

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

During the fourth quarter of 1986, transactions in foreign exchange resulted in a net inflow of ₦1,580.8 million, compared with net inflows of ₦466.9 million in the preceding quarter and ₦873.4 million in the corresponding quarter of 1985. However, the improvement in foreign exchange position was only nominal and resulted from the relatively marked depreciation of the naira exchange rate following the introduction of Second-tier Foreign Exchange Market (SFEM) in September 1986. As a result of the net foreign exchange inflow, there was a net accretion of ₦1,580.6 million to reserves. The increase in the level of reserves resulted from valuation changes necessitated by the depreciation of the naira exchange rate under the SFEM. Efforts to reschedule the external payments obligations outstanding were further intensified in the fourth quarter of 1986. The naira exchange rate depreciated sharply at the end of 1986.

Foreign Exchange Inflow

During the fourth quarter of 1986, total foreign exchange receipts amounted to ₦4,434.5 million. This showed increases of 151.1 per cent and 34.2 per cent over the levels in the preceding quarter and in the corresponding quarter of 1985, respectively. Oil sector receipts, at ₦2,766.6 million, represented an increase of 72.8 per cent above the level of ₦1,601.2 million in the preceding quarter but a decline of 11.2 per cent below the level of ₦3,116.4 million in the comparable quarter of 1985. However, non-oil sector receipts, at ₦1,667.9 million, showed a large increase compared with the levels of ₦164.8 million in the preceding quarter and ₦187.3 million in the last quarter of 1985. The marked increase in the level of non-oil inflow was traceable largely to the drawings on the World Bank Trade Policy and Export Development Loan and autonomous capital inflow to banks at the inception of the SFEM. Thus, capital inflow increased from a mere ₦7.6 million in the third quarter of 1986, to a high of ₦1,511.5 million in the quarter under review. At this level, it represented 90.8 per cent of total non-oil receipts. In the preceding quarter, its share of non-oil receipts was only 4.6 per cent.

Cumulative foreign exchange inflow from January through December 1986, amounted to ₦10,238.9 million, representing a decline of 7.1 per cent compared with the level of ₦11,024.1 million in 1985. Oil receipts, at ₦8,052.5 million, represented 78.6 per cent of the total but declined by 20.9 per cent from a level of ₦10,180.9 million in 1985. However, non-oil receipts rose by 159.6 per cent to ₦2,186.4 million. The bulge in non-oil receipts was due to increase in capital inflow.

Foreign Exchange Disbursement

During the last quarter of 1986, foreign exchange disbursements totalled ₦2,853.7 million, representing increases of 119.7 and 17.4 per cent over the levels of ₦1,299.1 million in the preceding quarter and ₦2,430.3 million in the last quarter of 1985. Disbursements in respect of visible imports totalled ₦2,021.0 million in the last three months of 1986. This represented 70.8 per cent of the total and showed increases of 205.6 and 78.5 per cent over the

levels in the preceding quarter and the comparable quarter of 1985, respectively. Payments in favour of invisible items stood at ₦832.7 million during the quarter under review. With a share of 29.2 per cent of total disbursement, this item showed an increase of 30.5 per cent above the level in the preceding quarter but a decline of 28.6 per cent below the level in the corresponding quarter of 1985. Debt service payments totalled ₦466.5 million and represented 56.0 per cent of disbursement on invisible items.

Aggregate outpayments from January through December 1986 amounted to ₦8,292.6 million, representing a decline of 20.7 per cent compared with the level of ₦10,463.0 million during the same period of 1985. Disbursements for visible imports declined by 16.4 per cent to ₦4,207.0 million. Payments for invisible items also declined by 24.8 per cent to ₦4,085.6 million.

External Assets

Nigeria's external assets totalled ₦5,022.6 million at the end of the fourth quarter of 1986. This showed a rise of 97.3 per cent compared with the level of ₦2,544.9 million in the preceding quarter. The marked increase in the level of external assets at the end of the fourth quarter resulted partly from valuation changes following the depreciation of the naira exchange rate in the second-tier foreign exchange market and partly from increase in autonomous flow of foreign exchange to the banks.

A disaggregation into major categories showed that Central Bank's holding constituted the bulk of the nation's assets at the end of the fourth quarter. Central Bank's holding (₦3,587.4 million) represented 71.4 per cent of the total and showed an increase of 78.8 per cent over the level in the preceding quarter. The next major component was commercial banks holdings, which moved up from ₦515.8 million at the end of September to ₦1,412.7 million at the end of December 1986. The marked increase in commercial banks holdings was attributable to foreign exchange dealings under the second-tier foreign exchange market.

Nigeria's external assets increased by 176.4 per cent from ₦1,816.8 million at the end of December 1985 to ₦5,022.6 million at the end of December 1986. However, in dollar terms, the assets declined by 16.7 per cent from \$1,817.5 million to \$1,514.4 million during the period.

Refinancing of Trade Debt

Refinancing arrangements for outstanding trade debts were intensified in the last quarter of 1986. Although no new promissory notes were issued during this period, notes worth ₦11.3 million were redeemed in local currency. This brought the value of notes redeemed in 1986 to ₦22.1 million. In 1986, notes valued at ₦1,127.4 million were issued to uninsured creditors. The insured creditors had notes worth ₦350.1 million accepted for them.

Following the introduction of the Structural Adjustment Programme (SAP) to which the IMF agreed, the country was able to reach tentative agreements with its creditors on rescheduling its external debt. During the last quarter of 1986, some agreements were reached on rescheduling maturities on medium and long-term loans and credits contracted before

1st October, 1985, which fell due up to 31st December, 1987 over a period of 10 years including a grace period of 5 years. In addition, the short-term trade arrears as at 31st December, 1983, were to be rescheduled over an 8-year period with a grace period of 3 years. Also, post - 31st December, 1983 arrears on short-term commercial credits were to be rescheduled over a 4-year period, with a grace period of 1 year. Bilateral negotiations with participating creditor countries of the Paris Club, were also expected to commence work in January 1987 and to complete the negotiations by 30th June, 1987.

Negotiations with a "critical mass" of commercial banks for the approval of Nigeria's rescheduling plans reached an advanced stage in 1986. This was expected to be concluded in January 1987. The reconciliation and verification of the outstanding claims by foreign exporters and the Nigerian importers also continued in the last quarter of 1986.

Exchange Rate

In the first-tier foreign exchange market, the naira exchange rate depreciated by 38.3 per cent to the US dollar, sliding from ₦1.6010 = \$1.00 at the end of September 1986, to ₦2.5954 = \$1.00 at the end of December 1986. Compared with the rate of ₦0.9996 = \$1.00 at the end of 1985, the naira rate depreciated by 61.5 per cent at the end of 1986.

In the second-tier foreign exchange market, the naira rate appreciated by 39.2 per cent from ₦4.6174 = \$1.00 at the end of September to ₦3.3166 = \$1.00 at the end of December 1986. However, the SFEM rate of ₦3.3166 = \$1.00 at the end of 1986 showed a 69.9 per cent depreciation compared with the naira rate of ₦0.9996 = \$1.00 at the end of 1985.

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Table 1
**FOREIGN EXCHANGE FLOWS THROUGH THE CENTRAL BANK DURING THE
 FOURTH QUARTER OF 1986¹**
 (N¹ Million)

Item	October	November	December	Total
<i>Inflow</i>	1,292.8	1,172.7	1,969.0	4,434.5
Oil	910.9	859.3	996.4	2,766.6
Non-oil.....	381.9	313.4	972.6	1,667.9
(i) Commodity.....	(19.1)	(2.9)	(11.1)	(33.1)
(ii) Capital.....	(312.9)	(265.8)	(936.4)	(1,515.1)
(iii) Services	(49.9)	(44.7)	(25.1)	(119.7)
<i>Outflow</i>	912.1	852.1	1,089.5	2,853.7
(i) Visible	630.8	595.6	794.6	2,021.0
(ii) Invisible	281.3	256.5	294.9	832.7
(a) Debt Service.....	173.5	148.1	144.9	466.5
(i) Loan Repayment.....	(16.9)	(130.8)	(15.8)	(173.5)
(ii) Interest Payment.....	(156.6)	(17.3)	(119.1)	(293.0)
(b) Others	107.8	108.4	150.0	366.2
<i>Netflow</i>	+380.7	+320.6	+879.5	+1,580.8

¹ Provisional

Source: Central Bank of Nigeria.

Table 2
FOREIGN EXCHANGE FLOWS THROUGH THE CENTRAL BANK¹
 (N¹ Million)

	Jan-Dec	Jan-Dec	Oct-Dec	Jul-Sept	Oct-Dec	Percentage change between		
	1985	1986	1985	1986	1986	(1) & (2)	(3) & (5)	(4) & (5)
	(1)	(2)	(3)	(4)	(5)			
<i>Inflow</i>	11,024.1	10,238.9	3,303.7	1,766.0	4,434.5	-7.1	+34.2	+151.1
Oil	10,180.9	8,052.5	3,116.4	1,601.2	2,766.6	-20.9	-11.9	+72.8
Non-oil	842.2	2,186.4	187.3	164.8	1,667.9	+159.6	+790.5	+912.1
(i) Commodity.....	(306.3)	(224.9)	(80.7)	(50.8)	(33.1)	-26.6	-59.0	-34.8
(ii) Capital.....	(175.2)	(1,536.7)	(5.8)	(7.6)	(1,515.1)	+777.1	+26,022.4	+19,835.5
(iii) Services	(361.7)	(424.8)	(100.8)	(106.4)	(119.7)	+17.4	+18.4	+12.5
<i>Outflow</i>	10,463.0	8,292.6	2,430.3	1,299.1	2,853.7	-20.7	+17.4	+119.7
(i) Visible	5,032.5	4,207.0	1,132.3	661.3	2,021.0	-16.4	+78.5	+205.6
(ii) Invisible	5,430.5	4,085.6	1,167.2	637.8	832.7	-24.8	-28.6	+30.5
(a) Debt Service.....	3,717.8	2,502.2	832.2	293.2	466.5	-32.7	-44.0	+59.1
(i) Loan Repayment	(2,737.4)	(1,515.0)	(657.6)	(87.1)	(173.5)	-44.6	-73.6	+99.2
(ii) Interest Payment.....	(980.4)	(987.2)	(175.1)	(206.1)	(293.0)	+0.7	+67.3	+42.2
(b) Others	1,712.7	1,583.4	334.5	344.6	366.2	-7.5	+9.5	+6.3
<i>Netflow</i>	+561.1	+1,946.3	+873.4	+466.9	+1,580.8	+246.9	+81.0	+238.6

¹ Provisional

Source: Central Bank of Nigeria.

Table 3
NIGERIA'S EXTERNAL ASSETS¹
 (N¹ Million)

Holder	December 1985	September 1986	December 1986
1. Official.....	1,657.9	2,023.4	3,604.2
(i) Central Bank ²	(1,641.1)	(2,006.6)	(3,587.4)
(ii) Federal Government	(16.8)	(16.8)	(16.8)
2. Semi-official Institutions and State Governments.....	5.7	5.7	5.7
3. Commercial Banks (net)	+153.2	+515.8	1,412.7
Total	1,816.8	2,544.9	5,022.6
US \$	1,817.5	551.1	1,514.4
of which Central Bank.....	1,641.8	434.6	1,081.6
End of month Exchange rate \$1.00 = N ¹	0.9996	4.6174	3.3166

¹ Revised

² Excludes attached assets.

Source: Central Bank of Nigeria.