INTERNATIONAL MONETARY FUND

IMF Country Report No. 24/49

NIGERIA

February 2024

POST–FINANCING ASSESSMENT DISCUSSIONS—PRESS RELEASE; AND STAFF REPORT

In the context of the Post-Financing Assessment discussions, the following documents have been released and are included in this package:

- A **Press Release**.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on a lapse-of-time basis, following discussions that ended on October 27, 2023, 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 December 14, 2023.

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
Washington, D.C.

PRESS RELEASE

PR24/43

IMF Executive Board Concludes Post Financing Assessment with Nigeria

FOR IMMEDIATE RELEASE

Washington, DC – February 9, 2024: On January 12, 2024, the Executive Board of the International Monetary Fund (IMF) concluded the Post Financing Assessment (PFA)[1] and endorsed the Staff Appraisal on a lapse-of-time basis.[2] Nigeria's capacity to repay the Fund is adequate.

President Tinubu has moved ahead with important structural reforms: removing fuel subsidies and unifying the various official foreign exchange windows. He appointed a Presidential Fiscal Policy and Tax Reforms Committee to make proposals for raising domestic revenue to support investments in infrastructure, health, and education. To ease the impact of rapidly rising inflation on living conditions, the government has released cereals from the grain reserve, provided subsidized fertilizer to farmers, capped retail fuel and electricity prices—thus partially reversing the fuel subsidy removal—implemented a civil service wage award, and suspended the VAT on diesel.

Nigeria exited the Covid-19 recession quickly, but growth, held back by the hydrocarbon economy, is barely keeping up with population dynamics. Low revenue collection hampers the provision of services and public investment. Security concerns persist in the northern part of the country, adversely affecting agriculture and food security. Latest estimates show 25 million (13 percent of the population) as food insecure. The poverty rate was 37 percent in 2022.

Growth is projected at 2.9 percent for 2023, and 3 percent in 2024, as hydrocarbon performance revives, including from better control of theft. If the authorities succeed in developing and implementing a comprehensive reform agenda, the medium-term outlook would be much improved. Headline inflation reached 27 percent year-on-year in October (food inflation 32 percent), reflecting fuel subsidy removal, exchange rate depreciation, and poor agricultural production. While the current account registered a surplus in the first half of 2023, the 30-day average of gross international reserves (GIR) reported by the Central Bank of Nigeria (CBN) declined to $33 billion in October, covering 6 months of imports.

Executive Board Assessment

The new administration has made a strong start, tackling deep-rooted structural issues in challenging circumstances. Immediately, it adopted two policy reforms that its predecessors had shied away from: fuel subsidy removal and the unification of the official exchange rates. Since then, the new CBN team has made price stability its core mandate and demonstrated

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[1] After completing an IMF lending program, a country may be subject to a Post Financing Assessment (PFA). It aims to identify risks to a country's medium-term viability and provide early warnings on risks to the IMF's balance sheets. For more details click here.

[2] The Executive Board takes decisions under its lapse-of-time procedure when it is agreed by the Board that a proposal can be considered without convening formal discussions.

this resolve by dropping its previous role in development finance. On the fiscal side, the authorities are developing an ambitious domestic revenue mobilization agenda.

Like many other countries, Nigeria faces a difficult external environment and wide-ranging domestic challenges. External financing (market and official) is scarce, and global food prices have surged, reflecting the repercussions of conflict and geo-economic fragmentation. Per-capita growth in Nigeria has stalled, poverty and food insecurity are high, exacerbating the cost-of-living crisis. Low reserves and very limited fiscal space constrain the authorities' option space. Against this backdrop, the authorities' focus on restoring macroeconomic stability and creating conditions for sustained, high and inclusive growth is appropriate.

The CBN has set out on a welcome path of monetary tightening. The Governor has committed to making price stability the core objective of monetary policy, and the CBN has taken actions to mop up excess liquidity. Continuing to raise the monetary policy rate until it is positive in real terms would be an important signal of the direction of monetary policy. The authorities are exploring options to strengthen Nigeria's reserve position, though a careful assessment of unintended consequences is needed in some cases. Settling the CBN's overdue dollar obligations will help rebuild confidence in the central bank and the naira. Sharing comprehensive information on Nigeria's reserves position would facilitate a more complete assessment of the external situation.

The government's focus on revenue mobilization and digitalization would improve public service delivery and safeguard fiscal sustainability. The envisaged reduction in the overall deficit in 2024 would help contain debt vulnerabilities and eliminate the need for CBN financing. Temporary and targeted support to the most vulnerable in the form of social transfers is needed, given the ongoing cost-of-living crisis. Fuel and electricity subsidies are costly, do not reach those that most need government support and should be phased out completely.

Staff assesses that Nigeria's capacity to repay the Fund is adequate under the baseline. The authorities' policy intentions are well placed to address risks of a downside scenario where difficult trade-offs may arise between urgent humanitarian needs and debt service, including to the Fund. In such circumstances aggressive monetary tightening and fiscal adjustment combined with support from development partners would be needed to restore macroeconomic stability.

Table 1. Nigeria: Selected Economic and Financial Indicators, 2022–25

	2022 Act.	2023 Est.	2024 Proj.	2025 Proj.
National income and prices	(Annual percentage change, unless otherwise specified)			
Real GDP (at 2010 market prices)	3.3	2.9	3.0	3.1
Oil and Gas GDP	-19.2	1.4	2.5	3.8
Non-oil GDP	5.0	3.0	3.1	3.0
Non-oil non-agriculture GDP	6.2	3.8	3.4	3.3
Production of crude oil (million barrels per day)	1.38	1.46	1.47	1.52
Nominal GDP at market prices (trillions of naira)	202.4	245.3	305.4	355.2
Nominal non-oil GDP (trillions of naira)	190.4	229.8	278.9	326.7
Nominal GDP per capita (US$)	2,202	1,699	1,219	1,271
GDP deflator	11.3	17.8	20.8	12.8
Consumer price index (annual average)	18.8	25.0	25.2	14.8
Consumer price index (end of period)	21.3	31.1	17.1	15.0
Investment and savings	(Percent of GDP)			
Gross national savings	20.2	19.7	20.2	21.8
Public	-2.3	-1.6	-0.1	-0.2
Private	22.5	21.2	20.3	22.0
Investment	19.9	19.2	19.5	21.2
Public	2.5	3.1	3.3	3.6
Private	17.5	16.1	16.3	17.6
Consolidated government operations	(Percent of GDP)			
Total revenues and grants	9.1	9.4	10.8	10.9
Of which: oil and gas revenue	3.8	4.3	5.4	5.1
Of which: non-oil revenue	4.8	4.9	5.3	5.8
Total expenditure and net lending	14.5	14.8	15.1	15.5
Of which: fuel subsidies	2.2	0.9	0.8	0.1
Overall balance	-5.4	-5.4	-4.3	-4.5
Non-oil primary balance	-6.9	-7.0	-6.6	-6.4
Public gross debt[1]	38.7	45.6	44.5	44.3
Of which: Fx debt	8.5	15.6	16.7	17.9
FGN interest payments (percent of FGN revenue)	90.4	83.4	81.1	79.2

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)	17.4	24.2	17.4	14.9
Net foreign assets	-11.5	-5.6	-13.0	3.3
Net domestic assets	28.8	29.8	30.4	11.5
Of which: Claims on consolidated government	26.2	9.1	3.1	1.6
Credit to the private sector (y-o-y, percent)	19.9	20.2	20.6	16.5
Velocity of broad money (ratio; end of period)	3.6	3.5	3.6	3.7
External sector	(Annual percentage change, unless otherwise specified)			
Current account balance (percent of GDP)	0.2	0.5	0.7	0.6
Exports of goods and services	35.9	-12.6	-3.1	-5.2
Imports of goods and services	14.2	-13.2	-0.5	-1.9
Terms of trade	12.6	-7.9	-1.6	-3.2
Price of Nigerian oil (US$ per barrel)	99.0	82.4	81.2	77.4
External debt outstanding (US$ billions) [2]	119.9	110.1	109.1	114.0
Gross international reserves (US$ billions, CBN definition)[3]	36.6	27.9	23.8	26.3
(equivalent months of imports of G&Ss)	6.6	5.0	4.4	4.9

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

[1]Gross debt figures for the Federal Government and the public sector include overdrafts from the Central Bank of Nigeria (CBN).

[2]Includes both public and private sector.

[3]Based on the IMF definition, the gross international reserves are $8.2 billion lower in 2023.

INTERNATIONAL MONETARY FUND

NIGERIA

POST–FINANCING ASSESSMENT DISCUSSIONS

December 14, 2023

EXECUTIVE SUMMARY

Context. The new administration under President Tinubu has started its term with bold reforms in challenging circumstances. The authorities quickly implemented two major reforms: removing fuel subsidies and unifying the various official foreign exchange windows. Growth is lackluster, inflation high and accelerating, and pressures on the naira persist. With widespread poverty and rising food insecurity, social demands for government support are growing. The external environment—access to financing, food prices—remains difficult, high oil and gas prices notwithstanding.

Policies. The new economic team is focused on restoring economic and financial stability, while developing a comprehensive growth agenda. The main short-term challenge is to rein in inflation and safeguard external stability. Over the medium-term, significantly raising domestic revenue mobilization is needed, while developing a structural reform agenda that facilitates high and inclusive growth.

- *Monetary and exchange rate policy:* The Central Bank of Nigeria (CBN) is refocusing on price stability as its core objective and has taken initial steps to tighten financial conditions. A sustained tightening cycle is needed to bring down inflation. This, together with rebuilding confidence in the CBN, will help stabilize the naira, and mitigate risks of an inflation-depreciation spiral.
- *Fiscal policy:* The authorities aim to aggressively increase revenues and bring down the deficit. For 2024, the budget will have to accommodate electricity and partially returned implicit fuel subsidies and needed social transfers. Setting a realistic domestic borrowing ceiling is key to phasing out monetization of the deficit.
- *Financial sector policies.* The CBN has taken important actions to mitigate risks in the banking system. Tight supervision is needed to safeguard stability.

Capacity to repay the Fund. Nigeria's capacity to repay the Fund is adequate though subject to risks. In the event of an adverse scenario involving an inflation-depreciation spiral and a climate shock, repayment indicators would weaken.

Approved By
Costas Christou (AFR) and Jarkko Turunen (SPR)

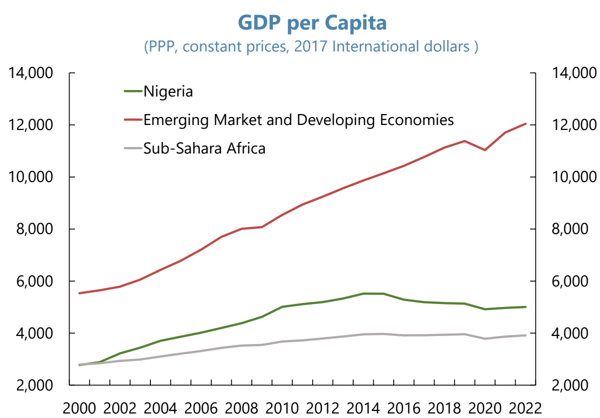
Discussions took place during October 23-27, 2023, in Abuja. The mission held discussions with the Minister of Finance Edun, the Minister of State for the Budget Bagudu, the Central Bank of Nigeria Governor Cardoso, and other senior officials. The staff team comprised Messrs. Schimmelpfennig (head), Darius, Thomas, Ms. Swen-Monmia (AFR), Ms. Kale (SPR), Mr. De Luna Martinez (MCM); and Mr. Ebeke (resident representative), and Ms. Mangga and Ms. Ikpechukwu (local economists). Mr. Ekeocha (OEDAE) participated in key policy meetings. Mr. Bhutia provided research support. Ms. Delcambre assisted with the preparation of the report.

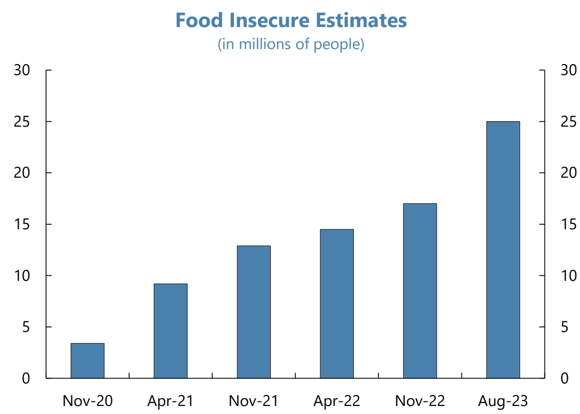
CONTENTS

ANNEX

BACKGROUND

1. Lackluster growth over the last decade has contributed to poverty and food insecurity. Nigeria exited the Covid-19 recession quickly, but growth is barely keeping up with population dynamics and this year's large exchange rate depreciation is affecting the GDP per capita level significantly. While non-oil growth has averaged 5 percent between 2021-22, the hydrocarbon economy has declined (–14 percent), and inflation is accelerating. Low revenue collection hampers the provision of services and public investment. Severe security concerns persist in the northern part of the country, adversely affecting agriculture and food security. Latest estimates show 25 million (13 percent of the population) as food insecure. The poverty rate was 37 percent in 2022.





Sources: IMF World Economic Outlook, World Food Program.

Note: Food insecurity refers to Level 3 and above according to WFP definitions

2. President Tinubu campaigned on a reform agenda and has moved ahead with important structural reforms. He took office in May, appointed his cabinet in August, and a new CBN leadership in September. Two major reforms were implemented upon taking office: removing fuel subsidies and unifying the various official foreign exchange windows. He appointed a Presidential Fiscal Policy and Tax Reforms Committee to make proposals for raising domestic revenue to support investments in infrastructure, health, and education. To ease the impact of rapidly rising inflation on living conditions, the government has released cereals from the grain reserve, provided subsidized fertilizer to farmers, capped retail fuel and electricity prices—thus partially reversing the fuel subsidy removal—implanted a civil service wage award, and suspended the VAT on diesel. These actions have so far averted nationwide strikes but come at a fiscal cost.

3. In 2021, the Executive Board approved RFI financing of SDR 2.5 billion for Nigeria in support of the authorities' policy actions to mitigate the impact of the Covid-19 pandemic. This placed outstanding credit to the Fund above the SDR 1.5 billion threshold for which a Post-Financing Assessment is required. This report assesses Nigeria's capacity to repay the Fund under two scenarios. The baseline scenario is presented in the recent developments and outlook section, and a downside scenario is presented in the capacity to repay section.

RECENT DEVELOPMENTS AND OUTLOOK

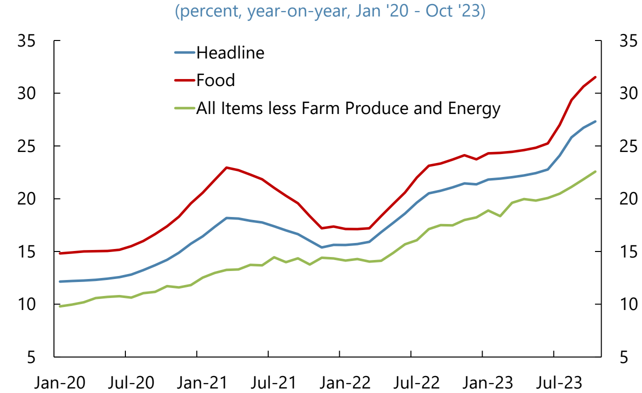
Muted growth, accelerating inflation, and a weak external position pose short-term policy challenges. Financial sector health could weaken with muted activity.

4. **Growth remains muted.** Growth averaged 2.4 percent in H1-2023 and improved to 3.1 percent in Q3. Activity in the hydrocarbon sector, agriculture, and trade remains weak, while information technology and the financial sector are growth drivers. Growth is projected at 2.9 percent for 2023, and 3 percent in 2024, as hydrocarbon performance revives, including from better control of theft. Agriculture—employing 40 million—is the weak point, suffering from the 2022 flooding and elevated fertilizer prices.

5. **Medium-term growth is projected around 3 percent, implying a decline in per-capita GDP in dollar terms.** The main engine of growth is the non-oil non-agricultural component (3½ percent growth per annum) with significant contributions from information technology and finance. Oil and agriculture continue to lag, associated with a reliance on rain, weak investment, and manifold security challenges. If the authorities succeed in developing and implementing a comprehensive reform agenda, the medium-term outlook would be much improved.

6. **Inflation is accelerating, reflecting supply shocks and loose financial conditions.** Headline inflation reached 27 percent year-on-year in October (food inflation 32 percent), reflecting fuel subsidy removal, exchange rate depreciation, and poor agricultural production. Financial conditions are loose (M3 growth of 35 percent year-on-year in July, a negative real monetary policy rate). Inflation is projected to peak at end 2023 but the food component rises through Q1 2024 linked to naira depreciation. By end 2024, inflation should gradually return to historical levels (17 percent year-on-year at end-2024), helped by base effects phasing out and assuming monetary policy tightening.

CPI Inflation
(percent, year-on-year, Jan '20 - Oct '23)



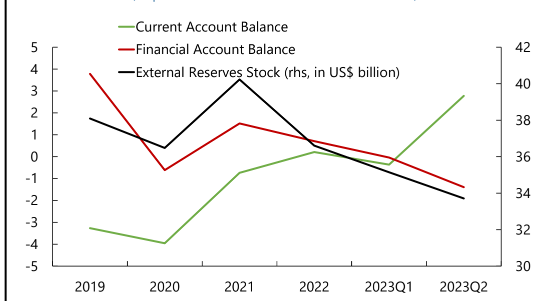
Sources: Haver Analytics, National Bureau of Statistics

7. **While the current account registered a surplus in the first half of 2023, reserves declined significantly.** Hydrocarbon exports have declined, likely owing to pervasive theft and inadequate investment in upstream infrastructure. Profit repatriation from the hydrocarbon sector has also declined, dampening the negative impact on the current account. FDI remains subdued, while portfolio outflows (equity, Eurobond repayments, repatriations) have increased. The CBN-

reported 30-day average of gross international reserves (GIR) declined to $33 billion in October (almost $4 billion below end-2022), covering 6 months of imports and 83 percent of the IMF's ARA metric. Following the IMF's definition of GIR, $8 billion in securities are considered pledged collateral that are thus not readily available, reducing GIR under the IMF's definition to $25 billion at end-October 2023. The authorities have not shared full information on short-term fx liabilities which would be necessary to calculate net international reserves. Through 2024–25, the financial account is likely to deteriorate, with no projected issuance of Eurobonds, large Fund and Eurobond repayments of $3.5 billion, and portfolio outflows. Hence, despite a current account surplus, officially reported reserves are projected to decline to $24 billion in 2024 before increasing again to $38 billion in 2028 as portfolio inflows resume. Staff projections assume that the authorities can roll over all maturing forwards and swaps.

External Position

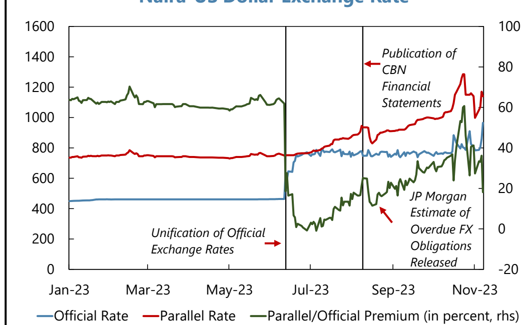
(as percent of GDP unless otherwise indicated)



Sources: Central Bank of Nigeria, IMF Staff

8. Pressures on the naira persist, some positive reforms notwithstanding. Immediately after unification of the official foreign exchange windows, the official exchange rate depreciated by 60 percent, converging to the parallel market rate. Subsequently, the official rate has traded between 750-850 naira/dollar. The CBN published its 2013–22 financial statements in August—a welcome transparency step. Markets have focused on estimates over the CBN's net international reserves position and how it is impacted by: (i) partial information on fx liabilities in the 2022 statement; (ii) the CBN's overdue dollar obligations to domestic banks of $7 billion; and (iii) a backlog of pending dollar demand from corporates seeking to repatriate funds. Reflecting market concerns and segmentation and high inflation, the parallel market rate depreciated by 35 percent between end-July and end-October to about 1,100, and the parallel market premium widened to over 40 percent.

Naira-US Dollar Exchange Rate



Sources: Nigerian authorities' data and Fund Staff calculations

9. Nigeria's external position was assessed as moderately weaker than warranted by fundamentals and desired policy settings [in the 2022 Article IV Consultation](#). The assessment was driven by persistent fx shortages faced by the private sector, capital outflow pressures, and reliance on import and fx restrictions to manage fx pressures. While exchange rate unification was positive, CBN's low net reserve position, shortage of fx in the official market, and loose financial conditions weigh on investor confidence.

10. Although the banking sector remains sound, capitalization is declining. Nigeria's banking sector has so far weathered the low growth, high inflation environment. At end-June 2023, most banks reported profits from revaluation of fx assets and effective management of fx exposures.

Banks are liquid, with a reported liquid assets to short-term liabilities ratio of 34 percent at end-June 2023. Still, banks' capital adequacy ratio has declined to 11 percent. Going forward, non-performing loans are expected to increase as debtors face repayment difficulties. Some banks are facing problems maintaining their correspondent bank relationships due to dollar shortages, which may affect cross-border operations, including letters of credit for importers.

11. ***Authorities' Views:*** The authorities broadly concur with staff's baseline. However, they emphasized that they are developing a comprehensive reform agenda to achieve much higher growth rates. They expect pressures on the naira to subside as dollar supply improves and see the official naira rate stabilizing at current levels, and the parallel market rate premium declining.

RISKS TO THE OUTLOOK

Risks to the outlook are to the downside, though strong policy action from the new government could yield an upside scenario. The RAM (Annex I) illustrates the challenging environment faced by the new authorities. Policy reversal is a risk and could also result from other downside risks materializing.

12. **Inflation-depreciation spiral.** Without sufficient monetary policy tightening, or if there are further commodity price shocks, inflation could continue to accelerate. An adverse confidence shock could exacerbate the search for dollars from residents, reinforcing the desire of foreign investors to liquidate local currency holdings, and exerting more pressure on the naira. Such adverse inflation or exchange rate shocks would feed into each other, potentially leading to a self-reinforcing spiral.

13. **Growth is vulnerable to agricultural and oil production shocks.** A climate shock would impact agriculture—and thus food security—because of the dominant reliance on rainfall. Oil production could decline if onshore security conditions worsen again. A negative oil export shock would put pressure on the naira as would revelations by the national oil company of significant future committed oil.

14. **Governance challenges and deficiencies in the AML/CFT framework continue to pose risks to capital flows and tax collection.** Nigeria was listed by the Financial Action Task Force in 2023 for increased monitoring due to strategic AML/CFT deficiencies. Lack of sustained progress in addressing these could impact correspondent banking relationships and transnational financial flows and diminish international confidence in Nigeria's financial system.

15. **Conflict, security, and domestic risks** are weighing on business confidence, agricultural and hydrocarbon production. Any intensification will impact livelihoods, growth, and capital flows.

16. **On the upside,** swift and determined implementation of the authorities' policy intentions could boost confidence and support an acceleration of growth. This upside scenario is illustrated in Box 1 below.

POLICY DISCUSSIONS

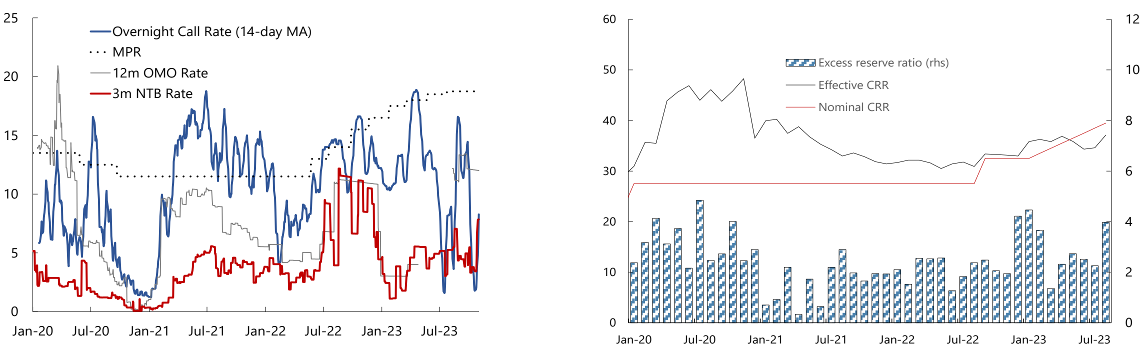
The main short-term challenge is to rein in inflation, safeguard external stability, and restore market confidence. This requires decisive tightening of monetary policy, the elimination of CBN budget financing, and rebuilding trust in the CBN. Over the medium-term, a comprehensive reform strategy that raises revenue collection and lays the foundation for high and inclusive growth is needed.

A. Monetary Policy

17. The CBN is refocusing on price stability and has taken steps to tighten monetary policy. The CBN had raised the policy rate cumulatively by 725 bps between May 2022 and July 2023 to 18.75 percent in small steps—25 bps at the July meeting—leaving the real policy rate squarely in negative territory. The new CBN team has acted swiftly to tighten financial conditions further by eliminating the ceiling on the special deposit facility (SDF), allowing the SDF overnight rate to act as a floor for monetary instruments, and has mopped up naira 500 billion in excess liquidity. As a result, the overnight rate has increased to 17 percent, comparable to the 12-month Open Market Operations (OMO) rate, while the 12-month government paper yield remains slightly lower at 15 percent.

Text Figure 1. Nigeria: Key Interest Rates, Liquidity and Credit Growth

Key Rates (in percent) | **Cash Reserve Requirement Rations** (in percent)



Sources: Haver Analytics, Fund Staff estimates

Note: Excess reserves are defined as commercial bank deposits at the central bank above required reserves.

18. The CBN has announced that it will phase out its development finance programs which is welcome. Many of these quasi-fiscal activities—loans and guarantees to other financial institutions—suffered from efficiency problems associated with improper targeting and poor repayment. They also aggravated financial repression and were a major contributor to the high money growth that has undermined CBN's credibility.

19. A further tightening of monetary policy is needed to bring down inflation. Staff recommends:

- Raise the monetary policy rate at the next Monetary Policy Committee (MPC) meeting with the aim of making it positive in real terms over the next 6-12 months. This will be a key signal of the direction of monetary policy, despite limited transmission. The pace of tightening and the terminal rate can be calibrated from meeting to meeting considering incoming data.

- Continue withdrawing excess liquidity using short term instruments (OMOs or repos). The initial aim should be to extract the remaining naira 800 billion in excess reserves, and up to naira 2 trillion over the next 12 months.

- Discontinue the asymmetric use of the cash reserve requirement and apply the requirement uniformly to all banks.

- Strengthen communications by clearly specifying the monetary policy objective, operational targets, and milestones.

20. ***Authorities' Views:*** The CBN agreed with the need to tighten monetary policy and emphasized that they see price stability as their core objective. They pointed to the early policy actions taken and stressed that the next MPC will be the first opportunity since taking office to lay out their policy approach.

B. Exchange Rate Policy

21. The authorities have taken important steps towards liberalizing the foreign exchange market. The unification of the various official foreign exchange windows and providing Bureau de Change operators access to the official market sets the basis for a more market-driven price discovery. The removal of the ban on access to fx for certain imports is a welcome step towards liberalizing current account transactions and bringing more transactions in the official market.

22. Rebuilding confidence in the exchange rate requires policy clarity and tightening. With limited fx reserves, the CBN may find it difficult to smooth high-frequency volatility. Recent announcements by the authorities that the CBN's overdue obligations would be settled soon, followed by a first payment of $500 million in the first week of November have helped sentiment. Complete repayment of legitimate claims along with tighter policies is essential to support confidence in the exchange rate. Ultimately—once macroeconomic policies are sufficiently tightened and confidence in the CBN is strengthened again—it will be important to allow the naira to settle at its market-determined equilibrium level which would support Nigeria's competitiveness, enable productive resource reallocations, and allow everyone access to foreign exchange.

23. Rebuilding confidence in the exchange rate also requires dollar inflows at this juncture. The authorities are pursuing different options to shore up fx liquidity which appears to be urgently needed. Options under consideration include a deposit by another central bank, a loan from a bank consortium collateralized by hydrocarbon revenues and selling an equity stake in a gas field for upfront cash. The President has signed an Executive Order that would allow issuance of fxdenominated government securities domestically. While staff has not yet seen the Order itself, staff advises against this measure as it could lead to market fragmentation and dollarization.

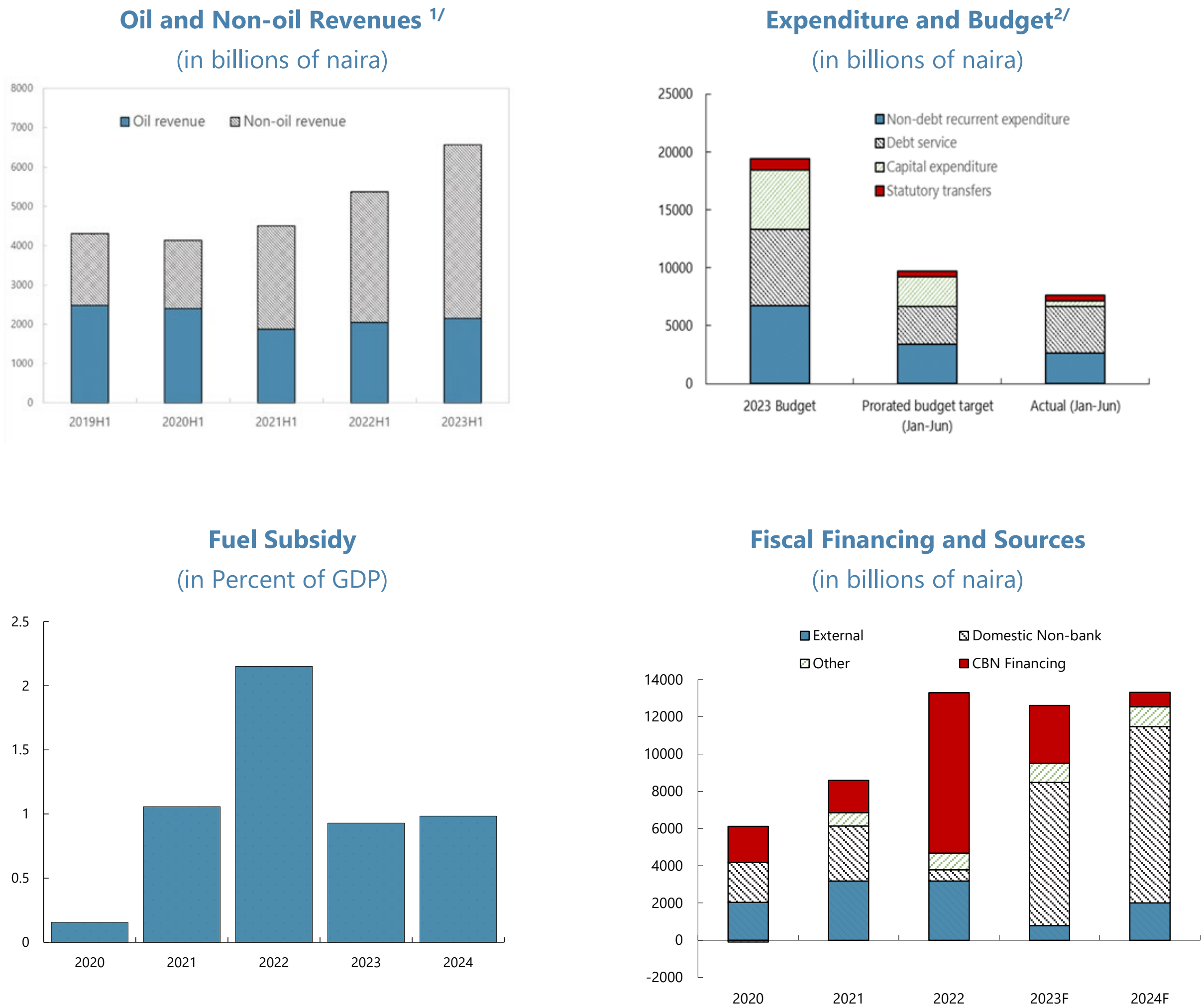
24. ***Authorities' Views:*** The authorities aim to move all legitimate foreign transactions to the official market, including by cracking down further on illegal transactions on the parallel market. They are confident that they will be able to attract significant foreign exchange inflows that would help bring equilibrium to the official market.

C. Fiscal Policy

25. The authorities are developing an ambitious reform agenda to strengthen fiscal sustainability. The President has appointed a Fiscal Policy and Tax Reforms Committee that, inter alia, has the mandate to propose measures to raise revenue collection to 18 percent of GDP over the next five years and lay the foundation for a sustained growth acceleration. The authorities see digitalization as the key driver of enhancing spending efficiency and tackling endemic corruption. While the Committee has a 12-months mandate, initial recommendations are expected to be reflected in the 2024 budget.

26. 2023 is a transition year, with the overall deficit unchanged from 2022 at 5.4 percent of GDP. The key reform was phasing out the fuel subsidy with an estimated 2023 saving of 0.6 percent of GDP. A supplementary budget accommodates increased security spending, support for the vulnerable, maintenance and capital spending, and agricultural inputs (about 1 percent of GDP). The supplementary budget also raises the domestic borrowing ceiling by 0.9 percent of GDP. Depending on revenue performance, budget execution, and availability of external financing in the last quarter, this may leave a funding gap of up to 1½ percent of GDP that would likely have to be filled by CBN financing—still significantly lower than in previous years.

Text Figure 2. Nigeria: General Government Fiscal Developments



Sources: The authorities (OAGF, Budget Office) and staff estimates.

[1/] Oil and non-oil revenues for January-June (OAGF). Non-oil revenue excludes SLG's independently generated revenues.

[2/] The FGN expenditure for January-June, excluding GOEs (Budget Office).

27. The authorities aim to reduce the overall deficit in 2024. The Medium-Term Expenditure Framework targets a reduction of the overall deficit by 2.2 percent of GDP to 3.2 percent of GDP for 2024. On the revenue side, this is driven by higher oil revenues (0.9 percent of GDP) and some non-oil revenue increases by 0.2 percent of GDP from tax measures. The authorities plan to contain expenditure by 1.1 percent of GDP, while accommodating the impact of a wage structure review which will take place in February. While the deficit target is welcome, staff see spending pressures from electricity and fuel subsidies of over 1 percent of GDP, partly offset by some upside in oil revenues. Staff's resulting overall deficit projection of 4.3 percent of GDP would still be a strong adjustment against the backdrop of a difficult economic context. A realistic projection of financing needs is key to ensuring that the government's needs can be met from the market within the legal borrowing limits.

28. Government debt is projected to increase to 46 percent of GDP in 2023 on account of naira depreciation. The last Debt Sustainability Analysis assessed Nigeria to be at a "moderate" overall risk of sovereign stress. Nigeria benefits from the still low fx debt-to-GDP ratio of 16 percent of GDP and a high share of medium-and long-term maturity instruments. However, at the federal government level, interest expenditure is projected to absorb 83 percent of revenues in 2023. In the baseline scenario that does not yet reflect the authorities' revenue ambitions, debt would broadly stabilize at the 2023 level. Significantly increasing domestic revenue mobilization will be key to safeguarding fiscal sustainability over the medium-term.

29. *Authorities' Views:* The authorities broadly agreed with staff's projections for 2023 and reiterated their intention to phase out CBN financing of the deficit. For 2024, they noted that they intend to introduce revenue measures once the Committee recommendations are final which would help accommodate spending needs. They stressed that their conservative debt management strategy, in particular, the long average maturity, helps mitigate rollover risks.

Box 1. Illustrative Upside Scenario with a Comprehensive Reform Program

The new government and CBN leadership aim to relaunch growth through comprehensive economic reforms. With only a few months in office, the program is still being developed, though initial important reforms have already been implemented. Staff has developed an illustrative upside scenario that seeks to capture the potential for a growth acceleration based on the authorities' policy intentions.

In this scenario, the authorities appropriately tighten macroeconomic policies and implement a pro-growth reform agenda. Monetary policy is tightened immediately in line with staff advice, and CBN fiscal financing is phased out in 2024. CBN credibility is strengthened by clearing overdue dollar obligations. Revenue mobilization efforts of 4 percent of GDP over the medium-term, combined with increased external financing facilitates higher public investment and social spending, while reduced domestic fiscal financing needs allow for more private sector credit. This is complemented by an ambitious, private-sector-led growth agenda. As a result, confidence improves markedly, building on the credibility gains from the initial reforms, and growth rises to 5½ percent by 2028. Inflation returns to the target range of 9–12 percent over the next 2-3 years.

Nigeria's external position strengthens. FDI and portfolio inflows return, and oil and gas sector reforms boost hydrocarbon exports. An initial reduction in imports due to lower private sector demand is partly offset by an increase in public investment in support of long-term growth. Reserves follow a U-shaped path and reach $56 billion by 2028.

D. Financial Sector Policies

30. The CBN has taken important steps to mitigate risks in the banking system but additional measures to enhance deposit insurance and stress testing would help. Recent CBN stress tests show the possibility of a significant drop in banks' CAR (to 6 percent) from severe shocks that underscore the merit of CBN's decision to require banks to retain fx gains and build additional capital. Staff welcomes the withdrawal of the licenses of small micro-finance banks for failing to comply with prudential norms and the payment to insured depositors of those banks. Other recommended policies include:

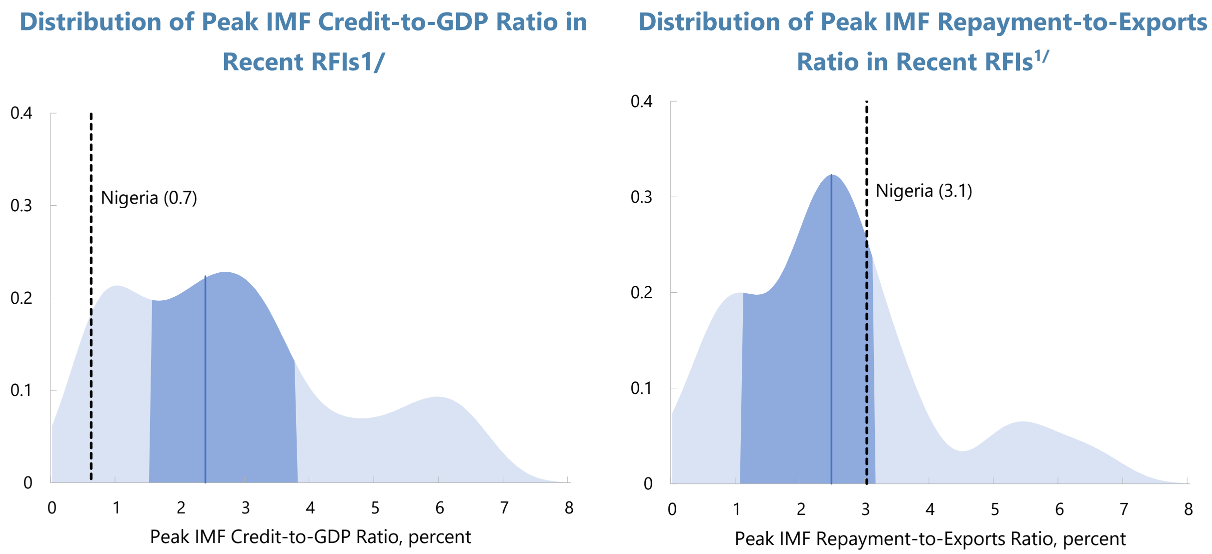
- Gradually increase the current amount of deposit insurance coverage provided by Nigeria Deposit Insurance Corporation to reflect inflation and currency depreciation.
- Conduct monthly stress test scenarios and take proactive actions (restricting new lending activities and dividend distributions) whenever a bank breaches its regulatory requirements.
- Require banks' shareholders to inject fresh capital into their institutions whenever a bank's capital falls below the regulatory threshold (as opposed to regulatory forbearance).
- Disclose financial soundness indicators for each bank, rather than aggregated figures, and specific actions taken by the authorities to ensure compliance with prudential standards.

31. ***Authorities' Views:*** The authorities recognized that financial soundness indicators might deteriorate which is also reflected in their stress test exercise. They reiterated that they would take corrective measures if necessary.

CAPACITY TO REPAY AND ADVERSE SCENARIO

32. Nigeria's capacity to repay the Fund is adequate under the baseline discussed above. The projected amount of outstanding Fund credit is SDR 1.8 billion (75 percent of quota, 9 percent of gross international reserves) at end-2023. RFI repayments are projected to peak in 2024 at 7.5 percent of GIR, 40.7 percent of external public debt service, and 3.1 percent of exports, and are expected to be completed on schedule by 2025. The SDR allocation was used to cover the first RFI repayment and for a small share of the second repayment. At end-November, Nigeria's SDR allocation balance was SDR 3.3 billion.

Text Figure 3. Nigeria: Capacity to Repay Benchmarks of Recent RFI Program Approvals



Sources: IMF Country Program Request Staff Reports and Staff calculations.

1/ Approximated using kernel density estimation for the RFIs approved since April 2020 (excluding blended programs). Darker area shows the interquartile range; vertical blue line shows the median.

33. An adverse scenario of an inflation-depreciation spiral combined with a climate shock would increase risks to Nigeria's capacity to repay the Fund. Staff presented a downside scenario to the authorities with the following features:

- Monetary policy is tightened insufficiently to bring down inflation below 20 percent and pressures on the naira persist. In addition, Nigeria is hit by another adverse climate shock in early 2024 (following severe flooding in late 2022) that exacerbates the current weakness in agriculture and leads to a decline in output and a surge in food prices. Given the absence of local production and the recent liberalization of commodity imports, the exchange rate would likely depreciate further—by an estimated 35 percent in 2024—and contribute to a further sharp rise in inflation, peaking at 44 percent, before monetary policy is eventually tightened sharply.

- Domestic demand weakens due to the steep fall in real incomes. Investments in the oil sector stall because of rising costs, and production declines. As such, growth falls to zero in 2024 and only slowly recovers to 2 percent in 2028. Inflation eventually declines, driven by the contraction in domestic demand and with the impact of monetary policy tightening. The current account weakens as import compression is offset by rising demand for essential food imports, while oil and gas exports decline.

- The fiscal deficit increases to above 6 percent of GDP in 2024 and 2025, driven in part by increased transfers to quell social unrest (1 percent of GDP) and a rise in the implicit fuel subsidy. With limited external financing options and higher expenditures, there is increasing use of CBN and domestic financing. The authorities implement expenditure measures in 2026, for example, phasing out the implicit fuel subsidy but the debt to GDP ratio still rises by 6 percentage points above the baseline by 2028.

- The spike in inflation and rise in uncertainty trigger portfolio outflows, and Nigeria is unable to access Eurobond financing. Reserves decline to $17 billion in 2025. Obligations due under the RFI peak at over 8 percent of officially reported reserves.

34. Nigeria would be able to repay the Fund, even in the downside scenario. This assumes that the authorities continue to prioritize external debt service. However, debt service would compete directly with urgent humanitarian needs to tackle rising poverty and food insecurity that would need to be prioritized. Therefore, even assuming the authorities reserve the remaining SDR allocation for RFI repayments, trade-offs could be severe. The uncertainty over Nigeria's net international reserves level poses additional risks, as would exogenous further shocks that impact external stability, poverty, and food insecurity.

35. *Policy response.* In the downside scenario, having tightened policies too late, Nigeria would benefit from developing a comprehensive macroeconomic and growth strategy, in collaboration and with support from development partners. This will have to include aggressive monetary tightening, fiscal adjustment to restore macroeconomic stability, and putting in place climate adaptation measures.

36. *Authorities' Views:* The authorities stressed that they are tightening monetary policy. They acknowledged Nigeria's vulnerability to climate shocks and are looking to build resilience and boost climate adaptation investments to limit the impact of future climate shocks.

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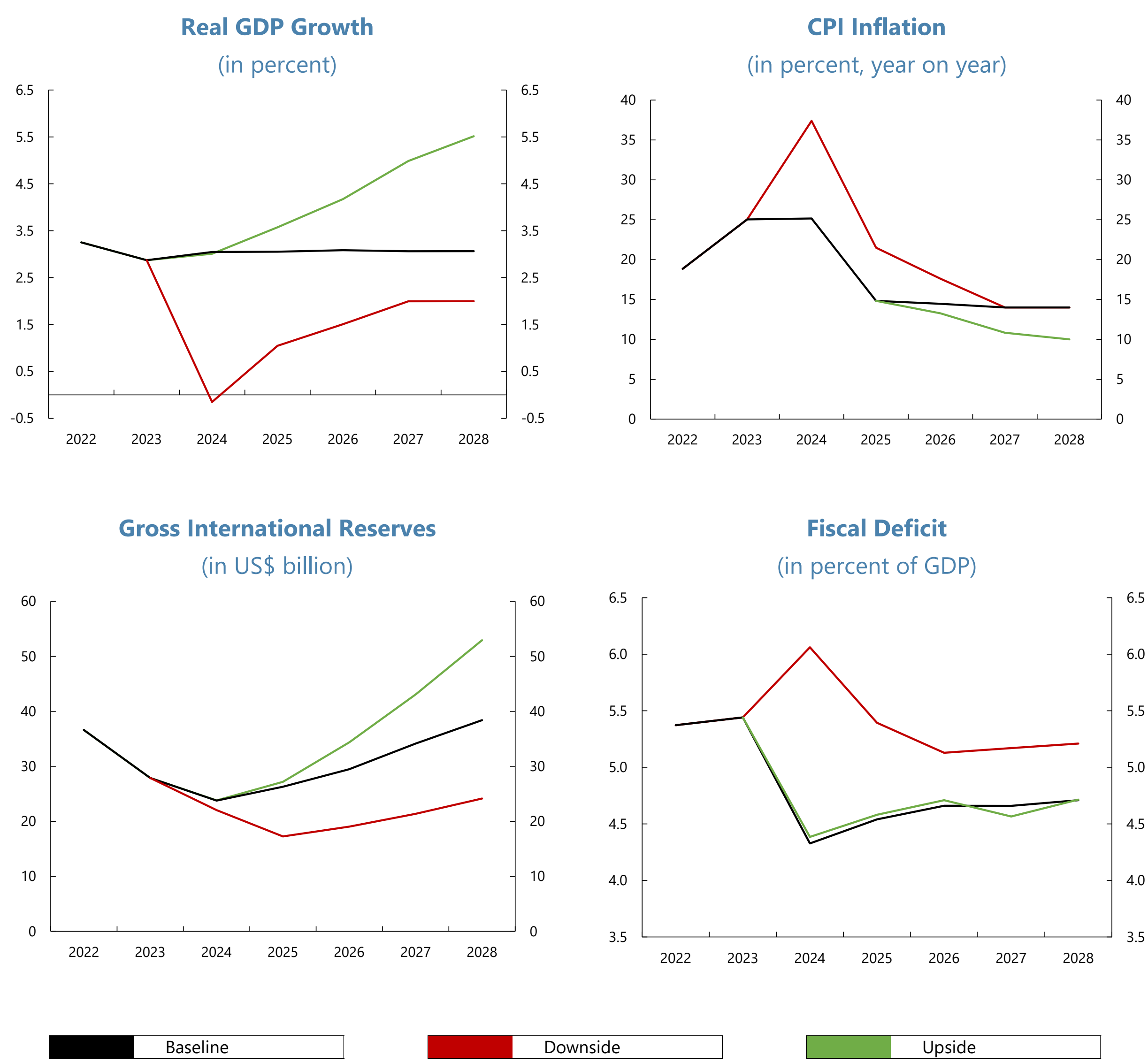
Text Figure 4. Nigeria: Macroeconomic Scenarios for Different Policy Mixes



Sources: Nigerian authorities and Fund Staff projections

STAFF APPRAISAL

37. The new administration has made a strong start, tackling deep-rooted structural issues in challenging circumstances. Immediately, it adopted two policy reforms that its predecessors had shied away from: fuel subsidy removal and the unification of the official exchange rates. Since then, the new CBN team has made price stability its core mandate and demonstrated this resolve by dropping its previous role in development finance. On the fiscal side, the authorities are developing an ambitious domestic revenue mobilization agenda.

38. Like many other countries, Nigeria faces a difficult external environment and wide-ranging domestic challenges. External financing (market and official) is scarce, and global food prices have surged, reflecting the repercussions of conflict and geo-economic fragmentation. Per-capita growth in Nigeria has stalled, poverty and food insecurity are high, exacerbating the cost-of-living crisis. Low reserves and very limited fiscal space constrain the authorities' option space. Against this backdrop, the authorities' focus on restoring macroeconomic stability and creating conditions for sustained, high and inclusive growth is appropriate.

39. The CBN has set out on a welcome path of monetary tightening. The Governor has committed to making price stability the core objective of monetary policy, and the CBN has taken actions to mop up excess liquidity. Continuing to raise the MPR until it is positive in real terms would be an important signal of the direction of monetary policy. The authorities are exploring options to strengthen Nigeria's reserve position, though a careful assessment of unintended consequences is needed in some cases. Settling the CBN's overdue dollar obligations will help rebuild confidence in the central bank and the naira. Sharing comprehensive information on Nigeria's reserves position would facilitate a more complete assessment of the external situation.

40. The government's focus on revenue mobilization and digitalization would improve public service delivery and safeguard fiscal sustainability. The envisaged reduction in the overall deficit in 2024 would help contain debt vulnerabilities and eliminate the need for CBN financing. Temporary and targeted support to the most vulnerable in the form of social transfers is needed, given the ongoing cost-of-living crisis. Fuel and electricity subsidies are costly, do not reach those that most need government support and should be phased out completely.

41. Staff assesses that Nigeria's capacity to repay the Fund is adequate under the baseline. The authorities' policy intentions are well placed to address risks of a downside scenario where difficult trade-offs may arise between urgent humanitarian needs and debt service, including to the Fund. In such circumstances aggressive monetary tightening and fiscal adjustment combined with support from development partners would be needed to restore macroeconomic stability

Table 1. Nigeria: Selected Economic and Financial Indicators, 2020–28

	2020 Act.	2021 Act.	2022 Act.	2023 Proj.	2024 Proj.	2025 Proj.	2026 Proj.	2027 Proj.	2028 Proj.
National income and prices	(Annual percentage change, unless otherwise specified)								
Real GDP (at 2010 market prices)	-1.8	3.6	3.3	2.9	3.0	3.1	3.1	3.1	3.1
Oil and Gas GDP	-8.9	-8.3	-19.2	1.4	2.5	3.8	2.0	2.0	2.1
Non-oil GDP	-1.1	4.7	5.0	3.0	3.1	3.0	3.1	3.1	3.1
Non-oil non-agriculture GDP	-2.4	5.7	6.2	3.8	3.4	3.3	3.4	3.4	3.4
Production of crude oil (million barrels per day)	1.77	1.51	1.38	1.46	1.47	1.52	1.52	1.52	1.52
Nominal GDP at market prices (trillions of naira)	154.3	176.1	202.4	245.3	305.4	355.2	407.4	466.6	529.0
Nominal non-oil GDP (trillions of naira)	144.1	166.4	190.4	229.8	278.9	326.7	376.9	433.9	495.6
Nominal GDP per capita (US$)	2,083	2,088	2,202	1,699	1,219	1,271	1,300	1,334	1,477
GDP deflator	7.8	10.1	11.3	17.8	20.8	12.8	11.3	11.1	10.0
Consumer price index (annual average)	13.2	17.0	18.8	25.0	25.2	14.8	14.5	14.0	14.0
Consumer price index (end of period)	15.8	15.6	21.3	31.1	17.1	15.0	14.0	14.0	14.0
Investment and savings	(Percent of GDP)								
Gross national savings	22.8	25.6	20.2	19.7	20.2	21.8	22.3	23.2	22.6
Public	-2.1	-1.8	-2.3	-1.6	-0.1	-0.2	-0.2	-0.3	-0.5
Private	24.9	27.5	22.5	21.2	20.3	22.0	22.5	23.5	23.1
Investment	26.7	26.4	19.9	19.2	19.5	21.2	22.0	23.0	22.7
Public	2.5	3.1	2.5	3.1	3.3	3.6	3.8	3.7	3.5
Private	24.3	23.3	17.5	16.1	16.3	17.6	18.2	19.3	19.1
Consolidated government operations	(Percent of GDP)								
Total revenues and grants	6.5	7.4	9.1	9.4	10.8	10.9	11.6	11.6	11.7
Of which: oil and gas revenue	2.4	2.6	3.8	4.3	5.4	5.1	4.6	4.4	4.1
Of which: non-oil revenue	4.1	4.7	4.8	4.9	5.3	5.8	7.0	7.3	7.5
Total expenditure and net lending	12.1	12.7	14.5	14.8	15.1	15.5	16.3	16.3	16.4
Of which : fuel subsidies	0.1	1.1	2.2	0.9	0.8	0.1	0.1	0.0	0.0
Overall balance	-5.6	-5.4	-5.4	-5.4	-4.3	-4.5	-4.7	-4.7	-4.7
Non-oil primary balance	-5.9	-5.6	-6.9	-7.0	-6.6	-6.4	-6.0	-5.7	-5.4
Public gross debt[1]	34.5	35.7	38.7	45.6	44.5	44.3	44.8	45.3	46.3
Of which : *Fx* debt	8.2	9.0	8.5	15.6	16.7	17.9	20.2	21.8	23.5
FGN interest payments (percent of FGN revenue)	85.9	91.6	90.4	83.4	81.1	79.2	79.0	81.3	82.9
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)	11.6	14.2	17.4	24.2	17.4	14.9	15.4	16.1	14.7
Net foreign assets	8.7	0.9	-11.5	-5.6	-13.0	3.3	7.4	5.9	6.9
Net domestic assets	3.0	13.3	28.8	29.8	30.4	11.5	8.0	10.2	7.8
Of which: Claims on consolidated government	4.6	7.1	26.2	9.1	3.1	1.6	0.9	2.0	1.9
Credit to the private sector (y-o-y, percent)	15.8	25.9	19.9	20.2	20.6	16.5	16.0	15.5	15.4
Velocity of broad money (ratio; end of period)	3.7	3.7	3.6	3.5	3.6	3.7	3.7	3.6	3.6
External sector	(Annual percentage change, unless otherwise specified)								
Current account balance (percent of GDP)	-4.0	-0.7	0.2	0.5	0.7	0.6	0.2	0.2	0.0
Exports of goods and services	-42.9	27.3	35.9	-12.6	-3.1	-5.2	-7.1	-0.6	-4.3
Imports of goods and services	-28.4	-6.5	14.2	-13.2	-0.5	-1.9	-0.8	2.3	-0.9
Terms of trade	-19.5	22.0	12.6	-7.9	-1.6	-3.2	-2.6	-3.5	0.0
Price of Nigerian oil (US$ per barrel)	43.3	70.8	99.0	82.4	81.2	77.4	74.3	71.6	69.3
External debt outstanding (US$ billions)[2]	105.0	111.7	119.9	110.1	109.1	114.0	123.1	130.2	138.6
Gross international reserves (US$ billions, CBN definiton)[3]	36.5	40.2	36.6	27.9	23.8	26.3	29.5	34.1	38.4
(equivalent months of imports of G&Ss)	6.5	6.3	6.6	5.0	4.4	4.9	5.3	6.2	7.4

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

[1]Gross debt figures for the Federal Government and the public sector include overdrafts from the Central Bank of Nigeria (CBN).

[2]Includes both public and private sector.

[3]Based on the IMF definition, the gross international reserves are $8.2 billion lower in 2023.

Table 2. Nigeria: Balance of Payments, 2020–24

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

	2020 Act.	2021 Act.	2022 Act.	2023 Proj.	2024 Proj.
Current account balance	-17.0	-3.3	1.0	1.8	1.9
Trade balance	-16.4	-4.6	6.0	5.1	3.8
Exports	35.9	46.9	64.2	55.8	53.7
Oil and gas	31.4	40.8	57.1	49.6	46.8
Other	4.5	6.0	7.1	6.2	6.9
Imports	-52.3	-51.4	-58.2	-50.7	-49.9
Oil and gas	-7.3	-15.7	-22.4	-19.2	-15.7
Other	-45.0	-35.7	-35.9	-31.5	-34.2
Services (net)	-15.8	-12.1	-14.0	-11.6	-11.8
Receipts	4.0	4.0	4.9	4.6	4.8
Payments	-19.8	-16.1	-18.8	-16.2	-16.6
Income (net)	-5.8	-8.6	-12.9	-13.6	-11.3
Of which: Interest due on public debt	-1.2	-1.3	-1.3	-1.5	-1.7
Transfers (net)	21.0	22.0	21.8	21.9	21.3
Capital and Financial account balance	-2.6	6.7	3.4	-10.5	-6.1
Capital Account (net)	0.0	0.0	0.0	0.0	0.0
Financial Account (net)	-2.6	6.7	3.4	-10.5	-6.1
Direct Investment (net)	0.9	1.5	-0.1	-0.3	0.2
Portfolio Investment (net)	-3.7	5.3	3.9	-5.7	-2.0
Other Investment (net)	0.1	-0.1	-0.4	-4.5	-4.3
Errors and omissions	17.0	0.3	-8.0	0.0	0.0
Overall balance	-1.6	3.7	-3.6	-8.7	-4.1
Net international reserves (increase -)	-1.9	-3.7	3.6	8.7	4.1
Memorandum items:					
Gross official reserves, end-of-period (CBN definition)[2]	36.5	40.2	36.6	27.9	23.8
In months of next year's imports of goods and services	6.5	6.3	6.6	5.0	4.4
Current account (percent of GDP)	-4.0	-0.7	0.2	0.5	0.7
Exports of goods and services (percent of GDP)	9.3	11.5	14.5	16.0	21.1
Imports of goods and services (percent of GDP)	16.8	15.3	16.1	17.7	24.0
Public external debt[1]	47.3	54.2	59.1	49.6	49.9
In percent of GDP	11.0	12.3	12.4	13.1	18.0
In percent of exports of G&S	118.4	106.6	85.6	82.1	85.3
In percent of consolidated fiscal revenues	123.0	124.0	103.0	122.7	151.3
Private external debt	57.7	57.4	60.7	60.5	59.2

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

[1]Nominal public short- and long-term debt, end of period. Guaranteed external debt not included. External public debt for the purpose of BoP is based on a residency definition and includes CBN's debt.

[2]Based on the IMF definition, the gross international reserves are $8.2 billion lower in 2023.

Table 3. Nigeria: Government Operations, 2020–24
(Percent of GDP)

	2020 Act.	2021 Act.	2022 Act.	2023 Proj.	2024 Proj.
Consolidated Government					
Total revenue	6.5	7.4	9.1	9.4	10.8
Oil revenue	2.4	2.6	3.8	4.3	5.4
Non-oil revenue	4.1	4.7	4.8	4.9	5.3
Total expenditure	12.1	12.7	14.5	14.8	15.1
Federal government expenditure	7.0	7.4	6.9	8.5	8.1
State and local government	4.6	4.0	4.9	4.7	5.2
Extrabudgetary funds, ECA and implicit fuel subsidies	0.5	1.4	2.6	1.7	1.7
Fuel Subsidy (in percent of GDP)	0.1	1.1	2.2	0.9	0.8
Overall balance	-5.6	-5.4	-5.4	-5.4	-4.3
Non-oil primary balance	-5.9	-5.6	-6.9	-7.0	-6.6
Financing	4.6	5.2	7.7	5.4	4.3
External	1.3	1.8	1.6	0.3	0.7
Borrowing	1.8	2.0	1.8	1.1	1.7
Amortization	-0.5	-0.2	-0.2	-0.8	-1.0
Domestic	3.2	3.4	6.1	5.1	3.7
Bank financing	0.8	1.6	5.6	1.9	0.6
Nonbank financing	1.4	1.7	0.3	3.1	3.1
Other financing	1.1	0.2	0.2	0.0	0.0
Statistical discrepancy	1.0	0.1	-2.3	0.0	0.0
Federal Government					
Total revenue	2.5	2.6	3.1	3.5	3.9
Oil revenue	0.9	0.9	0.7	1.5	1.9
Non-oil revenue	1.5	1.8	1.8	1.8	2.0
Total expenditure	7.5	7.9	7.4	8.6	8.3
Recurrent expenditure	6.4	6.1	6.4	6.9	6.6
Personnel	2.1	1.9	1.9	2.1	1.9
Overheads	0.8	0.6	0.6	0.7	0.8
Interest	2.1	2.4	2.8	2.9	3.2
Transfers	1.1	1.0	1.0	1.1	0.7
Arrears clearance	0.3	0.1	0.1	0.1	0.0
Capital expenditure	1.0	1.9	1.0	1.7	1.7
Overall balance	-5.0	-5.3	-4.3	-5.1	-4.4
Financing	3.9	4.9	6.6	5.1	4.4
External	1.3	1.8	1.6	0.3	0.7
Domestic	2.6	3.1	6.2	4.8	3.7
Bank financing	0.9	1.2	4.5	1.6	0.6
Nonbank financing	1.4	1.7	1.5	3.1	3.1
Other financing	0.3	0.2	0.2	0.1	0.0
Statistical discrepancy	1.1	0.4	-2.3	0.0	0.0

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

Table 4. Nigeria: Federal Government Operations, 2020–24

(Billions of naira)

	2020 Act.	2021 Act.	2022 Act.	2023 Budget[4]	2023 Proj.	2024 MTFF	2024 Proj.
Total revenue and Grants	3,801	4,611	6,255	8,626	8,530	14,098	11,951
Oil revenue	1,437	1,517	1,508	2,385	3,567	7,314	5,881
Non-oil revenue	2,272	3,094	3,603	6,197	4,452	6,144	6,043
Import and excise duties	396	559	731	950	928	1,288	1,621
Companies' income tax	674	787	1,229	933	1,312	1,473	1,670
Value-added tax	198	404	330	383	399	513	495
Federal government independent revenue	1,003	1,344	1,313	3,169	1,813	1,908	2,257
Grants	93	0	1,145	43	511	640	26
Total expenditure	11,496	13,970	14,986	19,408	21,142	23,033	25,267
Recurrent expenditure	9,895	10,653	12,962	14,271	16,979	17,891	20,125
Personnel	3,187	3,403	3,882	4,958	5,239	5,758	5,758
Overheads	1,269	1,055	1,168	1,787	1,787	2,589	2,589
Interest	3,265	4,222	5,656	6,558	7,117	8,247	9,692
Transfers[1]	1,735	1,799	1,963	968	2,686	1,297	2,086
Of which: electricity subsidies	600	300	150		650		540
Of which: net transfers to SLGs[2]	693	1,003	1,003		249		633
Arrears Clearance	439	174	293		150		0
Capital expenditure	1,602	3,317	2,024	5,137	4,163	5,142	5,142
Overall balance	-7,695	-9,359	-8,730	-10,782	-12,612	-9,179	-13,316
Financing	6,018	8,587	13,291		12,612		13,316
External	2,037	3,183	3,183		789		2,009
Borrowing	2,581	2,460	2,485		1,886		3,466
Amortization	-544	-280	-304		-1,345		-2,089
Net External Lending to SLGs	693	1,003	1,003		249		633
Domestic	3,980	5,404	10,108		11,823		11,307
Bank financing	1,406	2,173	9,124		3,880		1,702
CBN	1,939	1,734	8,617		3,108		770
Commercial Banks	-534	439	507		772		932
Nonbank financing	2,136	2,955	600		7,690		9,464
Promissory notes	439	174	293		150		0
Asset Disposal	0	103	91		103		141
Statistical discrepancy	1,677	772	-4,561		0		0
Memorandum items :							
FGN Total Debt	47,859	57,364	70,677		103,492		127,248
Domestic[3]	35,142	41,509	53,458		65,177		76,343
Foreign	12,718	15,855	17,220		38,315		50,905

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

[1] Includes earmarked spending for National Judicial Council, Universal Basic Education, Niger Delta Development Corporation, and Multi-Year Tariff Order subsidy.

[2] Net transfers to SLGs include Paris Club refunds, Budget Support Facility, and on-lending by the FGN.

[3] Gross debt figures for the Federal Government and the public sector include overdrafts from the Central Bank of Nigeria (CBN), promissory notes and AMCON debt.

[4] Not including items under the supplementary budget

Table 5. Nigeria: Consolidated Government Operations, 2020–24

(Billions of naira)

	2020 Act.	2021 Act.	2022 Proj.	2023 Proj.	2024 Proj.
Total revenue and Grants	10,049	12,987	18,391	23,066	32,916
Oil revenue	3,693	4,637	7,622	10,507	16,578
Of which : implicit fuel subsidy	89	1,862	4,353	2,327	2,473
Non-oil revenue	6,264	8,350	9,624	12,047	16,311
Import and excise duties	878	1,267	1,686	2,057	3,593
Companies' income tax	1,448	1,583	2,639	2,817	3,587
Value-added tax	1,475	2,043	2,462	3,079	3,821
Other (education tax and customs levies)	420	464	322	840	1,313
Federal government independent revenue	1,003	1,344	1,313	1,813	2,257
SLGs independent revenue	1,040	1,650	1,200	1,440	1,739
Grants	93	0	1,145	511	26
Total expenditure	18,656	22,417	29,263	36,414	46,132
Federal government	10,803	12,967	13,983	20,893	24,634
State and local government	7,135	6,988	9,998	11,446	16,319
Extrabudgetary funds, ECA and implicit fuel subsidies	718	2,462	5,282	4,074	5,179
Extrabudgetary funds [1]	533	600	929	1,748	2,705
Spending from Excess Crude Account	96	0	0	0	0
Implicit fuel subsidy	89	1,862	4,353	2,327	2,473
Overall balance	-8,607	-9,430	-10,873	-13,347	-13,216
Non-oil primary balance	-9,128	-9,845	-13,983	-17,249	-20,129
Financing	7,022	9,188	15,501	13,348	13,216
External	2,037	3,183	3,183	789	2,009
Borrowing	2,831	3,592	3,627	2,753	5,059
Amortization	-793	-409	-444	-1,964	-3,050
Domestic	4,984	6,005	12,318	12,558	11,206
Bank financing	1,217	2,774	11,334	4,766	1,603
CBN	1,751	2,335	8,601	3,258	770
Commercial Banks	-534	439	2,733	1,508	832
Nonbank financing	2,136	2,955	600	7,689	9,463
Other financing	0	103	91	103	141
Statistical discrepancy	1,586	242	-4,628	0	0

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.

Table 6. Nigeria: Central Bank of Nigeria (CBN) Analytical Balance Sheet, 2020–24
(Billions of naira)

	2020 Act.	2021 Act.	2022 Act.	2023 Proj.	2024 Proj.
Net foreign assets	10,177	8,990	5,373	3,237	-422
Foreign assets	15,920	17,262	16,846	25,130	27,330
Foreign liabilities	-5,744	-8,272	-11,473	-21,892	-27,751
Net domestic assets	2,931	4,305	10,659	20,724	29,146
Net domestic credit	19,574	22,376	32,325	34,519	35,289
Net claims on consolidated government	8,258	10,273	19,721	22,445	23,216
Net claims on federal government	7,647	9,566	18,482	21,207	21,977
Claims	15,612	19,699	28,210	31,468	32,238
Deposits	-7,965	-10,133	-9,728	-10,261	-10,261
Net claims on state and local governments	610	707	1,239	1,239	1,239
Claims on deposit money banks	2,668	3,603	3,326	3,326	3,326
Other net claims	8,649	8,500	9,278	8,747	8,747
Other items net	-16,643	-18,071	-21,666	-13,795	-6,143
Reserve money	13,108	13,295	16,032	23,962	28,724
Currency in circulation	2,908	3,325	3,012	7,775	9,320
Banks reserves with the CBN	10,199	9,970	13,020	16,187	19,404
Memorandum items :					
Reserve money y/y growth rate	51.0	1.4	20.6	49.5	19.9
Money multiplier	3.0	3.3	3.3	2.7	2.6

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

Table 7. Nigeria: Monetary Survey, 2020–24
(Billions of naira)

	2020 Act.	2021 Act.	2022 Act.	2023 Proj.	2024 Proj.
Net foreign assets	8,967	9,320	4,221	1,301	-7,144
Central Bank of Nigeria (net)	10,177	8,990	5,373	3,237	-422
Commercial and merchant banks (net)	-1,210	330	-1,152	-1,937	-6,723
Net domestic assets	29,938	35,124	47,934	63,482	83,176
Net domestic credit	42,532	48,761	66,398	82,513	91,455
Net claims on consolidated government	30,524	37,654	48,485	53,250	55,258
Net claims on FGN [1]	28,455	35,159	45,179	49,209	50,911
CBN	24,093	30,358	38,472	41,729	42,500
Commercial Banks	4,362	4,801	6,708	7,479	8,411
Claims on SLG	2,069	2,495	3,305	4,041	4,347
Claims on private sector[2]	18,714	23,736	28,471	34,021	40,956
Of which: credit to the private sector	18,535	23,328	27,974	33,613	40,548
Other Claims	-6,705	-12,629	-10,557	-4,758	-4,758
Other items	-12,594	-13,637	-18,464	-19,030	-8,279
Broad money [3]	38,905	44,444	52,155	64,783	76,031
Currency outside banks	2,496	2,938	2,569	4,283	5,027
Demand deposits	13,343	15,117	18,159	22,036	25,862
Time and savings deposits	21,990	26,387	31,032	38,463	45,141
CBN Bills held by resident nonbank sector	1,076	1	394	1	2
Memorandum Items:					
Broad money (y-o-y, percent)	11.6	14.2	17.4	24.2	17.4
Credit to the private sector (y-o-y, percent)	15.8	25.9	19.9	20.2	20.6
Velocity (non-oil GDP/broad money)	3.7	3.7	3.6	3.5	3.6
Gross international reserves (US$ billions)	36.5	40.2	36.6	27.9	23.8

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.

[2] Does not include AMCON bonds

[3] Broad money is based on an M3 definition.

Table 8. Nigeria: Indicators of Fund Credit – Baseline and Downside Scenarios (RFI Arrangements), 2023-28

(In millions of SDRs, unless otherwise indicated)

	2023 Proj.	2024 Proj.	2025 Proj.	2026 Proj.	2027 Proj.	2028 Proj.
Existing and prospective Fund credit (SDR million)						
Disbursements	0.0	0.0	0.0	0.0	0.0	0.0
Stock of existing and prospective Fund credit	1840.9	613.6	0.0	0.0	0.0	0.0
Obligations	736.7	1327.7	654.6	29.2	29.2	29.2
Principal (repayments/repurchases)	613.6	1227.3	613.6	0.0	0.0	0.0
Charges and interest	123.1	100.4	40.9	29.2	29.2	29.2
Baseline Scenario:						
Fund obligations (repurchases and charges) in percent of:						
Quota	30.0	54.1	26.7	1.2	1.2	1.2
GDP	0.3	0.6	0.3	0.0	0.0	0.0
Exports of goods and services	1.6	3.1	1.6	0.1	0.1	0.1
Gross international reserves	3.6	7.5	3.4	0.1	0.1	0.1
Government revenue	2.9	6.0	2.8	0.1	0.1	0.1
External debt service, public	27.2	40.7	17.6	1.1	0.7	0.7
Fund credit outstanding in percent of:						
Quota	75.0	25.0	0.0	0.0	0.0	0.0
GDP	0.7	0.3	0.0	0.0	0.0	0.0
Exports of goods and services	4.1	1.4	0.0	0.0	0.0	0.0
Gross international reserves	8.9	3.5	0.0	0.0	0.0	0.0
Government revenue	7.1	2.8	0.0	0.0	0.0	0.0
External debt, public	5.8	1.9	0.0	0.0	0.0	0.0
Downside Scenario:						
Fund obligations (repurchases and charges) in percent of:						
Quota	30.0	54.1	26.7	1.2	1.2	1.2
GDP	0.3	0.8	0.4	0.0	0.0	0.0
Exports of goods and services	1.6	3.2	1.8	0.1	0.1	0.1
Gross international reserves	3.6	8.1	5.2	0.2	0.2	0.2
Government revenue	2.9	6.6	3.1	0.1	0.1	0.1
External debt service, public	27.2	40.7	17.6	1.2	0.8	0.7
Fund credit outstanding in percent of:						
Quota	75.0	25.0	0.0	0.0	0.0	0.0
GDP	0.7	0.4	0.0	0.0	0.0	0.0
Exports of goods and services	4.1	1.5	0.0	0.0	0.0	0.0
Gross international reserves	8.9	3.8	0.0	0.0	0.0	0.0
Government revenue	7.1	3.0	0.0	0.0	0.0	0.0
External debt, public	5.8	1.9	0.0	0.0	0.0	0.0

Source: IMF staff calculations.

Table 9. Nigeria: Financial Soundness Indicators 2020–2023–Q2
(In percent)

	2020	2021	2022Q1	2022Q2	2022Q3	2022Q4	2023Q1	2023Q2
Regulatory Capital to Risk-Weighted Assets	15.1	14.6	14.6	14.1	13.8	13.8	14.1	11.2
Regulatory Tier 1 Capital to Risk-Weighted Assets	14.1	13.6	14.0	13.5	13.1	13.0	12.3	9.6
Non-Performing Loans to Total Gross Loans	6.0	4.9	5.1	4.9	4.8	4.0	4.8	4.4
Return on Assets	2.2	1.4	3.1	2.0	1.6	1.4	1.6	2.5
Return on Equity	23.4	16.0	36.5	23.4	19.3	17.2	18.4	31.7
Interest Margin to Gross Income	55.9	53.3	39.8	47.4	53.1	53.8	55.4	44.0
Non-interest Expenses to Gross Income	60.7	68.6	54.2	64.4	66.6	67.8	67.8	53.1
Liquid Assets to Total Assets (Liquid Asset Ratio)	28.5	26.0	26.2	26.3	24.9	25.4	22.3	20.8
Liquid Assets to Short Term Liabilities	41.0	37.7	37.5	38.7	36.4	37.4	32.9	34.4

Source: Central Bank of Nigeria.

Annex I. Risk Assessment Matrix[1]

Sources of Risk	Likelihood	Time Horizon	Impact on Nigeria	Policy Responses
		External Risks		
Intensification of regional conflict(s). Escalation of Russia's war in Ukraine or other regional conflicts and resulting economic sanctions disrupt trade (e.g., energy, food, tourism, and/or critical supply chain components), remittances, FDI and financial flows, and payment systems, and lead to refugee flows.	**High**	**Short Term**	**High**	• Prioritize **fiscal intervention** to relieve food insecurity • **Tighten macroeconomic policies** to prevent de-anchoring of inflation expectation. • Allow greater **exchange rate flexibility** to preserve **external buffers**.
Commodity price volatility. A succession of supply disruptions (e.g., due to conflicts, uncertainty, and export restrictions) and demand fluctuations causes recurrent commodity price volatility, external and fiscal pressures in EMDEs, contagion effects, and social and economic instability	**High**	**Short Term**	**High**	• Prioritize **fiscal intervention** to relieve food insecurity in the event of food price increases. Build fx buffers and increase investment spending with higher oil receipts. • **Tighten monetary policy** to prevent de-anchoring of inflation expectation. • Allow greater **exchange rate flexibility** to preserve **external buffers**.
Sovereign debt distress. Domino effects of higher global interest rates, a growth slowdown in AEs, and/or disorderly debt events in some EMDEs spillover to other highly indebted countries, resulting in capital outflows, an increase in risk premia, and loss of market access.	**Medium**	**Short to Medium Term**	**High**	• **Tighten monetary policy**. • Use **exchange rate adjustment** as the first line of defense, while also deploying full range of **Integrated Policy Framework** tools for both secondary and contingency responses. Seek alternative external financing to fund the spike in external debt service in 2024 and 2025.
Extreme climate events. Extreme climate events driven by rising temperatures cause loss of human lives, severe damage to infrastructure, supply disruptions, lower growth, and financial instability.	**Medium**	**Medium to Long Term**	**High**	• Rebuild **fiscal and external buffers** to counter demand shortfalls and adverse effects on vulnerable groups. • Continue improving the **business environment** to boost productivity and competitiveness, and to foster diversify to dampen negative effects.

[1] The Risk Assessment Matrix (RAM) shows events that could materially alter the baseline path. 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. The conjunctural shocks and scenarios highlight risks that may materialize over a shorter horizon (between 12 to 18 months) given the current baseline. Structural risks are those that are likely to remain salient over a longer horizon. **July 2023 edition of the RAM**.

Sources of Risk	Likelihood	Time Horizon	Impact on Nigeria	Policy Responses
Nigeria-specific Risks				
Continued high inflation leading to an exchange rate – inflation spiral. Inflation expectations may become de-anchored if the authorities fail to bring down the excess liquidity in the economy. Such a de-anchoring could negatively affect consumption and investment, trigger disorderly asset price adjustment, and further exchange rate pressures due to private sector's inflation hedge-induced fx demand. Capacity to repay would be impacted by rising external pressures and increased needs from poverty and food insecurity.	High	Short to Medium Term	High	• Decisively **tighten monetary policy** to re-anchor inflation expectations including mopping up excess liquidity. •Refrain from monetary financing of the deficit; domestic issuance will contribute to draining excess liquidity. Concurrently raise taxes on excises, telecom, and plastics usage charges to limit the budgetary impact.
Agriculture and oil production shocks due to climate and unabated theft and deterioration of security conditions. Capacity to repay would be impacted by increased needs from poverty and food insecurity.	Medium	Medium Term	High	• Prepare for climate change through increased adaptation investments and improved use of agricultural inputs Strengthen security and investment environment in the onshore **oil and gas** sector. • A coordinated effort in both military and developmental fronts essential to address security challenges. • Strengthen governance in the oil and gas sector including through consistent implementation of PIA and publication of gross and net oil revenues that accrue to the government.
Slow progress in addressing corruption, tax evasion, and related money laundering. A failure to make rapid progress could further discourage inward foreign investment. Nigeria has been publicly listed by the FATF for increased monitoring to address strategic AML/CFT deficiencies. Lack of progress to address identified AML/CFT weaknesses could impact correspondent banking relationships and transnational financial flows and diminish international confidence in the Nigerian financial system. Capacity to repay would be impacted by rising external pressures.	Medium	Short Term	Medium	**Step up anti-corruption and governance efforts** including asset declaration, measures to manage risks posed by politically exposed persons, transparency of beneficial ownership, and corporate governance. **Strengthen the AML/CFT regime,** including implementing past Fund recommendations as well as recommendations of the 2021 Mutual Evaluation Report and FATF action plan.