

EBS/84/209

CONFIDENTIAL

October 4, 1984

To: Members of the Executive Board
From: The Secretary
Subject: Nigeria - Real Effective Exchange Rate - Information Notice

The attached information notice on the real effective exchange rate of the Nigerian naira is circulated for the information of the Executive Directors.

If Executive Directors have technical or factual questions relating to this paper, they should contact Mr. G. G. Johnson (ext. (5)8671).

Att: (1)

INTERNATIONAL MONETARY FUND

NIGERIA

Real Effective Exchange Rate--Information Notice

Prepared by the African Department and
the Exchange and Trade Relations Department

(In consultation with the Legal Department and the
Research Department)

Approved by J.B. Zulu and S. Kanesa-Thasan

October 3, 1984

The recent evolution of Nigeria's real effective exchange rate, as measured by the standard index developed in connection with the information notice system, is set out in the attached table and chart. Based on this index, as of July 1984 the Nigerian naira has appreciated in real effective terms by more than 10 percent since the last occasion on which the Executive Board had an opportunity to discuss Nigeria's exchange rate policy--the 1983 Article IV consultation in February 1984. The appreciation is estimated to have amounted to 15.9 percent.

Since 1978, the exchange rate for the Nigerian naira has been determined, in principle, on the basis of an import-weighted currency basket. In practice, however, from end-July 1983 through mid-June 1984, the naira was pegged to the U.S. dollar at a rate of ₦ 1 = US\$1.3359. In mid-June 1984 the authorities depreciated the naira by 2.5 percent relative to the U.S. dollar to ₦ 1 = US\$1.3028. ^{1/} The significant appreciation of the U.S. dollar relative to most other currencies, coupled with a high rate of inflation in Nigeria, amounting to 35 percent in the year ending March 1984, ^{2/} has led to a real effective appreciation of the naira by 75 percent since 1980.

^{1/} The exchange rates quoted by Nigeria for the pound sterling often result in broken cross rates. Since June 1984, for example, sterling has been quoted at a rate of ₦ 1 = £0.9375, despite the fluctuations of the dollar-sterling rate in international financial markets. The exchange rates used in calculating the real effective exchange rate are those consistent with the rates quoted for the U.S. dollar.

^{2/} The latest month for which the actual CPI is available. For purposes of the information notice system, data for April-July 1984 are extrapolated on the basis of the average rate of inflation recorded over the previous six months.

The staff's assessment of Nigeria's economic situation has been hampered by the unavailability of basic data. The latest price and monetary data are for March 1984, and no fiscal data are available since end-1983. However, the growing restrictiveness of the exchange and trade system provides additional evidence of the overvaluation of the naira.

Staff Appraisal

At the conclusion of the 1983 Article IV consultation on February 13, 1984, the Chairman's Summing Up observed that "As regards exchange rate policy, while a number of Directors stressed the need to take carefully into account all the consequences of a devaluation, and to adopt a gradual approach, a broader view was that a substantial initial adjustment in the exchange rate to be followed by a continuing flexible exchange rate policy, should be central to the needed rationalization of external sector policies and a viable adjustment process, in which diversification away from heavy reliance on oil would take place." In subsequent contacts with the Nigerian authorities over an adjustment program, the staff has continued to stress the need for a significant initial exchange rate adjustment, combined with subsequent flexibility. Without the appropriate exchange rate adjustments, the restrictive fiscal and monetary policies that the authorities intend to pursue will not have their desired effects.

Table . Nigeria: Real Effective Exchange Rate and Related Series

(Indexes: 1980 = 100)

	Real Effective Exchange Rate <u>1/</u> <u>2/</u>	Nominal Effective Exchange Rate <u>1/</u>	Relative Consumer Prices (Local Currencies)	Exchange Rate (U.S. dollars)	Consumer Price Index (Seasonally Adjusted)	Consumer Price Index (Not Seasonally Adjusted)
<u>Quarterly</u>						
1978						
I	91.0	93.2	97.7	87.4	75.8	74.8
II	95.1	92.7	102.6	86.7	81.1	82.0
III	88.8	87.4	101.6	85.4	81.9	82.9
IV	86.4	84.2	102.6	84.7	84.2	83.4
1979						
I	86.9	84.6	102.7	84.9	86.2	85.2
II	92.4	90.1	102.6	88.9	88.2	89.0
III	94.0	92.4	101.7	93.9	90.7	91.8
IV	96.7	94.6	102.2	95.0	94.0	93.0
1980						
I	99.5	98.5	101.0	98.7	96.4	95.4
II	96.3	98.3	98.0	97.9	96.7	97.4
III	100.2	99.5	100.7	101.1	102.0	103.2
IV	104.9	104.2	100.7	102.3	105.0	104.0
1981						
I	113.5	106.8	106.3	99.3	114.1	113.1
II	114.3	105.7	108.2	90.4	119.6	120.3
III	112.0	102.6	109.1	81.5	123.9	125.4
IV	111.7	103.3	108.2	85.0	126.1	124.9
1982						
I	113.0	105.6	107.0	83.4	127.4	126.4
II	112.4	106.4	105.7	81.1	128.6	129.1
III	115.8	110.4	104.8	80.2	130.2	131.9
IV	119.8	113.4	105.6	79.9	133.6	132.5
1983						
I	121.9	112.9	108.0	79.4	138.8	137.8
II	126.5	112.6	112.3	76.6	147.0	147.5
III	135.5	113.0	119.9	73.1	160.5	162.6
IV	149.5	115.4	129.5	73.0	177.6	176.1
1984						
I	156.3	117.4	133.1	73.0	186.2	184.6
II	165.2	118.9	139.0	72.8	197.8	...
<u>Monthly</u>						
1984						
February <u>3/</u>	151.6	117.6	128.9	73.0	180.4	178.9
March	154.3	115.0	134.3	73.0	189.1	187.5
April	159.3	116.7	136.6	73.0	193.4 <u>4/</u>	...
May	167.0	120.2	139.0	73.0	197.8 <u>4/</u>	...
June	169.4	119.7	141.4	72.5	202.3 <u>4/</u>	...
July	175.7	122.0	144.0	71.2	206.9 <u>4/</u>	...
Percentage change February 1984- June 1984	15.9	34.0	11.7	-2.5	14.6	...

Source: Information Notice System.

1/ Increases mean appreciation.

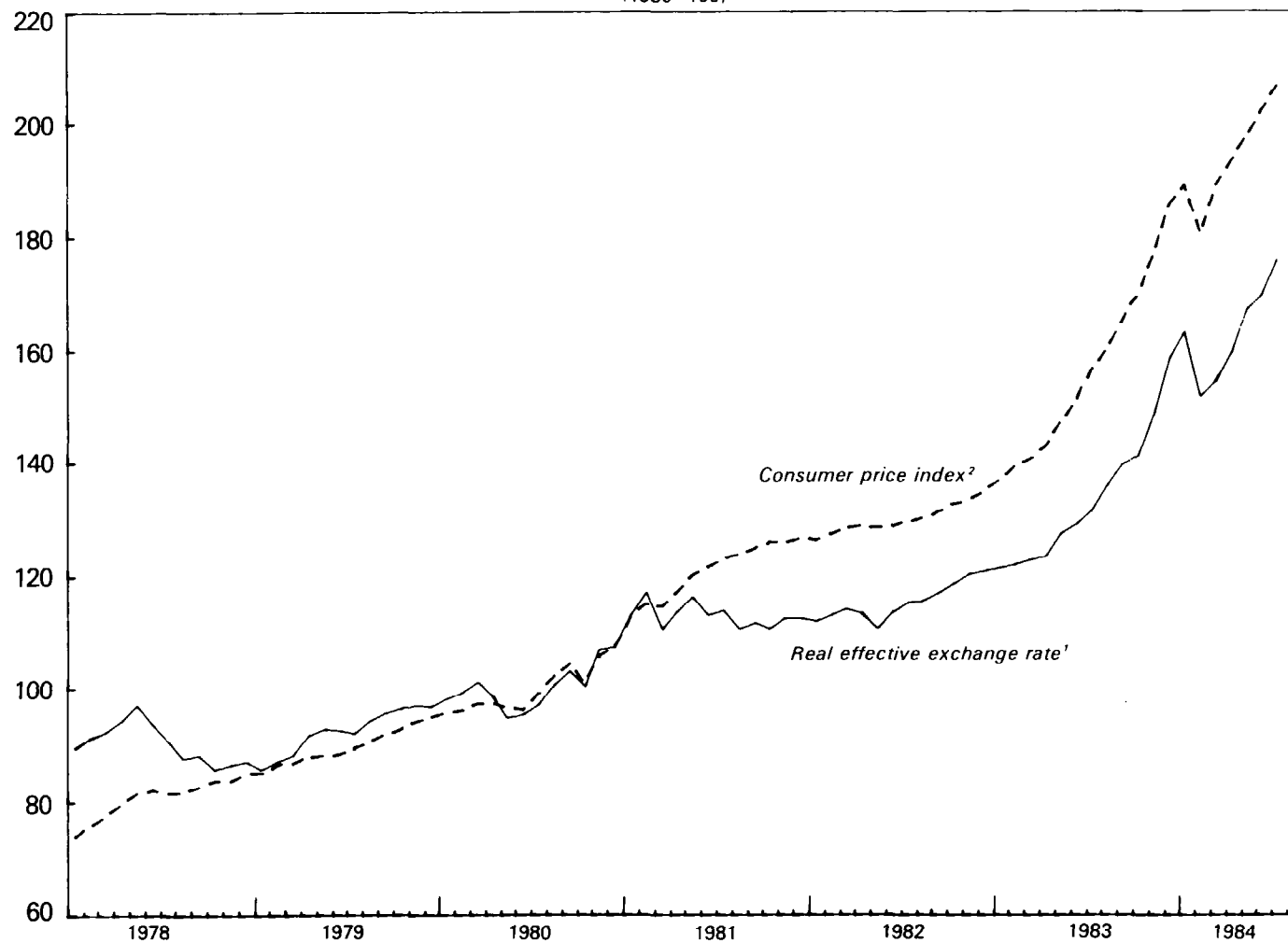
2/ Using seasonally adjusted price indexes.

3/ Date of latest consideration by Executive Board.

4/ Estimates obtained through extrapolation of the rate of inflation over the six months ending March 1983.



NIGERIA
INFORMATION NOTICE SYSTEM INDEX OF REAL EFFECTIVE EXCHANGE RATE
(1980 = 100)



¹Trade weighted index of nominal exchange rates deflated by seasonally adjusted relative consumer prices; increase mean appreciation.

²Seasonally adjusted consumer price index.

