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INTERNATIONAL MONETARY FUND

Minutes of Executive Board Meeting 19/23-3

2:30 p.m., March 27, 2019

**3. Nigeria—2019 Article IV Consultation**

Documents: SM/19/59 and Supplement 1, and Supplement 2; SM/19/60

Staff: Mati, AFR; Gonzalez Miranda, SPR

Length: 1 hour,7 minutes

**Executive Board Attendance**

M. Furusawa, Acting Chair

| Executive Directors | Alternate Executive Directors |
|---|---|
| | K. Obiora (AE) |
| | H. Razafindramanana (AF) |
| G. Lopetegui (AG) | |
| N. Ray (AP) | |
| | P. Fachada (BR) |
| | X. Cai (CC), Temporary |
| | P. Moreno (CE) |
| L. Levonian (CO) | |
| | C. Just (EC) |
| | A. Castets (FF) |
| S. Meyer (GR) | |
| | P. Dhillon (IN), Temporary |
| | M. Psalidopoulos (IT) |
| | Y. Saito (JA) |
| J. Mojarrad (MD) | |
| | P. Al-Riffai (MI), Temporary |
| | V. Rashkovan (NE) |
| | L. Palei (RU) |
| | R. Alkhareif (SA) |
| | K.Tan (ST) |
| | P. Trabinski (SZ) |
| | D. Ronicle (UK) |
| | P. Pollard (US), Temporary |

S. Bhatia, Acting Secretary
J. Morco, Summing Up Officer
L. Briamonte, Board Operations Officer
M. McKenzie, Verbatim Reporting Officer

**Also Present**
African Department: M. Canales Munoz, A. Mati, M. Newiak, L. O'Sullivan, M. Qureshi, D. Robinson. Communications Department: H. Khang. Legal Department: P. Di Benedetta, D. McDonnell, J. Purcell. Monetary and Capital Markets Department: A. Alfi. Strategy, Policy, and Review Department: A. Hosny, M. Gonzalez Miranda.
Executive Director: D. Mahlinza (AE). Alternate Executive Director: I. Mannathoko (AE).
Senior Advisors to Executive Directors: H. Etkes (NE), Z.Mohammed (BR), T. Sitima-wina

(AE), C. Williams (CO). Advisors to Executive Directors: A. Abdullahi (AE), V. Djokovic (SZ), J. Garang (AE), O. Haydon (UK), M. Ismail (AE), M. Kikiolo (AP), R. Lopes Varela (AF), H. Mori (JA), A. Nainda (AE), K. Osei-Yeboah (MD), T. Persico (IT), D. Vogel (AG).

## 3. NIGERIA—2019 ARTICLE IV CONSULTATION

Mr. Obiora and Mr. Odonye submitted the following statement:

On behalf of the Nigerian authorities, we appreciate the continued engagement with the Fund and the constructive discussions with staff during the 2019 Article IV Consultation. The authorities welcome staff's analysis, assessment and advice but wish that some of the economic outcomes reported therein were better attributed to the policies of the government.

With the 2019 General Elections over, and the incumbent President re-elected, the authorities are now prioritizing the accelerated implementation of the country's Economic Recovery and Growth Plan (ERGP), which underpinned the response to the 2016 recession, and engendered a relatively-quick recovery. Under the ERGP, reform priorities include intensifying non-oil revenue mobilization, completing power sector reforms, accelerating anti-corruption efforts, improving the business environment, and fast-tracking job-creation efforts to boost inclusive growth. The authorities are convinced that these reforms would provide the impetus needed to improve economic growth in the near- to medium-term.

Economic Developments and Prospects

Economic activity expanded by 1.9 percent in 2018 compared with 0.8 percent in 2017, mainly driven by improvements in manufacturing and services as well as sustained production of crude oil. In 2019, the government's scheduled investments in the oil sector are expected to further boost oil production. At the same time, agricultural production will pick up significantly in light of diminishing clashes between farmers and herders. The authorities are also implementing various schemes and policies to diversify the sources of growth to include sectors such as manufacturing, solid minerals, construction, and real estate. With respect to solid minerals, for example, the government has been integrating artisanal miners into the formal sector, clarifying the tax and regulatory frameworks for mining activities, improving the archiving of geo-data, harmonizing their format, and promoting their dissemination. These developments are expected to make for much brighter economic prospects for the country.

Reflecting sustained tight monetary policy, declining food prices, and stability in the exchange rate, inflationary pressures continued decelerating from its peak of 18.5 percent at end-2016. As at December 2018, the country's inflation rate stood at 11.4 percent, down from 15.1 percent in January 2018.

More recent performance indicates headline inflation has further declined to 11.3 percent in February 2019, while core inflation is in single digit levels at 9.8 percent.

Foreign exchange (FX) reserves closed the year at about $42.5 billion, exceeding 7 months of imports. The latest data from the Central Bank of Nigeria (CBN) indicate that the reserves have grown further to $44.92 billion as at March 20, 2019. The improvement in external reserves largely benefitted from recovery in oil prices, increased local sourcing of raw materials and intermediate inputs by manufacturers, as well as sustained inflows of foreign exchange at the Investor and Exporter (I&E) window.

Fiscal Policy

The authorities remain committed to a prudent fiscal policy, which creates room for priority expenditures, improves non-oil revenue, and manages public debt in a sustainable manner. In 2018, the estimated Federal Government (FG) deficit improved slightly to 4 percent of GDP from 4.1 percent the previous year. With the expected improvement in fiscal outturns, the authorities have projected a decline in the deficit to 2.3 percent of GDP in 2019, having accounted for the recently-approved increase in the minimum wage. In line with government's Medium-Term Expenditure Framework (MTEF), revenue is expected to increase to 4.8 percent of GDP in 2019, mainly attributable to higher oil receipts and gains from divestment of oil assets.

For non-oil revenue, the authorities have launched the Strategic Revenue Growth Initiative (SRGI), a comprehensive plan for tax reforms. The SRGI will be overseen by a high-powered steering committee under the office of the Minister of Finance, to guide reforms and monitor progress. The authorities have also embraced a number of policy initiatives, including introducing a VAT with full crediting of input tax, increased compliance monitoring of tax incentives, and broad-based use of excises. On tax administration, notable accomplishments include creating taxpayers' awareness, increased use of Integrated Tax Administration IT System (ITAS), increased frequency of tax audits, and greater use of technology in the collection process. These measures are part of the efforts to address the weaknesses identified in the recent Tax Administration Diagnostic Assessment Tools (TADAT). In the near term, they plan to improve the taxpayer register, develop a filing and arrears management system, and establish an automated interface between the Federal Inland Revenue Service (FIRS) and the Treasury Single Account (TSA).

The authorities concur with staff on the importance of stronger coordination amongst relevant government agencies for more effective cash management. In this respect, they are already revamping the existing coordination structure, which includes the Office of the Accountant General of the Federation, the Debt Management Office and the Central Bank of Nigeria (CBN). In their continued quest to increase the net benefits of public debt, the authorities adopted the strategy of retiring maturing T-Bills with Eurobond proceeds. Furthermore, they are prioritizing concessional loans over bonds to reduce rising interest payments.

Monetary Policy

Monetary policy is delivering as envisaged in the areas of exchange rate, the FX market, inflation, and portfolio flows. The Bank’s tight monetary policy stance is taming inflation as stated earlier. Since the end of the general elections just about 4 weeks ago, portfolio investments into the country have risen by $6 billion, a further testament to continuing investors’ confidence in the economy. Factoring this confidence, as well as the existence of ample reserves, staff’s concern about capital flow reversals may not be appropriate.

In a boost to Monetary Policy formulation and communication, the government acted promptly to replace retiring members of the Monetary Policy Committee (MPC) with eminent Economists, drawn from both the public and private sectors, a move that has led to more expansive consideration of policy options by the Committee and better communication of monetary policy decisions.

With respect to the Foreign Exchange market, the CBN remains committed to the unification of exchange rates in the medium-term. There has already been considerable convergence of rates in the market, mostly reflecting strong oversight on the market, adequate liquidity levels, and market signaling from the I&E window. In a significant additional step towards unification, the CBN recently reduced the $500,000 daily sales to banks to $100,000 at the ₦305/US$1 rate. While agreeing that strengthening external buffers is essential for the CBN, the authorities differ with staff’s advice to discontinue limits on the use of naira-denominated debit or credit cards overseas. Buttressing their position, the authorities argue that since the local currency is neither convertible nor tradable, an unrestricted use of these local-currency cards abroad would exert undue pressure on FX reserves, and on the exchange rate.

Financial Sector

The banking sector has significantly increased its resilience in recent years, with much stronger levels of capitalization. In addition, NPLs have fallen from 16.2 percent in February 2018 to 11.7 percent at end-2018. This outcome was partly driven by pick-up in economic growth and sale of NPLs to private asset management companies (AMCs), as well as higher oil prices, which enabled affected debtors to service their loans. Solvency ratios improved markedly by 5 percentage points to 15.3 percent at end-2018, with the introduction of three-year transitional arrangements for IFRS9. Bank profitability has remained relatively unchanged with fees moderating the declining net interest margins. Staff's stress tests confirmed that large banks' resilience to credit and concentration risks have improved.

On sustaining financial stability, the CBN is intensifying several initiatives such as the completion of IFRS 9 implementation and a move by most banks to reflect an exchange rate closer to the market in their books. It has also taken initiatives to strengthen risk-based supervision through onsite reviews and the initiation of Basel's Internal Capital Adequacy Assessment Program (ICAAP), providing a comprehensive assessment of banks' capital needs and risk profiles. Going forward, it will assess banks on requirements of Basel III, including on liquidity and leverage ratios from the second half of 2019.

## Structural Reforms

The authorities have continued to make progress on implementing structural reforms in line with the ERGP goals. Notable achievements include improved monitoring of State-Owned Enterprises (SOEs) to curtail fiscal risks, and initiation of new funding requirements for joint ventures in the oil sector. These have enhanced timely payments for cost recovery and avoided new government arrears. The government is also prioritizing the completion of the new petroleum legislation and passage of legislative reforms aimed at strengthening the SOE framework. For the non-oil SOEs, the governance reforms include closer monitoring of revenue earnings, improved efficiency of collections, and better tracking of remittance of operational surpluses to the government.

Owing to the establishment of Credit Reference Bureaus and a modern Online Collateral Registry, the business environment has improved significantly, especially for small- and medium-scale enterprises. Building on this success, the government plans to legislate and enforce deadlines for the issuance of government licenses and permits, as well as simplify customs, immigration, investment, and trade procedures. A major structural reform is also underway with the implementation of the Power Sector Recovery Program (PSRP). Given that Nigeria's Power Sector is largely owned by private companies, the authorities have been implementing measures to improve the financial viability of operators, strengthen contract enforcement and sector governance, and de-risk the sector for further investments. Partly due to these efforts, Power Generation reached a milestone of 7,000 Megawatts as of December 2018.

Human Capital Development

In the area of human capital development, the government has prioritized financing for high impact human capital interventions to address the low ranking of Nigeria on the recently published World Bank Human Capital Index. They have also taken active steps to institutionalize human capital development through high level advocacy and engagement. To underscore the importance of this to the government, these efforts are being led by a high-level Working Group, chaired by the Vice President.

Conclusion

There is ample resolve and commitment to accelerate implementation of Nigeria's Economic Recovery and Growth Plan (ERGP), aimed at ensuring sustainable, inclusive growth. The authorities are determined to pursue policies that would focus on growth-friendly fiscal measures, market-sensitive monetary actions, and investment-boosting structural reforms. Attention will also be maintained on reducing inflation, containing vulnerabilities in the banking sector, and sustaining key structural reforms. The authorities value Fund advice in guiding economic policies and technical assistance in improving economic outcomes. They look forward to continuing these engagements, which have borne favorable outcomes for the country.

Mr. Lopetegui and Mr. Vogel submitted the following statement:

We thank staff for the reports and Mr. Obiora and Mr. Odonye for their helpful buff statement.

We welcome Nigeria's economic recovery in 2018, which will be consolidating this year. Evidently, the increase in oil prices exerts a key influence in the country's performance, but it is worth underlining that it has been accompanied by considerable progress in terms of policies and structural reforms. Still, much more progress is necessary to substantially increase growth rates and investment, and to reduce the high rates of poverty and inequality in the country. High unemployment rates, surpassing 20 percent over the past years, and weak human development indicators, especially in health but also in education, illustrate Nigeria's substantial needs. These are even more patent considering that Nigeria's population is set to double in the next 30 years. In the near term, high exposure of investors in local short-term debt markets is a source of risks, which may amplify volatility in combination with oil-price shocks, especially in light of large banks' exposure to the oil sector.

The need to enhance policies and implement reforms is reinforced by an additional consideration emanating from staff's baseline scenario, as under current policies, per-capita GDP is expected to stagnate. We welcome, in this regard, the staff's adjustment scenario that illustrates the gains that the country could reap from implementing an aggressive reform program. However, this scenario contains important assumptions, like an increase in oil production, power sector reforms, a substantial increase in infrastructure, social projects, full exchange rate flexibility, "whereas monetary policy is used to contain the initial inflation impact", less corruption, and a stronger banking sector, etc. We remain unconvinced that such an aggressive reform program, and the associated outcomes, could be achieved in the timeframe assumed by staff, considering obvious restrictions, including social and political factors, and possibly capacity constraints. Moreover, although positive in the medium to long term, the assumed measures could have some negative effects in the short term. Therefore, we would have preferred to see a more realistic adjustment scenario.

We are encouraged by the progress made by the government's Economic Recovery and Growth Plan (ERGP), and by Mr. Obiora and Mr. Odonye's reassuring remarks that the authorities are now prioritizing the accelerated implementation of the plan. At the same time, we note the staff's assessment that the pace of reforms still falls short of the ERPG objectives. Meanwhile, in paragraph 13, on the authorities' views, it is said that "growth prospects would remain subdued due to the slow implementation of measures to strengthen the business climate, reform the power sector, accelerate anti-corruption efforts, and without new capital investment to boost oil production". Could staff elaborate further on the factors that may delay progress in the above-referred areas?

We share the staff's satisfaction regarding the improvement in the fiscal position for 2019, which is envisaged in the revised medium-term fiscal framework. At the same time, we take note of the possibility that revenue targets may be overestimated. Related to this, we find the staff's suggestions on tax policies and revenue administration appropriate and timely. We also found the Selected Issues' chapter on "Governance in Nigeria: Focus on the oil sector and AML/CFT" very useful. Also, Box 1 on Refined Oil Production is interesting, and the finalization of the refinery could have a high positive impact for the country. We would like to have further elaboration from staff on why this project has not taken place before and what the expected date of completion is.

We welcome progress on the continued convergence of exchange rate windows, but clearly greater exchange rate flexibility at a unified rate is essential for meeting the countries' economic and social objectives. Evidence and economic literature are clear on the detrimental effects of pervasive exchange restrictions and multiple-currency practices. On monetary policy, we welcome the progress on reducing inflation, but note the risk of achieving additional reductions by unduly appreciating the currency. We would strongly encourage the central bank to abandon development financing, which can be conducted by a different agency and/or through the budget.

We note the authorities' appropriate emphasis on the progress made in terms of non-performing loans and solvency ratios in the financial system; this is an area which requires critical progress on regulation and supervision, and banking resolution. We understand the authorities' position in trying to avoid problems in some banks affecting the whole system, but a prompt recapitalization of weak banks is of the essence.

With these comments, we wish Nigeria and its people every success in their future endeavors.

Mr. Saito and Ms. Mori submitted the following statement:

We thank staff for the reports and Mr. Obiora and Mr. Odonye for their informative statement. We positively note that Nigeria's economy has been recovering and inflation have been reduced, supported by the rebound in oil prices, a tight monetary policy, and a convergence in foreign exchange windows. We also take note the upside potential from the planned refined oil production. Having said so, given the demographic trends, current level of growth is not enough to increase per capita growth, reduce poverty, and transform into a diversified and more inclusive economy. To this end, decisive implementation of policy adjustments and structural reforms including non-oil revenue mobilization and business environment improvement are necessary. In this regard, we welcome the authorities' Economic Recovery and Growth Plan (ERGP), which include the authorities reform priorities, and encourage the authorities to implement the reforms in the ERGP to reduce vulnerability and raise growth. As we broadly concur with the thrust of the staff's appraisal, we will limit our comments to the following points:

Fiscal Policy

Fiscal consolidation based on non-oil revenue mobilization is needed to create a fiscal space for fostering inclusive growth. While debt to GDP ratio remains relatively low, high debt servicing cost (interest-to-revenue ratio), driven by low revenue mobilization, is a source of concern. To secure social and capital spending essential for inclusive growth, non-oil revenue mobilization is indispensable. On this point, we encourage the authorities to improve tax policy and tax administration, including a comprehensive VAT reform and developing an appropriate taxpayer register, in line with Fund's TA recommendation and an action plan to address weaknesses identified in TADAT. At the same time, while welcoming the increase in public investment over the past year, increasing the scale further and improving the efficiency of public investment and shifting the expenditure towards priority areas including social safety nets are crucial as well.

Monetary and Exchange Rate Policies

While acknowledging the contained inflation and continued convergence of exchange rate windows, measured to increase transparency of monetary policy operation should be pursued. We share staff's view that existing heterodox policies should be replaced by more traditional methods such as raising the monetary policy rate or cash reserve requirement, and non-traditional methods such as unannounced special Open Market Operations and direct central bank interventions in the economy should be ended. In this context, we wonder whether the mandate and objective of Central Bank of Nigeria (CBN) are appropriate and whether revisit of these mandates is needed. Staff comments are welcome. We concur with staff that greater exchange rate flexibility at a unified rate should be allowed to respond to shocks and eliminating restrictions to FX access and other capital flow management measures remain important to remove distortions.

Financial Sector

Further strengthening banking sector resilience, enhancing the framework for banking resolution, and improving supervision and monitoring of the banking system are needed. It is encouraging that solvency ratios improved markedly and NPLs have fallen. However, as staff point out, the

CBN’s capital injection and liquidity support contribute to increased moral hazard, expose the CBN to credit risk, and create additional contingent liabilities for the government, and therefore, banking resolution framework should be enhanced. On the accumulation of capital buffer for the resilience of the banking sector, although the authorities stressed their close monitoring, we support the staff’s call for an Asset Quality Review of the 10 largest banks to help identify the true potential capital needs.

Structural Reforms

Addressing longstanding structural constraints is warranted to support economic diversification and inclusive growth. We welcome the authorities’ reform efforts thus far in line with the ERPG, which include improvements in the business environment, progress in deepening financial inclusion, efforts to improve health and education, and continued steps towards improved governance. Regarding the authorities’ commitment to implementing the ERGP’s diversification agenda, we would like to hear staff’s view on the potential area/sector of economic diversification. Given that unreliable power supply hinders economic development and the power sector poses fiscal risks, the ongoing effort of the Power Sector Recovery Plan should be accelerated.

Capacity Development

We appreciate the Annex VIII Capacity Development Strategy which concisely summarizes the priority, challenges, and risks. Given the large capacity constraints, TA is an important element to support the country’s reform. We agree with staff that implementation track record should be stressed. That said, we note the authorities’ view that frequency of missions often puts an undue burden on the same individuals on the authorities’ side. Against this background, we encourage the staff to provide TA taking into account the authorities’ absorbing capacity as well as ownership to TA.

Mr. Mouminah, Mr. Alkhareif and Mr. Rouai submitted the following statement:

Key Messages

1. Fiscal consolidation should be revenue-based, and the authorities should reorient expenditure towards priority spending.
2. Monetary policy should remain tight until inflation is within the CBN's target range.
3. Further actions are needed on the financial sector.
4. Structural reforms will boost inclusive growth.

The economic recovery in Nigeria is continuing, although its pace remains slow. The recent rebound in oil prices is helping Nigeria in restoring external buffers. However, the country remains subject to important structural challenges that are hindering growth prospects and job creation and weakening human development outcomes. Staff has been providing the authorities with wide-ranging policy advice, as reflected in the main report and in the Selected Issues paper. At the same time, Nigeria has been benefiting from extensive capacity development support, totaling 62 TA missions in the last two years, in addition to the posting of a Senior Resident Representative and a Resident Technical Assistance Advisor. Against the background of the current work on the Comprehensive Surveillance Review, we would appreciate staff elaborations on the effectiveness of surveillance in Nigeria and on the traction of the Fund's policy advice. Does staff think that a more focused policy dialogue built around a limited set of priority reforms could have been considered? Similarly, we consider that a more focused approach could also be applied for the delivery of capacity development, where, as indicated in Annex VIII, even the authorities are suggesting a more focused TA in a few key priority areas. Staff elaborations on these points are welcome.

On fiscal policy, we agree with staff on the emphasis for higher priority expenditure. As pointed out by staff, spending on health and education is among the lowest in the world. Here, could staff indicate if part of the large increase in capital expenditure registered in 2018 (35 percent year-on-year) has benefited health and education sectors? In any case, Nigeria needs to further improve non-oil revenue, avoid tax and VAT exemptions, and improve public investment efficiency so as to reorient expenditure towards priority spending. We also encourage the authorities to safeguard the poor and most vulnerable from the negative impact of the implementation of an automatic fuel price-setting mechanism.

Monetary policy should remain tight until inflation is within the CBN's target range. Despite recent gains, inflation remains elevated and we therefore agree with staff that the current tight policy stance should be maintained. We also see the benefit of an emphasis on price stability in the CBN's communication policy and in staff recommendation for the CBN to discontinue development financing, which is outside its core mandate of monetary policy and liquidity management. In this regard, we welcome the recent strengthening of CBN's independence through the nomination of new Board and Monetary Policy Committee members. Efforts to further accumulate reserves should continue to mitigate risks from capital flow reversals.

While financial sector indicators are improving, further actions are needed. We welcome the indication that the CBN is working on several initiatives to support financial stability. While we note that NPLs are declining, they remain elevated and the level of restructured loans is abnormally high (up to 30 percent of total loans). Could staff clarify why the authorities do not see the need for an asset quality review?

Nigeria will benefit from structural reforms to boost inclusive growth. While we welcome recent initiatives to improve the business environment and financial inclusion and increase access to health and education, the authorities should continue their efforts to advance their structural reform agenda to help achieve the SDGs.

With these remarks, we thank staff for their work and Mr. Obiora and Mr. Odonye for their informative buff statement. We wish the authorities all the success.

Mr. Fachada and Ms. Mohammed submitted the following statement:

We thank staff for the comprehensive reports and Mr. Obiora and Mr. Odonye for their insightful statement. Although the Nigerian economy is still recovering from the 2015/2016 oil price shock, real GDP doubled to 1.9 percent in 2018, up from 0.8 percent in 2017. This notwithstanding, persisting structural and policy challenges continue to hamper its growth rate and macroeconomic performance. The authorities are therefore encouraged to take further steps to position the economy on a more sustainable path with enhanced fiscal consolidation, sound monetary policy and more ambitious structural reforms.

Fiscal consolidation is necessary to create space for expenditure towards priority areas. The authorities are commended for their efforts in advancing tax reform with the launch of the Strategic Revenue Growth Initiative (SRGI) and the tax policy initiatives including the VAT with full crediting of input tax, better monitoring of tax incentives, and broad-based use of excises. They should take greater efforts to ensure that the oil assets are divested within the anticipated timeframe, whilst improving tax compliance and strengthening non-oil revenues. That said, fiscal spending should be streamlined to priority capital spending, improve health and education and better target social safety nets. We welcome the information from Mr. Obiora and Mr. Odonye's statement that the authorities are already revamping the existing coordination structure of the government agencies to allow more effective cash management.

Maintaining a tight monetary stance seems appropriate to address high inflation. Whilst we recognize the Central Bank of Nigeria's (CBN) efforts of maintaining a tighten monetary policy stance, we encourage the authorities to utilize more standardized and transparent approaches and to discontinue the practice of unannounced open market operations. Increasing interest rates to positive levels in real terms and enhancing monetary policy communication and transparency can help anchor inflation expectations and facilitate price stability. We echo staff's emphasis that development financing should be undertaken by the federal government and the CBN should focus on its price stability mandate and its supervisory and regulatory role to ensure financial stability. Accordingly, we call on the authorities to strengthen the CBN's operational and institutional autonomy. Additionally, we commend the authorities on the progress made on the convergence of the exchange rate window and welcome their continued efforts towards a unified rate.

Strengthening the banking sector resilience is essential to safeguard financial stability. Against the backdrop of restructured loans and undercapitalized banks that continue to weigh on the financial sector, we welcome the intention to strengthen the framework for banking resolution and allow better coordination of the supervising authorities. Given the close linkage in the financial sector, we support the phasing out of the Asset Management Company of Nigeria (AMCON). The feasibility of delegating part of its portfolio to private Asset Management Companies to help accelerate the winding down process should be considered. Further, we welcome the implementation of IFRS 9 and the enforcement of Basel III requirements to ensure sustainable financial stability.

Addressing structural impediments is key to support diversification and inclusive growth, as well as achieve Sustainable Development Goals. We welcome the progress made by the authorities on the implementation of the Economic Recovery and Growth Plan (ERGP). We agree that Nigeria can benefit significantly from increasing its oil refining capacity, as it would not only allow the country to cover domestic demand but export refined products at a higher price. We take positive note that improved monitoring of state-owned enterprises (SOEs) enhanced the timely payment for cost recovery and avoided new government arrears, and we look forward to new legislative reforms to strengthen SOEs framework. Also, we concur with staff that implementing the power sector recovery program and the Petroleum Industry Governance Bill, while strengthening governance and transparency initiatives within reforms geared towards the health and education sectors are essential to increase human and physical capital, boost productivity and diversify the economy.

Building human capital to boost the work force's productivity is essential to reap benefits from Nigeria's demographic dividend. Stepping up efforts to improve education and health outcomes can lead to a significant boost in output and growth. Whilst this represents an enormous pressure on public services and infrastructure, as well as health and education spending, investment in human capital will provide opportunities to the new generation to fulfill its potential.

Mr. Sigurgeirsson and Mr. Gade submitted the following statement:

We thank staff for their well-written reports. The Nigerian economy continues to recover from the 2016 recession, while inflation continues to moderate, and external buffers are being rebuild. We welcome the authorities' intention to accelerate the Economic Recovery and Growth Plan (ERGP) as pointed out in the informative BUFF statement by Mr. Obiora and Mr. Odonye. However, we note staff's concern that under current policies, the outlook remains muted. As population growth is a clear driver of overall economic growth, we agree with staff that to raise per capita growth, job opportunities, and development, a comprehensive package of policy reforms along the lines outlined by staff should be considered, and we encourage the authorities to do so. Such a reform package would also bolster confidence and investments during a period of volatility in global markets. We broadly agree with the staff appraisal and would like to add the following points for emphasis.

Revenue-based fiscal consolidation should be pursued to create space for capital and priority spending. We welcome the authorities' efforts to increase non-oil revenues through the strategic revenue growth initiative, while broad use of VAT exemptions should be avoided. In addition, we would welcome a full implementation of the automatic fuel price adjustment with adequate social safeguards to mitigate the impact on the most vulnerable. We support the overall aim to create room for priority spending to support the SDGs, inclusive growth, and economic diversification. We encourage further improving public investment efficiency, strengthening governance in public procurement and investments, and improving the overall business environment as complementary efforts to address large infrastructure gaps.

Further efforts are needed to better align monetary and exchange rate policies, improve the framework's transparency, and move towards a market-based exchange rate. We welcome the strengthened framework transparency and communication of monetary policy decisions possibly aided by changes on the CBN board and the MPC. We encourage the CBN to continue on a path of relying more on the traditional monetary policy measures, further strengthen framework transparency and predictability, and discontinue development financing through the central bank. We welcome the move towards a unified market-based exchange rate and encourage consideration of removing FX restrictions to support economic diversification, increase transparency, and avoid distortions to public and private decision making. The multiple currency practices should be ended as soon as possible.

There is a need to strengthen banks' capital buffers, improve risk-based supervision and stop regulatory forbearance, as well as to develop credible bank recapitalization plans. We note staff's assessment that prudential ratios have improved, and further initiatives are underway to support financial stability. However, we also note the strong macro-financial linkages between the banking sector and the oil producing sector, which currently is aided by higher oil prices. We note staff's concerns about regulatory forbearance, undercapitalized banks, and some lack of clarity on asset quality and potential capital needs. As this is a continuous theme in the Article IV reports, we would appreciate staff's comments on how Fund and World Bank staff are supporting the authorities in making progress in these areas.

Pursuing structural reforms will be critical to fundamentally strengthen the business environment and foster economic diversification. The World Bank's ease of doing business report continues to point to a clear need for improving the overall business environment in Nigeria. However, starting a new business and improved enforcement of contracts are outlined as examples of how the authorities are seeking to improve the business environment for SMEs. We welcome the acceleration of the ERGP as a basis for further improving the business environment, deepening financial inclusion, and improving healthcare and education. We also strongly encourage the authorities to address gender gaps and strengthen governance, transparency and anti-corruption initiatives. Structural policies that foster economic diversification will have stabilizing effects on both the economic, fiscal and financial cycle.

Mr. Psalidopoulos, Mr. Rashkovan, Mr. Etkes and Mr. Persico submitted the following joint statement:

We thank staff for an insightful set of reports, as well as Mr. Obiora and Mr. Odonye for their informative buff. We broadly share staff's assessment and would like to provide the following specific comments.

Recent macroeconomic policy helped control inflation and rebuild external buffers. In this context, the authorities should take advantage of the current situation to address long-standing structural challenges and to enhance inclusive growth and development outcomes. Nonetheless, risks remain tilted downwards, with a significant domestic component, namely reforms delays, security risks, local clashes and political headwinds. As such risks could slow down the country's Economic Recovery and Growth Plan implementation, we wonder if the unchanged staff's growth projections – as well as the authorities' projections – could be optimistic.

Greater revenue mobilization is needed to close the existing infrastructural gap, increase social spending, maintain enough liquidity buffers and assure medium-term debt sustainability. The authorities should urgently step up their efforts to mobilize domestic non-oil resources to contain the impact of changes in the oil prices, to face the increasing interest bill and to guarantee the existing fiscal space. In this regard, while we welcome the launch of the Strategic Revenue Growth Initiative (SRGI), the delays in excises' increases and in the adoption of new VAT exemptions remain concerning. Moreover, we agree with staff that the medium-term fiscal framework is optimistic, relying on one-off measures, and envisaged revenue increases could take more time to materialize or deliver less gains than expected. At the same time, a wide review of the expenditure mix is needed to support spending in strategic areas.

The authorities should address promptly the long-standing fiscal pressures raising from fossil resources management. We invite the authorities to accelerate their efforts to address SOE's issues on governance and transparency. In particular, they should enhance the fiscal oversight of the Nigerian National Petroleum Corporation (NNPC) to limit discretionary and short-term conducts. In this regard, we praise the role of the Nigerian Extractive Industries Transparency Initiative (NEITI) to improve financial disclosure in the oil sector. At the same time, the NNPC legal framework should be streamlined to avoid unpredictable revenue management that could deter further investments in the country. In this regard, we would like to ask staff's views on the impact of the recent tax claim to oil and gas companies. As oil prices are raising, the adoption of fixed fuel final prices continues to widen the impact of implicit subsidies raising fiscal pressure. We share the staff's recommendations – outlined in the selected issues papers (SIP) – to gradually adjust fuel prices, while adopting mitigating measures to safeguard the poorest, in order to increase fiscal space.

Despite the ongoing recovery, poverty remains pervasive, hampering the ability of the country to benefit of its potential demographic dividend. While education and health outcomes are among the lowest worldwide, the authorities maintain a concerning low level of social spending (well below the Sub-Saharan average). In this regard, the authorities should prioritize the most needed social spending in order to improve both education and health levels. Such interventions should be complemented through the long-awaited structural reforms to support diversification, boost productivity and address rising unemployment. In this regard, we invite the authorities to advance the ongoing efforts to reach the envisaged targets of the national Human Capital Vision also building on the policy advice provided by staff in the SIP.

A better alignment of monetary policy is required as the double-digit inflation, even if decreasing, continues to be above the Central Bank of Nigeria's (CBN) target. While we take note of the authorities' views on the efficacy of the current monetary policy, we invite them to maintain a tight stance increasing the policy rate rather than using heterodox policies (e.g. managing the overnight rate) in order to enhance the signaling quality of the monetary policy. At the same time, the converging forex window should encourage the CBN to continue the path towards a greater flexibility of the exchange rate. CBN should monitor carefully the evolution of macro-financial risks due to the banks' exposure to the oil sector to not undermine private credit and non-oil growth.

Mr. Mojarrad and Mr. Osei Yeboah submitted the following statement:

We thank staff for the interesting set of reports and Mr. Obiora and Mr. Odonye for their helpful buff statement. The Nigerian economy is recovering, albeit at a moderate pace, supported by a rebound in oil prices and improved performance in the manufacturing sector. Inflation is declining, underpinned by tight monetary policy, and external buffers have strengthened, together with greater convergence toward a unified exchange rate. However, long-standing challenges remain and would need to be addressed more forcefully, including among other, the significant infrastructural gap, institutional and governance weaknesses, and low non-oil revenue mobilization. The combination of demographic trends, high unemployment, and wide-spread poverty call for boosting medium-term growth beyond the currently levels. With the presidential elections over and calm restored, the authorities can now focus on pursuing their Economic Recovery and Growth Plan (ERGP) to achieve higher inclusive growth and poverty alleviation. We agree with the thrust of the staff appraisal.

The prevailing economic recovery offers an opportunity for authorities to improve the overall fiscal position and mitigate the rather high debt servicing cost that adversely impacts priority spending. Nigeria has ample room to increase non-oil revenue from its current low level. which will help diversify the revenue base and expand fiscal space. We welcome the authorities' Strategic Revenue Growth Initiative (SRGI), which will enhance coordination of various revenue reforms and note staff assessment that the targeted 8 percent increase in non-oil revenue over the medium term is ambitious, but achievable. Could staff elaborate on the preparatory work for the introduction of the VAT in 2020 and whether it has benefited from Fund TA? That notwithstanding, eliminating revenue leakages in the oil sector will offer an added boost to domestic revenue mobilization. Like staff, we support shifting of resources toward priority areas, including increasing public investment, and achieving greater transparency and accountability in state and local government finances.

The disinflationary trend is welcomed, but with inflation still outside the CBN target band, a tight monetary policy stance must be maintained. We agree that improving the transmission channels through better communication and a well-functioning policy instruments will enhance policy effectiveness. The authorities' prompt reconstitution of the monetary policy committee (MPC), as indicated in Mr. Obiora and Mr. Odonye's statement is a step in the right direction. Strong commitment to the unification of exchange rates over the medium term is welcomed, which calls for continued convergence of rates in the market and strong CBN oversight to preserve the improving trend. We agree with staff that greater exchange rate flexibility and intervention policy focused solely on limiting excessive fluctuations in the market will help safeguard reserves. The Nigerian economy is known for attracting significant foreign investment inflows ($6 billion in 4 weeks following the elections) as stated in the buff, but outflows can be large as well, which underscores the importance of building reserve buffers to avert exchange rate volatility and financial stability risks.

We welcome the improved resilience of the banking sector, with higher capitalization in large banks, declining NPLs, and improved solvency ratios. Nonetheless, small and medium-size banks are under-capitalized, with a few of them depending on CBN liquidity support. We support staff recommendations to strengthen bank capital buffers, including retention of dividend distributions by banks with restructured loans, and see merit in an asset quality review of the 10 largest banks to ascertain the financial health of the banking sector. We recognize the initiatives to strengthen risk-based supervision with the introduction of the internal capital adequacy assessment program (ICAAP) while preparations are on-going to assess banks on Basel III requirements. We concur with staff that a clearer exit strategy for the asset management company (AMCON) is essential due to the high contingent liability risk.

Sustaining structural reforms consistent with ERGP goals is critical to promote private sector participation in the economy and reduce unemployment and poverty. As noted in the staff report and the interesting SIP, Nigeria lags the rest of the world in spending on education and health, sectors which must be given high priority to foster human capital development and inclusive growth. Also, with still significant infrastructural gaps, increasing public investment efficiency through enhanced procurement and fiscal transparency will bode well for achieving the ERGP goals. We welcome the efforts to address Nigeria’s long-standing power sector deficiencies, as indicated in the buff statement, which could have considerable impact on business activity. These should go together with sustained efforts to strengthen governance and institutional capacity, including to better monitor SOE activities, while improving transparency and fighting corruption to foster an enabling business environment.

With these remarks we wish the authorities success in their endeavor.

Mr. Trabinski and Mr. Djokovic submitted the following statement:

We thank staff for a comprehensive set of papers and Mr. Obiora and Mr. Odonye for their insightful buff statement. Nigeria's economy is undergoing a slow recovery, with persisting structural deficiencies and incomplete policy adjustment. Growth remains below historical trends and translates into falling output per capita, while the already high unemployment rate continues to grow. We agree with staff's recommendations and encourage the authorities to step-up their reform efforts. Stronger and more resilient growth is critical to support the country's developmental needs. To this end, the Economic Recovery and Growth Plan provides a solid blueprint for Nigeria's future development.

Nigeria's total and non-oil revenues remain among the lowest in the region. Moreover, the interest payments-to-revenue ratio is extremely high, and Nigeria's priority expenditures, including health and education, are among the lowest worldwide. In the current situation it seems justified to mobilize additional revenues and implement revenue-based fiscal consolidation, aimed at creating fiscal space for higher capital and priority spending. Against the backdrop of a narrowing tax base, a comprehensive tax policy reform would be key for successful fiscal adjustment. In that context, we are concerned by the postponement of important reforms, and by weak implementation of the Fund's tax-policy TA advice.

Nigeria's monetary policy has remained appropriately tight in the context of high inflation. As a result, headline inflation has fallen significantly. However, the inflation rate remains above the Central Bank of Nigeria's (CBNs) target. We agree with staff that transparency of monetary operations should be enhanced further, as should the CBNs communication policy. We encourage the authorities to strengthen external buffers, given that FX reserves remain below the ARA metric.

We support staff's recommendation to rapidly unify the exchange rate and remove restrictions on foreign exchange access. This will remove uncertainty and unnecessary distortions, while supporting investors' confidence. We note the authorities' commitment to exchange rate unification but would encourage them to bring corrective action forward.

Reinvigorated structural reforms are needed to tackle longstanding economic weaknesses. Strengthening governance, stepping-up anti-corruption efforts and improving the business environment would be the most important steps. We concur with staff that human capital accumulation poses a particular challenge, given the extremely low spending on health and education. This calls for a determined effort to implement reforms along staff's suggestions.

Mr. Tan and Mr. Pham submitted the following statement:

We thank staff for the comprehensive set of reports and Messrs. Obiora and Odonye for their insightful buff statement.

The rebound in oil prices, increased access to international markets, and improvements in the business climate have helped Nigeria to maintain its economic recovery in 2018. A tight monetary policy with some FX measures has attracted capital inflows and improved the authorities' reserve position. However, staff has rightly highlighted that the Nigerian economic development remains challenging with a large infrastructure gap, low revenue mobilization, governance and institutional weaknesses, and persisting financial sector vulnerabilities. In this context, we welcome the authorities' Economic Recovery and Growth Plan and look forward to its steadfast implementation. We broadly share staff's appraisal and would like to raise the following comments.

We welcome the authorities' commitment to revenue-based fiscal adjustment that allows more fiscal space for priority social and infrastructure spending. The recently adopted SRGI and other fiscal policy initiatives stated in the buff statement are welcome steps to help generate more sustainable revenue and rationalize spending. We also note the sense of urgency in staff's recommendation to address vulnerabilities and raise growth over the medium-term. In this regard, we commend the authorities for pursuing measures that do not require new legislation, including higher rates on excises and a broader list of products subject to excises. For the longer term, we agree with staff on the need for more ambitious tax policy measures to raise non-oil revenue. These include reforming the value-added tax, increasing tax excises, and rationalizing tax incentives. In undertaking these necessary fiscal adjustments, we urge the authorities to consider and provide adequate protection for the poor and most vulnerable groups.

Improvements in transparency of monetary policy decisions should complement market-based foreign exchange measures in establishing a full-fledged inflation targeting regime. While inflation is still above the CBN's target, this process should be supported by keeping monetary policy tight through appropriate and transparent monetary policy tools that help contain inflationary pressures and support a move towards establishing a uniform market-determined exchange rate. We also support staff's call for the development of a time-bound action plan to phase out exchange rate restrictions and other capital management measures. In this regard, could staff comment on the policy options and sequencing to avoid disruption in the financial market and the economy as a whole when the capital management measures are phased out?

We support staff's call for action to strengthen banking system resilience and enhance bank supervision framework. The authorities' efforts to maintain a strong banking sector with improved NPLs and solvency ratios, and increased capital buffers are commendable. With respect to the authorities' interventions in bailing out and providing liquidity injections to insolvent and undercapitalized banks, we concur with staff that the resolution framework should be strengthened in line with international best practices to bolster confidence and minimize risks to the CBN's balance sheet. In this regard, while we positively note the CBN's commitment to act as a lender of last resort, we would welcome staff's comment on the use of private money where possible? We see merit in staff's recommendation for the urgent need to enhance banking supervision by strengthening the risk-based onsite inspections and the enforcement of prudential requirements.

Structural reform implementation should be expedited to lay the foundation for economic diversification and inclusive growth. We acknowledge the authorities' commitment to accelerate the implementation of ERGP, including strides for improving the business environment and strengthening governance and transparency. We urge the authorities to continue to make speedy progress in this area in line with staff's recommendations to supplement these efforts with the implementation of a financial inclusion strategy and policies to reduce gender inequalities.

With these comments, we wish the authorities every success in their future endeavors.

Mr. Just and Mr. Stradal submitted the following statement:

We thank staff for their comprehensive and insightful set of reports, and Messrs. Obiora and Odonye for their buff statement. We broadly share staff's appraisal.

Nigeria's economic performance has been rather weak over the last three years. The recovery from the 2016 recession has been timid and economic growth is yet to catch up with the population growth. Diversification from oil dependency is critical, but continues to be stalled by infrastructure and human capital constraints. Structural reforms to enhance the growth potential, improve governance, and facilitate private sector dynamism thus remain a key priority. We call on the authorities to take full advantage of the regained political mandate to urgently implement a comprehensive reform package.

Public debt remains relatively low, but the long-term sustainability risks rise as non-oil revenues continue to disappoint. We encourage the authorities to accelerate and strengthen their tax revenue mobilization efforts to create space for critical infrastructure and human capital investments, currently crowded out by debt service costs amounting to 60 percent of the total revenues. The reform track record so far has been poor, as no major tax policy change was implemented, the planned excise increases did not materialize, and new exemptions were granted. In conjunction with diminishing oil revenues, it resulted in total revenues having more than halved as a percentage of GDP over the past decades. Fiscal efforts should be reinforced by removing fuel subsidies, improving the prioritization and governance of public investments, and incorporating the state-owned enterprises into holistic fiscal planning, while also strengthening their governance frameworks. We welcome the initiative to enhance coordination among several government agencies aimed at more effective cash management.

We welcome the continued tight monetary policy to re-anchor inflation expectations at a lower level. We agree with staff that the heterodox monetary policy toolkit should be streamlined to improve its effectiveness and transparency. The policy rate should play a key role with rates on the standing facilities, determining the corridor for short-term money market rates. The schedule of open market operations should be regular and clearly communicated to the market participants to facilitate their liquidity management. The central bank should be squarely focused on achieving the inflation target, and other conflicting objectives, such as growth targets or development financing goals, should be discontinued. Further progress towards unifying and liberalizing the exchange rate is needed for it to serve as a cushion to external shocks, as well as to facilitate foreign investments put off by a fear of reinstated capital controls.

We are concerned by continued regulatory forbearance. The authorities should perform an Asset Quality Review of their largest banks without delay and strengthen their capital buffers accordingly. The supervisory capacities should be reinforced and employed in a more intrusive way to detect building risks early. We appreciate staff's thorough analysis of the Asset Management Corporation of Nigeria (AMCON) in one the Selected Issues Papers. We fully support staff's call to immediately design and execute an exit strategy as AMCON's raison d'être has long expired, and its existence unnecessarily increases the complexity of risk exposures and constitutes an additional source of systemic risk.

Multi-pronged structural reform endeavors are essential for economic development. We welcome the authorities' continued commitment to the Economic Recovery and Growth Plan in this respect, but actual progress has been slow. The inadequate electricity grid is a key bottleneck preventing the economy from transition to a faster growth trajectory, as it is able to deliver only a fraction of the installed generation capacity. A comprehensive tariff reform and public investments in the electricity distribution should be prioritized to address it. Stepping up efforts to improve the quality of education and healthcare is another priority against the backdrop of strong population growth projections in conjunction with low literacy. Continued efforts to improve governance and fight corruption at all levels of the government, as well as in state-owned enterprises, are critical complements to other ongoing and planned reforms aimed at improving the business environment.

Mr. Mozhin and Mr. Palei submitted the following statement:

We thank staff for a set of insightful papers on Nigeria and Mr. Obiora and Mr. Odonye for the useful additional clarifications of the authorities' views. The Nigerian economy is gradually recovering from the major oil price shock in 2014. Unfortunately, the authorities' response to the oil price shock and economic adjustment was delayed, and the full force of the downturn was felt only in 2016. Over the past two years the authorities' policy response has led to stabilization of the economy. Fiscal accounts have improved, inflation has declined, the nairu multiple exchange rates have converged, and foreign exchange reserves have increased. The authorities' policy response was implemented in a difficult environment of heightened security risks, volatile oil prices, and the developments in international trade and finance threatening the global economic outlook. The electoral cycle also affected the pace of reform implementation. Overall, while the challenges in Nigeria remain formidable, the authorities seem to be on the right track in macroeconomic and structural reform areas.

In the fiscal area, we agree with the authorities and staff that increasing non-oil revenue in a sustainable manner is of utmost importance. Given the agreement on the main options for fiscal revenue-based consolidation, the authorities need to better define the key steps and timing of introducing higher excise taxes, adopting the CIT and the VAT base broadening, as well as rate changes. We also agree with staff that the focus on property taxes would be a major step forward in diversifying the sources of fiscal revenue. Continuing tax administration reform in line with the TADAT recommendations is necessary, but it cannot substitute for a broad and steadily implemented policy package. We welcome the authorities' Strategic Revenue Growth Initiative supported by the creation of a high-powered Steering Committee. We would encourage the authorities to broaden, if necessary, the institutional framework to include other agencies. We note that the revenue based fiscal adjustment is supported by the Medium-Term Expenditure Framework. On the pace of reforms, we note the authorities' warning against unrealistic expectations, as they have to follow certain legal procedures, and also agree with staff that acceleration of fiscal reforms would be beneficial.

Lower headline inflation of about 11 percent and the core inflation just below 10 percent bode well for the faster growth recovery. In Annex V staff confirmed that the 10-12 percent inflation threshold is important in their estimates of non-linear effects of price dynamics on growth. From this point of view, the authorities' tight monetary policy was rather successful, and we agree with the need to maintain somewhat tighter stance to adapt monetary policy framework and enhance its credibility. The central bank should continue to improve its policy tools and upgrade transparency.

The financial sector clean-up was also an essential part of the recent challenging reforms in the country. A lower level of NPLs and improved prudential ratios point to a welcome strengthening of the banks' balance sheets. Further increases in bank capital, moving to a risk-based supervision and clarification of the resolution rules constitute policy priorities going forward.

In the structural area, we note that the authorities and staff agree that the ERGP provides a good roadmap for reform sequencing and implementation. We note that, among other signs, the authorities' commitment to reforms is evident in close cooperation with the World Bank Ease of Doing Business project. As a part of this project, last year the World Bank produced a comprehensive report on the progress with reforms in 34 regions of Nigeria. The ability to compare the progress and even compete in this area, in our experience, bodes well for further advances in creating a more welcoming business environment.

Mr. Meyer and Ms. Lucas submitted the following statement:

We thank staff for its comprehensive set of reports and thank Mr. Obiora and Mr. Odonye for their helpful buff statement. We acknowledge the progress made by the Nigerian authorities since the 2016 recession to strengthen external buffers, to contain inflation and to improve the business climate. However, as staff rightly outlines, persistent structural as well as policy challenges are weighing on the economy. Taking into account the challenging outlook with high domestic risks, policy action needs to address the difficulties Nigeria is facing in a timely manner. We thus support staff's policy recommendations including on financial stability and would like to offer the following comments for emphasis:

We strongly encourage the authorities to take steps to strengthen the independence of the Central Bank of Nigeria (CBN) and to put a clear focus on its price stability mandate. Trying to steer inflation and the exchange rate, while at the same time attempting to stimulate growth is counterproductive. This leads to the situation in which none of the policies can reach their full effectiveness simultaneously. Reducing the exposure of the CBN to banks' balance sheets and bringing to an end CBN´s development financing is essential for the central bank to focus on its supervisory role and on its price stability mandate. Against this backdrop, we note with concern that the authorities consider these practices as necessary to maintain proper electricity generation and boost agricultural production. We are wondering about the reasons for which these tasks cannot be carried out by the federal government. Additional staff comments on the reasoning behind the authorities' statement would be welcome. We further join staff in urging the authorities to remove multiple currency practices and to allow the exchange rate to move as appropriate. In this context, we take note with some concern the difference in views regarding the appropriate currency practice Could staff provide some insight into possible first steps in order to converge towards a mutual plan on the exchange rate policy?

We take note with concern significant vulnerabilities for public debt sustainability also reflected in high sovereign bond spreads. Since non-oil revenue is still low, we join staff in its call for a front-loaded fiscal consolidation based on revenue mobilization. A comprehensive tax reform, including VAT, is of paramount importance to sustainably raise non-oil revenue. In addition, we are line with the suggestions to better use existing oil revenues. We agree with staff that good governance should be pursued through improving oversight and monitoring of state-owned enterprises. Better transparency, efficient public investment and an automatic fuel price-setting mechanism would help shift government expenditures towards priority areas. In the context of the medium-term fiscal framework, we wonder whether the authorities' expectation of a decline in fiscal deficits mainly driven by oil revenues is too optimistic. Staff comments would be welcome.

A revenue-based fiscal consolidation strategy should allow for greater social and capital spending over time which is of utmost importance given the high poverty rate in Nigeria. Therefore, a faster implementation of the structural reform agenda is necessary to address not only education and health deficiencies but to also generate more inclusive growth given inter alia significant gender gaps. As staff rightly points out, a further structural issue is the lack of access to electricity for a large share of the population. We thus plead for the implementation of the Power Sector Recovery Plan, strengthened governance, higher transparency and anti-corruption initiatives to make sure that government agencies pay their electricity bills. With a view to diversifying exports and increasing the domestic value creation, we take positive note of the planned refinery project near Lagos and look forward to future updates on its implementation.

We note with interest staff's discussion of large and persistent errors and omissions in the BoP. Could staff comment whether staff's analysis of the external sector (see page 75) suggests an uncaptured/unreported build-up of net foreign assets of more than 120 bn. US-$ since 2005 and what could be the cause of this?

Finally, in order to assist Nigeria in their reform and implementation efforts, we agree that more training through TA in Nigeria would be beneficial. We welcome the progress on the quality and availability of economic statistics and encourage the Nigerian authorities to further strengthen data quality and provide regular funding.

Mr. Ray and Mr. Kikiolo submitted the following statement:

We thank staff for their comprehensive set of reports and Mr. Obiora and Mr. Odonye for the informative buff statement. We commend the Nigerian authorities for recording another year of growth in 2018, achieving lower, though still high, inflation and improving external reserve buffers. Despite these positive outcomes, the outlook remains challenging and risks are tilted to the downside. Nigeria has large infrastructure needs and its human development indicators are lower than its peers. It is critical that the authorities continue to advance the Economic Recovery and Growth Plan

(ERGP). We concur with the staff assessment and offer the following comments for emphasis.

We are encouraged by the authorities' commitment to prudent fiscal policy. Harnessing non-oil revenue is important to allow the authorities to shift expenditure to priority spending needs and achieve SDGs. In this regard, we commend the authorities for the Strategic Revenue Growth Initiative and measures taken to address the weaknesses identified in the Tax Administration Assessment Tool. Based on the experiences in other countries such as Georgia, Ukraine and Liberia, staff proposed an increase in non-oil revenue to 8 percent of GDP by 2024. While this target seems ambitious in Nigeria's context, we encourage the authorities to pursue effective mobilization of non-oil revenues as a high priority. While noting the argument to raise external debt to 40 percent of total debt as indicated in the Selected Issues Paper, we also echo staff's call for careful monitoring of the exchange rate risks.

The authorities are urged to maintain the tight monetary policy and a flexible exchange rate policy. While inflation has declined significantly, it is still high. To achieve the price stability mandate, we agree with staff that the authorities should use tools such as the MPR and CRR and consider stepping back from direct lending to sectors that would be served by the private banks. We also urge the authorities to continue moving towards a unified market-based exchange rate to encourage diversification and inclusive growth.

We noted that the banking sector indicators improved during the year, but vulnerabilities remain. The non-performing loans declined to 11.7 percent, solvency ratios to 15.3 percent, and large banks' resilience to credit and concentration risks improved. We also noted that these positive outcomes benefited from the favorable oil price, indicating the banking sector is highly susceptible to a negative price shock. To contain this risk, we welcome the completion of the IFRS 9 implementation, initiation of the ICAAP, and at the same time urge the authorities to enforce Basel III requirements as planned. While we agree with staff that the authorities should develop a time-bound workable exit strategy for the CBN ownership in AMCON, we wonder what would staff consider as an ideal timeframe and what granular advice would staff give to the authorities to ensure there is minimal disruption?

The authorities are urged to accelerate structural reforms to diversify the economy and achieve inclusive growth. The government's structural reform initiatives that led to improved business conditions are commendable but more needs to be done. In the face of increasing demographic challenges, we encourage the authorities to double their reform efforts especially in the health and education sectors. We also call upon the Fund and development partners to provide continuous support and ensure their assistance is aligned with the targeted priority areas of the country. We value the findings in the SIP on macro structural obstacles to firm performance and support reforms to improve access to finance especially for small-medium enterprises.

Ms. Levonian, Ms. McKiernan and Mr. Williams submitted the following statement:

We thank staff for their comprehensive set of reports and Messrs. Obiora and Odonye for their insightful buff statement. Nigeria's economic recovery has picked up pace thanks to more favorable oil prices and an improved business environment. Tighter monetary policy and a more stable exchange rate have helped to lower inflation, while external buffers have strengthened. Still, a lot more is required to address vulnerabilities and improve socio-economic outcomes. The Selected Issues paper (SIP) rightly focuses on matters germane to Nigeria's economic development, including the need to improve governance, upgrade human capital, promote gender equality, and secure financial sector stability. The authorities are advised to grasp the opportunity afforded by the recent passage of elections to accelerate well-needed reforms. We broadly concur with staff's assessments and recommendations and offer the following remarks for emphasis.

Raising non-oil revenue will create space to scale up growth-friendly public investment and strengthen social spending, while keeping debt manageable. Nigeria continues to make steady progress in improving tax administration, yet revenue yields remain low. In this regard, we encourage the authorities to consider augmenting the administrative reforms with more robust tax policy measures along the lines recommended by staff. A stronger revenue stream that is less reliant on oil will enable Nigeria to close its infrastructure gap and address poor health and education outcomes - reportedly among the worst globally - in a more sustainable manner. That said, we note staff's views that the authorities' revenue forecasts are optimistic. We invite staff's comment on the authorities' contingency plans should ambitious revenue targets fail to materialize. Based on staff's thorough analysis as presented in the SIP, we support the authorities' strategy to increase the proportion of external debt in the portfolio, while urging them to continually assess the exchange rate risk.

The authorities should continue to maintain a tight monetary policy stance within the context of a more unified and flexible exchange rate. Notwithstanding the appreciable fall, inflation remains above the Central

Bank of Nigeria's (CBN) target. The CBN, however, continues to pursue multiple objectives, including price stability and direct lending to the energy and agricultural sectors to spur growth, which may send conflicting signals to the market. In this regard, we agree with staff that these financing arrangements where warranted should be undertaken by the fiscal authorities, further underscoring the criticality of revenue mobilization. Relatedly, we note the authorities' commitment to unification of exchange rates and welcome the progress made to date. That said, we continue to urge the authorities to remove exchange restrictions, which regrettably have expanded recently, and multiple currency practices subject to Article VIII as soon as possible.

Measures to bolster financial sector resilience should continue. We note positively that key macroprudential ratios have improved though profits remain flat. However, pockets of vulnerability remain, especially among smaller and undercapitalized banks, which require continued vigilance. The CBN has rightly moved to improve risk-based supervision, and we urge them to stay on course with plans to enforce Basel III requirements later this year. Further, given the vulnerability of banks to oil price volatility and tighter global financial conditions, expanding stress testing to macroeconomic shocks is sensible. We welcome staff's elaboration on their divergent view relative to that of the authorities regarding the need for an asset quality review for the 10 largest banks.

Accelerating the structural reform agenda will be key to tackling vulnerabilities and sustaining stronger and more inclusive growth. Nigeria needs to generate job-rich growth as the rapid rise in the labor force continues to outpace economic activity, thereby fueling unemployment. The prospects of a significant expansion in oil-refinery operations provide considerable growth potential. However, as outlined in the SIP, addressing governance, particularly in the oil sector, as well as strengthening human capital and gender equality, among others, will be integral to boosting productivity and inclusive growth. In this vein, we encourage the authorities to build on reforms aimed at strengthening the legal and institutional framework to combat corruption, simplifying the business processes, increasing access to health and education, especially for females, and deepening financial inclusion. Further efforts to enhance the efficiency of public investment and improve power supply reliability are important steps to induce greater private investment, diversify the economy, and bolster the country's resilience to shocks and must be pursued without delay.

Mr. Moreno submitted the following statement:

We share the staff's appraisal. We thank staff for an informative set of reports; we have particularly appreciated the timely selected issues papers, particularly those on governance and human capital and gender equality, which are usefully linked to the government's policy agenda. We also thank Mr. Obiora and Mr. Odonye for their buff statement, which is reassuring on the government's strong commitment to a reform agenda under the ERGP. We generally share staff's assessment and note that there is also broad agreement with the authorities. We will focus on a few issues.

Political momentum to undertake reforms. With the 2019 presidential and state elections now just finished with a broad-based national and regional support for the ACP party, the authorities should take advantage of their regained support and accelerate the pace of reforms, especially in the first years of the new political cycle. As highlighted in Supplement 2 and on the buff statement, we welcome the authorities' commitment, including the rapid activation of a transition Committee, to layout reform priorities and a clear roadmap building upon the ERGP.

On inflation, we note that, while inflation has fallen significantly (down two percentage points in the last two years to 11.4 percent at end-2018), it remains above the CBN's target of 6-9 percent. In this respect, inflation hit the lowest point of this downward trend in July 2018 (11.14 percent). Since then, headline inflation has not been reduced (as of February 2019), so further reductions seem unlikely unless other policies are implemented. Staff is recommending raising the MPR as the anchor to manage inflation and improve signaling, but this could have a cost in terms of growth, which is still recovering under a downside risk scenario with risks tilted to the downside. Staff's comments on a policy mix to continue curbing inflation while reducing its growth impact are welcome.

On exchange rate policy, we observe the steady increase of the expanded FX restrictions, which now includes 43 categories of products, as textiles have been included in March under the argument of retrenchment in the national textile industry and despite criticism from Nigeria's Chamber of Commerce and Industry. Their removal would reduce market distortions and vulnerabilities to corruption, as stressed by staff. Further, as these measures are more linked to industrial policy objectives, the CBN is being overburden with policy objectives, and should rather focus on inflation and growth targets. We would welcome staff's comments on the recent news about arbitrage on the foreign exchange market between the interbank market and other forex windows.

On fiscal policy, we would like to emphasize the need to strengthen non-oil revenue mobilization and to enhance priority spending on social safety nets, health, and education. On the budgetary process, we understand that in the last few years, the budget has been approved in the budget year (by mid-year). We would encourage the approval of the national budget before the fiscal year starts. Staff points out that the budget impact of the proposed minimum wage increase would be contained and is largely accounted for in the budget. However, we understand that it has been questioned by state governors as impracticable (other than Lagos State); staff's comments on how it would impact states' budgets is welcome.

On structural reforms (and trade), we would caution against a strategy based on targeting improvements in the Doing Business indicator, while it is a very useful indicator, it does not properly capture several key variables for improving the Nigerian business development plan such as energy, transportation or security. We welcome the timely selected issue on governance in the oil sector. We would welcome staff's comments on the prospects of approval for the vetoed Petroleum Industry Governance Bill. On trade, we would highlight the important role to be played by Nigeria in promoting interregional trade as the leading economy of the ECOWAS. We also encourage the authorities to reconsider the Partnership Agreement (EPA) with the EU, given its potential for the regional economy as well as in terms of economic diversification.

Ms. Pollard and Mr. Vitvitsky submitted the following statement:

We thank staff for the Article IV report and the comprehensive set of Selected Issues papers and Mr. Obiora and Mr. Odonye for their informative buff statement. Nigeria's economy is slowly recovering, and inflation has declined. Public and external debt levels also remain relatively low, with solid foreign exchange reserve coverage. Following recent elections, we encourage the authorities to intensify reform implementation amid a more stable economic and political environment, particularly the country's Economic Recovery and Growth Plan (ERGP) with a strong focus on improving the business and investment climate. Nigeria's economy faces immense challenges, including the absorption of a large wave of new entrants into the labor force in the coming years and deteriorating social indicators. In this context, we broadly agree with Fund staff's appraisal, including the need to tackle corruption, boost non-oil revenues, improve the central bank's independence and focus, and take further efforts to enhance financial sector stability.

We support staff's call to address corruption and governance more forcefully. The Selected Issues paper on governance in the oil sector was particularly helpful in this regard. Staff recommendations to improve government procurement processes, enhance fiscal transparency, and improve disclosure requirements in the extractives sector, among others, are all appropriate. Amid weak investment growth in Nigeria, greater progress in these areas will help boost potential growth in Nigeria, which is too low to support real per capita income and employment growth. Can staff elaborate on how much employment growth would be necessary to absorb the growing labor force and prevent the unemployment rate from rising further?

Addressing corruption will also help support the authorities' objective to boost non-oil revenues, which consistently underperform and remain among the lowest in the world. Improving tax compliance and administration are critical, and we are glad to see TA resources in these areas. We are also pleased to read that the authorities are receptive to staff recommendations in many areas. However, it will be very difficult to increase non-oil revenues meaningfully if a perception exists among the public that corruption is not being addressed.

We welcome the reduction in inflation but agree with staff on the need to better align monetary and exchange rate policies to meet the inflation target. Staff's advice on monetary policy implementation and transparency are sensible and we encourage the authorities to consider them. We also support Ms. Levonian, Ms. McKiernan, and Mr. Williams' call to remove exchange restrictions and multiple currency practices subject to Article VIII as soon as possible. Further, we are concerned over the direct intervention of the central bank in the agriculture and power sectors. We concur with staff that if these development interventions are warranted, they should be implemented by the federal government and transparently budgeted. We believe it will be difficult in practice for the central bank to achieve a wide range of objectives, which has also weakened its independence.

A unified exchange rate and a more flexible exchange rate regime would also support the inflation targeting regime. Staff's analysis of the potential economic gains in unifying the exchange rate (chart on page 18) indicates that eliminating the parallel exchange rate can also boost growth and reduce poverty. Staff comments would be welcome.

On the financial sector, we would have welcomed more analysis on whether the increase in restructured loans is masking asset quality deterioration. Along these lines, we support staff's call for an Asset Quality Review (AQR). This will be particularly important to ensure whether potential capital needs in the banking sector are adequately assessed, despite the largest banks currently having high prudential ratios.

Finally, we strongly support staff's calls to enhance financial inclusion in Nigeria, as highlighted in Annex VII. Low private sector credit growth in Nigeria, driven by both cyclical and policy-induced factors, inhibits stronger and more inclusive growth. We are encouraged to see that the authorities have recognized these challenges and have launched several initiatives that are aligned with its financial inclusion strategy.

Mr. Sun and Ms. Cai submitted the following statement:

We thank staff for the concise report and Mr. Obiora and Mr. Odonye for the informative buff statement. We welcome Nigeria's economic recovery and encourage the authorities to take steadfast actions to improve economic resilience and promote sustainable and inclusive growth, notably the implementation of the Economic Recovery and Growth Plan (ERGP). We broadly agree with staff's appraisal and would like to limit ourselves to the following comments for emphasis.

Strong efforts to mobilize non-oil revenue are critical to a successful fiscal consolidation. We welcome the authorities' commitment to a prudent fiscal policy and reducing dependence on oil revenue. The revised medium-term fiscal framework (MTFF) sets out ambitious consolidation goals, and the authorities' efforts in improving tax collection and strengthening tax administration are helpful for achieving these goals. A broad-based reform agenda should help unlock Nigeria's revenue potential and create a more sustainable revenue stream. Measures on the expenditure side are also important to achieve the SDGs while ensuring priority spending.

Maintaining growth-enhancing investment to narrow the wide public infrastructure gap should be one of the priorities. Significant public and private investments are needed to improve power generation, enhance logistics, and strengthen capacity. Public investment management should also be enhanced to raise investment efficiency. We welcome staff's analysis of the cost-risk of increasing Nigeria's external debt in the Selected Issues paper. We agree that the strategy aimed at increasing the share of external debt to 40 percent of total debt remains appropriate, but careful monitoring of the associated exchange rate risk is required. We believe this process should be supported by increasing exchange rate flexibility.

Continued efforts are needed to enhance monetary policy and exchange rate frameworks, as well as banking sector resilience. With inflation still above the Central Bank of Nigeria's (CBN) target range of 6 to 9 percent, we see merit in staff's suggestions for enhancing CBN's monetary policy framework, such as increasing transparency of operations and improving communication. Distortions in the FX market need to be addressed to enhance economic decision making. We welcome the authorities' commitment to a unified exchange rate, and take positive note of the ongoing convergence of exchange rate windows. We are pleased to note that NPLs have fallen and solvency ratios have improved markedly. More efforts are needed to address the undercapitalized banks and strengthen the banking resolution framework.

Addressing structural impediments is key to achieving sustainable and inclusive growth. Continued progress has been made on implementing the structural reform measures in line with the ERGP. Nevertheless, more needs to be done to address the remaining structural issues including weak financial inclusion and inequality. To promote sustainable and inclusive growth, we also encourage further efforts in reducing gender inequality and diversifying the economy. Enhancing public institutions and investment efficiency can help maximize the benefits from these efforts.

With these remarks, we wish the authorities every success in their policy endeavors.

Mr. Raghani, Mr. Razafindramanana and Mr. Nguema-Affane submitted the following statement:

We thank staff for their well-balanced set of reports and Mr. Obiora and Mr. Odonye for their informative buff statement.

We commend the Nigerian authorities for the comprehensive set of policy measures they have implemented in recent years to address the impact of the sharp decline in oil prices on the economy and urge them to remain steadfast in their policy and reform agenda. Recent measures together with the rebound in oil prices have led the economy to the recovery path. However, daunting challenges continue to face the Nigerian economy including the large infrastructure gap, low revenue mobilization, low level of human capital development and longstanding structural constraints. We are encouraged to note that addressing these challenges under the Economic Recovery and

Growth Plan (ERGP) is a paramount agenda for the authorities. In this context, we urge them to continue to create the needed fiscal space for capital expenditure and social spending. Improving the monetary policy framework will be essential to meeting the central bank's objectives while proper supervisory and regulatory frameworks should help strengthen the resilience of the banking system. On the structural front, we encourage the authorities to foster a conducive business environment and enhance public investment efficiency to further advance the country's industrialization, promote economic diversification and enhance the economy's resilience to external shocks.

On the fiscal front, we are pleased to note that the authorities remain committed to a prudent fiscal policy and encourage them to use the multiple levels available to achieve their medium-term fiscal objectives. In 2018, thanks to higher oil revenue, the overall fiscal position has improved although non-oil revenue collection was lower than budgeted. Focus should be made on revenue-based fiscal consolidation to create needed space for priority spending and buttress inclusive growth. Speeding up the tax reform through bold measures including a comprehensive VAT reform, substantial reduction of tax exemptions and rationalization of customs duty waivers is needed to expand the tax base. It will also be important to modernize the tax administration to better enforce tax compliance and increase tax collection. In addition, appropriate measures to secure oil revenues and improve the oversight and monitoring of state-owned enterprises are required not only to boost revenue but also strengthen governance.

Measures should be taken to lower interest payments along with greater efforts to increase revenue. Nigeria's public debt has increased recently given the low revenue mobilization in a context of large capital spending needs. Under the current policies, the interest payments are projected to absorb a large fraction of federal government revenues. Therefore, it is essential; to scale up non-oil revenue mobilization efforts over the medium-term with a view to reduce to more sustainable levels the ratio of interest payments to revenue. In the same vein, actions should be pursued to lower interest payments and lengthen debt maturity. In their efforts to reduce interest payments, the authorities should favor concessional borrowing over bonds as much as possible.

On the monetary front, we take positive note of the progress achieved in reducing inflation and increasing external reserves. They should further strengthen the monetary policy framework by re-establishing the policy rate as the anchor for managing inflation and improving the central bank's communication policy. The latter will be helped with the appointment of new Executive Board and Monetary Policy Committee. We also note the effort made by the authorities on the convergence of exchange rates. We agree on the need to eliminate the remaining restrictions to foreign exchange access to achieve a unified exchange rate, enhance macroeconomic stability and boost investments.

We welcome the central bank's initiatives to support the stability of the banking system. We note that NPLs and solvency ratios have improved. The completion of IFRS 9 implementation, the improvement of risk-based supervision, the initiation of Basel's Internal Capital Adequacy Assessment program and the establishment of the early warning system for banks are all steps in the right direction to further enhance the banking sector resilience. Moreover, expanding the scope of oversight and stress testing to monitor macro-financial linkages and assess the sector's resilience to macroeconomic shocks is appropriate. In addition, we encourage the authorities to enhance the banking resolution framework and establish a strong coordination among relevant supervisory entities. Regarding AMCON, a carefully-design exit strategy will be needed given the high contingent liability risks it poses.

To unleash Nigeria's growth potential and further raise GDP per capita, actions are required to accelerate the structural reforms. These measures include improving the business climate and governance, increasing investments in the infrastructure and agricultural sectors, promoting industrialization and decisively addressing weaknesses in the education and health areas. We are encouraged to note that the authorities are fully determined to sustain their efforts in addressing these impediments to economic growth. In this regard, a faster implementation of the ERGP will help achieve economic diversification and a broad-based growth. Private investments such as the refinery project are welcome given their positive spillovers on the economy and on the region as well described in Box 1 of the report. We wonder whether there are similar large projects underway or in the pipeline. Staff comments will be appreciated.

With these comments, we wish the Nigerian authorities every success in their future endeavors.

Mr. de Villeroché, Mr. Ronicle, Mr. Bellocq and Mr. Hemingway submitted the following joint statement:

We thank staff for their high-quality staff report and selected issues papers (SIPs) and Mr. Obiora and Mr. Odonye for their informative buff. We are particularly grateful to staff for responding to previous calls to include more information on capacity development (CD) in staff reports. We also welcome staff’s use of macro-financial analysis and the excellent selected issues papers focusing on governance and gender.

In a context where poverty is high, GDP per capita has contracted for three consecutive years and unemployment continues to rise, we concur with staff on the urgent need for reform. We note positively that staff’s report underlines early signs of economic recovery in Nigeria. However, this trend has to be strengthened and sustained to make a significant dent on poverty, unemployment and economic exclusion. We agree with staff that raising economic growth in accordance with the country’s need necessitates the implementation of a comprehensive set of reforms, including revenue based fiscal consolidation, a unified market determined exchange rate, and faster implementation of the Economic Recovery and Growth Plan (ERGP). The lack of reform momentum, which has been observed for several years, has resulted in weak human development outcomes in comparison to peer countries, as underlined by staff. Does staff have a view on the relative priority of their recommendations? In particular, which one would deliver the largest short and long-term economic gains?

We view realizing Nigeria’s revenue potential as crucial to enhance priority expenditures and foster growth that benefits the entire population. We also note that the authorities have launched the Strategic Revenue Growth Initiative (SRGI). This strategy is welcome as the non-oil revenue to GDP ratio was at 3.4 percent of GDP in 2018, a level similar to the one reached two years earlier. However, we note with concern in Table 5 that the non-oil revenue-to- GDP ratio is expected reach 3.8 percent of GDP in 2024, an increase of just 0.2 percentage points between 2019 and 2024. Against this background, we would appreciate staff comments on the comparison between the baseline, their recommendations for pushing forward the DRM agenda and the SRGI expected outcomes. Could staff indicate to what extent the SRGI will be able to diversify and scale up government revenue. In our view, diversifying the government’s revenue base and increasing non-oil revenue is the sustainable way to make the budget capable of funding development expenditure and absorbing recurrent terms-of-trade shocks. This will also be key to reducing the debt service-to-revenue ratio which has reached a level incompatible with an appropriate funding of development expenditure. We also encourage the authorities to streamline their exemptions and tax incentives. Like staff, we regret the introduction of new tax incentives last year without any cost estimates or economic analysis. As noted by staff, this narrows the tax base in a country where the tax-to-GDP ratio is already amongst the lowest in the world. On the expenditure side, we also encourage the authorities to make their expenditure more effective through improved procurement and fiscal transparency.

We think that a credible reform package targeting revenue and expenditure should be part of a broader fiscal consolidation effort and should include measures to improve cash and debt management. When it comes to implicit fuel subsidies, we value the economic analysis provided in the SIP. Based on household data, staff show that a phasing-out of fuel subsidies associated with targeted compensatory measures for the poorest would decrease the poverty gap while creating fiscal space. Could staff elaborate on the authorities' views on this analysis? In addition, monitoring of state and local government should also be intensified and, in this context and, more generally, we encourage staff to work closely with the World Bank, noting the recent $750m IDA project for state-level fiscal transparency, accountability and sustainability.

We take note of the significant challenges highlighted in the financial sector. Notwithstanding recent improvements in parallel with the macroeconomic environment, NPLs remain fairly high, banks remain somewhat undercapitalised and liquidity risks persist. As Annex VII highlights, closing gaps in financial development and inclusion could also provide significant gains. We encourage the authorities to continue pursuing reforms in the financial sector, drawing on staff support and advice.

There has been welcome progress on the macroeconomic policy framework. Inflation has been brought down and the exchange rate window has converged. Nonetheless, when it comes to the external sector, we note the staff assessment that the overall position in 2018 is moderately weak and that staff expect a decrease in gross international reserves expressed in months of imports of goods and services imports. We would be grateful if staff could indicate whether this decrease is likely to generate challenges for monetary policy. We would also like staff to further elaborate on the Nigeria-China Currency Swap Agreement: to what extent has this agreement helped in stabilizing the exchange rate and what should be expected in that regard in the coming years?

Finally, major reforms remain key to realising Nigeria's potential, notably taking advantage of the "demographic dividend" expected in the coming years. Building human capital by expanding health and education, funded by domestic revenues, is crucial, as is tackling governance weaknesses and corruption and implementing the Power Sector Recovery Plan (PSRP).

Given Nigeria's low score in the World Bank's Human Capital Index, we would have welcomed more discussion of the financing needed to achieve the SDGs. Can staff provide their assessment of the size of financing gaps? However, this recovery is associated with a growth momentum which remains much weaker than the one observed before 2014 and we agree with staff that there remains scope for significant further progress. We believe the recent elections provide a mandate to pursue tough economic reforms and, with support from the IMF and the wider international community, encourage the authorities to accelerate them while conditions are supportive.

Mr. Beblawi and Ms. Al-Riffai submitted the following statement:

We thank staff for their reports, and Mr. Obiora and Mr. Odonye for their informative buff statement. The recovery in oil prices, accompanied with policies, to appropriately keep monetary policy tight, converge foreign exchange windows, and improve the business climate have helped to reduce inflation, rebuild external buffers, and support the ongoing economic recovery. The authorities' policies, underpinned by the country's Economic Recovery and Growth Plan (ERGP), aim to boost inclusive growth and unlock Nigeria's full growth potential. We agree with the thrust of the staff reports and make the following comments for emphasis.

Increasing non-oil revenue is needed to make room for priority expenditure. It is, therefore, imperative that the authorities pursue revenue based fiscal consolidation, increase capital and social spending, and enhance spending efficiency. To that end, we welcome the authorities' plans to increase non-oil revenues through tax policy and administration reforms and look forward to their expeditious implementation. Revenue targets under the medium-term fiscal framework (MTFF) are expected to increase to 4.8 percent in 2019, while staff noted that these targets tend to be more optimistic resulting in shortfalls in actual revenue collection. We encourage the authorities to align budget revenue targets along a more realistic course.

On the expenditure side, we commend the authorities on their increase in capital spending and their plans to improve healthcare and education, including plans for a universal health care fund and improved access to education. Removing the implicit subsidy on fuel would ease fiscal pressures and contribute to a larger fiscal space that can be allocated to priority and growth inducing spending. We would appreciate further information on the authorities plans to reduce subsidies in line with Fund advice. Electricity subsidies and losses due to retail fuel importation and distribution are non-budgeted expenditures, which may undermine the MTFF. Can staff clarify why these items are not explicitly budgeted?

The authorities have appropriately kept monetary policy tight to curb inflation, undertaken measures to achieve gradual convergence of the exchange rate windows, and continue to safeguard financial stability. We support staff recommendation for the Central Bank of Nigeria (CBN) to limit development financing and focus on price stability, as its core mandate, within a more institutionalized and transparent framework. Furthermore, whilst we sympathize with the authorities' need to limit excessive fluctuations in the exchange rate, we encourage them to explore the merits of a market-based exchange rate that would help absorbing the shocks from the external sector and eliminating unnecessary distortions, all towards reducing vulnerabilities and supporting economic diversification.

Nigeria's banking sector has shown enhanced resilience, evident in falling NPLs, improved solvency ratios, and increased provisions; however, vulnerabilities within the sector remain. We take positive note that the CBN is working on several initiatives to heighten financial stability, including completing the IFRS9 implementation, improving risk-based supervision through onsite reviews, and initiating Basel's Internal Capital Adequacy Assessment Program to assess banks' capital needs and their risk profiles. We also welcome CBN's announcement to start enforcing Basel III requirements by the second quarter of this year and look forward to its timely implementation. The state-backed asset management company (AMCON) remains a source of vulnerability, as it contributes 4.8 percent of GDP to contingent liabilities. We welcome the authorities' agreement that an exit strategy is necessary for phasing out AMCON and concur with staff's recommendation that CBN should withdraw its ownership and turn it over to the fiscal authorities.

We wish the Nigerian authorities further success with their reforms' efforts.

The Acting Chair (Mr. Furusawa) made the following statement:

Nigeria's economy continues to recover from the recession in 2016. A tight monetary policy and a convergence in foreign exchange windows have helped reduce inflation and rebuild external buffers. Nonetheless, the longstanding structural challenges continue to constrain growth and contribute to weak social development outcomes.

Directors’ gray statements called for reinvigorated reform efforts and have supported the authorities’ plan to accelerate the implementation of their Economic Recovery and Growth Plan (ERGP). Among reform priorities, they highlighted the importance of implementing a revenue-based consolidation, continued efforts toward a unified market-determined exchange rate, enhancing the banking sector’s resilience, and tackling structural challenges.

Mr. Obiora made the following statement:

I would like to inform the Board that the prescheduled meeting of the central bank’s Monetary Policy Committee ended yesterday. They voted to reduce the key policy rate, known as the monetary policy rate, by 50 basis points. I would like to present some context to this reduction.

The committee had argued that this marginal adjustment is a signal to accelerate growth, which has been sluggish, at about 2 percent since exiting from the recession in 2017. Despite this adjustment, the authorities remain committed to a tight monetary policy stance, given that the revised monetary policy rate is still quite high, at 13.5 percent, the cash reserve requirement is retained at 22.5 percent, the liquidity ratio is retained at 30 percent, and the asymmetric corridor around the monetary policy rate remains unchanged. Overall, our authorities wanted to restate their commitment, that they will continue to monitor developments in the economy and ensure that the tight monetary policy stance is data-driven and retained.

Ms. Dhillon made the following statement:

We welcome Nigeria’s economic recovery and the positive progress on reducing inflation and the strengthened foreign exchange reserves position. after the good news comes the opportunities which are waiting to be tapped. The challenges for Nigeria coming from the gaps in revenue mobilization, infrastructure, governance, and the weak human development outcomes need firm and sustained efforts on all fronts.

We read the buff statement, and it has done well in articulating the authorities’ resolve to prioritize the accelerated implementation of the ERGP, with the conclusion of the 2019 elections. Like the staff, we would call for a swift and a focused implementation to address these challenges and to promote inclusive growth. We broadly agree with the staff’s assessment and would like to offer three comments.

On the fiscal side, we would stress improving the non-oil revenues and creating the fiscal space for productive capital expenditure and social spending. Tax reforms should be fast-tracked, along with the efficiency of the public financial management (PFM). We do see that Nigeria's debt-to-GDP level as low, compared to other frontier markets, but with the interest bill projected to absorb almost three-quarters of the federal government's revenues, there is a delicate space there. In this context, an impactful fiscal consolidation will be paramount. We encourage the authorities to stay committed to the prudent fiscal policy that has been mentioned in the buff statement.

On the financial sector, the improvement in the indicators of NPLs and the banks' resilience to credit and concentration risks is encouraging, but restructured loans and undercapitalized banks subdue the performance. We support the staff's call for an asset quality review and a strengthened risk supervision framework.

Finally, as almost all Directors have mentioned, much hinges on addressing the longstanding structural challenges, which could boost growth, along with economic diversification and, most importantly, enhance the human capital development. We compliment the staff for the selected issues paper entitled "Governance in Nigeria: Focus on the Oil Sector and AML/CFT [Anti-Money Laundering and Combating the Financing of Terrorism]." The authorities have taken active steps for accountability, governance, and transparency. But going forward, we would like to see stronger governance and corruption prevention, detection, and resolution, including a strengthening of the AML/CFT measures. All of these, present an opportunity for enhancing the confidence, the growth, the favorable outcomes, and that should not be lost.

Mr. Castets made the following statement:

Since we issued a gray statement where we explained that we share the thrust of staff's analysis, we would just emphasize a few points today.

First, the financial situation of Nigeria has improved somewhat but remains quite challenging, as underlined by the staff in their report. In particular, the GDP per capita is not increasing. Development indexes are low, and there is a need for stronger and more inclusive growth. We hope that, now that the general elections are behind us, the authorities will be in a position to implement a most-needed reform agenda. A reform agenda should aim at improving the social and development indicators of this resource-rich country since Nigeria, one of the biggest economies in Africa, is systemic regionally but also for the continent, more broadly.

My second point is that our main concern remains associated with the situation that we see on the fiscal side. The non-oil revenue-to-GDP ratio remained at 3.4 percent in 2018. It is extremely low and is expected to increase to 3.8 percent by 2024 under the staff's baseline scenario. This represents an increase of 0.07 percent per year, which is not sufficient to meet the elevated infrastructure and social needs of the country.

In this context, we welcome the Strategic Revenue Growth Initiative. Nonetheless, we note that the staff considers that, despite the measures contained in the initiative, there is still a significant scope for revenue increase. Against this background, we believe that designing and implementing a broad-based and comprehensive medium-term reform, focusing on domestic resource mobilization, is critical.

We also know that, despite the Strategic Revenue Growth Initiative, new tax exemptions were recently introduced, and we would like to know the results of any cost estimate or economic analysis.

On the monetary side, we would echo the staff's recommendation, given the level of inflation for enhancing the monetary policy framework. We thank Mr. Obiora for his introductory remarks on the welcomed tightening of monetary policy. Nonetheless, we would reiterate our call for a more traditional monetary policy framework and for the unification of the foreign exchange rate.

Finally, we would like to make one point on the issues related to the expenditure side. Like the staff, we encourage the authorities to make their expenditures more effective to improve procurement, fiscal transparency, and enhance governance. When it comes to implicit fuel subsidies, we value the work done by the staff in the dedicated selected issues paper. Based on household data, the staff showed that the phasing out of fuel subsidies associated with the targeted compensatory measures for the poorest would decrease the poverty gap while creating some fiscal space. That is a very important conclusion, and we encourage the authorities to consider these results.

Ms. Levonian made the following statement:

First, Nigeria is a resource-rich country with a lot of potential. The ERGP is a useful initiative that can steer Nigeria toward realizing this immense potential. For this to happen, the authorities must show resolve to tackle urgent governance, including legacy corruption issues, and be bold in undertaking sound and credible macroeconomic policies.

Second, on governance, the authorities are encouraged to act swiftly to bolster anti-corruption efforts, including strengthening the oversight of SOEs, particularly but not limited to the oil sector. Some legislative and institutional steps, such as the whistleblower policy and the Extractive Industries Transparency Initiative (EITI), are welcome. But the oversight bodies need to be properly resourced to make them effective, which leads to my final point concerning revenue mobilization.

At less than 8 percent of GDP, the revenue intake is weak, both from a regional as well as a global perspective. Moreover, while oil accounts for 8.5 percent of Nigeria's GDP, it contributes 57 percent to the government's revenues. This seems off and requires examination and possibly alignment. Higher revenue intake will be needed to scale up public investment and support critical governance reforms.

With that, I wish the authorities well.

Mr. Just made the following statement:

We appreciate Mr. Obiora's update on the central bank's decision yesterday. However, we were quite surprised by this move, as we see this decision as ill-advised and premature in view of inflation dynamics. Tasking the central bank with stimulating growth jeopardizes its main objective of maintaining price stability and it casts doubt on the authorities' commitment to structural policies that create genuine and sustainable growth.

We fully agree that Nigeria needs to grow much faster. Having the highest number of citizens living in absolute poverty should be reason enough for authorities to act decisively. The reform areas are well known and have been articulated again in the staff's urgent reform project. We agree with Mr. Lopetegui and Mr. Vogel that it may be too aggressive, against the background of past reform efforts, not necessarily realistic. If the authorities had to pick and choose or order the reforms, they should move aggressively on the anti-corruption fronts. Corruption appears to be pervasive, engulfing all levels of government, contributing to the low revenue social exclusion, and it is facilitated by policies, such as the multiple currency practices.

The change has to come from the top and from within. The recently re-elected administration already took some welcomed first steps. The Fund can support those efforts with well-targeted technical assistance (TA) to increase transparency, improve the quality and the efficiency of public financial management (PFM) procurements. Other policies by the authorities should, at a minimum, not undermine the growth objective by potentially destabilizing an already fragile macro environment.

Mr. Saito made the following statement:

As we issued a gray statement, I would like to briefly offer two comments for emphasis.

First, on the monetary policy, as inflation is still above this target range, we concur with the staff, that the monetary policy should remain tight. In this regard, while we appreciate the opening remarks by Mr. Obiora, we are a little concerned about yesterday’s decision by the central bank to cut policy rates and encourage the authorities to closely monitor their inflation dynamics.

Pursuing multiple conflicting objectives, including price stability and growth promotion, would reduce policy transparency and, therefore, effectiveness.

We echo Mr. Meyer and Ms. Lucas that trying to steer inflation and exchange rates while at the same time attempting to stimulate the growth is counterproductive. Like other many Directors, we encourage the central bank to focus its monetary policy objectives on the core mandate of price stability and to discontinue direct lending to the agriculture and energy sectors. On this point, we are looking forward to the staff’s response to our question about the mandates and the objectives of the central bank.

Second, on capacity development (CD), we appreciate the useful information on the national CD strategy in the staff report, as CD is an important element to support Nigeria’s reforms. We positively note that the CD focuses on the key policy areas highlighted in the Article IV report.

To achieve an effective outcome, the CD should be provided, taking account of the authorities’ ownership and absorption capacity. In this regard, we welcome the staff responses to technical questions, which state that, following the discussions with the authorities, CD is now focused on the key priority areas, and the mission timing is decided jointly with the authorities. We encourage the staff and the authorities to continue close communication to promote effectiveness with the CD.

With that, we wish the authorities all success in their future endeavors.

Mr. Alkhareif made the following statement:

I particularly appreciate the staff's work in the selected issues paper. Having six important subjects in a concise manner is informative, and we hope other countries can follow suit in their reports.

The economic recovery in Nigeria is continuing. And the recent rebound in oil prices is helping Nigeria restore external buffers. However, the country remains subject to important structural challenges that are hindering growth prospects and job creation and weakening human development outcomes.

The staff has been providing the authorities with wide-ranging policy advice, as reflected in the main report and the selected issues papers. In this context, we look forward to the staff's answer to our question on the traction of policy advice.

On fiscal policy, I agree with Mr. Castets and Ms. Levonian that Nigeria needs to further improve non-oil revenue, avoid tax exemption, and improve public investment efficiency. We also encourage the authorities to safeguard the poor and most vulnerable from the negative impact of the automatic fuel price setting mechanism, if implemented. We encourage the staff to work closely with the World Bank on this issue and to take into account the wider implications on the economy and the Nigerian people.

On CD, we echo the point raised by Mr. Saito, that the staff should take into account the authorities' absorptive capacity and ownership of TA.

Regarding the Asset Management Corporation of Nigeria (AMCON), we agree with Mr. Beblawi, Mr. Mojarrad, and Mr. Raghani, that careful design of the exit strategy is needed, given the risks associated with high contingent liabilities.

Although we agree with the staff's recommendations to tackle the AMCON issues, we would like to invite staff to provide further elaboration on the potential moral hazard risks associated with the central bank funding and ownership of AMCON. In addition, we note that the staff uses Malaysia and Indonesia as examples of asset management companies that lasted seven years before closing. Could the staff provide examples of countries in the African region that have a similar economic structure to Nigeria?

With these remarks, I wish the Nigerian authorities much success.

Mr. Meyer made the following statement:

We acknowledge the progress made by the Nigerian authorities since the 2016 recession to strengthen external buffers, contain inflation, and improve the business climate. However, as the staff rightly outlines, the persistent structural as well as policy challenges are weighing on the economy. Taking into account the challenging outlook with high domestic risks, policy action needs to address the difficulties in a timely manner. We support the staff's policy recommendations, and I would like to offer the following additional comments.

In line with Mr. Moreno and Mr. Just, we encourage the authorities to take benefit of the current political momentum and to use their renewed political mandate to implement their ERGP more strongly.

As also expressed by Mr. Saito, Mr. de Villeroché, Mr. Raghani, among others, revenue-based fiscal consolidation should be pursued to allow for greater social and capital spending. This is of the utmost importance, given the high poverty rate in Nigeria.

We strongly encourage the authorities to take steps to strengthen the independence of the Central Bank of Nigeria and to put a clear focus on its price stability mandate.

Trying to steer inflation and the exchange rate while, at the same time, attempting to stimulate growth is not fruitful. This leads to the situation in which none of the policies can reach their full effectiveness simultaneously.

I would like to hear the staff's comments on the latest decision by the central bank to lower the monetary policy rate, the interest rate. We thought that the text in the document on page 16 was quite convincing, that raising the monetary policy rate might be needed to re-establish the rate as the anchor for managing inflation and improving signaling of monetary policy. Like Mr. Just, we were not convinced by yesterday's decision.

Finally, Directors such as Mr. Fachada, Mr. de Villeroché, and others, commented on this issue. We believe that anti-corruption and good governance efforts are quite important. We wondered, is there TA in that regard also offered to Nigeria? In that context, we understand that there is a lot of TA ongoing. We understand that the Nigerian authorities would hope for even better delivery methods. We would like to know how we could improve our efforts. Are we at the limit of the capacity, or could we add on good governance?

Mr. Gade made the following statement:

We have issued a gray statement, where we broadly support the staff's analysis and appraisal. But I would like to expand on one issue that my authorities found particularly helpful in the report and also important.

Like several other chairs, my authorities support the staff's call to address corruption and governance more forcefully. In this respect, we welcome the national anti-corruption strategy, with a focus on strengthening the Economic and Financial Crimes Commission.

The selected issues paper on governance in the oil sector and the AML/CFT was particularly helpful, and it is good to see that it is central in the discussion with the authorities.

On the Nigerian National Petroleum Corporation, one issue that we would like to emphasize is that there is the need for transparency and a stronger role for the Auditor General and the Ministry of Finance on oversight and revenues.

Finally, we welcome the momentum by the EITI, which is working well, to our understanding.

Mr. Tan made the following statement:

We thank Mr. Obiora and Mr. Odonye for their updates on the authorities' ongoing work to keep inflation in check, contain banking sector vulnerabilities, pursue key structural reforms, and improve the economic outcomes for the country. We take note that these efforts are not easy, given the challenging domestic and external environment. We welcome the progress today and the authorities' commitment to accelerate reform implementation, following the recent election cycle.

We would like to add a few points. First, more than a handful of Directors have weighed in on the multiple mandates of the Central Bank of Nigeria. We would like to emphasize that special care should be taken to avoid any real or perceived conflicts and any broad objectives should not undermine the central bank's core price stability mandate.

Second, we appreciate staff's clarification. While the authorities do not see the need for an asset quality review based on continuous bank monitoring and stress tests undertaken by the central bank. A follow-up question I would have for staff to consider is the methodology used by the central bank in its stress testing; for example, a bottom-up approach that would be similar to an asset quality review, and how granular is the analysis in assessing individual banks' credit deterioration, asset valuation, and interim capital needs? Likewise, for the authorities, we would agree with close monitoring as the first line of defense, but we also caution that this would require rigorous supervision and timely intervention, where needed, to get it right.

Third, Directors raised the feasibility of a seemingly ambitious reform program and what that may mean in terms of policy dialogue and priority reforms for the country. The staff plans to respond to the technical questions asked in this regard and also in relation to the delays in past reforms.

We look forward to the staff's response, which we hope would also shed light on the authorities' capacity to implement the reform program, as envisioned, and the sequencing of reforms that would take advantage of possible synergies across the reform agenda.

Lastly, on the topic of capacity constraints, we understand that there is clear room for better reform implementation, notwithstanding that TA has been an important element of the Fund's engagement with the country. In this regard, like others, it is encouraging that the staff is already working with the authorities on more targeted CD delivery on a few key priority areas to achieve better results. We would call on the staff to build on the work done and continue to support and coordinate the CD priorities for the country.

On that note, we wish the authorities well as they push ahead with their ERGP.

Mr. Moreno made the following statement:

We particularly appreciate the selected issues paper. It is a good example of working with the authorities, trying to contribute to the policy debate in the home country. We also thank Mr. Obiora and Mr. Odonye for their buff statement. It is reassuring about the authorities' commitment to undertake reforms on the ERGP. Now that the elections have concluded, we believe there is the political momentum to undertake them. I will just make a few points beyond the gray statement.

On fiscal policy, I would associate myself with Mr. Castets, Ms. Levonian, Mr. Alkhareif on the importance of revenue-based mobilization, not only at the government level but also at the regional and local level. We had a question about this. Apparently, the authorities are having trouble increasing the minimum wage because they do not have enough resources, so it has to be a countrywide effort.

On monetary policy, the problem is that they have too many objectives. I do not have the problem other Directors have with the monetary easing. We have to acknowledge the progress made by the authorities in the last few years. They have to make a difficult choice between growth and inflation. Those two targets can be followed up by the authorities, but they also involved in the exchange rate, with many exchange rate restrictions. They still have to unify the exchange rates, the currency practices. There are too many issues that the monetary policy has to deal with. If they want to focus on growth and inflation, that is fine, but that should be it. Then they should get rid of the other policies as long as they maintain their commitment to curb inflation.

Finally, on structural reforms, I would like to echo Mr. Meyer's comments on the importance of governance and corruption, on curbing governance and corruption. I understand that the Petroleum Industry Governance Bill has been approved by the House and the Senate. It still has not been approved by the government. We encourage the authorities to do so.

There is one caveat. The authorities have a target related to the Doing Business ranking. That is fine. But they should not get too fixated on Doing Business indicators because, in the end, it is just a checkbox. Many countries, including my own, are concerned with this, and it can be dangerous.

Finally, I would welcome staff's comments on whether there is any progress on the partnership agreement with the European Union that has been stopped. It has not been signed by the authorities. We believe it could be good for the country and also for the region, in terms of the potential for the regional economy.

Mr. Razafindramanana made the following statement:

We thank the staff for their well-balanced report and for the useful selected issues paper, as well as for the responses to Directors' questions. We also thank Mr. Obiora and Mr. Odonye for their informative buff statement. We have issued a gray statement and we would like to make a few comments for emphasis.

We commend the Nigerian authorities for the ongoing economic recovery and for the set of policy measures implemented to put the economy on a stronger growth path.

On the fiscal front, we encourage the authorities to pursue the revenue-based fiscal consolidation to create the needed fiscal space for capital expenditures and social spending.

On the monetary front, we take positive note of the progress achieved in reducing inflation and increasing external results.

Regarding the banking sector, we welcome the central bank's initiatives to address its vulnerabilities. We also encourage the authorities to continue their efforts to enhance the banking resolution framework and establish strong coordination among relevant supervisory entities.

Unleashing Nigeria's growth potential is essential to further raise GDP per capita. In this regard, intensified efforts are required to accelerate the structural reforms. This effort should focus on improving the business climate and governance, increasing investments in the infrastructure and agriculture sectors, achieving the power sector recovery, and addressing weaknesses in education and health. We are encouraged to note that the authorities are fully determined to sustain these efforts in addressing the impediments to economic growth.

With these remarks, we wish the Nigerian authorities continued success.

Ms. Pollard made the following statement:

Let me begin by also thanking staff for the report and echoing Mr. Alkhareif's comments on the selected issues paper, we found it quite useful and focused on the key issues facing the Nigerian economy. I also appreciate Mr. Obiora's remarks.

Nigeria has great potential. It is endowed with natural resources and human resources, yet I agree with Mr. Meyer, that it has faced persistent structural and policy challenges. On the structural side, as others have remarked, there is a key need to address corruption and weak governance problems. On the policy side, I echo the remarks of others on the need to increase domestic revenue mobilization. On monetary policy, as Mr. Moreno said, there are simply too many things that the central bank is charged with doing. It is quite overwhelming to see the number of issues that the central bank is trying to address. Simplifying monetary policy to focus on issues that the central bank can control would be the most welcome outcome. I also look forward to the staff's remarks on yesterday's move by the Central Bank of Nigeria.

I want to make a few points on the exchange rate policy and exchange restrictions. We welcome steps toward convergence of the exchange rate windows but strongly support the staff's call for a more flexible exchange rate.

We are also concerned about the increasing number of exchange restrictions and capital flow measures, which are damaging the Nigerian economy. Again, it is just a matter of the central bank trying to control too many things in the economy. As Mr. Moreno's gray statement noted, there are now 43 categories of products under exchange rate restrictions. Many of these are aimed at restricting the imports of these products. Clearly, this is not the best way to grow the Nigerian economy or to promote a competitive private sector. I would encourage the staff to do more work on the role of these exchange restrictions and trade barriers on the development of the Nigerian economy.

Mr. Palei made the following statement:

We issued a gray statement, so we have made most of our points in our written statement. I do not have to repeat them. I have three more comments I would like to make.

First, like many other Directors, I noticed that the central bank has lowered its policy rate after four years of inaction. To be honest, I expected an update from the staff, maybe in written form, even before the Board meeting. But I look forward to the staff's reaction to this move.

I am not sure how we should evaluate this decline in the policy interest rate. Inflation is down now. The staff said that the recent numbers for inflation were 1.3, 1.4 percent and the core inflation is below 10 percent. When we look at the forecasts, the staff's forecast or consensus forecast, it points to below 12 percent, 11.7, 11.8 percent. If a policy rate is 13.5 percent now, in real terms, it is still a 2 percent positive rate. I would like to hear the staff's comments on this move and how we should evaluate the monetary policy stance. Mr. Meyer mentioned paragraph 27, where the staff called for an increase in this rate, but I am not entirely clear on the reasons why it had to be increased, instead of being decreased.

The second comment is on the risk assessment matrix, pages 53 and 54. When we talk about risks, we frequently put them in a negative context. Here, most of the risks mentioned are negative, downside risks. But then when we look at Nigeria-specific risks, there is one that is called speed of reform implementation. The staff says it could go both ways; the authorities can accelerate reforms or they can maybe lag behind. However, it is not really clear from the text whether it is a downside risk or an upside risk or whether it is something in between. I call on the staff to clarify this text, because it is ambiguous, and it is not easy for the readers to understand.

Finally, I have a reaction to what Mr. Moreno said about the Doing Business indicators. It is not just a checkmark exercise. Many countries have it as an official strategy of improving the business environment, and many of them have been very successful, including the ones that are now offered by the Fund as examples to follow, as examples of good practices. We should be a little bit more careful when we characterize various approaches to improving governance and fighting corruption and improving the business environment.

Mr. Trabinski made the following statement:

We welcome Nigeria's economic recovery and the authorities' actions aimed at strengthening buffers and reducing inflation. However, the infrastructure gap, financial sector vulnerabilities, and low tax-to-GDP ratio call for further reform effort. As we issued a gray statement, let me focus on three points.

First, we would like to encourage the authorities to focus on prudent and revenue-based fiscal policy. In this regard, we see merit in improving non-oil revenues. Moreover, it would be important to enhance PFM, as indicated by Mr. Alkhareif and other Directors.

Second, regarding the existing shortcomings in the banking sector, we would like to emphasize that conducting asset quality reviews and improving the AML/CFT framework would be important steps to improve and strengthen banks' resilience.

Finally, like Mr. Just, Mr. Meyer, Mr. Gade, among others, we call on the authorities to step up their anti-corruption efforts. Moreover, like Mr. Alkhareif, we would be willing to know more about the traction of the Fund's advice in Nigeria.

Mr. Castets remarked that he may have misunderstood Mr. Obiora's introductory remarks on the recent movement of the central bank. He clarified that his chair supported a tightening of monetary policy.

The staff representative from the African Department (Mr. Mati), in response to questions and comments from Executive Directors, made the following statement:[1]

We have provided answers to the technical questions asked by Directors. My remarks will focus on policy traction, the Central Bank of Nigeria's mandate, and structural reforms. And after that, I will answer the additional questions that were raised.

On policy traction, there are multiple levels of engagement. As I am in the field with two functions, senior resident representative and mission chief, there is constant interaction. Staff and the African Department's (AFR) management also visit regularly, in addition to the dialogue here in HQ with Fund management.

The intensive dialogue and related TA in key areas has led to many initiatives being incorporated in the authorities' ERGP and also more recently in the Strategic Revenue Growth Initiative. The former includes options to increase non-oil revenue, achieve exchange rate convergence, to increase capital buffers in the banking sector, including through withholding dividends, and developing the rationale for monetary policy tightening. Some of these

[1] Prior to the Board meeting, SEC circulated the staff's additional responses by email. For information, these are included in an annex to these minutes.

initiatives, particularly on revenue, were discussed extensively in TA and Article IV consultations.

Independently from the Article IV cycle, our work is also demand-driven, which helps in the prioritization of our tax and analytical agenda. For example, at the authorities' request, we have prepared high-level and technical notes on various topics, such as quick yielding revenue measures, debt strategy, capital gains tax, petroleum profit tax act, and so on, in which we leveraged both cross-country experience and best practices.

Even when disagreements exist in some areas—for example, monetary policy, and exchange rate—the continuous dialogue at all levels and with all stakeholders has advanced the agenda and brings more discussion and understanding on the tradeoffs of the various policies.

On the Central Bank of Nigeria's mandate, the staff is not aware of any discussions at the central bank on revising the mandate. The Central Bank of Nigeria notes that it remains committed to its overriding mandate of price stability, although it signaled yesterday by its interest rate cut that growth considerations remain on its mind.

The staff remains of the view that these multiple objectives, including some achieved by undertaking practices that lie outside of the CBN's core mandate, complicate monetary policy management and the achievement of the inflation target.

On the structural reform agenda, one question raised by Directors was on the pace of reforms and what could cause delays. The good news is that policy priorities under the ERGP are well suited to address macroeconomic and structural challenges. We have seen steps to initiate reform in some of the priority areas: improving the business environment; efforts to address governance and corruption challenges, as noted by some Directors earlier today; and revamping the financial inclusion strategy. However, reforms take time, and reasons for delays vary. Possible reasons are that reforms could require legal changes. This was the case for the Petroleum Industry Governance Bill. They are more difficult politically. That was the case for fuel subsidy and VAT reforms. The need to bring various government agencies onboard. That was the case for the Power Sector Recovery Plan. Or it requires a buildup in capacity. That was the case for public investment efficiency or some of the tax reforms. On the latter, to address these issues, the Fund continues to support the authorities through TA in these priority areas.

On the prioritization of the staff’s recommendation and what will deliver the largest short-term and long-term gains. This is an issue that has been raised by many Directors; that many of the reforms, in particular, in human and physical capital development, require additional resources. Scaling up revenues immediately is, therefore, critical to advance many of the reforms, which should be implemented as part of the current package of measures. This package includes many measures on the macro front, where an immediate move to more appropriate monetary and exchange rate policies would facilitate private and public decision making, with positive implications for the economy; therefore, boosting growth.

It is not just scaling up revenues that could help, but the management of current resources themselves could help achieve better outcomes.

Some of the reforms can be implemented at lower cost and immediately with a large potential impact. Some of the measures include accelerating the implementation of the Power Sector Recovery Plan, passage of the Petroleum Industry Governance Bill, implementation of the financial inclusion strategy, and reforms to equalize the playing field for men and women, including the implementation of equal rights.

On the banking sector, regarding the asset management companies, that is creating a moral hazard. AMCON keeps buying distressed assets. The central bank keeps bailing out some of the banks. Skye Bank was bought by a bridge bank, but the ultimate owner is the Central Bank of Nigeria. This creates a moral hazard for all the banks, given that no bank failure has been allowed, although the fact that for the intervened bank, the shareholders were wiped up helps in that regard. But moral hazard remains one of the key issues.

On the questions about ownership, we have three countries—Ghana, Benin, and Senegal—where the asset management companies that are wholly owned by government. We also have quite a few asset management companies in Europe that were owned by the government. Some of them were also 50 percent private sector and 50 percent government owned.

On the stress-testing question, they are using a granular and bottom-up approach, but those stress tests need to be supplemented by scenario stress testing. One of the reasons we are calling for an asset quality review is also because the valuation of the collateral and those assets needs to be ascertained. It is not just stress testing the existing data reporting, but verifying and evaluating that the collateral and the guarantee actually is what it is worth. Hence, our call for the asset quality review.

On monetary policy, we have a healthy debate with the central bank. But let me explain what we mean when we say monetary policy tightening, why we are calling for the monetary policy rate to increase. When we look at de facto what is monetary policy today in Nigeria, we should look at the money market rate, and we should look probably at the T-bill yield and the open market operations yield, which is already way above 14 percent. It is at 16, 17 percent. It has recently just come down. Therefore, what we are recommending is to keep that same monetary policy as tight as it is, but in order to do that, to increase the monetary policy formulation mechanism and the signaling by increasing the monetary policy rate to reflect the current market conditions.

Today the policy rate is at 14 percent. That went down to 13.5 percent. But in reality, the market rate or the monetary policy stance is already much higher. We are just trying to say, let us restore the signaling value of the monetary policy rate by increasing the policy rate. We believe that by decreasing it, that goes in the other direction.

On the question about anti-corruption and TA in that area, in our last two Article IV consultations, we had staff from the Legal Department with us, which allowed us to also discuss AML/CFT with the authorities, more recently we discussed governance in the oil sector, there has been TA in the past on some of the legal framework, including on what was provided. There is TA in other areas that are linked to governance and PFM, such as the treasury single account, tax administration, customs administration. Those are areas we are heavily involved in. But if there are other requests on the legal framework, that is something that could be considered by staff. That will not put the same undue burden or pressure on the same people that are benefitting from the TA mission. This will not be the same staff that would be receiving the TA on tax administration or customs administration. I believe that could be done. Let us not forget the work our Legal Department has also done on the Petroleum Industry Governance Bill and various petroleum fiscal legislation.

On the partnership agreement with the European Union, this is a discussion that is still going between the government and various stakeholders. They are trying to get a consensus within the country before moving ahead with that. This is the same with most regional agreements. It is not just with the partnership agreement with the EU. It is also the same with the African Continental Free Trade Agreement.

On the Risk Assessment Matrix. In general, risks are tilted to the downside, given the different areas. On this particular one, for reform implementation, one either gets post-election a huge boost in reform implementation or additional delays. We did not have a weight for which one was higher, so we tried to be balanced because it could go both ways.

Mr. Palei made the following statement:

On policy interest rate, could the staff provide its view on the real interest rate? The inflation is declining. What is the staff thinking about inflation? In what terms? Is the staff using core inflation indicators? Is the staff using headline inflation? Is the staff using expected inflation? If interest rates are different, I understand there is a problem with the policy tools. But on the staff's chart, it looks like the policy rate was close to the other rates, despite the recent uptick in some of the rates. Could the staff say a bit more on why the monetary policy stance should tighten, instead of remain the same or being eased, given the inflation developments?

I had a comment on the risk assessment matrix. Personally, I like the red color. The red color indicates the likelihood is high and the impact is high. There is a probability between the 30 and 50 percent. But when there are risks either way, downside or upside, then it is difficult to interpret this red color and the definition of high.

The staff representative from the African Department (Mr. Mati), in response to further questions and comments from Executive Directors, made the following additional statement:

On the policy rate and the real policy rate, we have to look at the inflation target. The authorities' target is 6 to 9 percent. Inflation has been consistently higher, including core inflation, which has just come down to 10, 9 percent. If one looks at the rate of increase or decrease of those, that has stayed relatively constant or not increased. There was some base effect that facilitated that. One is looking also at expected inflation. There are pressures on the minimum wage that would be coming. If there are moves on the VAT reform or on fuel price subsidies, that would also put additional pressure on the central bank, which has also that in mind. That is one of the reasons for keeping monetary policy tight.

On the color, we will look into that. The issue is that the impact is high because we assume that there will be an impact, but reform implementation is key, and it is important. It will have an impact on the economy. It could go one way or the other. That is the reason we kept it high, but then the direction can go both ways.

Mr. Obiora made the following concluding statement:

On behalf of my Nigerian authorities, I thank Directors for their support for the completion of the 2019 Article IV consultation. Their constructive views and recommendations will be conveyed to my authorities.

Directors have acknowledged Nigeria's ongoing economic recovery, accompanied by a sustained deceleration in inflation, and a significant appreciation of external reserves. Directors, nevertheless, observed that low revenue mobilization, a large infrastructure gap, and governance weaknesses are obstacles to stronger, more diversified, and inclusive economic growth. In their counsel, Directors urged the authorities to take immediate policy actions by accelerating the implementation of the ERGP. We want to assure Directors that the authorities are already committed to implement these much-needed reforms.

On fiscal policy, the authorities wish to underscore their commitment to a prudent fiscal stance that targets non-oil revenues, manages the public debt in a sustainable manner, and provides the flexibility for priority expenditures.

In addition to tax administration, strengthening social safety nets, and increasing the efficiency of PFM, the authorities are also evaluating the appropriate steps and sequence for undertaking fuel price reform.

To address the concerns about rising debt levels and related servicing costs, I wish to reassure the Board that my authorities are aware of the risks of refinancing and interest rates emanating from domestic debt stock. They maintain that these risks are well anchored, given that about 70 percent of domestic debt is denominated by long-term debt instruments.

As reported in our buff statement, the authorities are also retiring maturing T-bill rates, with proceeds from Eurobonds, and prioritizing concessional loans over bonds to reduce interest payments.

Directors' gray statements, reinforced by their oral interventions, have also stressed the need for a continued deceleration in inflation within the unified exchange rate framework. I wish to restate that the Central Bank of Nigeria remains committed to this outcome. This goal will be achieved in an environment of sustained tight monetary policy, complemented by supporting cash reserve requirements, liquidity ratios, and open market operations.

On structural reforms, the authorities are continuing their efforts to diversify the economy, notably, by implementing the Power Sector Recovery Program and strengthening governance and transparency initiatives, including in state-owned enterprises. In the context of the ERGP, the government is committed to accelerating policies to improve the business environment and fast-track job creation.

In conclusion, I thank the mission team, led by Mr. Mati, for their hard work and active engagement with the authorities throughout the discussion and for responding to Directors' comments. My authorities value the Fund's advice and look forward to continued guidance and TA in implementing the ERGP to improve economic outcomes.

The Acting Chair (Mr. Furusawa) noted that Nigeria is an Article XIV member but no longer maintained any restrictions under that Article. It maintained exchange restrictions and multiple currency practices subject to Fund approval under Article VIII, Sections 2(a) and 3, but no decision was proposed.

The following summing up was issued:

Executive Directors agreed with the thrust of the staff appraisal. They welcomed Nigeria's ongoing economic recovery, accompanied by reduced inflation and strengthened reserve buffers. They noted, however, that the medium-term outlook remains muted, with risks tilted to the downside. In addition, long-standing structural and policy challenges need to be tackled more decisively to reduce vulnerabilities, raise per capita growth, and bring down poverty. Directors, therefore, urged the authorities to redouble their reform efforts, and supported their intention to accelerate implementation of their Economic Recovery and Growth Plan.

Directors emphasized the need for revenue-based consolidation to lower the ratio of interest payments to revenue and make room for priority expenditure. They welcomed the authorities' tax reform plan to increase non-oil revenue, including through tax policy and administration measures. They stressed the importance of strengthening domestic revenue mobilization, including through additional excises, a comprehensive VAT reform, and elimination of tax incentives. Securing oil revenues through reforms of state-owned enterprises and measures to improve the governance of the oil sector will also be crucial.

Directors highlighted the importance of shifting the expenditure mix toward priority areas. They welcomed, in this context, the significant increase in public investment but underlined the need for greater investment efficiency. They also recommended increasing funding for health and education. They noted that phasing out implicit fuel subsidies while strengthening social safety nets to mitigate the impact on the most vulnerable would help reduce the poverty gap and free up additional fiscal space. Directors recommended stronger coordination for more effective public debt and cash management.

With inflation still above the central bank target, Directors generally considered that a tight monetary policy stance is appropriate. They encouraged the authorities to enhance transparency and communication and to improve the monetary policy framework, including by using more traditional methods, such as raising the monetary policy rate or cash reserve requirements. Directors also urged ending direct central bank intervention in the economy to allow focus on the central bank's price stability mandate.

Directors commended the authorities' commitment to unify the exchange rate and welcomed the increasing convergence of foreign exchange windows. They noted that a unified market-based exchange rate and a more flexible exchange rate regime would support inflation targeting. Directors also stressed that elimination of exchange restrictions and multiple currency practices would remove distortions and facilitate economic diversification.

Directors welcomed the decline in nonperforming loans and the improved prudential banking ratios but noted that restructured loans and undercapitalized banks continue to weigh on financial sector performance. They suggested strengthening capital buffers and risk-based supervision, conducting an asset quality review, avoiding regulatory forbearance, and revamping the banking resolution framework. Directors also recommended establishing a credible time-bound recapitalization plan for weak banks and a timeline for phasing out the state-backed asset management company AMCON.

Directors urged the authorities to reinvigorate implementation of structural reforms to diversify the economy and achieve the Sustainable Development Goals. They pointed to the importance of improving the business environment, implementing the power sector recovery program, deepening financial inclusion, reforming the health and education sectors, and implementing policies to reduce gender inequities. Directors also emphasized the need to strengthen governance, transparency, and anti-corruption initiatives, including by enhancing AML/CFT and improving accountability in the public sector.

Directors welcomed improvements in the quality and availability of economic statistics and encouraged continued efforts to address remaining gaps, including through regular funding.

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

APPROVAL: April 13, 2020

JIANHAI LIN
Secretary

Annex

The staff circulated the following written answers, in response to technical and factual questions from Executive Directors, prior to the Executive Board meeting:

**Outlook/Risks**

**Fiscal and Debt Sustainability**

**1.** ***In the context of the medium-term fiscal framework, we wonder whether the authorities' expectation of a decline in fiscal deficits mainly driven by oil revenues is too optimistic. Staff comments would be welcome***.

- Staff's projections for the evolution of fiscal balances (see Table 5) are based on more conservative assumptions than those of the authorities. Specifically the authorities' revenue projections are higher due to: (i) high production assumptions (2.3 mbpd from 2019 onwards while oil production has been lower than 2 mbpd for the last three years), and (ii) higher proceeds expected from the renegotiation of Production Sharing Contracts, license renewals, and oil divestment sales, which are likely to take time to occur and did not materialize when incorporated in the 2018 budget. Moreover, net oil revenues budgeted by the authorities do not account for implicit fuel subsidies.

**2.** ***We note with concern in Table 5 that the non-oil revenue-to- GDP ratio is expected reach 3.8 percent of GDP in 2024, an increase of just 0.2 percentage points between 2019 and 2024. Against this background, we would appreciate staff comments on the comparison between the baseline, their recommendations for pushing forward the DRM agenda and the SRGI expected outcomes. Could staff indicate to what extent the SRGI will be able to diversify and scale up government revenue***.

- Staff's baseline scenario does not include reforms under the SRGI.

- The SRGI features welcome proposals, including higher rates on excises, a broader list of products subject to excises, and a list of reforms recommended by staff (VAT, capital gains tax) that could come into effect in 2020. These reforms would help increase government revenue.

- Staff's proposed reform scenario augments these reforms, including through tax administration measures, a more comprehensive VAT reform (with a specific increase in the rate to 10 percent), a property tax, further increasing the scope of products subject to excises, and removal of exemptions.

3. ***Could staff elaborate on the preparatory work for the introduction of the VAT in 2020 and whether it has benefited from Fund TA?***

- A VAT is in place in Nigeria but the authorities are seeking to implement a comprehensive reform in order to enhance its efficiency.

- Drawing on Fund TA on tax policy, critical reforms are under discussion, including introducing a VAT registration threshold, a proper input credit mechanism, a rate increase, and evaluating the social/distributional impacts of such an increase. All of these elements are being considered by the authorities when preparing the VAT reform.

4. ***We invite staff's comment on the authorities' contingency plans should ambitious revenue targets fail to materialize***.

- If financing is not available, contingency measures would include cutting non-essential recurrent spending or reviewing budgeted investment plans. Increasing public investment efficiency will be critical to maximize the gains from government expenditures.

5. ***The NNPC legal framework should be streamlined to avoid unpredictable revenue management that could deter further investments in the country. In this regard, we would like to ask staff's views on the impact of the recent tax claim to oil and gas companies.***

- The recent tax claim levied by NNPC to private oil companies is a matter that is being discussed between International Oil Companies (IOCs) and the government. Until those claims are settled, certain IOCs have announced that Final Investment Decisions (FIDs) on certain projects could be delayed, hence possibly postponing the start of new oil production.

6. ***Could staff indicate if part of the large increase in capital expenditure registered in 2018 (35 percent year-on-year) has benefited health and education sectors?***

- A sectoral decomposition of capital expenditures is currently not available. Discussion with Ministry of Health officials indicate, however, that part of the large capital releases at the end of the year were targeted at the health sector.

7. ***We would appreciate further information on the authorities plans to reduce subsidies in line with Fund advice.***

- The authorities are cognizant that action on fuel subsidies would be necessary, albeit no concrete timeline has been announced. In the meantime, staff has advised that fuel subsidies be explicitly budgeted and has encouraged the authorities to step up their efforts to strengthen social safety nets.

**8.** ***Based on household data, staff show that a phasing-out of fuel subsidies associated with targeted compensatory measures for the poorest would decrease the poverty gap while creating fiscal space. Could staff elaborate on the authorities' views on this analysis?***

- The authorities agreed with the size of potential savings from the removal of fuel subsidies and on the importance of building social safety nets that are scalable (with projects ongoing in collaboration with the World Bank). They however pointed to current capacity constraints in making transfers to large groups of people.

**9.** ***Electricity subsidies and losses due to retail fuel importation and distribution are non-budgeted expenditures, which may undermine the MTFF. Can staff clarify why these items are not explicitly budgeted?***

- These losses—including tariff shortfalls—were often attributed to private sector distribution companies, thus not recognized as public sector obligations. With the advent of the power sector recovery plan, there is greater recognition that losses for tariff shortfalls should be compensated, hence their inclusion in the MTFF. It is now important to ensure that the full tariff shortfall costs be fully budgeted and paid for by the government.

**10.** ***Staff points out that the budget impact of the proposed minimum wage increase would be contained and is largely accounted for in the budget. However, we understand that it has been questioned by state governors as impracticable (other than Lagos State); staff's comments on how it would impact states' budgets is welcome.***

- With some states currently paying their employees below the actual minimum wage (18,000 Naira a month), Governors saw an additional increase in minimum wage as unrealistic, leading to possible arrears accumulation. This issue highlights the importance of increasing internally generated revenue at the State level, and greater spending efficiency.

- Note that staff's baseline includes increases in minimum wages, which raise state and local governments' recurrent expenditure and result in higher deficits and borrowing requirements.

**Monetary Policy and Exchange Rate**

**11.** ***We wonder whether the mandate and objective of Central Bank of Nigeria (CBN) are appropriate and whether revisit of these mandates is needed.***

- Staff will respond to this question during the Board meeting.

**12.** ***Reducing the exposure of the CBN to banks' balance sheets and bringing to an end CBN´s development financing is essential for the central bank to focus on its supervisory role and on its price stability mandate. Against this backdrop, we note with concern that the authorities consider these practices as necessary to maintain proper electricity generation and boost agricultural production. We are wondering about the reasons for which these tasks cannot be carried out by the federal government. Additional staff comments on the reasoning behind the authorities' statement would be welcome***.

- It is our understanding that lack of budgeting for these activities has led to the CBN stepping in to provide funding directly for various developmental schemes considered pro-growth. Staff remains of the view that these activities should be costed, funded by the budget and undertaken by the proper government agency or development bank.

**13.** ***Staff's comments on the policy mix to continue curbing inflation while reducing its growth impact are welcome?***

- Increasing the Cash Reserve Requirement symmetrically across all banks would be an option as it removes liquidity in a costless way and would contribute to fewer CBN bills being issued at higher rates to mop up the liquidity surplus. A revenue-based fiscal tightening remains critical and will help reduce the crowding out of private sector credit, reduce yields and create space for higher priority spending.

- Alternatives for removing liquidity would include changing the terms for the amounts of deposits eligible for earning interest at the CBN's Standing Deposit Facility which could help reduce interest volatility. Such changes could include a maturity extension for eligible deposits and setting an interest rate that is between the policy rate and the lower bound of the interest rate corridor. Selling converted bonds that are currently on the CBN's balance sheet and letting FX swaps expire when they come to maturity are other options.

- In addition to monetary policy measures, ending multiple currency practices could lower inflation as evidenced by international experience, presented by staff in the 2018 Article IV consultation.

14. ***We also support staff's call for the development of a time-bound action plan to phase out exchange rate restrictions and other capital management measures. In this regard, could staff comment on the policy options and sequencing to avoid disruption in the financial market and the economy as a whole when the capital management measures are phased out?***

- As staff has consistently argued over the past two years, the unification of the exchange rate and removal of FX restrictions should be pursued in the context of a coherent policy package – as envisaged in the authorities ERGP and calibrated in staff's adjustment scenario. This would include a growth-friendly fiscal policy (centered on non-oil revenue mobilization, prioritized capital and social spending and sound debt management), a tight monetary policy (to contain inflation based on transparent tools), enhanced banking resilience (including through strengthened buffers), and implementing structural reforms.

- If needed, contingency measures to help attenuate any BOP pressures could include tighter fiscal and monetary policy stance, activation of a pro-active communication strategy to manage inflation expectations, and/or use FX swaps with foreign central banks or commercial banks to cover shorter-term FX needs.

15. ***Could staff provide some insight into possible first steps in order to converge towards a mutual plan on the exchange rate policy?***

- Moving the retail rate to 360N/$ I&E rate could be the first step (as was the case for the wholesale rate), followed by a move of the official rate used for fuel imports. As stated in question 14, the move would need to be supported by a proper package of policy measures, including a government decision on fuel subsidies.

16. ***We would welcome staff's comments on the recent news about arbitrage on the foreign exchange market between the interbank market and other forex windows***.

- The CBN's official exchange rate of 305 N/$ is solely used for imports of petroleum products. To staff's knowledge, it is not available to other agents.

17. ***Staff's analysis of the potential economic gains in unifying the exchange rate (chart on page 18) indicates that eliminating the parallel exchange rate can also boost growth and reduce poverty. Staff comments would be welcome***.

- Staff's analysis highlights that redistributing additional government revenue (increase in oil revenues in local currency when converted under a more depreciated exchange rate), could improve distributional outcomes. In particular, when invested into targeted social transfers, they can reduce poverty.

- Eliminating restrictions to access to foreign exchange would reduce the cost of imports, thus increasing disposable income, including for the poor, thus reducing poverty rates.

**18.** ***When it comes to the external sector, we note the staff assessment that the overall position in 2018 is moderately weak and that staff expect a decrease in gross international reserves expressed in months of imports of goods and services imports. We would be grateful if staff could indicate whether this decrease is likely to generate challenges for monetary policy.***

- Over the medium term, the projected modest decrease in reserves (to 4.5 months of imports in 2024) is not expected to generate challenges to monetary policy, which is expected to limit pressures on the exchange rate and keep inflation in check.

**19.** ***We would also like staff to further elaborate on the Nigeria-China Currency Swap Agreement: to what extent has this agreement helped in stabilizing the exchange rate and what should be expected in that regard in the coming years***?

- The Nigeria-Currency Swap of $2.5 billion is not part of gross reserves, is not drawn, and played little part in stabilizing the exchange rate. The swap line has been used to provide yuan directly to traders that import Chinese goods, but the amounts drawn have been modest.

**Financial Sector**

**20.** ***Could staff clarify why the authorities do not see the need for an asset quality review?***

- The authorities believe that the continuous bank monitoring and stress tests undertaken under various scenarios by the CBN and banks are sufficient to ascertain the soundness of the banking system.

**21.** ***We welcome staff's elaboration on their divergent view relative to that of the authorities regarding the need for an asset quality review for the 10 largest banks***.

- Please see question 20.

**22.** ***We note staff's concerns about regulatory forbearance, undercapitalized banks, and some lack of clarity on asset quality and potential capital needs. As this is a continuous theme in the Article IV reports, we would appreciate staff's comments***

***on how Fund and World Bank staff are supporting the authorities in making progress in these areas***.

- Fund TA—including through a resident banking supervision expert at the CBN—in collaboration with AFRITAC WEST II has provided capacity building in developing an Early Warning System that can be used into the risk-based supervision (RBS) framework, which should result in a more forward looking and proactive supervisory strategy and intervention. TA has also focused on strengthening the framework for consolidated supervision; the implementation of the Basel framework; further capacity building on corporate governance, market risk, interest rate risk in the banking book, and stress-testing.

- Fund TA is closely coordinated with WB capacity building efforts focused on: (i) improving the quality, coverage, and uses (offsite surveillance and on-site supervision) of prudential data that CBN requires bank to submit at the monthly/quarterly/semi-annual frequency; and (ii) reviewing the guidance provided by CBN to D-SIBs for the preparation of recovery plans, the assessment methodology that CBN teams use to assess banks' submissions, and more broadly the extent of integration of those recovery plans into the overall risk-ratings of D-SIBs that the Banking Supervision Department undertakes annually for each entity.

**23.** ***While we agree with staff that the authorities should develop a time-bound workable exit strategy for the CBN ownership in AMCON, we wonder what would staff consider as an ideal timeframe and what granular advice would staff give to the authorities to ensure there is minimal disruption?***

- Staff would argue for the immediate transfer of AMCON's ownership to the fiscal authorities, with the financial terms of the transaction subject to the conclusion of a third-party valuation. AMCON's liabilities should be recognized as government debt.

- In setting a timeline for winding down AMCON's activities, the authorities should aim to balance the objectives of maximizing asset recoveries, minimizing moral hazard, and reducing fiscal risk. The authorities should request AMCON's Management to develop a time-bound strategy that can demonstrably achieve these objectives. Such a plan would include operational targets for asset disposal, firm commitment to a clear and specific date for AMCON's sunset, immediate stop of any asset purchases by AMCON, and clear timeline for retiring and buying back AMCON bonds. A plan for dealing with residual assets and to whom they will be transferred once AMCON's sunset is reached should also be designed and implemented.

**External Sector Assessment**

**24.** ***We note with interest staff's discussion of large and persistent errors and omissions in the BoP. Could staff comment whether staff's analysis of the external sector (see page 75) suggests an uncaptured/unreported build-up of net foreign assets of more than 120 bn. US-$ since 2005 and what could be the cause of this?***

- Errors and Omissions in Nigeria reflect poor coverage and data quality in both the current and capital accounts, in light of a large shadow economy and porous borders.

- In this context, ongoing TA focuses on (i) improving the compilation of the international investment position (IIP) statistics, and (ii) assisting with the development of partner-country portfolio investment statistics to allow Nigeria to commence its participation in the IMF's coordinated portfolio investment survey.

**Oil Sector**

**25.** ***Box 1 on Refined Oil Production is interesting, and the finalization of the refinery could have a high positive impact for the country. We would like to have further elaboration from staff on why this project has not taken place before and what the expected date of completion is?***

- Staff's baseline assumes 2022 as the first full year the refinery will be operating. However, there is upside potential, with the Dangote group providing 2020 as a possible start date.

- As for every large-scale project, the project needed to be well planned, financing made available, and the business environment conducive for the investor.

**26.** ***We would welcome staff's comments on the prospects of approval for the vetoed Petroleum Industry Governance Bill.***

- The first bill has appeared more than a decade ago and several versions have been drafted since then. The latest draft has passed both the Senate and the House and reportedly has addressed the most recent presidential concerns (mainly on budget allocations for the petroleum regulator). The government has reiterated the bill is one of its priorities, expressing optimism it can pass in the first half of this year, particularly with the ruling APC party having a majority in Parliament.

**27.** ***Private investments such as the refinery project are welcome given their positive spillovers on the economy and on the region as well described in Box 1 of the***

***report. We wonder whether there are similar large projects underway or in the pipeline. Staff comments will be appreciated***.

- Several private projects are ongoing, including through a fertilizer refinery, road construction by the private sector, and investments into oil fields. To staff's knowledge, no single project is comparable in size to the refinery project.

**Structural Reforms**

**28.** ***At the same time, we note the staff's assessment that the pace of reforms still falls short of the ERPG objectives. Meanwhile, in paragraph 13, on the authorities' views, it is said that "growth prospects would remain subdued due to the slow implementation of measures to strengthen the business climate, reform the power sector, accelerate anti-corruption efforts, and without new capital investment to boost oil production". Could staff elaborate further on the factors that may delay progress in the above-referred areas?***

- Staff will respond to this question during the Board meeting.

**29.** ***The lack of reform momentum, which has been observed for several years, has resulted in weak human development outcomes in comparison to peer countries, as underlined by staff. Does staff have a view on the relative priority of their recommendations? In particular, which one would deliver the largest short and long-term economic gains***?

- Staff will respond to this question during the Board meeting.

**30.** ***Regarding the authorities' commitment to implementing the ERGP's diversification agenda, we would like to hear staff's view on the potential area/sector of economic diversification***.

- A number of sectors, including agriculture that hosts almost half of Nigeria's labor force, could potentially be sources for diversification/structural transformation, especially if productivity rises.

- More importantly though, our recommendation to the authorities has been to create an environment in which businesses, independently from the sector, can thrive. These recommendations included continuing to improve the business environment, accelerating the power sector reform, working towards closing the infrastructure gap, promoting financial inclusion, building human capital, and continuing to address challenges in governance and corruption.

**31.** ***Amid weak investment growth in Nigeria, greater progress in these areas will help boost potential growth in Nigeria, which is too low to support real per capita income and employment growth. Can staff elaborate on how much employment growth would be necessary to absorb the growing labor force and prevent the unemployment rate from rising further?***

- The labor force is growing rapidly, between 2017Q4 and 2018Q3 alone, it expanded by 4.5 percent. This growth currently translates into a net labor force growth of about 5½ million people per year.

**32.** ***Given Nigeria's low score in the World Bank's Human Capital Index, we would have welcomed more discussion of the financing needed to achieve the SDGs. Can staff provide their assessment of the size of financing gaps?***

- The exact magnitude is not known. Albeit, as shown in the 2019 Staff Discussions Note "Fiscal Policy and Development: Human, Social, and Physical Investment for the SDGs", spending-to-GDP in low-income and developing economies would need to increase by 8.3 percentage points to achieve desired education and health outcomes.

- These average estimates are subject to uncertainty and would need to be tailored to Nigeria's country circumstances but are indicative of the possible magnitude of additional financing needs.

**Capacity Development**

**33.** ***Against the background of the current work on the Comprehensive Surveillance Review, we would appreciate staff elaborations on the effectiveness of surveillance in Nigeria and on the traction of the Fund's policy advice. Does staff think that a more focused policy dialogue built around a limited set of priority reforms could have been considered? Similarly, we consider that a more focused approach could also be applied for the delivery of capacity development, where, as indicated in Annex VIII, even the authorities are suggesting a more focused TA in a few key priority areas. Staff elaborations on these points are welcome.***

- On the policy dialogue, Staff will respond to that question during the Board meeting.

- On Capacity Development, following discussions with the authorities, technical assistance is now focused on key policy reform areas identified as priorities—revenue mobilization, public financial management, capacity development in banking supervision, and statistics. Efforts are being made to ensure that mission timing—which is determined jointly with the authorities—does not put undue burden on the same officials on the authorities' side.