Introduction

Honorable Speaker of the House, Honorable Members of Parliament, Honorable Members of the Government, Ladies and Gentlemen,

Good morning and Happy New Year!

I would like to thank you for the gracious introduction, and Members of Parliament and the people of Nigeria for their incredible hospitality.

I have been looking forward to starting my new year here in Nigeria—and I am grateful for the special privilege to speak before this parliament.

My first visit to Africa as IMF Managing Director was in late 2011, and the first country on my itinerary was Nigeria. At that time, Nigeria was emerging from the 2008-09 commodity price collapse and the banking crisis that followed.

Since that visit, Nigeria has been acknowledged as the largest economy in Africa—with a maturing political system. We saw a peaceful general election last year in which, for the first time in Nigeria's history, there was a democratic transition between two civilian governments. It was a strong sign of Nigeria's commitment to democracy, to a new Nigeria.

At the same time, the external environment has changed. Oil prices have fallen sharply; global financial conditions have tightened; growth in emerging and developing economies has slowed; and geopolitical tensions have increased.

All this has come at a time when Nigeria is facing an urgent need to address a massive infrastructure deficit and high levels of poverty and inequality.

So, Nigeria faces some tough choices going forward. Nigerians, however, are well known for their resilience and strong belief in their ability to improve their nation and lead others by example. I firmly believe that Nigeria will rise to the challenge and make the decisions that will propel the country to greater prosperity.

As the great Nigerian novelist Chinua Achebe once said: "*If you don't like someone's story, write your own*." This is exactly what you are doing right now.

And let me assure you that, as you go forward, as you develop*your* story, the IMF will support your efforts.

Today, I would like to offer my perspective—on *your* story and punctuate it with three R's: resolve, resilience, and restraint.

- I will first identify the global economic transitions that are affecting Nigeria and the region.
- I will then turn to the importance of managing the near-term vulnerabilities facing Nigeria's economy.
- And, finally, share my thoughts on what might help to achieve more inclusive and sustainable growth.

1. Global economic transitions and implications for Nigeria and the region

So let me start with the big picture. For more than a decade, growth in Sub-Saharan Africa was driven by an extraordinary combination of improved policies, stronger institutions, high commodity prices, and high capital inflows.

The region has now entered a different phase, where commodity prices and capital flows are far less supportive. We are in the process of updating our forecasts, but broadly the IMF staff estimates that regional economic growth dropped from 5 percent in 2014 to about 3.8 percent last year, with only a modest recovery expected in 2016.

There is a similar picture at the global level—modest growth last year, with only a slight acceleration expected in 2016. Emerging markets, which propelled global growth after the 2008 global financial crisis, have slowed; advanced economies are still recovering from the impact of that crisis; and financial markets remain volatile.

In fact, both at the regional and global level, growth is affected by three major economic transitions. They include China's move to a new growth model, the prospect of commodity prices remaining *lower for longer*, and the increasing divergence in monetary policy in major economies, especially since the recent rise in U.S. interest rates.

Understandably, policymakers in this region are concerned—because these transitions can create spillovers through trade, exchange rates, asset markets, and capital flows.

For example, spillovers are now affecting oil-exporting countries, which generate about half of this region's GDP. These economies, including Nigeria, are facing massive pressures and challenging prospects.

Over the medium term, oil prices are likely to remain much *lower*than the 2010-13 average of more than $100 a barrel. Why? Because of the huge oversupply in global oil markets. Think of the shale oil boom in the United States, and some historically large producers such as Iraq and Iran coming back to the market. Other factors include OPEC's strategic behavior and the drop in global demand for oil, especially in emerging economies.

Already, lower oil prices have sharply reduced Nigeria's export earnings and government revenues. Both are likely to remain at depressed levels, reducing the space for policy interventions to address Nigeria's social and infrastructure needs.

Private sector investment will also be affected. Investor confidence about the outlook has remained weak, and financing is likely to become more difficult and more costly for everyone. With U.S. interest rates expected to continue to rise, albeit slowly, the likelihood of capital outflows will increase, and exchange rate pressures could mount as investors re-assess their appetite for risk.

More broadly, Sub-Saharan Africa is also facing spillovers from geopolitical factors, including the fight against Boko Haram. The threat of terrorism is very real and never far from our minds. Having been in Paris during the November attacks, I know firsthand the sorrow that so many Nigerians carry in their hearts.

In this region, terrorism not only takes a human toll but it also makes public finances more fragile. How? By widening budget deficits. Revenues are lower, including from lower growth, and spending needs higher, including for security and for supporting those impacted by the violence. One immediate downside is higher financing needs that can crowd out other essential public spending.

This brings me to my second topic—how can policymakers manage these near-term vulnerabilities?

2. Managing near-term vulnerabilities

Let me start by underscoring the progress made in recent years. Nigerians have created a large and diversified economy that has grown by about 7 per cent a year over the last decade. This has been a remarkable achievement, a testament to Nigeria's immense potential.

The outlook, however, has weakened. Growth in 2015 is estimated at about 3.2 percent—its slowest pace since 1999—and only a modest recovery is expected in 2016.

For a country with a rapidly increasing population, this means almost no real economic growth in per capita terms.

On top of the slowdown, vulnerabilities have increased. The ability to manage shocks is restricted by low fiscal savings and reserves. And the weakening oil sector could stress balance sheets and put pressure on the banking system.

Reduced confidence and lower capital spending also impact the non-oil corporate sector. Unfortunately, this sector looks less resilient today than during the downturn of 2008-09. Companies that have increased their leverage and US-dollar debt in recent years may now come under pressure as they face rising interest rates and a stronger dollar.

Nigeria also has a large regional footprint, and its fortunes affect that of its neighbors, especially through trade. For example, it is estimated that a one percent reduction in Nigeria's growth causes a 0.3 percent reduction in Benin's growth.

So what can policymakers do?

I see an immediate priority—a fundamental change in the way government operates. What do I mean by that? The new reality of low oil prices and low oil revenues means that the fiscal challenge facing government is no longer about how to divide the proceeds of Nigeria's oil wealth, but what needs to be done so that Nigeria can deliver to its people the public services they deserve—be it in education, health or infrastructure.

This means that hard decisions will need to be taken on revenue, expenditure, debt, and investment going forward. My policy refrain is this:

Act with resolve—by stepping up revenue mobilization. The first step is to broaden the tax base and reduce leakages by improving compliance and enhancing collection efficiency. At the same time, public finances can be bolstered further to meet the huge expenditure needs. For example, the current VAT rate is among the lowest in the world and well below the rates in other ECOWAS members—so some increase should be considered.

Build resilience—by making careful decisions on borrowing. Nigeria's debt is relatively low at about 12 percent of GDP. But it weighs heavily on the public purse. Already, about 35 kobo of every naira collected by the federal government is used to service outstanding public debt.

Exercise restraint—by focusing on the quality and efficiency of every naira spent. This is critically important. As more people pay taxes there will, rightly, be increasing pressure to demonstrate that those tax payments are producing improvements in public service delivery.

Let me give you examples of what I mean:

On capital expenditure, the focus must be on high-impact and high value-added projects. This is why the government is focusing on power, integrated transport (roads, rail, air, and ports), and housing. These can help connect centers of activity across the country and drive growth prospects.

On recurrent expenditure, efforts should be made to streamline the cost of government and improve efficiency of public service delivery across the federal and sub-national governments. Transfers and tax expenditures should also be addressed. For example, continuing the move already begun by the government in the 2016 budget to eliminate resources allocated to fuel subsidies would allow more targeted spending, including on innovative social programs for the most needy.

Indeed, fuel subsidies are hard to defend. Not only do they harm the planet, but they rarely help the poor. IMF research shows that more than 40 per cent of fuel price subsidies in developing countries accrue to the richest 20 per cent of households, while only 7 per cent of the benefits go to the poorest 20 per cent.

Moreover, the experience here in Nigeria of administering fuel subsidies suggests that it is time for a change—think of the regular accusations of corruption, and think of the many Nigerians who spend hours in queues trying to get gas so that they can go about their everyday business.

At the same time, we should not forget the huge challenges facing Nigeria's state and local governments. These sub-national governments—which account for the bulk of social spending—have only limited tools to manage the impact of declining oil revenues. My message here is to manage better the smaller purse, while building capacity to increase internally generated revenue.

The IMF can help in that regard by providing technical assistance on public financial management. We did so for the Kaduna State Government. We can explore how to support states' efforts to undertake budget reform.

I see another immediate policy priority—strengthen Nigeria's external position. The essential fact is that, given the structure of the economy, the massive fall in oil prices—which is expected to continue—has changed the medium term foundations for economic resilience. To be clear, the goal of achieving external competitiveness requires a package of policies including business-friendly monetary, flexible exchange rate and disciplined fiscal policies, as well as implementing structural reforms. Additional exchange rate flexibility—both up or down—can help soften the impact of external shocks, make output and employment less volatile, and help build external reserves. It can also help avoid the need for costly foreign exchange restrictions - which should, in any case, remain temporary. And going forward, improved competitiveness from improved exchange rate flexibility and other reforms will facilitate the needed diversification of the exports base and, ultimately, growth.

This brings me to my final topic—how can policymakers achieve more inclusive and sustainable growth?

3. Achieving inclusive and sustainable growth

The good news is that Nigeria is already, in many ways, a 21st-century economy.

- Think of the boom in mobile communications in a country where more than 140 million cell phones are in use, nearly one for each Nigerian.
- Think of the vibrant, home-grown film industry that has become the world's second-largest by output. Nollywood employs about one million people who create films that are winning audiences across the continent and beyond.

• Think of the growing number of innovative startups—from fashion to software development—that are promoting Brand Nigeria. Indeed, the growth in services to about half of Nigeria's output is a testament to the transformation that has begun, and which needs to continue.

But we all know that huge structural challenges remain, despite the many initiatives that are ongoing. Let me highlight the conditional cash transfer scheme in Kano, where poor households receive financial assistance linked to girls' enrolment in schools. Overall, however, poverty and inequality still remain high, especially in some parts of the country.

Women account for about 42 percent of the total labor force—which is comparatively low—and their literacy rates are well below that of men. Maternal mortality is relatively high because of limited access to health care. Many women and children are dying every day simply because they cannot get to medical facilities fast enough.

With that in mind, what are the key policy priorities? Invest in quality infrastructure, make the banks work, and improve governance. Let me take each in turn:

The first—act with resolve to significantly improve transportation networks and power delivery [i.e., generation, transmission, and distribution]. For example, Nigeria could be exporting tomato paste—a staple of Nigerian cuisine—on a large scale, but it imports about half of what it needs. This is why Nigeria needs to build more roads and better rail networks, so that more farmers can bring their crops to market.

Likewise, more investment is needed in energy infrastructure in a country where too many businesses and households regard their backup generators as their main power source.

The second priority—build resilience by fostering a sound banking system. This will help channel more savings into productive investments, especially in quality infrastructure.

To be sure, Nigeria's banks are generally well-capitalized and more resilient than during the downturn of 2008-09. But they are beginning to feel the impact of the growing vulnerabilities in the corporate sector. This means rising non-performing loans, which will need to be carefully monitored and managed.

The third priority—act with resolve in fighting against corruption. In his first public speech after the election, President Buhari singled out *corruption as a "form of evil that is even worse than terrorism."*

Corruption not only corrodes public trust, but it also destroys confidence and diminishes the potential for strong economic growth.

At the global level, it is estimated that the cost of corruption is equivalent to more than 5 percent of world GDP[1], with over US$ 1 trillion paid in bribes each year[2].

Here in Nigeria, important initiatives to discourage graft are underway and should be applauded. Let me highlight the publication of monthly data on the finances and operations of the Nigerian National Petroleum Corporation. This provides information on a key sector, building confidence in transparency, and improving accountability of oil revenues, for the benefit of*all* Nigerians.

Much more can—and needs to be—done. Fighting corruption is a multi-year, multi-generational struggle that must be won.

Conclusion

So let me conclude: today your nation has embarked on a new journey. Nigeria is looking ahead, while drawing strength from its assets—the richness and diversity of its culture, the ingenuity of its people, and the belief in a better future.

Today policymakers have the opportunity to address near-term vulnerabilities and medium-term challenges—with *resolve*,*resilience*, and *restraint*. Today the "Giant of Africa" is walking with a spring in her step—inspiring others in the region and across the world.

As the great Nigerian poet Ben Okri once said: "Our future is greater than our past". Thank you.