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January 25, 2021

**Joint Statement by Ms. Mahasandana, Ms. Grant, Mr. Iona, and Mr. Soe on Nigeria  
(Preliminary)  
Executive Board Meeting  
January 27, 2021**

We thank staff for the comprehensive reports and Mr. Odonye, Mr. Ekeocha and Mr. Garang for their helpful buff statement. The COVID-19 pandemic has aggravated pre-existing vulnerabilities in Nigeria and threatens to scar the economy. We take positive note of the authorities' relevant and timely measures to address the health and economic impacts of the pandemic. The authorities have also implemented some necessary fiscal and structural reforms, and we encourage them to continue their reform efforts to support living standards in the medium-term. We concur with staff's assessment on the outlook of the economy of Nigeria and offer the following comments.

**We commend the authorities' fiscal measures to save lives and livelihoods.** However, high inflation and unemployment have created a precarious food security problem and placed severe pressure on the most vulnerable groups in Nigeria. We strongly encourage the authorities to enhance their pandemic relief efforts to address social inequality, food security and to strengthen social safety nets and coverage for the poor, including by removing amenities subsidies. *Do staff have other specific policy recommendations for improving the authorities' spending on social protection activities?* Further, we encourage the authorities to put in place a comprehensive plan for the purchase, distribution and administration of the COVID-19 vaccine and to seek the assistance of development partners to meet funding gaps.

**Pursuing revenue-based fiscal consolidation is vital.** Although the authorities are forecasting that fiscal financing will be kept at a favorable level, staff are projecting that fiscal deficits and debt-servicing risks are elevated. Given this uncertainty, we underscore staff's recommendations to scale up ongoing tax reforms and refrain from the central bank

financing. The revenue mobilization measures should rely on progressive and efficiency-enhancing measures. We also commend the authorities' commitment to reduce fuel and electricity subsidies.

**Monetary policy has multiple objectives, making it difficult to achieve price stability.**

We note positively that the accommodative monetary policy stance in the near term is appropriate given the constrained fiscal space, large fiscal financing needs and strained sovereign external market access. However, we agree with staff on the recommendation to strengthen the monetary operational framework to enhance transmission mechanism and effectiveness to contain inflation expectations. We also see merit in staff's recommendation to revisit the existing exchange rate regime and arrangement to better support price stability and address FX access concerns. That said, given the fragile situation in the domestic financial market and weak investor confidence, the shift of policy to a market determined mechanism to allow further flexibility in exchange rate could result in the sharp depreciation of the currency and adverse spiral effects on inflation and financial stability. *Do staff have views on a 'second-best' solution for Nigeria's monetary policy framework and exchange rate arrangement that offer improvements consistent with the wishes of authorities to maintain a fixed exchange rate regime?*

**Commercial banks in Nigeria have preserved adequate capital buffers and profitability.**

We welcome the notable progress in the banking sector that could narrow gender and regional gaps in access to financial services and foster financial literacy, agency banking and the use of fintech technology. Considering potential foreign exchange and solvency risk in the banking sector, we encourage the authorities to maintain vigilance and corrective actions to avoid financial stability risks. We also concur with staff's recommendation to strengthen the CBN's operational framework and modernize the CBN Law. We support the ongoing safeguards assessment in connection with the RFI approved in April 2020. *Could staff elaborate on the findings from this assessment?*

**We commend the progress in structural reforms, which must continue in order to improve the standard of living.**

We positively note that the authorities have strengthened anti-money laundering and anti-corruption frameworks and encourage them to continue their efforts in this important policy area. We welcome the authorities' concurrence with staff's advice to support economic diversification with trade openness and competitiveness. We caution them in using import substitution for Nigeria's industrialization, as a misallocation of resources driven by distortionary pricing and the shielding of industries from competition are likely to have detrimental effects on economic growth and living standards in the long run.

We wish the authorities and people of Nigeria every success in their future endeavors.