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MEETING**

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***Unless an objection from the authorities is received prior to the conclusion of the Board's consideration, the document will be published.**



NIGERIA

STAFF REPORT FOR THE 2021 ARTICLE IV CONSULTATION

December 14, 2021

KEY ISSUES

Context. The economy is recovering from a historic downturn thanks to policy support, rebounding oil prices and international financial assistance. Benefiting from the authorities' pro-active approach, COVID-19 infection rates and fatalities have been contained. With higher oil prices and the country entering into the 2023 Presidential election cycle, there are risks of delays in much needed fiscal and exchange rate reforms. Macroeconomic and structural policies should build confidence and ensure a robust exit from the crisis.

Policy Issues

Fiscal Policy. Significant additional domestic revenue mobilization is critical to reducing fiscal vulnerabilities and creating policy space. Key near-term measures would include a permanent removal of fuel subsidies in line with the Petroleum Industry Act (PIA), combined with compensatory measures for the poor and efficient and transparent use of the saved resources.

Exchange Rate Policies. A key move toward strengthening the external position would be to establish a unified and market-clearing exchange rate. Favorable external conditions provide a good opportunity. Clear communications regarding exchange rate policy going forward, and complementary macroeconomic and structural policies are required to preserve competitiveness gains from any exchange rate adjustment.

Monetary and Financial Sector Policies. In the near term, monetary policy will need to support the ongoing recovery and guard against inflationary expectations becoming entrenched. In the medium term, a strengthened operational framework and the primacy of price stability are required to tackle structurally high inflation. The financial sector is stable, including amid continued Central Bank support and regulatory forbearance, and warrants continued vigilance. Timely actions against undercapitalized banks and the introduction of additional macroprudential instruments are important to preserve stability.

Structural Policies. While the government has taken measures in recent years to improve transparency, further efforts are needed to reduce vulnerabilities to corruption through improving government efficiency, initiating civil service reforms, and ensuring full transparency and accountability of COVID-19 spending. Bold trade and agricultural reforms are important to ensure a job-rich, and inclusive recovery.

Approved By
Vivek Arora (AFR) and
Maria Gonzalez (SPR)

Discussions took place virtually during November 3-15, 2021 with some technical meetings during October 29-November 2. The team comprised Ms. Rahman (Mission chief), Mr. Aisen (Resident Representative), Messrs. Ree, Thomas (all AFR), Mr. Jung (FAD), Mr. Wezel (MCM), and Ms. Turk (SPR). Ms. Mangga, Mr. Shitile and Ms. Bonet (Resident Representative office) assisted the mission. Mr. Ekeocha (OED) and Mr. Saldarriaga (The World Bank) participated in most meetings. Ms. Bechara, Mr. El Khoury, Ms. Indulekha, (all LEG) participated in selected meetings. The mission held discussions with Vice President Osinbajo, Finance, Budget and Planning Minister Ahmed, Central Bank of Nigeria Governor Emefiele, and other senior government officials. The mission also met with representatives of financial institutions, private sector, development partners, and civil society. Ms. Delcambre, Ms. Pilouzoue and Ms. Synak provided excellent assistance for the preparation of this report.

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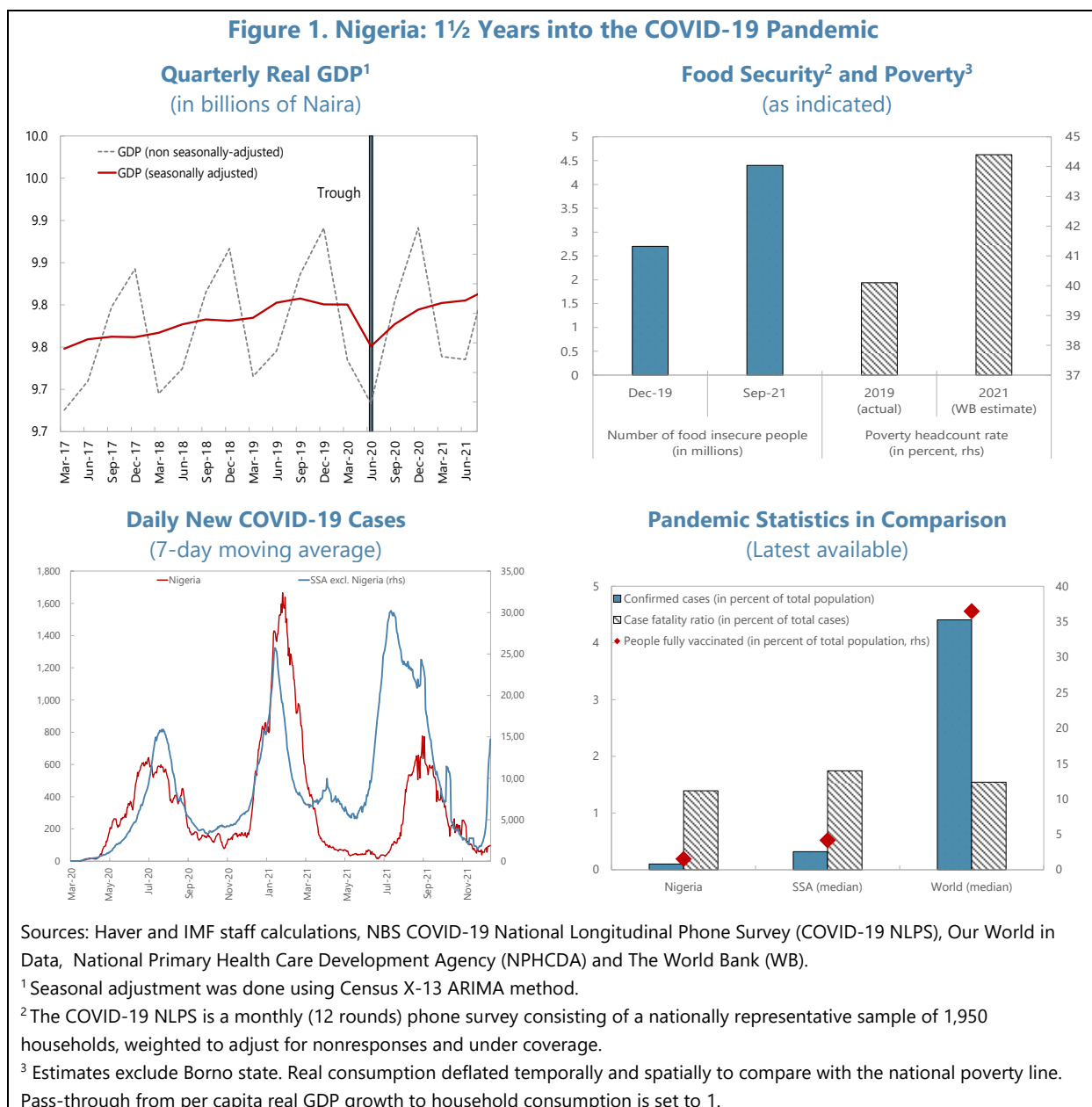
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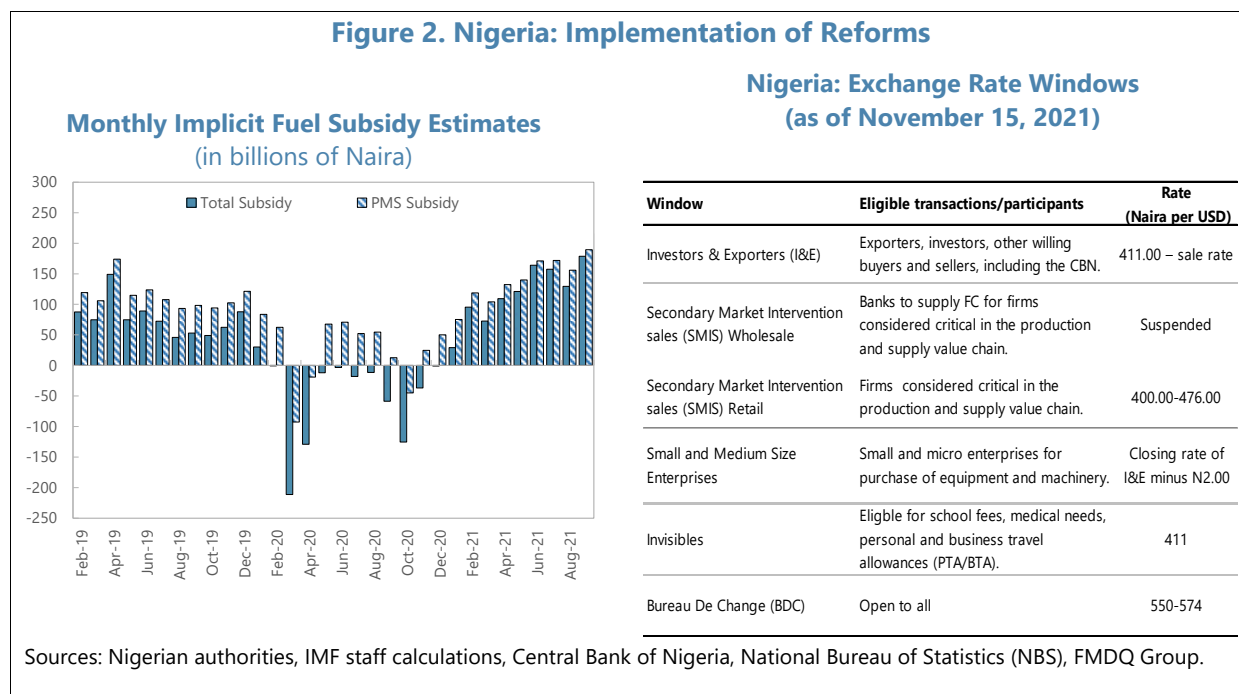
BACKGROUND

1. The economy is recovering from a historic downturn. Helped by policy support, the rebound in oil prices, and international financial aid, Nigeria exited the recession in 2020Q4, earlier than expected. The COVID-19 pandemic, however, is leaving a lasting imprint on the vulnerable with an increased number of people facing food insecurity and poverty (Figure 1). As much of the rest of Sub-Saharan Africa (SSA), Nigeria underwent a third wave of the pandemic in August 2021. The authorities' proactive actions, including a robust infection tracking system and strong coordination across various levels of government, have helped keep infection and fatality rates lower than in many other countries despite Nigeria's relatively limited access to vaccines.

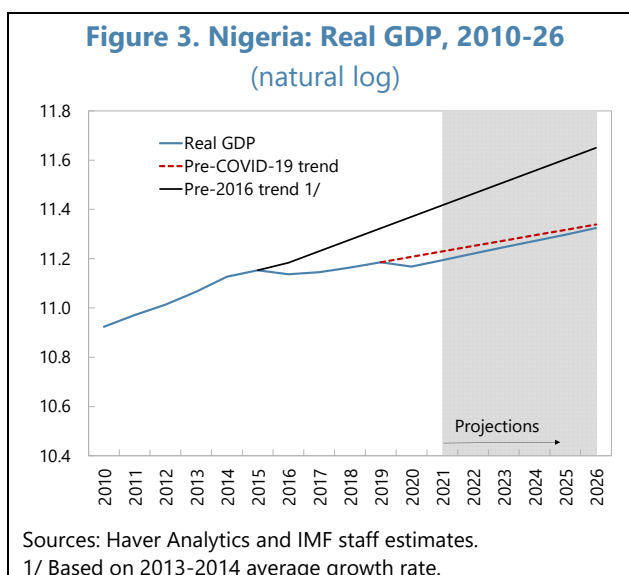


2. Policy developments since the 2020 Article IV consultation have been mixed. Fuel subsidies resurfaced at end-2020 as the authorities did not adopt a market-based fuel pricing

mechanism (Figure 2), one of the policy commitments made under the Rapid Financing Instrument (RFI) loan agreement (Annex 1). In August 2021, the long-awaited Petroleum Industry Act (PIA) was enacted providing clarity for the oil and gas sector (Box 1). The authorities discontinued the official exchange rate in May 2021—a welcome step toward unification—but have maintained the system of multiple exchange rate windows at the Central Bank of Nigeria (CBN) serving multiple purposes along with administrative restrictions (Figure 2).



3. Against this backdrop, the priority is to safeguard a durable and robust exit from the pandemic. Rejuvenating the reform agenda is urgent to secure a robust recovery.¹ Nigeria’s recovery from the 2015/16 crisis has been weak with a significantly lower real GDP trajectory (Figure 3). With volatile oil prices and the country entering into the 2023 Presidential election cycle, there are risks that reforms, including much needed fiscal and exchange rate reforms, could wane further. If that were to happen, economic loss inflicted by the pandemic could be deeper and more lasting.



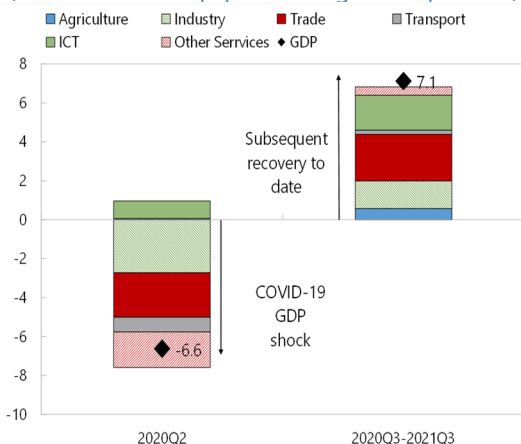
¹ The reform agenda includes significant revenue mobilization through tax administration and tax policy reforms, establishing a market-clearing unified exchange rate, reforming the monetary policy framework to improve transmission and better anchor price expectations, and implementing structural reforms to reduce protectionism, improve governance and reduce corruption risks. See SM/20/176 for details.

RECENT MACROECONOMIC DEVELOPMENTS

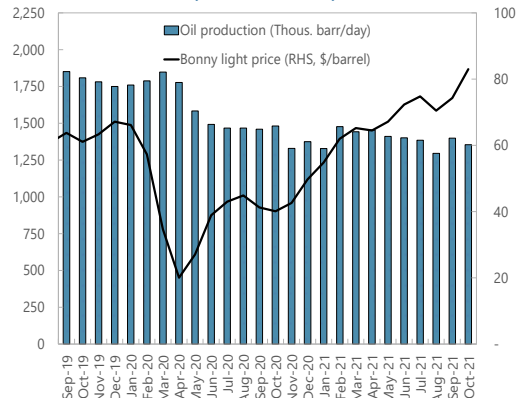
4. The economic recovery is well underway. Following a 6.6 percent (q/q, sa) contraction in 2020Q2, real GDP grew by a cumulative 7.1 percent (q/q, sa) in the subsequent five quarters. Growth has been supported by a trade recovery as lockdown measures were lifted and the information and communication technology sector that was strengthened during the pandemic (Figure 4). The 2021Q3 data shows real GDP recovery broadening to the manufacturing sector and November Purchasing Managers' Index shows four out of five indicators in the positive territory. Notwithstanding the overall rebound in oil prices since 2020, oil production, which accounts for roughly 10 percent of GDP, has remained subdued reflecting security and technical challenges and an ageing infrastructure. Headline inflation rose sharply during the pandemic reaching a peak of 18.2 percent y-o-y in March 2021. It declined to 16 percent by October helped by the new harvest season and re-opening of land borders. Reported unemployment rates (through end 2020) are still increasing although COVID-19 monthly surveys (through May 2021) show the employment level back at its pre-pandemic level, demonstrating labor market recovery.

Figure 4. Nigeria: Growth, Inflation and Unemployment

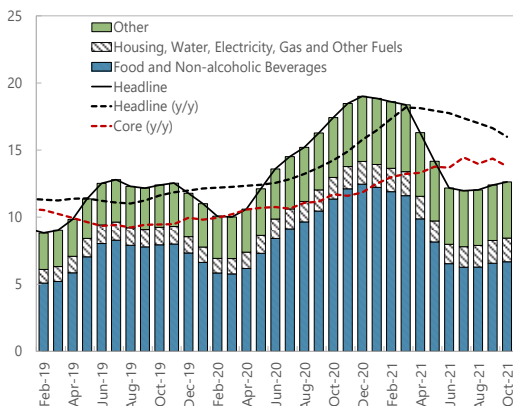
GDP Recovery by Sector
(contribution to q/q s.a. GDP growth, percent)



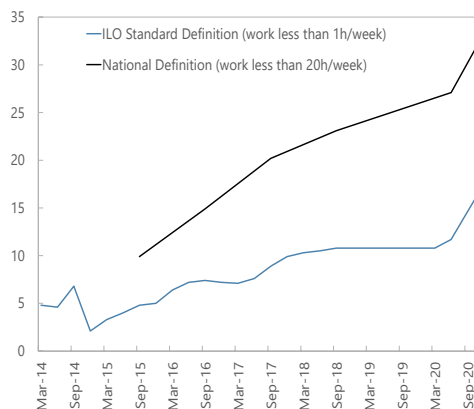
Oil Production and Price
(as indicated)



CPI Inflation and Contribution
(m/m annualized 3-m moving average unless otherwise indicated, in percent)

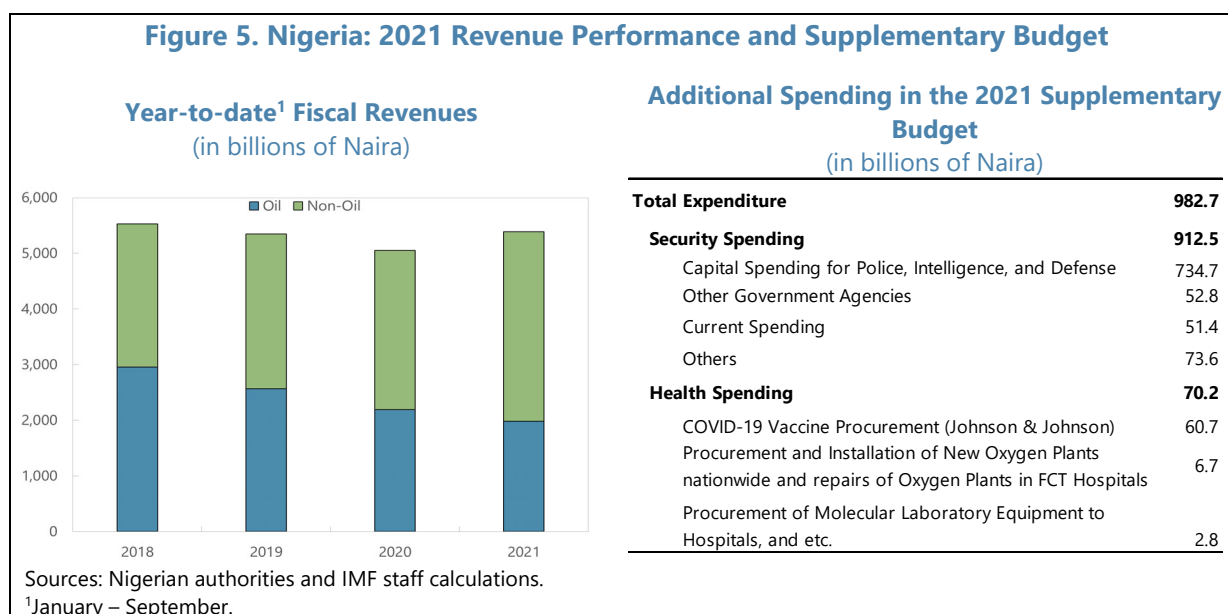


Unemployment Rate
(in percent of total labor force)



Sources: Haver, Organization of Petroleum Exporting Countries (OPEC), Bloomberg and IMF staff calculations.

5. Fiscal developments have been mixed. The resurgence of implicit oil subsidies has resulted in lower year-to-date oil revenues compared to 2020. Non-oil revenues, meanwhile, are increasing with the recovery (Figure 5). The authorities have deployed an in-house integrated tax administration system (TaxPro) and adopted plans for e-customs, but overall progress in tax administration reforms has been slow. The parliament passed a 2021 supplementary budget in July that increased spending to address the deteriorating security situation and, to a lesser degree, for the COVID-19 vaccination program.



6. The balance of payments (BOP) is improving. After registering a historic deficit in 2020, preliminary CBN data shows that the current account (CA) deficit narrowed in 2021H1 owing to increases in the trade balance and official transfers (Figure 6). The authorities placed several Eurobonds in September amidst strong investor interest. However, foreign capital inflows into domestic markets remain limited reflecting slow FX reforms, uncertainties regarding the ability to repatriate funds and negative real interest rates. Gross reserves stood at \$36.5 billion at end-2020 (equivalent to 72 percent of the IMF's Assessment of Reserve Adequacy (ARA) metric including the oil buffer) and rose to \$41.3 billion at end-October 2021 buoyed by the SDR allocation and Eurobond receipts.

7. Exchange rate developments show limited adjustment. The nominal effective exchange rate (NEER), based on the Investor and Exporters window rate (I&E rate), which is considered the main market rate, depreciated by 4.3 percent during January-October 2021, while high inflation relative to trading partners resulted in a slight appreciation of the real effective exchange rate (REER) (Figure 6). The premiums in the parallel market and the Bureau de Change (BDCs) exchange rates have stayed elevated and widened further following the authorities' decision to discontinue FX supply to the BDCs in July 2021.

Figure 6. Nigeria: External Sector and Exchange Rate Developments

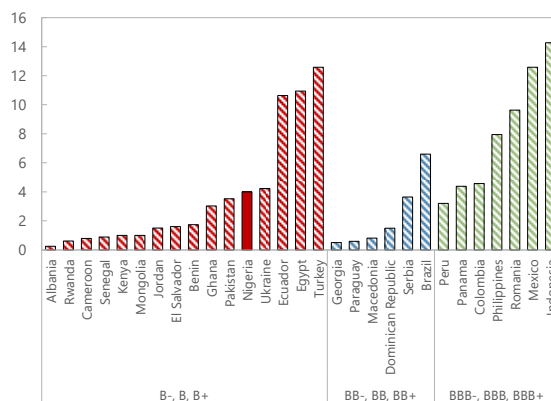
Current Account, 2020H1 and 2021H1

(billions of U.S. Dollars)



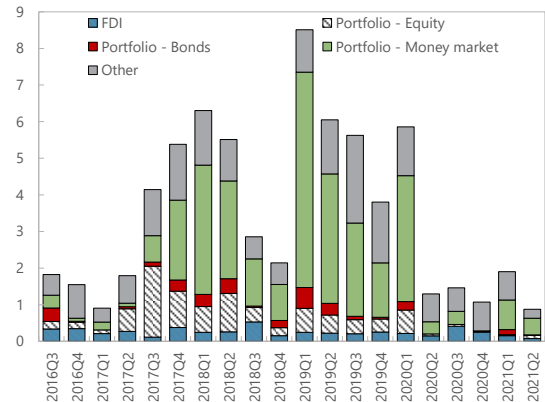
Eurobond Issuance in 2021

(billions of U.S. Dollars)



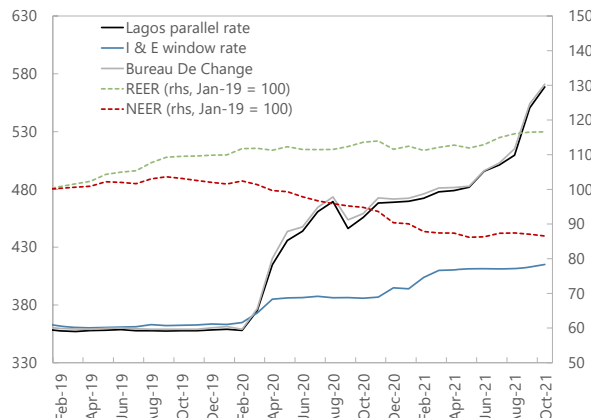
Gross Capital Inflows by Type

(billions of U.S. Dollars)



Exchange Rates

(Naira per U.S. Dollar, and indices)

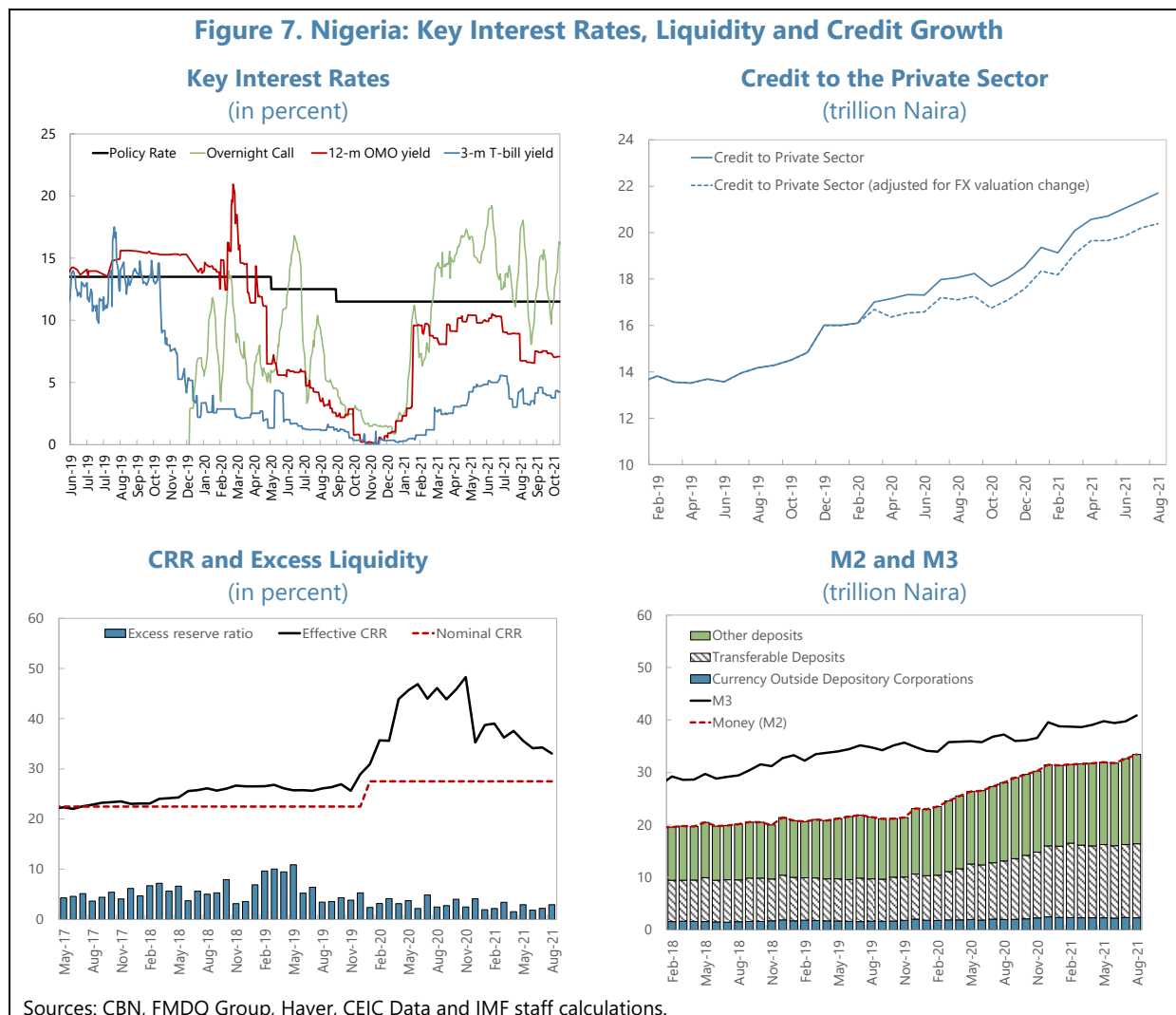


Sources: CBN, Bloomberg, National Bureau of Statistics (NBS), FMDQ Group, and staff calculations.

Note: The REER and NEER calculations are based on the I&E exchange rate.

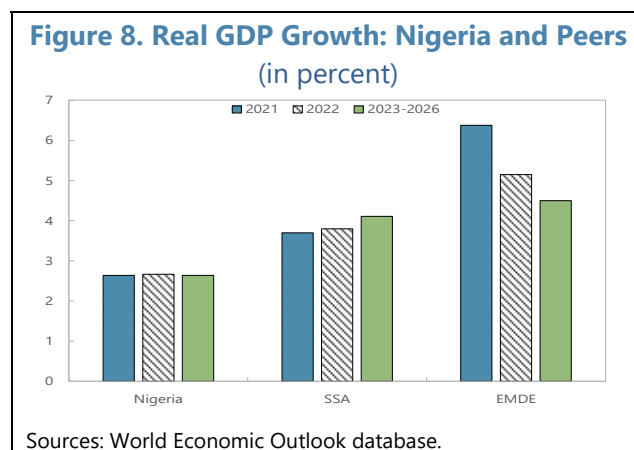
8. On balance, monetary policy has been accommodative. The CBN has left the Monetary Policy Rate (MPR) unchanged since September 2020 to support the recovery (Figure 7). Real lending rates have been negative which has helped increase credit to the economy, including through the CBN's intervention programs. The segmentation of the interbank and domestic capital markets remains, although key interest rates have moved closer. The authorities continue to keep interbank liquidity tight through the discretionary use of the unremunerated Cash Reserve Ratio (CRR) and, more recently, through the issuance of CBN special bills (Figure 7). Meanwhile, the policy to preclude non-bank domestic investors from reinvesting in the CBN Open Market Operations (OMO) bills since October 2019 increased deposits in the banking system leading to a surge in M2. Growth in M3 has been less pronounced due to the structural shift in components from OMO to deposits. In March 2021, the CBN extended the possibility for optional loan restructuring on a case-by-case basis through end-February 2022. With the launching of eNaira on October 25, Nigeria became one of the first countries in the world to introduce a Central Bank Digital Currency (CBDC) that is open to public (Box 2). The launch was motivated by the desire to leverage digital technology to improve

financial inclusion, increase remittances inflows and reduce informality. The initial take up has been strong with about half a million people downloading the consumer wallets in the first two weeks.



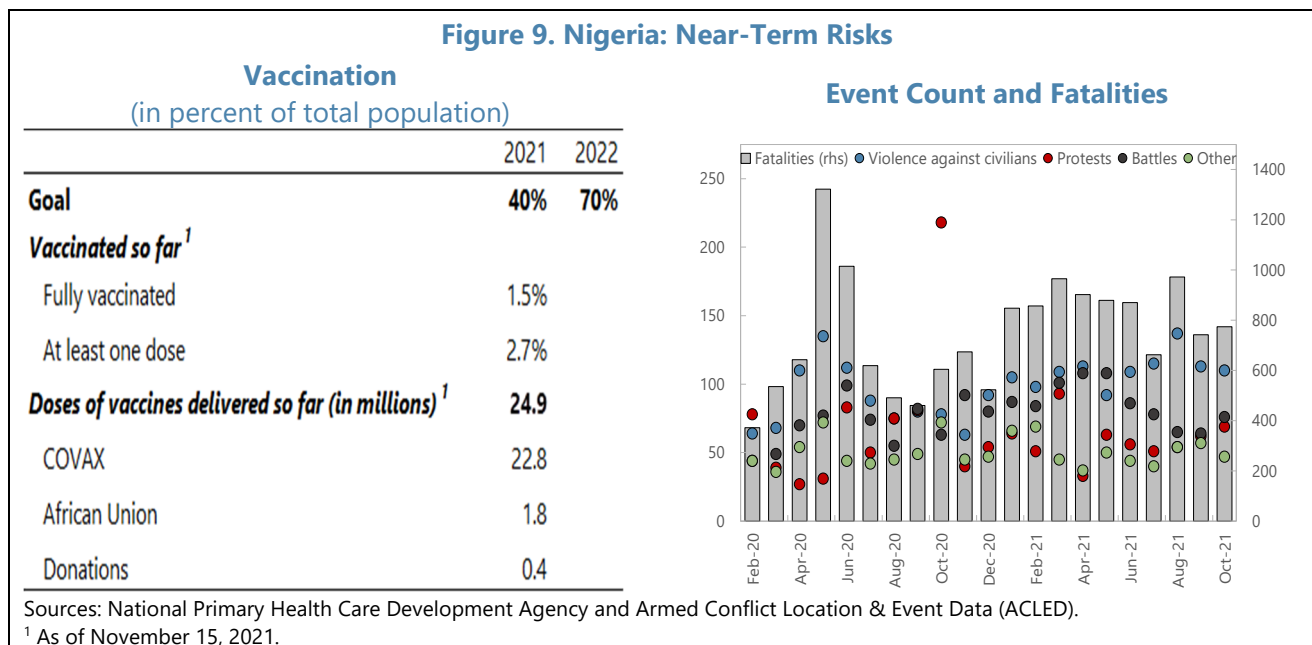
OUTLOOK AND RISKS

9. Under current policies, the growth outlook is subdued. Real GDP growth is projected at 2.6 and 2.7 percent respectively, for 2021 and 2022, remaining at that level in the medium term. Oil production is expected to increase gradually as security and technical challenges dissipate but to remain below the 2019 level. Non-oil growth is projected to broaden and receive a boost from the Dangote refinery coming on stream, but overall to remain sluggish owing to inward-looking policies, protracted FX shortages, and



infrastructure and utility gaps.² The projected medium-term growth rate would be only slightly above Nigeria’s population growth rate of 2½ percent and below the average growth rates in SSA and emerging market and developing countries (EMDEs) (Figure 8). Headline inflation is projected to settle in the low double digits, as supply-side shocks taper off, after increasing temporarily in 2022-23 due to the removal of fuel subsidies.³ The current account deficit is expected to decline on the back of improving trade balances. Modest levels of foreign capital inflows will likely result in limited accumulation of FX reserves in the medium term (Tables 1 and 2).

10. The outlook faces balanced risks (Annex II). On the downside, low vaccination rates partly owing to low supply continue to expose Nigeria to future pandemic waves and new variants. Uncertainties surrounding the ongoing omicron variant add to these risks including through adverse spillovers via oil prices (Figure 9). A worsening of violence and insecurity could become macro-critical, negatively affecting growth and inflation. Fiscal risks are clearly on the downside (¶14). Higher U.S. interest rates would raise the cost of market financing, and high debt service to government revenues would pose risks for fiscal sustainability (Annex III). On the upside, the non-oil sector’s recovery could be stronger benefiting from ongoing credit support policies, and from higher production from the Dangote refinery. The PIA’s more generous fiscal terms could bring in higher foreign investment in the oil sector. Nigeria’s ratification of the African Continental Free Trade Agreement (AfCFTA) could also yield a positive boost if accompanied by a reduction in trade barriers and improvement in trade logistics (see discussions in ¶24-¶25).



² The production of refined products is considered part of manufacturing. The authorities expect production at the Dangote refinery to be 650,000 barrels per day starting in 2022. Staff’s baseline projections assume production of 50,000 barrels per day in 2022 increasing to 300,000 barrels per day by 2026. The more conservative assumptions reflect lack of production details and delays incurred so far (the refinery was originally scheduled to have started production in 2016).

³ Petroleum Motor Spirit (PMS) prices are assumed to rise in mid-2022 by around 40 percent with an immediate impact on the CPI inflation (2 percent of the CPI basket). Transportation prices are assumed to rise in three steps in July 2023, January 2024, and July 2024 (0.8 percent of the CPI basket, assuming only the fuel component is affected).

Authorities' Views

11. The authorities are more optimistic about growth projections while acknowledging large uncertainties. They indicated that new investments made in conjunction with the government's 2021-25 National Development Plan (NDP), including the Lagos-Ibadan railway and highway, Lagos mass transit, Abuja-Kano road, as well as the Dangote refinery and its petrochemical by-products, are likely to result in much higher real GDP growth than projected by the staff. They acknowledged that the positive real per capita growth over the medium term would depend on further reforms. On the inflation outlook, the authorities shared staff's views but expected higher impacts on inflation from fuel subsidy removal due to possible second-round effects on wages.

12. The authorities acknowledged the need to remain vigilant on the COVID-19 response. On-going initiatives—such as a mass information campaign—would help reduce vaccine hesitancy. As these initiatives take root, however, supply-side challenges—in particular delayed vaccine delivery and limited availability—will need to be addressed with an increased sense of urgency.

POLICY DISCUSSIONS

A consistent macroeconomic policy mix, supported by a comprehensive capacity development strategy, is needed to ensure a robust recovery (Annex V). A multi-year revenue-based fiscal consolidation is urgent to create policy space and reduce sustainability risks together with establishing a market-clearing unified exchange rate to address persistent and prolonged FX shortages and improve FX buffers. A supportive monetary policy remains appropriate for now, but a gradual tightening will be required to reduce structurally high inflation. In the medium term, better monetary transmission mechanism, deeper trade reforms, and significant improvement in governance and corruption are required to enhance macroeconomic stability, growth, and public trust in reforms. Potential near-term negative impacts on the vulnerable from some of these measures will need to be cushioned through targeted social assistance.

A. Fiscal Policy: Create Policy Space

13. Staff's baseline projections point to fiscal deficits remaining elevated in the medium term. Despite the recovery in oil prices vis-a-vis 2020, the general government (GG) fiscal deficit is projected to widen in 2021 to 6.3 percent of GDP, mainly reflecting implicit fuel subsidies (1 percentage point of GDP) and higher spending in the supplementary budget (0.5 percentage point of GDP). Under the baseline, oil prices are expected to moderate over the medium

Text Table 1. Nigeria: Staff's Fiscal Projections for the General Government under the Baseline
(percent of GDP)

	2020	2021	2022	2023	2024	2025	2026
Total revenue	6.3	7.4	7	6.8	6.7	6.7	6.6
o.w. oil revenue	2.2	3	2.6	2.3	2.1	2	1.9
o.w. non-oil revenue	4.1	4.3	4.3	4.4	4.5	4.6	4.7
Total expenditure	12	13.7	13.4	12.4	12.6	12.8	12.9
o.w. fuel subsidy	0.1	1	0.5	-	-	-	-
o.w. covid-19 fund	0.3	-	-	-	-	-	-
Overall balance	-5.7	-6.3	-6.4	-5.7	-5.9	-6.2	-6.3
Public Debt	34.5	36	37.5	38.5	40	41.5	42.9
<i>Memorandum items</i>							
GG interest/revenue	33.5	29	32.8	36.6	41.7	46.3	51.2
FGN interest/revenue	88.8	85.5	92.6	96.3	110.9	124.9	139
Oil price (US\$/barrel)	42.3	66.9	65.9	63	61	59.4	58.4

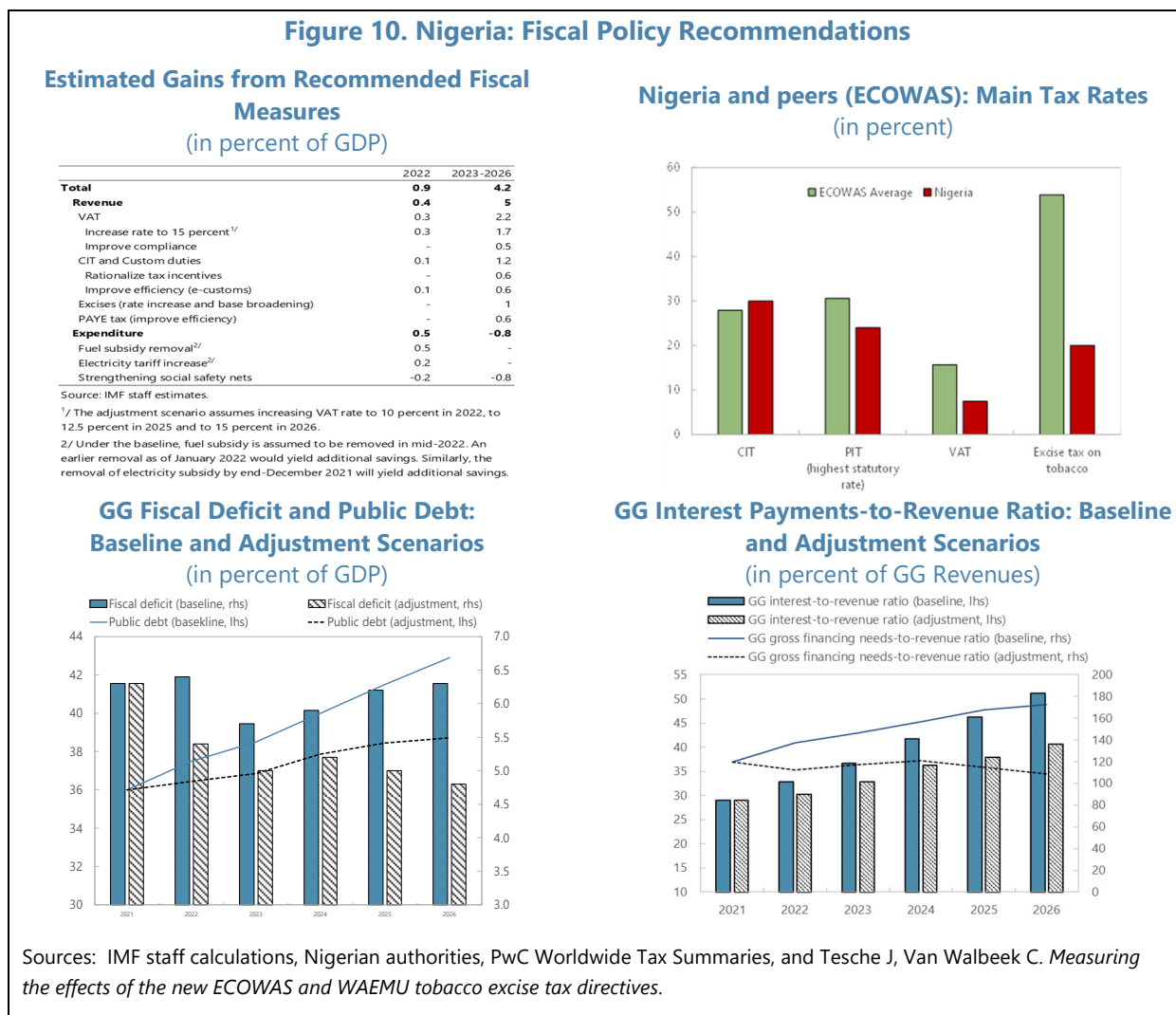
Source: IMF staff projections.

Note: In line with the enacted PIA and the draft 2022 budget, the baseline assumes no fuel subsidies beyond mid-2022 and no increase in tax rates. Limited gains in non-oil revenues result from ongoing tax administration reforms (TaxPro and e-customs).

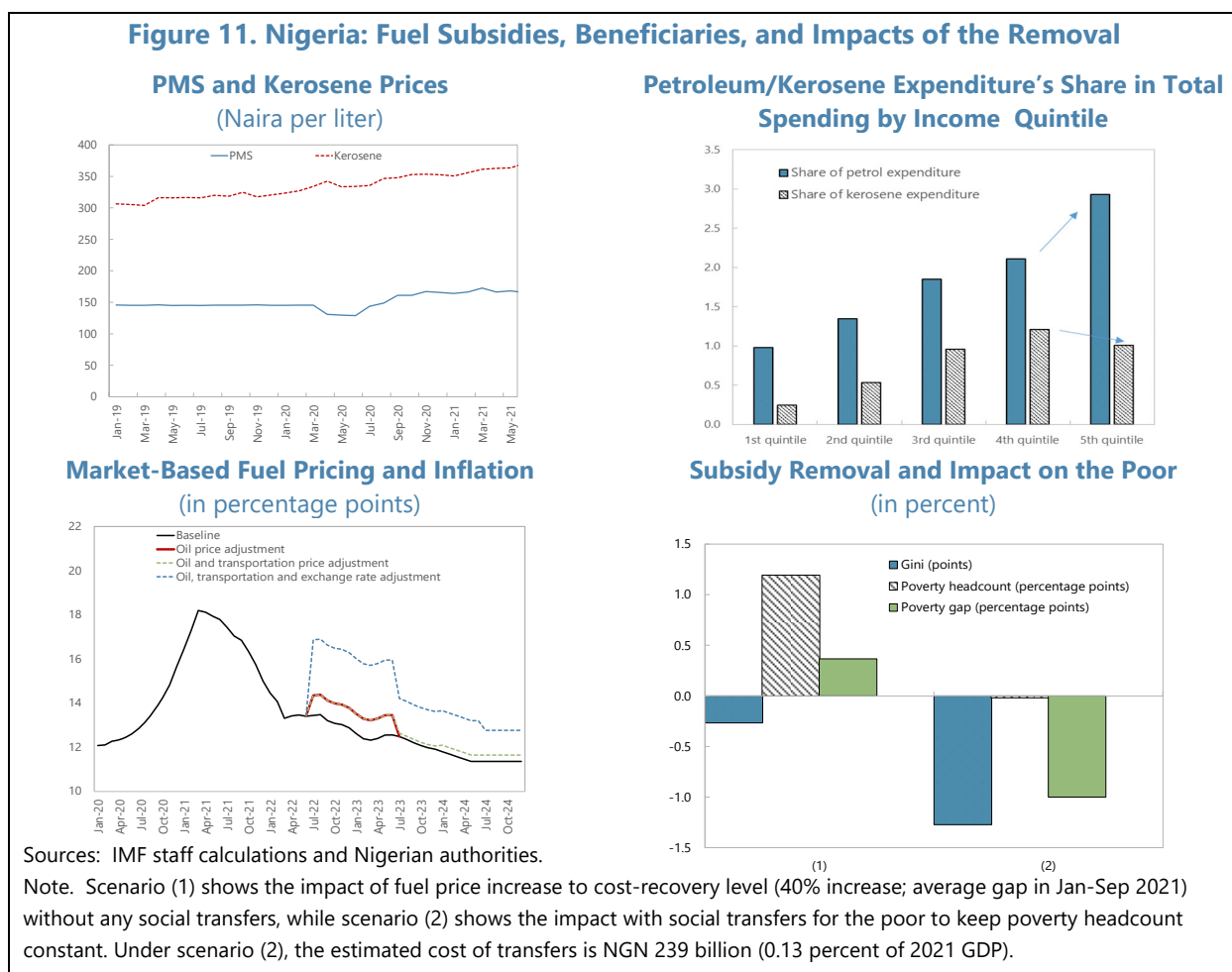
term, and fiscal deficits are projected to stay elevated and above the pre-pandemic average (4.3 percent of GDP during 2014-2019) in the medium term.

14. There are significant downside risks to the fiscal outlook. These arise from the ongoing pandemic, adverse oil price shocks, security challenges, and spending pressures associated with the electoral cycle. Staff advised expenditure reprioritization and use of the SDR allocation if pandemic and security-related risks materialized but recommended resistance of all other spending pressures to preserve the fiscal space. Staff also recommended transparent accounting of the use of SDR allocation, which should not support unsustainable fiscal or exchange rate policies. Public debt is projected to increase to over 42 percent of GDP in the medium term and is deemed sustainable but subject to high risks with interest payments-to-revenue ratio remaining elevated relative to EMDE peers (Annex III).

15. Given limited policy space, elevated risks and continued dependence on central bank financing, fiscal consolidation is urgent. Staff recommended the following measures which would produce a cumulative net savings of 5.1 percent of GDP over 2022-26, keep public debt-to-GDP ratio below 40 percent, reduce GG interest payments-to-revenue ratios, and create room for additional social assistance (Figure 10).



- Tax administration measures.** In line with IMF TA advice, staff recommended the following near-term measures (i) e-customs reforms, including efficient procedures and controls; (ii) reduction of customs and excise fraud; and (iii) broadened entry criteria for the Large Taxpayer Office (LTO). In the medium-term, the focus should be on (iv) developing a basic VAT Compliance Improvement Program; (v) improving compliance across large, medium, and micro/small taxpayers including reviewing the penalty regime; (vi) rationalizing tax incentives and customs duty waivers; (vii) improving the effectiveness of the State Internal Revenue Service (IRS)’s administration of the Pay-As-You-Earn (PAYE) system. The IMF, at the authorities’ request, is in the process of placing a long-term resident expert in Abuja (Annex V). Implementation of key reforms will need to be stepped up to achieve envisaged revenue gains.
- Tax policy measures.** As the recovery gains strength and compliance improves, the authorities are encouraged to consider adopting tax rates comparable to Nigeria’s peers in the Economic Community of West African States (ECOWAS). These include (i) further increasing the VAT rate to at least 10 percent by 2022 and to 15 percent by 2026 to be aligned with the ECOWAS average (Figure 10); and (ii) increasing the excise rates on alcoholic and tobacco products combined with a broadening of the base.



- Fuel and electricity subsidies.** The full and permanent removal of fuel subsidies including through a move to a market-based pricing mechanism in early 2022 as stipulated in the 2021

Petroleum Industry Act (PIA) is critical. Without this reform, the overall fiscal deficit is projected to be 1 percentage of GDP higher annually based on the current subsidies. Staff analysis shows that untargeted subsidies provided to consumers of Petroleum Motor Spirit (PMS) disproportionately benefit the population in upper income quintiles. Its removal is expected to lessen inequality, and targeted social assistance to the poor would cushion negative impacts and cost less than the current costs of subsidies (Figure 11).⁴ Nigeria's past experiences with fuel subsidy removal, which were short-lived, indicate the importance of building consensus and trust through public communication campaign and credibly demonstrating plans to protect the poor through transparent use of the saved resources. The authorities are also undertaking electricity pricing reforms associated with the Power Sector Recovery Plan (PSRP). Staff emphasized the need to implement cost-reflective electricity tariffs as of January 2022.

16. Nigeria needs to improve coverage and efficiency of its social assistance programs. As of 2018, around a fifth of the vulnerable population (the bottom 60 percent of the population) receives some kind of social assistance with a small fraction receiving cash transfers. Despite recent improvements, for example, adding one million households to the social registry, Nigeria's social safety net still suffers from limited coverage and weak targeting. The authorities, in collaboration with the World Bank (WB), are developing a well-targeted cash transfer program to support those affected by the removal of fuel subsidies and strengthen the social protection systems. Measures include developing and utilizing the National Social Registry (NSR) for adequate beneficiary selection, improving coordination and integration between state and national registers, and establishing a strong information management system. Staff supported these measures and recommended increasing social spending by up to 1 percent of GDP cumulatively for 2022-2026 (around 0.2 percent of GDP each year) for well-targeted programs (Figure 10).

17. Staff welcomed the recent passage of the Petroleum Industry Act (PIA) and stressed its timely implementation. The PIA aims to improve administration and governance in the petroleum sector, introduce a market-based fuel pricing mechanism and attract higher investment in the sector. Preliminary assessments by the IMF and the WB suggest that the approved fiscal terms will provide greater incentives to invest in the oil and gas industry but could reduce the fiscal take from new and converted fields (Box 1). The authorities have also announced an ambitious conversion plan from petrol- to gas-run vehicles which intends to convert one million vehicles by end-2021 and 40 percent of its fleets in the next decade as a way to durably reduce transportation prices. Staff highlighted the high costs involved in such a transition and recommended weighing these against potential benefits (Text Table 2).

⁴ See "The Impact of Fuel Subsidy Reemergence in Nigeria" IMF Selected Issues Paper (2021) *forthcoming*.

Text Table 2. The Estimated/Illustrative Medium-term Costs of Nigeria's Conversion Plan

Category	Coverage	Calculation	Estimated costs
Vehicle Conversion costs	(i) Public vehicles	8 million vehicles (public vehicles currently present in Nigeria) × \$400 (conversion cost per vehicle)	\$3.2 billion
	(ii) All vehicles (public + private)	22 million vehicles (= 8 million public vehicles + 14 million private vehicles) × \$400 (conversion cost per vehicle)	\$8.8 billion
Infrastructure costs	(iii) CNG filling stations, storages, and etc.	Additional costs vary, dependent on the country-specific infrastructure plans. (The detailed plan is not yet available)	

Sources: Azeez, (2021) "DPR: Petrol Price may Increase to N1,000 per liter If Subsidy is Removed", July 19, 2021, and the Department of Petroleum Resources.

Note: The detailed conversion plans are not yet available for now, since the Nigerian government has not yet announced the details. The above estimated costs are just ballpark figure as an example.

Authorities' Views

18. The authorities expected the fiscal situation to improve in the medium term benefitting from higher growth and ongoing administration reforms. The 2021-25 NDP and the Strategic Revenue Growth Initiative (SRGI) aim to increase general government revenue to 15 percent of GDP by 2025. The authorities mentioned significant scope for revenue gains through blocking leakages, removing tax duplication, and digitalizing tax identification, as well as rationalizing tax incentives. They stressed the need to defer tax increases until after notable compliance improvement had occurred, likely associated with progress in tax administration reforms, including the recently deployed TaxPro, the installation of scanners in three major ports to facilitate customs clearance and the planned e-customs system.

19. The authorities expressed strong commitment to fully remove fuel subsidies by mid-2022 at the latest. To cushion the impact of higher fuel prices, they are planning to provide temporary monthly cash transfers to vulnerable urban households, and negotiations are ongoing with the labor unions. They assess the public debt to be sustainable but are conscious of debt-servicing risks arising from high GG interest payment-to-revenue ratios. They plan to keep the recently allocated SDR allocation as contingent fiscal financing in case of a shortfall or higher costs in external borrowing next year.

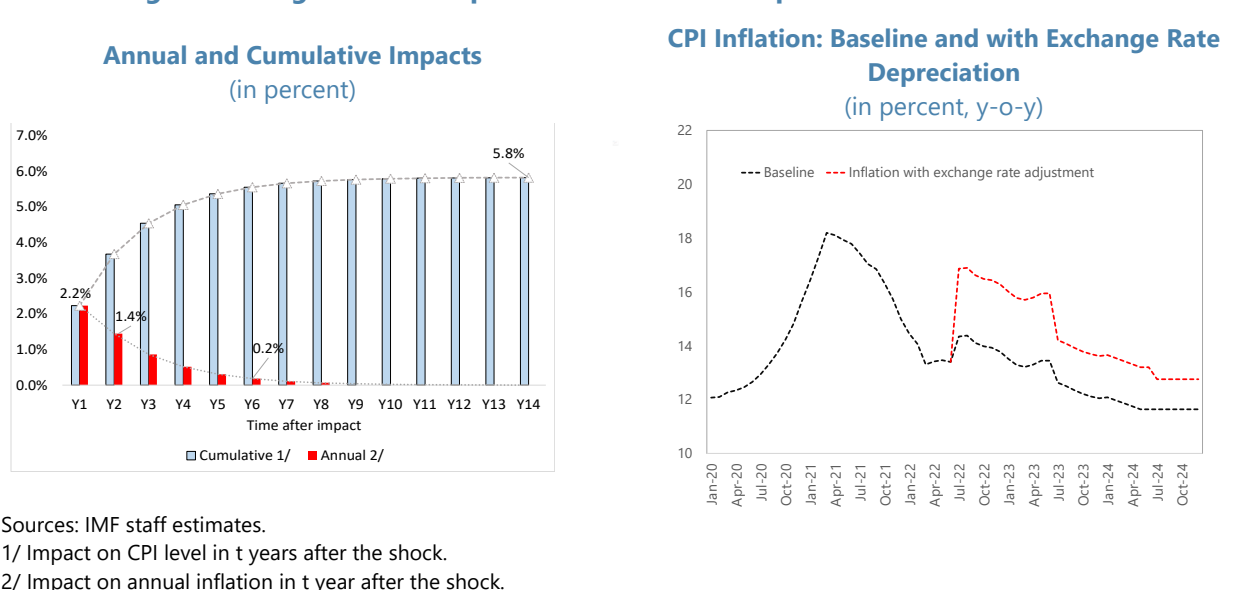
B. External Sector: Restore Confidence and Competitiveness

20. The external position in 2021 is preliminarily assessed as weaker than implied by fundamentals and desirable policy settings. Current trends imply an estimated CA gap of about -3 percent of GDP, corresponding to a 15 percent overvaluation in the REER (see Annex IV). While this assessment points to a strengthening relative to the substantially weaker position in 2020, reserves are below the levels recommended by the IMF's ARA metric (see ¶16) and capital inflows remain modest.

21. The much-needed move to a market-clearing exchange rate should be further eased by Nigeria's improved outlook. The FX shortages experienced by the private sector since the onset of the pandemic are unlikely to be resolved by demand management policies and administrative

controls alone. Exchange restrictions resulting from administrative control of foreign exchange allocation, including for imports of basic necessities, tend to generate distortions in private and public decision making, hinder transparency, and hamper the move towards a more diversified economy. Allowing further adjustment in the I&E rate, where the price is heavily managed by the CBN with a sustained divergence of around 30 percent with respect to the rates in the BDCs and the parallel market, would help remove misalignment, alleviate persistent FX pressures, and enable effective price discovery. A sudden adjustment in the exchange rate without forward guidance and supportive macroeconomic policies could undermine confidence with significant adverse consequences for the real economy.

Figure 12. Nigeria: CPI Response to 15 Percent Depreciation of the I&E Rate



22. The inflationary impacts of a depreciation in the I&E rate are likely to be manageable.

For example, a 15 percent depreciation in the I&E rate is estimated to eventually lift Nigeria’s price level by 5.8 percent with its peak impact on annual inflation at 2.2 percent (Figure 12). The subdued impact reflects the fact that an estimated 63 percent of the naira’s depreciation as reflected in the BDC rate has already been passed through to inflation (Box 3). This may be due to manufacturers partly resorting to purchasing FX from the parallel market or the BDCs, factoring in the costs of queuing for the FX and/or bandwagon effects—where companies price their products using the most depreciated rate, rather than the rate they actually pay to purchase imports. To preserve competitiveness gains, any exchange rate adjustment will need to be accompanied by a clear medium-term fiscal consolidation plan (¶15), monetary policy framework reforms (¶30-¶31), and clear communications to guide expectations.

23. Greater clarity on exchange rate policy direction will help form expectations.

The discontinuation of the official exchange rate in May 2021 goes in the direction of staff’s previous recommendations although it does not yet fully unify exchange rates. To this end, institutional removal of multiple FX windows at the CBN and allowing all FX transactions to take place in the I&E market are important. In the medium term, the CBN is encouraged to step back from its role of main FX intermediary in the country, limiting interventions to smoothing market volatility and allowing banks to freely determine FX buy-sell rates. The gradual removal of Capital Flow Measures (CFMs)

will need to be done in a properly timed and sequenced manner, considering external vulnerability risks and progress made with reforms to foster the necessary institutional and financial development and in line with the IMF's Institutional View on Liberalization and Management of Capital Flows.⁵

24. A restrictive trade regime impedes Nigeria's external competitiveness and non-oil exports.⁶ While tariff rates have been decreased substantially since the early 2000s, they are higher than the average rates in peer countries and generally display positive escalation.⁷ Such escalation increases the cost of delivery to the final consumer exponentially when production stages take place across tariff-ridden borders and work as a hurdle to integration in the global value chains and higher trade (Figure 13).⁸ Non-tariff measures (NTMs), mostly comprising customs inspection processes and costs associated with port storage and demurrage, are pervasive and trade logistics are problematic. These issues have held back Nigeria's trade with ECOWAS members despite having a preferential trade agreement (PTA) since 1993, with exports as a share of GDP declining over time and remaining highly concentrated in oil and gas (Figure 13). In addition, FX access for certain imports has been restricted since 2015 including for many basic necessities.

25. Bold reforms are needed to allow Nigeria to maximize its gains from the African Continental Free Trade Agreement (AfCFTA). If Nigeria is to reap gains from this PTA through higher and more diversified exports, the following measures are important, in addition to establishing a market-clearing and unified exchange rate and clear exchange rate policy: (i) reducing tariff escalation and aligning the average tariff rate in line with the agreement under the AfCFTA; (ii) streamlining import documentation requirements and reducing customs clearance time; (iii) improving the customs capacity to enforce preferential rules of origin and detect abuse; and (iv) keeping land borders open while addressing smuggling concerns through stepped-up customs reform.

⁵ The list of CFMs is unchanged relative to the last Article IV consultation (see footnote 1 in IMF Country Report No. 21/33). They include the prohibition of FX purchases in the official market for foreign currency bond and equity instruments, payment limits on naira-denominated credit and debit cards for overseas transactions, and repatriation of oil (non-oil) export proceeds within 90 (180) days of the date of shipment.

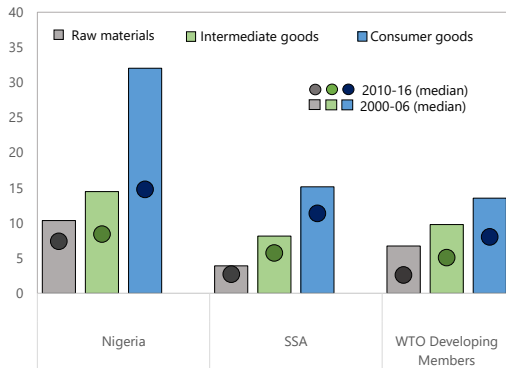
⁶ See "Trade Diversification in Nigeria: How to Get there?", Selected Issues Paper (2021) *forthcoming*.

⁷ Tariff escalation occurs when tariffs on intermediate goods are higher than tariffs on raw materials, and when tariffs on final products are higher than those on intermediate goods. In Nigeria, tariffs display positive escalation in most industries, including food and beverages, textiles and apparels, wood products, paper, printing, and publishing ([World Trade Organization](#), 2017).

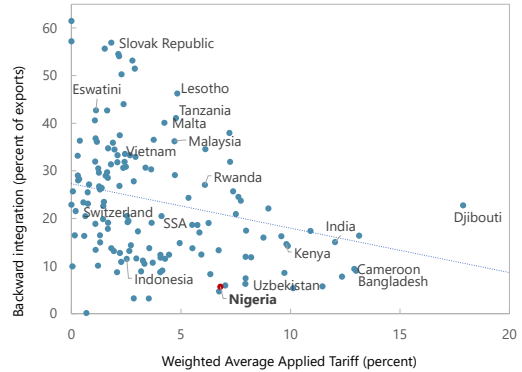
⁸ See "[The long road towards supply chain trade in Africa](#)" (2020).

Figure 13. Nigeria: Impediments to Trade

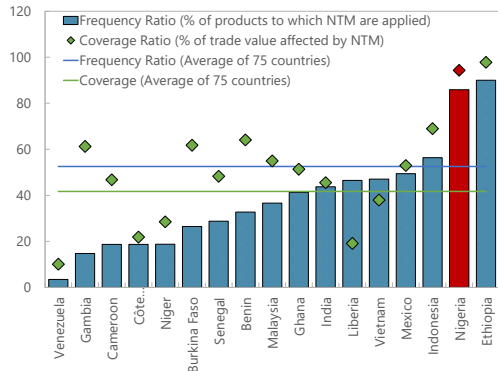
Weighted Average Tariff Rates (in percent)



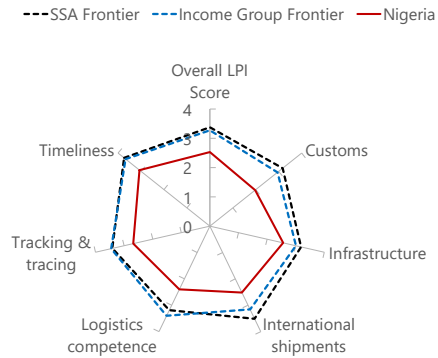
Tariffs on Intermediate Goods and Backward Integration¹ in Global Value Chains, 2015



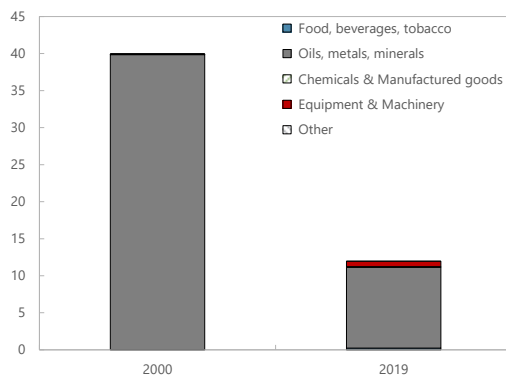
Nigeria and Peers: Trade affected by NTM (Latest available year between 2013 and 2016)



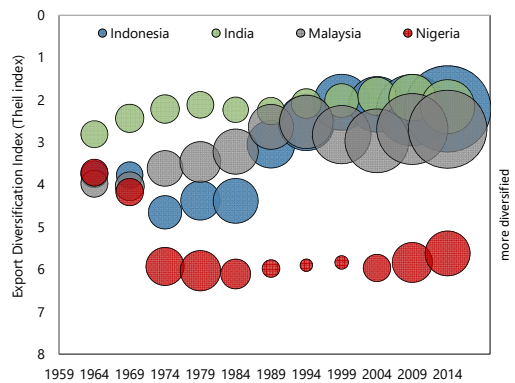
Logistic Performance Index, 2018



Exports to the World 2000 vs. 2019 (percent of GDP)



Export Diversification² and Real GDP Per Capita³



Sources: UNCTAD-TRAINS database, UNCTAD-Eora Global Value Chain database, World Integrated Trade Solutions, and The World Bank Logistic Performance Index. Penn World Tables, Papageorgiou, Spatafora, and Wang 2015, IMF DOT database.

¹ Backward integration reflects the extent to which a country uses foreign inputs in its exports.

² The export diversification index is the sum of within (intensive margin) and between (extensive margin) Theil indices calculated following the methodology in Cadot et al. 2011.

³ Bubble size represents real income per capita indexed at 1964 = 100

Authorities' Views

26. The authorities view the recent FX measures as necessary and appropriate to curb FX demand, at least in the short run. They consider the exchange rate to be unified, with the I&E rate serving as the reference rate in the economy and the anchor for rates in various CBN windows within acceptable margins (i.e., ± 2 percent). While acknowledging that the CBN's recent FX sales to some foreign portfolio investors (FPIs) were made at higher premia, they attributed the rate deviation to the differentiated features of these transactions. The authorities indicated that they plan to eventually remove exchange rate restrictions but argued that FX management policies represent deliberate efforts to mute excess demand for frivolous imports and are both necessary and effective to protect local industries. Further, they did not deem that parallel market rates represented the fair value of the naira, given market imperfections. They consider that the exchange rate misalignment has narrowed substantially following the depreciation of the official exchange rate.

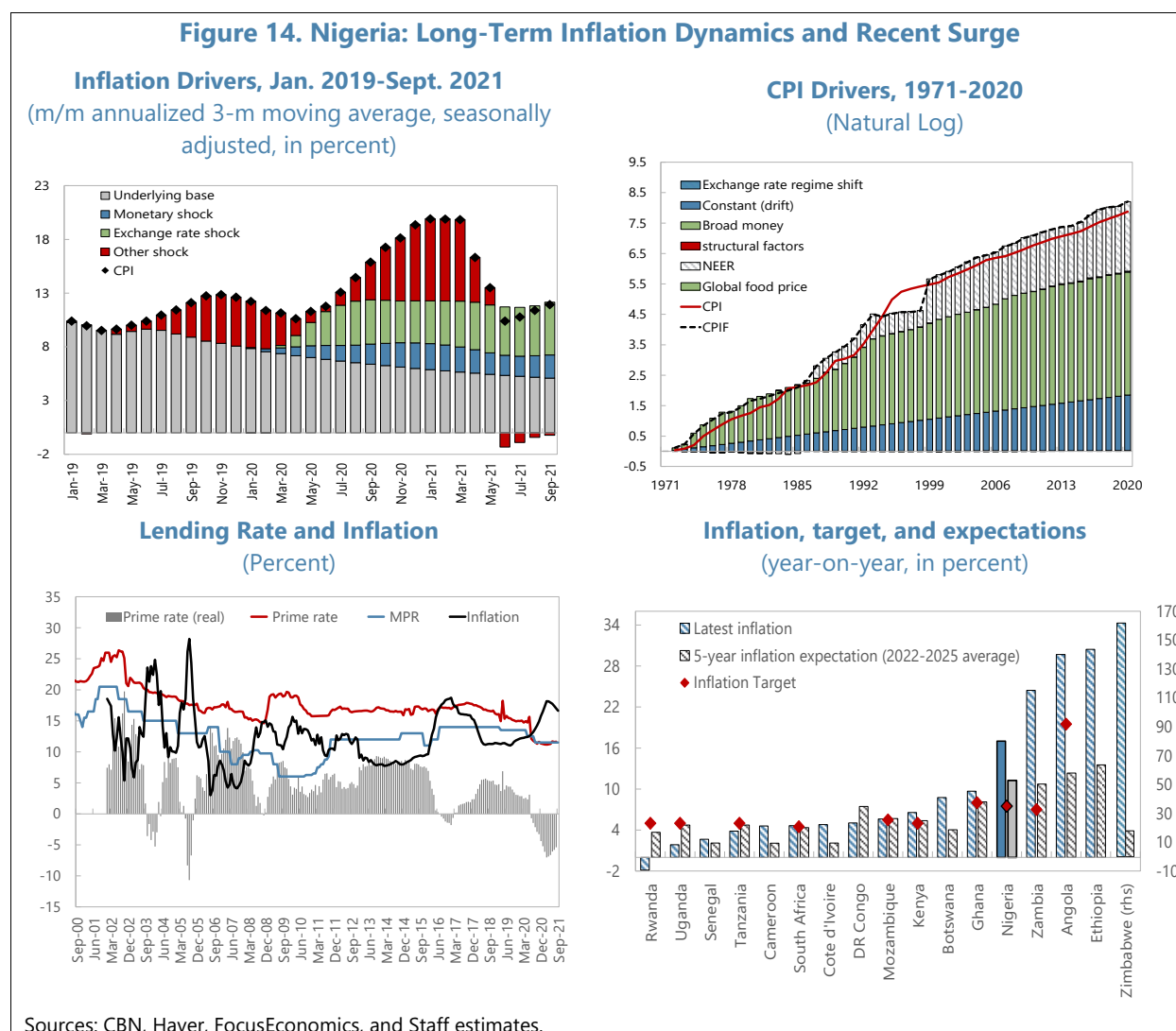
27. The authorities expect continued improvement in the BOP. The recovery in oil price since the start of the pandemic and higher remittances are expected to significantly improve the BOP outlook. This will help maintain healthy FX reserves while meeting legitimate FX demand. The authorities are committed to implementing the AfCFTA and reducing trade barriers and see significant benefits for Nigeria particularly given its sophisticated banking system, vibrant digital economy, and ongoing customs reforms.

C. Monetary Policy: Support the Recovery Mindful of Inflationary Risks

28. Staff analysis shows that the uptick in inflation experienced during the pandemic has mostly been driven by transitory factors. Staff suggests that while four fifths of the increase in headline inflation since the onset of the pandemic is due to supply shortages and exchange rate depreciation, their effects appear to have dissipated or plateaued (Figure 14). Rising food supply from the new harvest season is projected to keep the headline inflation on a downward trend although there are risks from potentially higher divergences between the I&E rate and the rates in the BDCs and the parallel market.

29. However, Nigeria's structurally high inflation is largely due to monetary and exchange rate factors.⁹ Long-term (1970-2020) average CPI inflation at 16 percent was higher than the average rates for both SSA (13 percent) and EMDEs (13.6 percent). Empirical analysis using a panel regression of 130 EMDEs over 1970-2020 shows that about half of the average inflation during this period in Nigeria is explained by M3 growth, another quarter by nominal exchange rate depreciation, and the remainder by country-specific effects which may be interpreted as unidentifiable structural factors (Figure 14). This is largely in line with the drivers of inflation in other SSA countries and EMDEs. Long-term high inflation also owes to the lack of a well-functioning monetary policy operational framework (see SM/20/175).

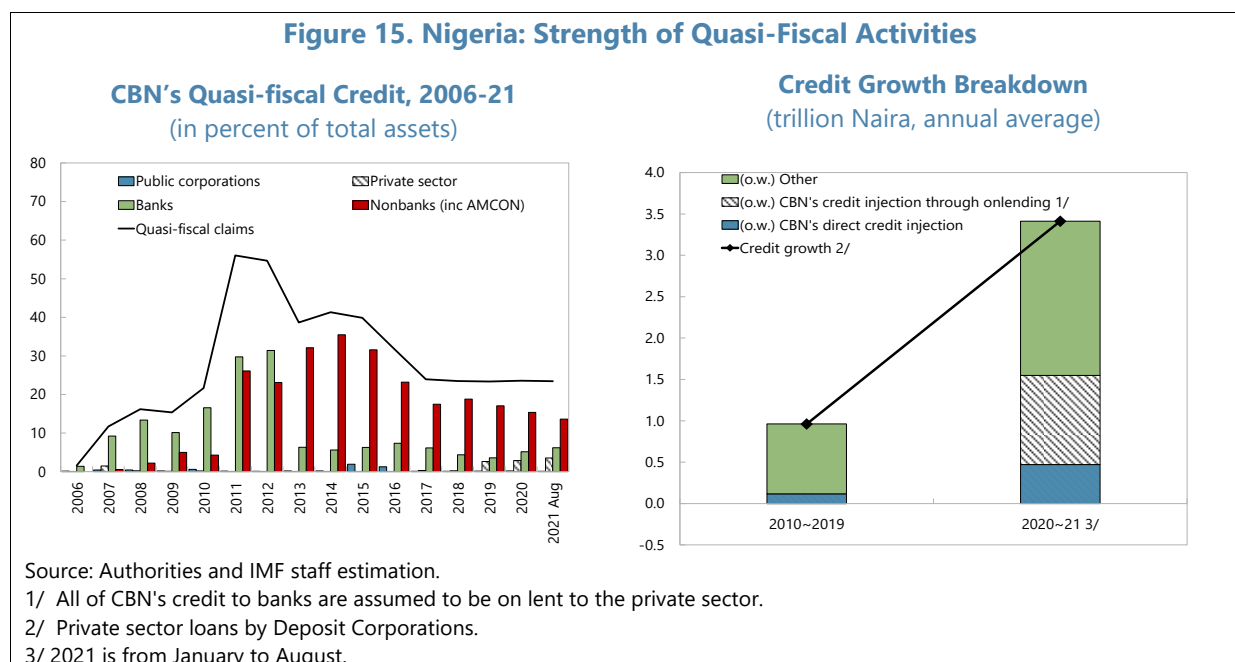
⁹ See "Nigeria's inflation persistence—causes and policy response", Selected Issues Paper (2021), *forthcoming*.



30. A supportive monetary stance is appropriate in the current juncture, but a gradual tightening is needed to reduce the structurally high inflation base. With the recovery yet to be broad-based, the projected decline in inflation, limited fiscal policy space, and contained financial sector risks (see section D), supportive monetary policy is appropriate unless exchange rate pressures intensify, or inflationary pressures resurface. Staff recommended vigilance to prevent possible adverse feedback loops between elevated inflation and periodic exchange rate adjustments if monetary policy were to become excessively accommodative. The still high underlying base of inflation calls for gradual tightening of monetary policy with due consideration to the recovery. Together with fiscal consolidation, such tightening will help prevent further build-up of REER misalignment. The discretionary use of the CRR continues to pose uncertainties to the banking system and may impede monetary policy transmission channels. Staff reiterated its previous advice to (i) modernize the 2007 CBN Act to establish primacy of price stability; (ii) facilitate integration of the interbank and debt markets; and (iii) use central bank or government bills of short maturity as the main liquidity management tool.

31. As the recovery firms up, the CBN also needs to scale back its credit intervention programs, which were ramped up as part of the COVID-19 crisis response. The CBN's credit

injection to the private sector, both direct lending and on-lending through banks, accounts for about 45 percent of credit growth since 2020—significantly above the average of 12 percent in pre-pandemic years (Figure 15). As banks exercised restraints in lending, CBN interventions have provided financing to underserved markets (e.g., agriculture) and mitigated the impact of the pandemic. However, they cannot be expanded indefinitely given likely efficiency costs and market distortions and its thorough review will be warranted.



32. A safeguards assessment of the CBN was completed in April 2021 but progress on implementation of recommendations has been limited. The CBN's internal and external audit mechanisms broadly adhere to international standards. However, the CBN Act needs to be modernized to strengthen the central bank's autonomy and governance, and to establish price stability as its primary objective. The CBN's involvement in quasi-fiscal operations and developmental lending activities should be phased out, and financial reporting practices bolstered through full adoption of International Financial Reporting Standards and resumed publication of annual financial statements. Thus far, limited traction has been seen on implementation of the recommendation and staff continues to engage with the authorities on these issues.

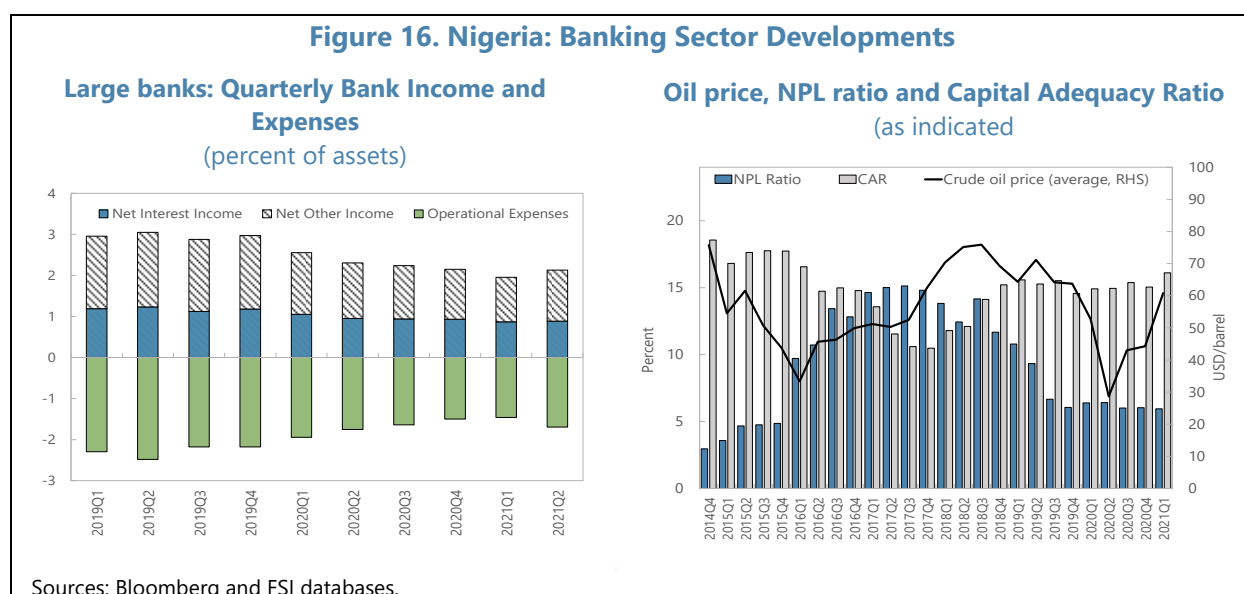
Authorities' Views

33. The authorities believe that the need for shepherding a frail recovery amidst very limited fiscal space justifies the CBN's multi-faceted role. Unconventional policy instruments, notably the CRR, have been vital in controlling excess liquidity, while selectively allowing its use for providing credit to priority sectors. The intervention programs have been targeted to sectors with a large empirical elasticity vis-à-vis job creation. The authorities also did not view Nigeria's inflation as a monetary phenomenon, particularly in the short run—stressing the importance of structural factors—including credit gaps—as a critical driver of supply-side inflation. While agreeing with the need to shift away from intrusive measures, such as discretionary CRR, in the medium term, they view that the uncertain pandemic outlook and frictions around monetary transmission mechanism

do not warrant an immediate abandoning of this tool which has proved to be quite potent. Likewise, the envisaged phasing out of quasi-fiscal activities can only be resumed once the crisis is over.

D. Banking Sector: Maintain Stability and Guard Against Risks

34. Overall, the banking sector weathered the crisis well thanks to ample pre-crisis buffers and prudent credit policies during the pandemic. Capitalization has remained adequate in aggregate with the exception of some smaller undercapitalized banks. Owing to banks' conservative lending policies, regulatory forbearance and CBN credit intervention programs (Figure 15), NPL ratios remained broadly stable during the pandemic (Figure 16). Tighter market liquidity due to the CRR debits and restricted access to the CBN discount window are raising banks' funding costs. Still, profitability has held up, buoyed by soaring e-banking revenues, although results vary considerably across individual banks. Credit risk from the impact of possible exchange rate depreciation on borrowers in FX is lower as the share of loan and deposit dollarization have fallen during the pandemic (both by about 5 percentage points to 32 and 21 percent, respectively).



35. Staff stressed the need for vigilance and supported the authorities' plan to allow expiration of the optional loan restructuring. Regulatory forbearance and a prolonged spell of low interest rates, particularly for corporate bonds and bills, may lead to a buildup of systemic risks through high corporate indebtedness and compromised credit standards. The share of restructured loans, while declining, remains sizable at almost a quarter of total bank credit. Stress tests conducted by the CBN show that a doubling of NPLs and significant migration of restructured loans to NPLs would erode the system's capital buffers. In light of the ongoing economic recovery and the need to assess underlying loan quality, staff supported the authorities' plan to allow expiration of the optional loan restructuring at end-February 2022.

36. Bank oversight is being enhanced through several initiatives. The banking law (BOFIA) was revamped in late 2020, introducing, among others, a bank resolution fund, bail-in instruments, special tribunals for asset recovery, and enhancements to banks' corporate governance (e.g., independent board members). Once fully implemented, the new provisions should facilitate bank

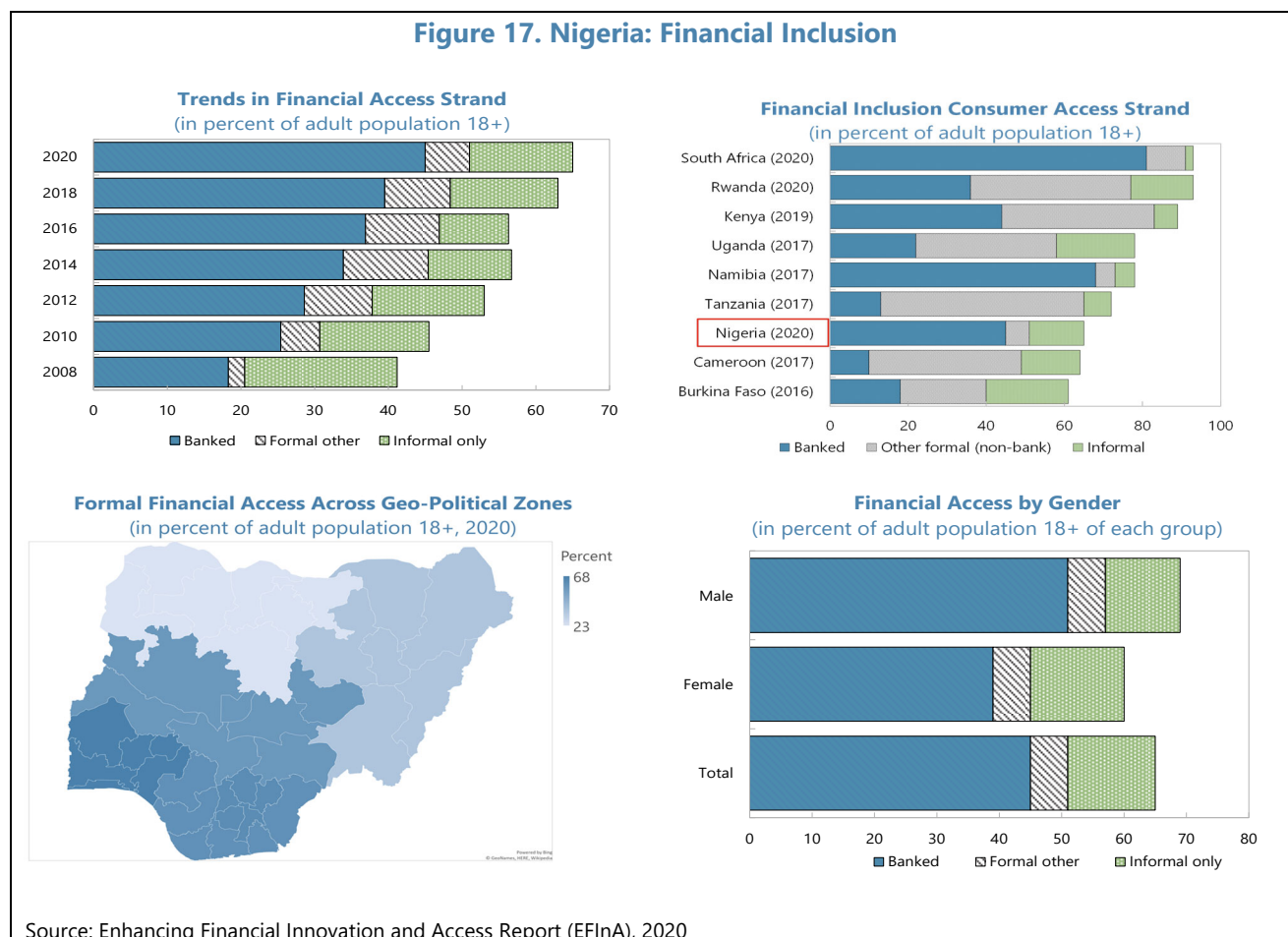
resolution and help forestall cases of chronic capital insufficiency. In addition, the CBN is about to implement a suite of Basel II/III instruments, notably Liquidity Coverage Ratio, Capital Conservation Buffer, Leverage Ratio, and capital and liquidity planning regulations. To mitigate cyclical and household leverage risks, staff recommended adoption of key macroprudential policy tools, such as a Countercyclical Capital Buffer and Debt service-to-Income Ratio.

37. Asset recovery by the public asset management company (AMCON) has encountered obstacles, leaving a large financing gap ahead of its planned closure in end-2023. The collection on large delinquent borrowers has been slow during the pandemic, leaving a shortfall relative to the debt owed to the CBN of more than 3 trillion naira. Recoveries are set to accelerate thanks to an amendment to the AMCON act passed in April 2021 facilitating property foreclosures. Banks will likely continue to finance recovery operations and AMCON debt amortization beyond AMCON's closure which could sustain the negative impact on banks' profitability.

38. The recent introduction of the eNaira promises several potential benefits, including higher financial inclusion, but poses some risks (Box 2). Staff welcomed the gradual rollout of the CBDC and highlighted the need for vigilance to various risks, including for monetary policy implementation, bank funding, cyber security, operational resilience, and financial integrity and stability, through regular risk assessment and contingency planning. The eNaira offers low-cost and phone-enabled financial transactions outside established channels. This could potentially increase financial inclusion over time in rural areas (Figure 17) and help meet the authorities' ambitious target to increase the share of financially included adults to 95 percent. Staff noted significant financial integrity risks that could arise from wide accessibility of eNaira and stressed the need to fix existing deficiencies in the AML/CFT framework (see ¶39) which could exacerbate these risks. While preventive measures and the planned AML/CFT regulations for eNaira intermediaries are welcome, a money laundering/terrorist financing risk assessment of domestic and cross-border uses of eNaira and the adoption and implementation of the regulation along with putting in place risk-sensitive mitigation measures should be a priority. Staff noted that a dynamic digital lending ecosystem dominated by fintechs implies greater competition with traditional service providers but also raises consumer protection issues.

39. Staff stressed the need for further actions to improve the effectiveness of the AML/CFT framework. The recently published mutual evaluation report of Inter-Governmental Action Group against Money Laundering (GIABA) identifies significant deficiencies that could result in a Financial Action Task Force (FATF) grey listing as early as next year with broader implications on the financial sector. The authorities have commenced action at the highest level to mitigate these deficiencies including by creating a national committee to develop an AML/CFT action plan, capacity building initiatives for key AML/CFT institutions and proposed amendments to money laundering and terrorism prevention legislations. Nigeria would benefit from speeding-up these efforts and taking sustained action in line with a prioritized and clear action plan to mitigate identified deficiencies. Priorities include (i) improving the understanding of money laundering and terrorism financing risks, (ii) enhancing risk-based supervision and compliance of reporting entities, (iii) improving the availability of adequate, (iv) accurate and updated beneficial ownership (BO) information, (v) strengthening enforcement against money laundering/terrorist financing and confiscation of ill-gotten proceeds, and (vi) properly implementing targeted financial sanctions in

line with relevant United Nations Security Council Resolutions related to terrorism, terrorism financing, and proliferation financing.



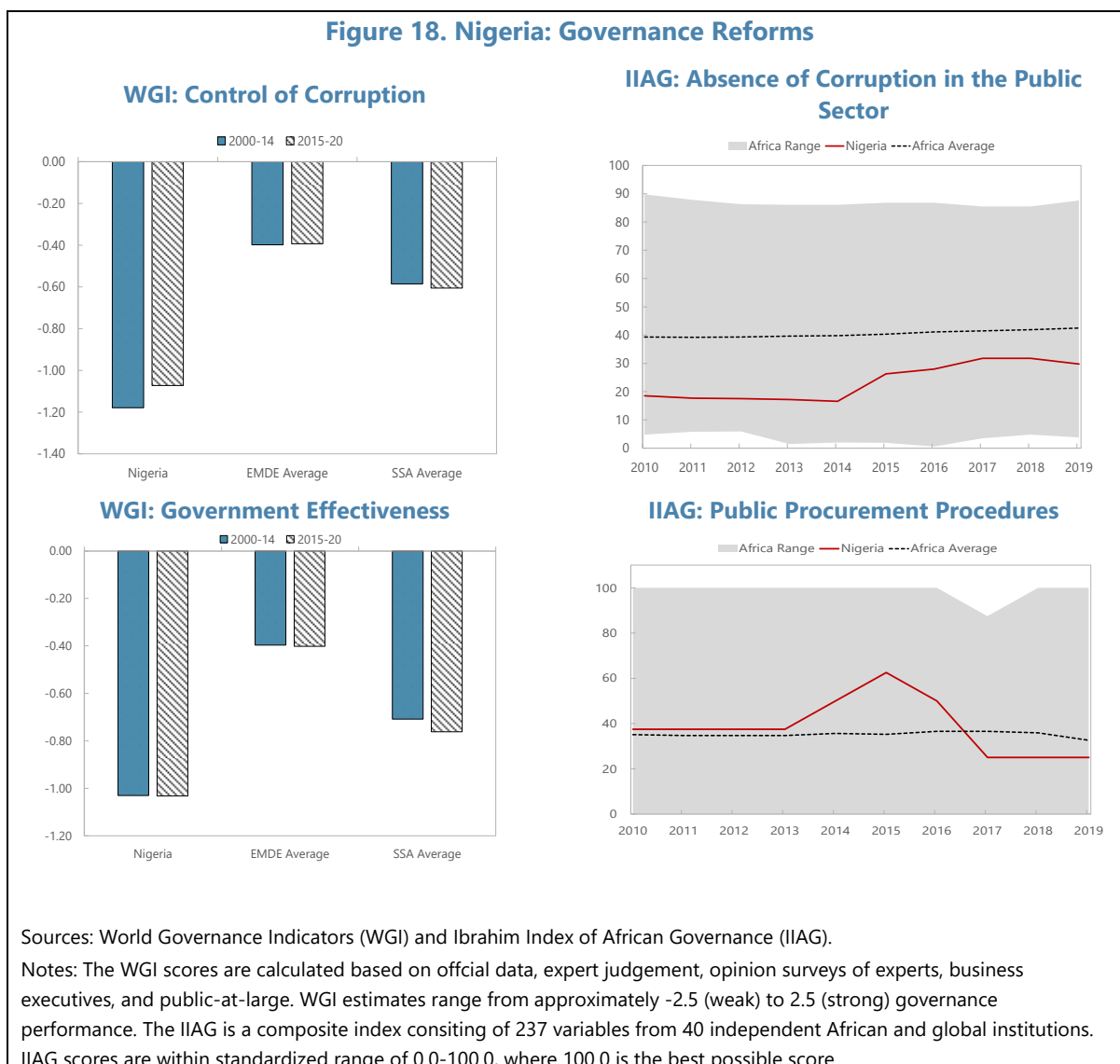
Authorities' Views

40. The authorities deem risks to the financial sector as manageable. They viewed the risk of a significant deterioration in the quality of restructured loans as low and pointed to the mandatory provisioning of these loans. In addition, the implementation of the new banking law (BOFIA) provisions should be instrumental in improving the financial safety net. The authorities are closely monitoring the undercapitalized banks and expect to find a solution within months. They considered the safeguards measures undertaken in the context of the CBDC implementation as sufficient. The authorities also pointed to vigilance with respect to the thriving Fintech sector through introduction of a regulatory sandbox, increased use of code-based phone transactions, and mandated data sharing between banks and fintechs (“open banking” concept) and are considering adopting centralized regulation of digital lending.

E. Structural Policies: Ensure a Robust, Job-rich and Inclusive Recovery

41. The post pandemic recovery provides an opportunity for greater inclusion and diversification. Despite the oil and gas sector accounting for only around 10 percent of GDP, the Nigerian economy remains relatively undiversified with many non-oil sectors heavily tied to oil price

developments, and a high dependence of both fiscal and export revenues on the oil and gas sector (see SM/20/177). The economies of scale advantages associated with Nigeria’s population and market sizes, and its vibrant services sectors provide important opportunities to use the AfCFTA as an impulse to become a regional manufacturing and services hub that is well-integrated with global value chains. The projected expansion of the labor force by 54 million in 10 years and stagnant per capita income since 2014 makes it imperative to pursue more robust and job-rich growth.

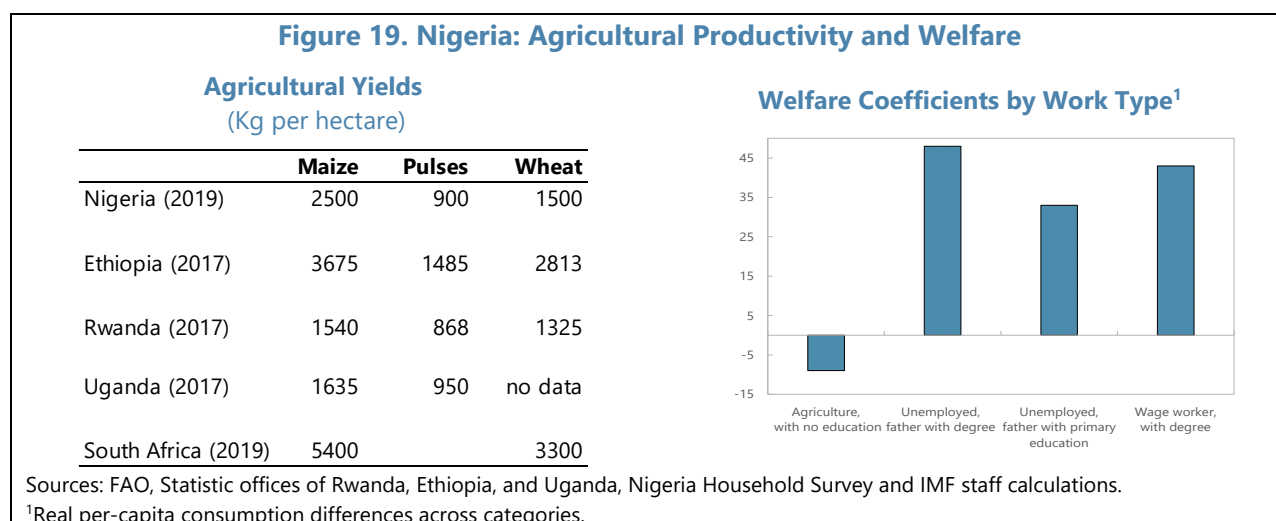


42. In addition to macroeconomic reforms discussed earlier, more robust growth will require a more effective government. Nigeria has taken steps in recent years to improve transparency in line with staff recommendations (Figure 18). These include greater transparency in the oil sector through the publication of the last two annual statements of the National Oil Company NNPC, the adoption of the Companies and Allies Matters Act (CAMA) in January 2021 which requires publication of information of individuals with more than 5 percent ownership in new companies, and notable increases in the share of public officials submitting asset declarations. However, there has been little progress in the perception of effectiveness of government and the civil service, with the latter, beset by duplication of duties and ghost workers, largely viewed as not

service-oriented (Figure 18). Staff supported the authorities’ planned civil service reform and recommended addressing these shortcomings. Strengthening revenue administration (¶15), reforming SOEs, especially in the oil sector (¶17), and moving to a market-clearing exchange rate (¶21) would also reduce vulnerabilities to corruption.

43. Progress in governance related RFI commitments has been slow with most measures being partially met or delayed. Public access to information on COVID-19 spending and procurement contracts remains uneven, and the spending audits are just beginning (Annex 1). Nigeria’s legal framework does not enable procurement agencies to collect and publish beneficial ownership information for companies participating in the procurement process. A secondary regulation requiring procurement agencies to collect beneficial ownership information from bidding companies participating in the COVID-19 related projects and publish the information for awarded companies would support meeting the commitment under the RFI. Broadening this regulation to a larger periphery of bidding processes, as the COVID-19 dedicated support retrenches, would further help reduce corruption risks in procurement.

44. With agriculture accounting for almost half of current employment and a third of GDP, improving agricultural productivity is critical. Staff analysis, based on the household survey data, shows that, even though a large number of people work in agriculture, the marginal impact on welfare of being in the agricultural sector as measured by consumption per household is lower than that of being unemployed (Figure 19).¹⁰ This is associated with low agricultural yields compared to regional peers, high food loss during delivery, and the subsistence nature of many agricultural activities. Raising agricultural productivity further will require structural policy measures, including increased supply and usage of inputs, adequate storage facilities, and consolidation of farm size to break the negative loop between subsistence farming and low human/physical capital accumulation.



45. Nigeria is severely impacted by climate change through rising temperatures and more volatile precipitation and flooding. A climate change act is currently under review that maps out Nigeria’s response to climate change in terms of a lower carbon footprint, adaptation measures, and

¹⁰ See “Synthesis of the Nigerian Labor Market- Putting the Emphasis on Agriculture”, Selected Issues (Paper 2021), forthcoming.

more climate-friendly energy policy. The authorities' National Determined Contribution (NDC) report submitted to COP26 clearly outlines their efforts to implement adaptation measures, especially in agriculture, forestry, and water management, which are expected to add jobs (Box 4). Moreover, the policies to reduce greenhouse gas emissions are clear. Despite being an enormous challenge, climate change also provides an opportunity for the economy to leapfrog through the development of the IT sector, with its smaller carbon footprint and strong role in recent growth, which could also help in providing vital weather and extension service information to farmers to make proper sowing and harvesting decisions.

Authorities' Views

46. The authorities noted a number of positive developments but agreed with the need for continued action. On diversification, they pointed out policy efforts to increase domestic sourcing of inputs, notably machinery and equipment, and agricultural products, especially sugar, maize, and rice. The CBN's Anchor Borrowers' Program, initiated in 2016 to provide lending to farmers has eased access to credit and contributed to recent improvements in maize and rice yields. Dangote's production of refined oil products is expected to ease FX shortages going forward through reduced imports of refined oil products and following the establishment of three urea plants, the country was now almost self-sufficient in fertilizer and domestic prices were far below import prices.

47. The authorities recognized the need for improved government efficiency and further reduction in corruption. The civil service reforms are looking into possible merging of ministries, greater use of biometrics and bank identification numbers, publication of cancelled positions, improved incentives to retire, and stronger oversight of the monthly public sector wage bill to enhance efficiency. The authorities acknowledged that the COVID-19 pandemic had shown that electronic delivery of some services was possible and could act as a potent anti-corruption tool. They are addressing technical issues on the transparency portal to improve access to COVID-19 spending and procurement information and assured staff that, once the audit of COVID 19 expenditures is complete, they will produce a comprehensive report on the usage of the funds.

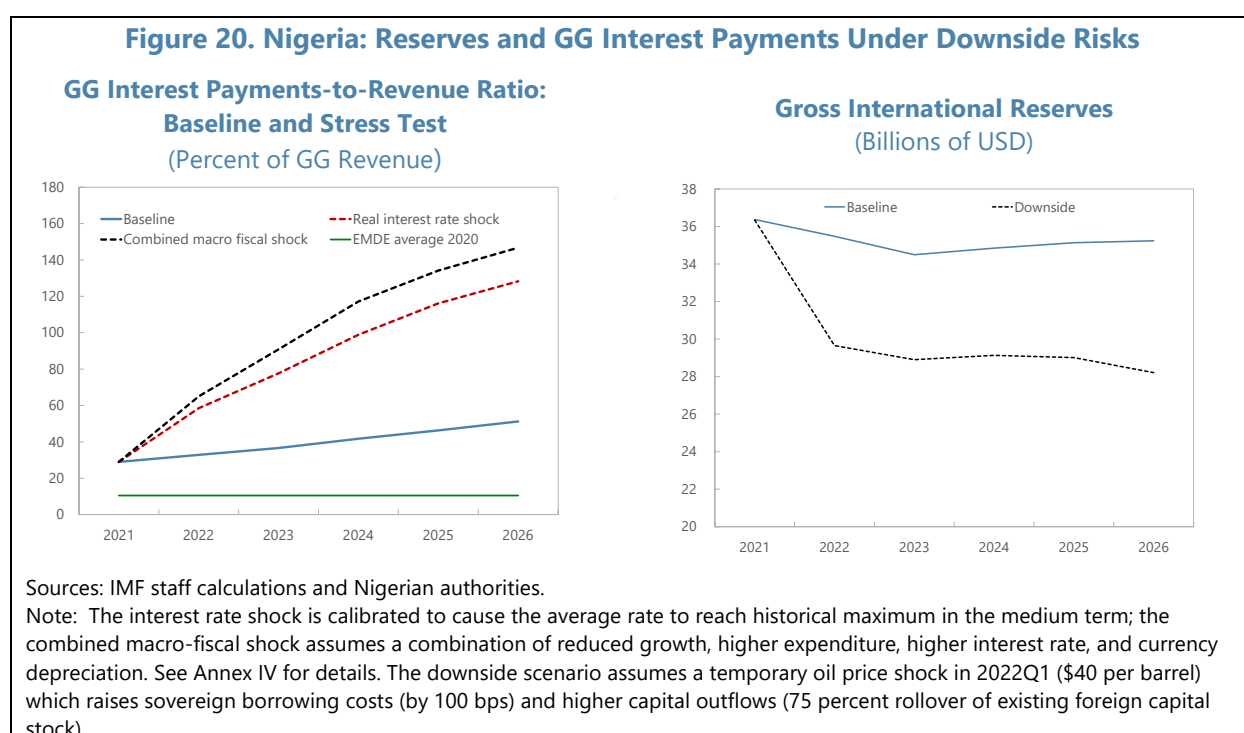
48. The authorities are cognizant of the need to contribute to the reduction of greenhouse gas emissions (GHG) but wanted to focus on adaptation. They had embedded the adaptation measures in their developmental plan and, on mitigation, emphasized that advanced economies should support their use of gas as a transition fuel given the worldwide accepted goal of affordable energy to all, which is also embedded in the Sustainable Development Goals (SDGs).

CAPACITY TO REPAY

49. Nigeria's capacity to repay the Fund is adequate. Following the 2020 disbursement under the RFI, the total amount of outstanding credit from the Fund reached SDR 2.45 billion (100 percent of quota and 9.7 percent of gross international reserves). With outstanding GRA credit above SDR 1.5 billion--the absolute threshold that requires a Post Financing Assessment (PFA)—staff conducted the PFA in the context of the Article IV discussions. Under the baseline, repayments to the Fund are projected to increase over the medium-term, peaking at SDR 1.24 billion in 2024, equivalent to 3.6

percent of exports, 5.3 percent of gross international reserves, and 6.9 percent of external debt service (Table 10).

50. Key macroeconomic risks are posed by fiscal vulnerabilities, a weak external position, and limited buffers. High interest payments relative to fiscal revenues expose Nigeria to interest rate and growth shocks (Figure 20, Annex III). Nigeria’s external position is assessed to be weaker than warranted by fundamentals (see ¶17, Annex IV). External buffers are limited, with FX reserves projected to remain below 100 percent of the IMF’s ARA metric in the medium term. Given still-significant naira asset holdings of FPIs, estimated at \$16.9 billion as of September 2021, Nigeria remains vulnerable to capital outflow pressures notwithstanding the authorities’ steady clearing of FX payments backlogs to FPIs. Further drains on FX reserves could come from existing FX swap arrangements for which details were not available.



51. Staff analysis shows that these risks are manageable although subject to uncertainty given gaps in information. A downside scenario assuming lower oil prices, restricted Eurobond market access, and higher capital outflows could drop reserves to \$29.1 billion in 2024 with repayments to the Fund rising to 3.7 percent of exports, 6.3 percent of reserves, and 7.9 percent of external debt service. The gaps in information on FX swaps pose a risk to this assessment although the authorities assess these swaps to be negligible.

Authorities’ Views

52. The authorities agreed that Nigeria’s capacity to repay the Fund is adequate and considered the risks from fiscal vulnerabilities and limited buffers to be modest. The authorities appreciated the IMF’s swift financial support through the RFI and the SDR allocation, which have helped preserve FX reserves. They underscored that FX demand management policies have also been very effective in building buffers. They saw limited risks of capital outflows and

highlighted their plan for an orderly exit for FPIs who want to leave Nigeria. They were confident that the fiscal and monetary agencies would coordinate to reduce fiscal vulnerabilities, including through ongoing measures to increase revenues.

STAFF APPRAISAL

53. The COVID-19 pandemic has been managed well so far, and a recovery is underway.

The authorities' proactive actions, including a robust infection tracking system and effective coordination across various levels of government, have helped keep infection and fatality rates lower than in many other countries. Economic recovery is broadening helped by the rebound in oil prices since the start of the pandemic, government policy support, and international financial aid. The social impacts of the pandemic may be more enduring with rising food insecurity and an increase in the already-high levels of poverty. Key downside risks to the outlook include future course of the pandemic including the ongoing omicron variant and its spillover on oil prices, a worsening security situation and rising borrowing costs, while upside risks include higher production by Dangote refinery, the new fiscal terms of the PIA ushering greater investment in the oil and gas sector, and trade opportunities created by the AfCFTA.

54. Major reforms are needed in fiscal, exchange rate, trade, and governance areas to lift long-term growth.

Fiscal and external imbalances require the removal of fuel and electricity subsidies, further tax administration reforms, and clarity on exchange rate policy. Over the medium term, moving away from inward-looking policies through trade, monetary and foreign exchange reforms, enhancing public trust through improved governance and fiscal transparency, and increasing welfare through higher job creation and agricultural reforms are priorities.

55. Fiscal consolidation is urgent to create policy space and reduce sustainability risks.

Significant additional domestic revenue mobilization is critical to put the public debt and debt-servicing capacity on a sustainable path, which requires stepping up of TA implementation. Near-term priorities include e-customs reforms, better VAT compliance and rationalization of tax incentives and customs duty waivers. As the recovery strengthens, the authorities are advised to adopt tax rates comparable to the ECOWAS average to raise revenues and keep public debt below 40 percent of GDP and reduce dependence on central bank financing. In line with the Petroleum Industry Act (PIA), fuel subsidies should be removed permanently through the introduction of a market-based pricing mechanism, combined with adequate compensatory measures for the poor and efficient and transparent use of the saved resources. Resource allocation for new TAs should continue to be merit-tested, including guided by the implementation record.

56. The external position is assessed to be weaker than implied by Nigeria's fundamentals and desired policies.

A key move toward strengthening the external position would be to establish a unified and market-clearing exchange rate, together with policy clarity. The discontinuation of the official exchange rate is a step in the right direction. The favorable external conditions and improving BOP situation provide a good opportunity for completing this reform. To preserve competitiveness, any exchange rate adjustment should be accompanied by clear communications regarding exchange rate policy going forward, macroeconomic policies to contain inflation and structural policies to facilitate new investment.

57. Supportive monetary policy is appropriate but warrants close monitoring. With the recovery yet to be broad-based, inflation projected to decline, and limited fiscal policy space, monetary policy needs to support the recovery unless exchange rate pressures intensify, or inflationary pressures resurface. In the medium term, there is a need to strengthen monetary operational framework and establish the primacy of price stability through modernizing the 2007 CBN Act. As the recovery firms up, the CBN should consider scaling back its credit intervention programs as part of broader monetary structural reforms.

58. The banking sector has weathered the crisis well. Pre-existing buffers, banks' conservative lending policies, CBN's credit intervention programs and regulatory forbearance have helped keep the system stable. In light of the ongoing recovery, the planned expiration of the time-bound pandemic-related support measures in end-February 2022 is appropriate. To safeguard financial stability, staff recommended timely action against the chronically undercapitalized banks and introduction of additional macroprudential instruments to better manage systemic and cyclical risks. The launching of eNaira could bring significant benefits, including higher financial inclusion over time and efficient delivery of social assistance, and close monitoring of risks is recommended.

59. Bold reforms are needed to ensure job-rich growth. A less restrictive and protectionist trade regime is needed to enhance Nigeria's growth potential and harness the gains from the AfCFTA. With agriculture accounting for almost half of employment, its productivity is important for overall growth and employment.

60. Improved transparency and governance would help to bolster business confidence and public trust in reforms. Notable progress has been made in reducing corruption and improving transparency in recent years. A strengthening of public perceptions of government effectiveness and the civil service is needed to increase tax compliance and buy-in of reforms. It is important to pick up the implementation of transparency and accountability measures committed under the RFI. The planned civil service reforms are welcome and stronger efforts are needed to improve transparency of the COVID-19 pandemic spending and procurement information.

61. Nigeria's capacity to repay the Fund remains adequate. All indicators of Nigeria's capacity to repay remain adequate under the baseline and the downside scenarios. Risks arising from high interest payments as a share of fiscal revenues and limited foreign exchange buffers are manageable given an improving external position and low external indebtedness, although subject to uncertainty given gaps in information.

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

Box 1. Petroleum Industry Act 2021

In August 2021, the Petroleum Industry Act (PIA) was enacted with the following key features.

Ch.1. Governance and Institutions

- The objective is to ensure good governance and accountability, and create a commercially oriented national petroleum company, and foster a good business environment for petroleum operations.
- Dual regulatory agencies are created: the Nigerian Upstream Regulatory Commission (the “Commission”) and the Midstream and Downstream Petroleum Regulatory Authority (the “Authority”).
- “NNPC Limited” is to be incorporated within 6 months and replace the NNPC entirely within 18 months. NNPC Limited is operated on a commercial basis without government funding and must publish annual reports and audited accounts. Government owns all shares in NNPC Limited through the Ministry of Finance & Ministry of Petroleum as shareholders while also controlling the selection of its management team. This structure is expected to pave the way for an invitation to the Nigerian public to own shares in the company in the future.

Ch.2. Administration

- The objective is to promote exploitation of petroleum resources for the benefit of Nigerian people and for sustainable development of the industry and to ensure transparency in the administration.
- Avoid economic distortions and ensure a competitive market for the sale and distribution of petroleum products and natural gas in Nigeria and avoid cross-subsidies among different categories of consumers (market-based pricing principle for petroleum products).
- When the authority regulates the tariffs and prices of a licensee, the authority shall allow the seller to recover reasonably and prudently incurred costs, including a reasonable return on the capital invested in the business.

Ch.3. Host community development

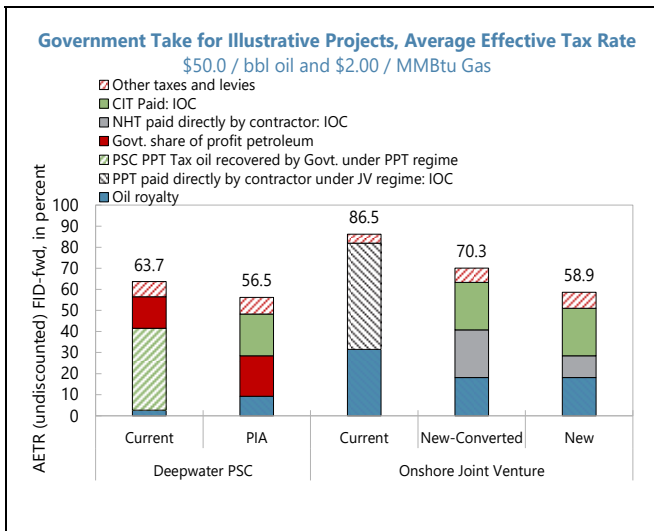
- The aim is to foster sustainable prosperity within host communities and enhance harmonious co-existence.
- An operating company or a company that has been issued with an oil prospecting license or mining lease is required to set up a host community development trust fund to support sustainable development within host communities. The company will contribute 3% of its actual operating expenditure in the upstream petroleum operations in the preceding calendar year to the trust fund.

Ch.4. Fiscal framework

- The objective is to establish an adaptable fiscal framework to promote investment in the petroleum industry, given the changing global outlook for the sector.
- The new fiscal terms will provide greater incentives to invest in the oil and gas industry but could reduce the government take from new and converted fields. The short-term revenue impact will depend on the pace of conversion of existing fields to the new terms (text chart).

Box 1. Petroleum Industry Act 2021 (Concluded)

- A new royalty combines a base rate with a variable rate linked to oil prices. The Petroleum Profits Tax (PPT) is replaced by the regular CIT at 30% and a new Hydrocarbon tax at rates from nil for offshore production to 15% or 30% for onshore production. This reduces the average effective tax rate for companies in the upstream sector to around 60~70% as opposed to the previous 85% rate.
- The Commission will collect rents, royalties, and production shares as applicable while the Authority will collect the gas flare penalty from midstream operations.
- A Frontier Exploration Fund will be financed through a 30% deduction of profit oil and gas in the production sharing, profit sharing and risk service contracts, which will be administered by NNPC.
- Gas flaring penalties will no longer be transferred to the Federation Account and will instead be used for gas infrastructure development or environmental remediation in the host communities.



Source: IMF staff estimates using FAD FARI model.
 Note: The FARI model calculates total government revenue from all fiscal instruments over the life of a petroleum extraction project with illustrative investments reflecting country-specific production and cost structures. The average effective tax rate presents the government revenue as a share of project cashflow.

Ch.5. Miscellaneous provisions

- The PIA repeals about 10 laws including the Associated Gas Reinjection Act; Hydrocarbon Oil Refineries Act; Motor Spirits (Returns) Act; NNPC (Projects) Act; NNPC Act; and PPPRA Act.

Box 2. eNaira: Potential Benefits and Risks ^{1/}

The Central Bank of Nigeria (CBN) officially launched the “eNaira”—a central bank digital currency (CBDC)—on October 25, 2021. It is designed to circulate as a fiat money, and as such has intrinsic value.

The eNaira is envisaged to bring multiple benefits, which are expected to materialize gradually supported by a robust regulatory system:

- *Increased financial inclusion*, as the eNaira wallet coverage gets expanded from only people with bank accounts to anyone with a mobile phone.
- *Facilitation of remittances*, as the Nigerian diasporas are, in due course, allowed to obtain eNaira from international money transfer operators and digitally transfer it to Nigeria free of charge.
- *Reduced informality and illegal activities*, as eNaira transactions are in principle fully traceable.

However, the eNaira carries macro-financial, cyber security, operational, financial integrity and stability, and legal risks.

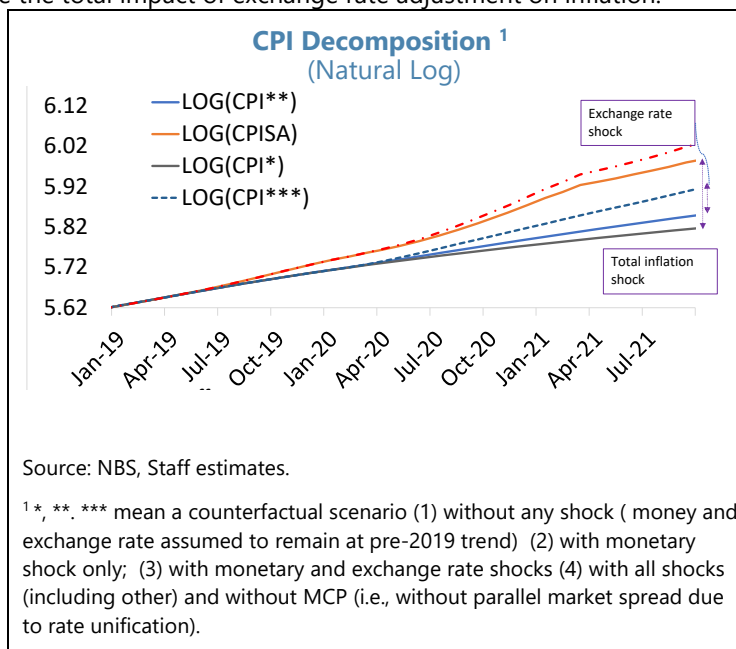
- eNaira wallets may be perceived as safer and more convenient than commercial bank deposits, which poses some disintermediation risks. The CBN is mitigating this by subjecting the transfer of funds from bank deposits to eNaira wallets to daily transactions limits.
- There are cybersecurity risks associated with the eNaira.
- Unforeseen legal issues, including for private law aspects of its operations (e.g., the exact nature of legal relationship between the wallet providers and CBDC holders), may subject eNaira to litigation and operational risks.
- There are financial integrity risks which are mitigated by using a tiered identity verification system and applying more stringent controls to relatively less verified users. Prospective expansion of eNaira use to cross-border fund transfers and agency bank networks may cause new money-laundering/financing of terrorism (ML/FT) risks.

^{1/} The discussion in the box is based on [‘Five Observations on Nigeria’s Central Bank Digital Currency’](https://www.imf.org) (www.imf.org).

Box 3. Inflationary Impact of Exchange Rate Depreciation

There are two channels through which exchange rate passthrough to inflation takes place. These are the prices of imported goods in the CPI basket and second-round effects that permeate through the input and output links. Currently, there are no official statistics on the total share of imported goods in the CPI basket. Staff estimates this share to be in the 13-20 percent range based on the share of imported food in the CPI basket (13.3 percent) and the share of imports in total private consumption (6.4 percent). The lack of granular input-output data makes direct calculation of second-round effects difficult. As an alternative, an econometric approach is used to estimate the total impact of exchange rate adjustment on inflation.

Staff analysis shows that CPI inflation, to a large extent, reflects the exchange rates prevailing in the BDCs and in the parallel market. The model is parsimonious. It uses M2, BDC exchange rate, and BDC-to-I&E exchange rate spread as exogenous variables for 1995M05-2021M7. This model shows that exchange rate shocks—captured by the parallel market rate depreciation—explain 38 percent of the overall CPI developments since 2019. The results take into account the offsetting effects of changes in the I&E exchange rate. It also shows that, despite a highly managed rate in the I&E window, 62 percent of the naira's depreciation as reflected in the BDC rate has already been passed through to inflation.



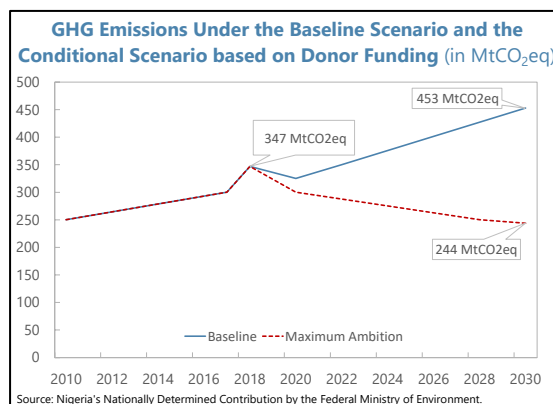
Staff estimates the cumulative impact on the CPI inflation from a further 15 percent depreciation in the I&E rate to be 5.8 percent during 2022-31.^{1/} This compares to first-round effects of 2-3 percent based on the estimated weights of imported goods in the CPI basket—which implies an imputed estimate of second round effect of 3-4 percent. The impact shows a peak at 2.2 percent in 2022 which tapers off to 0.3 percent in 2026. The muted impact is explained by the extent of exchange rate pass-through already made from the more depreciated rate prevailing in the BDCs and the parallel market, which leaves only residual effects to come from the I&E rate depreciation.

Note: The analysis in this Box is based on the “Nigeria’s inflation persistence—causes and policy response”, Selected Issues Paper (2021) *forthcoming*.

^{1/} While ARDL model is known to be relatively free from it, there may be a possible endogeneity bias in the estimated exchange rate effect—which could have resulted in its overestimation.

Box 4. Nigeria's Planned Climate Adaptation Policies¹

Nigeria's greenhouse gas emissions (GHG) are far below those of advanced economies. The GHG rose to 347 million tons of CO₂ equivalent in 2018, with the energy and agriculture sectors contributing to 60 and 25 percent of this increase, respectively. The government projects GHG to rise to 453 million tons of CO₂ by 2030 based on a business-as-usual scenario and is committing to an unconditional limit of 362 million tons of CO₂ in 2030, keeping the level slightly above its current estimated level, with a conditional limit of 247 million tons assuming considerable financial support (see below).



The authorities are focusing on adaptation measures given the likely severe impact of climate change on the Nigerian economy. These are articulated in its National Adaptation Framework, published in 2020, that will guide policy developments and implementation going forward. Adaptation policies focus on five areas:

- **Agriculture** through better soil management to improve yields and thereby help reduce food insecurity;
- **Forestry** through improving forestry management to help reverse the loss in forest cover and aggressive afforestation (12 million trees to be planted in 2023);
- **Energy** through expanding sustainable energy sources (including solar) and decentralizing transmission to improve electricity availability in rural areas;
- **Water management** through improving the quality of water-producing ecosystems and sanitation services and strengthening the resilience of water supply infrastructure; and
- **Disaster preparedness** by transforming the focus of the national emergency management agency from relief to disaster management and introducing a Disaster management Act to secure budgetary funding.

The implementation requires large foreign funding that is yet to materialize. The government estimates the full cost of NDC implementation at \$177 billion over 2021-30 (40 percent of Nigeria's 2021 GDP), with about two thirds for the electricity sector alone. The recently issued 2021-25 NDP has indicated a government contribution of 1.8 trillion naira over this period (1 percent of 2021 GDP) for the water sector and environment. Almost all funding would therefore need to come from the private sector and development partners.

^{1/} This box is based on Federal Government of Nigeria 2021 NDC Update.

Table 1. Nigeria: Selected Economic and Financial Indicators, 2017–26

	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
	Projections									
National income and prices										
(Annual percentage change, unless otherwise specified)										
Real GDP (at 2010 market prices)	0.8	1.9	2.2	-1.8	2.6	2.7	2.7	2.6	2.6	2.7
Oil and Gas GDP	4.7	1.0	4.6	-8.9	-0.7	3.2	2.9	2.7	3.8	5.5
Non-oil GDP	0.5	2.0	2.0	-1.1	2.9	2.6	2.6	2.5	2.5	2.5
Non-oil non-agriculture GDP	-0.6	2.0	1.8	-2.4	3.5	2.8	2.7	2.6	2.6	2.5
Production of crude oil (million barrels per day)	1.89	1.93	2.00	1.83	1.65	1.70	1.74	1.77	1.85	1.94
Nominal GDP at market prices (trillions of naira)	114.9	129.1	145.6	154.3	183.0	212.1	242.7	273.7	310.0	351.3
Nominal non-oil GDP (trillions of naira)	104.5	115.7	133.2	144.1	166.9	195.2	226.0	257.1	293.2	333.9
Nominal GDP per capita (US\$)	1,969	2,153	2,230	...	...	...	...	...	...	...
GDP deflator	11.1	10.2	10.4	7.8	15.6	12.9	11.4	10.0	10.4	10.3
Consumer price index (annual average)	16.5	12.1	11.4	13.2	15.9	14.3	12.8	11.7	11.5	11.5
Consumer price index (end of period)	15.4	11.4	12.0	15.8	14.9	13.8	12.0	11.5	11.5	11.5
Investment and savings										
(Percent of GDP)										
Gross national savings	18.1	20.5	21.4	24.7	26.8	26.2	25.9	24.4	23.1	22.0
Public	-1.9	-1.1	-1.2	-2.2	-2.1	-2.3	-1.8	-2.2	-2.5	-2.7
Private	20.0	21.6	22.6	26.9	28.9	28.5	27.7	26.6	25.6	24.7
Investment	14.7	19.0	24.6	28.6	29.5	28.5	28.0	26.0	24.4	23.0
Public	3.3	3.0	3.0	2.5	3.2	3.1	3.0	2.8	2.8	2.8
Private	11.5	16.0	21.7	26.2	26.3	25.4	25.0	23.1	21.6	20.2
Current account balance	3.4	1.5	-3.3	-4.0	-2.8	-2.3	-2.1	-1.6	-1.3	-1.0
Consolidated government operations										
(Percent of GDP)										
Total revenues and grants	6.6	8.5	7.8	6.3	7.4	7.0	6.8	6.7	6.7	6.6
Of which: oil and gas revenue	1.3	2.8	4.4	2.2	3.0	2.6	2.3	2.1	2.0	1.9
Total expenditure and net lending	12.0	12.8	12.5	12.0	13.7	13.4	12.4	12.6	12.8	12.9
Of which: fuel subsidies	0.1	0.5	0.4	0.1	1.0	0.5	0.0	0.0	0.0	0.0
Overall balance	-5.4	-4.3	-4.7	-5.7	-6.3	-6.4	-5.7	-5.9	-6.2	-6.3
Non-oil primary balance	-6.7	-7.2	-6.7	-5.8	-7.3	-6.7	-5.5	-5.3	-5.1	-4.8
Non-oil revenue	4.0	4.0	4.1	4.1	4.3	4.3	4.4	4.5	4.6	4.7
Public gross debt ¹	25.3	27.7	29.2	34.5	36.0	37.5	38.5	40.0	41.5	42.9
Of which: FGN debt	22.4	25.0	26.5	31.0	32.1	33.4	34.3	35.7	37.2	38.7
Of which: External debt	5.0	6.4	6.2	8.2	8.8	8.8	8.8	8.8	9.0	9.3
FGN interest payments (percent of FGN revenue)	58.8	60.8	54.9	88.8	85.5	92.6	96.3	110.9	124.9	139.0
Interest payments (percent of consolidated revenue)	20.6	19.9	21.4	33.5	29.0	32.8	36.6	41.7	46.3	51.2
Money and credit										
(Change in percent of broad money at the beginning of the period, unless otherwise specified)										
Broad money (percent change; end of period)	-1.2	15.0	6.4	13.5	16.5	18.3	18.1	16.1	16.2	15.0
Net foreign assets	10.8	3.0	-18.0	3.4	1.4	-0.2	-0.2	0.2	0.2	0.0
Net domestic assets	-12.0	12.0	24.5	10.2	15.1	18.5	18.3	15.9	16.1	15.0
o/w Claims on consolidated government	-1.0	5.1	16.2	7.2	16.1	17.3	13.5	13.7	13.5	12.4
Credit to the private sector (y-o-y,%)	-1.8	-11.9	23.5	15.8	21.6	8.6	10.2	7.8	8.0	7.1
Velocity of broad money (ratio; end of period)	3.8	3.5	3.8	3.6	3.6	3.5	3.5	3.4	3.3	3.3
External sector										
(Annual percentage change, unless otherwise specified)										
Exports of goods and services	32.3	29.9	5.9	-42.9	41.8	-1.2	-5.4	-4.5	-1.7	5.5
Imports of goods and services	8.4	40.6	40.7	-28.4	18.5	0.1	-1.6	-3.1	-2.3	2.2
Terms of trade	10.9	13.3	-5.9	-20.0	20.7	-1.9	-2.3	-2.4	-2.2	-1.6
Price of Nigerian oil (US dollar per barrel)	54.8	71.6	64.0	42.3	66.9	65.9	63.0	61.0	59.4	58.4
External debt outstanding (US\$ billions) ²	95.3	99.9	102.3	105.5	111.6	117.8	124.8	132.8	142.6	155.4
Gross international reserves (US\$ billions)	39.6	42.8	38.1	36.5	36.4	35.5	34.5	34.8	35.1	35.2
(equivalent months of imports of G&Ss)	6.6	5.1	6.3	5.1	5.1	5.1	5.1	5.2	5.2	5.2

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

¹Gross debt figures for the Federal Government and the public sector include overdrafts from the Central Bank of Nigeria (CBN). External debt figures are based on currency of issuance.

²Includes both public and private sector.

Table 2. Nigeria: Balance of Payments, 2017–26
(Billions of U.S. dollars, unless otherwise specified)

	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
	Projections									
Current account balance	12.7	6.3	-14.6	-17.0	-12.8	-11.8	-12.2	-10.5	-9.7	-8.2
Trade balance	13.1	20.5	2.9	-16.4	-9.1	-7.6	-8.7	-9.6	-10.3	-9.8
Exports	45.8	61.2	65.0	35.9	51.7	50.8	47.6	44.0	41.6	42.5
Oil/gas	42.3	56.6	54.5	31.4	46.1	44.8	41.2	37.1	34.8	35.5
Other	3.5	4.7	10.5	4.5	5.6	6.1	6.4	6.9	6.9	6.9
Imports	-32.7	-40.8	-62.1	-52.3	-60.8	-58.4	-56.3	-53.6	-52.0	-52.3
Oil/gas	-8.2	-11.6	-11.0	-7.3	-12.1	-10.3	-7.9	-4.7	-1.8	-1.5
Other	-24.5	-29.2	-51.1	-45.0	-48.7	-48.1	-48.4	-48.9	-50.2	-50.8
Services (net)	-13.2	-26.1	-33.8	-15.8	-19.8	-22.0	-22.6	-21.5	-19.8	-19.4
Receipts	5.0	4.8	4.9	4.0	4.9	5.1	5.3	6.5	8.0	9.9
Payments	-18.3	-30.9	-38.7	-19.8	-24.7	-27.2	-27.9	-28.0	-27.9	-29.3
Income (net)	-9.2	-12.3	-10.1	-5.8	-9.7	-10.6	-10.7	-10.3	-11.8	-12.6
Of which: Interest due on public debt	-0.3	-0.8	-1.0	-1.2	-1.3	-1.7	-2.1	-2.5	-3.0	-3.5
Transfers (net)	22.0	24.1	26.4	21.0	25.8	28.5	29.8	30.9	32.2	33.5
Capital and Financial account balance	17.5	3.2	16.9	3.4	12.7	10.9	11.2	10.9	10.0	8.3
Capital Account (net)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financial Account (net)	17.5	3.2	16.9	3.4	12.7	10.9	11.2	10.9	10.0	8.3
Direct Investment (net)	2.1	0.2	2.0	2.7	4.0	3.4	3.7	3.7	3.5	2.5
Portfolio Investment (net)	10.3	0.0	3.1	-3.6	3.9	3.0	3.5	3.3	3.2	3.0
Other Investment (net)	5.1	3.0	11.8	4.3	4.8	4.5	4.1	3.8	3.4	2.8
Of which: SDR allocation					3.4					
Errors and omissions	-17.8	-6.2	-7.1	12.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance	12.4	3.2	-4.7	-1.6	-0.1	-0.9	-1.0	0.4	0.3	0.1
RFI Disbursement				3.5						
Net international reserves (increase -)	-12.4	-3.2	4.7	-1.9	0.1	0.9	1.0	-0.4	-0.3	-0.1
Memorandum items:										
Gross official reserves, end-of-period	39.6	42.8	38.1	36.5	36.4	35.5	34.5	34.8	35.1	35.2
In months of next year's imports of goods and services	6.6	5.1	6.3	5.1	5.1	5.1	5.1	5.2	5.2	5.2
Current account (percent of GDP)	3.4	1.5	-3.3	-4.0	-2.8	-2.3	-2.1	-1.6	-1.3	-1.0
Exports of goods and services (percent of GDP)	13.5	15.7	15.6	9.3	12.2	10.8	9.0	7.6	6.6	6.1
Imports of goods and services (percent of GDP)	13.6	17.0	22.5	16.8	18.5	16.6	14.2	12.2	10.6	9.5
Public external debt ¹	40.3	39.0	46.6	47.8	53.9	59.9	66.3	73.5	82.3	94.0
In percent of GDP	10.7	9.3	10.4	11.1	11.6	11.6	11.2	11.0	10.9	11.0
In percent of exports of G&S	79.3	59.1	66.7	119.8	95.2	107.1	125.2	145.4	165.7	179.5
In percent of consolidated fiscal revenues	130.4	79.5	86.1	126.8	117.6	128.9	131.8	134.7	136.4	141.9
Private external debt	55.0	60.9	55.7	57.7	57.7	57.9	58.5	59.3	60.4	61.4

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

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

Table 3. Nigeria: Federal Government Operations, 2017–26
(Billions of Naira)

	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
					Projections					
Total revenue and Grants	2,647	3,596	4,449	3,672	4,600	5,234	6,249	6,867	7,658	8,572
Oil revenue	1,132	2,076	2,209	1,307	1,585	1,947	2,473	2,574	2,743	2,875
Non-oil revenue	1,515	1,520	2,240	2,272	2,794	3,224	3,712	4,229	4,852	5,633
Import and excise duties	283	318	748	396	509	543	568	597	637	670
Companies' income tax	544	660	695	674	843	1,083	1,291	1,513	1,780	2,093
Value-added tax	129	147	160	198	292	358	435	519	623	746
Federal government independent revenue	559	395	637	1,003	1,150	1,240	1,419	1,600	1,812	2,124
Grants	0	0	0	93	355	63	63	63	63	63
Total expenditure	7,406	9,046	10,981	11,492	14,497	17,243	18,572	21,505	25,239	29,297
Recurrent expenditure	6,164	7,364	8,896	9,891	11,122	13,592	14,694	17,468	20,666	24,115
Personnel	2,278	2,417	2,596	3,187	3,870	4,519	5,229	5,951	6,794	7,757
Overheads	437	517	1,131	1,269	1,560	2,384	1,986	2,260	2,380	2,045
<i>of which COVID-19 fund</i>				214						
Interest	1,557	2,186	2,442	3,261	3,930	4,846	6,019	7,614	9,565	11,912
Transfers ¹	1,842	1,912	2,147	1,735	1,562	1,643	1,460	1,643	1,927	2,401
<i>of which electricity subsidies</i>	252	272	524	600	300	300	0	0	0	0
<i>of which net transfers to SLGs²</i>	1,150	1,184	1,195	693	768	779	824	932	1,134	1,518
<i>of which COVID-19 fund</i>				150						
Arrears Clearance	50	331	580	439	200	200	0	0	0	0
Capital expenditure	1,242	1,682	2,084	1,602	3,374	3,651	3,878	4,037	4,573	5,183
<i>of which COVID-19 fund</i>				200						
Overall balance	-4,759	-5,450	-6,532	-7,820	-9,897	-12,009	-12,323	-14,638	-17,581	-20,725
Financing	4,759	5,450	6,532	7,820	9,897	12,009	12,323	14,638	17,581	20,725
External	2,183	2,142	725	2,037	2,439	2,472	2,614	2,959	3,600	4,819
Borrowing	1,521	1,423	556	2,581	1,996	2,013	2,374	2,728	3,245	3,561
<i>of which RFI</i>				1,341						
Amortization	-26	-176	-60	-544	-325	-320	-583	-701	-779	-260
<i>of which RFI</i>							-369	-743	-374	0
Net External Lending to SLGs	687	573	228	693	768	779	824	932	1,134	1,518
Domestic	1,158	3,168	6,629	4,893	7,458	9,537	9,709	11,680	13,981	15,906
Bank financing	-791	1,204	5,170	2,318	4,522	6,087	5,928	7,147	8,546	9,384
CBN	-12	656	4,876	2,852	4,150	5,625	5,355	6,448	7,692	8,348
Commercial Banks	-779	548	294	-534	372	461	573	699	854	1,036
Nonbank financing	1,898	1,526	878	2,136	2,633	3,159	3,774	4,529	5,435	6,522
Promissory notes	50	331	580	439	200	200	0	0	0	0
Asset Disposal	0	107	0	0	103	91	7	3	0	0
Statistical discrepancy	1,419	140	-821	890	0	0	0	0	0	0
<i>Memorandum items:</i>										
FGN Total Debt	25,767	32,232	38,536	47,859	58,807	70,850	83,166	97,801	115,382	136,107
Domestic ³	19,989	24,018	29,541	35,142	42,636	52,207	61,909	73,585	87,566	103,473
Foreign	5,778	8,214	8,995	12,718	16,171	18,643	21,257	24,216	27,816	32,634
Price of Nigerian oil (US dollar per barrel)	54.8	71.6	64.0	42.3	66.9	65.9	63.0	61.0	59.4	58.4
FGN overall balance (percent of GDP)	-4.1	-4.2	-4.5	-5.1	-5.4	-5.7	-5.1	-5.3	-5.7	-5.9

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

¹ Includes earmarked spending for National Judicial Council, Universal Basic Education, Niger Delta Development

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

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

Table 4. Nigeria: Consolidated Government, 2017–26
(Billions of Naira)

	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
	Projections									
Total revenue and Grants	7,555	10,978	11,405	9,742	13,568	14,766	16,430	18,272	20,674	23,278
Oil revenue	1,478	3,616	6,436	3,386	5,406	5,509	5,588	5,827	6,226	6,541
Non-oil revenue	4,562	5,100	6,031	6,264	7,807	9,193	10,779	12,382	14,384	16,673
Import and excise duties	628	705	816	878	1,129	1,203	1,258	1,323	1,412	1,485
Companies' income tax	1,169	1,418	1,616	1,448	1,811	2,327	2,773	3,250	3,822	4,495
Value-added tax	957	1,090	1,172	1,475	2,171	2,662	3,234	3,864	4,633	5,554
Other (education tax and customs levies)	312	331	482	420	533	623	698	780	882	993
Federal government independent revenue	559	395	637	1,003	1,015	1,240	1,419	1,600	1,812	2,124
SLGs independent revenue	936	1,160	1,309	1,040	1,148	1,139	1,396	1,564	1,822	2,022
Grants	0	0	0	93	355	63	63	63	63	63
Total expenditure	13,777	16,549	18,236	18,475	25,087	28,339	30,209	34,552	39,805	45,408
Federal government	6,256	7,862	9,786	10,799	13,728	16,464	17,748	20,573	24,105	27,780
of which COVID-19 fund				414						
State and local government	5,096	7,029	7,297	6,969	8,434	9,623	11,047	12,398	13,909	15,607
of which COVID-19 fund				150						
Extrabudgetary funds, ECA and implicit fuel subs:	771	1,657	1,155	707	2,925	2,253	1,414	1,581	1,791	2,021
Extrabudgetary funds ¹	625	767	596	522	1,013	1,228	1,414	1,581	1,791	2,021
Spending from Excess Crude Account	0	267	1	96	0	0	0	0	0	0
Implicit fuel subsidy	146	623	557	89	1,912	1,025	0	0	0	0
Overall balance	-6,222	-5,570	-6,831	-8,733	-11,519	-13,573	-13,779	-16,280	-19,131	-22,130
Non-oil primary balance	-7,658	-9,262	-9,763	-8,951	-13,349	-14,300	-13,412	-14,556	-15,855	-16,823
Financing	6,222	5,570	6,831	8,733	11,519	13,573	13,779	16,280	19,131	22,131
External	2,182	1,820	725	2,037	2,439	2,472	2,614	2,959	3,600	4,819
Borrowing	2,221	2,078	812	2,831	2,914	2,939	3,465	3,982	4,737	5,198
o.w. RFI				1,341						
Amortization	-38	-258	-87	-793	-474	-467	-851	-1,023	-1,137	-379
Domestic	1,485	3,377	6,555	5,896	8,945	11,101	11,165	13,322	15,531	17,312
Bank financing	-463	1,413	5,096	2,129	6,010	7,651	7,384	8,789	10,096	10,789
CBN	315	865	4,802	2,663	4,150	5,625	5,355	6,474	7,718	8,374
Commercial Banks	-779	548	294	-534	1,860	2,026	2,028	2,315	2,378	2,415
Nonbank financing	1,898	1,526	878	2,136	2,633	3,159	3,774	4,529	5,435	6,522
Other financing	50	331	580	1,631	200	200	0	0	0	0
Asset Disposal	0	107	0	0	103	91	7	3	0	0
Statistical discrepancy	2,555	372	-449	799	135	0	0	0	0	0
<i>Memorandum items:</i>										
SLGs External Financing	687.5	573.4	228.3	693.3	768.3	778.6	823.5	931.9	1133.9	1518.0
Budget oil price (US dollar a barrel)	44.5	47.0	64.0	42.3	66.9	57.0	63.0	61.0	59.4	58.4
Overall balance (% of GDP)	-5.4	-4.3	-4.7	-5.7	-6.3	-6.4	-5.7	-5.9	-6.2	-6.3

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

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

Table 5. Nigeria: Government Operations, 2017–26
(Percent of GDP)

	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
	Projections									
Consolidated Government										
Total revenue	6.6	8.5	7.8	6.3	7.4	7.0	6.8	6.7	6.7	6.6
Oil revenue	1.3	2.8	4.4	2.2	3.0	2.6	2.3	2.1	2.0	1.9
Non-oil revenue	4.0	4.0	4.1	4.1	4.3	4.3	4.4	4.5	4.6	4.7
Total expenditure	12.0	12.8	12.5	12.0	13.7	13.4	12.4	12.6	12.8	12.9
Federal government expenditure	5.4	6.1	6.7	7.0	7.5	7.8	7.3	7.5	7.8	7.9
<i>of which COVID-19 fund</i>				0.3						
State and local government	4.4	5.4	5.0	4.5	4.6	4.5	4.6	4.5	4.5	4.4
<i>of which COVID-19 fund</i>				0.1						
Extrabudgetary funds, ECA and implicit fuel subsidies	0.7	1.3	0.8	0.5	1.6	1.1	0.6	0.6	0.6	0.6
Overall balance	-5.4	-4.3	-4.7	-5.7	-6.3	-6.4	-5.7	-5.9	-6.2	-6.3
Non-oil primary balance	-6.7	-7.2	-6.7	-5.8	-7.3	-6.7	-5.5	-5.3	-5.1	-4.8
Financing	5.4	4.3	4.7	5.7	6.3	6.4	5.7	5.9	6.2	6.3
External	1.9	1.4	0.5	1.3	1.3	1.2	1.1	1.1	1.2	1.4
Borrowing	1.9	1.6	0.6	1.8	1.6	1.4	1.4	1.5	1.5	1.5
o.w.RFI				0.9	...	...	...	...	...	...
Amortization	0.0	-0.2	-0.1	-0.5	-0.3	-0.2	-0.4	-0.4	-0.4	-0.1
Domestic	1.3	2.6	4.5	3.8	4.9	5.2	4.6	4.9	5.0	4.9
Bank financing	-0.4	1.1	3.5	1.4	3.3	3.6	3.0	3.2	3.3	3.1
Nonbank financing	1.7	1.2	0.6	1.4	1.4	1.5	1.6	1.7	1.8	1.9
Other financing	0.0	0.3	0.4	1.1	0.2	0.1	0.0	0.0	0.0	0.0
Asset Disposal		0.1	0.0	0.0	0.1	0.0	0.0	0.0	0.0	0.0
Statistical discrepancy	2.2	0.3	-0.3	0.5	0.1	0.0	0.0	0.0	0.0	0.0
Federal Government										
Total revenue	2.3	2.8	3.1	2.4	2.5	2.5	2.6	2.5	2.5	2.4
Oil revenue	1.0	1.6	1.5	0.8	0.9	0.9	1.0	0.9	0.9	0.8
Non-oil revenue	1.3	1.2	1.5	1.5	1.5	1.5	1.5	1.5	1.6	1.6
Total expenditure	6.4	7.0	7.5	7.5	7.9	8.1	7.7	7.9	8.1	8.3
Recurrent expenditure	5.4	5.7	6.1	6.4	6.1	6.4	6.1	6.4	6.7	6.9
Personnel	2.0	1.9	1.8	2.1	2.1	2.1	2.2	2.2	2.2	2.2
Overheads	0.4	0.4	0.8	0.8	0.9	1.1	0.8	0.8	0.8	0.6
<i>of which COVID-19 fund</i>				0.1						
Interest	1.4	1.7	1.7	2.1	2.1	2.3	2.5	2.8	3.1	3.4
Transfers	1.6	1.5	1.5	1.1	0.9	0.8	0.6	0.6	0.6	0.7
<i>of which COVID-19 fund</i>				0.1						
Arrears clearance	0.0	0.3	0.4	0.3	0.1	0.1	0.0	0.0	0.0	0.0
Capital expenditure	1.1	1.3	1.4	1.0	1.8	1.7	1.6	1.5	1.5	1.5
<i>of which COVID-19 fund</i>				0.1						
Overall balance	-4.1	-4.2	-4.5	-5.1	-5.4	-5.7	-5.1	-5.3	-5.7	-5.9
Financing	4.1	4.2	4.5	5.1	5.4	5.7	5.1	5.3	5.7	5.9
External	1.9	1.7	0.5	1.3	1.3	1.2	1.1	1.1	1.2	1.4
Domestic	1.0	2.5	4.6	3.2	4.1	4.5	4.0	4.3	4.5	4.5
Bank financing	-0.7	0.9	3.5	1.5	2.5	2.9	2.4	2.6	2.8	2.7
Nonbank financing	1.7	1.2	0.6	1.4	1.4	1.5	1.6	1.7	1.8	1.9
Other financing	0.0	0.3	0.4	0.3	0.2	0.1	0.0	0.0	0.0	0.0
Statistical discrepancy	1.2	0.1	-0.6	0.6	0.0	0.0	0.0	0.0	0.0	0.0

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

Table 6. Nigeria: State and Local Governments, 2017–26
(Percent of GDP)

	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
				Projections						
Revenue	4.8	5.4	4.7	3.6	3.7	3.7	4.0	3.9	4.0	4.0
Oil revenue	1.3	2.0	1.6	1.0	1.0	1.1	1.2	1.1	1.1	1.0
Shared revenue	0.9	1.5	1.2	0.8	0.7	0.8	0.9	0.8	0.8	0.7
Derivation grant (13 percent)	0.3	0.5	0.4	0.3	0.2	0.3	0.3	0.3	0.3	0.2
Non-oil revenue	2.5	2.5	2.3	2.1	2.3	2.3	2.4	2.5	2.6	2.6
Corporate Income Tax	0.5	0.5	0.5	0.4	0.4	0.5	0.5	0.5	0.6	0.6
Customs	0.2	0.2	0.2	0.3	0.3	0.2	0.2	0.2	0.2	0.2
VAT	0.7	0.7	0.7	0.8	1.0	1.0	1.1	1.2	1.2	1.3
Internal revenue	0.8	0.9	0.9	0.7	0.6	0.5	0.6	0.6	0.6	0.6
Net Transfers from FGN <i>of which COVID-19 fund</i>	1.0	0.9	0.8	0.4	0.4	0.4	0.3	0.3	0.4	0.4
				0.1						
Expenditure	4.4	5.4	5.0	4.5	4.6	4.5	4.6	4.5	4.5	4.4
Overall Balance	0.4	-0.1	-0.3	-0.9	-0.9	-0.8	-0.6	-0.6	-0.5	-0.4
Financing	-0.4	0.1	0.3	0.9	0.9	0.8	0.6	0.6	0.5	0.4
External	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Domestic	0.4	0.2	0.3	0.9	0.9	0.8	0.6	0.6	0.5	0.4
Statistical discrepancy	-0.8	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0

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

Table 7. Nigeria: Central Bank of Nigeria Analytical Balance Sheet, 2017–26
(Billions on Naira)

	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
	Dec.	Dec.	Dec.	Dec.				Dec.		
					Projections					
Net foreign assets	10,826	12,127	7,797	8,325	7,711	7,343	6,940	7,085	7,204	7,244
Foreign assets	15,142	18,196	15,235	15,886	17,089	16,720	16,318	16,463	16,582	16,622
Foreign liabilities	-4,316	-6,069	-7,438	-7,560	-9,378	-9,378	-9,378	-9,378	-9,378	-9,378
Net domestic assets	-4,342	-4,947	884	4,778	7,061	9,586	12,416	15,277	18,789	22,656
Net domestic credit	7,831	10,292	16,459	20,576	23,801	29,626	34,981	41,429	49,121	57,469
Net claims on consolidated government	519	1,442	6,380	9,170	13,003	18,829	24,184	30,631	38,323	46,671
Net claims on federal government ¹	-71	835	5,768	8,559	12,393	18,218	23,573	30,021	37,713	46,061
Claims	5,681	7,959	11,839	16,478	20,828	26,653	32,009	38,456	46,148	54,496
Deposits	-5,752	-7,123	-6,071	-7,919	-8,435	-8,435	-8,435	-8,435	-8,435	-8,435
Net claims on state and local governments	590	607	612	610	610	610	610	610	610	610
Claims on deposit money banks	1,870	1,646	1,745	2,499	2,499	2,499	2,499	2,499	2,499	2,499
Other net claims	5,442	7,204	7,828	8,908	8,299	8,299	8,299	8,299	8,299	8,299
Other items net	-12,173	-15,239	-15,866	-15,799	-16,740	-20,040	-22,565	-26,152	-30,332	-34,813
Reserve money	6,484	7,180	8,681	13,103	14,772	16,929	19,356	22,362	25,993	29,900
Currency in circulation	2,157	2,330	2,443	2,908	4,793	5,493	6,280	7,256	8,434	9,702
Banks reserves with the CBN	4,327	4,850	6,238	10,195	9,979	11,436	13,075	15,106	17,559	20,198
<i>Memorandum items:</i>										
Reserve money y/y growth rate	10.9	10.7	21	50.9	12.7	14.6	14.3	15.5	16.2	15.0
Money multiplier	4.4	4.6	4	3.0	3.1	3.2	3.3	3.3	3.3	3.3

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

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

Table 8. Nigeria: Monetary Survey, 2017–26

	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
	Dec.	Dec.	Dec.	Dec.	Dec.					
					Projections					
Net foreign assets	10,977	11,838	6,235	8,109	10,038	9,933	9,807	9,953	10,072	10,111
Central Bank of Nigeria (net)	10,826	12,127	8,088	9,319	10,078	9,710	9,307	9,452	9,571	9,611
Commercial and merchant banks (net)	152	-288	-1,853	-1,210	-40	224	501	501	501	501
Net domestic assets	17,454	20,917	28,907	32,454	38,416	46,942	56,914	67,158	79,172	92,193
Net domestic credit	25,603	26,784	36,715	42,554	52,921	62,847	72,719	83,598	96,013	109,033
Net claims on consolidated government	17,250	21,950	25,230	31,344	37,713	45,696	53,080	61,869	71,965	82,755
Net claims on FGN ¹	15,755	20,204	23,360	29,275	33,998	40,284	46,212	53,359	61,905	71,290
CBN	11,702	15,602	18,465	24,914	29,264	35,089	40,444	46,891	54,584	62,932
Commercial Banks	4,053	4,601	4,895	4,362	4,734	5,196	5,768	6,468	7,321	8,358
Claims on SLG	1,495	1,746	1,870	2,069	3,715	5,412	6,868	8,510	10,060	11,465
Claims on private sector ²	14,767	13,227	16,250	18,714	22,711	24,653	27,142	29,232	31,551	33,781
o/w credit to the private sector	14,715	12,960	16,012	18,535	22,532	24,475	26,964	29,054	31,373	33,603
Other Claims	-6,414	-8,392	-4,765	-7,503	-7,503	-7,503	-7,503	-7,503	-7,503	-7,503
Other items	-8,149	-5,868	-7,808	-10,100	-14,505	-15,905	-15,805	-16,441	-16,841	-16,841
Broad money ³	28,432	32,755	34,851	39,570	46,087	54,508	64,355	74,743	86,877	99,937
Currency outside banks	1,783	1,907	2,023	2,496	2,907	3,438	4,059	4,714	5,479	6,303
Demand deposits	6,367	6,623	8,624	13,481	15,701	18,570	21,925	25,464	29,598	34,048
Time and savings deposits	14,465	16,053	18,232	21,728	25,307	29,931	35,338	41,043	47,705	54,877
CBN Bills held by resident nonbank sector	4,529	6,284	5,973	1,865	2,172	2,569	3,033	3,522	4,094	4,710
<i>Memorandum items:</i>										
Broad money (y-o-y,%)	9.1	15.2	6.4	13.5	16.5	18.3	18.1	16.1	16.2	15.0
Credit to the private sector (y-o-y,%)	-1.8	-11.9	23.5	15.8	21.6	8.6	10.2	7.8	8.0	7.1
Velocity (non-oil GDP/broad money)	3.8	3.6	3.8	3.6	3.6	3.5	3.5	3.4	3.3	3.3
Gross international reserves (billions of US dollar)	39.3	42.5	38.1	36.5	36.4	35.5	34.5	34.8	35.1	35.2

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

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

² Does not include AMCON bonds

³ Broad money is based on an M3 definition.

Table 9. Nigeria: Financial Soundness Indicators 2017–2021Q1

(Percent, unless otherwise specified)

	2017	2018	2019	2020Q1	2020Q2	2020Q3	2020Q4	2021Q1
Regulatory Capital to Risk-Weighted Assets	10.5	15.2	14.6	14.9	14.9	15.4	15.1	16.1
Regulatory Tier 1 Capital to Risk-Weighted Assets	8.4	13.5	12.8	13.0	13.0	13.2	12.8	13.6
Non-Performing Loans to Total Gross Loans	14.8	11.7	6.1	6.4	6.4	6.0	6.0	6.0
Return on Assets	2.4	2.0	2.5	2.2	2.5	2.2	2.2	1.1
Return on Equity	23.5	22.7	26.9	23.7	27.9	25.0	24.8	12.3
Interest Margin to Gross Income	61.2	67.3	61.0	61.9	56.8	48.5	56.4	59.1
Non-interest Expenses to Gross Income	58.2	60.9	64.7	63.1	55.3	63.8	61.6	75.4
Liquid Assets to Total Assets (Liquid Asset Ratio)	18.8	22.6	23.0	21.1	18.2	18.5	22.6	22.0
Liquid Assets to Short Term Liabilities	27.2	34.1	35.3	32.8	27.4	27.0	32.6	32.1

Source: Central Bank of Nigeria.

Table 10. Nigeria: Capacity to Repay, 2020–26

	2020	2021	2022	2023	2024	2025	2026
Existing and prospective Fund credit (SDR million)							
Disbursements	2,454.5	0.0	0.0	0.0	0.0	0.0	0.0
Stock of existing and prospective Fund credit	2,454.5	2,454.5	2,454.5	1,840.9	613.6	0.0	0.0
Obligations	26.1	6.5	26.0	638.7	1,241.9	616.2	0.2
Principal (repayments/repurchases)	0.0	0.0	0.0	613.6	1,227.3	613.6	0.0
Charges and interest	26.1	6.5	26.0	25.1	14.6	2.6	0.2
Fund obligations (repurchases and charges):							
<i>In millions of:</i>							
SDRs	26.1	6.5	26.0	638.7	1,241.9	616.2	0.2
U.S. dollars	37.5	9.3	37.7	935.2	1,833.2	915.5	0.3
<i>In percent of:</i>							
Quota	1.1	0.3	1.1	1.0	0.6	0.1	0.0
GDP	0.0	0.0	0.0	0.2	0.3	0.1	0.0
Exports of goods and services	0.1	0.0	0.1	1.8	3.6	1.8	0.0
Gross international reserves	0.1	0.0	0.1	2.7	5.3	2.6	0.0
Consolidated government revenue	0.1	0.0	0.1	2.3	4.1	1.8	0.0
Federal government revenue	0.4	0.1	0.3	6.2	11.1	4.9	0.0
External debt service	0.3	0.0	0.2	3.6	6.9	3.3	0.0
Fund credit outstanding:							
<i>In millions of:</i>							
SDRs	2,454.5	2,454.5	2,454.5	1,840.9	613.6	0.0	0.0
U.S. dollars	3,529.8	3,514.0	3,562.0	2,695.5	905.8	0.0	0.0
<i>In percent of:</i>							
Quota	100.0	100.0	100.0	75.0	25.0	0.0	0.0
GDP	0.8	0.8	0.7	0.5	0.1	0.0	0.0
Exports of goods and services	8.8	6.2	6.4	5.1	1.8	0.0	0.0
Gross international reserves	9.7	9.7	10.0	7.8	2.6	0.0	0.0
Consolidated government revenue	13.0	10.2	9.9	6.7	2.0	0.0	0.0
Federal government revenue	35.4	32.7	28.3	17.9	5.5	0.0	0.0
External debt	3.3	3.1	3.0	2.2	0.7	0.0	0.0
Memorandum items:							
Quota (SDR million)	2,454.5	2,454.5	2,454.5	2,454.5	2,454.5	2,454.5	2,454.5
Gross domestic product (USD billion)	429.4	463.1	517.0	591.4	667.0	755.5	856.2
Exports of goods and services (USD billion)	39.9	56.6	56.0	52.9	50.5	49.7	52.4
Gross international reserves (USD billion)	36.5	36.4	35.5	34.5	34.8	35.1	35.2
Consolidated government revenue (USD billion)	27.1	34.3	36.0	40.0	44.5	50.4	56.7
Total external debt (USD billion)	105.5	111.6	117.8	124.8	132.8	142.6	155.4
<i>of which: Public</i>	47.8	53.9	59.9	66.3	73.5	82.3	94.0
External debt service (USD billion)	12.7	24.0	24.4	25.8	26.7	27.6	26.4
<i>of which: Debt service due on public external debt</i>	4.9	15.9	16.3	17.7	18.5	19.3	17.9

Source: IMF staff calculations.

Annex I. Policy Commitments Under the RFI

Commitment	Status	Progress and remaining tasks
Monetary and exchange rate policy		
Strengthen monetary and exchange rate policies with a view to move towards full exchange rate unification and greater exchange rate flexibility	Ongoing	<ul style="list-style-type: none"> • The official exchange rate has been discontinued. • The I&E rate has depreciated by about 5 percent since April 2020. • Full exchange rate unification, which would require institutional abolishing of the windows, has not been achieved. • Exchange rate flexibility has not materially improved.
Fiscal policy		
The recent introduction and implementation of an automatic fuel price formula will ensure fuel subsidies, which have been eliminated, do not reemerge.	Unmet	<ul style="list-style-type: none"> • Implicit fuel subsidies have reemerged since November 2020. • The automatic market-based fuel price formula has not been introduced.
Power sector reform		
Move to full cost-reflective tariffs in 2021	On-going	<ul style="list-style-type: none"> • Delayed to January 1 2022.
Governance		
(i) Create specific budget lines to facilitate the tracking and reporting of emergency response expenditures	Met	<ul style="list-style-type: none"> • Budget lines were created.
(ii) Report funds released and expenditures incurred monthly on the transparency portal	Partially met	<ul style="list-style-type: none"> • The quality of information on the transparency portal regarding funds and expenditure remains uneven as does public access.
(iii) Publish procurement plans, procurement notices for all the emergency response activities—including the name of awarded companies and of beneficial owners—on the Bureau of Public procurement website	Partially met	<ul style="list-style-type: none"> • Procurement contracts above N5 Million are published at the Ministry of Finance Portal. https://opentreasury.gov.ng/ (access remains uneven) • Crisis-related Procurement Contracts are published according to specific guidelines (access remains uneven) • Corporate Registry started to publish the list of Persons with Significant Control since January 2021 as the implementation of the new Companies and Allied Matter Act started. Companies incorporated prior to CAMA implementation date (January 3, 2021) have disclosed beneficial ownership, and the companies formed after the date are required to disclose it once their annual return for the first fiscal year is completed. https://post.cac.gov.ng/search/type/company

Commitment	Status	Progress and remaining tasks
(iv) Publish no later than three to six months after the end of the fiscal year the report of an independent audit into the emergency response expenditures and related procurement process, which will be conducted by the Auditor General of the Federation—who will be provided the resources necessary and will consult with external/third party auditors	Delayed	<ul style="list-style-type: none"> The Office of the Accountant General (OAGF) has commissioned an audit unit to undertake financial audits of COVID-19 spending. The Auditor General's office is conducting audits of the spending utilization across procurement agencies—with the first audit recently conducted and the report being drafted. Given decentralized auditing authority due to Nigeria's Federal structure, a single national audit report is deemed infeasible.
Article VIII		
Not to impose new or intensify existing restrictions on the making of payments and transfers for current international transactions, trade restrictions for balance-of payments purposes, or multiple currency practices, or to enter into bilateral payments agreements which are inconsistent with Article VIII of the IMF's Articles of Agreement.	Unmet	<ul style="list-style-type: none"> A trade restriction was introduced for import of sugar.

Annex II. Risk Assessment Matrix¹

Sources of Risk	Likelihood	Time Horizon	Impact on Nigeria	Policy Responses
External Risks				
<p>Uncontrolled COVID-19 local outbreaks and subpar/volatile growth in affected countries. Outbreaks in slow-to-vaccinate countries force new lockdowns. For many Emerging Markets and Low-Income Countries, policy response to cushion the economic impact is constrained by a lack of policy space, with some market access countries facing additional financial tightening as a reassessment of growth prospects triggers capital outflows, depreciations, and debt defaults.</p>	High	Short to Medium Term	High	<ul style="list-style-type: none"> • Allow greater exchange rate flexibility to preserve external buffers, structural reforms to enhance economic diversification and efficiency, and fiscal consolidation to ensure continued access to international capital markets. • Continue to focus on meeting the goal of vaccinating 70 percent of population by 2022, including through vaccine campaigns. • Continue with the proactive approach to closely monitor developments and prepare for new waves.
<p>Widespread social discontent and political instability. Social tensions erupt as a withdrawal of pandemic-related policy support results in unemployment and, amid increasing prices of essentials, hurts vulnerable groups (often exacerbating pre-existing inequities).</p>	Medium	Short to Medium Term	Medium	<ul style="list-style-type: none"> • Step up social spending by creating space through expenditure reprioritization, revenue mobilization and use of concessional financing resources. • Step up anti-corruption and governance efforts.
<p>Intensified geopolitical tensions and security risks. Geopolitical tensions in selected countries/regions cause economic/political disruption, disorderly migration, higher volatility in commodity prices (if supply is disrupted), and lower confidence, with spillovers to other countries.</p>	High	Short Term	Medium	<ul style="list-style-type: none"> • Allow greater exchange rate flexibility to preserve external buffers particularly in view of risks of commodity price volatility.
<p>Cyber-attacks on critical infrastructure, institutions, and financial systems trigger systemic financial instability or widespread disruptions in socio-economic activities and remote work arrangements.</p>	Medium	Short to Medium Term	Low	<ul style="list-style-type: none"> • Strengthen the supervisory and regulatory framework, especially as it pertains to oversight of holding companies; improve corporate governance; and address weaknesses in the bank resolution framework. Strengthen contingency planning, and the institutional framework of emergency response.
<p>Higher frequency and severity of natural disasters cause severe economic damage to smaller economies susceptible to disruptions. A sequence of severe events hits key infrastructure and large economies, which disrupts trade, reduces global GDP, and prompts a recalculation of risk and growth prospects. Disasters hitting key infrastructure or disrupting trade raise commodity price levels and volatility.</p>	Medium	Short to Medium Term	High	<ul style="list-style-type: none"> • Rebuild fiscal and external buffers now to counter effects of future demand shortfalls particularly on vulnerable groups. • Continue improving the business environment to boost productivity and competitiveness, and to foster diversification to dampen negative effects. • Implement climate adaptation plan to limit the impact of natural disasters.

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

Sources of Risk	Likelihood	Time Horizon	Impact on Nigeria	Policy Responses
Nigeria-specific Risks				
<p>Speed of reform implementation</p> <ul style="list-style-type: none"> Downside: Continuation of implicit fuel subsidies will significantly reduce fiscal space and prolonged use of administrative measures to address higher FX demand could trigger a loss of confidence. Upside: The AfCFTA could yield a positive net export boost if accompanied by a reduction in trade barriers and improvement of trade logistics. <p>Deterioration of security conditions which could further disrupt oil production in the Niger Delta and food supply. Despite some success in fight against insurgency in the North East, the situation remains very volatile.</p>	<p>Medium</p> <p>Medium</p> <p>High</p>	<p>Short Term</p> <p>Medium Term</p> <p>Near to Medium Term</p>	<p>High</p> <p>High</p> <p>High</p>	<p>Implement the integrated policy package which includes adopting a market-clearing unified exchange rate, fiscal consolidation, strengthen monetary and exchange rate frameworks, and an improved business environment.</p> <ul style="list-style-type: none"> Further expedite business-enabling structural reforms including more open trade policy. Strengthen security and investment environment in the oil and gas sector. A coordinated effort in both military and developmental fronts is essential to address security challenges.
<p>Slow progress in addressing corruption, tax evasion, and related money laundering. A failure to make rapid progress could further discourage inward foreign investment and diminish international confidence in the Nigerian financial system.</p>	<p>High</p>	<p>Short Term</p>	<p>High</p>	<p>Step up anti-corruption and governance efforts including asset declaration, risks posed by politically exposed persons, transparency of beneficial ownership, and corporate governance.</p> <p>Strengthen the AML/CFT regime, to address weaknesses identified in the 2021 GIABA mutual assessment.</p>
<p>Higher-than-projected production of refined products by the Dangote refinery and higher investment in the petroleum sector from the adoption of the PIA.</p>	<p>Medium</p>	<p>Medium Term</p>	<p>High</p>	<p>Further expedite business-enabling structural reforms to maximize growth benefits from positive spillovers.</p>

Annex III. Public Debt Sustainability Analysis

Nigeria's public debt is assessed to be sustainable, but subject to high risks and uncertainties. Liquidity-based indicators—driven by weak revenue mobilization—remain concerning, with the interest payments still representing a high share of government revenue. This makes Nigeria's debt servicing capacity vulnerable to shocks. Stress scenarios show that the interest-to-revenue ratio and gross financing needs are particularly vulnerable to a real interest rate shock scenario. A comprehensive policy package, including fiscal consolidation based on non-oil revenue mobilization over the medium term, once the COVID-19 crisis passes, is essential to reduce the interest payments-to-revenue ratio to more sustainable levels.

Baseline Projections

1. Nigeria's level of public debt increased sharply last year due to the COVID-19 crisis.

Public debt¹ had been on an increasing path in the last decade reaching 29 percent of GDP in 2019 from 9 percent in 2009, driven by primary deficits as weak non-oil revenue mobilization failed to compensate for falling oil revenues. In 2020, the sharp decline in oil revenues increased public debt further to 35 percent of GDP. The debt-to-GDP ratio is expected to increase in the medium term to 43 percent of GDP, despite favorable growth-interest rate dynamics. Gross financing needs are expected to increase to 8.9 percent of GDP in 2021 from 7.3 percent in 2020, and to 11.4 percent in the medium term.

2. Nigeria's public debt is considered sustainable under the baseline. The level of public debt compares favorably with the average EMDE general government gross debt stock (around 50 percent of GDP), and significantly lower than the MAC-DSA's benchmark of 70 percent. Due to gradual improvements in non-oil revenue collection and a reduction in pandemic-related spending, the primary deficit is projected to gradually improve but still surpass the debt-stabilizing level by the end of projection period. While medium and long-term debt still accounts for more than 70 percent of public debt, the relatively high GFN-to-GDP ratio, together with a recent increase in short-term debt, implies that the remaining maturity is likely to be shortening. Foreign currency denominated debt, mostly held by non-residents, has stayed at 20 percent of public debt, slightly above the lower early warning threshold.

3. Weak revenue mobilization poses significant risks to the debt-servicing capacity.

Although interest payments were only 2 percent of GDP in 2020, about 89 percent of federal government revenues were absorbed by interest payments, reflecting poor domestic revenue mobilization capacity. The FG interest-to-revenue ratio is expected to slightly decline to around 86 percent in 2021 and rise steadily to reach 139 percent by 2026. High interest-to-revenue ratio puts fiscal space at risk and makes financing of current and capital spending highly dependent on debt financing.

¹ Public debt includes general government debt, CBN overdrafts, CBN financing of the power sector, Asset Management Company debt (AMCON), and non-interest-bearing promissory notes issued to clear payment arrears.

4. Uncertainties arising from oil prices and interest rate movement, sizable short-term debt, and contingent liabilities present additional fiscal risks. The revenue outlook remains subject to large uncertainties over the evolving trajectory of oil prices. With oil revenues projected to rebound, a slower-than-expected recovery of oil prices could put further strain on the government's capacity to service debt. Also, real interest rates under the baseline projection are significantly lower than the historical average. Debt dynamics would worsen if real rates turn out to be higher than expected. Moreover, the short-term debt, which increased significantly in 2020 due to COVID-19 crisis, is above the early warning threshold, although expected to decrease gradually in the medium term. According to the Debt Management Office (DMO), the explicit contingent liabilities of the federal government are around 2.9 percent of GDP in end-2020. In addition, non-guaranteed liabilities of government-owned entities and certain PPPs, for which no data are available, are likely to pose additional risks.

5. With regard to the forecast track record, past projections of the primary balance and growth show some optimistic bias pre-2017, reflecting oil price volatility. Forecast accuracy has improved since 2017 but remains subject to oil price volatility.

Stress Tests

6. Debt level is vulnerable to the combined macro-fiscal shock. Individual shocks to real GDP growth, primary balance, real interest rate, real exchange rate, as well as a contingent liability shock would push public debt no higher than 48 percent of GDP over the medium term. A standardized combined macro-fiscal shock that captures a combination of these shocks such as to real GDP growth, inflation, interest rate and exchange rate would increase the debt level to 54 percent of GDP by 2026, still below the 70 percent MAC-DSA benchmark, but close to the benchmark identified in the literature (40-58 percent of GDP) as safe and growth-supporting for countries like Nigeria, which is a lower-middle income country with poor/weak revenue mobilization capacity².

7. Gross financing needs would worsen under stress scenarios, signaling risks to debt sustainability. Gross financing needs would reach 13 percent of GDP under shocks to the real interest rate and almost 14.7 percent of GDP under the combined macro-fiscal shock, while under the other shocks, maintaining the level below 12 percent of GDP over the medium-term.

8. The FG interest payments-to-revenue ratio is highly vulnerable to shocks. Higher interest rates will increase Nigeria's vulnerabilities by placing a principal risk on debt service capacity. In particular, a real interest rate shock would increase the FG interest-to-revenue ratio to about 348 percent by 2026. A standardized combined macro-fiscal shock would increase the ratio to 398 percent. Other shocks to real GDP growth, primary balance and the exchange rate would increase the ratio to between 247 and 273 percent by 2026. The GG interest payments-to-revenue

² A. Pienkowski, *Debt Limits and the Structure of Public Debt*, IMF Working Paper, WP/17/117. *Modernizing the Framework for Fiscal Policy and Public Debt Sustainability Analysis*, International Monetary Fund Staff paper, August 2011 *Debt Sustainability Analysis Framework for Low-Income Countries*, The IMF and the World Bank, July 2018,

ratio, however, would be kept below 100 percent under shocks, except for the real interest rate and combined macro-fiscal shocks, under which the ratio would go up to 128 and 147 percent respectively.

9. The fan charts indicate that there is significant uncertainty around the baseline. The width of the symmetric fan chart, estimated at about 20 percent of GDP by the end of the projection period, illustrates the degree of uncertainty for equal probability of upside and downside shocks. In an asymmetric fan chart, an extreme downside shock that constrains growth to zero results in a more upward-sloping debt path, reflecting a balance of risks skewed to the downside.

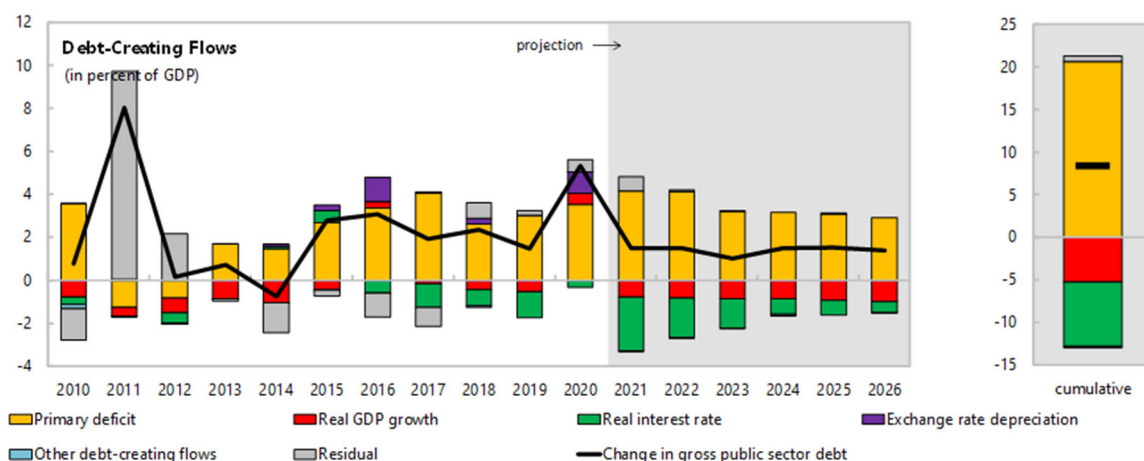
Heat Map

10. The heat map signals some vulnerabilities associated with debt profile. Overall, there are ten green cells (indicating low risk), four yellow cells (indicating medium risk) and one red cell (indicating high risk) in the heat map. The change in short-term debt, which increased significantly in 2020 due to COVID-19 crisis, presents a major vulnerability. Also, it shows that there are medium risks due to foreign currency debt, external debt, external financing requirements and market perception.

Figure 1. Nigeria Public Sector Debt Sustainability Analysis (DSA) - Baseline Scenario
(in percent of GDP unless otherwise indicated)

	Debt, Economic and Market Indicators ^{1/}										As of November 09, 2021		
	Actual			Projections									
	2010-2018	2019	2020	2021	2022	2023	2024	2025	2026				
Nominal gross public debt	19.7	29.2	34.5	36.0	37.5	38.5	40.0	41.5	42.9	Sovereign Spreads			
Public gross financing needs	3.1	4.8	7.3	8.9	9.5	9.9	10.5	11.2	11.4	EMBIG (bp) 3/ 593			
Real GDP growth (in percent)	4.0	2.2	-1.8	2.6	2.7	2.7	2.6	2.6	2.7	5Y CDS (bp) 431			
Inflation (GDP deflator, in percent)	8.4	10.4	7.8	15.6	12.9	11.4	10.0	10.4	10.3	Ratings	Foreign	Local	
Nominal GDP growth (in percent)	12.7	12.8	5.9	18.6	15.9	14.4	12.8	13.3	13.3	Moody's	B2	B2	
Effective interest rate (in percent) ^{4/}	7.3	6.8	7.7	7.4	7.4	7.6	8.2	8.7	9.3	S&Ps	B-	B-	
Adjusted effective interest rate (in percent) ^{5/}	7.4	8.9	8.4	8.0	8.7	9.3	10.6	11.8	12.8	Fitch	B	B	

	Contribution to Changes in Public Debt ^{6/}										cumulative	debt-stabilizing primary balance ^{11/}
	Actual			Projections								
	2010-2018	2019	2020	2021	2022	2023	2024	2025	2026			
Change in gross public sector debt	2.1	1.5	5.3	1.5	1.5	1.0	1.5	1.5	1.4	8.4		
Identified debt-creating flows	1.3	1.3	4.7	0.8	1.4	1.0	1.6	1.5	1.4	7.7		
Primary deficit	1.9	3.0	3.5	4.1	4.1	3.2	3.2	3.1	2.9	20.6		
Primary (noninterest) revenue and grants	10.5	7.8	6.3	7.4	7.0	6.8	6.7	6.7	6.6	41.1		
Primary (noninterest) expenditure	12.4	10.8	9.9	11.6	11.1	10.0	9.8	9.8	9.5	61.7		
Automatic debt dynamics ^{7/}	-0.6	-1.8	1.2	-3.3	-2.7	-2.2	-1.6	-1.6	-1.5	-12.8		
Interest rate/growth differential ^{8/}	-0.8	-1.8	0.2	-3.3	-2.7	-2.2	-1.6	-1.6	-1.5	-12.8		
Of which: real interest rate	-0.3	-1.2	-0.3	-2.5	-1.8	-1.4	-0.7	-0.7	-0.5	-7.6		
Of which: real GDP growth	-0.5	-0.5	0.5	-0.8	-0.8	-0.9	-0.9	-0.9	-1.0	-5.3		
Exchange rate depreciation ^{9/}	0.2	0.0	1.0	...	...	...	...	...	...	...
Other identified debt-creating flows	0.0	0.0	0.0	-0.1	0.0	0.0	0.0	0.0	0.0	-0.1		
Net privatization proceeds (negative)	0.0	0.0	0.0	-0.1	0.0	0.0	0.0	0.0	0.0	-0.1		
Contingent liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Residual, including asset changes ^{10/}	0.8	0.2	0.6	0.7	0.1	0.0	-0.1	0.0	0.0	0.7		



Source: IMF staff.

1/ Public sector is defined as general government.

2/ Based on available data.

3/ EMBIG.

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

5/ Defined as interest payments divided by debt stock (excluding guarantees and debt that do not carry interest payments) at the end of previous year.

6/ Gross debt includes general government debt, CBN overdrafts, CBN financing of the power sector and AMCON debt

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

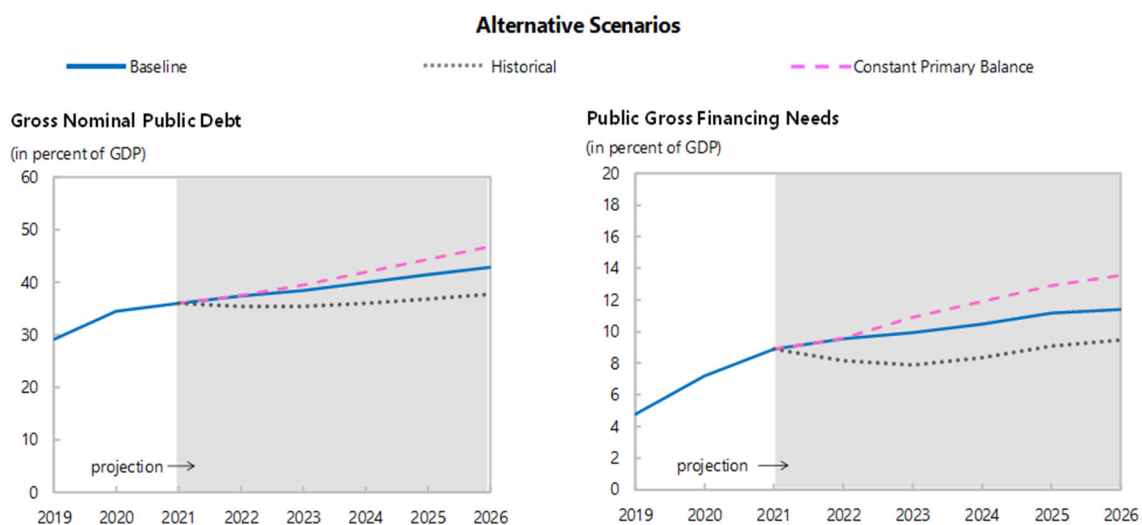
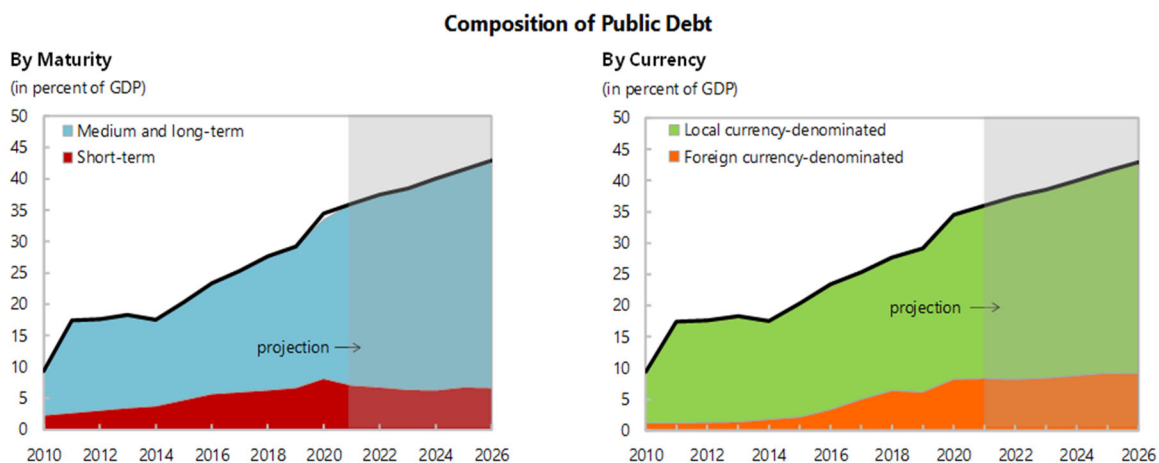
8/ The real interest rate contribution is derived from the numerator in footnote 5 as $r - \pi(1+g)$ and the real growth contribution as $-g$.

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

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

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

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



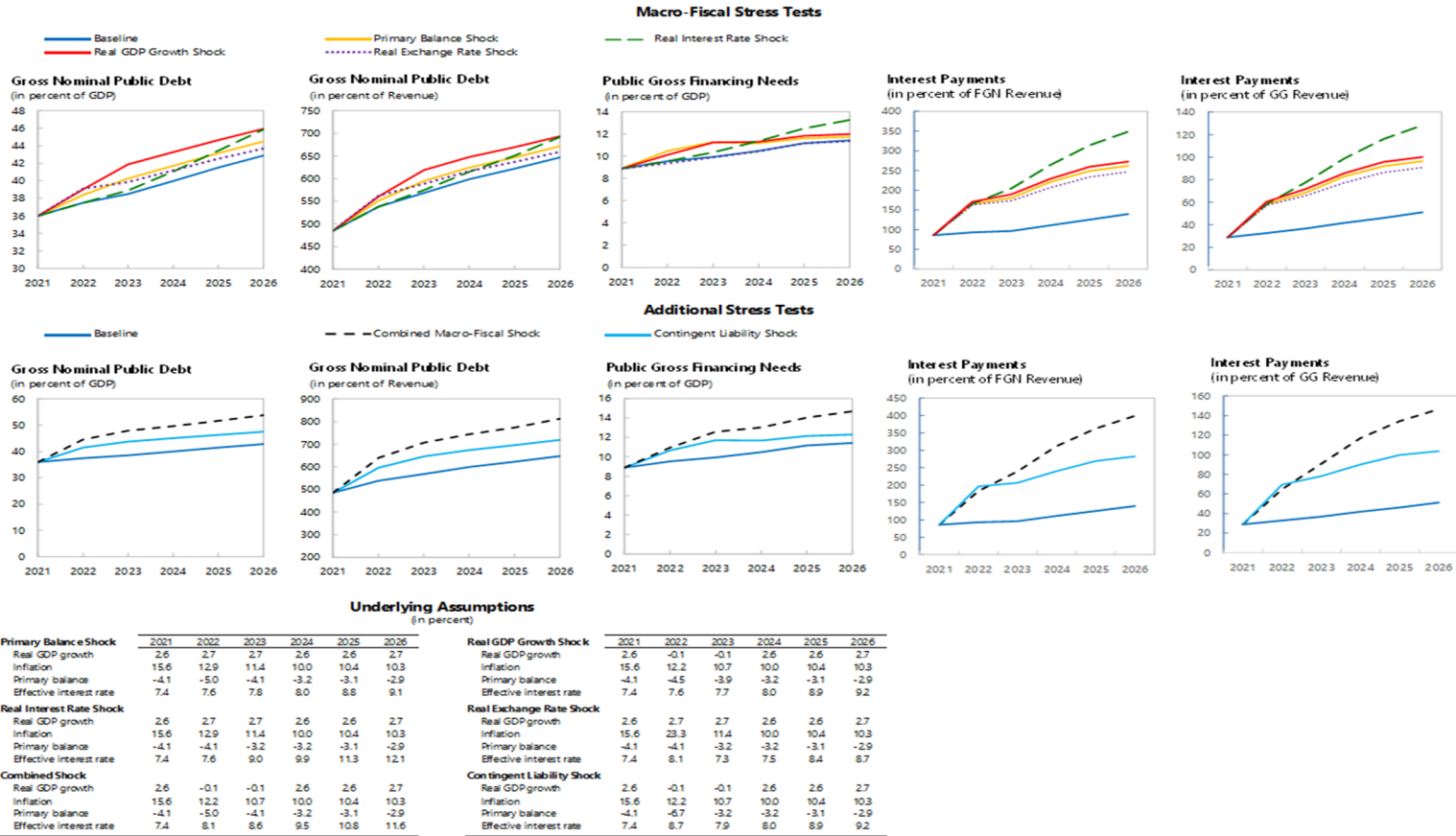
Underlying Assumptions (in percent)

Baseline Scenario	2021	2022	2023	2024	2025	2026
Real GDP growth	2.6	2.7	2.7	2.6	2.6	2.7
Inflation	15.6	12.9	11.4	10.0	10.4	10.3
Primary Balance	-4.1	-4.1	-3.2	-3.2	-3.1	-2.9
Effective interest rate	7.4	7.4	7.6	8.2	8.7	9.3

Historical Scenario	2021	2022	2023	2024	2025	2026
Real GDP growth	2.6	2.5	2.5	2.5	2.5	2.5
Inflation	15.6	12.9	11.4	10.0	10.4	10.3
Primary Balance	-4.1	-2.0	-2.0	-2.0	-2.0	-2.0
Effective interest rate	7.4	7.6	7.8	8.0	9.3	9.7

Constant Primary Balance Scenario	2021	2022	2023	2024	2025	2026
Real GDP growth	2.6	2.7	2.7	2.6	2.6	2.7
Inflation	15.6	12.9	11.4	10.0	10.4	10.3
Primary Balance	-4.1	-4.1	-4.1	-4.1	-4.1	-4.1
Effective interest rate	7.4	7.6	7.7	7.9	8.7	9.0

Figure 3. Nigeria Public DSA - Stress Tests



Source: IMF staff.

Figure 4. Nigeria Public DSA Risk Assessment

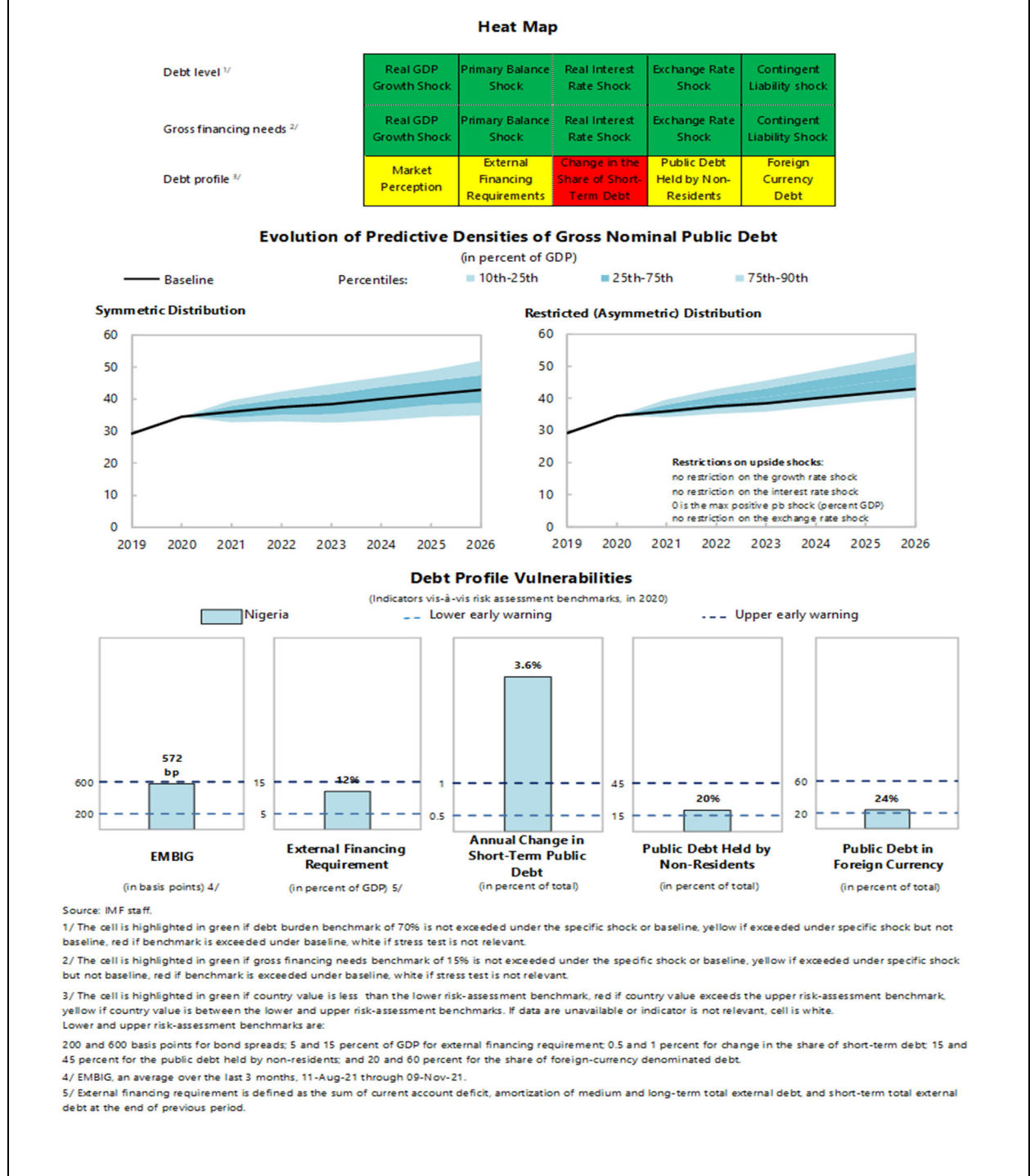
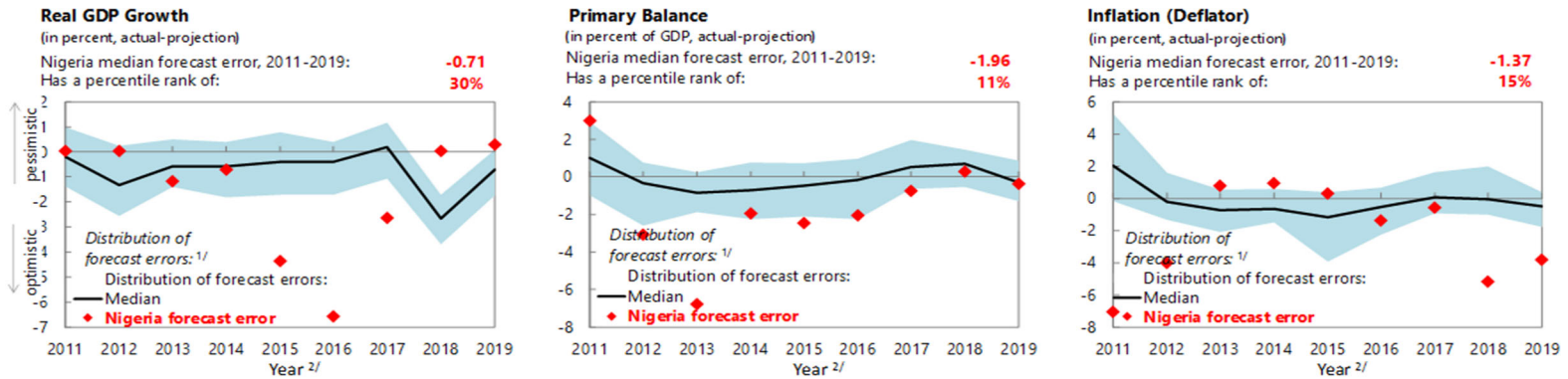


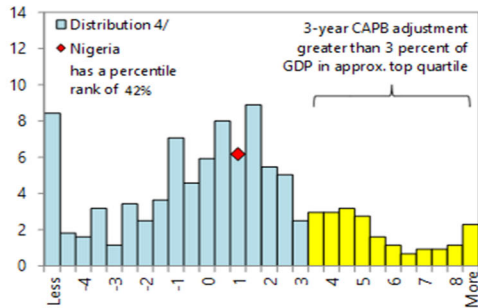
Figure 5. Nigeria Public DSA - Realism of Baseline Assumptions

Forecast Track Record, versus surveillance countries

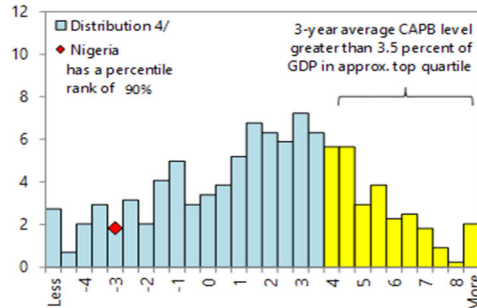


Assessing the Realism of Projected Fiscal Adjustment

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

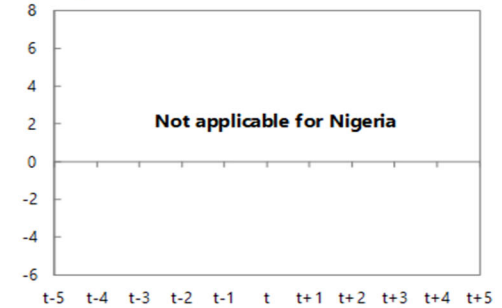


3-Year Average Level of Cyclically-Adjusted Primary Balance (CAPB)
(Percent of GDP)



Boom-Bust Analysis^{3/}

Real GDP growth
(in percent)



Source : IMF Staff.

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

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

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

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

Annex IV. External Stability Assessment

The external position of Nigeria in 2021 is preliminarily assessed as weaker than implied by fundamentals and desirable policies. Based on current trends, staff estimates a current account (CA) gap of -3 percent of GDP, which corresponds to a real effective exchange rate (REER) overvaluation of 15 percent. However, this assessment is preliminary, pending revisions and full-year data for 2021. Reserves at end-2020 corresponded to 72 percent of the Assessment of Reserve Adequacy (ARA) metric, including the oil buffer, but have recently improved further. Capital inflows remain modest relative to pre-pandemic years. External sector vulnerability remains a source of macroeconomic vulnerability, and greater exchange rate flexibility together with deep structural reforms would be required to bring the external position back into balance over the medium term.

Current Account Balances

1. The pandemic had a strong adverse impact on the current account balance in 2020.

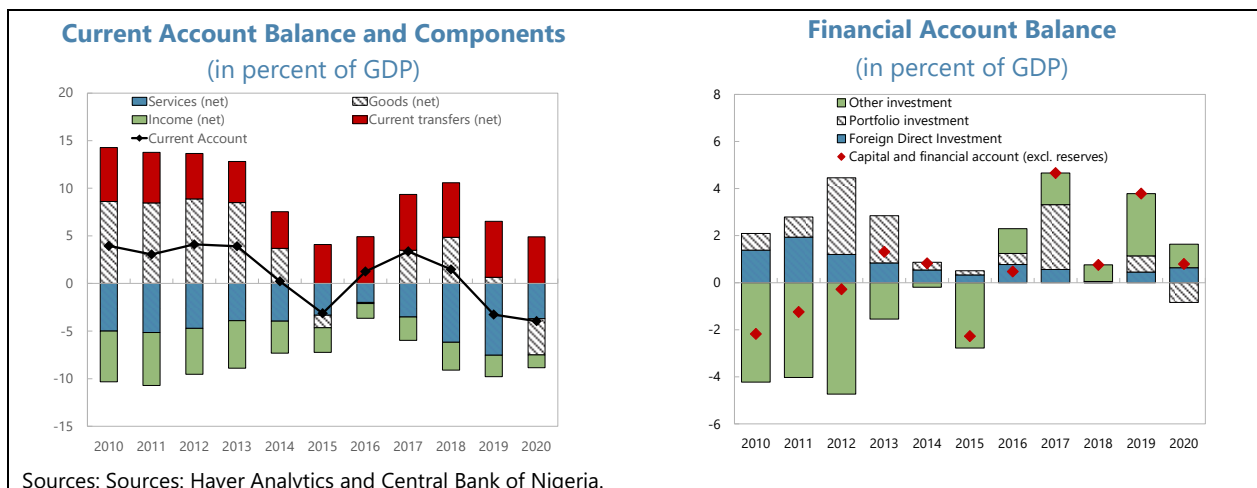
The collapse in exports relative to 2019 (45 percent) was significantly more pronounced than that in imports (17 percent), leading to a large goods trade deficit. While the deficits in services trade and income were also reduced by almost a half, remittances dipped by 28 percent. As a result, the CA deficit widened to a historic 4 percent of GDP in 2020, continuing the trend that began in 2019 (a deficit of 3.3 percent), prior to which the CA registered continuous surpluses since 2004 except for 2015 when the BOP came under stress. For 2021H1, preliminary data suggests that the current account deficit narrowed significantly to 1.2 percent of GDP, though divergence in trade data between the CBN and the National Bureau of Statistics as well as large errors and omissions complicate interpretation.

2. Financial inflows declined significantly in 2020 and remain subdued in 2021H1.

There were significant net portfolio outflows of \$3.6 billion for the first time since the global financial crisis.¹ Preliminary data for 2021H1 shows a rebound in net portfolio inflows of \$1.9 billion in 2021Q1 followed by net outflows of \$0.5 billion in 2021Q2. In 2020, net other investment inflows declined significantly to \$4.3 billion (from \$7.7 billion in 2019), mostly on account of lower private sector net inflows, and preliminary data for 2021H1 shows persistent net outflows in the first two quarters of the year totaling \$3 billion. In contrast, foreign direct investment picked up to \$1.8 billion in 2021H1, sustaining the rising trend that began in 2019 and after reaching \$2.7 billion in 2020. On the aggregate, net financial inflows held up better in 2020 relative to past crises² partly reflecting authorities' policies to restrict capital outflows, though they barely reached \$0.5 billion in 2021H1.

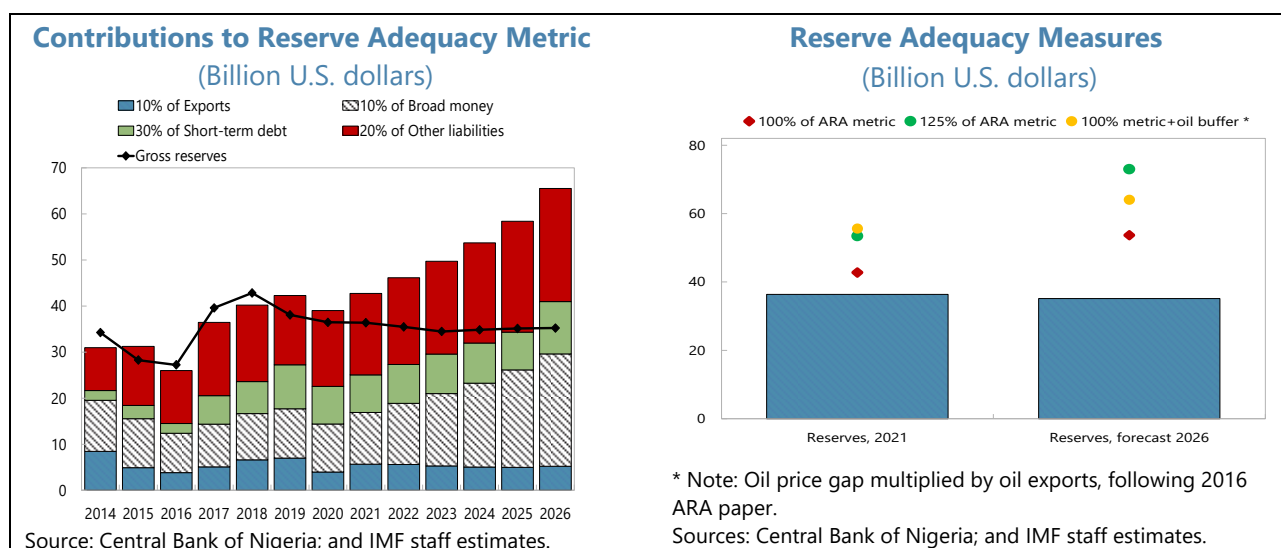
¹ In comparison, net portfolio outflows were \$3.4 billion during the 2008 global financial crisis and, while net portfolio inflows also collapsed in 2015, they remained positive at \$859 million.

² In 2015, net financial outflows peaked at \$11.2 billion.



Reserve Adequacy

3. Gross international reserves remain below comfortable levels. Gross foreign exchange (FX) reserves declined to \$36.5 billion at end-2020, equivalent to 72 percent of the Assessment of Reserve Adequacy (ARA) metric including the oil buffer.³ More recently, the SDR allocation of \$3.35 billion and the Eurobond issuance of \$4 billion boosted reserves to \$41.3 billion at end-October. Gross FX reserves are projected to decline from this level during the course of this year, partly owing to clearance of FX backlog owed to foreigners (estimated by the authorities at \$1.7 billion as of end-October) and delivery of forward contracts. In the absence of major policy adjustments, including greater clarity on exchange rate policies, foreign capital inflows are projected to remain subdued in the medium term resulting in limited accumulation of FX reserves, which are projected to remain below 100 percent of the ARA metric.



³ See the [2016 ARA Board paper](#).

Exchange Rate Assessment

4. The current account (CA) model in the Fund’s external balance assessment (EBA)-Lite methodology suggests that the external position in 2021 was weaker than implied by fundamentals and desirable policies. The EBA-Lite uses three different approaches to assess the REER: the CA model, the real exchange (REER) model, and the external stability (ES) approach (Table 1).

- The main vehicle for the external sector assessment in Nigeria is the **CA model**, which establishes a CA norm of -0.1 percent of GDP in 2021.⁴ After considering the cyclical factors and COVID-19 related and other exceptional factors, the preliminary adjusted CA balance ends at -3.1 percent of GDP for 2021. The corresponding CA gap is -3 percent of GDP, suggesting an external position that is weaker than implied by fundamentals and desired policy settings. Based on a current account elasticity to the real exchange rate of -0.20, the CA gap corresponds to an REER overvaluation of 14.9 percent. These estimates are subject to considerable statistical uncertainties, including from large balance of payment (BoP) errors and omissions, and model uncertainties, giving rise to large unidentified residuals (-5.4 percent of GDP), potentially mirroring unexplained factors that are not captured by the model, such as structural impediments underpinning a lower saving-investment balance.
- The **REER model** is a price-based equilibrium approach that directly models a norm for the REER. It suggests that the real exchange rate in Nigeria is overvalued by 4.1 percent and broadly consistent with fundamentals and desirable policies.
- The **ES approach** calculates the REER adjustment that is required to satisfy the inter-temporal budget constraint as a measure of the external adjustment required to restore external sustainability. This approach suggests an overvaluation in the REER of 7.8 percent, which is moderately weaker than fundamentals reflecting Nigeria’s low external debt (see Annex VI).

5. Nigeria’s complex exchange rate policy and multiple exchange rates remain a major source of vulnerability. A unified and market-clearing exchange rate would foster competitiveness and alleviate BoP pressures in Nigeria. Further clarity on exchange rate is needed to help attract larger capital inflows, including foreign direct investments, which have been low for many years.

⁴ The CA model is the preferred model for the external sector assessment because (i) the financing of the CA deficit in Nigeria remains a major source of vulnerability, and (ii) Nigeria’s complex exchange rate policy and multiple exchange rates complicate a meaningful REER analysis.

Nigeria: Model Estimates for 2021 (in percent of GDP)

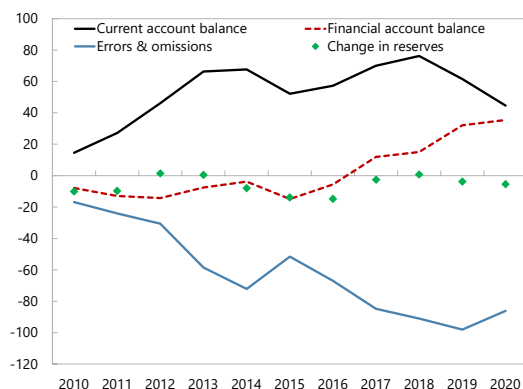
	CA model	REER model	ES model
CA-Actual	-2.8		
Cyclical contributions (from model) (-)	0.3		
COVID-19 adjustor (+) 1/	0		
Natural disasters and conflicts (-) 1/	0		
Adjusted CA	-3.1		
CA Norm (from model) 2/	-0.1		
CA Gap	-3.0	-0.8	-1.6
o/w Relative policy gap	1.9		
Elasticity	-0.20		
REER Gap (in percent) 3/	14.9	4.1	7.8

1/ Additional cyclical adjustment to account for the temporary impact of the pandemic on tourism is zero because observed shifts in net service receipts and security spending are expected to persist going forward (net services receipts are structurally negative in Nigeria and services payments are expected to exceed the level in 2019; and security spending is rising (see ¶5 in the PN) following the significant deterioration in domestic security conditions).

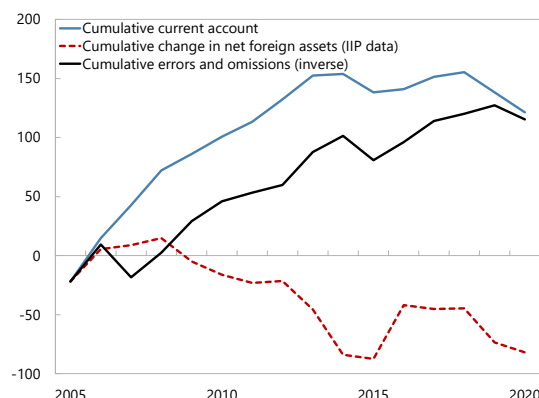
2/ Cyclically adjusted, including multilateral consistency adjustments.

3/ Positive numbers indicate overvaluation. Staff estimated the elasticity of the CA to the REER at -0.20, compared with the EBA model estimate of -0.09, reflecting increased sensitivity in years.

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



Measures of Net Foreign Asset Accumulation (Billion U.S. dollars; since 2005)



Sources: Haver, CentralBank of Nigeria, and IMF staff calculations.

Annex V. Capacity Development Strategy FY 2021

Summary

A. CD Strategy

- 1. IMF's surveillance in Nigeria calls for a comprehensive policy package.** The country's exceptionally low revenue performance, unorthodox monetary policy in the face of persistently high inflation, foreign exchange restrictions, and governance weaknesses have undermined growth performance while increasing vulnerabilities. In this context, IMF's capacity development (CD) work on Nigeria has been closely aligned with staff's policy recommendations.
- 2. The proposed CD strategy continues to focus on revenue mobilization, public financial management, banking supervision, and macroeconomic statistics**—the same priorities as identified in the 2020 Article IV consultation staff report. While monetary and exchange rate policy is a key priority, the authorities have only indicated interest in training on modeling and have no interest in technical assistance on monetary policy operations, where past IMF advice has received limited traction.
- 3. The current mix between HQ/RTAC missions (about 1:2) is adequate to leverage on continuous** regional engagement while also benefiting from strategic support from the HQ. Training activities should be gradually expanded—both as standalone and as part of TA missions.

Key Overall CD Priorities Going Forward

Priorities	Objectives
Tax policy and revenue administration	<p>Traction: TA advice on tax policy has been partially incorporated in the 2020 Finance Bill. However, the revision of petroleum fiscal regime has not fully aligned with on-going TA recommendations. The Strategic Revenue and Growth Initiative and future finance bills are expected to benefit from the most recent TA, including on priorities for revenue administration. A tax administration compliance plan—in line with IMF recommendations is being put in place by the new tax agency chairman.</p> <p>Going forward: Revenue mobilization through comprehensive oil and non-oil tax policy reforms, including the rationalization of tax expenditures. Improved non-oil revenue mobilization by strengthening tax and customs administrations.</p>

Priorities	Objectives
Public financial management	<p>Traction: A Treasury Single Account has been put in place, and there has been good progress on the medium-term debt strategy and cash management, and budget planning. Only moderate progress is expected on the recommendations of the recently completed mission on the overseas revenues' integration with government accounting systems, in view of uncertain ownership.</p> <p>Going forward: TA to focus on more integrated cash, asset, liability (including public debt) management, macro-fiscal forecasting, and fiscal risks management.</p>
Financial Supervision and Regulation	<p>Traction: Fair intake of policy advice on banking supervision, including towards Pillar implementation, and development of early warning system and risk-based supervision.</p> <p>Going forward: Capacity development in banking supervision, including for onsite and offsite functions and bank resolution, will continue through AFRITAC West II.</p>
Strengthen macroeconomic and financial statistics compilation	<p>Traction: Progress on national accounts, CPI, and BOP statistics was disrupted by pandemic-induced delays in Census and surveys. Little intake or prioritization on GFS statistics from the budget office.</p> <p>Going forward: Improving compilation of macroeconomic statistics – particularly those for national accounts and price statistics, is important.</p>

Main Risks and Mitigation

4. Progress has been made in implementing TA recommendations, albeit at a much slower pace for revenue mobilization and in statistics. Absorptive capacity and data quality will likely remain as main risk factors; thus, continuing to require mitigating arrangements—such as a resident advisor program—for closer hands-on support. Resource allocation for new TAs should also continue to be merit-tested, including guided by the implementation record. The envisaged deployment of the long-term resident expert (LTX) on revenue mobilization will help bolster the traction—along with the World Bank's upcoming Program for Results on revenue mobilization.

Authorities' Views

5. The authorities agreed with the above-mentioned priorities and expressed renewed commitment and ownership. They appreciated the ongoing rebalancing of resources toward hands-on support, including peripatetic expert visits and the placement of the long-term resident advisor. They reiterated their strong interest in receiving TA for budget reporting. The authorities appreciated MCM's rapid response to the request for CD support on the CBDC rollout.

Annex VI. External Debt Sustainability Analysis

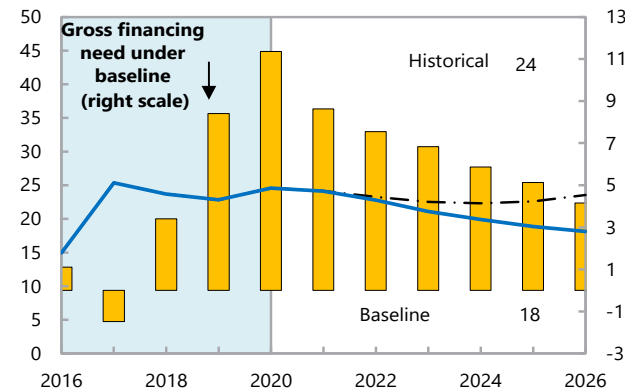
- 1. External debt has been increasing but remains relatively low.** The level of (public and private) external debt is projected at 24.1 percent of GDP at end-2021 (Table 1).¹ Higher debt and lower exports in US\$ terms have increased the external debt-to-exports ratio to about 262.2 percent in 2020 and are projected to rise over the medium term to almost 300 percent in 2026, up from just 145½ percent in 2015.
- 2. Under the baseline,² external debt would decline slightly as share of GDP.** With continued weak growth, private sector external borrowing is projected to be on a downward trend. The public sector is expected to continue to draw on financing from bilateral and commercial external sources. To some extent, the interest rate risk may be contained by the historically concessional nature of a large proportion of public external debt compared to peers, although in recent years, there has been increased international bond issuances.
- 3. Stress tests are used to illustrate the sensitivity of debt levels to various potential shocks (see Figure 1).** Higher interest rates or a slowdown in economic growth would not, by themselves, lead to outcomes substantially different from the baseline. On the other hand, a shock to the non-interest current account, which, given the structure of Nigeria's trade can be interpreted as a substantial decline in oil exports, would place the external debt-to-GDP ratio on a substantially higher path. This result is driven by the high historical volatility of Nigeria's current account balance, which owes largely to fluctuations in oil exports and prices. However, as was experienced during the last oil shock, it is likely that the impact would be buffered largely by import compression and income debits. A combined (interest rate, growth, current account) shock has a similar impact on the debt path, driven by the current account dynamics. A one-time real depreciation of 30 percent in the first projection year would cause an upward level shift in debt, but not place it on an upward path.

¹ The analysis is subject to gaps in data on remaining maturity of external obligations. Staff estimates are used for portfolio investment liabilities based on the estimated stock of non-resident holdings of government securities issued on the domestic market, capital market.

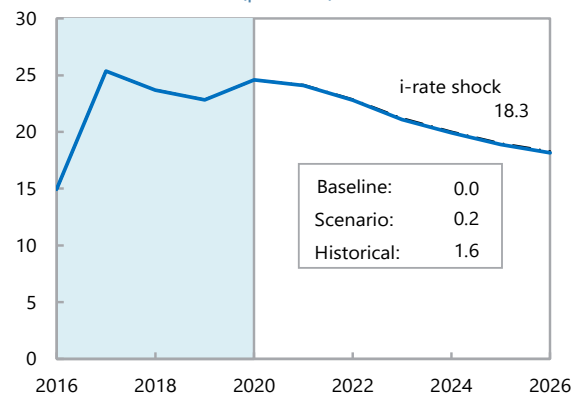
² For more details, see IMF (2008) "Staff Guidance Note on Debt Sustainability Analysis for Market Access Countries", IMF Board Paper SM/08/221, (Washington, D.C.: International Monetary Fund).

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

Baseline and Historical Scenarios

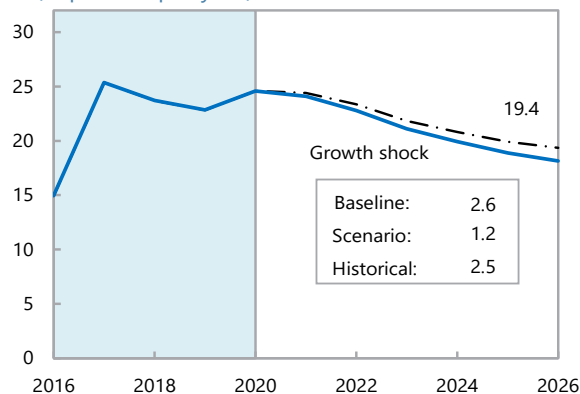


Interest Rate Shock (percent)



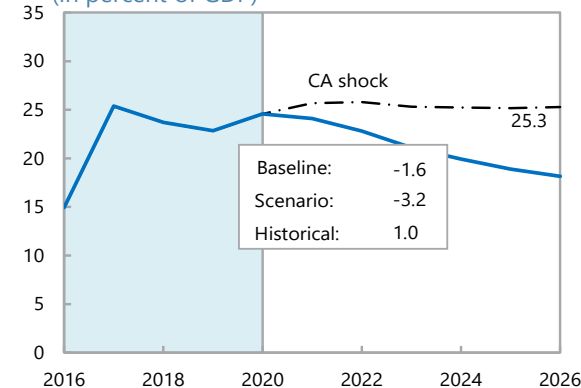
Growth Shock

(in percent per year)

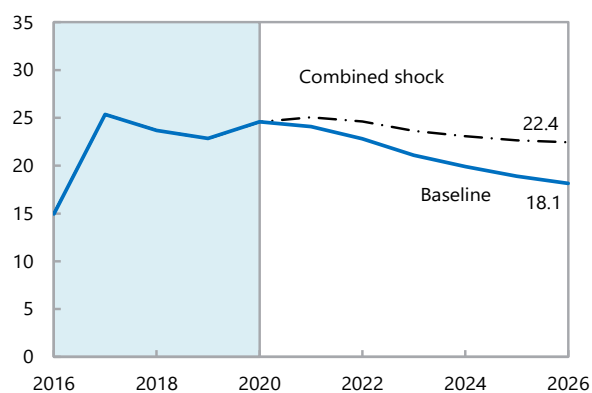


Non-Interest Current Account Shock

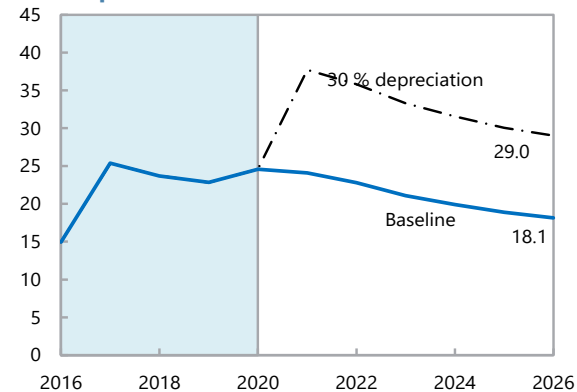
(in percent of GDP)



Combined Shock ^{3/}



Real Depreciation Shock ^{4/}



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

1/ Shaded areas represent actual data. Individual shocks are permanent one-half standard deviation shocks. Figures in the boxes represent average projections for the respective variables in the baseline and scenario being presented. Ten-year historical average for the variable is also shown.

2/ For historical scenarios, the historical averages are calculated over the ten-year period, and the information is used to project debt dynamics five years ahead.

3/ Permanent 1/4 standard deviation shocks applied to real interest rate, real growth rate, and current account balance.

4/ One-time real depreciation of 30 percent occurs in 2018.

Table 1. Nigeria: External Debt Sustainability Framework, 2016–26

(In percent of GDP, unless otherwise indicated)

	Actual					Projections						Debt-stabilizing non-interest current account 6/ -2.4
	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	
1 Baseline: External debt 1/	15.0	25.4	23.7	22.8	24.6	24.1	22.8	21.1	19.9	18.9	18.1	
2 Change in external debt	0.5	10.4	-1.7	-0.9	1.7	-0.5	-1.3	-1.7	-1.2	-1.0	-0.7	
3 Identified external debt-creating flows (4+8+9)	1.1	-3.1	-4.5	1.6	4.0	1.3	1.0	0.9	0.5	0.3	0.2	
4 Current account deficit, excluding interest payments	-1.6	-3.7	-1.8	3.0	3.6	2.3	2.3	2.1	1.6	1.3	1.0	
5 Deficit in balance of goods and services	2.1	0.0	1.3	6.9	7.5	6.2	5.7	5.3	4.7	4.0	3.4	
6 Exports	9.5	13.5	15.7	15.6	9.3	12.2	10.8	9.0	7.6	6.6	6.1	
7 Imports	11.6	13.6	17.0	22.5	16.8	18.5	16.6	14.2	12.2	10.6	9.5	
8 Net non-debt creating capital inflows (negative)	-0.8	-0.9	-0.3	-0.1	-0.5	-0.9	-0.7	-0.7	-0.6	-0.5	-0.3	
9 Automatic debt dynamics 2/	3.4	1.5	-2.5	-1.3	1.0	-0.1	-0.6	-0.5	-0.5	-0.5	-0.5	
10 Contribution from nominal interest rate	0.3	0.3	0.3	0.3	0.3	0.5	0.0	0.0	0.0	0.0	0.0	
11 Contribution from real GDP growth	0.3	-0.1	-0.4	-0.5	0.4	-0.6	-0.6	-0.5	-0.5	-0.5	-0.5	
12 Contribution from price and exchange rate changes 3/	2.9	1.3	-2.3	-1.0	0.2	...	...	...	...	...	...
External debt-to-exports ratio (in percent)	157.4	187.4	151.3	146.3	264.2	197.0	210.6	235.7	262.9	287.2	296.7	
Gross external financing need (in billions of US dollars) 4/	4.5	-5.6	14.4	37.6	48.8	40.0	39.0	40.4	39.2	38.8	35.6	
in percent of GDP	1.1	-1.5	3.4	8.4	11.4	8.6	7.5	6.8	5.9	5.1	4.2	
Scenario with key variables at their historical averages 5/						24.2	23.3	22.5	22.3	22.6	23.5	-1.0
Key Macroeconomic Assumptions Underlying Baseline						10-Year Historical Average	10-Year Standard Deviation					
Real GDP growth (in percent)	-1.6	0.8	1.9	2.2	-1.8	2.5	2.8	2.6	2.7	2.7	2.6	2.7
GDP deflator in US dollars (change in percent)	-16.5	-7.9	10.1	4.0	-2.4	-0.5	9.7	5.1	8.7	11.4	10.0	10.4
Nominal external interest rate (in percent)	1.7	1.9	1.3	1.3	1.5	1.6	0.3	2.1	0.0	0.0	0.0	0.0
Growth of exports (US dollar terms, in percent)	-21.6	32.3	29.9	5.9	-42.9	-3.2	27.2	41.8	-1.2	-5.4	-4.5	-1.7
Growth of imports (US dollar terms, in percent)	-34.7	8.4	40.6	40.7	-28.4	3.8	27.2	18.5	0.1	-1.6	-3.1	-2.3
Current account balance, excluding interest payments	1.6	3.7	1.8	-3.0	-3.6	1.0	3.2	-2.3	-2.3	-2.1	-1.6	-1.3
Net non-debt creating capital inflows	0.8	0.9	0.3	0.1	0.5	0.9	1.0	0.9	0.7	0.7	0.6	0.5

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

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

2/ Derived as $[r - g - r(1+g) + ea(1+r)] / (1+g+r+gr)$ times previous period debt stock, with r = nominal effective interest rate on external debt; r = change in domestic GDP deflator in US dollar terms, g = real GDP growth rate, e = nominal appreciation (increase in dollar value of domestic currency), and a = share of domestic-currency denominated debt in total external debt.3/ The contribution from price and exchange rate changes is defined as $[-r(1+g) + ea(1+r)] / (1+g+r+gr)$ times previous period debt stock. r increases with an appreciating domestic currency ($e > 0$) and rising inflation (based on GDP deflator).

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

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

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

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



Appendix I. Draft Press Release

IMF Executive Board Concludes 2021 Article IV Consultation with Nigeria

FOR IMMEDIATE RELEASE

Washington, DC – [January dd, 2022]: The Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation¹ with Nigeria.

The Nigerian economy is recovering from a historic downturn benefitting from government policy support, rising oil prices and international financial assistance. Nigeria exited the recession in 2020Q4, and output rose by 4.1 percent (y-o-y) in the third quarter, with broad-based growth except for the oil sector, which is facing security and technical challenges. Growth is projected at 2.6 percent for 2021. Headline inflation rose sharply during the pandemic reaching a peak of 18.2 percent y-o-y in March 2021 but has since declined to 16 percent in October helped by the new harvest season and opening of land borders. Reported unemployment rates (end 2020) are yet to come down but more recent COVID-19 monthly surveys show employment back at its pre-pandemic level.

Despite the recovery in oil prices, the general government fiscal deficit is projected to widen in 2021 to 6.3 percent of GDP, reflecting implicit fuel subsidies and higher security spending. Moreover, the consolidated government revenue-to-GDP ratio at 7 percent remains among the lowest in the world. After registering a historic deficit in 2020, the current account improved in 2021 and gross FX reserves have improved, supported by the IMF's SDR allocation and Eurobond placements in September 2021.

Notwithstanding the authorities' proactive approach to contain COVID-19 infection rates and fatalities and the recent growth improvement, socio-economic conditions remain difficult. Levels of food insecurity have risen, and the poverty rate is estimated to have increased during the pandemic.

The outlook faces balanced risks. On the downside, low vaccination rates expose Nigeria to future pandemic waves and new variants, including the ongoing omicron variant, while higher debt service to government revenues (through higher US interest rates and/or increased borrowing) pose risks for fiscal sustainability. A worsening of violence and insecurity could also derail the recovery. On the upside, the non-oil sector could be stronger, benefitting from its recent growth momentum, supportive credit policies, and higher production from the new Dangote refinery. Nigeria's ratification of the African Continental Free Trade Agreement could also yield a positive boost to the non-oil sector while oil production could rebound, supported by the more generous terms of the 2021 Petroleum Industry Act.

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.

Executive Board Assessment²

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

Table 1. Nigeria: Selected Economic and Financial Indicators, 2018–22

	2018	2019	2020	2021	2022
				Projections	
National income and prices (Annual percentage change, unless otherwise specified)					
Real GDP (at 2010 market prices)	1.9	2.2	-1.8	2.6	2.7
Oil and Gas GDP	1.0	4.6	-8.9	-0.7	3.2
Non-oil GDP	2.0	2.0	-1.1	2.9	2.6
Non-oil non-agriculture GDP	2.0	1.8	-2.4	3.5	2.8
Production of crude oil (million barrels per day)	1.93	2.00	1.83	1.65	1.70
Nominal GDP at market prices (trillions of naira)	129.1	145.6	154.3	183.0	212.1
Nominal non-oil GDP (trillions of naira)	115.7	133.2	144.1	166.9	195.2
Nominal GDP per capita (US\$)	2,153	2,230	...	...	...
GDP deflator	10.2	10.4	7.8	15.6	12.9
Consumer price index (annual average)	12.1	11.4	13.2	15.9	14.3
Consumer price index (end of period)	11.4	12.0	15.8	14.9	13.8
Investment and savings (Percent of GDP)					
Gross national savings	20.5	21.4	24.7	26.8	26.2
Public	-1.1	-1.2	-2.2	-2.1	-2.3
Private	21.6	22.6	26.9	28.9	28.5
Investment	19.0	24.6	28.6	29.5	28.5
Public	3.0	3.0	2.5	3.2	3.1
Private	16.0	21.7	26.2	26.3	25.4
Current account balance	1.5	-3.3	-4.0	-2.8	-2.3
Consolidated government operations (Percent of GDP)					
Total revenues and grants	8.5	7.8	6.3	7.4	7.0
<i>Of which: oil and gas revenue</i>	2.8	4.4	2.2	3.0	2.6
Total expenditure and net lending	12.8	12.5	12.0	13.7	13.4
<i>Of which: fuel subsidies</i>	0.5	0.4	0.1	1.0	0.5
Overall balance	-4.3	-4.7	-5.7	-6.3	-6.4
Non-oil primary balance	-7.2	-6.7	-5.8	-7.3	-6.7
Non-oil revenue	4.0	4.1	4.1	4.3	4.3
Public gross debt ¹	27.7	29.2	34.5	36.0	37.5
<i>Of which: FGN debt</i>	25.0	26.5	31.0	32.1	33.4
<i>Of which: External debt</i>	6.4	6.2	8.2	8.8	8.8
FGN interest payments (percent of FGN revenue)	60.8	54.9	88.8	85.5	92.6
Interest payments (percent of consolidated revenue)	19.9	21.4	33.5	29.0	32.8
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)	15.0	6.4	13.5	16.5	18.3
Net foreign assets	3.0	-18.0	3.4	1.4	-0.2
Net domestic assets	12.0	24.5	10.2	15.1	18.5
o/w Claims on consolidated government	5.1	16.2	7.2	16.1	17.3
Credit to the private sector (y-o-y,%)	-11.9	23.5	15.8	21.6	8.6
Velocity of broad money (ratio; end of period)	3.5	3.8	3.6	3.6	3.5
External sector (Annual percentage change, unless otherwise specified)					
Exports of goods and services	29.9	5.9	-42.9	41.8	-1.2
Imports of goods and services	40.6	40.7	-28.4	18.5	0.1
Terms of trade	13.3	-5.9	-20.0	20.7	-1.9
Price of Nigerian oil (US dollar per barrel)	71.6	64.0	42.3	66.9	65.9
External debt outstanding (US\$ billions) ²	99.9	102.3	105.5	111.6	117.8
Gross international reserves (US\$ billions)	42.8	38.1	36.5	36.4	35.5
(equivalent months of imports of G&Ss)	5.1	6.3	5.1	5.1	5.1

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

¹Gross debt figures for the Federal Government and the public sector include overdrafts from the Central Bank of Nigeria (CBN). External debt figures are based on currency of issuance.²Includes both public and private sector.