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DEVELOPMENTS IN NIGERIA'S EXTERNAL SECTOR DURING THE THIRD QUARTER OF 1986

Nigeria's external transactions during the third quarter of 1986 resulted in a net inflow of ₦466.9 million in contrast with the net outflows of ₦25 million at the end of the preceding quarter and ₦247.1 million during the third quarter of 1985 (See Table 1). The apparent turn-around, did not, however, reflect any real improvement in the country's tight foreign exchange situation. In fact, outstanding arrears on current transactions at the end of the quarter showed an increase over the level at the end of the second quarter. The net inflow figure therefore was largely the result of administrative measures aimed at limiting outflows to a certain desired level. Also Nigeria was able to secure an extension to the moratorium on debt repayment which was agreed to by the country's creditors with effect from April 1, 1986 for an initial period of 90 days.

The addition of ₦466.9 million, brought the country's external reserves to ₦2,023.4 million, up 30.0 per cent from the June-end level of ₦1,556.5 million. The country's reserves totalled ₦801.3 million at the end of September 1985. However, the relatively high reserve level at the end of the quarter has to be put in proper perspective. Part of the nominal increase in Naira terms merely reflects the substantial depreciation of the exchange rate. Furthermore, the outstanding level still falls short of the amount required to finance imports for four months at the prevailing level – the benchmark adequacy level. In fact, the September – end level of reserves represented only 62.5 per cent of outstanding commitments on account of current transactions accumulated since January of 1984. These accumulated arrears stood at ₦3,238.4 million at the end of September and consisted of ₦1,925.6 million on private sector imports, ₦533.3 million on public sector letters of credit, ₦491.3 million debt service and ₦288.2 million on various services.

Foreign Exchange Inflow:

Total foreign exchange inflow during the quarter under review amounted to ₦1,766.0 million, up 13.3 per cent from the preceding quarter but down 18.7 per cent compared with the corresponding quarter of 1985. While oil export receipts rose by 15.7 per cent above the 1985 third quarter level, non-oil export receipts dropped by 5.3, from ₦174.1 million in the third quarter of 1985 to ₦164.8 million in the quarter under review. Compared with the forecast receipts, (pro-rata basis) of ₦2,020.5 million and ₦375.0 million, from oil and non-oil sources respectively, the 1986 third quarter receipts from oil and non-oil showed shortfalls of 20.7 and 56.0 per cent respectively. Based on the budget forecasts therefore, oil earnings performed relatively better than non-oil export earnings.

On a cumulative basis, foreign exchange inflow in the period January to September of 1986 was significantly lower than in the corresponding period of last year. At ₦5,804.4 million, inflow in the first nine months of this year was 24.8 per cent below the ₦7,720.4 million recorded in the corresponding period of 1985. The inflow of ₦5,804.4 million was furthermore 19.2 per cent lower than the budget forecast of ₦7,186.5 million, on pro-rata basis.

Of the total export receipts during January to September, oil-sector receipts stood at ₦5,285.9 million, down by 25.2 per cent from ₦7,064.5 million attained in the corresponding period of 1985 and 26.4 per cent short of the forecast receipt of ₦7,186.5 million for the period.

The declines in oil-sector receipts are traceable to the continuing glut in world oil markets. However, despite the sharp decline, oil exports continue to account for the bulk of the country's foreign exchange receipts. Oil receipts accounted for 91.1 per cent of total receipts in the nine-months period, January to September 1986. Non-oil receipts showed no significant gains.

Foreign Exchange Disbursement:

Foreign exchange expenditure during the third quarter of this year was ₦2,299.1 million, representing declines of 18.0 per cent and 43.6 per cent compared with the levels of ₦1,583.5 million and ₦1,047.1 million in the preceding quarter and the corresponding quarter of last year, respectively. The level of disbursement was 45.8 per cent below the proportional budget of ₦2,395.5 million for the period. All major items of disbursement declined from their levels in the preceding quarter and the corresponding quarter of last year.

A breakdown of disbursement into major categories showed that payment for imports, at ₦661.3 million formed the bulk, accounting for 50.9 per cent of the total. Next in size was the expenditure on "other services", which at ₦349.7 million, comprised 26.9 per cent of the total. Debt service payments at ₦288.1 million accounted for 22.2 per cent of total disbursement and claimed 16.3 per cent of total foreign exchange receipts during the period. Hence, during the period under review, the ratio of debt service payments to foreign exchange receipts was considerably lower than the 30.0 per cent ceiling placed on this item in the 1986 budget.

Aggregate foreign exchange disbursement during the first nine months of the year amounted to ₦5,438.2 million, down by 32.3 per cent compared with the level of ₦8,032.7 million recorded during the corresponding period of last year. A disaggregation of total disbursement over the nine-months period showed that visible imports, at ₦2,186.0 million accounted for 40.2 per cent of the total while Debt service payments at ₦2,011.4 million, accounted for 37.0 per cent. The latter absorbed 34.7 per cent of total foreign exchange receipts for the period and thus exceeded the 30.0 per cent ceiling placed on debt servicing. The debt service ratio could have been much higher but for the moratorium on principal repayment granted Nigeria by the London Club of Creditors beginning April 1, 1986.

Refinancing of Trade Debt:

The refinancing of outstanding trade debt continued during the third quarter of this year. In pursuance of this, a batch of promissory notes valued at ₦10.2 million was issued to uninsured creditors on September 15, 1986, bringing the value of promissory notes issued to date to ₦1,127.4 million. For the insured creditors, claims worth ₦4.2 million were accepted, bringing the total to ₦350.1 million. The acceptance of the claims for the insured creditors is conditional on reaching agreement with the International Monetary Fund (IMF) on the Fund's stabilisation programme and the Fund's perception of Nigeria's ability to implement the necessary structural adjustment programme. The reconciliation and verification of outstanding claims continued during the review period.

Exchange Rate:

The exchange rate of the naira vis-a-vis the U.S. dollar which stood at ₦1.00 = \$0.8423 at the end of June, depreciated by 25.8 per cent during the third quarter to the level of ₦1.00 = U.S.\$0.6246. The Naira/pound rate depreciated by 20.9 per cent, dropping from ₦1.00 = £0.5498 to ₦1.00 = £0.4347 during the review period.

On September 26, the first weekly bidding under the Second-Tier Foreign Exchange Market (SFEM) took place. The effective Naira/Dollar rate that emerged from the day's

transaction was ₦4.6405 = \$1.00 (₦1.00 = \$0.2155). Compared with the first-tier rate of ₦1.6010 = \$1.00 (₦1.00 = \$0.06246), this represented an appreciation of the dollar by 189.9 per cent (and a depreciation of the naira by 65.5 per cent). Similarly, the Naira/pound sterling rate move to ₦6.6260 = £1.00 (₦1.00 = \$0.1509). This marked an appreciation of 188.0 per cent by sterling but a depreciation of 65.3 per cent. of the naira, compared with the first-tier rate of ₦2.3004 = £1.00 (₦1.00 = £0.4347) on the same date. Subsequent biddings on the SFEM were expected to facilitate the evolution of a realistic rate of exchange for the Naira.

Table 1

FOREIGN EXCHANGE RECEIPTS AND DISBURSEMENTS BY SECTORS
(₦ million)¹

	1985				1986				Percentage change between	
	First Quarter (1)	Second Quarter (2)	Third Quarter (3)	Jan-Sep (4)	First Quarter (5)	Second Quarter (6)	Third Quarter (7)	Jan-Sep (8)	(3) & (7) (9)	(6) & (7) (10)
Inflow	2,688.8	2,860.1	2,171.5	7,720.4	2,479.9	1,558.5	1,766.0	5,804.4	-18.7	+13.3
Oil	2,525.8	2,698.2	1,840.5	7,064.5	2,300.3	1,384.4	1,601.2	5,285.9	-13.0	+15.7
Non-oil	163.0	161.9	331.0	655.9	179.6	174.1	164.8	518.5	-50.2	-5.3
(i) Commodity	(84.5)	(50.0)	(91.1)	(225.6)	(80.1)	(60.9)	(50.8)	(191.8)	-44.2	-16.6
(a) Palm Produce	1.9	1.3	4.5	5.7	3.3	2.9	3.0	9.2	-33.3	+3.4
(b) Cocoa	55.8	43.5	83.2	203.5	71.5	55.5	39.8	166.8	-52.2	-28.3
(c) Rubber	5.1	4.3	5.4	15.5	4.8	2.5	7.5	14.8	+38.9	+200.0
(d) Others	—	0.9	—	0.9	0.5	—	0.5	1.0	—	—
(ii) Capital	(15.6)	(22.0)	(151.8)	(169.4)	(5.2)	(8.8)	(7.6)	(21.6)	-95.0	-13.6
(iii) Services	(62.9)	(89.9)	(108.1)	(260.9)	(94.3)	(104.4)	(106.4)	(305.1)	-1.6	+1.9
Outflow	2,588.9	3,025.2	2,418.6	8,032.7	2,556.3	1,583.5	1,299.1	5,438.7	-46.3	-18.0
(i) Visible	1,213.7	1,508.6	1,047.1	3,769.4	888.0	636.7	661.3	2,186.0	-36.8	+3.9
(ii) Invisible	1,375.2	1,516.6	1,371.5	4,263.3	1,668.3	946.8	637.1	3,252.2	-53.5	-32.7
(a) Debt Service	994.7	899.9	990.5	2,885.1	1,056.0	667.3	288.1	2,011.4	-70.9	-56.8
(i) Loan Repayment ...	(714.5)	(669.2)	(696.1)	(2,079.8)	(759.0)	(495.4)	(82.0)	(1,336.4)	-88.2	-83.4
(ii) Interest Payment ...	(280.2)	(230.7)	(294.4)	(805.3)	(297.0)	(171.9)	(206.1)	(675.0)	-30.0	+19.9
(b) Others	380.5	616.7	381.0	1,378.2	612.3	279.5	349.7	1,240.8	-8.2	+25.1
Netflow	+99.9	-165.1	-247.1	-312.3	-76.4	-25.0	+466.9	+365.5	+288.9	+1,967.6

¹ Provisional.

Table 2

FOREIGN EXCHANGE FLOWS THROUGH THE CENTRAL BANK OF NIGERIA (JAN-SEPT 1986)
(₦ million)¹

Item	Jan-March	April-June	July	August	September	July-Sept	Jan-Sept
Inflow	2,479.9	1,558.5	582.7	425.4	757.9	1,766.0	5,804.4
Oil	2,300.3	1,384.4	520.4	380.6	700.2	1,601.2	5,285.9
Non-oil	179.6	174.1	62.3	44.8	57.7	164.8	518.5
(i) Commodity	(80.1)	(60.9)	(31.3)	(14.5)	(5.0)	(50.8)	(191.8)
(a) Palm Produce	3.3	2.9	1.7	0.9	0.4	3.0	9.2
(b) Cocoa	71.5	55.5	26.9	9.5	3.4	39.8	166.8
(c) Rubber	4.8	2.5	2.2	4.1	1.2	7.5	14.8
(d) Others	0.5	—	0.5	—	—	0.5	1.0
(ii) Capital	(5.2)	(8.8)	(2.5)	(2.5)	(2.5)	(7.6)	(21.6)
(iii) Services	(94.3)	(104.4)	(28.5)	(27.8)	(50.1)	(106.4)	(305.1)
Outflow	2,556.3	1,583.5	592.4	304.1	402.6	1,299.1	5,438.9
(i) Visible	888.0	636.7	333.3	172.5	155.5	661.3	2,186.0
(ii) Invisible	1,668.3	946.8	259.1	131.6	247.1	637.8	3,252.9
(a) Debt Service	1,056.0	667.3	183.5	35.3	69.3	288.1	2,011.4
(i) Loan Repayment	(759.0)	(495.4)	(25.3)	(29.2)	(27.5)	(82.0)	(1,336.4)
(ii) Interest Payment	(297.0)	(171.9)	(158.2)	(6.1)	(41.8)	(206.1)	(675.0)
(b) Others	612.3	279.5	75.6	96.3	177.8	349.7	1,241.5
Netflow	-76.4	-25.0	-9.7	+121.3	+355.3	+466.9	+365.5

¹ Provisional.

NIGERIA'S EXTERNAL ASSETS
(₦ million)

Holdings	1985			1986	
	June	September	December	June	September ²
1. Official	1,031.6	801.3	1,657.9	1,556.5	2,023.4
(i) Central Bank ¹	(1,014.8)	784.5	(1,641.1)	(1,539.7)	(2,006.6)
(ii) Federal Government	(16.8)	(16.8)	(16.8)	(16.8)	(16.8)
2. Semi-Official Institutional and State Governments	5.7	5.7	5.7	5.7	5.7
3. Commercial Banks (Net)	338.6	126.6	153.2	50.7	100.0 ³
Total	1,375.9	933.6	1,816.8	1,612.9	2,129.1

¹ Excludes attached assets

² Provisional

³ Estimates.