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DEVELOPMENTS IN THE EXTERNAL SECTOR DURING THE SECOND QUARTER OF 1989

FOREIGN EXCHANGE FLOWS

The pressure on the external sector eased considerably in the second quarter of 1989 as foreign exchange flows into and out of the economy indicated a turn around from a net outflow of \$61.7 million in the second quarter of 1988 to a net inflow of \$245.0 million. The improvement was attributed to increased earnings by the oil sector due to the rise in crude oil prices and export volume, increased drawings on external loans, decline in debt service and reduced funding of the foreign exchange market. However, the position represented a deterioration when compared with the net inflow of \$530.8 million recorded in the first quarter of this year, principally because of the huge increase in disbursements.

Movement of foreign exchange through the Central Bank alone indicated a net inflow of \$41.2 million during the second quarter of this year, down from the net inflow of \$430.6 million in the preceding quarter but represented a significant improvement vis-a-vis the net outflow of \$209.3 million in the corresponding quarter of 1988. As a result of these developments, external reserves held by the Central Bank increased from \$869.5 million at the end of June 1988 to \$1,085.8 million at the end of June 1989. At this level, the reserves could sustain only 2.1 months of foreign exchange commitments at the current average rate of disbursement compared with 3.0 months at the end of the preceding quarter and 1.7 months at the end of the second quarter of 1988.

FOREIGN EXCHANGE INFLOW

Aggregate foreign exchange receipts by the economy during the second quarter of 1989 amounted to \$1,936.7 million, showing increases of 13.1 per cent and 16.5 per cent over the respective levels in the preceding quarter and the corresponding quarter of 1988. Inflow through the Central Bank amounted to \$1,591.2 million compared with the levels of \$1,467.3 million in the preceding quarter and \$1,347.7 million in the second quarter of 1988. The improved performance over the first quarter of 1989 was accounted for by increased oil receipts and enhanced private sector non-oil receipts. Oil receipts rose by 22.9 per cent from \$1,164.1 million in the preceding quarter to \$1,431.1 million, as a result of the increase in both the average spot and net back prices of crude petroleum by 8.3 per cent and 15.6 per cent, respectively and the rise in export volume by 11.3 per cent on an average basis. Also, non-oil export proceeds went up from \$245.2 million to \$345.5 million due mainly to increased non-oil exports. When analysed in relation to developments in the corresponding quarter of 1988, the strong factors responsible for the improved performance in the review quarter of this year were the price incentives from the improvement in the spot and net back prices of crude petroleum in the international oil market, the increased export volume and the increased drawings on external loans which pushed up non-oil receipts through the Central Bank from \$29.6 million to \$160.1

million. These drawings were mainly accounted for by the \$91.1 million from the Overseas Economic Cooperation Fund (OECF).

Autonomous inflow of foreign exchange during the quarter totalled \$345.5 million, showing an increase of 40.9 per cent and 9 per cent above the levels of \$245.2 million and \$316.9 million in the preceding quarter and the corresponding quarter of 1988, respectively.

FOREIGN EXCHANGE OUTFLOW

Total foreign exchange outflow from the economy amounted to \$1,691.7 million. This represented a decrease of 1.9 per cent from the level of \$1,726.3 million in the corresponding quarter of 1988, but an increase of 43.2 per cent vis-a-vis the level in the preceding quarter.

During this period, outflow through the Central Bank, at \$1,550.0 million, declined by 0.3 per cent compared with the level in the second quarter of 1988 but showed a rise of 49.5 per cent above the level in the preceding quarter. A comparative analysis of official disbursements during the first and second quarters of 1989 showed that increasing influences on outflow were imports which increased by \$448.7 million and payment for other invisibles which went up by \$104.7 million. However, debt service payments declined by 11.1 per cent during the period.

Autonomous outflow in the review quarter declined by 2.3 per cent from \$145.0 million in the first quarter of the year to \$141.7 million.

SECTORAL ALLOCATION OF FOREIGN EXCHANGE

Total foreign exchange allocation in the second quarter of 1989, from both official and autonomous funds by authorised dealers amounted to \$734.2 million, compared with \$462.4 million in the preceding quarter and \$944.7 million in the second quarter of 1988. The development in the second quarter of 1989 vis-a-vis the corresponding quarter of 1988 was mainly due to the decline in the amount sold to authorised dealers by the Central Bank which declined from \$720.0 million to \$483.8 million.

The bulk of the allocations was for visible imports which accounted for \$657.6 million or 89.6 per cent of the total compared with \$421.4 million or 91.1 per cent of the total during the preceding quarter and \$853.2 million or 90.3 per cent of total in the corresponding quarter of 1988. The industrial sector imports which comprised raw materials, machinery and spare parts accounted for \$494.1 million or a share of 67.3 per cent of total. This item represented an increase of 57.8 per cent above the level in the preceding quarter but a decline of 19.4 per cent below the level in the comparable quarter of 1988. Imports by the agricultural sector and finished goods increased from \$8.5 million and \$98.7 million in the first quarter respectively, to \$23.0 million and \$140.0 million in the second quarter of 1989. All major components of imports in the quarter under review declined from their respective levels in the corresponding

quarter of 1988.

Total disbursements for invisibles increased by 86.8 per cent from \$41.1 million in the first quarter to \$76.6 million in the second quarter of 1989. However, a comparison with the level in the corresponding quarter of 1988 showed a 16.3 per cent decline. The share of invisibles in total disbursement increased from 8.9 per cent of the first quarter to 10.4 per cent in the second quarter of 1989. In the corresponding quarter of 1988, the share of this item was 9.7 per cent. The major invisible items indicated increased over their respective levels in the first quarter of 1989.

EXTERNAL ASSETS

Nigeria's external assets at the end of June 1989 amounted to \$2,207.9 million, representing increases of 1.8 per cent and 6.0 per cent over the levels in June 1988 and March 1989 respectively. Central Bank's share of total external assets accounted for \$1,083.2 million, representing an increase of 25.3 per cent compared with the level of \$864.8 million in June 1988. Conversely, the combined external assets of commercial and merchant banks declined by 13.6 per cent from \$1,298.8 million in June 1988, to \$1,121.8 million in June 1989.

The share of Central Bank in total external assets declined from 50 per cent in March 1989 to 49 per cent whilst the combined share of Commercial and Merchant Banks increased from 49.9 per cent in the first quarter of 1989 to 50.8 per cent in the period under review. This development was attributed to the marked increase in disbursements as a result of the increased funding of the interbank foreign exchange market (IFEM) which reduced Central Bank's net reserves accretion. On the other hand, the gain by the authorised dealers was traced to the increase in autonomous inflow and the corresponding decline in autonomous disbursement.

EXTERNAL DEBT MANAGEMENT

During the quarter under review, two auction sessions took place under the debt conversion scheme. Promissory notes worth \$62.68 million were redeemed. This brought the total debts so far converted since the inception of the scheme to \$160.67 million. Bilateral negotiations on the implementation of the rescheduling proposals on Nigeria's official debts were intensified during the second quarter of this year.

EXCHANGE RATE

Notwithstanding the merger of the official and the autonomous segments of the foreign exchange market and the implied depreciation of the Naira exchange rate, the problem of inadequate supply of foreign exchange relative to the demand for foreign exchange persisted in the economy during the second quarter of 1989. As a result, the naira exchange rate further slid against the major convertible currencies in the Inter-bank foreign exchange market (IFEM) in the second quarter of this year compared with the same quarter of last year. The naira depreciated on an average basis by 3.3 per cent from \$1.00 = ₦7.2292 in the first

quarter of 1989 to \$1.00 = ₦7.4779 during the second quarter. However, on an end of quarter basis, the Naira gained by 5.6 per cent by moving from \$1.00 = ₦7.5875 in March 1989 to close at \$1.00 = ₦7.1847 at the end of June.

**Balance of Payments Division
Research Department**

Table 1

FOREIGN EXCHANGE FLOWS THROUGH THE CENTRAL BANK
(\$ Million)

Category	Second Quarter Apr.-June 1988 (1)	Jan.-June 1988 (2)	First Quarter Jan.-March 1989 (3)	Second Quarter Apr.-June 1989 ¹ (4)	Jan.-June 1989 (5)	Percentage Change Between	
						(1) & (4) (6)	(3) & (4) (7)
Inflow	1,345.7	2,812.6	1,467.3	1,591.2	3,058.5	- 18.2	+ 8.4
Outflow	1,555.0	3,075.5	1,036.7	1,550.0	2,586.7	- 0.3	+49.5
Netflow	- 209.3	- 262.9	+ 430.6	+ 41.2	+ 471.8	+119.7	-90.4

¹ Provisional

Table 2

FOREIGN EXCHANGE FLOWS THROUGH THE CENTRAL BANK AND OTHER BANKS
(\$ Million)

Category	Second Quarter Apr.-June 1988 (1)	Jan.-June 1988 (2)	First Quarter Jan.-March 1989 (3)	Second Quarter Apr.-June 1989 ¹ (4)	Jan.-June 1989 (5)	Percentage Change Between	
						(1) & (4) (6)	(3) & (4) (7)
INFLOW	1,662.6	3,485.2	1,712.5	1,936.7	3,649.2	16.5	13.1
Oil	1,316.1	2,664.0	1,164.1	1,431.1	2,595.2	8.7	22.9
Non-Oil	346.5	821.2	548.4	505.6	1,054.0	45.9	- 7.8
(i) CBN	(29.6)	(148.6)	(303.2)	(160.1)	(463.3)	(440.9)	(- 47.2)
(ii) Other Banks	(316.9)	(672.6)	(245.2)	(345.5)	(590.7)	(9.0)	(40.9)
OUTFLOW	1,724.3	3,410.6	1,181.7	1,691.7	2,873.4	- 1.9	43.2
1. Visible	962.6	1,796.9	450.4	899.1	1,349.5	- 6.6	99.6
2. Invisible	592.4	1,278.6	586.3	650.9	1,237.2	9.9	11.0
(a) Debt Service	551.8	1,085.1	530.6	490.5	1,021.1	- 11.1	7.6
(i) Loan Repayment	(215.6)	(339.4)	(166.2)	(251.1)	(417.3)	(16.4)	(51.1)
(ii) Interest Payment	(336.2)	(745.7)	(364.4)	(239.4)	(603.8)	(-28.8)	(-34.3)
(b) Others	40.6	193.5	55.7	160.4	216.1	295.0	187.9
3. AUTONOMOUS OUTFLOW	169.3	335.1	145.0 ²	141.7 ²	286.7	- 16.3	- 2.3
NETFLOW	- 61.7	+ 74.6	+530.8	+245.0	+775.8	497.1	- 53.8

¹ Provisional

² Represents Use by domiciliary account holders

Table 3

SECTORAL ALLOCATION OF FOREIGN EXCHANGE
(\$ Million)

	Second Quarter 1988	Jan.-June 1988	First Quarter 1989	Second Quarter 1989	Jan.-June 1989	Percentage Change Between		(1) As Per- Cent of Total	(3) As Per- Cent of Total	(4) As Per- Cent of Total
						(1) & (4) (6)	(3) & (4) (7)			
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
A. IMPORTS	853.2	1,581.6	421.4	657.6	1,079.0	-22.9	56.1	90.3	91.1	89.6
(1) Industrial Sector	612.8	1,144.7	313.2	494.1	807.3	-19.4	57.8	64.9	67.7	67.3
(i) Raw Materials	360.2	665.7	191.6	302.2	493.8	-16.1	57.7	38.1	41.4	41.2
(ii) Machinery Spare Parts CKD	252.6	479.0	121.6	191.9	313.5	-24.0	57.8	55.6	26.3	26.1
(2) Agricultural Sector	11.0	17.4	8.5	23.0	31.5	109.0	170.6	1.2	1.8	3.2
(3) Finished Goods	226.2	412.3	98.7	140.4	239.1	-37.9	42.2	23.9	21.3	19.1
(i) Food	45.3	82.4	21.9	30.9	52.8	-31.8	41.1	4.8	4.7	4.2
(ii) Motor Vehicles	-	-	-	8.3	8.3	-	-	-	-	1.1
(iii) General Merchandise	180.9	329.9	76.8	101.2	178.0	-44.0	31.8	19.1	16.6	13.8
(4) Capital Goods	3.2	7.2	1.0	0.1	1.1	-96.9	-90.0	0.3	0.2	0.0
B. INVISIBLES	91.5	179.1	41.0	76.6	117.6	-16.3	86.8	9.7	8.9	10.4
(i) Education	4.9	7.4	1.8	4.3	6.1	-12.2	138.9	0.5	0.4	0.6
(ii) Personal Home Remittance	6.4	12.6	2.8	2.3	5.1	-64.1	-17.9	0.6	0.6	0.3
(iii) Airline Remittance	9.0	27.9	5.2	13.9	19.1	54.4	62.6	1.0	1.1	1.9
(iv) Travel	11.1	18.4	4.9	6.9	11.8	-37.8	40.8	1.2	1.1	0.9
(v) Re-Insurance	4.1	6.2	1.4	2.2	3.6	-46.3	57.1	0.4	0.3	0.3
(vi) Contract	12.8	16.8	7.1	13.4	20.5	4.7	88.7	1.4	1.5	1.8
(vii) Aircraft lease and maintenance fees	4.2	17.1	1.2	1.4	2.6	-66.7	16.7	0.4	0.3	0.2
(viii) Shipping Vessels Charter and Maintenance	2.2	7.4	0.7	.5	1.2	-77.3	-28.6	0.2	0.2	0.1
(ix) Investment Income -Profits, dividends	5.0	12.0	5.3	5.3	10.6	6.0	-	0.5	1.1	0.7
(x) Repatriation of Capital	-	-	-	0.3	0.3	-	-	-	-	0.0
(xi) Others	31.8	53.3	10.6	26.1	36.7	-17.9	146.2	3.5	2.3	3.6
TOTAL	944.7	1,760.7	462.4	734.2	1,196.6	-22.3	58.8	100	100	100

Table 4

NIGERIA'S EXTERNAL ASSETS
(\$ 'Million)

HOLDER	June 1988 (1)	December 1988 (2)	March 1989 (3)	June 1989 (4)	Percentage Change Between		
					(1) & (4)	(2) & (4)	(3) & (4)
1. OFFICIAL	869.5	614.9	1,044.5	1,085.8	+24.9	76.6	4.0
(i) Central Bank ¹	864.8	611.4	1,042.0	1,083.2	+25.3	+77.2	+ 4.0
(ii) Federal Government	4.1	3.1	2.2	2.3	-43.9	-25.8	+ 4.5
(iii) State Governments	0.6	0.4	0.3	0.3	-50.0	-25.0	-
2. SEMI-OFFICIAL INSTITUTIONS	0.6	0.4	0.3	0.3	-50.0	-25.0	-
3. COMMERCIAL BANKS (NET)	855.5	834.9	664.8	696.9 ²	-18.5	-16.5	+ 4.8
4. MERCHANT BANKS (NET)	443.3	468.6	374.2	424.9 ²	-4.2	- 9.3	+13.5
TOTAL	2,168.9	1,918.8	2,083.8	2,207.9	+ 1.8	+15.1	+ 6.0
End of quarter exchange rate ₦/\$	4.0694	5.3530	7.5875	7.1847	-43.4	-25.5	+ 5.3

¹ Excludes attached assets

² Provisional