August 2001
IMF Country Report No. 01/131

# Nigeria: 2001 Article IV Consultation—Staff Report; Staff Statement; and Public Information Notice on the Executive Board Discussion

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of the 2001 Article IV consultation with Nigeria, the following documents have been released and are included in this package:

- the Staff Report for the 2001 Article IV Consultation, prepared by a staff team of the IMF, following discussions that ended in **April 2001,** with the officials of Nigeria on economic developments and policies. **Based on information available at the time of these discussions, the staff report was completed on June 14, 2001.** The views expressed in the staff report are those of the staff team and do not necessarily reflect the views of the Executive Board of the IMF.

- a staff statement of **June 29, 2001**, updating information on recent economic developments.

- a Public Information Notice (PIN), summarizing the **views of the Executive Board as expressed during its June 29, 2001 discussion** of the staff report that completed the review.

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

Selected Issues and Statistical Appendix

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

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

Copies of this report are available to the public from

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

Price: $15.00 a copy

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

INTERNATIONAL MONETARY FUND

NIGERIA

**Staff Report for the 2001 Article IV Consultation**

Prepared by the Staff Representatives for the
2001 Consultation with Nigeria

Approved by G.E. Gondwe and Mark Allen

June 14, 2001

- The 2001 Article IV consultation discussions with Nigeria were held in Lagos and Abuja during March 8–23, 2001 and were concluded during the Spring Meetings. The Nigerian representatives included the Vice-President, the Minister of Finance, the Chief Economic Advisor to the President, the Governor of the Central Bank of Nigeria (CBN), the Minister of Trade and Tourism, the Minister of Justice, and other senior officials. The staff team also met with representatives of the National Assembly, business community, the labor congress, and civil society.

- The staff representatives were Mr. Hino (Head), Mr. Andrews, Mr. Subramanian, Mr. Almekinders (all AFR), Mr. Chauffour (PDR), Mr. Doe (FAD) and Ms. Vibar (Administrative Assistant-AFR). The mission was assisted by Mr. van Til and Mr. Dunn from the resident mission in Abuja. Mr. Bradshaw (OMD) joined the mission to take part in discussions on technical assistance priorities. The mission collaborated with the World Bank resident Country Director and country economist for Nigeria. Mr. Atoloye from the Executive Director's office participated in the discussions.

- Although Nigeria has not yet accepted the obligations of Article VIII, Sections 2, 3, 4, it no longer maintains any restrictions under Article XIV. However, Nigeria maintains a multiple currency practice. It has no outstanding use of Fund credit.

Contents Page

Contents

Page

## Executive Summary

Serious macroeconomic imbalances have emerged in Nigeria over the last year. Inflation has accelerated to double-digit levels, and instability has prevailed in the foreign exchange market. Although there has also been a rebound in economic activity, this is likely to prove temporary in the wake of the imbalances.

Against the backdrop of pressures to deliver a "democracy dividend," spending surged, absorbing the large oil windfall gains. In 2000, large wage overruns led to much higher levels of government spending than anticipated. The 2001 budget envisages sharply higher spending, which also raises concerns about the quality of spending. Monetary tightening has come too late and been too gradual to forestall inflationary pressures. Moreover, the Central Bank of Nigeria (CBN) has reverted to a system of selling foreign exchange at a predetermined price, and the differential between the CBN's rate and the parallel market rate has widened substantially. Structural reforms and measures to improve governance were both delayed.

Tensions between the government and the National Assembly, ethnic and religious conflicts, and the absence of requisite technical capacity in the civil service have all hampered progress. Moreover, the 1999 constitution, which gives state and local governments full and automatic rights to their share of oil revenues, and their insistence on spending them, have made prudent management of oil windfall gains difficult.

Nevertheless, a series of useful, if modest, achievements has been made over the last two years. The government has decided to restrain spending to preserve macroeconomic stability. Monetary policy has been tightened, with signs of calm returning to the foreign exchange market. The privatization process has gained momentum and several actions have been taken to lay the groundwork for improving transparency and accountability in the use of public funds.

These achievements offer a modest basis to build on as market-based reforms and the restoration of macroeconomic stability are pursued. Above all, it is critical that for 2001 the federal government adhere to its intention to restrain spending. The quality of spending also needs to be ensured through strict compliance with due process. Further tightening of monetary policy may be needed to bring inflation down to single digits and substantially narrow the differential between the CBN and parallel market rates.

Maintaining the momentum of privatization will be essential to laying the foundation for a private sector-driven improvement of medium-term growth prospects. The government's anticorruption measures will have to be particularly strong to tackle deep-rooted problems and make a dent in firmly entrenched perceptions in the private sector. Moreover, the capacity to implement economic reforms is inadequate, particularly in relation to the budget process. In this context, donors need to enhance and coordinate their assistance.

Even with a determined pursuit of economic reforms, Nigeria will need concessional assistance from the international community. Steadfast implementation of these reforms should help Nigeria garner the support of the international community in seeking to reduce its debt burden.

If the authorities implement the actions necessary to reinvigorate their economic program, the staff would recommend that the Board complete the first review under the current Stand-By Arrangement and extend the arrangement by six months. The authorities intend to seek a successor three-year arrangement. The broad support of state and local governments, National Assembly, and civil society will be important for the success of the economic reform and poverty reduction strategy.

## I. Introduction

1. **The last Article IV consultation was concluded on December 8, 1999.** At that time, Directors noted that an exceptional window of opportunity existed for Nigeria to undertake ambitious and wide-ranging reforms to lay the basis for a renewal of confidence and sustained economic development. They considered that a tightening of the fiscal stance was needed, and cautioned that the delegation of fiscal responsibilities to lower levels of government should be consistent with their institutional capacity. They viewed the decisive implementation of the privatization program as a key element of the reform agenda and emphasized the importance of transparency, good governance, a strong judiciary, and institution building for sustained economic recovery.

2. Since then, the Executive Board met on Nigeria, formally or informally, on a number of occasions, including on August 4, 2000 when a 12-month precautionary Stand-By Arrangement in the amount of SDR 788.94 million (45 percent of quota) was approved in support of a program for July 2000–June 2001. The first review under the Arrangement was to have been completed by end-December 2000, but it has been delayed in view of deviations from program targets. In the informal discussion of February 7, Directors expressed their disappointment with Nigeria's performance under the Stand-By Arrangement. They endorsed the staff's plan to bring the first review, together with the Article IV consultation, to the Executive Board for its consideration in May, following the completion of actions to bring the program back on track and an agreement on the economic program for January–June 2000. **In the event, the Nigerian authorities were unable to complete some of the key prior actions.**

3. Notwithstanding this disappointing performance, **the Nigerian authorities strongly wish to complete the current Stand-By Arrangement—albeit with a delay—and, then, enter into a successor, three-year arrangement.** The latter would help provide continuity in economic policy implementation into the next administration (which will take office after the next general elections scheduled for February 2003), and assist the authorities in tackling widespread poverty. Under the circumstances, the staff would recommend that the Executive Board consider, in early August 2001, the authorities' request for completion of the first review and an extension of the current arrangement by six months to February 4, 2002, if (a) certain measures are taken by the end of June as reported in this paper; and (b) a satisfactory understanding is reached on the economic program for the second half of the year.

4. Summaries of Nigeria's relations with the Fund and with the World Bank Group are presented in Appendices I and II, respectively. A discussion of statistical issues is contained in Appendix III, while selected social and demographic indicators are provided in Appendix IV. The performance under the Stand-By Arrangement is summarized in Appendix V. Medium-term growth prospects are described in Appendix VI, while a debt sustainability analysis is found in Appendix VII. Appendix VIII reviews Fund technical assistance since 1999 and the Technical Cooperation Plan (TCAP). A tentative work program is presented in Appendix IX. Selected economic and financial indicators are provided in Table 1.

## II. Background

5. The present administration took office in May 1999, following 20 years of military rule, mismanagement, and the destruction of civil institutions. **It pledged to fight corruption; ease the infrastructure bottlenecks, particularly for power and petrol; improve education, health, and other basic public services; accelerate privatization; and reestablish government institutions that serve the public.** Its aims were to promote private investment, revive the economy, and reduce unemployment, while restoring macroeconomic stability. The new administration declared its intention to work closely with the international community to help deliver a "democracy dividend" to the Nigerian public.

6. **Several factors have, however, hampered progress.** First, for much of 2000, the government was involved in a bitter political battle with the National Assembly—in essence, to delineate the boundaries of their respective authorities under the new democracy. At stake, among other issues, was the responsibility of the executive vis-à-vis the legislature in the formulation, implementation, and monitoring of the federal government budget. Second, strong ethnic and religious tensions surfaced with the cessation of military rule which have claimed many lives and, at times, threatened national unity. While such tensions appear to have eased, the undercurrent of these conflicts continues to constrain economic policy decisions. Third, under democracy, labor unions have emerged as an effective force in challenging certain of the government's policy measures. Massive protests, organized by the labor unions, forced the government to roll back its decision to remove the petroleum subsidy and deregulate the downstream petroleum sectors. Fourth, the absence of the requisite technical capacity in the civil service, coupled with opposition from parts of the government, meant that reform measures could not be pushed through as swiftly as wished.

7. In addition, **the new constitution, which gives state and local governments full and automatic right to their shares of the oil revenues, has severely constrained the management of oil windfall gains.** The 2000 oil windfall, defined as oil revenue in excess of US$20 per barrel (so-called excess proceeds), amounted to US$4 billion, or 10 percent of GDP. About one-half of this accrued to subfederal governments, which was distributed equally in the last quarter of 2000 and the first quarter of 2001.[1] Reflecting in part the latter, spending by state and local governments is expected to increase in 2001 by about 4 percent of GDP.

8. Moreover, **the sharp contrast between the democracy dividend promised by the democratic government and the lack of discernible improvements in living standards—symbolized by the continued power outages and gasoline shortages—fueled pressures on the federal government to revert to the old—and failed—paradigm of employment and income creation through big public spending.** Thus, the federal government more than doubled public service wages in May 2000 (which the authorities felt necessary to

---

[1]The other half accrued to the federal government, which spent its share of excess proceeds distributed in 2000, but intends to save the excess proceeds it received in 2001.

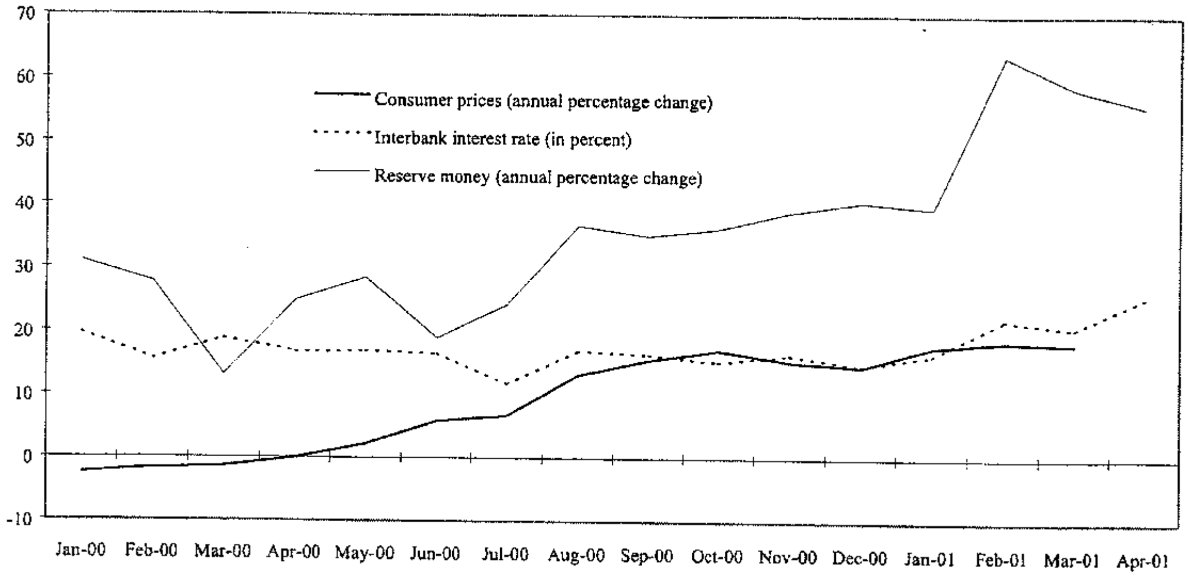
compensate for the substantial erosion of real wages and to reduce petty corruption). After a prolonged dispute, the federal government agreed in July to support the 2000 budget, which envisaged a sharp increase in consolidated government spending to 43 percent of GDP, nearly all of which was eventually spent. The federal government then proposed, and the National Assembly approved, the 2001 budget that provided for a further increase of the consolidated government spending to 53 percent of GDP (Table 2b).

9. **With inflation negative in early 2000, the Central Bank of Nigeria (CBN) pursued a policy of low interest rates to help reflate the economy.** The minimum rediscount rate was reduced in three steps from 18 percent in December 1999 to 14 percent in December 2000, and the cash reserve requirement was reduced in two steps from 12 percent to 10 percent during the same period. Moreover, the CBN transferred in December to the federal government the proceeds of the earlier sale of ₦100 billion worth of treasury bills (38 percent of end-1999 reserve money), which fully offset the sterilization it had undertaken earlier in the year. To ensure a reserve build-up of US$4 billion—the amount of excess oil proceeds in 2000—the CBN did not sterilize the liquidity injection from the fiscal operations with increased sales of foreign exchange. Thus, reserve money expanded by 40 percent in 2000 (Table 3), with much of the growth having occurred in December. As inflation picked up, the interest rate turned negative in real terms. The CBN began to shift its monetary policy stance in early 2001, but reserve money continued to expand at a rapid pace.

10. The large government spending, together with the buoyant oil sector, appears to have given a temporary boost to the economy (real GDP grew by an estimated 3.8 percent in 2000, Table 1), but **macroeconomic stability has come under serious threat**. Inflation, as measured by the 12-month increase in the consumer price index, rose from 0.2 percent in December 1999 to 18 percent in March 2001 (see figure below). Moreover, excessive fiscal spending spilled into the foreign exchange market. With the CBN reverting to the pre-reform system of selling foreign exchange in the interbank foreign exchange market (IFEM) at a pre-determined rate, the interbank market split into the IFEM and the open inter-bank market—where banks trade among themselves at freely negotiated exchange rates (the NIFEX.) The parallel rate depreciated by 30 percent between December 1999 and May 2001, and the differential with the IFEM rate widened to 20 percent. A foreign exchange market crisis emerged in April 2001, when the CBN made a small adjustment of the IFEM rate before it had effectively mopped up the excess liquidity. Very large amounts of foreign exchange were sold to deal with the crisis, and foreign reserves have increased only modestly during the first five months of 2001 despite the continued high oil price.

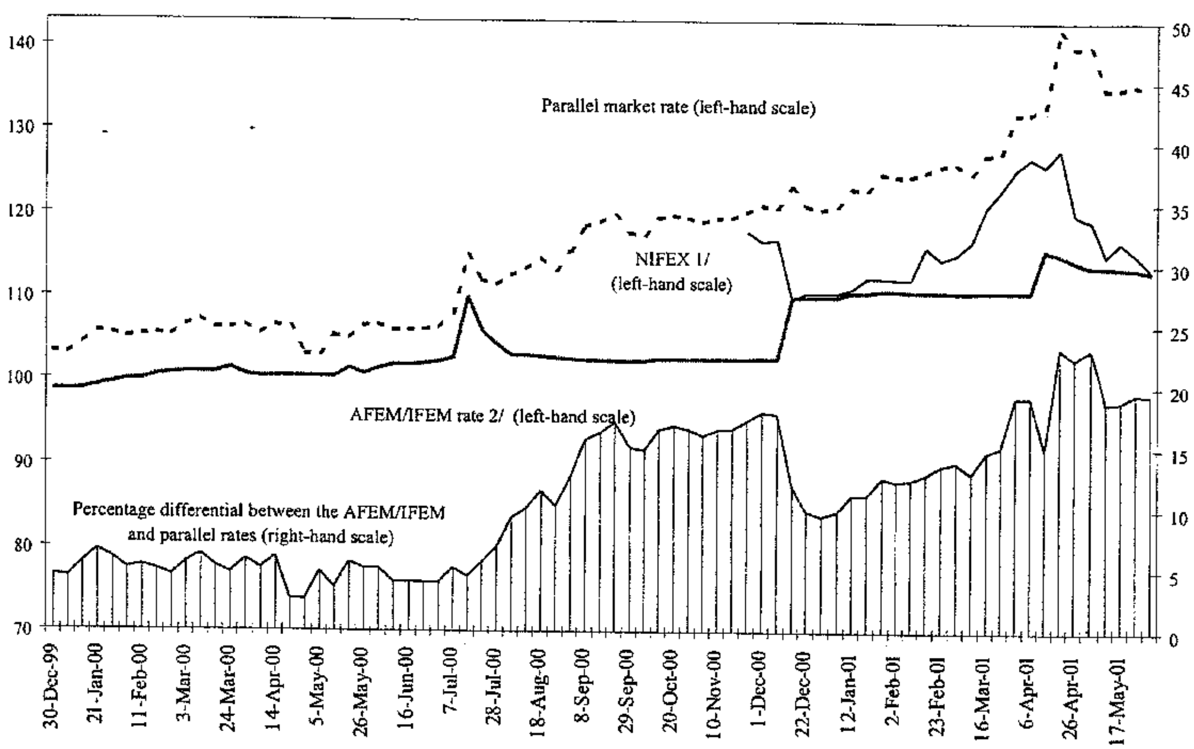
11. **These macroeconomic developments and policies were substantively at variance with the program** supported by the Stand-By Arrangement (Appendix V). Inflation exceeded the program target by a substantial margin. The federal government borrowed substantially compared with the program target of zero borrowing, and used a larger portion of the excess oil proceeds than envisaged under the program which together resulted in spending greatly exceeding the program target. Also, the CBN's liquidity absorption operations were more limited than targeted. While the end-2000 target for net international

Consumer Prices, Interbank Interest Rates, and Reserve Money, January 2000-April 2001




Sources: Nigerian authorities; and Fund staff estimates.

The Exchange Rate of the Naira, December 1999-May 2001 (In naira per U.S. dollar)




Sources: Nigerian authorities; and Fund staff estimates.

1/ The Nigeria Interbank Foreign Exchange Index (NIFEX) reflects exchange rate on the open interbank market.
2/ The Autonomous Foreign Exchange Market (AFEM) and its successor, the Interbank Foreign Exchange Market (IFEM), represent the official interbank market.

reserves was met, the CBN's foreign exchange management included some administrative measures, which gave rise to a multiple currency practice. In addition, structural reforms fell behind schedule.[2]

12. Why did the program go off track even within a few months after approval? **The legal, institutional, and political constraints were much stronger than the authorities had expected.** One of the fundamental premises of the program was to contain the wage bill within the budgeted outlay. However, large wage overruns occurred because the government, under strong pressure from the civil service establishment, rolled back in October 2000 its earlier decision to pay wages in accordance with the estimates of the Accountant General of the Federation (AGF) rather than those requested by the line ministries. Second, political pressures to "implement the approved budget"—in particular to alleviate the severe power outages—intensified as oil prices continued to rise and the next general elections approached. Third, the program assumed that, in line with past practice, no excess oil proceeds would be distributed beyond the levels approved in the budget. The state and local governments successfully claimed—against the opposition of the federal government—that the federation could not withhold their shares of all oil proceeds as the constitution stipulated that these proceeds accrued to them directly.

## III. Medium-Term Economic Prospects

13. The Nigerian authorities have stressed that **it is their highest priority to reduce poverty as rapidly as possible, sufficient at least to meet the United Nation's target of halving absolute poverty by 2015.** Given the projected growth of the population (nearly 3 percent per year), attaining this objective would require overall economic growth of at least 6–7 percent per annum. The authorities have emphasized that it is feasible to achieve such growth rates, pointing to the country's abundant natural resources, in particular natural gas (whose proven reserves are larger in value than those of crude oil) and agriculture. Moreover, Nigeria's labor force is large and skilled, and its relatively large domestic market makes it an attractive location for foreign and local investors.

14. **While the authorities' growth targets were laudable, the staff advised caution in raising expectations. It would likely be difficult to elicit in such a short period the private sector response that would be needed to achieve growth as high as 6 percent to 7 percent.** Even the attainment of a modest growth rate—of, say, 4 percent to 4.5 percent in the medium term—would require prudent fiscal policy, the steadfast implementation of structural reforms, governance-improving measures, and the rebuilding of public institutions

[2]Stage one of the safeguards assessment of the CBN has been completed. While Nigeria has made progress in the area of external audit, there remain a number of weaknesses, particularly in the legal structure, independence, financial reporting, and internal control systems of the CBN. Consequently, the staff would recommend a stage two assessment.

so as to create an attractive environment for private investment. These actions would need to be supplemented with generous levels of concessional external financing under the staff's projections based on a medium-term oil price of US$20 per barrel (see Appendix VI for details).

15. **Prudent fiscal policy—one that safeguards macroeconomic stability and preserves competitiveness while also cushioning the economy against a future downturn in oil prices—will be central to facilitate private sector investment.** This would require the federal government in 2001 to save excess oil proceeds and keep spending below budgeted levels. For 2002, it would require a sharp reduction in spending by state and local governments as the oil price is projected to fall to US$22.5 per barrel from high levels in 2001, which may be difficult to sustain politically. Beyond 2002, it would require all levels of government to contribute to macroeconomic stability (see Appendix VI). **It would, therefore, be imperative for Nigeria to create a workable intergovernmental structure for smoothening revenue flows that ensures sound macroeconomic management at all levels of government.**

16. In view of the depth of the challenges that the Nigerian authorities must address, it may be only realistic to assume that improvements would be gradual, and that it might take some time before Nigeria is put on a growth trajectory of 6–7 percent. **The staff therefore projects, as a central scenario, that non-oil growth could increase from 2.8 percent in 1999-2000 to about 5 percent by 2004, sufficient for real GDP growth to increase from 2.4 percent to 4.5 percent over the same period.** Macroeconomic stability could be maintained, while bringing end-period inflation down to 9 percent in 2001 and 5 percent over the medium term. Gross international reserves could rise and remain close to US$10.3 billion (6 months of imports) over the medium term (Tables 5-7).

17. Even with such a fiscal adjustment, **Nigeria's external payments situation will likely remain difficult.** From a projected deficit of 2 percent of GDP in 2001, the current account deficit is expected to widen to average about 7 percent of GDP in the outer years. The capital account is projected to register small but rising surpluses over the medium term, reflecting disbursements from IDA and other agencies as well as a gradual rise in private capital inflows. Nevertheless, a financing gap averaging US$1.5-US$2 billion per year is envisaged through 2005. These estimates take account of the Paris Club rescheduling agreement of December 13, 2000.

## IV. Report on the Discussions

18. Against this background, **the discussions focused on measures to safeguard macroeconomic stability and the quality of public spending, as well as those that would lay the foundations for sustainable economic growth and poverty reduction.** Specifically, the discussions focused on (a) fiscal policy and issues relating to the management of oil windfall gains; (b) the challenges posed by fiscal federalism; (c) monetary policy in the wake of expansionary fiscal policy; (d) measures to promote good governance,

privatization, trade liberalization, and regional integration, as well as policies to improve the investment climate; and (e) capacity building and priority technical assistance needs. Progress in developing a poverty reduction strategy and views on debt sustainability were also discussed. **During these discussions, the staff reached understandings on the prior actions that would be necessary for the staff to recommend completion of the first review under the Stand-By Arrangement**. These actions are presented in Box 1.

### A. Fiscal Policies

19. **Nigeria experienced a positive terms of trade shock in 2000 and 2001, with oil prices rising from US$17 per barrel in 1999 to US$28 per barrel in 2000, and a projected US$25.5 per barrel in 2001.** The income gains from the terms of trade improvement accrue almost exclusively to the government in the form of additional revenue. In addition, about US$1 billion, or 2.5 percent of GDP of foreign exchange receipts (from nonresidents) is expected from the privatization program and sales of oil field exploration rights.

20. **What would be an optimal policy response to these terms of trade gains? The staff argued that such a policy would be for the government to spend only part of the windfall and save the rest, thus enabling Nigeria to safeguard fiscal sustainability against a likely fall in the oil price.** The staff projections showed that if vigorous efforts to reduce the wage bill, contain federal capital expenditures, and enhance domestic taxation (including removal of petroleum subsidy) were pursued, a sizable primary balance could be achieved and, hence, fiscal sustainability assured (Table 2b). However, there were substantial downside risks of the oil price falling below the current projection of about US$20 per barrel. If, for example, the oil price fell to US$15 per barrel in 2002 and 2003, government revenue would be lower by about 10 percent of GDP annually. As it would be difficult to reduce government expenditures substantially from the levels currently assumed, the primary deficit could decline to 4–5 percent of GDP and foreign exchange reserves to below US$2 billion, equivalent to about one month of imports. Recognizing this risk, the authorities initially intended to base the 2000 budget on the oil price of US$20 per barrel, and save oil revenues in excess of this level. The staff was in agreement with this approach, and proposed a fiscal policy rule to save oil proceeds in excess of US$20 per barrel. This rule would provide for savings of "windfall gains" of US$ 4 billion or 10 percent of GDP in 2000, and US$3.7 billion or 9.6 percent of GDP in 2001 (see table below).

21. Several other considerations supported the staff's fiscal rule. First, in view of the time that would be required to improve the quality of expenditure and enhance governance, there would be little assurance that higher-than-proposed levels of spending would contribute effectively to poverty reduction and non-oil growth. Second, the economy had limited capacity to absorb sharply higher levels of government spending, given the severe bottlenecks in infrastructure. Third, unduly large spending financed from oil revenues would lead to an appreciation of the real exchange rate and undermine prospects for the non-oil sector ("Dutch disease" effects).

**Box 1. Prior Actions for Completion of the First Review Under the Stand-By Arrangement**

The following actions are needed for the staff to recommend completion of the first review:

- observance of ceilings, at end-June 2001, on federal government spending, the federal government wage bill, net domestic assets of the CBN, and CBN sales of foreign exchange as well as a floor on international reserves and debt service payments;
- completion of all audits of the public service wage bill and finalization of the civil service payroll;
- completion of the due process tests for capital projects in the 2001 capital budget which are above a threshold of ₦250 million.
- agreement on revenue and expenditure targets for 2001 consistent with agreed macroeconomic objectives;
- reversal of the liquidity injection that resulted from the monetary operations during January-April 2001 and additional net sales of ₦40 billion of CBN certificates and treasury bills by end-June 2001;
- unification of the IFEM and open interbank foreign exchange markets, and substantial narrowing of the differential between the IFEM and parallel market rate;
- publication of the results of the value-for-money audits of randomly selected federal government expenditures undertaken during the third and fourth quarter of 2000 and the first quarter of 2001;
- publication of procedures for checking compliance with due process tests;
- establishment of the Budget Office and appointment of its Director (done);
- submission to the National Assembly of the Auditor General's Reports (I and II) on the accounts of the government of the Federation of Nigeria for the fiscal year 1999 (done); and
- commencement of the operations of the Anti-Corruption Commission (done).

Nigeria: Deviations from Proposed Fiscal Rule and the Change in International Reserves 1/

| | | 2000 Est. | 2001 Proj. |
|---|---|---|---|
| | | (In millions of U.S. dollars) | |
| Oil revenue at actual price (2000) or at WEO price (2001) 2/ | (1) | 14,609 | 13,450 |
| Oil revenue at $20 per barrel | (2) | 10,665 | 9,720 |
| Excess proceeds | (3)=(1)-(2) | 3,945 | 3,730 |
| Privatization inflows | | 0 | 1,000 |
| Beginning-of-period reserves | (4) | 5,441 | 9,400 |
| Actual/projected end-of-period reserves | (5) | 9,400 | 9,879 |
| Desirable end-of-period reserves | (6)=(4)+(3) | 9,386 | 14,130 |
| Deviation | (7)=(5)-(6) | 14 | -4,251 |
| | | (In billions of naira) | |
| Spending levels under proposed fiscal rule 1/ 3/ | (8) | 1,066 | 1,140 |
| Federal government spending under proposed fiscal rule | | 493 | 561 |
| State and local government spending under proposed fiscal rule | | 573 | 579 |
| Total actual spending (2000)/projected spending (2001) | (9) | 1339 | 1588 |
| Federal government | | 693 | 718 |
| State and local governments | | 646 | 870 |
| Deviation from proposed fiscal rule | (10)=(9)-(8) | 273 | 448 |
| Absorption of liquidity through sales of excess oil foreign exchange proceeds | (11)=negative of (7) | -1 | 472 |
| Net excess | (12)=(10)-(11) | 274 | -24 |

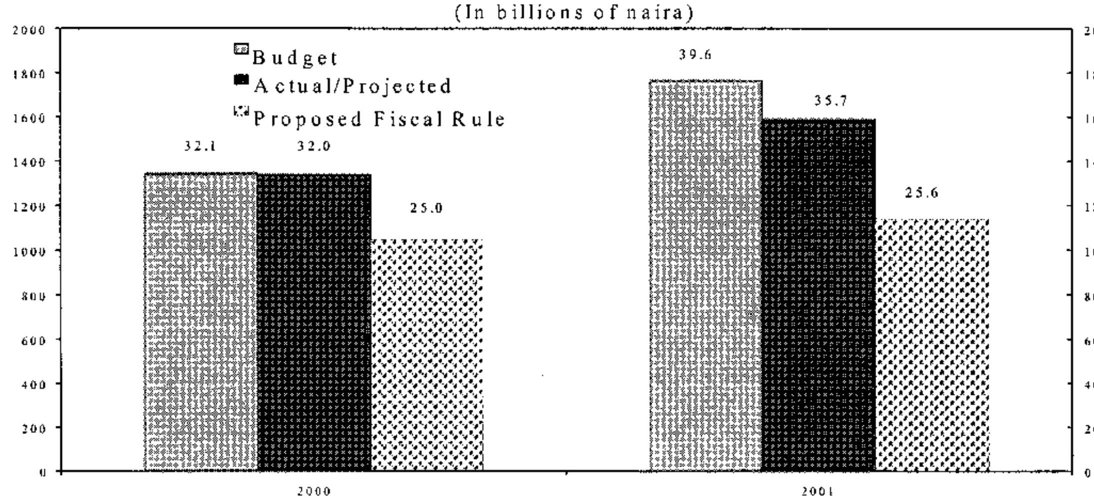
Sources: Nigerian authorities; and staff estimates and projections.

1/ The proposed fiscal rule involves a balanced budget at an oil price of US$20 per barrel.
2/ Actual oil price of US$28 per barrel in 2000 and the World Economic Outlook (WEO) price of US$25.5 per barrel in 2001.
3/ This spending is derived as total revenue at US$20 per barrel (net of one-off receipts) minus deductions for charges at the level of the Federation. The latter comprises cash calls and external debt service which is assumed to be US$5 billion in 2001.

22. While agreeing in principle that it would be desirable to save the oil windfalls, the authorities considered that, **in the current circumstances, the staff's rule was too stringent to adhere to in practice**. Specifically, given the current extreme poverty and the devastation of basic infrastructure, using the windfall to allow higher current spending would be justified even if it meant forgoing spending in the future. **In their view, the key therefore was the quality of spending—including cost-effectiveness, poverty focus, and transparent implementation—which they were committed to achieving through strict observance of due process.** To this end, the government had adopted a set of "due process tests" (in line with World Bank recommendations), and introduced a system of checks and balances so that no capital expenditures would be allowed unless these due process tests had been met (see Box 2). In addition, the government was strengthening the Budget Office in the Ministry of Finance to improve its capacity to implement the budget, and enhancing its oversight capability by establishing a Budget Monitoring and Price Intelligence (BMPI) unit in the presidency.

23. The staff accepted that its proposed rule may need to be modified for reasons mentioned by the authorities. However, it **noted with concern that the deviation from the fiscal rule was just too large, as regards both actual spending in 2000 and the 2001 budget approved by the National Assembly, and that, notwithstanding the authorities' efforts, there remained serious concerns about the quality of spending**. Spending by federal and state and local governments combined amounted to ₦1,339 billion in 2000, exceeding the staff's rule by ₦291 billion, or 72 percent of the windfall revenue, and was envisaged to reach ₦1,762 billion in the 2001 budget, deviating from the rule by ₦622 billion (14 percent of GDP). Such a large deviation in the 2001 budget was of particular concern, because (a) if the budget were fully implemented Nigeria would use up not only the windfall gain of this year, but also all of the 2000 windfall that was carried over

Expenditures: Actual and Under Proposed Fiscal Rule, 2000-01 1/
(In billions of naira)




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

1/ Numbers above bars are in percent of GDP.

**Box 2. Certification of Due Process for Capital Expenditures**

The certification of due process for federal government capital expenditures comprises three stages.

**Certification of preparatory work.** Ministries/agencies must submit their project proposals to the Budget Monitoring and Price Intelligence Unit (BMPI) in the Presidency for certification before they can be considered for budgetary funding. This certification requires that the proposed projects:

- are consistent with overall policy, laws, rules and regulations of the federal government and are an economic or social priority in the relevant sectors;
- have been technically and financially appraised and feasibility studies satisfactorily undertaken; and
- are included in the national development plan prepared by the National Planning Commission (NPC).

The Executive Council (cabinet) selects projects from the universe presented by the ministries, which are then included in the annual draft budget submitted to the National Assembly. Only the projects approved by the National Assembly will be executed.

**Certification of contract process.** Upon enactment of the budget, ministries/agencies formulate and submit to the Minister of Finance their quarterly implementation plans, thereby requesting that warrants be issued accordingly. The Minister of Finance will adjust the requests to bring the total amount of warrants to be issued in line with the available resources. At this stage, spending units can initiate steps for awarding contracts.

However, before contracts are effectively awarded, the BMPI unit must certify that:

- competitive bidding has been conducted in line with international standards;
- the least-cost bid has been selected among the qualified bidders; and
- costs are in conformity with comparable international practices.

Thereafter, requests for award of contracts can be submitted to the Executive Council for approval. Requests for down payment must be accompanied by a copy of the certification delivered by the BMPI unit and a certification by the accounting officer in the spending unit that other requirements of due process (procurement guidelines in particular) have been observed.

**Certification of completion of work.** Subsequent payments are conditional upon certification that satisfactory progress is being made toward completion of the project. To this end, the NPC, liaising with the Office of Budget Management and the Accountant General, will prepare a progress report with recommendations for possible modifications. The BMPI unit will then issue a favorable certification to the Minister of Finance, which along with confirmation from the accounting officer in the spending ministry/agency, will form the basis for the release of additional funds.

from last year and some of the earlier savings; and (b) it was doubtful whether such a large amount could be spent without jeopardizing the quality of spending. Much of the increased spending in 2000 reflected an increase in the wage bill, which, moreover, probably included a large amount for "ghost" workers. Furthermore, on capital expenditures, the World Bank staff considered that, if projects were properly costed, targeted more effectively at poverty reduction to exclude nonpriority expenditures, and followed appropriate procedures, only about one-half of the capital budget—₦269 billion—could be spent effectively in 2001.

24. In response, the authorities explained that, since it took office in May 1999 through end-2000, the government had limited its capital spending to only 5 percent of GDP in order to restore macroeconomic stability. The National Assembly had repeatedly criticized this as "nonimplementation" of the budget, although the Attorney General had made clear that under the constitution, the National Assembly, in approving the budget, had set a ceiling, not a floor, on spending. The government believed, therefore, that a sharp expansion of capital spending in 2001 was a political imperative. However, the government was always prepared to put a brake on spending if macroeconomic stability were clearly at risk. In view of the rise in inflation and instability in the foreign exchange market, **the authorities indicated that the Federal Government had thus decided to restrain its spending. Specifically, it would limit its spending in 2001 to ₦717 billion, or ₦170 billion lower than the 2001 budget, so that it would not use its share of excess oil proceeds, not borrow from domestic sources, and not use more than the budgeted amount from privatization proceeds.**

25. The Nigerian representatives further indicated that **the government was taking decisive steps to bring the wage bill under control.** An external audit of the civil service has been completed, and, in parallel, the Accountant General of the Federation (AGF) had conducted an exercise to verify the actual federal government payroll in each ministry and parastatal.[3] As a result of these exercises, the monthly wage bill was held to no more than ₦22 billion through April 2001, compared with an average of ₦27 billion in the second half of last year. In addition, "pay parades," requiring employees to appear in person to collect wages, were initiated in March for completion in May. In combination with the ongoing audit of the armed forces, police, and tertiary education, which would be completed by the end of June, this process may result in a further reduction of the monthly wage bill.

26. As regards capital expenditures, the authorities stressed that warrants would be issued to only those projects that had met the due process tests. The government has completed a review of the 2001 capital budget of eight ministries, with a view to ascertaining whether due

[3] The audit by external consultants indicated a number of irregularities, most notably an overstatement of the pensionable staff by 17 percent. To address these problems, they recommended improvements in payroll administration, including the urgent need to computerize personnel records and the need to regularly redeploy staff from personnel departments to prevent fraud. The government has since undertaken to extend the manpower audit to encompass the judiciary, universities, parastatals, and military.

process tests have been met (Box 3). It found that, of the ₦312 billion worth of projects reviewed, about one-quarter had not been properly prepared, and, hence, could not be implemented in 2001. On this basis, the government expected to limit warrant releases in 2001 to ₦350 billion, about 73 percent of the approved budget. **Taking into account the time needed to comply with procurement and other requirements, cash spending on capital projects would be no more than ₦250 billion through the end of the year.**

27. The staff welcomed this commitment to fiscal prudence, stressing that it would take extraordinary political commitment to keep to it. Provisional data indicate that total federal government spending through March 2001 appeared to be within the June target agreed with the staff. Nevertheless, even with this expenditure restraint, **spending by the federal, state and local governments would still be excessive: it would amount to ₦1,588 billion in 2001, and would involve using 85 percent of the privatization and oil windfall revenue in 2001**. Two-thirds of the deviation from the proposed fiscal rule relates to the budgets of state and local governments and the federal government should, if possible, consider further offsetting cuts in its own expenditures, particularly in regard to the wage bill.

## B. Fiscal Federalism [4]

28. The constitution has devolved to the state and local governments the primary responsibility of providing education and other basic public services. However, three problems arose in relation to the fiscal arrangements between the federal government and the state and local governments. The first relates to the current revenue-sharing arrangements (see figure below), under which the state and local governments received full and automatic access to their share of oil revenues. In the absence of corresponding limits on spending, there is no mechanism to formally involve state and local governments in contributing to macroeconomic stability—for example, by saving windfall gains from oil price increases. Second, the rapid increase in state and local government spending in the absence of a commensurate increase in their implementation capacity gave rise to serious concerns about the quality of public spending—and perhaps also an issue of governance. Third, these concerns were heightened because of the very sparse statistical information that was available on the composition of their expenditures. Based on anecdotal evidence, it is generally believed that poorer states, which are mostly in the north, can barely pay wages, while those in the south, particularly the oil producers, have some resources for capital programs.

29. **While acknowledging the importance of the issues raised, the authorities stated that the intent of the new constitution as regards revenue sharing needed to be clarified, perhaps by the courts, before they could be addressed effectively.** Until November 2000,

---

[4] Issues related to fiscal federalism, including the findings of a recent FAD technical assistance mission, are discussed in greater detail in the accompanying selected issues paper.

**Box 3. The 2001 Capital Expenditure Budget**

In response to the concern that the size of capital expenditures in the 2001 budget might compromise their quality, the authorities appointed an internal task force to review the capital budget.

In submitting its report in April 2001, the task force, which reviewed the capital expenditure plans for eight ministries, found that the necessary project analysis, design, and specification for a number of projects had not been articulated. Further, some ministries could not ensure completion of even the ongoing projects, rendering it unlikely that the new projects introduced in the 2001 budget could be implemented. In some cases, projects were grossly underfunded, raising concerns about whether projects could begin implementation. Based on these findings, the task force recommended that:

- This review exercise be extended to cover all ministries; and
- Projects and programs that had not been properly designed be rolled over into the next fiscal year. In its view, **of the appropriations of eight ministries totaling ₦313.2 billion, ₦80.7 billion (25 percent) should be rolled over into fiscal year 2002. Further, the Ministry of Finance should be directed to reflect this rollover in the issuance of warrants to affected agencies.**

The findings of the task force are consistent with an earlier World Bank assessment of the capital budget which noted that the poverty focus of the 2001 capital budget was not evident and that in some areas cost estimates were significantly higher than could be achieved using competitive and transparent procurement procedures. The report also made recommendations to improve the cost-effectiveness of spending, including a thorough reform of the budget process. This would ensure that funds were not released for unsubstantiated projects, sound procedures were followed to minimize waste, and projects with high poverty impact were not impeded by funding constraints.

The understanding reached between the staff and the authorities to limit warrant issuance to ₦350 billion (73 percent of the budgeted outlay of ₦480 billion) and cash spending to ₦250 billion is thus broadly consistent with the government's own review as well as the assessment of the World Bank.

Intergovernmental Financial Flows[1]

| Main Revenue Sources | | Beneficiaries | |
|---|---|---|---|
| Oil revenues at budgeted price (*32.1*)<br>Company income tax (*1.6*)<br>Customs duties and excise (*2.4*)<br>Tax on petroleum products (*0.7*) | Minus | **First charges (*12.5*)**<br>External debt service (*3.6*)<br>JVC[2] cash calls (*6.2*)<br>NNPC[3] priority projects (*0.7*)<br>13% derivation[4] (*1.7*)<br>Judicial Council (*0.2*) | **Federation Account (*23.2*)**<br>48.5% to federal government<br>24.0% to states<br>20.0% to local governments<br>3.5% to special funds |
| Oil revenues at actual price minus budgeted price (*5.8*) | | | **Excess Proceeds (*5.8*)**<br>48.5% to federal government[5]<br>48.0% to states and local governments[5]<br>13.0% derivation |
| Value-added tax (*1.6*) | | | 15% to federal government<br>50% to states<br>35% to local governments |
| Personal Income Tax[6] (*1.2*) | | | 100% to states<br>federal (very small) |

Source: Based on 2000 budget, including supplementary.

[1] Figures in brackets refer to amounts in 2000 in percent of GDP.

[2] JVC = Joint Venture Companies.

[3] NNPC = Nigerian National Petroleum Company.

[4] Transfer to the nine oil producing states based on onshore oil revenues alone.

[5] Transfers made after deducting the 13 percent derivation.

[6] Composed of independent revenue of subnational governments and income tax collected by the Federal government.

all excess proceeds above US$20 per barrel had been set aside in a special account at the CBN (excluding ₦75 billion that had been envisaged to be distributed in the 2000 budget). By that time, however, pressures from the state and local governments had intensified, and the AGF agreed to distribute about one half of the excess proceeds (to compensate for shortfalls in other revenues). In early 2001, the state governments then successfully claimed, on constitutional grounds, the balance of the excess proceeds, despite strong opposition from the federal government, which argued publicly that the distribution of such proceeds would destabilize the economy. Moreover, the oil-producing states claimed that the constitution allocates 13 percent of all of oil revenue to them, rather than the onshore portion only as was the prevailing practice. The federal government has brought this claim to the Supreme Court. In addition, Lagos State was demanding that it should retain all value-added tax (VAT) proceeds collected in the state, in place of the current arrangement, whereby these proceeds accrue to the federation with Lagos State receiving only a small portion of the total.

30. The Nigerian representatives informed the staff that, following a crisis in the foreign exchange market in April, the Vice President had convened two meetings of the National Economic Council, consisting of state governors, to impress on them the adverse consequences of excessive government spending, and to urge them to save part of their revenues. This represented the beginning of an important dialogue with state governments on macroeconomic management—one that had not taken place before. Nevertheless, no concrete results were expected from these meetings, and, therefore, **it was only realistic to assume that all excess oil proceeds that might accrue would be distributed, and the state and local governments would spend practically all that they received.**

31. While recognizing the constitutional constraints on the conduct of fiscal policy, **the staff nevertheless noted that for Nigeria to achieve a fiscal position that was sustainable and consistent with macroeconomic stability, it would be essential to establish a mechanism for stabilizing oil revenue flows to the state and local governments and to implement an ambitious program of civil service reform at both the federal and subfederal levels.** The reform program should aim at improving the capacity to implement policies and deliver key services, and at refocusing activities to take full account of the current and expected devolution of responsibilities to state and local governments. Through this process, substantial savings on the federal wage bill would be expected. The staff also urged the authorities to (a) initially offer attractive saving opportunities for subfederal governments; (b) consider pacing the allocation of larger resources to subfederal governments to match improvements in their administrative capacity in the context of the ongoing review of the revenue-sharing formula; and (c) improve the quality and coverage of statistics relating to the finances of the state and local governments. The authorities indicated that a draft plan for federal civil service reform would be completed by an interministerial committee by end-June 2001.

### C. Monetary and Exchange Rate Policy

32. **As a result of the substantial terms of trade gains and the deviation from the expenditure restraint proposed by the staff, fiscal operations have given rise to a large**

**liquidity injection in 2000 and 2001.** This injection was equivalent to 103 percent of the opening reserve money stock in 2000. The resulting surge in inflationary pressures and consequent appreciation of the interbank exchange rate (13 percent in real terms) could weaken prospects for medium-term growth based on a revival of the non-oil economy.

33. In the wake of such an expansionary fiscal policy, how should monetary policy respond in 2001? **The first priority should be to reduce the rate of inflation to single digits as soon as possible. This would require substantial and rapid absorption of liquidity.** In the staff's view, a preferred method for liquidity absorption would be central bank sales of government securities, and limiting sales of foreign exchange to ensure an adequate build-up of reserves. However, in view of the enormous size of liquidity that would need to be absorbed, large foreign exchange sales by the CBN would have to be accepted in order to limit reserve money growth consistent with the aim of reducing inflation substantially. It had to be recognized, however, that tight monetary policy was a second-best response in the face of expansionary fiscal policy, and could not be expected to mitigate the impact of the latter on the real exchange rate, except in the short run.

34. The Nigerian representatives explained that the CBN had come to a view, late last year, that, as economic activity had begun to pick up in response to the fiscal stimulus and signs of rising inflationary pressures had become clearer, the balance between facilitating non-oil activity and forestalling macroeconomic instability had shifted toward the latter. **The CBN thus changed its policy direction in December, but judged that monetary tightening would have to be gradual in order to minimize the political opposition and pressure on the banking system.** Accordingly, over the subsequent five-month period, (a) the minimum rediscount rate (MRR) was raised in three steps, by 2.5 percentage points to 16.5 percent (treasury bill interest rates were raised correspondingly to 17 percent); (b) the interest rate on 360-day CBN certificates was raised to 21.5 percent; (c) the cash reserve requirement was raised in two steps by 2.5 percentage points to 12.5 percent; and (d) the liquid asset ratio was increased from 35 percent to 40 percent.

35. **The Nigerian representatives noted that, by late April, these measures, together with the restraint on Federal Government spending, had brought about a considerable tightening of monetary conditions, with interest rates in the interbank market rising from 17–20 percent throughout most of 2000 to 30–40 percent in April 2001**. There were nascent signs that this tightening was strengthening the currency as the parallel market rate appreciated from over ₦140 per U.S. dollar in early April 2001 to about ₦135 per U.S. dollar in mid-May. Correspondingly, the differential between the parallel and the IFEM rates narrowed from 23 percent to about 19 percent.

36. While acknowledging that these measures were significant, **the staff stressed that a threat of major macroeconomic instability remained.** The liquidity injection from fiscal operations would continue to be large during the remainder of the year, stoking further inflationary pressures. Further, inflationary expectations had been aggravated by the extremely large government spending provided for in the 2001 budget and the attendant

anticipation of a future depreciation (based, in part, on the unsustainably large differential between the official and parallel exchange rates).

37. **The staff regards it as important that lasting stability in the foreign exchange market be restored quickly, and that reforms toward developing a fully market determined exchange system be expeditiously resumed.** After the successful introduction of the interbank market in the third quarter of 1999, where the CBN and commercial banks traded foreign exchange on the basis of two-way quotes, the CBN prohibited in 2000 the transfer between banks of foreign exchange purchased from the CBN. This action, together with administrative measures which limited access to the IFEM, led to the segmentation of the interbank market with two distinct exchange rates, and gave rise to a **multiple currency practice subject to Article VIII.** Transferability was re-introduced in mid-December 2000, but was barred again in early-February 2001. The staff recommended that (a) the IFEM and the open inter-bank market be merged, thus eliminating the multiple currency practice; and (b) the differential between the IFEM and the parallel market rates be narrowed to less than 10 percent, all by the end of May 2001. The staff was also in the process of determining whether exchange restrictions had been introduced.

38. **The staff thus recommended that, as part of the prior actions for completing the first review, the CBN adopt a monetary program for 2001 that aims at bringing about lasting stability in the foreign exchange market and restoring price stability.** Specifically, the CBN would (a) sell a large amount of treasury bills and CBN certificates in May and June that would reduce net domestic assets of the CBN by ₦22 billion for the year as a whole; (b) limit its sales of foreign exchange, sufficient to achieve at least a small increase in international reserves in 2001; and (c) limit the increase in reserve money to 8.3 percent, consistent with the target of reducing inflation to less than 10 percent by the end of 2001.

39. **The Nigerian representatives agreed with the staff's recommendations on the monetary program but cautioned that it would not be easy to achieve these objectives.** First, the exchange rate differential reflected to a large extent a premium that purchasers of foreign exchange were willing to pay to falsify import documents so that they could evade customs duties, or to make transfers that were otherwise restricted (e.g., capital flight) or illicit (e.g., money laundering.) The recent widening of the differential also reflected stricter controls on "round-tripping" (i.e., purchases of foreign exchange for resale in the parallel market) and tighter enforcement of capital controls. Thus, while the differential should narrow, the exact magnitude of the differential may be beyond the control of the CBN. Second, an increase in international reserves in 2001 would be possible only if federal government spending could be limited as currently envisaged. Third, once currency went into circulation, it tended not to flow back into the banking system, making it difficult to control reserve money. Most Nigerians did not either save or settle transactions through the banks. Furthermore, in view of the poor quality of money and banking statistics, movements of reserve money ought to be interpreted with care.

40. **The staff further recommended that the vulnerability and soundness of the financial system be carefully assessed to ensure that weaknesses in the banking system did not unduly constrain the conduct of monetary policy.** The last Article IV staff report described progress that had been made during the second half of the 1990s in addressing financial distress in commercial and merchant banks (SM/99/276, Appendix VI). There were indications that the health of the banking system had improved further during 2000. Banks reported strong earnings with profits before tax having increased by 36 percent to ₦63.3 billion (1.5 percent of GDP). In addition, and notwithstanding another year of strong growth of credit to the private sector, the ratio of non-performing loans to total loans had fallen by 4 percentage points to a still high 21.5 percent. Nonetheless, problems remained. According to the World Bank study of May 2000, many banks were taking imprudently high foreign exchange risk, 14 banks (out of a total of 51) were classified as distressed, and 7 additional banks appeared to remain at risk. Moreover, while the frequency of on-site inspection of commercial and merchant banks had been gradually increased, not much progress had been made in addressing the inadequacy of supervision of the nonbank financial sector. There was still a need for enhancing the overall supervisory capacity, including through training and an increase in the number of bank supervisors. A Financial Sector Stability Assessment is to be conducted during 2001.

## D. Good Governance

41. On governance issues, the staff representatives indicated that, notwithstanding a number of actions that had been taken to reduce corruption, including the dismissal or prosecution of some senior officials, **there appeared to be a sense of disappointment among the Nigerian public and in the international community that corrupt practices continued to be widespread throughout public institutions in Nigeria.** In part, this may be a reflection of the high hopes held by the public that corruption would be reduced substantially and rapidly under the democratic government. The preliminary interim reports of the value-for-money audit of government expenditures in 2000 showed frequent neglect of the established procedures governing the use of public resources. The delays in (a) the start-up of the Anti-Corruption Commission; (b) the submission to the National Assembly of the statutory audit of the 1999 government accounts; (c) the adoption of strengthened procurement procedures; and (d) the completion of the value-for-money audits and other program measures were also sources of concern.

42. In response, **the Nigerian representatives stressed that the government had now implemented most actions that had been programmed for completion by end-December 2000, and suggested that, if the public's perceptions were negative, as reported by the staff, it might be because they were not fully informed of the measures the government had taken.** The oft-cited Transparency International's corruption index, which ranks Nigeria at the bottom, was based on a survey taken before the present administration took office. The Anti-Corruption Commission had received initial funding to commence operations and was now investigating about one dozen major cases. The government had not hesitated at all in dismissing and prosecuting high officials whenever a clear case of abuse had been presented (there have been 11 such cases since this administration took office). Moreover, the Attorney

General had made it clear that the government would follow up on the results of the value-for-money audits and the civil service audit, and would prosecute where there was evidence of wrongdoing.

43. **The staff urged the authorities to redouble their efforts to improve transparency and accountability in the use of public resources**. The authorities indicated that the government would ensure that budget implementation did not give rise to abuses of contracting and other procedures to the detriment of the quality and effectiveness of spending. The establishment of additional checks to ensure full compliance with due processes was central to these efforts. To this end, the government would publish the newly established due process tests, and the role of the Budget Monitoring and Price Intelligence (BMPI) unit in the presidency in this regard. It would also continue with the value-for-money audits; the results of the audit of projects undertaken in the first quarter of 2001 were expected to be published by end-June 2001. New procurement procedures, which are in line with World Bank recommendations, will come into effect in June 2001.

44. **The Nigerian representatives also indicated that they placed a high priority on ensuring that anti-money laundering legislation met international standards**. The government was reviewing the 1995 Anti-Money Laundering Act to ascertain whether it conformed to international standards. The government would then adopt the Forty Recommendations on Anti-Money Laundering developed by the Organization for Economic Cooperation and Development (OECD)'s Financial Action Task Force.

## E. Privatization and Deregulation

45. **The Nigerian representatives reiterated that privatization remained the centerpiece of their structural reforms and noted that, although progress had been slower than initially hoped for, there was now a momentum to move forward rapidly.** Phase I of the privatization program, which involved the sale of the government's shareholdings in a dozen commercially viable enterprises, such as banks and petroleum marketing, cement, and insurance companies, had now been largely completed. Important progress had also been made toward the privatization of the telecommunications sector, a key item in phase II. Three GSM licenses were successfully auctioned in February 2001, for a license fee of US$285 million each (i.e., for a total of US$855 million). Expressions of interest from strategic investors in the Nigeria Telecommunications Company (NITEL) had been sought; it was expected that a majority shareholding in NITEL would be sold by the end of 2001. In preparation for this sale, it was now expected that the regulatory framework and law in the telecommunications sector would be approved by the cabinet and submitted to the National Assembly by end-June. Moreover, the government had reached agreement on a Privatization Support Credit with the World Bank that would enable the Bank to intensify its support for privatization in this and other sectors.

46. **The Nigerian representatives also informed the staff that they had made major strides in gaining public support for the deregulation of the downstream petroleum sector and the associated removal of the petroleum subsidy**. Following the almost complete rolling back of the 50 percent hike of retail prices of petroleum prices in July 2000,

the government constituted a committee, consisting of all major stakeholders, to advise on whether and how to proceed with deregulation of this sector. In January 2001, the committee had supported the government's policy (with representatives of the labor unions dissenting) and recommended that the petroleum subsidy be removed in two stages over a nine-month period, beginning the third quarter of 2001. The government was firmly committed to implementing these recommendations and is seeking the consent of the labor unions through a further consultative process.[5] A bill to establish an independent regulatory agency in the downstream petroleum sector, which would consolidate and develop existing laws, would be submitted by end-2001 to the National Assembly. Privatization of the first refinery is now envisaged in 2002.

47. The Nigerian public enterprise sector accounts for an estimated 50 percent of total GDP, 57 percent of investment, and two-thirds of formal sector employment. Underscoring the importance of privatization in Nigeria's economic reforms—to remove structural bottlenecks to growth and improve allocation of budgetary resources—**the staff representatives wondered whether a shift in strategy might not be needed to prevent further delays in reforming other key sectors.** First, in the critical power sector, the government's approach had been to strengthen the Nigeria Electric Power Agency (NEPA) with a wholesale change in its top management, while continuing to entrust NEPA with the rehabilitation and upgrading of the existing generation facilities, transmission systems, and power distribution (pending the unbundling of the company expected in early 2002 and subsequent privatization); concurrently, generation capacity had been augmented through arrangements with private power suppliers. This approach apparently had had little success as severe disruptions of power supplies have continued unabated. Second, the 2001 budget envisaged an injection of large amounts of public funds into a number of unviable, large public enterprises in the aluminum, fertilizer, steel, and other sectors, on the premise that additional investments for rehabilitation and/or completion of the projects would facilitate privatization. The World Bank had consistently maintained that such investments would be unwise, as the facilities were better sold "as is." Third, the 2001 budget also provided for the construction of grain silos and a national food security program. According to the World Bank, such government intervention in agriculture would be inappropriate, given that it had failed in the past, both in Nigeria and elsewhere in Africa.

[5] Pending the implementation of the phased deregulation of domestic petroleum prices, the government has continued to sell crude oil below world market price to the petroleum parastatal for domestic use. Total forgone petroleum revenue amounted to about US$2.1 billion or 5.2 percent of GDP in 2000. Moreover, in part because of the increasing price differential with neighboring countries and the resulting diversion of petroleum products, demand for petroleum products in Nigeria has increased substantially. In order to meet the increased demand, the allocation of domestic crude to the NNPC was increased, further increasing the government's forgone revenue.

48. **The Nigerian representatives were not in full agreement with these views of the Bank and Fund staff.** However, they agreed not to put in public money, pending the completion of an ongoing technical audit of the Ajaokuta Steel complex, Delta Steel, and three inland rolling mills, which will look at options for privatization in the sector.

## F. Trade Liberalization and Regional Integration

49. The discussions of trade policy took place against the background of the approaching expiry of the 1995–2001 customs and excise tariff, which had been amended with the adoption of the annual budgets. **These amendments introduced a modest degree of trade liberalization**, by reducing the average tariff, the dispersion and number of rates, and lowering some tariffs on consumer goods while increasing those on raw materials[6] (Box 4). Nigeria still has a complex structure of trade taxes, with at least seven taxes and with the customs duty varying from 0 percent to 100 percent.

50. The staff expressed disappointment that the full review of the tariff structure contemplated for end-2000 had not been completed. In the staff's view, Nigeria should give high priority to simplifying the structure of trade taxes by folding all trade taxes into one tax—the customs duty. **Nigeria should aim to move gradually toward a structure of rates for the basic duty akin to that in the West African Economic and Monetary Union (WAEMU)—a zero rate could be applied to essential goods, raw materials, and capital goods, and a rate of 10 percent or 15 percent to all other goods**. Such a structure would reduce the administrative burden and scope for rent seeking and provide some protection to domestic industry, while mitigating the anti-export bias by ensuring that exporters had access to inputs at world prices. At the same time, Nigeria should strive to eliminate remaining nontariff barriers.

51. The authorities indicated that their intention was to move in the direction of a more liberalized and simplified tariff regime. However, decisions would be made only after the completion of the comprehensive review of the structure of trade tariffs and the level of effective protection which is now expected by September 2001, in time for a major revision of the current tariff code in the 2002 budget.

52. **The staff also welcomed the decisions taken at the Economic Community of West African States (ECOWAS) Heads of State summit in December 2000 to establish an ECOWAS free trade zone and to harmonize ECOWAS and WAEMU programs in the areas of common tariffs, convergence of macroeconomic policies, and implementation of sectoral policies**. In particular, the staff called on the authorities to emulate the steps taken

---

[6]The 2001 budget introduced many reductions in import duties and some increases in duties on final goods, as well as a ban on the import of cement in bags. Out of roughly 5000 lines in the Nigerian tariff code, 70 were increased (by an average of 25 percent) and 437 were reduced (by an average of about 9 percent).

**Box 4. Summary of the Trade Regime**

In 1995, a customs and excise tariff schedule was introduced for the period 1995-2001. It comprises 5,147 tariff lines and the following charges on imports:

- the customs duty (tariff) levied ad valorem with no variable or seasonal tariffs;
- a port surcharge of 7 percent on duty payable;
- a VAT of 5 percent levied on the c.i.f value plus duty and other charges;
- a National Automotive Council tax of 2 percent levied on the c.i.f. value of imported vehicles and parts;
- a sugar levy of 5 percent applied to the c.i.f. value of sugar imports;
- a community levy of 0.5 percent for the Economic Community of West African States (ECOWAS); and
- an administrative charge of 1 percent levied on the f.o.b. value of imports.

The customs tariff ranges from 0 percent to 100 percent. The introduction of the 1995-2001 customs and excise tariff represented modest trade liberalization, as it reduced the average tariff, the dispersion and number of rates, and lowered some tariffs on consumer goods while increasing those on raw materials. However, the customs and excise tariff schedule has been amended over time with the adoption of the annual budgets. The overall impact of the successive tariff changes on the average tariff is difficult to assess. It was estimated that, following the tariff changes introduced with the 2000 budget, the average import tariff rate was reduced from 24 percent to 12 percent. In 2001, about 500 tariff lines were modified, including upward revisions of about 25 percent on 70 tariff lines (mostly agricultural products) and downward revisions of less than 10 percent on average on about 430 tariff lines. These changes are estimated to have further decreased, albeit slightly, the simple average tariff. At present, there is no export tax.

Nigeria's trade regime also features a number of nontariff barriers. The original customs and excise tariff schedule included an import prohibition list consisting of 16 items and an absolute prohibition list of 19 items (mostly on health, safety, or moral grounds). The number of items in the former list was progressively reduced. In 2001, it included the following items: (a) cement in bags; (b) bulk vegetable oil; (c) wheat flour; (d) millet; (e) sorghum; (f) retreaded and used tires; (g) mosquito-repellent coils; and (h) gaming machines.

Nigeria currently has a ranking of 5 out of 10 on the trade restrictiveness index calculated by Fund staff, which represents a liberalization relative to its rating of 7 at the time of the last Article IV consultation.

by the WAEMU countries to establish a common external tariff and to remove existing intratrade barriers within the community. It was essential to proceed with nonpreferential liberalization of the external tariff to minimize trade diversion that might stem from regional integration. The authorities noted that the agreement reached with Ghana in December 1999 to implement the program of free movement of persons, goods, and services under a fast-track approach was making progress, including the removal on April 1, 2000 of duties on bilateral trade between Nigeria and Ghana.

53. **The staff also noted the decision taken by six non-WAEMU countries in April 2000 (the "Accra declaration") to create a second monetary zone in West Africa by 2003**, with the ultimate objective of combining it with the WAEMU to establish a single, unified currency system in the region in 2004. While welcoming the long-run objective of closer integration, the staff cautioned that the quest for monetary union should not distract attention from resolving Nigeria's current problems, and the timing and modalities for achieving monetary union had to be carefully assessed. In particular, the staff stressed that appropriate macroeconomic discipline and structural policies would be prerequisites for successful monetary integration.[7] While recognizing these concerns, the authorities indicated their resolve to proceed with plans for monetary union.

### G. Debt Sustainability and Poverty Reduction Strategies

54. The staff presented the key findings of the debt sustainability analysis (DSA), taking into account the Paris Club agreement of December 2000 (Appendix VII). It noted that, before the full use of traditional Paris Club mechanisms, that is, a stock-of-debt operation with a 67 percent net present value (NPV) reduction on pre-cutoff-date and commercial debt, Nigeria's debt ratios could be brought close to or below the HIPC thresholds after three years of concessional flow rescheduling. However, notwithstanding this expected positive trend, actual debt-service payments were projected to increase significantly after the three-year flow rescheduling, averaging 17-20 percent of exports, which was higher than the corresponding ratios for the HIPC countries before they obtained relief. Thus, further debt relief may be necessary if this hike was to be prevented. Assuming strong macroeconomic policy performance, Nigeria would need continuing access to concessional resources even to achieve a modest growth target of 4 percent to 4.5 percent over the medium term.

55. The authorities expressed the concern that a succession of concessional flow reschedulings would not address Nigeria's large debt overhang, which was estimated at US$31.9 billion at end-2000, or the equivalent of 80 percent of GDP (Table 8). In particular, they pointed out that with a debt-to-export ratio projected at or above 150 percent (on an NPV basis) well into the decade, a sizable share of Nigeria's resources that could otherwise be invested in the economy or devoted to vital social services, such as health and education, would continue to be diverted. At a recent debt conference, **the authorities, while**

---

[7]For a fuller discussion of these issues, see Paul Masson and Catherine Pattillo *Monetary Union in West Africa (ECOWAS)*, IMF Occasional Paper No. 204.

**disavowing the need for outright debt cancellation, forcefully argued that only a debt stock reduction operation on Naples terms would be satisfactory from their perspective.** The mission encouraged the authorities to pursue discussions with creditors, noting that a solid track record of program implementation and timely debt-service payments would enhance the prospects for eliciting creditors' support for any debt relief.

56. The authorities stressed that poverty reduction was important and noted that the increase in poverty since 1980 stemmed from the ineffective use of available resources, as well as the poor performance of the economy. **The federal government had therefore restructured and streamlined its poverty alleviation agencies to avoid wasteful duplication and to improve their performance.** The National Poverty Eradication Council, chaired by the President and with the membership of core ministries, is at the apex of this new structure, overseeing the implementation of the National Poverty Eradication Program (NAPEP). The latter covers four schemes: the Youth Empowerment (YES), Rural Infrastructural Development (RIDS), Social Welfare Services (SOWESS), and Natural Resources Development and Conservation (NRDCS) schemes. A National Poverty Eradication Policy and a Blueprint for Poverty Eradication had been adopted, and a Poverty Reduction Plan prepared. During 2000, the Poverty Alleviation Program (PAP) also provided jobs to about 250,000 people.

57. **While welcoming efforts to improve coordination, the staff expressed concern that this approach had so far not been developed as part of a wider strategy for poverty reduction and was focused on the execution of specific projects.** As such, the approach appeared to have been derived in a "top-down" manner. The staff therefore welcomed the government's intention to develop a interim poverty reduction strategy paper (I-PRSP), with broad-based participation, to consolidate the efforts so far undertaken. The authorities indicated that, following consultations with donors, including in the Consultative Group, the I-PRSP was expected be completed by the end of 2001.

### H. Statistics and Capacity Building

58. The staff stressed that the reliability and timeliness of economic statistics needed to be improved to support the monitoring of macroeconomic developments and policy formulation. **The capacity of Nigeria's statistical agencies to compile such statistics had been seriously impaired** by inadequate funding, poor management, and a lack of coordination among statistical agencies with resulting deficiencies in all areas of macroeconomic statistics.

59. The authorities shared these concerns. They also agreed that technical assistance could play a vital role in improving statistics and implementation capacity and expressed some concern that **the pace of delivery of technical assistance had, in some areas, been slower than planned.** They recognized that the increased receptiveness of key government agencies would help to expedite the delivery of such assistance.

60. In this vein, the authorities agreed on steps to take to ensure the effective and timely use of available technical assistance, including the United Nations Development Program

(UNDP)/IMF technical assistance program. This program, with financial and technical support from the UNDP, Japan, the U.K. Department for International Development (DFID), and the IMF, is designed to strengthen the capacity of key institutions to formulate and implement appropriate macroeconomic policies in the fiscal and monetary areas, and to manage public finances more effectively and efficiently. Considerable assistance has been provided, including the placement of short-term advisors and technical assistance missions in the area of fiscal federalism and foreign exchange management, and numerous seminars and workshops. While the staff considered that the implementation of this ambitious and wide-ranging program had not met initial expectations—owing in part to concerns about public perceptions of "Fund monitoring" of Nigeria's economic management—recent experience had been more encouraging.

61. To accelerate the use of these technical assistance resources, the government has designated the Director of Multilateral Institutions of the Federal Ministry of Finance as National Director of the UNDP/IMF program, and, established, in consultation with staff of the Fund, the World Bank, UNDP, and other agencies, the following priorities for technical assistance for 2001: (a) establishing a Budget Office in the Federal Ministry of Finance headed by a Permanent Secretary responsible for overseeing all aspects of budget preparation and implementation; (b) establishing a Budget Monitoring and Price Intelligence Unit in the Office of the President to ensure that costs of major budget items are accurate and contracts are awarded only after due processes have been followed; (c) strengthening the management system and automation of the AGF's office as the first stage of the development of a government financial information system (GFMIS); and (d) strengthening the capacity of the CBN, the Federal Office of Statistics, and the Ministry of Finance to compile and disseminate accurate and timely economic statistics, with priority given to improving national accounts, monetary, and balance of payments, and government financial statistics.

## V. Staff Appraisal

62. **Serious macroeconomic imbalances have become evident in Nigeria over the last year. Against the backdrop of pressures to deliver a democracy dividend, the government has now spent the windfall gains from higher oil prices in 2000.** Unsurprisingly, the very sharp increase in government spending brought double-digit inflation and instability in the foreign exchange market. A rebound in economic activity fueled by higher spending is thus likely to prove temporary. Moreover, for most Nigerians, especially the poor, the erosion of living standards from higher inflation far outweighs any gains from increased public spending. The risks of a further acceleration of inflation and continuing instability in the exchange market remain.

63. **The staff regrets this loss of macroeconomic stability, for it was foreseen and avoidable.** The program for 2000, supported by the Stand-By Arrangement, was based on the premise that the budget approved by the National Assembly was incompatible with macroeconomic stability and fiscal sustainability. However, the desired underspending of the budget did not materialize because of a wage overrun of over 3 percent of GDP—largely

reflecting irregular payments. The 2001 budget, which contains many ill-prepared projects and does not target poverty reduction effectively, entails additional spending incompatible with macroeconomic stability and saving for a future downturn in oil prices. The government insisted that it could, if necessary, "put a brake" on spending to preserve economic stability. However, the key lesson of the current episode is that sound economic management requires carefully anticipating impending problems rather than reacting to them.

64. **The staff recognizes that excessive government spending has put an undue burden on the Central Bank of Nigeria (CBN), but its policy responses were nevertheless disappointing.** The shift toward monetary tightening came too late and, given this delay, was too gradual. The resulting large expansion in monetary aggregates has accommodated, if not fueled, inflation. Under pressure of the unsustainably large demand for foreign exchange, the central bank reverted to selling foreign exchange at a predetermined price. As a result, the official (IFEM) rate was held unchanged (except for two adjustments) and, in real terms, appreciated sharply. Moreover, the interbank market split into two, giving rise to a multiple currency practice, and the differential between the IFEM and parallel exchange rates widened to nearly 20 percent.

65. The staff understands that the authorities were driven by a desire to deliver positive results quickly. At the same time, the depth of the problems inherited from the military governments—decaying infrastructure and public services, and the demoralized government institutions—was greater than the government and the staff had anticipated. The delicate ethnic and regional balances, the political tensions associated with the transition to democracy, and the weak civil service ravaged under many years of military rule all made it difficult for the government to accomplish many of the goals that it had set. Even with prudent macroeconomic management, it will take several years of steadfast implementation of structural reforms, improved governance, and the alleviation of bottlenecks in infrastructure before the full confidence of private investors can be reearned. Such investor confidence will be critical to decisively raise investment and attract savings, thereby helping achieve—and sustain—the required rates of economic growth. **It was simply unrealistic to have expected to lower poverty significantly, improve power and other essential public services substantially, and put the country on a higher growth path—all in such a short period.**

66. **Nevertheless, the staff is of the view that a series of useful achievements over the last two years offers a modest basis on which to build.** On the political front, ethnic and religious tensions have eased somewhat, as have frictions between the executive and the National Assembly. Based on its own internal review of the capital budget, the government has decided to restrain spending to preserve macroeconomic stability. Monetary policy has recently been tightened, with signs of calm returning to the foreign exchange market. The privatization process has gained momentum with the successful sale of the GSM licenses and the imminent sale of the national telecommunications company. In addition, the commencement of operations of the Anti-Corruption Commission, the successful launch of value-for-money audits, and the adoption of strict due process tests have laid the groundwork for substantively improving transparency and accountability in the use of public funds.

67. **The staff thus urges the government to rededicate itself to the pursuit of market-based reforms, while accepting that an attempt at a quick fix through big public spending would only hurt prospects for sustained economic growth and poverty reduction over the medium and long term.** To achieve sustained growth and poverty reduction, the government should attach the highest priority to avoiding the Nigerian bane of an oil price-related cycle of boom-and-bust.

68. **The staff thus considers it most critical that the federal government adhere to its intention to restrain spending consistent with saving fully its share of windfall oil revenues and not borrowing from domestic sources.** While the spending level now envisaged is still higher than desired, it may be unrealistic to expect any further cuts. In this regard, it is most important to ensure the quality of government expenditures, by complying strictly with due process and rejecting capital projects with an insufficient poverty focus. A public commitment to restrained spending would also help dampen inflationary expectations. The staff also calls on the authorities to rid the wage bill of ghost workers and other irregular payments, and launch comprehensive civil service reforms, so that "living wages" could be paid to all employees without jeopardizing the sustainability of the federal budget.

69. State and local governments have an essential role to play in ensuring the Nigerian economy can maintain macroeconomic stability and effectively deliver essential public services in a cost-effective, transparent, and accountable manner. Since the state and local governments have been given full and automatic access to more than half of oil revenues, the implementation of prudent fiscal policies requires collaboration among all tiers of government. A pact among the federal and state governments that would acknowledge the common goal of economic stability and the shared responsibilities to achieve it would be very beneficial. The staff is of the view that, ideally, the availability of financial resources to state and local governments should be insulated from oil price fluctuations, and commensurate with the tasks that they are assigned to perform and their capacity to effectively spend such resources. **The staff recognizes that issues of fiscal federalism are complex and involve sensitive constitutional considerations, but it urges the authorities to reconsider carefully the implications of the current arrangement for macroeconomic management, the delivery of basic public services, and the reduction of poverty.**

70. In the meantime, the likely spending of oil windfall gains by the state and local governments should be taken into account in setting macroeconomic policy. Interest rates have risen to over 30 percent (against the current inflation rate of 18 percent), but reserve money continues to expand at a rapid pace and a large premium persists in the parallel exchange market. The CBN believes that even higher interest rates would seriously strain the banking system. The staff believes, however, that a more effective approach to achieve lasting stability in the foreign exchange market and the banking system is to accept further increases in short-term interest rates for a brief period, and to narrow the differential between the interbank and parallel exchange rate quickly and substantially—if necessary, with a step adjustment of the interbank rate. **The staff also urges the authorities to attach the highest priority to bringing down inflation to single digits by the end of 2001 and ensuring some, even if a modest, increase of foreign reserves; sterilizing the liquidity impact of**

**using excess oil proceeds through sales of government securities, thereby limiting the impact on competitiveness; eliminating the multiple currency practice immediately and unifying the interbank and parallel exchange markets as expeditiously as possible.** The staff does not recommend Board approval of the multiple currency practice.

71. **Maintaining the momentum of privatization is another essential plank of the macroeconomic reform effort. The public sector still accounts for an extraordinary share of the Nigerian economy. Improving its efficiency while also streamlining it will be critical to enhance economic efficiency and foster private investment.** The staff encourages the authorities to accelerate the preparation of the regulatory frameworks in key infrastructure sectors, a prerequisite for successful privatization, and welcomes the Privatization Support Credit that the authorities have recently negotiated with the World Bank. The staff also urges the authorities to divest their ownership of public enterprises "as is," without significant infusions of public money before such sales. In this regard, the staff welcomes the authorities' intention not to commit public funds to complete the Ajaokuta Iron and Steel Complex at least until an independent technical audit is completed. The staff notes that the government is committed to deregulating the petroleum sector and removing the large consumer subsidies. In this connection, it supports the consultative process initiated by the government and hopes that this process will lead to the resolution of this important economic and social issue in a manner that satisfies all parties concerned.

72. **Given the deep-rooted problems and firmly entrenched perceptions about the extent of corruption in Nigeria, the government's corrective actions will need to be particularly strong.** The staff notes that the Anti-Corruption Commission is actively pursuing more than a dozen major cases involving high officials, and it urges that appropriate follow-up action be implemented as rapidly as possible. The Commission should also publish a regular report of its activities. The value-for-money and civil service audits should be published once they have been finalized. The staff attaches great importance to the Attorney General's undertaking to follow up on the results of these audits and the civil service audit, and to initiate actions where there is evidence of wrongdoing. The staff welcomes the authorities' firm commitment to observing due process, and to strengthening public procurement regulations; it urges the authorities to remain steadfast in their policy of applying appropriate sanctions whenever their code of conduct is breached.

73. **The staff underscores the critical importance of capacity building for successful implementation of the government's economic reforms**. In particular, proper formulation, implementation, and monitoring will require urgent capacity-building efforts for the newly established Budget Office, the Accountant General's Office, and the Budget Monitoring and Price Intelligence unit. Moreover, the quality of all key economic statistics in Nigeria is inadequate and hampers the effective monitoring of economic developments. The authorities and staff have identified capacity building for budget implementation and for public procurement, as well as the compilation of timely economic and financial statistics, as areas of highest priority. The staff welcomes the authorities' readiness to accept Fund technical assistance and urges donors to both enhance and coordinate their assistance.

74. **Even with the determined pursuit of economic reforms as outlined above, the staff is of the view that Nigeria will need concessional assistance from the international community over the medium term if it is to attain the objectives of higher growth and poverty reduction.** The staff's analysis shows that, given the projected decline in the price of oil, and even with a more effective utilization of Nigeria's considerable resources, substantial financing gaps of up to US$1.5-US$2 billion will remain over the medium term. Nigeria's oil resources are large, but, in per capita terms, its overall income, as well as its income derived from oil, is smaller than many countries that currently receive considerable international assistance. The successful implementation of the current Fund-supported program and the adoption of policies that could be supported under a successor arrangement should help Nigeria garner the support of the international community in seeking to reduce the burden of its existing debt to a sustainable level.

75. **The Nigerian authorities have undertaken to take decisive steps to move forward in their economic reforms, prior to requesting completion of the first review under the current Stand-By Arrangement**. If these actions are fully implemented, the staff would recommend that the Board complete the review and extend the arrangement by six months. This could be followed by a successor three-year arrangement. In this context, the staff urges the authorities to develop expeditiously a medium-term poverty reduction strategy—that includes macroeconomic and structural reforms—with the active participation of stakeholders. Support of the state and local governments, the national assembly, and the civil society will be important for the success of such a strategy.

76. The depth of Nigeria's economic problems, the useful if modest start made by the authorities in reversing decades of economic mismanagement, and the constructive role that can be played by the Fund and the international community in helping Nigeria steer through difficult times argue in favor of continuing Fund engagement. The staff would, however, underscore the enormous challenges that lie ahead and call upon **Nigerians and the international community to recognize that the process of transforming the economy will be long and needs to be sustained by determined efforts.**

77. It is proposed that the next Article IV consultation discussions with Nigeria be held on the standard 12-month cycle.

Table 1. Nigeria: Selected Economic and Financial Indicators, 1997-2001

| | 1997 | 1998 | 1999 | 2000 Est. | 2001 Proj. |
|---|---|---|---|---|---|
| | (Annual percentage changes, unless otherwise specified) | | | | |
| National income and prices | | | | | |
| Real GDP (at 1990 factor costs) | 2.7 | 1.8 | 1.0 | 3.8 | 3.0 |
| Non-oil GDP (at 1990 factor costs) | 3.4 | 3.8 | 3.5 | 2.2 | 6.2 |
| Real GDP per capita | -0.2 | -1.0 | -1.7 | 1.1 | 0.2 |
| GDP per capita (in U.S. dollars) | 303.6 | 271.3 | 278.1 | 319.5 | 294.0 |
| GDP deflator (period average) | 0.7 | -6.0 | 12.5 | 26.1 | 2.9 |
| Non-oil GDP deflator (period average) | 8.4 | 10.0 | 6.6 | 6.9 | 12.5 |
| Consumer price index (end of period) | 10.2 | 11.9 | 0.2 | 14.5 | 9.0 |
| External sector | | | | | |
| Exports, f.o.b. | -3.6 | -34.9 | 17.9 | 71.4 | -11.3 |
| Imports, f.o.b. | 7.0 | -3.7 | 13.5 | 17.5 | 17.8 |
| Oil export volume | 4.8 | -2.4 | -4.8 | 5.2 | -7.3 |
| Import volume | 16.1 | -2.3 | 14.6 | 15.4 | 16.6 |
| Terms of trade | 3.8 | -33.5 | 28.9 | 64.9 | -10.8 |
| Nominal exchange rate (period average, U.S. dollar per naira) | -2.6 | -4.5 | -7.2 | -9.3 | ... |
| Real effective ex. rate (end of period; '-' indicates depreciation) | 25.1 | 3.4 | -9.6 | 12.7 | ... |
| Consolidated government operations 1/ | | | | | |
| Total revenues and grants | 6.0 | 37.0 | 21.8 | 95.2 | 10.3 |
| Petroleum revenues | 6.2 | 94.3 | 13.5 | 119.7 | 6.8 |
| Nonpetroleum revenues | 5.7 | -34.4 | 52.0 | 28.8 | 26.7 |
| Total expenditure and net lending | 33.9 | 112.8 | 4.0 | 49.7 | 20.5 |
| Current expenditure 2/ | 17.8 | 105.7 | 42.9 | 65.2 | 16.9 |
| Capital expenditure and net lending 2/ | 53.1 | 178.5 | -25.5 | 28.4 | 26.9 |
| Money and credit | | | | | |
| Net domestic assets 3/ | -1.3 | 20.0 | 39.5 | -41.7 | 11.7 |
| Net credit to consolidated government 3/ | -22.9 | 17.7 | 43.1 | -35.4 | 2.1 |
| Credit to the rest of the economy 3/ | 22.0 | 11.0 | 22.3 | 19.3 | 10.3 |
| Broad money | 19.7 | 38.5 | 35.0 | 45.3 | 14.4 |
| Velocity (GDP/end-of-period broad money) | 7.9 | 5.5 | 4.6 | 4.1 | 3.8 |
| Savings deposit rate (percent; end of period) | 6.1 | 6.3 | 5.0 | 6.1 | ... |
| Discount rate (percent; end of period) | 13.5 | 13.5 | 18.0 | 14.0 | ... |
| | (In percent of GDP, unless otherwise specified) | | | | |
| Investment and saving | | | | | |
| Investment | 20.1 | 24.1 | 23.4 | 22.7 | 26.8 |
| Public fixed investment | ... | ... | 10.4 | 9.8 | 11.2 |
| Private fixed investment | ... | ... | 13.0 | 12.9 | 15.6 |
| Gross national savings | 26.8 | 14.4 | 13.5 | 27.6 | 24.5 |
| Public | ... | ... | 11.6 | 19.5 | 13.7 |
| Private | ... | ... | 2.0 | 8.2 | 10.8 |
| Consolidated government operations | | | | | |
| Total revenues and grants | 20.8 | 29.9 | 30.7 | 46.1 | 47.8 |
| *Of which*: petroleum revenue | 11.5 | 23.4 | 22.5 | 37.9 | 38.0 |
| Total expenditure and net lending | 19.5 | 43.8 | 38.0 | 43.9 | 49.7 |
| Overall balance (commitment basis) | 1.2 | -14.0 | -7.4 | 2.2 | -1.9 |
| Domestic primary balance | 3.8 | -5.9 | 0.8 | 9.7 | 5.7 |
| Gross domestic debt | 12.1 | 14.0 | 28.1 | 28.0 | 21.5 |
| External sector | | | | | |
| Current account balance | 6.7 | -9.7 | -9.9 | 4.9 | -2.3 |
| External debt service/exports (percent) 4/ | 31.5 | 38.6 | 32.1 | 8.0 | 12.7 |
| | (In millions of U.S. dollars, unless otherwise specified) | | | | |
| Overall balance of payments | -194 | -3,024 | -4,091 | 2,307 | -1,291 |
| Gross international reserves (end of period) | 7,222 | 7,107 | 5,441 | 9,400 | 9,879 |
| (equivalent months of imports, c.i.f.) | 6.6 | 6.8 | 4.5 | 6.7 | 6.3 |
| Price of Nigerian oil (U.S. dollars per barrel) | 19.8 | 12.9 | 17.0 | 28.0 | 25.5 |
| Production of crude oil (million barrels per day) | 2.271 | 2.231 | 2.110 | 2.261 | 2.187 |
| Export of crude oil (million barrels per day) | 2.003 | 1.955 | 1.844 | 1.952 | 1.814 |

Sources: Nigerian authorities; and staff estimates and projections.

1/ Consists of the federal, state, and local governments, the "First Charges," the Special Funds, and the Petroleum Special Trust Fund (PSTF).
2/ Assumes that two-thirds of state and local government expenditure is recurrent expenditure, with the remainder being capital expenditure.
3/ In percent of broad money at the beginning of the period.
4/ Debt-service payments due (after rescheduling) as a share of exports of goods and nonfactor services.

Table 2a. Nigeria: Consolidated Government Operations, 1999-2001
(In billions of naira)

| | 1999 | 2000 Amended Budget with Suppl. $20 | 2000 Program Expected Outturn $24.5 | 2000 Program Estimated Outturn $28.0 | 2001 FGN Budget $22 | 2001 Staff Proj. $25.5 |
|---|---|---|---|---|---|---|
| Total revenue | 987 | 1,710 | 1,826 | 1,927 | 1,952 | 2,126 |
| Petroleum revenue | 721 | 1,340 | 1,457 | 1,584 | 1,526 | 1,692 |
| Gross export proceeds | 498 | 718 | 802 | 774 | 863 | 899 |
| Petroleum profit tax | 69 | 243 | 243 | 333 | 353 | 408 |
| Royalty, rent, gas, and flare | 103 | 139 | 171 | 193 | 163 | 193 |
| Other oil revenue | 0 | 21 | 21 | 0 | 12 | 12 |
| Domestic crude | 45 | 104 | 104 | 89 | 104 | 148 |
| Upstream gas sales | 6 | 40 | 40 | 23 | 30 | 33 |
| Transfer of Excess crude receipts | ... | 75 | 75 | 173 | 0 | 0 |
| Nonpetroleum revenue | 266 | 369 | 370 | 343 | 426 | 434 |
| Tax revenue | 249 | 318 | 318 | 305 | 366 | 374 |
| Taxes on net income, profits, and capital gains | 85 | 117 | 117 | 105 | 123 | 130 |
| Company income tax | 42 | 65 | 65 | 51 | 70 | 70 |
| Education tax | 3 | 6 | 6 | 8 | 7 | 7 |
| State government internal revenue | 37 | 46 | 46 | 46 | 46 | 53 |
| Domestic taxes on goods and services | 72 | 95 | 95 | 84 | 110 | 110 |
| Value-added tax revenue | 49 | 65 | 65 | 58 | 70 | 70 |
| Tax on petroleum products | 23 | 30 | 30 | 25 | 40 | 40 |
| Taxes on international trade and transactions | 92 | 106 | 106 | 116 | 134 | 134 |
| Import duties and excises | 83 | 100 | 100 | 102 | 114 | 114 |
| Customs levies | 9 | 6 | 6 | 14 | 20 | 20 |
| Nontax revenue | 17 | 52 | 52 | 38 | 60 | 60 |
| *Of which:* central bank profits | 0 | 30 | 30 | 27 | .. | 28 |
| Total expenditure | 1,226 | 1,802 | 1,651 | 1,835 | 2,349 | 2,212 |
| Federal government recurrent expenditure | 495 | 565 | 565 | 685 | 662 | 715 |
| Goods and services | 218 | 263 | 263 | 373 | 341 | 375 |
| Personnel costs | 137 | 173 | 173 | 279 | 204 | 272 |
| Overhead | 69 | 78 | 78 | 71 | 110 | 76 |
| Other | 12 | 12 | 12 | 22 | 27 | 27 |
| Interest payments due | 277 | 303 | 303 | 312 | 321 | 340 |
| Domestic interest | 84 | 100 | 100 | 104 | 100 | 120 |
| Foreign interest | 193 | 203 | 203 | 208 | 221 | 221 |
| Federal government capital expenditure | 447 | 605 | 454 | 503 | 835 | 626 |
| Domestically financed | 447 | 595 | 444 | 491 | 825 | 616 |
| Capital expenditure | 119 | 279 | 129 | 177 | 450 | 208 |
| NNPC cash calls | 183 | 260 | 260 | 260 | 300 | 333 |
| NNPC priority projects | 23 | 30 | 30 | 25 | 34 | 38 |
| Transfers to PSTF/NDDC | 21 | 16 | 15 | 20 | 26 | 22 |
| Judiciary | ... | 10 | 10 | 10 | 15 | 15 |
| Foreign financed | 0 | 10 | 10 | 12 | 10 | 10 |
| State and local government, incl. special funds | 284 | 631 | 631 | 647 | 852 | 870 |
| Overall balance (commitment basis) | -239 | -92 | 175 | 92 | -397 | -85 |
| Balancing item/drawdown of end-1999 balances | ... | -39 | -39 | -13 | 0 | 0 |
| Overall balance (cash basis) | -239 | -131 | 136 | 79 | -397 | -85 |
| Financing | 239 | 131 | -136 | -79 | 397 | 85 |
| Privatization proceeds | 0 | 20 | 20 | 18 | 70 | 181 |
| External | -341 | 70 | 70 | 45 | -41 | -41 |
| Borrowing | 0 | 10 | 10 | 12 | 10 | 10 |
| Amortization due | -201 | -101 | -101 | -135 | -247 | -247 |
| Change in arrears (acc. + , rep. -) | -140 | 0 | 0 | 0 | 0 | 0 |
| Rescheduling/financing gap | n.a. | 162 | 162 | 169 | 196 | 196 |
| Domestic | 580 | 41 | -227 | -143 | 368 | -54 |
| Central bank | 238 | -86 | -202 | -213 | 307 | 21 |
| Federation Account | ... | -86 | -202 | -227 | 198 | 229 |
| Federal government | ... | 0 | 0 | 14 | 109 | -208 |
| Change in arrears (acc. +, rep. -) | -32 | -56 | -56 | -42 | -70 | -76 |
| Other | 374 | 182 | 31 | 113 | 132 | 0 |
| Memorandum items: | | | | | | |
| Primary balance | 38 | 210 | 478 | 405 | -76 | 255 |
| Non-oil fiscal balance 1/ | -538 | -866 | -714 | -935 | -1,298 | -1,076 |

Sources: Nigerian authorities and staff estimates and projections.

1/ Defined as Nonpetroleum revenue plus domestic crude minus total expenditure excluding cash calls and foreign interest due.

Table 2b. Nigeria: Consolidated Government Operations, 1999-2006
(In percent of GDP)

| | 1999 | 2000 Program Expected Outturn | 2000 Program Estimated Outturn | 2001 FGN Budget | 2001 Staff Proj. | 2002 Proj. | 2003 Proj. | 2004 Proj. | 2005 Proj. | 2006 Proj. |
|---|---|---|---|---|---|---|---|---|---|---|
| | | $20 | $28.0 | $22.0 | $25.5 | $22.5 | $20.0 | $19.8 | $19.5 | $19.5 |
| Total revenue | 30.7 | 40.9 | 46.1 | 43.9 | 47.8 | 44.7 | 44.8 | 45.0 | 43.9 | 43.2 |
| Petroleum revenue | 22.5 | 32.1 | 37.9 | 34.3 | 38.0 | 35.6 | 35.0 | 34.0 | 32.9 | 32.3 |
| Gross export proceeds | 15.5 | 17.2 | 18.5 | 19.4 | 20.2 | 18.2 | 17.6 | 17.7 | 17.3 | 17.0 |
| Petroleum profit tax | 2.1 | 5.8 | 8.0 | 7.9 | 9.2 | 7.8 | 6.1 | 5.8 | 5.5 | 5.4 |
| Royalty, rent, gas, and flare | 3.2 | 3.3 | 4.6 | 3.7 | 4.3 | 4.1 | 3.7 | 3.6 | 3.5 | 3.4 |
| Other oil revenue | 0.0 | 0.5 | 0.0 | 0.3 | 0.3 | 0.3 | 0.2 | 0.2 | 0.2 | 0.2 |
| Domestic crude | 1.4 | 2.5 | 2.1 | 2.3 | 3.3 | 4.6 | 6.4 | 5.6 | 5.3 | 5.1 |
| Upstream gas sales | 0.2 | 1.0 | 0.6 | 0.7 | 0.7 | 0.7 | 1.0 | 1.1 | 1.1 | 1.2 |
| Transfer of excess crude receipts | n.a. | 1.8 | 4.1 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Nonpetroleum revenue | 8.3 | 8.8 | 8.2 | 9.6 | 9.8 | 9.1 | 9.8 | 11.0 | 11.0 | 10.9 |
| Tax revenue | 7.8 | 7.6 | 7.3 | 8.2 | 8.4 | 8.1 | 8.9 | 10.2 | 10.2 | 10.2 |
| Taxes on net income, profits and capital gains | 2.6 | 2.8 | 2.5 | 2.8 | 2.9 | 2.8 | 2.9 | 2.9 | 3.0 | 3.0 |
| Domestic taxes on goods and services | 2.2 | 2.3 | 2.0 | 2.5 | 2.5 | 2.1 | 3.0 | 4.3 | 4.4 | 4.5 |
| Taxes on international trade and transactions | 2.9 | 2.5 | 2.8 | 3.0 | 3.0 | 3.3 | 3.0 | 2.9 | 2.8 | 2.7 |
| Nontax revenue | 0.5 | 1.2 | 0.9 | 1.3 | 1.3 | 0.9 | 0.9 | 0.9 | 0.8 | 0.7 |
| Total expenditure | 38.2 | 39.5 | 43.9 | 52.8 | 49.7 | 45.8 | 45.6 | 44.7 | 43.4 | 42.2 |
| Federal government recurrent expenditure | 15.4 | 13.5 | 16.4 | 14.9 | 16.1 | 16.2 | 15.7 | 14.8 | 13.6 | 12.7 |
| Goods and services | 6.8 | 6.3 | 8.9 | 7.7 | 8.4 | 8.2 | 8.2 | 7.9 | 7.7 | 7.4 |
| Personnel costs | 4.3 | 4.2 | 6.7 | 4.6 | 6.1 | 5.9 | 5.8 | 5.5 | 5.2 | 5.0 |
| Overhead | 2.1 | 1.9 | 1.7 | 2.5 | 1.7 | 1.7 | 1.9 | 2.0 | 2.0 | 2.0 |
| Other | 0.4 | 0.3 | 0.5 | 0.6 | 0.6 | 0.5 | 0.5 | 0.5 | 0.5 | 0.4 |
| Interest payments due | 8.6 | 7.2 | 7.5 | 7.2 | 7.7 | 8.0 | 7.6 | 6.9 | 6.0 | 5.3 |
| Domestic interest | 2.6 | 2.4 | 2.5 | 2.2 | 2.7 | 2.5 | 2.2 | 1.9 | 1.4 | 1.0 |
| Foreign interest | 6.0 | 4.9 | 5.0 | 5.0 | 5.0 | 5.5 | 5.3 | 4.9 | 4.5 | 4.3 |
| Federal government capital expenditure | 13.9 | 10.9 | 12.0 | 18.8 | 14.1 | 13.8 | 13.5 | 13.1 | 12.8 | 12.6 |
| Domestically-financed | 13.9 | 10.6 | 11.7 | 18.5 | 13.8 | 13.6 | 13.3 | 12.9 | 12.6 | 12.4 |
| Capital expenditure | 3.7 | 3.1 | 4.2 | 10.1 | 4.7 | 4.4 | 4.4 | 4.4 | 4.3 | 4.2 |
| NNPC cash calls | 5.7 | 6.2 | 6.2 | 6.7 | 7.5 | 8.0 | 8.0 | 8.0 | 7.9 | 7.8 |
| NNPC priority projects | 0.7 | 0.7 | 0.6 | 0.8 | 0.8 | 0.7 | 0.4 | 0.2 | 0.0 | 0.0 |
| PSTF capital | 0.7 | 0.4 | 0.5 | 0.6 | 0.5 | 0.1 | 0.0 | 0.0 | 0.0 | 0.0 |
| Judiciary | ... | 0.2 | 0.2 | 0.3 | 0.3 | 0.4 | 0.4 | 0.4 | 0.4 | 0.4 |
| Extrabudgetary outlays | 3.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Foreign-financed | 0.0 | 0.2 | 0.3 | 0.2 | 0.2 | 0.2 | 0.2 | 0.2 | 0.2 | 0.2 |
| State and local governments, incl. Spec. Funds | 8.8 | 15.1 | 15.5 | 19.2 | 19.6 | 15.8 | 16.4 | 16.8 | 16.9 | 16.9 |
| Overall balance (commitment basis) | -7.4 | 1.4 | 2.2 | -8.9 | -1.9 | -1.1 | -0.7 | 0.3 | 0.5 | 1.0 |
| Balancing item/drawdown of end-1999 balances | ... | -0.9 | -0.3 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Overall balance (cash basis) | -7.4 | 0.5 | 1.9 | -8.9 | -1.9 | -1.1 | -0.7 | 0.3 | 0.5 | 1.0 |
| Financing | 7.4 | -0.5 | -1.9 | 8.9 | 1.9 | 1.1 | 0.7 | -0.3 | -0.5 | -1.0 |
| Privatization proceeds | 0.0 | 0.5 | 0.4 | 1.6 | 4.1 | 2.2 | 2.1 | 1.4 | 0.9 | 0.4 |
| External | -10.6 | 1.7 | 1.1 | -0.9 | -0.9 | 0.9 | 0.7 | 0.5 | 0.2 | 0.2 |
| Borrowing | 0.0 | 0.2 | 0.3 | 0.2 | 0.2 | 0.2 | 0.2 | 0.2 | 0.2 | 0.2 |
| Amortization due | -6.3 | -2.4 | -3.2 | -5.6 | -5.6 | -4.1 | -4.2 | -4.2 | -4.5 | -4.7 |
| Change in arrears (acc. +, rep. -) | -4.3 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Rescheduling | ... | 3.9 | 4.0 | 4.4 | 4.4 | 4.8 | 4.7 | 4.5 | 4.5 | 4.7 |
| Domestic | 18.1 | -2.6 | -3.4 | 8.3 | -1.2 | -2.0 | -2.1 | -2.2 | -1.6 | -1.5 |
| Central bank | 7.4 | -2.0 | -5.1 | 6.9 | 0.5 | 0.0 | 0.0 | 0.5 | 1.0 | 1.0 |
| Federation Account | ... | -2.0 | -5.4 | 4.5 | 5.2 | 0.0 | 0.0 | 0.5 | 1.0 | 1.0 |
| Federal government | ... | 0.0 | 0.3 | 2.4 | -4.7 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Change in arrears (acc. +, rep. -) | -1.0 | -1.3 | -1.0 | -1.6 | -1.7 | -1.7 | -1.6 | -0.3 | -0.3 | -0.2 |
| Other | 11.6 | 0.7 | 2.7 | 3.0 | 0.0 | -0.3 | -0.4 | -2.4 | -2.4 | -2.4 |
| Memorandum items: | | | | | | | | | | |
| Non-oil revenue (as percent of non-oil GDP) | 12.2 | 15.5 | 14.4 | 15.0 | 15.2 | 13.2 | 13.6 | 15.0 | 14.6 | 14.3 |
| Non-oil fiscal balance (as percent of non-oil GDP) | -24.6 | -29.9 | -39.2 | -45.6 | -37.8 | -27.2 | -22.1 | -20.7 | -19.5 | -18.5 |

Sources: Nigerian authorities; and staff estimates and projections.

Table 3. Nigeria: Central Bank Balance Sheet, 1999-2001
(In billions of naira, unless otherwise indicated)

| | Dec. 99 | Dec. 00 | Mar. 01 | Jun. 01 | Sep. 01 | Dec. 01 |
|---|---|---|---|---|---|---|
| | | Est. | Projections | | | |
| Net foreign assets | 602 | 1041 | 1194 | 1104 | 1048 | 1094 |
| Net domestic assets | -336 | -667 | -773 | -688 | -649 | -689 |
| Net domestic credit | 55 | -117 | -243 | -157 | -137 | -173 |
| Net claims on Government | 31 | -88 | -52 | 74 | 94 | 58 |
| Claims | 532 | 529 | 666 | 657 | 638 | 659 |
| Ways and means balance | 1 | 0 | 0 | 0 | 0 | 0 |
| Treasury bills | 80 | 89 | 158 | 149 | 130 | 151 |
| Treasury bonds | 407 | 397 | 394 | 394 | 394 | 394 |
| Other claims | 44 | 44 | 114 | 114 | 114 | 114 |
| Deposits: federation, First Charges and ministries | -501 | -617 | -717 | -583 | -544 | -601 |
| Other claims | 24 | -28 | -131 | -131 | -131 | -131 |
| CBN instrument placed | ... | ... | -60 | -100 | -100 | -100 |
| Other items (net) | -391 | -550 | -530 | -531 | -512 | -516 |
| Reserve money | 266 | 374 | 421 | 416 | 399 | 405 |
| Memorandum items: | | | | | | |
| Gross official reserves (in millions of U.S. dollars) | 5,441 | 9,400 | 10,788 | 9,973 | 9,467 | 9,879 |
| Growth of reserve money (percent per year) | ... | 40.5 | ... | ... | ... | 8.3 |
| Exchange rate (naira per U.S. dollar) | 110.7 | 110.7 | 110.7 | 110.7 | 110.7 | 110.7 |

Sources: Central Bank of Nigeria (CBN); and staff estimates and projections.

Table 4. Nigeria: Monetary Survey, 1998-2001 1/ 2/

| | 1998 | 1999 | 2000 Est. | 2001 Proj. |
|---|---|---|---|---|
| | (In billions of naira; end of period) | | | |
| Net foreign assets | 701 | 666 | 1,275 | 1,303 |
| Central Bank of Nigeria (net) | 611 | 510 | 1,067 | 1,094 |
| Commercial and merchant banks (net) | 90 | 156 | 208 | 209 |
| Net domestic assets | -171 | 33 | -259 | -140 |
| Net domestic credit | 311 | 632 | 520 | 645 |
| Consolidated government (net) 3/ | -45 | 179 | -68 | -47 |
| Nonfinancial public enterprises | 19 | 1 | 1 | 1 |
| Claims on private sector | 337 | 452 | 587 | 692 |
| Other items (net) | -482 | -599 | -778 | -785 |
| Broad money | 518 | 700 | 1,016 | 1,163 |
| Narrow money | 324 | 393 | 618 | ... |
| Quasi money | 194 | 307 | 398 | ... |
| Bonds and money market instruments | 11 | ... | ... | ... |
| | (Increase as a percent of broad money at the beginning of the period, unless otherwise indicated.) | | | |
| Memorandum items: | | | | |
| Net foreign assets | ... | -6.6 | 87.0 | 2.7 |
| Net domestic assets | ... | 39.5 | -41.7 | 11.7 |
| Net domestic credit | ... | 61.9 | -16.1 | 12.3 |
| Net credit to the government | ... | 43.1 | -35.4 | 2.1 |
| Growth in claims on private sector | 17.7 | 22.3 | 19.3 | 10.3 |
| Broad money (in percent ) | 38.5 | 35.0 | 45.3 | 14.4 |
| Velocity (non-oil GDP/broad money) | 3.8 | 3.1 | 2.3 | 2.5 |
| Velocity (GDP/broad money) 4/ | 5.5 | 4.6 | 4.1 | 3.8 |
| Reserve money (in billions of naira) | 207 | 266 | 374 | 405 |
| Money multiplier | 2.51 | 2.63 | 2.72 | 2.87 |
| Nominal GDP at market prices (in billions of naira) | 2,829 | 3,211 | 4,178 | 4,448 |
| Non-oil GDP at market prices (in billions of naira) | 1,979 | 2,183 | 2,386 | 2,849 |

Sources: Central Bank of Nigeria; and staff estimates and projections.

1/ Consolidated accounts of the Central Bank of Nigeria, commercial banks, and merchant banks.
2/ Based on the revised money and banking time series constructed by the Central Bank of Nigeria beginning in 1992.
3/ Consolidated government includes the federation account, and federal, state, and local governments, as well as the Special Funds, and the Petroleum Special Trust Fund.
4/ Velocity is calculated as the ratio of GDP at market prices to broad money. Calculated velocity in 2000 is now higher than in EBS/00/153 (7/26/00) because of the revision of nominal GDP implied by the change in the terms of trade.

Table 5. Nigeria: Balance of Payments, 1997-2006
(In millions of U.S. dollars, unless otherwise indicated)

| | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 |
|---|---|---|---|---|---|---|---|---|---|---|
| | | | | Est. | Projections | | | | | |
| Trade balance | 5,909 | 839 | 1,396 | 8,068 | 3,554 | 2,281 | 1,894 | 1,976 | 1,629 | 1,301 |
| Exports | 15,539 | 10,114 | 11,927 | 20,441 | 18,126 | 15,831 | 15,305 | 15,951 | 16,383 | 17,012 |
| Oil | 15,181 | 9,708 | 11,393 | 19,550 | 17,072 | 14,533 | 13,596 | 13,958 | 14,100 | 14,425 |
| Gas | 0 | 0 | 322 | 623 | 701 | 846 | 1,133 | 1,259 | 1,384 | 1,510 |
| Other | 358 | 407 | 211 | 267 | 354 | 451 | 576 | 734 | 899 | 1,077 |
| Imports | -9,630 | -9,276 | -10,531 | -12,372 | -14,572 | -13,549 | -13,410 | -13,975 | -14,754 | -15,711 |
| Oil related | -2,172 | -2,164 | -2,273 | -2,632 | -2,998 | -2,920 | -2,830 | -2,947 | -3,042 | -3,137 |
| Gas related | -260 | -338 | -681 | -805 | -883 | -1,010 | -1,225 | -1,244 | -1,338 | -1,433 |
| Other | -7,457 | -7,112 | -7,577 | -8,936 | -10,691 | -9,620 | -9,355 | -9,784 | -10,373 | -11,141 |
| Services (net) | -5,438 | -5,429 | -6,331 | -7,789 | -6,248 | -6,909 | -6,838 | -6,854 | -6,976 | -6,986 |
| Factor services | -2,869 | -2,892 | -3,467 | -4,341 | -3,145 | -2,971 | -2,916 | -2,815 | -2,746 | -2,531 |
| Oil related | -1,445 | -1,112 | -1,704 | -2,663 | -1,423 | -1,080 | -1,102 | -1,113 | -1,145 | -964 |
| Non-oil related | -1,424 | -1,780 | -1,763 | -1,677 | -1,722 | -1,891 | -1,815 | -1,702 | -1,601 | -1,568 |
| *Of which*: interest due on public debt | -1,636 | -2,087 | -1,972 | -2,038 | -1,989 | -2,072 | -1,999 | -1,910 | -1,816 | -1,798 |
| Nonfactor services | -2,569 | -2,537 | -2,864 | -3,449 | -3,103 | -3,938 | -3,921 | -4,039 | -4,229 | -4,455 |
| Oil related | -1,280 | -1,153 | -1,252 | -1,554 | -1,265 | -1,880 | -1,887 | -1,965 | -2,028 | -2,092 |
| Gas related | -60 | -68 | -97 | -107 | -118 | -135 | -163 | -166 | -178 | -191 |
| Non-oil related | -1,288 | -1,383 | -1,515 | -1,787 | -1,720 | -1,924 | -1,871 | -1,908 | -2,023 | -2,173 |
| Private transfers (net) | 1,867 | 1,570 | 1,625 | 1,706 | 1,787 | 1,876 | 2,026 | 2,228 | 2,451 | 2,696 |
| Official transfers (net) | -26 | -54 | 20 | 18 | 16 | 15 | 13 | 12 | 11 | 10 |
| Current account balance | 2,313 | -3,074 | -3,289 | 2,003 | -891 | -2,738 | -2,904 | -2,637 | -2,885 | -2,979 |
| Official capital (net) | -3,181 | -1,803 | -2,031 | -1,207 | -1,938 | -1,233 | -1,238 | -1,238 | -1,295 | -1,428 |
| Disbursements | 376 | 372 | 136 | 120 | 290 | 301 | 330 | 408 | 500 | 550 |
| Amortization due | -3,556 | -2,175 | -2,168 | -1,327 | -2,228 | -1,533 | -1,567 | -1,645 | -1,795 | -1,978 |
| Private capital (net) | 1,539 | 1,220 | 1,473 | 1,374 | 1,539 | 2,493 | 2,595 | 2,574 | 2,704 | 2,792 |
| Direct investment | 1,539 | 1,220 | 1,473 | 1,374 | 1,539 | 2,393 | 2,395 | 2,174 | 2,204 | 2,092 |
| Oil sector | 492 | 350 | 402 | 471 | 566 | 611 | 634 | 702 | 724 | 747 |
| Gas sector | 400 | 450 | 650 | 450 | 477 | 500 | 500 | 400 | 400 | 400 |
| Non-oil sector | 647 | 421 | 421 | 452 | 497 | 1,282 | 1,262 | 1,073 | 1,080 | 945 |
| Private borrowing (net) | 0 | 0 | 0 | 0 | 0 | 100 | 200 | 400 | 500 | 700 |
| Capital account balance | -1,441 | -382 | -559 | 167 | -399 | 1,260 | 1,358 | 1,336 | 1,408 | 1,363 |
| Errors and omissions (including short-term capital) | -1,066 | 233 | -243 | 136 | 0 | 0 | 0 | 0 | 0 | 0 |
| Overall balance | -194 | -3,024 | -4,091 | 2,307 | -1,291 | -1,477 | -1,547 | -1,301 | -1,476 | -1,616 |
| Financing | 194 | 3,024 | 4,091 | -2,307 | 1,291 | 1,477 | 1,547 | 1,301 | 1,476 | 1,616 |
| Net reserves (increase -) | -3,061 | 115 | 1,666 | -3,959 | -479 | 0 | 0 | -340 | -99 | -38 |
| Exceptional financing | 3,255 | 2,909 | 2,425 | 1,653 | 1,770 | 1,211 | 1,417 | 1,491 | 215 | 215 |
| Net accumulation of arrears (decrease -) | 3,255 | 2,909 | 2,425 | -21,017 | 0 | 0 | 0 | 0 | 0 | 0 |
| Reschedulings 1/ | 0 | 0 | 0 | 22,670 | 1,770 | ... | ... | ... | ... | ... |
| Financing gap | 0 | 0 | 0 | 0 | 0 | 1,477 | 1,547 | 1,641 | 1,575 | 1,654 |
| Memorandum items: | | | | | | | | | | |
| Current account (in percent of GDP) | 6.7 | -9.7 | -9.9 | 4.9 | -2.3 | -7.3 | -7.8 | -6.8 | -7.2 | -7.1 |
| Gross official reserves (in millions of U.S. dollars) | 7,222 | 7,107 | 5,441 | 9,400 | 9,879 | 9,879 | 9,879 | 10,219 | 10,318 | 10,356 |
| (in months of imports of goods & nonfactor services) | 6.6 | 6.8 | 4.5 | 6.7 | 6.3 | 6.4 | 6.4 | 6.3 | 6.1 | 5.7 |
| Price of oil (U.S. dollars per barrel) | 19.8 | 12.9 | 17.0 | 28.0 | 25.5 | 22.5 | 20.0 | 19.8 | 19.5 | 19.5 |
| Debt-service payment (after rescheduling) | ... | ... | 1,715 | 1,713 | 2,447 | 2,395 | 2,149 | 2,065 | 3,396 | 3,562 |
| Oil and gas sector exports/GDP (in percent) | 44.0 | 30.8 | 35.2 | 51.0 | 47.8 | 42.9 | 41.1 | 40.9 | 40.2 | 39.7 |
| Non-oil imports/GDP (in percent) | -21.6 | -22.5 | -22.8 | -22.6 | -28.7 | -26.8 | -26.1 | -26.3 | -26.9 | -27.7 |
| Non-oil current account/GDP (in percent) | ... | -26.3 | -27.1 | -26.4 | -32.2 | -31.0 | -29.1 | -28.1 | -27.6 | -27.7 |

Sources: Nigerian authorities; and staff estimates and projections.

1/ In 2000-01, reflects the Paris Club rescheduling agreement of December 13, 2000.

Table 6. Nigeria: Medium-Term Projections for Three Scenarios, 1999-2006
(In percent of GDP, unless otherwise indicated)

| | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 |
|---|---|---|---|---|---|---|---|---|
| **WEO prices and 2 percent increase in oil production per annum** | | | | | | | | |
| Realized price of crude oil (U.S. dollars per barrel) | 16.7 | 28.5 | 25.5 | 22.5 | 20.0 | 19.8 | 19.5 | 19.5 |
| Budgeted price of crude oil (U.S. dollars per barrel) | 11/18 | 20.0 | 22.0 | 20.0 | 20.0 | 20.0 | 20.0 | 20.0 |
| Total revenue | 30.7 | 46.1 | 47.8 | 44.7 | 44.8 | 45.0 | 43.9 | 43.2 |
| Petroleum revenue | 22.5 | 37.9 | 38.0 | 35.6 | 35.0 | 34.0 | 32.9 | 32.3 |
| Nonpetroleum revenue | 8.3 | 8.2 | 9.8 | 9.1 | 9.8 | 11.0 | 11.0 | 10.9 |
| Total expenditure | 38.2 | 43.9 | 49.7 | 45.8 | 45.6 | 44.7 | 43.4 | 42.2 |
| Federal government and federation | 29.3 | 28.4 | 30.2 | 30.0 | 29.2 | 27.9 | 26.4 | 25.3 |
| State and local governments | 8.8 | 15.5 | 19.6 | 15.8 | 16.4 | 16.8 | 16.9 | 16.9 |
| Overall balance (commitment basis) | -7.4 | 2.2 | -1.9 | -1.1 | -0.7 | 0.3 | 0.5 | 1.0 |
| External financing | -10.6 | 1.1 | -0.9 | 0.9 | 0.7 | 0.5 | 0.2 | 0.2 |
| Domestic financing | 18.1 | -3.4 | -1.2 | -2.0 | -2.1 | -2.2 | -1.6 | -1.5 |
| Federation and federal gov. account at central bank | 7.4 | -5.1 | 0.5 | 0.0 | 0.0 | 0.5 | 1.0 | 1.0 |
| Change in arrears | -1.0 | -1.0 | -1.7 | -1.7 | -1.6 | -0.3 | -0.3 | -0.2 |
| Other | 11.6 | 2.7 | 0.0 | -0.3 | -0.4 | -2.4 | -2.4 | -2.4 |
| Current account balance | -9.9 | 4.9 | -2.3 | -7.3 | -7.8 | -6.8 | -7.2 | -7.1 |
| Gross official reserves (in millions of U.S. dollars) | 5,441 | 9,400 | 9,879 | 9,879 | 9,879 | 10,219 | 10,318 | 10,356 |
| Gross official reserves (in months of imports) | 4.5 | 6.7 | 6.3 | 6.4 | 6.4 | 6.3 | 6.1 | 5.7 |
| Gross official reserves (in months of gov. spending at US$20) | 5.9 | 7.1 | 6.6 | 7.9 | 7.9 | 7.9 | 7.9 | 7.8 |
| **WEO prices and 5 percent increase in oil production in 2002-04** | | | | | | | | |
| Realized price of crude oil (U.S. dollars per barrel) | 16.7 | 28.5 | 25.5 | 22.5 | 20.0 | 19.8 | 19.5 | 19.5 |
| Budgeted price of crude oil (U.S. dollars per barrel) | 11/18 | 20.0 | 22.0 | 20.0 | 20.0 | 20.0 | 20.0 | 20.0 |
| Total revenue | 30.7 | 46.1 | 47.8 | 45.4 | 46.2 | 47.0 | 46.0 | 45.3 |
| Petroleum revenue | 22.5 | 37.9 | 38.0 | 36.4 | 36.4 | 36.1 | 35.1 | 34.5 |
| Nonpetroleum revenue | 8.3 | 8.2 | 9.8 | 9.0 | 9.7 | 10.9 | 10.8 | 10.8 |
| Total expenditure | 38.2 | 43.9 | 49.7 | 45.9 | 45.9 | 45.1 | 43.5 | 42.1 |
| Federal government and federation | 29.3 | 28.4 | 30.2 | 29.8 | 28.7 | 27.0 | 25.3 | 23.9 |
| State and local governments | 8.8 | 15.5 | 19.6 | 16.2 | 17.2 | 18.0 | 18.2 | 18.2 |
| Overall balance (commitment basis) | -7.4 | 2.2 | -1.9 | -0.5 | 0.3 | 2.0 | 2.5 | 3.2 |
| External financing | -10.6 | 1.1 | -0.9 | 0.9 | 0.7 | 0.3 | -0.1 | -0.3 |
| Domestic financing | 18.1 | -3.4 | -1.2 | -2.5 | -3.0 | -3.7 | -3.2 | -3.3 |
| Federation and federal gov. account at central bank | 7.4 | -5.1 | 0.5 | -0.1 | 0.0 | 0.6 | 1.1 | 1.1 |
| Other | 11.6 | 2.7 | 0.0 | -0.8 | -1.4 | -3.9 | -4.1 | -4.2 |
| Current account balance | -9.9 | 4.9 | -2.3 | -6.3 | -5.9 | -3.9 | -4.1 | -4.0 |
| Gross official reserves (in millions of U.S. dollars) | 5,441 | 9,400 | 9,879 | 9,932 | 9,932 | 10,254 | 10,315 | 10,314 |
| Gross official reserves (in months of imports) | 4.5 | 6.7 | 6.3 | 6.3 | 6.3 | 6.3 | 6.0 | 5.6 |
| Gross official reserves (in months of gov. spending at US$20) | 5.9 | 7.1 | 6.6 | 7.8 | 7.7 | 7.7 | 7.7 | 7.5 |
| **Lower prices in 2002-04** | | | | | | | | |
| Realized price of crude oil (U.S. dollars per barrel) | 16.7 | 28.5 | 25.5 | 15.0 | 15.0 | 19.8 | 19.5 | 19.5 |
| Budgeted price of crude oil (U.S. dollars per barrel) | 11/18 | 20.0 | 22.0 | 20.0 | 20.0 | 20.0 | 20.0 | 20.0 |
| Total revenue | 30.7 | 46.1 | 47.8 | 34.9 | 35.9 | 44.0 | 42.6 | 42.0 |
| Petroleum revenue | 22.5 | 37.9 | 38.0 | 25.0 | 25.8 | 34.0 | 32.9 | 32.3 |
| Nonpetroleum revenue | 8.3 | 8.2 | 9.8 | 10.0 | 10.1 | 10.0 | 9.7 | 9.7 |
| Total expenditure | 38.2 | 43.9 | 49.7 | 50.4 | 48.4 | 44.8 | 43.6 | 42.7 |
| Federal government and federation | 29.3 | 28.4 | 30.2 | 33.0 | 31.0 | 28.0 | 26.7 | 25.7 |
| State and local governments | 8.8 | 15.5 | 19.6 | 17.4 | 17.4 | 16.8 | 16.9 | 16.9 |
| Overall balance (commitment basis) | -7.4 | 2.2 | -1.9 | -15.5 | -12.5 | -0.8 | -1.0 | -0.7 |
| External financing | -10.6 | 1.1 | -0.9 | 1.0 | 0.8 | 0.5 | 0.3 | 0.3 |
| Domestic financing | 18.1 | -3.4 | -1.2 | 12.0 | 9.5 | -1.1 | -0.2 | 0.0 |
| Federation and federal gov. account at central bank | 7.4 | -5.1 | 0.5 | 14.3 | 11.4 | 0.5 | 1.0 | 1.0 |
| Other | 11.6 | 2.7 | 0.0 | -0.4 | -0.1 | -1.4 | -0.9 | -0.8 |
| Current account balance | -9.9 | 4.9 | -2.3 | -22.5 | -18.4 | -7.4 | -7.8 | -7.7 |
| Gross official reserves (in millions of U.S. dollars) | 5,441 | 9,400 | 9,879 | 5,031 | 1,629 | 1,969 | 2,068 | 2,106 |
| Gross official reserves (in months of imports) | 4.5 | 6.7 | 6.3 | 3.2 | 1.1 | 1.2 | 1.2 | 1.2 |
| Gross official reserves (in months of gov. spending at US$20) | 5.9 | 7.1 | 6.6 | 4.0 | 1.3 | 1.5 | 1.6 | 1.6 |

Sources: Nigerian authorities; and staff estimates and projections.

Table 7. Nigeria: Savings-Investment Balances, 1999-2006

| | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 |
|---|---|---|---|---|---|---|---|---|
| | (In billions of naira, unless otherwise indicated) | | | | | | | |
| Consumption | 2,596 | 2,756 | 3,205 | 3,586 | 3,804 | 4,114 | 4,505 | 4,955 |
| Government consumption 1/ | 431 | 858 | 1,028 | 924 | 994 | 1,081 | 1,161 | 1,243 |
| Private consumption | 2,166 | 1,899 | 2,177 | 2,662 | 2,811 | 3,033 | 3,345 | 3,712 |
| Gross investment | 751 | 950 | 1,191 | 1,237 | 1,320 | 1,424 | 1,549 | 1,683 |
| Public investment 2/ | 333 | 409 | 498 | 450 | 464 | 490 | 516 | 554 |
| Private investment | 418 | 541 | 692 | 788 | 855 | 935 | 1,033 | 1,129 |
| *of which*: the oil and gas sectors | 341 | 445 | 574 | 625 | 660 | 701 | 752 | 806 |
| Net exports of goods and services | -136 | 472 | 52 | -205 | -263 | -279 | -367 | -463 |
| Exports of goods and services | 1,185 | 2,186 | 2,201 | 2,084 | 2,128 | 2,319 | 2,490 | 2,701 |
| *Of which*: exports of goods | 1,105 | 2,087 | 2,085 | 1,956 | 1,987 | 2,159 | 2,310 | 2,499 |
| Imports of goods and services | -1,321 | -1,715 | -2,150 | -2,289 | -2,391 | -2,598 | -2,857 | -3,165 |
| *Of which*: imports of goods | -976 | -1,263 | -1,676 | -1,674 | -1,741 | -1,892 | -2,080 | -2,308 |
| Total GDP at market prices | 3,211 | 4,178 | 4,448 | 4,619 | 4,861 | 5,259 | 5,688 | 6,175 |
| | (In percent of GDP) | | | | | | | |
| Consumption | 80.9 | 66.0 | 72.1 | 77.6 | 78.3 | 78.2 | 79.2 | 80.3 |
| Public consumption 1/ | 13.4 | 20.5 | 23.1 | 20.0 | 20.4 | 20.5 | 20.4 | 20.1 |
| Private consumption | 67.4 | 45.4 | 48.9 | 57.6 | 57.8 | 57.7 | 58.8 | 60.1 |
| Gross investment | 23.4 | 22.7 | 26.8 | 26.8 | 27.1 | 27.1 | 27.2 | 27.3 |
| Public investment 2/ | 10.4 | 9.8 | 11.2 | 9.7 | 9.5 | 9.3 | 9.1 | 9.0 |
| Private investment | 13.0 | 12.9 | 15.6 | 17.1 | 17.6 | 17.8 | 18.2 | 18.3 |
| Oil sector | 10.6 | 10.7 | 12.9 | 13.5 | 13.6 | 13.3 | 13.2 | 13.1 |
| Non-oil sector | 2.4 | 2.3 | 2.7 | 3.5 | 4.0 | 4.4 | 4.9 | 5.2 |
| Net exports of goods and services | -4.2 | 11.3 | 1.2 | -4.4 | -5.4 | -5.3 | -6.4 | -7.5 |
| Exports of goods and services | 36.9 | 52.3 | 49.5 | 45.1 | 43.8 | 44.1 | 43.8 | 43.7 |
| *Of which*: exports of goods | 34.4 | 50.0 | 46.9 | 42.3 | 40.9 | 41.1 | 40.6 | 40.5 |
| Imports of goods and services | -41.1 | -41.0 | -48.3 | -49.6 | -49.2 | -49.4 | -50.2 | -51.3 |
| *Of which*: imports of goods | -30.4 | -30.2 | -37.7 | -36.2 | -35.8 | -36.0 | -36.6 | -37.4 |
| Balance on current account | -9.9 | 4.9 | -2.3 | -7.3 | -7.8 | -6.8 | -7.2 | -7.1 |
| Gross national savings | 13.5 | 27.6 | 24.5 | 19.5 | 19.4 | 20.3 | 20.1 | 20.2 |
| Public national savings | 11.6 | 19.5 | 13.7 | 16.7 | 16.4 | 16.5 | 15.5 | 15.2 |
| Private national savings | 2.0 | 8.2 | 10.8 | 2.8 | 3.0 | 3.8 | 4.5 | 5.0 |
| | (Annual percentage change, unless otherwise indicated) | | | | | | | |
| Memorandum items: | | | | | | | | |
| Real GDP | 1.1 | 3.8 | 3.1 | 2.2 | 3.4 | 4.1 | 4.1 | 4.1 |
| Real public consumption (deflated by non-oil GDP deflator) | 47.7 | 86.2 | 6.6 | -16.6 | 0.9 | 3.3 | 2.3 | 2.0 |
| Real private consumption (deflated by non-oil GDP deflator) | 1.5 | -18.0 | 1.9 | 13.4 | -0.8 | 2.5 | 5.0 | 5.7 |
| Real public investment (deflated by non-oil GDP deflator) | -2.5 | 15.1 | 8.2 | -16.3 | -3.1 | 0.2 | 0.4 | 2.2 |
| Real private investment (deflated by non-oil GDP deflator) | 8.4 | 20.9 | 13.9 | 5.6 | 2.0 | 3.8 | 5.3 | 4.0 |
| Non-oil GDP deflator | 6.6 | 6.9 | 12.5 | 7.8 | 6.5 | 5.3 | 5.0 | 5.0 |
| Real non-oil GDP | 3.5 | 2.2 | 6.2 | 3.0 | 4.0 | 5.0 | 5.0 | 5.0 |
| Private non-oil investment (in percent of non-oil GDP) | 3.5 | 4.0 | 4.2 | 5.1 | 5.6 | 6.0 | 6.6 | 6.9 |
| Incremental capital output ratio in non-oil sector | 1.0 | 1.8 | 0.7 | 1.7 | 1.4 | 1.2 | 1.3 | 1.4 |
| Total exp. of joint venture companies (incl. NNPC, in US$m) | 3,509 | 4,562 | 5,263 | 5,263 | 5,263 | 5,439 | 5,614 | 5,789 |
| Capital exp. by JVCs (incl. NNPC, in $m) | 2,632 | 3,421 | 3,947 | 3,947 | 3,947 | 4,079 | 4,211 | 4,342 |
| Foreign direct investment (in $m) | 1,473 | 1,392 | 1,527 | 1,646 | 1,732 | 1,772 | 1,895 | 1,957 |
| Outside the oil and gas sectors | 421 | 452 | 486 | 535 | 599 | 671 | 771 | 810 |
| Foreign direct inv. and inv. in oil and gas sector (in $m) | 4,104 | 4,814 | 5,474 | 5,593 | 5,680 | 5,851 | 6,106 | 6,299 |
| | (In billions of naira) | | | | | | | |
| Total private investment | 418 | 541 | 692 | 788 | 855 | 935 | 1,033 | 1,129 |
| *of which*: the oil and gas sectors | 341 | 445 | 574 | 625 | 660 | 701 | 752 | 806 |
| Total public investment (excluding cash calls) | 333 | 409 | 498 | 450 | 464 | 490 | 516 | 554 |
| Total NNPC cash calls (excluding arrears) | 2,000 | 2,500 | 3,000 | 3,000 | 3,000 | 3,100 | 3,200 | 3,300 |
| Federal government capital expenditure | 447 | 503 | 626 | 638 | 655 | 688 | 727 | 777 |
| State and local government capital expenditure | 71 | 162 | 218 | 183 | 199 | 221 | 241 | 261 |

Sources: Nigerian authorities; and staff estimates and projections.

1/ Current government expenditure excluding interest payments.

2/ Capital expenditure by federal and state and local governments excluding cash calls.

Table 8. Nigeria: External Public Debt, 1996-2000 1/

(In millions of U.S. dollars)

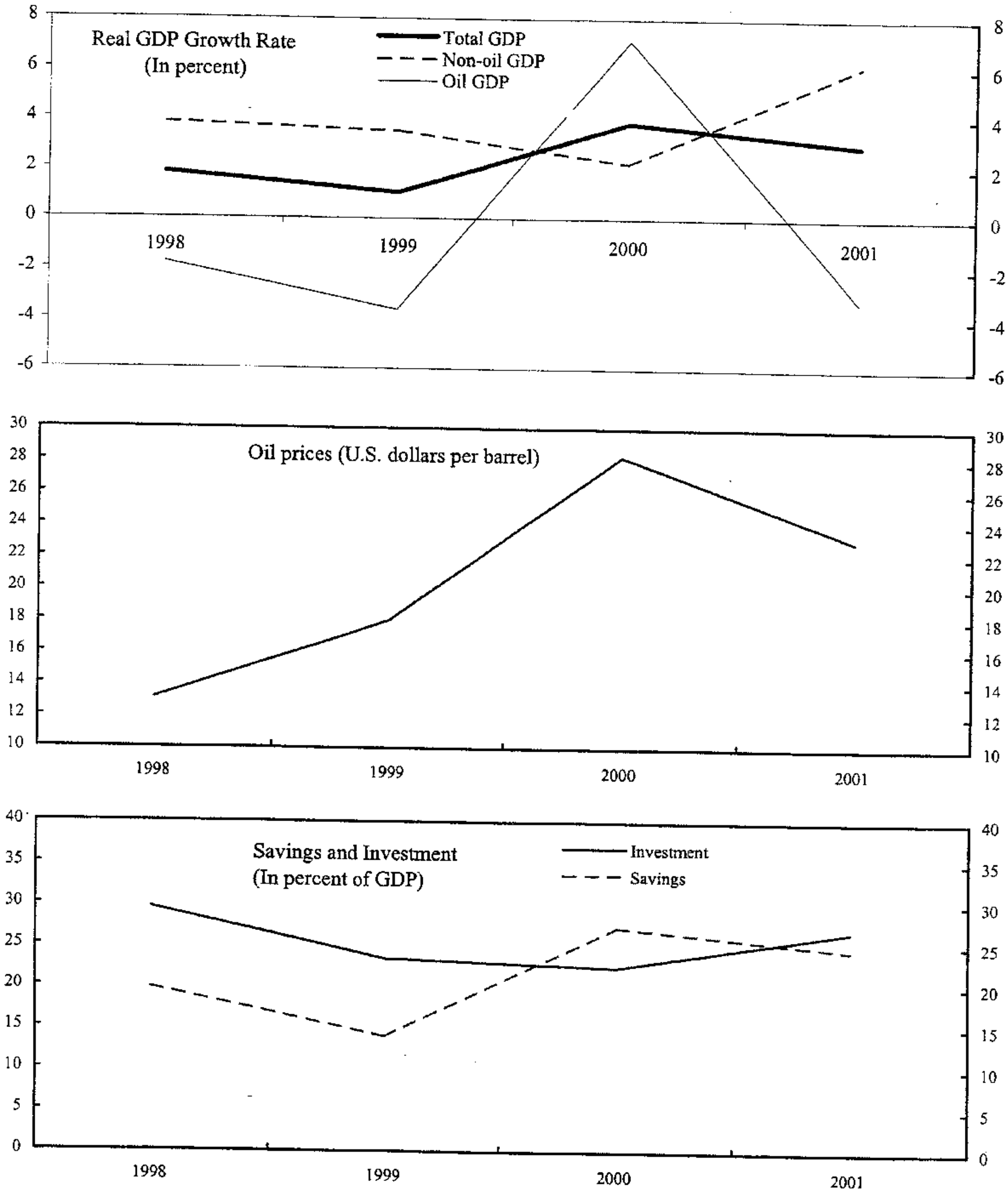
| | 1996 | 1997 | 1998 | 1999 | 2000 |
|---|---|---|---|---|---|
| Multilateral | 4,612 | 4,448 | 4,303 | 4,055 | 3,778 |
| World Bank | 3,200 | 3,110 | 3,018 | 2,829 | 2,611 |
| African Development Bank | 1,346 | 1,274 | 1,223 | 1,185 | 1,114 |
| Other | 66 | 64 | 62 | 41 | 53 |
| Bilateral | 19,416 | 21,005 | 20,617 | 21,420 | 24,573 |
| Paris Club 2/ | 19,197 | 20,786 | 20,398 | 21,219 | 24,435 |
| Pre-cutoff | ... | ... | ... | ... | 23,101 |
| *of which* : consolidation of arrears and penalties | ... | ... | ... | ... | 20,982 |
| *of which* : capitalized moratorium interest | ... | ... | ... | ... | 607 |
| Post-cutoff | ... | ... | ... | ... | 1,334 |
| *of which* : consolidation of arrears and penalties | ... | ... | ... | ... | 516 |
| *of which* : capitalized moratorium interest | ... | ... | ... | ... | 17 |
| Other bilateral | 219 | 219 | 219 | 201 | 138 |
| Commercial | 4,300 | 4,085 | 3,878 | 3,709 | 3,584 |
| Par bonds | 2,043 | 2,043 | 2,043 | 2,043 | 2,043 |
| Promissory notes | 2,257 | 2,042 | 1,835 | 1,666 | 1,541 |
| Total | 28,328 | 29,538 | 28,798 | 29,184 | 31,935 |

Sources: Nigerian authorities; Paris Club; and staff estimates.

1/ As reported by creditors. These figures are tentative pending the reconciliation of Nigeria's obligations with Paris Club creditors.

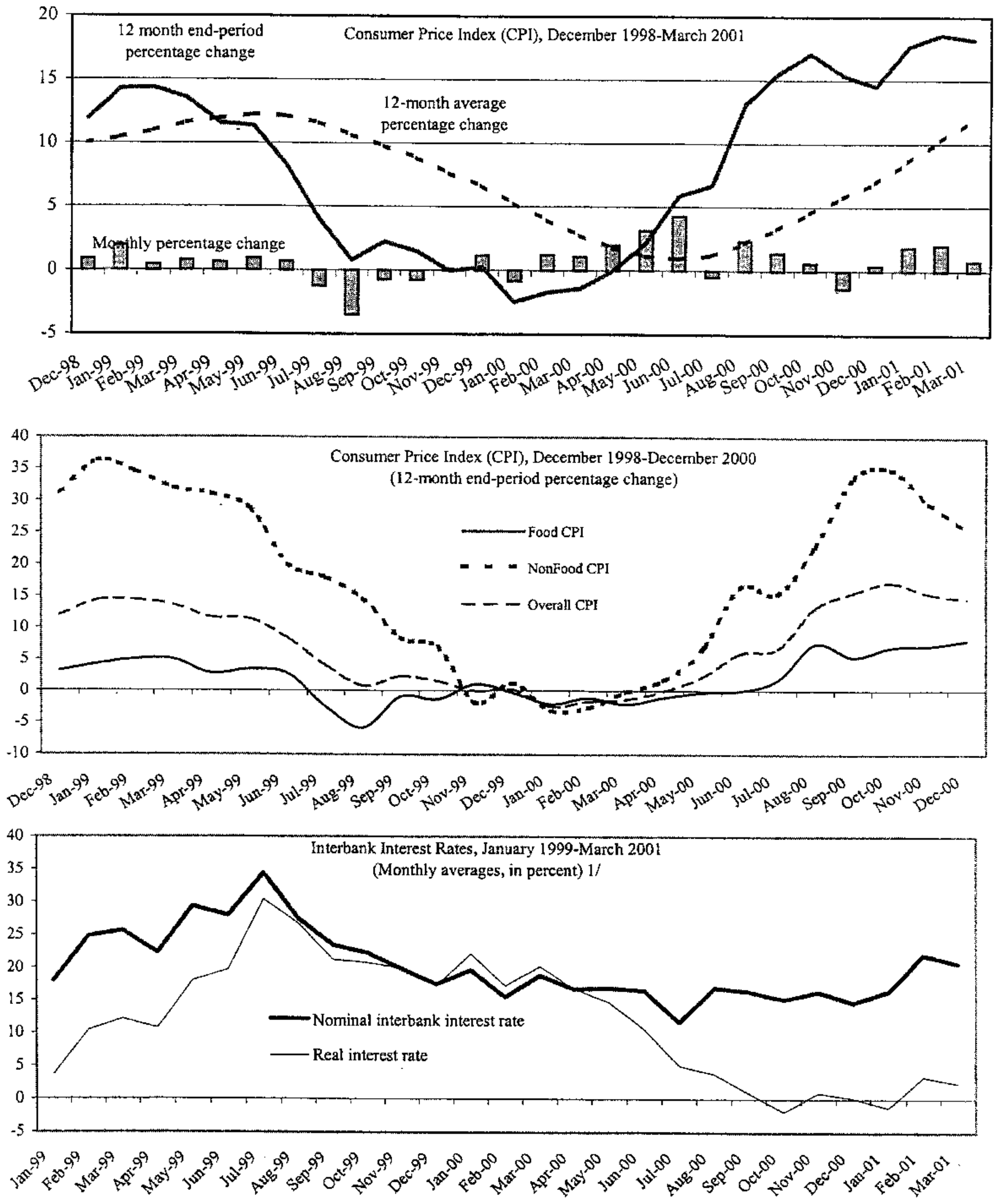
2/ Excluding late interest in 1996-99. In 2000, including late interest as reported by the Paris Club and capitalized moratorium interest as estimated by staff.

Figure 1. Nigeria: Real Sector, 1998-2001




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

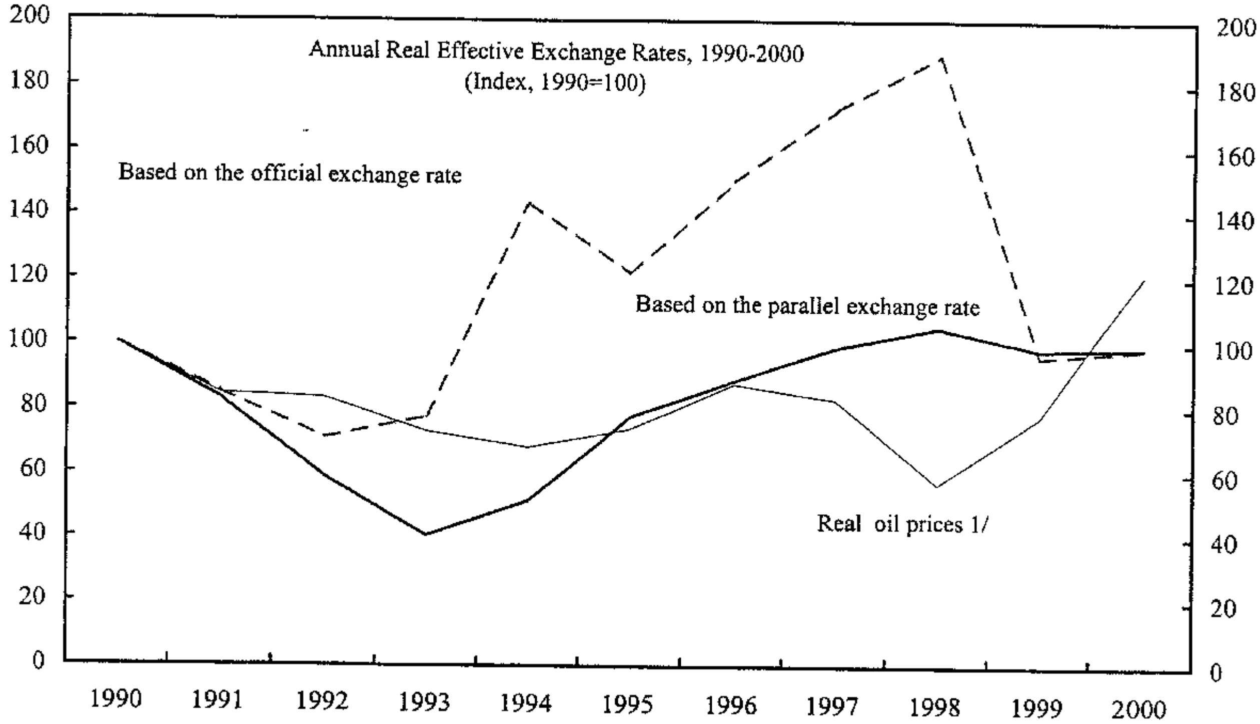
Figure 2. Nigeria: Consumer Prices and Interest Rates

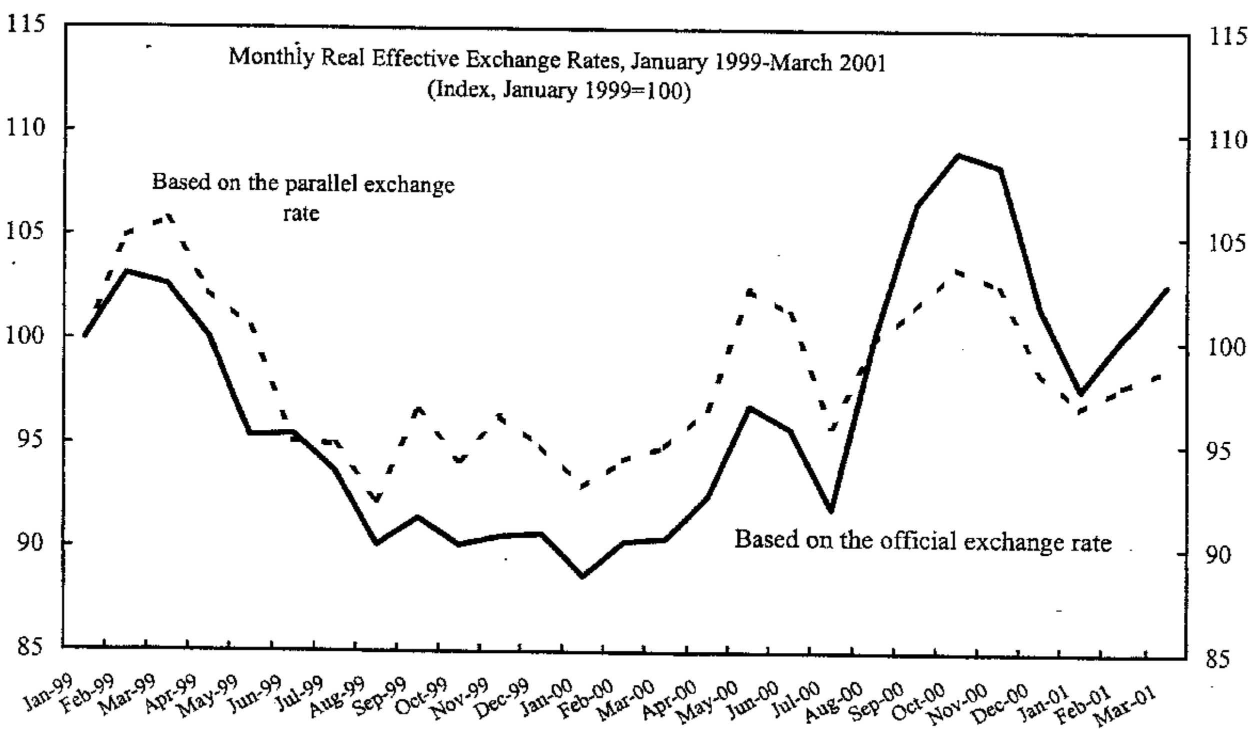



Sources: Nigerian authorities; and Fund staff estimates.

1/ The real interest rate is the nominal interest rate deflated by the consumer price index.

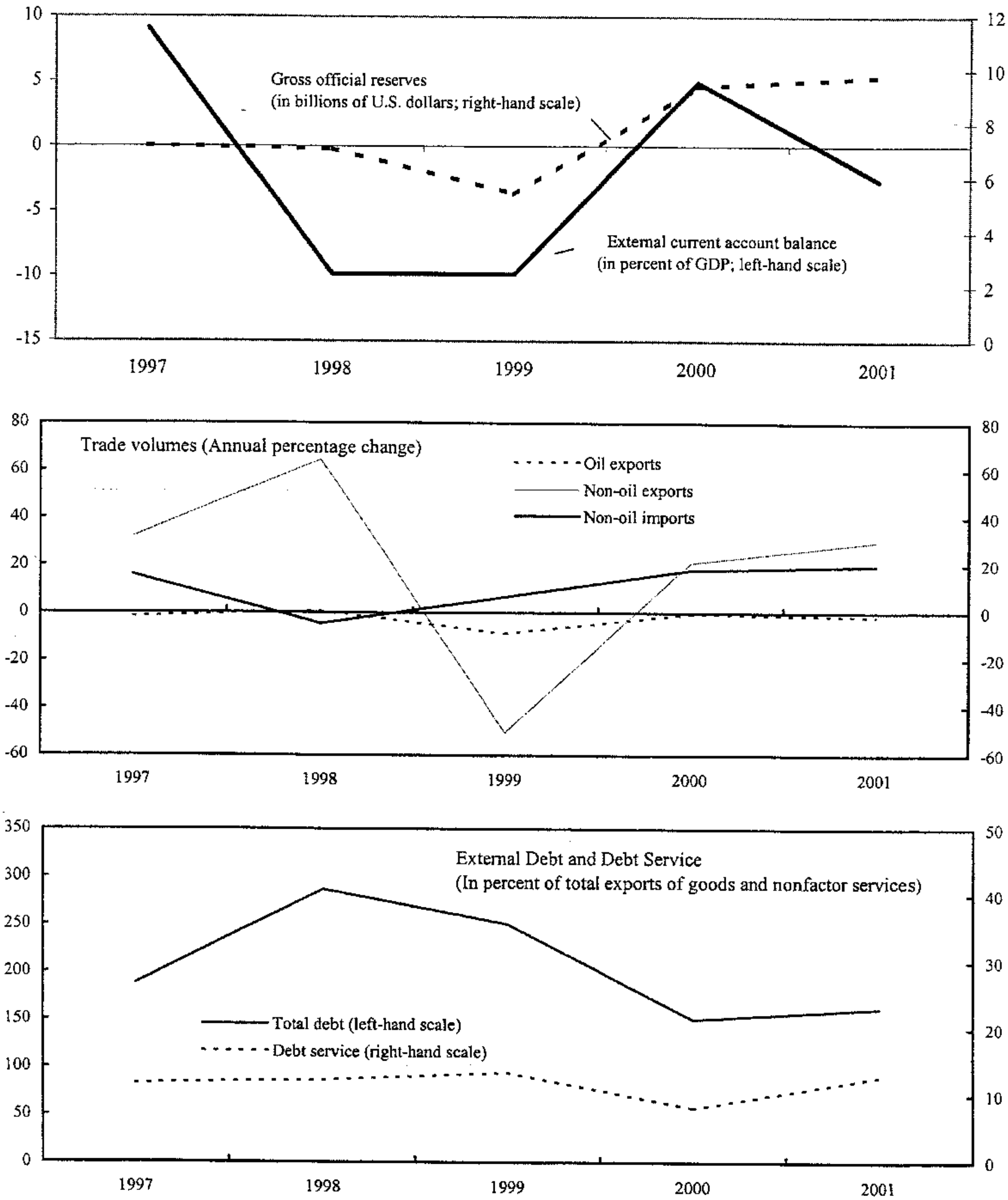
Figure 3. Nigeria: Real Exchange Rates



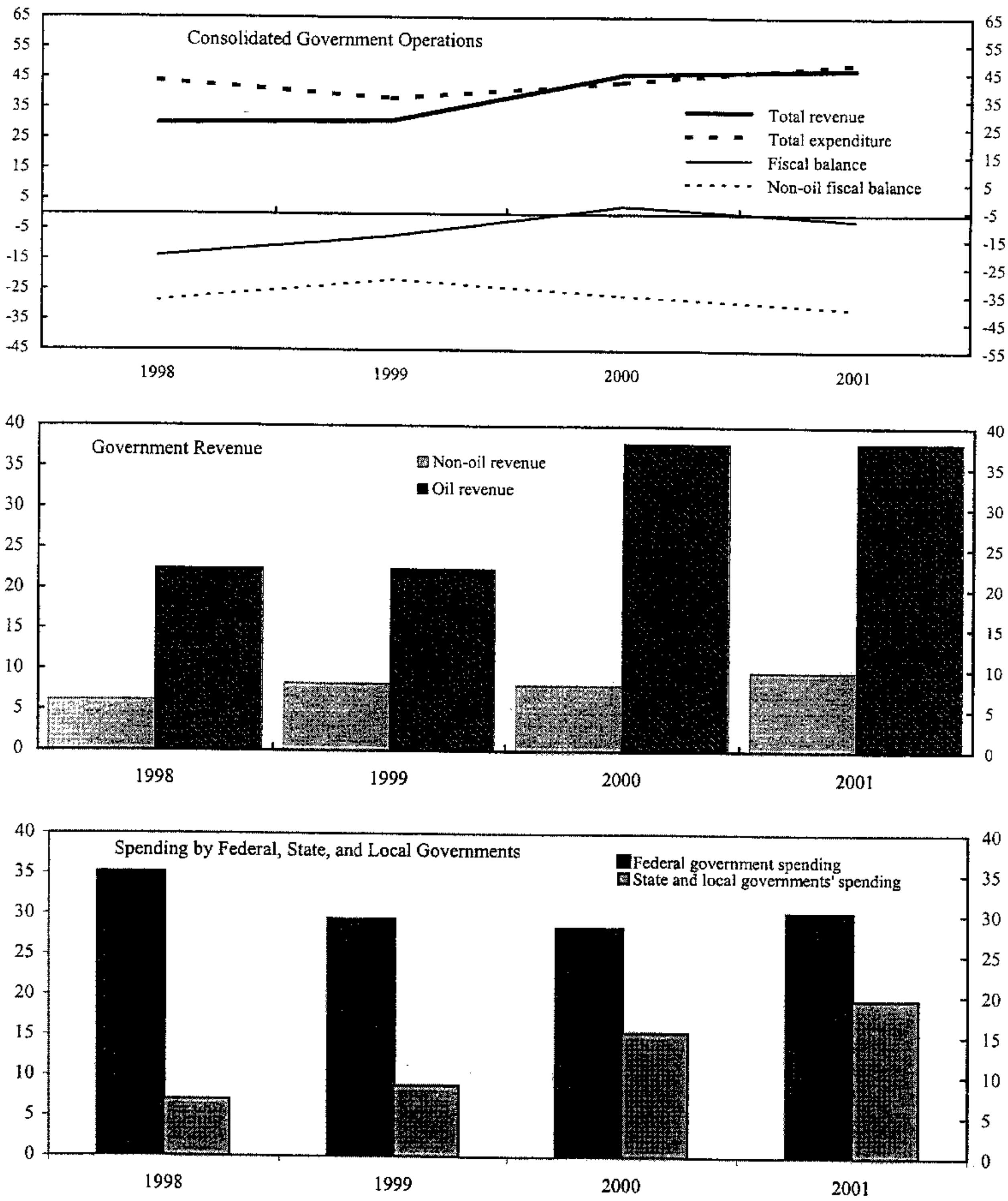

Sources: Nigerian authorities; IMF, Information Notice System; and Fund staff estimates.
1/ Oil prices deflated by the U.S. gross domestic product deflator (index, 1997=100).

Figure 4. Nigeria: External Sector, 1997-2001




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

Figure 5. Nigeria: Consolidated Government Operations, 1998-2001
(In percent of GDP)




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

## Nigeria: Relations with the Fund

(As of April 30, 2001)

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

| II. **General Resources Account:** | **SDR Million** | **%Quota** |
|---|---|---|
| Quota | 1,753.20 | 100.0 |
| Fund Holdings of Currency | 1,753.12 | 100.0 |
| Reserve position in the Fund | 0.14 | 0.0 |

| III. **SDR Department:** | **SDR Million** | **%Allocation** |
|---|---|---|
| Net cumulative allocation | 157.16 | 100.0 |
| Holdings | 1.89 | 1.2 |

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

V. **Financial Arrangements:**

| **Type** | **Approval Date** | **Expiration Date** | **Amount Approved (SDR Million)** | **Amount Drawn (SDR Million)** |
|---|---|---|---|---|
| Stand-By | 08/04/2000 | 08/03/2001 | 788.94 | 0.00 |
| Stand-By | 01/09/1991 | 04/08/1992 | 319.00 | 0.00 |
| Stand-By | 02/03/1989 | 04/30/1990 | 475.00 | 0.00 |
| Stand-By | 01/30/1987 | 01/31/1988 | 650.00 | 0.00 |

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

| | Overdue | forthcoming | | | | |
|---|---|---|---|---|---|---|
| | 04/30/2001 | 2001 | 2002 | 2003 | 2004 | 2005 |
| Charges/interest | 0.0 | 4.5 | 5.9 | 5.9 | 5.9 | 5.9 |
| Total | 0.0 | 4.5 | 5.9 | 5.9 | 5.9 | 5.9 |

VII. **Exchange Rate Arrangement**:

Nigeria's current exchange rate arrangement is classified in the Fund's Annual Report on Exchange Arrangements and Exchange Restrictions as a managed float with no preannounced target for the exchange rate of the naira. In January 1995, the authorities introduced a multiple exchange rate system, with an official exchange rate of ₦22 per US$1 that applied to official government transactions and a market-related autonomous foreign exchange market (AFEM) rate that applied to most other transactions. By early 1998, all private sector transactions drawing on official foreign exchange and a large part of official government transactions took place at the AFEM rate. The official exchange rate was abolished effective January 1, 1999. The AFEM was abolished on October 25,

1999. Currently, there are four exchange rates: the interbank foreign exchange market (IFEM) rate at which the Central Bank of Nigeria transacts, an interbank exchange rate quoted by a group of commercial banks (NIFEX), the *Bureaux de change* rate, and the parallel market rate. The following exchange rates were quoted on May 31, 2001:

| | |
|---|---|
| IFEM | ₦113.2 = US$1. |
| NIFEX | ₦113.4 = US$1. |
| Bureaux de change/parallel market | ₦135.5 = US$1. |

The exchange rate for the SDR on May 31, 2001 was ₦142 = SDR 1.

VIII. **Article IV Consultation**

Nigeria is on the standard 12-month Article IV consultation cycle. The last Article IV consultation discussions were held in Lagos and Abuja during the period July 5–19, 1999. The staff report (SM/99/276, 11/17/99) was discussed by the Executive Board and the consultation concluded on December 8, 1999.

IX. **Technical Assistance (TA) Since 1999**:

| **Department** | **Purpose of TA mission** | **Duration** |
|---|---|---|
| MAE | Exploratory TA mission | March 28–April 10, 1999 |
| FAD | Exploratory TA mission | April 6–April 16, 1999 |
| STA | Exploratory TA mission | April 6–April 19, 1999 |
| FAD | Management of government deposits | May 9–15, 1999 |
| STA | Preliminary multisector mission | July 6–July 20, 1999 |
| FAD | Fiscal and budget management | August 10– 28, 1999 |
| STA | Multisector statistics mission | September 6–21, 1999 |
| MAE | Foreign exchange market reform | September 16–21, 1999 |
| MAE | Banking supervision | December 1999 |
| FAD | Fiscal regime for oil and gas | February 8–26, 2000 |
| STA | Balance of payments statistics | November 8–21, 2000 |
| FAD | Resident treasury advisor | Nov. 25, 2000–Feb. 25–2001 and April 8, 2001–July 7, 2001 |
| FAD | Resident budget advisor | January 11–March 11, 2001 |
| FAD | Fiscal federalism | January 24–Feb. 11, 2001 |
| STA | Government finance statistics | January 21–Feb. 3, 2001 |
| FAD | Expenditure Management | February 2–10, 2001 |
| STA | Money and banking statistics | March 22–April 4, 2001 |
| MAE | Foreign exchange management | May 28–June 8, 2001 |

## X. **Resident Representative**:

The Post of Senior Resident Representative has been created. Mr. Reinold van Til entered on duty in Abuja on June 2, 2000. The post of Deputy Resident Representative has also been created. Mr. Jonathan Dunn entered on duty in Abuja on August 15, 2000.

## Nigeria: World Bank Activities

### Economic Management and Capacity Building Project (EMCAP)

The EMCAP (US$20 million in IDA financing and cofinancing of US$19.6 million from the U.S. Agency for International Development, the U.K. Department for International Development, the European Union, and Japan) was approved in May 2000. It supports strengthening of key aspects of economic management, including economic and poverty statistics, public expenditure management, public procurement, and external audit and oversight of FGN fiscal operations, including by the legislature, and legal and judicial reform. Key activities underway include value for money audits of selected items of FGN spending (both recurrent and capital), creation of an integrated Financial and Economic Management Information System, Procurement Review and implementation of procurement reforms, and Financial Assessment Review.

### Privatization Support Credit

A $112 million IDA credit was approved by the World Bank Board in June 2001. The aim of the Privatization Support Credit is to strengthen the overall institutional and policy framework for public enterprise divestiture and improve the institutional capacity of the Bureau of Public Enterprises, the agency responsible for privatization. The project also provides financing for advisory services for privatization of the power sector (Nigerian Electric Power Authority) and the telecommunications sector (divestiture of the national telecommunications companies, NITEL and M-Tel). In addition, the project supports the divestiture of Lagos State Water through concessioning (an IFC mandate), and rehabilitation of the water supply system in Lagos.

### Public expenditure review

The review, which started earlier this year, is being conducted in two phases: a review of federal expenditures, followed by a review of spending by a sample of 18 states and 12 local governments. The aim is to assist in reforming budget processes and institutions to improve the effectiveness and poverty focus of public spending. The review will analyze public expenditure issues in selected sectors—agriculture, health, and road building. This work will also initiate discussion of the appropriate role of government in Nigeria, the effectiveness of the current assignments of responsibilities among the three tiers of government, and implications for service delivery in some key areas. The report on the first phase of the work will be completed in June 2001, in time to have some impact on the 2002 budget process. A report on the second phase should be ready by June 2002.

**World Bank Institute (WBI)**

Nigeria is one of the WBI's six focus countries in Africa. In fiscal year 2000 close to 950 Nigerians took part in learning events organized by the WBI; this is the largest number for one country. Nigeria has recently become a member of the Global Development Learning Network (GDLN) and the EMCAP project is financing construction of a distance learning center in Abuja, as noted above. WBI training relevant to the Stand-By Arrangement includes: parliamentary accountability, control of corruption, and investigative journalism. The WBI will also participate in training programs under EMCAP, focusing on macroeconomic management.

The World Bank has recently completed an update of its **Interim Strategy for Nigeria**. The three main pillars are economic governance, private sector-led growth for poverty reduction, and the delivery of services to the poor through the empowerment of local communities. The Joint Interim Strategy Update will be presented to the Bank's Board in June 2001.

## Nigeria: Statistical Issues

1. Nigeria's statistical base suffers from serious deficiencies that hamper surveillance, policy design, and monitoring. These deficiencies particularly affect the national accounts, government finance, money and banking, and the external accounts, including debt. Numerous problems prevent the compilation of timely, accurate, and internally consistent data, in particular inadequate budgetary resources and insufficient use of computerization in the compilation of statistics.

### National accounts

2. Annual national accounts statistics are published by the Federal Office of Statistics (FOS) with about a one-year lag. The national accounts statistics are of poor quality, largely owing to a deterioration in business and household surveys. Estimates of value added for agriculture, mining (oil), industry, transportation, and financial and other services are based on old surveys with extrapolations that use out-of-date ratios and other indicators. Many sectoral deflators are not soundly based and have a number of inconsistencies. In the past, the use of the official exchange rate has resulted in a gross understatement of value added in the oil and export sectors. The expenditure accounts suffer from unreliable external trade and government budgetary data.

### Prices

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

### Government finance

4. Fiscal data in Nigeria have historically been opaque and complicated not only by the federal structure, but also by a multiplicity of off-budget funds and accounting practices that underestimate the actual size of public expenditure. The multisector statistics mission that visited Nigeria during September 6-21, 1999 noted that the most pressing shortcomings related to inadequate data coverage, the lack of monthly and quarterly compilation, and timeliness. The mission recommended that fiscal data include operations financed with earmarked oil revenue ("First Charges") and several off-budget special funds. The mission also noted that government revenue was recorded on a cash basis, while spending was compiled on the basis of warrants released (not actual cash payments). Government finance statistics (GFS) were therefore difficult to reconcile with the available data on government financing from the central bank. The mission also recommended procedures for the compilation of the economic classification of expenditure on a cash basis for the federal, state, and local governments (on annual, quarterly, and monthly bases). A follow-up mission

in government finance statistics, in early-2001, found that only limited progress had been made in GFS compilation and that interagency and intraagency coordination in the compilation of fiscal data in Nigeria needed to be improved further.

**Monetary accounts**

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

**Balance of payments**

6. Balance of payments statistics are compiled from the foreign exchange records in the banking system and from data derived from surveys. However, oil sector data are weakened by the low response rate to survey requests from oil businesses. In the non-oil sectors, only enterprises with foreign capital participation are surveyed. The estimates of non-oil imports of goods and services are based on banking data. Private capital movements are underrecorded, and data on external debt service are inaccurate. Moreover, the trade data reported by the FOS (based on customs data) sharply differ from those reported by the Central Bank of Nigeria (based on banking data). The 1999 STA multisector mission identified actions to be taken for improving the quality of balance of payments data. However, a November 2000 follow-up mission found that no progress had been made by the authorities in implementing the recommendations of the 1999 STA mission. Except for some methodological changes, the compilation of balance of payments continues to be severely affected by organizational weaknesses and resource constraints in the Central Bank of Nigeria.

**External debt**

7. To address problems with the data on external debt, a United Kingdom-financed technical assistance effort was launched in October 1998. After initial delays, a Debt Management Office was established in August 2000, and good progress has been made in verifying individual loan accounts with creditors' statements and improving the efficiency of debt management in Nigeria. An audit of Nigeria's loan portfolio for correctness and duplication was carried out after the two separate databases of the Federal Ministry of Finance and the Central Bank of Nigeria were merged. In September 2000, the process of reconciling Nigeria's external obligations to multilateral creditors began. Following the Paris Club agreement of December 13, 2000, the verification of individual loan accounts with each individual Paris club creditor was also launched and, by April 2001, was reported to be already well advanced. The full reconciliation of Nigeria's external debt with creditors' statements was expected to be completed by June 2001.

## Nigeria: Core Statistical Indicators
## (As of May 31, 2001)

| | Exchange Rates | International Reserves | Central Bank Balance Sheet | Reserve/ Base Money | Broad Money | Interest Rates | Consumer Price Index | Exports/ Imports | Current Account Balance | Overall Government Balance | GDP/ GNP | External Debt/ Debt Service |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Date of latest observation | 05/31/01 | 04/01 | 04/01 | 04/01 | 12/00 | 05/31/01 | 03/01 | 12/00 | 12/00 | 12/00 | 2000 | 12/00 |
| Date received | 05/31/01 | 01/01 | 01/01 | 01/01 | 03/01 | 05/31/01 | 05/01 | 03/01 | 03/01 | 01/01 | 05/01 | 03/01 |
| Frequency of data 1/ | D | M | M | M | M | D | M | M | Q | M | A | A |
| Frequency of reporting 1/ | D | M | M | M | M | D | M | M | Q | M | A | A |
| Source of data 2/ | B | A | A | A | A | B | A | A | A | A | A | A |
| Mode of reporting 3/ | I | M | M | M | M | I | C | V | V | C | V | V |
| Confidentiality 4/ | C | C | C | C | C | C | C | C | C | B | C | B |
| Frequency of publication 1/ | D | M | M | M | M | D | M | A | A | A | A | A |

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

## Nigeria: Selected Social and Demographic Indicators

| | Nigeria Latest single year | | Sub-Saharan countries Latest single year | Low-income countries Latest single year |
|---|---|---|---|---|
| | 1980-85 | 1993-2000 | 1993-2000 | 1993-2000 |
| **Income, population, poverty and income distribution** | | | | |
| Income | | | | |
| Gross national income per capita (U.S. dollars) | 370 | 260 | 490 | 420 |
| Gross national income per capita (idem, PPP terms) | ... | 740 | 1,500 | 1,870 |
| Total population, midyear (millions) | 83.2 | 124 | 643 | 2,417 |
| Growth rate (percent annual average 1965-99) | 3.1 | 30 | 2.6 | 4.1 |
| Urban population (percent of population) | 30.7 | 43 | 34 | 31 |
| Poverty (percent of population) | | | | |
| National head count index | 43.0 | 34.1 | ... | ... |
| Urban head count index | 31.7 | 30.4 | ... | ... |
| Rural head count index | 49.5 | 36.4 | ... | ... |
| International poverty line[1] | ... | 70.2 | ... | ... |
| Share of income or consumption | | | | |
| Lowest quintile (percent of income or consumption) | ... | 4.4 | ... | ... |
| Highest quintile (percent of income or consumption) | ... | 55.7 | ... | ... |
| **Social indicators** | | | | |
| Access to safe water (percent of population) | | | | |
| Total | 36 | 57 | 55 | 76 |
| Urban | 60 | 81 | 82 | 89 |
| Rural | 30 | 39 | 41 | 71 |
| Life expectancy at birth (years) | | | | |
| Total | 46 | 47 | 47 | 59 |
| Male | 45 | 47 | 46 | 58 |
| Female | 48 | 48 | 48 | 60 |
| Mortality | | | | |
| Infant (per thousand live births) | 96 | 83 | 92 | 77 |
| Under 5 (per thousand live births) | 196 | 151 | 161 | 116 |
| Immunization rate (percent of children under 12 months) | | | | |
| Measles | 9 | 26 | 57 | 64 |
| DPT | 9 | 21 | 59 | 70 |
| Child malnutrition (percent under 5 years) | ... | 39 | ... | ... |
| Public expenditures | | | | |
| Health (as percent of GDP) | ... | 0.8 | 1.7 | 1.2 |
| Education (as percent of GDP) | 1.2 | 0.7 | 4.7 | 2.9 |

Source: World Bank, *World Development Indicators*, 2001.

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

## Nigeria: Performance under the Stand-By Arrangement (SBA)

**The program supported by the SBA has three main objectives**: (a) maintaining macroeconomic stability, with strict restraint on federal government spending and active monetary policy to absorb any excess liquidity; (b) saving oil windfall gains for a "rainy day;" and (c) encouraging non-oil economic activity and private investment, by easing infrastructure bottlenecks, in particular power, by accelerating privatization, and by ensuring transparency, accountability and efficiency of the use of public resources.

**In 2000, these objectives were, for the most part, not achieved**. Federal government spending exceeded the program target by ₦140 billion or 3.4 percent of GDP. As a result, inflation rose to 14.5 percent in December 2000 (compared with the program target of 9 percent), and the foreign exchange market came under heavy pressure. Although almost half of actual oil excess proceeds were used to finance government spending as against less than one-fifth expected under the program,[1] the Central Bank of Nigeria did not increase its sales of foreign exchange correspondingly. Thus, foreign exchange reserves increased by the full amount of excess proceeds, i.e. by US$4 billion to US$9.4 billion or 6.7 months of imports, thereby meeting the program target on net official international reserves. Overall real GDP growth is estimated at 3.8 percent, in line with the program target. However, this is due in large part to the 7 percent growth of oil production. Non-oil activity grew slower than the population growth rate, as it proved difficult and time-consuming to ease infrastructure bottlenecks.

**Federal government spending was about a quarter higher than anticipated under the program, primarily as a result of an overrun in the wage bill.** The final report on the federal civil service audit was completed only in December (a performance criterion for end-September) and an accurate payroll has yet to be established. In these circumstances, the government has continued to pay the excessive wage bill (that includes payments for ghost workers and other unwarranted payments) and has not been able to make good on its commitment to recoup the large overpayments made in the months immediately after the wage increase of May 1, 2000 (EBS/00/153, Supplement 2). **In addition, capital spending was about 20 percent higher than programmed.** Federal government revenue was broadly as programmed, with the help of higher-than-programmed use of excess oil proceeds, and net borrowing by the federal government amounted to about ₦100 billion or 2.5 percent of GDP (compared with the performance criterion of zero borrowing).

**The Central Bank of Nigeria's (CBN) open market operations were insufficient to sterilize liquidity generated by the higher-than-programmed government spending.** Thus, the CBN's net domestic assets exceeded the end-2000 program target by ₦74 billion

[1] The distribution of excess proceeds to federal, state and local governments amounted to US$1.7 billion, out of a total of US$4 billion, instead of the programmed level of US$0.75 billion.

(equivalent to 28 percent of the end-1999 stock of reserve money). As a result, reserve money increased by 40 percent in the 12 months to December 2000, and broad money increased by 45 percent over the same period.

**The CBN reacted to the ensuing pressures in the foreign exchange market by relying heavily on the enforcement of existing capital controls.** The enforcement of existing capital controls led to a segmentation of the interbank market into the official Interbank Foreign Exchange Market (IFEM) and the "open" markets, giving rise to a multiple currency practice. The differential between the exchange rates on these market increased to about 15 percent until the two markets were merged in mid-December, when the CBN restored the transferability between banks of foreign exchange purchased from the CBN, and the IFEM rate was depreciated by 7 percent. In early-February 2001, the CBN again prohibited the transferability of IFEM funds and the gap between the exchange rates on the two interbank markets reemerged. Moreover, in the tolerated parallel market (of capital account and undocumented current account transactions) a large premium persisted, widening from an average of 5 percent in the first half of 2000 to over 13 percent in the first quarter of 2001.

**The implementation of the privatization program was mixed:**

- Draft telecom and electricity laws were submitted to, and provisionally approved by the Federal Executive Council by end-December, for circulation to the public. Preparation of regulation and administrative arrangements for the regulatory framework has commenced but can be finalized only after the enactment of the enabling legislation. Thus, the program target (viz., a new Electricity Law and Regulatory Framework Law, and a new Telecommunications Law, approved by the Council of Ministers by end-December 2000 for submission to the National Assembly for approval, with a view to completing the reforms of the legal and regulatory framework by January 2001) was not met. Moreover, regulatory agencies for telecommunications and power sectors were not in place by the end of March 2001 (a performance criterion). A strengthened regulatory system is being put in place to allow the sale of NITEL by end-2001 (see also below) and an independent regulatory agency is also to be established in the power sector by the end of the year.

- Four public enterprises were brought to the point of sale as required to meet an end-December 2000 benchmark.

- The end-March 2001 structural benchmark relating to the bringing to the point of sale of NITEL/M-Tel was met when the Nigerian authorities invited expressions of interest for the privatization of the company in the local and international press.

- A technical audit to study options for the Ajaokuta Steel Complex and the Aladja steel works was to have been completed by end-December 2000 (structural benchmark). This audit is now expected to be completed by end-June 2001 with assistance of the World Bank. A recent study by the original Russian (the Soviet) contractors estimates that an investment of USS400-600 million would be required to complete the first phase of the Ajaokuta and steel complex.

**Measures to assist improved transparency and accountability of the use of budgetary resources were implemented with delay, or are still behind schedule:**

- The Anti-Corruption Commission was inaugurated in September (a performance criterion). While the operations of the Commission were initially hampered by a lack of funding, investigations are now underway on some 20 cases.

- The Auditor General's report on the 1999 accounts were submitted to the National Assembly in February 2001 (a September 2000 structural benchmark).

- The federal civil service audit was completed in December (a performance criterion for end-September).

- The value-for-money audits for the third and fourth quarters of 2000 are being prepared. An interim report, which suggests that there may have been significant breaches in procedures, was issued by the auditor-general's office in late-April. Additional firms of auditors are being hired so that the results of value-for-money audits of expenditures in the first quarter of 2001 are available by end-June.

- New procurement regulations are now expected to be in place, with World Bank assistance, by end-June rather than end-March as initially planned.

- A comprehensive review of the structure of trade tariffs and level of real effective protection and value added in a range of industries (an end-December structural performance criterion) is now expected to be completed by September 2001, in time for a major revision of the current tariff code in the 2002 budget.

- While the authorities have thoroughly discussed the recommendations of IMF and World Bank technical assistance mission regarding the strengthening of petroleum tax administration, no progress was made in adopting an appropriate stand-alone fiscal regime for gas and power projects.

The status of quantitative performance criteria for September and December 2000 is summarized in Table 1. Table 2 summarizes the performance against the structural performance criteria and benchmarks for September 2000-March 2001.

Table 1. Nigeria: Quantitative Performance Criteria, December 1999 - December 2000 1/
(End of period)

| | end-Dec. 1999 stock | Performance criteria, cumulative from end-1999 1/ | | | | | |
|---|---|---|---|---|---|---|---|
| | | end-Sept. 2000 | | | end-Dec. 2000 | | |
| | | Prog. | Adj. Prog. | Act. | Prog. | Adj. Prog. | Act. |
| 1. Floor on net official international foreign exchange reserves (in US$ millions) 2/ 3/ | 5,441 | 1,325 | 2,040 | 2,677 | 2,361 | 3,860 | 3,959 |
| 2. Ceiling on net domestic assets of the central bank (in billions of naira) 2/ 3/ | -269 | -127 | -198 | -233 | -221 | -371 | -297 |
| 3. Ceiling on borrowing by the Federal government (in billions of naira). | ... | 0 | 0 | 0 | 0 | 0 | 100 |
| 3a. Indicator on domestic financing of consolidated government (in billions of naira) 2/ 3/ 4/ | ... | -111 | -182 | ... | -163 | -313 | -103 |
| 4. Use of excess proceeds by the Federal government above the N75 billion included in the 2000 Budget estimates 5/ | | 0 | 0 | 0 | 0 | 0 | 50 |
| 5. Ceiling on warrants issued without cash-backing (in billions of naira) 5/ | ... | 0 | 0 | 0 | 0 | 0 | 0 |
| 6. Floor on debt-service payments (in millions of US$) 6/ | ... | 1,301 | 1,301 | 1,110 | 1,500 | 1,500 | 1,387 |
| 7. Floor on the payments by NNPC for crude oil and consumption tax (in billions of naira) 7/ | ... | 74 | 74 | 78 | 105 | 105 | 112 |
| 8. Ceiling on new nonconcessional external debt with a maturity of one year or more contracted or guaranteed by the government (in US$ millions) 5/ 8/ | ... | 0 | 0 | 0 | 0 | 0 | 0 |
| 9. Ceiling on new nonconcessional short-term external debt (with a maturity of less than one year) contracted or guaranteed by the government (stock in US$ millions) 5/ 9/ | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 10. Ceiling on accumulation of new external payment arrears (in US$ millions) 5/ 10/ | ... | 0 | 0 | 0 | 0 | 0 | 0 |

Sources: Nigerian authorities; and staff estimates and projections.

1/ Performance criteria for end-March 2001, and end-June 2001, were supposed to be set by the time of the first review of the program.

2/ Program figures for net official international reserves have been adjusted upward (downwards) and those for domestic financing of the government and net domestic assets of the central bank have been adjusted downward (upward) to the extent that central bank receipts of oil export revenue and royalties (less actual distributions to federal, state and local government up to a maximum of N75 billion) exceed (fall below) the programmed levels on account of higher (lower) than programmed international oil prices .

3/ Program figures for net official international reserves have been adjusted upward and those for domestic financing of the government and net domestic assets of the central bank have been adjusted downward to the extent that debt service payments fall short of the programmed levels.

4/ This is not a performance criterion. This definition of domestic financing is intended to monitor the macroeconomic impact of budgetary operations through the program period. It is defined as the change in the net position of the consolidated government with the CBN, commercial and merchantbanks, and the non-bank public (excluding the reduction in domestic arrears of N56 shown in the fiscal table 3a). The program projections assume no net financing for state and local governments from the banking system, hence is the same as the projection for the performance criterion on domestic financing.

5/ These performance criteria apply continuously.

6/ Cumulative flows from end-December, 1999, excluding payments of debt service carried over from 1999.

7/ This is defined as payments by the NNPC into the federation account for 300,000 barrels of crude oil per day, and the consumption tax on petroleum products.

8/ Nonconcessional external debt is defined as loans having a grant element of less than 35 percent on the basis of currency-specific discount rates based on OECD commercial interest reference rates, excluding debt contracted as a direct result of the restructuring of the Brady bonds and promissory notes.

9/ Short-term debt excludes normal import-related credits.

10/ This excludes those arrears that would accumulate pending the completion of discussions between Nigeria and the Paris Club.

**Table 2. Nigeria: Structural Benchmarks, 2000**
**(performance criteria are marked *)**

| By end-September 2000 | Status |
| --- | --- |
| 1. Submission to the National Assembly of the Auditor General' report (Parts I and II) on the accounts of the government of the Federation of Nigeria for the period ended 31st December 1999. | Not met |
| 2 Commencement of the operations of the independent Anti-Corruption Commission; nomination of the head of the Commission.* | Met |
| 3. Completion of the audit of the federal civil service.* | Not met |
| **End-December 2000** | |
| 4. Approval by the Council of Ministers of the Draft Telecommunications Law, the Draft Electricity Law, and the regulatory framework for the power and telecommunications sectors. | Not met |
| 5. Completion of a technical audit to study options for the Ajaokuta Steel Complex and the Aladja steel works. | Not met |
| 6. Bring to the point of sale of NICON Insurance, Nigerian Reinsurance, the Nicon Hilton Hotel, and Nigeria Hotel Limited. | Met |
| 7. Completion of a comprehensive review of the structure of trade tariffs and level of real effective protection and value added in a range of industries.* | Not met |
| 8. Implementation of recommendations of IMF and World Bank technical assistance missions regarding the strengthening of petroleum tax administration. | Met |
| 9. Publication of the results of value-for-money audits of randomly selected federal government expenditures undertaken during the third quarter of 2000.* | Not met |
| **End-March 2001** | |
| 10. Adopt appropriate stand-alone fiscal regime for gas and power projects. | Not met |

| | |
|---|---|
| 11. Establish regulatory agencies for power and telecommunications sectors. | Not met |
| 12. Publication of the results of value-for-money audits of randomly selected federal government expenditures undertaken during the fourth quarter of 2000.* | Not met |
| 13. Bring to the point of sale of NITEL/M-Tel. | Met |
| 14. Institute and publish new procurement procedures. | Not met |

## Nigeria: Medium-Term Growth

*Overall, the picture that emerges is that even the attainment of a modest growth target of 4 percent to 4.5 percent would require prudent fiscal policy and generous levels of exceptional financing as well as steadfast implementation of structural reforms and governance-improving measures to reverse the negative private sector perception created by decades of economic mismanagement. Growth rates of 6-7 percent would require increases in private investment and/or its productivity to levels which are unlikely to materialize.*

**Given Nigeria's lackluster growth performance in recent years, targeting a higher rate of non-oil growth might be overly ambitious**. What would it take by way of policy effort if Nigeria were to raise its rate of economic growth from an average of 2.4 percent seen in the last two years to say 4 percent to 4.5 percent per annum in the coming years? To answer this question, a medium-term scenario was constructed. It is predicated on oil prices declining from $25.5 per barrel in 2001 to $22.5 per barrel in 2002, following which it reverts to a trend level of $20 per barrel as projected by the WEO. With the oil sector projected to grow at 2 percent per annum over the medium term, and the gas sector exhibiting nascent dynamism, the non-oil non-gas sector will have to grow at about 5 percent per year to attain the targeted growth rate.

**Increasing the growth rate in the non-oil sector will require an increase in investment**. It is assumed that decisive and durable productivity gains can be secured only after a critical mass of structural reforms and credible improvements in governance are implemented, which limits the scope for gains in the short to medium term. Hence, growth in the non-oil sector will need to be bolstered by rising levels of private investment, which is therefore projected to grow on average by over 4 percent in real terms over the projection horizon (the ratio of private non-oil investment to GDP would rise by about 2.5 percentage points from current levels). Public investment as a share of GDP is assumed to remain broadly constant compared with level in 2000, although down from 2001, which is likely to witness a one-off and probably unsustainably high level of public investment. Thus, overall investment increases from about 23 percent of GDP during the last two years to 27.5 percent of GDP in the outer years.

**Prudent fiscal policy is key to preventing a further real appreciation and hence to any medium-term adjustment effort.** A key variable that will induce investment in the non-oil sector is the real exchange rate. The exchange rate has been appreciating in real effective terms since 1993 and the increase in spending since mid-2000 is further eroding Nigeria's competitiveness. At the very least, the real exchange rate over the medium term should not be allowed to appreciate any further from levels prevailing now. Consequently, a supportive fiscal policy should aim to balance the budget over the medium term (at the projected oil price), so that liquidity injections from fiscal operations are consistent with maintaining low inflation.

**Expenditure restraint at the federal level and an effective mechanism to enable state and local governments to contribute to macroeconomic stability will be at the heart of any fiscal policy effort**. For 2002, the staff's proposed fiscal policy rule that the government (on a consolidated basis) save excess oil proceeds, (arising from the differential between the expected price of $22.5 per barrel and the benchmark price of $20 per barrel) and revenue windfalls from privatization would imply a surplus of about N200 billion (4.5 percent of GDP). Given the large wage increase in 2000, which created inertia in the wage bill, and limited scope for reductions in the size of the civil service within the next year, the wage bill for 2002 at both federal and state and local government levels cannot realistically be pruned to achieve the targeted savings, particularly in a pre-election year. Hence, it is assumed that in 2002, the budget is balanced (thereby deviating from the proposed rule), but that this deviation is corrected in the following years. Thus, the overall consolidated government balance moves to a surplus of about 1 percent of GDP in the outer years. It is important to note that achieving this balance would probably require adjustment by federal *and* state and local governments, possibly in the context of a broader review of federal-state financial relations.

Two questions arise in relation to these fiscal policy targets: what do they imply about the need for external financing? And are they consistent with delivering the "democracy dividend?"

**Nigeria will need continuing access to concessional external resources**. On the external sector, imports are expected to grow moderately (average volume growth of about 3.8 percent in the outer years), reflecting both fiscal restraint and the preservation of competitiveness, but leaving enough room for imports of capital goods to support the higher levels of non-oil private investment. In conjunction with a modest export performance and rising private transfers, the current account deficit is expected to rise to about 8 percent of GDP in the outer years from 2.3 percent in 2001, owing in large part to the decline in oil prices. This deficit creates financing gaps of the order of about US0.5 billion in the initial years, rising to about US$2.0 billion in the outer years. In other words, even with reasonably prudent fiscal policy, the achievement of a modest growth target will require sizable exceptional financing from the international community.

**Higher private consumption and improved quality of public expenditures will constitute the democracy dividend**. Could higher private savings relieve the government of some of the burden of financing higher levels of investment? Under the projected path for government and private savings, per capita real private consumption growth is expected to grow at about 2 percent in the medium term. It is unrealistic to expect any further squeeze in private consumption. Moreover, in the absence of a more competitive real exchange rate, higher levels of private savings are unlikely to be realized.

This growth in per capita consumption could be considered one element of the democracy dividend. The other element would be the improvement in infrastructure and other social services stemming from government expenditures. How will these fare under the projected scenario? On reasonable assumptions about the performance of non-tax revenue, public expenditures (including at the state and local government levels) will remain at the average level prevailing in 1999 and 2000 (although they would decline from the very high level projected for 2001). Federal government investment expenditures, including expenditures on overheads, will rise slightly over the medium term, from about 11.6 percent of GDP in 1999 to close to 13 percent of GDP in 2006. While this may seem inadequate relative to the clear need to rehabilitate infrastructure and improve social services, improvements in the quality and poverty-focus of expenditure should compensate for the moderation in amounts. In the absence of such improvements, the rationale for increases in expenditures would in any event remain questionable. But insofar as even higher government expenditures are considered necessary, extra room for accommodating them in a manner consistent with maintaining macroeconomic stability, will have to be created by pruning personnel costs.

A return of investor confidence based on resolute implementation of policies could increase resources from abroad (through increased capital inflows and/or private transfers), reducing the need for exceptional financing. However, there is virtually no room for maneuver on fiscal policy because of the need to maintain competitiveness to support the envisaged levels of private investment and private savings.

**Fiscal policy needs to be prudent to cushion against a possible downturn in oil prices.** For example, if oil prices were to fall to US$15 per barrel in 2002 and 2003 before reverting to the trend level of US$20, the current account deficit will decline to about 23 percent of GDP in 2002 and 18.5 percent of GDP in 2003. Sustaining these deficits, and hence avoiding a sharp compression in domestic absorption, without recourse to exceptional financing will require a reserve rundown of close to US$8 billion (Table 7). This would result in a precarious level of reserves (1.2 months of import cover), highlighting Nigeria's extreme vulnerability to adverse exogenous developments.

## Nigeria: Debt Sustainability Analysis

This note presents an assessment of Nigeria's external debt situation at the end of 2000 and evaluates its sustainability over the medium-term through an examination of standard debt indicators within the context of a 10-year macroeconomic and balance of payments framework. The scenarios presented in this analysis are subject to a number of critical assumptions-starting with the oil price projections over the medium-term-and, as a consequence, are essentially illustrative by nature. Also, the preliminary debt service projections and resulting net present value (NPV) calculations are based on debt information provided by creditors, pending the completion of the reconciliation of Nigeria's loan portfolio with creditors' statements.[1]

### Debt composition

Nigeria's external medium- and long-term debt was tentatively estimated at US$31.9 billion (equivalent to 78 percent of GDP) at the end of 2000, and consisted of obligations to Paris Club creditors (US$24.4 billion), multilateral creditors (US$3.8 billion), and commercial creditors (US$3.6 billion).[2] A small amount of debt (US$140 million) was also estimated to be owed to non-Paris Club bilateral creditors. The largest bilateral creditor is the U.K. (with about 27 percent of total Paris Club debt), followed by France, Japan and Germany (at about 15-17 percent), and Italy, the Netherlands, and the U.S. (at less than 10 percent). Among the multilateral institutions, the World Bank (IBRD and IDA) and the African Development Bank (ADB and ADF) were the largest creditors, with debt stocks of US$2.6 billion and US$1.1 billion, respectively. Nigeria has no outstanding credit or loans to the Fund.[3] The debt to commercial creditors was composed of US$2 billion of par ("Brady") bonds and US$1.6 billion of central bank promissory notes arising from past restructurings.

---

[1] In August 2000, the Nigerian government established a Debt Management Office (DMO) to verify individual loan accounts with creditors' statements and improve the efficiency of debt management. The DMO is in the process of examining for correctness and for comparison with creditor statements all outstanding loans to officials and non-officials creditors as part of the debt recording and management project with technical assistance from Crown Agents. Reconciliation has already been completed with a number of Paris Club creditors. Full reconciliation is expected for mid-2001.

[2] This reflects Paris Club debt reported by creditors. The authorities' data (DMO) showed a bilateral debt of about US$1.1 billion lower than that reported by Paris Club creditors and did not include the capitalized moratorium interest at end-2000, which staff estimated at about US$600 million. Pending the full completion of the reconciliation exercise with creditors, the debt figures used in this analysis are thus preliminary.

[3] The authorities intends to treat the 12-month Stand-By Arrangement (August 4, 2000-August 3, 2001) in the amount of SDR 789 million as precautionary.

Most of this debt reflected the prolific external borrowing that took place during the late 1970s and 1980s, first in the boom period of exceptionally high oil prices early in the decade and then to offset and postpone the effects of the collapse in oil prices that followed.[1] It also reflects the accumulation of large amounts of late interest on arrears and penalties. For the most part, these obligations were not contracted on concessional terms and thus the grant element of Nigeria's debt is very small. At a discount rate of 6.8 percent, and taking into account the Paris Club rescheduling of December 13, 2000 (see below), the NPV of Nigeria's public and publicly guaranteed debt was estimated at US$31 billion (76 percent of GDP) at end-2000. The NPV of debt-to-export ratio (three-year average of exports of goods and nonfactor services) and the debt-to-government-revenue ratio (consolidated government) reached, respectively, 207 percent and 166 percent in 2000.

Following a number of commercial debt restructurings, debt conversions, and debt buy-backs at discount in the late 1980s and early 1990s, Nigeria has generally remained current in the servicing of its commercial obligations.[2] In contrast, notwithstanding three Paris Club reschedulings,[3] growing payment arrears have been accumulated vis-à-vis Paris Club creditors, in particular on the debt contracted before the cutoff date of October 1, 1985. This reflected the authorities' policy adopted in 1993 of limiting actual debt service payments as a ratio of net oil revenues. In 2000, out of the US$3.1 billion of debt service due (14.5 percent of exports of goods and services), only US$1.7 billion were actually paid (corresponding to 8.1 percent of exports of goods and services) as arrears to the Paris Club were further accumulated.

---

[1] According to the authorities' draft Report of the Evaluation of Projects Financed with International Capital Market Loans and Credits (November 2000), a good number of projects had failed either because (i) they never took off after their covering loans had been drawn and were misappropriated; or (ii) once completed, they had to close down due to a number factors, including bad management, fraudulent practices, or instability in government economic management policies.

[2] The promissory notes that were issued in the mid-1980s to refinance overdue trade credits were restructured in 1988 under different options of conversion and buy-back. The bonds were restructured in 1992 through a buy-back of about 60 percent of the stock at a discount of 60 percent, the restructuring of the outstanding principal arrears to Brady Bonds with a bullet repayment in 2020 at a 6.25 percent interest rate, a principal collateral, and a 1-year interest guarantee.

[3] Nigeria had three non-concessional Paris Club reschedulings in December 1986, March 1989, and January 1991—during the period of programs supported by stand-by arrangements with the Fund. Approximately a total of US$14 billion of arrears and pre-cut off date medium-and long-term debt maturities were rescheduled in these agreements.

**The Paris Club agreement of December 2000**

On December 13, 2000, the Nigerian authorities reached agreement with the Paris Club of creditors on a nonconcessional rescheduling of its debt. The agreement consolidated Nigeria's arrears at end-July 2000 (US$21.3 billion) and maturities falling due during the stand-by arrangement (August 2000-July 2001) (US$300 million), fully capitalized moratorium interest on the rescheduling (US$1.4 billion) and deferred post-cutoff date arrears as of end-2000 (US$616 million). Rescheduled amounts (pre-cutoff date) are payable on Houston terms,[4] except for a part (US$3.6 billion) payable on an accelerated schedule so as to bring all creditors to an equal level of payments of about one-fourth of the amounts due to them since the last rescheduling in 1991. Capitalized moratorium interest (US$1.4 billion) is payable over 5 years (2002-2006). Overall, the agreement requires payments to the Paris Club of US$700 million in 2000 and US$1 billion in 2001.

As a result of this agreement, Nigeria obtained savings of cash payments estimated at US$1.6 billion in 2000 and US$970 million for the first half of 2001, on the basis of the payment due during January-July 2001.[5]

**Possible future Paris Club rescheduling**

The December 2000 agreement also includes a goodwill clause whereby creditors agreed in principle to consider possible options in further restructuring Nigeria's debt falling due after July 31, 2001, consistent with Nigeria's medium- and long-term capacity to repay. Given that there was no clear indication that the Paris Club would consider a stock of debt reduction for the next round, the staff has assumed, for illustrative purposes, flow rescheduling scenarios with 33 percent, 50 percent, and 67 percent NPV reduction on the maturities falling due during the three-year consolidation period (2002-04). However, the Paris Club typically considers concessional reschedulings under Naples terms only for countries classified as IDA-only by the World Bank, a criterion Nigeria does not currently meet.[6] Coverage under this assumed rescheduling includes the pre-cutoff date debt not previously rescheduled and

---

[4] 18-year maturity, including 3-year grace, for commercial credits (US$21 billion); 20-year maturity, including 10-year grace, for a small ODA amounts (US$250 million).

[5] The agreement has an entry-into-force clause linking the agreement, subject to the discretion of creditors, to the payments due to creditors and to the completion of the first review under the SBA. On the basis of the payments made by Nigeria, the agreement entered into force in April 2001.

[6] The World Bank classifies Nigeria as a low-income-blend-country together with countries such as Azerbaijan, India, Indonesia, Pakistan and Zimbabwe. Nigeria became IDA-eligible in 1988. While in principle eligible for both IDA and IBRD funding, Nigeria has in practice only drawn on IDA resources since 1993, for reasons of creditworthiness.

the debt previously rescheduled in 1986, 1989, 1991, and 2000, but excludes the debt repayments for leveling-up that are not subject to further treatments as specified in the December 2000 agreement. The debt sustainability analysis assumes comparable treatment of the debts to the private sector in line with standard practice.

**Macroeconomic scenario and debt sustainability**

The baseline economic scenario assumes the implementation of sound economic and financial policies, continued structural reforms, including in the areas of governance (transparency, accountability and efficiency of the use of public resources), civil service reform, and privatization, and a stable external environment. Consistent with the WEO projections, the oil price is expected to gradually decline from its peak of $28.8/bbl in 2000 to its medium-term value of about $20/bbl (Table A1). Oil revenues are thus projected to decline sharply in the short run (2001-03) and to stabilize over the medium term. In contrast, non-oil exports are expected to pick up sharply, though from a very low base. As a result, GDP (measured in US$) is projected to decline by 5.5 percent in 2001, and to gradually increase towards the medium-term growth rate of 5 percent, reflecting the diversification of the economy. As a result of these policies, with approximately constant terms of trade over the long run, the current account deficit is projected to stabilize at about 7 percent of GDP.

Turning to financing, it is expected that official disbursements, in the form mainly of development project financing from the World Bank and the ADB, would gradually increase to US$500 million in 2005 and would then remain constant at 1.5 percent of GDP in 2005-10. It is assumed that all new commitments from multilateral institutions would be on concessional terms. Also, as the pace of structural reform is accelerating and the business environment improves, net private capital inflows in the form of private borrowing, foreign direct investment and portfolio investments are expected to increase gradually from 4 percent of GDP to 8 percent of GDP over the medium term, with most of the increase taking place in the non-oil sector.

**Baseline scenario before rescheduling**

Under these conditions, before assuming any further debt relief, Nigeria's external debt indicators could not be significantly improved before the second half of the decade. Nigeria's outstanding public debt would increase to 85 percent of GDP in 2003 (reflecting the term of trade adjustment of lower oil prices) and would remain close to 80 percent until 2006 before gradually declining over the medium term to about 60 percent of GDP by 2010. The NPV of debt to GDP would also remain stable at about 75-80 percent of GDP during the first half of the decade. This reflects the fact that in the absence of further rescheduling, large financing gaps in the order of US$3 billion per year, would contribute to the accumulation of new debts, which, for the purpose of this exercise, are assumed to be non-concessional

(Table 2).[1] The NPV of debt to exports of goods and nonfactor services are thus projected to remain at about 170 percent until 2005 and to decline thereafter to below 110 percent by the end of the decade. More importantly, the servicing of external debt in the absence of further rescheduling would require a major effort from the Nigerian authorities as both the debt service-to-export ratio and the debt service-to-government revenue ratio would increase from about 13 percent in 2001 to 21 percent in 2002 and almost 25 percent over the medium-term. This compares with actual ratios of less than 10 percent in 2000 (when external arrears continued to be accumulated).

**Scenario after rescheduling**

Under the assumed flow reschedulings from the Paris Club debt and treatment of commercial claims, Nigeria's external debt indicators would improve significantly. In particular, under a three-year flow rescheduling with a 67 percent NPV reduction, both the debt service-to-export and to-government revenue ratios would remain stable at around 12-13 percent during 2002-04 before increasing to above 17-18 percent over the medium term. Under a flow rescheduling with 50 percent NPV reduction, the debt service-to-export and to-government revenue ratios are projected to be marginally higher during 2002-04 and over the medium term. While a normalization of Nigeria's relations with creditors would require a significant effort (as compared to the actual debt service payments in the 1990s), this effort would remain in line with that of developing countries in general, though higher than that of heavily indebted poor countries after they obtained debt relief.[2]

In NPV terms, the stock of debt would decline to below 50 percent of GDP by 2010 in all scenarios. As a ratio of exports of goods and nonfactor services, the NPV of debt is projected to decline to below 150 percent in 2006. In terms of government revenues (excluding grants), the NPV of debt would remain at above 150 percent in the first half of the decade before declining to about 110 percent by 2010.

**Sensitivity analysis**

Given the predominance of petroleum products in Nigeria's exports (some 98 percent of total exports), a sensitivity analysis has been conducted to assess the vulnerability of Nigeria's external situation to oil price developments and the value of exports (Table 4).

[1] Financing gaps are assumed to be filled with loans to be repaid over 6 years at the interest rate of 7 percent.

[2] According to World Bank data, the debt service-to-exports ratio of developing countries averaged 20 percent in 1999. In the case of HIPCs, the ratio, before HIPC relief, averaged 16 percent in 1998-99 and is projected to decline to 8 percent on average for 2001-03 after HIPC relief.

Under these scenarios, starting in 2002, the medium-term oil price is assumed to be US$5/bbl lower or higher than in the baseline scenario. Not surprisingly, quite sharply contrasted conclusions can be drawn from these simulations. Everything being equal—in particular the pursuit of prudent fiscal policy—at the medium-term oil price of US$25/bbl, all debt indicators would improve drastically. The NPV of debt-to-export ratio would decline to below 150 percent as soon as 2002 and below 100 percent in 2008. The debt service-to-exports ratio would remain at or below 15 percent throughout the period. In contrast, at the depressed medium-term oil price of US$15/bbl, the debt service-to-exports ratio would reach some 30 percent over the medium term, making the burden of Nigeria's external debt unbearable without further debt relief.

**Conclusion**

In light of these illustrative scenarios, which assume the pursuit of sound financial policies over the medium-term horizon and some debt reduction, and pending the reconciliation of all outstanding obligations with creditors, a preliminary conclusion is that Nigeria's debt dynamics appear to improve steadily over the medium term under normal external conditions (i.e. a medium-term oil price of at least US$20/bbl). Using the threshold ratio of the net present value of debt-to-exports of 150 percent as illustrative benchmarks, Nigeria's debt ratios are projected to be in the neighborhood of these thresholds after three years of flow rescheduling and treatment of commercial claims. Under the full use of traditional Paris Club mechanisms, i.e. a stock-of-debt operation with a 67 percent NPV reduction on pre-cutoff date and commercial debt, Nigeria's debt indictors would be well below the threshold ratio of the net present value of debt-to-exports of 150 percent. However, in all the flow rescheduling scenarios presented in this note, Nigeria is projected to face a surge in debt service payments in 2005 at the end of the rescheduling period. In order to mitigate this hike, and conditions permitting in terms of macroeconomic policy performance, further debt relief options may need to be considered.

Table 1. Nigeria: Debt Sustainability Analysis, Baseline Scenario, 2000-2010 1/

| | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2002-04 Avg. | 2005-10 Avg. |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | | (in million of US dollars, unless otherwise indicated) | | | | | | | |
| Oil export prices in US$/bbl | 28.5 | 25.5 | 22.5 | 20.0 | 19.8 | 19.5 | 19.5 | 20.0 | 20.0 | 20.0 | 20.0 | 20.8 | 19.8 |
| Nominal GDP growth in US$ (in percent) | 18.0 | -5.5 | -3.3 | 0.1 | 3.8 | 3.8 | 4.2 | 5.0 | 5.0 | 5.0 | 5.0 | 0.2 | 4.7 |
| Nominal GDP | 40,914 | 38,675 | 37,382 | 37,437 | 38,853 | 40,337 | 42,041 | 44,143 | 46,351 | 48,668 | 51,101 | 37,891 | 45,440 |
| Export growth in US$ (in percent) | 67.0 | -10.5 | -11.7 | -2.7 | 4.5 | 3.1 | 4.2 | 5.0 | 5.5 | 6.0 | 6.0 | -3.3 | 5.0 |
| Export of goods and nonfactor services | 21,518 | 19,260 | 17,005 | 16,551 | 17,298 | 17,837 | 18,583 | 19,512 | 20,586 | 21,821 | 23,130 | 16,951 | 20,245 |
| Import growth in US$ (in percent) | 18.3 | 11.3 | -0.8 | -0.5 | 4.2 | 5.6 | 6.4 | 5.0 | 5.0 | 5.0 | 5.0 | 1.0 | 5.3 |
| Import of goods and nonfactor services | -16,898 | -18,809 | -18,661 | -18,577 | -19,360 | -20,437 | -21,738 | -22,824 | -23,966 | -25,164 | -26,422 | -18,866 | -23,425 |
| Current account, excl. interest (in percent of GDP) | 9.9 | 2.8 | -1.8 | -2.4 | -1.9 | -2.6 | -2.8 | -3.0 | -3.3 | -3.5 | -3.8 | -2.0 | -3.2 |
| Current account balance, excluding interest due | 4,042 | 1,097 | -665 | -906 | -727 | -1,069 | -1,181 | -1,321 | -1,515 | -1,726 | -1,965 | -766 | -1,463 |
| Total debt service due | 3,365 | 4,217 | 3,606 | 3,566 | 3,556 | 3,611 | 3,775 | 3,771 | 4,032 | 4,269 | 4,366 | 3,576 | 3,971 |
| Interest due | 2,038 | 1,989 | 2,072 | 1,999 | 1,910 | 1,816 | 1,798 | 1,774 | 1,736 | 1,687 | 1,619 | 1,994 | 1,738 |
| Amortization due | 1,327 | 2,228 | 1,533 | 1,567 | 1,645 | 1,795 | 1,977 | 1,997 | 2,297 | 2,582 | 2,747 | 1,582 | 2,233 |
| Financing requirements | -677 | 3,119 | 4,271 | 4,472 | 4,283 | 4,680 | 4,957 | 5,092 | 5,547 | 5,995 | 6,330 | 4,342 | 5,434 |
| Net reserves (increase -) | -3,959 | -479 | 0 | 0 | -340 | -99 | -38 | 0 | 0 | 0 | 0 | -113 | -23 |
| Gross official reserves | 9,400 | 9,879 | 9,879 | 9,879 | 10,219 | 10,318 | 10,356 | 10,356 | 10,356 | 10,356 | 10,356 | 9,992 | 10,350 |
| (In months of imports) | 6.7 | 6.3 | 6.4 | 6.4 | 6.3 | 6.1 | 5.7 | 5.4 | 5.2 | 4.9 | 4.7 | 6.4 | 5.3 |
| Official disbursements | 120 | 290 | 301 | 330 | 408 | 500 | 550 | 605 | 666 | 732 | 805 | 346 | 643 |
| Official disbursements (in percent of GDP) | 0.3 | 0.7 | 0.8 | 0.9 | 1.0 | 1.2 | 1.3 | 1.4 | 1.4 | 1.5 | 1.6 | 0.9 | 1.4 |
| Net private capital inflows | 1,374 | 1,539 | 2,493 | 2,595 | 2,574 | 2,704 | 2,792 | 2,958 | 3,245 | 3,650 | 4,088 | 2,554 | 3,239 |
| Net private capital inflows (in percent of GDP) | 3.4 | 4.0 | 6.7 | 6.9 | 6.6 | 6.7 | 6.6 | 6.7 | 7.0 | 7.5 | 8.0 | 6.7 | 7.1 |
| Debt relief | 1653 | 1770 | 1211 | 1417 | 1491 | 215 | 215 | 126 | 136 | 146 | 155 | 1,373 | 165 |
| Interest rescheduled | 1210.2 | 1553 | 1,207 | 1,378 | 1,376 | 177 | 178 | 90 | 101 | 112 | 123 | 1,320 | 130 |
| Amortization rescheduled | 442 | 217 | 4 | 38 | 115 | 38 | 37 | 36 | 35 | 34 | 32 | 52 | 35 |
| Errors and omissions | 136 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Financing gap 2/ | 0 | 0 | 267 | 130 | 150 | 1360 | 1438 | 1404 | 1501 | 1467 | 1282 | 182 | 1,409 |
| External debt stock (begining-of-period) | | 31,935 | 31,364 | 31,452 | 30,383 | 29,410 | 29,513 | 29,560 | 29,608 | 29,513 | 29,164 | | |
| Net new borrowings 3/ | | -1,721 | -962 | -1,069 | -973 | 103 | 47 | 48 | -95 | -349 | -628 | -1,002 | -146 |
| Stock adjustments 4/ | | 1,150 | 1,051 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | | |
| External debt stock (end-of-period) | 31,935 | 31,364 | 31,452 | 30,383 | 29,410 | 29,513 | 29,560 | 29,608 | 29,513 | 29,164 | 28,537 | | |
| External debt stock (in percent of GDP) | 78.1 | 81.1 | 84.1 | 81.2 | 75.7 | 73.2 | 70.3 | 67.1 | 63.7 | 59.9 | 55.8 | | |

Sources: Nigerian authorities; and staff estimates and projections.

1/ Assumes a Paris Club flow rescheduling with 50 percent NPV reduction on maturities falling due in 2002-04 and a restructuring of commercial debt as described in footnote 4 of Table 3.
2/ Assumes debt service conditions on financing gaps of 7 percent and 6-year maturity.
3/ New official disbursements and financing gap net of amortization after debt relief.
4/ As a result of the capitalization of moratorium interest in 2001 and 2002 and the treatment of commercial claims.

Table 2. Nigeria: Debt Sustainability Analysis, Selected Indicators, 2000-2010

| | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2002-04 Avg. | 2005-10 Avg. |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | (in percent, unless otherwise indicated) | | | | | | | | | | | | |
| I. Before expected debt rescheduling | | | | | | | | | | | | | |
| Public debt-to-GDP ratio | 78.1 | 81.1 | 84.6 | 84.6 | 81.2 | 76.9 | 72.2 | 68.8 | 65.3 | 61.4 | 57.2 | 83.5 | 67.0 |
| NPV debt-to-GDP ratio | 76.2 | 76.0 | 80.0 | 79.7 | 76.0 | 71.2 | 66.2 | 62.3 | 58.3 | 54.0 | 49.3 | 78.6 | 60.2 |
| NPV debt-to-exports ratios 1/ | 145.0 | 152.6 | 176.0 | 180.4 | 170.7 | 161.1 | 149.7 | 141.0 | 131.3 | 120.3 | 108.9 | 175.7 | 135.4 |
| NPV debt-to-exports ratios 2/ | 206.0 | 164.3 | 155.3 | 169.6 | 174.2 | 166.8 | 155.4 | 147.5 | 138.2 | 127.2 | 115.3 | 166.4 | 141.7 |
| NPV debt-to-government revenue ratio 3/ | 165.3 | 158.9 | 179.1 | 177.8 | 168.9 | 162.4 | 153.2 | 138.5 | 129.6 | 119.9 | 109.5 | 175.3 | 135.5 |
| Debt-service-to exports ratio 1/ | 8.0 | 12.7 | 20.5 | 22.7 | 23.7 | 25.3 | 25.2 | 23.9 | 23.6 | 22.9 | 21.3 | 22.3 | 23.7 |
| Debt service-government revenue ratio 3/ | 9.2 | 13.2 | 20.8 | 22.4 | 23.5 | 25.5 | 25.8 | 23.5 | 23.3 | 22.8 | 21.4 | 22.2 | 23.7 |
| II. After assumed flow rescheduling with a 33 percent NPV reduction 4/ | | | | | | | | | | | | | |
| Public debt-to-GDP ratio | ... | 81.1 | 85.8 | 82.8 | 77.1 | 74.5 | 71.6 | 68.3 | 64.9 | 61.1 | 56.9 | 81.9 | 66.2 |
| NPV debt-to-GDP ratio | ... | 76.0 | 82.2 | 78.9 | 72.8 | 69.7 | 66.2 | 62.4 | 58.4 | 54.1 | 49.4 | 77.9 | 60.0 |
| NPV debt-to-exports ratios 1/ | ... | 152.6 | 180.7 | 178.4 | 163.5 | 157.5 | 149.7 | 141.1 | 131.4 | 120.6 | 109.2 | 174.2 | 134.9 |
| NPV debt-to-exports ratios 2/ | ... | 164.3 | 159.5 | 167.7 | 166.8 | 163.1 | 155.4 | 147.6 | 138.3 | 127.5 | 115.6 | 164.7 | 141.3 |
| NPV debt-to-government revenue ratio 3/ | ... | 158.9 | 183.9 | 175.9 | 161.8 | 158.7 | 153.2 | 138.6 | 129.7 | 120.1 | 109.8 | 173.8 | 135.0 |
| Debt-service-to exports ratio 1/ | ... | 12.7 | 14.3 | 13.2 | 12.2 | 19.3 | 19.4 | 18.4 | 18.8 | 18.8 | 18.2 | 13.3 | 18.8 |
| Debt service-government revenue ratio 3/ | ... | 13.2 | 14.6 | 13.1 | 12.1 | 19.4 | 19.8 | 18.1 | 18.5 | 18.7 | 18.3 | 13.2 | 18.8 |
| III. After assumed flow rescheduling with a 50 percent NPV reduction 4/ | | | | | | | | | | | | | |
| Public debt-to-GDP ratio | ... | 81.1 | 84.1 | 81.1 | 75.5 | 73.0 | 70.1 | 66.9 | 63.5 | 59.8 | 55.7 | 80.3 | 64.8 |
| NPV debt-to-GDP ratio | ... | 76.0 | 80.5 | 77.2 | 71.2 | 68.1 | 64.7 | 61.0 | 57.1 | 52.8 | 48.3 | 76.3 | 58.7 |
| NPV debt-to-exports ratios 1/ | ... | 152.6 | 177.1 | 174.7 | 159.9 | 154.1 | 146.5 | 138.0 | 128.5 | 117.8 | 106.6 | 170.6 | 131.9 |
| NPV debt-to-exports ratios 2/ | ... | 164.3 | 156.3 | 164.2 | 163.2 | 159.5 | 152.0 | 144.4 | 135.2 | 124.6 | 112.9 | 161.3 | 138.1 |
| NPV debt-to-government revenue ratio 3/ | ... | 158.9 | 180.2 | 172.2 | 158.3 | 155.3 | 149.9 | 135.5 | 126.8 | 117.4 | 107.2 | 170.2 | 132.0 |
| Debt-service-to exports ratio 1/ | ... | 12.7 | 14.1 | 13.0 | 11.9 | 19.0 | 19.2 | 18.2 | 18.5 | 18.6 | 17.9 | 13.0 | 18.6 |
| Debt service-government revenue ratio 3/ | ... | 13.2 | 14.3 | 12.8 | 11.8 | 19.2 | 19.6 | 17.9 | 18.3 | 18.5 | 18.1 | 13.0 | 18.6 |
| IV. After assumed flow rescheduling with a 67 percent NPV reduction 4/ | | | | | | | | | | | | | |
| Public debt-to-GDP ratio | ... | 81.1 | 82.5 | 79.5 | 73.9 | 71.4 | 68.6 | 65.5 | 62.2 | 58.5 | 54.5 | 78.6 | 63.4 |
| NPV debt-to-GDP ratio | ... | 76.0 | 78.9 | 75.6 | 69.6 | 66.6 | 63.3 | 59.6 | 55.8 | 51.6 | 47.1 | 74.7 | 57.3 |
| NPV debt-to-exports ratios 1/ | ... | 152.6 | 173.5 | 171.0 | 156.4 | 150.7 | 143.2 | 134.9 | 125.6 | 115.0 | 104.0 | 167.0 | 128.9 |
| NPV debt-to-exports ratios 2/ | ... | 164.3 | 153.2 | 160.8 | 159.6 | 156.0 | 148.6 | 141.1 | 132.1 | 121.6 | 110.1 | 157.8 | 134.9 |
| NPV debt-to-government revenue ratio 3/ | ... | 158.9 | 176.6 | 168.6 | 154.8 | 151.8 | 146.6 | 132.5 | 123.9 | 114.6 | 104.6 | 166.6 | 129.0 |
| Debt-service-to exports ratio 1/ | ... | 12.7 | 13.8 | 12.7 | 11.7 | 18.8 | 18.9 | 18.0 | 18.3 | 18.4 | 17.7 | 12.7 | 18.4 |
| Debt service-government revenue ratio 3/ | ... | 13.2 | 14.1 | 12.5 | 11.6 | 18.9 | 19.4 | 17.7 | 18.1 | 18.3 | 17.8 | 12.7 | 18.4 |
| Assumptions | | | | | | | | | | | | | |
| Nominal GDP growth in US$ | 18.0 | -5.5 | -3.3 | 0.1 | 3.8 | 3.8 | 4.2 | 5.0 | 5.0 | 5.0 | 5.0 | 0.2 | 4.7 |
| Export growth in US$ | 67.0 | -10.5 | -11.7 | -2.7 | 4.5 | 3.1 | 4.2 | 5.0 | 5.5 | 6.0 | 6.0 | -3.3 | 5.0 |
| Import growth in US$ | 17.7 | 11.3 | -0.8 | -0.5 | 4.2 | 5.6 | 6.4 | 5.0 | 5.0 | 5.0 | 5.0 | 1.0 | 5.3 |
| Oil export prices in US$/bbl | 28.5 | 25.5 | 22.5 | 20.0 | 19.8 | 19.5 | 19.5 | 20.0 | 20.0 | 20.0 | 20.0 | 20.8 | 19.8 |
| Current account (in percent of GDP) | 4.9 | -2.3 | -7.3 | -7.8 | -6.8 | -7.2 | -7.1 | -7.0 | -7.0 | -7.0 | -7.0 | -7.3 | -7.0 |
| Official disbursements (in percent of GDP) | 0.3 | 0.7 | 0.8 | 0.9 | 1.0 | 1.2 | 1.3 | 1.4 | 1.4 | 1.5 | 1.6 | 0.9 | 1.4 |
| Net private capital inflows (in percent of GDP) | 3.4 | 4.0 | 6.7 | 6.9 | 6.6 | 6.7 | 6.6 | 6.7 | 7.0 | 7.5 | 8.0 | 6.7 | 7.1 |
| Government revenue (in percent of GDP) | 46.1 | 47.8 | 44.7 | 44.8 | 45.0 | 43.9 | 43.2 | 45.0 | 45.0 | 45.0 | 45.0 | 44.8 | 44.5 |

Sources: Nigerian authorities; and staff estimates and projections.

1/ In percent of current-year exports of goods and nonfactor services.
2/ In percent of a three-year average of exports of goods and nonfactors services.
3/ Consolidated government revenues, excluding grants.
4/ Assumes a Paris Club flow rescheduling with NPV reduction on maturities falling due in 2002-04 and a restructuring of commercial debt as described in footnote 4 of table 3.

Table 3. Nigeria: Debt Sustainability Analysis, Debt Service Indicators, 2000-2010

| | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2002-04 Avg. | 2005-10 Avg. |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | (in million of US dollars, unless otherwise indicated) | | | | | | | | |
| I. Debt service payments before expected debt rescheduling 1/ | | | | | | | | | | | | | |
| Multilateral creditors | 621 | 626 | 547 | 518 | 493 | 462 | 409 | 343 | 316 | 222 | 219 | 519 | 329 |
| Bilateral creditors | 796 | 1,487 | 2,600 | 2,521 | 2,507 | 2,561 | 2,430 | 2,143 | 2,159 | 2,179 | 2,001 | 2,543 | 2,246 |
| Commercial creditors 4/ | 313 | 334 | 333 | 331 | 330 | 328 | 325 | 323 | 320 | 317 | 313 | 331 | 321 |
| Financing gap 2/ | 0 | 0 | 0 | 389 | 775 | 1,164 | 1,513 | 1,860 | 2,073 | 2,269 | 2,395 | 388 | 1,879 |
| Total | 1,730 | 2,447 | 3,480 | 3,759 | 4,104 | 4,515 | 4,678 | 4,669 | 4,867 | 4,987 | 4,929 | 3,781 | 4,774 |
| II. Debt service payments after assumed Paris Club flow rescheduling with a 33 percent NPV reduction 3/ | | | | | | | | | | | | | |
| Multilateral creditors | ... | 626 | 547 | 518 | 493 | 462 | 409 | 343 | 316 | 222 | 219 | 519 | 329 |
| Bilateral creditors | ... | 1,487 | 1,567 | 1,487 | 1,400 | 2,730 | 2,599 | 2,312 | 2,335 | 2,362 | 2,192 | 1,485 | 2,422 |
| Commercial creditors 4/ | ... | 334 | 324 | 116 | 115 | 113 | 110 | 108 | 105 | 102 | 98 | 185 | 106 |
| Financing gap 2/ | | 0 | 0 | 70 | 101 | 134 | 485 | 836 | 1,107 | 1,415 | 1,691 | 57 | 945 |
| Total | ... | 2,447 | 2,438 | 2,192 | 2,108 | 3,439 | 3,603 | 3,599 | 3,862 | 4,101 | 4,201 | 2,246 | 3,801 |
| III. Debt service payments after assumed Paris Club flow rescheduling with a 50 percent NPV reduction 3/ | | | | | | | | | | | | | |
| Multilateral creditors | ... | 626 | 547 | 518 | 493 | 462 | 409 | 343 | 316 | 222 | 219 | 519 | 329 |
| Bilateral creditors | ... | 1,487 | 1,524 | 1,445 | 1,357 | 2,687 | 2,556 | 2,269 | 2,290 | 2,316 | 2,144 | 1,442 | 2,377 |
| Commercial creditors 4/ | ... | 334 | 324 | 116 | 115 | 113 | 110 | 108 | 105 | 102 | 98 | 185 | 106 |
| Financing gap 2/ | | 0 | 0 | 70 | 101 | 134 | 485 | 836 | 1,107 | 1,414 | 1,689 | 57 | 944 |
| Total | ... | 2,447 | 2,395 | 2,149 | 2,065 | 3,396 | 3,561 | 3,556 | 3,818 | 4,054 | 4,151 | 2,203 | 3,756 |
| IV. Debt service payments after assumed Paris Club flow rescheduling with a 67 percent NPV reduction 3/ | | | | | | | | | | | | | |
| Multilateral creditors | ... | 626 | 547 | 518 | 493 | 462 | 409 | 343 | 316 | 222 | 219 | 519 | 329 |
| Bilateral creditors | ... | 1,487 | 1,481 | 1,402 | 1,314 | 2,644 | 2,514 | 2,226 | 2,245 | 2,269 | 2,095 | 1,494 | 2,383 |
| Commercial creditors 4/ | ... | 334 | 324 | 116 | 115 | 113 | 110 | 108 | 105 | 102 | 98 | 185 | 106 |
| Financing gap 2/ | | 0 | 0 | 70 | 101 | 134 | 485 | 836 | 1,107 | 1,414 | 1,688 | 93 | 302 |
| Total | ... | 2,447 | 2,352 | 2,106 | 2,022 | 3,353 | 3,518 | 3,513 | 3,773 | 4,007 | 4,101 | 2,291 | 3,119 |

Sources: Nigerian authorities; and staff estimates and projections.

1/ In 2000, actual debt service paid.

2/ Assumes debt service conditions on financing gaps of 7 percent and 6-year maturity.

3/ Assumes a Paris Club flow rescheduling with NPV reduction on maturities falling due in 2002-04 .

4/ Based on working assumptions about the comparable treatment of commercial and official debt.

Table 4. Nigeria: Debt Sustainability Analysis, Sensitivity to Oil Price Developments, 2000-2010 1/

| | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2002-04 Avg. | 2005-10 Avg. |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | (in percent, unless otherwise indicated) | | | | | | | | | | | | |
| Baseline scenario 1/ | | | | | | | | | | | | | |
| Oil export prices in US$/bbl | 28.5 | 25.5 | 22.5 | 20.0 | 19.8 | 19.5 | 19.5 | 20.0 | 20.0 | 20.0 | 20.0 | 20.8 | 19.8 |
| Public debt-to-GDP ratio | ... | 81.1 | 84.1 | 81.1 | 75.5 | 73.0 | 70.1 | 66.9 | 63.5 | 59.8 | 55.7 | 80.3 | 64.8 |
| NPV debt-to-GDP ratio | ... | 76.0 | 80.5 | 77.2 | 71.2 | 68.1 | 64.7 | 61.0 | 57.1 | 52.8 | 48.3 | 76.3 | 58.7 |
| NPV debt-to-exports ratios 2/ | ... | 152.6 | 177.1 | 174.7 | 159.9 | 154.1 | 146.5 | 138.0 | 128.5 | 117.8 | 106.6 | 170.6 | 131.9 |
| NPV debt-to-exports ratios 3/ | ... | 164.3 | 156.3 | 164.2 | 163.2 | 159.5 | 152.0 | 144.4 | 135.2 | 124.6 | 112.9 | 161.3 | 138.1 |
| NPV debt-to-government revenue ratio 4/ | ... | 158.9 | 180.2 | 172.2 | 158.3 | 155.3 | 149.9 | 135.5 | 126.8 | 117.4 | 107.2 | 170.2 | 132.0 |
| Debt-service-to exports ratio 2/ | ... | 12.7 | 14.1 | 13.0 | 11.9 | 19.0 | 19.2 | 18.2 | 18.5 | 18.6 | 17.9 | 13.0 | 18.6 |
| Debt service-government revenue ratio 4/ | ... | 13.2 | 14.3 | 12.8 | 11.8 | 19.2 | 19.6 | 17.9 | 18.3 | 18.5 | 18.1 | 13.0 | 18.6 |
| Alternative scenario I (oil export price higher by 5 US$/bbl) | | | | | | | | | | | | | |
| Oil export prices in US$/bbl | 28.5 | 25.5 | 27.5 | 25.0 | 24.8 | 24.5 | 24.5 | 25.0 | 25.0 | 25.0 | 25.0 | 25.8 | 24.8 |
| Public debt-to-GDP ratio | ... | 81.0 | 83.9 | 80.6 | 74.3 | 71.0 | 67.2 | 62.0 | 57.4 | 51.8 | 45.6 | 79.6 | 59.2 |
| NPV debt-to-GDP ratio | ... | 75.9 | 80.3 | 76.7 | 70.1 | 66.2 | 61.9 | 56.2 | 51.1 | 45.0 | 38.4 | 75.7 | 53.2 |
| NPV debt-to-exports ratios 2/ | ... | 152.6 | 148.4 | 143.8 | 130.7 | 124.6 | 116.8 | 106.1 | 96.0 | 83.8 | 70.8 | 141.0 | 99.7 |
| NPV debt-to-exports ratios 3/ | ... | 164.7 | 148.1 | 144.9 | 133.9 | 128.8 | 120.9 | 110.9 | 101.1 | 88.6 | 75.0 | 142.3 | 104.2 |
| NPV debt-to-government revenue ratio 4/ | ... | 158.9 | 180.0 | 171.2 | 156.0 | 151.2 | 143.5 | 124.9 | 113.6 | 100.1 | 85.4 | 169.1 | 119.8 |
| Debt-service-to exports ratio 2/ | ... | 12.7 | 11.8 | 10.7 | 9.7 | 15.3 | 15.0 | 13.6 | 12.7 | 12.0 | 10.3 | 10.7 | 13.1 |
| Debt service-government revenue ratio 4/ | ... | 13.2 | 14.3 | 12.7 | 11.5 | 18.5 | 18.4 | 16.0 | 15.1 | 14.3 | 12.4 | 12.9 | 15.8 |
| Alternative scenario II (oil export price lower by 5 US$/bbl) | | | | | | | | | | | | | |
| Oil export prices in USS/bbl | 28.5 | 25.5 | 17.5 | 15.0 | 14.8 | 14.5 | 14.5 | 15.0 | 15.0 | 15.0 | 15.0 | 15.8 | 14.8 |
| Public debt-to-GDP ratio | ... | 81.0 | 84.1 | 81.5 | 76.4 | 74.6 | 72.8 | 71.7 | 71.1 | 69.7 | 68.0 | 80.7 | 71.3 |
| NPV debt-to-GDP ratio | ... | 75.9 | 80.5 | 77.6 | 72.1 | 69.8 | 67.4 | 65.7 | 64.5 | 62.5 | 60.2 | 76.7 | 65.0 |
| NPV debt-to-exports ratios 2/ | ... | 152.6 | 219.4 | 221.7 | 204.4 | 198.8 | 191.1 | 186.3 | 182.1 | 174.8 | 166.7 | 215.2 | 183.3 |
| NPV debt-to-exports ratios 3/ | ... | 164.7 | 166.4 | 189.2 | 207.4 | 206.2 | 199.1 | 195.2 | 191.6 | 184.8 | 176.5 | 187.6 | 192.2 |
| NPV debt-to-government revenue ratio 4/ | ... | 158.9 | 180.5 | 173.2 | 160.5 | 159.3 | 156.3 | 145.9 | 143.3 | 138.9 | 133.7 | 171.4 | 146.3 |
| Debt-service-to exports ratio 2/ | ... | 12.7 | 17.4 | 16.5 | 15.4 | 24.7 | 25.5 | 25.2 | 27.4 | 29.7 | 31.1 | 16.4 | 27.3 |
| Debt service-government revenue ratio 4/ | ... | 13.2 | 14.3 | 12.9 | 12.1 | 19.8 | 20.8 | 19.7 | 21.5 | 23.6 | 25.0 | 13.1 | 21.8 |

Sources: Nigerian authorities; and staff estimates and projections.

1/ Assumes a Paris Club flow rescheduling with 50 % NPV reduction on maturities falling due in 2002-04 and a restructuring of commercial debt as described in footnote 4 of Table 3.
2/ In percent of current-year exports of goods and nonfactor services.
3/ In percent of a three-year average of exports of goods and nonfactors services.
4/ Consolidated government revenues, excluding grants.

## Nigeria: Fund Technical Assistance Since 1999 and Technical Cooperation Action Plan (TCAP)

The Government of Nigeria formally approached the IMF in October 1998 with a request to help formulate a technical cooperation program, in collaboration with the United Nations Development Programme (UNDP), which could provide technical assistance and training needs in priority macroeconomic management, fiscal, monetary, statistical, and policy coordination areas. Responding to this request, a three and a half year technical assistance program was prepared during 1999 and signed in 2000. The program aims at strengthening the capacity of the Government to formulate and implement appropriate macroeconomic policies in the fiscal and monetary areas, and to manage public finances more effectively, and provides technical advisory, training, and supporting services.

The initial phase program budget ending in 2001 provides for a total UNDP funding of US$680,000, including a cost-sharing contribution from Japan of US$500,000. The financing requirements for the remaining program period is estimated at US$2.5 million. In addition, the IMF's parallel financing of TA during the entire program period is expected to total US$2 million.

In the **public expenditure management** area, several Fund TA missions since April 1999 have assisted the authorities in establishing a basis for reforming budget management and treasury operations. A budget advisor has completed an initial short-term assignment (January—March 2001) reviewing the Federal Ministry of Finance's (FMOF) capacity for **budget preparation and implementation**. Following this assistance, the authorities will be setting up an appropriately staffed Budget Office in FMOF responsible for overseeing all aspects of budget preparation and implementation. A study tour on budget processes for members of the National Assembly and training in budget preparation for FMOF staff have been provided. Under the UNDP/IMF program, resources will continue to be made available to support this effort through advice and guidance from the budget advisor.

In the area of **treasury operations**, a treasury advisor has completed an initial short-term assignment (December 2000—February 2001), and a mission in February 2001 advised on short-term priority measures to improve **cash and payroll management**, and to **automate the Accountant General's Office** (AGO). It is expected that the treasury advisor will continue to provide guidance to the process of implementation of these reform measures in coordination with the World Bank Economic Management Capacity Building Project (EMCAP), whose resources will be needed for the automation of the AGO.

The UNDP/IMF program has been providing initial technical support for establishment of a **Budget Monitoring and Price Intelligence Unit** (BMPI) in the Office of the President to assist in ensuring that costs of major budget items are accurate and that contracts are awarded only after due processes have been followed. A short-term mission (January—February 2001) examined options for improving the **intergovernmental fiscal system** in Nigeria, and training opportunities in fiscal decentralization have been provided.

In the area of **foreign exchange management**, assistance has been provided through short-term experts. Forthcoming assessment missions on the financial sector and on the foreign exchange market system is expected to help identify future TA needs. Training for staff of the Central Bank of Nigeria (CBN) in program monitoring has been provided, and it is expected that additional training will be offered in financial programming.

Following a Fund multisector **statistics** mission (September 1999), short-term TA has been provided in balance of payments, monetary, and government finance statistics. Some progress has been made with regard to the latter. It is expected that a Fund mission will advise on the development of data on state and local government finances, and that provisions under the UNDP/IMF program for TA in trade and balance of payments statistics will be utilized. In addition, the UK/DFID is providing TA to the Federal Office of Statistics (FOS) in national accounts.

Following a review of the TCAP in March 2001, a local government/donor steering group for TA in economic and financial management has been established. The group is chaired by FMOF and has been given the responsibility to develop TA workplans and for coordinating overall TA delivery.

## Nigeria: Tentative Work Program, June 2001-April 2002

| | | | |
|---|---|---|---|
| 1. | Stand-By Arrangement and Executive Board meetings | | |
| | a. | Executive Board discussion of 2001 Article IV consultation | June 2001 |
| | b. | Possible discussion on first review and extension of the SBA | July 2001 |
| | c. | Posible Executive Board discussion of first review and extension of SBA | September 2001 |
| | d. | Possible staff visit for second review of the (extended) SBA and initiation of discussions on successor arrangement | October 2001 |
| | e. | Possible Executive Board discussion of second review of SBA | December 2001 |
| | f. | Possible mission for third review of the (extended) SBA and discussions on successor arrangement | February 2002 |
| | g. | Possible Executive Board discussion of use of Fund resources under successor arrangement | April 2002 |
| 2. | Technical Assistance | | |
| | a. | MAE foreign exchange management | July 2001 |
| | b. | FSAP | To be decided |
| | c. | FAD peripatetic treasury advisor | April-June 2001<br>August-October 2001 |
| | d. | FAD Office of Budget Management | June 2001 |
| | e. | TGSD macroeconomic data management system | July 2001 |
| 3. | World Bank (selected) | | |
| | a. | Board Discussion of Interim Strategy Update and Privatization Support Credit | June 2001 |
| | c. | Supervision missions for the Economic Management and Capacity Building (EMCAP) project | September 2001–February 2002 |
| | d. | Public expenditure review (PER) | June 2001-02 |
| | e. | Reports on governance and capacity-building for states | June 2001-02 |
| | f. | Electric Power Transmission Project | Fiscal 2002 |

**Statement by the IMF Staff Representative**
**June 29, 2001**

1. This statement provides information on economic developments that became available after the staff report (SM/01/171) was circulated to the Executive Board.

2. **Data for April indicate that the 12-month inflation rate rose from 18.2 percent in March 2001 to 23.2 percent in April.** The non-food inflation rate declined from 21.4 percent in March to 17.4 percent in April. The objective of attaining single-digit inflation by year-end therefore looks increasingly difficult. In the exchange markets, the naira has appreciated by about 2.5 percent in the official interbank and parallel markets since the bout of intensified pressures in April. The two rates currently stand at ₦112.2 and ₦134, respectively per U.S. dollar, a differential of about 19.5 percent. In mid-June, the Central Bank of Nigeria issued a circular requiring banks to use the rate on all their transactions that does not diverge from the official (CBN) rate by more than 0.5 percent. The Financial Action Task Force has recently added Nigeria to the list of countries that do not cooperate with international anti-money laundering efforts.

3. **Preliminary fiscal data indicate that warrant releases for capital expenditures for the first half of the financial year (January-June 2001) was limited to ₦170 billion while cash spending from these releases was ₦100 billion through May.** Total cash spending (including appropriations from the previous year) during January-May was ₦143 billion. Personnel costs for the first five months was ₦123 billion compared with the target of ₦121 billion. Discrepancies between provisional fiscal and monetary data preclude a definitive assessment at this stage as to whether overall federal spending is in line with the targets agreed with the staff.

4. **The government is implementing the due process tests with increasing effectiveness.** This has helped restrain capital spending and provide assurances about its quality. With the help of the World Bank, the necessary technical assistance to complete the due process tests for the 2001 capital budget is now in place. Moreover, strengthened procurement regulations have now become effective and circulated to all ministries and agencies.

5. In response to demands for additional spending, the federal government has submitted a supplementary budget amounting to ₦137 billion of which ₦21.5 billion has been earmarked for recurrent expenditures and ₦115 billion for capital expenditures. The government has stated that the latter will be subject to the due process tests. **Further, notwithstanding the supplementary budget, it has reiterated its commitment to contain overall federal government spending for 2001 within the limits agreed earlier with the staff, namely, ₦718 billion and ₦250 billion for overall and capital spending, respectively**.

6. Data through **May indicate that foreign exchange reserves amounted to US$10.4 billion, exceeding the programmed floor by about US$0.4 billion**, reflecting larger petroleum revenues. The CBN absorbed ₦12 billion of liquidity in May compared with a target of ₦40 billion. Nevertheless, net domestic assets performed better than expected, allowing reserve

money to grow broadly in line with the target. Average interbank interest rates have declined from about 30-35 percent in May to about 25 percent in late June.

7. The value-for-money audits of certain federal government expenditures in the third and fourth quarters of 2000 have been completed. These audits and the procedures for checking compliance with the due process tests are likely to be published in the next few weeks. The audit of the civil service wage bill has been done for about 80 percent of the total payroll, with the military, universities, and the judiciary to be completed in the next two months.

8. **Recognizing the severity of the macroeconomic imbalances and the additional risks to the outlook for the rest of the year, the government has undertaken to secure understandings with the state and local governments so that they could contribute to macroeconomic stability.** The federal government would urge the sub-federal governments to restrain expenditure and establish due process tests along the lines of those used for evaluating federal government capital expenditure. The federal government will also seek to strengthen existing legislation that would establish accountability of, and financial reporting requirements for, the federal, state and local governments.

9. **The CBN's recent circular has eliminated the multiple currency practice but in a manner that moves away from the development of a market-based system of exchange rate determination**. The CBN is currently finalizing a study on the parallel exchange market, following which it will discuss with the staff the modalities for achieving unification of the exchange markets.

10. In the staff report (SM/01/171), it was noted that the staff would recommend that the Board consider, in early August 2001, the authorities' request for completion of the first review and an extension of the current arrangement by six months, provided certain prior actions were completed and satisfactory understandings were reached on an economic program for the second half of the year. Conditional on Board endorsement of the staff's proposed strategy, the staff would, at the end of July, seek a technical extension of the current arrangement until end-October, provided there were clear indications that the prior actions would be met. **The staff would seek to complete the discussions in August with a view to possible Board consideration in October.** This schedule would also allow the second stage of the safeguard assessment to be completed prior to the Board meeting.

11. **While the developments reported above do not alter the staff appraisal, the staff would highlight the significant risks to the economic outlook in the months ahead and hence to the prospects for bringing the economic program back on course unless resolute action is taken.** With the WEO oil price having been revised upwards from US$25.5 per barrel to US$26.8 per barrel, macroeconomic pressures could be further exacerbated if the higher oil revenues lead to increased spending by state and local governments. This development only heightens the need for them to contribute to restoring macroeconomic stability. In this regard, and as noted in the staff appraisal, a pact between them and the federal government would be critical.

INTERNATIONAL MONETARY FUND
*Public Information Notice*
EXTERNAL RELATIONS DEPARTMENT

Public Information Notice (PIN) No. 01/82
FOR IMMEDIATE RELEASE
August 6, 2001

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

# IMF Concludes 2001 Article IV Consultation with Nigeria

On June 29, 2001, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation with Nigeria.[1]

## Background

Nigeria experienced a rebound in economic activity in 2000, spurred by increased public spending of the windfall gains stemming from higher oil prices and by a buoyant oil sector. Real GDP is estimated to have grown by 3.8 percent in 2000. Notwithstanding a sharp pick-up in activity in the non-oil sector, overall growth is projected to slow to 3.0 percent in 2001 owing in part to a reduction in Nigeria's OPEC oil production quota by more than 9 percent during the first quarter of 2001. At the same time, increased public spending has stoked inflationary pressures. Inflation, measured by the 12-month increase in the consumer price index, rose to 18 percent in March 2001 from 0.2 percent in December 1999.

The inflationary impact of the expansionary fiscal policy led the official exchange rate of the Naira to appreciate in real effective terms by close to 13 percent in 2000. However, at the same time the premium in the parallel exchange market rose significantly. Aided by the increase in the price of oil by about 71 percent, the current account moved to a surplus of 5 percent of GDP in 2000 from a deficit of about 10 percent of GDP in 1999. As a result, gross international reserves increased to US$9.4 billion from US$5.4 billion over the same period.

---

[1] Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board. At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities. This PIN summarizes the views of the Executive Board as expressed during the June 29, 2001 Executive Board discussion based on the staff report.

Fiscal policy, and management of the windfall gains from the substantial oil price increases in particular, is playing a key role in economic developments in 2000 and 2001. These gains—defined as oil revenue in excess of US$20 per barrel (so-called "excess proceeds")—amounted to US$4 billion (10 percent of GDP) in 2000 and are projected at US$3.7 billion (9.6 percent of GDP) in 2001. On account of the constitution adopted in 1999, that gives state and local governments full and automatic right to their shares of oil revenues, almost one half of the excess proceeds which accrued in 2000 was distributed to sub-federal governments in the second half of 2000, and the remainder in the first quarter of 2001.

Against the backdrop of the windfall gains, the 2000 budget envisaged a sharp increase in consolidated government spending to over 43 percent in 2000 from 38 percent of GDP in 1999. The sub-federal levels increased their expenditures by about 6.6 percentage points of GDP, while Federal government expenditures declined by about 1.3 percentage points. This outcome reflected a combination of the elimination of extra-budgetary outlays (3 percent of GDP in 1999) and a sharp increase in personnel costs of 2.4 percent of GDP, following a substantial increase in public service wages in May 2000. Actual spending levels in 2000 were about 6.5 percentage points of GDP greater than they would have been had the government saved all of the windfall gains.

The budget for 2001 envisages a further increase in consolidated government spending, which should rise to about 53 percent of GDP. Federal government capital expenditure accounts for about 40 percent of this increase and spending by sub-federal levels for the rest. In response to concerns that the size of the budget might threaten macroeconomic stability and also compromise the quality of spending, the authorities have decided to limit federal expenditure, thereby bringing projected consolidated government expenditure in 2001 to about 50 percent of GDP. Compliance with due process requirements, which is considered necessary to safeguard the quality of spending, is likely to result in lower levels of capital expenditure than budgeted. Had the government saved all the excess proceeds in 2001 and not distributed the carryover of excess proceeds from 2000, consolidated government spending would have been about 10 percentage points of GDP lower than currently envisaged.

Monetary policy has not offset the liquidity injected by the fiscal stance. On the contrary, the minimum rediscount rate (MRR) was reduced in three steps to 14 percent in December 2000 from 18 percent in December 1999 and the cash reserve requirement was reduced in two steps to 10 percent from 12 percent during the same period. This, in conjunction with the unsterilized increase in foreign reserves by US$ 4 billion—the amount of excess oil proceeds in 2000—resulted in reserve money growth of 40 percent.

Since early 2001, the CBN has tightened its monetary policy stance. The MRR was raised in three steps by 2.5 percentage points to 16.5 percent (accompanied by increases in interest rates on treasury bills and CBN certificates), the cash reserve requirement was raised by 2.5 percentage points to 21.5 percent, and the liquid asset ratio increased to 40 percent from 35 percent. As a result of these measures, market interest rates rose to between 30 and 40 percent in late April and May from about 17-20 percent in early 2001.

In response to the pressures in the exchange market stemming from expansionary fiscal policy, the CBN reverted to the pre-reform (i.e. pre-October 1999) system of selling foreign exchange in the Inter-bank Foreign Exchange Market (IFEM) at a fixed rate, except for step adjustments in mid-December 2000 and early-April 2001 that devalued the Naira by 10 percent. Consequently, the differential widened between the IFEM rate and the open inter-bank market—where banks trade among themselves at freely negotiated exchange rates—and with the parallel rate, and at the time of intensified pressures in April 2001 had reached 15 percent and 20 percent, respectively. In the parallel market, the Naira lost about 30 percent of its value between December 1999 and May 2001. As very large amounts of foreign exchange were sold to deal with these pressures, foreign reserves have increased only modestly during the first five months of 2001, notwithstanding continued high foreign exchange inflows from oil.

On structural reforms, the government successfully sold four Global System for Mobile Communications (GSM) licenses and has brought to the point of sale NITEL/M-Tel and several other public enterprises. However, progress on implementing the appropriate regulatory frameworks for telecommunications and power has been slower than originally envisaged. The Anti-Corruption Commission was inaugurated in September and investigations are now under way on some 20 cases. The Auditor General's report on the 1999 accounts was submitted to the National Assembly in February 2001 while the federal civil service audit was completed in December 2000.

Macroeconomic developments and policies in 2000 and early 2001 were at variance with the program in support of which the Stand-By Arrangement had been approved. In particular, inflation and federal government spending exceeded the program targets by a substantial margin and the CBN's liquidity absorption operations were more limited than expected. While the end-2000 target on net international reserves was met, the CBN's foreign exchange management included some administrative measures that gave rise to a multiple currency practice. In addition, structural reforms fell behind schedule. As a result, the first review under the Stand-By Arrangement could not be completed.

**Executive Board Assessment**

Executive Directors observed that major macroeconomic imbalances had emerged as a result of the sharp increase in government spending—particularly that of state and local governments—and expressed concern at the risks of a further acceleration of inflation and continuing instability in the exchange market. They regretted that the program implementation had been inadequate during the second half of 2000 and that the Stand-by Arrangement review would not be completed on time, and attached great importance to getting the program back on track as soon as possible. Directors understood the desire of the democratic government to deliver positive results quickly, but cautioned that for most Nigerians, especially the poor, the erosion of living standards from higher inflation could outweigh any gains from increased public spending. Directors stressed the urgent need for strong action by the government to restore macroeconomic stability by containing government spending, and to ensure its quality through implementation of the due process tests.

Directors recognized that the problems that the present government inherited from previous military governments were far greater than anticipated, and made it difficult to achieve rapid progress in economic reforms. They also agreed that effective policy making, especially under a democracy, required institution and consensus building which would take time and involve a process of learning by doing. Directors saw a role for donors and Nigeria's development partners to provide technical assistance in these areas.

Directors stressed that prudent fiscal policy would be critical to assure macroeconomic stability and the sustainability of the fiscal position over the medium term. Most important in this regard was to save the excess oil proceeds. Directors regretted that the objective of saving these excess oil proceeds in 2000 was not realized, and welcomed the intention of the federal government not to spend its share of excess oil proceeds in 2001. They also expressed concern at the failure of the federal government to control the wage bill in 2000, which was largely responsible for the major overruns in spending, and they welcomed the recent progress in reducing the wage bill. They recommended that the authorities work closely with the staff in formulating the 2002 budget, and endorsed the staff's efforts to maintain a dialogue with the National Assembly and officials at the national and sub-national level.

Directors underlined the risks to the economic outlook from rising oil prices. They stressed that it is imperative that state and local governments, in addition to the federal government, contribute to the re-establishment of macroeconomic stability. They endorsed strongly the federal government's intention to reach an understanding with the sub-federal levels to save their share of excess oil proceeds and restrain spending, and to institute due process tests to ensure the quality of public spending. Efforts to strengthen legislation on the accountability of sub-federal levels would also be very helpful. Directors underlined the importance of providing for adequate spending on the priority areas of health and education.

Directors stressed the urgent need to fight inflation through monetary restraint. While recognizing that expansionary fiscal policy had burdened monetary policy, they considered that the shift toward monetary tightening had come too late and was too gradual, so that the resulting large expansion in monetary aggregates had accommodated the upsurge in inflation. They welcomed the recent tightening, but noted with concern that interest rates in the interbank market are now barely positive in real terms. Most Directors thus considered it necessary to maintain tighter monetary conditions for some time, to help re-establish macroeconomic stability while at the same time instituting appropriate measures to safeguard the stability of the banking system.

On exchange rate policy, Directors expressed concern at some recent measures—reverting to selling foreign exchange at a price set by the CBN, eliminating transferability between the official and open interbank markets, and limiting the freedom of banks in setting the price of foreign exchange in the open interbank market—that would impede the development of a market-based exchange system. They underscored the need for exchange rates to reflect market forces, and urged the CBN to reverse these measures, and to move quickly to unify the exchange markets.

Directors strongly recommended that the authorities build on the recent progress on structural reforms. The privatization process had received an impetus with the successful sale of the GSM licenses. They encouraged the authorities to accelerate the preparation of the regulatory frameworks in key infrastructure sectors and welcomed the Privatization Support Credit that had recently been approved by the World Bank. They supported the consultative process initiated by the government aimed at deregulating the petroleum sector. Directors were encouraged by the increasingly effective implementation of the due process tests that had contributed to restraint on capital expenditures. They hoped that this, in conjunction with the near-completion of the value-for-money and civil service audits and the commencement of operations of the Anti-Corruption Commission, would contribute to improved transparency and accountability in the use of public funds.

While encouraged by the government's commitment to fight corruption, Directors observed that, given the deep-rooted problems and firmly entrenched perceptions in this area, the government's anti-corruption measures will need to be particularly strong. They urged appropriate follow-up action on the cases being pursued by the Anti-Corruption Commission. Fostering transparency would assist in improving governance, and Directors encouraged the commission to report regularly on its activities. They noted that the Financial Action Task Force had recently added Nigeria to its list of non-cooperative countries in fighting money laundering, and called on the authorities to improve their anti-money laundering efforts, especially in the context of an FSAP. Directors recommended the speedy publication of the value-for-money and civil service audits and attached great importance to the Attorney General's undertaking to follow up on the results of these audits and to initiate actions where there was evidence of wrongdoing.

Directors underscored the critical importance of capacity building for the successful implementation of the government's economic reforms. They stressed that proper formulation, implementation, and monitoring of economic reforms will require urgent capacity-building efforts for budget formulation and monitoring, as well as substantial improvement of the quality of all key economic statistics in Nigeria. They encouraged the authorities to make greater use of technical assistance, and donors to enhance and coordinate their offers of such assistance.

Directors noted the staff's intention to recommend the completion of the first review and an extension of the current Stand-By Arrangement, provided that certain prior acts are met and a satisfactory program for the second half of 2001 is presented. They thought that successful completion of the current arrangement and adoption of policies that could be supported by the Fund under a successor arrangement, would enhance the prospects for further assistance by the international community to reduce the burden of Nigeria's existing debt to a sustainable level. Directors considered it likely that, over the medium term, Nigeria will need concessional assistance from the international community in order to underpin its own efforts to attain the objectives of higher growth and poverty reduction. It will be equally important to attract private capital. To this end, some Directors noted that maintaining good relations with external creditors, including continued timely payments, is crucial.

In conclusion, Directors commended the government's efforts to lay the foundations for sound policy making, and were encouraged by the easing of ethnic and religious tensions as well as those between the National Assembly and the executive. However, the depth and complexity of Nigeria's economic problems means that the process of transforming the economy will take time, and Directors therefore cautioned against unrealistic expectations. The serious current macroeconomic imbalances make it urgent for the authorities to intensify their efforts to restore macroeconomic stability in the near future and to implement market-based reforms that lay the foundations for growth and poverty reduction in the medium term. Directors called on Nigeria to show continued commitment to pursuit of a strong economic program that could be supported by the Fund.

***Public Information Notices (PINs)*** are issued, (i) at the request of a member country, following the conclusion of the Article IV consultation for countries seeking to make known the views of the IMF to the public. This action is intended to strengthen IMF surveillance over the economic policies of member countries by increasing the transparency of the IMF's assessment of these policies; and (ii) following policy discussions in the Executive Board at the decision of the Board. The Staff Report for the 2001 Article IV Consultation with Nigeria is also available.

Nigeria: Selected Economic Indicators

| | 1997 | 1998 | 1999 | 2000 Est. 1/ | 2001 Proj. 2/ |
|---|---|---|---|---|---|
| Real Economy | | | | | |
| Real GDP (change in percent) | 2.7 | 1.8 | 1.0 | 3.8 | 3.0 |
| Non-oil real GDP (change in percent) | 3.4 | 3.8 | 3.5 | 2.2 | 6.2 |
| GDP per capita (in U.S. dollars) | 304 | 271 | 278 | 319 | 294 |
| Production of crude oil (million barrels per day) | 2.27 | 2.23 | 2.11 | 2.26 | 2.16 |
| Consumer price index (change in percent, end of period) | 10.2 | 11.9 | 0.2 | 14.5 | 9.0 |
| Gross domestic investment (percent of GDP) | 20.1 | 24.1 | 23.4 | 22.7 | 26.8 |
| Gross national savings (percent of GDP) | 26.8 | 14.4 | 13.5 | 27.6 | 24.5 |
| Consolidated government operations (in percent of GDP) | | | | | |
| Total revenues and grants | 20.8 | 29.9 | 30.7 | 46.1 | 47.8 |
| Of which: petroleum revenue | 11.5 | 23.4 | 22.5 | 37.9 | 38.0 |
| Total expenditure and net lending | 19.5 | 43.8 | 38.0 | 43.9 | 49.7 |
| Overall balance (commitment basis) | 1.2 | -14.0 | -7.4 | 2.2 | -1.9 |
| Domestic primary balance | 3.8 | -5.9 | 0.8 | 9.7 | 5.7 |
| Gross domestic debt | 12.1 | 14.0 | 28.1 | 28.0 | 21.5 |
| Money and Credit | | | | | |
| Net domestic assets 3/ | -1.3 | 20.0 | 39.5 | -41.7 | 11.7 |
| Net credit to consolidated government 3/ | -22.9 | 17.7 | 43.1 | -35.4 | 2.1 |
| Credit to the rest of the economy 3/ | 22.0 | 11.0 | 22.3 | 19.3 | 10.3 |
| Broad money (change in percent) | 19.7 | 38.5 | 35.0 | 45.3 | 14.4 |
| Discount rate (percent; end of period) | 13.5 | 13.5 | 18.0 | 14.0 | ... |
| External Sector | | | | | |
| Current account (in percent of GDP) | 6.7 | -9.7 | -9.9 | 4.9 | -1.2 |
| Export of crude oil (million barrels per day) | 2.00 | 1.96 | 1.84 | 1.95 | 1.79 |
| Price of Nigerian oil (U.S. dollars per barrel) | 19.8 | 12.9 | 17.0 | 28.0 | 25.5 |
| Gross international reserves (in millions of U.S. dollars) | 7,222 | 7,107 | 5,441 | 9,400 | 9,879 |
| (in months of imports of goods and services) | 6.6 | 6.8 | 4.5 | 6.7 | 6.2 |
| External debt service paid (in percent of exports) | 11.8 | 12.3 | 14.9 | 8.1 | 12.7 |
| Real effective exchange rate (change in percent) 4/ | | | | | |
| Fund Position (as at May 31, 2001) | | | | | |
| Quota (in millions of SDRs) | | | | | 1,753.2 |
| Outstanding purchases and loans (in millions of SDRs) | | | | | 0.0 |

| | |
|---|---|
| Exchange Rate (as at May 31, 2001) | |
| Exchange rate regime | Managed float with no preannounced target |
| IFEM-rate (official interbank market, naira per U.S. dollar) | 113.2 |
| NIFEX-rate (open interbank market, naira per U.S. dollar) | 113.5 |
| Parallel market rate (naira per U.S. dollar) | 135.5 |

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

1/ Staff estimates.

2/ Staff projections.

3/ Increase as a percent of broad money at the beginning of the period.

4/ End of period, '-' indicates depreciation.