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NIGERIA

April 2014

2013 ARTICLE IV CONSULTATION—STAFF REPORT; PRESS RELEASE 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 2013 Article IV consultation with Nigeria, the following documents have been released and are included in this package:

- **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on February 21, 2014, following discussions that ended on November 26, 2013, 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 February 6, 2014.
- **Debt Sustainability Analysis** prepared by the staffs of the IMF and the World Bank.
- **Informational Annex** prepared by the IMF.
- **Press Release** summarizing the views of the Executive Board as expressed during its February 21, 2014 consideration of the staff report that concluded the Article IV consultation with Nigeria.
- **Statement by the Executive Director** for Nigeria.

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

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NIGERIA

February 6, 2014

STAFF REPORT FOR THE 2013 ARTICLE IV CONSULTATION

KEY ISSUES

Context. Despite recent strong non-oil growth, poverty and income inequality remain high and social and governance indicators are below averages for sub-Saharan Africa. Structural reforms under the Transformation Agenda are ongoing, but significant infrastructure gaps and weak institutional capacity still retard growth prospects. At the same time, vulnerabilities are rising in the buildup to general elections in 2015 and fiscal buffers have been reduced. Meanwhile, GDP is being rebased and structural shifts may suggest a refocus in some policy areas.

Outlook and Risks. Growth is expected to remain strong, driven by agriculture, trade, and services. Inflation should continue to decline, in line with a tight monetary policy, and a lowering trend in food prices from higher rice and wheat production. Key downside risks are (i) persistently lower oil revenue from changing global dynamics and lower domestic production; (ii) less prudent fiscal policy through the ongoing political cycle; (iii) ongoing security problems in the North; (iv) uncertainty about the pace of global recovery; and (v) capital flow reversals from the expected unwinding of unconventional monetary policy (UMP) in the advanced economies or increased domestic political risk.

Addressing oil theft/production losses. Transparency and governance in the oil sector should be enhanced, including by strengthening the regulatory framework through the passage of a sound Petroleum Industry Bill (PIB) featuring stringent enforcement clauses. A multicountry partner strategy could also improve oil sector oversight.

Rebuilding fiscal buffers by insulating macrofinancial stability from the political cycle. The fiscal framework should continue to be improved, with an appropriately conservative 2014 budget. Monetary policy should remain supportively tight, given the potential for capital flow reversals and fiscal slippages. In the event of persistent pressures, the naira should be allowed to adjust and reserve adequacy maintained.

Improving competitiveness and productivity to generate inclusive growth will require wide-ranging structural reforms. Three key areas could help promote inclusive growth—increasing the delivery of power, broadening the agricultural production base, and increasing access to finance for SMEs. Support for sectoral growth should be underpinned by improvements in competitiveness rather than by protectionist measures.

Approved By
David Robinson and Ranil Salgado

Discussions took place in Lagos and Abuja during November 13–26, 2013. The staff team comprised Messrs. Leon (head of the mission), Gueye, Ms. Saito (all AFR), Mr. Ruta (SPR), Mr. Soto (AFD), Mr. Vasquez (LEG), and Mr. Ogiji (RR Office). Mr. Nnanna (alternate ED, OED) also participated in the discussions. The staff team met with the ministers of finance and agriculture; the chief economic advisor to the President and other senior government officials; the governor of the Central Bank of Nigeria; members of the National Assembly; and senior representatives of the banking and manufacturing sectors.

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CONTEXT

1. **Despite strong growth in recent years, key social indicators remain below averages for sub-Saharan Africa** (Table 1). Long-standing structural challenges—a large informal sector, income inequality, high unemployment, and growth disparities among regions—together with significant infrastructure gaps and weak institutional capacity have constrained progress toward meeting the national goal of top-20 nation status by 2020. The Transformation Agenda is advancing, but the political environment has become more difficult, with increasing attention on the 2015 elections and concerns about ongoing security problems in the North. Consequently, it could be difficult to build consensus among the various tiers of government on the urgency of continuing structural reform.

2. **The authorities have advanced their structural reform agenda, drawing on past staff advice** (Box 1). Notable progress has been achieved in the fiscal sector—improved administration of the fuel subsidy, increased coverage of the Treasury Single Account, and developing information management modules to better formulate the budget. In the financial sector, progress was made in enhancing consolidated and cross-border bank supervision, building capacity for effective implementation of the International Financial Reporting Standards (IFRS), and adopting a macroprudential framework. The privatization of power generation and distribution was completed, and a seed and fertilizer program has significantly increased rice production. However, access to finance for small- and medium-sized enterprises (SMEs) has lagged and legislation to strengthen the petroleum sector has been delayed.

RECENT ECONOMIC DEVELOPMENTS AND OUTLOOK

A. Recent Economic and Policy Developments

3. **Macroeconomic performance has been broadly positive, but signs of weakness are emerging**.

- Real GDP grew by 6.8 percent in Q3 2013 (y-o-y), mainly owing to a continuing strong performance (7.9 percent (y-o-y) growth) in the non-oil sector (primarily agriculture, services, and trade—Table 2), in which Nigeria over performs its peers (Figure 1). Oil production improved slightly in Q3, but remains below capacity owing to continued oil theft/production losses. Staff projects the economy to grow 6.4 percent in 2013.

- Inflation continued to decline, ending December at 7.9 percent, in part owing to lower food and utility prices (which comprise 68.5 percent of the consumption basket), and supported by fiscal consolidation and a tight monetary policy stance by the Central Bank of Nigeria (CBN). Core inflation has been rising however since May, reflecting higher prices of imports.

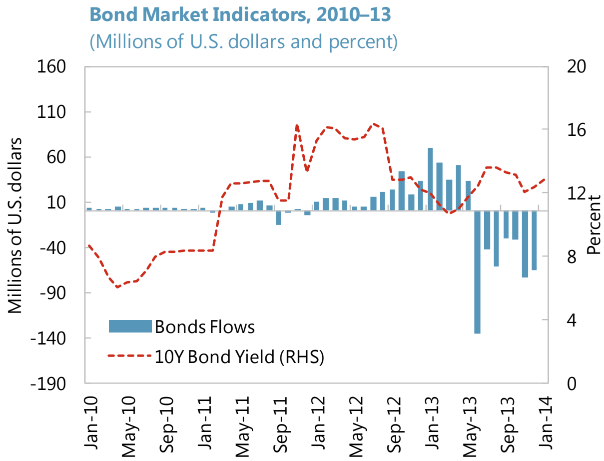
- The current account surplus is expected to decline to 3.1 percent of GDP (Table 3) from 7.8 percent at end-2012. The fall in oil exports is a consequence of production losses associated with oil theft and is projected at 4 percent annually. At the same time, imports have continued to rise at a rapid pace as demand remained strong through the year (Figure 2).

- The non-oil primary deficit (NOPD) of the consolidated government is projected to narrow to 23½ percent of non-oil GDP from 27 percent at end-2012, driven by expenditure restraint, including lower-than-budgeted capital expenditure because of low execution capacity (Tables 2 and 4a). Meanwhile, fiscal buffers have been depleted—the balance in the Excess Crude Account (ECA) and Sovereign Wealth Fund (SWF) declined from US$11 billion at end-2012 to US$3 billion at end-2013—because oil revenue has been below budget, largely on account of oil theft and production losses.

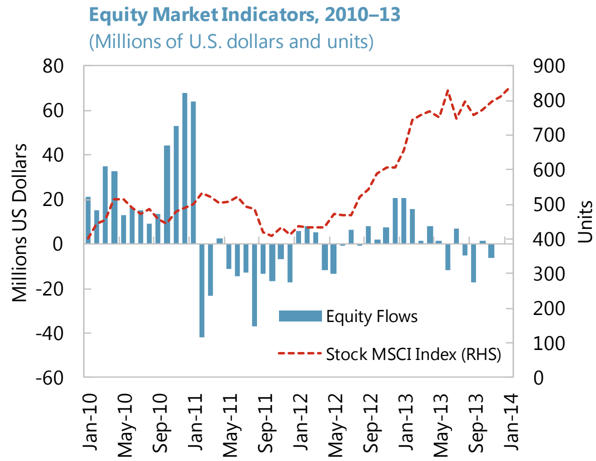
- Credit to the private sector remains sluggish (Table 5b), with banks showing more appetite for low-risk government securities. Prudential indicators (Table 6) suggest a well-capitalized banking system with a low level of nonperforming loans (NPLs), though most deposits have a short-term maturity, and lending by banks is still not sufficiently diversified.

4. Capital inflows have become more volatile as concerns have increased about the possible unwinding of the U.S. unconventional monetary policy (UMP). In the last three years, Nigeria has received a significant amount of foreign direct investment (FDI) inflows (largely into the oil and gas, banking, manufacturing, and telecommunications subsectors[1]) as well as portfolio investment (equity and debt securities), contributing to a slight exchange rate appreciation, a strong increase in the All Share Index, and accumulation of gross international reserves (text figure). Foreign direct investment (FDI) and portfolio inflows increased to 7.9 percent of GDP in 2012 compared to 3.4 percent in 2010. However, softened investor sentiment toward emerging/developing markets, after Chairman Bernanke's May 22 statement on the possible unwinding of UMP, led to some outflows (projected at 5.5 percent of GDP in 2013) and pressures on the naira, which weakened against the U.S. dollar. The CBN intervened to help stabilize the exchange rate, with gross international reserves falling to US$43.6 billion at end-2013 from US$49 billion in mid-March. As a result of changing market sentiment, there was also an increase in government bond yields (text figure). The pressure on the naira was, however, contained and capital inflows have stabilized.

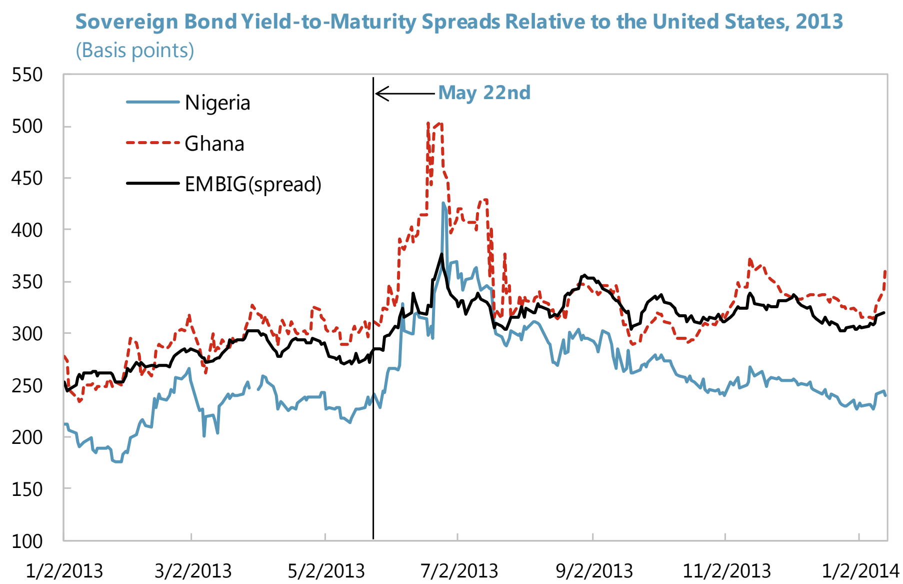
[1] Data for 2011 show that the United Kingdom and the United States comprise 46 percent and 19 percent of capital importation respectively.



Sources: EPFR; and Thomson Reuters.



Sources: EPFR; and Thomson Reuters.



Sources: Bloomberg; and IMF staff calculations.

B. Medium-Term Outlook and Risks

5. The short- and medium-term outlooks are strong. Growth is expected to increase from 6.4 percent in 2013 to 7.3 percent in 2014, driven partly by a rebound in oil production and supported by positive effects of reforms in power and higher agriculture production. Inflation should continue to decline, in line with a tight monetary policy and helped by expected policies preserving fiscal consolidation through the ongoing political cycle. The authorities' 2014–16 Medium-Term Expenditure Framework (MTEF) proposal is consistent with a declining NOPD in 2014 compared with end-2013. However, the early start to the 2015 general elections and fiscal performance in previous election cycles suggest uncertainty about the continued implementation of the MTEF and structural reform agenda. Over the medium term, continued progress on fiscal consolidation and the implementation of key structural reforms should lead to a gradual increase in the growth rate and a generally more resilient economy, characterized by a low risk of debt distress.[2]

6. Risks to the outlook are significant (Risk Assessment Matrix, RAM—Table 7). To illustrate these risks, staff analyzed the direct impact of domestic and external shocks on key macroeconomic variables. The first scenario (Figure 6) replicates a persistently lower oil price. The drop in oil prices puts substantial pressure on the fiscal and external accounts, resulting in severely depleted buffers. The second scenario (Figure 7) looks at the implication of less prudent fiscal policy, with increased spending that does not target human capital and infrastructure development. In this scenario, depleted buffers show that policies assumed in the baseline cannot be sustained. The third scenario (Figure 8) examines the impact of high levels of production losses related to oil theft, compounded by less favorable oil market dynamics from the shale oil/gas revolution (Appendix 1) and a possible emerging market slowdown. In this scenario oil revenue reduces significantly, leaving little space for boosting growth-enhancing spending.

7. In addition to these scenarios, security problems in the North could also affect economic activity through agriculture and trade, as occurred in 2012. Also, a reversal of investor sentiment or less confidence in the policy stance could put pressure on the exchange rate and adversely affect macroeconomic and financial stability. This could occur from the prospective exit from UMP.

C. Inward and Outward Spillovers

8. Inward spillovers from the U.S. shale energy boom are sizeable. The rise in unconventional sources of energy such as shale gas and oil has led to a rapid increase in U.S. domestic energy production in recent years. Assuming the increase in unconventional energy production moves the United States to energy self-sufficiency in a 12-year period, the U.S. energy boom could lower energy prices, benefitting energy importers and hurting oil exporters like Nigeria that export about one-third of their oil production to the United States. Consistent with increasing shale production in the United States, Nigeria's oil exports to the United States have declined significantly, as in other African oil-producing

Nigeria: Oil Exports by Destination Country, 2008–12
(Percent of total oil exports)

	2008	2009	2010	2011	2012
United States	45.7	29.8	37.5	24.1	18.5
India	10.3	10.4	11.0	11.1	12.4
Brazil	7.0	8.7	7.8	9.3	8.8
Netherlands	4.1	2.8	4.7	2.3	7.7
Italy	3.1	3.7	3.0	5.1	6.0
Spain	2.9	6.1	3.6	5.6	5.9
China	0.2	1.2	0.9	1.0	5.3
United Kingdom	1.4	2.1	1.2	4.0	4.5
South Africa	3.5	3.7	2.4	2.8	3.8
France	4.3	5.4	3.9	5.8	3.7
Australia	…	0.2	1.1	4.1	2.6
Other	17.6	26.0	23.0	24.8	20.6

Source: UN Comtrade Database.

[2] Accompanying Debt Sustainability Analysis.

countries supplying crudes of similar grade as U.S. tight/shale oil. Since July 2010, U.S. imports from Nigeria have decreased by about half, and competition in alternative oil markets has affected the premium on Bonny Light.

9. Trade links between Nigeria and a number of West African countries are important, but not substantial. In terms of exporting-country GDP, exports to Nigeria in 2010–12 were most important for Benin (3.21 percent of GDP), Côte d'Ivoire (3.06 percent), and Togo (1.58 percent). Meanwhile, imports from Nigeria, measured in terms of importing-country GDP, were more sizeable, especially for Côte d'Ivoire (8.56 percent), Senegal (4.31 percent), and Niger (2.38 percent). At the same time, various studies point to important informal trade links, in particular in petroleum products and food cereals: Nigeria meets 70 percent of the cereal needs of Niger and Chad; its highly subsidized gasoline accounts for more than 80 percent of gasoline consumed in Benin.

Exports to and Imports from Nigeria by Reporting Country

(Percent of reporting country's GDP - average)

	Exports to Nigeria		Imports from Nigeria	
	2007–09	2010–12	2007–09	2010–12
Benin*	1.53	3.21	0.98	0.86
Cameroon	0.24	0.30	2.05	2.93
Côte d'Ivoire	3.03	3.06	8.11	8.56
Ghana	0.31	0.48	1.72	0.32
Niger	2.30	1.20	1.22	2.38
Senegal	0.12	0.07	4.21	4.31
Togo	2.04	1.58	0.70	0.40

Source: UN Comtrade Database.

* Data available only until 2010. Value for the period 2010-12 corresponds to exports in 2010.

10. The planned implementation of a Common External Tariff (CET) for the Economic Community of West African States (ECOWAS) is expected to facilitate trade integration. Under the new trade regime, starting on January 1, 2015, 5 percent duty is applicable for 2,146 tariff lines under the basic raw materials and capital goods category; 10 percent for the 1,373 tariff lines that qualify as intermediate products category; and 20 percent duty is reserved for the 2,165 tariff lines that fall into the category of final consumer products. The CET will improve the transparency and coherence of the tariff structure of Nigeria, increase formal trade ties with the other ECOWAS countries, and reduce incentives for informal trade in the region.

11. Cross-border activity of Nigerian-based banks with sub-Saharan countries is expanding. Since 2004, the number of subsidiaries of resident banks licensed in foreign jurisdictions increased from 3 in 2002 to 44 (operating in 21 sub-Saharan African countries outside Nigeria) at end-2010, to 67 at end-October 2013. After establishing a strong foothold in West Africa, Nigerian banks now appear to be looking to expand in the East. Guaranty Trust Bank Plc (GTBank), a leading Nigerian financial institution, acquired a 70 percent stake in Kenya's Fina Bank Limited in 2013. This acquisition expanded the bank's operations to three East African countries. Among Nigerian banks, United Bank of Africa has the widest footprint, with 21 subsidiaries as of end-October, 2013. However, its subsidiaries play only a small role in the host countries' banking systems. In at least 15 of the host countries, there is at least one Nigerian subsidiary that accounts for more than 10 percent of system-wide deposits or credit. (IMF, AFR REO: "Nigeria and South Africa: Spillovers to the Rest of Sub-Saharan Africa" October 2012).

12. Contagion through cross-border banking activity has been limited. The 2009–10 Nigerian banking crisis did not lead to systemic contagion across the region. This is partly because the banks with the largest cross-border operations, accounting for more than half the foreign subsidiaries, were not among the troubled banks. Another factor that minimized systemic contagion was that the banking systems of the host countries are mainly funded by local deposits and therefore do not significantly depend on Nigerian funding.

13. Systematic linkages between fluctuations in growth rates in Nigeria and neighboring countries are difficult to identify. Correlations between Nigerian GDP and that of neighboring countries are still generally weak: for example, IMF AFR REO October 2012 shows that after controlling for common global factors, shocks to Nigerian GDP have a negligible impact on GDP in neighboring countries.

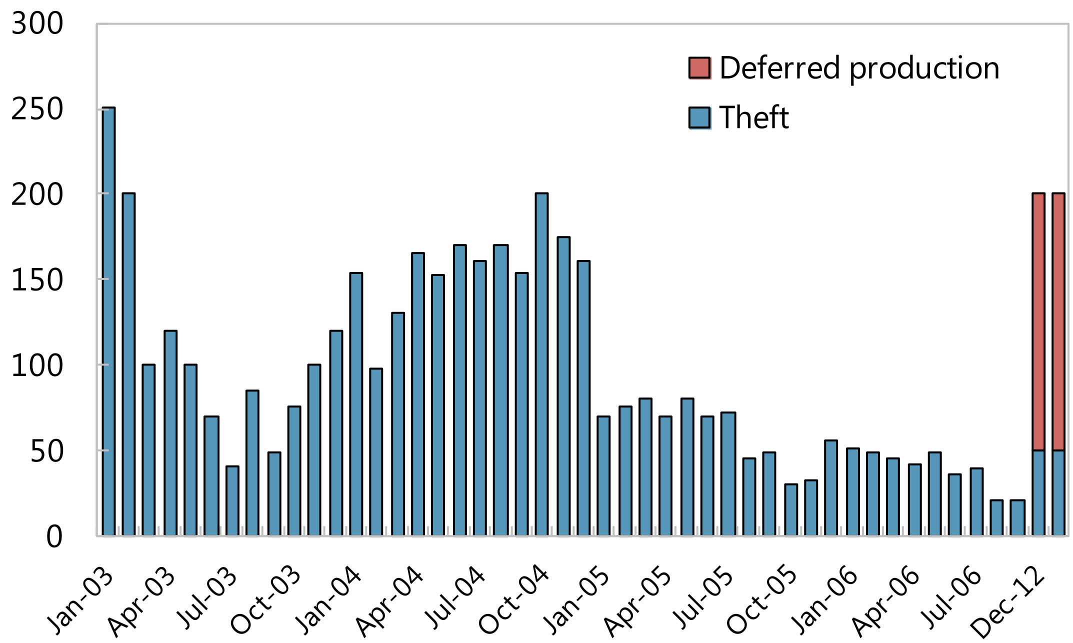
14. Authorities' views. The authorities had a broadly similar view on the outlook and risks. There was agreement on the need to rebuild fiscal buffers to mitigate possible oil revenue shocks; but they acknowledged that achieving consensus with state and local governments (SLGs) on an appropriate level of buffers would be difficult, because the political environment seems less favorable ahead of elections. The authorities reiterated their commitment to stay the course on fiscal consolidation, as expressed in the 2014–2016 MTEF. Noting the changing dynamics in international oil markets, they pointed to the need to accelerate ongoing reforms in the oil and gas industry. On outward spillovers, the authorities see an urgent need to review the tariff structure, given the agreed implementation of the common external tariff in early January 2015.

15. A GDP rebasing exercise is underway that could significantly increase the level of GDP (Appendix 2). The base year for the national accounts is being updated from 1990 to 2010, a period during which the structure of the economy has changed significantly—for example, the share of agriculture in employment has fallen from 70 percent to about 30 percent. A material change in GDP would alter key performance indicators in the macroeconomic framework, including tax, investment spending, and debt ratios. For example, the tax revenue to GDP ratio of 20 percent puts Nigeria in the middle range of low-income countries, but a significant increase in GDP could push Nigeria in the low range of low-income countries. The authorities stressed the importance of credibility for the rebasing of the GDP; consequently the release of the revised GDP data has been delayed until after technical assistance missions from the Fund, World Bank, and African Development Bank, which started in mid-December. The authorities noted, however, that the expected higher nominal GDP would have little impact on their borrowing strategy, which is based on the ratio of debt service to revenue.

ADDRESSING OIL THEFT/PRODUCTION LOSSES

16. Nigeria's oil production declined sharply in early 2013, from increased oil theft that was amplified by pipeline closures after the sabotage. With the oil sector accounting for 75 percent of government revenue and 95 percent of exports, the reduction in oil exports adversely affected the fiscal and external positions in 2013. The impact on revenues was particularly strong: for example, between January 2012 and June 2013, revenues collected from Nigerian National Petroleum Corporation (NNPC) fell by 47 percent and transfers to the ECA were reduced by 73 percent. Historically, oil theft has varied (text figure).

Nigeria: Crude Oil Theft and Deferred Production, 2003–13
(1,000 barrels of oil per day)



Sources: Nigerian authorities; and IMF Staff estimates.

17. A number of key measures have been taken to address oil theft/production losses, but more can be done. Mitigating measures have included special naval exercises, collaboration with local leaders in oil-producing communities, and international initiatives to discourage the purchase of illegal oil by foreign refineries. While these measures, along with the reopening of some major pipelines, helped improve production in the second half of 2013, staff noted that more can be done to tackle the governance issues in the oil sector and to address the international dimension (Appendix 3). Staff highlighted the need to further strengthen the regulatory framework of the prospective PIB with enhanced oversight and transparency provisions and stringent enforcement clauses. While efforts are underway to improve the reconciliation of oil revenue collections—Nigeria is Extractive Industries Transparency Initiative (EITI) compliant[3]—processes from pre-Federal Account Allocation Committee (FAAC) to postmortem FAAC are being strengthened, and collaboration among agencies has improved (Box 2). Staff urged the authorities to regularly audit and monitor exports and collection processes for oil revenues, and to apply the Anti-Money-Laundering (AML)/Combating the Financing of Terrorism (CFT) framework to help combat oil-theft-related money laundering.

18. Authorities' views.[4] The authorities agreed on the need to strengthen governance and oversight in the oil sector. They also concurred on capacity enhancements to address critical infrastructure constraints, ensure open access rules, and mandate strong integrated regulatory bodies aligned with international best practices. They indicated that the decision to privatize the four main state refineries, along with a sector project to build a US$9 billion refinery, would make an important contribution to modernizing the petroleum industry and could help accelerate ongoing efforts to enhance transparency in fuel subsidy management processes and further streamline the fuel subsidy regime. The authorities pointed also to the need to strengthen provisions in the PIB to ensure more transparency and accountability in the oil industry.

19. Addressing oil theft has strong AML/CFT implications. The Nigerian AML/CFT framework contains important building blocks that can support a national strategy to combat oil theft and related money laundering. The Presidential Committee on Financial Action Task Force (FATF) could lead in the national coordination of AML measures to combat oil theft and related money laundering. The ongoing National Money Laundering/Terrorism Financing Risk Assessment (NRA) also provides a well-timed opportunity to include oil theft and related money-laundering risk as part of its mandate. The IMF's technical assistance (TA) has also helped enhance capacity to conduct strategic analysis and typologies that could be applied to the study of oil theft and money laundering, and staff recommended that such an exercise be conducted and its results disseminated to all AML/CFT stakeholders. Financial and non-financial sector supervisors also have the capacity to require and enforce explicit oil theft money-laundering controls using their risk-based approach to supervision, including reporting of suspicious activities to the relevant authorities.

20. Authorities' views. The authorities concur that oil theft is a profit-motivated crime with money-laundering elements and that the existing AML/CFT framework could be mobilized to support broader national efforts to mitigate oil theft and associated production and revenue losses. There was broad agreement that the main AML/CFT stakeholders (i.e., the Presidential Committee on FATF matters, the Nigerian Financial Intelligence Unit (NFIU) and its umbrella agency the

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[3] EITI compliance means the EITI Board considers that all of the EITI requirements have been met, but does not imply full transparency in the oil sector (http://eiti.org/faqs#EITICompliant). The EITI audit reports have helped improve the awareness of the governance issues in the extractive industries in general, but these reconciliations are retrospective and need to be strengthened with reconciliations on an on-going basis.

[4] In this section, authorities refer to the regulatory authorities (Ministry of Petroleum; government state oil company; and Direction of Petroleum Resources).

Economic and Financial Crimes Commission, and the AML/CFT supervisors) could play a critical supporting role in this endeavor, including by harnessing the role and cooperation of financial and non-financial entities subject to Nigeria's AML/CFT regime. The authorities expressed interest in TA on strategic analysis and typologies exercises.

STRONG ECONOMIC MANAGEMENT, NOTWITHSTANDING THE POLITICAL CYCLE

A. Preserving Fiscal Consolidation Through the Political Cycle

21. Fiscal consolidation is progressing well, but fiscal buffers have been drawn down sharply. General government expenditure declined by about 1 percentage point of GDP in 2012-2013, largely from policies to control personnel expenses in the federal government, including by limiting compensation increases, consolidating pay bonuses, and enhancing payroll administration processes. Actual capital expenditure has been below budget—but relatively stable share in GDP—largely reflecting capacity constraints. Non-oil revenue as a share of GDP has increased slightly, reflecting the rapid growth in non-oil GDP. In addition, SLGs have contained the growth of expenditure, reflecting a relatively tight shared revenue envelope and their limited ability to borrow. This has narrowed the NOPD from about 27 percent to 23½ percent of non-oil GDP over the past year. However, ECA withdrawals were needed to offset lower oil revenue to all levels of government, reducing the ECA buffer to about US$3 billion by end-2013 (equivalent to about one month of federally collected revenue).

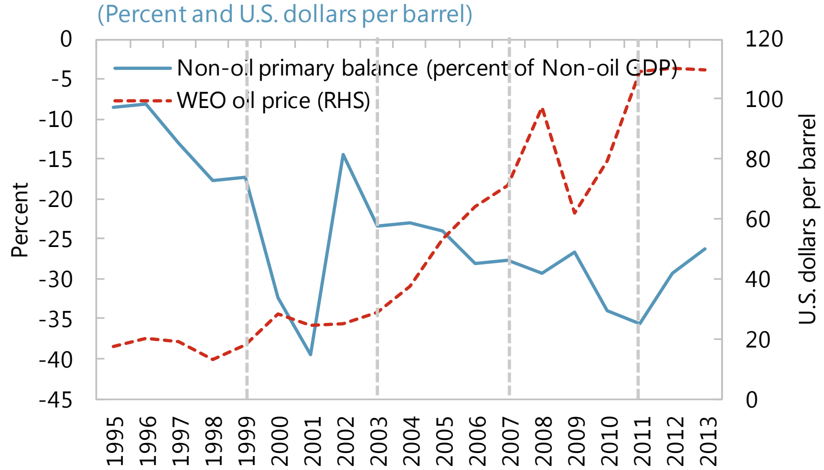
22. Improvements have been made to the fiscal framework, but more needs to be done to enhance fiscal control.[5] The introduction of the Nigeria SWF in mid-July 2012 represented an important strengthening in the management of oil revenues. The Nigeria SWF made its first investment in September 2013, providing more than US$200 million to international banks to manage a fixed-income portfolio. However, additional measures are needed to enable the framework to serve as an effective fiscal anchor, ensure adequate fiscal buffers, and avoid procyclical spending. For example: (i) the budget oil price is not formally instituted; (ii) the full transition from the ECA to the Nigeria SWF has not occurred—excess crude revenues are still being deposited in the ECA, which is managed by political agreement among federal, state, and local governments and is subject to discretionary withdrawals; and (iii) the Fiscal Responsibility Law (FRL) does not cover the SLGs, which receive more than half of total oil revenue as prescribed in the constitution. These factors imply that the federal government has only limited control over macrofiscal management (Box 3).

[5] The authorities' fiscal framework is based on a budget oil reference price (set below the oil market price) and a production volume that determines the expenditure envelope for all levels of government as well as the scope for accumulating fiscal buffers. The framework is bounded by a 3 percent of GDP limit on the federal government deficit provided by the 2007 Fiscal Responsibility Act and accompanied by limits for borrowing from the state and local governments. For details on the fiscal framework see IMF Country Report No. 13/116, p. 8.

23. The upcoming elections could test the resilience of the fiscal framework and the consolidation plan. In the past, expenditure has been sensitive to elections, with the share of primary balance in non-oil GDP increasing one year before and during the election year (text figure). For example, a general raise for public sector wages was granted in 2010, less than a year before the general election of 2011.

24. The 2014 budget is consistent with the medium-term consolidation plan, but its implementation is subject to risks heightened in the context of the 2015 election. The 2014 budget has been crafted using a US$77.5 barrel reference price (below the reference price of US$79 used in 2013) and oil production of 2.388 million barrels per day (bpd) (about 5 percent lower than in the 2013 budget).[6] The budget assumes a continued fiscal effort in 2014, including a reduction of expenditure of about 1 percentage point of GDP by further containing the growth of personnel expenditure, while maintaining capital expenditure by the federal government at about 2 percent of GDP. Furthermore, the MTEF implies continued consolidation in the medium term, with NOPD estimated to decline from 23½ percent to a sustainable NOPD of 18 percent of non-oil GDP by 2016 (Appendix 4).[7] If implemented as planned, buffers will be gradually rebuilt with the ECA increasing from US$3 billion to US$15 billion in the next three years. Key risks to its implementation include the following:

Nonoil Primary Deficit and Oil Price, 1995–2013
(Percent and U.S. dollars per barrel)



Source: IMF staff estimates.
Note: Vertical lines represent years of presidential elections

- The assumed oil production is 3¾ percent above its 2013 level, implying that the problem of oil theft/production losses will be at least partially contained. Therefore, given the low level of fiscal buffers, potential disruptions in oil production are likely to require additional debt issuance to finance the projected expenditure levels.

- The assumed savings in payroll expenditure will require determined implementation. Initial efforts to clean up payrolls through the implementation of the Integrated Personnel and

[6]The government originally proposed a budget oil price of US$74 a barrel for 2014. However, the National Assembly agreed on a price of US$77.5 a barrel for the price of oil; the detailed budget is still under discussion. Staff expenditure projections are based on a slightly higher oil price of US$79 a barrel.

[7] The NOPD is based on the permanent income hypothesis, which provides a long-term benchmark for fiscal sustainability in an oil-rich country.

Payroll Information System (IPPIS) have been very successful—about 20 percent of the federal workforce (about 200,000 civil servants) had been targeted and more than 45,000 erroneous payroll records have been corrected. However, expanding the IPPIS to the rest of the federal workforce, including the armed and security forces, health care professionals, and educators may be difficult. In addition, with relatively rapid growth in the non-oil sector, it could be challenging to keep public sector wages frozen without affecting service delivery.

- The medium-term consolidation plan implies a stable federal government capital budget of about 2 percent of GDP a year. However, in the past there has been an uptick in the use of the capital budget in election years—for example, in 2011 capital releases were about 71 percent of the budget levels compared to an average of 52 percent in 2010, 2012, and 2013—suggestive of potential pressures to increase this expenditure during the political cycle. Moreover, consolidation efforts should aim to create space for, and enhance the quality of public investment, with positive benefits for key sectors including agriculture.

- The projected long-term decline in oil revenue will necessitate additional fiscal effort, particularly for SLGs whose revenues are projected to decline by nearly ½ a percentage point of GDP over 2016-2018. Given their limited ability to borrow, the key will be to raise revenues independently or reduce expenditure but without affecting service provision, particularly in key areas such as health care and education.

25. The consolidation momentum needs to be preserved through the 2015 election cycle and beyond. Rebuilding the ECA fiscal buffer to an adequate level to offset oil-revenue shocks (potentially of about US$15 billion to US$20 billion) and supporting macroeconomic stability requires a resolute implementation of the MTEF and a strong fiscal framework. This should be based on four pillars: (i) strengthening oil-revenue management; (ii) containing expenditure and increasing the quality of spending, ensuring service delivery in key areas such as education and health care;[8] (iii) boosting non-oil revenue through ongoing initiatives to enhance tax administration, curtail exemptions, and reduce evasion. Non-oil revenue mobilization could be further underpinned by broadening the value-added tax (VAT) base, continuing extension of automated tax collections, simplifying tax laws, and reducing transfer-pricing risks; and (iv) establishing FRLs for states, to further enhance the MTEF guidance of the fiscal policy of the general government. This could include states adopting a balanced-budget rule that could help limit the potential state and local budget slippages and reduce the incentives for ad hoc ECA withdrawals.

[8] Early successes in the Subsidy Reinvestment and Empowerment Program (SURE-P) could be leveraged to build broader support for the eventual full deregulation of fuel prices to strengthen the safety net, including the Conditional Grant Scheme (CGS) (addressing weaknesses in education, health care, water, and sanitation) and the Conditional Cash Transfer (CCT) (which has reached more than 60,000 households in extreme poverty). Further expansion of these programs should be underpinned by a strong framework for monitoring and evaluation to improve service delivery in an affordable way.

26. Authorities' views. The authorities agreed on the need to further strengthen the fiscal framework and reiterated that the government would keep its fiscal consolidation on track. Oil revenue management initiatives are also underway. Expenditure restraint is central to the authorities' 2014 budget. The authorities pointed to their ability to contain salaries and clean up payroll in the past two years as evidence of their commitment to control the wage bill. The expansion of the IPPIS started in December 2013, by including the police force (about 200,000 individuals) and should be expanded to most of the remaining federal government workers by end-2014. On capital spending, the authorities argued that the 2014 budgeted level reflects the current capacity and prioritizes the completion of existing capital projects. They also see potential quick gains from improved non-oil revenue administration, which could deliver up to US$500 million (a 6 percent increase in non-oil revenue) in 2014. The authorities agreed with the need to strengthen the safety net, but noted the low political appetite for further subsidy removal. The authorities acknowledged that the states have limited capacity to borrow—any debt issuance request is carefully evaluated by the Debt Management Office (DMO) taking into account the state revenue capacity—and indicated that FRLs have already been approved by 12 states.

27. Nigeria's public financial management (PFM) capacity is improving, but needs to be strengthened. Thus far, the Government Integrated Financial Management Information System (GIFMIS) has continued to support the rollout of the Treasury Single Account (TSA), which has been implemented in 217 entities (about 60 percent of the ministries, departments, and agencies (MDAs) of the federal government). In addition, the GIFMIS has deployed several other functionalities including the budget preparation component (which has helped the 2014 budget process). Looking forward, the resolute implementation of PFM reforms is crucial to the ongoing consolidation efforts. This should include the expansion of the TSA to the remaining entities of the federal government, ideally prioritized by size to include first large entities such as the armed and security forces. In addition, it would be important to establish protocols for public entities outside the federal government—which are responsible for a substantial portion of public expenditure—to be gradually added to the TSA, including SLGs.

28. Authorities' views. The authorities are committed to continue the rollout of the TSA in 2014 to the remaining MDAs. However, they indicated potential challenges to expand the system to MDAs outside of Abuja. In addition, their current focus is initially limited to the federal government, given issues of fiscal federalism that limit the ability of the central government to control the cash management practices of the SLGs.

B. Monetary, Financial, and Exchange Rate Policies

29. The monetary policy stance is appropriate to safeguard macro-financial stability. The monetary policy committee (MPC) has set the inflation target for 2014 at 6-9 percent, above the 5-percent target of the Convergence Council of the ECOWAS (Figure 1). During 2013, the CBN has maintained its policy interest rate corridor (12 percent +/- 200 basis points), but in July raised the banks' cash reserve requirement (CRR) on public deposits from 12 percent to 50 percent. At the same time, the CBN has been sterilizing capital inflows by increasing issuance of CBN bills, smoothing temporary fluctuations in the exchange rate to limit exchange rate pass-through on inflation. Moreover, given the risk of fiscal slippage and potential capital outflows associated with changing investor sentiment, maintaining high interest rates with a stable exchange rate would reduce the risk of highly destabilizing capital outflows, and consequent pressure on the exchange rate.

30. Managing liquidity remains challenging. Staff acknowledged Nigeria-specific circumstances that motivated an increase in the CRR on public sector deposits; in particular, the still limited coverage of the TSA with about a half of public sector deposits held in commercial banks. Staff however noted that the increase in the CRR poses costs on banks, and recommended more reliance, going forward, on open market operations to guide short-term interest rates to conduct monetary policy. Staff also noted that the current policy stance poses a concern about longer-term inclusive growth: while inflation has come down from 12½ percent at the beginning for 2012 to 8 percent at end-2013, lending rates remained unchanged reflecting no changes in the monetary policy rate established by the CBN, so that the maximum real cost of borrowing has increased from 10 percent to 17 percent, amplifying barriers to the growth of SMEs that have no access to the equity market.

31. Authorities' views. The authorities were in broad agreement with staff's assessment on the appropriateness of the tight monetary policy stance. They also agreed on the blunt nature of the CRR, but argued that because financial markets do not always work in a rational manner, sending a strong signal of CBN's commitment to keep inflation low was critical to the monetary policy stance because of the risks for capital flow reversals and fiscal slippages. In particular, they stressed that CRR effectiveness should be assessed based on its broader economic impact, in particular its benefit to managing liquidity in the banking system and its capacity to contribute to broadening the coverage of the TSA.

32. The stable naira policy has provided confidence to markets. Pursuing exchange rate stability has worked well so far, contributing to bringing inflation down to single digits, providing a conducive environment for investing in domestic government securities and the equity market, and accumulating international reserves. Reserve buffers are deemed adequate—the current level of reserves (5.7 months of prospective imports) is close to the optimal level implied by standard metrics—(Appendix 5), but staff pointed out risks from medium-term oil price developments, potential capital outflows associated with expected UMP tapering, political uncertainty through the election cycle, and low fiscal buffers. The external sector assessment finds a moderate overvaluation of the naira in 2013, though caution is warranted given the quality of balance of payments data, in particular the size of errors and omissions (outflow of 3 percent of GDP in 2012). If the underlying supply-demand imbalance continues and persistent pressures emerge, staff underscored that the exchange rate should be allowed to adjust. At the same time, staff also encouraged a continuation of improvements in productivity-enhancing measures to improve non-price competitiveness to bolster non-oil exports, while enforcing security to curtail oil theft/production losses to strengthen external positions. Increased demand for dollars, coupled with administrative limits in the last quarter of 2013 on sales to the *Bureau de Change* (BDC) segment (about 16 percent of the market as of September 2013), resulted in a widening of the spread in the official-BDC rate, from an average of 1.5 percent in the first half of 2013 to 9 percent at end-December.[9] The CBN has since lifted these limits, authorized dealers are now free to sell to BDCs subject to compliance with AML/FT laws and other foreign exchange regulations, and the spread in the official-BDC rate has narrowed.

Nigeria: Assessment of Real Exchange Rate

	Equilibrium RER Approach	Macroeconomic Balance Approach[1]	External Sustainability Approach
		(In percent of GDP)	
Current account norm	…	3.4	2.5
Underlying current account balance[2]	…	1.4	1.4
Current account gap	…	2.0	1.1
Estimated elasticity of current account balance	…	0.24	0.24
		(In percent)	
Real exchange rate gap[3]	7.7	8.3	4.6

Source: IMF staff estimates.

[1] Based on estimates for net oil exporters of IMF Working Paper 09/281.

[2] Current account balance projected for 2018 (output gap is assumed to close by 2018).

[3] Positive numbers indicate overvaluation.

33. Authorities' views. The authorities were in broad agreement with a number of factors that could potentially put the naira under pressure over the medium term. They pointed to the asymmetric adjustment of fiscal policy: when oil revenues decline, the ECA is drawn down and borrowing and debt service increase because the size of the wage bill limits the government's ability to reduce spending. In particular, they pointed out that the weakening of the fiscal position, affecting the exchange rate, mainly owed to oil theft, which is a criminal issue, and has to be addressed through security measures and introducing stringent rules to track oil revenue.

34. The banking sector is well capitalized and with low NPLs, but implementation of the key recommendations in the 2012 FSAP Update would further enhance financial stability (Table 6). While financial soundness indicators generally point to strong commercial bank performance, staff noted that net foreign liabilities had increased in the past 2 to 3 years—from 26.2 percent of core capital (share capital and reserve fund) at end 2011 (at the time of the FSAP Update) to 69.5 percent at end-December 2013. While part of these open positions may be hedged, staff recommends that the CBN closely monitor foreign exchange exposures and the adequacy of bank equity. Given the volume of interbank transactions, including with discount houses, and of

[9] In September 2013, the CBN replaced the Wholesale Dutch Auction System (WDAS) with the Retail Dutch Auction System (RDAS), tightened reporting requirements, and imposed weekly limits on the sale of foreign exchange to the BDC. It also took disciplinary action against some of the traders in the BDC segment.

foreign currency operations, the CBN should more closely monitor the level and nature of such transactions and the open foreign exchange positions of banks. Staff welcomes the authorities' reactions to FSAP recommendations (Box 4). In particular, staff welcomes the authorities' directive for the Asset Management Company of Nigeria (AMCON) to redeem by end-2013 all its debt held by deposit money banks (DMBs)[10] and not to purchase additional assets from banks which could encourage moral hazard and imprudent risk taking in the sector. Staff commends the CBN's collaboration on the use of cross-border supervisory arrangements, notably memoranda of understanding (MOUs) and participation in a regional College of Supervisors. Further, the mission encourages enhanced participation in on-site inspections of all Nigerian banks operating abroad, particularly in countries where the supervisory framework is not as developed as in Nigeria.

35. Authorities' views. The authorities noted that the AMCON is closing for all practical purposes: it is no longer purchasing NPLs, and it has a financing plan for ten years. They expressed a preference, however, for a longer period for winding down AMCON than the proposed sunset of end-2017 as recommended in the FSAP, and maintaining an inactive "shell." In principle, this would allow them to reduce future "cost" in the event of need for a similar institution. The authorities agreed with the need to continue to strengthen the prudential framework and expressed interest in additional TA on Financial Soundness Indicators.

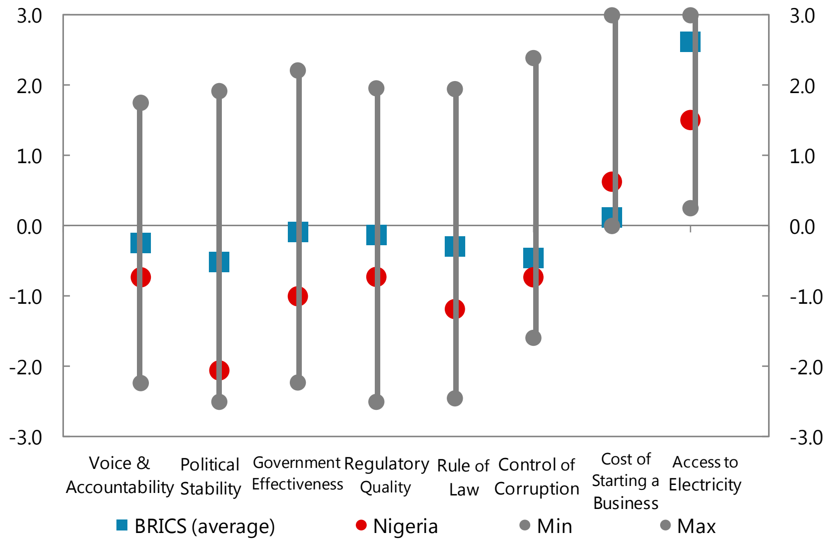
C. Improving Competitiveness and Productivity

36. To achieve the goals of the 2020 vision and the Transformation Agenda, planned structural reforms to boost productivity and competitiveness must be implemented. Growth has been mainly driven by subsistence-based and informal agriculture, trade, and services. Wage jobs have also not recovered from a significant decline following the privatization of various parastatals in the mid-2000s, the impact of the recent global financial crisis, and increased competition from Indian and Chinese companies in textiles. In this context, to improve competitiveness the authorities have been implementing the Transformation Agenda aimed at promoting an inclusive growth policy based on economic diversification, by improving power supply and enhancing the value chain of agriculture-manufacturing. In particular, they have been reviewing the tariff and non-tariff structure, and increasing import protection on a number of agricultural products, notably by raising duties levied on rice to 100 percent.

[10] All AMCON bonds held by DMBs are to be redeemed by October 2014. All AMCON bonds held by the CBN will then be bought back by AMCON using the Sinking Fund: to which DMBs contribute 0.5 percent of their assets in the next ten years.

37. Some governance and business environment indicators are still lagging peers,' and unemployment and poverty remain high. In particular access to electricity, cost of doing business, and SMEs' access to finance[11] continue to impede robust growth (text figure).[12] At the same time, strong economic growth in the last decade has not translated into improved labor markets (Appendix 6). The official unemployment rate, which includes those working less than 40 hours a week, has risen steadily from 14.8 percent in 2003 to about 24 percent in 2011, and the poverty rate is above 60 percent (per capita) and about 48 percent (adult equivalent). In most sectors supporting non-oil growth, employment tends to be irregular (agriculture and trade), requires specialized skills, or is not labor intensive (telecommunications). In this round of consultations, staff focused on reforms aimed at increasing the delivery of power, broadening the agricultural base, and increasing access to finance for SMEs.

Investment Climate, 2012



Sources: World Bank; World Governance Indicators; and World Development Indicators, 2012.
Note: For governance indicators higher values mean better situation and indicators range from +2.5 to -2.5. The cost of starting a business is measured as percent of Gross National Income per Capita, and access to electricity in percent of total population, both are re-scaled into a 0-3 scale.

38. Reforms in the power sector are advancing. The objective of the power reform is to reduce the cost of doing business in Nigeria and encourage investment in the sector by creating a private sector–led electricity market. The physical handover to private tenders of 10 distribution companies (DisCos) and 4 legacy generation companies (GenCos) to new owners on November 1, 2013, was a significant milestone. In addition, the recently launched Access Power initiative of the federal government and the signature of MOUs are expected to enhance power infrastructure and access to electricity. Staff stressed the need to ensure timely and adequate public investments to increase and improve transmission capacity (which is not being privatized). Therefore, staff welcomes the authorities' decision to allocate half of the Nigeria Independent Power Producers' privatization proceeds (US$1.3 billion) to fund critical transmission projects, while stressing the need to strengthen the provision of lifeline tariffs for low-income households.

[11] Lending to SMEs is a mere 5 percent of the total lending of commercial banks, and banks finance only 3 percent of SME working capital and 2 percent of their fixed assets (2011 survey for SME Finance Study (World Bank).

[12] Care should be exercised when interpreting these indicators given subjective interpretation, limited coverage of business constraints, and a small number of respondents, which tend to overstate the indicators' coverage and explanatory power (www.worldbank.org/ieg/doingbusiness).

39. Reforms to unlock Nigeria's agriculture potential are on track, but caution should be observed in designing supporting measures. The broad objective of reform is to transform the agriculture sector into a modern and market-oriented sector, reduce poverty, enhance employment, and diversify the economy. Accordingly, staff supports the Growth Enhancement Support (GES) scheme that helps to foster private sector–led marketing of seeds and fertilizers, and accelerates private-sector investment in domestic fertilizer manufacturing. Also the establishment of free zones is helping to accelerate reforms. These reforms appear to have unleashed rice production potential. However, staff noted that although time-bound support measures can be useful in encouraging private investment at its nascent stage, fiscal costs should be contained and the focus should continue to be on improving the business climate by addressing structural bottlenecks, reducing the costs of doing business, and improving overall governance. High tariffs recently introduced on selected agricultural products (for example, rice, wheat) should be temporary with a clear exit strategy (Appendix 7).

40. Improving access to financial services for SMEs. SMEs have suffered from limited access to credit or other financial services. Although staff welcomes government measures to ease access to credit, regular performance reviews of credit and guarantee schemes should be undertaken to detect problems early and improve effectiveness. In addition, these schemes should be funded from fiscal sources. Staff also noted that financial education should be expanded and reforms accelerated to improve credit reporting systems (to minimise adverse selection by banks) and ensure enforcement of lenders' rights over collateral.

41. Authorities' views. The authorities are committed to continuing the achievements so far to reform the power and agriculture sectors and improve SMEs' access to financial services. In the power sector, they broadly agreed with staff on the need to scale up investments in the transmission infrastructure, while protecting lifeline tariffs for low-income households. They indicated that the federal government has developed a broad social safety program and a lifeline tariff for those households consuming below 50 Kwh/month, with each DisCo's lifeline tariffs reflecting specific costs, location, and consumer profile. In agriculture, the authorities argued that the changed tariff structure was mainly aimed at protecting the value chain of rice and wheat production, where Nigeria spends most of its hard currencies, and that the overall policy objective is to reduce poverty and create jobs. They agree however on the principle that those measures should be time bound, but they did not however foresee any sunset clause. They stressed that financial schemes to ease access by SMEs to financial services mainly reflect high lending rates, and are aimed to ameliorate the high cost of borrowing.

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42. Macroeconomic performance has been broadly positive, but indicators of inclusive growth remain low. The non-oil sector continues to record solid growth, while inflation has declined and a comfortable reserve position has been maintained despite uncertainties created by the timing of the tapering of UMP. A shortfall in oil revenues resulted in a drawdown of the ECA, a key fiscal buffer. Continued weaknesses in labor markets, access to electricity, cost of doing business, and SMEs' access to finance have prevented a transition to a more robust and more inclusive growth path.

43. Economic growth is expected to improve in 2014, but risks are elevated and will need to be managed. Key risks are (i) uncertainty about the pace of global recovery; (ii) unwinding of UMP; (iii) persistently lower oil prices; (iv) persistent oil production losses; (v) continuation of insurgency in the North; and (vi) low political consensus for key reforms. To manage those risks, policies should focus on boosting external and rebuilding fiscal buffers, avoiding spending pressures from the political cycle, improving oil-revenue management, undertaking structural reforms to boost growth and job creation, and strengthening governance frameworks.

44. The 2014 budget is consistent with the authorities' medium-term fiscal consolidation objectives that remain appropriate. The adoption of a conservative oil benchmark price and oil production level, freezing allocations for salaries, and focusing on completing existing capital projects in the 2014 budget should facilitate the achievement of these objectives. Ongoing public financial management reforms—notably the extension of the TSA and information systems in key federal institutions—should enable expenditure efficiencies and strengthen service delivery. Improved oil revenue management—migrating from the ECA to the SWF, incorporating a rule-based budget oil price, and supporting greater transparency in the management of the fuel subsidy—together with steps to enhance non-oil revenue mobilization, will also help achieve the authorities' consolidation targets. Programs to fight poverty and alleviate inequalities are welcome, and implementation of strong monitoring and evaluation frameworks should help improve service delivery at low cost.

45. Strengthening the transparency and governance of the oil sector is crucial for rebuilding external and fiscal buffers. Recent measures have helped contain oil theft, but additional steps—such as passing a sound PIB with enhanced provisions and stringent enforcement clauses and implementing regular auditing and monitoring of oil revenue management processes—are needed. AML/CFT measures and a multicountry partner strategy could also contribute.

46. Maintaining a tight monetary policy stance is appropriate, given that growth remains strong and there is risk of fiscal slippage and potential for capital outflows. Recent adjustments of reserve requirements to manage liquidity create costs to financial-sector development, and staff encouraged greater reliance on open market operations to guide short-term interest rates. The stability of the naira has supported confidence in the economy and helped bring down inflation. In the event of persistent pressures, greater flexibility in the exchange rate may be needed to respond to shocks.

47. The financial system has been resilient to recent shocks, and further actions to implement the key recommendations of the 2012 FSAP Update could further strengthen financial stability. Available financial soundness indicators point to adequate levels of capital and low levels of NPLs. Reflecting the evolution of the financial system, closer monitoring of the nature and level of interbank transactions, including with discount houses, and the foreign currency positions of banks will be desirable. The recent directive for AMCON to phase out its activities is a welcome step to exiting the legacy of the 2009 banking crisis. Staff commended the CBN's collaboration on cross-border supervisory arrangements and encouraged enhanced onsite inspections of Nigerian banks operating abroad, particularly in countries where the supervisory framework is less developed than in Nigeria.

48. Implementing wide-ranging structural reforms should improve competitiveness and productivity. Consistent with the Transformation Agenda, key priority areas are to increase the delivery of power, broaden the agricultural base, and increase access to finance for SMEs. Timely and adequate public investment is needed to increase and improve transmission capacity and support power generation. Recently introduced high tariffs on selected agricultural products create distortions and should be temporary, with sectoral growth underpinned by improvements in competitiveness rather than by protectionist measures. Specialized credit and guarantee schemes can encourage financial access but regular reviews should be undertaken to detect problems early and improve effectiveness.

49. Nigeria's macroeconomic statistics are broadly adequate for surveillance. The authorities' focus on ensuring the accuracy and credibility of the rebasing of GDP is appropriate and the release of the new national accounts, expected in early 2014, as well as planned census of business, increased use of biometrics, and a household living conditions survey will strengthen the basis for informed policy making and private-sector investment decisions. However, continued improvements to data collection and dissemination in the balance of payments and state and local fiscal accounts remain a high priority.

50. It is proposed that the next Article IV consultation be held on the standard 12-month cycle.

Table 1. Nigeria: Millennium Development Goals, 1990–11

	1990	1995	2000	2005	2010	2011
Goal 1: Eradicate extreme poverty and hunger						
Employment to population ratio, 15+, total (%)	53	53	52	51	52	52
Employment to population ratio, ages 15–24, total (%)	29	30	31	32	34	34
Income share held by lowest 20%	4	5	..	5	4	..
Poverty gap at $1.25 a day (PPP) (%)	31	32	..	29	34	..
Poverty headcount ratio at $1.25 a day (PPP) (% of population)[1]	62	69	..	*64.2*	62.6	..
Poverty headcount ratio (adult equivalent)[1]	..	..	..	*48.4*	46.0	..
Goal 2: Achieve universal primary education						
Literacy rate, youth female (% of females ages 15-24)	62	..	..	61	66	..
Literacy rate, youth male (% of males ages 15-24)	81	..	..	78	78	..
Persistence to last grade of primary, total (% of cohort)	..	..	73	78	..	..
School enrollment, primary (% net)	..	..	65	67	58	..
Goal 3: Promote gender equality and empower women						
Proportion of seats held by women in national parliaments (%)	..	..	3	6	7	7
Ratio of female to male primary enrollment (%)	79	83	82	85	91	..
Ratio of female to male secondary enrollment (%)	78	..	85	84	88	..
Ratio of female to male tertiary enrollment (%)	33	..	79	71	..	..
Share of women employed in the nonagricultural sector (% of total nonagricultural employment)	..	..	18.6	21.1	..	..
Goal 4: Reduce child mortality						
Immunization, measles (% of children ages 12–23 months)	54	44	33	41	71	71
Mortality rate, infant (per 1,000 live births)	127	125	113	96	83	80
Mortality rate, under-5 (per 1,000 live births)	214	211	188	156	132	128
Goal 5: Improve maternal health						
Births attended by skilled health staff (% of total)	31	..	42	35	*39*	..
Maternal mortality ratio (modeled estimate, per 100,000 live births)	1100	1000	970	820	630	..
Pregnant women receiving prenatal care (%)	57	..	64	58	*58*	..
Goal 6: Combat HIV/AIDS, malaria, and other diseases						
Children with fever receiving antimalarial drugs (% of children under age 5 with fever)	..	..	..	34	49	..
Condom use, population ages 15–24, female (% of females ages 15–24)	..	..	7	8	*12*	..
Condom use, population ages 15–24, male (% of males ages 15–24)	..	..	32	38	*40*	..
Incidence of tuberculosis (per 100,000 people)	128	139	172	175	133	118
Prevalence of HIV, total (% of population ages 15-49)	1.3	4	3.9	3.7	4	4
Tuberculosis case detection rate (%, all forms)	16	9	12	26	40	45
Goal 7: Ensure environmental sustainability						
Forest area (% of land area)	18.9	..	14.4	12.2	10	9
Improved sanitation facilities (% of population with access)	37	36	34	32	31	31
Improved water source (% of population with access)	47	50	53	57	61	61
Goal 8: Develop a global partnership for development						
Internet users (per 100 people)	0	0	0.1	3.5	24	28
Mobile cellular subscriptions (per 100 people)	0	0	0	13	55	59
Other						
GNI per capita, Atlas method (current US dollar)	260	210	270	630	1240	1260
Life expectancy at birth, total (years)	46	45	46	49	51	52

Source: World Bank's World Development Indicators.

[1] Figures in italics refer to periods other than those specified.

Table 2. Nigeria: Selected Economic and Financial Indicators, 2012–18

	2012	2013	2014	2015	2016	2017	2018
	Act.	Projections					
National income and prices	(Annual percentage change, unless otherwise specified)						
Real GDP (at 1990 basic prices)	6.6	6.4	7.3	7.0	6.8	6.9	6.6
Oil and Gas GDP	-0.2	-1.8	6.8	3.4	2.2	2.3	1.6
Non-oil GDP	7.8	7.7	7.4	7.5	7.5	7.5	7.2
Production of crude oil (million barrels per day)	2.339	2.300	2.388	2.463	2.505	2.561	2.594
Nominal GDP at market prices (trillions of naira)	41.1	44.8	49.7	54.8	60.4	67.2	74.8
Nominal non-oil GDP (trillions of naira)	26.1	30.3	34.7	39.8	45.5	52.1	59.5
Nominal GDP per capita (US$)	1,589	1,702	1,813	1,899	1,993	2,106	2,228
GDP deflator	2.0	2.5	3.4	3.0	3.3	4.0	4.5
Non-oil GDP deflator	7.6	8.0	6.7	6.5	6.5	6.6	6.6
Consumer price index (annual average)	12.2	8.5	7.3	7.0	7.0	7.0	7.0
Consumer price index (end of period)	12.0	7.9	7.0	7.0	7.0	7.0	7.0
FGN gross debt (percent of GDP)	18.4	19.1	20.0	20.3	20.2	20.5	20.8
Of which : domestic debt (percent of GDP)	15.9	16.2	16.8	16.9	16.7	16.9	17.2
Investment and savings	(Percent of GDP)						
Gross national savings	30.2	26.7	26.9	26.1	25.2	25.1	23.9
Public	7.2	2.2	3.9	5.1	4.4	3.5	2.9
Private	23.1	24.5	23.0	20.9	20.8	21.6	21.0
Investment	22.4	23.6	23.2	23.3	23.0	22.9	22.8
Public	6.2	6.3	6.2	6.4	6.1	6.1	6.0
Private	16.2	17.3	17.0	16.9	16.9	16.8	16.8
Current account balance [1]	7.8	3.1	3.7	2.8	2.2	2.2	1.1
Consolidated government operations [2]	(Percent of GDP)						
Total revenues and grants	25.3	20.0	21.1	22.3	20.5	19.2	18.3
Of which: oil and gas revenue	18.5	12.9	13.8	14.7	12.7	11.1	10.0
Total expenditure and net lending	25.7	24.6	24.0	24.2	22.9	22.4	22.0
Of which : fuel subsidies[3]	3.8	1.6	1.5	1.3	1.2	1.1	0.9
Overall balance	-0.4	-4.7	-2.9	-1.9	-2.4	-3.2	-3.7
Non-oil primary balance (percent of non-oil GDP)	-26.9	-23.5	-21.6	-20.5	-17.8	-16.5	-15.4
ECA/SWF (US$ billions)	11.0	3.0	6.3	11.3	13.6	16.4	18.3
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)	16.4	-5.2	14.3	15.6	14.5	14.5	14.2
Net foreign assets	14.3	-3.4	1.3	1.4	2.1	2.6	1.1
Net domestic assets	2.1	-1.7	13.0	14.3	12.3	11.9	13.1
Credit to consolidated government	-13.6	0.8	3.3	2.7	2.1	1.7	1.6
Credit to the rest of the economy	6.1	7.8	11.1	12.8	11.4	11.3	12.4
Velocity of broad money (ratio; end of period)	1.6	2.0	2.0	2.0	2.0	2.0	2.0
Treasury bill rate (percent; end of period)	13.2	11.9	...	...	...	...	...
External sector	(Annual percentage change, unless otherwise specified)						
Exports of goods and services	1.8	-2.1	2.4	-0.2	-1.1	0.4	0.1
Imports of goods and services	-10.6	13.8	4.6	4.6	3.7	2.4	4.7
Terms of trade	1.4	-0.1	-0.4	-1.9	-2.2	-1.8	-1.6
Price of Nigerian oil (US dollar per barrel)	110.0	109.0	104.0	98.5	93.7	90.3	88.0
Nominal effective exchange rate (end of period)	81.4	83.1	...	...	...	...	...
Real effective exchange rate (end of period)	135.6	150.1	...	...	...	...	...
External debt outstanding (US$ billions)	6.5	8.2	10.0	11.5	12.9	14.2	15.5
Gross international reserves (US$ billions)	44.2	43.6	44.5	44.3	45.1	46.5	46.6
(equivalent months of imports of G&Ss)	6.0	5.7	5.5	5.3	5.3	5.2	4.8

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

[1] Large errors and omissions in the balance of payments suggest that the current account surplus is overestimated by a significant (but unknown) amount.

[2] The budget oil price is US$72 a barrel for 2012, and US$79 thereafter.

[3] For 2012, includes one-off payment of about 1 percent of GDP to settle arrears accrued in 2011.

Table 3. Nigeria: Balance of Payments, 2010–16
(Billions of U.S. dollars, unless otherwise specified)

	2010	2011	2012	2013	2014	2015	2016
	Actual			Projections			
Current account balance	13.4	8.8	20.4	9.1	11.6	9.4	8.0
Trade balance	30.6	31.1	42.5	36.7	33.3	30.1	26.6
Exports	77.4	93.3	96.0	93.8	93.8	93.4	92.1
Oil/gas	74.7	90.1	93.0	89.4	88.5	87.1	85.0
Other	2.7	3.2	3.0	4.5	5.3	6.3	7.1
Imports	-46.8	-62.2	-53.6	-57.2	-60.5	-63.4	-65.6
Oil/gas	-11.2	-19.3	-19.2	-20.5	-21.0	-21.4	-21.8
Other	-35.5	-42.8	-34.4	-36.7	-39.5	-42.0	-43.7
Services (net)	-18.5	-21.4	-21.7	-28.7	-27.0	-28.2	-29.3
Income (net)	-19.7	-23.0	-22.3	-20.0	-16.6	-15.4	-13.2
Of which: Interest due on public debt	-0.1	-0.1	-0.2	-0.2	-0.3	-0.3	-0.3
Transfers (net)	21.0	22.0	22.0	21.1	21.8	22.9	23.9
Capital and Financial account balance	-8.0	-5.1	-1.3	-1.4	-2.6	-1.6	0.8
Capital Account (net)	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financial Account (net)	-8.0	-5.1	-1.3	-1.4	-2.6	-1.6	0.8
Direct Investment (net)	5.2	8.1	5.6	6.3	6.5	6.7	6.7
Portfolio Investment (net)	2.6	3.6	15.1	9.6	9.6	9.3	9.3
Other Investment (net)	-15.8	-16.8	-22.0	-17.3	-15.5	-12.5	-12.9
ECA/SWF Investment (net)	…	…	0.0	0.0	-3.2	-5.1	-2.3
Errors and omissions	-15.5	-3.3	-8.0	-8.0	-8.0	-8.0	-8.0
Overall balance	-10.0	0.3	11.2	-0.4	0.9	-0.3	0.8
Net international reserves (increase -)	10.0	-0.3	-11.2	0.4	-0.9	0.3	-0.8
Memorandum items:							
Gross official reserves, end-of-period	32.3	32.6	44.2	43.6	44.5	44.3	45.1
In months of next year's imports of goods and servic	4.5	5.0	6.0	5.7	5.5	5.3	5.3
SWF foreign investment balances, end-of-period	…	…	0.0	0.0	3.2	8.3	10.6
Current account (percent of GDP)	5.9	3.6	7.8	3.1	3.7	2.8	2.2
Exports of goods and services (percent of GDP)	35.2	39.6	37.6	33.4	31.3	29.0	26.7
Imports of goods and services (percent of GDP)	29.9	35.6	29.7	30.7	29.3	28.5	27.4
External debt[1]	5.1	5.6	6.5	8.2	10.0	11.5	12.9
External debt (percent of GDP)	2.2	2.3	2.5	2.8	3.2	3.4	3.5
External debt (percent of exports)	6.4	5.8	6.6	8.5	10.1	11.6	13.3
External debt (percent of consolidated fiscal revenues)	11.2	7.7	9.8	14.2	15.0	15.2	17.2
External debt service due (percent of exports)	0.5	0.4	0.3	0.4	0.4	0.4	0.4
Real imports of goods and services (percent of real GD	38.0	37.0	31.2	33.7	34.2	34.6	34.4
GDP (at market prices)	229	244	262	288	315	339	366

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

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

Table 4a. Nigeria: Federal Government Operations, 2010–16
(Billions of Nigerian naira)

	2010	2011	2012	2013	2014	2015	2016
	Actual			Projections			
Total revenue	2,181	2,838	2,763	3,046	3,533	4,074	4,319
Oil revenue (at budget reference oil price)	1,506	2,045	1,851	1,993	2,269	2,621	2,653
Non-oil revenue	675	794	912	1,053	1,264	1,453	1,665
Import and excise duties	139	190	214	226	247	269	287
Companies' income tax	306	334	395	471	553	649	762
Value-added tax	76	87	95	115	138	162	190
Federal government independent revenue	154	182	207	241	326	373	427
Total expenditure	3,980	4,070	4,153	4,489	4,586	4,965	5,123
Recurrent expenditure	3,080	3,357	3,408	3,533	3,566	3,796	3,913
Personnel	1,564	1,854	1,811	1,860	1,872	1,924	1,977
Overheads	916	636	590	526	500	557	557
Interest	352	535	701	759	803	906	968
Transfers[1]	248	332	307	388	391	409	411
Capital expenditure	900	713	744	956	1,020	1,170	1,210
Overall balance	-1,799	-1,232	-1,390	-1,443	-1,053	-892	-804
Overall balance (incl. ECA financing)	...	-721	-1,002	-793	-1,053	-892	-804
Financing	1,666	1,201	1,282	1,443	1,053	892	804
External	45	51	-21	57	-18	-15	-16
Borrowing	75	77	0	77	0	0	0
Amortization	-30	-27	-21	-20	-18	-15	-16
Domestic	1,621	1,131	1,303	1,386	1,071	906	820
Bank financing	776	800	-1,428	-591	761	900	606
o/w ECA/SWF financing	...	511	388	650	0	0	0
Nonbank financing	728	311	2,710	1,968	292	-13	196
Other financing[2]	117	20	20	10	18	19	19
Statistical discrepancy/Financing gap	133	50	108	0	0	0	0
Memorandum items:							
FGN Total Debt	5,323	6,493	7,560	8,543	9,918	11,102	12,207
Domestic	4,552	5,623	6,538	7,274	8,345	9,251	10,071
Foreign	772	870	1,023	1,269	1,573	1,851	2,136
Budget oil price[3]	60	75	72	79	79	79	79
Price of Nigerian oil (US dollar per barrel)	79	109	110	109	104	99	94
FGN overall balance (percent of GDP)	-5.2	-3.3	-3.4	-3.2	-2.1	-1.6	-1.3
FGN overall balance incl. ECA financing (percent of GDP)	...	-1.9	-2.4	-1.8	-2.1	-1.6	-1.3

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]Includes proceeds from privatization and sales of government properties.

[3]Projections for 2014–16 have been based on a constant oil price of $79 for the period of MTEF.

Table 4b. Nigeria: Consolidated Government, 2010–16
(Billions of Nigerian naira)

	2010	2011	2012	2013	2014	2015	2016
		Actual			Projections		
Total revenue	6,883	11,285	10,393	8,938	10,469	12,189	12,401
Oil revenue	4,809	8,834	7,581	5,794	6,854	8,042	7,656
Of which: implicit fuel subsidy	381	975	688	0	0	0	0
Non-oil revenue	2,074	2,451	2,812	3,144	3,615	4,147	4,745
Import and excise duties	309	422	475	502	548	597	636
Companies' income tax	657	717	849	1,012	1,189	1,395	1,637
Value-added tax	563	649	710	859	1,024	1,202	1,410
Other (education tax and customs levies)	166	236	306	243	216	241	267
Federal government independent revenue	154	182	207	241	326	373	427
SLGs independent revenue	225	245	265	288	312	339	368
Total expenditure	9,244	11,093	10,541	11,030	11,922	13,233	13,831
Federal government	3,980	4,070	4,153	4,489	4,586	4,965	5,123
Extrabudgetary funds[1]	812	1,632	1,400	629	668	768	813
Of which: Implicit fuel subsidy	381	975	688	0	0	0	0
State and local government	3,300	4,332	4,434	4,742	5,454	6,302	6,691
Spending from ECA/SWF	981	786	404	872	903	905	910
Of which: explicit fuel subsidy	416	786	260	715	728	713	698
Shared infrastructure and social spending	565	0	144	157	174	192	212
Foreign-financed capital spending	170	273	150	297	311	293	294
Overall balance	-2,361	192	-148	-2,092	-1,453	-1,044	-1,430
Non-oil primary balance	-6,813	-8,100	-7,021	-7,117	-7,494	-8,170	-8,107
Financing	2,746	264	-789	2,092	1,453	1,044	1,430
External	130	238	122	239	277	256	263
Borrowing [2]	170	273	150	297	311	293	294
Amortization	-40	-36	-28	-27	-23	-19	-22
Foreign asset acquisition (ECA/SWF)	…	…	0	-31	-11	-18	-9
Domestic	2,616	26	-911	1,853	1,177	788	1,167
Bank financing [3]	1,175	362	-1,825	-1,103	169	77	232
o/w ECA financing	…	…	847	1,418	0	0	0
Nonbank financing	1,324	-356	895	2,946	989	693	917
Other financing	117	20	20	10	18	19	19
Statistical discrepancy/Financing gap	-384	-455	937	0	0	0	0
Memorandum items:							
Budget oil price (US dollar a barrel)	60	75	72	79	79	79	79
Overall balance (% of GDP)	-6.9	0.5	-0.4	-4.7	-2.9	-1.9	-2.4
ECA balance (billions of naira)	405	714	1,725	471	987	1,830	2,249

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 4c. Nigeria. Government Operations, 2010–16

(Percent of GDP)

	2010	2011	2012	2013	2014	2015	2016
		Actual			Projections		
Consolidated Government							
Total revenue	20.0	29.9	25.3	20.0	21.1	22.3	20.5
Oil revenue	14.0	23.4	18.5	12.9	13.8	14.7	12.7
Non-oil revenue	6.0	6.5	6.8	7.0	7.3	7.6	7.8
Total expenditure	26.9	29.4	25.7	24.6	24.0	24.2	22.9
Federal government expenditure	11.6	10.8	10.1	10.0	9.2	9.1	8.5
Extrabudgetary funds (incl. from ECA\SWF)	5.2	6.4	4.4	3.4	3.2	3.1	2.9
State and local government	9.6	11.5	10.8	10.6	11.0	11.5	11.1
Foreign-financed capital spending	0.5	0.7	0.4	0.7	0.6	0.5	0.5
Other	1.1	2.6	1.7	0.0	0.0	0.0	0.0
Overall balance	-6.9	0.5	-0.4	-4.7	-2.9	-1.9	-2.4
Financing	8.0	0.7	-1.9	4.7	2.9	1.9	2.4
External	0.4	0.6	0.3	0.5	0.6	0.5	0.4
Borrowing	0.5	0.7	0.4	0.7	0.6	0.5	0.5
Amortization	-0.1	-0.1	-0.1	-0.1	0.0	0.0	0.0
Domestic	7.6	0.1	-2.2	4.1	2.4	1.4	1.9
Bank financing	3.4	1.0	-4.4	-2.5	0.3	0.1	0.4
o/w ECA financing	...	...	2.1	3.2	0.0	0.0	0.0
Nonbank financing	3.9	-0.9	2.2	6.6	2.0	1.3	1.5
Statistical discrepancy/Financing Gap	-1.1	-1.2	2.3	0.0	0.0	0.0	0.0
Federal Government							
Total revenue	6.3	7.5	6.7	6.8	7.1	7.4	7.1
Oil revenue (at budget reference oil price)	4.4	5.4	4.5	4.5	4.6	4.8	4.4
Non-oil revenue	2.0	2.1	2.2	2.4	2.5	2.7	2.8
Total expenditure	11.6	10.8	10.1	10.0	9.2	9.1	8.5
Recurrent expenditure	9.0	8.9	8.3	7.9	7.2	6.9	6.5
Personnel	4.6	4.9	4.4	4.2	3.8	3.5	3.3
Overheads	2.7	1.7	1.4	1.2	1.0	1.0	0.9
Interest	1.0	1.4	1.7	1.7	1.6	1.7	1.6
Transfers	0.7	0.9	0.7	0.9	0.8	0.7	0.7
Capital expenditure	2.6	1.9	1.8	2.1	2.1	2.1	2.0
Overall balance	-5.2	-3.3	-3.4	-3.2	-2.1	-1.6	-1.3
Overall balance (incl. ECA financing)	...	-1.9	-2.4	-1.8	-2.1	-1.6	-1.3
Financing	4.8	3.2	3.1	3.2	2.1	1.6	1.3
External	0.1	0.1	-0.1	0.1	0.0	0.0	0.0
Domestic	4.7	3.0	3.2	3.1	2.2	1.7	1.4
Bank financing	2.3	2.1	-3.5	-1.3	1.5	1.6	1.0
o/w ECA financing	...	1.4	0.9	1.5	0.0	0.0	0.0
Nonbank financing	2.1	0.8	6.6	4.4	0.6	0.0	0.3
Statistical discrepancy/Financing gap	0.4	0.1	0.3	0.0	0.0	0.0	0.0
Memorandum items :							
Spending from ECA/SWF (all tiers of governmen	2.9	2.1	1.0	1.9	1.8	1.7	1.5
Of which : Federal government spending	1.3	1.0	0.5	0.9	0.8	0.8	0.7

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

Table 4d. Nigeria: State and Local Governments, 2011–16
(Percent of GDP)

	2011	2012	2013	2014	2015	2016
	Actual		Projections			
Revenue	10.7	9.6	9.4	9.7	10.2	9.8
Oil revenue	7.3	6.0	5.6	5.8	6.1	5.6
Shared revenue	4.9	3.9	4.0	4.0	4.2	4.0
Derivation grant (13 percent)	2.4	2.1	1.7	1.8	1.9	1.6
Non-oil revenue	3.4	3.5	3.7	3.9	4.0	4.2
CIT	0.9	0.9	1.0	1.1	1.2	1.2
Customs	0.5	0.5	0.5	0.5	0.5	0.5
VAT	1.4	1.4	1.6	1.7	1.8	1.9
Internal revenue	0.6	0.6	0.6	0.6	0.6	0.6
Expenditure	11.5	11.2	11.3	11.6	12.0	11.6
Overall Balance	-0.8	-1.6	-1.9	-1.9	-1.9	-1.8
Financing	...	-0.4	1.9	1.9	1.9	1.8
External	...	0.3	0.4	0.6	0.5	0.5
Domestic	...	-0.8	1.5	1.3	1.4	1.3
Bank financing	...	1.1	2.0	-1.2	-1.5	-0.6
o/w ECA financing	...	3.2	4.9	0.0	0.0	0.0
Nonbank financing	...	-1.8	-0.5	2.5	2.9	1.9
other	...	0.0	0.0	0.0	0.0	0.0
Statistical discrepancy/Financing gap	...	2.0	0.0	0.0	0.0	0.0

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

Table 4e. Nigeria: Extrabudgetary Funds (including ECA/SWF), 2011–16

(Percent of GDP)

	2011	2012	2013	2014	2015	2016
	Actual		Projections			
Revenue	11.7	9.0	3.8	4.3	4.6	3.6
Extrabudgetary funds[1]	1.7	1.7	1.4	1.3	1.4	1.3
Contributions to the ECA/SWF	7.4	5.6	2.4	2.9	3.2	2.2
Implicit fuel subsidy	2.6	1.7	0.0	0.0	0.0	0.0
Expenditure	6.4	4.4	3.4	3.2	3.1	2.9
Extrabudgetary funds[1]	1.7	1.7	1.4	1.3	1.4	1.3
Spending from the ECA/SWF	2.1	1.0	1.9	1.8	1.7	1.5
Explicit fuel subsidy and social spending	2.1	0.6	1.6	1.5	1.3	1.2
Implicit fuel subsidy	2.6	1.7	0.0	0.0	0.0	0.0
Overall balance	5.3	4.6	0.4	1.1	1.6	0.7
Domestic financing	...	-4.6	-0.4	-1.1	-1.6	-0.7
Bank financing	...	-2.1	-3.2	0.0	0.0	0.0
ECA/SWF financing	...	-2.1	-3.2	0.0	0.0	0.0
Memorandum items :						
Net change in ECA/SWF ("-" accumulation)	...	-2.6	2.7	-1.1	-1.6	-0.7

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

[1] Includes federal government extrabudgetary funds (ecology, stabilization, development of natural resources, FCT), collection costs for FIRS and NCS, custom levies, and education tax.

Table 5a. Nigeria: Central Bank of Nigeria (CBN) Analytical Balance Sheet, 2011–16

(Billions of Nigerian naira)

	2011	2012				2013				2014	2015	2016
	Dec.	Mar.	Jun.	Sep.	Dec.	Mar.	Jun.	Sep.	Dec.	December		
	Act.	Act.				Act.			Est.	Projections		
Net foreign assets[1]	5,824	5,756	6,028	6,389	7,394	7,992	7,414	7,178	6,899	7,102	7,225	7,535
Net domestic assets	-3,040	-3,228	-3,516	-3,271	-3,689	-4,081	-4,178	-2,528	-1,340	-1,416	-1,068	-486
Net domestic credit	1,242	1,778	818	1,414	1,136	1,969	1,760	2,476	3,671	3,910	4,431	5,189
Net claims on consolidated government	-3,514	-3,203	-3,970	-3,599	-3,578	-3,380	-3,379	-2,998	-2,109	-2,198	-2,026	-1,651
Net claims on federal government [2]	-3,514	-3,203	-3,970	-3,599	-3,574	-3,376	-3,375	-2,991	-2,102	-2,190	-2,018	-1,643
Claims	681	696	744	904	733	414	447	526	747	1,024	1,875	2,529
Deposits	-4,195	-3,899	-4,714	-4,502	-4,308	-3,790	-3,822	-3,517	-2,849	-3,214	-3,893	-4,173
Of which : ECA/SWF	-730	-863	-946	-1,367	-1,708	-1,250	-1,087	-799	...	-1,099	-1,928	-2,308
FGN	-335	-396	-434	-627	-783	-573	-498	-366	...	-504	-884	-1,058
SLGs [2]	-395	-467	-512	-740	-925	-677	-588	-433	...	-595	-1,044	-1,250
Net claims on state and local governments[2]	0	0	0	0	-4	-4	-4	-7	-7	-7	-7	-7
Claims on deposit money banks	793	978	750	956	1,053	1,208	915	977	1,259	1,443	1,653	1,892
Other net claims	3,964	4,003	4,038	4,056	3,662	4,140	4,224	4,497	4,521	4,664	4,804	4,948
Other items net	-4,282	-5,007	-4,334	-4,685	-4,825	-6,049	-5,938	-5,004	-5,011	-5,326	-5,499	-5,676
Reserve money	2,784	2,528	2,512	3,117	3,704	3,911	3,236	4,650	5,559	5,686	6,158	7,049
Currency in circulation	1,566	1,433	1,364	1,349	1,632	1,509	1,426	1,474	1,777	2,775	3,021	4,347
Banks reserves with the CBN	1,218	1,095	1,149	1,768	2,073	2,403	1,811	3,176	3,782	2,911	3,137	2,702
Memorandum items :												
Reserve money y/y growth rate	50.8	48.2	21.7	63.4	33.1	54.7	28.8	49.2	50.1	2.3	8.3	14.5
Money multiplier	4.9	5.4	5.5	4.6	4.3	4.0	4.9	3.1	2.7	3.0	3.2	3.2

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

[1] Long-term liabilities are included in other items net.

[2] 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 5b. Nigeria: Monetary Survey, 2011–16

(Billions of Nigerian naira)

	2011	2012				2013				2014	2015	2016
	Dec.	Mar.	Jun.	Sep.	Dec.	Mar.	Jun.	Sep.	Dec.	December		
	Act.	Act.				Act.			Est.	Projections		
Net foreign assets	7,139	7,307	7,525	8,267	9,042	9,684	9,014	8,921	8,511	8,842	9,080	9,504
Central Bank of Nigeria (net)	5,824	5,756	6,028	6,389	7,394	7,992	7,414	7,178	6,899	7,102	7,225	7,535
Commercial and merchant banks (net)	1,315	1,551	1,497	1,879	1,648	1,692	1,600	1,743	1,612	1,740	1,855	1,968
Net domestic assets	6,165	5,962	5,955	5,793	6,439	5,978	6,571	5,419	6,169	8,074	10,465	12,857
Net domestic credit	13,687	13,674	13,308	13,365	12,692	12,709	13,211	13,001	14,017	16,125	18,725	21,330
Net claims on consolidated government	16	92	-799	-970	-1,792	-1,875	-1,781	-2,536	-1,667	-1,185	-734	-334
Net claims on FGN [1]	-497	-446	-1,385	-1,569	-2,454	-2,533	-2,437	-3,233	-2,437	-1,954	-1,503	-1,103
Of which: ECA/SWF	-730	-863	-946	-1,367	-1,708	-1,250	-1,087	-799	...	-1,099	-1,928	-2,308
Claims on SLG	513	538	586	599	662	658	656	697	769	769	769	769
Claims on private sector	9,131	9,012	9,492	9,706	9,804	9,858	10,318	10,746	10,772	12,398	14,547	16,752
Other Claims	4,539	4,570	4,616	4,630	4,679	4,725	4,674	4,791	4,912	4,912	4,912	4,912
Other items	-7,522	-7,712	-7,353	-7,572	-6,253	-6,731	-6,640	-7,582	-7,847	-8,051	-8,259	-8,473
Broad money	13,303	13,269	13,481	14,061	15,480	15,662	15,584	14,340	14,680	16,774	19,397	22,205
Currency outside banks	1,245	1,141	1,088	1,070	1,302	1,243	1,129	1,169	1,448	1,655	1,913	2,190
Demand deposits	5,526	5,379	5,509	5,318	6,117	5,691	5,806	5,116	5,558	6,348	7,340	8,428
Time and savings deposits	6,532	6,748	6,883	7,672	8,062	8,728	8,649	8,054	7,675	8,771	10,143	11,587
Memorandum items :												
Broad money (y-o-y,%)	15.4	13.9	10.7	11.4	16.4	18.0	15.6	2.0	-5.2	14.3	15.6	14.5
Credit to the private sector (y-o-y,%)	3.0	3.9	7.5	-1.6	7.4	8.9	3.7	9.2	11.3	15.1	17.3	15.2
Velocity (non-oil GDP/broad money)	1.99	1.72	1.76	1.75	1.65	1.69	1.77	1.99	2.02	2.03	2.01	2.01
Gross international reserves (billions of US dollar)	32.9	35.6	36.7	41.2	44.2	48.6	48.0	45.5	43.6	44.5	44.3	45.1

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 6. Nigeria: Financial Soundness Indicators: 2011–13

	Jun-11	Dec-11	Jun-12	Dec-12	Jun-13
Growth Rates (y-o-y)					
Total assets	0.7	11.9	9.8	9.8	12.8
Total loans	-21.0	-4.1	11.4	16.0	11.8
Deposits	11.0	17.0	10.6	14.7	18.6
Capital-based					
Regulatory capital/RWA	4.3	17.9	17.7	18.3	18.9
Regulatory Tier 1 Capital/RWA	4.5	18.1	17.8	18.0	18.5
Capital to assets	3.0	10.6	11.3	10.8	11.3
NPLs net of provisions to capital	74.3	10.1	6.8	6.1	7.3
Return on Equity	15.1	11.5	9.0	6.1	6.4
Net open position in forex/capital	77.7	26.2	23.8	44.9	53.2
Asset-based					
Liquid assets/Total assets	17.5	25.6	22.7	24.8	21.0
Liquid assets/ST Liabilities	19.4	30.1	26.5	28.4	24.3
Return on Assets	0.5	1.2	1.0	0.7	0.7
NPLs/Total Loans	10.8	5.3	4.3	3.5	3.7
Sectoral distribution of loans/Total Loans	...	...	...	...	...
Foreign-currency-denominated loans to total gross loans	21.5	22.1	22.0	23.1	22.5
Foreign-currency-denominated liabilities to total liabilities	1.4	2.5	2.3	2.0	2.0
Income- and expense-based					
Interest margin to gross income	49.4	31.0	67.7	62.0	65.2
Trading forex gains/losses to gross income	1.7	2.9	2.1	2.2	3.3
Noninterest expenses to gross income	70.6	24.4	59.2	64.8	62.7
Personnel expenses to noninterest expenses	41.1	67.8	39.3	42.5	39.5

Source: Statistics Department, Central Bank of Nigeria; and IMF staff estimates.

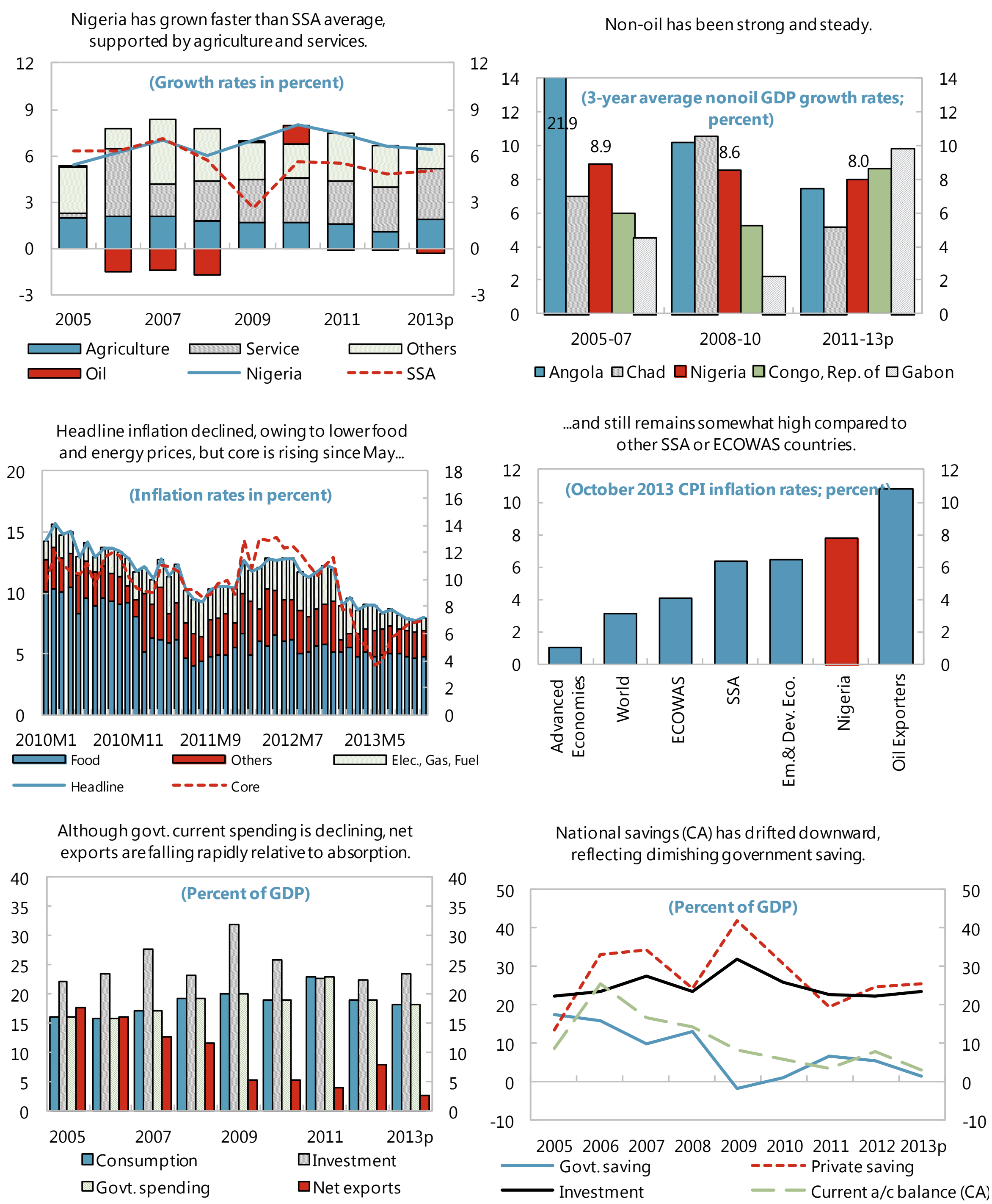
Note: The indicators are calculated based on available financial aggregates as reported by the commercial banks.

Table 7. Nigeria: Risk Assessment Matrix (RAM)[1]

Source of Threat	Likelihood	Impact	Recommended Policy Response
Oil price shock	MEDIUM • Protracted period of slower growth in advanced and emerging economies could lead to a fall in oil prices.	MEDIUM • Given Nigeria's heavy reliance on oil exports and revenue, oil price volatility directly affects the whole economy: drawdown on the Excess Crude Account (ECA) would in particular be severe (Figure 6).	• Rebuild the ECA balance by implementing regular effective reconciliation processes, while containing recurrent expenditure and prioritizing spending in favor of high-return infrastructure projects. • Boost non-oil revenues.
Continued Oil theft and production losses	LOW to MEDIUM • Prolonged oil theft and production losses will translate into a weakening of the economy.	MEDIUM • Scenario analysis (Figure 8) shows that if the level of oil production losses were to continue, the current account balance and gross international reserves will deteriorate rapidly.	• Improve oil sector oversight by strengthening the regulatory framework (e.g., passing a sound Petroleum Industry Bill) and security arrangements and engaging in a multicountry partner strategy. • Boost non-oil exports by diversifying the economy and improving competitiveness and productivity.
Weaker fiscal policy stance	MEDIUM • Fiscal stance has weakened ahead of previous elections.	MEDIUM • A looser fiscal policy, with little increase in pro-growth spending and delays in much needed structural reforms would adversely affect growth. • It can also lead to inflation and crowding out of the private sector.	• Continue enhancing fiscal control (e.g., formula-based budget oil price; full transition to Sovereign Wealth Fund; Fiscal Responsibility Laws for state governments). • Better manage the banking sector liquidity as well as public finance management by expanding the coverage of Treasury Single Account (TSA).
Substantial deterioration of security in the North of Nigeria	LOW • The campaign of violence being waged by Boko Haram has adversely affected agriculture and commerce in the North.	MEDIUM • If the conflict intensifies, the adverse impact on economic activity would be marked. • Non-oil growth and investor confidence could also be adversely affected.	• Ensure service delivery in key areas (e.g., education and health). • Strengthen social safety net by continuing with early successes of the Subsidy Reinvestment and Empowerment Program (SURE-P). • Continue with reforms in the agriculture sector.
Protracted economic and financial volatility	HIGH • Prospective exit from UMP continues to result in economic and financial volatility.	MEDIUM • Given the relatively open capital account of Nigeria, this could adversely affect macroeconomic and financial stability.	• Enhance prudential supervision. • If persistent pressures emerge in the foreign exchange market, the exchange rate should be allowed to adjust.

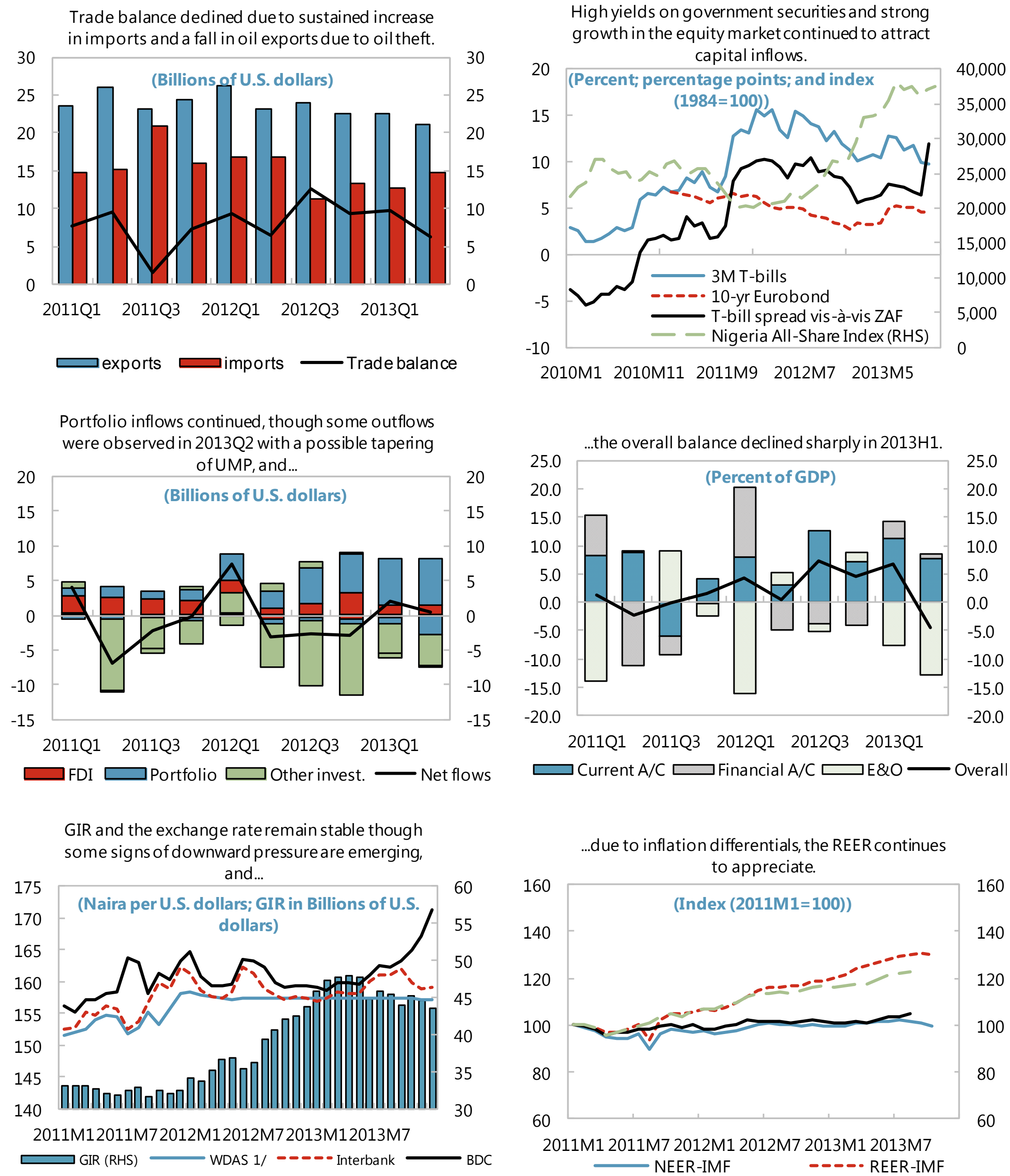
[1] The RAM shows events that could materially alter the baseline path and reflects staff views on the source of risks and overall level of concern as of the time of discussions with the authorities. Non mutually exclusive risks may interact and materialize jointly.

Figure 1. Nigeria: Real Sector Development, 2005–13



Sources: Nigerian authorities; and IMF staff estimates.

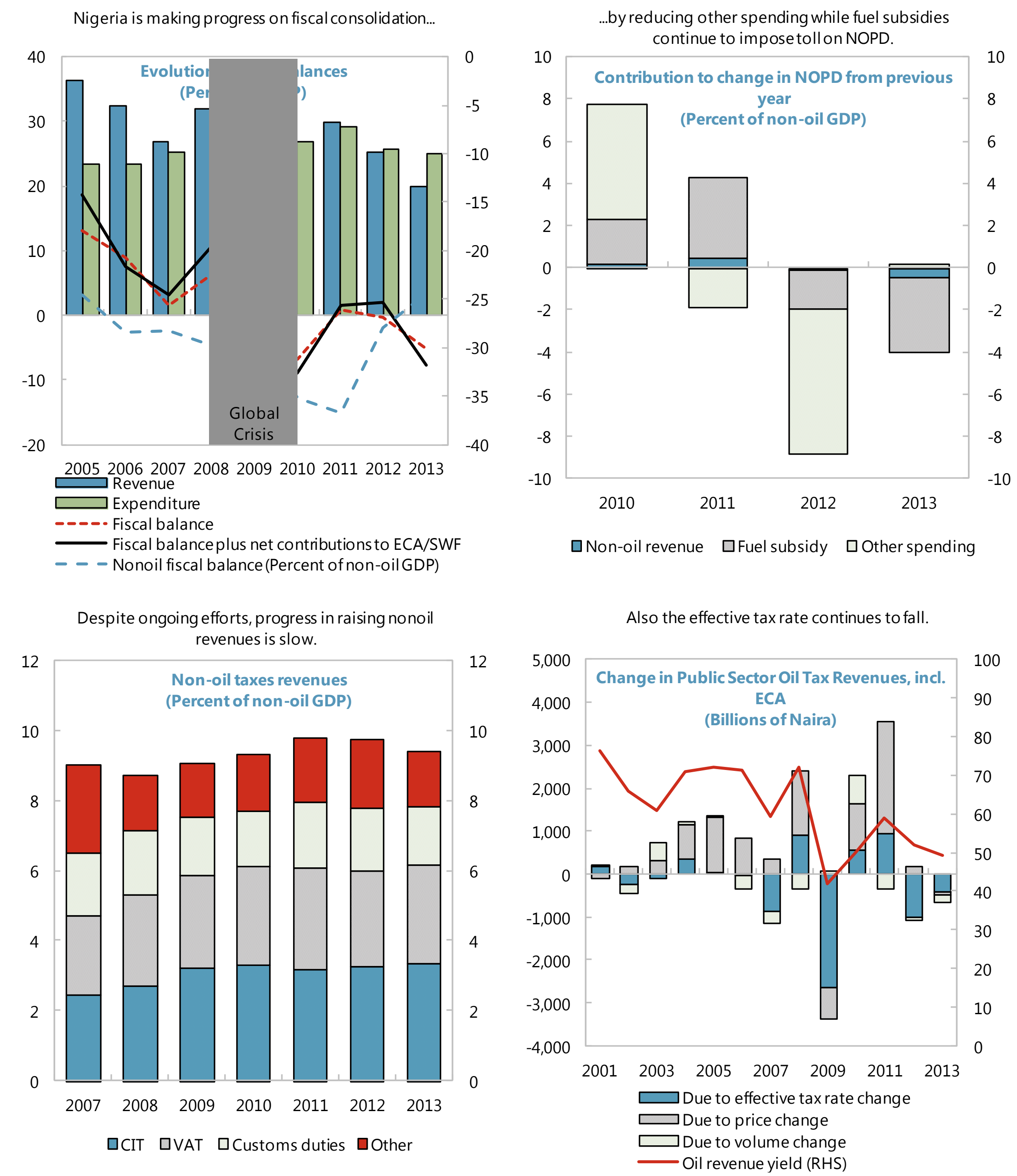
Figure 2. Nigeria: External and Exchange Rate Developments, 2010–13



1/ WDAS replaced by RDAS since 2013M10.

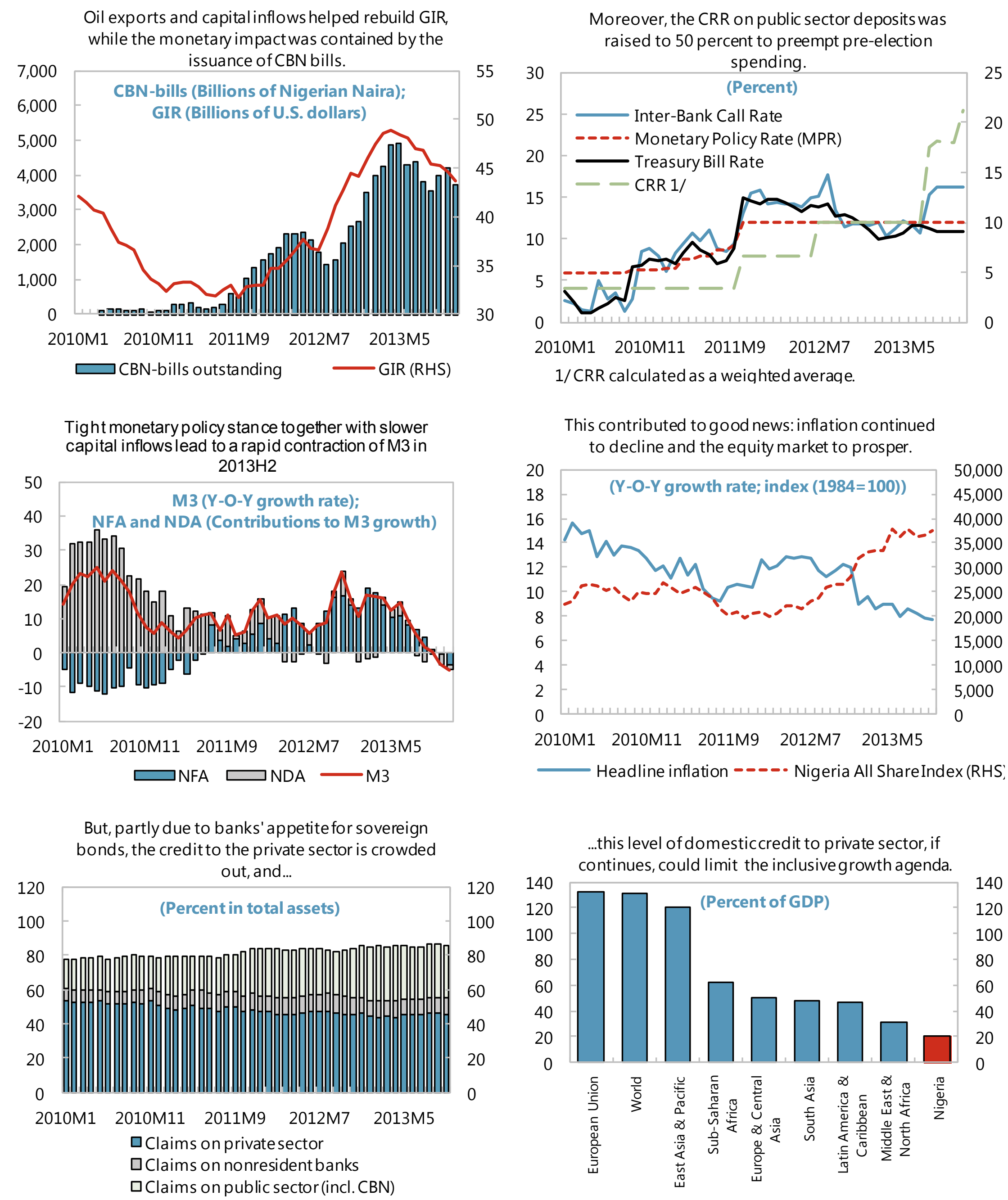
Sources: Central Bank of Nigeria; Bloomberg; and IMF staff estimates.

Figure 3. Nigeria: Fiscal Developments, 2001–13



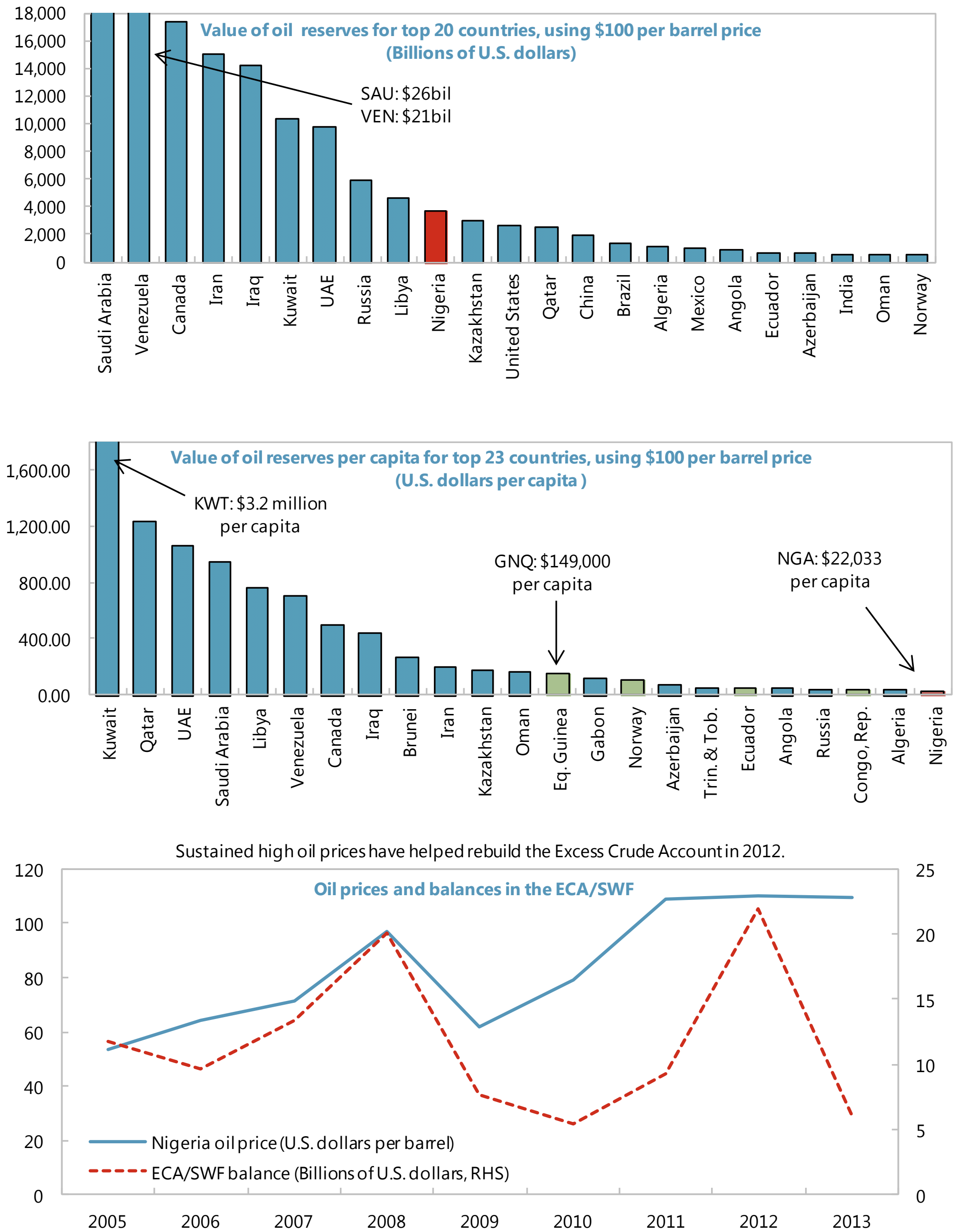
Sources: Nigerian authorities; and IMF staff estimates.

Figure 4. Nigeria: Monetary and Financial Developments, 2010–13



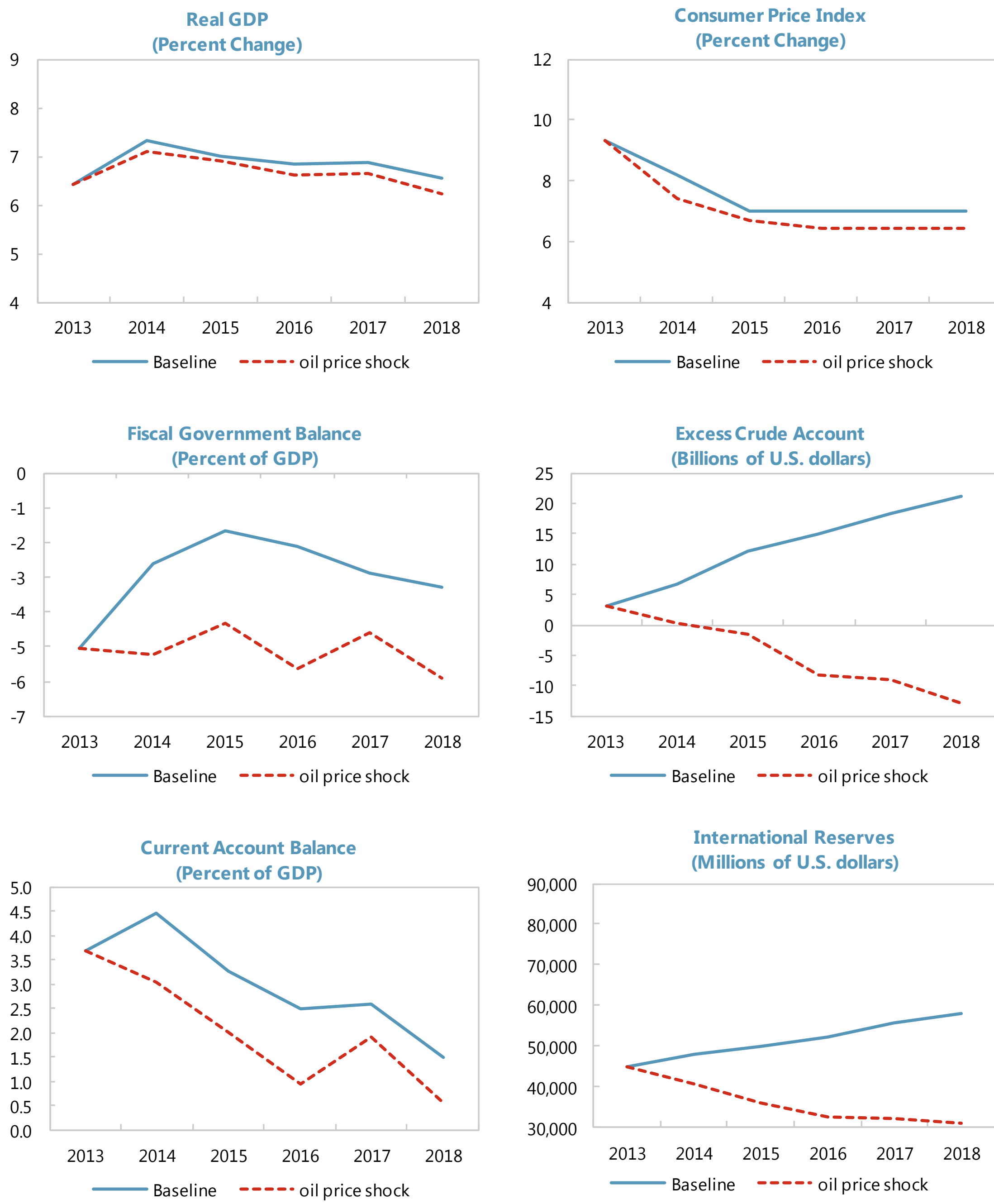
Sources: Nigerian authorities; World Development Indicators; and IMF staff estimates.

Figure 5. Nigeria: Key Indicators of the Oil Sector, 2005–12



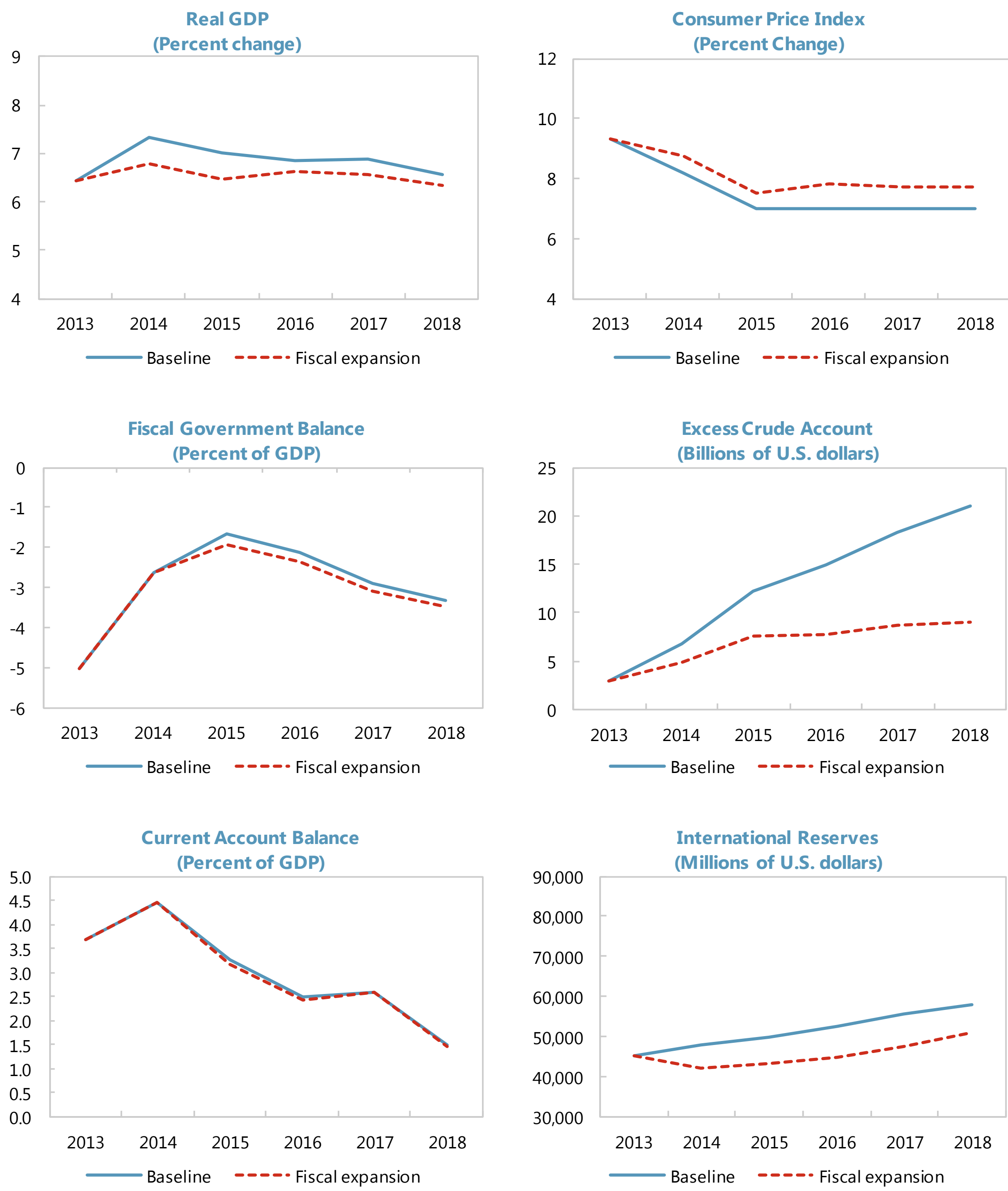
Sources: Nigerian authorities; EIA; and IMF staff estimates.

Figure 6. Nigeria: Oil Price Shock, 2013–18



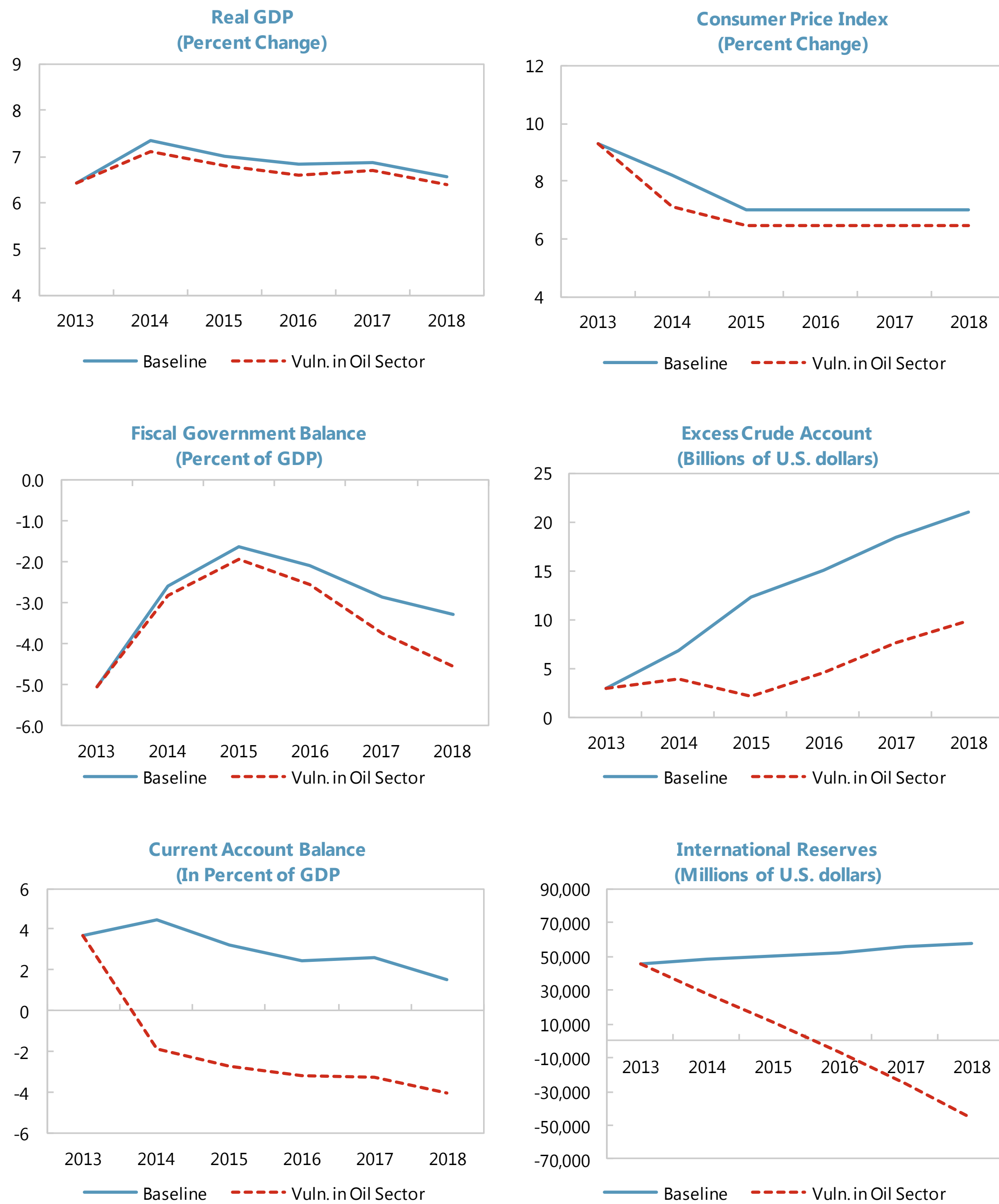
Source: IMF Staff estimates.
Oil price shock: Oil prices are assumed to lower than the WEO projections by about 20 percent in the medium term.

Figure 7. Nigeria: Fiscal Expansion, 2013–18



Source: IMF Staff estimates.
The budget oil price is set at $82 per barrel in 2013-18 (compared to $79) and ad hoc withdrawals from the ECA are assumed to continue as in the recent past, financing spending that is not growth enhancing.

Figure 8. Nigeria: Vulnerabilities in the Oil Sector, 2013–18



Sources: 2012 AFR Fall REO, and IMF Staff estimates.
Oil production loss is assumed to be 20 percent below the baseline during 2014-2018.

Box 1. Nigeria: Authorities' Response to Past IMF Policy Recommendations

The authorities have been pursuing policies consistent with staff recommendations. Notable progress has been achieved in fiscal consolidation and public financial management (PFM); financial sector supervision and regulation; and the privatization of power generation and distribution and agriculture reform.

Fiscal policy—*strong progress observed, but more is needed.*

The authorities are staying the course in fiscal consolidation and expect to rebuild fiscal buffers and to promote fiscal stability in the medium term. Improved administration of the petroleum subsidy has been a key contributor to the strengthening of the fiscal position. Subsidy administration has also become more transparent, making it easier for oil marketers to follow the subsidy payment process. The SURE Program has helped to scale up investment in priority sectors. However, further improved project management and evaluation, and availability of information to the public would help obtain needed consensus on the reform subsidy agenda. .

IMF-World Bank-supported reforms in PFM are advancing. The number of public sector entities covered by the Treasury Single Account (TSA) has doubled from [95] in 2012. Modules developed in the context of the Government Integrated Financial Management Information System GIFMIS have contributed to improving the formulation of the 2014 budget. At the same time, initiatives to mobilize non-oil tax revenues (e.g., use of outside consultants) and improve tax administration will contribute to reducing fiscal risks.

Monetary and financial policy— *supervision and regulation have improved.*

Following the 2009 financial crisis, the authorities and staff have broadly agreed on the appropriate monetary policy stance. Monetary policy has been kept tight given the risks of potential reversal of capital inflows and possible fiscal slippage. This contributed to bringing and maintaining inflation to single digit levels for the last 11 months. Progress is being made in all key areas of the Financial Sector Assessment Program (FSAP) recommendations, in particular in enhancing consolidated and cross-border bank supervision, building capacity for effective implementation of the International Financial Reporting Standard (IFRS), and adopting a macroprudential framework. To minimize potential fiscal and moral hazard risks, the 2012 FSAP also recommended setting a formal sunset provision on AMCON operations by 2017. This recommendation has not been adopted, but efforts have been made to phase out AMCON's activities.

With respect to the anti-money-laundering and combating the financing of terrorism (AML/CFT) framework, both the action plan agreed with the Financial Action Task Force (FATF) and the removal of Nigeria from the FATF's International Cooperation Review Group (ICRG) list on October 18, 2013, are positive developments.

Structural reform— *reforms in the power and the agriculture sectors are advancing.*

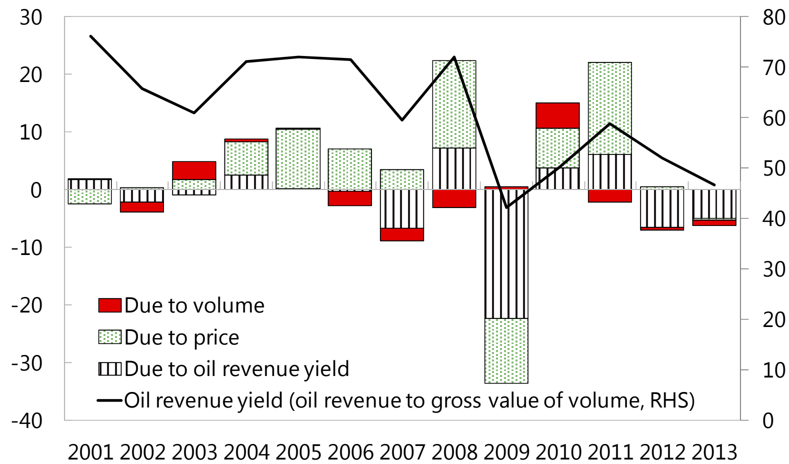
The transfer of Power Holding Company of Nigeria (PHCN) assets in November to distribution and generation companies (DisCos and GenCos) was a significant milestone in the privatization of the power sector. To reap the full benefit of expanded generation capacity, however, it is important to ensure adequate and timely investment in the transmission subsector [as well as produce and transmit electricity at relatively low cost]. Agriculture production has increased significantly. Reforms are helping to enhance the system for distribution of seeds and fertilizers, effecting a biometric system of registration for farmers, and promoting export and attracting investment. But more needs to be done, including addressing the low access to credit and other financial services by small and medium-sized enterprises (SMEs) and passing a sound anti-money-laundering and combating the financing of terrorism (PIB).

Box 2. Nigeria: Strengthening the Monitoring and Reconciliation of Oil Revenue Flows

The recent decline in oil revenue underscores the need to strengthen the oversight of oil revenue flows. The evolution of oil prices and volume does not fully explain the drop in oil revenue. In 2013 oil prices were 12 percent higher and production 10 percent higher than in 2008, yet oil revenue was 20 percent lower. The oil revenue yield—the ratio of revenue received by the Federation Account to the gross value of oil production—reached 0.47 in 2013, substantially below the 2000–2009 average of 0.70 (text figure). The lack of an effective oil-revenue monitoring system has made it more difficult for the authorities to identify the factors behind this decline and take appropriate corrective actions.[1] The potential fiscal gains from increasing the oil revenue yield are large: returning the yield to pre-crisis levels could generate up to US$20 billion a year, under the current production levels and prices.

Changes in Oil Revenue

(Billion U.S. dollars)



Source: Nigerian authorities; and IMF staff estimates.

Recent efforts to strengthen oil revenue monitoring are promising, but more needs to be done. The Federation Accounts Allocation Committee (FAAC) conducts monthly meetings to ensure the prompt and accurate distribution of the Federation Account resources to different levels of government.[2] Oil revenue monitoring largely is done through pre-FAAC and post-mortem FAAC exercises, under which the different agencies that manage oil revenue (including OAGF, NNPC, FIRS, DPR, and the CBN) submit data, reconcile data, and examine revenue performance relative to the budget. However, the different agencies do not use an integrated system of accounting, making it a challenge to settle claims across agencies—the FAAC subcommittees rely on the information provided by the different entities.[3] Furthermore, the 2012 NEITI review and reconciliation exercise highlighted the lack of

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[1] Lower yields can be associated with aging of the fields, higher per barrel costs related to security concerns, or quasi-fiscal expenditure items, each of which would require a different policy response.

[2] http://www.placng.org/lawsofnigeria/node/19.

[3] For example, OAGF and NNPC have not settled debts to each other related to domestic oil revenue management.

Box 2. Strengthening the Monitoring and Reconciliation of Oil Revenue Flows (concluded)

clarity on the remittance of dividends from Nigeria Liquefied Natural Gas (NLNG), third-party arrangements that could mask contingent liabilities, implications for fuel subsidies from use of domestic crude allocation, and several accounting discrepancies, including realized oil revenue payments that did not match CBN statements.

Further measures to enhance the oversight of oil revenue flows could focus on a few critical areas:

"Domestic" oil. The domestic sales of refined products and subsidy payments do not appear to have a clean accounting framework, which often generates disputes between NNPC, OAGF, and PPPRA.

Cash calls and alternative funding arrangements. Traditional Joint Venture (JV) arrangements require cash calls for funding projects. However, NEITI noted that this budget money for the purpose seems to be used to finance non-cash call items. The process of alternative funding could also be improved.

Capital and operational expenditure. Capacity should be developed to improve procedures for budgeting, justifying, and auditing these costs.

Interagency liabilities. NEITI estimated a "debt" from NNPC to the Federation Account of about US$8.5 billion (including cost of crude-subsidy deductions and transfers for cash calls) at end-2011. Most recently, disputes have continued on the size of the outstanding liabilities related to oil subsidies between the Federation Account and NNPC.

Accounting systems. The accounting system should be able to register crude oil sales and collections in real time to ensure speedy sweep of funds. In addition, it is crucial to integrate procurement, accounting, and inventory systems (including product receipt, discharge, and physical balance) across all agencies. Further, the recording of transactions should facilitate easy reconciliation and analysis, increasing transparency, accountability, and decision making.

The recent experience in Angola offers a template for a streamlined monitoring and reconciliation process. In Angola, a presidential decree[4] established a system of accountability and statistical information of the oil business, for better planning and implementation of economic and financial policy. The decree established a working group comprising the main agencies dealing with oil revenue flows (including the ministries of Finance, Petroleum, and Planning, the central bank, the national oil company, and private oil companies) to verify, reconcile, and evaluate oil revenue flows. Specifically, these agencies are required to provide information on production volume, average price of exports, committed gross oil revenue to cover liabilities, gross oil revenue used to finance infrastructure, and quasi-fiscal operations, with strict deadlines (typically 21 days after the end of the reporting month). The working group reports monthly to the president, including on gaps between sales and declared revenue, as well as the distribution of revenue to mandated accounts.

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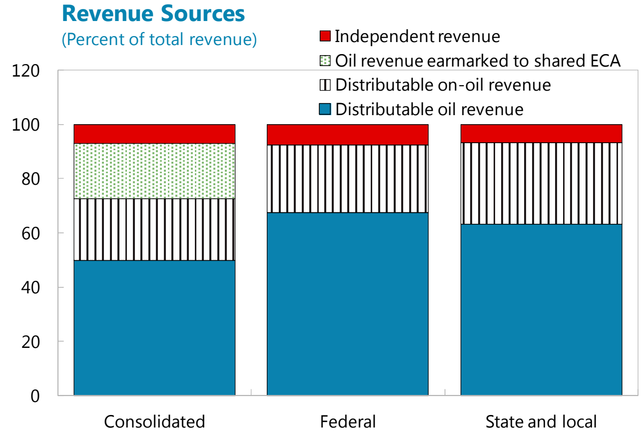
[4] http://faolex.fao.org/docs/pdf/ang121647.pdf

Box 3. The Challenge of Fiscal Federalism in Nigeria

Nigeria has a federal system of government with substantial revenue sharing between layers of government. The administrative structure comprises 36 states, a federal capital territory, and 774 local authorities. The constitution allocates responsibilities for the delivery of public services across the different levels of government, supported by revenue-sharing agreements[1] 75 percent of total consolidated government revenue is distributable among the federal (FG), state, and local governments (SLG), and extra budgetary funds (EBF); 17 percent is oil revenue earmarked to the Excess Crude Account; and only 8 percent is non-distributable revenue, corresponding to the limited independent revenue raised by the different levels of government (text figure).

Revenue Sources
(Percent of total revenue)



Sources: Nigerian authorities; and IMF staff estimate.

More than half the distributable revenue goes to state and local governments. The revenue-sharing formulas are set by an act of the National Assembly and can be updated every five years by the National Assembly, based on recommendations from the Revenue Mobilization Allocation and Fiscal Commission. Current formulas assign about 38 percent of distributable revenue to the FG, 56 percent to SLG, and 6 percent to EBFs.[2] For oil revenue, the formulas put an important weight to the principle of derivation—the constitution mandates that no less than 13 percent of the oil revenue to be allocated to the states endowed with natural resources.[3] In addition, to determine the distribution across states, the formulas consider horizontal principles (40 percent of the revenue state allocation is distributed equally across states) and equity considerations (60 percent of allocation is distributed depending on population, land mass, internal revenue generation, school enrollment, hospital beds, and rainfall).

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[1]The constitution sets an exclusive list for the federal government (including national interest, defense, international affairs, elections, roads and railways), a joint list for the federal government and the states (including electricity, industry, commerce and agriculture, research, statistics, higher education, health, and social welfare), a joint list for the state and local governments (including primary, adult, and vocational education; health care; agricultural; and non-mineral natural resources), and an exclusive list for local governments (streets, public facilities, sewage).

[2]The revenue sharing formula for revenues accruing to the Federation Account is as follows: Federal Government (48.5 percent), State Governments (26.72 percent), Local Governments (20.6 percent), and Special funds (4.18 percent). The formula for revenues in the VAT pool account is as follows: Federal Government (14 percent), Federal Capital Territory (1 percent), State Governments (50 percent), and Local Governments (35 percent).

[3]This has been a contentious issue over the years. Initially the law was interpreted as including both onshore and offshore revenue as the base for derivation. However, in 2002 the Supreme Court determined that offshore revenue was not to be included in the derivation revenues. This was reversed by the National Assembly in 2004 that passed an act deeming the offshore areas as part of the states "for purposes of accruing to the federation account" (http://bit.ly/1bRwa6o).

Box 3. The Challenge of Fiscal Federalism in Nigeria (concluded)

A political agreement underpins the current framework to manage oil revenue volatility in this complex federal fiscal system. Only 7 percent of SLG revenue is derived from independent sources—63 percent depends on shared oil revenue and 30 percent on shared non-oil revenue—raising important questions on the macrostability of the revenue sharing arrangements. To limit the exposure of SLG budgets to oil revenue volatility, a political agreement was reached in 2004 to limit distributable oil revenue by a budget oil price and volume of production. Under this agreement, realized oil revenue above the budget amount is transferred to the ECA (about 17 percent of total consolidated revenue has been transferred over the past three years). The ownership shares in the ECA are the same as the revenue-sharing formulas for distributable revenue.

The current federal fiscal arrangements pose several challenges for macrofiscal management.

The fiscal federalism framework does not seem robust enough to ensure fiscal discipline of SLG, commensurate with the large transfer of resources. The ECA framework depends on a political agreement, which is not rooted in legislation. This results in recurrent disputes surrounding ad hoc withdrawals from the ECA, which help to augment the spending envelope of the SLG as well as reduce incentives to control expenditure or raise independent revenue. In addition, although there are limitations on the issuance of debt by SLGs, borrowing from banks and nonbank sources is possible.

Blurry federalism lines are partly responsible for the reluctance of many states to support further transition to the SWF. Several states have challenged the legality of the SWF framework, on grounds that states and local governments should decide on whether to invest or spend their share of oil revenue autonomously. These questions have stalled funding of the SWF beyond the initial US$1 billion seed funding.

Guaranteed transfers to SLG highlight the need to ensure the quality of expenditure and governance. Revenue sharing formulas do not take into account expenditure capacity considerations. For example, an increase in VAT rates would result in higher revenue for all of the states, potentially leading to inefficient expenditure, particularly in the absence of strong governance structures.

Fiscal shocks can be augmented by poor policy coordination. For example, a large shock to oil revenue would result in lower distributable revenue, which would eventually lead to adjustments across the different tiers of government. Without effective coordinating mechanisms, these adjustments might lead to duplication or lack of provision of certain services or types of expenditure (capital investment) with adverse macro impacts.

Disparities across regions can be difficult to address by current federal fiscal arrangements. The revenue sharing formulas are not based on a definition of a minimum set of public services per capita, regardless of state of residence. This limits the ability to address the large disparities across states (for example, most of the North Eastern states have substantially higher than average absolute poverty rates).

Data weaknesses prevent a reliable assessment of the fiscal positions of SLGs, posing challenges for macro-policy formulation. The CBN conducts fiscal surveys, but further efforts are needed to ensure consistency of the data to allow for consolidation across the different levels of governments.

Box 4. Follow-up on the 2012 FSAP Recommendations

The 2012 FSAP Update made recommendations in four key areas: (i) establish a more coherent framework for supervision with a strong resolution mechanism while strengthening capacity of supervisors and regulators; (ii) institute compulsory insurance requirements for the insurance sector with improved disclosure standards and resolution mechanisms and expeditiously nominate members of the Board of the Securities and Exchange Commission SEC); (iii) with the financial crisis ended, start unwinding crisis measures and continue to strengthen the crisis prevention and resolution framework; and (iv) improve access by small and medium-sized enterprises (SMEs) to the formal financial sector to meet their financing needs.

Significant progress has been made on strengthening the bank supervision and resolution framework. A roadmap for improving supervisory capacity has been developed and in April 2013 a *Framework for Consolidated Supervision of Financial Institutions in Nigeria* was established by the Financial Services Regulation Coordinating Committee (FSRCC). The authorities are strengthening macroprudential oversight and crisis preparedness with better functioning of the FSRCC. A diagnostic study of the entire financial system is underway, with support of outside consultants. The Central Bank of Nigeria (CBN) has also increased the use of cross-border supervisory collaboration arrangements, including the conduct of cross-border onsite inspections of Nigerian banks operating abroad jointly with host supervisors or on its own. In 2012, the CBN entered into four more memoranda of understanding (MOUs) (out of 15 MOUs executed in total) and initiated arrangements for five more in 2013. It is also in the process of establishing a College of Supervisors for one of its main banks, which should be completed soon. The Board for the SEC was announced on December 22, 2012.

In terms of the crisis resolution and prevention framework, a sunset provision for AMCON has not been formally established, but AMCON is being gradually phased out. AMCON has been directed not to engage in further acquisitions of nonperforming loans (NPLs) and strengthened its balance sheet by repaying at end-2013 maturing bonds held by banks. Further, the bonds held by the CBN that mature during 2014 will be refinanced for 10 additional years, while a bond repayment sinking fund will be established with annual contributions by banks and the CBN.

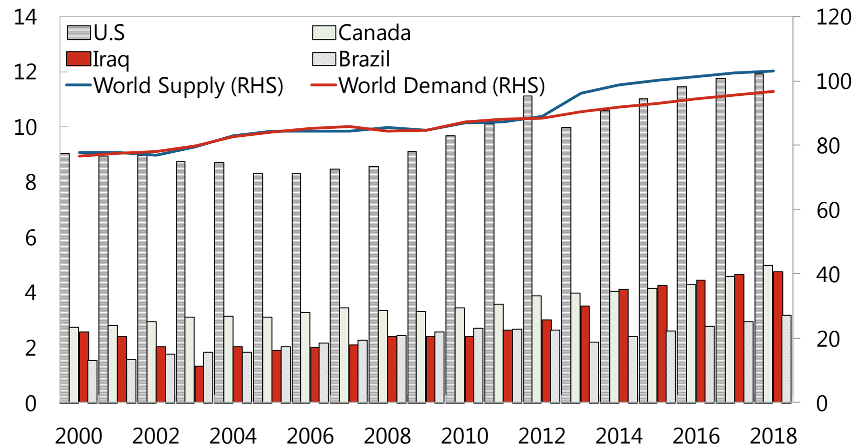
Other FSAP recommendations—such as in the nonbank financial sector—have longer implementation timelines and will be covered in future Article IV consultations.

Appendix I. Changing Trends in Oil Markets?

1. The United States is poised to be the world's largest oil producer. Since 2010, worldwide oil supply has grown at an unprecedented rate, outpacing consumption—the world total oil supply is projected to reach about 106 mbd by 2018, while demand would rise to 96 mbd. This shift in production is mainly supported by Iraq, the United States, Canada, and Brazil, with the United States the surprising factor in this changing picture (text figure). Sustained high oil prices helped unleash an unparalleled investment cycle since 2003 and improved significantly the return on investment for unconventional production technologies—these technologies are now broadly used to exploit the previously untouched U.S. shale and tight oil fields. As a consequence, North America's oil and gas output is forecast to grow by 3.9 mbd, accounting for about half of the increase in world oil output by 2018. Thus, oil production in the United States is set to overtake that in Saudi Arabia and Russia by the second half of this decade.

Oil Supply and Demand: Selected Countries

(Million barrels per day)



Sources: U.S. Energy Information Administration (EIA); and International Energy Agency (IEA).

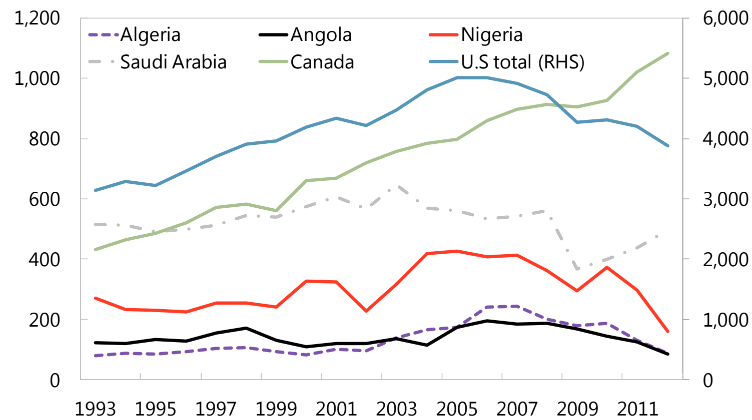
2. The shale/tight oil and gas boom is transforming the oil product market. In particular, it has caused an unexpected and unseen quality shift in the global crude mix toward more light and sweet crude, including large volumes of field condensate. Consequently, other sectors of the oil industry—mainly refining and trading—that had been predicated mostly on heavier and sourer grades have started to adjust to the new crude mix. This new mix is also affecting product markets: increased domestic consumption of U.S. oil production, in part owing to current U.S. law restricting most crude exports, has significantly reduced U.S. imports. At the same time, the surge in U.S. shale gas production and subsequent lower gas prices have encouraged increased gas consumption.

3. Lower U.S. import volumes, however, have mainly affected African countries. The staggering growth of the oil/gas output and the continued increase in energy efficiency helped to sharply reduce U.S. oil imports, which fell to 8.5 mbd in 2012, the lowest level since 1997. Lower U.S. imports, however, have mainly affected African oil-producing countries supplying light and sweet crude (which is of similar grade to and therefore competes with U.S. tight/shale

oil). Since July 2010, U.S. imports from Nigeria have decreased by about half (according to data from the U.S. Energy Information Administration), while Angolan imports are down by the same magnitude (to less than 200 kbd, compared with an average of 513 kbd in 2008). However, the United States still relies on heavy and sour oil crude producers—imports from Saudi Arabia, Canada, Iraq, Mexico, and Venezuela rose to 72 percent of U.S. net crude imports, the highest in 15 years (text figure).

U.S. Annual Oil Imports

(Millions of barrels)

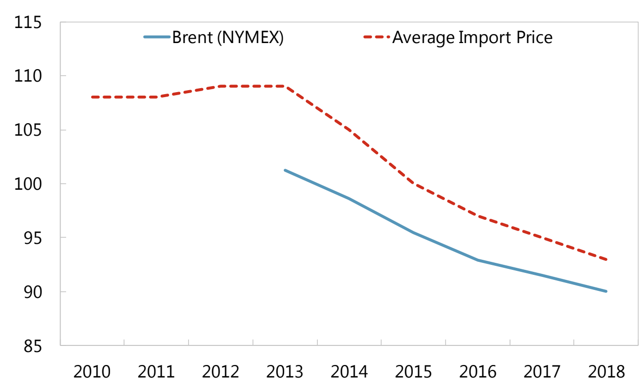


Source: U.S. Energy Information Administration (EIA).

4. Oil futures prices suggest that rising worldwide oil production could significantly affect oil prices. Oil prices are expected to remain volatile in 2013–2018, amid heightened supply, demand uncertainty (in part reflecting the three-speed world economy), and geopolitical factors. Abstracting from these geopolitical factors, shifting oil supply, changing demand, and trade patterns suggest potential downward pressure on global oil prices in coming years (text figure).

BRENT Futures and Average Import Prices

(Index)



Source: International Energy Agency (IEA).

5. Rising oil output presents opportunities, but also poses challenges. Incremental North American supply clearly played a critical role in offsetting record supply disruptions in 2012. Going forward, the increased supply would help offset declining oil reserve growth in other parts of the world. However, significant challenges exist to increasing shale/tight output. These revolve around: (i) the massive infrastructure and logistical needs required by the development of these oil fields; (ii) the uncertainties concerning the U.S. legislative framework, in particular the restrictions of crude exports to other parts of the world; (iii) the prospective environmental challenges to unconventional technologies; and (iv) the geopolitical factors, in particular decisions of OPEC countries that could affect the shale oil revolution process.

Appendix II. Gross Domestic Product (GDP) Rebasing and Implications

1. The National Bureau of Statistics, in collaboration with the International Monetary Fund, World Bank, and African Development Bank, is working on the rebasing of the national accounts estimates. Rebasing Nigeria GDP involves (i) replacing the existing price and quantity structure used to measure GDP with a more recent price structure; (ii) updating weights used in aggregating individual quantities; and (iii) incorporating methodological and conceptual improvements.

2. The improvements and changes being carried out in the rebasing exercise can be summarized as follows: (i) base year changed from 1990 to 2010; (ii) use of the 2008 Systems of National Accounts (2008 SNA) compilation methodology instead of the 1993 SNA, and an updated International Standard Industrial Classification of All Economic Activities (ISIC, Rev.4) to meet compilation requirements of a Supply and Use Table framework;, and (iii) revisions of data sources.

3. The above measures could lead to changes in the size of the GDP, growth rates, sectoral contributions, and related indicators that use the GDP. Since 1990, the economy has evolved: new sectors have emerged and telecommunications and other services have increased significantly their contribution to economic growth. Therefore, the current GDP series may have become biased in the interpretation of economic change and attendant ratios. At the same time, with increased available services (telecommunications, mobile phones, internet usage), consumption and production would have changed, affecting price structure.

4. The GDP rebasing project is important. Although the rebasing is expected to result in a higher nominal GDP, the authorities note, for instance, that their borrowing strategy is not likely to be affected, because it is based on the ratio of debt service to revenue, not the level of nominal GDP. They acknowledge, however, that the rebasing could confirm structural shifts among sectors (for example, the share of agriculture in the labor force could fall from 70 percent to 30 percent), as well as alter key policy ratios (for example tax effort and reserve cover), leading to a change in policy focus in those areas. At the same time, as a larger GDP would imply an upward revision of per-capita income, Nigeria could lose benefits afforded to low-income countries.

Appendix III. Oil Theft in Nigeria and Proposed Countermeasures

Oil Theft

1. Nigeria scores low in the 2013 Resource Governance Index. A 2010 report by Revenue Watch Institute and Transparency International rated the Nigeria state-run oil company the least transparent of 44 national and international energy companies surveyed. As a result of poor governance, the tracking of sales, associated revenue, and physical flows are a challenge in Nigeria. Organized criminals exploit disorder and social unrest to steal oil. Also, liberalization in the international markets, where parcels of oil change hands many times, could create conditions for larger oil theft.

2. Oil theft/production loss volume is difficult to estimate. Estimates range from 100-500 thousand barrels a day in the first quarter of 2013. This figure assumes the integrity of industry numbers and may not account for what could happen at export terminals. The loss in oil production of 200 thousand barrels a day, close to 10 percent of Nigeria's oil production and about 0.3 percent of world oil production, is equivalent (at 100 U.S. dollars a barrel) to a loss of above 7 billion U.S. dollars a year. In absolute terms, oil theft affects mostly the Shell Petroleum Development Company of Nigeria; in relative terms, Nigerian Agip is the hardest hit. Oil theft is significant in five other countries, with Russia at a similar scale to Nigeria.

Estimated Global Oil Theft by Country, 2011

Country	Thousand of barrels per day	Principal methods
Colombia	0.4	Theft from Ecopetrol pipelines
Indonesia	1	Theft from Pertamina pipelines in South Sumatra
Iraq	10	Smuggling from Kurdistan into Iran and (possibly) Turkey
Mexico	10	Theft of condensate from pipelines
Russia	150	Theft from Transneft pipelines, esp. in Dagestan
Nigeria (2012)	250	Theft from transfer pipeline
TOTAL	421.4	

Sources: Nigerian authorities; industry analyst and expert reports; and interviews.

3. Oil theft occurs mainly through three methods: (i) small-scale and illegal refining; (ii) large-scale illegal bunkering in the field (stealing directly from the wellhead); and (iii) filling tankers at export terminals. At the small-scale, local groups puncture or install illegal taps on pipelines on onshore oil infrastructure such as wellheads and manifolds. Most of this oil is sold illegally to local refineries. The large-scale illegal bunkering uses almost the same methods, but involves sophisticated networks, and the oil is transferred and sold mostly in international

4. markets. Theft at export terminals is considered "white collar" theft and involves pumping illegally obtained oil onto tankers already loading at export terminals.

5. The cost of oil theft/production loss is significant. The Nigerian government bears significant revenue losses—the government charges royalties on oil that reaches an export terminal, thus excluding crude illegally bunkered from pipelines, flows stations, or wellheads. In addition, international oil companies (IOCs) shut down production when pipeline infrastructure is sabotaged, resulting in significant deferred production and forgone revenue. At the same time, continued oil theft poses a downside risk to investment and growth as international oil companies recalibrate their long-term investment or shift focus to deepwater fields with more lucrative production-sharing terms.

6. Amounts of stolen oil vary with global oil prices and security concerns. The current price level of light sweet crude, above US$100/bbl, provides an incentive for oil theft. Oil theft has been a feature of the industry in Nigeria for many years, but the sharp increase since the early 2000s coincides not only with the restoration of civilian rule, but perhaps more significantly with a huge increase in oil prices. Available data show that stealing of oil onshore dipped when oil prices fell sharply in mid-2008, and increased in the face of security problems (Figure in staff report text).

7. While there are many factors contributing to oil theft (for example, poverty, unemployment, and lack of social services), most of the stolen oil is believed to be exported (a lower proportion is used to refine fuel for domestic consumption), involving well-funded and organized Nigerian and international criminal groups. Their activities are motivated by profit and, based on estimates of volume of crude oil stolen and oil price, the proceeds from these activities are considerable and are laundered in domestic and international markets. Against this background, national efforts to reduce crude oil production and revenue losses associated with oil theft could be supported by a comprehensive and sustainable national strategy focused on two broad fronts that can include, among other things (i) measures to combat the crime of oil theft in the Niger Delta through intelligence, law enforcement, social/employment initiatives; and (ii) measures to combat money laundering associated with oil theft.

Applying the Anti-Money-Laundering (AML) Framework to Combat Oil Theft Money Laundering (ML)

8. Nigeria has a relatively well-developed AML framework that can help deprive oil theft criminals and their facilitators from the proceeds of their crime. The main components of this framework and their potential contributions to this effort are described below.

Presidential Committee on Financial Action Task Force

9. The federal government established a Presidential Committee on Financial Action Task Force (FATF), which reports directly to the president, to coordinate efforts to remove Nigeria from the FATF list of countries that have significant weaknesses in their AML/CFT regime. Those efforts succeeded in the delisting of Nigeria in October 2013.[1]

10. Discussions during this mission with the financial and non-financial sector supervisors (Central Bank of Nigeria, Securities and Exchange Commission, National Insurance Commission, Special Control Unit Against Money Laundering) indicated that this committee will continue to frame and guide the national AML/CFT agenda and could play a lead and high level coordinating role in the formulation of a national AML strategy to combat oil theft-related ML. The Chairman of this committee is a director of the CBN and as noted above, reports directly to the president, fostering political support for AML/CFT efforts. The committee is composed of key AML/CFT stakeholders including representatives from each of the financial supervisory agencies, the NFIU, and the Economic and Financial Crimes Commission (EFCC). All of the agencies concur that this committee would be a logical forum to formulate and coordinate the implementation of a national AML strategy to combat ML associated with oil theft.

National Risk Assessment (NRA)

11. In preparation for its next mutual evaluation for compliance with the new FATF international AML/CFT standard, Nigeria has started to organize the conduct of a national money laundering and terrorism financing (TF) risk assessment. The Presidential Committee is

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[1] Immediately following the removal of Nigeria from the FATF's list of countries with significant weaknesses in its AML/CFT systems, the Chairman of the Committee publicly stated, "In the recent past, Nigeria has received technical assistance from the IMF to develop a risk-based approach to AML/CFT supervision. This has resulted in the development of similar procedures across all regulatory authorities as well as the financial intelligence unit, namely the Central Bank of Nigeria, the Securities and Exchange Commission, the National Insurance Commission, and the Nigerian Financial Intelligence Unit."

leading the organization and coordination of the NRA with assistance being provided by the World Bank. The aim of the NRA is to identify the principal threats and risks of ML and TF and would serve as a blueprint for establishing a national AML/CFT strategy, establishing priorities, and deploying resources efficiently. According to the authorities, the NRA process is at the scoping stage and they are not aware that the World Bank or the local participants have included oil theft as a significant source of proceeds of crime and ML. They concur, however, that inclusion of oil theft and related ML in the NRA is timely and critical in light of the present production and revenue losses being faced by the country, and the risks to the country posed by organized criminal organizations involved in these activities.

Nigerian Financial Intelligence Unit and other AML/CFT Stakeholders

12. The financial and non-financial sector supervisors agree that they and all of the sectors subject to their supervision can benefit from specific guidance, training, and typologies on oil theft and related ML. They support the idea of conducting a Strategic Analysis on oil theft and ML. This initiative would be spearheaded by the NFIU in collaboration with other stakeholders, including law enforcement. The result would be a Strategic Analysis report on oil theft and related ML, with recommendations on measures to combat these crimes. It is expected that a byproduct of the Strategic Analysis would be a typology report on methods and techniques used to launder illicit proceeds from oil theft. The typology report would be disseminated to all stakeholders and would be particularly useful for financial and non-financial entities subject to the AML/CFT regime, and their supervisors, in calibrating compliance with due diligence, monitoring, and reporting of suspicious activity. It would also serve as input for specialized training to these sectors and their supervisors on the subject.

Supervisors (CBN, SEC, NAICOM, SCUML)

13. The supervisory agencies indicated their willingness to participate in the formulation and implementation of a national strategy to combat oil theft-related ML, and to recalibrate their supervisory activities to take this risk into account in their risk-based approach and processes to AML/CFT supervision. Financial institutions and entities under their supervision can be required to pay special attention to this risk in their customer due diligence and risk management systems. Typologies developed by the NFIU in the context of their strategic analysis will support this effort. In addition, the CBN and SEC will spearhead discussions on this issue in their regular supervisory coordination forum meetings to ensure harmonization in practices.

Appendix IV. Estimates of the Sustainable Non-Oil Primary Deficit

1. The Permanent Income Hypothesis (PIH) is used to benchmark the sustainable path for the non-oil primary deficit (NOPD). Under the PIH, the smoothed value of government consumption is that which equates the present discounted value of future oil and gas revenue to the present discounted value of the government consumption.

2. The following assumptions are used to compute the sustainable NOPD:

- *Reserves*. For end-2012, proven reserves are set at 37.2 billion barrels for oil and 33.2 billion barrels of oil-equivalent for gas (BP Statistical Review of World Energy, 2013, available at: http://bit.ly/1bvFY3o).

- *Production path*. The path of production is estimated from a logistic equation, using a Hubbert model. It is assumed that oil production will peak in 2022 at about 1,000 million barrels and gas will peak in 2040 at about 800 million barrels of oil-equivalent, consistent with staff projections for 2013–2020.

- *Oil and gas prices*. Prices follow the IMF's World Economic Outlook (WEO) projections for 2013–2018 and are assumed to remain constant in real terms thereafter (US$86.6 a barrel in 2018 for oil and US$10.98 per million BTU in 2018 for gas: http://bit.ly/17hhGhK). An alternative scenario uses the baseline price from the U.S. Energy Information Administration's Annual Energy Outlook 2013 (AEO), which shows oil prices increasing by 70 percent in real terms in 2011–2040 and gas prices increasing by 97 percent in real terms in the same period (http://1.usa.gov/10dU1dk).

- *Government revenue yield*. Government oil revenue is set at 60 percent of the total value of production and 7 percent for gas (corresponding to the average for the past 5 years, excluding 2009).

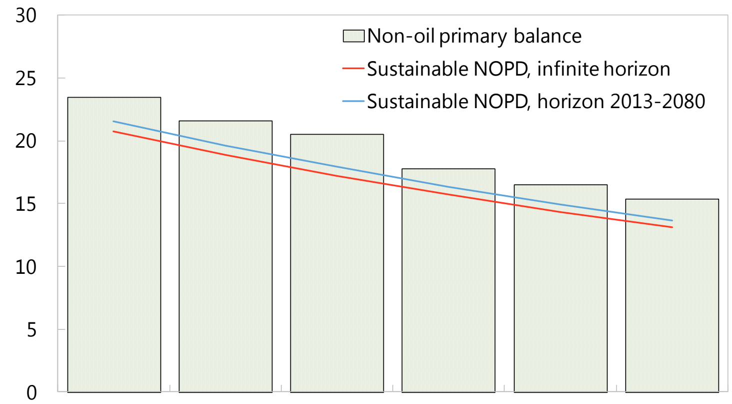
- *Discount rate*. The real discount rate is assumed to be 5 percent a year. An alternative scenario with a 3 percent discount rate is also provided to compare the results with previous Article IV calculations of the NOPD.

- *Time horizon*. Resources are assumed to be exhausted by 2080. Two scenarios are provided for the smoothing of oil and gas wealth—one over an infinite horizon and another for 2013–2080.

3. The sustainable NOPD estimated under the WEO assumptions is about 21.5 percent of non-oil GDP in 2013, below the 23 percent of 2013 non-oil GDP estimated in the 2013 Article IV. The sustainable NOPD declines over time—oil and gas wealth is smoothed in real terms while non-oil GDP is assumed to grow in real terms—to 16–17 percent of non-oil GDP by 2016

and 13–14 percent of non-oil GDP by 2018 (text figure). The planned fiscal consolidation will help bring the NOPD closer to the estimated sustainable levels—in the staff baseline, the NOPD is projected to fall from 23.5 percent of non-oil GDP in 2013 to 15.4 percent of non-oil GDP in 2018.

Sustainable NOPD with WEO Assumptions, 2013-18
(Percent of non-oil GDP)



Source: IMF staff estimates.

4. Under the alternative scenario using AEO assumptions (oil and gas prices increase much more markedly in real terms in the next three decades than the more conservative WEO assumptions), the sustainable path of the NOPD is higher—25.0, 22.1, and 18.5 percent of non-oil GDP in 2013, 2016, and 2018, respectively.

Sustainable Permanent Non-Oil Primary Deficit
(Percent of non-oil GDP)

	2010 Article IV					2013 Article IV						
		2010		2013			2013		2016		2016	
Discount rate		3%	5%	3%	5%		3%	5%	3%	5%	3%	5%
Oil reserves			36.2						37.2			
Gas reserves			33.3						33.2			
WEO baseline	$79.53/bbl	23.6	29.8	18.5	23.3	$78.6/bbl	17.0	20.7	12.9	15.7	10.8	13.1
AEO reference scenario	$122.81/bbl	29.0	35.0	22.6	27.6	$165.7/bbl	25.4	29.2	19.3	22.1	16.1	18.5

Source: IMF staff estimates.

5. Sustainability benchmarks should take into account the specific circumstances of the country. For example, the design of such a benchmark should capture preferred social welfare criteria. The PIH is based implicitly on a constant distribution criterion, under which the social objective is to maintain the purchasing power of the oil wealth distributed every year, with the government spending a constant amount in real terms. This implies a declining annuity, with the share of non-oil GDP falling as non-oil GDP grows. Second, the analysis treats all the government spending as consumption. This implies that the benchmark could be conservative, as it excludes the potentially higher non-oil GDP growth that could arise from spending oil wealth on infrastructure and human capital (and hence a higher sustainable non-oil primary deficit). Finally, there is substantial uncertainty over the oil and gas wealth estimates—owing to unknown factors such as innovations in technology, future oil and gas prices, extent of

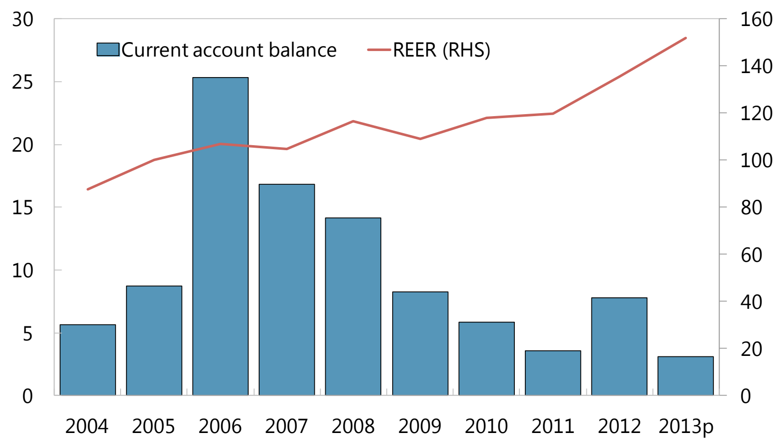
reserves, production costs, extraction rates, and interest rates—underscoring the need for periodic updates to the sustainability benchmark).

Appendix V. External Sector Assessment

Current Account and Exchange Rate

1. The real effective exchange rate (REER) continues to appreciate and is slightly overvalued (text figure). The exchange rate regime is a managed float, with the CBN intervening when needed to offset pressures on the exchange rate—in 2013 the naira nominal exchange rate with the U.S. dollar had fluctuated between 154.7 and 156.1. CGER-type analysis suggests that the exchange rate is slightly overvalued by a range of 5 percent to 8 percent. This result emerges because the projected current account is slightly weaker than the level compatible with economic fundamentals and a sustainable net foreign asset position.[1] However, in view of the quality of balance of payments data, notably the size of errors and omissions, these findings warrant caution.

Current Account Balance and REER, 2004-13
(Percent of GDP; index)



Sources: Nigerian authorities; and IMF staff estimates.

- The equilibrium real exchange rate approach finds an overvaluation of 7.7 percent. In calculating the equilibrium real effective exchange rate (REER), the latest projections for 2013 were used for the key determinants (commodity terms of trade, government consumption to GDP, net foreign assets to GDP, relative productivity differentials), while projections for 2013 under the September WEO were used for global variables and trading partners. As for the REER in 2013, the average REER during the first eight months of 2013 was used as a proxy.

- The macroeconomic balance approach results in an overvaluation of 8.3 percent. In calculating determinants (fiscal balance, oil balance, relative income, lagged current account, relative growth, dependency ratio, population growth) of the current account norm, latest projections for 2018 were used for Nigeria, while projections for 2018 under the September WEO were used for trading partners.

[1] The methodology used for the exchange rate assessments of oil-exporting countries is described in the working paper (WP/09/281). The current assessment is based on information available as of December 2013.

- The current account norm for Nigeria is estimated at 3.4 percent of GDP, compared with a projected current account balance of 1.4 percent of GDP in 2018.[2] Given the estimated elasticity of the current account balance in Nigeria, the exchange rate is estimated to be overvalued by 8.3 percent.

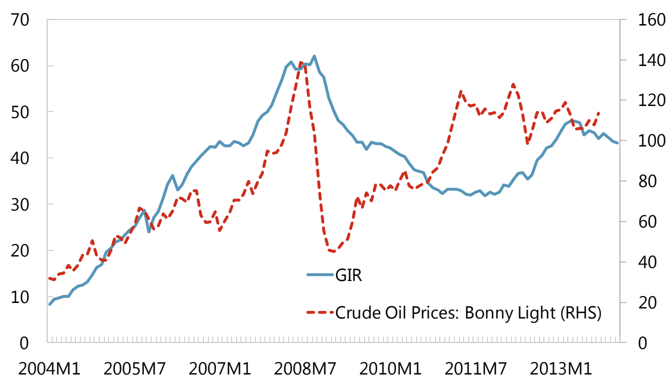
- The external sustainability approach indicates an overvaluation of 4.6 percent. Based on the medium-term projections for real growth and inflation, an external current account surplus of 2.5 percent of GDP would stabilize net foreign assets at their current level. This is higher than staff's projected medium-term current account surplus of 1.4 percent of GDP, which suggests that the currency is overvalued by 4.6 percent.

2. These results should be viewed with some caution. There are a number of reasons to be cautious when reading these results. One reason is that determining the appropriate target level for net foreign assets in Nigeria is not straightforward. As an oil producer seeking to preserve oil wealth for future generation, Nigeria should be seeking to accumulate financial assets via a higher current account surplus. On the other hand, as a low-income country with substantial investment needs, there is also a case for using its oil savings for infrastructure investments. Data gaps, which are reflected in relatively large errors and omissions in the balance of payments, could also distort the estimates. Further, the assessment/extent of overvaluation is subject to changes/projections in the factors determining the current account norm, as well as known estimation challenges and variance of the elasticities. As such, an understanding of the projected current account path is important, as the correction of an estimated misalignment can be done through different policies, including correcting the factors driving the movement in the current account.

Reserves and Intervention Policies

3. Nigeria has been accumulating international reserves. Nigeria's international reserves were US$43.8 billion (6.1 months of prospective imports) in 2012. Reserves at the end of 2013 were US$43.6 billion, corresponding to 5.7 months of prospective imports. The accumulation

Gross International Reserves and Crude Oil Price
(Billion U.S. dollars; U.S. dollars per barrel)



Source: Nigerian authorities.

[2] Differently from the 2012 Article IV, staff used the overall fiscal balance (3.3 percent deficit in 2018) instead of non-oil fiscal balance (15.7 percent deficit in 2018) in calculating the current account norm. The reason for this approach is that stripping out the oil sector for Nigeria has the benefit of removing cyclical components of the fiscal balance, but also offers an inadequate characterization of the Nigerian economy given the large share of the oil sector. Under this assumption, the current account norm is lower than that of last year because the economy is weaker both on the growth and on the fiscal fronts.

reflects high export receipts as well as capital flows.

4. The current level of international reserves is estimated to be close to the optimal level.[3] This assessment is conditional on the authorities implementing the projected fiscal consolidation and structural reforms, and the projected economic outlook being realized. Proxies for adverse scenarios, (shocks to the terms of trade, external demand, FDI to GDP ratio) were set at the bottom 10 percentile of Nigeria-specific distribution in the past ten years (2003–2012). Given Nigeria's low reliance on foreign aid, staff assumed no shocks to foreign aid to GDP ratio.

5. Under the baseline scenario, fundamentals were set as follows: Country Policy and Institutional Assessment (CPIA) was set at its 2012 level (latest available data of the economic management cluster); fiscal balance was set at the average level during 2008–12; the exchange rate policy regime was classified as "not flexible" given that it is heavily managed. The values used for this baseline analysis are summarized in the table below.

Baseline Assumptions

External shock variables	
External demand growth, percent [1]	1.5
Terms of trade growth, percent [1]	1.1
Change in FDI to GDP, percent [1]	-4.5
Change in aid to GDP, percent	0
Fundamental variables	
Government balance, percent of GDP [2]	-2.0
CPIA [3]	4.3
Flexible exchange rate regime dummy	No

[1]Bottom 10th percentile of the distribution in 2003–12.
[2]Average in 2008–12.
[3]As of 2012. Estimated by the World Bank.

6. Under these baseline assumptions, the optimal level of reserves varies from 3.9 months to 8.9 months of next year's imports of goods and services, depending on the unit cost of holding reserves (Table below). Staff also analyzed the optimal level of reserves under a wider fiscal deficit relative to the baseline scenario (5 percent of GDP). This scenario requires a higher optimal level of reserves compared to the baseline. Nigeria has large infrastructure investment needs, which suggest the opportunity cost of holding reserves could be relatively high, say 4 percent to 5 percent. In light of this, the projected levels of reserves in the Staff Report for 2013 (5.7 months of prospective imports) would be appropriate for Nigeria, provided the fiscal consolidation takes place as planned.

[3] The methodology for reserve adequacy assessment for low-income countries is described in the Board Paper (SM/11/31) and the working paper (WP/11/249).

Nigeria: Reserves Adequacy

Unit cost of holding reserves, percent	2.0	3.0	4.0	5.0	6.0
Estimated Optimal Level of Reserves					
(Months of next year's imports of goods and services)					
Baseline scenario (staff report)	8.9	7.3	5.9	4.7	3.9
Worst case scenario	8.9	8.1	6.6	5.4	4.5

Source: IMF staff calculations.

7. Some caution is warranted. First, the current policy and economic environment is uncertain, notably as changing global dynamics may intensify capital flows and commodity price volatility. Second, the size of the errors and omissions in the balance of payments indicates there are data gaps in the accounts that may affect the robustness of the analysis.

Appendix VI. Tracking Job Creation

1. In the last decade, the Nigerian economy has been growing strongly. However, unemployment has doubled from 12.3 percent in 2006 to an all-time high of 24 percent in 2011. The National Bureau of Statistics (NBS) estimated that 56 percent of youth are unemployed, mostly because of lack of adequate skills, despite high education levels. Therefore, since 2006, Nigeria has experienced social unrest, largely led by youth between the ages of 16 and 24. This appendix presents the ongoing reforms to better track created jobs, and improve the quality of spending, using SURE-P.

2. The federal government has implemented a quarterly survey to track job creation. With growth concentrated in the non-oil sector, the disappointing outcomes in unemployment and poverty reduction are still somewhat puzzling. To better understand and monitor the evolving trend, the federal government[1] designed the Quarterly Job Creation survey, covering 12 sectors[2] of the economy and all 36 states of the federation, including the Federal Capital Territory (FCT). The surveys, which sample 5,000 establishments, also cover public institutions (ministries, departments, agencies—MDAs). Privately created jobs are divided into formal (establishments with more than 10 persons) and informal (those generated by individuals or businesses employing less than 10 persons, generally in agriculture, wholesale, and retail trade).

3. The data show that fewer jobs are created in sectors with high growth than in sectors with low growth. Of the total number of jobs created in the fourth quarter of 2012 and the first quarter of 2013, the sectors (agriculture, wholesale and trade, services) experiencing the highest growth rates generated the least jobs, while low-growth sectors (education) created more than 50 percent of new jobs. Sixty-four percent of the jobs created in the fourth quarter of 2012 and 31 percent in the first quarter of 2013 were occupied by the youth (15–35 years). The highest number of jobs for youth was in education, followed by social work, and financial intermediation. More generally, in the fourth quarter of 2012, subsistence crop farmers recorded the highest number of new employees followed by nursing; mobile plant operators recorded the least number of new employees. The surveys show also that skill mismatches, measured by unoccupied positions, continue to be an issue, with 49,968 unoccupied job positions at end 2013.

[1] The stakeholders are the National Bureau of Statistics (NBS), National Planning Commission (NPC), Office of the Chief Economic Adviser to the President, Federal Ministry of Labor and Productivity (FMLP), National Directorate of Employment (NDE), Central Bank of Nigeria, and Office of the Special Assistant on Job Creation.

[2] Twelve sectors covered are agriculture; mining, and quarrying; manufacturing; construction; wholesale and retail trade; hotels and restaurants; transport, storage, and communication; financial intermediation; real estate, renting, and business activities; health and social work; other community, social, and personal activities; and education.

4. The informal sector continues to be the main job provider. In both reporting quarters the informal sector accounted for more than 50 percent of the jobs generated in the Nigerian economy. In the 4th quarter of 2012, 208,920 jobs were generated, while in the first quarter of 2013 the informal sector accounted for 232,327 of the total jobs generated.

Appendix VII. Trade Policy and Competitiveness: Agriculture in Nigeria

1. Key message: Policies aiming at improving competitiveness should focus on domestic measures rather than actions related to border transactions, on reducing market failures rather than on sectors, and base criteria for success/failure on productivity and international benchmarking. High tariffs recently introduced on selected agricultural products should be temporary.

Trade policy and competitiveness

2. Export diversification is an important development goal. Diversification of the economy is associated with economic growth. Diversification has at least two meanings: (i) product diversification; and (ii) process diversification (i.e., moving up the value chain). Both aspects of diversification matter.

3. Oil-rich economies face obstacles to diversification and generally require economic policy to promote the development of non-oil sectors. The resource curse and other market failures limit product and process diversification. Economic policy can promote diversification by complementing market forces.

4. Trade and trade-related policy can be an instrument for diversification if they aim at promoting competitiveness, not protectionism. Economic policy should not aim at self-sufficiency and/or "relocating" the entire value chain of specific products. Rather, the objective should be to foster investment and growth by facilitating the development of the sectors and activities where the economy has potential comparative advantage.

Trade policy risks and checks and balances

5. Trade policy may incur three types of risks:

- Uninformed policy. For the government, identifying "successful" products may be difficult.
- Poorly designed policy. General equilibrium effects may not be appropriately accounted for. For example, high tariffs on rice may have a negative impact on overall exports, because producers of other agricultural products that do not receive protection compete for the same scarce resources (namely, land) and face higher input costs.
- Self-perpetuating policy. When a rent is created, there is a natural tendency to maintain the policy independently of results.

6. A (non-exhaustive) list of design principles for trade policy should include:

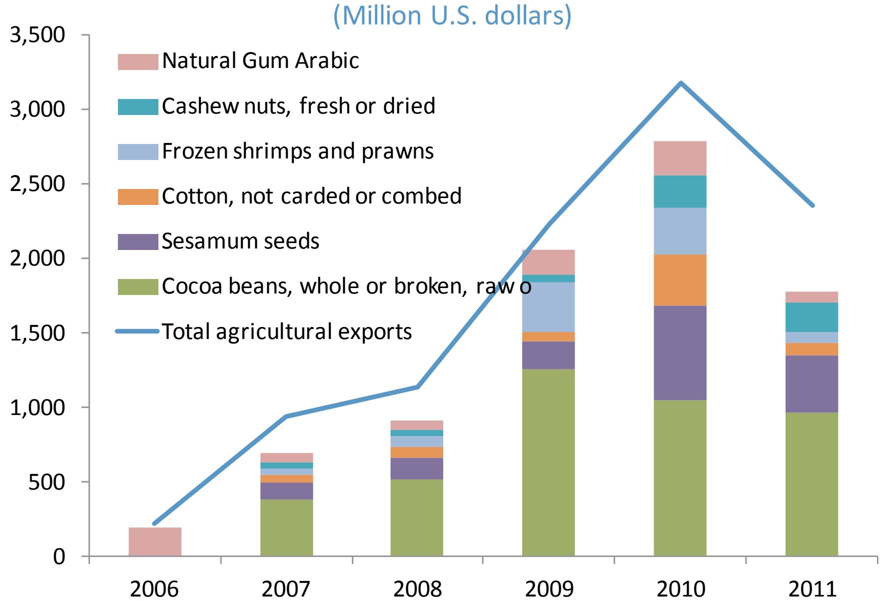
- Target market failures more than sectors. Peru developed its highly successful asparagus export by promoting the adoption of more stringent standards, not through direct incentives to the producers of asparagus.

- Second-best measures (such as tariffs) should be temporary and used as part of a broader program. Temporary protection can increase growth only in conjunction with targeted competitiveness measures, such as policies that promote the adoption of new technology.

- Clear criteria for success and failure. Measures of success need to be based on productivity and/or international benchmarking, not on employment and output, as the latter will fall when the policy is removed, unless productivity has increased.

- Automatic rules to discontinue unsuccessful programs. Absent specific rules, rent-seeking behavior will make the policy self-perpetuating.

Nigeria: Agricultural Exports, Selected Products, 2006-11
(Million U.S. dollars)

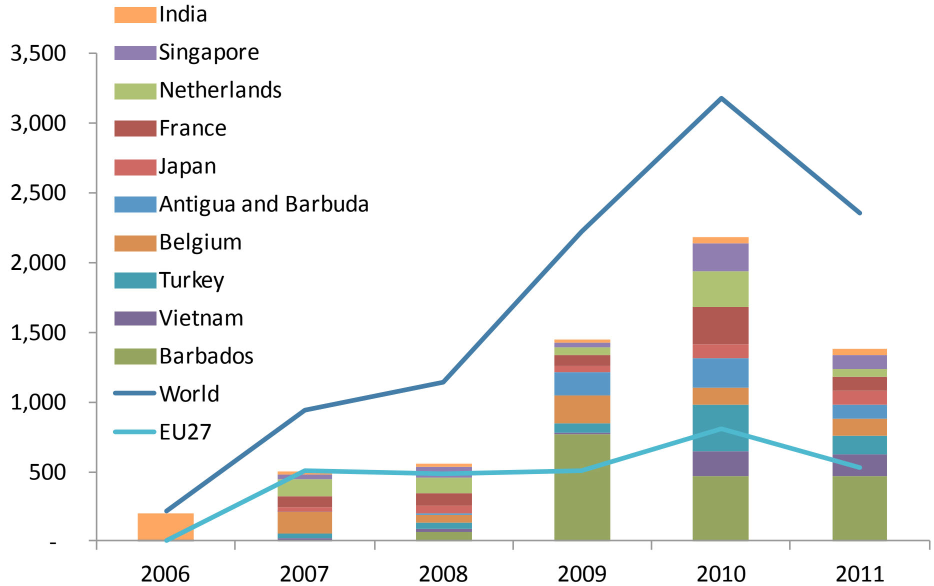


Source: UN Comtrade. Note: calculations based on HS1988/1992 product cassification.

Agricultural trade flows in Nigeria

7. Agricultural exports experienced strong growth in recent years. Agricultural exports are dominated by cocoa beans, but other products are taking up an increasingly important share of exports (text figure). In addition to traditional trading partners in Europe, emerging economies are becoming important export destinations for Nigeria's agricultural products (text figure).

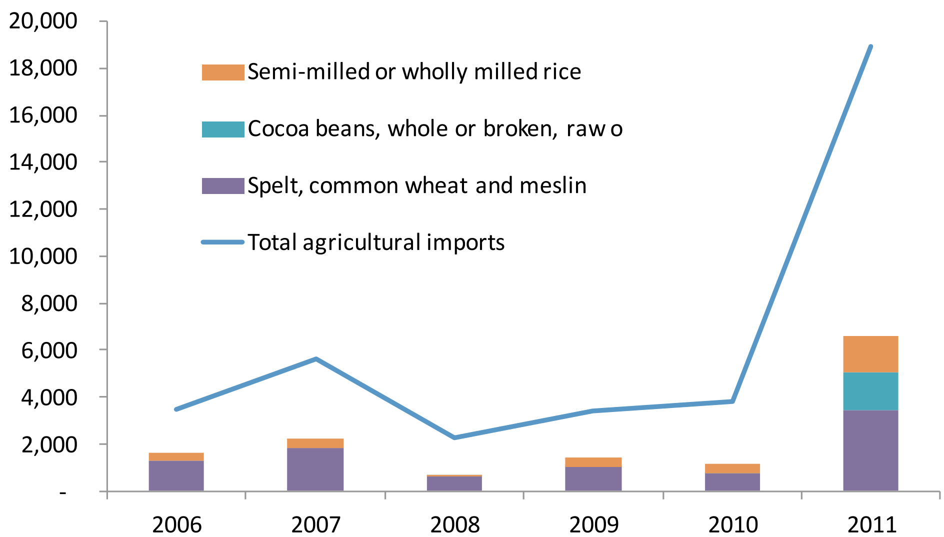
Nigeria: Agricultural Exports, Selected Partners, 2006-11
(Million U.S. dollars)



Source: UN Comtrade. Note: calculations based on HS1988/1992 product cassification.

8. Notwithstanding the rise in exports, Nigeria is a net importer of agricultural goods. Staple foods such as rice and wheat are leading import commodities (text figure).

Nigeria: Agricultural Imports, Selected Products, 2000-11
(Million U.S. dollars)



Source: UN Comtrade. Note: calculations based on HS1988/1992 product cassification.

Agricultural trade policy in Nigeria

9. Nigerian agricultural exports and imports face substantial trade barriers. IMF staff calculations based on UN Comtrade data show that (i) non-tariff measures (NTMs), such as prohibitions and standards, are a much higher barrier than tariffs for both Nigeria's imports and exports of agricultural commodities; (ii) import barriers in agriculture are substantially higher for Nigeria than for other developing economies (such as sub-Saharan countries) or large agricultural exporters (such as Brazil); and (iii) food products face the highest import restrictions.

10. In the last year, protectionist measures on selected agricultural products have largely increased. As part of an effort to boost production of rice, Nigeria has imposed a 100 percent tariff on brown, semimilled, and wholly milled rice in February 2013.

11. Authorities should use domestic tools that boost agricultural productivity rather than protectionist measures. This is the strategy adopted by successful agricultural exporters such as Brazil. Brazil mostly supports the agricultural sector through domestic measures that directly address market distortions, in particular preferential credit lines and price support mechanisms that aim at reducing uncertainty in agricultural production. The logic of these policies is similar to Nigeria's Incentive-Based Risk-Sharing System for Agricultural Lending (NIRSAL).

INTERNATIONAL MONETARY FUND

NIGERIA

STAFF REPORT FOR THE 2013 ARTICLE IV CONSULTATION—DEBT SUSTAINABILITY ANALYSIS

February 6, 2014

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Prepared by the staffs of the International Monetary Fund (IMF) and the International Development Association (IDA)

Although Nigeria's debt has increased relative to the last DSA (May 2013), Nigeria remains at a low risk of debt distress under current macroeconomic assumptions. For both the baseline scenario and the standardized stress tests, Nigeria's debt outlook remains robust. For the customized stress test, which simulates a persistent oil price shock, all indicators deteriorate when compared to the baseline results, but remain within all of the country-specific thresholds relevant for Nigeria. Taken together, the stress scenarios indicate that, without significant or timely compensating policy measures, a prolonged negative oil price shock or a fiscal revenue shortfall could undermine the recent progress in achieving macroeconomic and debt sustainability. The findings are highly sensitive to the actual implementation of the fiscal consolidation assumed in the analysis. Also, data deficiencies suggest caution: (i) errors and omissions in the balance of payments are large (possibly reflecting an underestimation of current account debit transactions)[1] and lead to large observed residuals in the DSA presentation; (ii) the methodology for estimating imports was changed in 2010, resulting in a break in the balance of payments series between 2009 and 2010; and (iii) the DSA does not incorporate debt of the state and local governments and of public enterprises.[2]

[1] For instance, in 2012 errors and omissions were 10 percent of total imports.

[2] The authorities recently made information available on domestic debt of state and local governments (estimated at about 1.7 percent of GDP in 2011 in commercial bank loans and State bonds and 1.5 percent of GDP in arrears and other liabilities see http://bit.ly/1fjOmpD). Sub-national borrowing is currently limited and tightly regulated. However, the exposure of the multiplicity of off-budget funds is unknown.

BACKGROUND

1. At end-September 2013, external debt of the federal government, is US$8.3 billion (2.9 percent of GDP), comprised:[3]

Nigeria's External Debt Stock, end-September 2013
(Millions of U.S. dollars)

Category	Balance Outstanding
Multilateral	5,887
World Bank Group	
IDA	5,102
IFAD	92
African Development Bank Group	
ADB	11
ADF	562
EDF	103
IDB	15
Others	3
Bilateral	850
Commercial[1]	1,527
Total	**8,264**

[1]This includes the issuance of a Eurobond of US$1 billion in 2013

MACROECONOMIC ASSUMPTIONS

2. The assumptions used in the baseline scenario for 2013–33 are:

- Average GDP growth of 6.8 percent in 2013–33 (slightly below the average of 7 percent for 2012–2032).
- Consistent with the WEO projections of an anticipated decline in oil prices over the medium term, the analysis assumes a Nigerian oil price of US$104.5 a barrel in 2013, moderating to US$86.7 a barrel by 2018, and then remaining constant in real terms thereafter.[4]
- Non-oil primary deficit (NOPD) would decline from 27.4 percent of non-oil GDP in 2012 to about 15.7 percent of non-oil GDP in 2018. This takes into account the consolidation plans embedded in the 2014–2016 Medium Term Expenditure Framework, including policies to control

[3] External debt data provided by the authorities do not include publically-guaranteed debt.

[4] The DSA is based on the WEO's latest projections for Brent crude prices. Nigerian oil price is projected by using the relation for the previous period between the Nigerian oil prices and Brent oil prices.

personnel expenses and contain the growth of capital expenditure. In addition, it is assumed that the oil-price-based fiscal rule continues to be applied, with a budget oil price assumed to be on average about 20 percent below the projected oil price. On that basis, the Excess Crude Account accumulates over time, reaching about 6 percent of GDP by 2018 (more details in the accompanying Staff Report for the 2013 Article IV Consultation). After 2018, it is assumed that the government budget remains balanced, i.e., well within the deficit limit enshrined in the Fiscal Responsibility Law (FRL). This implies the primary deficit of 3.3 percent of GDP in 2018 will have to turn to a surplus of 0.3 percent of GDP in 2033.

- Following the strong total export growth in 2010–11, exports are projected to stagnate 2012–19 and recover thereafter. Imports are also expected to increase strongly in 2013–18, reflecting strong economic growth. Consequently, the current account surplus declines to about 1.4 percent of GDP by 2018, followed by a small deficit after 2019. Growth in non-oil exports is expected to partially offset the declining oil exports in the medium term.

- To finance much needed infrastructure investment, new borrowing of US$1.5 billion is contracted during the medium term and $500 million thereafter. The grant element of these loans is assumed at 1.7 percent.

- N1 trillion of contingent liabilities (bonds) from the Asset Management Company of Nigeria (AMCON) materialize as ultimate fiscal cost for the federal government in 2023 (equivalent to 0.7 percent of GDP).[5]

EXTERNAL SUSTAINABILITY[6]

Baseline

3. In the baseline scenario (Table 1 and Figure 1), the nominal gross external debt burden is projected to moderately increase in the next three years but decline gradually after.[7] The external debt-to-GDP ratio would rise from 2.5 percent in 2012 to 2.8 in 2013 and then return to 2.0 in 2018.

[5] The Sinking Fund is estimated to be worth N6.4 trillion at the end of 2023: the annual contributions of 0.5 percent of total assets by Deposit Money Banks (DMBs) (about N23 trillion at end-2013) are assumed to grow at 20 percent) and the 50 billion by CBN every year are assumed to accrue 10 percent return. The fund will be used to fill the gap in the AMCON's balance sheet of about N3.4 trillion (assets and bond liabilities are about N2.3 trillion and N5.7 trillion respectively as of September 2013). It will also pay for net interest expenses on its bonds, which over 10 years is estimated to be about N4.0 trillion. All assets are assumed to be sold at face value or higher to cover other operating costs.

[6] The LIC debt sustainability framework (DSF) provides a methodology for assessing external debt sustainability that is guided by indicative, country-specific, debt-burden thresholds based on the relative strength of a country's policies and institutions. Given Nigeria's rating of 3.5 (medium performer), which is the three year average of the World Bank's Country Policy and Institutional Assessment (CPIA), the relevant country-specific thresholds are a PV of external debt-to-GDP ratio of 40 percent, a PV of external debt-to-exports ratio of 150 percent, and an external debt service-to-exports ratio of 20 percent.

[7] The historical average of the noninterest current account surplus is much higher at 9.6 percent than the average of about 3 percent for 2013-18, and treating the difference as "residual borrowing" becomes explosive over time.

The initial increase reflects the external borrowing to finance scaled-up public investment during the next years. The external debt-to-GDP ratio is projected to decline gradually to 0.3 percent by 2033. The debt service-to-exports and the debt service-to-revenue ratios also decline gradually throughout the projection period. All debt and debt service indicators remain well below their respective threshold levels throughout the projection period.

Alternative Scenarios and Stress Tests

4. Standardized stress tests were carried out (Table 2 and Figure 1). Under all scenarios, (i) the PV of debt is not likely to exceed 10 percent of GDP throughout the projection period; and (ii) the PV of debt-to-exports ratio is far below its indicative debt burden threshold of 150 percent.[8]

5. A country-specific alternative scenario was conducted to illustrate the impact on the external accounts and the debt dynamics of a prolonged oil price shock (in light of Nigeria's high dependency on oil, as well as the high level of oil prices projected in the medium term). The oil price shock is calibrated at 20 percent lower than the baseline during 2014–18. All indicators worsen from the baseline under this country-specific scenario, but remain within the country-specific thresholds relevant for Nigeria. If the oil price were to go below 30 percent of WEO projections (about 1 standard deviation), however, all indicators worsen considerably and especially the PV of the debt-to-exports ratio can exceed the threshold for several years.

FISCAL SUSTAINABILITY

Baseline

6. The amount of federal government gross debt outstanding is estimated at 18.4 percent of GDP at end-2012, and is projected to decline to about 3.4 percent of GDP by 2033 (Table 3). The current maturity structure of domestic debt is favorable, with short-term debt only accounting for a quarter of total debt. Under the baseline scenario (Table 3 and Figure 2), the consolidated government debt-to-GDP ratio would decline slightly to about 18.2 percent in 2018, reflecting the ongoing consolidation efforts envisaged in the authorities' Medium Term Expenditure Framework. This implies continued expenditure restraint, including policies to control personnel expenses and contain the growth of capital expenditure. After 2018, the public debt-to-GDP ratio would gradually decline to single digits by 2031. This is largely because of the assumption that the authorities would reduce expenditure or raise non-oil revenue in the medium term, to offset the projected decline in oil revenue (as a share of GDP) implied by WEO projections for oil prices. Thus, these findings are highly sensitive to the resolute implementation of the fiscal consolidation and recovery in oil revenue assumed in the analysis.

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[8] Note that the projection does not fully capture a possible volatility in real GDP growth. For instance, if one were to replicate the same level of volatility in real GDP growth in the next five years (2014–18) as was observed in the 2004–2008 period, the PV of debt-to-export ratio would breach the indicative policy threshold at least once (in 2018).

Alternative Scenarios and Stress Tests

7. The standardized stress tests underscore the need for fiscal policy to adjust to the economic environment. In particular, debt in 2033 may increase from 4 percent in the baseline to 32 percent if the primary balance is unchanged from its 2013 level. With oil prices stabilizing over the medium term, public debt dynamics would become more susceptible to adverse economic growth shocks. This is shown under the "permanently lower GDP growth" scenario, under which gross public debt-to-GDP ratio in 2033 would increase from 4 percent in the baseline to 15 percent. In addition, a persistent revenue shock would also result in debt reaching about 14 percent of GDP by 2033. In such adverse scenarios, fiscal policy would need to adjust accordingly (Table 4 and Figure 2). To the extent that the staff's fiscal policy assumptions under the baseline scenario (including gradual improvements in the primary deficit over the medium term) do not materialize, the debt outlook will be negatively affected. In this case, risks to debt sustainability may appear.

AUTHORITIES' VIEWS

8. The authorities concurred that the external debt risk was low. They agreed, however, that timely policy responses would be necessary in the event of a prolonged adverse oil price or economic growth shock. In their view, the sinking fund will be sufficient to cover the negative net worth by the end of 2023.

Table 1. Nigeria: External Debt Sustainability Framework, Baseline Scenario, 2010-2033 1/

(In percent of GDP, unless otherwise indicated)

	Actual			Historical 6/ Average	Standard 6/ Deviation	Projections									
	2010	2011	2012			2013	2014	2015	2016	2017	2018	2013-2018 Average	2023	2033	2019-2033 Average
External debt (nominal) 1/	**2.3**	**2.4**	**2.5**			**2.8**	**3.1**	**3.4**	**3.5**	**3.6**	**3.6**		**2.2**	**0.5**	
of which: public and publicly-guaranteed (PPG)	2.3	2.4	2.5			2.8	3.1	3.4	3.5	3.6	3.6		2.2	0.5	
Change in external debt	-0.1	0.1	0.1			0.3	0.4	0.2	0.2	0.1	0.0		-0.4	-0.1	
Identified net debt-creating flows	-8.8	-7.0	-10.1			-5.5	-5.9	-4.9	-4.2	-4.0	-2.9		-0.3	2.2	
Non-interest current account deficit	**-5.9**	**-3.7**	**-7.9**	**-9.6**	**7.9**	**-3.2**	**-3.8**	**-2.9**	**-2.3**	**-2.3**	**-1.2**		**1.3**	**3.1**	1.6
Deficit in balance of goods and services	-5.3	-4.0	-7.9			-2.8	-2.0	-0.6	0.7	1.2	2.2		5.8	4.7	
Exports	35.2	39.6	37.6			33.4	31.3	29.0	26.7	24.6	22.7		17.6	16.7	
Imports	29.9	35.6	29.7			30.7	29.3	28.5	27.4	25.8	24.9		23.5	21.5	
Net current transfers (negative = inflow)	-9.2	-9.0	-8.4	-8.1	3.7	-7.3	-6.9	-6.7	-6.5	-6.3	-6.0		-4.4	-2.2	-3.7
of which: official	-0.6	-0.7	-0.7			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Other current account flows (negative = net inflow)	8.6	9.4	8.5			6.8	5.1	4.4	3.5	2.8	2.6		-0.1	0.6	
Net FDI (negative = inflow)	**-2.3**	**-3.3**	**-2.1**	**-3.6**	**1.1**	**-2.2**	**-2.1**	**-2.0**	**-1.8**	**-1.6**	**-1.6**		**-1.6**	**-0.9**	-1.3
Endogenous debt dynamics 2/	**-0.6**	**-0.1**	**-0.1**			**-0.1**	**-0.1**	**-0.1**	**-0.1**	**-0.1**	**-0.1**		**-0.1**	**0.0**	
Contribution from nominal interest rate	0.0	0.1	0.1			0.1	0.1	0.1	0.1	0.1	0.2		0.1	0.0	
Contribution from real GDP growth	-0.1	-0.2	-0.1			-0.1	-0.2	-0.2	-0.2	-0.2	-0.2		-0.2	0.0	
Contribution from price and exchange rate changes	-0.5	0.0	0.0			...	...	...	...	...	...		...	...	
Residual (3-4) 3/	**8.6**	**7.2**	**10.2**			**5.8**	**6.3**	**5.1**	**4.4**	**4.1**	**2.9**		**0.0**	**-2.3**	
of which: exceptional financing	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
PV of external debt 4/	...	...	3.0			3.3	3.6	3.7	3.9	3.9	3.9		2.5	0.6	
In percent of exports	...	...	7.9			9.8	11.4	12.9	14.5	15.8	17.1		13.9	3.4	
PV of PPG external debt	**...**	**...**	**3.0**			**3.3**	**3.6**	**3.7**	**3.9**	**3.9**	**3.9**		**2.5**	**0.6**	
In percent of exports	**...**	**...**	**7.9**			**9.8**	**11.4**	**12.9**	**14.5**	**15.8**	**17.1**		**13.9**	**3.4**	
In percent of government revenues	**...**	**...**	**11.8**			**16.4**	**16.9**	**16.8**	**18.8**	**20.3**	**21.2**		**14.4**	**3.1**	
Debt service-to-exports ratio (in percent)	**-0.2**	**-0.1**	**0.0**			**0.4**	**0.5**	**0.8**	**0.9**	**0.9**	**1.1**		**1.9**	**0.7**	
PPG debt service-to-exports ratio (in percent)	**-0.2**	**-0.1**	**0.0**			**0.4**	**0.5**	**0.8**	**0.9**	**0.9**	**1.1**		**1.9**	**0.7**	
PPG debt service-to-revenue ratio (in percent)	**-0.3**	**-0.1**	**0.0**			**0.8**	**0.8**	**1.0**	**1.1**	**1.2**	**1.3**		**1.9**	**0.6**	
Total gross financing need (Billions of U.S. dollars)	-18.9	-17.1	-26.2			-15.2	-18.0	-15.7	-14.4	-14.8	-11.1		0.3	44.1	
Non-interest current account deficit that stabilizes debt ratio	-5.8	-3.8	-8.0			-3.5	-4.2	-3.1	-2.5	-2.4	-1.2		1.7	3.3	
Key macroeconomic assumptions															
Real GDP growth (in percent)	8.0	7.4	6.6	7.4	1.8	6.4	7.3	7.0	6.8	6.9	6.6	6.8	6.6	7.0	6.8
GDP deflator in US dollar terms (change in percent)	25.6	-0.6	0.7	9.1	15.0	3.4	1.9	0.6	0.9	1.6	2.0	1.7	3.1	3.8	3.4
Effective interest rate (percent) 5/	2.7	2.9	2.7	3.4	1.3	4.0	4.6	4.5	4.6	4.6	4.6	4.5	4.4	5.8	5.1
Growth of exports of G&S (US dollar terms, in percent)	36.5	20.1	1.8	20.3	23.4	-2.1	2.4	-0.2	-1.1	0.4	0.1	-0.1	7.0	9.7	8.3
Growth of imports of G&S (US dollar terms, in percent)	36.6	27.2	-10.6	15.2	20.5	13.8	4.6	4.6	3.7	2.4	4.7	5.6	9.1	10.0	9.4
Grant element of new public sector borrowing (in percent)	...	...	...	...	...	6.9	10.1	9.3	8.3	5.2	4.9	7.5	7.0	4.4	6.3
Government revenues (excluding grants, in percent of GDP)	20.0	29.9	25.3			20.0	21.1	22.3	20.5	19.2	18.3		17.0	18.3	17.4
Aid flows (in Billions of US dollars) 7/	0.0	0.0	0.0			0.3	0.3	0.2	0.2	0.1	0.1		0.1	0.0	
of which: Grants	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
of which: Concessional loans	0.0	0.0	0.0			0.3	0.3	0.2	0.2	0.1	0.1		0.1	0.0	
Grant-equivalent financing (in percent of GDP) 8/	...	...	...			0.0	0.1	0.0	0.0	0.0	0.0		0.0	0.0	0.0
Grant-equivalent financing (in percent of external financing) 8/	...	...	...			6.9	10.1	9.3	8.3	5.2	4.9		7.0	4.4	6.3
Memorandum items:															
Nominal GDP (Billions of US dollars)	228.6	244.0	261.9			288.2	315.3	339.5	365.9	397.3	431.9		692.1	1909.0	
Nominal dollar GDP growth	35.6	6.7	7.3			10.1	9.4	7.7	7.8	8.6	8.7	8.7	10.0	11.1	10.4
PV of PPG external debt (in Billions of US dollars)			7.9			9.4	11.1	12.6	14.0	15.3	16.6		16.8	10.7	
(PVt-PVt-1)/GDPt-1 (in percent)						0.6	0.6	0.5	0.4	0.4	0.3	0.5	-0.1	-0.1	0.0
Gross workers' remittances (Billions of US dollars)	19.8	20.6	20.5			20.9	21.7	22.7	23.8	25.0	25.8		30.4	42.1	
PV of PPG external debt (in percent of GDP + remittances)	...	...	2.8			3.0	3.3	3.5	3.6	3.7	3.7		2.4	0.6	
PV of PPG external debt (in percent of exports + remittances)	...	...	6.6			8.0	9.3	10.5	11.7	12.6	13.6		11.2	3.0	
Debt service of PPG external debt (in percent of exports + remittances)	...	...	0.0			0.4	0.4	0.6	0.7	0.7	0.8		1.5	0.6	

Sources: Country authorities; and staff estimates and projections.

1/ Includes both public and private sector external debt.

2/ Derived as [r - g - ρ(1+g)]/(1+g+ρ+gρ) times previous period debt ratio, with r = nominal interest rate; g = real GDP growth rate, and ρ = growth rate of GDP deflator in U.S. dollar terms.

3/ Includes exceptional financing (i.e., changes in arrears and debt relief); changes in gross foreign assets; and valuation adjustments. For projections also includes contribution from price and exchange rate changes.

4/ Assumes that PV of private sector debt is equivalent to its face value.

5/ Current-year interest payments divided by previous period debt stock.

6/ Historical averages and standard deviations are generally derived over the past 10 years, subject to data availability.

7/ Defined as grants, concessional loans, and debt relief.

8/ Grant-equivalent financing includes grants provided directly to the government and through new borrowing (difference between the face value and the PV of new debt).

Table 2. Nigeria: Sensitivity Analysis for Key Indicators of Public and Publicly-Guaranteed External Debt, 2013-2033

(In percent)

		Projections						
	2013	2014	2015	2016	2017	2018	**2023**	2033
PV of debt-to GDP ratio								
Baseline	3	4	4	4	4	4	**2**	1
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2013-2033 1/	3	3	4	4	5	5	**11**	33
A2. New public sector loans on less favorable terms in 2013-2033 2	3	4	4	4	4	4	**3**	1
A3. Alternative Scenario :[Oil price shock]	3	10	15	20	24	28	**22**	7
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2014-2015	3	4	4	4	4	4	**2**	1
B2. Export value growth at historical average minus one standard deviation in 2014-2015 3/	3	4	4	4	3	3	**1**	-1
B3. US dollar GDP deflator at historical average minus one standard deviation in 2014-2015	3	4	4	4	4	4	**3**	1
B4. Net non-debt creating flows at historical average minus one standard deviation in 2014-2015 4/	3	4	4	4	3	3	**1**	-1
B5. Combination of B1-B4 using one-half standard deviation shocks	3	4	4	4	5	5	**4**	4
B6. One-time 30 percent nominal depreciation relative to the baseline in 2014 5/	3	5	5	5	5	5	**3**	1
PV of debt-to-exports ratio								
Baseline	10	11	13	14	16	17	**14**	3
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2013-2033 1/	10	11	12	15	18	23	**64**	198
A2. New public sector loans on less favorable terms in 2013-2033 2	10	12	14	16	17	19	**17**	6
A3. Alternative Scenario :[Oil price shock]	10	38	65	94	124	154	**122**	41
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2014-2015	10	11	13	14	16	17	**14**	3
B2. Export value growth at historical average minus one standard deviation in 2014-2015 3/	10	12	14	15	15	16	**8**	-10
B3. US dollar GDP deflator at historical average minus one standard deviation in 2014-2015	10	11	13	14	16	17	**14**	3
B4. Net non-debt creating flows at historical average minus one standard deviation in 2014-2015 4/	10	11	12	13	14	15	**8**	-8
B5. Combination of B1-B4 using one-half standard deviation shocks	10	11	11	14	16	18	**21**	22
B6. One-time 30 percent nominal depreciation relative to the baseline in 2014 5/	10	11	13	14	16	17	**14**	3
PV of debt-to-revenue ratio								
Baseline	16	17	17	19	20	21	**14**	3
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2013-2033 1/	16	16	16	19	24	29	**67**	181
A2. New public sector loans on less favorable terms in 2013-2033 2	16	18	18	21	22	24	**18**	5
A3. Alternative Scenario :[Oil price shock]	16	45	68	98	127	153	**126**	37
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2014-2015	16	17	17	19	21	22	**15**	3
B2. Export value growth at historical average minus one standard deviation in 2014-2015 3/	16	17	16	17	18	18	**8**	-8
B3. US dollar GDP deflator at historical average minus one standard deviation in 2014-2015	16	18	19	22	23	24	**17**	4
B4. Net non-debt creating flows at historical average minus one standard deviation in 2014-2015 4/	16	17	16	17	18	18	**8**	-7
B5. Combination of B1-B4 using one-half standard deviation shocks	16	17	17	21	24	26	**25**	23
B6. One-time 30 percent nominal depreciation relative to the baseline in 2014 5/	16	24	24	26	28	30	**20**	4

Table 2.Nigeria: Sensitivity Analysis for Key Indicators of Public and Publicly-Guaranteed External Debt, 2013-2033 (continued)

(In percent)

Debt service-to-exports ratio

	Projections							
	2013	2014	2015	2016	2017	2018	**2023**	2033
Baseline	0	1	1	1	1	1	**2**	1
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2013-2033 1/	0	0	0	-2	-3	-4	**-14**	-33
A2. New public sector loans on less favorable terms in 2013-2033 2	0	1	1	1	1	1	**2**	1
A3. Alternative Scenario :[Oil price shock]	0	1	2	3	5	6	**7**	6
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2014-2015	0	1	1	1	1	1	**2**	1
B2. Export value growth at historical average minus one standard deviation in 2014-2015 3/	0	1	1	2	2	2	**3**	2
B3. US dollar GDP deflator at historical average minus one standard deviation in 2014-2015	0	1	1	1	1	1	**2**	1
B4. Net non-debt creating flows at historical average minus one standard deviation in 2014-2015 4/	0	1	1	1	2	2	**3**	1
B5. Combination of B1-B4 using one-half standard deviation shocks	0	0	0	0	0	0	**0**	-1
B6. One-time 30 percent nominal depreciation relative to the baseline in 2014 5/	0	1	1	1	1	1	**2**	1
Debt service-to-revenue ratio								
Baseline	1	1	1	1	1	1	**2**	1
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2013-2033 1/	1	1	0	-2	-4	-5	**-14**	-30
A2. New public sector loans on less favorable terms in 2013-2033 2	1	1	1	1	1	1	**2**	1
A3. Alternative Scenario :[Oil price shock]	1	1	2	4	5	6	**7**	6
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2014-2015	1	1	1	1	1	1	**2**	1
B2. Export value growth at historical average minus one standard deviation in 2014-2015 3/	1	1	1	2	2	2	**3**	1
B3. US dollar GDP deflator at historical average minus one standard deviation in 2014-2015	1	1	1	1	1	2	**2**	1
B4. Net non-debt creating flows at historical average minus one standard deviation in 2014-2015 4/	1	1	1	2	2	2	**3**	1
B5. Combination of B1-B4 using one-half standard deviation shocks	1	1	1	0	0	0	**1**	-1
B6. One-time 30 percent nominal depreciation relative to the baseline in 2014 5/	1	1	1	2	2	2	**3**	1
Memorandum item:								
Grant element assumed on residual financing (i.e., financing required above baseline) 6/	0	0	0	0	0	0	**0**	0

Sources: Country authorities; and staff estimates and projections.

1/ Variables include real GDP growth, growth of GDP deflator (in U.S. dollar terms), non-interest current account in percent of GDP, and non-debt creating flows.
2/ Assumes that the interest rate on new borrowing is by 2 percentage points higher than in the baseline., while grace and maturity periods are the same as in the baseline.
3/ Export values are assumed to remain permanently at the lower level, but the current account as a share of GDP is assumed to return to its baseline level after the shock (implicitly as an offsetting adjustment in import levels).
4/ Includes official and private transfers and FDI.
5/ Depreciation is defined as percentage decline in dollar/local currency rate, such that it never exceeds 100 percent.
6/ Applies to all stress scenarios except for A2 (less favorable financing) in which the terms on all new financing are as specified in footnote 2.

Table 3. Nigeria: Public Sector Debt Sustainability Framework, Baseline Scenario, 2010-2033

(In percent of GDP, unless otherwise indicated)

	Actual					Estimate	Projections								
	2010	2011	2012	Average 5/	Standard Deviation 5/	2013	2014	2015	2016	2017	2018	2013-18 Average	2023	2033	2019-33 Average
Public sector debt 1/	15.5	17.3	18.4			19.0	19.9	20.2	20.2	20.4	20.8		13.0	3.7	
of which: foreign-currency denominated	2.3	2.4	2.5			2.8	3.1	3.4	3.5	3.6	3.6		2.2	0.5	
Change in public sector debt	0.3	1.8	1.1			0.6	0.9	0.3	-0.1	0.3	0.3		-1.5	-0.6	
Identified debt-creating flows	2.4	-2.1	-1.3			3.1	1.1	0.1	0.5	1.2	1.7		-0.9	-0.5	
Primary deficit	5.7	-2.2	-1.7	-3.8	7.5	2.9	1.3	0.2	0.7	1.6	2.1	1.5	-1.2	-0.4	-1.0
Revenue and grants	20.0	29.9	25.3			20.0	21.1	22.3	20.5	19.2	18.3		17.0	18.3	
of which: grants	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Primary (noninterest) expenditure	25.7	27.7	23.7			22.9	22.3	22.4	21.2	20.8	20.5		15.8	17.9	
Automatic debt dynamics	-3.1	0.1	0.3			0.2	-0.1	-0.1	-0.1	-0.3	-0.4		-0.4	-0.1	
Contribution from interest rate/growth differential	-2.6	0.0	0.4			0.2	-0.2	-0.1	-0.2	-0.4	-0.4		-0.3	-0.1	
of which: contribution from average real interest rate	-1.5	1.1	1.4			1.3	1.1	1.2	1.1	0.9	0.8		0.6	0.1	
of which: contribution from real GDP growth	-1.1	-1.1	-1.1			-1.1	-1.3	-1.3	-1.3	-1.3	-1.3		-0.9	-0.3	
Contribution from real exchange rate depreciation	-0.4	0.1	0.0			0.0	0.0	0.0	0.0	0.0	0.0		...	...	
Other identified debt-creating flows	-0.3	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.7	0.0	
Privatization receipts (negative)	-0.3	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Recognition of implicit or contingent liabilities	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.7	0.0	
Debt relief (HIPC and other)	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Other (specify, e.g. bank recapitalization)	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Residual, including asset changes	-2.1	3.8	2.5			-2.5	-0.2	0.2	-0.6	-1.0	-1.4		-0.7	-0.1	
Other Sustainability Indicators															
PV of public sector debt	...	...	18.9			19.5	20.4	20.6	20.5	20.8	21.1		13.3	3.9	
of which: foreign-currency denominated	...	...	3.0			3.3	3.6	3.7	3.9	3.9	3.9		2.5	0.6	
of which: external	...	...	3.0			3.3	3.6	3.7	3.9	3.9	3.9		2.5	0.6	
PV of contingent liabilities (not included in public sector debt)	...	...	...			...	...	...	...	...	...		...	...	
Gross financing need 2/	9.7	3.1	4.5			9.5	7.8	7.0	7.5	8.2	8.8		3.7	1.2	
PV of public sector debt-to-revenue and grants ratio (in percent)	...	...	74.7			97.7	96.6	92.7	100.1	108.2	115.1		77.8	21.1	
PV of public sector debt-to-revenue ratio (in percent)	...	...	74.7			97.7	96.6	92.7	100.1	108.2	115.1		77.8	21.1	
of which: external 3/	...	...	11.8			16.4	16.9	16.8	18.8	20.3	21.2		14.4	3.1	
Debt service-to-revenue and grants ratio (in percent) 4/	4.6	4.5	6.7			8.9	8.2	8.2	8.7	8.8	9.1		8.4	2.5	
Debt service-to-revenue ratio (in percent) 4/	4.6	4.5	6.7			8.9	8.2	8.2	8.7	8.8	9.1		8.4	2.5	
Primary deficit that stabilizes the debt-to-GDP ratio	5.4	-4.0	-2.8			2.3	0.3	-0.1	0.7	1.3	1.8		0.3	0.2	
Key macroeconomic and fiscal assumptions															
Real GDP growth (in percent)	8.0	7.4	6.6	7.4	1.8	6.4	7.3	7.0	6.8	6.9	6.6	6.8	6.6	7.0	6.8
Average nominal interest rate on forex debt (in percent)	2.7	2.9	2.7	3.6	1.5	4.0	4.6	4.5	4.6	4.6	4.6	4.5	4.4	5.8	5.1
Average real interest rate on domestic debt (in percent)	-12.8	8.8	10.2	1.5	9.2	8.5	7.0	7.2	6.6	5.5	4.7	6.6	4.6	3.7	4.3
Real exchange rate depreciation (in percent, + indicates depreciation)	-19.5	4.8	-2.1	-5.2	12.3	-0.5	...	...	...	...	...	...	...	...	...
Inflation rate (GDP deflator, in percent)	26.8	2.3	2.0	11.3	10.2	2.5	3.4	3.0	3.3	4.0	4.5	3.4	5.6	6.3	5.8
Growth of real primary spending (deflated by GDP deflator, in percent)	0.1	0.2	-0.1	0.1	0.1	0.0	0.0	0.1	0.0	0.0	0.0	0.0	0.1	0.1	0.1
Grant element of new external borrowing (in percent)	...	...	...	...	...	6.9	10.1	9.3	8.3	5.2	4.9	7.5	7.0	4.4	...

Sources: Country authorities; and staff estimates and projections.

1/ The public sector refers to federal, state, and local governments. Debt refers to gross debt and public sector assets such as the excess crude account (ECA) are not netted out.

2/ Gross financing need is defined as the primary deficit plus debt service plus the stock of short-term debt at the end of the last period.

3/ Revenues excluding grants.

4/ Debt service is defined as the sum of interest and amortization of medium- and long-term debt.

5/ Historical averages and standard deviations are generally derived over the past 10 years, subject to data availability.

Table 4.Nigeria: Sensitivity Analysis for Key Indicators of Public Debt 2013-2033

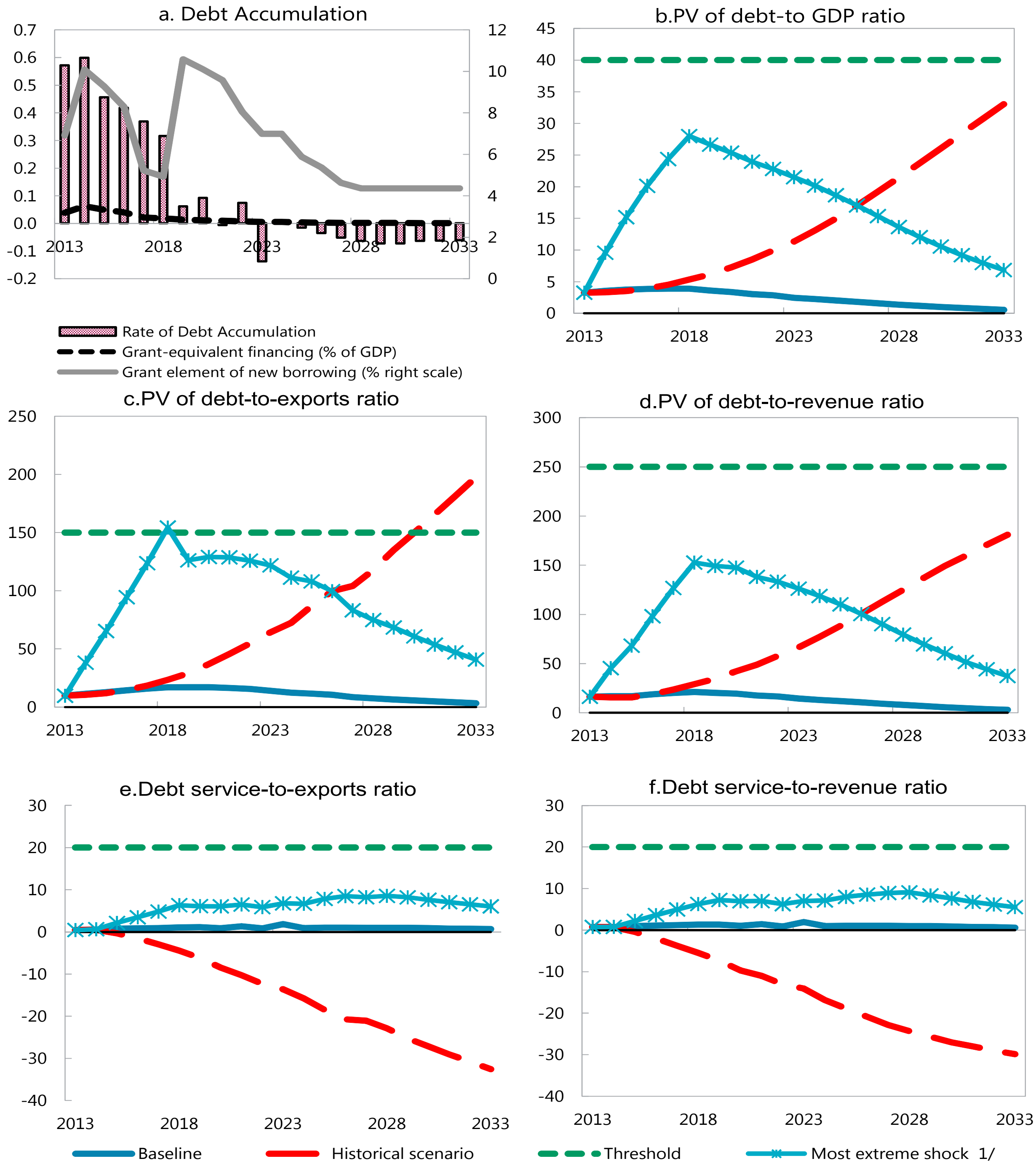
	Projections							
	2013	2014	2015	2016	2017	2018	2023	2033
PV of Debt-to-GDP Ratio								
Baseline	20	20	21	21	21	21	13	4
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	20	15	12	7	3	-2	-16	-39
A2. Primary balance is unchanged from 2013	20	22	25	27	28	29	41	50
A3. Permanently lower GDP growth 1/	20	21	21	21	22	22	17	15
A4. Alternative Scenario :[Revenue]	20	20	21	21	21	21	18	14
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2014-2015	20	21	22	23	23	24	18	11
B2. Primary balance is at historical average minus one standard deviations in 2014-2015	20	23	26	26	26	26	18	7
B3. Combination of B1-B2 using one half standard deviation shocks	20	19	19	20	20	21	14	6
B4. One-time 30 percent real depreciation in 2014	20	22	22	22	22	22	15	5
B5. 10 percent of GDP increase in other debt-creating flows in 2014	20	30	30	30	30	30	20	8
PV of Debt-to-Revenue Ratio 2/								
Baseline	98	97	93	100	108	115	78	21
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	98	73	53	36	14	-13	-96	-215
A2. Primary balance is unchanged from 2013	98	105	112	132	148	160	238	275
A3. Permanently lower GDP growth 1/	98	97	94	103	113	123	99	81
A4. Alternative Scenario :[Revenue]	98	97	93	100	108	115	118	83
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2014-2015	98	100	100	110	122	132	105	58
B2. Primary balance is at historical average minus one standard deviations in 2014-2015	98	108	119	128	137	144	103	36
B3. Combination of B1-B2 using one half standard deviation shocks	98	91	87	95	104	112	81	32
B4. One-time 30 percent real depreciation in 2014	98	103	99	107	115	122	85	27
B5. 10 percent of GDP increase in other debt-creating flows in 2014	98	143	136	146	155	163	120	45
Debt Service-to-Revenue Ratio 2/								
Baseline	9	8	8	9	9	9	8	2
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	9	8	7	-6	-6	-17	-22	-41
A2. Primary balance is unchanged from 2013	9	8	9	14	18	21	42	48
A3. Permanently lower GDP growth 1/	9	8	8	9	10	10	12	13
A4. Alternative Scenario :[Revenue]	9	8	8	9	9	9	18	16
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2014-2015	9	8	9	10	11	12	14	9
B2. Primary balance is at historical average minus one standard deviations in 2014-2015	9	8	9	16	20	15	12	5
B3. Combination of B1-B2 using one half standard deviation shocks	9	8	8	5	8	8	9	4
B4. One-time 30 percent real depreciation in 2014	9	8	9	9	10	10	10	4
B5. 10 percent of GDP increase in other debt-creating flows in 2014	9	8	11	36	13	27	13	7

Sources: Country authorities; and staff estimates and projections.

1/ Assumes that real GDP growth is at baseline minus one standard deviation divided by the square root of the length of the projection period.

2/ Revenues are defined inclusive of grants.

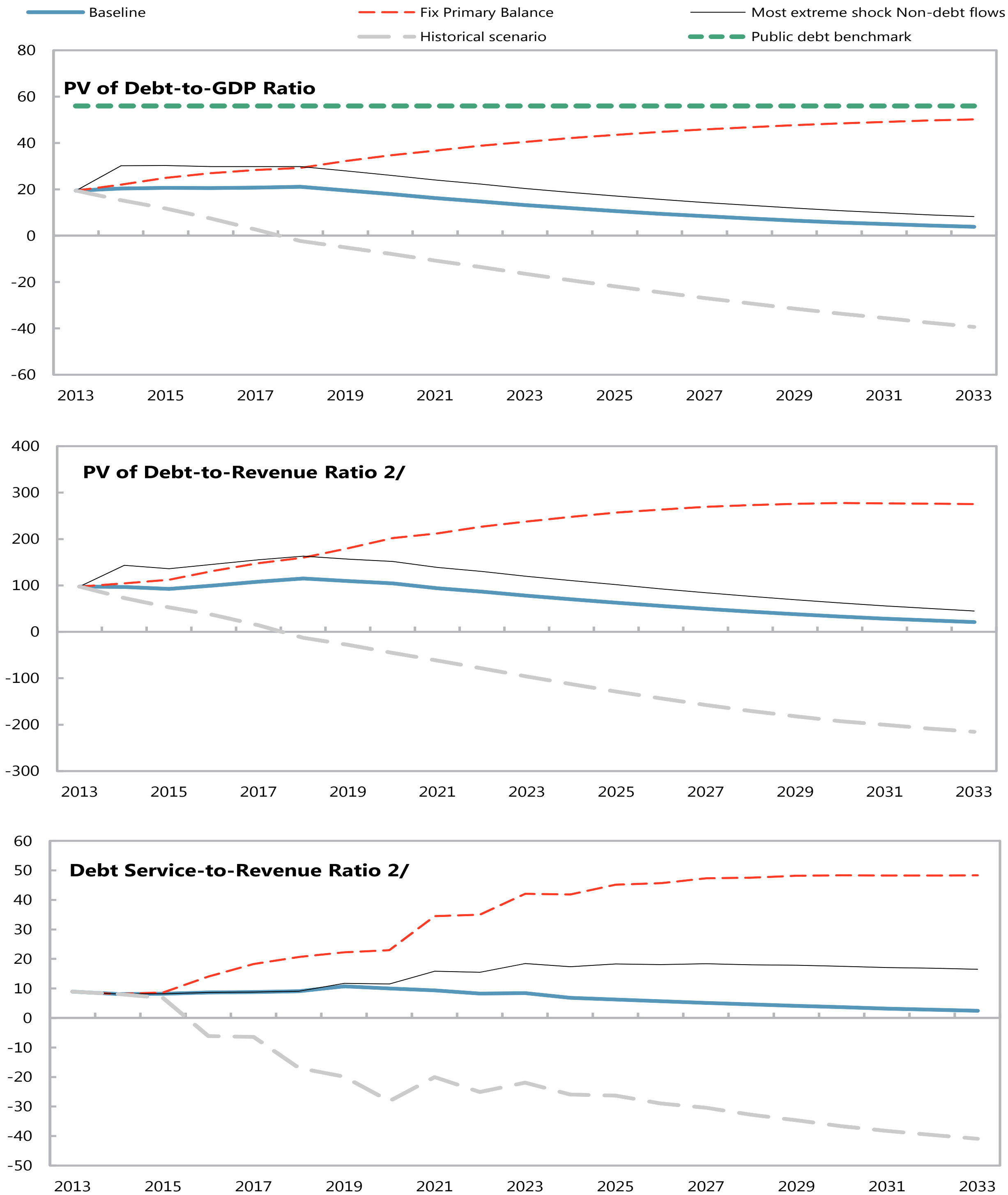
Figure 1. Nigeria: Indicators of Public and Publicly Guaranteed External Debt under Alternatives Scenarios, 2013-2033 1/



Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio in 2023. In all figures, it corresponds to the oil price shock.

Figure 2.Nigeria: Indicators of Public Debt Under Alternative Scenarios, 2013-2033 1/



Sources: Country authorities; and staff estimates and projections.
1/ The most extreme stress test is that which yields the highest ratio on or before 2023.
2/ Revenues are defined inclusive of grants.

INTERNATIONAL MONETARY FUND

NIGERIA

STAFF REPORT FOR THE 2013 ARTICLE IV CONSULTATION—INFORMATIONAL ANNEX

February 6, 2014

Prepared By | The African Department

CONTENTS

FUND RELATIONS

(As of December 31, 2013)

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

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

SDR Department:	**SDR Million**	**%Allocation**
Net cumulative allocation	1,675.38	100.00
Holdings	1,675.16	99.99

Outstanding Purchases and Loans: None

Latest Financial Arrangements:

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

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

	Forthcoming				
	2014	2015	2016	2017	2018
Principal					
Charges/Interest	0.01	0.01	0.01	0.01	0.01
Total	**0.01**	**0.01**	**0.01**	**0.01**	**0.01**

[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 other managed arrangement. The CBN explicitly aims to maintain an exchange rate fundamentally driven by market forces, but intervenes to reduce volatility and to counteract speculative attacks on the national currency. In recent years it has maintained an exchange rate band vis-à-vis the U.S. dollar and has recently allowed adjustment of the band's midpoint in response to market forces. The de facto exchange rate arrangement is also other managed arrangement. In spite of some stability of the Naira-U.S. dollar exchange rate, the nominal effective exchange rate has fluctuated considerably in recent years. The CBN publishes information on its interventions through auctions on its website; however, data on interventions in the interbank market are not disseminated. Nigeria is a signatory to the W-ERM II of the WAMZ, which requires that the spot exchange rate between the naira and the U.S. dollar be maintained within ±15% around the central rate. The CBN has not implemented this regime. Multiple currency prices are a technical characteristic of the CBN's Dutch auction system and give rise to a multiple currency practice under Article VIII of the Articles of Agreement.

Safeguards Assessment

Under the Fund's safeguards assessment policy, the Central Bank of Nigeria (CBN) was subject to a full safeguards assessment with respect to the Stand-By Arrangement 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 February 6, 2013.

Technical Assistance (TA) since January 2012:

Department	Purpose of TA mission	Duration
MCM	Bank Supervision	January 19 - June 3, 2012
LEG	AML/CFT Module V - NFIU	June 11 - 20, 2012
LEG	AML/CFT Module V - SEC	June 22 - 29, 2012
FAD	Managing Taxpayer Compliance	August 13 - 24, 2012
LEG	AML/CFT Module V - NAICOM & SCUML	August 27 - September 9, 2012
STA	Quarterly National Accounts	September 3 - 17, 2012
LEG	AML/CFT Structures and Tools - WAH	September 11, 2012
STA	Assessment/Evaluation	October 22 - 26, 2012
FAD	PFM Review - BTB - GHA13FA143 and SLL13FA144	November 5 - 16, 2012
MCM	Bank Resolution	November 13-December 3, 2012
FAD	Follow-Up Tax Administration	December 4 - 18, 2012
FAD	Participation in HQ mission to NGA	December 4 - 17, 2012
ICD	Advice on opening training center, Abuja	December 5 - 7, 2012
MCM	Bank Restructuring	January 21 - February 8, 2013
MCM	Evaluation Mission	January 23 - January 30, 2013
LEG	AML/CFT Module IV: Structures & Tools	February 20 - February 28, 2013
STA	National Accounts - Quarterly	March 4 - 15, 2013
MCM	Bank Resolution	April 10 - May 7, 2013
STA	International Investment Position	April 29 - May 10, 2013
LEG	Follow up TA of implementation of the recommendations	May 22 – 23, 2013
STA	National Accounts	June 10 – 21, 2013
MCM	Bank Resolution	June 26 - July 15, 2013
FAD	Follow up TA on process improvement and automation	July 18 - 31, 2013
STA	International Investment Position	August 12 – 23, 2013
LEG	Follow up TA of implementation of the recommendations	August 13 – 14, 2013
STA	National Accounts	September 9 - 27, 2013
STA	TA Evaluation	September 16 – 22, 2013
STA	Consumer Prices/Producer Price	September 16 - 27, 2013
FAD	STX visit (JSA4)	October 1 – 14, 2013
MCM	Financial Stability	November 11 - 15, 2013
MCM	Bank Resolution	November 11 - 15, 2013
LEG	Follow up TA of implementation of the recommendations	November 19 – 20, 2013

Department	Purpose of TA mission	Duration
FAD	Gap analysis on fiscal reporting and transparency	November 26 – December 6, 2013
FAD	JSA Fiscal transparency & reporting (JSA4)	November 28 - December 6, 2013
MCM	Bank Supervision - Briefing	December 11 - 12, 2013
FAD	TSA and cash management	January 1 -14, 2014
FAD	JSA Fiscal transparency & reporting (JSA4)	January 10 -23, 2014
MCM	Bank Supervision	January 12, 2014 – January 11, 2015
MCM	Bank Resolution	January 15 – 24, 2014
STA	Collaboration with AfDB on Open Data Platform	January 20 - 24, 2014

Resident Representative:

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

JOINT WORLD BANK-IMF WORK PROGRAM, 2013–14

(As of December 31, 2013)

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

Title	Products	Provisional timing of missions (if relevant)	Expected delivery date
	A. Mutual Information on Relevant Work Programs		
Bank work program in next 12 months	*(i) Lending Programs*		
	Lagos Development Policy Operation (II)	January 2014	2014
	Edo Development Policy Operation (I)		2015
	Nigeria Electricity and Gas Improvement Project	Continuous	Ongoing
	Power Sector Guarantees Project	April 2012	2014
	Public/Private Partnership Project	Continuous	Ongoing
	Growth, Employment, and Markets in States (GEMS)	Continuous	Ongoing
	Public Sector Reform and Governance Development Project	Continuous	Ongoing
	State Expenditure Effectiveness for Opportunities and Results (SEEFOR)	Continuous	Ongoing
	Reform of Nigeria Development Finance Sector		2014
	Agriculture DPO 2		2014

Title	Products	Provisional timing of missions (if relevant)	Expected delivery date
	A. Mutual Information on Relevant Work Programs (continued)		
	(ii) Analytical and Advisory Activities		
	Transforming Nigeria into an African Lion	Continuous	2014
	Inclusive Finance	-	2014
	Drivers of Jobs and Growth; Investment Climate Assessment	-	2014
	Jobs Assessment	-	2014
	Programmatic Poverty Assessment	-	2014
	(iii) Trust Funds, other analyses, and on-going dialogue		
	Governance Partnership Facility: Nigeria-Strengthening Sector Governance & Promoting Partnerships in Service Delivery	Continuous	2014
	Multi-donor Trust Fund Facility: Studies on Effects of Multiple Taxation, Service Sectors, and Transnational Border Markets	-	Ongoing
	Multi-Donor Trust Fund for the Extractive Industries Transparency Initiative	-	Ongoing
	Trade Facilitation Facility	-	Ongoing
	Improved Transparency in the Financial, Oil and Gas Sectors in Nigeria	-	ongoing

Title	Products	Provisional timing of missions (if relevant)	Expected delivery date
	A. Mutual Information on Relevant Work Programs (concluded)		
IMF work program in next 12 months	*Article IV Consultation*	November, 2013	Board: February 2014
	Technical assistance		
	(i) *Fiscal issues*		
	STX visit (JSA4)	March 2014	
	TSA and cash management, program budgeting and IFMIS (FAD)	March 2014	
	TA in fiscal law	FY2015 (tentative)	
	(ii) *Monetary and financial issues*		
	Bank supervision (MCM)	Long-term expert	Until Jan. 2015
	Bank resolution (MCM)	Long-term expert	Until Jan. 2015
	Monetary operations (MCM)	Long-term expert	Until Feb. 2015
	Follow up of implementation of the recommendations (LEG)	March 2014	
	Bank resolution (MCM)	April 2014	
	Foreign Exchange Regulation—Article VIII	FY2015 (tentative)	
	Financial Stability Indicators	FY2015 (tentative)	
	(iii) *Statistics*		
	National Accounts (GDP rebasing)	February 2014 (tentative)	
	Balance of Payments Statistics –IIP Development (STA)	February 2014 and April 2014	

Title	Products	Provisional timing of missions (if relevant)	Expected delivery date
	B. Request for Work Program Inputs		
Fund request to Bank	Summary of Bank analysis and support for public financial management at all tiers of governments (including PERs)		Ongoing
Bank request to Fund	Regular update of Fund macroeconomic projections		Ongoing
	C. Agreement on Joint Products and Missions		
Joint products	Joint Bank-Fund Debt Sustainability Analysis	November-December 2013	Board: February 2014

STATISTICAL ISSUES

(As of December 31, 2013)

I. Assessment of Data Adequacy for Surveillance

General: Macroeconomic data are broadly adequate for surveillance; however serious data deficiencies—in particular, inadequate information on subnational public finances and large errors and omissions in the balance of payments—continue to hamper policy design and monitoring.
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. Nevertheless, a number of problems continue to prevent the compilation of timely and internally consistent data, in particular, lack of good source data and insufficient computerization.

National accounts: Basic statistics are extensively available for the compilation of national accounts, but their quality is not always satisfactory owing to high non-response rates, inaccuracy of reported data, and methodology used. The reliance on the consumer price index to construct the constant price GDP series leads to weaknesses. The supply and use table (SUT) and introduction of additional indices, such as a producer price index, would facilitate more accurate estimation of the constant price measure. The authorities are receiving Technical Assistance (TA) from the Fund, World Bank, and African Development Bank in completing a GDP rebasing exercise. The rebased GDP (base year =2010) and supply and use table are expected to reflect the significant change that has taken place in the structure of the economy since the previous rebasing in 1990. In addition, the conduct of a census of businesses, a census of agriculture, and a household living conditions survey in 2014 will contribute to further improvements in the measurement of GDP.

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. Work is also underway to assess the concepts and methods used to compile the consumer price index (CPI).

Government finance statistics: Fiscal data are incomplete and complicated not only by the federal structure but also by a multiplicity of off-budget funds. The most pressing shortcomings are related to inadequate data coverage, particularly of the subnational governments, which comprise almost one-half of total government expenditure. The federal government has limited information on the subnational fiscal accounts, making it difficult to target a consolidated fiscal balance; efforts to address this issue have been stymied by constitutional restrictions. Although a recent STA TA Evaluation mission found that the CBN has gathered a substantial amount of data on state and local governments, these data are yet to be processed and are subject to further review. To facilitate the timely preparation of a consolidated set of fiscal accounts, governments at all levels need to use budget classification, chart of accounts, and accounting systems that will allow consistent classifications of the data. 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 parastatals.

Monetary and financial statistics: There have been significant improvements in the compilation of monetary statistics. Earlier problems with the CBN accounting framework and IT issues, which had contributed to significant distortions in reported monetary data, have now been resolved. There is need for a clearer measure of commercial banks' foreign assets and liabilities that captures both their on- and off-balance sheet exposures. The definition of the other depository corporations (ODCs) sector should also be extended beyond commercial banks to include all deposit-taking financial institutions, such as microfinance banks and primary mortgage institutions. **Financial soundness indicators**: A broad range of information on the financial sector, including both core and a number of non-core financial soundness indicators, is compiled by the CBN. The CBN is currently working to improve the methodology used to compile FSIs and enhance disclosure practices.
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 technical assistance, the authorities have expanded the range and improved the quality of data sources, aimed at strengthening the balance of payments and producing an international investment position. There are however still large 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 zone (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, will help improve source data by recording more accurately cross-border private capital flows and stocks. The authorities have not yet initiated 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.

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-December 2013)

	Date of latest observation	Date received	Frequency of Data[1]	Frequency of Reporting[1]	Frequency of Publication[1]
Exchange Rates	Dec. 2013	Jan. 2014	D	D	D
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[2]	Dec. 2013	Jan. 2014	M	M	M
Reserve/Base Money	Dec. 2013	Jan. 2014	M	M	M
Broad Money	Dec. 2013	Jan. 2014	M	M	M
Central Bank Balance Sheet	Dec. 2013	Jan. 2014	M	M	M
Consolidated Balance Sheet of the Banking System	Dec. 2013	Jan. 2014	M	M	M
Interest Rates[3]	Dec. 2013	Jan. 2014	D	D	D
Consumer Price Index	Dec. 2013	Jan. 2014	M	M	M
Revenue, Expenditure, Balance and Composition of Financing[4] – General Government[5]	2012	Nov. 2013	A	A	A
Revenue, Expenditure, Balance and Composition of Financing[4] – General Government[5]	Sep. 2013	Nov. 2013	M	M	M
Stocks of Central Government and Central Government-Guaranteed Debt[6]	Sep. 2013	Nov. 2013	Q	Q	Q
External Current Account Balance	Jun. 2013	Nov. 2013	Q	Q	A
Exports and Imports of Goods and Services	Jun. 2013	Nov. 2013	Q	Q	A
GDP/GNP	Sep. 2013	Nov. 2013	Q	Q	Q
Gross External Debt	Sep. 2013	Nov. 2013	A	A	A
International Investment Position[7]	2012	Nov. 2013	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 state 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.

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FOR IMMEDIATE RELEASE
March 7, 2014

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

IMF Executive Board Concludes 2014 Article IV Consultation with Nigeria

On February 21, 2014, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation[1] with Nigeria.

Real GDP is projected to grow at 6.4 percent in 2013 owing to continued strong performance in the non-oil sector. Inflation declined to 7.9 percent at year end, supported by lower food price, fiscal consolidation, and a tight monetary policy stance. The external current account surplus fell to 3.1 percent of GDP from 7.8 percent at end-2012, but reserves remained at a comfortable 5.6 months of next year's imports, despite uncertainties about the timing of the tapering of unconventional monetary policies. The non-oil primary deficit of the consolidated government is projected to narrow from expenditure restraint, but a shortfall in oil revenues resulted in a drawdown of the Excess Crude Account (ECA), a key fiscal buffer. Despite significant job creation, unemployment and poverty are high and social indicators lag those of peers. Continued weaknesses in labor markets, access to electricity, cost of doing business, and small and medium enterprises' access to finance have prevented a transition to a more robust and inclusive growth path.

Economic growth is expected to improve further in 2014, driven by agriculture, trade, and services. Inflation should continue to decline, with lower food prices from higher rice and wheat production and supported by a tight monetary policy and a budget execution that maintains medium-term consolidation objectives. The current account is also expected to improve. Key risks to be managed include: (i) uncertainty about the pace of global recovery; (ii) unwinding of UMP; (iii) persistently lower oil prices; (iv) persistent oil production losses; (v) continuation of insurgency in the North; and (vi) slow implementation of reforms.

Sound and balanced economic policies over the medium term are critical. Policies should focus on rebuilding external and fiscal buffers, avoiding spending pressures from the political cycle,

[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.

strengthening the transparency and governance of the oil sector, and enhancing financial stability, while promoting the availability of and access to finance. Over the medium term, it will be vital to ensure the steady implementation of the wide-range of structural reforms necessary to improve competitiveness and productivity, boost growth and job creation, strengthen governance, and build social cohesion.

Executive Board Assessment[2]

Executive Directors welcomed Nigeria's continued strong macroeconomic performance, underpinned particularly by sustained high growth in the non oil sector. Inflation has continued to decline and the reserves position is adequate. While the economic outlook remains favorable, key risks include continued lower oil revenues from oil production losses and lower oil prices, the impact from the unwinding of unconventional monetary policy in advanced economies, and domestic political and security uncertainties. Directors underscored that steadfast implementation of prudent macroeconomic policies and reforms will be essential to address the risks and vulnerabilities, generate more inclusive and balanced growth, and reduce unemployment.

Directors welcomed the authorities' continued commitment to fiscal consolidation and noted the improvements made to the fiscal framework. However, to ensure macroeconomic stability, they emphasized the need to rebuild fiscal buffers and to strengthen the framework further. Efforts should be geared towards boosting non oil revenue by broadening the tax base, improving tax administration and curtailing exemptions, and further reducing oil subsidies. Directors underscored that adopting a rule based reference oil price in fiscal projections and further strengthening public financial management should help the authorities achieve their consolidation objectives. They also highlighted the need for improving oil revenue management, including by completing the transition from the Excess Crude Account to the Sovereign Wealth Fund. These measures should be supported by full implementation of the Treasury Single Account and the integrated information management systems. Maintaining fiscal discipline in the run up to the elections is also important.

Directors called for strong action to address oil theft and production losses. They advised the authorities to strengthen the regulatory framework by passing a sound Petroleum Industry Bill with enhanced oversight and transparency provisions. The framework for anti money laundering and combating the financing of terrorism could support these efforts.

Directors commended the authorities for lowering inflation and considered the current tight monetary policy stance to be appropriate, given the risks associated with potential capital flow

[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 summing up can be found here: http://www.imf.org/external/np/sec/misc/qualifiers.htm.

reversals. To better manage liquidity, they generally encouraged more reliance on open market operations to guide short term interest rates. With regard to exchange rate policy, Directors noted that greater exchange rate flexibility could serve as an important buffer against external shocks.

Directors noted that the financial system is well capitalized with low nonperforming loans. They recommended continued improvements in the supervisory framework, especially with regard to increased exposure from cross border financial activities. Directors encouraged the authorities to build on the progress made in strengthening prudential policies, including by further enhancing the framework for anti money laundering and combating the financing of terrorism, and implementing the remaining Financial Sector Assessment Program (FSAP) recommendations. They welcomed the plan to wind down the operations of the Asset Management Corporation of Nigeria.

Directors emphasized that structural reforms remain critical to improve competitiveness and productivity, and reduce poverty and inequality. They encouraged the authorities to persevere with their Transformation Agenda with continued focus on education and health reforms, the improvement of power supply, and broadening agricultural production. Reform efforts should also aim at enhancing the business environment, improving productivity, boosting financial access to small and medium sized enterprises, and strengthening governance and institutional capacity. The upcoming release of re based GDP data and further improvements in statistical data collection should strengthen the basis for policy and private sector decision making in Nigeria.

Nigeria: Selected Economic and Financial Indicators, 2010–2014

Nominal GDP (2012, billion U.S. dollars)	262.6	Quota (million SDR)	1,753.2
GNI per capita, Atlas method (2012, US$)	2,450	Population (2012, million)	168.8
Poverty headcount ratio (adult equivalent, 2009-10)	46.0	GINI index (2010)	48.8
Life expectancy at birth (2011, years)	52		

	2010 Act.	2011 Act.	2012 Act.	2013 Proj.	2014 Proj.
National income and prices			(Annual percentage change, unless otherwise specified)		
Real GDP (at 1990 factor cost)[1]	8.0	7.4	6.6	6.4	7.3
Oil and Gas GDP	5.2	-0.6	-0.2	-1.8	6.8
Non-oil GDP	8.5	8.9	7.8	7.7	7.4
Production of crude oil (million barrels per day)	2.46	2.37	2.34	2.30	2.39
Consumer price index (end of period)	11.7	10.3	12.0	7.9	7.0
Consolidated government operations[2]			(Percent of GDP)		
Total revenues and grants	20.0	29.9	25.3	20.0	21.1
Of which: oil and gas revenue	14.0	23.4	18.5	12.9	13.8
Total expenditure and net lending	26.9	29.4	25.4	24.6	24.0
Overall balance	-6.9	0.5	-0.4	-4.7	-2.9
Non-oil primary balance (percent of non-oil GDP)	-34.3	-36.0	-27.5	-24.0	-22.0
Excess Crude Account / SWF (billions of US$)	2.7	4.6	11.0	3.0	6.3
Money and credit			(Contribution to broad money growth, unless otherwise specified)		
Broad money (percentage change; end of period)	6.9	15.4	16.4	-5.2	14.3
Net foreign assets	-10.3	5.5	14.3	-3.4	1.3
Net domestic assets	17.2	9.9	2.1	-1.7	13.0
Treasury bill rate (percent; end of period)	7.5	14.3	13.3	10.9	...
External sector			(Annual percentage change, unless otherwise specified)		
Exports of goods and services	36.5	20.1	1.8	-2.1	2.4
Imports of goods and services	36.6	27.2	-10.6	13.8	4.6
Current account balance (percent of GDP)[3]	5.9	3.6	7.8	3.1	3.7
Terms of trade	10.0	9.1	1.4	-0.1	-0.4
Price of Nigerian oil (US$ per barrel)	79.0	109.0	110.0	109.0	104.0
Nominal effective exchange rate (end of period)	84.6	79.2	81.4	83.1	...
Real effective exchange rate (end of period)	117.9	119.8	135.6	150.1	...
Gross international reserves (US$ billions)	32.3	32.6	44.2	43.6	44.5
(Equivalent months of next year's imports)	4.5	5.0	6.0	5.7	5.5

Sources: Nigerian authorities; World Bank; and IMF staff estimates and projections.
[1] GDP is now being rebased to a base year of 2010.
[2] Consists of federal, state, and local governments.
[3] Large errors and omissions in the balance of payments suggest that the current account surplus is overestimated by a significant (but unknown) amount.

Statement by Mr. Nnanna, Alternate Executive Director for Nigeria
February 21, 2014

We welcome staff's comprehensive assessment of Nigeria's macroeconomic and policy environment in 2013 and the outlook. My Nigerian authorities are grateful to the Fund Management for its candid advice and also appreciative of the mission's constructive engagement. Overall, the report represents a fair and balanced assessment of the government's policies under the Transformation Agenda. Nevertheless, we have additional information we would like to share with Directors aimed at updating the report, enhancing its clarity and completeness.

Generally, my authorities regret that the report appears overly qualified and skeptical especially when discussing recent achievements and progress made by government. Nigeria maintained a very strong record of economic growth in the past decade. Real GDP has averaged about 7 percent per annum and according to staff projections, the trend is likely to continue in the near term. Growth has been driven by a combination of domestic demand and exports – especially crude oil. Inflation has been subdued, aided by abundant supply of domestically produced food crops. The external sector has been robust and the current account balance has been persistently in surplus in the past decade. The authorities have pursued sound fiscal and monetary policies which have ensured robust fiscal and foreign exchange buffers. Nigeria's public debt to GDP is less than 20 percent while the gross external reserve is approximately US 41.54 billion as at February 17, 2014 – equivalent to about 5.7 months of imports.

My authorities are of the view that:

- The various concerns raised particularly the high income inequality and poverty, as well as poor social and governance indicators are well known, and are the main reasons for the implementation of the Transformation Agenda. It may take a while for the trend to be effectively reversed given the large number of new entrants into the labor force each year, and the pre-existing stock of people already looking for job. However, in 2013alone about 1.6 million jobs were created, through government's job creation programs.

- Use of funds from the Excess Crude Account (ECA) to supplement revenue shortfall is proper, and that is what the account was meant for. However, there are initiatives to rebuild the fiscal buffer.

- As noted in the staff report, initiatives are underway to address the problem of oil production loss/theft even as the authorities remain open to additional advice including the use of AML/CFT framework and collaboration with the international community in finding lasting solution to the problem.

- Policies already being pursued by the Nigerian Government should be acknowledged as such, and not presented as though it is the IMF that is proposing them.

・The report also tends to exaggerate the downside risks from upcoming political elections or from the impact of potential drop in oil prices.

・The revenue sharing formula is presented in a somewhat confusing way. The simpler and more accurate revenue sharing formula is as follows: (i) Revenues accruing to the Federation Account: Federal Government (48.5%), State Governments (26.72%), Local Governments (20.6%), and Special funds (4.18%). (ii) Revenues in the VAT pool account: Federal Government (14%), Federal Capital Territory (1%), State Governments (50%), and Local Governments (35%).

In view of the above, we will only dwell on the policies and initiatives being pursued by the Nigerian authorities to address the various concerns in the near to medium term.

Macroeconomic Policies Going Forward:
The authorities' focus is on continuation with macroeconomic and structural reforms, supported by growth – enhancing policies.

Fiscal Policy:
The objective of the 2014 budget is to achieve and sustain inclusive growth. A mix of innovative revenue mobilization and public expenditure rationalization is expected to help rebuild the depleted fiscal buffers, and keep fiscal deficits within targeted 3 per cent of GDP as prescribed by law. Steps have been initiated to increase revenues by blocking leakages from various sources and enhancing the transparency of revenue remittance to the treasury by revenue generating agencies. To this end, tax administration has been strengthened. Central to this, is the transparent management of oil revenue flows to the government. In this regard, the swift passage of the petroleum industry bill which is now before the parliament has become a priority.

On the expenditure side, the focus is on freeing resources from recurrent expenditure toward capital spending, and channeling same towards critical infrastructure that would aid the development of the private sector, reduce the cost of doing business in the country and ultimately, reduce unemployment and poverty. This is to be achieved through reduction in the cost of governance, better management of the subsidy scheme, and improvement in public financial management. Already there are plans to extend the various public expenditure management systems such as the Treasury Single Account, the Government Integrated Financial Management Information System, and the Integrated Payroll and Personnel Information System to all ministries, departments and agencies that are not yet the platforms in the cause of the year. The new policy on oversee travels and training is expected to further reduce the cost of governance.

The government acknowledges that it faces a challenge in rebuilding its fiscal buffer –particularly, the Excess Crude Account (ECA). This account was created through a political arrangement whose legality is being challenged by sub-national government in a competent court of law. In spite of this, the Federal Government is committed to rebuild the excess crude account by looking closely at the operation of the oil accounts including forensic audit of the national oil companies and other major operators. However, with the recent addition of$550 million to the

Sovereign Wealth Fund, the total balance in the account now stands at$1.55 billion while the total amount of buffer the economy currently have (including the Excess Crude Account) is $3.6 billion

Monetary Policy:
Throughout 2013, the monetary authorities maintained tight monetary policy stance in response to heightened inflationary pressures using appropriate mix of policy instruments. They also strived to ensure exchange rate stability with necessary adjustments to align it to economic fundamentals. The immediate impact of these measures is the achievement of single digit inflation which the authorities intend to keep within the 6 – 9 percent band in2014. The monetary policy stance and the exchange rate policies are expected to continue, as the recent decision of the Monetary Policy Committee indicates. This is occasioned by the current liquidity challenges, which may increase in accordance with the anticipated increase in spending in the run-up to the general elections in 2015. The concern by staff over the use of cash reserve requirement instead of reliance on open market operation is well noted. The authorities stand ready to deploy appropriate instruments as situation warrants.

Financial Stability and Inclusion:
With the successful stabilization of the financial system after the domestic banking crisis, the focus of the authorities has turned to strengthening the financial system and repositioning I t to play a greater role in the Transformation Agenda. This was evidenced in the sector's active involvement in the privatization of the power companies in 2013. More of this role is expected in 2014 and beyond. It is in this sense that the authorities strive to strengthen the risk-based and cross border supervision frameworks, and ensure transparency in the operation of the financial system. This is attested to by the numerous memorandum of understanding signed between Nigeria and countries hosting subsidiaries of Nigerian banks on cross-border supervision, and Nigeria's participation in the regional College of Supervisors.

The authorities are also strengthening the legal and institutional frameworks for financial sector regulation and crisis resolution. Already, a diagnostic study of the entire financial system is underway. Additionally, the special purpose vehicle for bank crisis resolution – the Asset Management Corporation of Nigeria (AMCON) – has been directed to desist from further purchase of additional assets from banks to avoid moral hazard and ensure prudent risk management. The company is also expected to redeem all its debt held by deposit money banks by October 2014. The authorities are working on the appropriate exit date for AMCON. It should be noted that a Sinking Fund was established by AMCON and Deposit Money banks (DMBs) intended for the liquidation of potential loss to be incurred by AMCON. It is expected that this buffer will significantly minimize the contingent liability of the government arising from the operations of AMCON.

Nigeria is no longer in the FATF's list of countries with significant weaknesses in AML/CFT standards as a relatively well developed AML framework is in place. However, preparations for the next mutual evaluation of compliance with the new FATF international AML/CFT standards have begun. It is equally important to note that efforts are on to increase financial inclusion. The initiatives under the National Financial Inclusion Strategy include extension of coverage of Mobile Payment System and other Cash-less Policies to all parts of the country, and implementation of Credit Enhancement Schemes/Programs to empower micro, small, and medium enterprises such as the Micro, Small and Medium Enterprises Development Fund, The Nigerian Incentive-Based Risk Sharing System for Agricultural Lending, Entrepreneurship Development Centers, Restructuring and Refinancing Facilities for SMEs, and SME Credit Guarantee Scheme.

Improving Competitiveness and Productivity:
The authorities view structural reforms as the surest way to diversify the economy and improve competitiveness and productivity. The multi-faceted approach adopted in the Transformation Agenda include developing a viable value chain within the agricultural sector, entertainment industry, non-oil minerals, and real estate as well as improvement in power, road and port infrastructure, education, and health. Equally important is enhancement of credit access for agriculture and small and medium scale enterprises. Significant progress has been recorded in all these areas. We shall only focus on few of them.

Agriculture
In agriculture, the focus is on achieving the twin goals of job creation and inclusive growth through critical sectoral initiatives, particularly for the major crops with significant export potentials such as rice, cassava, sorghum, oil palm, cocoa, and cotton. The key initiative is the Government's Growth Enhancement Scheme through which an estimated 4.2 million farmers received subsidized inputs in 2013. There is also collaboration with the private sector to improve financing for the sector through funds such as the $100 million Fund for Agricultural Finance in Nigeria which would serve as agriculture focused private equity fund. New agro-industrial clusters are also being established across the country. The ultimate goal is to achieve self sufficiency in the production of basic staple food. In terms of employment creation, the target is to attract over 750,000 young Nigerians into agribusiness through the Youth Employment in Agriculture initiative. Meanwhile, in 2013, over 250,000farmers producing 1.1 million metric tons of dry season rice were engaged. The authorities intend to continue with fiscal incentives to the sector.

Power and other infrastructure
Epileptic power supply has been a binding constraint to industrialization in Nigeria. However, this challenge is now being addressed decisively. Significant milestone was achieved in 2013 with the privatization of 4 power generation companies and 10 power distribution companies. The successful bidders for the remaining one generation company and two distribution companies were announced, and the initial bid amount (25 percent of the bid price) has been paid by the bidders. Within the year $1.5 billion in financing was mobilized from multilateral sources to invest in the transmission network. The power market intermediaries such as the Nigerian Bulk Electricity Trading Plc were strengthened with over120 billion naira in financing. This is in addition to the commencement of construction of a new 700MW Hydro-Power project. In 2014, the focus is on completing the privatization of the National Integrated Power projects, expedited

work on gas pipeline infrastructure for the power projects, further investment in hydro-electric power, and efficient transmission of power. The government also plans to accelerate work on ongoing road and rail projects across the country, speed up upgrading of communication technology, and aviation infrastructures especially the construction of five new airport terminals and 13 perishable air cargo terminals.

Small, Medium, and Large Enterprises

The authorities are also focusing on small, medium and large enterprises for employment creation and industrialization. Recently, the Nigerian Industrial Revolution Plan (NIRP) and the Nigeria Enterprise Development Program (NEDP) were launched by the President. The aim of NEDP is to help small and medium enterprises with business development support, access to finance and training needs. The NIRP is expected to accelerate growth in those industries where Nigeria has comparative and competitive advantages such as the processing of food and agricultural products, metals and solid minerals processing, oil and gas related industries, construction, light manufacturing and services. The target is to increase the contribution of the manufacturing sector to GDP from the present 4 percent, to more than 10percent over a five-year period.

To further support the industrialization process, a new wholesale development finance institution will be established by end-2014 to provide medium-to long-term financing for Nigerian businesses. The authorities are currently working with the World Bank, the Africa Development Bank, the BNDES Bank in Brazil, and other development partners to realize this project. This is in addition to restructuring of the Bank of Agriculture and Bank of Industry as specialized institutions to retail financing from this new wholesale development bank. Furthermore, the new Common External Tariff (CET) policy will provide additional support to emerging industries.

Social Safety Nets

In order to address the increasing inequality and vulnerability, my authorities have piloted a number of social safety net programs such as (i) the maternal and child health programs under the Saving One Million Lives program, (ii) routine immunization programs, and (iii)the conditional cash transfer and various community-driven development programs. The authorities intend to work with the World Bank to design a comprehensive social protection scheme.

Security

While security of lives and property of all Nigerians remains a priority of the Federal Government, special attention is given to the North East where security forces intensifying efforts to contain the Boko-Haram insurgents. To mitigate the impact on the citizens, the Federal government, in collaboration with development partners, is introducing a5 billion naira intervention program - the *Federal Initiative for the North East* (FINE) – for the region. This will facilitate rehabilitation of local schools and health clinics as well as provide additional assistance to farmers.

Conclusion

Over the last three years, my Nigerian authorities have made progress in laying the right foundation for enduring inclusive growth. This is evident in the strong growth performance even though it will take a while for it to translate into significant reduction in unemployment, inequality and poverty. The strong performance has also increased the confidence of the international community in the economy as demonstrated recently in the one billion-dollar Eurobond issue which was four times oversubscribed and the reaffirmation of the economy's BB- sovereign credit rating by rating agencies. Nigeria has become a prime destination of foreign direct investment in Africa. Given it market size, which would be significantly enhanced with the completion of the GDP rebasing exercise – done in collaboration with the IMF, the World Bank, and the African Development Bank – a lot of opportunities abound. Given the authorities' unswerving commitment to the implementation of structural reforms, it will not be long before these opportunities are translated into reality. Meanwhile, my authorities remain grateful to the Fund for the encouragement received through numerous technical assistance and policy advice over the years.