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January 25, 2021

**Statement by Mr. Zhang and Ms. Yang on Nigeria  
(Preliminary)  
Executive Board Meeting  
January 27, 2021**

We thank staff for the well-written report and Mr. Odonye, Mr. Ekeocha, and Mr. Garang for the informative Buff statement. Entering into the worst economic recession in four decades, the Nigerian economy was heavily hit by the pandemic, while its prospect had already been clouded by weak pre-crisis fundamentals and inward looking policies. We broadly agree with staff's appraisal and would like to limit ourselves to the following comments for emphasis.

**Revenue-based fiscal consolidation is essential to ensure debt sustainability.** We welcome the authorities' efforts in domestic revenue mobilization by strengthening tax collection, modernizing tax administration, and broadening the tax base. At the same time, we underscore the importance of enhancing the social safety net to protect poor households from being negatively impacted by subsidy removal and VAT increase.

**We underscore the importance of fostering greater exchange rate unification and flexibility in line with market fundamentals without further delay.** Liberalizing the foreign exchange market to eliminate exchange rate misalignments is crucial to address BOP stress and instill confidence. Short-term negative impacts of greater exchange rate flexibility could be mitigated as evidenced by international experiences. A gradual phasing out of capital flow management measures and removal of central bank market intervention is a step in the right direction to enhance policy credibility and establish a well-functioning exchange rate system.

**Continued efforts are needed to modernize monetary policy frameworks and enhance banking sector resilience.** With inflation being on an upward trend, we see merit in staff's recommendation of establishing primacy of price stability. The authorities' commitment to eliminate monetization of the deficits is welcome. While banks entered the crisis with

adequate capital buffers and profitability, elevated credit risks require continued vigilance to maintain financial stability.

**We associate ourselves with staff that export-oriented industrialization could help unlock Nigeria's growth potential and promote economic diversification.** By bringing domestic firms to international competition, open trade can boost competitiveness of domestic industries and improve productivity, along with increase FDI inflows. We also see great potential for employment gains by utilizing the opportunities of the African Continental Free Trade Agreement ratification. In parallel, the authorities should keep momentum in combatting corruption, money laundering, and terrorism financing to improve the business environment.

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