53	54	56	57	58	59
Overall balance (commitment basis) 2/	-297	-102	493	386	580	661	721	812
Financing	377	174	-602	-386	-580	-661	-721	-812
External	42	-26	-20	-20	-16	-17	-23	-35
Borrowing	13	10	15	24	34	40	40	35
Amortization due	-168	-179	-218	-252	-240	-207	-239	-254
Federal government	-168	-151	-164	-189	-180	-155	-179	-190
States	…	-28	-55	-63	-60	-52	-60	-63
Arrears, rescheduling, and debt buyback	196	143	183	208	190	150	176	184
Domestic	369	185	-667	-432	-619	-689	-718	-797
Net claims on federal government	399	179	-426	...	...	...	...	...
Central bank	138	295	-628	...	...	...	...	...
Banking system	261	-116	201	...	...	...	...	...
Net claims on state and local governments	-30	6	-240	...	...	...	...	...
Privatization proceeds	20	0	0	65	55	45	20	20
Recovered funds	0	30	85	0	0	0	0	0
Carryover of unspent capital mandates 3/	-54	-16	0	0	0	0	0	0
Statistical discrepancy	80	72	-109	0	0	0	0	0

Table 2b. Nigeria: Medium-Term Fiscal Operations (Commitment Basis), 2002-09 (Concluded)

	2002	2003	2004	2005	2006	2007	2008	2009
		Est.			Proj.			
			(In percent of GDP; unless otherwise indicated)					
Total revenue	36.2	36.5	44.8	41.0	38.7	37.5	36.6	35.9
Petroleum revenue	26.3	27.9	36.2	32.1	29.3	27.6	26.3	24.9
Government crude receipts	12.9	12.8	15.7	14.2	13.2	12.7	12.3	11.8
Petroleum profit tax and royalty	7.0	9.1	11.4	9.8	8.6	8.0	7.5	7.1
Upstream gas and NLNG	0.6	0.4	0.5	0.7	0.8	0.7	0.7	0.7
Other oil revenue	0.4	0.5	0.5	0.4	0.4	0.3	0.3	0.3
Domestic crude	5.4	5.1	8.1	7.0	6.3	5.8	5.4	5.0
Nonpetroleum revenue	9.8	8.6	8.6	8.8	9.5	9.9	10.3	11.0
Tax revenue	8.6	7.8	7.4	7.7	8.0	8.3	8.6	9.1
Taxes on international trade and transactions	3.6	3.1	2.7	3.0	3.0	3.0	3.1	3.2
Taxes on net income, profits, and capital gains	3.1	2.9	2.9	2.8	2.9	3.1	3.2	3.4
Domestic taxes on goods and services	1.9	1.8	1.7	1.9	2.0	2.2	2.4	2.5
Nontax revenue	1.2	0.7	1.3	1.2	1.5	1.6	1.7	1.8
Federal government independent revenue	1.2	0.7	1.3	1.2	1.5	1.6	1.7	1.8
Total consolidated expenditure	41.4	37.8	39.5	37.2	33.5	31.9	31.0	30.0
Total federal expenditure	27.2	22.5	19.9	19.3	18.7	17.7	16.8	16.0
Federal government recurrent expenditure	22.3	19.2	15.9	15.1	14.1	13.1	12.1	11.2
Goods and services	8.5	6.8	5.8	5.8	5.5	5.2	4.8	4.4
Personnel cost	6.5	4.9	4.7	4.6	4.4	4.1	3.8	3.5
Overhead cost	1.9	1.9	1.1	1.0	1.0	0.9	0.9	0.8
Pension arrears clearance	0.0	0.0	0.0	0.1	0.1	0.1	0.1	0.1
Interest payments due	6.4	4.6	3.8	3.3	2.7	2.3	2.0	1.7
Domestic	3.0	2.2	2.1	1.7	1.2	0.9	0.6	0.4
Foreign	3.4	2.4	1.7	1.6	1.5	1.5	1.4	1.3
Transfers	7.5	7.7	6.3	6.0	5.8	5.6	5.4	5.1
Federal government capital expenditure	4.7	3.3	4.0	4.3	4.6	4.6	4.7	4.8
Domestically financed	4.5	3.2	3.8	4.0	4.3	4.3	4.4	4.5
Foreign financed	0.2	0.1	0.2	0.2	0.3	0.3	0.3	0.2
Net lending	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
State and local governments' expenditure	14.3	15.3	19.6	17.9	14.8	14.2	14.1	14.1
Overall balance (commitment basis) 2/	-5.3	-1.3	5.3	3.8	5.3	5.6	5.6	5.9
Financing	6.7	2.3	-6.5	-3.8	-5.3	-5.6	-5.6	-5.9
External	0.7	-0.3	-0.2	-0.2	-0.1	-0.1	-0.2	-0.3
Borrowing	0.2	0.1	0.2	0.2	0.3	0.3	0.3	0.2
Amortization due	-3.0	-2.4	-2.4	-2.5	-2.2	-1.8	-1.9	-1.8
Arrears, rescheduling, and debt buyback	3.5	1.9	2.0	2.0	1.7	1.3	1.4	1.3
Domestic	6.6	2.5	-7.2	-4.2	-5.6	-5.8	-5.6	-5.7
Net claims on federal government	7.1	2.4	...	...	...	...	...	...
Central Bank	2.4	3.9	...	...	...	...	...	...
Banking system	4.6	-1.5	...	...	...	...	...	...
Net claims on state and local governments	-0.5	0.1	...	...	...	...	...	...
Privatization proceeds	0.3	0.0	0.0	0.6	0.5	0.4	0.2	0.1
Recovered funds	0.0	0.4	0.9	0.0	0.0	0.0	0.0	0.0
Carryover of unspent capital mandates 3/	-1.0	-0.2	0.0	0.0	0.0	0.0	0.0	0.0
Statistical discrepancy	1.4	1.0	-1.2	0.0	0.0	0.0	0.0	0.0
Memorandum items:								
Non-oil primary balance (in percent of non-oil GDP) 4/	-31.9	-34.6	-40.9	-36.5	-28.6	-25.5	-23.6	-21.4
Primary balance (in percent of GDP)	1.1	3.3	9.7	7.6	8.5	8.4	8.1	8.0
Primary expenditure at price based rule	0.0	0.0	1,874.6	2,173.3	2,480.2	2,740.6	3,045.7	3,382.6
Actual primary expenditure	0.0	0.0	2,806.8	2,989.4	2,865.4	2,964.4	3,156.4	3,366.3
Target for overall balance (permanent price rule)	2.9	8.9	16.1	12.3	9.3	8.0	7.0	6.2
Deviation from target (permanent price rule)	-8.2	-10.3	-10.8	-8.5	-4.0	-2.4	-1.3	-0.3
Nominal GDP (in billions of naira)	5,632	7,545	9,235	10,250	10,985	11,813	12,790	13,868
Non-oil GDP (in billions of naira)	3,365	4,069	4,913	5,715	6,365	7,048	7,790	8,622

Sources: Nigerian authorities; and staff estimates and projections.

1/ State and local governments collect their own revenue (such as income tax and property tax).

2/ External debt service is on a commitment basis. Capital spending for 2002 excludes the cash overhang of N 160 billion accumulated in 2001

3/ This reflects the drawdown of unspent capital mandates to finance capital expenditure committed in previous years.

4/ Excluding oil revenue, cash call payments and interest payments.

Table 2c. Nigeria: Fiscal Accounts, Federal Government Budget, 2002-04

	2002	2003	2004		
		Est.	Budget	Q1 Est.	Year
Oil price (in U.S. dollars per barrel)	25.0	29.0	25.0		33.5
		(In billions of naira)			
Total revenue 1/	753	1,013	1,170	332	1,589
Petroleum revenue	508	740	806	274	1,225
Nonpetroleum revenue	245	273	365	58	364
Import and excise duties	88	95	106	25	106
Companies income tax	43	56	69	13	69
Value-added tax (VAT)	16	20	23	5	23
Federal government independent revenue	68	54	118	2	118
Customs levies	20	39	30	8	30
Education tax	10	10	18	5	18
Total expenditure	1,067	1,108	1,240	180	1,245
Recurrent expenditure	750	841	875	173	880
Personnel and pension	368	368	438	100	438
Overhead cost	109	146	102	16	102
Interest payments	213	242	244	40	248
Domestic	171	170	186	34	189
External, cash	43	72	58	7	59
Transfers 2/	59	84	92	16	92
Capital expenditure	318	267	365	7	365
Domestic	305	257	350	3	350
External	13	10	15	4	15
Overall balance (cash basis)	-315	-95	-70	152	344
Financing	312	81	70	-261	-453
External	-106	-128	-110	-7	-112
Borrowing	13	10	15	4	15
Amortization, cash	-101	-138	-126	-10	-127
Domestic financing	399	179	96	-254	-426
Central bank (net)	138	295	...	-412	-628
of which: excess oil proceeds	0	...	...	-69	-422
Commercial banks (net)	261	-116	...	158	201
Recovered funds	0	30	84	0	85
Statistical discrepancy	-2	-14	0	-109	-109
Memorandum items:					
Non-oil primary balance	-610	-593	-632	-82	-633
Budgetary revenue	723	964	1,122	320	1,541
Balance on the budget (BOF definition, debt service above-the-line)	-403	-223	-180	145	232
		(In percent of GDP)			
Total revenue	13.4	13.4	12.7	...	17.2
Petroleum revenue	9.0	9.8	8.7	...	13.3
Nonpetroleum revenue	4.3	3.6	3.9	...	3.9
Import and excise duties	1.6	1.3	1.1	...	1.1
Companies income tax	0.8	0.7	0.8	...	0.7
Value-added tax (VAT)	0.3	0.3	0.3	...	0.3
Federal government independent revenue	1.2	0.7	1.3	...	1.3
Total expenditure	19.0	14.7	13.4	...	13.5
Recurrent expenditure	13.3	11.1	9.5	...	9.5
Goods and services	8.5	6.8	5.8	...	5.8
Interest payments	3.8	3.2	2.6	...	2.7
Transfers 2/	1.0	1.1	1.0	...	1.0
Capital expenditure	5.6	3.5	4.0	...	4.0
Overall balance (cash basis)	-5.6	-1.3	-0.8	...	3.7
Financing	5.5	1.1	0.8	...	-4.9
External	-1.9	-1.7	-1.2	...	-1.2
Domestic financing	7.1	2.4	1.0	...	-4.6
Central Bank (net)	2.4	3.9	…	...	-6.8
Commercial banks (net)	4.6	-1.5	…	...	2.2
Recovered funds	0.0	0.4	0.9	...	0.9
Statistical discrepancy	0.0	-0.2	0.0	...	-1.2
Memorandum items:					
Non-oil primary balance (in percent of non-oil GDP)	-18.1	-14.6	-12.9	...	-12.9
Budgetary revenue	12.8	12.8	12.2	...	16.7
Balance on the budget (BOF definition)	-7.2	-3.0	-2.0	...	2.5
Nominal GDP (in billions of naira)	5,632	7,545	9,235	...	9,235

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

1/ Oil revenue net of cash call payments.

2/ Excluding transfer to the NNPC for cash call payments.

Table 3. Nigeria: Monetary Survey, 2001–04 1/

	2001	2002	2003	2004 Proj.
(In billions of Naira, end of period)				
Net foreign assets	1,433	1,387	1,476	2,091
Central Bank of Nigeria (net)	1,145	1,008	1,059	1,672
Foreign assets	1,156	1,014	1,065	1,761
Foreign liabilities	-11	-6	-6	-89
Short-term liabilities	-11	-6	-6	...
Commercial and merchant banks (net)	288	379	417	418
Foreign assets	305	398	438	440
Foreign liabilities	-17	-19	-21	-22
Net domestic assets	-91	238	541	212
Net domestic credit	830	1,329	1,765	1,282
Consolidated government 2/	2	391	573	-71
Central bank (net, consolidated government)	-179	-41	254	-589
Commercial banks (net, federal government)	154	415	298	500
Commercial banks (net, states and local governments)	-1	-30	-24	24
State and local government (gross claims)	27	17	20	...
Claims	27	17	20	...
Deposits	-27	-47	-44	...
Claims on nonfinancial public enterprises	1	0	0	0
Other financial institutions	6	5	7	11
Claims on private sector	821	933	1,185	1,341
All other items net	-921	-1,092	-1,223	-1,070
Banks' bond and money market instruments	26	25	32	...
Broad money	1,316	1,599	1,985	2,303
(Contribution to broad money growth, unless otherwise indicated)				
Net foreign assets	15.3	-3.5	5.5	31.0
Central Bank of Nigeria (net)	7.5	-10.4	3.2	30.9
Commercial and merchant banks (net)	7.7	6.9	2.3	0.1
Net domestic assets	12.6	25.0	19.0	-16.6
Net domestic credit	34.6	38.0	27.2	-24.3
Net credit to the consolidated government 2/	11.4	29.6	11.4	-32.4
Net credit to the federal government	9.5	30.3	11.2	-27.8
Claims on private sector	23.0	8.5	15.7	7.9
Other items (net)	-22.0	-13.0	-8.2	7.7
Broad money (percent change since year's end)	27.2	21.6	24.1	16.0
Claims on private sector (percent change since year's end)	40.9	13.6	27.0	13.2
Velocity (non-oil GDP/broad money)	0.56	0.53	0.52	0.53
Non-oil GDP_nominal	739	841	1,023	1,221

Sources: Nigerian authorities; and Fund staff estimates.

1/ Consolidated accounts of the CBN, commercial banks, and merchant banks.

2/ For the fiscal presentation, staff shows net claims of federal government and gross claims of subnational governments. The CBN includes deposits of the subnational governments in narrow and quasi money and gross claims as part of private sector credit. Staff shows gross claims of subnationals separately.

Table 4. Nigeria: Medium-term Balance of Payments, 2001–09

	2001	2002	2003	2004	2005	2006	2007	2008	2009
			Est.	Projections					
				(In millions of U.S. dollars)					
Trade balance	8,116	4,331	10,531	13,985	11,888	10,781	10,245	10,199	10,070
Exports	19,598	17,672	27,416	31,451	30,901	29,803	29,630	30,156	30,776
Oil	18,031	15,878	24,683	27,860	26,342	24,870	24,463	24,443	24,499
Gas	896	1,056	1,925	2,688	3,590	3,895	4,045	4,494	4,960
Other	671	738	809	903	969	1,037	1,123	1,219	1,317
Imports	-11,482	-13,342	-16,885	-17,466	-19,013	-19,022	-19,385	-19,958	-20,705
Oil-related	-1,891	-3,935	-5,188	-3,918	-4,194	-4,266	-4,318	-4,240	-4,198
Gas-related	-507	-538	-658	-1,382	-1,783	-1,670	-1,559	-1,589	-1,619
Other	-9,084	-8,868	-11,039	-12,166	-13,036	-13,085	-13,508	-14,129	-14,889
Services and incomes balance	-8,138	-10,836	-13,746	-15,164	-15,477	-15,308	-15,489	-16,013	-16,547
Factor services balance	-4,258	-6,401	-8,444	-9,742	-9,541	-9,156	-9,069	-9,293	-9,483
Oil-related	-2,712	-4,434	-5,897	-7,025	-6,902	-6,786	-6,800	-6,921	-6,962
Gas-related	-193	-488	-944	-1,193	-1,387	-1,310	-1,309	-1,493	-1,700
Non-oil related	-1,353	-1,479	-1,603	-1,524	-1,251	-1,060	-960	-879	-820
Of which: interest due on public debt 1/	-1,535	-1,557	-1,619	-1,539	-1,496	-1,473	-1,444	-1,418	-1,389
Nonfactor services balance	-3,880	-4,436	-5,302	-5,422	-5,936	-6,152	-6,420	-6,719	-7,064
Oil-related	-1,261	-1,528	-1,977	-1,400	-1,534	-1,580	-1,606	-1,573	-1,554
Gas-related	-213	-225	-272	-579	-746	-696	-648	-659	-669
Nonoil-related	-2,407	-2,683	-3,053	-3,443	-3,656	-3,876	-4,166	-4,488	-4,841
Private transfers (net)	1,303	1,421	1,677	1,878	1,990	2,110	2,236	2,371	2,513
Official transfers (net)	-25	-22	-20	-18	-16	-15	-13	-12	-11
Current account balance	1,255	-5,107	-1,559	681	-1,614	-2,432	-3,021	-3,455	-3,974
Official capital (net)	-1,642	-1,268	-1,291	-1,476	-1,572	-1,355	-1,056	-1,210	-1,295
Disbursements	70	106	76	111	168	225	250	243	204
Amortization due	-1,713	-1,373	-1,368	-1,587	-1,740	-1,579	-1,306	-1,453	-1,499
Other capital flows (net)	2,051	2,481	3,246	3,508	5,058	4,975	5,026	4,817	4,823
Direct and portfolio investment	2,051	2,481	3,246	3,508	4,973	4,858	4,726	4,539	4,494
Oil sector	566	1,358	2,185	1,811	2,657	2,530	2,486	2,331	2,266
Gas sector	351	370	440	1,011	1,275	1,148	1,046	1,046	1,046
Non-oil sector	1,134	752	620	686	1,040	1,180	1,195	1,162	1,182
Private borrowing (net)	0	0	0	0	85	117	299	278	329
Short-term capital (net)	-648	-431	-39	350	0	0	0	0	0
Capital account balance	-239	782	1,916	2,382	3,486	3,620	3,970	3,607	3,528
Errors and omissions	-1,114	-177	-1,963	0	0	0	0	0	0
Overall balance	-98	-4,503	-1,606	3,062	1,871	1,188	949	152	-447
Financing	98	4,503	1,606	-3,062	-1,871	-1,188	-949	-152	447
Net reserves (increase -)	-1,023	2,742	213	-5,006	-3,308	-2,440	-1,899	-1,223	-641
Exceptional financing	1,121	1,761	1,393	1,944	1,436	1,252	950	1,071	1,088
Net accumulation of arrears (decrease -)	375	1,900	1,177	1,326	1,436	1,252	950	1,071	1,088
Rescheduling 2/	746	0	0	...	...	...	...	...	...
Recovered funds 3/	...	...	216	618	...	...	...	...	...
Debt buyback (net)	...	-139	...	...	...	...	...	...	...
				(In percent; unless otherwise indicated)					
Memorandum items:									
Gross official reserves (in US$ millions)	10,423	7,681	7,468	12,474	15,782	18,222	20,121	21,344	21,986
(in months of imports (GNFS))	7.6	4.9	3.8	6.1	7.1	8.1	8.8	9.0	8.9
Current account (in percent of GDP)	2.6	-11.1	-2.7	1.0	-2.3	-3.4	-4.1	-4.4	-4.9
Non-oil current account (in percent of non-oil GDP)	-41.3	-39.6	-42.6	-40.2	-38.0	-35.6	-34.4	-33.5	-32.9
Primary balance/GDP	-0.6	-14.5	-5.5	-1.3	-4.4	-5.4	-6.0	-6.3	-6.6
Primary balance/Non-oil GDP	-1.1	-24.2	-10.2	-2.4	-7.9	-9.3	-10.0	-10.3	-10.5
Trade balance/GDP	17.0	9.4	18.3	20.8	16.8	14.9	13.7	13.1	12.3
Non-oil trade balance/Non-oil GDP	-31.9	-29.5	-32.9	-31.5	-30.6	-28.8	-27.8	-27.2	-26.7
Oil and gas sector exports/GDP	39.7	36.7	46.1	45.5	42.3	39.8	38.2	37.1	36.0
Total imports/GDP	-24.1	-28.9	-29.3	-26.0	-26.9	-26.3	-26.0	-25.6	-25.3
Stock of external debt (in U.S. dollar millions)	29,686	30,993	32,818	32,669	32,533	32,430	32,325	32,183	31,976
Total external debt/GDP	62.3	67.2	56.9	48.7	46.0	44.9	43.3	41.3	39.1
Total external debt/Exports (GNFS) 4/	150.2	144.7	144.3	121.5	103.4	100.2	101.6	101.7	99.7
Total external debt/Consolidated revenue	147.9	185.9	156.0	108.5	112.2	115.8	115.4	112.7	108.6
Debt service due/GDP	5.2	6.4	5.2	4.7	4.6	4.2	3.7	3.7	3.5
Oil export price (U.S. dollars per barrel)	24.3	25.0	29.0	33.5	30.5	28.0	27.0	26.3	25.8
GDP (at factor cost; in U.S. dollar millions)	46,246	44,632	56,244	65,740	69,344	70,847	73,161	76,457	80,398

Sources: Nigerian authorities; and staff estimates and projections.

1/ Including penalty interest on arrears.

2/ In 2000–01, reflects the Paris Club rescheduling agreement of December 13, 2000.

3/ For 2003, actual recovered funds received by CBN. In 2004, anticipated funds recovered by the Swiss Government.

4/ Three-year moving average of exports.

Table 5. Nigeria: Financial Soundness Indicators for the Banking Sector, 1998-2003

(In percent, unless otherwise indicated)

	1998	1999	2000	2001	2002	2003
Capital Adequacy						
Regulatory capital to risk-weighted assets*	12.7	19.0	17.5	16.2	18.1	17.83
Regulatory Tier I capital to risk-weighted assets*	9.3	15.7	14.8	14.2	16.0	15.72
Capital (net worth) to assets*	9.3	8.2	7.4	7.5	10.4	8.59
Asset composition and quality						
Sectoral distribution of loans to total loans						
Government	…	0.4	2.5	5.0	5.4	4.5
Manufacturing	…	35.0	30.6	20.0	26.6	25.1
Agriculture	…	9.5	8.8	5.6	6.5	5.3
Commerce	…	24.1	25.3	24.1	23.3	23.7
FX loans to total loans 1/	…	…	…	…	…	…
NPLs to gross loans*	19.4	25.6	22.6	19.7	21.4	19.8
NPLs net of provisions to capital*	8.9	50.1	43.8	19.9	22.9	18.1
Spread between highest and lowest interbank rates						
Earnings and Profitability						
ROA*	4.5	4.1	4.0	3.3	2.4	1.7
ROE*	…	…	…	43.7	28.1	19.8
Interest margin to gross income*	42.5	43.1	38.6	41.4	43.2	39.6
Trading and fee income to total income	…	…	…	25.6	22.4	29.9
Noninterest expenses to gross income*	52.0	49.3	46.4	45.5	49.7	57.6
Personnel expenses to noninterest expenses	…	…	…	…	…	…
Spread between reference loan and deposit rates						
Liquidity						
Liquid assets to total assets*	41.0	51.1	51.4	29.2	31.5	27.8
Liquid assets held in government securities	…	…	…	35.2	50.8	44.4
Liquid assets to total deposits*	83.0	99.4	99.9	49.3	78.0	54.5
Customer deposits to total (non-interbank) loans	114.9	153.9	161.6	…	…	…
FX liabilities to total liabilities	…	6.6	5.1	…	…	…
Memorandum items:						
Total Loans (in billions of naira)	…	…	…	788	929	1,154
Total Assets (in billions of naira)	…	…	…	2,028	2,476	2,758
Number of banks receiving emergency liquidity assistance 2/	…	…	…	…	…	…

Source: Nigerian authorities.

* Included in the "core set" of FSIs.

1/ Data is not available, but the evidence is that FX loans were virtually zero until very recently.

2/ The CBN and Nigerian Deposit Insurance do not report data on bank assistance, but it is considered to be large.

Table 6. Nigeria - Oil and Gas Sector Overview, 2002-09

	2002	2003	2004	2005	2006	2007	2008	2009
Physical balances								
	(In million barrels per day, unless otherwise indicated)							
Crude oil								
Oil price (U.S. dollar per barrel)	25.0	29.0	33.5	30.5	28.0	27.0	26.3	25.8
Production of crude oil	1.96	2.45	2.50	2.63	2.70	2.75	2.81	2.88
Crude	1.83	2.30	2.37	2.42	2.47	2.52	2.56	2.62
Condensates	0.13	0.15	0.13	0.21	0.23	0.23	0.25	0.26
Domestic allocation to NNPC	0.44	0.43	0.44	0.44	0.44	0.44	0.44	0.44
Domestic refining	0.22	0.12	0.22	0.22	0.22	0.22	0.22	0.22
Exports of crude oil	1.74	2.33	2.28	2.37	2.43	2.48	2.55	2.61
of which: exports out of domestic allocation	0.23	0.31	0.22	0.22	0.22	0.22	0.22	0.22
OPEC quota	1.79	2.01	2.02	2.06	2.10	2.14	2.18	2.23
	(In billion cubic feet, unless otherwise indicated)							
Natural gas								
Total production	1,772	1,819	2,039	2,106	2,161	2,200	2,376	2,532
LNG feed	279	438	530	777	918	989	1,130	1,271
NGL feed	104	104	104	214	287	287	287	287
Other	248	255	286	314	346	380	418	460
Reinjection	273	257	263	272	279	284	282	277
Flaring	667	864	857	530	332	261	259	237
Gas sales (LNG and NGL feed; in million barrels per day oil equivalent)	0.19	0.26	0.31	0.48	0.59	0.62	0.69	0.76
Flaring (in percent of total gas produced)	37.6	47.5	42.0	25.2	15.4	11.9	10.9	9.4
Financial balances								
	(in millions of U.S. dollars, unless otherwise indicated)							
National accounts and balance of payments								
Crude oil								
Production of crude oil (including condencates)	17,853	26,037	30,665	28,817	27,143	26,654	26,646	26,588
Exports	15,878	24,724	27,951	26,342	24,870	24,463	24,510	24,499
Export of federation crude	4,163	7,302	10,517	10,061	9,570	9,478	9,584	9,647
NNPC exports of domestic allocation	2,098	3,284	2,711	2,475	2,272	2,191	2,136	2,090
Foreign partner exports	7,677	11,165	14,711	13,832	13,028	12,794	12,790	12,762
Domestic use	1,974	1,284	2,701	2,475	2,272	2,191	2,130	2,090
Recurrent costs	2,862	3,492	3,097	3,536	3,627	3,694	3,798	3,864
Investment	3,862	5,326	3,637	3,711	3,749	3,776	3,565	3,443
FDI	1,358	2,185	1,811	2,657	2,530	2,486	2,331	2,266
Profit remittances 1/	4,434	5,897	7,025	6,902	6,786	6,800	6,921	6,962
Gas								
Gas sales	575	558	659	1,019	1,077	1,007	1,082	1,186
NGL 2/	362	221	256	429	379	255	223	220
NLNG 3/	213	337	403	590	698	751	859	966
Recurrent costs	153	217	254	396	482	510	567	623
Investment	726	863	1,983	2,500	2,250	2,050	2,050	2,050
FDI	370	440	1,011	1,275	1,148	1,046	1,046	1,046
Profit remittances 4/	488	944	1,193	1,387	1,310	1,309	1,493	1,700
Oil and gas GDP (percentage change)	-11.6	26.6	3.3	11.0	5.5	2.6	3.8	3.8
Production of crude oil (percentage change)	-13.3	25.1	1.9	3.6	2.6	1.8	2.5	2.0
Gas sales (LNG and NGL feed; percentage change)	10.5	41.4	17.0	56.2	21.6	5.9	11.1	10.0
Government revenue								
Oil								
Export of federation crude	4,163	7,302	10,517	10,061	9,570	9,478	9,584	9,647
PPT	1,852	3,369	5,204	4,600	4,054	3,850	3,736	3,668
Royalties, incl. rent	1,391	1,899	2,482	2,330	2,189	2,143	2,133	2,132
Domestic crude & tax on petroleum products	2,381	2,813	5,456	4,963	4,158	4,382	4,272	4,179
Miscellaneous oil revenue (pipeline fees)	172	254	259	268	246	223	201	179
Gas								
NGL	177	108	126	210	186	125	109	108
LNG feed gas	105	165	209	307	363	391	447	502
LNG dividends	0	226	463	916	880	906	993	1,084
Flaring 5/	33	37	61	36	21	16	16	14
Government share of costs	3,083	3,500	3,200	3,000	3,000	3,000	3,000	3,000
Net oil and gas revenue	7,191	12,674	21,577	20,690	18,666	18,516	18,490	18,512

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

1/ Calculated as foreign partner exports minus PPT and royalties minus foreign partner share of operating costs.

2/ NNPC data for 2002-03. Projection calculated as NGL export revenue minus operating and capital cost (netback value for feed gas).

3/ NNPC data for 2002-03. Projection assumes price of US$0.68 per cubic feet of feed gas.

4/ Calculated as foreign partner share of dividends for LNG, foreign partner share in feed gas delivery for NGL.

5/ NNPC data for 2002-03. Projection calculated as residual and assuming a price of N10 per cubic feet.

Table 7. Nigeria: Fiscal Accounts, Authorities' Quarterly Federal Government Budget, 2003-04

	2003	2004					
	Est.	Budget	Q1 Est.	Q2	Q3	Q4	Year
Oil price (in U.S. dollars per barrel)	29.0	25.0	...	...	...	...	33.5
			(In billions of naira)				
Total revenue 1/	1,013	1,170	332	394	422	441	1,589
Petroleum revenue	740	806	274	317	317	317	1,225
Nonpetroleum revenue	273	365	58	77	105	124	364
Import and excise duties	95	106	25	24	28	29	106
Companies income tax	56	69	13	16	20	20	69
Value-added tax (VAT)	20	23	5	5	6	7	23
Federal government independent revenue	54	118	2	20	40	56	118
Customs levies	39	30	8	8	8	8	30
Education tax	10	18	5	5	5	5	18
Total expenditure	1,108	1,240	180	426	353	285	1,245
Recurrent expenditure	841	875	173	269	221	218	880
Goods and services	514	539	116	154	135	135	540
Personnel and pension	368	438	100	118	109	110	438
Personnel	304	368	83	101	92	92	368
Pensions	64	70	18	17	18	18	70
Overhead cost	146	102	16	36	25	25	102
Interest payments	242	244	40	85	63	60	248
Domestic	170	186	34	66	47	44	189
External, cash	72	58	7	19	16	16	59
Transfers 2/	84	92	16	30	23	23	92
National Judicial Council	26	30	4	10	8	8	30
Transfer to Niger Delta Dev. Comm.	9	14	0	7	4	4	14
Customs levies	39	30	8	8	8	8	30
Education Fund	10	18	5	5	5	5	18
Capital expenditure	267	365	7	158	133	67	365
Domestic	257	350	3	154	129	63	350
External	10	15	4	4	4	4	15
Overall balance (cash basis)	-95	-70	152	-32	69	156	344
Financing	81	70	-261	32	-69	-156	-453
External	-128	-110	-7	-37	-28	-40	-112
Borrowing	10	15	4	4	4	4	15
Amortization, cash	-138	-126	-10	-40	-32	-44	-127
Domestic financing	179	96	-254	69	-125	-116	-426
Central bank (net)	295	...	-412	20	-117	-117	-628
of which: excess oil proceeds	...	...	-69	-117	-117	-117	-422
Commercial banks (net)	-116	...	158	49	-8	2	201
Recovered funds	30	84	0	0	85	0	85
Statistical discrepancy	-14	0	-109	0	0	0	-109
Memorandum items:							
Non-oil primary balance	-593	-632	-82	-264	-185	-101	-633
Budgetary revenue	964	1,122	320	382	410	429	1,541
Balance on the budget (BOF definition, debt service above-the-line)	-223	-180	145	-69	40	116	232
			(in percent of GDP)				
Total revenue	13.4	12.7	...	...	...	...	17.2
Petroleum revenue	9.8	8.7	...	...	...	...	13.3
Nonpetroleum revenue	3.6	3.9	...	...	...	...	3.9
Total expenditure	14.7	13.4	...	...	...	...	13.5
Recurrent expenditure	11.1	9.5	...	...	...	...	9.5
Goods and services	6.8	5.8	...	...	...	...	5.8
Interest payments	3.2	2.6	...	...	...	...	2.7
Transfers 2/	1.1	1.0	...	...	...	...	1.0
Capital expenditure	3.5	4.0	...	...	...	...	4.0
Overall balance (cash basis)	-1.3	-0.8	...	...	...	...	3.7
Financing	1.1	0.8	...	...	...	...	-4.9
External	-1.7	-1.2	...	...	...	...	-1.2
Domestic financing	2.4	1.0	...	...	...	...	-4.6
Central bank (net)	3.9	…	...	...	...	...	-6.8
Commercial banks (net)	-1.5	…	...	...	...	...	2.2
Recovered funds	0.4	0.9	...	...	...	...	0.9
Statistical discrepancy	-0.2	0.0	...	...	...	...	-1.2
Memorandum items:							
Non-oil primary balance (in percent of non-oil GDP)	-14.6	-12.9	...	...	...	...	-12.9
Budgetary revenue	12.8	12.2	...	...	...	...	16.7
Balance on the budget (BOF definition)	-3.0	-2.0	...	...	...	...	2.5
Nominal GDP (in billions of naira)	7,545	9,235	...	...	...	...	9,235
Nominal non-oil GDP (in billions of naira)	4,069	4,913	...	...	...	...	4,913

Source: Nigerian authorities' projections.

1/ Oil revenue net of cash call payments.

2/ Excluding transfer to the NNPC for cash call payments.

Table 8a. Nigeria: Central Bank of Nigeria's Monetary Authorities Balance Sheet, 2003-04

(In billions of naira, unless otherwise indicated)

	2003	2004			
	Dec.	Mar.	Jun.	Sept.	Dec.
Net foreign assets	1,059.1	1,259.3	1,293.7	1,459.6	1,607.8
Foreign assets	1,065.1	1,347.9	1,382.3	1,548.2	1,696.4
Foreign liabilities	-6.0	-88.6	-88.6	-88.6	-88.6
Net domestic assets	-370.5	-624.3	-663.9	-746.9	-862.5
Domestic credit	42.8	-262.6	-318.5	-483.1	-593.7
Government (net)	254.1	-231.9	-212.2	-329.3	-446.7
Claims on deposit money banks	15.6	57.6	30.0	30.0	30.0
Claims on state and local governments (net)	0.0	-1.2	-46.8	-94.4	-111.6
Claims on non-financial private sector (net)	1.7	1.7	0.0	0.0	0.0
Claims on other financial institutions (net)	6.8	11.3	11.1	11.1	11.1
Claims on non-financial public enterprises (net)	-235.4	-100.1	-100.6	-100.6	-76.6
Other items net	-413.2	-361.7	-345.5	-263.8	-268.8
Reserve money	688.7	635.0	629.7	712.7	745.3
Currency in circulation	502.3	466.5	452.9	458.8	512.9
Bank deposits with CBN	186.4	168.5	176.8	254.0	232.4
Required reserves	152.1	133.9	135.2	171.2	179.0
Other reserves	34.3	34.6	41.6	82.7	53.4
Memorandum items:					
Reserve Money					
Month-on-month percent change	4.3	0.5	-1.7	1.2	3.5
Percent change since end-2003	...	-7.8	-8.6	3.5	8.2
Gross reserves (in millions of U.S. dollars)	7,690	9,911	10,164	11,384	12,474

Source: Nigerian authorities' projections.

Table 8b. Nigeria: Central Bank of Nigeria's Quarterly Monetary Survey, 2003-04 1/

	2003	2004			
			Projections		
	Dec.	Mar.	Jun.	Sep.	Dec.
	(In billions of naira)				
1. Domestic credit (net)	1,854	1,642	1,547	1,554	1,533
(a) Claims on general government (net)	553	225	-3	-123	53
By central bank	254	-232	-212	-329	-447
By banks (FGN)	298	457	209	206	500
(b) Claims on Private Sector	1,302	1,417	1,550	1,677	1,480
By central bank	9	13	0	0	11
By banks	1,293	1,403	1,550	1,677	1,468
2. Foreign assets (net)	1,476	1,766	1,801	1,966	2,115
By central bank	1,059	1,348	1,382	1,548	1,696
By banks	417	418	418	418	418
3. Other assets (net)	-1,345	-1,285	-1,220	-1,335	-1,345
Total monetary assets	1,985	2,123	2,127	2,185	2,303
Quasi-money	760	920	1,233	1,250	-1,395
Money supply	1,226	1,203	895	935	1,395
Currency outside banks	412	384	0	0	419
Demand deposits	813	818	895	935	976
Growth rate over preceding December	(In percent)				
Credit to the domestic economy (net)	...	-11.5	-16.6	-16.2	-17.3
Claims on general government (net)	...	-59.3	-100.5	-122.3	-90.4
By central bank	...	-191.2	-183.5	-229.6	-275.8
By deposit money banks	...	53.0	-29.9	-30.9	67.5
Credit to the private sector	...	8.8	19.0	28.8	13.7
Foreign assets (net)	...	19.7	22.0	33.3	43.3
Other assets (net)	...	4.4	9.3	0.7	0.0
Broad money (M2)	...	6.9	7.2	10.1	16.0

Source: Nigerian authorities' projections.

1/ This scenario assumes that the Federal government and 12 out of 36 states save the oil windfall.

Nigeria: Relations with the Fund
(As of April 30, 2004)

I. **Membership Status:** Joined: 03/30/1961; Article XIV

II. **General Resources Account:**	**SDR Million**	**%Quota**
Quota	1,753.20	100.00
Fund Holdings of Currency	1,753.12	100.00
Reserve position in the Fund	0.14	0.01

III. **SDR Department:**	**SDR Million**	**%Allocation**
Net cumulative allocation	157.16	100.00
Holdings	1.07	0.68

IV. **Outstanding Purchases and Loans:** None

V. **Latest Financial Arrangements**:

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

VI. **Projected Obligations to Fund**:(SDR Million; based on existing use of resources and present holdings of SDRs):

		Forthcoming			
	2004	2005	2006	2007	2008
Principal					
Charges/Interest	1.89	2.54	2.54	2.54	2.55
Total	1.89	2.54	2.54	2.54	2.55

VII. **Exchange Rate Arrangement**:

Nigeria's current exchange rate arrangement is classified in the Fund's Annual Report on Exchange Arrangements and Exchange Restrictions as a managed float with no preannounced target for the exchange rate of the naira. The inter-bank foreign exchange market is segmented into two sub-markets. The Central Bank of Nigeria (CBN) sells foreign exchange to legitimate end-users through banks that bid , with requests having to be supported by the required documentation. The open Nigerian inter-bank market (NIFEX) is the market for foreign exchange obtained from other sources than the CBN, including non-oil exports and personal transfers, and the NIFEX rate is freely negotiable among commercial banks as well as among customers. On February 20, 2001, the CBN issued a circular which forbid banks from transferring funds obtained from the CBN to other banks through the NIFEX, effectively segmenting the two markets. On July 22, 2002, the authorities adopted the Dutch Auction System (DAS) for selling official foreign exchange to end-users. The DAS is a sealed bid multiple price auction system with the marginal rate being the rate that clears the market. Auctions take place twice a week and the CBN announces the amount on offer the day before the auction and the auction results the day after. Funds purchased from the CBN shall be used for eligible transactions only, subject to stipulated documentation requirements. Such funds are not transferable in the inter-bank foreign exchange market.

Currently, there are four exchange rates: the DAS auction rate, the NIFEX rate quoted by a group of commercial banks, the *Bureaux de change* rate, and the parallel market rate.

The following exchange rates were quoted on April 8, 2004:

IFEM/DAS	N = US$133.
NIFEX	N = US$138.4.
Bureaux de change/parallel market	N = US$136.

The exchange rate for the SDR on April 7, 2004 was N176.6 = SDR 1.

VIII. **Article IV Consultation**

Nigeria is on the standard 12-month Article IV consultation cycle. The last Article IV consultation discussions were held in Lagos and Abuja during the period June 15–25 and October 9–18, 2002. The staff report (November 25, 2002) was discussed by the Executive Board and the consultation concluded on December 18, 2002.

IX. **Technical Assistance (TA) Since 2000**:

Department	**Purpose of TA mission**	**Duration**
FAD	Fiscal regime for oil and gas	February 8–26, 2000
STA	Balance of payments statistics	November 8–21, 2000
FAD	Resident treasury advisor	November. 25, 2000–Feb. 25–2001 and April 8–July 7, 2001
FAD	Resident budget advisor	January 11–March 11, 2001
FAD	Fiscal federalism	January 24–Feb. 11, 2001
STA	Government finance statistics	January 21–Feb. 3, 2001
FAD	Expenditure Management	February 2–10, 2001
STA	Money and banking statistics	March 22–April 4, 2001
MAE	Foreign exchange management	May 28–June 8, 2001
FAD	Resident budget advisor	October 2000 – Dec. 2001
MAE	FSAP	Dec. 5–Dec. 15, 2001
MAE	FSAP	Feb. 4–Feb. 20, 2002
FAD	Public Expenditure Management	January 29–February 8
STA	Government Finance Statistics	Feb. 28–March 13, 2002
FAD	Resident budget advisor	Apr. 19 2002– June 2003
MFD	Domestic Debt Management	February 25–March 5, 2003

STA	General Data Dissemination Standards	July 2–15, 2003
STA	National Accounts	July 24–August 12, 2003
FAD	Budget Process Reforms	August 20–29, 2003
FAD	Pension Reform	October 20–29, 2003
FAD	Public Expenditure Management Advisor	January–December 2004
MFD	Domestic Debt Management	February 5–17, 2004

X. **Resident Representative**:

Mr. Idrissa Thiam has entered on duty as Senior Resident Representative in Abuja on December 20, 2003.

Nigeria: Relations with the World Bank Group

World Bank Strategy of Assistance to Nigeria

1. A second progress report on the World Bank Group's Joint Interim Strategy of Assistance to Nigeria (JISU) is expected to be presented to the World Bank Board for discussion in May 2004. Given recent progress on economic policy and performance, one of the intended objectives of the Board discussion is to secure endorsement of an expanded World Bank engagement in Nigeria and in particular, a move from the current low case lending envelope of $200 million annually to the base case of $400 million annually.[28] The three main pillars of the JISU are: (i) strengthening economic governance; (ii) promoting private sector-led growth; and (iii) expanding delivery of basic social services to the poor through the empowerment of local communities. A full Country Assistance Strategy, based on Nigeria's PRSP (now being elaborated in the form of the National Economic Empowerment and Development Strategy-NEEDS), is expected to be prepared in close collaboration with the Nigerian government and other stakeholders in FY05.

2. Bank assistance in FY04 has focused on responding quickly to the Federal Government's new reform momentum through both formal and informal technical assistance and advice in a broad range of areas. The Bank Group has also been strengthening the pipeline of lending operations—including on civil service reform—in anticipation of an expanded program.

World Bank-IMF relations

3. The IMF and World Bank staffs maintain a close collaborative relationship on Nigeria. Both institutions are coordinating their policy advice to the government in several different areas through collaboration on analytical work, and through joint technical assistance missions. The Bank staff is regularly invited to, and does, join IMF macroeconomic missions, and both are members of a multi-donor thematic group on economic governance that seeks to coordinate donor advice and work in this area.

4. In September 2003, at the request of the Nigerian government, the Bank and the IMF carried out a joint technical assistance mission for the Budget Office. A similar joint mission to advice government on the proposed Pension Reform Bill was carried out in November 2003. Support to the preparation of the NEEDS is also another area of close collaboration between the two institutions.

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[28] An informal briefing of the Board on progress in implementation of the JISU in June 2002, led to a scaling back of the Bank's lending envelope from the base case of $400 million to a low case of $200 million.

5. Under the erstwhile Stand-By Arrangement, the IMF took the lead in the area of macroeconomic stability with the dialogue on structural measures, coordinated with the World Bank. In the absence of a successor IMF-supported program, a detailed matrix stipulating areas where each institution will take the lead in supporting key structural measures, including several areas of joint responsibility such as fiscal transparency, fiscal federalism, budget procedures and institutions, and public debt management, has not been agreed. This could be explored in the context of the preparation and implementation of the NEEDS.

Lending activities

6. The World Bank's Nigeria portfolio consists of fifteen credits, totaling about $1.1 billion. Operations cover activities in Health (22 percent), Education (14 percent), Private Sector Development (13 percent), Urban Development (10 percent), Rural Sector (9 percent); Transport (9 percent) Energy & Mining (9 percent) Social Development/Social Protection (11.8 percent), Economic Policy (1.8 percent), and Water Supply & Sanitation (0.4 percent).

7. Two credits in the portfolio (the Economic Management and Capacity Building Project and the Privatization Support Project) are focused on economic management and on support for the government's privatization effort. An operation to support a first phase of the Federal Government's Civil Service Reform Program is expected to be ready for Board approval—subject to Board agreement to a larger lending envelope for FY04—in June 2004. A States Governance and Capacity Building Project would focus on building economic management capacity and on civil service reform at the state level, is expected to be ready for approval in early FY05.

8. **The Economic Management and Capacity Building Project** (US$20 million in IDA financing, and cofinancing of US$19.6 million from the U.S. Agency for International Development, the U.K. Department for International Development, the European Union, and Japan) was approved on May 11, 2000. It supports the strengthening of key aspects of economic management, including economic and poverty statistics, public expenditure management, public procurement, and external audit and oversight of federal government fiscal operations—including by the legislature—and legal and judicial reform. Under this project, value-for-money audits of selected items of federal government spending (both recurrent and capital) and a corruption survey have been carried out. Other key activities that are being supported include the revision of the 1958 Finance (Management and Control) Act, implementation of procurement reforms, installation of an integrated Financial and Economic Management Information System, and construction of a global distance-learning center.

9. For the **Privatization Support Operation**, the World Bank Board approved the $114.29 million equivalent of IDA credit on June 14, 2001. The aim of this project is to strengthen the overall institutional and policy framework for public enterprise divestiture and improve the institutional capacity of the Bureau of Public Enterprises, the agency responsible

for privatization. The project also provides financing for advisory services for privatization of the power sector (the Nigerian Electric Power Authority) and the telecommunications sector (divestiture of the national telecommunications companies, NITEL and M-Tel). In addition, the project supports the divestiture of Lagos State Water through concessioning (an IFC mandate) and rehabilitation of the water supply system in Lagos. A mid-term review of the project that took place from March 26-April 6, 2004 agreed on details of reallocation of resources and monitoring of results, which will enable a more focused and efficient project implementation.

Nonlending activities

10. The World Bank has placed increased emphasis on its non-lending activities. Work in this area has focused on public expenditure management—through public expenditure reviews at both federal and state levels, a report on state finances, and a report on the states' governance and capacity. Other elements of this work include collaboration with the Debt Management Office on Management of Sub-national Debt; a report on managing volatility; a pilot survey of service delivery in basic health in Lagos and Kogi States; a private sector assessment; a rural sector strategy; and a report on the linkages between environment and poverty. Bank staff worked closely with various policy groups, within and outside government on outlining key reform and development priorities and actions. An Education Sector Status Report was completed in FY03 and is Risk and Vulnerability Assessment is to be completed in FY04. Work is ongoing on a study on Oil Revenues Management including a workshop in February 2004—in collaboration with the IMF—to bring together various Nigerian stakeholders as well as external experts on this issue. A study on the micro foundations of competitiveness in specific industries is also in process.

IFC activities

11. As of October 2003, Nigeria's portfolio was about US$171 million with activities in: finance and insurance (62 percent); oil, gas and mining (26 percent); private equity funds (6 percent); and other activities (6 percent). IFC continues to encourage and support Small and Medium Enterprises, and invests in private sector development, including the banking industry and infrastructure.

12. IFC also seeks to promote projects that will assist Nigeria in diversifying its economy from the oil sector and removing bottlenecks faced by the non-oil private sector. Recent activities include for:

13. *Small and Medium Enterprises (SMEs)*: IFC provides a broad range of financing and technical support to small businesses in Nigeria. Jointly with UNIDO, support was provided to NGOs (the FATE Foundation and the Onitsha/Nnewi/Aba Cluster program) through the Support Training Entrepreneurship Program (STEP), which provides business development services to micro enterprises. Other initiatives include a financing and capacity-building facility for small-scale oil service companies in the Niger Delta region. A comprehensive program with support from the World Bank is also being designed to provide additional

support for small business access to finance, business development services and for help in improving the SME business environment.

14. *Telecommunications Sector*: In FY02 IFC approved an investment of $100 million for MTN Nigeria, a large mobile telecommunication company, for the expansion of its nationwide GSM (Global System for Mobile Communications) cellular telecommunications network in Nigeria, and by February 2006, the company expects to have well in excess of 15,000,000 subscribers in accordance with its license requirements. IFC is playing role of fostering competition, supporting private sector development, and improve the telecommunications market and services.

15. *Financial Sector*: Since scaling up of IFC operations began in 1999–2000, IFC has worked with seven commercial banks, extending term facilities totaling over $160 million. With no long-term funding options available in Nigeria, banks have used the IFC credits to offer medium-term financing to a range of clients in expanding their businesses. IFC is expanding this relationship with leading banks to support more small business financing options, and also to build the nascent corporate bond market.

World Bank Institute activities (WBI)

16. Nigeria is one of the WBI's six focus countries in Africa. The number of Nigerian participants in WBI programs has significantly increased in the last two years (from 280 participants in FY01, to 519 in FY02 and 1,430 in FY03). The sharp increase in the number of participants in FY03 was due to the increased use of Distance Learning as a delivery mode and the larger number of events held locally. The professional groups and communities of practice that took the fullest advantage of WBI programs were public expenditure managers, individuals involved in social protection/social risk management programs, parliamentarians, and journalists. This concentration of efforts is in line with the World Bank's strategy to help Nigeria manage its public resources and help strengthen the voice of the poor at the community level. However, irrespective of the well-targeted WBI assistance, it is unlikely to make a lasting impact on capacity, if the Institute does not adequately leverage its efforts with those of the Africa Region and other development partners. For this reason, the Institute is taking steps to increase its involvement in the context of the WBI *Country Program Brief* endorsed by the Nigeria Country Team. Thematically, in coming years, the WBI program will be more focused on developing the capacity of members of the civil society working to make their voices heard and forge a national consensus. For this reason, the Institute is carrying out a major effort to identify capacity building needs at the community level through the Capacity Enhancement Needs Assessment (*CENA*) methodology. The pursuit of the World Bank's strategic objectives has also led to a better integration of WBI staff into the Nigeria Country Team and IDA project teams.

Nigeria: IDA Credits in the Operations Portfolio

(As of April 2, 2004)

Closed Projects: 98

Active Projects			**Original Amount in US$ mil**		**Difference Between Expected and Actual Disbursements a/**	
Project ID	**Project Name**	**Fiscal Year**	**Approved IDA Amount**	**Undisbursed**	**Orig.**	**Frm Rev'd**
P070290	2nd Health Systems Dev.	2002	127.0	142.30	42.75	
P066571	2nd Primary Education	2000	55.0	29.40	26.40	22.63
P069086	Com.-Based Pov. Reduction	2001	60.0	53.09	16.35	10.85
P069901	Community Based Urban Dev.	2002	110.0	127.01	42.00	8.43
P065301	Economic Mgt Capacity Building	2000	20.0	8.09	-0.40	
P070291	HIV/AIDS Program Dev.	2002	90.3	97.37	33.53	
P083082	Micro, Small & Med. Enterprise	2004	32.0	33.3	1.1	
P074963	Lagos Urban Transport Project	2003	100.0	109.20	18.83	3.20
P069892	Local Empowerment & Envir. Mgmt.	2004	70.0	77.59	3.08	
P070293	Privatization Support	2001	114.3	117.68	47.50	
P063622	Fadama II	2004	100.0	104.04	2.00	
P072018	Transmission Development	2002	100.0	105.30	60.47	25.29
P080295	Polio Eradication	2003	28.7	11.24	9.54	
P064008	Small Towns Water	2000	5.0	3.37	2.82	2.82
P071494	Universal Basic Ed.	2003	101.0	113.28	36.76	
Overall Result			**1,113.3**	**1,132.29**	**342.77**	73.22

IBRD/IDA *	**US$ mil**
Total Disbursed (Active)	142.46
of which has been repaid	0.00
Total Disbursed (Closed)	6,029.55
of which has been repaid	5,323.53
Total Disbursed (Active + Closed)	6,172.01
of which has been repaid	5,323.53
Total Undisbursed (Active)	1,132.29
Total Undisbursed (Closed)	0.00
Total Undisbursed (Active + Closed)	1,132.29

Note: Undisbursed amount may be higher than Approved amount due to exchange rate vis-à-vis SDR.

a/ Intended disbursements to-date minus actual disbursements to-date as projected at appraisal
* Disbursement data is updated at the end of the first week of the month.

International Finance Corporation
Nigeria - Statement of IFC's Held and Disbursed Portfolio

Amounts in US Dollar Millions

As of February 29, 2004

Approval Fiscal Year	Institution Short Name	Loan Cmtd-IFC	Equity Cmtd-IFC	QL+QE Cmtd-IFC	All Cmtd-IFC	Loan Out-IFC	Equity Out-IFC	QL+QE Out-IFC	All Out-Part
1998	AEF Ansbby	0.10	0	0	0	0.10	0	0	0
1997	AEF Ekesons	0	0	0	0	0.00	0	0	0
1999	AEF Global Fabri	0.32	0	0	0	0.32	0	0	0
1999	AEF Hercules	1.30	0	0	0	1.30	0	0	0
1999	AEF Hygeis	0	0.19	0	0	0	0.19	0	0
1996	AEF Mid-East	0	0	0.12	0	0	0	0.12	0
1997	AEF Moorhouse	0.68	0	0	0	0.68	0	0	0
2000	AEF Oha Motors	0.84	0	0	0	0.84	0	0	0
1997	AEF Radmed	0.25	0	0	0	0.25	0	0	0
2000	AEF SafetyCenter	0.50	0.06	0	0	0.50	0.06	0	0
1997	AEF Telipoint	0.08	0	0	0	0.08	0	0	0
1995	AEF Vinfesen	1.00	0	0	0	1.00	0	0	0
1994	Abuja Int'l	1.75	0.71	0	0	1.75	0.71	0	0
2003	Adamac	25.00	0	0	15.00	11.56	0	0	6.94
1964/1966/1970/1989	Arewa Textiles	0	0.00	0	0	0	0	0	0
2000	CAPE FUND	0	7.50	0	0	0	5.4	0	0
2000	Citibank (Nig)	7.36	0	0	0	7.36	0	0	0
2001	Delta Contractor	15.00	0	0	0	0.20	0	0	0
2000	Diamond Bank	12.00	0	0	0	12.00	0	0	0
2000	FSB	10.50	0	12.00	0	10.50	0	7.5	0
1992/1993	FSDH	0	0.86	0	0	0	0.86	0	0
2000	GTB	16.00	0	0	0	16.00	0	0	0
2000	IBTC	20.00	0	0	0	20.00	0	0	0
1981/1985/1988	Ikeja Hotel	0	1.46	0	0	0	1.46	0	0
2002	MTNN	85.00	15.00	0	0	19.09	14.56	0	0
2001	UBA	0	0	10.00	0	0	0	0	0
Total Portfolio:		197.68	25.78	22.12	15.00	103.53	23.24	7.62	6.94

Approvals Pending Commitment

2004	UPDC Hotels Ltd.	11	0	0	0

Nigeria: IDA Lending Summary FY04-FY07

As of Date: 04/2/2004

Fiscal year	*Project ID*	*US$(M)*	*Strategic Rewards b (H/M/L)*	*Implementation b Risks (H/M/L)*
2004	Civil Service Renewal	45.0	H	H
	STATCAP	25.0	H	M
	Urban Water Sector Reform Project 1	120.0	H	H
	Fadama II	100.0	H	H
	Micro, Small and Medium Enterprise	32.0	H	M
	Local Empowerment & Envir. Management	70.0	H	H
	Result	**392.0**		
2005	Urban Youth Employment and Empowerment	50.0	H	H
	Niger Delta Development	50.0	H	H
	States Governance Project	200.0	H	H
	Telecommunications	100	H	H
	Result	**400.0**		
2006	Lagos Water Sector Restructuring	100.0	H	H
	Financial Sector Development	50.0	H	H
	Agriculture SWAP/Rural Access/Infrastructure	100.0	H	H
	Lagos Metropolitan Development	120.0	H	H
	Sustainable Management of Mineral Resources	50.0	H	H
	Second Community Based Poverty Reduction	50.0	H	H
	Result	**470.0**		
2007	Private Sector Project (Ports) II	75.0	H	H
	Transport Sector Project	75.0	H	H
	Trade Support Operation	100.0	H	H
	Federal Public Service Modernization	100.0	H	H
	Safety Nets Operation	50.0	H	H
	Health Systems III/UBE II	100.0	M	M
	Result	**500.0**		
Overall Result		**1,560.0**		

Nigeria: Summary of Non-lending Services

(As of April 2, 2004)

Product	***Completion Fiscal Year (FY)***
Recent completions	
Capital Budget Review	FY01
Rural Sector Strategy	FY01
Public Expenditure Review	FY01
Social Risk Assessment	FY02
States Public Finances Study	FY03
Private Sector Assessment	FY02
Environment/Poverty	FY03
Strategic Conflict Assessment	FY03
Service Delivery Survey	FY04
Macro & Growth	FY04
Education CSR	FY04
Lagos SPAR	FY04
Pensions Reform Dialogue	FY04
Risk and Vulnerability	FY04
Anticorruption	FY04
Country Portfolio Performance Review (CPPR)	FY04
Underway	
Country Gender Assessment	FY04
Basic Agricultural Services	FY04
Sub-national Debt Mgt.	FY04
Policy Reform – National Assembly	FY04
Power Sector Policy	FY04
EFA Preparation Support Strategy	FY04
Financial Management of Petroleum Revenues	FY04
Planned	
Health CSR	FY05
Lagos Strategy for Economic Development and Poverty Reduction	FY05
PFMU Support	FY05
Energy Dialogue	FY05
Development Marketplace	FY05

Nigeria: External and Public Debt Sustainability Analysis

17. This note assesses the sensitivity of Nigeria's external and public debt dynamics under the staff's baseline scenario to a number of standardized shocks in the debt sustainability framework recently developed in the Fund. It also examines the implications for external debt sustainability of an alternative oil price scenario.

18. While the current favorable oil price assumptions ameliorate the severity of Nigeria's debt situation, a decline in the oil price by just one standard deviation over the medium term would likely undermine Nigeria's ability to reduce its external debt burden.

A. The Structure of Nigeria's Public Debt

19. At end-2003, Nigeria's gross public debt[1] amounted to N 5.6 trillion (about 77 percent of GDP), compared with N 4.9 trillion (88 percent of GDP) at end-2002. The stock of domestic debt continued to rise as the federal government resorted to a mixture of market-based and monetary means to finance part of its gross borrowing needs. The bulk of the end-2003 debt stock—US$32.8 billion or 56.9 percent of GDP—is owed to external creditors.[2] Bilateral debt, of which almost all is owed to Paris Club creditors, accounts for 83½ percent of total external debt, while the share owed to multilateral and commercial creditors was relatively smaller (9¼ and 7¼ percent, respectively).

B. The Baseline Scenario

20. The baseline scenario underlying these debt sustainability analyses projects growth to average 5 percent over the medium term, with the non-oil sector expected to reach its growth potential of 5-5½ percent. Inflation is projected to fall gradually to 5 percent by end-2009. As described in the accompanying staff report, staff's baseline scenario is predicated on the implementation of prudent macroeconomic policies and structural reforms as envisaged under the government's National Economic Empowerment and Development Strategy (NEEDS), but is more cautious on the supply response and prospects for resource mobilization.

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[1] The public debt figures includes external debt by the public sector and federal government debt. It excludes domestic debt by subnationals and domestic expenditure arrears by the federal government—both of which are believed to be considerable.

[2] The total external debt stock figure includes external arrears of around US$3.5 billion at end-2003. While higher external debt service payments of US$1.8 billion in 2003 (compared to US$1 billion in 2002), allowed Nigeria to fully service its commercial and multilateral debt, new arrears of US$1.2 billion accumulated to Paris Club creditors in 2003. The external debt stock does not include any external borrowing by the private sector in Nigeria.

- With the current favorable outlook for oil prices, implementation of an oil price-based fiscal rule by all tiers of government—resulting in gradual convergence of the consolidated fiscal stance to balance by 2008–09 at the oil price of US$20 per barrel and oil revenue in excess of the benchmark price saved—will generate large overall surpluses over the medium term. The baseline scenario includes clearance of pension arrears, assumed to amount to N 100 billion, which will be repaid over a five-year period.

- The prudent fiscal stance will be complemented by monetary and exchange rate policies geared to the government's objective of price stability (reaching single digit inflation in 2005) and rebuilding international reserves.

- The non-oil current account deficit is projected to narrow over the medium term in line with the stronger fiscal position and higher agricultural production. However, the current account deficit will rise steadily to nearly 5 percent of GDP in 2009 with the worsening in the terms of trade. Reflecting market-friendly reforms and stronger fundamentals, non-debt creating capital inflows should average around 6 percent of GDP through 2009 (compared to a ten-year average of 3¾ percent of GDP). The favorable overall balance of payments outlook will allow for a significant buildup in international reserves to around nine months of imports (GNFS) as a buffer against potential oil price shocks, and consistent with expected savings of excess oil proceeds.

21. The baseline scenario implies a gradual reduction in both total public and external debt. By end-2009, the stock of total public and external debt will decline to about 45 and 39 percent of GDP, respectively. The projected fiscal cash surpluses are expected to help lower net debt through the build up of precautionary balances and repayment of domestic debt. However, as foreshadowed in NEEDS, annual cash debt service payments are expected to continue at around their current level. The implied accumulation of external arrears and penalty interest on those arrears slows the pace at which the external debt ratio is reduced. External debt service falling due is expected to average around 10 percent of revenue (or 40 percent of non-oil revenue) and 9-10 percent of export earnings (or 115 percent of non-oil exports) over the medium term.

22. Under a scenario in which external debt service is paid in full, at the expense of some build up of international reserves, the external debt to GDP ratio would fall to 32 percent by 2009. Other things equal, gross international reserves would reach around US$16.3 billion or 6½ months of imports (GNFS) compared to US$22 billion or nearly 9 months of imports (GNFS) under the baseline.

C. Fiscal Sustainability

23. Stress tests show that Nigeria's public finances remain highly vulnerable to shocks in oil prices, as well as shocks to real GDP and real interest rate, but also implementation risks (no policy change scenario). This reflects a number of factors: for one, Nigeria's public

finances are vulnerable to developments in the oil sector, such as sharp changes in oil prices and disruptions in oil production. The overall tax base is volatile on account of the large share oil revenue and narrow non-oil tax base. Furthermore, the debt burden—at 77 percent of GDP at end-2003—is already considered unsustainably high, and hence vulnerable to shocks in debt-servicing costs and real economic growth. Moreover, the large share of short-term domestic debt exposes the government to high rollover and interest rate risk. A shock to the historical interest rate average is somewhat misleading, as reliance on nonmarket sources of financing in the past have lowered the implied cost of borrowing, and helped insulate government's finances from market forces. Offsetting somewhat these risks, the high foreign currency composition of government revenue provides a natural hedge against unexpected exchange depreciation—as visible in the low impact of the exchange rate shock. The highlights of the results are as follows:

- Reflecting the government's narrow revenue base and high dependence on oil revenue, a two-standard deviation shock to revenue in 2005–06 would increase the debt/GDP ratio to 114 percent by end-2009, twice as high as in the baseline scenario.

- A two-standard deviation shock to real interest rate and real economic growth in 2004 would increase the debt/GDP ratio to 65½ percent at end-2009, and 95¾ percent, respectively.

- The 'no-change policy scenario' also indicates that public finances remain vulnerable to a continuation of past policies with public debt ratio increasing to 117½ percent by end-2009.

D. External Sustainability

24. Stress tests suggest that, with policies along the lines described above and favorable oil prices, Nigeria's ratio of external debt to GDP would remain on a downward trend over the medium term, irrespective of the nature of the shock. However, the level of debt could be much higher in the short run and, under three stress tests, would remain above the 2004 ratio to GDP at the end of the projection period (Table 1a and Figure 1). The highlights of the results are as follows:

- The U.S. dollar deflator shock (stress test 3) has the most severe short-term impact, with the external debt ratio peaking at 113½ percent of GDP in 2006, declining rapidly thereafter to 49 percent of GDP by 2009 (10 percentage points above the baseline).

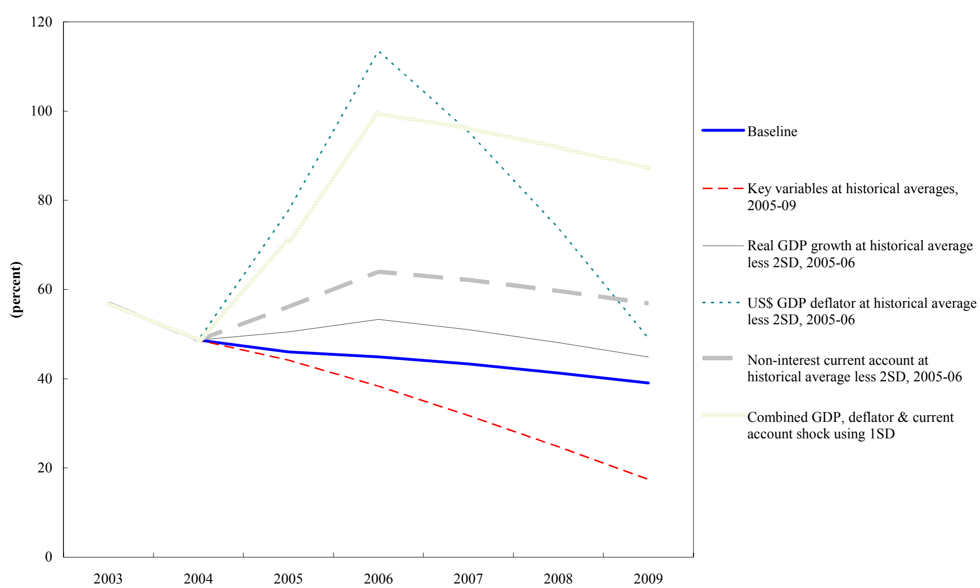
- Real GDP growth rate and noninterest current account shocks (stress test 2 and 4) would lead to a similar, but less marked, hump-shaped pattern in the debt ratio. Under stress test 2, external debt would reach 45 percent of GDP in 2009. However, the decline would be less pronounced under stress test 4, with the debt ratio peaking at 64 percent of GDP in 2006 and then declining to 57 percent of GDP by 2009.

- A combined shock to GDP growth, the U.S. dollar deflator and noninterest current account (stress test 5) would, not surprisingly, have the most significant and lasting impact on the external debt path. The external debt level would rise steeply, peaking at 99½ percent of GDP in 2006 (somewhat below the peak of the U.S. dollar deflator only shock), but then would fall only to 87 percent in 2009 (more than double the debt ratio projected under the baseline and around 30 percentage points higher than the end-2003 debt ratio).

- An interest rate shock (stress test 1) would have only a marginal impact on the external debt path, declining gradually to 41½ percent of GDP at end-2009.

- Finally, under the scenario with average historical values of key variables (alternative scenario 1), the debt ratio would decline much faster than under the baseline scenario. This reflects a number of factors, including; the expected pickup in investment and other non-debt-creating flows in the baseline relative to the ten-year average; the stronger *average* current account position over the preceding ten years, notwithstanding the large volatility; and an expected resumption of relations with creditors under the baseline (for example, expected borrowing from the World Bank).

Figure 1. Nigeria: Baseline and Stress Tested Debt-to-GDP Ratios, 2003-09



E. Country-Specific Alternative Scenario

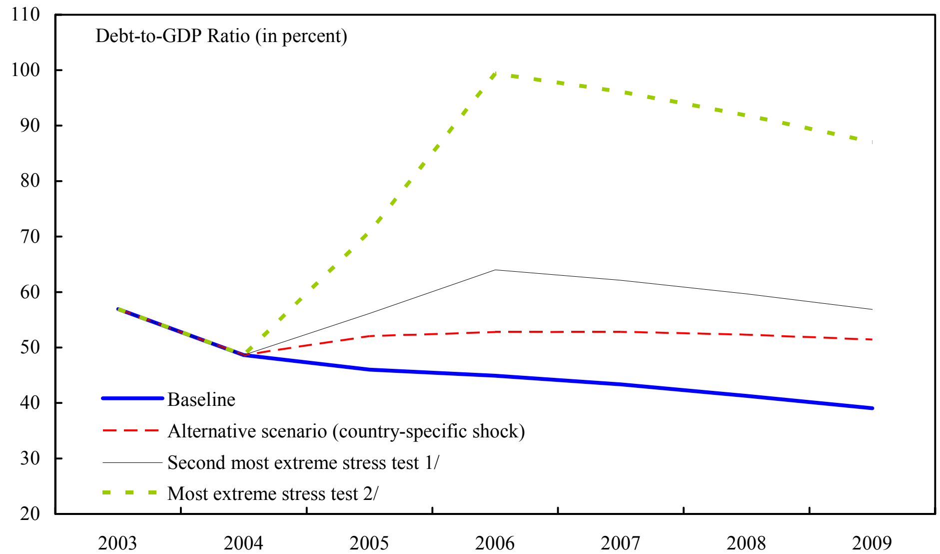
25. The country-specific alternative scenario assumes that, from 2005 onwards, the oil price would be one standard deviation ($5.37/bbl for 1994-2003) below the currently projected path. Under the alternative scenario, Nigeria's gross external financing need would

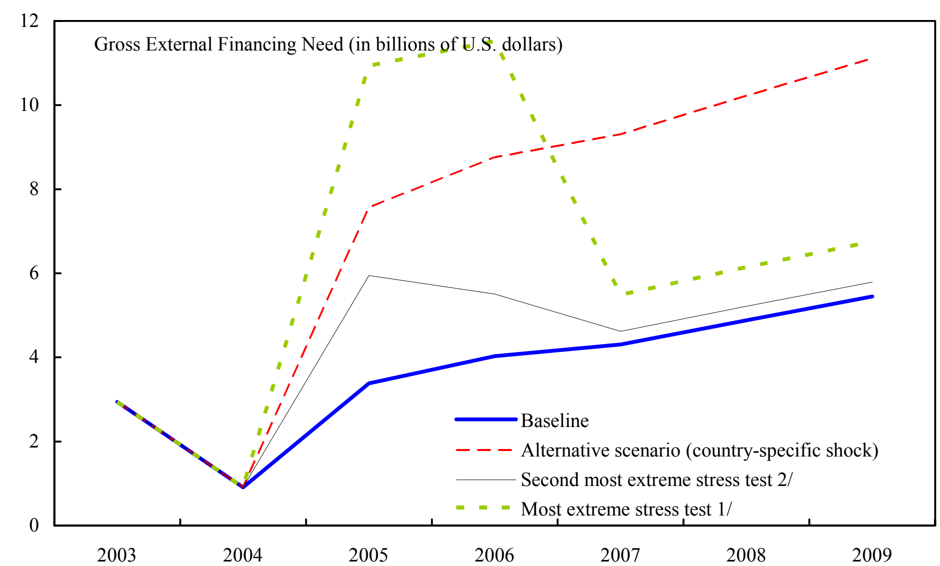
rise dramatically to 15 percent of GDP (or US$11 billion) in 2009, compared to 6¾ percent of GDP (or US$5½ billion) under the baseline (Table 1b).

- If it is assumed that the additional financing need would be met through both a rundown of international reserves (to US$3.5 billion or less than 1½ months of imports (GNFS) by 2009) and lower cash debt service payments, the debt ratio would jump by about 4 percentage point relative to the 48¾ percent of GDP projected for 2004, and would remain at or above 51½ percent of GDP throughout the projection period (Table 1a and Figure 2).

- If, however, the authorities were to make a policy decision to keep international reserves around their end-2004 level and the financing need were to be met through additional borrowing, the downward trend in the external debt ratio under the baseline would be reversed. Relative to 2004, the external debt ratio would increase by more than 13 percentage points, reaching more than 62 percent of GDP by 2009. That said. Nigeria's lack of access to capital markets will likely constrain the extent to which additional debt is incurred.

Figure 2. Nigeria: Debt Ratio and Gross External Financing Need, 2003-09





Source: IMF staff calculations.

1/ Two standard deviation stock to non-interest current account balance in 2005 and 2006.
2/ Combined one standard deviation shock on real GDP growth, GDP deflator, nominal interest rates and the non-interest current account.

Table 1a. Nigeria: External Debt Sustainability Framework, 1999-2009

(In percent of GDP, unless otherwise indicated)

	Actual							Projections						
	1999	2000	2001	2002	2003			2004	2005	2006	2007	2008	2009	
								I. Baseline Projections						**Debt-stabilizing Noninterest Current Account 7/**
1 **External debt**	76.9	66.1	62.3	67.2	56.9			**48.7**	**46.0**	**44.9**	**43.3**	**41.3**	**39.0**	**-6.6**
2 Change in external debt	-8.7	-10.8	-3.8	5.0	-10.3			-8.3	-2.6	-1.1	-1.6	-2.0	-2.3	
3 Identified external debt-creating flows (4+8+9)	90.5	-30.6	-12.8	4.2	-18.4			-8.2	-7.6	-5.6	-4.2	-3.4	-2.5	
4 Current account deficit, excluding interest payments	3.1	-14.0	-5.9	7.5	-0.1			-3.3	0.2	1.4	2.1	2.6	3.1	
5 Deficit in balance of goods and services	2.5	-20.6	-8.9	0.2	-9.1			-12.8	-8.4	-6.4	-5.2	-4.5	-3.7	
6 Exports	37.1	54.3	43.3	40.8	50.0			49.2	46.0	43.6	42.1	41.2	40.1	
7 Imports	39.5	33.6	34.4	41.0	40.9			36.5	37.6	37.2	37.0	36.7	36.3	
8 Net nondebt-creating capital inflows (negative)	-3.1	-2.7	-4.3	-5.4	-5.6			-5.2	-7.0	-6.7	-6.3	-5.8	-5.5	
9 Automatic debt dynamics 1/	90.5	-13.9	-2.7	2.1	-12.7			0.4	-0.7	-0.2	0.0	-0.2	-0.2	
10 Contribution from nominal interest rate	20.8	3.8	3.2	3.4	2.8			2.3	2.1	2.0	1.9	1.8	1.7	
11 Contribution from real GDP growth	-4.5	-3.4	-2.0	-1.0	-5.7			-1.9	-2.9	-2.3	-1.9	-2.0	-1.9	
12 Contribution from price and exchange rate changes 2/	74.3	-14.3	-3.9	-0.2	-9.7			...	...	...	...	...	...	
13 Residual, incl. change in gross foreign assets (2-3) 3/	-99.2	19.8	9.0	0.8	8.1			-0.1	4.9	4.5	2.6	1.4	0.3	
External debt-to-exports ratio (in percent)	207.6	121.8	143.8	164.9	113.9			98.8	100.1	103.0	102.8	100.3	97.5	
Gross external financing need (in billions of U.S. dollars) 4/	5.3	-3.0	0.5	6.4	2.9			0.9	3.4	4.0	4.3	4.9	5.4	
in percent of GDP	14.2	-6.5	1.0	13.8	5.1			1.3	4.8	5.6	5.8	6.3	6.7	
Key Macroeconomic Assumptions						10-Year Historical Average	10-Year Standard Deviation							Projected Average
Real GDP growth (in percent)	1.5	5.4	3.1	1.5	10.7	3.4	3.4	4.0	6.2	5.1	4.4	4.9	4.8	4.9
GDP deflator in U.S. dollars (change in percent)	-71.6	16.3	1.1	-4.8	13.0	7.2	33.8	12.0	-0.8	-2.8	-1.0	-0.4	0.3	1.2
Nominal external interest rate (in percent)	7.0	6.0	5.1	5.2	5.2	6.1	0.7	4.7	4.6	4.5	4.5	4.4	4.3	4.5
Growth of exports (U.S. dollar terms, in percent)	26.3	79.4	-16.9	-8.9	53.4	15.2	34.3	14.7	-1.6	-3.2	-0.1	2.0	2.3	2.3
Growth of imports (U.S. dollar terms, in percent)	17.6	4.2	6.6	15.2	24.8	8.8	12.0	3.8	8.6	1.0	2.7	3.5	4.2	4.0
Current account balance, excluding interest payments	-3.1	14.0	5.9	-7.5	0.1	2.9	6.6	3.3	-0.2	-1.4	-2.1	-2.6	-3.1	-1.0
Net nondebt-creating capital inflows	3.1	2.7	4.3	5.4	5.6	3.8	1.3	5.2	7.0	6.7	6.3	5.8	5.5	6.1
								II. Stress Tests for External Debt Ratio						**Debt-stabilizing Noninterest Current Account 7/**
A. Alternative Scenarios														
A1. Key variables are at their historical averages in 2005-09 5/								**48.7**	**44.2**	**38.3**	**31.8**	**24.7**	**17.4**	**-4.9**
A2. Country-specific shock in 2005, with reduction in GDP growth (relative to baseline) of one standard deviation 6/								**48.7**	**52.0**	**52.8**	**52.8**	**52.3**	**51.5**	**-7.5**
B. Bound tests														
B1. Nominal interest rate is at historical average plus two standard deviations in 2005 and 2006								**48.7**	**47.4**	**47.6**	**46.0**	**43.9**	**41.6 #**	**-6.7**
B2. Real GDP growth is at historical average minus two standard deviations in 2005 and 2006								**48.7**	**50.5**	**53.3**	**51.0**	**48.1**	**44.9 #**	**-7.8**
B3. Change in US dollar GDP deflator is at historical average minus two standard deviations in 2005 and 2006								**48.7**	**77.7**	**113.5**	**95.4**	**73.7**	**49.0 #**	**-35.0**
B4. Non-interest current account is at historical average minus two standard deviations in 2005 and 2006								**48.7**	**56.2**	**64.0**	**62.2**	**59.7**	**56.9 #**	**-7.1**
B5. Combination of 2-5 using one standard deviation shocks								**48.7**	**70.8**	**99.4**	**96.1**	**91.9**	**87.1 #**	**-13.4**
B6. One time 30 percent nominal depreciation in 2005								**48.7**	**53.5**	**51.6**	**48.9**	**45.4**	**41.5 #**	**-8.6**

Sources: Nigerian authorities; and staff estimates and projections.

1/ Derived as [r - g - ρ(1+g) + εα(1+r)]/(1+g+ρ+gρ) times previous period debt stock, with r = nominal effective interest rate on external debt; ρ = 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.

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

3/ 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/ The implied change in other key variables under this scenario is discussed in the text.

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

Table 1b. Nigeria: External Debt Sustainability Framework--Gross External Financing Need, 1999-2009

	Actual					Projections					
	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
						I. Baseline Projections					
Gross external financing need in billions of U.S. dollars 1/	5.3	-3.0	0.5	6.4	2.9	0.9	3.4	4.0	4.3	4.9	5.4
(In percent of GDP)	14.2	-6.5	1.0	13.8	5.1	1.3	4.8	5.6	5.8	6.3	6.7
						II. Stress Tests					
Gross external financing need in billions of U.S. dollars 2/											
A. Alternative Scenarios											
A1. Key variables are at their historical averages in 2005-09 3/						0.9	1.6	1.2	0.5	0.0	-0.8
A2. Country-specific shock in 2005, with reduction in GDP growth (relative to baseline) of one standard deviation 4/						0.9	7.6	8.8	9.3	10.2	11.1
B. Bound Tests											
B1. Nominal interest rate is at historical average plus two standard deviations in 2005 and 2006						0.9	4.4	5.2	4.5	5.1	5.6
B2. Real GDP growth is at historical average minus two standard deviations in 2005 and 2006						0.9	3.4	3.9	4.0	4.5	4.9
B3. Change in US dollar GDP deflator is at historical average minus two standard deviations in 2005 and 2006						0.9	2.7	1.8	1.3	1.3	1.1
B4. Noninterest current account is at historical average minus two standard deviations in 2005 and 2006						0.9	10.9	11.5	5.5	6.1	6.8
B5. Combination of 2-5 using one standard deviation shocks						0.9	5.9	5.5	4.6	5.2	5.8
B6. One time 30 percent nominal depreciation in 2005						0.9	3.1	3.3	3.5	3.8	4.2
Gross external financing need in percent of GDP 2/											
A. Alternative Scenarios											
A1. Key variables are at their historical averages in 2005-09 3/						1.3	2.1	1.4	0.5	0.0	-0.7
A2. Country-specific shock in 2005, with reduction in GDP growth (relative to baseline) of one standard deviation 4/						1.3	11.7	13.3	13.7	14.4	14.9
B. Bound Tests											
B1. Nominal interest rate is at historical average plus two standard deviations in 2005 and 2006						1.3	6.3	7.2	6.0	6.5	6.9
B2. Real GDP growth is at historical average minus two standard deviations in 2005 and 2006						1.3	5.2	6.4	6.5	6.9	7.2
B3. Change in US dollar GDP deflator is at historical average minus two standard deviations in 2005 and 2006						1.3	9.7	15.3	10.8	9.9	8.5
B4. Noninterest current account is at historical average minus two standard deviations in 2005 and 2006						1.3	15.5	16.0	7.4	7.9	8.2
B5. Combination of 2-5 using one standard deviation shocks						1.3	12.1	15.2	12.3	13.3	14.1
B6. One-time 30 percent nominal depreciation in 2005						1.3	5.9	6.2	6.3	6.7	6.9

Sources: Nigerian authorities; and staff estimates and projections.

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

2/ Gross external financing under the stress-test scenarios is derived by assuming the same ratio of short-term to total debt as in the baseline scenario and the same average maturity on medium- and long term debt. Interest expenditures are derived by applying the respective interest rate to the previous period debt stock under each alternative scenario.

3/ 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.

4/ The implied change in other key variables under this scenario is discussed in the text.

Table 2. Nigeria: Public Sector Debt Sustainability Framework, 1999-2009

(In percent of GDP, unless otherwise indicated)

	Actual							Projections						
	1999	2000	2001	2002	2003			2004	2005	2006	2007	2008	2009	
								I. Baseline Projections						Debt-stabilizing Primary Balance 11/
1 **Public sector debt 1/**	100.0	85.3	81.3	87.9	74.6			**64.0**	**58.8**	**55.3**	**51.3**	**47.0**	**42.6**	**-0.9**
Of which: foreign-currency denominated	76.9	66.1	62.3	67.2	56.9			48.8	46.3	45.2	43.7	41.6	39.3	
2 Change in public sector debt	0.2	-14.7	-4.0	6.6	-13.3			-10.6	-5.2	-3.5	-4.0	-4.3	-4.4	
3 Identified debt-creating flows (4+7+12)	-12.4	-20.7	-7.7	6.9	-18.0			-21.5	-14.9	-17.9	-22.8	-27.3	-31.8	
4 Primary deficit	-4.4	-10.0	-4.1	-0.2	-3.3			-11.9	-11.5	-16.3	-21.0	-25.4	-29.9	
5 Revenue and grants	29.4	42.5	42.1	36.2	36.5			47.7	45.5	47.2	50.7	54.5	58.4	
6 Primary (noninterest) expenditure	25.0	32.5	38.0	36.0	33.1			35.8	34.1	30.9	29.7	29.1	28.5	
7 Automatic debt dynamics 2/	-8.0	-10.7	-2.0	7.4	-14.6			-9.7	-2.8	-1.0	-1.4	-1.7	-1.8	
8 Contribution from interest rate/growth differential 3/	-13.5	-22.4	-3.9	-0.4	-19.1			-9.7	-2.8	-1.0	-1.4	-1.7	-1.8	
9 *Of which:* contribution from real interest rate	-12.2	-18.5	-1.6	0.7	-12.1			-7.2	0.8	1.8	0.8	0.6	0.3	
10 *Of which:* contribution from real GDP growth	-1.2	-4.0	-2.3	-1.2	-7.0			-2.4	-3.6	-2.8	-2.2	-2.3	-2.1	
11 Contribution from exchange rate depreciation 4/	5.4	11.7	1.9	7.9	4.5			...	...	...	...	...	...	
12 Other identified debt-creating flows	0.0	0.0	-1.6	-0.3	0.0			0.0	-0.6	-0.5	-0.4	-0.2	-0.1	
13 Privatization receipts (negative)	0.0	0.0	-1.6	-0.3	0.0			0.0	-0.6	-0.5	-0.4	-0.2	-0.1	
14 Recognition of implicit or contingent liabilities	0.0	0.0	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0	
15 Other (specify, e.g. bank recapitalization)	0.0	0.0	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0	
16 Residual, including asset changes (2-3) 5/	12.6	6.0	3.7	-0.2	4.7			10.9	9.7	14.4	18.7	23.0	27.4	
Public sector debt-to-revenue ratio 1/	340.5	200.8	193.1	243.1	204.6			134.1	129.1	117.2	101.2	86.3	73.0	
Gross financing need 6/	16.0	7.7	17.1	19.6	13.3			6.1	6.1	3.3	0.4	-0.9	-2.6	
(In billions of U.S. dollars)	6.0	3.5	8.2	9.0	7.6			4.1	4.2	2.3	0.3	-0.7	-2.1	
Key macroeconomic and fiscal assumptions						10-Year Historical Average	10-Year Standard Deviation							Projected Average
Real GDP growth (in percent)	1.5	5.4	3.1	1.5	10.7	3.4	3.4	4.0	6.2	5.1	4.4	4.9	4.8	4.9
Average nominal interest rate on public debt (in percent) 7/	4.9	5.4	9.0	4.9	4.9	4.2	2.2	6.1	5.6	5.0	4.5	4.2	3.8	4.9
Average real interest rate (nominal rate minus change in GDP deflator, in percent)	-14.5	-23.6	-1.8	1.0	-16.1	-16.0	18.4	-8.1	1.6	3.3	1.7	1.4	0.9	0.1
Nominal appreciation (increase in US dollar value of local currency, in percent)	-6.7	-16.3	-3.0	-11.2	-7.8	-8.4	5.1	...	...	...	...	...	...	...
Inflation rate (GDP deflator, in percent)	19.5	29.0	10.8	3.9	21.0	20.2	17.9	17.3	4.0	1.7	2.7	2.8	3.0	5.2
Growth of real primary spending (deflated by GDP deflator, in percent)	13.8	37.0	20.4	-3.7	1.9	7.6	24.8	12.4	0.9	-4.8	0.5	2.8	2.6	2.4
Primary deficit	-4.4	-10.0	-4.1	-0.2	-3.3	-4.0	4.6	-11.9	-11.5	-16.3	-21.0	-25.4	-29.9	-19.3
								II. Stress Tests for Public Debt Ratio						Debt-stabilizing Primary Balance 10/
A. Alternative scenarios														
A1. Key variables are at their historical averages in 2005-09 8/								**64.0**	**57.3**	**56.8**	**61.4**	**70.5**	**83.3**	**-14.0**
A2. No policy change (constant primary balance) in 2005-09								**64.0**	**65.5**	**72.4**	**82.9**	**98.3**	**117.5**	**-3.6**
A3. Country-specific shock in 2005, with reduction in GDP growth (relative to baseline) of one standard deviation 9/								**64.0**	**58.8**	**55.3**	**51.3**	**47.0**	**42.6**	**-0.7**
A4. Selected variables are consistent with market forecast in 2005-09								**64.0**	**58.8**	**55.3**	**51.3**	**47.0**	**42.6**	**-0.9**
B. Bound Tests														
B1. Real interest rate is at historical average plus two standard deviations in 2005 and 2006								**64.0**	**70.3**	**78.8**	**74.8**	**70.4**	**65.5**	**-1.3**
B2. Real GDP growth is at historical average minus two standard deviations in 2005 and 2006								**64.0**	**69.0**	**80.1**	**85.1**	**90.3**	**95.7**	**-1.9**
B3. Primary balance is at historical average minus two standard deviations in 2005 and 2006								**64.0**	**75.6**	**94.0**	**90.0**	**85.4**	**80.3**	**-1.6**
B4. Combination of 2-4 using one standard deviation shocks								**64.0**	**75.7**	**94.0**	**92.0**	**89.8**	**87.6**	**-1.7**
B5. One time 30 percent real depreciation in 2005 10/								**64.0**	**80.4**	**77.3**	**73.3**	**68.8**	**64.0**	**-1.3**
B6. 10 percent of GDP increase in other debt-creating flows in 2005								**64.0**	**68.8**	**65.5**	**61.5**	**57.1**	**52.5**	**-1.1**
B7. Impact on **debt-to-GDP ratio** if revenue-to-GDP ratio is at historical average minus two standard deviations in 2003-04								**64.0**	**94.7**	**129.4**	**125.5**	**120.6**	**114.8**	**-2.2**

1/ Indicate coverage of public sector, e.g., general government or nonfinancial public sector. Also whether net or gross debt is used.

2/ Derived as $[(r - \pi(1+g) - g + \alpha\varepsilon(1+r)]/(1+g+\pi+g\pi))$ times previous period debt ratio, with r = interest rate; π = growth rate of GDP deflator; g = real GDP growth rate; α = share of foreign-currency denominated debt; and ε = nominal exchange rate depreciation (measured by increase in local currency value of U.S. dollar).

3/ The real interest rate contribution is derived from the denominator in footnote 2/ as $r - \pi(1+g)$ and the real growth contribution as -g.

4/ The exchange rate contribution is derived from the numerator in footnote 2/ as $\alpha\varepsilon(1+r)$.

5/ For projections, this line includes exchange rate changes.

6/ Defined as public sector deficit, plus amortization of medium and long-term public sector debt, plus short-term debt at end of previous period.

7/ Derived as nominal interest expenditure divided by previous period debt stock.

8/ The key variables include real GDP growth; real interest rate; and primary balance in percent of GDP.

9/ The implied change in other key variables under this scenario is discussed in the text.

10/ Real depreciation is defined as nominal depreciation (measured by percentage fall in dollar value of local currency) minus domestic inflation (based on GDP deflator).

11/ Assumes that key variables (real GDP growth, real interest rate, and primary balance) remain at the level in percent of GDP/growth rate of the last projection year.

Nigeria: Short– and Medium–Term Structural Fiscal Reform Agenda

1. Substantial improvements in the capacity for fiscal management will be central to the Nigerian authorities' pursuit of macroeconomic stability, sustainable growth and poverty reduction. Nigeria's history has been marked by a high level of macroeconomic volatility brought about by boom-bust oil revenue cycles and inefficient public spending. The authorities' medium-term program aims at reducing the non-oil deficit to a more sustainable level and limiting vulnerability to oil market volatility. The achievement of those goals will partly depend on the implementation of structural fiscal reforms in a number of core areas: budget formulation, budget execution, fiscal reporting, and operational aspects of fiscal federalism.

Budget formulation

2. In the short term, (i) the budget formulation process should start earlier; (ii) the budget circular should include explicit line ministry expenditure limits endorsed by the Federal Executive Council and comparable information on actual spending; (iii) the capital budget should be streamlined and its formulation centralized at the Budget Office; and (iv) the budget classification should be improved. In the medium term, (i) the government should integrate the recurrent and capital budget processes and replace the dual budget structure by a fully consolidated budget; (ii) the legal framework for the budget could be strengthened by introducing a clearer determination of roles and responsibilities in the approval process; and (iii) a medium-term expenditure framework should be introduced.

Budget execution

3. There has been some progress in coordination between the Budget Office (BOF) and the Office of the Accountant-General of the Federation (OAGF) through computerizing the budget execution process. However, improving the government's cash management will require: (i) improved cash planning in the Cash Management Unit in the OAGF; (ii) consolidating recent efforts to strengthen the record keeping and reconciliation of warrants, mandates and cash releases; (iii) eliminating unused cash balances in line ministry/agency bank accounts; and (iv) rationalizing banking arrangements, including the introduction of a treasury single account.

Fiscal reporting

4. Strengthened federal government fiscal reporting will require: (i) establishing a system of regular and timely reporting of fiscal information to allow policymakers to make informed decisions; (ii) publishing government accounts on a quarterly or monthly basis; and (iii) extending these reporting requirements to parastatals. In the meantime, the BOF should take a more proactive role in monitoring budget implementation, and the OAGF should continue to strengthen the timeliness, coverage and accuracy of the expenditure data in the monthly transcripts from line ministries and agencies, as well as the reconciliation of fiscal data.

Operational aspects of fiscal federalism

5. In the short term, there is a need to strengthen information sharing between the BOF and states on budget and revenue assumptions, and to establish a system of reporting subnational budget approval and execution. Medium term priorities should be:
(i) strengthening fiscal policy coordination across the three tiers of government;
(ii) introducing an oversight of subnational borrowing; and (iii) implementing a fiscal rule for all levels of government (including establishing individual state savings accounts with the CBN).

Nigeria: Statistical Issues

1. Nigeria's statistical base continues to suffer from serious deficiencies that hamper surveillance, policy design, and monitoring. These deficiencies are across the board, but particularly affect the national accounts, government finance, money and banking, and the external accounts, including major inconsistencies between balance of payments and customs data on trade. Numerous problems prevent the compilation of timely and internally consistent data, in particular inadequate funding for the Federal Office of Statistics, lack of data sharing between data producing and collecting agencies, and insufficient use of computerization in the compilation of statistics. In addition, the 1957 Statistical Act no longer addresses the requirements of data collection and dissemination within a federal structure. The authorities recognize these problems, and intend to address them as part of NEEDS.

National accounts

2. Annual national accounts statistics are published by the Federal Office of Statistics (FOS) with about a one-year lag. The national accounts statistics are of poor quality, largely owing to a deterioration in business and household surveys. Estimates of value added for agriculture, mining (oil), industry, transportation, and financial and other services are based on old surveys with extrapolations that use out-of-date ratios and other indicators. The base year 1984 no longer reflects the economic structure of the economy, with significant structural shifts since. Many sectoral deflators are not soundly based and have a number of inconsistencies. In the past, the use of the official exchange rate has resulted in a gross understatement of value added in the oil and export sectors. The expenditure accounts suffer from unreliable external trade and government budgetary data.

3. A July 2003 mission to help the authorities implement the GDDS recommendations in the area of National Accounts and provide guidance on institutional reforms in the statistical system, found that progress has been made and that the authorities were receiving significant technical assistance from DfID and others such as the World Bank. Together with donor help the authorities have developed a master plan. .

Prices

4. The official monthly consumer price index (CPI) is a composite of urban and rural price data, and the consumption weights are based on the 1985–86 National Consumer Survey. Some data on producer prices are collected, but these statistics are not comprehensive and no producer price index is compiled. As a consequence, some sectoral GDP deflator indices are based not on producer prices, but on consumer price subindices and ad hoc assumptions. Expenditure deflators also suffer from methodological shortcomings.

Government finance

5. Fiscal data in Nigeria have historically been opaque and complicated not only by the federal structure, but also by a multiplicity of off-budget funds and by accounting practices that underestimate the actual size of public expenditure. The multisector statistics mission

that visited Nigeria during September 6-21, 1999 noted that the most pressing shortcomings related to inadequate data coverage, the lack of monthly and quarterly compilation, and timeliness.

6. A government finance statistics (GFS) mission in early 2001 found that authorities had implemented few of the recommendations made by the multisector statistics mission that visited Nigeria in 1999. Following the creation of a National Committee on Government Finance Statistics (NCGFS), another GFS mission visited Abuja in March 2002 and found no further progress had been made by the NCGFS, notably owing to insufficiently clear institutional arrangements and lack of staff. The mission also identified inconsistencies and difficulties of interpretation across the various source data. The mission conducted a compilation exercise using data for 2000 that showed substantial room for progress in the consistency of source data and reconciliation between above- and below-the-line data. This exercise compiled data for the consolidated central government and general government, with special effort to capture the numerous special funds and dedicated accounts that carry out large financial transactions. It used the new *Government Finance Statistics Manual 2001* (*GFSM 2001*) framework (but on a cash basis), which has the advantages of integrating stocks and flows and facilitating the presentation of the consolidation of fiscal data.

7. The mission also laid out a detailed 3-stage “action plan” and recommended for immediate action to: expand the NCGFS and increase GFS unit staffing; improve the consistency of OAGF and Central Bank of Nigeria (CBN) source data; expand CBN work to reconcile government financing data (available in-house); have the GFS unit document an inventory of source data. The action plan suggested that a second step focus on improving the reporting of state and local government operations, as well as ensuring adequate GFS dissemination and that a third step focus on a more complete application of the GFSM 2001.

8. A follow up mission in July 2003 found that the authorities had implemented very few of the recommendations/work plan that were put forward by the 2002 mission, including on the proposed strategy for transition to the GFSM 2001. The mission did not reach its full potential, largely because of limited access to some of the relevant agencies. The authorities had expected that more time would be devoted to general training. The mission was told that the work plan proposed by the 2002 mission had been approved, but was unable to confirm specific progress. The expert was unable to successfully review the issues on source data raised by the 2002 mission. On the other hand, the mission reported progress in specific areas, in particular in regard to the work of the CBN

Monetary accounts

9. The authorities have taken steps toward implementing the key recommendations of past STA money and banking technical assistance missions and the 1999 STA multisector mission. However, a March 2001 follow-up mission found that problems remained, in particular regarding the consistency of the interbank positions. Large and volatile discrepancies in interbank positions, both among the commercial banks and between the CBN and the commercial banks distort monetary aggregates and undermine the usefulness of

monetary statistics for policy analysis and decision making. Moreover, the lags in publishing monetary data remain considerable.

Balance of payments

10. Balance of payments statistics are compiled from the foreign exchange records in the banking system and from data derived from surveys. However, oil sector data are weakened by the low response rate to survey requests from oil businesses. In the non-oil sectors, only enterprises with foreign capital participation are surveyed. The estimates of non-oil imports of goods and services are based on banking data. Private capital movements are underrecorded, and data on external debt service are inaccurate. Moreover, the trade data reported by the FOS (based on customs data) sharply differ from those reported by the CBN (based on banking data). Based on comparisons with counterparty data, the former are likely to significantly under-report informal trade. The CBN, in collaboration with the March 2004 mission, undertook work to refine their import estimation methodology to minimize the under-reporting of imports, although further work is needed in the area of oil- and gas-sector imports. The 1999 STA multisector mission identified actions to be taken for improving the quality of balance of payments data. However, a November 2000 follow-up mission found that no progress had been made by the authorities in implementing the recommendations of the 1999 STA mission. Except for some methodological changes, the compilation of balance of payments continues to be severely affected by organizational weaknesses and resource constraints in the FOS, customs and the CBN. The Nigeria authorities have not yet initiated compiling international reserves data in line with the Data Template on International Reserves and Foreign Currency Liquidity. Moreover, staff has been unable to assess whether data on official reserve assets is in principle consistent with the template; the data may not be adequate for monitoring because they may not adequately reflect foreign currency liabilities or distinguish other foreign currency assets.

External debt

11. To address problems with the data on external debt, a United Kingdom-financed technical assistance effort was launched in October 1998. After initial delays, the Debt Management Office was established in August 2000, and good progress has been made in verifying individual loan accounts with creditors' statements and improving the efficiency of debt management in Nigeria. An audit of Nigeria's loan portfolio for correctness and duplication was carried out after the two separate databases of the Federal Ministry of Finance and the CBN were merged. In September 2000, the process of reconciling Nigeria's external obligations to multilateral creditors began. Following the Paris Club agreement of December 13, 2000, the verification of individual loan accounts with each individual Paris club creditor was also launched and, by October 2001, was reported to be ready complete. The full reconciliation of Nigeria's external debt with creditors' statements was not completed as expected by early 2003, but is now nearing completion. The authorities do not collect data on private sector external debt, but over time should work to extend the coverage of their database to include private sector liabilities.

Nigeria: Core Statistical Indicators
(As of April 19, 2004)

	Exchange Rates	International Reserves	Central Bank Balance Sheet	Reserve/ Base Money	Broad Money	Interest Rates	Consumer Price Index	Exports/ Imports	Current Account Balance	Overall Government Balance	GDP/ GNP	External Debt/ Debt Service
Date of latest Observation	4/19/04	3/04	12/04	12/04	12/04	4/19/04	1/04	06/02	12/02	12/04	2003	12/03
Date received	4/19/04	4/04	3/04	3/04	3/04	4/19/04	3/03	9/03	9/03	1/04	3/04	2/04
Frequency of data 1/	D	M	M	M	M	D	M	Q	A	M	A	A
Frequency of reporting l/	D	M	M	M	M	D	M	Q	A	M	A	A
Source of data 2/	B	A	A	A	A	B	A	A	A	A	A	A
Mode of reporting 3/	I	M	M	M	M	I	C	V	V	C	V	V
Confidentiality 4/	C	C	C	C	C	C	C	C	C	B	C	B
Frequency of publication 1/	D	M	M	M	M	D	M	A	A	A	A	A

6. 1/ D – Daily; W – Weekly; M – Monthly; Q – Quarterly; A – Annually; V – on mission.
7. 2/ A – Direct reporting by central bank or relevant ministry; B- Private sector publications on the internet.
8. 3/ C – cable or fax; M – mail; V – staff visit; I - internet.
9. 4/ B – for use by the staff and the Executive Board; C – unrestricted use.

Nigeria: Selected Social and Demographic Indicators

	Nigeria Latest single year		Sub-Saharan countries	Low-income countries
			Latest single year	
	1980-85	1994-2000	1994-2000	
Income, population, poverty and income distribution				
Income				
Gross national income per capita (U.S. dollars)	360	260	470	410
Gross national income per capita (idem, PPP terms)	…	800	1,600	1,980
Total population, midyear (millions)	83.2	126.9	658.9	2,459.8
Growth rate (percent annual average 1965-99)	3.1	2.7	2.6	2.0
Urban population (percent of population)	30.7	44.0	34.4	31.9
Poverty (percent of population)				
National head count index	43.0	…	…	…
Urban head count index	31.7	…	…	…
Rural head count index	49.5	…	…	…
International poverty line[1]	…	70.2	…	…
Share of income or consumption				
Lowest quintile (percent of income or consumption)	…	4.4	…	…
Highest quintile (percent of income or consumption)	…	55.7	…	…
Social indicators				
Access to safe water (percent of population)				
Total	…	57	55	76
Urban	…	81	82	88
Rural	…	39	41	70
Life expectancy at birth (years)				
Total	47	47	47	59
Male	46	46	46	58
Female	49	48	47	60
Mortality				
Infant (per thousand live births)	90	84	91	76
Under 5 (per thousand live births)	196	153	162	115
Immunization rate (percent of children under 12 months)				
Measles	17	41	53	57
DPT	16	26	46	57
Child malnutrition (percent under 5 years)	…	27	…	…
Public expenditures				
Health (as percent of GDP)	…	0.8	2.4	1.2
Education (as percent of GDP)	1.1	0.6	3.6	3.4

Source: World Bank, *World Development Indicators*, 2002.

[1] Population below US$1 per day in percent.

Nigeria and the Millennium Development Goals[1/]

Goals[2/]	1990	1995	2001	2002
1. Eradicate extreme poverty and hunger	*2015 target = halve 1990 $1 a day poverty and malnutrition rates*			
Population below $1 a day (percent)	..	70.2	..	..
Poverty gap at $1 a day (percent)	..	34.9	..	..
Percentage share of income or consumption held by poorest 20 percent	..	4.4	..	..
Prevalence of child malnutrition (percent of children under 5)	35.3	39.1	30.7	..
Population below minimum level of dietary energy consumption (percent)	13.0	..	7.0	..
2. Achieve universal primary education	*2015 target = net enrollment to 100*			
Net primary enrollment ratio (percent of relevant age group)	..	..	..	..
Percentage of cohort reaching grade 5 (percent)	..	..	..	..
Youth literacy rate (percent ages 15-24)	73.6	81.1	87.8	88.6
3. Promote gender equality	*2005 target = education ratio to 100*			
Ratio of girls to boys in primary and secondary education (percent)	75.8	79.9	..	..
Ratio of young literate females to males (percent ages 15-24)	82.3	89.2	94.7	95.3
Share of women employed in the nonagricultural sector (percent)	..	..	..	..
Proportion of seats held by women in national parliament (percent)	..	..	3.0	3.0
4. Reduce child mortality	*2015 target = reduce 1990 under 5 mortality by two-thirds*			
Under 5 mortality rate (per 1,000)	190.0	187.0	183.0	182.0
Infant mortality rate (per 1,000 live births)	114.0	112.0	110.0	109.0
Immunization, measles (percent of children under 12 months)	54.0	44.0	40.0	..
5. Improve maternal health	*2015 target = reduce 1990 maternal mortality by three-fourths*			
Maternal mortality ratio (modeled estimate, per 100,000 live births)	..	1,100.0	..	..
Births attended by skilled health staff (percent of total)	30.8	..	41.6	..
6. Combat HIV/AIDS, malaria and other diseases	*2015 target = halt, and begin to reverse, AIDS, etc.*			
Prevalence of HIV, female (percent ages 15-24)	..	..	5.8	..
Contraceptive prevalence rate (percent of women ages 15-49)	6.0	..	15.3	..
Number of children orphaned by HIV/AIDS (thousand)	..	..	1,000.0	..
Incidence of tuberculosis (per 100,000 people)	..	..	305.1	..
Tuberculosis cases detected under DOTS (percent)	..	9.0	12.0	..
7. Ensure environmental sustainability	*2015 target = various (see notes)*			
Forest area (percent of total land area)	19.2	..	14.8	..
Nationally protected areas (percent of total land area)	..	3.3	3.3	3.3
GDP per unit of energy use (PPP $ per kg oil equivalent)	1.0	1.1	1.2	..
CO2 emissions (metric tons per capita)	0.9	0.8	0.3	..
Access to an improved water source (percent of population)	53.0	..	62.0	..
Access to improved sanitation (percent of population)	53.0	..	54.0	..
Access to secure tenure (percent of population)	..	..	..	..

Nigeria and the Millennium Development Goals (concluded)

	1990	1995	2001	2002
8. Develop a Global Partnership for Development	*2015 target = various (see notes)*			
Youth unemployment rate (percent of total labor force ages 15-24)	..	..	..	..
Fixed line and mobile telephones (per 1,000 people)	..	4.0	8.9	..
Personal computers (per 1,000 people)	..	4.8	6.8	..
General indicators				
Population (million)	96.2	111.3	129.9	132.8
Gross national income ($ billion)	25.5	23.6	37.8	38.7
GNI per capita ($)	270.0	210.0	290.0	290.0
Adult literacy rate (percent of people ages 15 and over)	48.7	56.4	65.4	66.8
Total fertility rate (births per woman)	6.0	5.7	5.2	5.1
Life expectancy at birth (years)	49.1	49.9	46.1	45.3
Aid (percent of GNI)	1.0	0.8	0.5	..
External debt (percent of GNI)	130.7	131.7	80.0	..
Investment (percent of GDP)	14.7	16.3	20.1	23.3
Trade (percent of GDP)	72.2	86.5	84.3	81.3

Source: *World Development Indicators database, April 2002*

1/ **In some cases the data are for earlier or later years than those stated.**

2/ The goals are as follows:

Goal 1 targets: Halve, between 1990 and 2015, the proportion of people whose income is less than one dollar a day. Halve, between 1990 and 2015, the proportion of people who suffer from hunger.

Goal 2 target: Ensure that, by 2015, children everywhere, boys and girls alike, will be able to complete a full course of primary schooling.

Goal 3 target: Eliminate gender disparity in primary and secondary education preferably by 2005 and to all levels of education no later than 2015.

Goal 4 target: Reduce by two-thirds, between 1990 and 2015, the under-five mortality rate.

Goal 5 target: Reduce by three-quarters, between 1990 and 2015, the maternal mortality ratio.

Goal 6 targets: Have halted by 2015, and begun to reverse, the spread of HIV/AIDS. Have halted by 2015, and begun to reverse, the incidence of malaria and other major diseases.

Goal 7 targets: Integrate the principles of sustainable development into country policies and programs and reverse the loss of environmental resources. Halve, by 2015, the proportion of people without sustainable access to safe drinking water. By 2020, to have achieved a significant improvement in the lives of at least 100 million slum dwellers.

Goal 8 targets: Develop further an open, rule-based, predictable, non-discriminatory trading and financial system. Address the Special Needs of the Least Developed Countries. Address the Special Needs of landlocked countries and small island developing states. Deal comprehensively with the debt problems of developing countries through national and international measures in order to make debt sustainable in the long term. In cooperation with developing countries, develop and implement strategies for decent and productive work for youth. In cooperation with pharmaceutical companies, provide access to affordable, essential drugs in developing countries. In cooperation with the private sector, make available the benefits of new technologies, especially information and communications.

Authorities' Core Economic Reform Program—Preliminary Matrix of Measures

Section 1: Macroeconomic Stability

Reform Component	Objective	Specific Measures and Targets	Implementation Timing	Expected Impact	Accountable Agency/Individual	Status as at end February 2004
(A) Maintain Macro Economic Stability.	Provide a conducive economic environment for growth and development.	Prepare National Economic Empowerment and Development Strategy (NEEDS).	End January 2004.	Articulated poverty reduction, wealth and jobs creation national strategy for the medium term.	NPC (Economic. Adviser and Team).	Draft NEEDS ready for public debate, stakeholder consultation March 15, 2004.
	6 percent per annum GDP growth contingent upon implemen-tation of Reform Program. 8-9 percent per annum non-oil GDP growth.	2005, 2006.	Reduce poverty level.			
	Fairly stable market determined exchange rates through Dutch foreign exchange auction and other.	Continuous.	Predicability for businesses and households.	Dutch Auction System expected to continue for foreseeable future.		
		Ensure inflation not greater than 11 percent.	1st Quarter of 2004 and thereafter.			
		Foreign exchange reserves at 6 months of imports.	End 2004.			
		Foreign exchange reserves at 8 months of imports.	End 2005			
		Financeable Fiscal deficit at no more than 3 percent GDP in medium term 2004-2006.	End 2005.			Expected Fiscal Deficit in 2004 budget 2.5 to 2.6 percent GDP.

Authorities' Core Economic Reform Program—Preliminary Matrix of Measures

Reform Component	Objective	Specific Measures and Targets	Implementation Timing	Expected Impact	Accountable Agency/Individual	Status as at end February 2004
(B) External Debt Management.	Strengthen Debt Management.	Complete computerization of external debt database.	March 2004.	Improve transparency and efficiency in debt management.	DMO.	Debt Conversion Secretariat yet to be transferred from CBN to DMO. Discussions on this to be initiated shortly
(B) External Debt Management.	Reduce debts to sustainable levels over medium term.	Conclude consolidation of debt management functions in DMO.	June 2004.	Improve transparency and efficiency in debt management.	DMO.	
		Conclude bilateral agreements with Paris Club creditors.	January 2004.	Lay platform for future debt reduction		
		Reach agreement with Paris Club (PC) creditors on levels of debt payment for 2004 and 2005.	January 2004.			Approximately $1 billion of Paris Club debt service in 2004
		Ensure timely debt service payment.	Continuous starting November 2003.		DMO	Debt service arrangements now follow Paris Club guidelines and are regular.
		Restructure commercial debt portfolio through debt exchange or other measures that keep in view comparability with Paris Club subject to appropriate consultations.	June 2004.	Obtain NPV savings and reduce debt service requirement over medium term.		

Authorities' Core Economic Reform Program—Preliminary Matrix of Measures

Reform Component	Objective	Specific Measures and Targets	Implementation Timing	Expected Impact	Accountable Agency/Individual	Status as at end February 2004
(C) Domestic Debt Management	Restructure domestic debt portfolio and limit monetary. financing of deficits	Limited recourse to issuance of FGN bonds; retire Treasury Bills and finance budget deficits appropriately	October 2003 and continuous.	Reduce cost of government borrowing and roll over risk.	DMO.	Successful launch of FGN bond program November 2003. N150 billion medium and long term tenor bonds launched. N78 billion subscribed. Proposed N110 billion launch for financing Budget 2004.
	Sub-national borrowing and debt framework			Adopt a framework for Sub-national government borrowing consistent with fiscal discipline and macro stability	DMO.	
Section 2: Fighting Corruption, Improving Transparency and Accountability						
(A) Extractive Industries Transparency	Transparency of Oil and Gas Accounts	Enroll country on Initiative	July 29, 2003	Increased trust by domestic and external public improved country image.	SSA/Head, BMPIU for overall accountability of component.	Done.
		Announce intentions and specific measures on EITI & identify responsible agencies.	November 29, 200 3.	Better accounting for Oil revenues in Budget.	Mr. President/ Minister of Finance, Oby Ezekwesili.	Done.
		Selective stakeholder consultations and formation/announcement stakeholder working group.	November 2003.			Done Feb. 18, 2004.

Authorities' Core Economic Reform Program—Preliminary Matrix of Measures

Reform component	Objective	Specific measures and Target	Implementation Timing	Expected Impace	Accountable Agency/Ministry	Status as at end February 2004
		Sensitize stakeholders and hold workshop, NGO's, Civil Society, NNPC, Chevron, Shell, all oil companies etc.	End January 2004.			Done Feb. 19-20, 2004
		Issue request for proposals for independent auditors to (a) Review annual accounts and tax filings of oil companies; and (b) Audit government oil accounts including MOF, NNPC, CBN,NDDC accounts and oil nos.	December 2003.			In process TORS for auditors is to be reviewed and finalized by National Stakeholders working group (NSWG) by end March 2004.
		Finalize selection of auditor.	May l 2004 December 2003.	Better handle on Oil (Revenues) inflows and Outflows.	Head BMPIU/Oby Ezekwesili.	
		Initiate Audit 2000,2002 and 2003.	May 2004.			
		Interim Audit Report.	September 2004.			
		Final Audit Report for 2003.	December 2004.			
		Public Dissemination.	End December 2004.			
		Development templates for reporting on a semi- annual basis	End January 2004.			
		Develop templates for reporting on semi-annual Gas production, sales, revenues etc.	End January 2004.			

Authorities' Core Economic Reform Program—Preliminary Matrix of Measures

Reform component	Objective	Specific measures and Target	Implementation Timing	Expected Impace	Accountable Agency/Ministry	Status as at end February 2004
		First semi-annual oil accounts report shared with public and posted on Economic Reform/NEEDS website, Newspaper publication, Civil Society monitoring..	June 30, 2004.			
		Establish Oil and Gas Accounts.	End-December 2004.	Provide back-up technical support to EITI and provide better handle on oil (revenues) inflows and outflows. Provide forecasting economic capability of the sector, Oil and Gas.	Ministry of Finance	Done, Head of the Unit is in place since mid-January 2004. Multi-disciplinary team to support the work is being assembled.
(B) Support to Economic and Financial Crimes Commission (EFCC).	Show that Economic Crimes have consequences.	Income EFCC officer strengthen 400 staff.	By June 2004.	Noticeable drop in domestic and internationally reported "419" Financial and other related crimes.	EFCC-Nuhu Ribadu	EFCC staff strength has increased from 80 to 315 (including seconded staff from other agencies) 53 cases are under prosecution in just about a year of serious Operational work including cases involving three of the most important "419" kingpins presently under arrest. About N10 billion has been recovered to date by EFCC.

Authorities' Core Economic Reform Program—Preliminary Matrix of Measures

Reform component	Objective	Specific measures and Target	Implementation Timing	Expected Impace	Accountable Agency/Ministry	Status as at end February 2004
	Demonstrate Nigeria's willingness to fight money laundering meet FATF conditions.	Provide supporting investigative resources and physical enabling environment.	Budget 2004 appropriation by February 15, 2004			Budget 2004 still being reviewed by National Assembly. However, EFCC and other security agencies constitute important priorities for support in the budget. Expected appropriation for EFCC for recurrent and capital budget is appropriately N 752 million for 2004 compared to a N 400 million take off grant in 2003.
(B) Support to Economic and Financial Crimes Commission (EFCC)		Establish Financial Intelligence Unit, staffed and working.	January 15, 2004			
		Review money laundering legislation to conform with FATF.	September 2003.			Done Legislation revised to meet FATF guidelines. Different versions (both in line with FATF) have been passed by House and Senate and have to be reconciled by end-March 2004.
		Launch communication campaign against "419."	End-November 30, 2003.			Campaign design in process and launch expected soon.

Authorities' Core Economic Reform Program—Preliminary Matrix of Measures

Reform component	Objective	Specific measures and Target	Implementation Timing	Expected Impace	Accountable Agency/Ministry	Status as at end February 2004
		Deploy database program for "419."	June 2004.			
		Establish EFCC training school for capacity and specialized training of personnel.	December 2004.			Done.
(C) Strengthen Independent Corrupt Practices Commission (ICPC).	Show that corruption does not pay and will be vigorously dealt with.	Amend ICPC Legislation to accelerate prosecution.	End-December 2003.	Improved TI corruption perception index ranking for Nigerial from 2nd to last to 4th last by December 30, 2004.	ICPC.	55 plus cases in process with ICPC, several in court including high profile cases of ex-public officials, ministers, top civil servants and judges.
(D) Legal and Judicial Reforms.	Strengthen rule of Law, speed up court cases.	Draft Legal and Judicial Reform strategy, appropriately costed with implementation plan.	June 2004	Rule of Law entrenched Speedy resolution of cases with beneficial impact on households and business.	Ministry of Justice and Judiciary.	Draft Strategy under preparation.
	Ensure conducive legal environment for public safety and conduct of business for the private sector.	Begin implementation of strategy.	July 2004.		Ministry of Justice.	
		Average time for processing cases halved from x months to x months.	By Dec. 30, 2005			

Authorities' Core Economic Reform Program—Preliminary Matrix of Measures

Reform component	Objective	Specific measures and Target	Implementation Timing	Expected Impace	Accountable Agency/Ministry	Status as at end February 2004
(E) Police Reform	Improve security for Nigeria households and businesses	Police draft reform strategy	December 2003	Improved sense of physical security by Nigerians measured by a sample survey. Drop in number of crime cases, car snatching assassinations.	Ministry of Police Affairs/Inspector General of Police.	
		Continue to increase size of police force up to 300,000..	June 2004.	Drop in number of crime cases, car snatching assassinations from x in 2003 to y in 2004, 2005 and 2006.		Police Force increased by 120,000 to 240,000 by February 2004.
		Design and begin implementation and training.	By December 2004.		Ministry of Police Affairs/Inspector-General of Police.	Car snatching cases have dropped considerably from 2002 levels (some estimate are by up to two-third since the car snatch regional kingpin Ahmed Tijani was apprehended in Mali in November 2003 by a joint regional security effort and brought to Nigeria for trial.
		Capacity building and retention programs for all police at all levels.	Reflection budget in 2004.			

Authorities' Core Economic Reform Program—Preliminary Matrix of Measures

Reform component	Objective	Specific measures and Target	Implementation Timing	Expected Impace	Accountable Agency/Ministry	Status as at end February 2004
		Improve supply of equipment, materials and improve police barracks and training schools (Ikeja) etc.	October 2003 and continuous.			
		Strengthen community policing.	December 2005.			
		Substantially reduce number of ethnic clashes.				
					Head, BMPIU.	Now expected end June 2004. Savings from Due Process Certification process about N 85 billion (October 2001-February 2004).
(F) Reform of government Procurement and enhancement of Due process Mechanism.	Value for money and transparency in government contracting.	Extension of Due Process to cover all government Agencies and Parastatals not presently included.	December 30, 2003	Improved quality of government contracting through cost savings of an average N 40 billion by end 2004 for a higher public expenditure efficiency ratio.		
				50 percent reduction in the number of requests for contract award Due Process Certificate that are declined for		

Authorities' Core Economic Reform Program—Preliminary Matrix of Measures

Reform component	Objective	Specific measures and Target	Implementation Timing	Expected Impace	Accountable Agency/Ministry	Status as at end February 2004
				Noncompliance. By end 2004 (1 in every 5 requests currently fail the Due Process).		
		Publication and dissemination of New Procurement Guidelines to government Agencies and the Public.	December 30, 2003		Head, BMPIU	Now expected June 30, 2004. Conversation ongoing with Agencies.
		Set up MMPIU as the supporting secretariat for Public Procurement Reform and Implementation.		To improve leadership of procurement reforms		Done.
		Set up Resident Due Process teams in all Federal Ministries, Agencies and Parastatals to complement departmental tender boards and Federal Tender Boards.	March 30, 2004.			aIn process-Resident Due Process teams (RDPT) set up in Defence, NDDC. Two major contracting agencies. Plans currently underway to set up Resident Due Process Team in NNPC, NPA, INEC etc.
		Recruit Task Officer for the PRIC at the BMPIU Local/Int. Consultants.	December 30, 2003			Done.

Authorities' Core Economic Reform Program—Preliminary Matrix of Measures

Reform component	Objective	Specific measures and Target	Implementation Timing	Expected Impace	Accountable Agency/Ministry	Status as at end February 2004
		Organize a stakeholders workshop on review of procurement policy and procurement bill.	February 29, 2004.	To crystalize an organic process for procurement policy and regimen among various stakeholders.		Now expected end April 2004.
		Withdraw Procurement Policy Commission Bill from National Assembly for review and broader stakeholders consultation.				Done.
		Setting up of Procurement Commission.	March 1, 2004.			Now expected June 1, 2004.
		Procurement Legislation to National Assembly.	June 30, 2004			Now expected September 2004.
		Begin implementation-New Procurement Framework.				
	Increase use of Public Sector audits.	Issue and make Public Auditor-General's reports	Recommence January 1, 2004.			

Authorities' Core Economic Reform Program—Preliminary Matrix of Measures

Section 3: Governance and Institution

Reform component	Objective	Specific Measures and Target	Implementation Timing	Expected Impact	Accountable Agency/Individual	Status as at end-February 2004
(A) Local Government Reforms.	To promote stability, accountability, efficiency, service delivery and grassroots democracy.	Committee on Local Government Reform, White Paper, Public enlightenment, implementation of white paper recommendations.	November 2003 Receive Report.	Contain violence, instability. Promote efficiency and service delivery.	Mr. President and Minister Inter-governmental Affairs.	Done.
		Bills to National Assembly as necessary	January 2004- Get White Paper	Promote quality governance and leadership.		Discussion and debate on recommendations ongoing.
		Constitutional Amendment as necessary.	May 2004- Initiative discussions with NASS.	Eliminate waste and corruption.		
(B) NNPC Reforms.		EITI and Privatization Measures.				NNPC Management changed November 2003. Restructuring and reorganization in process. About 1,000 staff laid off.
(C) Policy and Program Monitoring.	To promote systematic information gathering, sharing and lessons learned on government programs and policies. To help	Clarify role of various monitoring agencies and units – BMPIU, Federal Office of Statistics, CBN, National Planning Commission, Presidency Monitoring Unit, Ministry of Finance, PRS Unit, NEIC	End-January 2004.	Improve monitoring processes/ procedure.	Mr. Julius Ihovnbere, Office of Policy and Program Monitoring, Presidency.	In process.

Authorities' Core Economic Reform Program—Preliminary Matrix of Measures

Reform component	Objective	Specific Measures and Target	Implementation Timing	Expected Impact	Accountable Agency/Individual	Status as at end-February 2004
	reinforce accountability for outputs and outcomes.	in monitoring and evaluation.				
		Fully establish Presidency Monitoring Unit with clear TORs as a one stop shop or clearing house on policy and program monitoring.	End- January 2004.			Done.
(D) Reform of National Statistics and Data Gathering.	Provide reliable and systematic database of information on the country's key economic and social; indicators.	Realign and redefine monitoring priorities and strategies and check waste, corruption and inefficiency.	End-June 2004.			
		Develop statistics master plan to guide collection of statistics	End-June 2004.	Greater confidence in National Statistics.	National Planning Commission/Economic Adviser to Mr. President.	
		Review role and structure of FOS and measures for strengthening.	End-March 2004.			
		Begin implementation of statistics master plan.	End-August 2004.			

Authorities' Core Economic Reform Program—Preliminary Matrix of Measures

Section 4: Public Service Reform

Reform component	Objective	Specific Measures & Targets	Implementation & Timing	Expected Impact	Principal Accountable Agency/Indiv	Status as at end-February 2004
(A) Public expenditure/ Budget Reforms.	Improve Fiscal Discipline at all tiers of government. Reduce Federal Government budget deficit and curtail deficit spending. Introduce order into budget formulation and implementation.	On budget formulation, introduce fiscal strategy paper as a tool for specifying priorities and facilitating trade-offs engaging the Executive, Legislature. Introduce notion of Medium Term Expenditure Framework (MTEF).	October 31, 2003.	More orderly budget process, greater ownership of budget by both Executive and Legislature. Greater Transparency and increased fiscal discipline.	Ministry of Finance.	Done.
		Introduce sectoral/ministerial expenditure ceilings as a budget tool in 2004 budget call circular.	November 15, 200 3.		Ministry of Finance.	Done.
		Clean up Capital and Recurrent Budgets to introduce clarity in Budget classification.	October 31, 2003 through October 31, 2004.		Ministry of Finance.	In process but still a lot to be done. Ongoing budget classification project will assist.
		Stock taking census on contractor arrears in system.	End-November 2003.		Ministry of Finance.	Information largely complete for large contractors. In process for small contractors.

Authorities' Core Economic Reform Program—Preliminary Matrix of Measures

Reform component	Objective	Specific Measures & Targets	Implementation & Timing	Expected Impact	Principal Accountable Agency/Indiv	Status as at end-February 2004
		Develop plan to eliminate all contractor arrears by 2006 and 2007.	November 30, 200 3.		Ministry of Finance.	In process.
		Eliminate 20 percent by 2004.		2005 and 2006.	Ministry of Finance.	In process.
		Eliminate 25 percent by 2005 and 25 percent by 2005 and 25 percent by 2006.				
		Eliminate balance by 2007.				
		Review and list backlog of uncompleted projects. Identify viable projects for completion with emphasis on priority sectors of agriculture, education, health, roads, power, water supply and phase. End funding for those that are unviable or not in conformity with government development objectives.	December 31, 2003 .		Ministry of Finance.	List of 500 viable uncompleted projects in Due Process database. Viable projects have been identified for completion I most priority sectors, Health, Works, and Water. Others ongoing. Unviable projects yet to be identified.

Authorities' Core Economic Reform Program—Preliminary Matrix of Measures

Section 5: Accelerated Privatization and Liberalization

Reform component	Objective	Specific Measures and Target	Implementation Timing	Expected Impact (Quantifiable where possible)	Accountable Agency/Individual	Status as at end-February 2004
(A) Liberalization Deregulation of Petroleum Sector	Improve efficiency of sector by getting government out and allowing market forces to work to improve supply and availability of Petroleum Products under appropriate regulatory regime that balances consumer and supplier interests.	Complete Liberalization of pricing and marketing of petroleum products.	October 1, 2003.	Prices for petrol move to import parity approximately N40 a litre minimum as of October 1.	President and PPRA, NNPC	Done.
		Phasing out of government price subsidies to NNPC on Domestic Crude i.e. move NNPC to International spot price.	October 22, 2003.	Improve supply of petrol after a few weeks transition period to solve logistical problems.		Done Savings of approximately N109 billion per year to treasury (Budget 2004 Estimates). Please note that these savings refer to the last move from $18 to $23 a barrel. There had been successive increases in the price for NNPC for domestic crude over the past two year.
		Move to market determined exchange rates for NNPC imports	October 22, 2003			Done.

Authorities' Core Economic Reform Program—Preliminary Matrix of Measures

Reform component	Objective	Specific Measures and Target	Implementation Timing	Expected Impact (Quantifiable where possible)	Accountable Agency/Individual	Status as at end-February 2004
		Privatization of four refineries, Kaduna, Warri, Port Harcourt 1 and 2.	Refineries already advertised for sale as at mid-October 2003. Sales by March 2004.	Savings of over N5.4 billion in government subventions for repair, rehabilitation, maintenance and running costs. Improved supply of petroleum products.	BPE and NNPC.	Privatization of the refineries is in process. There have been advertised and strategic/core investors are being identified. Meanwhile, entry into refining sector has been liberalized and eight licenses awarded. At least one private refinery is said to be scheduled to begin operations by mid-2004.
		Privatization of Eleme-Petrochemicals Ltd.	December 2003.			
		Privatization of West African Refinery Company.				Done February 2004.
		Privatization of 11 Oil Services Companies (IPO): ➢ Baroid Nigeria Ltd. ➢ Bariod Driling and Chemical Products ➢ Baker Nigerial Ltd. ➢ Halliburton Nigeria Ltd ➢ Sante Fe Nigeria Ltd	December 2005.			Done February 2004.

Authorities' Core Economic Reform Program—Preliminary Matrix of Measures

Reform component	Objective	Specific Measures and Target	Implementation Timing	Expected Impact (Quantifiable where possible)	Accountable Agency/Individual	Status as at end-February 2004
		➢ Sedco Forex Nig. Ltd. ➢ ACM Nigeria Ltd. ➢ Solus schall Nigeria Ltd. ➢ Dowell Schlumberger Nigeria Ltd. ➢ Aschlumberger Testing and Wireline ➢ Schlumberger Nig. Ltd ➢ Pipeline Products Marketing Co. Ltd.				
(B) Industry and Manufacturing	Divest government from Commercial Enterprises and create opportunities for private sector.	National Trucks Manufacturing Kano.			BPE.	
		Nigeria-Romanian Wood Factory.	March 2004.			
		Chemical Company of Senegal.				
		Electricity Meter Co. of Nigeria (IPO).				

Authorities' Core Economic Reform Program—Preliminary Matrix of Measures

Reform component	Objective	Specific Measures and Target	Implementation Timing	Expected Impact (Quantifiable where possible)	Accountable Agency/Individual	Status as at end-February 2004
		3 Paper Mills - Nigerial paper Mills - Nigerian Newsprint Manufacturing Co. Ltd. (Oku Iboku) - Iwopin Pulp and Paper Co.	December 2005.			
		5 Vehicle Assembly Plants: - ANAMMCO - Leyland Nig. Ltd. - Volkswagon - Steyr Nig. Ltd. Peugeot - Automobile of Nig.				
		2 Fertilizer Companies: - NAFCON - Federal - Superphaspate - Fertilizer				
		Sell Sugar: Sunit Sugar Nigeria Sugar Co. Lafiagi Sugar Col	December 2006			
		Nigeria Machine Tools				
		Onigbolo Cement	December2006			
		Power Sector	December 2005			

Authorities' Core Economic Reform Program—Preliminary Matrix of Measures

Reform component	Objective	Specific Measures and Target	Implementation Timing	Expected Impact (Quantifiable where possible)	Accountable Agency/Individual	Status as at end-February 2004
(C) Infranstructure and Electricity Networks		Reform including Regulatory Framework & completion of NEPA unbundling.	December 2005.		BPE, Ministry of Power and Steel.	
		Passage of Power Bill by National Assembly.	March 31, 2004.			
		Empower NEPA to enforce payment discipline in sector through power cuts, sanctions for non-payment and other illegal power theft activities.	Continuous starting mid-October 2003.			
		Establish and properly staff National Electricity Regulatory Commission.	End-December 2004.			
		NRC non-Core Assets - Nigerian Unity Line - Nigerial Aviation Handling Co. (11 percent).	March 2004.			
		Passage of Federal Infrastructure Projects Concessioning Bill.	September 2004.			Draft Bill under preparation for transmission to National Assembly mid-March 2004. Act

Authorities' Core Economic Reform Program—Preliminary Matrix of Measures

Reform component	Objective	Specific Measures and Target	Implementation Timing	Expected Impact (Quantifiable where possible)	Accountable Agency/Individual	Status as at end-February 2004
						regulates public private partnerships in infrastructure development. Paves way for innovative private sector approaches to infrastructure provision.
		Nigerial Ports Authority - Railway Property Company Limited - Waterways Authority - NITEL (IPO) - NAHCO (IPO) - Federal Airports Authority of Nigeria (4 Airports) - FCT Water Board Abuja Environmental Protection Board				
		Nigeria Airways (Liquidation)	December 2006			
		NIPOST - Nigeria Railway Corporation	December 2006			
		NICON Insurance	December 2005			
		- Abuja International Hotel (Sofitel)				

Authorities' Core Economic Reform Program—Preliminary Matrix of Measures

Reform component	Objective	Specific Measures and Target	Implementation Timing	Expected Impact (Quantifiable where possible)	Accountable Agency/Individual	Status as at end-February 2004
		- New Nigeria Newspaper				
		Daily Times				
		Afribank	March 2004			
		Capitol Hotel Sheraton (IPO)	December 2005			
		Nigeria Hotels (Central)	March 2004			
		Durbar Hotel	December 2005			
		NIRMSCO Prop. Ltd.	December 2006			
		Nigeria Hotels (Investments)	December 2005			
		Bristol Hotel				
		Benue Hotels Ltd				
		Sokoto Hotels				
		Lake Chad Hotel Maiduguri	December 2005			
		Western Hotel Ltd.				
		Abuja Stock Exchange	March 2004			
		Nigeria Reinsurance	December 2005			
		Tafawa Balewa Investments	December			

Authorities' Core Economic Reform Program—Preliminary Matrix of Measures

Reform component	Objective	Specific Measures and Target	Implementation Timing	Expected Impact (Quantifiable where possible)	Accountable Agency/Individual	Status as at end-February 2004
		Concessioning - International Trade Fair Comples - Stadia (Abuja, Lagos and Kaduna) - National Theatre Lagos - Federal Housing Authority (IPO)	December 2005			
		Federal Mortgage Bank of Nigeria	December 2005			
		Nigeria Bank of Commerce & Industry				
		NERFUND				
		Stallion Property and Development Co. Ltd.	December 2005			
		Commercialization Enterprises	December 2006			
		News Agency of Nigeria				
		Nigeria Film Corp				
		Nigeria Television Authority				
		Federal Radio corp of Nigeria				
		National parks				

Authorities' Core Economic Reform Program—Preliminary Matrix of Measures

Reform component	Objective	Specific Measures and Target	Implementation Timing	Expected Impact (Quantifiable where possible)	Accountable Agency/Individual	Status as at end-February 2004
		Nigeria social Insurance Trust Fund				
		Nigeria Agricultural Cooperative & Rural Development Bank	December 2006			
		Bank of Industry	December 2006			
		Stadia (Enugu, Ibadan, Bauchi).	December 2006			

Nigeria: Tentative Work Program, 2004

Item	**Date**
2004 Article IV Consultation Discussions	February 23-March 8, 2004
Staff visit to discuss quarterly macroeconomic path for 2004 and informal monitoring	May 12-19, 2004
2004 Article IV Executive Board meeting	Late June/early July 2004
Staff visit to review budgetary and monetary developments for the first half of 2004	September 2004
Issuance of mid-term informal monitoring review	October 2004
Staff visit to review budgetary and monetary developments for 2004Q3	Late November/early December 2004

Public Information Notice (PIN) No. 04/80
FOR IMMEDIATE RELEASE
August 3, 2004

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

IMF Concludes 2004 Article IV Consultation with Nigeria

On July 16, 2004, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation with Nigeria.[1]

Background

Economic performance over the past 18 months has been mixed. Despite favorable developments in the real economy, overall macroeconomic policies have been expansionary. However, the government moved quickly to articulate the National Economic Empowerment and Development Strategy (NEEDS), aimed at addressing Nigeria's deep-rooted macroeconomic and structural challenges. Moreover, macroeconomic developments for the first half of 2004 have been encouraging, with considerable oil savings achieved, signaling a reversal of the expansionary policies of the past years.

Real GDP growth in Nigeria accelerated in 2003 on account of sharply higher oil and gas production and continued robust growth in the non-oil economy. Due to favorable terms of trade developments, the external current account deficit narrowed sharply. This, however, masks rising non-oil import pressures and a widening non-oil external current account deficit.

Fiscal policy continued to be procyclical and expansionary in 2003, with the non-oil primary balance deteriorating as a percent of non-oil GDP. Although the federal government achieved some fiscal tightening, this was more than offset by higher spending of the oil windfall by state

[1] Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board. At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities.

and local governments (SLGs). The overall deficit would have been higher had the federal authorities not introduced several measures to enhance revenue collection and restrain spending in the second half of 2003, particularly with regard to the capital budget and the supplementary budget that was approved in early December 2003. Government oil revenue also improved after the Nigeria National Petroleum Corporation (NNPC) was required to pay the market price for crude oil allocated for domestic refining.

Monetary policy was expansionary. Net credit to the government expanded rapidly in the first three quarters of 2003. Lax monetary conditions led to a monetary overhang and negative real short-term interest rates by end-2003 and early 2004. Inflation accelerated in 2003 on the back of expansionary macroeconomic policies and fuel price liberalization. Gross public debt continued to rise as the federal government resorted to a mixture of market-based and monetary financing to finance its expansionary policies. As a result of further arrears accumulation and valuation effects, external debt increased by US$2 billion to US$32.8 billion at end-2003. Nevertheless, the authorities made efforts to improve relations with Paris Club creditors, with all but four bilateral negotiations concluded under the 2000 rescheduling agreement.

Despite record high oil revenue, international reserves continued the downward trend that started in 2002. Reserves fell for the year by US$213 million to US$7.5 billion (3.8 months of imports). In line with the terms of trade improvement, expansionary fiscal stance and higher DAS sales, the real exchange rate has appreciated by 6 percent since end-2002, and remains about 11½ percent above its 1999 level (when a major realignment took place).

Macroeconomic conditions have improved considerably since late 2003, due largely to fiscal prudence. The fiscal restraint that began in the last quarter of 2003 continued in the half of 2004. Around US$2 billion in oil revenue was set aside by all tiers of government during the first six months. The fiscal restraint allowed a net repayment by the government to the banking system. In addition, the CBN's shift to daily open-market operations—introduced in November 2003—has helped lower excess liquidity in the banking system. Consequently, 12-month growth in broad money slowed considerably in the first six months, and foreign exchange market pressure has eased, facilitating a sharp increase in gross international reserves to US$10.1 billion at end-May 2004, and a narrowing of the parallel market exchange rate premium to 4½ percent. After moderating to 17½ percent at end-April, the 12-month inflation rate picked up again to 19½ percent at end-May 2004 due to higher food prices.

Structural reform efforts have been positive since mid-2003. Several initiatives to improve oil sector efficiency and enhance public sector transparency and accountability were introduced as part of NEEDS. First, the price subsidy to NNPC on its domestic crude allocation was eliminated in October 2003. Furthermore, prices on retail petroleum products were liberalized. Second, the authorities volunteered to participate in the Extractive Industries Transparency Initiative (EITI) and agreed to participate in the African Peer Review Mechanism of the New Economic Partnership for African Development (NEPAD) and the G8 Transparency Initiative. Third, the financial sector and the payment system were strengthened in line with Financial Sector

Assessment Program (FSAP) recommendations. Overall trade protection, however, increased due to the imposition of ad hoc import bans.

Confidence in the Nigerian economy has improved since the elections and with the appointment of the new economic team. Nigeria's spread over the overall JP Morgan Emerging Market Bond Index Global has tightened by about 550 basis points since April 2003.

Executive Board Assessment

Executive Directors welcomed the notable recent improvement in prospects for sustained adjustment and economic reform in Nigeria, and the authorities' articulation of the National Economic Empowerment and Development Strategy, NEEDS—a homegrown medium-term economic strategy aimed at addressing Nigeria's deep-rooted macroeconomic and structural problems and reducing poverty. They fully agreed with its overall policy thrust and direction for tackling economic development and unleashing Nigeria's growth potential. Directors viewed the reform priorities as broadly consistent with the recommendations of previous Article IV consultations, and marking a clear break from the policies of the past. They stressed that consistent and determined implementation of NEEDS, backed by complementary strategies at the sub-national level as well as the support of the international community, will be essential if Nigeria is to confront successfully the daunting economic and social challenges that lie ahead.

Directors were encouraged by the authorities' initial progress in implementing the policy agenda in engagement with the private sector and civil society. A number of policy actions taken since late 2003, combined with higher oil prices, have contributed to an overall improvement in macroeconomic performance so far in 2004. Directors commended the fiscal restraint that allowed much of the oil windfall to be saved, resulting in lower inflation and a sharp increase in gross international reserves. They saw the elimination of the subsidy on petroleum products as a bold demonstration of the authorities' commitment to reform. On the structural front, Directors welcomed the introduction of an oil price-based fiscal rule at the federal level, improvements in governance practices, the strengthening of the budget process, and increased policy coordination, in part through the new Cash Management Committee.

Notwithstanding the recent progress, Directors underlined that economic reform in Nigeria faces serious risks and challenges, owing primarily to weak institutions, limited technical capacity, and resistance of entrenched vested interests. Careful prioritization and sequencing of reforms will be essential to avoid overstretching administrative capacity. Directors endorsed the suggestion that the authorities should focus their immediate effort on a few reforms that will produce tangible results and garner public support quickly, and underlined the importance of a sound communication strategy to persuade public opinion of the benefits of reform. The ongoing civil service reform and other actions being taken to increase public accountability and transparency will be crucial steps to strengthen institutions and render the reforms permanent. Directors commended the authorities' commitment to improving governance and tackling corruption—as reflected in Nigeria's participation in the Extractive Industry Transparency Initiative; the African Peer Review Mechanism of New Partnership for Africa's Development; and the G8 Transparency Initiative. They welcomed the establishment of the Economic and Financial

Crimes Commission and the publication of the monthly revenue allocations to sub-national governments.

Achievement of macroeconomic stability will require continued fiscal tightening at the federal level and the participation of all states in the oil price-based fiscal rule. Directors noted that the federal government faces a major challenge in reaching agreement with the states to save oil windfalls, and urged timely passage of the Fiscal Responsibility Bill to provide the legal foundation for a prudent consolidated fiscal policy. They were disappointed that the consolidated non-oil fiscal deficit is expected to rise significantly, undermining efforts to restrain inflation, and called on the states to implement the oil price-based fiscal rule to ensure fiscal prudence. Fiscal prudence will also require measures to boost non-oil revenue and control spending, while ensuring that social and developmental needs are met.

Directors observed that the 2004 federal government budget embodies a positive change from past budgetary practice. The adoption of a fiscal policy framework incorporating an oil price baseline should help achieve sizable cash savings to buffer against future oil price shocks and reduce macroeconomic volatility. Directors called on the authorities to build on this progress and begin the 2005 budget cycle early. They stressed the need to further prioritize the capital budget, design a strategy to address domestic arrears, and develop a medium-term expenditure framework consistent with NEEDS.

Directors encouraged the central bank to implement a credible monetary policy framework aimed at achieving price stability and rebuilding Nigeria's international reserves. Given the monetary overhang from 2003 and the persistent inflationary pressures, Directors underscored the need for the central bank to be vigilant in implementing its monetary program. In particular, the central bank should avoid financing the budget deficit and should adjust the minimum rediscount rate if inflationary pressures accelerate. Directors encouraged increased reliance on indirect monetary policy instruments and reforms to enhance the independence of the central bank. In addition, they urged the central bank to develop an effective strategy for public communication of the objectives and stance of monetary policy, so as to establish the credibility of the monetary framework.

Directors commended the implementation of the recommendations of the Financial Sector Assessment Program aimed at strengthening the financial sector and the payments system. They underscored the importance of decisive action against misreporting and under-provisioning and of an exit strategy to address the problem of weak banks, and supported the authorities' request for a follow-up FSAP to help address these issues. The establishment of a Financial Intelligence Unit to strengthen the framework for anti-money laundering was welcomed.

Directors welcomed the authorities' intention to unify the foreign exchange market and move toward a market-determined exchange rate, and supported the authorities' request for technical assistance to implement this reform. They also encouraged the authorities to work toward accepting the obligations of Article VIII of the Fund's Articles of Agreement. Directors welcomed the authorities' launch of a formal review of the import tariff structure with a view to implementing the lower common external tariff of the Economic Community of West African States. However, they expressed concern about Nigeria's continued reliance on import bans. They noted that, going forward, comprehensive trade liberalization will be needed to enhance Nigeria's competitiveness and boost investment.

Directors welcomed Nigeria's efforts to improve its debt management practices and address its domestic and external debt burden. They agreed that development of a treasury bill market would be helpful in restructuring the domestic debt and reducing rollover risks. Directors commended the authorities' improved dialogue initiated with the Paris Club. A number of Directors called on the authorities to service external debt to the fullest extent possible, and emphasized the importance of comparable treatment of all creditors. Several Directors encouraged the authorities to work closely with their creditors towards finding a sustainable long-term solution to Nigeria's serious debt problems.

Directors urged the authorities to sustain the privatization effort and create a more business-friendly environment to boost private sector growth. A regulatory and monitoring framework that ensures an open and transparent privatization process will be key to encouraging investor interest in the enterprises concerned.

Directors welcomed the authorities' request for Fund staff to monitor the implementation of their program. In view of this request, they generally endorsed the proposed intensified surveillance, which will involve quarterly staff visits to Nigeria and semi-annual information reports to the Executive Board. They encouraged the authorities to give highest priority to capacity building, and reiterated the Fund's commitment to help Nigeria in this regard. Directors urged the authorities to continue to make full and effective use of technical assistance based on their recent initiatives to prioritize technical assistance needs. They called on the authorities to improve their statistical system, as an essential basis for effective monitoring of economic policy implementation.

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

Nigeria: Selected Economic and Financial Indicators, 2001–04

	2001	2002	2003
	(Annual percentage changes, unless otherwise specified)		
National income and prices			
Real GDP (at 1990 factor cost)	3.3	1.4	10.9
Oil GDP	1.4	-11.6	26.5
Non-oil GDP	4.3	8.0	4.4
Agriculture	3.9	4.3	6.5
Industry	8.7	8.9	6.4
Services	3.6	13.0	1.2
Real GDP per capita	0.6	-1.3	7.9
GDP per capita (in U.S. dollars)	362	341	415
Non-oil GDP per capita (in U.S. dollars)	199	180	201
GDP deflator (period average)	10.8	3.9	21.0
Consumer price index (annual average)	18.0	13.7	14.4
Consumer price index (end of period)	16.5	12.2	23.8
External sector			
Exports, f.o.b. 1/	-17.5	-9.8	55.1
Imports, f.o.b.	8.8	16.2	26.6
Terms of trade	-10.4	-0.5	2.8
Nominal effective exchange rate (end of period; - indicates depreciation) 2/	-3.3	-18.3	-8.8
Real effective ex. rate (end of period; - indicates depreciation) 2/	11.2	-10.4	6.4
Consolidated government operations 3/			
Total revenue and grants	13.1	-9.3	35.1
Petroleum revenue	5.3	-14.4	42.0
Capital expenditure and net lending 4/	61.2	-11.5	22.9
Money and credit			
Net foreign assets 5/	15.2	-3.1	6.6
Net domestic assets 5/	14.5	6.2	19.1
Net domestic credit 5/	36.4	38.0	28.5
Net credit to consolidated government	13.2	30.3	11.4
Net credit to the federal government	9.5	30.3	11.2
Credit to the rest of the economy	23.0	8.5	15.7
Broad money	27.2	21.6	24.1
Velocity (non-oil GDP/end-of-period broad money)	2.2	2.1	2.0
Treasury bill rate (percent; end of period)	20.3	13.8	17.3
Discount rate (percent; end of period)	20.5	16.5	15.0
	(In percent of GDP; unless otherwise specified)		
Investment and saving			
Investment	22.8	26.1	22.7
Public fixed investment	12.1	10.2	9.3
Private fixed investment	10.7	15.9	13.4
Gross national savings	25.4	15.0	20.0
Public	15.6	11.5	13.2
Private	9.8	3.5	6.8
Consolidated government operations 3/			
Total revenues and grants	42.1	36.2	36.5
Of which: petroleum revenue	32.5	26.3	27.9
Total expenditure and net lending	47.0	41.4	37.8
Overall balance (commitment basis)	-4.9	-5.3	-1.3
Non-oil primary balance (in percent of non-oil GDP)	-43.2	-31.9	-34.6
Gross domestic debt	19.0	20.7	17.7
External sector			
Current account balance	2.6	-11.1	-2.7
External debt outstanding (in billions of U.S. dollars)	29.7	31.0	32.8

Nigeria: Selected Economic and Financial Indicators, 2001–04

	2001	2002	2003
	(Annual percentage changes, unless otherwise specified)		
External debt service due after rescheduling 2000–01 (in percent of exports of goods and nonfactor services)	5.2	6.4	5.2
	(In millions of U.S. dollars, unless otherwise specified)		
Current account balance	1,255	-5,107	-1,559
Overall balance of payments	-98	-4,503	-1,606
Gross international reserves (end of period)	10,423	7,681	7,468
(equivalent months of imports, c.i.f.)	7.6	4.9	3.8
Price of Nigerian oil (U.S. dollars per barrel)	24.3	25.0	29.0
Production of crude oil (million barrels per day)	2.26	1.96	2.45
Including oil and gas equivalent		2.15	2.72
Interbank Foreign Exchange Market/DAS exchange rate (naira per U.S. dollar; average)	112.0	122.2	130.9
Nominal GDP at market prices (in billions of naira) 6/	5,339	5,632	7,545

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

1/ Export volumes fall more than total production due to an increase in domestic allocation of crude oil to NNPC in 2002 from 2001.
2/ 2003 data are based on end-December 2002 over end-October 2003.
3/ Consists of the federal, state, and local governments.
4/ Assumes that two-thirds of state and local government expenditure is recurrent expenditure.
5/ In percent of broad money at the beginning of the period.
6/ The GDP series was updated in 2003 incorporating changes by the authorities to take account of developments in real activity and structural changes.