LAPSE OF TIME

SM/20/70

March 17, 2020

To: Members of the Executive Board

From: The Secretary

Subject: **Nigeria—Staff Report for the 2020 Article IV Consultation**

Board Action:	Executive Directors' **consideration** on a lapse of time basis as envisaged under with the framework for handling Board meetings during the period of extended remote working.
Deadline to Request Board meeting:	**Friday, March 27, 2020** **12:00 (noon)**
Proposed Decision Deemed Approved:	Tuesday, March 31, 2020
Provisional Board Meeting Date: (if requested)	Tuesday, March 31, 2020
Proposed Decision:	Page 37
Publication:	Yes* Press Release will be based on the staff appraisal if there is no request for a Board discussion, as attached.
Questions:	Mr. Mati, AFR (ext. 37797)
Document Transmittal in the Absence of an Objection and in accordance with Board policy:	After Board Consideration—African Development Bank, Economic Community of West African States, European Investment Bank, Food and Agriculture Organization, Organisation for Economic Cooperation and Development, United Nations Development Programme World Food Programme, World Trade Organization

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

INTERNATIONAL MONETARY FUND

NIGERIA

STAFF REPORT FOR THE 2020 ARTICLE IV CONSULTATION

March 16, 2020

KEY ISSUES

Context. Even before the Coronavirus (COVID-19) outbreak, Nigeria's economic recovery was slow as declining real incomes and weak investment weighed on GDP growth, which remains below population growth. External vulnerabilities were already rising, reflecting a higher current account deficit and declining reserves that remain vulnerable to capital flow reversals. Increased regulatory risk, segmented foreign exchange markets, higher recourse to central bank financing, low revenue mobilization—in addition to infrastructure and governance challenges—are undermining confidence in the economy and hampering long-term investment.

Outlook and Risks. Under current policies, the COVID-19 shock on international oil prices and confidence would contribute to lowering GDP growth to 1¼ percent in 2020 before converging to 2 percent in the medium term, continuing the erosion of real per capita incomes. Risks to the outlook are skewed downwards, including from wider disruptions from COVID-19 and further declines in oil prices/production.

Authorities' Plans and Reform Priorities. A recent tightening of monetary policy, albeit through unorthodox means, and some fiscal reform momentum—notably through the passage of the Finance Bill and increase in the VAT rate—were welcome steps in a challenging macroeconomic environment. However, short-term policy adjustments will now be needed to respond to the COVID-19 shock, without losing sight of the major medium-term adjustments that will still be needed to contain vulnerabilities and unlock growth:

- **Fiscal policy** should accommodate the **short-term impact of COVID-19**, including through well-targeted measures to strengthen health services and assist hard-hit sectors, while maintaining medium-term **revenue-based consolidation** to eliminate central bank financing and create space for priority spending.
- A move to a **flexible, unified market-determined exchange rate** is more important than ever in the current environment, supported by a removal of foreign exchange restrictions and maintenance of the current **monetary policy** stance through more orthodox means. A resumption of monetary policy tightening will likely be needed once the current shock has passed or if inflationary pressures rise.
- **Banking sector resilience** should be enhanced through differentiated capital requirements, phasing out regulatory forbearance over time, and asset quality reviews.
- Accelerating **structural reforms**—particularly in the power sector, anti-corruption, financial inclusion, and business environment—is needed to lay the foundation for a diversified private-sector led economy.

Approved By
David Owen and Maria Gonzalez

Discussions took place in Lagos (January 29-31) and Abuja (February 3-12). The team comprised Mr. Mati (Mission Chief and Senior Resident Representative), Messrs. O'Sullivan, Ree, and Yao (all AFR); Mr. Chai (FAD); Mr. Wezel (MCM); Mr. Lundback (SPR); and Mr. Pompe (LEG). Ms. Mangga, Ms. Bonet, and Mr. Okafor (Resident Representative office) assisted the mission. Mr. Odonye (OED), and Ms. Timmis (World Bank) participated in most policy discussions. A concurrent FAD TA mission (M. Soto, M. Moszoro and K. Fern) estimated the cost of the SDGs. The mission held discussions with Finance, Budget and National Planning Minister Ahmed, Central Bank of Nigeria Governor Emefiele, and other senior government officials. The mission also met with parliamentarians and representatives of financial institutions, private sector, development partners, and civil society. Ms. Margevich and Ms. Synak provided excellent assistance for the preparation of this report.

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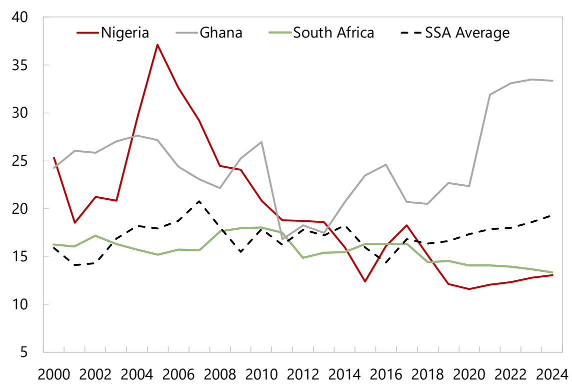
BACKGROUND: A SLOW GROWTH EQUILIBRIUM

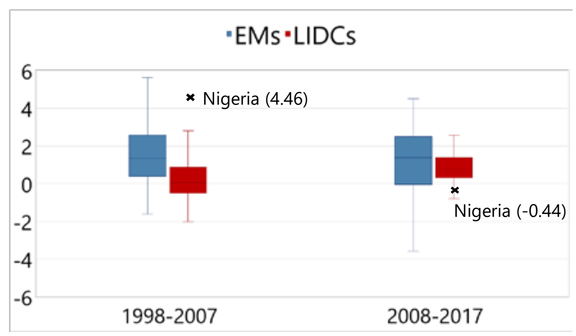
1. **The Nigerian economy's transition to a low oil price equilibrium is facing headwinds, made even stronger by the recent COVID-19 outbreak.** The economy remains dependent on a recovering oil sector, while non-oil activity is constrained by depressed real incomes. The policy background—already marred by policy uncertainty—became even more difficult over the past year, notably through increased regulatory risk, continued use of foreign exchange (FX) market restrictions, intensified use of heterodox monetary policies, and the authorities' decision to close land borders to goods trade, which they argued was needed for security reasons and to reduce smuggling. This continued to hinder long-term investment while leaving the economy vulnerable to hot money flows. The sluggish growth has limited Nigeria's income convergence to advanced economy levels, with a rapidly growing population increasing pressures over the medium term.

Gross National Savings in SSA
(Percent of GDP)



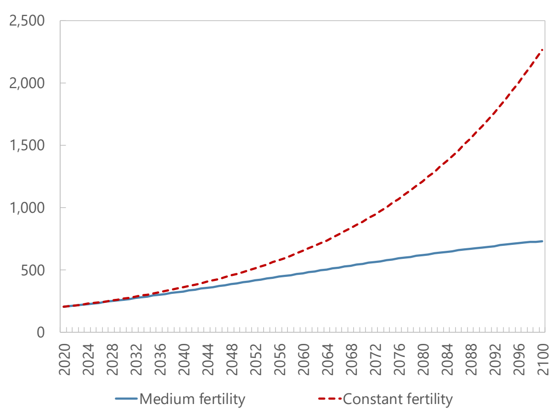
Source: IMF WEO Database.

Speed of Income per Capita Convergence



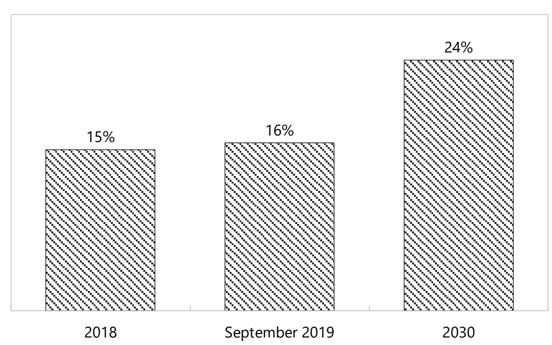
Sources: WEO, Penn World Tables; and IMF staff calculations. The speed of convergence is the ratio between average annual GDP p.c. growth relative to the US and the percent difference between US and Nigeria real GDP p.c. at the beginning of the decade at PPP.

Nigeria: Population, 2020–2100
(Millions of People)



Source: United Nations Population Division.
Note: Medium fertility assumes fertility and mortality based on the median of a probabilistic trends of these variables, while under the constant fertility assumptions, projections assume fertility levels at the 2015-2020 Nigeria average.

Share of World's Poor in Nigeria
(Percent)



Sources: World Poverty Clock and World Bank.

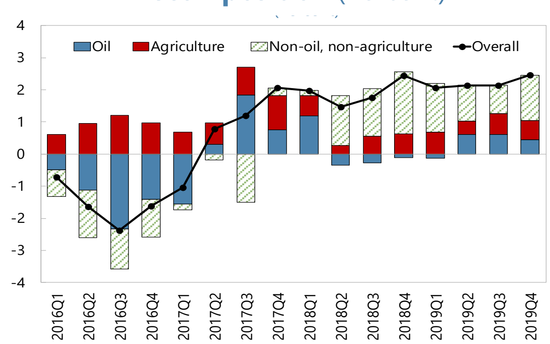
2. Vulnerabilities—particularly external—increased over the past year. International reserves—almost half of which were the counterpart of short-term naira debt issued to non-residents at high rates by the Central Bank of Nigeria (CBN)—have fallen, reflecting portfolio outflows and a deteriorating current account. These vulnerabilities— along with low tax revenue, inadequate infrastructure, and governance/institutional weaknesses—are constraining growth. The COVID-19 outbreak is expected to further exacerbate domestic and external vulnerabilities.

3. Broad and market-friendly reforms are urgently needed despite recent advances in the fiscal agenda. A more government-friendly Parliament has helped the government—in place since August 2019— to quickly adopt the 2020 budget and a 2020 Finance Bill that includes higher oil price royalties and a VAT rate increasing from 5 to 7.5 percent. Major policy adjustments—partly reflected in the authorities' Economic Recovery and Growth Plan (ERGP)—would be needed to fend off external vulnerabilities and unlock growth. Expectations remain high that the recently-appointed presidential Economic Advisory Council can help the government move towards more market-friendly reforms.

RECENT MACROECONOMIC DEVELOPMENTS

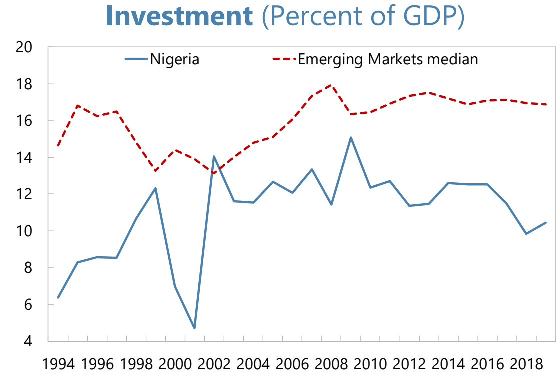
4. The recovery momentum is continuing but at a slow rate. At 2.3 percent for 2019, real GDP growth—which was helped by a boost in services in the fourth quarter of the year—remains firmly below population growth. Recovering oil production—to about 2 mbpd—continued to drive growth while agricultural production (despite efforts to encourage it) has been impacted by floods, farmers/herdsmen conflict, and lagging investment. While there were strong emerging sectors (e.g., telecommunications and retail finance), growth in remaining sectors was constrained by declining real incomes and weak investment. The border closure weighed on the retail/wholesale trade sectors (17½ percent of non-oil GDP), which experienced negative growth.

Real GDP Growth: Supply Side Decomposition (Percent)



Sources: Haver, IMF Staff calculations.

Nigeria and Emerging Economies: Private Investment (Percent of GDP)

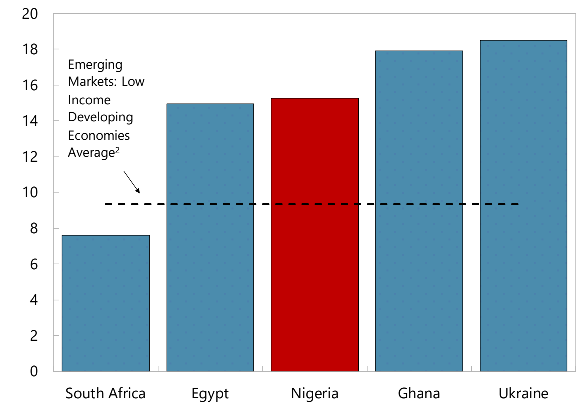


Source: IMF WEO Database.

5. Increased reliance on portfolio flows and a deteriorating current account have increased external vulnerabilities. After peaking at $27 billion in June 2019, foreign portfolio holdings fell to $20 billion in December 2019 as foreign investors—whose holdings of CBN's high yielding OMO bills nearly tripled between 2018Q1 and 2019Q3— reacted to global developments and falling domestic yields. The current account has in the meantime shifted into deficit, as the goods trade balance deteriorated by almost 4 percent of GDP—driven by falling oil proceeds and a broad-based 33½ percent increase in goods imports despite a more rigorous implementation of the FX restrictions for certain imported goods. As a result, international reserves had fallen from $45 billion in May 2019 to $36.7 billion by January 2020 (about 53 percent of the Fund's ARA metric + oil buffer).

12M Treasury Bill and Nigerian OMO

(February 2020[1], Average yield, percent)



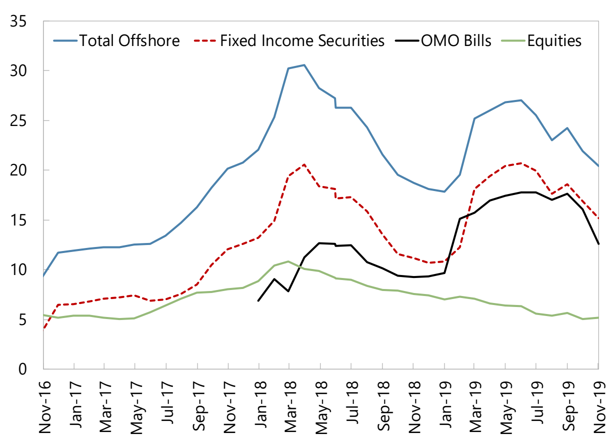
Sources: Bloomberg, IMF staff calculations.

[1] June 2019 for Ukraine

[2]Average of most recent 12M Treasury Bill yield for 25 Low Income Developing Economies (WEO classification).

Portfolio Investment Stock

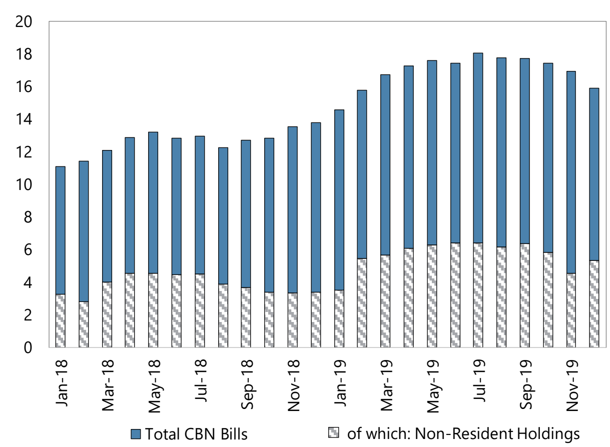
(Billions of US dollars)



Sources: Central Bank of Nigeria and custodian data.

Nigeria: Stock of CBN Bills 2017–19

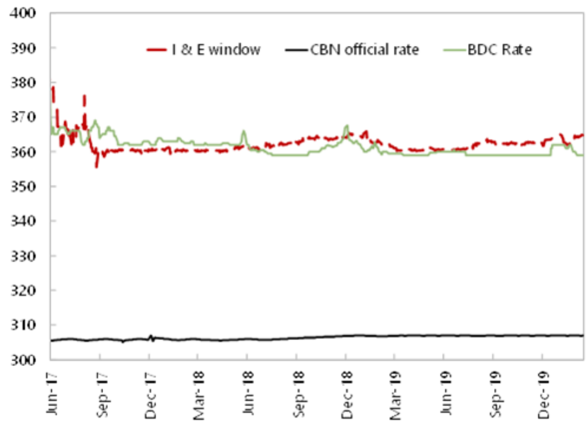
(Trillions of naira)



Sources: Central Bank of Nigeria and custodian data.

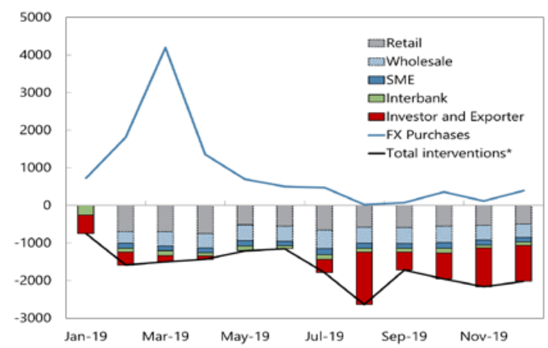
6. The CBN remained focused on keeping the exchange rate stable while maintaining multiple exchange rate windows and FX restrictions. Since 2017, the Investors' and Exporters (I&E) FX window has operated successfully, with the exchange rate remaining relatively stable at about N/$360-365, despite a pickup more recently as oil prices weakened. FX sales—totaling about $38 billion in 2019—have helped keep rates for Bureau de Change, invisible transactions, and wholesale windows close to N/$360, while the official rate for fuel products remains at N/$305. FX restrictions on 42 categories of goods and financial assets, first introduced in 2015, were extended to fertilizers in 2018, and authorization for dairy imports were stopped in January 2020 with an exception made for firms involved in backward integration.

Exchange Rates
(Naira per US dollar)



Sources: Central Bank of Nigeria and Bloomberg.

CBN FX Purchases and Intervention
(Millions of US dollars, interventions negative to indicate reduced reserves)



*/Excluding interbank forwards and swaps.
Sources: Central Bank of Nigeria and IMF staff calculations.

7. **Inflation has risen to an 18-month high**. Headline inflation increased to 12.1 percent y/y in January, reversing the declining trend observed last year as inflation reached a 43-month low of 11 percent in August, mainly a result of a tight monetary policy over 2018 and early 2019. More recently, rising core inflation emerged under looser liquidity conditions while food inflation picked up to 14.9 percent in January—a level unseen since April 2018 and mostly driven by the impact of the border closure (Box 1).

Box 1. Partial Land Border Closure

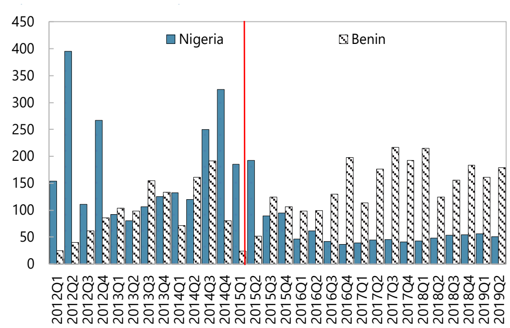
The land border closure starting in August, 2019 has led to higher food inflation while no decisive supply response can yet be seen. Activity in border areas appear to have rebounded after an initial steep decline, suggesting smuggling may be resuming.

Context. Nigeria launched what the authorities consider to be a partial land border closure with Benin, Niger, Chad and Cameroon in August 2019—implying that only goods were impacted while trade through Nigeria's seaports and labor movements continued unimpeded. The closure, which the authorities mainly justified by smuggling and security concerns, is also expected to help boost domestic production of items previously smuggled (e.g., rice). It was initially scheduled to end by January 2020 but is still in effect with no end-date indicated. The Nigerian authorities have indicated that the opening will depend on better enforcement of existing Economic Community of West African States (ECOWAS) transit trade protocols.

Impact. Staff's analysis suggests the following impact on the economy:

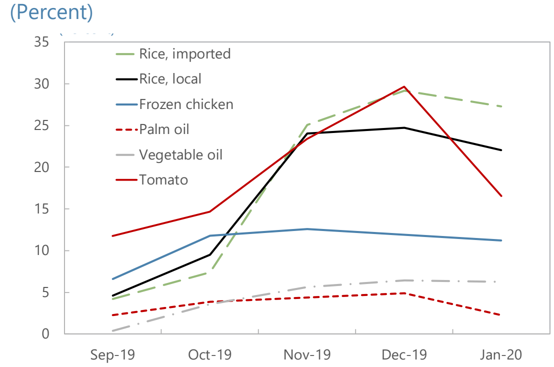
- ***Prices,*** particularly for food have increased. The focus on food—considered an important part of cross-border smuggling— was made more relevant by new restrictions on access to foreign exchange for importing certain categories of goods introduced in July 2015. For example, price of imported Thai rice—which has been coming in mostly through Benin since 2015 (text chart)—has increased by almost 30 percent in the second half of 2019. The same story can be seen for local rice, tomatoes, frozen chicken, and to a lesser extent on palm and vegetable oil (all items subject to FX restrictions). More recently, there has been a general leveling off and even reversal, albeit it is probably more a response to renewed smuggling (see below) than a domestic supply response, which is likely to take time to materialize.

Thailand Exports
(FOB, millions of US dollars)



Source: IMF DOTS

Cumulative Price Increase from July 2019
(Percent)

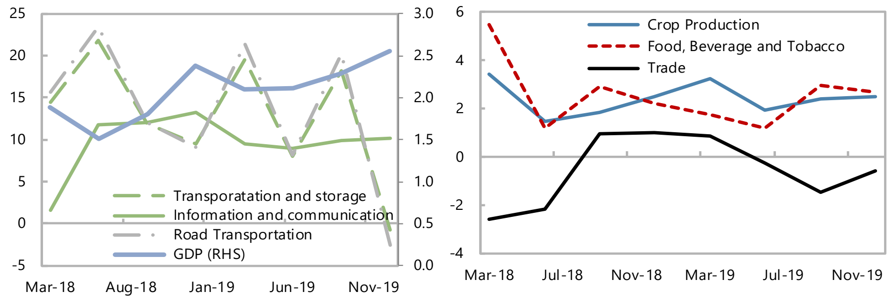


Source: NBS

- ***Growth.*** Any domestic supply response is expected with delays and there are so far few signs of an impetus to economic growth. Real GDP growth accelerated somewhat in the fourth quarter of 2019, but the main growth drivers have been information and communication. At the same time, growth in crop and food production, including rice, where positive effects may be expected did not display any noticeable pick-up, while retail and wholesale trade recorded negative growth, in part reflecting more costly imports. The fourth quarter also saw a sharp deceleration in previously fast-growing transportation, driven by declining road transportation, possibly reflecting less demand from halting land border trade.

Box 1. Partial Land Border Closure (Concluded)

Real GDP and Select Sectors
(year-on-year, percent)

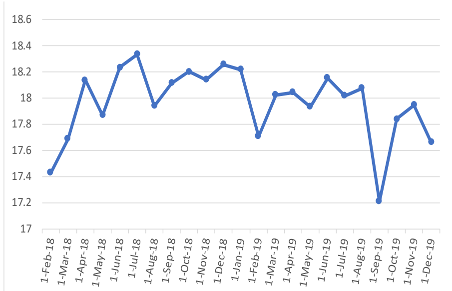


Sources: NBS

Sources: NBS

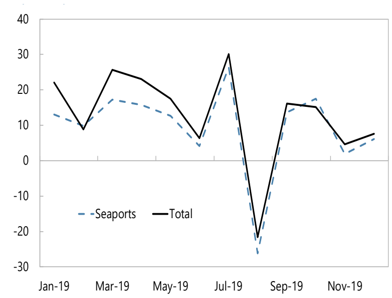
- ***Border activity and smuggling.*** Activity in the border areas between Nigeria and Benin—measured using satellite images to count the amount of night lights, which is highly correlated with economic activity—appears to initially have declined dramatically but has since partially rebounded, likely implying that some of the smuggling activities have resumed. On the other hand, the national oil company reports that smuggling of fuel products has diminished as fuel consumption declined by 10 million liters a day to 50 million liters a day.

Total Night Lights in Nigeria-Benin Border Areas



Source: National Oceanic and Atmospheric Administration, Payne Institute for Public Policy, and IMF staff calculations.

Customs Revenues
(year-on-year, percent)



Sources: Nigeria Customs, Staff estimates

- ***Trade and customs.*** Trade data through the fourth quarter of 2019 does not show a clear pattern of impact. However, early indications are that imports of goods through Lagos Ports have increased, leading to severe port congestion and contributing to the deteriorating trade balance. Moreover, even with land border trade steered to seaports, customs revenue did not show a marked sustained increase. Seaports were already dominating Nigeria's trade, accounting for almost all recorded exports and for over 90 percent of recorded imports. Trade across land borders may nevertheless be much more important as smuggling likely accounts for a significant, but hard to measure, share of imports.

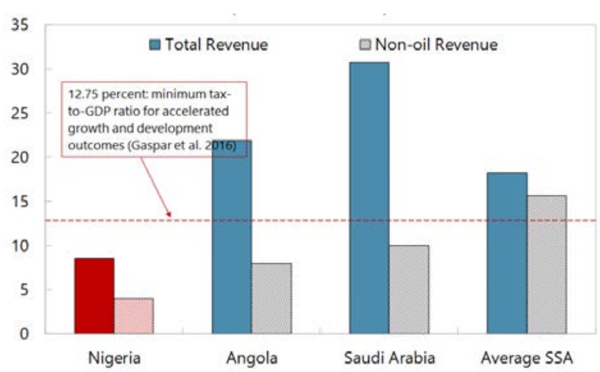
Spillovers. The border closure had strong negative economic consequence on Nigeria's neighbors.

- For ***Benin***, Nigeria is one of the largest trading partners and informal re-exports accounted for almost half of Beninese' exports in 2018. Trade with Nigeria is also a key source of government revenues as customs revenues represented about 40 percent of tax revenue in 2018 (4 percent of the recently rebased GDP), a third of which is related to imports for re-exports. As a result, real GDP growth was revised down by 0.3 percentage points slower in 2019 since the border closure and the full-year effect would be larger. In addition, Nigeria is the main source of imported fuel (kpayo), which represents more than half of total fuel consumption in Benin.

- For ***Niger***, the channel is through re-exports to Nigeria, as well as trade in mostly agricultural products. The limited value-added of re-exports and the informal nature of much of the other trade contain the growth and revenue effects at 0.1 percent and 0.07 percent of GDP per month, respectively.

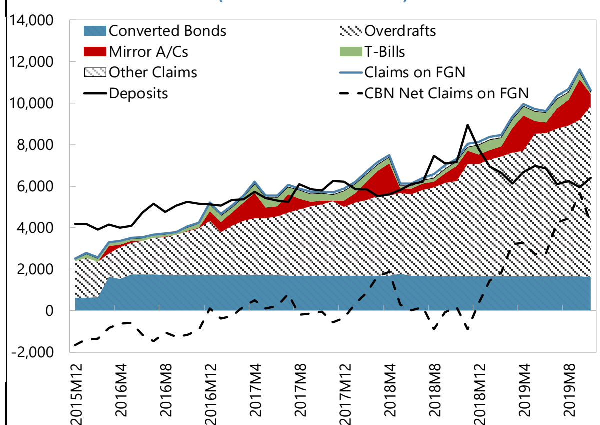
8. High fiscal deficits are complicating monetary policy. Optimistic budget targets—notably on oil revenue—has led to large revenue shortfalls in 2019 (about 58 percent of the budget target)—which widened the overall Federal Government (FG) deficit to 4.8 percent of GDP, despite improved non-oil revenue (which remains one of the lowest in the world). With expenditures remaining in line with the budget and additional borrowing limited by the ceiling approved by Parliament, this higher-than-budgeted deficit was largely financed by the CBN. The interest payments to FG-revenue ratio remained high at about 60 percent while the debt to GDP ratio reached 29 percent of GDP (see DSA, Annex II).

Total and Non-oil Revenue, 2019
(Percent of GDP)



Sources: Nigerian authorities and World Economic Outlook.

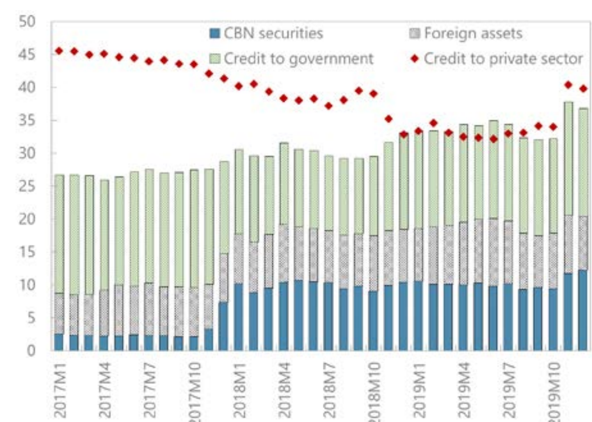
CBN Net Lending to FGN, 2015–19
(Billions of naira)



Source: Central Bank of Nigeria.

9. Containing the inflationary impact of CBN financing required issuing increasing amounts of OMO bills, which crowded out banks' private sector lending. Trying to offset the resulting crowding out, the CBN imposed a minimum loan-to-funding ("LDR") ratio in mid-2019 (initially 60 percent, increased to 65 percent in December). By end-2019, the banking system's LDR reached 61 percent, falling short of the new target as strong funding growth outpaced credit expansion. Failure to meet the minimum LDR has led to additional levies on banks in the form of special cash reserve requirements (CRR).

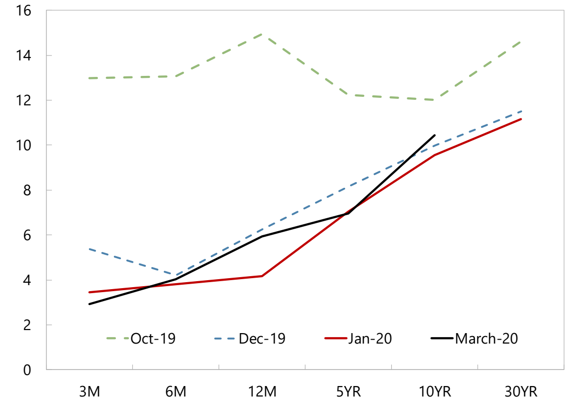
Banks' Balance Sheet
(Percent of total assets)



Source: Central Bank of Nigeria.

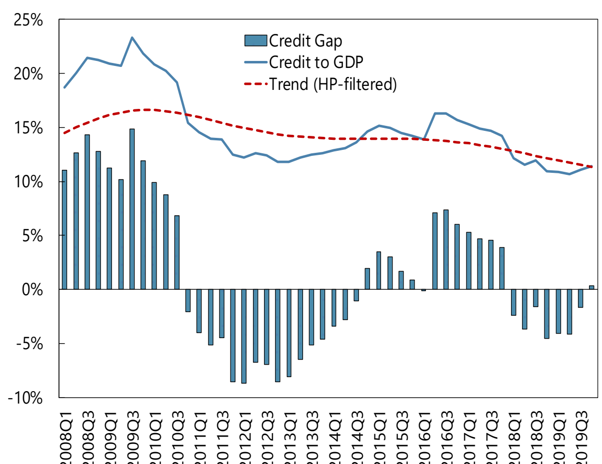
10. The LDR policy has led to rapid credit growth. Bank credit grew by 13.7 percent in the second half of 2019, with consumer credit expanding by 40 percent, mostly short tenors, which helped close the negative credit-to-GDP gap. Banks also lent to corporates to buy OMO bills at a margin—a loophole that the CBN closed in October 2019, barring all resident non-bank institutions from the auctions. As a result, non-bank residents, which held at the time N7.6 trillion (or 20 percent of M3) had to re-invest large amounts of maturing OMOs in government bonds and term deposits, causing steep declines in interest rates and excess liquidity in the system.

Domestic Yield Curves
(Percent)



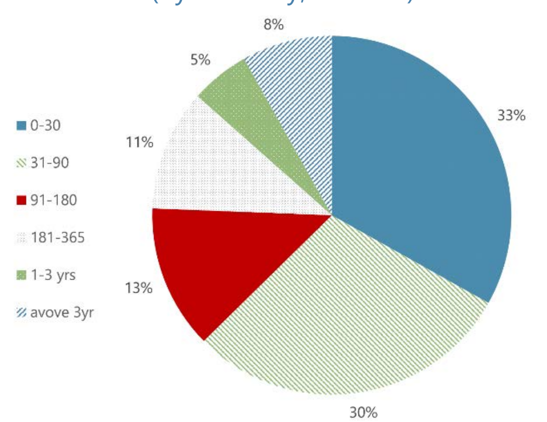
Source: Central Bank of Nigeria.

Nigeria: Credit-to-GDP Gap
(Percent)



Source: IMF staff calculations.

Composition of Loan Expansion since LDR
(By Maturity, Percent)

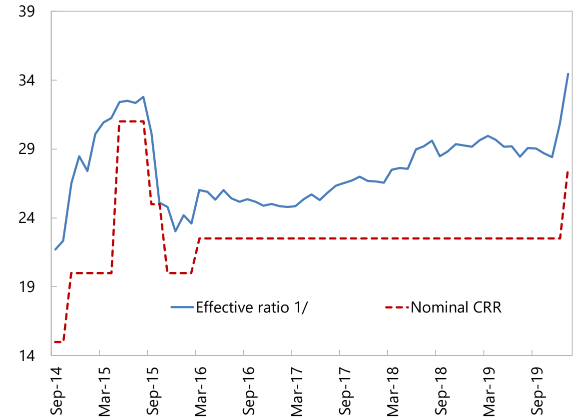


Note: New loans measured by the change of stock between Q3 and Q4.
Sources: CBN, IMF staff calculations.

11. In response to the excess liquidity and increasing inflation, the CBN tightened monetary policy. In January 2020, the CBN raised its CRR from 22.5 to 27.5 percent, effectively removing almost N1 trillion in liquidity over time. This—along with the use of heterodox monetary policy tools such as the asymmetric CRR (e.g., not crediting CRR back when deposits fall), occasional out-of-cycle CRR debits, and sanctions for banks not meeting the LDR target—has contributed to increasing the effective CRR to 34 percent.

Cash Reserve Requirement

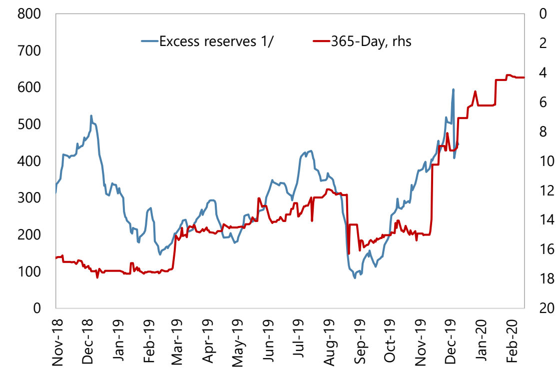
(Percent)



Sources: Central Bank of Nigeria; CEIC Data.
1/ DMB's required reserve/DMB's Naira deposits included in M3.

Excess Reserves and NTB Yields

(Billions of naira, percent)

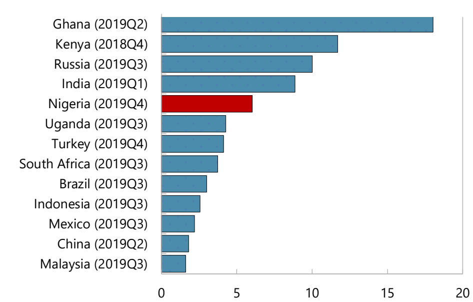


Sources: CBN, FMDA
1/ 30-day moving average. The latest observation for excess reserves is Oct 23; and the moving averaging allows for decreasing size of observations between Oct 24 to Dec 10, which makes the chart to pick up the tail end dynamics with a stronger emphasis.

12. **The NPL ratio has fallen further and bank profitability remains high, while solvency and liquidity ratios have declined, helped by strong monetary-financial linkages**. Accelerated loan write-offs and recent government arrears clearance to bank borrowers— as well as the pick-up in lending—have halved the NPL ratio to 6 percent over the past year. Higher risk-weighted assets in line with strong lending and deferred IFRS9-related impairment charges have reduced the overall solvency ratio by 0.7 percentage point to 14.6 percent at end-2019. Overall solvency would have been stronger, were it not for three insolvent banks (about 4 percent of total assets) kept afloat thanks to regulatory forbearance and continuous recourse to CBN liquidity. Return to assets remained comfortable at 2.5 percent but is likely to decline in view of the CBN's imposed caps on bank fees and pressure on net interest income.

Nigeria and Peers: NPL to Total Loans

(Latest available, percent)



Sources: CBN, IMF FSI database.

OUTLOOK AND RISKS

13. **Under current policies, a subdued growth outlook is entrenched,** further increasing unemployment and reducing per capita income. Competitiveness will continue to worsen, with high financing costs—and minimum progress on structural reforms—constraining growth further.

- **Growth**. For 2020, in a rapidly evolving situation, staff's baseline scenario attempts to reflect the impact of COVID-19 (Box 2) through weaker oil prices (down $11 a barrel relative to 2019, to an assumed average of $53 in 2020) and confidence effects, which along with limited improvement in oil production—possibly capped by existing OPEC quota restrictions—would decelerate growth to 1.3 percent in 2020 notwithstanding positive base effects from the growth-pick up in late 2019. For the medium term, growth is projected at 2 percent, well below 3 percent population growth, notwithstanding the onset of production at the new Dangote oil refinery in 2022.

- **Inflation** is projected to pick up to 12.7 percent in 2020 following the increase in the VAT rate with relatively tight monetary policy keeping additional inflationary pressures at bay.

- **Private sector credit** is set to moderate after a significant uptick in 2019 of short-term loans under the LDR policy. This weaker credit growth—which also results from lack of demand from large corporates that have seen their cash flow and operational efficiency worsen over the past two years— remains broadly aligned with staff's nominal GDP growth projections since large corporates have likely pre-financed some planned investment and have historically financed investment through retained earnings and FX proceeds.

- **International reserves** are projected to decline as the current account remains in deficit and foreigners reduce their naira debt holdings. The CBN's focus on exchange rate stability will continue to worsen competitiveness as inflation differentials persist.

Nigeria: Selected Economic and Financial Indicators, 2017–25

	2017	2018	2019	2020	2021	2022	2023	2024	2025
		Est.			Projections				
Real GDP (at 2010 market prices)	0.8	1.9	2.3	1.3	1.9	2.1	2.0	2.0	2.0
non-oil, non agriculture real GDP	-0.6	2.0	1.8	0.8	1.3	1.5	1.4	1.4	1.4
Consumer price index (annual average)	16.5	12.1	11.4	12.8	11.4	11.2	11.0	10.8	10.6
Current account balance (percent of GDP)	2.8	1.3	-2.5	-3.2	-2.6	-2.2	-1.7	-1.4	-1.3
Gross international reserves (US$ billions)	39.8	43.6	38.1	30.4	26.3	23.0	21.7	21.1	20.4
(equivalent months of imports of G&Ss)	6.7	5.6	4.9	3.7	2.9	2.4	2.2	2.0	1.9

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

14. Near-term risks are skewed to the downside. An outbreak of COVID-19 within Nigeria, which would imply significant supply disruptions, would further constrain growth. The impact would also be large if COVID-19 continues to spread globally, further impacting commodity prices. Delays in reform implementation, security tensions—including to oil production in the Niger Delta—or tighter global financial conditions also represent key risks (Annex III).

Box 2. Impact of Coronavirus (COVID-19) on Nigeria

Background. The first case of COVID-19 in sub-Saharan Africa was confirmed in Nigeria on February 28. Risk of contagion into Nigeria remains high given frequent travel with China and Europe.

Authorities' responses. Nigeria is currently trying to prevent transmission from abroad, including through intensified surveillance for early detection and reporting, increased screening and strengthened diagnostic testing, and by raising public awareness. Contingency spending budgeted to the Nigerian Center for Disease Control (NCDC) of about N920 million naira has been released for a COVID-19 emergency response. Additional preparatory costs of $8 million have been reported as necessary by the World Health Organization (WHO), albeit that number could increase significantly if infections rise.

Economic impact, through (i) weaker global aggregate demand that will put pressure on oil prices and exports; (ii) domestic demand softened through less FX inflows, expected income, and consumer confidence; and (iii) some supply disruption, as some imports from China—which represent 25 percent of Nigeria's total imports—are delayed. This is currently reflected in staff's baseline. However, two adverse scenarios (separate or as a combination) could materialize:

- **Outbreak worsens in China and the world**. In such a scenario, additional declines in international oil prices would worsen both fiscal and external imbalances (Text Table).

Impact of $10 per Barrel Decrease in International Oil Prices
(Sensitivity analysis)

GDP Growth (percentage point)	Current Account (percent of GDP)	Fiscal Deficit (percent of GDP)
-1.3	-0.6	-0.6

- **Outbreak spreads in Nigeria, in a densely populated state or more widely**. In such a case, the impact will depend on the extent of the outbreak, including the number and locations of people infected and the efforts needed to further contain the spread of the disease. The head-on impact would come from:

  - **Reduced output from production** running below capacity under quarantine or restricted labor movement. The demand side would compound the challenges on the supply side as restricted mobility and heightened economic uncertainty would limit consumption and investment growth.

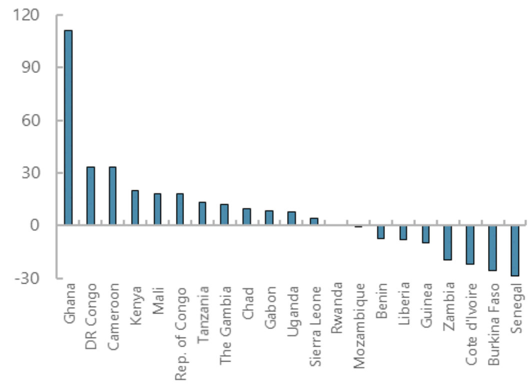
  - **Wider fiscal deficit**, as increased health spending in case of widespread infection could be high while reduced demand would negatively impact revenue.

  - **Increased external imbalances**, as disruption of local production would drive up imports and widen current account imbalances. Flight to safety in the context of a global pandemic could further increase outflows and add pressure on foreign reserves, which, in combination of low oil prices, would also weigh on the exchange rate. Rising risk premium as a result of perceived risks to the economy would increase external borrowing costs.

  - **Non-performing loans** would increase as financial flows stop when normal business activity is halted.

15. Spillovers from Nigeria to neighboring countries have been exacerbated by the land border closure. In addition, a further slowdown in Nigeria could have a significant impact on neighboring countries, as Nigeria accounts for 70 percent of ECOWAS exports. The net exposure of Nigerian banks to their subsidiaries across Sub-Saharan Africa grew by 5.3 percent in 2019, but high capitalization of banks' subsidiaries helps limit possible spillover risks from subsidiaries.

Banks' Net Assets in SSA Subsidiaries
(Change in 2019, Billions of Naira)



Source: Central Bank of Nigeria

Authorities' Views

16. The authorities are expecting stronger near-term macroeconomic outcomes than staff's based on current policies. The authorities acknowledged that the COVID-19 outbreak would impact the outlook significantly. They however considered that proposed mitigating measures to contain the COVID19 outbreak and actions taken by the government since its formation in August—such as the adoption of the new Finance Bill, continued progress in power sector reform, implementation of their financial inclusion plan, and improved regulatory processes—would help boost growth above staff's current projections. They disagreed on the inflation path as they consider the VAT impact to be weaker in view of low markups and the expanded list of exempted items. They expect the current account to improve during the year and reserves to remain adequate on the heels of a growth pick-up, reflecting the impact of increased imports of capital goods, a supply response to the border closure they consider only partial, and a COVID-19 shock they consider temporary.

POLICY DISCUSSIONS: POLICIES FOR INCLUSIVE AND MORE SUSTAINABLE GROWTH

17. Major policy adjustments are required to contain vulnerabilities, build resilience, and unlock growth potential (Annex IV). In the near term, the global COVID-19 outbreak calls for accommodating the spending needs and revenue losses linked to the temporary external demand shock. Stemming short-term external vulnerability and inflation risks calls for maintaining tight monetary policy through more orthodox tools, a more unified and flexible exchange rate, and a resumption of revenue-based fiscal consolidation in 2021, which are all necessary to reduce monetary financing of the budget while still protecting the most vulnerable. Unlocking the growth potential requires revenue mobilization to achieve the Sustainable Development Goals (SDGs) and improve Human Development Indicators. Structural reforms—in particular in the governance and the power sector—are essential to support private sector development and achieve more inclusive growth.

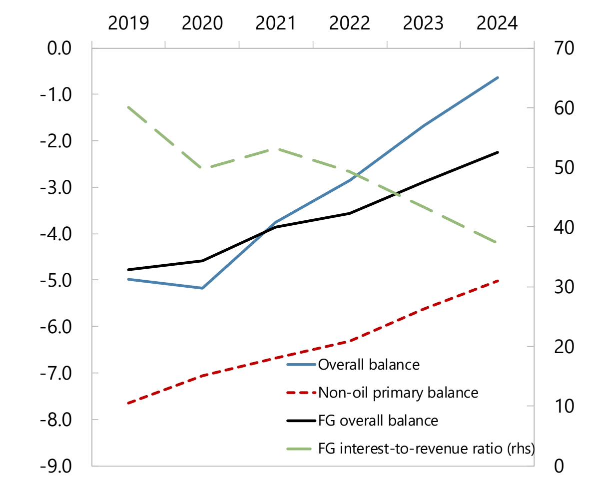
repayments (0.3 percent of GDP). As a result, staff projects the deficit to be 3 percent of GDP larger than budgeted.

20. Dealing with the COVID-19 shock would require a supplementary budget and raising the domestic borrowing limit. This would imply allowing the FG deficit to remain at the same level as in 2019 (while deteriorating slightly by 0.3 percent of GDP at the consolidated government). Keeping such a deficit—which is 0.7 percent of GDP higher than previously envisaged—would need to be financed by increasing the domestic borrowing limit to ensure the government can pre-fund its spending using the current low yield environment and as much concessional financing as possible. Well-targeted spending on health—and COVID-19 containment measures—should be prioritized.

21. Once the COVID-19 temporary shock passes, resumption of fiscal consolidation is essential to reduce financing constraints and create space for private sector credit. Based on staff's adjustment scenario, eliminating the CBN deficit financing would require shifting the overall consolidated government fiscal deficit to a small surplus in 2025 (0.2 percent of GDP), a minimum one percent of GDP fiscal adjustment per year (starting 2021), of which about 60 percent is from the FG. With fiscal space at risk because of higher interest payments to revenue ratios, this provides the appropriate room for increasing private sector credit and containing interest payments to revenue to about one-third of revenue (from about 104 percent in staff's baseline).

Adjustment Scenario: Fiscal Aggregates

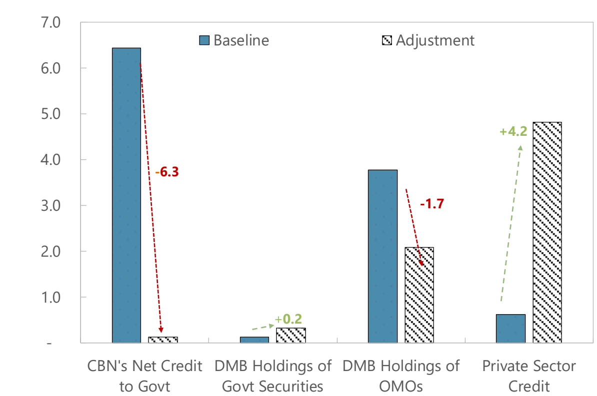
(Percent of GDP and FG Revenue)



Source: IMF staff estimates.

Domestic Financing Adjustment: 2019–24

(Trillions of naira)1/ 2/



Sources: Authorities; IMF staff estimates.
1/ Annual average changes in the stock.
2/ Comparison between staff's baseline and adjustment scenario outcomes.

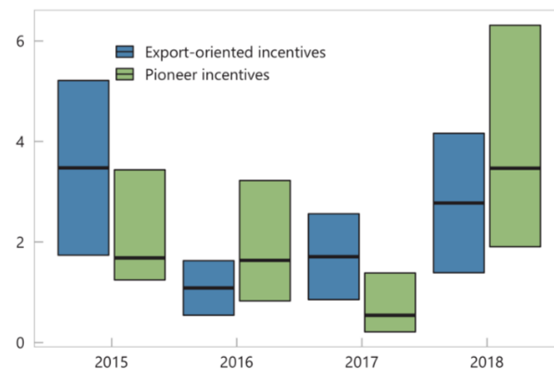
22. A strong push for revenue mobilization remains urgent to create space for priority spending. Building on the Finance Bill and the measures already incorporated in the authorities' Strategic Revenue and Growth Initiative (SRGI)—such as VAT reform, higher and broader excises and luxury goods tax —additional reforms are needed to increase revenue by 7 percent of GDP to attain the authorities' 15 percent of GDP objective within a five-year period. The authorities' tax proposals should be clearly announced and costed:

- *Tax policy.* In line with previous Fund TA recommendations, increasing the VAT rate to at least 10 percent by 2021 (which is still considerably lower than the ECOWAS average) and 15 percent by 2024 (Box 3), rationalizing pioneer status system, removing tax exemptions and customs duty waivers, and increasing rates and widening the base for excises—to include fuel and telecom airtime—would be necessary for higher revenue mobilization. Confronting international tax avoidance by individuals and MNEs is also essential (Selected Issues Paper). Increasing internally generated revenue for state and local governments (SLGs)—including through proper property taxation—remains critical.

Adjustment Scenario: Tax Policy and Administrative Measures (Cumulative Impact, 2021–25, Percent of GDP)

VAT	3.3
Increase rate to 15 percent	1.3
Remove exemptions and improve compliance	2.0
CIT and custom duties	1.1
Rationalize tax incentives	0.6
Improve efficiency	0.5
Excises (rate increase and base broadening)	1.0
Property tax	0.6
Other (education tax, FGN internal revenue)	0.6
Total	6.6

Tax Expenditure Estimates in the Non-oil Sector (Percent of CIT Revenue)



Sources: NIPC, CBN, IMF staff computations; Blue bars show tax expenditure for 5, 10, and 15 percent profitability margin, respectively. Green bars show tax expenditures for Pioneer Act, with middle bar showing point estimate and upper and lower green bar showing 50 percent confidence interval.

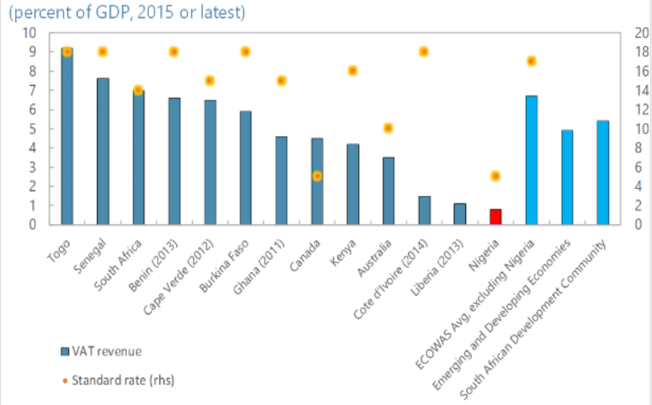
- *Tax administration.* Recent plans to restore taxpayer segmentation, improve audit capacity, and move quickly towards implementing a functional integrated tax administration system are welcome. Developing a proper taxpayer register, and improved filing and arrears management—important weaknesses found by the recent Tax Administration Diagnostic Assessment Tools (TADAT)— are also critical. Ongoing reforms in customs administration—including risk-based compliance management and valuation procedures—should be vigorously pursued.

- *Oil revenues*. Renewed efforts to establish a new fiscal framework for the oil and gas industry are welcome, although proper costing of various revenue measures—including the yield from the DOA—is critical. Staff supports the authorities' intention to increase the government take from offshore production while cautioning the need to keep oil companies' investment decisions viable. Expeditious establishment of the new fiscal framework will be critical to ensure new license bids and decisions on oil and gas exploration/development accelerate.

Box 3. VAT Reform in Nigeria

Background. Nigeria's VAT revenues stagnated at an average of 0.9 percent of GDP for the period 2005–2019. For the same period, the average revenue collection compares poorly against ECOWAS and emerging market peers—both due to low VAT rates and weak compliance (15-40 percent). VAT revenue productivity—defined as the yield of one point of its rate in percent of GDP—is the lowest relative to peers.

General Government VAT Revenues and VAT rates: Nigeria and Comparators
(percent of GDP, 2015 or latest)

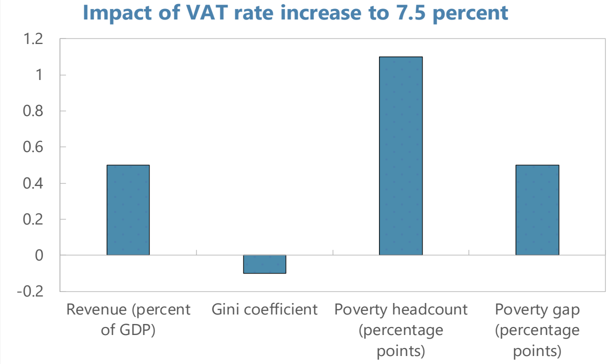


Sources: GFS, WEO, FAD Tax Rate Database.

VAT reform. The recently adopted Finance Bill increases the VAT rate from 5 to 7.5 percent and introduces a registration threshold of 25 million naira, which helps reduce the burden on small taxpayers and tax administration. This measure is expected to:

- Increase **revenue** by about 0.5 percent of GDP and raise **inflation** by one percentage point within a year. The latter assumption assumes firms pass on the prices and that the VAT is applied to about a third of the CPI basket (after excluding goods exempted and regulated prices on fuel and transport).
- Reduce **inequality** as measured by the Gini coefficient, as VAT exemptions or lower rates on consumption items such as food constitute a larger share of the poor's than the rich's consumption basket.
- Increase the **poverty** headcount rate by 1.1 percentage points, and the poverty gap by 0.5 percentage points in the absence of compensating measures.

Impact of VAT rate increase to 7.5 percent



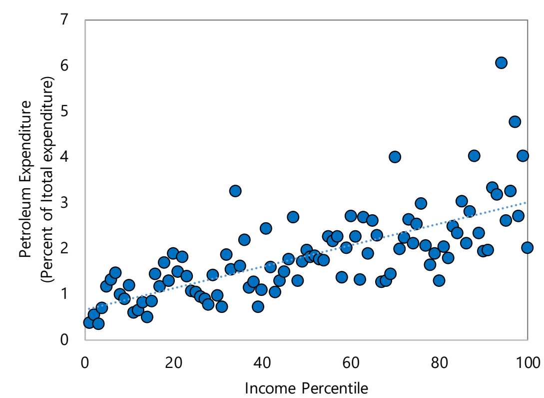
Source: IMF Staff calculations and IMF Selected Issues Paper 2018 (IMF Country Paper No. 18/64)

The negative impact on poverty should be offset by social safety transfers. Staff's simulations show that holding the poverty gap constant requires scaling up social transfers by 0.1 percent of GDP (about one-fifth of the revenue gain), while holding the poverty rate constant would require transfers of 0.25 percent of GDP (half of the revenue gain).

A well-designed action plan is needed to implement recent VAT changes while additional reforms remain necessary. In particular, it would be important to: (i) determine the VAT register roll (e.g., identify all taxpayers above the VAT threshold); and (ii) identify taxpayers to deregister for VAT purposes. Reforms to modernize the VAT system in Nigeria should be continued through introducing input tax credit for intermediary inputs and capital expenditures, increasing the VAT rate to the ECOWAS average of 15 percent while limiting exemptions, and doubling the VAT compliance rate from the current level.

23. Removing subsidies while strengthening the social safety net would be essential to create fiscal space and alleviate income inequality. Potential savings from removing "implicit" fuel subsidies (0.6 percent of GDP in 2019) and introducing cost-reflective electricity tariffs (0.4 percent of GDP) are substantial, freeing much needed resources for health and education. A stronger social safety net, with improved monitoring and expanded targeted programs (such as health programs on immunization and maternal and child health care), is critical to protect poorer households from the negative impact of subsidy and VAT reform. Its cost would represent a fraction of the savings (Box 3 & CR/19/93). On the electricity front, in line with World Bank advice, careful tariff design would ensure poorer households—which have low access to the electricity grid and a small consumption volume—are protected from tariff adjustments, including by capping assumed consumption for estimated billing.

Petrol Expenditure by Income Percentile

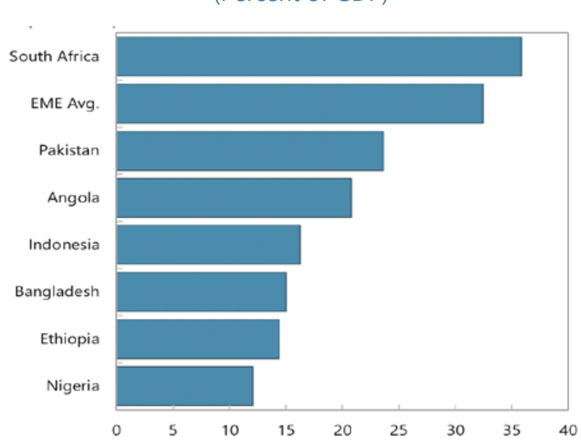


Sources: National Bureau of Statistics, IMF Staff estimates.

24. A ramping up of priority spending is critical. In line with capacity absorption and resource mobilization, a 3.5 percent of GDP increase in infrastructure investment and social spending is planned in staff's adjustment scenario. However, recent IMF TA estimates that a total increase of 18 percentage points of GDP (including from the private sector) would be needed to achieve SDGs in education and health as well as roads, electricity, and water and sanitation. Beyond the large resources needed, developing a gradual and strategic approach, improving coordination and strengthening governance is critical to delivering on the SDGs.

Public Expenditure

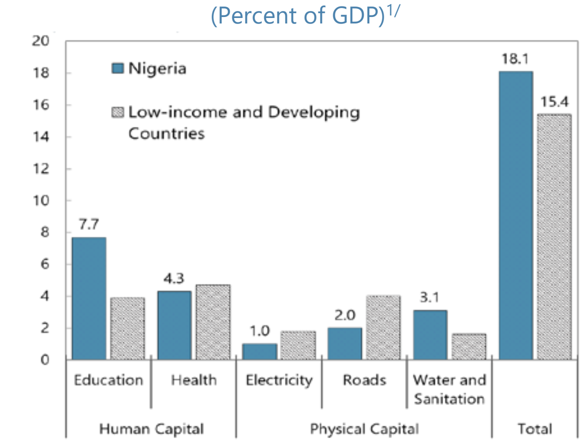
(Percent of GDP)



Source: IMF Fiscal Monitor (October 2019).

Additional Spending Needed for SDG

(Percent of GDP)[1/]



1/ Increase in annual spending needed by 2030 (education and heath); or annual average spending needed to be accumulated until 2030 (physical capital)
Source: IMF Staff estimates.

25. Public Financial Management should continue to be strengthened. The implementation of bottom-up cash planning, Treasury Single Account (TSA) e-collection, and improved fiscal reporting in line with international accounting standards are welcome. More effective use of the TSA, including incorporating all sub-accounts when calculating overdrafts on which interest is due is critical. In line with Fund TA recommendations, realistic multi-year budget planning— with improvements in revenue forecasting—are essential to limit budget shortfalls and improve cash forecasting. Public investment efficiency should be enhanced through improvements in: (i) project appraisal, selection and implementation; and (ii) cash management through steady cash release for investment projects. The inclusion in the budget of revenue/spending aggregates of the ten largest State-Owned Enterprises (SOEs) is welcome but strengthening the financial oversight of these companies would be needed to appropriately monitor their performance.

26. Moving towards comprehensive debt is welcome. The decision to move towards securitizing the large amounts of CBN overdrafts—which should be reported as government debt, along with AMCON debt and the CBN NBET financing facility for power (about 1.3 trillion naira over two tranches, of which N701 billion has already been disbursed)— is welcome. The identification, assessment, management, and disclosure of contingent liabilities, especially those related to the SOEs and PPPs, need to be strengthened. Risk of arrears accumulation at the SLG level from increases in minimum wages need to be closely watched.

Authorities' Views

27. In view of the financing constraints, the authorities remain convinced that fiscal consolidation should be pursued over the medium term. For the short term, they agree on the need to account for the possible impact of lower oil prices and on identifying contingent measures to deal with new revenue shortfalls. They however remain confident that many of the measures identified in the 2020 budget can still materialize, including some of the oil license renewals as investors' expectations are clarified with the adoption of new petroleum fiscal legislation within the year. They agree on the proposed medium-term fiscal reforms, emphasizing that attainment of the revenue objectives will be helped by regular quarterly and mid-year review monitoring, the set-up of a national Tax Policy Review Committee, and annual financing bills. All those initiatives are expected to help guide the additional transformative measures included in the SRGI to generate a sustainable revenue increase.

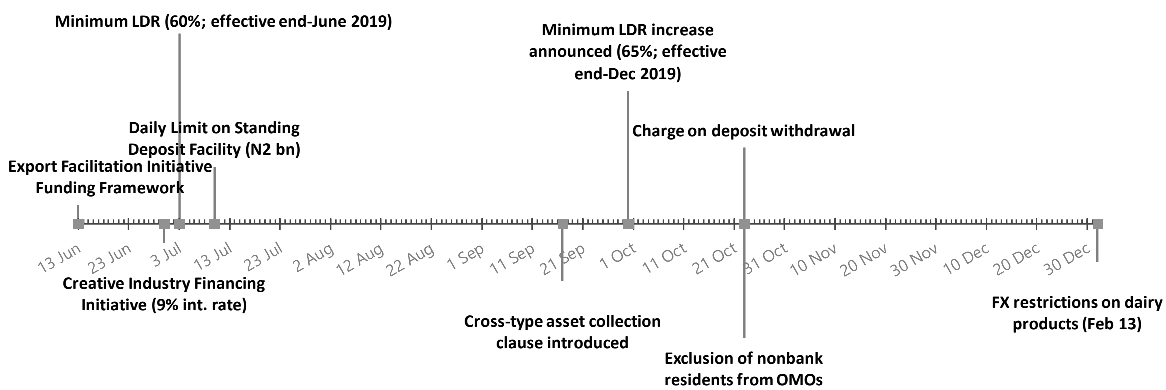
28. On financing, the authorities already frontloaded their domestic borrowing to take full advantage of cheaper yields, while additional borrowing would require a supplementary budget. They also recognize that current market conditions could postpone the issuance of the planned $3.3 billion Eurobond.

B. Monetary and Exchange Rate Policies: Towards Primacy of Price Stability

29. Monetary and exchange rate policies are complicated by parallel objectives and

heterodox instruments. The CBN's desire to prop up growth while keeping inflation in check, reserves high, and the exchange rate stable led to new regulations to address distortions of previous policy initiatives at a time where fiscal dominance prevails. Significant divergence of money market rates from the monetary policy rate (MPR) continues to reduce the relevance of the MPR as a policy instrument. Intensive use of discretionary CRRs obscures the monetary policy operational framework while the newly introduced LDR props up credit growth but undermines the liquidity absorption capacity of open market operations. Establishing the primacy of price stability, both though a clear communication strategy and more transparent and orthodox operational framework, would be needed to anchor inflation expectations toward CBN's target range.

Selective CBN Regulations/Announcements (2019-20)



Revamping the Monetary Policy Operational Framework and Tightening the Stance

30. High CBN financing of the government should be discontinued. The extensive use of overdrafts to finance the deficit hampers monetary policy as it necessitates costly mopping up of additional liquidity at an exorbitant interest rate (MPR + 300 basis points), while confirming market perception of fiscal dominance. It also raises concerns about the sustainability of the CBN's balance sheet with OMO costs in 2019 estimated at N1.9 trillion. These interventions—including quasi-fiscal activities into specific sectors—furthermore confuses the CBN's mandate and policy effectiveness and are better left to the fiscal authorities. The statutory limit on overdrafts (5 percent of the past year's revenue) should be strictly adhered to, while overdraft use should be limited to managing short-term liquidity management in line with the CBN Act.

31. Recent attempts to tighten monetary policy are welcome, with the current stance to be maintained through more orthodox tools. Rising inflation, high fiscal deficits, and possible capital outflows—particularly in view of falling oil prices—justify keeping real rates positive. While the recent 500 basis points CRR increase is welcome, the timing of "more orthodox" adjustments need to take account of the evolving COVID-19 situation and if inflation pressures reemerge. To that end, staff recommends:

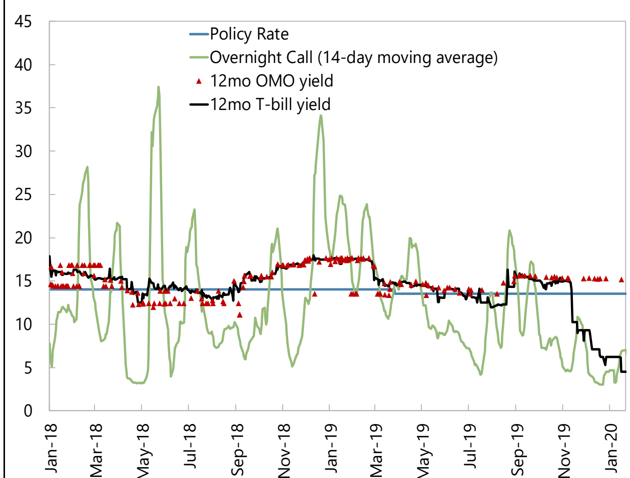
- **Aligning the monetary policy rate (MPR) with market rates.** To restore the credibility of the MPR, it would be important to have CBN mopping up operations and accompanying modalities geared towards aligning market rates—including overnight/T-bill rates—with the MPR (or at least within the CBN's interest rate corridor). Once the COVID-19 shock has passed, a higher MPR would be needed to help achieve the CBN's desired inflation rate (6-9 percent) and limit exchange rate pressures.

- **Raising the CRR**. Keeping the CRR asymmetric and resorting to additional discretionary CRR debits distorts banks' liquidity management practices and planning. These practices should be replaced by a higher and symmetrically applied CRR raised to at least the effective level in the system (34 percent), which would help achieve the same liquidity draining objective while keeping an even playing field across banks.

- **Introducing new liquidity instruments through securitization of overdrafts.** Securitizing the large stock of CBN overdrafts by long-term marketable bonds that can be used for additional liquidity management tools (text table) should be swiftly implemented. Coordination between the CBN and DMO on both the magnitude and timing of bond issuance is essential.

Policy and Overnight Interbank Rates

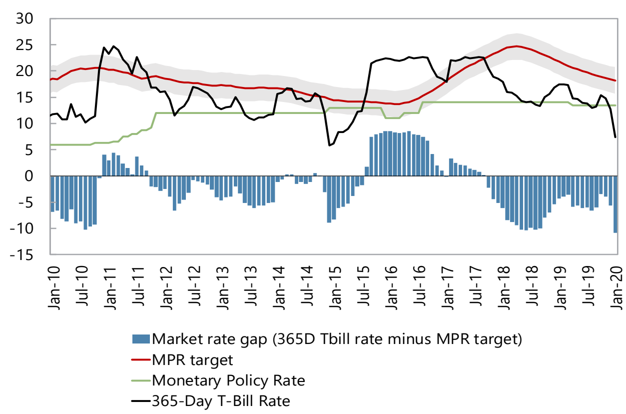
(Percent)



Source: Central Bank of Nigeria.

Indicative Monetary Policy Rate Target

(Percent, p.a.)1/ 2/



Sources: Central Bank of Nigeria; IMF staff estimates.
1/ Monetary Policy Rule represents an indicative Taylor rule with the deviation from inflation target and output gap assigned equal weights.
2/ Output gap is derived as the simple average of cyclical components derived by HP and BP filters on both actual data and staff projection.

Main Existing Liquidity Management Instruments

Tools	De-jure	De-facto
Monetary Policy Rate (MPR)	Reduced from 14 to 13.5 percent in March 2019	Little correlation or link with market interest rates; though some lending rates are linked
Overnight buy back rate	Set within MPR-5/+2 percent	Corridor not always adhered to
Cash Reserve Requirements (CRR)	27.5 percent of deposits	Effective CRR tends to be higher because of (i) non cash release when deposits fall and (ii) discretionary debits including for non-compliance of LDR
CBN bills	Had been open to all (including nonresidents) until October 2019, since when nonbank residents were excluded.	Same as de jure
Standing deposit Facility (SDF)	Placement limit reduced to N2 billion (Juy 2019)	Ineffective because of very tight limit

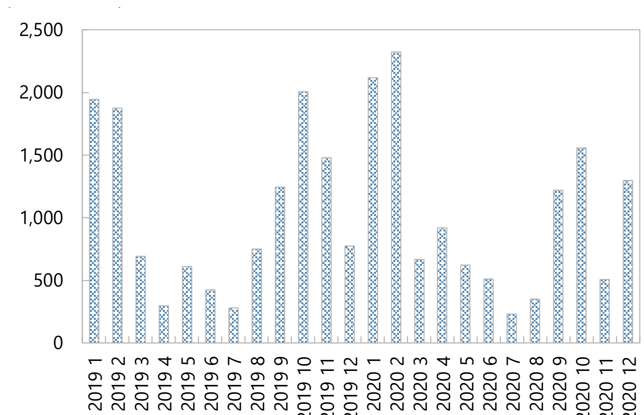
Sources: IMF and CBN

- **Progressively restoring the objective of OMO issuance strictly for liquidity management**. With the LDR requirement constraining banks' OMO purchases and non-banks excluded from the OMO market, the effectiveness of OMOs as a liquidity instrument has been reduced. These are now mostly purchased by foreigners (with no impact on naira liquidity). To ensure OMO issuance remains focused on liquidity management through banks, OMO tenors should be limited to shorter maturities (e.g., 14-30 days). Given the impact on non-resident holdings, the implementation of these changes should be carefully managed to avoid short-term adverse effects on reserves and investor confidence.

Authorities' Views

32. **The Central Bank noted that its primary mandate remains price stability that is conducive to growth.** They intend to contain inflationary pressures by absorbing liquidity through discretionary CRRs and using LDRs to allocate financial resources to the productive sectors—with a view to closing the output gap from the supply side. The authorities noted that securitization of government overdrafts is being negotiated and support the approach of using the new instruments to mop up liquidity from maturing OMOs. The CBN recognizes that some of its policies—e.g., to boost agriculture or meet power sector shortfalls—are outside its core mandate but feels these are necessary to help boost growth in priority sectors at a time of government financing constraints.

Maturity Profile of OMO Bills
(Millions of Naira)



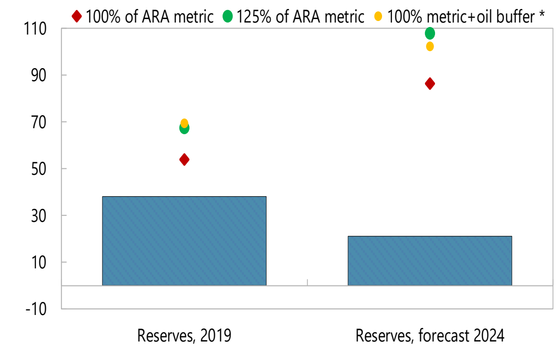
Source: Central Bank of Nigeria.

Moving Toward a Market-Based Exchange Rate

33. The shift to a persistent current account deficit and declining reserves has worsened Nigeria's external position. Staff's preliminary assessment is that the external position in 2019 was substantially weaker than implied by fundamentals and desirable policy settings, with an estimated current account gap of more than 4½ percent of GDP and a real effective exchange rate (REER) overvaluation of 6½ -20 percent. (Annex V). These vulnerabilities will likely remain and possibly intensify, in particular as robust bank lending may fuel import growth and if oil prices fall further.

Nigeria: Reserve Adequacy Measures

(Billion U.S. dollars)



* Oil price gap multiplied by oil exports, following 2016 ARA paper.
Sources: CBN, IMF staff estimate.

34. Moving towards a more flexible and unified exchange rate is essential to reduce external vulnerabilities and the exposure to short-term capital flows. This requires:

Exchange Rate Windows

Window	Participants	Current rate (N/$)	Level of liquidity
Rate applied to fuel	Fuel importers only	305	Depending on import volume
Official exchange rate	Only to maintain an official rate. Used for government spending and some oil revenue	306.5	Low liquidity, only $100,000 to banks daily
Rate used for budget revenues	Government/customs	325-326	Customs revenue and some foreign loans and oil revenues
Investors and Exports Windows (IEFX)	Investors, Exporters and all market players foreign and domestic	358-366	Average daily turnover of about $250 million
Retail Secondary Market Intervention Window	Local corporates, manufacturers	335-360	$250 million sold by the CBN every two weeks, spots and forwards
Wholesale Secondary Market Intervention window	Mostly large corporates through banks	355-360	$100 million a week sold by the CBN
Parallel rate, invisibles, travel	Open to all	358-360	

Sources: Central Bank of Nigeria, Standard Bank Research, FMDQ, and IMF estimates.

- **Letting the exchange rate depreciate when facing downward BOP pressures,** which is now more critical as pressures from the COVID-19 crisis are likely to intensify. This should be done both by allowing the various rates to converge towards the I&E rate and allowing the latter to move as necessary by limiting FX interventions to cases of excessive exchange rate fluctuations. A more unified exchange rate may help eliminate some of the existing Multiple Currency Practices (MCPs, see Informational Annex).

- **Developing market-based currency risk hedging instruments,** which would help reduce the risk to investors and increase FX inflows. Pricing should be done transparently and in a market-based manner, including for new FX futures products being crafted.

- **Removing all restrictions on access to FX for certain categories of goods** would help sustainably eliminate the parallel market premium, encourage long-term investment, and disincentivize smuggling. To better estimate its cost, staff encourages the authorities to conduct a full impact analysis of existing restrictions, including on customs revenue foregone and output.

35. Existing Capital Flow Management (CFM) measures should be gradually phased out with due regard to reserve adequacy and orderly macroeconomic adjustment, in line with the IMF's Institutional View on Liberalization and Management of Capital Flows.[1] In view of existing external pressures, additional CFM measures on outflows should only be introduced in imminent crisis situations, and not substitute for warranted macroeconomic adjustment, and as part of a broad policy package.

36. Phasing out of the border closure is necessary in view of its costs on Nigeria and neighboring countries. While it is important that the authorities take measures to combat smuggling, addressing the problem directly through stronger customs enforcement and by letting markets work (e.g., removal of fuel subsidies that cause cross-border fuel price differential) would be more efficient than closing the border, which has impacted negatively the economy. Moreover, it has negative spillovers to neighboring countries while undermining Nigeria's perceived commitment to AfCFTA and, more broadly, free trade.

Authorities' Views

37. The authorities were not convinced by staff's assessment of Nigeria's external position. They see the widening of the current account deficit as transitory and mainly reflecting imports of capital goods and a temporary terms-of-trade shock. They argue that exchange rate convergence has effectively been achieved as the remaining rates (e.g., SMIS retail and I&E) reflect differences in the timing of FX delivery, while only fuel product imports are paid at N/$305 rate. A move towards a fully unified exchange rate remains their objective, but they contend that a cautious approach is warranted as any announcement could potentially disrupt markets.

38. The authorities believe that measures to protect domestic industries from competing imports have been successful and expect further positive effects. The restriction on access to FX for 42 items is seen as successful in increasing domestic production and strengthening the competitiveness of targeted industries. They reiterated that the border closure—which will further foster domestic production—was put in place for smuggling and security reasons. It will be reconsidered once neighboring countries abide by ECOWAS trade protocols.

[1] Capital Flow Management Measures include the prohibition of FX purchases in the official market for foreign currency bond and equity instruments and payment limits on naira-denominated credit cards for overseas transactions.

C. Macro-Financial: Containing Banking Sector Risks

39. Pockets of vulnerabilities remain in the banking system. While the reported NPL ratio has declined, the doubtful (Stage 2) loans have picked up sharply in late 2019 to 20 percent of total loans, indicating the possibility of widespread loan restructuring. The rapid onboarding of retail clients in meeting the LDR target could also increase credit risk, while the interplay between the LDR and CRR policies has reduced banks' liquidity ratios and stable funding, which together with new caps on fees is likely to depress profitability. The system's solvency ratio—which is benefitting from IFRS 9 transitional arrangements—could also be at risk of receding further if profitability declines and risk-weighted assets increase after meeting the LDR target. CBN stress tests suggest that the banking system remains resilient to all but extreme shocks to credit quality but that buffers have declined compared to previous tests.

CBN Solvency Stress Test, at end-September 2019

	All Banks
Current Capital Adequacy Ratio	14.5
Post 50% NPL increase	11.9
Post 100% NPL increase	9.2
Post 200% NPL increase	3.1
Default on Oil and Gas (20%)	13.9
Default on Oil and Gas (50%)	10.6

Source: Central Bank of Nigeria

40. The CBN has continued to work on a number of initiatives to support banking sector resilience. Recent efforts to reduce legacy NPLs and prevent new ones—including through accelerated write-offs and the cross-bank asset collection clause—are welcome. Good progress has been made in lifting the CBN's stress testing approach to the next level (e.g. improving scenario design and credit risk modeling) and tracking more closely loan quality developments. A new early warning system and further enhancement of CBN's supervisory processes has also helped reinforce its move towards risk-based supervision. The establishment of a national financial system stability council is expected to help monitor systemic risks and enable macroprudential policymaking.

41. Additional measures are needed to reduce banking sector vulnerabilities and strengthening financial stability, notably by:

- **Removing the LDR,** in view of the shorter maturity structure, potential credit risk, and moderate impact on the real economy (Annex VI). The LDR policy also hampers monetary policy since banks face the conflicting objectives of absorbing OMO bills and increasing lending under the LDR.

- **Refining bank capital requirements and assessment of systemic risk**. In addition to introducing the Basel III Capital Conservation Buffer, the CBN should transition to a Pillar I plus approach where regulatory capital requirements are differentiated according to banks' risk management capacity. Off-site supervision should be further upgraded and the CBN's continued intensification of risk-based on-site inspections and strict enforcement of prudential requirements remains essential.

- **An asset quality review (AQR)** of large banks is still called for, given the magnitude of doubtful and restructured loans and uncertain collateral values**.** To keep abreast of credit risks from implementing the LDR policy, a supervisory review of bank lending practices and risk mitigants should be conducted and regularly monitored.

- **Developing macroprudential policy tools**. The authorities are encouraged to enhance macroprudential policy through analysis of available data (e.g., corporate leverage) and commence work on new macro prudential ratios (e.g., debt (service)-to-income ratio). The existing macroprudential loan-to-deposit ratio (different from the LDR which is a loan-to-funding ratio) should be re-established with a higher upper limit (e.g. 100 percent), considering that the LDR policy has pushed banks close to the existing but unenforced limit of 80 percent.

- **Phasing out regulatory forbearance**. CBN guidelines on reclassification of restructured loans should be aligned with international best practices and banks' net open positions in foreign currency breached on the back of the LDR requirement be kept strictly within the prudential limit.

- **Strengthening legacy asset workout and bank resolution**. The asset management company (AMCON) should be allowed to wind operations down by end-2023, which will require accelerating the sale of its remaining assets. Staff continues to urge the resolution of long-insolvent banks, whose undercapitalization implies a non-level playing field and promotes moral hazard. Enhancing the operation and legal frameworks— including by allowing powers to write down capital, override shareholders' rights, and amending bank liquidation framework— remain essential.

Authorities' Views

42. The CBN is monitoring banks' lending practices to ensure NPLs do not rise because of the new LDR regulation. It argues that the newly introduced cross-bank asset collection clause will help discourage borrowers from defaulting. It also does not believe an AQR is needed given significant overall improvement in banks' prudential ratios and internal stress test scenario results. The CBN believes banks' capital buffers are strong enough to absorb the impact of a full IFRS 9 implementation and plan to introduce differentiated minimum capital requirements based on risks.

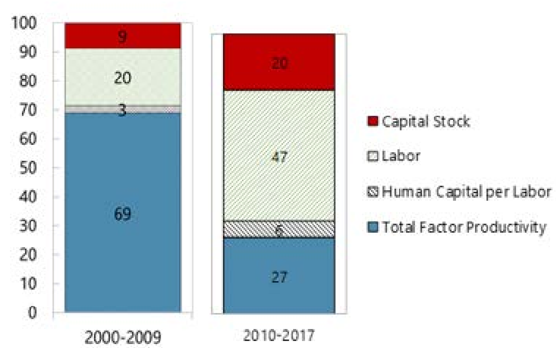
43. On the resolution framework, the CBN intervened in a failing bank in the recent past and would do so again if banks' recapitalization plans are not implemented appropriately. With regard to regulatory forbearance, the CBN does not believe a common deadline for its phasing-out is effective, as the balance sheet structure of banks differs. On the other hand, the CBN acknowledges the room for improving macroprudential instruments and off-site supervision of credit quality developments. As for AMCON, they agree that its current structure should be wound down by 2023 as planned, but with its recovery work continuing through some asset management department, possibly at the CBN.

D. Structural Reforms to Support Diversification and Inclusive Growth, and Achieve the SDGs

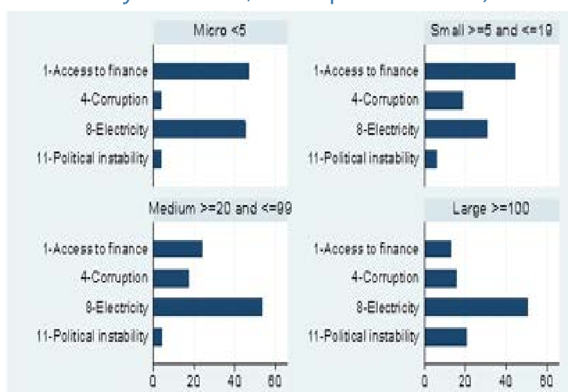
44. Nigeria's total factor productivity has been declining and limiting growth. Constraints include the infrastructure gap (35 percent of GDP relative to emerging market peers), actual and perceived levels of corruption and related money laundering, low human capital accumulation (Nigeria ranks among bottom six countries in education and health outcomes according to the World Bank's Human Capital Index) and limited access to finance (Figure 11).

Indicators of Growth, Constraints, and Development Outcomes

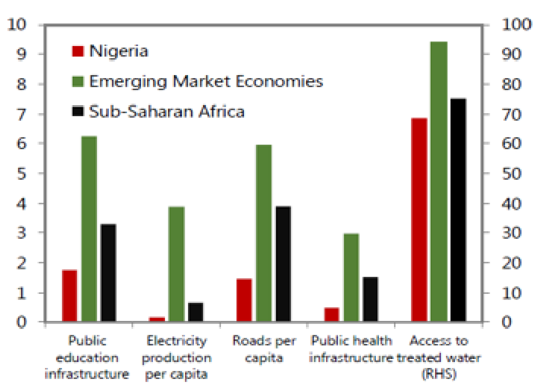
Contributions to Growth
(Percent of Real GDP Growth)



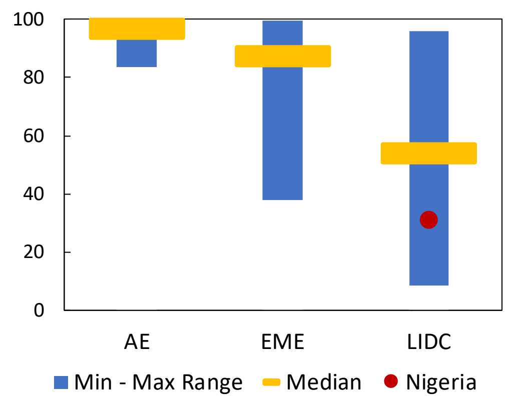
Top Obstacles to Firm Operations (In percent, by firm size, 2640 private firms)



Indicators of Public Infrastructure[1]



Education Outcome
(SDG4 Index, Max=100)



Sources: IMF and World Bank.

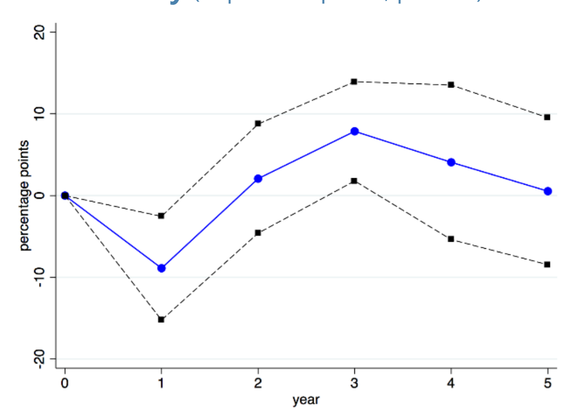
[1] Note: Left hand side: Public educaiton infrastructure (secondary teachers per 1,000 persons); electricity production per capita (thousands of kWh per person); roads (per capita as km per 1,000 persons; and public health infrastructure (hospital beds per 1,000 persons). Right hand axis: access to treated water (percent of population).

45. Rapid population expansion and climate change exposure also pose significant risks to growth (Selected Issues Papers). Increasing temperatures and precipitation in Nigeria are adversely impacting economic outcomes, requiring increasing use of climate change adaptation measures.

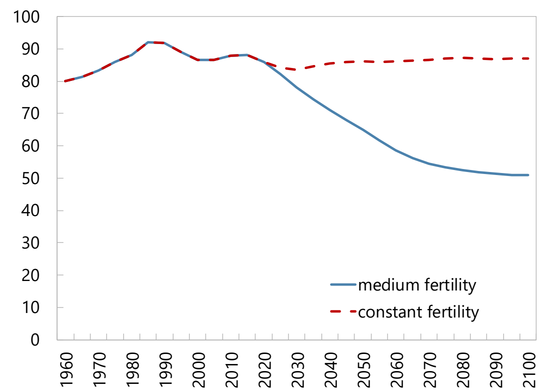
Rising demographic trends in Nigeria—where the youth account for more than half of the country's population—will increase pressure on social security and public service systems under current policies.

Climate and Demography Implications

Impact of Warmer Climate on Economic Activity (Impulse response, percent)[1]



Nigeria: Dependency Ratios [2]



Sources: IMF staff estimates, UN Population Division.

[1] Impact measured by response of night time lights to 0.5 degree temperature shock.

[2] Population younger than 15 or older than 64 as a percentage population aged 15-64. Medium fertility assumes median fertility and mortality based on the median of a probabilistic trends of these variables, while under the constant fertility assumptions further projections assume fertility levels as at the average of 2015-2020 in Nigeria.

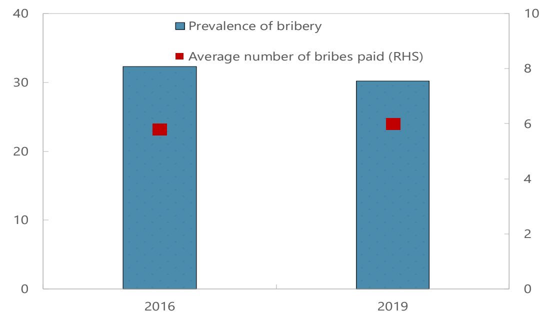
46. The implementation of the Economic Recovery and Growth Plan (ERGP) remains the main priority for the government to remedy existing structural weaknesses, including through the following welcome initiatives:

- *Doing Business*. Nigeria has climbed 38 places over the past three years to 131st in the World Bank Doing Business ranking, joining the ranks of the top ten reformers. Further welcome actions—some embodied in 60-day action plans—include a strategic focus on utilization of digital technology, reduction of regulatory processes, and "naming and shaming" non-reforming agencies. The recent adoption of the landmark Companied Allied Matters Act (CAMA) bill—which introduces a private sector insolvency framework—represents an important achievement for private sector development.

- *Fight against corruption*. Guided by the National Anti-Corruption Strategy, important steps were taken in combating corruption through: (i) a significant increase in the number of prosecutions by the Economic and Financial Crimes Commission, resulting in more convictions; (ii) regulatory amendments issued in October 2019 to bring Nigeria's AML/CFT regime into close alignment with the Financial Action Task Force (FATF) standard; and (iii) strengthening public information and data collection. Statistics showing fewer bribery payments over the past three years—notably for judiciary and customs—are encouraging, albeit they remain high.

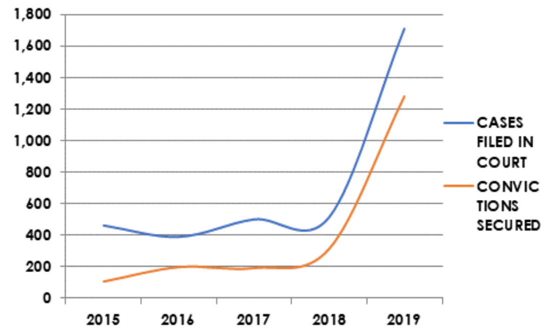
Experience with Bribery

(Percent, Cases)



Sources: National Bureau of Statistics; UNODC
Note: Prevalence represent the share of survey respondents who paid or were asked to pay bribes in the past 12 months.

Prosecution by Anti-corruption Body EFCC (Cases)



Source: Economic and Financial Crimes Commission.

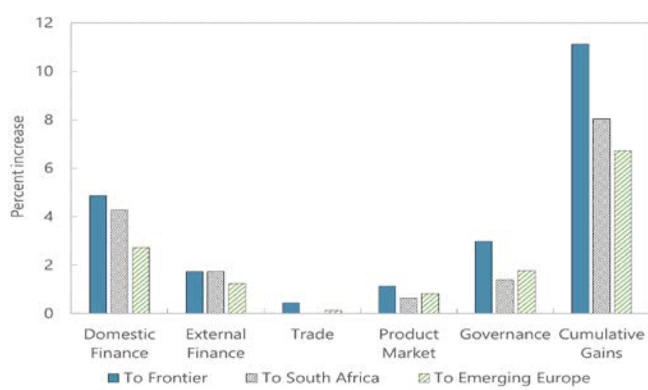
- *Financial inclusion*. Introduction of the shared agent network expansion facility, licensing of a national microfinance bank, and allowing Telcos to acquire license for mobile payments are all expected to help increase financial inclusion. However, with financial exclusion close to 37 percent, achieving the government's 2020 target of only 20 percent appears ambitious.

- *Climate change.* The authorities are advancing initiatives such as tree planting for job creation, disaster early warning systems, green bonds, and crafting of a climate change bill.

47. **The macroeconomic dividend from tackling structural weaknesses is significant**. Staff estimates that advancing reforms in various areas—such as domestic finance (financial access, stronger banking supervision), external finance (fewer restrictions), product market reforms (e.g., power sector), and governance to the level of Emerging Europe—could increase real GDP by almost 7 percent over 6 years (Annex IV). Reform benefits are even larger after accounting for gender, education, or climate change policies. Staff specifically recommends:

Structural Reforms and Economic Gains

(Over the next 6 Years)

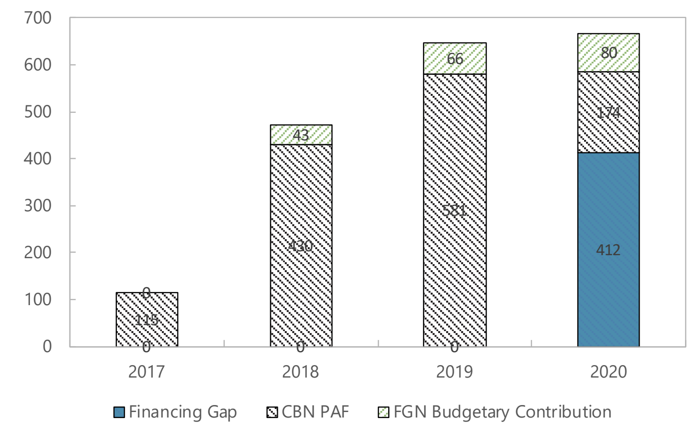


Sources: World Economic Outlook (October 2019) and IMF staff calculations.
Note: Bars represent the percent increase in aggregate output from a reduction in the corresponding friction. The five areas of structural reforms covers: trade (tariffs); domestic finance (credit and interest rate controls, entry barriers, public owernership, quality of supervision in the domestic financial system); external finance (capital account openness, encompassing regulations governing international transactions); product market regulation (stringency of regulations and public ownership in two large network industries—namely, electricity and telecommunications); and governance (World Governance Indicators).

- **Accelerating the implementation of the Power Sector Recovery Plan (PSRP)**. Staff welcomed the recent finalization of the PSRP financing plan—with buy-in from all stakeholders—which aims to fully fund and eventually eliminate electricity tariff shortfalls and resolve legacy debt. It called for its swift approval and implementation, including through: (i) a front-loaded transition to cost-reflective tariffs, (ii) monitoring of distribution companies' performance improvement plans, and (iii) increased metering. Further delays in tariff adjustments would worsen the sustainability of the sector—currently depending on a CBN financing facility—and delay much-needed private investments. Maintaining a lifeline tariff and ensuring additional transfer schemes would be essential to help cushion the impact of the tariff adjustment on the most vulnerable. Ensuring Ministries and department agencies continue paying their bills in a timely manner is also essential.

Tariff Shortfall Financing under No Reform/Tariff Adjustment Scenario

(Billion Nairas)



Sources: Nigerian authorities, World Bank, and IMF staff calculations

- **Pursuing business enabling reforms**—by reducing port congestion and improving clearance times—should continue. The reduction of nuisance taxes and the implementation of the CAMA bill remain urgent.

- **Implementing the revised Financial Inclusion strategy**. Staff estimates suggest that rapid reforms to increase access to finance will likely deliver the largest dividend to growth. To foster financial inclusion via fintech while managing attendant risks, the CBN should prioritize regulations for fintech firms in addition to creating a new, inexpensive license for these firms. Greater digitalization of cash payments, appropriate consumer guidelines and protection would also help promote greater inclusion while safeguarding client funds.

- **Mitigating the socio-economic impact of climate change**. The climate change bill—aimed at coordinating adaptation and mitigation actions of ministries—should be swiftly adopted. Reduction of fuel subsidies and increasing emission standards for vehicles should be considered. The authorities should also start integrating climate change risks into financial stability assessments.

- **Improving gender outcomes**, including through legislation (adoption of the Gender and Equal Opportunities Bill), and gender responsive health services, including through greater availability of family planning methods and investing in girls' education (CR/19/93). Doing so will enable

Nigeria to better address population pressures and harness the demographic dividend (Selected Issues Paper).

48. Strengthening anti-corruption and governance efforts is essential. In addition to broader governance reforms proposed elsewhere in this report to strengthen tax administration, central bank governance, FX policies, and public financial management, staff recommends:

- ***Stepping up Anti-Corruption efforts*** *through:* (i) parliamentary approval and swift implementation of the special crimes court; (ii) strengthening the role of the Federal Audit Board in combating corruption; (iii) making available the necessary resources—both staffing and funding—to all anti-corruption agencies; and (iv) amending the asset declaration legal framework to enable and ensure the publication, on-line, of declarations from high-level federal and state officials. The judiciary reform process should also address institutional weaknesses and respond to market needs, including through greater use of automated services (Selected Issues Paper). In addition, the government procurement process—which is a major governance weakness— could be further strengthened through full implementation of open contracting and better monitoring through better use of the public procurement database.

- ***Strengthening the AML/CFT regime*** *by*: (i) fully implementing the risk-based approach to AML/CFT supervision; (ii) conducting thematic inspections of banks and Bureaux de Change to ensure the full and consistent implementation of their politically-exposed person (PEP) related obligations; and (iii) ensuring the transparency of beneficial ownership of legal persons—including enactment of amendments to the CAMA bill. Greater communication to the public on institutional performance would also be helpful.

- ***Reforming the institutional structure of the petroleum sector***. The ongoing drafting of the Petroleum Industry Governance, Administration, and Host Communities Development Bill is welcome. The underpinning transparency principles and commercially-focused approach should be maintained. All revenue flows and transfers from the national oil company to the Federation account should be regularly published and monitored.

Authorities' Views

49. The authorities reiterated that their priorities are enshrined in the ERGP. While plans for an update have been initiated, they remain committed to ERGP implementation, including through enhancing road and port infrastructure, strengthening the business environment, and stepping up their anti-corruption efforts. They noted that they plan to submit the Petroleum Governance, Administration, and Host Communities Development Bill to the Assembly by May 2020, which would help improve governance in the sector. They stated that the soon-to-be adopted PSRP, which is expected to benefit from World Bank support, would help unlock much needed investment in the sector as it addresses both financing gaps and capacity constraints. They are confident that business-enabling reform is gaining strong momentum and will change investor perception as time passes. On climate change, they intend to focus on adaptation, and view "carbon emission/taxation" as a problem that must first be addressed by developed economies. The promotion of women's education, health and economic empowerment remains a government priority.

OTHER SURVEILLANCE ISSUES

50. Data provided to the Fund are assessed to be broadly adequate for surveillance. The recent improvement in the quality of monetary and financial statistics—including the adoption of SRF-based monetary statistics—is commendable. The recent completion of the National Household Living Standards Survey will help update poverty statistics, which are scheduled to be released in April 2020. Staff regrets the lack of funding that delayed the production of employment statistics, now expected later this year. Timely, uninterrupted production of key data is critical for continued credibility of statistics, which requires consistent and appropriate funding.

51. Capacity development is supporting the authorities' key policy objectives highlighted in Fund surveillance (Annex VII). There has been positive traction on public financial management, statistics and banking supervision. Traction on revenue mobilization has improved, with the implementation of the Finance Bill as well as revenue administration initiatives on taxpayer segmentation and registration included in the authorities' SRGI.

STAFF APPRAISAL

52. Nigeria's economic recovery was facing headwinds, even before the COVID-19 outbreak. Growth remains firmly below population growth, inflation is rising, the current account is deteriorating, and foreign reserves are falling. Increased regulatory risk, low tax revenue, fragmented exchange rate markets, and governance weaknesses are constraining growth and keeping human development outcomes weak.

The immediate outlook has deteriorated. The COVID-19 outbreak will lead to a significant growth deceleration in 2020. Over the medium term, under current policies, growth is expected to converge to 2 percent, keeping per capita growth negative in the absence of strong policy adjustment and structural reforms. Risks to the outlook are skewed downwards, mainly reflecting falling oil prices and production, a more severe outbreak of COVID-19, and further delays in reform implementation.

53. Recent government efforts to reduce vulnerabilities are welcome. In line with the government's Economic Recovery and Growth Plan (ERGP), the rise in the VAT rate, streamlining of tax procedures, progress in tax administration, advances in Doing Business, and recent tightening of monetary policy are steps in the right direction to address current challenges. However, the pace of reforms remains slow and need to be further aligned with the market-friendly objectives outlined in the authorities' ERGP.

54. Major and urgent policy adjustments are required to contain vulnerabilities, build resilience, and unlock growth potential. The COVID-19 outbreak requires fiscal accommodation of the temporary shock, while revenue-based fiscal consolidation should be resumed as soon as the outbreak is contained to ensure sharply-rising central bank financing is eliminated. This fiscal policy response should be closely coordinated with maintaining the current monetary policy stance and a unified and flexible exchange rate that keeps inflation contained and reduces external vulnerabilities. A stronger banking system and wide-ranging structural reforms—including to strengthen governance and the power sector—would be needed to support private sector development, achieve SDGs, and create jobs.

55. **Medium-term revenue-based fiscal consolidation is essential. Staff welcomes recent steps taken to increase revenue and supports the authorities' plans for further fiscal consolidation over the medium term.** A renewed push for non-oil revenue mobilization, which remains amongst the lowest in the world, would require further VAT rate increases, additional excises, and removal of tax exemptions. Eliminating the CBN's financing of the deficit would require shifting the overall consolidated government fiscal deficit to a small surplus by 2025, providing space to increase priority spending, contain the interest payments to revenue ratio to about one-third, and raise private sector credit. The new petroleum fiscal legislation should carefully balance the government's revenue objective with the viability of investment in the oil industry.

56. **Shifting the expenditure mix towards priority areas is critical to achieve the SDGs, contain COVID-19 impact, and pursue diversification**. The high level of capital budget execution is welcome, but meeting the SDGs in education, health, roads, electricity and water sanitation would require an additional 18 percentage points of GDP by 2030—an ambitious objective that would necessitate greater private sector participation and a more gradual and strategic approach to delivering SDGs. Potential savings from removing fuel subsidies or adjusting electricity tariffs are substantial and could be spent to expand targeted social programs and health and educational expenditure—including to contain the COVID-19 outbreak. Public investment efficiency should also be enhanced.

57. **Public financial and debt management should continue to be strengthened.** The implementation of bottom-up cash planning and Treasury Single Account (TSA) e-collection are welcome but more effective use of the TSA is critical. The decision to move towards securitizing central bank overdrafts and more comprehensive coverage of debt is welcome.

58. **Recent tightening of the monetary policy is welcome but maintaining the stance should be done through more orthodox tools.** Rising inflation, high fiscal deficits, and possible capital outflows justify keeping real rates positive. While the recent CRR increase is welcome, the timing of more adjustments—which should be done in a more orthodox way—would need to take account of the evolving COVID-19 situation. Aligning market rates within the CBN's interest rate corridor, raising a symmetrically applied CRR, and introducing new liquidity instruments would enhance the monetary policy framework. CBN financing of the government—including the quasi-fiscal activities into specific sectors—should be ended as it complicates monetary policy and is better left to the fiscal authorities. Over time, OMO tenors should be limited to short maturities to restore the primacy of their liquidity management objective.

59. **Moving towards a unified market-based exchange rate is essential to reduce vulnerabilities.** Nigeria's external position was substantially weaker in 2019 than implied by medium-term fundamentals and desirable policies. The exchange rate unification should continue

by allowing the various rates converge towards the I&E rate and allowing the latter move as necessary by limiting FX interventions to cases of excessive exchange rate fluctuations. Staff regrets the introduction of new restrictions on access to FX and calls for their removal to remove distortions and promote long-term investment. Smuggling can be curtailed more effectively by stronger customs enforcement and by letting markets work (e.g., removing fuel subsidies) than by closing the border, which generates significant economic costs. CFM measures should be gradually phased out with due regard to reserve adequacy and orderly macroeconomic adjustment.

60. Banking sector resilience should be strengthened further. Improved NPL ratios and high profitability are welcome. However, a high prevalence of doubtful loans and regulatory pressures on profitability and asset quality are increasing risks. This needs to be addressed by removing the new LDR policy, introducing differentiated risk-based minimum capital requirements, conducting an asset quality review of large banks, and phasing out regulatory forbearance. Macroprudential policy tools should continue to be developed and the resolution framework strengthened.

61. Sustainably boosting inclusive growth requires bold actions on structural policy. Expeditious approval and full implementation of the government's PSRP financing plan, reinforcing business climate reforms, strengthening the institutional structure of the petroleum industry, building on gains from anti-corruption and governance efforts, and fostering greater financial inclusion—all priorities under the ERGP—remain essential to increase human and physical capital and boost productivity. Higher resources for education and health—as well as adaptation and mitigation measures for climate change—are also required.

62. Staff does not support the exchange measures that have given rise to the exchange restrictions and multiple currency practices. In the absence of a clear timetable for their removal, staff is not in a position to recommend approval of the exchange restrictions and MCPs. Staff urges the authorities to articulate a speedy and monitorable strategy for their removal to help strengthen the functioning of the foreign exchange market and allow further convergence of the multiple exchange rates.

63. The quality and availability of economic statistics continue to improve, including through technical assistance. Efforts should continue to strengthen data quality further. Staff regrets the delay in producing the latest employment data and urges regular funding to the statistical agency to ensure uninterrupted and regular publication of statistics.

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

Proposed Decision

The Executive Board endorses the thrust of the staff appraisal in the report for the 2020 Article IV consultation with Nigeria (SM/20/70, 03/17/20.)

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

Adjustment Scenario: Selected Economic and Financial Indicators, 2017–25 (Annex IV)

	2017	2018	2019	2020	2021	2022	2023	2024	2025
		Est.			Projections				
Real GDP (at 2010 market prices)	0.8	1.9	2.3	1.3	3.1	3.6	4.0	4.5	4.5
non-oil, non agriculture real GDP	-0.6	2.0	1.8	0.8	2.7	3.8	4.2	5.0	5.0
Consumer price index (annual average)	16.5	12.1	11.4	12.8	11.5	10.8	9.2	7.9	7.2
Current account balance (percent of GDP)	2.8	1.3	-2.5	-2.9	-1.9	-1.6	-1.0	-0.4	0.0
Gross international reserves (US$ billions)	39.8	43.6	38.1	34.1	39.2	46.7	58.3	73.7	90.7
(equivalent months of imports of G&Ss)	6.7	5.6	5.0	4.3	4.4	5.0	5.9	6.8	7.6

Sources: Authorities; and IMF staff estimates and projections.

A. Fiscal Policy: Mobilizing Revenue and Creating Space for Priority Spending

18. New legislation helps improve budget execution and revenue mobilization. The on-time adoption (first time since 2012) and more realistic assumptions than in the past—including through less reliance on divestment proceeds from oil joint ventures—add credibility to the 2020 budget appropriation bill. New legislation—such as the Finance Bill, which increases the VAT rate, removes superfluous provisions (e.g., excess profit tax), and broadens existing excises to imported goods—is expected to increase revenue by an additional 0.5 percent of GDP. The adoption of the Deep Offshore and Inland Basin Act Amendment (DOA) is expected to add an additional 0.1 percent of GDP though higher oil royalties.

19. Despite more realistic assumptions, the 2020 budget deficit is likely to be larger than budgeted, reflecting both the COVID-19 impact and some remaining optimistic budget projections. The direct impact of COVID-19, mainly through lower oil prices and reduced economic activity, is lowering FG revenue by 0.4 percent of GDP (GG revenue lower by 0.7 percent of GDP) relative to the budgeted oil price scenario. In addition to that, staff projects lower-than budgeted revenue from: (i) oil (1 percent of GDP) due to weaker production assumptions and concerns that proceeds from oil bidding licenses are likely to materialize with a delay and only after fiscal terms are clarified; and (ii) lower yields from stamp duties and customs revenue, in line with past performance. Provisions for recurrent spending should be higher to account for non-budgeted electricity subsidies (0.4 percent in the absence of new electricity tariffs) and arrears

Nigeria: Federal Government: MTEF vs. Projections (Percent of GDP)

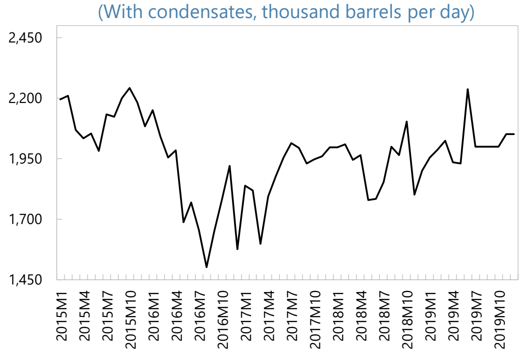
	2019 Est.[1]	2020 Budget	2020 Proj.
Total revenue and grants [1]	2.8	4.6	2.7
Oil revenue	1.5	2.3	1.2
Of which: Signature bonus	0.2	0.6	0.2
Non-oil revenue	1.3	2.1	1.5
Import and excise duties	0.3	0.4	0.3
Companies' income tax	0.5	0.5	0.5
Value-added tax	0.1	0.2	0.2
Federal government independent revenue	0.4	1.0	0.5
o.w. stamp duty on eletronic transactions		0.3	0.1
o.w. domestic recoveries		0.1	0.0
Grants	0.0	0.0	0.0
Other [2]		0.1	
Total expenditure [3]	7.6	6.2	7.4
Recurrent expenditure	6.1	4.8	6.0
Personnel and pension	1.8	2.1	2.1
Overheads	0.8	0.7	0.7
Interest	1.7	1.5	1.9
Transfers and other expenditures	1.4	0.4	1.0
of which electricity subsidies	0.4	0.1	0.4
Arrears clearance	0.5		0.3
Capital expenditure	1.4	1.4	1.4
Overall balance	-4.8	-1.7	-4.7
Memo: Price of Nigerian Oil (US$ per barrel)	64.0	57.0	52.9

Sources: Nigerian authorities; and IMF staff estimates and projections.
[1]Excludes revenues from government-owned entities (GOE) and special accounts.
[2]Includes exchange rate differentials.
[3]Excludes GOE spending.

Figure 1. Nigeria: Real Sector Developments

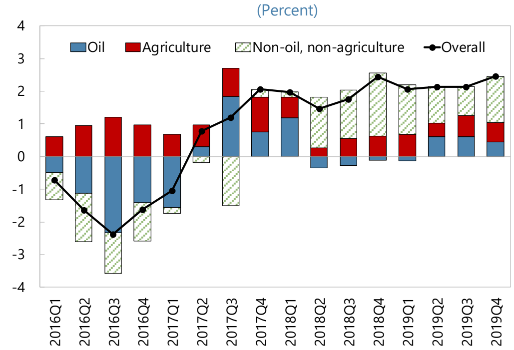
Oil production averaged 2mbpd in 2019 resulting in a 4.6 percent expansion in the sector…

Oil Production
(With condensates, thousand barrels per day)



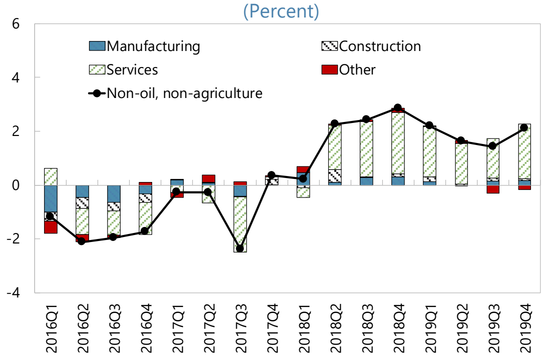
… which has compensated for a weaker than expected performance in non-oil sectors …

Real GDP Growth: Supply Side Decomposition
(Percent)



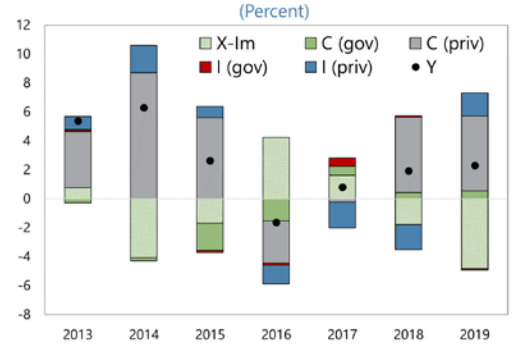
… whose growth remained at or below 2 percent through 2019.

Non-oil Non-agriculture Growth and Decomposition
(Percent)



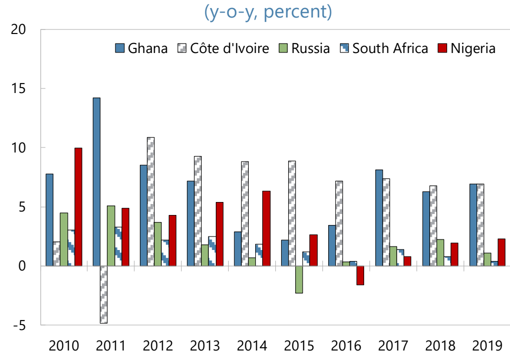
External sector is dampening growth, driven by increasing imports.

Real GDP Growth: Demand Side Decomposition
(Percent)



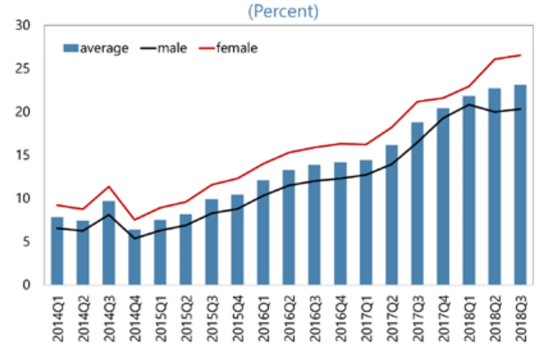
Growth remains well below comparator EM and frontier commodity exporters in the region…

Selected Frontier and Emerging Markets: Real GDP Growth
(y-o-y, percent)



…while unemployment has been high (new employment data is expected in Q2 2020).

Unemployment Rate, 2014-18Q3
(Percent)

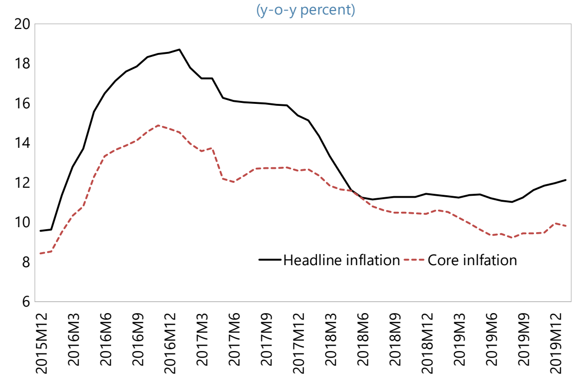


Sources: Central Bank of Nigeria, National Bureau of Statistics, Nigerian National Petroleum Corporation, World Economic Outlook and IMF staff calculations

Figure 2. Nigeria: Inflation and Monetary Sector Developments

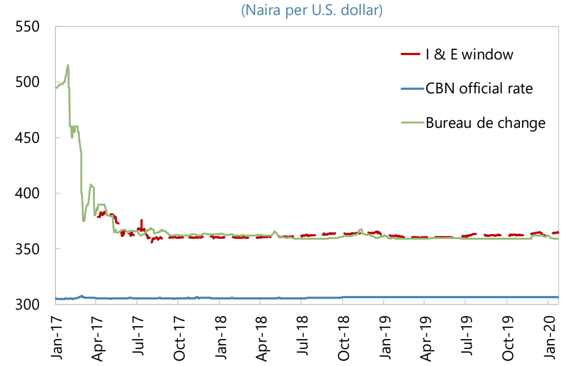
Headline inflation has risen to 12.2 percent, its highest level since June 2018…

Nigeria: Consumer Price Inflation
(y-o-y percent)

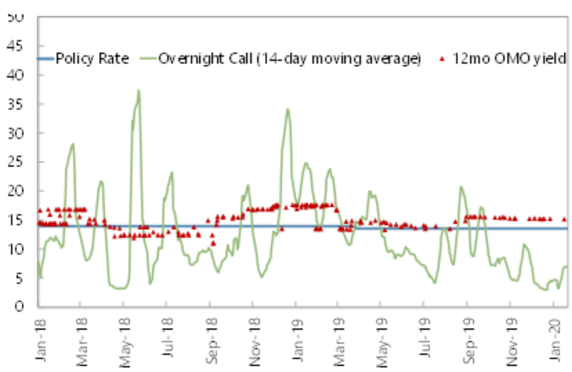


…while the nominal exchange rate has remained relatively stable since 2017.

Exchange Rates
(Naira per U.S. dollar)

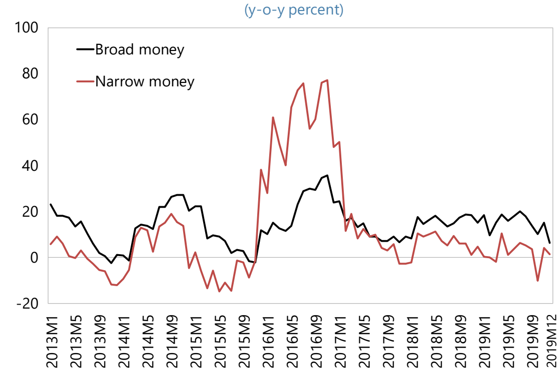


Amid continued divergence between market interest rates signaling inconsistent monetary policy, recent restriction on access to OMOs is distorting price signals…



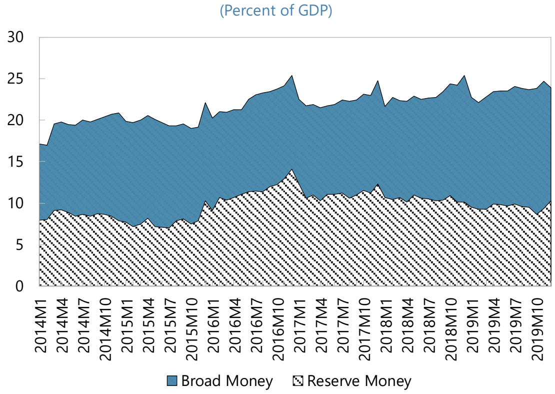
…although growth in monetary aggregates remains contained.

Monetary Growth
(y-o-y percent)



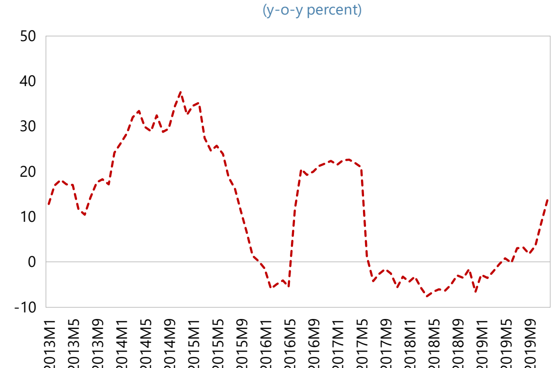
Broad money's share in GDP gradually rises reflecting financial deepening…

Broad Money and Reserve Money
(Percent of GDP)



…with credit growth slowly picking up on the back of credit regulations.

Private Sector Credit Growth
(y-o-y percent)

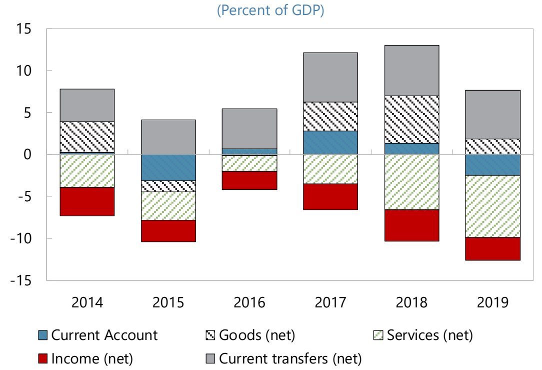


Sources: Central Bank of Nigeria and Bloomberg.

Figure 3. Nigeria: External Sector Developments

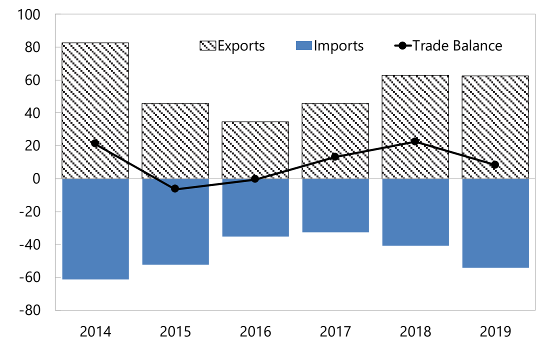
The current account balance is turning negative…

Current Account
(Percent of GDP)



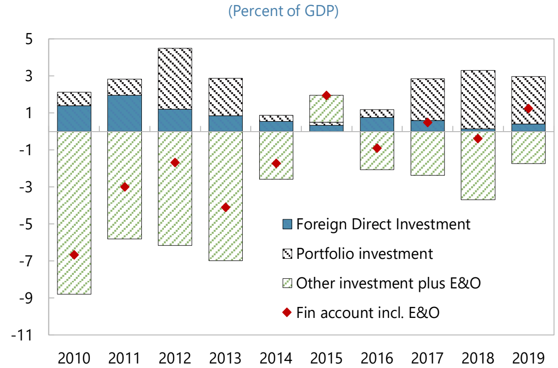
…as exports weaken and imports grow.

Trade Balance
(Billions of U.S. dollars)



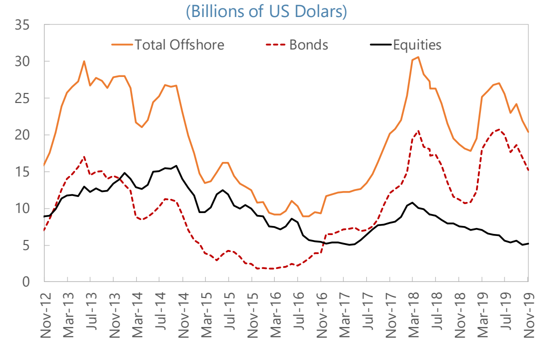
FDIs have increased but are still low, while errors and omissions are large…

Financial Account (Net)
(Percent of GDP)



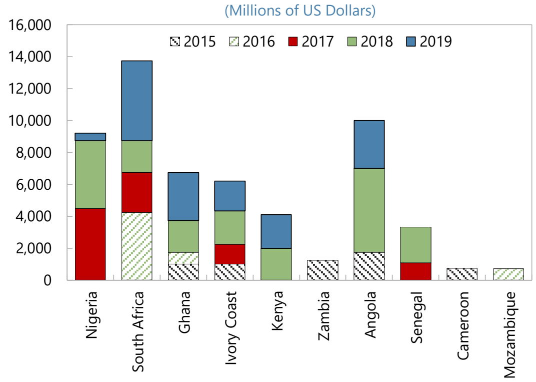
…and the stock of foreign holdings of portfolio investment is declining.

Portfolio Investment Stock
(Billions of US Dolars)



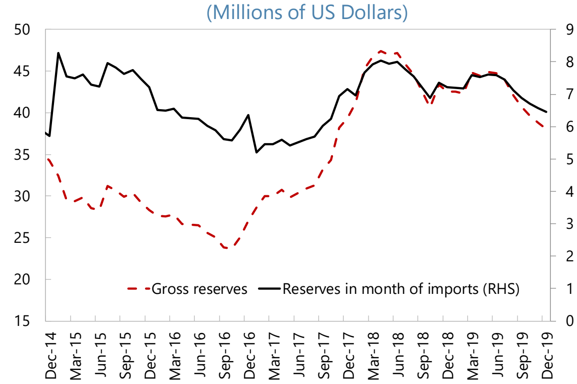
…while Eurobond issuance was minimal in 2019.

Sub-Saharan Africa Bond Issuance[1,2]
(Millions of US Dollars)



International reserves have declined after a rebound earlier in 2019.

International Reserves
(Millions of US Dollars)

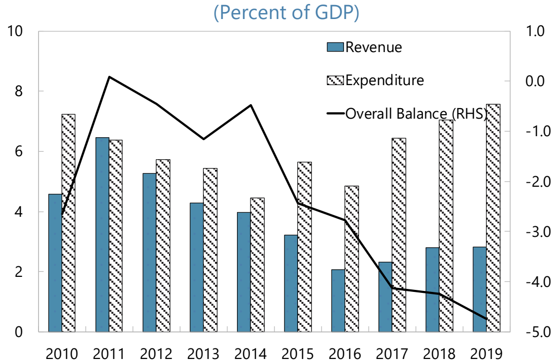


Sources: Central Bank of Nigeria, Standard Bank research, and IMF staff calculations.
[1]Excludes Issuances by Ivory Coast and South Africa in Euro, in 2017 (Euro 625mn) and 2014 (Euro 500mn), respectively.
[2]2019 includes issuances up to November.

Figure 4. Nigeria: Fiscal Sector Developments

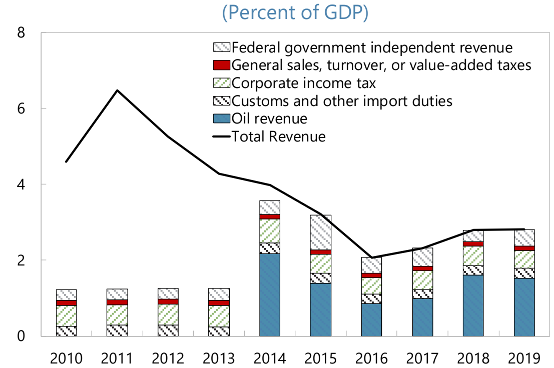
Low revenue mobilization has kept the deficit high…

Federal Government Fiscal Aggregates
(Percent of GDP)



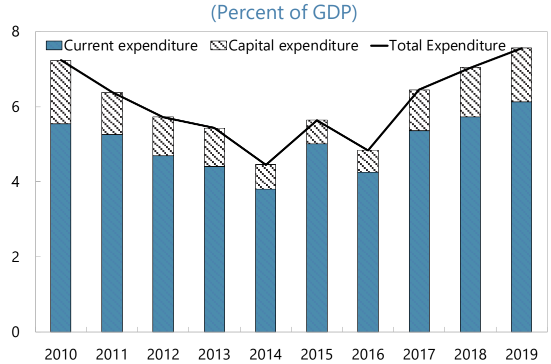
…worsened by a dip in oil revenues within a highly undiversified revenue base.

Total Federal Government Revenue and Decomposition
(Percent of GDP)



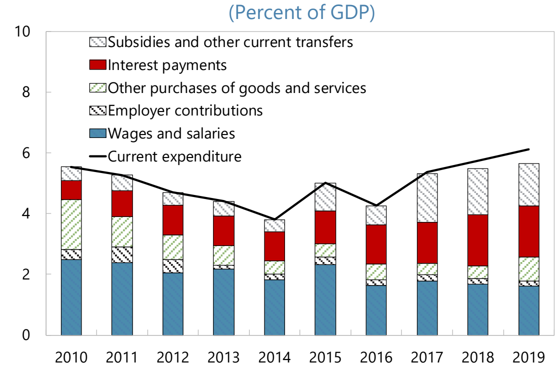
Expenditures remain low overall and largely driven by recurrent expenditures…

Total Federal Government Expenditure and Decomposition
(Percent of GDP)



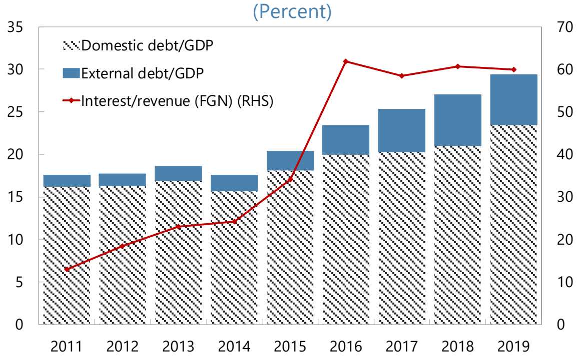
… which are driven mainly by the interest and wage bill.

Current Expenditure and Decomposition
(Percent of GDP)



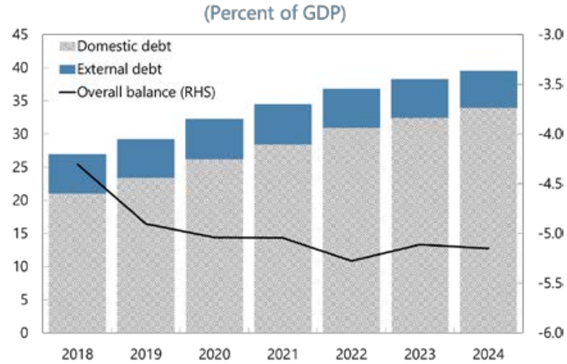
The debt-to-GDP ratio is low but rising, with interest payments absorbing a significant share of revenues.

Debt-to-GDP and Interest-to-Revenue Ratios, 2011-19
(Percent)



Under current policies, the general government fiscal deficit is projected to remain high over the medium term.

Overall Balance and Debt, 2018-24
(Percent of GDP)

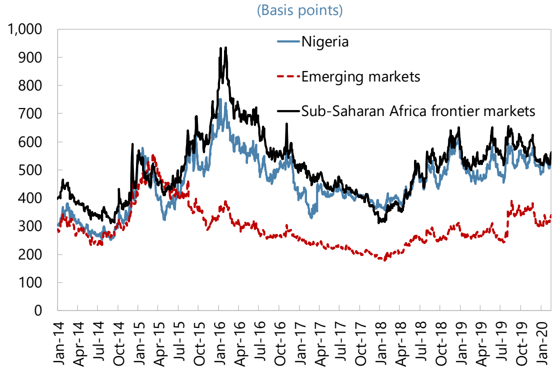


Sources: Central Bank of Nigeria, Debt Management Office, and IMF staff calculations.

Figure 5. Nigeria: Financial Sector Developments

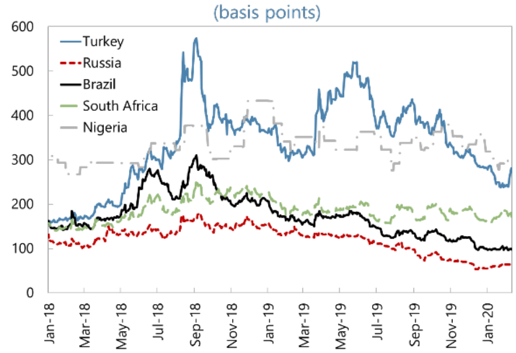
External financing conditions have been tightening since 2018 while…

Sovereign Bond Spreads
(Basis points)



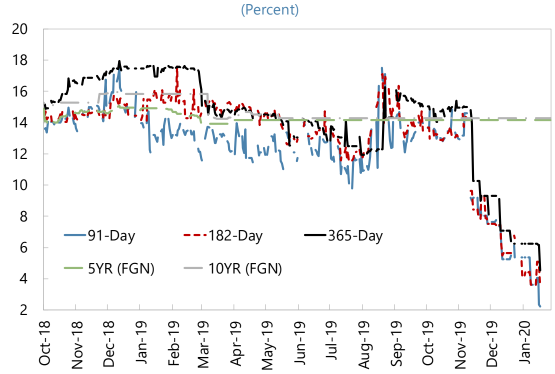
CDS spreads that had risen in many EMs have levelled off, including in Nigeria since 2019.

CDS Spreads
(basis points)



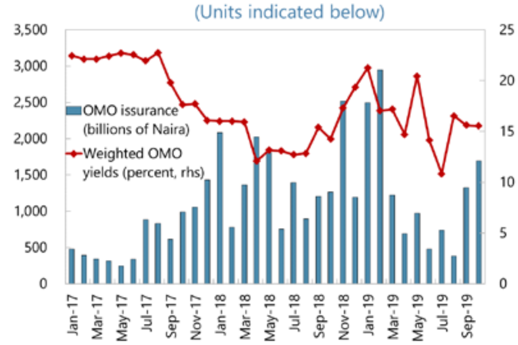
Domestic yields have fallen upon the new LDR regulation and CBN's decision to bar non-banks from buying its bills.

Treasury Bill and Bond Yields
(Percent)



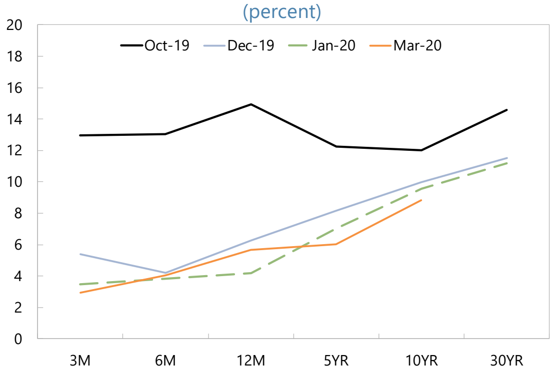
CBN bills sales have picked up again as one-year bills matured, and yields have stabilized at an elevated level.

Open Market Operations
(Units indicated below)



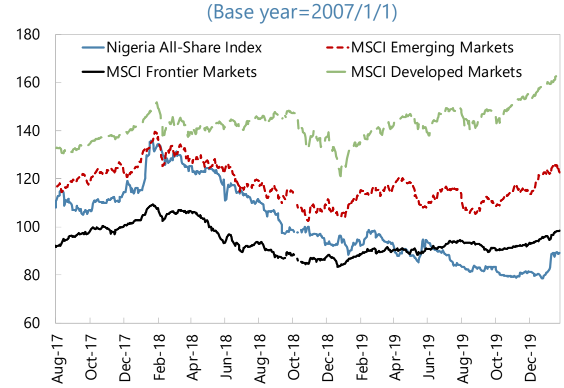
The yield curve has steepened at short maturities this year.

Domestic Yield Curves
(percent)



Contrary to emerging market trends, the stock market has been underperforming over the past six months.

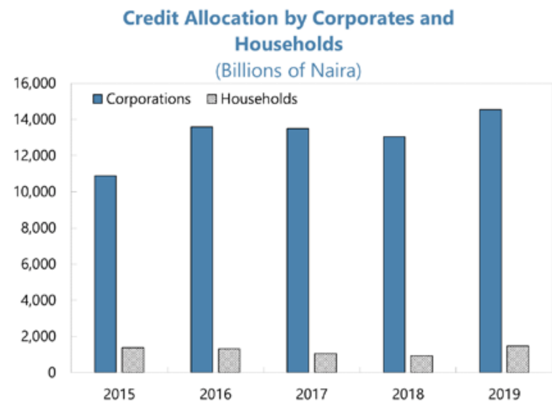
Equity Price Developments
(Base year=2007/1/1)



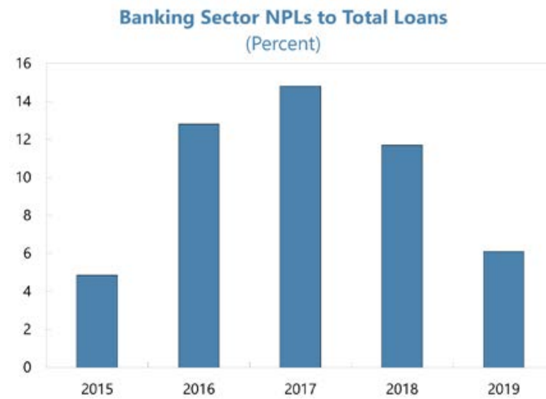
Sources: Bloomberg, Central Bank of Nigeria, and IMF staff calculations.

Figure 6. Nigeria: Banking Sector Developments

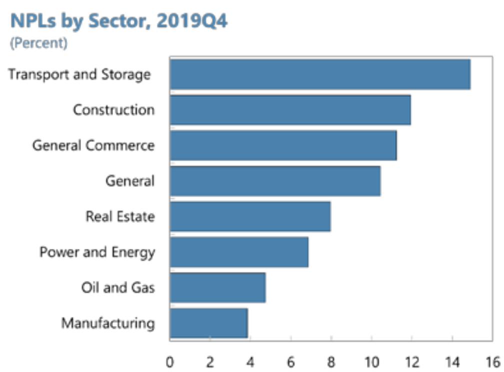
Credit to both corporates and households has rebounded mainly due to the LDR regulation.



NPLs have continued to drop but doubtful loans are possibly higher due to widespread restructuring…

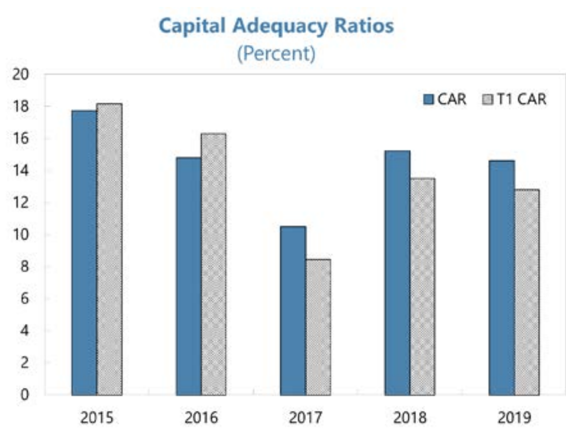


…and several sectors still show high NPL ratios.

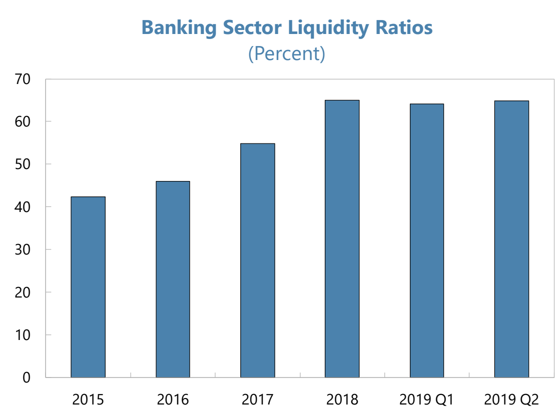


Profitability has improved somewhat as banks' CBN bill volume and yields remained high and fee income rose.

Solvency ratios have remained stable as the economy recovered…



…while liquidity has been gradually decreasing in line with liquidity absorption under LDR and OMO policies.

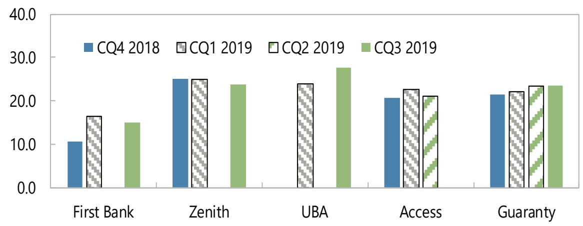


Sources: Central Bank of Nigeria and Financial Soundness Indicators.

Figure 7. Nigeria: Performance of the Five Largest Banks

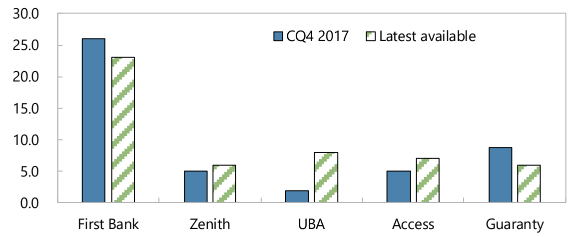
Capital buffers remain above the prudential requirement of 15 percent for the largest banks—suggesting they would be able to absorb shocks despite a large concentration ratio

Capital Adequacy Ratio
(Percent)



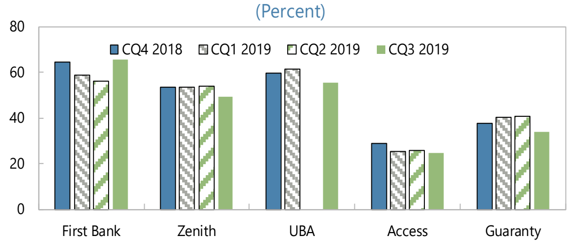
First Bank—the largest bank by assets—saw an improvement in its NPLs— which remained 5 times higher than other large banks.

Non-Performing Loans to Total Loans
(Percent)



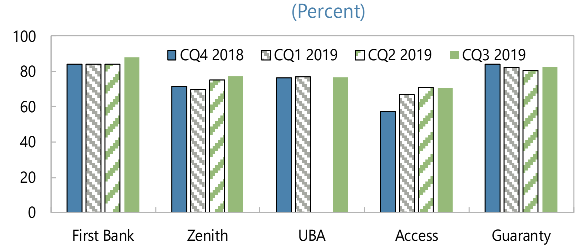
Banks' liquidity resilience remains strong, helped also by the CBN's high cash reserve ratio (with the exception of two banks).

Liquid Assets to Total Assets
(Percent)



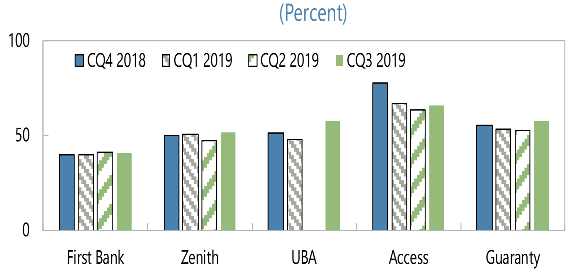
Deposits remain the main source of funding. Interest bearing deposits, including time deposits, decreased representing around 37 percent of total liabilities in Q3 2019 as opposed to 42 percent in Q4 2018.

Deposits to Total Liabilities
(Percent)



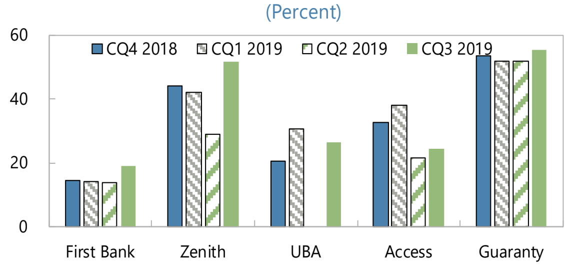
The loan to deposit ratio has recently picked up, reflecting the impact of the LDR ratio regulation…

Loans to Deposit
(Percent)



Interest income contributes to the bulk of profits. Commission and fees, however, remain important contributing to more than 24 percent of the five largest banks' total revenue and gaining momentum since the end of 2018.

Profit Margin: Net Income to Revenue
(Percent)



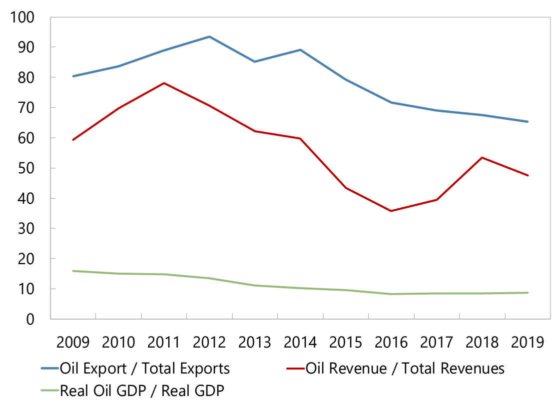
Sources: Bloomberg and IMF staff calculations.

Figure 8. Nigeria: Diversification

Nigeria's exports and fiscal revenues are highly dependent on oil.

Share of Oil in Different Aggregates

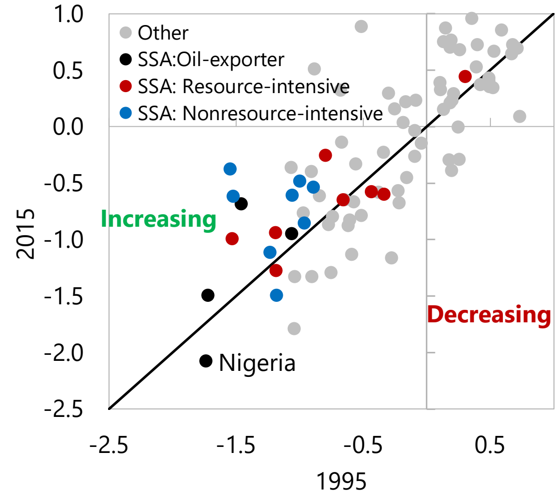
(Percent)



Export complexity has been decreasing over the past two decades.

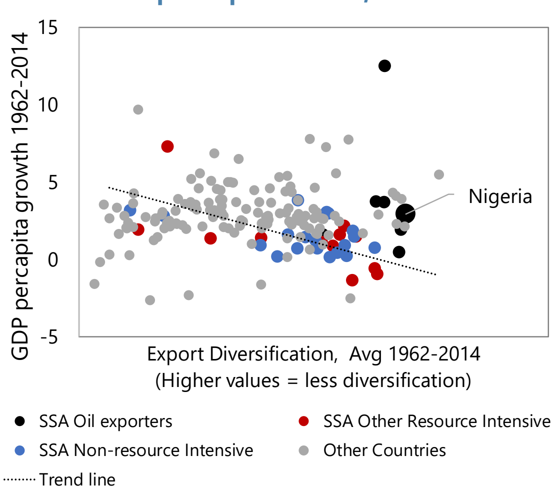
Export Complexity Index

(Higher Values = Higher Complexity)



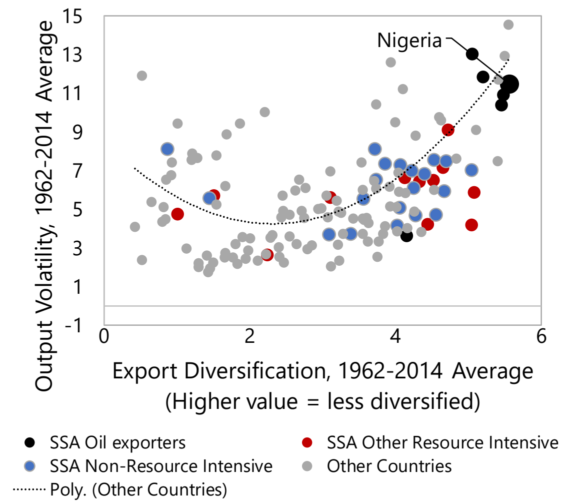
Stronger export diversification could boost growth…

Export Diversification and Real GDP per Capita Growth, 1962-2014



… and reduce output volatility.

Export Diversification and Output Volatility, 1962-2014

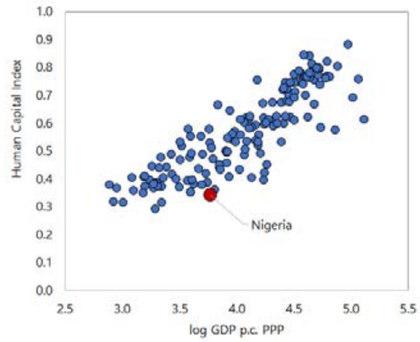


Source: IMF (2019).

Figure 9. Nigeria: Human Development Indicators

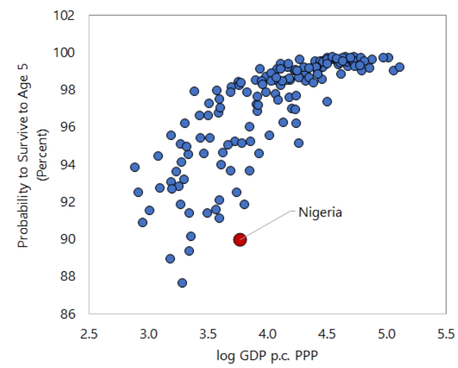
Human capital outcomes in Nigeria have been weak in absolute terms and compared to peers…

GDP per Capita (PPP) and Human Capital Index



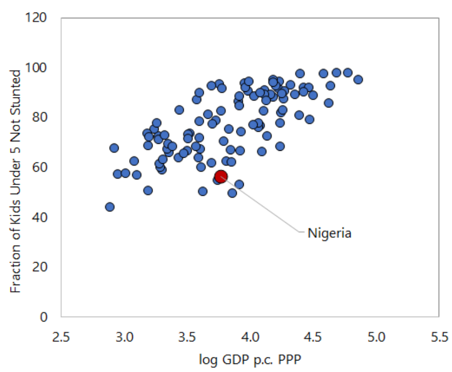
…with child mortality among the highest worldwide…

GDP per Capita (PPP) and Child Mortality



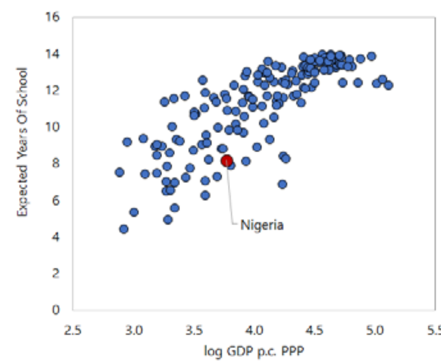
…and almost half of kids suffering from stunting.

GDP per Capita (PPP) and Stunting



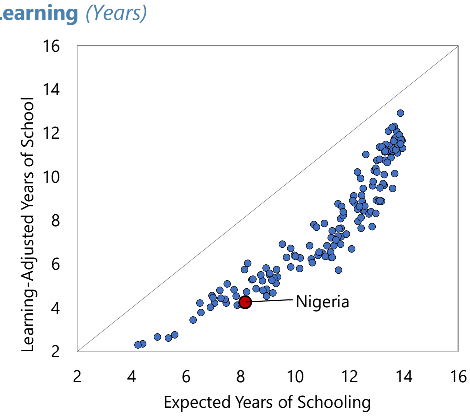
Expected education is lagging behind peers…

GDP per Capita (PPP) and Years of Education



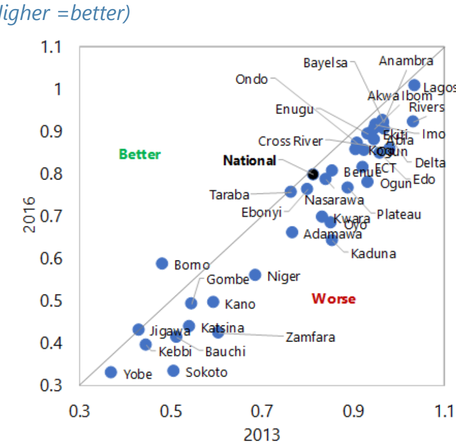
…and the quality at which it is provided is relatively poor.

Expected Years of Education and Quality Adjusted Years of Learning *(Years)*



Education varies strongly across states.

Education Index
(Higher =better)

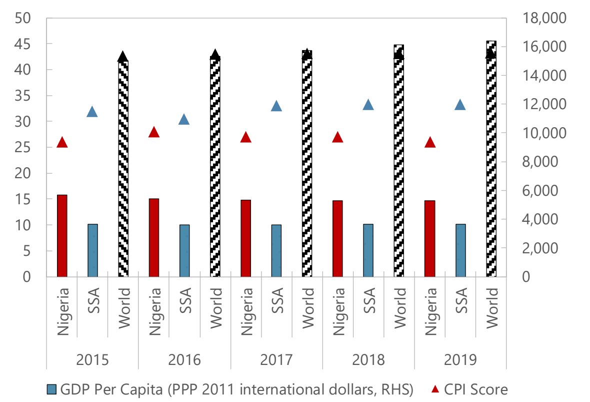


Sources: Nigeria National Bureau of Statistics; World Bank Human Capital Project.

Figure 10. Nigeria: Governance and Transparency

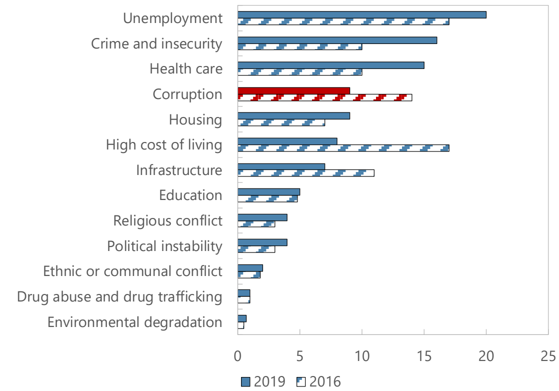
Nigeria is perceived as one of the more corrupt countries in the region…

GDP per Capita and Perception of Corruption[1]



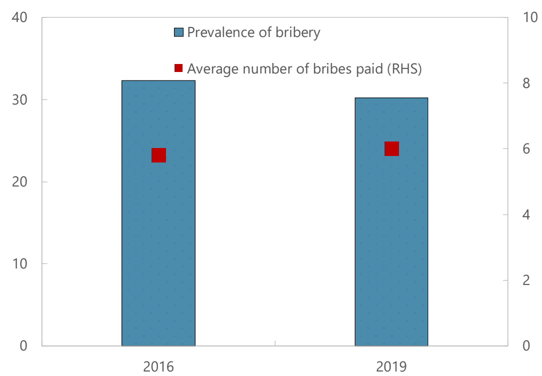
…and the population is considering it one of the most pressing issues for the country, albeit slightly less important in 2019 than three years ago.

Share of Population Considering Selected Issues to be the Most Important Problem Affecting Nigeria (Percent)



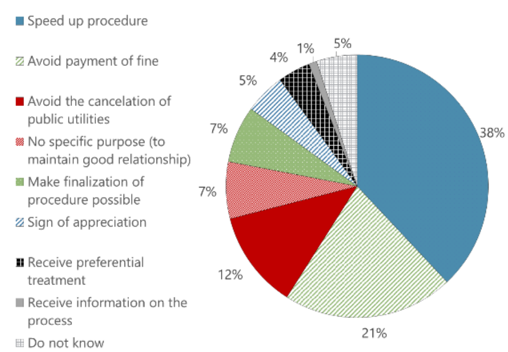
About a third of Nigerians paid or were asked to pay bribes in the past 12 months by public officials they contacted, just slightly better than in 2016….

Experience with Bribery (Percent)



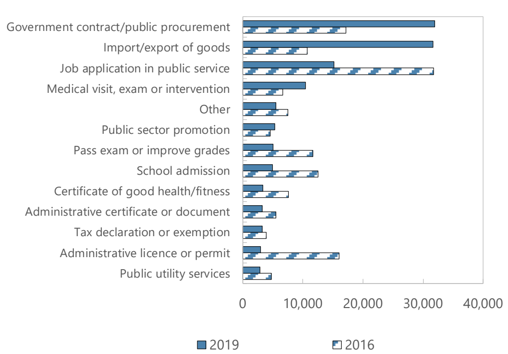
…and have paid it often to speed up or finalize procedures, and to avoid fines or utility disconnection…

Reasons for Paying the Bribe (Percent)



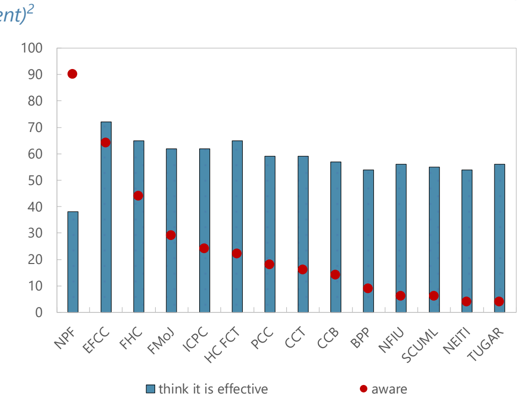
…in the course of pursuing government contracts, clearance, or services, which appear to be more in 2019 than 2016.

Experience with Bribes and Amounts Paid, by Public Official, 2019 *(Percent)*



Anti-corruption bodies are still developing public awareness and trust…

Awareness and Perceived Effectiveness of Anti-corruption agencies *(Percent)*[2]



Sources: National Bureau of Statistics; UNODC (2019); Transparency International.

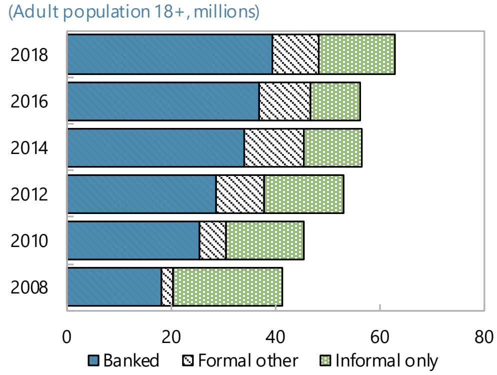
[1] Note: Use of these indicators should be considered carefully, as they reflect perceptions-based data.

[2] BPP = Bureau of Public Procurement, CCB = Code of Conduct Bureau, CCT = Code of Conduct Tribunal, EFCC = Economic and Financial Crimes Commission, FHC = Federal High Court, FMoJ = Federal Ministry of Justice, HC FCT = High Court of the Federal Capital Territory, ICPC = Independent Corrupt Practices Commission, NEITI = Nigeria Extractive Industries Transparency Initiative, NFIU = Nigeria Financial Intelligence Unit, NPF = Nigeria Police Force, PCC = Public Complaints Commission, SCUML = Special Control Unit Against Money Laundering, TUGAR = Technical Unit on Governance and Anti-Corruption Reform.

Figure 11. Nigeria: Financial Inclusion

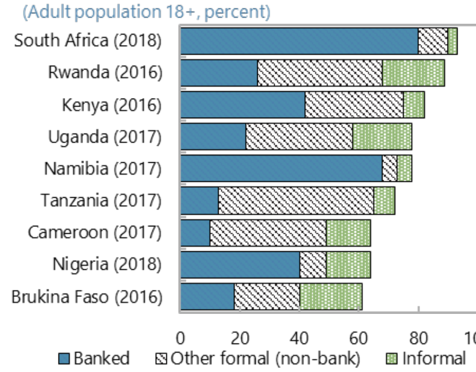
Nigeria managed to significantly increase financial inclusion over the past decade, although it remains below its 80 percent inclusion rate.

Trends in financial Access Strand
(Adult population 18+, millions)



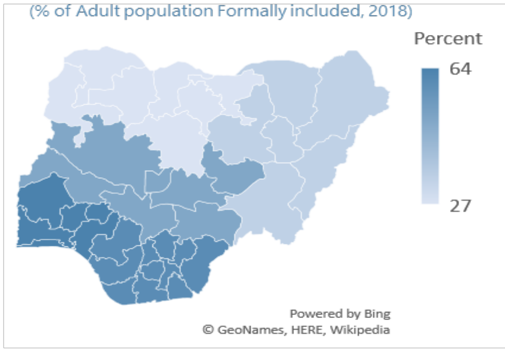
...although its rate of financial exclusion is more severe than regional peers due to relatively low banking penetration and very thin alternatives

Financial inclusion Consumer Access Strand
(Adult population 18+, percent)



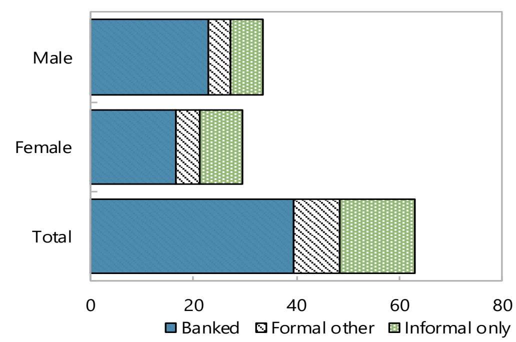
In lockstep with geographic disparity in poverty, the North lags behind...

Financial Access Performance Across Geo-Political Zones
(% of Adult population Formally included, 2018)



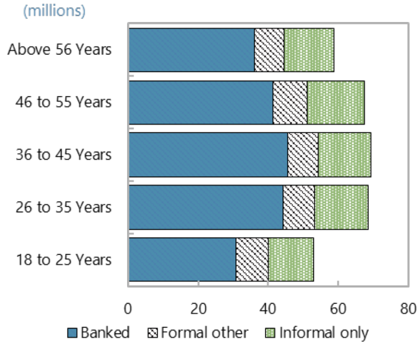
...while a significant financial inclusion gap feeds a cycle of gender inequality.

Financial Access by Gender
(Adult population 18+, millions)



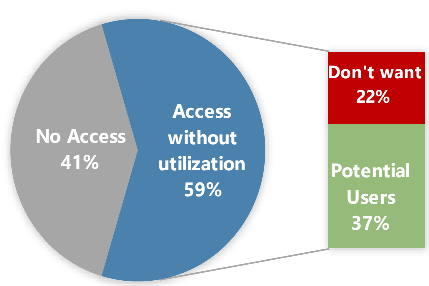
...while reinforcing the economic exclusion of youth.

Financial Access by Age Group
(millions)



While 40 percent of the excluded lack access (e.g. mobile phones), 37 percent only require enabling hookup support.

Financial Access Frontiers
(Percent of financially exluded)



Source: Enhacing Financial Innovation and Access Report, 2019

Table 1. Nigeria: Selected Economic and Financial Indicators, 2017–25

	2017	2018	2019	2020	2021	2022	2023	2024	2025
		Est.			Projections				
National income and prices	(Annual percentage change, unless otherwise specified)								
Real GDP (at 2010 market prices)	0.8	1.9	2.3	1.3	1.9	2.1	2.0	2.0	2.0
Oil and Gas GDP	4.7	1.0	4.6	2.3	2.4	2.2	1.8	1.2	2.1
Non-oil GDP	0.5	2.0	2.0	1.2	1.8	2.1	2.0	2.0	2.0
Non-oil non-agriculture GDP	-0.6	2.0	1.8	0.8	1.3	1.5	1.4	1.4	1.4
Production of crude oil (million barrels per day)	1.89	1.93	2.00	2.02	2.05	2.08	2.10	2.12	2.15
Nominal GDP at market prices (trillions of naira)	114.9	129.1	145.6	158.4	174.9	194.1	215.2	238.7	264.9
Nominal GDP per capita (US$)	1,969	2,033	…	…	…	…	…	…	…
GDP deflator	11.1	10.2	10.4	7.3	8.4	8.7	8.7	8.8	8.8
Consumer price index (annual average)	16.5	12.1	11.4	12.8	11.4	11.2	11.0	10.8	10.6
Consumer price index (end of period)	15.4	11.4	12.0	12.7	11.3	11.1	10.9	10.8	10.5
Investment and savings	(Percent of GDP)								
Gross national savings	18.2	15.1	12.0	11.5	12.1	12.4	12.9	13.1	13.1
Public	-0.5	0.7	-0.1	-0.4	-0.5	-0.4	0.0	0.3	0.3
Private	18.8	14.5	12.1	11.9	12.6	12.8	12.8	12.9	12.7
Investment	14.7	13.3	14.0	14.2	14.1	14.0	14.0	13.9	13.9
Public	3.3	3.0	3.0	2.9	2.9	2.9	3.0	2.9	3.0
Private	11.5	10.4	11.1	11.3	11.2	11.1	11.0	11.0	10.9
Current account balance	2.8	1.3	-2.5	-3.2	-2.6	-2.2	-1.7	-1.4	-1.3
Consolidated government operations	(Percent of GDP)								
Total revenues and grants	6.6	8.5	7.9	7.7	7.6	7.8	7.9	8.1	8.2
Of which: oil and gas revenue	2.6	4.6	3.7	2.9	2.8	2.9	3.0	3.1	3.1
Total expenditure and net lending	12.0	12.8	12.8	13.0	13.0	13.4	13.4	13.6	13.9
Overall balance	-5.4	-4.3	-5.0	-5.3	-5.4	-5.6	-5.4	-5.5	-5.6
Non-oil primary balance	-6.7	-7.2	-7.0	-6.4	-6.3	-6.3	-6.0	-5.9	-5.8
Non-oil revenue	4.0	4.0	4.2	4.7	4.8	4.9	5.0	5.0	5.1
Public gross debt[1]	25.3	27.0	29.5	33.3	35.9	38.4	40.1	41.6	43.1
Of which: FGN debt	22.4	24.3	26.8	30.2	32.5	34.8	36.3	37.8	39.3
FGN interest payments (percent of FGN revenue)	58.4	60.7	59.8	68.7	71.1	82.9	90.5	97.6	104.3
Money and credit	(Change in percent of broad money at the beginning of the period, unless otherwise specified)								
Broad money (percent change; end of period)	9.1	15.2	6.2	6.5	15.0	12.9	13.0	13.2	13.3
Net foreign assets	23.4	6.8	-18.4	-4.7	-3.7	-2.6	-0.9	-0.8	-0.7
Net domestic assets	-24.8	8.5	24.6	11.1	18.7	15.5	13.9	14.0	14.1
o/w Claims on consolidated government	-2.4	4.4	15.4	18.4	20.1	21.5	20.1	20.2	20.3
Credit to the private sector (y-o-y,%)	-3.3	-6.7	13.6	4.6	4.7	0.0	0.0	0.1	0.4
Velocity of broad money (ratio; end of period)	3.8	3.5	3.8	4.0	3.8	3.8	3.7	3.7	3.6
External sector	(Annual percentage change, unless otherwise specified)								
Exports of goods and services	32.3	33.6	0.0	-10.2	6.6	13.6	6.1	6.4	5.0
Imports of goods and services	8.4	40.6	29.2	1.7	4.6	9.1	4.8	5.0	5.0
Terms of trade	9.6	12.4	-5.4	-9.3	-0.1	0.9	0.5	0.2	0.0
Price of Nigerian oil (US dollar per barrel)	54.4	71.1	64.0	52.9	52.3	53.2	53.9	54.6	55.7
External debt outstanding (US$ billions)[2]	96.6	116.0	127.0	139.4	153.2	167.7	182.7	198.0	214.0
Gross international reserves (US$ billions)	39.8	43.6	38.1	30.4	26.3	23.0	21.7	21.1	20.4
(equivalent months of imports of G&Ss)	6.7	5.6	4.9	3.7	2.9	2.4	2.2	2.0	1.9

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

[1]Gross debt figures for the Federal Government and the public sector include overdrafts from the Central Bank of Nigeria (CBN) and AMCON bonds.

[2]Includes both public and private sector.

Table 2. Nigeria: Balance of Payments, 2017–25
(Billions of U.S. dollars, unless otherwise specified)

	2017	2018	2019	2020	2021	2022	2023	2024	2025
		Est.				Projections			
Current account balance	10.4	5.3	-11.1	-15.5	-13.8	-13.1	-11.1	-10.1	-10.8
Trade balance	13.1	22.3	8.3	-1.0	-1.6	-1.6	-2.7	-3.7	-5.7
Exports	45.8	63.1	62.7	55.5	59.0	67.3	71.3	75.6	79.1
Oil/gas	42.3	58.4	55.3	45.6	47.5	53.8	55.3	56.7	58.4
Other	3.5	4.7	7.4	9.8	11.5	13.5	16.0	19.0	20.7
Imports	-32.7	-40.8	-54.4	-56.5	-60.6	-68.9	-74.0	-79.4	-84.8
Oil/gas	-8.2	-11.6	-9.1	-7.5	-7.5	-11.4	-11.6	-11.8	-12.0
Other	-24.5	-29.2	-45.3	-49.0	-53.1	-57.5	-62.4	-67.6	-72.8
Services (net)	-13.2	-26.1	-32.9	-32.1	-31.9	-32.0	-31.4	-31.0	-30.8
Receipts	5.0	4.8	5.2	5.5	6.0	6.6	7.1	7.8	8.5
Payments	-18.3	-30.9	-38.1	-37.7	-37.9	-38.5	-38.6	-38.8	-39.3
Income (net)	-11.5	-15.1	-12.3	-9.1	-7.9	-8.0	-6.3	-5.8	-5.7
Of which: Interest due on public debt	-0.3	-0.3	-0.3	-0.5	-0.5	-0.5	-0.4	-0.3	-0.3
Transfers (net)	22.0	24.1	25.9	26.7	27.6	28.5	29.4	30.4	31.4
Capital and Financial account balance	8.2	4.2	5.5	7.9	9.6	9.8	9.8	9.5	10.1
Capital Account (net)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financial Account (net)	8.2	4.2	5.5	7.9	9.6	9.8	9.8	9.5	10.1
Direct Investment (net)	2.2	0.6	1.8	1.6	1.7	1.9	2.1	2.4	2.6
Portfolio Investment (net)	8.5	12.5	11.4	10.9	12.8	13.2	13.2	12.7	13.0
Other Investment (net)	-2.5	-9.0	-7.7	-4.6	-5.0	-5.3	-5.5	-5.5	-5.5
Errors and omissions[1]	-6.4	-5.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance	12.2	3.8	-5.5	-7.7	-4.2	-3.3	-1.3	-0.6	-0.7
Net international reserves (increase -)	-12.2	-3.8	5.5	7.7	4.2	3.3	1.3	0.6	0.7
Memorandum items:									
Gross official reserves, end-of-period	39.8	43.6	38.1	30.4	26.3	23.0	21.7	21.1	20.4
In months of next year's imports of goods and services	6.7	5.6	4.9	3.7	2.9	2.4	2.2	2.0	1.9
Current account (percent of GDP)	2.8	1.3	-2.5	-3.2	-2.6	-2.2	-1.7	-1.4	-1.3
Exports of goods and services (percent of GDP)	13.5	17.1	15.2	12.5	12.1	12.4	11.8	11.4	10.7
Imports of goods and services (percent of GDP)	13.6	18.0	20.7	19.3	18.3	18.0	17.0	16.1	15.2
Public external debt[2]	58.5	65.6	70.0	78.2	86.4	94.1	102.2	110.0	117.9
In percent of GDP	15.6	16.5	15.6	16.0	16.1	15.8	15.4	15.0	14.5
In percent of exports of G&S	115.0	96.6	103.0	128.2	132.8	127.4	130.4	131.8	134.7
In percent of consolidated fiscal revenues	235.6	193.6	198.6	209.7	211.2	202.1	194.2	184.5	175.6
Private external debt	38.1	50.4	57.0	61.2	66.8	73.6	80.5	88.0	96.0
External debt service due (percent of exports of G&S)[2]	-14.1	-13.1	-16.2	-19.5	-19.4	-17.0	-17.4	-16.9	-16.8

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

[1]The 2019 number reflects the outturn and a zero forecast for the remaining quarters.

[2]Nominal 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.

Table 3. Nigeria: Federal Government Operations, 2017–25

(Billions)

	2017	2018	2019	2020	2021	2022	2023	2024	2025
		Est.			Projections				
Total revenue and Grants	2,665	3,602	4,080	4,281	4,469	5,121	5,810	6,604	7,449
Oil revenue	1,132	2,076	2,209	1,921	1,851	2,170	2,507	2,906	3,249
Non-oil revenue	1,533	1,526	1,871	2,324	2,582	2,914	3,266	3,662	4,164
Import and excise duties	283	318	380	408	442	479	520	563	667
Companies' income tax	562	666	695	846	941	1,103	1,267	1,456	1,671
Value-added tax	129	147	160	273	318	355	396	442	493
Federal government independent revenue	559	395	637	797	880	977	1,083	1,201	1,333
Grants	0	0	0	36	36	36	36	36	36
Total expenditure	7,406	9,082	11,028	11,725	12,815	14,875	16,431	18,704	21,322
Recurrent expenditure	6,164	7,400	8,944	9,448	10,301	12,084	13,336	15,271	17,513
Personnel	2,278	2,417	2,596	3,364	3,742	4,176	4,657	5,194	5,789
Overheads	437	517	1,131	1,114	1,239	1,382	1,542	1,719	1,916
Interest	1,557	2,186	2,442	2,942	3,176	4,246	5,259	6,449	7,766
Transfers[1]	1,842	1,948	2,089	1,555	1,644	1,668	1,879	1,909	2,042
of which electricity subsidies	252	272	524	606	674	722	780	780	780
of which net transfers to SLGs[2]	1,150	1,220	1,136	392	350	257	334	282	325
Arrears Clearance	50	331	686	472	500	610	0	0	0
Capital expenditure	1,242	1,682	2,084	2,277	2,515	2,791	3,095	3,433	3,810
Overall balance	-4,742	-5,480	-6,948	-7,443	-8,346	-9,754	-10,621	-12,100	-13,873
Financing	4,742	5,480	6,948	7,443	8,346	9,754	10,621	12,100	13,873
External	2,183	1,820	539	1,244	1,111	816	1,061	896	1,032
Borrowing	1,521	1,423	439	963	891	891	891	891	891
Amortization	-26	-176	-69	-111	-129	-331	-164	-277	-184
Foreign asset acquisition (ECA/SWF)	0	0	0	0	0	0	0	0	0
Net External Lending to SLGs	687	573	170	392	350	257	334	282	325
Domestic	914	2,864	5,101	6,199	7,235	8,938	9,560	11,204	12,841
Domestic	913	2,864	5,101	6,199	7,235	8,938	9,560	11,204	12,841
Bank financing	-985	1,231	4,534	5,439	6,407	7,999	8,581	10,029	11,431
CBN	-257	675	4,321	5,350	6,309	7,878	8,434	9,846	11,212
(of which ECA/EBF financing)	-151	-42	-199	0	0	0	0	0	0
Commercial Banks	-728	556	213	89	98	122	147	182	219
ECA financing	-151	-42	-199	0	0	0	0	0	0
Nonbank financing	1,899	1,526	567	633	680	816	979	1,175	1,410
Nonbank financing	1,898	1,526	567	633	680	816	979	1,175	1,410
Other financing	0	0	0	0	0	0	0	0	0
Asset Disposal		107	0	127	148	123	0	0	0
Statistical discrepancy/Financing gap	1,645	796	1,308	0	0	0	0	0	0
Financing Gap fom new assumptions	0	0	0	965	0	0	0	0	0
Memorandum items:									
FGN Total Debt	25,767	31,353	39,096	47,856	56,891	67,506	78,128	90,227	104,101
Domestic[3]	19,989	23,711	30,343	37,859	45,783	55,582	65,142	76,346	89,187
Foreign	5,778	7,642	8,753	9,997	11,108	11,925	12,986	13,882	14,914
Price of Nigerian oil (US dollar per barrel)	54.4	71.1	64.0	52.9	52.3	53.2	53.9	54.6	55.7
FGN overall balance (percent of GDP)	-4.1	-4.2	-4.8	-4.7	-4.8	-5.0	-4.9	-5.1	-5.2

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

[1] Includes earmarked spending for National Judicial Council, Universal Basic Education, Niger Delta Development Corporation, and

[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) and AMCON bonds.

Table 4. Nigeria: Consolidated Government, 2017–25

(Billions of Naira)

	2017	2018	2019	2020	2021	2022	2023	2024	2025
		Est.				Projections			
Total revenue and Grants	7,593	10,991	11,452	12,117	13,289	15,138	17,110	19,374	21,832
Oil revenue	2,993	5,879	5,378	4,605	4,845	5,609	6,414	7,365	8,188
Of which: implicit fuel subsidy	146	623	561	463	459	466	473	479	488
Non-oil revenue	4,599	5,112	6,074	7,475	8,408	9,492	10,659	11,972	13,608
Import and excise duties	628	705	837	905	981	1,061	1,153	1,249	1,480
Companies' income tax	1,206	1,430	1,637	1,818	2,022	2,370	2,721	3,126	3,589
Value-added tax	957	1,090	1,172	2,030	2,369	2,644	2,949	3,288	3,665
Other (education tax and customs levies)	312	331	482	474	521	589	660	739	860
Federal government independent revenue	559	395	637	797	880	977	1,083	1,201	1,333
SLGs independent revenue	936	1,160	1,309	1,451	1,635	1,851	2,094	2,369	2,681
Grants	0	0	0	36	36	36	36	36	36
Total expenditure	13,797	16,550	18,698	20,510	22,685	26,057	28,807	32,429	36,765
Federal government	6,256	7,862	9,892	11,333	12,465	14,618	16,097	18,422	20,997
State and local government	6,767	7,029	7,257	7,755	8,693	9,760	10,872	11,989	13,509
Extrabudgetary funds, ECA and implicit fuel subs	774	1,658	1,550	1,423	1,526	1,679	1,838	2,018	2,259
Extrabudgetary funds [1]	628	768	988	959	1,067	1,213	1,366	1,539	1,771
Spending from Excess Crude Account	0	267	1	0	0	0	0	0	0
Of which: explicit fuel subsidy	0	0	0	0	0	0	0	0	0
Of which: Shared infrastructure and soci	0	0	0	0	0	0	0	0	0
Other	0	267	1	0	0	0	0	0	0
Implicit fuel subsidy	146	623	561	463	459	466	473	479	488
Overall balance	-6,204	-5,559	-7,247	-8,393	-9,395	-10,919	-11,698	-13,055	-14,933
Non-oil primary balance	-7,641	-9,251	-10,183	-10,093	-11,101	-12,318	-12,889	-14,008	-15,391
Non-oil revenue	4.0	4.0	4.2	4.7	4.8	4.9	5.0	5.0	5.1
Financing	6,204	5,559	7,247	8,393	9,395	10,919	11,698	13,055	14,933
External	2,182	1,820	539	1,244	1,111	816	1,061	896	1,032
Borrowing [2]	2,221	2,078	640	1,406	1,300	1,300	1,300	1,300	1,300
Amortization	-38	-258	-101	-161	-189	-484	-239	-404	-268
Foreign asset acquisition (ECA/SWF)	0	0	0	0	0	0	0	0	0
Domestic	1,315	2,836	5,027	7,149	8,284	10,103	10,637	12,159	13,901
Bank financing	-583	1,203	4,460	6,389	7,456	9,164	9,657	10,984	12,491
CBN	145	647	4,248	6,299	7,358	9,042	9,510	10,801	12,272
Commercial Banks	-728	556	213	89	98	122	147	182	219
Nonbank financing	1,898	1,526	567	633	680	816	979	1,175	1,410
Other financing	0	0	0	0	0	0	0	0	0
Asset Disposal		107	0	127	148	123	0	0	0
Statistical discrepancy/Financing gap	2,707	903	1,681	0	0	0	0	0	0
Financing Gap from new asumptions				965	0	0	0	0	0
Memorandum items:									
SLGs External Financing	687.5	573.4	169.8	392.0	350.0	257.1	334.2	282.3	325.1
Budget oil price (US dollar a barrel)	44.5	47.0	64.0	52.9	52.3	53.2	53.9	54.6	55.7
Overall balance (% of GDP)	-5.4	-4.3	-5.0	-5.3	-5.4	-5.6	-5.4	-5.5	-5.6

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

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

[2]Includes projects not included in the FGN budget, even though funds are on lent by FGN.

Table 5. Nigeria: Government Operations, 2017–25

(Percent of GDP)

	2017	2018	2019	2020	2021	2022	2023	2024	2025
		Est.				Projections			
Consolidated Government									
Total revenue	6.6	8.5	7.9	7.7	7.6	7.8	7.9	8.1	8.2
Oil revenue	2.6	4.6	3.7	2.9	2.8	2.9	3.0	3.1	3.1
Of which: implicit fuel subsidy	0.1	0.5	0.4	0.3	0.3	0.2	0.2	0.2	0.2
Non-oil revenue	4.0	4.0	4.2	4.7	4.8	4.9	5.0	5.0	5.1
Total expenditure	12.0	12.8	12.8	13.0	13.0	13.4	13.4	13.6	13.9
Federal government expenditure	5.4	6.1	6.8	7.2	7.1	7.5	7.5	7.7	7.9
State and local government	5.9	5.4	5.0	4.9	5.0	5.0	5.1	5.0	5.1
Extrabudgetary funds, ECA and implicit fuel subsidies	0.7	1.3	1.1	0.9	0.9	0.9	0.9	0.8	0.9
Overall balance	-5.4	-4.3	-5.0	-5.3	-5.4	-5.6	-5.4	-5.5	-5.6
Non-oil primary balance	-6.7	-7.2	-7.0	-6.4	-6.3	-6.3	-6.0	-5.9	-5.8
Financing	5.4	4.3	5.0	5.3	5.4	5.6	5.4	5.5	5.6
External	1.9	1.4	0.4	0.8	0.6	0.4	0.5	0.4	0.4
Borrowing	1.9	1.6	0.4	0.9	0.7	0.7	0.6	0.5	0.5
Amortization	0.0	-0.2	-0.1	-0.1	-0.1	-0.2	-0.1	-0.2	-0.1
Domestic	1.1	2.2	3.5	4.5	4.7	5.2	4.9	5.1	5.2
Bank financing	-0.5	0.9	3.1	4.0	4.3	4.7	4.5	4.6	4.7
Nonbank financing	1.7	1.2	0.4	0.4	0.4	0.4	0.5	0.5	0.5
Asset Disposal		0.1	0.0	0.1	0.1	0.1	0.0	0.0	0.0
Statistical discrepancy/Financing Gap	2.4	0.7	1.2	0.0	0.0	0.0	0.0	0.0	0.0
Financing Gap from new assumptions				0.6	0.0	0.0	0.0	0.0	0.0
Federal Government									
Total revenue	2.3	2.8	2.8	2.7	2.6	2.6	2.7	2.8	2.8
Oil revenue	1.0	1.6	1.5	1.2	1.1	1.1	1.2	1.2	1.2
Non-oil revenue	1.3	1.2	1.3	1.5	1.5	1.5	1.5	1.5	1.6
Total expenditure	6.4	7.0	7.6	7.4	7.3	7.7	7.6	7.8	8.0
Recurrent expenditure	5.4	5.7	6.1	6.0	5.9	6.2	6.2	6.4	6.6
Personnel	2.0	1.9	1.8	2.1	2.1	2.2	2.2	2.2	2.2
Overheads	0.4	0.4	0.8	0.7	0.7	0.7	0.7	0.7	0.7
Interest	1.4	1.7	1.7	1.9	1.8	2.2	2.4	2.7	2.9
Transfers	1.6	1.5	1.4	1.0	0.9	0.9	0.9	0.8	0.8
Arrears clearance	0.0	0.3	0.5	0.3	0.3	0.3	0.0	0.0	0.0
Capital expenditure	1.1	1.3	1.4	1.4	1.4	1.4	1.4	1.4	1.4
Overall balance	-4.1	-4.2	-4.8	-4.7	-4.8	-5.0	-4.9	-5.1	-5.2
Financing	4.1	4.2	4.8	4.7	4.8	5.0	4.9	5.1	5.2
External	1.9	1.4	0.4	0.8	0.6	0.4	0.5	0.4	0.4
Domestic	0.8	2.2	3.5	3.9	4.1	4.6	4.4	4.7	4.8
Bank financing	-0.9	1.0	3.1	3.4	3.7	4.1	4.0	4.2	4.3
Nonbank financing	1.7	1.2	0.4	0.4	0.4	0.4	0.5	0.5	0.5
Statistical discrepancy/Financing gap	1.4	0.6	0.9	0.0	0.0	0.0	0.0	0.0	0.0
Financing Gap from new assumptions				0.6	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, 2017–25
(Percent of GDP)

	2017	2018	2019	2020	2021	2022	2023	2024	2025
		Est.				Projections			
Revenue	4.8	5.4	4.7	4.3	4.4	4.4	4.6	4.6	4.7
Oil revenue	1.3	2.0	1.6	1.3	1.4	1.4	1.5	1.6	1.6
Shared revenue	0.9	1.5	1.2	1.0	1.0	1.1	1.1	1.2	1.2
Derivation grant (13 percent)	0.3	0.5	0.4	0.3	0.3	0.3	0.4	0.4	0.4
Non-oil revenue	2.5	2.5	2.3	2.7	2.8	2.9	2.9	2.9	3.0
Corporate Income Tax	0.5	0.5	0.5	0.5	0.5	0.6	0.6	0.6	0.6
Customs	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	1.0	1.1	1.1	1.1	1.1	1.1
Internal revenue	0.8	0.9	0.9	0.9	0.9	1.0	1.0	1.0	1.0
Net Transfers from FGN	1.0	0.9	0.8	0.2	0.2	0.1	0.2	0.1	0.1
Expenditure	4.4	5.4	5.0	4.9	5.0	5.0	5.1	5.0	5.1
Overall Balance	0.4	-0.1	-0.3	-0.6	-0.6	-0.6	-0.5	-0.4	-0.4
Financing	-0.4	0.1	0.3	0.6	0.6	0.6	0.5	0.4	0.4
External	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Domestic	0.5	0.0	0.3	0.6	0.6	0.6	0.5	0.4	0.4
Statistical discrepancy/Financing gap	-0.8	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 (CBN) Analytical Balance Sheet, 2017–25

(Billions on Naira)

	2017	2018	2019				2020	2021	2022	2023	2024	2025
	Dec.	Dec.	Mar	Jun	Sep	Dec	Dec.					
	Act.	Act.	Est.				Projections					
Net foreign assets	12,563	14,608	10,491	11,010	8,110	9,615	7,887	6,535	5,465	5,055	4,857	4,635
Foreign assets	15,313	18,182	17,255	17,659	16,151	15,845	14,116	12,764	11,695	11,285	11,087	10,864
Foreign liabilities	-2,751	-3,574	-6,764	-6,649	-8,040	-6,230	-6,230	-6,230	-6,230	-6,230	-6,230	-6,230
Net domestic assets	-3,105	-4,357	-520	149	1,789	2,737	10,807	13,579	15,966	17,841	19,665	21,920
Net domestic credit	7,186	8,615	8,794	3,197	10,767	15,008	19,701	26,010	33,887	42,321	52,168	63,380
Net claims on consolidated government	287	999	296	-6,149	1,781	5,234	10,584	16,892	24,770	33,204	43,050	54,262
Net claims on federal government [1]	-354	342	-420	-6,868	1,062	4,577	9,927	16,236	24,113	32,547	42,393	53,605
Claims	5,875	8,125	5,716	0	7,015	11,868	17,218	23,527	31,404	39,838	49,685	60,897
Deposits	-6,229	-7,783	-6,136	-6,868	-5,953	-7,291	-7,291	-7,291	-7,291	-7,291	-7,291	-7,291
Net claims on state and local governments	640	657	717	719	719	657	657	657	657	657	657	657
Claims on deposit money banks	1,669	2,354	1,536	1,560	1,566	2,354	2,354	2,354	2,354	2,354	2,354	2,354
Other net claims	5,230	5,262	6,962	7,785	7,420	7,420	6,763	6,763	6,763	6,763	6,763	6,763
Other items net	-10,291	-12,972	-9,314	-3,048	-8,977	-12,271	-8,895	-12,431	-17,921	-24,481	-32,503	-41,460
Reserve money	9,458	10,251	9,971	11,159	9,900	12,353	18,693	20,114	21,431	22,896	24,522	26,554
Currency in circulation	2,157	2,330	2,153	2,014	2,006	2,807	4,248	4,571	4,871	5,204	5,573	6,035
Banks reserves with the CBN	7,300	7,921	7,818	9,145	7,894	9,545	14,445	15,543	16,560	17,692	18,949	20,519
Memorandum items :												
Reserve money y/y growth rate	4.0	8.4	4.6	19.6	3.6	21	51.3	7.6	6.5	6.8	7.1	8.3
Money multiplier	3.0	3.2	3.3	3.1	3.5	3	2.0	2.1	2.2	2.4	2.5	2.6

Sources: Nigerian authorities; and IMF staff estimates and proj

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

Table 8. Nigeria: Monetary Survey, 2017–25
(Billions of Naira)

	2017	2018	2019				2019	2020	2021	2022	2023	2024	2025
	Dec.	Dec.	Mar.	Jun.	Sep.	Dec	Dec.						
	Act.	Act.	Act.				Projections						
Net foreign assets	12,990	14,911	11,097	11,992	7,486	8,876	8,876	7,246	5,862	4,759	4,314	3,888	3,427
Central Bank of Nigeria (net)	12,563	14,608	10,491	11,010	8,110	9,615	9,615	7,887	6,535	5,465	5,055	4,857	4,635
Commercial and merchant banks (net)	428	303	607	982	-624	-739	-739	-640	-673	-706	-741	-969	-1,208
Net domestic assets	15,441	17,845	22,033	22,248	26,920	25,917	25,917	29,796	36,736	43,356	50,057	57,658	66,310
Net domestic credit	25,603	26,784	30,882	31,367	35,016	34,202	34,202	41,257	49,424	58,590	68,247	79,253	91,815
Net claims on consolidated government	9,115	10,360	14,253	13,897	17,267	15,392	15,392	21,781	29,237	38,401	48,058	59,042	71,533
Net claims on FGN [1]	7,576	8,808	12,636	12,302	15,683	13,717	13,717	19,156	25,563	33,562	42,143	52,171	63,603
CBN	3,673	4,349	8,169	7,626	10,931	9,045	9,045	14,395	20,704	28,581	37,015	46,861	58,073
Commercial Banks	3,903	4,459	4,467	4,677	4,752	4,672	4,672	4,761	4,859	4,981	5,128	5,310	5,530
Claims on SLG	1,539	1,552	1,617	1,595	1,584	1,675	1,675	2,625	3,674	4,839	5,915	6,870	7,930
Claims on private sector[2]	15,395	14,650	14,769	14,721	15,769	16,392	16,392	17,058	17,769	17,771	17,771	17,793	17,864
o/w credit to the private sector	13,703	12,789	12,944	12,922	13,739	14,531	14,531	15,198	15,908	15,910	15,910	15,932	16,003
Other Claims	1,093	1,775	1,860	2,749	1,980	2,418	2,418	2,418	2,418	2,418	2,418	2,418	2,418
Other items	-10,162	-8,940	-8,849	-9,119	-8,096	-8,285	-8,285	-11,461	-12,688	-15,234	-18,190	-21,595	-25,505
Broad money [3]	28,432	32,755	33,130	34,240	34,405	34,793	34,793	37,043	42,599	48,115	54,371	61,546	69,737
Currency outside banks	1,783	1,918	1,786	1,656	1,630	1,805	1,805	2,322	2,670	3,016	3,408	3,858	4,371
Demand deposits	9,362	9,724	9,031	9,389	9,365	9,229	9,229	11,873	13,654	15,422	17,428	19,728	22,353
Time and savings deposits	12,758	14,822	15,316	16,189	16,036	17,457	17,457	22,459	25,827	29,172	32,965	37,315	42,281
CBN Bills held by resident nonbank sector	4,529	6,291	6,996	7,005	7,374	5,993	5,993	0	0	0	0	0	0
Memorandum items:													
Broad money (y-o-y,%)	9.1	15.2	15.0	17.9	13.7	6	6.2	6.5	15.0	12.9	13.0	13.2	13.3
Credit to the private sector (y-o-y,%)	-3.3	-6.7	-2.1	-0.2	1.9	14	13.6	4.6	4.7	0.0	0.0	0.1	0.4
Velocity (non-oil GDP/broad money)	3.8	3.6	3.7	3.6	3.7	4	3.8	4.0	3.8	3.8	3.7	3.7	3.6
Gross international reserves (billions of US dollar)	39.3	42.5	44.8	44.7	40.7	38	38.1	30.4	26.3	23.0	21.7	21.1	20.4
Non-oil GDP (in billions of naira)													

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

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

[2] Does not include AMCON bonds

[3] Broad money is based on an M3 definition.

Table 9. Nigeria: Financial Soundness Indicators, 2013–19Q4
(Percent; End of Period)

	2013	2014	2015	2016	2017	2017	2018	2019Q2	2019Q4
Regulatory Capital to Risk-Weighted Assets	17.1	18.6	17.7	14.8	13.5	10.5	15.2	15.3	14.6
Regulatory Tier 1 Capital to Risk-Weighted Assets	17.1	15.5	18.1	16.3	13.2	8.4	13.5	13.6	12.8
Non-Performing Loans to Total Gross Loans	3.4	3.0	4.9	12.8	14.7	14.8	11.7	9.3	6.1
Return on Assets	2.3	2.5	2.5	1.3	2.3	2.4	2.0	2.5	2.5
Return on Equity	18.9	21.2	19.7	10.0	17.6	23.5	22.7	30.0	29.4
Interest Margin to Gross Income	63.9	51.2	62.2	67.6	72.7	61.2	67.3	63.0	61.0
Non-interest Expenses to Gross Income	68.1	56.9	63.1	62.8	58.3	58.2	60.9	65.4	64.7
Liquid Assets to Total Assets (Liquid Asset Ratio)	16.8	11.4	18.5	16.2	17.0	18.8	22.6	22.5	23.0
Liquid Assets to Short Term Liabilities	23.1	16.7	27.1	24.5	25.6	27.2	34.1	35.1	35.3

Source: Central Bank of Nigeria.

Table 10. Nigeria: Progress on 2013 FSAP Recommendations

Recommendation	Status up to 2020 Article IV Consultation
	Central Bank of Nigeria (CBN)
1. Further enhance supervisory oversight over banks with international presence.	On-site examination of subsidiaries take place regularly, and the CBN continues to monitor and supervise subsidiaries through the parent bank. Information is shared frequently and regularly between regional supervisors. A memorandum of understanding with host regulatory/supervisory agencies have been signed. A college of supervisors of the West African Monetary Zone (CSWAMZ) meet regularly. Joint examination takes place with foreign supervisor agencies of foreign subsidiaries of Nigerian banks in WAMZ. A crisis resolution framework for cross border banks is being finalized by the West African Monetary Institute. New guidelines for assessment of banking risk and for management of supervisory colleges have been issued by the CBN. The CBN is reviewing the cross-border supervisory framework to align it with the FSB Key Attributes for Banking Supervision.
2. Strengthen macro-prudential oversight and crisis preparedness by enhancing the functioning of the FSRCC.	The role of FSRCC has been enhanced to include a financial stability function. A framework that underpins the duties of FRSCC has been drafted; it will set out the macro prudential analytical framework and crisis and resolution framework that it will be overseeing.
3. Strengthen capacity of supervisors and establish clarity regarding their regulatory authority; and improve availability and quality of data for macro prudential analysis.	Capacity building is an on-going process. The CBN receives training from the IMF and WB. For example, an Early Warning System (EWS) has been put in place, and scenario-based stress tests and improvements of recovery and resolution planning are being implemented.
4. Review and update the BOFIA to reflect internationally accepted framework for bank regulation and supervision.	Amendments to the BOFIA and NDIC Act are suspended by the National Assembly until further notice.
5. Implement HRD plan for a new category of BSD specialists with a separate career path.	Completed in 2014.
6. Withdraw the CBN circular restricting recapitalization of foreign subsidiaries by Nigerian parent banks.	The CBN considers a request for recapitalization of foreign subsidiaries on a case-by-case basis. The premise for the old circular was to ensure Nigerian subsidiaries were not discriminated against. Indeed, according to the recent FSR, CBN gave approval to recapitalize a number of subsidiaries.
7. Unwind crisis response measures and revert to the conventional financial safety nets that are already in place,	Needed changes on the legal framework given that a draft Financial Amendments Bill has not yet been submitted to parilament.
8. Establish end–2017 as the sunset for AMCON, disallow further acquisition of assets, and use surplus funds to buy back bonds.	AMCON is expected to be wound down by end-2023 in its present form, but a successor asset management department could continue to operate given that the sale of acquired assets has been slow.
9. Review the licensing of the microfinance banks, to offer two types of license.	License requirements differ by types of microfinance: unit (tier 1 and 2), state and national.
10. Divest CBN's interest in DFIs to the FMoF and/or the private sector as appropriate.	The CBN is committed in utilizing DFI as conduits to provide finance to the real sector. To this end, there is no plan to divest CBN's interest in the DFI, at least not in the short-run.
11. Review the design and performance of the Development Finance Schemes.	TThe CBN is reviewing its policy on Development Finance, a strategy with the objective to reduce the Bank's exposure and outlining a more structured approach to the Bank's intervention is underway. In addition, an internal evaluation of some interventions is scheduled to take place.
12. Revise the 2009 Regulatory Framework for Mobile Payment Services to level the playing field and intensify competition.	Regulatory requirements continue to be strengthened. Regulations distinguish between Bank and Non-Bank led operators. Capital requirements have also been increased
	National Insurance Commission (NAICOM)
13. Upgrade the solvency regime, as well as valuation and the reserve requirements, to better capture risk.	Adopted risk-based reserve requirements, guidance was issued. IFRS accounting was introduced in 2013; Transition to International Financial Reporting Standards (IFRS) with a transition roadmap issued (January 2020) and Insurance Industry Financial Reporting Working Group (IIFRWG) formulated (March 2020).
14. Put high priority on enforcement of mandatory insurance.	NAICOM is working closely with respective counterparts to enforce mandatory insurance. For example, the brigade for fire insurance, the Federal Road Safety Commission for enforcing car insurance.
	Pension Commission (PENCOM)
15. Establish a database of employers required to comply with the Pension Reform Act, 2004.	Pencom has been in consultation with the Ministry of Budget and Planning, the government ministry that has the legal right to request such, to compile a database of employers. The consultation is at advanced
16. Develop Nigerian specific mortality tables for pricing annuities and programmed withdrawals.	Developing mortality tables will need input from several government agencies including the Ministry of Budget and National Planning and NAICOM.
	Securities and Exchange Commission
17. Expeditiously nominate the new Board members of the SEC.	The Board of the SEC was inaugurated in June 2019.
18. Ensure that broker-dealers are subject to higher risk-based capital requirements and other prudential requirements as well as sufficient entity-level supervision, including regular on-site	Adopted risk-based provision. Moving to risk based capital requirement with minimum capital requirement. A regulatory framework following the Malaysia and the USA models is under design.
	Federal Ministry of Finance
19. Create central unit to monitor contingent fiscal commitments and develop a strategy as regards further commitments.	The government has increased its monitoring of fiscal activity, including identifying arrears and requiring state and local governments to report regularly. Following Fund TA, work is ongoing to enhance coverage of contingent liabilities by the Debt Management Office.

Source: Nigerian authorities.

Annex I. Status of Key Recommendations of Past Article IV Consultation

Recommendation	Status
Fiscal - *Revenue based fiscal consolidation to create space for higher capital and priority spending while improving spending efficiency and strengthening governance.*	- The authorities adopted the 2020 budget within the calendar year for the first time since 2012 and adopted the Finance Bill and Deep Offshore and Inland Basin Act Amendment, which would help increase revenue by about 0.5 percent of GDP. Capital spending execution has significantly increased. - Further revenue mobilization is needed to create space for priority spending. Revenue shortfalls in the 2020 budget are likely, particularly on oil revenue. No action has been taken to improve spending efficiency through lower fuel or electricity subsidies.
Monetary and Exchange Rate - *Monetary policy should remain tight in view of above-target inflation. Heterodox policies should be replaced by more traditional one.* - *Moving towards a unified market-determined exchange rate and removing FX restrictions.*	- Excess liquidity in the latter part of 2019 showed a more accommodative monetary policy, which led to CBN tightening monetary policy through higher CRR. Heterodoxy measures—including through discretionary CRR or credit boosting initiatives—have increased. - While exchange rates in different windows except for fuel products moved closer to the more market determined rate (I&E window), multiple windows remain and the I&E rate has stayed relatively stable. Restrictions on FX access for certain goods have increased. Existing exchange restrictions and MCPs are described in the accompanying Informational Annex.
Financial - *Enhancing banking resilience through strengthened capital buffers, risk-based supervision, no more regulatory forbearance and time-bound recapitalization plans for weak banks.*	- While the reported NPLs ratio has improved, the share of Stage 2 and 3 loans increased and there has been little progress with resolving insolvent small banks. Risks to banks' stable funding sources have increased as banks shortened the maturity of their deposit by rolling off expensive long-term funding. Regulatory forbearance persists.
Structural - *Accelerate structural reforms, particularly in the power sector, governance, the business environment, and financial inclusion.*	- The government's PSRP 2020 financing plan has been finalized with buy-in from all stakeholders but needs to be approved and implemented. - Petroleum Industry Governance, Administration, and Host Communities Development Bill is being drafted based on transparency principles and commercially-focused approach - Nigeria climbed 38 places in the World Bank Doing Business ranking to 131st over the last three years and has increased the number of corruption cases and convictions. The long-awaited CAMA Bill was recently adopted, which paves the way for a private sector insolvency framework.

Annex II. Debt Sustainability Analysis

A. Public Sector Debt Sustainability

Despite Nigeria's relatively low debt level, liquidity-based indicators— driven by low revenue mobilization—remain concerning, with the interest bill projected to absorb about 69 percent of federal government revenues in 2020 and rising over the medium term to unsustainable levels under current policies. This puts Nigeria's fiscal space at risk and makes its low debt-to-GDP ratio highly vulnerable to shocks. Stress scenarios confirm vulnerability of public debt to a low growth/wide primary deficit scenario. The interest-to-revenue ratio is particularly vulnerable to a real interest rate shock. A comprehensive policy package, including fiscal consolidation based on non-oil revenue mobilization over the medium term is essential to reduce the interest payments-to-revenue ratio to more sustainable levels.

Baseline Projections

1. **Nigeria's level of public debt has continued to increase**. Fiscal deficits—driven by weak non-oil revenue mobilization and lower oil revenues—have increased gross public debt levels to about 29.5 percent of GDP in 2019 and gross financing needs of the general government to 8.3 percent of GDP. Federal Government interest payments absorb about 69 percent of federal government revenue. Fiscal space is at risk due to high deficit and interest-to-revenue ratio.

2. **Nigeria's public debt is rising over the medium term under baseline projections**. Mostly domestic, the public debt-to-GDP ratio—which includes general government debt, CBN overdrafts, CBN financing of the power sector and AMCON debt— is forecast to increase to 41.6 percent by 2024. Public debt also includes non-interest-bearing promissory notes issued to clear payment arrears (about 2.6 trillion naira from 2018 through 2022) but does not incorporate state-owned enterprise debt. The primary deficit is projected to gradually improve by the end of projection period mainly on account of modest reduction in non-interest expenditure but remains the main driver of debt increase in the medium term as the contribution of growth and negative real interest rates to debt reduction will not be large enough to offset adverse dynamics from the fiscal deficits.

3. **Under current policies, Nigeria's financing needs in the medium term will average about 9.5 percent of GDP**. Interest payments—while low as share of GDP (less than 3 percent of GDP throughout the projection period)—are projected to approach the entirety of federal government revenue in 2024, up from 61 percent in 2018, due to weak revenue mobilization.

4. **Contingent liabilities present an additional fiscal risk.** Preliminary estimates suggest that explicit contingent liabilities of the federal government are around 3 percent of GDP. In addition, non-guaranteed liabilities of government owned entities and certain PPP and energy-related contingent liabilities, for which no data were available, are likely to pose significant risks. Risks from the composition of public debt is low, however, as most public debt is medium-to-long term and issued in domestic currency.

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

Stress Tests

6. Debt and gross financing needs do not worsen significantly under stress scenarios, masking the deterioration and sustainability concerns on liquidity-based indicators. While debt-to-GDP indicators remain sustainable, higher interest rates will further increase Nigeria's vulnerabilities by placing a principal risk on debt service. In particular, an interest rate shock would increase the FG interest-to-revenue ratio to over 160 percent. A standardized combined macro-fiscal shock that captures a combination of shocks, such as to real GDP growth, the deflator, revenues and expenditures, financing costs and exchange rate depreciation, would increase the ratio to 190 percent. A contingency shock—increasing non-interest expenditures by 10 percent of the banking sector, lower growth by one standard deviation in 2019 and 2020 and increasing inflation and interest cost— would increase the ratio to about 120 percent. The impact of a real exchange rate shock on debt dynamics is limited, mainly due to Nigeria's low stock of foreign currency denominated debt.

7. The fan charts indicate that there is significant uncertainty around the baseline. The width of the symmetric fan chart, estimated at about 25 percent of GDP by the end of the projection period, illustrates the degree of uncertainty for equal probability 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

8. The heat map identifies market perception, contingent liability shock and foreign currency debt as principal risks to debt sustainability.

Figure 1. Nigeria: Public Sector Debt Sustainability Analysis (DSA) – Baseline Scenario

(In percent of GDP, unless otherwise indicated)

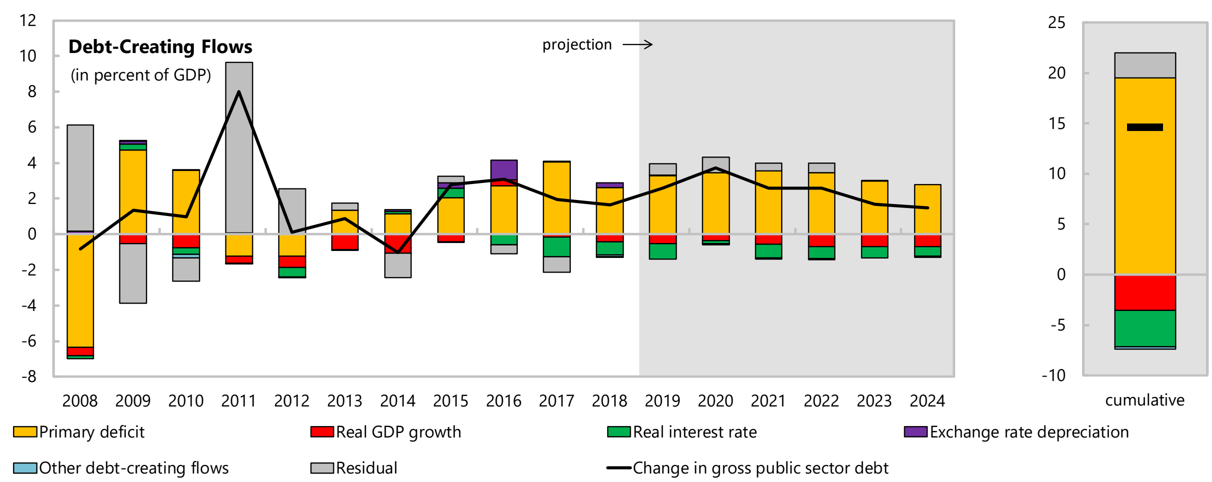
Debt, Economic and Market Indicators [1/]

	Actual			Projections					
	2008-2016 [2/]	2017	2018	2019	2020	2021	2022	2023	2024
Nominal gross public debt	15.6	25.3	27.0	29.5	33.3	35.9	38.4	40.1	41.6
Public gross financing needs	1.7	5.4	4.5	8.3	11.9	10.2	10.3	9.0	9.0
Real GDP growth (in percent)	5.4	0.8	1.9	2.2	1.3	1.9	2.1	2.0	2.0
Inflation (GDP deflator, in percent)	7.7	11.1	10.2	10.4	7.3	8.4	8.7	8.7	8.8
Nominal GDP growth (in percent)	13.6	12.0	12.3	12.8	8.7	10.4	11.0	10.9	10.9
Effective interest rate (in percent) [4/]	7.8	6.5	7.5	7.0	6.8	6.0	6.8	7.0	7.5
Adjusted effective interest rate (in percent) [5/]	8.0	7.3	8.5	9.6	8.8	8.4	10.3	11.2	12.6

As of February 21, 2020		
Sovereign Spreads		
EMBIG (bp) 3/		525
5Y CDS (bp)		354
Ratings	Foreign	Local
Moody's	B2	B2
S&Ps	B	B
Fitch	B	B+

Contribution to Changes in Public Debt [6/]

	Actual			Projections							
	2008-2016	2017	2018	2019	2020	2021	2022	2023	2024	cumulative	debt-stabilizing primary balance [11/]
Change in gross public sector debt	1.7	1.9	1.6	2.6	3.7	2.6	2.6	1.7	1.5	14.6	
Identified debt-creating flows	0.3	2.8	1.6	1.9	2.9	2.1	2.0	1.7	1.5	12.1	
Primary deficit	0.8	4.0	2.6	3.3	3.4	3.6	3.4	3.0	2.8	19.5	-1.2
Primary (noninterest) revenue and grants	12.4	6.6	8.5	7.9	7.7	7.6	7.8	7.9	8.1	47.0	
Primary (noninterest) expenditure	13.1	10.7	11.1	11.2	11.1	11.2	11.2	10.9	10.9	66.5	
Automatic debt dynamics [7/]	-0.4	-1.2	-0.9	-1.4	-0.5	-1.3	-1.4	-1.3	-1.2	-7.2	
Interest rate/growth differential [8/]	-0.6	-1.2	-1.2	-1.4	-0.5	-1.3	-1.4	-1.3	-1.2	-7.2	
Of which: real interest rate	-0.1	-1.1	-0.7	-0.9	-0.2	-0.8	-0.7	-0.6	-0.5	-3.6	
Of which: real GDP growth	-0.5	-0.2	-0.4	-0.5	-0.4	-0.6	-0.7	-0.7	-0.7	-3.5	
Exchange rate depreciation [9/]	0.2	0.0	0.3	...	...	...	...	...	...	...	
Other identified debt-creating flows	0.0	0.0	-0.1	0.0	-0.1	-0.1	-0.1	0.0	0.0	-0.2	
Net privatization proceeds (negative)	0.0	0.0	-0.1	0.0	-0.1	-0.1	-0.1	0.0	0.0	-0.2	
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/]	1.4	-0.9	0.0	0.7	0.9	0.4	0.6	0.0	0.0	2.5	



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 - π(1+g) - g + ae(1+r)]/(1+g+π+gπ)) 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 - π (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.

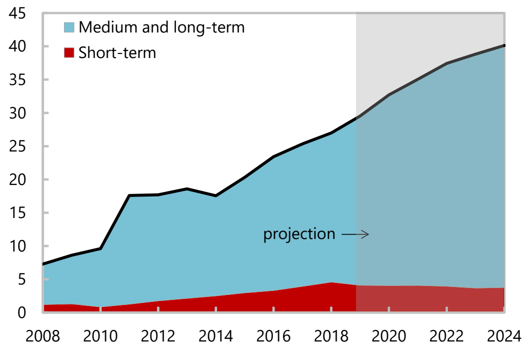
11/ Assumes that key variables (real GDP growth, real interest rate, and other identified debt-creating flows) remain at the level of the last projection year.

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

Composition of Public Debt

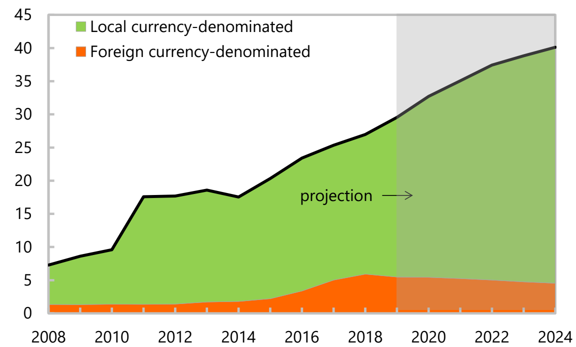
By Maturity

(in percent of GDP)



By Currency

(in percent of GDP)

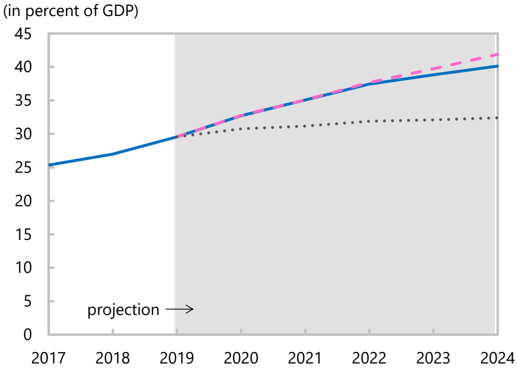


Alternative Scenarios

Baseline   Historical   Constant Primary Balance

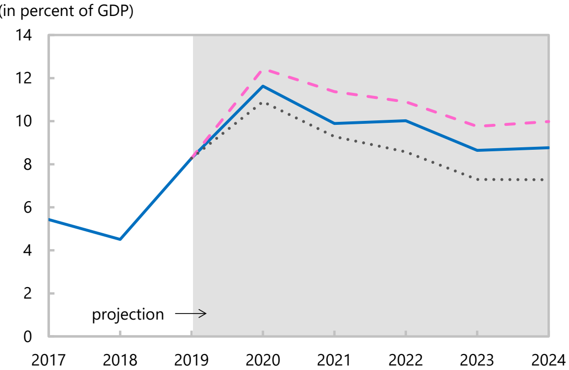
Gross Nominal Public Debt

(in percent of GDP)



Public Gross Financing Needs

(in percent of GDP)



Underlying Assumptions

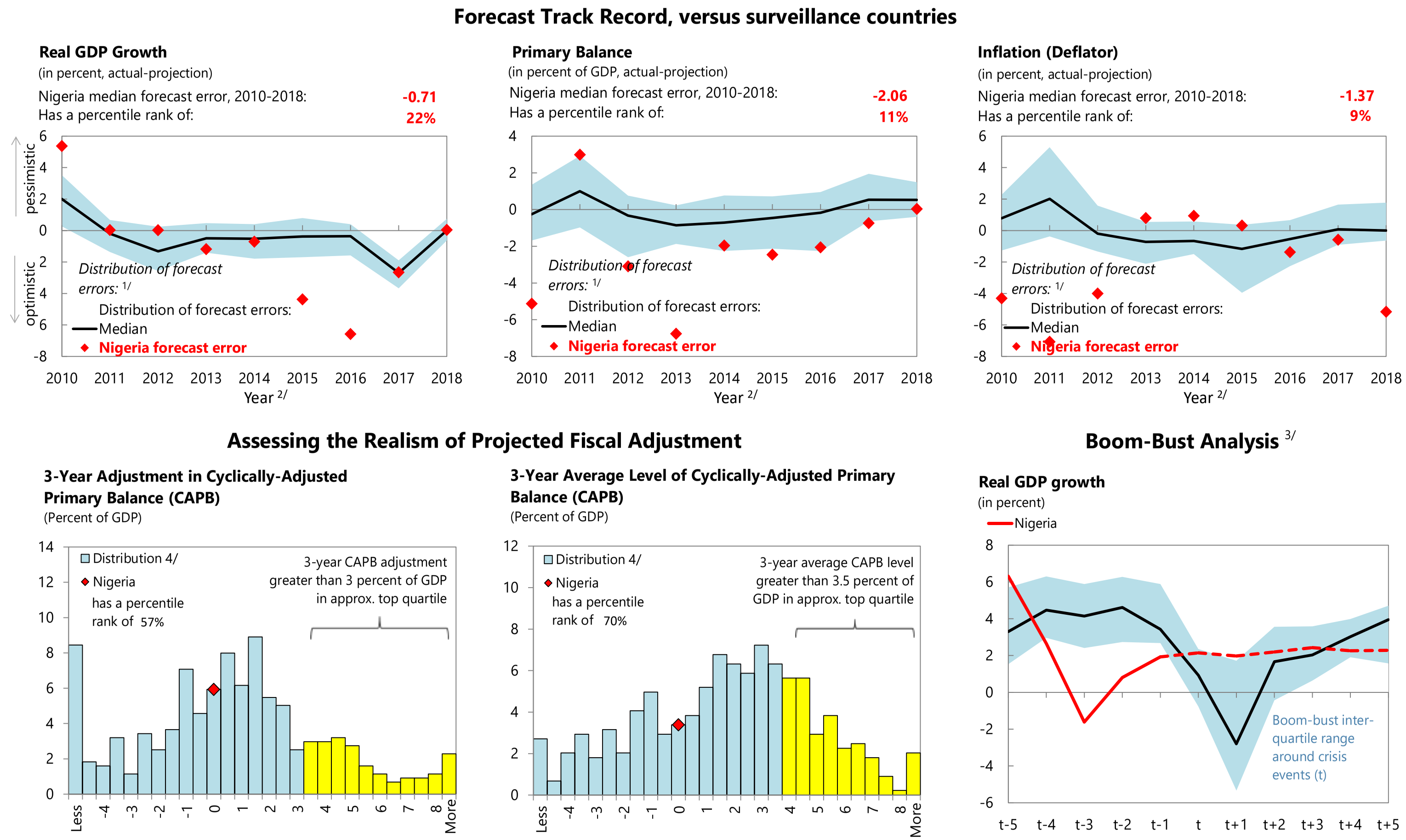
(in percent)

Baseline Scenario	2019	2020	2021	2022	2023	2024
Real GDP growth	2.2	2.0	2.2	2.4	2.3	2.3
Inflation	10.4	7.9	8.4	8.6	8.7	8.9
Primary Balance	-3.3	-3.3	-3.4	-3.3	-2.9	-2.7
Effective interest rate	9.7	10.0	7.5	8.6	6.9	7.5
Constant Primary Balance Scenario						
Real GDP growth	2.2	2.0	2.2	2.4	2.3	2.3
Inflation	10.4	7.9	8.4	8.6	8.7	8.9
Primary Balance	-3.3	-3.3	-3.3	-3.3	-3.3	-3.3
Effective interest rate	9.7	10.0	7.8	9.2	7.5	8.2

Historical Scenario	2019	2020	2021	2022	2023	2024
Real GDP growth	2.2	4.4	4.4	4.4	4.4	4.4
Inflation	10.4	7.9	8.4	8.6	8.7	8.9
Primary Balance	-3.3	-2.0	-2.0	-2.0	-2.0	-2.0
Effective interest rate	9.7	10.0	7.7	9.1	7.2	7.8

Source: IMF staff.

Figure 3. Nigeria: Public DSA – Realism of Baseline Assumptions



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/ Nigeria has had a positive output gap for 3 consecutive years, 2016-2018. For Nigeria, t corresponds to 2019; for the distribution, t corresponds to the first year of the crisis.

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

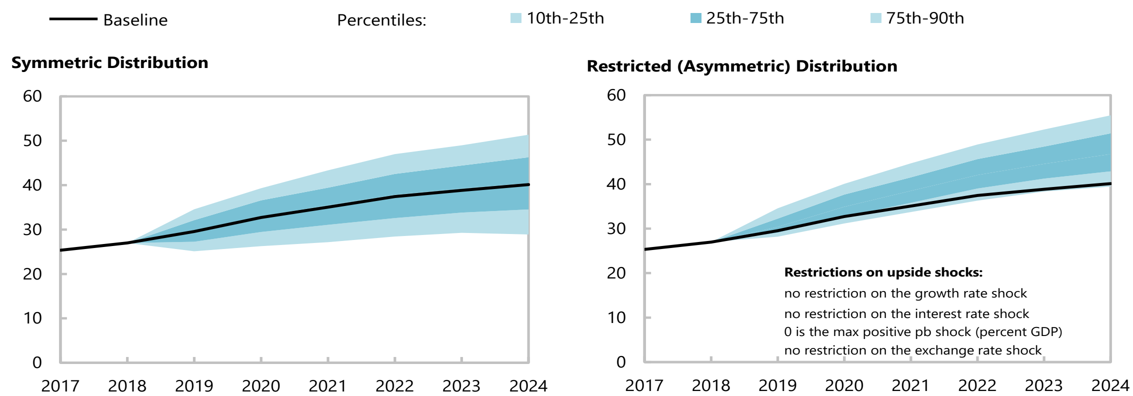
Figure 4. Nigeria: Public DSA Risk Assessment

Heat Map

Debt level [1/]	Real GDP Growth Shock	Primary Balance Shock	Real Interest Rate Shock	Exchange Rate Shock	Contingent Liability shock
Gross financing needs [2/]	Real GDP Growth Shock	Primary Balance Shock	Real Interest Rate Shock	Exchange Rate Shock	Contingent Liability Shock
Debt profile [3/]	Market Perception	External Financing Requirements	Change in the Share of Short-Term Debt	Public Debt Held by Non-Residents	Foreign Currency Debt

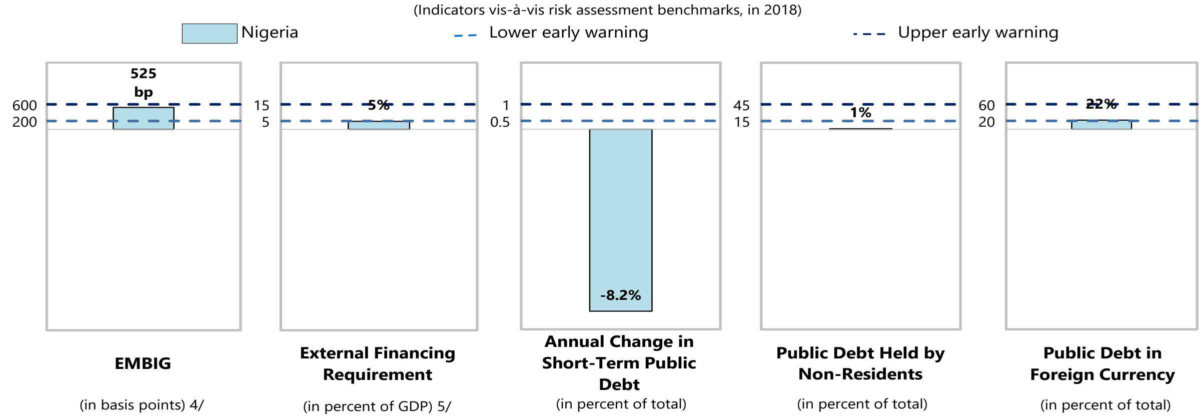
Evolution of Predictive Densities of Gross Nominal Public Debt

(in percent of GDP)



Debt Profile Vulnerabilities

(Indicators vis-à-vis risk assessment benchmarks, in 2018)



Source: IMF staff.

1/ The cell is highlighted in green if debt burden benchmark of 70% is not exceeded under the specific shock or baseline, yellow if exceeded under specific shock but not baseline, red if benchmark is exceeded under baseline, white if stress test is not relevant.

2/ The cell is highlighted in green if gross financing needs benchmark of 15% is not exceeded under the specific shock or baseline, yellow if exceeded under specific shock but not baseline, red if benchmark is exceeded under baseline, white if stress test is not relevant.

3/ The cell is highlighted in green if country value is less than the lower risk-assessment benchmark, red if country value exceeds the upper risk-assessment benchmark, yellow if country value is between the lower and upper risk-assessment benchmarks. If data are unavailable or indicator is not relevant, cell is white.
Lower and upper risk-assessment benchmarks are:

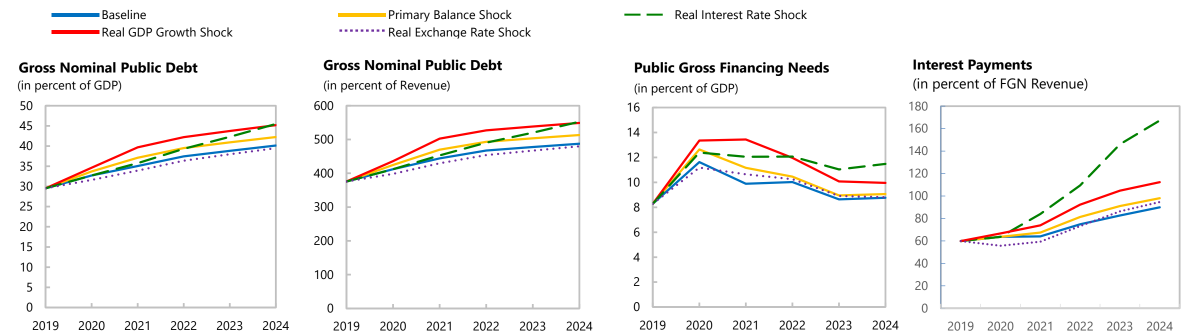
200 and 600 basis points for bond spreads; 5 and 15 percent of GDP for external financing requirement; 0.5 and 1 percent for change in the share of short-term debt; 15 and 45 percent for the public debt held by non-residents; and 20 and 60 percent for the share of foreign-currency denominated debt.

4/ EMBIG, an average over the last 3 months, 23-Nov-19 through 21-Feb-20.

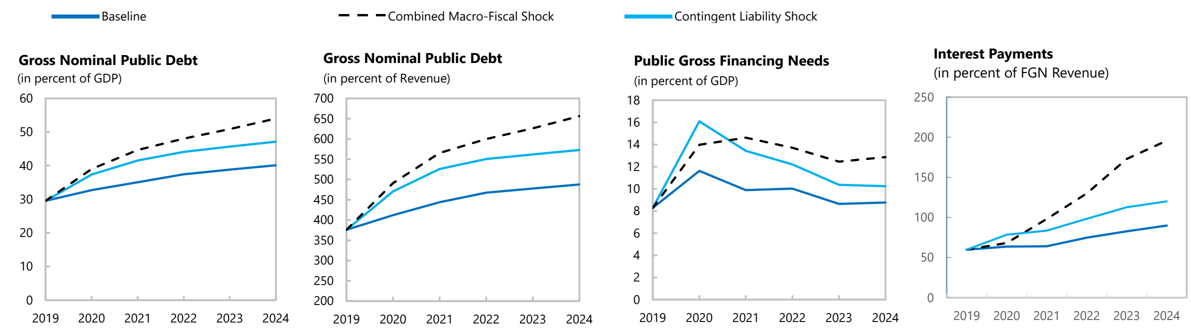
5/ External financing requirement is defined as the sum of current account deficit, amortization of medium and long-term total external debt, and short-term total external debt at the end of previous period.

Figure 5. Nigeria: Public DSA – Stress Tests

Macro-Fiscal Stress Tests



Additional Stress Tests



Underlying Assumptions

(in percent)

Primary Balance Shock	2019	2020	2021	2022	2023	2024
Real GDP growth	2.2	2.0	2.2	2.4	2.3	2.3
Inflation	10.4	7.9	8.4	8.6	8.7	8.9
Primary balance	-3.3	-4.3	-4.4	-3.3	-2.9	-2.7
Effective interest rate	9.7	10.0	7.7	8.8	7.2	7.7
Real Interest Rate Shock						
Real GDP growth	2.2	2.0	2.2	2.4	2.3	2.3
Inflation	10.4	7.9	8.4	8.6	8.7	8.9
Primary balance	-3.3	-3.3	-3.4	-3.3	-2.9	-2.7
Effective interest rate	9.7	10.0	9.9	12.3	11.6	12.7
Combined Shock						
Real GDP growth	2.2	-1.7	-1.6	2.4	2.3	2.3
Inflation	10.4	7.0	7.4	8.6	8.7	8.9
Primary balance	-3.3	-4.3	-4.5	-3.3	-2.9	-2.7
Effective interest rate	9.7	10.3	9.2	11.7	11.2	12.4

Real GDP Growth Shock	2019	2020	2021	2022	2023	2024
Real GDP growth	2.2	-1.7	-1.6	2.4	2.3	2.3
Inflation	10.4	7.0	7.4	8.6	8.7	8.9
Primary balance	-3.3	-3.8	-4.5	-3.3	-2.9	-2.7
Effective interest rate	9.7	10.0	7.8	9.3	7.7	8.3
Real Exchange Rate Shock						
Real GDP growth	2.2	2.0	2.2	2.4	2.3	2.3
Inflation	10.4	26.2	8.4	8.6	8.7	8.9
Primary balance	-3.3	-3.3	-3.4	-3.3	-2.9	-2.7
Effective interest rate	9.7	10.3	7.2	8.7	7.4	8.0
Contingent Liability Shock						
Real GDP growth	2.2	-1.7	-1.6	2.4	2.3	2.3
Inflation	10.4	7.0	7.4	8.6	8.7	8.9
Primary balance	-3.3	-6.0	-3.4	-3.3	-2.9	-2.7
Effective interest rate	9.7	11.8	8.2	9.5	8.0	8.5

Source: IMF staff.

External Debt Sustainability Analysis

9. External debt has been increasing rapidly but remains relatively low. The level of (public and private) external debt is projected at about 28 percent of GDP at end-2019 (Table 1).[1] Higher debt and lower exports in US$ terms have increased the external debt-to-exports ratio to about 187 percent, up from just 98 percent in 2014. Gross external financing needs have risen but appears contained at around 9 percent of GDP.

10. Under the baseline,[2] external debt would decline slightly as share of GDP, and gross external financing needs would decline to 7-8 percent of GDP. With oil prices expected to be well below the 2019 average and continued weak growth, private sector external borrowing is projected to grow largely in line with the economy. The public sector is expected to continue to draw on financing from bilateral and commercial external sources. Nominal interest rates are expected to continue to contribute to external debt accumulation, given relatively tight global financing conditions and Nigeria's macroeconomic risk profile. 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 (Figure 6).

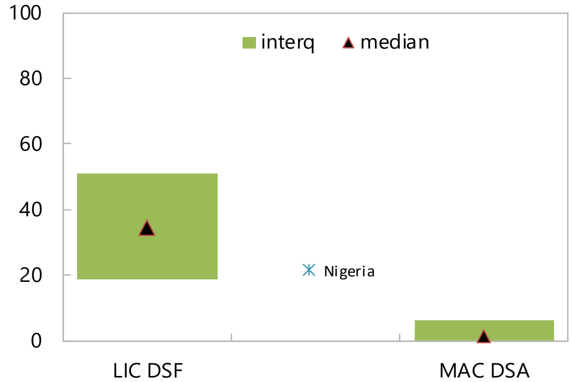
11. Stress tests are used to illustrate the sensitivity of debt levels to various potential shocks (see Figure 7). Higher interest rates or a slowdown in economic growth would not, by themselves, lead to outcomes substantially different from the baseline. On the other hand, a shock to the non-interest 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 an upward 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 has been experienced in the recent 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 the data on Nigeria's International Investment Position and 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 markets data on securities issued abroad, and average interest rates on such securities.

[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).

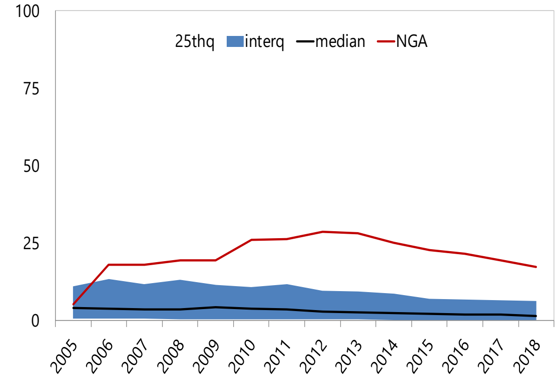
Figure 6. Nigeria: Concessional Debt, Export Volatility, and Oil Price

Concessional Debt as a share of Total External Debt Stock, 2018
(Percent)



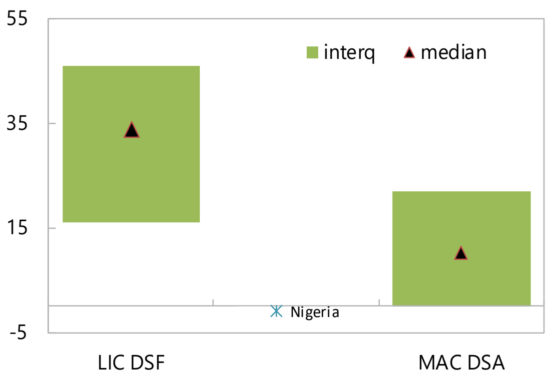
Sources: Calculations based on International Debt Statistics and WEO.

Concessional/External debt: MAC DSA
(Percent)



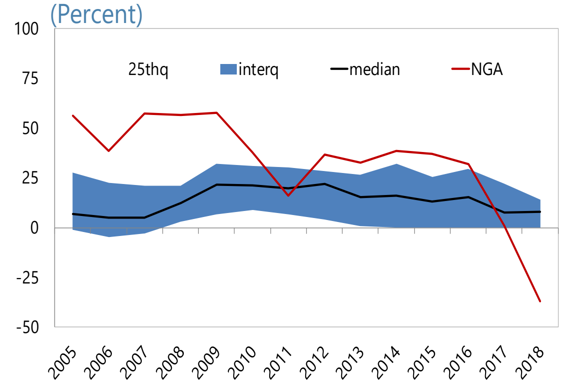
Sources: Calculations based on WB International Debt Statistics.

Grant Element on New External Debt Commitments, Average 2015-18
(Percent)



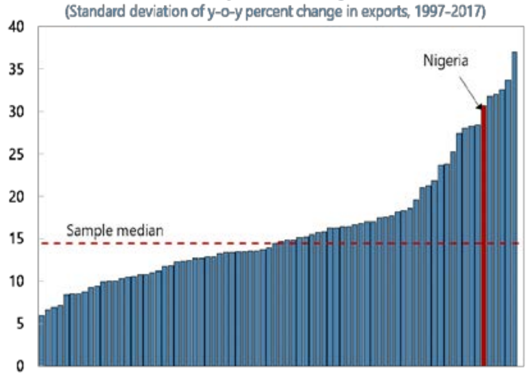
Sources: Calculations based on International Debt Statistics and WEO.

GE new external debt: MAC DSA
(Percent)



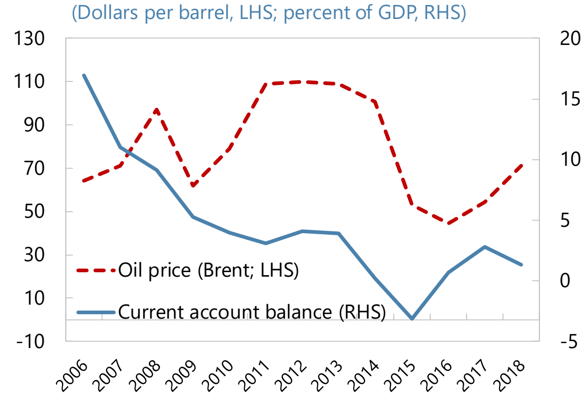
Sources: Calculations based on WB International Debt Statistics.

Export Volatility
(Standard deviation of y-o-y percent change in exports, 1997-2017)



Sources: IMF, *World Economic Outlook* database; and IMF staff calculations.

Oil Price and Current Account
(Dollars per barrel, LHS; percent of GDP, RHS)



Source: Nigerian Authorities, IMF estimates

Table 1. Nigeria: External Debt Sustainability Framework, 2014–24
(In percent of GDP, unless otherwise indicated)

	Actual							Projections						
	2014	2015	2016	2017	2018	10-Year Historical Average	10-Year Standard Deviation	2019	2020	2021	2022	2023	2024	Debt-stabilizing non-interest current account 7/
Baseline: External debt 1/	**14.5**	**15.2**	**18.9**	**25.7**	**29.1**			**28.3**	**28.6**	**28.5**	**28.1**	**27.6**	**26.9**	**-2.1**
Change in external debt	3.8	0.7	3.7	6.8	3.4			-0.8	0.3	-0.1	-0.4	-0.5	-0.6	
Identified external debt-creating flows (4+8+9)	-1.5	5.4	0.0	-4.4	-4.0			0.2	1.4	0.6	0.2	-0.2	-0.3	
Current account deficit, excluding interest payments	-1.0	1.9	-2.2	-4.6	-3.4			0.5	1.2	0.6	0.3	-0.2	-0.4	
Deficit in balance of goods and services	0.3	4.7	2.1	0.0	0.9			5.5	6.8	6.2	5.6	5.2	4.7	
Exports	14.9	10.0	9.3	13.5	17.1			15.2	12.5	12.1	12.4	11.8	11.4	
Imports	15.1	14.6	11.4	13.6	18.0			20.7	19.3	18.3	18.0	17.0	16.1	
Net non-debt creating capital inflows (negative)	-0.2	0.0	-0.8	-1.4	-0.7			-1.7	-1.4	-1.5	-1.4	-1.3	-1.2	
Automatic debt dynamics 2/	-0.2	3.5	3.0	1.6	0.1			1.4	1.6	1.4	1.3	1.3	1.3	
Contribution from nominal interest rate	0.8	1.2	1.6	1.8	2.1			2.0	2.0	1.9	1.9	1.8	1.8	
Contribution from real GDP growth	-0.6	-0.4	0.3	-0.2	-0.5			-0.6	-0.3	-0.5	-0.5	-0.5	-0.5	
Contribution from price and exchange rate changes 3/	-0.4	2.7	1.1	-0.1	-1.5			...	...	...	...	...	...	
Residual, incl. change in gross foreign assets (2-3) 4/	5.3	-4.7	3.7	11.2	7.4			-1.0	-1.1	-0.7	-0.6	-0.3	-0.3	
External debt-to-exports ratio (in percent)	97.7	152.7	203.6	190.0	170.9			186.9	228.4	235.6	227.1	233.0	237.3	
Gross external financing need (in billions of US dollars) 5/	11.1	45.1	17.0	9.7	19.3			39.4	47.4	49.0	48.4	50.0	52.2	
in percent of GDP	2.0	9.2	4.1	2.6	4.8			8.8	9.7	9.1	8.1	7.5	7.1	
Scenario with key variables at their historical averages 6/								**26.7**	**27.1**	**28.4**	**30.1**	**32.4**	**35.0**	**0.6**
Key Macroeconomic Assumptions Underlying Baseline														
Real GDP growth (in percent)	6.3	2.7	-1.6	0.8	1.9	4.4	3.7	2.2	1.3	1.9	2.1	2.0	2.0	
GDP deflator in US dollars (change in percent)	3.8	-15.6	-16.5	-7.9	4.0	-1.8	11.2	10.1	7.3	8.4	8.7	8.7	8.8	
Nominal external interest rate (in percent)	8.2	7.3	8.5	8.9	8.5	8.3	0.7	7.7	7.6	7.4	7.3	7.2	7.1	
Growth of exports (US dollar terms, in percent)	-13.3	-42.0	-21.6	32.3	33.6	1.4	29.2	0.0	-10.2	6.6	13.6	6.1	6.4	
Growth of imports (US dollar terms, in percent)	16.5	-16.4	-34.7	8.4	40.6	4.0	25.9	29.2	1.7	4.6	9.1	4.8	5.0	
Current account balance, excluding interest payments	1.0	-1.9	2.2	4.6	3.4	3.2	2.3	-0.5	-1.2	-0.6	-0.3	0.2	0.4	
Net non-debt creating capital inflows	0.2	0.0	0.8	1.4	0.7	1.4	1.0	1.7	1.4	1.5	1.4	1.3	1.2	

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).

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

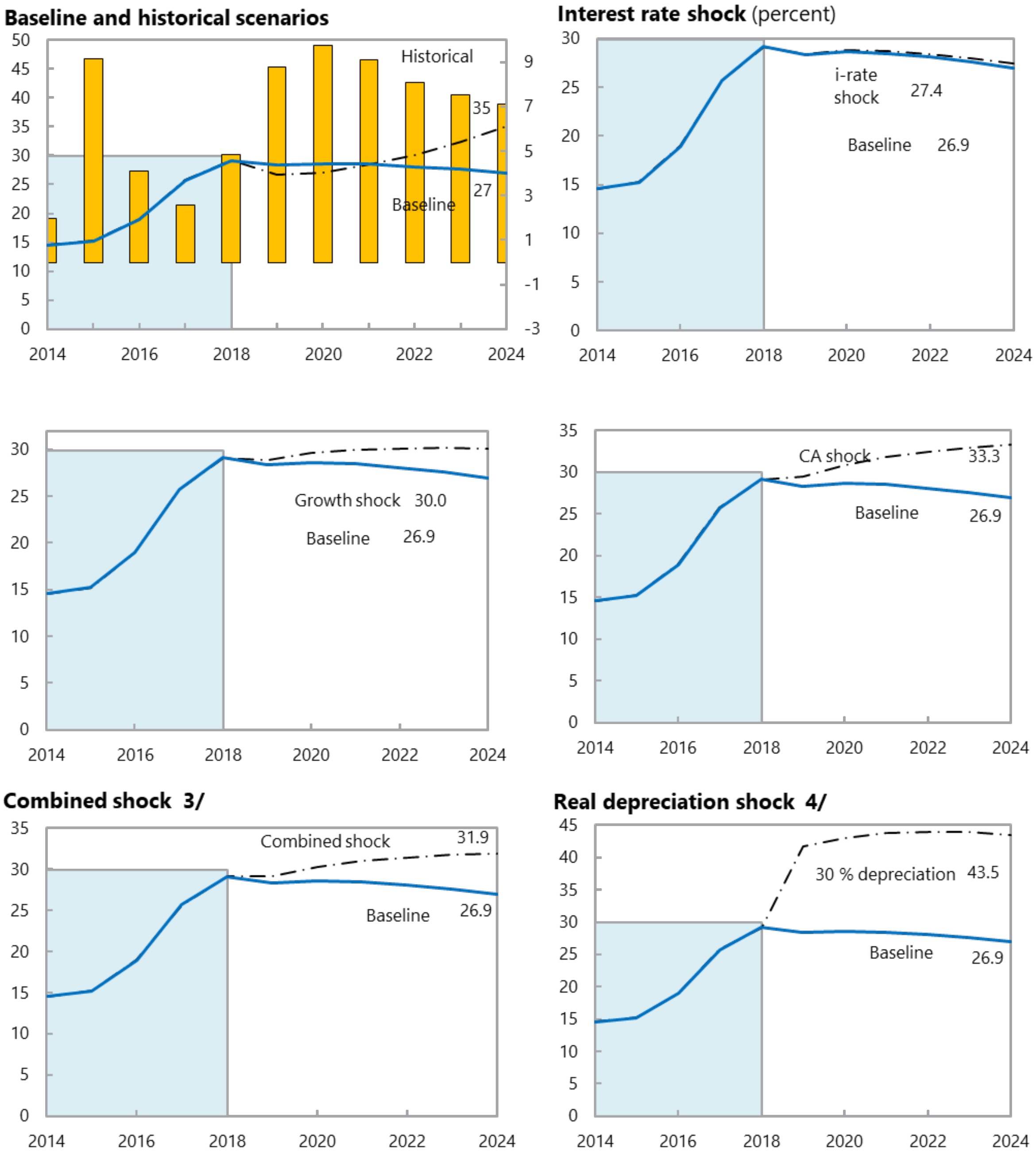
5/ Defined as current account deficit, plus amortization on medium- and long-term debt, plus short-term debt at end of previous period.

6/ 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.

7/ 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

Figure 7. Nigeria: External Debt Sustainability: Bound Tests 1/ 2/

(External Debt in percent of GDP)



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.

Annex III. Risk Assessment Matrix

Nigeria: Risk Assessment Matrix[1]				
Sources of Risk	**Likelihood**	**Time Horizon**	**Impact on Nigeria**	**Policy Responses**
External Risks				
Rising protectionism and retreat from multilateralism. In the near term, escalating and unpredictable protectionist actions and a substantially weakened WTO dispute resolution framework imperil the global trade system. Additional actions or the threat thereof, including investment restrictions, reduce growth directly and through adverse confidence effects. In the medium term, geopolitical competition, protracted tensions, and fraying consensus about the benefits of globalization leads to further fragmentation, with adverse effects on investment, productivity, growth, and stability.	High	Short to Medium Term	Medium	• ***Rebuild fiscal and external buffers*** including via non-oil revenue mobilization and greater exchange rate flexibility, to counter trade and/or financing shortfalls. • Continue improving the ***business environment*** to boost productivity and competitiveness and deepen regional trade integration. This, in a reform package with sound fiscal and monetary policies, would help ***diversify exports***, both in terms of export products (away from oil) and trading partners. • Address the ***infrastructure gap***. Significant public and private investment is needed to improve power generation, improve logistics and expand capacity.
Weaker-than-expected global growth. Other G-RAM risks and Idiosyncratic factors in the U.S., Europe, China, and stressed emerging markets feed off each other to result in a synchronized and prolonged growth slowdown. • **U.S.**: Confidence wanes against a backdrop of a long expansion, stretched asset valuations, rising leverage, and reduced policy space, leading to weaker consumption and investment. • **Europe:** Weak foreign demand or an unanticipated Brexit outcome delays investment, reduces private consumption, and strains banks. With limited policy space, the region enters a prolonged period of anemic growth and low inflation. • **China:** In the near term, Coronavirus and renewed escalation of trade tensions reduce growth directly and by damping confidence and exposing financial vulnerabilities. In the medium term, the reversal of globalization alongside insufficient progress on SOE reform and opening-up weigh on growth. Excessive policy easing—reversing progress in deleveraging and rebalancing—increases risks over time of a disruptive adjustment or a marked growth slowdown. • **Large emerging economies**: Policy missteps, idiosyncratic shocks, and/or contagion prevent expected stabilization or recovery from materializing, generating negative spillovers and reducing global growth.	High	Short to Medium Term	High	

Sharp rise in risk premia that exposes financial vulnerabilities. An abrupt reassessment of market fundamentals triggers widespread risk-off events that expose financial vulnerabilities that have been building in a period of low interest rates and a search for yield. Risk asset prices fall sharply, leading to significant losses in major financial institutions. Higher risk premia generate debt service and refinancing difficulties; stress on leveraged firms, households, and vulnerable sovereigns; and capital outflows.	**High** **Medium**	**Short Term** **Medium Term**	**High**	• ***Fiscal consolidation*** for continued access to international capital markets, and free resources to priority spending and private credit. • Strengthen the ***supervisory and regulatory framework***, especially as it pertains to cross-border banking activity and improve corporate governance. • Strengthen ***monetary and exchange rate policy frameworks***, including by allowing greater flexibility to avoid eventual future sharp devaluations; with stronger emphasis on price stability as the primary objective of monetary policy.
More severe Covid-19 pandemic causes widespread and prolonged disruptions to economic activity directly, though global trade and supply chain spillovers, and via confidence effects on financial markets and investment.	**High**	**Short Term**	**High**	• If this leads to weaker global growth trade disruptions, and lower oil prices 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. • Closely monitor developments and prepare for a domestic coronavirus pandemic. • To the extent oil prices rise, then the impact would be positive for Nigeria, and good **resource management** practices including efforts on PIMA are recommended.
Intensification of geopolitical tensions and security risks (e.g., in the Middle East) causes economic and political disruption, disorderly migration, volatile commodity prices, and lower confidence.	**High**	**Short Term**	**High**	
Large swings in energy prices. Risks to prices are large and uncertain, stemming from both supply and demand shocks. In the near term, uncertainty surrounding the shocks elevates price volatility, complicating economic management. As shocks materialize, they cause large and persistent price swings. While, on aggregate, lower oil prices would cushion global growth, they would harm oil exporters.	**High**	**Short to Medium Term**	**High**	• Allow greater ***exchange rate flexibility*** to support adjustment to external shocks. • ***Structural reforms*** to improve economic efficiency and enhance diversification. • Tight **monetary stance and enhanced monetary framework** to prevent capital outflows and bolster reserves. • ***Non-oil revenue mobilization*** to shield against declines in oil revenue and ***contain recurrent expenditure*** to conserve scarce resources for public investment.
Cyber-attacks on critical global infrastructure, institutions, and financial systems trigger systemic financial instability or widespread disruptions in socio-economic activities.	**Low**	**Short to Medium Term**	**Low**	• 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 cyber monitoring capacity and framework and develop contingency plans.
Higher frequency and severity of natural disasters cause severe economic damage to smaller economies susceptible to disruptions (medium probability). 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 (low probability).	**Medium / Low**	**Short to Medium Term**	**High**	• Rebuild fiscal and external buffers to counter effects demand shortfalls and adverse effects on vulnerable groups. • Continue improving the business environment to boost productivity and competitiveness, and to foster diversity to dampen negative effects. • Address the infrastructure gap. Significant public and private investment are needed to improve power generation, improve logistics and expand capacity.

Nigeria-specific Risks				
Speed of reform implementation Further delays could trigger a loss of confidence, lower growth and capital outflows. **Disruption of oil production in the Niger Delta and deterioration of security conditions and/or insurgency-related humanitarian crisis in the North East.**	**High** **High**	**Short Term** **Medium Term**	**High** **High**	***Integrated policy package*** (including communication strategy) to address near-term vulnerabilities to sudden stop and support transition to a more diversified economy. This includes strengthen monetary and exchange rate frameworks, structural reforms, and an improved business environment. • Strengthen security and investment environment in the ***oil and gas*** sector.
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.	**High**	**Short Term**	**High**	***Stepping up anti-corruption and governance efforts*** including with respect to asset declaration, politically exposed persons (ensuring that reporting institutions identify them and conduct enhanced ongoing monitoring of those customer relationships), the transparency of beneficial ownership of legal persons, and corporate governance. ***Strengthen the AML/CFT regime,*** including by implementing past Fund recommendations and the recommendations due to be provided in a 2020 report on the results of a recent AML/CFT assessment

[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.

Annex IV. Staff's Adjustment Scenario

The adjustment strategy in the short-run will have a muted impact on growth from a tighter macroeconomic policy mix and currency depreciation. The longer-term dividends of reform are significant: GDP growth is lifted to 4.5 percent by 2025 and inflation converges to the CBN's target. The package will also build up buffers to external shocks while unlocking robust credit growth and financial deepening necessary to unleash private sector development.

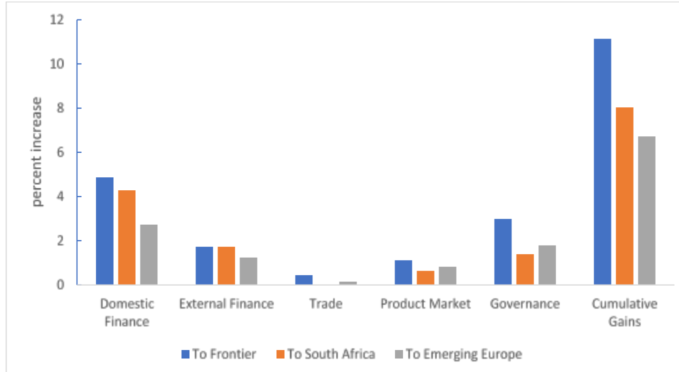
The adjustment scenario is based on the following policy assumptions:

- **Fiscal.** Consolidation measures start in 2021, with a shift to the small consolidated government fiscal surplus about 0.2 percent of GDP in 2025, which helps remove financing constraints and reduce vulnerabilities arising from oil price volatility. This would result in savings in interest payments up to 1.1 percent of GDP by 2025, as the need for direct CBN financing (at a cost of 300 bps above the policy rate) is eliminated. The medium-term revenue-based consolidation also allows for higher public investment (also helped by higher efficiency) and social spending, which helps stimulate private investment. With strong increase in revenues based on the intergovernmental revenue-sharing arrangement and enhanced property taxation, state and local government fiscal balances improve from 0.3 percent of GDP deficit in 2019 to a surplus of 1.6 percent of GDP by 2024.
- **Exchange Rate.** After unification, a front-loaded exchange rate adjustment occurs in 2020-21, closing Staff's estimated REER overvaluation gap. The REER depreciates by 1 percent a year over the medium term to bolster competitiveness.
- **Monetary and Financial Policy.** Once the COVID-19 shock passes, tighter and more effective monetary policy in the first two years helps bring inflation down. More accommodating monetary policy is allowed in later years once inflation expectations are anchored. Combined with strong policies to strengthen banking sector resilience and structural reform, this helps facilitate financial deepening with M3 to GDP ratio increasing from 27 to 33 percent of GDP in the medium term.

- **Structural policies.** With Nigeria's large informal sector (60 percent), the impact of structural reforms could be large, particularly if the initial focus is on governance and financial access. Estimates from the latest IMF WEO research implies that advancing reforms in Nigeria in domestic finance (financial access, stronger banking supervision), external finance (less restrictions), product market reforms (e.g., power sector) and governance to the level of Emerging Europe could increase GDP by almost 7 percent over 6 years, about 1 percentage points a year increase (it would have been even more if reforms were brought to the level of more advanced economies (e.g., the frontier)). And that is, without counting reform benefits from educational/health reforms or gender (which past analysis estimated could bring up an additional percentage point increase in growth), which could boost growth even more.

Structural Reforms and Economic Gains

(Over the next 6 Years)



Sources: World Economic Outlook (October 2019) and IMF staff calculations.
Note: Bars represent the percent increase in aggregate output from a reduction in the corresponding friction. The five areas of structural reforms covers: trade (tariffs); domestic finance (credit and interest rate controls, entry barriers, public owernership, quality of supervision in the domestic financial system); external finance (capital account openness, encompassing regulations governing international transactions); product market regulation (stringency of regulations and public ownership in two large network industries—namely, electricity and telecommunications); and governance (World Governance Indicators).

Impact on Key Variables:

- **GDP Growth.** Despite short-term costs of policy adjustment on real income (through depreciation) and expenditure (through tighter macro policy mix), medium-term growth dividends of reform are significant. Oil production increases to 2.4 mbpd as reforms—including through greater clarity in the petroleum fiscal legislation and the adoption of the Petroleum Governance Bill—accelerate investment in the sector. Exchange rate realignment boosts net exports while structural reform—including in the power sector—and expanded fiscal space through higher non-oil revenues unlocks investment. A similar path applies to inflation as the initial impact of deprecation gets overridden by the confidence impact of increased policy coherence and more adequate fiscal and monetary policy mix.

- **Fiscal.** The adjustment package calls for non-oil revenue increasing by 7.1 percent of GDP over the medium term, contributing to reducing the interest payment to FG Revenue ratio to 33 percent.

- **External**. The implementation of a credible fiscal policy package, along with restoration of a unified foreign exchange market and less regulatory burden, helps reduce risk premia, attract more longer-term inflows and contribute to building up reserve buffers, along with an improved current account balance (albeit slowed some by improving imports as the economic recovery picks up).

- **Credit growth**. Fiscal consolidation, financial deepening, and bank recapitalization outweighs squeeze from larger NFA flows, leading to a double-digit credit growth over the medium term.

Nigeria: Selected Economic and Financial Indicators, 2019–25

	2019	2020	2025	2020-25	2020	2025	2020-25	Diff. 1/
		Baseline scenario			Adjustment scenario			
National income and prices								
Real GDP (at 2010 market prices)	2.3	1.3	2.0	1.9	1.3	4.5	3.3	1.5
Non-oil GDP	2.0	1.2	2.0	1.8	1.2	4.7	3.3	1.4
Non-oil non-agricultural GDP	1.8	0.8	1.4	1.3	0.8	5.0	3.3	2.0
Production of crude oil (million barrels per day)	2.0	2.0	2.2	2.1	2.0	2.4	2.2	0.2
Consumer price index (end of period)	12.0	12.7	10.5	11.3	12.7	7.0	9.9	-1.4
Investment and savings								
Gross national savings	12.0	11.5	12.6	12.4	11.8	13.8	13.0	0.6
Investment	14.0	14.2	13.2	14.1	14.2	13.2	13.9	-0.1
Current account balance	-2.5	-3.2	-1.3	-2.2	-2.9	0.0	-1.5	0.7
Consolidated government operations								
Total revenues and grants	7.9	7.7	8.2	7.9	7.9	17.4	12.6	4.7
Of which: oil and gas revenue	3.7	2.9	3.1	3.0	3.2	6.0	4.7	1.8
Total expenditure and net lending	12.8	13.0	13.9	13.4	13.0	17.1	15.2	1.8
Capital Expenditure	3.0	2.9	3.0	2.9	3.4	5.4	4.6	1.6
Overall balance	-5.0	-5.3	-5.6	-5.5	-5.2	0.2	-2.6	2.8
Non-oil primary balance	-7.0	-6.4	0.0	-5.2	-6.5	-3.9	-5.5	-0.3
Non-oil revenue	4.2	4.7	0.2	4.1	4.7	11.3	7.8	3.7
Public gross debt	29.5	33.3	43.1	38.7	32.9	27.6	32.7	-6.0
FGN interest payments (percent of FGN revenue)	59.9	68.7	104.3	85.9	66.7	33.0	47.9	-37.9
Money and credit								
Broad money (percent change; end of period)	6.2	6.5	13.3	12.3	10.4	20.0	17.8	5.5
Credit to the private sector (y-o-y,%)	13.6	4.6	0.4	1.6	16.7	25.5	21.6	20.0
External sector								
Gross international reserves (US$ billions)	38.1	30.4	20.4	23.8	34.1	90.7	53.8	30.0
(equivalent months of imports of G&Ss)	4.9	3.7	1.9	2.5	4.3	7.6	5.4	2.9

Sources: Nigerian authorities; and IMF staff estimates and projections.
1/ Difference between averages

The adjustment scenario implies a depreciation initially. A sensitivity analysis of a ten percent depreciation in the exchange rate shows the following impacts:

- Higher oil and customs/VAT revenues, which would reduce the overall fiscal deficit by 0.1 percent of GDP. The increase in revenues would be partially offset by higher externally-financed capital expenditure and interest payments.
- The current account balance would improve by about 1 percent of GDP, mainly through lower non-oil imports. A depreciation may encourage capital inflows by reducing overvaluation.

- Inflation would increase by 1 percentage point within 6 months, considering that imports account for 17 percent of the CPI basket. Inflation expectations and transportation mark-ups could give rise to second round inflationary effects.
- An increase in banking sector NPLs by 3 percentage points and reducing the overall CAR by 1 percentage points. However, existing limits on foreign currency exposure—on FX borrowing and NOP—combined with the policy banning foreign currency lending to customers without foreign currency revenue help mitigate the impact of the depreciation on banks' balance sheets.

Annex V. External Stability Assessment

The external position of Nigeria in 2019 was substantially weaker than consistent with fundamentals and desirable policy settings, although there are significant uncertainties linked to large balance of payment Errors and Omissions. Reserves at end-2019 corresponded to 55 percent of the Assessment of Reserve Adequacy (ARA) metric, including the oil buffer. The current account has turned into a deficit, increasing existing vulnerabilities arising from declining and relatively low reserve adequacy and a high reliance on capital inflows.

A. Current Account and Exchange Rate Regressions

1. The analysis is based on the revised EBA-Lite methodology with a focus on the current account and the Real Effective Exchange Rate (REER) regression analyses.[1] The main vehicle for the assessment is the EBA-Lite regression analyses of the current account. This leads to an estimated current account gap of 4.7 percent of GDP corresponding to a REER gap of about 20 percent (Table 1). On balance, the bottom-line assessment is that the external position of Nigeria in 2019 was substantially weaker than consistent with fundamentals and desirable policy setting in line with the current account regression, reflecting the recent deterioration and related pressures on external financing and reserves.

- **Current Account Approach**. The revised EBA-lite methodology models the current account balance as a function of the fundamentals of the economy, including the role of policy and financial variables.[2] The model finds that the current account in 2019 was substantially weaker than the norm by 4.7 percent of GDP, implying it was weaker than consistent with fundamentals and desirable policy settings, with macroeconomic policy gaps contributing 0.7 percentage points of GDP to the current account gap. It should be noted that the estimate is uncertain due to large one-off transactions, and data gaps resulting in large and varying errors and omissions in the Balance of Payments, which are also reflected in a large negative residual estimated current account gap.
- **Equilibrium REER Approach**.[3] This price-based approach directly models a REER norm within a panel framework as a function of cyclical and structural variables. The large inflation differential

[1] The review involved: (1) expanding the fundamentals and policy determinants in the EBA-Lite current account and REER regression models; (2) identifying complementary approaches to regression-based methods for the external assessment of large exporters of exhaustible commodities; and (3) a revised approach for the deterministic assessment of external sustainability. See IMF Working Paper 13/272 and the 2016 Methodological Note on EBA-Lite for information about EBA-Lite 1.0.

[2] The key revisions to the EBA-Lite current account regression model focus on clarifying the role of remittances and aid in the external balance; incorporating shocks (natural disasters and armed militarized conflicts) to better capture the determinants of the external balance in EBA-Lite countries; and, expanding the policy determinants by introducing social insurance policies and revising the financial policy variables.

[3] In parallel with the revised current account model, analogous changes will be made to the revised EBA-Lite REER regression model. The REER model will use the indicative policy norms for the credit-to-GDP ratio, credit growth, and public health policy.

with trading partners is appreciating the exchange rate in real terms and the model suggests the real exchange rate is overvalued by 6.7 percent and weaker than consistent with fundamentals and desirable policies.

Table 1. Nigeria: EBA-Lite current account and REER Regression Results

	Current Account Regression[1]	Equilibrium REER Regression[1]
CA cyclically adjusted	-2.5	...
CA norm	1.6	...
Current account gap	-4.7	...
o/w: Policy gap	-0.7	1.5
Residual	-4.0	0.1
Natural Disasters and Conflicts	0.6	-1.7
Real exchange rate gap[2]	20.1	6.7

Source: IMF staff estimates.

[1] Based on the revised EBA-Lite methodology.

[2] Positive numbers indicate overvaluation. Staff estimated elasticity of CA to REER gap is 0.24, compared to an EBA model estimate of 0.13, reflecting increased sensitivity in recent years.

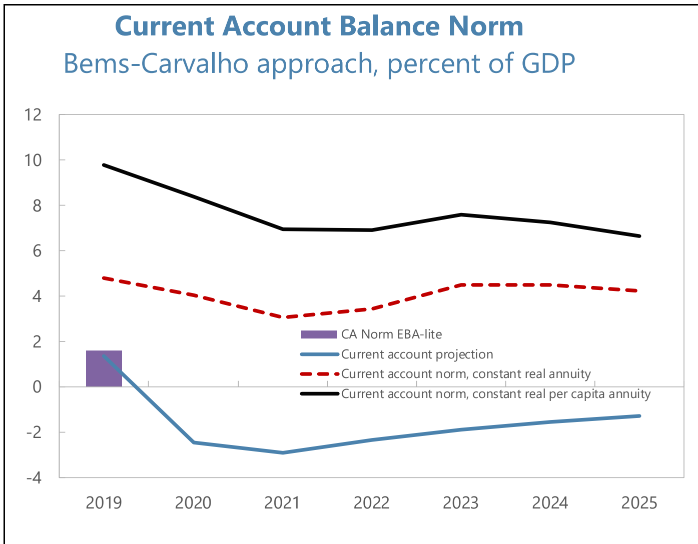
B. External Sustainability Module

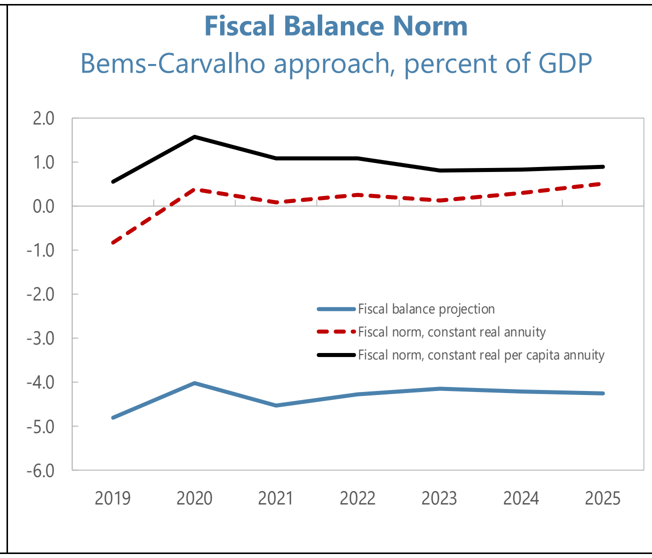
2. **The External Sustainability (ES) approach suggests moderate current account and REER gaps**. It calculates the REER adjustment required to satisfy the inter-temporal budget constraint as a measure of the external adjustment required to restore external sustainability. Specifically, the approach derives a current account norm as the medium-term balance that would allow net foreign assets (NFA) to reach a certain benchmark level. The revised EBA-Lite methodology (2018) introduces the role of revaluation of NIIP, rates of returns differentials and discounted future debt. Results suggest a current account gap of -1.0 percent and a corresponding REER gap of about 8 percent. That is, gaps are relatively moderate, reflecting Nigeria's relatively low external debt (see Annex II).

C. Non-Regression-Based Approach for Exporters of Exhaustible Resources Module

3. **The EBA-Lite approach introduces consumption allocation and investment needs modules**. These non-regression-based approaches consider how exhaustible resources generate income streams and benefits from smoothing absorption. Specifically, the first approach is based on the allocation of resource wealth for consumption across periods. The second approach explicitly incorporates investment in a dynamic, small open-economy model to account for investment needs, which are generally acute in many commodity exporters.

- **The consumption-allocation rules suggest positive medium-term current account and fiscal norms.** The medium-term norm (which is free from cyclical considerations) under constant real per capita annuity (which represents intergenerational equity) suggests current account and fiscal balance norms of around 7 and 1 percent, respectively, well above actual levels, implying large negative current account and fiscal gaps. The large current account gap seems to be driven primarily by the large fiscal balance gap. The norms under constant real annuity are almost half these amounts, which highlights the negative effect of population growth. By construction, consumption-allocation rules typically report higher current account norms compared to current account regression model because the volatile revenue flows motivate more precautionary savings to smooth consumption.





- **The investments-need model analyzes the need for commodity exporters to finance investments with their resource revenue windfalls**. An important input to this model is the assumption on efficiency of public investments. Results—using Nigeria specific investment efficiency (efficiency of 0.2, from IMF 2015 and PIMA 2018)—suggest a positive current account norm of about 0.4 percent of GDP over the medium term, about 1¾ percent of GDP above projections. If we assume the efficiency gap with the SSA is closed, and use the SSA average efficiency (0.6), results would suggest a lower current account norm as expected. This highlights the importance of improving investment efficiency and the supporting institutional frameworks.

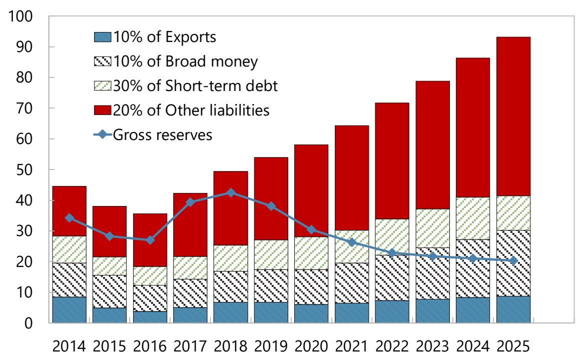
D. Reserve Adequacy

4. Gross international reserves have been declining and are below comfortable levels. After falling from mid-year peak levels, gross reserves declined to $38 billion at end-2019, which translates into 55 percent of the Assessment of Reserve Adequacy (ARA) metric including the oil buffer, leaving it $31 billion short of the lower end of the suggested 100-150 percent adequacy range. Excluding staff estimated FX swaps and forwards, reserves of $30 billion represent 44 percent of the ARA metric including the oil buffer.[4] The decline in reserves reflect a deteriorating current account and portfolio outflows since mid-2019, while there are also significant unexplained inflows captured by large errors and omissions. By end-January 2020, reserves had fallen further to $36.7 billion, corresponding to 53 percent of the ARA metric, including the oil buffer.

5. Under baseline projections, reserves are expected to steadily decline to around $21 billion by 2024, equivalent to 21 percent of the metric including the oil-buffer, but before adjusting for FX swaps.

Nigeria: Contributions to Reserve Adequacy Metric

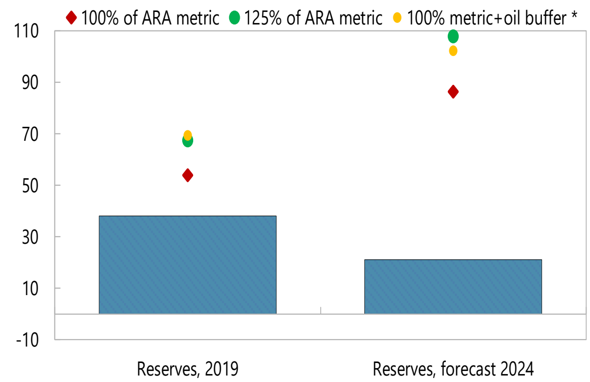
(Billion U.S. dollars)



Source: IMF staff calculations.

Nigeria: Reserve Adequacy Measures

(Billion U.S. dollars)



E. Capital Flows

6. Portfolio inflows have weakened more recently and foreign direct investments (FDIs) are persistently low. Investor uncertainty in a context of increasing global trade tensions has put pressure on portfolio inflows, resulting in declining reserves in the second half of 2019. Other factors for lower investment flows include lower domestic yields, distortive policies, and, more recently, concerns about a deteriorating current account. FDIs increased in 2019 but are still low with an annual average net of about ½ percent of GDP the past five years. Complicating the picture are large and varying errors and omissions, which in the first three quarters of 2019 corresponded to around 2½ percent of GDP of unexplained inflows, while in 2018 errors and omissions were negative at almost 1½ percent of GDP.

F. Overall Assessment

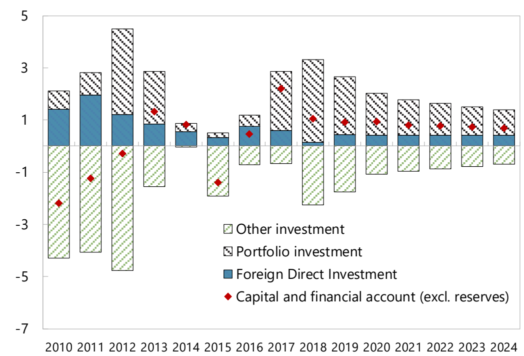
7. The external position of Nigeria in 2019 was substantially weaker than implied by fundamentals and desirable policy settings. Reserves at end-2019 corresponded to 55 percent of the Assessment of Reserve Adequacy (ARA) metric including the oil buffer, which fell further to 53

[4] See the 2016 ARA Board paper.

percent by end-January 2020. The current account has turned into a deficit, increasing existing vulnerabilities arising from declining and relatively low reserve adequacy and a high reliance on capital inflows. The analysis based on the revised EBA-Lite methodology with a focus on the current account leads to an estimated current account gap of 4.7 percent of GDP, which corresponds to a substantially weaker external position. The assessment is subject to significant uncertainties, including significant one-off transactions, and large and varying errors and omissions in the Balance of Payments.

Financial Account (Net)

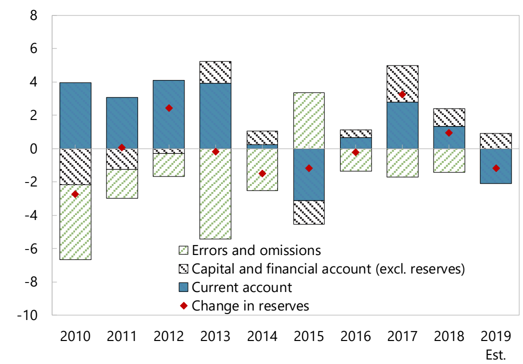
(Percent of GDP)



Sources: Haver Analytics; and IMF staff calculations.

Balance of Payments

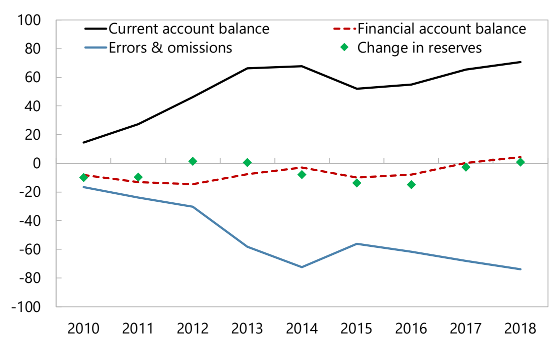
(Percent of GDP)



Sources: Haver Analytics; and IMF staff calculations.

Current Account and Errors and Omissions

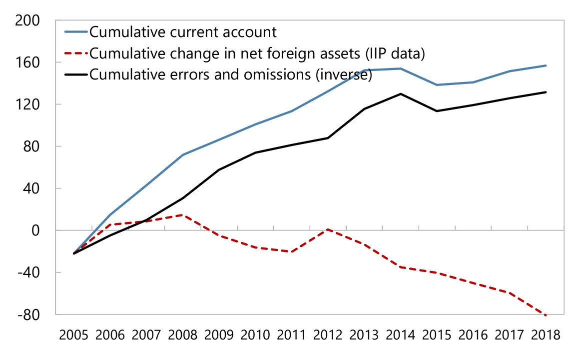
(Billion U.S. dollars; *cumulative* since 2010)



Sources: Haver Analytics; and IMF staff estimates.

Measures of Net Foreign Asset Accumulation

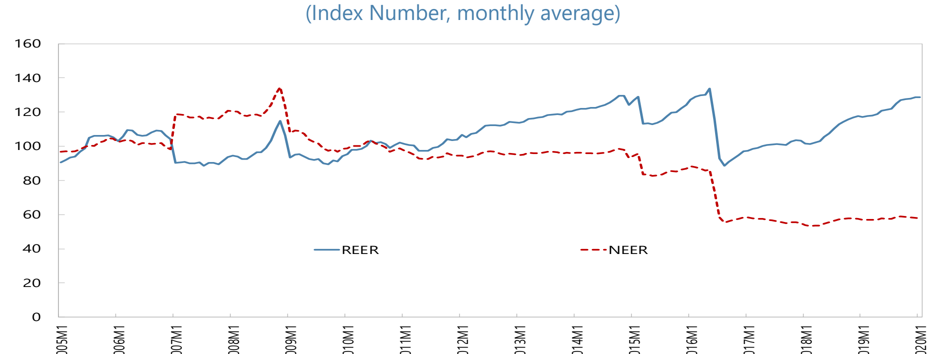
(Billion U.S. dollars; since 2005)



Sources: Haver Analytics; and IMF staff calculations.

Real and Nominal Effective Exchange Rates

(Index Number, monthly average)

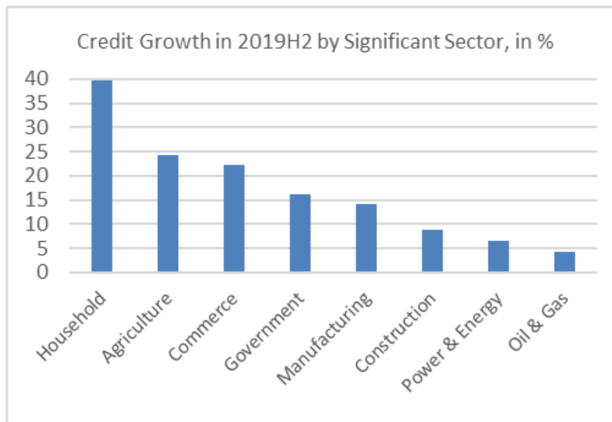


Annex VI. Impact of the new LDR Regulation

1. To spur lending to the real economy, the CBN issued in early July 2019 a directive introducing a minimum loan-to-deposit ratio (LDR) by end-September. As per this regulation, the LDR also comprises commercial paper in the numerator and other liabilities such as Eurobonds in the denominator, implying that the LDR represents a gross credit-to-total funding ratio. Failure to meet the minimum LDR results in a special levy equal to 50 percent of the lending shortfall in the form of additional cash reserve requirements (CRR). To provide an incentive for banks to lend to the retail segment (including SMEs, mortgage and consumer credit), the weight on such new lending in the LDR calculation was set to 150 percent. The banking system's LDR ratio increased from 57 percent at end-June to 62 percent in September before falling back to 60.6 percent at year-end on account of strong funding growth outpacing the ongoing credit expansion. On September 30, the CBN announced that the minimum LDR would rise to 65 percent by year-end. This target level was subsequently extended.

2. By end-December 2019, the LDR regulation has had a considerable impact on bank credit, funding, and interest rates:

- **Total bank credit** grew by 13.7 percent in the second half of 2019 (14.5 percent for all of 2019), with growth rates of credit to specific sectors ranging from 4 percent (oil and gas) to 40 percent (households). However, one-sixth of the combined pickup in credit to agriculture and manufacturing was originated under the CBN's differentiated CRR Policy allowing banks to use their CRR for long-term loans to these sectors at a below-market rate.



- By contrast, the growth rate of **total bank liabilities**, which is the reference point for the LDR, was only 6.6 percent in 2019H2. The lion's share of the funding growth occurred in 2019Q4, after resident non-bank investors were barred from participating in CBN's OMO auctions in mid-October and pension fund administrators (PFA) subsequently placed a good part of the liquidity from maturing OMOs with banks.

- Facing the funding spout and declining yields on government deposits following PFAs' portfolio rebalancing, banks lowered their **deposit rates** by an average 200 basis points relative to end-June (but lower for term deposits). On the asset side, **lending rates** that had already been on a downward trend in Q3 due to more intense competition for large clients fell even further, bringing the total decline to about 80 basis points according to CBN data but reportedly much higher for blue chip companies.

- On a net basis, the sanctions under the LDR policy reduced **liquidity**: an estimated total of N400 billion was frozen, but as banks meet the higher LDR target of 65 percent subsequently or lower their shortfalls, the corresponding liquidity is due to be returned to banks.

3. While at first glance the impact may appear beneficial, the LDR policy has undesirable properties from a financial stability perspective:

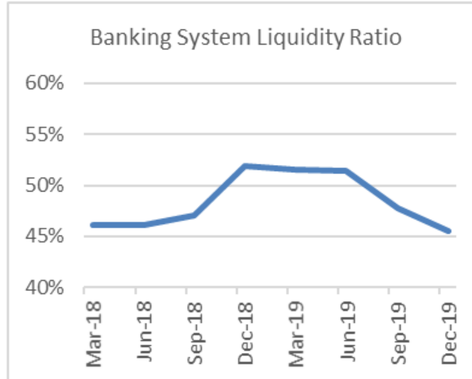
- ***Shortened maturity structure***. In an effort to meet the minimum LDR target, banks have originated mostly short-term loans. In fact, of the increase in loans to the private sector during 2019H2, 87 percent have a maturity of up to one year and 63 percent of up to 90 days, increasing their overall share in total private sector credit by 4.8 and 3.3 percentage points, respectively. Long-term loans with a maturity of more than three years grew by only 3.3 percent (1.6 percent when excluding loans underwritten under the DCRR). On the funding side, the maturity shift was even more pronounced: the rise in financial liabilities with a maturity of up to 90 days actually exceeded the overall increase (112 percent of the total expansion), implying a strong reduction in banks' long-term stable funding, particularly in maturities above three years that dropped by 20 percent during 2019H2. As a result of these developments, the maturity gap between assets and liabilities has widened.

- ***Moderate impact on the real economy.*** A considerable share of the additional lending reportedly represents financing of existing corporate clients. Banks asked clients to make better use of existing credit lines or provided overdrafts. In addition, banks expanded their retail lending for consumer goods and other short-term needs (e.g. payday loans), while some brought loans arranged outside Nigeria on-shore. A loophole permitting corporate clients to buy OMOs using adequately-priced bank credit was closed in October, but some of the credit increase is due to that type of lending. This anecdotal information in combination with the aforementioned short-term nature of new credit could limit the desired impact on output, since most of the new lending is not for productive investment.

- ***Risks to asset quality***. Compliance with the new regulation may push banks to lower their loan origination and risk management standards, although banks generally maintain that they continue to lend cautiously given the prospect of rising NPLs if they take on riskier borrowers. The strong increase in retail credit, even if fostering financial inclusion by onboarding new clients, arguably bears considerable credit risk. It remains to be seen whether the risk mitigants emphasized by CBN staff, notably direct debits from salary accounts and the new cross-bank asset collection clause (Global Standing Instruction) will be successful in preventing defaults and facilitating access to borrower funds, particularly in case of an economic downturn or severe fall in oil prices.

- ***Lowering of prudential buffers***. As banks focus on lending, their risk-weighted assets increase and the margin to the minimum capital adequacy ratio (CAR) decreases. Since the introduction of the LDR, the system's CAR decreased by 0.7 percentage point, to 14.6 percent. Similarly, some banks increased their FX Net Open Position (NOP) which raised the system's ratio beyond the prudential limit at end-2019. Furthermore, some banks would no longer meet the cap of 80 percent on the original macroprudential loan-to-deposit ratio (narrow definition of deposits).

- ***Reduced liquidity.*** As banks convert liquidity into new loans, the liquidity ratio falls on impact and is further reduced as deposits rise. During 2019H2, the CBN's liquidity ratio that corresponds to the minimum requirement of 30 percent of current liabilities fell by 6 percentage points, to 45.5 percent. It is noteworthy that the liquidity ratio fell by 2 percentage points during 2019Q4 despite banks' conscious efforts to shore up liquidity by rebalancing their holdings of government securities—selling FGN bonds in favor of eligible NTBs—and a higher uptake of OMO bills.



- ***Impact on inflation.*** Pushing lending could negate the CBN's efforts to maintain price stability and increase the need for mopping up as broad money expands.

4. Going forward, maintaining the LDR regulation could exacerbate conflicting objectives for banks. Even when banks aim to meet the LDR target as good corporate citizens, they still face other objectives and obligations, notably profit maximization subject to existing different regulations. While sensible from a monetary operations standpoint, the CBN's strategy to gradually replace OMOs by CRR in mopping up excess liquidity decreases both net interest revenue and eligible bank liquidity. In addition, the newly-imposed caps on bank fees further impact on banks' bottom line. As a result, banks have an incentive to remain invested in high-yielding OMO bills and to delve into ex-ante profitable retail lending that, however, carries non-negligible credit risk.

5. Possible CBN policy action could acerbate banks' situation and affect LDR compliance in turn. If access to OMO bills is curtailed and yields on FGN securities remain depressed while the CRR absorption is increased significantly, banks could face considerable liquidity pressures and would have to seek capital injections to raise new funds in trying to comply with the LDR target and CBN capital requirements. As it stands, some banks may not be in a hurry to fully comply with the LDR target as the cost of funds has fallen, lowering the opportunity cost of liquidity locked up as CRR in case of LDR shortfalls. Given these and the aforementioned considerations, the expected impact from the LDR policy may not measure to expectations set by the authorities.

Annex VII. Capacity Development Strategy FY 2019

CD Strategy

1. IMF's surveillance on Nigeria calls for a comprehensive policy package. The country's exceptionally low revenue performance, heterodox monetary policy in the face of persistently high inflation, segmented exchange rate markets, vulnerable banking system, and governance weaknesses have stifled its growth outlook while increasing vulnerability. In this context, IMF's capacity development (CD) work on Nigeria should align closely with the medium-term policy adjustment advocated by staff (growth-friendly fiscal consolidation, tight monetary policy through more orthodox tools, and addressing banking sector vulnerability), which are aligned with government priorities. TA provision should also consider the authorities' track record and receptiveness to staff's advice.

2. In all, the proposed CD strategy continues to focus on revenue mobilization, public financial management, banking supervision, and macroeconomic statistics—the same priorities as in the 2019 Article IV consultation. While monetary and exchange rate policy is a key priority, the authorities have only indicated interest in training on modeling and have expressed little interest in operational technical assistance on monetary policy operations, where past IMF advice has received little traction.

3. 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 ones and a part of TA missions. Current resident advisor program (banking supervision) should be maintained given its favorable traction.

Key Overall CD Priorities Going Forward

Priorities	**Objectives**
Tax policy and revenue administration	**Traction:** TA advice on tax policy has been partially reflected in the 2020 Finance Bill. The Strategic Revenue and Growth Initiative and future finance bills are expected to benefit from the most recent TA, including on petroleum. A tax administration compliance plan—in line with past IMF recommendations—is being put in place by the new tax agency chairman. **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 the tax and customs administrations.

Public financial management	**Traction:** A Treasury Single Account has been put in place, good progress on the medium-term debt strategy and cash management, and on budget planning. Little intake so far of staff's TA advice on proper monitoring and classification of Government-Owned Enterprises (GOEs), although the 2020 budget now also incorporates revenue/spending of the 10 largest GOEs. Good progress is expected on the just completed contingent liabilities mission recommendations in view of the very strong ownership. **Going forward**: TA to focus on more integrated cash, asset, liability (including public debt) management, macro-fiscal forecasting, and fiscal risk management.
Financial Supervision and Regulation	**Traction**: Good intake of policy advice on bank supervision, including towards Pillar implementation, and development of early warning system and risk-based supervision. **Going forward:** Capacity development in banking supervision and strengthening supervisory and regulatory tools, including for onsite and offsite functions. Changes in the legal framework to enhance banking resolution also needed.
Strengthen macroeconomic and financial statistics compilation	**Traction:** Excellent intake of IMF recommendations on monetary statistics. Good progress on real, CPI, and BOP statistics. Little intake on GFS statistics, but expectations are that it would be followed up on in 2020. **Going forward:** Improving compilation of macroeconomic statistics –particularly those for national accounts and price measurement.

Main Risks and Mitigation

4. Good progress has been made in implementing TA recommendations, albeit at a much slower pace for revenue mobilization and a few statistics areas. 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 by the implementation record.

Authorities' Views

5. The authorities agree with the above-mentioned priorities and renewed their commitment and ownership. The authorities also appreciated the ongoing rebalancing of resources toward hands-on support, including peripatetic expert visits and long-term resident advisor placements. They would like to have more peer learning opportunities, e.g., through attachment programs.

PRESS RELEASE

PR20/XX

Appendix I. General Press Release – Nigeria

FOR IMMEDIATE RELEASE

- Nigeria's slow economic recovery is facing headwinds, made even more challenging by the COVID-19 outbreak.
- Recent government efforts to reduce vulnerabilities are welcome.
- Short-term policy adjustments are needed to respond to the COVID-19 shock, without losing sight of the major medium-term efforts needed to contain vulnerabilities and unlock growth.

Washington, DC – March 30, 2020 On March 30, 2020, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation[1] with Nigeria and considered and endorsed the staff appraisal without a meeting.[2]

Even before the Coronavirus (COVID-19) outbreak, Nigeria's economic recovery was slow. Real GDP increased by 2.3 percent in 2019, up from 1.9 percent in 2018 but remained firmly below population growth. Recovering oil production continued to drive growth, while growth in the non-oil sector remained constrained by declining real income and weak investment, despite some notable performances in telecommunications and retail finance. The partial border closure continues to weigh on the retail/wholesale trade sectors, which experienced negative growth. Increased regulatory risk, low revenue mobilization, increased recourse to central bank financing, infrastructure and governance challenges continue to constrain growth to levels below those needed to improve weak human development outcomes.

Headline inflation rose to an 18-month high, reversing the declining trend observed earlier in 2019, mostly because of looser liquidity conditions and higher food inflation, partially resulting from the land border closure. External vulnerabilities have increased, reflecting a higher current account deficit—driven by a broad-based increase in goods imports and falling oil proceeds—and declining portfolio holdings as investors reacted to global domestic developments and falling domestic yields.

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[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.

[2] The Executive Board takes decisions under its lapse-of-time procedure when the Board agrees that a proposal can be considered without convening formal discussions.

As a result, reserves fell to $36.7 billion by January 2020—about a half of the Fund's reserve adequacy metric.

For 2020, the impact of COVID-19—which resulted in a fall in global demand and international oil prices—would contribute to decelerating growth to about 1.3 percent, notwithstanding positive base effects from growth pick-up in late 2019. Under current policies, the medium-term outlook remains muted, continuing the erosion of real per capita incomes. Inflation is expected to pick up, while the Central Bank of Nigeria's focus on exchange rate stability would continue to worsen competitiveness as inflation differentials worsen. High fiscal deficits would continue to constrain private sector credit, and the interest-to-revenue ratio would remain high.

Risks are tilted downwards. An outbreak of COVID-19 within Nigeria—which would imply significant supply disruptions—would further constrain growth. The impact would also be large if COVID-19 spreads globally, further impacting commodity prices. Addition falls in oil prices or production, delays in reform implementation, security tensions, or tighter global financial conditions also represent key risks.

Executive Board Assessment

Nigeria's economic recovery was facing headwinds, even before the COVID-19 outbreak. Growth remains firmly below population growth, inflation is rising, the current account is deteriorating, and foreign reserves are falling. Increased regulatory risk, low tax revenue, fragmented exchange rate markets, and governance weaknesses are constraining growth and keeping human development outcomes weak.

The immediate outlook has deteriorated. The COVID-19 outbreak will lead to a significant growth deceleration in 2020. Over the medium term, under current policies, growth is expected to converge to 2 percent, keeping per capita growth negative in the absence of strong policy adjustment and structural reforms. Risks to the outlook are skewed downwards, mainly reflecting falling oil prices and production, a more severe outbreak of COVID-19, and further delays in reform implementation.

Recent government efforts to reduce vulnerabilities are welcome. In line with the government's Economic Recovery and Growth Plan (ERGP), the rise in the VAT rate, streamlining of tax procedures, progress in tax administration, advances in Doing Business, and recent tightening of monetary policy are steps in the right direction to address current challenges. However, the pace of reforms remainsslow and need to be further aligned with the market-friendly objectives outlined in the authorities' ERGP.

Major and urgent policy adjustments are required to contain vulnerabilities, build resilience, and unlock growth potential. The COVID-19 outbreak requires fiscal accommodation of the temporary shock, while revenue-based fiscal consolidation should be resumed as soon as the outbreak is contained to ensure sharply-rising central bank financing is eliminated. This fiscal policy response should be closely coordinated with maintaining the current monetary policy stance and a unified and flexible exchange rate that keeps inflation contained and reduces external vulnerabilities. A stronger banking system and wide-ranging structural reforms—including to strengthen governance and the power sector—would be needed to support private sector development, achieve SDGs, and create jobs.

Medium-term revenue-based fiscal consolidation is essential. Staff welcomes recent steps taken to increase revenue and supports the authorities' plans for further fiscal consolidation over the medium term. A renewed push for non-oil revenue mobilization, which remains amongst the lowest in the world, would require further VAT rate increases, additional excises, and removal of tax exemptions. Eliminating the CBN's financing of the deficit would require shifting the overall consolidated government fiscal deficit to a small surplus by 2025, providing space to increase priority spending, contain the interest payments to revenue ratio to about one-third, and raise private sector credit. The new petroleum fiscal legislation should carefully balance the government's revenue objective with the viability of investment in the oil industry.

Shifting the expenditure mix towards priority areas is critical to achieve the SDGs, contain COVID-19 impact, and pursue diversification. The high level of capital budget execution is welcome, but meeting the SDGs in education, health, roads, electricity and water sanitation would require an additional 18 percentage points of GDP by 2030—an ambitious objective that would necessitate greater private sector participation and a more gradual and strategic approach to delivering SDGs**.** Potential savings from removing fuel subsidies or adjusting electricity tariffs are substantial and could be spent to expand targeted social programs and health and educational expenditure—including to contain the COVID-19 outbreak. Public investment efficiency should also be enhanced.

Public financial and debt management should continue to be strengthened. The implementation of bottom-up cash planning and Treasury Single Account (TSA) e-collection are welcome but more effective use of the TSA is critical. The decision to move towards securitizing central bank overdrafts and more comprehensive coverage of debt is welcome.

Recent tightening of the monetary policy is welcome but maintaining the stance should be done through more orthodox tools. Rising inflation, high fiscal deficits, and possible capital outflows justify keeping real rates positive. While the recent CRR increase is welcome, the timing of more adjustments—which should be done in a more orthodox way—would need to take account of the evolving COVID-19 situation. Aligning market rates within the CBN's interest rate corridor, raising a symmetrically applied CRR, and introducing new liquidity instruments would enhance the monetary policy framework. CBN financing of the government—including the quasi-fiscal activities into specific sectors—should be ended as it complicates monetary policy and is better left to the fiscal authorities. Over time, OMO tenors should be limited to short maturities to restore the primacy of their liquidity management objective.

Moving towards a unified market-based exchange rate is essential to reduce vulnerabilities. Nigeria's external position was substantially weaker in 2019 than implied by medium-term fundamentals and desirable policies. The exchange rate unification should continue by allowing the various rates converge towards the I&E rate and allowing the latter move as necessary by limiting FX interventions to cases of excessive exchange rate fluctuations. Staff regrets the introduction of new restrictions on access to FX and calls for their removal to remove distortions and promote long-term investment. Smuggling can be curtailed more effectively by stronger customs enforcement and by letting markets work (e.g., removing fuel subsidies) than by closing the border, which generates significant economic costs. CFM measures should be gradually phased out with due regard to reserve adequacy and orderly macroeconomic adjustment.

Banking sector resilience should be strengthened further. Improved NPL ratios and high profitability are welcome. However, a high prevalence of doubtful loans and regulatory pressures on profitability and asset quality are increasing risks. This needs to be addressed by removing the new LDR policy, introducing differentiated risk-based minimum capital requirements, conducting an asset quality review of large banks, and phasing out regulatory forbearance. Macroprudential policy tools should continue to be developed and the resolution framework strengthened.

Sustainably boosting inclusive growth requires bold actions on structural policy. Expeditious approval and full implementation of the government's PSRP financing plan, reinforcing business climate reforms, strengthening the institutional structure of the petroleum industry, building on gains from anti-corruption and governance efforts, and fostering greater financial inclusion—all priorities under the ERGP—remain essential to increase human and physical capital and boost productivity. Higher resources for education and health—as well as adaptation and mitigation measures for climate change—are also required.

Staff does not support the exchange measures that have given rise to the exchange restrictions and multiple currency practices. In the absence of a clear timetable for their removal, staff is not in a position to recommend approval of the exchange restrictions and MCPs. Staff urges the authorities to articulate a speedy and monitorable strategy for their removal to help strengthen the functioning of the foreign exchange market and allow further convergence of the multiple exchange rates.

The quality and availability of economic statistics continue to improve, including through technical assistance. Efforts should continue to strengthen data quality further. Staff regrets thedelay in producing the latest employment data and urges regular funding to the statistical agency to ensure uninterrupted and regular publication of statistics.

Nigeria: Selected Economic and Financial Indicators, 2017–25

	2017	2018	2019	2020	2021	2022	2023	2024	2025
		Est.			Projections				
National income and prices	(Annual percentage change, unless otherwise specified)								
Real GDP (at 2010 market prices)	0.8	1.9	2.3	1.3	1.9	2.1	2.0	2.0	2.0
Oil and Gas GDP	4.7	1.0	4.6	2.3	2.4	2.2	1.8	1.2	2.1
Non-oil GDP	0.5	2.0	2.0	1.2	1.8	2.1	2.0	2.0	2.0
Non-oil non-agriculture GDP	-0.6	2.0	1.8	0.8	1.3	1.5	1.4	1.4	1.4
Production of crude oil (million barrels per day)	1.89	1.93	2.00	2.02	2.05	2.08	2.10	2.12	2.15
Nominal GDP at market prices (trillions of naira)	114.9	129.1	145.6	158.4	174.9	194.1	215.2	238.7	264.9
Nominal GDP per capita (US$)	1,969	2,033	…	…	…	…	…	…	…
GDP deflator	11.1	10.2	10.4	7.3	8.4	8.7	8.7	8.8	8.8
Consumer price index (annual average)	16.5	12.1	11.4	12.8	11.4	11.2	11.0	10.8	10.6
Consumer price index (end of period)	15.4	11.4	12.0	12.7	11.3	11.1	10.9	10.8	10.5
Investment and savings	(Percent of GDP)								
Gross national savings	18.2	15.1	12.0	11.5	12.1	12.4	12.9	13.1	13.1
Public	-0.5	0.7	-0.1	-0.4	-0.5	-0.4	0.0	0.3	0.3
Private	18.8	14.5	12.1	11.9	12.6	12.8	12.8	12.9	12.7
Investment	14.7	13.3	14.0	14.2	14.1	14.0	14.0	13.9	13.9
Public	3.3	3.0	3.0	2.9	2.9	2.9	3.0	2.9	3.0
Private	11.5	10.4	11.1	11.3	11.2	11.1	11.0	11.0	10.9
Current account balance	2.8	1.3	-2.5	-3.2	-2.6	-2.2	-1.7	-1.4	-1.3
Consolidated government operations	(Percent of GDP)								
Total revenues and grants	6.6	8.5	7.9	7.7	7.6	7.8	7.9	8.1	8.2
Of which: oil and gas revenue	2.6	4.6	3.7	2.9	2.8	2.9	3.0	3.1	3.1
Total expenditure and net lending	12.0	12.8	12.8	13.0	13.0	13.4	13.4	13.6	13.9
Overall balance	-5.4	-4.3	-5.0	-5.3	-5.4	-5.6	-5.4	-5.5	-5.6
Non-oil primary balance	-6.7	-7.2	-7.0	-6.4	-6.3	-6.3	-6.0	-5.9	-5.8
Non-oil revenue	4.0	4.0	4.2	4.7	4.8	4.9	5.0	5.0	5.1
Public gross debt[1]	25.3	27.0	29.5	33.3	35.9	38.4	40.1	41.6	43.1
Of which: FGN debt	22.4	24.3	26.8	30.2	32.5	34.8	36.3	37.8	39.3
FGN interest payments (percent of FGN revenue)	58.4	60.7	59.8	68.7	71.1	82.9	90.5	97.6	104.3
Money and credit	(Change in percent of broad money at the beginning of the period, unless otherwise specified)								
Broad money (percent change; end of period)	9.1	15.2	6.2	6.5	15.0	12.9	13.0	13.2	13.3
Net foreign assets	23.4	6.8	-18.4	-4.7	-3.7	-2.6	-0.9	-0.8	-0.7
Net domestic assets	-24.8	8.5	24.6	11.1	18.7	15.5	13.9	14.0	14.1
o/w Claims on consolidated government	-2.4	4.4	15.4	18.4	20.1	21.5	20.1	20.2	20.3
Credit to the private sector (y-o-y,%)	-3.3	-6.7	13.6	4.6	4.7	0.0	0.0	0.1	0.4
Velocity of broad money (ratio; end of period)	3.8	3.5	3.8	4.0	3.8	3.8	3.7	3.7	3.6
External sector	(Annual percentage change, unless otherwise specified)								
Exports of goods and services	32.3	33.6	0.0	-10.2	6.6	13.6	6.1	6.4	5.0
Imports of goods and services	8.4	40.6	29.2	1.7	4.6	9.1	4.8	5.0	5.0
Terms of trade	9.6	12.4	-5.4	-9.3	-0.1	0.9	0.5	0.2	0.0
Price of Nigerian oil (US dollar per barrel)	54.4	71.1	64.0	52.9	52.3	53.2	53.9	54.6	55.7
External debt outstanding (US$ billions)[2]	96.6	116.0	127.0	139.4	153.2	167.7	182.7	198.0	214.0
Gross international reserves (US$ billions)	39.8	43.6	38.1	30.4	26.3	23.0	21.7	21.1	20.4
(equivalent months of imports of G&Ss)	6.7	5.6	4.9	3.7	2.9	2.4	2.2	2.0	1.9

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

[1]Gross debt figures for the Federal Government and the public sector include overdrafts from the Central Bank of Nigeria (CBN) and AMCON bonds.

[2]Includes both public and private sector.