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INTERNATIONAL MONETARY FUND

Minutes of Executive Board Meeting 91/4

3:00 p.m., January 9, 1991

M. Camdessus, Chairman

Executive Directors	Alternate Executive Directors
M. Al-Jasser	
	L. E. N. Fernando
	D. Powell, Temporary
	Zhang Z.
	Shao Z., Temporary
T. C. Dawson	S. B. Creane, Temporary
	J. Prader
E. A. Evans	G. H. Spencer
R. Filosa	
M. Finaish	A. F. Mohammed
M. Fogelholm	I. H. Thorláksson
B. Goos	
J. E. Ismael	
	F. A. Quirós, Temporary
	J.-F. Cirelli
	O. Kabbaj
	L. J. Mwananshiku
D. Peretz	P. Wright
G. A. Posthumus	
	N. Toé, Temporary
	R. Marino
A. Végh	A. G. Zoccali
K. Yamazaki	N. Tabata
	L. Ichikawa, Temporary

L. Van Houtven, Secretary and Counsellor
S. W. Tenney, Assistant

1. Philippines - Extended Arrangement - Extension of Period for Reporting . . . . Page 3
2. Nigeria - Stand-By Arrangement, and Exchange System . . . . . . Page 13
3. Kingdom of Netherlands - Netherlands - Representative Rate for Netherlands Guilder . . . . Page 54
4. The Gambia - Technical Assistance . . . . Page 54

Also Present

IBRD: D. Gressani, Asia Regional Office. T. Swayzi, Africa Regional Office. African Department: M. Touré, Counsellor and Director; E. A. Calamitsis, Deputy Director; G. E. Gondwe, Deputy Director; M. J. Ellyne, J. M. Jimenez, P. M. Young. Asian Department: P. R. Narvekar, Director; H. Neiss, Deputy Director; U. Baumgartner, J. Lin, B. J. Smith. Exchange and Trade Relations Department: J. T. Boorman, Director; T. Leddy, Deputy Director; C. V. A. Collyns, J. C. Di Tata, M. E. Edo, M. A. El-Erian. External Relations Department: R. R. Brauning. The IMF Institute: W. Bier. Legal Department: D. Asiedu-Akrofi, H. Elizalde, P. L. Francotte, R. B. Leckow. Treasurer's Department: D. Gupta. Personal Assistant to the Managing Director: B. P. A. Andrews. Advisors to Executive Directors: J. M. Abbott, M. B. Chatah, C. D. Cuong, M. J. Mojarrad, H.-J. Scheid, A. M. Tanase. Assistants to Executive Directors: B. Abdullah, J. O. Aderibigbe, T. Berrihun, J. A. Costa, N. A. Espenilla, S. K. Fayyad, B. R. Fuleihan, S. Gurumurthi, M. E. Hansen, O. A. Himani, C. J. Jarvis, M. E. F. Jones, W. Laux, R. Meron, G. Montiel, M. Mrakovcic, C. Schioppa, J.-P. Schoder, N. Sulaiman, S. von Stenglin.

1. PHILIPPINES - EXTENDED ARRANGEMENT - EXTENSION OF PERIOD FOR REPORTING

The Executive Directors continued from EBM/91/3 (1/9/91) their consideration of a staff paper on debt and debt-service reduction operations in the Philippines and a possible extension of the period for the report by the Managing Director on the Philippines as required under Decision No. 9331-(89/167), adopted December 19, 1989 on debt and debt-service reduction operations and early repurchase expectations (EBS/90/212, 12/12/90; and Sup. 1, 1/4/91).

Mr. Fogelholm made the following statement:

I welcome the opportunity to take a second look at the question of early repurchase expectations with respect to the Philippines' accelerated purchase of set-asides based on the additional information contained in the staff paper and in Mr. Evans's thought-provoking opening statement.

The economic situation portrayed does not look particularly bright, and without attempting to pre-empt the forthcoming program discussions, one can conclude that considerable efforts will be required to put the economy back on track. It goes without saying that the upcoming program should be strong and, to a larger extent than has been the case to date, should secure the development toward medium-term viability. In this context, I do not know whether the figures in Tables 2 and 3 of the staff paper can be regarded as final, but it is noteworthy that many economic indicators for 1991, specifically the current account deficit, the national government deficit, the public sector borrowing requirement, the gross official reserves, and the external debt, are all expected to be worse than the projections for the 1990 program under the extended arrangement.

But the biggest problem would, nonetheless, seem to be the financing of the program. The projected financing gap is huge, and both the staff and Mr. Evans are indicating that the prospects for substantial additional new money from commercial banks are extremely poor. In this context, my authorities would like to emphasize the importance of obtaining satisfactory financing assurances before any new program is brought to the Board.

Let me now turn to the question of early repurchases, the principle aspects of which we believe have not yet been adequately addressed by the staff. Mr. Evans raised the issue, and I can understand the rationale behind his suggestion to put this matter to rest, but I am afraid that we just cannot follow that route. To be able to do so, we would first have to amend our guidelines on the debt strategy, which is certainly easier said than done, and then revise the decision on early repurchases. Until then, we are bound by the law of the land, that is, our own decision; otherwise, we may end up in complete disarray.

The fact remains that the Fund has made accelerated set-aside disbursements under a program that is not only off track, but does not even exist anymore. Furthermore, more than half a year has elapsed since the original extended arrangement went off track.

Under normal circumstances, that is, if the derailing of the program had been caused mainly by policy slippages, this would have been a clear case for the Board to activate its decision on early repurchases. However, as explained by both the staff and Mr. Evans, exceptional circumstances have prevailed; the Philippines has been hit by a series of external shocks undoing time and again the authorities' efforts to put the program back on track or to conclude a new program. Against this background, and in order not to risk the ongoing program negotiations, we are willing once more to extend the period of 90 days under paragraph 4(a) of Decision No. 9331-(89/167), until March 15, 1991.

Nevertheless, the Board should, indeed, not lose sight of the principles involved and should return to this issue and finally resolve it. Such a discussion could be held, as proposed by Mr. Wright, in connection with the Board discussion on the new stand-by arrangement, provided, of course, that it takes place before March 15. Then, I believe that this chair would be willing to consider a scheme of early repurchases of the kind mentioned by Mr. Wright.

Mr. Dawson said that he supported the staff proposal. He agreed with the thrust of the points made by Mr. Evans on possible flaws in Decision No. 9331-(89/167) on debt and debt-service reduction expectations. During the Board's consideration of that decision, his chair had put forward some suggestions concerning limitations to be placed on the disbursement of accelerated set-asides, and the current situation would have been avoided if those suggestions had been incorporated in the Fund's guidelines. In that connection, to seek some form of early repurchase alongside drawings under the proposed stand-by arrangement, as suggested by Mr. Wright, would not have any significant effect, as drawings under the new program and the early repurchases would tend to cancel each other out.

However, it should be noted that paragraph 6(b) of Decision No. 9331-(89/167) did provide some room for flexibility in stating: "A member shall not be expected to repurchase pursuant to subparagraph (a) above if its program is back on track within the period specified in that paragraph, or if the Executive Board determines that the member has already begun to implement measures designed to bring the program back on track," Mr. Dawson continued. In the case of the Philippines, "the program" could be seen as a reference to the authorities' efforts, rather than to a specific program supported by Fund resources. The Philippine authorities were attempting to implement measures to put the program in that broad sense back on track, and it would be appropriate to consider the question of repurchase expectations when the proposed stand-by arrangement was brought to the Board, presumably in March 1991.

At the present stage, it probably would not be useful to review the decision on debt and debt-service reduction expectations, because that decision represented a consensus that had been reached among Directors in a spirit of cooperation, Mr. Dawson noted. Therefore, a review could result in a situation in which Directors were not able to reach agreement.

Mr. Wright remarked that the Fund should not ignore the expectation under Decision No. 9331-(89/167) for the Philippines to make early repurchases of the amounts that had been set aside under the extended arrangement. His proposal to phase those repurchases under the forthcoming stand-by arrangement merited consideration, in that it would allow for some flexibility in the light of the circumstances facing the Philippines.

The difference between "a program" and "the program" referred to by Mr. Dawson was of fundamental importance in the implementation of the Fund's guidelines on debt and debt-service reduction expectations, Mr. Wright considered. In the case currently under consideration, it was clear that accelerated set-asides had been disbursed in support of a program under an extended arrangement, and that that program had since gone off track and been abandoned. The program to be supported by the stand-by arrangement currently under negotiation was a different matter entirely. It would be a mistake for the Fund to confuse the two, in particular given the need to safeguard its resources.

Mr. Dawson commented that he supported the view put forward in Mr. Evans's opening statement that accelerated set-asides were little different from other purchases, in particular front-loaded purchases, under arrangements with the Fund. Therefore, there was no need for them to be treated differently. With respect to the case currently under consideration, the Fund was obligated by its Articles to consider all possible options in assisting its members.

Mr. Fernando suggested that, given the views that had been expressed by Directors concerning possible flaws in Decision No. 9331-(89/167), there might be a need for the Fund to review its guidelines on debt and debt-service reduction operations and, if necessary, amend them in the light of recent experience.

The Chairman noted that an effort to revise the Fund's guidelines on debt and debt-service reduction operations and early repurchase expectations could be extremely difficult at the present stage for the reasons mentioned by Mr. Fogelholm and other Directors. Therefore, it would be more productive to try to resolve the problems related to the case of the Philippines without going to that extreme.

Mr. Posthumus considered that the matter of accelerated purchases of amounts set aside to support debt and debt-service reduction operations could have been expected--and, indeed, had been expected by some--to lead to problems. If the Fund accepted that a member whose program had gone off track could keep the accelerated amounts, the whole idea of phasing the disbursement of set-asides would be nonsense: the Fund should have taken the decision to accept a larger first drawing to help finance debt-reduction operations at the outset. The fact that such a course of action was not chosen, and that the Fund had instead opted to accelerate the disbursement of set-aside amounts by definition meant that if the program went off track, an early repurchase expectation was logical and rational, although the timing of such repurchases could be a matter for consideration. It was, of course, also not surprising that a country whose program had gone off track had financial problems: such problems were either the cause or the result, or both, of getting off track.

Therefore, he wondered why management had proposed, for the second time, to postpone any action, Mr. Posthumus asked. Why was an early repurchase under the safeguards and special considerations mentioned in paragraph 6(a) of Decision No. 9331-(89/167) not proposed for the current discussion? That decision clearly stated that the Fund would expect an early repurchase of the accelerated purchases within a period of 30 days. Taking into account that the Philippine program had gone off track to a large extent owing to circumstances beyond the control of the member, as was explicitly mentioned as a factor in Decision No. 9331-(89/167), the Fund could establish a fairly long period within which the repurchase must be made, such as before the end of 1991 or at the time a new program began, whichever was earlier.

His comments were not intended to imply that the authorities were not--or were not sufficiently--cooperating with the Fund, Mr. Posthumus said. As the case of the Philippines was the first such case to come to the Board, it would establish a precedent for the treatment of similar cases involving early repurchase expectations. Therefore, it was important for the Board to consider the matter of early repurchase expectations in a serious way and as separate from the specific problems of the Philippines itself.

Mr. Cirelli noted that the staff paper thoroughly described the situation of the Philippines. As the purpose of the current discussion was not to consider the prospects for a future arrangement with the Fund, he would not comment on the program to be supported by the stand-by arrangement currently under negotiation. He agreed with the preliminary view of the staff that substantial adjustment measures should be integrated in that stand-by arrangement, given the current imbalances in the Philippine economy and the difficult financing prospects.

The points put forward in Mr. Evans's opening statement concerning actions that the Board might consider in following the guidelines for debt and debt-service reduction operations and early repurchase expectations merited consideration, Mr. Cirelli said. At the present stage, it would be difficult to take a decision on early repurchase expectations with respect to the Philippines, because although policy slippages had occurred over the past year, the task of economic adjustment had been greatly complicated by a succession of adverse factors that were beyond the authorities' control. The demonstrated commitment of the authorities to pursue comprehensive economic adjustment efforts called on the Fund to maintain the stance it had taken in the past.

With respect to the procedures concerning the accelerated disbursement of set-aside amounts and the difficulties related to programs that had gone off track, he wondered whether the Fund should have allowed for some interchangeablity between the provision of concessional interest rates and support for debt-reduction operations when the guidelines on debt and debt-service reduction operations and early repurchase expectations were originally established, Mr. Cirelli concluded. To some extent, the Philippines had already been penalized by the absence of that possibility, given the size of its debt buyback operation.

Mr. Ismael said that the supplement to the staff paper and the comments contained in Mr. Evans's opening statement made it clear that exogenous circumstances beyond the control of the Philippine authorities were the main reasons the program supported by the extended arrangement had gone off track for such a protracted period. In addition, the authorities had shown their willingness to cooperate with the Fund in their negotiations on a new program to be supported by a stand-by arrangement, which were expected to be completed in the coming week.

On that basis, he agreed with other Directors that to create an expectation of early repurchase at the present stage would not be helpful, Mr. Ismael stated. The special circumstances faced by the Philippine authorities warranted special consideration and support from the Fund. Therefore, he supported the proposed decision.

Mr. Marino noted that the staff paper and Mr. Evans's opening statement had clearly illustrated three points. First, the Philippine program had gone off track mainly as a consequence of adverse exogenous shocks. Second, the issues involved in the formulation of the program to be supported by a stand-by arrangement had been largely resolved and an agreement between the authorities and the Fund on that stand-by arrangement was expected within the coming week. Third, once the new program was approved, inflows of medium- and long-term capital would likely resume, helping to close the financing gap that remained for 1991. Given those considerations, he could fully support the proposed decision.

On the more general question related to Decision No. 9331-(89/167) on early repurchase expectations, he fully agreed with the views expressed in Mr. Evans's opening statement, Mr. Marino observed. In the case of the Philippines, the Fund was again faced with the familiar dilemma arising from the need for rules and discretion. When there was unconstrained discretion, rules were needed, and when the rules were in place, there was a need for discretion. In the case of the Philippines, he hoped that the Fund would be able to exercise adequate flexibility between the two, as was the intention when the guidelines were originally drafted.

As to Mr. Wright's proposal, he considered that it would be inconsistent to expect an early repurchase if the new program was to be supported by Fund resources, Mr. Marino concluded. In that connection, he agreed with Mr. Dawson that there was a fine line between the definition of an old and a new program. In general, adjustment programs involved ongoing processes that could not be truncated arbitrarily.

Mr. Goos stated that he could reluctantly go along with the proposal to further extend the period for the Managing Director's report on the Philippines. However, the reason for the continuous postponement of that report was not clear, in particular as the staff had provided all the information that was needed for the Board to reach an agreement on the early repurchase expectation. In that connection, he wondered whether the staff or management could comment on the proposal that would be brought to the Board either when it considered the stand-by arrangement currently under negotiation or when the period of the 90-day extension lapsed.

He agreed with the views expressed by Mr. Wright and other Directors on the adequacy of the adjustment program currently envisaged, in particular with respect to the rather large financing gap that was expected, Mr. Goos commented. He hoped that arrangements would be made to close that gap before the stand-by arrangement was brought to the Board.

Mr. Prader remarked that, to be realistic, the Board would have to accept the points put forward in Mr. Evans's opening statement concerning the inconsistencies inherent in the Fund's guidelines on debt and debt-service reduction operations and early repurchase expectations.

The questions that remained on the strength of the envisaged adjustment effort were a cause for concern, Mr. Prader said. While Mr. Evans's opening statement seemed to indicate that the program supported by the extended arrangement had gone off track largely owing to exogenous shocks, the staff paper indicated that the program had been abandoned as a result of both exogenous shocks and policy slippages. More important, however, the statement by Mr. Evans that, although the authorities had made great efforts to implement corrective policies, parliament had not approved the necessary legislation, was a serious cause for concern, as that meant the parliament could endanger future adjustment efforts.

Mr. Al-Jasser commented that he joined previous speakers in supporting the proposed decision. The problems that the Philippines had faced as a result of exogenous shocks and in trying to get parliamentary approval for needed legislation should be taken into consideration in the Fund's efforts to bolster the confidence building that was clearly needed. Given the difficulties currently faced by the Philippines, the Fund should try to not only assist the authorities in furthering the adjustment progress, but also create incentives for both the Philippines and commercial creditors to agree on a reasonable financing package. It was encouraging to note that an agreement on a new program to be supported by a stand-by arrangement was expected in the coming week.

While he would not comment on the Fund's guidelines on debt and debt-service reduction operations and early repurchase expectations for the current discussion, the arguments put forward by Mr. Evans concerning the existing situation of the Philippines, in particular with respect to commercial banks, justified the proposal for a further extension of the Managing Director's report on the Philippines, Mr. Al-Jasser concluded.

Mr. Shao stated that, given the external and internal difficulties that had confronted the Philippine economy in 1990--which were the primary reasons that the Fund-supported program had gone off track--and the ongoing program discussions between the authorities and the Fund staff, he could support the proposed decision to further extend the period for the Managing Director's report on the Philippines to March 15, 1991.

Mr. Wright commented that if the Board accepted the reasoning put forward by Mr. Evans and Mr. Dawson on why the guidelines on debt and debt-service reduction operations and early repurchase expectations should not be applied in the case of the Philippines, those guidelines would have little material significance. First, according to Mr. Evans's argument, the Fund would not expect early repurchases in cases where a Fund-monitored program had gone off track owing to the adverse financial situation the countries concerned would almost certainly face. Second, as Mr. Dawson had suggested, the Fund would not expect early repurchases in cases where a program that had gone off track was to be followed by a successor arrangement with the Fund. Therefore, the guidelines would not be applicable in the majority of cases they had been designed to address.

He did not accept Mr. Dawson's suggestion that there was no distinction between a program that was put back on track and a successor program, Mr. Wright remarked. In the case of the Philippines, the accelerated set-aside amounts that had been drawn under the original extended arrangement that had gone off track were no longer strictly available to the Philippines to support debt reduction. The currently envisaged stand-by arrangement was quite separate and the set-aside amounts at issue did not relate to it, but to the original extended arrangement.

While he could agree to the staff's recommendation to postpone the consideration of early repurchase expectations, the issue should not be dropped altogether; the Fund might seek some form of early repurchase alongside the drawings to be made under the proposed stand-by arrangement, Mr. Wright concluded.

Mr. Evans said that he agreed with Mr. Wright that the guidelines on debt and debt-service reduction operations and early repurchase expectations had little operational meaning. For that reason, his chair had not supported the original adoption of Decision No. 9331-(89/167). While his chair strongly supported the Fund's efforts to address the problem of overdue financial obligations and to safeguard its resources, that decision did not represent an effective means to accomplish those goals.

As Mr. Wright had correctly pointed out, there was a need to implement the decisions of the Board, Mr. Evans noted. However, in the case of the Philippines, the application of Decision No. 9331-(89/167) would suggest that an early repurchase should not be expected. Taking into account the member's economic and financial position, as suggested in paragraph 6a of that decision, it would be neither rational nor productive to ask for early repurchases.

Mr. Wright remarked that the question of whether it would be rational or productive to expect early repurchases of the amounts set aside under the extended arrangement was largely one of timing. Under the current circumstances, it probably would not be rational to expect early repurchases, but once a further adjustment program to be supported by a stand-by arrangement was agreed, it would be both rational and productive to seek early repurchases of the amounts set aside under the previous arrangement.

Mr. Goos asked whether a similar situation had ever arisen with respect to cases involving overcompensation under the compensatory and contingency financing facility. Had the Fund ever taken into consideration a member's balance of payments situation or whether its economic program had gone off track in seeking early repurchases as a result of overcompensation?

Mr. Dawson noted that the question of overcompensation arose only in cases in which the member concerned did not need the full amounts drawn.

Mr. Goos responded that the question of overcompensation could only be determined after the drawings had been made. Therefore, he wondered whether the Fund would expect an early repurchase of the overcompensation if a member had been adversely affected by an external shock shortly after the overcompensation had occurred and thus had a balance of payments problem.

Mr. Dawson recalled that his chair had expressed reservations about the application of Decision No. 9331-(89/167) at the time it was adopted. He had considered that that decision could establish a dangerous precedent, because according to its provisions, the expectation of early repurchase would arise at the time the member was most in need of Fund support. In such circumstances, the expectation of early repurchase would serve only to increase financial pressure on the member to draw on other financing sources or to go into arrears to other creditors. Nevertheless, Decision No. 9331-(89/167) had been adopted as a compromise position of the Board, and paragraph 6(a), which called on the Fund to take into account the member's economic and financial situation, had been included to allow for the flexibility needed in cases such as the Philippines.

The staff representative from the Asian Department noted that the targets for the fiscal and current accounts under the program to be supported by the envisaged stand-by arrangement had been altered since the previous extended arrangement had gone off track. In the light of the current circumstances of the Philippines, even the strongest adjustment efforts could not hope to meet the targets originally set under the extended arrangement in the short term. Indeed, the authorities had made strenuous efforts since mid-1990 to put the program under the extended arrangement back on track, but their efforts had been frustrated by continual external shocks and the nonaccommodating position of parliament. In that respect, some of the measures included in the currently envisaged program were second-best alternatives. Nevertheless, it should be noted that the targeted reduction in the consolidated public sector deficit for 1992 was the same as that set under the original extended arrangement.

Since mid-1990, the authorities had raised oil prices by 65 percent, the staff representative from the Asian Department stated. In that respect, the increase in world oil prices had been passed through to consumers. While the current deficit of the oil price stabilization fund reflected the accumulated deficits of previous years, the authorities intended to eliminate that deficit over the coming months. Oil prices in the Philippines were currently in line with world oil prices.

Mr. Evans commented, with respect to the envisaged program to be supported by a stand-by arrangement, that it was important to note the difference between the estimates of the staff and the authorities for the 1992 fiscal deficit. The authorities' estimate was smaller than that of the staff, because the intended reorganization of the tax administration system was expected to yield significantly higher revenues. He agreed with the staff's estimate, because the realization of the increased revenue was likely to take longer than the authorities expected. However, if the authorities were correct, a noticeably tighter fiscal policy stance would result.

As to the current small deficit of the oil stabilization fund, it should be noted that the authorities' move to increase domestic oil prices by 65 percent had pushed prices slightly higher than the market would have suggested, Mr. Evans noted. Therefore, if the authorities maintained their commitment to hold prices at the current level, a taxation of oil would result as the level of international prices dropped.

While the financing gap for the period ahead was large, the Philippines was not the only case involving a gap of that magnitude, Mr. Evans said. Indeed, given the effects of the Middle East crisis, numerous similar cases could be expected to emerge in the near future. Nevertheless, given the authorities' track record under the extended arrangement, negotiations between the authorities and commercial creditors would be difficult. Therefore, it would be preferable to solve the matter of early repurchase expectations before those negotiations began.

In the light of the recent adverse developments, the Philippines clearly needed the Fund's assistance, Mr. Evans concluded. He hoped that the Fund would agree to provide an augmentation, of up to 40 percent of quota, for the Philippines once the program to be supported by the envisaged stand-by arrangement was in place.

The Deputy Director of the Exchange and Trade Relations Department said, in response to a question raised by Mr. Posthumus, that the thrust of Decision No. 9331-(89/167) on debt and debt-service reduction operations and early repurchase expectations was that the most appropriate course of action in cases such as the Philippines would be to move quickly to put the program back on track. In the event that such a course of action was not feasible, the Managing Director was to report to the Board, within 90 days, on the situation of the member and recommend an appropriate course of action. That action did not necessarily have to include an expectation of early repurchase.

The expectation of early repurchase in cases involving overcompensation under the compensatory and contingency financing facility was automatic, in that it was not a matter for Board consideration, the Deputy Director of the Exchange and Trade Relations Department noted. Some flexibility had been incorporated into the guidelines on debt and debt-service reduction operations to enable the Fund to consider all the circumstances and to assist members in the process of bringing their economic adjustment programs back on track. The program to be supported by the envisaged stand-by arrangement could be seen as a part of that process, because the central objectives of the previous extended arrangement had been preserved, although more time would be needed to achieve them. Therefore, the staff considered that it would be appropriate to consider the matter of early repurchase expectations when the program to be supported by a stand-by arrangement was brought to the Board for consideration.

Mr. Posthumus remarked that he could go along with the staff's recommendation to further postpone the Managing Director's report on the situation of the Philippines for 90 days. However, it was important to note that there was no assurance that the parliament would support the objectives of the authorities and the staff or, indeed, that the negotiations on the stand-by arrangement, which were currently under way, would be completed within that time frame.

The Executive Board then took the following decision:

The Fund decides that, with respect to the inability of the Philippines to make purchases as of June 15, 1990 under the extended arrangement approved on May 23, 1989, the period of 90 days under paragraph 4(a) of Decision No. 9331-(89/167), adopted December 20, 1989, shall be further extended until March 15, 1991.

Decision No. 9625-(91/4), adopted
January 9, 1991

2. NIGERIA - STAND-BY ARRANGEMENT, AND EXCHANGE SYSTEM

The Executive Directors considered a staff paper on Nigeria's request for a 15-month stand-by arrangement in an amount equivalent to SDR 319 million (EBS/90/197, 11/21/90; and Sup. 1, 12/17/90).

The staff representative from the African Department stated that since the issuance of the staff paper on Nigeria's request for a stand-by arrangement, oil export price projections had been revised by the Research Department in December 1990. The revisions indicated a significant reduction in the projected average price for 1991 and smaller decreases for subsequent years. The revised prices generated an average export price for Nigeria of $23.01 per barrel in 1991, or $4.33 per barrel less than the November price estimates included in the staff paper. On the basis of the new prices, the 1991 balance of payments projections would no longer indicate a residual financing surplus, while the financing gaps projected after 1991 were somewhat higher. Those projections further underlined the instability under which Nigeria must implement financial policies, as well as the need to view Nigeria's economic, financial, and debt problems in a medium-term context.

The Nigerian Government had recently issued the 1991 budget, the staff representative noted. The budget offered modest increases in current expenditures, in line with the objectives of the proposed program. Part of the capital expenditures had been reserved to be released only in line with the availability of additional resources. The budget, which was based on an average export price of $21 per barrel, should permit an increase in government deposits. The staff had not received full details of the budget, including the structure of expenditures. As envisaged in the staff paper, the staff would discuss the fiscal program with the authorities in the near future.

Together with the budget, the Government had announced the reimposition of controls on interest rates by stipulating a maximum lending rate of 21 percent, with a margin of 4 percent relative to deposits rates, the staff representative from the African Department said. The authorities had explained to the staff that that action had been taken as a temporary measure, in view of the recent rapid increase in real interest rates, which had reached over 20 percent on the lending side. The high level of real interest rates was having an adverse impact on economic activity which the authorities felt needed immediate correction. At the new level, deposit and lending rates remained positive in real terms. The staff regretted that the reimposition of controls was viewed as temporarily necessary, but welcomed the authorities' wish to discuss monetary policy in general and interest rate policy in particular with the forthcoming mission.

Mr. Mwananshiku made the following statement:

> My Nigerian authorities wish to express their appreciation to management and staff for the Fund's invaluable support and encouragement, which contributed significantly to sustaining Nigeria's adjustment efforts over the past four years. The staff paper is concise and balanced in its review of developments in the economy during the past year, and the conclusions, which form the basis for preparing this new arrangement, reflect the sense of discussions that were held between May and November 1990. However, the assumptions underlying the medium-term projections for oil export earnings present some difficulties on which I shall elaborate later.
>
> Prompted by the need to rescue an economy on the brink of total collapse, the Nigerian authorities in 1986 embarked on a structural adjustment program that has been supported by two successive stand-by arrangements. Under these arrangements, the authorities have demonstrated a strong commitment to economic reform, as program targets and performance criteria were fully met and sometimes exceeded by substantial margins. The adjustment efforts continued in 1990, even after the expiration of the stand-by arrangement, with the adoption of additional measures to cope with unanticipated developments in the economy.
>
> Overall, significant progress was made in maintaining financial discipline, resulting in the narrowing of domestic and external imbalances. In particular, the margin between the parallel and official exchange rates was reduced. Also, the trade and exchange rate systems were liberalized in addition to the freeing of prices and interest rates to provide incentives for achieving enhanced efficiency in the mobilization and allocation of domestic resources. Improvement in the performance of public enterprises was significant, and the privatization exercise gathered momentum. There was also progress in the restructuring

of the banking system in keeping with the drive to promote efficiency and competition in the industry as well as to facilitate the adoption of market-oriented instruments of monetary policy by 1991.

The new orientation of economic policy implementation, assisted by exceptionally good weather conditions and improved oil sector performance, has yielded encouraging results in terms of a significant reduction in the rate of inflation and increased economic activities. Interest rates have remained positive in real terms and encouraged investment in financial assets. Table 3 of the staff paper demonstrates the further progress that was made over the course of 1990. Statistical information recently received from Lagos indicates that the inflation rate further moderated to 13 percent at the end of October 1990, compared with the 13.5 percent targeted under the program for the year and the 40.9 percent observed in 1989. At end-December 1990, aggregate bank credit to the domestic economy rose by 5.4 percent, less than half of the target stipulated in the program. Expansion in bank claims on the government and private sectors was also substantially lower than the program targets. By end-December 1990, the margin between the official and parallel market rates showed a further narrowing to 11.5 percent, and, indeed, the operations of foreign exchange bureaus had virtually marginalized those of the parallel market.

Oil sector performance has been influenced by the recent crisis in the Middle East, with the external current account recording a substantial surplus. Nevertheless, an overall financing gap of $4.3 billion was estimated, slightly lower than the initial projection. A significant net capital outflow equivalent to 9.1 percent of GDP was recorded, reflecting the impact of the heavy debt burden. The high debt-service burden has been a major reason for the drastic decline in the gross investment ratio that has characterized the Nigerian economy in the past several years, with adverse consequences for per capita output and consumption.

Over the medium term, Nigeria aims to achieve a sustainable growth in output, diversification of production, and external sector viability in a stable macroeconomic environment. While re-emphasizing their commitment to further adjustment efforts, the authorities note that reforms alone cannot restore growth and external viability. An increase in the level of investment in productive activities would be required as an essential element of a strategy to restore long-term growth and raise per capita income. It is in this context that various incentives have been put in place to encourage increased private sector participation in the economy, including direct foreign interests.

In 1990, the Government launched its first three-year rolling public investment program, which assigns top priority to the agricultural sector, improvement in economic infrastructure, and the strategic industries, such as petrochemicals, liquefied natural gas, steel, and aluminum. New investments in the oil sector are also required in order to maintain the current technical production capacity and possibly have it raised to 2.4 million barrels per day by the middle of the 1990s.

The external sector remains vulnerable in the medium term, given the uncertainties in the world oil market, the heavy debt burden, and the projected external financing gaps. Therefore, the Nigerian authorities have expressed serious concern about the uncertainty of the medium-term growth prospects. In this connection, they are particularly worried that the international community might overlook the transitory nature of the current high oil prices triggered by the crisis in the Middle East and receive the impression that Nigeria is reaching external viability. This would influence a withdrawal or reduction of concessional financial support and have very serious adverse consequences for the country's growth prospects. It would also hinder further adjustment efforts when the inevitable reversal of oil prices occurs.

My authorities have expressed reservations about the staff's medium-term projection, which was based on an overly optimistic crude oil price of $27.34 per barrel, resulting in an external transactions residual surplus of $1,741 million in 1991 and implying a reduced need for debt relief and balance of payments support for the year. In the present circumstances, when oil prices are not dictated by fundamental market factors, it would have been more appropriate to present alternative scenarios based on somewhat lower prices. It is common knowledge that the current oil supply to the market is ample and that an end to the crisis or even the prospect of a peaceful settlement, could lead to a precipitous drop in the price of oil of between $10 and $15 per barrel. Given the uncertainty in the world oil market, my authorities strongly feel that projections of Nigeria's balance of payments should be handled very cautiously.

The performance targets for 1991 are based on a more optimistic price scenario than the one used in the letter of intent. However, automatic adjustment clauses, consistent with the program objectives, have been built into the program to cushion the impact of the uncertainties.

The objectives of the new program are to consolidate the gains from the previous arrangements, achieve a rate of real GDP growth of 3.5 percent in 1991, and reduce the inflation rate to

10 percent. An external account surplus equivalent to 5.7 percent of GDP and an overall budgetary surplus equivalent to 0.9 percent of GDP have been projected. In order to achieve these objectives, financial policies will remain generally restrictive while structural and institutional reforms will be strengthened. Interest rate and exchange rate determination will be left to market forces, and the domestic price of petroleum prices will be further realigned.

The policy of strict expenditure control, which emphasizes tight wage policy, will be continued. Efforts will also be geared toward increasing revenue receipts, particularly from non-oil sources. In this respect, the Revenue Mobilization Commission, supported by the World Bank and technical assistance from the Fund, has been set up to initiate additional tax measures. In addition, efforts to achieve enhanced efficiency in tax administration will be pursued more vigorously.

The monetary policy stance will remain restrictive and supportive of the Government's objective to reduce the rate of inflation and promote increased efficiency in the mobilization and allocation of financial resources. Overall credit expansion will be limited to 10 percent, which allows no growth in the banking system claims on the government. Resources released in this way will augment the size of credit available to the private sector.

The exercise aimed at reforming and restructuring the financial system in order to enhance efficiency and ensure sound banking practices will continue. Capital requirements will be raised substantially for both the commercial and merchant banks with a view to meeting the Bank of International Settlement's internationally recommended capital adequacy ratio by 1992. The Central Bank's surveillance of banking and nonbank financial institutions will be strengthened and complemented by efforts of the Nigerian Deposit Insurance Corporation. In this respect, regulatory and prudential ratios will be prescribed as necessary. During 1991, the authorities intend to move away from direct quantitative control of bank credit and adopt the use of indirect market-oriented instruments. Nominal interest rates are expected to fall, but will remain positive in real terms as inflation shows further moderation.

The authorities remain committed to the policy of privatization and commercialization of public enterprises, and efforts in this direction will be intensified. Already, the progress made on the privatization front has been tremendous. Also, substantial increases in user charges by the commercialized enterprises have been allowed. Notably, increases have been approved for airline tickets, and telephone, electricity, and railroad tariffs to improve the financial position of those enterprises that will remain in the Government's portfolio. Consequently, there has been a substantial reduction in subsidies to public enterprises.

The Government is cognizant of the need to eliminate the existing differential between domestic prices of petroleum products and the realized export prices. The removal of remaining subsidies will commence early in 1991 to be completed by mid-1994.

As indicated in the staff paper, the substantial net resource outflows from Nigeria reflect largely the impact of the excruciating debt-service burden. Table 8 of EBS/90/197 shows that debt-service claims before rescheduling were estimated at 53.8 percent of total export earnings in 1990. The debt service to GDP ratio in 1989 was 62.3 percent, and in 1988 it was 86.9 percent. The need to substantially reduce Nigeria's debt-service burden is of paramount importance to the authorities, as it is critical to the achievement of their medium-term objectives, especially their target for economic growth.

Considerable progress has been made in reconciling Nigeria's external debt. Bilateral discussions with some of the creditors are going on and payments are being made as the outstanding stocks are reconciled. Constructive discussions are also going on between Nigeria and its commercial bank creditors on an appropriate strategy for achieving debt and debt-service reduction. In this respect, the options under consideration include debt buyback operations, par bonds of differing maturities with a coupon of 6.75 percent, and some conventional rescheduling. It is hoped that the problem of arrears will be amicably settled within the context of these discussions.

A meaningful dialogue is also going on between Nigeria and the World Bank on Nigeria's investment program. The reluctance on the part of my authorities to take up the World Bank loan is influenced by the desire to avoid a further increase in their debt burden.

Nigeria's excellent track record of program implementation since 1986 has shown not only the authorities' willingness and commitment under very difficult circumstances to establish a stable macroeconomic environment, but also their resolve to turn the economy around on the path toward outward-looking, sustainable growth over the medium term. They firmly believe that the policy measures embodied in the proposed program are adequate to address the problems of domestic and external imbalances in the economy, but they would be prepared to take additional measures if necessary. Nigeria's ongoing political program of military disengagement and return of political power to democratically elected government, which is due for completion in 1992, is of the highest priority to my authorities. Therefore, they urge the international community to remain supportive of these efforts.

The world oil price is volatile, and its current high level is unsustainable. Nigeria has learned a lesson from the experience of the 1970s and has expressed a strong desire to utilize windfall earnings from oil to implement some priority projects, increase official foreign reserves, and reduce the external debt and debt-service burden. My authorities will continue to rely on the cooperation and concessional assistance from creditors and donors, including meaningful debt relief from official creditors.

Extending his remarks, Mr. Mwananshiku commented that he would like to respond to the two major issues raised in the staff's opening statement on recent developments with respect to Nigeria's program.

First, his authorities' concern about the staff projections, which were based on overly optimistic world oil price estimates, in particular the projected price of $27.34 per barrel used for 1991, had been partly addressed, Mr. Mwananshiku noted. Although the revised price of $23.01 per barrel was still substantially higher than the $21 per barrel used by the authorities in preparing the 1991 budget, the revision could be seen as lending strong support to Nigeria's case concerning the great uncertainties under which financial policies supporting the current program would be implemented. Creditors and donors should take that into account in giving consideration to Nigeria's request for concessional debt rescheduling and assistance.

Second, his authorities were determined not to return to direct controls in any form, including interest rates or other prices, Mr. Mwananshiku stated. The more recent discretionary intervention had been effected as a temporary measure designed to address the problems created by the imperfection of the financial market, which had been compounded by credit scarcity attributable to the strict enforcement of quantitative ceilings on bank credit expansion. Taking advantage of the limited scope for competition that had resulted, banking institutions in the country had hiked their lending rates to prohibitive levels, which had impacted adversely on economic activities. Consequently, the margin between deposit and lending rates had widened to more than 10 percentage points. Unfortunately, the use of moral suasion by the Central Bank to remedy the anomaly had proved ineffective. While ensuring that interest rates remained positive in real terms, during the period of intervention, his authorities wished to assure the Board that the ceiling on lending rates would be removed soon.

Nigeria attached great importance to reviving the economy in a stable macroeconomic environment, Mr. Mwananshiku concluded.

Mr. Peretz made the following statement:

In recent years Nigeria has done a great deal to stabilize its economy, eliminate price controls, liberalize trade, adopt a realistic market-based exchange rate, and encourage the private sector. The authorities have gone a long way to reverse what was an unfortunate legacy of past policies. Almost all the performance criteria, targets, and objectives of the previous stand-by arrangement were met, and considerable progress has been made in the three areas of greatest concern: bringing down the rate of inflation, reducing the budget deficit, and concluding the continuing negotiations with creditors. The windfall of higher oil prices has, of course, helped, although the authorities' recognition of its temporary nature--as emphasized in Mr. Mwananshiku's opening statement--is reflected in their correct decision to devote it to increasing reserves, reducing external debt, and addressing the most pressing development needs. As the staff points out, the benefits of higher oil revenues should not in any case be exaggerated, as they make debt relief and donor balance of payments support less likely.

The 1991 program rightly emphasizes the continued financial discipline, stabilization, and structural reform measures that are required, if Nigeria is to attain external viability by the mid-1990s. The short-term projections for growth are, of course, rather disappointing, reflecting the continued fragility of Nigeria's position. Attainment of the projected 5 percent growth rate in the medium term will depend not only on achieving further debt-service reduction, but also importantly on a deepening of structural reforms.

The success of the program depends on a number of factors. First, as the staff points out, the uncertainties surrounding the program are much greater than usual, and the authorities must be ready to take prompt and firm action, if the program's objectives--particularly those for fiscal policy and inflation--come under threat. The commitment to a stable exchange rate is appropriate and should lend credibility to the anti-inflationary policy, but it will necessitate speedy and quite possibly tough and unpopular decisions on interest rates. The volatility of oil prices and the unresolved negotiations with creditors should make the authorities doubly cautious in this respect. The provision of quarterly reviews in the proposed program is very sensible. The authorities' oil price assumption of $21 a barrel, on which the recent budget was based, may in due course not seem so conservative.

Second, the authorities must ensure that additional public investment--and any additional borrowing--is directed to the projects with the greatest economic and social returns; the international community's confidence in Nigeria's economic management will not be helped if the windfall of temporarily higher oil revenues is dissipated in the same way as it has been in the past. What is required is a sound public expenditure program focused on Nigeria's genuine development needs, and I hope that the authorities will heed the advice of the World Bank in this respect. Pressures to increase high profile, but uneconomic, investment should be resisted. There would need to be very powerful arguments for any major new public sector capital project. I hope that the days of new large-scale, state-sponsored investment in steelworks and aluminum smelters are over, although I understand the continuing projects may have to be finished. It is also important to balance infrastructure and social investments with adequate recurrent financing. In this connection, more room for maneuver could be achieved by phasing out subsidies, such as those for fertilizer, which are a heavy drain on public resources, and by reducing defence and security spending.

As to the agenda of structural reforms, I would like to mention in particular the importance of seeing through the planned reform of the banking system, including improved prudential requirements and the restructuring of ailing institutions. It is regrettable that the recent budget statement seemed to overlook this pressing issue. I hope that the proposed World Bank operation in this sector can be finalized as rapidly as possible. I share the reservations expressed by the staff about the wisdom of the recent reintroduction of controls on interest rates, which runs counter to the efforts the authorities should be making to liberalize and inject competition into the banking sector. I welcome the remarks contained in Mr. Mwananshiku's opening statement on the temporary nature of these controls, and I hope we will not need to discuss them at the first review, because by then they should have been removed.

Another pressing area of structural reform, which was included in the budget statement, is taking forward the privatization, or, alternatively, the restructuring and commercialization of public enterprises. I hope that by the end of 1991 the petroleum corporation can be fully commercialized and measures can be taken to improve the performance of the telecommunications and power companies.

As to the full passthrough of international energy prices to domestic consumers, I certainly hope that if there is a fall in international prices, it will be taken as an opportunity to bring domestic prices into line with international prices well within the maximum three-year time frame allowed in the program. This would, of course, immensely bolster the fiscal position. In this connection, I was reassured that Mr. Mwananshiku expects subsidies to start being phased out in early 1991.

With respect to the external position, I appreciate that the current request for a stand-by arrangement has been brought to the Board while negotiations between Nigeria and its commercial bank creditors are still in progress. However, I understand that these negotiations are taking place in a constructive spirit. In this respect, the staff assessment that substantial progress has recently been made is encouraging. I understand that a deadline has been set for concluding the negotiations.

I wonder whether the staff could comment on whether the 1990 arrears are expected to be paid in advance of the Paris Club discussions next week or whether they are expected to be rescheduled and consolidated. As to the 1991 financing gap, the staff's opening statement suggests that the $4 fall in the oil price projection since the staff paper was circulated has wiped out the sizeable financing surplus originally anticipated this year, which suggests that it is far too early to speculate about Nigeria's final financing requirements.

Looking further ahead to the possibility of more radical debt relief, which the staff's projections suggest will be required in the medium term, the first priority for the authorities should be to establish a true and full picture of the debt and balance of payments situation so that creditors can assess Nigeria's eligibility for concessional treatment. While welcoming the progress that has been made on reconciling data, the program's emphasis on improving the statistical base is entirely appropriate.

With these observations, I can support the proposed stand-by arrangement, and I note in passing that Nigeria has once again stated that it does not intend to make any purchases under the arrangement. The coming year provides the Administration with the opportunity to get the economy onto a truly sound footing before the return to civilian rule in 1992. The recent rise in oil revenues comes at a fortunate moment for Nigeria, but it will not alter the fundamental economic problems that need to be addressed. It is an opportunity that the authorities must not waste.

Mr. Finaish made the following statement:

Let me say from the outset that we fully support Nigeria's request for a stand-by arrangement. Performance under the 1989/90 arrangement has clearly demonstrated the authorities' resoluteness in steering the economy toward macroeconomic stability while pursuing structural reform in order to unlock the country's substantial economic potential. Given the level of deterioration that the economy had reached by the mid-1980s, it is not surprising that the road toward full recovery is proving to be a lengthy one. But the authorities are on the right track. And we are confident that the authorities' persistence on this track will, over time, yield the desired objectives in terms of higher per capita incomes and standards of living. Macroeconomic stability and a structural economic environment that is conducive to private sector investment and activity in general are obvious prerequisites. But the restoration of private sector confidence is a complex issue that goes beyond the bounds of economic incentives. The authorities are, of course, better placed to see how this confidence factor can be strengthened. Another important determinant of growth prospects over the medium and longer terms is the efficiency in allocating public sector resources. The newly formed consultative group for Nigeria should provide a useful framework for ensuring that financing arrangements are consistent with the three-year rolling investment program and with the country's development objectives in general.

Let me offer a few observations on specific policy issues.

As the staff correctly points out, Nigeria enters the 1991 program with the benefit of higher oil prices, but also with the risks associated with a volatile international oil market. The staff was correct to emphasize the instability under which Nigeria must implement financial policies, as well as the need to view Nigeria's economic, financial, and debt problems in a medium-term context. Under these circumstances, the approach that has been followed in this program in terms of the oil price assumption and in specifying automatic adjustments in response to potential variations in oil prices seems to be sensible. Particularly noteworthy, in this respect, is the authorities' intention to set aside the bulk of any oil revenue beyond what is assumed in the program. This prudent attitude on the part of the authorities is welcome, but the general principle should be to allocate any excess in oil revenue among the various uses--such as reserve accumulation, debt service, and capital spending--in the most efficient manner. In this connection, we have noted that the mission for the first review under the proposed stand-by arrangement, which is scheduled to take place later this month, will help determine how to organize the use of resources accruing from the higher oil prices to best meet Nigeria's medium-and long-term development needs, with special emphasis on the social sectors. Given the current uncertainties, such an early review would be quite useful.

A particularly important target in the 1991 program is the reduction of the inflation rate to 10 percent. As Directors will recall, during the early part of the 1989/90 program, inflation surged as a result of the liquidity overhang which existed at the beginning of the program. The substantial monetary tightening during the second half of 1989, together with some exogenous factors, helped reduce the rate of inflation substantially in the second half of the year. Continued financial restraint brought the rate of inflation down further to about 13 percent in 1990. This was an important achievement. The projected strengthening of the fiscal position should make a further reduction in the rate of inflation possible while allowing sufficient credit to be available to the private sector. It should be added, however, that along with adequate levels of private sector credit, reform of the financial sector will be crucial to ensure an efficient allocation of resources. Moreover, further gains against inflation combined with a substantially stronger external position should reduce the margin between the official and parallel exchange rates and allow faster unification of the exchange market.

Given the significant increase in Nigeria's foreign exchange receipts from oil exports projected for 1991, it is not completely surprising that external balance of payments support may decline in the immediate future. However, it should be recognized that Nigeria's need for development assistance will continue to be substantial over the medium term, particularly in light of the fact that the surge in oil revenue is likely to be reversed soon. For example, the price of oil has declined by $6 this afternoon. It would be most unfortunate if this temporary windfall from higher oil prices were to impede the debt relief necessary for bringing Nigeria's external position in line with its payments capacity over the medium and longer terms. This is a general concern that we have expressed in previous discussions since the outset of the crisis in the Middle East. This was also stressed in Mr. Mwananshiku's opening statement. It is to be hoped that the reportedly more constructive discussions that Nigeria recently had with its commercial bank creditors will conclude with an agreement which includes genuine debt relief. It is also our hope that the technical impediments to an agreement between Nigeria and its official creditors will be resolved soon.

With respect to the relatively high limit on the contraction of external debt with maturities of 1-12 years, I understand that the envisaged borrowing is mostly on account of investment projects in the oil sector, including exploration and expansion of refineries. The staff indicates that longer-term financing of these projects is not available. I wonder whether there is any potential for increasing the portion of financing available through direct foreign investment, thus reducing the need for official debt-creating financing.

According to the staff paper, the Government will be taking steps to increase domestic petroleum prices with the aim of reaching export parity prices by 1994. I wonder whether the staff could provide any more information on the current relativity between domestic and international prices, and on the envisaged path of domestic price adjustments from now until 1994.

Mr. Toé made the following statement:

The staff paper and Mr. Mwananshiku's opening statement clearly spell out the satisfactory progress made by the Nigerian authorities in the implementation of their stabilization and structural reform program. We are pleased to note the outstanding performance under the 1989 program as evidenced by the achievement of most of the economic and financial objectives and the observance of virtually all the performance criteria under the stand-by arrangement that expired in April 1990. Noteworthy are the more than doubling of the programmed rate of GDP growth, the overperformance in the reduction of both the fiscal and external current account deficits, and the significant reduction in the Federal Government's indebtedness to the banking system. Moreover, preliminary estimates indicate an equally impressive performance in many respects in 1990. This is quite an achievement, and even though the unexpected improvement in oil prices has helped, the Nigerian authorities should be commended for their determined efforts and the swift adaptation of their policies to changing circumstances, a stance that has been instrumental in turning around the economic situation.

Undoubtedly, the conditions for a strong growth-oriented adjustment program have been realized. With tight financial policies being firmly adhered to, the emergence of an increasing primary budgetary surplus, and the significant reduction in the rate of inflation, the Nigerian authorities have successfully corrected most of the economic and financial imbalances, while at the same time laying the basis for the attainment and acceleration of the country's economic development goals. Needless to say, the conditions for growth would be greatly enhanced with a durable solution to alleviate the country's heavy debt burden.

During the final review of the program supported by the 1989 stand-by arrangement with Nigeria (EBM/90/54, 4/6/90), this chair outlined the main features that any successor Fund-supported program should have, namely, that it should be growth oriented, have a strong anti-inflationary content, embody debt and debt-service reduction, and be framed in a medium-term context with Fund support in the form of an extended arrangement. Therefore, we welcome the thrust of the authorities' program for the period through 1992 as described in their letter of intent. We welcome in particular their statement that "economic policy must now be directed toward removing the remaining structural impediments in order to allow the economy to perform more efficiently and attain a higher rate of growth, while further reducing inflationary pressures."

With respect to the program's objective of reducing inflation, we find the authorities' fiscal stance together with the monetary and credit policies described in the letter of intent to be appropriate, as it should help achieve this objective. Nevertheless, we urge the authorities to keep price developments under close review and adjust their policies when necessary. In this connection, we note that notwithstanding their intention to pursue a tight wage policy, a revision of the minimum wage is expected in early 1991. In fact, it was announced on January 2, 1991 that the Nigerian Government has decided to double the minimum wage. A revision of the minimum wage is no doubt warranted after several years of steady and substantial decline in real wages, as it will help to alleviate the pressure of the adjustment on the poorer segment of the population. However, I wonder whether the staff could comment on the implications of this salary adjustment on cost and price developments in the economy.

Although the rate of GDP growth under the 1991 program will barely exceed that of the population, we are pleased with the emphasis being put on economic growth. We agree with the authorities on the need to devote part of the windfall oil revenue to finance priority projects in order to improve the country's growth prospects. Investing wisely the windfall oil earnings is the best way to guarantee Nigeria's capacity to service its debt. At the same time, we support the staff recommendation that "care must be taken that the use of these resources is consistent with the Government's medium- and long-term objectives of maximizing the economic returns and reducing poverty." The staff has made in its appraisal a strong and convincing case for a reversal of the declining trend in per capita income and the need to rebuild the key economic and social indicators to more healthy levels. We fully agree with the staff and Mr. Mwananshiku that an increase in the level of investment in productive activities would be required as an essential element of a strategy to restore long-term growth and raise per capita income. I wonder whether the staff could provide further information on the modified three-year development plan for the period 1991-93 that the Government has adopted.

It is of paramount importance that avenues be found to reduce substantially Nigeria's heavy debt and debt-service burden in order to provide long-lasting relief and enable Nigeria to devote more resources for development purposes. Therefore, we urge both official and commercial bank creditors to show understanding toward Nigeria's request for debt relief in line with the program's assumptions. The recent increases in oil prices, which could well be transitory, should not be a reason to deny Nigeria debt relief on concessional terms. Under the circumstances, the windfall oil earnings would be better used to foster the country's growth prospects and to rebuild international reserves. Given the country's debt overhang, the importance of debt and debt-service reduction can hardly be overemphasized. We welcome the debt conversion program being implemented and encourage the Nigerian authorities to broaden the menu of options. In this connection, we note with interest the Nigerian authorities' intention to dedicate part of the windfall oil earnings to debt and debt-service reduction operations.

As to the nature of Fund support for the authorities' program, it should be recalled that during previous Board discussions on Nigeria, many Directors raised the issue of Nigeria's possible eligibility for the use of resources under the enhanced structural adjustment facility. As was pointed out at that time, a medium-term framework for the country's adjustment program was the appropriate vehicle to undertake debt and debt-service reduction operations with commercial banks. In this context, we wonder whether the staff or Mr. Mwananshiku could comment on why an extended arrangement has not been proposed at this stage.

In conclusion, the Nigerian authorities have made substantial progress in correcting the major financial and structural imbalances that have plagued the economy for some time. As a result, the economy is poised for a resumption of strong economic growth that will reverse the declining trend in per capita income. This will depend critically on the continued implementation of the right macroeconomic and structural policies and, more important, on an adequate solution to the debt problem. We endorse the staff's call for the development of meaningful and coordinated plans of assistance for the country in the context of the newly formed consultative group. We support the proposed decisions and wish the Nigerian authorities every success in their endeavors.

Mr. Al-Jasser made the following statement:

Since 1986, Nigeria has been steadfastly adjusting and restructuring its economy. The present program is not overly ambitious and has to be considered as a link in the long-term process of diversification aimed at restoring sustainable and rapid economic growth. Clearly, the temporarily high oil prices have provided a respite to the authorities in the short run, without improving the medium-term outlook. As Mr. Mwananshiku stressed, given the current oil price expectations for 1991, there will be no easing of the balance of payments constraint in the medium term and, hence, little room for maneuver. Therefore, I am happy to note that the authorities have shown foresight in not easing their adjustment effort for 1991.

The fiscal program quite appropriately remains at the center of the adjustment program. The policy of maintaining a tight cap on Federal Government expenditures, while allowing a redistribution toward investment expenditures in 1991, is appropriate. However, the foundation should be laid for an early and permanent reduction in the budget deficit. Therefore, it is essential that, notwithstanding the softening of oil prices and revenues, there should be no recourse to the banking system. The state governments should be expected to fend for themselves, rather than to depend on support from the Federal Government. Moreover, the expenditure control mechanism should be strengthened. On the revenue side, the authorities should lose no more time in implementing tax reforms. It is essential that such reforms are adequate enough to achieve the objective of at least a 20 percent increase in non-oil revenues in 1991. The planned adjustment in domestic prices of petroleum products should help in this process. However, given the need to control government expenditures and the seriousness of the external debt situation, the rather ample ceiling for new external debt in 1991 is surprising.

While the monetary program seems adequately tight to achieve the objectives of reducing the rate of inflation and the external account imbalances, a drastic strengthening of the efficiency and productivity of the banking system is required to ensure a durable improvement in resource mobilization and allocation. I hope that compliance with the higher minimum capital requirements would be achieved before the end of 1992. Moreover, stricter bank-licensing requirements and supervision would need to be implemented without delay. In this context, I wonder what measures are being taken to restructure the insolvent banks.

I hope that the tight fiscal and monetary program will be supported by positive real interest rates and a convergence of exchange rates to a realistic level. However, I am not sure of how the authorities would be able to enhance the market orientation of the exchange arrangement--which is necessary for the planned convergence--if reserve accumulation is hampered by declining petroleum prices. Under these circumstances, greater fiscal and monetary efforts would be needed to further reduce the rate of inflation in order to reduce pressures on the exchange rate. In that context, while I agree with the proposed decision concerning the multiple currency practice, I would prefer a mutually agreed schedule to eliminate this practice.

Even if the present stabilization program for 1991, the investment plan, and the related structural reforms are implemented fully, the medium-term balance of payments outlook and the economic growth prospects remain somber. There is no doubt that the authorities will have to continue with their strengthened adjustment strategy. The size of the government sector will have to be reduced and the federal budget deficit eliminated. Moreover, the restoration of an environment of market-determined prices, including exchange and interest rates, would be essential. Therefore, the continuation of the recently imposed ceiling on lending rates is a cause for concern.

In the light of Nigeria's external debt overhang, the achievement of external viability would not be possible without a very substantial easing of the debt-servicing burden. Also, there should be adequate net inward resource transfers so that the desired level of investments could be undertaken. I hope that multilateral development finance institutions and the bilateral donors, under the auspices of the consultative group, will be able to fulfill this requirement.

For the immediate future, it is essential that comprehensive progress is made toward reducing the debt-servicing difficulties of Nigeria. Given the very low per capita income and the medium-term balance of payments outlook, it is essential that Nigeria gets Toronto terms for rescheduling its official debt. However, it is also incumbent upon Nigeria to avoid the development of arrears to bilateral creditors. Moreover, I call on Nigeria's commercial bank creditors to agree on a menu for debt rescheduling and for debt reduction consistent with the Brady initiative.

With these remarks, I support the proposed decisions.

The staff representative from the African Department said that the staff shared the concerns that had been expressed by the authorities on the various oil price projections contained in the staff paper. While the stand-by arrangement was based on the targets that had been included in the authorities' letter of intent, the staff had used various oil price projections to show how the targets under the program would be adjusted to reflect changes in the price of oil. For that purpose, the staff considered that it would be most appropriate to use the oil price estimates contained in the most recent World Economic Outlook as a base, as those estimates were officially recognized by the Fund. As the authorities would clearly have difficulty adjusting policies in the wake of volatile energy prices over the course of the program period, they would need to maintain the targets established under the stand-by arrangement and be extremely cautious in utilizing any windfall profit achieved as a result of increased oil prices. The periodic reviews included under the stand-by arrangement would facilitate a careful monitoring of evolving circumstances in that respect.

Despite the higher oil prices, Nigeria had an overall financing gap in its balance of payments in 1990, the staff representative noted. As Nigeria had not been able to finalize its negotiations with creditors on debt rescheduling, the financing gap had been closed largely through the accumulation of arrears to bilateral and commercial bank creditors. Nevertheless, those arrears were expected to be rescheduled with the Paris Club and other creditors soon. Given the improved outlook for oil prices, an overall surplus was projected in 1991. It should be noted that the arrears to commercial banks had been accumulated over the course of 1990, because the authorities, foreseeing the overall financing gap, had considered that it would not be appropriate to remain current with one group of creditors at the expense of other creditors. Similarly, as the situation improved and additional resources became available, Nigeria would treat all of its creditors equally in making future payments.

One of the major difficulties Nigeria had encountered in its previous negotiations with creditors was the inconsistency of data on its external debt, the staff representative continued. Over the course of the previous stand-by arrangement, substantial progress had been made toward improving the collection of data, and the amount of unreconciled and contested data had been reduced substantially. Indeed, the data were not expected to generate any problems in future meetings with the Paris Club.

It should be noted that the 100 percent increase in the minimum wage was the first change that had been made in the minimum wage since 1981, the staff representative went on. In the light of the substantial amount of inflationary pressures that had occurred since that time, the authorities had raised the minimum wage to the average level of salaries paid by most large employers. Therefore, the planned increase did not represent a large increase in real terms except in cases in which employers had not been paying a market wage. In that respect, it had been taken largely as a measure to protect the lowest wage earners.

Moreover, as the authorities had indicated, the increase in minimum wages should not be viewed as generating automatic increases in other wages, the staff representative noted. For example, in the 1991 budget, the Government had provided wage increases only for the lowest paid public sector workers. Additional wage increases were subject to collective bargaining and had to be approved by the Government according to the established guidelines that wage increases would be accepted only in line with increased productivity, and that there would be no backdating of increases granted under collective bargaining agreements. In the light of those considerations, the staff did not expect the increase in minimum wages to have a significant impact on the economy, in particular since any additional wage increases would be sequenced as collective bargaining agreements were negotiated.

The authorities' careful implementation of the 1990 budget demonstrated their commitment to adhere to the spirit of the economic adjustment program and to maintain any windfall profit in Nigeria's reserves until a discussion could be held within the Government on the appropriate utilization of those resources, the staff representative considered. In that connection, the authorities were aware that the windfall profits would be temporary, and they considered that any utilization of those profits should not generate continued expenditure requirements in the future. Therefore, the authorities had emphasized in their discussions with the staff that they would like to maintain those resources principally as increased reserves to tide them over in difficult times in the future and for operations that would reduce Nigeria's debt and debt-servicing burden.

With respect to investment in the oil sector, at the time of the final review under the previous stand-by arrangement (EBM/90/54, 4/6/90), the staff had informed the Board that Nigeria had sold a portion of its equity holdings in the oil sector, the staff representative recalled. As an initial step to generate needed resources for further investment in the oil sector, the Government had sold about 5 percent of its equity holdings in the oil sector to foreign partner companies at that time.

Even though a rapid increase in production could arise as a result of successful exploration, it was extremely difficult to obtain credit terms that exceeded a 12-year period for investment in the oil sector, the staff representative noted. As the authorities wanted to increase the capacity of oil production, which was expected to grow by 0.5 percent in 1992 and expand thereafter by an average of almost 2.5 percent in 1993-95, the level of required investment was substantial. Nevertheless, if negative price trends were to arise in the oil market, the authorities would take those trends into consideration in fixing the actual level of investment. It should be noted, in that connection, that the oil sector was not fully a government sector, and foreign oil companies were required to provide investment resources equal to their equity holdings. Therefore, future investments would be partly financed by the foreign resources of the equity partners.

The authorities had expressed deep concern about relative energy prices in Nigeria, the staff representative continued. The authorities had taken several steps in 1989 and 1990 to reduce the margin between domestic prices and export prices, but most of the price increases had been offset by the rapid depreciation of the exchange rate. For example, the domestic price of gasoline, which was \$0.28-\$0.30 per gallon, was to be increased by 50 percent by the end of 1991, but that would represent only about

40-45 percent of export parity. Nevertheless, the authorities had discussed with the staff a possible time path for energy price increases and targets to be met over the program period, which would lead to the achievement of parity by 1994. As the staff paper and the authorities' letter of intent had indicated, action in that area was expected to be taken within the coming months.

As to the question of whether the budgetary adjustment targeted in the program was sufficient compared with Nigeria's needs, it should be noted that the proposed stand-by arrangement was in essence a continuation of the program that began in 1988 with the support of two previous arrangements with the Fund, the staff representative considered. Although there had been a substantial adjustment in the overall budgetary deficit since 1988, additional measures were sometimes perceived as growing smaller over the course of successive economic programs. Therefore, any judgment of the adequacy of the program should be based on the longer-term perspective. In that respect, it was important to note that for some time the state and local governments had been financially dependent on the Central Government. In fact, the Federal Government was now syphoning resources from those levels of government in order to pay the external debts that had been incurred at those levels. In the past, the Federal Government had been responsible for the totality of the debt service of the country.

The work of the Revenue Mobilization Commission was already beginning to bear fruit, and some of the measures included in the 1991 budget were aimed at meeting the program's target of increasing non-oil revenues at least by 20 percent, the staff representative said. The commission was expected to embark on a comprehensive study of the tax system and recommend ways to enhance tax administration in the coming months.

While the staff and the authorities had considered an extended arrangement, in the light of the need to define the Government's medium-term investment plans and the linkage between the adjustment program and the budget more clearly, the staff and the authorities had agreed to continue with the formulation of a stand-by arrangement at the present stage, in order not to delay Fund assistance to Nigeria, the staff representative from the African Department concluded.

Mr. Ismael made the following statement:

> I am very much encouraged by the developments in Nigeria's economy and the authorities' policy commitment for adjustment and growth, as described in Mr. Mwananshiku's opening statement. The economic program for 1991 seems realistic and adequate to address the current problems. The program has rightly placed the emphasis on further efforts to reduce the rate of inflation and the budgetary deficit, and to strengthen the Central Bank's net external reserves.

The authorities have been very successful in sustaining consistently tight fiscal and monetary policies over the past year. In the foreign exchange market, the gap between official and parallel exchange rates has narrowed substantially. Nevertheless, the gap should be further reduced to eventually achieve a unified exchange rate in the near future.

I agree with the authorities' reservations about the staff's medium-term projection, which is based on an overly optimistic crude oil price of $27.34 per barrel. Mr. Mwananshiku rightly pointed out that in the present circumstances, the oil price is not dictated by fundamental market factors. To be more on the cautious side, even the staff's revised price of $23.01 per barrel is still rather high. The authorities' budget assumption of an average export price of $21 per barrel seems to be more realistic. I wonder why the staff did not use this official oil price assumption in its projection and whether the staff should stick to the oil price assumption contained in the most recent World Economic Outlook, given current circumstances. For example, it is interesting to note that the Indonesian budget for 1991/92, which was very recently submitted to Parliament, used an oil price assumption of $19 per barrel.

I welcome the authorities' intention to embark on several measures to promote greater welfare of the population. In particular, considering the population base of 120 million, I am heartened by the authorities' family planning program to reduce the population growth rate from the present high level of 3.3 percent. However, I wonder whether the staff could provide further information on what the authorities' population growth target is and the envisaged time frame for its achievement. In this connection, it is again interesting to compare Nigeria's population growth with Indonesia's experience. In the 1970s, Indonesia's average population growth rate was 2.3 percent; it was brought down to an average growth rate of 1.9 percent during the 1980s. Nevertheless, total population increased from 150 million in 1980 to 179 million in 1990. Without successfully reducing its population growth, it will be twice as hard and will require more time for Nigeria to restore its currently reduced per capita income of $290 to the level of $1,000 that prevailed in the 1970s. However, it should be noted that, apart from strenuous efforts and perseverance, such an endeavor requires substantial funding. Therefore, I urge the international community, especially the World Bank and the United Nations, to assist the authorities in implementing this family planning program.

In conclusion, I have no difficulty in supporting the proposed decisions.

Mr. Cirelli made the following statement:

Positive results have been obtained by implementing the stabilization and structural measures agreed under the previous stand-by arrangement. The strong commitment demonstrated by the authorities, in particular in adopting additional measures when necessary, as well as the favorable outlook for export oil prices, has greatly contributed to this outcome. It is, however, essential that the windfall revenues provided by the increase in oil prices be carefully utilized. I agree with the view expressed by other Directors that the bulk of these revenues be set aside, in particular to increase official reserves and to reduce the external debt burden. In this context, I welcome the conservative approach taken by the authorities with respect to oil prices in establishing the budget for 1991.

As to macroeconomic policies, it is clear that budgetary policy will remain an important tool for the successful outcome of the program to be supported by the proposed stand-by arrangement. In this respect, the streamlining of the relationship between the Federal Government's budgetary operations and those of the local governments should be considered an indispensable step. Indeed, the financial relationship between the Federal Government and the states and provinces is not clear, and I fail to find a general overview of global public sector accounts. I wonder whether the staff could be more specific about the financial relationships among the different public governments at the time of the first review under the proposed stand-by arrangement. In any case, efforts should be made to strengthen public finances. The overall deficit for 1991 is expected to increase to 5.6 percent under the envisaged program, compared with 3.1 percent in 1990. Therefore, the staff estimates should be considered as a more appropriate objective. Despite its sensitivity, adjusting domestic prices for petroleum products in line with international prices could help to enhance budgetary revenues. I agree with Mr. Posthumus that the target set for 1994 seems rather far off, especially with respect to the current very low level of prices.

On the expenditure side, the authorities' willingness to further tighten and monitor current and capital outlays is welcome. Given the large investment needs, careful management is certainly required in order to adequately orient investments toward the diversification of the economy. With respect to investments in the petroleum sector, I understand the authorities' willingness to improve the efficiency of the current infrastructure in order to maintain production. I wonder whether the staff could comment on the amount needed in the short run to ensure the maintenance of the petroleum sector. Given its size, the revenue obtained from the sale of some equity holdings should, in any case, dramatically reduce the need in that sector, at least for the immediate future.

The need to expand structural reforms in order to further diversify the economy and reduce the dependence on oil production cannot be overemphasized. It is clear that a medium-term strategy should be designed to overcome the present obstacles to the achievement of a sustainable rate of growth. To reach this objective, the Nigerian authorities should seek, with the assistance of the World Bank and other donors, to establish a comprehensive plan of immediate action on strategic areas such as agriculture and manufacturing industries. The reform of the banking sector is also an urgent priority.

As to the exchange rate policy, I welcome the recent reduction in the margin between the parallel and the official rate. I urge the authorities to forcefully pursue the appropriate policy in order to allow for a faster unification of the official and parallel rates. The flexible exchange rate policy followed so far does not seem to have enhanced the competitiveness of the economy. In this connection, the disappointing outcome of the non-oil export sector is striking.

With respect to Nigeria's relations with the international financial community, I am pleased to note that considerable progress has been made in reconciling the data on external debt. However, it is important to settle the outstanding arrears incurred by previous agreements in the context of the forthcoming Paris Club rescheduling. I welcome the substantial progress that has been made in that respect and the resumption of negotiations with the private banks. I hope that progress can be made rapidly in reaching an agreement with commercial creditors.

My authorities consider that the intention of Nigeria not to draw on Fund resources under the proposed stand-by arrangement is contrary to Paris Club principles. Indeed, this may be interpreted as a withdrawal of Fund conditionality, which is contingent to Paris Club rescheduling. My authorities consider that Fund involvement should include financial as well as technical assistance in the context of stand-by arrangements, in particular given the potential difficulties involved in seeking bilateral financing arrangements when multilateral financial assistance is available. Nevertheless, my authorities think that such a situation could be accepted on an exceptional basis, given the good track record of Nigeria's adjustment program in the recent past.

In conclusion, despite the oil windfall, the authorities' plan to pursue tight stabilization measures along the lines of the former program is appropriate, and I urge them to pursue the needed adjustment the Nigerian economy calls for, in particular given the present uncertainties.

Mr. Filosa made the following statement:

The Nigerian authorities should be commended for the successful efforts undertaken since the initiation of a structural and stabilization adjustment process in mid-1986. Such a process is, however, far from being completed and still at a very delicate stage as evidenced, inter alia, by the declining trend in per capita income. Macroeconomic imbalances continue to reflect the structural weaknesses of an economy that is still insufficiently diversified and in which developments are mostly dominated by movements in world market oil prices. Further adjustment efforts will, therefore, be effective only if problems are addressed in a medium-term perspective.

The objectives and policy actions of the economic program for 1991 to be supported by the proposed stand-by arrangement are certainly aimed in the right direction. However, since the macroeconomic and structural adjustment process will have to be sustained over an extended period in order to produce the desired effects, I wonder whether a stand-by arrangement, which is typically designed to provide short-term balance of payments assistance, is appropriate in the case of Nigeria. As Nigeria is not included among the countries eligible to use the resources of the structural adjustment facility and the enhanced structural adjustment facility, I would suggest contemplating an extended arrangement, which would appear to be more suitable in the present circumstances. The fact that Nigeria is unlikely to make purchases under the proposed new arrangement supports this view.

The envisaged short-term program for 1991 obviously focuses more on financial policies than on the required structural changes and policies. Although I recognize that the approval of this program will favor the rescheduling of foreign debts necessary to facilitate the achievement of future external viability, I am skeptical not only about its structural impact, but also about the macroeconomic manoeuvres, particularly on the fiscal side.

As the staff paper makes clear, the Government is pursuing economic and structural policies aimed at improving the country's growth prospects. However, I wonder whether the staff could comment on ways to reconcile the targets of the present three-year public investment program, the wait-and-see attitude of the World Bank concerning the investment projects of Nigeria, and its favorable assessment concerning substantial new investments in the oil sector. I note, in particular, the fact that a tandem between Fund and World Bank lending operations is unlikely to proceed in the near future, given the World Bank's desire to further review Nigeria's investment strategy in capital-intensive projects and the authorities' wish to reassess the need to incur additional borrowing under the prospective buoyant world oil situation.

First, I sense the emergence of a possible difference of view between the Fund and the World Bank on issues that involve relevant evaluations of a country, namely, investment needs. I wonder whether the staff could offer any clarification on the World Bank's views concerning the investment needs of Nigeria, and whether there is any difference of view between the Fund staff and the World Bank on the subject. Second, the intention of Nigeria to finance new oil investments through additional borrowing, when it is indeed the burden of foreign debt that is significantly constraining the achievement of a sustainable rate of economic growth, certainly requires further explanation. Third, if the new oil projects were to be implemented, as advocated by the Fund staff, I wonder what the break-even oil price and world oil demand assumed in such projects would be in order to avoid a recurrence of past errors that have contributed to the present foreign debt problem. Indeed, the prospective buoyant world oil situation is certainly valid only under circumstances that are not conducive to undertaking long-term investment decisions, which is puzzling, given the important issue of structural investment in Nigeria.

The program currently envisaged does not seem to implement the required fiscal policy maneuvers. Non-oil revenues continue to represent a very small share of total revenues and, therefore, a wide-ranging fiscal reform aimed at strengthening and broadening the revenue side of the budget is of the utmost importance. While I note the staff's comments on the prospects for increasing these revenues, the lack of more precise measures to distribute in a more sustainable way oil revenues and external debt-service payments between the Federal Government and state and local governments remains a cause for concern. Indeed, the share of federally retained revenue in total revenue has steadily decreased in recent years, falling from 63 percent to a little more than 54 percent. As there are constitutional impediments to having a satisfactory solution to this problem, I am concerned that this problem will be difficult to address in the present circumstances.

With respect to monetary policy, I certainly favor the desired shift to more indirect monetary control and market-determined interest rates. However, the recent decisions taken by the Nigerian authorities are not very much encouraging in this respect. The target to reduce the rate of inflation to that of Nigeria's major trading partners by 1993 does not seem very ambitious. I wonder whether the staff could comment on this issue as well as projected developments with respect to the exchange rate in light of the objective to narrow the margin between the official and parallel market exchange rates. This question is at variance with the respective competitiveness of Nigeria.

In conclusion, I support the proposed decision, but as an interim solution that is intended to facilitate the adoption and implementation of a more vigorous comprehensive structural policy in the future. This should be directed, together with the achievement of financial discipline and strengthened and broadened investment activity, toward achieving sustainable growth and rapidly reversing the declining trend of per capita income.

Mr. Prader made the following statement:

Nigeria has indeed come a long way since it started its structural adjustment effort in mid-1986. Although the end of the tunnel is not yet in sight, the country has undoubtedly been able to reap some rewards in the meantime. Indeed, the good weather conditions that prevailed in 1989 as well as the surge in oil prices in 1990 have helped bring about a better than expected performance in terms of reduction of the overall budgetary deficit, a more favorable growth outcome and balance of payments result, and an exchange rate less out of line. All this should put the country on a faster track on the way to satisfying its justified economic development needs.

Moreover, it is heartening to note that these unexpected windfalls have not weakened Nigeria's firm resolve to proceed with the difficult task of creating more favorable conditions for growth and that the temptation to use especially the oil windfall to provoke a short-term shift in emphasis away from adjustment toward income-raising policies has been resisted. Instead, Nigeria has embarked on yet another stand-by arrangement in which the balance that is being sought between stabilization and structural reform should contribute over the medium term to the achievement of more tangible results in terms of faster and sustained economic development in general and per capita income growth in particular.

A key element to the success of the proposed stand-by arrangement is, as the staff correctly emphasizes, the authorities' commitment to maintain fiscal discipline. The substantial improvement in the financial position of the government that is envisaged should, however, not detract attention from remaining structural problems in the fiscal area.

One problem relates to the imbalance in the relationship between revenues and expenditures of the Federal Government on the one hand, and the states on the other. More can still be done in this respect to translate political federalism more clearly into some form of fiscal federalism, which could yield more fiscal discipline over time.

A second problem of a structural nature in the fiscal area resides on the revenue side of the budget. The staff has indicated that a thorough analysis of this issue will be conducted at the time of the first review under the proposed stand-by arrangement, and I hope the Nigerian authorities will seriously take into consideration the staff's recommendations, just as they have done in previous years.

A third problem relates to the fact that the rising share of interest payments in budgetary expenditures has caused both current and capital expenditure to fall in terms of GDP every year since 1986. Especially the continuous fall of capital expenditure should be watched, since public investment in agriculture does provide a means of resisting the rising poverty profile of the country.

With respect to monetary and credit policies, I welcome the fact that further results should be achieved in bringing Nigeria's inflation rate closer to that of its major trading partners. However, I wonder what the effects of the announced price adjustments and liberalization will be on the final outcome for inflation. In particular, I wonder whether the staff could comment on how it would assess the effects of the increased freedom for commercialized enterprises to adjust their user charges, on the one hand, and the effects of the gradual removal of subsidies on domestic petroleum product prices, on the other hand. Together with the potential for a further depreciation of the naira, this could raise the prospect of a reversal of the downward trend in the rate of inflation registered since 1989.

As to the exchange rate, I would like to caution against a further reliance on devaluation of the official rate in order to close the remaining gap between the official and the parallel exchange rates. As a recent working paper on alternative exchange rate regimes (WP/90/90, 10/9/90) demonstrated, permanent unification of foreign exchange markets cannot be achieved via devaluation of the official exchange rate alone. Supportive financial policies are required and they can indeed achieve the sought-after result, as the Nigerian case demonstrates. The parallel rate of the naira did appreciate in the second half of 1989 as a result of the tightening of financial policies, and it can be expected to perform similarly in 1991 if the announced tightness of financial policies is adhered to. A unification of the exchange rates will provide one of the building blocks for a further development of the non-oil sector, which is of primary importance for the medium-term economic outlook for the country.

Indeed, an increasing share of non-oil GDP will lessen the impact of the volatility of the oil component on the country's growth rate, which again in 1991 will not meet the overall growth target of 3.9 percent set previously. A larger contribution of the non-oil sector will thus make increases in per capita income levels more durable. In this connection, specific measures, such as increased attention to the more labor-intensive agricultural sector and the rapid privatization of government enterprises, a policy started in 1989, are called for. In this respect, I wonder whether the target set for 1990, to privatize 35 entities, has been reached. Still another measure to enhance the development of the non-oil sector would be the pursuit of a more liberal foreign investment policy, especially with respect to profit remittances.

This latter element is, of course, closely related to Nigeria's other major problem, namely, its external debt situation. Given the medium-term outlook presented in the staff paper, further progress in this field is badly needed. Clearing the arrears to commercial as well as official creditors should receive prime attention, all the more so since this was the only performance criterion not being met under the previous stand-by arrangement. This chair welcomes the substantial progress which Nigeria has made in reconciling its external debt with its principal creditors, but, as on the occasion of the final review of Nigeria's previous stand-by arrangement, my Belgian authorities would like to stress the principle of equal treatment of all creditor countries. It is their hope that this principle will be adhered to by Nigeria and that the announced Paris Club meeting can therefore lead to a rescheduling of all outstanding arrears of the country.

In conclusion, I support the proposed decisions.

Ms. Creane made the following statement:

We commend the continued commitment on the part of the Nigerian authorities to pursue restrictive financial policies and structural adjustment. By following this path, Nigeria sets an excellent example for other countries, with similar economic backgrounds. We are encouraged that the staff believes that the worst of the economic and financial imbalances have been corrected, and that the base is set for accelerating development goals. In a sense, it is timely for Nigeria to have the oil windfall to be able to further these goals while continuing to follow cautious financial polices. Given Nigeria's good performance record, and the comments of previous speakers, I will limit my intervention to a few short questions.

It is important that the authorities have recognized that the improvement in fiscal accounts due to the oil price increase is relatively transitory and that they will keep to their intention to continue to address the underlying problems and to not sacrifice financial discipline. We commend Nigeria's success in exercising tight control over expenditures, most recently with respect to wage policy. This is one specific area where Nigeria might serve as an example to others. We also believe that, at the same time, there could be greater transparency in fiscal affairs, and particularly the budget process. As to the financing of the deficit, we congratulate the authorities for implementing and maintaining limits on bank borrowing by the Federal Government in 1990 and its similar intentions for 1991.

We are also pleased to note Nigeria's considerable progress in implementing its privatization program and we encourage the Government to continue its strong commitment. The staff paper notes various targets for privatization of public enterprises. Like Mr. Prader, we wonder how many have already been completed in 1990 and how many remain to be accomplished in 1991. On a related note, Nigeria's three-year rolling public sector investment plan includes continuing government participation in several major industrial projects deemed to be "strategic." This does not seem to be consistent with the Government's goal of expanding the private sector and privatizing its commercial interests.

We join other Directors in being encouraged by the spirit of the recent announcements indicating the authorities' intention to move toward a more market-oriented system of monetary control, with more indirect methods of monetary policy management. However, we note that the good intentions have still some way to go before becoming concrete. We strongly hope that the 21 percent ceiling on lending rates will be only a temporary reversal of the deregulation of interest rates, and that it will quickly be phased out in parallel with the removal of credit ceilings. We note that nonperforming loans, many of which were based on noneconomic factors, are a major cost problem for banks in Nigeria. Apart from establishing a program to monitor delinquent borrowers, we wonder whether there are more aggressive plans to pursue collection of these assets once these borrowers are identified.

As other speakers have noted, the staff paper demonstrates amply the continued vulnerability of Nigeria to oil price volatility due to its continued heavy dependence on oil for exports and government revenues. This underscores the need for Nigeria to follow some other major producers in diversifying its economic base, which should be an explicit goal in the use of the oil windfall. We recognize the significance of the steps taken and planned in the foreign exchange auction system that will improve its competitiveness and move Nigeria closer to a unified exchange system. However, we understand that, while guaranteed quotas are to be abolished, the auction still limits access to foreign exchange according to the asset size of the bidding bank. This limitation obviously prevents the full functioning of a foreign exchange market. We hope that the authorities will take the final steps needed to allow exchange rate determination to be governed by market forces.

More generally, we are encouraged by the steps taken by Nigeria in the financial sector to strengthen the regulatory environment and restructure weak banks in the system. Progress in this area may provide a viable example for other countries struggling to implement similar financial sector reforms.

We are pleased with the recent progress in the negotiations with commercial banks. We urge Nigeria to complete negotiations and clear the sizeable arrears built up over the past year. Similarly, we urge the authorities to clear arrears with Paris Club creditors as well.

In conclusion, we support the proposed program, and, although we agree with the concerns with respect to the multiple currency practice raised by Mr. Al-Jasser, we also support the decisions as recommended by the staff.

Mr. Ichikawa made the following statement:

I am in broad agreement with the staff appraisal, and I commend the authorities for their continued commitment to financial adjustment in 1990, despite the delay in formulating the stand-by program proposed today. Indeed, the high inflation, which was the main source of concern throughout the previous program period, slowed sharply in the latter half of 1990, owing mainly to the tight fiscal and monetary policies. The 10 percent or less inflation target for 1991 is feasible, if the authorities maintain their financial discipline and enhance market-oriented structural reforms, as envisaged in the program. It is also welcome that the margins between the official and parallel exchange rates have been significantly narrowed, although further efforts are needed to eliminate the margin and unify the exchange market.

Against this background, I agree with previous speakers that a good basis for more vigorous growth-oriented investment is being laid. Vigilance on financial stability is still warranted, and prudence is needed in utilizing the windfall gains in oil exports, as there remains a fundamental concern about the fragility of the economy. Like other speakers, I welcome the authorities' appropriate judgment that temporary windfall gains should be sterilized at this stage. There also remains great uncertainty in the medium-term policy framework.

The relative isolation of the oil sector in the economy makes it more difficult to conduct a balanced growth strategy. The negative side effects of the oil price increases will be more strongly felt in the non-oil sector than in the oil sector, as the expansion of the oil-importing sector may bring about unfavorable exchange rate developments and high interest rates in the non-oil sector. Under the circumstances, to reach the 5 percent growth target for the non-oil sector seems a challenging task. While I keenly recognize the immense development needs, I strongly hope that the authorities' recourse to any administrative controls and subsidies will not undermine their gains to date in macroeconomic stabilization and the restoration of market orientation in the economy. In this vein, I am particularly concerned about the authorities' recent decision to reimpose ceilings on lending rates. As this chair has emphasized on previous occasions, accelerated structural reform in the financial sector should be the avenue to establish a rational interest rate structure, including a reduction of the spread between the lending and saving rates to a sustainable level.

I am also concerned about the vulnerability of the medium-term prospects. Besides the fluctuation in the oil export prices, the heavy debt-service burden is the major problem in attaining medium-term viability. The accumulation of external arrears to both official and private creditors is a matter of serious concern. While I note the recent progress in the debt negotiations with commercial banks, the arbitrary restriction on interest repayments is still in place. With respect to the arrears problem, while I note the staff's elaboration on the authorities' stance, I basically associate myself with the advice given by Mr. Al-Jasser. I urge the authorities to expedite the debt negotiation in order to restore the confidence of the international financial community as well as to create a more favorable environment for Nigeria's development.

In conclusion, while much progress has been attained in financial stabilization, there remains much to be done in the structural area, including the timely adjustment of domestic oil prices, improving the transparency of the budget process, and financial sector reform. I hope that the authorities can continue their progress with the support of the proposed stand-by arrangement. I support the proposed decisions.

Mr. Spencer said that he wondered whether the staff could comment on how the 21 percent ceiling that had been placed on interest rates could affect the performance criterion for the growth of domestic credit of 6.9 percent in 1991. As the ceiling seemed to represent a substantial reduction in nominal and real interest rates, he wondered about the extent to which the existing policy was based on quantity controls, credit guidelines, credit ceilings, and cash ratios, as opposed to price or interest rate rationing and, therefore, might compromise the target that had been set for the growth of domestic credit.

With respect to tax revenues, he wondered whether any of the recommendations of the Revenue Mobilization Commission had been incorporated in the 1991 budget, Mr. Spencer continued. In that connection, he wondered whether the staff could comment on whether such budgetary, or other, measures would support the assumption contained in the staff paper of growth of non-oil revenues of 20 percent, which seemed to be rather optimistic.

As the gap between the official and the parallel exchange rates had narrowed from 450 percent in 1983 to about 17 percent in 1991, the target that had been set for further closing that gap seemed rather cautious, Mr. Spencer noted. He wondered whether there was anything to prevent more urgent action to completely unify the exchange rate at the present stage, instead of waiting until 1992.

Although a relatively small amount of debt conversion--amounting to about $121 million of the $6 billion total commercial debt--had been completed, he wondered whether it would not be possible to make faster progress in converting commercial debt, particularly in the context of the privatization program, Mr. Spencer asked. While the staff paper seemed to suggest that the monetary effects of debt conversion represented a constraint, those effects would be sterilized if the conversions were built into privatization efforts. His chair supported the proposed decisions.

Ms. Powell made the following statement:

I join other Directors in commending the Nigerian authorities on the considerable progress they have already achieved in implementing their adjustment program. As the staff paper notes, most of the quantitative performance criteria established under the stand-by arrangement that ended in April 1990 were observed, and the authorities continued with their adjustment efforts in 1990. The progress made in reducing imbalances within the economy and implementing needed structural reforms is to be carried forward under the new program. We fully support the request for a further stand-by arrangement.

Although the increase in oil prices as a result of recent events in the Middle East is benefiting Nigeria and has somewhat eased the constraints facing the authorities, the Nigerian economy remains in a precarious position. In view of the uncertainty over future oil prices, we agree with the authorities that the oil windfall should be used to reduce the heavy external debt and debt-service burden, to increase net international reserves, and for priority projects. The nearly total reliance on the oil sector for the generation of foreign exchange and government revenues creates great uncertainty with respect to the planning and implementation of economic and financial policies over the short and medium terms. With this in mind, it would seem critical for the authorities to seek to speed up the implementation of policy reforms aimed at diversifying durably the production base of the economy and to strengthen non-oil revenues. It is this particular issue which I will address.

The highly unstable nature of oil revenues has brought into question yet again the structural weaknesses of the Nigerian economy. The authorities have begun to address some of these issues. In particular, since mid-1986, the authorities have liberalized the exchange and trade system, established a market-oriented interest rate system, eliminated most price controls, as well as abolished existing marketing boards. In addition, to further improve the competitiveness of the economy, there were successive devaluations of the real effective exchange rate of 65 percent and 16.4 percent in 1987-88 and 1989, respectively. Moreover, various incentives aimed at encouraging greater private sector participation and higher levels of foreign investment were implemented in 1989.

Despite these measures, the staff paper indicates that the response to the substantially improved economic incentives has been disappointing and that reliance on the oil sector has not been reduced. Although non-oil exports are projected to increase by close to 9 percent in 1991, they would still be substantially below the 1988 level. According to the staff, much of the sluggishness of the response can be attributed to foreign exchange shortages and to an uncertain political situation. We wonder about the extent to which other factors, such as the deterioration in infrastructure and the slow growth of demand in neighboring countries, have contributed to this limited response on the part of the non-oil sector. I wonder whether the staff could elaborate on this particular issue and indicate whether further policy measures are required to achieve greater growth in the non-oil sector. We have observed that agriculture is to be given top priority in the Government's public investment program as well as improvements in infrastructure and certain industrial projects. We welcome the World Bank's involvement in assisting the authorities to determine an appropriate investment strategy. The windfall gains from higher oil prices will allow the authorities to increase investment outlays. However, it is vitally important that such resources be used wisely and directed toward reinforcing the measures already taken to strengthen the private sector and increase the efficiency of the economy. As agriculture is of major importance, I wonder whether the staff could comment on the particular initiatives the authorities are taking with respect to development of this sector.

We also welcome the establishment of a Revenue Mobilization Commission, whose main objective, after careful study of the fiscal system, would be to come up with measures aimed at strengthening tax procedures and possibly new revenue measures. We believe that this is a positive development, as are the interim measures that the authorities have embarked on to improve the collection of tax revenues. Such initiatives to generate more reliable sources of revenue should reduce the vulnerability of government finances to fluctuations in oil prices and provide a firmer basis for sustained development. With this in mind, we urge the authorities to keep up the momentum with respect to the implementation of their adjustment program so that their overall objectives can be realized.

Mr. Thorláksson said that he could support the proposed decisions on the stand-by arrangement and the exchange rate system. He hoped that Nigeria would not have to effect any of the drawings it was entitled to make under the arrangement, as was the case with respect to the two previous stand-by arrangements.

It was clear that a country that derived over 95 percent of its export revenue from petroleum was extremely vulnerable to the fluctuation of oil prices in the world market, Mr. Thorláksson noted. He agreed with other speakers and the staff that the strengthening of other export industries or import substitution industries should indeed be given the highest priority. In that context, it should be noted that non-oil exports, which at the time of the review of the previous stand-by arrangement in April 1990 had been estimated at approximately $900 million a year, in the near term were expected to be only half that amount, or $400 to $500 million a year. He wondered whether the staff could comment on whether that was a sign of adverse developments with respect to non-oil exports, or was due to statistical inaccuracies or overoptimistic assumptions, which might be more likely, given that previous figures had also been revised downward.

Mr. Zhang made the following statement:

Satisfactory results were achieved for the Nigerian economy under the 15-month stand-by arrangement, which expired in April 1990. Most of the economic and financial objectives of the program were met, some by a wide margin. The authorities also made great progress in implementing their structural adjustment program. They did not use any of the drawings they were entitled to under the arrangement, although a satisfactory performance was effected. Since the expiration of that arrangement, the authorities have continued to implement the 1990 policy package as set out in the final review of the previous stand-by arrangement. I am in full agreement with the staff appraisal and support the proposed decision. However, I would like to make a few brief comments.

With respect to fiscal policy, we welcome the authorities' objectives to reduce the overall budgetary deficit over the medium term in order to support their anti-inflation objectives while taking steps to improve the efficiency of resource use. In view of recent developments in the Middle East, the authorities are encouraged to make arrangements for setting aside any excess oil windfall, since a substantial portion of this windfall will be absorbed to compensate for expected reductions in debt relief and balance of payments support. Efforts made by the authorities to expand non-oil GDP are important and necessary. The present oil price situation has provided Nigeria with a valuable opportunity to develop non-oil projects with additional resources. However, in order to realize this goal, it is all the more important to ensure that non-oil projects are developed efficiently and with maximum economic returns.

As to structural reform, substantial improvements were achieved due to the effective structural measures undertaken by the authorities in recent years. It is encouraging to note that the authorities are determined to redouble their structural reform efforts, as outlined in their letter of intent. We endorse the strategy adopted by the authorities that, at the same time efforts are made to improve the environment for private sector investment, they will also continue to take effective measures to improve public resource management. We welcome the rolling investment plan and its annual revision to ensure a better coordination of investment priorities, as well as the enhancement of monitoring government spending. Of the utmost importance for Nigeria is the improvement of its economic infrastructure to allow its industry a proper supply response. It is vital for economies, particularly developing ones, to build up sound infrastructural facilities and a sound environment in order to promote and sustain further development.

Mr. Goos commented that, although the current growth projections were disappointing, it would be counterproductive for the authorities to try to force economic growth by shifting to a more expansionary policy stance. Previous experience in Nigeria, as well as in other countries, showed that a satisfactory and sustainable rate of growth could only resume if it was persistently supported by sound macroeconomic conditions within a structural environment that was conducive to the efficient use of resources.

He agreed with Mr. Ismael that the envisaged efforts to reduce the rather high rate of population growth should offer considerable scope for an increase in per capita income over the medium term, Mr. Goos continued. Strict financial discipline was also necessary and desirable from the perspective of stabilizing and unifying the exchange rate as quickly as possible.

He shared the concerns expressed by Mr. Spencer about the recent reimposition of interest rate controls, which ran counter to the fundamental philosophy of the authorities' adjustment program and, therefore, might risk causing a setback of confidence in their adjustment strategy, Mr. Goos went on. It was encouraging to note that the controls were temporary and that more market-oriented policy instruments would be designed soon.

From the current discussion, he had received the impression that the negotiations with commercial banks had progressed over recent months to a point where a deadline had been set for the conclusion of the discussions, Mr. Goos remarked. He wondered whether the staff could comment on that point. In the light of the improved outlook for oil prices, the authorities could be expected to be more forthcoming in the negotiations with creditors, in particular with respect to the payment of existing arrears and the terms and conditions of a financing package.

The staff paper noted that the program for debt-equity conversions had restricted the transfer of profits, Mr. Goos said. Such restrictions were not in Nigeria's interest, because they would presumably tend to reduce the extent of the discount on the debt that was being offered at the auctions. He wondered whether the staff could comment on whether the authorities would be well advised to reconsider that feature of their debt-equity program.

The staff representative from the African Department noted that, for the purpose of the current discussion, windfalls should be defined as the difference between earnings estimated under the program and the actual earnings from oil. In that connection, it should be noted that the original program had contained a substantial financing gap, but the increased earnings generated thus far had been used to make payments on Nigeria's external debt. Therefore, Nigeria had not yet been able to actually realize a windfall profit. The simulations for 1991 contained in the staff paper included the expectation of an overall residual surplus, within a framework that would not have required any rescheduling for that year. Thus, the program had moved from an expected overall deficit of $2.3 billion to an expected overall surplus of $1.7 billion. In essence, that change could be seen as a windfall gain. However, the most recent available data suggested that the residual financing gap for 1991 would be zero.

The Nigerian authorities had proposed to the staff--and likely would propose to Paris Club creditors--that after some specific use of the windfall gain was agreed, the creditors would have to help finance the balance of payments gap in 1991, the staff representative commented.

The authorities recognized that recent trends in population growth ran counter to the aims of their development policy, but programs to address population problems were expensive to finance, the staff representative said. Given the major adjustment of the economy that had taken place and the level of government expenditure, which had been substantially reduced in real terms over previous years, the authorities did not have the resources needed to implement a meaningful program aimed at reducing population growth. Although the authorities had requested assistance from Nigeria's creditors for that purpose, in the current circumstances, the rate of population growth was not likely to decline to below 3 percent by the end of the 1990s.

The staff had focused on the need to provide an overview of total public sector accounts in working with the authorities to improve the collection of economic data in Nigeria, the staff representative continued. However, Nigeria was a federal republic in which the individual states had a great deal of autonomy. In previous years, when the Federal Government had provided substantial budgetary assistance to the states, it had been able to request updated information pertaining to current accounts. Since the Government had ceased providing financial support to the states, it no longer had a legal means by which to require such information, although the authorities were making efforts in a nonlegal way to obtain that information. In that connection, it should be noted that under the Nigerian constitution, the states received about 50 percent of oil revenues, and the Federal Government did not have any legal means to delay the transfer of those resources to the states. That factor had a major impact on the overall macroeconomic framework. In discussions with the authorities, the staff had developed a system to estimate the level of public sector activity. Those estimates showed that the state and local governments had enjoyed large surpluses in the past few years, which had permitted the Government to use those resources to pay previous state and local debts not only to itself, but also to creditors abroad. Once the stock of that debt was reduced, the Government would face the difficult task of removing those excess resources from the expenditure targets of the state governments. That issue would clearly need to be considered before an extended arrangement could be designed and implemented.

Developments in the non-oil sector were disappointing, the staff representative went on. That sector had not responded to the incentives that had been provided by the Government within the macroeconomic framework.

The exchange rate had been adjusted to an appropriate level and the economic environment for private sector operations was very liberal. Nevertheless, the resurgence of private sector activity that had previously been expected had not materialized. While the precise reasons for that development were not clear, political tensions in Nigeria remained a difficult problem, and the prospect of democratic elections in 1992 had increased uncertainties, perhaps inhibiting the private sector from making appropriate investments. The authorities hoped that once an environment of low inflation rates and unified exchange rates was established and the outcome of the 1992 elections was more certain, a resurgence of activity in the private non-oil sector would follow.

It was very difficult to accurately measure activity in the non-oil private sector, owing to the openness of the economy, the staff representative stated. Non-oil exports had been affected by the decline in commodity prices, in particular for coca and coffee, but dealings in those traditional export items had in previous years served as an avenue for capital flight. While it was clear that Nigeria had a major impact on the markets of neighboring countries, it was difficult to measure export activity, owing to the vast amount of cross-border trading. While neighboring countries complained about the degree to which Nigerian goods were crowding their markets, the frontier was so porous it was nearly impossible to accurately record the actual amount of border trade conducted.

Although the staff could not comment on the amount of expenditure needed for maintenance in the oil sector, it should be noted that a few years previously, Nigeria had been able to produce 2.5 million barrels of oil per day, the staff representative commented. That level of production had enhanced its ability to meet its debt-service payments and growth objectives. However, over recent years, a substantial lack of maintenance had led to a reduction in Nigeria's oil production capacity, to about 1.8 million barrels per day. Indeed, the decline in oil production was partly responsible for the balance of payments difficulties. Nevertheless, recognizing that investment needed for maintenance and new exploration in the oil industry could provide an avenue of foreign exchange to improve its external position in the short run, the authorities had begun in 1990 to place greater emphasis on oil sector investments, selling part of the equity in that sector in order to minimize the amount of borrowing that would be needed. The authorities had developed a three-year rolling investment plan in order to facilitate periodic reviews of the oil industry that would take into account the outlook for world prices and competition within the Organization of Petroleum Exporting Countries for increased quotas in adjusting the level of investment as required.

A World Bank mission to review the three-year rolling investment plan was expected to take place soon, and an agreement on the investment plan was expected, the staff representative continued. However, that mission was not to lead to a structural adjustment arrangement with the World Bank, as the authorities considered that the cost of such an operation would be high, and they wanted to reserve their borrowing capacity with the World Bank for possible use in the future.

In that connection, it should be noted that the difficulties in the oil sector had not been the reason for the World Bank review of the development plan, the staff representative went on. The mission was primarily to review some rather large development projects, principally in steel and aluminum. Several billion dollars had been invested in the steel industry over previous years; thus, the authorities considered that it would be difficult at the present stage to cancel the project, and they wanted to move rapidly toward its completion. However, the Government might consider privatizing its holdings in the steel sector once the project was completed and began to realize a positive cash flow.

A number of Directors had raised the question of whether the targets that had been set for inflation were sufficiently ambitious and whether more rapid progress could be made toward the target for 1993, the staff representative recalled. In setting the inflationary target, the authorities had taken into account the possible consequences of price increases for various products, including domestic petroleum; the increased freedom of public enterprises to set prices; and the programmed movement toward a unified exchange rate, all of which could have inflationary consequences. In the light of those factors, the staff considered that the targets for inflation over the period to 1993 were fairly realistic. However, the most recent available data indicated that there had been an overperformance of economic activity in 1990, which would lead to further progress in reducing the rate of inflation. In any event, there was a need to closely monitor the progress made in merging the parallel and market exchange rates. The strength of monetary policy could be judged on the basis of the behavior of the parallel exchange rate, in that a depreciation beyond certain bands would clearly indicate a need to tighten monetary and fiscal policies.

With respect to Mr. Spencer's comments on whether the target for further closing the gap between the parallel and official exchange rates was sufficiently ambitious, it should be noted that additional actions in that area would become more difficult as progress was realized, the staff representative said. Given the openness of the economy, unification of the exchange rates could be politically difficult, but the additional funding that was expected as a result of the foreign exchange auction would certainly help to further the authorities' efforts.

Nigeria's discussions with the commercial banks were proceeding as outlined in the staff paper, the staff representative noted. The authorities had requested a meeting with the steering committee of the commercial banks, which was to take place in the coming week, prior to Nigeria's negotiations with the Paris Club. There was a possibility that the authorities would make additional offers in order to facilitate an early agreement. However, the authorities considered that it be would difficult for them to make additional payments to the banks, given the overall financing deficit in 1990, which entailed arrears not only to commercial banks, but also to bilateral creditors. In the light of the instructions given by the Paris Club during previous rescheduling negotiations that all creditors must be treated equally, it would not be appropriate for Nigeria to request a rescheduling from the Paris Club while settling its indebtedness to commercial banks.

Previous experience with debt-equity swaps in Nigeria showed that there was a tendency for investors to bring capital into the country, then sell their investments, change the capital on the parallel market, and take it back out of the country, the staff representative stated. Limitations had, therefore, been placed on the procedures pertaining to debt-equity conversions in order to avoid activities that would be counterproductive to the development interests of the country. Nevertheless, the authorities had incorporated debt-equity auctions as an element of the overall monetary program, and they intended to increase its size as the macroeconomic imbalances were corrected.

The fact that Nigeria did not intend to make drawings under the proposed stand-by arrangement should not be seen as an indication that the envisaged program was weak, the staff representative from the African Department concluded. Provided Nigeria met the performance criteria under the program, it would maintain the ability to draw on Fund resources. Therefore, the staff had made every effort to ensure that the program to be supported by the proposed stand-by arrangement met the conditions of arrangements in which drawings were expected to be made.

The staff representative from the Exchange and Trade Relations Department said that the conditionality associated with a stand-by arrangement was not affected by a member's statement of intention not to draw, since, despite such a statement, the member still had the right to draw and the potential increase in the Fund's exposure was not changed. Table 11 of EBS/90/197 on projected payments to the Fund showed that no repurchases were expected to fall due until 1993, because Nigeria had not made drawings under its previous stand-by arrangements with the Fund. If Nigeria implemented the economic policies envisaged in the proposed program, there would be improvement in Nigeria's economic performance; if Nigeria did not draw under the proposed arrangement, it would not have to make the associated repurchases, which were due in 1994-96, when the financing gaps were projected to be the largest.

Mr. Mwananshiku stated that Nigeria was deeply committed to the economic program to be supported by the stand-by arrangement with the Fund. Indeed, the hastened performance of recent months could be seen as an illustration of future actions under the stand-by arrangement. Like many other developing countries, Nigeria was heavily dependent on oil exports. Given the current uncertainties in the world oil market, at a time when many nonmarket factors were at play, owing to the crisis in the Middle East, there was a need to be conservative in designing economic projections for Nigeria over the medium term. That fact alone pointed to the need for continued support for Nigeria, in particular for its debt-reduction operations, which were crucial to improving the economic performance of the country and meetings its domestic needs.

The Executive Directors then took the following decisions:

Stand-By Arrangement

1. The Government of Nigeria has requested a stand-by arrangement in an amount equivalent to SDR 319 million for the period January 9, 1991 to April 8, 1992.

2. The Fund approves the stand-by arrangement set forth in EBS/90/197, Supplement 2.

Decision No. 9626-(91/4), adopted
January 9, 1991

Exchange System

The multiple currency practice arising from the operations of the foreign exchange bureaus and the exchange restriction arising from the limitation on the remittance of profits on investments made under the debt-equity conversion scheme are subject to Fund approval under Article VIII. The Fund encourages Nigeria to eliminate these restrictions as soon as possible. In the meantime, the Fund grants approval for their retention by Nigeria until end-April 1992, or the expiration of the current stand-by arrangement, whichever is earlier.

Decision No. 9627-(91/4), adopted
January 9, 1991

DECISIONS TAKEN SINCE PREVIOUS BOARD MEETING

The following decisions were adopted by the Executive Board without meeting in the period between EBM/91/3 (1/9/91) and EBM/91/4 (1/9/91).

3. KINGDOM OF THE NETHERLANDS - NETHERLANDS - REPRESENTATIVE RATE FOR NETHERLANDS GUILDER

The Fund finds, after consultation with the authorities of the Netherlands, that the representative exchange rate for the Netherlands guilder under Rule 0-2(b)(i) against the U.S. dollar is the midpoint between the prevailing spot buying and selling rates for the U.S. dollar in the foreign exchange market, as determined and published by the Nederlandsche Bank. (EBD/91/2, 1/3/91)

Decision No. 9628-(91/4), adopted
January 9, 1991

4. THE GAMBIA - TECHNICAL ASSISTANCE

In response to a request from the Gambian authorities for technical assistance in the fiscal field, the Executive Board approves the proposal set forth in EBD/91/3 (1/3/91).

Adopted January 9, 1991

APPROVED: September 25, 1991

LEO VAN HOUTVEN
Secretary