

**EXECUTIVE  
BOARD  
MEETING**

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Supplement 1

March 16, 2017

To: Members of the Executive Board

From: The Acting Secretary

Subject: **Nigeria—Staff Report for the 2017 Article IV Consultation—Informational Annex**

Board Action:	Executive Directors' <b>consideration</b> (Formal)
Tentative Board Date:	<b>Wednesday, March 29, 2017</b>
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Questions:	Mr. Leon, AFR (ext. 36115) Mr. El Said, AFR (ext. 35918) Mr. O'Sullivan, AFR (ext. 37038)
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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 2017 ARTICLE IV CONSULTATION—INFORMATIONAL ANNEX

March 14, 2017

Prepared By

The African Department

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## FUND RELATIONS

(As of January 31, 2017)

**Membership Status:** Joined: March 30, 1961;

Article XIV

**General Resources Account:**

	SDR Million	%Quota
<u>Quota</u>	2,454.50	100.00
<u>Fund holdings of currency (Exchange Rate)</u>	2,279.09	92.85
<u>Reserve Tranche Position</u>	175.47	7.15

**SDR Department:**

	SDR Million	%Allocation
<u>Net cumulative</u>	1,675.38	100.00
<u>allocation Holdings</u>	1,499.72	89.52

**Outstanding Purchases and Loans:** None

**Latest Financial Arrangements:**

Arrangement Type	Date of Arrangement	Expiration Date	Amount Approved (SDR Million)	Amount Drawn (SDR Million)
Past Engagement				
Policy Support Instrument	Oct. 17, 2005	Oct. 16, 2007	n.a.	n.a.
Stand-By	Aug 04, 2000	Oct 31, 2001	788.94	0.00
Stand-By	Jan 09, 1991	Apr 08, 1992	319.00	0.00
Stand-By	Feb 03, 1989	Apr 30, 1990	475.00	0.00

**Projected Payments to Fund<sup>1</sup>**

(SDR Million; based on existing use of resources and present holdings of SDRs):

	Forthcoming				
	2017	2018	2019	2020	2021
Principal					
Charges/Interest	0.59	0.62	0.62	0.62	0.62
<b>Total</b>	<b>0.59</b>	<b>0.62</b>	<b>0.62</b>	<b>0.62</b>	<b>0.62</b>

<sup>1</sup>When a member has overdue financial obligations outstanding for more than three months, the amount of such arrears will be shown in this section.

**Implementation of HIPC Initiative:** Not Applicable

**Implementation of Multilateral Debt Relief Initiative (MDRI):** Not Applicable

**Implementation of Post-Catastrophe Debt Relief (PCDR):** Not Applicable

## Exchange Rate Arrangement

The de jure exchange rate arrangement is floating, with the CBN beginning operations on a flexible exchange rate regime on June 20, 2016. The CBN explicitly aims to maintain an exchange rate principally driven by market forces, but intervenes to reduce volatility and to counteract speculative attacks on the national currency. In 2016, the naira was stable against the U.S. dollar until June, when the official rate depreciated by about 55% before stabilizing anew since August. Accordingly, the de facto exchange rate has been reclassified twice: first to other managed from stabilized, effective June 21, 2016, and then to stabilized from other managed, effective August 26, 2016. The CBN publishes information on the amount of foreign exchange it supplies to the Inter-Bank Foreign Exchange Market (IFEM) on its website while the banks are required to publish the utilization in the national newspapers. Nigeria participates in the W-ERM II of the WAMZ, which requires maintaining the spot exchange rate between the naira and the U.S. dollar within  $\pm 15\%$  of the central rate, but the CBN has not implemented this regime.

With the CBN announcing the reintroduction of a flexible exchange market in Nigeria, in June 2016, and the new policy actions in the foreign exchange market announced in February 2017, the MCP and one of the exchange restrictions identified during the 2016 Article IV consultation have been removed. However, the market remains tightly regulated, and transactions occur at a multiplicity of exchange rates (the official exchange rate at approx. N305/U.S. dollar, the interbank market at approx. N315/\$, international money transfer companies at approx. N375/\$, and the parallel market at approx. N400-500/\$).

Nigeria currently maintains the following exchange restrictions subject to Fund approval under Article VIII, Section 2(a) of the IMF's Articles of Agreement: (i) an exchange restriction arising from the prohibition to access foreign exchange at the Nigerian foreign exchange markets for the payment of imports of 41 categories of items; and (ii) an exchange restriction arising from existing limits on the amounts of foreign exchange available when traveling abroad (BTA/PTAs), which cannot be exceeded even upon verification of the *bona fide* nature of the transaction. In addition, Nigeria maintains the following MCPs subject to Fund approval under Article VIII, Sections 2(a) and 3 of the IMF's Articles of Agreement: (i) an MCP arising from the intervention practice of the CBN that results in the establishment of an official exchange rate for use in all official transactions, which in practice differs by more than 2 percent from the rate used by commercial banks and money transfer operators; and (ii) an MCP arising from the large spread between the official exchange rate and the rates in the parallel market, caused by the CBN's limitation on the availability of foreign exchange which channels current international transactions to such market.

**Safeguards Assessment**

Under the Fund's safeguards assessment policy, the CBN was subject to a full safeguards assessment with respect to the Stand-By Arrangement that expired on October 31, 2001. The assessment, which included an on-site visit, was completed on November 28, 2001. The assessment concluded that vulnerabilities existed in the areas of financial reporting and legal structure of the Central Bank.

**Article IV Consultation**

Nigeria is on the standard 12-month Article IV consultation cycle. The previous Article IV consultation was concluded on March 30, 2016.

**Technical Assistance (TA) since January 2015:****A. Headquarters**

<b>Department</b>	<b>Purpose of TA mission</b>	<b>Duration</b>
FAD	Program Budgeting, TSA and Cash Management Performance	January 22 - February 4, 2015
STA	Balance of Payments Statistics	March 16 - 27, 2015
MCM	International Financial Reporting Standards (IFRS) Provisioning	March 23 - 27, 2015
MCM	Training Workshop on Financial Holding Companies Supervision	March 30 - April 2, 2015
STA	Price Statistics	April 13 - 24, 2015
MCM	International Financial Reporting Standards (IFRS) Provisioning	June 15 - 19, 2015
FAD	Tax and Customs Administration	July 7 - 13, 2015
MCM	International Financial Reporting Standards (IFRS) Provisioning	August 17 - 28, 2015
LEG	AML/CFT reform agenda	January 11 - 25, 2016
MCM	Review of Monetary Policy Framework	January 16 - 27, 2016
STA	Monetary and financial statistics	January 18 - 29, 2016
FAD	Budget preparation, expenditure review, treasury single account, and cash management reforms	January 20 - February 9, 2016
FAD	Fiscal reporting/EBFs	February 1 - 14, 2016
FAD	Program Budgeting, TSA and Cash Management Performance	February 5 - 9, 2016
STA	Enhanced General Data Dissemination System (e-GDDS)	February 15 - 19, 2016
FAD	Full diagnostic mission	March 29 - April 12, 2016
FAD	Tax Administration	March 30 - April 13, 2016
MCM	Bank Supervision and Regulations	July 11 - 21, 2016
STA	National Accounts - Developing Source Data (EDDI2)	November 27 - December 2, 2016
FAD	Oversight of SOEs	December 1 - 14, 2016
STA	Balance of Payments Statistics	January 23 - February 3, 2017
FAD	Assessment of proposed petroleum fiscal regime reforms	February 13 - 24, 2017
FAD	Tax and Customs Administration	April 26 - May 8, 2017

**B. West Africa Regional Technical Assistance Center 2 (AFRITAC 2)**

<b>Department</b>	<b>Purpose of TA mission</b>	<b>Duration</b>
FAD	Tax Administration	July 20 -31, 2015
FAD	Tax Administration	July 27 - August 7, 2015
FAD	Public Financial Management	August 31 - September 10, 2015
FAD	Public Financial Management	October 19 - 23, 2015
STA	National Accounts Statistics	October 26 - 30, 2015
FAD	Public Financial Management	November 19 - December 3, 2015
FAD	Tax Administration	January 18 - 29, 2016
FAD	Public Financial Management	January 20 - February 9, 2016
MCM	Monetary and Forex Operations, including Islamic Banking	February 8 - 19, 2016
MCM	Banking Legislation	February 22 - 26, 2016
FAD	Tax Administration	February 22 - March 4, 2016
FAD	Tax Administration	March 7 - 30, 2016
FAD	Assist FIRS in Developing Strategic Plan	March 14 - 24, 2016
FAD	Customs Compliance Improvement	March 30 - April 12, 2016
FAD	Develop Compliance Risk Management Strategy	April 4 - 12, 2016
STA	Consumer Price Index	April 4 - 15, 2016
FAD	Advancing TSA implementation	June 6 - 17, 2016
MCM	Enhancing Basel II/III	August 22 - September 9, 2016
FAD	Support the Federal Inland Revenue Service (FIRS) to finalize Strategic Plan	September 9 - 19, 2016
FAD	Develop a compliance improvement program	September 26 - October 7, 2016
STA	National Accounts	October 3 - 7, 2016
STA	National Accounts	October 3 - 7, 2016
FAD	Cash Flow Forecasting and Cash Management (sub-national)	October 8 - 14, 2016
FAD	Cash Flow Forecasting and Cash Management (sub-national)	October 10 - 14, 2016
FAD	Strengthening SOE Oversight	December 1 - 16, 2016
MCM	Compliance with CPMI-IOSCO Principles for Financial Market Infrastructures: Challenges and Stra	December 5 - 8, 2016
STA	Price Statistics	January 30 - February 10, 2017
FAD	Strengthening Cash Flow Forecasting and Cash Management	February 1 - 11, 2017
FAD	Develop Project Governance Framework	February 20 - March 3, 2017
FAD	Strengthen Business Analysis Capabilities	February 20 - March 3, 2017
STA	National Accounts	February 27 - March 3, 2017
FAD	Develop Change Management Program	April 17 - 21, 2017
FAD	Develop Project Governance Framework for FIRS	April 17 - 28, 2017

**Senior Resident Representative:**

Mr. Amine Mati is the IMF's Senior Resident Representative in Abuja since September 2016.

**Resident Technical Assistance Advisor:**

Mr. Leonard Chumo is the IMF resident advisor for banking supervision at the Central Bank of Nigeria, since February 2017.



# JOINT WORLD BANK-IMF WORK PROGRAM, 2016–17

(As of January 31, 2017)

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

Title	Products	Provisional timing of missions (if relevant)	Expected delivery date
<b>A. Mutual Information on Relevant Work Programs</b>			
Bank work program in next 12 months	<i>(i) Lending Programs</i>		
	Growth & Employment in States (GEMS)		9/7/2018
	Public/Private Partnership Program		12/29/2017
	Youth Employment & Social Support Operation	Mission every 6 month	12/31/17
	Community & Social Development Project		6/30/2020
	National Social Safety Nets Project	Continuous	6/30/22
	Power Sector Guarantees Project		12/31/2019
	Electricity and Gas Improvement Project	Continuous	12/31/2017
	State & Local Governance Reform	Continuous	3/31/2017
	Public Sector Reform and Governance Development Project	Continuous	Ongoing
	State Employment and Expenditure	Continuous	12/15/2017
	Lagos Urban Transport Project 2		5/31/2017
	Commercial Agriculture Development Project		05/30/2017
	Fadama Development-III SIL		05/30/2017

Title	Products	Provisional timing of missions (if relevant)	Expected delivery date
<b>A. Mutual Information on Relevant Work Programs (continued)</b>			
<i>(ii) Analytical and Advisory Activities</i>			
	Nigeria Systematic Country Diagnostic		June 2017
	Nigeria Growth and Trade Study	-	2017
	Programmatic Poverty Assessment	-	Ongoing
	Nigeria Federal Public Expenditure Review		June 2018
	Strengthening Sub-National Fiscal Management		June 2018
<i>(iii) Trust Funds, other analyses, and on-going dialogue</i>			
	Governance Partnership Facility Phase 2: State-Peer Learning and Exchange - Managing Fiscal Crisis; Support to the Federal DPF and economic policy dialogue		
IMF work program in next 12 months	<i>Article IV Consultation</i>	January, 2018	Board: March, 2018
	<i>Technical assistance</i>		
	<i>(i) Fiscal issues</i>		
	National Petroleum Fiscal Policy,		

Title	Products	Provisional timing of missions (if relevant)	Expected delivery date
<b>A. Mutual Information on Relevant Work Programs (concluded)</b>			
	Strengthening Financial Oversight of Federal Government-Owned Enterprises	FY2015 (tentative)	
	Tax and Customs Administration	April 2017	
	(ii) <i>Monetary and financial issues</i>		
	Bank supervision (MCM)	Long-term expert	Until Jan. 2018
	(iii) <i>Statistics</i>		
	Price Statistics	February 2017	
	National Accounts	March 2017	
<b>B. Request for Work Program Inputs</b>			
Fund request to Bank	Summary of Bank analysis and support for public financial management at all tiers of governments (including PERs)		Ongoing
	Poverty and social impact analysis (PSIA) of policy measures on poorest households		

## JOINT AFRICAN DEVELOPMENT BANK-IMF WORK PROGRAM, 2016–17

(As of January 31, 2017)

The IMF and AfDB staff collaborate closely in their work on Nigeria. AfDB staff participates in IMF missions, and the IMF provided an assessment letter in support of AfDB budget support operations in Nigeria.

Title	Products	Provisional Timing of Missions (if relevant)	Expected Delivery Date
AfDB work program in next 12 months	<i>(i) Lending Programs</i>		
	Federal Policy Based Operation	February and October 2016	June 30 2017
	FCT Integrated Infrastructure Development		October 2017
	Inclusive Basic Service Delivery and Livelihood Empowerment Integrated Program (IBSDLIEP): Rebuilding the North East for Shared Prosperity	July and October 2016	March 2017
	Enable Youth Nigeria Program	July and October 2016	March 2017
	Transmission Network Rehabilitation	Continuous	2017
	Agricultural Transformation Support Program - II	Continuous	October 2017
	Ebonyi State Ring Road	September 2016	2017
	Abia Integrated Infrastructure Project	September 2016	2017
	Study of Abidjan-Lagos Highway Development project		2017

Title	Products	Provisional Timing of Missions (if relevant)	Expected Delivery Date
<b>A. Mutual Information on Relevant Work Programs (continued)</b>			
	<i>(ii) Analytical and Advisory Activities</i>		
	African Economic Outlook 2017	-	May 2017
	<i>(iii) Trust Funds, other analyses, and on-going dialogue</i>		
	a) Institutional support to Nigeria extractive Industries Transparency Initiative (NEITI)		December 2016
	b) Sub-national Debt Management Capacity Building Project (SUBDMO)		2017
	c) Rehabilitation of Industrial Clusters as a Driver of SMEs Industrial Development in Nigeria		2017
Title	Products	Provisional Timing of Missions (if relevant)	Expected Delivery Date
<b>B. Request for Work Program Inputs</b>			
AfDB request to Fund	Regular update of Fund macroeconomic projections.		Ongoing
	Assessment Letter for Nigeria as supporting documentation for the Budget Support Operation		September 30, 2016

# STATISTICAL ISSUES

(As of January 31, 2017)

I. Assessment of Data Adequacy for Surveillance
<p><b>General:</b> Data are broadly adequate for surveillance. However, some data shortcomings remain. In particular, information on subnational public finances and large errors and omissions in the balance of payments. Efforts to improve data in those areas are ongoing, including Technical Assistance (TA) support on State and Local Governments (SLGs) fiscal data and external sector statistics. The Statistics Act of 2007, which established the National Bureau of Statistics (NBS) as the main coordinating agency for data management, has led to a number of improvements, including better information sharing between data producing and collecting agencies. There has been an improvement in the compilation of timely and internally consistent data, for example, the implementation of e-GDDS, the use of Government Integrated Financial Management Information System (GIFMIS) for budget preparations, a fully operational Treasury Single Account (TSA), and a reduction in the balance of payments errors and omissions. These efforts however need to be extended to the subnational levels.</p>
<p><b>National accounts:</b> Basic statistics are extensively available for the compilation of national accounts and the NBS employed significant methodological updates in 2014 by adopting the System of National Accounts (SNA 2008 version), the International Standard Industrial Classification (ISIC revision 4), and the Supply and Use Table (SUT) framework (first time in its history). Progress is ongoing to introduce additional indices, such as a producer price index, and update the CPI basket. The authorities continue to receive TA from the Fund, World Bank, and African Development Bank in completing a GDP rebasing exercise, including producing a GDP back-casted series</p> <p><b>Prices statistics:</b> The official monthly consumer price index (CPI), a composite of urban and rural price data, is available on a timely basis. The index has been re-referenced to November 2009=100, using the 2003/04 National Consumer Expenditure Survey to update the 1996/97 survey-based expenditure weights. Compilation of a producer price index (PPI) is ongoing and expected by the end of the year.</p>
<p><b>Government finance statistics:</b> The most pressing shortcoming is related to inadequate data coverage, particularly at the subnational governments level, which accounts for almost one half of total government expenditure. The federal government is working with SLGs to improving the quality, coverage, and timeliness of fiscal reports to facilitate the preparation of a consolidated set of fiscal accounts. This requires the governments at all levels to follow a standardized budget classification, chart of accounts, and accounting systems that will allow consistent classifications of the data, including use of International Public Sector Accounting Standards (IPSAS) --cash basis-- at the Federal and State levels. There is also a need to formalize the publication of government accounts on a monthly or quarterly basis and to increase coverage to report on the operations of state-owned enterprises.</p> <p>IMF TA missions have supported the Federal Government of Nigeria (FGN) in the design and implementation of public financial management reforms, in particular related to the treasury single account (TSA), cash management, and budgeting--most recently in January/February 2017. In addition,</p>

the IMF's regional technical assistance center (AFW2) continues to support the authorities' efforts to extend these reforms to interested States, particularly Kaduna State. Additional TA support involved a review of the institutional structures of Federal Government Owned Enterprises (FGOE) and providing a roadmap to strengthen fiscal oversight.

**Monetary and financial statistics:** There have been significant improvements in the compilation of monetary statistics. There is need for more granular measures of commercial banks' foreign assets and liabilities. The definition of the other depository corporations (ODCs) sector should also be extended beyond commercial banks to also capture other deposit-taking financial institutions, such as merchant banks and non-interest banks. Recent IMF TA support included the development of an Early Warning System database to compile and process financial information for risk-based supervision and for predicting the likelihood of bank failures.

**Financial soundness indicators (FSIs):** A broad range of information on the financial sector, including both core and a number of non-core FSIs, is compiled by the CBN (though publishing FSIs on a timely basis would be useful). The CBN is currently working with support from STA to improve the methodology used to compile FSIs and enhance the consolidation basis to capture cross-border activities of Nigerian bank subsidiaries and branches.

**Balance of payments:** There have been significant efforts to improve the compilation of Nigeria's balance of payments data in recent years. Supported by IMF TA, the authorities have expanded the range and improved the quality of data sources, aimed at strengthening the balance of payments, in particular progress in reducing the large errors and omissions, and producing an international investment position.

Nevertheless, more needs to be done further reduce the errors and omissions in the balance of payments, which complicate the assessment of external sustainability. There is a need for improved validation of transactions reported by banks, measurement of transactions outside the banking system, appropriate treatment of transactions of enterprises in free trade zones (using a residency criterion) and improved coverage of estimates of the external assets and liabilities of the banking sector. The DFID/GDDS Phase III Module, launched in 2010 and covering a five-year period, is helping improve source data by recording more accurately cross-border private capital flows and stocks.

The authorities have not yet initiated the compilation of international reserves data in line with the Data Template on International Reserves and Foreign Currency Liquidity.

**External debt:** Public external debt data are of good quality and available on a timely basis. The Debt Management Office (DMO) is collaborating closely with the CBN to extend the coverage of their database to include private sector liabilities and foreign investment in domestically-issued debt securities. In addition, IMF and World Bank staff worked with the DMO to develop analytical capacity to formulate a debt management strategy based on detailed cost-risk analysis.

## II. Data Standards and Quality

Participant in the General Data Dissemination System (GDDS) since 2003. Metadata need updating.

No Data ROSC.

### Nigeria: Table of Common Indicators Required for Surveillance

(As of end-February, 2017)

	Date of latest observation	Date received	Frequency of Data <sup>1</sup>	Frequency of Reporting <sup>1</sup>	Frequency of Publication <sup>1</sup>
Exchange Rates	Feb. 2017	Feb. 2017	D	D	D
International Reserve Assets and Reserve Liabilities of the Monetary Authorities <sup>2</sup>	Dec. 2016	Jan. 2017	M	M	M
Reserve/Base Money	Dec. 2016	Jan. 2017	M	M	M
Broad Money	Dec. 2016	Jan. 2017	M	M	M
Central Bank Balance Sheet	Dec. 2016	Jan. 2017	M	M	M
Consolidated Balance Sheet of the Banking System	Dec. 2016	Jan. 2017	M	M	M
Interest Rates <sup>3</sup>	Feb. 2017	Feb. 2017	D	D	D
Consumer Price Index	Jan. 2017	Feb. 2017	M	M	M
Revenue, Expenditure, Balance and Composition of Financing <sup>4</sup> – General Government <sup>5</sup> and Central Government	2016	Feb. 2017	A	A	A
Revenue, Expenditure, Balance and Composition of Financing <sup>4</sup> – General Government <sup>5</sup> and Central Government	Dec. 2016	Feb. 2017	M	M	M
Stocks of Central Government and Central Government-Guaranteed Debt <sup>6</sup>	Dec. 2016	Feb. 2017	Q	Q	Q
External Current Account Balance	Dec. 2016	Feb. 2017	Q	Q	A
Exports and Imports of Goods and Services	Dec. 2016	Feb. 2017	Q	Q	A
GDP/GNP	Dec. 2016	Feb. 2017	Q	Q	Q
Gross External Debt	2015	Dec. 2016	A	A	A
International Investment Position <sup>7</sup>	2015	Dec. 2016	A	A	A

<sup>1</sup>Daily (D); weekly (W); monthly (M); quarterly (Q); annually (A); irregular (I); and not available (NA).

<sup>2</sup>Any reserve assets that are pledged or otherwise encumbered should be specified separately. Also, data should comprise short-term liabilities linked to a foreign currency but settled by other means as well as the notional values of financial derivatives to pay and to receive foreign currency, including those linked to a foreign currency but settled by other means.

<sup>3</sup>Both market-based and officially-determined, including discount rates, money market rates, rates on treasury bills, notes and bonds.

<sup>4</sup>Foreign, domestic bank, and domestic nonbank financing.

<sup>5</sup>The general government consists of the central government (budgetary funds, extra budgetary funds, and social security funds) and state and local governments. However, the expenditure data for state and local governments are not available.

<sup>6</sup>Including currency and maturity composition.

<sup>7</sup>Includes external gross financial asset and liability positions vis-à-vis nonresidents.