

GREEN/20/28

March 25, 2020

Green Statement from Mr. Fachada and Ms. Mohammed on Nigeria
—Staff Report for the 2020 Article IV Consultation (SM/20/70)

1. We positively note that Nigeria's economy has been recovering and welcome the authorities' efforts to maintain macroeconomic and financial stability. Nevertheless, significant challenges remain that are exacerbated by the COVID-19 pandemic and the recent collapse in oil prices. Going forward, we encourage the authorities to maintain medium-term revenue-based consolidation, strengthen financial sector stability and resilience, and prioritize structural reform efforts.

2. **Fiscal consolidation is necessary to create space for expenditure towards priority areas.** Against the background of an uncertain global environment with increasing fiscal stimulus to combat the COVID-19 pandemic, it is essential to accommodate this temporary shock by reorienting expenditure towards this immediate need. This notwithstanding, we agree with staff that once the pandemic is contained, medium-term revenue-based consolidation is needed. We welcome the steps taken to increase non-oil revenue, including through tax policy and tax administration. Moreover, public financial management should continue to be strengthened. Removing fuel subsidies at a time of low international oil prices and adjusting electricity tariffs would ease fiscal pressures and contribute to a larger fiscal space to be allocated to priority and growth enhancing areas. However, this should be accompanied by appropriate safeguards to protect the most vulnerable from negative impacts.

3. **We welcome the recent tightening of monetary policy to contain inflation.** However short-term adjustments may be needed to respond to recent shocks. We see merit in improving the monetary policy operational framework by using more traditional tools including adjusting the policy rate and introducing new liquidity instruments. This would enhance the transparency of monetary policy and help anchor inflation expectation. Like staff, we agree that development financing should be undertaken by the fiscal authorities and the Central Bank of Nigeria should focus on its core mandates. At the same time, a unified market-based exchange rate and a more flexible exchange rate regime can support more economic efficiency and promote economic diversification.

4. **The financial sector remains stable, but pockets of vulnerability should be addressed to preserve financial stability and resilience.** We take positive note that non-performing loans have declined, and bank profitability remains high. However, increasing risks from doubtful loans and regulatory pressures on profitability and asset quality continue to weigh

on banks. In this regard, we echo staff's recommendation that introducing differentiated capital requirements according to banks' risk management capacity, phasing out regulatory forbearance over time, and conduct asset quality reviews would help improve the soundness of the banking sector. Additionally, we welcome the establishment of the national financial system stability council to help monitor systemic risks and enable macroprudential policymaking.

5. **Structural reforms would help boost inclusive growth.** We commend the authorities for their efforts in improving their standing in the World Bank *Doing Business* ranking and encourage them to accelerate implementation of their Economic Recovery and Growth Plan. The authorities should continue their efforts to improve governance, combat corruption, and strengthen the AML/CFT framework to enhance the business environment. Moreover, against the backdrop of high population growth, strengthening efforts to improve the quality of healthcare and education, and deepening financial inclusion should be a priority. Finally, we appreciate staff's work on the adaptation and mitigation measures for climate change and demographics, spending and growth in the Selected Issues paper, which provides relevant policy frameworks for the authorities to address these issues.