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December 26, 1996

To: Members of the Executive Board

From: The Secretary

Subject: **Nigeria - Staff Report for the 1996 Article IV Consultation**

Attached for consideration by the Executive Directors is the staff report for the 1996 Article IV consultation with Nigeria, which is tentatively scheduled for discussion on Friday, January 10, 1997.

Mr. Hino (ext. 38379) or Mr. Meyers (ext. 36256) is available to answer technical or factual questions relating to this paper prior to the Board discussion.

Unless the Documents Preparation Section (ext. 36760) is otherwise notified, the document will be transmitted, in accordance with the procedures approved by the Executive Board and with the appropriate deletions, to the WTO Secretariat on Tuesday, January 7, 1997; to the African Development Bank (AfDB) and the European Commission (EC), following its consideration by the Executive Board.

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INTERNATIONAL MONETARY FUND
NIGERIA

Staff Report for the 1996 Article IV Consultation

Prepared by the Staff Representatives for
the 1996 Consultation with Nigeria

Approved by Evangelos A. Calamitsis and Rattan J. Bhatia

December 23, 1996

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EXECUTIVE SUMMARY

- In response to a disappointing economic performance, Nigeria began to adopt corrective measures in 1995. Some progress is being made in restoring macroeconomic stability, but the domestic economy remains weak. Unsettled social and political conditions continue to undermine investor confidence.
- Over the medium term, economic growth could accelerate to about 4.5 percent per annum, if oil prices remain high and relatively prudent fiscal management continues. However, such growth will be insufficient to generate an appreciable reduction in poverty. Moreover, there are substantial risks that oil prices could fall in the near future.
- A more comprehensive and coherent set of adjustment policies is urgently needed to restore macroeconomic stability, engender higher economic growth, reduce oil dependency, and alleviate poverty.
- Budgetary performance has improved. However, it is difficult to gauge the extent of fiscal adjustment, as the federal government budget excludes significant revenue and expenditure transactions, and there are a large number of off-budget special funds and quasi-fiscal entities. The authorities intend, under the 1997 budget, to shift funding in favor of poverty alleviation, education, health, and agriculture, while aiming to achieve a budget surplus.
- Considerable inflationary pressures remain. The cap on interest rates was removed on October 1, 1996, which not only eliminated a market distortion, but would allow the central bank to conduct open market sales of treasury bills more effectively. The authorities consider that real positive interest rates are unlikely before the end of this year, but they expect inflation to fall further to less than 20 percent in 1997.
- There is a view within government that some nominal appreciation of the autonomous exchange rate might be appropriate. However, Nigeria's competitiveness has been eroded, the present level of international reserves is still low, and external arrears continue to accumulate. Accordingly, in the staff's view, foreign exchange sales by the central bank should be limited so that international reserves would rise to an appropriate level and debt service would be fully effected, at least on nonreschedulable debt. On this basis, the exchange rate should be determined freely by the market. The authorities have indicated that the exchange rates will be unified by January 1, 1997. They have also stated that the remaining exchange restrictions on current international transactions will be removed shortly.
- The structural constraints on growth in Nigeria are significant and include uncompetitive non-oil sectors; distress in the banking system; the generally poor quality of public investment; an extensive network of public enterprises operating under soft budget constraints; direct and indirect subsidies; and an inefficient public administration. While

significant steps have been taken in addressing banking sector distress, serious problems remain in this and other areas. The government has announced that it intends to progressively withdraw from commercial activities, but its policy position has been clouded by a number of conflicting signals.

- Governance problems have played an important role in Nigeria's weak economic performance. Such problems include a lack of transparency and oversight of public sector operations; a perception of widespread corruption; limitations on the rights of labor associations; and low confidence in the judicial resolution of contractual and other business-related disputes. Although some progress has been made in improving the transparency of fiscal transactions, much more remains to be accomplished to achieve good governance.
- The authorities have reiterated their strong desire to initiate discussions on a staff-monitored program. They have taken important first steps, and indicated their commitment to adopt further corrective measures. The implementation of these measures would provide a basis for formulating a credible adjustment program. The staff could then begin discussions on a staff-monitored program.

I. INTRODUCTION

1. The 1996 Article IV consultation discussions with Nigeria were held in Lagos and Abuja during September 6-19, 1996.¹ The Nigerian representatives included the Minister of Finance, Chief Anthony Ani; the Governor of the Central Bank of Nigeria (CBN), Mr. Paul Ogwuma; and other senior officials. The staff team also met with representatives of the business community, labor unions, and nongovernmental organizations, as well as the donor community.
2. The last Article IV consultation was concluded on November 1, 1995. At that time, Executive Directors noted with much concern that Nigeria's economic performance had deteriorated further. While welcoming the tightening of fiscal policy and the establishment of the autonomous market for foreign exchange at the beginning of 1995, they emphasized that the piecemeal approach to economic stabilization was inadequate and disappointing. They noted that monetary policy was ineffective and should be reformed, stressed the importance of strengthening fiscal discipline, and expressed disappointment at the authorities' decision to maintain the official exchange rate at a substantially overvalued level. They supported the idea of a staff-monitored program provided that there was first a significant improvement in the track record of policy implementation.
3. Nigeria continues to avail itself of the transitional arrangements of Article XIV, although it no longer maintains any restrictions under Article XIV. However, Nigeria maintains a multiple currency practice as well as exchange restrictions on current international transactions that are subject to Fund approval under Article VIII. It has no outstanding use of Fund credit.
4. Nigeria's economic data suffer from a number of weaknesses in quality, coverage, and timeliness. In particular, delays of up to five months in the reporting of price data have been common over the past year; and reporting on fiscal operations at the federal level excludes expenditures of certain special funds, some oil-related outlays, and non-oil investments. National accounts data are finalized with a two-year lag.
5. Summaries of Nigeria's relations with the Fund and with the World Bank Group are presented in Appendices I and II, respectively;² data issues are discussed in Appendix III; selected social and demographic indicators are provided in Appendix IV; the medium-term

¹The staff representatives (all AFR) were Mr. Hino (head), Mr. Meyers, Mr. Ames, Mr. Hossain, and Mr. Kramarenko (EP).

²The World Bank has not approved any new loans for Nigeria over the past three years. Bank staff have, however, continued to provide technical assistance in drafting a medium-term economic strategy and in the preparation of Nigeria's privatization program.

balance of payments outlook is discussed in Appendix V; and the structure of government finances is summarized in Appendix VI.

II. BACKGROUND

6. Despite its large oil resources³ and public investment totaling some US\$200 billion over the last two decades, Nigeria is one of the least developed countries in the world in terms of human development indicators. Per capita income amounted to only US\$260 in 1995, significantly lower in real terms than in 1970, and more than a third of the population lives in poverty. The proportion of fully immunized children declined from 66 percent in 1991 to some 33 percent in 1994. Moreover, the country's basic infrastructure--roads, water, and sewage--is in a state of disrepair.

7. Nigeria's recent macroeconomic performance has been disappointing. During 1991-94 real GDP growth averaged less than 3 percent a year (Table 1, and Figure 1). Inflation rose to a high of 77 percent in 1994 (end-period). At the same time, gross international reserves fell to US\$0.9 billion (1.3 months of imports) at end-1994, while large external payments arrears accumulated.

8. In response to this disappointing performance, the government began to adopt corrective measures in 1995. The system of administered foreign exchange allocation was replaced with a dual exchange rate regime, consisting of an autonomous foreign exchange market (AFEM) rate (₦ 80 = US\$1) and the official exchange rate (₦ 22 = US\$1).⁴ The federal government budget deficit (on a commitment basis) was reduced from its peak of about 18 percent of GDP in 1993 to 3.7 percent in 1995, and, to the extent the staff can assess, was narrowed further to 0.2 percent of GDP in January-June 1996 (Table 2). While the interest rate ceiling (21 percent) was retained, the growth of money supply was substantially reduced. The CBN sterilized its profits accruing from sales, at the AFEM rate, of foreign exchange that had been bought at the official rate (Tables 3 and 4). On the structural policy front, import tariffs were lowered markedly, the exchange system was liberalized, and restrictions on foreign investment were relaxed. Moreover, significant progress was made in addressing the distress in the banking system.

³Nigeria currently has about 21 billion barrels of proven oil reserves, with daily production exceeding 2 million barrels. In terms of production, Nigeria ranks sixth in the OPEC.

⁴The official rate applies to purchases by the CBN of the government's foreign exchange receipts and CBN sales to the government for external debt service payments, capital outlays, the funding of missions abroad and travel, and other expenditures (as determined by the Minister of Finance), as well as capital outlays and purchases of petroleum products by the Nigeria National Petroleum Corporation (NNPC). All other transactions take place at the AFEM rate.

9. As a result, some progress was made toward restoring macroeconomic stability. Inflation decreased to 52 percent in 1995 (end-period), and further to 25 percent in the 12-month period ended October 1996 (Figure 2). The AFEM rate remained within the range of ₦ 80-85 per U.S. dollar, but entailed a 37 percent appreciation of the real effective exchange rate, as noted below. In addition, the external current account deficit was almost halved, to US\$0.6 billion (1.7 percent of GDP) in 1995 (Table 5); the current account is expected to strengthen further, to a surplus estimated at 5.0 percent of GDP in 1996, largely as a result of the recent increases in world oil prices.

10. Nevertheless, economic activity has remained weak. Industrial activity, reflecting continued depressed domestic demand and a lack of competitiveness in certain sectors, expanded by only 2.3 percent in 1995, with capacity utilization in the manufacturing sector remaining below 30 percent. Similarly, growth in the service sector has been limited, with activity in wholesale and retail trade and transportation stagnating in 1995 and the first half of 1996. Growth in agricultural output, which was only 2.8 percent in 1995, rebounded to 5.2 percent in 1996, given favorable climatic conditions. In aggregate, non-oil GDP grew by an estimated 2.4 percent in 1995, and is probably continuing at about the same pace in 1996.

11. The search for a social and political consensus continues to cast a shadow over day-to-day affairs in Nigeria, which tends to undermine investor confidence. The number of staff-days lost on work stoppages rose from 6 million in 1993 to 235 million in 1995, and most universities were closed during much of 1996. Moreover, while the government has proceeded with its program of transition to civilian rule (scheduled to be completed by October 1998), a number of political leaders remain in detention. Nigeria's relations with the international community are also strained. Nigeria was suspended from the Commonwealth of Nations in December 1995, and the European Union (EU) and the United States maintain limited sanctions against Nigeria.

III. MEDIUM-TERM ECONOMIC PROSPECTS

12. Nigeria's medium-term prospects depend not only on the course of economic policies, but also, to an important degree, on developments in the oil sector, which accounts for 98 percent of exports and 70 percent of government revenue. The Fund staff's latest projections indicate that crude oil prices would remain relatively high, at about US\$20 per barrel, over the next three to five years. The medium-term scenario also assumes the maintenance of relatively prudent fiscal management, but no major steps toward privatization and other structural reforms.

13. Under these oil price assumptions, and a projected steady increase in oil export volume, oil export earnings would rise to US\$15 billion by 2001, from US\$11 billion in 1995 (an increase equivalent to 12 percent of GDP) (Table 6). Following the pattern in earlier windfall gains, public investment could increase by 5 percentage points, to about 13 percent of GDP. Assuming that the present investment climate would continue, private investment is

projected to remain unchanged--at about 10 percent of GDP--over the medium term. Total gross domestic investment would thus increase from 18 percent of GDP in the last few years to some 23 percent over the next five years. However, as overall investment efficiency is likely to be lackluster, real GDP growth would rise only modestly to about 4.4 percent over the next five years. Given the present population growth of about 3 percent, an appreciable reduction in poverty and unemployment could not be expected from this growth performance.

14. The projected substantial increase in oil receipts would also not resolve Nigeria's external financing problems. With the large rise in export earnings, the current account balance would remain in surplus, even if a major increase in imports--averaging more than 10 percent annually in volume terms over the next five years--were to occur. However, the capital account would continue to be in a deficit as neither direct investment nor loan disbursements could be expected to increase significantly in the absence of a major privatization drive or an improvement in the investor climate. This deficit would more than offset the current account surplus. Thus, if official reserves were to be raised (to the equivalent of 5 months of imports by 2001), a significant financing gap would remain over the medium term (Table 7).

15. Moreover, there are substantial downside risks that oil prices might fall in the period ahead. If oil prices were to return to the 1995 level of about US\$17 per barrel, oil export earnings would decline sharply in 1997, and would not recover to the 1996 level over the next five years. With the lower domestic demand and investment, real GDP growth rates could stagnate near the present level of 2-3 percent. Although the external current account could remain approximately in balance, in the absence of improved relations with official bilateral, multilateral, and private creditors, capital inflows would not match scheduled amortization payments. Thus, external payments arrears would continue to rise, and the balance of payments would pose a serious constraint on Nigeria's economic development.

16. If Nigeria were to shift to a sustained economic growth path sufficient to reduce poverty and its vulnerability to oil price fluctuations, bold actions would be necessary to:

- Achieve and maintain macroeconomic stability through fiscal discipline, a tight monetary policy, and the restoration of a sound banking system.
- Improve the efficiency of resource use by drastically reducing the role of the public sector through strict limits on public investment and divestiture from all commercially oriented activities.
- Revive private investment and savings by restoring macroeconomic stability, enhancing the credibility of economic policy, and ensuring good governance.
- Rapidly develop the non-oil sectors and diversify the export base through a competitive exchange rate, a reduction in import protection, lower costs of doing business, improved security, and more harmonious labor relations.

IV. REPORT ON THE DISCUSSIONS

17. In the discussions with the Nigerian authorities, the staff representatives, while welcoming the recent progress in some areas, noted that economic activity remained weak and inflation still high; a more comprehensive and coherent set of adjustment policies was urgently needed to address the key issues listed above. The authorities were in broad agreement with the staff on the need for such actions, and requested the Fund's cooperation. In particular, the Minister of Finance reiterated the authorities' interest in a staff-monitored program, as a first step toward an arrangement from the Fund, which they hoped would lead to a concessional Paris Club debt rescheduling.

18. The staff representatives, reiterating the views of the Executive Board at the time of the 1995 Article IV consultation, stated that discussions on a staff-monitored program could be initiated only after an adequate track record had been established. This would require a demonstrable improvement in the transparency of government financial operations, the establishment of fiscal discipline, the reform of monetary policy, the unification of the dual exchange rates at a market-determined level, and steps toward the regularization of relations with official bilateral creditors. Most of the consultation discussions were framed with reference to the policies and actions that could provide the requisite track record.

A. Fiscal Policy

19. The federal government budget for 1996 had as its objective a further stabilization of macroeconomic conditions and the promotion of investment in Nigeria's manufacturing sector. The budget targeted a surplus of ₦ 9 billion, equivalent to 0.5 percent of GDP, compared with the deficit of 3.7 percent of GDP realized in 1995.⁵ Revenue was estimated to rise by 3.7 percentage points, to 14.7 percent of GDP, reflecting an increase of ₦ 62 billion (3.3 percent of GDP) in the transfers of AFEM profits. Oil revenue was projected to fall, based on conservative assumptions on oil prices (US\$16 per barrel). The budget put in place significant tax incentives for the manufacturing sector, including tax exemptions on profits realized on the export of goods and a 25 percent investment tax credit for capital expenditures. In addition, the maximum marginal tax rate on personal income was reduced from 30 percent to 25 percent, and the corporate income tax rate was lowered from 35 percent to 30 percent.

20. On the expenditure side, the 1996 budget left overall spending roughly unchanged, at 14.2 percent of GDP. Current expenditure was budgeted to fall by 2.5 percent of GDP to 7.6 percent of GDP in 1996. The allocation for overhead was unchanged in absolute terms. The wage bill remained low (2.2 percent of GDP), as civil service wages were kept at the

⁵This is based on the Fund's standard definition, which differs from the authorities' presentation in many respects. For example, the latter excludes externally funded capital projects and includes actual, rather than scheduled, external debt service.

1993 scale despite a cumulative inflation of 290 percent (some increases in salaries were provided only for the security services). The allocation for domestic interest payments was cut by ₦ 26 billion (1 percent of GDP) to ₦ 12 billion in 1996. On the other hand, capital spending was budgeted to rise by ₦ 54 billion (3 percent of GDP).

21. The authorities indicated that they expected to achieve the surplus targeted under the 1996 budget. Federal revenue collections remained on track through July 1996, and expenditure was to be kept strictly within budget in the year as a whole. While oil revenue would likely exceed the budgeted level by some US\$2.5 billion (7 percent of GDP), the amount by which oil earnings exceeded projections was not transferred directly to the budget (and, hence, was not part of the federal government revenue in 1996), but was being placed in reserves.

22. While welcoming the authorities' determination to improve budgetary performance, the staff team noted that the federal government's fiscal balance does not convey an accurate picture of the overall fiscal policy stance:

- In the federal government budget, external debt service is not being paid in full (arrears rose by ₦ 73 billion), and domestic arrears also remain (₦ 10 billion). Budgeted domestic interest charges do not reflect market interest rates (₦ 12 billion, as against ₦ 33 billion). Moreover, the federal government budget is distorted by the selective allocation of foreign exchange at the official exchange rate for certain capital expenditures and other outlays.
- The federal government budget purview does not extend to a number of entities and special funds, whose spending amounted to about a third of the total outlays of the federal government. Expenditures on federal government "priority" projects as well as payments for oil-related expenditures remain off budget. The operations of the Petroleum Special Trust Fund (PSTF) are also off budget;⁶ the principles guiding the use of PSTF resources are unclear, and its board of directors reports directly to the Head of State. In addition, beginning in 1995, the government established a number of reserve accounts at the central bank, outside the framework of the federal government budget.

23. The staff team further noted that the available statistical information is insufficient to establish an accurate presentation of fiscal and quasi-fiscal operations. Financial statements of off-budget accounts are not available, and the audited accounts of the NNPC were last published in 1993. Moreover, an analytical presentation of the CBN's balance sheet--that clearly maps the CBN's asset and liability positions with each of these entities--is not yet

⁶The PSTF, created in October 1994, is a government entity charged with undertaking projects in the areas of health, infrastructure, and security. It receives a portion of the proceeds of refined petroleum products sold in Nigeria.

available (the CBN is in the process of compiling such an analytical presentation, with Fund technical assistance).

24. Nevertheless, available data suggest that, overall, the fiscal and quasi-fiscal operations probably brought about a significant tightening in 1996. The federal government budget is now estimated to register a deficit of ₦ 25 billion (1.3 percent of GDP) in 1996, representing an improvement of 2.3 percent of GDP from the previous year; the estimate of the 1996 deficit incorporates a correction for the additional ₦ 21 billion in domestic interest payments, and a smaller-than-budgeted transfer of AFEM profits (₦ 38 billion) as well as a slower-than-budgeted foreign-financed investment. Moreover, an estimated US\$2.5 billion (7 percent of GDP) is to be accumulated in the reserve accounts that the government established with the CBN at the beginning of 1996. These adjustments are offset in part by the PSTF, which, on a cash basis, could run a deficit of ₦ 25 billion (1.3 percent of GDP) in 1996, compared with a surplus of 1.3 percent of GDP in 1995. Swings in the financial balances of other entities would probably not be so large as to offset the remaining contractionary impact.

25. Turning to the federal government budget for 1997, the staff team stressed that it should be significantly tighter than in 1996, consistent with the authorities' objective of a further significant deceleration in inflation. Moreover, the reserve accounts should be managed prudently, and the financial operations of other quasi-fiscal entities should be coordinated closely. The authorities said that they were aiming to achieve as much of a budgetary surplus as possible in 1997. They also stated their intention to shift funding in favor of poverty alleviation, by focusing on education, health, and agriculture. At the same time, the existing fertilizer subsidy program would be replaced by a new program, to be reviewed by the World Bank and the Fund staffs, and clearly targeted to the poor.

B. Monetary and Exchange Rate Policy

26. While the recent deceleration in inflation and exchange rate stability are important, considerable inflationary pressures remain; the rate of inflation is still high, despite bumper crops and the stability of the AFEM rate. Moreover, the observed price and exchange rate movements do not reflect the full extent of financial imbalances in Nigeria. Had the government's external debt service been fully paid at least on nonreschedulable debt, domestic arrears settled, and domestic interest payments reflected market rates, the federal government's use of CBN credit in 1996 would have been higher by ₦ 25 billion, equivalent to 18 percent of reserve money. Had external debt been fully serviced and CBN sales of AFEM foreign exchange been correspondingly smaller, there would have been pressures for the AFEM rate to depreciate.

27. Accordingly, if a further deceleration in inflation is to be achieved without recourse to arrears or a limit on interest payments, tighter fiscal and monetary policies are required. The staff team welcomed the removal of the interest rate cap--as well as the existing sectoral credit guidelines--effective October 1, 1996. This measure should not only remove distorted price signals and incentives for financial disintermediation, but also make it possible for the

CBN to effectively conduct market operations through sales of treasury bills. This is particularly important because the sterilization of AFEM intervention profits, which had been the main vehicle for controlling liquidity in 1995, would no longer be available because of the government's recent directive to transfer AFEM profits to the federal government as they accrue. The staff team recommended that open market sales of treasury bills be vigorously pursued, with a view to raising interest rates to real positive levels in the fourth quarter of 1996. At the same time, the authorities should shorten the lag in producing monetary statistics (currently 2-3 months), and compile, as soon as possible, the analytical presentation of the CBN's balance sheet in line with the recommendations of the Fund technical assistance mission in March 1995. Monetary policy could then be guided by up-to-date and reliable monetary aggregates.

28. In addition, the staff team noted that excessive AFEM sales of foreign exchange should be avoided, while using more foreign exchange for reducing external arrears and servicing current debt. The real effective exchange rate index (REER) appreciated by 37 percent since the inception of the AFEM in January 1995, and a further real appreciation is likely in view of the present inflation trend (Figure 3). While the AFEM rate is currently very close to the parallel market rate, the maintenance of an exchange rate conducive to the development of the non-oil sectors is vital (as discussed below). Moreover, official reserves are still low (US\$2.1 billion, or 2.5 months of imports, as of June 30, 1996). The authorities should set the amounts of foreign exchange sales with a view to building up an appropriate level of international reserves--while ensuring that all nonreschedulable debt is paid on time--and then let the market determine the exchange rate.

29. The Nigerian representatives stated that their policy was to set the AFEM rate at a level very close to the parallel market rate, and to supply foreign exchange sufficient to meet the demand.⁷ Given the current strength of Nigeria's balance of payments, there was a view within the government that some nominal appreciation of the AFEM rate from the present level might be appropriate. As regards monetary policy, while the authorities considered that real positive interest rates were unlikely to be achieved within the staff team's recommended time frame, they would rely on the rediscounting of government papers to manage liquidity conditions. On this basis, and supported by fiscal policy, they expected inflation to fall to 25 percent by the end of 1996, and further to below 20 percent by the end of 1997.

C. Structural Issues

30. The structural constraints on growth in Nigeria are significant, and include uncompetitive non-oil sectors; distress in the banking system; the generally poor quality of public investment; an extensive network of public enterprises operating under soft budget constraints; direct and indirect subsidies that lead to distortions in market prices; and an inefficient public administration.

⁷The AFEM rate has not varied from the parallel market rate by more than 5 percent.

Competitiveness and exchange and trade system

31. Over the last decade and a half, Nigeria's reported non-oil exports fell from some US\$1.1 billion to only about US\$290 million. During the same period, the share of non-oil exports in GDP declined from about 4 percent to 1 percent, while the import/GDP ratio remained near 21 percent.

32. The apparent loss of competitiveness could be attributed to the following:

- The naira experienced a prolonged period of substantial real appreciation through the mid-1980s, followed by great variability; non-oil exports, particularly agricultural exports to neighboring countries, responded strongly to the depreciation in the late 1980s and early 1990s, but such exports have fallen sharply since then as the rate has appreciated again.
- While the tariff structure was lowered in 1995 (currently, most duty rates cluster around 5-40 percent), the rates are still too high, not sufficiently uniform, and are subject to a wide range of exemptions. The effective rate of protection was estimated at 89 percent for consumer goods, 69 percent for intermediate goods, and 43 percent for capital goods in 1994. Moreover, the duty drawback scheme has not provided much benefit to exporters because of cumbersome procedures and delays.
- The importation of a number of goods is banned, and the export of several commodities is prohibited.⁸ Until recently, the export of several other commodities with good export potential had also been banned.
- The cost of doing business in Nigeria is substantially higher than in other developing countries. The regulatory framework is cumbersome and costly; enforcement of property rights is inadequate and time consuming; infrastructure is poor; and, importantly, the security situation is serious in the urban areas.

⁸Importation is prohibited of poultry, vegetables, processed wood, mosquito repellent coils, textile fabrics, domestic plastic articles, soft drinks and beer, kaolin, maize and maize products, vegetable oils, used and retreaded tires, bentonite and barytes, fluorescent light fixtures, and used vehicles and motorcycles over eight years old. Export prohibitions exist for raw hides and skins, timber, raw palm kernels, unprocessed rubber, and scrap metal.

- More recently, labor productivity has been hampered as the process for resolving labor disputes has become increasingly contentious and time consuming. Also, extensions of arbitration periods without interim wage adjustments have reportedly led to an increase in the number of industrial disputes.

33. The staff team recommended that: (a) the exchange rate correctly reflect market forces (as discussed above), and the authorities should take into account the need to ensure Nigeria's competitiveness in determining the amount of CBN sales of foreign exchange; (b) the remaining exchange restrictions on current international transactions be removed immediately; and (c) all import and export bans be eliminated with appropriate tariff rates set for the affected commodities, consistent with World Trade Organization (WTO) provisions. In addition, as part of the 1997 budget, the government should announce a timetable to implement tariff reductions over the next three to four years, with three to four tariff bands, a maximum import tariff of no more than 30 percent, and an average tariff rate of about 15 percent or less. It would also be important for the authorities to take strong actions to address labor relations and other concerns.

34. Noting that appropriate consultation was under way within the government, the authorities indicated that the dual exchange rate system, which gives rise to a multiple currency practice, will be unified by January 1, 1997; that the remaining restrictions on current international transactions (i.e., the limits on travel allowances and the limitations on profit remittances in respect of investments made under the debt equity conversion scheme) will be removed shortly; and that most import bans would be eliminated in the 1997 budget.

Banking system reform

35. Although the authorities have taken significant steps in addressing bank distress, the soundness of Nigeria's commercial and merchant banking system has not been reestablished. The number of distressed banks stood at 60 (or about one half of the total) at the end of 1995, and nearly half of merchant bank loans and advances were classified as nonperforming, as were 30 percent of commercial bank assets. The factors that contributed to these problems included: (a) the administrative allocation of foreign exchange at the then overvalued exchange rate (which created incentives for setting up new banks mainly for accessing foreign exchange); (b) low capital requirements; (c) insufficiently strict standards for granting banking licenses; (d) insider lending and other mismanagement; and (e) inadequate bank supervision.

36. The authorities stated that substantial progress had been made in addressing these problems in 1996. The measures taken comprised: the creation of five administrative tribunals to enforce the Failed Banks and Financial Malpractices Decree; the liquidation of 5 banks; and the central bank's assumption of control of a further 5 banks, with the takeover of another 12 banks still subject to a judicial decision. As a result of this process, naira assets exceeding ₦ 14 billion (24 percent of total nonperforming assets) and external assets of some US\$300 million have been recovered. The number of distressed banks fell to 51 at end-June 1996. In

addition, the practice of automatically extending central bank overdrafts to commercial and merchant banks has been discontinued. The government is maintaining its policy of not using public funds to bail out distressed banks.

37. While commending the authorities for this progress, the staff team noted that weaknesses in the banking system continued to be a matter of concern. The staff team thus encouraged the authorities to: (a) strengthen their efforts by generating additional resources for the Nigeria Deposit Insurance Corporation (NDIC); (b) tighten the conditions for granting new commercial banking licenses to ensure that problem banks are not created; and (c) enhance banking supervision and surveillance practices through increased training of staff, computerization of reporting procedures, greater use of on-site inspection, and more rigorous enforcement of prudential regulations. The staff team also advised the authorities to take action to remedy the distress in the nonbank financial sector, particularly the finance companies, the community banks, and the insurance companies. The Nigerian authorities were in agreement on the need for such actions.

Quality of public investment

38. Overall investment efficiency in Nigeria has been low. The government has been undertaking an extremely large number of projects with a very limited administrative capacity to program, implement, and monitor activities, and thus few projects actually reach the point of completion. According to a recent World Bank study, project costs in Nigeria have been some 25 percent higher than the norm for sub-Saharan Africa, and infrastructure projects have been generally more than twice the size needed to meet foreseeable demand. As a result, many public sector investment projects have not been economically viable from the start, with actual capacity utilization rates estimated at about 30 percent, as against planned rates of 80 percent.⁹ The overcharging and oversizing of public investment projects has led to excessive costs, on the order of 50 percent of the total investment.

39. The incremental capital-output ratio in Nigeria in 1986-95 was on average about 50 percent above that of Ghana and Indonesia. This, to a large extent, accounts for the sharply lower economic growth record in Nigeria (Figure 4).

40. The Head of State of Nigeria has recently announced that the government will progressively withdraw from commercial activities. As part of this policy, the CBN is to cease all its commercial functions, beginning January 1, 1997. The Minister of Finance has also stated that public funds will not be allocated for projects that are commercial in nature;

⁹For example, according to the World Bank, the Ajaokuta steel complex, on which about US\$6 billion has already been spent, is not yet operational, and the production costs of the complex are estimated at four times the industry average. Another example is the aluminum smelter plant at Ikot Abasi, with an estimated cost of US\$1.4 billion, about 60 percent more than the industry standards.

instead, government expenditure will target critical infrastructure and social requirements. However, substantial public resources are still being allocated to commercially oriented projects, on the ground that these are ongoing projects. It is essential that the policy of not using public funds for commercial purposes be put strictly into practice, beginning with the 1997 budget.

Privatization

41. In the oil sector, the authorities have acknowledged that their partial ownership of production operations has given rise to public concerns regarding the stewardship of Nigeria's oil resources and the use of oil proceeds. In addition, they have noted that their limited ability to fund the development of new fields unnecessarily constrains the addition of proven reserves and production capacity. In this light, the authorities have indicated their intention to divest the government's share of NNPC's equity in oil rights over a five-year period. Moreover, recognizing that the NNPC's four refineries are in poor condition, and that shutdowns during the past year have resulted in sporadic fuel shortages and elevated costs, the authorities have expressed their intention to privatize the NNPC's refinery operations. In addition, they have noted their intention to invite foreign investors to participate in the equity of, and to manage, the NNPC's petrochemical operations.

42. The authorities have also acknowledged that the electric power supply, operated by the National Electric Power Authority (NEPA), is unreliable and expensive; and the noncellular telecommunications network operated by the public monopoly, Nigeria Telecommunications (NITEL), is not fully functional. To redress this situation, they intend to privatize the NITEL, as well as the distribution and transmission of electric power, and to allow private operators to enter the market for electric power generation.

43. The government's position on privatization, however, has been clouded by a number of conflicting policy signals. Some senior officials, for example, have continued to assert the government's strong interest in controlling oil drilling and refining operations. Moreover, the recent pronouncements by the Minister of Finance have not been followed by concrete actions. Furthermore, recent press reports that the Government has been considering possible steps to reassert government control of Nigeria's major commercial banks through the issuance of "golden shares" have given rise to some uncertainties about the government's stance on privatization in general, although this was denied by the Minister of Finance.

44. It is therefore essential that the government's position be clearly established through the implementation of critical first steps. In line with discussions that have taken place between the authorities and the World Bank staff, these steps could include issuing a decree authorizing the privatization of public enterprises and the establishment of a commission empowered to carry out the privatization. It is equally important that the privatization effort be conducted in a fully transparent manner, ensuring appropriate accountability, and in the context of a comprehensive program of policy reform.

Petroleum subsidy

45. The government supplies crude oil to NNPC for domestic refining at ₦ 2.35 per liter (equivalent to US\$4.67 per barrel, converted at the AFEM rate), and, on this basis, the retail price of premium gasoline is set at ₦ 11 per liter, equivalent to US\$0.52 per gallon. This compares with the international price (i.e., the ex refinery price abroad, plus transportation and distribution costs in Nigeria, minus taxes) of US\$0.87 per gallon. Given the domestic consumption of refined petroleum products of 54 million barrels in 1995, the petroleum subsidy to consumers in Nigeria amounted to the equivalent of US\$514 million, or 1.5 percent of GDP.

46. The authorities stated that when the domestic refining, distribution, and marketing operations of the NNPC are privatized, direct controls on petroleum prices would necessarily be removed, although prices would be monitored--and if necessary, guided--by a commission that would be established to regulate domestic petroleum markets. This would effectively end the subsidization of domestic petroleum consumption. The staff team recommended that, as it might take some time to complete the privatization process, the formula for the retail pricing of petroleum products in the domestic market should be modified in order to value the cost of crude oil at international market prices using the AFEM rate, and to fully cover refining, marketing, and other domestic costs. The authorities accepted these principles, and agreed to review the price-setting formula with expert advice, including from the World Bank.

Civil service reform

47. Following a census conducted over the past year, a government task force on civil service reform recently announced that some 28,000 ghost workers had been identified on the civil service rolls. The staff team noted that, despite some steps taken toward improving the functioning of the civil service, there were clear indications that the civil service remained bloated, and was neither appropriately staffed nor properly paid. In particular, the civil service pay scale had not been revised since February 9, 1993, despite a cumulative inflation of about 300 percent since that date. The staff team recommended that civil service salaries be raised to compensate in part the recent erosion of real wages, and that--following submission in November 1996 of the report of the task force on civil service reform--work be initiated immediately on a program of redeployment and training, with the objective of reducing personnel and creating the skills necessary for those departing to prepare themselves for private sector employment.

D. Governance Issues

48. Governance issues have played an important role in the deterioration of Nigeria's economic performance. Transitions in political authority have been arbitrary, the National Assembly was dissolved in November 1993, and judicial authority has been supplemented by special tribunals. There have also been a number of problems in economic governance, including a lack of transparency and oversight in public sector operations, a perception of

widespread corruption, and limitations on the rights of labor associations. Moreover, confidence in an equitable judicial resolution of contractual and other business-related disputes is reportedly low. As a result, a stable and level playing field needed to promote investment has yet to be established. The staff team stressed that these issues should be addressed as a matter of urgency.

49. The authorities noted that over the past two years significant progress had been made in improving the transparency of fiscal transactions. In particular, with the abolition of dedicated accounts in 1995, a large part of the off-budget operations had been eliminated. The authorities indicated that there appeared to have been discrepancies in accounting for the NNPC's oil proceeds, but that this problem had been corrected; the NNPC had been instructed to discontinue the swap of crude oil for refined petroleum products and to account fully for the sale of residual petroleum products, as of August 1, 1996. The authorities further indicated that the procedures for the transfer of, and accounting for, oil revenue were now complete, and that further progress would be made soon with regard to accounting for oil proceeds, the NNPC's financial accounts, and publication of the PSTF financial accounts, as follows:

- A comprehensive accounting of oil revenue and its uses will be provided to the Fund staff, on a monthly basis, beginning in October 1996 (considerable information has been provided).
- An audited financial statement of the NNPC for 1995 will be published by the end of 1996, and detailed statements of the NNPC's financial operations in 1996 will be communicated to the Fund staff on a monthly basis (the audited statement has not been published, but substantial information on the NNPC's financial operations in 1996 has been provided).
- The PSTF's financial statements for the first and second quarters of 1996 will be published by October 1996, and quarterly statements for the subsequent periods will be published regularly. The financial accounts for 1995, audited by an independent accounting firm, will be published by end-1996; and audited accounts for 1996 will be published by mid-1997, with such accounts published annually thereafter (to date, the statements for the first and second quarters of 1996 have been provided, and the 1995 audited accounts are expected by end-December 1996).

50. The authorities also pointed to progress made in other areas, including (a) the implementation of the Failed Banks and Financial Malpractices Decree issued in 1994 and the issuance of the [Anti-] Money Laundering Decree in 1995, as steps that have been taken in countering fraud and corrupt business practices; (b) the census of public employees conducted during 1995 and 1996; and (c) the reorganization of the customs administration. Moreover, they stressed that the transition to civilian rule was proceeding as scheduled, which would culminate in presidential elections slated for September 1998.

E. External Arrears and Debt

51. The staff team expressed concern about the continued accumulation of external payments arrears.¹⁰ Since January 1, 1996, Nigeria has met all obligations to multilateral and commercial creditors, made large payments to non-Paris Club official bilateral creditors, and made small payments to some Paris Club creditors.¹¹ Since Nigeria's oil export earnings are expected to exceed the budget estimates by US\$2.5 billion in 1996, the staff team urged the authorities to make every effort to fulfill their obligations to Paris Club creditors, meeting fully at least debt service on nonreschedulable debt. The Nigerian representatives stated that their policy was to limit debt service payments to 30 percent of oil proceeds. Within this overall constraint, they would consider making payments to Paris Club creditors against arrears on nonreschedulable debts. The staff was also informed by the Nigerian authorities that they had earmarked US\$660 million (DM 973 million) for buying back Russian debt.¹² The staff team questioned the appropriateness of this operation in the context of growing arrears to Paris Club and possibly other official bilateral creditors. The staff is seeking further information concerning this operation.

52. Noting that Nigeria's external debt burden is heavy, the authorities underscored their strong interest in receiving a highly concessional Paris Club rescheduling or a stock-of-debt operation.¹³ The staff team responded that the authorities should make every effort to regularize Nigeria's relations with external creditors, and to this end, make prompt payments, as a minimum, on nonreschedulable debt; establish the requisite track record of policy performance and, eventually, adopt a comprehensive adjustment program that could be supported by the Fund; and address broader concerns of external creditors.

¹⁰These arrears do not give rise to an exchange restriction, subject to Fund approval under Article VIII, as they are owed by the government or entities forming part of the government budgetary process.

¹¹Debt service falling due on post-cutoff-date obligations to Paris Club creditors in 1996 is estimated at US\$438 million. Payments totaling US\$125 million were made on such obligations during the first half of 1996. In addition, payments totaling US\$7 million were made to a number of Central European creditors during this period.

¹²This involves a buy-back of debt totaling DM 3 billion at a discount of 67 percent. The debt consists of bills of exchange due on several steel plant projects, other debt, late interest, advisory services, and traveling and overhead expenses.

¹³Nigeria's outstanding debt amounted to US\$32.7 billion, or 86 percent of GDP, as of end-December 1995 (Table 8). Scheduled debt service payments in 1996 are estimated at US\$5.3 billion, equivalent to 39 percent of exports of goods and services.

V. STAFF APPRAISAL

53. Despite Nigeria's large oil resources, over a third of its population lives in great poverty. Roads and bridges, water and sewage treatment plants, educational and health facilities, and telephone and electricity services are in extreme need of rehabilitation. At the same time, threats against personal and corporate security have increased significantly in the past few years. While it is difficult to make a precise assessment of output and employment growth in recent years, the general trends are clear. The industrial sector has contracted, and perceived risks are high, inhibiting productive private investment. There is reason to believe that unemployment is high and growing, and economic hardship continues to increase.

54. The staff welcomes the initial actions taken by the government to address these serious problems. The federal government has maintained a relatively tight fiscal stance, and the Central Bank of Nigeria has sterilized its foreign exchange intervention profits in an effort to restrain monetary expansion. Significant progress has also been made in dealing with the distress in Nigeria's banking sector. Reflecting in part these measures, inflation has decelerated appreciably and the market exchange rate has remained stable.

55. However, if this progress is to lead to an appreciable and lasting improvement in living standards for the majority of Nigeria's population, comprehensive and bold actions have to be taken. Protection of property rights and contracts must be instituted, with appropriate enforcement mechanisms. Fiscal discipline should be strictly adhered to, with incentives for rent-seeking removed, and the allocation of resources shifted in favor of infrastructure maintenance and human resource development. Distortions in the market allocation process must be removed, including direct and implicit subsidies. Monetary policy should be tightened, leading to positive real interest rates, and financial market and banking system integrity should be reestablished. Moreover, relations with Nigeria's external creditors need to be regularized. Setting these elements in place, along with improved governance, would help foster a significant increase in investment, an improvement in efficiency, and higher real growth.

56. On fiscal policy, the staff believes that it is paramount to integrate all fiscal and quasi-fiscal operations in a fully transparent framework and, on this basis, attain an appropriately tight fiscal stance. While the fiscal stance of the federal government proper in 1996 may be relatively restrained, there are clear risks that this may be overshadowed by the operations of the Petroleum Special Trust Fund (PSTF); its accelerated spending could give renewed impetus to inflation. The staff recommends that the PSTF's activities be fully integrated into the budgetary process, and that an institutional framework for monitoring the fiscal implications of its operations be put in place quickly. The authorities should also act to fully integrate other capital spending--including priority projects in the petroleum sector and other off-budget operations and funds--into the budgetary process.

57. The oil price surge of 1996 has resulted in a large increase in oil revenue for the year, providing the authorities with a respite. The great likelihood is that current oil prices will not be sustained, however, and that these higher oil proceeds represent a one-time gain. Taking

account of past experience in similar situations, the Nigerian authorities should use these resources judiciously, and refrain from an expansionary impulse, which would result in higher inflation and avoidable waste. In this light, they should focus on strengthening tax and customs administration, and work to improve the quality of public expenditure. Looking forward to the 1997 budget, the staff attaches great importance to the realization of the shift in spending priorities--as intended by the authorities--to poverty alleviation, agriculture, and property protection; it also urges the authorities to establish a mechanism for raising petroleum prices to market levels, to eliminate the current fertilizer subsidy, and to attain, at the least, a balanced budget.

58. As considerable inflationary pressures remain, the authorities will need to tighten monetary policy. In the staff's view, it is essential to raise interest rates to positive levels in real terms. The removal of the cap on interest rates as of October 1, 1996 will allow the central bank to resume the use of open market operations as an effective instrument in controlling monetary expansion. Furthermore, it is essential to maintain the independence of the central bank, as this is crucial for the effective implementation of monetary policy.

59. The staff also attaches the utmost importance to the elimination of the current dual exchange rate system by January 1, 1997, as envisaged by the authorities. This will remove a significant source of distortion in the economy and improve fiscal transparency. Under the unified exchange rate system, the authorities will need to keep the exchange rate competitive. The staff further recommends that the authorities remove the remaining restrictions on current payments and transfers, and accept the obligations of Article VIII, following the unification. Moreover, in line with WTO rules, they should remove import and export prohibitions in the context of the 1997 budget. Finally, given the recent windfall oil earnings, the authorities should act expeditiously to become current on nonreschedulable debt, and begin to reduce Nigeria's accumulated external arrears.

60. While the recent announcement by the Head of State of Nigeria that the government will withdraw from commercial activities is welcome, uncertainties remain with regard to the government's position on privatization. It is thus critical for the government to act expeditiously upon its announced intention to privatize activities in the oil, telecommunications, and power sectors over the next three to five years, with assistance from the World Bank. To avoid creating possibilities of undervaluing assets and/or diverting privatization proceeds, as well as distorting investment incentives, the staff urges the authorities to implement the privatization in a transparent manner as part of a comprehensive program.

61. The staff is of the view that governance problems have played an important role in inhibiting private investment and saving, and raising inefficiency in resource use in Nigeria. These problems have included the absence of a credible judiciary system, lack of transparency in public finances, inadequate checks and balances in the functioning of public administration, limitations on the rights of labor associations, and a perception of widespread corruption. These impediments need to be addressed decisively. A government that espouses and adopts good governance engenders public and investor confidence. The staff thus welcomes the initial

steps taken to begin to come to grips with some of these problems, and urges the authorities to make every effort to press ahead on this course.

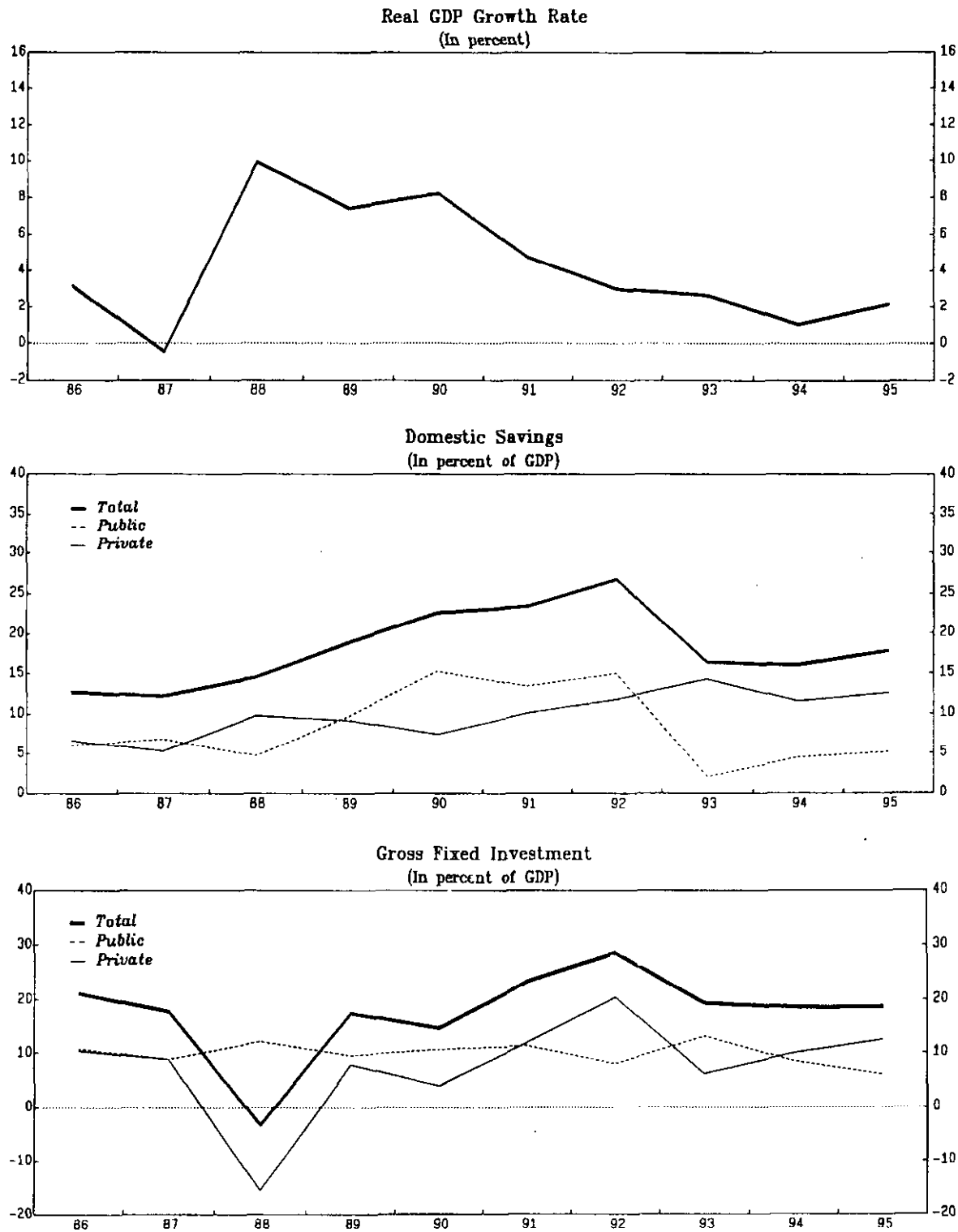
62. The staff considers that available statistical information is inadequate to conduct fully effective Fund surveillance. Long delays in the publication of statistics on national accounts as well as the balance of payments, the provision of less than comprehensive fiscal data, and difficulties in establishing the coherence of the finances of units of government and their position in the banking system preclude the timely and definitive analysis of economic and financial developments necessary to guide policymaking. These problems all appear to be technical in nature, and should be remedied with technical assistance from the Fund and other institutions.

63. The authorities have reiterated their strong desire to initiate discussions on a staff-monitored program. In order to meet the concerns of the Executive Board enumerated in the last Article IV consultation, the authorities have taken some actions, including in the area of transparency of public finances, and have indicated their commitment to adopt further measures, such as the unification of the dual exchange rates, the elimination of the remaining exchange restrictions on current international transactions, and an improvement of their relations with Paris Club creditors. In the staff's view, once these measures are implemented, and if the authorities' 1996 budget objectives are achieved, there would be a substantial basis for formulating a credible adjustment program within a transparent framework. The staff could then assist the authorities in the formulation, implementation, and monitoring of such a program.

64. Nigeria's current dual exchange rate system gives rise to a multiple currency practice subject to the Fund's approval under Article VIII, Section 3. In addition, restrictions are maintained on the making of payments and transfers for current international transactions subject to Fund approval under Article VIII, Section 2(a), arising from limits on travel allowances and limitations on profit remittances in respect of the investment made under the debt equity conversion scheme. The staff does not recommend approval for the retention of these restrictions and multiple currency practice.

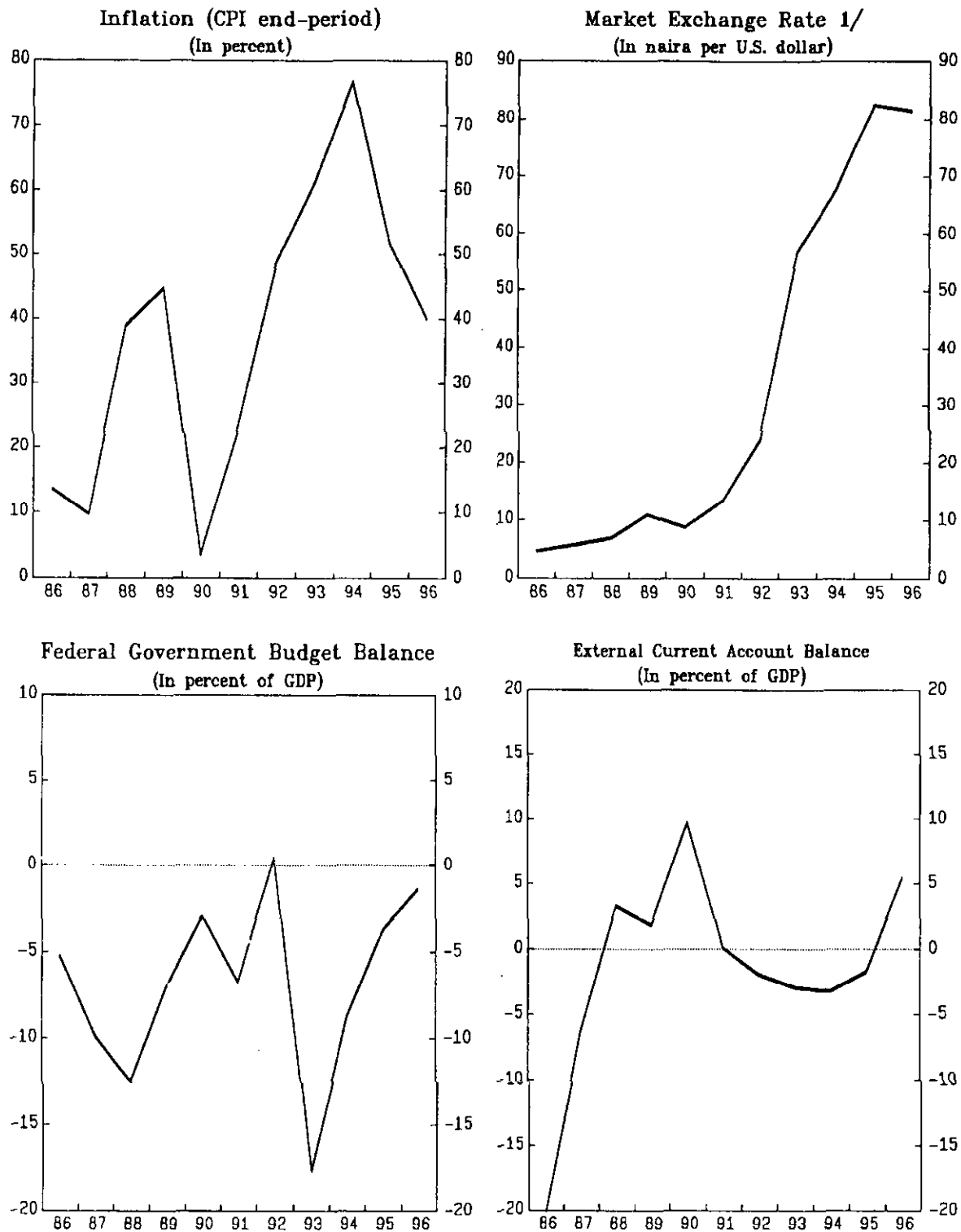
65. It is recommended that the next Article IV consultation with Nigeria be held on the standard 12-month cycle.

Figure 1. Nigeria: Real GDP Growth, Savings, and Investment, 1986-95



Sources: Data provided by the Nigerian authorities; and staff estimates.

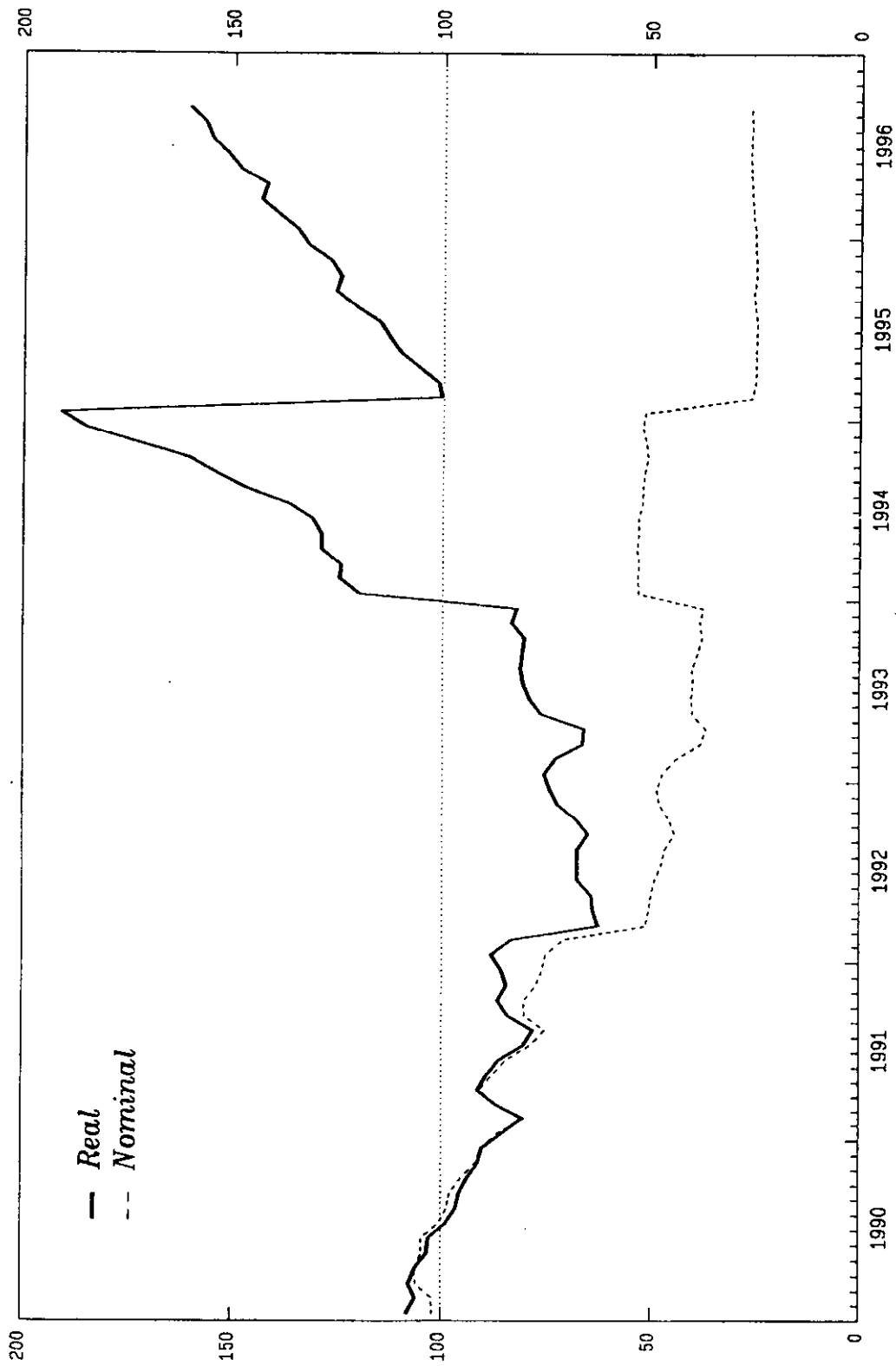
Figure 2. Nigeria: Selected Macroeconomic Indicators, 1986-96



Sources: Data provided by the Nigerian authorities; and staff estimates.

1/ Prior to 1995, the market exchange rate refers to the exchange bureau rates; from 1995 onwards it refers to foreign exchange market.

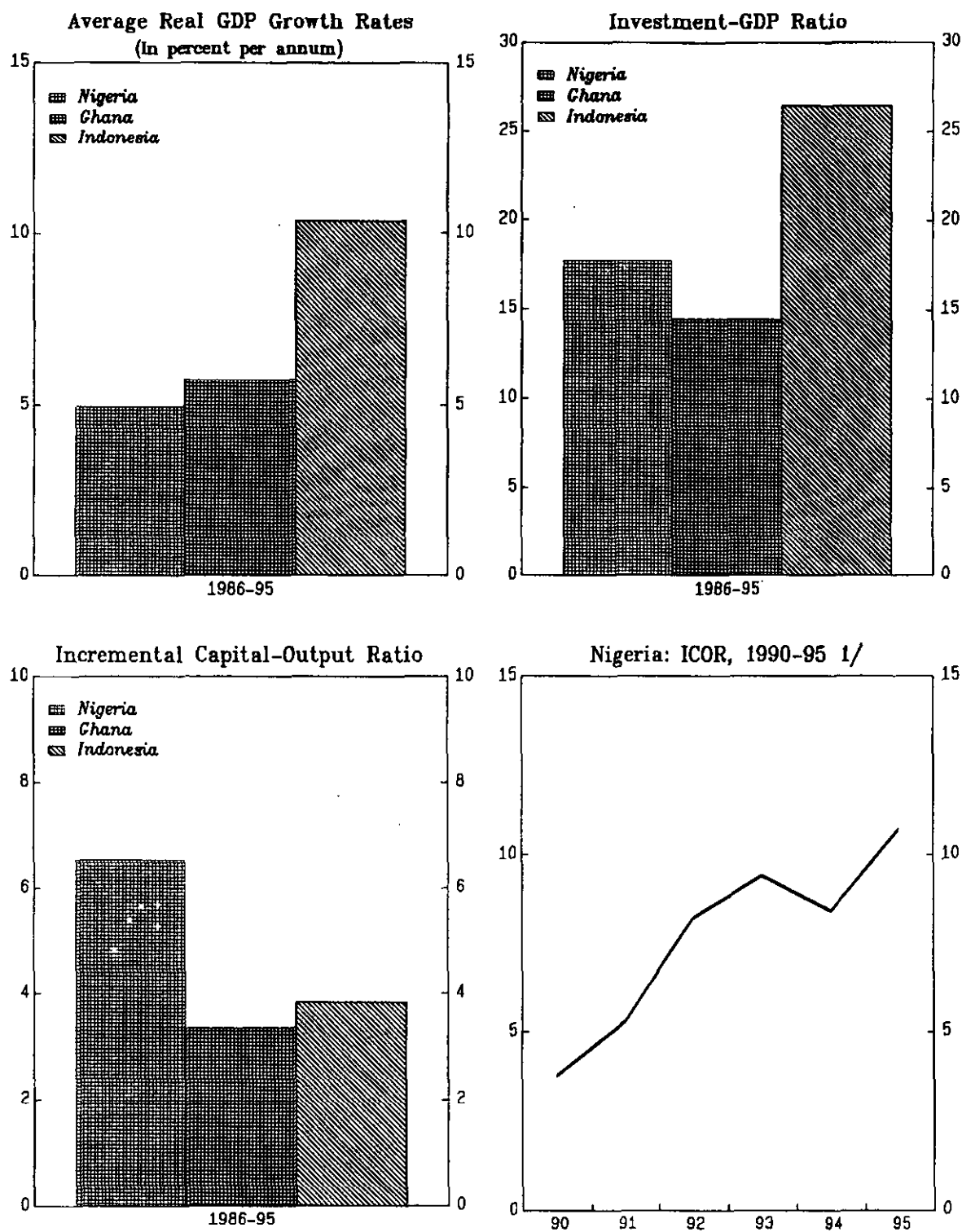
Figure 3. Nigeria: Effective Exchange Rate Developments, 1990-96 1/
(Indices, 1990=100)



Source: IMF, Information Notice System.

1/ Based on the weighted average of official and foreign exchange bureau rates; and after January 1995, weighted average of official and AFEM exchange rates.

Figure 4. Nigeria: Growth, Investment, and Efficiency



Source: IMF, WEO data base.

1/ Five-year moving averages.

Table 1. Nigeria: Selected Economic and Financial Indicators, 1990-98

	1990	1991	1992	1993	1994	1995 Prov. 1/	1996 Proj.
(Annual percentage changes, unless otherwise indicated)							
National income and prices							
Real GDP (at 1984 market prices)	8.2	4.8	2.9	2.7	1.0	2.3	2.4
Oil GDP (at 1984 factor cost)	6.6	8.2	2.7	0.2	-2.6	0.8	2.5
Non-oil GDP (at 1984 factor cost)	8.6	4.1	3.0	3.0	1.6	2.4	2.4
Consumer prices (annual average)	7.4	13.0	44.6	57.2	57.0	70.0	36.0
Consumer prices (end of period)	3.6	23.0	48.8	61.3	76.8	61.6	40.0
Nominal GDP (in billions of naira)	261	328	554.285	704	823	1,479	1,907
Oil production volume (in m/b per day)	1.812	1.894	1.956	2.038	2.007	1.999	2.040
External sector							
Exports, f.o.b.	41.8	-12.8	1.5	-8.2	-15.6	14.6	23.7
Of which: oil	(43.6)	(-13.7)	(3.2)	(-8.3)	(-15.6)	(14.2)	(24.2)
Imports, f.o.b.	18.6	11.8	10.7	-7.0	-17.8	6.8	3.1
Non-oil export volume	3.0	18.0	-38.8	-6.6	-27.0	20.0	7.0
Oil export volume	9.7	3.3	6.7	3.1	-6.8	4.8	4.1
Import volume	9.2	11.6	7.3	-3.4	-20.0	-1.6	1.8
Average oil export price (in US\$ per barrel, f.o.b.)	24.3	20.2	19.6	17.5	15.8	17.3	20.7
Nominal effective exchange rate 2/	1.6	-17.6	-36.4	-22.5	33.2	-63.2	3.8
Real effective exchange rate 2/	-7.4	-15.7	-17.2	9.0	83.2	-22.3	36.8
Average official exchange rate (N/US\$) 2/	8.0	9.8	17.3	22.0	22.0	22.0	21.8
Average Bureau/inter-bank exchange rate (N/US\$)	9.6	13.4	20.2	36.3	22.0	83.8	82.0
Terms of trade	18.5	-18.4	-5.6	-7.3	-11.1	0.2	17.2
Money and credit							
Net domestic assets	-2.6	36.0	338.6	3.3	47.4	1.0	-2.6
Net domestic credit	18.6	37.3	81.2	81.3	29.4	31.1	7.2
Net credit to the Federal Government	15.1	61.0	138.3	121.6	27.8	18.3	7.0
Credit to the private sector	20.3	24.1	37.0	61.1	32.8	56.0	7.6
Broad money	42.3	32.3	51.3	48.0	33.4	18.2	20.4
Velocity (Non-oil GDP/average broad money)	3.2	2.6	2.7	2.7	2.9	3.8	3.4
Savings deposit rate (end of period)	19.8	14.9	18.0	23.2	13.1	13.7	12.0
Discount rate (end of period)	18.6	16.6	17.6	26.0	13.6	13.6	13.6
Federal government budget							
Federally collected revenue 3/	69.0	8.1	68.1	12.3	-14.7	107.2	33.8
Federally retained revenue 4/	81.3	3.1	68.6	9.1	-8.3	66.1	44.8
Expenditure and net lending	36.8	25.4	19.0	144.1	-23.2	21.4	19.8
Current expenditure	28.8	13.8	71.2	62.8	-0.1	20.6	8.7
Capital expenditure	16.7	30.6	26.8	44.6	71.4	17.1	61.1
Supplementary/extrabudgetary outlays	171.3	60.4	-103.4	77.2	-82.9	-	-
(In percent of GDP)							
Investment and savings							
Gross national savings 5/	22.7	23.6	26.8	16.2	16.7	17.6	17.6
Gross domestic investment	14.9	23.4	28.7	19.3	18.3	18.6	17.1
Federal government budget							
Federally collected revenue 3/	36.8	30.8	30.8	27.3	17.8	23.0	23.8
Federally retained revenue 4/	21.5	17.6	17.6	16.1	10.6	11.0	12.3
Expenditure and net lending	24.4	24.4	17.2	33.0	19.4	14.7	13.6
Of which: foreign interest due	(8.0)	(6.9)	(6.6)	(5.8)	(4.7)	(3.1)	(2.3)
Overall fiscal balance	-2.9	-6.7	0.4	-17.8	-8.8	-3.7	-1.3
External sector 8/							
Current account balance	9.7	0.1	-1.9	-2.9	-3.2	-1.7	6.0
External debt	128.1	113.8	89.7	88.6	81.4	90.2	86.7
(In percent of exports of goods and nonfactor services)							
External debt service							
Before rescheduling 7/	47.2	46.8	70.2	43.9	48.2	46.8	39.4
After rescheduling 8/	36.3	26.8	65.4	43.9	48.2	...	...
(In millions of U.S. dollars)							
Current account balance	2,629	19	-624	-888	-1,103	-617	1,917
Overall balance of payments	-584	-2,301	-7,846	-3,280	-2,710	-2,668	-688
Gross international reserves (end of period)	3,863	4,160	713	718	916	1,440	3,940
(equivalent months of imports of goods and nonfactor services)	6.0	4.8	0.8	0.8	1.3	1.8	6.0

Sources: Data provided by the Nigerian authorities; and staff estimates and projections.

1/ Estimates based on budget statement and provisional monetary balances.

2/ Annual average data; based on weighted average of official and foreign exchange bureau rates. Unification of official and bureau exchange rates assumed to take place in 1997.

3/ Staff estimate. Includes all dedication account revenues, but excludes NNPC cash calls.

4/ Includes NNPC dedication account revenues in 1994 only, excludes NNPC cash calls.

5/ GNP plus net external unrequited transfers less domestic consumption.

6/ Dollar GDP calculated on the basis of changes in real GDP and U.S. GDP deflator (base year = 1992).

7/ Includes face value of commercial debt equivalent to 27.3 percent purchased via the 1992 debt reduction operation. Excludes amortization via debt conversion program.

8/ Includes commercial bank debt cancellation equivalent to 18.4 percent associated with the 1992 debt reduction operation.

Table 2. Nigeria: Federal Government Fiscal Operations, 1990-96

	1990	1991	1992	1993	1994	1995 Prel.	1996	
							Budget 1/	Proj.
(In billions of naira)								
Federally collected revenue	93.7	101.2	171.2	192.3	164.0	339.8	365.2	454.7
Petroleum revenue 2/	79.8	83.9	143.5	159.0	122.7	238.8	195.2	325.2
Of which: dedicated/first charges	(24.5)	(23.6)	(39.7)	(53.0)	(37.6)	(62.0)	(108.0)	(88.0)
Non-petroleum revenue	13.8	17.4	27.7	33.3	41.3	103.2	170.0	129.5
Inland revenue	2.8	3.8	5.4	9.4	12.3	21.1	21.0	21.0
Customs and excise revenue	8.6	11.5	16.1	15.7	18.3	42.5	45.0	45.0
Independent revenue 3/	2.3	2.1	6.2	8.1	2.1	19.1	82.0	38.0
Value-added tax	0.0	0.0	0.0	0.0	8.6	20.5	22.0	25.5
Federation Account revenue	66.9	76.6	125.3	131.2	115.7	151.6	153.2	205.7
Petroleum revenue	55.4	60.3	103.8	108.1	85.1	88.0	87.2	139.7
Non-petroleum revenue	11.5	15.3	21.5	25.1	30.6	63.6	66.0	66.0
Federally retained revenue 4/ 7/	58.2	57.9	97.6	108.4	87.5	182.0	272.0	234.7
Total expenditure and net lending	63.8	80.0	95.2	232.5	178.6	217.0	263.4	260.0
Of which: nondebt	(32.9)	(45.3)	(30.2)	(150.5)	(106.8)	(143.0)	(207.7)	(183.7)
Recurrent expenditure	41.4	47.1	80.6	123.3	123.2	148.4	140.7	161.3
Personnel costs	5.1	5.7	7.1	18.2	22.2	30.7	42.0	42.0
Overhead costs	5.3	6.7	8.6	20.5	25.5	36.2	35.0	35.0
Fertilizer subsidy (net)	0.0	0.0	0.0	2.6	3.7	5.6	3.0	3.0
Foreign interest due	21.0	22.8	36.0	41.5	43.4	45.9	43.7	43.6
Domestic interest due	8.5	10.5	26.3	38.7	28.5	28.0	12.0	32.7
Pre-SFEM payments	1.5	1.7	2.7	1.7	0.0	0.0	...	0.0
Other	...	...	...	...	0	2.0	5.0	5.0
Capital expenditure	12.9	16.8	21.1	30.5	52.3	68.6	122.7	98.7
Of which: domestically financed	(7.4)	(9.7)	(12.0)	(18.6)	(39.0)	(61.3)	(92.0)	(92.0)
Net lending to state governments	-1.2	-1.1	-5.9	-1.4	-2.6	0.0	0.0	0.0
Unclassified/unaccounted outlays	10.8	17.3	-0.6	80.1	5.7	0.0	0.0	0.0
Overall balance	-7.7	-22.1	2.4	-126.0	-81.1	-54.9	8.6	-25.3
Financing	7.7	22.1	-2.4	126.0	81.1	54.9	-6.6	25.3
Foreign (net)	-0.3	-0.5	-54.8	19.2	18.4	8.2	10.2	6.3
Borrowing	7.8	7.4	9.1	12.0	13.3	7.3	10.7	6.7
Amortization due	-33.0	-31.1	-110.1	-58.4	-59.6	-64.4	-73.9	-73.9
Changes in arrears	12.5	-1.2	38.9	65.6	64.7	66.4	73.4	73.4
Debt relief	12.4	24.4	7.3	0.0	0.0	0.0	...	...
Domestic (net)	7.9	22.6	52.4	106.8	62.7	45.7	-16.8	19.0
Banking system	2.8	12.8	46.8	98.1	49.8	18.0	-16.8	19.0
Of which: Central Bank	(-1.5)	(13.7)	(51.2)	(62.4)	(0.0)	89.0	(0.0)	(0.0)
Non-bank	5.1	9.7	5.6	8.7	12.9	27.7	...	0.0
Of which: transfers (net) 5/	(1.8)	(8.7)	(5.3)	(5.0)	(3.0)	(5.6)	(0.0)	(0.0)
(In percent of GDP, unless otherwise indicated)								
Federally collected revenue	35.9	30.8	30.9	27.3	17.8	23.0	19.1	23.8
Of which: petroleum revenue 2/	(30.6)	(25.6)	(25.9)	(22.6)	(13.3)	(16.0)	(10.2)	(17.1)
Federally retained revenue 4/	21.5	17.6	17.6	15.1	10.6	11.0	14.3	12.3
Total expenditure and net lending	24.4	24.4	17.2	33.0	19.4	14.7	13.8	13.6
Recurrent expenditure	15.8	14.3	14.5	17.5	13.3	10.0	7.4	8.5
Of which: foreign interest due	(8.0)	(6.9)	(6.5)	(5.9)	(4.7)	(3.1)	(2.3)	(2.3)
domestic interest due	(3.2)	(3.2)	(4.8)	(5.5)	(3.1)	(1.9)	(0.6)	(1.7)
Capital expenditure	4.9	5.1	3.8	4.3	5.7	4.6	6.4	5.2
Supplementary/extrabudgetary outlays	4.1	5.3	-0.1	11.4	0.6	0.0	...	0.0
Overall balance	-2.9	-6.7	0.4	-17.9	-8.8	-3.7	0.5	-1.3
Foreign financing	-0.1	-0.1	-9.9	2.7	2.0	0.6	0.5	0.3
Domestic financing	3.0	6.9	9.5	16.2	6.8	3.1	-0.9	1.0
Of which: bank financing	(1.1)	(3.9)	(6.5)	(13.9)	(5.4)	(1.2)	(-0.9)	(1.0)
Memorandum items:								
(In percent of GDP, unless otherwise indicated)								
Primary balance 6/	8.9	3.9	12.2	-6.3	-1.0	1.3	3.7	2.7
Balance in Special Reserve & Export	...	...	...	...	...	...	...	...
Proceeds Reserve Funds (naira, billion)	...	...	...	...	...	8.8	...	20.3
PSTF: Overall Balance (naira, billion)	...	...	...	...	...	25.1	...	...
AFEM profits transferred to Federal Gov. (naira, billion)	...	...	...	...	...	...	62	38

Sources: Data provided by the Nigerian authorities; and staff estimates and projections.

1/ Includes estimates of foreign financed investment.

2/ Staff estimates. Excludes NNPC cash calls, but includes all dedicated oil revenues and withholdings at source for fertilizer subsidy.

3/ Excludes recoveries at source for debt obligations of state governments.

4/ Includes for 1994 only, NNPC dedication revenues. Excludes NNPC cash calls.

5/ Net transfers from state and local governments and special funds via the Federation Stabilization Account.

6/ Fiscal balance excluding foreign and domestic interest due, and pre-SFEM payments.

7/ Excludes revenue allocated to Special Reserve Fund and Excess Proceeds Funds, see memorandum item.

Table 3. Nigeria: Monetary Survey, 1990 - June 1996

	1990	1991	1992	1993	1994	1995	1996 June
(n millions of naira; end of period)							
Net foreign assets	44,790	58,753	38,815	57,224	57,291	104,936	118,894
Central Bank of Nigeria (net)	34,928	44,223	13,238	27,623	34,702	31,534	48,862
Foreign assets	34,970	44,266	14,009	29,110	36,305	31,537	48,897
Foreign liabilities	-42	-43	-771	-1,487	-1,603	-4	-35
Commercial and merchant banks (net)	9,862	14,529	25,576	29,602	22,589	73,402	70,032
Foreign assets	10,361	15,619	27,969	31,354	25,449	76,391	75,548
Foreign liabilities	-499	-1,090	-2,393	-1,753	-2,859	-2,988	-5,516
Net domestic assets	22,219	30,007	131,896	136,310	200,900	202,590	227,614
Net domestic credit	56,436	77,505	140,445	268,647	347,729	455,961	514,237
Federal Government (net)	21,044	33,873	80,720	178,850	228,640	270,586	319,175
Claims	58,351	90,813	131,446	229,739	299,933	365,006	425,272
Deposits	-27,966	-26,604	-39,075	-50,889	-71,293	-94,420	-106,097
State governments (gross)	1,011	893	1,155	1,391	1,860	2,656	4,216
Local governments (gross)	87	178	264	309	257	254	427
Claims on private sector 2/	34,294	42,561	58,306	88,096	116,972	182,466	190,419
Other items (net)	-34,216	-47,498	-8,549	-132,337	-146,829	-253,370	-286,622
of which: net profits on AFEM interventions	...	...	...	...	...	-50,552	-19,573
revaluation (commercial and merchant banks)	...	...	...	...	...	-44,986	0
Broad money	65,296	86,380	130,722	193,493	258,192	307,865	346,386
Narrow money	37,577	49,403	77,606	117,424	162,437	193,645	207,611
Quasi-money	27,719	36,977	53,115	76,069	95,755	114,220	138,775
Valuation account 2/	1,714	2,380	39,989	41	-1	-1	-1
Memorandum items:	(Annual percentage change, unless otherwise indicated)						
Net domestic assets	-2.5	35.0	339.5	3.3	47.4	0.8	39.8
Net domestic credit	18.5	37.3	81.2	91.3	29.4	31.1	40.2
Of which:							
Net credit to the Federal Government	(15.1)	(61.0)	(138.3)	(121.6)	(27.8)	(18.3)	(45.5)
Claims on private sector	(20.3)	(24.1)	(37.0)	(51.1)	(32.8)	(56.0)	(31.3)
Broad money	42.3	32.3	51.3	48.0	33.4	19.2	23.6
Narrow money	47.8	31.5	57.1	51.3	38.3	19.2	20.6
Quasi-money	35.4	33.4	43.6	43.2	25.9	19.3	28.4
Velocity (non-oil GDP/broad money)	3.2	2.7	2.7	2.7	2.9	3.8	3.4
Contribution to the growth of M2							
Net foreign assets	47.2	21.4	-23.1	14.1	0.0	18.5	23.9
Net domestic assets	-1.2	11.9	118.0	3.4	33.4	0.7	10.3
Net domestic credit	19.2	32.3	72.9	98.1	40.9	41.9	64.5
Net credit to the Federal Government	6.0	19.6	54.2	75.1	25.7	16.2	35.1
Valuation account	-3.7	-1.0	-43.5	30.6	0.0	0.0	0.0

Sources: Central Bank of Nigeria; and staff estimates.

Table 4. Nigeria: Summary Accounts of the Central Bank, 1990 - June 1996

(In millions of naira; end of period)

	1990	1991	1992	1993	1994	1995	1996 June
Net foreign assets	34,928	44,223	13,238	27,623	34,702	31,534	48,862
Foreign assets	34,970	44,266	14,009	29,110	36,305	31,537	48,897
Foreign liabilities	-42	-43	-771	-1,487	-1,603	-4	-35
Net domestic assets	-8,868	-8,401	47,539	62,682	80,657	109,426	93,278
Net domestic credit	13,873	30,079	82,647	155,956	187,877	280,236	291,118
Federal Government (net)	13,653	27,308	78,556	140,940	182,483	251,473	269,427
Ways and means advances	0	0	0	0	0	68,512	130,394
Treasury bills	3,404	34,756	80,852	44,498	30,184	41,198	14,735
Other government securities	45,475	48,346	43,686	145,276	221,658	232,402	225,541
Deposits	-35,226	-55,794	-45,982	-48,834	-69,359	-90,639	-101,243
Lending to banks	209	1,813	675	10,990	2,065	15,172	19,763
Rest of the economy	11	958	3,416	4,025	3,328	13,591	1,928
Stabilization securities	(1,095)	(7,849)	(17,690)	(26,783)	(24,730)	(33,413)	(32,826)
Other items net	(21,646)	(30,631)	(17,418)	(66,490)	(82,489)	(137,397)	(165,014)
of which: net profits on AFEM interventions	...	...	...	...	...	(50,552)	(61,349)
Reserve money	26,060	35,823	60,777	90,305	115,359	140,960	142,141
Currency outside banks	14,941	23,108	36,766	56,261	90,492	106,768	101,502
Total bank reserves	4,311	9,145	15,249	24,263	20,250	26,868	34,398
Currency in vaults	1,272	2,223	2,970	4,720	5,565	7,098	6,780
Bank deposits with CBN	3,039	6,922	12,279	19,543	14,684	19,771	27,617
Required reserves	1,195	1,654	4,726	7,793	10,124	11,868	17,564
Penalty deposit balance	518	748	396	332	626	1,016	342
Excess reserves	1326	4520	7,157	11,418	3,934	6,887	9,711
Memorandum items:							
Base money	19,252	32,253	52,015	80,524	110,742	133,636	135,900
Narrow money	37,577	49,403	77,606	117,424	162,437	193,645	207,611
Quasi money	27,719	36,977	53,115	76,069	95,755	114,220	138,775
Broad money	65,296	86,380	130,722	193,493	258,192	307,865	346,386
Multiplier (M2/base money)	3,391.67	2,678.19	2,513.17	2,402.93	2.33	2.30	2.55
Multiplier (M1/base money)	1,951.89	1,531.73	1,492.01	1,458.25	1.47	1.45	1.53
Currency/deposit ratio	38.80	43.43	47.88	48.48	59.62	58.79	46.00
Total non-cash reserves/total deposit liabilities	7.27	11.87	14.80	15.54	9.11	10.21	11.73
Required reserves/total deposit liabilities	3.00	3.00	6.00	6.00	6.00	6.00	8.00
Excess reserves/total deposit liabilities	3.17	7.75	8.62	9.08	2.44	3.56	4.13
Banks' deposit liabilities	41,788	58,331	82,993	125,784	161,104	193,689	235,409

Sources: Data provided by the Central Bank of Nigeria; and staff estimates and projections.

Table 5. Nigeria: Balance of Payments, 1990 - 96

	1990	1991	1992	1993	1994	1995	1996 Proj.
(In millions of U.S. dollars)							
Trade balance	6,843	4,234	3,570	3,168	2,860	3,786	6,149
Exports	13,914	12,127	12,307	11,297	9,534	10,916	13,500
Petroleum	13,508	11,655	12,026	11,022	9,302	10,626	13,193
Other	406	472	281	275	233	290	307
Imports	-7,070	-7,893	-8,737	-8,129	-6,675	-7,131	-7,351
Oil-related	-1,762	-1,919	-2,210	-1,948	-1,804	-2,044	-2,208
Other	-5,309	-5,974	-6,527	-6,181	-4,871	-5,087	-5,143
Services (net)	-5,391	-5,265	-4,926	-4,761	-4,465	-4,992	-4,857
Of which: interest due	(-2,741)	(-2,424)	(-2,185)	(-2,000)	(-2,014)	(-2,124)	(-2,009)
nonfactor services (net)	(-2,102)	(-2,287)	(-2,093)	(-2,073)	(-1,893)	(-2,141)	(-2,066)
Private transfers (net)	1,029	1,027	790	552	550	656	695
Official transfers (net)	48	22	-57	54	-48	-66	-70
Current account balance	2,529	19	-624	-988	-1,103	-617	1,917
Official capital (net)	-3,094	-2,566	-6,068	-2,477	-2,123	-2,635	-3,123
Disbursements	927	715	528	543	608	331	304
Amortization due 1/	-4,021	-3,281	-6,596	-3,020	-2,731	-2,966	-3,427
Private capital (net)	584	615	898	641	577	706	736
Direct investment	602	588	836	614	582	756	761
Of which: from debt conversion	(110)	(58)	(65)	(15)	(9)	(37)	(70)
Other	-18	27	62	27	-5	-50	-25
Short-term capital (net)	-1,109	-116	-1,817	-354	-160	-41	-218
Capital account balance	-3,620	-2,067	-6,986	-2,190	-1,707	-1,970	-2,605
Errors and omissions	496	-252	-236	-102	100	19	0
Overall balance	-594	-2,301	-7,846	-3,280	-2,710	-2,568	-688
Financing	594	2,301	7,846	3,280	2,710	2,568	688
Net reserves (increase -)	-2,098	-287	3,486	-57	-127	-597	-2,500
Net accumulation of arrears (decrease -) 2/	2,423	751	2,057	3,277	2,746	3,046	3,188
Rescheduling of arrears	-725	-833	-208	0	0	0	0
Exceptional financing	995	2,670	2,509	0	0	0	0
Debt relief 3/	2,266	3,298	794	0	0	0	0
Remaining gap	0	0	1,715	0	0	0	0
Memorandum items:	(In units indicated)						
Current account/GDP (in percent) 4/	9.7	0.1	-1.9	-2.9	-3.2	-1.7	5.0
Gross official reserves (in millions of US\$)	3,863	4,150	713	718	916	1,440	3,940
(In months of imports of goods and nonfactor services)	5.0	4.8	0.8	0.8	1.3	1.8	5.0
Debt-service ratio (before rescheduling) 5/	47.2	45.8	70.2	43.9	49.2	45.8	39.4
Debt-service ratio (after rescheduling) 6/	36.3	25.8	65.4	43.9	49.2	45.8	39.4

Sources: Data provided by the Nigerian authorities; and staff estimates and projections.

1/ Amortization in 1992 includes US\$3.4 billion of debt to London Club creditors which was bought back at the beginning of the year

2/ The cost of purchasing in 1992 the collateral for par exchange of about US\$2 billion debt to London Club creditors.

2/ Estimate for 1993 includes US\$0.3 billion overdue balances in open accounts. Projection for 1995 includes net payment of US\$0.6 billion on post-cutoff-date arrears.

3/ Includes in 1992 US\$2.0 billion debt reduction through the debt buy-back operation with London Club creditors, and US\$0.8 billion debt rescheduling with bilateral official creditors. Includes rescheduling of arrears.

4/ Dollar GDP calculated on the basis of changes in real GDP and U.S. GDP deflator (base year = 1992).

5/ In percent of exports of goods and nonfactor services. Includes face value of commercial debt equivalent to 27.3 percent of exports of goods and nonfactor services purchased via 1992 debt reduction operation. Excludes amortization via debt conversion program.

6/ In percent of exports of goods and nonfactor services. Includes commercial bank debt cancellation equivalent to 16.4 percent of exports of goods and nonfactor services associated with 1992 debt reduction operation.

Table 6. Nigeria: Medium-Term Macroeconomic Outlook, 1995 - 2001

	1995	1996	1997	1998	1999	2000	2001
Baseline scenario							
GDP growth (percent)	2.3	2.4	3.5	3.8	4.0	4.2	4.4
Non-oil GDP growth (percent)	2.4	2.4	3.6	4.0	4.2	4.4	4.6
Consumer price inflation (percent, end-period)	51.6	40.0	20.0	9.0	7.0	7.0	7.0
Consumer price inflation (percent, period average)	70.0	35.0	14.1	9.0	7.0	7.0	7.0
Nominal GDP (naira, billion)	1,479	1,907	2,980	3,172	3,441	3,668	3,965
Oil price (US\$/barrel)	17.3	20.7	20.4	19.6	20.4	19.9	20.1
(In US\$ million)							
External sector							
Exports	10,916	13,500	13,759	13,647	14,444	15,627	16,153
Oil	10,626	13,193	13,409	13,264	13,761	14,665	15,095
Non-oil	290	307	350	383	683	962	1,058
Imports	-7,131	-7,351	-9,375	-8,650	-10,193	-11,318	-11,827
Overall balance	-2,568	-688	-1,224	-1,374	-1,362	275	201
Debt outstanding	32,788	32,548	31,599	30,719	29,842	28,707	27,517
Gross official reserves	1,440	3,940	4,464	4,754	5,249	5,640	5,910
(Annual percentage changes)							
Non-oil export volume	20.0	7.0	7.0	7.0	74.8	22.9	34.1
Oil export volume	4.9	4.1	3.0	3.0	3.0	2.7	1.9
Import volume	-1.6	1.8	26.5	1.7	4.4	9.2	8.9
Terms of trade	0.2	17.2	-2.0	-5.0	-0.6	-0.8	-0.1
(In percent of GDP)							
Saving-Investment							
Gross national saving	17.6	17.6	24.4	21.8	22.9	23.3	23.4
Federal Government	0.9	3.8	10.7	8.5	9.3	6.9	7.3
Gross domestic investment	18.5	17.1	23.5	21.7	22.0	22.3	22.4
Government investment	6.1	6.7	13.6	12.4	12.2	13.0	12.4
External current account balance	-1.7	5.0	0.6	0.0	0.6	0.8	0.7
Federal government finance							
Revenue (federally retained)	11.0	12.3	30.8	26.7	26.8	23.5	22.7
Expenditure	14.7	13.6	31.4	28.0	27.6	25.5	23.8
Primary balance	1.3	2.7	8.6	6.6	6.7	4.7	5.1
Overall balance	-3.7	-1.3	-0.5	-1.4	-0.8	-2.0	-1.0
Memorandum item:							
ICOR	7.6	7.0	5.2	4.4	4.3	4.3	4.3
Lower oil price scenario							
GDP growth (percent)	2.3	2.1	2.3	2.6	2.8	2.8	3.0
Non-oil GDP growth (percent)	2.4	2.4	2.3	2.6	2.8	2.9	3.1
Nominal GDP (naira, billion)	1,473	1,849	2,725	2,883	3,117	3,257	3,454
Oil price (US\$/barrel)	17.3	20.7	17.4	16.6	17.4	16.9	17.1
(In US\$ million)							
External sector							
Exports	10,919	14,364	12,446	12,195	12,885	14,009	14,484
Oil	10,629	14,057	12,096	11,812	12,201	13,047	13,427
Non-oil	290	307	350	383	683	962	1,058
Imports	-7,131	-7,405	-8,849	-9,242	-9,681	-10,504	-10,967
Overall balance	-2,566	-808	-1,352	-2,144	-2,120	-413	-379
Debt outstanding	32,788	32,668	31,615	31,380	30,966	30,327	29,605
Gross official reserves	1,440	3,940	4,231	4,397	4,596	4,796	4,976
(Annual percentage changes)							
Terms of trade	0.2	17.2	-16.2	-5.6	-0.1	-0.0	0.4
(In percent of GDP)							
Saving-Investment							
Gross national saving	17.8	17.8	19.4	19.4	20.3	19.4	20.6
Federal Government	0.9	4.0	8.6	6.1	7.4	7.2	8.0
Gross domestic investment	18.7	17.2	18.4	17.7	17.4	15.5	16.2
Government investment	6.1	6.9	9.8	9.1	9.0	9.0	8.9
External current account balance	-1.7	5.4	-0.9	-2.3	-1.4	-0.9	-0.6
Federal government finance							
Revenue (federally retained)	11.0	12.7	30.0	25.8	26.3	24.9	24.4
Expenditure	14.7	14.1	33.7	30.6	29.9	27.8	26.0
Primary balance	1.3	2.8	5.7	3.7	4.1	3.9	4.4
Overall balance	-3.7	-1.4	-3.7	-4.8	-3.6	-2.9	-1.6
Memorandum item:							
ICOR	7.6	7.0	8.0	6.9	6.5	5.7	5.5

Sources: Data provided by the authorities; and staff estimates and projections.

Table 7. Nigeria: Balance of Payments Projections - Baseline Scenario, 1996 - 2005

	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
	Projections									
	(In millions of U.S. dollars)									
Trade balance	6,149	4,384	3,998	4,252	4,337	4,310	4,325	4,311	4,374	4,449
Exports	13,500	13,759	13,647	14,444	15,107	15,627	16,153	16,673	17,254	17,766
Petroleum	13,193	13,409	13,264	13,761	14,248	14,665	15,095	15,536	16,032	16,451
Other	307	350	383	683	860	962	1,058	1,137	1,222	1,315
Imports	-7,351	-9,375	-9,650	-10,193	-10,770	-11,318	-11,827	-12,362	-12,881	-13,317
Oil-related	-2,208	-2,171	-2,150	-2,180	-2,224	-2,265	-2,296	-2,324	-2,454	-2,484
Other	-5,143	-7,205	-7,499	-8,013	-8,546	-9,053	-9,532	-10,038	-10,427	-10,833
Services (net)	-4,857	-4,768	-4,615	-4,596	-4,583	-4,582	-4,598	-4,659	-4,743	-4,811
Of which: interest due	-2,009	-1,947	-1,894	-1,847	-1,799	-1,769	-1,740	-1,748	-1,782	-1,810
nonfactor services (net)	-2,068	-2,382	-2,330	-2,378	-2,407	-2,465	-2,521	-2,587	-2,651	-2,704
Private transfers (net)	695	702	712	722	731	755	764	789	798	808
Official transfers (net)	-70	-73	-77	-81	-85	-89	-93	-98	-103	-108
Current account balance	1,917	245	18	297	420	394	398	342	326	338
Official capital (net)	-3,123	-2,237	-2,075	-2,260	-777	-871	-1,226	-1,573	-1,956	-1,992
Disbursements	304	480	470	473	475	388	388	388	388	388
Amortization due 1/	-3,427	-2,697	-2,545	-2,733	-1,252	-1,258	-1,612	-1,961	-2,344	-2,380
Private capital (net)	736	849	842	853	874	883	888	893	797	801
Direct investment	781	672	666	671	680	688	693	698	802	806
Of which: from debt conversion	70	54	54	54	54	54	54	54	54	54
Other	-25	-23	-23	-18	-5	-5	-5	-5	-5	-5
Short-term capital (net)	-218	119	40	-52	-43	-4	16	18	-43	8
Capital account balance	-2,605	-1,469	-1,392	-1,659	-145	-192	-520	-863	-1,203	-1,183
Errors and omissions	0	0	0	0	0	0	0	0	0	0
Overall balance	-688	-1,224	-1,374	-1,362	275	201	-122	-520	-877	-844
Financing	688	1,224	1,374	1,362	-275	-201	122	520	877	844
Net reserves (increase -)	-2,500	-524	-291	-495	-391	-270	-252	-264	-257	-220
Net nonreserve foreign assets (increase -)	0	0	0	0	0	0	0	0	0	0
Net accumulation of arrears (decrease -)	3,188	0	0	-0	0	0	0	0	0	0
Rescheduling of arrears	0	0	0	0	0	0	0	0	0	0
Exceptional financing	0	1,748	1,665	1,856	116	68	374	784	1,134	1,064
Debt relief 4/	...	...	...	...	...	...	...	...	...	...
Remaining gap	0	1,748	1,665	1,856	116	68	374	784	1,134	1,064
Memorandum items:	(In units indicated)									
Current account/GDP (in percent) 1/	5.0	0.6	0.0	0.6	0.8	0.8	0.7	0.6	0.5	0.5
Gross official reserves (in millions of US\$)	3,940	4,464	4,754	5,249	5,640	5,910	6,162	6,426	6,684	6,904
(In months of imports of goods and nonfactor services)	5.0	4.5	4.7	4.9	5.0	5.0	5.0	5.0	5.0	5.0
Debt-service ratio (before rescheduling) 2/	39.4	33.0	31.8	30.7	19.4	18.5	19.9	21.3	22.9	22.6

Sources: Data provided by the Nigerian authorities; and staff estimates and projections.

1/ Dollar GDP calculated on the basis of changes in real GDP and U.S. GDP deflator (base year = 1992).

2/ In percent of exports of goods and nonfactor services. Includes face value of commercial debt equivalent to 27.3 percent of exports of goods and nonfactor services purchased via 1992 debt reduction operation. Excludes amortization via debt conversion program.

Table 8. Nigeria: External Public and Publicly Guaranteed Debt, 1990-96

	1990	1991	1992	1993	1994	1995 Prel.	1996 Proj. 1/
(In millions of U.S. dollars; end of period)							
Paris Club	17,713	17,788	17,805	18,714	20,360	21,752	22,156
Medium- and long-term debt 2/	14,714	15,354	16,058	17,558	19,810	21,255	21,779
Other 3/	2,999	2,434	1,747	1,156	550	497	377
Other official debt 4/	1,374	1,453	1,506	1,647	1,762	1,800	1,542
London Club	5,878	5,963	2,118	2,055	2,049	2,048	2,048
Medium- and long-term debt 2/	2,880	2,903	2,048	2,048	2,048	2,048	2,048
Other 3/	2,998	3,060	70	7	0	0	-0
Multilateral organizations	3,853	4,008	4,090	4,216	4,476	4,304	3,870
Promissory notes	4,508	4,316	3,220	3,160	3,048	2,883	2,645
Total	33,430	33,550	28,738	29,791	31,694	32,788	32,499
Memorandum items: (In percent, unless otherwise indicated)							
Debt/GDP 5/	128.1	113.9	89.7	88.6	91.4	90.2	85.6
Debt service/GDP 5/ 6/	25.9	19.4	27.4	14.9	13.7	14.0	14.3
Share in total debt							
Paris Club	53.0	53.0	62.0	62.8	64.2	66.3	68.2
London Club	17.6	17.8	7.4	6.9	6.5	6.2	6.3
Multilateral organizations	11.5	11.9	14.2	14.2	14.1	13.1	11.9
Cumulative financing gap	0.2	0.1	0.0	0.0	0.0	0.0	0.4
Stock of arrears (In millions of U.S. dollars) 7/	2,178	1,325	3,323	6,183	9,219	12,655	15,616

Sources: Central Bank of Nigeria; and staff estimates and projections.

1/ Based on balance of payments projections in Table 5.

2/ Includes arrears, rescheduled medium- and long-term debt, and new disbursements.

3/ Includes short-term arrears, rescheduled short-term claims, and payable debt.

4/ Arrears arising from dedication accounts and exchange rate guarantees provided at the time of the introduction of the second-tier foreign exchange market.

5/ Dollar GDP calculated on the basis of changes in real GDP and U.S. GDP deflator (base year = 1992).

6/ On a commitment basis; includes the cost of debt reduction operation in 1992.

7/ End of period, excluding pre-SFEM and dedication account arrears.

NIGERIA - RELATIONS WITH THE FUND

(As of October 31, 1996)

I. Membership Status: Joined 3/30/61; Article XIV

II. General Resources Account:	SDR Million	% Quota
Quota	1,281.60	100.0
Fund holdings of currency	1,281.59	100.0
Reserve position in Fund	0.07	--

III. SDR Department:	SDR Million	% Allocation
Net cumulative allocation	157.16	100.0
Holdings	1.95	1.2

IV. Outstanding Purchases and Loans: None

V. Financial Arrangements:

Type	Approval Date	Expira- tion Date	Amount Approved (SDR Million)	Amount Drawn (SDR Million)
Stand-by	1/09/91	4/08/92	319.00	--
Stand-by	2/03/89	4/30/90	475.00	--
Stand-by	1/30/87	1/31/88	650.00	--

VI. Projected Obligations to Fund (SDR million; based on existing use of resources and present holdings of SDRs):

	Overdue 10/31/96	Forthcoming				
		1996	1997	1998	1999	2000
Charges/Interest	--	1.5	6.0	6.0	6.0	6.0
Total	--	1.5	6.0	6.0	6.0	6.0

VII. Exchange Rate Arrangement:

Official rate:	₦ 21.996 per U.S. dollar
Autonomous market rate	₦ 80.0 per U.S. dollar
Local currency/SDR equivalent	₦ 31.982 per SDR

NIGERIA- RELATIONS WITH THE FUND (concluded)

(As of October 31, 1996)

The modalities of the foreign exchange system underwent various changes during 1994 and 1995. Foreign exchange sales by the central bank were suspended on December 17, 1993 and only resumed on February 17, 1994. The pro rata allocation of foreign exchange was replaced by direct allocation to end-users by the central bank at the official exchange rate of ₦ 22 per U.S. dollar during 1994. At the same time, the role of foreign exchange bureaux was limited to the purchase of foreign exchange at the official exchange rate, with a margin of 10 percent, for surrender to the central bank.

The authorities introduced a dual exchange rate system, effective January 1, 1995, in which the official rate remained at ₦ 22 per US\$1 for official government transactions and a market-determined autonomous interbank rate (currently ₦ 80 per U.S. dollar) applied to all other transactions.

VIII. Article IV Consultation:

(a) Nigeria is on the standard 12-month Article IV consultation cycle. The last Article IV consultation discussions were held in Lagos and Abuja during the period May 22-June 7 and July 30-August 2, 1995. The staff report (SM/95/268, 10/11/95) was discussed by the Executive Board and the consultation was concluded on November 1, 1995.

IX. Technical Assistance: 1990-1996 (to date):

Department	Purpose	Duration
IMF Institute	Financial Programming Seminar	May 20-31, 1991
FAD	Value added tax	November 1-13, 1993
MAE	Open market operations	February 2-11, 1994
STA	Money and banking statistics	March 22-31, 1995
FAD	Budget management and procedures	September 18-29, 1995

X. Resident Representative/Advisor: None

NIGERIA - RELATIONS WITH THE WORLD BANK GROUP

- Since the World Bank's first lending operation in Nigeria in 1958, a total amount of US\$6,266 million of IBRD and IDA resources (net of cancellations) has been committed to 98 operations in the country. Fourteen of these were IDA credits (totaling US\$798 million), of which three (totaling US\$146 million) have been fully disbursed. Total disbursements of IBRD loans and IDA credits as of October 31, 1996 amounted to US\$5,287 million, leaving an undisbursed balance of US\$1,027 million. Bank operations in Nigeria, net of cancellations, have included projects in agriculture and environment (accounting for 31.7 percent of total IBRD/IDA commitments), industry and telecommunications (9.6 percent), power (7.5 percent), transport (9.6 percent), urban infrastructure/water supply (16.9 percent), education, health, and population (8.0 percent), and technical assistance (1.7 percent). Two structural adjustment loans were responsible for 15.0 percent of total IBRD/IDA resources committed to Nigeria. IFC loans and equity investments since 1964 have amounted to US\$189 million (as of October 31, 1996).

- In support of Nigeria's structural adjustment program and in conjunction with a Fund stand-by arrangement, the Bank approved a quick-disbursing trade policy and export development loan of US\$452 million on October 16, 1986. The loan supported the government's efforts to reform trade and export policies through: (i) the introduction of a market-determined exchange rate system; (ii) the virtual elimination of import licensing and price controls; and (iii) the implementation of measures aimed at promoting exports. On December 22, 1988, the Bank approved a second quick-disbursing trade and investment policy loan of US\$500 million, which covered the following areas: (i) consolidation of the exchange rate reforms initiated in 1986; (ii) further reform of the protection regime; (iii) implementation of export promotion measures; (iv) stimulation of private investment; and (v) rationalization of the capital budgeting process and the public investment program.

- The Bank's annual lending program in FY 1992-96 averaged US\$90 million. In comparison, during 1985-91 the annual average was US\$600 million. No new operations have been approved since 1993. Since Nigeria was declared IDA-eligible in 1988, support from IDA rose from less than 10 percent of total assistance in FY 1989 to 50 percent in FY 1992. In 1993, all assistance was on IDA terms.

NIGERIA - DATA ISSUES

Nigeria's statistical base continues to suffer from a number of weaknesses, particularly with respect to the fiscal data (federal, state, and local governments), the external accounts, and the national accounts. The authorities are cooperative in providing data to the Fund. The Central Bank of Nigeria (CBN) and the Federal Office of Statistics (FOS) publish several statistical bulletins annually.

1. National accounts

Annual national accounts data are published by the FOS with a considerable lag. Production indices for agriculture, transportation, and financial and other services may not be robust and sectoral deflators have a number of inconsistencies. The expenditure accounts have several important shortcomings, partly due to unreliable external trade and government budgetary data. Imports and government expenditure are significantly understated, thereby distorting private consumption and investment data. A World Bank mission visited Lagos to review these problems with the FOS.

2. Prices

The official monthly consumer price index (CPI) is a composite of urban and rural price data and is based on the 1985/86 National Consumer Survey. Delays of up to five months in reporting the CPI data have been common over the past year. Some data on producer prices is collected, but, these statistics are not comprehensive and no producer price index is produced.

3. Government finance

Until recently, the weaknesses in budgetary information reflected the lack of transparency in the public finances. There continues to be limitations on reliable figures on Federal Government budget outcomes and state and local government finances. Nigeria has not reported government finance statistics data to STA for many years. An FAD technical assistance mission on budget management visited Lagos during the second half of September 1995 to help improve the compilation, analysis, and reporting of these data. A follow-up mission is scheduled for 1997.

4. Monetary accounts

An STA technical assistance mission on money and banking statistics visited Lagos in March 1995 to assist the authorities in resolving a number of outstanding data issues in the balance sheet of the Central Bank, including the treatment of net foreign assets, the revaluation account, and private sector deposits, as well as very large unidentified totals in "other assets" and "other liabilities". The authorities have taken steps towards implementing the key recommendations of the 1995 STA mission and provided provisional revised money

and banking statistics to AFR and STA during 1996. A follow-up mission, aimed at further improving Nigeria's money and banking statistics, is scheduled to visit Lagos during 1997.

5. Balance of payments

The ability to assess developments in the external sector is constrained by a less than comprehensive coverage: merchandise imports, oil sector operations, and private capital movements are all under recorded and data on external debt service lack detail and accuracy. Moreover, the trade data reported by FOS differ from those reported by the CBN. To date, the recommendations of the 1987 STA technical assistance mission for improving the methodology for compiling the balance of payments have not been implemented. A follow-up technical assistance mission is contemplated to address these issues.

6. External debt

Data on the external debt outstanding, including post-cutoff date obligations, may not be comprehensive. In addition, the Federal Ministry of Finance's debt management database does not contain full information on the currency composition of debt contracted or on the payment terms for late interest. This precludes the adjustment of debt stock and debt service obligations for exchange rate movements, and impedes the precise estimation of late interest payments due on arrears.

Table 1. Nigeria: Core Statistical Indicators
(as of end-November 1996)

	Exchange rates	International reserves	Reserve/ base money	Central Bank balance sheet	Broad money	Interest rates	Consumer price index	Exports/ Imports	Current account balance	Overall government balance	GDP/GNP	External Debt
Date of latest observation	11/96	11/96	9/96	9/96	9/96	11/96	8/96	12/95	12/95	6/96	12/95	12/95
Date received	11/96	11/96	11/96	11/96	11/96	11/96	11/96	9/96	9/96	9/96	9/96	9/96
Frequency of data 1/	M	M	M	M	M	M	M	A	A	M	A	A
Frequency of reporting 1/	M	M	M	M	M	M	M	V	V	Q	V	V
Source of data 2/	A	A	A	A	A	A	A	A	A	A	A	A
Mode of reporting 3/	C/M	C/M	C/M	C/M	C/M	C/M	C/M	V	V	C/M	V	V
Confidentiality 4/	P	P	P	P	P	P	P	P	P	P	P	P

1/ A-annually; D-daily; M-monthly; Q-quarterly.

2/ A-direct reporting by Central Bank, Ministry of Finance, or other official agency.

3/ C-cable or facsimile; E-electronic data transfer; M-mail; V-staff visits.

4/ P-publicly released information.

Nigeria - Selected Social and Demographic Indicators 1/

Social and demographic indicators

Area	923,770 square kilometers
Population	105 million
Rate of growth (1989-94)	2.9 (percent)
Density	114 per square kilometer

	Nigeria	Low Income Countries	Sub-Saharan Africa		Nigeria	Low Income Countries	Sub-Saharan Africa
<u>Population characteristics</u>				<u>Health</u>			
Life expectancy at birth	52	63	52	Population per hospital bed (1990)	599	1,016	1,269
Infant mortality rate (per thousand live births)	81	58	92				
Under 5 mortality rate (per thousand live births)	191	101	161				
<u>Access to safe water</u>				<u>Energy consumption</u>			
(percent of population)				(kg of oil equivalent per capita)	162	373	251
Urban	52	79	...				
Rural	20	62	...				
Total	40	67	...				
<u>Nutrition</u>				<u>Education</u>			
Calorie intake (per day)	2,132	...	...	Enrollment rates of school age group (percent)(1992)			
Per capita protein intake (grams per day)(1991)	48	...	...	Primary	76	74	...
				Secondary	29	48	24
				<u>Illiteracy rate</u>			
				(percent of population aged 15 or more)(1990)			
				Overall	49	35	53
				Female	53	46	54

Source: The World Bank.

1/ All data refer to 1994 unless otherwise noted.

2/ Low income countries

Main Assumptions Underlying the Medium-Term Balance of Payments Outlook

1. The medium-term balance of payments outlook (Table 6 and Table 7) is based on the following assumptions:

- the dual exchange rates would be unified by January 1997;
- the international market price for Nigerian grade crude oil would remain at about US\$20/barrel over the next decade;
- Nigeria's share in OPEC production would be maintained at about the current level;
- government investment would rise, in response to the oil windfall and following historical patterns, beginning in 1997, to a range near 10 percent of GDP; and
- export operations on the Nigeria Liquefied Natural Gas project would begin in 1999.

2. The outlook also assumes that, in the absence of a comprehensive policy program, the current policy of "guided deregulation" would be maintained. Thus, import and export prohibitions would be gradually removed from 1997 onward, and official reserves, which increased significantly during 1996, would be gradually raised to the equivalent of five months of imports. More critically, the withdrawal of government from commercial activities is assumed to be limited, as would and improvement in the investment climate, investment efficiency, and private sector investment.

3. It is assumed that the federal government primary balance would average the equivalent of 6.5 percent of GDP during 1997-2001. Monetary policy, given the fiscal stance, is assumed to be sufficiently conservative to lower inflation gradually from 20 percent in 1997 to about 7 percent over the medium-term. It is also assumed that the nominal exchange rate would depreciate by 24 percent in the AFEM during 1997 in response to increased import demand and, subsequently, would remain unchanged. This implies that the real exchange rate would appreciate by about 5 percent per annum from 1998.

5. Given its current external debt-service profile, annual current account surpluses averaging US\$300 million (0.6 percent of GDP) could be projected during 1997-2005. Maintaining a conservative assumption on disbursement trends on external borrowing, and the maintenance of current direct investment trends, including spending on the liquefied natural gas development, and taking into account the amortization schedule, the deficit on the capital account would average US\$958 million during the same period. Nigeria's overall balance of payments deficit would average US\$650 million during 1997-2005. As official reserves are assumed to increase to the equivalent of five months of imports, a financing gap averaging US\$978 million would remain over same period.

STRUCTURE OF GOVERNMENT FINANCES

I. INTRODUCTION

Establishing the financial position of the Nigerian government is complicated by the complex relation between revenue collected and its distribution to the various units of government (Appendix Figure). Between the collection of receipts and their distribution to spending authorities stands a network of financial accounts. The financial balances maintained in these accounts are not the resources of the spending units of government and, hence, may not be included in the overall fiscal stance of those spending units.

II. REVENUE SOURCES AND COLLECTION

Government revenue sources include oil export proceeds, a portion of receipts from the domestic sale of petroleum products, income and profit taxes, customs and excise tax revenue, value-added tax, remittances of profits and fees from public enterprises, and, since 1995, profits from central bank foreign exchange interventions under the dual exchange rate system. Aside from central bank profits, the Federal Government of Nigeria is charged with collecting the revenue from these various sources for distribution to the appropriate units of government.¹⁴

III. SPENDING AUTHORITIES

The units comprising the Nigerian Federation, and having the authority to spend, include: the federal government,¹⁵ 36 state governments, the Federal Capital Territory, and 772 local governments. The Federal Ministry of Finance manages the resources accruing to the federation prior to their distribution. There are, additionally, five statutory funds¹⁶ that receive 7.5 percent of the amounts allocated to the Federation Account, and a Petroleum

¹⁴State governments are empowered to collect personal income taxes, fees for registration and licensing of vehicles, and charges related to real estate from state residents. Local governments have the authority to collect property taxes, bicycle and truck licenses, and radio and television licenses.

¹⁵Including the Nigeria Petroleum Investment Management Service (NAPIMS), the unit of the Ministry of Finance responsible for the administration of oil sector financial transactions.

¹⁶The Ecology Fund, the Statutory Stabilization Fund, the Mineral Derivation Fund, the Mineral Producing Areas Fund, and the Federal Capital Territory Fund.

Special Trust Fund, managed by an independent board whose chairman reports to the Head of State.

IV. THE FINANCIAL DISTRIBUTION OF REVENUE

A. Deposit of Receipts

Since 1995, the proceeds from petroleum exports have been directly deposited into a central bank account at the Federal Reserve Bank of New York. Federally collected income and profits taxes, customs and excise revenue, and value-added taxes are, similarly, initially deposited in the central bank accounts of the collecting agencies, and then transferred to the Federation Account for eventual distribution to federal, state, and local governments, the Federal Capital Territory, and the five statutory funds.

The profits of the public enterprises, including those of the central bank, are remitted directly to shareholders' accounts. Central bank profits are transferred to the federal government's treasury account biannually, following the submission of audited accounts.

Proceeds from the domestic sale of petroleum products, by NNPC, are deposited into Petroleum Products Accounts at various branches of the central bank. These proceeds are disbursed to the accounts of the Federal Treasury, the Petroleum Special Trust Fund, the NNPC, and petroleum marketers, according to a set formula.

B. Transfers of Revenue

At the beginning of 1995, the federal government established a category of expenses to be financed directly from oil export proceeds.¹⁷ These expenditures, dubbed "first charges," included payments made on external debt service, the joint venture contributions and capital expenditures of the NNPC, and "priority projects" of the federal government. Amounts allocated for the finance of such spending are transferred to several accounts at the central bank under the authority of the minister of finance.

In addition to "first charge" allocations, the export proceeds exceeding budgetary projections are transferred to an excess proceeds account at the central bank, and, on a discretionary basis, the minister of finance directs the further transfer of oil export proceeds to stabilization and special reserve fund accounts. Following the transfer of funds to the "first charges," excess proceeds, special reserve, and stabilization accounts, the remaining funds are

¹⁷Prior to 1995, proceeds from a set number of barrels of crude oil sold to cover the dollar denominated costs and capital budget of the NNPC were retained in "dedicated" accounts.

transferred to the Federation Account, for eventual distribution according to the federation's sharing formula.¹⁸

Finally, with the establishment of the dual exchange rate system, the central bank earns significant profits from the sale of foreign exchange at AFEM rates, given the crediting of government foreign exchange deposits at the substantially lower official rate. Under the 1995 and 1996 budgets, the federal government directed that fixed amounts, from these profits, be transferred to its treasury account. Furthermore, in both 1995 and 1996, it is reported that the federal government directed the central bank to use part of the profits from its AFEM interventions to pay the naira-denominated joint venture obligations ("naira cash calls") of the NNPC.

D. The Effects of Exchange Rate Unification

The effect of the unification of the official exchange rate and the AFEM rate on the financial operations of the various levels of government and government entities depends on the level of first charge deductions from oil revenue collected. Had exchange rate unification taken place at the beginning of 1996, it is projected that oil revenue collected would have increased by ₦745 billion while first charge deductions, valued at the average AFEM rate for 1996, would have risen by ₦ 379 billion. As a result, the revenue transferred to the Federation Account would have been ₦ 366 billion higher, with 48.5 percent of this increase transferred to the federal government's treasury, and the remainder split between state and local governments, and the special federation funds.

Revenue retained by the federal government, reflecting the increased revenue transfers from the federation account and the direct transfer of resources counterpart to external debt service and national priority projects, would have risen by ₦ 418 billion. Taking account of the import content of federal government recurrent and capital expenditure and the revaluation of interest due on external debt obligations, federal government expenditure would have been some ₦ 355 billion higher, and the resulting overall balance would have moved from a projected deficit of ₦ 25 billion to a surplus of about ₦ 38 billion.

While the federal government's overall balance would improve by ₦ 63 billion, the valuation of amortization due on external obligations at the AFEM rate would result in an addition of ₦ 192 billion in financing requirements. Overall, failing an increase in deductions for first charges, the overall financial position of federal government would worsen by ₦ 129 billion. As the revenue allocated to local and state governments would rise (as noted above), the effect of exchange rate unification on the consolidated financial balances of government, including the special funds, state and local government, and the central bank, would be neutral.

¹⁸In theory, the Federation Account has a zero balance following the distribution of funds at the end of each month. In practice, a residual balance is maintained in the account.

Nigeria: Structure of Government Finances

<u>Revenue Sources</u>	<u>Financial Disbursement Accounts</u>	<u>Spending Authorities</u>
<u>Federally Collected</u>		
Oil	FGN Treasury	Federal Government, Budgetary
Production/Exports		State Government
Domestic	Federation Account	Local Government
Non-oil		
Income taxes	Petroleum Products Account	Special (Federation) Funds
Customs revenue	NAPIMS Cash Calls Account	Petroleum Special Trust Fund
Value added tax	NNPC Priority Projects Account	NAPIMS
	FGN Priority Projects Account	NNPC
<u>Monetary Authorities</u>	Special Accounts Excess Proceeds/Stabilization Special Reserve Debt Service Reserve	Federal Government, Extrabudgetary
Foreign exchange intervention profits	AFEM Profits Accounts	

Structure of Government Finances

(in billions of naira)

	1995	1996 current budget	1996 exchange rate unification Projected	Effect of exchange rate unification 1/
Gross oil revenue (a)	236.6	325.2	1,070.3	745.1
of which: exports	(216.1)	(278.1)	(1,023.2)	(745.1)
domestic sales	(20.5)	(47.1)	(47.1)	(0.0)
less deductions ("first charges"): (b)	148.6	185.6	564.3	378.7
of which: NNPC cash calls and priority projects	(66.2)	(39.0)	(146.1)	(107.1)
External debt service and federal government				
priority projects 2/ (b1)	(62.0)	(88.0)	(328.0)	(240.0)
Special funds (non-federation)	(4.6)	(11.5)	(43.1)	(31.6)
Oil revenue transferred to Federation Account (a)-(b)	88.0	139.6	506.0	366.4
Federally collected income, customs, and excise taxes (c)	63.6	66.0	66.0	0.0
Federation account revenue (a)-(b)+(c) = (d)	151.6	205.6	572.0	366.4
distribution to: federal government (d1)	(73.5)	(99.7)	(277.4)	(177.7)
state government	(36.4)	(49.3)	(137.3)	(87.9)
local government	(30.3)	(41.1)	(114.4)	(73.3)
federation funds	(11.4)	(15.4)	(42.9)	(27.5)
Value added tax revenue (e)	20.5	25.5	25.5	0.0
distribution to: federal government (e1)	(7.2)	(8.9)	(8.9)	(0.0)
state government	(8.2)	(10.2)	(10.2)	(0.0)
local government	(5.1)	(6.4)	(6.4)	(0.0)
Independent revenue of federal government (f)	19.1	38.0	38.0	0.0
of which: AFEM profits transferred from CBN	0.0	38.0	38.0	(0.0)
Federally retained revenue (b1)+(d1)+(e1)+(f) = (g)	162.1	234.7	652.4	417.7
Federal government recurrent expenditure (h)	148.4	161.3	312.6	151.3
of which: interest payments of external debt 3/	(45.9)	(43.6)	(163.4)	(119.8)
Federal government capital expenditure (i)	68.6	98.7	302.2	203.5
of which: financed under capital budget	(50.5)	(54.7)	(137.3)	(82.6)
from "first charges" 4/	(18.1)	(44.0)	(164.9)	(120.9)
Total federal government expenditure (h)+(i) = (j)	217.0	260.0	614.8	354.8
Federal government overall balance (g)-(j)	-54.9	-25.3	37.6	62.9
Federal government: amortization due on external debt	-64.4	-73.9	-276.9	191.8
of which: financed under (b1) 3/	(0.0)	(0.5)	(1.5)	(1.0)
Memorandum items:				
Balances in special funds 5/	4.6	11.5	43.1	31.6
PSTF financial balance 6/	25.1	35.8	35.8	0.0
State and local governments overall financial balances 7/	-4.0	0.0	161.2	161.2
Federal special fund balances 8/	...	...	...	0.0
Central Bank of Nigeria 9/	56.5	68.9	5.0	-63.9
Consolidated balance of general government	27.4	91.0	282.8	191.8
Aggregate change in financial position, including amortization 10/	...	...	...	0.0

Sources: Data provided by the Nigerian authorities; and staff estimates and projections.

1/ Change from 1996 to 1997 resulting from exchange rate unification at projected AFEM exchange rate.

2/ Includes external debt service fund.

3/ Interest and amortization due on a commitment basis; data are not available on the interest and amortization composition of debt service paid in 1995 and 1996.

4/ Includes national priority projects.

5/ Excludes external debt service fund.

6/ Based on assumption that PSTF will disburse one-half of available funds.

7/ Net balance assumed for 1996 under current exchange rate regime.

8/ No data is available on overall financial balances of special (federation) funds. Only the resulting change in their financial balance as a result of unification is projected.

9/ Includes realized net AFEM intervention profits for 1995, and projected profits for 1996, as well as the overall net operating income of the Central Bank of Nigeria (CBN).

10/ Federal Government overall balance less the sum of the change in external amortization due and the net changes in the financial balances of the special funds, PSTF, state and local government, federation special funds, and CBN.

