FOR AGENDA



SM/84/17
Supplement 1

CONTAINS CONFIDENTIAL
INFORMATION

February 7, 1984

To: Members of the Executive Board

From: The Secretary

Subject: Nigeria - Staff Report for the 1983 Article IV Consultation

The attached supplement to the staff report for the 1983 Article IV consultation with Nigeria has been prepared on the basis of additional information. This subject has been tentatively scheduled for discussion on Monday, February 13, 1984.

If Executive Directors have technical or factual questions relating to this subject prior to the Board discussion, they should contact Mr. Acquah (ext. (5)8661).

Att: (1)

Other Distribution:
Department Heads

CONTAINS CONFIDENTIAL
INFORMATION

INTERNATIONAL MONETARY FUND

NIGERIA

# Staff Report for the 1983 Article IV Consultation
# Supplementary Information

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

(In consultation with the Legal Department)

Approved by Oumar B. Makalou and S. Kanesa-Thasan

February 6, 1984

## Modifications to the Exchange System

In a letter dated January 25, the Nigerian authorities have communicated to the Fund circulars issued by the Central Bank of Nigeria which set out measures adopted by the monetary authorities of Nigeria modifying the exchange and trade system. The changes, effective since January 1, 1984, affect regulations governing foreign exchange allocations for a number of current international payments, and may be summarized as follows:

1. The foreign exchange allowance for tourist travel has been reduced from ₦ 500 to ₦ 100 per annum per person aged 16 and above. The special allowance for pilgrims (₦ 800 per year for each person aged 16 years and above) has not been modified, but will be reviewed at the appropriate time. The business travel allowance--which entitled each traveler to up to the equivalent of ₦ 2,500 per year (₦ 100 per day for a maximum of 25 days per year)--has been suspended until further notice.

2. Foreign exchange for medical treatment outside Nigeria is no longer made available, unless the need for such treatment is certified by the Chief Medical Officer of the state where the applicant is resident and subject to a letter from an overseas doctor/hospital indicating acceptance for such treatment and stating bills payable and the number of days of stay for medical treatment abroad. 1/ Similarly, foreign exchange will not be made available to new students who intend to follow undergraduate or professional courses abroad; foreign exchange is to be made available for postgraduate courses abroad, provided that (a) the

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1/ Apart from the basic travel allowance, residents going abroad for medical reasons were previously entitled to a special allocation of up to ₦ 2,000 when surgery was involved, and further allowances were granted at the discretion of the Central Bank upon presentation of supporting evidence.

recipient is being sponsored by the Government or by some official agency, and (b) the courses are not available at Nigerian universities. The new regulations do not affect students who, as of January 1, 1984, were attending universities or institutions of higher learning abroad and had previously been granted foreign exchange, provided that their applications for foreign exchange are accompanied by adequate documentation, including a letter from a Nigerian Embassy or High Commission. 1/

3. Remittances abroad in payment of technical service fees and management fees are not allowed under the new regulations, except in cases where high technology is required; in these instances the previously existing limit of 2 percent of net profit before tax will continue to apply. Also, the remittance abroad of the proceeds from sales of assets by expatriates is to be permitted only if such amounts do not exceed the remittable limit for expatriates, which has remained unchanged at 50 percent of their net income. 2/ The maximum buying commission permitted to be paid to agents or confirming houses (which act as intermediaries between importers and exporters) was also reduced, from 4 percent to 2 percent of the f.o.b. value of the consignment.

4. As regards imports and import payments, all imports have since the beginning of the year become subject to advance import deposits, which must be lodged at the moment of application for foreign exchange (application for registration of an M form). Previously, advance deposits were not required for imports for which credit facilities beyond six months had been obtained; when required, such deposits had to be lodged with a bank prior to the opening of a letter of credit, or not later than ten days prior to the arrival of the goods if other means of payment had been arranged. As an import order cannot be confirmed until after an M form has been registered, the new regulation implies that, under normal circumstances, the advance deposits have to be made at an earlier stage than before; the applicable rates in relation to the value of imports remain unchanged and vary from 10 percent for raw materials (except petroleum products) to 250 percent for motor vehicles and certain other luxury goods, with a modal value of 50 percent for most other categories of imports. Also, prepayment of imports by the private sector or parastatal enterprises, which was previously permitted with the approval of the Central Bank of Nigeria, is no longer allowed. Finally, all private sector and parastatal imports (with specified exceptions) valued at ₦ 1,000 or more have become subject to preshipment inspection by the Société Générale de Surveillance. Previously, imports valued at less than ₦ 5,000 were exempted from such inspection.

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1/ Under the previous system, foreign exchange was granted for all bona fide expenses for education abroad beyond the primary school level.

2/ Proceeds from the sale of assets were previously excluded from the limit of allowed remittances by expatriates.

5. The Central Bank of Nigeria has delegated to the authorized dealers the pre-import processing, registration, and initial approval of applications by the private sector and parastatal enterprises for M and A forms, which are required for the release of foreign exchange for merchandise imports and invisibles, respectively; M and A forms relating to merchandise imports and invisible payments of the federal and state governments will continue to be registered by the Central Bank of Nigeria. Under the new regulations, each authorized dealer is to be given a foreign exchange ceiling for the year 1984 and no dealer should exceed, on average, one-twelfth of the annual allocation in each month in registering forms M and A. In registering M and A forms the authorized dealers are required to observe the following allocation coefficients:

| | Percent of Total Allocations |
|---|---|
| (a) Industrial raw materials, machinery, C.K.D. components and spare parts | 58 |
| (b) Food items | 18 |
| (c) General merchandise (including machinery and spare parts for non-manufactures and building materials) | 12 |
| (d) Invisibles | 12 |

Since all documentation would still be reviewed by the Foreign Exchange Control Department of the Central Bank of Nigeria (a special division has been set up for this purpose), the final approval of applications for foreign exchange continues to depend upon confirmation by the Central Bank.

The measures described in paragraphs 1 to 5 represent in large part intensification of restrictions on payments for current international transactions, and as such they are subject to approval under Article VIII, Sections 2 and 3. Such an intensification was foreseen by the staff in SM/84/17. As pointed out there, the further intensification of exchange restrictions is inconsistent with Nigeria's need for adjustment. Therefore Board approval of the intensification of the restrictiveness of the exchange system is also not recommended at this time.