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DEVELOPMENTS IN THE EXTERNAL SECTOR DURING THE SECOND QUARTER OF 1990

The pressure on the external sector persisted during the second quarter of 1990. Although aggregate foreign exchange outflow from the economy fell by 18.7 per cent in the second quarter from the level in the first quarter of 1990, the decline in foreign exchange inflow was even more dramatic (21.7 per cent). Consequently, net inflow of foreign exchange to the economy declined from $687.1 million in the first quarter to $466.9 million in the second quarter of 1990. However, the net inflow in the second quarter of 1990 was 23.2 per cent higher than the figure of $1,933.3 million recorded for the corresponding quarter of the preceding year. The slowdown in the rate of external assets build-up in the second quarter vis-a-vis the first quarter of 1990 reflected movements in official holdings as well as net outflow arising from private sector transactions.

The stock of external reserves held by the Central Bank stood at $2,930.3 million in June, 1990 indicating an increase of $475.4 million or 19.4 per cent over the level at the end of the first quarter. Reserves at the end of the review period could finance 5.6 months of imports compared with 3.7 and 2.0 months at the end of the first quarter of 1990 and the second quarter of the preceding year, respectively. However, the improvement in import financing capacity in the second quarter appeared to be more apparent than real given the severe reduction in FEM funding which followed the decline in foreign exchange earnings as well as the deferment of some external debt obligations falling due during the quarter. Although the naira exchange rate in the official market was relatively stable, the sharper depreciation of the parallel market rate pushed the parallel market premium from 15.9 per cent in April to 18.8 per cent in June, 1990.

Aggregate foreign exchange receipts by the economy during the second quarter of 1990 amounted to $2,381.1 million, representing a decline of 21.7 per cent from the level of $3,042.0 million in the preceding quarter but an excess of 22.3 per cent compared with the proportional budget of $1,947.2 million for the period. The decline in the level of receipts during the review quarter vis-a-vis the preceding quarter was attributed to the decline in oil and non-oil receipts through the Central Bank as well as autonomous inflow. Oil receipt during the period, declined by 14.3 per cent from $2121.6 million to $1,819.1 million due to the fall in oil export price from an average of $18.9 to $16.56 per barrel. On the other hand, non-oil receipts declined by 39 per cent from $920.6 million to $562.0 million due to developments in both official non- oil inflow to the Central Bank and autonomous receipts by the authorised dealers. While non-oil inflow through the Central Bank declined by 61.3 per cent from $553.0 million to $213.9 million due to the decline in official drawings on loans and invisible receipts, non-oil inflow through the authorised dealers went down marginally by 5.3 per cent during the review period.

Foreign Exchange Outflow

Cumulative foreign exchange outflow from the economy during the second quarter of 1990 totalled $1,914.2 million, representing a decline of 18.7 per cent from the level of $2,354.9 million in the preceding quarter but 2.2 per cent less than the proportional budget of $1,872.2 million for the period. The decline in the level of outpayments in the second quarter of 1990 vis-a-vis the preceding quarter was attributed to the decline in the major items of disbursement. The most significant downward movements were recorded by visible trade and debt service payments. Disbursement for visible trade which totalled $531.1 million, declined by 26.4 per cent from the level of $721.7 million recorded during the first quarter of 1990. This development was attributed to the decline in the funding of the foreign exchange market by 24.4 per cent from $698.3 million to $527.8 million and the 6.6 per cent reduction in drawings on public sector letters of credit from $58.6 million to $54.7 million during the reference period. Also, debt service payments declined by 23.6 per cent from the level of $1,011.5 million in the preceding quarter. The decline in debt service payments was attributed to the 36.2 per cent decline in interest payments. The reduction in interest payments followed the decision of the authorities to apply an interest rate of 3 per cent to some obligations falling due having regard to what the economy can pay and in anticipation of more generous rescheduling terms from the London Club. However, debt service payments exceeded proportional budget limit of $528.5 million by 31.6 per or $244.4 million and consumed an equivalent of 32.5 per cent of total receipts during the period. As a result of these developments, the specific budget limit and the policy restraint on debt service payments were not adhered to. Autonomous transactions resulted in a net outflow as a result of more substantial decline in receipts (5.3 per cent) than in payments (5.2 per cent).

Sectoral Allocation of Foreign Exchange

Cumulative foreign exchange allocation by both the Central Bank and authorised dealers during the second quarter of 1990 amounted to $768.0 million, down by 15.8 per cent from the level of $912.4 million in the preceding quarter but up by 4.2 per cent from the level of $737.1 million in the corresponding quarter of 1989. The decline during the second quarter of 1990 vis-a-vis the preceding quarter was attributed to both visible and invisible imports. While visible imports received a reduction of 14.3 per cent in allocation, invisible imports had a 27.6 per cent fall. Under visible imports category, the most significant decline was recorded by raw materials, whose proportional share of allocations declined by 3.1 percentage points. Also, its specific allocation went down by 22.6 per cent or $80.8 million from the level in the preceding quarter. The combined effect of the increases in allocation to the agricultural sector, food and other vehicles imports which amounted to only $20.5 million was not strong enough to reverse the overwhelming downward movement in raw materials imports.

A disaggregation of allocations into the major categories showed that the bulk, about 90.2 per cent, was in respect of imports. The share of this item increased by 1.6 percentage points from 88.6 per cent in the preceding quarter. The increases which was achieved despite the decline in the share of the industrial sector as a result of the fall in the share of raw materials was attributed to the respective increases of 1.8 and 1.9 percentage points in the shares of total allocations going to agricultural sector and finished goods. The increase in the share of the agricultural sector was due to the absolute increase of 70.4 per cent in allocation to this item at a time when there was a decline in overall allocations. The rise in the share there was a decline in overall allocations. The rise in the share of finished goods was caused mainly by the overall decline in allocations.

A remarkable development in foreign exchange allocations to imports was the decline in the combined share of raw materials and machinery and spare parts from 73.6 per cent in the first quarter of 1990 to 70.0 per cent in the second quarter and the corresponding gain of 2.0 and 1.7 per cent by the agricultural and finished goods, respectively. During the review quarter of 1990, food and motor vehicle imports went up by 25.0 and 14.1 per cent, respectively. Allocation to the finished goods sector, declined as a result of the 17.4 per cent decline in allocation to general merchandise imports.

Allocation to all items of invisible imports declined except education, re-insurance and aircraft lease and maintenance fees.

External Assets

Nigeria's external assets amounted to $4,201.0 million at the end of June, 1990, representing increases of 13.1 and 90.3 per cent compared with the levels in the preceding quarter and the corresponding quarter of 1989, respectively. Although merchant banks holdings went up by 5.3 per cent at the end of June 1990 when compared with the level at the end of the preceding quarter, the more over-whelming 19.4 per cent increase in Central Bank's holding from $2454.9 million to $2,930.3 million was mainly responsible for the upward movement in total externl reserves during the period under reference. Also, the increase in Central Bank's holdings at the end of June 1990 pushed its share of total assets from 66.1 per cent in March to 69.7 per cent at the end of June. The remarkable improvement in Central Bank's reserves holding was caused by increased oil receipts, the reduction in allocation of foreign exchange to the foreign exchange market and the decline in drawings on public sector's letters of credit. On the other hand, the corresponding slump in the holdings of the licensed banks was due to the net outflow recorded for autonomous foreign exchange transactions during the reference period.

Exchange Rate

The pressure on the Naira exchange rate continued in the second quarter of 1990. Although the official exchange rate remained stable on the average at $1.00 N = 7.9400 in April and May, it deprecitated by 0.03 per cent from the level in May to $1.00 = N7.9424 in June 1990. Also, the Naira exchange rate depreciated by 0.5 per cent during the second quarter of 1990 from a monthly average of $1.00 = N7.9006 in the first quarter to $1.00 = N7.9408. On the other hand, the parallel market exchange rate appreciated on the same average basis by 0.8 per cent during the period from $1.00 = N9.3700 to $1.00 = N9.3000. As a result of the movement in the parallel market exchange rate, the monthly average arbitrage premium on official foreign exchange narrowed from N1.47 to the dollar to N1.36 per US $ during the reference period. The depreciation in the official exchange rate was caused by the decline in the funding of the official foreign exchange market from $698.3 million in the first quarter of 1990 to $527.8 million in the second quarter. On the other hand, the parallel market exchange rate appreciated. On a month to month basis however, the naira exchange rate depreciated in both the official and the parallel market. While the official rate depreciated marginally by 0.03 per cent from N7.9400 to the dollar in April to N7.9424 in June, the parallel market rate lost more ground (2.5 per cent) in the same period from N9.2000 to the dollar to N9.4400. Consqeuently, the parallel market pemium rose from 15.9 per cent in April to 18.8 per cent in June 1990.

External Debt Management

Although debt service payments declined by 23.6 per cent in the second quarter of 1990 from the level of $1,011.5 million in the first quarter, indications were that the debt situation remained precarious. This development was underscored by the huge share of debt service in total payments (40.4 per cent) and in total receipts (32.5 per cent) as well as the overshooting of the budget provisions. To ameliorate the situation, the authorities engaged in series of negotiations during the quarter with the London Club of creditors. The proposals made by Nigeria included the rescheduling of her debts with the London Club over a period of 30 years with a grace period of 10 years, interest payment of 3 per cent, debt forgiveness and non-capitalisation of arrears on interest payments. While the negotiations went on, Nigeria limited interest payment to what is considered adequate given the state of foreign exchange resources and having regard to the intention to convince the London Club to accept an interest payment of 3 per cent.

The debt conversion programme was applied during the second quarter of 1990 to reduce further the stock of Nigeria's external debt. Debts on promissory notes worth $57.24 million were converted during the quarter against the value of $56.10 million during the preceding quarter.

The preceeds from the converted debt were invested as follows: $15.03 million in Hotel and Tourism and $42.21 million in manufacturing, agriculture and other real investments. These compared with the respective data of $10.00 million and $46.10 million recorded in the preceding quarter. The conversions in the second quarter of 199J brought the cumulative value of promissory notes so converted since the conversion exercise started to $401.6 million.

TABLE 1

FOREIGN EXCHANGE FLOWS THROUGH THE CENTRAL BANK OF NIGERIA
($' million)

CATEGORY	SECOND QUARTER APR.-JUNE 1989 (1)	FIRST QUARTER JAN-MAR 1990 (2)	SECOND QUARTER[1] APR-JUNE 1990 (3)	PERCENTAGE CHANGE BETWEEN	
				(1) & (3)	(2) & (3)
INFLOW	1,591.2	2,674.6	2,033.0	+27.8	-24.0
OUTFLOW	1,550.0	1,978.8	1,557.6	+0.5	-21.3
NETFLOW	+41.2	+695.8	+475.4	+1,053.9	-31.7

[1] Provisional

TABLE 2

FOREIGN EXCHANGE FLOWS THROUGH THE CENTRAL BANK AND OTHER BANKS
($' million)

CATEGORY	SECOND QUARTER APR-JUNE 1989 (1)	FIRST QUARTER JAN-MAR 1990 (2)	APRIL 1990 (3)	MAY 1990 (4)	JUNI 199((5)	SECOND QUARTER APR-JUNE 1990[1] (6)	PERCENTAGE CHANGE BETWEEN (1) & (6) (7)	(2) & (6) (8)
INFLOW	1,933.3	3.042.0	756.1	857.9	767.1	2,381.1	+23.2	-21.7
Oil	1,431.1	2.121.6	550.8	637.6	630.7	1,819.1	+27.1	-14.3
Non- Oil	502.2	920.6	205.3	220.3	136.4	562.0	+11.9	- 39.0
(i) C.B.N.	(160.1)	(553.0)	(107.4)	(88.2)	(18.2)	(348.1)	+33.6	-61.3
(ii) Other Banks	(342.1)	(367.4)	(97.9)	(132.0)	(118.2)	(348.1)	+1.8	-5.3
OUTFLOW	1,754,0	2,354.9	733.4	634.7	546.1	1,914.2	+9.1	-18.7
(1) Visible	586.4	721.7	167.0	174.8	189.3	531.1	- 9.4	-26.4
(2) Invisible	963.6	1,257.1	463.9	322.4	240.2	1,026.5	+6.5	-18.3
A. Debt Service	490.5	1.011.5	425.6	184.2	163.1	772.9	+57.6	-23.6
(i) Loan Repayment	(251.1)	(309.2)	(93.6)	(79.6)	(152.0)	(325.2)	+29.5	+5.2
(ii) Interest Payment	(239.4)	(702.3)	(332.0)	104.6)	(11.1)	(447.7)	+87.0	-36.2
B. Others	473.1	245.6	38.3	138.2	77.1	253.6	- 46.4	+3.3
(3) Autonomous								
Outflow	204.0	376.1	102.5	137.5	116.6	358.6	+ 74.8	-5.2
NETFLOW	+179.3	+687.1	+22.7	+223.2	+221.0	+466.9	+160.4	-32.0

[1] Provisional

TABLE 3

SECTORAL ALLOCATION OF FOREIGN EXCHANGE
($' million)

SECTOR	SECOND QUARTER APR-JUNE 1989 (1)	FIRST QUARTER JAN-MAR 1990 (2)	SECOND QUARTER APR-JUNE 1990 (3)	PERCENTAGE CHANGE BETWEEN (1) & (3) (4)	(2) & (3) (5)	1 AS PERCENT OF TOTAL (6)	2 AS PERCENT OF TOTAL (7)	3 AS PERCENT OF TOTAL (8)
A. IMPORTS	660.3	808.0	692.4	+4.9	- 14.3	89.6	88.6	90.2
(1) Industrial Sector	495.9	594.8	485.0	-2.2	- 18.5	67.3	65.2	63.2
(i) Raw Materials	302.2	357.7	276.9	-8.4	- 22.6	41.0	39.2	36.1
(ii) Machinery. Spare parts & CKD	193.7	237.1	208.1	+7.4	-12.2	26.3	26.0	27.1
(2) Agricultural Sector	23.1	16.2	27.6	+19.5	+70.4	3.1	1.8	3.6
(3) Finished Goods	141.2	194.8	178.7	+26.6	- 8.3	19.2	21.3	23.2
(i) Food	30.8	34.0	40.8	+32.5	+20.0	4.2	3.7	5.3
(ii) Motor Vehicles	5.6	16.3	18.6	+232.1	+14.1	0.8	1.8	2.4
(iii) General Merchandise	104.8	144.5	119.3	+13.8	- 17.4	14.2	15.8	15.5
(4) Capital Goods	0.1	2.2	1.1	+1,000.0	- 50.0	–	0.2	0.2
B. INVISIBLES	76.8	104.4	75.6	-1.6	- 27.6	10.4	11.4	9.8
(i) Education	4.4	2.2	2.4	-45.5	+ 9.1	0.6	0.2	0.3
(ii) Personal Home Remittance	2.3	2.9	1.8	-21.7	- 37.9	0.3	0.3	0.2
(iii) Airline Remittances	14.1	33.9	26.0	+84.4	- 23.3	1.9	3.7	3.4
(iv) Travels (B.T.A. Business Allowance)	6.8	8.9	7.4	+8.8	- 16.9	0.9	1.0	1.0
(v) Re-Insurance	7.9	4.1	4.7	- 40.5	+14.6	1.1	0.4	0.6
(vi) Contract Service Fees	7.7	20.6	14.2	+84.4	- 31.1	1.0	2.3	1.9
(vii) Aircraft lease maintenance fee	1.5	1.8	3.9	+160.0	+116.7	0.2	0.2	0.5
(viii) Shipping Vessels and maintenance	0.5	0.5	0.1	-80.0	-80.0	0.1	0.1	–
(ix) Investment Income – profit and dividends	5.2	15.4	5.3	+1.9	-65.6	0.7	1.7	0.7
(x) Repatriation of Capt.	0.1	2.4	0.3	+200.0	- 87.5	–	0.3	–
(xi) Others	26.3	11.7	9.5	-63.9	- 18.8	3.6	1.2	1.2
Total (A + B)	737.1	912.4	768.0	+4.2	- 15.8	100.0	100.0	100.0

TABLE 4

NIGERIA'S EXTERNAL ASSETS
($' MILLION)

HOLDER	JUNE 1989 (1)	MARCH 1990 (2)	JUNE 1990 (3)	PERCENTAGE CHANGE BETWEEN (1) & (3) (4)	(2) & (3) (5)
1. OFFICIAL	1,085.8	2,457.3	2,933.0	+170.1	+11.4
(i) Central Bank	1,083.2	2,454.9	2,930.3	+170.5	+19.4
(ii) Federal Government	2.3	2.1	2.1	-8.7	—
(iii) State Governments	0.3	0.3	0.3	—	—
2. Semi-Official Institutions	0.3	0.3	0.3	—	—
3. Commercial Bank (Net)	696.9	814.9	802.3	+15.1	-1.5
4. Merchant Bank (Net)	424.9	442.0	465.4	+9.5	+5.3
Total	2,207.9	3,714.5	4,201.0	+90.3	+13.1