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January 25, 2021

Statement by Mr. De Lannoy and Mr. Voinea on Nigeria
(Preliminary)
Executive Board Meeting
January 27, 2021

We thank Ms. Rahman and her team for the well-written Report and the insightful selected issues papers, and Mr. Odonye, Mr. Ekeocha, and Mr. Garang for their Buff statement.

We agree with staff that Nigeria's weak pre-crisis fundamentals threaten to turn the temporary COVID-crisis into a slump with more lasting consequences for employment and living standards. To avoid such an outcome, two reform priorities require immediate action: the exchange rate adjustment and the tax revenues mobilization.

We support staff's recommendation for the unification and greater flexibility of the exchange rate, which would help address balance of payments problems and provide clarity to the central bank's policy objectives. Prioritizing price stability and moving towards a flexible inflation targeting should, nevertheless, be qualified by the perils of fiscal dominance in the economies where structural reforms are lagging and where the tax system is underdeveloped.

Therefore, we encourage the authorities to strive towards heightened domestic revenue mobilization. Broadening the tax base, eliminating tax exemptions, and improving tax collection can complement the increase of some tax levels. We emphasize the need to have a descriptive table in all Fund's surveillance reports summarizing the existing tax structure and rates. In the absence of such data, the Board can not fully grasp the implications of the proposed tax reforms. For example, we note that no reform is proposed in the area of personal income tax. *Could staff provide a brief description of the structure of the PIT?*

We believe that an increase in tax progressivity, both in the flow of income and in the stock of wealth, could be an additional solution for revenue mobilization. This would also help mitigate the impact of an increase in the VAT, which is a deeply regressive tax.

Both solutions envisaged by staff – greater exchange rate flexibility and a sharp increase in VAT – while being right from an analytical point of view, pose a high risk of disproportionately affecting the poor. We agree with staff that it is essential to improve the targeting of social safety nets and to implement mitigating measures in advance. Both measures would also raise inflation, which would prompt the central bank to hike the interest rate, possibly delaying the recovery projected for 2022. We welcome the authorities' commitments to implement these reforms and urge them to make sure that the cost of these reforms will not be borne by low-income households.

Other structural reforms are also needed. It is vital to diversify the structure of the economy away from its oil dependency. We also recognize that Nigeria can take a number of steps for institutional improvements and good governance to better facilitate economic openness. Enhancing the anti-corruption framework will also help increase tax revenues and attract foreign direct investments.