

12-1990

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Recommended Citation

Central Bank of Nigeria (1990). Developments in the External Sector During the Fourth Quarter of 1990. CBN Economic and Financial Review. 28(4), 31-35.

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DEVELOPMENTS IN THE EXTERNAL SECTOR DURING THE FOURTH QUARTER OF 1990

Foreign Exchange Flows

The external sector came under more severe pressure during the fourth quarter of 1990. This was attributed to developments in both foreign exchange receipts and outpayments. While foreign exchange receipts declined by 9.1 per cent, outpayments rose by 23.4 per cent from their levels in the third quarter. As a result of these developments, the overall movement in foreign exchange, which showed a slight surplus in the third quarter of 1990 vis-a-vis the fourth quarter of 1989, turned around to a deficit of \$390.3 million in the fourth quarter of 1990. This is significant since it was the only quarter when a net outflow was recorded in 1990. The high debt service payments which rose by 75.0 per cent over the third quarter's level accounted for the huge rise in outpayments. The decline in receipts, coupled with the rise in outpayments, resulted in the decline in the stock of external reserves held by the Central Bank from \$3,454.2 million in September 1990 to \$3,304.8 million in December 1990. At this level, the reserves could finance 4.5 months of foreign exchange commitments at the prevailing average rate of disbursement compared with 6.4 months in the preceding quarter and 3.4 months in the corresponding quarter of 1989.

Foreign Exchange Inflow

Aggregate foreign exchange inflow into the economy amounted to \$2,251.9 million in the fourth quarter of 1990, down by 9.1 and 5.9 per cent from the preceding and the corresponding quarters of 1989, respectively. However, the receipts exceeded the proportional foreign exchange budget of \$1,947.2 million for the period. The decline in total receipts during the fourth quarter of 1990 was attributed to the non-oil sector. Whereas oil sector receipts went up by 8.8 per cent from the level in the third quarter, non-oil receipts slumped by 46.4 per cent. The overwhelming decline in non-oil receipts was caused by official non-oil receipts which declined by 83.6 per cent from \$460.7 million to \$75.4 million. Official non-oil receipts also fell below the proportional budget of \$221.3 million. The decline in non-oil receipts was attributed to the virtual drying up of balance of payments support loans and external grants. Inflow from these sources which totalled \$33.2 million in the third quarter of 1990 dropped to only \$6.7 million in the fourth quarter. Autonomous receipts by the licensed banks increased by 3.6 per cent during the fourth quarter of 1990 from \$342.7 million to \$354.9 million, due to increases in capital inflow and invisible receipts.

Foreign Exchange Outflow

Total foreign exchange outpayments by the economy during the fourth quarter of 1990 amounted to \$2,642.2 million, representing an increase of 23.4 per cent compared with the preceding quarter. The proportional budget of \$1,872.2 million for the period was also exceeded substantially by

41.1 per cent. The increased outflow was accounted for by debt service payment which totalled \$1,297.9 million and represented 49.1 per cent of total disbursements. Debt service payments also accounted for 57.6 per cent of total receipts as against 29.9 per cent in the preceding quarter and 30.0 per cent maximum debt service payments provided for in the 1990 foreign exchange budget. Principal repayment increased to \$938.4 million and represented 72.3 per cent of total debt service payments compared with 65.1 per cent in the preceding quarter. Although interest payment went up by 39.1 per cent, this item lost 7.2 percentage points in proportional contribution to total debt service payments. The increase in visible imports from \$627.7 million to \$767.0 million was attributed mainly to the increased funding of the foreign exchange market by 30.2 per cent from \$564.4 million in the third quarter of 1990 to \$734.9 million. However, autonomous outflow of foreign exchange from licensed banks declined by 19.5 per cent from \$529.6 million to \$426.1 million during the same period.

Sectoral Allocation of Foreign Exchange

Aggregate foreign exchange allocation by both the Central Bank and the licensed banks amounted to \$959.8 million in the fourth quarter of 1990, representing increases of 23.0 and 6.7 per cent over the levels in the preceding quarter and the corresponding quarter of 1989, respectively. Allocations to the visible imports category was responsible for the upward movement. Whereas invisible imports recorded a decline of 3.3 per cent, visible imports grew by 27.0 per cent. The upward movement in allocation to the industrial sector and finished goods imports led to the overall rise in total allocations during the review period. Industrial sector's imports went up by 24.9 per cent to stand at \$590.3 million with a share of 61.5 per cent of total allocations against 60.5 per cent in the preceding quarter. The relative shares of raw materials, machinery and spare parts sub-sectors remained stable with only marginal increases. On the other hand, allocations to the finished goods sector went up by 50.3 per cent to \$260.1 million with a share of 27.1 per cent of total allocations. All the items in this sector recorded substantial increases in allocations as follows: food, 73.3 per cent, motor vehicles 28.6 per cent and general merchandise 44.0 per cent. However, agricultural sector imports received an allocation of \$7.7 million, representing a decline of 73.9 per cent from the level in the third quarter. Their share of total allocations also dropped from 3.8 to 0.8 per cent.

Although allocations to invisibles showed an overall decline of 3.3 per cent in the fourth quarter of 1990 vis-a-vis the third quarter, most of the items under this category recorded increases. It was the recorded decrease in three items — airline remittance, contract service fees and investment income — that brought about the overall decline. A remarkable development in invisible allocations was the emergence of travels as the dominant item in this category.

With a share of 4.3 per cent of total allocations against 1.1 per cent in the third quarter, expenditure on travels represented 41.4 per cent of total invisibles. The share of airline remittance which represented 5.5 per cent of total outflow during the third quarter dropped to a mere 0.2 per cent in the fourth quarter of 1990.

External Assets

Nigeria's external assets totalled \$4,347.0 million at the end of December 1990, representing a decline of 4.1 per cent compared with the level in September 1990 but an increase of 43.4 per cent vis-a-vis the level in December 1989. The decline in external assets at the end of December 1990 from the level in September 1990 was accounted for by declines in holdings other than those of commercial banks. Commercial banks' share of total assets increased by 16.2 per cent from \$689.7 million to \$801.7 million during the period. The increase in commercial banks net assets expanded the combined share of commercial and merchant banks from 23.7 per cent at the end of September 1990 to 26.1 per cent in December 1990. Consequently, the share of the Central Bank which remained dominant declined by the same margin from 76.2 per cent to 73.8 per cent. There was also a decline in Central Bank's reserves as a result of increased disbursements of oil receipts to raise the level of funding of the foreign exchange market, increased outpayment on debt service and the decline in drawings on balance of payments support loan. Consequently, the marked increase in foreign exchange outflow coupled with the decline in receipts led to a net outflow of foreign exchange compared with a net inflow at the end of the preceding quarter. On the other hand, the combined share of commercial and merchant banks' net assets rose as a result of increased inflow on account of autonomous receipts from \$342.7 million to \$354.9 million.

Exchange Rate

The sustained pressure on the naira exchange rate which started earlier in the year continued as the exchange rate depreciated by an average of 0.3 per cent during the third quarter of 1990 compared to 4.2 per cent in the fourth quarter. In absolute terms, the naira exchange rate dropped

from an average of \$1.00 = ₦7.9630 in the third quarter to \$1.00 = ₦8.3469 in the fourth quarter. However, in the parallel market the naira exchange rate was more stable during the quarter. The naira depreciated on the average by 4.2 per cent in the third quarter of 1990 compared with 3.4 per cent in the fourth quarter. As a result of this development, the parallel market premium narrowed from 18 per cent to 16.9 per cent. The persistent depreciation of the naira exchange rate and the more unstable state of the official foreign exchange market in spite of its increased funding in the fourth quarter can only be explained by excess liquidity in the economy which fuelled demand pressures in the face of persistent scarcity of foreign exchange.

External Debt Management

The difficulties associated with the management of the nation's external debt continued in the fourth quarter. External debt service payments totalling \$1,297.9 million and representing an increase of 75.0 per cent above the level in the preceding quarter were made in the fourth quarter. This overshoot the proportional budget for the period by 145.6 per cent and was also significantly higher than the 30 per cent stipulated in the policy guideline. With the high level of external debt service payments, allocations to service the economy represented only 37.3 per cent during the fourth quarter. To arrest the deteriorating debt service burden, negotiations continued with both the Paris and London Clubs of creditors to reschedule and restructure maturities falling due between 1990 and 1992. The debt conversion programme was suspended during the fourth quarter of 1990 to enable the debt conversion committee review the modalities and extend the coverage of the programme. Since no debts were converted during the fourth quarter of 1990, the position remained the same as at the end of the third quarter. Thus, debts converted at the end of 1990 totalled \$137.23 million with conversions since the inception of the programme aggregating \$425.49 million.

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Table 1

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

CATEGORY	4th Quarter Oct.-Dec. 1989	Jan.-Dec. 1989	3rd Quarter July-Sept. 1990	4th Quarter ¹ Oct.-Dec. 1990	Jan.-Dec. 1990	Percentage Change Between	
						(1) & (4)	(3) & (4)
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
INFLOW	2,099.9	6,935.7	1,897.6	2,068.3	8,983.3	-1.5	+9.0
OUTFLOW	1,601.0	5,837.0	1,611.7	2,217.8	7,437.6	+38.5	+37.6
NETFLOW	498.9	1,098.7	+285.9	-149.5	+1,545.7	-130.0	-152.3

¹ Provisional Estimate.

Table 2

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

CATEGORY	4th Quarter Oct.-Dec. 1989	Jan.-Dec. 1989	3rd Quarter July-Sept. 1990	4th Quarter ¹ Oct.-Dec. 1990	Jan.-Dec. 1990	Percentage Change Between	
						(1) & (4)	(3) & (4)
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
INFLOW	2,393.7	8,087.3	2,478.2	2,251.9	10,241.0	-5.9	-9.1
Oil	1,822.6	5,913.2	1,674.8	1,821.6	7,437.1	-0.1	8.8
Non-oil	571.1	2,174.1	803.4	430.3	2,803.9	-24.6	-46.4
(i) CBN	(277.3)	(1,022.5)	(460.7)	(75.4)	(1,374.9)	-72.8	-83.6
(ii) Other Banks	(293.8)	(1,151.6)	(342.7)	(354.9)	(1,429.0)	20.8	3.6
OUTFLOW	1,982.4	6,729.5	2,141.2	2,642.2	9,152.9	33.3	23.4
(1) Visible	749.0	2,202.3	627.7	767.0	2,647.5	2.4	22.2
(2) Invisible	946.9	3,634.7	983.9	1,449.1	4,788.4	53.0	47.3
A. DEBT SERVICE	709.8	2,035.8	741.5	1,297.9	3,823.8	82.8	75.0
(i) Loan Repayment	(176.8)	(858.5)	(483.0)	(938.4)	(2,055.8)	432.3	94.3
(ii) Interest Payment	(533.5)	(1,177.3)	(258.5)	(359.5)	(1,768.0)	-32.6	39.1
B. OTHERS	237.1	1,598.9	242.4	151.2	964.6	-36.2	-37.6
(3) Autonomous Outflow	286.5	892.5	529.6	426.1	1,717.0	48.7	-19.5
NETFLOW	411.3	1,357.8	337.0	-390.3	1,088.1	-194.9	-215.8

¹ Provisional

Table 3

SECTORAL ALLOCATION OF FOREIGN EXCHANGE
(\$' million)

	4th Quarter Oct-Dec 1989	Jan-Dec 1989	3rd Quarter July-Sept 1990	4th Quarter ¹ Oct-Dec 1990	Jan-Dec 1990	Percentage Change Between		(1) as Percent of total (8)	(3) as Percent of total (9)	(4) as Percent of total (10)
						(1) & (4) (6)	(3) & (4) (7)			
A. IMPORTS	801.2	2,608.5	677.1	860.0	3,010.3	7.3	27.0	89.1	86.8	89.6
(1) Industrial Sector	576.2	1,922.3	472.3	590.3	2,133.0	2.4	24.9	64.1	60.5	61.5
(i) Raw materials	342.5	1,163.5	257.4	319.6	1,208.6	-6.7	24.2	38.1	33.0	33.3
(ii) Machinery, Spare parts & CKD	233.8	758.8	214.9	270.7	924.4	15.8	26.0	26.0	27.5	28.2
(2) Agricultural sector	17.2	86.6	29.5	7.7	109.6	-55.2	-73.9	1.9	3.8	0.8
(3) Finished goods	207.7	597.4	173.0	260.1	759.3	25.2	50.3	23.1	22.2	27.1
(i) Food	43.1	123.4	46.0	79.7	177.4	84.9	73.3	4.8	5.9	8.3
(ii) Motor Vehicles	16.1	38.4	16.4	21.1	71.5	31.0	28.6	1.9	2.1	2.2
(iii) General Merchandise	147.9	435.6	110.6	159.3	510.4	7.7	44.0	16.4	14.2	16.6
(4) Capital Goods	-	2.2	2.3	1.9	8.4	-	-17.4	-	0.3	0.2
B. INVISIBLES	98.0	289.4	103.2	99.8	410.2	1.8	-3.3	10.9	13.2	10.4
(i) Education	2.4	10.6	2.7	2.9	10.6	20.8	7.4	0.3	0.3	0.3
(ii) Personal Home Remittance	2.5	10.4	2.5	2.9	10.3	16.0	16.0	0.3	0.3	0.3
(iii) Airline Remittance	34.9	74.7	43.0	1.9	155.8	-94.6	-95.6	3.9	5.5	0.2
(iv) Travels (B.T.A, Business Allowance)	14.7	37.7	8.7	41.3	35.7	180.9	374.7	1.6	1.1	4.3
(v) Re-insurance	3.0	17.7	4.1	9.5	17.9	216.7	131.7	0.3	0.5	1.0
(vi) Contract service fees	8.6	36.0	20.8	1.9	81.2	-77.9	-90.9	1.0	2.7	0.2
(vii) Aircraft lease maintenance fees	0.9	5.2	3.4	12.4	13.3	-	264.7	0.1	0.4	1.3
(viii) Shipping vessels and maintenance fees	0.1	2.5	1.2	1.9	3.3	-	58.3	-	0.2	0.2
(ix) Investment Income, Profit & dividends	13.1	32.0	5.9	0.2	33.9	-98.5	-96.6	1.4	0.8	-
(x) Repatriation of capital	1.8	2.7	0.8	14.4	4.5	-	-	0.2	0.1	1.5
(xi) Others	16.0	59.9	10.1	10.5	43.7	-34.4	4.0	1.8	1.3	1.1
TOTAL (A + B)	899.2	2,897.9	780.3	959.8	3,420.5	6.7	23.0	100.0	100.0	100.0

¹ Provisional Estimate

Table 4

NIGERIA'S EXTERNAL ASSETS
(\$' million)

HOLDER	December 1989 (1)	September 1990 (2)	December 1990 (3)	Percentage change between	
				(1) & (3) (4)	(2) & (3) (5)
1. OFFICIAL	1,761.6	3,456.6	3,307.0	+87.7	-4.3
(i) Central Bank ¹	1,759.1	3,454.2	3,304.8 ²	+87.9	-4.3
(ii) Federal Government	2.2	2.1	1.9	-13.6	-9.5
(ii) State Governments	0.3	0.3	0.3	—	—
2. SEMI-OFFICIAL INSTITUTION	0.3	0.3	0.2	-33.3	-33.3
3. COMMERCIAL BANKS (net)	847.7	689.7	801.7 ²	-5.4	+ 16.2
4. MERCHANT BANKS (net)	421.9	384.7	367.3 ²	-12.9	-4.5
TOTAL	3,031.5	4,531.3	4,476.2	+47.6	-1.2

¹ Excludes attached assets

² Estimated