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October 12, 2007

**Statement by Mr. Warjiyo and Ms. Cocker on Nigeria  
(Preliminary)  
Executive Board Meeting 07/90  
October 15, 2007**

1. We thank the staff for the well written set of papers and Mr. Gakunu and Mr. Ukpong for their informative Buff statement.
2. We commend the Nigerian authorities on their sound macroeconomic policies, structural reforms and the political accord which has resulted in robust growth in the non-oil sector, reduced inflation as well as the strong external and fiscal positions. Debt-service savings has also created space for increased poverty reduction spending. Consequently, most of the structural measures for the fourth review under the Policy Support Instrument (PSI) were implemented except for three assessment criteria. Nonetheless, challenges remain, as poverty remains high and that progress towards Millennium Development Goals (MDGs) need to accelerate. Progress on macroeconomic policies, and structural reforms needs to be maintained and the newly established institutions need to be strengthened to safeguard gains made so far. Furthermore, the authorities are facing the fiscal challenge of increasing demand from state and local governments for using their share of both accumulated oil savings and current receipts. We are assured by Messrs Gakunu and Upkong in their Buff statement that the authorities are cognizant of these challenges and are committed to achieving the objectives under the PSI to further their progress towards achieving MDGs.
3. We concur with the general thrusts of staff assessment and wish to make the following comments for emphasis.
  - On the program performance, we find the authorities' performance under the PSI has been broadly satisfactory. While we note missed assessment criteria on reserve money as well as two delayed structural assessment criteria and we are satisfied with the authorities' reasons for the lapse. In this context, we support the request for waivers and the completion of the fourth review under the PSI. We also share Messrs Gakunu and Upkong's views that the PSI has proved its usefulness as a Fund instrument and that it is time to fine tune its design.

- We welcome the strong fiscal position which has been supported by the reduction in debt and the accumulation of public savings. Nonetheless, the authorities need to safeguard the gains made so far in macroeconomic performance. In this connection, further improvement in the timeliness and the quality of data and a forward looking approach to debt management and macro-fiscal policy management are important. Progress in these spheres need to be complemented by strengthened investment program management and expenditures, particularly by prioritizing and sequencing of capital expenditure as well as coordinating oil receipts and savings needs with prudent macroeconomic considerations. We note in footnote 2, page 5, that the current account surplus fell short of the PSI projections due to the increased expenditure on infrastructure, shortfall in oil revenues and unanticipated repayment of the London Club debt. Does this mean that the authorities were unaware of these infrastructure projects and the London Club debt? *Staff comments are welcome.*
- On monetary policy, we welcome the improvement in inflation outturn, thanks to lower inflation expectations stemming from improved harvest, a more robust banking sector, and the unification of the foreign exchange markets. We note that even though money demand increased, following the increase in market confidence, broad money growth has remained within the program. However, the reserve money exceeded the target, principally because of definitional problems in the composition of reserve money. In this connection, we support the staff's proposal to raise the reserve money target by around five percent. Notwithstanding the successes achieved in monetary management under the program, the authorities' continued vigilance in monitoring monetary aggregates and inflation is warranted to maintain macroeconomic performance. Furthermore, we are pleased to note the Fiscal Liquidity Assessment Committee (FLAC) and its role in coordinating policies to enhance macro-fiscal management as well as improve liquidity management. This would ensure proactive monetary policies as well as prompt policy responses from the CBN and go a long way to establish a track record of consistent monetary policy implementation. We also note the Staff's call for the CBN to enhance capacity in response to financial sector needs. In this regard, we urge upon the Fund to stand ready to provide technical assistance, where needed.
- On structural reforms, we commend the authorities on the impressive list of structural reforms accomplished under the PSI. We are pleased to note the number of legislations that have been passed to strengthen institutions. Given the early stages of structural reforms, we emphasize the importance of accelerating the development and implementation of policies based on these new legislations. In this regard, we welcome the revisions to the procurement manual which has been submitted for approval.

4. With these remarks, we wish the authorities success in their future endeavors.