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REVIEW OF NIGERIA'S BALANCE OF PAYMENTS: DEVELOPMENTS DURING THE FIRST HALF OF 1982

Estimates for the first half of 1982, showed that Nigeria's balance of payments resulted in a deficit of ₦1,583.4 million as against a revised surplus of ₦53.1 million for the same period of 1981. But compared to the deficit of ₦3,020.1 million for the second half of 1981, the balance of payments situation, represents an improvement. (see Table 1).

The merchandise trade account swung from a surplus of ₦1,159.8 million in the first half of 1981 to a deficit of ₦1,502.4 million in the second half of 1981. The deficit persisted, although at a reduced level of ₦666.0 million in the first half of 1982.

As a result of these developments, Nigeria's holdings of external assets at the end of June 1982, stood at ₦915.4 million compared to ₦2,592.6 million in December 1981 and ₦5,772.5 million in June 1981. (see Table 2).

CURRENT ACCOUNT:

The current account deficit of ₦389.6 million recorded in the first half of 1981, rose sharply to ₦3,029.8 million in the second half, but declined to ₦2,185.3 million in the review period. The merchandise trade deficit of ₦666.0 million in the review period contrasted with the surplus of ₦1,159.8 million in the comparable period of 1981, but represents an improvement over the second half of 1981, when a deficit of ₦1,502.4 million was recorded. There were only slight variations in the deficits on invisible account in the entire period under consideration. The deficit declined slightly from ₦1,549.4 million in the first half of 1981 to ₦1,527.4 million in the second half and to ₦1,519.3 million in the first half of 1982.

MERCHANDISE TRADE

Total merchandise trade unadjusted for balance of payments fell from ₦11,674.9 million in the first half of 1981 to ₦10,808.4 million in the second half and further to ₦9,236.4 million at the end of the first half of 1982. Total export trade at ₦4,013.0 million in the first half of 1982 declined by ₦2,114.1 million and ₦330.0 million compared to the first and second halves of 1981, respectively. On the other hand, total import rose from ₦5,547.8 million by ₦917.6 million in the first half of 1981 to ₦6,465.4 million in the second half, but fell by ₦1,242.0 million or 23.8 per cent from that level to ₦5,223.4 million in the review period.

EXPORTS

Earnings from Nigeria's export continue to suffer from the effect of the glut in the world oil market and the sharp fluctuations in the prices of agricultural and other commodities. The price of Nigeria's crude oil was reduced in March 1982 from \$36.5 to \$35.5 per barrel in order to boost sales, while production was pegged at an average of 1.3 million barrels per day. As a result of these measures, the persistent downward trend in crude oil exports which characterised the first four months of the year, was arrested in May through June. However, Nigeria's total sale of crude oil during the first half of 1982, fell by 34.6 per cent and 6.4 per cent below the levels for

the corresponding period of 1981 and the second half of 1981, respectively. At ₦3,957.2 million, total oil export value for the first half of 1982 fell by ₦2,095.5 million and ₦270.4 million from the levels of ₦6,052.7 million and ₦4,227.6 million in the first and second halves of 1981, respectively.

Total non-oil exports which amounted to ₦55.8 million at the end of June 1982, recorded a decline of 25.0 per cent and 51.6 per cent from the levels of ₦74.4 million and ₦115.4 million respectively, in June and December, 1981.

IMPORTS

Total imports during the first half of 1982 was ₦5,223.4 million, representing decreases of 5.8 per cent and 23.8 per cent from the corresponding period and the second half of 1981, respectively, when imports totalled ₦5,547.8 million and ₦6,465.4 million. While oil imports in the review period increased by 16.0 per cent from the level in the corresponding period of 1981, it fell by 22.6 per cent compared to the level of the second half of 1981. Non-oil imports fell by 6.0 and 19.2 per cent from the levels ₦5,518.5 million and ₦6,423.7 million recorded in the first and second halves of 1981, respectively, to ₦5,189.4 million, in June 1982. The decrease in the value of imports is traceable to the impact of the restrictive import measures introduced during the second quarter of 1982. The monthly average disbursement for imports during the first quarter of 1982 was ₦1,085.5 million, as against a monthly average of ₦655.5 million for the second quarter.

INVISIBLE TRADE

The deficit in the services and income account fell from ₦1,406.3 million in the first half of 1981 to ₦1,373.9 million during the period under review. However, the review period indicated a deterioration from the position attained in the latter half of the preceding year when deficits totalled ₦1,313.0 million. The decline in total merchandise trade for the first half of 1982 compared to the corresponding period of 1981, was responsible for the decline in the deficit in shipment between the two periods, as these components of balance of payments account generally move in the same direction. The increased deficit in the review period relative to the second half of 1981 is largely on account of the increase in net outflow of ₦158.3 million in official investment income.

At an estimated level of ₦145.4 million, the deficit on the unrequited transfers account during the first six months of 1982, showed a slight increase of ₦2.3 million or 1.6 per cent, above the level for the comparable period of 1981, but a huge decrease of ₦69.0 million or 48.2 per cent from the level in the second half of 1981.

CAPITAL ACCOUNT

Capital account transactions during the first half of 1982, resulted in a net inflow of ₦531.0 million compared to the net inflow of ₦4.4 million and ₦470.6 million in the second and first half of 1981, respectively. The increases in net capital inflow were largely attributable to the draw down of external loans and the increase in foreign direct investment. At ₦351.8 million

drawing on external loans in the first half of 1982 rose by ₦167.0 million or 87.0 per cent above the level in the first half of 1981. Direct investment net inflow also increased by ₦34.2 million or 21.8 per cent to ₦190.7 million in the same period.

EXTERNAL ASSETS

Nigeria's total holdings of external assets stood at ₦915.7 million at the end of June 1982, compared to ₦5,772.5 million and ₦2,592.6 million in June and December 1981, respectively. The decreases were concentrated in the Central Bank's holdings which stood at ₦857.7 million and showed a decline of ₦4,659.2 million and ₦1,583.3 million in the first and second halves of 1981, respectively. (see Table 2).

The Bank's reserves in the International Monetary Fund (IMF), including holdings of Special Drawing Rights (SDRS) and the IMF Oil Facility were used up during the period as a result of the short-fall in foreign exchange earnings.

The net external assets of the commercial banks also declined persistently from ₦231.8 million at the end of June 1981 to ₦128.2 million in December 1981 and ₦34.2 million in June 1982. Federal and State Governments' holdings and that of semi-official institutions did not change significantly.

POLICY MEASURES AIMED AT IMPROVING THE SITUATION

The drastic depletion of Nigeria's external reserves resulting from the persistent deficits in the balance of payments, dictated the need to introduce adequate and corrective measures. On 20th April 1982, therefore, the President announced some economic policy measures aimed at putting an end to the current unsustainable level of imports and ensuring that disbursement of foreign exchange was maintained at a realistic level in relation to the foreign exchange earning capacity of the economy. The measures are summarised as follows:

(a) Fiscal measures

(i) Import prohibition

Two additional items — gaming machines and frozen chicken — were placed under absolute import prohibition.

(ii) Export licence

The requirement of import licence was extended to twenty-nine items of import, including passenger cars, auto-cycles and bicycles, cotton yarn, cereal flours, cement, rice, sugar, and ceramic products.

(iii) Import licence

Wheat offals and dry brewers' grain were placed under export licence.

(iv) Tariff changes

Forty-nine items of import were affected by tariff changes. Most of the changes were increases in the rate of duties. Others were introduction of rates of duty and abolition of approved user status. The commodities affected by the changes in import tariffs included stock fish, rice sugar, cement, textiles, electric-fans, tractors and batteries.

(v) Excise duties

New rates of duty ranging from 5 to 45 per cent were imposed on a number of commodities — cigarettes, fabrics, towels and towelling, cosmetics and perfumes,

paper napkins, electric fans, locks, motor-cycles, auto-cycles and bicycles.

(b) Exchange control measures

- (i) Basic travel allowance for all adults aged between 16 years and above was reduced from ₦800 to ₦500 per annum while business travel allowances was further reduced to ₦2,500.

(c) Monetary policy

(i) Compulsory advance deposits for imports:

Compulsory advance deposits for imports were imposed, effective from April 21 1982, as follows:

Item	Percentage deposit relative to the value of imports (per cent)
Raw materials	25
Spare parts	25
Food (except rice)	50
Medicaments	50
Building materials	50
Capital goods	50
Books	50
Motor vehicles and trucks	200
Motor cars	250
Other goods	250

In the case of imports under letters of credit, banks were directed to create a separate account for the deposits so collected and deposit them with the Central Bank of Nigeria, interest free. For imports under Usance Bills, of less than six months maturity from the date of shipment of goods to Nigeria, and Bills for collection and Payments of less than six months duration from the date of shipment of goods to Nigeria, importers were required to make the required advance deposits not later than 10 days before the vessel carrying the goods arrives at the Nigerian Port. However, in the case of imports for which credit facilities of more than six months from the date of shipment had been obtained, no advance deposit would be required.

(ii) Interest rates

All interest rates were revised upwards by two percentage points from their existing levels (see table attached).

Interest rate structure in 1982

	Interest rate (%)	
	Old	New
(i) Minimum Rediscount Rate	7	9
(ii) Treasury Bill issue rate	6	8
(iii) Treasury Certificate (1 year)	6½	8½
(iv) Treasury Certificate (2 years)	7	9
(v) Federal Government Stock	8-8¾	10-10¾
4-7 years maturity	8	10
9-14 years maturity	8¾	10¾
15-20 years maturity	8½	10½
21-25 years maturity	8¾	10¾
(vi) Deposit Rates (Commercial Bank		
Savings Deposit)	6½	8½
Time deposits with 7 days notice	5½	7½
Time deposits for one month,		

(vii) Lending Rates: Minimum	8½	10½
Maximum	12	14
(a) Preferred sectors maximum	10½	12½
(b) Less preferred sectors maximum	12	14
(c) Agricultural Credit Guarantee Scheme	5-6	7-8
(d) Residential Housing costing not more than N 100,000	6	8
(e) Agricultural production	6	8
(viii) Specialised Institutions		
(a) Fed. Savings Bank — Savings Deposit Rate	6½	8½
(b) Nig. Ind. Dev. Bank (Lending Rates)	9½-12	11½-14
(c) Nig. Bank for Com. and Ind. (Lending Rates)	9½-12	11½-14
(d) Nig. Agric. Bank (Lending Rates for Agric. Production) For Agric. Commodities marketing	5-6 9-12	7-8 11-14
(e) Fed. Mortgage Bank — Savings Rate	6½-7½	8½-9½
Lending Rates	6-12	8-14
(i) Residential Housing	6	8
(ii) Commerical Property	8½-12	10½-14

EFFECTS OF THE MEASURES ON BALANCE OF PAYMENTS

The impact of these measures were manifested in a reduced rate of disbursements on imports in the last two months of the review period. Estimates showed that the monthly average rate of importation before the introduction of the April 1982 measures, was ₦965.3 million as against a monthly average of ₦681.2 million for May and June, 1982. It can also be argued that the measures were largely responsible for the decline in the level of foreign exchange disbursement from ₦6,889.6 million in the first half of 1981 to ₦6,214.5 million in the first half of 1982.

Since these measures were in application for only two months of our review period, it is too early to make a quantitative assessment of their impact. However, they are expected to significantly improve the balance of payments position if not lifted too soon.

TABLE 1
BALANCE OF PAYMENTS — SUMMARY STATEMENT
(₹ million)

	1st Half 1981			2nd Half 1981			1st Half 1982		
	Oil	Non-Oil	Total	Oil	Non-Oil	Total	Oil	Non-Oil	Total
CURRENT ACCOUNT	5,737.0	-6,126.6	-389.6	3,960.8	-6,990.2	-3,029.8	3,654.7	-5,840.0	-2,185.3
Merchandise ²	6,024.9	-4,865.1	1,159.8	4,191.5	-5,693.5	-1,502.4	3,923.2	-4,589.2	-666.0
Exports	6,052.7	74.4	6,127.1	(4,227.6)	(114.6)	(4,342.2)	3,957.2	55.3	4,012.5
Imports	-27.8	-4,939.5	-4,967.3	(-36.1)	(-5,808.5)	(-5,844.6)	-34.0	-4,644.5	-4,678.5
Services and income (Net)	-281.9	-1,124.4	-1,406.3	-228.9	-1,084.1	-1,313.0	-263.1	-1,110.8	-1,373.9
Unrequited transfers (Net)	-6.0	-137.1	-143.1	-1.8	-212.6	-214.4	-5.4	-140.0	-145.4
CAPITAL EXCLUDING RESERVES	63.6	470.6	470.6	-157.3	161.7	4.4	58.5	472.5	531.0
Direct investment	63.6	92.9	156.5	-157.3	19.1	-138.2	58.5	132.2	190.7
Portfolio investment	—	—	—	—	—	—	—	—	—
Other capital (long-term)	—	142.2	142.2	—	356.2	356.2	—	246.3	246.3
Official sector	—	(147.6)	(147.6)	—	(332.4)	(332.4)	—	(247.3)	(247.3)
Others	—	(-5.4)	(-5.4)	—	23.8	23.8	—	(-1.0)	(-1.0)
Other capital (short-term)	—	171.9	171.9	—	-213.6	-213.6	—	98.2	98.2
BALANCE ON CURRENT AND CAPITAL ACCOUNTS	5,800.6	5,719.6	81.0	3,803.5	-6,828.5	-3,025.4	3,713.2	-5,369.5	-1,654.3
BALANCING ITEM	—	—	-27.9	—	—	5.3	—	—	70.9
OVERALL BALANCE	—	—	53.1	—	—	-3,020.1	—	—	-1,583.4
RESERVES³	—	—	-53.1	—	—	3,020.1	—	—	+1,583.4

¹Provisional

²Adjusted for Balance of Payments

³(-) Sign indicates increase in assets/decrease in liabilities

(+) Sign indicates decrease in assets/increase in liabilities.

TABLE 2
EXTERNAL ASSETS
(₹ million)

Holder	June 1981	December 1981	June ¹ 1982	Actual Change Between	
	(1)	(2)	(3)	(1) & (2)	(2) & (3)
Government	20.0	19.6	19.5	-0.4	-0.1
Federal	16.8	16.8	16.8	—	—
States	3.2	2.8	2.7	-0.4	-0.1
Semi-Official	3.8	3.8	4.3	—	+0.5
Commodity Boards	1.1	1.1	1.5	—	+0.4
N.I.D.B.	0.1	0.1	0.1	—	—
Others	2.6	2.6	2.7	—	+0.1
Central Bank	5,516.9	2,441.0	857.7	-3,075.9	-1,583.3
Gold	19.0	19.0	19.0	—	—
Foreign Exchange	5,078.2	1,897.2	822.5	-3,181.0	-1,074.7
IMF Reserve Tranche	146.1	231.8	—	+85.7	-231.8
IMF Oil Facility	117.8	99.6	—	-18.2	-99.6
Special Drawing Right	137.2	177.2	—	+40.0	-177.2
Attached Assets	18.6	16.2	16.2	-2.4	—
Commercial Banks (Net)	231.8	128.2	34.2	-103.6	-94.0
Total	5,772.5	2,592.6	915.7	-3,179.9	-1,676.9

¹Provisional

TABLE 3
FOREIGN EXCHANGE FLOWS (JANUARY — JUNE) 1981 & 1982
(₦ million)

	January to June 1981			January to June 1982		
	Inflow	Outflow	Net	Inflow	Outflow	Net
January	929.0	1,237.0	-308.0	552.8	1,314.5	-761.7
February	1,147.0	1,161.3	-14.3	1,282.6	1,235.9	+46.7
March	1,245.8	846.3	+408.5	704.2	1,453.5	-749.3
April	909.6	1,198.8	-289.2	654.8	858.3	-203.5
May	1,787.9	947.2	+840.7	620.8	638.0	-17.2
June	890.9	1,499.0	-608.1	815.9	714.3	+101.6
Total	6,919.0	6,889.6	+29.4	4,631.1	6,214.5	-1,583.4
Average	1,153.2	1,148.2	4.9	771.8	1,035.7	-263.9

CHART I
NIGERIA'S EXTERNAL RESERVES: JANUARY 1981 — JUNE 1982

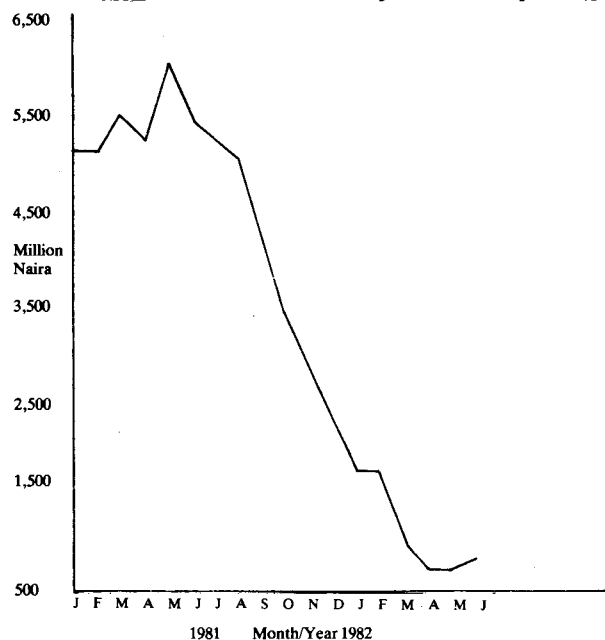


CHART II
VISIBLE TRADE: JANUARY 1981 — JUNE 1982

