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January 25, 2021

Statement by Ms. Levonian and Mr. Rankin on Nigeria
(Preliminary)
Executive Board Meeting
January 27, 2021

We thank staff for their well-written report and Mr. Odonye, Mr. Ekeocha, and Mr. Garang for their detailed Buff. Nigeria faces multiple challenges that predate and are exacerbated by the COVID-19 crisis, including falling per capita income, double-digit inflation, high unemployment, limited buffers, security threats, and significant governance vulnerabilities. Staff's projection that per capita income will remain below 2010 levels over the medium term is alarming and underscores the need for a fundamental policy reset. We concur with staff's key policy recommendations and offer the following comments for emphasis.

We welcome Nigeria's early response to the COVID-19 outbreak. The Central Bank of Nigeria's measures to support the health sector and broader economy saved lives and livelihoods. We also welcome the removal of fuel and electricity subsidies, which not only created significant fiscal pressures, but encouraged wasteful consumption, had adverse distributional impacts, and accelerated climate change. We caution that the lack of a concrete plan to purchase, distribute and administer COVID-19 vaccinations is a key downside risk over the near term.

A single market-clearing exchange rate would support growth and preserve external buffers. The current system of multiple windows and untransparent rules surrounding FX allocation creates great uncertainties for potential investors. The spread between exchange rates underlines significant market distortions that drag on Nigeria's growth prospects. Moreover, given persistent high inflation, the current system does not appear very effective at achieving the authorities' stated goal of price stability. We take note of staff's recommended multi-step approach to unify the exchange rate and stress the importance of targeted support to minimize potential adverse impacts on the poorest and most vulnerable. *Could staff comment on prospects of a common West African currency ("Eco") and potential benefits of such an arrangement?*

Enhanced revenue mobilization would create policy space and reduce fiscal risks. Nigeria's revenue-to-GDP ratio is among the lowest in the world, leaving little policy space to respond to the current crisis or achieve the authorities' development objectives. Furthermore, although Nigeria's debt level is relatively low, we highlight staff's projection that interest-to-revenue will exceed 90 percent by 2025, presenting serious risks to debt sustainability. We therefore encourage the authorities to consider the revenue-based fiscal consolidation proposed by staff, including increasing the VAT and excise rates, as well as rationalizing tax expenditures. More broadly, we emphasize the importance of increasing non-oil-based revenue as the world shifts towards a low-carbon economy.

We encourage continued progress on structural reforms. Cross-country experience shows that economic diversification requires trade openness and competitive discipline. In this respect, we welcome the authorities' recent ratification of the African Continental Free Trade Agreement and encourage the authorities to lift border closures and reduce protectionism. Systematic corruption remains a macro-critical challenge in Nigeria. Strengthening anti-money laundering and anticorruption institutions, like the Office of the Auditor General, would help improve governance and the business environment, building a foundation for durable and inclusive growth. We wish the authorities every success in their efforts.

Given the challenges facing Nigeria, could staff comment on the prospects of a Fund-supported arrangement?