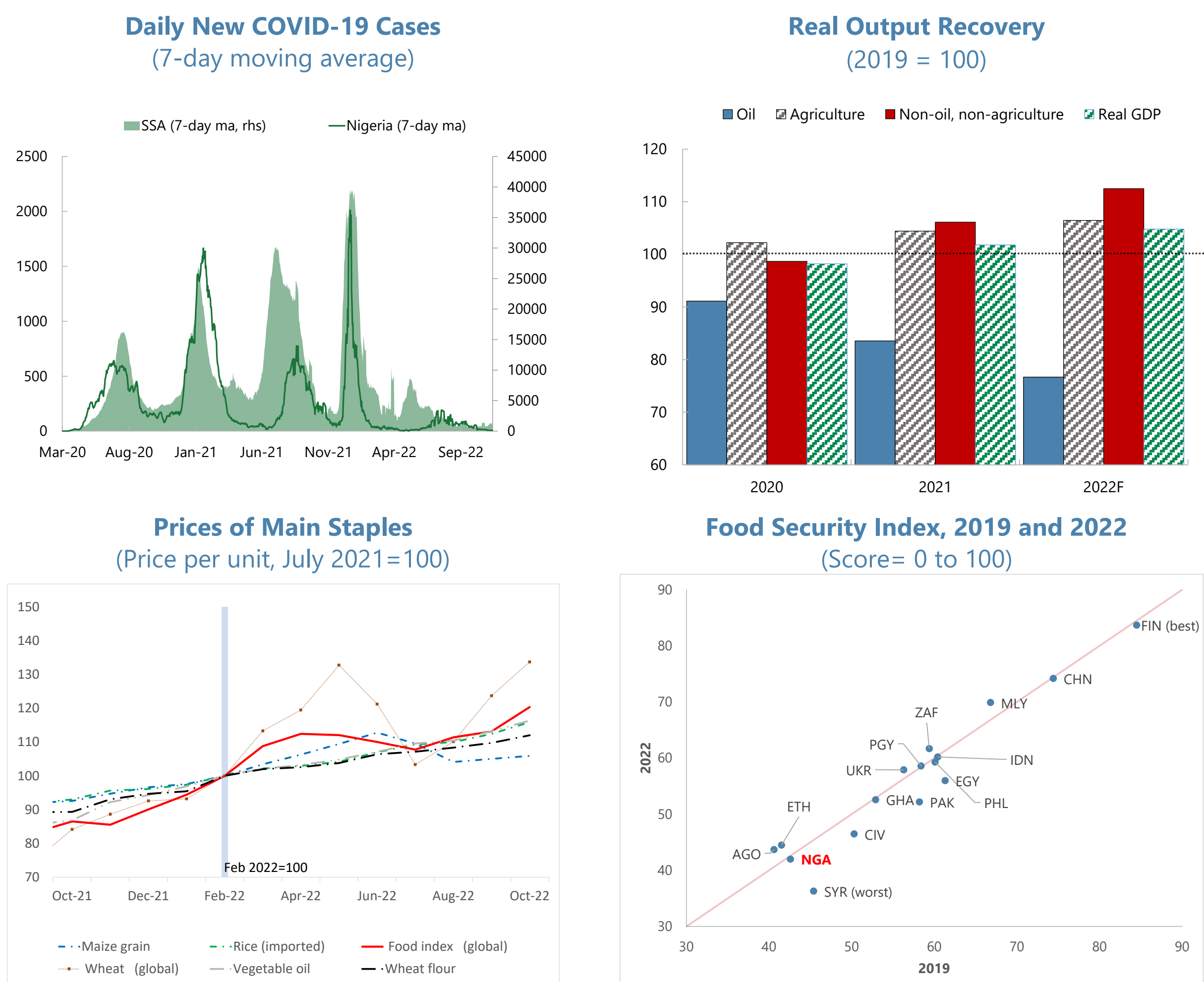
BACKGROUND

1. Economic recovery continues to broaden despite headwinds. Lifted by favorable oil prices and buoyant pre-election consumption activities, Nigeria's economy has recouped the output losses sustained during the COVID-19 pandemic. However, oil production, accounting for roughly one tenth of GDP, has suffered from security and technical challenges since the pandemic. The impact of the war in Ukraine, despite Nigeria's limited direct exposures, has permeated through higher domestic food prices. This has compounded the scarring effects from the pandemic, particularly on the vulnerable—with Nigeria being among the countries with lowest food security (Figure 1).

Figure 1. Nigeria: Navigating the Pandemic and the War in Ukraine



Sources: Haver and IMF staff calculations, IMF Primary Commodity Price System, Our World in Data, and Economic Intelligence Unit (EIU). The Food Security Index is constructed by EIU using 58 indicators for 113 countries and is designed to be a dynamic quantitative and qualitative benchmarking model that measures the drivers of food security.

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2. There has been limited progress in key reforms since the last Article IV consultation. Higher oil prices, which created an opportunity to build fiscal space and foreign exchange (FX) reserves, have instead led to increased subsidies for the petroleum motor spirit (PMS), which disproportionately benefit the well-off (see SM/22/34). Various deductions by the Nigerian National Petroleum Company (NNPC), including the costs of PMS subsidies, produced limited fiscal revenues from crude oil sales (Figure 2). The double-digit increases in Nigeria's terms of trade and significant improvement in trade and current account balances suggest a potentially positive impact that was not harnessed by building up FX reserves. Progress has been slow on the long-standing policy recommendations and governance reforms committed under the 2020 Rapid Financing Instrument (RFI) loan agreement (Text Table 1), including on consistent access to key procurement information, which is hampered by frequent server outage, and publication of the audit report of COVID-19 related spending.[1]

Text Table 1. Nigeria: Implementation of Past Policy Advice

	Implementation Status
Staff's Key Macroeconomic Policy Advice	
Introduce greater exchange rate flexibility and establish a unified and market-clearing exchange rate. To preserve competitiveness, any exchange rate adjustment should be accompanied by clear communications regarding exchange rate policy going forward, macroeconomic policies to contain inflation and structural policies to facilitate new investment.	Partially met
Permanently 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.	Not met
Move to full cost-reflective electricity tariffs in 2021.	Delayed, expected by end 2022
Strengthen monetary policy operational framework and establish the primacy of price stability to tackle structurally high inflation.	Not met
Fully open land borders, reduce tariff escalation, and simplify customs procedures.	ongoing
Governance Commitments under the RFI	
Create specific budget lines to facilitate the tracking and reporting of emergency response expenditures.	Met
Report funds released and expenditures incurred monthly on the transparency portal.	Partially met
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.	Partially met
Publish no later than three to six months after the end of the fiscal year the report of an independent audit into the emergency response expenditures and related procurement process, which will be conducted by the Auditor General of the Federation—who will be provided with the resources necessary and will consult with external/third party auditors.	Not met

3. The priority for the incoming administration should be to restore macroeconomic stability and advance structural reforms. The current mix of loose monetary and fiscal policies

[1] The authorities are addressing the server outage issue and expect to have the final audit report ready by end-2022.

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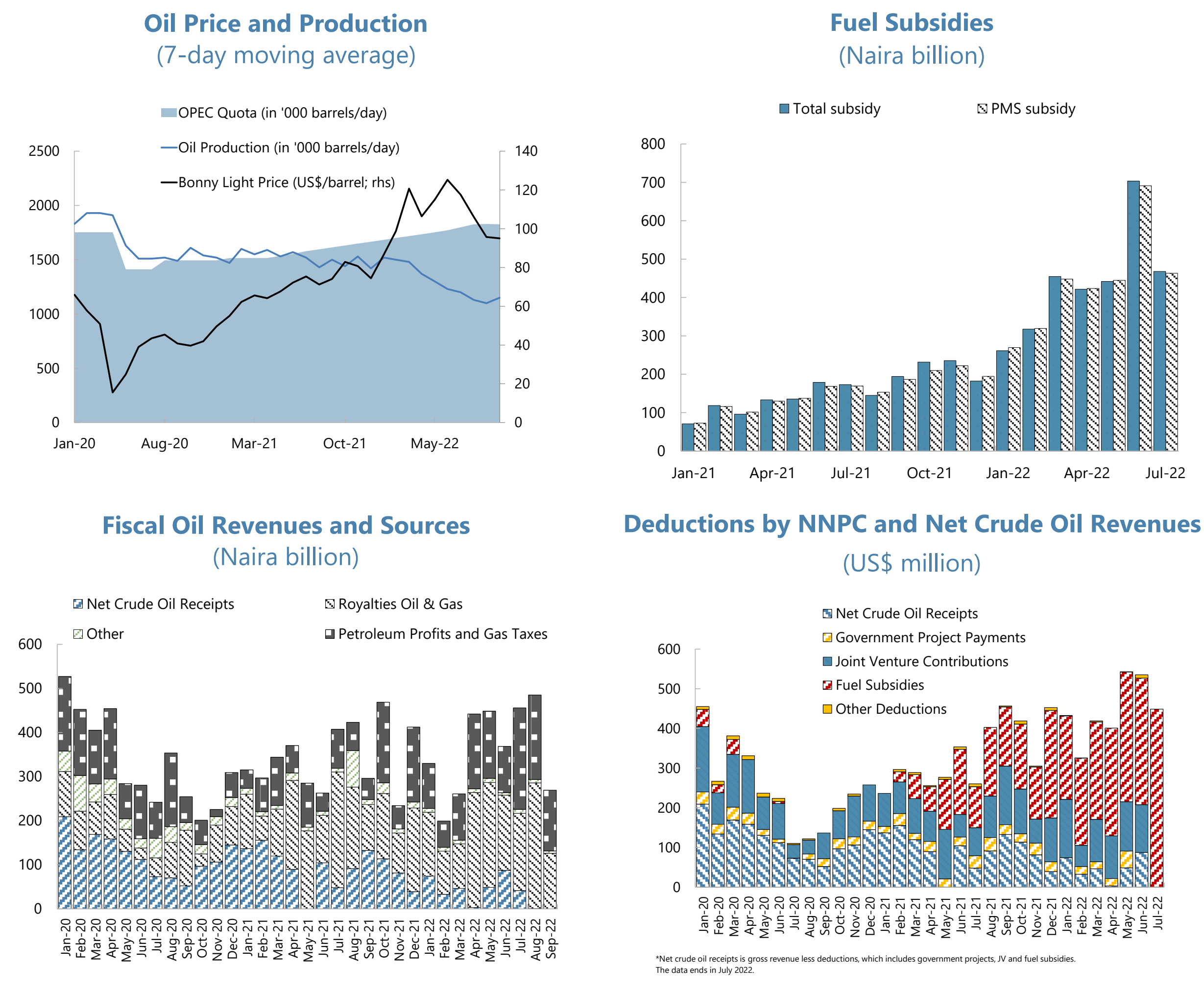
and limited exchange rate adjustment is not only inconsistent, but also unsustainable. Strains are showing—with reserve losses, the private sector experiencing chronic FX shortages amidst limited exchange rate adjustment, and large fiscal deficits necessitating central bank financing. Rising inflation, elevated borrowing costs in international capital markets and capital outflow pressures, if left unaddressed, may exacerbate macroeconomic instability impacting growth, food security and social cohesion. This year's consultation focused on near-term monetary and exchange rate policies to address these weaknesses while emphasizing the need to strengthen efforts to mobilize domestic revenues and address long-standing structural weaknesses.

Figure 2. Nigeria: Limited Benefits from Rising Oil Prices



Sources: Nigerian authorities, NNPC, Haver, OPEC, IMF staff estimates.

Note: The monthly data on NNPC's fiscal oil revenues and deductions are available only until July 2022.

RECENT MACROECONOMIC DEVELOPMENTS

4. **Non-oil sectors are leading the recovery.** At 2.4 percent (y/y) output growth, 2022Q3 marked the eighth consecutive quarter of growth, with real GDP having already reached its pre-crisis level in 2021Q1. Initially driven by agriculture, information technology and trade, the recovery has

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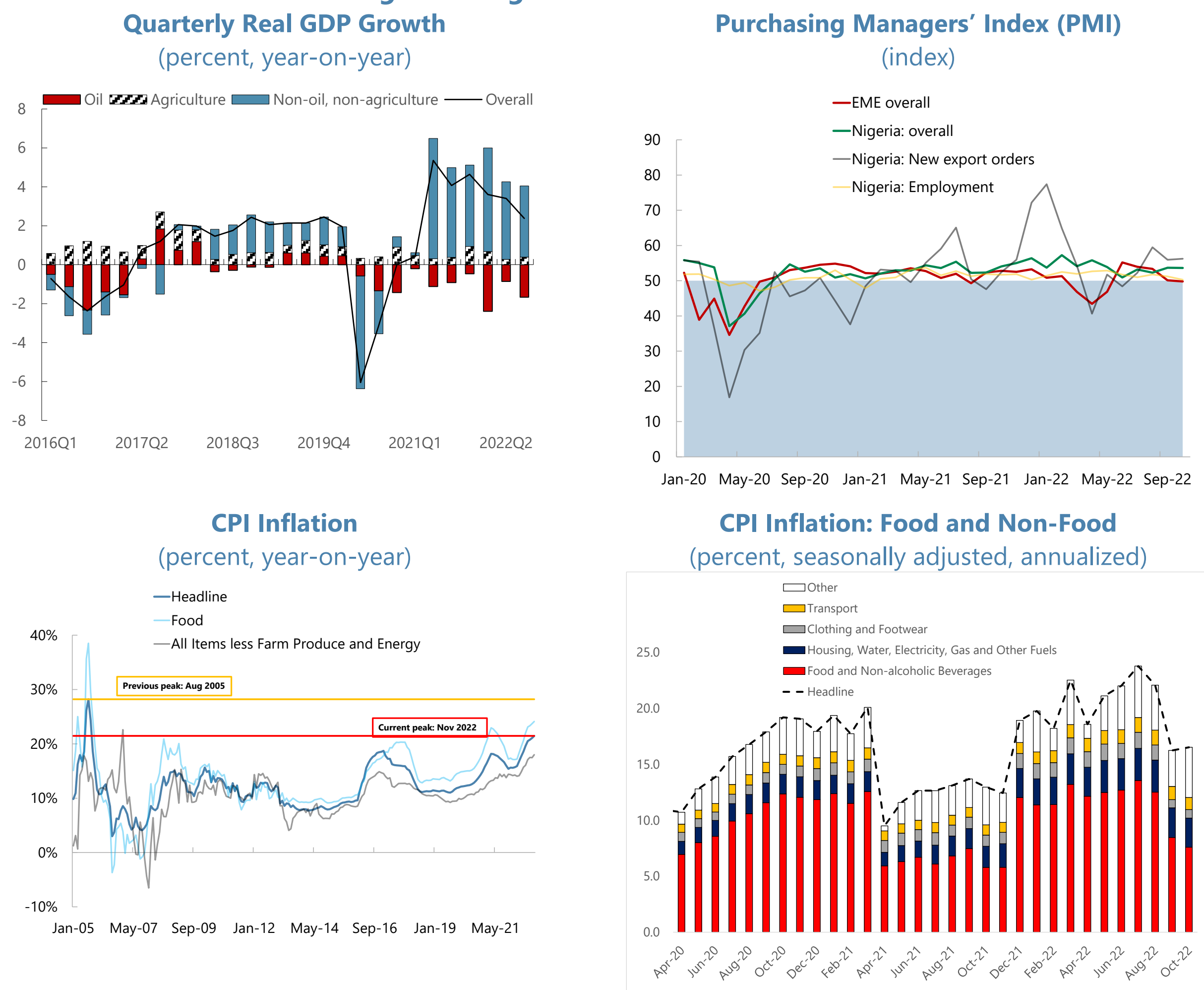
broadened to all sectors except oil, which suffered from leakages, poor maintenance, and theft during most of 2022. However, measures to tackle oil theft—greater surveillance at the Niger Delta, installation of new pipelines, capture of barges and criminals—are finally bearing results. High frequency indicators also point to continued expansion of non-oil output (Figure 3). Since late 2021, higher international food prices, elevated parallel market premiums and sharply rising diesel and transportation prices have led to a renewed surge in headline inflation, which reached 21.5 percent (y/y) in November 2022, a 17-year high. However, the pace has slowed in recent months reflecting moderation in food price increases. The absence of unemployment data (last official observation shows 33 percent as of December 2020) hampers the ability to assess job market recovery.[2]

Figure 3. Nigeria: Growth and Inflation



Sources: National Bureau of Statistics (NBS) of Nigeria, S&P Global, Haver, and IMF staff estimates.

[2] The authorities are in the process of revamping the sampling framework for the labor force survey and expect to produce estimates in 2023. This is a major gap in data availability and complicates analysis of the labor market.

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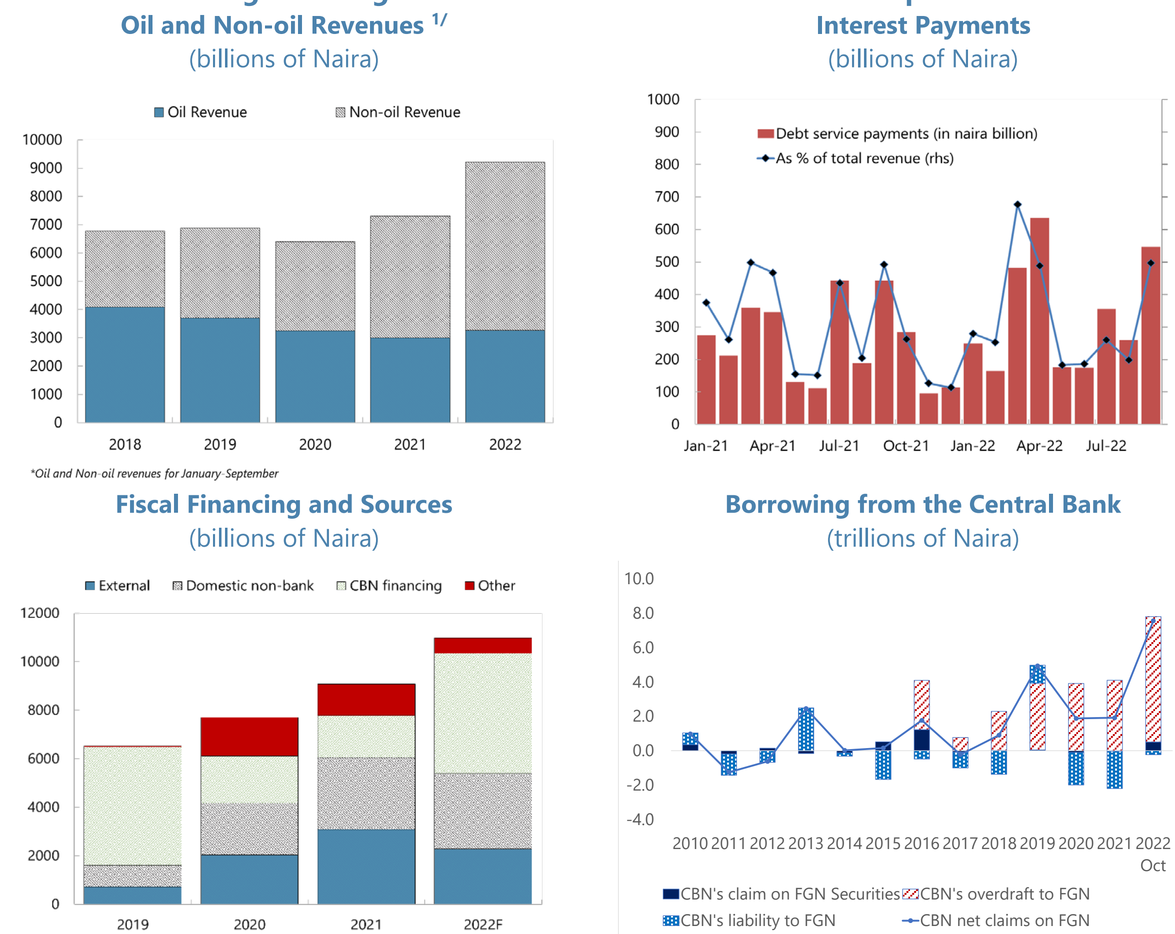
5. Fiscal developments in 2022 were mixed. Non-oil revenues increased by 38 percent y/y during January-September, mainly reflecting strong recovery of private consumption and improved tax administration efforts (Figure 4). However, oil revenues, despite higher international prices, increased by only 9 percent y/y, reflecting larger deductions by the NNPC (Figure 2). Current spending also increased during this period, mainly due to higher debt service payments, while remaining broadly in line with the 2022 budget. Fiscal financing has relied heavily on domestic borrowing, including from the Central Bank of Nigeria (CBN) overdraft facility—reflecting elevated borrowing costs in the Eurobond market since the March 2022 sovereign issuance.

Figure 4. Nigeria: General Government Fiscal Developments



Sources: The authorities and staff estimates.
1/ Excludes State and Local Government's independently generated revenues.

6. The current account has improved but FX pressures continue. Rising oil prices increased export revenues significantly and generated a merchandise trade surplus in 2022Q1 (Figure 5). The current account (CA) also moved into surplus despite significantly higher profit repatriation by foreign companies. In February 2022, the CBN launched the RT200 non-oil export proceed repatriation rebate scheme, aiming to raise \$200 billion in FX earnings from non-oil proceeds over

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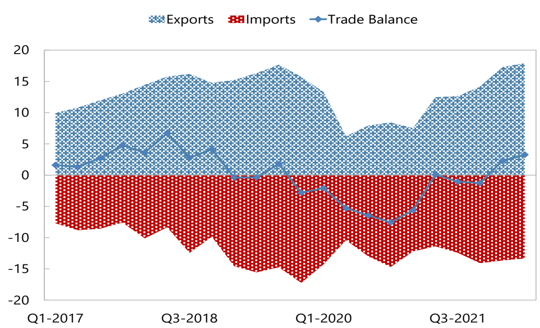
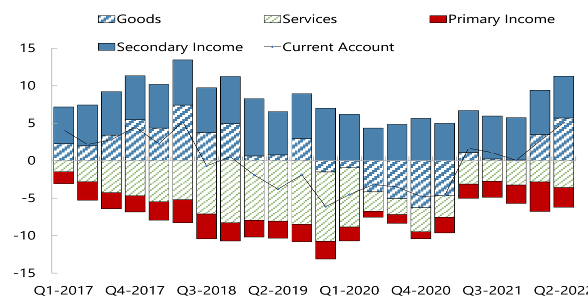
the next 3-5 years.[3] On the financial side of the balance of payments, large net private outflows from domestic banks and nonbanks in the form of offshore deposits surpassed net inflows from foreign investors leading to a steady decline in gross international reserves since September 2021. At end-November 2022, gross international reserves stood below $37 billion covering 5.7 months of imports and 58 percent of the IMF's ARA metric. Long-standing administrative FX restrictions, including for imports of necessities, the system of multiple exchange rate windows at the CBN, and limited flexibility in the I&E rate continue. In 2022H2, the parallel market rate has stayed above 50 percent of the rate in the main market window (the I&E rate).

Figure 5. Nigeria: External Sector Developments

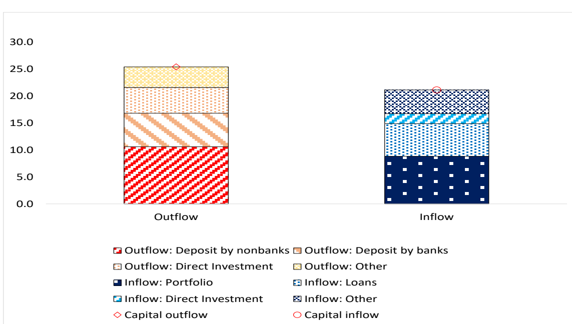
Trade Balance
(US$ billion)



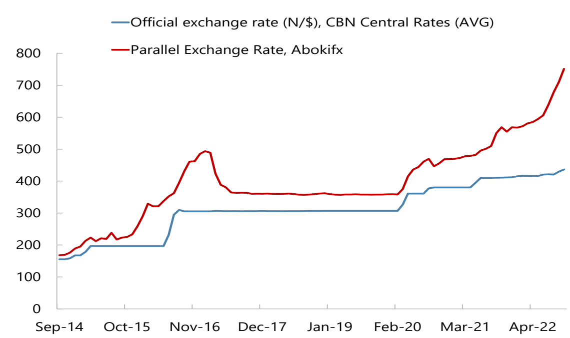
Current Account Balance
(US$ billion)



Capital Flows 1/2/3/
(US$ billion, cumulative during 2020Q4-2022Q2)



Official and Parallel Market Exchange Rates
(Naira per dollar)



Sources: CBN, NBS, and Staff estimates.
1/ Capital outflows represent net acquisition of overseas financial assets by residents, excluding reserve asset accumulation by the CBN. Capital inflows represent net incurrence of financial liability to nonresidents.
2/ Nonbanks comprise nonfinancial corporations, households, and non-profit institutions serving households.
3/ Direct investment includes investment by companies ultimately controlled by a foreign parent.

[3] The CBN provides incentives to exporters who either sell their non-oil export proceeds at the I&E window (N65 for each dollar sold in this market) or re-use them for their own business needs (N35 for each dollar used). This scheme gives rise to a multiple currency practice under Article VIII of the Fund's Articles as exporters eligible for the rebate scheme obtain naira from the conversion of the qualifying non-oil export proceeds at a more favorable effective exchange rate that deviates by more than 2 percent from the exchange rates used for the conversion of other export proceeds. See Nigeria Informational Annex for more details.

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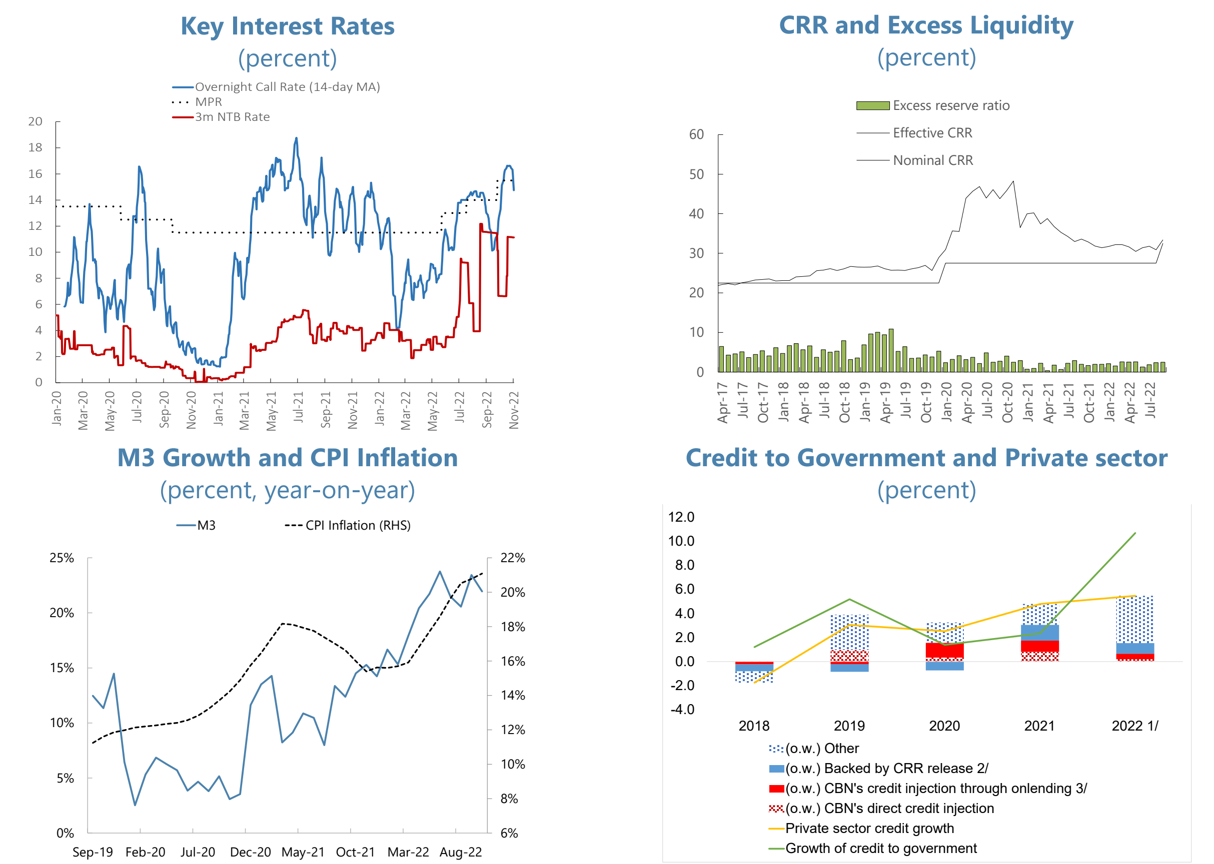
7. The CBN raised the Monetary Policy Rate (MPR) by a cumulative 500 basis points in 2022 to combat rising inflation (Figure 6). It also discontinued COVID-19-related interest rate forbearance on CBN intervention facilities. In addition, the CBN also raised the cash reserve ratio (CRR) from 27.5 to 32.5 percent, although multiple banks had already faced an effective CRR ratio higher than the new rate due to discretionary use of this tool. Despite these tightening measures, monetary expansion remains strong driven by financing provided to the budget and strong credit growth (Figure 6). In a bid to prevent funding of illicit activities, the CBN rolled out newly-designed high denomination naira notes on December 15, 2022, for parallel use with old notes until January 31—after which the latter will no longer be valid.

Figure 6. Nigeria: Key Interest Rates, Liquidity and Credit Growth



Sources: CBN, Haver, and Staff estimates.
1/ 2022 figures (annualized) are from January to August.
2/ Estimated based on changes in discretionary CRR.
3/ All of CBN's credit to banks are assumed to be on lent to the private sector.

OUTLOOK AND RISKS

8. Real GDP growth is expected to moderately improve on account of measures taken to tackle security issues in the oil sector. With two of the large oil pipelines, Trans Niger Pipeline and Forcados, back in usage carrying 400,000 barrels per day (bpd), and the Ikike field coming on stream with a production capacity of 50,000 bpd, oil production is projected to increase starting in 2023.

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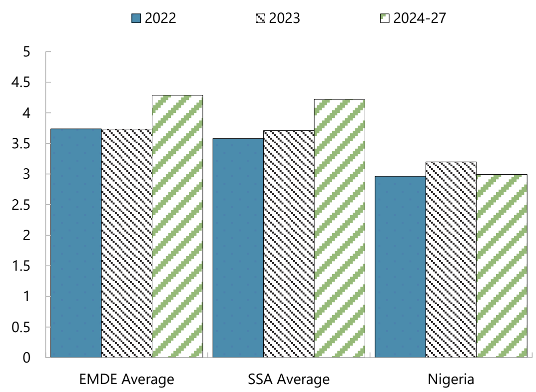
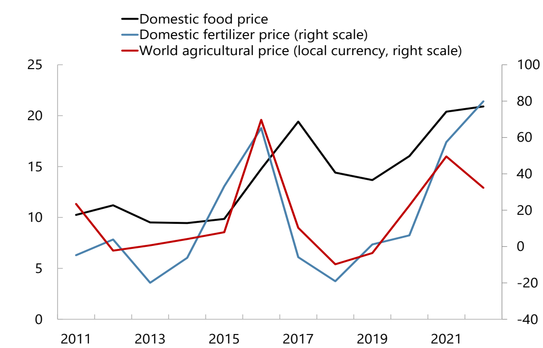
However, overall oil production in the medium term are projected to remain below pre-pandemic levels on account of the retrenchment of the oil majors from onshore oil delivery and exploration. Agriculture growth would slow considerably to 1.5 percent in 2023 because of the adverse effects of lower acreage associated with this year's flooding and lower fertilizer usage due to high prices. Overall real GDP growth is projected to pick up slightly to 3.2 percent in 2023 after moderating to 3 percent in 2022 (Figure 7 and Table 1). Headline inflation has started to moderate benefiting from the harvest season and decline further in 2023 assuming a continued slowdown in world food prices and a stabilized exchange rate. A small CA surplus is expected for 2022 on the back of favorable oil prices which swings back to deficit in 2023 as oil prices soften. Capital inflows are projected to remain subdued in the medium term pending major FX reforms (Table 1).

Figure 7. Nigeria: Outlook and Risks

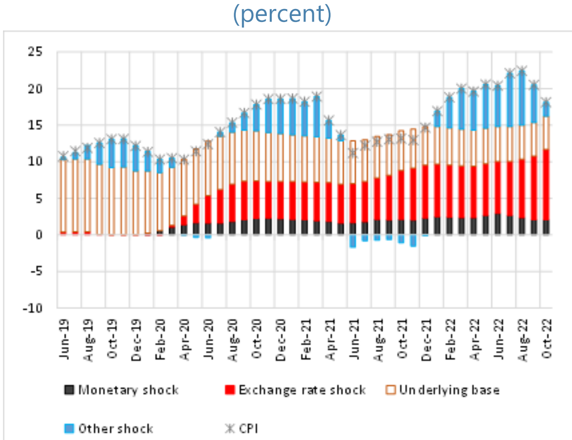
Real GDP Growth Projections, 2022-2027
(percent)



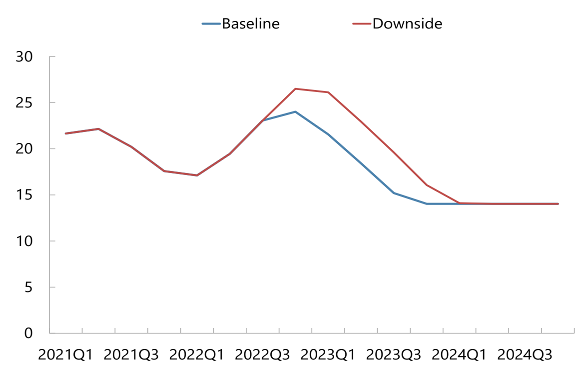
Food Inflation Lead Indicators
(percent, year-on-year)



Inflation and Drivers[1/]
(percent)



Inflation Projection: Baseline and Downside[2/]
(percent)



Sources: NBS and IMF staff estimates.

1/ Inflation drivers are estimated based on an ARDL model of inflation (IMF Country Report No. 22/34).

2/ The inflation downside scenario assumes worse impacts from recent flooding with no growth in agricultural production in 2022Q4 and 2023Q1 compared to a growth of 2.2 and 1.4 percent, respectively (y/y) and a 30 percent depreciation in the parallel market rate.

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9. The near-term outlook faces downside risks, while there are upside risks in the medium term (Annex I). Higher international food and fertilizer prices and continued widening of the parallel market premium could cause high inflation to persist longer or inflation expectations to be de-anchored, with adverse effects on food prices (Figure 7). The oil sector faces downside risks from possible production and price volatility, while climate-related natural disasters (e.g., floods) pose downside risks to agriculture. A synchronized monetary policy tightening across advanced economies also poses a downside risk, which could increase debt servicing costs. In the medium term, there are upside risks from a stronger reform momentum by the new government, a larger rebound in oil and gas production, and the Dangote refinery reaching its full potential more rapidly than assumed in the baseline.[4]

Authorities' Views

10. The authorities broadly agreed with staff's growth and inflation outlook while being more optimistic on oil production. The CBN predicts a slightly higher growth rate of 3.3 percent for 2023 while the Ministry of Finance's forecast is significantly stronger at 3.75 percent. The authorities' more optimistic growth outlook in 2023 and in the medium term is driven by a more positive assessment of oil production prospects. On headline CPI inflation, they project an average rate of around 17-18 percent for 2023, similar to staff's projection of 17.4 percent, falling further in the medium term.

POLICY DISCUSSIONS

Ensuring macroeconomic stability will require tightening across all policy levers: stronger revenue mobilization and fuel subsidy reforms to create much-needed fiscal space, decisive monetary policy tightening to head off inflation drifts, and exchange rate adjustment to quell FX shortages and capital outflows. Lower adjustment in one area implies that the burden would fall more acutely on the rest—particularly on the fiscal side if the policy mix remains unsustainable. Staff's proposal is calibrated to avoid unduly one-sided adjustments. Tighter macroeconomic policies should be complemented by structural reforms to improve governance, reduce corruption vulnerabilities, create jobs, and increase social cohesion.

A. Fiscal Policy: Rejuvenate Critical Fiscal Reforms

11. Under staff's baseline projections, fiscal deficits are expected to stay elevated (Text Table 2). Despite higher non-oil revenues, the General Government (GG) fiscal deficit is projected to widen to 6.2 percent of GDP in 2022, mainly due to the fuel subsidy costs. Over the medium term, oil revenues are projected to steadily decline reflecting price moderation and continued fuel subsidies pending a decision from the incoming government. Overall fiscal deficits remain elevated

[4] The Dangote refinery expects to start production in 2023 and reach full capacity of 650,000 bpd by end-2024. Staff's baseline projections assume a more gradual production path: 100,000 bpd in 2024, 200,000 bpd in 2025, rising to 300,000 bpd during 2026-27. The impact on the CA is expected to be limited, mostly in the form of savings in transportation costs, as lower imports are, to a large extent, countered by lower crude exports as the refinery is expected to purchase crude oil locally.

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at around 6 percent of GDP, significantly above pre-pandemic levels.[5] There are downside risks from higher interest costs, which are somewhat mitigated by the fact that over 80 percent of debt has a medium-to-long-term maturity and the agreed securitization terms of the CBN overdraft stock imply a lower interest rate.[6] Additional downside risks arise from pre-election spending pressures, and uncertainties regarding volatilities in oil production and/or prices.

Text Table 2. Nigeria: Staff's Fiscal Projections for the General Government
(Percent of GDP)

	2021	2022	2023	2024	2025	2026	2027
Total revenue	7.3	8.4	8.9	8.3	8.0	7.7	7.5
Oil revenue	2.8	3.6	4.0	3.4	3.0	2.6	2.4
Non-oil revenue	4.5	4.8	4.9	4.9	5.0	5.1	5.1
Total expenditure	13.3	14.6	14.5	14.1	13.8	13.7	13.7
Fuel subsidies	1.1	2.2	1.3	0.9	0.9	0.7	0.6
Interest payments	2.3	2.4	2.4	2.6	2.7	3.0	3.3
Capital expenditure	3.4	3.2	3.5	3.3	3.2	3.2	2.9
Overall balance	-6.1	-6.2	-5.6	-5.7	-5.8	-6.0	-6.2
Public Debt	36.5	37.3	38.2	39.5	40.7	41.9	43.1
Memorandum items							
GG interest/revenue	32.7	28.2	27.4	30.9	34.1	38.7	43.3
FGN interest/revenue	87.8	96.3	82.0	89.5	99.0	110.3	124.3
Oil price (US$/barrel)	70.8	100.5	88.6	83.4	79.6	76.8	74.6

Source: IMF staff projections.

12. Public finance remains under stress. Public debt is projected to increase to about 43 percent of GDP in the medium term. Such level of debt is projected to take up over 40 percent of GG revenues in interest payments by 2027. Under adverse macro-fiscal shocks, interest payments could take up over 80 percent of GG revenues leaving little room for vital social spending needed to meet Nigeria's Sustainable Development Goals (SDGs) (Figure 8).

13. Staff highlighted the urgent need for revenue mobilization and fuel subsidy reform. Successful revenue mobilization episodes in SSA countries demonstrate the need for comprehensive actions targeting both compliance and policy reforms supported by high-level political commitment (Box 1). Steady implementation of the automation system (i.e., TaxPro Max) and the introduction of excise taxes on sweetened beverages and telecom services are steps in the right direction. Staff recommended the following additional measures, which are estimated to produce a cumulative net savings of 5.7 percent of GDP over 2023-27—even after building in additional social assistance to cushion the impact of various reforms on the vulnerable. These measures, which underpin the fiscal

[5] The actual magnitude of the subsidy bill would, however, start declining in 2023, given the assumed moderation of global oil prices envisaged in the WEO assumptions.

[6] The MoF and the CBN have recently agreed to securitize the CBN overdraft stock of 20 trillion naira with a 40-year bond at a fixed interest rate of 9 percent, below the current interest rate of MPR plus 3 percent paid for borrowing through overdraft. The agreement is expected to be finalized once it is submitted to the National Assembly following deliberation by the National Economic Council.

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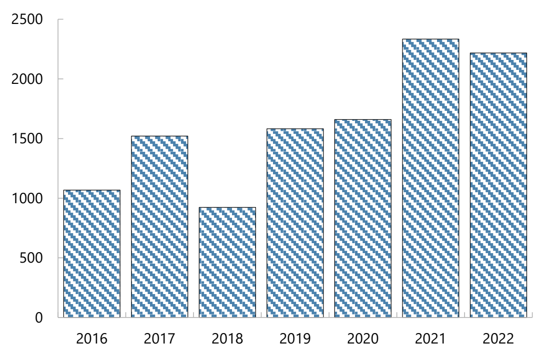
reform scenario, would keep overall fiscal deficits and public debt level to below 5 percent and 40 percent of GDP, respectively, in the medium term (Figure 9).

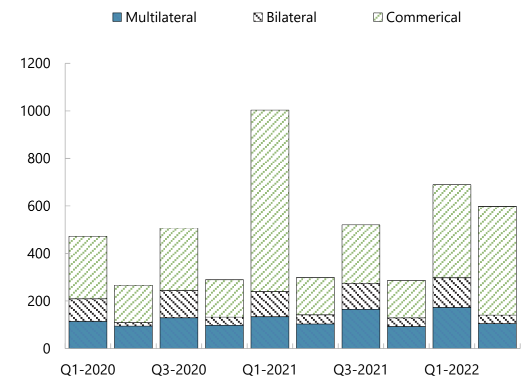
Figure 8. Nigeria: Fiscal Risks and Investment Needs

Annual Domestic Bond Issuance
(billions of Naira)

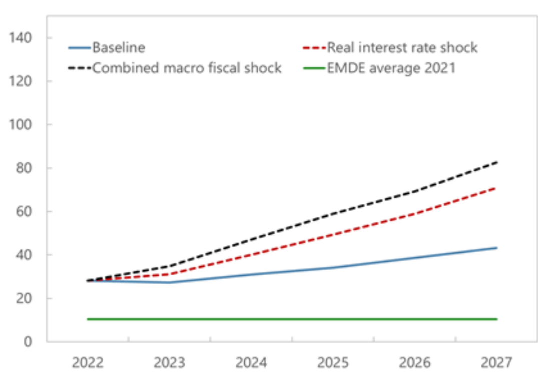


[1]2022 total is cumulative issuance till October 2022

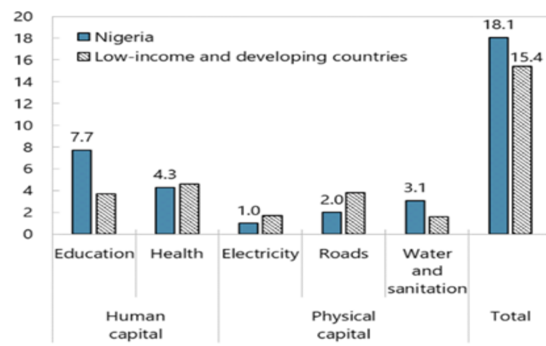
External Debt Service Payments
(US$ million)



GG Interest Payments-to-Revenue Ratio: Baseline and Downside Scenarios 1/
(percent of GG Revenues)



Nigeria: Investment Needs to Reach SDGs
(percent of 2030 GDP)



Sources: Debt Management Office of Nigeria, Staff estimates and IMF Staff Discussion Note (2021).
1/ The interest rate shock is calibrated to cause the average rate to reach historical maximum in the medium term. The combined macro-fiscal shock assumes a combination of reduced growth, higher expenditure, higher interest rate, and currency depreciation.

- **Fuel subsidies and oil sector reforms**. Staff highlighted the need for permanent removal of fuel subsidies, which disproportionately benefit the well-off, by mid-2023 as planned. This is projected to yield cumulative fiscal savings of 3.7 percentage points of GDP over 2023-27 (Figure 9). Recent measures to address oil theft are welcome. Staff recommended steady actions on this front along with increased transparency of NNPC's oil fiscal transfers. While the authorities have published the annual financial reports of the NNPC since 2019, the publishing of monthly reports of oil fiscal transfers to the government have stopped following the conversion of the NNPC to a public limited company. Staff recommended the resumption of publication of the monthly reports along with the audit of oil fiscal revenues received from the NNPC.

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- **Tax administration**. In line with the FAD TA advice and in liaison with the long-term resident advisor, staff recommended as near-term measures: (i) further expanding the coverage of the automation system under a well-designed roadmap; and (ii) strengthening taxpayer segmentation with a focus on the Large Taxpayer Office (LTO)s, including reviewing the adequacy of the penalty regime for non-compliance. In the medium-term, the focus should be on (i) developing a Compliance Improvement Program; (ii) designing and implementing a comprehensive customs modernization program beyond e-customs; (iii) improving the effectiveness of the State Internal Revenue Service's administration of the Pay-As-You-Earn (PAYE) system; (iv) modernizing controls on excise-taxed products, and (v) strengthening inter-agency coordination and data sharing.

- **Tax policy**. As compliance improves, the authorities are advised to consider gradually adjusting the tax rates to levels comparable to the ECOWAS average. Recommended tax policy measures include (i) streamlining VAT exemptions based on systemic reviews accompanied by proper input tax credits and a registration threshold; (ii) streamlining tax expenditures based on comprehensive periodic reviews; (iii) further increasing the VAT rate to at least 10 percent by 2023 and to 15 percent by 2027; and (iv) increasing excise rates on alcoholic and tobacco products while broadening the base

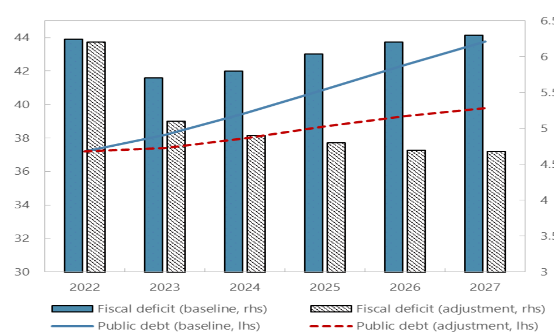
- **Social assistance**. To mitigate food insecurity and cushion the impact of high inflation and fuel subsidy removal, staff recommended increasing social spending by up to 1.7 percent of GDP cumulatively for 2023-27 in well-targeted programs (Figure 9). The World Bank (WB) plans to disburse USD 1.5 billion in the current fiscal year, almost half of this amount in social assistance to cushion impacts of high food and energy prices. The WB has also helped the authorities design a targeted cash transfer program, for which the technical preparatory work has been completed awaiting approval from the National Assembly.

Figure 9. Nigeria: Fiscal Recommendations

Proposed Fiscal Measures and Impact
(In percent of annual GDP)

	2023	2024-2027
Total	**0.5**	**5.2**
Revenue	**0.3**	**3.4**
VAT	0.3	1.5
Increase rate to 15 percent 1/	0.3	1.3
Improve compliance	-	0.2
CIT and Custom duties	-	0.7
Rationalize tax incentives	-	0.4
Improve efficiency (e-customs)	-	0.3
Excises (rate increase and base broadening)	-	0.9
PAYE tax (improve efficiency)	-	0.3
Expenditure	**0.2**	**1.8**
Fuel subsidy removal 2/	0.5	3.2
Strengthening social safety nets	-0.3	-1.4

GG Fiscal Deficit and Public Debt: Baseline and Adjustment Scenarios
(In percent of GDP)



Source: IMF staff estimates.
1/ The adjustment scenario assumes increasing VAT rate to 10 percent in 2023, to 12.5 percent in 2026 and to 15 percent in 2027.
2/ Under the baseline, fuel subsidy is assumed to be in place. An earlier removal by mid-2023 would yield savings specified.

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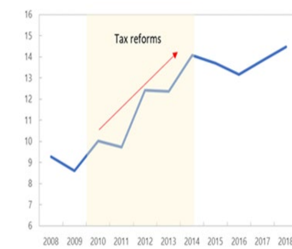
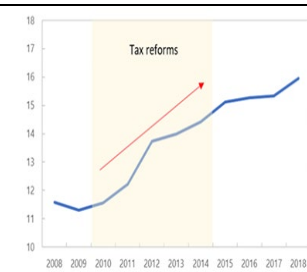
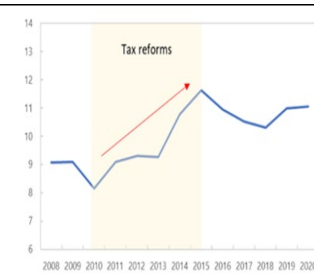
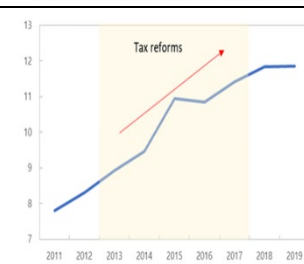
Box 1. Successful Domestic Revenue Mobilization Episodes in SSA[1/]

This box presents lessons from four successful cases of domestic revenue mobilization in SSA—Mauritania, Rwanda, The Gambia, and Uganda. Findings are as follows:

- Countries tended to pursue a comprehensive reform package—addressing weaknesses in tax administration and tax policies, focusing on indirect tax and exemptions, and often integrating fuel subsidy reforms.
- Tax administration reforms generally focused on improving compliance through taxpayer segmentation and automation.
- Success tended to hinge on (1) high-level political commitment and stakeholders buy-ins; (2) a favorable growth environment and (3) IMF support, including through financial assistance.

<table>
<tr><th>Country</th><th colspan="2">Revenue Reforms</th></tr>
<tr><td>Mauritania
(2010-14)</td><td>Indirect tax and fuel subsidy reforms with redistributed measures
• The VAT base was broadened to cover the mining sector.
• The excise rate on tobacco was increased from 10 to 30 percent, and CIT exemptions on the main gold company were removed.
• The authorities introduced redistributive measures (e.g., targeted cash transfer) with fuel subsidy reform.
• The social dialogues with key stakeholders were strengthened, which helped reduce resistance to the reforms.</td><td>
</td></tr>
<tr><td>Rwanda
(2010-14)</td><td>Indirect tax reforms and removal of tax exemptions
• Rwanda's tax rate for imported construction materials was increased from 5 to 10 percent in 2012. Excise tax rate on airtime of mobile phones was increased from 5 to 10 percent during 2011-2014.
• Many tax exemptions were removed. VAT exemption on imports for investment certificate holders were removed.
• The introduction of new electronic filing/payment system and direct bank payment of taxes improved compliance.</td><td>
</td></tr>
<tr><td>The Gambia
(2010-15)</td><td>Indirect tax reform and elimination of fuel subsidies
• The Gambia introduced a new VAT to replace a sales tax in 2013.
• The authorities introduced a new excise on non-cigarette tobacco products. In 2013, they revised the base of excise tax on cigarettes from weight to the number of packs, which increased the equivalent tax rate on cigarettes by about 25 percent.
• They implemented Compliance Improvement Plan (CIP) for large taxpayers, with the custom agency's upgrading its IT system.
• The untargeted fuel subsidies were eliminated in July 2014.</td><td>
</td></tr>
<tr><td>Uganda
(2013-17)</td><td>Indirect tax and PIT reforms underpinned by the 2011-2015 National Development Plan (NDP)
• Uganda's VAT reforms focused on eliminating numerous exemptions (e.g., sales of motor vehicles, trailers, and hotel).
• The authorities increased excise duty on locally produced spirits from 45 to 60 percent, and on fuel, sugar, and mobile money transfers. They increased the top PIT rate from 30 to 40 percent.
• They focused on better taxpayer segmentation by establishing a HNWI unit as part of the LTO and creating the MTO.</td><td>
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1/ See Akitoby et al. (2019) and Selected Issues Paper *Nigeria's Tax Revenue Mobilization: Lessons from Successful Revenue Reform Episodes*.

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14. Fiscal transparency is critical for a sound fiscal policy. The 2018 Public Expenditure Financial Accountability (PEFA) report highlighted weaknesses in procurement processes, including a lack of comprehensiveness of published contracts, the low share of open contracting, and the absence of an independent authority to review procurement complaints. Staff recommended addressing these weaknesses along with better coordination among key budgetary institutions.

Authorities' Views

15. The authorities expected the fiscal balance to improve significantly in the medium term. They highlighted the bottoming out of the contraction in oil production, and strong non-oil revenue performance so far, especially stressing progress in tax administration reforms, including the well-operating automation system. The agreed securitization terms of the existing stock of CBN overdraft are expected to yield savings on debt servicing costs. The authorities pointed to continued efforts regarding spending prioritization and monitoring as demonstrated by the year-to-date underspending of non-interest current spending relative to the original budget.

16. The authorities reaffirmed their commitment to remove fuel subsidies by mid-2023. They have started to allow increases in the pump prices of the PMS to reduce subsidy costs. They assess Nigeria's public debt to be sustainable but are conscious of the risks and vulnerabilities arising from high GG interest payment-to-revenue ratios. The authorities mentioned plans to meet near-term fiscal financing mostly through domestic and concessional IFI borrowing. They also mentioned the allocated SDR as a contingent source of fiscal financing in case of a shortfall in external borrowing next year.

B. Monetary and Exchange Rate Policies: Fend off Inflationary Risks and Address External Sector Pressures

17. Decisive and effective monetary policy tightening is a priority. Recent tightening measures undertaken by the CBN are steps in the right direction. However, monetary conditions are still accommodative and characterized by fiscal dominance. While medium-term inflation projections, at around 11 percent, remain largely unchanged from last year, there are risks of inflation expectations becoming de-anchored with prices, excluding food and fuel, staying in the double digits for a prolonged period. Staff recommended the following additional measures to ensure effective tightening and normalization of monetary policy.

- ***Lower reliance on CBN overdrafts and full sterilization of any CBN financing of the fiscal deficit***. Once the legacy CBN overdraft stock has been securitized, strict adherence to the statutory limit (5 percent of previous year's revenues) and limiting its use only for short-term liquidity management would be important to prevent another build-up. Any in-year fiscal financing gaps should be filled through issuance of supplementary budgets and addressing institutional constraints on debt issuance. Staff also recommended full sterilization of any CBN credit to the government to date—in principle through market-based instruments. Staff urged

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cautious management of the planned naira note renewal given its potential adverse impact on people without bank accounts and system-wide liquidity. [7]

- ***Stand ready to further increase the MPR***. Despite weak transmission, higher short-term interest rates still send a strong signal on the CBN's policy intentions, while helping quell depreciation pressures—by strengthening incentives to hold naira assets. [8] Going forward, a credible and binding interest rate corridor should be restored.

- ***Gradually phase out quasi-fiscal activities***. The quasi-fiscal activities of the CBN have expanded rapidly since the pandemic, including due to the use of discretionary CRR as the main liquidity management instrument (Figure 6, fourth panel). [9] While some of these activities fill a missing market, for example, the Anchor Borrowers' Program that extends credit to farmers, there are efficiency concerns. Also, an excessive expansion of quasi-fiscal activities aggravates financial repression, undermines credibility of the CBN's price stability mandate, and exacerbates the tendency for fiscal deficit monetization. Staff recommended gradually phasing out of quasi-fiscal activities which contributes to high M3 growth and the high base inflation in Nigeria.

18. The above should be complemented by priority reforms highlighted in the 2021 Safeguards assessment. To strengthen the central bank's autonomy and governance, and to establish price stability as its primary objective, the 2007 CBN Act needs to be modernized. The CBN's financial reporting practices should be bolstered through full adoption of International Financial Reporting Standards and resumption of publication of annual financial statements. More broadly, the CBN should take steps to implement the recommendations from the assessment as progress has been limited thus far.

19. Nigeria's external position is assessed to be moderately weaker than warranted by fundamentals and desired policy settings. The CA-based assessment suggests an external position that is broadly in line with fundamentals and desired policy setting, while the real effective exchange rate (REER)-based assessment points to a substantially weaker external position (Figure 10). Overall, staff assesses the external position to be moderately weaker than warranted by fundamentals and desired policy settings due to persistent FX shortages faced by the private sector, capital outflow pressures, and reliance on import and FX restrictions to manage FX pressures. Gross international reserves are projected to increase gradually over the medium term on account of improved CA outlook but remain below the levels recommended by the IMF's ARA metric in the medium term (Annex III).

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[7] The CBN expects the note renewal initiative to bring cash notes that are currently outside the banks back into the system. This would cause a change in the cash-to-deposit ratio that would help expedite the transition to a cashless economy. While the cash-to-deposit shift will not affect money supply by itself, it may increase banking system liquidity. The authorities have undertaken an extensive communication campaign to reduce potential risks.

[8] See Nigeria Selected Issues Paper (SM/21/34).

[9] With CRR replacing OMOs as the main liquidity management instrument since early 2020, excess banking sector liquidity is mopped up through discretionary use of the CRR and released if banks extend credit to priority sectors at subsidized interest rates.

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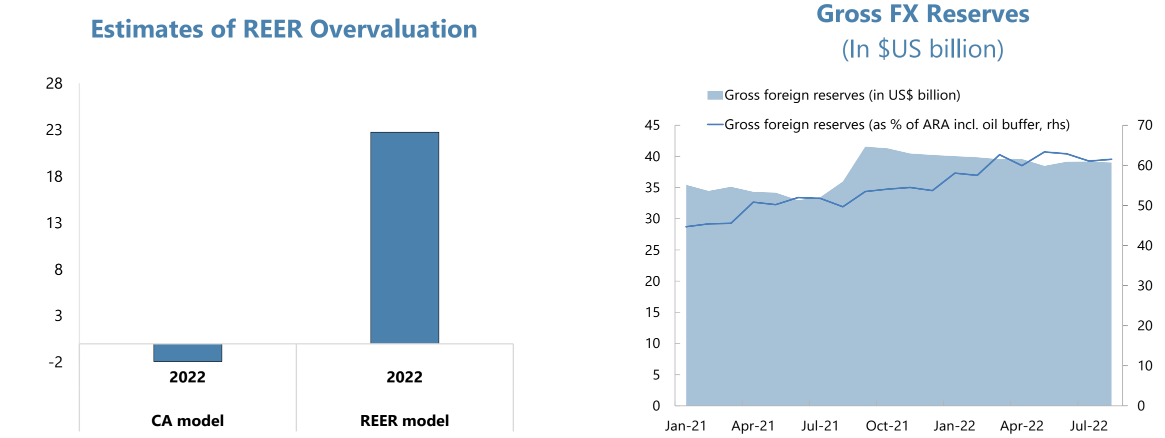
Figure 10. Nigeria: Exchange Rate and Reserves Assessment



Sources: CBN and IMF staff estimates.

20. Staff urged the authorities to take decisive actions on the exchange rate. Implementing a unified and market-clearing exchange rate—a commitment under the RFI—has become more urgent than ever to address FX shortages, stop capital outflows, build up buffers and reduce high parallel market premiums, which are keeping inflation elevated (Figure 7). Staff analysis suggests that the impact of an exchange rate adjustment in the order of 14-15 percent on inflation would be limited as the parallel market rate is already reflected in the prices of imported goods.[10] Staff reiterated past IMF policy advice on a multi-step approach to exchange rate unification, starting with greater flexibility in the I&E rate, while being prepared to increase interest rates if needed to prevent excessive overshooting (SM/21/33). Various exchange rate windows at the CBN should be institutionally dismantled. In the medium term, the CBN should step back from its role of main FX intermediator in the country, limiting interventions to smoothing market volatility and allowing banks to freely determine FX buy-sell rates.

21. The gradual move towards a unified and market-clearing exchange rate would help with phasing out restrictions on current transactions and existing Capital Flow Measures (CFMs). Exchange restrictions resulting from administrative control of foreign exchange allocation tend to generate distortions in private and public decision making, hinder transparency, and hamper the move towards a more diversified economy.[11] Progress towards a unified and market-clearing exchange rate may help to remove Multiple Currency Practices (MCPs) and increase FX supply in the official FX market, supporting the removal of the administrative measures. The phasing out of CFMs should be done in a properly timed and sequenced manner. This would require considering

[10] Staff estimates that a 15 percent depreciation of the I&E rate in June 2023 would have a peak inflation impact of 0.93 percent in 2024. See SM/22/33 for calculation details.

[11] The informational annex reports exchange restrictions and multiple currency practices (MCPs) subject to Fund approval under Article VIII. The list of CFMs is unchanged relative to the 2020 Article IV (see footnote 1 in IMF Country Report No. 21/33). CFMs include the prohibition of FX purchases in the official market for foreign currency bond and equity instruments, payment limits on naira-denominated credit and debit cards for overseas transactions, and repatriation of oil (non-oil) export proceeds within 90 (180) days of the date of shipment.

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external vulnerability risks and progress made with reforms to foster the necessary institutional and financial development and in line with the IMF's Institutional View on Liberalization and Management of Capital Flows.

Authorities' Views

22. The authorities agreed with the need to further tighten monetary policy stance if inflationary pressures persist. They recognized dangers for macroeconomic stability posed by recent high levels of inflation. They also acknowledged a role for monetary factors in the high inflation rate despite the dominance of cost push factors from the global food and fuel crises and assured staff that the policy focus has decisively shifted from post-pandemic recovery to price stability. The CBN's monetary program projects significant moderation of credit growth starting from end-2022, given that most loans available under the intervention programs have been disbursed, and are expected to wind down as outstanding loans mature. The authorities also intend to reinforce the pass-through of MPR to lending rates, including through moral suasion, and expect that the fiscal dominance will begin to moderate once the stock of CBN's overdraft to the government is securitized.

23. The authorities found the IMF's advice on exchange rate policies useful but were mindful of its potential adverse effects on the economy. They attributed FX pressures in the official market to transitory global shocks that are expected to dissipate over time and considered handling them best through a combination of demand and supply measures, including administrative controls and FX incentive schemes, such as the RT200. They believed that transactions in the parallel market do not reflect the fundamentals of the economy but rather speculative behavior. While aiming for demand and supply forces to operate on their own, the authorities reaffirmed the de facto classification of the exchange rate system as a stabilized arrangement and prefer gradual, deliberate adjustments in the I&E rate. They mentioned positive results from these policies, including near convergence among the exchange rates at various CBN windows (Annex III). They also concurred with staff's assessment of the external position.

C. Banking Sector: Prudently Navigate the Credit Cycle

24. The banking sector remains profitable and liquid with overall improvement in the loan quality. Profitability of large banks has remained unchanged through mid-2022 as stable net interest income and higher fee and trading income more than offset rising provisioning costs (Figure 11). The regulatory liquidity ratio also remained broadly stable with banks substituting CBN OMO bills with higher yielding government bonds. The share of impaired (IFRS definition, Stage 3) and questionable (IFRS definition, Stage 2) loans have declined in 2022, although the NPL ratios in some sectors (e.g., oil & gas, ICT) remain elevated. CBN stress tests suggest that it would take more than a doubling of NPLs to drive the system's capitalization below the regulatory minimum. The system's capital adequacy ratio receded slightly to just under 15 percent on account of faster asset growth.

25. Progress has been limited regarding the public asset management company AMCON's asset recovery and the resolution of weak banks. Notwithstanding the recent sale of a

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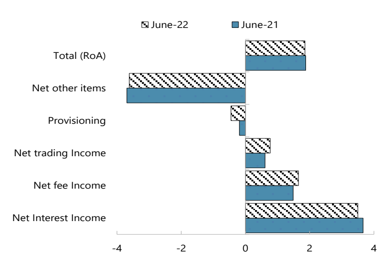
restructured bank, AMCON's asset recoveries have slowed due to challenges in court ahead of its envisaged winddown at end-2023, and a plan for sustainable repayment of its debt to CBN (about 1½ percent of GDP) thereafter still needs to be devised. A number of weak banks continue operations under intensified CBN surveillance. Staff reiterated its recommendation to resolve these banks swiftly if corrective measures are not feasible.

26. Certain macro-financial linkages warrant close monitoring by the CBN as it moves forward with implementing Basel III regulation. After a pause during the COVID-19 pandemic, the CBN has resumed implementation of key elements of the Basel III framework, although a countercyclical capital buffer to mitigate systemic risk is not among them. Rising exposures to the government, albeit from low levels, could give rise to crowding out of private sector credit going forward. After reaching 40 percent (y-o-y) in June 2022, retail credit growth has slowed markedly since benefiting from policy tightening. However, the authorities are advised to monitor any emerging risks, including from a new regulation allowing households to tap into their pension savings for mortgage down payments and, to tighten macroprudential policy as needed. The authorities are encouraged to devise a specific regulatory framework for generally less supervised fintech lenders to safeguard against predatory pricing and stability risks.

Figure 11. Nigeria: Banking Sector Developments

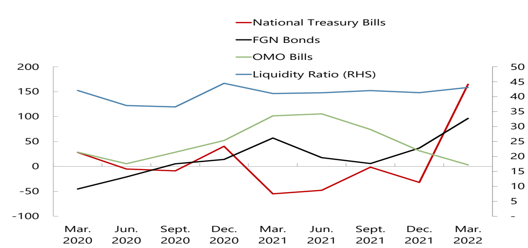
Profitability Drivers

(Large banks, in percent of average total assets)



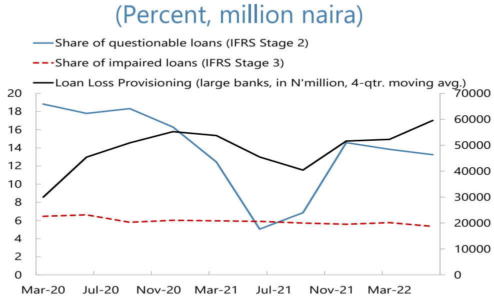
Liquidity Ratio and Growth Rate of Components

(percent, year-on-year)



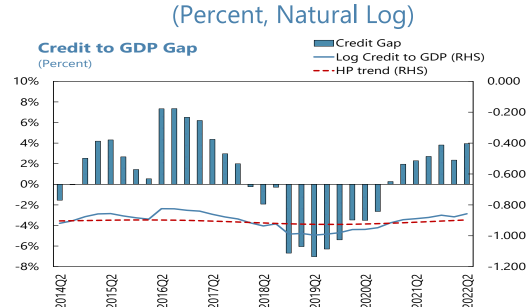
Loan Quality and Loan Loss Provisioning

(Percent, million naira)



Credit to GDP Gap [1/]

(Percent, Natural Log)



Sources: CBN, IFS and staff estimates.

1/ The credit-to-GDP gap is defined as the divergence of the credit-to-GDP ratio from its long-term average (HP-filtered). While a positive credit gap may indicate excessive credit growth, it may also reflect warranted financial deepening, especially in countries with low credit/GDP ratio such as in Nigeria.

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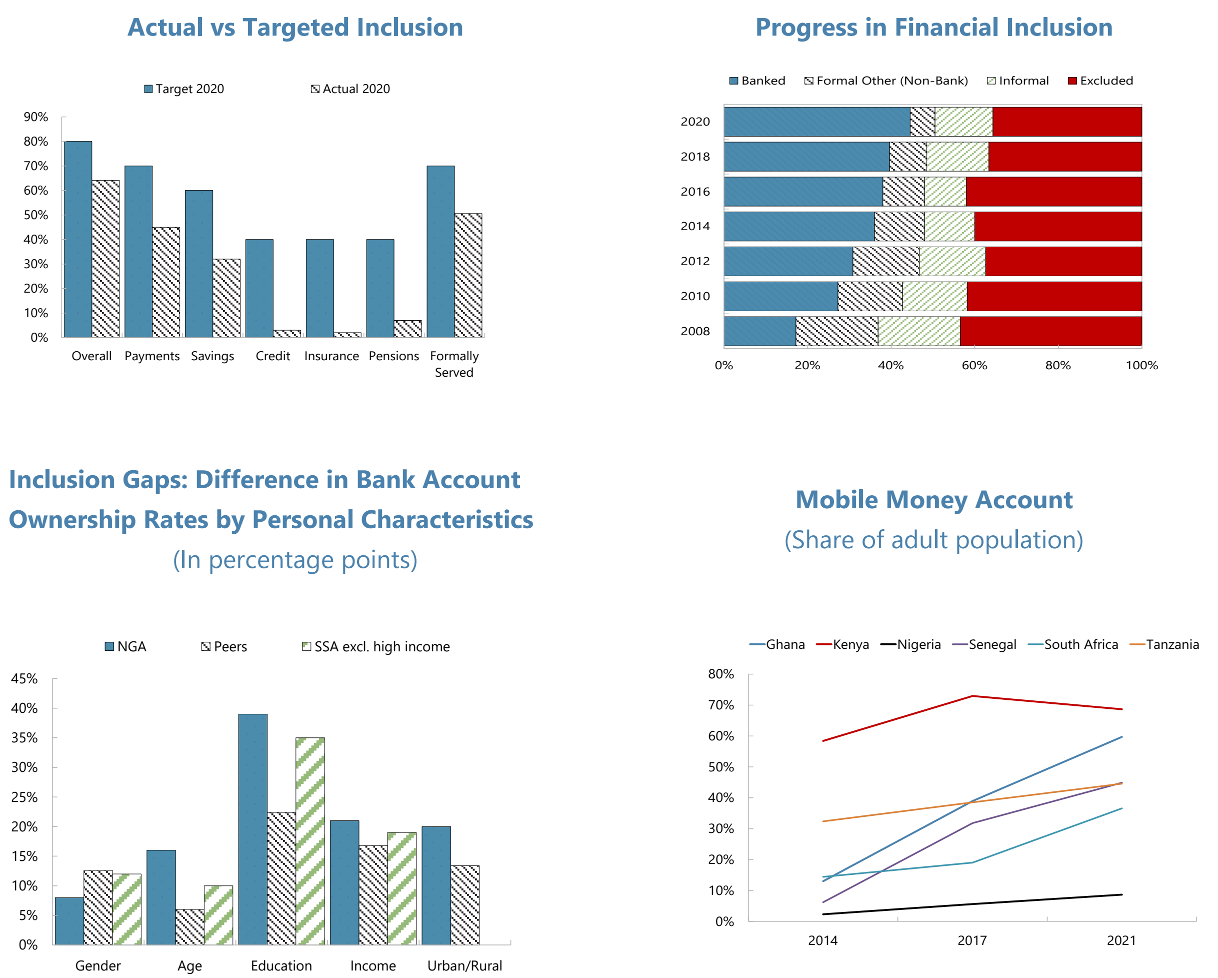
27. The CBN is redoubling efforts to improve financial inclusion, including through proliferation of mobile money usage. Onboarding of clients from the non-bank/informal sector to the banking sector has progressed, while the number of banking agents has risen well beyond the target. Nevertheless, financial inclusion rates considerably lag initial targets, particularly in access to financial products, and in the number of agents in rural areas (Figure 12).[12] The initially sluggish uptake of mobile money has been on the rise after the authorities granted payment service bank licenses to large mobile operators and may further benefit from the forthcoming "open banking" platform for data exchange between banks and fintech firms. Against this background, the CBN recently presented its updated financial inclusion strategy leaning on payment system and fintech innovations and launched various initiatives together with stakeholders to address obstacles to inclusion, including low financial literacy, and to foster access to finance for women. Additional efforts will likely be needed to reach the ambitious inclusion target of 95 percent by 2024. The uptake of eNaira in the first year of rollout has been slow (Box 2).

Figure 12. Nigeria: Financial Inclusion Status



Source: World Bank Findex, EFInA, IMF staff estimates.

[12] See Selected Issues Paper *Nigeria—Fostering Financial Inclusion through Digital Finance*.

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28. The authorities' efforts to improve the AML/CFT framework are welcome but sustained action is necessary. Since the adoption of the 2021 GIABA Mutual Evaluation Report, the authorities have undertaken several measures to correct the deficiencies identified, demonstrating strong political will to strengthen the framework. These include the enactment of legislation to correct deficiencies in the AML/CFT legal framework, adoption of a 2022 National Inherent Risk Assessment, capacity building initiatives for AML/CFT supervisors, activation of the sanctions committee, and improved resourcing and training for law enforcement. Staff welcomed these measures and recommended further actions allow Nigeria to effectively fight significant financial crimes and to prevent public listing by the FATF. These include expanding the risk-based toolkits for AML/CFT supervisors with a focus on high-risk sectors (e.g., banks, real estate), ensuring compliance with preventive measures, including identification of beneficial ownership and managing risks related to politically exposed persons, continuing implementation of targeted financial sanctions obligations related to terrorism, terrorism financing, and proliferation financing, and improving the effective utilization of financial intelligence and enforcement against money laundering and terrorism financing commensurate with risk profile. Further, ensuring effective application of preventive measures by eNaira intermediaries and their risk-sensitive AML/CFT supervision continues to be a priority.

Authorities' Views

29. The authorities viewed financial inclusion as an important goal and saw limited risks of financial instability and FATF grey listing. They highlighted various recent initiatives to promote financial inclusion and agreed with the need for mobile money to play a greater role. They saw limited risks of crowding out from increased bank lending to government, given still-robust private sector credit growth. They noted continued tight supervision of weak banks and saw limited risks of a rapid pick-up in mortgage lending due to structural rigidities in the real estate market. The authorities also felt that measures taken to address identified AML/CFT deficiencies would be sufficient to prevent FATF grey listing.

Box 2. Central Bank Digital Currency: One Year After [1/]

The CBN officially launched the eNaira in October 2021 making it fully open to the public—the second such CBDC after The Bahamas.

- A direct liability of the CBN, eNaira may be owned and used by both wholesale (i.e., banks) and retail (i.e., merchants and individuals) clients. All eNaira transactions are processed and recorded by a CBN system, but transactions with retail CBDC clients are handled mainly by banks.
- eNaira uses Hyperledger blockchain technology. It allows all participating nodes to keep all record of CBDC transaction and uses block validation mechanism based on super-majority voting.
- Retail eNaira wallets are subject to both transaction and balance ceilings, and the client on-boarding has been expanded to all with national identification numbers in August 2022.

The uptake of eNaira in the first year has been slow with retail wallet downloads amounting to 942,000 at end-November 2022—0.8 percent of active bank accounts. The total number of eNaira retail transactions

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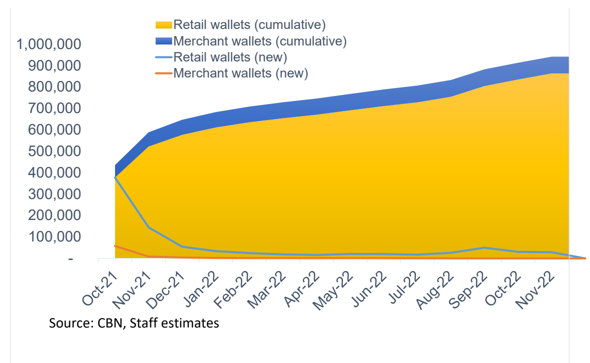
Box 2. Central Bank Digital Currency: One Year After (concluded)

since the inception (around 802,000) is less than the number of eNaira wallets, which indicates that wallets are not actively used. While a public usage promotion campaign is making inroads, a well-designed public

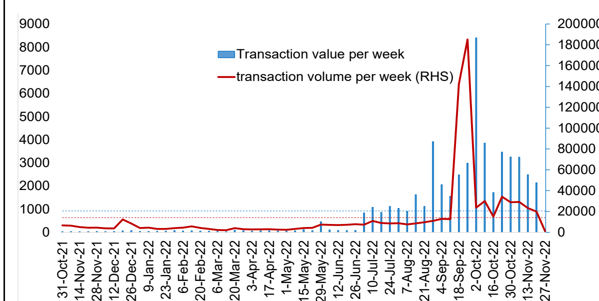
adoption strategy will need to address the following issues.

eNaira wallet downloads
(units)



Source: CBN and IMF staff estimates

eNaira-Transaction by Weeks
(million naira, units)



Source: CBN and IMF staff estimates.

- *Setting right relationship with mobile money*. A well-designed public and private partnership is required to ensure proper safeguard of e-money/mobile money, considering that private financial sector's contributions to financial inclusions could be negatively affected depending on the design of eNaira's use for financial inclusion. eNaira could be usefully integrated into the existing mobile payment system by (i) functioning as a safer store of value for mobile money users through an integrated mobile-CBDC wallet, and/or (ii) functioning as a bridge instrument to facilitate interoperability between mobile money operators, as opposed to a model where eNaira branches out its own retail contact points beyond banks, which would entail the central bank crowding out the private sector in the domain of financial inclusion. The complementarity of mobile money and eNaira is also relevant for the delivery of social assistance. For example, the last mile fiscal agent (who may also be a trusted mobile money agent in that area) that delivers cash assistance to villagers may be empowered to on-board the beneficiary to both mobile money and eNaira after quick Know Your Customer (KYC) checks, with appropriate risk-sensitive financial integrity safeguards.

- *How to facilitate remittances transfer*. Under a well-designed framework, cost saving can be up to ¼ of the current cost (10.4 percent in 2020Q2) considering current costs to send remittances and eNaira's potential to save onshore wiring costs. But this is unlikely to happen without exchange rate reforms and with an elevated gap between the parallel market and official exchange rates.

1/ Based on the forthcoming IMF Working Paper, *Nigeria's eNaira, One Year After*.

D. Structural Policies: Strengthen Agriculture and Address Corruption

30. **Strengthening the agricultural sector is important for job creation, food security, and social cohesion.** Staff analysis shows that over the next decade, about 25 million additional jobs will be needed for the new labor market entrants. Based on current projected growth rates and drivers, the bulk of these jobs will need to be created in agriculture, putting a premium on the reform of this sector (Figure 13). Boosting agricultural production is also important to address significant food insecurity and malnutrition in Nigeria (Box 3). The authorities are trying to encourage greater use of

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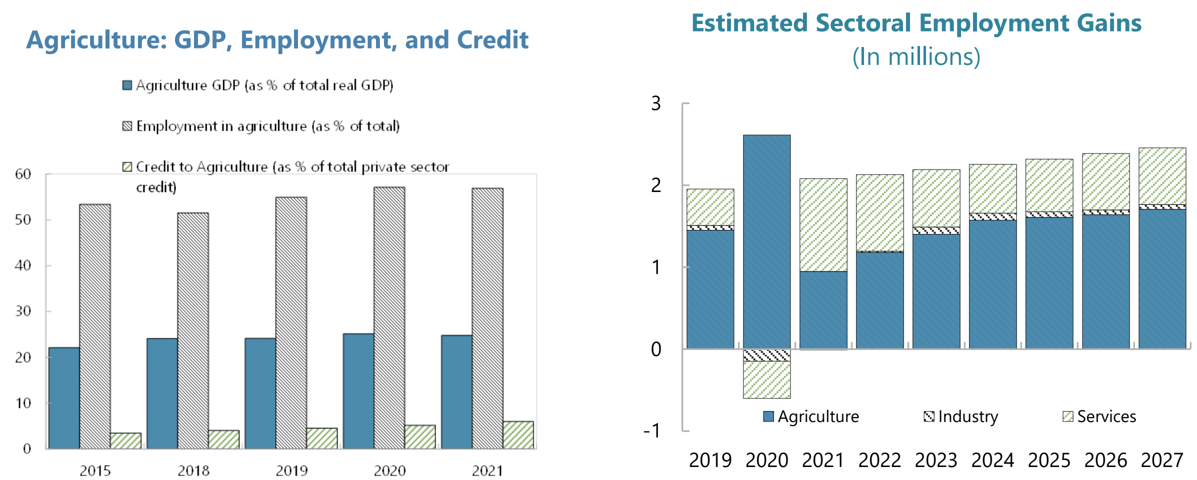
inputs, which is a key constraint in stimulating production in Nigeria, through cracking down on forged seeds, strengthening domestic production of fertilizer and procuring tractors from abroad. However, affordability remains an issue as fertilizer prices reflect world prices despite increased domestic production and exchange rate pressures have increased the local price of tractors.

Figure 13. Nigeria: Agriculture in Perspective



Sources: World Bank, UNODC, World Justice Project,
Note: The sectoral employment gain estimation is based on Fox and Thomas (2016) and projects industry and services employment growth using output elasticities of 0.65 and 0.75 estimated on a small of SSA resource-rich countries during 2000-2012. Agriculture employment is the residual that keeps the employment/population ratio constant.

31. Addressing corruption is critical to promoting investment and tax compliance. Nigeria is perceived to have severe and systemic corruption with widespread governance weaknesses in several state functions.

- **Corruption and the rule of law**. Nigeria continues to experience large and petty corruption and weak enforcement of the rule of law with perception of corruption having worsened since 2016 (Figure 14). The authorities have addressed some of the Fund's previous recommendations, such as the disclosure of NNPC revenue transfers to the Federation Account, the passage of the Companies and Allied Matter Act (CAMA) that contains beneficial ownership disclosure requirements, and the passage of the Proceeds of Crimes Act that helps to clarify the process of collecting illicit funds and transfers them to the Treasury Single Account. The authorities have also initiated education initiatives at the local level to help change behavior at source and hence resolve corruption on a durable basis. On asset declaration, while the Code of Conduct bureau indicated that it has reached a declaration rate of 75 percent of public employees and politicians, staff was not able to verify this. Limited staffing and capacity, weak financial resources, high staff turnover, and manual documentation processes continue to pose immense implementation challenges. Staff recommended faster progress in digitization and additional resources to ensure materialization of benefits from the passage of reform Acts.

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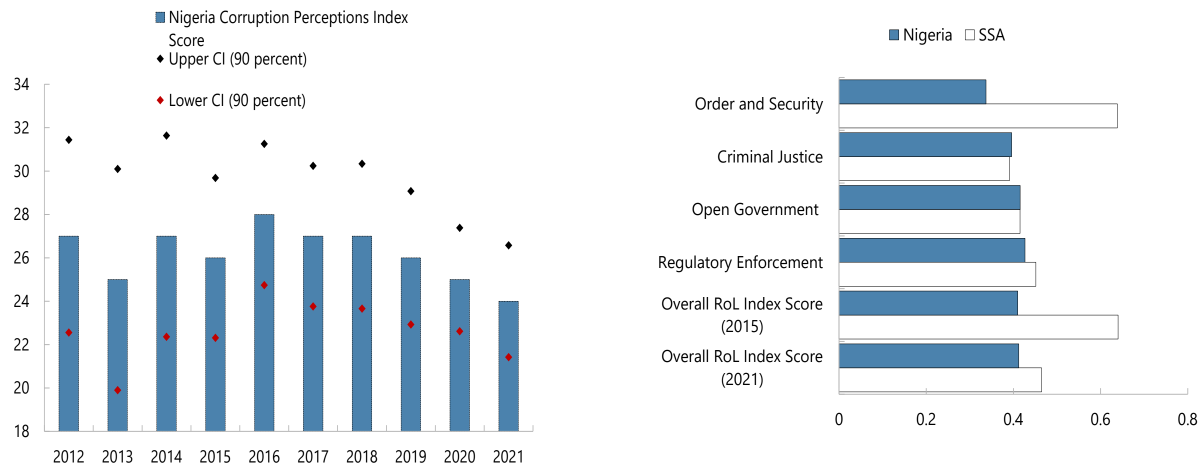
Figure 14. Nigeria: Governance Indicators

Corruption Perception, 2012-2021 | **Rule of Law (2021)**



Sources: Transparency International, World Justice Project

Note: The Transparency International Corruption Perception Index (CPI) scores countries by their perceived levels of public sector corruption. The results are given on a scale of 0 (highly corrupt) to 100 (very clean). The confidence interval is also presented in the chart. Each country's score is a combination of at least 3 data sources from 13 different corruption surveys and assessments produced by institutions such as the World Bank and the World Economic Forum. The World Justice Project Rule of Law Index relies on national surveys of households, legal practitioners, and experts to measure how the rule of law is experienced and perceived. The accuracy of both perception-based indicators can be biased by experts' views. Non-IMF indicators provide qualitative information about corruption. They do not represent IMF's assessment of the level of corruption.

- **Government effectiveness**. Nigeria fares poorly compared to its peer group on government effectiveness (Figure 14). However, improvement has been made in several areas over the past few years, including the expansion of the Integrated Payroll and Personnel Information System (IPPIS) to include the police and the military, and the electronic salary payment for all those in the payroll system. Further efforts are needed to eliminate payroll fraud and reduce general mistrust of the civil servants, which negatively impacts tax morale and tax efficiency.

- **Trade**. Nigeria has announced its intention to participate in the African Continent Free Trade Agreement (AfCFTA) by 2023Q4.[13] Land borders have been reopened as of April 2022. The authorities have created a module for trading that incorporates harmonized tariff lines in their systems pursuant to the AfCFTA and rules of origin. The already-deployed scanners are expected to be operational by end-December 2022. The authorities have also upgraded the fast-track program to pre-qualify importers for the new scheme, which is expected to be a seamless and more robust system to manage trade and enhance the process for customs clearance. Staff welcomed these developments and recommended steady implementation.

[13] A total of 36 countries have already expressed interest in trading under the pilot phase of the AfCFTA and seven countries (Cameroun, Egypt, Ghana, Kenya, Mauritius, Rwanda, and Tanzania) are taking part in this pilot.

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Authorities' Views

32. **The authorities highlighted their policy efforts to strengthen the agricultural sector**. They mentioned the financial support provided through the CBN's intervention programs as being instrumental in raising yields. On future employment developments, they felt that the process of structural transformation would happen faster than assumed by staff with more jobs created in the services and industrial sectors, which would reduce reliance on agriculture. They recognized that better coordination between relevant government agencies would further enhance policy effectiveness.

33. **The authorities felt that standard indicators, such as the Transparency International, have overlooked recent important steps taken to improve governance.** Efforts are being made to reduce the stock of ghost workers through the analysis of employment certificates in specific Ministries, Departments and Agencies (MDAs) although the process was slow and insufficient resources stymied comprehensive convictions. The collection of illicit funds was growing, and the Proceeds of Crime Act would support this upward trend given greater clarity on the use of resources. Asset declarations were also rising, although convictions were lagging in this area. The authorities are also piloting online asset declarations at their own offices.

34. **The authorities viewed gas as a high priority sector for energy transition and diversification**. They believe that the new legislation regarding the development of non-associated gas provided in the Petroleum Industry Act (PIA) would stimulate gas production going forward and are confident that most international companies would maintain their presence in the onshore gas sector. They viewed that the Nigeria LNG's increased presence in domestic LPG provision would help moderate gas prices and that recent electricity pricing reforms, conducted with support from the World Bank, would bring greater stability and investment to the sector. These measures would result in a higher use of gas and electricity by the population reducing reliance on oil.

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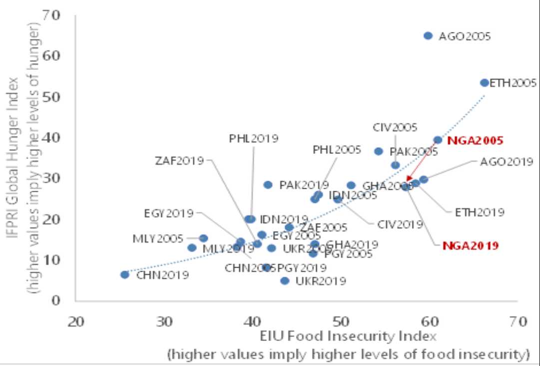
Box 3. Food Insecurity in Nigeria: Stylized Facts

- Nigeria is among the least food secure countries. According to the latest (2018) official estimates, 40 percent of Nigeria's population are food insecure, with large gaps between rural and urban population.

- Food security improved during 2005-19 according to EIU Food Insecurity Index. This is also consistent with the data from FAO that show improvement in per capita consumption of carbs and pulses.

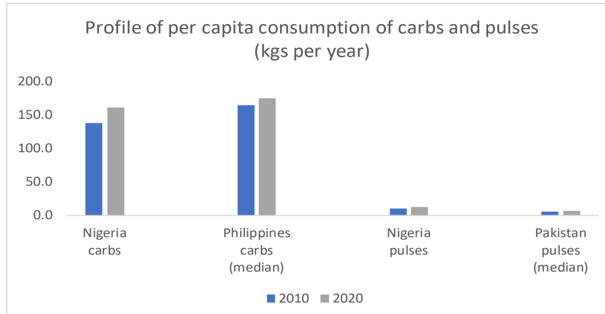
IFPRI Global Hunger Index vs. EIU Food Insecurity Index



Source: IFPRI, EIU

Consumption of Carbs and Pulses 1/

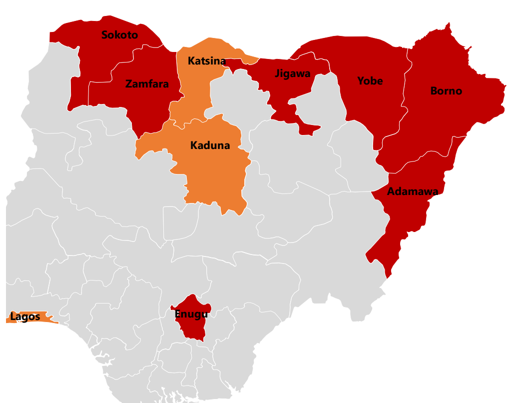
(Kg per year, per capita)



1/ Carbohydrate dense foods is the sum of maize, rice, roots and tubers, wheat
Country sample is China, Egypt, Ethiopia, Nigeria, Indonesia, Malaysia, Philippines, Pakistan, Paraguay, South Africa, Ukraine

- However, since food insecurity is concentrated in the north, aggregate figures mask intra-regional differences. The overall situation may have also worsened since the COVID-19 pandemic. Data from the World Food Program shows a significant increase in its estimate of acute malnutrition for 2022, likely reflecting the effects of soaring food prices and security concerns, with an additional 5.4 million people estimated to have become food insecure since 2021. The increased food insecurity is particularly relevant in the north-east states of Borno, Yobe and Adamawa, where the population is severely undernourished across many indicators.

Location of High Food Risk Areas 1/



Source: Cadre Harmonise Survey, October-December 2022, The World Food Program (WFP).

1/ Orange defines areas of acute malnutrition with sufferers above 800,000 (level 3, WFP); red defines areas of food emergency (level 4, WFP)

Food Insecurity Estimates

Source	Year	Share of Population (Percent)	Number of People (Millions)	Increase in food insecurity in 2022 (Millions)
National Authorities	2018	40		
Rural		52		
Urban		18		
Mekonnen	2018	28		
Rural		36		
Urban		16		
World Food Program 1/	2022	34		5.4
Food Insecurity at level 2 2/		25	40.5	
Food Insecurity at level 3 and above		9	17	

Source: National authorities, World Food Program, IFPRI
1/ Estimates based on 26 states plus Federal Capital Territory, November 2022 update
2/ Level 2 food insecurity means minimally adequate food consumption; level 3 means acute malnutrition and can only meet minimal food needs by depleting livelihood assets

Source: Selected Issues Paper *Food Security in Nigeria: Food Supply Matters*.

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35. Notwithstanding higher oil prices, the economy is expanding at slightly above the population growth rate. Following a short-lived recession in 2020, economic recovery continued and broadened to all sectors except oil, where contraction seems to be bottoming out benefitting from the authorities' security measures to repel oil theft. Output growth is expected to pick up slightly after a moderation in 2022 but remain around 3 percent, slightly above the population growth rate. Headline inflation is expected to moderate at end-2022 with the start of the harvest season.

36. The near-term outlook faces downside risks, while there are upside risks in the medium term. The effects of recent flooding and high fertilizer prices could become more entrenched impacting negatively both agricultural production and food prices in 2023. Similarly, further volatility in the parallel market exchange rate and continued dependence on central bank financing of the budget deficit could exacerbate price pressures. In the medium term, there are upside risks from stronger reform momentum, stronger rebound in the oil and gas sector and the Dangote refinery reaching its full potential more rapidly than assumed in the baseline.

37. Ensuring macroeconomic stability requires tightening across all policy levers. The double-digit increases in Nigeria's terms of trade and significant improvement in the trade balance created an opportunity to build fiscal space and foreign exchange (FX) reserves, but that opportunity was not harnessed. Inflation is elevated and fuel subsidies remain a formidable drain on fiscal revenues. Fiscal and monetary tightening would be important to ensure near-term macroeconomic stability, while achieving a more robust growth trajectory would require measures to decisively tackle governance weaknesses and steady implementation of trade and agricultural reforms.

38. Bold fiscal reforms are needed to reduce vulnerabilities and create much needed policy space. Without stronger revenue mobilization, costly fuel subsidies and rising debt servicing costs are projected to keep overall fiscal deficits above 6 percent of GDP in the medium term increasing public debt to about 43 percent of GDP by 2027. Near-term policy priorities include removing fuel subsidies, expanding the coverage of tax automation system under a well-designed roadmap and strengthening taxpayer segmentation centering on the Large Taxpayer Offices. In the medium term, compliance improvement, comprehensive customs modernization, rationalization of tax incentives as well as raising tax rates to the ECOWAS levels are critical to create policy space for the provision of adequate social assistance and financing of the Sustainable Development Goals.

39. Decisive and effective monetary policy tightening is a priority to prevent risks of de-anchored inflation expectations. Recent measures, including increases in the policy rate, have made the monetary policy stance less accommodative but more is needed to put the inflation rate firmly on a downward trajectory. These include fully sterilizing the central bank financing of fiscal deficits, further increases in the policy rate as needed, gradual phasing out of the CBN's credit intervention programs, and establishing price stability as the primary objective of the central bank. Progress in the securitization of the CBN's existing stock of overdrafts is

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welcome. Going forward, use of CBN overdrafts for fiscal financing should strictly adhere to the statutory limits.

40. **Nigeria's external position is assessed to be moderately weaker than implied by economic fundamentals.** Continued FX shortages, elevated parallel market premiums, and administrative restrictions on current transactions fuel exchange rate uncertainties, undermine investor confidence and encourage capital outflows. The authorities should move towards a unified and market-clearing exchange rate by dismantling the various exchange rate windows at the CBN accompanied by clarity on exchange rate policy and supportive fiscal and monetary policies. The reopening of land borders and recent measures to harmonize tariff lines, and ease customs processes bode well for Nigeria's readiness to implement the AfCFTA.

41. **The banking sector is profitable and liquid, regulatory measures are in train, but dynamic retail credit warrants monitoring**. Profitability and banking sector liquidity has remained stable, NPLs have receded, and the authorities' stress tests indicate that the banking sector remains resilient to potential shocks. The implementation of Basel III regulation is going ahead but increased vigilance and use of selected macroprudential policy instruments are recommended to handle potential risks associated with dynamic retail credit growth. Measures to address weaknesses identified in the 2021 GIABA Mutual Evaluation Report are welcome. Further actions, including to expand the risk-based toolkits for supervisors, ensure compliance with preventive measures, and improve enforcement are needed to increase effectiveness of the AML/CFT framework and avoid public listing by the FATF.

42. **Efforts to strengthen the performance of the agricultural sector is important for job creation and food security**. This requires increased input usage through affordable fertilizers, higher quality seeds, better storage facilities and more coordinated support across agencies. The sector would also benefit from improved financial inclusion in rural areas, including measures to raise the usage of mobile money and electronic transactions, gain traction in new initiatives to improve financial literacy, and increase the number of agents in underserved regions.

43. **Steady implementation of governance reforms and improved transparency in the oil sector are critical to reducing perception of high corruption**. The passage of the Companies and Allied Matter Act (CAMA) and the Proceeds of Crimes Act in recent years are welcome steps along with the increased rate of asset declarations by public sector employees and politicians. Reinstating the publication of monthly data on NNPC's fiscal oil revenues remitted to the Federation account and greater transparency on various cost deductions would help establish public trust in government's ability to safeguard oil resources.

44. **It is proposed that the next Article IV consultation take place on the standard 12-month cycle.**

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Table 1. Nigeria: Selected Economic and Financial Indicators, 2018–27

	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
					Projections					
National income and prices	(Annual percentage change, unless otherwise specified)									
Real GDP (at 2010 market prices)	1.9	2.2	-1.8	3.6	3.0	3.2	2.9	3.0	3.0	3.0
Oil and Gas GDP	1.0	4.6	-8.9	-8.3	-8.2	5.6	0.6	3.7	2.2	2.2
Non-oil GDP	2.0	2.0	-1.1	4.7	3.8	3.0	3.1	3.0	3.1	3.1
Non-oil non-agriculture GDP	2.0	1.8	-2.4	5.7	4.5	3.7	3.3	3.1	3.3	3.2
Production of crude oil (million barrels per day)	1.93	2.01	1.77	1.62	1.42	1.51	1.53	1.58	1.58	1.58
Nominal GDP at market prices (trillions of naira)	129.1	145.6	154.3	176.1	206.6	235.8	267.7	303.9	344.9	389.4
Nominal non-oil GDP (trillions of naira)	115.7	133.2	144.1	166.4	193.7	223.8	256.3	292.6	333.8	378.4
Nominal GDP per capita (US$)	2,153	2,230	...	...	...	...	...	...	...	...
GDP deflator	10.2	10.4	7.8	10.1	14.0	10.6	10.3	10.2	10.2	9.6
Consumer price index (annual average)	12.1	11.4	13.2	17.0	18.8	17.4	12.6	11.5	11.5	11.5
Consumer price index (end of period)	11.4	12.0	15.8	15.6	21.0	15.1	11.5	11.5	11.5	11.5
Investment and savings	(Percent of GDP)									
Gross national savings	20.7	21.6	23.0	25.2	23.4	21.3	20.1	19.4	18.5	17.1
Public	-1.1	-1.2	-2.1	-2.4	-2.7	-1.7	-2.0	-2.4	-2.6	-3.0
Private	21.8	22.8	25.2	27.6	26.1	23.0	22.1	21.8	21.2	20.1
Investment	19.0	24.6	26.7	25.6	23.3	21.6	20.3	19.6	18.7	17.2
Public	3.0	3.0	2.5	3.2	3.0	3.4	3.2	3.0	3.0	2.8
Private	16.0	21.7	24.3	22.4	20.2	18.2	17.1	16.6	15.7	14.4
Current account balance	1.7	-3.1	-3.7	-0.4	0.1	-0.3	-0.2	-0.2	-0.2	-0.1
Consolidated government operations	(Percent of GDP)									
Total revenues and grants	8.5	7.8	6.5	7.3	8.4	8.9	8.3	8.0	7.7	7.5
Of which: oil and gas revenue	2.8	4.4	2.4	2.8	3.6	4.0	3.4	3.0	2.6	2.4
Total expenditure and net lending	12.8	12.5	12.1	13.3	14.6	14.5	14.1	13.8	13.7	13.7
Of which : fuel subsidies	0.5	0.4	0.1	1.1	2.2	1.3	0.9	0.9	0.7	0.6
Overall balance	-4.3	-4.7	-5.6	-6.1	-6.2	-5.6	-5.7	-5.8	-6.0	-6.2
Non-oil primary balance	-7.2	-6.7	-5.9	-6.4	-7.5	-7.2	-6.5	-6.1	-5.6	-5.3
Non-oil revenue	4.0	4.1	4.1	4.5	4.8	4.9	4.9	5.0	5.1	5.1
Public gross debt[1]	27.7	29.2	34.5	36.5	37.3	38.2	39.5	40.7	41.9	43.1
Of which : FGN debt	25.0	26.5	31.0	32.5	32.9	33.6	34.6	35.5	36.4	37.3
Of which: External debt	6.4	6.2	8.2	9.0	8.7	8.2	8.3	8.2	8.5	8.4
FGN interest payments (percent of FGN revenue)	60.8	54.9	86.1	87.8	96.3	82.0	89.5	99.0	110.3	124.3
Interest payments (percent of consolidated revenue)	19.9	21.4	32.5	32.7	28.2	27.4	30.9	34.1	38.7	43.3
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)	15.0	6.4	11.6	14.2	20.3	20.5	19.7	19.2	15.0	14.0
Net foreign assets	3.0	-18.0	8.7	0.9	-4.0	1.0	0.7	0.4	0.3	0.3
Net domestic assets	12.0	24.5	3.0	13.3	24.4	19.5	19.0	18.8	14.7	13.6
o/w Claims on consolidated government	5.1	16.2	4.6	7.1	16.8	14.9	12.8	12.4	11.2	11.8
Credit to the private sector (y-o-y,%)	-11.9	23.5	15.8	25.9	25.0	13.8	17.3	17.7	11.6	8.4
Velocity of broad money (ratio; end of period)	3.5	3.8	3.7	3.7	3.6	3.4	3.3	3.1	3.1	3.1
External sector	(Annual percentage change, unless otherwise specified)									
Exports of goods and services	29.9	5.9	-42.9	27.1	39.5	-9.6	-9.7	-8.8	-9.7	-1.9
Imports of goods and services	40.6	40.7	-28.4	-8.4	21.0	-3.3	-5.9	-3.9	-5.5	1.2
Terms of trade	14.6	-6.3	-19.6	22.6	13.9	-7.1	-4.0	-2.8	-2.4	-2.7
Price of Nigerian oil (US dollar per barrel)	71.6	64.2	43.3	70.8	100.5	88.6	83.4	79.6	76.8	74.6
External debt outstanding (US$ billions)[2]	90.5	102.3	105.0	111.9	115.8	121.6	128.6	136.6	147.2	157.7
Gross international reserves (US$ billions)	42.8	38.1	36.5	40.2	36.9	37.5	38.5	39.3	40.1	40.9
(equivalent months of imports of G&Ss)	5.1	6.3	6.6	6.0	5.7	6.2	6.6	7.1	7.2	7.2

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

[1]Gross debt figures for the Federal Government and the public sector include overdrafts from the Central Bank of Nigeria (CBN). External debt figures are based on currency of issuance.

[2]Includes both public and private sector.

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Table 2. Nigeria: Balance of Payments, 2018–27

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

	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
					Projections					
Current account balance	7.3	-13.7	-16.0	-1.8	0.7	-1.5	-1.3	-1.3	-1.4	-1.2
Trade balance	20.5	2.9	-16.4	-3.3	5.8	2.4	0.9	-0.3	-1.8	-3.5
Exports	61.2	65.0	35.9	46.8	66.8	60.0	53.2	48.2	43.2	42.2
Oil/gas	56.6	54.5	31.4	40.7	59.3	52.4	45.3	40.3	35.1	34.1
Other	4.7	10.5	4.5	6.0	7.5	7.6	7.9	8.0	8.1	8.1
Imports	-40.8	-62.1	-52.3	-50.1	-61.1	-57.6	-52.3	-48.6	-44.9	-45.7
Oil/gas	-11.6	-11.0	-7.3	-14.4	-23.4	-18.5	-12.8	-7.7	-3.7	-4.2
Other	-29.2	-51.1	-45.0	-35.7	-37.6	-39.1	-39.5	-40.9	-41.2	-41.5
Services (net)	-26.1	-33.8	-15.8	-12.0	-14.9	-15.7	-15.8	-16.9	-16.7	-16.6
Receipts	4.8	4.9	4.0	4.0	4.0	4.1	4.6	4.5	4.5	4.5
Payments	-30.9	-38.7	-19.8	-16.0	-18.9	-19.8	-20.5	-21.4	-21.2	-21.1
Income (net)	-11.3	-9.2	-4.9	-8.6	-12.5	-11.4	-10.2	-9.2	-8.9	-7.6
Of which: Interest due on public debt	-0.8	-1.0	-1.2	-1.3	-1.3	-1.7	-2.0	-2.5	-2.9	-3.4
Transfers (net)	24.1	26.4	21.0	22.0	22.4	23.3	23.9	25.1	26.0	26.5
Capital and Financial account balance	3.2	16.9	-2.6	7.6	-4.0	2.0	2.4	2.0	2.2	2.0
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)	3.2	16.9	-2.6	7.6	-4.0	2.0	2.4	2.0	2.2	2.0
Direct Investment (net)	0.2	2.0	0.9	1.5	-2.8	0.1	0.4	0.6	0.6	0.6
Portfolio Investment (net)	0.0	3.1	-3.7	5.9	1.8	2.0	1.8	1.1	1.0	1.0
Other Investment (net)	3.0	11.8	0.1	0.2	-3.0	-0.1	0.2	0.4	0.6	0.5
Of which: SDR allocation				3.4						
Errors and omissions	-7.2	-8.0	17.0	-1.9	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance	3.2	-4.7	-1.6	3.7	-3.3	0.6	1.1	0.7	0.8	0.8
RFI Disbursement			3.5							
Net international reserves (increase -)	-3.2	4.7	-1.9	-3.7	3.3	-0.6	-1.1	-0.7	-0.8	-0.8
Memorandum items:										
Gross official reserves, end-of-period	42.8	38.1	36.5	40.2	36.9	37.5	38.5	39.3	40.1	40.9
In months of next year's imports of goods and services	5.1	6.3	6.6	6.0	5.7	6.2	6.6	7.1	7.2	7.2
Current account (percent of GDP)	1.7	-3.1	-3.8	-0.4	0.1	-0.3	-0.2	-0.2	-0.2	-0.1
Exports of goods and services (percent of GDP)	15.7	15.6	9.3	11.5	14.1	11.2	8.9	7.1	5.7	4.9
Imports of goods and services (percent of GDP)	17.0	22.5	16.8	15.0	15.9	13.5	11.2	9.5	7.9	7.1
Public external debt[1]	39.0	46.6	47.3	54.3	58.8	62.2	68.8	75.9	86.1	95.0
In percent of GDP	9.3	10.4	11.0	12.3	11.7	10.8	10.6	10.3	10.2	10.0
In percent of exports of G&S	59.1	66.7	118.4	107.0	83.0	97.1	119.0	143.9	180.6	203.2
In percent of consolidated fiscal revenues	79.5	86.1	123.3	126.6	105.8	94.8	100.9	104.7	111.5	113.5
Private external debt	51.5	55.7	57.7	57.6	56.2	56.0	56.0	56.2	56.8	57.5

Sources: Nigerian authorities; and IMF staff estimates and projections.
[1]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.

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Table 3. Nigeria: Federal Government Operations, 2018–27
(Billions of Naira)

	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
					Projections					
Total revenue and Grants	3,596	4,449	3,789	4,811	5,101	6,973	7,714	8,377	9,320	10,210
Oil revenue	2,076	2,209	1,424	1,614	1,340	2,763	2,884	2,824	2,830	3,031
Non-oil revenue	1,520	2,240	2,272	3,197	3,697	4,167	4,804	5,489	6,427	7,116
Import and excise duties	318	748	396	559	700	764	819	906	986	1,053
Companies' income tax	660	695	674	787	1,146	1,454	1,747	2,053	2,412	2,818
Value-added tax	147	160	198	404	386	395	475	531	624	724
Federal government independent revenue	395	637	1,003	1,447	1,465	1,554	1,763	1,999	2,404	2,521
Grants	0	0	93	0	63	43	26	63	63	63
Total expenditure	9,046	10,981	11,492	13,887	16,082	18,506	21,079	23,519	27,192	30,670
Recurrent expenditure	7,364	8,896	9,891	10,624	12,559	13,992	16,519	18,746	21,780	25,380
Personnel	2,417	2,596	3,187	3,403	4,087	4,716	5,396	6,156	7,024	7,966
Overheads	517	1,131	1,269	1,055	1,909	2,078	2,377	2,512	2,195	2,489
of which COVID-19 fund			214							
Interest	2,186	2,442	3,261	4,222	4,914	5,721	6,905	8,290	10,279	12,687
Transfers[1]	1,912	2,147	1,735	1,770	1,500	1,477	1,842	1,787	2,283	2,239
of which electricity subsidies	272	524	600	300	150	150	0	0	0	0
of which net transfers to SLGs[2]	1,184	1,195	693	974	717	436	860	916	1,312	1,157
of which COVID-19 fund			150							
Arrears Clearance	331	580	439	174	150	0	0	0	0	0
Capital expenditure	1,682	2,084	1,602	3,263	3,523	4,514	4,560	4,773	5,412	5,289
of which COVID-19 fund			200							
Overall balance	-5,450	-6,532	-7,704	-9,076	-10,982	-11,533	-13,365	-15,143	-17,873	-20,460
Financing	5,450	6,532	7,704	9,076	10,982	11,533	13,365	15,143	17,873	20,460
External	2,142	725	2,037	3,091	2,275	1,385	2,731	2,907	4,167	3,674
Borrowing	1,423	556	2,581	2,396	1,760	1,574	2,727	2,888	3,212	3,306
of which RFI			1,341							
Amortization	-176	-60	-544	-278	-202	-625	-856	-897	-358	-789
of which RFI						0	0	0	0	0
Net External Lending to SLGs	573	228	693	974	717	436	860	916	1,312	0
Domestic	3,168	6,629	3,980	5,404	8,707	10,148	10,633	12,236	13,706	16,786
Bank financing	1,204	5,170	1,406	2,173	5,237	6,103	6,124	6,834	7,218	8,989
CBN	656	4,876	1,939	1,734	4,952	5,735	5,681	6,282	6,549	8,177
Commercial Banks	548	294	-534	439	285	368	443	552	668	812
Nonbank financing	1,526	878	2,136	2,955	3,114	3,754	4,508	5,402	6,488	7,796
Promissory notes	331	580	439	174	150	0	0	0	0	0
Asset Disposal	107	0	0	103	206	291	1	0	0	0
Statistical discrepancy	140	-821	1,686	581	0	0	0	0	0	0
Memorandum items :										
FGN Total Debt	32,232	38,536	47,859	57,272	68,047	79,289	92,653	107,796	125,668	145,328
Domestic[3]	24,018	29,541	35,142	41,509	50,009	59,866	70,499	82,735	96,441	112,426
Foreign	8,214	8,995	12,718	15,763	18,038	19,423	22,154	25,061	29,227	32,902
Price of Nigerian oil (US dollar per barrel)	71.6	64.2	43.3	70.8	100.5	88.6	83.4	79.6	76.8	74.6
FGN overall balance (percent of GDP)	-4.2	-4.5	-5.0	-5.2	-5.3	-4.9	-5.0	-5.0	-5.2	-5.3

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

[1] Includes earmarked spending for National Judicial Council, Universal Basic Education, Niger Delta Development

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

[3] 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.

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Table 4. Nigeria: Consolidated Government, 2018–27

(Billions of Naira)

	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
					Projections					
Total revenue and Grants	10,978	11,407	10,019	12,893	17,417	20,901	22,341	24,300	26,571	29,329
Oil revenue	3,616	6,437	3,663	4,980	7,512	9,411	9,096	9,074	8,949	9,353
Of which : implicit fuel subsidy	623	559	89	1,894	4,611	3,135	2,533	2,655	2,517	2,445
Non-oil revenue	5,100	6,031	6,264	7,912	9,842	11,447	13,219	15,163	17,559	19,912
Import and excise duties	705	816	878	1,267	1,553	1,693	1,816	2,010	2,187	2,335
Companies' income tax	1,418	1,616	1,448	1,583	2,460	3,123	3,752	4,409	5,181	6,052
Value-added tax	1,090	1,172	1,475	2,043	2,427	2,941	3,533	3,950	4,642	5,385
Other (education tax and customs levies)	331	482	420	464	729	855	973	1,113	1,264	1,421
Federal government independent revenue	395	637	1,003	1,447	1,465	1,554	1,763	1,999	2,404	2,521
SLGs independent revenue	1,160	1,309	1,040	1,109	1,207	1,281	1,382	1,682	1,881	2,197
Grants	0	0	93	0	63	43	26	63	63	63
Total expenditure	16,549	18,238	18,635	23,384	30,215	34,120	37,645	41,973	47,289	53,279
Federal government	7,862	9,786	10,799	12,913	15,366	18,070	20,218	22,604	25,880	29,512
of which COVID-19 fund			414							
State and local government	7,029	7,297	7,119	7,972	9,236	11,458	13,215	14,807	16,769	18,650
of which COVID-19 fund			150							
Extrabudgetary funds, ECA and implicit fuel subsid	1,657	1,156	717	2,499	5,614	4,592	4,212	4,562	4,641	4,916
Extrabudgetary funds [1]	767	596	532	605	1,004	1,457	1,678	1,907	2,124	2,472
Spending from Excess Crude Account	267	1	96	0	0	0	0	0	0	0
Implicit fuel subsidy	623	559	89	1,894	4,611	3,135	2,533	2,655	2,517	2,445
Overall balance	-5,570	-6,831	-8,616	-10,664	-12,798	-13,218	-15,304	-17,673	-20,717	-23,950
Non-oil primary balance	-9,262	-9,764	-9,111	-11,250	-15,460	-16,952	-17,521	-18,520	-19,452	-20,680
Financing	5,570	6,831	8,616	10,491	12,798	13,219	15,304	17,673	20,718	23,950
External	1,820	725	2,037	3,091	2,275	1,385	2,731	2,907	4,167	3,675
Borrowing	2,078	812	2,831	3,497	2,570	2,297	3,980	4,216	4,689	4,826
o.w. RFI			1,341							
Amortization	-258	-87	-793	-406	-295	-912	-1,249	-1,310	-523	-1,152
Domestic	3,377	6,555	4,984	6,005	10,773	12,034	12,773	14,966	16,801	20,276
Bank financing	1,413	5,096	1,217	2,774	7,303	7,989	8,264	9,564	10,313	12,480
CBN	865	4,802	1,751	2,335	4,952	5,735	5,309	6,308	6,575	7,305
Commercial Banks	548	294	-534	439	2,352	2,254	2,955	3,256	3,737	5,175
Nonbank financing	1,526	878	2,136	2,955	3,114	3,754	4,508	5,402	6,488	7,796
Other financing	331	580	1,631	174	150	0	0	0	0	0
Asset Disposal	107	0	0	103	206	291	1	0	0	0
Statistical discrepancy	372	-449	1,595	1,568	0	0	0	0	0	0
Memorandum items :										
SLGs External Financing	573.4	228.3	693.3	973.6	716.6	436.3	860.3	915.6	1312.5	0.0
Budget oil price (US dollar a barrel)	47.0	64.2	43.3	70.8	100.5	88.6	83.4	79.6	76.8	74.6
Overall balance (% of GDP)	-4.3	-4.7	-5.6	-6.1	-6.2	-5.6	-5.7	-5.8	-6.0	-6.2

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

[1] 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.

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Table 5. Nigeria: Government Operations, 2018–27

(Percent of GDP)

	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
					Projections					
Consolidated Government										
Total revenue	8.5	7.8	6.5	7.3	8.4	8.9	8.3	8.0	7.7	7.5
Oil revenue	2.8	4.4	2.4	2.8	3.6	4.0	3.4	3.0	2.6	2.4
Non-oil revenue	4.0	4.1	4.1	4.5	4.8	4.9	4.9	5.0	5.1	5.1
Total expenditure	12.8	12.5	12.1	13.3	14.6	14.5	14.1	13.8	13.7	13.7
Federal government expenditure	6.1	6.7	7.0	7.3	7.4	7.7	7.6	7.4	7.5	7.6
of which COVID-19 fund			0.3							
State and local government	5.4	5.0	4.6	4.5	4.5	4.9	4.9	4.9	4.9	4.8
of which COVID-19 fund			0.1							
Extrabudgetary funds, ECA and implicit fuel subsidies	1.3	0.8	0.5	1.4	2.7	1.9	1.6	1.5	1.3	1.3
Fuel Subsidy (in percent of GDP)	0.5	0.4	0.1	1.1	2.2	1.3	0.9	0.9	0.7	0.6
Overall balance	-4.3	-4.7	-5.6	-6.1	-6.2	-5.6	-5.7	-5.8	-6.0	-6.2
Non-oil primary balance	-7.2	-6.7	-5.9	-6.4	-7.5	-7.2	-6.5	-6.1	-5.6	-5.3
Financing	4.3	4.7	5.6	6.0	6.2	5.6	5.7	5.8	6.0	6.2
External	1.4	0.5	1.3	1.8	1.1	0.6	1.0	1.0	1.2	0.9
Borrowing	1.6	0.6	1.8	2.0	1.2	1.0	1.5	1.4	1.4	1.2
o.w.RFI			0.9	...	...	...	...	...		
Amortization	-0.2	-0.1	-0.5	-0.2	-0.1	-0.4	-0.5	-0.4	-0.2	-0.3
Domestic	2.6	4.5	3.2	3.4	5.2	5.1	4.8	4.9	4.9	5.2
Bank financing	1.1	3.5	0.8	1.6	3.5	3.4	3.1	3.1	3.0	3.2
Nonbank financing	1.2	0.6	1.4	1.7	1.5	1.6	1.7	1.8	1.9	2.0
Other financing	0.3	0.4	1.1	0.2	0.2	0.1	0.0	0.0	0.0	0.0
Asset Disposal	0.1	0.0	0.0	0.1	0.1	0.1	0.0	0.0	0.0	0.0
Statistical discrepancy	0.3	-0.3	1.0	0.9	0.0	0.0	0.0	0.0	0.0	0.0
Federal Government										
Total revenue	2.8	3.1	2.5	2.7	2.5	3.0	2.9	2.8	2.7	2.6
Oil revenue	1.6	1.5	0.9	0.9	0.6	1.2	1.1	0.9	0.8	0.8
Non-oil revenue	1.2	1.5	1.5	1.8	1.8	1.8	1.8	1.8	1.9	1.8
Total expenditure	7.0	7.5	7.5	7.9	7.8	7.8	7.9	7.7	7.9	7.9
Recurrent expenditure	5.7	6.1	6.4	6.0	6.1	5.9	6.2	6.2	6.3	6.5
Personnel	1.9	1.8	2.1	1.9	2.0	2.0	2.0	2.0	2.0	2.0
Overheads	0.4	0.8	0.8	0.6	0.9	0.9	0.9	0.8	0.6	0.6
of which COVID-19 fund			0.1							
Interest	1.7	1.7	2.1	2.3	2.4	2.4	2.6	2.7	3.0	3.3
Transfers	1.5	1.5	1.1	1.0	0.7	0.6	0.7	0.6	0.7	0.6
of which COVID-19 fund			0.1							
Arrears clearance	0.3	0.4	0.3	0.1	0.1	0.0	0.0	0.0	0.0	0.0
Capital expenditure	1.3	1.4	1.0	1.9	1.7	1.9	1.7	1.6	1.6	1.4
of which COVID-19 fund			0.1							
Overall balance	-4.2	-4.5	-5.0	-5.2	-5.3	-4.9	-5.0	-5.0	-5.2	-5.3
Financing	4.2	4.5	5.0	5.2	5.3	4.9	5.0	5.0	5.2	5.3
External	1.7	0.5	1.3	1.8	1.1	0.6	1.0	1.0	1.2	0.9
Domestic	2.5	4.6	2.6	3.1	4.2	4.3	4.0	4.0	4.0	4.3
Bank financing	0.9	3.5	0.9	1.2	2.5	2.6	2.3	2.2	2.1	2.3
Nonbank financing	1.2	0.6	1.4	1.7	1.5	1.6	1.7	1.8	1.9	2.0
Other financing	0.3	0.4	0.3	0.2	0.2	0.1	0.0	0.0	0.0	0.0
Statistical discrepancy	0.1	-0.6	1.1	0.3	0.0	0.0	0.0	0.0	0.0	0.0

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

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Table 6. Nigeria: State and Local Governments, 2018–27

(Percent of GDP)

	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
					Projections					
Revenue	5.4	4.7	3.7	3.6	3.5	4.1	4.0	4.0	4.0	3.7
Oil revenue	2.0	1.6	1.1	0.8	0.8	1.4	1.1	1.1	1.0	0.7
Shared revenue	1.5	1.2	0.8	0.6	0.5	1.1	1.0	0.8	0.7	0.7
Derivation grant (13 percent)	0.5	0.4	0.3	0.2	0.2	0.3	0.3	0.3	0.2	0.3
Non-oil revenue	2.5	2.3	2.1	2.3	2.4	2.5	2.5	2.6	2.6	2.7
Corporate Income Tax	0.5	0.5	0.4	0.4	0.5	0.6	0.6	0.7	0.7	0.7
Customs	0.2	0.2	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3
VAT	0.7	0.7	0.8	0.9	1.0	1.0	1.1	1.1	1.1	1.1
Internal revenue	0.9	0.9	0.7	0.6	0.6	0.5	0.5	0.6	0.5	0.6
Net Transfers from FGN	0.9	0.8	0.4	0.6	0.3	0.2	0.3	0.3	0.4	0.3
of which COVID-19 fund			0.1							
Expenditure	5.4	5.0	4.6	4.5	4.5	4.8	4.8	4.9	4.9	4.8
Overall Balance	-0.1	-0.3	-0.9	-0.9	-1.0	-0.8	-0.9	-0.9	-0.9	-1.1
Financing	0.1	0.3	0.9	0.2	1.0	0.8	0.9	0.9	0.9	1.1
External	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Domestic	0.2	0.3	0.9	0.2	1.0	0.8	0.9	0.9	0.9	1.1
Statistical discrepancy	-0.1	0.0	0.0	0.7	0.0	0.0	0.0	0.0	0.0	0.0

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

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Table 7. Nigeria: Central Bank of Nigeria (CBN) Analytical Balance Sheet, 2018–27

(Billions on Naira)

	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
	Dec.	Dec.	Dec.	Dec.	Dec.					
					Projections					
Net foreign assets	12,127	7,797	10,177	8,990	6,904	7,133	7,577	7,878	8,197	8,545
Foreign assets	18,196	15,235	15,920	17,262	15,176	15,405	15,849	16,150	16,469	16,817
Foreign liabilities	-6,069	-7,438	-5,744	-8,272	-8,272	-8,272	-8,272	-8,272	-8,272	-8,272
Net domestic assets	-4,947	884	2,931	4,305	14,096	17,166	21,234	25,257	29,910	34,883
Net domestic credit	10,292	16,459	19,574	22,376	26,854	32,589	38,270	44,552	51,102	59,279
Net claims on consolidated government	1,442	6,380	8,258	10,273	14,848	20,584	26,265	32,547	39,096	47,273
Net claims on federal government [1]	835	5,768	7,647	9,566	14,141	19,876	25,557	31,839	38,389	46,566
Claims	7,959	11,839	15,612	19,699	24,800	30,536	36,217	42,499	49,048	57,225
Deposits	-7,123	-6,071	-7,965	-10,133	-10,659	-10,659	-10,659	-10,659	-10,659	-10,659
Net claims on state and local governments	607	612	610	707	707	707	707	707	707	707
Claims on deposit money banks	1,646	1,745	2,668	3,603	3,603	3,603	3,603	3,603	3,603	3,603
Other net claims	7,204	7,828	8,649	8,500	8,403	8,403	8,403	8,403	8,403	8,403
Other items net	-15,239	-15,866	-16,643	-18,071	-12,758	-15,423	-17,036	-19,296	-21,191	-24,396
Reserve money	7,180	8,681	13,108	13,295	21,000	24,299	28,811	33,135	38,108	43,428
Currency in circulation	2,330	2,443	2,908	3,325	6,814	7,884	9,348	10,751	12,365	14,091
Banks reserves with the CBN	4,850	6,238	10,199	9,970	14,186	16,415	19,462	22,383	25,743	29,337
Memorandum items :										
Reserve money y/y growth rate	10.7	21	51.0	1.4	57.9	15.7	18.6	15.0	15.0	14.0
Money multiplier	4.6	4	3.0	3.3	2.5	2.7	2.7	2.8	2.8	2.8

Sources: Nigerian authorities; and IMF staff estimates and proje

[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.

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Table 8. Nigeria: Monetary Survey, 2018–27

(Billions of Naira)

	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
	Dec.	Dec	Dec.	Dec.			Dec.			
							Projections			
Net foreign assets	11,838	6,235	9,788	10,892	9,102	9,644	10,088	10,389	10,708	11,056
Central Bank of Nigeria (net)	12,127	8,088	10,998	10,562	8,475	8,705	9,148	9,450	9,769	10,117
Commercial and merchant banks (net)	-288	-1,853	-1,210	330	627	939	939	939	939	939
Net domestic assets	20,917	28,907	29,938	35,124	45,952	56,356	68,586	83,104	96,581	110,993
Net domestic credit	26,784	36,715	42,532	48,761	62,039	74,051	88,051	104,515	120,133	136,901
Net claims on consolidated government	21,950	25,230	30,524	37,654	45,107	53,097	61,360	70,924	81,237	93,717
Net claims on FGN [1]	20,204	23,360	28,455	35,159	40,545	46,649	52,773	59,607	66,825	75,814
CBN	15,602	18,465	24,093	30,358	35,460	41,195	46,876	53,158	59,707	67,885
Commercial Banks	4,601	4,895	4,362	4,801	5,086	5,454	5,897	6,449	7,117	7,929
Claims on SLG	1,746	1,870	2,069	2,495	4,562	6,448	8,587	11,317	14,412	17,903
Claims on private sector[2]	13,227	16,250	18,714	23,736	29,561	33,583	39,320	46,220	51,525	55,813
o/w credit to the private sector	12,960	16,012	18,535	23,328	29,153	33,175	38,912	45,812	51,117	55,405
Other Claims	-8,392	-4,765	-6,705	-12,629	-12,629	-12,629	-12,629	-12,629	-12,629	-12,629
Other items	-5,868	-7,808	-12,594	-13,637	-16,087	-17,695	-19,465	-21,411	-23,552	-25,907
Broad money [3]	32,755	34,851	38,905	44,444	53,483	64,428	77,102	91,921	105,717	120,478
Currency outside banks	1,907	2,023	2,496	2,938	3,536	4,260	5,098	6,077	6,990	7,965
Demand deposits	6,623	8,624	13,343	15,117	18,192	21,915	26,226	31,267	35,959	40,980
Time and savings deposits	16,053	18,232	21,990	26,387	31,754	38,252	45,777	54,575	62,766	71,530
CBN Bills held by resident nonbank sector	6,284	5,973	1,076	1	1	1	2	2	2	2
Memorandum items :										
Broad money (y-o-y,%)	15.2	6.4	11.6	14.2	20.3	20.5	19.7	19.2	15.0	14.0
Credit to the private sector (y-o-y,%)	-11.9	23.5	15.8	25.9	25.0	13.8	17.3	17.7	11.6	8.4
Velocity (non-oil GDP/broad money)	3.6	3.8	3.7	3.7	3.6	3.4	3.3	3.1	3.1	3.1
Gross international reserves (billions of US dollar)	42.5	38.1	36.5	40.2	36.9	37.5	38.5	39.3	40.1	40.9

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.

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Table 9. Nigeria: Financial Soundness Indicators 2018–2021Q3

(Percent, unless otherwise specified)

	2018	2019	2020Q1	2020Q2	2020Q3	2020Q4	2021Q1	2021Q2	2021Q3
Regulatory Capital to Risk-Weighted Assets	15.2	14.6	14.9	14.9	15.4	15.1	16.1	15.5	15.0
Regulatory Tier 1 Capital to Risk-Weighted Assets	13.5	12.8	13.0	13.0	13.2	14.1	14.8	14.3	13.9
Non-Performing Loans to Total Gross Loans	11.7	6.1	6.4	6.4	6.0	6.0	6.0	5.7	5.4
Return on Assets	2.0	2.5	2.2	2.5	2.2	2.1	1.0	1.2	1.2
Return on Equity	22.7	26.9	23.7	27.9	25.0	23.4	11.4	13.2	14.0
Interest Margin to Gross Income	67.3	61.0	61.9	56.8	48.5	55.9	59.1	58.6	56.7
Non-interest Expenses to Gross Income	60.9	64.7	63.1	55.3	63.8	60.7	75.4	72.5	70.9
Liquid Assets to Total Assets (Liquid Asset Ratio)	22.6	23.0	21.1	18.2	18.5	27.8	26.4	25.7	25.5
Liquid Assets to Short Term Liabilities	34.1	35.3	32.8	27.4	27.0	41.0	39.3	38.5	37.6

Source: Central Bank of Nigeria.

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Annex I. Risk Assessment Matrix[1]

Sources of Risk	Likelihood	Time Horizon	Impact on Nigeria	Policy Responses
		External Risks		
Intensifying spillovers from Russia's war in Ukraine. Further sanctions resulting from the war and related uncertainties exacerbate trade and financial disruptions and commodity price volatility, with Europe, LICs, and commodity-importing EMs among the worst hit.	**High**	**Short Term**	**High**	• Prioritize **fiscal intervention** to relieve food insecurity • **Tighten monetary policy** to prevent de-anchoring of inflation expectation. • Allow greater **exchange rate flexibility** to preserve **external buffers**.
Commodity price shocks. A combination of continuing supply disruptions (e.g., due to conflicts and export restrictions) and negative demand shocks causes recurrent commodity price volatility and social and economic instability.	**High**	**Short Term**	**High**	• Prioritize **fiscal intervention** to relieve food insecurity • **Tighten monetary policy** to prevent de-anchoring of inflation expectation. • Allow greater **exchange rate flexibility** to preserve **external buffers**.
De-anchoring of inflation expectations and stagflation. Supply shocks to food and energy prices sharply increase headline inflation and pass through to core inflation, de-anchoring inflation expectations and triggering a wage-price spiral in tight labor markets. Central banks tighten monetary policy more than envisaged leading to weaker global demand, currency depreciations in EMDEs, and sovereign defaults. Together, this could lead to the onset of stagflation.	**Medium**	**Short to Medium Term**	**High**	• **Tighten monetary policy**. • Use **exchange rate adjustment** as the first line of defense, while also deploying full range of **Integrated Policy Framework** tools for both secondary and contingency responses. • Develop contingency planning and strengthen crisis management institutional framework.
Natural disasters related to climate change. More frequent natural disasters deal severe damage to infrastructure (especially in smaller vulnerable economies) and amplify supply chain disruptions and inflationary pressures, causing water and food shortages and reducing medium-term growth.	**Medium**	**Medium to Long Term**	**High**	• Rebuild **fiscal and external buffers** to counter effects demand shortfalls and adverse effects on vulnerable groups. • Continue improving the **business environment** to boost productivity and competitiveness, and to foster diversify to dampen negative effects.

[1] The Risk Assessment Matrix (RAM) shows events that could materially alter the baseline path (the scenario most likely to materialize in the view of IMF staff). 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. "Short term" and "medium term" are meant to indicate that the risk could materialize within 1 year and 3 years, respectively.

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Sources of Risk	Likelihood	Time Horizon	Impact on Nigeria	Policy Responses
Nigeria-specific Risks				
Continued high food prices keeping overall inflation high. Inflation expectation may become de-anchored and drift toward a new higher steady state if global commodity price shocks get a renewed momentum or domestic food inflation rise further following historical lead-lag patterns vis-à-vis international price. Such a de-anchoring could negatively affect consumption and investment, trigger disorderly asset price adjustment, and further exchange rate pressures due to private sector's intensified inflation hedge-induced FX demand.	**High**	**Short to Medium Term** **Medium Term**	**High**	• Decisively **tighten monetary policy** to re-anchor inflation expectation, while keeping fiscal policy stance neutral or tight. • Use **exchange rate adjustment** as the first line of defense, while also deploying full range of Integrated Policy Framework tools for both secondary and contingency response instruments. • **Unify exchange rates** and allow the I&E rate to clear the market to remove its spread with the parallel market rates. • Develop contingency planning and strengthen crisis management institutional framework.
Further decline in oil production due to unabated theft and deterioration of security conditions.	**Medium**	**Medium Term**	**High**	• Strengthen security and investment environment including in the **oil and gas** sector. • A coordinated effort in both military and developmental fronts essential to address security challenges. • Strengthen governance in the oil and gas sector including through consistent implementation of PIA.
Slow progress in addressing corruption, tax evasion, and related money laundering. A failure to make rapid progress could further discourage inward foreign investment, Public listing by the FATF for 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**	**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. **Strengthen the AML/CFT regime,** including implementing past Fund recommendations as well as recommendations of the 2021 Mutual Evaluation Report.

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Annex II. Sovereign Risk and Debt Sustainability Analysis

Figure 1. Nigeria: Risk of Sovereign Stress

Horizon	Mechanical signal	Final assessment	Comments
Overall	...	Moderate	The overall risk of sovereign stress is "moderate", reflecting a relatively moderate level of vulnerability in the near-, medium-, and long-term.
Near term 1/			
Medium term	Moderate	Moderate	Staff's assessment on the medium-term risk of sovereign stress is "moderate", which is aligned with the mechanical signals in both fan chart and GFN financialbility module. With this moderate medium-term liquidity risk as analyzed in GFN module, the level of debt (37 percent of GDP) still compares favorably with the average EMDE debt (around 50 percent of GDP). However Nigeria should be still cautious of potential liquidity risks that could arise from weak revenue mobilization.
Fanchart	Moderate	...	
GFN	Moderate	...	
Stress test	...	...	
Long term	...	Moderate	Staff's assessment on the long-term risk of sovereign stress is "moderate", as Nigeria is projected to show relatively moderate aging population pace that is critical for long-term public finance (Both old dependency ratio and the share of the elderly (65+) to total population are projected to stagnate at 5 percent and 3 percent by 2030, respectively).
Sustainability assessment 2/	...	...	Not required for surveillance-only countries
Debt stabilization in the baseline			No

DSA Summary Assessment

Commentary: Nigeria is at a "moderate" overall risk of sovereign stress. While near term risk exists due to unfavorable global market condition and the increased debt burden since the pandemic, a debt distress is unlikely given Nigeria's low external debt-to-GDP ratio (9 percent) and high share of medium-and long-term maturity (around 85 percent). The level of debt (37 percent of GDP) still compares favorably with the average EMDE debt (around 50 percent of GDP) and the medium-term liquidity risks are assessed to be moderate as analyzed by the GFN financeability module. The long-term risk is also assessed to be moderate, given the relatively moderate aging population pace. However Nigeria should be still cautious of potential liquidity risks that could arise from weak revenue mobilization.

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.

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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	
1 Budgetary central government					Yes	CBN overdraft is included
2 Extra budgetary funds (EBFs)					Yes	
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		

Rows 1–5 are grouped as CG / GG: expected; rows 1–6 as NFPS; rows 1–8 as CPS.

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

Reporting on Intra-government Debt Holdings

Issuer \ Holder	Budget. central govt	Extra-budget. funds	Social security funds	State govt.	Local govt.	Nonfin. pub. corp.	Central bank	Oth. pub. fin corp	Total
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.

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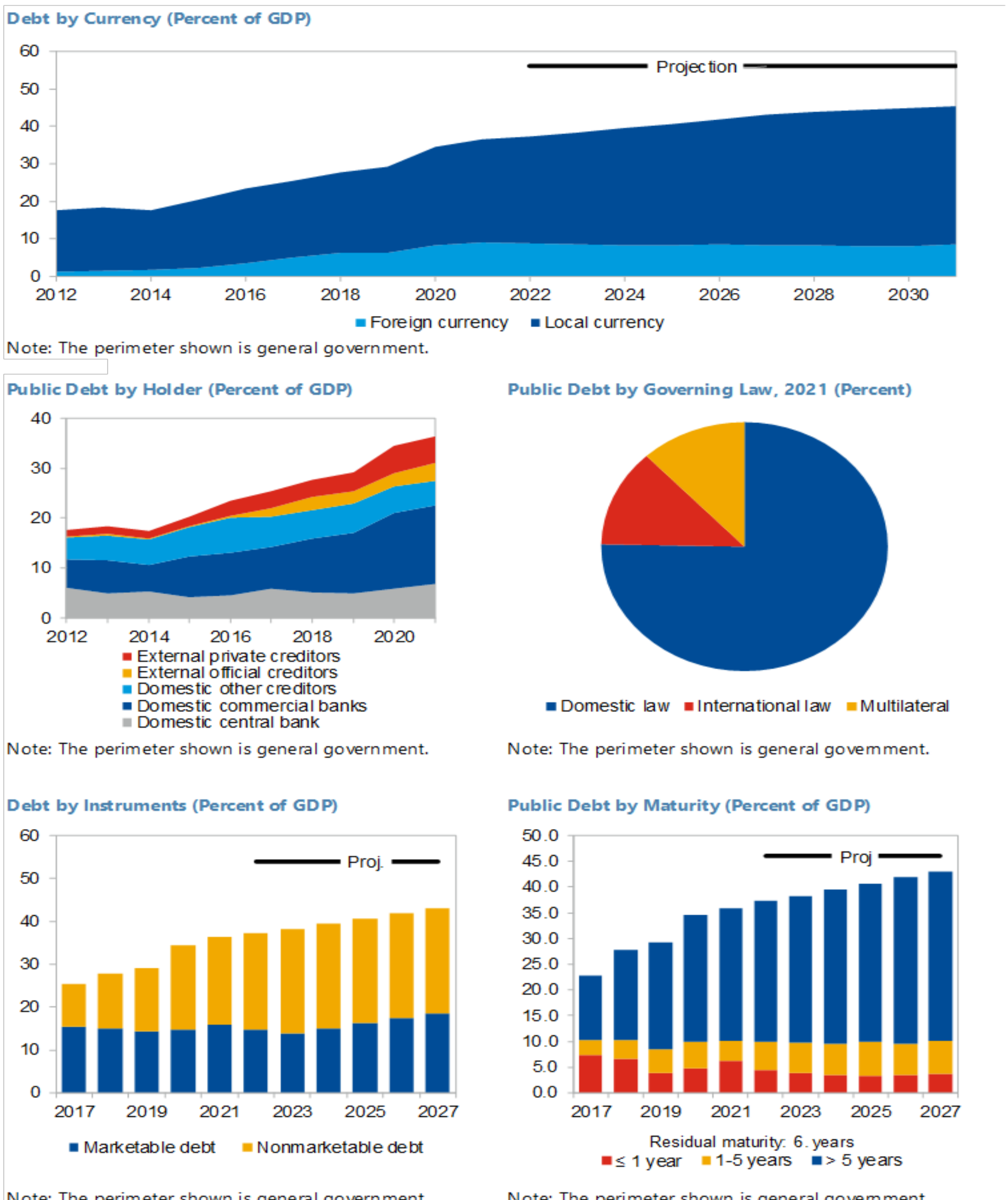
Figure 3. Nigeria: Public Debt Structure Indicators



Commentary: Public debt is expected to continuously rely mainly on domestic debt and medium and long-term debt. The share of domestic debt in total public debt is expected to be around 75 percent while that of external debt being relatively low (25 percent). Also, medium and long-term debt is expected to still account for more than 85 percent.

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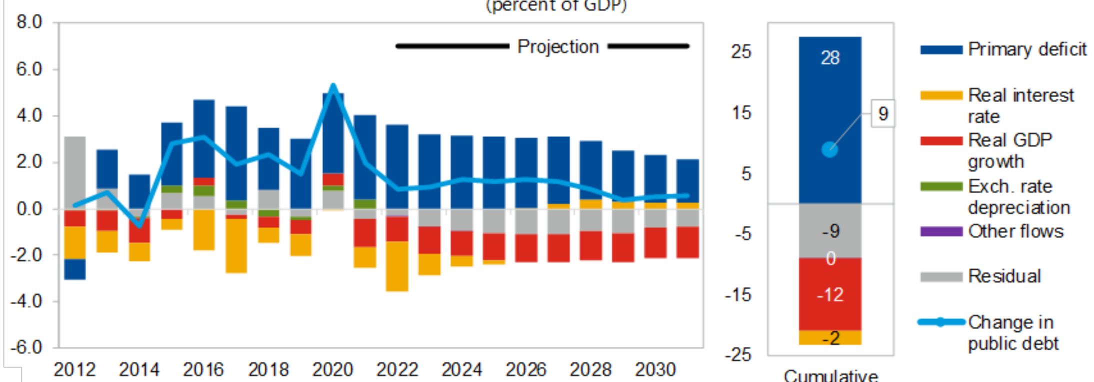
Figure 4. Nigeria: Baseline Scenario

(Percent of GDP unless indicated otherwise)

	Actual	Medium-term projection						Extended projection			
	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031
Public debt	36.5	37.3	38.2	39.5	40.7	41.9	43.1	43.9	44.3	44.8	45.4
Change in public debt	2.0	0.8	0.9	1.2	1.2	1.2	1.2	0.8	0.4	0.5	0.6
Contribution of identified flows	2.4	0.8	1.1	1.6	1.6	1.8	1.7	1.2	0.8	0.8	0.8
Primary deficit	3.7	3.6	3.2	3.1	3.1	3.0	2.9	2.5	2.2	2.0	1.9
Noninterest revenues	7.2	8.4	8.9	8.3	8.0	7.7	7.5	7.8	7.8	7.7	7.9
Noninterest expenditures	10.9	12.1	12.0	11.5	11.1	10.7	10.4	10.3	10.0	9.8	9.7
Automatic debt dynamics	-1.2	-2.8	-2.0	-1.5	-1.5	-1.3	-1.2	-1.3	-1.4	-1.2	-1.1
Int. rate-growth differential	-2.1	-3.3	-2.1	-1.5	-1.4	-1.3	-1.2	-1.3	-1.4	-1.2	-1.1
Real interest rate	-0.9	-2.1	-0.9	-0.5	-0.2	0.0	0.2	0.4	0.3	0.3	0.2
Real growth rate	-1.2	-1.0	-1.2	-1.1	-1.1	-1.2	-1.2	-1.3	-1.3	-1.3	-1.3
Real exchange rate	0.4	...	...	...	...	...	...	...	...	...	....
Relative inflation	0.5	0.8	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6
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
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	-0.4	-0.3	-0.8	-0.9	-1.0	-1.1	-1.1	-1.0	-1.0	-0.8	-0.8
Gross financing needs	8.4	8.6	9.1	9.5	9.9	10.3	11.0	10.9	10.7	10.6	10.6
of which: debt service	4.8	4.8	5.9	6.3	6.8	7.3	8.1	8.4	8.5	8.6	8.7
Local currency	4.3	4.4	5.2	5.5	6.0	6.8	7.2	7.3	7.4	7.4	7.6
Foreign currency	0.5	0.4	0.7	0.8	0.8	0.5	0.9	1.1	1.1	1.2	1.2
Memo:											
Real GDP growth (percent)	3.6	3.0	3.2	2.9	3.0	3.0	3.0	3.0	3.0	3.1	3.1
Inflation (GDP deflator; percent)	10.1	14.0	10.6	10.3	10.2	10.2	9.6	9.8	9.8	10.1	10.2
Nominal GDP growth (percent)	14.1	17.3	14.2	13.5	13.5	13.5	12.9	13.1	13.1	13.4	13.6
Effective interest rate (percent)	7.2	7.4	7.8	8.9	9.6	10.3	10.7	10.8	10.6	10.8	10.8

Contribution to Change in Public Debt

(percent of GDP)



Staff commentary: Public debt-to-GDP ratio is expected to steadily increase in the medium term, reflecting the expected decline in the existing favorable growth-interest dynamics, despite the gradual declines in primary deficits.

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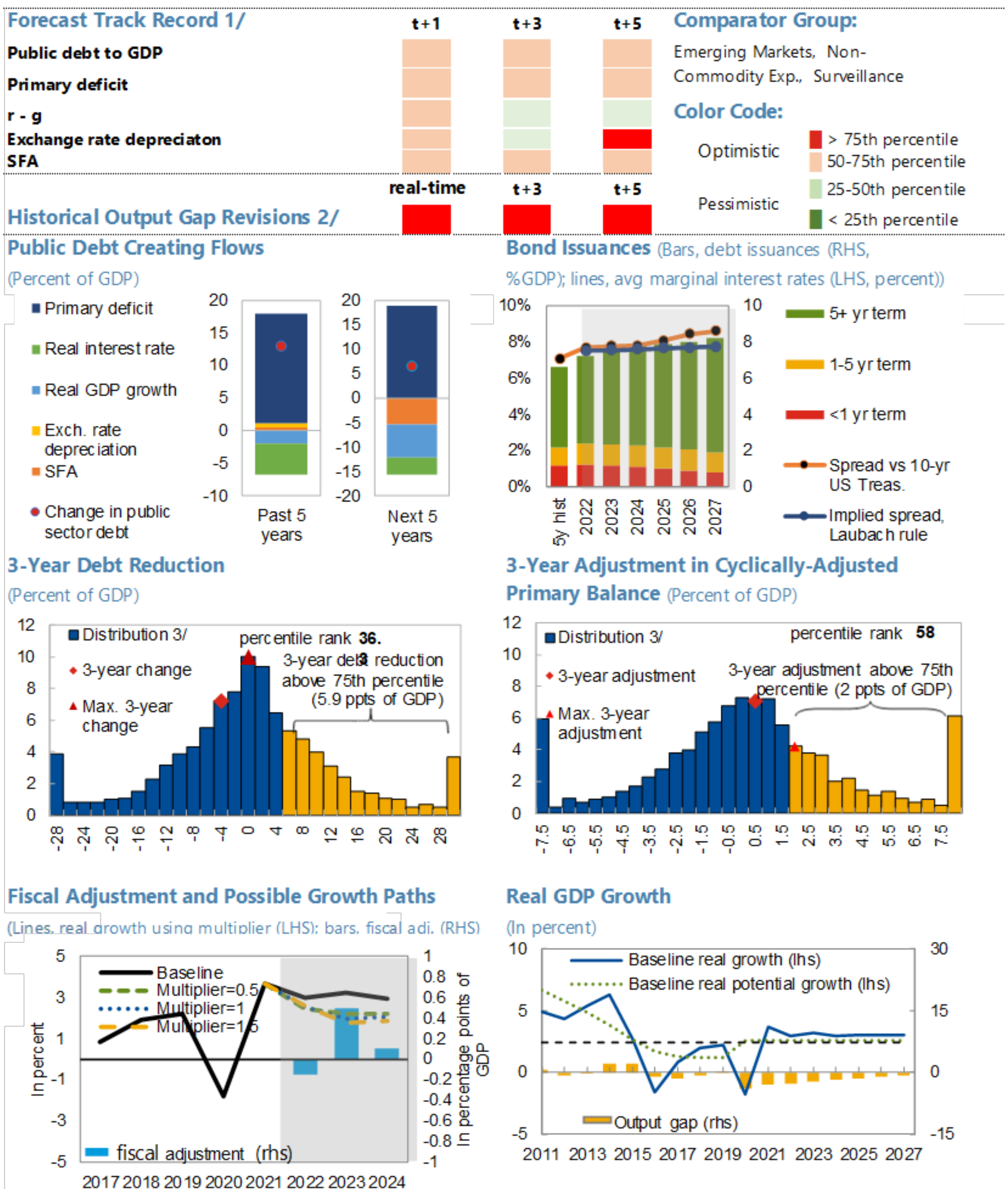
Figure 5. Nigeria: Realism of Baseline Assumptions



Commentary: The realism analyses do not point to major concerns. Although historical output gap forecast has been optimistic, past forecast errors do not reveal any systematic biases. Also, the 3-year debt reduction and the projected fiscal adjustment are well within norms.

Source : IMF Staff.

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

2/ Data cover annual obervations from 1990 to 2019 for MAC advanced and emerging economies.

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Figure 6. Nigeria: Medium-Term Risk Analysis

Debt Fanchart and GFN Financeability Indexes

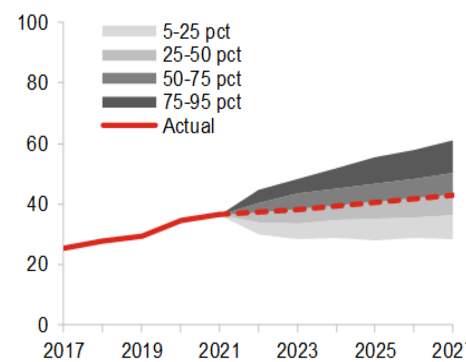
(percent of GDP unless otherwise indicated)

Module	Indicator	Value	Risk index	Risk signal
Debt fanchart module	Fanchart width	32.7	0.5	...
	Probability of debt not stabilizing (pct)	100.0	0.8	...
	Terminal debt level x institutions index	37.0	0.7	...
	Debt fanchart index	**...**	**2.0**	**Moderate**
GFN finance-ability module	Average GFN in baseline	9.7	3.3	...
	Bank claims on government (pct bank assets)	10.5	3.4	...
	Chg. in claims on govt. in stress (pct bank assets)	26.9	9.0	...
	GFN financeability index	**...**	**15.7**	**Moderate**

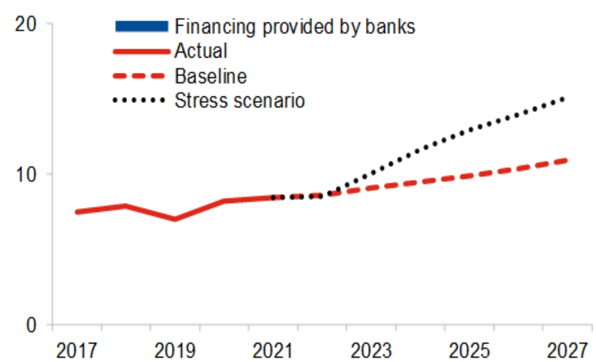
Adv. Econ., Non-Com. Exp, Program: 0, 25, 50, 75, 100

Legend: Interquartile range; Nigeria

Final Fanchart (pct of GDP)

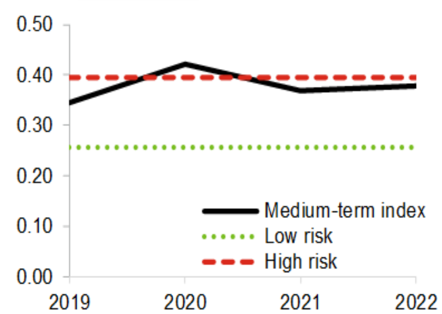


Gross Financing Needs (pct of GDP)



Medium-term Index

(index number)



Medium-term Risk Analysis

	Low risk threshold	High risk threhsold	Weight in MTI	Normalized level
Debt fanchart index	1.1	2.1	0.5	0.5
GFN finaceability index	7.6	17.9	0.5	0.3
Medium-term index	0.3	0.4	...	0.4, Moderate

Prob. of missed crisis, 2022-2027 (if stress not predicted): 27.3 pct.

Prob. of false alarm, 2022-2027 (if stress predicted): 15.9 pct.

Commentary: Both tools for medium-term risk analysis (i.e., the debt fanchart module and the GFN financeability module) are pointing to "moderate" level of risks of sovereign stress. With this moderate medium-term liquidity risk as analyzed in GFN module, the level of debt (37 percent of GDP) still compares favorably with the average EMDE debt (around 50 percent of GDP). However Nigeria should be still cautious of potential liquidity risks that could arise from weak revenue mobilization.

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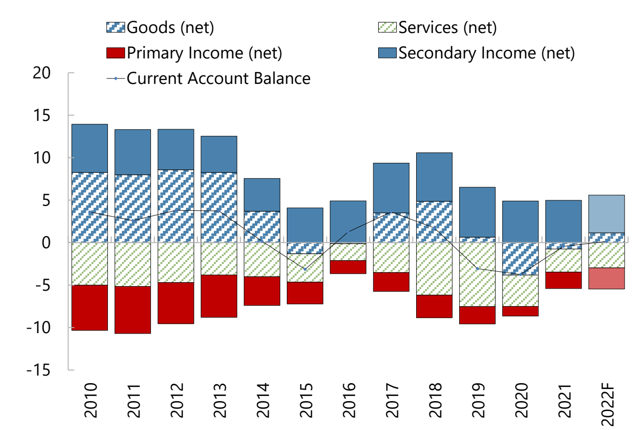
Annex III. External Sector Assessment

The external position of Nigeria in 2022 is preliminary assessed as moderately weaker than implied by fundamentals and desirable policies. This assessment takes a holistic approach considering the results of EBA-lite regression models and the country's specific circumstances that lead to very high risks and vulnerabilities, including limited buffers, elevated borrowing costs in international capital markets and continued capital outflow pressures. Nigeria is an oil producer where fiscal oil revenue is limited despite higher international oil prices and it is subject to significantly higher profit repatriation by foreign companies as well as large net private outflows by domestic banks and nonbanks—all of which are increasing exchange rate market pressures as reflected in persistent FX shortages. The assessment is subject to a degree of uncertainty because of the presence of continued import and FX restrictions, the multiplicity of exchange rates at which transactions occur, and large errors and omissions. While the current account balance is improving, the IMF's reserve adequacy metric including the oil buffer suggests that buffers are below adequate level at 58 percent in 2022, with the gap projected to widen over time. The external sector in Nigeria remains a source of macroeconomic vulnerability. Greater exchange rate flexibility together with deep structural reforms are required to bring the external position back into balance over the medium term.

A. Current Account

Current Account Balance
(In percent of GDP)



Sources: Haver Analytics and Central Bank of Nigeria.

1. The increase in oil prices is having a positive impact on the trade balance, improving the current account balance. After hitting a historic high at 3.8 percent of GDP in 2020, the goods trade deficit improved to 0.7 percent of GDP in 2021, owing to a 60 percent spike in oil prices that raised exports in value terms by 30 percent at a time when imports decreased for the second year. For 2022, the goods trade balance in expected to record a surplus of 1.1 percent of GDP. The deficit on the services trade balance also narrowed to 2.7 percent of GDP in 2021 owing to lower services payments and is projected to increase to 3 percent of GDP in 2022. Slightly countering these positive trends, dividends repatriation rose significantly, leaving the net primary income balance significantly worse in 2021 relative to 2020. Net secondary income remained flat at 5 percent of GDP in 2021 with remittances staying below pre-pandemic levels. The overall current account deficit narrowed from 3.7 percent of GDP in 2020 to 0.4 percent in 2021. For 2022H1, preliminary data suggests that the goods trade balance was in $9.2 billion surplus due to significantly higher oil exports, contributing to an improvement in the current account balance. For 2022, the current account balance is projected to register a surplus of 0.1 percent of GDP.

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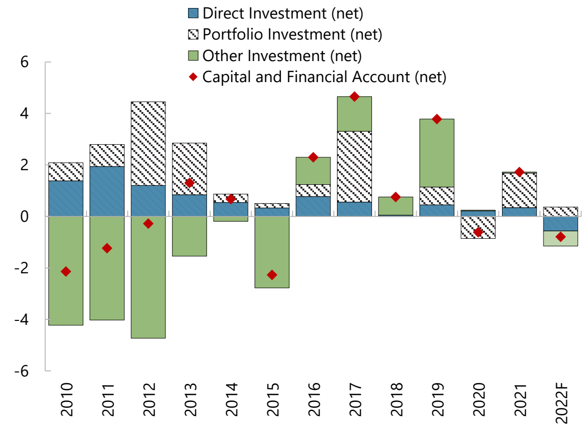
B. Financial Flows

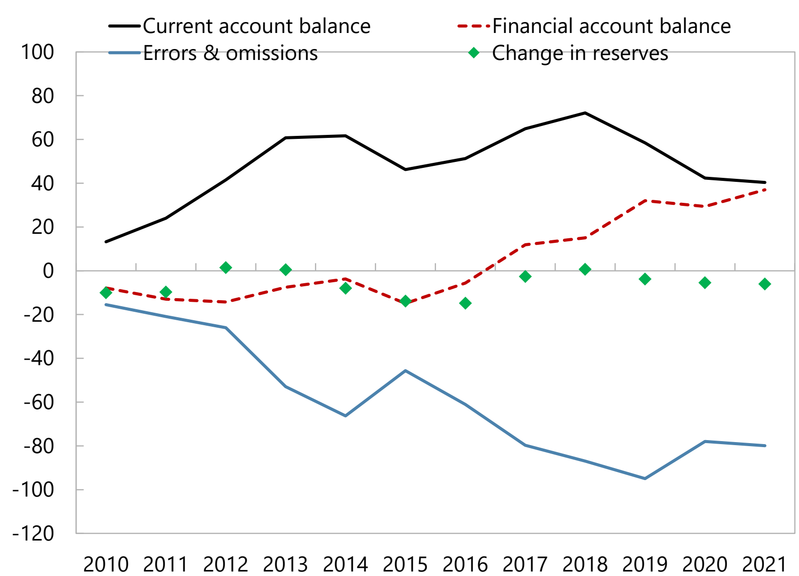
2. The financial account continues to see limited inflows. After registering net financial outflows in 2020, the financial account recorded net inflows in 2021 benefiting from the $4 billion Eurobond issuance, and additional borrowing by the general government and the central bank. However, foreign direct investment remained subdued at 0.3 percent of GDP compared with an average of 0.7 percent of GDP over the past decade. Similarly, net other investments were insignificant at less than $0.2 billion for the second year in a row compared with an average of $6 billion during 2016-19. In particular, private sector outflows rose markedly in the form of net acquisition of financial assets by banks and non-financial firms ($3.6 billion and $6 billion, respectively) in 2021. In the absence of major policy adjustments, including greater clarity on exchange rate policies, FDI and portfolio inflows are expected to moderate significantly in 2022 while other investments are projected to record outflows, resulting in net financial outflows of almost $4 bn.

Financial Account Balance
(In percent of GDP)



Sources: Haver Analytics and Central Bank of Nigeria.

Current Account and Errors and Omissions
(Billion U.S. dollars; *cumulative* since 2010)



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

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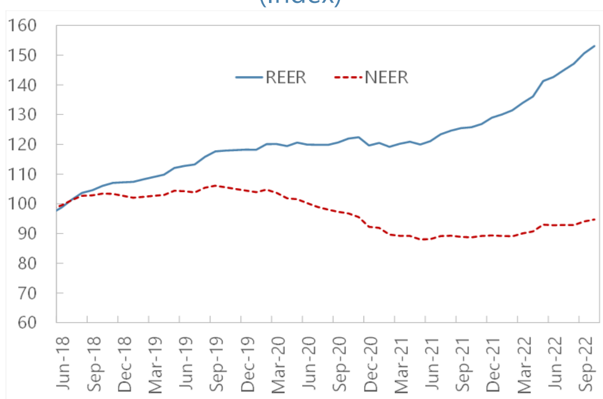
C. Real Effective Exchange Rate

3. Nigeria's real effective exchange rate (REER) has appreciated markedly in 2022. As of end-October 2022, the nominal effective exchange rate (NEER), based on the Investor and Exporters window rate (I&E rate), appreciated by 6 percent relative to end-2021. However, a much higher inflation rate in Nigeria than for trading partners contributed to significant real appreciation of almost 19 percent over the same period.

4. Nigeria's complex exchange rate policy and multiple exchange rates remain a major source of vulnerability. A unified and market-clearing exchange rate, consistent macroeconomic policies and structural reforms would foster competitiveness and bring the external position closer to fundamentals over the medium term. It would also help attract larger capital inflows, including foreign direct investments, which have significantly dropped in recent years. Notwithstanding recent oil price increases that are improving the BoP position, the complex exchange rate regime, multiple exchange rates, and widening parallel market premium leave Nigeria vulnerable to external shocks.

Real Effective Exchange Rate
(Index)



Exchange Rate Windows*
(as of October 22, 2022)

Window	Eligible transactions/participants	Rate (N/$) (Naira per USD)
Investors and Exporters (IEFX)	Exporters, investors, other willing buyers, and sellers, (Foreign and domestic)	N440 (Sale rate)
Secondary Market Intervention Sales (SMIS) Wholesale	Banks to supply FX for critical economic activities in the production and supply value chain	Suspended
Secondary Market Intervention Sales (SMIS) Retail	Transactions in the production and supply value chain	N440 – N555/US$
Small and Medium Size Enterprise	Small and micro enterprises for purchase of equipment and machinery	N442/US$
Invisibles	Eligible for school fees, medical needs, personal and business travel allowances (PTA/BTA)	N442/US$

* Since July 30, 2021, the CBN suspended sales to BDCs

D. Assessment

5. The preliminary results of the external balance assessment (EBA)-Lite regression models point to diverging assessments between the current account (CA) and REER models. The results of the REER assessment using two different regression models under the revised EBA-Lite methodology—the current account (CA) model and the REER model—are shown in Table 1. The CA approach establishes a norm of -1.2 percent of GDP in 2022 and a CA gap of 0.4 percent of GDP, implying that the external position is broadly in line with fundamentals and desired policy settings, with a policy gap of 1.8 percent of GDP driven by underspending on public health expenditures relative to the rest of the world. The price-based equilibrium REER model indicates that the real exchange rate in Nigeria is overvalued by 22.7 percent, suggesting that the external position is substantially weaker than fundamentals and desirable policies.

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6. However, the external sector assessment is subject to uncertainty. The multiplicity of exchange rates at which transactions occur and long-standing FX and import restrictions including on basic commodities suggest imprecision in reported values of the CA and/or the NFA position. In addition, significantly higher profit repatriation by foreign companies and subdued net inflows by foreign investors that are surpassed by large net private outflows by domestic banks and nonbanks in the form of offshore deposits have contributed to a steady decline in gross international reserves since September 2021. Large swings in errors and omissions also add to uncertainty and possibility point to data gaps.[1]

7. Taking a holistic view which considers Nigeria's circumstances, staff assesses that the external position for 2022 is moderately weaker than the level implied by fundamentals and desirable policies, and the REER was overvalued. The factors that lead to uncertainties surrounding the external sector assessment have translated into persistent imbalances between FX demand and supply. Since the current account has improved in 2022 relative to 2021, staff takes a holistic view assessing the external sector to be weaker than fundamentals and desired policy settings, compared with the 2021 AIV Consultation assessment of weaker.

Table 1. Nigeria: Model Estimates for 2022
(in percent of GDP)

	CA model 1/	**REER model** 1/
CA-Actual	**0.1**	
Cyclical contributions (from model) (-)	0.8	
COVID-19 adjustors (-) 2/	0.0	
Natural disasters and conflicts (-)	0.1	
Adjusted CA	**-0.8**	
CA Norm (from model) 3/	**-1.2**	
CA Gap	**0.4**	**-4.5**
o/w Relative policy gap	1.8	
Elasticity	-0.2	
REER Gap (in percent)	**-1.9**	**22.7**

1/ Based on the EBA-lite 3.0 methodology
2/ Additional cyclical adjustment to account for the temporary impact of the pandemic on tourism is zero because observed shifts in net service receipts are expected to persist going forward (net services receipts are structurally negative in Nigeria).
3/ Cyclically adjusted, including multilateral consistency adjustments.

[1] Net error and omissions (NEO) in Nigeria have recently been mostly negative (except for 2021Q4) and have increased in the last few quarters. Negative NEO could arise from understatement of debits in the CA (e.g., imports of services and informal merchandise imports) due to paucity of data on cross-border transactions, understatement of assets in the financial account (e.g., lack of reliable information/reporting on financial transactions such as acquisition/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), and significant reliance on banking records for capturing BOP transactions (where information is on cash basis) due to low responds from enterprise surveys.

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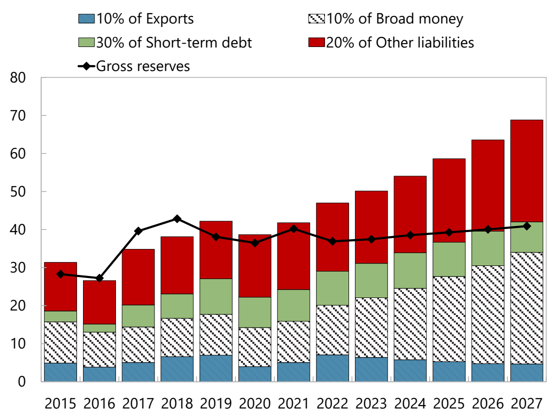
E. Reserve Adequacy

8. Gross international reserves remain below the ARA metric. At end-2021, gross reserves reached $40.2 billion, equivalent to 76 percent of the Assessment of Reserve Adequacy (ARA) metric including the oil buffer (See the 2016 ARA Board paper), helped by the SDR allocation and Eurobond issuances. Since then, gross reserves have steadily declined to $36.8 billion at end-November 2022, despite significantly higher oil export revenues. They are estimated to remain around this level at end-2022, corresponding to 58 percent of the ARA metric. Reserves are expected to increase gradually over the medium term on account of improved CA outlook. However, in the absence of major policy adjustments, including greater clarity on exchange rate policies, the accumulation of FX reserves is projected to remain limited over the medium term, keeping gross international reserves below 100 percent of the ARA metric.

Contributions to Reserve Adequacy Metric

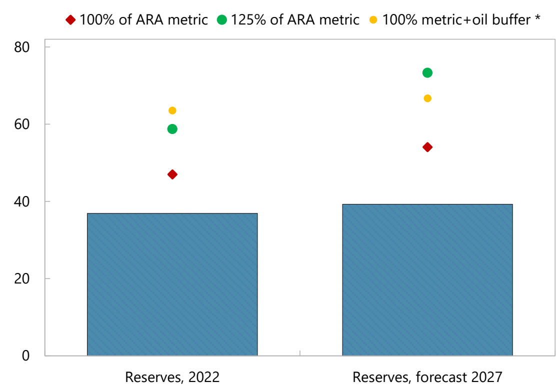
(Billion U.S. dollars)



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

Reserve Adequacy Measures

(Billion U.S. dollars)



* Note: Oil price gap multiplied by oil exports, following 2016 ARA paper.
Sources: Central Bank of Nigeria; and IMF staff estimates.

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Annex IV. Capacity Development Strategy FY 2023

A. Summary

CD Strategy

1. **IMF's surveillance in Nigeria calls for a comprehensive policy package.** In this context, IMF's capacity development (CD) work in Nigeria should align closely with the policy adjustment advocated by staff: revenue-based fiscal consolidation, establishing a credible monetary policy framework, and introducing a unified and market-clearing exchange rate. TA provision should also consider the authorities' track record and receptiveness to staff's advice.

2. **In all, the proposed CD strategy continues to focus on revenue mobilization, public financial management, banking supervision, and macroeconomic statistics—the same priorities as in the 2021 Article IV consultation.** While monetary and exchange rate policy is a key priority, the authorities have only indicated interest in training on modeling and not in technical assistance on monetary policy operations, where past IMF advice has received little traction. Their initial interest on Fund TA on CBDC has not yet led to a concrete request.

3. **The current mix of HQ/RTAC missions (about 1:2) is appropriate.** The ratio leverages 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**.** Current resident advisor program (revenue administration) should be maintained given its criticality for Nigeria.

Key Overall CD Priorities Going Forward

Priorities	Objectives
Tax policy and revenue administration	**Traction:** TA advice on tax policy were partially incorporated in the 2021 Finance Bill. 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. **Going forward:** Revenue mobilization through comprehensive oil and non-oil tax policy reforms, including the review/rationalization of tax expenditures and a comprehensive review of tax system. Improved non-oil revenue mobilization by strengthening the tax and customs administrations.

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Priorities	Objectives
Public financial management	**Traction:** A Treasury Single Account has been put in place, good progress on the Medium-term debt strategy and cash management, and on budget planning. Little intake so far of staff's TA advice on proper monitoring and classification of Government-Owned Enterprises. Traction is expected to increase on revenue administration reform TA once the recently deployed long term resident advisor establishes his operation. **Going forward**: TA to focus on more integrated cash, asset, liability (including public debt) management, PPP fiscal risks management, and fiscal reporting.
Financial Supervision and Regulation	**Traction**: Good intake of policy advice on bank supervision, including towards Pillar II implementation, risk-based supervision, as well as in regulation of emerging risks in Cyber/Fintech. **Going forward:** Capacity development in banking supervision and strengthening supervisory and regulatory tools, including for onsite and offsite functions.
Strengthen macroeconomic and financial statistics compilation	**Traction:** Progress on GDP, CPI, and BOP statistics was disrupted by pandemic-induced delays in Census and surveys. Little intake on GFS statistics from the budget office. **Going forward:** Continued Improved compilation of national accounts and support on price measurement should commence.

Main Risks and Mitigation

4. **Good progress has been made in implementing TA recommendations, albeit at a much slower pace for revenue mobilization and a few statistics areas.** Absorptive capacity and data quality will likely remain as main risk factors; thus, continuing to require mitigating arrangements—such as a resident advisor program—for closer hands-on support. Resource allocation for new TAs should also continue to be merit-tested, including by the implementation record. Long-term resident expert (LTX) on revenue mobilization in November 2021 has been deployed in July 2022—along with World Bank's upcoming Program for Results on revenue mobilization.

Authorities' Views

5. **The authorities agreed with the above-mentioned priorities and renewed their commitment and ownership.** The authorities also appreciated the ongoing rebalancing of resources toward hands-on support, including peripatetic expert visits and long-term resident advisor placements. In this context, the authorities particularly appreciate the deployment of the LTX on revenue mobilization, which has been the authorities' priority request. They expect the same positive response by the Fund on their request for an LTX on fiscal transparency/budget reporting. CBN's TA priority is on FPAS modelling and it has expressed renewed interest on a stress test TA. Priorities of NBS are GDP and CPI rebasing. NBS's new chairman ensured adequate follow-ups for CPI-rebasing TAs, which had been paused due to lack of technical-level traction. NFIU also expressed interest in getting CD support on AML/CFT issues.

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