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June 13, 1986

To: Members of the Executive Board

From: The Secretary

Subject: Nigeria - Staff Report for the 1986 Article IV Consultation

Attached for consideration by the Executive Directors is the staff report for the 1986 Article IV consultation with Nigeria. A draft decision appears on page 26.

This subject is proposed to be brought to the agenda for discussion on Friday, July 11, 1986.

Mr. Allen (ext. 8581) or Mr. van der Mensbrugghe (ext. 8667) is available to answer technical or factual questions relating to this paper prior to the Board discussion.

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INTERNATIONAL MONETARY FUND

NIGERIA

Staff Report for the 1986 Article IV Consultation

Prepared by the Staff Representatives for the
1986 Consultation with Nigeria

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

June 13, 1986

I. Introduction

The 1986 Article IV consultation discussions with Nigeria were held in Lagos during the period March 9-26, 1986. The Nigerian representatives included Dr. Okongwu, Minister of Finance, Dr. Kalu, Minister of National Planning, Mr. Bello, Permanent Secretary for the Federal Ministry of Finance, Mr. Abubakar Alhaji, Permanent Secretary of the Federal Ministry of National Planning, Mr. Falae, Secretary to the Federal Military Government, Mr. Ahmed, Governor of the Central Bank of Nigeria, and other senior officials concerned with economic and financial matters. The staff representatives were Messrs. Allen (head-AFR), Hill (AFR), Buyse (ETR), Schneider (FAD), van der Mensbrugghe (AFR), and Ms. Coker (secretary-AFR). Mr. Innes of the World Bank resident mission in Lagos also participated in most of the meetings. Mr. Abdallah, Alternate Executive Director for Nigeria, and Mr. Archibong, Advisor to the Executive Director for Nigeria, participated in some of the policy discussions.

The last Article IV consultation with Nigeria was concluded on June 17, 1985. Nigeria continues to avail itself of the transitional arrangements of Article XIV. Summaries of Nigeria's relations with the Fund and with the World Bank Group are provided in Appendices I and II, respectively. Statistical issues are discussed in Appendix III, and basic economic and financial data are presented in Appendix IV.

II. Recent Economic Developments

After four consecutive years of recession and high inflation, increased petroleum and agricultural production contributed to a modest revival in overall economic activity and helped reduce inflationary pressures substantially in 1985. A combination of increased revenue and a reduction in capital expenditure further reduced the federal government deficit. At the same time, as the conservative monetary policy stance adopted in 1984 was pursued in 1985, both domestic credit and money supply grew more slowly. Continuing the trend of the three previous years, imports were compressed while export earnings increased. As a result, a substantial trade surplus was registered in 1985 which in turn led to a current account surplus, an outcome not achieved since 1980. Nonetheless, an overall balance of payments deficit was incurred and additional arrears were accumulated.

The shifts in external demand for oil and the resulting variations in domestic purchasing power have been the determining factors in the overall level of economic activity in Nigeria. After oil export earnings peaked at US$25 billion in 1980, real GDP has declined on average by 4 percent per annum during the period 1981-84 (Table 1 and Chart 1). With the increase in petroleum production and agricultural output, real GDP is provisionally estimated to have increased by 1 percent in 1985. More favorable weather and the scarcity-induced price rises of 1984 led to a significant increase in the production of food crops in 1985, particularly of maize, millet, and sorghum. In contrast, the production of export crops remained stagnant. A larger supply of imported raw materials, together with some import substitution, allowed capacity utilization in the manufacturing sector to rise from approximately 30 percent in 1984 to 40 percent in 1985. Construction and trade recorded rather lower levels than in 1984.

In the petroleum sector, Nigeria further increased its average daily output in 1985 to 1.48 million barrels per day (mbd). The large imbalance of world oil supply did not surface until about December 1985. Hence the price of crude on world markets remained remarkably stable in 1985, and, in the case of Nigerian crude, the average export price was estimated to have fallen only marginally from the 1984 level to about US$28.30 per barrel. To encourage offtake in the growing buyers' market, the system of posted prices, established to assess fiscal liabilities, was abandoned toward the latter part of 1985 and replaced by netback pricing, in which the price of crude is directly linked to the spot market prices of the refined products derived from a particular shipment of crude. Nigeria's oil production soared in the final quarter to an average of 1.69 mbd, and, for the year as a whole, export volume rose to about 1.18 mbd. Export earnings thus increased by about 5.5 percent to US$12.2 billion in 1985.

The implementation of tight demand management policies, coupled with the significant increase in food supply, brought the rate of inflation (as measured by the official composite consumer price index) down from almost 40 percent in 1984 to 5.5 percent in 1985. The Government's 1980-82 wage policy guidelines, which effectively froze wages and salaries, were extended through 1985. Similarly, there has been no change in the minimum wage since its introduction in 1981. On October 1, 1985, wages and salaries in both the public and private sectors were subjected to an additional tax, ranging from 2 percent to 20 percent of income. With the prolonged recession, the unemployment situation has been seriously aggravated in the past few years. Though no reliable unemployment figures exist, it is apparent that retrenchments have been large, especially in the construction and manufacturing sectors, and in the state governments.

Table 1. Nigeria: Selected Economic and Financial Indicators, 1980-86

	1980	1981	1982	1983	1984	1985 Est.	1986 Proj.
				(Annual percentage change)			
National income and prices							
GDP at current prices	15.3	5.0	6.6	3.1	19.6	8.3	3.8
GDP at constant 1977/78 prices	2.9	-2.9	--	-8.5	-5.5	1.0	-1.4
Oil sector	-11.6	-31.5	-11.7	-2.5	13.0	6.7	1.3
Non-oil sector	7.8	5.1	2.1	-9.5	-8.7	-0.2	-2.0
GDP deflator	12.1	7.7	6.5	13.0	28.3	6.4	5.2
Consumer prices	10.0	20.8	7.7	23.2	39.6	5.5	15.0
Federal government finance							
Federally retained revenue	35.6	-33.2	6.3	-12.6	-1.8	23.0	-8.1
Total federal government expenditure	26.5	4.8	-0.2	10.7	-26.3	6.9	9.6
External trade (in U.S. dollars)							
Exports, f.o.b.	54.8	-31.7	-31.4	-14.7	14.7	5.7	-44.9
Oil exports							
Value	59.3	-31.2	-30.7	-16.3	16.2	5.5	-46.2
Volume	-13.2	-36.0	-18.2	-6.9	17.2	7.7	1.6
Non-oil exports							
Value	-8.8	-43.5	-52.4	56.6	-22.3	12.2	-1.7
Volume	5.2	-33.9	-23.2	59.4	-38.6	10.4	2.5
Imports							
Value	24.4	24.8	-19.1	-23.0	-22.4	-6.8	-27.5
Volume	8.9	31.2	-15.4	-20.0	-19.8	-7.2	-36.4
Real import-weighted effective exchange rate (depreciation -)	5.4	8.3	0.7	17.2	37.9	-10.8	...
Nominal import-weighted effective exchange rate (depreciation -)	8.0	-1.5	-0.1	-0.7	2.8	-12.0	...
Terms of trade	49.0	12.2	-12.2	-7.3	4.2	-2.4	-52.4
Money and credit							
Net domestic credit	18.1	69.8	38.2	29.3	9.9	4.4	...
Federal Government	-6.5	116.8	58.1	48.9	15.0	5.5	...
Private sector	34.8	30.9	16.4	8.5	4.0	8.8	...
Central bank credit ceilings	...	30.0	25.0	25.0	12.5	7.0	10.0
Money and quasi-money	46.5	15.6	10.6	14.0	11.3	8.5	...
Velocity of money (period average)	4.6	3.9	3.7	3.3	3.6	3.5	...
				(In percent)			
Interest rates 1/							
Savings deposits	6.0	6.0	8.5	7.5	9.5	9.5	9.5
Time deposits (maximum)	5.0	5.0	7.5	6.5	8.5	8.5	8.5
Minimum lending rates	7.5	7.5	10.5	9.5	9.5	9.5	9.5
Maximum lending rates:							
Preferred sectors	9.5	9.5	12.5	11.5	11.5	11.5	13.0
Other sectors	11.5	11.5	14.0	13.0	13.0	13.0	13.0
				(In percent of GDP, unless otherwise stated)			
Basic ratios							
Consumption	70.3	76.9	84.5	87.1	87.6	86.5	90.5
Gross investment	23.0	28.7	22.4	16.8	10.6	10.0	9.2
Gross domestic savings	29.7	23.1	15.5	12.9	12.4	13.5	9.5
Federal government finance							
Total retained revenue	25.0	15.4	14.8	13.0	10.7	12.1	10.7
Total expenditure	25.3	24.5	22.9	24.6	15.2	15.0	15.8
Overall budgetary surplus/deficit (-)	-0.3	-9.1	-8.1	-11.6	-4.5	-2.9	-5.1
External sector							
Overall balance of payments	5.0	-7.3	-7.8	-6.2	1.0	-0.2	-3.6
Current account balance	4.7	-7.1	-8.7	-6.2	-0.3	1.2	-2.2
External public debt outstanding	4.5	6.0	15.9	23.1	20.5	24.6	23.4
External debt service (as percent of exports of goods)	3.7	6.1	12.8	20.2	27.2	35.9	70.9
				(In billions of U.S. dollars)			
Oil exports	24.9	17.2	11.9	10.0	11.6	12.2	6.6
Current account deficit (-)	4.3	-6.0	-7.2	-4.9	-0.2	1.0	-1.7
Overall balance of payments deficit (-)	4.6	-6.2	-6.4	-4.9	0.9	-0.1	-2.8
Change in reserves (increase -)	-4.6	6.2	2.4	0.6	-0.5	-0.3	0.3
Arrears accumulation (net)	--	--	4.1	1.9	--	0.6	-0.4
Rescheduling of arrears	--	--	--	1.9	0.3	1.0	0.1
Payment on rescheduled arrears	--	--	--	--	-0.7	-0.7	-0.5
Other financing	--	--	--	0.4	--	-0.4	3.3 2/
Gross official reserves	10.3	4.5	2.0	1.2	1.5	1.7	1.4
External payments arrears	--	--	4.1	6.0	6.0	6.6	6.1
Gross reserves in weeks of imports	36.4	12.6	6.9	5.6	8.8	10.6	12.0

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

1/ Interest rates listed for 1981 and 1983 were in effect during entire calendar year. Rates listed for 1980 were in effect during April-December; rates listed for 1982 were in effect during April-October; and rates listed for 1984 were in effect during May-December.

2/ Financing gap.

Fiscal problems began to emerge in Nigeria during the 1981-83 period, when, despite an annual average fall in oil revenue of 17 percent, federal government expenditure was reduced only marginally from the high levels attained during the preceding oil boom (Table 2). As a result, the overall fiscal deficit averaged 9 percent of GDP over the period and reached a peak of 12 percent of GDP in 1983. Adjustment to the decline in revenue began in 1984, when total expenditure was slashed by 26 percent (from the equivalent of 25 percent of GDP to 15 percent of GDP), largely by curtailing the capital investment program, resulting in a reduction in the overall fiscal deficit to less than 4.5 percent of GDP in 1984. Preliminary data indicate that the deficit was further reduced to below 3 percent of GDP in 1985, with an estimated ₦ 720 million rise in total expenditure being more than offset by a revenue increase of ₦ 1,662 million, due largely to higher volumes and naira prices of petroleum exports. 1/

With 70 percent of federally collected revenue derived directly from the petroleum sector and the remainder highly dependent on foreign exchange availability, the slide in petroleum prices has resulted in a significant erosion of Nigeria's revenue base. This problem has been compounded by the overvaluation of the naira, which, in addition to reducing the naira value of petroleum exports, also lowers revenue from ad valorem import duties and tends to switch profits from the relatively taxable manufacturing sector to the largely untaxed commercial and distribution sectors. As a result, federally collected revenue fell sharply from about 25 percent of GDP in 1982 to 18 percent in 1984, with nonpetroleum revenue falling from 8 percent to 5 percent of GDP over the same period. However, in 1985 nonpetroleum revenue increased by more than 1 percent of GDP, due to a combination of new measures and improved collections in both the inland revenue and the customs and excise sections. The most significant of these measures were an advance payments scheme which required the payment of import duties prior to obtaining an import license, the virtual elimination of exclusions and exemptions from import taxation enacted in May 1984, and the implementation of a system of withholding at source of taxes on rent, dividends, and interest.

Capital expenditure, which had constituted 62 percent of federal government expenditure in 1981 and 1982, fell to 41 percent of the total or ₦ 5.7 billion in 1983, largely reflecting reduced foreign exchange availability. This expenditure was further reduced to ₦ 2.8 billion in 1984, owing partly to a rationalization of the public expenditure program carried out with World Bank assistance, and partly to delays in project implementation. Capital expenditure appears to have recovered somewhat to around ₦ 3.6 billion in 1985. In regard to the sectoral allocation of capital expenditure, outlays on rain-fed agriculture were apparently increased, while those on water resource projects were

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1/ There is no information on the current level of domestic arrears, which were estimated at ₦ 16 billion at end 1983.

CHART 1

NIGERIA

SELECTED ECONOMIC AND FINANCIAL INDICATORS, 1980-85

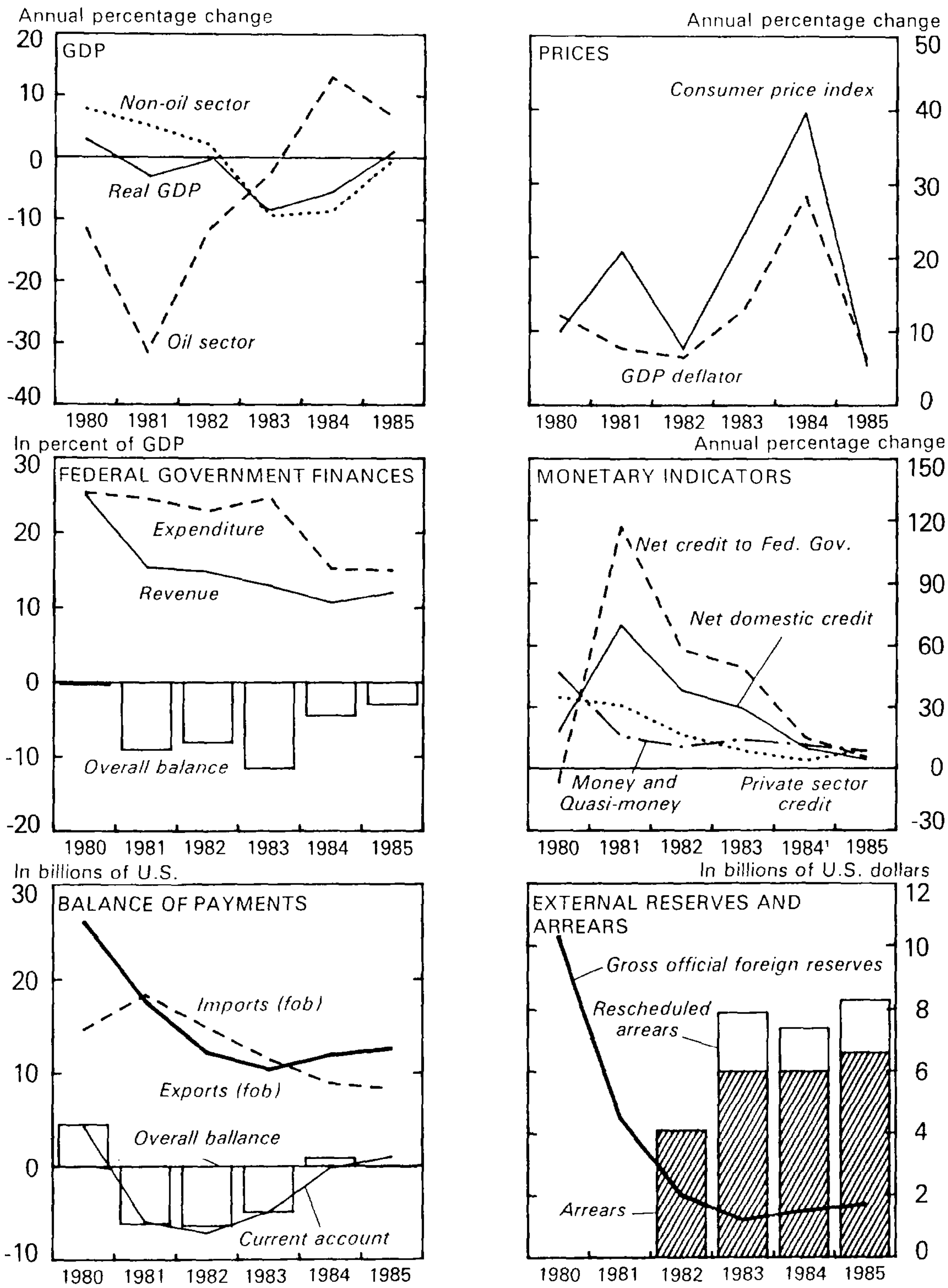


Table 2. Nigeria: Summary of Budgetary Operations of the Federal Government, 1982-86

(In millions of naira)

	1982 Actual 1/	1983 Est. 2/	1984 Est. 2/	1985 Budget	1985 Est. 2/	1986 Budget	1986 Staff proj. 3/
Federally collected revenue 4/	13,048	11,482	12,276	11,486	15,106	16,107	11,983
Of which: petroleum receipts 4/	(8,560)	(7,033)	(9,144)	(8,296)	(10,900)	(10,626)	(6,217)
Less: share of state and local governments	4,794	3,999	4,931	4,466	6,098	5,144	3,709
Federally retained revenue	8,254	7,483	7,345	7,020	9,007	10,964	8,274
Total expenditure and net lending	12,763	14,133	10,418	10,788	11,138	11,222	12,205
Current departmental expenditure	2,864	4,229	3,713	3,444	3,261	3,754	3,251
Current transfers and subsidies	795	1,080	1,075	443	1,248	444	1,293
Domestic interest	861	1,935	2,004	876	2,060	857	2,722
Foreign interest	346	616	761	711	933	580	649
Payment of arrears 5/	...	525	82	...	...	1,081)	...
Capital expenditure and net lending 4/	7,897	5,748	2,783	5,315	3,636	4,506)	4,291
Overall deficit	4,509	6,650	3,073	3,768	2,131	259	3,931
Financing	4,509	6,650	3,073	3,768	2,131	260	3,931
Foreign borrowing (net)	264	174	-95	1,153	-444	-666	-1,094
Domestic borrowing (net)	4,099	6,421	3,014	2,615	770	926	5,025
Banking system	3,803	5,063	2,317	...	972	...	...
Nonbank	296	1,358	697	...	-202	...	...
Residual	146	55	154	...	1,802 6/	...	...
Memorandum item:							
Federal government deficit as a percentage of GDP	8.10	11.59	4.47	5.07	2.87	0.34	5.09

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

1/ Audited actual.
2/ Estimates of staff and Nigerian authorities.
3/ Staff projections based on an exchange rate of ₦ 1 = US$1 and oil priced at US$15 per barrel and oil production as described in the text. The authorities' projections were based on an oil price of US$25 per barrel and rather lower volume figures.
4/ Includes revenue earmarked for the Nigerian National Petroleum Corporation (NNPC) joint venture account.
5/ Payments 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.
6/ Includes an estimated ₦ 265 million of undistributed Federation account revenue and ₦ 70 million of receipts from the levy on wages and salaries.

reduced. The Government is also proceeding with certain projects in the areas of petrochemicals and steel, whose viability the World Bank doubts.

Current departmental expenditure, which grew to over 9 percent of GDP in 1983, decreased to an estimated 6 percent of GDP in 1985. Although complete figures are not available regarding the composition of realized current departmental expenditure, outlays on wages and salaries appear to have been as budgeted, suggesting that the wage bill increased by some 12 percent in 1985, despite a continued freeze on salaries. Expenditure on materials and supplies, on the other hand, has borne the brunt of the spending cuts, falling from 2.9 times the wage bill in 1983 to less than 1.5 times in 1985.

During the period 1981-83, with access to foreign credit becoming increasingly limited, the authorities relied heavily on the domestic banking system to finance the overall fiscal deficits (Appendix Table IV). Net bank claims on the Federal Government rose by an average of 75 percent a year over this period, absorbing an increasing share of total domestic credit. The rapid growth in net domestic credit, together with sharp declines in net foreign assets, were reflected in increases in money and quasi-money averaging 13 percent. By contrast, in 1984 and 1985, despite a net repayment of external loans by the Federal Government, the reduction in the fiscal deficit allowed the rate of borrowing from the banking system to decline to 15 percent and 6 percent, respectively. Net foreign assets have partially recovered, and the overall growth of credit has slowed. The Federal Government's share in total credit growth continues to be high, at 87 percent and 75 percent, for 1984 and 1985, respectively. The growth in claims on the private sector fell to a low of 4 percent in 1984, but increased to 9 percent in 1985, as economic activity picked up in several sectors of the economy. Reflecting these developments, the growth in the money supply was brought down to an average of 10 percent per annum in the period 1984-85.

In response to the deterioration in the balance of payments and the excess demand pressures that had built up in the period 1981-83, the monetary authorities reduced the permissible increase in loans and advances of large banks from 25 percent in 1983 to 12.5 percent in 1984 and to only 7 percent in 1985. Smaller banks, however, were allowed to expand credit by up to 10 percent of their outstanding level of credit or by 15 percent of their total deposit liabilities, whichever was higher. In addition, the sectoral credit allocation scheme, which specifies commercial and merchant banks' lending to preferred and less-preferred sectors, was simplified. The number of categories was reduced in 1984 from the previous fifteen to nine and, in 1986, to only four sectors. Interest rates in 1985 remained unchanged in nominal terms from their 1984 levels, with the exception of interest rates on loans for agricultural purposes, which were raised by 2 percentage points.

The savings deposit rate was 9.5 percent in 1985, while the lending rate was 13 percent. As a result of the significant decline in inflation, real interest rates turned positive in 1985.

Nigeria's external current account improved from a deficit of US$4.9 billion to a surplus of US$1.0 billion over the period 1983-85 (Table 3). As mentioned earlier, oil production rose from 1.24 mbd to 1.48 mbd and oil export volume from 0.94 mbd to 1.18 mbd, while export prices averaged US$29 per barrel. The total value of exports rose by US$2.2 billion while the level of imports was reduced by over US$3 billion. Although there is considerable uncertainty attached to the import statistics, the 1985 import volume is estimated to have been some 40 percent below that recorded in 1982. Net medium- and long-term borrowing declined sharply over the period, as disbursements fell and increased amortization came due on previous borrowings. However, over the period as a whole, the improvement in the current account more than compensated for this deterioration in the capital account, and the overall balance moved from a deficit of about US$5 billion in 1983 to approximate equilibrium in 1985.

Foreign exchange reserves recovered over the period by nearly US$0.5 billion to a level equivalent to 2.5 months imports in 1985. However, about 30 percent of gross foreign exchange reserves at the end of 1985 represented credit balances under countertrade agreements. In addition to the unsettled trade arrears accumulated in 1982 and 1983, Nigeria continued to experience delays in making payments throughout 1984 and 1985. New arrears on trade bills and letters of credit amounted to US$300 million in 1984 and a further US$1.3 billion in 1985; in addition, payments on medium- and long-term debt of US$285 million were overdue at the end of 1985, though the latter have since been settled. However, net of rescheduled arrears, the stock of outstanding arrears remained virtually unchanged in 1984 and increased by about US$600 million in 1985.

At end-1985 Nigeria's medium- and long-term external debt amounted to an estimated US$11.4 billion, representing an increase of nearly 30 percent relative to end-1982. Some 80 percent of this debt was due to commercial financial institutions; 12 percent and 8 percent, respectively, was due to multilateral organizations and bilateral official creditors, while suppliers held about 1 percent. In addition, there were US$1.7 billion of rescheduled arrears due to banks and uninsured creditors, an estimated US$0.7 billion of short-term debt, and a possible US$6.6 billion of unrescheduled arrears. Inclusive of these amounts, Nigeria's total debt outstanding amounted to US$20.5 billion at end-1985.

The Nigerian authorities have traditionally relied on administrative controls to ration and allocate foreign exchange. A major tightening of the import regime was introduced in 1984 when the system of Open General License was abolished and all nonprohibited imports became subject to specific licensing requirements. Since January 1985,

Table 3. Nigeria: Summary Balance of Payments, 1982-86

(In millions of U.S. dollars)

	1982	1983	1984	1985	1986 Proj.
Current account	-7,197	-4,889	-244	1,034	-1,735
Trade balance, f.o.b.	-2,725	-1,081	3,009	4,287	927
Exports	12,154	10,370	11,891	12,566	6,927
Petroleum	(11,888)	(9,954)	(11,568)	(12,203)	(6,570)
Others	(266)	(416)	(323)	(363)	(357)
Imports	-14,879	-11,451	-8,882	-8,279	-6,000
Services (net)	-4,043	-3,413	-2,921	-2,993	-2,389
Investment income	-1,082	-1,406	-1,487	-1,647	-1,385
Of which: scheduled interest 1/	(-561)	(-1,005)	(-1,176)	(-1,358)	(-1,175)
Nonfactor services: credit	514	368	433	285	208
Nonfactor services: debit	-3,474	-2,376	-1,867	-1,631	-1,212
Transfers (net)	-429	-395	-332	-260	-273
Capital account	3,805	1,557	228	417	-1,016
Direct investment	430	365	189	350	368
Medium and long-term capital (net)	3,017	1,391	713	-11	-1,710
Gross official borrowing	(3,651)	(2,370)	(1,911)	(1,712)	(1,249)
Scheduled amortization	(-634)	(-979)	(-1,198)	(-1,637)	(-2,832)
Private borrowing (net)	(--)	(--)	(--)	(-86)	(-128)
Short-term capital	358	-199	-674	78	326
Net errors and omissions	-3,027	-1,576	959	-1,600	--
Overall balance	-6,418	-4,908	943	-149	-2,752
Financing	6,418	4,908	-943	149	-523
Reserve movements (- increase)	2,367	645	-475	-296	302
Arrears accumulation (net)	4,051	1,929	24	551	-424
Rescheduling of arrears (net)	--	1,935	-492	294	-401
Letters of credit	(--)	(1,935)	(-749)	(-749)	(-437)
Promissory notes	(--)	(--)	(257)	(1,043)	(36)
Other financing	--	400	--	-400	--
Financing gap 2/	--	--	--	--	3,275
Memorandum items:					
External debt					
Total	13,099	18,299	18,455	20,465	21,325
Central Bank of Nigeria	4,171	8,495	8,597	9,042	8,217
Short-term	(120)	(180)	(750)	(750)	(750)
SAMA	(--)	(400)	(400)	(--)	(--)
Rescheduled arrears	(--)	(1,935)	(1,443)	(1,737)	(1,336)
Unrescheduled arrears 3/	(4,051)	(5,980)	(6,004)	(6,555)	(6,131)
Medium- and long-term debt	8,927	9,804	9,859	11,424	9,833
Financial	(7,496)	(8,110)	(7,945)	(8,996)	(7,288)
Multilateral	(766)	(905)	(1,115)	(1,338)	(1,483)
Bilateral	(582)	(672)	(706)	(973)	(1,044)
Suppliers	(83)	(117)	(93)	(117)	(19)
Financing gap	--	--	--	--	3,275
Debt service (in percent of exports of goods) 2/	12.8	20.2	27.2	35.9	70.9
Oil production (mbd)	1.28	1.24	1.39	1.48	1.50
Oil exports (mbd)	1.00	0.94	1.10	1.18	1.20
Oil export price (US$ per bbl)	32.44	29.16	28.91	28.31	15.00

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

1/ Including interest on rescheduled arrears but excluding interest on unrescheduled arrears.
2/ Excluding amortization on unrescheduled arrears.
3/ Data on arrears are estimates derived on the basis of information provided by the Exchange Control Department and International Remittance Office of the Central Bank of Nigeria. A considerable part of these arrears has not been recognized by the Nigerian authorities and may turn out not to be legitimate.

following the elimination of the system of direct foreign exchange allocations to authorized dealers, the issuing of licenses has been centralized in the Federal Ministry of Trade. The Ministry allocates licenses valid for foreign exchange in the context of an overall foreign exchange budget and in compliance with the national priorities regarding industrialization, employment, income distribution, and social equity. In addition to the regular import licenses, which guarantee the availability of foreign exchange, a new type of license not valid for foreign exchange was introduced in 1985 in order to encourage imports financed by means of intercompany credit facilities, loan contracts, and the importers' resources held abroad. Licenses not valid for foreign exchange were issued for a total value of ₦ 6.3 billion in 1985; this amount was about equally divided between licenses for raw materials, government projects, general merchandise, and food. By comparison, only ₦ 3.8 billion of import licenses valid for foreign exchange were issued in 1985, of which 64 percent were to be used for importing raw materials, 20 percent for government projects, and 8 percent each for food and general merchandise. However, no information is available on the extent to which licenses not valid for foreign exchange were effectively utilized, but the amount is believed to be small. Other measures taken in 1985 in the exchange and trade area were the prohibition of corn and rice imports effective October 1, 1985, and the opportunity offered Nigerian residents to open foreign currency accounts. No information was available at the time of the mission on the amount of foreign exchange deposited in these accounts, but the total is believed to be very small.

In order to boost oil exports, between September 1984 and July 1985 the Nigerian authorities negotiated countertrade agreements with private trading companies in Austria, Brazil, France, and Italy, involving up to 86 million barrels of crude to be exchanged at an average price of nearly US$24 a barrel against goods, for a total value of US$2,040 million. The agreements specified particular imports, mainly raw materials, chemicals, pharmaceutical products, agricultural equipment, assembly kits for Nigeria's automobile industry, and basic foodstuffs, such as sugar. Only the arrangements with Austrian and Brazilian companies became effective, and due to difficulties related to the quality and price of the goods available to Nigeria under the arrangements, by end-1985 Nigeria had accumulated a creditor position of about US$400 million vis-à-vis the Brazilian trading company and smaller balances on other accounts. In August 1985, the Nigerian Government suspended all countertrade arrangements pending the outcome of a review by a specially appointed panel. Following the work of this panel, in December the authorities announced their intention to maintain some form of countertrade, but only in connection with the financing of certain capital projects.

Since 1983, the Nigerian authorities have sought rescheduling agreements with their foreign creditors on trade arrears incurred before 1984, while trying to remain current on other external obligations. In 1983, US$1,935 million of letters of credit held by commercial banks were rescheduled over two and a half years ending July 1986. Similarly, in 1984 agreement was reached in principle with uninsured creditors, under which promissory notes with a six-year maturity and a grace period until November 1986 were to be issued against overdue payments outstanding at end-1983. While the rescheduling agreement with commercial banks has worked smoothly, the reconciliation procedures for uninsured claims have been time-consuming, as special care is being taken to eliminate fraudulent claims. For the task of checking exporters' claims, the Nigerian authorities engaged an international commercial bank, but the Central Bank of Nigeria will make the final decision on their validity. Between November 1984 and March 1986, the international bank has conducted several reconciliation exercises resulting in the issuance by the Central Bank of promissory notes for a total of US$1,440 million. A final reconciliation exercise is still in process. By March 1986, the Central Bank had also recognized US$433 million of arrears on insured trade credits on which, in the absence of a Paris Club rescheduling, it has agreed to make payments in lieu of interest.

While the naira has depreciated in real effective terms by nearly 30 percent since the conclusion of the last Article IV consultation in June 1985, as of March 1986, it was still some 35 percent above its average 1978-79 level and 25 percent above its 1980 level (Chart 2). 1/ The recent real depreciation of the naira resulted from three different factors: the sharp decline in the rate of domestic inflation relative to that of partner countries, the weakening of the U.S. dollar vis-à-vis the European currencies, and a policy of gradually depreciating the naira relative to the U.S. dollar. The downward movement in the official rate was suspended for the first three months of 1986. In early 1986, the black market rate for foreign exchange was four to five times the official rate. Broken cross-rates giving rise to a multiple currency practice still occurred occasionally in 1985, as the authorities sometimes set inconsistent targets for the value of the naira in terms of the U.S. dollar and pound sterling. However, this feature of the exchange rate system was eliminated in January 1986, when the naira was exclusively fixed in relation to the U.S. dollar.

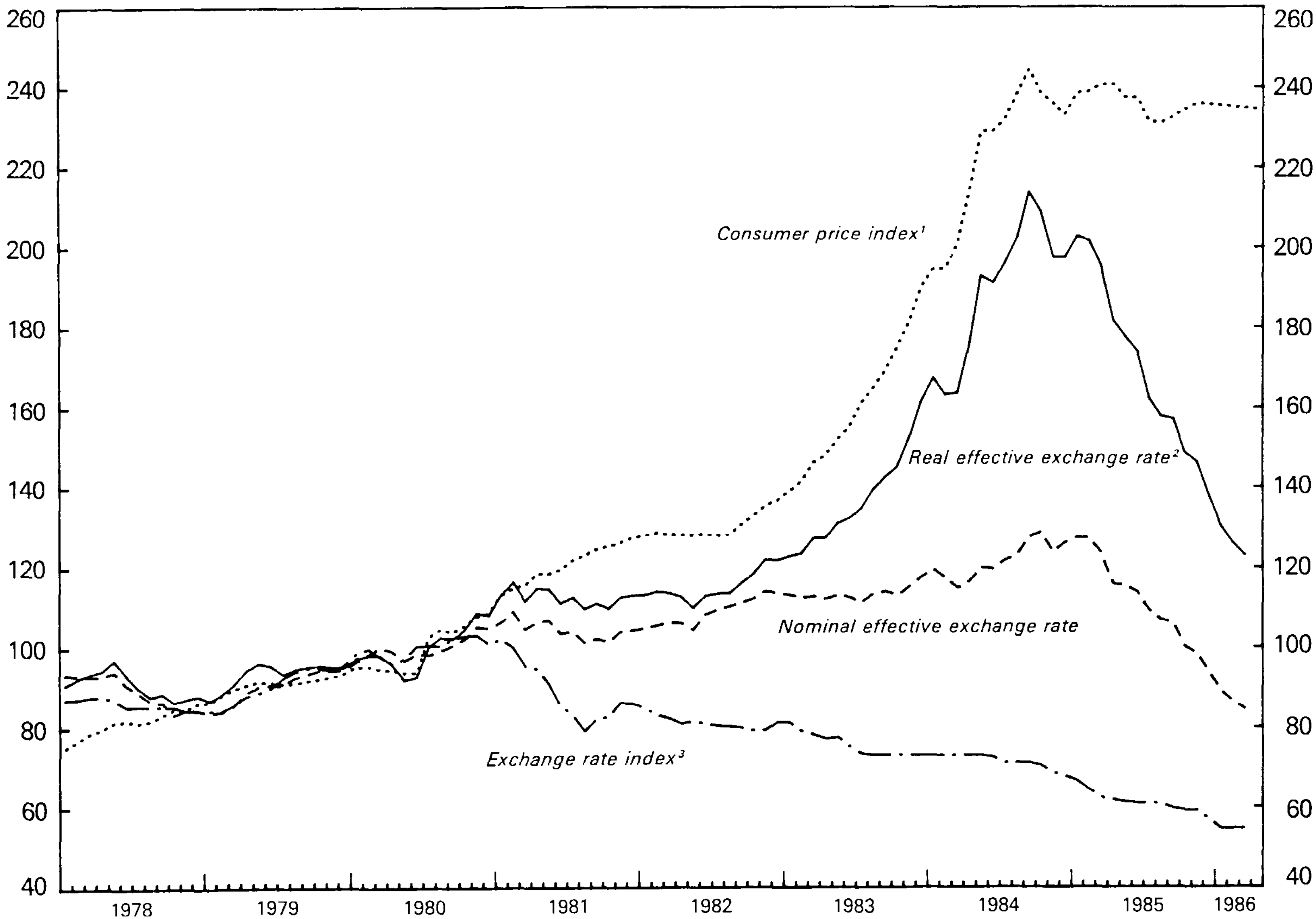
1/ An information notice was issued to the Executive Board on January 17, 1986 (EBS/86/11) recording a real effective exchange rate depreciation in excess of 10 percent since the conclusion of the 1985 Article IV consultation in June 1985. Calculations for March 1986 according to the standard index used for the information notice system show that the naira had depreciated by a further 10.7 percent relative to its December 1985 level. Since these developments are reviewed in the present paper, no separate information notice will be issued.

CHART 2

NIGERIA

REAL EFFECTIVE EXCHANGE RATE AND RELATED SERIES

(1980 = 100)



Source: Information Notice System.

[1] Seasonally adjusted.

[2] Trade-weighted index of nominal effective exchange rate deflated by seasonally adjusted consumer prices; increase means appreciation.

[3] In terms of U.S. dollars.

III. Current Policy Issues and Medium-Term Prospects

During the Board discussion concluding the 1985 Article IV consultation, Executive Directors noted with concern the continued recession and high inflation in Nigeria, combined with its external payments difficulties (SUR/85/68). They welcomed the courageous actions of the authorities in the fiscal area, but stressed that the fiscal deficit remained high and was financed almost entirely by domestic bank credit. Directors called for additional expenditure-reducing and revenue-raising measures, including the reduction in the domestic petroleum subsidy and in transfers to state governments and private enterprises. They stressed that exclusive reliance on demand restraint and administrative controls was no substitute for a comprehensive adjustment program which alone could restructure the economy, correct internal and external disequilibrium, and bring about renewed growth. In particular, most Directors called for a realistic and flexible exchange rate policy, beginning with a substantial adjustment of the rate, and for a fundamental reform in the trade system. Finally, Directors drew attention to the problems of a growing debt service burden and the large stock of payments arrears, and remarked that these underscored the need for a comprehensive adjustment program and well-coordinated external debt management.

1. Fiscal policy

The policies embodied in the 1986 budget were intended by the Nigerian authorities to reduce further the level of domestic demand and to redirect incentives toward production for export and import substitution. With respect to demand management, the overall fiscal situation was projected to be in near balance, 1/ with aggregate expenditure virtually unchanged from 1985 and federally retained revenue expected to increase by over 21 percent. This expected increase was largely on account of the introduction of a 30 percent import levy conservatively estimated to generate ₦ 1 billion, a near doubling of domestic petroleum prices (₦ 0.9 billion), and a 2-20 percent surcharge which was applied to wages and salaries during the final three months of 1985 and extended in 1986 to company profits, dividends, and rents (₦ 0.5 billion). The raising of domestic petroleum prices, a measure urged by Executive Directors and by the World Bank, effectively eliminated the subsidy on domestic consumption.

Had the oil price remained at the assumed level of US$25 per barrel, the original budget would have resulted in a level of aggregate demand that, even after allowing for anticipated but unbudgeted expenditure for interest payments and transfers to public enterprises, was consistent with a continued moderation of inflation. However, scenarios

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1/ Interest payments are systematically underestimated in the budget. Including full payment of interest, the original projected fiscal deficit would have been slightly below 2 percent of GDP, rather than almost in balance.

based on more realistic petroleum prices suggest that in the absence of additional policy corrections, and with no change in the current exchange rate, the overall fiscal deficit would rise to over 3 percent of GDP at an average oil price of US$20 per barrel, and to 5.1 percent and 6.3 percent of GDP at US$15 and US$10, respectively. In view of the scheduled net foreign debt repayment of over ₦ 1 billion, required bank financing would be in the range of 21 percent of beginning money stock with oil at US$20 per barrel, and 35 percent and 45 percent of beginning money stock if oil were to average US$15 and US$10 per barrel, respectively. Were the naira to be devalued by 50 percent (a figure chosen purely for illustrative purposes), required bank financing would decrease to 12 percent of money stock at an oil price of US$20 per barrel and to 32 percent of money stock at US$15 per barrel. 1/ Required bank financing would increase as a result of devaluation should oil prices fall below US$13 per barrel.

At the time of the consultation discussions, no clear policy had yet emerged on how to react to the slide in oil prices. Indeed, the authorities held to the hope that the sharp drop in oil prices during the first quarter of 1986 was only a transient phenomenon. Nevertheless, as a precautionary measure, and in line with the reduced cash flow, first quarter warrant releases were reduced by 10 percent across the board. The authorities stated that future warrants would also be reduced in line with cash-flow constraints, and that, if necessary, a program of expenditure reduction would be drawn up, with most of the reductions taking place in the capital budget.

Although there is no systematic reporting of state and local finances in Nigeria, there are several indications that their situation is extremely difficult. The Federal Government has announced that it will no longer withhold internal debt service from the states' share of federation account revenue, while deductions for external federally guaranteed debt will be made on the basis of each state's assessed ability to pay. Debt service for external loans on-lent to the states through the Federal Government will continue to be withheld as in the past. The state budgets for 1986, which show an increase in expenditure of 8.6 percent, also reflect the difficult public finance situation of state governments. In the aggregate, capital expenditure of states has been reduced by 3.5 percent to ₦ 2.1 billion. Reflecting the widespread pressures to restore a minimum standard of materials and supplies, recurrent expenditure was increased by 14 percent relative to the 1985 budgets. Internally generated revenue has generally stagnated at about ₦ 2.25 billion to ₦ 2.3 billion, reflecting the difficulties faced by states in increasing receipts in the face of the current depressed economic conditions. The staff estimates that, with an average oil

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1/ The budget would be marginally in surplus with a 50 percent devaluation and oil at US$20 per barrel. The 12 percent of bank financing referred to above would be required to meet the domestic currency counterpart of government's external repayment obligations.

price of US$15 per barrel, total state revenue would probably be some 15 percent lower than currently budgeted.

The Government has announced its intention of divesting holdings in parastatals engaged in agricultural production, hotels, food, beverages, breweries, distilleries, distribution, electrical and electronic appliances, and other nonstrategic industries. An interministerial committee has been established to formulate policy with respect to the valuation of assets, procedures for sale, and restrictions to be placed on the concentration of ownership. By end-March 1986, some six enterprises, mainly agricultural in nature, had been offered for sale. In addition, the Government has announced that grants and subsidies to public enterprises in 1986 would be limited to 50 percent of the level provided in 1985, and that, beginning July 1, 1986, only public enterprises able to show current audited accounts would be eligible for such transfers.

Domestic payments arrears are a serious problem in Nigeria, with some ₦ 16 billion acknowledged to be owed to contractors and suppliers by the states and public enterprises, as of the most recent accounting at end-1983. The 1986 budget has taken a step to rationalize this situation through the allocation of over ₦ 1.0 billion for the repayment of existing liabilities.

2. Monetary policy issues

The banking system in Nigeria is highly liquid. Between end-1982 and end-1985, the liquidity ratio of the commercial banks (their total liquid assets as a proportion of their total deposit liabilities) rose from 44.6 percent to 65.8 percent. This development reflected the volume of government paper being held by the banking system arising from the large deficits of the Federal Government and the lack of investment opportunities in the depressed economy. The liquidity of the banking system was also hindering its functioning as a mobilizer of domestic savings, and some banks were reported to have turned down potential deposits.

The mission considered that, while price pressures had moderated substantially in 1985, the excessive liquidity level of the banks entailed the danger that any revival in domestic demand could easily be translated into a rapid acceleration of inflation. The mission urged that the banks be required to place the domestic currency counterparts of external payments arrears in blocked accounts with the Central Bank, a policy that would also facilitate the monitoring and reconciliation of these external liabilities. The Nigerian representatives indicated that they were considering such measures. In the longer run, a reduction in the liquidity of the banking system would require a fiscal policy that entailed smaller deficits and less reliance on the issue of government paper.

Interest rates in Nigeria are differentiated and controlled, with preferential rates being given for certain sectors. In 1985, partly in response to the representations of the World Bank, interest rates for agricultural loans were raised by two percentage points, bringing them closer to other rates. In general, with the decline in domestic inflation in 1985, interest rates are now positive in real terms. The mission urged that interest rates be decontrolled, and that lending rates be allowed to reflect the risk premia inherent in different loans. The liquidity of the banking system and banks' unwillingness to accept time deposits might indicate that interest rates are generally too high. Nevertheless, an exchange rate change and liberalization of the trade system in the context of a comprehensive adjustment effort could lead to an increase in inflationary expectations, and tighter monetary policy, including an upward revision of interest rates, would be called for in these circumstances. Credit is also subject to sectoral allocation, although the number of sectors was reduced to four in 1986. The mission suggested that sectoral allocation of credit be eliminated in order to improve the efficiency of resource allocation.

3. Balance of payments prospects

In view of the recent developments and the likely prospects in the oil market, Nigeria's external payments position is extremely precarious. With the world oil price at US$15 a barrel, compared with over US$28 recorded in 1985, Nigeria's export earnings will be virtually halved to US$6.9 billion in 1986 (Table 3). In these circumstances, imports will inevitably be further compressed: the staff projections assume a nominal reduction of 28 percent to a level of US$6 billion, although the actual level may turn out to be even lower. For every dollar the world oil price per barrel is above (below) US$15, Nigeria's export earnings and balance of payments will improve (deteriorate) by about US$450 million. Further reductions in payments for nonfactor services can be expected in 1986, and if no new promissory notes are issued under the rescheduling agreement for uninsured trade arrears, scheduled interest payments will also be less than in 1985, since back interest due on these arrears will not be paid. Even so, the current account is projected to shift from a surplus of US$1.0 billion in 1985 to a deficit of US$1.7 billion in 1986 (equivalent to 2.2 percent of projected GDP).

The capital account is expected to deteriorate by US$1.5 billion in 1986. Large debt repayments, almost double the 1985 level, primarily on Eurodollar borrowings are now falling due. The debt service ratio will thus rise from about 36 percent in 1985 to 71 percent in 1986. Meanwhile, loan disbursements are expected to decline further. Therefore, the overall balance of payments is expected to move from near balance in 1985 to a deficit of US$2.8 billion in 1986. If Nigeria continues to amortize already issued promissory notes and avoids the accumulation of new arrears, the overall financing gap will come to about US$3.3 billion; this gap would be even larger if an attempt is made to settle outstanding arrears. While this gap may be reduced if imports are compressed further, it seems inevitable that new arrears will accumulate, unless Nigeria can both reschedule its obligations and attract new money.

Over the medium term, the staff's base line scenario assumes that the price of Nigeria's oil will remain at US$15 a barrel in 1987 and increase only in line with world inflation thereafter (Table 4). Production is assumed to rise to 1.65 mbd and exports to 1.35 mbd by 1989. While Nigeria's potential production capacity is higher than this, it would seem prudent to assume that Nigeria might be unable to sell quantities in excess of this figure at the assumed price. These assumptions are consistent with those used in the World Economic Outlook. The scenario assumes that there will be only modest increases in non-oil exports in the absence of a major change in exchange rate policy, and that imports will remain at their 1986 level in real terms. On this basis, the current account would show a gradual, but slow improvement over the next few years.

The projected capital account shows net annual outflows of about US$1 billion over the period 1986-89 in the absence of policies that will permit a major expansion of borrowing. The overall balance shows deficits falling from US$2.9 billion in 1987 to US$1.4 billion in 1989. When the additional financing needs caused by reserve accumulation and the servicing of promissory notes are included, the financing gap falls from US$3.3 billion in 1987 to US$1.9 billion in 1989. If these financing gaps are fully closed by new borrowing, Nigeria's external debt will remain at about US$24 billion over the period to 1991. These figures do not include any borrowing required to cover interest payments on the new borrowing or on the stock of uninsured arrears. Such additional borrowing could come to almost US$10 billion over the period 1986-91.

In view of these prospects, representatives of Nigeria met with London Club creditors on March 27, 1986 and requested a standstill on principal repayments and a rescheduling for the 1986-89 period on the basis of comparability among creditors. Pending further discussions, the steering committee advised banks to accede to the request for a standstill for an initial period of 90 days starting April 1, 1986 for those maturities exceeding one year which have not been rescheduled previously. The creditors indicated that further progress would depend on the response of Nigeria's Paris Club creditors to a similar request. Representatives of Nigeria also met with a contact group of the Paris Club on April 17, 1986, which indicated its willingness to reschedule part of Nigeria's debt if Nigeria had a program supported by a stand-by arrangement with the Fund. They also noted that, as insured trade arrears would be covered by such a rescheduling, progress also depended on the satisfactory completion of the reconciliation exercise. Principal and interest due to London and Paris Club creditors comes to

Table 4. Nigeria: Balance of Payments Projections, 1986-91

(In millions of U.S. dollars)

	1986	1987	1988	1989	1990	1991
Current account	-1,735	-1,578	-1,072	-588	-405	-314
Trade balance, f.o.b.	927	969	1,322	1,679	1,826	1,903
Exports	6,927	7,239	7,874	8,526	8,981	9,380
Petroleum	(6,570)	(6,844)	(7,438)	(8,071)	(8,435)	(8,814)
Other	(357)	(395)	(436)	(455)	(546)	(566)
Imports	-6,000	-6,270	-6,552	-6,847	-7,155	-7,477
Services (net)	-2,389	-2,227	-2,051	-1,899	-1,834	-1,810
Investment income	-1,385	-1,177	-964	-772	-658	-581
Of which: scheduled interest 1/	(-1,175)	(-958)	(-734)	(-532)	(-407)	(-320)
Nonfactor services: credit	208	217	236	256	269	281
Nonfactor services: debit	-1,212	-1,267	-1,324	-1,383	-1,445	-1,510
Transfers (net)	-273	-320	-343	-368	-397	-407
Capital account	-1,016	-1,295	-1,230	-837	-58	122
Direct investment	368	386	405	425	447	469
Medium and long-term capital (net)	-1,710	-1,678	-1,604	-1,228	-497	-339
Gross official borrowing 2/	(1,223)	(919)	(595)	(366)	(257)	(101)
Scheduled amortization 2/	(-2,832)	(-2,639)	(-2,350)	(-1,861)	(-1,178)	(-917)
New autonomous borrowing	(26)	(207)	(293)	(366)	(424)	(477)
Private borrowing (net)	(-128)	(-165)	(-142)	(-100)	(--)	(--)
Short-term capital	326	-3	-31	-34	-8	-8
Overall balance	-2,752	-2,872	-2,302	-1,424	-463	-192
Financing	-523	-474	-476	-479	-174	-74
Reserve movements (- increase)	302	-62	-65	-68	-71	-74
Arrears accumulation (net) 3/	-424	--	--	--	--	--
Rescheduling of arrears (net)	-401	-411	-411	-411	-103	--
Letters of credit	(-437)	(--)	(--)	(--)	(--)	(--)
Promissory notes	(36)	(-411)	(-411)	(-411)	(-103)	(--)
Financing gap 1/ 4/	3,275	3,346	2,778	1,903	637	266
Memorandum items:						
External debt						
Total	21,325	22,747	23,652	24,016	24,048	23,980
Central Bank of Nigeria	8,217	7,806	7,395	6,984	6,881	6,881
Short-term	(750)	(750)	(750)	(750)	(750)	(750)
Rescheduled arrears	(1,336)	(925)	(514)	(103)	(--)	(--)
Unrescheduled arrears 5/	(6,131)	(6,131)	(6,131)	(6,131)	(6,131)	(6,131)
Medium- and long-term debt	9,833	8,320	6,858	5,730	5,228	4,893
Financial	(7,288)	(5,406)	(3,674)	(2,336)	(1,614)	(1,048)
Multilateral	(1,483)	(1,809)	(2,147)	(2,492)	(2,865)	(3,237)
Bilateral	(1,044)	(1,087)	(1,030)	(898)	(745)	(604)
Suppliers	(19)	(19)	(7)	(4)	(4)	(4)
Cumulative financing of gap	3,275	6,621	9,399	11,302	11,939	12,205
Debt service (in percent of exports of goods) 6/	70.9	60.1	48.0	35.4	20.2	14.8
Oil production (mbd)	1.50	1.55	1.60	1.65	1.65	1.65
Oil exports (mbd)	1.20	1.25	1.30	1.35	1.35	1.35
Oil export price (US$ per bbl)	15.00	15.00	15.68	16.38	17.12	17.89

Source: Staff projections.

1/ Excludes interest on unrescheduled arrears and on gap-filling finance.
2/ Based on end-1985 commitments.
3/ Assuming no new arrears accumulated over period.
4/ Excluding amortization on unrescheduled arrears.
5/ Figures for arrears are estimates derived on the basis of information provided by the Exchange Control Department and the International Remittance Office of the Central Bank of Nigeria. A considerable part of these arrears has not been recognized by the Nigerian authorities and may turn out not to be legitimate.
6/ Including amortization and interest on rescheduled arrears, but not on unrescheduled arrears or gap-filling finance.

US$2.4 billion in the last nine months of 1986, US$3.1 billion in 1987, before falling to about US$2.6 billion in 1988 and to US$1.9 billion in 1989.

4. The exchange and trade system

For 1986, the authorities announced a series of measures in the exchange and trade area which aimed at stimulating output in the traded-goods sector and improving the system of foreign exchange allocation. Major elements of this package are the import levy of 30 percent mentioned above and a commitment to a policy of reducing the degree of overvaluation of the naira. In this regard, plans for the establishment of a second-tier foreign exchange market are being formulated. Of the originally expected foreign exchange earnings for 1986, 53 percent were to be allocated to private sector imports, 15 percent to government imports, 30 percent to debt service, while 2 percent were to be kept for contingencies. The initial intention was to issue all licenses simultaneously early in the year, but with the downward revision in the level of foreign exchange receipts expected, only about one half the planned allocation was made in early 1986.

The export incentives consist of a wide array of measures, including a system of import duty rebates on raw materials and components used in the manufacture of export products, preferential import licenses for export activities, encouragement of free export zones in selected parts of the country, the elimination of most export prohibitions, the simplification of export licensing procedures, and the establishment of export credit guarantee and insurance schemes. The most significant measures are the decision to allow non-oil exporters to retain 25 percent of their foreign exchange earnings and the authorities' intention to establish a second-tier foreign exchange market.

The distribution of 1986 import licenses is to be based on the priorities announced by the Ministry of Finance, after discussions on allocation by subsectors with the organized private sector. Priority will be given to (a) agricultural chemicals and spare parts for farm machinery, followed by (b) raw materials and spare parts for manufacturers so that industries can function at least at 55 percent of capacity; (c) new machinery to be used for the processing of domestic farm produce or minerals into raw materials; and (d) general merchandise, such as essential food items, drugs, and equipment. In addition, licenses not valid for foreign exchange will be issued for the importation of raw materials, spare parts, drugs, books, agricultural machinery, salt, and special purpose vehicles. It was also decided to prohibit imports of vegetable oils, commercial day-old chicks, and stockfish as of January 1, 1986, and, from 1989 onward, imports of all raw materials that can be obtained through the processing of a domestic annual crop will be banned. The Nigerian representatives indicated that in 1987, they intended to decentralize the system of import licensing. Block allocations would be made to representatives of each industrial sector, who will then propose a distribution among their membership, subject to the final approval of the Ministry of Trade. The staff representatives noted that such a system could well give preference to established enterprises and act as a bar to the entry of new industries, thus impeding structural change.

The Nigerian authorities have recognized that the naira is far from its equilibrium value and in the 1986 budget indicated their intention to allow it to find a realistic level. Throughout 1985, they followed a policy of gradual depreciation against the U.S. dollar to a level of approximate parity. In view of their intention to introduce a second-tier foreign exchange market, in recent months the authorities have been studying alternative options. During much of this time, the depreciation of the official rate was halted, but movement against the U.S. dollar resumed during April 1986. With the rate of domestic inflation likely to increase somewhat in 1986, record low inflation rates in many industrialized countries, and an uncertain outlook for the dollar, the risk of a renewed appreciation of the naira in real effective terms now seems substantial, unless the policy of depreciating the naira vis-à-vis the dollar is accelerated. At present the unofficial market rate is four to five times the official rate, and much of the demand for foreign exchange is repressed through the prevailing system of import controls.

While the authorities agree in principle that a substantial change in the exchange rate is required, in the course of the consultation discussions they expressed concern about its timing and its effect on prices. They also expressed doubts about the effects of liberalizing imports significantly, even after an exchange rate change, fearing that it would lead to an unduly large increase in imports. The mission considered that an exchange rate change would be crucial to the policy of promoting non-oil exports and would also have a beneficial impact on domestic savings and resource allocation through its positive effect on public finance. While it might lead to some upward pressure on prices, this effect should not be overestimated, as domestic prices in Nigeria already reflect to some extent the low level of imports. In the view of the staff, it was essential to combine an exchange rate change with progressive import liberalization. The present system for controlling imports remains cumbersome and inefficient and is required only because foreign exchange demand so greatly exceeds supply at the current exchange rate. If the exchange rate were at an appropriate level and suitable macroeconomic policies were followed, there need be no upsurge in imports associated with a liberalization.

5. Structural issues

By 1981, the oil boom had severely distorted the structure of the Nigerian economy: both the balance of payments and public finances had become excessively dependent on a single commodity--oil. Consumption patterns had become skewed, with an increasing dependence on imports, and Nigeria had lost the capacity to feed itself. Industrial development, outside major capital projects, focussed on light industry processing inputs behind high protective barriers, and with much of the oil revenues passing through government accounts, the public sector became overextended. When the oil price fell, the domestic savings rate declined precipitously as consumption patterns and levels proved inflexible.

The fundamental structural challenge facing the Nigerian economy has been to reduce dependence on oil and imports, and to find new sources of sustainable development. This involves a shift in production and consumption toward efficient non-oil traded goods sectors, a reduction in the dominance of the public sector, and the establishment of appropriate conditions for an expansion of efficient private sector activity. The single most important obstacle to the required structural change is the exchange and trade system. An overvalued exchange rate, together with an increasingly restrictive import licensing system and a wide distribution of tariff rates, has stifled non-oil exports and promoted a distorted structure of imports. In 1984, the first stage of a tariff reform was introduced, reducing the spread of most tariff rates to between 10 percent and 60 percent. In the view of the staff of the Fund and the World Bank, these spreads should be further reduced, and this reform should be combined with the introduction of appropriate excise duties on the production and import of luxuries.

In addition to the restrictive system, subsidies and administrative controls have also distorted the structures of production and consumption. Among the former have been transfers to parastatals to cover their operating losses and subsidies on agricultural inputs and the domestic consumption of petroleum. Among administrative interventions are the system of factory gate price controls, the operation of the commodity boards, and cumbersome procedures for exporting and establishing new enterprises. The Nigerian authorities have indicated their intention of reducing transfers to parastatals in 1986. They have virtually eliminated the subsidy on domestic consumption of petroleum products, and reduced the subsidy on fertilizer by 75 percent. Factory gate price controls remain in force, causing the profits on the production of scarce commodities to accrue to the trader rather than the productive sphere. The commodity boards have been expensive to run and have allowed the production of traditional export goods to reach very low levels; accordingly, in 1986, the authorities suspended the monopolies enjoyed by these boards and are considering abolishing them. The Government has also announced its intention to simplify export formalities and other administrative barriers to market-determined resource allocation, including the system of import controls and credit allocation described earlier. The Nigerian authorities have already taken some steps to streamline these controls.

To reduce the role of the public sector requires measures to restrain and reorient public expenditures and to transfer certain functions to the private sector. In the view of the recent World Bank's public expenditure review mission, the public sector wage bill needs to be stabilized and overstaffing needs to be reduced; higher priority needs to be given to expenditure for supplies and maintenance; operating subsidies and transfers to parastatals need to be reduced; and capital expenditure needs to be rationalized. In recent years, the size of the public investment program has been greatly reduced, and this has resulted in a more rational structure of investment. Some expenditures continue, however, on certain projects that the World Bank believes should be reconsidered. The Nigerian authorities have also announced their intention to divest themselves of certain commercially oriented parastatals and to ensure that others function on a commercial basis. Another structural issue in public finance is the need to put the budgets of the states on a sound footing. This will require efforts to increase the revenues raised locally by the states and to prevent an overextension of their expenditure.

The domestic savings rate declined sharply to about 12 percent in 1983 and 1984, before rising slightly to just over 13 percent in 1985. While the fiscal deficit was reduced substantially over this period, private savings fell sharply in response to the fall in national income. A further fall is anticipated in 1986 in response to the the most recent oil price slump. Over the years to come, it will be necessary to build up domestic sources of development financing. The measures to improve the finances of parastatals and to contain the current expenditures of the Government should contribute to higher levels of public savings. The stimulation of private savings will depend on both the existence of investment opportunities and more effective savings mobilization through the banking system. Measures to liberalize the economy and reduce administrative controls should improve the investment climate, and a freeing of interest rates should create incentives for banks to seek to attract more funds. These measures should also help attract foreign savings to Nigeria, thus allowing a recovery in investment rates and the resumption of sustained growth.

IV. Staff Appraisal

Nigeria's efforts to adjust to the balance of payments difficulties which emerged in 1981-82 were delayed until the latter part of 1983. Following the sharp fall in export earnings from their 1980 peak, Nigeria accumulated a substantial volume of trade arrears, particularly in the 1982-83 period. Toward the end of 1983, the authorities responded to the balance of payments difficulties with a policy which combined fiscal austerity with tight import controls. Capital expenditure was cut sharply, and current expenditure of the Federal Government was restrained. Efforts were also made to limit expenditures by the states. A strict foreign exchange budgeting system was introduced and administrative controls over imports intensified. Nigeria tried to remain current in the servicing of its medium- and long-term debt, and agreed with its creditors on a rescheduling of uninsured trade arrears and arrears on letters of credit already accumulated.

As a result of these policies, the deterioration in Nigeria's economic and financial situation was gradually arrested. In 1985 increased oil production and a good harvest, induced both by favorable weather and higher food prices, led to a slight revival in economic activity. The size of the overall fiscal deficit was progressively reduced from 11 percent of GDP in 1983 to about 3 percent in 1985. The amount of bank financing of the Government and the rate of monetary expansion fell accordingly. After increases in domestic prices of 23 percent in 1983 and 40 percent in 1984, the tighter financial policies and the good harvest reduced the rate of inflation in 1985 to just over 5 percent. The shortage of foreign exchange, with the consequent compression of imports, has led to a certain amount of structural change in the Nigerian economy. Import substitution is evident in both private consumption patterns and in domestic industries' turning to local sources of raw materials. Imports of food have been virtually eliminated.

Despite this progress, considerable structural and financial problems remained in August 1985 when the new government took power. While there had been a depreciation of the exchange rate from its 1980 peak of US$1.88 per naira to the August 1985 level of US$1.10, the official external value of the currency has remained far from its equilibrium level. Strict controls over foreign exchange and imports have therefore continued, and the resulting import compression has entailed very low rates of capacity utilization in Nigerian industry. The shortage of foreign exchange also led to high scarcity rents for those able to obtain it. With the exchange rate overvalued, non-oil exports continued to languish, a problem compounded by the lackluster performance of the official commodity marketing boards. Investment activity was at a low level, and the banking system was highly liquid, reflecting the still considerable generation of primary liquidity through central bank financing of budget deficits and the lack of profitable investment opportunities. While Nigeria was generally able to stay current on its medium- and long-term debt service, pressures mounted during 1985 and delays in payments on letters of credit and on debt service became more common. The scheme to refinance the trade arrears by issuing promissory notes was subject to considerable delay, attributable in part to the difficulties of reconciling claims and ensuring their validity. Finally, Nigeria faces a debt servicing hump over the period 1986-89 as a result of its commercial bank borrowing in the late 1970s and early 1980s and the rescheduling agreement in respect of trade arrears to uninsured creditors.

The new government which came into power at the end of August 1985 declared a 15-month economic emergency to end on December 31, 1986. It recognized the need for a more decisive change in Nigeria's policies and for fundamental structural change in the economy. The objectives of the new government were clearly expressed in the 1986 budget, which aimed at maintaining fiscal austerity and eliminating the federal budget deficit. Federal revenue would be increased by eliminating the domestic subsidy on petroleum products, by reducing the amounts received by the states and by imposing a progressive levy on salaries, and a 30 percent surcharge on imports. Both capital and current expenditure would be subject to continued restraint, and transfers to parastatals would be reduced. Expenditure was to be reoriented to benefit rural development, health, and education. Among the budget's objectives were to reduce the number of controls in the Nigerian economy and to privatize several public enterprises. The 1986 budget also stressed the goals of export promotion and import substitution. It recognized the importance of exchange rate policies, indicating that the naira should be allowed to reach a realistic level, and proposed the establishment of a free "second-tier" foreign exchange market to facilitate the process. Finally, the budget indicated the Nigerian authorities' intention of seeking a rescheduling and reducing the debt service ratio in 1986 to 30 percent. Many of the policies specified were introduced early in 1986, including the revenue and expenditure measures, and the import surcharge. Other measures, such as the reform of the exchange system and the improvement in public enterprise finances, remain to be articulated.

The 1986 budget, however, was predicated on world oil prices remaining close to US$25 per barrel. The decline in the price of Nigeria's oil from US$28 per barrel in 1985 to levels below US$15 in the first four months of 1986 has sharply altered the country's prospects. The resulting decline in the terms of trade entails an income loss equivalent to about 8 percent of GDP. Public finances, which rely on oil for 70 percent of revenues, have been severely affected. Finally, even with yet more compressed import levels, Nigeria will be unable to service all its debts.

If oil prices remain in the region of US$15 over the next few years, and even if imports are reduced further by one fourth from their 1985 levels, Nigeria faces financing gaps of around US$3 billion for each of the next three years, and somewhat smaller gaps thereafter. In addition to these financing gaps, Nigeria needs resources to settle its outstanding trade arrears. To close these financing gaps and for Nigeria to become current again on its external obligations will require a major effort on the part of the country and the assistance of its creditors.

Non-oil exports have been allowed to decline to a very low level, and it is crucial that appropriate incentives be given urgently to revive them. Imports may have to be reduced even below the projected level, in which case it is essential that the effect of such a reduction on growth and investment is minimized. An appropriate exchange rate policy is a key instrument for both these objectives. Rescheduling of obligations to both official and commercial creditors over the next few years will also be required. However, the staff estimates that debt relief over the next three to four years is not in itself enough to close the financing gap, unless the price of oil rises. With the right policies in place, new money might be forthcoming from bilateral and multilateral creditors. A substantial increase in commercial borrowing by Nigeria could raise other problems, however. With nominal exports now only one fourth of their 1980 level, and with the prospect of only modest growth, the country's debt servicing capacity has been sharply reduced. Since well over one half of Nigeria's external obligations are already on commercial terms, it might be more prudent in the future to rely on concessional borrowing to the greatest extent possible.

In the staff's view, Nigeria needs to pursue policies involving further fiscal adjustment, and improved efficiency in domestic resource use, especially through an exchange rate change. In each of these areas, the general direction adopted in the 1986 budget provides a good basis for further adjustment measures. Should the staff's base line scenario (i.e., the oil price remaining in the region of US$15 per barrel) prove too pessimistic, these policies will allow Nigeria to overcome its current difficulties that much sooner.

With resources now much scarcer than for many years, growth in Nigeria will depend critically on measures to improve the efficiency of resource use and to accelerate the process of structural change now under way. The tariff reform already introduced is a substantial step toward a more efficient foreign trade system. Controls, such as those on factory gate prices, imports, and industrial establishment, now need to be removed rapidly. A fully articulated policy to improve savings generation by parastatals is also required. Measures to reduce the liquidity of the banking system and to remove controls over interest rates and credit allocation would make the banking system a more effective mobilizer of private savings for productive purposes. Finally, it must be recognized that structural change will almost certainly require the shutting down or conversion of some existing industries in Nigeria.

On the basis of current policies, the staff estimates that the fiscal deficit would rise to 5.1 percent of GDP in 1986, undoing part of the progress achieved in 1984 and 1985. It is understood that the authorities are already trying to reduce 1986 expenditure below the level of the budget, and this is being done by slowing the issuance of expenditure warrants. There is a danger that domestic payments arrears may increase. The staff welcomes the effort in the present budget to reduce existing domestic arrears, but there remains an urgent need to identify fully the present stock of arrears and to provide for their orderly reduction. The reduction in total expenditure needs to be based on a systematic review of priorities. Capital outlays should be limited to the "core" program identified by the World Bank, and efforts to reduce current expenditure should be intensified. Civil service wages have been strictly controlled in recent years, and more attention should be given to reducing the size of the work force. Ending ex-factory price controls would increase the base for excise duties and improve resource allocation by shifting profits from the distribution to the production sector. An exchange rate change would also have a positive effect on the Federal Government's required domestic bank financing, provided the export price of oil remains above about US$13 a barrel. An exchange rate change should replace the existing import surcharge, although this will result in a loss of revenue.

The Nigerian authorities have indicated their intention to allow the naira to reach a realistic level, and it is vital that this be done without delay. A substantial devaluation is called for, and a mechanism needs to be established to ensure that the rate does not subsequently move out of line. In the staff's view, these objectives can best be achieved by allowing the naira to find its own value on a free foreign exchange market. The authorities are considering the establishment of a free second-tier market for a range of transactions, to facilitate the process of exchange rate adjustment. In the view of the staff, setting up such a market could be the first step towards an appropriate exchange rate. It would emphasize, however, the need for such a market to be substantial, open, and simple, and for the Government to conduct a rapidly increasing share of its own transactions through this market. It would also be important for prompt adjustments to be made to the official rate to prevent too wide a divergence of the rates, and for the rapid reunification of the system. Finally, an appropriate exchange rate should render any system of export retention quotas unnecessary.

The establishment of an appropriate exchange rate needs to be combined with major import liberalization, since the present system of import licensing is cumbersome and inefficient. The authorities have already made considerable progress in reforming the import tariff. This, along with an appropriate exchange rate and suitable macroeconomic policies, rather than quantitative restrictions, should become the main mechanism for influencing the level and structure of imports.

During much of 1984 and 1985, the Nigerian authorities negotiated countertrade arrangements with foreign companies, which allowed them to exchange crude oil for raw materials, spare parts, and intermediate goods needed in Nigeria. During the Board discussion of the 1985 Article IV consultation, Executive Directors expressed concern at these practices. The Nigerian authorities have since reviewed these arrangements and decided to suspend them, except in cases where they can be used to promote capital investment. The staff welcomes the decision to suspend countertrade agreements, which should improve resource allocation. To the extent that such barter arrangements are used in conjunction with capital projects, the staff would urge the Nigerian authorities to ensure that they do not implicitly raise the cost of projects and that they are not used to promote inappropriate investment.

Nigeria continues to maintain a number of exchange restrictions under Article XIV. The following measures give rise to restrictions on the making of payments and transfers for current international transactions subject to Fund approval under Article VIII: (i) exchange restrictions evidenced by the existence of external payments arrears; (ii) the foreign exchange allocation procedures; (iii) the limits on the access to foreign exchange for travel and on the remittance of expatriates' income; (iv) the suspension of foreign exchange allowances for certain studies abroad; and (v) the suspension of regular access to foreign exchange for payments relating to certain services rendered by nonresidents, such as technical services and management and consultancy fees. The establishment of a second-tier foreign exchange market is also expected to give rise to a multiple currency practice subject to Fund approval. The Nigerian authorities have stated that the payments arrears are still being consolidated with a view to their orderly settlement, and that the exchange restrictions will continue to be subject to review in light of developments in their external payments position. The formulation of a set of comprehensive adjustment policies that would allow Nigeria to eliminate its reliance on these restrictions is still awaited. Moreover, the program devised for the settlement of the arrears is not a comprehensive one covering all such outstanding obligations. The staff, therefore, does not recommend Board approval of these restrictions at this time.

In the past, broken cross-rates have periodically emerged from the official quotations for the naira, giving rise to a multiple currency practice. The staff welcomes the termination of this practice.

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

V. Proposed Decision

The following draft decision is proposed for adoption by the Executive Board:

1. The Fund takes this decision relating to Nigeria's exchange measures subject to Article VIII, Sections 2 and 3, and in concluding the 1986 Article XIV consultation with Nigeria, in the light of the 1986 Article IV consultation with Nigeria conducted under Decision No. 5392-(77/63), adopted April 29, 1977 (Surveillance over Exchange Rate Policies).

2. As described in SM/86/---, Nigeria continues to maintain restrictions on payments and transfers for current international transactions in accordance with Article XIV, Section 2, as well as other restrictions evidenced by external payments arrears, allocations under the foreign exchange budget and limitations on the availability of foreign exchange for foreign travel, remittances of expenditure income, certain types of foreign studies and services, which are subject to approval under Article VIII, Section 2(a). The Fund urges the authorities to adopt comprehensive adjustment policies to resolve Nigeria's external payments difficulties and to remove these restrictions, including payments arrears, as soon as possible.

I. Nigeria - Relations with the Fund
(As of April 30, 1986)

I.	Membership Status	
	(a) Date of membership	March 30, 1961
	(b) Status	Article XIV

A. Financial Relations

II.	General Department	
	(a) Quota	SDR 849.5 million
	(b) Total Fund holdings of member's currency	SDR 849.5 million (100 percent of quota)
	(c) Fund credit	None
	(d) Reserve tranche position	SDR 0.07 million
III.	Current Stand-By or Extended Arrangement and Special Facilities	None
IV.	SDR Department	
	(a) Net cumulative allocation	SDR 157.16 million
	(b) Holdings	SDR 2.74 million
	Holdings as percent of net cumulative allocation	1.75 percent
V.	Administered Accounts	None
VI.	Overdue Obligations to the Fund	None
VII.	Use of Fund resources	
	Special facility: Buffer stock financing	SDR 1.5 million in 1972

B. Nonfinancial Relations

VIII. Exchange Rate Arrangement: Nigeria pursues an independent exchange rate policy. The official middle rate of the naira in terms of the U.S. dollar, the intervention currency, is determined in principle on a daily basis by the Central Bank of Nigeria with reference to a

Nigeria - Relations with the Fund (concluded)

basket of seven major currencies. In practice, however, the actual quotations are set in a way deemed appropriate to Nigeria's economic situation and in light of the movements of the pound sterling and the U.S. dollar. The middle rate as of March 31, 1986 was US$0.9904 = ₦ 1.

IX. Consultation with the Fund

The last Article IV consultation discussions were held in Lagos in January and February 1985, and were concluded by the Executive Board on June 17, 1985. Nigeria was placed on the standard 12-month consultation cycle. The Executive Board took the following decision:

1. The Fund takes this decision relating to Nigeria's exchange measures subject to Article VIII, Sections 2 and 3, and in concluding the 1985 Article XIV consultation with Nigeria, in the light of the 1985 Article IV consultation with Nigeria conducted under Decision No. 5392-(77/63), adopted April 29, 1977 (Surveillance over Exchange Rate Policies).

2. Nigeria continues to maintain several restrictions on payments and transfers for current international transactions, as described in SM/85/155. Since the last Article IV consultation, Nigeria has increased the restrictiveness of its exchange system, although it no longer maintains a noninterest-bearing advance deposit on the opening of letters of credit, which gave rise to a multiple currency practice subject to Article VIII, Section 3. Nigeria still has outstanding payments arrears on imports. Nigeria has also introduced, for balance of payments reasons, the use of payments documentation in the import licensing and foreign exchange budgeting procedures, which constitutes an exchange restriction subject to Article VIII, Section 2. The Fund urges the authorities to adopt comprehensive adjustment policies to resolve Nigeria's external payments difficulties, and to remove these restrictions, including the payments arrears, as soon as possible. The Fund welcomes the recent elimination by the authorities of broken cross rates.

X. Technical Assistance

(a) Mr. Edward Nolan, a member of the Central Banking Department panel of experts, was a Training Consultant to the Banking Supervision Department of the Central Bank of Nigeria for a period of 15 months through March 31, 1983.

(b) Mr. S. Dubroof, a fiscal panel member, visited Lagos January 13-22, 1983 to assist in determining the feasibility of applying computer technology to tax administration.

Nigeria - Relations with the World Bank

As of December 31, 1985, the Bank had approved for Nigeria 58 loans and two IDA credits totaling US$2,762.9 million (net of cancellations). Approximately 45 percent of these commitments has been for agricultural development, 39 percent for infrastructure, and the remaining 16 percent for education, industry, and other sectors. Total disbursements have amounted to US$1,650 million. The Bank has reduced its lending program to Nigeria in the last two years, but intends to expand lending for transport and energy projects now that the domestic petroleum price has been raised.

The proposed lending program has been designed to provide as much flexibility as possible permitting the Bank to respond to different levels of policy performance. The high option, which would be triggered by further macroeconomic policy reforms in the context of an arrangement with the IMF, could raise IBRD commitments very substantially, including quick-disbursing adjustment loans. Without further progress on policy reforms, Bank lending would continue to be limited to about US$250-300 million a year for a core program of projects in the energy, agriculture, infrastructure, and social sectors. IBRD loans to Nigeria are amortized over 20 years including a five-year grace period.

The Bank staff began discussions in April 1983 with the Nigerian authorities regarding the elements of a possible medium-term adjustment program that could be supported by structural adjustment loans. The program of policy measures proposed by the Bank staff to the Nigerian authorities was designed to complement a possible extended Fund facility program that was being discussed with the Fund. Many of the structural elements of the extended Fund facility program were drawn from the numerous sector studies already carried out by the Bank.

During 1983-85, the Bank staff was actively involved in the rationalization of the public sector investment program, which is a key element in the fiscal adjustment that has taken place in recent years. Based on two successive detailed reviews presented to the Government in late 1983 and in late 1985, the Bank staff proposed annual capital expenditure limits in light of the reduced availability of financial resources. All public sector projects have been classified into "core" and "noncore" projects, with only the "core" ones to receive full budgetary funding. The highest priority was accorded to quick-yielding projects with the maximum positive impact on the balance of payments, and on recurrent maintenance expenditures designed to prevent existing capital facilities from deteriorating. Some of the large capital-intensive projects have been postponed. As a general principle, no new projects are being started, except for those deemed to be of vital interest to the economy.

The Bank staff is currently preparing policy and financing analyses, including a medium-term structural adjustment program, at the request of the Nigerian authorities and in connection with the Baker initiative.

Nigeria - Statistical Issues

1. Quality of data

Nigeria's economic and financial statistics have serious deficiencies as to coverage and currentness, especially in the areas of production and trade, the budgetary operations of state governments, and the financial situation of nonfinancial public corporations. The national income statistics are weak and require modifications and adjustments to make them broadly reflect underlying trends in prices and in the real economy. Estimates of agricultural production vary tremendously among different sources. Relatively firm data on the federal government budget, especially revenues, are available, but the recording is not systematic and is not usually in a format which lends itself readily to macroeconomic policy analysis. An exception is the area of monetary statistics, where coverage is comprehensive, but data are reported to International Financial Statistics (IFS) irregularly and with significant lags. There are significant discrepancies in the import data for 1982 and 1983 as reported by the Federal Office of Statistics for Direction of Trade Statistics and those reported by the Central Bank for IFS. Serious difficulties have also been encountered in estimating trade payments arrears, despite foreign technical assistance in this area.

2. Coverage, currentness, and reporting of data in IFS

The table below shows the currentness and coverage of data published in the country page for Nigeria in the May 1986 issue of IFS. The data are based on reports sent to the Fund's Bureau of Statistics by the Central Bank of Nigeria, which during the past year have been provided somewhat irregularly.

Status of IFS Data

		Latest Data in May 1986 IFS
Real Sector	- National accounts	1982 (GDP only, 1984)
	- Prices	September 1985
	- Production: Industrial	Q4 1983
	Manufacturing	Q4 1983
	- Employment	n.a.
	- Earnings	n.a.
Government Finance	- Deficit/Surplus	n.a. 1/
	- Financing	n.a.
	- Debt: Domestic	1982
	Foreign	1979
Monetary Accounts	- Monetary authorities	November 1985
	- Deposit money banks	November 1985
	- Other financial institutions	November 1985
	- Interest rates	Q3 1984 (partial)
External Sector	- Merchandise trade:	
	Values (exports)	Q4 1984
	Values (imports)	1983
	Prices (cacao exports)	Q1 1983
	Prices (crude petroleum exports)	Q4 1984
	- Balance of payments	Q4 1984
	- International reserves	November 1985
	- Exchange rates	February 1986

1/ Latest reported data are for 1978.

NIGERIA - Basic Data

Area, population, and GDP per capita

Area	938,800 square kilometers
Population	
Total (1985 estimate)	96.1 million 1/
Growth rate	2.5 percent
GDP per capita (1985)	SDR 854

Gross domestic product and expenditure	1981	1982	1983	1984	1985 2/
	(In millions of naira)				
GDP at 1977/78 factor cost	29,908	29,910	27,359	25,854	26,110
Petroleum	4,625	4,086	3,984	4,501	4,802
Other sectors	25,283	25,824	23,375	21,353	21,308
Of which:					
Agriculture, animal husbandry, fishing and forestry	(6,139)	(6,965)	(6,580)	(6,691)	(6,903)
Manufacturing	(3,163)	(3,807)	(3,629)	(2,968)	(3,028)
Construction and housing	(3,204)	(2,675)	(2,312)	(1,684)	(1,600)
Wholesale and retail trade	(6,342)	(5,643)	(4,973)	(4,560)	(4,332)
Government services	(2,141)	(2,271)	(2,148)	(2,184)	(2,184)
GDP in current market prices	52,256	55,679	57,394	68,668	74,380
Gross domestic expenditure in current market prices	55,217	59,507	59,627	67,464	71,757
Consumption	40,197	47,056	49,962	60,160	64,307
Investment	15,020	12,451	9,665	7,304	7,450
External resource surplus or gap (-) in current market prices	-2,960	-3,828	-2,234	1,204	2,624

1/ Based on the 1963 census, which yielded a population count of 55.8 million, and an assumed growth rate of 2.5 percent per annum since.
2/ Provisional estimates.

Nigeria - Basic Data (continued)

	1981	1982	1983	1984	1985 1/
			(In percent of GDP)		
Gross domestic product and expenditure					
Consumption	76.9	84.5	87.1	87.6	86.5
Investment	28.7	22.4	16.8	10.6	10.0
External resource surplus gap (-)	-5.7	-6.9	-3.9	1.8	3.5

	1981	1982	1983	1984	1985
		Estimates			Prel.
Budgetary operations of the Federal Government			(In millions of naira)		
Total revenue	13,032	13,048	11,482	12,276	15,105
Of which: petroleum receipts 2/	(10,010)	(8,560)	(7,033)	(9,144)	(10,900)
Statutory transfers to the state and local governments	4,975	4,794	3,999	4,931	6,098
Federally retained revenue	8,057	8,254	7,483	7,345	9,007
Current expenditure	4,907	4,866	8,385	7,636	7,502
Capital expenditure and net lending 2/	7,884	7,897	5,748	2,783	3,636
Overall deficit (-)	-4,734	-4,509	-6,650	-3,073	-2,131
Financing	4,734	4,509	6,650	3,037	2,131
Foreign (net)	500	264	174	-95	-441
Domestic	4,683	4,099	6,421	3,014	770
Banking system	3,526	3,803	5,063	2,317	972
Other	1,157	296	1,358	697	-202
Residual	-449	146	55	154	1,802 3/
Overall deficit in percent of GDP	-9.1	-8.1	-11.6	-4.5	-2.9

1/ Provisional estimates.

2/ Includes revenue from the petroleum tax earmarked for capital funding of joint venture activities by the Nigerian National Petroleum Corporation amounting to ₦ 895 million in 1981, ₦ 1 billion in 1982, ₦ 734 million in 1983, ₦ 816 million in 1984, and ₦ 688 million in 1985.

3/ Includes an estimated ₦ 265 million of undistributed Federation account revenue and ₦ 70 million of receipts from the levy on wages and salaries.

Nigeria - Basic Data (continued)

	1981	1982	1983	1984	1985
Monetary survey	(In millions of naira; end of period)				
Foreign assets (net)	2,550	977	673	1,342	1,714
Domestic credit	15,017	20,759	26,841	29,507	30,810
Claims on Government (net)	5,828	10,059	15,234	17,433	17,675
Claims on private sector	9,189	10,700	11,607	12,074	13,135
Money	8,984	9,669	10,702	11,522	12,692
Quasi-money	5,500	6,352	7,556	8,795	9,352
Other deposits	83	2,021	3,684	2,561	3,520
Medium-term foreign liabilities	--	--	1,688	1,268	972
Other items	3,001	3,695	3,884	6,704	5,989
Money and quasi-money (annual percent change)	15.6	10.6	14.0	11.3	8.5
Consumer price indices	(Annual change in percent)				
Rural	20.8	7.7	23.7	39.4	5.9
Urban	20.9	7.5	20.0	41.2	2.9
Composite	20.8	7.7	23.2	39.2	5.5
Balance of payments 1/	(In millions of SDRs)				
Current account	-5,120	-6,519	-4,574	-238	1,018
Petroleum exports	14,554	10,768	9,311	11,286	12,019
Other exports	472	241	389	315	358
Imports	-15,592	-13,477	-10,712	-8,665	-8,154
Investment income	-554	-980	-1,315	-1,451	-1,622
Other goods, services, and income	-3,519	-2,681	-1,877	-1,400	-1,325
Transfers	-481	-389	-370	-324	-256
Capital account	1,175	3,447	1,457	222	411
Direct investment	140	389	341	184	345
Other capital (short)	347	325	-186	-658	77
Other capital (long)	688	2,733	1,305	696	-11
Official	(663)	(2,732)	(1,301)	(696)	(74)
Other	(25)	(--)	(--)	(--)	(-85)
Net errors and omissions	-631	-2,563	-1,417	1,008	-1,737
Total	-4,576	-5,635	-4,534	992	-307

1/ For 1985 estimates are provisional.

Nigeria - Basic Data (concluded)

	1981	1982	1983	1984	1985
Balance of payments (continued)	(In millions of SDRs)				
Reserve movements (increase in assets -)	4,576	1,966	546	-536	-131
Accumulation of import payments arrears (net)	--	3,669	1,804	23	543
Rescheduling and other financing	--	--	2,184	-479	-104
Gross official foreign reserves	(In millions of SDRs; end of period)				
Foreign exchange and gold	3,126	1,713	1,124	1,503	1,519
SDR holdings	239	40	26	10	1
IMF reserve position	446 1/	--	--	--	--
Government	13	23	21	21	15
Total	3,824	1,776	1,171	1,534	1,535
Exchange rate movements	(Annual percentage change)				
U.S. dollar/naira	-11.0	-8.8	-6.9	-5.3	-14.4
Pound sterling/naira 2/	2.1	5.6	7.4	7.5	-11.7
Import-weighted index (basket/₦)	-1.5	-0.1	-0.7	2.8	-12.0
Real import-weighted index (basket/₦)	8.3	0.7	17.2	37.9	-10.8

1/ Includes lending to the Fund's oil facility and SFF lending.
2/ Assumes no broken cross-rates.