

**EXECUTIVE
BOARD
MEETING**

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Supplement 1

December 17, 2020

To: Members of the Executive Board

From: The Secretary

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

Board Action:	Executive Directors' consideration (Formal)
Tentative Board Date:	Wednesday, January 27, 2021
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Questions:	Ms. Rahman, AFR (ext. 36649)
Document Transmittal in the Absence of an Objection and in accordance with Board policy:	After Board Consideration—African Development Bank, Economic Community of West African States, European Investment Bank, Food and Agriculture Organization, Organisation for Economic Cooperation and Development, United Nations Development Programme, World Food Programme, World Trade Organization

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



NIGERIA

STAFF REPORT FOR THE 2020 ARTICLE IV CONSULTATION—INFORMATIONAL ANNEX

December 16, 2020

Prepared By

The African Department

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FUND RELATIONS

(As of October 31, 2020)

Membership Status: Joined: March 30, 1961;

Article XIV

General Resources Account:	SDR Million	%Quota
<u>Quota</u>	2,454.50	100.00
<u>IMF's Holdings of Currency (Holdings Rate)</u>	4,733.59	192.85
<u>Reserve Tranche Position</u>	175.47	7.15

SDR Department:	SDR Million	%Allocation
<u>Net cumulative allocation</u>	1,675.38	100.00
<u>Holdings</u>	1,479.71	88.32

Outstanding Purchases and Loans: None

Latest Financial Commitments:

Arrangements:

<u>Type</u>	<u>Date of Arrangement</u>	<u>Expiration Date</u>	<u>Amount Approved (SDR Million)</u>	<u>Amount Drawn (SDR Million)</u>
Stand-By	Aug 04, 2000	Oct 31, 2001	788.94	0.00
Stand-By	Jan 09, 1991	Apr 08, 1992	319.00	0.00
Stand-By	Feb 03, 1989	Apr 30, 1990	475.00	0.00

Loans:

<u>Type</u>	<u>Date of Commitment</u>	<u>Date Drawn</u>	<u>Amount Approved (SDR million)</u>	<u>Amount Drawn (SDR million)</u>
RFI	Apr 28, 2020	Apr 30, 2020	2454.50	2454.50

Overdue Obligations and Projected Payments to Fund ^{1/}

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

	<u>Forthcoming</u>				
	<u>2020</u>	<u>2021</u>	<u>2022</u>	<u>2023</u>	<u>2024</u>
Principal				613.63	1,227.25
Charges/Interest	<u>6.74</u>	<u>27.23</u>	<u>27.24</u>	<u>26.34</u>	<u>15.35</u>
Total	<u>6.74</u>	<u>27.23</u>	<u>27.24</u>	<u>639.96</u>	<u>1,242.60</u>

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

Implementation of HIPC Initiative: Not Applicable

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

Implementation of Catastrophe Containment and Relief (CCR): Not Applicable

Exchange Rate Arrangement

The de jure exchange rate arrangement is described as floating by the authorities. The main objectives of exchange rate policy in Nigeria are to preserve the value of the domestic currency, maintain a favorable external reserves position and ensure external balance without compromising the need for internal balance and the overall goal of macroeconomic stability. The de facto exchange rate arrangement is classified as stabilized.

Nigeria maintains the following exchange restrictions subject to Fund approval under Article VIII, Section 2(a) of the IMF's Articles of Agreement: (i) an exchange restriction arising from the prohibition to access foreign exchange at the Nigerian foreign exchange markets for the payment of imports of 42 categories of items;¹ (ii) an exchange restriction arising from the rationing of foreign exchange by the CBN in different FX windows, and its allocation based on the CBN's determination of priority categories of transactions; and (iii) an exchange restriction arising from existing limits on the amounts of foreign exchange available when traveling abroad (BTA/PTAs), which cannot be exceeded even upon verification of the bona fide nature of the transaction. In addition, Nigeria maintains the following MCPs subject to Fund approval under Article VIII, Section 3 of the IMF's Articles of Agreement: (i) an MCP arising from the intervention practice of the CBN that results in the establishment of an official exchange rate for use in official (government) transactions and some other transactions,² which may differ by more than 2 percent from the rate used by commercial banks in other CBN FX windows (SMIS, SME, IEFX and Invisibles), and by money transfer operators; and (ii) an MCP arising from the large spread between exchange rates used by the CBN in its FX windows and the rates in the parallel market, caused by the CBN's limitation on the availability of foreign exchange which channels current international transactions to such market; and (iii) an MCP arising from the potential spread of more than 2 percent in the exchange rates at which the CBN sells foreign exchange to successful auction bidders in the SMIS window.

Safeguards Assessment

A safeguards assessment of the CBN is currently in progress in connection with the RFI approved in April 2020. The analysis of the CBN Law reconfirmed the need to modernize the central bank legal framework by enshrining price stability as CBN's primary objective, strengthening autonomy and governance, limiting credit to government and phasing out quasi-fiscal operations. Important departures from leading practices are also apparent in the area of financial reporting.

¹ One of the 43 items on the list is the foreign securities. The prohibition by the CBN to purchase FX for such securities on the Nigeria FX market constitutes a capital flow management measure (CFM) but not an exchange restriction for current international transactions.

² Fuel importers have access to FX at this rate, and banks have access to US\$50,000 per day on a rotating basis at this rate.

Article IV Consultation

Nigeria was on the standard 12-month Article IV consultation cycle until the COVID-19 pandemic. The previous Article IV consultation was concluded on March 27, 2019.

Technical Assistance (TA) since January 2019		
Department	Purpose of TA Mission	Duration
FAD	Contingent Liabilities	December 04 - December 16, 2019 October 08 - October 21, 2019 July 13 - July 29, 2020 September 14 - September 30, 2020 October 3 - October 18, 2020
FAD	Customs administration	June 05 - June 11, 2019
FAD	Controls for ECOWAS Customs Integrity Framework (Phase 1)	October 07 - October 10, 2019
FAD	Controls for ECOWAS Customs Integrity Framework (Phase 2)	August 19 - August 30, 2019
FAD	Development of Post Clearance Audit SOPs and Guidelines	July 24 - August 06, 2019
FAD	Enhancing Cash Forecasting and Planning in FGN	November 05 - November 18, 2019 November 16 - November 30, 2020
FAD	Tax administration follow-up	August 8 - August 21, 2020
FAD	Tax diagnostic tool assessment	July 30 - August 3, 2020
FAD	Tax policy	October 11 - October 14, 2019
FAD	Revenue Administration	April 29 - May 10, 2019
FAD	PCA Mentoring Support (Phase 3)	April 08 - April 12, 2019
FAD	PPP Fiscal Risk Assessment Model (PFRAM) Training	November 04 - November 09, 2019
FAD	Pre-Assessment Training	March 04 - March 08, 2019
FAD	Development of Integrity Strategy Action Plan and M&E Framework	November 18 - November 29, 2019
FAD	Strengthen capacity to audit telecom sector	April 15 - April 26, 2019
FAD	Strengthen core customs admin. procedures & processes	July 04 - July 24, 2019
FAD	Strengthening VAT Compliance and data matching capacity	October 28 - November 08, 2019
FAD	Strengthening the Approach to Medium Term Budgeting	November 04 - November 15, 2019
FAD	Tax administration follow-up	
FAD	Assess Need to Support Nigerian FIRS on administering revenue for Extractive Industries (EI)	January 16 - January 29, 2020
FAD	Cash Flow Forecasting	January 13 - January 17, 2020
FAD	Customs Administration	February 06 - February 18, 2020
FAD	Follow-up on petroleum tax reform and fiscal modeling	January 22 - January 29, 2020
FAD	RETREAT FIRS CORPORATE	February 07 - February 07, 2020
FAD	Support for the Implementation of the Customs Reform Strategy	February 06 - February 19, 2020
FAD	Sustainable Development Goals (SDG)	January 29 - February 12, 2020
		September 02 - September 13, 2019
		May 11 - May 20, 2020
MCM	Banking Supervision: Islamic Finance	November 2 - November 13, 2020
MCM	Developing Forward Looking Monetary Analysis	August 21 - August 28, 2019

Technical Assistance (TA) since January 2019 (end)		
MCM	Improving Forward Looking Monetary Policy Analysis System	October 16 - October 25, 2019
MCM	Medium Term Debt Strategy	July 22 - July 31, 2019
MCM	RBS Cyber Security Workshop	July 15 - July 27, 2019
MCM	RBS: BCP Self Assessment	September 13 - September 21, 2019
MCM	Review of Consolidated Supervision and Basel II/III Guidelines	April 30 - May 07, 2019
MCM	Bank Supervision & Regulations Scoping Mission	April 26 - April 29, 2019
MCM	TA Project Assessment	January 17 - January 23, 2019
MCM	Project Assessment and TA Needs Assessment	February 17 - February 21, 2020
MCM	Risk Based Supervision: Application of Inspection Procedures and Report Writing	February 24 - February 28, 2020
STA	External Sector Statistics (FSSF)	June 10 - June 21, 2019
STA	National Accounts	April 08 - April 19, 2019
STA	National accounts - Rebasing of GDP	September 16 - September 27, 2019
STA	National Accounts (EDDI2)	August 26 - August 30, 2019
STA	Price statistics - Rebasing of Price index numbers	August 17 - August 28, 2020

Mission Chief and Resident Representative:

Ms. Jesmin Rahman has been the IMF's Mission Chief since May 2020. Mr. Ari Aisen has been the IMF's Resident Representative since October 2020.

Resident Technical Assistance Advisor:

Mr. Leonard Chumo was the IMF resident advisor for banking supervision at the Central Bank of Nigeria, during February 2017- March 2020.

RELATIONS WITH OTHER INTERNATIONAL FINANCIAL INSTITUTIONS

World Bank:

<https://www.worldbank.org/en/country/nigeria>

African Development Bank

<https://www.afdb.org/en/countries/west-africa/nigeria/>

STATISTICAL ISSUES

(As of November 2020)

I. Assessment of Data Adequacy for Surveillance
<p>General: Data are broadly adequate for surveillance. However, some data shortcomings remain. In particular, information on subnational public finances and large errors and omissions in the balance of payments. Efforts to improve data in those areas are ongoing, including STA TA on national accounts, monetary, government finance and external sector statistics. The Statistics Act of 2007, which established the National Bureau of Statistics (NBS) as the main coordinating agency for data management, has led to a number of improvements, including better information sharing between data producing and collecting agencies. There has been an effort to improve the compilation of timely and internally consistent data, for example, participation in e-GDDS (although some data domains, including fiscal data, have not been maintained), the use of Government Integrated Financial Management Information System (GIFMIS) for budget preparations, a fully operational Treasury Single Account (TSA), and a reduction in the balance of payments errors and omissions. These efforts however need to be extended to the subnational levels.</p>
<p>National accounts: The NBS implemented the new base year 2010, the International Standard Industrial Classification (ISIC revision 4), and the Supply and Use Table (SUT) framework. The authorities continue to receive TA from the Fund headquarters, its regional technical assistance center AFRITAC West 2, World Bank, and African Development Bank in completing a new GDP rebasing exercise, including producing a GDP back-casted series. The conduct of the business and agricultural surveys, which are necessary for a new rebasing, are expected to be completed in 2020, which would delay the new rebasing exercise now expected to start in 2021.</p> <p>Prices statistics: The official monthly consumer price index (CPI), a composite of urban and rural price data, is available on a timely basis. However, the index weights and basket are based on expenditures derived from the 2003/04 National Consumer Expenditure Survey and are therefore unlikely to be representative of current expenditure patterns. The update of the CPI—using new weights from the recently concluded National Household Livings Standards Survey—is now expected in 2021. Compilation of an updated producer price index (PPI) is ongoing but funding for the survey is uncertain. The NBS continues to receive TA from the Fund on price statistics but high turnover of staff presents ongoing challenges.</p>

Government finance statistics: GFS in Nigeria has several weaknesses. The most pressing shortcoming is related to inadequate data coverage. This includes incomplete coverage of federal government institutions and limited data at the subnational governments level, which accounts for almost one half of total government expenditure. The federal government is working with SLGs to improve the quality, coverage, and timeliness of fiscal reports to facilitate the preparation of a consolidated set of fiscal accounts. This requires the governments at all levels to follow a standardized budget classification, chart of accounts, and accounting systems that will allow consistent classifications of the data, including use of International Public Sector Accounting Standards (IPSAS)—cash basis—at the federal and state levels. There is also a need to formalize the publication of government accounts on a monthly or quarterly basis and to increase coverage to report on the operations of state-owned enterprises as well as improve the delineation of the public sector between general government units and public nonfinancial and financial corporations.

IMF TA missions conducted by FAD have supported the Federal Government of Nigeria (FGN) in the design and implementation of public financial management reforms, in particular related to the treasury single account (TSA), cash management, and budgeting most recently in September 2018. In addition, the IMF's regional technical assistance center (AFW2) continues to support the authorities' efforts to extend these reforms to interested States. Additional TA support by FAD involved a review of the institutional structures of Federal Government Owned Enterprises (FGOE) and providing a roadmap to strengthen fiscal oversight. A GFS TA mission visited Abuja in November 2018 and made recommendation where further work would be needed by the authorities. Prior to this mission the only GFS capacity building during the last several years was a regional training course that took place in Lagos in June 2017.

Nigeria does not report any GFS data to STA, though quarterly debt data is reported to the IMF / World Bank Quarterly Public Sector Debt Database.

Monetary and financial statistics: The CBN reports Monetary and Financial Statistics (MFS) to the Fund using the Standardized Report Forms (SRFs) for the central bank and other depository corporations (ODCs). In late 2020, the CBN began reporting data for other financial corporations (OFCs), covering the pension fund sector. The CBN made significant improvements in the compilation of monetary statistics, including the production of new analytical monetary survey in line with Fund advice, which reflects both domestic and non-resident holdings of CBN Bills. Nigeria is expected to gradually expand the coverage of the OFC sector to include finance companies, development finance institutions, and insurance companies.

Nigeria reports some data and indicators to the Financial Access Survey (FAS), including the two indicators (commercial bank branches per 100,000 adults and ATMs per 100,000 adults) adopted by the UN to monitor Target 8.10 of the Sustainable Development Goals (SDGs).

Financial soundness indicators (FSIs): The CBN reports quarterly data for all of Nigeria's core and eleven encouraged FSIs for deposit takers (though publishing FSIs on a timely basis would be needed). The CBN is working with support from STA to improve the methodology used to compile

FSIs and enhance the consolidation basis to capture cross-border activities of Nigerian bank subsidiaries and branches.

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

Nevertheless, more needs to be done to further reduce the errors and omissions in the balance of payments, which complicate the assessment of external sustainability. There is a need for improved validation of transactions reported by banks, measurement of transactions outside the banking system, appropriate treatment of transactions of enterprises in free trade zones (using a residency criterion) and improved coverage of estimates of the external assets and liabilities of the banking sector. TA efforts helped the CBN diversify the data collection for the improvement of the ESS, including through introducing private financial flows and stocks surveys. A survey of private transfers should foster improvements in the estimates of private transfers, especially those received through informal channels and for the in-kind values, which are currently not estimated. The June 2019 mission assisted CBN in addressing deficiencies in their source data (ITRS in particular) and further improving the measurement of transactions and positions data. More efforts need to be deployed to further improve the quality and frequency of foreign assets and liabilities currently collected via an annual survey. Collection of position data for both inward and outward portfolio investment with country breakdown needs also to be initiated to allow participation in the CPIS.

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

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

II. Data Standards and Quality

Participant in the enhanced General Data Dissemination System (e-GDDS) since April 2017.

No Data ROSC.

Nigeria: Table of Common Indicators Required for Surveillance

(As of November 24, 2020)

	Date of latest observation	Date received	Frequency of Data ¹	Frequency of Reporting ¹	Frequency of Publication ¹
Exchange Rates	Nov. 2020	Nov. 2020	M	M	M
International Reserve Assets and Reserve Liabilities of the Monetary Authorities ²	Nov. 2020	Nov. 2020	M	M	M
Reserve/Base Money	Oct. 2020	Nov. 2020	M	M	M
Broad Money	Oct. 2020	Nov. 2020	M	M	M
Central Bank Balance Sheet	Oct. 2020	Nov. 2020	M	M	M
Consolidated Balance Sheet of the Banking System	Oct. 2020	Nov. 2020	M	M	M
Interest Rates ³	Oct. 2020	Nov. 2020	D	D	D
Consumer Price Index	Oct. 2020	Nov. 2020	M	M	M
Revenue, Expenditure, Balance and Composition of Financing ⁴ – Central Government	Sep. 2020	Nov. 2020	M	M	M
Revenue, Expenditure, Balance and Composition of Financing ⁴ – General Government ⁵ and Central Government	Sep. 2020	Nov. 2020	M	M	M
Stocks of Central Government and Central Government-Guaranteed Debt ⁶	Jun. 2020	Nov. 2020	Q	Q	Q
External Current Account Balance	Jun. 2020	Nov. 2020	Q	Q	Q
Exports and Imports of Goods and Services	Jun. 2020	Nov. 2020	Q	Q	Q
GDP/GNP	Sep. 2020	Nov. 2020	Q	Q	Q
Gross External Debt	Jun. 2020	Nov. 2020	Q	Q	Q
International Investment Position ⁷	Jun. 2020	Nov. 2020	Q	Q	Q

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

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

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

⁴ Foreign, domestic bank, and domestic nonbank financing.

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

⁶ Including currency and maturity composition.

⁷ Includes external gross financial asset and liability positions vis-à-vis nonresidents.