October 2007
IMF Country Report No. 07/353

Nigeria: Fourth Review Under the Policy Support Instrument—Staff Report; Staff Statement; Press Release on the Executive Board Discussion; and Statement by the Executive Director for Nigeria

In the context of the fourth review under the Policy Support Instrument for Nigeria, the following documents have been released and are included in this package:

- The staff report for the Fourth Review Under the Policy Support Instrument, prepared by a staff team of the IMF, following discussions that ended on August 30, 2007, with the officials of Nigeria on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on September 28, 2007. The views expressed in the staff report are those of the staff team and do not necessarily reflect the views of the Executive Board of the IMF.

- A staff statement of October 15, 2007 updating information on recent developments.

- A Press Release summarizing the views of the Executive Board as expressed during its October 15, 2007 discussion of the staff report that completed the request.

- A statement by the Executive Director for Nigeria.

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

Letter of Intent sent to the IMF by the authorities of Nigeria*
Policy Statement by the Government of Nigeria on the Nigerian Economic Reform Program After Completion of the Policy Support Instrument*

*Also included in Staff Report

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.

Copies of this report are available to the public from

International Monetary Fund • Publication Services
700 19th Street, N.W. • Washington, D.C. 20431
Telephone: (202) 623-7430 • Telefax: (202) 623-7201
E-mail: publications@imf.org • Internet: http://www.imf.org

Price: $18.00 a copy

International Monetary Fund
Washington, D.C.

INTERNATIONAL MONETARY FUND

NIGERIA

Fourth Review Under the Policy Support Instrument*

Prepared by the African and Policy Development and Review Departments
(In consultation with other departments)

Approved by Benedicte Vibe Christensen and Carlo Cottarelli

September 28, 2007

* The mission team comprised Mr. Nellor (head), Ms. Murgasova, Ms. Roehler and Mr. Steinberg (all AFR), Mr. Williams (FAD), and Mr. Kelmanson (PDR). Mr. Bell (Senior Resident Representative) assisted the mission.

Contents

Executive Summary 3

I. Introduction 4

II. Developments under the PSI: 2005–07 4

III. Program Performance 8

IV. Policy Discussions 12
A. Maintaining Macroeconomic Stability 12
B. Safeguarding Nigeria's Wealth 14

V. Staff Appraisal 15

Tables
1. Selected Economic and Financial Indicators, 2004–09 22
2a. Consolidated Government, 2004–09 23
2b. Federal Government Budget, 2004–08 24
2c. Nigeria: Consolidated and Federal Government, 2004–09 25
3a. Central Bank of Nigeria (CBN) Analytical Quarterly Balance Sheet, 2004–08 26
3b. Monetary Survey, 2004–08 27
4. Balance of Payments, 2004–10 28
5. Non-oil Savings-Investment Balances, 2004–09 29
6. Quantitative Assessment Criteria and Indicative Targets, 2007 30
7. Millennium Development Goals—Status at a Glance 31
8a. Structural Assessment Criteria for the 4th Review, and Structural Benchmarks for May–June, 2007 33
8b. Update on Structural Measures Previously not Observed 34

Figures
1. Real Developments 17
2. External Developments 18
3. Fiscal Developments (Consolidated General Government) 19
4. Monetary Developments 20
5. Social Indicators and Economic Well-being 21

Appendixes
I. Authorities' Letter 35
Attachment I. Policy Statement 36

Annexes
I. Relations with the Fund 46
II. Relations with the World Bank 49
III. Statistical Issues 57

Executive Summary

Macroeconomic policy was pivotal in driving favorable economic outcomes during the 2005–07 PSI that concludes with this review. Robust non-oil sector growth, significantly strengthened fiscal and external positions, improved confidence and reduced inflation are among the most important outcomes that surpassed the original program goals. While a favorable external environment helped, improved fiscal policy and particularly the use of an oil price fiscal rule was critical to securing these gains. Progress toward the MDGs needs to accelerate.

Policy implementation strengthened since the third review and program performance was satisfactory.

The fiscal assessment criterion for end-June 2007 was met. The authorities are implementing fiscal measures to achieve the end-2007 federal government deficit target, and to avoid a further weakening at the consolidated level, particularly in light of the extra distribution of oil savings to states during the third quarter.

Broad money and inflation have been in line with expectations. The reserve money path is being adjusted to reflect developments in the money multiplier in 2007. A minor overrun of the reserve money target at end-June occurred because the CBN targeted a definition of reserve money that excluded a new bank-settlement account. Recent improvements in monetary data and the policy decision-making process are welcome.

The ambitious structural reform agenda continues to progress. Most structural measures for the fourth review were implemented on time; three of five assessment criteria and all benchmark measures were completed on schedule. Two waivers are requested. The authorities brought to completion a number of measures delayed from the third review.

A strong policy framework is essential to preserve recent positive macroeconomic performance. Fiscal risks have increased in the short term because recent practices on the use of an oil price rule and oil savings, which have been important to macroeconomic performance, are being revisited. The government's consensual approach within the framework of the constitution offers the prospect of a lasting solution. An agreement by all levels of government to contain domestic spending to levels consistent with the authorities' medium-term fiscal targets is critical. The framework should include revenues from natural gas as well as oil savings.

The staff recommends completion of the fourth review under the PSI. The staff proposes waivers for the missed assessment criterion on reserve money and for two delayed structural assessment criteria.

The authorities are considering the modalities for continuing their close engagement with the Fund beyond the expiration of the PSI. The possibilities include another PSI. They note that the current PSI has been vital to the acceleration of Nigeria's reforms.

I. Introduction

1. **The fourth and final review concludes Nigeria's two-year Policy Support Instrument (PSI).** Discussions covered:

- A review of developments under the PSI (Section II),
- An assessment of program performance based on end-June 2007 targets and the short-term outlook (Section III), and
- A discussion of policy plans concerning macroeconomic stability and safeguarding Nigeria's wealth (Section IV).

The scope of discussions will be broadened during the upcoming Article IV consultation.

2. **Discussions were held with the new administration of President Yar'Adua.** The administration shares the economic and social objectives of its predecessor and is expected to outline a strategy for accomplishing the President's Seven Point reform agenda in a new Nigeria Economic Empowerment and Development Strategy (NEEDS 2) by year-end.[1] The government has been challenged immediately by several issues, including the states' renewed claims to access their oil savings. On this and other issues, the hallmark of the administration is the application of the rule of law and constitutionality, offering the prospect of long-lasting solutions.

II. Developments under the PSI: 2005–07

3. **The PSI supported the reform program set out in the homegrown NEEDS 2004–07.** Improved macroeconomic policies and wide-ranging structural reforms strengthened economic performance that benefited also from favorable external conditions (Figures 1–5).

4. **Macroeconomic performance and sustainability improved in accordance with the objectives under the PSI** (Text Table 1). Non-oil sector growth was high, particularly in services, while oil production stagnated. Inflation—both headline and core—declined to single digits. The external and fiscal positions strengthened significantly with the reduction of Paris and London Club debt, and the accumulation of public savings and international reserves. Debt-service savings were directed to poverty spending. A majority of households saw their economic situation improve or stay the same, but poverty remains high and progress toward the Millennium Development Goals (MDGs) needs to accelerate.

---

[1] See the authorities' Policy Statement, paragraph 16.

Text Table 1. Comparison of PSI and Actual, 2005-07

	2005	2006	2007
Non-oil growth (percent)			
Actual	8.6	8.9	8.0
PSI	4.9	5.0	5.4
Inflation (year-on-year, percent)			
Actual	11.6	8.5	6.0
PSI	18.5	8.5	6.2
Official reserves (US$ billion)			
Actual	28.3	41.8	47.7
PSI	26.4	48.3	68.0
Debt (US$ billion)			
Actual	20.5	3.5	3.3
PSI	30.4	4.8	4.7
Non-oil primary fiscal balance (percent of non-oil GDP)			
Actual	-38.9	-44.6	-42.4
PSI	-41.4	-38.0	-37.9
Crude oil production (mbd)			
Actual	2.51	2.36	2.15
PSI	2.45	2.48	2.58
Oil price (US$/ bbls)			
Actual	55.3	65.3	67.3
PSI	54.2	60.5	58.5

PSI projections are the October 2005 request for the PSI (IMF Country Report No. 05/432). Current projections are used for 2007 "actual" data.

5. **A favorable external environment and weather conditions were supportive of the outcomes.** Increased oil prices boosted government oil revenue and reserves, even though unrest in the Niger Delta curtailed oil production.[2] Agriculture grew robustly—benefiting from good weather and government agricultural programs—which helped reduce food price inflation.

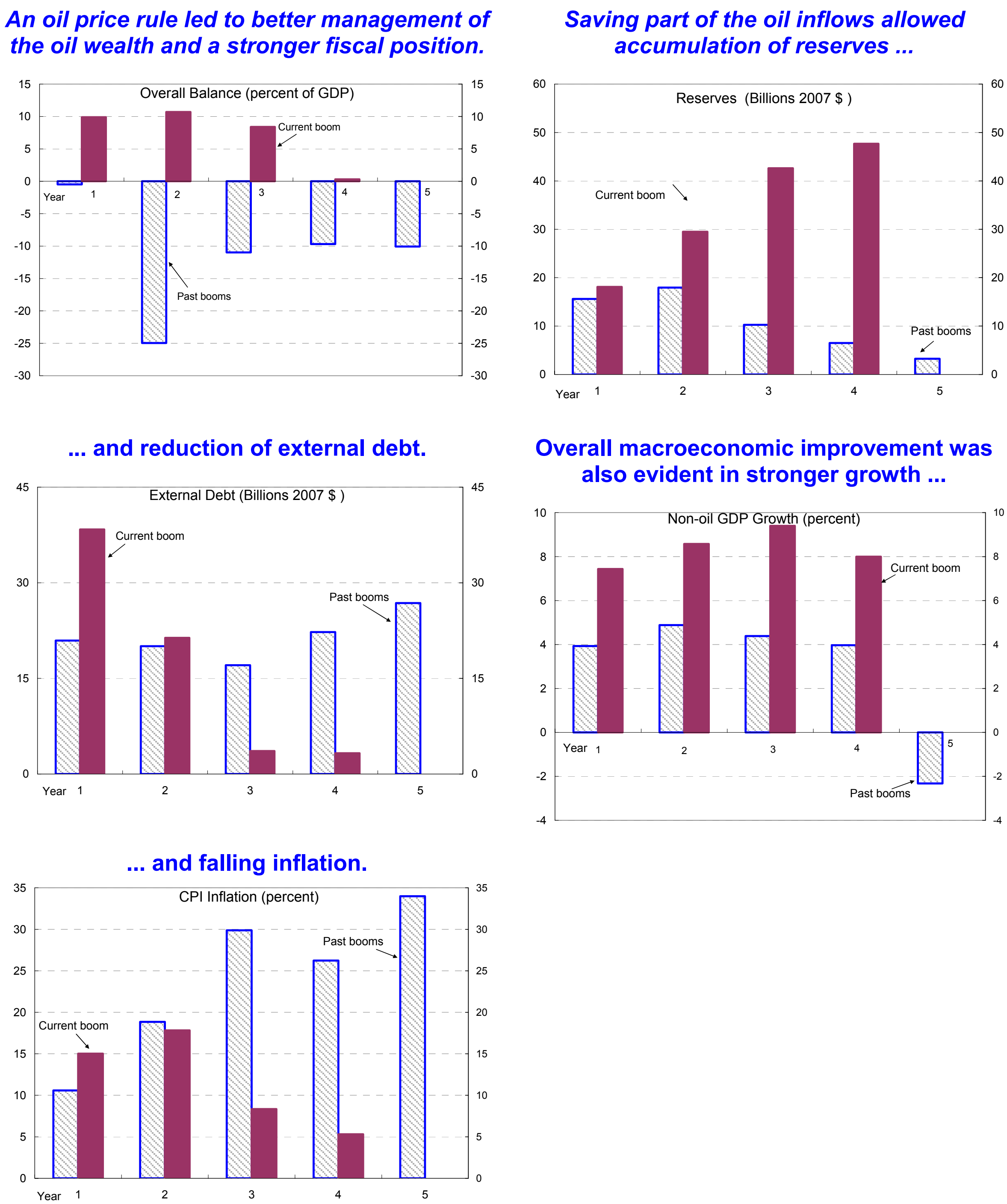
6. **While benefiting from a positive external environment, a stronger policy framework was pivotal in delivering improved macroeconomic performance.** Nigeria has experienced several episodes of high oil prices, yet in recent years the outcomes were far more positive (Text Figure 1).[3]

---

[2] While higher oil prices broadly offset lower oil volumes, accumulation of external reserves and the current account surplus fell short of the original PSI projections due to a modification of the fiscal program to accommodate increased expenditure on infrastructure, a shortfall in oil revenues (see paragraph 13), and an unanticipated repayment of the London Club debt.

[3] Text Figure 1 compares economic performance during past and present episodes of high oil prices ("oil booms"). The past oil booms are 1974–78, 1979–83, and 1990–94. The figures show the arithmetic average of the three earlier oil booms for each variable. The first year of the episode is shown as year one. In the case of the current oil boom, year one corresponds to 2004.

Text Figure 1. Nigeria: Economic Developments during the Current and Past Oil Booms



Sources: Nigerian authorities and IMF staff estimates.

Securing these gains is an accomplishment in light of the tremendous needs for spending on infrastructure and poverty reduction, while having to contain domestic demand to levels consistent with macroeconomic stability. Even then, capital spending more than doubled in three years and about $1 billion of debt relief gains was allocated to a Virtual Poverty Fund in both 2006 and 2007.

7. **The comprehensive structural reform program aimed to strengthen economic governance and the private sector environment.** Reforms in government management, trade and market liberalization, privatization, and banking and financial sector reforms have led to important gains (Text Table 2). A World Bank survey found increased transparency and fairness in procurement, and the World Bank *Doing Business* indicators show some improvements.

Text Table 2. Main Accomplishments of the Structural Reform Program under the PSI, 2005–07

Improve macroeconomic management	
Fiscal policy	Oil price fiscal rule applied.
	Fiscal Responsibility Bill passed by parliament.
Foreign exchange markets	Whole Sale Dutch Auction System operational.
	Exchange markets unified.
Monetary policy	Standing facility introduced.
Public financial management reforms to support macroeconomic and fiscal management	
Multi-year, strategic budgeting	Federal and state government strategies (NEEDS and SEEDS) guide policies.
	NEEDS review and SEEDS benchmarking carried out, draft NEEDS 2 prepared.
	Medium-term sector strategies expanded.
Budget accountability	Virtual poverty fund for debt relief-financed MDG spending introduced.
	Virtual poverty fund quarterly reports initiated.
	Contractor and pension arrears cleared.
Computerized systems	Electronic accounting system (ATRRS) introduced to government agencies.
	Integrated Personnel and Payroll System for federal government rolled out to several agencies.
	Human resources management projects in tax and customs administration underway.
Reform of tax and customs administration to ensure revenue collection while being business friendly	
Tax administration	Internal reorganization, and greater independence established.
	Taxpayer enumeration added thousands of taxpayers, and new database established.
Customs service	Fast-track customs clearance procedures for low risk clients expanded.
Governance, transparency, and the effectiveness of government operations	
Oil revenue	Oil revenue reports and reconciliation beyond EITI requirements published.
	NEITI Act enacted.
Procurement reform	"Due process" procedures including central monitoring of tendering and pre-payments certification enforced.
	Procurement Act enacted.
	Procurement manual prepared.
Corruption	Economic and Financial Crimes Commission (EFCC) active including cases against many state governors.
Civil service	Large scale disengagement of staff without relevant skills, and selective hiring of high skilled staff.
	Wage reform consolidated most allowances, and provides incentives only for selected scarce skills.
Government administration	Internal reorganization and streamlining of all government agencies and many parastatals advanced.
Redefine the role of government in the economy in support of private sector-led growth	
Business environment, trade	Tariff reform reduced unweighted average tariff below 20 percent.
	All major ports concessioned.
	Investor one-stop shop set up.
	Domestic petroleum product markets partly liberalized through adjustment to domestic fuel prices, and an explicit fuel subsidy scheme.
Privatization	Power sector reorganized, and evaluation of bidders for many power sector companies underway.
	A large petrochemical, most oil service companies, and LPG companies privatized.
	Fixed line telephone company privatized.
	Hotels and other commercial enterprises privatized.
Strengthen the financial system	
Banking sector	Bank consolidation (89 to 25 banks) and recapitalization completed.
	CBN Act enacted.

Sources: Nigerian authorities and IMF staff.

8. **The improved policies and good macroeconomic performance increased confidence, thereby creating a virtuous cycle.** Buoyant financial market sentiment is reflected in a sovereign rating of BB- and the success of several Nigerian banks in raising capital on international markets. Rising confidence led to increased money demand, reinforcing efforts to bring down inflation despite the challenges for monetary policy in managing the significant liquidity injections from the budget.

9. **Yet institutions to safeguard the past gains are only at an early stage.** Legislation enacted at the end of the Obasanjo administration strengthened the legal framework. Nonetheless, the reform gains, particularly on macro-fiscal management, need to be entrenched. The mechanism for determining the use of oil receipts and savings needs to be tied effectively to macroeconomic considerations. Institutions for managing oil savings need to be clarified especially in light of large development needs, Nigeria's federal structure, and continuous regional pressures owing to uneven resource endowments. The civil service is only at the early stages of reform. The CBN has yet to establish a track record of consistent monetary policy implementation, and the capacity of the new financial sector needs to be enhanced.

III. Program Performance

10. **Program performance has been satisfactory.** Quantitative assessment criteria were met except for one minor deviation on reserve money. Structural reforms are well advanced but two were not completed for which waivers are requested. The 2007 reserve money path is modified to reflect recent developments in the money multiplier.

Fiscal policy

11. **Capital spending was above program levels in the first half of 2007 reflecting efforts by the outgoing administration to accelerate investment projects** (Text Table 3 and Tables 2a-2c). At the federal level, a longer-than-anticipated carryover of capital spending from the 2006 capital budget increased spending significantly (about 1¾ percent of non-oil GDP). The new government has stopped this spending and intends to eliminate the practice of carryover in the future. Nonetheless, the end-June 2007 federal government fiscal assessment criterion was met because the higher capital spending was offset by an unanticipated pick up in non-oil revenues, including license fees for GSM. At the consolidated level, the higher capital spending reflected in particular a pick up in outlays on the National Integrated Power Project. The consolidated non-oil primary balance target was exceeded by 1.5 percent of non-oil GDP.

12. **The authorities proposed a 2007 supplementary budget which reprioritizes and increases spending, and have identified compensatory measures to meet the end-2007 federal government non-oil primary deficit target.** An already planned 15 percent civil service salary adjustment, which initially applied to government agencies that completed the civil service reform program, was broadened to all agencies, and was made retroactive to the beginning of the year. Offsetting these outlays, the authorities have adopted measures to increase non-oil revenues, including through freezing of waivers and exemptions largely under customs, and have put on hold several large infrastructure and other capital projects while they are being reassessed. In the event that these measures are inadequate to meet the fiscal targets, the authorities have contingent measures in place. Extra distributions from oil

savings to states (0.9 percent of non-oil GDP) in July and August increased state spending, but for the remainder of the year, allocation of oil revenues will be limited to the budgeted amounts.

13. **Oil revenues fell short of projections by about 40 percent in the first half of 2007, narrowing the current account surplus and reducing the accumulation of oil savings and international reserves.** The revenue reduction is caused by overall lower production due to the Niger Delta unrest combined with a consequent shift of production to newer offshore fields that reduce the revenue ratio in the near term.[4] In addition, cost deductions are increasing from higher operating and capital costs and investments in gas projects. A recovery of the revenue ratio seems likely in the medium term and oil revenues are still sufficient to meet budget needs.[5]

Text Table 3. Consolidated Government (non-oil), 2005-07
(Percent of non-oil GDP)

	2005	2006	2007			
			H1		Annual	
	Act.	Act.	Prog.	Prel.	Prog.	Proj.
Non-oil revenue	13.9	12.7	6.4	7.3	13.3	15.5
Non-oil primary expenditures	52.8	57.3	27.1	29.4	54.9	57.9
Federal government primary recurrent and extrabudgetary	15.5	15.7	7.4	7.6	15.0	16.6
Federal government capital	4.1	6.7	3.6	5.3	7.1	8.4
Other capital	2.3	3.5	2.5	3.1	4.9	3.4
State and local governments	31.0	31.3	13.7	13.5	27.8	29.5
Non-oil primary balance (excluding fuel subsidy)	-38.9	-44.6	-20.8	-22.1	-41.6	-42.4
Memorandum items						
Overall balance (including oil revenue and expenditure)	22.3	17.1	6.6	-3.6	7.3	0.6
Oil and gas revenues	90.3	74.1	37.7	23.4	70.2	52.9
Non-oil GDP (billions of naira)	6,223	7,344	...	...	8,446	8,361

Sources: Nigerian authorities, and IMFstaff estimates and projections.

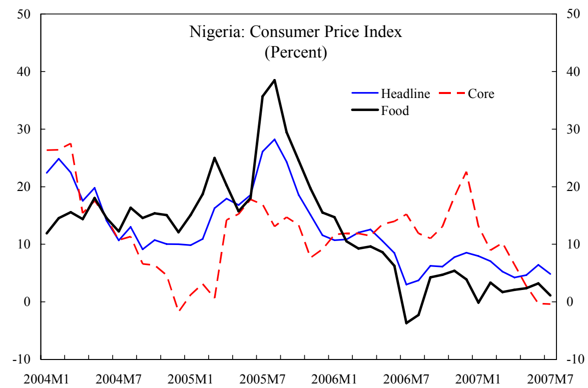
[4] The revenue ratio represents the government's collections as a percentage of total oil revenues. The ratio has fallen because of the move from older fields, which operate under joint venture arrangements, to newer offshore fields, which operate largely under production sharing contracts. The timing of government revenue intakes differs under the two types of contracts. Joint venture contracts share all revenue as it accrues, while production sharing contracts allow private operators to recover fully initial investment costs before significant returns accrue to the government.

[5] The June assessment criterion on net foreign assets was met. The floor on net foreign assets was reduced using the program adjustor related to lower-than-programmed oil volume.

Monetary policy

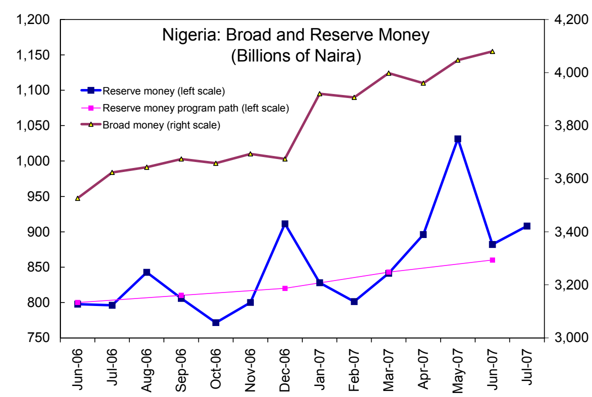
14. **Inflation continues to perform better than expected.** While the headline inflation rate is benefiting from strong agricultural production and favorable food prices, core inflation is also below programmed rates averaging 5.8 percent and on a declining trend in the first seven months of the year. The staff believes that lower inflation expectations, a more robust banking sector following its consolidation, and unification of the foreign exchange markets increased confidence and money demand.[6]

Inflation was in single digits.



15. **The monetary program has been broadly on track, but is being adjusted to reflect recent macroeconomic developments**. Broad money remains within the program path projected at the third review, and has been supportive of the improved inflation performance. At the same time, reserve money was above the program path on average, implying that the programmed multiplier for 2007 was too restrictive. The staff proposes increasing the indicative path for reserve money by about 5 percent. The availability of daily balance sheets since mid-June will allow the CBN to monitor compliance with the revised target more effectively. In the context of the work on strengthening monetary data, the CBN adopted a definition of reserve money that excluded a newly-established bank-settlement account. The end-June reserve money target was met on this definition. In staff's view, the account falls within the definition of reserve money in the TMU and, on this basis, the target was missed by a small margin. The staff recommends a waiver for the missed assessment criterion because of the small magnitude of the overrun (2 percent) and, in any event, the conclusion that the target itself had been unduly restrictive.

Broad money was on track and reserve money on average exceeded program targets.



---

[6] This draws on staff's analysis showing that the parallel market rate is an important explanatory factor in money demand.

Structural reforms

16. **Three of the five structural targets for the fourth review were observed.** Of the two requiring waivers, one is delayed temporarily and the other is being reassessed in the context of a broader review by the new government (Text Table 4, and Table 8a). All structural benchmarks for the fourth review have been completed on time.

Text Table 4. Nigeria: Structural Assessment Criteria for the 4th Review

Structural Assessment Criterion (Target Date)	Description
Complete restructuring of MDAs as set out in paragraph 9 of the statement (May 2007).	*Observed.*
Bid opening for sale of the Abuja Electricity Distribution Plc as set out in paragraph 9 of the statement (June 2007).	*Not met. Waiver requested as reassessment pending.* Bids were received on schedule but opening of bids was delayed on account of the political transition. With the new government taking office, the authorization to open bids awaited the appointment of a new National Council on Privatization. The Council was appointed at end-August and indicated its support for proceeding with privatization. In the meantime, however, the new government had initiated a broad review of the electricity sector. This review includes ensuring an effective regulatory environment for the operation of private electricity companies. Against this background, the Council concluded that next steps on Abuja Electricity Distribution should await the conclusions of the review.
Issue report on SEEDS Benchmarking for 36 States to be published as set out in paragraph 9 of the statement (June 2007).	*Observed.*
FIRS to complete implementation of human resource management system, including installation of HRM hardware and software for nationwide access, and conduct a competence assessment exercise to determine training needs (June 2007).	*Not met. Waiver requested as delay temporary*. The human resource management system was delayed because the critical consultant had to be replaced. This World Bank funded project is about 60 percent complete and is expected to be concluded in early 2008.
The Central Bank to introduce a new Standing Facility to help reduce interest rate volatility as stated in paragraph 7 of the statement (June 2007).	*Observed.*

Sources: Nigerian authorities and IMF staff assessment.

17. **Good progress has been made in completing previously-delayed structural targets** (Table 8b). Two previously-missed structural assessment criteria have now been completed and two are likely to be completed prior to the Board discussion of the fourth review. A remedial measure for the action plan on consolidated banking supervision is in place: in line with the action plan, a draft consolidated supervisory framework has been circulated to stakeholders in August and, following approval by the CBN, system tests will be initiated in November leading to supervision on a consolidated basis from April 2008.[7]

---

[7] A MCM mission will undertake a financial sector diagnostics and provide a stock taking of the post-consolidation banking system that will feed into the November Article IV mission.

IV. POLICY DISCUSSIONS

18. **The President set out the goals of the new administration in the form of the Seven-Point Agenda; the challenge is to develop effective policies to accomplish these goals.** Toward this end, the authorities aim to put in place the new medium-term strategy NEEDS 2 for 2008–11 by end-year. This strategy is expected to build on NEEDS 2004–07 and propose that economic policies pursue macroeconomic stability while promoting growth and poverty reduction through an enabling environment for the private sector. Essential elements of the strategy include addressing energy shortages, building productive infrastructure, and making more effective outlays on priority social sectors.

19. **Against this background, the discussions focused on the immediate policy issues in**:

- Maintaining macroeconomic stability; and
- Safeguarding Nigeria's wealth.

A. Maintaining Macroeconomic Stability

20. **In the context of Nigeria's federal system, the authorities see that securing their economic and social goals depends critically on reaching a policy consensus with the states.** The states are reasserting their constitutional right to choose how to use their share of both accumulated oil savings and current oil receipts. Thus, the practice of the past few years to save a portion of oil receipts in the excess crude account (the oil price fiscal rule) is being re-visited.[8] This means that fiscal risks have increased because of the possibility that oil receipts will be spent above levels consistent with macroeconomic stability. The administration will seek to resolve this matter transparently and according to the constitution, offering the prospect of lasting stability.

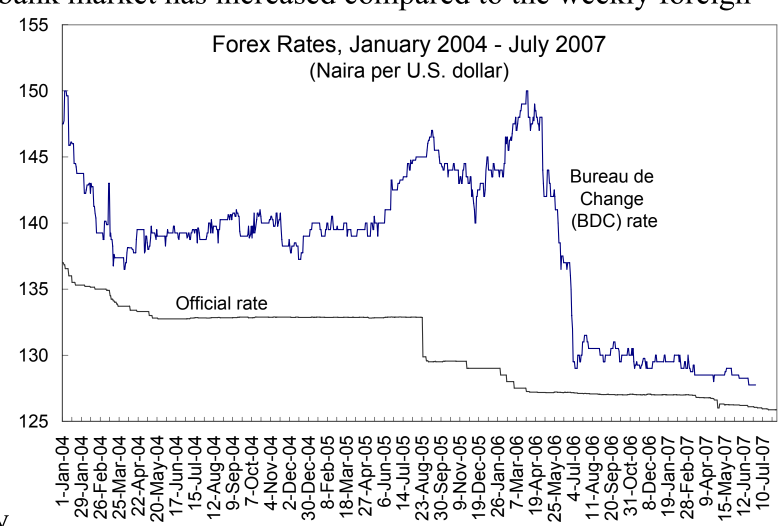
21. **The authorities are developing a medium-term fiscal strategy (2008–10) that aims for fiscal balances that the staff sees as consistent with macroeconomic stability; but a policy package on how to achieve these targets remains to be developed.** The guiding principle underlying any such policy package should be to contain total domestic spending (by federal, state and local governments and projects financed from oil savings) to levels consistent with non-oil primary balance targets. This can be achieved by delinking spending from the vagaries of oil prices and developments in oil fields, developing rules on the use of oil revenues and the stock of oil savings, and broadening them to natural gas. The oil price rule, used successfully in recent years, along with an oil and gas savings fund with the voluntary

[8] The constitution provides for the federal (FGN) and state and local governments (SLGs) to divide oil receipts about equally. In the past few years, the practice has been to save oil receipts above the budget oil price in the excess crude account at the CBN in the names of the various SLGs as well as FGN. The Fiscal Responsibility Bill (FRB), which was passed by the outgoing parliament, was intended to enshrine this practice, but has elements that are seen by most as being inconsistent with the constitution. Beyond reaching a political agreement to resolve the matter—such as the states developing their own FRBs that would parallel that of the federal government—the constitution could be amended.

participation of the states could fulfill the stabilization and saving functions. To ensure that the investment of such a fund is in line with the overall fiscal targets and the absorptive capacity of the economy, the fund should be allowed to invest its assets abroad.[9]

22. **Monetary policy will continue to face the challenge of managing the substantial liquidity injection from the spending of oil revenue**. Targeting broad money growth in line with nominal GDP has guided policy and will do so in 2008. It is nonetheless clear that the relationship between the monetary aggregates and economic activity may well change further. Moreover, the authorities would like to anchor inflation expectations more effectively. Against that background, the authorities plan to adopt inflation targeting. The staff will work on this topic with the authorities including in the forthcoming Article IV in November 2007. In the meantime, the CBN will need to remain vigilant to ensure that inflationary pressures do not reemerge, reflecting uncertainties about the length of transmission lags to inflation from the broad money surge in mid-2006 and, more recently, acceleration in the pace of private sector credit growth. The staff sees exchange rate flexibility as important in securing inflation objectives as well as being consistent with the preliminary staff assessment that the naira is somewhat undervalued. It welcomes the authorities' recommitment to subordinate the exchange rate to the inflation objective.

23. **The role of the interbank market in setting exchange rates has been increasing.** The key measure was the effective unification of the various foreign exchange markets in 2006. More recently, reflecting improved confidence, the supply of foreign exchange (from remittances, portfolio flows, and foreign investments) has picked up. As a consequence, the relative importance of the interbank market has increased compared to the weekly foreign exchange auctions.[10] At the same time, the official exchange rate has remained stable due to CBN intervention.[11] The staff believes that further deepening of the interbank market would be appropriate and could be achieved through increasing the scale of foreign exchange sales by the CBN, which would also promote greater exchange rate flexibility.



[9] The staff considers that some proposals on the allocation of oil savings under consideration (for example the mechanisms which simply allocate oil savings above a pre-determined amount irrespective of their consistency with fiscal targets) are at odds with the authorities' goals.

[10] The authorities indicated that the auction accounts for only about a third of foreign exchange market turnover.

[11] See also Informational Annex, Relations with the Fund, Section VII.

24. **Recent strengthening of monetary data and institutional changes at the CBN are helping to increase the effectiveness and timeliness of monetary decisions.** The quality of monetary data has improved: the monetary survey is derived from the general ledger, discrepancies with NFA have largely been resolved, and an analytical balance sheet is produced daily. In addition, there is a new structure by which monetary policy decisions are made. Information flows effectively to the decision makers, with the new Fiscal Liquidity Assessment Committee providing key information on fiscal liquidity developments.

B. Safeguarding Nigeria's Wealth

25. **Realizing the full benefits from the oil wealth is essential for supporting the non-oil economy**. It will be important to:

- ***Secure good returns from oil and gas assets.*** To achieve current production objectives and ensure adequate revenue flows from the sector, an increase in the government's contribution to joint venture projects either through direct (cash call) financing or other financing arrangements would be needed. A careful assessment of investment returns—equity, tax, and royalty returns—from each project should inform the decision.

- ***Ensure transparency and accountability in revenue collection.*** NEITI remains an important initiative to increase transparency in the oil sector and support revenue collection efforts. A remedial action plan to follow-up on the recommendations of the 1999–2004 NEITI audits is ongoing. The 2005 audit is underway, and the 2006 audit will start soon and include an assessment of industry cost claims.

- ***Achieving high quality spending.*** Investment projects should be selected on the basis of cost-benefit analysis, integrated into medium-term fiscal strategies and annual budgets, and subject to agreed due-process standards. In this context, the authorities are reassessing large infrastructure projects under a cost-benefit framework.

26. **Comprehensive draft debt-management guidelines are being reviewed with a view to safeguarding recent improvements in sustainability.** In respect of large infrastructure projects, the authorities intend to separate project selection and financing decisions. As regards financing, the authorities plan only limited, if any, external borrowing, and then on concessional terms. The authorities confirmed that no nonconcessional external borrowing has taken place. They do not intend to pursue borrowing options under a framework agreement with China until a review of bilateral loans is concluded, and indicated their intention to borrow only on concessional terms. In view of the constitutional mandate to stop withholding states' external debt service payments from their excess crude allocations, it will be important to ensure that no external arrears are incurred.

27. **The authorities are committed to deepening structural reforms, including in the areas started in the context of the PSI.** Macrocritical areas include: public financial management (also at the state level), management of oil resources, tax and customs reform, and improving the business environment.

V. Staff Appraisal

28. **Nigeria is to be commended for the strong macroeconomic performance during the PSI which surpassed the original program objectives.** Supported by a favorable external environment, a break from the policies of previous oil booms was instrumental in delivering the improved economic outcomes. The most notable achievements include robust economic growth, especially in the non-oil sector, significantly strengthened fiscal and external positions, improved confidence and reduced inflation. Prudent policies were pivotal to securing these gains: The political accord for the oil price fiscal rule was the key factor, while the fiscal path was modified to accommodate infrastructure spending as macroeconomic conditions improved.

29. **Performance since the third review has improved significantly.**

- **Fiscal outcomes in the first half of 2007 were broadly satisfactory, yet there are policy challenges for the rest of the year.** The staff encourages the authorities to implement rigorously its planned fiscal measures to achieve the end-2007 federal government deficit target, and to avoid a further weakening at the consolidated level, particularly in light of the regrettable extra distribution of oil savings to states during the third quarter. The staff also encourages the authorities to continue to improve budgeting procedures.

- **Broad money and inflation have been in line with expectations in 2007.** In light of developments in the monetary aggregates, the staff proposes easing of the indicative reserve money path for 2007, which was excessively tight. The staff recommends a waiver for the missed assessment criterion on reserve money because of the small magnitude of the overrun and the conclusion that the target itself had been unduly restrictive.

- **The staff welcomes improvements in monetary data and the policy decision-making process.** Significant advances made by the CBN in strengthening monetary data and decision-making should allow monetary targets to be achieved on a more consistent basis. The staff also welcomes the intention to deepen the role of the interbank market in setting exchange rates, which should increase flexibility and thereby support the inflation objective.

- **The ambitious structural reform agenda continues to progress.** Most structural measures for the fourth review had been implemented on time, and the authorities brought to completion a number of previously delayed measures from the third review. The staff welcomes efforts to develop NEEDS 2, which is intended to take forward the President's Seven-Point Agenda and provide a well specified road map of the structural reform agenda. Ongoing structural reforms remain crucial to supporting private sector development and poverty reduction.

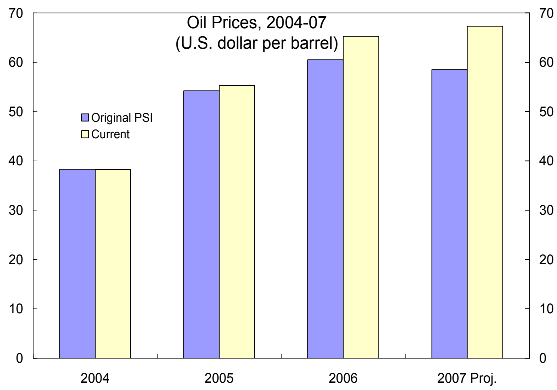
30. **Developing a strong policy framework will be critical to preserving recent positive macroeconomic performance and achieving Nigeria's social goals.** The current national discussion on the use of oil revenues and savings offers prospects of a lasting solution by delivering consensus among states, but also increases fiscal risks. The staff stresses the importance of institutionalizing a policy framework supported by continued political commitment to contain total domestic spending (whether from federal government, states, or an oil fund) to levels consistent with the authorities' medium-term fiscal targets, and of including revenues from natural gas in any new framework.

31. **The staff welcomes the authorities' intention to maintain a close ongoing dialog with the Fund beyond the current PSI.** The authorities are considering the modalities, including the possibility of another PSI. They note that the current PSI has been vital to the acceleration of Nigeria's reform program.

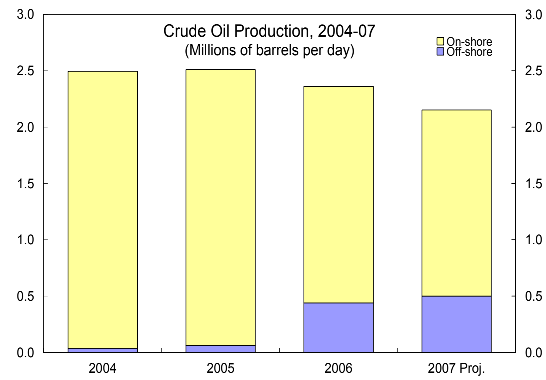
32. **The staff recommends completion of the fourth review under the PSI (with the waivers set out in the report).**

Figure 1. Nigeria: Real Developments

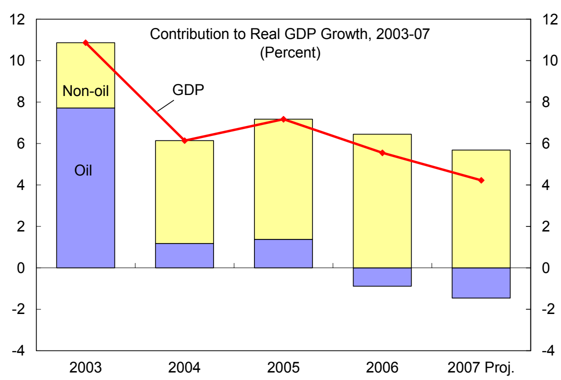
High oil prices ensured export earnings and government revenue ...



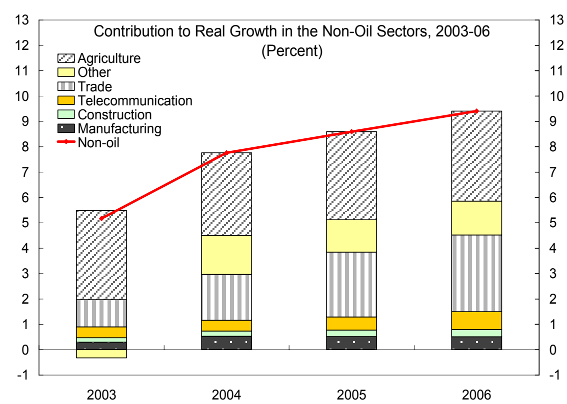
... even though oil production stagnated.



The non-oil sector dominates growth…



…driven by services against a backdrop of strong agriculture performance.

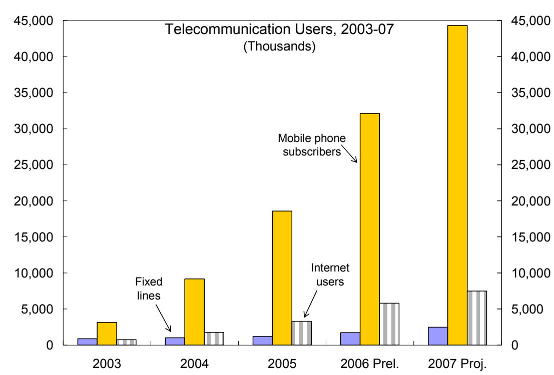


The business environment was improved as a result of structural reforms...

Nigeria: Doing Business, 2005-06

	2005	2006
Registering property		
(days)	274	80
(procedures)	21	16
Trading across borders		
Time for exports (days)	41	25
Time for imports (days)	53	45
Enforcing contracts		
(days)	730	457

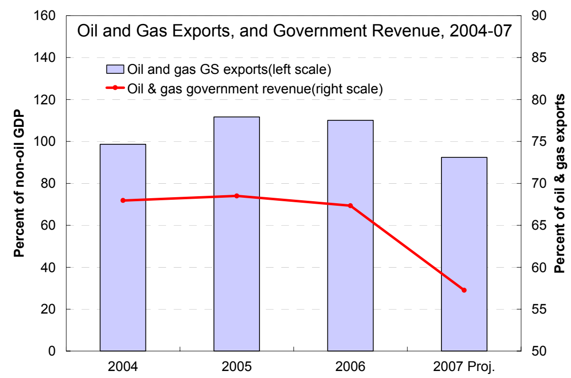
…and liberalization of services.



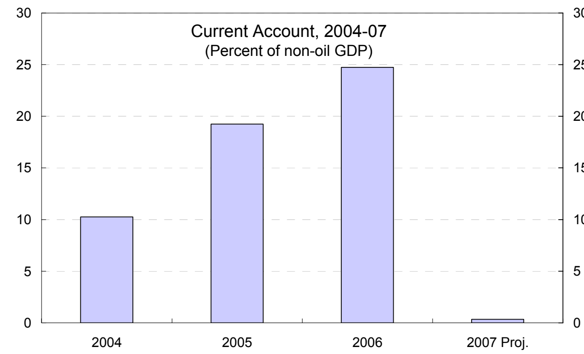
Sources: Nigerian authorities; World Bank, *Doing Business* Database; Business Monitor International; and IMF staff estimates.

Figure 2. Nigeria: External Developments

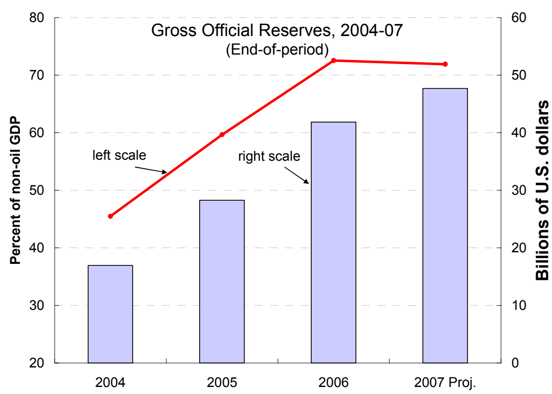
High oil exports that in large part accrued to the government ...



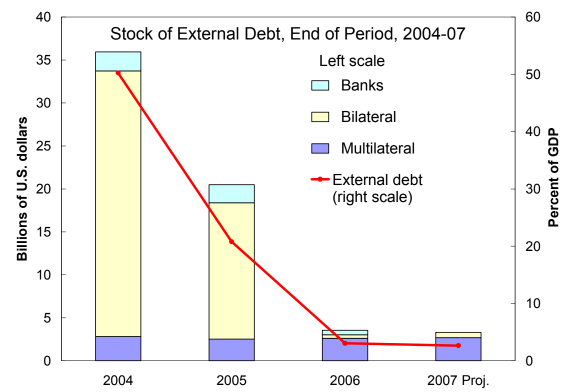
... led to overall current account surpluses.



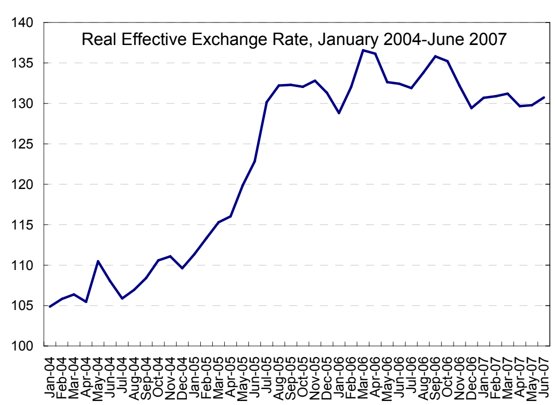
The resources were used to build up international reserves...



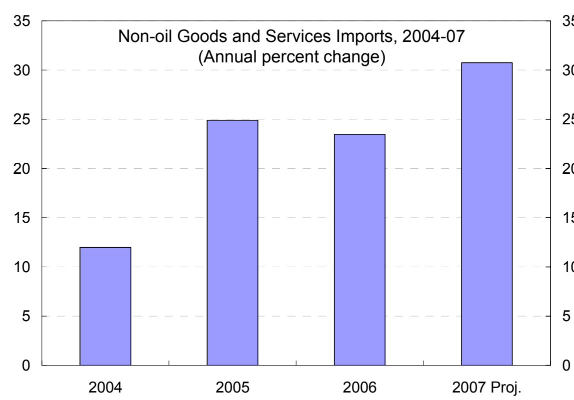
... and to reduce external debt.



The appreciation in the REER ...

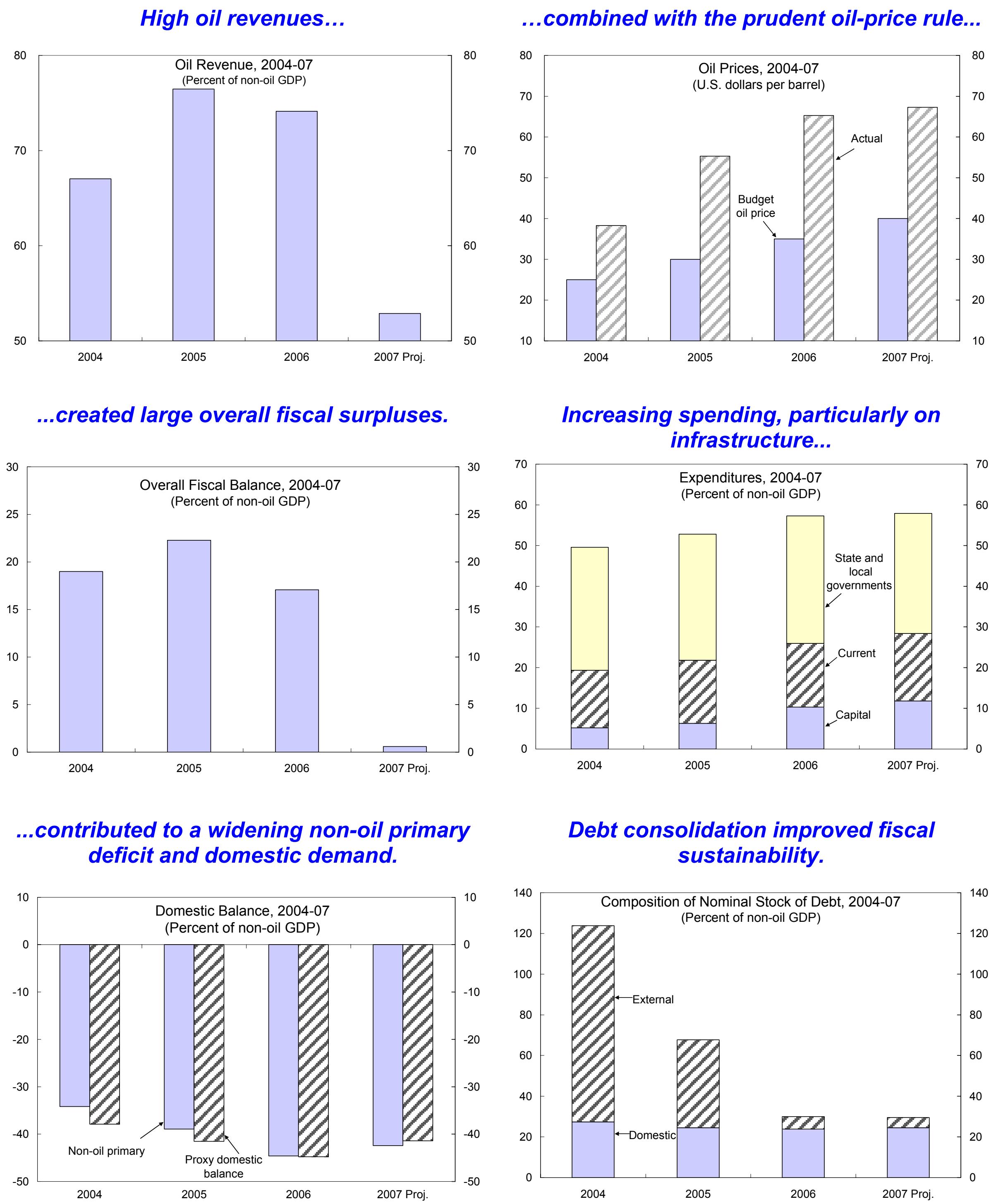


... led to growth in non-oil imports and a real resource transfer.



Sources: Nigerian authorities and IMF staff estimates

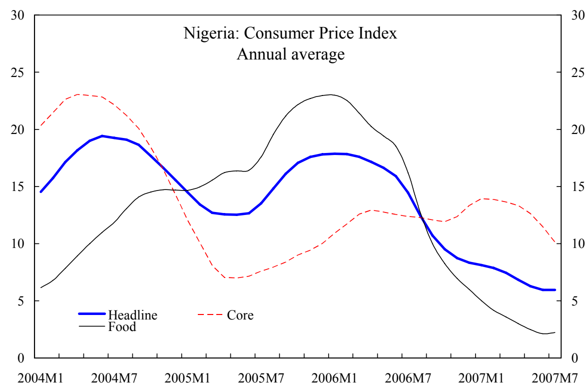
Figure 3. Nigeria: Fiscal Developments (Consolidated General Government)



Sources: Nigerian authorities and IMF staff estimates.

Figure 4. Nigeria: Monetary Developments

Average Inflation has been reduced,...



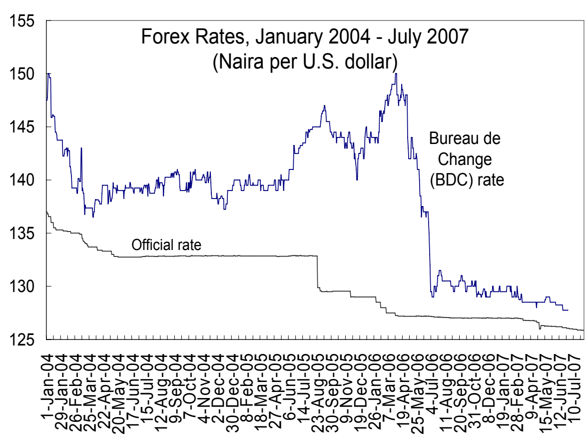
...the banking sector was consolidated,...

Financial Soundness Indicators, 2004-06

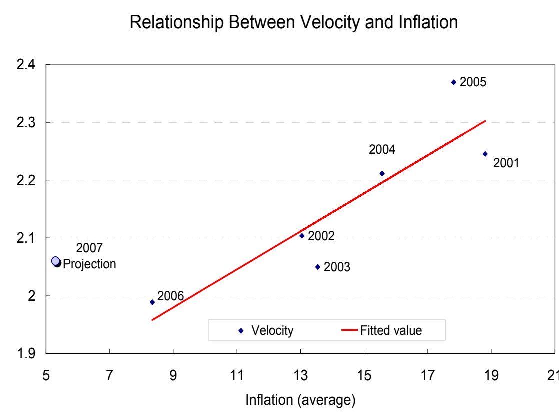
	Pre-consolidation		Post-consolidation
	2004	2005	2006
Number of banks	89	...	25
Regulatory capital to risk-weighted assets	14.6	14.3	25.8
Return on equity	27.4	7.2	1.9
Liquid assets to total assets	47.5	48.3	60.8

Source: Nigerian authorities.

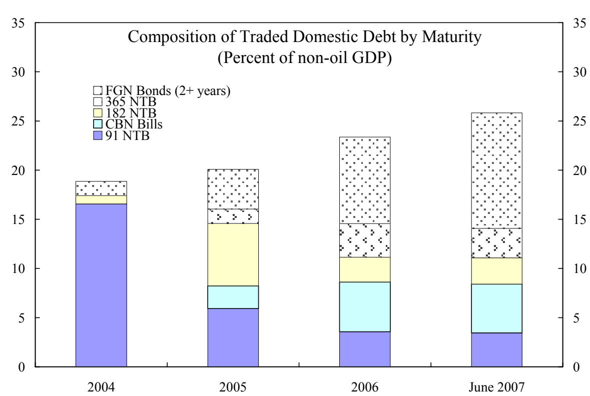
... and the black market premium was reduced...



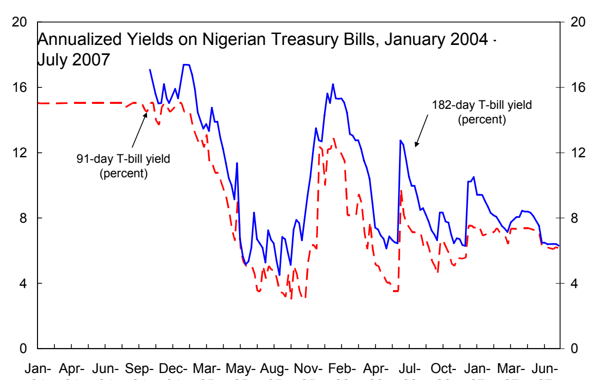
...all possibly resulting in a pick-up in confidence and money demand.



The functioning of domestic debt markets improved. The maturity profile was lengthened...



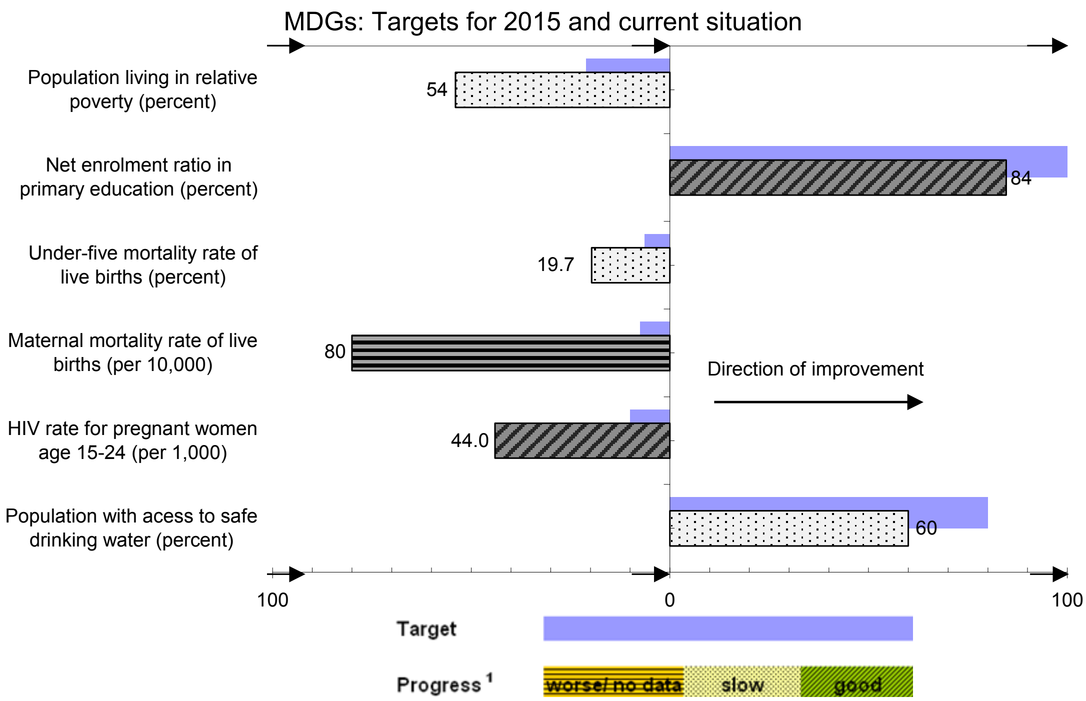
...and interest rates were allowed to adjust.



Sources: Nigerian authorities and IMF staff estimates.

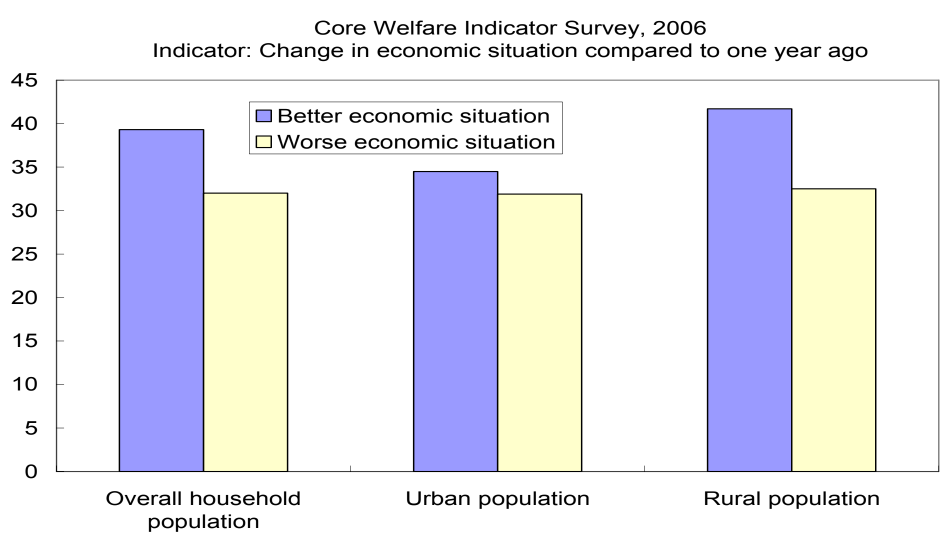
Figure 5. Nigeria: Social Indicators and Economic Well-being

Social indicators remain weak ...



1 Authorities' assessment of progress under NEEDs.

... but more households saw an improvement rather than a deterioration in their economic situation during the PSI



Sources: Nigerian authorities.

Table 1. Nigeria: Selected Economic and Financial Indicators, 2004–09

	2004	2005	2006	2007		2008	2009
	Act.	Act.	Est.	Prog.	Proj.	Proj.	Proj.
National income and prices (annual percentage change, unless otherwise specified)							
Real GDP (at 1990 factor cost)	6.1	7.2	5.6	8.2	4.2	8.0	7.5
Oil GDP	3.5	4.2	-2.8	9.9	-5.0	10.9	8.8
Non-oil GDP	7.4	8.6	9.4	7.5	8.0	7.0	7.0
Production of crude oil (million barrels per day)	2.50	2.51	2.36	2.53	2.15	2.35	2.53
Nominal GDP at market prices (billions of naira)	9,604	12,939	14,838	16,124	15,681	17,661	19,689
Nominal non-oil GDP at factor cost (billions of naira)	5,005	6,223	7,344	8,446	8,361	9,573	11,018
Nominal GDP per capita (U.S. dollars)	501	674	777	827	810	901	988
GDP deflator	20.3	25.7	8.6	1.5	1.3	4.3	3.7
Non-oil GDP deflator	14.5	14.5	7.9	7.5	5.4	7.0	7.6
Consumer price index (annual average)	15.0	17.9	8.3	7.8	5.3	7.4	8.0
Consumer price index (end of period)	10.0	11.6	8.5	9.9	6.0	8.0	8.0
Investment and savings (percent of GDP)							
Gross national savings	27.8	30.5	34.1	33.0	23.8	26.7	28.0
Public	20.8	22.0	21.1	19.9	13.1	15.4	16.1
Private	7.0	8.5	13.0	13.1	10.7	11.4	11.9
Investment	22.5	21.2	21.8	25.9	23.6	24.3	24.6
Public	9.1	9.6	10.2	13.4	10.6	9.7	10.5
Private	13.4	11.6	11.6	12.5	13.0	14.6	14.1
Current account balance	5.3	9.3	12.2	7.0	0.2	2.4	3.5
Public	11.7	12.4	10.9	6.4	2.5	5.6	5.7
Private	-6.4	-3.1	1.3	0.6	-2.3	-3.2	-2.2
Consolidated government operations (consists of federal, state, and local governments; percent of GDP)							
Total revenues and grants	43.0	43.4	43.0	43.7	36.4	38.5	39.1
Of which: oil and gas revenue	34.9	36.8	36.7	36.8	28.2	30.9	31.2
Total expenditure and net lending (commitment basis)	35.3	34.2	34.6	39.9	35.5	34.3	34.9
Overall balance (commitment basis)	7.7	9.3	8.4	3.8	1.0	4.2	4.2
Non-oil primary balance (percent of non-oil GDP)	-34.2	-38.9	-44.6	-41.6	-42.4	-40.0	-40.0
Money and credit (change in percent of broad money at the beginning of the period)							
Broad money	14.0	16.0	39.9	11.8	10.7	14.5	...
Net foreign assets	62.3	61.8	68.6	36.3	24.6	34.5	...
Net domestic assets	-49.9	-45.8	-28.7	-24.5	-13.9	-20.0	...
Credit to consolidated government	-42.1	-17.4	-34.5	-20.9	-15.3	-14.0	...
Credit to the rest of the economy	15.7	19.5	20.0	12.8	25.6	11.9	...
Velocity	2.2	2.4	2.0	2.1	2.1	2.1	...
Treasury bill rate (percent; end of period)	14.3	12.2	7.4	…	…	…	…
External sector (annual percentage change, unless otherwise specified)							
Exports, f.o.b.	36.8	42.6	17.7	3.3	-3.4	8.2	7.3
Oil export volume	2.5	-3.5	-2.7	6.8	-10.0	5.5	8.3
Imports, f.o.b.	13.1	30.5	21.9	26.5	25.9	5.3	9.5
Terms of trade	20.5	38.0	18.2	-5.6	3.0	-0.2	-2.2
Price of Nigerian oil (U.S. dollars per barrel)	38.3	55.3	65.3	60.8	67.3	67.8	67.0
Nominal effective exchange rate (end of period)	-2.8	10.4	-6.0	...	...	...	...
Real effective exchange rate (end of period)	4.0	19.7	-0.5	...	...	...	...
External debt outstanding (billions of U.S. dollars)	35.9	20.5	3.5	3.3	3.3	3.4	4.1
Gross international reserves (billions of U.S. dollars)	17.0	28.3	41.8	52.3	47.7	59.4	73.9
(equivalent months of imports of goods and services)	6.0	8.4	10.2	11.9	11.0	12.7	15.0

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

Table 2a. Nigeria: Consolidated Government (Cash Basis), 2004–09

(Billions of naira)

	2004	2005	2006	2007		2008	2009
	Act.	Act.	Est.	Prog.	Proj.	Proj.	Proj.
Total revenue	4,127	5,621	6,376	7,050	5,717	6,823	7,702
Oil and gas revenue	3,355	4,759	5,445	5,926	4,422	5,481	6,147
Government crude receipts	1,440	1,938	1,994	1,981	1,418	2,148	2,579
Petroleum profit tax and royalty	1,184	1,905	2,038	2,430	1,606	1,967	2,192
Petroleum profit tax	826	1,312	1,442	1,762	1,090	1,446	1,649
Royalty	358	593	597	669	516	521	543
Gas sales	91	139	190	212	253	274	341
Other oil revenue (gas flared; pipeline fees)	5	5	3	3	1	1	2
Domestic crude	635	771	1,062	1,261	1,076	1,062	1,033
Signature bonus	0	0	158	40	68	30	0
Non-oil revenue	773	863	931	1,123	1,295	1,341	1,555
Import and excise duties	217	233	178	213	241	280	329
Companies income tax	130	162	245	283	279	319	375
Value-added tax	157	184	227	262	261	319	386
Education tax	17	22	30	36	35	40	48
Federal government independent revenue	59	55	33	86	239	120	130
State and local governments' internal revenue	157	175	190	208	201	217	234
Customs levies	35	32	29	34	39	45	53
Total consolidated expenditure	3,177	4,234	5,123	6,432	5,668	6,051	6,874
Total federal government and extrabudgetary expenditure	1,654	2,223	2,570	3,567	2,940	3,024	3,479
Recurrent expenditure	1,393	1,879	2,008	2,892	2,157	2,417	2,603
Goods and services	571	730	888	975	1,093	1,180	1,296
Personnel and pensions	443	527	665	685	808	905	977
Personnel	370	443	528	543	644	750	821
Pensions	72	84	137	142	164	155	156
Overhead cost	128	203	223	290	285	275	318
Interest payments	231	382	329	260	203	206	234
Domestic	189	200	167	197	184	192	222
External, cash	42	182	162	63	20	13	12
Transfers	591	767	791	1,656	862	1,031	1,073
Of which: NNPC cash calls [1]	455	532	528	1,365	567	619	614
Federal government capital expenditure	261	344	562	676	783	607	876
Domestically financed [2]	231	254	495	603	705	541	805
Foreign financed	30	90	67	72	78	66	70
State and local governments	1,523	1,961	2,355	2,370	2,474	2,760	3,056
Primary expenditure	1,515	1,928	2,301	2,349	2,469	2,755	3,052
External interest payment, cash	8	33	54	21	5	4	4
Transfer to NNPC (explicit subsidy)	0	0	4	150	49	56	64
Large-scale infrastructure projects	0	50	194	344	205	211	275
Overall balance (cash basis)	951	1,387	1,253	618	49	772	828
Financing	-925	-1,183	-1,639	-618	-471	-772	-828
External	-155	-868	-764	25	-36	11	122
Borrowing	30	90	67	72	78	66	132
Amortization, cash	-185	-958	-63	-47	-113	-55	-10
Debt buyback	0	0	-767	0	0	0	0
Domestic financing	-777	-393	-905	-768	-561	-783	-950
Central bank (net, consolidated government)	-975	-503	-1,306	-867	-57	-883	-1,250
Of which: increase in gross windfall oil receipts	-786	-1,944	-1,619	-1,973	-315	-1,098	-1,352
Commercial banks (net, federal government)	193	95	398	99	-504	100	300
Commercial banks (net, states and local governments)	4	15	4	0	0	0	0
Privatization proceeds	0	20	30	125	125	0	0
Recovered funds	7	59	0	0	0	0	0
Statistical discrepancy	26	204	-386	0	-422	0	0
Non-oil primary balance, federation (incl. explicit fuels subsidy)	-1,710	-2,424	-3,280	-3,662	-3,597	-3,881	-4,468
Non-oil primary balance, state and local government	-1,060	-1,424	-1,809	-1,776	-1,843	-2,033	-2,214
Nominal GDP (billions of naira)	9,604	12,939	14,838	16,124	15,681	17,661	19,689
Non-oil GDP (billions of naira)	5,005	6,223	7,344	8,446	8,361	9,573	11,018

Sources: Nigerian authorities, and IMFstaff estimates and projections.

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

[2] Actual cash spending

Table 2b. Nigeria: Federal Government Budget, 2004–08
(Billions of naira)

	2004	2005	2006	2007		2008
	Act.	Act.	Est.	Prog.	Proj.	Proj.
Total revenue [1]	1,486	2,058	2,424	2,633	2,181	2,481
Petroleum revenue	1,236	1,794	2,166	2,283	1,667	2,041
Nonpetroleum revenue	250	264	258	350	514	439
Import and excise duties	105	108	80	96	109	126
Companies' income tax	63	76	114	132	130	149
Value-added tax	23	25	31	36	36	44
Federal government independent revenue	59	55	33	86	239	120
Total expenditure	1,075	1,445	1,806	2,016	2,123	2,125
Recurrent expenditure	844	1,192	1,311	1,413	1,418	1,583
Goods and services	571	730	888	975	1,093	1,180
Personnel and pension	443	527	665	685	808	905
Personnel	370	443	528	543	644	750
Pensions	72	84	137	142	164	155
Overhead cost	128	203	223	290	285	275
Interest payments	231	382	329	260	203	206
Domestic	189	200	167	197	184	192
External, cash	42	182	162	63	20	13
Transfers [2]	42	79	94	177	122	198
Nigerian National Petroleum Corporation (NNPC)	0	0	4	75	21	28
National Judicial Council	28	33	35	43	42	57
Transfer to Niger Delta Development Commission	14	22	26	24	24	72
Universal Basic Education Commission	...	24	30	35	35	41
Capital expenditure	231	254	495	603	705	541
Domestic	231	254	495	603	705	541
Overall balance (cash basis)	411	612	617	617	58	356
Financing	-517	-963	-1,297	-617	-307	-356
External	-155	-716	-485	-35	-85	-41
Borrowing	30	0	0	0	0	0
Amortization, cash	-155	-716	-47	-35	-85	-41
Debt buyback	0	0	-438	0	0	0
Domestic financing	-369	-326	-841	-707	-347	-315
Central bank (net)	-612	-421	-1,239	-806	157	-415
Of which : gross oil windfall proceeds	-332	-820	-683	-832	-133	-503
Commercial banks (net)	193	95	398	99	-504	100
Nonbank financing	50	0	0	0	0	0
Privatization proceeds	0	20	30	125	125	0
Recovered funds	7	59	0	0	0	0
Statistical discrepancy	-106	-350	-680	0	-249	0
Memorandum items :						
Primary spending	844	1,063	1,477	1,756	1,919	1,919
Non-oil primary balance (including explicit fuels subsidy)	-594	-799	-1,219	-1,405	-1,405	-1,480
Budgetary revenue	1,486	2,058	2,424	2,633	2,181	2,481
Budgetary spending (including explicit fuels subsidy)	1,230	1,396	1,854	2,052	2,208	2,166
Balance on the budget (BOF definition, debt service above the line)	256	661	570	582	-27	315

Sources: Nigerian authorities, and IMFstaff estimates and projections.

[1] Oil revenue net of cash call payments.

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

Table 2c. Nigeria: Consolidated and Federal Government, 2004-09

(Percent of GDP, unless otherwise specified)

	2004	2005	2006	2007		2008	2009
	Act.	Act.	Est.	Prog.	Proj.	Proj.	Proj.
Consolidated Government							
Total revenue	43.0	43.4	43.0	43.7	36.5	38.6	39.1
Oil and gas revenue	34.9	36.8	36.7	36.8	28.2	31.0	31.2
Non-oil revenue	8.0	6.7	6.3	7.0	8.3	7.6	7.9
Total consolidated expenditure	33.1	32.7	34.5	39.9	36.1	34.3	34.9
Total federal government and extrabudgetary expenditure	17.2	17.2	17.3	22.1	18.7	17.1	17.7
State and local governments	15.9	15.2	15.9	14.7	15.8	15.6	15.5
Large-scale infrastructure projects	...	0.4	1.3	2.1	1.3	1.2	1.4
Overall balance (cash basis)	9.9	10.7	8.4	3.8	0.3	4.4	4.2
Non-oil primary balance (excludes fuel subsidy, percent of non-oil GDP) [1]	-34.2	-38.9	-44.6	-41.6	-42.4	-40.0	-40.0
Non-oil primary balance (includes fuel subsidy, percent of non-oil GDP) [1]	-36.2	-43.6	-44.8	-43.4	-43.0	-40.5	-40.5
Proxy domestic balance [2]	-37.9	-41.5	-44.8	-40.7	-41.4	-40.2	-40.0
Federal Government							
Total revenue	15.5	15.9	16.3	16.3	13.9	…	…
Petroleum revenue	12.9	13.9	14.6	14.2	10.6	…	…
Nonpetroleum revenue	2.6	2.0	1.7	2.2	3.3	…	…
Total expenditure	11.2	11.2	12.2	12.5	13.5	…	…
Recurrent expenditure	8.8	9.2	8.8	8.8	9.0	…	…
Goods and services	5.9	5.6	6.0	6.0	7.0	…	…
Interest payments	2.4	3.0	2.2	1.6	1.3	…	…
Transfers [3]	0.4	0.6	0.6	1.1	0.8	…	…
Capital expenditure	2.4	2.0	3.3	3.7	4.5	…	…
Overall balance (cash basis)	4.3	4.7	4.2	3.8	0.4	…	…
Financing	-5.4	-7.4	-8.7	-3.8	-2.0	…	…
External	-1.6	-5.5	-3.3	-0.2	-0.5	…	…
Domestic financing	-3.8	-2.5	-5.7	-4.4	-2.2	…	…
Privatization proceeds	0.0	0.2	0.2	0.8	0.8	…	…
Recovered funds	0.1	0.5	0.0	0.0	0.0	…	…
Non-oil primary balance (includes explicit fuel subsidy, percent of non-oil GDP)	-11.9	-12.8	-16.6	-16.6	-16.8	…	…
Non-oil revenue (percent of non-oil GDP)	5.0	4.2	3.5	4.1	6.1	…	…

Sources: Nigerian authorities, and IMFstaff estimates and projections.

[1] Excluding oil revenue, cash call payments, and cash interest payments. Projections from 2007 reflect revised nominal GDP.
[2] Estimates domestic demand impact of fiscal stance. Defined as non-oil balance (excluding fuel subsidy) less estimated foreign content of large infrastructure projects and foreign interest.
[3] Excluding the transfers to NNPC for cash call payments.

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

	2004	2005	2006				2007						2008
	Dec.	Dec.	Mar.	Jun.	Sep.	Dec.	Mar.	Jun.		Sep.	Dec.		Dec.
	Act.	Act.	Act.	Act.	Act.	Act.	Act.	Prog.	Act.	Proj.	Prog.	Proj.	Proj.
	(Billions of naira)												
Net foreign assets[1]	2,250	3,671	4,573	4,926	4,902	5,312	5,415	5,560	5,301	5,659	6,645	5,960	7,362
Foreign assets	2,479	3,715	4,645	5,133	5,670	5,312	5,415	5,560	5,301	5,659	6,645	5,960	7,362
Short-term foreign liabilities	-229	-44	-73	-207	-768	0	0	0	0	0	0	0	0
Net domestic assets	-1,518	-2,909	-3,844	-4,128	-4,097	-4,401	-4,573	-4,700	-4,419	-4,746	-5,690	-4,953	-6,243
Domestic credit	-718	-1,135	-1,707	-2,313	-1,994	-2,451	-2,246	-2,401	-2,049	-2,310	-3,318	-2,501	-3,144
Net claims on consolidated government[2]	-681	-1,185	-1,785	-2,437	-2,252	-2,491	-2,329	-2,441	-2,095	-2,356	-3,358	-2,548	-3,190
Of which: excess crude	-675	-979	-1,571	-1,799	-1,146	-1,081	-987	-1,435	-1,086	-1,197	-3,054	-1,369	-2,073
Net claims on federal government	-238	-660	-872	-1,363	-1,529	-1,899	-1,783	-2,009	-1,502	-1,694	-2,704	-1,742	-2,207
Of which: excess crude of the federal government	-313	-516	-720	-825	-514	-570	-520	-719	-573	-619	-1,402	-692	-989
Net claims on state and local goverments	-363	-463	-851	-974	-632	-511	-467	-351	-514	-582	-573	-726	-903
Of which: excess crude of the SLGs[3]	-363	-463	-851	-974	-632	-511	-467	-716	-514	-578	-1,652	-677	-1,084
Net claims on nonfinancial public enterprises	-141	-20	-20	-47	-33	-100	-9	-100	-3	-3	-100	-3	-3
Net claims on nonfinancial private sector	2	-2	-16	-3	-3	3	3	3	0	0	3	0	0
Claims on deposit money banks	92	61	103	113	233	130	89	130	3	3	130	3	3
Other items net	-800	-1,774	-2,137	-1,815	-2,103	-1,950	-2,327	-2,299	-2,370	-2,436	-2,372	-2,452	-3,100
Reserve money	732	763	729	798	806	911	841	860	882	913	955	1,007	1,118
Currency in circulation	546	642	564	603	615	779	727	...	715	...	...	...	...
Banks reserves with the CBN	187	120	165	195	191	132	114	...	167	...	...	...	...
Memorandum items:	(Percent)												
Reserve money y/y growth rate	6.3	4.2	-1.1	6.6	-0.4	19.5	15.4	7.8	10.6	13.4	4.8	10.5	11.1

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

[1] CBN presents long-term liabilities in other items net.

[2] Includes the windfall oil revenue savings by subnational governments and extrabudgetary funds.

[3] States and Local Governments (SLGs).

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

	2004	2005	2006				2007						2008
	Dec.	Dec.	Mar.	Jun.	Sep.	Dec.	Mar.	Jun.		Sep.	Dec.		Dec.
	Act.	Act.	Act.	Act.	Act.	Act.	Act.	Prog.	Act.	Proj.	Prog.	Proj.	Proj.
	(Billions of naira)												
Net foreign assets	2,712	4,111	5,109	5,569	5,576	5,914	6,042	6,162	6,160	6,517	7,247	6,819	8,220
Central Bank of Nigeria (net)	2,250	3,671	4,573	4,926	4,902	5,312	5,415	5,560	5,301	5,659	6,645	5,960	7,362
Foreign assets	2,479	3,715	4,645	5,133	5,670	5,312	5,415	5,560	5,301	5,659	6,645	5,960	7,362
Short-term foreign liabilities	-229	-44	-73	-207	-768	0	0	0	0	0	0	0	0
Commercial and merchant banks (net)	462	440	536	643	673	602	628	602	859	859	602	859	859
Foreign assets	481	463	557	667	718	638	713	638	954	954	638	954	954
Foreign liabilities	-19	-23	-21	-24	-44	-36	-86	-36	-96	-96	-36	-96	-96
Net domestic assets	-448	-1,485	-2,268	-2,043	-1,901	-2,240	-2,044	-1,979	-2,079	-2,383	-3,139	-2,752	-3,564
Net domestic credit	1,285	1,335	745	840	1,205	963	1,128	1,298	1,710	1,492	666	1,370	1,285
Consolidated government[1]	-224	-618	-1,161	-1,429	-1,300	-1,523	-1,793	-1,422	-1,689	-1,950	-2,291	-2,083	-2,651
Federal government	253	-73	-222	-330	-559	-915	-1,201	-975	-1,022	-1,214	-1,621	-1,262	-1,652
States and local governments	-398	-482	-877	-999	-649	-527	-514	-367	-588	-656	-588	-742	-919
Claims on nonfinancial public enterprises	2	2	5	4	6	13	13	13	0	0	13	0	0
Other financial institutions	11	11	11	62	60	7	-1	7	46	46	7	46	46
Claims on private sector	1,497	1,939	1,889	2,203	2,438	2,465	2,908	2,700	3,353	3,396	2,936	3,407	3,890
(y/y growth rate)	26.3	29.5	15.8	22.0	26.6	27.1	53.9	22.6	52.2	39.3	19.1	38.2	14.5
Other items (net)	-1,734	-2,820	-3,014	-2,883	-3,106	-3,203	-3,172	-3,278	-3,790	-3,875	-3,805	-4,121	-4,849
Broad money	2,264	2,626	2,841	3,526	3,674	3,675	3,998	4,182	4,080	4,135	4,108	4,067	4,657
(q/q s.a. growth rate)	...	...	2.1	21.7	6.6	5.6	2.9	2.8	-0.3	3.9	2.8	3.9	...
(y/y growth rate)	14.0	16.0	10.3	31.0	32.5	39.9	40.8	18.6	15.7	12.5	11.8	10.7	14.5
Memorandum items :	(Contribution to broad money growth, unless otherwise specified)												
Net foreign assets	62.3	61.8	38.0	55.5	55.8	68.6	3.5	6.7	6.7	16.4	36.3	24.6	34.5
Central Bank of Nigeria (net)	60.0	62.8	34.3	47.8	46.9	62.5	2.8	6.7	-0.3	9.4	36.3	17.6	34.5
Commercial and merchant banks (net)	2.3	-1.0	3.7	7.7	8.9	6.2	0.7	0.0	7.0	7.0	0.0	7.0	0.0
Net domestic assets	-49.9	-45.8	-29.8	-21.2	-15.9	-28.7	5.3	7.1	4.4	-3.9	-24.5	-13.9	-20.0
Net domestic credit	-26.1	2.2	-22.4	-18.8	-4.9	-14.2	4.5	9.1	20.3	14.4	-8.1	11.1	-2.1
Net credit to the consolidated government	-42.1	-17.4	-20.7	-30.9	-26.0	-34.5	-7.4	2.7	-4.5	-11.6	-20.9	-15.3	-14.0
Net credit to the federal government	12.8	-14.4	-5.7	-9.8	-18.5	-32.0	-7.8	-1.6	-2.9	-8.1	-19.2	-9.4	-9.6
Claims on private sector	15.7	19.5	-1.9	10.1	19.0	20.0	12.1	6.4	24.2	25.3	12.8	25.6	11.9
Other items (net)	-23.7	-48.0	-7.4	-2.4	-10.9	-14.6	0.8	-2.0	-16.0	-18.3	-16.4	-25.0	-17.9
Broad money (percent change since year's end)	14.0	16.0	8.2	34.3	39.9	39.9	8.8	13.8	11.0	12.5	11.8	10.7	14.5
Velocity (non-oil GDP/broad money)	2.21	2.37	...	...	...	2.00	...	...	...	...	2.06	2.06	2.06
Gross international reserves (billions of US$)	17.0	28.3	36.2	36.5	40.5	41.8	42.6	43.8	42.6	45.1	52.3	47.7	59.4

Sources: Nigerian authorities, and IMF staff estimates and projections.
[1] Includes the windfall oil revenue savings by subnational governments and extrabudgetary funds.

Table 4. Nigeria: Balance of Payments, 2004–10
(Billions of U.S. dollars, unless otherwise specified)

	2004	2005	2006	2007		2008	2009	2010
	Act.	Act.	Est.	Prog.	Proj.	Proj.	Proj.	Proj.
Current account balance	3.8	9.1	14.3	8.9	0.2	3.4	5.6	6.3
Oil/gas (net)	16.0	24.2	32.2	33.8	24.9	29.7	35.4	38.0
Other (net)	-12.1	-15.0	-17.9	-24.9	-24.7	-26.2	-29.8	-31.8
Trade balance	17.8	27.8	31.6	24.6	21.5	24.3	25.2	24.6
Exports	37.3	53.1	62.5	63.6	60.4	65.3	70.1	71.8
Oil/gas	36.4	52.4	61.7	62.7	59.5	64.4	69.1	70.7
Other	0.9	0.7	0.8	0.9	0.9	0.9	1.0	1.1
Imports	-19.4	-25.4	-30.9	-39.0	-38.9	-41.0	-44.9	-47.2
Oil/gas	-8.9	-11.7	-13.2	-13.7	-14.4	-15.4	-15.8	-16.3
Other	-10.5	-13.7	-17.7	-25.3	-24.5	-25.6	-29.1	-30.9
Services (net)	-5.9	-6.7	-5.9	-6.5	-6.6	-8.3	-8.7	-9.1
Receipts	1.7	2.0	3.4	3.5	3.5	2.5	2.7	2.9
Oil/gas	0.3	0.5	1.8	1.8	1.7	0.6	0.6	0.6
Other	1.3	1.5	1.6	1.8	1.8	1.9	2.1	2.2
Payments	-7.6	-8.7	-9.3	-10.0	-10.1	-10.8	-11.4	-12.0
Oil/gas	-2.6	-3.0	-3.1	-3.3	-3.4	-3.6	-3.6	-3.5
Other	-5.0	-5.7	-6.2	-6.7	-6.7	-7.3	-7.8	-8.4
Income (net)	-10.9	-15.3	-14.8	-12.6	-18.0	-16.0	-14.4	-12.6
Oil/gas	-9.3	-14.0	-15.0	-13.7	-18.5	-16.3	-15.0	-13.5
Other	-1.6	-1.3	0.2	1.1	0.5	0.3	0.7	0.9
Of which: Interest due on public debt	-1.5	-1.6	-0.2	-0.2	-0.2	-0.1	-0.1	-0.1
Transfers (net) [1]	2.8	3.4	3.4	3.4	3.4	3.4	3.4	3.4
Capital account balance	2.7	5.3	-2.7	2.1	5.6	8.3	9.0	9.2
Direct and portfolio investment (net)	4.4	6.4	9.1	1.9	8.0	8.3	8.2	8.4
Oil/gas	3.8	4.7	5.0	5.3	5.8	5.8	5.6	5.5
Other	0.7	1.7	4.1	-3.4	2.3	2.4	2.6	2.8
Official capital (net)	-1.3	-1.2	-4.5	0.2	-0.3	0.1	0.7	0.9
Disbursements	0.2	0.7	0.5	0.6	0.6	0.5	1.1	1.1
Amortization due	-1.5	-1.9	-5.0	-0.4	-0.9	-0.4	-0.3	-0.3
Private borrowing (net)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other capital (net)[2]	-0.4	0.1	-7.3	0.0	-2.1	-0.1	0.0	0.0
Errors and omissions	1.6	1.9	-0.7	0.0	0.0	0.0	0.0	0.0
Overall balance	8.1	16.3	10.9	11.0	5.9	11.7	14.5	15.5
Net international reserves (increase -)	-9.5	-11.3	-13.9	-10.5	-5.9	-11.7	-14.5	-15.5
Exceptional financing	1.4	-4.9	3.0	-0.5	0.0	0.0	0.0	0.0
Net accumulation of arrears (decrease -)	1.3	-5.4	3.0	-0.5	0.0	0.0	0.0	0.0
Other[3]	0.1	0.5	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items:								
Gross official reserves, end-of-period	17.0	28.3	41.8	52.3	47.7	59.4	73.9	89.4
In months of next year's GS imports	6.0	8.4	10.2	11.9	11.0	12.7	15.0	17.0
Current account (percent of GDP)	5.3	9.3	12.2	7.0	0.2	2.4	3.5	3.6
GS exports (percent of GDP)	54.4	55.9	56.6	52.8	51.4	47.8	45.7	43.3
GS imports (percent of GDP)	37.7	34.6	34.6	38.6	39.4	36.5	35.3	34.4
External debt [4, 5]	35.9	20.5	3.5	3.3	3.3	3.4	4.1	5.0
External debt (percent of GDP)[4, 5]	50.2	20.8	3.0	2.6	2.6	2.4	2.6	2.9
External debt (percent of GS exports)[4, 5]	92.3	37.2	5.4	4.9	5.2	5.0	5.7	6.7
External debt[4, 5, 6]	116.9	47.8	7.1	5.9	7.3	6.2	6.6	7.4
External debt service due (percent of GS exports)	7.8	6.4	7.9	0.8	1.7	0.9	0.6	0.5
GDP (at market prices)	71.5	98.6	116.5	127.0	124.4	141.9	159.4	172.3

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

[1] Includes capital transfers.
[2] In 2006, the prepayment of post-cutoff Paris Club debt ($0.3 billion) and the cost of the buy-back of remaining Paris Club debt ($4.3 billion).
[3] In 2002 debt buy-back, in 2003-05 recovery of looted funds.
[4] Nominal public sector short- and long-term debt, end of period.
[5] In 2005 (2006) reflecting also a $7.1 billion ($7.2 billion) write-off of Paris Club debt, and in 2006, reflecting the discount ($2.7 billion) on the $7.0 billion buy-back of remaining Paris Club debt.
[6] Percent of general government fiscal revenues.

Table 5. Nigeria: Non-oil Savings-Investment Balances, 2004–09[1]

(Percent of non-oil GDP)

	2004	2005	2006	2007		2008	2009
	Act.	Act.	Est.	Prog.	Proj.	Proj.	Proj.
Income	103.1	104.3	105.9	106.4	105.6	104.7	104.4
Public	14.6	13.1	12.0	12.6	14.6	13.3	13.4
Private	88.5	91.2	93.9	93.8	90.9	91.4	91.0
Consumption	104.2	103.2	102.7	107.9	107.8	102.6	101.3
Public	36.2	38.4	38.6	35.7	38.5	37.5	36.5
Private	68.0	64.8	64.1	72.2	69.3	65.1	64.8
Savings	-1.1	1.1	3.2	-1.5	-2.2	2.0	3.1
Public	-21.6	-25.3	-26.6	-23.1	-23.9	-24.3	-23.1
Private	20.4	26.4	29.8	21.7	21.6	26.3	26.2
Investment	30.0	31.4	32.9	34.3	33.4	34.7	35.0
Public	12.4	15.0	16.2	16.8	15.7	14.1	15.2
Private	17.6	16.4	16.6	17.5	17.7	20.6	19.8
Current account	-31.1	-30.3	-29.7	-35.8	-35.6	-32.6	-31.9
Public	-33.9	-40.3	-42.9	-39.9	-39.6	-38.3	-38.3
Private	2.8	10.0	13.2	4.2	3.9	5.7	6.4
Memorandum items: (percentage change)							
Real private demand	4.1	3.0	8.7	19.4	16.4	5.3	5.6
Real private consumption	2.2	3.5	8.1	21.0	16.8	0.5	6.4
Real private investment	12.3	1.1	10.9	13.4	14.8	24.5	2.8

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

[1] This table uses fiscal data on a commitment basis.

Table 6. Nigeria: Quantitative Assessment Criteria and Indicative Targets, 2007
(Billions of naira, unless otherwise indicated)

	End-March			End-June		
	Indicative Targets	Adjusted	Estimates	Assessment Criteria	Adjusted	Estimates
Federal government non-oil primary balance (floor) [1]	-390	-390	-481	-728	-728	-725
Reserve money (ceiling)	843	843	841	860	860	882
Net foreign assets of the CBN (floor)	5,557	4,553	5,415	5,560	5,198	5,301
New nonconcessional external debt by the public sector (ceiling) [2]	0	0	0	0	0	0
External arrears [2]	0	0	0	0	0	0
Memorandum items:						
Oil production (million barrels per day)	2.41	...	2.23	2.48	...	2.10
Oil price (U.S. dollars per barrel) [3]	64.0	...	58.0	60.8	...	63.9
Petroleum profit tax	556	...	215	566	...	440
External debt service	19	...	43	66	...	75
State and local government non-oil primary balance	-439	...	-394	-858	...	-817

Sources: Nigerian authorities and IMF staff.

[1] Cumulative until the end of the period and including the fuel subsidy.

[2] Applies on a continuous basis.

[3] Actual and projected prices lagged by two months to allow for pass-through to government revenue.

Note: The net foreign assets target will be adjusted upward (downward) for positive (negative) deviations of oil prices, oil and gas production, and petroleum profit tax collection, and for negative (positive) deviations for debt service payments from program assumptions.

Table 7. Nigeria: Millennium Development Goals—Status at a Glance

Goal	1990	1996	2004	2005	Target 2015	Progress Toward Target
1. Eradicate Extreme Poverty and Hunger						
Percentage of population living in relative poverty	43 [1992]	66	54	54 [2004]	21	Slow
Percentage of population living in extreme poverty (consuming 2,900 calories or lower daily)	…	…	35	35 [2004]	…	Insufficient data
Percentage of underweight children (under five)	36	31	30	30 [2004]	18	Slow
2. Achieve Universal Education						
Net enrolment ratio in primary education	68	81.1	81.1	84.26	100	Good
Proportion of pupils starting Grade One who reach Grade Five	67	71	74	74	100	Good
Grade six completion rate	58	64	69.2	67.5	100	Worsened in 2005
Literacy rate of 15–24 years old	70.7 [1991]	-	76.2	80.2	100	Good
3. Promote Gender Equality and Empower Women						
Ratio of girls to boys in primary education (girls per 100 boys)	82	…	79	81	100	Good
Ratio of girls to boys in secondary education (girls per 100 boys)	106	…	79	81	100	Good
Ratio of girls to boys in tertiary education (girls per 100 boys)	46 [1991]	…	72 [2003]	72 [2003]	100	Good
Share of women in wage employment in the non-agriculture sector (percent)	66 [1991]	…	79 [2003]	…	…	Good/insufficient data
Proportion of seats held by women in national parliament (percent)	1.0 [1991]	…	5.76 [2003]	5.76 [2003]	30	Slow
4. Reduce Child Mortality	91	…	100 [2003]	110	30.3	Worsening
Infant mortality rate (per 1000 live births)						
Under-five mortality rate (per 1000 live births)	191	…	201 [2003]	197 [2004]	63.7	Marginal improvement
Percentage of one-year – olds fully immunized against Measles	46	…	31.4 [2003]	50 [2004] Male: 48.38 Female: 51.62	100	Slow
5. Improve Maternal Health						
Maternal mortality rate (per 100,000 live births)	…	…	704 [1999]	800 [2004]	>75	Worsening/Weak database
Proportion of births attended to by skilled health Personnel	45.0	…	36.3 [2003]	44.0	>60	
6. Combat HIV/AIDS, Malaria and Other Diseases						
HIV prevalence among pregnant women aged 15–24	…	5.7 [1999]	5.2 [2003]	4.4 [2005]	1.8	Good
Percentage of young people aged 15–24 reporting the use of condom during sexual intercourse with a non-regular sexual partner	…	…	Female 24.0 [2003] Male 46.3 [2003]	Female 39.5 Male 49.7	100	Slow/Insufficient data

Table 7. Nigeria: Millennium Development Goals—Status at a Glance (continued)

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

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

Table 8a. Nigeria: Structural Assessment Criteria for the 4th Review, and Structural Benchmarks for May–June, 2007

Structural Assessment Criteria and Benchmarks	Policy Statement	Expected Date of Achievement	Status	Description
Structural Assessment Criteria				
Complete restructuring of MDAs as set out in paragraph 9 of the statement.	Dec 2006	May 2007	Observed.	The new organizational and management structures were approved by the previous administration and employed by the new administration on commencing office.
Bid opening for sale of the Abuja Electricity Distribution Plc as set out in paragraph 9 of the statement.	Dec 2006	Jun 2007	Not met.	Waiver requested. Bids were received on schedule but opening of bids was delayed on account of the political transition. With the new government taking office, the authorization to open bids awaited the appointment of a new National Council on Privatization. The Council was appointed at end-August and indicated its support for proceeding with privatization. In the meantime, however, the new government had initiated a broad review of the electricity sector. This review includes ensuring an effective regulatory environment for the operation of private electricity companies. Against this background, the Council concluded that next steps on Abuja Electricity Distribution should await the conclusions of the review.
Issue report on SEEDS Benchmarking for 36 States to be published as set out in paragraph 9 of the statement.	Dec 2006	Jun 2007	Observed.	2006 SEEDS benchmarking results have been published at http://www.nigerianeconomy.com/downloads/2006_Benchmarking.doc
FIRS to complete implementation of human resource management system, including installation of HRM hardware and software for nationwide access, and conduct a competence assessment exercise to determine training needs.	Dec 2006	Jun 2007	Not met.	Waiver requested. The human resource management system was delayed because the critical consultant had to be replaced. This World Bank funded project is about 60 percent complete and is expected to be concluded in early 2008.
The Central Bank to introduce a new Standing Facility to help reduce interest rate volatility as stated in paragraph 7 of the statement.	Dec 2006	Jun 2007	Observed.	The facility was introduced in December 2006.
Structural Benchmarks				
Continue publication of revenue allocation to the three tiers of Government.	Oct 2005	Continuous	Observed.	Data are being published regularly on the MoF website at http://www.fmf.gov.ng/detail.php?link=faac.
Complete restructuring of five parastatals in terms of right-sizing and right-staffing.	Dec 2006	May 2007	Observed.	The reorganization of the CBN, NBS, NiPost, NISER, and Center for Management Development has been completed.
Bid opening for sale of 8 Oil Service Companies.	Dec 2006	Jun 2007	Observed.	The 8 companies were sold in January.
Nigerian Customs Service to conduct staff survey to determine suitability of personnel for minimum requirements of service in preparation for rationalization, realignment and right-sizing its human resource system.	Dec 2006	Jun 2007	Observed.	The staff survey has been conducted, as well as a competency assessment. Right-sizing of customs resulted in the disengagement of about 50 percent of staff.

Table 8b. Nigeria: Update on Structural Measures Previously Not Observed.

Structural Assessment Criteria and Benchmarks	Policy Statement	Expected Date of Achievement	Status	Description
Assessment Criteria				
Introduce Integrated Personnel and Payroll Information System (IPPIS).	Mar 2006	Sep 2006	Observed with delay.	The system was fully operational in six pilot MDAs by end-July 2007.
FIRS to conduct nationwide taxpayer enumeration in preparation for introducing automated tax administration system, including TIN as set out in paragraph 5 of the statement.	Mar 2006	Dec 2006	Observed with delay.	Nationwide taxpayer enumeration was carried with internal resources by tax officers in 2006-07, adding thousands of taxpayers. A second project with external consultants and UNDP assistance is being conducted.
The Central Bank of Nigeria to establish prudential standards for consolidated supervision and begin to supervise the banking groups on a consolidated basis.	Mar 2006	Dec 2006	Not met.	A time-bound action plan, as proposed at the third review, is in place and is being implemented. A long-term MCM technical assistance expert will assume his post in October 2007 for one year.
Management contract for the Transmission company of Nigeria will be awarded as set out in paragraph 9 of the statement.	Dec 2006	Mar 2007	Not met.	A "no objection" clearance from the World Bank, which funds this project, was received on June 30, 2007. The National Council on Privatization was appointed at end-August and immediately approved moving ahead with the concessioning.
Appoint auditors to conduct the audit of the oil and gas sector for 2005 and 2006 as set out in paragraph 9 of the statement.	Dec 2006	Mar 2007	Not met.	Observed for 2005 audit. For the 2006 financial and physical audit evaluation of bids from an international tender is at an advanced stage. A contract for a separate value-for-money audit on the costs claimed by oil companies will also be awarded soon.
Structural Benchmarks				
Financial bid opening of Port Harcourt and Kaduna refineries.	Mar 2006	Jun 2006	Observed with delay.	51 percent of each of the refineries was sold in May. However, following public protests the investor witdrew and acquisition payments were refunded.
Produce quarterly report of spending in MDG-related sectors (Health, Education, Power, Water, Roads, and Agriculture) to cover Q1 and Q2 in the first instance.	Mar 2006	Sep 2006	Not met.	Preparation of quarterly reports on debt relief expenditures commenced, but the reports are yet to be automated for systematic data generation, because of delays in full implentation of the computerized accounting system ATRRS in the OAGF.
Finalize and issue procurement manual.	Mar 2006	Sep 2006	Not met.	The procurement manual is ready and—now that the Act is in place—can be distributed once authorization is received by the yet-to-be-appointed Procurement Council.
Continue reform of Nigeria Customs Service by expanding the operations of the Large Importers/Exporters Unit to handle at least 50 percent of the trade.	Mar 2006	Dec 2006	Not met.	Classification of traders into fast-track channels—the blue channel for large importers/ exporters, and the green channel for pre-qualified traders—has been expanded, but so far only perhaps 40 percent of trade is covered. Delays are caused by maintaining appropriate safeguards.
Complete payment of severance benefits and training programs for retirees resulting from the Civil Service reform program in MDAs.	Dec 2006	Mar 2007	Observed with delay.	Severance payments and retraining has been completed for more than 35,000 officers, which is well in excess of the 30,000 officers who were identified for disengagement as not sufficiently qualified for employment in the civil service.

Sources: Nigerian authorities and IMF staff assessment.

FEDERAL MIISTRY OF FINANCE
Office of the Honourable Minister

FMF/HMF/30 September 26, 2007

Mr. Rodrigo de Rato
Managing Director
International Monetary Fund
700 19th Street N.W.
Washington, DC 20431

Dear Mr. de Rato:

The attached Policy Statement describes economic and financial policies that the government of Nigeria has been pursuing and wants to continue to implement. The Policy Statement outlines our broad macroeconomic objectives and policies for the remainder of 2007 and for the medium term. These policies are based on our National Economic Empowerment and Development Strategy (NEEDS). We have no objection to the publication of the Policy Statement and the Staff Report for the Fourth Review under the Policy Support Instrument (PSI) which was submitted to the IMF Executive Board at the same time.

The Government of Nigeria believes that the policies set forth in the attached statement are adequate to achieve the objectives of our PSI program. Given our interests in macroeconomic stability, we stand ready to take additional measures as may be necessary to achieve needed objectives. We look forward to continuing to work in partnership with the Fund and the Bank in the implementation of our homegrown program and will naturally consult in advance should revisions be contemplated to the policies contained in the PSI.

/sgd/ /sgd/

Dr. Shamsuddeen Usman
Minister of Finance

Mr. Tunde Lemo
Deputy Governor, Central Bank of Nigeria

Attachment I. Policy Statement by the Government of Nigeria on the Nigerian Economic Reform Program After Completion of the Policy Support Instrument

September 2007

This policy statement by the Government reviews Nigeria's Policy Support Instrument (PSI) following the review of the fourth and final phase of the PSI by the IMF. It summarizes recent developments on the reforms, including progress with the existing structural assessment criteria and benchmarks, and short-term objectives going forward to complete ongoing work. It also outlines the medium-term policy agenda of the new Administration and emphasizes that the overall strength and direction of the program remain highly positive. The PSI framework has been vital to the acceleration of the reform agenda in Nigeria over the last 2 years, and this administration is considering a second programme involving external surveillance as a foundation for driving further change, and will confirm the details following the Article IV consultation in November.

Overview

1. **This Policy Statement by the Government follows the completion of the fourth, and final, stage of the Policy Support Instrument (PSI), following earlier Statements dated October 2005, March and December 2006 and May 2007. The Statement spells out the Government's economic reform program covering macroeconomic, structural and anti-corruption issues. The Fourth review mission took place during August 22-30, 2007.** Nigeria's reform program, which is being continued and developed further by the new Administration of President Yar'Adua, is based on the country's home-grown poverty reduction program, the National Economic Empowerment and Development Strategy (NEEDS and NEEDSII). It focuses on addressing the structural and institutional weaknesses of the economy, tackling corruption and overhauling the public expenditure management. This has been summarized in the Seven-Point Agenda of the new President, set out at the end of this statement, and is underpinned by a commitment to transparency, accountability, respect for due process and the rule of law.

2. **The broad goals of NEEDS, NEEDSII and the Seven-Point Agenda are poverty reduction, wealth creation and employment generation through the development of an enabling environment for growth.** This takes the form of fiscal discipline through an oil price-based fiscal rule, improved public expenditure management, better public procurement systems and better service delivery, combined with more efficient revenue collection, tax reforms and customs reforms. Progress in these areas will provide a stable macroeconomic environment, which should **enable the private sector to play its role as the engine of economic growth.** Similarly, the anti-corruption drive of the Economic and Financial Crimes Commission (EFCC), and the work of the Nigerian Extractive Industries Transparency Initiative (NEITI) in auditing the oil and gas industry are addressing lapses in governance and transparency within that sector. Furthermore, ongoing reforms in the public service will

deliver efficiency just as market liberalization and privatization of key public enterprises are helping to improve the public finances and quality of service.

3. **The reforms have continued to deliver significant results. Macroeconomic stability has resulted in growth, while other key indicators have also been positive.** In 2006, real GDP grew by a robust 6.03 percent in spite of a 4.51 percent decline in oil GDP due to disruptions to production in the Niger Delta. Non-oil GDP grew by 9.41 percent. This follows the overall growth rates of 6.5 percent and 6.6 percent recorded in 2005 and 2004 respectively. In all three years, the performance of the non-oil sector dominated real GDP growth; in 2004 and 2005, for example, non-oil GDP grew by 7.8 percent and 8.6, respectively. Growth is forecast to be 6.21 percent in 2007, once again driven by non-oil growth of 9.61 percent as against a further decline in oil GDP of 5.96 percent. This puts Nigeria on track to achieve the top end of her target band of 7-10% non-oil GDP growth this year.

4. **The performance of the fiscal sector continues to be robust. Nigeria has met her target on the non-oil primary balance for the Federal Government at the end of June 2007.** The consolidated fiscal surplus for 2006 was about 6 percent of GDP, following the surpluses of 11 percent and 10 percent of GDP recorded in 2005 and 2004 respectively. Estimated consolidated fiscal surplus for 2007 will be around 1% of GDP, due to the need to draw down from the excess crude account in the first half of the year to address production shortfalls. The balance on the excess crude oil account as of end-June 2007 stood at $9.64 billion and N238 billion (the latter reflecting the balance for the domestic crude oil component). The domestic account is some N373 billion lower than at end-2006 due to the withdrawals made to address revenue shortfall from production.

Foreign reserves as of end June 2007 stood at $42.62 billion (from $41.96 billion at end December 2006) as a result of continued prudent fiscal policy with support from monetary policy. Headline inflation has continued on a broadly declining path; at end June, the rate was 6.4 percent (year on year) compared to 8.5 percent at end December 2006. This June figure was up slightly from a low of 4.6 percent in May, due to the impact of petroleum price increases and the temporary rise in VAT, but fell again to 4.8% in July. The 12-month average inflation rate was 5.9 percent, reflecting mainly the effect of good harvest, as foodstuff constitutes about 64% percent of the CPI basket. **The reserve money target for end-June 2007 was met at N858.2bn, reflecting the effective use of Open Market Operations in the second quarter**, despite pre-election activities by the various political parties during the period. The Monetary Policy Rate (MPR), successfully introduced in December 2006, has proven effective in addressing the problem of interest rate volatility; preliminary data indicate that this has started to have a calming effect on the rates. The rate was lowered by 200 basis points at the June meeting of the MPC, reflecting price stability in the economy and the lower rates prevalent in the market. Finally, following the adoption of a Wholesale Dutch Auction System after the banking consolidation, the exchange rates on foreign exchange markets have converged since mid-2006. The nominal exchange rate has remained stable reflecting improved macroeconomic conditions. However, as price stability is the primary objective of monetary policy over the coming period, exchange rate policy will remain subordinate.

Following the exit from the Paris Club, Nigeria has also successfully exited its London Club debt by redeeming Par Bonds ($1.486 billion) and repurchasing its promissory Notes. It has also successfully repurchased about ⅓ of its Oil Warrants (not part of London Club debt stock). As of mid-June 2007, Nigeria's external debt stood at about 3% of GDP, most of this being multilateral debt. The Debt Management Office (DMO) is developing a debt management framework, which will guide future operations in the areas of borrowing, terms and conditions, repayment, etc. Two international rating agencies (Fitch and Standard & Poor's) have continued to support their BB- sovereign rating with a stable outlook.

5. **The 2007 budget was passed by the National Assembly and signed into law in December 2006, the first time this has happened in advance of the commencement of the new fiscal year.** The budget was based on an average price of $40 per barrel for Nigerian crude oil, following the price-based fiscal rule that has been in operation since 2004. In line with Government's commitment to ensure effective cash-management, production shortfalls have been addressed using revenue smoothing from the domestic excess crude account where necessary.

The strategy entails building on the gains of the last three years, continued adherence to the medium term expenditure framework (MTEF), prudence in public expenditure management and observance of due process in public procurement. The 2007-9 medium-term sector strategy (MTSS) process that drove the 2007 Budget process significantly deepened the planning stage of the budget, bringing greater coherence and engaging a wide range of stakeholders. Other aspects include the intensification of the fight against corruption, and a continuation of the privatization exercise, including deregulation of key sectors, extending the reforms to the rest of the public sector and strengthening of trade facilitation. With the attainment of macroeconomic stability, the new Government is now focusing translating these gains into meaningful improvements for ordinary Nigerians, through the removal of bottlenecks to private business, promoting real sector activities (including through a more vigorous implementation of the local content policy), human capital development, and improved service delivery.

Ongoing Macroeconomic Policies

6. **Short-term macroeconomic policy will revolve around the implementation of the 2007 budget**. The incoming Administration has conducted a complete review of the 2007 Appropriation, with a view to identifying funds available for the implementation of a number of key public service reforms, including implementation of the consolidated salary structure, ongoing right-sizing of Ministries and clearance of local contractor arrears. N170 billion of efficiency savings have been identified from within the existing Appropriation to fund these reforms. An additional N76 billion of revenue has also been identified, principally independent

non-oil revenues already received. In order to continue the prudent implementation of the 2007 budget within the programmed non-oil primary balance for the second half of the year, the Government commits to the following measures:

a. Government will continue to operate the Fiscal price based rule for oil, set at US$40 per barrel for the rest of 2007. Excess crude will continue to be saved; draw down of the account will take place only to compensate for revenue shortfall, to ensure funding remains at the target levels set out in the Budget. No additional sharing will take place in the remainder of 2007;
b. To ensure that no additional capital expenditure from the 2006 Appropriation is undertaken;
c. To ensure that spending from the 2007 Appropriation is ended on 31 December 2007, as is legally required;
d. To put on hold expenditure from the excess crude account on large infrastructure and other capital projects for the rest of 2007 while they are being reassessed;
e. Suspend duty waivers and tax exemptions to prevent further loss of government revenue in 2007; and
f. To ensure the collection of additional non-oil revenues, including fees already outstanding on a commitment basis for GSM licenses, in the second half of 2007. This will be part of medium-term programme to ensure greater efficiency in the collection of such revenues.

7. It is recognized that in order to enable the private sector to successfully play its role as the main driver of economic growth, infrastructure needs to be strengthened. As indicated above, expenditure from the excess crude account on Infrastructure projects has been put on hold while they are being reassessed. This is to ensure that future spending is conducted in such a way as to maximize value for money, ensure optimal project selection and to guarantee a legally sound basis for spending oil savings. Furthermore, a review is being undertaken to look at options for financing such projects, which explicitly avoid adding to Federal and State Government stocks of non-concessionary debt. This may include greater private sector participation, and alternative management structures, for such projects.

8. The oversight role of the Due Process Office has now been formally situated in the Bureau for Public Procurement (BPP), established following the passage of the 2007 Procurement Act. This will further safeguard value for money.

9. In order to ensure that the liquidity impact of Government spending is managed properly, interaction between the fiscal and monetary authorities have been successfully intensified to enable the Central Bank have up-to-date information on the domestic component of this spending so it can take timely action in the management of the liquidity impact of the extra spending. A Fiscal Liquidity Assessment Committee (FLAC) comprising of

representatives of the Ministry of Finance, Budget Office, CBN, OAGF, NNPC, and FIRS has been meeting weekly, to monitor expenditure developments and their liquidity implications. Similarly, provision has been made in the budget to fund the cost of liquidity mop-up. Combined with the new MPR, this will help to bring about a more effective control of the liquidity situation. Going forward, specific monetary policy elements of the macroeconomic framework include the following:

a. As at end-June, 2007, external reserve stood at US$42.7 billion, an increase of US$6.1 billion or 16.7 per cent over the level of US$36.6 billion at end-June 2006. The gross official reserves could cover 25 months of total imports of goods and services. Based on the WEO projections for 2007 oil prices (US$67.40), the stock of international reserves is expected to rise to $43.7 billion at end 2007.

b. With continued prudent fiscal policy and a proactive monetary policy, as shown in the first half of 2007, inflation is estimated to remain in single digits for the remainder of the year, following the 4.8 percent level achieved at end July. Related to this, broad money growth rate at end-June was 10.8 percent over December 2006. The increase in M2 was driven largely by foreign assets (net) of the banking system, which increased by 15.2 per cent as at end-June 2007, compared with 13.0 per cent in the preceding quarter. The narrow money (M1) increased by 2.9 per cent in June compared with 4.8 per cent in March 2007. Aggregate domestic credit (net) declined by 63.7 and 37.2 per cent in March and June 2007, respectively, due mainly to the decline in credit to government (net) by 50.6 per cent at end-June 2007. On the other hand, credit to the private sector rose by 17.1 and 24.8 per cent in March and June 2007, respectively. The improvement in credit to the private sector reflected the positive impact of banking consolidation and the moderation in the lending rate.

ONGOING REFORMS

10. **Structural reforms have been deepened**. Following the successful sale of the eight oil service companies ahead of schedule, further progress has been made in the power sector. Following the appointment of the National Commission on Privatization, concessioning of the Transmission Company of Nigeria is underway. Privatization of the Abuja Electricity Distribution Plc awaits a full review of the energy sector, currently underway.

11. **Several other key reforms have also delivered tangible benefits:**

a. Convergence under the Common External Tariff (CET) of the West African regional economic bloc, ECOWAS.

b. The reform of the Nigeria Customs Service (NCS) continues, including staff restructuring and retraining, and an increase of goods passing through the green channel. Clearance times are to be brought down substantially to 48 hours.

c. Computerization of the Budget Office and Office of the Accountant General of the Federation (OAGF), with a view to interconnecting their operations with those of the BPP and CBN, is ongoing under the Government Integrated Financial Management System (GIFMS) being developed with World Bank support.

d. Government is completing the process of paying contractor arrears. The program commenced in July 2006; contractors that were owed up to N100 million have been fully paid off, while bonds have been issued to cover the debt to contractors owed over N100million. N21 billion of cash payments remain in order to complete the clearance programme, and will be made by end-2007.

e. Similarly, a database of pensioners has been established and the clearing of arrears has been completed, with cash payment for all arrears. In July 2007, Nigeria successfully transferred to a fully funded, defined contributions pension system, which will guarantee long-term sustainability in the pensions sector, as well as deepening fund management capacity in the capital markets.

f. The resolution of the 14 banks that failed to meet the consolidation deadline is on course. To give effect to the revocation of the 14 bank licenses, the Nigerian Deposit Insurance Corporation (NDIC) had obtained final court orders on 10 banks and provisional court order on one, with 3 banks outstanding. The payment of private sector deposits in the failed banks as promised by the CBN had commenced fully under the Purchase and Assumption method, with the CBN issuing Promissory Notes to cover the gap between the assumed deposit liabilities and the assets of the failed banks picked by the banks assuming responsibility. Thus, out of a total of N65.81 billion private sector deposits assumed, N40.94 billion (62.2%) have been accessed by the respective private depositors.

g. The Civil Service reforms are continuing, with full disengagement of 35,600 staff who were not employed with correct qualifications for their job roles; payment of severance benefits and training for smooth transition to post–retirement life has been completed. Disengagement from Government Parastatals has removed an additional 32,240 workers, whose severance payments will be concluded by end of 2007.

h. A new salary structure has been introduced designed to motivate retained civil servants and attract good quality staff into the system.

i. 12 core Ministries have been restructured (State House, Finance, Solid Minerals, National Planning Commission, FCT Administration, Health, Education, Foreign Affairs, Commerce, Science and Technology, Transport, and Internal Affairs). The Government has reduced the number of Ministries by merging some of them, and the new organizational and management structures have been approved and were employed by the new administration on commencing office.

j. The reorganization of the CBN, NBS, NNPC, NIPOST, NISER and Center for Management Development (CMD) has been completed.
k. A Tax Policy Unit has been set up in the Ministry of Finance designed to help strengthen this aspect of the work of the fiscal authorities.
l. The National Bureau of Statistics (NBS) continues to be strengthened through its own internal reforms, with a view to repositioning it for more efficient delivery of macroeconomic statistics.

12. **Ongoing Transparency and anti–corruption efforts**

a. The auditors have been appointed for the 2005 NEITI audit and have made significant progress. Consultants have been appointed to handle the international competitive tender process to appoint auditors for the 2006 and 'Value for Money' audit. The NEITI Act has been successfully passed into law.
b. The publication of the revenue allocation to the 3 tiers of Government continues.
c. The EFCC has continued to make progress in its anti-corruption work in terms of arrest and prosecution of corrupt public officials, including former State Governors.

13. **The push to get relevant bills in the National Assembly passed has yielded success including**:

a. 2007 NEITI Act;
b. 2007 Public Procurement Act;
c. 2007 FIRS Act;
d. Four 2007 Tax Reform Acts;
e. 2007 CBN Act;
f. 2007 Statistics Act;
g. The Fiscal Responsibility Bill has been passed by the National Assembly and will be signed by the President once a consensus and legal agreement has been reached with the other tiers of government on managing oil revenues.

14. Government commits to completing all outstanding structural assessment criteria and benchmarks outstanding within the following time-frame:

a. Implementation of consolidated banking supervision by April 2008, with release of the approved framework to the banking industry before the Final IMF Board Meeting on PSI, mid-October 2007;
b. Completion of taxpayer enumeration and PIN by Q1 2008;
c. Completion of reforms of human resources in FIRS by Q1 2008;
d. Quarterly reporting of MDG expenditures under the Virtual Poverty Fund

before the Final IMF Board Meeting on PSI, mid-October 2007;

e. Customs will ensure that 50% of goods are cleared through the blue (large importer/exporter) and green (pre-cleared) channels by Q1 2008, subject to compliance by private sector operators;
f. Appointment of 2006 and 'Value for Money' auditors under NEITI by September and October 2007 respectively;
g. Publication of Procurement manual before the Final IMF Board Meeting on PSI, mid-October 2007;
h. Roll-out the IPPIS computerized payroll system to the remainder of Government by December 2008; and
i. Complete bid opening for concessioning of Transmission Company of Nigeria before the Final IMF Board Meeting on PSI, mid-October 2007.

MEDIUM-TERM POLICIES OF THE NEW ADMINISTRATION

15. **The major challenge continues to revolve around how to transmit the gains of the reforms to everyday benefits for ordinary Nigerians as a means of securing their continued support for the reforms.**

16. **Mr. President has set out his Seven-Point Policy Agenda, designed to address this fundamental issue and ensure that reforms are accelerated under the new Administration:**

a. **Power and Energy:** No nation has ever achieved rapid economic development without a dynamic energy sector. Thus, critical infrastructural reforms are to be carried out to ensure the development of efficient and adequate power supply.
b. **Food Security and Agriculture:** The Food Security and Agriculture Policy is linked with the need to address Millennium Development Goal (MDG) One – eradication of extreme poverty and hunger. The emphasis is on the development of modern technology and a financial framework for research, production and development of agricultural inputs, which will deliver a 5-10 fold increase in yield and production.
c. **Wealth Creation and Employment:** Nigeria has historically been a mono-resource dependent economy. The new focus is to improve on wealth creation and employment generation through diversified production in the non-oil sectors.
d. **Mass Transportation:** The goal is to modernize and industrialize Nigeria with the development of key modes of mass transportation including railways and inland waterways, for the movement of raw materials, goods, and people.
e. **Land Reforms:** The objective is to revolutionize land use policy by introducing a strong legal framework of land ownership, optimizing Nigeria's

growth through the lease of lands for commercialized farming and other large-scale businesses by the private sector.

f. **Security:** Security is considered as a necessary condition for the development of a modern economy. Productivity, wealth and economic growth thrive only in an environment of security of life and property.

g. **Qualitative and Functional Education:** Linked to the rapid socio-economic development of a nation is the issue of human capacity building. This policy will address the challenges of universal access, along with quality, funding and management of all tiers of education.

Critical to the 7-point agenda, there are two special interest issues:

a. **Niger-Delta:** The Niger-Delta crisis remains the primary focus marshaled not with physical policy or military security, but through honest and accurate dialogue between the communities and the Government for a people centered development; and

b. **Disadvantaged Groups:** Strategies under the seven point agenda will be used to inform and ensure the full participation and representation of all categories of special and disadvantaged groups.

17. **In line with the Seven-Point Agenda, a draft of the NEEDSII document has been circulated for final comments.** This second, home-grown poverty reduction strategy paper, further articulates the detailed policy aims of Government. It is expected that NEEDSII be finalized by December 2007. Corresponding SEEDSII programmes for State Governments are under development. The administration will focus on efforts, through engagement and technical support, to replicate Federal reforms in fiscal responsibility, debt management and public procurement at the State level. Under Nigeria's Federal constitution, this approach of transparent, constructive engagement is the only approach to achieving sustainable reform at sub-national level.

18. **Government continues to pursue its policy of deploying the savings arising from exiting the Paris Club debt** (about $1 billion per annum, of which $750 million is from the Federal Government) into MDG-related spending, and to achieve this Seven-Point Agenda. In the 2007 budget, a total of N110 billion was appropriated for this purpose.

19. **Monitoring of Government reforms will continue to be strengthened.** At the Federal level, an MDA benchmarking exercise will be undertaken in the final quarter of 2007, alongside the continued development of the OPEN framework for monitoring and evaluation of expenditure. The 2007 SEEDS benchmarking will also take place in the fourth quarter, 2007.

20. **The Government reiterates its commitment to seek only concessional financing in the period ahead** to help finance any gap in its investment program. A review has been initiated on bilateral loans for infrastructure development, so as to ensure that the optimal funding strategy is in place for such projects.

21. **The medium-term macroeconomic policy will continue to target macroeconomic stability and structural reforms. The Government commits to a framework that will be based on the following assumptions:**

a. Crude oil production is expected to continue to increase in the medium term, reaching about 2.70 Mb/d in 2009, and thereafter rise further in line with current Government plans to increase the production capacity. However, conservative production projections of 2.43Mb/d have been used for the 2008 Budget, to protect against ongoing production disruption. The oil price based fiscal rule will continue to underpin the budgeting process. Government will continue to operate the rule for oil set at moving-average of historical oil prices to protect against oil price volatility and smooth expenditure from 2008 and beyond.

b. The 2008 Budget will propose a slight reduction in Government Primary Expenditure. The framework proposed for the 2008 Budget by the Administration will deliver a consolidated non-oil primary balance for the Federal Government of N1,408 billion (15.5% of non-oil GDP), which will ensure ongoing stability in the macroeconomy.

c. The 2008 Budget, and future spending, will be fully articulated within a medium-term expenditure framework with 100% expenditure coverage, and underpinned by the medium-term sector strategy process to ensure increasing value for money in public expenditure;

d. Sharing and expenditure from oil savings will be underpinned by a consensus driven legal framework. A minimum balance will be retained to protect against oil price volatility. For additional funds, the Federal Government will make available to States and Local Governments a range of investment opportunities, including critical infrastructure projects and oil & gas investments on a commercial basis, as well as an off-shore savings fund; and

e. From 2009, Federal Government will seek to avoid deficit financing to fund her primary expenditure.

ANNEX I. RELATIONS WITH THE FUND

(As of August 31, 2007)

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

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

III. **SDR Department:**	**SDR Million**	**%Allocation**
Net cumulative allocation	157.16	100.00
Holdings	0.42	0.27

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

V. **Latest Financial Arrangements:**

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

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

	Forthcoming				
	2007	2008	2009	2010	2011
Principal					
Charges/Interest	1.61	6.34	6.34	6.34	6.34
Total	1.61	6.34	6.34	6.34	6.34

VII. **Exchange Rate Arrangement**

Nigeria's current exchange rate arrangement is classified as a conventional peg for the exchange rate of the naira.[1] On February 20, 2006, the CBN executed its first auction under the new wholesale Dutch Auction System (DAS). The introduction of the wholesale DAS

[1] This classification is based on the exchange rate performance up to end-April 2007. The authorities have indicated that their current policy is to pursue a managed float.

with free sale to the interbank market was an important step towards unification of the two major foreign exchange markets—the retail market for nonfinancial traders and investors and the interbank market. The naira also continues to be traded in two markets for small-scale cash transactions—the bureau de change market and the curb market. Since May 2006 the exchange has effectively been unified. The introduction of the wholesale DAS also represents an important step toward accepting the obligations of Article VIII, sections 2, 3 and 4 of the IMF's Articles of Agreement, although the new system may still entail a multiple currency practice. A comprehensive assessment by MCM and LEG is now needed to identify the extent of remaining restrictions and multiple currency practices.

VIII. **Safeguards Assessment**

Under the Fund's safeguards assessment policy, the Central Bank of Nigeria (CBN) was subject to a full safeguards assessment with respect to the Stand-By Arrangement, which expired on October 31, 2001. The assessment, which included an on-site visit, was completed on November 28, 2001. The assessment concluded that vulnerabilities existed in the areas of financial reporting and legal structure of the Central Bank. Staff findings and proposed recommendations are reported in Country Report 03/3.

IX. **Article IV Consultation**

Executive Board endorsement of Nigeria's request for a Policy Support Instrument automatically placed Nigeria on the 24-month Article IV consultation cycle. The last Article IV consultation discussions were held in Lagos and Abuja during the period March 8-25, 2005. The staff report (Country Report No. 05/302) was discussed by the Executive Board and the consultation concluded on July 18, 2005.

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

Department	**Purpose of TA mission**	**Duration**
MAE	FSAP	February 4–20, 2002
FAD	Public expenditure management	January 29–February 8, 2002
STA	Government finance statistics	February 28–March 13, 20
FAD	Resident budget advisor	April 19 2002–June, 2003
MFD	Domestic debt management	February 25–March 5, 2003
STA	General data dissemination standards	July 2–15, 2003
STA	National accounts	July 24-August 12, 2003
FAD	Budget process reforms	August 20–29, 2003
FAD	Pension reform	October 20–29, 2003
FAD	Public expenditure management advisor	February–August 2004
MFD	Domestic debt management	February 5–17, 2004
LEG	FIU creation and organization	May 31–June 04, 2004

LEG	Legislative drafting/FIU	July 12–16, 2004
FAD	Tax administration	July 19–August 3, 2004
MFD	Monetary operations/foreign exchange	August 26–September 10, 2004
FAD	Public expenditure management advisor	October 2004–June 2005
LEG	Exchange rates systems	November 16–22, 2004
MFD	Bank supervision/restructuring	November 16–29, 2004
STA	Balance of payment statistics	February 2–16, 2005
FAD	Tax administration	February 8–21, 2005
MFD	Banking supervision, financial, exchange Market, and currency reforms	March 9–24, 2005
MFD	Banking consolidation and supervision, Currency reforms	August 29–September 13, 2005
FAD	Tax administration peripatetic advisor	July–December, 2005 (3 visits)
FAD	Public expenditure management advisor	October 2005–April 2006
MFD	Banking consolidation, monetary policy	November 9–22, 2005
MFD	Monetary operations advisor	December 11–17, 2005
STA	Money and banking statistics	January 26–February 8, 2006
MFD	Exchange rate management advisor	February 13–20, 2006
MFD	Banking consolidation, monetary policy	February 27–March 10, 2006
STA	Balance of payment statistics	March 15–28, 2006
MCM	Monetary policy peripatetic advisor	Since May 2006 4 visits (some joint with HQ staff)
MCM	Financial sector development	November 17–24, 2006
MCM	Monetary policy long term advisor	since December 18, 2006
MCM	Central bank accounting	Since February 2007 3 visits
FAD	Public financial management	February 14–23, 2007
STA	Monetary statistics	February 20–27, 2007
FAD	Public financial management advisor	Since June 3, 2007
MCM	Financial sector strategy	June 17–22, 2007
STA	National accounts	June 11–July 6, 2007

XI. **Resident Representative**:

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

ANNEX II. RELATIONS WITH THE WORLD BANK

Partnership for development

1. The Nigerian government has been making progress with implementation of the National Economic Empowerment and Development Strategy (NEEDS), a program of reforms aimed at achieving economic and social transformation in Nigeria. This effort at the Federal level, working in parallel with State Economic Empowerment and Development Strategies (SEEDS) at the state level, is continuing to improve the environment for development assistance and strengthen the framework for aid effectiveness.

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

3. Under the CPS, both the World Bank and UK's DFID are deepening engagement with Nigeria, in response to the improved policy environment and the importance of Nigeria for meeting the MDGs in Africa. More support is provided to states where constitutional responsibility for most functions related to achievement of the MDGs lies. At the same time, the Bank and DFID are more selective in approach, concentrating assistance at the Federal level and in a set of lead states that are strongly committed to reforms and where development assistance can achieve the greatest impact on growth and poverty reduction. At the moment, the bank has signed State Partnership Agreements with four of such lead states.

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

World Bank–IMF relations

5. The IMF and World Bank staffs maintain a close collaborative relationship on Nigeria. Both institutions are coordinating their policy advice to the government in several areas (including the financial sector, public financial management, and statistics) through collaboration on analytical work, and through joint technical assistance missions. The Bank staff is regularly invited to join IMF macroeconomic missions. The Bank's work and support to Government in key structural reform areas informs the PSI program.

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

7. Bank and IMF staffs are beginning work with the Government on the macroeconomics of scaling up. This exercise will analyze options for scaling up to meet the MDGs in Nigeria in a manner consistent with macroeconomic stability objectives.

Lending activities

8. The IDA commitment in Nigeria continued to show an upward trend; growing from about US$1.5 billion in FY05, US$1.8 billion in FY06 and currently stands at about US$2.6 billion; out of which only about 20 percent is at risk by amount. This represents a significant improvement compared to 79 percent in FY03 and 43 percent in FY05 respectively. This portfolio comprises 23 IDA projects covering activities in various sectors of the economy. About 41% of the portfolio is in infrastructure (water supply, power and transport). About 32% is in human development covering health, education and HIV/AIDS. The remaining projects support rural development (10%), private sector development (10%), and economic management and governance (7%)

9. As of September 2007, about US$996 million has been disbursed out of the total IDA commitment of US$2.6 billion. With the disbursement ratio of 24.5 percent in FY07, the recent improvement in disbursement could be explained by both the intensification of project supervision efforts and the maturity of the project portfolio (with the average project age of over three years). The Bank continues to work towards mitigating the risks faced by the portfolio and focuses on strengthening monitoring and evaluation (M&E) arrangements to ensure that projects in the portfolio achieve their development objectives.

Non-lending activities

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

International Finance Corporation (IFC) activities

11. Nigeria remains IFC's largest commitment portfolio in Sub-Sahara Africa with an outstanding portfolio of US$612 million in private sector investments as of August 31, 2007. IFC's outstanding portfolio in the country represents over 37 percent of the Sub-Saharan Africa region's portfolio, having grown from US$42 million on June 30, 2001. IFC's strategy for Nigeria involves collaboration with the Bank and UK's DFID and is driven by both IFC's Sub-Saharan Africa Strategy and the CPS for Nigeria. The strategy focuses on: (i) proactive project development in the key sectors of financial markets, infrastructure, manufacturing & services, indigenous oil-gas-petrochemicals, agribusiness and healthcare; (ii) diversification within financial markets to include trade finance, housing finance including mortgages and securitizations, insurance, MSME finance, microfinance; (iii) utilizing technical assistance to enhance private sector development in Nigeria such as improving investment climate and developing the local fixed income capital market; and, (iv) designing and implementing select financing and technical assistance pilots to support Bank/DFID initiatives such as exploring the potential of sub-national financing of the four lead states for which the Bank has signed States Partnership Agreements. Further highlights of IFC activities in the various sectors of Nigeria are described below.

12. **Financial sector.** Over the past five years, IFC has disbursed over US$220 million to five Nigerian banks in terms of long-term credit lines. It also signed on seven Nigerian banks as issuing banks under the IFC Global Trade Finance Program. The total utilization of the trade finance facilities was approximately US$315 million in FY07. In addition, IFC is providing Nigerian banks with specialized financing facilities and technical assistance, to open up financing opportunities in new or untapped markets such as women entrepreneurs, construction finance, retail and consumer banking through assisting with establishment of a private credit bureau, mortgages and securitization, and corporate governance. IFC's involvement has helped its portfolio banks strengthen their governance and risk management capabilities. Moreover, IFC is increasingly diversifying to finance non-bank financial institutions such as insurance and asset management companies. IFC has been able to provide naira long-term financing to both banks and real sector companies because of the existence of long-term cross-currency swaps from naira into convertible currencies.

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

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

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

World Bank Institute activities (WBI)

16. Nigeria is a WBI Focus Country. WBI has continued to partner with relevant stakeholders in building capacity for the implementation of programs that will empower communities, improve economic governance and ensure non-oil private sector development. WBI also aims to strengthen the national parliament, increase civil society participation in governance through youth programs, facilitate the development of good quality and pluralistic media, and support science and technology developments by assisting the African Institute of Science and Technology (AIST). A Global Distance Learning Network (GDLN) center is expected to be completed and functional in Abuja before mid-2007. WBI cooperates with the Federal Center for Health Systems Studies through its training programs of key managers and decision makers involved in health sector reforms. Other important WBI programs include support for NEEDS Implementation, HIV/AIDS, and building capacity in Nigerian youth organizations.

Multilateral Investment Guarantee Agency (MIGA)

17. MIGA has continued to increase its involvement in the promotion of foreign direct investment in Nigeria by offering guarantees against noncommercial risks to foreign investors. MIGA has issued guarantees to investors in various sectors of the Nigerian economy totaling about US$91.5 million in gross exposure (1.88% of the Agency's gross portfolio). The major stakes of MIGA in Nigeria has been in the services sector, where MIGA issued guarantees for two separate companies (SGS and Cotecna) for a total amount of US$81 million in FY06. The objective of the two projects is to modernize the ports screening facilities in order to reduce both the time required for customs clearance and opportunities for graft. The Agency has also played an effective role in resolving a potential investment dispute between the Government of Nigeria and one insured investor.

Table 1. Nigeria: IDA Credit Portfolio

(As of September 9, 2007, US$ million)

Project ID	Project Name	Fiscal Year	Approved IDA Amount	Disbursed	Undisbursed
P065301	Economic Mgt. Capacity Building	2000	20.0	18.7	1.3
P069892	Local Empowerment & Environment Management	2004	70.0	53.1	26.0
P069901	Community-based Urban Development	2002	110.0	41.1	92.3
P070290	2nd Health Systems Development	2002	127.0	127.5	24.0
P070291	HIV/AIDS Program Development	2002	140.3	97.6	57.6
P070293	Privatization Support Project	2001	114.3	71.2	63.2
P071075	Urban Water Sector Reform I	2004	120.0	24.0	100.4
P072018	Transmission Development	2002	100.0	91.7	24.8
P074963	Lagos Urban Transport Project	2003	150.0	85.2	78.2
P080295	Polio Eradication	2003	80.4	75.7	3.3
P083082	Micro, Small & Medium Enterp.	2004	32.0	6.5	27.5
P063622	Fadama	2004	100.0	82.3	21.5
P086716	Sustainable Management of Mineral Resources	2005	120.0	26.3	96.0
P088150	Economic Reform and Governance	2005	140.0	34.5	107.5
P071391	Urban Water Sector Reform II	2006	200.0	15.2	187.8
P074447	State Governance & Capacity Bldg.	2005	18.1	1.4	17.0
P090104	National Energy Development Project	2006	172.0	17.6	156.3
P100122	Avian Influenza Control	2006	50.0	25.0	27.7
P071340	Lagos Metropolitan Development and Governance	2007	200.0	15.6	196.1
P102966	Community-based Poverty Reduction	2001	85.0	76.3	17.1
P097921	Malaria Control Booster Project	2007	180.0	9.9	176.3
P096151	State Education Sector Project	2007	65.0	0	65.6
P074132	Science and Tech. Educ. In Post-Basic	2007	180.0	0	181.9
	Total		**2,574.1**	**996.4**	**1,749.4**

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

(As of September 13, 2007, US$ million)

FY 08	Fadama 3	150
	Community Social Development	200
	Rural Access and Mobility (RAMP 1)	50
	Commercial Agriculture	100
	Total	**500**
FY 09	State Health or Polio Immunization Project	50
	Support for Sustainable Development of Power Sector	80
	Federal Roads	250
	State and Local Government/Justice project	50
	State Education	70
	Growth Poles	80
	HIV/AIDS	100
	Lagos-Abidjan Transport and Transit (Regional)	20
	Total	**700**
FY 10	Commercial Agriculture/Rural Finance	100
	Federal Roads 2	250
	State Education 3	50
	State Water	50
	Rural Access and Mobility (RAMP 2)	150
	Conditional Cash Transfer /Maternal and Child Health	100
	Total	**700**

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

(As of September 13, 2007)

Proposed	
FY08	Polio Eradication ICR Economic Management and Capacity-building Project (EMCAP) ICR Agriculture Public Expenditure Review Fiscal Federalism Study Niger Delta Social and Conflict Analysis Financing Agriculture Study CPS Progress Report Health Insurance Study Petroleum Pricing Study
FY 09	Governance of Service Delivery Review Human Development Strategy Note NEITI Report Employment and Growth Study Transport and Economic Growth Study Nutrition Study Access to Justice study
FY 10	Poverty Assessment Trade and Regional Integration Study Non-Bank Financial Institutions Study
Ongoing	
FY 07 – 08 – 09	Investment Climate Assessment - State Corruption and Governance Risks Assessment Nigeria Extractive Industry Transparency Initiative (NEITI) Legal reforms—Technical Assistance (TA) Niger Delta Community Foundation Results Monitoring IDF Country Portfolio Performance Review (CPPR) Implementation support—M&E and PFMU Human Development Outcome Dialogue Non-oil Growth Outcome Dialogue Governance Outcome Dialogue Donor Harmonization Economic Monitoring Support to the National Assembly Civil Society Outreach Private Sector Outreach Communication Outreach and Academia

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

Commitment Fiscal Year	Institution Short Name	LN Cmtd-IFC	ET Cmtd-IFC	QL+QE Cmtd-IFC	GT Cmtd-IFC	All Cmtd-IFC	All Cmtd-Part	LN Out-IFC	ET Out-IFC	QL+QE Out-IFC	GT Out-IFC	All Out-IFC
2000	AEF Global Fabri	0.32	-	-	-	**0.32**	-	0.32	-	-	-	**0.32**
2000	AEF Hercules	1.30	-	-	-	**1.30**	-	1.30	-	-	-	**1.30**
2000/ 2007	AEF Hygeia	3.09	-	-	-	**3.09**	-	1.90	-	-	-	**1.90**
1997	AEF Mid-East	-	-	0.00	-	**0.00**	-	-	-	0.00	-	**0.00**
2001	AEF Oha Motors	0.00	-	-	-	**0.00**	-	0.00	-	-	-	**0.00**
2001/ 2003	AEF SafetyCenter	0.31	0.00	-	-	**0.31**	-	0.31	0.00	-	-	**0.31**
1996/ 1998/ 2000	AEF Vinfesen	-	-	1.00	-	**1.00**	-	-	-	1.00	-	**1.00**
1997	Abuja Intl	1.75	0.00	-	-	**1.75**	-	1.75	0.00	-	-	**1.75**
2005	Accion Nigeria	-	1.89	-	-	**1.89**	-	-	0.57	-	-	**0.57**
2003	Adamac	11.56	-	-	-	**11.56**	6.94	11.56	-	-	-	**11.56**
1964/ 1967/ 1970/ 1990/ 1992	Arewa Textiles	-	0.00	-	-	**0.00**	-	-	0.00	-	-	**0.00**
2000	CAPE FUND	-	0.41	-	-	**0.41**	-	-	0.00	-	-	**0.00**
2001/ 2005/ 2006	Diamond Bank	-	-	47.27	-	**47.27**	-	-	-	47.27	-	**47.27**
2007	Eleme	60.00	-	15.00	-	**75.00**	80.00	54.50	-	6.75	-	**61.25**
2001	FSB	3.15	-	2.25	-	**5.40**	-	3.15	-	2.25	-	**5.40**
1993	FSDH	-	0.86	-	-	**0.86**	-	-	0.86	-	-	**0.86**
2001/ 2004/ 2005/ 2006	GTB	72.00	-	-	-	**72.00**	-	57.00	-	-	-	**57.00**
2006/ 2007/ 2008	GTFP Access Bank	-	-	15.00	52.08	**67.08**	-	-	-	15.00	52.04	**67.04**
2006/ 2007/ 2008	GTFP Diamond Bnk	-	-	-	27.93	**27.93**	-	-	-	-	27.58	**27.58**
2006/ 2007/ 2008	GTFP GTB Nigeria	-	-	-	8.36	**8.36**	-	-	-	-	8.35	**8.35**
2006/ 2007	GTFP IBTC Plc.	-	-	-	0.38	**0.38**	-	-	-	-	-	**-**
2006/ 2007	GTFP Zenith	-	-	-	3.91	**3.91**	-	-	-	-	3.91	**3.91**
2001/ 2006	IBTC	-	15.43	14.57	-	**30.00**	-	-	15.43	14.57	-	**30.00**
1981/ 1988/ 1990/ 1993	Ikeja Hotel	-	0.07	-	-	**0.07**	-	-	0.07	-	-	**0.07**
2007/ 2008	IntCon Bank	-	-	-	40.15	**40.15**	-	-	-	-	40.15	**40.15**
2007	Leadway	-	13.30	-	-	**13.30**	-	-	13.30	-	-	**13.30**
2004/ 2005/ 2007	MTNN	52.50	16.75	-	-	**69.25**	-	52.50	16.32	-	-	**68.82**
2004	NTEF	-	-	-	20.00	**20.00**	-	-	-	-	-	**-**
2005	OCC	75.00	-	-	-	**75.00**	-	74.46	-	-	-	**74.46**
2006/ 2007	SOCKETWORKS	4.00	-	2.22	-	**6.22**	-	-	-	2.22	-	**2.22**
2007	Star Paper	10.00	-	-	-	**10.00**	-	-	-	-	-	**-**
2002/ 2004/ 2007	UBA	-	-	50.00	-	**50.00**	-	-	-	50.00	-	**50.00**
2007	UPDC	40.00	-	-	-	**40.00**	-	25.00	-	-	-	**25.00**
2004	UPDC Hotels Ltd.	10.62	-	-	-	**10.62**	-	10.62	-	-	-	**10.62**
Total Portfolio:		**345.61**	**48.71**	**147.31**	**152.80**	**694.43**	**86.94**	**294.38**	**46.54**	**139.06**	**132.02**	**612.00**

ANNEX III. 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 lack of data sharing between data producing and collecting agencies, and insufficient computerization. The authorities recognize these problems, and intend to address them. In April 2003, Nigeria began participation in the Fund's General Data Dissemination System (GDDS), and posted its metadata on the Fund's dissemination standards bulletin board (DSBB). These metadata were subsequently updated towards the end of 2005 and the beginning of 2006.

National accounts

2. The national accounts statistics are of poor quality, largely owing to a deterioration in business and household surveys. Estimates of value added for agriculture, mining (oil), industry, transportation, and financial and other services are based on old surveys with extrapolations that use out-of-date ratios and other indicators. Where more recent survey information is used the survey data suffer from poor response rates. Many sector deflators are not soundly based and have a number of inconsistencies. In the past, the use of the official exchange rate 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 helped the authorities implement the GDDS recommendations in the area of national accounts and provided guidance on institutional reforms in the statistical system. A new Statistics Act was enacted in 2007, giving autonomy to the National Bureau of Statistics. Results of a 2003 household living standards survey are now available. The base year was updated to 1990 from 1984 to better reflect the economic structure of the economy. Moreover, the GDP methodology has been amended for estimates from 2004 onward, and prorated back to 1981, in a move toward the *SNA 1993* and to incorporate new data sources. These revisions are currently being reviewed in the context of the IMF/ DFID GDDS Phase 2 Project for Anglophone Africa. The revised 2004 estimates resulted in a shift in the level of GDP of over one-third, largely and equally stemming from GDP estimates for "agriculture and fishing" and "crude petroleum and natural gas." The increase in the former was inconsistent with available data and inadequately documented. Petroleum output was found to be previously largely underreported, though methodological concerns remain including the need to use lifting rather than production data for petroleum output and the exclusion of natural gas.

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 1996/97 National Consumer Expenditure Survey. The weights are price-updated to May 2003 which is the new reference period for the index. Some data on producer prices are collected, but these statistics are not comprehensive and no producer price index is compiled. As a consequence, some sector GDP deflator indices are based not on producer prices, but on consumer price subindices and ad hoc assumptions. Expenditure deflators also suffer from methodological shortcomings.

Government finance

5. Fiscal data have historically been opaque and complicated not only by the federal structure, but also by a multiplicity of off-budget funds and by accounting practices that underestimate the actual size of public expenditure. A multisector statistics mission in September 1999 noted that the most pressing shortcomings related to inadequate data coverage, the lack of monthly and quarterly compilation, and inadequate timeliness.

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

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

8. A follow up mission in July 2003 found that the authorities had implemented very few of the recommendations that were put forward by the 2002 mission, including on the proposed strategy for transition to the GFSM 2001. However, the mission reported progress in specific areas, in particular in regard to the work of the CBN.

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

Monetary accounts

10. In the past, the authorities have taken steps toward implementing the key recommendations of STA monetary and financial statistics technical assistance missions. However, the reporting of monetary data for *IFS* was recently interrupted because of major unresolved accounting problems at the CBN. Throughout 2006, the CBN took steps to change its core accounting system. No provision was made for a transition period in which the old and the new accounting systems would run in parallel to test the operational reliability of the new system. As a result, a number of serious distortions arose in the accounting records of the CBN, including erroneous recording of some asset balances as liabilities and vice versa, and failure to capture a number of large foreign currency transactions. Many of these issues have now been resolved and in June 2007 a new monetary survey was introduced. The most recent central bank data published in the STA database are those for September 2006, while monthly data for the other depository corporations are updated on a regular basis.

Balance of payments

11. 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 under-recorded and the trade data reported by the NBS (based on customs data) sharply differ from those reported by the CBN (based on banking data). Based on comparisons with counterparty data, the former are likely to significantly under-report informal trade. The 1999 STA multisector mission identified actions to be taken for improving the quality of balance of payments data. However, subsequent follow-up missions in 2000, 2005 and 2006 found that little progress had been made. After a hiatus of several years, the CBN has recently resumed submitting balance of payments data to STA; however, the balance of payments contain large negative errors of omissions, which probably reflect an underestimation of current account debit transactions. Except for some methodological changes, the compilation of balance of payments statistics continues to be severely affected by organizational weaknesses and resource constraints in the NBS, customs, and the CBN. The authorities have not yet initiated

compilation of international reserves data in line with the Data Template on International Reserves and Foreign Currency Liquidity. Moreover, the staff has been unable to assess whether data on official reserve assets are in principle consistent with the template; the data may not be adequate for monitoring because they may not adequately reflect foreign currency liabilities or distinguish other foreign currency assets.

External debt

12. 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. A correctness and duplication audit of loan portfolio 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 complete. The authorities do not collect data on private sector external debt, and should work to extend the coverage of their database to include private sector liabilities.

Nigeria: Table of Common Indicators Required for Surveillance

As of September 7, 2007

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

1. [1]Includes reserve assets pledged or otherwise encumbered as well as net derivative positions.
2. [2] Both market-based and officially-determined, including discount rates, money market rates, rates on treasury bills, notes and bonds.
3. [3] Foreign, domestic bank, and domestic nonbank financing.
4. [4] The general government consists of the central government (budgetary funds, extra budgetary funds, and social security funds) and state and local governments.
5. [5] Including currency and maturity composition.

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

Statement by the IMF Staff Representative
October 15, 2007

1. This statement reports developments since the staff report for the fourth review under the Policy Support Instrument was issued to the Board on October 1, 2007. The thrust of the staff appraisal remains unchanged.

2. **Macroeconomic indicators remain robust.** In August, inflation remained low at 4.2 percent year-on-year, and international reserves rose to US$45 billion by the end of the month. The naira appreciated by 1.3 percent with respect to the U.S. dollar from end-June to end-September 2007.

3. **In early October, the Central Bank of Nigeria (CBN) modified the standing facility.** It increased the Monetary Policy Rate by one percentage point to 9 percent and set its lending rate at this level. The CBN discontinued the remuneration of overnight deposits to encourage the development of the interbank market.

4. **The authorities made progress in implementing structural reforms.**

(i) The CBN is implementing its action plan to strengthen banking supervision. The framework for consolidated supervision was approved by the joint executive committee on supervision of the CBN and National Deposit Insurance Corporation, and issued to the industry.

(ii) Financial bids for the management contract of the Transmission Company of Nigeria were opened in September, and are being reviewed by the National Council on Privatization.

(iii) The auditor for the 2006 NEITI audit has been selected. The appointment is awaiting re-approval of funding.

(iv) The Procurement Manual—revised in accordance with the recently approved Procurement Act—has been submitted to the newly appointed Public Procurement Council for final approval.

Press Release No. 07/230
FOR IMMEDIATE RELEASE
October 15, 2007

International Monetary Fund
Washington, D.C. 20431 USA

IMF Executive Board Completes the Fourth Review Under the Policy Support Instrument for Nigeria

The Executive Board of the International Monetary Fund (IMF) has completed the fourth review under a two-year Policy Support Instrument (PSI) for Nigeria. The PSI was approved on October 17, 2005 (see Press Release No. 05/229). The PSI supported Nigeria's efforts to entrench macroeconomic stability and pursue ongoing strong structural reforms.

In completing the review, the Executive Board commended the strong macroeconomic performance under the PSI and granted waivers for the nonobservance of the assessment criterion on reserve money and for two structural assessment criteria.

The IMF's framework for PSIs is designed for low-income countries that may not need IMF financial assistance, but still seek close cooperation with the IMF in preparation and endorsement of their policy frameworks. PSI-supported programs are based on country-owned poverty reduction strategies adopted in a participatory process involving civil society and development partners. This is intended to ensure that PSI-supported programs are consistent with a comprehensive framework for macroeconomic, structural and social policies to foster growth and reduce poverty. Members' performance under a PSI is reviewed semi-annually, irrespective of the status of the program (see Public Information Notice No. 05/145).

Following the Executive Board discussion, Mr. John Lipsky, First Deputy Managing Director and Acting Chair, made the following statement:

"The Nigerian authorities' economic program, which has been supported under the IMF's Policy Support Instrument, is guided by the National Economic Empowerment and Development Strategy. The program succeeded in balancing spending needs with macroeconomic stability, and led to the introduction of broad-based structural reforms.

"The authorities are to be commended for Nigeria's strong macroeconomic performance under the program. Prudent policies and structural reforms—most notably the political accord on the oil price fiscal rule—have been pivotal in delivering robust economic growth, lower inflation, and significantly strengthened fiscal and external positions. Going forward, developing a strong policy framework, supported by continued political commitment, will be critical to preserving the recent macroeconomic gains and achieving Nigeria's social goals.

"Fiscal outcomes in the first half of 2007 were broadly satisfactory. Vigorous implementation of the authorities' planned fiscal measures will be needed to achieve the end-2007 federal government deficit target. In particular, it will be crucial to contain total domestic spending to levels consistent with the authorities' medium-term fiscal targets. The current national discussion on the use of oil revenues and savings offers the prospect of a lasting agreement on a fiscal framework that ensures macroeconomic stability.

"Inflation has been in line with expectations, but the central bank needs to remain vigilant to ensure that inflationary pressures do not reemerge. The monetary data and monetary policy framework have been improved, which should allow monetary targets to be achieved on a more consistent basis. Greater exchange rate flexibility would support meeting the targets.

"The authorities have made significant progress on their ambitious structural reform agenda. Ongoing structural reforms are crucial to support private sector development and reduce poverty. Of particular importance will be the reform of the electricity sector to improve the electricity supply," Mr. Lipsky said.

Statement by Peter Gakunu, Executive Director for Nigeria and Godwill Efiong Ukpong, Senior Advisor to Executive Director October 15, 2007

1. The Nigerian authorities thank the Fund for its engagement with the country and support for their macroeconomic and structural reforms under the PSI. They appreciate the quality of staff dialogue, and broadly agree with the thrust of the analyses, conclusions and recommendations in the reports.

Developments under the PSI: 2005-07

2. Adoption and implementation of sound policies and sustained efforts at far-reaching structural reforms by the authorities, coupled with a favorable external environment, resulted in strong macroeconomic performance during the PSI which exceeded original program objectives. Some of the significant achievements under the PSI-enhanced macroeconomic and policy framework include: robust economic growth, substantially strengthened fiscal and external positions, reduced core and headline inflation to single digits, and improved general confidence in the economy as reflected by a BB- rating by Fitch and Moody. Real GDP growth is projected at 8.2 percent in 2007, and 8.0 percent in 2008, relative to 5.6 percent in 2006, with agriculture, services, and communication sectors making most contribution. In addition, the reduction in Paris and London Club debt led to debt-savings being directed to poverty-reduction spending, while implementation of an ambitious reform program facilitated several positive changes in the banking and financial sector; government management; trade liberalization; and privatization. Nevertheless, the authorities recognize that challenges remain, especially with respect to sustaining fiscal prudence by all tiers of government, strengthening newly established institutions to safeguard gains so far made, and extending the benefits of rising growth to all segments of society, with a view to further reducing poverty. The authorities are, however committed to making significant progress on these fronts and are taking measures to address these challenges.

Performance under the Program

3. Economic performance has improved significantly since the third review, while program performance is adjudged “satisfactory”. All quantitative assessment criteria were met “except for one minor deviation on reserve money”. The minor deviation is a matter of perception between the staff, on the one hand, and the authorities and banks, on the other hand, as to how any balance in the real time gross settlement accounts (RTGS) of banks ought to be classified. Staff has, however, confirmed that the reserve money target itself was unduly restrictive. Significant progress was also made on structural reforms, but the bid opening for the sale of Abuja Electricity Distribution Plc, and FIRS completion of implementation of human resource management system nationwide were delayed. With the advent of a new government on May 29, 2007, the bid opening had to await the appointment

of a New National Council on Privatization, which subsequently supported the opening of the bid and privatization. On FIRS activity, delay related mainly to replacement of a critical consultant to ensure performance standard required by the financier, the World Bank. Significant progress has been made in implementing the structural assessment criteria and benchmarks for which a waiver was granted under the Third Review. However, the operationalization of two criteria, requires resolution of some minor technicalities. This turn around in implementation underscores the need for flexibility of the PSI test dates and strong ownership of the program by the authorities. Now that the PSI has proved its usefulness as a Fund instrument, it might be time to fine-tune its design to correct some inadequacies identified in the course of its implementation, in particular the wide disparities in the number of assessment criteria (AC) and structural benchmarks (SBs) an implementing country opts for and accepts; inflexible, stipulated review schedules; and lack of a yardstick for measuring success of the PSI program.

Fiscal Policy

4. Although capital spending was above program level in the first half of 2007, largely because of a longer-than anticipated carryover of capital spending from 2006, the end-June 2007 federal government fiscal criterion was met, as the higher spending was off set by increased non-oil revenues, including GSM license fees. In order to further improve service delivery, the new government proposed a 2007 supplementary budget. Having, however, taken into account the need to balance expenditures against income, compensatory measures to meet the end-2007 federal government non-oil primary deficit target have been identified. These include freezing of waivers and exemptions largely under customs, and putting on hold many large infrastructure and other capital projects. Oil revenue short fall in the first half of 2007 is expected to progressively recover as revenue from offshore fields and gas sales accrue to government. However spending on infrastructure remains a priority as recognized under the NEEDS program.

Monetary Policy

5. Inflation has been subdued better than program projections as the monetary authority continued to maintain a supportive monetary policy stance. The monetary program is reported, by staff, to be broadly on track. Measures being implemented by the Central Bank of Nigeria (CBN) have resulted in significant improvements in monetary data and the policy decision-making process, thus allowing monetary targets to be achieved on a more consistent basis.

Structural Reforms

6. The authorities' comprehensive structural reform program is progressing well. The authorities are showing strong commitment to taking ongoing reforms to another level. The revisiting of the oil-price fiscal rule and oil savings is to explore how the processes could be

further strengthened in the context of current constitutional provisions. The authorities' recognition of the need to entrench reforms and safeguard past gains, especially on macro-fiscal management, led to the key legislations being passed, including the Fiscal Responsibility and Procurement Bills. The CBN has overcome data constraint to effective monetary policy implementation, with TA from the Fund, with policy implementation proceeding with consistency. It is worthwhile noting that while a lot needs to be done to improve the climate for private sector development and investment, Nigeria has made significant reforms on the critical areas of starting and doing business in the country, including streamlining of requirements and access to essential information.

Medium-Term Prospects and Policy Discussions

7. In order to sustain macroeconomic stability for nurturing current favorable economic prospect for the country, the new President has set out the goals of his government through a seven-point agenda to further improve business and economic environment for private sector-led growth, development, poverty reduction, and for meeting the MDGs. Other elements of the agenda include addressing energy shortages, building productive infrastructure, and ensuring more effective outlays for priority social sectors. The authorities are showing strong commitment to the government's policy agenda, to be actualized through the development of a new medium-term strategy, NEEDS 2, for 2008-11 by the end of 2007, and by reaching political consensus with the states.

8. On the fiscal side, the authorities are developing a medium-term fiscal strategy, 2008-10, which aims at fiscal balances, consistent with macroeconomic stability. They are already dealing with the challenge of articulating details of steps to enhance achievement of the objective.

9. Regarding monetary policy, the CBN is committed to remaining vigilant to forestall inflationary pressures re-emerging, and to adopt other necessary policy measures going forward, including planned inflation targeting framework. The monetary authority has also stated its commitment to subordinate the exchange rate to the inflation objective. The CBN will continue with efforts to deepen the interbank market, including through increased sales of foreign exchange, while ensuring further strengthening of monetary data.

10. On structural reforms related to securing Nigeria's wealth, the country is facilitating transparency and accountability through the NEITI. High quality of spending is also being achieved through the due process in government procurement, evaluation of projects, and rigorous cost-benefit analyses. The authorities are committed to strengthening these processes further. On debt management and sustainability, the authorities plan for only limited, if any, external borrowing, and on concessional terms. No non-concessional external borrowing has taken place so far.

Conclusion

11. In view of the strong record of economic performance and commitment by the authorities to successfully implement all aspects of their economic program, they request for the granting of the few waivers highlighted in the staff report, and for approval for the conclusion of the fourth review of their PSI arrangement. They count on continuous engagement with the Fund and support of the international community going forward. In this regard, we reiterate that the PSI framework has been vital to the acceleration of the reform agenda in Nigeria in the last two years, and that the authorities are considering a second program involving external surveillance as a foundation for driving further change.