



NIGERIA

April 2016

2016 ARTICLE IV CONSULTATION—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR NIGERIA

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of the 2016 Article IV consultation with Nigeria, the following documents have been released and are included in this package:

- A **Press Release** summarizing the views of the Executive Board as expressed during its March 30, 2016 consideration of the staff report that concluded the Article IV consultation with Nigeria.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on March 30, 2016, following discussions that ended on January 25, 2016, 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 March 17, 2016.
- An **Informational Annex** prepared by the IMF staff.
- A **Statement by the Executive Director** for Nigeria.

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

Selected Issues

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

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March 31, 2016

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IMF Executive Board Concludes 2016 Article IV Consultation with Nigeria

On March, 30, 2016, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation¹ with Nigeria.

The Nigerian economy is facing substantial challenges. While the non-oil sector accounts for 90 percent of GDP, the oil sector plays a central role in the economy. Lower oil prices have significantly affected the fiscal and external accounts, decimating government revenues to just 7.8 percent of GDP and resulting in the doubling of the general government deficit to about 3.7 percent of GDP in 2015. Exports dropped about 40 percent in 2015, pushing the current account from a surplus of 0.2 percent of GDP to a deficit projected at 2.4 percent of GDP. With foreign portfolio inflows slowing significantly, reserves fell to \$28.3 billion at end-2015. Exchange restrictions introduced by the Central Bank of Nigeria (CBN) to protect reserves have impacted significantly segments of the private sector that depend on an adequate supply of foreign currencies. Coupled with fuel shortages in the first half of the year and lower investor confidence, growth slowed sharply from 6.3 percent in 2014 to an estimated 2.7 percent in 2015, weakening corporate balance sheets, lowering the resilience of the banking system, and likely reversing progress in reducing unemployment and poverty. Inflation increased to 9.6 percent in January (up from 7.9 percent in December, 2014), above the CBN's medium-term target range of 6–9 percent.

The recovery in economic activity is likely to be modest over the medium term, but with significant downside risks. Growth in 2016 is expected to decline further to 2.3 percent, with non-oil sector growth projected to slow from 3.6 percent in 2015 to 3.1 percent in 2016 before recovering to 3.5 percent in 2017, based on the results of policies under implementation—particularly in the oil sector—as well as an improvement in the terms of trade. The general government deficit is projected to widen somewhat in 2016 before improving in 2017, while the external current account deficit is likely to worsen further. Key risks to the outlook include lower oil prices, shortfalls in non-oil revenues, a further deterioration in finances of state and local

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

Governments, deepening disruptions in private sector activity due to constraints on access to foreign exchange, and resurgence in security concerns.

Executive Board Assessment²

Executive Directors welcomed the authorities' policy agenda of enhancing transparency, strengthening governance, improving security, and creating jobs. Directors noted that the Nigerian economy has been hit hard by the decline in oil prices, which has slowed growth sharply and led to macroeconomic imbalances. Given the uncertain global outlook and the likelihood of oil prices remaining low, Directors stressed the need for significant macroeconomic adjustment. They highlighted the importance of implementing urgently a coherent package of policies, in consultation with Fund staff and development partners, to safeguard fiscal sustainability and reduce external imbalances, and advancing structural reforms to support inclusive growth.

Directors emphasized the critical need to raise non-oil revenues to ensure fiscal sustainability while maintaining infrastructure and social spending. They urged a gradual increase in the VAT rate, further improvements in revenue administration, and a broadening of the tax base. Directors supported an orderly adjustment of budgets at the sub-national level through reform in budget preparation and execution. They also stressed the importance of strengthened public financial management and service delivery. Directors encouraged the implementation of an independent price-setting mechanism to address petroleum subsidies, while strengthening the social safety net. Directors underlined the need for continued efforts to foster transparency and enhanced accountability.

Directors noted that the policy approach of expansionary monetary policy, together with a relatively fixed exchange rate and exchange restrictions had adversely impacted economic activity. It also raised concerns about the authorities' commitment to their inflation objective. They underscored the need for credible adjustment to the large terms-of-trade shock, including through greater exchange rate flexibility and speedy unwinding of exchange restrictions to facilitate an exchange rate consistent with fundamentals. In this context, they welcomed the recent monetary policy tightening and recommended that the central bank target price stability to maintain inflation within the target range.

Directors observed that further strengthening of the regulatory and supervisory frameworks would help improve resilience even as financial sector soundness indicators remain favorable. With declining asset quality a concern as growth slows, intensified monitoring of banks and enhanced contingency planning and resolution frameworks would be important. Directors also noted that lowering interest rate spreads and increasing efficiency could enhance credit growth, especially for small and medium enterprises.

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

Directors stressed the need for structural reforms to enhance competitiveness and support investment. They encouraged the authorities to continue core infrastructure investment, further reduce the cost of doing business through greater transparency and accountability, and promote employment of youth and women. Directors welcomed renewed effort to adopt legislation to spur investment in the oil and gas sector, and promote policies to strengthen governance of the sector, including targeted AML/CFT measures.

Directors welcomed progress in improving the quality and availability of economic statistics. They welcomed the authorities' commitment to implement the e-GDDS, including a National Summary Data Page, and encouraged efforts to improve balance of payments data and compilation of sub-national fiscal accounts.

Nigeria: Selected Economic and Financial Indicators, 2014–2017				
	2014	2015	2016	2017
		Prel.	Projections	
National income and prices	(Annual percentage change, unless otherwise specified)			
Real GDP (at 2010 Basic Prices)	6.3	2.7	2.3	3.5
Oil and Gas GDP	-1.3	-5.4	-4.8	3.0
Non-oil GDP	7.3	3.6	3.1	3.5
Production of crude oil (million barrels per day)	2.2	2.1	2.2	2.3
Consumer price index (end of period)	8.0	9.6	12.0	12.5
Consolidated government operations¹	(Percent of GDP)			
Total revenues and grants	10.5	7.8	5.9	6.8
<i>Of which:</i> oil and gas revenue	6.5	3.7	1.5	1.9
Total expenditure and net lending	12.3	11.5	10.3	10.9
Overall balance	-1.8	-3.7	-4.4	-4.0
Non-oil primary balance (percent of non-oil GDP)	-8.2	-6.8	-5.3	-5.2
Money and credit	(Change in percent of broad money at the beginning of the period, unless otherwise specified)			
Broad money (percentage change; end of period)	20.4	5.9	14.2	16.5
Net foreign assets	-10.9	-6.8	-7.4	-2.4
Net domestic assets	31.1	12.7	21.5	18.9
External sector	(Annual percentage change, unless otherwise specified)			
Exports of goods and services	-13.3	-40.7	-21.8	22.6
Imports of goods and services	16.5	-22.1	-3.0	6.9
Current account balance (percent of GDP)	0.2	-2.4	-2.8	-1.8
Terms of trade	-2.7	-24.9	-16.9	9.3
Price of Nigerian oil (US\$ per barrel)	100.6	53.1	36.1	43.3
Gross international reserves (US\$ billions)	34.3	28.3	21.5	19.5
(Equivalent months of next year's imports)	6.1	5.2	3.7	3.2
Sources: Nigerian authorities; and IMF staff estimates and projections.				
¹ Consists of federal, state, and local governments.				



NIGERIA

STAFF REPORT FOR THE 2016 ARTICLE IV CONSULTATION

March 17, 2016

KEY ISSUES

Context. The Nigerian economy is facing substantial challenges. Low oil prices, a lengthy period of policy uncertainty, and ongoing security concerns, have produced: a widening fiscal gap with salary arrears at state and local governments; a weaker external current account and the introduction of exchange restrictions as international reserves declined; lower financial sector resilience; and sharply slower growth. These shocks have compounded an already challenging development environment—inadequate infrastructure, high unemployment (9.9 percent) and a high poverty rate (above 50 percent in the northern states).

Outlook and Risks. Growth is expected to slow further in 2016 before a modest recovery over the medium term, but with significant downside risks and reduced buffers. Some components of the policy package to adjust to the permanent terms of trade shock are now in place but with little improvement expected in external conditions and large policy distortions remaining, growth is likely to remain well below historical averages. There are significant risks to this outlook: uncertainty on the path of oil prices and oil production; the impact of reforms to raise non-oil revenues; late disbursement of external financing or less-than-desired access to international markets; a further deterioration in the fiscal position of state and local governments; and disruption to private sector activity due to exchange restrictions. Meeting fiscal slippages through additional domestic borrowing could raise the Federal government interest payment-to-revenue ratio to an unsustainable level and crowd out lending to the private sector. The combination of wide fiscal deficits and accommodative monetary policy with an overvalued exchange rate could widen the current account deficit further, add pressure to the exchange rate and international reserves, and result in further delays in much needed foreign capital inflows and investment.

Policy recommendations. In light of the significant macroeconomic adjustment needed, it will be important to initiate urgently a coherent package of policies anchored on: (i) safeguarding fiscal sustainability; (ii) reducing external imbalances (including real exchange rate realignment); (iii) enhancing resilience and further improving the efficiency of the banking sector; and (iv) implementing structural reforms for sustained and inclusive growth.

Approved By
**David Robinson and
 Steven Barnett**

Discussions for the 2016 Article IV consultation were held in Abuja (December 14-17 and January 14-25) and Lagos (January 11-13). The team comprised Mr. Leon (head and Senior Resident Representative), Mr. El Said and Ms. Saito (all AFR); Ms. Tamene (MCM); Mr. Tapsoba (FAD); Mr. Swiston (SPR); Ms. Chen, Mr. Pinto, and Ms. Stetsenko (all LEG). Ms. Mangga and Mr. Ogunleye (Economists at Resident Representative office) assisted the mission. Mr. Robinson (Deputy Director, AFR) participated in the December 14-17 visit, and Mr. Odonye (Senior Advisor to the Executive Director) took part in the January 14-25 discussions.

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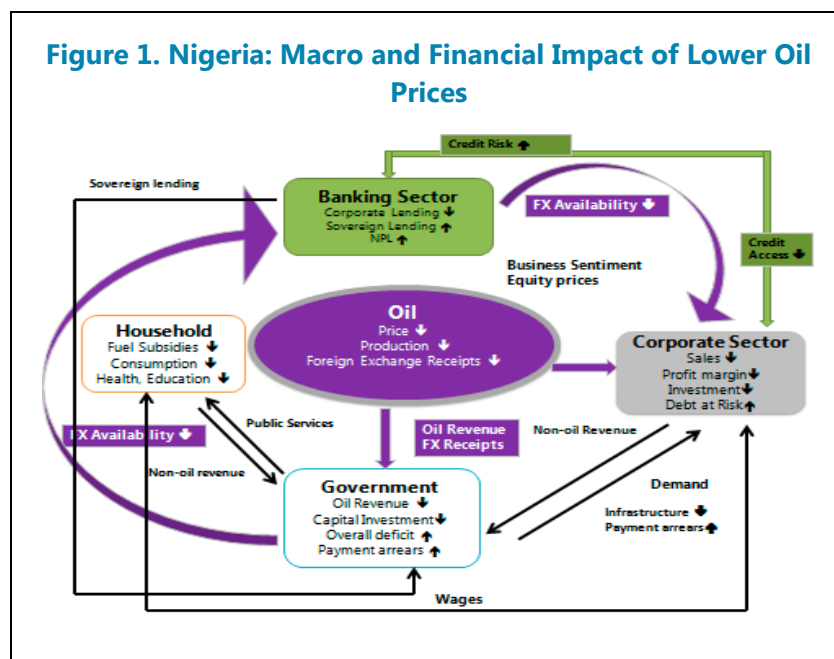
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BACKGROUND: A CHALLENGING ENVIRONMENT

1. Nigeria's economy has been hit hard by global developments that have aggravated longstanding development weaknesses. Three major economic transitions—the slowdown and rebalancing of the Chinese economy, lower commodity prices, and tightening financial conditions and risk aversion of international investors—have impacted the Nigerian economy through trade, exchange rates, asset markets (including commodity prices), and capital flows. These shocks compounded an already challenging development environment—inadequate infrastructure, high unemployment (9.9 percent), and a high poverty rate (above 50 percent in the northern states).

2. Macro-financial outcomes are closely linked with the price of oil. While the non-oil sector accounts for 90 percent of GDP, the oil sector plays a central role in the economy (Figure 1). With the fiscal and external accounts highly dependent on oil receipts, lower oil prices reduce aggregate demand from the public sector and affect growth in the non-oil sector through consumption, investment, asset (including equity) prices, and cost channels. A lower supply of foreign exchange adversely impacts corporate sector activity, and combined with high costs of doing business (inadequate infrastructure, low



access to credit, and high interest rates) weakens balance sheets in corporate and banking sectors and lowers investment and growth. Although the banking sector is relatively small (about 20 percent of GDP), the transmission of shocks has widespread impact as conditions in the formal sector have trickle-down effects on informal credit and trading activities.

3. Policy uncertainty amplified the impact of global developments. President Buhari was inaugurated in May 2015, having led the All Progressives Congress (APC)—a merger of four opposition parties—to victory in the March 28 elections, the first democratic transition of government in Nigeria's history. The administration has listed fighting corruption, enhancing transparency, improving security, and creating jobs as key elements of its policy agenda. While progress has been made against Boko Haram, in addressing corruption, and strengthening governance, the delay in appointing a cabinet until November 2015 limited the scope for a timely and comprehensive policy response to the oil price shock.

4. Capacity constraints have also limited the policy response. Following the recommendations of the 2014 Article IV consultation, progress has been made in improving capacity, in particular in public financial management (PFM) at the federal government level, helping to strengthen fiscal discipline and accountability. This effort is now being extended to the State and Local Governments (SLGs) (Annex I).

MACRO-FINANCIAL DEVELOPMENTS, OUTLOOK, RISKS AND SPILLOVERS

A. Macroeconomic Developments

5. Macroeconomic outcomes deteriorated sharply in 2015. The collapse in oil prices has decimated government revenues, which fell to just 7.8 percent of GDP and doubled the general government deficit to about 3.7 percent of GDP in 2015. Exports dropped about 40 percent in 2015, pushing the current account from a surplus of 0.2 percent of GDP to a deficit of 2.4 percent of GDP and, with uncertainty about policy direction, foreign portfolio inflows slowed significantly. Foreign exchange shortages, fuel stoppages, and continued security challenges significantly impacted private sector activity and growth slowed sharply to 2.7 percent in 2015 (from 6.3 percent in 2014), likely reversing progress in reducing unemployment (9.9 percent) and poverty (above 50 percent in the northern states) (Figure 2).

6. The slowdown in the economy weakened corporate balance sheets and lowered assets quality of the banking system. As opposed to the 2008-09 global crisis, the non-oil corporate sector entered the 2014-15 crisis with weaker performance and more leveraged balance sheets. The interest cover ratio of the corporate sector declined from 4 in 2008 to 2 by end-2014. With the corporate sector accounting for 80 percent of bank loans, further financial deterioration of the corporate sector could impair bank resilience and provision of credit to the economy.

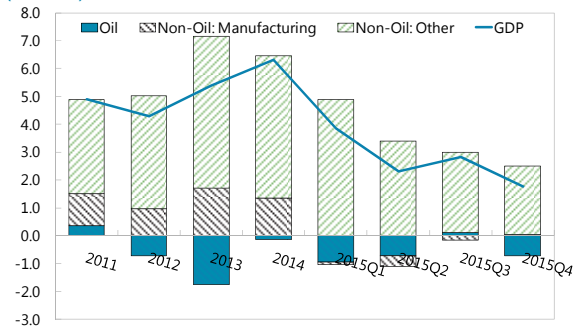
7. The CBN adjusted various instruments in an attempt to meet multiple objectives. In response to pressures in the Foreign Exchange (FX) market, the CBN imposed restrictions on commercial banks' FX trading, closed the official FX auction window, and channeled those transactions to the interbank market, effectively devaluing the official rate to the interbank rate by about 18 percent (February 2015). Since then, it has tightly managed the interbank exchange rate and introduced restrictions on access to FX, which has resulted in a wide spread between the rates on the interbank and Bureau de Change (BDC) markets (Figure 2). The drop in FX market liquidity resulting from these measures led J.P. Morgan to exclude Nigerian domestic bonds from its local currency government bond indexes. At the same time, to stimulate the slowing economy, the CBN expanded special intervention schemes and since September 2015 eased the monetary policy rate and reversed the increases in the reserve requirements implemented in November 2014 and May 2015, notwithstanding inflation rising above the medium-term target range. The resultant increase in liquidity has pushed short-term interest rates to near zero.

Figure 2. Nigeria: Selected Economic Indicators

Economic growth has weakened...

Nigeria: Contributions to Growth, 2011-15

(Percent)

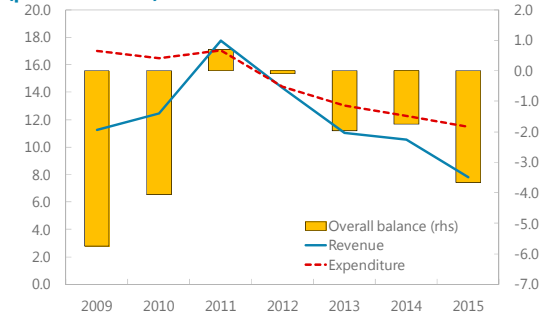


Source: National Bureau of Statistics.

The fall in oil prices lowered revenue, and even with a sharp decline in capital expenditure, the consolidated fiscal deficit almost doubled to 3.7 percent of GDP ...

Nigeria: Recent Fiscal Development

(percent of GDP)

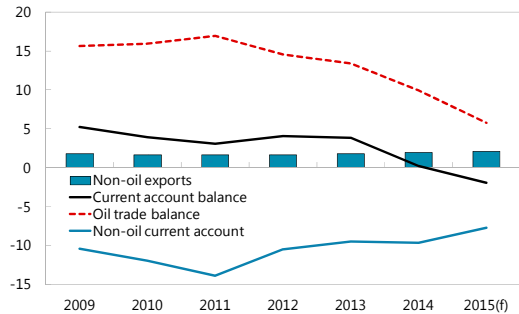


Sources: Nigerian authorities; and IMF staff estimates and projections.

... but not sufficiently to keep the current account from falling to an estimated deficit of 2.4 percent of GDP.

Current Account Balance

(Percent of GDP)

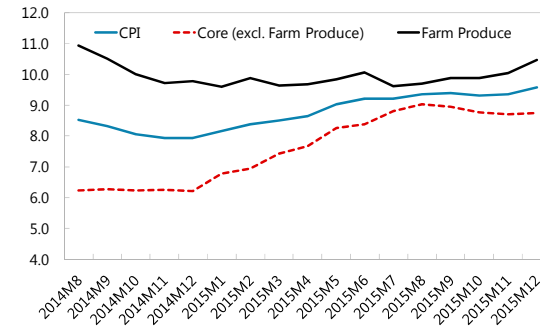


Sources: Haver Analytics; and IMF staff estimates.

While inflation picked up to 9.6 percent in December, up from 8.0 percent at end-December, 2014.

CPI Inflation

(Percent, y-o-y)

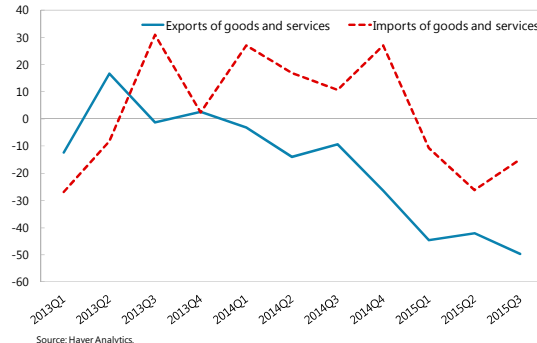


Sources: NBS; and Staff estimates.

...and reduced exports by 40 percent, which was partially offset by a decline in imports ...

International Trade

(y-o-y percent change)

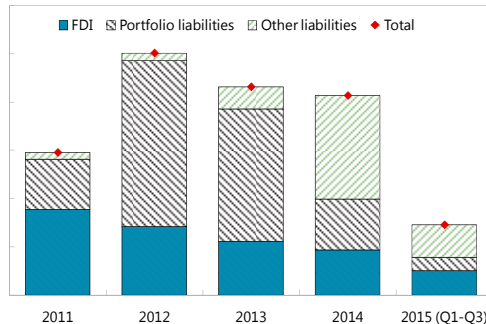


Source: Haver Analytics.

... and with capital inflows decreasing across all types of investment

Total Capital Inflows

(Billion U.S. dollars)

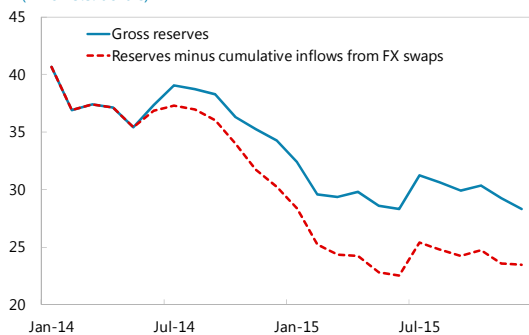


Sources: Haver Analytics; and IMF staff calculations.

Figure 2. Nigeria: Selected Economic Indicators (concluded)

Gross international reserves fell to \$28.3 billion at end-2015, down from \$42.8 billion at end-2013, ...

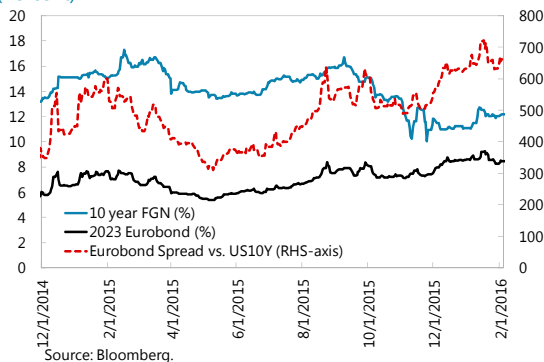
Foreign Currency Liquidity
(Billion U.S. dollars)



Sources: Central Bank of Nigeria; and IMF staff calculations.

... while the spread between Eurobond and U.S. government securities (basis points) has risen.

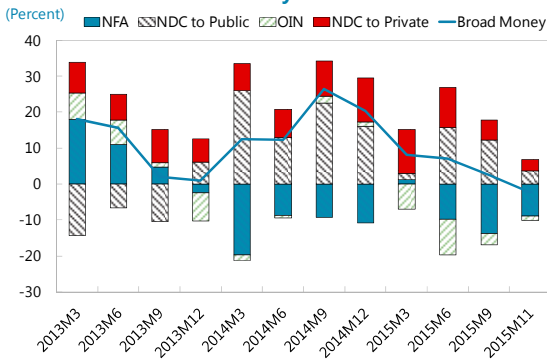
Bond Yields
(Percent)



Source: Bloomberg.

...though monetary easing has not translated into credit growth so far, reflecting negative sentiment in the economy.

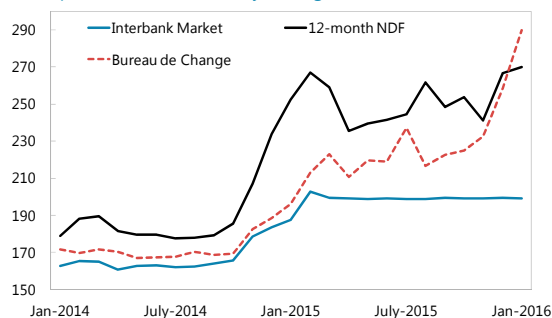
Contributions to Broad Money Growth



Sources: CBN; Staff estimates.

The CBN continues to keep the naira stable to the U.S. dollar on the interbank market despite signs of pressure in other markets.

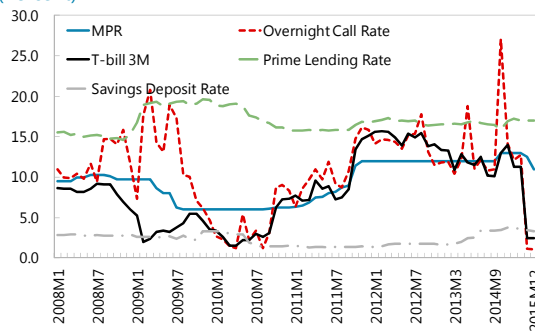
Exchange Rates
(Naira per U.S. dollar; monthly average)



Source: Bloomberg and CBN.

As the CBN's sales of forex declined and monetary policy stance eased, liquidity in the banking sector increased and money market rate fell sharply below the MPR....

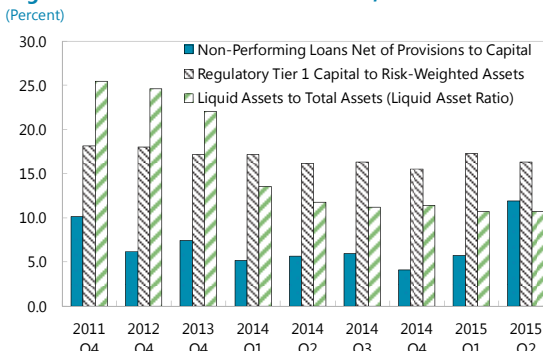
MPR and Other Interest Rates
(Percent)



Sources: CBN, IMF Staff estimates.

The banking sector as a whole appears resilient though non-performing loans (NPL) have risen as the economy has slowed.

Nigeria: Financial Soundness Indicators, 2011-15



Source: CBN.

8. Near-term vulnerabilities have risen sharply. The real effective exchange rate has appreciated over 25 percent since 2011. Gross international reserves (GIR) have continued to fall (to \$28.3 billion at end-2015), despite the introduction of foreign exchange restrictions, reducing reserve coverage to 100 percent of the standard IMF reserve adequacy metric and increasing the ratio of the sum of short-term external debt liabilities and the current account deficit to reserves from about 50 percent to 100 percent. The Excess Crude Account is at a low \$2.3 billion (from \$11 billion in 2012) and FGN interest payments-to-revenue ratio is estimated (in 2015) to have increased to 32 percent (from 27 percent in 2014). The unemployment rate has increased from 6.4 percent in 2014Q4 to 9.9 percent in 2015Q3, with the youth unemployment (below age 24) now at 18 percent.

B. Outlook and Risks

9. Adjusting to the lower oil price environment will take time, with growth likely to remain well below past trends and with reduced buffers.

- For 2016, the weak growth seen in 2015 is expected to continue as the authorities put in place their policy package. Overall growth is projected at 2.3 percent, below the 2.7 percent recorded in 2015. The draft 2016 budget submitted to the National Assembly in December should provide some support to growth through a significant shift in the composition of fiscal spending towards capital investment (mainly power and transport), while increasing the allocation for a social safety net. The exchange restrictions and the large misalignment of the real exchange rate (no adjustment in the interbank exchange rate is assumed) will continue to provide a drag on private sector activity and non-oil growth is projected at just 3.1 percent (compared to 3.6 percent in 2015 and 7.3 percent in 2014). The oil sector also faces uncertain prospects and, despite ongoing efforts to enhance governance and reduce leakages, is likely to record another year of negative growth.
- For 2017, growth is projected to recover to 3.5 percent based on the results of policies under implementation—particularly in the oil sector—as well as an improvement in the terms of trade. Improved governance in the oil sector should facilitate an expansion in production with the greater clarity in the regulation of the sector and the gradual rebound in international oil prices supporting renewed investment. The revised Petroleum Industry Bill (PIB), focusing on industry structure and regulation, presented to the National Assembly could release significant investment in the oil and gas sector, though the impact could occur over time. The combination of the rebound in the terms of trade, and improvements in power and electricity generation as a result of the public infrastructure investments would support a recovery in non-oil growth to about 3.5 percent despite the continued drag on the private sector from the distortions in the foreign exchange market. This is significantly below past trends (non-oil growth averaged around 8 percent over the past decade) and barely above population growth estimated at 2.7 percent.

10. In this baseline scenario, there is insufficient progress in closing the existing macroeconomic imbalances, resulting in the further drawdown of buffers, heightening vulnerabilities. Fiscal deficits remain large resulting in the continued need for both domestic and external financing, with the FGN interest rate to revenue ratio—a key indicator of debt sustainability—likely to increase to above 40 percent. International reserves would be expected to decline throughout the medium term, though pressures on reserves would reduce with the anticipated recovery in international oil prices. A more accelerated adjustment path—could lower these risks and facilitate an earlier move of the economy to a more sustainable growth path, while further delays in policy adjustment would simply exacerbate the risks (Box 2).

11. There are significant downside risks to this outlook: (Risk Assessment Matrix)

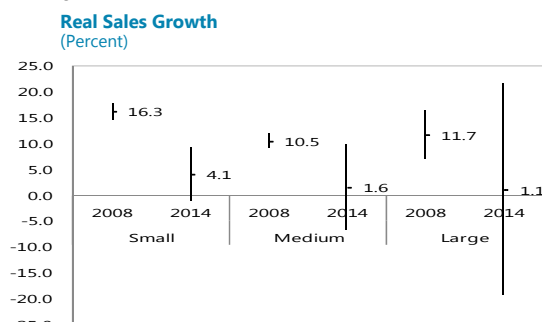
- Weaker global growth, particularly in emerging markets, a continued lull in commodity/oil prices, higher international interest rates, and a shift in investor appetite away from emerging and developing countries could delay a growth rebound. The spread between Nigeria's Eurobond and U.S. Treasury has been widening, reflecting markets' assessment of worsening economic conditions.
- Failure to achieve the envisaged reorientation of public spending to capital investment or low rates of return on public investment and/or absorptive capacity constraints could delay implementation and lower medium-term growth.
- Lower-than-expected oil revenue, shortfalls in yields from tax administration reforms, unbudgeted fuel subsidy payments, and late disbursement of external financing or an inability to access international markets at competitive interest rates could increase domestic financing requirements. Coupled with lower growth and potentially higher borrowing costs, these risks could push the federal government's interest payments-to-revenue ratio to an unsustainable path.
- Needed adjustment at the SLG level could stall. The SLGs are reeling from the loss of oil revenues and, with few policy tools and generally weak public financial management, adjustment has been slow. In 2015, the FGN addressed salary arrears of SLGs through a partial bailout and facilitated the restructuring (longer maturities and lower rates) of commercial bank loans (N575.52 billion, 0.6 percent of GDP) to 23 states. Already wage arrears are reported to have started to accumulate again and would impact household consumption (the public sector provides the most reliable income flows to employees' villages). Lack of timely or accurate data makes it difficult to assess the degree of adjustment needed—or the stock of cumulated arrears—at the SLGs.
- While banks (apart from two) remain adequately capitalized, rising NPLs and reduced creditworthiness of borrowers suggest some increase in vulnerabilities in the banking system and could dampen private sector credit growth—a doubling of NPLs from the corporate sector could reduce the ability of banks to extend credit by 11 percent. Further, with firms much more leveraged and exposed to FX debt (partly explained by global liquidity conditions), they are

more vulnerable to changes in external liquidity conditions and the exchange rate. Consequently, weaker profit margins/retained earnings and lower credit growth, both formal and informal, could constrain private investment and growth (Figure 3, Box 1 and SIP).

- There is a risk of a disorderly adjustment of the exchange rate. The combination of a wider fiscal deficit and accommodative monetary policy with a fixed exchange rate could lead to further pressure on the exchange rate, inflation, real appreciation of the naira, widening of the current account deficit, deepening distortions in access to foreign exchange, and further pressure on the exchange rate.

Figure 3. Nigeria: Corporate Sector Vulnerabilities

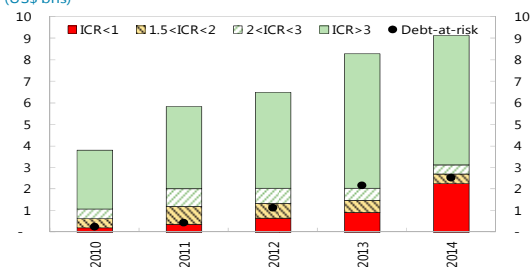
Firms are in much weaker conditions than in 2008-09, making them more vulnerable to the oil price shock.



Sources: Enterprise Survey; and IMF staff calculations.

Indeed, an analysis of subsample of firms suggests a sharp increase in highly vulnerable debt (e.g., ICR<1) in 2014.

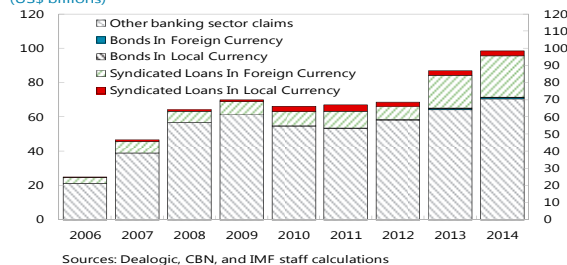
Breakdown of debt by Interest Coverage Ratio (ICR)
(US\$ bns)



Sources: Orbis, and IMF staff calculation

Firms are more leveraged and exposed to FX debt, making them more vulnerable to changes in external conditions.

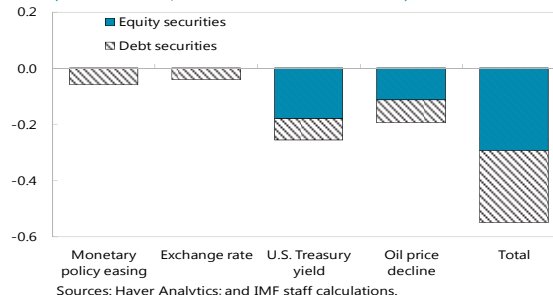
Nigeria Non-Financial Sector: Total Debt Outstanding
(US\$ billions)



Sources: Dealogic, CBN, and IMF staff calculations

Portfolio flows are highly sensitive to U.S. treasury yield, making them vulnerable to normalization of UMP.

Portfolio Inflows Sensitivity to Shocks
(Percent of GDP; one standard deviation shocks)



Sources: Haver Analytics; and IMF staff calculations.

C. Spillovers

- Inward spillovers from changes in global liquidity conditions. Nigeria saw large portfolio inflows in 2012-13 and outflows in 2014-15, reflecting both “push” and “pull” factors, such as favorable domestic and external financial conditions, expected high growth rates and oil prices, and overall positive sentiment toward emerging markets. Going forward, the risks are tilted to sluggish net capital flows (SIP on Capital flows).
- Outward spillovers via regional trade channels. The foreign exchange restrictions are impacting exporters in trading partners such as South Africa, while the growth slowdown is adversely impacting growth in neighboring countries, mainly through informal trade and rapidly growing cross-border bank channels—for example, it is estimated that a 1 percent reduction in Nigeria’s growth generates a 0.3 percent reduction in Benin’s growth.
- Outward Spillovers to the region via financial channels. While the funding model appears to mitigate spillover risks through financial channels, the growing cross-border activity of Nigerian-based banks poses regulatory and supervisory challenges.¹ Nine banks have a significant presence in Benin, the Gambia, Ghana, Liberia, and Sierra Leone. For example, United Bank of Africa has a meaningful market share (assets between 3 percent and 7 percent of GDP) in Liberia, Benin, and Burkina Faso, while Guaranty Trust Bank is systemically important (assets greater than 7 percent of GDP) for the Gambia.

POLICY DISCUSSIONS: URGENCY IN DEALING WITH THE IMPACT OF THE OIL PRICE SHOCK

The large permanent terms-of-trade shock requires a significant macroeconomic adjustment. It is important to initiate urgently an integrated package of policies centered around: (i) a fundamental change in the nature of government; (ii) reducing external imbalances (including real exchange rate realignment); (iii) further safeguarding the resilience and improving the efficiency of the banking sector; and (iv) implementing structural reforms for inclusive growth. The policy measures envisaged in the draft 2016 budget with aggressive revenue mobilization efforts and a shift from recurrent to capital spending are in the right directions, though more is needed.

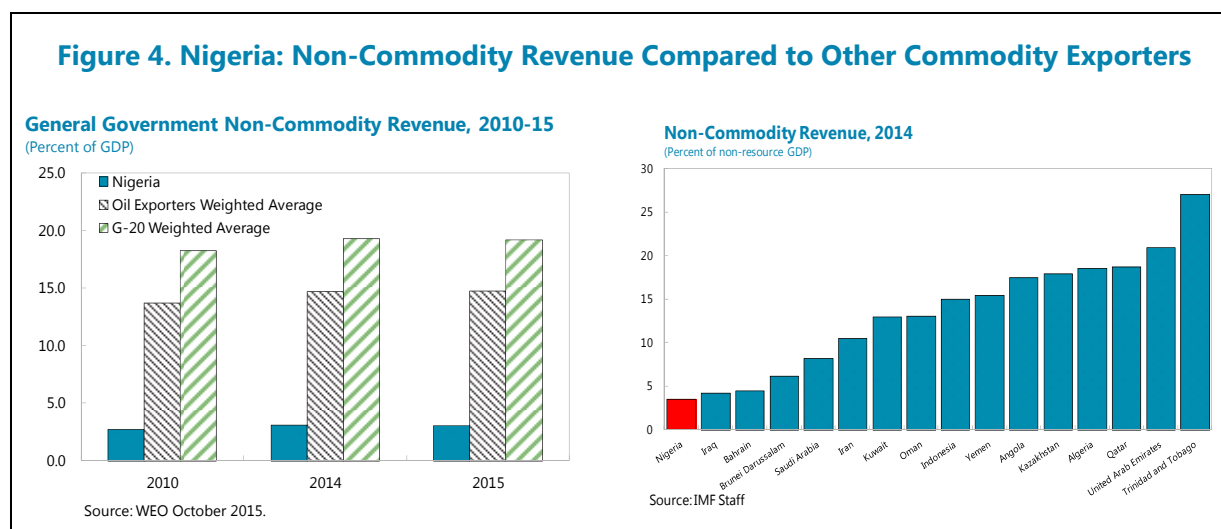
A. Changing the Nature of Government

12. The urgently needed near-term fiscal adjustment should be used to jump start medium-term fiscal policy goals—delivery of key public services. The new reality of low oil prices and low oil revenues means that the nature of government—all tiers of government—needs to fundamentally change. The fiscal challenge is no longer about how to divide the proceeds of Nigeria’s oil wealth, but what needs to be done to effectively deliver public services, be it in

¹ IMF (2015), *Pan-African Banking: Opportunities and Challenges for Cross-Border Oversight*.

education, health, or infrastructure. In this context, immediate fiscal adjustment is unavoidable. With the lowest non-oil revenues among major commodity producers (Figure 4) and consolidated government spending already relatively low (11½ percent of GDP in 2015), the fiscal adjustment should be tilted to raising revenues.

13. A fiscal adjustment of about 3 percent of GDP is needed to ensure medium-term debt sustainability. While public debt is low at 14.4 percent of GDP, the FGN interest payments-to-revenue ratio has increased significantly to about 32 percent. With the sharp decline in the growth rate and despite the recent reduction in domestic real interest rates, the overall primary balance required to keep debt on a sustainable path is now at about -1 percent of GDP (see Annex III). This implies that the primary balance (currently at about -4 percent of GDP) needs to be adjusted by 3 percent of GDP. The 3-percent fiscal adjustment will also ensure that the long-term management of the oil wealth remains sound and sustainable (SIP on fiscal rules). Efforts toward fiscal consolidation in the draft 2016 budget are in the right direction, but with oil prices expected to remain low (and below oil price in the draft budget) more will be needed.



14. The composition of the adjustment should reflect a realistic pace for raising non-oil revenue, which is critical to allow budget to be implemented. At just 4 percent of GDP, non-oil revenues are simply too low for the government to be able to meet its expenditure priorities, including addressing lagging indicators for infrastructure and social development (Figure 4).² Reforms could target a non-oil revenue-to-non-oil-GDP ratio that is more in line with that of peers and yet achievable, such as 8 percent over the medium term (against a target of 6.4 under the current policies). Such an objective could be achieved, as a priority, by raising the standard VAT rate initially from 5 percent to 7.5 percent and further over the medium term to provide a strong revenue

² The World Bank estimates that capital expenditure of about \$14 billion a year for over a decade is needed to close identified infrastructure gaps (Foster and Pushak, 2011).

base for SLGs (85 percent is distributed to SLGs),³ in addition, broadening the base (from currently 16 percent of GDP to about 50 percent of GDP), and revamping the design to allow the offsetting of input tax credits.⁴ Another priority is the strengthening of tax administration for corporate income tax and customs taxes and excises, which can increase collection efficiency by 20 percent by closing loopholes, reducing tax exemptions, and improving compliance. In particular, as an immediate revenue protection measure government could announce a moratorium on new tax incentives, which would stem revenue losses until an overall review of the Nigerian income tax system is concluded. While the draft 2016 budget prioritizes early action on administrative improvements—and steps are underway—adjustment in tax rates could provide greater certainty that revenue objectives could be achieved.

Authorities' views: The authorities acknowledged the importance of non-oil revenue mobilization, especially in the context of permanently lower oil prices. They are open to consider an increase in the VAT rate over the medium term, but believe that a sufficient increase in revenue effort can result immediately from strengthening collection efficiency, with a focus on broadening the base, improving compliance, closing loopholes, and reducing tax exemptions.

15. Streamlining recurrent expenditure is key to ensure the efficiency of public service delivery and foster fiscal adjustment.

- The establishment of an Efficiency-Unit is a promising and important initiative to streamline the cost of government and improve efficiency of public service. A mechanism could also be introduced to promote cooperation with SLGs, strengthening expenditure rationalization across tiers of government. The broader streamlining review could also incorporate a strategic prioritization of spending towards high sustained growth and social development.
- Tax expenditures could be reduced to create space for higher-priority spending. Tax exemptions/incentives should be streamlined and phased. Where they exist, sunset clauses should be well-specified, and there should be a strict cost-benefit assessment, with strong monitoring of outcome-based performance indicators.
- Transfers should be well targeted. In particular, continuing the move (in the draft 2016 budget) to eliminate resources allocated to fuel subsidies would allow spending on innovative social programs for the most needy and for other public services. With regulated prices only just covering current costs, any increases in international prices (and/or currency depreciation) will require a decision on whether to discontinue the subsidy regime or request a supplementary budget (as occurred in 2015).

³ The average VAT rate in ECOWAS (excluding Nigeria) is 16½ percent.

⁴ Broadening the VAT base entails enforcing compliance across all tax types and taxpayers categories by focusing on audits and clearing backlogs; improving the registration of all taxpayer categories by focusing on unregistered corporate and other relevant governmental agencies; and using technology to block leakages through the introduction of the Auto-VAT collection platform for new sectors such as telecoms, power, hospitality, e-commerce, and financial services.

Authorities' views: The authorities indicated that in the Medium Term Expenditure Framework (MTEF) for 2016-18, recurrent expenditure as a share of nominal GDP is projected to be broadly contained, from 2.6 percent of GDP in 2015 to 2.3 percent in 2018 (based on authorities GDP numbers). The authorities see scope for streamlining further, beyond measures reflected in the draft 2016 budget. They noted that they have already taken steps to contain recurrent expenditure at the Federal level through a Zero-Based Budgeting approach. On fuel subsidies, they noted that no provision is needed, given low oil prices. They stressed, however, that they would be clearing arrears to oil marketers, and reviewing product pricing on a quarterly basis.

16. Capital expenditure should focus on high-impact and high value-added projects. Staff supports the government's focus on power, integrated transportation (roads, rail, air, and ports), and housing, but noted the importance of ensuring the return on investment remains high. In this respect, staff welcomes the emphasis on monitoring and evaluation at the Ministry of Budget and National Planning. Staff also emphasizes the publication of those reports to improve transparency and public awareness of how tax money is used.

Authorities' views: The authorities agree that the process of implementing capital expenditure needs to improve in order to deliver the highest payoffs and indicated that publication of reports will be on a quarterly basis. They have given spending priority to the completion of high impact projects that are near completion and are streamlining the process to reduce the implementation delays.

17. SLG finances remain a concern, with the risk of deepening arrears and, potentially constitute an important contingent fiscal liability. The combination of loan restructuring and soft loans provided during 2015Q3 to clear the wage arrears has improved current cash flows for the SLGs, but mortgaged a portion of future revenues and left open the potential for moral hazard. With data on SLGs sparse and varied, a clear picture has not emerged on how SLGs plan to adjust their spending and increase internally generated revenues to manage the projected lower oil revenue allocations. Staff supports an orderly adjustment of sub-national budgets, through emphasis on raising VAT receipts, encouraging reform of budget preparation and execution, and strengthening public financial management (including through technical assistance on TSA and cash management, a capturing of all committed (multi-year) liabilities, and strengthening of budget preparation and reporting). Further, terms for emerging assistance could be strengthened to enhance accountability and reduce the likelihood for additional bailouts.

Authorities' views: The authorities expressed great concern about the sustainability of SLG finances. In particular, they noted that they intend to strengthen enforcement of guidelines that require bank loans to be spent for investment—including withholding irrevocable standing payment orders for non-investment-related loans—and to improve transparency and accountability of state government spending. They inquired about best practices in countries with federation structures, while noting that the best fora to discuss these issues with state governors are the Federal Accounts Allocation Committee (FAAC) and the National Economic Council (NEC) meetings. The authorities also see the need for more technical assistance to improve PFM at the state government level (Box 4).

18. Pursuing a minimum cost, risk-based debt management strategy is crucial. Continuing to rely heavily on domestic financing may constrain the government's ambitious capital investment plan, especially as the exclusion from the J.P. Morgan local government bond indexes could lower participation of foreign investors. Instead staff recommends designing a medium-term debt management strategy (MTDS) that supports financing for development. This may entail rebalancing the external-domestic debt mix with more external debt, though access to international capital markets may be constrained by the deterioration in Nigeria's credit profile and global market conditions.. A joint IMF–WB TA mission visited Abuja in February 2016 to provide assistance in developing a MTDS.

Authorities' views: The authorities are planning on tapping external resources going forward as proposed in the draft 2016 budget. Indeed, for 2016, the authorities plan to secure half of gross financing externally, with 80 percent of that to be secured from multilateral sources. Sukuk and Diaspora bonds are also options being explored. Furthermore, the debt management office (DMO) plans to revise the MTDS to take into account the current state of the economy.

19. The fiscal framework needs strengthening. Under the current arrangement, the budget oil price is highly politicized and subject to negotiations between the Executive and Legislative branches. Fiscal buffers can be used flexibly to fund augmentations, discretionary allocations, subsidies, and social projects. As a result, the medium-term non-oil primary deficit is strongly linked to oil price fluctuations. In addition, the fiscal responsibility law applies mostly to the federal government while fiscal sustainability refers to all three tiers of government. Finally, the Sovereign Wealth Fund (SWF) is small (\$1.75 billion including \$500 million raised through Eurobond issuance) and currently excluded from the fiscal framework.

20. The fiscal responsibility law has not proven sufficient to ensure sustainability of oil wealth. Staff estimates, for example, that a "depoliticized" budget rule using a combination of past 5-year average oil price, the current year oil price, and forward looking 5-year oil-price, together with a structural primary surplus target of 2½ percent of non-oil GDP, is one option (subject to pre-announced exceptions) that could provide a basis for long-term sustainability and the preservation of oil wealth, while limiting the effect of oil price volatility (SIP on Fiscal Rules).

Authorities' views: The authorities welcome the proposal to institutionalize budget oil pricing. It would help reduce the annual friction that results from fixing the oil benchmark and enhance overall budget preparation. However, they expressed caution, highlighting the possible need for flexibility to accommodate extreme price movements and specific circumstances (e.g., security issues), and noted that a similar model was being discussed with the World Bank.

B. Achieving External Adjustment

21. The strategy of supporting a de facto exchange rate peg through exchange restrictions is significantly distorting the economy and weighing on economic activity. The restrictions have served to protect certain sectors of the economy, but many other sectors are cutting production and shedding labor, resulting in cuts to investment and consumption. The BOP impact of reducing imports has been offset to a large extent by lower investment and reduced non-oil exports, as firms have experienced difficulties in obtaining inputs for their production, and some domestic production that was previously exported has been diverted to the local market. Foreign exchange shortages and the associated increase in the spread between the interbank rate and the rates on the BDC and parallel markets have also contributed to higher prices, undermining the desired anti-inflationary impact of the restrictions.

22. Staff views a comprehensive policy response, including tighter monetary policy and adjustment of the exchange rate, as urgently needed to facilitate the much-needed external adjustment. While imports have been contained to some extent through prioritization by the CBN, adjustment has been hampered by the monetary easing and a de facto fixed overvalued exchange rate (see Annex IV), contributing to the combination of above-target inflation, capital outflows, and loss of international reserves.⁵ Meanwhile, monetary easing has failed to spur economic activity due to increased banking system credit to the public sector, deterioration in borrower creditworthiness, and uncertainty over the economic outlook. Adjustment in the exchange rate, accompanied by a tighter monetary and fiscal stance and measures to facilitate removal of the exchange restrictions, would defend reserves, facilitate an orderly adjustment, and permit the return to a normal functioning of the foreign exchange market.

Authorities' views: The authorities consider that the foreign exchange controls have provided necessary breathing space amidst declining oil prices by slowing the loss of reserves, and, in their assessment, stimulating production and employment in some sectors. The authorities note inflation slightly above their target range, but view the recent monetary easing as necessary to buffer the economic slowdown.

23. Exchange system. Nigeria has recently introduced measures in the foreign exchange market that give rise to exchange restrictions and a multiple currency practice (MCP) under Article VIII, Sections 2(a) and 3, of the IMF's Articles of Agreement: (i) an exchange restriction arising from the prohibition to access foreign exchange at the Nigerian foreign exchange markets for the payment of imports of 40 categories of items; (ii) an exchange restriction arising from the rationing of foreign exchange and its allocation based on the CBN's determination of priority categories of

⁵ The estimated exchange rate gap for 2015 as a whole, including the contributions of related policies, was a 15 percent to 20 percent overvaluation. With fundamentals changing over the course of 2015 and into early 2016, especially the continuing low price of oil (the average price for Nigerian oil expected for 2016 based on futures market prices is about 30 percent lower than the average price for 2015), the estimated current account and exchange rate gaps, and the associated balance of payments risks, likely have increased.

transactions; and (iii) an MCP arising from the large spread between the rate set by the CBN for commercial banks, and the rates in the BDC and parallel market. In addition, existing limits on the amounts of FX available when traveling abroad, which cannot be exceeded even upon verification of the bona fide nature of the transaction, also give rise to an exchange restriction under Article VIII.

Authorities' views: The authorities are not requesting Fund approval of the exchange restrictions and MCP. While not committing to a timetable for their removal, the authorities see the exchange measures as temporary and plan to adjust or remove them upon reserves being restored to more adequate levels, supported by strengthened monetary and fiscal policies and planned structural reforms. They also noted that these measures were implemented for balance of payments needs, and are non-discriminatory in implementation.

24. Greater flexibility in the exchange rate is needed to allow the economy to adjust to external shocks. Greater flexibility has pros and cons for commodity-dependent exporters like Nigeria (see Box 5). In staff's view, a more flexible regime would facilitate attempts to diversify the export base and permit the economy to adjust more smoothly to changes in fundamentals, lowering the potential for episodes of exchange rate misalignment and reducing reliance on reserves to buffer external shocks. Increased flexibility would also free up the CBN to focus more on price stability as its primary objective and increase the scope for countercyclical monetary policy. Increasing flexibility could start with implementing a central parity rate within a band, then increasing the width of the band and allowing the central parity to respond to the supply and demand of FX. Such a regime transition should be aided by supporting macroeconomic policies, establishing an alternative nominal anchor, strengthening technical implementation capacity and communications, and adopting measures (for example, to deepen hedging markets) to help the financial, corporate, and household sectors deal with exchange rate volatility.

Authorities' views: The authorities emphasized the role the exchange rate peg had played as a nominal anchor and considered current account and exchange rate gaps to be smaller than estimated by staff. The authorities acknowledged that the price of foreign exchange should reflect changes in economic fundamentals, but expressed concern about the impact of exchange rate volatility on financial and corporate balance sheets.

C. Safeguarding Resilience and Improving Efficiency of the Banking Sector

25. Vulnerabilities are increasing in the Nigerian banking system; although capital remains resilient, liquidity has declined and asset quality has deteriorated. The current economic challenges facing Nigeria represent an ongoing risk to credit quality that could put pressure on the capital adequacy and liquidity of the system, constraining the banks' capacity to extend credit to the private sector.

26. To preserve financial sector stability, the CBN should be ready to promptly address any undercapitalized banks, including by requiring that current shareholders provide new capital. If the necessary capital support is not forthcoming, the CBN should prepare for intervention and resolution (using existing instruments) so as to mitigate adverse spillovers to the wider system.

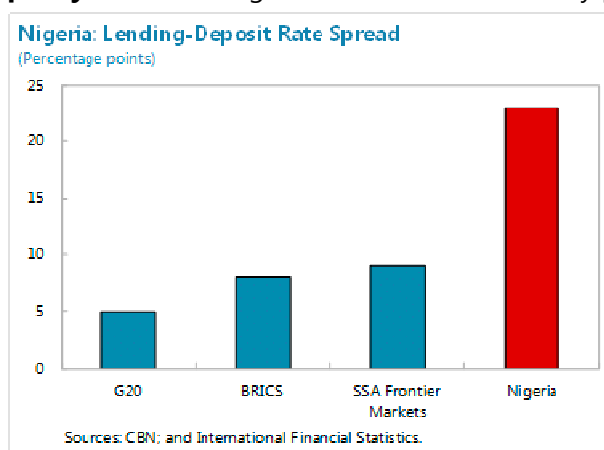
Given the sharp increase in NPLs, the authorities should actively promote corrective action for any bank where NPLs are rising rapidly.

Authorities' views: The authorities conveyed that they are fully aware of the rising risks to the banking sector and remain vigilant. They continue to monitor the health of the banking sector and have taken proactive measures by increasing the general provision for performing loans to 2 percent (from 1 percent).

27. Staff recommends reviewing the framework for the provision of emergency liquidity assistance and ensuring active monitoring of liquidity conditions at weaker institutions to mitigate the potential impact of deposit runs. Staff also recommends advancing efforts to strengthen the legal framework for resolution, following the 2012 FSAP recommendations. Specific actions include enhancing statutory powers to override shareholders' rights, ensuring effective implementation of existing resolution tools, and facilitating an expansion of the toolkit to include mandatory recapitalization; the power to write down capital; the power to carry out a bail-in; harmonization of statutory triggers for resolution across the Banks & Other Financial Institutions Act and the Nigeria Deposit Insurance Corporation Act; and amending the bank liquidation regime to address legal challenges and protracted delays.

Authorities' views: The authorities consider current arrangements are sufficient to pre-empt situations from developing into full blown crises and to provide assistance as necessary.

28. It is important that the authorities increase their emphasis on price stability as the primary, overriding objective of monetary policy. While the legal framework for monetary policy is broadly adequate, in practice the use of multiple instruments—to pursue multiple, sometimes inconsistent, objectives—has sent mixed signals of the policy stance and marred the effectiveness of policy. A clearer focus on price stability and increased use of market-based instruments would assist the CBN in enhancing the credibility that is needed to implement monetary policy. Going forward, staff recommends elaborating a forward-looking monetary policy strategy that provides guidance on the path of monetary policy based on economic conditions and expected monetary policy transmission (see SIP).



Authorities' views: The authorities consider promoting sustainable economic development as within the mandate of the CBN. In their view, the significant impact of the external shock has necessitated supporting growth as an overriding policy objective, even if inflation remains above target for some time.

29. The authorities view subsidized lending/on-lending schemes as promoting development, by reducing the high cost of financing, but these schemes have many adverse effects.⁶ Most recently, a waiver on the Cash Reserve Requirements (CRR) was introduced. That is, banks extending loans to employment-generating activities in preferred sectors (e.g., agriculture, infrastructure, and solid minerals) would be entitled to a reduction on the CRR. These schemes have many adverse effects: they distort the allocation of resources and investment decisions; impose unfairness between recipients versus non-recipients; increase quasi-fiscal expenditure; and create unnecessary uncertainty that impact consumption and investment decisions. Staff recommends encouraging competition among banks and lowering the cost of doing business to help lower the lending-to-deposit rate spread rather than resorting to specific interventions.

D. Implementing Structural Reforms

30. Nigeria suffers from a serious infrastructure deficit (see the 2014 Article IV Staff Report). Without power and transportation, Nigeria's cost of production remains high and domestic production uncompetitive. Various efforts are ongoing and will require a sustained effort over the long term to bridge the substantial deficit. In that regard, prioritization and cost-benefit analysis of potential infrastructure projects are critical. Reducing the cost of production by ensuring functioning transportation and power supply networks will help offset the impact of the appreciation of the real effective exchange rate that occurred over the past five years.

Authorities' views: Relevant ministries such the Budget and Planning, Power, Works, and Housing, and Transportation have started planning for the development of much needed infrastructure. The authorities acknowledge the constrained environment they have to work under and are focusing on prioritizing near-completed, high-impact projects that are consistent with the government development strategy, and on creating an enabling environment to attract investment. They are also reviewing projects suitable for PPPs, and have completed some feasibility studies. The authorities recognize also the importance of monitoring and evaluation (M&E) of projects and to continue publishing those reports periodically to enhance transparency and regain confidence in the government.

31. Access to credit remains poor, especially for Micro, Small, and Medium Enterprises (MSMEs). It is important to continue providing support for MSMEs, promoting the use of financial services, and improving financial infrastructure. Efforts to increase financial inclusion, however, have become more challenging, given that both the corporate and banking sectors are leveraged and impacted by the oil price shock and the consequent slowdown in economic activity.

Authorities' views: The authorities acknowledged the challenges faced by MSMEs in accessing credit. They noted that a number of steps are already being implemented to address these challenges, including establishing the Development Bank of Nigeria (DBN) and the Movable Asset Collateral Registry (MACR) at the CBN. The DBN has received funding commitments of over

⁶ See Nigeria 2014 Article IV Staff Report, Box 2 and Selected Issues for more on the CBN quasi-fiscal activities.

\$1.5 billion (N300 billion) from international finance institutions (IFIs) and the Federal Government of Nigeria and is expected to commence operations by mid-2016. The DBN is expected to provide MSMEs with loans of up to 10 years and up to 18 months moratorium. The MACR is to be launched by the CBN in the first quarter of 2016 and will enable individuals to obtain loans from financial institutions using movable assets and intellectual property as collateral.

32. Given demographics, the pace of job creation needs accelerating. Key initiatives have focused on supporting the agriculture industry, which could reduce migration of youth to the urban areas and lower youth unemployment. Subject to review, it will be important to scale-up recent government pilot programs to improve access to agricultural inputs, the use of conditional cash transfer schemes linked to girls' enrolment in schools, and delivery of gender-based initiatives (Annex V).

33. Plans to improve governance, in particular of the oil sector, should be implemented expeditiously. At the Nigeria National Petroleum Corporation (NNPC), the senior management was replaced and financial management improved by migrating accounting processes to the Treasury Single Account (TSA). The passage of the revised Petroleum Industry Bill (PIB) is also expected to strengthen governance in the sector. The government also took initiatives to strengthen policies against corruption and oil theft. Targeted Anti-Money Laundering/Combating the Financing of Terrorism (AML/CFT) measures can play an important role in tackling theft and corruption in the oil sector by tracing the associated financial flows. Efforts to improve the understanding of the pattern of such flows should be pursued, notably by completing the national risk assessment to enhance the effectiveness of banks' AML/CFT controls and CBN's supervision. Further, AML/CFT risks of BDCs need to be properly mitigated (see Appendix II).

Authorities' views: The authorities highlighted the new administration's commitment to fighting corruption. They view the plan to restructure the NNPC as a promising step forward to enhance transparency and accountability of the oil sector. They concur that effective implementation of targeted AML/CFT measures, including tracing financial flows, could facilitate detection and investigation and help tackle economic crimes such as oil theft and corruption.

34. Enhanced governance and transparency are vital to the transition to a new notion of government. Coordination and cooperation are needed not only within the public sector, but across sectors of society (government, bankers, nonbank private sector, households). Hence, it will be important to communicate the need for reform, while improving transparency. For example, revenue mobilization entails minimizing leakages by improving compliance and enhancing collection efficiency. But improving the transparency of how tax revenue is spent is equally central for gaining credibility, and in turn broadening the tax base. Communicating how tax revenue is allocated to public services and how it is benefitting the people must be an overriding priority for the entire public sector. Robust measures to strengthen anti-corruption legal frameworks and ensure acts of corruption are criminalized (in line with international standards) would help enhance transparency. Further, good practice suggests the importance of requiring senior public sector officials, including those with regulatory mandates, to declare and make public the assets they own.

35. Data compilation and dissemination continue to improve. Further progress is needed in improving data for the external sector assessment: e.g., reducing errors and omissions in the balance of payments by better capturing financial account flows and improving granularity of currency and maturity compositions in the monetary survey. Updating the weights for the consumer price index and resuming the producer price index survey would help improve the real sector assessment. Staff underscored continued Fund support to help strengthen institutional capacity, including efforts to improve further the publication of a number of Enhanced Data Dissemination System (e-GDDS) data categories, and highlighted the role of the AFRITAC W2 and the importance of strong participation by Nigeria in the Steering Committee of the Center.

STAFF APPRAISAL

36. Nigeria's economy has been hit hard by the sharp decline in oil prices. Reflecting the continued heavy dependence of the fiscal and external sector accounts on oil receipts, the oil price collapse resulted in a doubling of the general government deficit, a sharp reduction in public investment, and a transition to a deficit on the current account. With uncertainty about policy direction, foreign portfolio flows slowed significantly, and reserves fell. Growth is estimated to have slowed sharply—reflecting fuel shortages in the first half of the year and less availability of foreign exchange—weakening corporate balance sheets, lowering the resilience of the banking system, and likely reversing progress in reducing unemployment and poverty. At the same time, inflation increased, ending above the CBN's medium term target range.

37. Given the prospects for oil prices remaining lower-for-longer, continuing risk aversion by international investors, and downside risks in the global economy, the government needs to adroitly manage the immediate impact of the shocks, while implementing structural reforms for economic resilience. Growth is projected to soften in 2016, but could rebound gradually in 2017, assuming the implementation of the measures envisaged in the draft 2016 budget—especially priority infrastructure investments—continued progress with governance reforms in the oil sector, and with uptick in oil prices as currently projected. Key risks to the outlook include lower oil prices, shortfalls in non-oil revenues owing to uncertain yields from administrative measures, a further deterioration in finances of State and Local Governments, resurgence in security concerns, and policy paralysis.

38. Addressing the macroeconomic challenges requires urgent action to introduce and implement an appropriate and coherent set of policies. Given the large permanent terms-of-trade shock and the significant adjustment needed, it will be important to initiate in the near-term an integrated package of policies centered around: (i) safeguarding fiscal sustainability while improving public service delivery; (ii) reducing external imbalances; (iii) strengthening resilience and further improving efficiency of the banking sector; and (iv) advancing structural reforms. Together these measures could reduce macroeconomic imbalances while supporting sustained growth and job creation. Delaying the needed adjustment would run down fiscal and external buffers, thereby heightening vulnerabilities.

39. Establishing medium-term fiscal policy goals that support fiscal sustainability is a priority, with a critical need to raise non-oil revenues. Measures should be implemented to: (i) contain the fiscal deficit across all tiers of government; (ii) boost the ratio of non-oil revenue to GDP, through a combination of improvements in revenue administration, broadening the tax base, and adjusting tax rates; (iii) rationalize expenditure, including through curtailing of waivers and exemptions, and implementing an independent price-setting mechanism to minimize/eliminate petroleum subsidies; (iv) adopt safety nets for the most vulnerable; and (v) foster transparency and enhanced accountability and an orderly adjustment of sub-national budgets, by encouraging reform of budget preparation and execution and strengthening public financial management.

40. Achieving external adjustment requires a renewed focus on ensuring the competitiveness of the economy, including greater flexibility in the exchange rate, and a more forward-looking monetary policy strategy. The combination of monetary easing, an inflexible exchange rate regime, and exchange restrictions has failed to spur economic activity, while fueling expectations of currency devaluation, and casting doubt on the authorities' commitment to their inflation objective. This has eroded external buffers and given rise to a situation where the external position is weaker than what would be consistent with Nigeria's fundamentals and desirable policy settings. With the implementation of a credible package of policies to support the adjustment of the economy to the large, permanent terms-of-trade shock, the exchange rate should be allowed to adjust to the underlying fundamentals and exchange restrictions removed, facilitating the diversification of the economy. A forward-looking monetary policy strategy should be elaborated to help improve its effectiveness.

41. Staff does not support the policies that have given rise to the exchange restrictions and MCP. Staff urges the authorities to articulate a speedy and monitorable exit strategy for their removal, thus allowing an improved functioning of the foreign exchange market. This would help narrow the exchange rate spread between the BDC/parallel and the interbank markets.

42. Advancing structural reforms is also key to a transition to a lower oil-dependent, competitive, investment-driven economy. The authorities have made progress in that regard, especially in anti-money laundering and financial sector supervision (Annex I). The authorities' strategy appears appropriate, focusing on: (i) promoting targeted and core infrastructure (in power, integrated transport network, housing); (ii) reducing business environment costs through greater transparency and accountability, encouraging value-chain sectors linkages across sectors (agriculture and manufacturing); and (iii) promoting employment of youth and female populations. Emphasis should be sustained on improving the efficiency of public sector service delivery, accelerating and broadening public financial management reforms, improving effective capacity at sub-national levels of government—and on creating an enabling environment to attract investment. In addition, adopting a sound Petroleum Industry Bill (PIB) along with strong measures to tackle theft and corruption in the oil sector, including by applying targeted AML/CFT measures, will help strengthen the regulatory framework for the oil sector and enhance its transparency and integrity.

43. Further strengthening the regulatory and supervisory frameworks can help foster a strong and resilient financial sector. Greater efficiency in the functioning of the banking system can help support private sector investment across production segments (including MSMEs) at reasonable financing costs. With declining asset quality a concern in a low growth environment, intensified monitoring of banks and enhanced contingency planning and resolution frameworks become even more critical for handling emergency assistance.

44. Progress has been made in improving the quality and availability of economic statistics. The authorities' commitment to implement the Enhanced General Data Dissemination System (e-GDDS) and the disseminating of a National Summary Data Page (NSDP) on the National Bureau of Statistics website, are welcome steps. Further efforts are needed, however, to improve BOP data, in particular financial account flows, and coverage of the subnational governments' fiscal accounts.

45. It is recommended that the next Article IV consultation take place on the standard 12-month cycle.

Box 1. Nigeria: Financial Sector Vulnerabilities

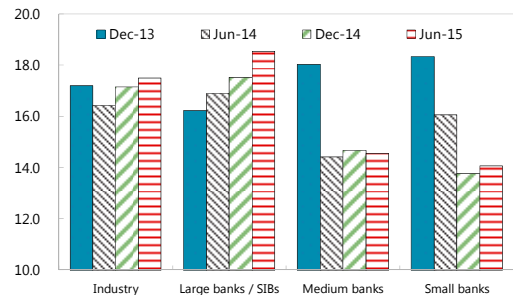
The authorities regularly assess the resilience of the banking sector to a range of shocks. The stress tests described in the June 2015 Financial Stability Report, highlight that, relative to December 2014, overall vulnerabilities, as well as those of smaller banks, have increased. Staff estimates that, if needed, recapitalization of all small banks could cost about 0.5 percent of GDP.

- **Resilience to general credit shock.** This test shows that, on average, large- and medium-sized banks would remain resilient to a generalized credit shock involving a 100 to 200 percent increase in NPLs. However, the position of smaller banks has deteriorated significantly relative to December 2014, making them more at risk of becoming insolvent (Figure).
- **Resilience to a default on oil and gas loans.** Reflecting the concentration of lending to the oil and gas industry (comprising 24 percent of total loans), the authorities assess the impact of two shocks on large and medium-sized banks. An extreme event (50 percent default on these loans) would reduce the CAR of large banks from 18.6 to 14.5 percent and of medium-sized banks from 14.6 to 11.25 percent. This would mean that large banks would fall below the prudential minimum of 16 percent (including the capital surcharge for domestic systemically important banks (DSIBs)), but would remain well capitalized by international standards, and the Basel II capital requirement framework. However, an extreme tail event (100 percent loss) would wipe out the total capital of these banks.
- **Resilience to liquidity risk.** Liquidity conditions have tightened and there are signs that individual banks' cost of funding has increased—between December 2014 and June 2015, banks' net interest margin relative to gross income fell from 51 to 43 percent, while interest expenses rose from 43 percent to 54 percent. While the relatively high prudential standards mean the system as a whole can withstand a 30-day cumulative liquidity shock, individual banks' positions vary considerably. In particular, four banks would experience a liquidity shortfall following a 1-5 day liquidity shock, while six would have shortfalls following a cumulative 30-day shock. Consequently, conditions merit ongoing monitoring.

Banks also remain exposed to state governments. Although the potential for these loans to develop into non-performing loans has been mitigated by the recent restructuring of loans to 23 states into FGN bonds, the credit quality of any new loans to states remains weak without a clear fiscal strengthening plan.

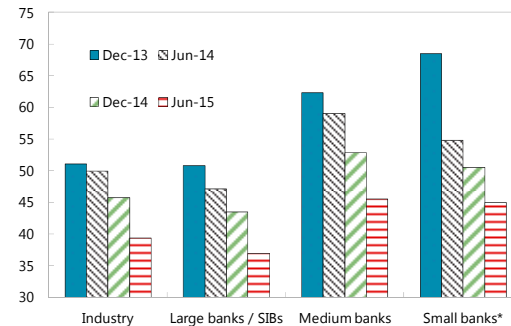
Box 1. Nigeria: Financial Sector Vulnerabilities (concluded)

Capital Adequacy Ratios (%)



Note the minimum prudential requirement for banks with an international banking license is 15 percent and 10 percent otherwise.
Source: CBN

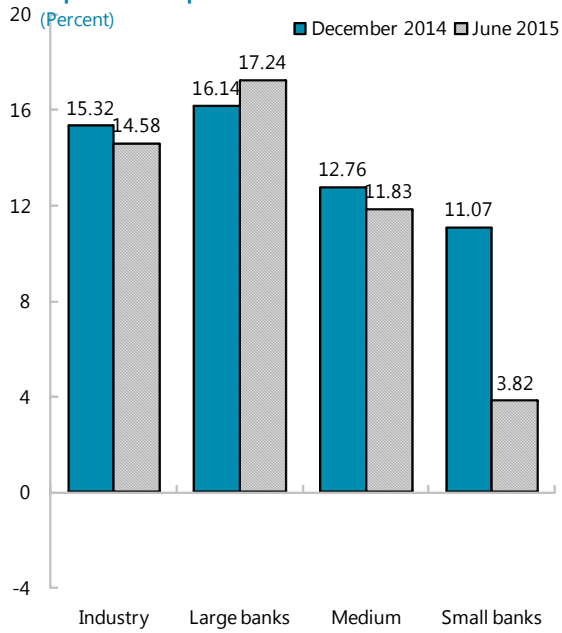
Liquidity Ratio (%)



Note the minimum prudential ratio is 30 percent.
Source: CBN

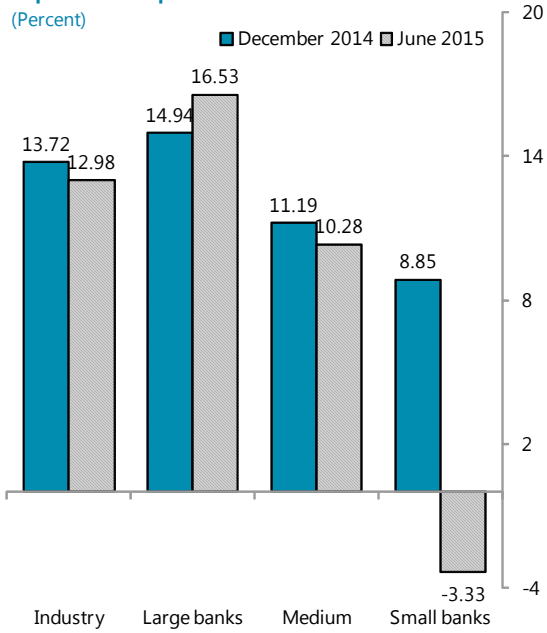
CAR: Impact of a General Credit Shock

Impact of a 100 percent increase in NPLs



Source: CBN

Impact of a 200 percent increase in NPLs



Box 2. Nigeria: The Pace of Adjustment

Economic developments over the next several years will be significantly impacted not just by the policies implemented but also the timing of their implementation. The baseline scenario presented in the report reflects the delay in the passage of the 2016 budget (although some of the policy initiatives are underway). This box presents an alternative scenario in which a more rapid adjustment, in line with Fund advice, is implemented. These scenarios are designed to illustrate the policy trade-offs and the importance of timely policy implementation to lower risks.

In the baseline scenario: VAT compliance improves from 16 percent to 50 percent of GDP over the medium term; the collection efficiency of the corporate income tax (CIT) doubles, by reviewing existing CIT incentives and placing a moratorium on new ones; the effective collection rate of customs rises by one-fifth; there are no fuel subsidy payments; and recurrent expenditure follows the 2016-18 MTEF. The baseline assumes no change in the nominal exchange rate in 2016 and 2017 and no adjustment in the real exchange rate in the medium term. Further, inflation rises slightly beyond the target range, as monetary policy eases to stimulate the economy.

The adjustment scenario comprises; in line with staff advice: (i) more aggressive revenue mobilization (e.g., raising the VAT rate to 10 percent by 2018 and 15 percent by 2021); (ii) upfront exchange rate adjustment in 2016 (assumed here for illustrative purposes to be a 15 percent real adjustment in 2016 and along with fundamentals thereafter); and (iii) a tight monetary policy stance to support orderly

adjustment of exchange rate. These measures would help rebuild external buffers (despite the low elasticity of exports to depreciation), create fiscal space to meet social and development needs, induce capital inflows to support investment, and bring debt service to a sustainable path. The revenue mobilization and monetary tightening would limit the positive impact on growth in the near term.

Nigeria: The Medium-Term Scenarios, 2014–18

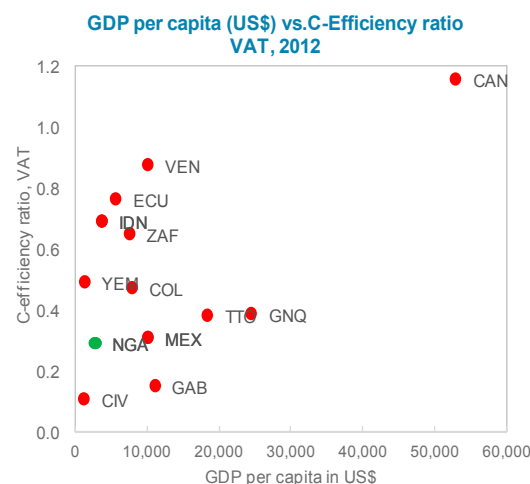
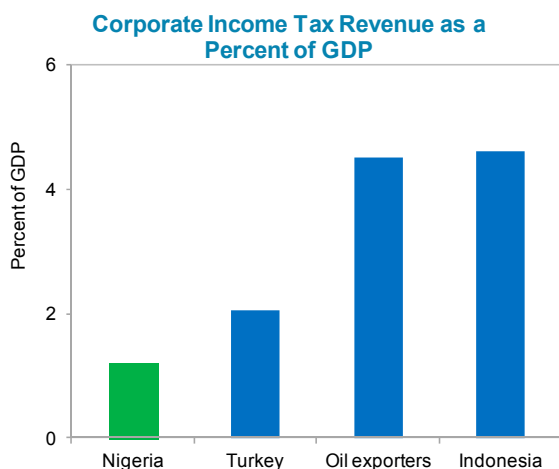
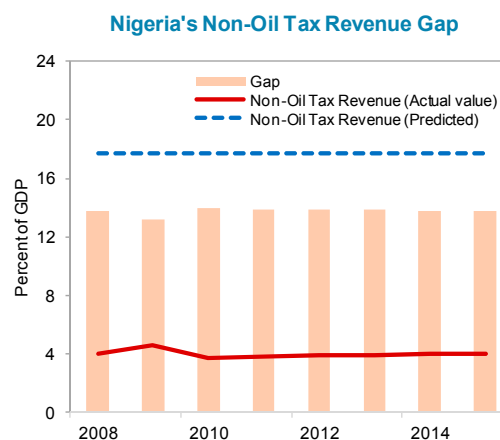
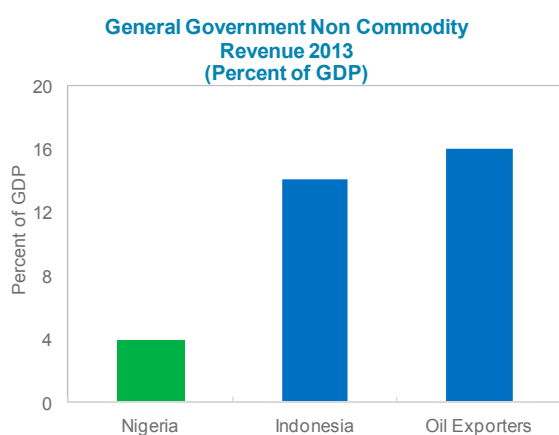
	2014	2015	2016	2017	2018	2016	2017	2018
	Act.	Prel.	Baseline			Adjustment		
National income and prices (Annual percentage change, unless otherwise specified)								
Real GDP (at 2010 market prices)	6.3	2.7	2.3	3.5	3.9	2.3	3.5	4.9
Non-oil GDP	7.3	3.6	3.1	3.5	3.7	3.1	3.5	4.9
Investment and savings (Percent of GDP)								
Gross national savings	16.0	12.0	10.8	11.5	11.8	11.1	12.6	13.7
Investment	15.1	14.5	13.6	13.2	13.0	13.6	13.4	13.8
Current account balance	0.2	-2.4	-2.8	-1.8	-1.2	-2.5	-0.8	-0.1
Consolidated government operations (Percent of GDP)								
Total revenues and grants	10.5	7.8	5.9	6.8	7.3	5.9	8.0	9.6
Total expenditure and net lending	12.3	11.5	10.3	10.9	11.1	10.3	11.1	11.6
Overall balance	-1.8	-3.7	-4.4	-4.0	-3.8	-4.4	-3.2	-1.9
Anchor: non-oil revenue (percent of non-oil GDP)	4.5	4.4	4.6	5.1	5.5	4.6	6.0	7.5
Public gross debt (percent of GDP)	12.4	14.4	17.0	18.6	20.0	17.7	18.8	18.4
FGN interest payments (percent of FGN revenue)	27.1	32.1	38.0	40.6	42.0	38.3	37.2	35.1
Money and credit (Change in percent of broad money at the beginning of the period, unless otherwise specified)								
Broad money (percent change; end of period)	20.4	5.9	14.2	16.5	16.2	5.9	14.2	15.5
Net foreign assets	-10.9	-6.8	-7.4	-2.4	-0.4	2.6	8.1	9.3
Net domestic assets	31.1	12.7	21.5	18.9	16.6	3.3	6.1	6.3
Credit to the private sector (y-o-y,%)	32.5	0.1	5.3	2.1	7.1	0.9	-3.0	9.7
Velocity of broad money (ratio; end of period)	4.2	4.4	4.4	4.4	4.4	4.7	4.7	4.7
External sector (Annual percentage change, unless otherwise specified)								
Price of Nigerian oil (US dollar per barrel)	100.6	53.1	36.1	43.3	46.1	36.1	43.3	46.1
Gross international reserves (US\$ billions)	34.3	28.3	21.5	19.5	18.1	24.7	29.0	34.5
(equivalent months of imports of G&Ss)	6.1	5.2	3.7	3.2	2.9	4.8	5.4	6.1

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

Box 3. Nigeria: Non-oil Revenue Mobilization¹

Nigeria’s non-oil revenue is one of the lowest among major commodity producers. In 2014, non-oil tax revenue was estimated at only 4 percent of GDP, far below the average of 15 percent of GDP for other oil exporters. Increasing fiscal space through more non-oil revenue collection holds the keys for a growth and social-friendly orientation of the Nigerian economy.

There is scope to improve Nigeria’s revenue-to-GDP fourfold. Crivelli and Gupta (2014) study the non-resource tax effort in 35 resource-rich countries (including Nigeria) over 1992-2009 and find that each additional percentage point of GDP of resource revenue reduces non-resource revenues by 0.3-0.4 percentage points of GDP. In addition, the share of agriculture in GDP is negatively related to tax revenue, with magnitude similar to the impact of resource revenue, while inflation is positively related. Applying their estimated elasticities to Nigeria’s current economic conditions suggest that non-oil tax potential could be about 18 percent of GDP.



¹Prepared by S. Tapsoba and K. Young.

Box 3. Nigeria: Non-oil Revenue Mobilization (concluded)

The low tax performance in the non-oil sector reflects a combination of tax rates, exemptions, and enforcement issues on VAT, CIT, and customs and excises. VAT collection efficiency is low compared to other oil exporters, owing to the rate and design. At 5 percent, Nigeria has one of the lowest VAT rates in the World, well below the regional ECOWAS requirement of 10 percent. In addition, the current VAT is not neutral, as it disallows input tax credits to businesses on purchases of capital goods, thereby imposing a consumption tax on real investments and undermining competitiveness. CIT performance is below peers. Despite a rate slightly above comparators, CIT revenue is much lower (1.5 percent of GDP against an average of 5 percent in other oil exporters). The wide use of exemptions and poor compliance are two important factors explaining the relatively low CIT collection.

In the medium term, fiscal reforms should focus on increasing collection efforts on various taxes, including improving compliance across the board. Raising the standard VAT rate and permitting the offsetting of input tax credits could be early actions, while a tax on mobile phone transactions could be introduced gradually. In addition, CIT collection could benefit from the closing of loopholes, reducing tax exemptions, and improving compliance, while excise taxes could be increased on alcohol and tobacco.

²In this regard, anti-money laundering framework provides useful tools to detect and recover tax evaded.

Box 4. Nigeria: Capacity Building in Public Financial Management

The IMF's ongoing technical assistance program in public financial management has helped establish a strong partnership between the Nigerian authorities and the IMF to implement reforms that would reinforce aggregate fiscal discipline, facilitate a more strategic allocation of expenditure, and help build the foundation for greater fiscal transparency and accountability in Nigeria.

- Since 2010, the IMF's Fiscal Affairs Department (FAD) has been supporting the Federal Government of Nigeria (FGN) in the design and implementation of public financial management reforms, specifically related to treasury single account (TSA), cash management, and budgeting. Starting in 2015, FAD and the IMF's regional technical assistance center (AFRITAC West2) based in Accra have been supporting the authorities' efforts to extend these reforms to interested States.
- A FAD technical assistance mission visited Abuja in February 2015 and reviewed the progress made by FGN in TSA and cash management. It recommended enhancing functionalities in the Government Integrated Financial Management Information System (GIFMIS), and advised a phased approach to piloting program-based budgeting, starting with a few sector ministries.
- In response to a request from the Federal Ministry of Finance, AFRITAC West2 fielded several short-term expert missions during September–December 2015 to assist the Kaduna State authorities with establishing a TSA system along the lines being implemented by the FGN and developing associated documentation, including a TSA manual. Following the Kaduna State initiative, several States have expressed an interest in establishing TSA systems.
- Staff have remained engaged, including through presentations on Nigeria's macroeconomic context and international experience with TSA reforms to the National Economic Council.
- More recently, a FAD mission visited Abuja (January/February 2016) to advise on next steps in TSA, cash management, and budget preparation, options for implementing TSA reform in States, and a framework for a spending review, to identify potential savings from fiscal consolidation and unlock fiscal space for spending on developmental needs.

Box 5. Nigeria: What Role for the Exchange Rate in Commodity Exporters?

Commodity exporters have adopted a range of approaches to achieving the external adjustment following the sharp decline in commodity prices since mid-2014. Independent of the exchange rate

regime, establishing a credible package of macroeconomic policies is critical to achieving a smooth adjustment. Countries that had flexible regimes—such as Ghana, South Africa, and Zambia—have persevered with their floats and in some cases seen significant depreciations amplified by the difficulty in establishing a credible package of supporting policies. Some who operated more managed floats, such as Kazakhstan and Russia, have introduced greater flexibility into their regimes. Several countries with soft pegs, including Algeria, Angola and Azerbaijan in addition to Nigeria, have sought to preserve a peg by allowing a limited number of realignments and seeking to protect reserves through restrictions on access to foreign exchange. Other countries with pegged regimes, such as CEMAC and the GCC countries have preserved their long established pegs using a combination of running down reserves and fiscal adjustment.

Greater exchange rate flexibility in a commodity exporter creates both pros and cons that need to be weighed carefully. In the case of Nigeria:

- It **cannot** on its own increase non-oil exports and thereby “cushion” the size of import contraction as high costs of production (due to domestic supply-side bottlenecks) need to be addressed. Greater flexibility may stimulate non-oil exports to some extent, but the immediate impact would be limited by the narrow non-oil export base. Structural reforms to improve productivity and diversify the export base would have a greater impact.
- It **cannot** get rid of the two-tier foreign currency market and arbitrage opportunities, as long as the CBN continues to sell in the foreign currency market at a specific price or at a range that is not aligned with the underlying fundamentals. As the government (hence CBN) is the dominant recipient of foreign currency income, an alternative transparent mechanism for the CBN to supply the market could be identified.
- It **can** create fiscal space, for development spending, through increasing the naira value of oil receipts. This would be partially offset by higher Naira external debt and fuel subsidy payments.
- It **can** aggravate corporate and financial sector vulnerabilities for those with forex exposures. This impact has already occurred but may not yet be recognized on balance sheets.
- It **can** signal to the market that the medium-term development strategy includes a clear strategy for forex earnings. Without it, access and the cost of external borrowing will become increasingly unfavorable and will limit Nigeria’s (and West Africa’s) full growth potential.
- It **can** reduce overvaluation that is contributing to keeping foreign capital from flowing in, causing Nigerians to both keep their FX offshore and hold back from domestic investment owing to the uncertainty, and contributing to speculative demand for foreign exchange.
- It **can** achieve a better allocation of scarce FX among competing demands, relative to the current policy of restrictions and priority allocations. Imposing foreign exchange restrictions on certain imports could look appealing, but is costly. These measures should be temporary, to minimize distortions and limit their adverse impact on private sector activity and investment.
- It **can** remove the risk of rent seeking by enabling equal access to forex rather than just for a select group who have preferential access.

Table 1. Nigeria: Millennium Development Goals, 1990-2014

	1990	2000	2010	2014	Comments
Goal 1: Eradicate extreme poverty and hunger					
Malnutrition prevalence, weight for age (% of children under 5)	35.0	27.0	27.0	25.5	Goal 1 is not likely to be achieved , though there is no poverty measure that is comparable across time.
Poverty headcount ratio at \$1.25 a day (PPP) (% of population) ¹	62.0	..	68.0	..	
Poverty headcount ratio (adult equivalent) ¹	..	..	46.0	33.0	
Goal 2: Achieve universal primary education					
Primary completion rate, total (% of relevant age group)	..	..	74	74.0	Goal 2 is not likely to be achieved . In fact the primary completion rate has declined since 2005.
School enrollment, primary (% net)	..	65.0	63.9	68.7	
Goal 3: Promote gender equality and empower women					
Ratio of female to male primary enrollment (%)	79	82	92	..	Goal 3 is closed to be achieved for children 5-14 year old . GHS-Panel 2012/13 shows the ratio is at 97 percent.
Ratio of female to male secondary enrollment (%)	78	85	89	..	
Goal 4: Reduce child mortality					
Immunization, measles (% of children ages 12-23 months)	54	33	56	51	Goal 4 is not likely to be achieved , as mortality of children under 5 has declined only by 47 percent since 1990 (as opposed to 2/3).
Mortality rate, infant (per 1,000 live births)	127	113	83	72	
Mortality rate, under-5 (per 1,000 live births)	214	188	132	113	
Goal 5: Improve maternal health					
Maternal mortality ratio (modeled estimate, per 100,000 live births)	1100	970	610	560	Goal 5 is not likely to be achieved , as maternal mortality has declined only by 49 percent since 1990 (as opposed to 3/4).
Contraceptive prevalence (% of women ages 15-49)	6	15	15	19	
Goal 6: Combat HIV/AIDS, malaria, and other diseases					
Children with fever receiving antimalarial drugs (% of children under age 5 with fever)	..	..	49	..	Goal 6 is not likely to be achieved , as only a half of children with fever received antimalarial drugs in 2010. Not enough information on universal access to treatment for HIV/AIDS.
Prevalence of HIV, total (% of population ages 15-49)	1.3	3.9	3	3	
Tuberculosis case detection rate (% of population ages 15-49)	16	12	40	..	
Tuberculosis case detection rate (% of population ages 15-49) -- old	8	6.5	..	..
Goal 7: Ensure environmental sustainability					
Improved sanitation facilities (% of population with access)	38	34	29	29.3	Goal 7 is not likely to be achieved , as those without access to water declined only by 29 percent since 1990 (as opposed to 1/2).
Improved water source (% of population with access)	47	53	63	62	
Goal 8: Develop a global partnership for development					
Internet users (per 100 people)	0	0.1	24.0	42.7	
Mobile cellular subscriptions (per 100 people)	0	0	54.7	77.8	

Sources: World Bank's World Development Indicators; National Bureau of Statistics "The MDG Performance Tracking Survey 2015 Report."

Table 2. Nigeria: Selected Economic and Financial Indicators, 2014–21

	2014	2015	2016	2017	2018	2019	2020	2021
	Act.	Prel.	Projections					
National income and prices								
	(Annual percentage change, unless otherwise specified)							
Real GDP (at 2010 market prices)	6.3	2.7	2.3	3.5	3.9	3.7	3.9	4.0
Oil and Gas GDP	-1.3	-5.4	-4.8	3.0	5.0	1.3	0.8	0.8
Non-oil GDP	7.3	3.6	3.1	3.5	3.7	3.9	4.1	4.3
Production of crude oil (million barrels per day)	2.17	2.12	2.20	2.35	2.47	2.48	2.47	2.48
Nominal GDP at market prices (trillions of naira)	90.1	95.2	105.9	122.3	141.4	161.2	181.6	203.0
Nominal non-oil GDP (trillions of naira)	80.5	89.2	101.5	116.8	134.9	153.7	173.0	193.3
Nominal GDP per capita (US\$)	3,300	2,743	2,930	3,291	3,522	3,566	3,589	3,611
GDP deflator	4.7	2.9	8.7	11.7	11.3	9.9	8.5	7.5
Non-oil GDP deflator	6.2	6.9	10.5	11.1	11.3	9.6	8.1	7.1
Consumer price index (annual average)	8.0	9.0	10.4	12.2	12.2	10.9	9.5	8.5
Consumer price index (end of period)	8.0	9.6	12.0	12.5	12.0	10.0	9.0	8.0
Investment and savings								
	(Percent of GDP)							
Gross national savings	16.0	12.0	10.8	11.5	11.8	12.0	12.1	12.2
Public	1.8	-0.7	-1.0	-0.4	-0.1	0.0	-0.1	-0.2
Private	14.2	12.7	11.8	11.9	11.9	12.0	12.2	12.3
Investment	15.1	14.5	13.6	13.2	13.0	13.1	13.1	13.1
Public	2.5	1.9	2.5	2.6	2.6	2.7	2.8	2.8
Private	12.6	12.6	11.1	10.7	10.4	10.4	10.3	10.3
Current account balance	0.2	-2.4	-2.8	-1.8	-1.2	-1.0	-1.0	-0.9
Consolidated government operations ¹								
	(Percent of GDP)							
Total revenues and grants	10.5	7.8	5.9	6.8	7.3	7.7	8.3	8.5
<i>Of which: oil and gas revenue</i>	6.5	3.7	1.5	1.9	2.1	2.1	2.3	2.4
Total expenditure and net lending	12.3	11.5	10.3	10.9	11.1	11.7	12.2	12.4
<i>Of which: fuel subsidies</i>	1.1	0.2	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance	-1.8	-3.7	-4.4	-4.0	-3.8	-4.0	-3.9	-3.9
Non-oil primary balance (percent of non-oil GDP)	-8.2	-6.8	-5.3	-5.2	-5.0	-4.9	-5.1	-5.2
Anchor: non-oil revenue (percent of non-oil GDP)	4.5	4.4	4.6	5.1	5.5	5.9	6.3	6.4
ECA (US\$ billions)	3.1	2.3	2.3	2.3	2.3	2.3	2.3	2.3
SWF (US\$ billion)	1.5	1.75	1.75	1.75	1.75	1.75	1.75	1.75
Public gross debt (percent of GDP)	12.4	14.4	17.0	18.6	20.0	21.7	23.4	25.0
<i>Of which: FGN debt (percent of GDP)</i>	10.6	11.5	13.3	14.0	14.3	14.9	15.9	16.9
FGN interest payments (percent of FGN revenue)	27.1	32.1	38.0	40.6	42.0	51.5	47.9	48.1
(Change in percent of broad money at the beginning of the period, unless otherwise specified)								
Money and credit								
Broad money (percent change; end of period)	20.4	5.9	14.2	16.5	16.2	18.2	16.8	17.2
Net foreign assets	-10.9	-6.8	-7.4	-2.4	-0.4	-0.3	0.6	0.3
Net domestic assets	31.1	12.7	21.5	18.9	16.6	18.5	16.3	16.9
o/w Claims on consolidated government	16.0	8.5	13.9	17.8	16.7	17.5	16.3	16.1
Credit to the private sector (y-o-y,%)	32.5	0.1	5.3	2.1	7.1	8.4	5.6	7.0
Velocity of broad money (ratio; end of period)	4.2	4.4	4.4	4.4	4.4	4.2	4.1	3.9
External sector								
	(Annual percentage change, unless otherwise specified)							
Exports of goods and services	-13.3	-40.7	-21.8	22.6	11.5	4.5	5.1	3.7
Imports of goods and services	16.5	-22.1	-3.0	6.9	3.9	3.3	3.8	2.9
Terms of trade	-2.7	-24.9	-16.9	9.3	2.4	0.4	2.1	1.3
Price of Nigerian oil (US dollar per barrel)	100.6	53.1	36.1	43.3	46.1	47.6	49.8	51.1
External debt outstanding (US\$ billions) ²	9.7	10.7	15.5	18.3	20.8	23.5	26.3	28.4
Gross international reserves (US\$ billions)	34.3	28.3	21.5	19.5	18.1	17.0	15.9	15.0
(equivalent months of imports of G&S)	6.1	5.2	3.7	3.2	2.9	2.6	2.4	2.2

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

¹The budget oil price was \$53 per barrel (pb) for 2015. It is proposed at \$38 pb for 2016, \$48 pb for 2017 and \$50 pb for 2018 in the MTEF 2016-18.

²Nominal public sector short- and long-term debt, end of period. Guaranteed external debt is not included.

Table 3. Nigeria: Balance of Payments, 2014–21

(Billions of U.S. dollars, unless otherwise specified)

	2014	2015	2016	2017	2018	2019	2020	2021
	Act.	Prel.	Projections					
Current account balance	1.3	-11.9	-15.1	-10.9	-8.0	-7.4	-7.1	-6.6
Trade balance	21.0	-0.8	-11.2	-6.9	-4.2	-3.9	-3.4	-3.0
Exports	82.6	48.3	37.4	46.0	51.2	53.3	55.8	57.6
Oil/gas	76.5	44.4	33.8	41.9	46.7	48.2	50.1	51.4
Other	6.1	3.9	3.6	4.0	4.6	5.1	5.7	6.2
Imports	-61.6	-49.1	-48.6	-52.8	-55.4	-57.2	-59.2	-60.7
Oil/gas	-13.8	-9.8	-6.9	-8.6	-9.5	-10.1	-11.0	-11.8
Other	-47.8	-39.2	-41.7	-44.3	-45.9	-47.0	-48.1	-48.8
Services (net)	-22.5	-16.0	-14.5	-14.5	-14.4	-14.6	-15.0	-15.5
Income (net)	-19.2	-16.0	-11.2	-12.3	-13.1	-13.5	-14.1	-14.5
<i>Of which:</i> Interest due on public debt	-0.3	-0.3	-0.3	-0.4	-0.5	-0.6	-0.7	-0.8
Transfers (net)	21.9	20.9	21.8	22.7	23.6	24.5	25.4	26.4
Capital and Financial account balance	4.7	1.9	8.4	9.9	8.7	8.4	8.2	8.1
Capital Account (net)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financial Account (net)	4.7	1.9	8.4	9.9	8.7	8.4	8.2	8.1
Direct Investment (net)	3.1	2.8	3.9	5.0	5.5	5.8	6.0	6.2
Portfolio Investment (net)	1.8	-0.1	1.6	2.4	2.9	3.4	3.6	3.7
Other Investment (net)	-0.2	-0.8	2.9	2.4	0.3	-0.8	-1.4	-1.8
ECA/SWF Investment (net)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Errors and omissions	-14.4	4.0	0.0	-1.0	-2.1	-2.1	-2.2	-2.3
Overall balance	-8.5	-6.0	-6.7	-2.0	-1.4	-1.1	-1.1	-0.8
Net international reserves (increase -)	8.5	6.0	6.7	2.0	1.4	1.1	1.1	0.8
Memorandum items:								
Gross official reserves, end-of-period	34.3	28.3	21.5	19.5	18.1	17.0	15.9	15.0
In months of next year's imports of goods and services	6.1	5.2	3.7	3.2	2.9	2.6	2.4	2.2
SWF foreign investment balances, end-of-period	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Current account (percent of GDP)	0.2	-2.4	-2.8	-1.8	-1.2	-1.0	-1.0	-0.9
Exports of goods and services (percent of GDP)	14.7	10.2	7.3	7.7	7.9	7.9	8.0	8.0
Imports of goods and services (percent of GDP)	15.0	13.7	12.1	11.2	10.6	10.5	10.5	10.5
External debt ¹	9.9	9.8	11.3	11.6	11.8	11.9	13.3	14.1
External debt (percent of GDP) ¹	1.8	2.2	2.9	2.9	3.1	3.4	3.6	3.8
External debt (percent of exports) ¹	11.5	21.4	39.5	38.0	38.8	41.9	44.7	46.5
External debt (percent of consolidated fiscal revenues) ¹	16.1	28.0	48.8	43.1	41.4	42.7	43.0	44.0
External debt service due (percent of exports) ¹	0.5	0.8	1.0	1.1	1.4	1.6	1.8	2.8
GDP in billion U.S. dollars	574	490	538	621	683	710	735	759

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

¹Nominal public sector short- and long-term debt, end of period. Guaranteed external debt is not included.

Table 4a. Nigeria: Federal Government Operations, 2014–21
(Billions of Naira)

	2014	2015	2016	2017	2018	2019	2020	2021
	Act.	Prel.			Projections			
Total revenue	3,197	3,152	2,245	2,904	3,540	4,161	4,986	5,715
Oil revenue	1,943	1,468	674	1,017	1,262	1,435	1,769	2,101
Non-oil revenue	1,254	1,684	1,571	1,887	2,278	2,726	3,217	3,614
Import and excise duties	255	232	287	315	354	409	470	515
Companies' income tax	562	479	760	918	1,112	1,325	1,557	1,768
Value-added tax	107	104	158	232	325	436	564	631
Federal government independent revenue	330	869	366	421	487	556	626	700
Total expenditure	4,013	5,405	5,452	5,975	6,384	7,608	9,259	10,671
Recurrent expenditure	3,425	4,803	3,952	4,428	4,802	5,805	7,227	8,400
Personnel	1,819	2,453	2,264	2,255	2,353	2,547	3,575	4,236
Overheads	378	464	328	314	314	401	478	567
Interest	866	1,013	853	1,179	1,488	2,142	2,389	2,747
Transfers ¹	363	873	507	681	646	717	785	851
Capital expenditure	588	601	1,500	1,547	1,582	1,803	2,031	2,271
Overall balance	-816	-2,252	-3,207	-3,072	-2,843	-3,447	-4,272	-4,956
Overall balance (incl. ECA financing)	-816	-2,252	-3,207	-3,072	-2,843	-3,447	-4,272	-4,956
Financing	2,458	2,252	3,207	3,072	2,843	3,447	4,272	4,956
External	-35	170	776	407	413	474	580	465
Borrowing	0	206	806	436	525	531	653	649
Amortization	-16	-17	-30	-29	-105	-51	-65	-178
Foreign asset acquisition (ECA/SWF)	-19	-19	0	0	-7	-7	-7	-7
Domestic	2,493	1,808	2,431	2,665	2,430	2,973	3,692	4,491
Bank financing	2,183	1,805	2,145	2,160	1,835	2,382	3,082	3,790
Nonbank financing	292	-16	267	486	577	592	610	701
Other financing ²	18	19	19	19	19	0	0	0
Statistical discrepancy/Financing gap	-1,642	274	0	0	0	0	0	0
<i>Memorandum items:</i>								
FGN Total Debt	9,536	10,949	14,028	17,101	20,225	24,077	28,829	34,295
Domestic	7,904	8,837	10,976	13,499	15,822	18,663	22,226	26,640
fraction of domestic debt held by banks	0.54	0.60	0.61	0.66	0.68	0.70	0.73	0.75
Foreign	1,632	2,112	3,052	3,601	4,403	5,414	6,602	7,655
Budget oil price	77.5	53.0	38.0	48.0	50.0	51.6	53.9	55.4
Price of Nigerian oil (US dollar per barrel)	100.6	53.1	36.1	43.3	46.1	47.6	49.8	51.1
FGN overall balance (percent of GDP)	-0.9	-2.4	-3.0	-2.5	-2.0	-2.1	-2.4	-2.4

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

¹Includes earmarked spending for National Judicial Council, Universal

Basic Education, Niger Delta Development Corporation, and Multi-

²Includes proceeds from privatization and sales of government properties.

Table 4b. Nigeria: Consolidated Government, 2014–21

(Billions of Naira)

	2014	2015	2016	2017	2018	2019	2020	2021
	Act.	Prel.	Projections					
Total revenue	9,484	7,445	6,244	8,361	10,389	12,463	15,125	17,220
Oil revenue	5,890	3,560	1,557	2,371	2,953	3,353	4,147	4,922
Non-oil revenue	3,595	3,885	4,687	5,990	7,435	9,109	10,978	12,299
Import and excise duties	566	514	636	698	784	907	1,041	1,142
Companies' income tax	1,207	1,029	1,632	1,972	2,388	2,846	3,344	3,796
Value-added tax	794	773	1,178	1,728	2,422	3,244	4,199	4,696
Other (education tax and customs levies)	363	334	459	537	635	750	875	983
Federal government independent revenue	330	869	366	421	487	556	626	700
SLGs independent revenue	334	366	417	633	720	807	893	980
Total expenditure	11,074	10,945	10,886	13,276	15,715	18,847	22,213	25,147
Federal government	4,013	5,405	5,452	5,975	6,384	7,608	9,259	10,671
State and local government	4,911	4,670	4,662	6,358	8,193	9,880	11,340	12,654
Extrabudgetary funds (incl. SURE-P) ¹	2,150	871	773	942	1,138	1,358	1,614	1,822
Overall balance	-1,590	-3,500	-4,642	-4,915	-5,326	-6,384	-7,087	-7,927
Non-oil primary balance	-6,604	-6,047	-5,347	-6,107	-6,791	-7,596	-8,845	-10,102
Anchor: Non-oil revenue (Percent of Non-oil GDP)	4.5	4.4	4.6	5.1	5.5	5.9	6.3	6.4
Financing	-1,590	-3,500	-4,642	-4,915	-5,326	-6,384	-7,087	-7,927
External	263	257	940	549	513	600	701	535
Borrowing ²	310	300	984	591	673	681	803	802
Amortization	-27	-25	-44	-42	-153	-74	-94	-260
Foreign asset acquisition (ECA/SWF)	-19	-19	0	0	-7	-7	-7	-7
Domestic	2,601	1,510	3,702	4,366	4,813	5,784	6,386	7,392
Bank financing ³	2,474	1,507	3,416	3,861	4,217	5,192	5,776	6,690
Nonbank financing	109	-16	267	486	577	592	610	701
Other financing	18	19	19	19	19	0	0	0
Statistical discrepancy/Financing gap	-1,274	1,733	0	0	0	0	0	0
<i>Memorandum items :</i>								
Budget oil price (US dollar a barrel)	78	53	38	48	50	52	54	55
Oil revenue (in the budget)	5,011	4,625	4,663	4,808	830	909	991	1,071
Overall balance (% of GDP)	-1.8	-3.7	-4.4	-4.0	-3.8	-4.0	-3.9	-3.9

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

¹Includes spending of customs levies and education tax; transfers to FIRS and NCS; spending from the ecology, stabilization, development of natural resources accounts; and FCT spending.²Includes projects not included in the FGN budget, even though funds are on lent by FGN.³Equal to the change in net claims on the consolidated government in the monetary survey, minus the change in state and local government deposits that are part of broad money.

Table 4c. Nigeria: Government Operations, 2014–21

(Percent of GDP)

	2014	2015	2016	2017	2018	2019	2020	2021
	Act.	Prel.	Projections					
Consolidated Government								
Total revenue	10.5	7.8	5.9	6.8	7.3	7.7	8.3	8.5
Oil revenue	6.5	3.7	1.5	1.9	2.1	2.1	2.3	2.4
Non-oil revenue	4.0	4.1	4.4	4.9	5.3	5.7	6.0	6.1
Total expenditure	12.3	11.5	10.3	10.9	11.1	11.7	12.2	12.4
Federal government expenditure	4.5	5.7	5.2	4.9	4.5	4.7	5.1	5.3
State and local government	5.4	4.9	4.4	5.2	5.8	6.1	6.2	6.2
Extrabudgetary funds (incl. from SURE-P)	2.4	0.9	0.7	0.8	0.8	0.8	0.9	0.9
Foreign-financed capital spending	0.3	0.3	0.9	0.5	0.5	0.4	0.4	0.4
Overall balance	-1.8	-3.7	-4.4	-4.0	-3.8	-4.0	-3.9	-3.9
Non-oil primary balance (percent of non-oil GDP)	-8.2	-6.8	-5.3	-5.2	-5.0	-4.9	-5.1	-5.2
Financing	-1.8	-3.7	-4.4	-4.0	-3.8	-4.0	-3.9	-3.9
External	0.3	0.3	0.9	0.4	0.4	0.4	0.4	0.3
Borrowing	0.3	0.3	0.9	0.5	0.5	0.4	0.4	0.4
Amortization	0.0	0.0	0.0	0.0	-0.1	0.0	-0.1	-0.1
Domestic	2.9	1.6	3.5	3.6	3.4	3.6	3.5	3.6
Bank financing	2.7	1.6	3.2	3.2	3.0	3.2	3.2	3.3
o/w ECA financing	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Nonbank financing	0.1	0.0	0.3	0.4	0.4	0.4	0.3	0.3
Statistical discrepancy/Financing Gap	-1.4	1.8	0.0	0.0	0.0	0.0	0.0	0.0
Federal Government								
Total revenue	3.5	3.3	2.1	2.4	2.5	2.6	2.7	2.8
Oil revenue	2.2	1.5	0.6	0.8	0.9	0.9	1.0	1.0
Non-oil revenue	1.4	1.8	1.5	1.5	1.6	1.7	1.8	1.8
Total expenditure	4.5	5.7	5.2	4.9	4.5	4.7	5.1	5.3
Recurrent expenditure	3.8	5.0	3.7	3.6	3.4	3.6	4.0	4.1
Personnel	2.0	2.6	2.1	1.8	1.7	1.6	2.0	2.1
Overheads	0.4	0.5	0.3	0.3	0.2	0.2	0.3	0.3
Interest	1.0	1.1	0.8	1.0	1.1	1.3	1.3	1.4
Transfers	0.4	0.9	0.5	0.6	0.5	0.4	0.4	0.4
Capital expenditure	0.7	0.6	1.4	1.3	1.1	1.1	1.1	1.1
Overall balance	-0.9	-2.4	-3.0	-2.5	-2.0	-2.1	-2.4	-2.4
Overall balance (incl. ECA financing)	-0.9	-2.4	-3.0	-2.5	-2.0	-2.1	-2.4	-2.4
Financing	2.7	2.4	3.0	2.5	2.0	2.1	2.4	2.4
External	0.0	0.2	0.7	0.3	0.3	0.3	0.3	0.2
Domestic	2.8	1.9	2.3	2.2	1.7	1.8	2.0	2.2
Bank financing	2.4	1.9	2.0	1.8	1.3	1.5	1.7	1.9
Nonbank financing	0.3	0.0	0.3	0.4	0.4	0.4	0.3	0.3
Statistical discrepancy/Financing gap	-1.8	0.3	0.0	0.0	0.0	0.0	0.0	0.0
<i>Memorandum items:</i>								
Spending from Sure-P and others (all tiers of government)	1.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0
Of which: Federal government spending	0.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0

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

Table 4d. Nigeria: State and Local Governments, 2014–21

(Percent of GDP)

	2014	2015	2016	2017	2018	2019	2020	2021
	Act.	Prel.	Projections					
Revenue	4.7	3.7	3.0	3.7	4.0	4.3	4.7	4.8
Oil revenue	2.7	1.9	0.8	1.0	1.1	1.1	1.2	1.3
Shared revenue	2.0	1.5	0.6	0.8	0.9	0.8	0.9	1.0
Derivation grant (13 percent)	0.8	0.5	0.2	0.2	0.3	0.3	0.3	0.3
Non-oil revenue	2.0	1.8	2.3	2.7	2.9	3.2	3.5	3.5
Corporate Income Tax	0.6	0.5	0.7	0.7	0.8	0.8	0.8	0.8
Customs	0.3	0.2	0.3	0.3	0.2	0.2	0.3	0.2
VAT	0.7	0.7	0.9	1.2	1.4	1.6	1.9	1.9
Internal revenue	0.4	0.4	0.4	0.5	0.5	0.5	0.5	0.5
Expenditure	5.4	4.9	4.4	5.2	5.8	6.1	6.2	6.2
Overall Balance	-0.7	-1.2	-1.4	-1.5	-1.8	-1.8	-1.6	-1.5
Financing	-0.1	1.2	1.4	1.5	1.8	1.8	1.6	1.5
External	0.0	0.1	0.2	0.1	0.1	0.1	0.1	0.0
Domestic	-0.1	-0.3	1.2	1.4	1.7	1.7	1.5	1.4
Bank financing	0.1	-0.3	1.2	1.4	1.7	1.7	1.5	1.4
o/w ECA financing	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Nonbank financing	-0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0
other	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Statistical discrepancy/Financing gap	-0.8	1.4	0.0	0.0	0.0	0.0	0.0	0.0

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

Table 5a. Nigeria: Central Bank of Nigeria (CBN) Analytical Balance Sheet, 2014–21
(Billions of Naira)

	2014	2015			2015	2016	2017	2018	2019	2020	2021
	Dec.	Mar.	Jun.	Sep.	December						
	Act.	Act.			Projections						
Net foreign assets ¹	6,245	6,157	5,796	5,243	5,545	4,947	4,383	4,350	4,333	4,396	4,453
Net domestic assets	-97	-114	378	1,090	1,497	2,589	4,397	5,849	7,717	9,684	12,053
Net domestic credit	3,492	4,181	5,724	5,380	4,634	5,442	7,250	9,152	11,408	13,762	16,456
Net claims on consolidated government	-2,142	-1,563	-770	-1,042	-1,653	-1,169	271	1,760	3,588	5,501	7,736
Net claims on federal government ¹	-2,142	-1,563	-770	-1,042	-1,653	-1,169	271	1,760	3,588	5,501	7,736
Claims	922	1,264	1,527	1,581	2,514	2,500	3,439	4,474	5,846	7,308	9,086
Deposits	-3,064	-2,827	-2,297	-2,624	-4,167	-3,669	-3,169	-2,715	-2,258	-1,806	-1,349
Claims on deposit money banks	774	825	1,400	1,146	1,225	1,397	1,610	1,861	2,123	2,392	2,676
Other net claims	4,860	4,919	5,093	5,275	5,062	5,213	5,370	5,531	5,697	5,868	6,044
Other items net	-3,589	-4,295	-5,346	-4,290	-3,137	-2,853	-2,853	-3,303	-3,691	-4,078	-4,403
Reserve money	6,148	6,043	6,174	6,333	7,042	7,535	8,780	10,199	12,050	14,080	16,506
Currency in circulation	1,798	1,818	1,562	1,637	1,858	2,946	3,511	4,164	5,083	6,127	7,414
Banks reserves with the CBN	4,350	4,224	4,612	4,695	5,185	4,589	5,269	6,035	6,968	7,954	9,091
<i>Memorandum items:</i>											
Reserve money y/y growth rate	29.1	14.2	16.1	15.4	14.5	7.0	16.5	16.2	18.2	16.8	17.2
Money multiplier	3.1	3.2	3.0	2.9	0.0	3.0	3.0	3.0	3.0	3.0	3.0

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

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

Table 5b. Nigeria: Monetary Survey, 2014–21

(Billions of Naira)

	2014	2015			2015	2016	2017	2018	2019	2020	2021
	Dec.	Mar.	Jun.	Sep.	December						
	Act.	Prel.			Projections						
Net foreign assets	6,957	6,798	5,956	5,083	5,671	5,133	4,589	4,481	4,384	4,594	4,739
Central Bank of Nigeria (net)	6,245	6,157	5,796	5,243	5,545	4,947	4,383	4,350	4,333	4,396	4,453
Commercial and merchant banks (net)	713	641	160	-160	125	186	206	131	51	198	286
Net domestic assets	11,837	12,213	12,756	13,472	14,229	17,613	21,915	26,307	31,992	37,909	45,085
Net domestic credit	19,112	20,440	21,256	21,344	21,447	24,834	29,136	34,445	40,946	47,706	55,617
Net claims on consolidated government	1,806	2,687	3,156	3,102	3,401	6,176	10,225	14,652	20,038	25,983	32,825
Net claims on FGN ¹	1,073	1,890	2,450	2,705	2,817	4,595	6,755	8,565	10,923	13,979	17,746
Claims on SLG	733	796	706	397	584	1,581	3,470	6,087	9,115	12,004	15,079
Claims on private sector	12,452	12,842	13,016	12,976	12,996	13,607	13,860	14,742	15,857	16,672	17,741
o/w credit to the private sector	11,569	12,028	12,193	11,783	11,583	12,194	12,448	13,329	14,444	15,260	16,329
Other Claims	4,854	4,912	5,084	5,265	5,051	5,051	5,051	5,051	5,051	5,051	5,051
Other items	-7,275	-8,227	-8,500	-7,872	-7,218	-7,220	-7,220	-8,138	-8,954	-9,797	-10,533
Broad money	18,814	19,055	18,744	18,594	19,925	22,746	26,504	30,787	36,376	42,502	49,824
Currency outside banks	1,439	1,472	1,185	1,221	1,458	1,739	2,027	2,354	2,781	3,250	3,810
Demand deposits	5,438	5,505	5,350	5,924	7,103	6,491	7,609	8,878	10,499	12,257	14,338
Time and savings deposits	11,937	12,078	12,209	11,450	11,363	14,516	16,869	19,555	23,095	26,995	31,677
<i>Memorandum items :</i>											
Broad money (y-o-y,%)	20.4	8.2	7.1	2.6	5.9	14.2	16.5	16.2	18.2	16.8	17.2
Credit to the private sector (y-o-y,%)	32.5	27.4	23.8	11.4	0.1	5.3	2.1	7.1	8.4	5.6	7.0
Velocity (non-oil GDP/broad money)	4.22	4.28	4.46	4.79	4.42	4.42	4.37	4.35	4.20	4.05	3.86
Gross international reserves (billions of US dollar)	34.3	29.4	28.3	30.3	28.3	21.5	19.5	18.1	17.0	15.9	15.0

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

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

Table 6. Nigeria: Financial Soundness Indicators, 2011-15

(Percent; unless otherwise specified)

	2011 Q4	2012 Q4	2013 Q4	2014 Q1	2014 Q2	2014 Q3	2014 Q4	2015 Q1	2015 Q2
Regulatory Capital to Risk-Weighted Assets	17.9	18.3	17.1	17.1	16.4	17.5	17.2	19.0	17.5
Regulatory Tier 1 Capital to Risk-Weighted Assets	18.1	18.0	17.1	17.1	16.1	16.3	15.5	17.3	16.3
Non-Performing Loans Net of Provisions to Capital	10.1	6.1	7.4	5.1	5.6	5.9	4.1	5.7	11.9
Non-Performing Loans to Total Gross Loans	5.3	3.5	3.2	3.8	3.7	3.7	3.0	3.8	5.2
Return on Assets	0.2	2.3	2.1	2.5	2.5	2.5	2.5	2.7	2.5
Return on Equity	2.2	21.1	20.1	21.0	20.7	21.0	21.2	22.7	20.7
Interest Margin to Gross Income	31.0	62.0	63.9	63.9	62.7	61.1	51.2	64.8	43.3
Non-interest Expenses to Gross Income	24.4	64.8	68.1	65.2	65.5	62.4	56.9	60.2	46.1
Liquid Assets to Total Assets (Liquid Asset Ratio)	25.4	24.6	22.0	13.5	11.7	11.2	11.4	10.7	10.7
Liquid Assets to Short Term Liabilities	30.1	28.4	25.2	19.0	16.6	16.1	16.7	16.1	15.8

Source: Financial Soundness Indicators (FSI)

Table 7. Nigeria: Risk Assessment Matrix¹

Source of Risks	Relative Likelihood	Time Horizon	Impact on Nigeria	Policy Response
<p>Tighter or more volatile global financial conditions:</p> <ul style="list-style-type: none"> • Sharp asset price decline and decompression of credit spreads as investors reassess underlying risk and respond to unanticipated changes in growth and financial fundamentals in large economies, Fed policy rate path, and increases in U.S. term premia, with poor market liquidity amplifying volatility. • Surge in the US dollar. Improving U.S. economic prospects versus the rest of the world leads to a further dollar surge, boosting non-U.S. trade but creating balance sheet strains for dollar debtors. 	<p>Medium</p> <p>High</p>	<p>Short Term</p> <p>Short Term</p>	<p>High</p> <p>High</p>	<ul style="list-style-type: none"> • Up-front measures for fiscal consolidation to ensure continued access to external financing from international markets. • The monetary and exchange rate policy framework needs to be strengthened, including allowing greater flexibility in the interbank rate, placing a stronger emphasis on price stability as the primary policy objective, and exerting greater control over short-term money market rates as the main policy instrument • Strengthen the supervisory and regulatory framework, especially as it pertains to cross-border banking activity and oversight of holding companies, improve corporate governance, and address weaknesses in the bank resolution framework.
<p>Sharper-than-expected global growth slowdown:</p> <ul style="list-style-type: none"> • Significant China slowdown, triggered by corporate distress that propagates through shadow banks, precipitating deleveraging, uncertainty and capital outflows. Weak domestic demand further suppresses commodity prices, roils global financial markets, and reduces global growth (Likelihood: low in short-term, medium thereafter). • Significant slowdown in other large EMs/frontier economies. Turning of the credit cycle and fallout from excess household and corporate leverage (incl. in FX) as investors withdraw from EM corporate debt, generating disorderly deleveraging, with potential spillbacks to advanced economies. • Structurally weak growth in key advanced and emerging economies. Weak demand and persistently low inflation from a failure to fully address crisis legacies and undertake structural reforms, leading to low medium-term growth and persisting financial imbalances in the Euro area and Japan (high likelihood). Easy global financial conditions coming to an end and insufficient reform progress undermine medium-term growth in emerging markets and suppress commodity prices (medium likelihood). 	<p>Low/ Medium</p> <p>Medium</p> <p>High/ Medium</p>	<p>Short to Medium Term</p> <p>Short Term</p> <p>Medium term</p>	<p>Medium</p> <p>Low</p> <p>Medium</p>	<p>Nigeria needs to:</p> <ul style="list-style-type: none"> • Diversify its exports both in terms of export products and trading partners. • Continue improving the business environment to boost productivity and competitiveness (e.g., streamlining business regulations, contract enforcement, and affirmation of investors' rights as well as improving trade facilitation). • Address the infrastructure gap. Significant public and private investment is needed to improve logistics and expand capacity.

<p>Dislocation in capital and labor flows:</p> <ul style="list-style-type: none"> • Reduced financial services by global/regional banks (“de-risking”): Further loss of correspondent banking services significantly curtails cross-border payments, trade finance, and remittances in small economies. • Heightened risk of fragmentation/security dislocation in part of the Middle East, Africa, and Europe, leading to a sharp rise in migrant flows, with negative global spillovers. 	<p>Medium</p> <p>High</p>	<p>Short Term</p> <p>Short Term</p>	<p>Medium</p> <p>Medium</p>	<ul style="list-style-type: none"> • Strengthen the supervisory and regulatory framework, especially as it pertains to cross-border banking activity and oversight of holding companies, improve corporate governance, and address weaknesses in bank resolution framework. • Restrain fiscal policy, while adequately financing security activities in the fight against Boko Haram
<p>Persistently lower energy prices, triggered by supply factors reversing only gradually.</p>	<p>High</p>	<p>Medium Term</p>	<p>High</p>	<ul style="list-style-type: none"> • Non-oil revenue mobilization is priority as it will shield the country from declines in oil revenue. • Contain recurrent expenditure to conserve scarce resources for public investment • Permit the exchange rate to adjust to the change in fundamentals, supported by a tighter monetary stance to prevent capital outflows and bolster reserves.
<p>Nigeria-specific risks:</p> <ul style="list-style-type: none"> • Impact of prolonged policy uncertainty on consumption and investment • Worsening of SLG finances • Deterioration of security in the North of Nigeria and a resurgence in the Niger Delta (South) 	<p>High</p> <p>High</p> <p>High</p>	<p>Short Term</p> <p>Medium Term</p> <p>Medium Term</p>	<p>Medium</p> <p>High</p> <p>High</p>	<ul style="list-style-type: none"> • Urgent need for an integrated package of policies to address near-term vulnerabilities and articulate a communication strategy to support the transition to a new notion of the government. • A clear picture is needed on how SLGs plan to adjust to manage the projected lower oil revenue allocations. Need to encourage reform of budget preparation and execution, and strengthening of public financial management. Also important that if another bailout is necessary, it would be important to incorporate terms to avoid moral hazard • Improve oil sector oversight by strengthening security arrangements, address infrastructure gaps, and income disparities among states, while enhancing a social safety net across the country. • Implement effectively targeted anti-money laundering measures to help detect and investigate illicit financial flows related to theft and corruption in the oil sector (see Appendix II).
<p>¹ The Risk Assessment Matrix (RAM) shows events that could materially alter the baseline path (the scenario most likely to materialize in the view of IMF staff). The relative likelihood is the staff's subjective assessment of the risks surrounding the baseline (“low” is meant to indicate a probability below 10 percent, “medium” a probability between 10 and 30 percent, and “high” a probability between 30 and 50 percent). The RAM reflects staff views on the source of risks and overall level of concern as of the time of discussions with the authorities. Non-mutually exclusive risks may interact and materialize jointly. “Short term” and “medium term” are meant to indicate that the risk could materialize within 1 year and 3 years, respectively.</p>				

Annex I. Status of Key Recommendations for the 2014 Article IV Consultation

Recommendation	Status
<p>Fiscal</p> <ul style="list-style-type: none"> - Revenue mobilization through strengthening tax administration, and an increase in VAT rate. - Scaling back fuel subsidies. - Improving oil revenue management. 	<ul style="list-style-type: none"> - The 2015 budget included a planned increase in the VAT rate but it was not implemented. A nationwide tax registration drive commenced (105,000 new corporate taxpayers had been added as of December 15, 2015). - As a result of low oil prices, the draft 2016 budget does not include fuel subsidy provisions other than clearing arrears. More recently, the authorities introduced a pricing template with the objective of making the cost components dynamic and responsive to international oil market prices. - Following the presidential directive, the TSA has been implemented across the Federal government. A drive to extending the TSA at the state level is ongoing with the State of Kaduna taking the lead. - NNPC commenced the publication of its monthly provisional financial and operational reports.
<p>Monetary and Exchange Rate</p> <ul style="list-style-type: none"> - Introducing greater flexibility in the exchange rate. - Eliminate the wedge between the rDAS and IFEM exchange rates by unifying the market rather than through administrative measures. 	<ul style="list-style-type: none"> - The rDAS window was closed in February 2015, and exchange rate for central bank intervention devalued by 17 percent. However, since that time the interbank rate has effectively been fixed. - The wedge was removed by closing the rDAS windows. However, the wedge between the IFEM exchange rate and that in the BDC market has widened due to shortages of foreign exchange in the interbank market, including due to administrative measures that were introduced.
<p>Financial</p> <ul style="list-style-type: none"> - Continue to strengthen financial regulation and supervision (including systemic important bank, cross border). 	<ul style="list-style-type: none"> - The authorities remain vigilant and have taken proactive prudential measures including through stress testing of individual banks' balance sheets and increasing the general provision for performing loans by 1 percent.
<p>Structural</p>	<p>Drive for transparency, and greater emphasis on good governance, especially in the oil sector.</p> <ul style="list-style-type: none"> - Oil sector reform including the restructuring of NNPC, and a submission of a redrafted Petroleum Industry Bill (PIB) to the National Assembly.
<p>Data</p>	<ul style="list-style-type: none"> - GDP back-casting has been completed. - Supply and use table was finalized.

Annex II. Tackling Theft and Corruption in Nigeria's Oil Sector by Applying AML/CFT Framework

A. Background

Although the magnitude is largely unknown, Nigeria's oil sector has long suffered from theft¹ and corruption due to weak governance.² The main weaknesses in governance identified include, among others, lack of transparency and accountability and weak enforcement of sector laws.³ These issues have centered on the Nigeria National Petroleum Corporation (NNPC), which generates a large share of Nigeria's oil production. In 2015, around 72 percent of Federal government's oil revenue was channeled through the NNPC.⁴ Furthermore, corruption creates an enabling environment for organized crime groups to exploit the weak safeguard of oil pipelines and facilities to steal oil. There has been evidence that the proceeds of high-level corruption and oil theft are laundered in international financial centers outside Nigeria.⁵

B. Recent Developments and Policy Initiatives

Combating theft

There is little information to ascertain the effect of the sharp decline oil prices since 2014 on the volume of theft. From January to November 2015, the NNPC recorded 2,447 pipelines theft points (34.3 percent lower than 2014), resulting in a loss of crude and products valued at N56.68 billion. It is however difficult to estimate the volume of proceeds generated by theft.⁶ According to the authorities, the decrease of pipelines breaks are attributable to comprehensive security reforms, including the operations of the Joint Task Force that are aimed at enhancing military and naval operations against illegal vandalism and bunkering.

¹ "Oil theft" is a broad term that can refer to various illegal activities including illegal bunkering, pipelines vandalism, fuel scooping, illegal refining, among others. Furthermore, the relationship between spills, sabotage and theft cannot be measured systematically. See 2013 Report on *Nigeria's Criminal Crude: Combat the Export of the Stolen Oil* of Chatham House: https://www.chathamhouse.org/sites/files/chathamhouse/public/Research/Africa/0913pr_nigeriaoil_es.pdf.

² See Nigeria's Performance on the Resource Governance Index 2013: <http://www.resourcegovernance.org/countries/africa/nigeria/overview>.

³ See Nigeria Natural Resources Charter Benchmarking Exercise Report 2012: http://naturalresourcecharter.org/sites/default/files/NNRC%20Benchmarking%20Exercise%20Report_0.pdf; and Summary of Benchmarking Report 2014: http://nigerianrc.org/sites/default/files/NNRC_2014BenchmarkingExercise_Summary.pdf.

⁴ Source of data: IMF; NNPC.

⁵ See 2013 Chatham House report in FN 1. This view was also shared by technical officials of relevant authorities met by the staff.

⁶ During his visit to the US, President Buhari indicated that 250,000 barrels of oil (which will amount to around USD 35 billion per year with the current oil price) are being stolen per day, see: <https://africacheck.org/reports/how-many-barrels-of-oil-stolen-a-day-in-nigeria-buhari-may-be-in-right-ballpark-with-250000-claim/>.

Oil sector reforms

Enhancing transparency and integrity of the oil sector is a priority of the administration. The NNPC has been publishing monthly financial and operations reports since October 2015, a welcome step to improving transparency. This allows easier access to information by the general public as well as by agencies such as Nigeria Extractive Industries Transparency Initiatives (NEITI), which audit the oil industry. Further, the administration has announced ambitious plans to reform the NNPC and the legal framework governing the oil industry, which may have important implications to the sector's integrity.

Anti-corruption measures

The government also took initiatives to strengthen anti-corruption measures beyond the oil industry. A Presidential Advisory Commission was set up in August 2015, and tasked with developing a national strategy on anti-corruption.

C. Using Anti-Money Laundering and Combating the Financing of Terrorism (AML/CFT) Framework to Combat Oil Theft and Corruption

The AML/CFT framework can help detect financial flows from theft and corruption, and facilitate confiscation of proceeds from crime. Some key components of the framework and how they can help tackle the proceeds of theft and corruption in the oil sector are analyzed below.

National Risk Assessment (NRA) on Money Laundering and Financing of Terrorism (ML/FT)

The NRA is a cornerstone of the revised international standard on AML/CFT, the Financial Action Task Force (FATF) Recommendation. The NRA aims to identify and assess the ML/FT risks faced by the country and inform national policy making in establishing priorities with a view to mitigating these risks. Coordinated by the Nigerian Financial Intelligence Unit (NFIU) at the operational level, Nigeria launched its first NRA in 2013 and expects to conclude this exercise prior to the mutual evaluation of its AML/CFT framework in the first half of 2017. Twenty-six institutions/agencies are involved in the exercise, including law enforcement agencies such as the Economic and Financial Crime Commission (EFCC), the Independent Corrupt Practices and Other Related Offense Commission (ICPC), and Nigeria Customs Service; supervisory bodies such as the CBN; and the private sector. According to authorities, both oil theft and corruption are covered in the analysis.

CBN's AML/CFT supervision

The CBN oversees banks' implementation of AML/CFT obligations using a risk-based approach. Commercial banks in Nigeria are required to assess ML/FT risks and apply risk-sensitive controls including due diligence on customers and beneficial owners, monitoring of domestic politically exposed persons (including senior executives of stated owned corporations) and reporting suspicious transactions. It seems that banks have considered corruption as the most significant proceeds generating crime in Nigeria and taken mitigating measures, but have paid less attention to oil theft.

The CBN is also charged with supervising more than 2,800 bureau de changes (BDCs) including with respect to the implementation of AML/CFT measures. BDCs may be particularly vulnerable to money laundering schemes that involve moving the criminal proceeds abroad through massive cash smuggling (see below). In 2015, the CBN inspected 135 BDCs (or 5 percent) and found their compliance level to be generally poor. BDCs filed no suspicious transaction reports (STRs) in 2014 and 2015.

NFIU's strategic analysis

The NFIU has established a unit responsible for conducting thematic strategic analysis with a view to identifying ML and FT trends and typologies prevalent in the country. In this capacity, the NFIU relies mainly on the intelligence generated by itself and has not systemically benefited from other information in particular cases investigated by law enforcement agencies which were not triggered by NFIU. To date the NFIU has published one typology report on terrorist financing. It has however identified oil theft and corruption among priority topics for strategic analysis in 2016.

EFCC's investigation and prosecution

Supported by intelligence generated by the NFIU, the EFCC investigates and prosecutes ML and predicate offences including oil theft, and assists the ICPC in investigating corruption cases. These activities are carried out at regional level. In oil producing regions, oil theft is considered a priority and constitutes the majority of investigations. While some investigations on oil theft resulted in successful convictions, majority of the proceeds generated are widely believed to have been moved abroad thus prove difficult to trace and recover.

Anti-corruption work of ICPC and Code of Conduct Bureau (CCB)

The ICPC is charged with investigating and prosecuting corruption related offences defined under the ICPC Act and other Acts. It is empowered to trace, seize, freeze, confiscate and forfeit all proceeds of corruption and related offences. The CCB is mandated by the third and fifth schedules of the Constitution to receive assets declarations by public officers; examine the declaration; retain custody of such declarations and make them available to Nigerian citizens.

Tackling cash smuggling

One potential means to move ill-gotten funds abroad is massive cash smuggling. A Joint Task Force comprising, among other, the Nigeria Customs Service (NCS) and the EFCC has been set up to tackle the issue. The NFIU also receives from the NCS information on declarations of cash transportation of a value over USD 10,000 or equivalent, but is not informed when custom officers take provisional measures (such as seizure).

D. Policy Advice

The authorities' efforts to tackle theft and corruption in the oil sector should be pursued further.

Enhancing implementation of existing measures:

- Expedite the NRA process and ensure it provides a comprehensive assessment of risks posed by oil theft, corruption, tax evasion and related money laundering and informs the national policy on AML/CFT (short term);
- Conduct robust strategic analysis on macro-relevant crimes including oil theft, corruption and tax evasion supported by enhanced information sharing between the NFIU and law enforcement agencies, and publishing typology reports in a timely manner (short term);
- Strengthen AML/CFT supervision of banks focused on the risks of laundering of the proceeds of corruption and in particular oil theft (short term);
- Seek synergy between AML/CFT policy and national strategies on combating oil theft and anti-corruption (medium term);

Reviewing the legal and regulatory framework to fully address risks associated with oil theft, corruption and the laundering of proceeds generated:

- Review the anti-corruption legal framework to ensure all corruption acts are criminalized in accordance with the United Nations Convention against Corruption and the offences are applicable to directors and senior executives of NNPC (short term);
- Review the AML/CFT regulatory framework of BDCs with a view to improving AML/CFT compliance (medium term).

Enhancing transparency of assets owned by senior officials. In this regard, measures can be built upon the existing constitutional requirement on public officers to declare assets:⁷

- Require the publication of comprehensive asset declarations by senior officials, including directors and senior executives of NNPC and of the oil sector regulator. It should cover assets owned abroad and assets of which the official (or executive, director) is a beneficial owner (short term).
- Ensure non-declaration or false declaration are subject to dissuasive sanctions (short term).

⁷ See: http://www.codeofconductbureau.gov.ng/index.php?option=com_content&view=article&id=50&Itemid=64

Annex III. Fiscal and External Debt Sustainability¹

Public debt sustainability analysis²

Although at low levels, Nigeria's debt profile reveals weaknesses. Because of higher-than-historical fiscal deficits and unfavorable financing terms, public debt in percent of GDP is projected to rise by eight percentage points between 2015 and 2021. Gross financing needs are now forecast to remain significantly higher than the historical average and debt service is projected to represent a higher share of fiscal revenue. Nigeria's debt dynamic is vulnerable to macroeconomic shocks, especially to primary balance and interest rate shocks. To stabilize debt and reduce financing pressures, bold fiscal reforms will be necessary. In particular, it is essential to boost non-oil revenue mobilization.

BASELINE PROJECTIONS

The baseline scenario assumes a very challenging macroeconomic situation going forward. Real GDP growth is projected to reach 4 percent, well below historical outturns, on the back of lower oil prices, a deteriorating fiscal stance, and weak global growth and private sector confidence. Inflation measured by the GDP deflator is estimated to accelerate from 8.7 percent in 2016 to 11.3 percent in 2018 and decline thereafter to 7.5 percent in the medium term. With the envisaged consolidation plan in the 2016-18 MTEF (including expenditure containment, VAT rate increase, and broad tax administration measures), the "imputed" primary deficit is projected to narrow significantly to 2.8 percent of GDP by 2021³. Baseline assumptions do not point to a significant bias in the forecast track record, which is broadly in line with those observed in other surveillance countries. Reflecting the volatility of oil price, past projections of the primary balance show some bias tilted toward the optimistic side.

Nigeria's public debt is set to rise, but remains at a comfortable level. Mostly domestic and maturing in the medium term, the public debt-to-GDP ratio is forecast to increase by one half from 14.4 percent in 2015 to 25 percent in 2021. The growing debt ratio is largely driven by larger-than-historical deficits stemming primarily from the reduction in oil revenue due to the recent drop in prices. The contribution of growth to debt reduction will not be large enough to offset adverse dynamics from real interest rates. Over the medium term, the current policy course will lead to higher financing needs. Gross financing needs in percent of GDP are projected to increase to above 7 percent over the medium-term. Though declining, public debt service (interest payments and amortization) will continue to represent a considerable share of general government revenue, remaining above 50 percent over the medium term.

¹ Prepared by Sampawende Jules Tapsoba and Andrew Swiston.

² The DSA framework is described in (<http://www.imf.org/external/np/pp/eng/2013/050913.pdf>).

³ This is using the FGN primary balance along with revenue and estimated interest expenditure of SLGs to derive the imputed primary deficit.

STRESS TESTS

Stress tests indicate that Nigeria's debt and financing profile needs are particularly sensitive to interest rate and primary balance shocks.

Primary balance shock. This constitutes the main risk to Nigeria debt sustainability. This scenario assumes a deterioration of the primary balance from the baseline by 2.3 percentage points in 2017 and 2018. In such case, the debt-to-GDP ratio will increase significantly than the baseline, reaching almost 31.8 percent in 2021. Financing requirements in percent of GDP will peak at 11.1 percent in 2018 and will decline thereafter at a higher level than the outcome in the baseline.

Interest rate shock. Because debt service already represents a large share of revenue, higher interest rates are a key risk to debt sustainability. In this scenario, nominal interest rate increases to reflect the real interest rate observed over the past 10 years. For Nigeria, it is assumed that the spreads increase by about 500 bps from 2017 onward. The debt-to-GDP ratio reaches 30.6 percent at the end of the projection horizon, with gross financing needs projected at around 9.4 percent of GDP.

Growth shock. In this scenario, real output growth rates are lowered in 2016 and 2017 by one standard deviation (2.4 percentage points, as observed over the past 10 years). Under this assumption, the debt-to-GDP ratio is driven by an unfavorable interest rate growth differential and is expected to be higher than the baseline, reaching 29.3 percent in 2021. Gross financing needs will be higher than that of the baseline, at around 7.9 percent of GDP by 2021.

Real exchange rate shock. In this scenario, it is assumed that exchange rate depreciates to the maximum historical movement observed over the 10 past years (that is, an 18 percent depreciation as in 2009). Under this scenario, the debt and gross financing needs -to-GDP ratios will be above that of the baseline, at 27.6 and 7.6 percent of GDP by 2021, respectively.

Combined macro-fiscal shock. A combined shock incorporates the effects of individual shocks on all relevant variables (real GDP growth, inflation, primary balance, exchange rate and interest rate). This will increase debt to 37.5 percent of GDP by 2021. Gross financing needs will reach 10.7 percent of GDP at the end of the projection horizon.

Contingent liability shock. In the absence of concrete estimates of contingent liabilities, a one-time bail out of the financial sector that increases non-interest expenditures by 10 percent of banking sector assets is assumed to represent a hypothetical realization of such contingent liabilities. The debt-to-GDP ratio will exceed 30 percent at the end of the projection horizon. Gross financing needs will be slightly above that of the baseline until 2021.

Fan charts. There is a significant uncertainty around the baseline. The width of the symmetric fan chart, estimated at around 35 percent of GDP, illustrates the degree of uncertainty for equal-probability upside and downside shocks. An extreme downside shock that constrains growth to zero in the asymmetric fan chart results in a more upward-sloping debt path. This reflects a balance of risks skewed to the downside.

HEAT MAP

The analysis of Nigeria's debt profile underlines higher-than-historical debt and financing needs ratios in the medium term. The heat map assessment indicates that Nigeria's debt-to-GDP profile is well below warning thresholds. However, public debt service will reach a concerning level amounting to more than 50 percent of general government revenue. Higher interest rates constitute the main risks for Nigeria's debt as reflected by already-high bond spreads, which signal that market participants assign a non-negligible probability of default. Decisive fiscal actions are essential to curb financing pressures and stabilize debt—specifically, a debt-stabilizing primary balance of -1.1 percent of GDP will be required. In particular, strengthening non-oil revenue mobilization could help achieve this objective.

External debt sustainability analysis

The level of external debt is low but is projected to increase modestly in the baseline, owing to rising public external borrowing. While the level of external debt is projected to remain low, the sustainability of the debt path would be vulnerable to a failure of oil prices to recover as expected, a substantial devaluation of the naira, or the inability to access market financing for an extended period.

The level of external debt (covering both the public and the private sector) is low, at about 10 percent of GDP in 2015, but has risen moderately in recent years (Table 2).⁴ Nigeria's increasing financial integration has led to higher private sector external debt, public sector external debt from commercial sources, and non-resident holdings of public sector domestic securities. The increased prevalence of commercial financing sources and private borrowers has been reflected in a rising interest rate on external debt. Furthermore, other key ratios have deteriorated as lower oil prices have reduced oil exports. The ratio of external debt to exports has increased from 24 percent in 2011 to 98 percent in 2015. Gross external financing needs were negative through 2013; nevertheless external debt increased as errors and omissions outflows largely offset the current account surplus. For 2015 the estimated gross external financing need amounted to \$27.9 billion, over 5 percent of GDP; about \$5 billion was financed through drawing down gross reserves.

In the baseline scenario, external debt is forecast to increase modestly in the medium term, to 14 percent of GDP in 2021. With oil prices remaining low and economic activity recovering only gradually, private sector external borrowing is projected to be below the levels prevailing in 2011–2013. The public sector is expected to draw on financing from multilateral, bilateral, and commercial external sources, while the recent lower level of participation of foreign investors in the domestic debt market is expected to persist. The increase in interest rates on external debt is projected to continue given the expected normalization of monetary policy in advanced economies and Nigeria's deteriorating macroeconomic risk profile.

⁴ The analysis is subject to gaps in Nigeria's International Investment Position data, as well as incomplete coverage of external interest payments. The analysis here uses staff estimates based on the estimated stock of non-resident holdings of securities issued on the domestic market (total stock outstanding minus identified holdings of domestic financial institutions), capital markets data on securities issued abroad, and average interest rates on such securities.

External financing needs are projected to remain well above historical levels, reflecting projected current account deficits and gradually rising amortization. Given Nigeria's relatively short history of accessing commercial financing and the lending capacity of multilateral and bilateral creditors to the public sector, the sustainability of this debt path will hinge critically on the ability to maintain market access.

Scenarios are used to illustrate the sensitivity of debt levels (external debt sustainability) to various shocks, including oil prices and the exchange rate. Higher interest rates on external debt or a slowdown in economic growth would not, by themselves, lead to outcomes substantially different from the baseline scenario. On the other hand, a shock to the non-interest current account, which given the structure of Nigeria's trade can be interpreted as a decline in oil exports of substantial magnitude, would more than double the external debt-to-GDP ratio, relative to the baseline.⁵ This result is driven by the high historical volatility of Nigeria's current account balance, which owes largely to fluctuations in oil prices. A combined (interest rate, growth, current account) shock has a similar impact on debt, driven by the current account dynamics. Debt dynamics also become quickly unfavorable under a one-time real depreciation of 30 percent, given the lower base of GDP in U.S. dollars.

⁵ If the shock occurred entirely through lower oil prices, the scenario would correspond to prices remaining around \$30 per barrel in the medium term.

Figure 1. Nigeria: Fiscal and External Debt Sustainability

Nigeria Public Sector Debt Sustainability Analysis (DSA) - Baseline Scenario

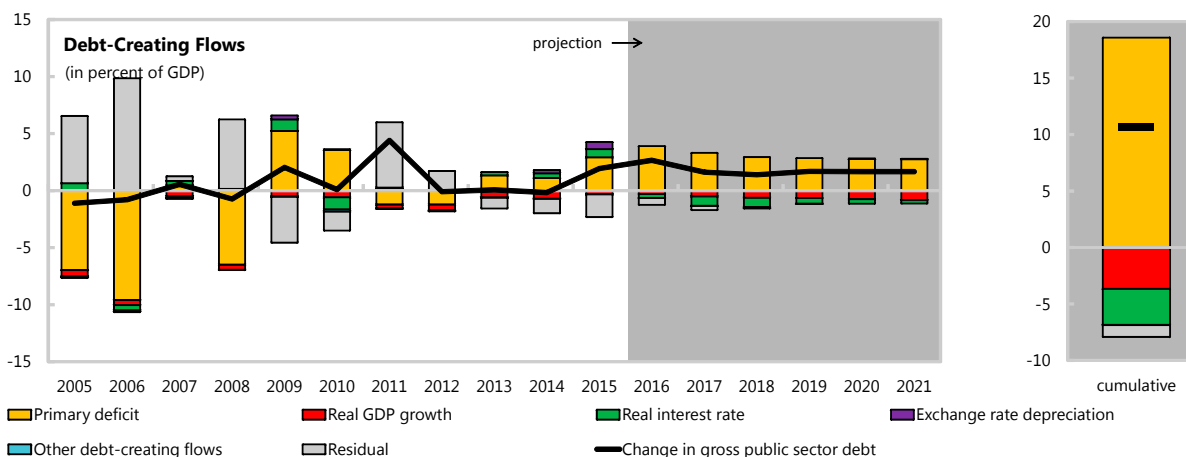
(in percent of GDP unless otherwise indicated)

Debt, Economic and Market Indicators ^{1/}

	Actual			Projections						As of October 16, 2015		
	2005-2013 ^{2/}	2014	2015	2016	2017	2018	2019	2020	2021			
Nominal gross public debt	8.9	12.4	14.4	17.0	18.6	20.0	21.7	23.4	25.0	Sovereign Spreads		
Public gross financing needs ^{10/}	-0.3	2.0	4.0	7.9	7.8	7.4	7.0	6.9	7.3	EMBIG (bp) ^{3/} 668		
Real GDP growth (in percent)	7.5	6.3	2.7	2.3	3.5	3.9	3.7	3.9	4.0	5Y CDS (bp) n.a.		
Inflation (GDP deflator, in percent)	11.2	4.7	2.9	8.7	11.7	11.3	9.9	8.5	7.5	Ratings Foreign Local		
Nominal GDP growth (in percent)	19.5	11.3	5.6	11.2	15.6	15.6	14.0	12.7	11.8	Moody's Ba3 Ba3		
Effective interest rate (in percent) ^{4/}	13.3	8.6	9.1	6.2	6.5	6.5	7.5	6.7	6.3	S&Ps B+ B+		
										Fitch BB- BB-		

Contribution to Changes in Public Debt

	Actual			Projections						cumulative	debt-stabilizing primary balance ^{9/}
	2005-2013	2014	2015	2016	2017	2018	2019	2020	2021		
Change in gross public sector debt	0.5	-0.2	1.9	2.7	1.6	1.4	1.7	1.7	1.7	10.7	
Identified debt-creating flows	-2.1	1.1	3.9	3.3	2.0	1.5	1.7	1.7	1.6	11.7	
Primary deficit	-1.7	1.1	2.9	3.9	3.3	2.9	2.9	2.8	2.8	18.6	-1.1
Primary (noninterest) revenue and grants	16.8	10.5	7.8	5.9	6.8	7.3	7.7	8.3	8.5	44.6	
Primary (noninterest) expenditure	15.2	11.6	10.7	9.8	10.2	10.3	10.6	11.1	11.2	63.2	
Automatic debt dynamics ^{5/}	-0.4	0.0	1.0	-0.6	-1.3	-1.5	-1.1	-1.1	-1.1	-6.9	
Interest rate/growth differential ^{6/}	-0.4	-0.3	0.4	-0.6	-1.3	-1.5	-1.1	-1.1	-1.1	-6.9	
Of which: real interest rate	0.1	0.4	0.7	-0.3	-0.8	-0.8	-0.5	-0.4	-0.3	-3.2	
Of which: real GDP growth	-0.5	-0.7	-0.3	-0.3	-0.5	-0.6	-0.7	-0.7	-0.8	-3.7	
Exchange rate depreciation ^{7/}	0.0	0.3	0.6	...	...	...	...	...	...	...
Other identified debt-creating flows	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Net privatization proceeds (negative)	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Contingent liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Please specify (2) (e.g., ESM and Euroarea loa)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Residual, including asset changes ^{8/}	2.6	-1.3	-2.0	-0.6	-0.4	-0.1	0.0	0.0	0.0	-1.0	



Source: IMF staff.

1/ Public sector is defined as general government.

2/ Based on available data.

3/ Long-term bond spread over U.S. bonds.

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

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

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

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

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

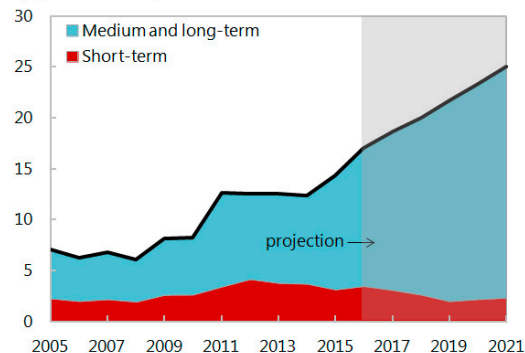
9/ Assumes that key variables (real GDP growth, real interest rate, and other identified debt-creating flows) remain at the level of the last projection year.

10/ Pre-2016 does not include amortization.

Figure 2. Nigeria: Public DSA—Composition of Public Debt and Alternative Scenario

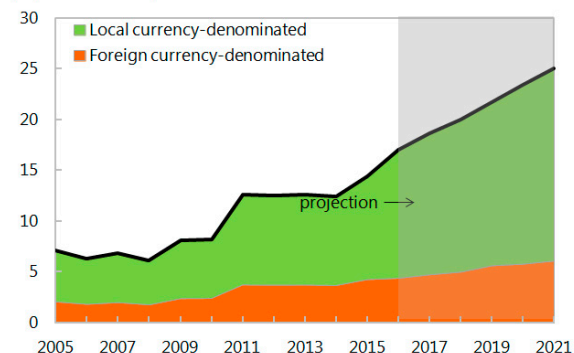
By Maturity

(in percent of GDP)



By Currency

(in percent of GDP)

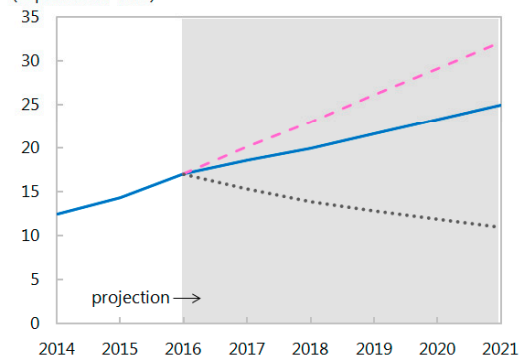


Alternative Scenarios

— Baseline Historical - - - Constant Primary Balance

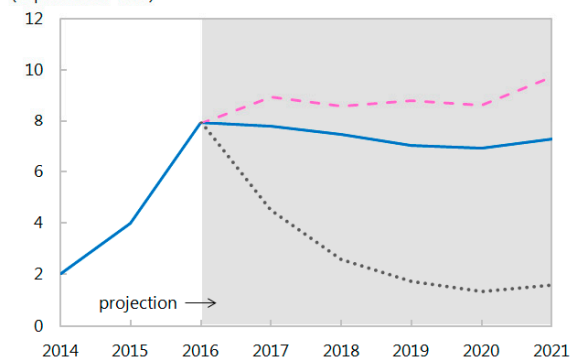
Gross Nominal Public Debt

(in percent of GDP)



Public Gross Financing Needs

(in percent of GDP)



Underlying Assumptions

(in percent)

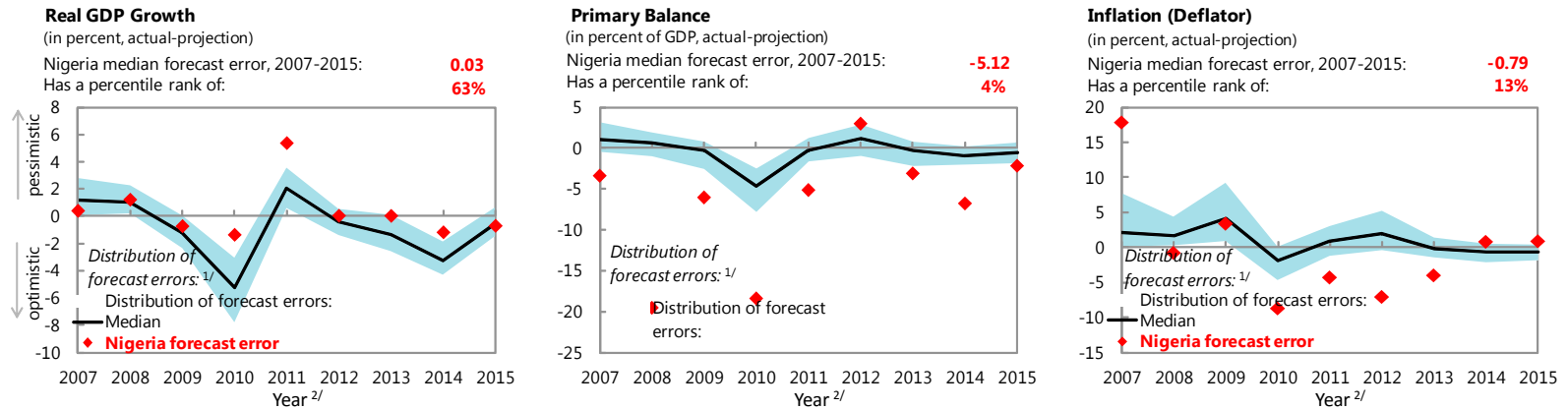
Baseline Scenario	2016	2017	2018	2019	2020	2021
Real GDP growth	2.3	3.5	3.9	3.7	3.9	4.0
Inflation	8.7	11.7	11.3	9.9	8.5	7.5
Primary Balance	-3.9	-3.3	-2.9	-2.9	-2.8	-2.8
Effective interest rate	6.2	6.5	6.5	7.5	6.7	6.3
Constant Primary Balance Scenario						
Real GDP growth	2.3	3.5	3.9	3.7	3.9	4.0
Inflation	8.7	11.7	11.3	9.9	8.5	7.5
Primary Balance	-3.9	-3.9	-3.9	-3.9	-3.9	-3.9
Effective interest rate	6.2	6.5	6.7	7.6	6.9	6.4

Historical Scenario	2016	2017	2018	2019	2020	2021
Real GDP growth	2.3	6.8	6.8	6.8	6.8	6.8
Inflation	8.7	11.7	11.3	9.9	8.5	7.5
Primary Balance	-3.9	0.4	0.4	0.4	0.4	0.4
Effective interest rate	6.2	6.5	7.8	8.4	8.0	7.9

Source: IMF staff.

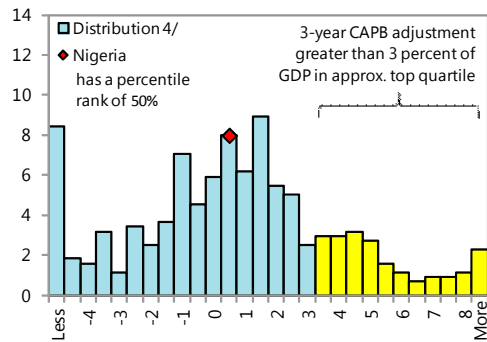
Figure 3. Nigeria: Public DSA—Realism of Baseline Assumptions

Forecast Track Record, versus surveillance countries

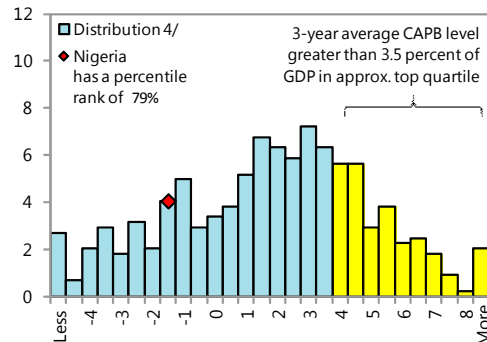


Assessing the Realism of Projected Fiscal Adjustment

3-Year Adjustment in Cyclically-Adjusted Primary Balance (CAPB)
(Percent of GDP)

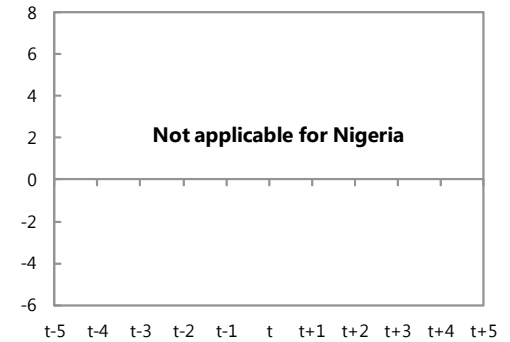


3-Year Average Level of Cyclically-Adjusted Primary Balance (CAPB)
(Percent of GDP)



Boom-Bust Analysis^{3/}

Real GDP growth
(in percent)



Source : IMF Staff.

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

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

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

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

Figure 4. Nigeria: Public DSA—Risk Assessment

Heat Map

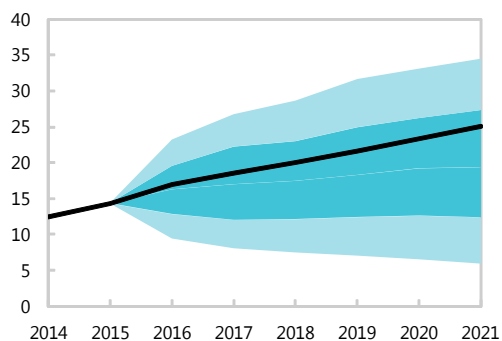
Debt level ^{1/}	Real GDP Growth Shock	Primary Balance Shock	Real Interest Rate Shock	Exchange Rate Shock	Contingent Liability shock
Gross financing needs ^{2/}	Real GDP Growth Shock	Primary Balance Shock	Real Interest Rate Shock	Exchange Rate Shock	Contingent Liability Shock
Debt profile ^{3/}	Market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

Evolution of Predictive Densities of Gross Nominal Public Debt

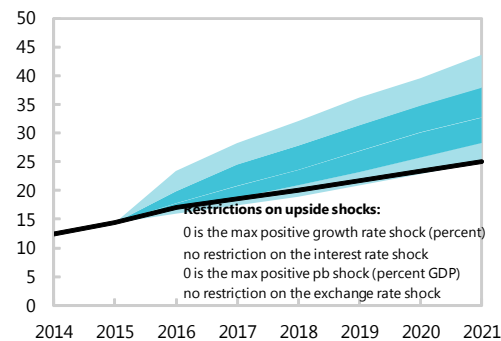
(in percent of GDP)

— Baseline Percentiles: ■ 10th-25th ■ 25th-75th ■ 75th-90th

Symmetric Distribution

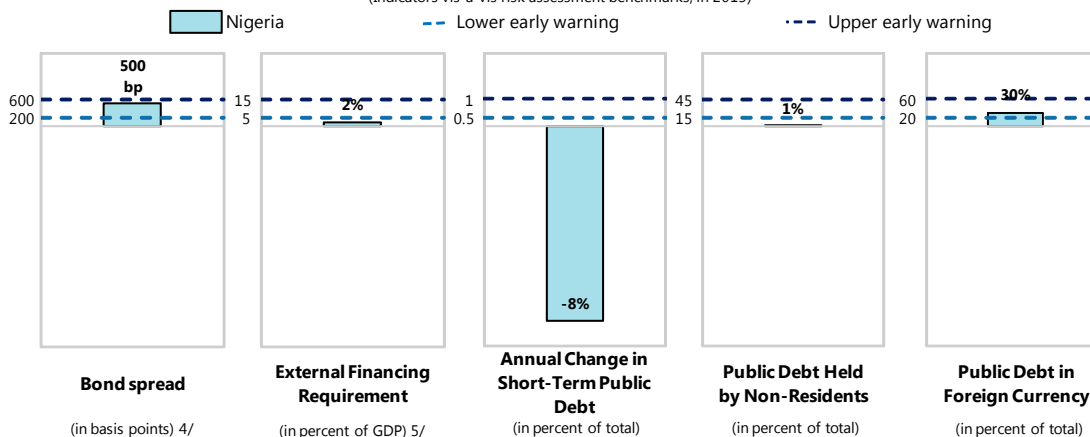


Restricted (Asymmetric) Distribution



Debt Profile Vulnerabilities

(Indicators vis-à-vis risk assessment benchmarks, in 2015)



Source: IMF staff.

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

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

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

Lower and upper risk-assessment benchmarks are:

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

4/ Long-term bond spread over U.S. bonds, an average over the last 3 months.

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

Figure 5. Nigeria: Public DSA—Stress Tests

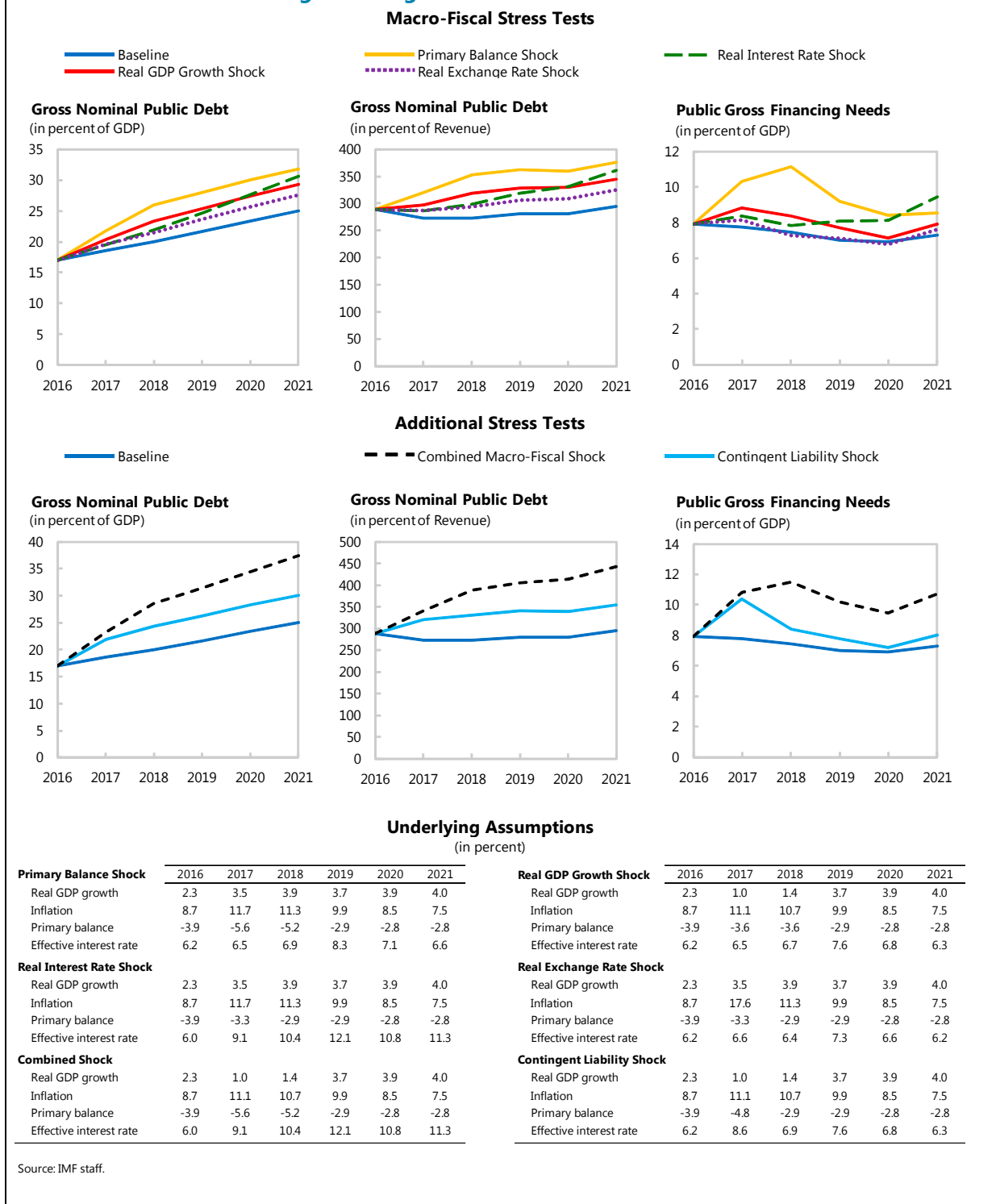


Table 1. Nigeria: External Debt Sustainability Framework, 2011-2021
(In percent of GDP, unless otherwise indicated)

	Actual					Projections						Debt-stabilizing non-interest current account 7/ -0.6	
	2011	2012	2013	2014	2015 est.	2016	2017	2018	2019	2020	2021		
Baseline: External debt 1/	5.8	7.1	6.5	7.9	10.0	10.5	10.3	10.5	11.0	11.5	12.0		
Change in external debt	0.6	1.3	-0.6	1.4	2.1	0.5	-0.1	0.2	0.5	0.5	0.5		
Identified external debt-creating flows (4+8+9)	-5.8	-7.7	-6.4	-1.7	3.0	1.7	0.4	-0.2	-0.4	-0.5	-0.7		
Current account deficit, excluding interest payments	-3.4	-4.5	-4.2	-0.8	1.7	2.1	1.0	0.4	0.2	0.1	-0.1		
Deficit in balance of goods and services	-3.3	-4.1	-4.5	0.3	3.4	4.8	3.4	2.7	2.6	2.5	2.4		
Exports	24.0	20.7	18.7	14.7	10.2	7.3	7.7	7.9	7.9	8.0	8.0		
Imports	20.8	16.6	14.2	15.0	13.7	12.1	11.2	10.6	10.5	10.5	10.5		
Net non-debt creating capital inflows (negative)	-2.2	-2.9	-1.8	-0.7	-0.6	-0.9	-1.0	-1.0	-1.1	-1.1	-1.1		
Automatic debt dynamics 2/	-0.3	-0.3	-0.4	-0.1	1.8	0.5	0.4	0.4	0.4	0.5	0.5		
Contribution from nominal interest rate	0.3	0.3	0.4	0.5	0.7	0.7	0.7	0.7	0.8	0.9	0.9		
Contribution from real GDP growth	-0.2	-0.2	-0.3	-0.4	-0.2	-0.2	-0.3	-0.4	-0.4	-0.4	-0.4		
Contribution from price and exchange rate changes 3/	-0.3	-0.4	-0.4	-0.2	1.4	...	...	...	...	...	...
Residual, incl. change in gross foreign assets (2-3) 4/	6.4	9.0	5.8	3.1	-0.9	-1.2	-0.5	0.4	0.9	1.0	1.1		
External debt-to-exports ratio (in percent)	24.1	34.2	34.7	53.7	97.9	143.8	133.5	133.6	139.4	143.6	149.0		
Gross external financing need (in billions of US dollars) 5/	-3.3	-8.6	-8.7	13.4	27.9	32.6	31.0	30.3	30.9	31.8	32.6		
in percent of GDP	-0.8	-1.8	-1.7	2.3	5.7	6.1	5.0	4.4	4.4	4.3	4.3		
Scenario with key variables at their historical averages 6/						10.0	6.7	4.0	1.4	-1.0	-3.3	-1.5	
						10-Year Historical Average	10-Year Standard Deviation						
Key Macroeconomic Assumptions Underlying Baseline													
Real GDP growth (in percent)	4.9	4.3	5.4	6.3	2.7	6.8	2.4	2.3	3.5	3.9	3.7	3.9	4.0
GDP deflator in US dollars (change in percent)	6.8	7.0	6.0	3.5	-16.8	5.6	15.6	7.2	11.6	5.9	0.3	-0.4	-0.6
Nominal external interest rate (in percent)	5.9	6.1	5.7	7.9	7.2	5.8	1.4	7.3	7.5	7.8	8.1	8.1	8.1
Growth of exports (US dollar terms, in percent)	23.2	-3.8	0.8	-13.3	-40.7	3.2	26.3	-21.8	22.6	11.5	4.5	5.1	3.7
Growth of imports (US dollar terms, in percent)	27.2	-10.8	-4.7	16.5	-22.1	9.6	23.4	-3.0	6.9	3.9	3.3	3.8	2.9
Current account balance, excluding interest payments	3.4	4.5	4.2	0.8	-1.7	6.0	5.6	-2.1	-1.0	-0.4	-0.2	-0.1	0.1
Net non-debt creating capital inflows	2.2	2.9	1.8	0.7	0.6	1.7	0.8	0.9	1.0	1.0	1.1	1.1	1.1

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

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

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

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

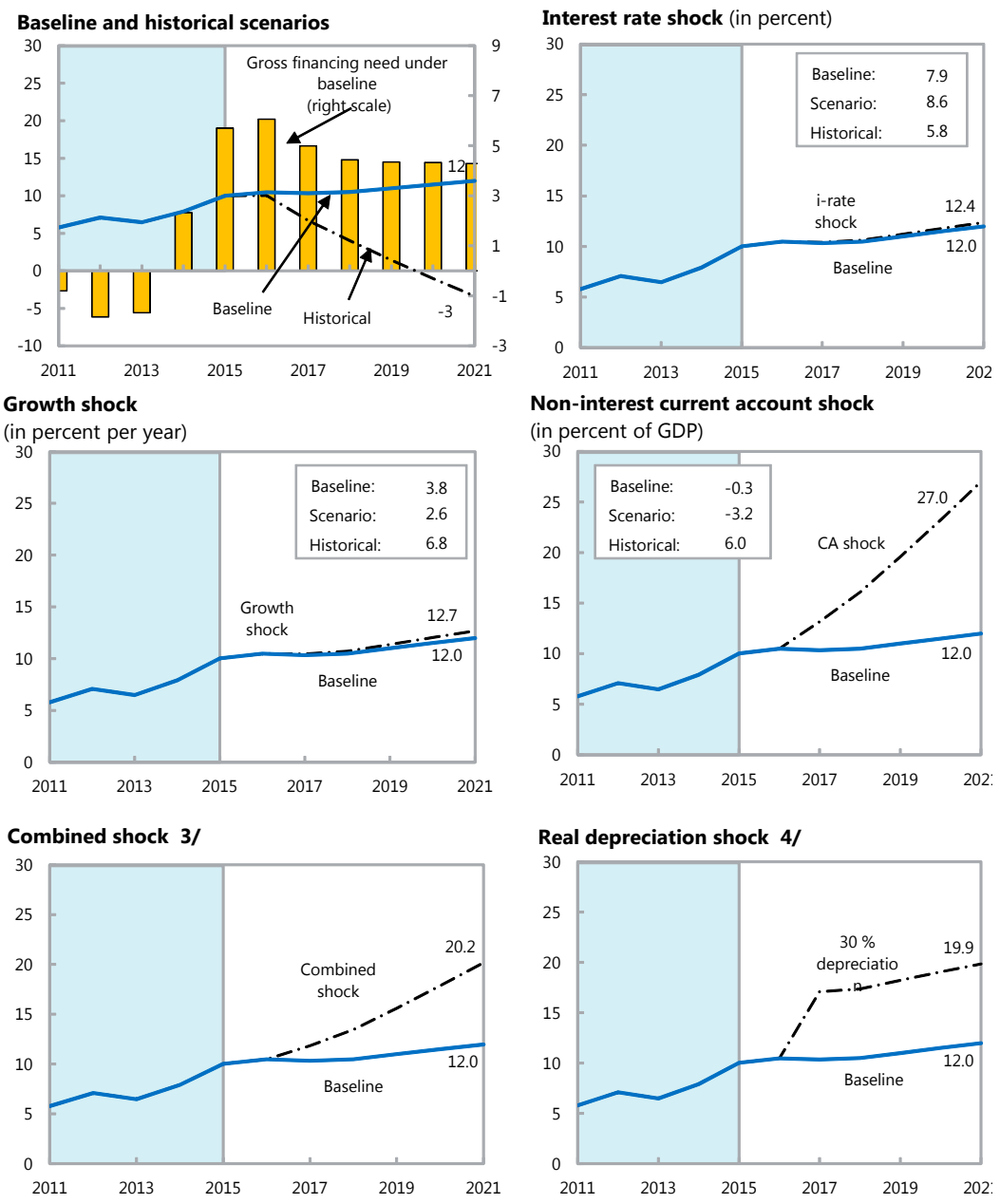
4/ For projection, line includes the impact of price and exchange rate changes.

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

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

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

Figure 6. Nigeria: External Debt Sustainability—Bound Tests ^{1,2}
(External debt in percent of GDP)



Sources: National authorities; International Monetary Fund, country desk data; and IMF staff estimates.
 1/ Shaded areas represent actual data (for 2015, estimates). Individual shocks are permanent one-half standard deviation shocks. Figures in the boxes represent average projections for the respective variables in the baseline and scenario being presented. Ten-year historical average for the variable is also shown.
 2/ For historical scenarios, the historical averages are calculated over the ten-year period, and the information is used to project debt dynamics five years ahead.
 3/ Permanent 1/4 standard deviation shocks applied to real interest rate, real growth rate, and current account balance.
 4/ One-time real depreciation of 30 percent occurs in 2017.

Annex IV. External Sustainability Assessment

Nigeria's external position weakened in 2015, with the current account deteriorating and reserves falling. While data gaps complicate the assessment, staff finds that the real exchange rate is moderately overvalued and that a higher level of external buffers would be advisable given the high dependence on oil and consequent volatility of exports. The low level of non-oil exports points to the need for structural reforms to improve competitiveness, which would contribute to reducing oil dependence and increasing the stability of external receipts.

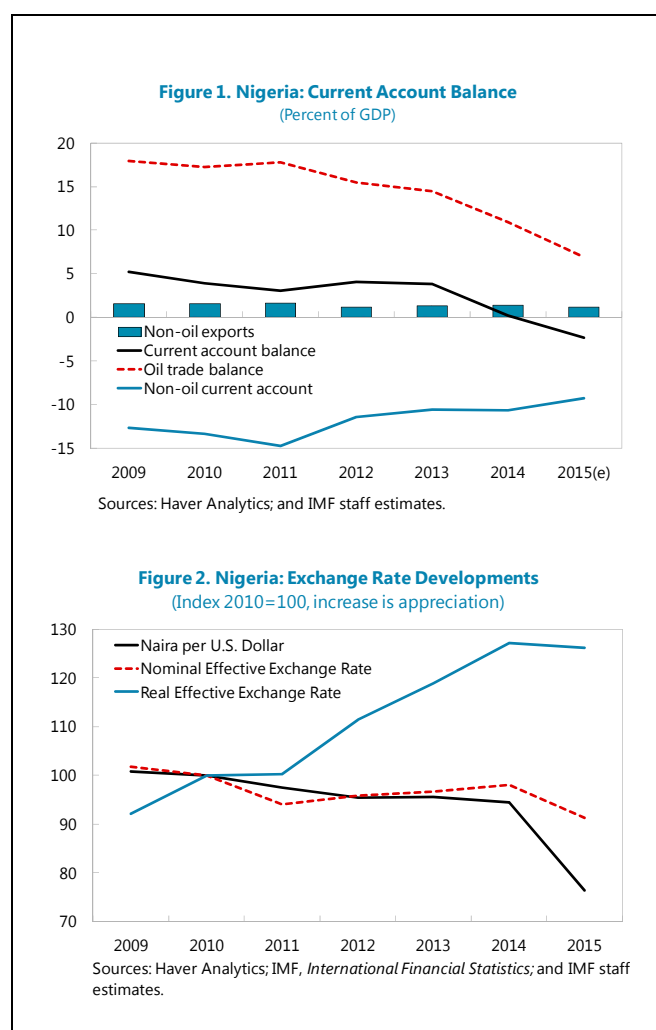
I. Current Account and Exchange Rate

Nigeria's current account balance has shifted to a deficit driven by the decline in oil prices. The oil trade balance, which was over 14 percent of GDP in 2013, fell to less than 7 percent of GDP in 2015 (Figure 1). Other components of the current account have provided partial offset, as deficits in the services and income balances have narrowed (including as a result of lower dividend payments on oil-related foreign investment), and non-oil imports have fallen after spiking in 2014. However, non-oil exports have remained below 2 percent of GDP and oil continues to account for over 80 percent of exports of goods and services.

The naira depreciated against the U.S. dollar by 9 percent in 2015 and a cumulative 19 percent since October 2014, but with the dollar stronger against other currencies, the devaluation has only been about 10 percent in nominal effective terms (Figure 2). With inflation higher than among trading partners, the real effective exchange rate (REER) only depreciated by 3 percent in that time, leaving the naira 25 percent stronger in real terms than in 2011.

Caution is warranted in interpreting the valuation of the naira for both theoretical and practical reasons:

- As an oil producer, Nigeria should be seeking to accumulate financial assets via current account surpluses to preserve at least a portion of the oil wealth for future generations. On the other hand, as a low-income developing country with substantial development needs, a case could be made for using the oil proceeds for infrastructure investment (see SIP on Fiscal Framework).



- From a more near-term perspective, unexpected movements in oil prices could lead to substantial changes in the external position that could affect the assessment.
- In late June the Central Bank of Nigeria imposed restrictions on the acquisition of foreign exchange in the domestic market for the importation of 40 categories of goods. The temporary diversion of demand away from these products would tend to improve the current account in the short run. However, there would be offsets owing to reductions in Nigeria's exports of the affected products as domestic production is diverted to the domestic market, and of exports that use the affected products as inputs. Staff's discussions with the authorities and the private sector suggested these offsets could be sizable. Thus, the impact on the current account of these measures is uncertain.
- Data gaps also add uncertainty. Large errors and omissions outflows suggest imprecision in existing estimates of the current account balance and/or the net foreign asset position, which are two of the main concepts in the assessment. Alternative data sources are used to construct an estimate for portfolio liabilities to non-residents, which is a key input into the assessment of reserve adequacy.

Quantitative estimates of external equilibrium suggest that the naira is moderately overvalued. In particular:

- **EBA-lite current account model.** Under the External Balance Assessment (EBA)-lite methodology, the current account balance is modeled as a function of its fundamentals (fiscal balance, private credit, change in reserves, net foreign assets, oil and gas trade balance, relative income, relative GDP growth, demographics, institutional environment, aid and remittances flows, terms of trade gap, and output gap).¹ The current account reference is the estimated deficit of 2.4 percent of GDP for 2015. The estimated norm was a deficit of 0.2 percent of GDP (Table 1). Macroeconomic policies contributed 1.4 percent of GDP to the current account gap. The policy gap owed to the fiscal deficit and foreign exchange intervention during the year.
- **External sustainability approach.** This approach sets a medium-term current account norm at the level that would bring net foreign assets-to-GDP to zero in ten years, by end-2025. On this basis, the estimated norm is a surplus of 0.9 percent of GDP, compared to the medium-term current account forecast of a deficit of 0.9 percent of GDP (Table 1).
- **Equilibrium REER approach.** This price-based approach directly models a REER norm within a panel framework as a function of the many of the fundamentals used in the EBA approach, with the addition of the real short-term interest rate given its importance in the short-run empirical behavior of exchange rates. The approach has the shortcoming that it relies on fixed effects estimation, which forces each country's regression residuals to sum to zero over the sample period, which may make the results less reliable for countries with a short sample span or where

¹ See IMF Working Paper 13/272.

large structural changes have occurred that are not captured by the regression.² Given the applicability of these caveats to Nigeria, the results of this approach, which suggest an exchange rate gap of 9.5 percent, should be viewed with caution (Table 1).

Table 1. Nigeria: Real Exchange Rate Assessment Results

	EBA-lite Current Account Regression ¹	External Sustainability Approach	Equilibrium RER Regression ¹
Current account reference ²	-2.4	-0.9	--
Current account norm	-0.2	0.9	--
Current account gap	-2.2	-1.8	--
o/w: Policy gap	-1.4	--	--
Real exchange rate gap ³	21.5	17.4	9.5

Source: IMF staff estimates.

¹ Based on External Balance Assessment methodology (IMF Working Paper 13/272).

² For current account regression, 2015 value; for external sustainability approach, 2021 value.

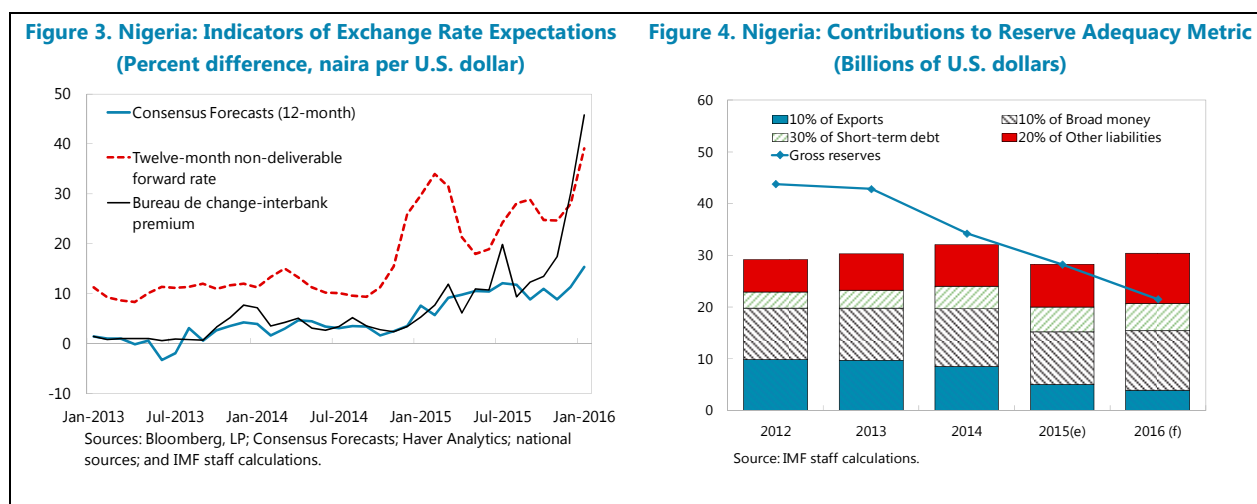
³ Positive numbers indicate overvaluation. Elasticity of current account to real exchange rate gap is 0.10.

These quantitative approaches point to an external position that is weaker than that implied by medium-term fundamentals and desirable policy settings, with a current account gap of 1.5 percent to 2 percent of GDP and a real exchange rate gap of about 15-20 percent. The analysis points to the macroeconomic policy stance as a factor contributing to this outcome. The current account model suggests that over half of the above gaps could have been closed if other macroeconomic policies had been at their desirable settings. This provides a measure of the component of the estimated overvaluation that would ideally be addressed by other policy levers, leaving the remainder to be addressed through real exchange rate adjustment, or, in the medium term, structural policies to improve competitiveness. These dynamics are illustrated by the inability of the 2014-15 devaluations to significantly alter the real effective exchange rate, which points to the need for a package of supportive macroeconomic policies to restore external sustainability.

The behavior of other key indicators is consistent with the picture given by the quantitative approaches. The slow adjustment in the non-oil current account is noted above, driven in part by a drop in non-oil exports that is described in more detail below. In addition, capital inflows have tailed off (see SIP on Capital Flows) and reserves have declined. Finally, the exchange rate implied by

² See IMF Working Paper 13/272. For Nigeria, the fitted value for the late 1990s, when a dual exchange rate regime was in place, is well below the actual REER based on the official exchange rate.

non-deliverable naira forwards traded offshore, the outlook from Consensus Forecasts, and the margin between the interbank and *Bureau de Change* exchange rates all suggest that market participants expect the interbank exchange rate to depreciate (Figure 3).



II. Reserve Adequacy

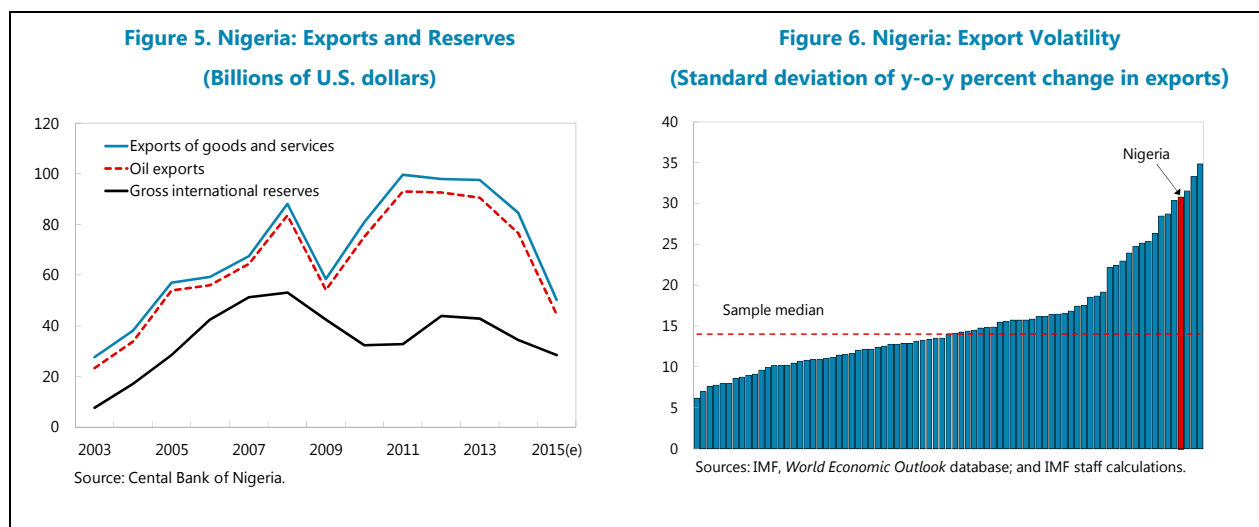
Gross international reserves were \$28.3 billion at end-2015, down from \$42.8 billion at end-2013. Reserves are 100 percent of the IMF's composite metric, at the low end of the adequate range (Figure 4). However, the metric does not capture some factors that would point to a higher level of external vulnerabilities:

- Oil dependence.** Recent IMF work on reserve adequacy has suggested augmenting the composite metric with a buffer for commodity-intensive exporters based on a cautious forecast of futures prices.³ This approach yields a buffer of less than \$1 billion, not fundamentally changing the assessment. Given the degree to which volatility in oil prices has prompted large swings in Nigeria's exports and reserves, this buffer would not seem sufficient to address potential vulnerabilities (Figure 5). For example, the contribution of oil exports to the standard metric dropped almost \$5 billion from 2013–2015 (Figure 4). Indeed, the standard deviation of Nigeria's annual export growth over the last 20 years was the fourth-largest out of 79 emerging market countries, and more than twice that of the median country (Figure 6).⁴ The adequacy range of 100 to 150 percent of the composite metric is selected in view of the uncertainty inherent in the estimation of balance of payments risks. In light of the high volatility of exports

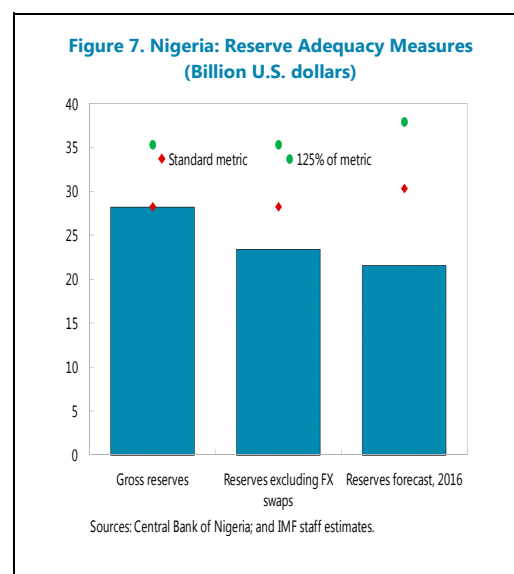
³ See *Assessing Reserve Adequacy—Specific Proposals*, SM/14/334 (12/19/2014). The price applied is one standard deviation below the market futures price, calculated using options on oil futures prices.

⁴ The volatility of broad money to GDP is also in the top quintile of countries in the sample. Lack of data availability for many countries prevented a similar analysis of short-term and other liabilities to non-residents.

and the degree to which this has passed through to reserves, it would be advisable for Nigeria to consider holding a level of reserves in the upper end of the adequacy range, with a floor of at least 125 percent of the metric. In this context, Nigeria's current level of reserves, which is about \$7 billion below the middle of the adequacy range, would not appear sufficient to buffer balance of payments risks (Figure 7).



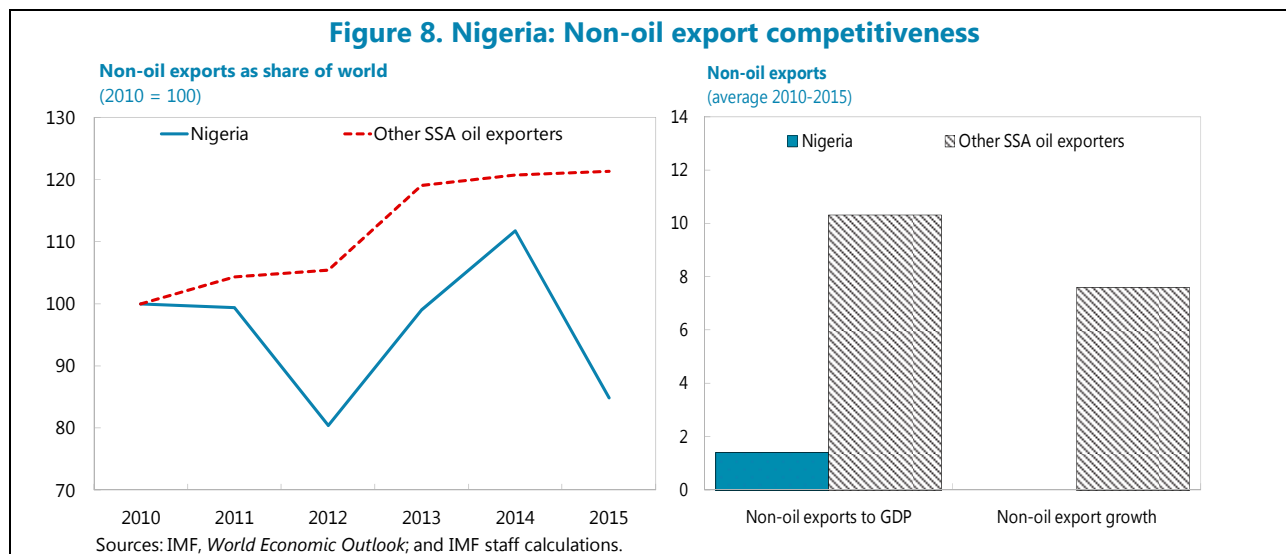
- *Foreign exchange swaps.* Net inflows to the Central Bank from foreign exchange swaps were about \$4.8 billion (17 percent of gross reserves) in 2014 and 2015. This predetermined outflow of foreign exchange implies that the extent of foreign currency liquidity buffers at the disposal of the authorities is lower than the headline gross reserves figure. At end-2015, gross reserves minus foreign exchange swaps stood at about 85 percent of the standard composite metric (Figure 7).
- *Unfavorable balance of payments outlook.* The decline in reserves projected for 2016 would bring gross reserves to less than 75 percent of the composite metric (Figure 7). Under staff's baseline scenario, this shortfall would worsen in the medium term.



III. Competitiveness of Non-Oil Exports

Structural reforms are needed to improve competitiveness over the medium term, which would contribute to reducing oil dependence and increasing the stability of external receipts. Nigeria's

exports of non-oil goods and services amounted to just 1.2 percent of GDP in 2015, and have remained in a narrow range below 2 percent of GDP over the past decade. Performance has lagged that of other Sub-Saharan African oil exporters, who in the last five years have experienced some gains in their world market share and increases in the ratio of non-oil exports to GDP (Figure 8).



While an appreciating real exchange rate and foreign exchange restrictions may explain some of the recent slow growth in Nigeria's non-oil exports, the persistently low level of exports is likely rooted in more structural causes. Previous IMF reports have pointed to structural impediments to growth in general and the export sector in particular.⁵ These include the high cost and unreliability of electricity supply, the low incidence of paved roads, low access to credit, gaps in health and education levels, and shortcomings in the business environment and governance indicators. Several of these areas rank as key reform priorities of the new administration.

IV. Overall Assessment

Taken together, the above analysis suggests that the external position is weaker than that implied by medium-term fundamentals and desirable policy settings, with a current account gap of 1.5 percent to 2 percent of GDP and a real exchange rate gap of about 15 to 20 percent. Furthermore, foreign currency buffers are below desirable levels. The analysis points to the macroeconomic policy stance and structural factors inhibiting competitiveness as factors contributing to these outcomes. It should be noted that this assessment refers to outcomes for 2015 as a whole. With fundamentals changing over the course of the year and into early 2016, especially the continuing low oil prices, the estimated current account and exchange rate gaps, and the associated balance of payments risks, may have increased.

⁵ See Annex 1 of *Nigeria: 2014 Article IV Consultation—Staff Report*, IMF Country Report 15/84; and "Promoting Economic Transformation" in *Nigeria: Selected Issues Paper*, IMF Country Report 15/85.

Annex V. Women and Gender Inclusion

Income-Generating Activities: Women comprise 50.2 percent of the total population and account for about 42 percent of total labor force, which is low compared to peers. The General Household Survey Panel (GHS-panel), which compiled data on income from a nationally representative sample of 5,000 households, reports that agriculture (49 percent) is the main employment sector for men, with trading in second place (10 percent), while trading (37 percent) tops for women, with agriculture in second place (33 percent). Trading is the primary income-generating activity for 42 percent of women aged 45-59 and for 65 percent of women aged 45-59 living in urban areas. Women also spend a significant portion of the day engaged in collecting water and wood for fuel: on average women spend 24 minutes per day while men spend 20 minutes per day with a large regional disparity between women in North Central spending as much as 60 minutes and women in North West spending 13 minutes.

Education: Literacy rates among women aged 15 and above stand at 41 percent, which is low compared to men at 61 percent (in 2008) as well as to other peers in Sub-Saharan Africa Frontier market economies and BRICS. The GHS-panel conducted in 2012/13 also shows higher rates of self-reported literacy for males than for females and the gap increases for older individuals: for 5-9, 39 percent and 37 percent for males and females respectively; while for 20-30, 83 percent and 66 percent for males and females respectively. GHS-panel also shows higher school enrollment rates for males than for females (69 percent and 67 percent respectively) with the lowest enrollment rates for females in North West (50 percent) compared to those in South East (84 percent).

Health: Maternal mortality is higher at 560 per 100,000 live births, compared to 446 for SSA. Health needs in Nigeria are significant with limited access to health care facilities. For example, GHS-Panel shows that the average time to reach the nearest hospital or health facility is 49 minutes for male and 43 minutes for female. The regional disparity is high—for some regions (e.g., North East) the average time is as high as 115 minutes while other regions (e.g., South West), the average time is 27 minutes.

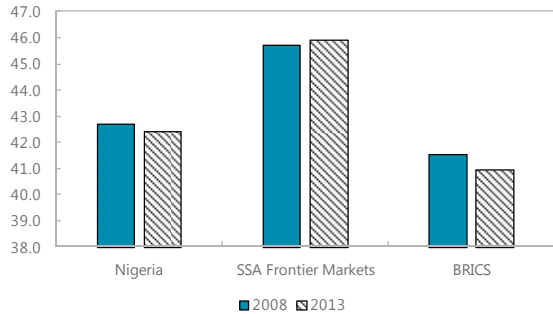
Significant progress has been made in recent years in promoting economic participation and opportunity for Nigerian women, a trend that should feature in the development of Nigeria's sustainable development goals. Key initiatives include:

- In Kano, working with the UK Department for International Development, the authorities have piloted a conditional cash transfer scheme to poor households that is linked to girls' enrolment in school, which is now up by 40 percent. A special development program for north-eastern Nigeria is being developed.
- The government has gone further, introducing gender-sensitive budgeting. In agriculture, Nigeria has enrolled 3 million women into an e-wallet program, providing them with mobile phones so that they can receive subsidized seeds, fertilizers and pesticides.
- In public works, the government is developing women's groups across the country as maintenance clubs to repair local roads. Women are also being given opportunities as subcontractors on public-works projects.
- Finally, the ministry of health is supporting medical programs for young women with support of the World Bank.
- The government also launched the Safe Schools Initiative to provide security so that parents and pupils are reassured about our determination to protect them.

Nigeria: Closing the Gender Gap

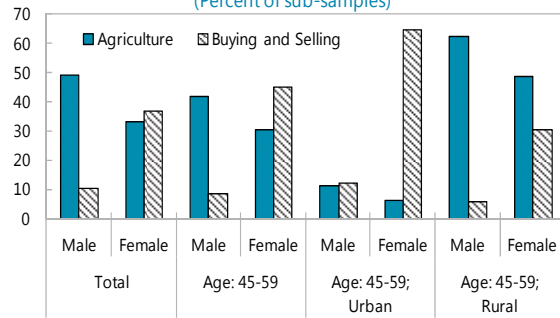
Female labor force participation is low compared to peers.

Labor Force, Female
(Percent of total labor force)



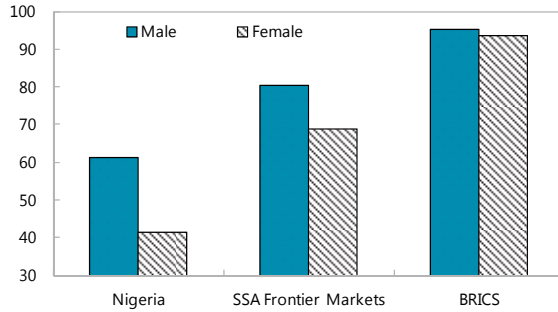
Women play an important role in buying and selling especially in urban areas.

Primary Income-Generating Activity
(Percent of sub-samples)



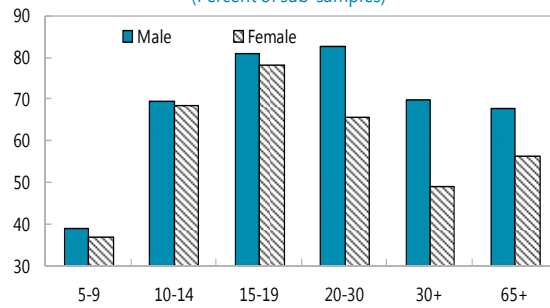
Literacy rates for women in Nigeria are low compared to Nigerian men and peers.

Literacy Rate, Age 15+
(Percent of sub-samples)



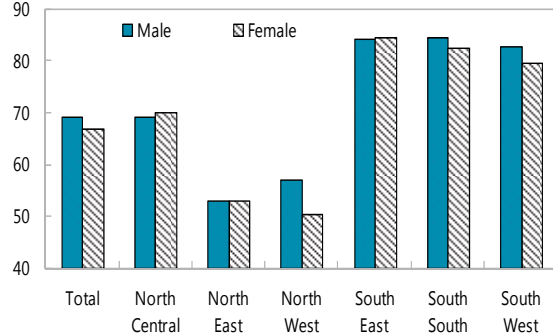
The gender gap is larger for older individuals except for those above 65 years old.

Self-Reported Literacy
(Percent of sub-samples)

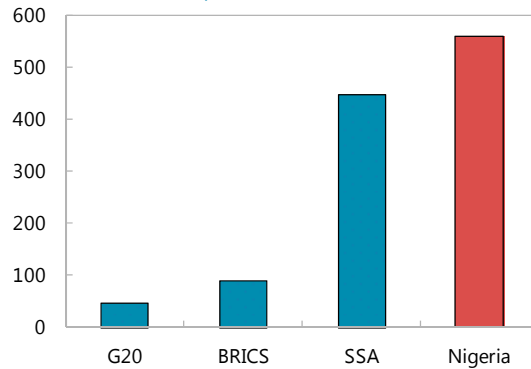


The gender gap in school enrollment is low especially in the North.

Enrollment of Children 5-14 Years Old
(Percent of sub-samples)



Maternal Mortality Rate. 2013
(per 1'000 live births)





NIGERIA

STAFF REPORT FOR THE 2016 ARTICLE IV CONSULTATION—INFORMATIONAL ANNEX

March 17, 2016

Prepared By

The African Department
(In consultation with other departments)

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FUND RELATIONS

(As of February 29, 2016)

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

General Resources Account:	SDR Million	%Quota
Quota	2454.50	100.00
IMF's Holdings of currency	2279.10	100.00
Reserve Tranche Position	0.18	0.01

SDR Department:	SDR Million	%Allocation
Net cumulative allocation	1,675.38	100.00
Holdings	1,499.79	99.98

Outstanding Purchases and Loans: None

Past Engagement:

Arrangement Type	Date of Arrangement	Expiration Date	Amount Approved (SDR Million)	Amount Drawn (SDR Million)
Policy Support Instrument	Oct. 17, 2005	Oct. 16, 2007	n.a.	n.a.
Stand-By	Aug. 04, 2000	Oct. 31, 2001	788.94	0.00
Stand-By	Jan. 09, 1991	Apr. 08, 1992	319.00	0.00
Stand-By	Feb. 03, 1989	Apr. 30, 1990	475.00	0.00

Projected Payments to Fund¹

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

	Forthcoming				
	2016	2017	2018	2019	2020
Principal					
Charges/Interest	0.03	0.03	0.03	0.03	0.03
Total	0.03	0.03	0.03	0.03	0.03

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

Implementation of HIPC Initiative: Not Applicable.

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

Implementation of Post-Catastrophe Debt Relief (PCDR): Not Applicable.

Exchange Rate Arrangement

In Nigeria, the foreign exchange market comprises the interbank and bureau de change segments. The de jure exchange arrangement is a managed float. Nigeria's de facto exchange rate arrangement is a stabilized arrangement, as the Central Bank of Nigeria (CBN) has maintained the naira at a pegged rate within a 2 percent band against the U.S. dollar in the interbank market since March 9, 2015. Nigeria currently maintains the following exchange restrictions and MCP subject to Fund approval under Article VIII, Sections 2(a) and 3, of the IMF's Articles of Agreement: (i) an exchange restriction arising from the prohibition to access foreign exchange at the Nigerian foreign exchange markets for the payment of imports of 40 categories of items; (ii) an exchange restriction arising from the rationing of foreign exchange and its allocation based on the CBN's determination of priority categories of transactions; and (iii) an MCP arising from the large spread between the rate set by the CBN for commercial banks, and the rates in the BDC and parallel market. In addition, existing limits on the amounts of FX available when traveling abroad, which cannot be exceeded even upon verification of the bona fide nature of the transaction, also give rise to an exchange restriction under Article VIII. Nigeria continues to avail itself of the transitional arrangements of Article XIV, although it no longer maintains any restrictions under this provision.

Safeguards Assessment

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

Article IV Consultation

Nigeria is on the standard 12-month Article IV consultation cycle. The previous Article IV consultation was concluded on February 27, 2015.

Technical Assistance (TA)**A. Headquarters:**

Department	Purpose	Time of Delivery
FAD	TSA and cash management	January 1–14, 2014
FAD	JSA Fiscal transparency & reporting (JSA4)	January 10–23, 2014
MCM	Bank Supervision	January 12, 2014–January 11, 2015
MCM	Bank Resolution	January 15–24, 2014
STA	Collaboration with AfDB on Open Data Platform	January 20–24, 2014
STA	Balance of Payments Statistics	April 22–May 5, 2014
STA	National Accounts Statistics	May 12–23, 2014
LEG	Fiscal Tax	May 12–16, 2014
STA	FSI: Financial Soundness Indicators	May 19–23, 2014
FAD	Public Financial Management	July 1–12, 2014
FAD	Public Financial Management	August 4–15, 2014
MCM	Monetary and Foreign Exchange Policy	August 25–September 5, 2014
STA	National Accounts Statistics	September 15–26, 2014
STA	Consumer Prices/Producer Price	September 15–26, 2014
FAD	Tax Administration	October 1–12, 2014
FAD	Public Financial Management	October 1–12, 2014
MCM	Bank Restructuring	October 1–30, 2014
STA	Balance of Payments Statistics	November 17–28, 2014
FAD	Public Financial Management	December 1–12, 2014
MCM	Bank Restructuring	December 1–30, 2014
FAD	Tax Administration	December 15–26, 2014
FAD	Program Budgeting, TSA and Cash Management Performance	January 22–February 4, 2015
STA	Balance of Payments Statistics	March 16–27, 2015
MCM	IFRS Provisioning	March 23–27,
MCM	Training Workshop on Financial Holding Companies Supervision	March 30–April 2, 2015
STA	Price Statistics	April 13–24, 2015
MCM	International Financial Reporting Standards (IFRS) Provisioning	June 15–19, 2015
FAD	Tax and Customs Administration	July 7–31, 2015
MCM	International Financial Reporting Standards (IFRS) Provisioning	August 17–28, 2015
LEG	AML/CFT reform agenda	January 11–25, 2016
STA	Monetary and financial statistics	January 18–29, 2016
FAD	Budget preparation, expenditure review, treasury single account, and cash management reforms	January 20–February 9, 2016
STA	Enhanced General Data Dissemination System (e-GDDS)	February 15–19, 2016

B. West Africa Regional Technical Assistance Center 2 (AFRITAC 2)

Department	Purpose	Time of Delivery
STA	National Accounts Statistics	March 18–20, 2014
AW2	Outreach	November 25–27, 2014
STA	National Accounts Statistics	December 1–12, 2014
FAD	Tax Administration	July 20–31, 2015
FAD	Tax Administration	July 27–August 7, 2015
FAD	Public Financial Management	August 31–September 10, 2015
FAD	Public Financial Management	October 19–23, 2015
STA	National Accounts Statistics	October 26–30, 2015
FAD	Public Financial Management	November 19–December 3, 2015
FAD	Tax Administration	January 18–29, 2016
FAD	Public Financial Management	January 20–February 9, 2016
FAD	Public Financial Management	February 1–5, 2016
FAD	Tax Administration	February 22–March 4, 2016

Resident Representative:

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

JOINT WORLD BANK AND IMF WORK PROGRAM

(As of January 31, 2016)

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

Title	Products	Provisional Timing of Missions (if relevant)	Expected Delivery Date
A. Mutual Information on Relevant Work Programs			
Bank work program in next 12 months	<i>(i) Lending Programs</i>		
	Federal Development Policy Operation	February and March 2016	2016
	Lagos Development Policy Operation (III)	June 2016	Ongoing
	Edo Development Policy Operation (II)	June 2016	Ongoing
	Nigeria PFM Reform & Statistical Capacity Building Project	-	2016 / 2017 2016
	Nigeria Electricity Transmission Project	-	Ongoing
	Nigeria Electricity and Gas Improvement Project	Continuous	
	Power Sector Guarantees Project II	-	2016
	Nigeria Electricity Sector Credit Facility	-	2016
	Public/Private Partnership Project	Continuous	Ongoing
	Growth, Employment, and Markets in States (GEMS)	Continuous	Ongoing
	Public Sector Reform and Governance Development Project	Continuous	Ongoing
	State Expenditure Effectiveness for Opportunities and Results (SEEFOR)	Continuous	Ongoing
	Nigeria Development Finance Project	April 2016	Ongoing
Agriculture DPO 2		2016	

Title	Products	Provisional Timing of Missions (if relevant)	Expected Delivery Date
A. Mutual Information on Relevant Work Programs (continued)			
<i>(ii) Analytical and Advisory Activities</i>			
	Nigeria Economic Report IV and V	Continuous-	2016
	Nigeria Growth and Trade Study	Continuous-	2016
	Programmatic Poverty Assessment	- Continuous-	2016
<i>(iii) Trust Funds, other analyses, and on-going dialogue</i>			
	Governance Partnership Facility Phase 2: Oil Revenue Model Sub-Component	Continuous	Starting in 2015 ¹
IMF work program in next 12 months	<i>Article IV Consultation</i>	January, 2015	Board: March 30, 2015
	<i>Technical assistance</i> <i>(i) Fiscal issues</i> Budget Preparation, Expenditure Review, Treasury Single Account, and Cash Management Reforms	January–February 2016	
	<i>(ii) Monetary and financial issues</i> Bank supervision (MCM)	Long-term expert	Until Jan. 2017
	<i>(iii) Statistics</i> Consumer Price Index	April 2016	

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

Title	Products	Provisional Timing of Missions (if relevant)	Expected Delivery Date
B. Request for Work Program Inputs			
Fund request to Bank	Summary of Bank analysis and support for public financial management at all tiers of governments (including PERs)		Ongoing
Bank request to Fund	Regular update of Fund macroeconomic projections		Ongoing
C. Agreement on Joint Products and Missions			
Joint Mission	Medium-Term Debt Management Strategy (MTDS)	February 2016	March 2016

STATISTICAL ISSUES

(As of March 1, 2016)

I. Assessment of Data Adequacy for Surveillance
<p>General: Data are broadly adequate for surveillance; however data deficiencies remain—in particular, inadequate information on subnational public finances and large errors and omissions in the balance of payments. The Statistics Act of 2007, which established the National Bureau of Statistics (NBS) as the main coordinating agency for data management, has led to a number of improvements, including better information sharing between data producing and collecting agencies. There has been an improvement in the compilation of timely and internally consistent data, for example, the Government Integrated Financial Management Information System (GIFMIS) is now used for budget preparations and the coverage of the Treasury Single Account (TSA) is now completed at the Federal Government level. These efforts are being extended to the subnational levels, including through Fund TA support.</p>
<p>National accounts: Basic statistics are extensively available for the compilation of national accounts and the NBS employed major methodological updates in 2014 by adopting the System of National Accounts (SNA 2008 version), the International Standard Industrial Classification (ISIC revision 4). The weaknesses associated with the reliance on the consumer price index to construct the constant price GDP series has improved by developing the supply and use table (SUT) framework (first time in its history) and collecting producer price data. The introduction of additional indices, such as a producer price index, would facilitate more accurate estimation of the constant price measure. The authorities received Technical Assistance (TA) from the Fund, World Bank, and African Development Bank in completing the GDP rebasing exercise, and ongoing assistance will support the next rebasing, scheduled for 2016. The rebased GDP (base year=2010) and supply and use table reflected the significant change that had taken place in the structure of the economy since the previous rebasing in 1990. In addition, the conduct of a census of businesses, a census of agriculture, and a household living conditions survey in 2014 contributed to further improvements in the measurement of GDP. Further TA support since the rebasing has focused on finalizing the SUT and backcasting for the rebased annual national accounts.</p>
<p>Prices statistics: The official monthly consumer price index (CPI), a composite of urban and rural price data, is available on a timely basis. The index expenditure weights are still based on the 2003/04 National Consumer Expenditure Survey (and therefore are unlikely to be representative of current expenditure patterns) even though a Harmonized Nigeria Living Standard Survey (HNLSS) was conducted during 2009/2010. A TA mission is planned for early 2016 to assist with updating the CPI. The producer price index (PPI) survey was suspended in 2013. The authorities have expressed interest in receiving TA to resume compilation, but a timeline has not been established.</p>
<p>Government finance statistics: The most pressing shortcoming is related to inadequate data coverage, particularly of the subnational governments, which comprise almost one half of total government expenditure. The federal government has limited information on the subnational fiscal accounts, making it difficult to target a consolidated fiscal balance; efforts to address this issue have been stymied by constitutional restrictions. However, the oil price shock and need for financial bailouts at the state and local governments could provide a catalyst for this effort. The CBN disseminates survey data on state and local governments budgets, but survey responses do</p>

not necessarily follow the same definitions, and these data are not consolidated with data from other levels of government. To facilitate the timely preparation of a consolidated set of fiscal accounts, however, governments at all levels need to use budget classification, chart of accounts, and accounting systems that will allow consistent classifications of the data. Current plan for nationwide adoption of International Public Sector Accounting Standards (IPSAS) on a cash basis at the Federal and State levels is ongoing and are instrumental to this end.

Monetary and financial statistics: There have been improvements in the compilation of monetary statistics. Most recently a TA mission from STA visited Abuja (January 18-29, 2016) to discuss and address methodological and compilation issues in monetary and financial statistics (MFS). After the implementation of the International Financial Reporting Standards (IFRS) in the financial statements in most of the other depository corporations (ODCs), the CBN recently embarked on a project to expand the institutional coverage of MFS. There is need to expedite the implementation of the new technological platform by providing the data breakdown for national and foreign currency, as well as better sectorization to help improve the compilation of MFS data. Follow-up work is needed to introduce the standardized report forms (SRF) for other financial corporation's (OFCs), which will be contingent on meeting the established benchmarks, namely: (1) expansion of the ODCs coverage in the MFS compilation; (2) implementation of the call report forms for pension funds, specialized finance and development institutions, and asset management companies; and (3) improve granularity of the currency and maturity breakdown of the monetary survey.

Financial sector surveillance: The CBN compiles financial soundness indicators (FSIs) on a quarterly basis and these FSIs are submitted to STA for public dissemination. The reported FSIs are ten out of twelve of the core set and seven of the encouraged set. The CBN received support from STA to improve the methodology used to compile FSIs. However, efforts need to be made by the CBN to enhance the consolidation basis to capture cross-border activities of Nigerian bank subsidiaries and branches, as well as to report FSIs using a breakdown into domestic and foreign currency.

External sector statistics: There have been significant efforts to improve the compilation of Nigeria's balance of payments data in recent years. Supported by IMF technical assistance, the authorities have expanded the range and improved the quality of data sources, aimed at strengthening the balance of payments and producing an international investment position (IIP). However, large errors and omissions in the balance of payments continue to complicate the assessment of external sustainability. There is a need for improved validation of transactions reported by banks, measurement of transactions outside the banking system, appropriate treatment of transactions of enterprises in free trade zone (using a residency criterion) and improved coverage of estimates of the external assets and liabilities of the banking sector. The five-year DFID/GDDS Phase III Module that ended in 2015 has helped CBN improve source data by recording more accurately cross-border private capital flows and stocks. Further TA from the Fund was requested to assess recent work to reduce large errors and omissions and improve the IIP as well as to validate work on the compilation of flow of funds.

Public external debt data are of good quality and available on a timely basis. The Debt Management Office (DMO) is collaborating closely with the CBN to extend the coverage of their database to include private sector liabilities and foreign investment in domestically issued debt securities.

II. Data Standards and Quality	
<p>Participant in the General Data Dissemination System (GDDS) since 2003.</p> <p>Nigeria is implementing the Enhanced General Data Dissemination System (e-GDDS), including the National Summary Data Page (NSDP), which is available on the National Bureau of Statistics website, utilizing the Open Data Platform.</p>	<p>No Data ROSC is available.</p>

Nigeria: Table of Common Indicators Required for Surveillance

(As of end-February 2016)

	Date of latest observation	Date received	Frequency of Data ¹	Frequency of Reporting ¹	Frequency of Publication ¹
Exchange Rates	Feb. 2016	Feb. 2016	D	D	D
International Reserve Assets and Reserve Liabilities of the Monetary Authorities ²	Dec. 2015	Jan. 2016	M	M	M
Reserve/Base Money	Nov. 2015	Jan. 2015	M	M	M
Broad Money	Nov. 2015	Jan. 2016	M	M	M
Central Bank Balance Sheet	Nov. 2015	Jan. 2016	M	M	M
Consolidated Balance Sheet of the Banking System	Nov. 2015	Jan. 2016	M	M	M
Interest Rates ³	Feb. 2016	Feb. 2016	D	D	D
Consumer Price Index	Jan. 2016	Feb. 2016	M	M	M
Revenue, Expenditure, Balance and Composition of Financing ⁴ —General Government ⁵ and Central Government	2015	March 2016	A	A	A
Revenue, Expenditure, Balance and Composition of Financing ⁴ —General Government ⁵ and Central Government	Dec. 2015	March 2016	M	M	M
Stocks of Central Government and Central Government-Guaranteed Debt ⁶	Dec. 2015	Feb. 2016	Q	Q	Q
External Current Account Balance	Sep. 2015	Dec. 2016	Q	Q	Q
Exports and Imports of Goods and Services	Sep. 2015	Dec. 2016	Q	Q	Q
GDP/GNP	Sep. 2015	Dec. 2015	Q	Q	Q
Gross External Debt (public and private)	2014	Mar. 2015	A	A	A
International Investment Position ⁷	2014	Mar. 2015	A	A	A

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

**Statement by Ms. Kapwepwe, Executive Director for Nigeria
and Mr. Odonye, Senior Advisor to the Executive Director**

March 30, 2016

We thank staff for their constructive engagement with the authorities and the comprehensive Article IV and related reports. Our Nigerian authorities highly appreciate the quality of advice they have received from staff, which has supported their efforts to enhance and maintain macroeconomic stability and growth. Over the last decade, Nigeria has enjoyed strong growth averaging about 7 percent of GDP, prior to the recent collapse in the oil price. Nigeria is facing substantial challenges from a number of major global developments namely, slowdown and rebalancing of the Chinese economy, lower commodity prices, and tightening international financial conditions and the increase in the risk aversion of international investors, as well as regional security concerns. The authorities note the staff analysis, and broadly agree with the recommendations, in particular the need to implement an overall policy mix that ensures resilience against ongoing domestic and external challenges.

Nigeria has made significant progress on its development agenda. Against the backdrop of a maturing political system, the country recorded peaceful general elections last year, which for the first time in its history resulted in a democratic transition between two civilian governments. Nigeria's economy is large and diversified with the oil sector currently less than 10 percent of GDP. The oil sector, which accounts for 75 percent of the total export basket, however, collapsed in the wake of major decline in oil prices with significant negative consequences for the fiscal and current accounts position and a decline in reserves.

Against this mixed background, we welcome staff analysis of the urgency in dealing with the impact of the oil price shock. The authorities fully recognize the large permanent terms-of-trade shock and are in the process of initiating a mix of policies to address the situation. As part of the immediate policy action to revamp the economy, the authorities have approved injection of N350 billion budgeted expenditure in the next few months. Authorities at federal level are also working in collaboration with the state governments to adopt a plan for the gradual increase of the Value Added Tax (VAT) on goods and services. These actions are part of a package of decisions taken at a recent 2-day retreat of the governors in the 36 states of the federation and members of the National Economic Council in Abuja.

Recent Economic Developments and Outlook

Economic performance was weaker in 2015, with growth slowing to 2.7 percent from 6.3 percent in 2014. This was largely driven by the collapse in oil prices and lower economic activity in the

non-oil sector mainly, services, agriculture and trade. Recently, inflation has exceeded the central bank's medium term target band of 6 to 9 percent, up at 11.4 percent in February 2016 and 9.6 percent in December 2015. The rising inflationary pressure was traced to the subsisting shortage of fuel, exchange rate pass-through from imported goods, seasonal factors and higher electricity tariff.

Exports have dropped, pushing the current account to a deficit of 2.4 percent of GDP in 2015 from a surplus of 0.2 percent in 2014. Portfolio inflows also slowed, while foreign exchange shortage, fuel scarcity, and security concerns affected private sector activity. Unlike the global crisis in 2008-09, the non-oil corporate sector entered the crisis in 2014-15 with weaker performance and more leveraged balance sheets. A further deterioration of the corporate sector could weaken bank resilience and extension of credit to the economy.

Economic activity is expected to slow in 2016 before a moderate recovery in 2017 and thereafter. Improvement in the terms of trade, strengthened governance in the oil sector anchored on the revised Petroleum Industry Bill (PIB), and further improvements in electricity and energy sectors are expected to drive growth in the immediate to medium term. However, there are significant downside risks related to uncertainty about the path of oil prices, tighter financing conditions, and a delay in access to planned external financing.

Macroeconomic Policies and Reforms

The economy is confronting substantial challenges and the authorities are implementing policy measures to address the drop in revenue and revamp the economy. Considering the multiple challenges facing the economy, the authorities have firmly resolved to collaborate and undertake complementary policies to reinvigorate growth.

Fiscal Policy

Mindful of the lower oil price environment, the authorities have pursued prudent fiscal policies that have sought to mobilize non-oil revenue, contain recurrent expenditure, and ensure debt sustainability. The 2016 budget proposes raising non-oil revenue by 0.4 percent, and further enhancing resources through more efficiency in the sector, including improvement in tax compliance, broadening the base, closing loopholes, and reducing tax exemptions. The authorities are also seriously considering increasing the VAT rate over the medium term as mentioned earlier. Enhancing capital expenditure is aimed at propelling growth to significantly narrow the gap in infrastructure spending going forward. Further, the authorities remain committed to improve value for money on capital spending. At the same time, efforts are focused

on streamlining the cost of government and improve the efficiency of public service as highlighted by establishing the efficiency unit. This will reduce gross financing needs.

The authorities are also planning on accessing both market and multilateral external financing going forward as proposed in the 2016 budget.

Monetary and Exchange Rate Policy

The primary objective of monetary policy is price stability. Given Nigeria's developmental needs, price stability aims to support growth and employment creation. Monetary policy continues to play an important role in supporting economic activity in Nigeria. The CBN maintained accommodative monetary policy since July 2015 so as to boost financing in the real sector. Over the period, the authorities freed more funds to Deposit Money Banks (DMBs) by lowering both Cash Reserve Ratio (CRR) and Monetary Policy Rate (MPR). However, as the balance of risks tilted against price stability, the recent decision in March 2016 increased the MPR and the CRR to 11 percent by 100 basis points and 22.50 percent by 250 basis points, respectively.

The Monetary Policy Committee (MPC) continues efforts to convey its decisions transparently to gauge markets expectations. In 2016, the Committee expects to do more through greater collaboration with the fiscal authorities, and by communicating more frequently with the relevant players, including the media, academics and the trade unions. The actual path that MPR will follow over the next few years will depend on the speed of implementation of the structural reforms in the country and the economic circumstances.

The authorities envision Nigeria to become a less oil dependent economy in the medium term and in tandem with the transformation, the CBN is gradually shifting from monetary targeting to a more price-based monetary policy. The CBN continues to provide FX to the interbank foreign exchange market for approved transactions. The foreign exchange measures recently introduced by the Bank are temporary, and remain in force to moderate impact of the declining oil prices by slowing the loss of reserves. The measures have stimulated production and employment in some sectors. Nonetheless, the authorities are evaluating the modalities of a gradual unwinding from the measures while strengthening policies to restore reserves to adequate levels.

Banking and Financial System Stability

Safeguarding banking system stability remains a key priority. Risk-Based Supervision (RBS) remains the cornerstone of supervision and regulation in Nigeria. The CBN has kept an eye on all DMBs and rates them as sound and resilient amidst headwinds from the global economy. The

Financial System Stability Committee (FSSC) established last year, has identified risks to financial stability through bank supervisors/examiners. The CBN has taken action by assigning exposure limits to mitigate risks emanating from different sectors especially oil and gas, a high source of vulnerability to the Nigerian banking system, and a focus of the 2014 Article IV Consultations.

Although the FSSC judges that oil and gas sector indebtedness does not pose an imminent threat to stability, the CBN remains vigilant, ready to tackle risks that might still arise from the sector. In addition, the CBN also continues to monitor the health of the banking system and has taken proactive measures, including increasing the general provisions for non performing loans to 2 percent from 1 percent, and introducing regulation on capital distribution. Overall, the banking system liquidity remains above threshold and increased from 45.68 percent in December 2014 to 48.63 percent in December 2015.

Structural Reforms

The authorities remain committed to advancing structural reforms to smooth transition to a lower oil-dependent, competitive, investment-driven economy. Efforts are geared to strengthen anti-money laundering and financial sector supervision. The strategies include promoting targeted and core infrastructure; integrated transport network; housing; reducing business environment costs through greater transparency and accountability; encouraging value-chain sector linkages; and promoting employment of youth and women.

They remain focused on ongoing improvement of efficiency of the public sector service delivery, acceleration and broadening of public financial management reforms, and improvement of capacity at sub-national levels as well as creation of enabling environment to attract investment. Adopting a sound Petroleum Industry Bill (PIB) is being emphasized to strengthen the regulatory framework for the oil sector and enhance its transparency and integrity.

Infrastructure particularly, energy, power and transportation need to be improved to support industries. The authorities are prioritizing near-completed and high-impact projects that are consistent with the government development strategy, and implementing complementary measures to create an enabling environment for businesses. They are also reviewing projects suitable for Public Private Partnership (PPPs), and have completed some feasibility studies. In addition, the authorities have set up the monitoring and evaluation (M&E) framework for the assessment of projects and will periodically publish the assessment to enhance transparency and regain confidence in the government.

In the policy discussion series (see selected issues SM/16/70), staff presents the results of three studies to strengthen the economy and achieve a sustainable growth path. The Nigerian authorities welcome these studies, and are evaluating the scope of the analysis and feasibility of the proposed recommendations with a view to informing future policy decision.

Conclusion

Nigeria is facing substantial, though not insurmountable, economic challenges. Lower oil prices have significantly affected the fiscal and external accounts decimating government revenue. . The Government's strategy for rebuilding key infrastructure resonates well as a testimony of the authorities' commitment. In an environment where the global risks are increasing, the authorities remain focused to continue to work through plans to build on the current momentum, strengthen resilience and prepare the country for challenges ahead both externally and domestically