

DOCUMENT OF INTERNATIONAL MONETARY FUND  
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**FOR  
AGENDA**

EBS/86/246  
Supplement 1

CONFIDENTIAL

December 11, 1986

To: Members of the Executive Board  
From: The Secretary  
Subject: Nigeria - Request for Stand-By Arrangement

The attached supplement to Nigeria's request for a stand-by arrangement has been prepared on the basis of additional information. Revised draft decisions appear on page 11 and a revised text of the stand-by arrangement appears on pages 12-15.

Mr. Allen (ext. 8381) or Mr. van der Mensbrugghe (ext. 8667) is available to answer technical or factual questions relating to this paper prior to the Board discussion tomorrow, Friday, December 12, 1986.

Att: (1)

INTERNATIONAL MONETARY FUND

NIGERIA

Request for Stand-By Arrangement  
Supplementary Information

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

(In consultation with the Fiscal Affairs, Legal,  
and Treasurer's Departments)

Approved by A.D. Ouattara and S. Kanesa-Thanan

December 11, 1986

I. Introduction

In the latter half of November, a staff team visited Lagos to assist the Nigerian authorities in establishing an economic policy unit to monitor the structural adjustment program in support of which Nigeria has requested a stand-by arrangement. <sup>1/</sup> The staff team met with Dr. Okongwu, Minister of Finance, Mr. Ahmed, Governor of the Central Bank of Nigeria, and other senior officials concerned with economic and financial matters. During the discussions on the monitoring unit, the staff was able to update key economic data and review developments of the recently launched second-tier foreign exchange market (SFEM). In a separate development, the Steering Committee of the London Club agreed in November on the terms of debt rescheduling and the provision of new money from the commercial banks. The present paper supplements the information contained in the request for stand-by arrangement (EBS/86/246, November 5, 1986). The two draft decisions contained in Section V are being amended to reflect the following changes. First, because the expected date of Executive Board consideration has been changed, it is proposed that the period of the stand-by arrangement be from December --, 1986 to January 31, 1988. Second, as described in Section IV below, because of delays in reaching agreement with creditors, especially non-insured creditors, Nigeria will probably be unable to meet the performance criterion requiring the elimination of arrears by the end of this year. Accordingly, the proposed Fund approval for the retention of Nigeria's exchange restrictions is extended from December 31, 1986 to March 31, 1987. Reflecting these two changes, Section VI contains the amended stand-by arrangement.

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<sup>1/</sup> The staff team was led by Mr. Allen (AFR) and comprised Mr. Fisher (ETR), Mr. Schneider (FAD), and Mr. van der Mensbrugghe (AFR).

## II. Recent Economic Developments

Production of petroleum in Nigeria averaged 1.52 million barrels a day (mbd) during the first three quarters of 1986, approximately the same level as in 1985. However, in August 1986, members of OPEC agreed to reinstitute production quotas for the months of September and October. Provisional estimates indicate that Nigerian production of oil, which peaked in August at 1.77 mbd, fell to its quota of 1.3 mbd in both September and October. Following the OPEC conference in October, production quotas for most members were revised upwards for the remaining two months of the year. Nigeria's quota was marginally increased to 1.304 mbd. The spot price of Nigerian Bonny Light, which averaged US\$28.90 per barrel in the last quarter of 1985, declined steadily during the first three quarters of 1986 to US\$18.10, US\$13.00, and US\$12.50 per barrel, respectively. During the months of October and November, the spot price of Bonny Light averaged US\$13.80 and US\$14.70 per barrel, respectively. Although the exchange rate has depreciated sharply with the introduction of the SFEM, the domestic delivery price of crude has remained at ₦ 20.58 a barrel. In line with the program, the authorities are reviewing this in the context of the 1987 budget.

Agricultural production continued to increase in 1986, albeit at a slower pace than in 1985. Provisional estimates indicate that agricultural production grew by 2.1 percent in the first half of 1986 compared with 7.3 percent in the corresponding period of 1985. A sharp drop in rainfall in a number of states accounted for the decline in the growth rate. The overall index of industrial production is estimated to have declined by 1.3 percent during the first half of 1986 compared with the corresponding period in 1985. The manufacturing subsector declined by 5.3 percent during the same period. The late release and inability of many manufacturers to utilize import licenses plus the uncertainty regarding the implementation of a new exchange system resulted in the lower level of industrial activity. There are indications of a revival of manufacturing activity in October and November, as more imports are becoming available.

Although no figures on the consumer price index have been released after January 1986, indications are that the rate of inflation in 1986 approximates the 1985 level of 5.5 percent. The prices of some key commodities within the food component have continued to fall. Similarly, the introduction of the second-tier foreign exchange market and the elimination of price controls do not appear to have led to noticeable overall movement in prices, in one direction or the other. Prices of basic necessities, some of which were hoarded in the third quarter for speculative reasons connected with the imminent launching of the SFEM, appear to have fallen, while those of certain imported goods, previously subject to controls, have risen.

The 1986 fiscal program appears to be on track, with a better than expected outturn at the end of the third quarter expected to be only partially offset by revenue shortfalls in the fourth quarter. Current

staff estimates indicate a fiscal deficit by end of the year of ₦ 2.4 billion (3.1 percent of GDP) compared with the program deficit of ₦ 2.7 billion (Table 1). The staff views this improvement as providing a margin of safety, especially in view of the uncertainty concerning the effect of the SFEM on fourth quarter revenue and expenditure; and does not view this improvement to be grounds for changes in program targets at this time.

The overall fiscal deficit for the first three quarters is estimated to have been ₦ 1.3 billion, compared with previous staff estimates of ₦ 1.7 billion. This favorable outcome is due to better than expected yields from petroleum, income taxes, and the 30 percent import levy. Together these sources yielded approximately ₦ 600 million (0.8 percent of expected GDP) in federal government revenue more than anticipated under the program. Expenditure, on the other hand, appears to have exceeded earlier estimates by approximately ₦ 200 million. Petroleum receipts of the Federal Government were nearly ₦ 500 million higher than expected due to the effects of more rapid devaluation and lower operating and development costs. However, due largely to the decision of the Nigerian Government to postpone raising domestic fuel prices until the presentation of the 1987 budget, a revenue shortfall to the Federal Government of about ₦ 400 million is expected in the fourth quarter. The increase in income tax collections represents continued improvement in collections procedures, while that of the development levy is the result of a conservative initial estimate of the dutiable base. The cause of the apparent overrun of ₦ 200 million in expenditure cannot be determined from available data. However, on the basis of fourth quarter expenditure warrants and a downward revision of outstanding federal government arrears, overall expenditure now is expected to be ₦ 100 million lower than previously estimated.

The 1986 central bank credit guidelines stipulated that for each commercial bank, the increase in total loans and advances during 1986 should not exceed 10 percent of each bank's loans and advances outstanding as at end-1985. With the introduction of the SFEM on September 26, 1986, the ceiling on credit expansion by each bank was reduced to 8 percent for the year as a whole. Notwithstanding the permissible rate of credit expansion, commercial banks had increased their loans and advances by 13.2 percent during the period end-December 1985 to end-August 1986. By contrast, in 1985 as a whole, commercial banks had allowed loans and advances to increase by 9.2 percent, albeit still above the then prevailing credit ceiling of 7 percent expansion. Net claims on total Government have declined marginally since the end of last year. Thus, solely on account of an increase in credit to the private sector of 12.6 percent through August, total credit expansion to the economy has grown by 4.6 percent during the first eight months of 1986 (Table 2). The rapid increase in credit is related to speculative transactions in anticipation of the SFEM in the form of increased stockpiling and import orders to take advantage of the prevailing official rate and of the expected price increases. As stocks are liquidated, there should be some unwinding of this credit. Despite the

Table 1. Nigeria: Summary of Budgetary Operations of the Federal Government, 1982-86

(In millions of naira)

	1982	1983	1984	1985	1986		
					Budget	Program	Revised Est.
Federally collected revenue <u>1/</u>	13,048	11,482	12,276	15,106	16,107	15,644	16,147
Of which: petroleum receipts <u>1/</u>	(8,560)	(7,033)	(9,144)	(10,900)	(10,626)	(9,476)	(10,200)
Less: share of state and local governments	4,794	3,999	4,931	6,098	5,144	5,136	5,408
Federally retained revenue	8,254	7,483	7,345	9,007	10,963	10,508	10,739
Total expenditure and net lending	12,916	13,627	10,260	11,006	11,222	13,239	13,141
Current departmental expenditure	2,864	4,229	3,713	3,085	3,754	4,209	4,209
Domestic interest	1,014	1,429	1,847	2,060	857	2,828	2,828
Foreign interest	346	616	761	826	580	1,176	1,176
Payment of arrears <u>2/</u>	--	525	82	--	1,081	364	266
Capital expenditure and net lending <u>3/</u>	8,692	6,828	3,858	5,035	4,950	4,662	4,662
Overall deficit <u>4/</u>	4,662	6,144	2,915	1,999	259	2,731	2,402
Financing	4,662	6,144	2,915	1,999	259	2,731	2,402
Foreign borrowing	264	174	-95	-379	-666	-875	-875
Gross borrowing	(554)	(976)	(747)	(916)	(500)	(1,228)	(1,228)
Amortization	(290)	(802)	(842)	(1,295)	(1,166)	(2,103)	(2,103)
Domestic borrowing (net)	4,099	6,421	3,014	1,792	925	1,600	1,271
Banking system	(3,803)	(5,063)	(2,317)	(1,626) <u>5/</u>	(...)	(1,327)	(...)
Nonbank	(296)	(1,358)	(697)	(168)	(...)	(273)	(...)
Residual	299	-451	-4	586	--	--	--
Financing gap <u>6/</u>	--	--	--	--	--	2,006	2,006
Memorandum item:							
Federal government deficit as a percentage of GDP	8.4	10.7	4.2	2.7	0.3	3.5	3.1

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

1/ Includes revenue earmarked for the Nigerian National Petroleum Corporation (NNPC) joint venture account.

2/ Payment of arrears in 1983 and 1984 was for reduction of salary arrears of state governments. Budgeted payment of arrears in 1986 is for payment of outstanding liabilities of departments and public enterprises to their suppliers and contractors. It represents one fourth of capital loans to public enterprises and budgeted capital allocations to departments.

3/ Includes government expenditure under the NNPC joint venture account and capital loans to states.

4/ On a cash basis; data on the net change in the stock of government expenditure-related arrears are not available to determine the overall fiscal deficit on a commitment basis.

5/ Excludes increases in the advanced import duty escrow account and undistributed states' revenue. These are classified as federal government deposits by the Central Bank and amounted to N 654 million.

6/ Expected to be filled by rescheduling of external debt service payments.

Table 2. Nigeria: Monetary Survey, 1984-86

(In millions of naira)

	1984 Dec.	1985 Dec.	1986			
			March	June	July	Aug.
Net foreign assets	176.0	-22.1	-160.5	-382.2	-482.8	-281.6
Central Bank (net)	-143.5	-175.2	-190.1	-432.8	-565.2	-447.2
Of which: refinanced						
trade arrears <sup>1/</sup>	(-1,166.3)	(-1,736.3)	(-1,704.4)	(-1,856.8)	(-1,998.1)	(-1,998.1)
Commercial banks (net)	319.5	153.2	29.6	50.7	82.4	165.6
Domestic credit	29,507.3	30,809.6	30,837.8	30,515.5	31,169.9	32,241.9
Claims on Government (net)	17,433.2	17,675.2	17,076.6	16,407.2	16,746.0	17,446.6
Federal Government (net)	17,729.2	18,701.5	18,121.5	17,332.9	17,646.6	18,310.9
Claims	20,146.4	22,270.4	22,056.3	20,868.8	21,299.1	21,591.6
Deposits	-2,417.3	-3,569.0	-3,934.8	-3,536.0	-3,652.5	-3,280.8
State governments (net)	-167.9	-781.7	-767.0	-723.6	-703.9	-686.6
Local governments (net)	-128.1	-244.6	-277.8	-202.1	-196.7	-177.7
Claims on private sector	12,074.1	13,134.5	13,761.2	14,108.3	14,423.9	14,795.0
Counterpart of external arrears blocked at Central Bank	--	--	--	--	--	2,537.8
Money and quasi-money	20,317.0	22,043.6	21,973.9	21,394.3	20,945.9	21,119.2
Currency and demand deposits	11,522.4	12,691.7	12,233.0	11,325.8	10,943.9	11,142.7
Time and savings deposits	8,794.7	9,352.0	9,740.9	10,068.5	10,002.0	9,976.4
Other deposits	2,884.3	3,519.8	3,502.5	3,052.3	3,041.3	1,007.8
Capital and reserves	1,255.3	1,498.9	1,512.5	1,618.0	1,652.9	1,654.3
Other items (net)	5,226.7	3,725.2	3,688.5	4,068.7	5,047.1	5,641.1

Source: Data provided by the Nigerian authorities.

<sup>1/</sup> Represents 1983 rescheduling agreement with commercial banks and promissory notes already issued.

significant increase in private sector credit, the money supply has declined by 4.2 percent between end-December 1985 and end-August 1986. During the period end-December 1985 through end-September 1986, official net international reserves have declined by US\$370 million compared to the earlier estimate of a decline of US\$760 million. This difference is probably attributed to a larger increase in the accumulation of external arrears than forecast.

On August 6, 1986, the Central Bank issued a circular requiring all banks to lodge at the Central Bank, by August 15, the domestic counterpart of external obligations in arrears, and deposits in respect of new applications for foreign exchange between August 1, 1986 and the commencement date of the SFEM. The deadline for lodging naira deposits at the Central Bank was subsequently extended to October 31, 1986. In order to comply with the Central Bank's directive, commercial banks reduced their holdings of treasury bills in August by more than ₦ 2 billion. As a result, their liquidity ratio fell by more than 10 percent to 55 percent. In September, commercial banks' holdings of treasury bills was further reduced by ₦ 500 million, which brought the liquidity ratio down to 50 percent. By end-September, ₦ 3.1 billion had been lodged at the Central Bank in non-interest bearing deposits, of which ₦ 2.4 billion was previously held in commercial banks.

### III. Exchange System

The second-tier foreign exchange market was launched with an auction on September 26, 1986. Commercial banks have been able to obtain foreign exchange at a market-related price; they have subsequently sold this foreign exchange to their customers. The available data indicate that in the first five weeks of the operation of the SFEM, 85 percent of the foreign exchange was utilized by the industrial sector, 14 percent was accounted for by finished goods (including food and pharmaceuticals), and about 1 percent was used for invisibles. In recent weeks the exchange rate has averaged about ₦ 3.5 per dollar, whilst the rate in the parallel market has remained about ₦ 4.5-5 per dollar. In the most recent auction (December 4), however, the exchange rate appreciated to ₦ 3.0 per dollar, and the total value of bids was less than that offered. The exchange rate operating in the first-tier market has been depreciated rapidly from a level of ₦ 1.33 to the dollar just before the introduction of the SFEM, to ₦ 2.32 per U.S. dollar in the middle of November (Table 3).

There have been two changes in the rules governing the operation of the SFEM. The first relates to the operation of the interbank market. The original plans had envisaged that the market would be free of all controls and the exchange rate in the market would be allowed to vary from hour to hour subject to a limit of 1 percent on the spread between banks' quotations for buying and selling in the interbank market. The market has been operated in practice, however, with the rate determined at the previous auction (plus a dealing spread of 1 percent) being used for all transactions. The authorities agreed with the staff's view that

Table 3 . Nigeria: Exchange Rate Developments in the First- and Second-Tier Foreign Exchange Markets, September 26-December 4, 1986

	Value of All Bids in the Auction (In millions of US\$)	Value of All Bids in the Auction (In millions of naira)	Funds Offered for Auction (In millions of US\$)	Second-Tier Exchange Rate (₦ per US\$)	First-Tier Exchange Rate
Sept. 26	84.3	391	50.0	4.21 <u>1/</u>	1.55
Oct. 2	99.1	504	50.0	4.91 <u>1/</u>	1.62
9	75.5	266	75.0	3.50	1.70
16	93.6	668	80.0	3.90	1.81
23	88.0	369	75.0	4.18	1.94
30	90.6	301	86.0	3.85	2.04
Nov. 6	69.3	251	75.0	3.60	2.14
13	76.7	270	75.0	3.50	2.26
20	79.7	...	75.0	3.46	2.32
27	81.3	...	75.0	3.49	...
Dec. 4	60.9	...	75.0	3.00	...

Source: Data provided by the Nigerian authorities.

1/ Marginal rate. Banks actually charged average of successful bid rates, i.e., ₦ 4.9 and ₦ 5.2, respectively.



to promote the efficient operation of the market, it would be desirable to allow the rate in the interbank market to be freely determined, and a change in the regulations which would permit the market to work freely is under consideration. The second development is that the authorities have reduced limits on the access of individual banks to the auction. For the first two auctions, the largest three commercial banks were each allowed to bid for up to 10 percent of the total funds available at the auction, and the other banks were each limited to 7 percent of the total funds available. In early October these limits were reduced to 5 and 3 percent, respectively. With three large and 37 small banks entitled to bid, total possible bids were thus reduced from 289 percent to 126 percent of the available funds. In the course of discussions with the authorities, the staff expressed the view that these limits were an impediment to the efficient operation of the market and should be relaxed as soon as possible. These limits, combined with the controls on the interbank market, result in a limitation on the availability of foreign exchange for those wishing to purchase it: they therefore give rise to an exchange restriction subject to Fund approval under Article VIII, section 2(a). The authorities explained that the limits had been reduced in order to ensure that the auction system would result in banks' representing all regions of the country gaining direct access to foreign exchange. They agreed with the staff's view that with an efficient interbank market, which would allow banks that had not been successful in the auction to obtain foreign exchange from other banks and the private sector, there would be no need for these limits. The raising of these limits is currently under active consideration by the authorities.

The staff emphasized the importance of keeping the level of official sales of foreign currency at the weekly auction in line with the balance of payments objectives of the structural adjustment program. Staff calculations suggest that with the existing market coverage of transactions, and on the basis of present balance of payments projections, an average of about US\$50 million will be available each week to be sold in the auction in 1987, which implies some curtailment compared with the recent level of US\$75 million a week. This estimate will need to be kept under close review in the light of developments in the oil market. The authorities are considering reducing the weekly amount auctioned.

#### IV. Rescheduling Agreements

The Government of Nigeria has reached an agreement with the banks' Steering Committee on a term sheet which provides for (i) the rescheduling of payments of principal on medium- and long-term debts falling due between April 1, 1986 and December 31, 1987 (of approximately US\$1.7 billion); (ii) the rescheduling of arrears on letters of credit and associated late interest (which together may amount to up to about US\$2.1 billion); and (iii) the provision of a total of US\$320 million new money in 1986 and 1987.

The term sheet provides for principal payments to be rescheduled for nine years with a four-year grace period and an interest rate of 1 1/4 percentage points above LIBOR or the appropriate domestic reference rate. In addition, there is a restructuring fee of 1/2 percent of the total payments rescheduled. Letters of credit which were opened before September 26, 1986 will be rescheduled for four years with a one-year grace period. The full amount will be amortized in 36 equal monthly installments beginning in January 1988. The interest rates and restructuring fee are the same as for the medium- and long-term debts described above. Late interest on the letters of credit is to be repaid in full in equal monthly installments between the date on which the agreement becomes effective and the end of December 1987.

The commercial banks will provide a total of US\$320 million of new money in 1986 and 1987 in three tranches. The first drawing of US\$160 million may be made as soon as the rescheduling agreements are effective; the stand-by arrangement has been approved; the IBRD Trade Policy and Export Development Loan is effective; and Nigeria has reached agreement with the Paris Club group of creditors. The second drawing, US\$120 million, will be made after June 14, 1987, provided that (1) Nigeria is current on its debt service obligations as rescheduled; (2) provided that all amounts originally scheduled to be available for purchase by Nigeria under the Fund stand-by arrangement could be purchased if Nigeria so wished; and (3) it is confirmed that at least US\$400 million has been borrowed by Nigeria under the Trade Policy and Export Development Loan from the World Bank. The third drawing of US\$40 million may be made under the same conditions as the second drawing, and provided that the IBRD has confirmed that US\$450 million has been borrowed under the Trade Policy and Export Development Loan, and provided that Nigeria has been granted a further similar loan of at least US\$200 million in 1987 which has been declared effective.

The new loan from the banks is repayable in February 1988 and will be automatically converted into a seven-year loan with a three-year grace period if the 1986-88 Structural Adjustment Program is being implemented and Nigeria has in effect an arrangement from the Fund; if all amounts under the 1987 IBRD Trade Policy and Export Development Loan (or similar facility) have been drawn; if Nigeria has entered into bilateral agreements with members of the Paris Club to reschedule at least 90 percent by value of all relevant debts due in 1986 and 1987; and if Nigeria has utilized or entered into commitments to utilize at least US\$900 million of facilities from export credit agencies in 1986 and 1987.

The interest rate on the loan is 1 1/4 percentage points above LIBOR or the domestic reference rate before conversion and 1 5/16 points after conversion. There is a facility fee of 1/2 percent and a commitment fee of 1/2 percent per annum on unutilized balances. The commercial banks have been asked to give a favorable response to the proposed term sheet by December 12, 1986.

The Nigerian request for comprehensive rescheduling of both medium- and long-term debt service obligations and short-term trade arrears is expected to be discussed by the Paris Club in the week beginning December 15.

As a result of the delays in concluding negotiations with creditors, progress on eliminating external arrears envisaged by end-December has been somewhat slower than expected at the time of the original program discussions. By the end of December, it is likely that most, if not all, of the arrears to the Paris Club and to the London Club commercial banks will have been rescheduled. It now appears to be unlikely, however, that the Central Bank of Nigeria will have completed negotiations with the many holders of uninsured trade bills. Thus, it is probable that by the end of the year, Nigeria will still have arrears outstanding. In light of these developments, the proposed stand-by arrangement has been revised to move the test date for the complete elimination of the arrears from December 31, 1986 to the end of March 1987.

V. Revised Proposed Decisions

In view of the above, the following revised draft decisions are proposed for adoption by the Executive Board:

(i) Stand-By Arrangement

1. The Government of Nigeria has requested a stand-by arrangement in an amount equivalent to SDR 650 million for the period from December .., 1986 to January 31, 1988.
2. The Fund approves the stand-by arrangement set forth in EBS/86/246, Supplement 1.

(ii) Exchange System

As described in EBS/86/246 and Supplement 1, Nigeria has introduced a two-tier foreign exchange market, which gives rise to a multiple currency practice and an exchange restriction. Nigeria also maintains restrictions on payments and transfers for current international transactions evidenced by external payments arrears. These measures are subject to Fund approval under Article VIII, Sections 2(a) and 3. The Fund welcomes the elimination by Nigeria of all other exchange restrictions, welcomes the intention of Nigeria to unify the exchange markets and eliminate the external payments arrears, and encourages Nigeria to do so as soon as possible. In the meantime, the Fund grants approval for the retention by Nigeria of the exchange restriction and multiple currency practice evidenced by the two-tier foreign exchange market until June 30, 1987, of the exchange restrictions evidenced by external payments arrears until March 31, 1987, and of the exchange restrictions remaining pending the execution of rescheduling agreements with each individual creditor until December 31, 1987.

## VI. Nigeria--Stand-By Arrangement

Attached hereto is a letter dated September 3, 1986 from the Minister of Finance of Nigeria, requesting a stand-by arrangement and setting forth the objectives and policies that the authorities of Nigeria intend to pursue for the period of this stand-by arrangement and understandings of Nigeria with the Fund regarding reviews that will be made of progress in realizing the objectives of the program and of the policies and measures that the authorities of Nigeria will pursue for the remaining period of the stand-by arrangement.

To support these objectives and policies the International Monetary Fund grants this stand-by arrangement in accordance with the following provisions:

1. For the period from December --, 1986 to January 31, 1988, Nigeria will have the right to make purchases from the Fund in an amount equivalent to SDR 650 million, subject to paragraphs 2, 3, 4, 5, and 6 below, without further review by the Fund.

2. (a) Purchases under this stand-by arrangement shall not, without the consent of the Fund, exceed the equivalent of SDR 215 million until February 15, 1987, the equivalent of SDR 330 million until May 15, 1987, the equivalent of SDR 420 million until August 15, 1987, and the equivalent of SDR 510 million until November 15, 1987.

(b) None of the limits in (a) above shall apply to a purchase under this stand-by arrangement that would not increase the Fund's holdings of Nigeria's currency in the credit tranches beyond 25 percent of quota.

3. Purchases under this stand-by arrangement shall be made from ordinary resources.

4. Nigeria will not make purchases under this stand-by arrangement that would increase the Fund's holdings of Nigeria's currency in the credit tranches beyond 25 percent of quota:

(a) during any period in which the data at the end of the preceding period indicate that

- (i) the limit on net domestic credit of the banking system referred to in paragraph 16 of the attached letter and specified in the table annexed to that letter; or
- (ii) the limit on net credit of the banking system to the Federal Government and state governments referred to in paragraph 16 of the attached letter and specified in the table annexed to that letter; or

- (iii) the limit on disbursements of external debt as specified in paragraph 22 of the attached letter and specified in the table annexed to that letter

has not been observed; or

(b) after March 31, 1987, if all external payments arrears referred to in paragraph 23 of the attached letter have not been eliminated; or

(c) during the entire period of the arrangement, if Nigeria incurs arrears on its external financial obligations including arrears on financial obligations accepted under agreements concluded with creditors in connection with the rescheduling of its external obligations; or

(d) after February 14, 1987 until suitable performance criteria have been established for 1987 pursuant to the first review contemplated in paragraph 27 of the attached letter, or after such performance criteria have been established, while they are not being observed; or

(e) after November 14, 1987, until the second review contemplated in paragraph 27 of the attached letter is completed; or

(f) during the entire period of the stand-by arrangement, if Nigeria

- (i) imposes or intensifies restrictions on payments and transfers for current international transactions; or
- (ii) introduces or modifies multiple currency practices; or
- (iii) concludes bilateral payments agreements which are inconsistent with Article VIII; or
- (iv) imposes or intensifies import restrictions for balance of payments reasons.

When Nigeria is prevented from purchasing under this stand-by arrangement because of this paragraph 4, purchases will be resumed only after consultation has taken place between the Fund and Nigeria and understandings have been reached regarding the circumstances in which such purchases can be resumed.

5. Nigeria will not make any purchases under this stand-by arrangement during any period of the arrangement in which Nigeria has an overdue financial obligation to the Fund or is failing to meet a repurchase expectation pursuant to the Guidelines on Corrective Action in respect of a noncomplying purchase.

6. Nigeria's right to engage in the transactions covered by this stand-by arrangement can be suspended only with respect to requests received by the Fund after (a) a formal ineligibility or (b) a decision of the Executive Board to suspend transactions either generally or in order to consider a proposal, made by an Executive Director or the Managing Director, formally to suppress or to limit the eligibility of Nigeria. When notice of a decision of formal ineligibility or of a decision to consider a proposal is given pursuant to this paragraph 6, purchases under this arrangement will be resumed only after consultation has taken place between the Fund and Nigeria and understandings have been reached regarding the circumstances in which such purchases can be resumed.

7. Purchases under this stand-by arrangement will be made in the currencies of other members selected in accordance with the policies and procedures of the Fund, and may be made in SDRs if, on the request of Nigeria, the Fund agrees to provide them at the time of the purchase.

8. Nigeria shall pay a charge for this stand-by arrangement in accordance with the decisions of the Fund.

9. (a) Nigeria shall repurchase the outstanding amount of its currency that results from purchases under this stand-by arrangement in accordance with the provisions of the Articles of Agreement and decisions of the Fund, including those relating to repurchase as Nigeria's balance of payments and reserve position improves.

(b) Any reductions in Nigeria's currency held by the Fund shall reduce the amounts subject to repurchase under (a) above in accordance with the principles applied by the Fund for this purpose at the time of the reduction.

10. During the period of the stand-by arrangement Nigeria shall remain in close consultation with the Fund. These consultations may include correspondence and visits of officials of the Fund to Nigeria or of representatives of Nigeria to the Fund. Nigeria shall provide the Fund, through reports at intervals or dates requested by the Fund, with such information as the Fund requests in connection with the progress of Nigeria in achieving the objectives and policies set forth in the attached letter.

11. In accordance with paragraph 28 of the attached letter, Nigeria will consult the Fund on the adoption of any measures that may be appropriate at the initiative of the Government or whenever the Managing Director requests consultation because any of the criteria in paragraph 4 above have not been observed or because he considers that consultation on the program is desirable. In addition, after the period of the arrangement and while Nigeria has outstanding purchases in the upper credit tranches, the Government will consult with the Fund from

time to time, at the initiative of the Government or at the request of the Managing Director, concerning Nigeria's balance of payments policies.



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