

EBS/88/212

CONFIDENTIAL

October 18, 1988

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

Attached for the information of the Executive Directors is an information notice on the real effective exchange rate of the Nigerian naira.

Mr. Acquah (ext. 8661) is available to answer technical or factual questions relating to this paper.

Att: (1)

INTERNATIONAL MONETARY FUND

NIGERIA

Real Effective Exchange Rate--Information Notice

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

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

Approved by A.D. Ouattara and H.B. Junz

October 17, 1988

Recent movements in the real effective exchange rate of the naira, as measured by the standard index developed in connection with the information notice system, are set out in the attached table and chart. Based on this index, as of July 1988, the Nigerian naira had appreciated by more than 10 percent since the last occasion on which the Executive Board discussed Nigeria's exchange rate policy--the 1987 Article IV consultation in January 1988. ^{1/} The appreciation is estimated to have amounted to 15.9 percent.

Exchange rate developments and policy in Nigeria during the past two years in which the exchange system has been made substantially more flexible are described in the report on recent economic developments (SM/87/293, 12/17/87), and in the supplement to the staff report for the 1987 Article IV consultation (SM/87/280, Supplement 1, 1/4/88). The exchange rate system which Nigeria has been implementing consists of an auction conducted by the Central Bank, an interbank market, and a retail market where foreign exchange is sold by banks to their customers. There have been differing quotations in these markets. Beginning in April 1987 the interbank rate began to depreciate faster than the auction rate, leading to a significant increase in the margin between the rates, from 7 percent at end-July 1987 to 39 percent as of the end of July 1988. The average exchange rate series incorporated in the information notice system for Nigeria weights the auction rate and the interbank rate by an estimate of their relative importance in each month's foreign exchange transactions. Between January 1988 and July 1988, the auction rate depreciated by 8 percent; the interbank rate by 28 percent; and the weighted average by 15 percent, with respect to the U.S. dollar.

^{1/} The Chairman's Summing Up was circulated as SUR/88/3 (1/20/88).

The primary source of the real appreciation of the naira has been a surge of consumer prices, which was not fully compensated by a nominal effective depreciation during the first seven months of 1988. Preliminary indications are that the index rose by 29 percent between January and July 1988. The rise in the index has been associated with more expansionary fiscal and monetary policies compounded by the impact of a poor harvest on food prices; the latter have been the most rapidly rising element of the consumer price index and have a weight of 55 percent.

The recent real appreciation of the naira has eroded the gains in competitiveness realized since the introduction of the new exchange system and needs to be reversed through continued exchange rate flexibility as well as anti-inflation measures. A staff mission is currently in Nigeria for discussions of a program that could be supported by a stand-by arrangement from the Fund.

Table 1. Nigeria: Real Effective Exchange Rate and Related Series

(Indices: 1980 = 100)

	Real Effective Exchange Rate <u>1/</u> <u>2/</u>	Nominal Effective Exchange Rate <u>1/</u>	Relative Consumer Prices (Local Currencies)	Exchange Rate in Terms of U.S. Dollars <u>1/</u>	Consumer Price Index (Seasonally Adjusted)	Consumer Price Index (Not Seasonally Adjusted)
Quarterly						
1982						
II	110.6	105.7	104.7	81.1	128.3	128.9
III	113.3	109.8	103.3	80.2	129.2	131.2
IV	119.0	112.5	105.8	79.9	134.8	133.8
1983						
I	122.9	111.8	109.9	79.4	142.2	140.3
II	128.4	111.7	115.0	76.6	151.9	152.6
III	136.6	111.9	122.2	73.1	165.3	168.0
IV	149.4	114.0	131.0	73.0	181.6	180.3
1984						
I	161.4	116.1	139.1	73.0	196.5	193.6
II	183.5	117.7	156.0	72.8	224.4	225.4
III	200.0	123.0	162.6	71.2	238.6	242.7
IV	195.2	124.8	156.5	69.0	234.8	233.3
1985						
I	194.6	124.6	156.2	64.5	239.3	235.5
II	174.0	113.8	153.0	61.4	239.3	240.3
III	155.4	106.5	145.9	60.6	231.9	236.1
IV	139.9	96.7	144.7	58.5	234.0	232.7
1986						
I	123.1	86.3	142.7	54.6	234.6	231.0
II	114.2	78.6	145.5	51.7	240.1	240.9
III	91.7	59.4	154.5	40.7	256.7	261.2
IV	34.6	22.0	157.1	15.1	263.4	262.1
1987						
I	32.2	20.4	157.9	14.7	268.5	264.3
II	28.3	18.5	153.2	13.6	266.8	267.6
III	28.9	18.9	153.5	13.5	273.1	277.8
IV	26.5	16.6	159.2	12.5	288.4	287.1
1988						
I	27.8	16.3	170.9	12.4	314.9	310.0
II	29.7	15.4	192.5	11.6	363.5	
Monthly						
1988						
Jan. <u>3/</u>	27.2	16.4	165.3	12.7	302.6	298.5
Feb.	28.4	16.6	170.7	12.5	314.5	308.2
March	27.8	15.7	176.7	12.0	327.8	323.2
April	30.0	16.0	187.4	12.2	350.7	349.4
May	28.7	14.9	192.6	11.3	363.3	
June	30.3	15.4	197.7	11.2	376.4	
July	31.5	15.5	202.8	10.8	390.0	
Percentage change						
Jan.-July 1988	15.9	-5.5	22.7	-14.6	28.9	

Source: Information Notice System.

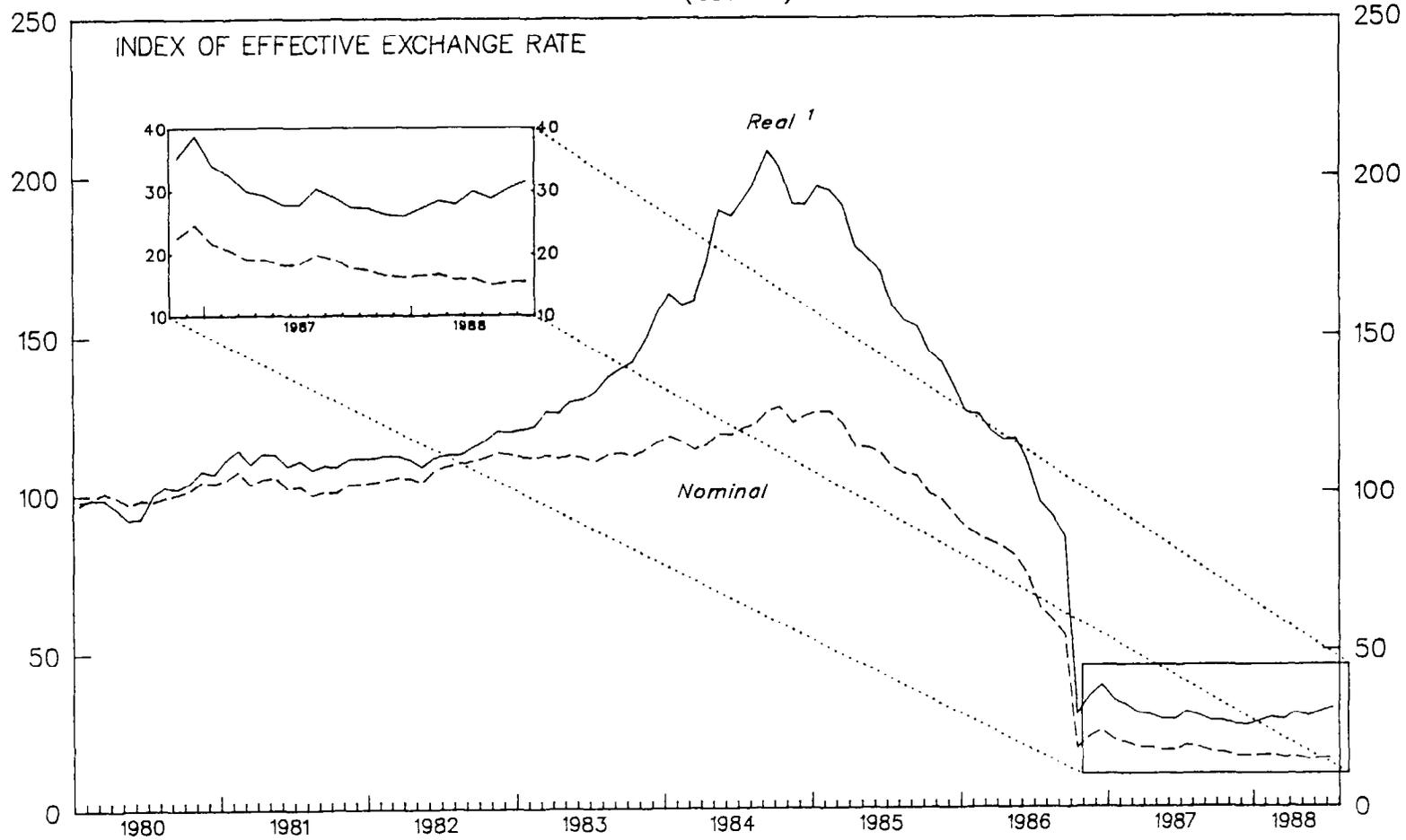
1/ Increases mean appreciation.

2/ Using seasonally adjusted price indices.

3/ Date of latest consideration by Executive Board.



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



Source: Information Notice System.
 † Trade weighted index of nominal exchange rates deflated by seasonally adjusted relative consumer prices; increases mean appreciation.

