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IMF endorses Nigeria policies in nod to Paris Club

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By Laura MacInnis

WASHINGTON (Reuters) - The International Monetary Fund on Monday endorsed Nigeria's economic management, using a new policy tool to clear the way for Nigerian debt relief from the Paris Club of creditor nations.

The IMF's new Policy Support Instrument (PSI), unveiled last week, is designed to give the global lender's stamp of approval to poor countries without requiring them to borrow from the fund.

Markets, donors and creditors -- including the Paris Club group -- look to the IMF to signal whether a country is following sound economic policies and deserves their support.

For Nigeria, the first recipient of the new facility, the endorsement opens the door to finalized Paris Club negotiations over a tentative debt relief deal reached in June.

The 19-member body has agreed in principle to write off nearly $18 billion, or roughly 60 percent of the debt owed by Africa's most populous nation to the Paris Club.

Under the proposal, Nigeria will pay back $6 billion in arrears using windfall savings from record oil prices, obtain debt reduction of at least 67 percent on eligible debt and buy back the remaining debt at a discount.

Anne Krueger, the IMF's first deputy managing director, said the two-year PSI approved on Monday could expedite Paris Club negotiations on the debt deal.

"Implementation of the agreement in principle that Nigeria has reached with Paris Club creditor countries should improve investor confidence and free up resources for poverty reduction," she said.

"Negotiations on a comprehensive debt treatment are expected to take place in the near future."

Nigeria is the world's eighth-biggest oil exporter, but with a population of 140 million its income per capita is among the lowest in the world. It has argued debt repayments would be better spent on education, health and infrastructure.

Under the new facility, the IMF will assess Nigeria's economic performance twice a year and issue reviews for donors and creditors. The fund said Nigeria's intended economic program includes tighter macroeconomic policy and efforts to achieve single-digit inflation from 2006.

Todd Moss, a research fellow at the Center for Global Development, said the IMF's new facility should allow Nigeria to satisfy the Paris Club requirements without new lending.

"The whole point of the PSI is so they can go to the Paris Club to negotiate the debt," he said, adding that negotiators "are looking for the IMF to give them the thumbs up."

The Center for Global Development, an independent think tank based in Washington, has recommended that Nigeria be eligible for Paris Club debt forgiveness, and lobbied for the type of debt buy-back proposal agreed to in June.

Moss said the tentative deal seemed fair for all parties.

"This is a fair sort of compromise in the middle," he said. "Everybody has a little pain and everybody gets a gain, here."

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