INTERNATIONAL MONETARY FUND

IMF Country Report No. 24/102

# NIGERIA

May 2024

## 2024 ARTICLE IV CONSULTATION—PRESS RELEASE; STAFF REPORT; STAFF STATEMENT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR NIGERIA

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of the 2024 Article IV consultation with Nigeria, the following documents have been released and are included in this package:

- A **Press Release** summarizing the views of the Executive Board as expressed during its April 29, 2024, consideration of the staff report that concluded the Article IV consultation with Nigeria.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on April 29, 2024, following discussions that ended on February 23, 2024, with the officials of Nigeria on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on April 9, 2024.
- An **Informational Annex** prepared by the IMF staff.
- A **Staff Statement** updating information on recent developments.
- A **Statement by the Executive Director** for Nigeria.

The IMF's transparency policy allows for the deletion of market-sensitive information and premature disclosure of the authorities' policy intentions in published staff reports and other documents.

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**International Monetary Fund**
**Washington, D.C.**

# IMF Executive Board Concludes 2024 Article IV Consultation with Nigeria

**FOR IMMEDIATE RELEASE**

**Washington, DC:** On April 29, 2024, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation[1] with Nigeria.

Nigeria, under its new administration, has set out on an ambitious reform path to restore macroeconomic stability and support inclusive growth. The authorities reformed the fuel price subsidies, unified official foreign exchange windows, and are focused on revenue mobilization, governance, and enhancing the monetary and exchange rate policy frameworks, as well as strengthening social safety nets.

Over the last decade, limited reforms, security challenges, weak growth and now high inflation have worsened poverty and food insecurity. While Nigeria swiftly exited the Covid-19 recession, per-capita income has stagnated. Real GDP growth slowed to 2.9 percent in 2023, with weak agriculture and trade, and despite the improvement in oil production and financial services. Growth is projected at 3.3 percent for 2024 as both oil and agriculture outputs are expected to improve with better security. The financial sector has remained stable, despite heightened risks. Determined and well-sequenced implementation of the authorities' policy intentions would pave the way for faster, more inclusive, resilient growth.

Inflation reached 32 percent year-on-year in February 2024, driven mainly by food price inflation (38 percent) and loose financial conditions. With continued monetary tightening, inflation is projected to gradually decline to 24 percent year-on-year at end-2024.

The fiscal position strengthened in 2023. Revenues benefited from naira depreciation and enhanced revenue administration, while expenditure rationalization and restraint allowed for a one-off wage increase to mitigate the impact of high inflation for public officials. The social cash transfer system has been strengthened and initial payments have been made.

Gross international reserves declined in 2023 amid persistent capital outflow pressures. The naira depreciated sharply after the unification of the official foreign exchange windows in June 2023. Following monetary policy tightening in February and March 2024 and a resumption of FX interventions, the naira has started to stabilize.

Near-term risks are tilted to the downside, but determined and well-sequenced implementation of the authorities' policy intentions would pave the way for faster, more inclusive and resilient growth. Food insecurity could worsen with further adverse shocks to agriculture or global food prices. Adverse shocks to oil production or prices would hit growth, the fiscal and external position, and exacerbate inflationary and exchange rate pressures.

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[1] Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board.

**Executive Board Assessment**[2]

Executive Directors agreed with the thrust of the staff appraisal. They welcomed the bold reforms implemented by the new administration and commended the authorities' focus on revenue mobilization, governance, social safety nets, and upgrading policy frameworks in the face of Nigeria's significant economic and social challenges. In view of the downside risks, Directors stressed the importance of steadfast, well-sequenced, and well-communicated reforms to restore macroeconomic stability, reduce poverty, support social cohesion, and pave the way for faster, inclusive, and resilient growth.

Directors commended the authorities' actions to rein in inflation and restore market confidence. They stressed the importance of keeping a tight monetary policy stance to put inflation on a downward path, maintaining exchange rate flexibility, and building reserves. Directors welcomed the removal of foreign exchange market distortions and encouraged the authorities to continue improving the functioning of the FX market, including by adopting a well-designed FX intervention framework. Some Directors also noted that carefully and sequentially phasing out capital flow management measures when warranted would be important. Directors supported the authorities' intentions to shift to an inflation targeting regime and recommended strengthening central bank independence and communication to ensure a successful transition. They recommended caution regarding amendments to the Central Bank of Nigeria (CBN) Act that might weaken the central bank's autonomy. They encouraged further progress in implementing the outstanding recommendations from the 2021 safeguards assessment.

Directors commended the authorities for restarting the cash transfer program and emphasized the urgency of scaling it up to mitigate acute food insecurity. They welcomed the authorities' work on a comprehensive revenue mobilization strategy including boosting tax enforcement and broadening the tax base. They underscored that mobilizing revenue and reprioritizing expenditure, including phasing out costly and regressive energy subsidies, are critical to creating fiscal space for development spending and strengthening social protection, while maintaining debt sustainability. Directors appreciated the authorities' commitment to discontinue deficit monetization and positively noted progress in macroeconomic policy coordination.

Directors emphasized the importance of close monitoring of financial sector risks. They supported the increase in the minimum capital for banks and urged the CBN to unwind the regulatory forbearance introduced during the pandemic. Directors acknowledged the recent improvements in the AML/CFT framework and called for sustained action to exit the FATF grey list. They supported the authorities' efforts to foster financial inclusion and deepen the capital market.

Directors highlighted the importance of reforms to enhance the business environment, improve security, implement key governance measures, develop human capital, boost agricultural productivity, and build climate resilience. These reforms are crucial to boost investor confidence, unlock Nigeria's growth potential and diversify the economy, address

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[2] At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities. An explanation of any qualifiers used in summing-up can be found here: http://www.IMF.org/external/np/sec/misc/qualifiers.htm.

food insecurity, and underpin sustainable job creation. Directors welcomed the IMF's capacity development to support the authorities' reform efforts.

**Table 1. Nigeria: Selected Economic and Financial Indicators, 2022–25**

| | 2022<br>Act. | 2023<br>Est. | 2024<br>Proj. | 2025<br>Proj. |
|---|---|---|---|---|
| **National income and prices** | (Annual percentage change, unless otherwise specified) | | | |
| Real GDP (at 2010 market prices) | 3.3 | 2.9 | 3.3 | 3.0 |
| Oil and Gas GDP | -19.2 | -2.2 | 5.6 | 0.0 |
| Non-oil GDP | 5.0 | 3.2 | 3.2 | 3.1 |
| Non-oil non-agriculture GDP | 6.2 | 3.9 | 3.2 | 3.1 |
| Production of crude oil (million barrels per day) | 1.38 | 1.50 | 1.65 | 1.65 |
| Nominal GDP at market prices (trillions of naira) | 202.4 | 234.4 | 296.4 | 344.6 |
| Nominal non-oil GDP (trillions of naira) | 190.4 | 221.3 | 271.0 | 316.7 |
| Nominal GDP per capita (US$) | 2,202 | 1,688 | 1,110 | 1,077 |
| GDP deflator | 11.3 | 12.6 | 22.4 | 12.9 |
| Consumer price index (annual average) | 18.8 | 24.7 | 26.3 | 23.0 |
| Consumer price index (end of period) | 21.3 | 28.9 | 24.0 | 19.0 |
| **Investment and savings** | (Percent of GDP) | | | |
| Gross national savings | 20.2 | 24.1 | 25.8 | 26.0 |
| Public | -2.4 | -0.4 | 0.0 | 0.6 |
| Private | 22.6 | 24.6 | 25.8 | 25.5 |
| Investment | 20.0 | 23.8 | 25.2 | 26.1 |
| Public | 2.5 | 3.2 | 3.4 | 3.8 |
| Private | 17.6 | 20.6 | 21.8 | 22.3 |
| private net saving | | | | |
| **Consolidated government operations** | (Percent of GDP) | | | |
| Total revenues and grants | 9.0 | 9.4 | 12.4 | 12.8 |
| *Of which:* oil and gas revenue | 3.6 | 2.9 | 6.0 | 5.8 |
| *Of which:* non-oil revenue | 4.8 | 5.8 | 6.5 | 7.0 |
| Total expenditure and net lending | 14.4 | 13.6 | 17.1 | 17.1 |
| *Of which*: implicit fuel subsidies[1] | 2.2 | 0.8 | 2.8 | 1.5 |
| Overall balance | -5.4 | -4.2 | -4.7 | -4.2 |
| Non-oil primary balance | -6.8 | -4.5 | -7.1 | -6.2 |
| Public gross debt[2] | 39.4 | 46.4 | 46.7 | 47.0 |
| *Of which*: FX denominated debt | 9.2 | 16.3 | 19.0 | 20.3 |
| FGN interest payments (percent of FGN revenue) | 87.6 | 76.8 | 77.5 | 74.7 |
| **Money and credit** | (Contribution to broad money growth, unless otherwise specified) | | | |
| Broad money (percent change) | 13.0 | 57.8 | 13.5 | 16.9 |

| | | | | |
|---|---|---|---|---|
| Net foreign assets | -11.5 | 10.2 | 4.4 | 5.6 |
| Net domestic assets | 24.4 | 47.7 | 9.1 | 11.2 |
| *Of which:* Claims on consolidated government | 21.8 | 23.4 | 4.7 | 3.3 |
| Credit to the private sector (y-o-y, percent) | 19.9 | 42.1 | 16.3 | 22.7 |
| Velocity of broad money (ratio) | 3.7 | 2.7 | 3.0 | 3.0 |
| **External sector** | (Annual percentage change, unless otherwise specified) | | | |
| Current account balance (percent of GDP) | 0.2 | 0.3 | 0.5 | -0.1 |
| Exports of goods and services | 35.9 | -11.3 | 0.9 | -7.7 |
| Imports of goods and services | 14.2 | -4.4 | -0.8 | -4.8 |
| Terms of trade | 11.3 | -6.6 | -0.4 | -3.5 |
| Price of Nigerian oil (US$ per barrel) | 99.0 | 82.3 | 80.6 | 75.6 |
| External debt outstanding (US$ billions)[3] | 119.9 | 113.6 | 111.1 | 116.8 |
| Gross international reserves (US$ billions, CBN definition)[4] | 36.6 | 32.9 | 33.3 | 34.2 |
| (Equivalent months of prospective imports of G&S) | 6.0 | 5.4 | 5.7 | 6.1 |

Sources: Nigerian authorities; and IMF staff estimates and projections.

[1] Fund staff estimate.

[2] Gross debt figures for the Federal Government and the public sector include overdrafts from the Central Bank of Nigeria (CBN).

[3] Includes both public and private sector.

[4] Based on the IMF definition, the gross international reserves were US$8 billion lower in October 2023.

INTERNATIONAL MONETARY FUND

# NIGERIA

## STAFF REPORT FOR THE 2024 ARTICLE IV CONSULTATION

April 9, 2024

## KEY ISSUES

**Context.** Over the last decade, Nigeria's growth has just about kept up with population dynamics. Poverty has increased, and food insecurity is rising. The government is constrained by low domestic revenue mobilization. Governance problems remain pervasive. The external environment—cost of financing—remains difficult, high oil and gas prices notwithstanding. The new administration has set out on an ambitious reform path to restore macroeconomic stability and develop a pro-growth reform agenda.

### Key Policy Recommendations

**Fiscal policy.** The immediate priority is to roll out social transfers to alleviate food insecurity. Fiscal policy should continue to pursue domestic revenue mobilization to generate space for social and development spending. Government financing needs should be met from the market or through official support.

**Monetary and exchange rate policies.** The recent hikes in the policy rate are welcome, and the Central Bank of Nigeria (CBN) should continue to calibrate monetary policy tightening in a data-dependent approach to bring down inflation and break the adverse inflation-depreciation loop. The CBN should also seize opportunities to build reserves. FXIs should be based on a symmetric and transparent framework and only geared to smoothing excess volatility.

**Financial sector policies**. Further strengthening bank capitalization and tight supervision are needed to mitigate emerging financial sector stability risks. Improving the functioning of the domestic securities and FX markets should enhance the monetary transition mechanism and attract capital inflows. Broadening access to financial services and fostering financial inclusion remain priorities.

**Governance**. Building on the progress made in improving Nigeria's AML/CFT framework, the authorities should address remaining deficiencies to exit the FATF "grey list." Further progress on broader governance issues is critical for inclusive growth.

**Structural reforms** can ease near-term policy trade-offs. Nigeria should continue supporting agricultural productivity, sustain actions to reduce oil theft, remove burdensome border procedures, and accelerate climate adaptation measures.

Approved By
**Costas Christou and Jarkko Turunen**

Discussions took place during February 12–23, 2024, in Lagos and Abuja. The mission consisted of Imen Benmohamed, Reginald Darius, Axel Schimmelpfennig (head), Euphemia Swen-Monmia (all AFR), Deeksha Kale (SPR), Salma Khalid (FAD), Jose de Luna Martinez (MCM) and was supported by Christian Ebeke (resident representative) and Laraba Bonet, Nene Ikpechukwu, and Zainab Mangga (local office). Robin Sykes and Indulekha Thomas (LEG) joined for governance and AML/CFT meetings. Svetlana Popova (MCM), David McDonnell, and Jonathan Swanepoel (LEG) carried out discussions for the Article VIII assessment in parallel. The mission met with Minister of Finance Edun, Governor Cardoso, senior government and central bank officials, the Ministry of Agriculture, the Ministry of the Environment, as well as representatives from the private sector and civil society.
Joanna Delcambre and Samten Bhutia provided excellent assistance in preparing this report.

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**TABLES**

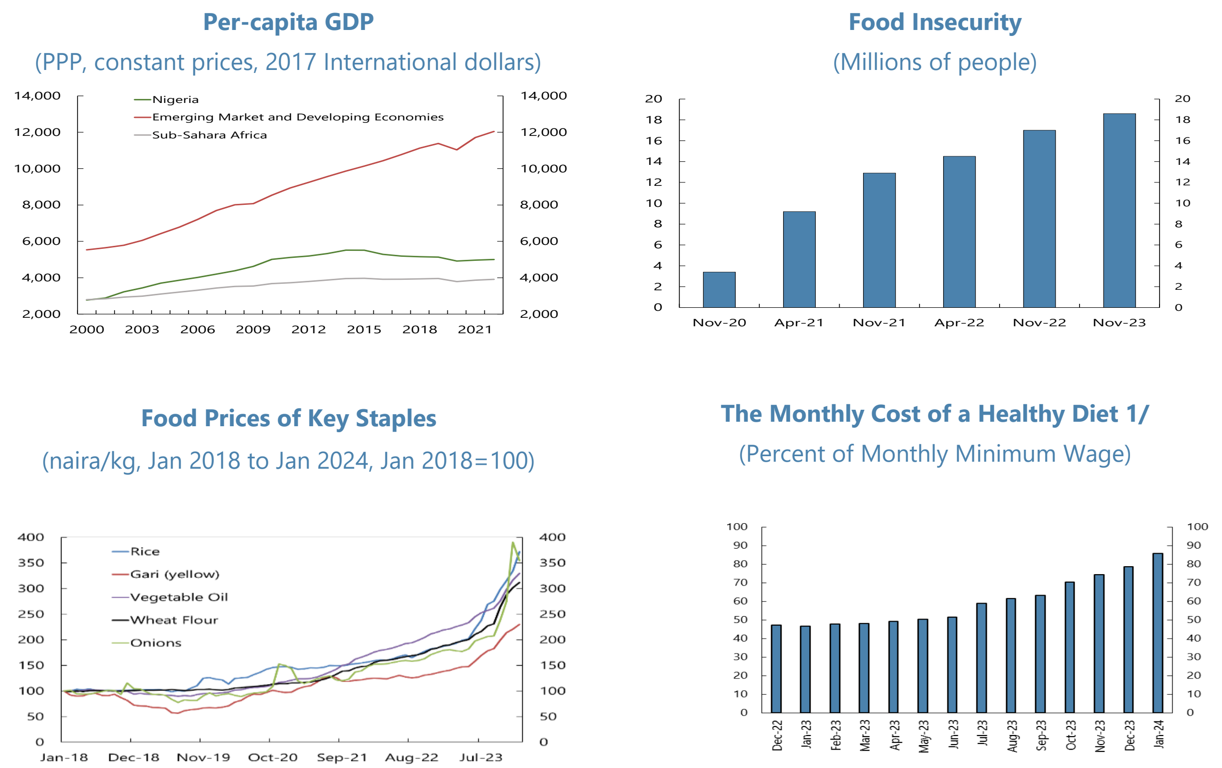


**ANNEXES**

# CONTEXT

**1. A decade of limited reforms, muted growth, security challenges and now high inflation have contributed to food insecurity, poverty, and macroeconomic weakness (Annex I).** Nigeria exited the Covid-19 recession quickly, but per-capita income has stagnated. While non-oil growth averaged 4 percent in 2021/23, the hydrocarbon economy declined by 14 percent. The poverty rate was 46 percent in 2023, [1] and estimates show 19 million Nigerians (8 percent of the population) as food insecure (Text Figure 1).[2] Social tensions are elevated, and there have been some instances of food warehouses being looted. Kidnapping for ransom is on the rise, including of school children. Nigeria is impacted by climate change with increasing frequency of weather-related events. The challenging macroeconomic environment has triggered the exit of some foreign companies.

**Text Figure 1. Nigeria: Poverty and Food Insecurity**




Sources: Cadre Harmonisé, WFP; Haver Analytics, National Bureau of Statistics, and IMF World Economic Outlook.
1/ The least expensive combination of items that meet the needed requirements for a healthy diet.

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[1] Based on World Bank's estimate of the poverty rate at the national poverty line of naira 137,430 per person per year in 2018/19 prices (roughly $450).

[2] As per the Cadre Harmonisé Initiative, the number of food-insecure people corresponds to the number of people classified under Phase 3+ (from high or above-average levels of acute malnutrition to famine).

**2. The external environment remains challenging**. With tight global financial conditions, market access is expensive. Global commodity prices have declined but remain high which contributes to food insecurity and inflation. However, elevated oil prices support growth, FX inflows and government revenue.

**3. The new administration assumed office in May 2023, aiming to stabilize the economy and raise growth.** In their first months in office, the authorities reformed the fuel price subsidies and unified the foreign exchange windows, two long-standing elements of a package of Fund recommendations that also included as essential elements strengthening social protection and tightening macroeconomic policies (Text Table 1).[3] The authorities' reform plans are appropriately focused on revenue mobilization, governance, and enhancing the exchange rate and monetary policy frameworks. The authorities have requested CD in these areas (Annex II). Given the acute food insecurity situation combined with large social and development needs, achieving some quick wins that benefit the population and implementing pro-growth reforms is essential for social cohesion.

**Text Table 1. Nigeria: Implementation of Past Policy Advice**

| Recommendations | Implementation Status |
|---|---|
| **Staff's Key Macroeconomic Policy Advice** | |
| Introduce greater exchange rate flexibility and establish a unified and market-clearing exchange rate. Tighten macroeconomic policies to contain inflation and implement policies to facilitate new investment. | FX windows were unified in June 2023, but macroeconomic policies were not tightened in parallel to contain inflation. The CBN stopped FX interventions to support the exchange rate in late 2023 and limited interventions to excess volatility episodes. |
| Strengthen the monetary policy operational framework to tackle structurally high inflation. | The CBN has committed to price stability as its main objective and has developed a preliminary roadmap to guide implementation of an inflation targeting framework. |
| Comply with statutory limits on CBN credit to government, and phasing out of CBN developmental lending activities | Nigeria relied again on monetary financing in H1-2023. However, the new government discontinued monetary financing in H2-2023. The CBN has stopped developmental lending and will transfer its loan and guarantee portfolio to the six development finance institutions and private banks. |
| Develop a domestic revenue mobilization agenda. Increase the VAT rate to at least 10 percent by 2023 and to 15 percent by 2027. | A comprehensive revenue agenda is under preparation. The VAT increase was postponed given high inflation. |
| Remove fuel subsidies through the introduction of a market-based pricing mechanism, combined with adequate compensatory measures for the poor and efficient and transparent use of the saved resources. | Fuel subsidies were reformed in June 2023, however, adequate compensatory measures for the poor were not scaled up in a timely manner and subsequently paused over corruption concerns. Capping pump prices below cost reintroduced implicit subsidies by end-2023 to help Nigerians cope high inflation and exchange rate depreciation. |

[3] Follow-up on the 2013 Financial Sector Assessment is shown in Annex III.

| Text Table 1. Nigeria: Implementation of Past Policy Advice (concluded) | |
|---|---|
| Move to full cost-reflective electricity tariffs in 2021 | Electricity tariffs have not been adjusted given high inflation. |
| Resume publication of monthly reports of oil fiscal transfers to the government along with NNPC audits. | NNPCL has resumed the publication of audited financial reports (the most recent is the 2022 report), though the newly published version appears less comprehensive. The latest published monthly financial and operational reports date to July 2021. |
| Fully open land borders, reduce tariff escalation, and simplify customs procedures. | Six land borders have been fully reopened, reduction of tariff escalation and simplification of customs procedures are still ongoing. |
| Enhancing security to stop oil theft and protect farmers. | The government, in collaboration with regulatory bodies, private security forces and community dwellers, and launched initiatives to prevent, investigate, and prosecute crude oil theft and enhance security in farms. |
| Take sustained action to improve the effectiveness of the Anti-Money Laundering (AML) / Countering the Financing of Terrorism (CFT) framework and prevent Financial Action Task Force (FATF) listing. | The authorities have been undertaking a series of reforms to correct the deficiencies identified in the 2021 GIABA assessment of Nigeria's AML/CFT framework. |
| Winddown of the Asset Management Company of Nigeria (AMCON) by end-2023 | AMCON remains open due to its large portfolio of impaired loans that are being collected from defaulted borrowers. |
| **Governance Commitments under the RFI** | |
| Report funds released and expenditures incurred monthly on the transparency portal. | The authorities have published budget performance statements for the Federal and State governments with respect to the COVID-19 budget. |
| Publish procurement plans, procurement notices for all emergency response activities—including the name of awarded companies and of beneficial owners—on the Bureau of Public procurement website. | The Bureau of Public Procurement published one-off Covid emergency contracts in collaboration with the Open Governance Initiative. Awarded companies were published but not beneficial owners due to legal obstacles. |
| Publish no later than 3–6 months after the end of the fiscal year an independent audit by the Auditor General of the Federation into the emergency response expenditures and related procurement process. | The authorities conducted an audit of emergency response expenditures as part of the general audit for the fiscal years in which expenditures were accrued. |

# RECENT ECONOMIC DEVELOPMENTS AND OUTLOOK

4. **Growth slowed to 2.9 percent in 2023.** Growth slowed to 2.5 percent in 2023H1, reflecting weakness in agriculture, hydrocarbon, and trade, but improved to 3.2 percent in 2023H2, driven by the financial sector, mining and quarrying, and information technology. For 2024, growth is projected at 3.3 percent, reflecting increased oil production and improved agriculture with better security. Medium-term growth is projected at 3.3 percent, with improvements in agriculture from the introduction of dry season farming and continued steady gains in the non-oil sector.

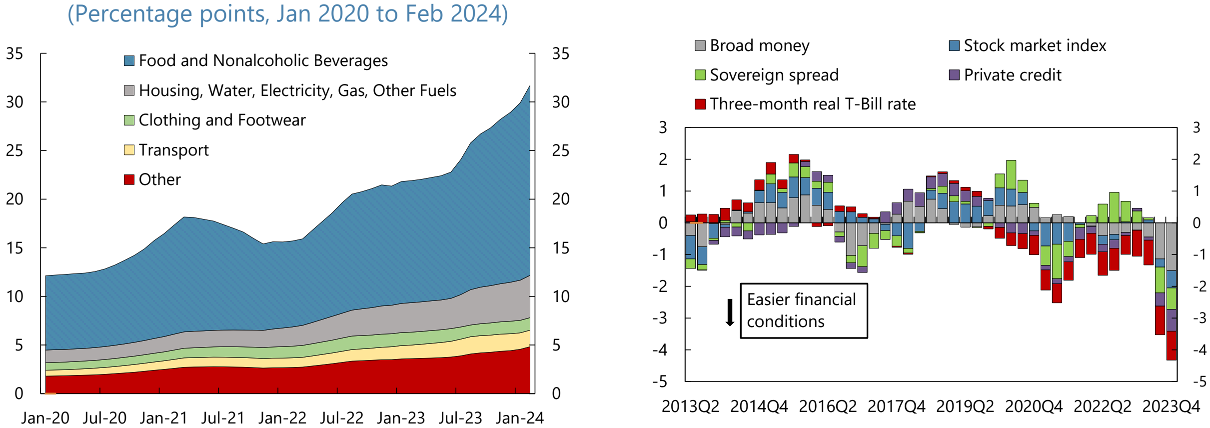
**5. Headline inflation reached 32 percent year-on-year in February 2024.** On the supply side, the continuous acceleration since 2022 reflects poor agricultural production (food inflation was 38 percent year-on-year, core inflation 25 percent in February), higher energy and transportation costs following the fuel subsidy reform and pass through from naira depreciation (Text Figure 2). Reacting to accelerating food prices, the authorities are enforcing a food (grains) export ban, a measure that can exacerbate economic distortions. Financial conditions remained loose in 2023, contributing to naira weaknesses and accelerating inflation (Annex IV). With continued monetary tightening, inflation is projected to gradually decline to 24 percent year-on-year at end-2024, helped by base effects.

**Text Figure 2. Nigeria: Inflation and Financial Conditions**

**Contribution to Inflation**

(Percentage points, Jan 2020 to Feb 2024)

**Financial Conditions Index**

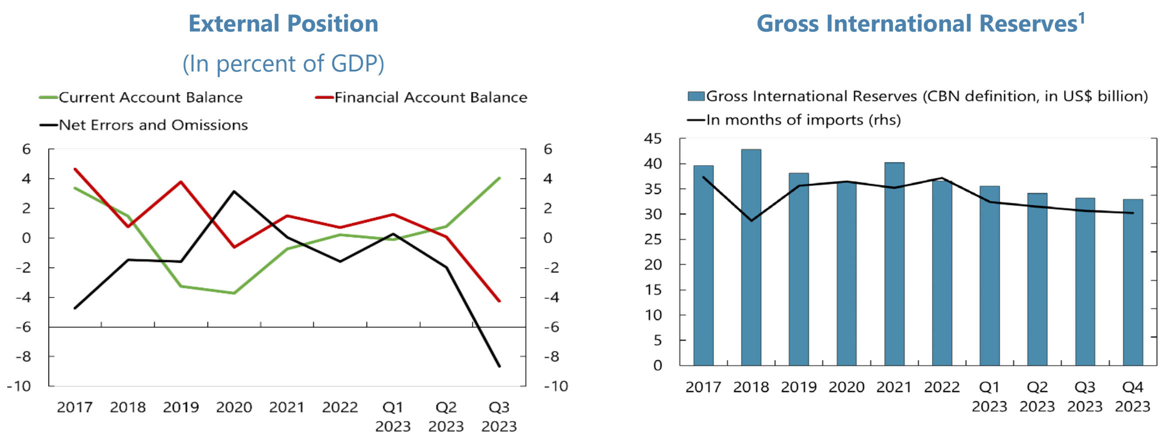



Sources: Bloomberg, Haver Analytics, National Bureau of Statistics, Fund Staff calculations and estimates.

**6. Revenue collection strengthened and expenditure leakages were reduced in 2023**. As a result, the fiscal deficit fell to 4.8 percent of GDP from 6.7 percent of GDP in 2022 when measured from the financing side. Hydrocarbon revenue was largely driven by the depreciation effect. Enhanced revenue administration and naira depreciation yielded 0.8 percent of GDP increase in non-oil revenues. Expenditure rationalization and restraint allowed for a one-off wage award to buffer the impact of high inflation for civil service staff. The deficit was financed mainly from domestic sources, as anticipated external financing did not materialize. Monetization of the fiscal deficit continued through May 2023 to the tune of 2.6 percent of GDP—before the new government took over—and was reduced by the new economic team to 2.2 percent of GDP for the year as a whole. Government debt rose by 7 percentage points to 46 percent of GDP at end-2023, driven by naira depreciation.

**7. Gross international reserves (GIR) declined in 2023 (Text Figure 3).** The current account balance is estimated to have improved marginally in 2023 relative to 2022, with oil production recovering towards year-end and import compression in the non-oil and gas sector. The financial account worsened due to persistent capital outflow pressures, while FDI remained subdued. Errors and omissions are estimated at –$7½ billion at end-2023. The CBN-reported 30-day average of GIR declined by $3.6 billion in 2023 to $33 billion at end-December, covering around 5 months of imports and 81 percent of the IMF's ARA metric (61 percent of the ARA metric with oil buffer). Under the IMF's definition, GIR were $8 billion lower at end-October, based on information shared by the authorities at the time. With the $3.3 billion Afrexim Bank loan (Box 1), GIR are projected to stabilize around $33 billion at end-2024 and recover to $38 billion by 2029, with portfolio inflows and FDI gradually improving.

**Text Figure 3. Nigeria: External Sector**

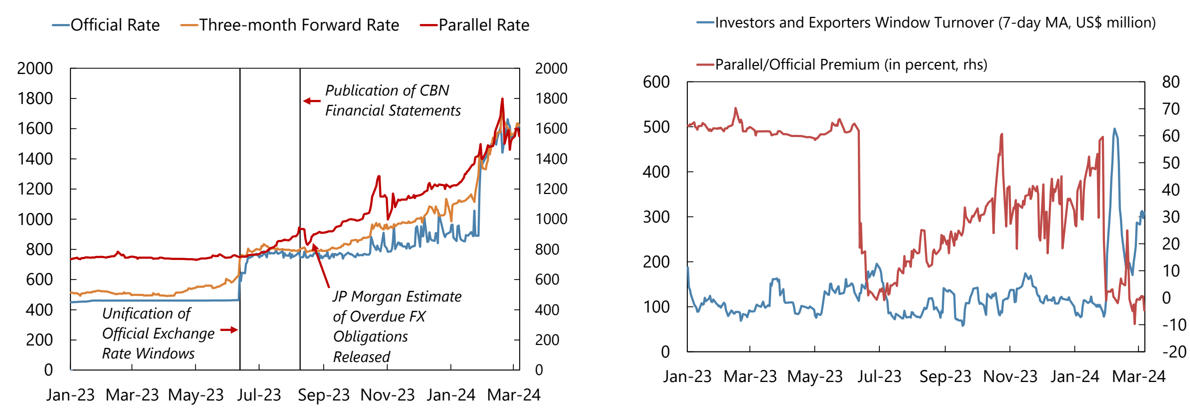



Sources: Central Bank of Nigeria, Fund staff estimates.
[1]Based on the IMF's definition, GIR were $8 billion lower at end-October 2023.

8. **Pressures on the naira persist notwithstanding substantial reforms.** The new CBN leadership has made wide ranging reforms to the exchange rate regime and the functioning of the FX market to address distortions from a tightly managed exchange rate that was assessed to be overvalued in real effective terms at end-2022. As a result, the naira depreciated by around 100 percent against the U.S. dollar from 461 naira/US dollar in May 2023 to 900 naira/US dollar at end-2023 after the unification of the official foreign exchange windows in June 2023 (Text Figure 4). The exchange rate depreciated by another 40 percent in January/February 2024, while the parallel market premium narrowed to -5 percent at end-February, following further regulatory changes to improve transparency in pricing. In March, the naira strengthened further following the February MPC decision and CBN fx sales to Bureaux de Change operators and banks which the authorities note were intended to inject liquidity.

**Text Figure 4. Nigeria: Exchange Rates and Foreign Exchange Market Turnover (January 3, 2023, to March 8, 2024)**

**Naira-USD Exchange Rate** | **I&E Turnover and Parallel Market Premium**




Sources: Nigerian authorities and Fund staff calculations

**9. The financial sector remains stable, with asset quality expected to deteriorate and pockets of risk emerging.** At end-2023, most commercial banks reported profits thanks to FX valuation gains, and banks' capital adequacy ratio (CAR) improved to 13.3 percent.[4] Three commercial banks that were unable to meet capital requirements have been placed under a special supervisory regime. Two development finance institutions are severely undercapitalized. Last year, CBN revoked the licenses of 132 insolvent microfinance banks, four mortgage banks, and three finance companies. NPLs stood at 4 percent for commercial banks but are rapidly increasing at microfinance banks (14 percent), development finance institutions (19 percent), and mortgage banks (20 percent). Fund CD has revealed that some commercial banks have delayed NPL recognition by granting bullet loans. Pension fund administrators are the second largest institutional investors after banks and realized negative real rates of return due to high inflation and naira depreciation.

**10. Authorities' Views.** The authorities aim for higher growth over the medium-term on the back of reforms under preparation, noting that measures to increase dry-season agriculture and increasing hectares under cultivation will significantly improve output and food security. They also expect further gains in oil production once new investment projects commence. The authorities target a faster pace of disinflation, expecting swift improvements in monetary transmission.

# RISKS

**11. Near-term risks to the outlook are to the downside.** The RAM (Annex V) illustrates the challenging environment faced by the authorities.

- *Worsening food insecurity.* Continued naira depreciation and food price inflation, weaknesses in the agricultural sector—including from deteriorating security or another weather shock—or a

[4] The minimum CAR is 15 percent for banks with international operations and 10 percent for others.

renewed spike in global commodity prices could worsen food insecurity, giving rise to higher social spending needs amidst limited fiscal space.

- *Reform pauses or policy reversals*. Sustaining the reform momentum could become challenging if food insecurity becomes worse or growth declines sharply. Rolling out the social protection system can mitigate this risk.
- *Oil production shocks*. An adverse oil production—e.g., if onshore security conditions worsen again—or price shock would hit fiscal revenue, inflation, and the exchange rate.
- *External risks.* Intensification of regional conflicts such as Russia's war in Ukraine or tensions in the Middle East could disrupt trade flows, affecting critical supply chains, and financial flows. Increases in non-fuel commodity prices could fuel inflation.

**12. Governance challenges and AML/CFT deficiencies pose risks to cross-border payments and borrowing costs.** Nigeria was listed by the FATF in 2023 for increased monitoring due to strategic AML/CFT deficiencies ("grey listing"). While Nigeria has made progress in addressing identified deficiencies, lack of sustained action could impact correspondent banking relationships and financial flows. Financial integrity events due to weak AML/CFT preventive controls or ineffective risk-based supervision may impact financial stability.

**13. Nigeria also faces significant long-term risks.** Climate change is already adversely affecting agriculture and could impact coastal areas. Diversification away from the hydrocarbon sector becomes necessary if the global energy transition gathers momentum, though for now, hydrocarbon revenues remain key for fiscal and external sustainability.

**14. On the upside, determined and well-sequenced implementation of the authorities' policy intentions would pave the way for faster, more inclusive, resilient growth.** A package of policies that restores macroeconomic stability through a tightening of policies to rein in inflation and reduce naira pressures, combined with structural reforms to ease trade barriers, strengthen the business environment, and support climate resilience will boost confidence, increase investment, and incentivize job creation. Addressing the security challenges in the agriculture and oil sectors is critical. Efforts to strengthen FX inflows from hydrocarbon exports, including by further enhancing transparency, would improve the fiscal and external balances.

**15. Authorities' Views.** The authorities broadly agreed with the risk assessment, including the urgency of responding swiftly to food insecurity. They emphasized that policies are already geared towards addressing these risks and restoring macroeconomic stability, while driving a sustained growth acceleration. They emphasized risks to external stability from illicit flows, including through crypto asset platforms, which they are addressing.

# POLICY DISCUSSIONS

*Acknowledging that the authorities inherited a difficult economic situation marked by deep-rooted imbalances that were built up over years and low growth, discussions focused on how Nigeria can tackle three interlinked macroeconomic policy challenges: acute and rising food insecurity; high and accelerating inflation and naira pressures; and low revenue mobilization.*

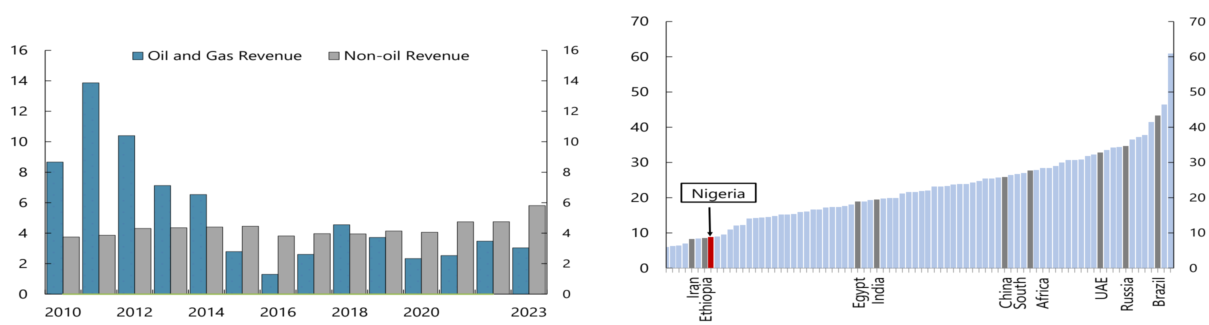
## A. Fiscal Sustainability for Inclusive Growth

**16. Fiscal policy needs to support vulnerable households, create space to boost social and development spending, and maintain debt sustainability**. Fiscal policy is held back by one of the lowest revenue takes in the world of 9.4 percent of GDP in 2023 (Text Figure 5). As the government finalizes and presents its reform agenda, sequencing will be key to ensure safety nets are in place or strengthened before proceeding with other measures that could adversely impact poor and vulnerable households.

**Text Figure 5. Government Revenue**

**Nigeria: Oil and Non-Oil Revenue**
(in percent of GDP)

**General Government Revenue**
(in percent of GDP, 2022)




Sources: Nigerian authorities' data, IMF World Economic Outlook October 2023

**17. Staff welcomed the authorities' ambitious revenue mobilization strategy under preparation.** Nigeria's Medium Term Economic Framework (MTEF) outlines reforms to improve domestic revenue mobilization and diversify the economy. A Presidential Committee on Fiscal Policy and Tax Reforms is developing a comprehensive revenue mobilization strategy which aims to simplify the tax structure and revamp key tax legislation for which the Fund stands ready to provide CD or desk reviews. Staff notes that achieving fast and large revenue gains as envisaged by the authorities will require determination and political capital. Staff welcomes the authorities' cautious approach of making additional spending conditional on having achieved revenue gains. Budget credibility can be enhanced through improvements in fiscal reporting and monitoring, and reporting of fiscal risks from PPPs can be enhanced, as identified by Fund CD support.

**18. Revenue measures in 2024 focus on revenue administration and base broadening.** The authorities aim to ease payment of tax remittances from Ministries, Departments, and Agencies, leverage technology and third-party reporting to broaden the tax net and enhancing excise collections by transferring administrative responsibilities to the Federal Inland Revenue Service. Excises on telecommunications, lotteries, and gambling are under consideration but have been delayed. The authorities' planned reforms in 2025 include raising the VAT rate—while introducing input credits for services and assets—increased excises on tobacco and alcohol, and rationalization of tax incentives accompanied by a reduction of the corporate income tax (CIT) rate to enhance competitiveness. Staff revenue projections reflect these policy intentions of the authorities—estimated gains compare well with what peers have achieved. Staff stressed that it will be important to have these measures finalized, quantified, and adopted with the 2025 budget.

**Text Table 2. Nigeria: Revenue Mobilization, 2024–29**

(in percent of GDP)

| | 2024 | 2029 |
|---|---|---|
| **Revenue measures included in projections** | 0.3 | 2.1 |
| CIT - compliance improvement | 0.0 | 0.2 |
| VAT - rate increase and base broadening | 0.1 | 1.2 |
| Customs revenue - efficiency improvement | 0.0 | 0.3 |
| FGN independent revenues/others | 0.2 | 0.3 |
| **Possible additional measures** | | 0.5 |
| Excise base broadening | | 0.2 |
| Excise rate increases | | 0.3 |

Note: The baseline assumes an increase in the VAT rate from 7.5 percent to 10 percent in 2025, and to 15 percent in 2026.

**19. Staff proposed targeting a decline in the Federal Government of Nigeria (FGN) interest-to-revenue ratio as a guide to medium-term fiscal policy direction.** This would create fiscal space, address a core fiscal vulnerability and is relatively simple to implement. With the authorities' revenue agenda under preparation (Text Table 2), the FGN interest-to-revenue ratio declines from 88 percent in 2022 to 67 percent in 2026 before increasing again in staff's projection. To keep the ratio on a downward trend towards the range achieved by peers, further revenue effort will be needed over the medium-term.

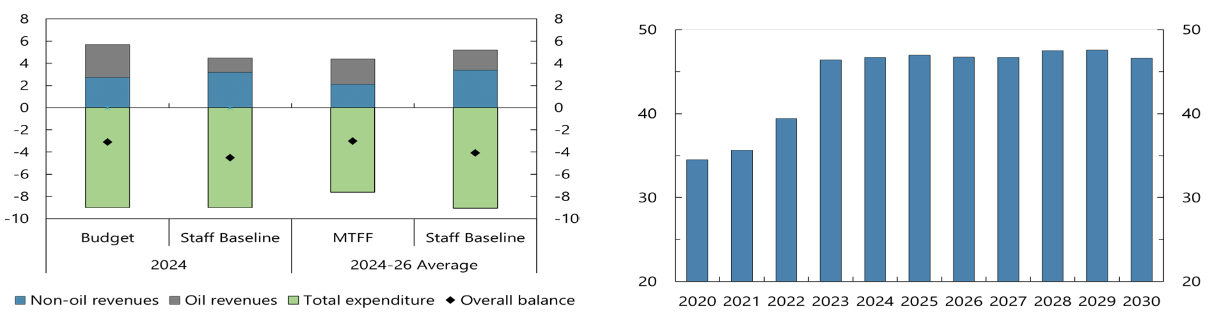
**20. Expenditure reprioritization is needed to create space for social protection and other priority spending**. The authorities have recently approved an enhanced social transfer mechanism developed with World Bank support, and some initial payments have been made. In response to governance concerns, the authorities automated and digitalized the system to build a robust mechanism that delivers swift and targeted support to vulnerable households—some 15 million households or 60 million Nigerians potentially benefit from the scheme. Once the safety net has been scaled up and inflation subsides, the government should tackle implicit fuel and electricity subsidies. With pump prices and tariffs below cost-recovery, implicit subsidy costs could increase to 3 percent of GDP in 2024 from 1 percent of GDP in 2023. Staff noted that these subsidies are costly and poorly targeted, with higher income groups benefiting more than the vulnerable. Budget credibility can be enhanced through improvements in fiscal reporting and monitoring, including on fiscal risks from PPPs, as identified by Fund CD support.

**21. Staff projects a higher fiscal deficit than anticipated in the 2024 budget, but broadly unchanged from 2023** (Text Figure 6). The drivers are: (i) lower oil/gas revenue projections, reflecting IMF oil price forecasts but incorporating recent production gains; (ii) higher implicit fuel and electricity subsidies; (iii) continued suspension of excise measures included in the MTEF; and (iv) higher interest costs. In addition, the authorities noted that a supplementary budget may be needed to accommodate the outcome of the ongoing wage structure negotiations which may exceed what they had included in the 2024 budget. Staff factors in an under-execution of capital expenditure in line with past outcomes and estimates an FGN deficit of 4.5 percent of GDP relative to the 2024 budget target of 3.4 percent of GDP. For the consolidated government, this implies a projected deficit of 4.7 percent of GDP in 2024—compared to 4.8 percent of GDP in 2023 measured from the financing side—which is appropriate given the large social needs and factoring in a realistic pace of revenue mobilization. Over the medium-term, staff projects consolidation in the non-oil primary deficit. With rising interest costs, government debt stabilizes towards the end of the projection period.

**Text Figure 6. Baseline Fiscal Projections and Government Debt**

**Nigeria: Staff Baseline vs MTFF**
(in percent of GDP)

**Public Gross Debt[1]**
(in percent of GDP)




Sources: Nigerian authorities; and Fund staff calculations and projections.
[1] Gross debt figures for the Federal Government and the public sector include overdrafts from the Central Bank of Nigeria (CBN).

**22. Staff projects that the government's 2024 net financing needs can be met from the market and external borrowing.** Domestic market financing needs increase by 1.5 percent of GDP over 2023. Based on staff's projections, the authorities must raise the domestic and external borrowing ceilings to prevent renewed recourse to CBN financing. With higher interest rates, banks and nonbanks should have sufficient appetite—as indicated by market sources—conditional on careful management of system liquidity, including a likely reduction in the currently high cash reserve requirement (CRR). In addition, the government wants to retire outstanding ways and means borrowing from the CBN of 2.5 percent of GDP through the issuance of further domestic securities. While staff agrees that ways and means financing should be brought to zero by end-2024 in line with the law, the authorities may need to consider other options to avoid crowding out private sector credit, including drawing down the government's deposits at the CBN built up in 2023 or a second securitization operation to tackle this legacy problem. While external financing is costlier than when Nigeria last accessed Eurobond markets, staff supports an opportunistic issuance, also given upcoming maturities in 2025. A Eurobond issuance and some official financing are factored into staff's projections as an integral part of the 2024 financing mix.

**Text Table 3. Nigeria: Consolidated Government Deficit and Financing**

(in percent of GDP)

| | 2020 Act. | 2021 Act. | 2022 Act. | 2023 Est. | 2024 Proj. | 2025 Proj. |
|---|---|---|---|---|---|---|
| Overall deficit | 5.6 | 5.5 | 5.4 | 4.2 | 4.7 | 4.2 |
| Statistical discrepancy | 1.0 | 0.3 | -1.3 | -0.6 | ... | ... |
| Overall deficit (financing side) | 4.6 | 5.2 | 6.7 | 4.8 | 4.7 | 4.2 |
| Financing | 4.6 | 5.2 | 6.7 | 4.8 | 4.7 | 4.2 |
| External | 1.3 | 1.8 | 1.6 | 0.3 | 0.8 | 1.5 |
| Domestic | 3.2 | 3.4 | 5.1 | 4.5 | 3.8 | 2.7 |
| Bank financing | 0.8 | 1.6 | 4.6 | 4.0 | 1.2 | 0.7 |
| Commercial banks | -0.3 | 0.2 | 1.3 | 1.8 | 3.7 | 0.7 |
| CBN | 1.1 | 1.3 | 3.3 | 2.2 | -2.5 | 0.0 |
| Nonbank financing | 1.4 | 1.7 | 0.3 | 0.5 | 2.6 | 2.0 |

Sources: Nigerian authorities; and Fund staff calculations and projections.

23. **The debt-to-GDP ratio increased in 2023 but is expected to stabilize in the medium term (Annex VI).** The authorities' debt management strategy has maintained an average debt maturity of about 13 years and low gross financing needs which reduces risks. Near-term risks are amplified by global uncertainty and exchange rate depreciation. With monetary tightening and elevated external financing costs, interest expenditures will go up. The authorities are updating their Medium-Term Debt Strategy with IMF/WB CD, seeking to increase issuance of medium-term securities and Eurobonds, while maximizing multilateral and bilateral support. The government plans to issue domestic FX securities to bring onshore dollar liquidity to the official market, which could lead to market fragmentation, increase the cost of naira securities, and add to pressures on the naira.

24. **Authorities' Views.** The authorities agreed with the importance of sequencing reforms in a pro-poor manner, emphasizing that strong governance is crucial for spending efficiency. They were confident that their revenue mobilization agenda will lead to significant gains, pointing to what they have already achieved since taking office, and that there is sufficient scope for market financing, noting that they are exploring a Eurobond issuance. The authorities reiterated their commitment to phasing out deficit monetization which they recognized as an inflation driver.

## B. Reducing Inflation and Enhancing the Monetary Policy Framework

25. **Monetary policy has been tightened.** Since late 2023, the CBN has mopped up liquidity through open market operations (OMOs). The new Monetary Policy Committee (MPC) increased the policy rate at its first meeting in February 2024 by 400 basis points and in March by another 200

basis points—a cumulative tightening of 1,325 bps since May 2022—to 24.75 percent, still lower than the February inflation print, but now positive in real terms on an ex-ante basis. In February, the MPC widened the interest rate corridor from +100/-300 to +100/-700, maintaining the standing deposit facility rate constant which in staff's view would increase volatility in the interbank market and is being interpreted as running counter to the overall tightening direction.[5] The March MPC appropriately returned the corridor to +100/-300 bps, supporting policy tightening. In a meeting-by-meeting and data dependent approach, the MPC should review and calibrate the pace and extent of further monetary tightening to ensure that inflation is put on a firm downward path. In parallel, the CBN should continue to monitor and manage the liquidity situation to contain excess reserves, using short-term OMO instruments.

26. **Going forward, monetary policy can rely increasingly on the policy rate and OMOs.** So far, the CBN also relied on the cash reserve requirement (CRR) to manage excess liquidity. The MPC hiked the CRR to 45 percent in February from an already high level of 32.5 percent. With reforms to strengthen the functioning of the domestic securities markets, the CBN can rely on its policy rate and short-term OMOs for monetary policy purposes. The CRR could then be refocused on financial stability considerations, with staff welcoming the removal of the daily CCR debits which facilitates banks' liquidity management. Staff recommended removal of the loan to deposit ratio (LDR) floor of 65 percent—now inconsistent with the CRR—which pushes banks into fixed income instruments over asset quality concerns and exerts downward pressure on yields.

27. **The CBN has developed a preliminary roadmap for moving to an inflation targeting framework.** Inflation targeting requires fundamental changes at the CBN and would have implications for fiscal policy (Annex VII). These reforms can be implemented independently and concurrently to deliver immediate benefits, particularly, bolstering central bank credibility. The Fund will provide CD on developing the relevant institutional framework and tools and has already supported the development of an empirical model to guide forward-looking policy setting.

28. **Authorities' Views.** The authorities agreed with the need to tighten monetary policy and make the policy rate positive in real terms, while staying data dependent. They see the CRR and OMO issuances as the main instruments to manage liquidity.

## C. Safeguarding External Stability

29. **Nigeria's external position remains vulnerable.** The external position is assessed to be moderately weaker than warranted by fundamentals and desired policy settings (Annex VIII). Model-based estimates indicate that the real effective exchange rate (REER) was overvalued by 6 percent at end-2023. Nominal depreciation in the second half of 2023 has reduced the REER overvaluation compared to the 2022 assessment (23 percent), and the further nominal depreciation in early 2024 would further reduce the REER overvaluation. Pressures on the naira amidst low foreign exchange

[5] Widening of the corridor likely reflects CBN concerns over the costs of sterilization and attempts to redirect liquidity more towards the SLF.

market turnover pointed to continued shortages of dollars. Large and persistent net errors and omissions suggest a degree of uncertainty over the assessment. While Nigeria maintains inflation differentials with trading partners, there will be a tendency for the nominal exchange rate to depreciate.

**30. The authorities are taking measures to rebuild confidence, strengthen FX liquidity and enhance the functioning of the FX market.** Meeting pent-up FX demand to repatriate profits, dividends, management fees or to unwind positions would strengthen investor confidence, and there are anecdotal indications that this demand is now being met. The authorities plan to adopt the FX Global Code, a set of international best practices for the wholesale FX market. Considering exchange rate developments over the last two years, Nigeria's de facto exchange rate arrangement is reclassified to "other managed" from "crawl-like", effective February 1, 2023.[6]

**31. The authorities have lifted the exchange restrictions on 43 import items to source FX in the official market but maintain several capital flow management measures (CFMs)**. In October 2023, the CBN lifted the exchange restriction that resulted from a list of 43 items that could not source fx in the official market, which also included Eurobonds and foreign currency bonds/shares. Given certain provisions in other CBN FX regulation, staff is seeking additional clarification whether the CFM could be considered fully removed. The payment limits on naira-denominated credit and debit cards for overseas transactions have not been changed and continue to be considered a CFM. The requirement for International Oil Companies (IOCs) to hold a portion of repatriated export proceeds in Nigeria for 90 days before transferring offshore is assessed as an outflow CFM under the Institutional View, and this measure has been tightened (on February 14, 2024) as authorities now allow only 50 percent of export proceeds to be repatriated immediately as opposed to 80 percent previously. The updated limits on the net open positions for banks introduced in January are also assessed to be a CFM. The CBN believes this measure will help minimize the negative impact on the liquidity of the Nigerian fx market due to cash pooling to offshore accounts of these companies.[7] Staff recommend the phasing out of CFMs be done in a properly timed and sequenced manner. This would require considering external vulnerability risks and progress made with reforms to foster necessary institutional and financial development and in line with the IMF`s Institutional View on Liberalization and Management Capital Flows.

**32. Staff welcomes the authorities' sequential reforms that have strengthened price discovery in the foreign exchange market and reduced distortions, to transition to a market-**

[6] The reclassification is based on a statistical methodology that is implemented by staff evenhandedly across member countries. The methodology follows a backward-looking statistical approach that relies on past exchange rate movement and historical data. Therefore, this reclassification does not imply statements or views on future or intended policies nor does it imply a policy commitment on the part of the country authorities.

[7] Staff assessment on the requirement for CBN approval for early redemption of Eurobonds by banks, introduced in January 2024, is currently ongoing under the Institutional View for Liberalization and Management of Capital Flows.

**determined exchange rate.** In light of these reforms, staff assessed Nigeria's FX system from an Article VIII perspective (Informational Annex).[8]

- Staff concluded that two of the three longstanding exchange restrictions maintained by Nigeria have been eliminated. In discussions with the authorities and with market participants, staff confirmed that (1) the CBN no longer rations or prioritizes access to FX and does not provide guidance to banks on the allocation of FX on a priority basis; and (2) the previous list of items for which FX could not be purchased to pay for imports has been abolished by the CBN.

- The exchange restriction arising from the absolute limits on the amounts of FX available for traveling abroad (business or personal travel allowances) which cannot be exceeded even upon verification of the bona fide nature of the transaction remain in place. Staff made several new findings of exchange restrictions under Article VIII, Section 2(a) of the Articles, which arise due to limitations or prohibitions on the availability of FX for certain current international transactions.[9]

- All multiple currency practices (MCPs) that existed in Nigeria at the time of the 2022 Article IV consultation have been eliminated. Two MCPs were eliminated in June 2023 due to the actions taken by the authorities, and two MCPs were considered eliminated in line with the IMF's new MCP policy (see Informational Annex).

- The FX landscape continues to evolve rapidly in Nigeria with fast-paced implementation of reforms, and staff will closely monitor developments and assess their implications as appropriate.

Staff recommend eliminating the remaining legacy exchange restrictions on payments and transfers for current international transactions as conditions permit.

**33. Rapid growth of transactions on FX trading platforms poses new challenges**. At the end of February, the authorities closed the operations of Binance and other crypto-asset trading platforms that were being used by Nigerians to facilitate capital flight—neither the identity of traders nor the origin of their funds could be traced. The authorities also revoked the licenses of 4,173 BDCs that failed to comply with CBN accounting and reporting requirements. Staff recommends that global crypto trading platforms be registered or licensed in Nigeria and subject to the same regulatory requirements applicable to financial intermediaries following the principle of

[8] The assessment was based on a review of the provided legal framework governing Nigeria's FX system and its implementation, information provided by the authorities, as well as obtained in discussions with market participants and other relevant actors.

[9] These new findings of exchange restrictions are those arising from: (1) the monthly absolute limit on the availability of FX for the making of payments in respect of foreign mortgages, which cannot be exceeded even upon verification of the bona fide nature of the transaction; (2) the unavailability of FX as a PTA for persons aged under 18 years when travelling abroad; (3) the requirement to use only own funds to pay for certain current international transactions; (4) the unavailability of FX for resident Nigerian nationals to purchase and transfer abroad moderate amounts for family living expenses; and (5) discretionary CBN approval to access FX to make payments for certain current international transactions..

same activity, same risk, and same regulation. Moreover, the authorities should ensure the application of AML/CFT preventive controls by crypto trading platforms and other virtual asset service providers through effective AML/CFT risk-based supervision.

**34. The CBN has recently conducted one sided interventions in the FX market to provide liquidity, after a prolonged absence.** Staff encourages the CBN to develop an explicit and transparent FXI strategy, which sets out a volatility metric and threshold that would trigger an intervention. Furthermore, FXIs should be conducted through an auction mechanism at market-based rates, with ex-post announcement of intervention amounts and rates. Such interventions should be symmetrical and temporary, which would also help preserve reserves. Interventions should not be used as a substitute for required macroeconomic policy adjustment needed to restore internal and external stability.

**35. There is a risk that ongoing work by members of the legislature to amend the CBN Act could weaken the central bank's governance and autonomy**. Several elements in the current draft Bill as disclosed in the public domain would, if enacted, significantly weaken the institutional framework and its independence, e.g., the envisaged 'Coordinating Committee for Monetary and Fiscal Policies' chaired by the Minister of Finance could undermine the autonomy of the CBN and its Monetary Policy Committee, which is separately chaired by the Governor of the CBN. The draft bill also does not include recommendations by the Safeguards Assessment.

**36. Progress on implementing recommendations from the 2021 Safeguards Assessment of the CBN has been limited**. While the CBN has published recent annual financial statements and announced plans to phase out development lending and monetary financing, other recommendations remain outstanding. Further the CBN should fully adopt International Financial Reporting Standards to enhance transparency. Staff continues to engage with the authorities on the outstanding recommendations, including on the CBN Act.

**37. Authorities' Views.** The authorities agreed with the importance of maintaining external stability and emphasized that the reforms which they have implemented as well as efforts to bring in FX liquidity—including the requirement for international oil companies to hold 50 percent of repatriated oil receipts in Nigeria for 90 days—are geared towards that end. They see pressure on the exchange rate now coming from illicit flows, including through crypto asset platforms, and not being driven by fundamentals, noting that some ceilings on FX access are intended to curb abuse. The authorities disagreed with the proposed reclassification of the de facto exchange rate which they consider backward looking, emphasizing that in their view, the exchange rate is entirely market determined and should be classified as a floating regime.

## D. Enhancing Financial Stability and Inclusion

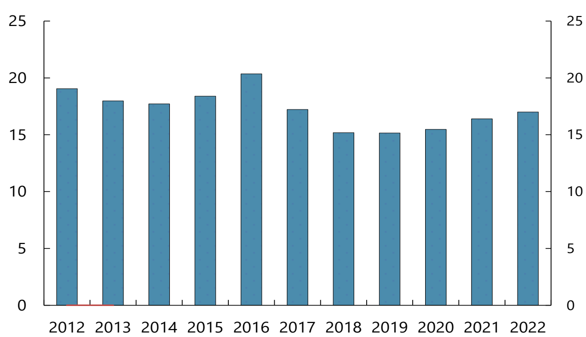
**38. The authorities are closely monitoring credit and market risks in financial institutions.** The Ministry of Finance, CBN, Securities Commission of Nigeria, Insurance Commission of Nigeria, Pension Commission of Nigeria, and Nigeria Deposit Insurance Corporation meet monthly to examine and mitigate risks across the entire financial system. Banks' lending portfolio accounts for only 30 percent of their assets and is concentrated on large corporate clients and public sector entities. The latest monthly CBN stress tests (January 2024) showed that in the event of a sharp increase in interest rates and further currency depreciation of 50 percent, four commercial banks would face a capital shortfall. These banks have been asked to build additional capital buffers, including from FX gains. Regulatory forbearance introduced during the COVID-19 pandemic, such as light loan classification rules, are still in place and should be phased out. With developments in February similar to the January stress testing parameters, the next exercise is likely to identify further weaknesses. The authorities should continue monitoring banks' ability to manage their interest rate exposure in both the lending and investment portfolio.

**39. Staff welcomed the authorities' intentions to increase banks' minimum capital.** Nigeria is working towards implementation of the CBN's Basel 3 capital framework which will require banks to build additional capital buffers to mitigate credit, market, and operational risks.[10] The authorities plan to increase the deposit insurance coverage—currently at a maximum of N500,000 per deposit—to strengthen confidence in the banking system. Nigeria's ambitious goal of reaching a US$ 1 trillion economy by 2030 requires a banking system with higher levels of capital to serve the financing needs of the private and public sector. Financial depth and intermediation remain low with bank assets at 20 percent of GDP (Text Figure 7).

**Text Figure 7. Nigeria: Banking System**

**Bank Assets to GDP**

(in percent)




**Financial System Composition**

| Institutions | Number | Share of assets (in percent) |
|---|---|---|
| Commercial banks | 24 | 72 |
| Merchant banks | 6 | 5 |
| Islamic banks | 3 | 5 |
| Development finance institutions | 6 | 6 |
| Microfinance banks | 893 | 2 |
| Bureau de change | 5,500 | … |
| Pension fund managers | 24 | 10 |
| Fintech | 250 | … |

Sources: World Bank, Nigerian authorities' data, Fund Staff estimates

**40. Improving the functioning of the government securities market will enhance the monetary transmission mechanism and attract foreign investors.** The authorities have allowed yields to rise in January and February and should ultimately ensure that the monetary policy rate anchors the yield curve, providing a benchmark for pricing lending products and capital market instruments. Liquidity in the government securities market is limited, with domestic institutional

[10] Currently, banks are reporting capital domestically under the Basel 2 and a pilot Basel 3 frameworks. Basel 3 implementation stalled during the COVID 19 pandemic. Subsidiaries of regional or international banks mostly already report under Basel 3 in line with the requirements of the jurisdiction where their parent is headquartered.

investors—banks and pension funds—typically holding to maturity.[11] Foreign participation in the domestic bond market has been marginal due to problems faced by investors to repatriate their capital. Enhanced market liquidity combined with competitive yields and naira stability, will make the domestic government securities market attractive for foreign investors again. This, in turn, would mitigate risks from the sovereign-bank nexus.

**41. Financial innovation is a core pillar of the authorities' strategy to increase financial inclusion**. The share of the adult population with a bank account reached 52 percent in December 2023, a large part of the population does not have access to credit nor insurance products. Following the 2004 pension reform, nine million formal sector workers (13 percent of the labor force) have enrolled in the pension system. To enhance financial inclusion, CBN is promoting the use of digital financial services. The authorities are preparing a financial inclusion strategy focusing on increasing the use of credit and adoption of non-bank products, such as life and non-life insurance, and scaling up the micro-pension scheme for self-employed individuals and workers in the informal sector. The revision of the e-naira's features should help increase its use in both retail and wholesale payment transactions (Annex IX), however, ensuring appropriate AML/CFT safeguards continues to be key.

**42. The CBN's decision to phase out its development finance activities is welcome**. These activities (5.5 trillion naira) will be transferred to development finance institutions, owned jointly by MOF and CBN, and private financial institutions. An orderly transfer of the portfolio is key to avoiding interruption of credit flows to agriculture and small and medium enterprises. Undercapitalized financial institutions should not be eligible to absorb CBN's portfolio. The CBN's lending programs have been traditionally done on concessional terms. The authorities will have to decide if new lending will continue to be concessional and how costs would be accommodated. Staff suggests limiting concessionality to clear areas of market failure.

**43. Authorities' Views.** The authorities shared staff's risk assessment and agreed with the need to increase banks' capital, noting actions already taken. They stressed the importance of growing the banking system to become an engine of growth, and pointed to ongoing work to dismantle controls and regulations that prevented the emergence of a market-based financing in the past.

## E. Advancing Governance Reforms

**44. Nigeria has made welcomed progress on improving its AML/CFT framework, but further action is needed in line with FATF recommendations.** Nigeria has undertaken a series of measures including legislative reform, conducted a money laundering and terrorism financing risk assessment, built awareness for competent authorities and the private sector, and increased investigation and prosecution of money laundering to correct identified deficiencies in the AML/CFT framework. Sustained action is key to exiting the FATF "grey list" and preventing negative

[11] Banks hold about 20 percent of their assets in government securities. Pension funds are required to only invest in naira securities and hold up to 70 percent of their portfolio in government securities.

repercussions on the economy, including on cross-border payments and costs of borrowing. Continued action to strengthen the AML/CFT framework, such as improved application of key preventive measures (e.g., identification/verification of beneficial ownership information, measures to mitigate risks related to politically exposed persons, and reporting of suspicious transactions), effective AML/CFT risk-based supervision and sustained increase in investigations and prosecutions, can also help improve tax compliance and anti-corruption efforts.

**45. Addressing governance weaknesses, corruption vulnerabilities and strengthening the rule of law will help unlock Nigeria's growth potential** (Annex X). The authorities have made progress on strengthening legislation, including the Petroleum Industry Act, AML Act, and Proceeds of Crime and Management of Assets Act, the NFIU Act and amendments to the Companies and Allied Matters Act, as well as the establishment of its beneficial ownership register. Reforms to the mineral mining laws to modernize the industry and introduce stronger governance controls, should be accelerated to strengthen the investment climate in the sector. Reforms to the 2007 NEITI law should include stronger enforcement powers and monitoring compliance. Transparency measures in the revised mineral and NEITI law should be in line with international best practice. Other outstanding reforms, include removing legislative barriers to public access to the asset declarations of public officers, and delayed passage of the Federal Audit Service and the Whistleblower and Witness Protection Bills. Reforms should also enshrine the independence of the Economics and Financial Crimes Commission. Gaps are exacerbated by underfunding of agencies—a reflection of Nigeria's very constrained fiscal space. Judicial independence is weakened by the terms of appointment and dismissal, poor compensation, and unmanageable caseloads. In response the authorities are encouraging greater use of alternative dispute resolution mechanisms, such as mediation.

**46. Authorities' Views.** The authorities recognize the importance of strong governance for inclusive growth and highlight the far-reaching legislative agenda which has been advanced as well as progress on AML/CFT deficiencies. They pointed to automation and digitalization initiatives which they see as key to removing opportunities for corruption, including in the delivery of social transfers. They noted legal action taken to investigate potential corrupt practices, including against high-ranking officials.

## F. Revitalizing Growth and Tackling Climate Change

**47. Nigeria has an entrepreneurial private sector.** The new Dangote refinery—the largest on the African continent—has commenced operations (Annex XI). At full capacity, it is expected to meet Nigeria's domestic fuel demand, moving value-addition onshore and strengthening the current account. A second refinery in Port Harcourt is restarting production. Nigeria's vibrant startup ecosystem is one of Africa's largest funding destinations. Out of the four African fintech companies on CNBC's top-200 global list, two are Nigerian.

**48. Nigeria's Agenda 2050 aims to raise growth to 7 percent, reduce poverty and inequality, making Nigeria an upper-middle income country by 2050.** The Agenda appropriately highlights the importance of enhancing human capital to support the envisaged economic transformation. Staff welcomes the ongoing work to achieve higher and more sustainable growth along with substantial reductions in poverty, through broad based policy interventions including:

- Improved investment environment in the hydrocarbon sector through greater transparency, continued security improvements, and clarity on the fiscal regime for gas and deep-water projects.
- Increasing investments in irrigation, reducing high transport losses, and improving supply of inputs to the largely rain-fed agricultural sector.
- Facilitating investment and activity in the non-oil, non-agriculture economy, including in the dynamic services sector, to promote diversification.
- Increased investments to support higher electricity production and distribution.
- Increased financial inclusion and access to credit.
- Improving trading infrastructure and reducing the excessive regulatory burden.

**49. Nigeria is implementing measures to combat the impact of climate change**. The National Adaptation Plan aims to build resilience, easing the impact of rising temperatures and moderating the severity of more volatile precipitation on agriculture and essential services. The Climate Change Act, approved two years ago, is playing a key role in promoting a wholistic approach to tackling climate change bringing together the public and private sector in mainstreaming climate actions in economic development. Implementation of mitigation policies to reduce emissions to achieve net zero by 2060, would help spur growth in green technology, increasing employment opportunities and boosting economic growth.

**50. Authorities' Views.** The authorities stressed that raising growth was their central policy objective. They highlighted ongoing efforts in the oil, and agriculture sector which they view as critical to reducing food insecurity and increasing growth. They also emphasized efforts to enhance financial inclusion, streamline import and export trade processes, and advance climate resilience.

# STAFF APPRAISAL

**51. Staff welcomes the authorities' determination to push ahead with reforms to address distortions and bottlenecks that had been built up over years.** Achieving higher, sustainable and more inclusive growth, reducing poverty, and creating opportunities for Nigeria's growing population is a whole-of-government effort that requires coordinated policy actions across all areas. The government's initial reform of the fuel subsidy and the unification of the foreign exchange windows were bold steps on this path. The CBN has unequivocally committed to price stability as its core mandate.

**52. Monetary policy has appropriately taken the lead in restoring macroeconomic stability.** The CBN has decisively mopped up excess liquidity and subsequently raised the policy rate which will help lower inflation, and over time improve confidence in the naira. The CBN should stand ready to tighten further as needed to ensure that inflation is put on a firm downward path. At this juncture, strong communication including forward guidance is important to steer market expectations. Liquidity management should mainly rely on short-term instruments, while the use of the CRR can be redirected towards financial stability objectives. Staff supports the authorities' decision to adopt an inflation targeting regime, noting that this will require deep-seated reforms that take time, but will each enhance the effectiveness of monetary policy already in the process. Any amendments to the CBN Act should preserve the independence of the central bank.

**53. Rolling out social protection is a key near-term policy priority.** The approval of an improved social protection system developed with World Bank support is welcome, and swift implementation is crucial to mitigate acute food insecurity. This would complement the government releasing grains and fertilizers. As inflation subsides and support for the vulnerable is ramped up, costly and untargeted fuel and electricity subsidies should be removed, while, e.g., retaining a lifeline tariff.

**54. Further progress on revenue mobilization will generate fiscal space.** The government's work on a comprehensive revenue reform agenda is commendable and essential to create fiscal space for ramping up social and development spending in support of inclusive growth. Staff welcomes the authorities' commitment to meeting the government's financing needs from the market or official support and discontinuing deficit monetization which had been an inflation driver.

### Box 1. Afrexim Bank Loan

The African Export-Import Bank (Afrexim Bank) has arranged a syndicated US$3.3 billion crude oil prepayment facility sponsored by the Nigerian National Petroleum Company Limited (NNPCL). An initial disbursement of US$2.25 billion has been concluded in late December 2023 with funds deposited at the CBN on behalf of the Federal Government. A second tranche of US$1.05 billion is expected to be raised and disbursed in 2024Q1. The objective of the transaction was to bring in dollar liquidity and increase foreign exchange reserves through the forward sale of a specific number of barrels of crude oil (90,000 barrels of crude per day) to an offshore Special Purpose Vehicle (SPV). The loan has a maturity of 5 years with a quarterly debt service for principal and interest repayments. The interest rate is set at 6 percent per annum above the 3-month secured overnight financing rate.

The transaction is structured to ensure that the distribution of the net proceeds (after deducting debt service) from the sale of royalty and tax crude oil barrels accruing to the Nigerian Upstream Petroleum Regulatory Commission (NUPRC) and FIRS are paid into the Federation Account when such payments are due, as prescribed by the Petroleum Industry Act 2021. The transaction structure has an embedded price balance mechanism where 90 percent of all excess cash from the sale of the committed barrels (after debt service) will be released while the balance of 10 percent will be used to prepay the facility, helping to shorten the final maturity of the facility.

As the debt service of the loan is repaid from the sales proceeds of crude oil accruing to the Federation, the transaction reduces government's future oil revenue. Staff's macroeconomic projections reflect this understanding of the contractual situation and possible repayment modus.

**55. Staff assesses Nigeria's external position to be moderately weaker than warranted by fundamentals and desired policy settings.** Tightening macroeconomic policies will help reduce external vulnerabilities, and there is an urgent need to build reserves. Staff welcomes the steps taken to remove foreign exchange market distortions, multiple currency practices, and two exchange restrictions. Staff recommend eliminating the remaining legacy exchange restrictions, for which approval is not being sought, as conditions permit. Increasing dollar liquidity is important to stabilize the exchange rate. Domestic issuance of FX denominated government securities is likely to lead to market fragmentation and weaken the transmission mechanism. The CBN should develop an FXI framework to smooth excess naira volatility, given the shallow nature of the FX market.

**56. Nigeria's financial system remains vulnerable to credit and market risks but can become an engine of growth.** To ensure that banks are well-prepared to deal with rising NPLs, it is critical to increase banks' minimum capital and fully adopt the Basel 3 capital framework. Regulatory forbearance should be phased out, with continued tight supervision to mitigate emerging risks. A well-capitalized and regulated financial system is needed to facilitate a sustained growth acceleration. Staff welcomes the authorities' focus on increasing the use of credit, adoption of insurance products, and rollout of the pension scheme for self-employed and informal sector workers.

**57. Addressing structural issues, including governance, is crucial for inclusive growth.** Staff welcomes the progress on resolving AML/CFT weaknesses and stresses the importance of completing these reforms to achieve de-listing by the FATF and avoid any adverse impacts on cross-border payments and the costs of borrowing. Resources available to key anti-corruption bodies and agencies should be strengthened as fiscal space becomes available. The authorities should sustain improvements in security, boost agricultural productivity, improve the business environment including through increase access to credit and focus on building climate resilience.

**58. Staff recommend the standard 12-month cycle for the next Article IV Consultations.**

## Table 1. Nigeria: Selected Economic and Financial Indicators, 2020–29

| | 2020 Act. | 2021 Act. | 2022 Act. | 2023 Est. | 2024 Proj. | 2025 Proj. | 2026 Proj. | 2027 Proj. | 2028 Proj. | 2029 Proj. |
|---|---|---|---|---|---|---|---|---|---|---|
| **National income and prices** | (Annual percentage change, unless otherwise specified) | | | | | | | | | |
| Real GDP (at 2010 market prices) | -1.8 | 3.6 | 3.3 | 2.9 | 3.3 | 3.0 | 3.0 | 3.3 | 3.3 | 3.3 |
| Oil and Gas GDP | -8.9 | -8.3 | -19.2 | -2.2 | 5.6 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Non-oil GDP | -1.1 | 4.7 | 5.0 | 3.2 | 3.2 | 3.1 | 3.1 | 3.5 | 3.5 | 3.5 |
| Non-oil non-agriculture GDP | -2.4 | 5.7 | 6.2 | 3.9 | 3.2 | 3.1 | 3.1 | 3.5 | 3.5 | 3.5 |
| Production of crude oil (million barrels per day) | 1.77 | 1.51 | 1.38 | 1.50 | 1.65 | 1.65 | 1.65 | 1.65 | 1.65 | 1.65 |
| Nominal GDP at market prices (trillions of naira) | 154.3 | 176.1 | 202.4 | 234.4 | 296.4 | 344.6 | 395.1 | 449.1 | 507.0 | 571.7 |
| Nominal non-oil GDP (trillions of naira) | 144.1 | 166.4 | 190.4 | 221.3 | 271.0 | 316.7 | 364.9 | 416.9 | 474.8 | 539.5 |
| Nominal GDP per capita (US$) | 2,083 | 2,088 | 2,202 | 1,688 | 1,110 | 1,077 | 1,066 | 1,085 | 1,196 | 1,317 |
| GDP deflator | 7.8 | 10.1 | 11.3 | 12.6 | 22.4 | 12.9 | 11.3 | 10.0 | 9.2 | 9.1 |
| Consumer price index (annual average) | 13.2 | 17.0 | 18.8 | 24.7 | 26.3 | 23.0 | 18.0 | 14.0 | 14.0 | 14.0 |
| Consumer price index (end of period) | 15.8 | 15.6 | 21.3 | 28.9 | 24.0 | 19.0 | 17.0 | 14.0 | 14.0 | 14.0 |
| **Investment and savings** | (Percent of GDP) | | | | | | | | | |
| Gross national savings | 26.7 | 25.7 | 20.2 | 24.1 | 25.8 | 26.0 | 27.2 | 28.1 | 28.3 | 28.1 |
| Public | -2.1 | -2.0 | -2.4 | -0.4 | 0.0 | 0.6 | 1.4 | 1.1 | 0.6 | 0.6 |
| Private | 28.9 | 27.8 | 22.6 | 24.6 | 25.8 | 25.5 | 25.8 | 27.0 | 27.7 | 27.5 |
| Investment | 26.7 | 26.5 | 20.0 | 23.8 | 25.2 | 26.1 | 27.4 | 28.4 | 28.8 | 29.0 |
| Public | 2.5 | 3.0 | 2.5 | 3.2 | 3.4 | 3.8 | 4.1 | 4.1 | 4.0 | 4.1 |
| Private | 24.3 | 23.5 | 17.6 | 20.6 | 21.8 | 22.3 | 23.2 | 24.4 | 24.7 | 24.9 |
| **Consolidated government operations** | (Percent of GDP) | | | | | | | | | |
| Total revenues and grants | 6.5 | 7.1 | 9.0 | 9.4 | 12.4 | 12.8 | 13.3 | 13.2 | 12.7 | 13.1 |
| *Of which:* oil and gas revenue | 2.4 | 2.3 | 3.6 | 2.9 | 6.0 | 5.8 | 5.5 | 5.2 | 4.6 | 4.7 |
| *Of which:* non-oil revenue | 4.1 | 4.7 | 4.8 | 5.8 | 6.5 | 7.0 | 7.8 | 8.0 | 8.1 | 8.4 |
| Total expenditure and net lending | 12.1 | 12.6 | 14.4 | 13.6 | 17.1 | 17.1 | 17.0 | 17.1 | 17.1 | 17.5 |
| *Of which*: implicit fuel subsidies[1] | 0.1 | 1.1 | 2.2 | 0.8 | 2.8 | 1.5 | 0.0 | 0.0 | 0.0 | 0.0 |
| Overall balance | -5.6 | -5.5 | -5.4 | -4.2 | -4.7 | -4.2 | -3.7 | -3.9 | -4.4 | -4.4 |
| Non-oil primary balance | -5.9 | -5.4 | -6.8 | -4.5 | -7.1 | -6.2 | -5.3 | -5.1 | -4.9 | -4.8 |
| Public gross debt[2] | 34.5 | 35.7 | 39.4 | 46.4 | 46.7 | 47.0 | 46.8 | 46.7 | 47.5 | 47.6 |
| *Of which*: FX denominated debt | 8.2 | 9.0 | 9.2 | 16.3 | 19.0 | 20.3 | 21.4 | 22.6 | 24.1 | 24.5 |
| FGN interest payments (percent of FGN revenue) | 77.3 | 87.0 | 87.6 | 76.8 | 77.5 | 74.7 | 67.4 | 69.4 | 74.0 | 72.8 |
| **Money and credit** | (Change in percent of broad money at the beginning of the period, unless otherwise specified) | | | | | | | | | |
| Broad money (percent change; end of period) | 11.6 | 14.2 | 13.0 | 57.8 | 13.5 | 16.9 | 15.4 | 18.1 | 18.1 | 19.7 |
| Net foreign assets | 8.7 | 0.9 | -11.5 | 10.2 | 4.4 | 5.6 | 3.4 | 3.5 | 2.5 | 2.0 |
| Net domestic assets | 3.0 | 13.3 | 24.4 | 47.7 | 9.1 | 11.2 | 12.0 | 14.7 | 15.7 | 17.7 |
| *Of which:* Claims on consolidated government | -34.3 | 42.0 | 21.8 | 23.4 | 4.7 | 3.3 | 2.8 | 2.9 | 2.6 | 2.9 |
| Credit to the private sector (y-o-y, percent) | 15.8 | 25.9 | 19.9 | 42.1 | 16.3 | 22.7 | 24.2 | 24.5 | 24.6 | 25.0 |
| Velocity of broad money (ratio; end of period) | 3.7 | 3.7 | 3.7 | 2.7 | 3.0 | 3.0 | 2.9 | 2.9 | 2.8 | 2.6 |
| **External sector** | (Annual percentage change, unless otherwise specified) | | | | | | | | | |
| Current account balance (percent of GDP) | -3.7 | -0.7 | 0.2 | 0.3 | 0.5 | -0.1 | -0.1 | -0.3 | -0.4 | -0.8 |
| Exports of goods and services | -42.9 | 27.3 | 35.9 | -11.3 | 0.9 | -7.7 | -3.5 | -0.3 | -1.1 | -0.3 |
| Imports of goods and services | -28.4 | -6.5 | 14.2 | -4.4 | -0.8 | -4.8 | -2.6 | 0.9 | 0.2 | 2.0 |
| Terms of trade | -18.4 | 18.8 | 11.3 | -6.6 | -0.4 | -3.5 | -2.2 | -2.4 | 0.0 | -2.7 |
| Price of Nigerian oil (US$ per barrel) | 43.3 | 70.8 | 99.0 | 82.3 | 80.6 | 75.6 | 72.6 | 70.8 | 69.9 | 69.7 |
| External debt outstanding (US$ billions)[3] | 105.0 | 111.7 | 119.9 | 113.6 | 111.1 | 116.8 | 122.8 | 128.9 | 136.1 | 143.2 |
| Gross international reserves (US$ billions, CBN definiton)[4] | 36.5 | 40.2 | 36.6 | 32.9 | 33.3 | 34.2 | 35.2 | 36.6 | 37.9 | 38.2 |
| (equivalent months of imports of G&Ss) | 6.5 | 6.3 | 6.0 | 5.4 | 5.7 | 6.1 | 6.2 | 6.4 | 6.5 | 6.3 |

Sources: Nigerian authorities; and IMF staff estimates and projections.

[1] Fund staff estimate.

[2] Gross debt figures for the Federal Government and the public sector include overdrafts from the Central Bank of Nigeria (CBN).

[3] Includes both public and private sector.

[4] Based on the IMF definition, the gross international reserves were US$8 billion lower in October 2023.

## Table 2. Nigeria: Balance of Payments, 2020–29

(Billions of U.S. dollars, unless otherwise specified)

| | 2020 Act. | 2021 Act. | 2022 Act. | 2023 Est. | 2024 Proj. | 2025 Proj. | 2026 Proj. | 2027 Proj. | 2028 Proj. | 2029 Proj. |
|---|---|---|---|---|---|---|---|---|---|---|
| Current account balance | -16.0 | -3.3 | 1.0 | 1.2 | 1.4 | -0.2 | -0.4 | -0.8 | -1.2 | -2.6 |
| Trade balance | -16.4 | -4.6 | 6.0 | -2.4 | -1.5 | -3.0 | -3.6 | -5.3 | -6.5 | -8.7 |
| Exports | 35.9 | 46.9 | 64.2 | 55.4 | 55.6 | 50.6 | 48.3 | 47.8 | 46.3 | 45.1 |
| Oil and gas | 31.4 | 40.8 | 57.1 | 48.4 | 48.6 | 43.5 | 39.9 | 39.0 | 36.4 | 33.8 |
| Other | 4.5 | 6.0 | 7.1 | 7.0 | 7.0 | 7.1 | 8.4 | 8.8 | 9.9 | 11.2 |
| Imports | -52.3 | -51.4 | -58.2 | -57.8 | -57.1 | -53.6 | -51.9 | -53.1 | -52.8 | -53.7 |
| Oil and gas | -7.3 | -15.7 | -22.4 | -21.0 | -19.3 | -15.5 | -13.7 | -13.3 | -12.2 | -11.8 |
| Other | -45.0 | -35.7 | -35.9 | -36.7 | -37.9 | -38.0 | -38.2 | -39.8 | -40.7 | -41.9 |
| Services (net) | -15.8 | -12.1 | -14.0 | -9.9 | -9.7 | -9.4 | -9.0 | -8.0 | -7.6 | -7.0 |
| Receipts | 4.0 | 4.0 | 4.9 | 5.9 | 6.2 | 6.5 | 6.8 | 7.2 | 8.0 | 9.1 |
| Payments | -19.8 | -16.1 | -18.8 | -15.8 | -15.9 | -15.9 | -15.8 | -15.2 | -15.7 | -16.1 |
| Income (net) | -4.8 | -8.6 | -12.9 | -8.8 | -9.8 | -10.2 | -10.6 | -10.7 | -10.7 | -10.9 |
| *Of which:* Interest due on public debt | -1.2 | -1.3 | -1.3 | -1.5 | -1.8 | -1.9 | -2.1 | -2.4 | -2.5 | -2.8 |
| Transfers (net) | 21.0 | 22.0 | 21.8 | 22.3 | 22.3 | 22.4 | 22.8 | 23.2 | 23.6 | 24.0 |
| Capital and Financial account balance | -2.6 | 6.7 | 3.4 | 2.6 | -1.0 | 1.1 | 1.4 | 2.2 | 2.5 | 2.9 |
| Capital Account (net) | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Financial Account (net) | -2.6 | 6.7 | 3.4 | 2.6 | -1.0 | 1.1 | 1.4 | 2.2 | 2.5 | 2.9 |
| Direct Investment (net) | 0.9 | 1.5 | -0.1 | 0.1 | 0.8 | 1.3 | 1.4 | 1.5 | 1.7 | 1.9 |
| Portfolio Investment (net) | -3.7 | 5.3 | 3.9 | 4.9 | 2.4 | 2.7 | 2.9 | 1.8 | 2.2 | 3.1 |
| Other Investment (net) | 0.1 | -0.1 | -0.4 | -2.3 | -4.2 | -2.9 | -2.8 | -1.1 | -1.4 | -2.0 |
| Errors and omissions | 13.6 | 0.2 | -7.6 | -7.5 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Overall balance | -5.0 | 3.6 | -3.2 | -3.7 | 0.4 | 0.9 | 1.1 | 1.4 | 1.3 | 0.3 |
| Net international reserves (increase -) | 1.5 | -3.6 | 3.2 | 3.7 | -0.4 | -0.9 | -1.1 | -1.4 | -1.3 | -0.3 |
| *Memorandum items:* | | | | | | | | | | |
| Gross official reserves, end-of-period (CBN definition)[1] | 36.5 | 40.2 | 36.6 | 32.9 | 33.3 | 34.2 | 35.2 | 36.6 | 37.9 | 38.2 |
| In months of next year's imports of goods and services | 6.5 | 6.3 | 6.0 | 5.4 | 5.7 | 6.1 | 6.2 | 6.4 | 6.5 | 6.3 |
| Current account (percent of GDP)[2] | -3.7 | -0.7 | 0.2 | 0.3 | 0.5 | -0.1 | -0.1 | -0.3 | -0.4 | -0.8 |
| Exports of goods and services (percent of GDP) | 9.3 | 11.5 | 14.5 | 16.4 | 24.5 | 22.7 | 21.6 | 20.7 | 19.7 | 19.0 |
| Imports of goods and services (percent of GDP) | 16.8 | 15.3 | 16.1 | 19.6 | 28.9 | 27.7 | 26.6 | 25.7 | 24.9 | 24.5 |
| Public external debt[3] | 47.3 | 54.2 | 59.1 | 53.7 | 49.4 | 52.3 | 57.0 | 61.8 | 68.0 | 74.1 |
| In percent of GDP | 11.0 | 12.3 | 12.4 | 14.3 | 19.6 | 20.8 | 22.4 | 23.3 | 22.7 | 21.9 |
| In percent of exports of G&S | 118.4 | 106.6 | 85.6 | 87.6 | 79.9 | 91.6 | 103.4 | 112.5 | 125.1 | 136.8 |
| In percent of consolidated fiscal revenues | 123.0 | 129.2 | 104.5 | 122.9 | 143.9 | 151.7 | 157.1 | 166.5 | 183.7 | 189.2 |
| Private external debt | 57.7 | 57.4 | 60.7 | 59.9 | 61.7 | 64.5 | 65.8 | 67.1 | 68.1 | 69.1 |
| External debt service due (percent of exports of G&S) | 28.2 | 23.5 | 30.3 | 35.0 | 38.7 | 5.4 | 5.9 | 1.9 | 2.0 | 1.9 |
| Real imports of goods and services (percent of real GDP) | 37.4 | 27.0 | 24.9 | 25.3 | 24.5 | 22.9 | 21.8 | 21.2 | 20.4 | 19.9 |
| GDP in billion U.S. dollars | 429 | 441 | 477 | 375 | 253 | 251 | 255 | 266 | 300 | 338 |

Sources: Nigerian authorities; and IMF staff estimates and projections.

[1] Based on the IMF definition, the gross international reserves were US$8 billion lower in October 2023.

[2] GDP is measured in US dollars and calculated using the average annual exchange rate.

[3] Nominal public short- and long-term debt, end of period. Guaranteed external debt not included. External public debt for the purpose of BoP is based on a residency definition and includes CBN's debt.

## Table 3. Nigeria: Government Operations, 2020–29

(Percent of GDP)

| | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 | 2027 | 2028 | 2029 |
|---|---|---|---|---|---|---|---|---|---|---|
| | Act. | Act. | Act. | Est. | Proj. | Proj. | Proj. | Proj. | Proj. | Proj. |
| **Consolidated Government** | | | | | | | | | | |
| Total revenue | 6.5 | 7.1 | 9.0 | 9.4 | 12.4 | 12.8 | 13.3 | 13.2 | 12.7 | 13.1 |
| Oil revenue | 2.4 | 2.3 | 3.6 | 2.9 | 6.0 | 5.8 | 5.5 | 5.2 | 4.6 | 4.7 |
| Non-oil revenue | 4.1 | 4.7 | 4.8 | 5.8 | 6.5 | 7.0 | 7.8 | 8.0 | 8.1 | 8.4 |
| Total expenditure | 12.1 | 12.6 | 14.4 | 13.6 | 17.1 | 17.1 | 17.0 | 17.1 | 17.1 | 17.5 |
| Federal government expenditure | 7.0 | 7.4 | 6.9 | 8.2 | 8.8 | 8.9 | 8.9 | 9.0 | 9.1 | 9.3 |
| State and local government | 4.6 | 3.8 | 4.9 | 4.3 | 4.9 | 6.2 | 7.4 | 7.5 | 7.3 | 7.6 |
| Extrabudgetary funds, ECA and implicit fuel subsidies | 0.5 | 1.4 | 2.6 | 1.2 | 3.3 | 2.0 | 0.6 | 0.6 | 0.0 | 0.0 |
| Implicit Fuel Subsidy (in percent of GDP)[1] | 0.1 | 1.1 | 2.2 | 0.8 | 2.8 | 1.5 | 0.0 | 0.0 | 0.0 | 0.0 |
| Overall balance | -5.6 | -5.5 | -5.4 | -4.2 | -4.7 | -4.2 | -3.7 | -3.9 | -4.4 | -4.4 |
| Non-oil primary balance | -5.9 | -5.4 | -6.8 | -4.5 | -7.1 | -6.2 | -5.3 | -5.1 | -4.9 | -4.8 |
| Financing | 4.6 | 5.2 | 6.7 | 4.8 | 4.7 | 4.2 | 3.7 | 3.9 | 4.4 | 4.4 |
| External | 1.3 | 1.8 | 1.6 | 0.3 | 0.8 | 1.5 | 1.8 | 2.1 | 2.3 | 2.2 |
| Borrowing | 1.8 | 2.0 | 1.8 | 1.1 | 2.0 | 2.9 | 2.3 | 3.2 | 3.3 | 3.2 |
| Amortization | -0.5 | -0.2 | -0.2 | -0.8 | -1.1 | -1.4 | -0.6 | -1.2 | -1.0 | -1.0 |
| Domestic | 3.2 | 3.4 | 5.1 | 4.5 | 3.8 | 2.7 | 1.9 | 1.9 | 2.1 | 2.2 |
| Bank financing | 0.8 | 1.6 | 4.6 | 4.0 | 1.2 | 0.7 | 0.6 | 0.6 | 1.3 | 1.0 |
| CBN | 1.1 | 1.3 | 3.3 | 2.2 | -2.5 | 0.0 | 0.0 | -0.1 | -0.1 | -0.1 |
| Nonbank financing | 1.4 | 1.7 | 0.3 | 0.5 | 2.6 | 2.0 | 1.3 | 1.2 | 0.8 | 1.2 |
| Other financing | 1.1 | 0.2 | 0.2 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Statistical discrepancy | 1.0 | 0.3 | -1.3 | -0.6 | … | … | … | … | … | … |
| **Federal Government** | | | | | | | | | | |
| Total revenue | 2.7 | 2.8 | 3.2 | 4.3 | 4.5 | 5.2 | 5.8 | 5.8 | 5.6 | 5.8 |
| Oil revenue | 0.9 | 0.7 | 0.7 | 0.9 | 1.3 | 1.8 | 2.3 | 2.2 | 1.9 | 2.0 |
| Non-oil revenue | 1.5 | 1.8 | 1.8 | 2.2 | 2.6 | 2.7 | 2.8 | 2.9 | 1.9 | 1.9 |
| Total expenditure | 7.5 | 7.9 | 7.4 | 8.2 | 9.1 | 9.4 | 9.5 | 9.7 | 9.8 | 10.0 |
| Recurrent expenditure | 6.4 | 6.1 | 6.4 | 6.3 | 7.1 | 7.5 | 7.6 | 7.8 | 8.0 | 8.1 |
| Personnel | 2.1 | 1.9 | 1.9 | 1.9 | 1.8 | 1.9 | 1.9 | 1.9 | 1.9 | 1.9 |
| Overheads | 0.8 | 0.6 | 0.6 | 0.4 | 0.8 | 0.8 | 0.8 | 0.8 | 0.8 | 0.8 |
| Interest | 2.1 | 2.4 | 2.8 | 3.3 | 3.5 | 3.9 | 3.9 | 4.0 | 4.1 | 4.2 |
| Transfers | 1.1 | 1.0 | 1.0 | 0.7 | 1.0 | 0.9 | 1.0 | 1.1 | 1.2 | 1.1 |
| Arrears clearance | 0.3 | 0.1 | 0.1 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Capital expenditure | 1.0 | 1.9 | 1.0 | 1.9 | 1.9 | 1.9 | 1.9 | 1.8 | 1.8 | 1.8 |
| Overall balance | -4.7 | -5.2 | -4.2 | -4.0 | -4.5 | -4.2 | -3.7 | -3.9 | -4.3 | -4.1 |
| Financing | 3.9 | 4.9 | 5.6 | 4.3 | 4.5 | 4.2 | 3.7 | 3.9 | 4.3 | 4.1 |
| External | 1.3 | 1.8 | 1.6 | 0.3 | 0.8 | 1.5 | 1.8 | 2.1 | 2.3 | 2.2 |
| Domestic | 2.6 | 3.1 | 5.3 | 3.9 | 3.7 | 2.6 | 1.9 | 1.8 | 2.0 | 1.9 |
| Bank financing | 0.9 | 1.2 | 3.5 | 3.0 | 0.3 | 1.0 | 0.7 | 0.6 | 0.7 | 0.6 |
| CBN | 1.3 | 1.0 | 3.3 | 2.2 | -2.5 | 0.0 | 0.0 | -0.1 | -0.1 | -0.1 |
| Nonbank financing | 1.4 | 1.7 | 1.5 | 0.9 | 3.4 | 1.7 | 1.2 | 1.2 | 1.3 | 1.3 |
| Other financing | 0.3 | 0.2 | 0.2 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Statistical discrepancy | 0.8 | 0.3 | -1.4 | -0.3 | … | … | … | … | … | … |

Sources: Nigerian authorities; and IMF staff estimates and projections.

[1] Fund staff estimate.

## Table 4. Nigeria: Federal Government Operations, 2020–29

(Billions of naira)

| | 2020 | 2021 | 2022 | 2023 | | 2024 | | 2025 | | 2026 | 2027 | 2028 | 2029 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Act. | Act. | Act. | Budget[1] | Est. | Budget | Proj. | MTFF | Proj. | Proj. | Proj. | Proj. | Proj. |
| Total revenue and Grants | 4,221 | 4,853 | 6,454 | 8,626 | 9,981 | 16,727 | 13,393 | 14,294 | 17,875 | 23,097 | 26,093 | 28,225 | 33,351 |
| Oil revenue | 1,437 | 1,295 | 1,384 | 2,385 | 2,221 | 8,803 | 3,899 | 7,271 | 6,205 | 9,004 | 9,707 | 9,762 | 11,491 |
| Non-oil revenue | 2,272 | 3,094 | 3,603 | 6,197 | 5,253 | 7,924 | 7,711 | 6,657 | 9,283 | 11,228 | 13,004 | 9,423 | 10,956 |
| Import and excise duties | 396 | 559 | 731 | 950 | 860 | 1,288 | 1,708 | 1,357 | 2,108 | 2,637 | 3,144 | 3,567 | 4,092 |
| Companies' income tax | 674 | 787 | 1,229 | 933 | 1,776 | 1,473 | 2,204 | 1,642 | 2,576 | 3,029 | 3,569 | 4,315 | 5,110 |
| Value-added tax | 198 | 404 | 330 | 383 | 440 | 513 | 511 | 570 | 776 | 1,181 | 1,351 | 1,541 | 1,754 |
| Federal government independent revenue | 1,003 | 1,344 | 1,313 | 3,169 | 2,177 | 2,692 | 3,288 | 2,092 | 3,822 | 4,382 | 4,940 | 0 | 0 |
| Education tax/custom levies/other | 420 | 464 | 322 | 762 | 960 | 1,272 | 1,756 | 996 | 2,324 | 2,802 | 3,318 | 3,908 | 5,123 |
| Grants | 93 | 0 | 1,145 | 43 | 1,547 | 686 | 26 | 338 | 63 | 63 | 63 | 63 | 63 |
| Total expenditure | 11,496 | 13,970 | 14,986 | 22,404 | 19,301 | 26,673 | 26,857 | 24,639 | 32,245 | 37,537 | 43,455 | 49,910 | 57,024 |
| Recurrent expenditure | 9,895 | 10,653 | 12,962 | 15,282 | 14,815 | 17,499 | 21,140 | 18,776 | 25,704 | 30,037 | 35,206 | 40,597 | 46,523 |
| Personnel | 3,187 | 3,403 | 3,882 | 4,994 | 4,404 | 5,465 | 5,465 | 5,410 | 6,387 | 7,361 | 8,422 | 9,606 | 10,938 |
| Overheads | 1,269 | 1,055 | 1,168 | 2,744 | 1,019 | 2,244 | 2,244 | 2,030 | 2,767 | 3,189 | 3,648 | 4,162 | 4,738 |
| Interest | 3,265 | 4,222 | 5,656 | 6,558 | 7,665 | 8,047 | 10,381 | 10,061 | 13,345 | 15,567 | 18,098 | 20,883 | 24,290 |
| Transfers[2] | 1,735 | 1,799 | 1,963 | 985 | 1,727 | 1,743 | 3,050 | 1,274 | 3,205 | 3,920 | 5,038 | 5,946 | 6,556 |
| *Of which:* electricity subsidies | 600 | 300 | 150 | … | 500 | … | 540 | … | 0 | 0 | 0 | 0 | 0 |
| Net transfers to SLGs[3] | 693 | 1,003 | 1,003 | … | 192 | … | 766 | … | 1,675 | 2,181 | 2,908 | 3,603 | 3,969 |
| Arrears Clearance | 439 | 174 | 293 | … | 0 | … | 0 | … | 0 | 0 | 0 | 0 | 0 |
| Capital expenditure | 1,602 | 3,317 | 2,024 | 7,123 | 4,486 | 9,174 | 5,717 | 5,623 | 6,541 | 7,499 | 8,249 | 9,312 | 10,501 |
| Overall balance | -7,275 | -9,117 | -8,532 | -13,778 | -9,320 | -9,946 | -13,464 | -10,345 | -14,370 | -14,439 | -17,363 | -21,684 | -23,673 |
| Financing | 6,018 | 8,587 | 11,343 | … | 10,003 | … | 13,464 | … | 14,370 | 14,439 | 17,363 | 21,684 | 23,673 |
| External | 2,037 | 3,183 | 3,183 | … | 611 | … | 2,433 | … | 5,317 | 6,925 | 9,232 | 11,438 | 12,601 |
| Borrowing | 2,581 | 2,460 | 2,485 | … | 1,761 | … | 3,966 | … | 6,856 | 6,326 | 9,918 | 11,470 | 12,652 |
| Amortization | -544 | -280 | -304 | … | -1,343 | … | -2,299 | … | -3,214 | -1,582 | -3,595 | -3,635 | -4,020 |
| Net External Lending to SLGs | 693 | 1,003 | 1,003 | … | 192 | … | 766 | … | 1,675 | 2,181 | 0 | 0 | 0 |
| Domestic | 3,980 | 5,404 | 8,160 | … | 9,392 | … | 11,031 | … | 9,053 | 7,514 | 8,131 | 10,247 | 11,072 |
| Bank financing | 1,406 | 2,173 | 7,176 | … | 6,944 | … | 746 | … | 3,288 | 2,817 | 2,623 | 3,405 | 3,591 |
| CBN | 1,939 | 1,734 | 6,669 | … | 5,248 | … | -7,308 | … | -3 | -3 | -628 | -580 | -732 |
| Commercial Banks | -534 | 439 | 507 | … | 1,696 | … | 8,054 | … | 3,291 | 2,820 | 3,251 | 3,985 | 4,323 |
| Nonbank financing | 2,136 | 2,955 | 600 | … | 2,345 | … | 10,143 | … | 5,764 | 4,697 | 5,509 | 6,842 | 7,481 |
| Promissory notes | 439 | 174 | 293 | … | 0 | … | 0 | … | 0 | 0 | 0 | 0 | 0 |
| Asset Disposal | 0 | 103 | 91 | … | 103 | … | 141 | … | 1 | 0 | 0 | 0 | 0 |
| Statistical discrepancy | 1,257 | 530 | -2,811 | … | -682 | … | … | … | … | … | … | … | … |
| *Memorandum items* : | | | | | | | | | | | | | |
| FGN Total Debt | 47,859 | 57,364 | 72,160 | … | 100,686 | … | 129,812 | … | 152,543 | 174,599 | 198,766 | 228,876 | 258,801 |
| Domestic[4] | 35,142 | 41,509 | 53,458 | … | 62,575 | … | 73,464 | … | 82,517 | 90,031 | 97,362 | 106,908 | 118,980 |
| Foreign | 12,718 | 15,855 | 18,702 | … | 38,111 | … | 56,348 | … | 70,026 | 84,568 | 101,404 | 121,968 | 139,821 |

Sources: Nigerian authorities; and IMF staff estimates and projections.

[1] Not including items under the supplementary budget.

[2] Includes earmarked spending for National Judicial Council, Universal Basic Education, Niger Delta Development Corporation, and Multi-Year Tariff Order subsidy.

[3] Net transfers to SLGs include Paris Club refunds, Budget Support Facility, and on-lending by the FGN.

[4] Gross debt figures for the Federal Government and the public sector include overdrafts from the Central Bank of Nigeria (CBN), promissory notes and AMCON debt.

## Table 5. Nigeria: Consolidated Government Operations, 2020–29

(Billions of naira)

| | 2020 Act. | 2021 Act. | 2022 Act. | 2023 Est. | 2024 Proj. | 2025 Proj. | 2026 Proj. | 2027 Proj. | 2028 Proj. | 2029 Proj. |
|---|---|---|---|---|---|---|---|---|---|---|
| Total revenue and Grants | 10,049 | 12,462 | 18,127 | 22,046 | 36,873 | 44,215 | 52,456 | 59,250 | 64,427 | 74,913 |
| Oil revenue | 3,693 | 4,111 | 7,359 | 6,868 | 17,685 | 19,990 | 21,748 | 23,469 | 23,531 | 26,963 |
| *Of which*: implicit fuel subsidy[1] | 89 | 1,862 | 4,353 | 1,850 | 8,432 | 5,092 | 0 | 0 | -73 | 0 |
| Non-oil revenue | 6,264 | 8,350 | 9,624 | 13,631 | 19,161 | 24,161 | 30,645 | 35,717 | 40,833 | 47,887 |
| Import and excise duties | 878 | 1,267 | 1,686 | 1,906 | 3,787 | 4,674 | 5,846 | 6,971 | 7,908 | 9,072 |
| Companies' income tax | 1,448 | 1,583 | 2,639 | 3,814 | 4,734 | 5,533 | 6,505 | 7,665 | 9,267 | 10,974 |
| Value-added tax | 1,475 | 2,043 | 2,462 | 3,397 | 3,945 | 5,989 | 9,110 | 10,423 | 11,889 | 13,538 |
| Other (education tax and customs levies) | 420 | 464 | 322 | 960 | 1,756 | 2,324 | 2,802 | 3,318 | 3,908 | 5,123 |
| Federal government independent revenue | 1,003 | 1,344 | 1,313 | 2,177 | 3,288 | 3,822 | 4,382 | 4,940 | 5,070 | 5,717 |
| SLGs independent revenue | 1,040 | 1,650 | 1,200 | 1,377 | 1,651 | 1,819 | 2,000 | 2,401 | 2,791 | 3,463 |
| Grants | 93 | 0 | 1,145 | 1,547 | 26 | 63 | 63 | 63 | 63 | 63 |
| Total expenditure | 18,656 | 22,113 | 29,096 | 31,800 | 50,666 | 58,845 | 67,058 | 76,833 | 86,624 | 99,836 |
| Federal government | 10,803 | 12,967 | 13,983 | 19,109 | 26,090 | 30,570 | 35,355 | 40,547 | 46,307 | 53,054 |
| State and local government | 7,135 | 6,703 | 9,840 | 9,968 | 14,808 | 21,371 | 29,266 | 33,499 | 37,216 | 43,205 |
| Extrabudgetary funds, ECA and implicit fuel subsidies | 718 | 2,443 | 5,273 | 2,724 | 9,768 | 6,905 | 2,437 | 2,786 | -73 | 0 |
| Extrabudgetary funds[2] | 533 | 581 | 920 | 874 | 1,336 | 1,813 | 2,437 | 2,786 | 0 | 0 |
| Spending from Excess Crude Account | 96 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Implicit fuel subsidy | 89 | 1,862 | 4,353 | 1,850 | 8,432 | 5,092 | 0 | 0 | -73 | 0 |
| Overall balance | -8,607 | -9,651 | -10,968 | -9,751 | -13,792 | -14,631 | -14,601 | -17,582 | -22,124 | -24,923 |
| Non-oil primary balance | -9,128 | -9,541 | -13,816 | -10,504 | -21,124 | -21,340 | -20,846 | -23,018 | -24,908 | -27,660 |
| Financing | 7,022 | 9,188 | 13,525 | 11,264 | 13,793 | 14,631 | 14,602 | 17,583 | 22,197 | 24,923 |
| External | 2,037 | 3,183 | 3,183 | 611 | 2,433 | 5,317 | 6,925 | 9,232 | 11,438 | 12,602 |
| Borrowing | 2,831 | 3,592 | 3,627 | 2,571 | 5,789 | 10,009 | 9,235 | 14,479 | 16,745 | 18,470 |
| Amortization | -793 | -409 | -444 | -1,960 | -3,356 | -4,692 | -2,309 | -5,248 | -5,307 | -5,868 |
| Domestic | 4,984 | 6,005 | 10,342 | 10,651 | 11,218 | 9,314 | 7,676 | 8,351 | 10,686 | 12,323 |
| Bank financing | 1,217 | 2,774 | 9,358 | 9,353 | 3,431 | 2,569 | 2,364 | 2,834 | 6,683 | 5,467 |
| CBN | 1,751 | 2,335 | 6,653 | 5,219 | -7,303 | 0 | 0 | -637 | -561 | -626 |
| Commercial Banks | -534 | 439 | 2,705 | 4,134 | 10,734 | 2,570 | 2,364 | 3,471 | 7,244 | 6,093 |
| Nonbank financing | 2,136 | 2,955 | 600 | 1,195 | 7,646 | 6,744 | 5,312 | 5,517 | 4,003 | 6,857 |
| Other financing | 0 | 103 | 91 | 103 | 141 | 1 | 0 | 0 | 0 | 0 |
| Statistical discrepancy | 1,586 | 463 | -2,556 | -1,513 | … | … | … | … | … | … |

Sources: Nigerian authorities; and IMF staff estimates and projections.

[1] Fund staff estimate.

[2] Includes spending of customs levies and education tax; transfers to FIRS and NCS; spending from the ecology, stabilization, development of natural resources accounts; and FCT spending.

## Table 6. Nigeria: Central Bank of Nigeria (CBN) Analytical Balance Sheet, 2020–29

(Billions of naira)

| | 2020 Act. | 2021 Act. | 2022 Act. | 2023 Est. | 2024 Proj. | 2025 Proj. | 2026 Proj. | 2027 Proj. | 2028 Proj. | 2029 Proj. |
|---|---|---|---|---|---|---|---|---|---|---|
| Net foreign assets | 10,177 | 8,990 | 5,373 | 9,255 | 12,724 | 17,789 | 21,354 | 25,540 | 29,069 | 32,447 |
| Foreign assets | 15,920 | 17,262 | 16,846 | 36,983 | 43,514 | 51,087 | 58,312 | 65,957 | 74,622 | 80,830 |
| Foreign liabilities | -5,744 | -8,272 | -11,473 | -27,728 | -30,790 | -33,298 | -36,958 | -40,417 | -45,553 | -48,383 |
| *Of which:* non-resident OMOs | -4,894 | -5,717 | -6,480 | -9,333 | -8,963 | -7,170 | -5,736 | -4,015 | -2,409 | -1,445 |
| Net domestic assets | 2,931 | 4,305 | 10,659 | 13,626 | 12,030 | 7,361 | 4,135 | 2,235 | 45 | -1,823 |
| Net domestic credit | 19,574 | 22,376 | 30,616 | 38,427 | 41,060 | 38,473 | 37,252 | 37,369 | 37,531 | 36,914 |
| Net claims on consolidated government | 8,258 | 10,273 | 18,011 | 23,229 | 25,776 | 22,504 | 20,565 | 19,930 | 19,304 | 18,646 |
| Net claims on federal government | 7,647 | 9,566 | 16,534 | 21,671 | 24,217 | 20,946 | 19,007 | 18,371 | 17,745 | 17,087 |
| Claims | 15,612 | 19,699 | 26,262 | 43,312 | 36,004 | 36,001 | 35,999 | 35,370 | 34,790 | 34,058 |
| Deposits | -7,965 | -10,133 | -9,728 | -21,642 | -11,787 | -15,056 | -16,992 | -16,999 | -17,045 | -16,971 |
| Net claims on state and local governments | 610 | 707 | 1,477 | 1,559 | 1,559 | 1,559 | 1,559 | 1,559 | 1,559 | 1,559 |
| Claims on deposit money banks | 2,668 | 3,603 | 3,326 | 3,881 | 3,920 | 3,959 | 3,999 | 4,039 | 4,079 | 4,120 |
| Other net claims | 8,649 | 8,500 | 9,278 | 11,317 | 11,364 | 12,010 | 12,688 | 13,400 | 14,148 | 14,148 |
| Other items net | -16,643 | -18,071 | -19,957 | -22,947 | -29,029 | -31,112 | -33,117 | -35,134 | -37,486 | -38,738 |
| Of which: OMOs | -8,410 | -8,928 | -8,749 | -8,724 | -9,224 | -9,224 | -9,224 | -9,224 | -9,224 | -9,224 |
| Reserve money | 13,108 | 13,295 | 16,032 | 24,736 | 24,755 | 25,150 | 25,489 | 27,775 | 29,114 | 30,623 |
| Currency in circulation | 2,908 | 3,325 | 3,012 | 3,653 | 3,777 | 3,799 | 3,657 | 3,826 | 4,010 | 4,218 |
| Banks reserves with the CBN | 10,199 | 9,970 | 13,020 | 21,082 | 20,978 | 21,352 | 21,832 | 23,949 | 25,104 | 26,405 |
| *Memorandum items*: | | | | | | | | | | |
| Reserve money y/y growth rate | 51.0 | 1.4 | 20.6 | 54.3 | 0.1 | 1.6 | 1.3 | 9.0 | 4.8 | 5.2 |
| Money multiplier | 3.0 | 3.3 | 3.1 | 3.2 | 3.6 | 4.2 | 4.8 | 5.2 | 5.8 | 6.6 |

Sources: Nigerian authorities; and IMF staff estimates and projections.

## Table 7. Nigeria: Monetary Survey, 2020–29

(Billions of naira)

| | 2020 Act. | 2021 Act. | 2022 Act. | 2023 Est. | 2024 Proj. | 2025 Proj. | 2026 Proj. | 2027 Proj. | 2028 Proj. | 2029 Proj. |
|---|---|---|---|---|---|---|---|---|---|---|
| Net foreign assets | 8,967 | 9,320 | 4,221 | 9,338 | 12,842 | 17,924 | 23,101 | 27,445 | 31,145 | 34,612 |
| Central Bank of Nigeria (net) | 10,177 | 8,990 | 5,373 | 9,255 | 12,724 | 17,789 | 22,952 | 27,282 | 30,967 | 34,427 |
| Commercial and merchant banks (net) | -1,210 | 330 | -1,152 | 83 | 117 | 135 | 149 | 163 | 177 | 185 |
| Net domestic assets | 29,938 | 35,124 | 45,986 | 69,914 | 77,097 | 87,193 | 99,849 | 117,656 | 140,096 | 170,046 |
| Net domestic credit | 42,532 | 48,761 | 64,450 | 96,086 | 107,444 | 121,129 | 136,585 | 157,508 | 182,903 | 215,174 |
| Net claims on consolidated government | 13,561 | 16,335 | 26,014 | 37,748 | 41,442 | 44,439 | 47,431 | 50,943 | 54,624 | 59,451 |
| Net claims on FGN[1] | 11,493 | 13,840 | 22,709 | 33,548 | 37,110 | 39,418 | 41,620 | 44,233 | 47,582 | 51,265 |
| CBN | 7,131 | 9,039 | 16,001 | 22,706 | 18,214 | 17,232 | 16,613 | 15,976 | 15,340 | 14,700 |
| Commercial Banks | 4,362 | 4,801 | 6,708 | 10,841 | 18,896 | 22,186 | 25,006 | 28,257 | 32,242 | 36,566 |
| Claims on SLG | 2,069 | 2,495 | 3,305 | 4,200 | 4,332 | 5,021 | 5,811 | 6,710 | 7,042 | 8,185 |
| Claims on private sector[2] | 18,714 | 23,736 | 28,471 | 41,371 | 48,017 | 58,524 | 70,807 | 88,035 | 109,563 | 136,821 |
| *Of which:* credit to the private sector | 18,535 | 23,328 | 27,974 | 39,747 | 46,230 | 56,737 | 70,449 | 87,677 | 109,206 | 136,464 |
| Other Claims | 10,257 | 8,690 | 9,965 | 16,967 | 17,985 | 18,165 | 18,347 | 18,530 | 18,716 | 18,903 |
| Other items (net) | -12,594 | -13,637 | -18,464 | -26,172 | -30,347 | -33,937 | -36,736 | -39,851 | -42,806 | -45,129 |
| Broad money[3] | 38,905 | 44,444 | 50,208 | 79,252 | 89,942 | 105,116 | 121,352 | 143,359 | 169,343 | 202,677 |
| Currency outside banks | 2,496 | 2,938 | 2,569 | 3,434 | 3,561 | 3,582 | 3,448 | 3,607 | 3,781 | 3,977 |
| Demand deposits | 13,343 | 15,117 | 18,159 | 26,688 | 30,028 | 35,094 | 40,514 | 47,862 | 56,536 | 67,665 |
| Time and savings deposits | 21,990 | 26,387 | 30,178 | 48,709 | 62,246 | 72,980 | 83,538 | 95,913 | 110,209 | 125,085 |
| CBN Bills held by resident nonbank sector | 1,076 | 1 | 394 | 421 | 481 | 562 | 649 | 767 | 906 | 1,085 |
| *Memorandum Items:* | | | | | | | | | | |
| Broad money (y-o-y, percent) | 11.6 | 14.2 | 13.0 | 57.8 | 13.5 | 16.9 | 15.4 | 18.1 | 18.1 | 19.7 |
| Credit to the private sector (y-o-y, percent) | 15.8 | 25.9 | 19.9 | 42.1 | 16.3 | 22.7 | 24.2 | 24.5 | 24.6 | 25.0 |
| Velocity (non-oil GDP/broad money) | 3.7 | 3.7 | 3.7 | 2.7 | 3.0 | 3.0 | 2.9 | 2.9 | 2.8 | 2.6 |
| Gross international reserves (US$ billions) | 36.5 | 40.2 | 36.6 | 33.2 | 33.7 | 34.5 | 35.6 | 37.0 | 38.3 | 38.6 |
| Foreign currency deposits (as percent of total deposits) | 17.7 | 22.5 | 20.9 | 29.2 | … | … | … | … | … | … |
| Foreign currency credits (as percent of total private sector credit) | 26.7 | 19.7 | 23.4 | 30.7 | … | … | … | … | … | … |

Sources: Nigerian authorities; and IMF staff estimates and projections.

[1] The SLGs share of the ECA is included under the Net Claims on the FGN, as the FGN is the signatory of the ECA in the CBN. It is assumed that the domestic portion of sovereign wealth fund will have similar accounting treatment.

[2] Does not include AMCON bonds.

[3] Broad money is based on an M3 definition.

## Table 8. Nigeria: Indicators of Fund Credit – (RFI arrangements), 2023-29

(In millions of SDRs, unless otherwise indicated)

| | 2023 Est. | 2024 Proj. | 2025 Proj. | 2026 Proj. | 2027 Proj. | 2028 Proj. | 2029 Proj. |
|---|---|---|---|---|---|---|---|
| **Existing and prospective Fund credit (SDR million)** | | | | | | | |
| Disbursements | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Stock of existing and prospective Fund credit | 1,840.9 | 613.6 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Obligations | 736.7 | 991.2 | 657.5 | 32.3 | 32.3 | 32.3 | 32.3 |
| Principal (repayments/repurchases) | 613.6 | 920.4 | 613.6 | 0.0 | 0.0 | 0.0 | 0.0 |
| Charges and interest | 123.1 | 70.7 | 43.8 | 32.3 | 32.3 | 32.3 | 32.3 |
| **Fund obligations (repurchases and charges) in percent of:** | | | | | | | |
| Quota | 30.0 | 40.4 | 26.8 | 1.3 | 1.3 | 1.3 | 1.3 |
| GDP | 0.3 | 0.5 | 0.4 | 0.0 | 0.0 | 0.0 | 0.0 |
| Exports of goods and services | 1.6 | 2.2 | 1.6 | 0.1 | 0.1 | 0.1 | 0.1 |
| Gross international reserves | 3.0 | 4.0 | 2.6 | 0.1 | 0.1 | 0.1 | 0.1 |
| Government revenue | 3.0 | 4.3 | 2.8 | 0.1 | 0.1 | 0.1 | 0.1 |
| External debt service, public | 27.2 | 30.5 | 17.4 | 1.2 | 0.8 | 0.8 | 0.8 |
| **Fund credit outstanding in percent of:** | | | | | | | |
| Quota | 75.0 | 25.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| GDP | 0.7 | 0.3 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Exports of goods and services | 4.0 | 1.3 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Gross international reserves | 7.5 | 2.5 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Government revenue | 7.6 | 2.6 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| External debt, public | 5.9 | 1.9 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |

Source: IMF staff calculations.

## Table 9. Nigeria: Financial Soundness Indicators 2020–2023Q4

(In percent)

| | 2020 | 2021 | 2022Q1 | 2022Q2 | 2022Q3 | 2022Q4 | 2023Q1 | 2023Q2 | 2023Q3 | 2023Q4 |
|---|---|---|---|---|---|---|---|---|---|---|
| Regulatory Capital to Risk-Weighted Assets | 15.1 | 14.6 | 14.6 | 14.1 | 13.8 | 13.8 | 14.1 | 11.2 | 13.0 | 13.3 |
| Regulatory Tier 1 Capital to Risk-Weighted Assets | 12.8 | 12.5 | 12.5 | 12.2 | 11.9 | 11.9 | 12.3 | 9.6 | 10.8 | 10.9 |
| Non-Performing Loans to Total Gross Loans | 6.0 | 4.9 | 5.1 | 4.9 | 4.8 | 4.2 | 4.5 | 4.1 | 4.4 | 4.0 |
| Return on Assets | 2.0 | 1.5 | 2.0 | 1.5 | 1.3 | 1.2 | 1.3 | 0.7 | 1.8 | 2.0 |
| Return on Equity | 21.1 | 16.3 | 23.8 | 17.1 | 15.1 | 14.1 | 15.8 | 8.7 | 24.4 | 28.5 |
| Interest Margin to Gross Income | 61.3 | 45.5 | 46.4 | 56.8 | 67.6 | 55.7 | 57.8 | 56.5 | 38.3 | 36.5 |
| Non-interest Expenses to Gross Income | 66.9 | 63.2 | 63.2 | 76.9 | 72.2 | 71.4 | 70.8 | 67.8 | 39.9 | 33.1 |
| Liquid Assets to Total Assets (Liquid Asset Ratio) | 22.6 | 20.5 | 20.5 | 20.1 | 18.6 | 19.8 | 17.9 | 16.9 | 16.1 | 14.4 |
| Liquid Assets to Short Term Liabilities | 32.6 | 29.9 | 29.4 | 29.6 | 27.3 | 28.7 | 25.3 | 26.8 | 25.4 | 23.4 |

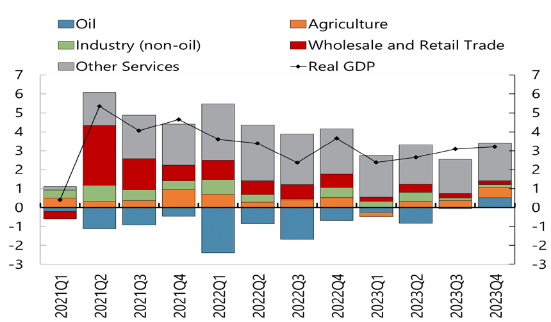
Source: Central Bank of Nigeria.

## Figure 1. Nigeria: Real Sector Developments

*Real GDP expanded by 3.2 percent y/y in Q4-2023, driven by higher oil production as security improved.*

### Contribution to Real GDP Growth

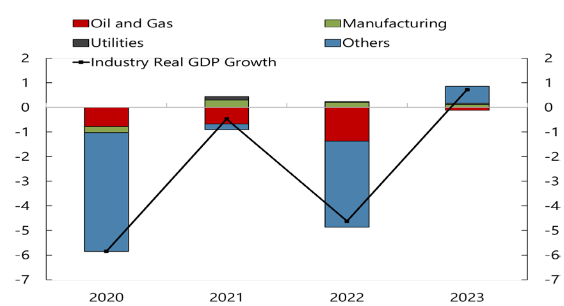
(Percent, y-o-y)




*In 2023, growth in industry rebounded, driven by manufacturing and construction.*

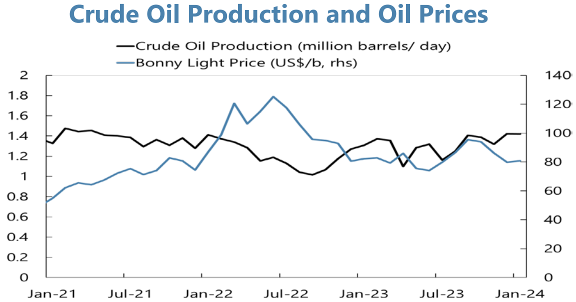
### Contribution to Industry GDP Growth

(Percent y-o-y)



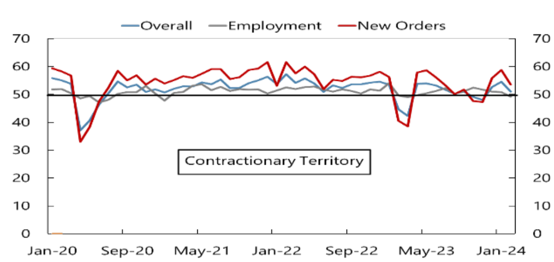

*Oil production declined for 2023 as a whole, but picked up in H2-2023, to reach 1.65 mb/d in January 2024.*

### Crude Oil Production and Oil Prices




*The PMI moved back into the expansionary territory in the last quarter of 2023.*

### Purchasing Managers' Index (PMI)



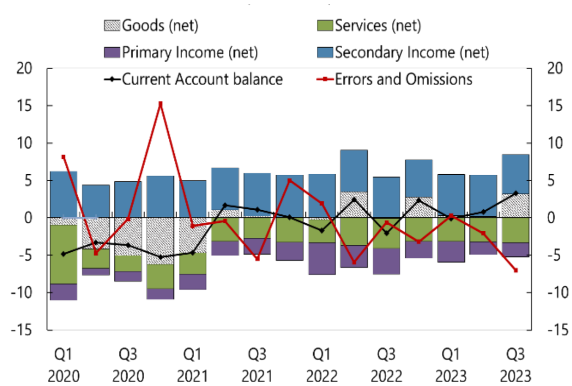

Sources: Haver Analytics, National Bureau of Statistics.

## Figure 2. Nigeria: External Sector Developments

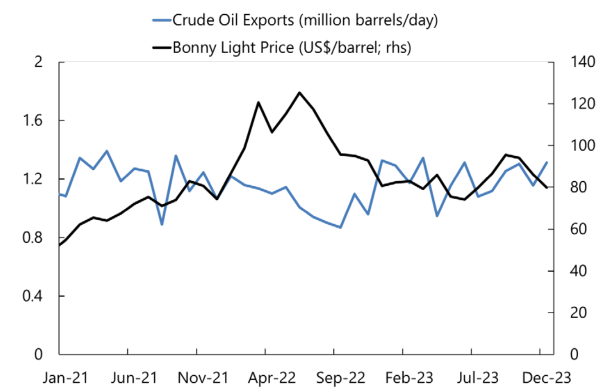
*The current account strengthened in Q3-2023, driven by lower imports and higher oil exports**

*Oil exports increased owing to higher oil production, despite declining oil prices.*

### Current Account and Components
(US$ billion)



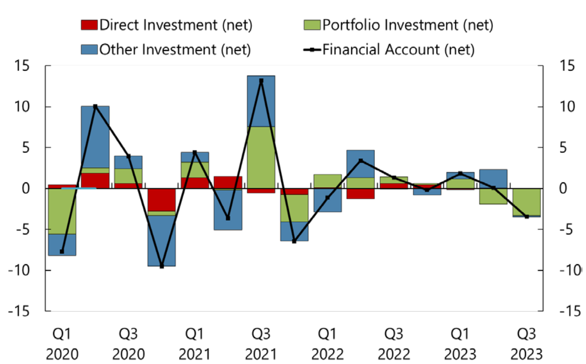

### Crude Oil Exports and Oil Prices
(US$ billion)



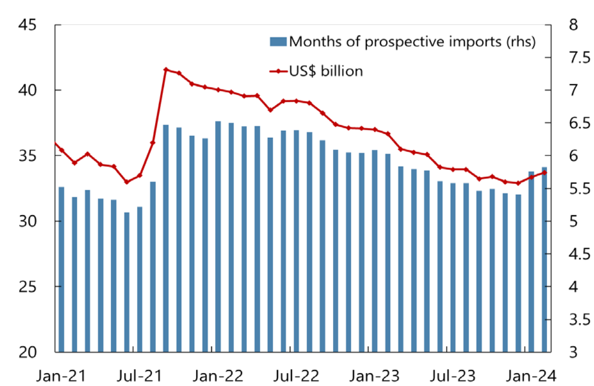

*The financial account turned negative in Q3-2023 due to limited inflows with FDI almost entirely drying up and large portfolio investment outflows.*

*…leading to a decline in foreign reserves from US$36.6 at end-2022 to US$33bn at end-2023*

### Financial Account and Components
(US$ billion)




### Gross Foreign Reserves



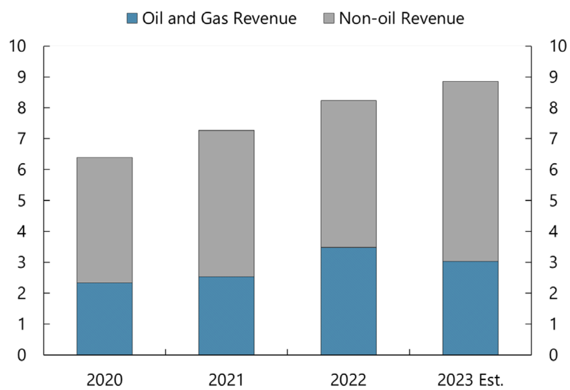

Notes: Cumulative net errors and omissions were -7.5 US$ billion at end-Q3 2023.
Sources: Central Bank of Nigeria, Haver Analytics, National Bureau of Statistics.

## Figure 3. Nigeria: General Government Fiscal Developments

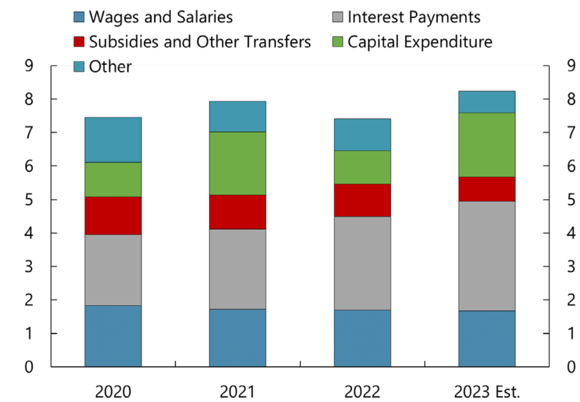
*Non-oil revenues are estimated to have increased in 2023, benefiting from exchange rate depreciation and improved tax administration.*

*Expenditures are also estimated to have increased in 2023 due to higher interest and capital spending.*

### Oil and Non-oil Revenues [1/]
(Percent of GDP)



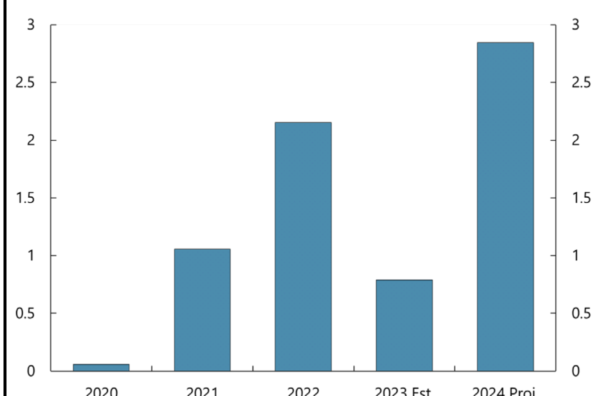

### FGN Expenditure[2/]
(Percent of GDP)



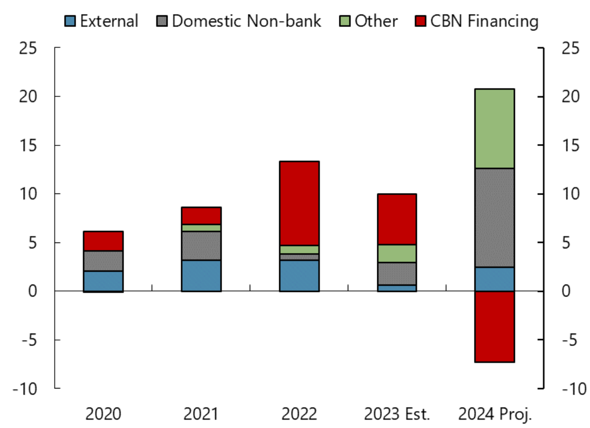

*Fuel subsidy reforms contained fiscal costs in 2023. With pump prices capped below cost, subsidies could peak in 2024.*

*CBN deficit financing is being phased out and retired. External financing could pick up in 2024, with more reliance on domestic financing.*

### Fuel Subsidy
(Percent of GDP)




### Financing of the Deficit
(Billions of Naira)

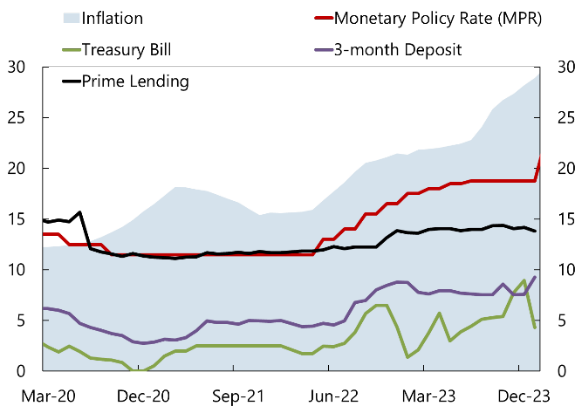



Sources: The authorities (OAGF, Budget Office) and staff estimates.
1/ Non-oil revenue excludes SLG's independently generated revenues.
2/ The FGN expenditures exclude GOEs (Budget Office).

## Figure 4. Nigeria: Key Interest Rates, Liquidity and Credit Growth

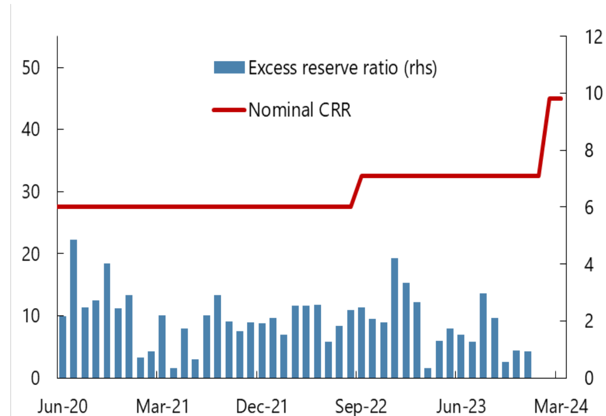
*The policy rate and other key interest rates remain lower than inflation, leaving them negative in real terms.*

### Key Interest Rates
(Percent)



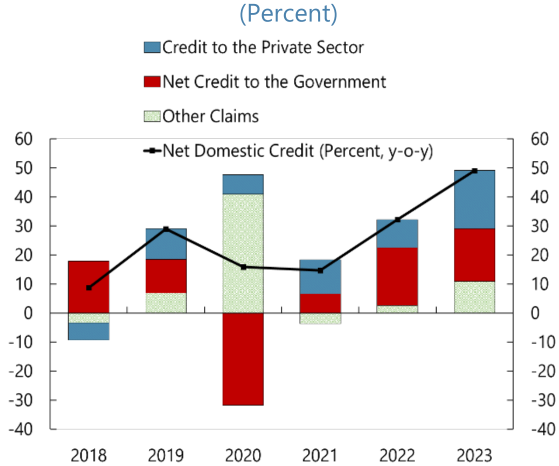

*Excess reserves declined reflecting the CBN's aggressive liquidity tightening in Q4-2023.*

### Cash Reserve Requirement
(Percent)



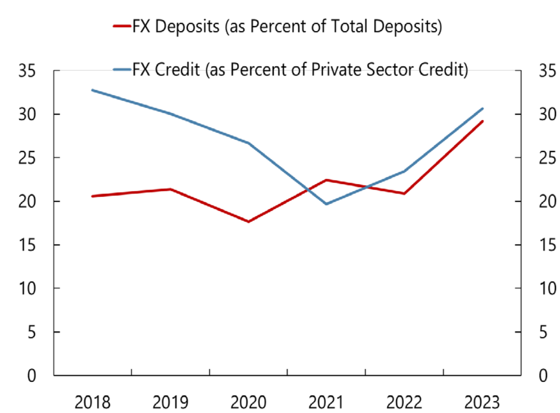

*Expansion of credit to the economy continued in 2023, reflecting stronger credit to the private sector and high inflationary pressures.*

### Credit to the Economy's Growth
(Percent)




*Dollarization of deposits and credit continue to increase in 2023 reflecting the sharp depreciation of the Naira and deteriorating market confidence.*

### Deposit and Credit Dollarization
(Percent)

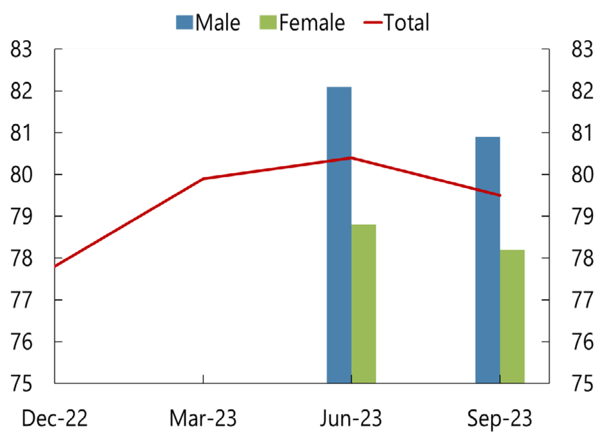



Sources: Haver Analytics, Fund Staff estimates

## Figure 5. Nigeria: Labor Market Developments

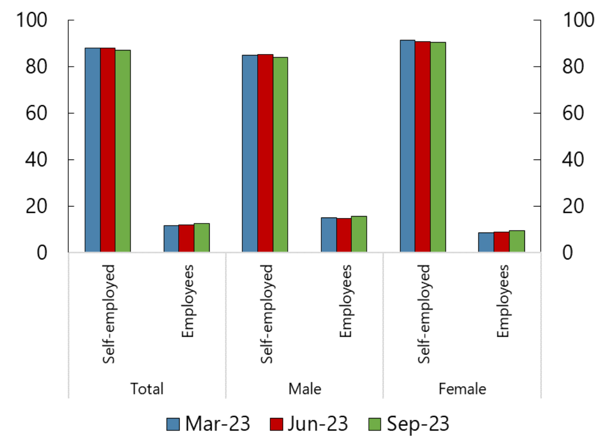
*Labor participation is higher for men than for women.*

### Labor Force Participation
(Percent)



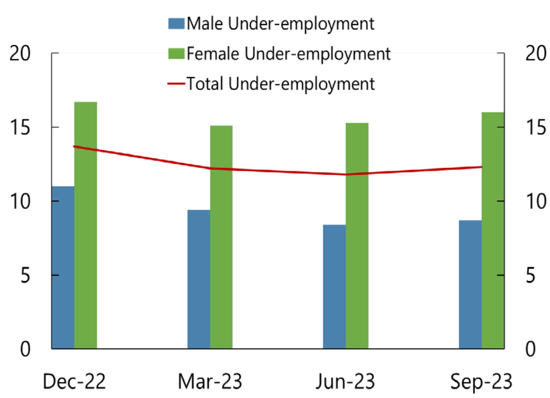

*The majority of employed women are self-employed, which exacerbates their fragility in the labor market.*

### Employment Rate
(Percent)



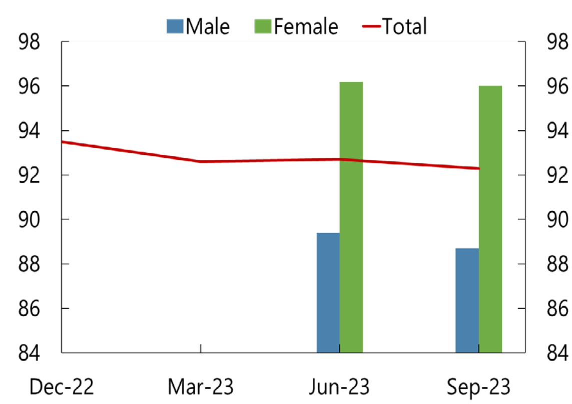

*Underemployment affects women disproportionately. **

### Under-Employment Rate
(Percent)




*Informal employment is high and also affects women disproportionately.*

### Informal Employment
(Percent)



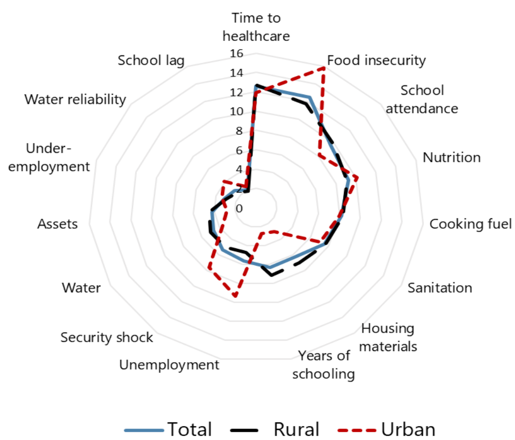

*Under-employment is defined as the share of employed people who are working less than 40 hours per week.
Sources: National Bureau of Statistics (NBS), Fund Staff estimates

## Figure 6. Nigeria: Poverty, Governance and Business Environment

*Food insecurity, access to healthcare and security are the main drivers to poverty, even more so in rural areas.*

**Multidimensional Poverty Index (2022)**

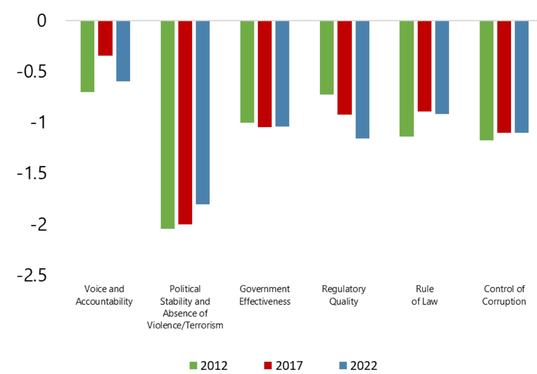
(Percent)




*Nigeria continues to rank low on governance indicators, some pockets of progress notwithstanding.*

**Worldwide Governance Indicators**

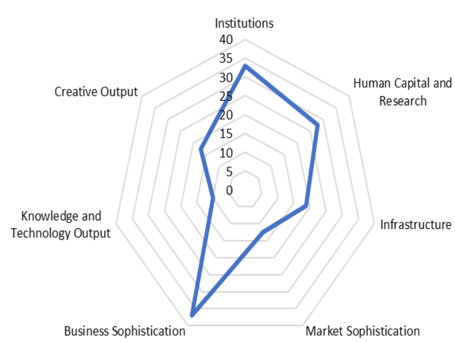
(Score from -2.5 to 2.5, higher value corresponds to better governance)




*Business sophistication, institutions, human capital/research are supportive of innovation.*

**Global Innovation Index (2023)**

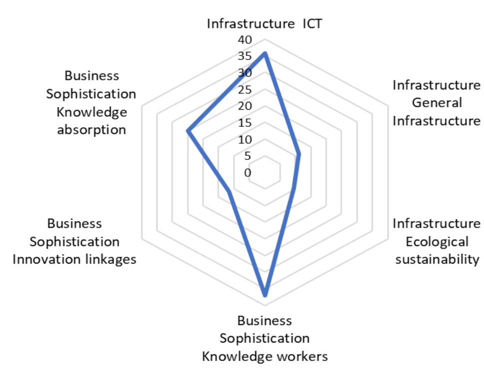
(Score value, 0 is the lowest)




*ICT infrastructure and business sophistication support the business environment.*

**Business Sophistication and Infrastructure (2023)**

(Score value, 0 is the lowest)




***The Multidimensional Poverty Index (MPI)*** is built from a bespoke survey of households representing 36 States and FCT Abuja and designed around 15 dimensions of poverty.
***The Worldwide Governance Indicators (WGI)*** is a perception-based indicator,based on over 30 underlying data sources and drawing of 4 types of data: Surveys of households and firms, Commercial businesses, NGOs and Public sector organizations. The WGI reflects respondents' perception of governance across 6 dimensions.
***The Global Innovation Index (GII)*** collects data from more than 30 international public and private sources, covering a large spectrum of innovation drivers and results, and privileging hard data over qualitative assessments (64 are hard data, 11 composite indicators, and 5 survey questions).

Sources: National Bureau of Statistics (NBS), World Bank and WIPO.

# Annex I. Capacity Development Strategy FY 2023

## A. Context

1. **President Tinubu assumed office in May 2023**. President Tinubu campaigned on a platform of reforms which his government has started to implement. However, the macroeconomic environment remains challenging with high inflation, steep currency depreciation following the exchange rate reforms and continued FX supply shortages. In this context there is need to implement short term policies to stabilize the economy accompanied by a comprehensive macroeconomic reform program to boost fiscal revenues, improve growth prospects, and reduce poverty. The financial sector appears stable but faces rising risks associated with high inflation and depreciation which reduces real incomes and borrowers' ability to service their debt. The Capacity Development (CD) strategy outlined below is consistent with Nigeria's needs and would support the achievement of key macroeconomic objectives. With the new government under President Tinubu and his economic team, there is an opportunity for accelerated reforms. The Fund will be nimble in prioritizing and sequencing CD to support the authorities' reform momentum.

## B. CD Strategy and Priorities

2. **IMF surveillance in Nigeria calls for a comprehensive package of policy reforms.** CD in Nigeria is aligned closely with staff's policy recommendations and the authorities' macroeconomic objectives. CD will focus on revenue-based fiscal consolidation, improving debt management, sustaining financial stability, transitioning to inflation targeting as the monetary policy framework, and strengthening the functioning of the foreign exchange market. Insufficient political commitment to implement the Fund's policy advice has negatively impacted the absorption of CD in the past. However, the new government has signaled its intent to undertake significant reforms as demonstrated by the elimination of fuel subsidies and multiple FX windows. Staff will carefully assess the governments appetite for further reforms and tailor CD provision accordingly.

3. **The proposed CD strategy will focus on the priorities outlined in this 2024 Article IV consultation.** CD will support the authorities' reforms in the areas of revenue mobilization, public financial management, inflation targeting, banking supervision, financial stability, debt management, and macroeconomic statistics. Nigeria's interest in Fund TA on CBDC has not yet led to a concrete request.

4. **The current mix of HQ/RTAC missions (about 1:2) is appropriate,** leveraging continuous regional engagement while also benefiting from strategic support from the HQ. Training activities should gradually expand—both as standalone ones and a part of TA missions. The ongoing resident advisor program on revenue administration should be maintained given its criticality for Nigeria.

## C. Key Overall CD Priorities Going Forward

| Priorities | Objectives |
|---|---|
| *Tax Policy and Revenue Administration* | **Traction:** TA advice on tax policy were partially incorporated in past Finance Bills. However, the introduction of new excises on telecom service, plastics, and fuel vehicles that had been included in the 2023 Finance Bill were recently suspended. There has been progress in the tax automation system (TaxPro Max) with Fund advice. The Strategic Revenue and Growth Initiative and future Finance Bills are expected to benefit from the most recent TA, including on priorities for revenue administration.<br>**Going forward:** Revenue mobilization through comprehensive tax policy reforms, including review/rationalization of tax expenditures, a comprehensive review of tax system, and the introduction of new excises. The authorities have so far emphasized strengthening tax and customs administrations through automation as their near-term approach to revenue mobilization. Traction is expected to increase on revenue administration TA as the new government is expected to utilize more effectively the recently deployed long term resident advisor. |
| *Monetary and Exchange Rate Policies* | **Traction:** Significant improvement with the recent unification of the various FX windows, a long-standing Fund advice. In addition, the authorities have now started implementing the Fund recommendation to tighten monetary policy and strengthen the policy framework.<br>**Going forward:** Focus on transitioning to an inflation targeting framework and enhancing functioning of the foreign exchange market. This should include support to amend the central bank law to make price stability the primary objective of monetary policy; and revamping the monetary policy toolkit to make effective use of the range of instruments to manage liquidity and achieve monetary policy goals. Support to adopt a more market determined exchange rate regime and establish a liquid and transparent FX market. Developing a communication strategy that would clearly articulate the objectives of monetary policy, nominal anchor, and targets. Training on monetary and exchange rate analysis would be needed to support the achievement of these objectives. |
| *Public Financial Management* | **Traction:** A Treasury Single Account has been put in place, and good progress has been made on the Medium-Term Debt Strategy, cash management, and on budget planning. Little uptake so far of staff's TA advice on proper monitoring and classification of Government-Owned Enterprises.<br>**Going forward**: TA to focus more on debt management, PPP fiscal risks management, and fiscal reporting. |

| Priorities | Objectives |
|---|---|
| *Enhance Financial Stability* | **Traction**: Good uptake of policy advice on bank regulation and supervision, including towards Pillar II implementation, risk-based supervision, as well as in regulation of emerging risks in Cyber/Fintech. **Going forward:** Undertake a Financial Sector Stability Review (FSSR) and formulate and execute an action plan to mitigate new and emerging vulnerabilities in the financial sector resulting from depreciation, high inflation, and low economic growth, while continue to strengthen financial sector regulation and supervision. |
| *Strengthen Macroeconomic and Financial Statistics Compilation* | **Traction:** Progress continues on GDP, CPI, and BOP statistics but little interest has been shown on GFS statistics from the budget office. **Going forward:** Support for compilation of national accounts and price measurement should be maintained with emphasis on training modules. |

## D. Main Risks and Mitigation

**5. Good progress has been made in implementing CD recommendations, albeit at a much slower pace to date on revenue mobilization and a few statistics areas.** Political commitment and absorptive capacity have been key risk factors. With the new government, there is an expectation that political commitment to reforms will be stronger. The Fund will engage with the authorities on where they put their reform priorities and calibrate CD delivery accordingly to mitigate the political commitment risk. Relying on hands-on and regular support from AFRITAC West and the resident advisor will help address risks from limited absorptive capacity.

# Annex II. 2013 Financial Sector Assessment Follow-Up

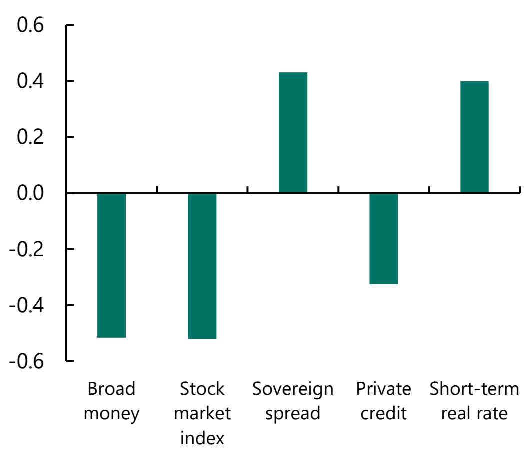
| Recommendations | Status |
|---|---|
| **Cross sector issues** | |
| Further enhance supervisory oversight over banks with international presence. | Implemented |
| Strengthen macroprudential oversight and crisis preparedness by enhancing the functioning of the FSRCC. | Partially implemented |
| Strengthen capacity of supervisors and establish clarity regarding their regulatory authority; and improve availability and quality of data for macroprudential analysis. | Implemented |
| **Banking sector** | |
| Review and update the BOFIA. | Implemented |
| Implement HRD plan for a new category of BSD specialists with a separate career path. | Implemented |
| Withdraw the CBN circular restricting recapitalization of foreign subsidiaries by Nigerian parent banks | Implemented |
| **Insurance** | |
| Upgrade the solvency regime, as well as valuation and the reserve requirements, to better capture risk. | Implemented |
| Put high priority on enforcement of mandatory insurance. | Implemented |
| **Pensions** | |
| Establish a database of employers required to comply with the Pension Reform Act, 2004. | Implemented |
| Develop Nigerian specific mortality tables for pricing annuities and programmed withdrawals. | Partially implemented |
| **Securities market** | |
| Expeditiously nominate the new Board members of the SEC. | Implemented |
| Ensure that broker-dealers are subject to higher risk-based capital requirements and other prudential requirements as well as sufficient entity-level supervision, including regular on-site inspections | Implemented |
| **Safety Nets and Crisis Management** | |
| Unwind crisis response measures and revert to the conventional financial safety nets that are already in place, including the DIS | Implemented |
| Establish end–2017 as the sunset for AMCON, disallow further acquisition of assets, and use surplus funds to buy back bonds. | Partially implemented |
| **Access to Finance** | |
| Review the licensing of the microfinance banks, to offer two types of licenses. | Implemented |
| **Development finance** | |
| Divest CBN’s interest in DFIs to the FMoF and/or the private sector as appropriate. | Partially implemented |
| Review the design and performance of the Development Finance Schemes. | Not implemented |
| **Asset-Liability Management** | |
| Create central unit to monitor contingent fiscal commitments and develop a strategy as regards further commitments. | Partially implemented |
| **Payment Systems** | |
| Revise the 2009 Regulatory Framework for Mobile Payment Services to level the playing field and intensify competition | Partially implemented |

# Annex III. Financial Conditions, Inflation, Exchange Rate[1]

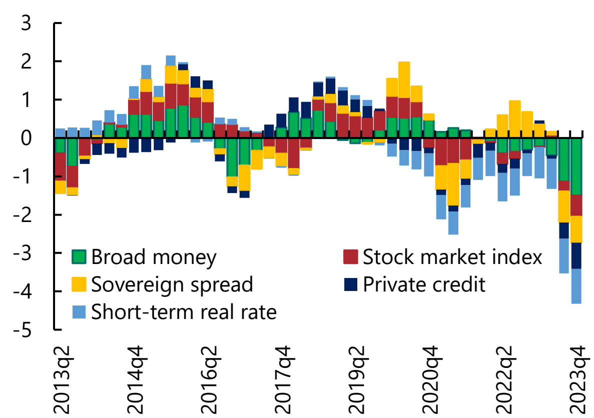
*Nigeria faces acute policy trade-offs with a key macro risk being an exchange rate depreciation-inflation spiral. This annex analyzes the drivers of inflation and exchange rates and concludes that a tightening of financial conditions will help bring inflation down, tame Naira pressures, and reduce the parallel FX market premium.*

1. **Financial conditions in Nigeria have been loose over the past few years**. Building on the recent literature assessing financial conditions in several emerging markets economies, a principal component analysis is used to compute a financial conditions index for Nigeria. The index aims at gauging how easily money and credit flow through the economy via financial markets. It is computed as the weighted average of broad money, private credit, the 3-month real t-bill rate, the stock market index, and the sovereign spread, each exhibiting the appropriate sign entering the final index. The variables are chosen based on data availability. The results show that financial conditions have been loose since the end of 2020 and driven by almost all the components, except for the sovereign spread for part of the period.

**Nigeria: Weights (Eigen Vectors) of Components of the Financial Conditions Index**
(weights derived from the principal component analysis using monthly data)




**Nigeria: Financial Conditions Index**
(Principal component analysis; higher values indicate tightening of financial conditions)




Source: Nigerian authorities and IMF staff calculations.

2. **Persistently loose financial conditions have contributed to accelerating inflation**. To assess the contribution of financial conditions to inflation, a simple econometric model is used where y-o-y changes in the CPI are regressed on both the parallel and official exchange rates, international oil prices, and the financial condition index. The model accounts for 60 percent of the variation in the inflation rate. The estimates show that a two standard deviation increase in the financial condition index (tightening) will be associated with a 3-percentage points reduction in

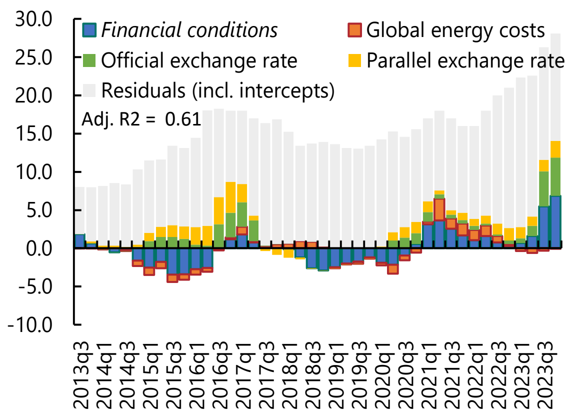
[1] Prepared by Christian Ebeke, Zainab Mangga, and Nene Ikpechukwu.

inflation in the same quarter, after controlling for exchange rates. The decomposition of the inflation rate using the model shows an increase in the contribution from loose financial conditions and exchange rates to current inflationary pressures.

**3. A tightening of financial conditions will help bring inflation down**. To further assess the impact of financial conditions on inflation, we rely on a local projection framework in which the impact of financial conditions on the quarterly inflation rate is projected over the next 4 quarters—while controlling for other determinants. The results show that a two-standard deviation in the FCI (tightening) will be associated with nearly a 6 percentage points decline in the inflation rate after two quarters.

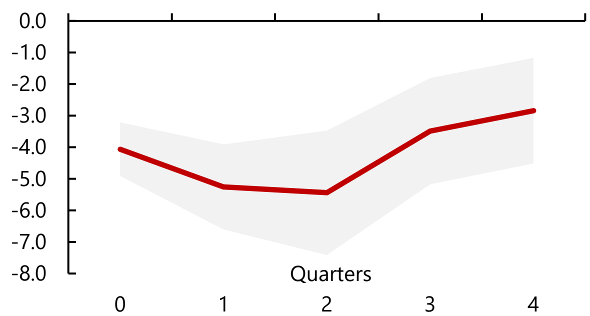
**Nigeria: Contribution to Headline Quarterly Inflation: Econometric Estimates**

(yoy; percentage points)



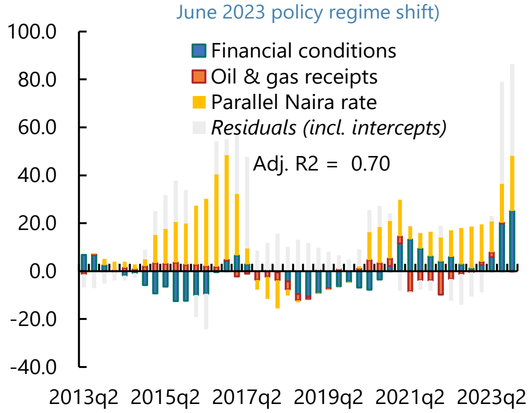

**Nigeria: Response of Headline Inflation to a 2 Std. Dev. Tightening of Financial Conditions**

(Local projection estimates controlling for the PMI, the official and parallel Naira/$ exchange rates, and global oil prices; yoy percentage points changes)

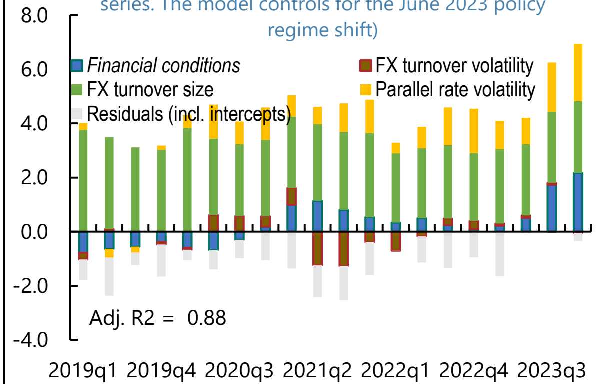



Source: Nigerian authorities and IMF staff calculations.

**4. Loose financial conditions have fueled pressures on the Naira/$ exchange rate and its volatility**. A simple exchange rate model is estimated to assess the effect of financial conditions on y-o-y percent changes in Naira/$ rate. The model controls for the lagged parallel exchange rate, oil and gas export revenues (as a proxy for international reserves and sentiment) and the June 2023 foreign exchange reform dummy. The results show a statistically significant effect of the loosening of financial conditions on Naira/$ depreciation even after controlling for the June reform. A similar model is estimated for the Naira/$ exchange rate volatility while controlling for parallel market rate volatility, the FX turnover size and its volatility, the financial conditions index, and a dummy for the June 2023 reform. Based on this model, a decomposition of Naira/$ volatility shows a sizable contribution from the ongoing loose financial conditions, FX shortages as measured by FX turnover size, and the volatility of the parallel market rate.



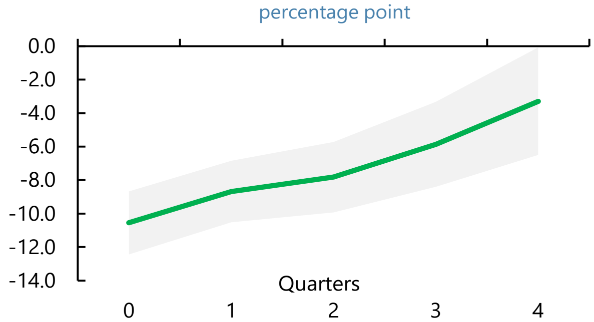

**Nigeria: Contribution to Naira Depreciation: Econometric Estimates**
(yoy; percentage points. The model controls for the June 2023 policy regime shift)



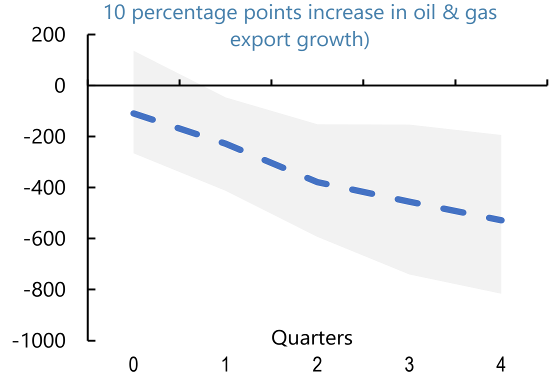

**Nigeria: Contribution to Naira Excess Volatility: Econometric estimates**
(yoy; percentage points; Volatility is proxied by log of the quarterly std. dev. of the yoy growth rate of daily series. The model controls for the June 2023 policy regime shift)

Source: Nigerian authorities and IMF staff calculations.

**5. Tighter financial conditions and a sustained increase in FX inflows are needed to tame Naira/$ pressures and sustainably reduce the FX premium**. Results from a local projection model—regressing yoy percentage points changes in the Naira/$ exchange rate on the financial conditions index, controlling for oil and gas export revenues, lagged levels of the parallel market rate, and the June 2023 dummy variable—show sizable effects. The impulse responses from a two-standard deviation tightening of financial conditions is associated with a 10-percentage points appreciation in the Naira/$ rate, on impact.




**Nigeria: Response of Naira/$ rate to a 2 Std. Dev. Tightening of Financial Conditions**
(Local projection estimates controlling for oil and gas export receipts, lagged Naira/$ official and parallel rates, and a June 2023 reform dummy; yoy percentage point




**Nigeria: Response of the FX premium**
(i.e. difference between the parallel and the official Naira/$ rate) to a combined policy action ((i) tighter financial conditions and (ii) a 10 percentage points increase in oil & gas export growth)

Source: Nigerian authorities and IMF staff calculations.

Note: Local projection estimates allowing for non-linearities between financial conditions and fx receipts through oil & gas exports; and controlling for the June 2023 policy regime shift).

# Annex IV. Risk Assessment Matrix[1]

| Sources of Risk | Likelihood | Time Horizon | Impact on Nigeria | Policy Responses |
|---|---|---|---|---|
| | | **External Risks** | | |
| **Intensification of regional conflicts.** Escalation or spread of the conflict in Gaza and Israel, Russia's war in Ukraine, and/or other regional conflicts or terrorism disrupt trade (e.g., energy, food, tourism, supply chains), remittances, FDI and financial flows, payment systems, and increase refugee flows. | High | **Short Term** | High | • Prioritize **fiscal intervention** to relieve food insecurity<br>• **Tighten monetary policy further** to contain inflation.<br>• Allow **exchange rate flexibility** to preserve **external buffers**. |
| **Commodity price volatility.** A succession of supply disruptions (e.g., due to conflicts, export restrictions, and OPEC+ decisions) and demand fluctuations causes recurrent commodity price volatility, external and fiscal pressures in EMDEs, cross-border spillovers, and social and economic instability. | High | **Short Term** | High | • Prioritize **fiscal intervention** to relieve food insecurity. Build fiscal buffers to mitigate against oil/gas price volatility.<br>• **Tighten monetary policy further** to contain inflation.<br>• Allow **exchange rate flexibility** to preserve **external buffers**.<br>• **Seize oil/gas windfall gains** to build reserves. |
| **Sovereign debt distress.** Domino effects from high global interest rates, a growth slowdown in AEs, unfunded fiscal spending, and/or disorderly debt events in some EMDEs spillover to other highly indebted countries, amplified by sovereign-bank feedback, resulting in capital outflows, rising risk premia, and loss of market access. | Medium | **Short to Medium Term** | Medium | • **Tighten monetary policy further**.<br>• Allow **exchange rate flexibility**, while deploying full range of **Integrated Policy Framework** tools for both secondary and contingency responses.<br>• **Identify alternative (external) financing** sources if Eurobond market is closed off. |
| **Extreme climate events.** Extreme climate events driven by rising temperatures cause loss of human lives, severe damage to infrastructure, supply disruptions, lower growth, and financial instability. | Medium | **Medium to Long Term** | High | • Fast-track implementation and **scale up social protection system** as needed.<br>•Strengthen **fiscal buffers** and expand ex-ante risk financing instruments to improve speed and efficiency of disaster response.<br>• Integrate **climate resilience** into public investment management to minimize future cost of flooding events. |
| | | **Nigeria-specific Risks** | | |
| **Worsening food insecurity.** Agricultural sector weakness or renewed high global commodity prices leading to higher food inflation could worsen food security. | High | **Short to Medium Term** | High | • **Increased support to the vulnerable.** Fast-track implementation of social protection system and scale up as needed.<br>• **Strengthen the agricultural sector**. Increase supply of inputs, particularly fertilizer, and reduce high transport losses by improving the condition of roads in agricultural areas. |

[1] The Risk Assessment Matrix (RAM) shows events that could materially alter the baseline path. The relative likelihood is the staff's subjective assessment of the risks surrounding the baseline ("low" is meant to indicate a probability below 10 percent, "medium" a probability between 10 and 30 percent, and "high" a probability between 30 and 50 percent). The RAM reflects staff views on the source of risks and overall level of concern as of the time of discussions with the authorities. Non-mutually exclusive risks may interact and materialize jointly. The conjunctural shocks and scenarios highlight risks that may materialize over a shorter horizon (between 12 to 18 months) given the current baseline. Structural risks are those that are likely to remain salient over a longer horizon.

| Sources of Risk | Likelihood | Time Horizon | Impact on Nigeria | Policy Responses |
|---|---|---|---|---|
| **Continued high inflation leading to an exchange rate – inflation spiral.**<br>Inflation could spiral upwards if the authorities fail to sufficiently tighten financial conditions. This would negatively affect consumption and investment, trigger disorderly asset price adjustment, and further exchange rate pressures due to private sector's inflation hedge-induced FX demand. | **High** | **Short to Medium Term** | **High** | • Decisively **tighten monetary policy further**, including mopping up of excess liquidity.<br>• **Maintain exchange rate flexibility** as the first line of defense<br>• Ensure social safety net is first line of defense while tightening fiscal policy in support of monetary policy. |
| **Renewed weakness in oil production due to unabated theft and deterioration of security conditions.** | **Medium** | **Medium Term** | **High** | • Strengthen security and investment environment in the **oil and gas** sector.<br>• A coordinated effort in both military and developmental fronts to address security challenges and drivers. |
| **Slow progress in addressing corruption, tax evasion, and related money laundering.** A failure to make progress could further discourage inward foreign investment, remaining on the FATF grey list because of strategic AML/CFT deficiencies could impact correspondent banking relationships and transnational financial flows and diminish international confidence in the Nigerian financial system. | **Medium** | **Short Term** | **Medium** | • **Strengthen the AML/CFT regime,** including implementing past Fund recommendations as well as recommendations of the 2021 Mutual Evaluation Report.<br>• **Step up anti-corruption and governance efforts** including asset declaration, measures to manage risks posed by politically exposed persons, transparency of beneficial ownership, and corporate governance. |

# Annex V. Sovereign Risk and Debt Sustainability Assessment

## Figure 1. Nigeria: Risk of Sovereign Stress

| Horizon | Mechanical signal | Final assessment | Comments |
|---|---|---|---|
| **Overall** | ... | Moderate | The overall risk of sovereign stress is moderate in line with the assessments for the medium- and long-term. The assessment is also supported by the long maturity structure of Nigeria's debt stock which mitigates short-term risks. |
| **Near term 1/** | | | |
| **Medium term** | Moderate | Moderate | Staff assesses medium-term risks as moderate in line with the mechanical signal. The fan-chart module indicates high medium-term risks, driven by the fan-chart width and an elevated probability of debt non-stabilization, which both reflect high historical volatility, as well as a high terminal debt level (interacted with a quality of institutions index) relative to peers. The GFN module indicates moderate risk. Continued revenue mobilization is key to containing liquidity risks. |
| Fanchart | High | ... | |
| GFN | Moderate | ... | |
| Stress test | Comm. Prices Cont. Liabty. FX rate | ... | |
| **Long term** | ... | Moderate | Staff assesses long-term risks as moderate, in line with the near- and medium-term assessments, with the alternative scenarios underscoring the importance of staying the course on the authorities' macroeconomic policy and reform plans. Based on standardized cost estimates, risks from climate mitigation are low, while risks from natural resource depletion highlight the need for economic diversification over time, in line with the authorities growth agenda. |
| **Sustainability assessment 2/** | Not required for surveillance countries | Not required for surveillance countries | ... |
| **Debt stabilization in the baseline** | | | Yes |

### DSA Summary Assessment

Nigeria's public debt rose by 17 percent of GDP since 2019 to 46 percent in 2023. Fiscal deficits and, in 2023, exchange rate depreciation were the main drivers. The authorities' planned fiscal consolidation efforts, reflected in the baseline, are necessary to limit debt accumulation in the medium term and put debt on a declining path. Staff assess Nigeria's risk of sovereign stress as moderate, reflecting the long maturity structure of debt and moderate gross financing needs, but flag sources of risk, including from global uncertainty, exchange rate depreciation, and still weak revenue mobilization. Absent policies to safeguard macroeconomic stability and improvements in the fiscal position, risks would be increasing.

Source: Fund staff.

Note: The risk of sovereign stress is a broader concept than debt sustainability. Unsustainable debt can only be resolved through exceptional measures (such as debt restructuring). In contrast, a sovereign can face stress without its debt necessarily being unsustainable, and there can be various measures—that do not involve a debt restructuring—to remedy such a situation, such as fiscal adjustment and new financing.

1/ The near-term assessment is not applicable in cases where there is a disbursing IMF arrangement. In surveillance-only cases or in cases with precautionary IMF arrangements, the near-term assessment is performed but not published.

2/ A debt sustainability assessment is optional for surveillance-only cases and mandatory in cases where there is a Fund arrangement. The mechanical signal of the debt sustainability assessment is deleted before publication. In surveillance-only cases or cases with IMF arrangements with normal access, the qualifier indicating probability of sustainable debt ("with high probability" or "but not with high probability") is deleted before publication.

## Figure 2. Nigeria: Debt Coverage and Disclosures

| | | | | | | Comments |
|---|---|---|---|---|---|---|
| **1. Debt coverage in the DSA: 1/** | CG | GG | NFPS | CPS | Other | |
| **1a. If central government, are non-central government entities insignificant?** | | | | | n.a. | |
| **2. Subsectors included in the chosen coverage in (1) above:** | | | | | | |

| | | | | | Subsectors captured in the baseline | Inclusion | |
|---|---|---|---|---|---|---|---|
| CPS | NFPS | GG: expected | CG | 1 | Budgetary central government | Yes | |
| | | | | 2 | Extra budgetary funds (EBFs) | Yes | Not applicable |
| | | | | 3 | Social security funds (SSFs) | Yes | |
| | | | | 4 | State governments | Yes | |
| | | | | 5 | Local governments | Yes | |
| | | | | 6 | Public nonfinancial corporations | No | |
| | | | | 7 | Central bank | No | |
| | | | | 8 | Other public financial corporations | No | |

| | | | | | |
|---|---|---|---|---|---|
| **3. Instrument coverage:** | Currency & deposits | Loans | Debt securities | Oth acct. payable 2/ | IPSGSs 3/ |

| | | | | | |
|---|---|---|---|---|---|
| **4. Accounting principles:** | Basis of recording | | Valuation of debt stock | | |
| | Non-cash basis 4/ | Cash basis | Nominal value 5/ | Face value 6/ | Market value 7/ |

| | | |
|---|---|---|
| **5. Debt consolidation across sectors:** | Consolidated | Non-consolidated |

**Color code:** chosen coverage; Missing from recommended coverage; Not applicable

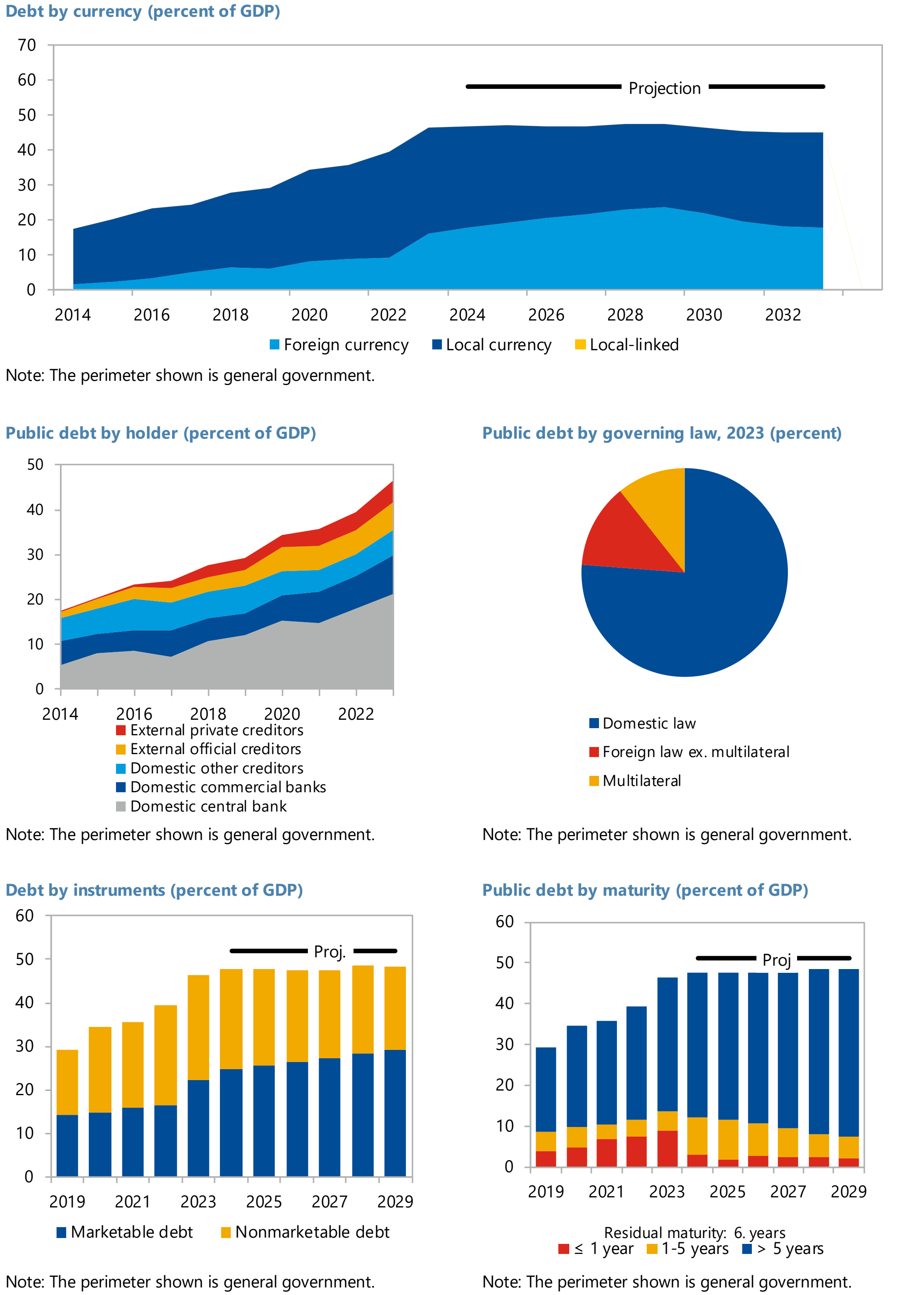
### Reporting on Intra-government Debt Holdings

| | | | | | Issuer \ Holder | Budget. central govt | Extra-budget. funds (EBFs) | Social security funds (SSFs) | State govt. | Local govt. | Nonfin. pub. corp. | Central bank | Oth. pub. fin corp | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| CPS | NFPS | GG: expected | CG | 1 | Budget. central govt | | | | | | | | | 0 |
| | | | | 2 | Extra-budget. funds | | | | | | | | | 0 |
| | | | | 3 | Social security funds | | | | | | | | | 0 |
| | | | | 4 | State govt. | | | | | | | | | 0 |
| | | | | 5 | Local govt. | | | | | | | | | 0 |
| | | | | 6 | Nonfin pub. corp. | | | | | | | | | 0 |
| | | | | 7 | Central bank | | | | | | | | | 0 |
| | | | | 8 | Oth. pub. fin. corp | | | | | | | | | 0 |
| | | | | | Total | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |

1/ CG=Central government; GG=General government; NFPS=Nonfinancial public sector; PS=Public sector.
2/ Stock of arrears could be used as a proxy in the absence of accrual data on other accounts payable.
3/ Insurance, Pension, and Standardized Guarantee Schemes, typically including government employee pension liabilities.
4/ Includes accrual recording, commitment basis, due for payment, etc.
5/ Nominal value at any moment in time is the amount the debtor owes to the creditor. It reflects the value of the instrument at creation and subsequent economic flows (such as transactions, exchange rate, and other valuation changes other than market price changes, and other volume changes).
6/ The face value of a debt instrument is the undiscounted amount of principal to be paid at (or before) maturity.
7/ Market value of debt instruments is the value as if they were acquired in market transactions on the balance sheet reporting date (reference date). Only traded debt securities have observed market values.

The public debt in this SRDSF includes general government debt (including central government debt and state and local government debt), as well as CBN overdraft.

## Figure 3. Nigeria: Public Debt Structure Indicators

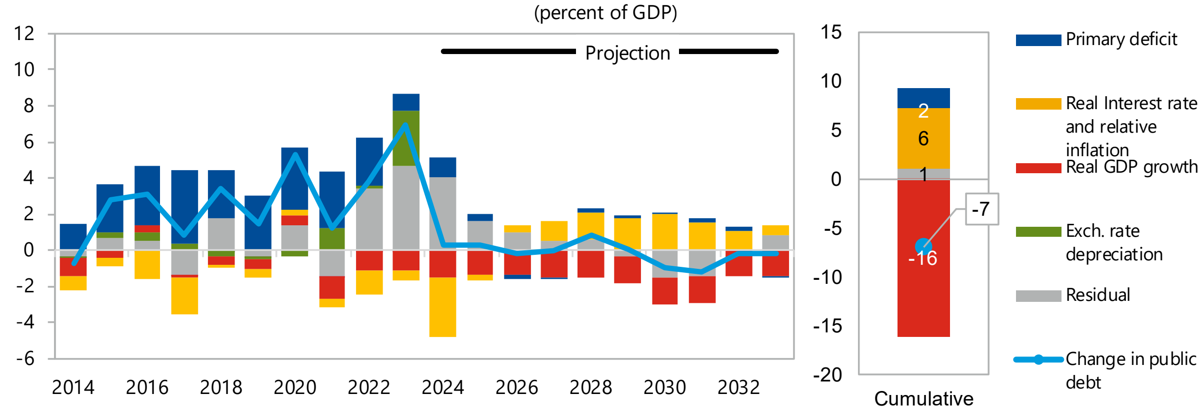



The share of foreign debt in total debt is expected to increase over the medium term, from 34 percent in 2023 to over 50 percent in 2028, leading to a higher share of marketable and long-term debt.

## Figure 4. Nigeria: Baseline Scenario
(Percent of GDP unless indicated otherwise)

| | Actual | Medium-term projection | | | | | | Extended projection | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2023 | 2024 | 2025 | 2026 | 2027 | 2028 | 2029 | 2030 | 2031 | 2032 | 2033 |
| Public debt | 46.4 | 46.7 | 47.0 | 46.8 | 46.7 | 47.5 | 47.6 | 46.6 | 45.4 | 45.2 | 45.0 |
| Change in public debt | 7.0 | 0.3 | 0.3 | -0.2 | 0.0 | 0.8 | 0.1 | -1.0 | -1.2 | -0.2 | -0.2 |
| Contribution of identified flows | 2.3 | -3.7 | -1.3 | -1.2 | -0.6 | 0.2 | 0.4 | 0.5 | 0.3 | -0.2 | -1.0 |
| Primary deficit | 0.9 | 1.2 | 0.4 | -0.2 | -0.1 | 0.2 | 0.1 | 0.1 | 0.3 | 0.2 | -0.1 |
| Noninterest revenues | 9.4 | 12.4 | 12.8 | 13.3 | 13.2 | 12.7 | 13.1 | 13.2 | 13.1 | 13.1 | 14.0 |
| Noninterest expenditures | 10.3 | 13.6 | 13.2 | 13.0 | 13.1 | 13.0 | 13.2 | 13.2 | 13.3 | 13.4 | 13.9 |
| Automatic debt dynamics | 1.4 | -4.8 | -1.7 | -0.9 | -0.4 | 0.0 | 0.3 | 0.5 | 0.0 | -0.4 | -0.9 |
| Real interest rate and relative inflation | -0.6 | -3.3 | -0.4 | 0.4 | 1.1 | 1.5 | 1.8 | 2.0 | 1.5 | 1.0 | 0.5 |
| Real interest rate | -1.3 | -5.9 | -2.0 | -1.1 | -0.4 | 0.1 | 0.4 | 0.5 | 0.1 | -0.2 | -0.6 |
| Relative inflation | 0.7 | 2.5 | 1.6 | 1.6 | 1.4 | 1.4 | 1.5 | 1.5 | 1.4 | 1.2 | 1.1 |
| Real growth rate | -1.1 | -1.5 | -1.3 | -1.4 | -1.5 | -1.5 | -1.5 | -1.5 | -1.5 | -1.5 | -1.5 |
| Real exchange rate | 3.1 | … | … | … | … | … | … | … | … | … | … |
| Other identified flows | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Contingent liabilities | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| (minus) Interest Revenues | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Other transactions | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Contribution of residual | 4.6 | 4.0 | 1.6 | 1.0 | 0.5 | 0.6 | -0.3 | -1.5 | -1.5 | 0.0 | 0.8 |
| | | | | | | | | | | | |
| Gross financing needs | 7.2 | 4.7 | 6.1 | 5.0 | 5.9 | 6.3 | 6.4 | 6.3 | 5.3 | 5.3 | 4.9 |
| of which: debt service | 6.3 | 3.6 | 5.7 | 5.2 | 6.0 | 6.1 | 6.3 | 6.2 | 5.1 | 5.0 | 5.0 |
| Local currency | 4.8 | 1.8 | 3.6 | 3.8 | 4.0 | 4.0 | 4.3 | 4.3 | 3.4 | 3.4 | 3.5 |
| Foreign currency | 1.5 | 1.8 | 2.1 | 1.4 | 2.1 | 2.0 | 2.0 | 1.9 | 1.7 | 1.6 | 1.4 |
| Memo: | | | | | | | | | | | |
| Real GDP growth (percent) | 2.9 | 3.3 | 3.0 | 3.0 | 3.3 | 3.3 | 3.3 | 3.3 | 3.3 | 3.3 | 3.3 |
| Inflation (GDP deflator; percent) | 12.6 | 22.4 | 12.9 | 11.3 | 10.0 | 9.2 | 9.1 | 9.1 | 9.1 | 9.1 | 9.1 |
| Nominal GDP growth (percent) | 15.8 | 26.4 | 16.3 | 14.7 | 13.7 | 12.9 | 12.8 | 12.9 | 13.0 | 12.5 | 12.8 |
| Effective interest rate (percent) | 8.9 | 6.4 | 7.9 | 8.6 | 9.1 | 9.5 | 10.0 | 10.3 | 9.5 | 8.6 | 7.6 |

### Contribution to change in public debt
(percent of GDP)



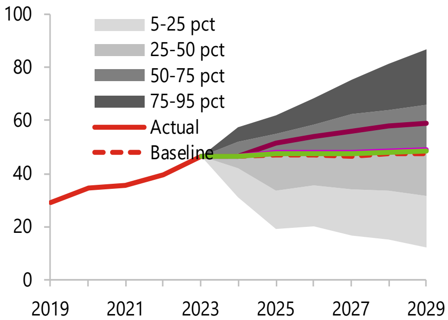

Favorable growth dynamics and declining interest rates are expected to limit debt accumulation in the medium-term. Over the long-term, debt is projected to decline marginally with an improving primary deficit and the exchange rate stabilizing as the inflation differential with the rest of the world is reduced. Residuals in the debt dynamics reflect revaluations in the stock/flow of foreign currency debt.

## Figure 5. Nigeria: Medium Term Risk Assessment

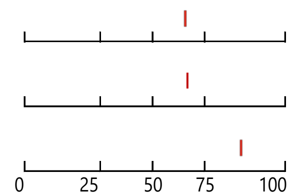
### Debt fanchart module

| | Value | Contrib [1/] |
|---|---|---|
| Fanchart width *(percent of GDP)* | 74.8 | 1.1 |
| Probability of debt non-stabilizaiton *(percent)* | 64.9 | 0.5 |
| Terminal debt-to-GDP x institutions index | 40.9 | 0.9 |
| **Debt fanchart index (DFI)** | | 2.5 |
| **Risk signal:** [3/] | | High |

**Final fanchart (pct of GDP)**



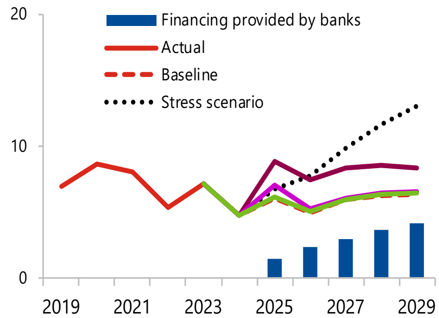

Percentile in peer group [2/]

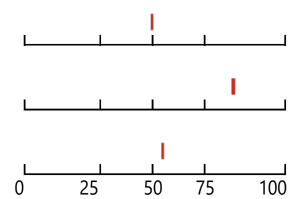


### Gross financing needs (GFN) module

| | Value | Contrib [1/] |
|---|---|---|
| Average baseline GFN *(percent of GDP)* | 5.7 | 2.0 |
| Initial Banks' claims on the gen. govt *(pct bank assets)* | 11.2 | 3.6 |
| Chg. In banks' claims in stress *(pct banks' assets)* | 9.6 | 3.2 |
| **GFN financeability index (GFI)** | | 8.8 |
| **Risk signal:** [4/] | | Moderate |

**Gross financing needs (pct of GDP)**

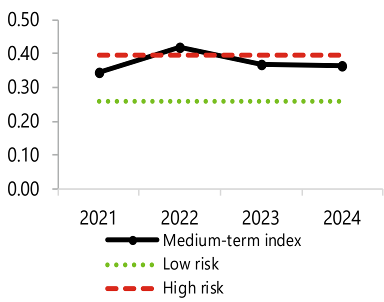


Triggered stress tests (stress tests not activated in gray)

Banking crisis | Commodity prices | Exchange rate | Contingent liab. | Natural disaster

**Medium-term index (index number)**




Medium-term risk analysis

| | Value | Value (normalized) | Weight | Contribution |
|---|---|---|---|---|
| Debt fanchart index | 2.5 | 0.6 | 0.5 | 0.3 |
| GFN finaceability index | 8.8 | 0.2 | 0.5 | 0.1 |
| **Medium-term index** | | 0.4 | | |
| **Risk signal: 5/** | | Moderate | | |
| **Final assessment:** | | Moderate | | |

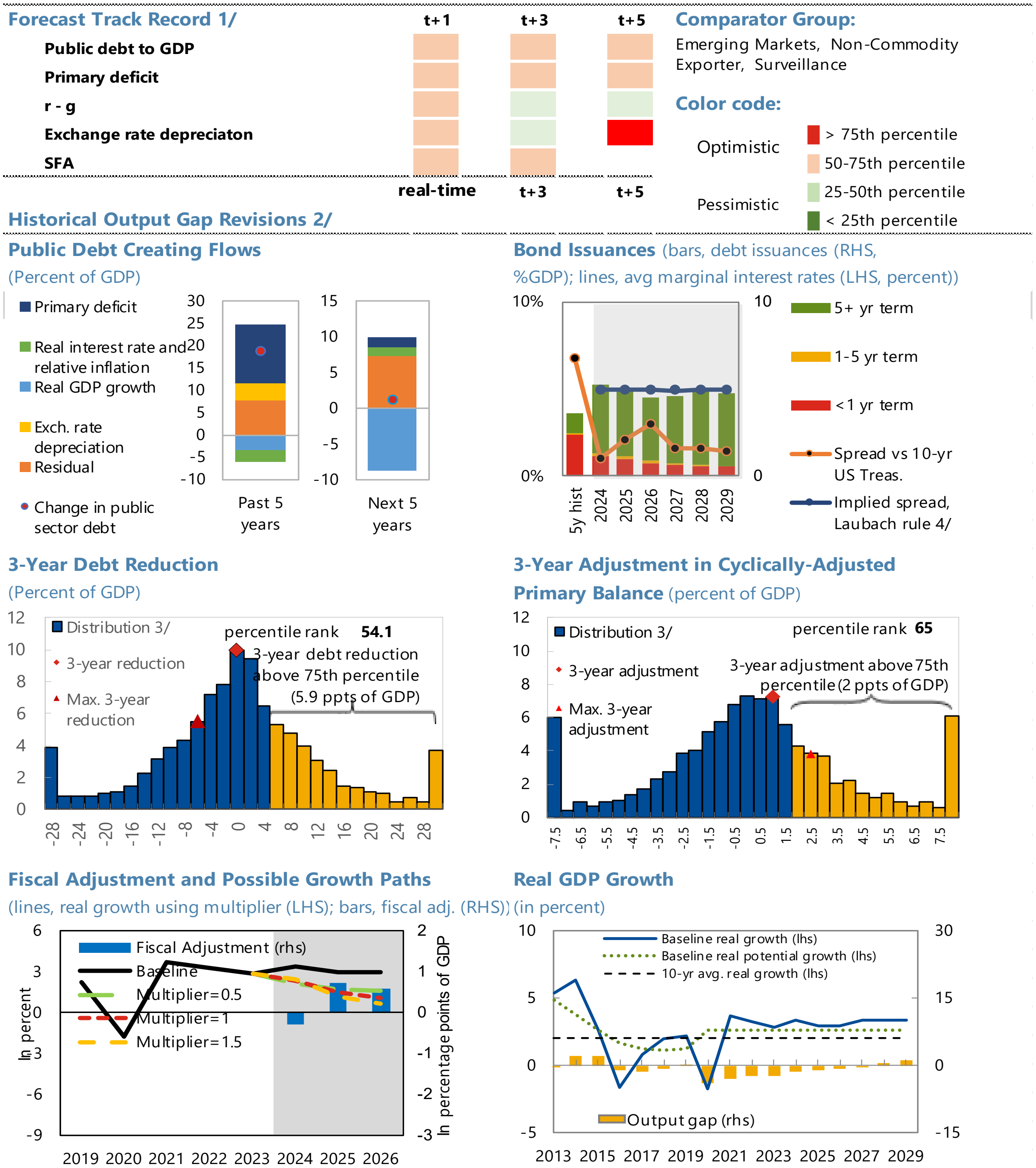
Prob. of missed crisis, 2024-2029, if stress not predicted: 27.3 pct.
Prob. of false alarms, 2024-2029, if stress predicted: 17.0 pct.

The debt fanchart module indicates a high level of risk of sovereign stress, owing to the uncertainty around the baseline (width of chart) and the high terminal debt-to-GDP ratio (interacted with a quality of institutions index) relative to peer countries as well as high historical volatility. The GFN module indicates moderate liquidity risks, with the overall medium-term risk index pointing to moderate risk.

Source: IMF staff estimates and projections.

1/ See Annex IV of IMF, 2022, Staff Guidance Note on the Sovereign Risk and Debt Sustainability Framework for details on index calculation.
2/ The comparison group is emerging markets, non-commodity exporter, surveillance.
3/ The signal is low risk if the DFI is below 1.13; high risk if the DFI is above 2.08; and otherwise, it is moderate risk.
4/ The signal is low risk if the GFI is below 7.6; high risk if the DFI is above 17.9; and otherwise, it is moderate risk.
5/ The signal is low risk if the GFI is below 0.26; high risk if the DFI is above 0.40; and otherwise, it is moderate risk.

## Figure 6. Nigeria: Realism of Baseline Assumptions




The realism analyses suggest optimism in the projections, and the 3-year adjustment in the primary balance falls in the 75th percentile. However, fiscal projections are based on strong revenue mobilization outturn in 2023, with commensurate expected yields in the medium term in line with annouced policies. The expected debt reduction in the projection period is well within normal range, with the debt run up in 2023 being driven by exchange rate depreciation.

Source : IMF Staff.

1/ Projections made in the October and April WEO vintage.

2/ Calculated as the percentile rank of the country's output gap revisions (defined as the difference between real time/period ahead estimates

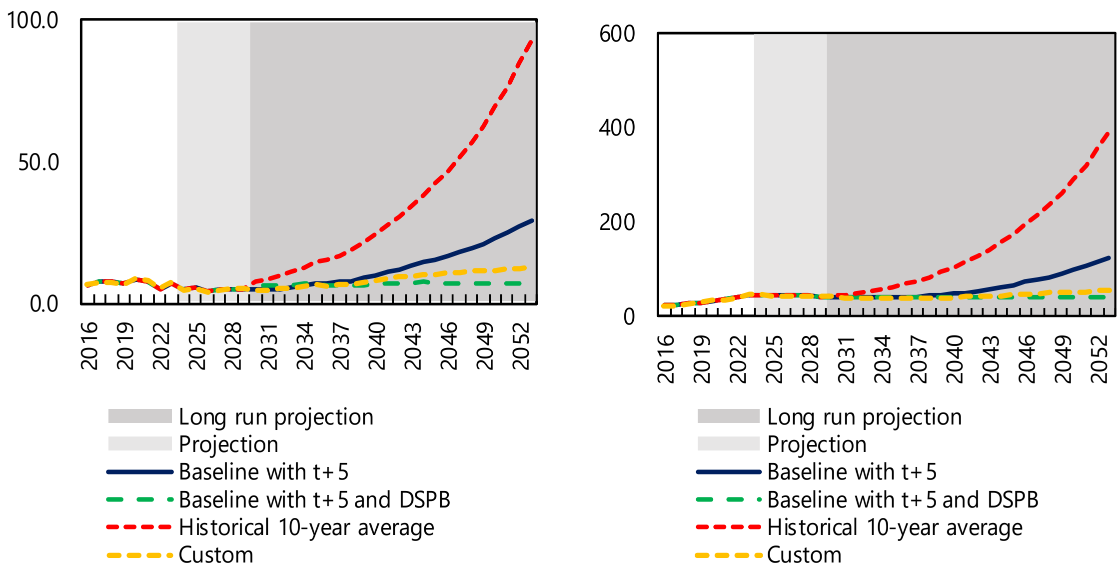
3/ Data cover annual obervations from 1990 to 2019 for MAC advanced and emerging economies. Percent of sample on vertical axis.

4/ The Laubach (2009) rule is a linear rule assuming bond spreads increase by about 4 bps in response to a 1 ppt increase in the projected debt-to-GDP ratio.

## Figure 7. Nigeria: Long-term Risk Assessment: Large Amortization

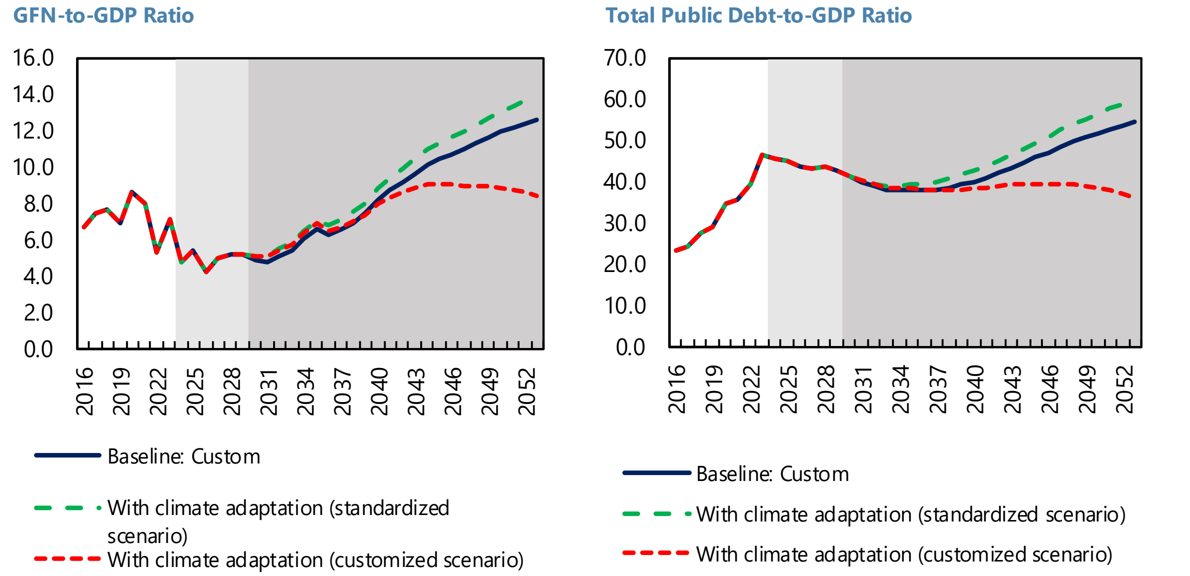
| Projection | Variable | Risk Indication |
|---|---|---|
| Medium-term extrapolation | GFN-to-GDP ratio | |
| | Amortization-to-GDP ratio | |
| | Amortization | |
| Medium-term extrapolation with debt stabilizing primary balance | GFN-to-GDP ratio | |
| | Amortization-to-GDP ratio | |
| | Amortization | |
| Historical average assumptions | GFN-to-GDP ratio | |
| | Amortization-to-GDP ratio | |
| | Amortization | |
| Overall Risk Indication | | |

| Variable | 2029 | 2033 to 2037 average | Custom Scenario |
|---|---|---|---|
| Real GDP growth | 3.3% | 3.3% | 3.3% |
| Primary Balance-to-GDP ratio | -0.1% | -0.1% | 0.0% |
| Real depreciation | -0.1% | -8.4% | 0.0% |
| Inflation (GDP deflator) | 9.1% | 9.1% | 9.1% |



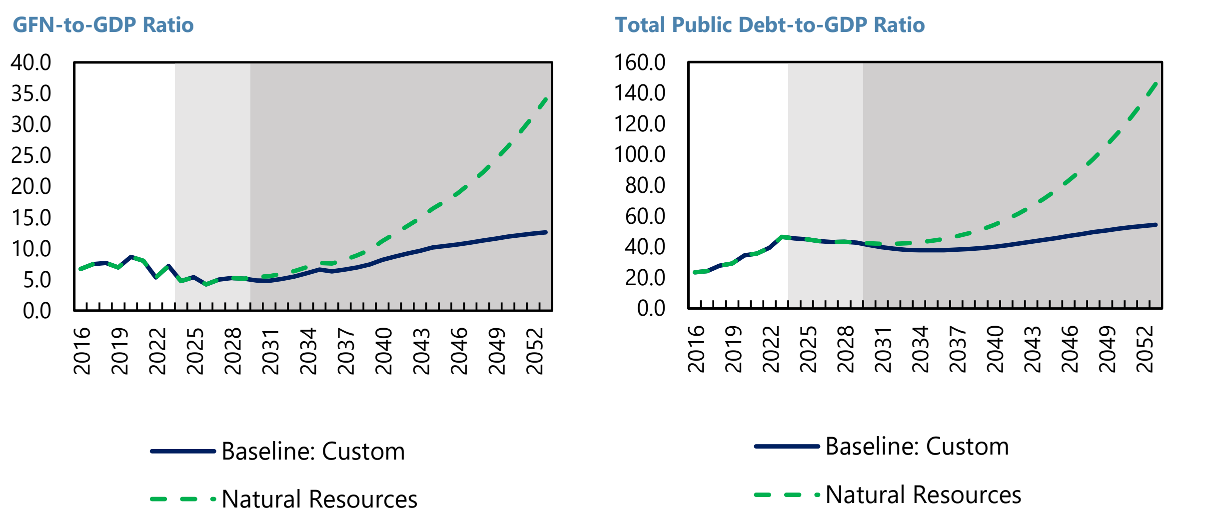

The long-term risk assessment indicates high risks from large amortization. GFN and debt stabilize in the "Baseline with t+5 and DSPB" scenario and "Custom" scenario (Table above) which broadly corresponds to staff's assessment of the authorities' intended policy stance. However, the alternative scenarios underscore the importance of staying the course on the authorities' reform and policy intentions.

## Figure 8. Nigeria: Climate Change: Adaptation




Using standardized estimates for adaptation costs, the debt trajectory in the "standardized scenario" follows closely the one in the baseline scenario. In a customized climate adaptation scenario that incorporates growth effects from adaptation spending, the debt trajectory could be improved relative to the baseline.

## Figure 9. Nigeria: Natural Resources




In the absence of new discoveries, an exhaustion of hydrocarbon production would lead to lower revenues and GDP, potentially yielding increasing GFN and debt paths. These simulations highlight the importance of the authorities' growth agenda that seeks to diversify the economy over the medium- to long-term, while hydrocarbon exports and revenues remain important for the balance of payments and government revenues for the foreseeable future.

# Annex VI. Transitioning to Inflation Targeting

*Nigeria has taken initial steps towards adopting an inflation targeting framework. This annex outlines the preconditions that are needed for inflation targeting, drawing form cross country experiences. While these reforms will take some time, they will already individually strengthen the legal and operating environment for monetary policy.*

1. **Nigeria plans to adopt an inflation targeting (IT) framework.** Cross-country experience identifies four key preconditions for a successful adoption of IT:

- Central bank independence and explicit mandate for the primacy of price stability supported by effective communication of policy strategy and implementation.
- Absence of fiscal dominance with no monetary financing of fiscal deficits.
- Explicit quantitative inflation objective: the objective should be distinct from near-term inflation forecasts.
- Forward-looking policy approach based on analytical tools and detailed information to set its operating targets.

2. **Transitioning to IT is a multi-year, self-reinforcing process**. The Bank of Ghana (BoG) formally adopted IT in May 2007 after three years of informal IT management. The adoption of IT by the Bank of Uganda (BoU) evolved starting from strict to flexible form of money targeting in 2009 and formal adoption of IT in July 2011, after assessing that the monetary policy framework had the essential institutional preconditions. See Brownbridge/Kasekende. The BoG and BoU have continued to modernize their monetary policy framework offering valuable insights into the importance of delinking monetary policy from fiscal pressures, operationalizing the inflation objective by well-derived and strong communication function that delivers an effective communication strategy that includes outlining medium-term inflation targets, adopting an efficient, operational framework, and developing a sustainable capacity to formulate forward-looking monetary policy. These countries' examples are references and may not directly apply to Nigeria. Countries have adopted varying inflation targets.

**Text Table 1. Selected Countries with Inflation Targeting Regime**

| | Inflation Targeting Adoption Date | Target Inflation Rate at Adoption | Target Inflation Rate in 2022 |
|---|---|---|---|
| Brazil | 1999 | 4.5 +/-2 | 3.75 +/-1.5 |
| Colombia | 1999 | 2 - 4 | 3+/-1 |
| South Africa | 2000 | 3 - 6 | 3 - 6 |
| Turkey | 2006 | 5.5 +/-2 | 5 +/-2 |
| Ghana | 2007 | 8.5 +/-2 | 8.5 +/-2 |
| Uganda | 2011 | 5 | 5 +/-2 |
| Moldova | 2013 | 3.5 - 6.5 | 5+/-1.5 |

**3. The legal and operating environment of monetary policy in Nigeria requires strengthening.** At present, the CBN lacks full operational independence and primacy of price stability. The lack of hierarchy among CBN objectives as well as government representatives on the Board of Directors and possibly the MPC as stated in the 2007 CBN Act hampers the effectiveness of monetary policy operation and makes accountability to the public ambiguous. The 2007 CBN Act needs to be modernized as recommended by the 2021 Safeguards Assessment, to enshrine the primacy of price stability, strengthen central bank autonomy and governance arrangements. There is heavy reliance on monetary financing of the fiscal deficit.

- **Nigeria's transition path to IT requires full commitment from all stakeholders and far-reaching reforms in different areas.** IT is no silver bullet but relies on concrete policy actions to restore internal and external balance. These reforms can be implemented independently and concurrently to deliver immediate benefits, particularly, bolstering central bank credibility - a resource that requires time to develop. The Fund has started to provide CD with a diagnostics mission in February. Legal amendments to allow independent oversight over the CBN, including by establishing a majority non-executive Board, is also required.

- Financial autonomy should be safeguarded through among others, clear and enforced statutory limits on, no securitization of, credit to government, enhancement of profit retention rules, and prohibition of quasi-fiscal operations, with the CBN' strict compliance with laws and regulations.

- The CBN should improve the quality of data and statistics, while enhancing its analytical tools and models. Fund CD is already supporting the development of an FPAS model for Nigeria. This will also require acquiring new skills by key CBN staff.

- Shift to short-term interest rates as the operational target and the policy rate, open market operations, and standing facilities as the instruments of monetary policy. Further development of the domestic bond market is needed to enhance the transmission of the main monetary policy Instruments. Strengthening transparency and communication.

- Evidence from IT adopters suggests that stable macroeconomic fundamentals, effective policy instruments, healthy financial markets and institutions for policy transmission, and de-dollarization are also important for successful adoption of IT.

# Annex VII. External Sector Assessment

***Overall Assessment:*** *Nigeria's external position in 2023 is assessed as moderately weaker than the level implied by fundamentals and desirable policy settings based on end-2023 estimates. This assessment diverges from the results of EBA-lite regression models due to the country's specific circumstances that lead to high risks and vulnerabilities, especially with the limited FX liquidity and decline in FX reserves and net capital outflows, in an environment with elevated borrowing costs in international capital markets. The assessment is subject to a high degree of uncertainty owing to the large and persistent net errors and omissions in the balance of payments data, as well as the remaining pent-up demand from corporates to repatriate profits. While the current account balance is estimated to have in 2023, reserves have declined and remain at 81 percent of the IMF's reserve adequacy metric (ARA) and including the oil buffer at 61 percent of ARA.*

***Potential Policy Responses:*** *In the near-term, continued macroeconomic—in particular monetary policy—tightening is needed, along with settling the remaining CBN's overdue FX obligations, to support investor confidence and yield improved FX liquidity. Combined with continued exchange rate flexibility and strengthening the functioning of the FX markets, this should facilitate price discovery and reduce volatility. Structural reforms aimed at increasing and diversifying exports, improving the business climate to support FDI, developing the FX market infrastructure and deepening the capital markets remain critical for long-term external sustainability.*

## A. Foreign Assets and Liabilities: Position and Trajectory

1. **Nigeria is a net debtor country with heavy reliance on oil and gas exports.** The net international investment position (NIIP) is estimated to have deteriorated to 22 percent of GDP in 2023 in large part due to the depreciation in 2023. Over the last 5 years, the NIIP declined in absolute terms mainly owing to increased external borrowing. Going forward, exchange rate changes, increased investments in the OMOs market and Eurobond issuances are likely to be the main determinants. Despite the significant exchange rate depreciation and improved oil production towards the end of 2023, the current account balance is estimated to have improved only marginally. Going forward, risks from Nigeria's gross external liabilities would be mitigated by oil export proceeds, remittances, access to market financing and the long-term nature of external debt (average maturity is 13 years).

## B. Current Account

2. **The current account balance (CAB) is estimated to have improved marginally in 2023 relative to 2022.** The CAB is estimated at around 0.3 percent of GDP in 2023, mainly owing to import compression in the non-oil and gas sector due to rising inflation. Oil and gas exports provided limited gains. With falling oil and gas prices, the oil and gas trade balance declined by 21 percent in USD terms relative to 2022 despite improved production towards the end of 2023, dragging the goods trade balance from a surplus of 1.3 percent of GDP in 2022 to a deficit of 0.6 percent of GDP in 2023. While the services trade balance deficit narrowed by close to 29 percent

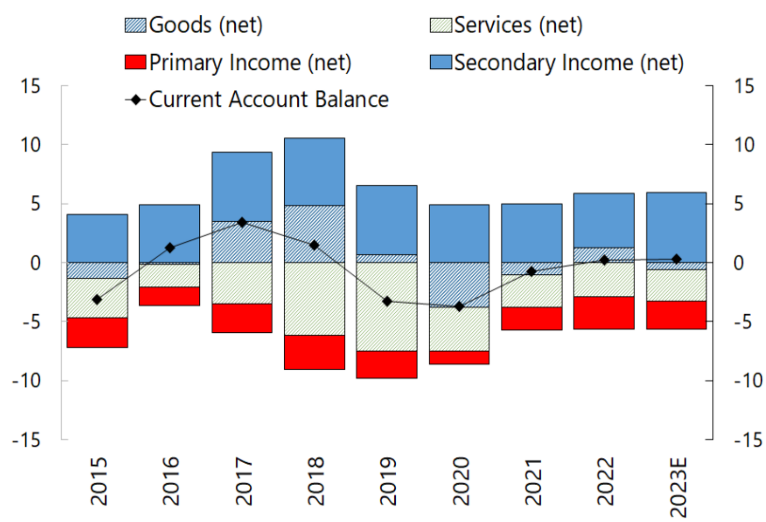
in USD terms given lower services payments relative to 2022, the share in terms of GDP is expected decline only slightly, given the depreciation effect.

Dividends repatriations are estimated to have remained flat, leaving the net primary income balance significantly lower relative to 2022, mainly due to lack of FX liquidity. Net secondary income is estimated to have slightly improved to 6 percent of GDP in 2023 (from 5 percent of GDP in 2022), with remittances slowing down somewhat.

## C. Financial Flows

**3. The financial account has deteriorated with persistent capital outflow pressures and limited inflows in 2023.** After recording net inflows in 2021 and 2022 on the back of Eurobond issuances and additional borrowing by the government and the CBN, the financial account slightly deteriorated in USD terms in 2023 by around USD 800 million while estimated net inflows remained at the same level relative to 2022 at close to 0.7 percent of GDP owing to the depreciation effect in computing GDP. *Net FDI* completely dried up in 2022 but is estimated to have recorded a small net inflow in 2023 of about 0.01 percent of GDP. *Net portfolio inflows* are estimated to be around 1.3 percent of GDP in 2023, slightly higher relative to net portfolio inflows of 1 percent of GDP in 2021 and 2022, mainly due to significant increase in central bank OMOs. After recording close to net zero balance on *other investments* between 2020 and 2022, due to significantly lower borrowing by the government from the market and from official creditors, *net other investments* are estimated to record an outflow of 0.6 percent of GDP at end-2023, mainly due to repayments of obligations to multilateral and bilateral creditors.

**Text Figure 1. Nigeria: Current Account Balance**
(In percent of GDP)

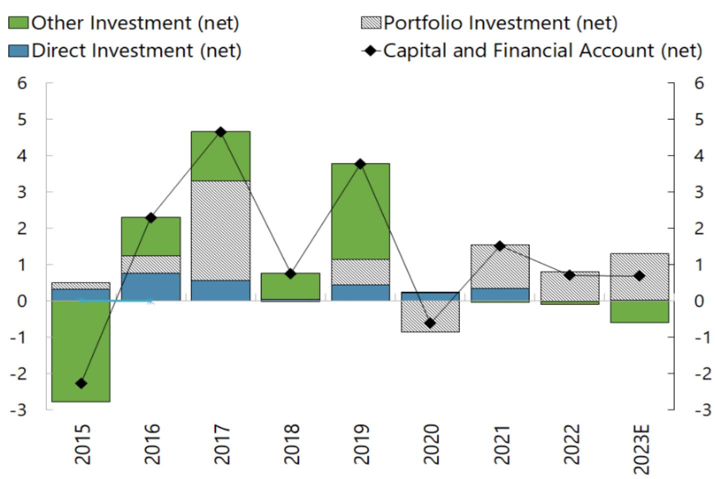



Sources: Central Bank of Nigeria and IMF staff calculations.

**4. Net error and omissions (NEO) in Nigeria have been either very large positive (2020) or negative (2022).** The preliminary data suggest that NEOs continue to be very large negative in 2023 at close to $7.5 billion (2 percent of GDP). Negative NEO could arise from understatement of debits in the current account (e.g., imports of services and informal merchandise imports) due to paucity of data on cross-border transactions, or due to understatement of assets in the financial account (e.g., lack of reliable information or reporting on financial transactions such as acquisition and disposal of assets by Nigerian residents abroad), use of proceeds of certain export categories (e.g., exports earnings accrued to the resident International Oil Companies and other multinational private corporations), a shift to using crypto assets for cross-border transactions, and significant reliance on banking records for capturing BOP transactions, where information is on cash basis, due to low response rates from enterprise surveys.

**Text Figure 2. Nigeria: Financial Account Balance**

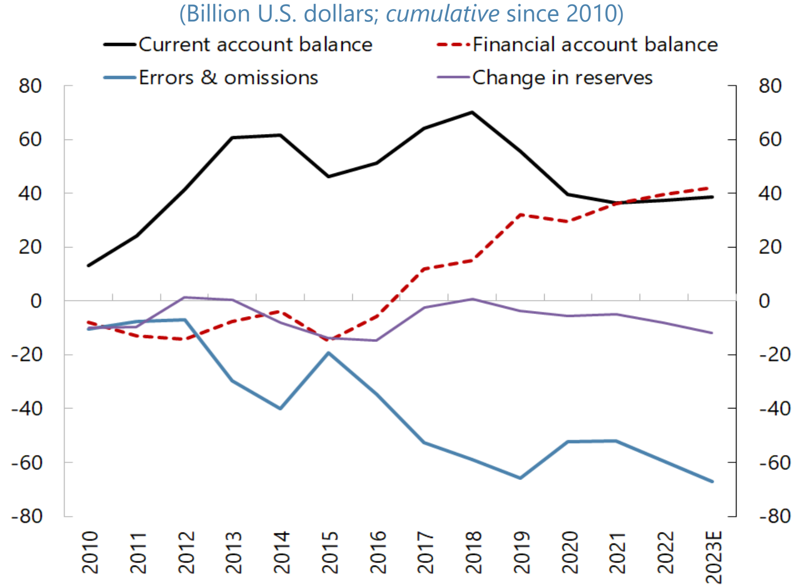
(In percent of GDP)




Sources: Central Bank of Nigeria and IMF staff calculations.

**Text Figure 3. Nigeria: Balance of Payments Accounts and Errors and Omissions**

(Billion U.S. dollars; *cumulative* since 2010)



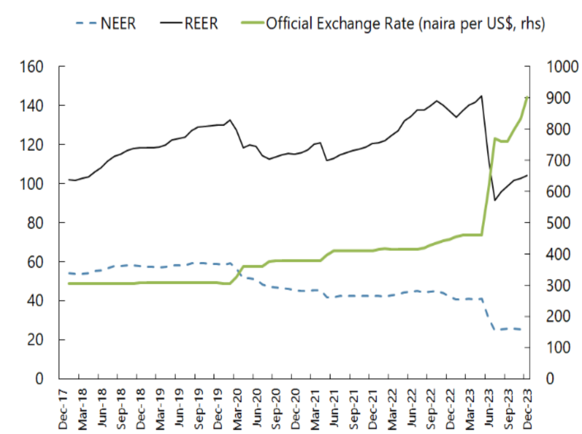

Sources: Haver, CentralBank of Nigeria, and IMF staff calculations.

## D. Real Effective Exchange Rate (REER)

**5. Nigeria's real effective exchange rate has depreciated by 11 percent in 2023, and the nominal effective exchange rate (NEER) depreciated by 22 percent.** On an annual average basis, the official naira-US dollar exchange rate depreciated by 53 percent from around 424 naira/US dollar in 2022 to 650 naira/US dollar in 2023. On an end-of-period basis, the official naira-US dollar exchange rate depreciated by 100 percent from 449 naira/US dollar at end-2022 to 900 naira/US dollar at end-2023. These exchange rate movements more than offset the inflation differential relative to trading partners and contributed to a significant real depreciation (REER, annual average) of about 11 percent over the same period. As of end-February 2024, the nominal exchange rate had depreciated to 1544 naira/US dollar, while the REER and NEER depreciated by 37 and 40 percent, respectively, relative to December 2023.

**Text Figure 4. Nigeria: Real and Nominal Effective Exchange Rate Evolution**

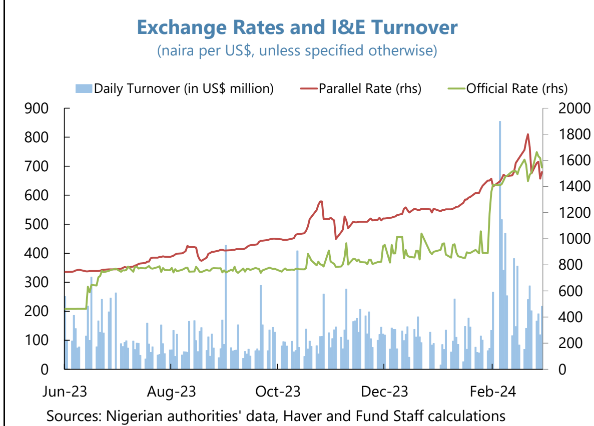
(Index)




Source: STA data, staff calculations.

**Text Figure 5. Nigeria: Naira-US Dollar Exchange Rate and Daily Turnover**

(As of February 29, 2024)




Source: Nigerian authorities' data, Haver, staff calculations

## E. Assessment

**6. The external position of Nigeria is assessed as moderately weaker than the level implied by fundamentals and desirable policies based on end-2023 estimates.** While the results of the external sector assessment using two different regression models under the revised EBA-Lite methodology suggest the external position is broadly in line with fundamentals and desired policy settings, considering Nigeria's external sector development and vulnerabilities as reflected by inadequate and declining FX reserves, continued capital outflows and elevated borrowing costs, staff assesses the external position as moderately weaker than the level implied by fundamentals and desirable policies (Table 1 presents results using estimates for end-2023). The CA-based model establishes a norm of -1.5 percent of GDP in 2023 and a current account gap of 0.98 percent of GDP, implying that the external position is broadly in line with fundamentals and desired policy settings, with a policy gap of 3.9 percent of GDP, driven mainly by underspending on public health expenditures relative to the rest of the world, higher adjusted fiscal balance, and a lower than adequate reserves level based on the ARA metric. The price-based equilibrium REER model indicates that the real exchange rate in Nigeria was overvalued by 6 percent at end-2023—and before the further significant nominal deprecation in early 2024—while suggesting that the external position is broadly in line with the level implied by fundamentals and desired policy settings. The estimated overvaluation has come down compared to the 2022 assessment, given the 11 percent deprecation in 2023.

**Text Table 1. Nigeria: Model Estimates for 2023**

(In percent of GDP)

| | **CA model** 1/ | **REER model** |
|---|---|---|
| | (in percent of GDP) | |
| **CA-Actual** | **0.3** | |
| Cyclical contributions (from model) (-) | 0.2 | |
| Natural disasters and conflicts (-) | 0.7 | |
| **Adjusted CA** | **-0.5** | |
| **CA Norm** (from model) 2/ | **-1.5** | |
| Adjustments to the norm (-) | 0.0 | |
| **Adjusted CA Norm** | **-1.5** | |
| **CA Gap** | **0.98** | **-0.6** |
| o/w Relative policy gap | 3.9 | |
| Elasticity | -0.1 | |
| **REER Gap** (in percent) | **-9.7** | **6.0** |

1/ Based on the EBA-lite 3.0 methodology

2/ Cyclically adjusted, including multilateral consistency adjustments.

**7.** **The external sector assessment remains subject to high uncertainty.** Important steps have been taken to liberalize the exchange rate, including the unification of multiple foreign exchange windows, inclusion of Bureau de Change operators in the official FX market, and lifting the prohibition to access FX for a list of import items. However, the assessment results could be distorted by the large negative errors and omissions estimated at close to negative $7.5 billion for 2023, amid FX liquidity shortages, and a parallel market premium that has narrowed but has not been eliminated and remains volatile.

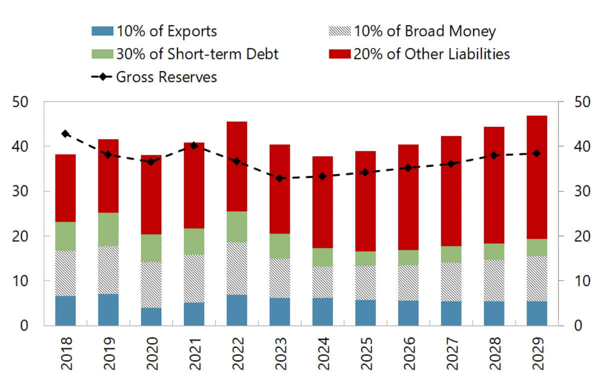
## F. Reserve Adequacy

**8.** **Gross international reserves remain below the Assessment of Reserve Adequacy (ARA) metric.** At end-2023, the CBN-reported 30-day average of gross international reserves declined to $33 billion, equivalent to 61 percent of the ARA metric including the oil buffer (see the 2016 ARA

Board paper).[1] Gross reserves have steadily decreased from $40.2 billion at end-2021 to $32.9 billion at end-2023. Further, following the IMF's definition of GIR and based on information provided by the authorities for end-October 2023, securities of around $8 billion are considered pledged collateral that are not readily available to the CBN, reducing GIR under the IMF's definition to $25 billion at end-October 2023. While gross reserves are projected to slightly increase in 2024 and 2025, they continue to remain below the ARA metric mainly due to net negative financial flows. There is an urgent need to strengthen the CBN's reserve position. In the medium-term, FDI, portfolio flows as well as borrowing from official and multilateral creditors are projected to improve and gradually raise reserves to around $38.2 billion in 2029, despite the current account projected to register small deficits.

**Text Figure 6. Nigeria: Contributions to Reserve Adequacy Metric**

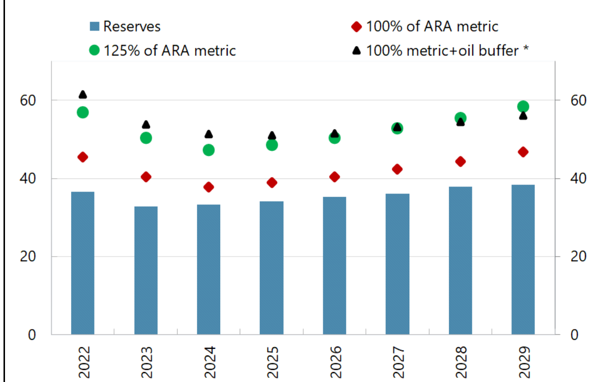
(Billion U.S. dollars)




Note: Data for 2023 are estimates and thereafter forecasts.
Source: Central Bank of Nigeria; and IMF staff estimates.

**Text Figure 7. Nigeria: Reserve Adequacy Measures**

(Billion U.S. dollars)




Note: * The oil price gap multiplied by oil exports, following the 2016 ARA paper. Data for 2023-2029 are forecasts. Gross reserves based on the CBN-reported 30-day average. Based on the IMF definition, the gross international reserves were $8.2 billion lower in October 2023.

Source: Central Bank of Nigeria; and IMF staff estimates.

[1] See the IMF Guidance Note on the Assessment of Reserve Adequacy and Related Considerations (2016).

# Annex VIII. eNaira

**1. In October 2021, the CBN became the first central bank in Africa to launch its own digital currency**. The eNaira is the digital equivalent of the cash Naira. With the introduction of the eNaira, the authorities aim to: reduce the use of cash and encourage the use of digital payments among people and firms; enhance speed and targeting of welfare programs; provide a secure and cost-effective means to pay remittances; and reduce the cost and improve the efficiency of cross-border transactions for businesses, as it allows real-time cross-border foreign exchange payment for traded goods and services. See the 2022 Article IV Consultations for more details.

**2. So far, the adoption of eNaira has been slow**. The number of eNaira wallets has reached 13 million, with most of them remaining inactive. Since the eNaira's launch, the volume of executed transactions has reached 854,512 transactions, mostly from consumers to merchants, with a total value of N29.3 billion.

**3. The authorities aim to broaden use of eNaira among the population.** CBN has recently acquired the technological infrastructure to manage the eNaira, which will enable it to roll it out faster in the upcoming months. Another challenge is related to data privacy. Under the current design, CBN is able to see all transactions of users of the eNaira. Potential users seem apprehensive about data privacy, but there is no way CBN can relax its standards and compromise the integrity of the system. Finally, an important challenge is how to make eNaira accessible to all the population, while ensuring adequate financial integrity safeguards to prevent its use for financial crimes. Enaira is currently only accessible to those people with bank accounts. A tiered mechanism is in place for the issuance of eNaira wallet, depending on the level of identification documentation users provide. Each tier has certain balance and transaction limits to prevent abuse of the system. But this is limiting access for the people who need financial inclusion the most. Currently, CBN is piloting a program that enables people without a bank account to use eNaira via their smartphones.

# Annex IX. Toward Stronger Anti-Corruption and Rule of Law in Nigeria[1]

## A. Background and Way Forward

**1. The imperatives for addressing corruption and governance vulnerabilities in Nigeria cannot be understated.** Past work by the Fund suggests that benefits of such reform would include higher per capita GDP growth, higher revenues, and improved efficiency in public investments.[2] For example, staff analytical work suggests that, reducing corruption in Nigeria to the level observed in benchmark countries (for exe, Malaysia, Mongolia, Morocco, or South Africa), could boost growth by 0.5 to 1.5 percentage points annually. Other studies indicate that lowering Nigeria's level of corruption to that of South Africa, as measured by the Worldwide Governance Indicators' control of corruption score 1, could increase the amount of infrastructure obtained from each publicly invested dollar by 12 percent.

**2. The nature, extent, and mitigation of Nigeria's corruption and governance challenges represents a complex dilemma for the Nigerian authorities**. Studies, including those carried by the government, point to the fact that corruption is entrenched at all levels of government activity, and that it affects the citizenry significantly in accessing government services. According to the National Anti-Corruption Strategy (2017–2020):

> "To the average Nigerian, corruption is essentially a public sector phenomenon, where acts of bribery, fraud, extortion, inducements, embezzlement, and influence peddling occur. There is little or no demand for accountability by the citizens, as they feel alienated from governance processes. Public resources are considered "nobody's property" and can be used at the whims of the office holder. Public office holders now "donate" budgeted classroom blocks to schools, operational vehicles to security agencies, and hospitals to communities, as though these were personal gifts to the beneficiaries. Citizens on their part see the provision of public goods and services as acts of benevolence that need to be rewarded through the ballot boxes. Thus, there are strong incentives for public officials to misuse public resources for their personal gain due to widespread ignorance, illiteracy and a culture of patronage."

**3. Additionally, the successful prosecution of cases of grand corruption showcases the enormous extent of revenues lost through corruption.** Nigeria consistently scores well below global averages on the World Governance Indicators. In relation to rule of law and justice, the index assesses overall positive progress with the country moving from a percentile rank of 11.27 in 2012 to a percentile ranking of 19.81 in 2022. For anti-corruption reform, the index notes a 2012 percentile rank of 10.90 moving to a percentile ranking of 14.62 in 2022. However, on the area of

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[1] Prepared by Robin Sykes (LEG).

[2] See: Reaping the benefits of better Governance in Nigeria Ozlem Aydin, Pasquale di Benedetta, Ke Chen, Monique Newiak, and Jay Purcell, in Newiak, Monique, Alex Segura-Ubiergo, and Abdoul Aziz Wane, eds. 2022, *Good Governance in Sub-Saharan Africa: Opportunities and Lessons*. Washington, DC: International Monetary Fund.

accountability, there has been recent slippage from 2017's percentile ranking of 35.47 to the 2022 position of 32.37. However, there is evidence that the country is making progress albeit slowly. Fundamental reform could be impeded by limited fiscal resources, the federal nature of legal systems and institutions and the continued self-interest of vested factions to maintain the status quo.

**4. The authorities have developed a number of strategies, policies, plans, and initiatives to address governance challenges.** The set of reforms include:

- **The National Anti-Corruption Strategy (NACS) and its Action Plan (2017–2021).** The initial National Strategy 2017–2021 was recently extended to 2022–2026 by the Federal Executive Council in November 2022.[3] The complementary Action Plan focuses on technical objectives such as prevention, public engagement, ethical re-orientation, enforcement and sanctions, and recovery and management of proceeds of crime.

- **The National Ethics and Integrity Policy.** This policy was adopted with the objective of enhancing transparency and accountability, especially in the public and private sectors, in line with global best practices and improve the understanding of the public about corruption prevention mechanisms.

- **The Open Government National Action Plan (2022–2025)**, which seeks to implement key measures while consolidating efforts at combatting corruption, improving service delivery, and enhancing public participation in governance, based on principles of transparency, accountability, participation, and technology and innovation. This plan includes commitments made by the government as a part of the Extractive Industries Transparency Initiative.

**5. In addition, the government has established numerous agencies to promote good governance as well conduct assessments, develop policy, make recommendations, detect, investigate, and prosecute corruption and related acts.**[4] There is some legislative overlap between the jurisdictions of these agencies, although the agencies argue that they are able to operate in coordination and without conflict. The issue is further complicated by the fact that as a federal state, initiatives to improve governance and anti-corruption often have to be replicated and implemented at state level.

**6. Nigeria's commitments to the Fund under the Rapid Finance Instrument issued in 2021 remain partially fulfilled.** The Office of the Auditor General carried out an Interim Report on the Special Audit of the Federal Government of Nigeria's Response to The Covid-19 Pandemic for The Period March 1 to June 30, 2020. The authorities published a second interim report in November 2023 and expect to publish a final report in April 2024. The authorities have not yet

[3] Federal Executive Council approves new Anti-Corruption strategy document – Voice of Nigeria (von.gov.ng)

[4] These include Technical Unit for Governance and Anti-Corruption Reform (TUGAR), Nigeria Extractive Industry Transparency Initiative (NEITI), Independent Corrupt Practices and Other Related Offences Commission (ICPC), Code of Conduct Bureau, Bureau of Public Procurement, and the Office of the Auditor General.

published the beneficial ownership information of companies that have been successful in bidding on covid related contracts. It is however commendable, that the authorities have implemented requirements for Nigerian companies to file beneficial ownership information under the Companies and Allied Matters Act. This information should then become publicly available on the website of the Corporate Affairs Commission.

## B. Transparency and Access to Information

**7. The authorities have recognized that transparency in government operations strengthens governance by allowing civil society to play a key monitoring role in assessing the activities of government.** Public pressure has a deterrent effect, demands accountability, and aids detection, which in turn helps preserve the country's resources and boosts investment to foster growth. The protection of those persons with critical information on corruption is an important measure in enhancing transparency and aiding detection and investigations. Recent improvements include the passage of the Freedom of Information Act and the establishment of the beneficial ownership registry.

**8. The government has openly made several commitments in this regard and several important issues remain outstanding.** These include reforms related to the following vulnerabilities: (i) poor enforcement of public disclosure measures for extractive sector contracts, licenses, permits, payment to government, and revenue streams to improve transparency[5]; (ii) poor enforcement of the obligations of ministries departments and agencies (MDAs) to publish their financial information as required by law; (iii) failure to pass laws necessary to facilitate public access to Public Officers' Declarations[6]; and (v) failure to pass the Witness Protection Act per the NACS.

## C. Preventive Measures to Address Corruption

**9. There are several agencies that work on diagnosing governance issues, providing recommendations to various agencies and sectors as well as engaging the public on the importance of governance reform**. The Technical Unit on Governance and Anti-Corruption Reforms (TUGAR) issues periodic reports on different aspects of the governance and anti-corruption framework including assessments of governance weaknesses in specific sectors.[7] The Independent Corrupt Practices and other Related Crimes Commission on Prevention of Corruption (ICPC) also issues system studies on corruption-prone processes within different governmental bodies and supervises the review of such processes. It also helped introduce a national ethics and integrity policy and is conducting meetings with traditional leaders across various states to help make them understand the pervasive effects of corruption. The ICPC also carries out public outreach on the effects of corruption on the society and economy. The Office of the Auditor General (OAG) carries out audits of federal institutions and carries out periodic assessments of all government statutory

[5] Per the Open Government Action Plan

[6] Per the NACS as well as legislative requirements under the Petroleum Industry Act (PIA)

[7] Examples include TUGAR's Scoping Survey and Gap Analysis of the Ethics Framework in Nigeria

corporations, commissions, authorities, agencies, including all persons and bodies established by an Act of the National Assembly. However, these agencies do not have significant powers to enforce breaches. Such reports are tendered to the Executive or Legislature. In the case of possible corruption or other criminal activity, these are reported to law enforcement.

### Box 1. Identified Vulnerabilities in Key Governance Agencies

In the case of the **Auditor General's (AG) audits**, that office opines that there is a growing level of non-compliance with rule and regulations observed in MDAs. The Annual Report on the Federal Government of Nigeria Consolidated Financial Statements for the year ending on December 31, 2019, highlighted significant irregularities, including a significant number of entities (34.72 percent) not being responsive to requests for information from the AG's office. Additionally, there is continuing failure on the part of MDAs on the submission of annual statutory reports for certification by the AG's office, including statements of financial performance, statements of financial position, and cash flow statements. The AG's Office further advises that since the return to democracy in 1999, no report of the AG has been concluded on by the Public Accounts Committee and presented to the Plenary for adoption with the recommendations forwarded to the relevant executives for action. The underfunding of the Office together with its outdated legislation creates significant difficulties in the carrying out of its mandate.

In the case of the **ICPC**, that office prepares a report entitled a System Study and Review of MDAs[1] under the powers of the Commission pursuant to section 6 of the Corrupt Practices and Other Related Offences Act. These studies entail a review of the processes of MDAs that are particularly prone to corruption. According to the ICPC, these reports indicate systemic dysfunction, inadvertent breaches of regulations, ignorance of proper procedures and willful violation of rule for the conduct of government business. The ICPC does not have any means of enforcement of its findings and relies on the "naming and shaming" process to nudge MDAs towards compliance.

In the case of **NEITI**, this Agency has assessed several agencies and processes within the petroleum sector to test their compliance with the statutory framework applicable to these agencies, namely the 2021 PIA. That agency's 2021 Oil and Gas Industry Report indicates significant crude oil losses due to theft sabotage and measurement errors, unremitted or under remitted federation revenues and importantly failure to provide the beneficial owners of some covered companies, with a majority of entities operating in the industry having complex ownership structures that shield beneficial ownership information. NEITI's governing law requires amendment to bring its duties more and in line with the transparency requirements of the PIA and strengthen enforcement capabilities.

[1] See System Study & Review of MDAs – ICPC

**10. Overall, the level of compliance of MDAs when assessed is not positive.** Whilst these monitoring agencies display strong competence in their duties, these issues point, in part, to the lack of accountability and enforcement mechanisms to press MDAs towards compliance. In the case of the OAG, like many governmental agencies in Nigeria, it is underfunded and understaffed. The provisions of the proposed Federal Audit Service Bill would modernize the legislative framework and provide additional sanctions for non-compliance. The OAG must also enhance its relations with the Public Accounts Committee to ensure that punitive sanctions are eventually preferred against the chief executive officers and other culpable officers of MDAs found in breach. In the case of NEITI, the agency is proposing new amendments to its governing statute to take into account the new PIA as well as establish enforcement powers.

**11. The AML/CFT framework supports the preventative aspects of the anti-corruption framework.** This includes preventative measures implemented by both the financial and non-financial sector, including enhanced due diligence measures that are applied to higher-risk customers such as politically exposed persons. This is in addition to other aspects of the anti-money laundering and combating the financing of terrorism (AML/CFT) framework that supports anti-corruption efforts including the use of financial intelligence, financial investigative techniques, asset recovery, and international co-operation. Nigeria's is currently working to strengthen its framework, having been placed on the Financial Action Task Force's (FATF) grey list in February 2023. The recent assumption by the legal profession of AML/CFT responsibilities is a significant positive development, given the role of this "gatekeeper" profession.

**12. The vulnerability of the civil service to corruption is well documented.** According to the United Nations Office of Drugs and Crime's (UNODC) 2019 study, 63 percent of Nigerians had contact with the public service in the 12 months leading up to the survey, of these 30 percent paid a bribe.[8] Later work points to the gender imbalance between those who will both pay and accept bribes.[9] However, the Federal Civil Service Strategy and Implementation Plan 2021–2025 does not address this issue frontally although it does acknowledge lack of political will and political interference in the recruitment processes and employment mobility as two foremost threats. Measures such as induction training for political appointees and improved performance management processes, although necessary, will not impact structural governance issues. The use of the Integrated Personnel and Payroll Information System to root out cases of "ghost workers" is also commendable. TUGAR has indicated that it will, together with the Bureau on Public Service Reforms carry out additional work in this area directly focused on strengthening governance measures for the civil service.

## D. Enforcement Against Corruption Offenders

**13. The detection and enforcement of laws relating to corruption falls to a number of law enforcement agencies that are facing significant challenges in delivering on their respective mandates.** Key challenges are related to lack of governance and independence of agencies, resources and staffing, red tapes, and inter-agency coordination.

[8] Corruption In Nigeria: Patterns and Trends, Second survey on corruption as experienced by the population, December 2019

[9] See UNODC Gender and Corruption in Nigeria December 2020

### Box 2. Key Anti-Corruption Law Enforcement Agencies and their Respective Roles

**The Nigerian Police Force** is responsible for the prevention and detection of all crime; apprehension of offenders; preservation of law and order; protection of life and property; and enforcement of all laws and regulations (including corruption offences). However, the police do not specialize in corruption cases.

**The Code of Conduct Bureau (CCB)** is mandated to receive and analyze assets declarations by public officers, receive complaints about non-compliance with or breach of the CCB Act, and where necessary to do so, refer the complaints to the Code of Conduct Tribunal.

**The Economic and Financial Crimes Commission (EFCC*)*** is the lead agency for investigation and prosecution of all offences relating to economic and financial crimes, including money laundering (ML), in Nigeria.

**The ICPC** is empowered to investigate, and in appropriate cases to prosecute offences under the enabling legislation of the ICPC or any other law prohibiting corruption.

**The Nigeria Financial Intelligence Unit** is the national center for receiving, requesting, analyzing suspicious transaction reports and other information related to ML and associated predicate offences (including corruption offences).

**14. The Code of Conduct Bureau carries out verification exercises based on the declarations received and other information over a wide geographical area and a huge number of federal public servants (approximately 720,000 in mid-2022**). The Bureau is severely underfunded with a flat budget over the past three years despite seeking to increase digitalization of its operations and seeking to increase investigations. Its work is further hampered by the fact that there is only one Code of Conduct Tribunal to hear complaints against public servants. This creates a significant bottleneck in completing these proceedings with delays in adjudication compromising the ability of the Bureau to successfully prosecute.

**15. The EFCC works on prosecuting the more significant cases of grand corruption, fraud and other major financial crime but suffers from governance issues**. In particular, the EFCC does not enjoy clear statutory independence, as its leadership may be dismissed directly by the Executive. Although the agency argues for its operational independence, the lack of legal independence must lead to perceptions of doubt with respect to the objectivity of its prosecutions. Its time and resources are also largely consumed by other types of financial crime, notably fraud and cyber-crime, driven the nature of complaints that are received. The agency is advocating for early passage of the Whistle Blower law and the establishment of specialized courts for financial crimes in all states as it is of the view that these measures are critical for successful prosecutions. Greater training for prosecutors and judges can also increase the success rate for corruption cases[10]. Most major corruption cases uncovered by the police are referred to this specialist agency.

**16. The ICPC faces a deficit of capacity as well as weakness in enforcing the recommendations that are issued by the agency to MDAs**. The results of criminal investigations and prosecutions appear overall fair. For the period 2019 to 2022, the ICPC concluded 4,705 investigations, filing 309 court cases and securing 85 convictions. 387 cases are still in the courts. A

[10] This is also a limb of the NACs under the rubric of Enforcement and Sanctions

perusal of these cases suggests that these are in the main, mid to lower-level corruption cases. Some of the threats identified in the ICPC's Strategic plan (2019–2023) include challenges to the ICPC's jurisdiction and the use of the Attorney General's powers to discontinue prosecutions, inadequate funding, inter-agency rivalry and the potential for political interference in cases involving politically exposed persons. The legislature is currently considering amendments to the ICPC adjusting governance measures at the board level, and to increase fines to punish persons making false petitions or complaints against public servants. The authorities should ensure penalties imposed against potential complainants are effective, dissuasive and proportionate in keeping with international best practices.[11]

## E. Asset Recovery Issues

**17. A key aspect of NACS and its Action Plan is the recovery of proceeds of crime**. The focus of the government is the recovery of proceeds of corruption held abroad.[12] In that vein the Government has promulgated the Proceeds of Crime (Recovery and Management) Act 2022 (POC Act). That Act introduces a decentralized model of asset recovery (i.e., with multiple agencies exercising asset recovery powers), with powerful provisions for non-conviction-based forfeiture (and associated reversal of burdens of proof) and accelerated cash seizure proceedings. International experience, however, shows that building an effective regime takes years as cases are investigated, placed before the courts, challenged and judicial interpretations and precedents are established.[13] It is only over time, with the proper resources, training and leadership, that the expertise and capacity of all stakeholders improves.

**18. The Nigerian law enforcement authorities are strongly focused on recovering proceeds of crime that have been transferred cross border.** However, the POC Act does not, however, contain measures relating to cross border asset recovery. It should be noted that the mutual legal assistance framework will not operate for non-criminal confiscation cases. It is therefore recommended that the authorities review the framework for mutual legal assistance to ensure that assistance can be rendered and sought in the most expeditious manner. In addition, the authorities should consider operational measures (e.g., nominating liaison officers, establishing memoranda of understandings) to ensure informal means of cooperation remain open and flexible particularly with the authorities of countries where proceeds of crime originating in Nigeria is known to be transferred. These actions will expedite the formal measures when they become necessary.

## F. Rule of Law Issues – Contract Enforcement and Protection of Property Rights

[11] See for example the G20 High-Level Principles for the Effective Protection of Whistleblowers annex_07.pdf (mofa.go.jp)

[12] See Common African Position on Asset Recovery (Common African Position on Asset Recovery (CAPAR) | African Union (au.int))

[13] See FATF's Operational Challenges Associated with Asset Recovery: Final Report (2021)

**19. The strength on both contract enforcement and protection of property rights in Nigeria hinges on prompt access to justice through the courts and other legally accepted means**. This also requires the development of necessary laws to protect property rights with the effective operation of the attendant governmental bodies (such as registries) also supporting these protections.

**20. The Government developed a National Policy on Justice (2017) which assessed the vulnerabilities of the justice system and recommended multiple actions**. Such actions focus on expanding access to and ensuring speedy dispensation of justice, protection of human rights, encouraging alternative dispute resolution, ensuring the independence of the judiciary and promoting openness, transparency and accountability of the judicial profession as well as improving capacity, infrastructure and facilities. The Government is planning to develop with stakeholders a revised National Policy on Justice, 2024–2028.

**21. Nigeria's justice system continues to face a number of issues, many of which were identified in the 2017 policy**. One of the foremost issues is the independence of the judiciary. Whilst the issue of independence is enshrined in the Constitution, judges are appointed by the President or State Governors upon recommendation of the National Judicial Council. The current framework provides an outsized role for the executive in the appointment of judges and there have been instances of the executive not following the recommendations of the National Judicial Council.[14] Additionally, there have been cases of perceived improper removal of judicial officers by the Executive.[15] The National Policy on Justice has made recommendations for greater transparency and monitoring on these processes by the National Judicial Council to allay the fears of the public. That Council has issued guidelines, but consideration should be given to strengthen enforceability.

**22. Another key challenge in this area is the terms and conditions of service.** The court system in Nigeria is overloaded resulting in long times for cases to reach trial particularly in the larger states. Additionally, judges are not well paid compared with other arms of government, which can create conditions for rent seeking opportunities.[16] Lack of resources for research and lack of digitalization in court records of proceedings also adds to the slow pace of justice. This is further complicated by the fact that there are federal level courts and state level courts, which are funded by the central government and state governments respectively. As such there could be variances in terms and conditions of service. Caseloads will also differ between states.

**23. The authorities have taken significant actions to mitigate these issues including encouraging alternative dispute resolution mechanisms and better case management.** To this end the authorities have passed into law the Mediation and Arbitration Act 2023 and the courts are

[14] See: Rivers Assembly finally confirms Okocha as chief judge | The Guardian Nigeria News - Nigeria and World News — News — The Guardian Nigeria News – Nigeria and World News

[15] See: Nigeria: Judicial independence under threat, warns UN human rights expert | UN Special Rapporteur | United Nations Special Rapporteur on the Independence of Judges and Lawyers (independence-judges-lawyers.org)

[16] See: NBA meets AGF over S'Court justices, other judges' poor pay (punchng.com)

making concerted efforts to incorporate mediation and alternative dispute resolution as part of case management processes. Similarly, practice directions by the judiciary have also been issued to streamline court proceedings and improve case management.

**24. Going forward, the authorities should also consider strengthening the institutions that support the enforcement of contract and property rights**. These include real and personal property registries, copyright and probate registries. In some cases, these entities may be under-staffed and under-resourced-, which can also contribute to the facilitation of corrupt practices. Authorities should also consider other types of entities such as secured interest registries that could support the protection of creditors' rights as well as the development of the relevant supporting legislation. The development of a credit rating system could also assist in supporting economic activity.

## G. Conclusion and Recommendations

**25. A focused and prioritized reform agenda can serve as a strong signal of the importance the government puts on strong governance.** The authorities have made progress by passing several key pieces of legislation as outlined at paragraph 45 of the Staff Report and the various anti-corruption agencies are actively pursuing their mandates. There are good diagnoses of issues relating to governance, anti-corruption and rule of law, driven by international standards and commitments, statutory requirements, and governmental strategies or action plans. However, the multitude of agencies, recommendations, policies, and initiatives require some amount of rationalization and prioritization, to move the country towards stable economic growth, particularly given the scarce resources available to the Government. Staff's recommendation is that concerted focus be placed on the specific prioritized items below in the short to medium term. The enforcement of transparency, governance and anti-corruption measures should be prioritized for its deterrent effects on potentially corrupt actors, exercising greater control over scarce resources (including recovering proceeds of crime), leveraging the strong voice of civil society, and, finally, promoting stable growth by encouraging investment. The need to meet transparency commitments in the critical petroleum sector and ensuring appropriate legislative powers of enforcement should be pursued as a priority. Whilst these measures would not be the final solution to the issues in Nigeria, these "big ticket" items would serve as a strong signal of the Government's commitment to its anti-corruption agenda:

- Transparency:
  - Urgently pass amendments to the NEITI Act to allow for better enforcement measures of the transparency requirements of the PIA.
  - Implement the necessary measures to allow public access to the declarations of public servants.

- Anti-corruption enforcement:
  - Amend the EFCC law to assure the independence of the agency in a manner similar to the ICPC.

   - Expand the capacity of the Code of Conduct Tribunal to sit in multiple locations, including using technology.
   - Passage of the Whistle-Blower and Witness Protection Bills.
   - Pass the Federal Audit Service Act and improve the funding to the AG's office.
- Rule of law:
   - Secure the independence of the Judiciary by strengthening the National Judicial Council and conducting a review of the terms and conditions of employment of judges (including their compensation).
   - Including in the revised National Justice Policy (with time bound commitments), consideration of measures to improve the institutions and mechanisms that support the justice system, including further use of alternate resolution processes, and digitalization of registries for property, copyright and court registries.

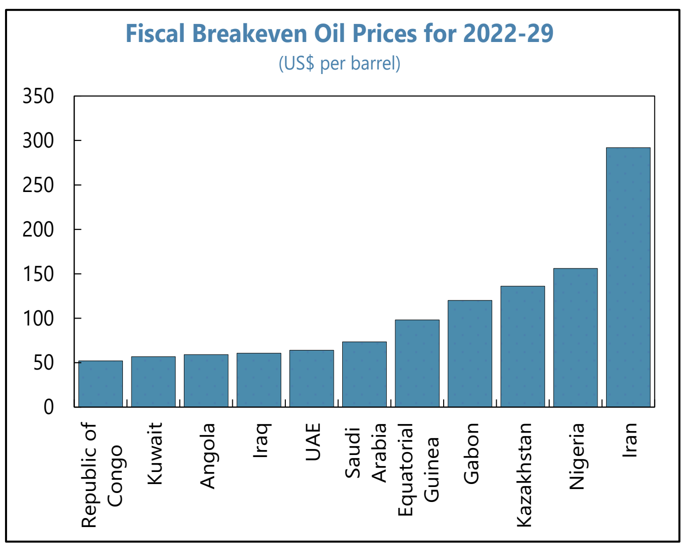
# Annex X. Nigeria's Hydrocarbon Sector

1. **Nigeria's oil reserves are estimated at about 37 billion barrels** (see Nigeria Upstream Petroleum Regulatory Commission). From its 30-year peak of 2.5 million bpd in 2010 oil production has trended downwards. Based on current production of 1.5 million bpd, known reserves would only be depleted in 60 years. Raising production above current levels requires significant new investment, while major international oil companies have sold their onshore interests over the last two years.

2. **Oil remains an important pillar of the economy.** Oil currently accounts for 5 percent of real GDP, down from 15 percent in 2010. The oil sector's contribution to fiscal revenues has also fallen over time, but still accounts for about 40 percent of government revenues. Oil contributes almost 90 percent of export revenues, but over a third flows out through profit repatriation.

3. **Over the medium-term the Dangote refinery will boost activity in the oil sector.** Production has commenced in early 2024 and is expected to reach full capacity of 650,000 bpd over the medium term. Staff's baseline projections assume a gradual production path: 100,000 bpd in 2024, 200,000 bpd in 2025, rising to 300,000 bpd during 2026-27 and 400000 bpd in 2028. The impact on the current account is through savings on transportation costs: domestic refining lowers crude exports and refined product imports.

4. **Nigeria's break-even prices are far above projected prices, giving rise to external and fiscal vulnerabilities.** Staff estimates Nigeria's fiscal break-even price—the price at which the overall deficit would be zero—is $156 per barrel. This estimate is at the upper end for other large oil producers, only exceeded by Iran. Nigeria's current account break-even price—the price at which the current account is in balance—is $80 per barrel. The IMF's medium-term oil price projection ranges from $79 per barrel in 2024 declining to $67 per barrel in 2028.



# NIGERIA

April 9, 2024

## STAFF REPORT FOR THE 2024 ARTICLE IV CONSULTATION—INFORMATIONAL ANNEX

Prepared By | The African Department

## CONTENTS

# FUND RELATIONS

(As of February 29, 2024)

**Membership Status:** Joined: March 30, 1961; Article XIV

| **General Resources Account:** | **SDR Million** | **%Quota** |
|---|---|---|
| Quota | 2,454.50 | 100.00 |
| IMF's Holdings of Currency (Holdings Rate) | 3,813.15 | 155.35 |
| Reserve Tranche Position | 175.47 | 7.15 |

| **SDR Department:** | **SDR Million** | **%Allocation** |
|---|---|---|
| Net cumulative allocation | 4,027.90 | 100.00 |
| Holdings | 3,241.29 | 80.47 |

| **Outstanding Purchases and Loans:** | **SDR Million** | **%Quota** |
|---|---|---|
| Emergency Assistance [1/] | 1,534.06 | 62.50 |

[1/] Emergency Assistance may include ENDA, EPCA, and RFI.

**Latest Financial Commitments:**

**Arrangements:**

| Type | Date of Arrangement | Expiration Date | Amount Approved (SDR Million) | Amount Drawn (SDR Million) |
|---|---|---|---|---|
| Stand-By | Aug 04, 2000 | Oct 31, 2001 | 788.94 | 0.00 |
| Stand-By | Jan 09, 1991 | Apr 08, 1992 | 319.00 | 0.00 |
| Stand-By | Feb 03, 1989 | Apr 30, 1990 | 475.00 | 0.00 |

**Outright Loans:**

| Type | Date of Commitment | Date Drawn | Amount Approved (SDR million) | Amount Drawn (SDR million) |
|---|---|---|---|---|
| RFI | Apr 28, 2020 | Apr 30, 2020 | 2,454.50 | 2,454.50 |

**Overdue Obligations and Projected Payments to Fund[1/]**
**(SDR Million; based on existing use of resources and present holdings of SDRs):**

| | 2024 | 2025 | 2026 | 2027 | 2028 |
|---|---|---|---|---|---|
| Principal | 920.44 | 613.63 | | | |
| Charges/Interest | 70.72 | 43.82 | 32.28 | 32.28 | 32.29 |
| **Total** | 991.16 | 657.44 | 32.28 | 32.28 | 32.29 |

[1/] When a member has overdue financial obligations outstanding for more than three months, the amount of such arrears will be shown in this section.

**Implementation of HIPC Initiative:** Not Applicable

**Implementation of Multilateral Debt Relief Initiative (MDRI):** Not Applicable

**Implementation of Catastrophe Containment and Relief (CCR):** Not Applicable

## Exchange Rate Arrangement

**The de jure exchange rate arrangement is described as floating by the authorities.** The main objectives of the exchange rate policy in Nigeria are to preserve the value of the domestic currency, maintain a favorable external reserves position and ensure external balance without compromising the internal balance and the overarching goal of macroeconomic stability. Considering exchange rate developments over the last two years, staff reclassifies Nigeria's de facto exchange rate arrangement from "stabilized" to "crawl-like", effective July 25, 2022, and from "crawl-like" to "other managed", effective February 1, 2023.

**Nigeria continues to avail itself of the transitional arrangements under Article XIV, but it does not maintain restrictions under Article XIV.**

**At the time of the 2022 Article IV consultation, Nigeria maintained three exchange restrictions subject to approval under Article VIII.** Two of these have been eliminated: (i) the prohibition to access FX at the Nigerian foreign exchange markets for the payment of imports of different categories of items; and (ii) the rationing of foreign exchange by the Central Bank of Nigeria (CBN) in different FX windows, and its allocation based on the CBN's determination of priority categories of transactions. The third exchange restriction related to absolute limits for Business Travel Allowance (BTA) and Personal Travel Allowance (PTA) continues to exist. New exchange restrictions have been identified in the context of the 2024 Article IV consultation. The first exchange restriction was eliminated in October 2023, while the second one was eliminated in June 2023. As a result, Nigeria maintains the following exchange restrictions subject to Fund approval under Article VIII, Section 2(a) of the IMF's Articles of Agreement:

i. an exchange restriction arising from (i) absolute limits on the amounts of foreign exchange available when traveling abroad (BTA)/PTA), and (ii) the monthly absolute limit on the availability of FX for the making of payments in respect of foreign mortgages; all such limits cannot be exceeded even upon verification of the bona fide nature of the transaction;
ii. an exchange restriction arising from the unavailability of FX as a PTA for persons aged under 18 years when travelling abroad;
iii. an exchange restriction arising from the requirement to use only own funds to pay for certain current international transactions;
iv. an exchange restriction arising from the unavailability of FX for resident Nigerian nationals to purchase and transfer abroad moderate amounts for family living expenses.
v. an exchange restriction arising from the CBN discretionary approval to access FX to make payments for certain current international transactions.

The FX landscape continues to evolve rapidly in Nigeria with fast-paced implementation of reforms, and staff will closely monitor developments and assess their implications as appropriate.

**All previously existing multiple currency practices (MCPs) in Nigeria have been eliminated through policy changes by the authorities as well as under the Fund's recently effective new MCP policy.**[1] At the time of the last 2022 Article IV consultation, Nigeria maintained four multiple currency practices (MCPs) subject to IMF jurisdiction: (1) an MCP arising from the potential spread of more than 2 percent in the exchange rates at which the CBN sells foreign exchange to successful auction bidders in the SMIS window; (2) an MCP arising from the RT200 non-oil export proceed repatriation rebate scheme under which the authorities offer an additional incentive over the exchange rate used for the conversion of qualifying non-oil export proceeds, with the deviation between (a) the more favorable (effective) exchange rate used for qualifying non-oil export proceeds – and (b) the exchange rates used for other export proceeds being more than 2 percent; (3) an MCP arising from the practice of the CBN that results in the establishment of an exchange rate for use in official (government) transactions and some other transactions, which may differ by more than 2 percent from the rate used by commercial banks in other CBN FX windows (SMIS, SME, IEFX and Invisibles); and (4) an MCP arising from the large spread between exchange rates used by the CBN in its FX windows and the rates in the parallel market, caused by the CBN's limitation on the availability of foreign exchange which channels current international transactions to such market. All these MCPs are now eliminated. The first MCP was eliminated by the authorities in June 2023, once all existing FX windows were unified into one official window, the second MCP was eliminated by the authorities as of July 1, 2023. The third and fourth MCPs were considered eliminated as per the new MCP policy, effective February 1st, 2024.

## Safeguards Assessment

The CBN has initiated steps to address the 2021 Safeguards assessment:

- In August 2023, the CBN published its 2016-2022 financial statements.
- The CBN has announced that it will phase out developmental lending and is working on a plan to hand over these activities to dedicated development financing institutions and the private sector.
- The government has stated that it is stopping the practice of central bank financing of the deficit.

However, progress on the rest of the recommendations remains limited. Key outstanding recommendations include:

- Modernization of the CBN Act to strengthen the central bank's autonomy including by reducing the presence of government officials at the Board and providing for independent oversight over the CBN through establishing a clear majority non- executive Board. The recent draft Bill to amend the CBN Act has not incorporated recommendations from the safeguards assessment and further weakens the autonomy of the CBN.
- Fully adopting International Financial Reporting Standards to enhance transparency. Staff continues to engage with the authorities on these and the rest of the outstanding issues.

[1] https://www.imf.org/en/Publications/Policy-Papers/Issues/2022/07/15/Review-of-the-Fund-s-Policy-on-Multiple-Currency-PracticesProposals-for-Reform-520854

## Article IV Consultation

Nigeria is on the standard 12-month Article IV consultation cycle. The previous Article IV consultation was concluded on February 6, 2023.

**Mr. Axel Schimmelpfennig** has been the IMF's Mission Chief since August 2023.

**Mr. Christian Ebeke** has been the IMF's Resident Representative since October 2023.

| Technical Assistance since January 2022 | | |
|---|---|---|
| Department | Purpose of TA Mission | Duration |
| FAD | Customs administration | March 14 - May 13, 2022<br>March 21 - April 29, 2022<br>September 14 – 27, 2022<br>December 7 – 20, 2022<br>February 19 - 28, 2023<br>April 12 – 21, 2023 (regional)<br>May 15 – 26, 2023<br>July 17- 28, 2023 (regional)<br>September 18 – 29, 2023<br>September 25 – October 6, 2023 (regional)<br>November 27 – December 8, 2023 |
| FAD | Tax administration | February 14 - March 15, 2022<br>June 1- 14, 2022<br>August 3 – 16, 2022<br>May 2, 2022 – April 28, 2023 (regional)<br>January 9 – 13, 2023 (regional)<br>January 16 – 27, 2023<br>January 19 – February 1, 2023<br>January 21 – February 8, 2023<br>February 9 – February 20, 2023<br>April 12 – 14, 2023 (regional)<br>April 17 – May 2, 2023<br>May 1, 2023 – May 31, 2023 (regional)<br>May 1, 2023 – April 30, 2024 (regional)<br>May 15 – 26, 2023<br>September 6 – 22, 2023<br>September 6 – 19, 2023 (regional)<br>September 6 – 19, 2023 (regional)<br>November 13 – 17, 2023 (regional)<br>March 26 – April 4, 2024 |
| FAD | Tax policy | August 1 - December 31, 2022 |
| FAD | Public Finance Management | February 14 – 28, 2022<br>April 11 - 22, 2022<br>August 16 – 30, 2022<br>October 24 - November 3, 2022<br>October 24 – 28, 2022<br>January 13 – 17, 2023<br>March 20 – 31, 2023<br>October 11 – 24, 2023 |
| MCM | Banking Supervision | April 25-28, 2022<br>May 30—June 10, 2022 (regional)<br>October 10-21, 2022<br>October 24—November 4, 2022 (regional.)<br>February 7-10, 2023<br>March 20-24, 2023<br>May 22 to June 2, 2023<br>July 30-August 4, 2023 (regional)<br>November 20-21, 2023<br>December 4 to 15, 2023<br>February 20-21, 2024 (regional) |
| MCM | Debt Management | March 4 to 8, 2024 |
| STA | National Accounts | March 7 – 18, 2022<br>August 1 – 12, 2022 |
| STA | Price statistics | June 19-30, 2023<br>March 11-20, 2024 |

# RELATIONS WITH OTHER INTERNATIONAL FINANCIAL INSTITUTIONS

World Bank

https://www.worldbank.org/en/country/nigeria

African Development Bank

https://www.afdb.org/en/countries/west-africa/nigeria/

# STATISTICAL ISSUES

(As of December 2023)

| I. Assessment of Data Adequacy for Surveillance |
|---|
| **General**: Data are broadly adequate for surveillance. However, some data shortcomings remain—in particular, information on subnational public finances and large errors and omissions in the balance of payments. Efforts to improve data in those areas are ongoing, including with STA TA on national accounts, monetary and government finance statistics. The Statistics Act of 2007, which established the National Bureau of Statistics (NBS) as the main coordinating agency for data management, has led to improvements, including better information sharing between data producing and collecting agencies. There have been some efforts to improve the compilation of timely and internally consistent data, for example, implementing e-GDDS by publishing critical data through the National Summary Data Page (NSDP), using the Government Integrated Financial Management Information System (GIFMIS) for budget preparations and a fully operational Treasury Single Account (TSA). These efforts, however, need to be extended to the subnational levels. |
| **National accounts**: The NBS is undertaking a GDP rebasing exercise. The previous rebasing was published in 2014 for reference year 2010. The new base year will be 2019. The authorities continue to receive TA from Fund headquarters, its regional technical assistance center AFRITAC West 2 (AFW2), the World Bank, and the African Development Bank in completing a new GDP rebasing exercise, including producing a GDP back-casted series. The results of the National Business Sample Census have been reviewed. The results of the National Agriculture Survey Census are still being analyzed and expected to be ready by March 2024. The overall rebasing timetable has been pushed back by one month to August 2024. |
| **Prices statistics**: The official monthly consumer price index (CPI), a composite of urban and rural price data, is available on a timely basis. However, the index weights and basket are based on expenditures derived from the 2003/04 National Consumer Expenditure Survey. The weights are severely outdated and are not representative of current expenditure patterns. Outdated weights can introduce a bias into the index. The update of the CPI—using new weights from the 2018 National Household Livings Standards Survey—is still ongoing. Compilation of an updated producer price index is ongoing but funding for the survey is uncertain. An AFW2 mission to assist with updating the CPI will be held April 8-19, 2024. AFW2 plans to provide additional technical assistance to support the CPI update and improvements to Nigeria's price statistics. |
| **Government finance statistics:** GFS in Nigeria has several weaknesses. The most pressing shortcoming is related to inadequate data coverage. This includes incomplete coverage of federal government institutions and limited data at the subnational governments level, which accounts for around one half of total government expenditure. The federal government is working with state and local governments to improve the quality, coverage, and timeliness of fiscal reports to facilitate the preparation of a consolidated set of fiscal accounts. This requires the governments at all levels to follow a standardized budget classification, chart of accounts, and accounting systems that will allow consistent classifications of the data, including use of International Public Sector Accounting |

Standards (IPSAS)—cash basis—at the federal and state levels. There is also a need to formalize the publication of government accounts on a monthly or quarterly basis and to increase coverage to report on the operations of state-owned enterprises as well as improve the delineation of the public sector between general government units and public nonfinancial and financial corporations.

Nigeria does not report any GFS data to STA, nor quarterly debt data is currently reported to the IMF / World Bank Quarterly Public Sector Debt Database.

**Monetary and financial statistics**: The CBN reports Monetary and Financial Statistics (MFS) to the Fund using the Standardized Report Forms (SRFs) for the central bank and other depository corporations (ODCs). In late 2020, the CBN began reporting data for other financial corporations (OFCs), covering the pension fund sector. The CBN is expected to gradually expand the coverage of the OFC sector to include finance companies, development finance institutions, and insurance companies. In recent months, monetary data were subject to frequent and substantial revisions, which complicates the assessment and policy advice.

Nigeria reports some data and indicators to the Financial Access Survey (FAS), including mobile money and the two indicators (commercial bank branches per 100,000 adults and ATMs per 100,000 adults) adopted by the UN to monitor Target 8.10 of the Sustainable Development Goals (SDGs). Nigeria doesn't report gender disaggregated data.

**Financial soundness indicators (FSIs)**: The CBN reports quarterly data for Nigeria's thirteen core and eight additional FSIs for deposit takers, but their disclosure occurs with a 6-month delay. The CBN is working with support from STA to improve the methodology used to compile FSIs in accordance with the 2019 FSIs Guide and expand the coverage to include the additional FSIs for insurance corporations and pension funds.

**Balance of payments**: There have been efforts to improve the compilation of Nigeria's balance of payments data in recent years. The authorities have expanded the range and improved the quality of data sources, aimed at strengthening the balance of payments, in particular reducing the large errors and omissions, and improve consistency with the international investment position (IIP).

Nevertheless, more needs to be done to further reduce the errors and omissions in the balance of payments. There is a need for improved validation of transactions reported by banks, measurement of transactions outside the banking system and improved coverage of estimates of the external assets and liabilities of the banking sector. TA efforts helped the CBN diversify the data collection needed for the improvement of the external sector statistics, including through introducing private financial flows and stocks surveys. A survey of private transfers should foster improvements in the estimates of private transfers, especially those received through informal channels and for the in-kind values, which are currently not estimated. The June 2019 mission assisted CBN in addressing deficiencies in their source data (ITRS in particular) and further improving the measurement of transactions and positions data. More efforts need to be deployed to further improve the quality and frequency of foreign assets and liabilities currently collected via an annual survey. Collection of position data for both inward and outward portfolio investment with country breakdown needs also to be initiated to allow participation in the CPIS.

| | |
|---|---|
| The authorities have not yet initiated the compilation of international reserves data in line with the Data Template on International Reserves and Foreign Currency Liquidity.<br><br>**External debt**: There have been efforts to improve the quality and timeliness of the Public external debt data. The Debt Management Office (DMO) is collaborating closely with the CBN to extend the coverage of their database to include private sector liabilities and foreign investment in debt securities issued domestically. In addition, IMF and World Bank staff worked with the DMO to develop analytical capacity to formulate a debt management strategy based on detailed cost-benefit analysis. | |
| **II. Data Standards and Quality** | |
| Nigeria has participated in the IMF's General Data Dissemination System (GDDS) since April 2003. In March 2016, Nigeria implemented the recommendations of the Enhanced General Data Dissemination System (e-GDDS) by publishing critical data through the National Summary Data Page (NSDP). | No Data ROSC is available. |

**Nigeria: Table of Common Indicators Required for Surveillance**
(As of March 10, 2024)

| | Date of Latest Observation | Date Received | Frequency of Data[1] | Frequency of Reporting[1] | Frequency of Publication[1] |
|---|---|---|---|---|---|
| Exchange Rates | Feb. 2024 | Mar. 2024 | M | M | M |
| International Reserve Assets and Reserve Liabilities of the Monetary Authorities[2] | Feb. 2024 | Mar. 2024 | M | M | M |
| Reserve/Base Money | Jan. 2024 | Mar. 2024 | M | M | M |
| Broad Money | Jan. 2024 | Mar. 2024 | M | M | M |
| Central Bank Balance Sheet | Jan. 2024 | Mar. 2024 | M | M | M |
| Consolidated Balance Sheet of the Banking System | Jan. 2024 | Mar. 2024 | M | M | M |
| Interest Rates[3] | Mar. 2024 | Mar. 2024 | D | D | D |
| Consumer Price Index | Feb. 2024 | Mar. 2024 | M | M | M |
| Revenue, Expenditure, Balance and Composition of Financing[4] – Central Government | Dec. 2023 | Feb. 2024 | M | M | M |
| Revenue, Expenditure, Balance and Composition of Financing[4] – General Government[5] and Central Government | Dec. 2023 | Feb. 2024 | M | M | M |
| Stocks of Central Government and Central Government-Guaranteed Debt[6] | Jun. 2023 | Dec. 2023 | Q | Q | Q |
| External Current Account Balance | Sep. 2023 | Dec. 2023 | Q | Q | Q |
| Exports and Imports of Goods and Services | Dec. 2023 | Mar. 2024 | Q | Q | Q |
| GDP/GNP | Dec. 2023 | Feb. 2024 | Q | Q | Q |
| Gross External Debt | Sep. 2023 | Feb. 2024 | Q | Q | Q |
| International Investment Position[7] | Sep. 2023 | Dec. 2023 | Q | Q | Q |

[1] Daily (D); weekly (W); monthly (M); quarterly (Q); annually (A); irregular (I); and not available (NA).

[2] Any reserve assets that are pledged or otherwise encumbered should be specified separately. Also, data should comprise short-term liabilities linked to a foreign currency but settled by other means as well as the notional values of financial derivatives to pay and to receive foreign currency, including those linked to a foreign currency but settled by other means.

[3] Both Market-based and officially determined, including discount rates, money Market rates, rates on treasury bills, notes and bonds.

[4] Foreign, domestic bank, and domestic nonbank financing.

[5] The general government consists of the central government (budgetary funds, extra budgetary funds, and social security funds) and state and local governments. However, the expenditure data for state and local governments are not available.

[6] Including currency and maturity composition.

[7] Includes external gross financial asset and liability positions.

**Statement by the IMF Staff Representative**
**April 29, 2024**

*This staff statement provides updates on recent developments and does not alter the thrust of the staff appraisal in the staff report.*

1. **The naira's recovery has continued in recent weeks**. The naira depreciated by about 80 percent between January and March but has since recovered two-thirds of the losses through mid-April with improved investor confidence and some CBN dollar provision. Gross international reserves stood at $32.1 billion (30-day moving average) on April 17, down from $32.9 billion at end-December, also inter alia reflecting external debt service payments. Staff's end-2024 projections remain achievable in light of expected inflows and with the improved investor confidence.

2. **March inflation was 33 percent year-on-year, with food inflation of 40 percent year-on-year again the main driver (52 percent of the basket).** This is the 15th month of consecutive increases, and the highest print in 28 years. Staff's projections assume improved agriculture production and the fading out of base effects in the second half of the year. With the recent naira recovery, staff's end-2024 inflation projection remains achievable, though risks have increased. The next Monetary Policy Committee meeting is scheduled for end-May and will have one more inflation print to consider as input.

3. **Oil production decreased for the second consecutive month**. March production of 143 million barrels per day (bpd) was about 20 million bpd below the level in January, due to temporary difficulties experienced with a major pipeline and maintenance activities by some oil companies. Once this maintenance is completed, production is expected to recover.

4. **Preliminary data for January/February 2024 suggests an improved fiscal performance.** Non-oil revenue in percent of GDP was somewhat stronger than during the same period in 2023, while oil revenues remained broadly constant. Current expenditure in percent of GDP were slightly lower than during the same period in 2023, mainly due to lower personnel and debt service cost.

5. **The authorities have reduced the government's outstanding overdraft at the CBN by naira 4.8 trillion.** This was financed from treasury bills and bonds issuance. The authorities have now raised naira 7 trillion net in domestic securities year-to-date, on pace to meet staff's financing assumptions.

6. **The authorities increased electricity prices for some consumers effective April 2024.** The price of electricity has been tripled for high use premium consumers (15 percent of the 12 million customers) who account for 40 percent of electricity usage. The tariff

adjustment will help reduce expenditure on subsidies by 0.1 percent of GDP, while continuing to provide relief to the poor, particularly in rural areas.

7. **The authorities have stepped up assistance to small enterprises with the launch of the Presidential Grant Scheme in April 2024.** A grant of naira 50,000 will be provided to eligible small business owners (one or two employees, operating income of less than naira 3 million) in various sectors (trading, food services, ICT, transportation, creative industries, artisans). Around 70 percent of the grants will be allocated to women and young people and 10 percent to individuals with disabilities. The program aims to reach one million businesses. Grants will be deposited directly into beneficiaries' accounts.

8. **President Tinubu launched the National Single Window initiative on April 17, 2024.** The single window is aimed at simplifying trade compliance through a digital platform, which will link ports of entry, government agencies, and key stakeholders. Creating a seamless and efficient trading system that reduces revenue leakage and creates a transparent, secure, and business-friendly environment to attract investment.

9. **The CBN increased the minimum paid-up capital for commercial, merchant, and non-interest banks.** Banks have two years to raise the additional capital. The increase is aligned with best international practices and consistent with staff's recommendations. The bank recapitalization will make the financial system more resilient and better prepared to handle existing and future economic shocks.

10. **On April 16, 2024, CBN reduced the minimum loan to deposit (LDR) ratio that banks are required to comply with from 65 to 50 percent.** Although not the complete removal recommended by staff, it will partially address some of the distortions highlighted in the staff report.

**Statement by Willie Nakunyada, Executive Director and Patterson Ekeocha, Senior Advisor to Executive Director**
**April 29, 2024**

## Introduction

1. Our Nigerian authorities appreciate the constructive engagement with staff during the 2024 Article IV consultation. They broadly share the thrust of staff's assessment of economic developments and key policy priorities.

2. The Nigerian economy is gradually recovering from the COVID-19 induced recession, despite the difficult domestic and external environment. Moreover, volatile oil prices alongside lingering security concerns, difficult external financing conditions, high inflation, and food insecurity, have dampened the output recovery momentum and worsened poverty levels. Against this background, the new administration which assumed power in May 2023 embarked on ambitious reforms aimed to stabilize macroeconomic conditions and raise growth. To this end, the authorities have already undertaken difficult reforms aimed to remove fuel subsidies, unify the exchange rate, strengthen social protection to cushion the most vulnerable, and tighten macroeconomic policies to combat inflation. Further, they instituted measures to ramp up spending on infrastructure, health, and education. Concurrently, they are directing reform efforts towards improving fiscal management, fighting corruption, strengthening governance, and tackling climate challenges to steer the economy towards a more robust, greener, and inclusive growth trajectory. The authorities are also making determined efforts to address insecurity challenges, by fortifying border security.

## Recent Economic Developments and Outlook

3. Growth is projected to modestly firm-up from 2.9 percent in 2023 to 3.2 percent in 2024, supported by improvements in agricultural and hydrocarbon production, as well as increased trade activity. Real growth has shown signs of resilience, having grown by 3.5 percent (year-on-year) in the fourth quarter of 2023, largely buoyed by the services sector, which recorded a 3.9 percent expansion. Nevertheless, the growth outlook remains dominated by risks from adverse oil production shocks, worsening onshore security conditions, and weaknesses in the agricultural sector. Moreover, global commodity price

spikes could worsen food insecurity, while climate change could continue to affect agriculture and coastal areas. Against this background, growth is expected to moderate to 3.0 percent in 2025. That said, upside risks from the successful implementation of well-sequenced and coordinated reform measures could facilitate a faster recovery. Meanwhile, inflation, climbed from 31.7 percent in February 2024 to 33.2 percent in March 2024, driven by food and energy prices. Looking ahead, inflation is expected to decline in the second quarter of 2024, on account of tight macroeconomic policy measures and improved food supply.

4. The current account balance is projected to improve from an estimated 0.3 percent of GDP in 2023 to 0.5 percent in 2024, supported by improved hydrocarbon exports, portfolio investment inflows, and foreign direct investments. Going forward, efforts to accumulate external reserves are expected to benefit from the authorities actions to ensure that all foreign exchange (FX) inflows are remitted to the Central Bank alongside improved oil production and measures to prevent oil theft. That said, gross official reserves are projected to remain stable at 5 months of import cover in 2024.

**Fiscal Policy**

5. The authorities are committed to medium-term revenue and expenditure reform measures designed to strengthen public finances, build fiscal buffers, and keep public debt on a sustainable path. In this vein, they are committed to strengthening revenue generation to create fiscal space for priority social and development spending. To shore-up revenues, the authorities are addressing low domestic revenue mobilization through various measures, including strengthening tax administration, and improving tax compliance, particularly in corporate income tax (CIT), an increase in the value-added tax (VAT) rate, and broadening the tax base. Beyond 2024, the authorities will progressively increase the VAT rate from 7.5 percent to 10 percent in 2025 and 15 percent in 2026. They expect revenue gains through these measures, including digitalizing tax identification and rationalizing tax incentives. The authorities remain committed to enhancing the efficiency of tax administration, supported by amendments to the Finance Act.

6. The government is reprioritizing expenditures to allocate more funds for social protection and other priority spending while tackling governance concerns and plugging leakages in existing social transfer mechanisms. To this end, they are collaborating with the World Bank to develop a robust social protection mechanism that could benefit 60 million people. In the same vein, they will attach a high premium on channeling spending to areas of priority to enhance and promote inclusive growth. Addressing bottlenecks in agricultural production remains critical, and the authorities are strengthening irrigation facilities, alongside use of improved seed varieties and fertilizers. Concurrently, they are making efforts to address conflict and insecurity in farming communities, which are crucial to increasing food supply and lowering prices.

7. To maintain debt sustainability, the authorities will continue to operate within the bounds of the Fiscal Responsibility Act 2007, restricting borrowing to capital expenditure and human development. Despite revenue challenges, the government has consistently met its

debt service commitments. At the same time, the government is committed to exploring cheaper, more flexible borrowing options to finance fiscal deficits and ensure that total public debt is under the debt sustainability threshold of 40 percent of GDP. Further, they are dedicated to aligning the high debt service-to-revenue ratio to the recommended threshold of 30 percent. In the medium term, the government will focus on the optimal borrowing structure supported by an enhanced revenue mobilization framework to bridge the financing gaps while considering the cost of borrowing and the associated risks.

**Monetary and Exchange Rate Policy**

8. The Central Bank of Nigeria (CBN) remains committed to restoring price stability by pursuing a tight monetary policy stance to tame inflation, rebuild confidence in the economy, and regain credibility. As such, the CBN maintains a tight monetary policy to achieve positive real interest rates, sustain the short-term forex supply, and moderate aggregate demand. Accordingly, the central bank recently increased the monetary policy rate (MPR) by 400-bp increase to 22.75 percent and the subsequent 200-bp increase to 24.75 percent to contain inflation and support a more market-determined exchange rate. While real rates remain negative, the CBN, through the Monetary Policy Committee (MPC), is committed to take the necessary steps to bring down inflation and attract portfolio investment inflows. Further, the CBN is committed to bolstering the operational framework of monetary policy to address structurally high inflation and slow growth. As a result, inflation is expected to gradually decline in response to tight monetary conditions and a more stable exchange rate.

9. The CBN is proactively developing a roadmap for implementing an inflation-targeting framework. This strategic move is aimed at strengthening its ability to achieve price stability within a predetermined range or target level of inflation. This approach will, among other benefits, better anchor inflation expectations and increase transparency, credibility, and economic performance. Other measures to rein-in inflation include the Bank's re-focus on standard monetary policy instruments, rolling back its N10 trillion quasi-fiscal operations while complying with statutory limits on its credit to the government, and reducing rapid credit and money supply growth. Concurrently, the CBN has already commenced an aggressive recovery of overdue development finance intervention loans.

10. In line with the Fund’s advice, the CBN has taken significant steps to unify the foreign exchange (FX) market windows. To this end, they introduced operational changes in the Nigerian Foreign Exchange Market (NFEM), including the willing buyer/willing seller model on June 14, 2023. These efforts have increased transparency over the exchange rate and monetary policy, leading to robust activity in the FX market. Turnover has reached unprecedented levels, instilling confidence among investors, businesses, and remittance providers and ensuring fluidity in interactions with Nigeria's FX markets. Additionally, the CBN has cleared many outstanding forex obligations and outlined new operational modalities for commercial banks, Bureau de Change (BDC) operators, and international money transfer operators (IMTOs).

11. Monitoring and managing exchange rate risks remains essential for the Central Bank of Nigeria (CBN) to promote economic stability and attract investment. In this regard, the CBN introduced a new operational mechanism for BDC to automate and streamline their operations on electronic platforms. This includes the reduction in the number of BDCs in the country to ensure efficiency and adequate supervision. On February 1, 2024, the CBN announced the removal of the allowable limit on the exchange rate quoted by international money transfer operators (IMTOs) to boost liquidity through the willing seller, willing buyer model. The CBN also lifted the daily cap of N2 billion on the remunerable Standing Deposit Facility (SDF) in October 2023 to manage excess liquidity in the banking system and ease demand pressure in the foreign exchange market. In addition, the CBN limited the cash pool of international oil companies (IOCs) to 50 percent of their repatriated export proceeds in the first instance, with the balance to be repatriated after ninety (90) days from the date of inflows of export proceeds. The ultimate goal is to minimize the adverse impact of the IOC's FX repatriation on liquidity in Nigeria's foreign exchange market.

**Financial Sector Policy**

12. The financial sector remains resilient, as key financial soundness indicators are within regulatory limits. The CBN continued to implement and supervise prudential guidelines to ensure the stability and resilience of the financial sector. In addition, the CBN is increasing the deposit-taking corporations' (DTCs) minimum capital and fully adopting the Basel 3 capital framework to address vulnerabilities in the financial system and build a stable financial system capable of supporting the economy. At the same time, the CBN is phasing out regulatory forbearance and maintaining tight supervision to mitigate emerging risks. These efforts demonstrate the monetary authority's commitment to enhancing the stability and resilience of the monetary and financial sectors to support sustainable economic growth and development. The Bank also imposed a Net Open Position (NOP) limit on January 31, 2024, not to exceed 20 percent short or 0 percent long of shareholders' funds unimpaired by losses using the Gross Aggregate Method.

13. To help ensure a safe, sound, and stable financial system, the CBN remains attentive to developments in the thriving Fintech sector, using a regulatory sandbox, increased use of code-based phone transactions, and has mandated data sharing between banks and Fintechs. The government is also committed to consistent measures to maintain correspondent banking relationships and financial flows, including financial integrity in line with effective risk-based supervision to improve financial stability. In addition, the authorities are committed to addressing the strategic AML/CFT deficiencies that necessitated FAFT placing Nigeria on its list for increased surveillance in 2023.

**Structural Reforms**

14. The government remains committed to good governance practices, and improved transparency. To this end, the authorities have intensified efforts to enforce public disclosure measures for contracts, licenses, permits, and revenue streams. In addition, they also aim to pass laws facilitating public access to Public Officers' Declarations.

Further, the Technical Unit on Governance and Anti-Corruption Reforms (TUGAR) issues periodic reports on governance and anti-corruption frameworks, identifying areas for improvement and guiding reform efforts. The government also conducts audits of federal institutions to assess governance practices.

15. The authorities are making determined efforts to pursue the necessary regulatory reforms to position Nigeria as an investment destination of choice to counter the uncertainties caused by insecurity and spillovers from the global environment. At the same time, they are committed to ensuring robust and comprehensive consultation with stakeholders in the medium term within the framework of predictable, coherent, and consistent policies. In addition, the government will continue supporting growth-enhancing sectors with job creation capacity, as well as export-oriented sectors. At the same time, they are prioritizing reforms aimed at enhancing competition, innovation, and domestic productivity and scaling up private investment. The government will further strengthen the frameworks for concessions and public-private partnerships, including working with the legislature to address legal and regulatory bottlenecks to unlock private investments in key sectors.

16. To enhance the investment environment, the government is taking measures to bolster defense and internal security. They will sustain current efforts to properly equip and motivate the armed forces, police, and paramilitary units. The government is overhauling the internal security architecture and introducing new operational strategies to enhance law enforcement capabilities and safeguard lives, properties, and investments across the country. The various services will work proactively and collaboratively to address attendant security challenges to achieve enduring peace, stability, and public safety, to provide a conducive business environment.

17. The authorities are committed to ensure a competitive electricity market to provide affordable electricity and increase power generation/distribution capacity. They plan to increase investment in critical power grid infrastructure in the medium-term, focusing on projects that optimize grid reliability and interconnectedness. Importantly, the government will provide infrastructure to lower business costs, enhance economic activity, domestic productivity, and competitiveness, incentivize private investment, and contribute to projected growth. Additionally, the government will improve access to sustainable finance for small and medium enterprises in critical sectors.

18. To address climate change and promote sustainable practices, the authorities made appropriate adjustments to energy policies and regulations. They view stricter emission standards, carbon pricing mechanisms, and renewable energy targets as important to reshape the future oil market landscape and investment decisions. The government will also review governance reforms and accelerate energy transition plans, demonstrating its unwavering commitment to a sustainable future.

**Conclusion**

19. The authorities reaffirm their commitment to implement comprehensive policy interventions and reforms to address the challenging economic and social landscape that

the country is currently navigating. They are committed to implementing various policy reforms to attract capital inflows, including the ease of doing business initiatives, improving the regulatory environment, and efforts to diversify the economy away from oil dependency. These reforms are geared to create a more investor-friendly climate and enhance Nigeria's investment appeal. The authorities appreciate Fund advice and technical support and look forward to Directors' support in concluding the 2024 Article IV consultation.