

SUR/04/70

July 19, 2004

**The Acting Chair's Summing Up
Nigeria—2004 Article IV Consultation
Executive Board Meeting 04/70
July 16, 2004**

Executive Directors agreed with the thrust of the staff appraisal. They welcomed the notable recent improvement in prospects for sustained adjustment and economic reform in Nigeria, and the authorities' articulation of the National Economic Empowerment and Development Strategy, NEEDS—a homegrown medium-term economic strategy aimed at addressing Nigeria's deep-rooted macroeconomic and structural problems and reducing poverty. They fully agreed with its overall policy thrust and direction for tackling economic development and unleashing Nigeria's growth potential. Directors viewed the reform priorities as broadly consistent with the recommendations of previous Article IV consultations, and marking a clear break from the policies of the past. They stressed that consistent and determined implementation of NEEDS, backed by complementary strategies at the sub-national level as well as the support of the international community, will be essential if Nigeria is to confront successfully the daunting economic and social challenges that lie ahead.

Directors were encouraged by the authorities' initial progress in implementing the policy agenda in engagement with the private sector and civil society. A number of policy actions taken since late 2003, combined with higher oil prices, have contributed to an overall improvement in macroeconomic performance so far in 2004. Directors commended the fiscal restraint that allowed much of the oil windfall to be saved, resulting in lower inflation and a sharp increase in gross international reserves. They saw the elimination of the subsidy on petroleum products as a bold demonstration of the authorities' commitment to reform. On the structural front, Directors welcomed the introduction of an oil price-based fiscal rule at the federal level, improvements in governance practices, the strengthening of the budget process, and increased policy coordination, in part through the new Cash Management Committee.

Notwithstanding the recent progress, Directors underlined that economic reform in Nigeria faces serious risks and challenges, owing primarily to weak institutions, limited technical capacity, and resistance of entrenched vested interests. Careful prioritization and sequencing of reforms will be essential to avoid overstressing administrative capacity. Directors endorsed the suggestion that the authorities should focus their immediate effort on a few reforms that will produce tangible results and garner public support quickly, and underlined the importance of a sound communication strategy to persuade public opinion of the benefits of reform. The ongoing civil service reform and other actions being taken to increase public accountability and transparency will be crucial steps to strengthen institutions and render the reforms permanent. Directors commended the authorities' commitment to

improving governance and tackling corruption—as reflected in Nigeria’s participation in the Extractive Industry Transparency Initiative; the African Peer Review Mechanism of New Partnership for Africa’s Development; and the G8 Transparency Initiative. They welcomed the establishment of the Economic and Financial Crimes Commission and the publication of the monthly revenue allocations to sub-national governments.

Achievement of macroeconomic stability will require continued fiscal tightening at the federal level and the participation of all states in the oil price-based fiscal rule. Directors noted that the federal government faces a major challenge in reaching agreement with the states to save oil windfalls, and urged timely passage of the Fiscal Responsibility Bill to provide the legal foundation for a prudent consolidated fiscal policy. They were disappointed that the consolidated non-oil fiscal deficit is expected to rise significantly, undermining efforts to restrain inflation, and called on the states to implement the oil price-based fiscal rule to ensure fiscal prudence. Fiscal prudence will also require measures to boost non-oil revenue and control spending, while ensuring that social and developmental needs are met.

Directors observed that the 2004 federal government budget embodies a positive change from past budgetary practice. The adoption of a fiscal policy framework incorporating an oil price baseline should help achieve sizable cash savings to buffer against future oil price shocks and reduce macroeconomic volatility. Directors called on the authorities to build on this progress and begin the 2005 budget cycle early. They stressed the need to further prioritize the capital budget, design a strategy to address domestic arrears, and develop a medium-term expenditure framework consistent with NEEDS.

Directors encouraged the central bank to implement a credible monetary policy framework aimed at achieving price stability and rebuilding Nigeria’s international reserves. Given the monetary overhang from 2003 and the persistent inflationary pressures, Directors underscored the need for the central bank to be vigilant in implementing its monetary program. In particular, the central bank should avoid financing the budget deficit and should adjust the minimum rediscount rate if inflationary pressures accelerate. Directors encouraged increased reliance on indirect monetary policy instruments and reforms to enhance the independence of the central bank. In addition, they urged the central bank to develop an effective strategy for public communication of the objectives and stance of monetary policy, so as to establish the credibility of the monetary framework.

Directors commended the implementation of the recommendations of the Financial Sector Assessment Program (FSAP) aimed at strengthening the financial sector and the payments system. They underscored the importance of decisive action against misreporting and under-provisioning and of an exit strategy to address the problem of weak banks, and supported the authorities’ request for a follow-up FSAP to help address these issues. The establishment of a Financial Intelligence Unit to strengthen the framework for anti-money laundering was welcomed.

Directors welcomed the authorities’ intention to unify the foreign exchange market and move toward a market-determined exchange rate, and supported the authorities’ request

for technical assistance to implement this reform. They also encouraged the authorities to work toward accepting the obligations of Article VIII of the Fund's Articles of Agreement. Directors welcomed the authorities' launch of a formal review of the import tariff structure with a view to implementing the lower common external tariff of the Economic Community of West African States. However, they expressed concern about Nigeria's continued reliance on import bans. They noted that, going forward, comprehensive trade liberalization will be needed to enhance Nigeria's competitiveness and boost investment.

Directors welcomed Nigeria's efforts to improve its debt management practices and address its domestic and external debt burden. They agreed that development of a treasury bill market would be helpful in restructuring the domestic debt and reducing rollover risks. Directors commended the authorities' improved dialogue initiated with the Paris Club. A number of Directors called on the authorities to service external debt to the fullest extent possible, and emphasized the importance of comparable treatment of all creditors. Several Directors encouraged the authorities to work closely with their creditors towards finding a sustainable long-term solution to Nigeria's serious debt problems.

Directors urged the authorities to sustain the privatization effort and create a more business-friendly environment to boost private sector growth. A regulatory and monitoring framework that ensures an open and transparent privatization process will be key to encouraging investor interest in the enterprises concerned.

Directors welcomed the authorities' request for Fund staff to monitor the implementation of their program. In view of this request, they generally endorsed the proposed intensified surveillance, which will involve quarterly staff visits to Nigeria and semi-annual information reports to the Executive Board. They encouraged the authorities to give highest priority to capacity building, and reiterated the Fund's commitment to help Nigeria in this regard. Directors urged the authorities to continue to make full and effective use of technical assistance based on their recent initiatives to prioritize technical assistance needs. They called on the authorities to improve their statistical system, as an essential basis for effective monitoring of economic policy implementation.

It is expected that the next Article IV consultation with Nigeria will be held on the standard 12-month cycle.