INTERNATIONAL MONETARY FUND

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NIGERIA

April 2017

2017 ARTICLE IV CONSULTATION—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR NIGERIA

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of the 2017 Article IV consultation with Nigeria, the following documents have been released and are included in this package:

- A **Press Release** summarizing the views of the Executive Board as expressed during its March 29, 2017 consideration of the staff report that concluded the Article IV consultation with Nigeria.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on March 29, 2017, following discussions that ended on February 2, 2017, with the officials of Nigeria on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on March 14, 2017.
- An **Informational Annex** prepared by the IMF staff.
- A **Staff Supplement** updating information on recent developments.
- A **Statement by the Executive Director** for Nigeria.

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

Selected Issues

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

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INTERNATIONAL MONETARY FUND

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March 30, 2017

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IMF Executive Board Concludes 2017 Article IV Consultation with Nigeria

On March 29, 2017, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation[1] with Nigeria.

With oil receipts dominating fiscal revenue and exports, the Nigerian economy has been hit hard by low oil prices and falling oil production. The country entered into a recession in 2016, with growth contracting by 1.5 percent. Annual inflation levels doubled to 18.6 percent, reflecting hikes in electricity and fuel tariffs, a weaker naira and accommodating monetary conditions (broad money expanding at 19 percent y-o-y). Even with a significant under-execution in capital spending, the consolidated fiscal deficit increased from 3.5 percent of GDP in 2015 to 4.7 percent of GDP in 2016, because of significant revenue shortfalls. This resulted, over the same period, in a doubling of the Federal Government (FG) interest payments-to-revenue ratio to 66 percent. The external current account turned into a surplus in 2016, as import compression continues to offset falling exports. The foreign exchange regime was liberalized in June 2016, but FX restrictions remain in place and the market continues to be characterized by significant distortions that have contributed to a 50 percent parallel market premium, which was halved following recent increases in central bank interventions and the removal of prioritized allocation of foreign exchange.

Under unchanged policies, the outlook remains challenging. Growth would pick up only slightly to 0.8 percent in 2017, mostly reflecting some recovery in oil production and a continuing strong performance in agriculture. Policy uncertainty, crowding out, and FX market distortions would be expected to drag activity. Accommodative monetary policy would keep inflation in double digits. Financing constraints and banks' risk aversion would crowd out private sector credit and increase the Federal Government's already high debt service burden. A continued policy of prioritizing exchange rate stability would lead to an increasingly overvalued exchange rate, leading to a deterioration in the non-oil trade balance and gross reserves below adequate levels.

Recognizing the unsustainability of current policies, the authorities have adopted an Economic Recovery and Growth Plan (ERGP) to transform the economy into a more diversified and inclusive economy. Key priorities include ensuring food security through

[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.

agro-related manufacturing, promoting industrialization, and achieving sufficiency in energy—including the recently approved Power Sector Recovery Plan. The ERGP's inclusive growth focus is to be supported through macroeconomic stability, investing in social infrastructure, building a globally competitive economy, and improving governance.

Executive Board Assessment[2]

Executive Directors recognized that the Nigerian economy has been negatively impacted by low oil prices and production. Directors commended the efforts already made by the authorities to reduce vulnerabilities and enhance resilience, including by increasing fuel prices, raising the monetary policy rate, and allowing the exchange rate to depreciate. However, in light of the persisting internal and external challenges, they emphasized that stronger macroeconomic policies are urgently needed to rebuild confidence and foster an economic recovery.

Directors welcomed the authorities' Economic Recovery and Growth Plan (ERGP), which focuses on economic diversification driven by the private sector, and government initiatives to strengthen infrastructure—including the recently adopted power sector recovery plan. However, they underlined that without stronger policies these objectives may not be achieved.

Directors generally emphasized the need for a front-loaded, revenue-based fiscal consolidation starting in 2017, to reduce the federal government interest payments-to-revenue ratio to sustainable levels. They underscored that priority should be given to increasing non-oil revenue, including through raising VAT and excise rates, strengthening compliance, and closing loopholes and exemptions. Administering an independent fuel price-setting mechanism to eliminate fuel subsidies, strengthening public financial management, and developing a well-targeted social safety net would also support the adjustment. Directors stressed the need to contain the fiscal deficit of state and local governments, including through improved transparency and monitoring.

Directors underscored that external adjustment is necessary to protect foreign currency buffers and reduce vulnerabilities. They commended the recent easing of some exchange restrictions and urged the authorities to remove the remaining restrictions and multiple currency practices, thus unifying the foreign exchange market and helping regain investor confidence. Directors emphasized that these policies should be supported by tighter monetary policy and fiscal consolidation to anchor inflation expectations and to limit the risk of exchange rate overshooting, as well as structural reforms to improve competitiveness.

Directors welcomed the steps to strengthen banking sector resilience through stronger prudential requirements. With asset quality declining, they recommended further intensifying bank monitoring, enhancing contingency planning, and strengthening resolution frameworks. Directors encouraged quickly increasing the capital of undercapitalized banks and putting a

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

time limit on regulatory forbearance.

Directors emphasized that ambitious structural reforms are key to achieving a competitive, investment-driven economy that is less dependent on oil. Priority should be given to improving infrastructure, enhancing the business environment, improving access to financing for small enterprises, and strengthening governance and anti-corruption efforts. Timely and effective implementation of these measures would promote sustainable and inclusive growth. Directors welcomed progress in improving the quality and availability of economic statistics and encouraged further efforts to compile subnational fiscal accounts.

Nigeria: Selected Economic and Financial Indicators, 2015–2018

	2015	2016	2017	2018
		Prel.	Projections	
National income and prices	(Annual percentage change, unless otherwise specified)			
Real GDP (at 2010 Basic Prices)	2.7	-1.5	0.8	1.9
Oil and Gas GDP	-5.4	-13.6	7.8	10.0
Non-oil GDP	3.6	-0.3	0.2	1.1
Production of crude oil (million barrels per day)	2.1	1.9	2.0	2.2
Consumer price index (end of period)	9.6	18.6	17.5	16.5
Consolidated government operations[1]	(Percent of GDP)			
Total revenues and grants	7.6	5.3	5.7	5.9
Of which: oil and gas revenue	3.5	2.1	2.3	2.4
Total expenditure	11.1	10.0	10.7	10.2
Overall balance	-3.5	-4.7	-5.0	-4.2
Non-oil primary balance (percent of non-oil GDP)	-6.3	-5.8	-6.7	-5.7
Money and credit	(Change in percent of broad money at the beginning of the period, unless otherwise specified)			
Broad money (percentage change; end of period)	5.9	18.7	19.2	18.7
Net foreign assets	-6.8	13.7	-5.2	-0.5
Net domestic assets	12.7	4.9	24.4	19.2
External sector	(Annual percentage change, unless otherwise specified)			
Exports of goods and services	-42.0	-21.9	33.0	7.3
Imports of goods and services	-16.8	-34.4	17.5	5.7
Current account balance (percent of GDP)	-3.1	0.6	1.0	1.0
Terms of trade	-26.5	-6.1	10.7	-1.3
Price of Nigerian oil (US$ per barrel)	53.1	44.6	56.3	55.9
Gross international reserves (US$ billions)	28.3	27.0	27.1	26.7
(Equivalent months of next year's imports)	7.2	5.8	5.5	5.2

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

[1] Consists of federal, state, and local governments.

INTERNATIONAL MONETARY FUND

NIGERIA

STAFF REPORT FOR THE 2017 ARTICLE IV CONSULTATION

March 14, 2017

KEY ISSUES

Context. The slump in oil prices and production and an inadequate policy response are increasing unemployment and undermining efforts to reduce poverty. The authorities took some steps in 2016 to reduce vulnerabilities, mainly by deregulating fuel prices, increasing the monetary policy rate, and allowing currency depreciation to reduce the exchange rate misalignment. However, further actions are urgently needed to tackle the low revenue effort, large infrastructure deficit, rising debt service, double-digit inflation, and a foreign exchange market marred by restrictions. These actions need to be supported by continued efforts to counter militant activity in the Niger Delta and an insurgency-related humanitarian crisis in the North East.

The authorities' Economic Recovery and Growth Plan, published March 7, is a welcome step forward. It appropriately focuses on private sector led economic diversification, supported by government efforts to strengthen infrastructure and the business environment. But without stronger macroeconomic policies—notably higher non-oil tax collections (to create fiscal space) and a more transparent foreign exchange regime (to facilitate adjustment and promote diversification)—the plan will not meet the objectives of fostering higher growth and employment.

Outlook and Risks. Under the policies being implemented in early 2017, the outlook is challenging, with growth expected to remain flat and macroeconomic imbalances to persist. Downside risks include further delays in implementing reforms, an intensification of militancy activities, and worsening global risk aversion. If action is delayed further, risks of a disorderly exchange rate adjustment will increase.

Policy Recommendations. Policies to rebuild confidence in the near term and foster economic recovery over the medium term are urgently needed. These include:

- Promoting a sustainable and growth-friendly **fiscal policy** centered on non-oil revenue mobilization, prioritized capital spending, sound debt management, and a well-targeted social safety net;
- Tightening **monetary policy** to contain inflation and to protect reserves;
- Removing distortions in the **foreign exchange regime**;
- Enhancing **banking sector** resilience through tighter prudential requirements, intensified monitoring, strengthened regulations, and recapitalization of banks;
- Implementing **structural reforms** in the power and integrated transportation sectors, health and education, governance, and the business environment.

Approved By
David Owen and Andrea Richter Hume

Discussion took place in Lagos (January 18-20) and Abuja (January 21- February 1). The team comprised Mr. Leon (head), Mr. Mati (Senior Resident Representative), Mr. El Said, Ms. Ibrahim, and Mr. O'Sullivan (all AFR); Ms. Tamene (MCM); Mr. Tapsoba (FAD); Mr. Swiston (SPR); Ms. Chen (LEG). Ms. Mangga and Mr. Ogunleye (Economists, Resident Representative office) assisted the mission. Mr. Odonye (OED), Ms. Lee (World Bank), and Ms. Barungi (African Development Bank) participated in most policy discussions. The mission held valuable discussions with Acting President Osinbajo, Finance Minister Adeosun, Budget and Planning Minister Udoma, Central Bank of Nigeria (CBN) Governor Emefiele, and other senior government officials. The mission also held discussions with parliamentarians, and representatives of financial institutions, private sector, academia, and development partners. Ms. Ourigou provided excellent assistance for the preparation of this report.

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BACKGROUND: DEALING WITH LOWER OIL PRICES AND CONFLICTS

1. **The Nigerian economy has been severely affected by an accumulation of shocks that have complicated policy making in an environment of increasing vulnerabilities.** With oil receipts dominating fiscal revenue and exports, the economy has been hit hard by low oil prices, a significant fall in oil production owing to sabotage of infrastructure, and inadequate policy implementation. Investor confidence waned, as the slowdown in the economy that started in 2014 turned into a recession and macroeconomic conditions worsened—with inflation doubling, domestic arrears mounting, borrowing costs rising, distortions in the foreign exchange (FX) market dampening activity and investment, and banking sector risks growing. These increasing vulnerabilities compound an already challenging environment—a large infrastructure deficit, weak business environment, strictures of fiscal federalism arrangements, high unemployment and poverty rates, inequities across regional political zones, militant tensions in the Niger Delta, and an evolving insurgency-related humanitarian crisis in the North East.

2. **The authorities acknowledge that a coherent and credible package of policies is urgently needed.** Although some measures were initiated in 2016 to reduce macroeconomic vulnerabilities, more needs to be done, with most recommendations of the 2016 Article IV Consultation remaining relevant (Annex I). Recognizing the inadequacy of current policies, the authorities have drafted an Economic Recovery and Growth Plan (ERGP) to transform the economy into a more diversified and inclusive economy (Box 1).

3. **Perceptions of policy ineffectiveness and yet-to-be fulfilled election promises are stoking social tensions, which could complicate policy implementation**. Challenging economic conditions are diminishing support for an administration praised by many for its anti-corruption efforts, but accused of not having delivered on the economy, notably for the most vulnerable. Political uncertainty surrounding the President's health, inadequate coordination among economic policymakers and across tiers of government, more inward policies, and political maneuvering ahead of the 2019 elections could further delay urgent actions on necessary reforms.

MACRO-FINANCIAL DEVELOPMENTS, OUTLOOK, RISKS AND SPILLOVERS

4. **Nigeria's economy was in recession in 2016.**

- *Growth* collapsed to -1.5 percent in 2016 (from 2.7 percent in 2015), driven by a sharp slowdown in oil production, owing to sabotage by Niger Delta militants. Non-oil output contracted by 0.3 percent during the year, with agriculture continuing a strong performance, while manufacturing, construction, and trade slowed owing to fuel and power shortages during the first half of the year and scarce foreign exchange for most of 2016.

Box 1. Nigeria: The Economic Recovery and Growth Plan (ERGP), 2017-20

Following wide-ranging consultations with stakeholders, the authorities have developed an ERGP for 2017-2020. Aiming for structural transformation, the ERGP focuses on strengthening the public-private sector partnership and promoting inclusive, diversified, and sustainable growth, through:

- **Championing key priorities:** Potential value-added and job creation are expected from advocating: (i) food security through agriculture and agro-related manufacturing; (ii) sufficiency in energy through developing oil and gas and renewables; and (iii) promoting industrialization.
- **Maintaining macroeconomic stability.** This is envisaged through: (i) aligning monetary, fiscal and trade policies for effective coordination; (ii) accelerating non-oil revenue generation, rationalizing recurrent expenditure (under the ERGP, state and local government finances are not incorporated); (iii) promoting price stability, and continued implementation of a market-determined exchange rate regime (details on how it would be achieved are not specified); (iv) promoting expenditure switching policies to support local production; and (v) pursuing an enabling policy and regulatory environment for adequate private sector investment.

ERGP Selected Economic Indicators, 2017-20

	2017	2018	2019	2020
	(annual percentage growth, unless otherwise indicated)			
Growth	2.2	4.8	4.5	7.0
Oil Production (million barrels per day)	2.2	2.3	2.4	2.5
Inflation (annual average)	15.8	12.4	13.4	9.9
Fiscal Deficit (percent of GDP)	2.2	2.0	1.2	1.1
BOP Current Account (percent of GDP)	0.7	2.0	2.6	2.9
Gross Reserves (billions of US dollars)	30.6	43.5	60.1	79.6

Source: Ministry of Budget and National Planning

- **Investing in social infrastructure**, through implementation of conditional cash transfers for the most vulnerable; advancing school feeding and public work programs; and improving the quality of health care and access to education.
- **Building a globally competitive economy,** through (i) development of physical infrastructure, especially in power, integrated transport and IT networks, and (ii) an improved business environment.
- **Improving governance,** including through fighting corruption, reinforcing security, reforming the public service, and strengthening co-ordination at regional and local levels.

- *Annual inflation* rose to 18.6 percent, double that for 2015 and twice the upper limit of the CBN's medium-term inflation target (6-9 percent)—an increase reflecting hikes in electricity and fuel tariffs (by 45 and 68 percent, respectively), a weaker naira (a 55 percent depreciation in the interbank market, and 84 percent for those inputs priced at the parallel market), and accommodating monetary conditions.

- Even with a significant under-execution of capital expenditure in 2016,[1] *the fiscal deficit of the consolidated government widened* to 4.7 percent of GDP in 2016, up from 3.5 percent of GDP in 2015. Federal government (FG) recurrent spending (including debt service) was slightly higher

[1] Budgeted scaling up of capital spending did not materialize owing to financing constraints and project implementation delays. Out of the N1.8 trillion budgeted for capital expenditures, only N596 billion was spent.

than budgeted, and revenue underperformed at 50 percent of budget. This resulted in a doubling of the FG interest payments-to-revenue ratio to 66 percent at end-2016.

- *The budget was financed mostly from domestic sources.* Bank financing through December amounted to 1.7 percent of GDP—most of which was through the central bank. External borrowing was limited to project loans, with the first tranche ($600 million) of the AfDB's budget loan recorded in January 2017.

- *State and local government (SLG) finances* weakened. Total distributions from the federation to SLGs' account averaged N216 billion (0.2 percent of GDP), about 25 percent lower than projected for 2016, and with lower revenue, SLGs accumulated salary, pension, and contractor arrears, not all of which have been quantified. To help ease financing pressures, the federal government provided a 0.5 percent of GDP financial assistance plan for 2016–17, conditional on states providing a plan for implementing a 22-point Fiscal Sustainability Program (FSP) covering accountability and transparency, public financial management, and debt management.

- *Monetary policy was accommodative*. Despite an increase in the policy rate from 11 percent in December 2015 to 14 percent in July 2016, reserve money expanded by 33 percent (broad money by 19 percent) spurred in part by CBN financing (overdrafts and converted bonds) to the federal government. Lending to the private sector was largely crowded out by government borrowing, and remained essentially flat after allowing for the impact of the naira's depreciation on FX loans (45 percent of total loans).

- The *external current account* turned into a surplus, helping slow the decline in international reserves. Import compression more than offset falling exports and, with lower dividend repatriation, helped reverse the current account from a deficit of 3.1 percent of GDP in 2015 to a *surplus* of 0.6 percent of GDP in 2016. *Capital inflows* remained depressed, but picked up slightly in the second half of the year. *Gross reserves* fell from $28.3 billion at end-2015 to below $24 billion in September, before recovering to $28.6 billion at end-January 2017 (equivalent to about 120 percent of the IMF reserve adequacy metric). Excluding foreign exchange swaps outstanding and forward sales of foreign exchange, the underlying reserves position at end-January 2017 was $23.4 billion (97 percent of the metric).[2]

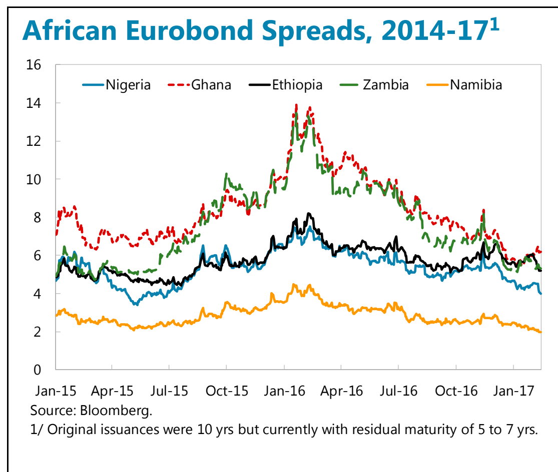
- In June, the CBN introduced a primary dealer system for the interbank *FX market* with the aim of allowing flexibility in the exchange rate and restoring market liquidity. FX restrictions remained in place, with the market characterized as having significant distortions. The interbank rate depreciated against the U.S. dollar in subsequent months, significantly narrowing the wedge with the parallel market rate, but remained relatively constant from September, despite CBN's limiting FX sales to about $7.5 million a week. With the FX market continuing to be tightly

[2] These figures include about $2.0 billion of foreign exchange deposits, previously held in domestic banks, that were reclassified in December as reserve assets, on transfer into the Treasury Single Account at the CBN.

regulated, the parallel-interbank exchange rate premium has averaged about 50 percent and unmet FX orders are estimated at about $4 billion (same level as last June).

- *Nigeria recently accessed international markets,* with the new $1 billion 15-year Eurobond issued in February 2017 almost 8 times oversubscribed at a favorable 7.875 percent and benefiting from declining spreads (lower risk aversion) for similarly rated countries. Following the success of this issue, the authorities plan another $500 million issuance in the next few weeks. On the other hand, borrowing rates in the domestic market have increased sharply.

African Eurobond Spreads, 2014-17[1]



Source: Bloomberg.
1/ Original issuances were 10 yrs but currently with residual maturity of 5 to 7 yrs.

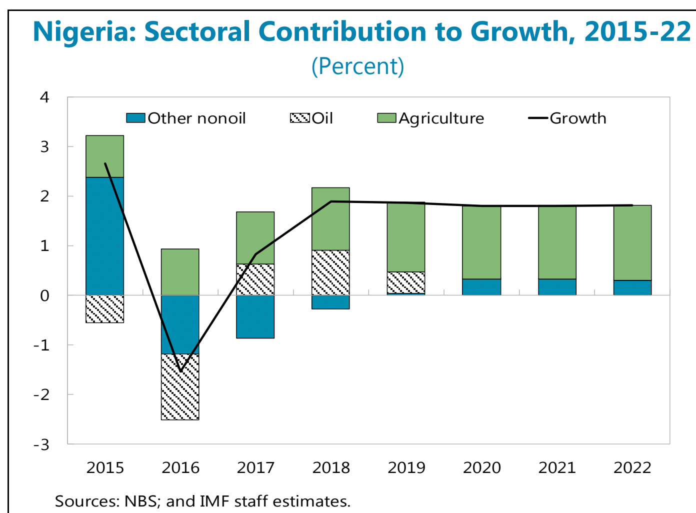
- *Banking system* vulnerabilities have increased. Asset quality deteriorated over the past year, with NPLs doubling to 13 percent by end-2016 (and could have been higher in the absence of loan restructuring). This has contributed to reducing capital adequacy ratios (CAR) from 17.7 percent in December 2015 to 14.8 percent in 2016. Various proactive measures were introduced to contain risks to financial stability, including increased provisioning, strict limits on net FX positions, prohibition of dividend payments (for banks with NPLs higher than 5 percent), and regulatory forbearance on provisioning and breaches of single obligor limits. As of December 2016, three banks (about 5 percent of assets)—including one internationally active one— were undercapitalized (with CARs below 8 percent). Some weak banks have been frequent users of the CBN's liquidity window.

5. Under unchanged policies assumed in staff's baseline scenario (Tables 1-4)**, the outlook remains challenging.** Growth would pick up only slightly to 0.8 percent in 2017, mostly reflecting recovering oil production[3], strong performance in agriculture, and favorable base effects. Policy uncertainty, crowding out, and FX market distortions would continue to drag on activity, with non-oil non-agricultural output staying relatively flat throughout the medium term. This would lead to worsening labor market and poverty outcomes. Accommodative monetary policy—assumed to continue to finance a widening fiscal deficit and support priority sectors—would keep inflation in double digits. Financing constraints and risk aversion by banks would crowd out private sector credit and increase the Federal Government's already high debt service burden (DSA analysis shows that debt remains sustainable, but vulnerable to shocks—see Annex III). A continued policy of prioritizing

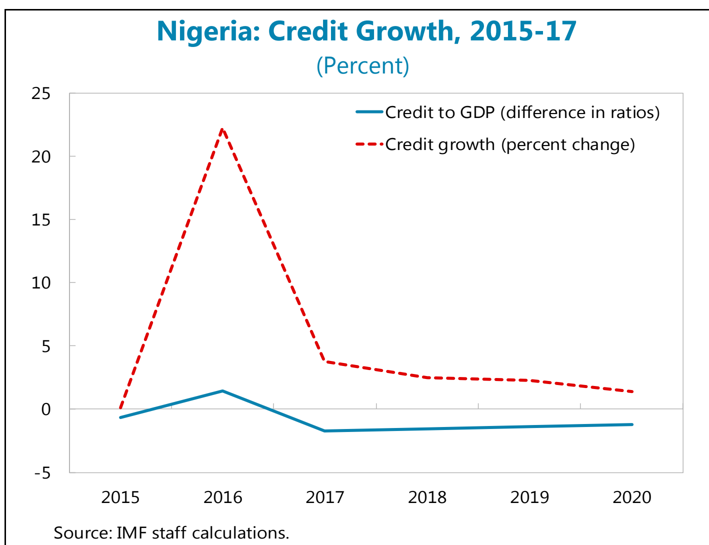
[3] In addition to recovery of production from fields impacted by sabotage, the latest agreement between International Oil Companies (IOCs) and the government on funding requirements (cash calls) is expected, at least, to maintain production from joint ventures constant. The agreement calls for: (i) using incremental new production volume to repay over the next five years $5.1 billion (discounted from previous estimate of $6.8 billion) of cash call arrears accumulated during 2010-15; (ii) paying cash calls outstanding for 2016; and (iii) establishing a new funding mechanism to replace cash calls, which have been inadequate and untimely—including making contributions after payment of royalties to a joint escrow account from which payments for 'cost recovery' are extracted before profit tax is shared with the government.

exchange rate stability would result in an increasingly overvalued exchange rate, eventually leading to a disorderly exchange rate depreciation to avoid reserves falling below acceptable levels.

6. Linkages between the real and financial sectors weigh on the outlook. The lack of foreign exchange in the economy and policy uncertainty would keep economic growth sluggish and weaken corporate performance, increasing the likelihood of non-performing loans (see SIP Chapters II and III). In turn, banks would seek to limit credit risk by tightening lending standards, reducing credit to the private sector, and continuing to invest in government securities. Adverse balance sheet effects (corporates represent 75 percent of banks' loan book, and 45 percent of bank loans are in FX), including from a significant exchange rate adjustment, would reduce banking sector resilience and increase the likelihood for capital augmentation, although limits on banks' net FX open position could help contain risks.



7. Under an alternative adjustment scenario, growth is projected to accelerate, inflation to decline to single digits, and reserves to increase (Box 2)**.** Over the medium term, non-oil growth would be expected to increase to 5 percent, reflecting improved infrastructure in power, transportation, and broadband, growth in agriculture and agro-related manufacturing, faster implementation of structural reforms, and a more competitive real effective exchange rate. The authorities' ERGP rightly argues for a comprehensive and coherent package of policies to support fiscal and external sustainability and renew confidence of private and foreign investors, thereby boosting growth and employment and reducing fiscal/external vulnerabilities. However, it is more optimistic on growth than staff's alternative adjustment scenario, does not explicitly call for tighter monetary and fiscal policy in the near term, and assumes no immediate change in exchange rate policy—all of which are essential to reduce vulnerabilities and increase investors' interest.



Box 2. Nigeria: A Growth Generating Adjustment Scenario

The adjustment scenario is predicated on upfront implementation of a coherent, coordinated, and comprehensive package of policies that improves confidence and provides the basis for a private sector supply response:

Fiscal policy will be tightened through a 1.6 percent of GDP improvement (by 2020) in the non-oil primary balance; with the adjustment front-loaded to create space for higher public investment. Increasing non-oil revenues—the main driver of fiscal consolidation—will gradually reduce the ratio of interest payments to FG revenue towards a more sustainable level.

Tighter monetary policy—monetary growth contained to nominal GDP growth and no central bank quasi-fiscal activities—is expected to help reduce inflation arising from a more depreciated exchange rate (pass-through is limited as the impact on inflation is already being realized from inputs imported at the parallel rate) and an increase in retail fuel prices (which will result from a strict implementation of an automatic fuel price formula).

The implementation of a credible fiscal policy and tighter monetary policy is complemented with the immediate removal of FX restrictions and a more **flexible exchange rate regime.** This results in an immediate increase in the exchange rate toward the parallel rate, possibly overshooting its equilibrium value before stabilizing. Tighter monetary policy and restoration of FX market function would lead to capital inflows and contribute to rebuilding reserves.

The **banking sector**—supported by a return of confidence and reduced financing needs of the government (reflected in lower bond yields)—resumes lending to the private sector to previous levels, though at higher lending rates because of a tighter monetary policy. Increased profitability from higher net interest margins contribute to reducing initial shortfalls in banks' capital buffers, weakened by increased provisioning for the higher NPLs[1/]. In the adjustment scenario, weak banks are expected to acquire new capital, including through mergers and acquisition. Existing macro-prudential rules on FX—net open positions and limiting FX loans to those with FX revenues—are expected to be sustained.

In parallel, **structural reforms,** mostly to boost power, revitalize the oil industry, and improve the business environment, will support the diversification of the economy and private sector development.

Putting in place this package of reforms will help increase oil production to 2.5 mbpd and boost **non-oil growth** to 5 percent in the medium term. In 2017, greater availability of FX arising from the renewed confidence of investors—spurred by the immediate removal of FX restrictions, as well as lower risk premia and reduced financing needs for the government—would generate a small improvement in non-oil growth

Box 2. Nigeria: A Growth Generating Adjustment Scenario (continued)

in 2017, offsetting the immediate impact of tighter monetary and fiscal policies. Over the medium term, the fiscal multiplier from the significant increase in public investment—a 1 percentage point increase is expected to increase growth by 0.5-1 percent over 3 years—helps contain the dampening impact of the VAT increase on growth. Over the medium term, higher savings and capital inflows support investment, with retained earnings and less fiscal dominance allowing double-digit growth in private sector credit.

1/ The impact on the banking sector of a depreciation and removal of FX restrictions would be limited since some banks are already provisioning for higher FX depreciation.

Nigeria: Baseline and Adjustment Scenario, 2015–20

	2015	2016	2017	2018	2019	2020	2017	2018	2019	2020
	Prel.	Baseline					Adjustment			
National income and prices	(Annual percentage change, unless otherwise specified)									
Real GDP (at 2010 market prices)	2.7	-1.5	0.8	1.9	1.9	1.8	2.2	3.0	3.7	4.5
Non-oil GDP	3.6	-0.3	0.2	1.1	1.6	2.0	0.7	2.3	3.7	5.1
Production of crude oil (million barrels per day)	2.12	1.85	2.00	2.20	2.30	2.30	2.20	2.40	2.50	2.50
Consumer price index (end of period)	9.6	18.6	17.5	16.5	15.5	15.0	14.0	9.0	8.0	7.0
Investment and savings	(Percent of GDP)									
Gross national savings	12.4	13.1	13.5	13.8	14.2	14.7	15.2	16.4	17.8	18.9
Investment	15.5	12.5	12.5	12.8	13.5	14.1	12.5	14.7	16.4	17.8
Current account balance	-3.1	0.6	1.0	1.0	0.7	0.7	2.7	1.7	1.4	1.1
Consolidated government operations[1]	(Percent of GDP)									
Total revenues and grants	7.6	5.3	5.7	5.9	6.1	6.5	8.4	11.8	13.1	15.5
Of which: oil and gas revenue	3.5	2.1	2.3	2.4	2.4	2.6	3.1	3.8	4.1	4.6
Total expenditure and net lending	11.1	10.0	10.7	10.2	10.1	10.4	10.9	13.1	13.9	15.5
Overall balance	-3.5	-4.7	-5.0	-4.2	-4.0	-3.9	-2.5	-1.3	-0.8	0.0
Non-oil primary balance (percent of non-oil GDP)	-6.3	-5.8	-6.7	-5.7	-5.1	-5.0	-4.9	-4.2	-4.0	-3.7
Anchor: non-oil revenue (percent of non-oil GDP)	4.4	3.4	3.6	3.7	3.9	4.1	5.7	8.7	9.6	11.6
Public gross debt (percent of GDP)	14.3	18.6	23.3	24.1	24.3	24.6	22.1	21.3	19.7	18.2
FGN interest payments (percent of FGN revenue)	33.2	66.4	60.7	65.1	75.0	78.3	46.1	33.6	31.8	27.6
Money and credit	(Change in percent of broad money at the beginning of the period, unless otherwise specified)									
Broad money (percent change; end of period)	5.9	18.7	19.2	18.7	18.7	18.2	15.0	13.5	13.0	12.9
Net foreign assets	-6.8	13.7	-5.2	-0.5	0.5	3.1	12.9	8.4	8.3	7.2
Net domestic assets	12.7	4.9	24.4	19.2	18.2	15.2	2.2	5.1	4.7	5.7
Credit to the private sector (y-o-y,%)	0.1	22.3	3.2	2.2	2.0	1.2	15.2	13.9	14.5	15.1
Velocity of broad money (ratio; end of period)	4.4	4.1	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0
External sector	(Annual percentage change, unless otherwise specified)									
Price of Nigerian oil (US dollar per barrel)	53.1	44.6	56.3	55.9	55.0	54.9	56.3	55.9	55.0	54.9
Gross international reserves (US$ billions)[2]	28.3	27.0	27.1	26.7	27.0	26.9	31.4	35.8	40.7	45.4
(equivalent months of imports of G&Ss)	6.9	5.8	5.5	5.2	5.1	5.0	6.2	6.8	7.3	7.8

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

[1]The budget oil price was $53 per barrel (pb) and $38 pb for 2015 and 2016, respectively. It is proposed at $44.5 pb for 2017, $45 pb for 2018 and $50 pb for 2019 in the MTEF 2017-19.

[2]From 2016, includes about $2 billion in reclassified TSA funds, which are at the central bank but under government control.

8. **Risks are to the downside, but with upside potential from stability in the Niger Delta and a rebound in investor confidence** (Risk Assessment Matrix table 6). Downside risks include continued disruptions in oil and gas production arising from militancy activities; further delays in policy implementation; limited capacity to implement the targeted scaling-up of capital expenditure; further deterioration in banking sector soundness indicators; and a higher external market premium for sovereign bonds.

9. Nigeria is vulnerable to global inward spillovers, but can itself generate significant regional outward spillovers. The key inward spillover is via oil prices, which has both a direct impact on FX availability and budget financing and an indirect impact through capital inflows. Outward spillovers arise through trade and financial channels (Annex II):

- With Nigeria accounting for an estimated 70 percent of ECOWAS exports and 17 percent of imports in Sub-Saharan Africa, the trade and remittance channels are particularly strong to neighboring countries, some of which have raised concerns about Nigeria's recession and the effect of the naira devaluation and FX restrictions on their exports. However, staff analysis indicates that overall activity in Nigeria's neighbors has held up well recently, with the oil price shock representing a positive terms-of-trade dividend for all neighboring countries except Chad.

Intra-Regional Trade and Remittances Linkages

	Remittances from Nigeria, 2015		Exports to Nigeria, average 2013–15	
	Percent of recipient GDP	Share of total for recipient	Percent of GDP	Share of total exports
Benin	1.6	44.7	0.6	7.2
Burkina Faso	0.0	0.5	0.0	0.2
Cameroon	0.1	9.0	0.3	1.7
Chad	0.0	0.0	0.0	0.2
Cote d'Ivoire	0.0	0.5	2.2	5.6
Ghana	1.0	18.0	0.2	1.0
Niger	0.6	31.5	2.5	20.4
Togo	2.3	22.0	2.5	8.0

Sources: IMF, *Direction of Trade Statistics*; World Bank; and Haver Analytics.

- About a dozen Nigerian banks have significant operations in Sub-Saharan African countries, with Nigerian subsidiaries holding more than 20-30 percent of deposits in Benin, Gambia, and Sierra Leone (Figure 2). However, risks to operations of subsidiaries arising from a slowdown in Nigeria are limited, since activities of subsidiaries are in part ring-fenced from their parent banks and direct cross-border positions are not typically large relative to their host economies, and subsidiaries are mostly locally funded (Annex II).

10. Authorities' views. The authorities agree that a continuation of current policies is not sustainable in the medium term, but point out that the economy began to recover by the end of 2016 even under difficult conditions and partial reforms. They consider that a more ambitious growth path is possible, with GDP growth reaching 7 percent in 2020 provided bold initiatives included in their ERGP are implemented. In particular, they note that undertaking reforms to improve the business environment, completing high-quality infrastructure projects, focusing on priority sectors with high growth and employment generation potential, and promoting social inclusion would catalyze private sector development—the preferred engine of growth.

POLICY DISCUSSIONS: URGENT REFORMS FOR ECONOMIC RECOVERY

11. An appropriate and coherent set of policies is urgently needed to rebuild confidence in the near term and foster economic recovery over the medium term. In 2016, the authorities introduced some key measures to reduce vulnerabilities, including increasing regulated fuel prices, raising the monetary policy rate, and allowing a depreciation of the interbank exchange rate, bringing the naira more in line with fundamentals. However, much more needs to be done. This includes articulating a fiscal policy that is sustainable, a monetary policy kept sufficiently tight to support price stability, a well-functioning FX market, and structural reforms that improve competitiveness and facilitate economic diversification. Policy implementation delays would increase vulnerabilities and risk reforms being politicized ahead of the 2019 elections.

A. Fiscal Policy: Reducing Dependence on Oil Revenue

12. Non-oil revenue mobilization, coupled with a continued focus on improving expenditure efficiency and composition, is essential to create the fiscal space necessary to ensure debt sustainability and scale-up capital expenditure. The authorities have focused their fiscal policy efforts on improving tax administration, including through the registration of 818,000 new taxpayers, arrears collection, and targeted tax audits, while delaying changes in tax policy. Although efficiency gains have arisen from reduced overhead costs, extension of the Integrated Personnel Payroll Information System (IPPIS) to all government agencies (elimination of 65000 ghost workers), and implementation of the Treasury Single Account (TSA), weak expenditure controls at subnational levels remain a challenge.

13. The draft 2017 Federal budget (to be approved by the National Assembly) is expansionary, but financing constraints are likely to limit its execution. With the objective of restoring sustained economic growth, the expenditure envelope is 20 percent higher than the 2016 budget, underpinned by new infrastructure (rail, power, and transportation) projects and unspent capital carryovers from the 2016 budget.[4] With the yield from ongoing tax compliance efforts and revenue from state-owned entities likely to be lower than expected, staff projects the federal deficit to be 3.7 percent of GDP—higher than the 2.8 percent of GDP in the 2017

Nigeria: Federal Government, 2016-17
(Percent of GDP)

	2016	2017	
	Proj.	Budget	Proj.
Total revenue	1.9	3.1	1.9
Oil revenue	0.9	0.4	0.8
Non-oil revenue	1.0	2.7	1.1
Import and excise duties	0.2	0.3	0.2
Companies' income tax	0.4	0.7	0.5
Value-added tax	0.1	0.2	0.1
Federal government independent revenue	0.2	1.6	0.3
Total expenditure	4.8	5.9	5.6
Recurrent expenditure	4.2	4.1	4.0
Personnel	1.8	1.5	1.5
Overheads	0.5	0.2	0.3
Interest	1.3	1.3	1.1
Transfers	0.6	1.1	1.1
Capital expenditure	0.6	1.8	1.6
Overall balance	-2.8	-2.8	-3.7
Memorandum items:			
Interest payments (percent of FGN revenue)	66.4	42.9	60.7

Sources: Nigerian authorities; and IMFstaff estimates and projections.

[4] Following a 33 percent execution rate, carryovers from the 2016 budget, can amount to N473 billion.

budget (text table). State and local government (SLG) finances are expected deteriorate further, resulting in new arrears, despite the adoption of the Fiscal Sustainability Program.

14. The larger deficit would likely have to be financed domestically, further raising yields and crowding out private sector credit (1-3 percent growth, y-o-y). Additional Eurobond issuances in 2017 and concessional financing from the World Bank/AfDB constitute most (60 percent) of the external financing. The FG also plans to issue ten-year promissory notes (2.2 percent of GDP) in 2017 to settle domestic arrears outstanding.

15. Bringing the FG debt-service-to-revenue ratio to more sustainable levels will continue to anchor Nigeria's fiscal policy. Under staff's adjustment scenario (Box 2), this would entail targeting a decline of the FG interest-to-revenue ratio from 66 percent in 2016 to below 30 percent in 2020—thereby enhancing access to external financing and allowing increased credit to the private sector—and increasing the non-oil revenue-to-non-oil GDP ratio to 11.6 percent in 2020 (against 4.1 percent under the baseline). This results in a cumulative improvement by 2020 of 1.6 percentage points in the non-oil primary balance-to-non-oil GDP ratio of the consolidated government (relative to 0.3 percent of GDP under the baseline), of which a quarter would accrue in 2017 (an improvement of 2 percent of GDP over the baseline). This would require:

- **Accelerating revenue.** For 2017, non-oil revenues would increase by about 2 percent of GDP, mostly through new tax policy measures such as hiking excise rates, removing exemptions or duty waivers on a number of products, and initiating an increase in the VAT rate in July 2017 (text table). Over the medium term, reforms would include modifying the VAT system[5] to allow tax credits for all inputs (including capital goods), increase the registration threshold with a simplified presumptive tax regime for SMEs, rationalize exemptions, progressively increase the VAT rate to 15 percent by 2020 (still significantly below the ECOWAS regional average), and raise the base from an estimated 15 percent of GDP in 2016 to 42 percent of GDP by 2020. Reforms would also include rationalizing tax expenditures and reviewing the personal income tax (PIT) and CIT rate structures. In addition, a property tax could be introduced to boost internally generated revenue (IGR) of states.

Adjustment Scenario Yield by Measure, 2017[1]
(Percent of GDP)

	2017
VAT (rate increase to 10 percent)	0.7
CIT (close loopholes and exemptions)	0.8
Excises and Levies (rate increase/compliance)	0.2
FGN Internally Generated Revenue (compliance)	0.05
Total	**1.7**

Source: IMF staff calculations.
1/ Measures are for mid-year implementation

- **Rationalizing FG recurrent expenditures.** This includes continuing initiatives to reduce overhead and personnel costs; and implementing an automatic price-setting mechanism to

[5] Increased reliance on the VAT as a revenue source will reduce the budget's heavy dependence on oil revenue and will help improve SLG finances—85 percent of VAT revenues are distributed to the States. Preliminary World Bank estimates show low incidence of a higher VAT rate on the poorest households.

eliminate the recurrence of fuel subsidies or absorption of costs through the national oil company (NNPC) should international prices rise further or the exchange rate depreciate.

- **Executing better FG capital spending.** The scaling up of high-return public investment will require prioritizing the completion of high-impact projects, focusing on finalizing projects near completion, effecting budget allocations to agencies with ready projects, improving project preparation, and streamlining the procurement process.

- **Avoiding the accumulation of new arrears at all tiers of government**. Given the relatively weak state of public financial management at the subnational level, it will be important to ensure all states implement the FSP (SIP Chapter 5). Key areas of focus should be the budget preparation process, expenditure controls, subnational treasury single accounts and cash management reforms, fiscal reporting, and IGR administration through strengthening the Joint Tax Boards' capacity.

- **Reducing fiscal risks from SOE operations,** including through creating a single oversight unit, integrating information on SOE quasi-fiscal operations into the budget, strengthening capacity of their boards, and improving reporting.

- **Adopting contingency planning for unbudgeted costs related to the Presidential Initiative to meet urgent assistance for 8.5 million people in the North East.** The Recovery and Peace Building Assessment estimates total reconstruction cost/humanitarian assistance at $6.6 billion. With a projected humanitarian cost for 2017 of $1 billion and $530 million (0.2 percent of GDP) budgeted[6], additional savings—including through new tax measures—should be identified in case of shortfalls in external donor financing.

- **Expanding social safety net programs for the most vulnerable**, including to mitigate effects of tax increases or implementation of an automatic fuel price mechanism (see Section D).

16. Authorities' Views. The authorities agree on the need to reduce the debt service-to-revenue ratio close to 30 percent of GDP by 2020, and advocate for increasing the tax-to-GDP ratio from 6 to 15 percent within 5 years. However, they consider that sustained large increases in non-oil tax revenues can be generated by widening the tax net through improved tax administration, including through new registered taxpayers, arrears collection, and targeted tax audits. For 2017, they see gains arising from a limited tax amnesty—monitored through the newly established Asset Tracing Team—to enable voluntary declaration and payment of liabilities. On tax policy, they consider that raising tax rates in the context of weak economic growth is politically difficult and inappropriate. Going forward, they are considering new initiatives, such as changes in excises, reducing tax exemptions, VAT rate increases from 2018 onwards (but only on telecoms and luxury items), and possible asset sales/privatization. At the same time, they are committed to reducing spending through the efficiency unit, including through eliminating overlapping mandates of

[6] This includes spending by ministerial and departmental agencies (MDAs). In addition, North East states are expected to spend an additional $970million on capital projects.

agencies. In addition, risks from SLGs and SOEs are to be reduced through the implementation of the FSP and enhanced monitoring.

B. Exchange Rate and Monetary Policy: Supporting External Adjustment and Containing Inflation

17. The FX market remains restrictive and segmented. Restrictions on access to FX for 40 categories of goods are still in place and, despite the June liberalization, the volume of transactions on the interbank FX market has remained modest, price discovery has been weak, and a large spread with the parallel market has continued. Beginning in February 2017, the CBN began providing FX for certain transactions in invisibles (business and personal travel, medical needs, and school fees)—at a margin that is not expected to exceed 20 percent above the interbank rate—and market participants are no longer required to allocate 60 percent of FX to raw materials, equipment, and machinery. Further, the CBN special FX interventions are no longer dedicated to priority sectors.[7]

18. The distortions in the FX market have also weighed on real activity and BOP inflows. FX restrictions on current account transactions have contributed to lower imports and dividend payments, though the BOP impact has been offset partially by lower non-oil exports and capital flows. Furthermore, they have deprived some companies of vital imported inputs, leading them to cut production, employment, and investment. Distortions also arise through capital flow management measures (CFMs) such as the surrender/repatriation requirements on export proceeds and payment limits on naira denominated credit cards for overseas transactions.

19. Nigeria maintains exchange restrictions and MCPs subject to Fund approval. In the 2016 Article IV consultation, three exchange restrictions and one MCP were identified. Since then, the previously identified MCP and one of the three exchange restrictions have been eliminated. However, Nigeria has introduced two new MCPs subject to Fund approval under Article VIII, Sections 2(a) and 3 (see Informational Annex).

20. Staff views a more flexible exchange rate regime as essential to buffer external shocks and help unlock FX supply. Current policies could lead to a further deterioration in the reserves position and/or a disorderly adjustment of the exchange rate, particularly with the external position moderately weaker than justified by medium-term fundamentals and recommended policies (see External Assessment Annex). Assuming the interbank exchange rate remains at the current level (around N315 per dollar), its overvaluation—estimated at about 18 percent for 2016—would worsen given existing inflation differentials, while FX restrictions would contribute to a continued large

[7] On August 22, 2016 the CBN issued a circular requiring authorized dealers to direct 60 percent of their total FX (regardless of the source) to certain priority transactions. On February 20, 2017 the CBN announced new policy actions in the FX market, including the immediate removal of this allocation requirement. Likewise, since the announcement, FX interventions by the CBN no longer prioritize or allocate sales of foreign exchange to specific sectors of the economy.

premium in the parallel market and hinder the restoration of normal functioning of the FX market. Staff recommends:

- **Implementing exchange rate unification,** including immediate removal of remaining restrictions on access to FX in the interbank market—specifically, the 40 categories list and the new segment for transactions in certain invisibles. While staff recognizes that the immediate reaction could be an initial overshooting of the exchange rate, it would stabilize provided an adequate set of supporting policies (monetary, fiscal and structural) is also implemented (Box 3). In view of the substantial room available for implementing warranted changes in macroeconomic policies, the use of CFMs should be avoided in line with the Fund's institutional view.[8]

Box 3. The Impact of a Naira Depreciation

With many transactions already executed at higher-than-interbank exchange rates, a depreciation of the interbank rate is likely to have a net positive short-term impact on public finances and the external position, but would increase inflation and worsen banking sector asset quality and capital buffers. The impact on growth would depend on the confidence dividend from other supporting policies.

- A 10 percent depreciation of the currency would reduce the overall fiscal deficit by 0.1 percent of GDP, as revenue gains (mainly through higher oil and customs/VAT revenues) more than offset higher foreign-financed capital expenditure and interest payments. At the same time, FG **net financing (in naira)** would improve slightly.
- A ten percent real effective depreciation would improve **the current account balance** by about 1 percent of GDP, mainly through lower non-oil imports. The impact on non-oil exports is expected to be limited in the short term, given the narrow non-oil export base and structural impediments limiting productivity and competitiveness. A depreciation may encourage capital inflows by reducing overvaluation—previous staff analysis found that expectations of future depreciation reduced capital flows, especially for government debt securities.
- With imports representing 17 percent of the CPI basket, staff estimates that a 10 percent depreciation of the naira will increase **inflation** by 1 percentage point within 6 months (see WP/16/91). Second round inflationary effects could ensue for example from transportation mark-ups or inflationary expectations.
- A 10 percent depreciation of the naira could amplify corporate and financial sector vulnerabilities, increasing the **banking sector's** NPLs net provision to capital and reducing the overall CAR by 3 and 1 percentage points, respectively. However, existing limits on foreign currency exposure—on FX borrowing and NOP FX—combined with the policy of encouraging banks to lend in foreign currency only to those customers with foreign currency revenue would mitigate the impact of the depreciation on banks' balance sheets. Meanwhile, higher naira repayments on FX loans (and inputs for operations) could adversely impact financial/operating surpluses of corporates.
- **Real GDP** growth is expected to improve, initially increasing by 0.4 percent through improved net exports following a 10 percent depreciation. Investment would be expected to increase as confidence improves from a clearer articulation of a package of coherent policies.

- **Improving the operations of the FX interbank market,** including through greater price discovery. This would occur by clearly stating CBN objectives—either in terms of reserves, or

[8] See IMF, 2012, *The Liberalization and Management of Capital Flows: An Institutional View*.

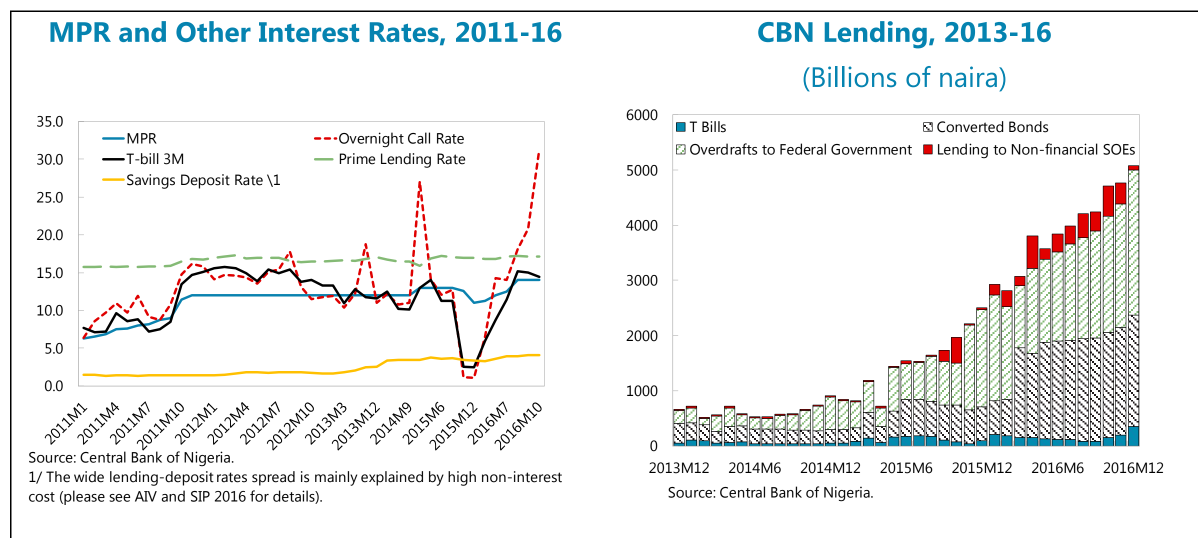
through a pre-announced rate of FX sales—and a clear commitment to a market-determined exchange rate in line with economic fundamentals. Further, CBN engagement in transactions at non-market prices should be discouraged.

21. Authorities' views. The authorities believe the FX measures have helped preserve reserves in a context of dwindling oil export proceeds by stimulating some local industries and limiting speculative demand for scarce FX. They have reiterated their commitment to a unified FX market, though emphasizing the necessity of having supporting policies in place—including fiscal and structural policies—to help reduce exchange rate misalignment. The authorities consider the FX measures as temporary and plan to remove them progressively, as they have done with the prioritized FX allocation rule that had been introduced in August 2016 (see footnote 7). They plan on removing the FX measures when appropriate fiscal measures are in place and reserves reach more appropriate levels. The authorities did not request Board approval of the exchange restrictions and MCPs. They assess that the value of the naira in the interbank foreign exchange market is in line with their estimate of non-speculative demand for FX.

22. A tighter monetary policy stance is important for anchoring inflation expectations and supporting external adjustment. The signal on the monetary policy stance continues to be clouded by the CBN's pursuit of multiple objectives, including efforts to finance the government (N2.3 trillion of overdrafts and converted bonds in 2016) and support growth, which have led to overshooting of the broad money target. Market interest rates have moved up towards the upper band of the CBN's interest rate corridor due to the FX auction-induced liquidity squeeze, but that signal has been mixed. Staff recommends the following policies:

- **Ensure broad money targets remain consistent with price stability**. Staff welcomes the recent statement by the Monetary Policy Committee (MPC) on the need to moderate growth of narrow money in 2017 to the CBN's benchmarks. In particular, broad money growth—the CBN's intermediate target—should be kept close to 14 percent in 2017 to restrain inflationary pressures and contain any second round effects from a more unified exchange rate (and depreciation). The policy rate should also be raised to positive real levels to help reduce inflation to single digits in the medium term and support the move toward a more flexible exchange rate regime.

- **Unwind "unconventional monetary policy operations".** The execution of the CBN's quasi-fiscal activities has effectively masked the signaling of the monetary policy stance and should be phased out. In the meantime, Staff recommends that CBN's credit support be transparent and time-bound.



- **Continue to improve the monetary policy framework.** Going forward, the CBN should clearly announce price stability as its primary objective, conduct open market operations such that money market rates reflect the policy rate, and keep the corridor around the policy rate narrow, to convey better to markets a clear signal of the policy stance and anchor inflation expectations. This would also be necessary to reinforce the operational and institutional independence of the CBN.

23. Authorities' views. The CBN remains committed to its overriding mandate of price stability. While recognizing the need to reduce monetary growth to contain inflation, it argues that its decisions in 2016 were informed by the need to address the delicate balance between price stability and growth, with structural gaps forcing it to take extraordinary steps to support the economy. With inflation momentum slowing and the economy still in recovery mode, the CBN believes that the current policy rate is appropriate (absent additional cost push factors or depreciation) and the path to its medium-term inflation target should be gradual, as a more rapid reduction in inflation could pose undue risks to the economic recovery.

C. Macro-Financial: Enhance Resilience and Contain Banking Sector Risks

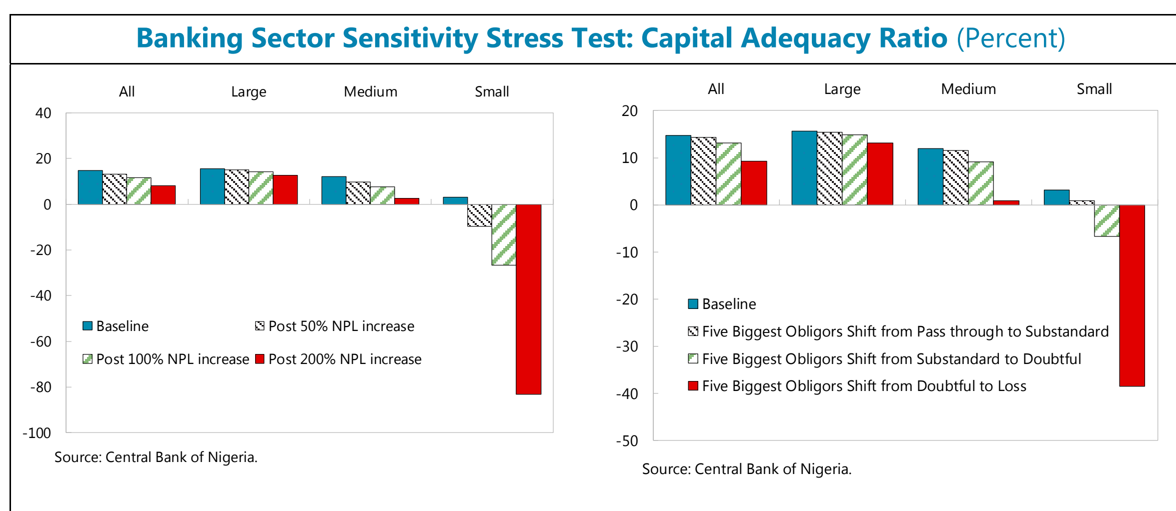
24. Banking system resilience needs to be strengthened. Capital buffer requirements above Basel requirements provide some cushion, particularly for systemically important banks. However, risks are inherently high: (i) three banks are undercapitalized; (ii) regulatory forbearance on single obligor limits (SOLs) and relaxation of FX borrowing limits (to accommodate the naira depreciation) are increasing banks' risk-weighted assets and liabilities; and (iii) stress tests show the banking system remains heavily exposed to concentration, credit, and exchange rate risks.[9] To mitigate risks, the authorities have made progress in implementing past FSAP recommendations (Annex V). Staff recommends:

[9] Foreign currency (FX) borrowing limits were increased from 95 percent of equity to 125 percent, while Net Open Position of FX (NOP FX) was reduced from 20 to 10 percent of equity.

- **Tightening prudential requirements and strictly enforcing existing ones.** Staff welcomes the recent implementation of a 2 percent general provisioning (previously suspended in 2016) and reduction in the NOP FX limit. It recommends taking a conservative approach to collateral valuation and imposing a timeline for SOLs regulatory forbearance while encouraging the enforcement of timelines submitted by banks to bring exposure to prudential norms. Foreign exchange risks should be reduced further by encouraging banks to continue matching FX assets with liabilities, giving due consideration to maturity mismatch.

- **Intensifying monitoring of the banking system.** Staff welcomes the use of the newly developed early warning system to identify weak banks, as well as intrusive bank supervision practices for "at risk" banks. It encourages the CBN to adopt intrusive bank supervision for all banks, expand existing stress test scenarios to a full-fledged scenario analysis (in addition to sensitivity tests) to help identify capital needs. Continued targeted audits on credit risks (particularly for FX loans) or market/operational would also help in this regard.

Banking Sector Sensitivity Stress Test: Capital Adequacy Ratio (Percent)



- **Improving asset quality.** Banks should address non-performing assets by restructuring or divesting assets and writing them off after proper provisioning. Staff urged caution in pursuing a proposal to establish a new private asset management company (AMC), in addition to the existing publicly-owned one (AMCON), which could ultimately be transferred to the government's balance sheet. A successful AMC would require clear and transparent governance rules combined with financial and operational autonomy and a proper financing model.

- **Increasing promptly the capital of undercapitalized banks.** In particular, the three undercapitalized banks should implement their action plans, including the finalization of the sale of one as soon as possible. Staff welcomes the CBN's intervention in one of these banks last year and reiterates that any delays in effectively dealing with weak banks (even if non-systemic) could generate a more general loss of confidence and have more systemic implications.

- **Strengthening the legal resolution framework**, by modifying the existing resolution tools to allow powers to write down capital, enhance statutory powers to override shareholders' rights, and amend the bank liquidation regime to address legal challenges and protracted delays.

- **Enhancing crisis contingency planning,** including to identify limits in the use of the emergency liquidity framework for solvent but illiquid banks during a bank run.

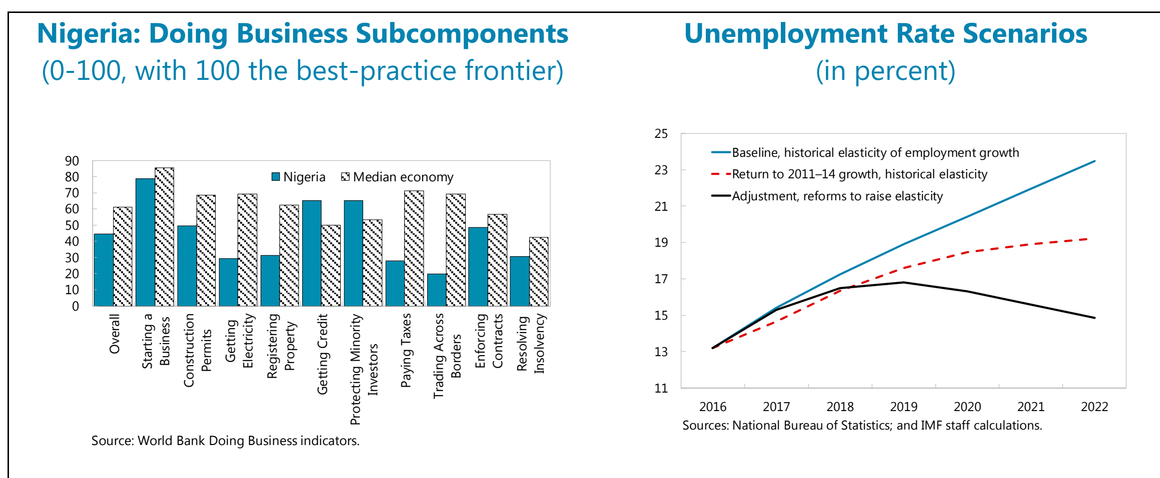
25. Authorities' views. The CBN is aware of the rising risks and remains proactive and vigilant. It has already taken a number of steps to intensify monitoring; enhance compliance; strengthen supervisory attention on the utilization of FX sourced by banks, and require banks to stress test the impact of the June 2016 foreign exchange framework on their capital and profitability. It underscored that all banks are expected to be fully capitalized by end-June 2017 and agreed on the importance for all banks to have contingency planning scenarios. Revisions to the resolution framework and liquidation regime are not in the authorities' immediate plans.

D. Structural Policies: Supporting Economic Diversification and Inclusive Growth

26. Reducing unemployment in Nigeria will require both higher growth and reforms to strengthen the business environment. Even with a return to the high economic growth experienced during 2011–2014, unemployment could continue to rise (SIP Chapter 4). However, under the growth rates and reforms proposed in the adjustment scenario, unemployment would fall following the recovery of the economy, largely in response to the marked improvement in the business environment, particularly in targeted labor-intensive sectors such as agriculture.

Nigeria: Doing Business Subcomponents
(0-100, with 100 the best-practice frontier)

Unemployment Rate Scenarios
(in percent)



Source: World Bank Doing Business indicators.

Sources: National Bureau of Statistics; and IMF staff calculations.

27. Structural reforms to remove impediments to investment and employment creation are necessary for diversified, sustained, and inclusive growth. A large infrastructure gap (infrastructure stock is estimated at 35 percent of GDP by the authorities and half that of peer emerging markets), difficulties with corruption, and ambiguous regulations are key challenges for Doing Business (DB) in Nigeria (SIP chapter 4). Taking account of Nigeria's low ranking on the Transparency International Corruption Index, the authorities have started various initiatives to combat corruption, including investigations by the Economic and Financial Crimes Commission (EFCC). These and other structural impediments to growth have contributed to high under- and un-employment, high poverty rates (50 percent in Northern states), rising food insecurity in the North

East (affecting 5.1 million people), gender disparities (low school enrollment for girls), and low financial inclusion (Figure 3). Staff recommends prompt actions to:

- **Address the infrastructure gap,** notably by increasing the delivery of reliable and affordable power. This requires investment to increase power and transmission capacity, policy reforms to improve the efficiency and governance of power distribution and a cost-reflective electricity tariff to eliminate the financing gap in the sector (Box 4).
- **Boost growth in the agricultural sector.** Key priorities include enhancing productivity—through improving access by small-scale farmers to inputs, technology, and financing—as well as attracting additional private sector investment.

Box 4. Nigeria's Power Sector—Challenges and Reforms

Insufficient power generation and an accumulation of losses are the main issues impacting the power sector:

- **Power generation.** Operational capacity in Nigeria is close to 3500 MW, far below its 5000 MW technical capacity. This under-performance is due to: (i) gas supply shortages arising from sabotage and lack of investment; (ii) power transmission evacuation constraints; and (iii) old power plants that have not been rehabilitated.
- **Loss accumulation.** Donors and industry representatives estimate the power sector has accumulated a deficit of about $1.6 billion through end-2016. In addition to low power generation, driving factors for loss accumulation are:
  - **Tariffs that are insufficient** for cost-recovery, following the depreciation of the naira. Industry analysts estimate that a doubling of electricity tariffs (in naira) is needed to ensure cost-recovery.
  - **Non-payment of electricity by government ministries and agencies.** Government debt to distribution companies (DISCOs) amounts to about $300 million.
  - **Underperformance of distribution companies (DISCOs).** Discos continue to face reduced power delivery, as well as high technical, commercial, and collections losses.

In view of the urgency of the reforms, the authorities are working on a Power Recovery Plan with the support of the World Bank Group and other development partners, which is expected to be finalized in 2017. In addition to the government honoring its payment obligations to electricity suppliers, potential reform options include: (i) increasing power supply, mainly through boosting gas supply and rehabilitating old power plants; (ii) Increasing tariffs to cost-recovery levels, while protecting the most vulnerable through lifeline tariffs; and (iii) improving governance in the sector.

- **Improve the business environment,** including through reforms to improve delivery of electricity, registration of property, payment of taxes, trade across borders, and resolution of insolvency. Other priorities include making it easier to start, formalize, and operate a business, and simplifying regulations.
- **Strengthen anti-corruption measures**. Given the corruption risks from the oil sector, staff welcomes progress in joining the Open Government Partnership and enhancing transparency in the extractive industry, including disclosure of beneficial ownership. Governance will also be improved through the parliamentary adoption (expected by H1 2017) of the Petroleum Industry Bill (PIB), which will allow the national oil company to operate on a commercial basis.

Strengthening the systems for asset declaration and asset recovery will further support anti-corruption efforts. The authorities are also encouraged to strengthen the AML/CFT framework and use AML tools to combat corruption and oil theft. Steps taken to establish a special court for economic crimes (i.e., money laundering, oil bunkering and corruption), obtain membership in the Financial Action Task Force, and publish the findings of the national assessment of ML/TF risks are positive developments.

- **Increase access to finance for SMEs,** while minimizing risks to financial stability. The establishment of the Development Bank of Nigeria—which is expected to be financed by $1.3 billion from international finance institutions—will help provide long term loans for SMEs while respecting best international prudential practices.

- **Enhance social inclusion.** Although the Nigerian Government has introduced a number of social safety net and labor programs, including provisions for gender-based budgeting, only a small fraction of national needs is met. However, the general impact has been limited and the incidence of poverty has remained high, with many federal and state programs hampered by limited coverage, undefined eligibility criteria, and lack of monitoring. With these weaknesses in mind, and as stated in the authorities' ERGP, priorities in this area should focus on rapidly increasing vocational training to better equip job seekers with relevant skills, boosting investment in education, and improving targeting methods for implementing social safety net programs.

- **Reduce food insecurity in the North East**, through increased food assistance and emergency shelter. While the improved security situation has provided opportunities for the displaced population to undertake agricultural activities, these initiatives can be supported through increased spending on infrastructure and security in the three most affected states (see Section A).

28. Authorities' views. The authorities recognize the importance of reducing the infrastructure gap and the urgency of implementing a comprehensive power sector recovery plan, but underscored that improvements in governance, efficiency, and power delivery should precede tariff increases. They have tasked the newly-formed Presidential Enabling Business Environment Council (PEBEC) to improve Nigeria's DB ranking to 100 by 2020 (from 169 currently), starting recently with a 60-day plan focusing on reforms to facilitate entry/exit of people and goods and simplify government procurement. They reiterated that their top priorities include fighting corruption to strengthen the business climate, promoting the development of SMEs (including access to financing), and implementing the social investment program, including the conditional cash transfer payment scheme for the most vulnerable and the homegrown school feeding program (Box 5).

Box 5. Nigeria: Social Safety Net Measures Undertaken by the Nigerian Government

Notwithstanding the rise in GDP, the incidence of poverty has increased over the past decade, reaching 61 percent in 2010 and implying that around 100 million Nigerians live below the poverty line. In response, the government has taken several concrete measures to improve social safety nets in the context of the ERGP, including:

- The **N-Power Job Creation Scheme:** A job creation volunteer-service program designed to mitigate specific problems in local communities through the deployment of unemployed Nigerian graduates.
- The **Homegrown School Feeding program:** This program aims to provide basic nutrition needs for children, while creating employment and supporting agricultural production in local communities.
- The **Conditional Cash Transfer program** is targeted at supporting the most vulnerable and poorest Nigerians. In December 2016, one million beneficiaries from 9 states started receiving N5,000 per month from the Federal Government.
- The **General Enterprise and Empowerment Program (GEEP)** is a zero-interest, 5 percent administrative fee loan scheme through the Bank of Industry, targeting over 1.2 million Nigerian artisans, traders, market men and women, as well as women cooperatives.

E. Data Issues

29. Data provided to the Fund are assessed to be broadly adequate for surveillance. However, some improvements are still needed in national accounts statistics (particularly quarterly data on the demand side), on the balance of payments, SLG and SOE fiscal data and domestic arrears, and in the timeliness of FSI data. The completion of household surveys over the next year will help update social data necessary for well-targeted social safety nets.

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30. Nigeria continues to face significant headwinds. The fall in oil receipts since 2014 has exposed structural and policy weaknesses and highlighted the urgency of diversifying the economy to address rising unemployment and the high poverty rate. Growth has fallen, inflation has doubled, external and fiscal buffers have eroded, a large parallel market premium has emerged, banking sector vulnerabilities have increased, unemployment and poverty rates remain high, and militant activity in the Niger Delta has curtailed oil production while an insurgency-related humanitarian crisis has taken root in the North East.

31. Risks remain elevated and adjustment insufficient so far. Although the authorities have taken a number of steps to reduce vulnerabilities—including deregulating fuel prices, limiting non-interest recurrent spending, initiating currency depreciation, strengthening banking supervision, and increasing anti-corruption efforts—much more needs to be done, and urgently. In the absence of additional policies, including to address pre-existing structural bottlenecks in infrastructure and governance, growth will remain weak and imbalances will persist, increasing the risk of a currency crisis. Key risks to the outlook include lower oil prices, further delays in reform implementation, low oil production from an intensification of militancy activities, worsening global risk aversion, and a further deterioration in finances of State and Local Governments.

32. The worsened macroeconomic outcomes and risks to the outlook require urgent actions. The authorities' ERGP appropriately focuses on private sector-led economic diversification, with the government delivering on targeted infrastructure, strengthening the business environment, and promoting employment opportunities. However, urgent actions to initiate frontloaded fiscal consolidation, tighter monetary policy, full exchange rate liberalization, and a more resilient banking sector are needed to complement the ongoing structural reforms. Further delays in policy action can only make the inevitable adjustment more difficult and more untimely, with the advent of general elections in early 2019 shortening the window for implementing reforms.

33. Non-oil revenue mobilization should underpin fiscal consolidation, starting from 2017. The 2017 budget and the 2017-2020 medium-term expenditure framework focus appropriately on the need to increase total spending. However, with debt service relative to revenue at abnormally high levels, staff recommends a larger and much more frontloaded fiscal adjustment than currently planned, to create the fiscal space for this higher spending while reducing the non-oil primary deficit. Crucially, this would involve a major effort to raise the nonoil revenue-to-nonoil GDP ratio from under 4 to about 12 percent over five years, so as to bring the debt service to revenue ratio down to more sustainable levels. In addition to continuing improvements in tax and customs administration, this revenue mobilization should begin with new tax policy measures of about 2 percent of non-oil GDP in 2017. Implementation of an independent fuel price-setting mechanism to eliminate fuel subsidies, strengthened public financial management, and well-targeted social safety nets would help support the adjustment. It would also be essential to contain the fiscal deficit of state and local governments, including through improved transparency and monitoring.

34. The external position is weaker than what would be consistent with Nigeria's fundamentals and desirable policy settings. Inadequate implementation of the announced policy of greater exchange rate flexibility, coupled with foreign exchange restrictions, have weakened investor confidence and generated large imbalances in the FX market. If unaddressed, this could risk a further deterioration in reserves and/or a disorderly adjustment of the exchange rate. Removal of exchange restrictions, and moving towards a unified foreign exchange market, combined with tighter monetary policy, fiscal consolidation, and cost-reducing structural reforms, could facilitate the needed diversification of the economy. In view of the available room for policy actions, capital flow management measures should be avoided.

35. Banking sector resilience should be strengthened further. Existing prudential requirements and targeted audits of weaker banks help contain risks. However, with declining asset quality, it will be important to further intensify bank monitoring, enhance contingency planning, and strengthen resolution frameworks. It will also be important to quickly increase the capital of undercapitalized banks and exit from regulatory forbearance, which should be limited in time.

36. Implementing structural reforms is essential for achieving a competitive investment-driven economy that is less dependent on oil. As stated in the authorities' ERGP, this requires tackling the large infrastructure gap (particularly in the power sector), pursuing more aggressively efforts initiated to improve the business environment, improving SME access to financing, and strengthening governance and anti-corruption efforts. If implemented effectively and in a timely manner, the combined measures would promote inclusive growth and help reduce unemployment and poverty.

37. Staff does not support the exchange measures that have given rise to the exchange restrictions and multiple currency practices. In the absence of a clear timetable for their removal, staff is not in a position to recommend approval of the exchange restrictions and MCPs. Staff urges the authorities to articulate a speedy and monitorable strategy for their removal, thus allowing an improved functioning of the foreign exchange market and convergence of the multiple exchange rates.

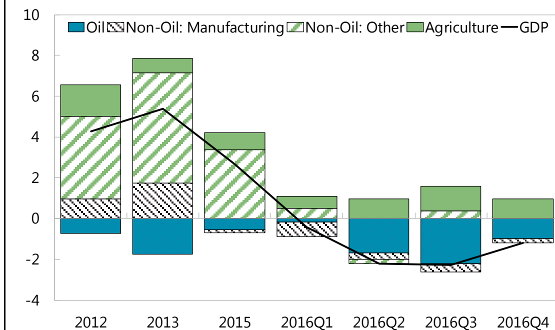
38. Data provided to the Fund are broadly adequate for surveillance. Quality and availability of economic statistics have improved, including through technical assistance. Efforts should continue to enhance national accounts and BOP data, as well as fiscal accounts of subnational governments. The authorities' commitment to update social data is welcome.

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

Figure 1. Nigeria: Selected Economic Indicators, 2010-16

Economic growth weakened…

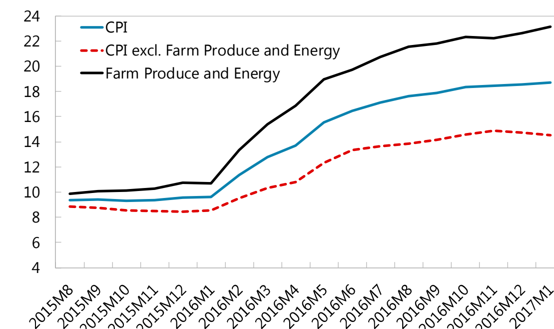
Nigeria: Contributions to Growth
(Percent)



Source: National Bureau of Statistics.

…while inflation doubled.

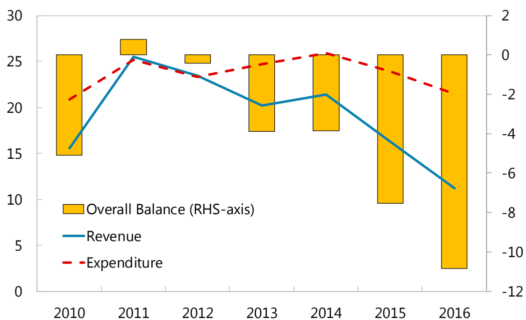
CPI Inflation
(Percent, y-o-y)



Sources: NBS; and IMF staff estimates.

Low oil prices and reduced production curtailed oil revenue, widening the fiscal deficit, despite a sharp decline in capital expenditures.

Nigeria: Recent Fiscal Developments
(Percent of GDP)



Sources: Nigerian authorities; IMF staff calculations.

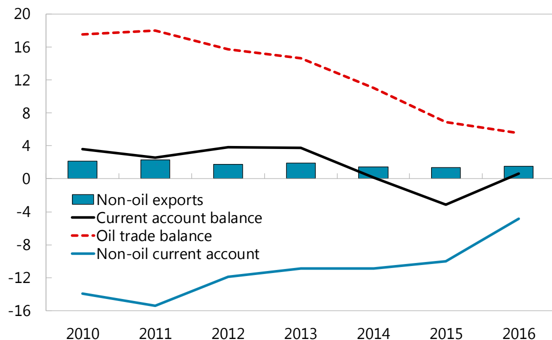
Declining imports outweighed the fall in exports, contributing to a trade surplus…

International Trade
(y-o-y percent change)

Source: Haver Analytics.

… which helped move the current account to a surplus

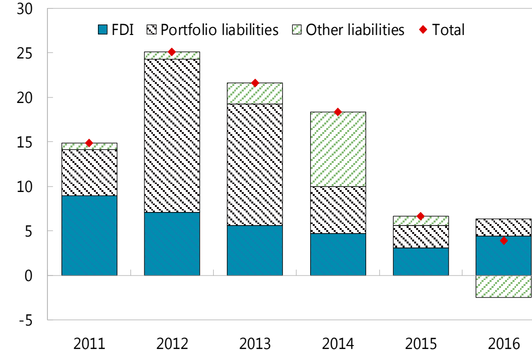
Nigeria: Current Account Balance
(Percent of GDP)



Sources: Haver Analytics; and IMF staff estimates.

… while capital inflows remained depressed

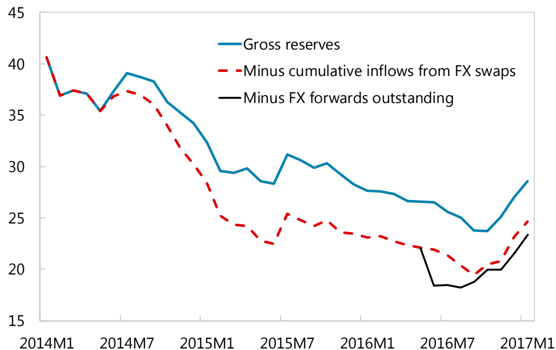
Net Capital Inflows
(Billion U.S. dollars)



Sources: Haver Analytics; and IMF staff calculations.

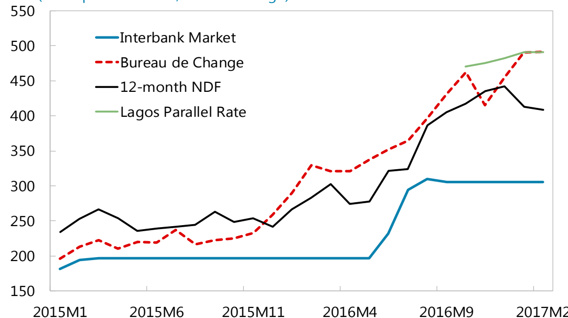
Figure 1. Nigeria: Selected Economic Indicators, 2010-16 (continued)

Gross international reserves strengthened to $27 billion at end-2016.



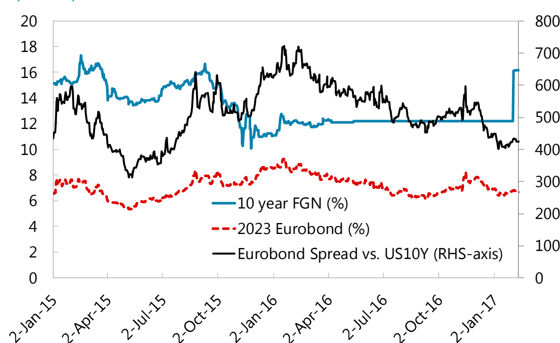
Sources: Central Bank of Nigeria; and IMF staff calculations.

Despite the move towards greater exchange rate liberalization, FX restrictions kept the wedge between the parallel and interbank exchange rates at over 50 percent.



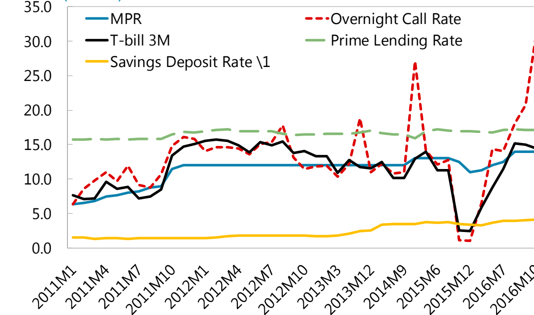
Source: Central Bank of Nigeria.

… while the spread between Eurobond and U.S. government securities (basis points) remain elevated.



Source: Bloomberg.

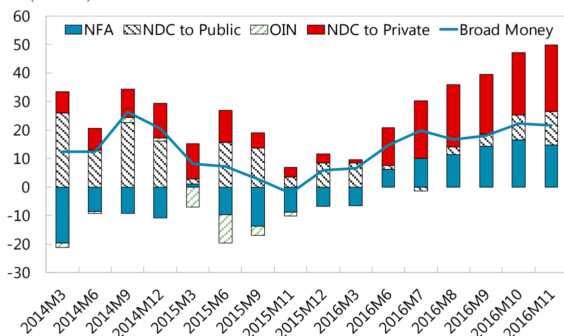
As the CBN's sales of forex declined and monetary policy stance eased, liquidity in the banking sector increased and money market rate fell sharply below the MPR before increasing more recently



Source: Central Bank of Nigeria.

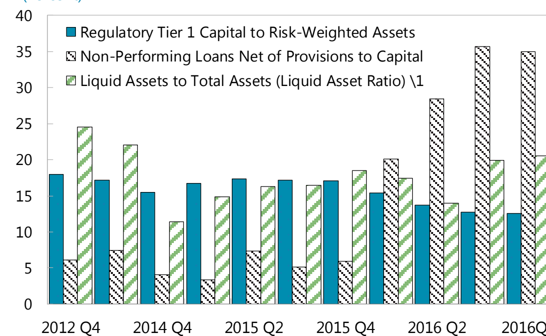
1/ The wide lending-deposit rates spread is mainly explained by high non-interest cost (please see AIV and SIP 2016 for details).

Despite the monetary easing, credit to the private sector, which grew by 22 percent y-o-y in December, remained relatively flat after correcting for changes in the exchange rate.



Sources: CBN; IMF staff estimates.

...meanwhile, non-performing loans (NPL) doubled and capital adequacy ratios declined.

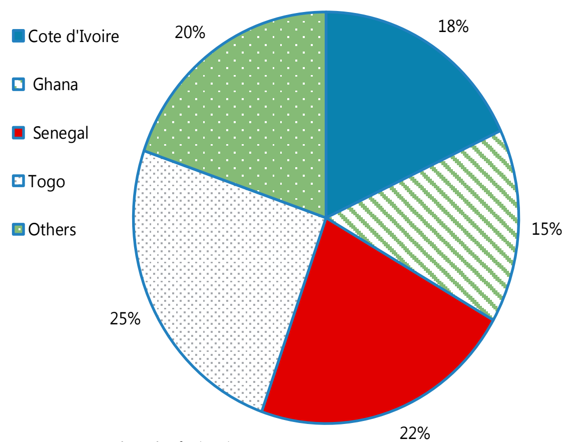


Sources: Central Bank of Nigeria and IMF FSI database.

1/ Liquid Asset Ratio from Q3 and Q4 2016 are based on CBN's definition of Liquid Assets.

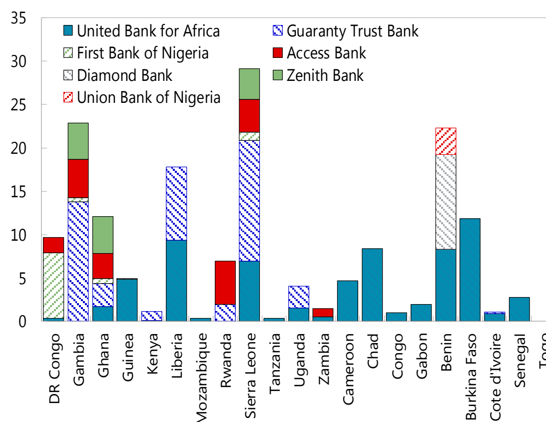
Figure 2. Nigeria: Spillovers from the Financial Sector

Outward Spillover: Liabilities Due to Nigerian Subsidiary Banks, 2016
(Percent of Total)



Source: Central Bank of Nigeria.

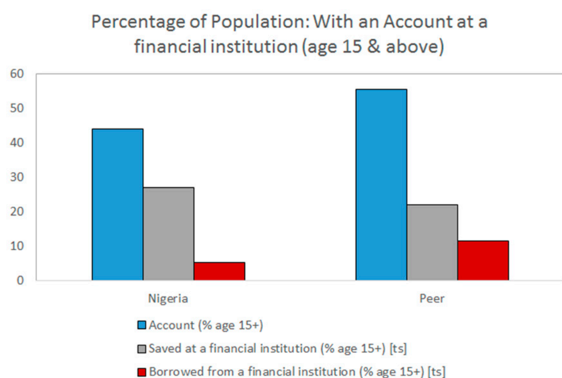
Nigerian Banks' Share of Deposits Abroad, 2013[1]
(Percent)



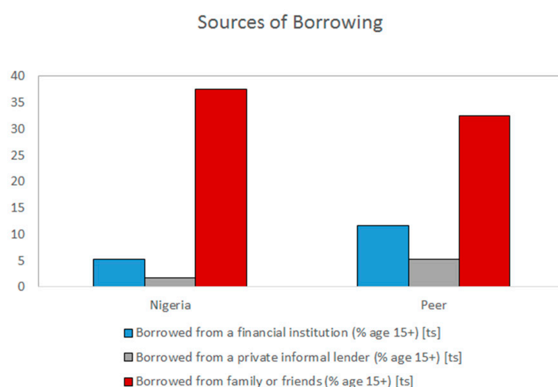
Sources: Banks' Annual Reports and Websites, and Bankscope.
1/ Data as of 2013 if available or earlier.

Figure 3. Nigeria: Financial Inclusion Indicators, 2014

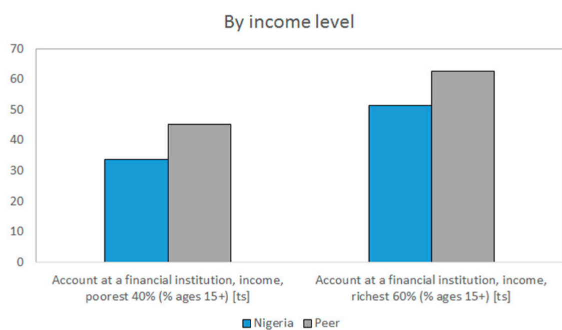
Nigerians' savings at financial institution fare better than peers, but ....



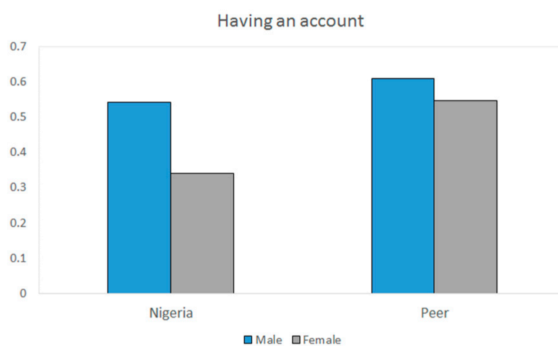
like their peers Nigerians depend less on the formal sector for their borrowing



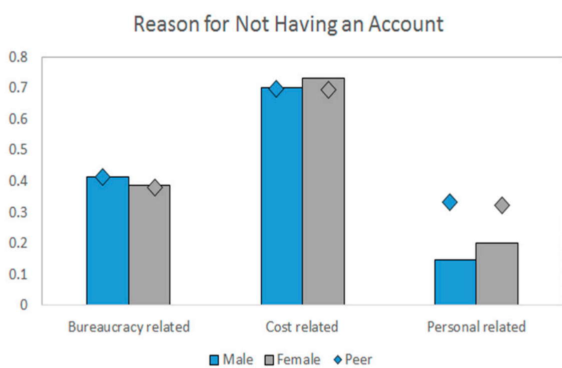
Disparity of access to financial institutions by income-level compares with peers,



However, with regards to gender, Nigeria scores much lower than its peers.



The reasons for not having an account are similar to peers



But compared to peers, lack of access is mainly involuntary

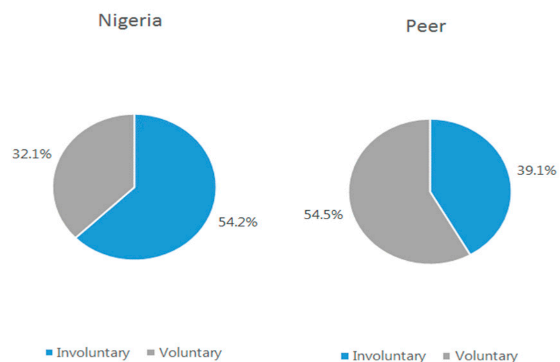


Table 1. Nigeria: Selected Economic and Financial Indicators, 2015–22

	2015	2016	2017	2018	2019	2020	2021	2022
	Prel.	Projections						
National income and prices	(Annual percentage change, unless otherwise specified)							
Real GDP (at 2010 market prices)	2.7	-1.5	0.8	1.9	1.9	1.8	1.8	1.8
Oil and Gas GDP	-5.4	-13.6	7.8	10.0	4.5	0.0	0.0	0.0
Non-oil GDP	3.6	-0.3	0.2	1.1	1.6	2.0	2.0	2.0
Production of crude oil (million barrels per day)	2.12	1.85	2.00	2.20	2.30	2.30	2.30	2.30
Nominal GDP at market prices (trillions of naira)	95.2	102.7	122.1	143.6	169.4	198.5	231.6	269.8
Nominal non-oil GDP (trillions of naira)	89.2	97.2	113.2	133.9	159.3	187.7	219.2	255.5
Nominal GDP per capita (US$)	2,760	2,256	2,123	2,435	2,798	2,995	3,014	3,040
GDP deflator	2.9	9.6	17.9	15.4	15.8	15.1	14.6	14.4
Non-oil GDP deflator	6.9	9.3	16.2	16.9	17.2	15.5	14.5	14.3
Consumer price index (annual average)	9.0	15.7	17.4	15.6	16.0	15.2	14.7	14.5
Consumer price index (end of period)	9.6	18.6	17.5	16.5	15.5	15.0	14.5	14.5
Investment and savings	(Percent of GDP)							
Gross national savings	12.3	13.1	13.5	13.8	14.2	14.7	15.0	15.5
Public	-0.3	-1.3	-0.8	-0.2	0.3	0.4	0.8	0.8
Private	12.6	14.5	14.3	14.0	13.9	14.4	14.2	14.6
Investment	15.4	12.5	12.5	12.8	13.5	14.1	14.5	15.2
Public	1.8	1.6	2.7	2.3	2.2	2.1	2.2	2.3
Private	13.7	10.9	9.8	10.5	11.2	12.0	12.3	12.8
Current account balance	-3.1	0.6	1.0	1.0	0.7	0.6	0.5	0.4
Consolidated government operations [1]	(Percent of GDP)							
Total revenues and grants	7.6	5.3	5.7	5.9	6.1	6.5	6.8	7.0
Of which: oil and gas revenue	3.5	2.1	2.3	2.4	2.4	2.6	2.7	2.7
Total expenditure and net lending	11.1	10.0	10.7	10.2	10.1	10.4	10.7	10.8
Of which : fuel subsidies	0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance	-3.5	-4.7	-5.0	-4.2	-4.0	-3.9	-3.8	-3.8
Non-oil primary balance (percent of non-oil GDP)	-6.3	-5.8	-6.7	-5.7	-5.1	-5.0	-4.8	-4.6
Anchor: non-oil revenue (percent of non-oil GDP)	4.4	3.4	3.6	3.7	3.9	4.1	4.4	4.5
Public gross debt (percent of GDP)	12.1	18.6	23.3	24.1	24.3	24.6	25.0	24.9
Of which : FGN debt (percent of GDP)	9.3	14.4	17.7	17.9	18.0	18.2	18.5	18.9
FGN interest payments (percent of FGN revenue)	33.2	66.4	60.7	65.1	75.0	78.3	82.8	88.7
Money and credit	(Change in percent of broad money at the beginning of the period, unless otherwise specified)							
Broad money (percent change; end of period)	5.9	18.7	19.2	18.7	18.7	18.2	18.0	17.5
Net foreign assets	-6.8	13.7	-5.2	-0.5	0.5	3.1	2.8	2.2
Net domestic assets	12.7	4.9	24.4	19.2	18.2	15.2	15.2	15.3
o/w Claims on consolidated government	8.5	8.4	20.4	17.8	16.5	17.8	18.1	17.6
Credit to the private sector (y-o-y,%)	0.1	22.3	3.2	2.2	2.0	1.2	1.0	1.0
Velocity of broad money (ratio; end of period)	4.4	4.1	4.0	4.0	4.0	4.0	3.9	3.9
External sector	(Annual percentage change, unless otherwise specified)							
Exports of goods and services	-42.0	-21.9	33.0	7.3	2.4	2.2	1.6	2.3
Imports of goods and services	-16.8	-34.4	17.5	5.7	4.5	2.9	3.2	3.7
Terms of trade	-26.5	-6.1	10.7	-1.3	-1.6	-0.6	0.0	0.6
Price of Nigerian oil (US dollar per barrel)	53.1	44.6	56.3	55.9	55.0	54.9	55.5	56.6
External debt outstanding (US$ billions)[2]	47.2	44.5	48.0	54.9	62.9	67.8	69.8	72.3
Gross international reserves (US$ billions)[3]	28.3	27.0	27.1	26.7	27.0	26.9	26.5	25.4
(equivalent months of imports of G&Ss)	7.2	5.8	5.5	5.2	5.1	5.0	4.7	4.3

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

[1]The budget oil price was $53 per barrel (pb) and $38 pb for 2015 and 2016, respectively. It is proposed at $44.5 pb for 2017, $45 pb for 2018 and $50 pb for 2019 in the MTEF 2017-19.

[2]Includes both public and private sector.

[3]From 2016, includes about $2 billion in reclassified TSA funds, which are at the central bank but under government control.

Table 2. Nigeria: Balance of Payments, 2015–22

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

	2015	2016	2017	2018	2019	2020	2021	2022
		Prel.	Projections					
Current account balance	-15.4	2.6	4.0	4.7	4.0	3.9	3.3	2.6
Trade balance	-6.4	-0.5	5.8	7.7	7.0	6.7	6.0	5.3
Exports	45.9	34.7	47.2	50.9	52.0	53.1	53.9	55.1
Oil/gas	42.4	32.0	44.1	47.6	48.7	49.6	50.0	50.9
Other	3.4	2.7	3.1	3.2	3.3	3.6	3.9	4.2
Imports	-52.3	-35.2	-41.4	-43.2	-45.0	-46.4	-47.9	-49.9
Oil/gas	-8.5	-9.0	-11.1	-10.6	-10.2	-10.1	-10.4	-10.8
Other	-43.8	-26.3	-30.3	-32.6	-34.8	-36.3	-37.5	-39.1
Services (net)	-16.5	-8.4	-10.4	-11.7	-12.3	-12.6	-12.9	-13.2
Income (net)	-12.7	-8.4	-11.8	-12.3	-12.5	-12.8	-13.2	-13.7
Of which: Interest due on public debt	-0.2	-0.2	-0.3	-0.4	-0.6	-0.7	-0.8	-0.8
Transfers (net)	20.2	19.6	20.3	21.0	21.8	22.6	23.4	24.2
Capital and Financial account balance	-5.4	-0.6	-3.9	-5.1	-3.7	-3.9	-3.7	-3.6
Capital Account (net)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financial Account (net)	-5.4	-0.6	-3.9	-5.1	-3.7	-3.9	-3.7	-3.6
Direct Investment (net)	1.6	3.1	3.0	2.8	3.0	3.2	3.3	3.4
Portfolio Investment (net)	0.9	1.7	2.6	2.4	2.3	2.6	2.6	2.7
Other Investment (net)	-9.2	-5.5	-9.6	-10.4	-9.0	-9.7	-9.6	-9.8
Errors and omissions[1]	16.5	-3.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance	-4.3	-1.0	0.1	-0.4	0.3	-0.1	-0.5	-1.1
Net international reserves (increase -)	5.7	1.0	-0.1	0.4	-0.3	0.1	0.5	1.1
Memorandum items:								
Gross official reserves, end-of-period[2]	28.3	27.0	27.1	26.7	27.0	26.9	26.5	25.4
In months of next year's imports of goods and services	7.2	5.8	5.5	5.2	5.1	5.0	4.7	4.3
Current account (percent of GDP)	-3.1	0.6	1.0	1.0	0.7	0.6	0.5	0.4
Exports of goods and services (percent of GDP)	9.9	9.4	12.7	11.6	10.0	9.3	9.2	9.1
Imports of goods and services (percent of GDP)	14.6	11.6	13.8	12.4	11.0	10.3	10.3	10.3
Public external debt[3]	15.2	16.3	20.4	23.3	27.0	28.6	28.5	29.1
In percent of GDP[3]	6.0	2.2	2.6	2.6	2.6	2.3	1.9	1.7
In percent of exports[3]	31.0	42.5	40.0	42.7	48.3	49.9	49.0	48.9
In percent of consolidated fiscal revenues[3]	40.6	83.1	89.7	83.7	79.3	71.2	65.7	63.1
Private external debt	32.0	28.2	27.6	31.5	35.9	39.3	41.3	43.2
External debt service due (percent of exports)[3]	5.0	5.9	4.9	6.1	5.5	5.9	7.3	7.1
GDP in billion U.S. dollars	493	414	401	472	557	613	634	657

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

[1]The 2016 number reflects the Q1-Q3 outturn and a zero forecast for Q4.

[2]From 2016, includes about $2 billion in reclassified treasury single account funds, which are at the central bank but under government control.

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

Table 3a. Nigeria: Federal Government Operations, 2015–22
(Billions of Naira)

	2015	2016	2017	2018	2019	2020	2021	2022
		Prel.			Projections			
Total revenue	3,057	1,978	2,312	3,002	3,645	4,528	5,457	6,457
Oil revenue	1,359	915	1,015	1,455	1,769	2,241	2,686	3,167
Non-oil revenue	1,698	1,063	1,297	1,547	1,876	2,287	2,771	3,290
Import and excise duties	246	256	255	290	322	371	433	507
Companies' income tax	479	460	559	659	810	1,001	1,223	1,429
Value-added tax	104	109	154	210	282	371	479	613
Federal government independent revenue	869	238	329	388	462	544	636	742
Total expenditure	5,406	4,903	6,870	7,149	8,457	10,150	12,236	14,554
Recurrent expenditure	4,805	4,307	4,943	5,664	6,711	8,220	9,981	11,926
Personnel	2,453	1,875	1,837	1,853	1,881	2,216	2,589	2,848
Overheads	465	536	412	412	412	485	567	661
Interest	1,013	1,313	1,404	1,953	2,735	3,545	4,519	5,728
Transfers[1]	873	583	1,290	1,446	1,683	1,974	2,306	2,689
Capital expenditure	601	596	1,927	1,486	1,746	1,930	2,255	2,629
Overall balance	-2,349	-2,925	-4,558	-4,147	-4,812	-5,622	-6,779	-8,097
Overall balance (incl. ECA financing)	-2,349	-2,925	-4,344	-4,115	-4,812	-5,622	-6,767	-8,097
Financing	2,349	2,925	4,558	4,147	4,812	5,622	6,779	8,097
External	167	100	658	465	566	180	-104	-763
Borrowing	206	159	687	618	630	304	194	218
Amortization	-21	-21	-30	-153	-63	-110	-283	-964
Foreign asset acquisition (ECA/SWF)	-18	-38	0	0	0	-14	-15	-17
Domestic	1,808	2,068	3,900	3,682	4,245	5,442	6,883	8,860
Bank financing	1,805	1,766	3,450	3,090	3,617	4,797	6,193	8,133
Nonbank financing	-15	283	431	574	629	645	690	727
Other financing[2]	19	19	19	19	0	0	0	0
Statistical discrepancy/Financing gap	374	758	0	0	0	0	0	0
Memorandum items :								
FGN Total Debt	8,837	14,823	21,581	25,728	30,540	36,162	42,941	51,038
Domestic	8,837	12,554	18,424	22,002	26,099	31,507	38,460	46,582
fraction of domestic debt held by banks	0.60	0.56	0.67	0.70	0.73	0.76	0.78	0.82
Foreign	0	2,269	3,157	3,726	4,440	4,654	4,481	4,456
Budget oil price	53.0	38.0	44.5	45.0	50.0	49.9	50.5	51.5
Price of Nigerian oil (US dollar per barrel)	53.1	44.6	56.3	55.9	55.0	54.9	55.5	56.6
FGN overall balance (percent of GDP)	-2.5	-2.8	-3.7	-2.9	-2.8	-2.8	-2.9	-3.0

Sources: Nigerian authorities; and IMF staff estimates and projections.
[1]Includes earmarked spending for National Judicial Council,
Universal Basic Education, Niger Delta Development
[2]Includes proceeds from privatization and sales of government properties.

Table 3b. Nigeria: Consolidated Government, 2015–22
(Billions of Naira)

	2015	2016	2017	2018	2019	2020	2021	2022
		Prel.	Projections					
Total revenue	7,224	5,426	6,922	8,479	10,354	12,988	15,851	18,954
Oil revenue	3,299	2,114	2,844	3,464	4,126	5,250	6,316	7,400
Non-oil revenue	3,925	3,312	4,078	5,015	6,228	7,738	9,536	11,554
Import and excise duties	546	567	566	644	714	822	960	1,124
Companies' income tax	1,029	988	1,200	1,414	1,739	2,150	2,626	3,068
Value-added tax	773	811	1,147	1,564	2,100	2,758	3,565	4,558
Other (education tax and customs levies)	342	308	363	436	526	640	768	898
Federal government independent revenue	869	238	329	388	462	544	636	742
SLGs independent revenue	366	399	473	569	688	825	980	1,163
Total expenditure	10,555	10,253	13,086	14,573	17,087	20,713	24,665	29,158
Federal government	5,406	4,903	6,870	7,149	8,457	10,150	12,236	14,554
State and local government	4,279	4,785	5,537	6,603	7,636	9,336	10,941	12,845
Extrabudgetary funds (incl. SURE-P) [1]	871	565	679	821	995	1,227	1,488	1,759
Overall balance	-3,332	-4,827	-6,164	-6,094	-6,733	-7,725	-8,813	-10,204
Non-oil primary balance	-5,617	-5,628	-7,604	-7,605	-8,124	-9,429	-10,610	-11,877
Anchor: Non-oil revenue (Percent of Non-oil GDP)	4.4	3.4	3.6	3.7	3.9	4.1	4.4	4.5
Financing	3,332	4,827	6,164	6,094	6,733	7,725	8,813	10,204
External	251	125	888	569	714	200	-189	-41
Borrowing [2]	300	194	931	792	807	374	240	269
Amortization	-31	-31	-43	-224	-93	-160	-413	-294
Foreign asset acquisition (ECA/SWF)	-18	-38	0	0	0	-14	-15	-17
Domestic	1,511	2,032	5,276	5,525	6,019	7,525	9,003	10,245
Bank financing [3]	1,507	1,730	4,826	4,932	5,391	6,880	8,313	9,518
Nonbank financing	-15	283	431	574	629	645	690	727
Other financing	19	19	19	19	0	0	0	0
Statistical discrepancy/Financing gap	1,569	2,670	0	0	0	0	0	0
Memorandum items:								
Budget oil price (US dollar a barrel)	53.0	38.0	44.5	45.0	50.0	49.9	50.5	51.5
Overall balance (% of GDP)	-3.5	-4.7	-5.0	-4.2	-4.0	-3.9	-3.8	-3.8

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

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

[2] Includes projects not included in the FGN budget, even though funds are on lent by FGN.

[3] Equal to the change in net claims on the consolidated government in the monetary survey, minus the change in state and local government deposits that are part of broad money.

Table 3c. Nigeria: Government Operations, 2015–22
(Percent of GDP)

	2015	2016	2017	2018	2019	2020	2021	2022
		Prel.	Projections					
Consolidated Government								
Total revenue	7.6	5.3	5.7	5.9	6.1	6.5	6.8	7.0
Oil revenue	3.5	2.1	2.3	2.4	2.4	2.6	2.7	2.7
Non-oil revenue	4.1	3.2	3.3	3.5	3.7	3.9	4.1	4.3
Total expenditure	11.1	10.0	10.7	10.2	10.1	10.4	10.7	10.8
Federal government expenditure	5.7	4.8	5.6	5.0	5.0	5.1	5.3	5.4
State and local government	4.5	4.7	4.5	4.6	4.5	4.7	4.7	4.8
Extrabudgetary funds (incl. from SURE-P)	0.9	0.5	0.6	0.6	0.6	0.6	0.6	0.7
Overall balance	-3.5	-4.7	-5.0	-4.2	-4.0	-3.9	-3.8	-3.8
Non-oil primary balance (percent of non-oil GDP)	-6.3	-5.8	-6.7	-5.7	-5.1	-5.0	-4.8	-4.6
Financing	3.5	4.7	5.0	4.2	4.0	3.9	3.8	3.8
External	0.3	0.1	0.7	0.4	0.4	0.1	-0.1	0.0
Borrowing	0.3	0.2	0.8	0.6	0.5	0.2	0.1	0.1
Amortization	0.0	0.0	0.0	-0.2	-0.1	-0.1	-0.2	-0.1
Domestic	1.6	2.0	4.3	3.8	3.6	3.8	3.9	3.8
Bank financing	1.6	1.7	4.0	3.4	3.2	3.5	3.6	3.5
Nonbank financing	0.0	0.3	0.4	0.4	0.4	0.3	0.3	0.3
Statistical discrepancy/Financing Gap	1.6	2.6	0.0	0.0	0.0	0.0	0.0	0.0
Federal Government								
Total revenue	3.2	1.9	1.9	2.1	2.2	2.3	2.4	2.4
Oil revenue	1.4	0.9	0.8	1.0	1.0	1.1	1.2	1.2
Non-oil revenue	1.8	1.0	1.1	1.1	1.1	1.2	1.2	1.2
Total expenditure	5.7	4.8	5.6	5.0	5.0	5.1	5.3	5.4
Recurrent expenditure	5.0	4.2	4.0	3.9	4.0	4.1	4.3	4.4
Personnel	2.6	1.8	1.5	1.3	1.1	1.1	1.1	1.1
Overheads	0.5	0.5	0.3	0.3	0.2	0.2	0.2	0.2
Interest	1.1	1.3	1.1	1.4	1.6	1.8	2.0	2.1
Transfers	0.9	0.6	1.1	1.0	1.0	1.0	1.0	1.0
Capital expenditure	0.6	0.6	1.6	1.0	1.0	1.0	1.0	1.0
Overall balance	-2.5	-2.8	-3.7	-2.9	-2.8	-2.8	-2.9	-3.0
Overall balance (incl. ECA financing)	-2.5	-2.8	-3.6	-2.9	-2.8	-2.8	-2.9	-3.0
Financing	2.5	2.8	3.7	2.9	2.8	2.8	2.9	3.0
External	0.2	0.1	0.5	0.3	0.3	0.1	0.0	-0.3
Domestic	1.9	2.0	3.2	2.6	2.5	2.7	3.0	3.3
Bank financing	1.9	1.7	2.8	2.2	2.1	2.4	2.7	3.0
Nonbank financing	0.0	0.3	0.4	0.4	0.4	0.3	0.3	0.3
Statistical discrepancy/Financing gap	0.4	0.7	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items:								
Foreign-financed capital spending	0.3	0.2	0.8	0.6	0.5	0.2	0.1	0.1

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

Table 3d. Nigeria: State and Local Governments, 2015–22
(Percent of GDP)

	2015	2016	2017	2018	2019	2020	2021	2022
		Prel.	Projections					
Revenue	3.6	2.8	2.8	3.2	3.4	3.6	3.8	4.0
Oil revenue	1.8	1.1	1.0	1.3	1.3	1.4	1.5	1.5
Shared revenue	1.4	0.8	0.7	1.0	1.0	1.1	1.1	1.1
Derivation grant (13 percent)	0.4	0.3	0.3	0.3	0.3	0.3	0.4	0.4
Non-oil revenue	1.8	1.7	1.8	1.9	2.1	2.2	2.4	2.5
Corporate Income Tax	0.5	0.4	0.4	0.4	0.5	0.5	0.5	0.5
Customs	0.3	0.2	0.2	0.2	0.2	0.2	0.2	0.2
VAT	0.7	0.6	0.8	0.9	1.0	1.1	1.3	1.4
Internal revenue	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4
Expenditure	4.5	4.7	4.5	4.6	4.5	4.7	4.7	4.8
Overall Balance	-0.9	-1.9	-1.7	-1.4	-1.1	-1.1	-0.9	-0.8
Financing	0.9	1.9	1.7	1.4	1.1	1.1	0.9	0.8
External	0.1	0.0	0.2	0.1	0.1	0.0	0.0	0.3
Domestic	-0.3	0.0	1.5	1.3	1.0	1.0	0.9	0.5
Bank financing	-0.3	0.0	1.5	1.3	1.0	1.0	0.9	0.5
Nonbank financing	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
other	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Statistical discrepancy/Financing gap	1.1	1.9	0.0	0.0	0.0	0.0	0.0	0.0

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

Table 4a. Nigeria: Central Bank of Nigeria (CBN) Analytical Balance Sheet, 2015–22

(Billions of Naira)

	2015	2016				2017	2018	2019	2020	2021	2022
	Dec.	Mar.	Jun.	Sep.	Dec.	December					
	Act.	Act.				Projections					
Net foreign assets[1]	5,545	5,178	6,840	7,791	8,994	7,760	7,632	7,699	8,637	9,460	10,041
Net domestic assets	1,497	2,189	326	977	341	3,366	5,579	7,983	9,902	12,414	15,672
Net domestic credit	4,634	5,381	5,231	7,049	7,121	8,255	10,457	12,858	15,787	19,389	23,806
Net claims on consolidated government	-1,653	-851	-1,465	-1,129	-172	1,328	3,084	4,969	7,335	10,326	14,060
Net claims on federal government [1]	-1,653	-851	-1,465	-1,129	-172	1,328	3,084	4,969	7,335	10,326	14,060
Claims	2,514	3,308	3,556	3,944	5,043	4,961	6,288	7,672	9,539	12,055	15,289
Deposits	-4,167	-4,159	-5,021	-5,073	-5,215	-3,633	-3,203	-2,703	-2,203	-1,729	-1,229
Claims on deposit money banks	1,225	1,065	1,320	2,227	1,601	1,557	1,841	2,193	2,584	3,019	3,520
Other net claims	5,062	5,167	5,377	5,952	5,692	5,370	5,531	5,697	5,868	6,044	6,225
Other items net	-3,137	-3,193	-4,906	-6,072	-6,780	-4,889	-4,877	-4,875	-5,885	-6,974	-8,134
Reserve money	7,042	7,367	7,166	8,769	9,335	11,126	13,212	15,682	18,539	21,875	25,713
Currency in circulation	1,858	1,811	1,685	1,794	2,179	5,657	6,901	8,399	10,080	12,081	14,379
Banks reserves with the CBN	5,185	5,556	5,481	6,974	7,156	5,470	6,310	7,283	8,459	9,793	11,335
Memorandum items :											
Reserve money y/y growth rate	14.5	21.9	16.1	38.5	32.6	19.2	18.7	18.7	18.2	18.0	17.5
Money multiplier	2.8	2.8	3.0	2.5	2.5	2.5	2.5	2.5	2.5	2.5	2.5

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

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

Table 4b. Nigeria: Monetary Survey, 2015–22

(Billions of Naira)

	2015	2016				2017	2018	2019	2020	2021	2022
	Dec.	Mar.	Jun.	Sep.	Dec.	December					
	Prel.	Act.				Projections					
Net foreign assets	5,671	5,553	7,097	7,740	9,342	8,107	7,979	8,148	9,360	10,671	11,907
Central Bank of Nigeria (net)	5,545	5,178	6,840	7,791	8,994	7,760	7,632	7,699	8,637	9,460	10,041
Commercial and merchant banks (net)	125	375	257	-51	347	347	347	449	723	1,210	1,865
Net domestic assets	14,229	14,706	14,336	13,970	14,109	20,074	25,485	31,573	37,599	44,735	53,223
Net domestic credit	21,447	22,400	24,029	25,957	26,622	32,467	37,805	43,620	50,888	59,548	69,452
Net claims on consolidated government	3,401	4,282	3,415	4,125	5,074	10,466	15,483	20,998	28,084	36,590	46,338
Net claims on FGN [1]	2,817	3,623	2,716	3,441	4,392	7,903	10,884	14,501	19,298	25,452	33,585
Claims on SLG	584	659	699	685	682	2,564	4,599	6,497	8,786	11,138	12,753
Claims on private sector	12,996	12,962	15,249	15,891	15,867	16,320	16,642	16,940	17,123	17,277	17,433
o/w credit to the private sector	11,583	11,439	13,617	14,129	14,164	14,617	14,938	15,237	15,420	15,574	15,730
Other Claims	5,051	5,156	5,365	5,941	5,681	5,681	5,681	5,681	5,681	5,681	5,681
Other items	-7,218	-7,694	-9,693	-11,988	-12,513	-12,393	-12,321	-12,046	-13,289	-14,813	-16,229
Broad money	19,925	20,280	21,483	21,930	23,645	28,182	33,464	39,721	46,958	55,406	65,129
Currency outside banks	1,458	1,441	1,379	1,477	1,820	2,170	2,576	3,058	3,615	4,266	5,014
Demand deposits	7,103	7,582	7,721	8,442	9,678	11,406	13,545	16,070	19,009	22,426	26,361
Time and savings deposits	11,363	11,257	12,383	12,010	12,147	14,606	17,343	20,593	24,334	28,714	33,754
Memorandum items :											
Broad money (y-o-y,%)	5.9	6.4	14.6	17.9	18.7	19.2	18.7	18.7	18.2	18.0	17.5
Credit to the private sector (y-o-y,%)	0.1	-4.9	11.7	19.9	22.3	3.2	2.2	2.0	1.2	1.0	1.0
Velocity (non-oil GDP/broad money)	4.42	4.56	4.51	4.64	4.51	4.0	4.0	4.0	4.0	3.9	3.9
Gross international reserves (billions of US dollar)	28.3	27.8	26.5	23.8	27.0	27.1	26.7	27.0	26.9	26.5	25.4

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

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

Table 5. Financial Soundness Indicators, 2011Q4–16Q4

(Percent; otherwise specified)

	2011 Q4	2012 Q4	2013 Q4	2014 Q4	2015Q4	2016Q1	2016Q2	2016Q3	2016Q4
Regulatory Capital to Risk-Weighted Assets	17.9	18.3	17.1	17.2	16.1	16.6	14.7	15.0	14.8
Regulatory Tier 1 Capital to Risk-Weighted Assets	18.1	18.0	17.1	15.5	17.1	15.4	13.8	12.7	12.6
Non-Performing Loans Net of Provisions to Capital	7.1	3.8	5.8	4.1	5.9	20.1	28.4	37.3	35.0
Non-Performing Loans to Total Gross Loans	5.3	3.7	3.4	2.9	5.3	10.7	11.7	13.2	12.8
Return on Assets	0.1	1.2	0.8	3.1	2.5	3.0	0.4	1.6	1.5
Return on Equity	0.5	11.2	7.7	21.2	19.7	22.6	4.6	13.0	12.6
Interest Margin to Gross Income	31.0	62.0	63.9	51.2	62.2	62.4	61.4	55.9	60.1
Non-interest Expenses to Gross Income	75.4	64.8	68.1	56.9	64.2	58.0	54.6	35.9	39.4
Liquid Assets to Total Assets (Liquid Asset Ratio)[1]	25.7	16.2	16.8	11.4	18.5	17.4	14.0	18.7	18.0
Liquid Assets to Short Term Liabilities	31.3	22.1	23.1	16.7	27.1	25.7	21.6	42.1	38.5

Sources: Financial Soundness Indicators (FSI); Central Bank of Nigeria.

[1] Liquid Asset Ratio from Q3 and Q4 2016 are based on CBN's definition of Liquid Assets.

Table 6. Nigeria: Risk Assessment Matrix[1]

Source of Risks	Relative Likelihood	Time Horizon	Impact on Nigeria	Policy Response
Retreat from cross-border integration. A fraying consensus about the benefits of globalization could lead to protectionism and economic isolationism, leading to reduced global and regional policy collaboration with negative consequences for trade, capital and labor flows, sentiment, and growth.	High	Short to Medium Term	High	• Anchor **macroeconomic stability** to mobilize foreign investors' interest in Nigeria, including through appropriate fiscal, monetary, exchange rate and structural policies. • ***Diversify exports,*** both in terms of export products and trading partners. • Continue improving the **business environment** to boost productivity and competitiveness (e.g., streamlining business regulations, contract enforcement, and affirmation of investors' rights as well as improving trade facilitation).
Policy and geopolitical uncertainties:				Greater exchange rate flexibility should be allowed to cushion the impact of related shocks and structural reforms advanced to enhance economic efficiency and diversification. Aim to rebuild fiscal buffers and reserves.
• **Policy uncertainty and divergence.** Two-sided risks to U.S. growth with difficult-to-predict policies and global spillovers. In Europe, uncertainty associated with negotiating post-Brexit arrangements and with upcoming major elections. Policy divergence could lead to rising global imbalances and exacerbate exchange rate and capital flow volatility.	High	Short to Medium Term	Medium	
• **Intensification of the risks of fragmentation/security dislocation in part of the Middle East, Africa, and Europe,** leading to a sharp rise in migrant flows, with negative global spillovers.	High	Short Term	Medium	
Financial conditions:				• Up-front measures for ***fiscal consolidation*** to ensure continued access to international capital markets. • The ***monetary and exchange rate policy framework*** needs to be strengthened, including allowing greater flexibility in the interbank exchange rate; placing a stronger emphasis on price stability as the primary policy objective of monetary policy; reducing monetary growth to its benchmark rate; and unwinding the central bank quasi fiscal activities. • Strengthen the ***supervisory and regulatory framework***, especially as it pertains to cross-border banking activity and oversight of holding companies; improve corporate governance; and address weaknesses in the bank resolution framework.
• **Significant further strengthening of the US dollar and/or higher rates.** As investors reassess policy fundamentals, as term premia decompress, or if there is a more rapid Fed normalization, leveraged firms, lower-rated sovereigns and those with un-hedged dollar exposures could come under stress. Could also result in capital account pressures for some economies.	High	Short Term	High	
• **European bank distress:** Strained bank balance sheets amid a weak profitability outlook could lead to financial distress in one or more major banks with possible knock-on effects on the broader financial sector and for sovereign yields in vulnerable economies.	Medium	Short Term	Medium	

Table 6. Nigeria: Risk Assessment Matrix (continued)

Source of Risks	Relative Likelihood	Time Horizon	Impact on Nigeria	Policy Response
Weaker-than-expected global growth: • **Significant slowdown in other large EMs/frontier economies.** Turning of the domestic credit cycle in addition to lower trend productivity and potential growth generates disorderly household and corporate deleveraging, with potential spillbacks to advanced economies. • **Structurally weak growth in key advanced and emerging economies:** Low productivity growth (U.S., the Euro Area, and Japan), a failure to fully address crisis legacies and undertake structural reforms, and persistently low inflation (the Euro Area, and Japan) undermine medium-term growth in advanced economies (high likelihood). Resource misallocation and policy missteps, including insufficient reforms, exacerbate declining productivity growth in emerging markets (medium likelihood).	Medium High/ Medium	Short Term Medium Term	Medium High/ Medium	Nigeria needs to: • ***Diversify its exports*** both in terms of export products and trading partners. • Continue improving the **business environment** to boost productivity and competitiveness (e.g., streamlining business regulations, contract enforcement, and affirmation of investors' rights as well as improving trade facilitation). • Address the ***infrastructure gap***. Significant public and private investment is needed to improve power generation, improve logistics and expand capacity.
Lower energy prices, Production cuts by OPEC and other major producers may not materialize as agreed while other sources of supply could increase production.	Low	Short to Medium Term	High	• ***Non-oil revenue mobilization*** is priority as it will shield the country from declines in oil revenue. • ***Contain recurrent expenditure*** to conserve scarce resources for public investment • Allow greater ***exchange rate flexibility*** to support adjustment to external shocks and reflect economic fundamentals, supported by a tighter monetary stance to prevent capital outflows and bolster reserves. • **Structural reforms** should be advanced to improve economic efficiency and enhance diversification.

Table 6. Nigeria: Risk Assessment Matrix (concluded)

Source of Risks	Relative Likelihood	Time Horizon	Impact on Nigeria	Policy Response
Nigeria-specific risks:				
• **Prolonged policy uncertainty could drag on confidence and investment**, keeping growth and increasing the risk of a currency crisis	High	Short Term	High	• Urgent need for an ***integrated package of policies*** (including communication strategy) to address near-term vulnerabilities and support the transition to a more diversified economy. • In addition to the ***fiscal sustainability program***, a clear picture is needed on how SLGs plan to adjust to the projected lower oil revenue allocations and bolster internally generated revenues. • Continue to encourage reform of budget preparation and execution and strengthening of ***public financial management***, including the adoption by SLGs of Treasury Single Account, cash management reforms, and improved fiscal reporting. • Improve oil and gas sector by strengthening security arrangements and improving the ***investment environment***. • Implement effectively targeted ***anti-money laundering*** measures to help detect and investigate illicit financial flows related to theft and corruption in the oil sector. • Address ***infrastructure gaps*** and income/developmental disparities among states, while instituting appropriate social safety nets. • Boost ***banking sector resilience*** through improved bank monitoring, enhanced contingency planning, and strengthened resolution frameworks.
• **Worsening of SLG finances**	High	Medium Term	High	
• **Prolonged disruption of oil production in the Niger Delta** and deterioration of insurgency-related **humanitarian** crisis in the North East of Nigeria.	High	Medium Term	High	
• **Continued deterioration in banking sector FSIs**	High	Short Term	High	

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

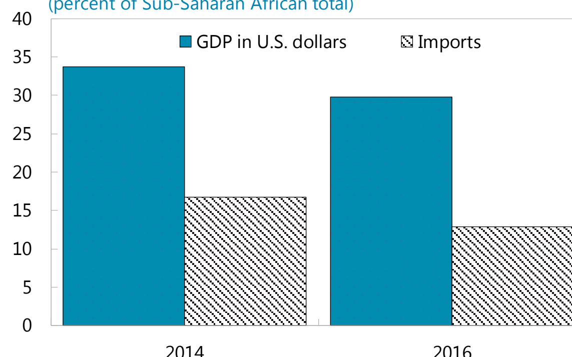
Annex I. Status of Key Recommendations for the 2016 Article IV Consultation

Recommendation	Status
Fiscal - Raise non-oil revenue to ensure fiscal sustainability while maintaining infrastructure and social spending through strengthening tax administration, and an increase in VAT rate. - Foster an orderly adjustment of budgets at the sub-national level through reform in budget preparation and execution. - Implement an independent price-setting mechanism to address petrol subsidies while strengthening the social safety net.	- The authorities have focused their fiscal policy efforts on improving tax administration, including through new registrations of corporates, collection of arrears, and targeted tax audits. No major tax policy change was implemented to increase non-oil revenue. - The federal government is providing financial assistance to states, conditional on states providing a plan for implementing a 22-point Fiscal Sustainability Program (covering accountability and transparency, public financial management, and debt management). - The authorities increased regulated fuel prices (67 percent) and deregulated fuel import markets. However, with higher oil prices and a depreciated exchange rate, the full implementation of an automatic fuel price formula is needed to avoid a reoccurrence of fuel subsidies.
Monetary and Exchange Rate - Credibly adjust to the terms-of-trade shock including through greater exchange rate flexibility and speedy unwinding of exchange restrictions. - Target price stability to maintain inflation within the target range.	- The authorities allowed the interbank exchange rate to depreciate by 55 percent in 2016. However, exchange restrictions and demand management of FX remains. - The policy rate was increased from 11 percent in December 2015 to 14 percent in July 2016. However, the monetary stance remains accommodative with reserve money and broad money growing at 50 percent and 19 percent, respectively.
Financial - Further strengthen the regulatory and supervisory frameworks to improve financial sector resilience.	- The authorities have undertaken a number of proactive measures to contain risks to financial stability, including increased provisioning, strict limits on net FX positions, prohibition of dividend payments (for banks with NPLs higher than 5 percent).
Structural - Implement structural reforms to enhance competitiveness and support investment.	- The authorities continued their drive for transparency and greater emphasis on good governance as well as on efforts that could restore oil production. They have renewed the amnesty program and initiated engagement with stakeholders in the Niger Delta; signed an agreement with IOCs to repay cash call arrears and a financing mechanism to effect cash recovery for JV operations, and advanced discussion on regulations for oil and gas policy and a fiscal regime; Initiatives have continued for strengthening the agricultural sector, initiating road and rail infrastructure, and a social investment program to promote social inclusion.

Annex II. Outward Spillovers to Sub-Saharan Africa

1. Nigeria's economic size makes it a potential source of outward spillovers to the rest of Sub-Saharan Africa. As of 2014, Nigeria accounted for 33 percent of GDP and 17 percent of imports in Sub-Saharan Africa, figures that have declined with the onset of recession (Figure 1). It is surrounded by smaller economies, for many of whom there are substantial linkages with Nigeria through exports and remittances inflows (Table 1). Linkages via non-oil imports from Nigeria appear more limited, in part because oil comprises the vast majority of Nigerian exports. In addition, studies have pointed to significant informal trade between Nigeria and its immediate neighbors not fully reflected in official statistics.[1]

Figure 1. Nigeria: Importance in Sub-Saharan Africa
(percent of Sub-Saharan African total)



Sources: IMF, *World Economic Outlook;* and IMF staff calculations.

Table 1. Intra-Regional Trade and Remittance Linkages

	Remittances from Nigeria, 2015		Exports to Nigeria, average 2013–15	
	Percent of recipient GDP	Share of total for recipient	Percent of GDP	Share of total exports
Benin	1.6	44.7	0.6	7.2
Burkina Faso	0.0	0.5	0.0	0.2
Cameroon	0.1	9.0	0.3	1.7
Chad	0.0	0.0	0.0	0.2
Cote d'Ivoire	0.0	0.5	2.2	5.6
Ghana	1.0	18.0	0.2	1.0
Niger	0.6	31.5	2.5	20.4
Togo	2.3	22.0	2.5	8.0

Sources: IMF, *Direction of Trade Statistics*; World Bank; and Haver Analytics.

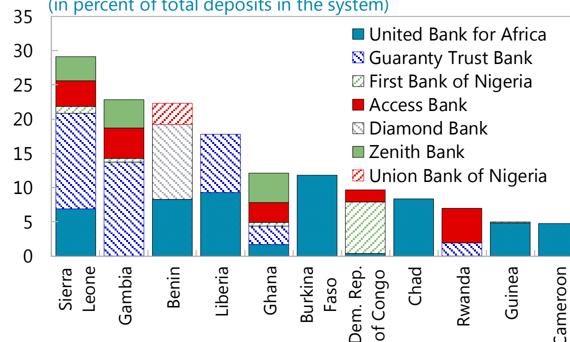
2. Cross-border financial linkages are mainly related to the widespread presence of Nigerian-owned banks in the region. Several of these are systemically-important institutions in their host countries, and Nigerian-owned banks constitute a substantial share of banking system assets and liabilities in many Sub-Saharan African countries (Figure 2; see Chapter 3 of Selected Issues Paper). As such, the economic slowdown in Nigeria could spill over to tighter credit conditions elsewhere as Nigerian-owned subsidiaries may constrain lending in order to build up liquidity.[2] However, the nature of the parent-subsidiary relationship limits potential risks. Most Nigerian-owned banks are subsidiaries whose operations are partly ring-fenced from their parent banks, and direct cross-border positions vis-à-vis parents are not typically large relative to the size of their host economies. Instead, most subsidiaries are mostly locally funded and do not depend

[1] See Golub, Stephen, 2012, "Entrepôt Trade and Smuggling in West Africa: Benin, Togo and Nigeria," *The World Economy*, Vol. 35, No. 9; and Afrika, Jean-Guy, and Gerald Ajumbo, 2012, "Informal Cross Border Trade in Africa: Implications and Policy Recommendations," *AfDB Africa Economic Brief*, Vol. 3, No. 10.

[2] Nigeria faces similar risks of inward spillovers from foreign-owned banks, as subsidiaries of Ecobank (Togo) and Stanbic (South Africa) together account for ten percent of total deposits in Nigeria.

significantly on Nigerian funding.[3] Indeed, while the systemic banking crisis in Nigeria in 2009–10 led in some cases to declines in the deposits or credit of cross-border subsidiaries, it did not generate systemic spillovers elsewhere in the region. However, this episode does underscore the importance of sound host-country regulation and supervision, and cooperation among supervisory agencies across borders, to limit potential risks.

Figure 2. Deposits at Nigerian-Owned Banks[1]
(in percent of total deposits in the system)



Sources: Banks' Annual Reports and Websites; and Bankscope.
[1] Data as of 2013 if available or earlier.

3. Nigeria's recent slowdown and security situation have affected economic conditions among its neighbors through several transmission channels. IMF staff reports have pointed to a wide array of transmission channels (Table 2). Some of the most important have been lower trade flows and customs revenue driven by several factors, especially the recession in Nigeria, depreciation of the naira, foreign exchange restrictions, and the security situation.[4]

4. However, there is only modest econometric evidence of spillovers of economic growth, and overall activity in Nigeria's neighbors has held up well. Growth spillovers were estimated using a regression of real GDP among neighboring economies on Nigeria's GDP, controlling for oil prices. They were found to be statistically significant on Chad and Niger, with no impact found on other countries (Table 3).[5] Indeed, after growth in both Nigeria and neighboring countries slowed in 2015, performance in 2016 suggests some decoupling. The median growth rate among neighboring economies excluding Chad recovered to an estimated 5.2 percent despite a contraction in the Nigerian economy (Figure 3). A large proportion of the slowdown in Chad, the other economy in the region in recession, can be explained by the impact of the oil price shock (see Chapter 1 of the Selected Issues Paper), while for most of Nigeria's other neighbors lower oil prices represent a terms of trade dividend.

[3] See IMF, 2012, "Nigeria and South Africa: Spillovers to the Rest of Sub-Saharan Africa," chapter 2 in *Regional Economic Outlook: Sub-Saharan Africa* (October).

[4] The common external tariff of the Economic Community of West African States could lead to a reduction in informal trade, but increase in formal trade. Implementation has started recently and is subject to a five-year transition period.

[5] These results are in line with those of IMF, 2012. Regressions of neighboring countries' exports on Nigeria's imports or GDP did not yield significant results. Note that informal activity not reflected in official statistics would not be captured in these estimates.

Table 2. Recent Evidence of Outward Spillovers from Nigeria Cited in IMF Staff Reports

Country	Channel	Description
Chad, Niger	Customs revenue	Lower trade flows due to insecurity in the border region contributed to underperformance in customs revenue.
Niger	Electricity	Nigerian sources provide 65 percent of Niger's electricity consumption, and have been subject to periodic supply problems due to fuel and foreign exchange shortages.
Benin	Financial	The high share of loans to the commerce sector poses risks due to firms' close trade ties with Nigeria.
Chad	Inflation	Disruptions to trade flows, in particular in food items, led to increased domestic prices for some products.
Niger	Refugee flows	Niger hosts an estimated 140,000 refugees from Nigeria due to the Boko Haram conflict, diverting spending from other priority sectors.
Benin	Tax revenue	Revenue collection (customs and VAT) on informal trade is estimated at 14 percent of total tax revenues. Nigeria's slowdown and foreign exchange restrictions have limited re-exports.
Benin, Niger, Togo	Tax revenue	Naira depreciation raises incentive for smuggling gasoline, limiting tax revenue from formal consumption.
Benin, Chad, Niger, Togo	Trade	Naira depreciation, foreign exchange restrictions, and lower Nigerian economic activity contributed to lower exports to and higher imports from Nigeria.
Benin	Trade	Reduction in Nigerian fuel subsidies lowers household incomes from smuggling (at one time, more than 80 percent of consumption was estimated to be smuggled from Nigeria).

Sources: IMF Country Reports No. 15/309, No. 16/6, No. 16/7, No. 16/247, No. 16/274, No. 16/364; EBS/16/138; and SM/16/354.

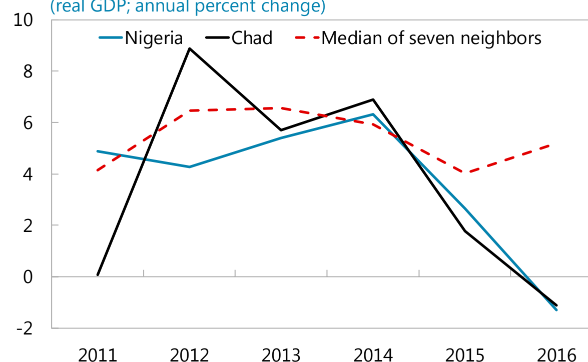
Table 3. Real GDP Elasticities

Country	Elasticity	P-value
Benin	-0.04	0.53
Burkina Faso	0.02	0.88
Cameroon	-0.02	0.67
Chad	0.97	0.01 **
Cote d'Ivoire	-0.22	0.23
Ghana	0.02	0.82
Niger	0.42	0.02 **
Togo	-0.13	0.66

Note: OLS regressions on y/y percent change in real GDP, y/y percent change in oil price, and lagged dependent variable. Robust standard errors adjusted for heteroskedasticity and autocorrelation; ** indicates statistical significance at 5 percent.

Figure 3. Growth Decoupling

(real GDP; annual percent change)



Source: IMF, *World Economic Outlook*.

Annex III. Public and External Debt Sustainability

Public Debt Sustainability Analysis

Nigeria's debt profile reveals weaknesses. Higher-than-historical fiscal deficits and a challenging macroeconomic environment have pushed up public debt in percent of GDP, which is projected to rise by one third between 2016 and 2022 to 24.9 percent of GDP. The 2017-22 gross financing needs are forecast to remain at the (already high) historical average and interest payments are projected to represent a higher share of general government fiscal revenue. Effective interest rates are forecast to almost double in the medium term. Nigeria's debt dynamics are sustainable but remain vulnerable to macroeconomic shocks, especially to interest rate, growth, and primary balance shocks. To stabilize debt and reduce financing pressures, fiscal reforms to boost non-oil revenue mobilization are essential. In particular, with debt-stabilizing primary deficit estimated at 0.2 percent of GDP, the needed adjustment in the overall balance in 2017 is estimated at about 2.5 percentage points of GDP and interest payments as a share of the Federal Government revenue reduced to pre-2016 levels.

Baseline Projections

The baseline scenario assumes an anemic recovery from the 2016 recession, given the challenging macroeconomic environment. Growth is projected to reach 1.8 percent in the medium term, supported by increased public investment, strong agricultural production, and a stable oil production. The baseline neither includes the full benefits of the recently signed public investment agreements with China, given policy implementation risks, nor private sector projects expected to come on stream by 2018. Inflation (measured by the change in the GDP deflator) will continue to be above 14 percent, significantly higher than the authorities' targeted range between 6 and 9 percent. The "imputed" primary deficit is projected to narrow significantly to 1.7 percent of GDP by 2022, down from 3.9 percent in 2017. This is predicated to be achieved thanks to both improved revenue and lower non-interest expenditure as envisaged by the authorities' medium term fiscal framework. In contrast, the federal government's interest payments will grow to 2.1 percent of GDP in 2022, up from 1.3 percent of GDP in 2016.

Baseline assumptions do not point to a significant bias in the forecast track record, which is broadly in line with those observed in other surveillance countries. Reflecting the volatility of oil price, past projections of the primary balance show some optimistic bias. Nigeria's public debt is rising. Mostly domestic, public debt-to-GDP ratio is forecast to increase from 18.6 percent in 2016 to 24.9 percent in 2022, largely driven by deficits and large liabilities from State and Local Governments. The contribution of growth to debt reduction will not be large enough to offset adverse dynamics from real interest rates. Under current policies, Nigeria will face significant financing needs in the medium term, at about 5½ percent of GDP. Financing pressures are primarily driven by interest payments which are projected to reach 89 percent of general government revenue in 2022, up from 66 percent in 2016.

Stress Tests

Projections for debt and financing needs are particularly sensitive to growth, and primary balance shocks. Contingent liability shocks could also undermine debt sustainability.

Growth shock. In this scenario, real output growth rates are lowered by 3½ percentage points (a one standard deviation observed over the past 10 years) for 2018 and 2019. Under this assumption, the debt-to-GDP ratio is driven by an unfavorable interest rate growth differential and is expected to be significantly higher than the baseline, reaching 32.4 percent in 2022. Gross financing needs will remain higher at around 16.4 percent of GDP on average.

Real interest rate shock. Higher interest rates are the principal risk to debt sustainability. Already, Nigeria's debt service to FG revenue ratio is at 66 percent in 2016 and is projected to reach 89 percent by 2022. Higher interest rates will further increase Nigeria's vulnerability. In this scenario, the medium-term financing challenges will increase Nigeria's spreads by 200 bps from 2018 onward. The debt-to-GDP ratio reaches 30½ percent by the end of the projection horizon, with gross financing needs projected at around 15.4 percent of GDP on average.

Primary balance shock. This scenario assumes a 1.6 percentage points deterioration of the primary balance in 2018 and 2019. In such case, the debt-to-GDP ratio will end closer to the outcome under the interest rate shock scenario, reaching almost 32.2 percent in 2022. Financing requirements in percent of GDP will remain slightly higher than the baseline outcome between 2017 and 2019 at about 7 percent.

Real exchange rate shock. In this scenario, it is assumed that exchange rate depreciates by 55 percent, the maximum historical movement observed over the past ten years. Under this scenario, the debt-to-GDP ratio will reach 29 percent and gross financing needs in percent of GDP will average at 14 percent of GDP. This effect is driven by the relative importance of foreign currency denominated debt—about 18 percent of total debt in the projection period.

Combined macro-fiscal shock. A combined shock incorporates effects of individual shocks on all relevant variables (real GDP growth, inflation, interest rate, primary balance, and exchange rate). This will increase debt to 38.2 percent of GDP by 2022. Gross financing needs will be above 18.4 percent of GDP at the end of the projection horizon.

Contingent liability shock. In the absence of concrete estimates of contingent liabilities, a hypothetical one-time bail out of the financial sector is assumed, which increases non-interest expenditures by 10 percent of banking sector assets.[1] The debt-to-GDP ratio reaches 33½ percent

[1] Additional potential contingent liabilities risks are those arising from PPPs and state-owned enterprises. Available information suggests that such costs might be limited. For instance, the power sector contingent liabilities are estimated at about 1.2 percent of GDP (upper bound estimate).

at the end of the projection horizon and gross financing needs increase to 17.3 percent on average, higher than the outcome in the baseline.

Fan charts. There is a significant uncertainty around the baseline. The width of the symmetric fan chart, estimated at about 29 percent of GDP, illustrates the degree of uncertainty for equal-probability upside and downside shocks. In an asymmetric fan chart, an extreme downside shock that constrains growth to zero results in a more upward-sloping debt path, reflecting a balance of risks skewed to the downside.

Heat Map

The analysis of Nigeria's debt profile underlines financing pressures in the medium term. Although the debt-to-GDP ratio stands well below warning thresholds[2], gross financing needs are sizeable and interest payments in percent of general government revenue rise close to 89 percent by the end of the projection period.[3] The heat map identifies rising foreign currency denominated debt, market perception, growth, and contingent liabilities shocks as major risks to debt sustainability. Decisive fiscal actions are essential to curb financing pressures. Strengthening both oil and non-oil revenue mobilization could help achieve this objective.

[2] DSA thresholds are calibrated using a sample of economies with higher income, capacity, and domestic resource mobilization than Nigeria, and therefore the results derived from these thresholds, including the heat map, should be interpreted with caution.

[3] The existing DSA Heat Map, by focusing on ratios to GDP, does not adequately reflect the underlying risks in Nigeria which are more apparent when looking at ratios to revenues.

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

(in percent of GDP unless otherwise indicated)

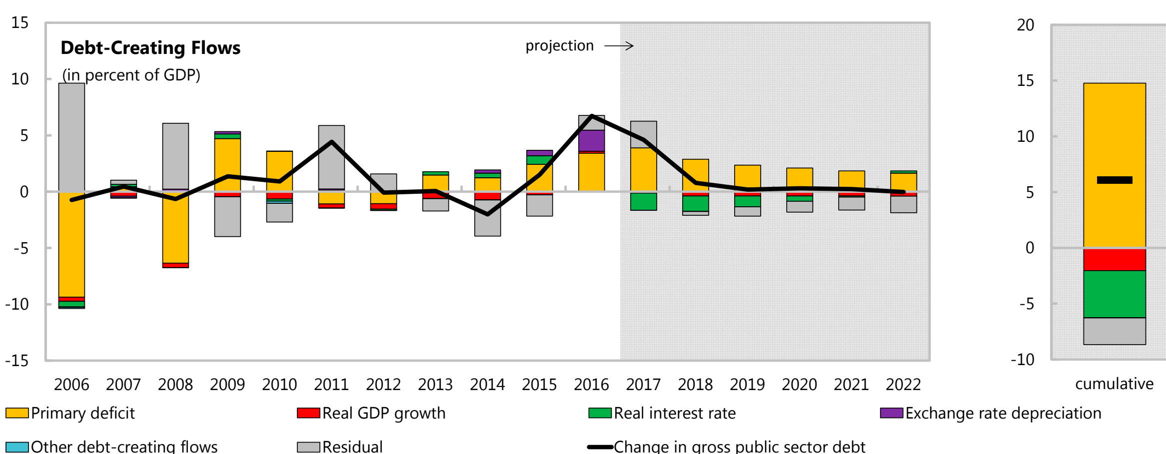
Debt, Economic and Market Indicators [1/]

	Actual			Projections					
	2006-2014 [2/]	2015	2016	2017	2018	2019	2020	2021	2022
Nominal gross public debt	9.2	12.1	18.6	23.4	24.2	24.4	24.7	25.0	24.9
Public gross financing needs	-0.4	3.5	4.5	7.4	5.3	4.7	5.2	5.0	5.2
Real GDP growth (in percent)	6.9	2.7	-1.5	0.8	1.9	1.9	1.8	1.8	1.8
Inflation (GDP deflator, in percent)	9.4	2.9	9.6	17.9	15.4	15.8	15.1	14.6	14.4
Nominal GDP growth (in percent)	16.9	5.6	7.9	18.9	17.6	18.0	17.2	16.7	16.5
Effective interest rate (in percent) [4/]	10.8	11.0	9.2	8.7	8.9	11.5	13.1	14.4	15.6

As of December 21, 2016		
Sovereign Spreads		
EMBIG (bp) 3/		450
5Y CDS (bp)		288
Ratings	Foreign	Local
Moody's	B1	B1
S&Ps	B	B
Fitch	B+	B+

Contribution to Changes in Public Debt

	Actual			Projections							
	2006-2014	2015	2016	2017	2018	2019	2020	2021	2022	cumulative	debt-stabilizing primary balance [9/]
Change in gross public sector debt	0.4	1.5	6.7	4.6	0.8	0.2	0.3	0.3	0.0	6.3	-0.2
Identified debt-creating flows	-1.1	3.4	5.4	2.3	1.1	1.0	1.3	1.4	1.5	8.6	
Primary deficit	-0.7	2.4	3.4	3.9	2.9	2.4	2.1	1.9	1.7	14.8	
Primary (noninterest) revenue and grants	14.9	7.6	5.3	5.7	5.9	6.1	6.5	6.8	7.0	38.1	
Primary (noninterest) expenditure	14.2	10.0	8.7	9.6	8.8	8.5	8.7	8.7	8.7	52.9	
Automatic debt dynamics [5/]	-0.3	1.0	2.0	-1.6	-1.7	-1.3	-0.8	-0.5	-0.2	-6.1	
Interest rate/growth differential [6/]	-0.4	0.5	0.1	-1.6	-1.7	-1.3	-0.8	-0.5	-0.2	-6.1	
Of which: real interest rate	0.1	0.8	0.0	-1.5	-1.3	-0.9	-0.5	-0.1	0.2	-4.1	
Of which: real GDP growth	-0.5	-0.3	0.2	-0.1	-0.4	-0.4	-0.4	-0.4	-0.4	-2.0	
Exchange rate depreciation [7/]	0.1	0.5	1.9	…	…	…	…	…	…	…	
Other identified debt-creating flows	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Net privatization proceeds (negative)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Contingent liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Please specify (2) (e.g., ESM and Euroarea loa	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Residual, including asset changes [8/]	1.5	-1.9	1.1	2.4	-0.4	-0.8	-1.0	-1.0	-1.5	-2.3	



Source: IMF staff.

1/ Public sector is defined as general government.

2/ Based on available data.

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

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

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

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

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

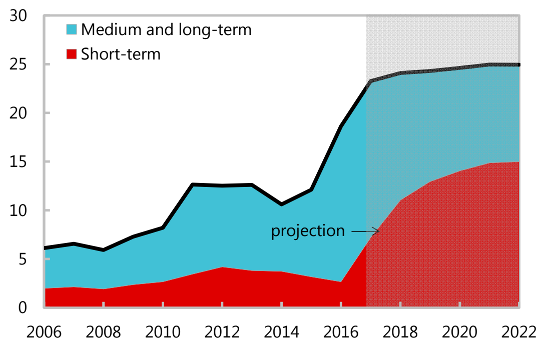
8/ Includes asset changes and interest revenues (if any). For projections, includes exchange rate changes during the projection period.

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

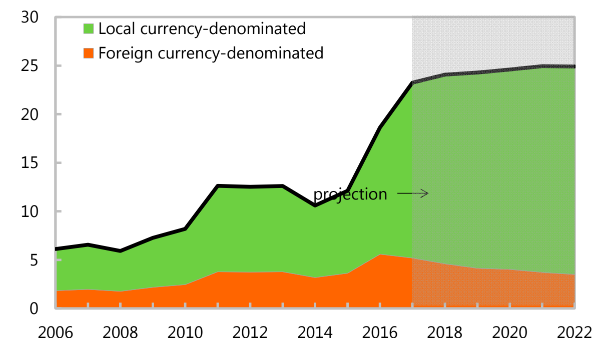
Figure 2. Nigeria: Public DSA - Composition of Public Debt and Alternative Scenarios

Composition of Public Debt

By Maturity
(in percent of GDP)



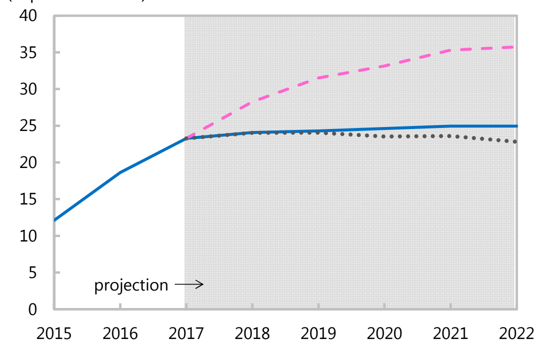
By Currency
(in percent of GDP)



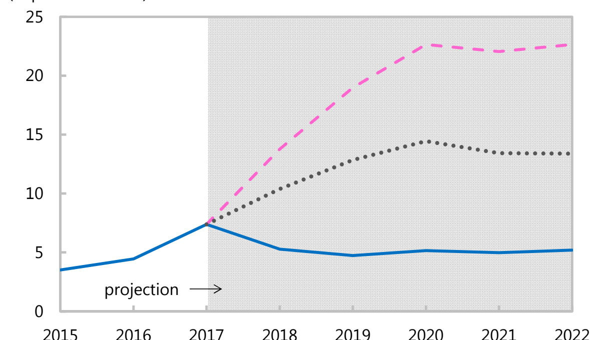
Alternative Scenarios

Baseline   Historical   Constant Primary Balance

Gross Nominal Public Debt
(in percent of GDP)



Public Gross Financing Needs
(in percent of GDP)



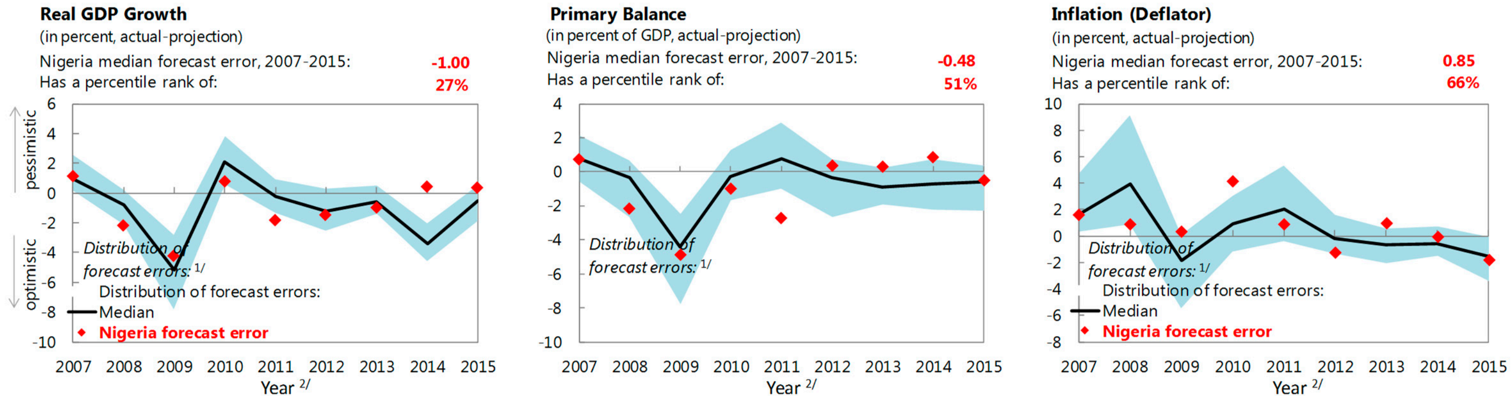
Underlying Assumptions
(in percent)

Baseline Scenario	2017	2018	2019	2020	2021	2022
Real GDP growth	0.8	1.9	1.9	1.8	1.8	1.8
Inflation	17.9	15.4	15.8	15.1	14.6	14.4
Primary Balance	-3.9	-2.9	-2.4	-2.1	-1.9	-1.7
Effective interest rate	8.7	8.9	11.5	13.1	14.5	15.6
Constant Primary Balance Scenario						
Real GDP growth	0.8	1.9	1.9	1.8	1.8	1.8
Inflation	17.9	15.4	15.8	15.1	14.6	14.4
Primary Balance	-3.9	-3.9	-3.9	-3.9	-3.9	-3.9
Effective interest rate	8.7	8.7	12.5	15.5	18.2	19.8

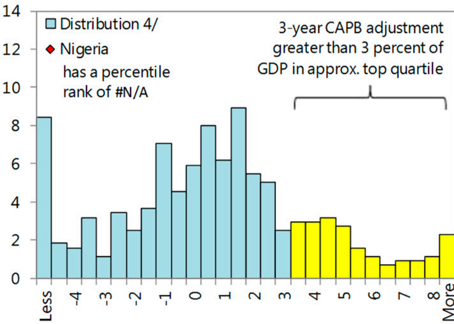
Historical Scenario	2017	2018	2019	2020	2021	2022
Real GDP growth	0.8	5.6	5.6	5.6	5.6	5.6
Inflation	17.9	15.4	15.8	15.1	14.6	14.4
Primary Balance	-3.9	-0.9	-0.9	-0.9	-0.9	-0.9
Effective interest rate	8.7	8.7	15.8	19.7	23.1	25.3

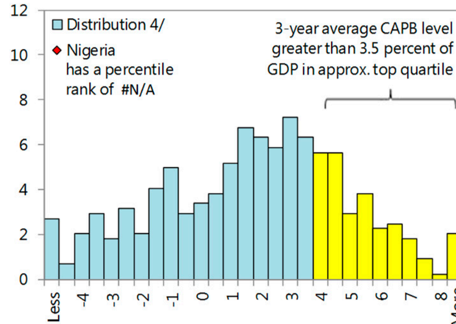
Source: IMF staff.

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

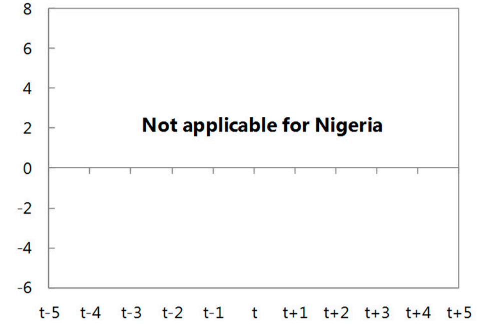


Assessing the Realism of Projected Fiscal Adjustment





Boom-Bust Analysis 3/



Source : IMF Staff.

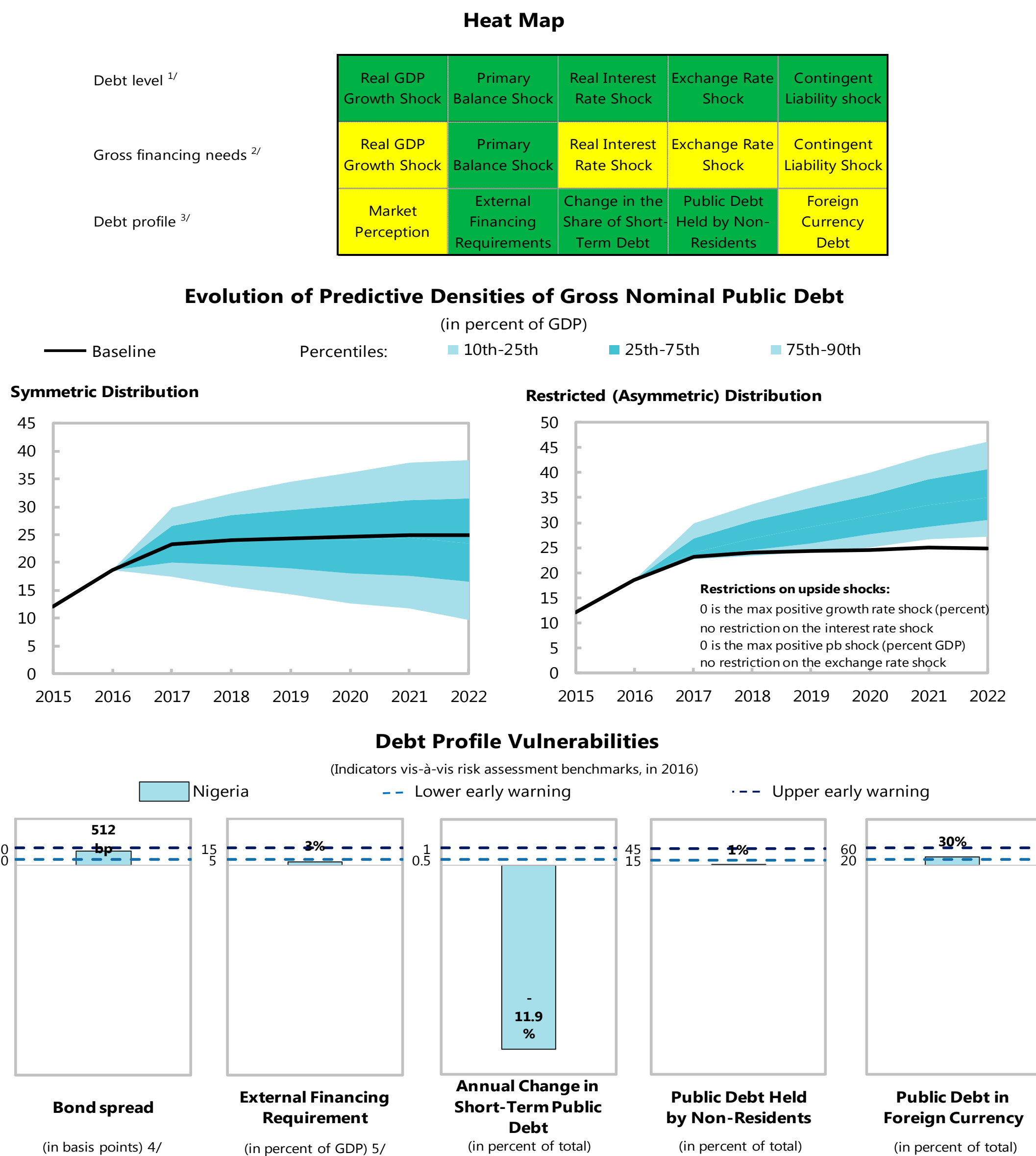
1/ Plotted distribution includes surveillance countries, percentile rank refers to all countries.

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

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

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

Figure 4. Nigeria: Public DSA Risk Assessment



Source: IMF staff.

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

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

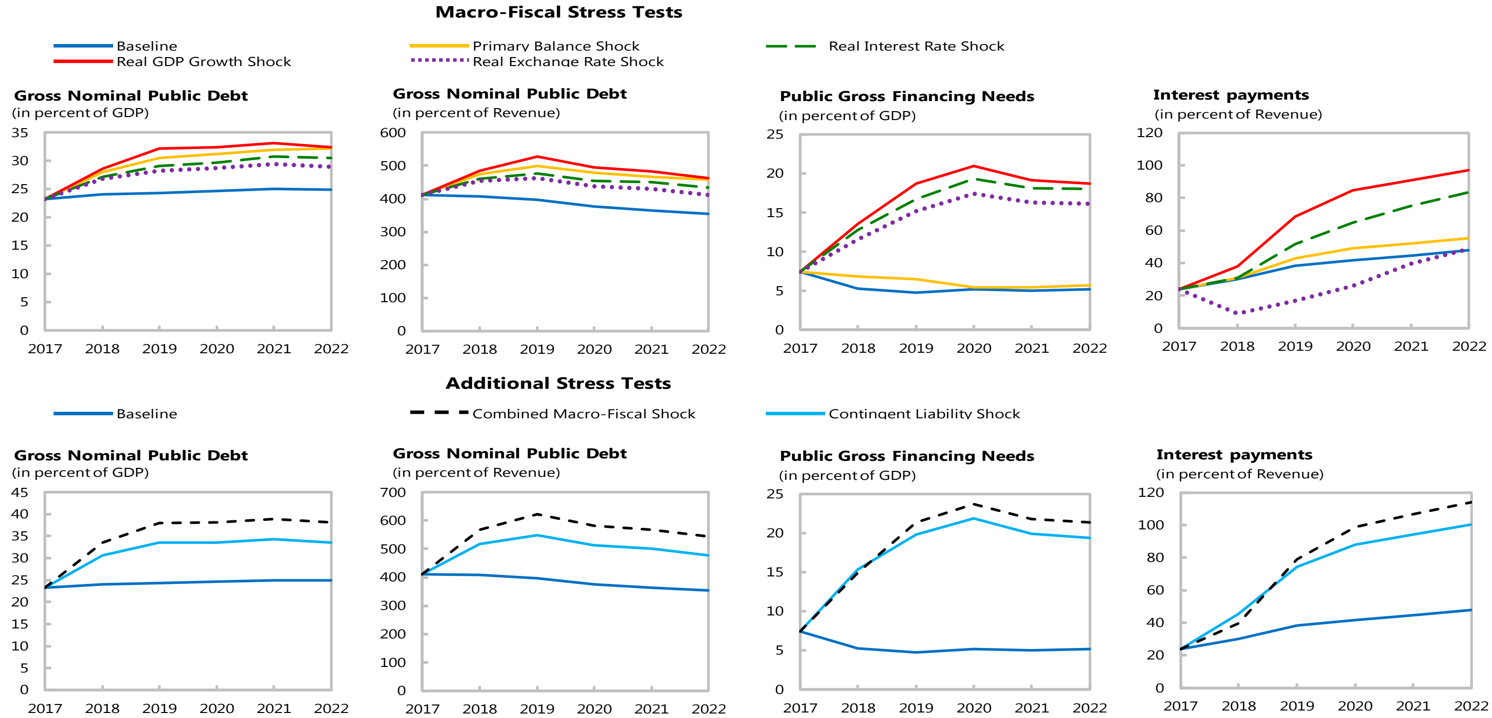
3/ The cell is highlighted in green if country value is less than the lower risk-assessment benchmark, red if country value exceeds the upper risk-assessment benchmark, yellow if country value is between the lower and upper risk-assessment benchmarks. If data are unavailable or indicator is not relevant,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

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

4/ Long-term bond spread over U.S. bonds, an average over the last 3 months, 22-Sep-16 through 21-Dec-16.

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

Figure 5. Nigeria: Public DSA - Stress Tests



Underlying Assumptions
(in percent)

Primary Balance Shock	2017	2018	2019	2020	2021	2022
Real GDP growth	0.8	1.9	1.9	1.8	1.8	1.8
Inflation	17.9	15.4	15.8	15.1	14.6	14.4
Primary balance	-3.9	-4.5	-4.0	-2.1	-1.9	-1.7
Effective interest rate	8.7	8.7	11.1	12.3	13.3	14.2
Real Interest Rate Shock						
Real GDP growth	0.8	1.9	1.9	1.8	1.8	1.8
Inflation	17.9	15.4	15.8	15.1	14.6	14.4
Primary balance	-3.9	-2.9	-2.4	-2.1	-1.9	-1.7
Effective interest rate	6.0	9.1	10.4	12.1	10.8	11.3
Combined Shock						
Real GDP growth	0.8	-1.6	-1.6	1.8	1.8	1.8
Inflation	17.9	14.5	14.9	15.1	14.6	14.4
Primary balance	-3.9	-4.5	-4.0	-2.1	-1.9	-1.7
Effective interest rate	6.0	9.1	10.4	12.1	10.8	11.3

Real GDP Growth Shock	2017	2018	2019	2020	2021	2022
Real GDP growth	0.8	-1.6	-1.6	1.8	1.8	1.8
Inflation	17.9	14.5	14.9	15.1	14.6	14.4
Primary balance	-3.9	-3.3	-3.1	-2.1	-1.9	-1.7
Effective interest rate	8.7	8.7	12.7	15.9	18.9	20.9
Real Exchange Rate Shock						
Real GDP growth	0.8	1.9	1.9	1.8	1.8	1.8
Inflation	17.9	33.7	15.8	15.1	14.6	14.4
Primary balance	-3.9	-2.9	-2.4	-2.1	-1.9	-1.7
Effective interest rate	8.7	9.1	11.6	14.8	17.6	19.5
Contingent Liability Shock						
Real GDP growth	0.8	-1.6	-1.6	1.8	1.8	1.8
Inflation	17.9	14.5	14.9	15.1	14.6	14.4
Primary balance	-3.9	-4.6	-2.4	-2.1	-1.9	-1.7
Effective interest rate	8.7	10.8	12.6	15.8	18.9	20.9

Source: IMF staff.

External Debt Sustainability

The level of external debt is low and is projected to remain in the baseline broadly unchanged relative to the size of the economy. Key risks to debt sustainability would be a failure of oil exports to recover as expected, further substantial devaluation of the naira, or the inability to access market financing for an extended period.

The level of external debt (covering both the public and the private sector) is low, at 10.8 percent of GDP in 2016 (Table 1).[6] It has risen modestly since 2013 owing to capital inflows in 2014 and the weakening of the naira in 2015 and 2016 (when external debt in U.S. dollar terms was broadly unchanged). Public sector debt accounts for just over a third of total external debt, with over half of public external debt from multilateral lenders on concessional terms. The ratio of external debt to exports has increased from 33 percent in 2012 to 116 percent in 2016, due to the decline in oil exports. Estimated gross external financing needs remain small relative to the size of the economy.

In the baseline scenario, external debt is forecast to increase broadly in line with the size of the economy, and gross external financing needs are projected to remain around 3 percent of GDP in the medium term. With only mild recoveries in oil prices and economic activity, private sector external borrowing is projected to be below the levels prevailing in 2011–2014. The public sector is expected to draw on financing from multilateral, bilateral, and commercial external sources, while the recent lower level of participation of foreign investors in the domestic debt market is expected to persist. An increase in interest rates on external debt is projected, given the expected normalization of monetary policy in advanced economies and Nigeria's deteriorating macroeconomic risk profile, though the increase is contained to some extent by the fixed-rate, concessional nature of a large proportion of public external debt. Given Nigeria's relatively short history of accessing commercial financing and the lending capacity of multilateral and bilateral creditors to the public sector, the sustainability of this debt path will hinge critically on the ability of both the government and private borrowers to maintain market access.

Scenarios are used to illustrate the sensitivity of debt levels to various potential shocks (see Figure 1). Higher interest rates on external debt or a slowdown in economic growth would not, by themselves, lead to outcomes substantially different from the baseline. On the other hand, a shock to the non-interest current account, which given the structure of Nigeria's trade can be interpreted as a substantial decline in oil exports, would place the external debt-to-GDP ratio on an upward path. This result is driven by the high historical volatility of Nigeria's current account balance, which owes largely to fluctuations in oil exports. However, as has been experienced in the recent oil shock, it is likely that the impact would be buffered to a large extent by lower imports and income debits. A combined (interest rate, growth, current account) shock has a similar impact on the debt path, driven by the current account dynamics. A one-time real depreciation of 30 percent would raise the debt level, given the lower base of GDP in U.S. dollars, but not place it on an upward path.

[6] The analysis is subject to gaps in Nigeria's International Investment Position data, incomplete coverage of external interest payments, and gaps in the data on remaining maturity of external obligations. Staff estimates are used for portfolio investment liabilities based on the estimated stock of non-resident holdings of government securities issued on the domestic market (total stock outstanding minus identified holdings of domestic financial institutions), capital markets data on securities issued abroad, and average interest rates on such securities.

Table 1. Nigeria: External Debt Sustainability Framework, 2012–22
(In percent of GDP, unless otherwise indicated)

		Actual							Projections						
		2012	2013	2014	2015	2016 est.	10-Year Historical Average	10-Year Standard Deviation	2017	2018	2019	2020	2021	2022	Debt-stabilizing non-interest current account 7/
1	**Baseline: External debt 1/**	7.0	6.3	7.4	9.6	10.7			**11.7**	**11.4**	**11.1**	**10.8**	**10.8**	**10.8**	**-0.5**
2	Change in external debt	-0.2	-0.7	1.1	2.2	1.2			1.0	-0.3	-0.3	-0.2	-0.1	0.0	
3	Identified external debt-creating flows (4+8+9)	-7.5	-5.9	-1.0	4.1	0.2			-2.1	-2.0	-1.6	-1.5	-1.4	-1.3	
4	Current account deficit, excluding interest payments	-4.3	-4.0	-0.5	2.7	-1.3			-1.6	-1.6	-1.3	-1.3	-1.2	-1.1	
5	Deficit in balance of goods and services	-3.9	-4.5	0.3	4.6	2.2			1.1	0.8	0.9	0.9	1.1	1.2	
6	Exports	21.5	19.5	14.9	9.9	9.2			12.5	11.4	9.8	9.2	9.0	8.9	
7	Imports	17.7	15.0	15.2	14.6	11.4			13.6	12.2	10.8	10.1	10.1	10.1	
8	Net non-debt creating capital inflows (negative)	-3.0	-1.4	-0.2	0.0	-1.0			-1.1	-0.8	-0.7	-0.7	-0.7	-0.7	
9	Automatic debt dynamics 2/	-0.2	-0.4	-0.3	1.4	2.4			0.6	0.4	0.4	0.5	0.5	0.5	
10	Contribution from nominal interest rate	0.5	0.3	0.3	0.4	0.6			0.6	0.6	0.6	0.7	0.7	0.7	
11	Contribution from real GDP growth	-0.3	-0.3	-0.4	-0.2	0.2			-0.1	-0.2	-0.2	-0.2	-0.2	-0.2	
12	Contribution from price and exchange rate changes 3/	-0.5	-0.4	-0.2	1.2	1.6			...	...	...	...	...	...	
13	Residual, incl. change in gross foreign assets (2-3) 4/	7.3	5.2	2.1	-2.0	1.0			3.1	1.7	1.3	1.3	1.3	1.3	
	External debt-to-exports ratio (in percent)	32.6	32.3	49.8	96.2	116.2			94.2	100.4	112.4	118.5	120.0	121.5	
	Gross external financing need (in billions of US dollars) 5/	-6.7	-8.0	10.8	30.6	14.0			10.6	10.9	13.0	16.0	19.9	19.0	
	in percent of GDP	-1.5	-1.6	1.9	6.2	3.4			2.6	2.3	2.3	2.6	3.1	2.8	
	Scenario with key variables at their historical averages 6/								**11.3**	**12.6**	**13.7**	**13.9**	**13.4**	**12.7**	**-0.4**
	Key Macroeconomic Assumptions Underlying Baseline														
	Real GDP growth (in percent)	4.3	5.4	6.3	2.7	-1.5	5.6	3.5	0.8	1.9	1.9	1.8	1.8	1.8	
	GDP deflator in US dollars (change in percent)	6.7	6.0	3.8	-15.4	-16.5	1.3	12.7	-2.1	15.6	15.9	8.0	1.6	1.8	
	Nominal external interest rate (in percent)	8.3	5.0	5.1	5.2	5.5	5.8	1.4	5.9	6.2	6.5	6.5	6.6	6.8	
	Growth of exports (US dollar terms, in percent)	-3.8	0.9	-15.6	-42.0	-21.9	-0.7	27.9	33.0	7.3	2.4	2.2	1.6	2.3	
	Growth of imports (US dollar terms, in percent)	-10.9	-5.2	11.9	-16.8	-34.4	6.0	27.6	17.5	5.7	4.5	2.9	3.2	3.7	
	Current account balance, excluding interest payments	4.3	4.0	0.5	-2.7	1.3	4.1	4.2	1.6	1.6	1.3	1.3	1.2	1.1	
	Net non-debt creating capital inflows	3.0	1.4	0.2	0.0	1.0	0.1	3.6	1.1	0.8	0.7	0.7	0.7	0.7	

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

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

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

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

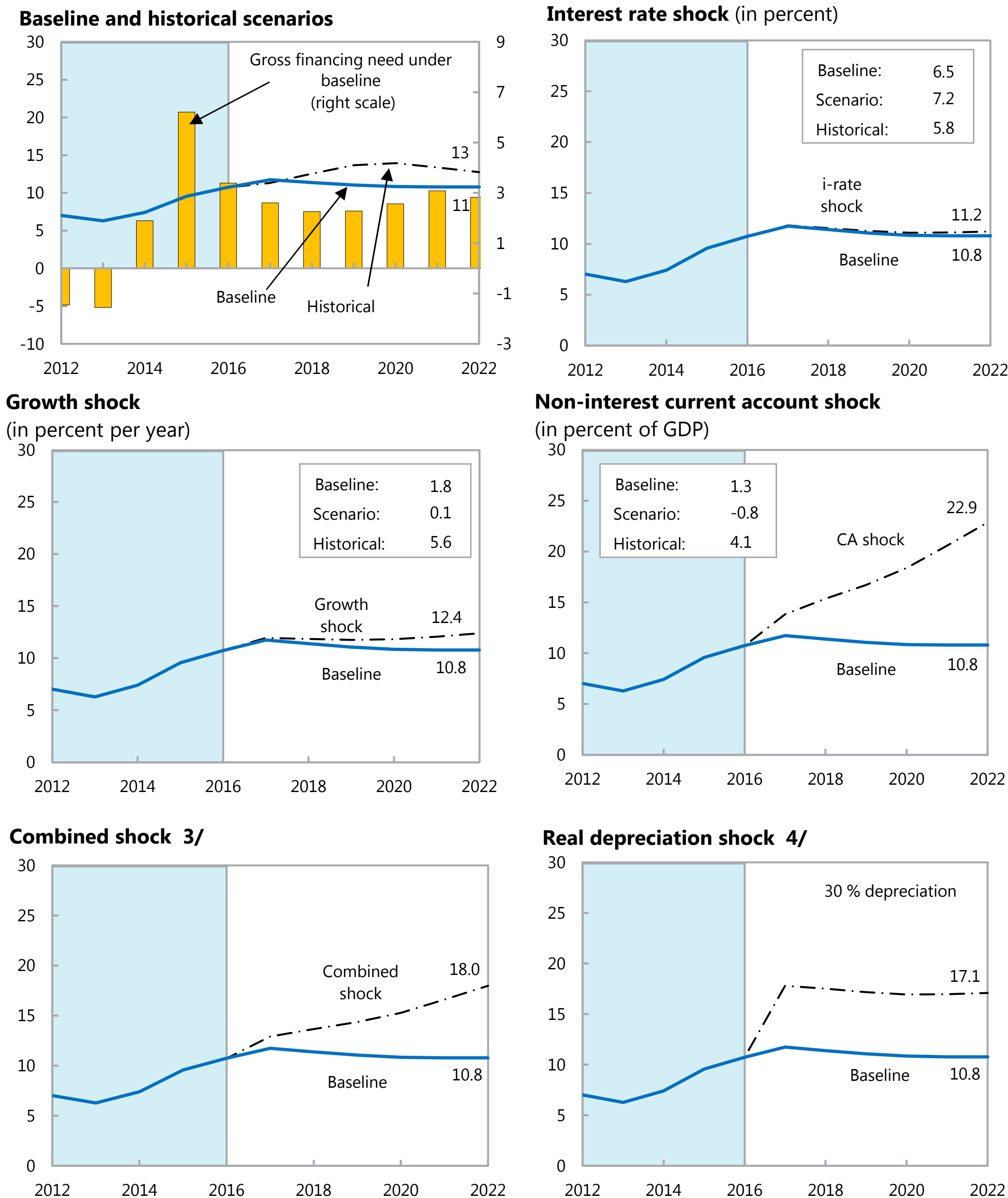
4/ For projection, line includes the impact of price and exchange rate changes.

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

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

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

Figure 6. Nigeria: External Debt Sustainability: Bound Tests [1/ 2/]
(External debt in percent of GDP)



Sources: National authorities; International Monetary Fund, country desk data; and IMF staff estimates.
1/ Shaded areas represent actual data (for 2016, estimates). Individual shocks are permanent one-half standard deviation shocks. Figures in the boxes represent average projections for the respective variables in the baseline and scenario being presented. Ten-year historical average for the variable is also shown.
2/ For historical scenarios, the historical averages are calculated over the ten-year period, and the information is used to project debt dynamics five years ahead.
3/ Permanent 1/4 standard deviation shocks applied to real interest rate, real growth rate, and current account balance.

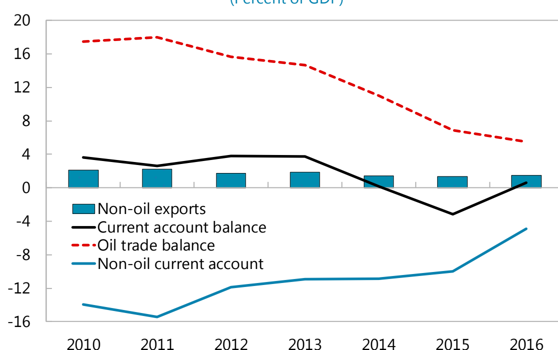
Annex IV. External Sustainability Assessment

Available evidence suggests that Nigeria's external position was moderately weaker in 2016 than the level consistent with its medium-term fundamentals and desirable policies. The current account balance improved, but capital flows remained sluggish and the Fund's reserve adequacy metric suggests that foreign exchange (FX) buffers are currently below adequacy levels, with the gap projected to widen over time. Current account models that reflect all transactions do not find misalignment, while a real effective exchange rate model suggests a real overvaluation in the interbank exchange rate of 18 percent. The assessment is subject to a high degree of uncertainty because of the presence of FX restrictions and the multiplicity of exchange rates at which transactions occur.

A. Current Account and Exchange Rate

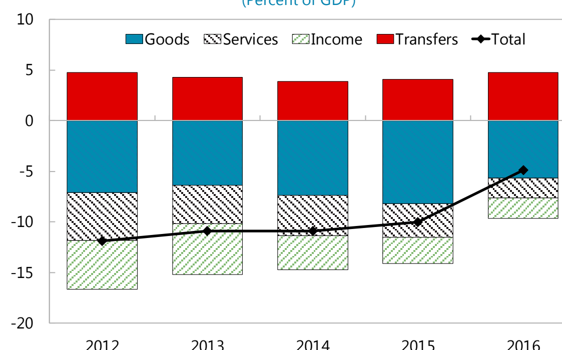
Nigeria's current account balance was 0.6 percent of GDP in 2016, from a deficit of 3.1 percent of GDP in 2015, despite a further decline in the oil trade balance from lower annual average prices and lower production (Figure 1). The improved current account was driven by compression in non-oil imports, services, and the income balance, raising the non-oil current account by 5 percentage points (Figure 2).

Figure 1. Nigeria: Current Account Balance
(Percent of GDP)



Sources: Haver Analytics; and IMF staff estimates.

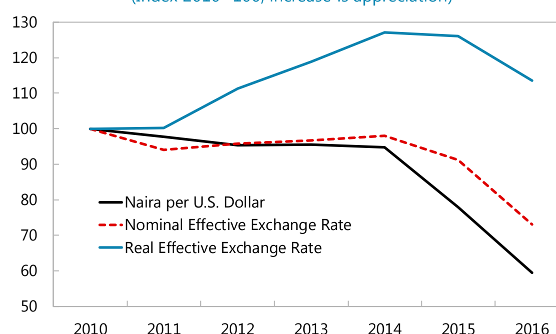
Figure 2. Nigeria: Non-Oil Current Account
(Percent of GDP)



Sources: Haver Analytics; and IMF staff calculations.

As of end-2016 the naira depreciated against the U.S. dollar by 55 percent in the interbank market and 84 percent in the *Bureau de Change* (BDC) segment of small-scale transactions. The nominal effective depreciation of the interbank rate was 20 percent in period-average terms (Figure 3). With inflation higher than among trading partners, the real effective exchange rate (REER) depreciated by 10 percent, leaving the naira only 5 percent weaker in real terms than in 2013, despite substantial nominal depreciation.

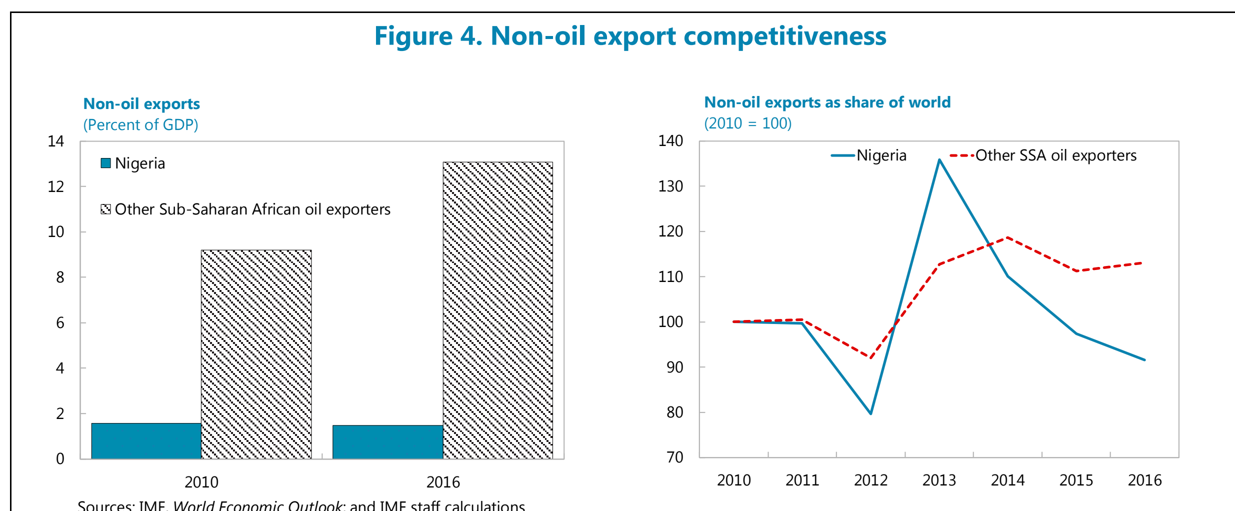
Figure 3. Nigeria: Exchange Rate Developments
(Index 2010=100, increase is appreciation)



Sources: Haver Analytics; IMF, *International Financial Statistics;* and IMF staff estimates.

Nigeria's non-oil goods and services exports amounted to 1.5 percent of GDP in 2016, and have remained below 2 percent of GDP over the last decade, well below that of other Sub-Saharan African oil exporters (Figure 4). Furthermore, performance in 2015 and 2016 was weaker than in these peers, as non-oil exports declined by over 20 percent. While real exchange rate appreciation through 2014 and FX restrictions may explain recent developments, the persistently low level of exports is likely rooted in more structural causes like infrastructure gaps and weaknesses in the business environment (see Selected Issues Chapter 4).

Figure 4. Non-oil export competitiveness



Sources: IMF, *World Economic Outlook*; and IMF staff calculations.

Quantitative estimates of external equilibrium during 2016 give a wide range of results:

- ***Current account (CA) approaches.*** The EBA-lite approach models the current account balance as a function of the fundamentals of the economy.[1] Nigeria's current account was also assessed using a variant estimated only for oil-exporting economies.[2] The models find the current account in 2016 was broadly in line with the norm (Table 1). The EBA-lite model estimated that macroeconomic policies contributed -0.9 percent of GDP to the current account gap, and the variant for oil exporters—which ascribes a stronger impact to the fiscal deficit—estimated a contribution of -2.3 percent of GDP. This suggests the actual current account would have been further into surplus if policies—in particular the fiscal deficit and change in reserves—had been at their recommended settings.

- ***External sustainability (ES) approach.*** This approach derives a current account norm as the medium-term balance that would allow net foreign assets (NFA) to reach a benchmark level. Nigeria's estimated NFA position was -4.5 percent of GDP at end-2016. The projected external debt path associated with this NFA position does not appear unsustainable under staff's baseline scenario (see Annex III), but staff assesses the projected level of international reserves as lower than adequate (see section B). Given these considerations, the NFA benchmark was set at zero percent of GDP, the difference between its current level and that which would permit accumulation of international reserves sufficient to reach 125 percent of the reserve adequacy

[1] See IMF Working Paper 13/272 and *Methodological Note on EBA-Lite*.

[2] See IMF Working Paper 16/107.

metric by 2022. On this basis, the projected 2022 current account is broadly in line with the norm (Table 1).

- ***Equilibrium REER (ERER) approach.*** This price-based approach directly models a REER norm within a panel framework as a function of many of the fundamentals used in the current account approach, and suggests an exchange rate gap of about 18 percent (Table 1).

Table 1. Current Account and Real Exchange Rate Assessment Results

	Current Account Regressions		External Sustainability	Equilibrium RER
	EBA-lite[1]	Oil-specific[2]	Approach	Regression[1]
Current account reference[3]	0.6	0.6	0.4	--
Current account norm	0.5	0.6	0.6	--
Current account gap	0.1	0.1	-0.1	--
o/w: Policy gap	-0.9	-2.3	--	--
Real exchange rate gap[4]	-1.2	-0.7	1.1	18.1

Source: IMF staff estimates.

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

[2] Based on Behar, Alberto, and Armand Fouejieu, 2016, "External Adjustment in Oil Exporters: The Role of Fiscal Policy and the Exchange Rate," IMF Working Paper 16/107.

[3] For current account regression, 2016 value; for external sustainability approach, 2022 value.

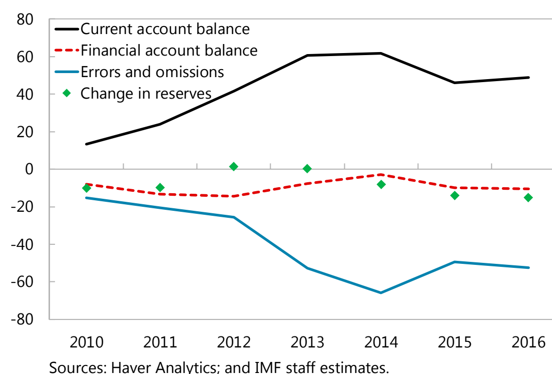
[4] Positive numbers indicate overvaluation. Elasticity of current account to real exchange rate gap is 0.11.

Caution is warranted in interpreting these results for several reasons:

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

- **Data gaps also add uncertainty**. Large swings in errors and omissions flows suggest imprecision in reported values of the current account balance and/or the net foreign asset position. Indeed, the reserves position has not improved in recent years despite current account surpluses and a roughly balanced financial account (Figure 5).

Figure 5. Nigeria: Current Account and Errors and Omissions
(Billion U.S. dollars; cumulative since 2010)



Sources: Haver Analytics; and IMF staff estimates.

- **The fit of both the CA and the ERER approaches is poor for Nigeria**. Both CA models predicted a current account deficit for 2016 and the model residuals were positive. This could be explained in part by the presence of FX restrictions, which have constrained current account debits, with a partial offset from lower exports due to disruption of supply chains.

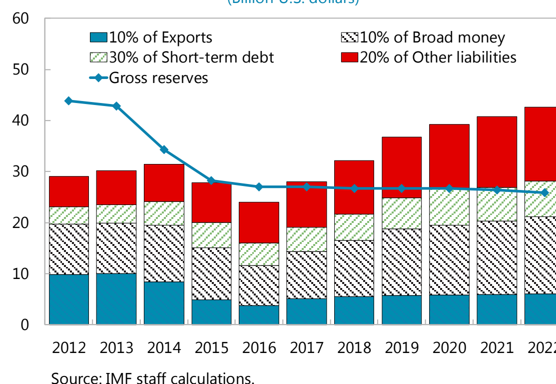
- **There is uncertainty over the effective exchange rate at which transactions were undertaken**. The premium between the BDC rate and the interbank rate averaged 47 percent during 2016, up from 14 percent in 2015. There is no data available on the proportion of activity

occurring at the BDC rate (or outside the BDC segment on the parallel market), but the low volume of transactions on the interbank market suggests that it could be substantial.

Notwithstanding these issues, a possible explanation for the results is that the CA and ES approaches reflect transactions undertaken at exchange rates across all market segments—as well as transactions not undertaken due to lack of FX—while the ERER model considers only the interbank rate.[3] The ERER approach thus points to an overvaluation of the interbank exchange rate, while the other approaches do not suggest current account misalignment, though their relevance in the current context is unclear given the presence of FX restrictions and multiplicity of exchange rates.

B. Reserve Adequacy and Capital Flows

Figure 6. Nigeria: Contributions to Reserve Adequacy Metric
(Billion U.S. dollars)



Source: IMF staff calculations.

Gross international reserves were $28.6 billion at end-January 2017, having recovered from less than $24 billion in September 2016.[4] This corresponds to 120 percent of the IMF's reserve adequacy metric (Figure 6). The gross reserves figure likely overstates the resources available to the central bank to meet balance of payments needs. Inflows due to FX swaps have amounted to about $3.9 billion since 2014 and outstanding forward sales of FX by the central bank amount to $1.2 billion. Gross reserves excluding these predetermined FX outflows were $23.4 billion at end-January, unchanged with respect to end-2015, and amounting to 97 percent of the reserve adequacy metric (Figures 7 and 8).

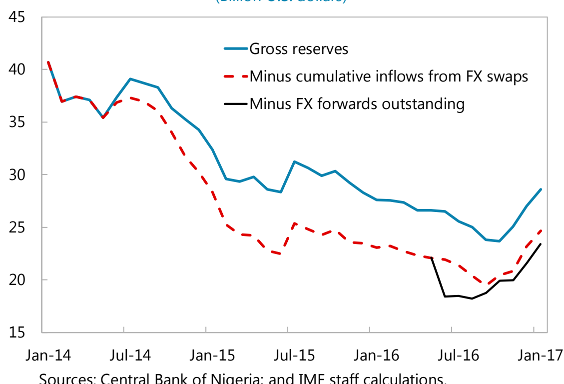
In addition, past staff analysis on the volatility of Nigeria's exports and the close co-movement between oil exports and reserves suggested Nigeria should aim to hold a level of reserves above the floor of the adequacy range, with a recommended target of 125 percent of the metric.[5] Finally, the unfavorable balance of payments outlook poses substantial risks. With the flat profile of reserves in staff's baseline scenario, they would fall to about 60 percent of the metric in the medium term, less than half of staff's recommended level (Figures 6 and 8).

---

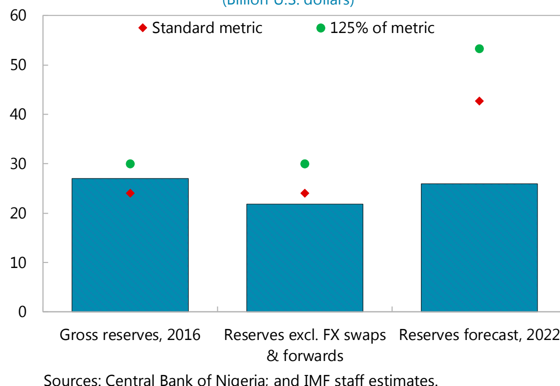
[3] Lack of data on turnover in each market precludes using a weighted average.

[4] These figures include about $2.0 billion previously held as foreign exchange deposits in domestic banks but reclassified as reserve assets once transferred in December to the CBN under the Treasury Single Account regulations.

[5] See IMF Country Report No. 16/101.



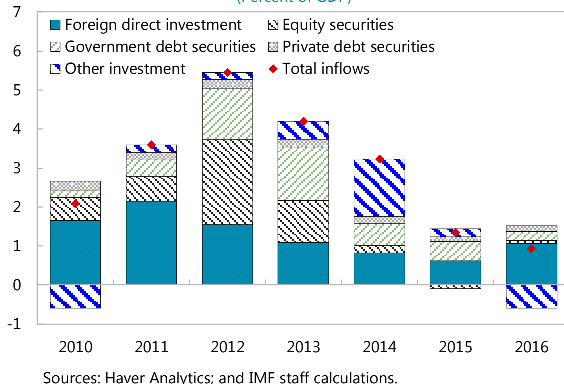
Sources: Central Bank of Nigeria; and IMF staff calculations.



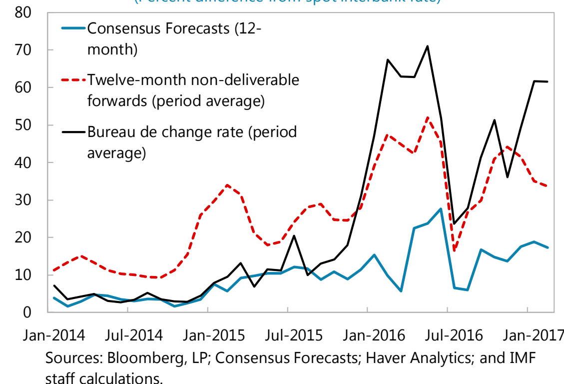
Sources: Central Bank of Nigeria; and IMF staff estimates.

C. Other Aspects

Capital flows remained subdued in 2016. Inflows (liabilities to non-residents) averaged over 4 percent of GDP from 2011 to 2014, but fell to less than 1.5 percent of GDP in 2015, and 1.0 percent of GDP in 2016 (Figure 9). Indicators of exchange rate expectations—the exchange rate implied by non-deliverable naira forwards traded offshore, the outlook from Consensus Forecasts, and the margin between the interbank and *Bureau de Change* exchange rates—all suggest that market participants expect a substantial depreciation of the interbank exchange rate (Figure 10).[6]



Sources: Haver Analytics; and IMF staff calculations.



Sources: Bloomberg, LP; Consensus Forecasts; Haver Analytics; and IMF staff calculations.

D. Overall Assessment

The assessment of external equilibrium is subject to a high degree of uncertainty because of the presence of FX restrictions and the multiplicity of exchange rates at which transactions occur. Taken together, the above analysis suggests that in 2016 the external position was moderately weaker than

[6] The non-deliverable forward rate incorporates both an expected depreciation premium and a premium from the degree to which administrative measures on foreign exchange market activity are binding for capital outflows (see Swiston, 2016, "Capital Flows to Nigeria: Recent Developments and Prospects," in *Nigeria: Selected Issues*, IMF Country Report No. 16/102.

that implied by medium-term fundamentals and desirable policy settings, with a current account gap of 1 to 2 percent of GDP and a real exchange rate gap of 10 to 20 percent for the interbank rate. This is supported by a wide range of evidence, including the estimated contribution of policies to the current account balance, decline in non-oil exports, low level and continued decline in FX buffers, slow capital inflows, indicators pointing to substantial further expected depreciation, and low turnover in the interbank market suggesting a considerable share of transactions occurs at more depreciated exchange rates. Adjustment of other policies—notably fiscal, monetary, and structural—in line with staff's recommendations would contribute to reducing the estimated gaps.

Annex V. Progress on 2013 FSAP Recommendations

Central Bank of Nigeria (CBN)

1. ***Recommendation: Further enhance supervisory oversight over banks with international presence***

   Progress

   - On-site examination of subsidiaries take place regularly, and the CBN continues to monitor and supervise subsidiaries through the parent bank.
   - Information is shared frequently and regularly between regional supervisors.
   - A memorandum of understanding with host regulatory/supervisory agencies have been signed.
   - The college of supervisors of the West African Monetary Zone (CSWAMZ) meet regularly.
   - Joint examination takes place with supervisory authorities of foreign subsidiaries of Nigerian banks in WAMZ.
   - A crisis resolution framework for cross border banks is being finalized by the West African Monetary Institute.
   - The Financial Stability Board Regional Consultative Group for Sub-Saharan Africa (FSB RCG-SSA) meets regularly.

2. **Strengthen macro-prudential oversight and crisis preparedness by enhancing the functioning of the Financial Services Regulation Coordinating Committee (FSRCC)**.

   Progress

   - The role of FSRCC is being enhanced to include a financial stability function. A framework that underpins the duties of FSRCC has been drafted—it covers the macro-prudential and crisis and resolution frameworks that the FSRCC will be overseeing.

3. **Strengthen capacity of supervisors and establish clarity regarding their regulatory authority; and improve availability and quality of data for macro prudential analysis.**

   Progress

   - Capacity building is an on-going process. The CBN receives training from the IMF, WB, Federal Reserve Board, Federal Deposit Insurance Corporation, and other institutions.
   - For example, an Early Warning System (EWS) to prevent bank failure has been put in place and scenario stress testing is in the process of being incorporated.

4. **Review and update the BOFIA to reflect internationally accepted framework for bank regulation and supervision.**

   Progress

   - Amendments to the BOFIA and NDIC Act are suspended by the National Assembly until further notice.

5. **Implement HRD plan for a new category of BSD specialists with a separate career path.**

   Progress

   - Completed

6. **Withdraw the CBN circular restricting recapitalization of foreign subsidiaries by Nigerian parent banks.**

   Progress

   - The CBN considers a request for recapitalization of foreign subsidiaries on a case-by-case basis. The premise for the old circular was to ensure Nigerian subsidiaries were not discriminated against. Indeed, according to the recent FSR, CBN gave approval to recapitalize a number of subsidiaries.

7. **Unwind crisis response measures and revert to the conventional financial safety nets that are already in place, including the Deposit Insurance Scheme.**
    - The authorities will consider these actions when the economic situation becomes more favorable.

8. **Establish end–2017 as the sunset for AMCON, disallow further acquisition of assets, and use surplus funds to buy back bonds.**
    Progress
    - There is no immediate plan to wind up AMCON. However, CBN is the only institution holding AMCON bonds. The Corporation has stopped further purchase of Eligible Bank Assets (EBAs) from banks; and efforts are being made to recover EBAs previously purchased. AMCON has also announced recently acquiring the main domestic airline company.

9. **Review the licensing of the microfinance banks, to offer two types of license.**
    Progress
    - License requirements differ by types of microfinance: unit, state and national.

10. **Divest CBN's interest in DFIs to the FMoF and/or the private sector as appropriate.**
    Progress
    - The CBN is committed in utilizing DFI as conduits to provide finance to the real sector. To this end, there is no plan to divest CBN's interest in the DFI, at least not in the short-run since the Acts of the DFIs has a 60:40 shareholding (FGN: CBN) provision. Any divestment attempt will require parliamentary approval.

11. **Review the design and performance of the Development Finance Schemes.**
    Progress
    - The CBN is reviewing its policy on development financing, the strategy is to gradually to reduce the Bank's exposure, have exit dates for all the Bank's interventions.
    - In addition, an impact assessment of some interventions is scheduled to take place.

12. **Revise the 2009 Regulatory Framework for Mobile Payment Services to level the playing field and intensify competition.**
    Progress
    - Regulatory requirements continue to be strengthened. Regulations distinguish between Bank and non-Bank led operators. Capital requirements have also been increased.

National Insurance Commission (NAICOM)

13. **Upgrade the solvency regime, as well as valuation and the reserve requirements, to better capture risk.**
    Progress
    - Adopted risk-based reserve requirements and guidance was issued.
    - IFRS accounting was introduced in 2013, therefore reserve requirement and valuations are at par with international practice.
    - Ground work is progressing to identify the necessary requirements for adopting Solvency II framework.

14. **Put high priority on enforcement of mandatory insurance.**
    Progress

- NAICOM is working closely with respective counterparts to enforce mandatory insurance—for example, the Brigade for fire insurance and the Federal Road Safety Commission for car insurance.

Pension Commission (PENCOM)

15. **Establish a database of employers required to comply with the Pension Reform Act, 2004.**
    Progress
    - Pencom has been in consultation with the Ministry of Budget and Planning, the government ministry that has the legal right to request such, to compile a database of employers. The consultation is at advanced stage.

16. **Develop Nigerian specific mortality tables for pricing annuities and programmed withdrawals.**
    Progress
    - Developing mortality tables will need input from several government agencies including the Ministry of Budget and National Planning and NAICOM. To this end, Pencom has taken the lead by writing to the Government of the Federation requesting for the relevant agencies of government to be asked to work on developing the necessary tables.

Securities and Exchange Commission

17. **Expeditiously nominate the new Board members of the SEC.**
    Progress
    - The SEC board was nominated soon after the FSAP mission left, but it was dissolved following the election in 2015.

18. **Ensure that broker-dealers are subject to higher risk-based capital requirements and other prudential requirements as well as sufficient entity-level supervision, including regular on-site inspections.**
    Progress
    - Adopted risk-based provision.
    - Moving to risk-based capital requirement with minimum capital requirement.
    - A regulatory framework following the Malaysia and the USA models is under design.

Federal Ministry of Finance

19. **Create central unit to monitor contingent fiscal commitments and develop a strategy as regards further commitments. ¶**
    Progress
    - The government has increased its monitoring of fiscal activity, including identifying arrears and requiring state and local governments to report regularly.

INTERNATIONAL MONETARY FUND

NIGERIA

STAFF REPORT FOR THE 2017 ARTICLE IV CONSULTATION—INFORMATIONAL ANNEX

March 14, 2017

Prepared By The African Department

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FUND RELATIONS

(As of January 31, 2017)

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

General Resources Account:	**SDR Million**	**%Quota**
Quota	2,454.50	100.00
Fund holdings of currency (Exchange Rate)	2,279.09	92.85
Reserve Tranche Position	175.47	7.15

SDR Department:	**SDR Million**	**%Allocation**
Net cumulative allocation	1,675.38	100.00
Holdings	1,499.72	89.52

Outstanding Purchases and Loans: None

Latest Financial Arrangements:

Past Engagement

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

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

	Forthcoming				
	2017	2018	2019	2020	2021
Principal					
Charges/Interest	0.59	0.62	0.62	0.62	0.62
Total	**0.59**	**0.62**	**0.62**	**0.62**	**0.62**

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

Implementation of HIPC Initiative: Not Applicable
Implementation of Multilateral Debt Relief Initiative (MDRI): Not Applicable
Implementation of Post-Catastrophe Debt Relief (PCDR): Not Applicable

Exchange Rate Arrangement

The de jure exchange rate arrangement is floating, with the CBN beginning operations on a flexible exchange rate regime on June 20, 2016. The CBN explicitly aims to maintain an exchange rate principally driven by market forces, but intervenes to reduce volatility and to counteract speculative attacks on the national currency. In 2016, the naira was stable against the U.S. dollar until June, when the official rate depreciated by about 55% before stabilizing anew since August. Accordingly, the de facto exchange rate has been reclassified twice: first to other managed from stabilized, effective June 21, 2016, and then to stabilized from other managed, effective August 26, 2016. The CBN publishes information on the amount of foreign exchange it supplies to the Inter-Bank Foreign Exchange Market (IFEM) on its website while the banks are required to publish the utilization in the national newspapers. Nigeria participates in the W-ERM II of the WAMZ, which requires maintaining the spot exchange rate between the naira and the U.S. dollar within ±15% of the central rate, but the CBN has not implemented this regime.

With the CBN announcing the reintroduction of a flexible exchange market in Nigeria, in June 2016, and the new policy actions in the foreign exchange market announced in February 2017, the MCP and one of the exchange restrictions identified during the 2016 Article IV consultation have been removed. However, the market remains tightly regulated, and transactions occur at a multiplicity of exchange rates (the official exchange rate at approx. N305/U.S. dollar, the interbank market at approx. N315/$, international money transfer companies at approx. N375/$, and the parallel market at approx. N400-500/$).

Nigeria currently maintains the following exchange restrictions subject to Fund approval under Article VIII, Section 2(a) of the IMF's Articles of Agreement: (i) an exchange restriction arising from the prohibition to access foreign exchange at the Nigerian foreign exchange markets for the payment of imports of 41 categories of items; and (ii) an exchange restriction arising from existing limits on the amounts of foreign exchange available when traveling abroad (BTA/PTAs), which cannot be exceeded even upon verification of the *bona fide* nature of the transaction. In addition, Nigeria maintains the following MCPs subject to Fund approval under Article VIII, Sections 2(a) and 3 of the IMF's Articles of Agreement: (i) an MCP arising from the intervention practice of the CBN that results in the establishment of an official exchange rate for use in all official transactions, which in practice differs by more than 2 percent from the rate used by commercial banks and money transfer operators; and (ii) an MCP arising from the large spread between the official exchange rate and the rates in the parallel market, caused by the CBN's limitation on the availability of foreign exchange which channels current international transactions to such market.

Safeguards Assessment

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

Article IV Consultation

Nigeria is on the standard 12-month Article IV consultation cycle. The previous Article IV consultation was concluded on March 30, 2016.

Technical Assistance (TA) since January 2015:

A. Headquarters

Department	Purpose of TA mission	Duration
FAD	Program Budgeting, TSA and Cash Management Performance	January 22 - February 4, 2015
STA	Balance of Payments Statistics	March 16 - 27, 2015
MCM	International Financial Reporting Standards (IFRS) Provisioning	March 23 - 27, 2015
MCM	Training Workshop on Financial Holding Companies Supervision	March 30 - April 2, 2015
STA	Price Statistics	April 13 - 24, 2015
MCM	International Financial Reporting Standards (IFRS) Provisioning	June 15 - 19, 2015
FAD	Tax and Customs Administration	July 7 - 13, 2015
MCM	International Financial Reporting Standards (IFRS) Provisioning	August 17 - 28, 2015
LEG	AML/CFT reform agenda	January 11 - 25, 2016
MCM	Review of Monetary Policy Framework	January 16 - 27, 2016
STA	Monetary and financial statistics	January 18 - 29, 2016
FAD	Budget preparation, expenditure review, treasury single account, and cash management reforms	January 20 - February 9, 2016
FAD	Fiscal reporting/EBFs	February 1 - 14, 2016
FAD	Program Budgeting, TSA and Cash Management Performance	February 5 - 9, 2016
STA	Enhanced General Data Dissemination System (e-GDDS)	February 15 - 19, 2016
FAD	Full diagnostic mission	March 29 - April 12, 2016
FAD	Tax Administration	March 30 - April 13, 2016
MCM	Bank Supervision and Regulations	July 11 - 21, 2016
STA	National Accounts - Developing Source Data (EDDI2)	November 27 - December 2, 2016
FAD	Oversight of SOEs	December 1 - 14, 2016
STA	Balance of Payments Statistics	January 23 - February 3, 2017
FAD	Assessment of proposed petroleum fiscal regime reforms	February 13 - 24, 2017
FAD	Tax and Customs Administration	April 26 - May 8, 2017

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

Department	Purpose of TA mission	Duration
FAD	Tax Administration	July 20 -31, 2015
FAD	Tax Administration	July 27 - August 7, 2015
FAD	Public Financial Management	August 31 - September 10, 2015
FAD	Public Financial Management	October 19 - 23, 2015
STA	National Accounts Statistics	October 26 - 30, 2015
FAD	Public Financial Management	November 19 - December 3, 2015
FAD	Tax Administration	January 18 - 29, 2016
FAD	Public Financial Management	January 20 - February 9, 2016
MCM	Monetary and Forex Operations, including Islamic Banking	February 8 - 19, 2016
MCM	Banking Legislation	February 22 - 26, 2016
FAD	Tax Administration	February 22 - March 4, 2016
FAD	Tax Administration	March 7 - 30, 2016
FAD	Assist FIRS in Developing Strategic Plan	March 14 - 24, 2016
FAD	Customs Compliance Improvement	March 30 - April 12, 2016
FAD	Develop Compliance Risk Management Strategy	April 4 - 12, 2016
STA	Consumer Price Index	April 4 - 15, 2016
FAD	Advancing TSA implementation	June 6 - 17, 2016
MCM	Enhancing Basel II/III	August 22 - September 9, 2016
FAD	Support the Federal Inland Revenue Service (FIRS) to finalize Strategic Plan	September 9 - 19, 2016
FAD	Develop a compliance improvement program	September 26 - October 7, 2016
STA	National Accounts	October 3 - 7, 2016
STA	National Accounts	October 3 - 7, 2016
FAD	Cash Flow Forecasting and Cash Management (sub-national)	October 8 - 14, 2016
FAD	Cash Flow Forecasting and Cash Management (sub-national)	October 10 - 14, 2016
FAD	Strengthening SOE Oversight	December 1 - 16, 2016
MCM	Compliance with CPMI-IOSCO Principles for Financial Market Infrastructures: Challenges and Stra	December 5 - 8, 2016
STA	Price Statistics	January 30 - February 10, 2017
FAD	Strengthening Cash Flow Forecasting and Cash Management	February 1 - 11, 2017
FAD	Develop Project Governance Framework	February 20 - March 3, 2017
FAD	Strengthen Business Analysis Capabilities	February 20 - March 3, 2017
STA	National Accounts	February 27 - March 3, 2017
FAD	Develop Change Management Program	April 17 - 21, 2017
FAD	Develop Project Governance Framework for FIRS	April 17 - 28, 2017

Senior Resident Representative:

Mr. Amine Mati is the IMF's Senior Resident Representative in Abuja since September 2016.

Resident Technical Assistance Advisor:

Mr. Leonard Chumo is the IMF resident advisor for banking supervision at the Central Bank of Nigeria, since February 2017.

JOINT WORLD BANK-IMF WORK PROGRAM, 2016–17

(As of January 31, 2017)

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

Title	Products	Provisional timing of missions (if relevant)	Expected delivery date
	A. Mutual Information on Relevant Work Programs		
Bank work program in next 12 months	*(i) Lending Programs*		
	Growth & Employment in States (GEMS)		9/7/2018
	Public/Private Partnership Program		12/29/2017
	Youth Employment & Social Support Operation	Mission every 6 month	12/31/17
	Community & Social Development Project		6/30/2020
	National Social Safety Nets Project	Continuous	6/30/22
	Power Sector Guarantees Project		12/31/2019
	Electricity and Gas Improvement Project	Continuous	12/31/2017
	State & Local Governance Reform	Continuous	3/31/2017
	Public Sector Reform and Governance Development Project	Continuous	Ongoing
	State Employment and Expenditure	Continuous	12/15/2017
	Lagos Urban Transport Project 2		5/31/2017
	Commercial Agriculture Development Project		05/30/2017
	Fadama Development-III SIL		05/30/2017

Title	Products	Provisional timing of missions (if relevant)	Expected delivery date
	A. Mutual Information on Relevant Work Programs (continued)		
	(ii) Analytical and Advisory Activities		
	Nigeria Systematic Country Diagnostic		June 2017
	Nigeria Growth and Trade Study	-	2017
	Programmatic Poverty Assessment	-	Ongoing
	Nigeria Federal Public Expenditure Review		June 2018
	Strengthening Sub-National Fiscal Management		June 2018
	(iii) Trust Funds, other analyses, and on-going dialogue		
	Governance Partnership Facility Phase 2: State-Peer Learning and Exchange - Managing Fiscal Crisis; Support to the Federal DPF and economic policy dialogue		
IMF work program in next 12 months	*Article IV Consultation*	January, 2018	Board: March, 2018
	Technical assistance		
	(i) *Fiscal issues*		
	National Petroleum Fiscal Policy,		

Title	Products	Provisional timing of missions (if relevant)	Expected delivery date
	A. Mutual Information on Relevant Work Programs (concluded)		
	Strengthening Financial Oversight of Federal Government-Owned Enterprises	FY2015 (tentative)	
	Tax and Customs Administration	April 2017	
	(ii) *Monetary and financial issues*		
	Bank supervision (MCM)	Long-term expert	Until Jan. 2018
	(iii) *Statistics*		
	Price Statistics	February 2017	
	National Accounts	March 2017	
	B. Request for Work Program Inputs		
Fund request to Bank	Summary of Bank analysis and support for public financial management at all tiers of governments (including PERs)		Ongoing
	Poverty and social impact analysis (PSIA) of policy measures on poorest households		

JOINT AFRICAN DEVELOPMENT BANK-IMF WORK PROGRAM, 2016–17

(As of January 31, 2017)

The IMF and AfDB staff collaborate closely in their work on Nigeria. AfDB staff participates in IMF missions, and the IMF provided and assessment letter in support of AfDB budget support operations in Nigeria.

Title	Products	Provisional Timing of Missions (if relevant)	Expected Delivery Date
AfDB work program in next 12 months	*(i) Lending Programs*		
	Federal Policy Based Operation	February and October 2016	June 30 2017
	FCT Integrated Infrastructure Development		October 2017
	Inclusive Basic Service Delivery and Livelihood Empowerment Integrated Program (IBSDLIEP): Rebuilding the North East for Shared Prosperity	July and October 2016	March 2017
	Enable Youth Nigeria Program	July and October 2016	March 2017
	Transmission Network Rehabilitation	Continuous	2017
	Agricultural Transformation Support Program - II	Continuous	October 2017
	Ebonyi State Ring Road	September 2016	2017
	Abia Integrated Infrastructure Project	September 2016	2017
	Study of Abidjan-Lagos Highway Development project		2017

Title	Products	Provisional Timing of Missions (if relevant)	Expected Delivery Date
A. Mutual Information on Relevant Work Programs (continued)			
	(ii) Analytical and Advisory Activities		
	African Economic Outlook 2017	-	May 2017
	(iii) Trust Funds, other analyses, and on-going dialogue		
	a) Institutional support to Nigeria extractive Industries Transparency Initiative (NEITI)		December 2016
	b) Sub-national Debt Management Capacity Building Project (SUBDMO)		2017
	c) Rehabilitation of Industrial Clusters as a Driver of SMEs Industrial Development in Nigeria		2017

Title	Products	Provisional Timing of Missions (if relevant)	Expected Delivery Date
B. Request for Work Program Inputs			
AfDB request to Fund	Regular update of Fund macroeconomic projections.		Ongoing
	Assessment Letter for Nigeria as supporting documentation for the Budget Support Operation		September 30, 2016

STATISTICAL ISSUES

(As of January 31, 2017)

I. Assessment of Data Adequacy for Surveillance
General: Data are broadly adequate for surveillance. However, some data shortcomings remain. In particular, information on subnational public finances and large errors and omissions in the balance of payments. Efforts to improve data in those areas are ongoing, including Technical Assistance (TA) support on State and Local Governments (SLGs) fiscal data and external sector statistics. The Statistics Act of 2007, which established the National Bureau of Statistics (NBS) as the main coordinating agency for data management, has led to a number of improvements, including better information sharing between data producing and collecting agencies. There has been an improvement in the compilation of timely and internally consistent data, for example, the implementation of e-GDDS, the use of Government Integrated Financial Management Information System (GIFMIS) for budget preparations, a fully operational Treasury Single Account (TSA), and a reduction in the balance of payments errors and omissions. These efforts however need to be extended to the subnational levels.
National accounts: Basic statistics are extensively available for the compilation of national accounts and the NBS employed significant methodological updates in 2014 by adopting the System of National Accounts (SNA 2008 version), the International Standard Industrial Classification (ISIC revision 4), and the Supply and Use Table (SUT) framework (first time in its history). Progress is ongoing to introduce additional indices, such as a producer price index, and update the CPI basket. The authorities continue to receive TA from the Fund, World Bank, and African Development Bank in completing a GDP rebasing exercise, including producing a GDP back-casted series **Prices statistics**: The official monthly consumer price index (CPI), a composite of urban and rural price data, is available on a timely basis. The index has been re-referenced to November 2009=100, using the 2003/04 National Consumer Expenditure Survey to update the 1996/97 survey-based expenditure weights. Compilation of a producer price index (PPI) is ongoing and expected by the end of the year.
Government finance statistics: The most pressing shortcoming is related to inadequate data coverage, particularly at the subnational governments level, which accounts for almost one half of total government expenditure. The federal government is working with SLGs to improving the quality, coverage, and timeliness of fiscal reports to facilitate the preparation of a consolidated set of fiscal accounts. This requires the governments at all levels to follow a standardized budget classification, chart of accounts, and accounting systems that will allow consistent classifications of the data, including use of International Public Sector Accounting Standards (IPSAS) --cash basis-- at the Federal and State levels. There is also a need to formalize the publication of government accounts on a monthly or quarterly basis and to increase coverage to report on the operations of state-owned enterprises. IMF TA missions have supported the Federal Government of Nigeria (FGN) in the design and implementation of public financial management reforms, in particular related to the treasury single account (TSA), cash management, and budgeting--most recently in January/February 2017. In addition,

the IMF's regional technical assistance center (AFW2) continues to support the authorities' efforts to extend these reforms to interested States, particularly Kaduna State. Additional TA support involved a review of the institutional structures of Federal Government Owned Enterprises (FGOE) and providing a roadmap to strengthen fiscal oversight.

Monetary and financial statistics: There have been significant improvements in the compilation of monetary statistics. There is need for more granular measures of commercial banks' foreign assets and liabilities. The definition of the other depository corporations (ODCs) sector should also be extended beyond commercial banks to also capture other deposit-taking financial institutions, such as merchant banks and non-interest banks. Recent IMF TA support included the development of an Early Warning System database to compile and process financial information for risk-based supervision and for predicting the likelihood of bank failures.

Financial soundness indicators (FSIs): A broad range of information on the financial sector, including both core and a number of non-core FSIs, is compiled by the CBN (though publishing FSIs on a timely basis would be useful). The CBN is currently working with support from STA to improve the methodology used to compile FSIs and enhance the consolidation basis to capture cross-border activities of Nigerian bank subsidiaries and branches.

Balance of payments: There have been significant efforts to improve the compilation of Nigeria's balance of payments data in recent years. Supported by IMF TA, the authorities have expanded the range and improved the quality of data sources, aimed at strengthening the balance of payments, in particular progress in reducing the large errors and omissions, and producing an international investment position.

Nevertheless, more needs to be done further reduce the errors and omissions in the balance of payments, which complicate the assessment of external sustainability. There is a need for improved validation of transactions reported by banks, measurement of transactions outside the banking system, appropriate treatment of transactions of enterprises in free trade zones (using a residency criterion) and improved coverage of estimates of the external assets and liabilities of the banking sector. The DFID/GDDS Phase III Module, launched in 2010 and covering a five-year period, is helping improve source data by recording more accurately cross-border private capital flows and stocks.

The authorities have not yet initiated the compilation of international reserves data in line with the Data Template on International Reserves and Foreign Currency Liquidity.

External debt: Public external debt data are of good quality and available on a timely basis. The Debt Management Office (DMO) is collaborating closely with the CBN to extend the coverage of their database to include private sector liabilities and foreign investment in domestically-issued debt securities. In addition, IMF and World Bank staff worked with the DMO to develop analytical capacity to formulate a debt management strategy based on detailed cost-risk analysis.

II. Data Standards and Quality

Participant in the General Data Dissemination System (GDDS) since 2003. Metadata need updating.	No Data ROSC.

Nigeria: Table of Common Indicators Required for Surveillance

(As of end-February, 2017)

	Date of latest observation	Date received	Frequency of Data[1]	Frequency of Reporting[1]	Frequency of Publication[1]
Exchange Rates	Feb. 2017	Feb. 2017	D	D	D
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[2]	Dec. 2016	Jan. 2017	M	M	M
Reserve/Base Money	Dec. 2016	Jan. 2017	M	M	M
Broad Money	Dec. 2016	Jan. 2017	M	M	M
Central Bank Balance Sheet	Dec. 2016	Jan. 2017	M	M	M
Consolidated Balance Sheet of the Banking System	Dec. 2016	Jan. 2017	M	M	M
Interest Rates[3]	Feb. 2017	Feb. 2017	D	D	D
Consumer Price Index	Jan. 2017	Feb. 2017	M	M	M
Revenue, Expenditure, Balance and Composition of Financing[4] – General Government[5] and Central Government	2016	Feb. 2017	A	A	A
Revenue, Expenditure, Balance and Composition of Financing[4] – General Government[5] and Central Government	Dec. 2016	Feb. 2017	M	M	M
Stocks of Central Government and Central Government-Guaranteed Debt[6]	Dec. 2016	Feb. 2017	Q	Q	Q
External Current Account Balance	Dec. 2016	Feb. 2017	Q	Q	A
Exports and Imports of Goods and Services	Dec. 2016	Feb. 2017	Q	Q	A
GDP/GNP	Dec. 2016	Feb. 2017	Q	Q	Q
Gross External Debt	2015	Dec. 2016	A	A	A
International Investment Position[7]	2015	Dec. 2016	A	A	A

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

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

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

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

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

[6]Including currency and maturity composition.

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

INTERNATIONAL MONETARY FUND

NIGERIA

March 28, 2017

STAFF REPORT FOR THE 2017 ARTICLE IV CONSULTATION—SUPPLEMENTARY INFORMATION

Prepared By The African Department

This supplement reports on the recent naira appreciation in the parallel market and the approval of the Power Sector Recovery Plan, which occurred after the Staff Report was issued to the Board. These developments do not alter the thrust of the staff appraisal.

1. **The Central Bank of Nigeria (CBN) has boosted its supply of foreign exchange (FX) to the market in recent weeks, contributing to a reduction of the parallel market rate.** The CBN has sold more than $2.8 billion of FX in its forward market from the beginning of the year until March 21, 2017, and increased its spot FX sales to about $140 million per month in February and March, from about $30 million per month in December and January. This has contributed to a 35 percent appreciation of the parallel exchange rate over the past six weeks, which helped narrow the parallel market premium to about 25 percent as of March 27, 2017. Gross reserves remain above $30 billion.

2. **While greater FX intervention is helping clear the backlog of FX orders, removal of FX restrictions and moving towards a unified exchange rate market should remain the key priority**. This will help reduce the parallel market premium in a more sustainable manner, with interventions limited to smoothing large fluctuations in the exchange rate.

3. **On March 22nd, the Nigerian government approved the Power Sector Recovery Program (PSRP)**. The PSRP, which was designed in consultation with the World Bank Group, aims at restoring the financial viability of the power sector and improve transparency and service delivery. It explicitly recognizes that the power sector will face losses of $1.5 billion a year for the next five years unless actions are taken immediately. Near-term actions include the design by mid-May 2017 of a schedule of tariff revisions, measures to fill shortfalls, and the payment by June 2017 of all federal government debt owed to electricity generation companies.

4. Staff welcomes the adoption of the PSRP, whose implementation is an important step in addressing Nigeria's serious infrastructure gap. Delivery of reliable and affordable power would remove a key structural impediment to growth. It will help reduce cost of production and enhance domestic competitiveness. Implementation of the PSRP would be expected to release at least $5 billion of investments from international financial institutions (World Bank Group and AfDB) and the private sector. In addition, ensuring the power sector's financial sustainability would contain borrowing needs and reduce banks' risk exposure to the sector.

5. Staff urges the authorities to quickly follow up on timelines listed in the plan. Staff notes that the authorities' PSRP scenarios recognize that tariff increases envisaged for the next five years will not cover all the sector's deficit, thus requiring explicit subsidies that will increase the fiscal deficit by about 0.15 percent of GDP on an annual basis compared to staff's adjustment scenario, which assumes that tariff increases and efficiency gains will be sufficient to reduce all losses. External funding from the World Bank and other development partners, as well as potential sales of power generation companies, are expected to help fund the PSRP implementation. Staff urges the authorities to offset the costs of electricity subsidies through new revenue measures, which would help ensure that the fiscal path remains sustainable and consistent with bringing the FG debt service-to-revenue ratio to sustainable levels. It will also be important for "public service obligations" to be kept on budget and the introduction of a special exchange rate for transactions in the power sector to be avoided. Vulnerable households should continue to be protected through lifeline tariffs.

Statement by Mr. Mkwezalamba, Executive Director for Nigeria, Mr. Mahlinza, Alternate Executive Director, and Mr. Odonye, Senior Advisor to the Executive Director
March 29, 2017

Our Nigerian authorities appreciate the very productive engagements with the mission team and the candor of the 2017 Article IV report. The authorities agree that despite the steps already taken to tackle vulnerabilities in the economy, further actions are required to restore growth and alleviate poverty rooted over many years.

While we welcome the recommendations to rebuild confidence in the near term and foster recovery over the medium term, the authorities are concerned about staff's view that policy response has been inadequate. In 2016, the authorities undertook a number of corrective measures to place the economy on track, including an increase in the fuel price by 70 percent, raising the monetary policy rate to 14 percent, and allowing substantial depreciation of the interbank exchange rate to bring the naira more in line with fundamentals. Additional measures are underway including, charting a sustainable fiscal policy, maintaining tight monetary policy to underpin price stability, implementing a more flexible foreign exchange (FX) market, and continuing structural reforms to improve competitiveness and facilitate economic diversification within the context of the new economic recovery plan.

Recent Economic Developments and Outlook

The Nigerian economy was severely impacted by low oil prices and production, which significantly compressed fiscal revenue and export earnings. Growth contracted by 1.5 percent in 2016 and the economy tipped into recession. Inflation remained high and ended the year at 18.6 percent, reflecting hikes in electricity and fuel tariffs, a weak naira, and accommodative monetary policy. Security concerns, especially in the North East region, warranted declaring a state-of-emergency and deployment of the army to maintain peace at significant fiscal costs. At the same time, the government focused on enhancing transparency, fighting corruption and strengthening governance.

In recent months, the economy has gained momentum, mainly reflecting recovery in oil production and strong performance in agriculture. This has been supported by the recovery in the global economy, especially Nigeria's major trading partners. Prospects are good for 2017 and the medium term, as encapsulated in the government's medium term Economic Recovery and Growth Plan (ERGP), 2017–20, announced in early March 2017. The plan, aims to reposition the economy by accelerating growth and creating employment through private sector-led economic diversification, investment in growth-enhancing infrastructure and improving the business environment. Full implementation of the plan, together with the current efforts of the government to restore peace in the Niger-Delta region will help revive economic growth and stabilize the economy.

The growth rate for 2017 is projected to be 2.2 percent before accelerating to 4.8 percent and 4.5 percent in 2018 and 2019, respectively, and 7.0 percent in 2020. The positive growth is expected from rigorous implementation of the ERGP and innovative growth stimulating

sectoral policies. In addition, greater availability of foreign exchange (FX) arising from renewed confidence in the economy, and reduced financing needs for the government is expected to lead to an improvement in non-oil growth in 2017. Over the medium term, the projected oil production at 2.5 million barrels per day is expected to stimulate non-oil growth to 5 percent. The fiscal multiplier from increased public investment is expected to mitigate the dampening effects of fiscal consolidation on growth. Higher savings and capital inflows will boost investment, while higher retained earnings and less fiscal dominance should stimulate double-digit growth in private sector credit. A strong ownership of the ERGP by respective Ministries, Departments and Agencies (MDAs) supported by a monitoring and delivery-unit in the Presidency will leverage implementation to facilitate the achievement of the plan's key priorities.

Downside risks may arise from a slower-than-expected rate of global economic activity; tight monetary policy stance by major economies, resulting in strengthening of their currencies; and depressed oil prices. The government acknowledges the enormous challenges faced by the economy and commits to implement policy adjustments to reverse the economic slide and lay the foundation for a strong and diversified economy.

Fiscal Policy

The fiscal consolidation stance outlined in the ERGP targets reducing dependence on oil revenue to achieve a sustainable and growth-friendly fiscal regime by scaling up investment in non-oil activity. The policy anticipates a 1.6 percent of GDP improvement in the non-oil primary balance by 2020. This adjustment will be front-loaded to create space for higher public investment. Increases in non-oil revenues should gradually reduce the ratio of interest payments to government revenue towards a more sustainable level.

The authorities will continue to improve tax administration, through a combination of measures including: the registration of about one thousand new taxpayers, arrears collection, and targeted tax audits. These measures build upon efficiency gains realized from reduced overhead costs, and extension of the Integrated Personnel Payroll Information System (IPPIS) to all government agencies which helped eliminate around 65000 'ghost workers' from the wage bill. Implementation of the Treasury Single Account (TSA) also provided the basis for central liquidity management with respect to availability of resources. In addition, the government has embarked on measures to further strengthen expenditure controls at the subnational level to strengthen fiscal viability.

The 2017 budget under consideration by the National Assembly, has the objective of restoring sustained growth and focuses mainly on infrastructure projects. The budget deficit is projected to average 2.8 percent of GDP in 2017 and will be financed from domestic and external sources, including Eurobond issuances and concessional financing. The government remains committed to reducing the debt service-to revenue ratio close to 30 percent by 2020, and targets increasing the tax-to-GDP ratio from 6 to 15 percent of GDP over the next 5 years. For 2017, further gains are expected from the Voluntary Asset and Income Declaration scheme under the watch of the newly established Asset Tracing Team, which facilitates voluntary declaration and payment of tax liabilities. The non-provision for fuel subsidies in

the 2017 budget reinforces the path for the deregulation of fuel prices. Other tax policy measures implemented by the authorities involve changes in excises, reduction of tax exemptions, asset sales and VAT rate increases on telecommunications and luxury items starting from 2018 onwards. Commitment to reduce spending will be sustained through the efficiency unit. The authorities will also step-up efforts to manage fiscal risks from State and Local Governments (SLGs) and State Owned Enterprises (SoEs) through the implementation of the Fiscal Sustainability Program (FSP) and enhanced monitoring.

Monetary and Exchange Rate Policy

The Central Bank of Nigeria (CBN) remains committed to its price stability objective. In 2016, however, monetary policy decisions were impacted by the need to strike an appropriate balance between price stability and growth. With the negative output gap, the Bank took steps to support the economy. Given a slowing inflation momentum and an economy in recovery mode, the CBN is convinced that the current policy rate continues to be appropriate. Going forward, the path toward the medium-term inflation target will be gradual, since a more rapid reduction in inflation could pose undue risks to the economic recovery. On the exchange rate, the authorities favor a gradual evolution of the flexible exchange rate system and are of the view that current FX measures have helped preserve reserves, in the context of dwindling export proceeds, by stimulating some local industries and limiting speculative demand for scarce FX.

The CBN reiterates its commitment to a unified FX market, and emphasizes the need to put in place supportive policies, especially fiscal and structural policies, to address exchange rate misalignments when they emerge. The prioritized FX allocation rule introduced in August 2016 was removed, and the current FX measures which are also temporary will be removed when complementary fiscal and structural measures envisaged under the ERGP are in place and reserves reach appropriate levels. The CBN judges that the value of the naira in the interbank foreign exchange market is in line with the Bank's estimates of non-speculative demand for FX.

Banking System Stability

The CBN remains vigilant in its oversight of the banking system. Most commercial banks have kept capital buffers above the Basel requirements, and the CBN continues to monitor the risks associated with the adverse macroeconomic environment with a view to maintaining financial system stability. In this regard, the Bank has put in place measures to address the rising NPLs, declining asset quality, credit concentration and high FX exposures. Key measures include intensified monitoring and strengthened compliance and supervisory oversight on the utilization of FX sourced by banks. In addition, banks were required to conduct stress tests and assess the impact of the June 2016 foreign exchange framework on their capital and profitability. Plans are also in place for every bank to be fully capitalized by end-June 2017 and maintain contingency planning scenarios. The CBN is working with the three banks that failed the capital adequacy rule. Given that the current resolution framework and liquidation regime is firm, the CBN has no plans for immediate revisions.

Structural Policies

Our Nigerian authorities agree that removing structural impediments to investment and employment creation remain cardinal for promoting economic diversification and inclusive growth. Crucial are efforts for reducing the infrastructure gap and the urgency of implementing a comprehensive power sector recovery plan. Within the power sector, our authorities are of the view that governance and efficiency improvements as well as power delivery should be prioritized ahead of tariff increases.

The power recovery plan is addressed in the context of an integrated infrastructure development program, covering power, road, rail, water, ports and broadband. Funding for the infrastructure program, estimated at about USD3 trillion and spread over the next 30 years, would be sourced by leveraging on private sector capital in several ways such as public-private partnerships, special purpose vehicles, investment funds, and various guaranty arrangements. In this regard, the government plans to borrow up to $30bn over the Plan period to meet its share of funds to build the Mambilla hydropower plant, and priority segments of the Coastal Railway, the Lagos-Kano Railway and the Abuja Mass Transit Rail line. It will also be making strategic use of the Nigerian Sovereign Investment Authority, which is home to the national sovereign wealth fund. The ERGP also addresses problems in the power value chain, in particular governance, funding, legal, regulatory and pricing constraints across the four main segments in the value chain (gas supply, generation, transmission and distribution). This reform program should address the historic and structural problems to growth.

The newly formed Presidential Enabling Business Environment Council (PEBEC) is tasked to improve Nigeria's Doing Business (DB) ranking to 100 by 2020 (from 169 currently), starting with a 60-day plan focusing on reforms to facilitate entry/exit of people and goods and simplification of government procurement. Going forward, priorities include fighting corruption to strengthen the business climate, promoting the development of SMEs including access to financing, implementing the social investment program, as well as the conditional cash transfer payment scheme for the most vulnerable and in support of homegrown school feeding program. As part of the effort to fight corruption, in 2016, several high profile cases of corruption were exposed and ill-gotten wealth confiscated.

Conclusion

The Nigerian economy is gaining momentum reflecting higher oil production and strong performance in agriculture. The recent measures to reduce vulnerabilities, including fuel price deregulation, monetary policy tightening, and measures to address possible exchange rate misalignment should sustain this momentum. In the medium term, the authorities' commitment to implement policies to rebuild confidence and boost economic recovery over the medium term, supported by the ERPG, should result in a sustained turnaround.