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January 26, 2021

Statement by Mr. Hosseini and Mr. Osei Yeboah on Nigeria
(Preliminary)
Executive Board Meeting 21/10
January 27, 2021

We thank staff for the well-focused reports and **Mr. Odonye, Mr. Ekeocha, and Mr. Garang** for their insightful Buff statement. We broadly concur with the thrust of the staff appraisal and underscore the systemic importance of the Nigerian economy to its SSA neighbors, particularly at this critical period of implementing the African Continental Free Trade Area (AfCFTA).

The COVID crisis should be an inflection point for the Nigerian authorities to strengthen the economic fundamentals—in recent times the economy has suffered from declining per capita income, high inflation, governance issues and limited buffers. While the authorities have shown commitment to strengthening macroeconomic stability and structural reforms, the COVID-19 shock is complicating their efforts by drawing resources to the urgent needs of healthcare and income support. The authorities' timely response to the crisis, including improving healthcare delivery, stimulus to small businesses, and regulatory forbearance, among other measures, helped avert a worse outcome on lives and livelihood. Mindful of staff's assessment of a weak and slow recovery under current policies, we urge the authorities to initiate bold structural measures to achieve higher inclusive growth once the recovery is sufficiently secured. *The authorities' survey results point to significant food security challenges, notwithstanding favorable weather conditions and good agricultural harvest in the region. Can staff elaborate on the survey outcome?*

Revenue-based fiscal consolidation is critical to restore fiscal buffers that would enable policies to support a resilient and equitable post-pandemic economic recovery more aggressively. We welcome the authorities' recognition to increase both oil and non-oil revenues through the proposed Petroleum Bill, which together with fuel subsidy rationalization, a well-sequenced and progressive VAT, and improved tax management will help reduce fiscal and debt sustainability risks. Policies geared towards improving spending efficiency, transparency and value for money will offer scope for pro-poor investments, especially in health and education. A better targeted and adequately-funded social support to the vulnerable population will help spread the economic gains more broadly going forward.

The near-term accommodative monetary policy stance is appropriate, while remaining vigilant to the build-up of inflationary and BOP pressures. Improving the monetary policy transmission channels and better communication will help establish a credible nominal anchor and rein in inflation expectation. That said, reforms of the monetary policy operational framework to establish the primacy of price stability will be needed once the pandemic dissipates. Enhancing exchange rate flexibility will improve the economy's resilience to external shocks and support de-dollarization, with foreign exchange interventions limited to smooth out market volatility while safeguarding reserves. *We would welcome staff comments on the impact of the proposed exchange rate reforms on government's external debts and debt repayments.* With Nigeria remaining prone to large capital outflows, it is imperative to initiate policies to attract foreign investment and build reserve buffers.

The authorities' prudent policies and oversight pre-crisis bolstered capital buffers and enhanced banking sector soundness, helping the sector to cope better with the crisis. We take positive note that NPLs have remained at the pre-pandemic levels amidst authorities' loan provisioning guidelines that are consistent with the IFRS9. Nonetheless, the worsening corporate leverage, particularly in the case of large firms, raises concerns about macro-financial risks, towards which the authorities should remain vigilant. We agree with staff's recommendation to limit FX loans to entities that generate FX income to contain FX solvency risks. We are encouraged that the authorities are planning to strengthen the banking law to promote financial stability and increase the operational flexibility of the CBN and the NDIC to establish a bank resolution fund. We welcome the good progress in financial inclusion with the narrowing of gender and regional gaps for accessing financial services. *Would staff comment on the status of banks-telecommunication companies (telcos) interoperability in the banking and mobile money space?* Maintaining the fight against corruption and money laundering and terrorism financing is critical, noting the significant cross-border presence of Nigeria's domestic banks. Hence, it is welcoming to observe in the staff report that authorities are improving compliance with AML/CFT preventive measures.

As the crisis abates, implementation of a strong and accelerated structural reform agenda should underpin a durable and inclusive growth. Nigeria has significant non-oil export potential that it can leverage to drive industrialization, foster human development and improve competitiveness through digitalization. We welcome the ongoing reforms in the power and fuel sectors, as well as in governance and business regulations. Resolving the electricity problem effectively will be a huge boost to small businesses. We would welcome *staff elaboration on efforts underway to address the power outage problem.*

We wish the Nigerian authorities every success.