FOR AGENDA

SM/85/149

CONTAINS CONFIDENTIAL INFORMATION

May 21, 1985

To: Members of the Executive Board

From: The Acting Secretary

Subject: Nigeria - Staff Report for the 1985 Article IV Consultation

Attached for consideration by the Executive Directors is the staff report for the 1985 Article IV consultation with Nigeria, which will be brought to the agenda for discussion on a date to be announced. A draft decision appears on page 20.

Mr. Acquah (ext. 8661) or Mr. Kronenberg (ext. 8662) are available to answer technical or factual questions relating to this paper prior to the Board discussion.

Att: (1)

Other Distribution:
Department Heads

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INTERNATIONAL MONETARY FUND

NIGERIA

Staff Report for the 1985 Article IV Consultation

Prepared by the Staff Representatives for the 1985 Consultation with Nigeria

Approved by G.E. Gondwe and S. Kanesa-Thasan

May 21, 1985

I. Introduction

The 1985 Article IV consultation discussions with Nigeria were held in Lagos during the period January 22-February 1, 1985. The Nigerian representatives included the Minister of Finance (Dr. Soleye), the Minister of Economic Planning (Dr. Adikun), the Permanent Secretaries for the Federal Ministries of Finance (Mr. Bello) and Planning (Mr. Abubakar Alhaji), the Governor of the Central Bank of Nigeria (Mr. Ahmed), the General Manager of the Nigerian National Petroleum Corporation (Mr. Kufeji), and other senior officials of the Federal Ministries and agencies concerned with economic and financial matters. The staff representatives were Mr. Paul A. Acquah (head-AFR), Mr. Clemens F.J. Boonekamp (ETR), Mr. Roger Kronenberg (AFR), Mr. Robert R. Schneider (FAD), Mr. Emmanuel van der Mensbrugghe (AFR), and Mrs. Lorraine Yzer (secretary-TRE). Mr. Alassane D. Ouattara (Director, AFR), Mr. Ahmed Abdallah, Alternate Executive Director for Nigeria, and Mr. E.A. Ajayi, Advisor to the Executive Director for Nigeria, participated in some of the policy discussions.

The last Article IV consultation with Nigeria was concluded on February 13, 1984. 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. Background

In 1984 Nigeria experienced, for the fourth consecutive year, a combination of economic recession, high and rising inflation, and increasing underutilization of industrial capacity and unemployment. Real GDP is estimated to have declined further (Table 1 and Chart 1), although the economy was bolstered by an increase in oil exports and improved harvests of food crops. In view of the high degree of import dependence of aggregate domestic expenditure and industrial capacity, the acute shortages of imported raw materials, combined with the sharp

Table 1. Nigeria: Selected Economic and Financial Indicators, 1980-85

	1980	1981	1982	1983	1984 Est.	1985 Proj.
			(Annual percentage change)			
National income and prices						
GDP at current prices	17.7	10.7	5.5	7.5	26.1	...
GDP at constant 1977/78 prices	3.8	-2.6	-1.9	-6.4	-0.6	...
Oil sector	-11.6	-31.6	-11.7	-2.6	8.5	...
Non-oil sector	9.3	5.7	-0.1	-7.0	-2.1	...
GDP deflator	13.4	13.7	7.5	14.8	26.8	...
Consumer prices	10.0	20.8	7.7	23.2	40.0	...
Federal government finance						
Federally retained revenue	35.6	-33.2	2.3	-9.2	1.1	-7.1
Total federal government expenditure	26.5	4.8	-0.2	10.7	-18.3	-5.9
External trade (in U.S. dollars)						
Exports, f.o.b.	54.8	-31.7	-26.9	-18.8	11.2	-1.6
Oil exports						
Value	59.3	-31.2	-25.6	-20.6	11.1	-2.0
Volume	-13.2	-35.6	-18.7	-5.8	14.6	--
Non-oil exports						
Value	-8.8	-45.2	-67.8	112.3	13.7	10.0
Volume	5.2	-44.4	-59.5	91.7	0.5	19.1
Imports						
Value	24.4	24.8	-7.6	-28.0	-16.3	-10.7
Volume	8.9	31.2	-3.8	-25.6	-14.5	-12.0
Real import-weighted effective exchange rate (depreciation -)	7.3	8.4	0.5	14.2	43.7	...
Nominal import-weighted effective exchange rate (depreciation -)	8.5	-1.5	-0.1	-0.7	2.8	...
Terms of trade	49.0	12.7	-5.2	-11.6	-3.1	...
Money and credit 1/						
Net domestic credit	18.1	69.8	38.2	29.3	10.6	...
Federal Government	-6.5	116.8	58.1	48.9	17.0	...
Private sector	34.8	30.9	16.4	8.5	4.5	...
Central bank credit ceilings		30.0	25.0	25.0	12.5	7.0
Money and quasi-money	46.5	15.6	10.6	14.0	10.6	...
Velocity of money (period average)	4.6	4.0	3.7	3.5	4.1	...
			(In percent)			
Interest rates 2/						
Savings deposits	6.0	6.0	8.5	7.5	9.5	9.5
Time deposits (maximum)	5.0	5.0	7.5	6.5	8.5	8.5
Minimum lending rates	7.5	7.5	10.5	9.5	9.5	9.5
Maximum lending rates:						
Preferred sectors	9.5	9.5	12.5	11.5	11.5	11.5
Other sectors	11.5	11.5	14.0	13.0	13.0	13.0
			(In percent of GDP, unless otherwise stated)			
Basic ratios						
Consumption	69.1	79.4	87.6	88.7	89.6	...
Gross investment	24.0	26.2	20.1	15.4	10.0	...
Gross domestic savings	30.9	20.6	12.4	11.3	10.4	...
Federal government finance						
Total revenue	25.0	15.1	14.6	12.4	9.9	...
Total expenditure	25.3	23.9	22.6	23.3	15.2	...
Overall budgetary surplus/deficit (-)	-0.3	-8.9	-8.0	-11.0	-5.2	...
External sector						
Overall balance of payments	5.1	-7.1	-7.7	-5.7	-0.3	-0.4
Current account balance	4.9	-6.9	-9.2	-5.7	-1.2	-1.9
External public debt outstanding	4.6	5.9	15.5	22.0	19.3	18.9
External debt service (as percent of exports of goods)	3.7	6.1	8.7	19.9	30.3	48.1
			(In billions of U.S. dollars)			
Oil exports	24.9	17.2	12.8	10.1	11.3	11.0
Current account deficit (-)	4.3	-6.0	-7.7	-4.8	-1.2	-1.7
Overall balance of payments deficit (-)	4.6	-6.2	-6.4	-4.8	-0.3	-0.4
Change in reserves (increase -)	-4.6	6.2	2.4	0.5	-0.1	0.2
Arrears accumulation (gross)	--	--	4.1	3.8	1.1	--
Rescheduling of arrears	--	--	--	1.9	0.3	4.0
Payment on rescheduled arrears	--	--	--	--	-0.7	-0.7
Payment on unscheduled arrears	--	--	--	--	--	-0.1
Other financing	--	--	--	0.4	--	1.0 3/
Gross official reserves	10.3	4.5	2.0	1.3	1.5	1.3
External payments arrears	--	--	4.1	5.9	6.8	2.7
Gross reserves in weeks of imports	36.4	12.6	6.0	5.7	7.6	7.8

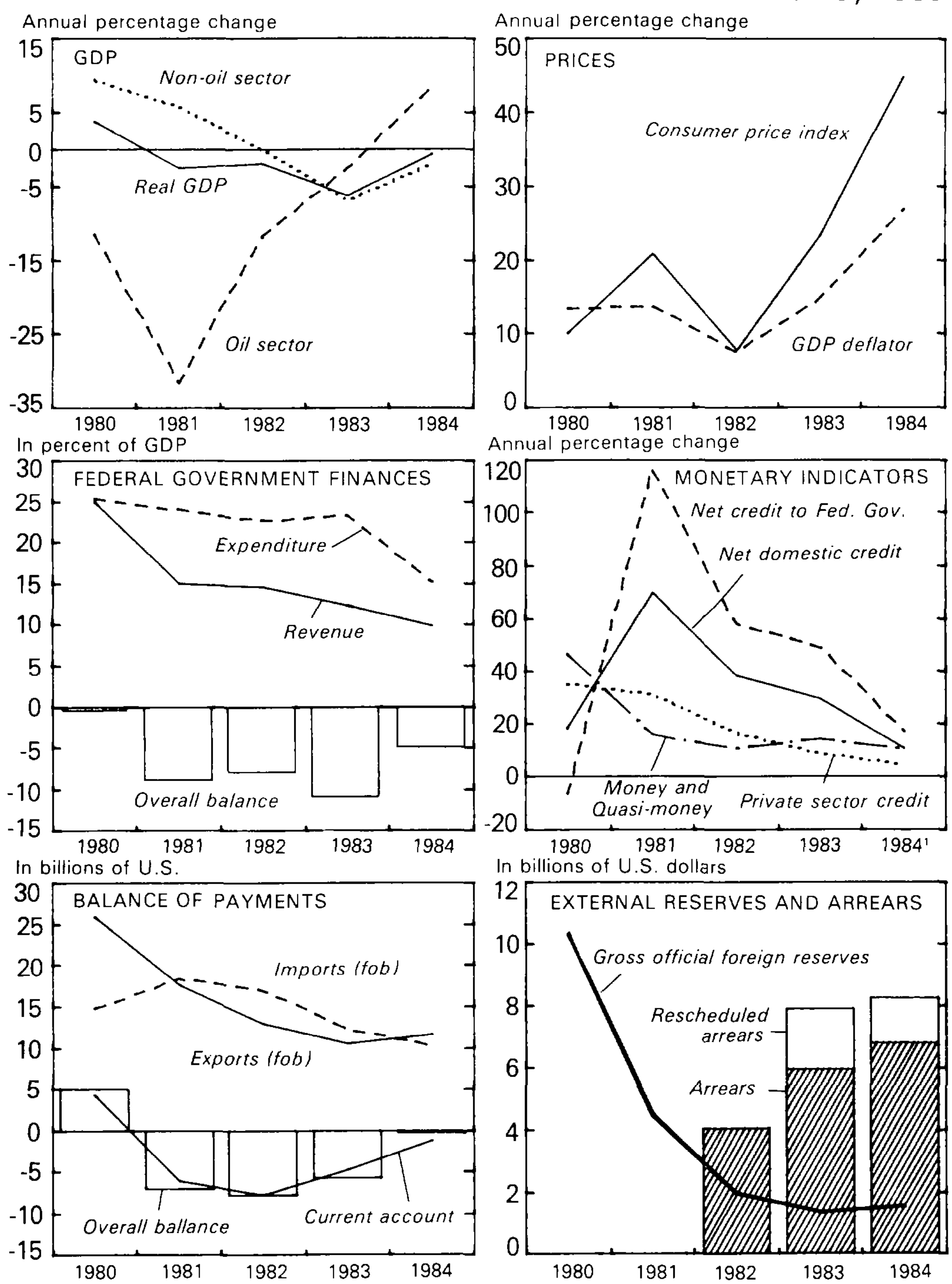
Sources: Data provided by the Nigerian authorities; and staff estimates.

1/ Data for 1984 represent percentage change from October 1983 to October 1984.
2/ 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.
3/ Includes financing gap.

CHART 1

NIGERIA

SELECTED ECONOMIC AND FINANCIAL INDICATORS, 1980-84



[1]Percentage change October 1983 to October 1984

cutbacks in government expenditure achieved during the year, continued to act as a brake on activity in practically all sectors, again causing non-oil GDP to fall (by an estimated 2.1 percent) in real terms. Meanwhile, the reduced availability of supplies fueled inflationary expectations, despite the withdrawal of a good measure of fiscal stimulus from the economy and a sharp slowdown of monetary growth. The rate of inflation, as measured by the composite consumer price index, practically doubled, exceeding 40 percent, and the naira appreciated substantially in real effective terms.

The economic performance observed in 1984 was a continuation of the trends that developed in the course of various attempts to deal with the severe fiscal and external payments difficulties triggered by the downturn in the world oil market and the consequent sharp shrinkage in Nigeria's oil export earnings, on which the economy had become critically dependent. Although oil exports rose modestly, they amounted to only US$11.3 billion (accounting for 96 percent of total merchandise exports), after dropping from a peak of US$24.9 billion in 1980 to US$12.8 billion in 1982 and to a low of US$10.1 billion in 1983; non-oil exports, which amounted to US$1.1 billion in 1979, have been sharply eroded by the distortions of relative prices caused by the overvaluation of the naira, and they amounted to only US$0.4 billion in 1984. Similarly, the distributable pool of budgetary resources derived by the Federation from the oil sector amounted to only ₦ 9.4 billion (US$12.3 billion) in 1984, compared with ₦ 15.2 billion in 1980 and a low of ₦ 7.2 billion in 1983. 1/

The severe tightening of the foreign exchange and budgetary resource constraints, which began suddenly in 1981, occurred in a period when the economy was still experiencing conditions of excess domestic liquidity, due to sustained fiscal stimulation and relatively high rates of private sector credit expansion, and rapid import growth which through early 1982 was unrestrained under the relatively liberalized import policies put in place in 1980. Thus, Nigeria suffered heavy foreign reserve losses, as the overall balance of payments shifted from a surplus of US$4.6 billion in 1980 (equivalent to 5.1 percent of GDP) to a deficit of US$6.2 billion (7.1 percent of GDP) in 1981.

During the first quarter of 1982 the financial pressures intensified when liftings of Nigeria's crude oil dropped to a low of 0.7 million barrels per day (mbd), compared with an average production of 2.4 mbd for 1980. The deepening crisis prompted the authorities to introduce in April 1982 a number of exchange and trade and fiscal measures aimed essentially at equilibriating the external accounts and cushioning the budget against the impact of revenue shortfalls. Unveiled

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1/ Since 1980 Nigeria, a federation of 19 states, has been applying a statutory revenue-sharing arrangement under which oil revenues, as well as practically all fiscal receipts collected by the Federal Government, accrue to a Federation Account for distribution in specified proportions amongst the federal, state, and local governments.

on an emergency basis as part of a package of "economic stabilization" measures, the external sector policy changes consisted of the tightening of import controls and the imposition of exchange restrictions on other current international transactions; sharp increases in tariffs, in certain cases to prohibitive levels; the introduction of an advance import deposit scheme; and the application of administrative ceilings on total central bank foreign exchange disbursements, which entailed the use of the foreign exchange budget as an instrument for exchange control rather than, as before, for recording and monitoring external trade and payments developments. On the fiscal policy front, the authorities imposed a freeze on certain capital budget appropriations, restricting capital outlays to on-going and high priority projects, and they extended the duration of the existing price and incomes guidelines which had the effect of a de facto freeze on wage and salary scales in the public as well as the private sectors. Furthermore, in a move designed to enhance fiscal discipline at the level of the states, most of which had fallen into serious fiscal and debt servicing difficulties, they established firm external borrowing ceilings on state governments. At the same time, the monetary authorities began to implement a policy of progressively lowering the ceilings which they impose annually on the lending activity of commercial banks.

The trade measures, which were subsequently modified in a number of ways with a view to increasing their restrictiveness (see below), led to a cumulative reduction of nearly 33 percent in the import bill in 1982-83, sharply reversing the average annual growth of almost 25 percent recorded in 1980-81. Even so, the external current account deficit widened in relation to GDP, from 6.9 percent in 1981 to 9.2 percent in 1982, before shrinking to 5.7 percent in 1983. As the underlying capital account position remained weak, the overall balance of payments deficit also widened, from US$6.2 billion in 1981 to US$6.4 billion in 1982, before narrowing to US$4.8 billion in 1983. As a consequence, there was an unsustainably rapid loss of reserves and a sizeable build-up of import payments arrears. Nigeria's gross official foreign reserves declined from US$10.3 billion (equivalent to more than 9 months of import cover) at end-1980 to only US$1.4 billion (less than 6 weeks of imports) at end-1983, while arrears on payments for current international transactions incurred over the two-year period 1982-83 accummulated to an estimated US$7.9 billion. There were no payments arrears incurred in respect of external debt service. In 1983 some US$1.9 billion of these arrears due on letters of credit was rescheduled by commercial banks under two separate agreements.

The fiscal policy response which was initiated in 1982 also proved inadequate, as it was not cast in a consistent macroeconomic framework supportive of the economic stabilization goals. The limited gains in fiscal adjustment achieved through reductions in the Federal Government's capital expenditure were eroded by increased nonstatutory transfers to the state governments to help finance their deficits, and subventions and loans to nonfinancial public corporations and entities to cover their operating losses. During 1981-83 the budget continued to serve as the principal source of domestic demand and monetary pressures, further straining the underlying external payments position. Whereas the precipitous drop in oil earnings caused total revenue to decline in relation to GDP by the equivalent of 12.6 percentage points during 1980-83, total expenditure of the Federal Government was reduced only by the equivalent of 2 percentage points relative to GDP during the same period. Consequently, the fiscal deficit widened to the equivalent of 11.0 percent of GDP in 1983, from 8.9 percent in 1981 and near equilibrium in 1980. In absolute terms, the fiscal deficit rose from ₦ 4.7 billion in 1981 to ₦ 6.6 billion (equivalent to 48 percent of total expenditure) in 1983, as total federal spending was maintained close to the 1980 level. Moreover, the growing federal government deficit was financed largely by the domestic banking system; it absorbed between 60 and 85 percent of the total domestic credit (equivalent to 38-50 percent of the beginning broad money stock) extended during the period. In this way, fiscal policy fostered a very rapid growth (averaging 46 percent) of net domestic assets of the banking system, even as private sector credit expansion decelerated from the 30-35 percent range in 1981-82 to below 9 percent in 1983. Monetary growth thus remained within a relatively high range, thereby reinforcing the strong inflationary pressures in an economy experiencing increasing shortages of imported goods and declining aggregate domestic production.

During the three-year period 1981-83 the authorities pursued an independent exchange rate policy of gradual crawl against a basket of the seven principal currencies, with the naira rate being moved downward from an average of ₦ 1 = US$1.8452 in December 1980 to ₦ 1 = US$1.3359 in December 1983. However, as domestic prices continued to rise much more rapidly than those of Nigeria's major trading partners, the naira appreciated steadily in real effective terms.

The officially measured rate of domestic consumer price increases, which tends to understate the underlying rate of domestic inflation, more than doubled from 10 percent in 1980 to some 23 percent in 1983. As inflation rates of partner countries were generally trending downward, the real import-weighted effective exchange-rate index rose by 39 percent, raising the cumulative real appreciation of the currency in the period from 1979 to the end of 1983 to 50 percent (Charts 2 and 3). The continued real appreciation of the naira further accentuated the distortions in domestic cost and price relations which had given rise to the past pattern of lopsided economic growth, severe loss of competitiveness of domestic industry, sustained decline in non-oil exports, and the emergence of aggregate domestic expenditure and production structures highly dependent on imports.

III. Recent Adjustment Policies and Prospects

The Military Government which took power on the eve of 1984 reviewed at the outset the various aspects of Nigeria's adjustment problems. Fundamental to the new Government's position has been the principle that national expectations and expenditure should be scaled down to realistic levels in light of the sharp reduction that has occurred in foreign exchange and budgetary resources. 1/

The initial economic policy focus was placed on a review of the efficiency of public administration, on restructuring expenditure policies, and on streamlining the financial relations between the Federal Government and the states, as well as the nonfinancial public enterprises and entities. This was geared to achieving a greater rationalization of public spending, particularly the capital expenditure program, fostering financial discipline, and reducing the overall fiscal deficit of the Federal Government.

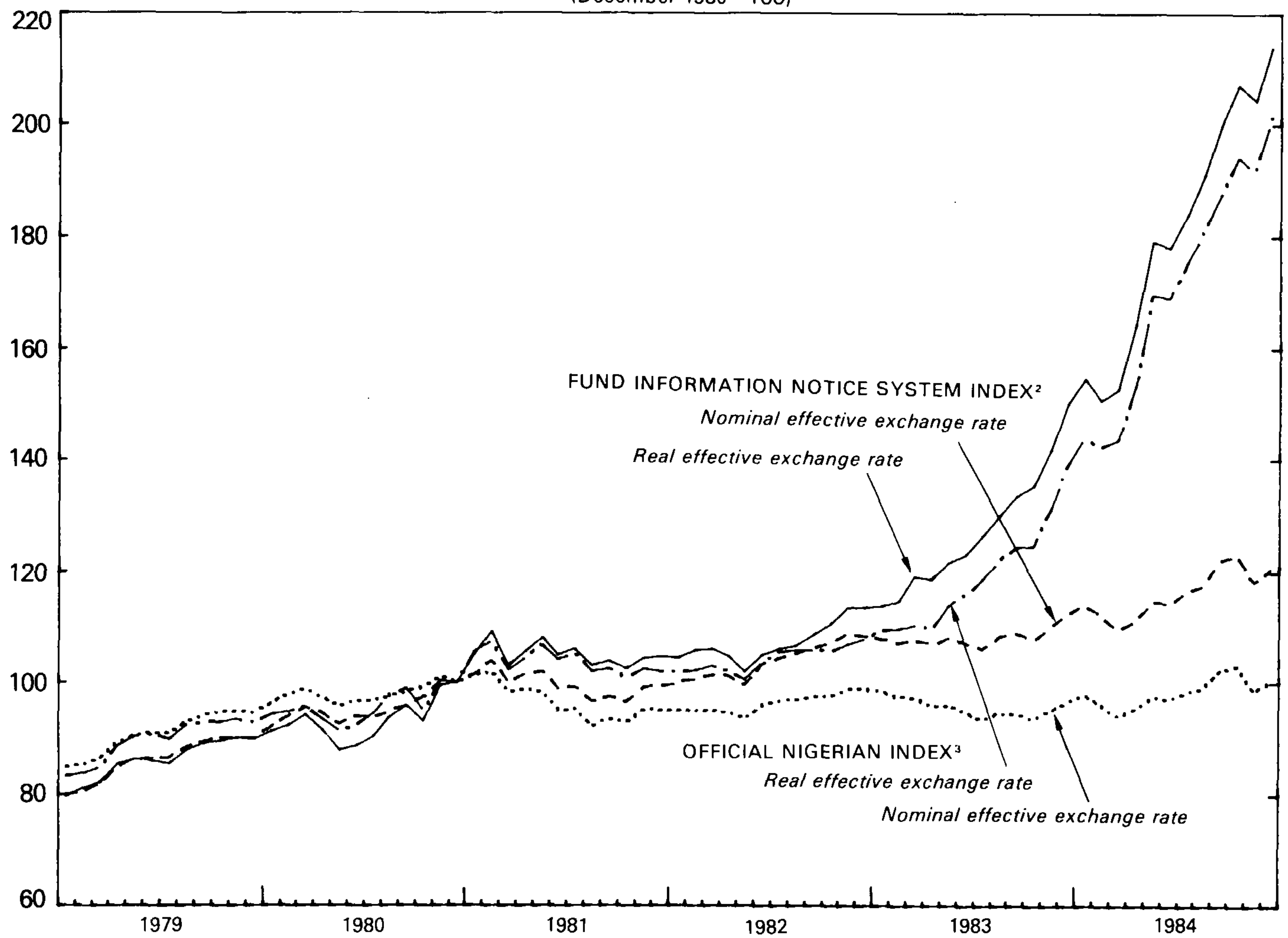
1. Fiscal and monetary policies

The budget which the authorities introduced in May 1984 represented the first decisive move toward effective overall demand management. Total budgetary appropriations were sharply curtailed, involving significant cutbacks in the capital program, and in nonstatutory budgetary transfers and subventions, a continued freeze on civil service pay scales (as well as salary increases in the private sector), and the liquidation of a number of political institutions. Furthermore, as a major revenue raising measure, the authorities significantly increased the coverage and selectively raised domestic excise taxes. In the event, the fiscal deficit of the Federal Government was reduced from ₦ 6.6 billion in 1983 to ₦ 4.0 billion in 1984, or by the equivalent of 5.8 percentage points to 5.2 percent of GDP. Although the deficit was almost entirely financed by domestic bank borrowing (absorbing some 90 percent of the year's increase in net domestic credit), the reduction was sufficient to contribute to a significant deceleration in monetary growth.

The substantial compression of the fiscal deficit in 1984 was achieved exclusively through expenditure reduction as total revenue stagnated during the year, with a 24 percent gain in oil revenues being offset by a shortfall of other revenues due to the cutback in imports and the recession. Total expenditure was curtailed by 18 percent in nominal terms, although it still exceeded the original budgetary target by some ₦ 1.6 billion, mainly on account of unbudgeted interest payments, but also because of exceptional funding approved for imports of essential goods (as an anti-inflation and social measure) and for the liquidation of salary arrears of state governments; capital outlays dropped

1/ In mid-1983 Nigeria entered into negotiations with the Fund without reaching agreement on a possible extended arrangement. In 1984 the new authorities formulated their initial policies against the background of the extensive discussions that had taken place between the staff of the Fund, as well as the World Bank, and the Nigerian authorities on comprehensive stabilization and structural adjustment measures needed to address Nigeria's economic difficulties. They were also fully aware of the views expressed by the Executive Board during the Article IV consultation (SM/84/17, January 11, 1984, and EBM/84/23, February 13, 1984).

CHART 2
NIGERIA
REAL AND NOMINAL EFFECTIVE EXCHANGE RATES[1], JAN. 1979 - DEC. 1984
(December 1980 = 100)



Sources: Data provided by the Nigerian authorities; and staff estimates.
[1] Upward movements indicate an appreciation of the naira.
[2] 36 currency basket used for surveilance of exchange rate policies.
[3] 7 currency basket

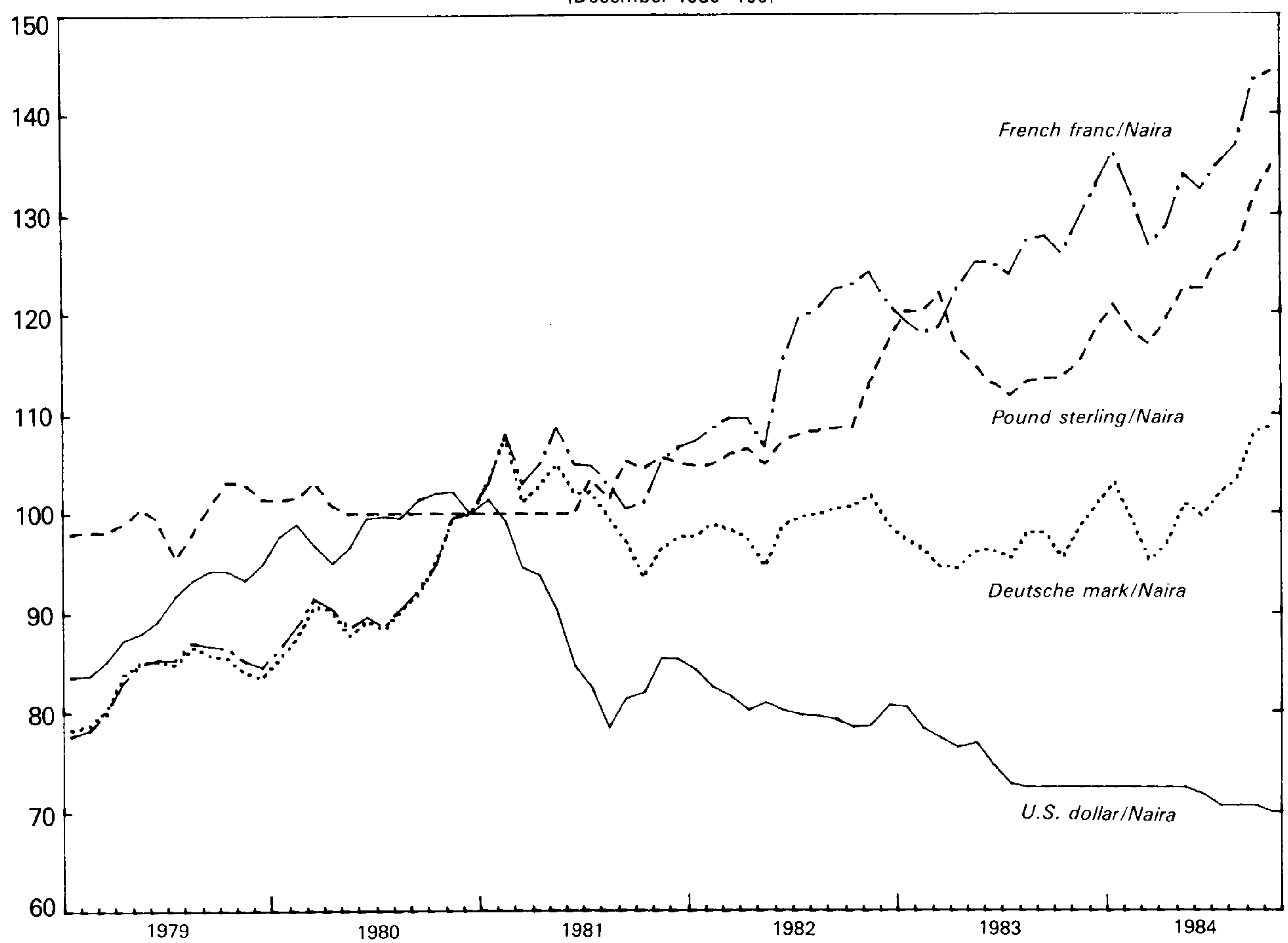
CHART 3

NIGERIA

MOVEMENTS OF THE NAIRA AGAINST SELECTED CURRENCIES[1]

JAN. 1979 - DEC. 1984

(December 1980 = 100)



[1]Based on official quotations for the U.S. dollar/Naira rate and internationally prevailing cross rates for the U.S. dollar.

by 50 percent, in part due to delays in re-ordering priorities under the capital program, and the growth of current expenditure (which account for 78 percent of total outlays) was limited to 8 percent, despite payments of generous pensions and separation benefits to retrenched workers. Overall, expenditure control was tightened, with quarterly releases of expenditure warrants being linked closely to established ceilings and movements in the cashflow and revenue positions of the Federal Government.

The 1985 budget, which the authorities announced in January 1985, maintains the stance of strict fiscal austerity. Total expenditure is budgeted to decline by 6 percent, with sharp cuts in total outlays on wages and salaries and goods and services sufficient to offset a projected increase in capital budgetary appropriations to a level considered adequate by the World Bank staff to cover a core of viable and economically productive projects. Federally retained revenue is conservatively estimated at ₦ 7.1 billion (compared with ₦ 7.6 billion in 1984) based on an oil production level of 1.3 mbd (as against 1.38 mbd in 1984). The overall budgetary deficit is to be maintained at about the 1984 level of some ₦ 4.0 billion, implying a significant reduction when measured in relation to GDP, but again most of this is likely to be financed by domestic bank credit. Moreover, the authorities ordered the state governments to introduce balanced budgets. The preliminary information on state budgets for 1985 suggests that all the states expect to cover their recurrent expenditure without recourse to borrowing, but only three states also expect to meet their capital expenditure needs fully from their projected budgetary resources.

The increased budgetary restraint applied since 1984 has been accompanied by a shift toward a restrictive credit policy stance. The monetary authorities lowered the ceiling on the permissible annual increases in commercial bank credit to 12.5 percent in 1984 (from 25 percent in 1983 and 30 percent in 1981-82) and further to 7.0 percent in 1985, but even the reduced ceilings were still above the low underlying trend in private sector credit demand due to the decline in economic activity. The authorities also reduced the number of sectoral categories under the credit allocation guidelines from 19 to 9, and have rescinded, effective January 1985, the requirement that some 90 percent of all credit be extended to indigenous Nigerian enterprises. These changes in the regulations governing the operations of commercial banks have been aimed at giving the banks greater flexibility in financial intermediation. However, the regulatory framework still remains complex, including the maintenance of strict ceilings on the structure and levels of lending and deposit rates, and hampers efficient mobilization and allocation of financial savings.

2. External sector policies

a. Exchange and trade policies

For adjustment in the external sector, the authorities opted for the implementation of administrative measures designed to ration foreign exchange in order to equilibrate the external accounts and possibly to reconstitute foreign reserves. Thus, in 1984 several restrictive exchange measures were adopted and import controls were tightened again. The latter actions included the abolition of the system of Open General License (OGL) which had provided for the unrestricted importation of a list of items subject only to registration; thus, all nonprohibited imports became subject to specific licensing requirements. A new structure of customs tariffs was put in place in May 1984, and the advance import deposit scheme (a multiple currency practice intruduced in 1982) was abolished. A new system of foreign exchange allocation was also put in place, whereby, within the overall foreign exchange budget for 1984, specific ceilings for foreign exchange approvals were established for authorized dealers (mainly commercial banks) who became responsible for reallocation in accordance with the import and exchange control regulations and in specified proportions for four major categories of imports.1/

In January 1985 the trade and exchange system was modified again. According to the authorities, the modifications were aimed at simplifying certain aspects of the import licensing and foreign exchange budgeting procedures and improving their administration. In particular, the system of direct foreign exchange allocations to authorized dealers (responsible for registration of 'M' forms) 2/ was abolished; and the policy was adopted whereby a valid import license, supported by other appropriate documentation required under the exchange and import regulations, guarantees access to foreign exchange for external transactions. This, in effect, centralized again the responsibility for the allocation of foreign exchange in a single government ministry. Moreover, the specific coefficients that governed the allocation of foreign exchange by authorized dealers were abolished, and they were replaced by new guidelines and criteria for the issuance of import licenses, based on national priorities regarding industrialization, employment, and income distribution and social equity. At the same time, it was announced that a system of advance payment of import duties would be introduced in 1985 for purely fiscal reasons as soon as the modalities for such a system have been worked out.

1/ Each authorized dealer was required to ensure that the allocations satisfy the following coefficient: industrial raw materials, machinery, and spare parts (58 percent), food items (18 percent), general machandise (12 percent), and invisible (12 percent).

2/ Prior to January 1, 1985 a registered M form constitued an application for foreign exchange; it has now become a means for registration, recording, and monitoring imports by the Central Bank.

In discussing the recent changes in the trade and exchange system, the staff team pointed out in particular that the use of payments documentation in the import licensing and foreign exchange budgeting procedures constitutes an exchange restriction subject to Fund jurisdiction under Article VIII. Moreover, the staff team cautioned that the proposed scheme for advance payment of import duties could give rise to a new multiple currency practice and should thus be avoided through an appropriate design of the modalities of the scheme. More generally, the staff noted that the import and exchange control system remained unduly cumbersome, complex, and highly restrictive, and that continuing recourse to such restrictions was not an efficient way to address fundamental balance of payments pressures. It was also noted that the authorities had put in place, since May 1984, a fundamentally restructured external tariff, which represents a significant step toward simplification of the customs code and rationalization of effective protection rates around a low and uniform modal range, a move strongly encouraged by the staff of the Fund and the World Bank. However, the distortions present in the domestic incentive and effective protection system and the misalignment of relative prices continued to be accentuated because exchange rate policy remained basically unaltered, resulting in a further sharp real appreciation of the currency in 1984.

In the period since the conclusion of the last Article IV consultation in February 1984 to the end of November 1984, the naira appreciated by 38.4 percent in real effective terms. Moreover, broken cross-rates have arisen periodically from the authorities' policy of establishing essentially independent naira quotations for the U.S. dollar and the pound sterling--the two principal currencies for the invoicing of trade in Nigeria. Such broken cross-rates, which give rise to a multiple currency practice subject to Article VIII, Section 3b, re-emerged in June 1984, and the spread rose steadily with the appreciation of the U.S. dollar vis-à-vis the pound sterling in international currency markets, as the cross-rate implicit in the Nigerian quotations for the two currencies was kept relatively constant at around US$1.38 = £ 1. The spread reached as much as 26.2 percent on February 26, 1985, but declined to 9 percent on March 22, 1985.

The stricter application of the import licensing and foreign exchange authorization system in 1984, combined with the significant compression of the Federal Government's capital expenditure program, brought about an additional cut of 15 percent in real imports. This contributed to a sharp reduction in the external current account deficit, from US$4.8 billion in 1983 (equivalent to 5.7 percent of GDP) to US$1.2 billion (1.2 percent of GDP) in 1984; it also produced a significant narrowing of the overall balance of payments deficit, from US$4.8 billion in 1983 to US$0.3 billion in 1984. However, the Central Bank's external liquidity position remained tight due in the main to debt-servicing obligations on letters of credit arrears refinanced in 1983, and there was a further gross accumulation of US$1.1 billion in arrears in respect of payments for current international transactions. At the end of December 1984 Nigeria's gross official foreign reserves stood at only US$1.5 billion (about 8 weeks of imports), while its outstanding stock of nonrescheduled trade arrears amounted to an estimated US$6.8 billion, of which at least US$1.7 billion was owed to export credit agencies.

b. External debt

As indicated earlier, Nigeria obtained a rescheduling of US$1.9 billion of arrears on letters of credit in 1983 under two separate agreements with commercial banks, which stretched repayments on those obligations through July 1986. During 1984 the authorities continued their efforts to refinance the trade arrears. As a result of the initiative of the Government, Nigeria's uninsured creditors have accepted to refinance their claims outstanding as at December 31, 1983 by converting them into floating rate promissory notes denominated in foreign currencies and carrying interest of LIBOR plus 1 percent and maturities of 6 years, including a grace period of 2 1/2 years. The first batch of notes valued at US$258 million was issued in November 1984. The authorities have indicated their intention to pay interest retroactive to January 1, 1984 on all uninsured trade arrears as they are rescheduled under the promissory note scheme. They also intend to make payments in lieu of interest, retroactive to January 1, 1984, on arrears owed to insured creditors.

Nigeria's total public and publicly guaranteed disbursed debt outstanding at the end of 1984 amounted to an estimated US$18.3 billion (equivalent to 19 percent of GDP), including the outstanding stock (US$6.8 billion) of trade arrears which are considered obligations of the Central Bank, and certain private external payments commitments (US$0.7 billion) that were authorized but not directly guaranteed by the Federal Government. The disbursed medium- and long-term debt of US$11.5 billion (including the rescheduled arrears) has an average residual term to maturity of about 5 1/2 years and an average interest rate of 10 percent. These obligations consisted of international capital market borrowings (US$8.0 billion); credits from multilateral institutions (US$1.2 billion) and bilateral sources (US$429 million); and direct obligations of the Central Bank (US$1.8 billion) representing mainly obligations arising from the rescheduling of the letters of credit by commercial banks (US$1.4 billion). The debt service on the medium- and long-term debt (excluding the outstanding arrears) amounted to US$3.5 billion in 1984, representing 30 percent of export receipts, a sharp rise in the debt-servicing burden since 1982 when the corresponding ratio was only 9 percent. Assuming that the promissory note issue is completed as intended in 1985, and that payments in lieu of interest are made on outstanding arrears to insured creditors, as described above, the debt service ratio on the present stock of debt would rise sharply to some 48 percent in 1985, and decline thereafter to some 37 percent in 1986-87 and further to 27 percent in 1989 (Table 2 and Chart 4). Moreover, if the projected external financing gaps were to be filled through new external borrowing, the debt service ratio would remain in the range of 34-40 percent throughout the 1986-89 period.

Table 2. Nigeria: External Public Debt and Debt Service, 1982-89

(In millions of U.S. dollars)

	1982	1983	1984 Est.	1985	1986	1987 Projections	1988	1989
External public debt (end of period)	13,033	17,781	18,291	17,143	15,552	13,049	10,500	8,001
Central Bank of Nigeria	4,171	8,458	8,656	7,382	6,391	4,924	3,458	1,991
Short-term	120	180	--	--	--	--	--	--
Medium-term	--	400	400	--	--	--	--	--
Rescheduled arrears	--	1,935	1,444	4,695	3,954	2,737	1,521	304
Arrears	4,051	5,943	6,812	2,687	2,437	2,187	1,937	1,687
Federally guaranteed								
Medium- and long-term debt	8,862	9,323	9,635	9,761	9,161	8,125	7,043	6,010
International capital markets	7,718	8,061	8,045	8,231	7,487	6,221	4,818	3,531
Multilateral	739	892	1,161	1,435	1,632	1,907	2,261	2,552
Bilateral	405	370	429	451	398	353	320	283
External public debt service 1/	1,126	2,097	3,540	5,534	4,734	5,052	4,595	4,017
Amortization	477	1,130	2,292	3,095	3,105	3,604	3,380	3,058
CBN	--	--	929	1,274	991	1,467	1,467	1,467
Federally guaranteed	477	1,130	1,363	1,821	2,114	2,137	1,913	1,591
Interest	649	967	1,248	2,439	1,629	1,449	1,215	959
CBN	--	126	285	1,425	662	553	420	286
Federally guarnteed	649	841	963	1,013	968	895	796	674
				(In percent of exports)				
Debt service ratio 1/	8.69	19.93	30.25	48.05	37.67	37.08	32.31	27.24
Amortization	3.68	10.74	19.59	26.87	24.71	26.45	23.77	20.73
CBN	--	--	7.94	11.06	7.89	10.76	10.31	9.94
Federally guaranteed	3.68	10.74	11.65	15.81	16.82	15.69	13.45	10.79
Interest	5.01	9.19	10.67	21.18	12.96	10.63	8.55	6.50
CBN	--	1.20	2.44	12.38	5.26	4.06	2.95	1.94
Federally guaranteed	5.01	7.99	8.23	8.80	7.70	6.57	5.60	4.57
Memorandum items:								
External debt (in millions of US dollars) 2/	13,033	17,781	18,291	18,693	18,319	17,845	17,186	16,727
Debt service ratio (in percent) 2/	8.69	19.93	30.25	48.74	39.38	39.85	36.35	34.56

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

1/ No debt service payments were made during 1982-84 on non-scheduled arrears. Projections for 1985 are based on the assumptions that: (i) US$4.0 billion in arrears to uninsured creditors will be rescheduled during the year, with interest paid retroactive to January 1, 1984, and (ii) payments in lieu of interest will be made retroactive to January 1, 1984, on all outstanding (non-rescheduled) arrears to insured creditors.

2/ Including borrowing to close the projected financing gaps shown in Table 3, and to cover resulting interest payments.

IV. Medium-Term Outlook and Adjustment Strategy

Nigeria's external payments and overall economic outlook over the medium term depend critically on the evolution of the international oil market and the speed and efficiency with which the structure of aggregate domestic expenditure and production are altered and realigned to reduce dependence on imports, promote non-oil exports, and steer the economy back toward broadly-based growth.

The external payments position looks particularly difficult. The staff team's estimates suggest that, based on the general thrust of present policies and on export earnings prospects, the current account and the overall balance of payments would move into a modest surplus by 1987 if the authorities were to succeed in holding real imports at approximately their present level. However, even under this scenario, there would not be sufficient resources to cover the external financing needs arising from the servicing obligations on the arrears accumulated through 1984, assuming full rescheduling in 1985 of all uninsured arrears through the promissory note scheme referred to above. Thus, Nigeria would still be faced with a relatively large external financing gap of US$1.5 billion in 1985 and annual gaps of a similar magnitude accumulating to some US$5.0 billion during 1986-89 (Table 3 and Chart 5). 1/

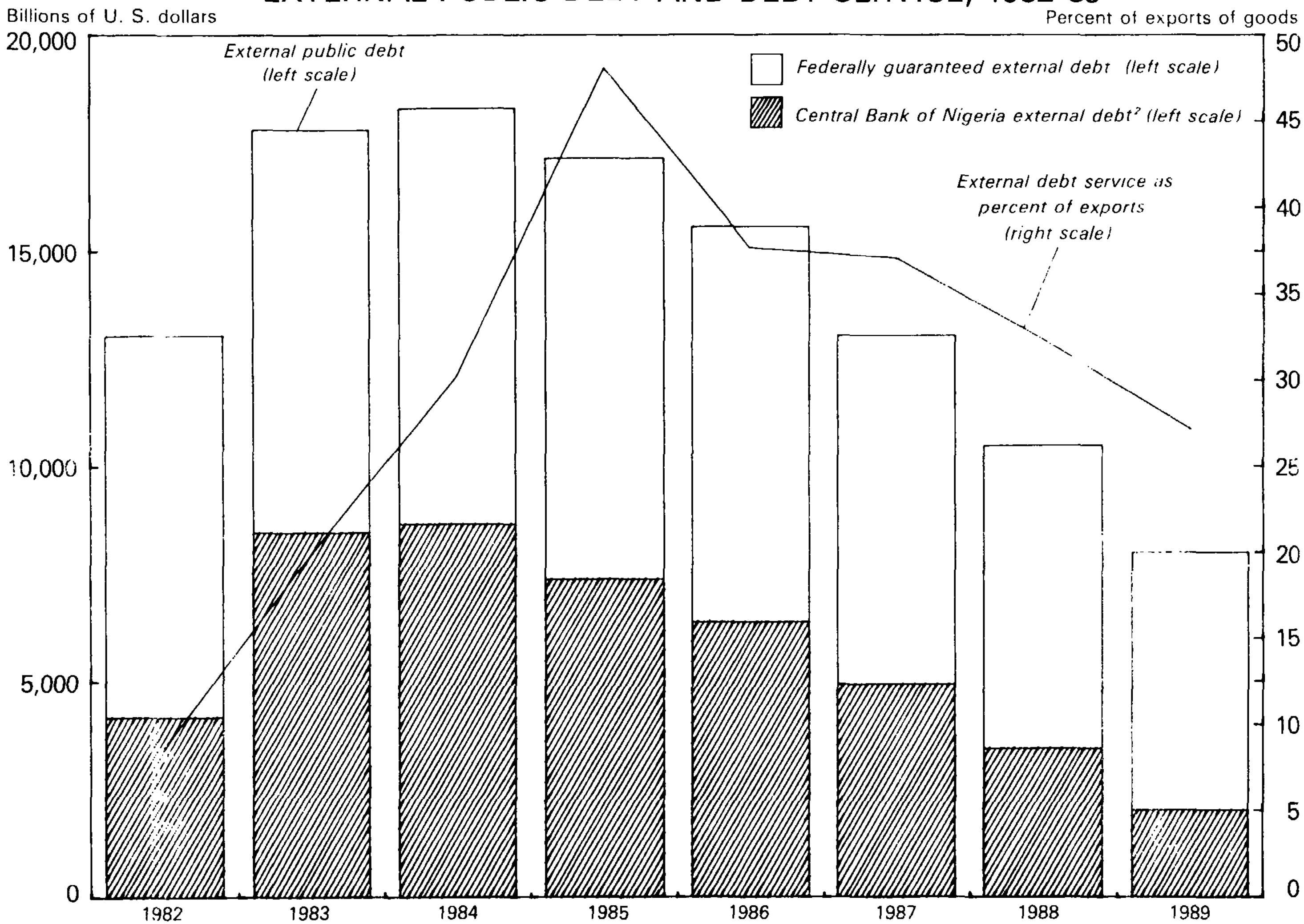
The fiscal position of the Federal Government (and probably that of the nonfinancial public sector) would evolve in a pattern broadly similar to that projected for the external position, in light of the oil income prospects. Assuming an unchanged tax structure, and maintenance of total federal spending in relation to GDP at about the same level as that projected for 1985, the fiscal deficit would widen again in 1986, rising steadily to about 4.5 percent of GDP in 1989 (Chart 6). The overall borrowing requirements of the budget would increase very rapidly with the growing burden of amortization payments on the Government's external debt. This would create a strong tendency toward unsustainably high inflation and stagnation induced by continuing import shortages, unless significant gains were achieved in restructuring domestic production and expenditure away from imports and toward a revival of broadly based economic expansion.

1/ This scenario is subject to a considerable degree of uncertainty and is particularly sensitive to the key assumptions that the average official sales price for Nigerian crude oil will remain constant in nominal terms at the present level of US$27.50 per barrel, and that production will be at about 1.4 mbd in 1985 and rise steadily to 1.7 mbd in 1989; oil export receipts would thus amount to US$11.0 billion for 1985 (about the same as 1984), rising gradually to some US$14.1 billion in 1989. A change of US$1 per barrel in the price of oil is equivalent to some US$400 million (or a swing of 100,000 barrels a day in the output of oil is equivalent to about US$1 billion) of export proceeds on an annual basis.

CHART 4

NIGERIA

EXTERNAL PUBLIC DEBT AND DEBT SERVICE, 1982-89[1]



[1] Data for 1982-84 are estimates; data for 1985-89 are projections

[2] Comprises short-and medium-term borrowing by the Central Bank plus arrears and rescheduled arrears.

Table 3. Nigeria: Summary Balance of Payments, 1982-89

(In millions of U.S. dollars)

	1982	1983	1984 Est.	1985	1986	1987	1988	1989
				Projections				
Merchandise trade, f.o.b.	-4,028	-1,708	1,460	2,367	3,064	3,645	3,754	3,783
Exports	12,956	10,523	11,701	11,516	12,568	13,624	14,220	14,748
Of which: Petroleum	(12,777)	(10,143)	(11,269)	(11,041)	(12,045)	(13,049)	(13,588)	(14,053)
Imports	-16,984	-12,231	-10,241	-9,149	-9,504	-9,979	-10,466	-10,967
Services and income (net)	-3,282	-2,783	-2,512	-3,966	-3,260	-3,191	-3,027	-2,836
Of which: Interest	(-649)	(-967)	(-1,248)	(-2,439)	(-1,629)	(-1,449)	(-1,215)	(-959)
Transfers (net)	-429	-260	-138	-140	-145	-152	-160	-168
Current account	-7,739	-4,751	-1,191	-1,738	-341	301	567	779
Capital account	1,850	766	1,478	1,345	371	-430	-365	-232
Direct investment	431	365	766	500	550	605	666	732
Medium- and long-term capital	757	651	643	166	-554	-983	-1,021	-963
Official	732	627	608	126	-600	-1,036	-1,083	-1,033
Of which: Amortization	(-477)	(-1,245)	(-1,363)	(-1,821)	(-2,114)	(-2,137)	(-1,913)	(-1,591)
Other	25	24	35	40	46	53	61	70
Short-term capital	662	-250	69	679 1/	375 1/	-52	-9	-1
Net errors and omissions	-529	-767	-582	--	--	--	--	--
Overall balance	-6,418	-4,752	-295	-393	30	-129	202	548
Financing	6,418	4,752	295	393	-30	129	-202	-548
Reserve movements (- increase)	2,367	524	-83	193	-41	-55	-56	-58
Arrears (- reduction)	4,051	1,892	869	-4,125	-250	-250	-250	-250
Of which: Cash payments	--	--	--	-125	-250	-250	-250	-250
Rescheduling (- amortization)	--	1,935	-491	3,251	-741	-1,217	-1,217	-1,217
Letters of credit	--	1,935	-749	-749	-437	--	--	--
Uninsured trade credits	--	--	258	4,000	-304	-1,217	-1,217	-1,217
Other financing	--	400	--	-400	--	--	--	--
Financing gap	--	--	--	1,474	1,002	1,650	1,320	976
Memorandum items:								
Oil production (mbd)	1.28	1.24	1.39	1.40	1.50	1.60	1.65	1.70
Oil exports (mbd)	1.00	0.93	1.10	1.10	1.20	1.30	1.35	1.40
Export price (US$/barrel)	34.88	29.72	27.99	27.50	27.50	27.50	27.50	27.50
				(In percent)				
Export growth								
Nominal	-26.9	-18.8	-11.2	-1.6	9.1	8.4	4.4	3.7
Real	-19.7	-5.1	17.2	0.4	9.0	8.2	4.1	3.4
Import growth								
Nominal	-7.6	-28.0	-16.3	-10.7	3.9	5.0	4.9	4.8
Real	-3.8	-25.6	-14.6	-12.0	0.4	--	-0.1	-0.2
Terms of trade change	-5.1	-11.6	-3.2	-3.4	-3.3	-4.6	-4.5	-4.5

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

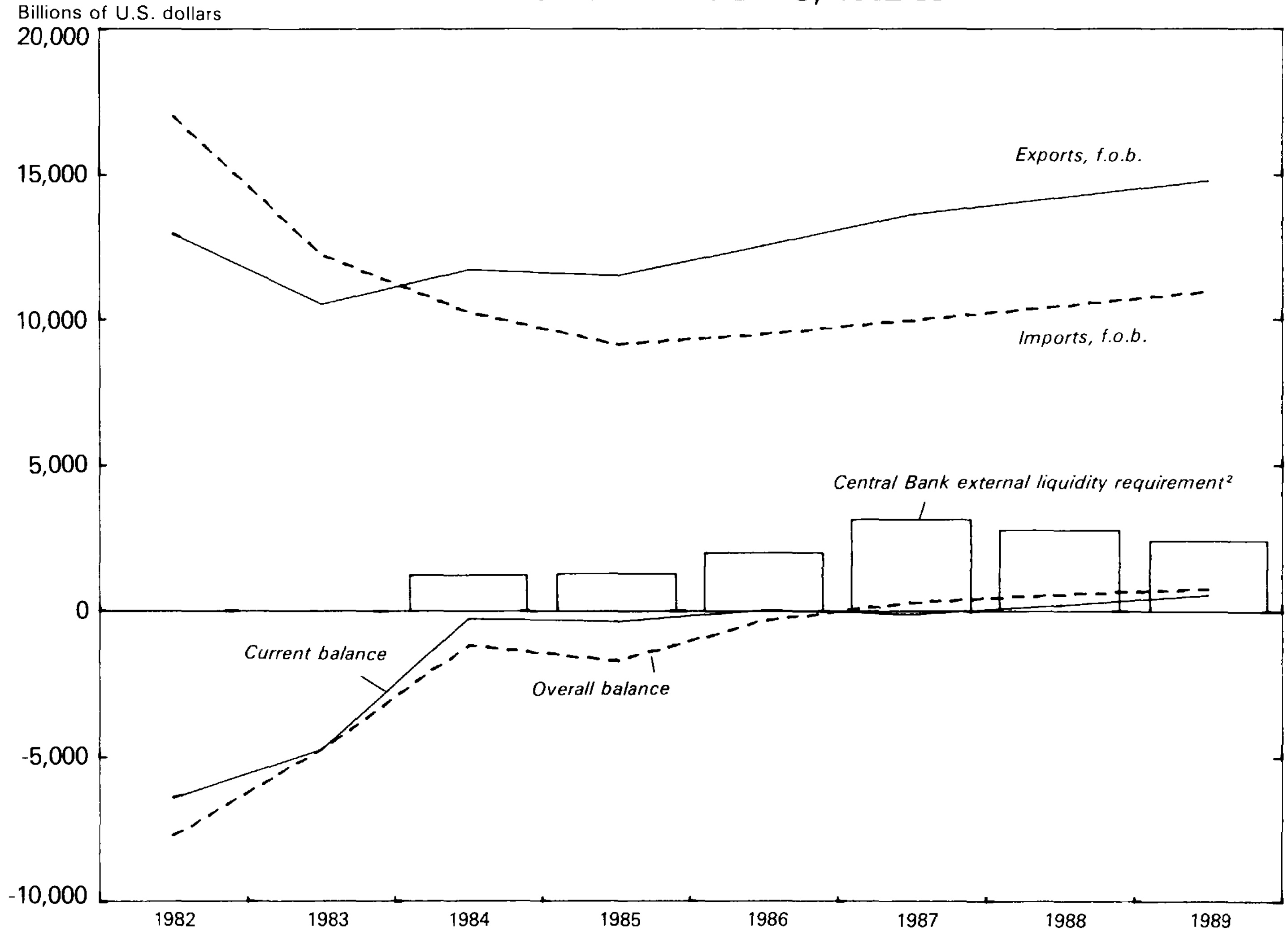
1/ Reflects understandings reached with commercial banks to increase short-term credit lines as rescheduled letters of credit arrears are amortized.

In the course of the discussions, the staff team explained that this medium-term outlook, viewed against the continuing experience of domestic recession and inflation, underscored the fact that the relatively strong fiscal adjustment initiated in 1984 would need to be sustained. This would be crucial to the process of scaling back aggregate demand into line with the reduced levels of oil earnings. It was evident that the budget for 1985 maintains the thrust of the authorities' policy of austerity. Even so, the revenue projections indicate an increased dependence on oil earnings, as a considerable erosion of nonoil revenues is expected to occur, notwithstanding the high rate of domestic inflation and reported large increases in distributors' profit margins. While the recession partly explains the trend, the poor revenue performance could put the fiscal adjustment at risk. This, in the staff's view, provided the authorities with sufficient reason to re-examine the domestic tax system, with a view to increasing its elasticity, and to intensify efforts to mobilize additional domestic resources. In particular, the effective yields and elasticity of the newly broadened domestic excise tax system could be increased by relaxing the strict controls applied to ex-factory prices, from which retail prices have diverged widely with rapid consumer price inflation. Significant additional revenues would be derived from a phased reduction or elimination of the economic subsidy (equivalent to about 6 percent of oil export earnings) on domestic petroleum products by closing the gap between the official export price of crude and the delivery price to domestic refineries.

As regards the effectiveness of the authorities' present strategy of exclusive reliance on demand management and administrative controls, recent trends in the economy have shown that fiscal measures alone would not be sufficient to bring about a sustainable fiscal and external position, and would carry the risk of increasing the burden of adjustment in terms of sharply reduced growth and employment levels. While consistent and sustained implementation of measures of fiscal adjustment could be expected at best to diffuse inflationary expectations and possibly limit, in due course, the downward spiral of the economy, even these effects could be neutralized in an environment of serious misalignment of relative prices, complex administrative controls, and restrictions on economic activity. For these reasons, the staff team strongly urged that the demand management policies being pursued by the authorities should be complemented with measures designed to eliminate price distortions and to restore appropriate incentives to the private sector, with a view to increasing domestic investment, production, and employment.

The staff team also drew attention to the fact that the allocation of scarce foreign exchange resources through import licensing and exchange controls creates additional rigidities, accentuates the serious distortions of cost-price relations that have built up in the economy, and broadens the scope for inefficiency in the allocation and use of resources. It was stressed in this regard that Nigeria's industrial sector is presently oriented toward the production of final consumer goods, with a high content of imported intermediate inputs, including

CHART 5
NIGERIA
BALANCE OF PAYMENTS, 1982-89[1]

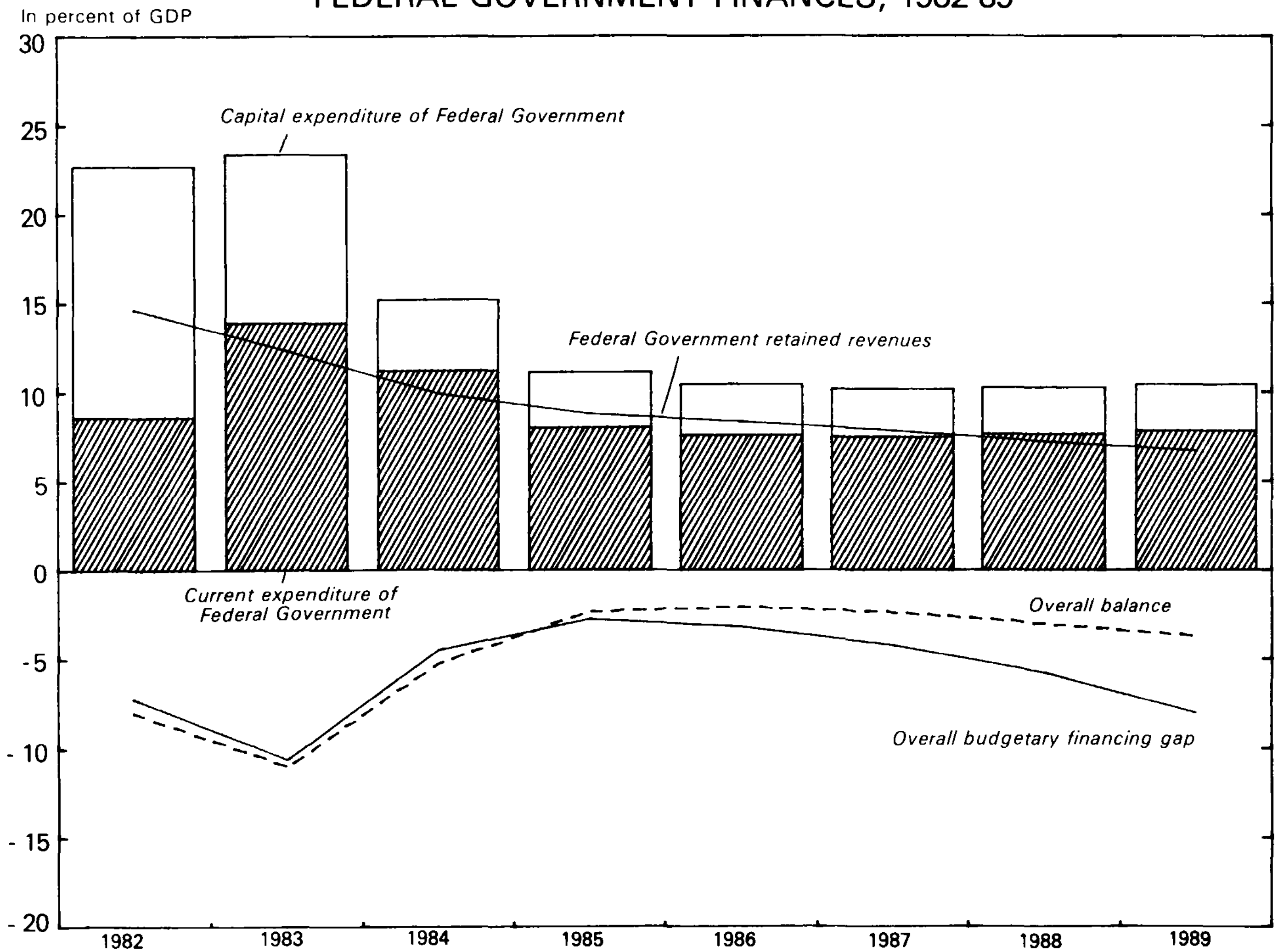


[1] Data are actuals for 1982 83; estimates for 1984; projections for 1985 89.
[2] Defined as reduction in arrears through cash payments plus amortization of rescheduled arrears plus financing gap.

CHART 6

NIGERIA

FEDERAL GOVERNMENT FINANCES, 1982-89[1]



[1] Data for 1984 are estimates, data for 1985-89 are projections.

agricultural products, while domestic agriculture has suffered. This orientation is encouraged by the overvalued exchange rate for the naira, by high nominal import tariff levels, and by increasing recourse to quantitative and other import restrictions. In such a situation, current policies in the area of foreign exchange allocation would tend to perpetuate the existing industrial and agricultural structures, which runs counter to the goals of economic diversification. Against this background, and given the continuing real appreciation of the naira and the growing pressures on the currency in the unofficial market, the staff team took the position that a move toward a realistic exchange rate policy would be essential to correct relative prices, to bolster investor and consumer confidence, and to create an environment for an orderly and steady economic recovery and growth. This would also help redirect cross-border trade into official channels and stem the tendency for capital flight. 1/ In addition, the staff urged the authorities to eliminate and avoid the re-emergence of broken cross-rates which had been a persistent feature of their exchange rate system since June 1984. 2/

In discussing the principal observations of the staff team, the Nigerian representatives agreed that the external payments outlook for the period immediately ahead remained difficult and troublesome. However, they explained that in the short run, as a result of the revised foreign exchange budgeting and import licensing procedures, the authorities could more effectively match foreign exchange disbursements with available resources. This should permit them to avoid the emergence of large payments imbalances and also ensure that foreign exchange earnings are utilized in ways that are consistent with national priorities. The authorities emphasized that they attached great importance to servicing the external public debt, including all trade arrears after verification and certification of their validity. In their view, the peculiarities of the Nigerian economy, which are evident especially in the high dependence on imported consumer goods as well as raw materials, made strict foreign exchange budgeting an unavoidable economic tool at this stage. In the period ahead, however, they would expect industrialists in Nigeria to develop and switch to the use of domestic inputs. To this end, specific features are being devised and built into the import licensing and foreign exchange allocation system to discourage continued reliance on imported raw materials. Moreover, a detailed study of the industrial incentive system was underway, and the preparatory work on the next five-year development plan was being focused on developing appropriate incentive packages to stimulate economic development based on the comparative advantage of Nigeria. The Nigerian representatives

---

1/ In early May 1984 the authorities closed Nigeria's borders and carried out a currency exchange, replacing the existing naira notes with new ones at par with the aim of sterilizing illegally accumulated cash holdings and penalizing currency smuggling; the borders remain closed.

2/ The authorities recently informed the staff that the broken cross-rates were eliminated as of April 16, 1985.

also pointed out that the capital expenditure program had been thoroughly revised and that the projects retained were, in general, those closely linked to the domestic resource base and expected to yield the highest returns without requiring new additional foreign borrowing. Agriculture, in particular was accorded a significantly increased share of the capital budgetary appropriations in 1985, and steps were also taken to ensure that the agricultural development programs carried out by the state governments (a constitutional responsibility) were adequately financed.

As regards the use of exchange rate policy as a complement to their demand management strategy in the adjustment process, the Nigerian authorities expressed in strong and measured terms their belief that a devaluation of the size necessary to achieve the needed relative price correction would not be advisable in the present phase of the economic stabilization effort. In this regard, they stressed that the austerity program in effect since May 1984 has been severe and demanding, involving the application of strict fiscal discipline at the federal and state government levels and vigorous implementation of a number of important elements of the fiscal and other demand management measures discussed with the staff of the Fund and the World Bank over the past year. They pointed to the impact on general living conditions of the effects of the continued wage freeze, the substantial retrenchment in the private and the public sector, the growing shortages of imported goods and domestically produced manufactures, and the increasing uncertainties created by the recession and rising inflation. In such an economic environment, the authorities considered that it would be untimely and difficult, for social and political reasons, to implement measures that they thought had the potential to trigger further increases in the cost of living. In their judgment, a large exchange rate adjustment and, for that matter, increases in the pump price of refined petroleum products or in tariffs of public utilities were policy measures of the type that were to be avoided, at least in the short-run. Rather, specific steps needed to be taken to allocate foreign exchange for essential imports and priority industries in order to ensure that basic necessities were available on the market at reasonably affordable prices and to allow time for the industrial sector to develop domestic substitutes for imports.

IV. Staff Appraisal

Nigeria's economic and financial situation is very difficult. Considerable delay in implementing comprehensive adjustment measures in the face of a sharp decline in oil earnings has led to severe and persistent fiscal and external payments pressures, which have been reflected in a sharp decline in international reserves and a sizable accumulation of import payments arrears. For the fourth consecutive year, in 1984 the economy experienced a combination of recession, high and rising inflation, and increasing underutilization of industrial capacity and unemployment. The principal challenge facing the Nigerian authorities therefore is how best to combine strong and effective demand management policies with measures designed to restructure economic incentives and set the stage for efficient economic diversification, revitalization of the agricultural sector, reduction of the excessive dependence on the oil sector and imports, and attainment of a viable fiscal and external payments position over the medium term.

The Government which took power on the eve of 1984 has rightly taken the position that national expectations and expenditure should be scaled down to realistic levels in light of the sharply reduced oil earnings, and the authorities have called for a general belt-tightening and austerity in order to reduce the large fiscal and external payments imbalances. Appropriately, fiscal policy was considerably tightened in 1984 through significant cut-backs of the capital expenditure program and the maintenance of a freeze on civil service pay scales and limitations on non-statutory transfers to state governments, and to a lesser extent, also to nonfinancial public enterprises and entities. As a result, the fiscal deficit of the Federal Government was reduced substantially, from the equivalent of 11 percent of GDP in 1983 to 5.2 percent of GDP in 1984, and the 1985 budget has maintained the general thrust of the policy of fiscal austerity, although the reduced fiscal deficit continues to be financed mainly by domestic bank credit. The authorities are still faced with the prospect of continued stagnation of non-oil as well as oil revenues which could put the fiscal adjustment process at risk, unless it is considerably strengthened by a combination of further expenditure reducing measures and effective mobilization of additional domestic resources. In the circumstances, the elasticity of yields of the newly broadened excise tax could be improved by a relaxation of controls on ex-factory prices, and considerable gains in fiscal receipts and economic efficiency could be derived from reducing or eliminating the economic subsidy on domestic petroleum products.

The rest of the public sector (which also depends heavily on oil revenues) will also need to apply greater discipline to improve financial performance, inter alia through the proposed restructuring and privatization of certain public enterprises. Progress of the adjustment effort in this regard has been difficult to assess, as the staff does not have the relevant information on the structure and execution of state government budgets, or on the financial operations of the nonfinancial public corporations. However, the staff notes that the state governments, which appear to have been bailed out of their recent financial difficulties through federal government transfers, have been ordered to rationalize their budgets and to aim at achieving balanced budgets in 1985, although the preliminary budgetary estimates suggest that only few states are expected to generate enough resources to cover their capital program in 1985. The staff hopes that the Federal Government will use its authoritity to ensure that expenditure policies of the rest of the public sector are consistent with the overall national priorities and stabilization goals.

As regards external adjustment, present economic policies continue to rely heavily on complex administrative controls and regulations. While restrictive exchange and trade measures have been used to achieve a significant compression of the external payments deficits, they are not an economically efficient or effective way of addressing the fundamental external payments and economic problems, notably the strong dependence of consumption and production on imports. These problems are deeply rooted in the structural imbalances and cost-price distortions in the economy and are likely to be further accentuated by such controls and the continued strong appreciation of the naira. In the circumstances it is the staff's view that fundamental changes in the areas of exchange rate and trade policies, as well as industrial regulation, are urgently needed to support the fiscal adjustment and demand management policies. In particular, the staff considers that a shift toward a realistic and flexible exchange rate policy is needed to correct relative prices, bolster investor and consumer confidence, stabilize expectations, stem capital flight, and create an environment conducive to orderly and steady economic recovery.

The present outlook is for large external payments and fiscal financing gaps for 1985-89, given the growing burden of servicing the external public and publicly guaranteed debt and the overhang of payment arrears. This outlook underscores the need for a comprehensive adjustment program, including a well-coordinated external debt management, which will assure the attainment of balance of payments viability in the medium term. The staff hopes that the authorities will effectively implement their program of refinancing the arrears on uninsured trade credits through the promissory note issue and reach an early agreement with Nigeria's creditors on the orderly settlement of all other outstanding payments arrears and use the debt relief or any financing obtained to support a comprehensive adjustment effort.

Nigeria continues to maintain a number of exchange restrictions under Article XIV. Since April 1982 the exchange system has been periodically modified and the restrictions have been progressively intensified, although the advance deposit on the opening of letters of credit, which gave rise to a multiple currency practice, has been abolished. The following measures constitute practices subject to Fund approval under Article VIII: (a) exchange restrictions arising from (i) the existence of external payments arrears, (ii) the use of payments documentation in the import licensing and foreign exchange budgeting procedures, (iii) the maintenance of limits on access to foreign exchange for travel and for the remittance of expatriates' income, (iv) the suspension of foreign exchange allowances for business travel and certain education 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; and (b) a multiple currency practice resulting from the broken cross-rates which emerged periodically from the official quotations of the naira. The Nigerian authorities have stated that the payments arrears are 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 present thrust of the authorities' external policies and adjustment strategy suggests that the exchange system is likely to remain severely restrictive and could possibly be further intensified, which would be inconsistent with Nigeria's needs for a viable adjustment. 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 or the multiple currency practice at this time.

The staff would urge the authorities to avoid the re-emergence of broken cross-rates and other measures that give rise to multiple currency practices, and to undertake a comprehensive adjustment that would permit them to phase out progressively the system of exchange restrictions and complex controls.

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 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 Polices).

2. Nigeria continues to maintain several restrictions on payments and transfers for current international transactions, as described in SM/85/ . Since the last Article IV consultation Nigeria has increased the restrictiveness of its exchange system, although it no longer maintains a non-interest 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 also urges the authorities to avoid broken cross-rates, which gives rise to a multiple currency practice.

I. Nigeria - Fund Relations
(As of April 30, 1985)

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 0.005 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 7.51 million
Holdings as percent of net cumulative allocation	4.8 percent
V. Administered Accounts	None
VI. Overdue Obligations to the Fund	None
VII. Country has not used Fund resources to date	

B. Non Financial 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 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 November 23, 1984 was US$1.2503 per ₦ 1. The exchange rates quoted by Nigeria for the pound sterling often result in broken cross rates.

IX. Consultation with the Fund

The last Article IV consultation discussions were held in Lagos in June and September 1983, and were concluded by the Executive Board on February 13, 1984. Nigeria was included in 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, in concluding the 1983 Article XIV consultation with Nigeria, in the light of the 1983 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/83/250 and SM/84/17 and Supplement 1. Since the last Article IV Consultation Nigeria has increased the restrictiveness of its exchange system and has accumulated payments arrears on imports. It also continues to maintain a non-interest-bearing advance deposit on the opening of letters of credit, which was introduced on April 21, 1982, giving rise to a multiple currency practice subject to Article VIII, Section 3. 1/ The Fund notes that this measure was introduced for balance of payments reasons and maintained temporarily for the purposes of monetary control; the Fund encourages the authorities to remove it, as well as the other restrictions, including the payments arrears, as soon as possible.

1/ On May 9, 1984 the compulsory advance import deposit scheme was abolished (EBS/84/152).

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.

II. World Bank Relations with Nigeria

As of September 30, 1984, the Bank had approved for Nigeria 52 loans and two IDA credits totaling US$2,514.4 million. Approximately 49 percent of these commitments has been for agricultural development, 38 percent for infrastructure, and the remaining 13 percent for education, industry, and other sectors. Total disbursements have amounted to US$1,338.5 million, and further substantital commitments are expected to be made during the period 1985-89, including a series of Structual Adjustment Loans (SAL) provided satisfactory steps are taken on major macroeconomic policy issues. The first such loan, SAL I (in an amount of US$300 million), was to have been disbursed in 12 months of loan after effectiveness to be amortized over 20 years including a 5-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 interface closely with 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.

At present, the Bank is concentrating on project lending with the major focus on projects in the water supply, health, and urban sectors. The scale of Bank lending in FY 1986 will depend on progress on macroeconomic and sectoral reforms.

During 1983-84 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 is taking place. Based on a detailed review, 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 within the overall "core" resource constraints. The highest priority is accorded to quick-yielding projects with the maximum positive impact on the balance of payments. Some of the large capital intensive projects currently under way are to be postponed. As a general principle, no new projects are being started except for those deemed to be of vital interest to the economy.

Nigeria - Statistical Issues

1. Quality of data

Nigeria's economic and financial statistics have serious difficiencies as to coverage and currentness, especially in the areas of the budgetary operations of the state governments and the financial situation of the nonfinancial public corporations. The national income statistics are also weak and require significant modifications and adjustments to make them broadly reflect underlying trends in the real economy. Relatively firm data on the federal government budget, especially revenues, are available but the recording is not systematic and is not usually in the format which lends itself readily to macroeconomic policy analysis. The exception is in the area of monetary statistics where the coverage is comprehensive, but reported to IFS with significant lags. Improved sectoral classification of IFS money and banking data was made possible as a result of a Fund technical assistance mission in 1982. The overall economic and financial data base was extended and improved during a Fund statistical mission in April 1983 especially in the area of external debt, but continued efforts are required to preserve the currentness of the data. To this end, further technical assistance may be necessary. The authorities are keenly aware of the relatively poor state of economic statistics in Nigeria and are presently in the process of strengthening the Government Statistical Office.

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

		Latest Data in February 1985 IFS
Real sector		
	- National accounts	1982
	- Prices	1984
	- Production: Industrial	Q4 1983
	Crude petroleum	Oct. 1984
	- Employment	n.a.
	- Earnings	n.a.
Government finance	- Deficit/surplus	1978
	- Financing	n.a.
	- Debt: Domestic	1982
	Foreign	1979
Monetary accounts	- Monetary authorities	July 1984
	- Deposit money banks	July 1984
	- Other financial institutions	June 1984
External sector	- Merchandise trade: Values (exports)	Oct. 1984
	Values (imports)	Q2 1982
	Prices (cacao exports)	Q1 1983
	Prices (crude petroleum exports)	Oct. 1984
	- Balance of payments	Q4 1983
	- International reserves	Oct. 1984
	- Exchange rates	Dec. 1984

NIGERIA - Basic Data

Area, population, and GDP per capita

Area	923,800 square kilometers
Population	
Total (1982 estimate)	89.2 million 1/
Growth rate	2.5 percent
GDP per capita (1982)	SDR 740

Gross domestic product and expenditure	1980	1981	1982	1983	1984 2/
	(In millions of naira)				
GDP at 1977/78 factor cost 3/	30,235.0	29,433.2	28,881.8	27,040.6	26,890.1
Petroleum	6,748.2	4,613.1	4,071.7	3,966.2	4,304.7
Other sectors	23,486.8	24,830.1	24,810.1	23,074.4	22,585.4
Of which: agriculture, animal husbandry, fishing, and forestry	(6,071.0)	(5,720.7)	(6,495.6)	(6,155.0)	(6,272.2)
manufacturing	(2,244.8)	(2,458.3)	(2,526.5)	(2,216.7)	(2,172.4)
construction and housing	(4,147.5)	(4,310.0)	(3,795.3)	(3,383.0)	(3,279.3)
wholesale and retail trade	(6,432.1)	(6,831.6)	(6,236.5)	(5,956.8)	(5,599.4)
government services	(1,687.5)	(2,150.8)	(2,280.4)	(2,143.0)	(2,046.6)
GDP in current market prices	48,257.2	53,437.0	56,367.3	60,580.5	76,410.1
Gross domestic expenditure in current market prices	44,922.9	56,396.5	60,675.1	63,036.1	76,102.2
Consumption	33,357.1	42,404.8	49,354.7	53,719.5	68,432.3
Investment	11,565.8	13,991.7	11,320.4	9,316.6	7,669.9
External resource surplus or gap (-) in current market prices	3,334.3	-2,959.5	-4,307.8	-2,455.6	307.9
	(In percent of GDP)				
Consumption	69.1	79.3	87.6	88.7	89.6
Investment	24.0	26.2	20.1	15.4	10.0
External resource surplus or gap (-)	6.9	-5.5	-7.6	-4.1	0.4

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

2/ Provisional estimates.

	1980	1981	1982	1983	1984
		Estimates			Prel.
Budgetary operations of the Federal Government		(In millions of naira)			
Total revenue	15,154	13,032	13,021	11,512	12,511
Of which: petroleum receipts 1/	12,354	10,010	8,533	7,161	9,351
Statutory transfers to the state and local governments	3,095	4,975	4,782	4,029	4,944
Federally retained revenue	12,059	8,057	8,239	7,483	7,567
Current expenditure 2/	5,229	4,907	4,866	8,385	8,562
Capital expenditure and net lending 1/	6,973	7,884	7,897	5,748	2,989
Overall deficit (-)	-143	-4,734	-4,524	-6,650	-3,984
Adjustments to cash basis 3/	--	-449	161	55	674
Financing	143	5,183	4,363	6,595	3,310
Foreign (net)	255	500	264	174	-95
Domestic	-112	4,683	4,099	6,421	3,405
Banking system	125	3,526	3,803	5,063	3,105
Other	-237	1,157	296	1,358	300
Overall deficit in percent of GDP	-0.3	-8.9	-8.0	-11.0	-5.2

	1980	1981	1982	1983	1984 Oct.
Monetary survey		(In millions of naira; end of period)			
Foreign assets (net)	5,606.8	2,549.8	977.4	763.0	1,345.4
Domestic credit	8,842.3	15,017.3	20,759.4	26,841.5	28,547.5
Claims on Government (net)	1,824.7	5,828.3	10,059.4	15,234.4	16,976.0
Claims on private sector	7,017.6	9,189.0	10,700.0	11,607.1	11,571.5
Money	7,747.3	8,983.6	9,669.0	10,701.6	11,039.6
Quasi-money	4,777.4	5,499.7	6,352.0	7,556.3	8,614.6
Other deposits	95.8	83.0	2,020.8	3,684.2	3,460.6
Medium-term foreign liabilities	--	--	--	1,688.1	1,284.8
Other items	1,828.6	3,000.8	3,695.0	3,974.3	5,493.4
Money and quasi-money (annual percent change)	43.4	15.1	15.5	19.0	15.9

1/ 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, and ₦ 816 million in 1984.

2/ Includes imputed off-budget interest charges.

3/ Includes residual. Figure for 1984 includes financing for ₦ 697 million off-budget interest payments.

	1980	1981	1982	1983	1984
Consumer price indices 1/					
Rural	9.7	20.8	7.7	23.7	44.3
Urban	11.4	20.9	7.5	20.0	48.8
Composite	10.0	20.8	7.7	23.2	44.8
			(In millions of SDRs)		
Balance of payments					
Current account	3,312	-5,126	-7,010	-4,445	-1,162
Petroleum exports	19,171	14,563	11,573	9,488	10,994
Other exports	779	463	162	355	421
Imports	-11,326	-15,596	-15,384	-11,441	-9,991
Services and income	-2,364	-2,806	-2,029	-2,092	-2,056
Other goods, services, and income	-2,505	-1,267	-944	-511	-395
Transfers	-433	-481	-389	-243	-135
Capital account	35	1,175	1,676	717	1,442
Direct investment	-586	140	390	341	747
Other capital (short) 2/	103	347	600	-233	67
Other capital (long)	500	688	686	609	627
Official	(464)	(663)	(663)	(587)	(593)
Other	(36)	(25)	(23)	(22)	(34)
Net errors and omissions 3/	146	-1,307	-479	-717	-568
Total	3,493	-5,258	-5,813	-4,445	-288
Reserve movements (increase in assets -)	-3,493	5,258	2,144	491	-81
Accumulation of import payments arrears	--	--	3,669	1,770	848
Rescheduling and other financing	--	--	--	2,184	-479
					1984 Oct.
		(In millions of SDRs; end of period)			
Gross official foreign reserves					
Foreign exchange and gold	7,579	3,126	1,713	1,239	1,509
SDR holdings	133	239	40	26	14
IMF reserve position 4/	371	446	--	--	--
Government	14	13	23	21	21
Total	8,097	3,824	1,776	1,286	1,544

1/ 1984 data is for 12-month period ended August.
2/ Includes trade credits related to petroleum exports.
3/ Including valuation gains (losses -) of SDR 136 million in 1980, -SDR 1,080 million in 1981, -SDR 180 million in 1982, -SDR 128 million in 1983, and -SDR 71 million in 1984.
4/ Includes lending to the Fund's oil facility and SFF lending.

	1980	1981	1982	1983	1984 Oct.
	(Annual percentage change)				
Exchange rate movements					
U.S. dollar/naira	10.3	-11.0	-8.8	-6.9	-5.3
Pound sterling/naira 1/	1.0	1.5	6.0	7.2	7.8
Import-weighted naira (basket/₦)	7.9	-1.5	-0.1	-0.7	2.8
Real import-weighted index (basket/₦) 2/	6.8	8.4	0.5	14.2	43.7

1/ Assumes no broken cross-rates.
2/ Provisional estimate.