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

Developments in Nigeria's external sector during the second quarter of 1986 continued to be a cause of concern. The foreign exchange position worsened compared with the preceding quarter's as the price of crude petroleum — Nigeria's major foreign exchange earner — fell farther in the world oil market. Faced with dwindling foreign exchange resources and increasing inability to meet current commitments, a formal approach was made to Nigeria's external creditors late in March to reschedule part of the long and medium term debt falling due for payment. Although no agreement was reached, the commercial banks grouped under the London Club granted Nigeria a 90-day moratorium on debt service with effect from April 1, 1986.

### 1. Foreign exchange flows:

Transactions in foreign exchange through the Central Bank of Nigeria resulted in a net outflow of ₦208.7 million in the second quarter of 1986 compared with the net outflows of ₦76.4 million and ₦165.1 million in the preceding quarter and second quarter of 1985, respectively (see table 1). As a result, external reserves declined by 13.2 per cent from ₦1,581.5 million in March 1986 to ₦1,372.8 million in June 1986. At the end of June 1985, the reserves stood at ₦1,031.6 million. The end-June 1986 level of reserves could finance only 67.2 per cent of total outstanding commitments on current transactions which amounted to ₦2,042.0 million at the end of the period. The breakdown showed that current trade arrears amounted to ₦1,102.7 million, with contingent liabilities on public sector letters of credit standing at ₦500.6 million. Arrears on debt service payments totalled ₦149.3 million while applications not yet checked, were valued at ₦289.4 million.

#### 1.1 Foreign exchange Inflow:

Total foreign exchange inflow during the second quarter of 1986 amounted to ₦1,558.5 million, representing declines of 37.2 per cent and 45.5 per cent from the levels in the preceding quarter and the corresponding quarter of last year, respectively. The foreign exchange inflow during the review period also represented a shortfall of 34.9 per cent from the proportional budget of ₦2,395.5 million for the period. The poor performance of foreign exchange earnings in the second quarter of 1986 was attributable to both the oil and non-oil sectors. Oil sector earnings, at ₦1,384.4 million, declined by 39.8 per cent below the ₦2,300.3 million earned in the preceding quarter while non-oil receipts declined by 3.1 per cent to ₦174.1 million during the same period. Actual oil sector earnings were lower than the budgeted earnings of ₦2,020.5 million by ₦636.1 million while non-oil earnings fell short of budget expectations by ₦200.9 million. If the trend continues in the remaining quarters of 1986, the projected foreign exchange earnings for 1986 (₦9,582.0 million) may not be realised.

The reasons for low export earnings were attributable to the continuing adverse developments in the world oil market, resulting in persistent decline in world oil prices and the low level of participation in the new export drive.

Aggregate inflow during the first six months of 1986 amounted to ₦4,038.4 million, down by 27.2 per cent or ₦1,510.5 million from the level in the comparable period of 1985. The decline was largely accounted for by the sharp drop of 29.5 per cent in the oil sector foreign exchange earnings from ₦5,224.0 million in the first half of 1985 to ₦3,684.7 million

during the review period. Even then, oil revenue still constituted 91.2 per cent of aggregate foreign exchange inflow during the period, as compared with a share of 94.1 per cent in the corresponding period of last year.

#### 1.2 Foreign exchange disbursement:

Total foreign exchange disbursement from April to June 1986 amounted to ₦1,767.2 million, representing declines of 30.9 per cent and 41.6 per cent from the respective levels of ₦2,556.3 million in the preceding quarter and ₦3,025.2 million during the same period of last year. Total disbursement during the review period of 1986 was also below the proportional budget of ₦2,395.5 million for the period by 26.2 per cent or ₦628.3 million. This was largely due to the administrative devices in place and the moratorium on debt service granted by the London Club. As already indicated, payments that fell due during the period but could not be made amounted to ₦2,042.0 million.

Disbursement in respect of merchandise imports, ₦830.2 million, was up by 0.7 per cent above the level in the first quarter of 1986 but down by 45.0 per cent below the level of ₦1,508.6 million in the comparable quarter of last year. All items of disbursement in the invisible trade account also declined compared with their respective levels in the preceding quarter and the corresponding quarter of last year. From April to June 1986, debt service payments amounted to ₦667.3 million declining by 36.8 per cent from the preceding quarter's level of ₦1,056.0 million. This was due to the 90-day Moratorium on external debt servicing extended to Nigeria by her Creditors beginning from April 1986. Even then, debt service payments still represented 42.8 per cent of total foreign exchange earnings in the review period as against the 30.0 per cent provided for in the 1986 budget estimate.

Cumulative foreign exchange outflow during the first six months of 1986 amounted to ₦4,323.5 million, representing a monthly average of ₦720.6 million. These compared with an aggregate level of ₦5,614.1 million and a monthly average of ₦935.7 million during the same period of 1985. In absolute terms, therefore, outflow declined by 23.0 per cent or ₦1,290.6 million during the review period from the level a year ago. Although all items of disbursement contributed to the decline, it was more pronounced in payments for visible imports which registered a decrease of 39.2 per cent from the level a year earlier to ₦1,654.5 million during the review period.

Overall, the movement of foreign exchange during the second quarter of 1986 indicated an overall balance of payments deficit of ₦208.7 million during the period. This showed a deterioration compared with estimated deficits of ₦76.4 million in the preceding quarter and ₦165.1 million in the corresponding period of last year, respectively.

The cumulative loss in reserves during the first six months of 1986 was ₦285.1 million as against a similar loss of ₦65.2 million in the comparable period of 1985.

### 2. Refinancing of trade debt:

Arrangements to refinance outstanding trade debt continued during the second quarter of 1986. As a result, a batch of promissory notes valued at ₦37.0 million was issued to the uninsured Creditors during the period. This brought the total value of promissory notes issued up to the end of June 1986 to ₦1,117.2 million. Also, claims worth ₦345.9 million were

accepted for the insured Creditors who continue to insist on a formal understanding between Nigeria and the International Monetary Fund (IMF) on the Fund's stabilisation programme before promissory notes issued in their favour could be taken up.

The reconsiliation and verification exercise of the outstanding claims by foreign exporters and the Nigerian importers continued during the review period.

### **3. Exchange rate:**

The exchange rate of the Naira vis-à-vis the US dollar which stood at ₦1.00 = \$0.9904 at the end of March 1986 depreciated further by 15.0 per cent during the second quarter, ending at ₦1.00 = \$0.8423 at the end of June 1986.

The Naira/Pound sterling exchange rate depreciated from ₦1.00 = £0.6630 at the end of March to ₦1.00 = £0.5498 at the

end of June. This represented a depreciation of 17.1 per cent during the review period.

Meanwhile, work continued during the review period on the preparation of the guidelines for the operation of the proposed second tier foreign exchange market (SFEM). As at present conceived, the exchange rate in SFEM would result from the market forces of supply and demand with no official intervention.

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Table 1

## FOREIGN EXCHANGE RECEIPTS AND DISBURSEMENTS BY SECTORS

(₦ Million)<sup>1</sup>

Item	First Quarter 1985 (1)	Second Quarter 1985 (2)	Jan.-June 1985 (3)	First Quarter 1986 (4)	Second Quarter 1986 (5)	Jan.-June 1986 (6)	Percentage change between	
							(2) & (5) (7)	(4) & (5) (8)
INFLOW .....	2,688.8	2,860.1	5,548.9	2,479.9	1,558.5	4,038.4	-45.5	-37.2
Oil .....	2,525.8	2,698.2	5,224.0	2,300.3	1,384.4	3,684.7	-48.7	-39.8
Non-Oil .....	163.0	161.9	324.9	179.6	174.1	353.7	+7.5	-3.1
(i) Commodity .....	(84.5)	(50.0)	(134.5)	(80.1)	(60.9)	(141.0)	+21.8	-24.0
(a) Palm Produce .....	1.9	1.3	1.2	3.3	2.9	6.2	+123.1	-12.1
(b) Cocoa .....	55.8	43.5	120.3	71.5	55.5	127.0	+27.6	-22.4
(c) Rubber .....	5.1	4.3	10.1	4.8	2.5	7.3	-41.9	-47.9
(d) Others .....	—	0.9	0.9	0.5	—	0.5	—	—
(ii) Capital .....	(15.6)	(22.0)	(17.6)	(5.2)	(8.8)	(14.0)	-60.0	+69.2
(iii) Services .....	(62.9)	(89.9)	(152.8)	(94.3)	(104.4)	(198.7)	+16.1	+10.7
OUTFLOW .....	2,588.9	3,025.2	5,614.1	2,556.3	1,767.2	4,323.5	-41.6	-30.9
(i) Visible .....	1,213.7	1,508.6	2,722.3	824.3	830.2	1,654.5	-45.0	+0.7
(ii) Invisible .....	1,375.2	1,516.6	2,891.8	1,732.0	937.0	2,669.0	-38.2	-45.9
(a) Loan repayment .....	(714.5)	(669.2)	(1,383.7)	(759.0)	(495.4)	(1,254.4)	-26.0	-34.7
(b) Interest Payment .....	(280.2)	(230.7)	(510.9)	(297.0)	(171.9)	(468.9)	-25.5	-42.1
(c) Others .....	(380.5)	(616.7)	(997.2)	(676.0)	(269.7)	(945.7)	-56.3	-60.1
NET FLOW .....	+99.9	-165.1	-65.2	-76.4	-208.7	-285.1	+26.4	+173.2

<sup>1</sup> Provisional

Table 2

## FOREIGN EXCHANGE FLOWS THROUGH THE CENTRAL BANK OF NIGERIA

(₦ Million)<sup>1</sup>

Item	Jan.-March 1986	April	May	June	April-June 1986	Jan.-June 1986
INFLOW .....	2,479.9	612.4	463.2	482.9	1,558.5	4,038.4
Oil .....	2,300.3	536.6	406.2	441.6	1,384.4	3,684.7
Non-Oil .....	179.6	75.8	57.0	41.3	174.1	353.7
(i) Commodity .....	(80.1)	(25.6)	(23.6)	(11.7)	(60.9)	(14.0)
(a) Palm Produce .....	3.3	0.9	1.6	0.4	2.9	6.2
(b) Cocoa .....	71.5	23.4	21.7	10.4	55.5	127.0
(c) Rubber .....	4.8	1.3	0.3	0.9	2.5	7.3
(d) Others .....	0.5	—	—	—	—	0.5
(ii) Capital .....	(5.2)	(3.1)	(2.2)	(3.5)	(8.8)	(14.0)
(iii) Services .....	(94.3)	(47.1)	(31.2)	(26.1)	(104.4)	(198.7)
OUTFLOW .....	2,556.3	726.3	556.1	484.8	1,767.2	4,323.5
(i) Visible .....	824.3	276.9	239.6	250.0	830.2	1,654.5
(ii) Invisible .....	1,732.0	449.4	316.5	234.8	937.0	2,669.0
(a) Loan Repayment .....	(759.0)	(200.5)	(113.5)	(181.4)	(495.4)	(1,254.4)
(b) Interest Payment .....	(297.0)	(110.8)	(29.3)	(31.8)	(171.9)	(468.9)
(c) Others .....	(676.0)	(138.1)	(173.7)	(21.6)	(269.7)	(945.7)
NET FLOW .....	-76.4	-113.9	-92.9	-1.9	-208.7	-285.1

<sup>1</sup> Provisional.

Table 3

## NIGERIA'S EXTERNAL ASSETS

(₦ Million)

	March 1985 (1)	June 1985 (2)	December 1985 (3)	March 1986 <sup>2</sup> (4)	June 1986 <sup>2</sup> (5)	Percentage change between		
						(2) & (5) (6)	(3) & (5) (7)	(4) & (5) (8)
1. Official Holding .....	1,196.7	1,031.6	1,657.9	1,581.5	1,372.8	+33.1	-17.2	-13.2
(i) Central Bank <sup>1</sup> .....	(1,179.9)	(1,014.8)	(1,641.1)	(1,564.7)	(1,356.0)	+33.6	-17.4	-13.3
(ii) Federal Government ...	(16.8)	(16.8)	(16.8)	(16.8)	(16.8)	—	—	—
2. Semi-Official Institutions and State Governments .....	5.7	5.7	5.7	5.7	5.7	—	—	—
3. Commercial Banks (Net) .....	239.7	338.6	153.2	29.6	30.0 <sup>3</sup>	-91.1	-80.4	+1.4
Total .....	1,442.1	1,375.9	1,816.8	1,616.8	1,408.5	+2.4	-22.5	-12.9

<sup>1</sup> Excludes attached assets.<sup>2</sup> Provisional.<sup>3</sup> Estimated.