

DEVELOPMENTS IN THE EXTERNAL SECTOR DURING THE THIRD QUARTER OF 1988

1. Official Foreign Exchange Flows

Provisional data of foreign exchange flows through the Central Bank of Nigeria during the third quarter of 1988 showed that aggregate receipts totalled ₦5,587.2 million (\$1,208.8 million) while aggregate disbursements were ₦6,115.5 million (\$1,323.1 million).

As a result, a net outflow of ₦528.3 million was recorded vis-a-vis a net outflow of ₦883.6 million achieved in the preceding quarter and a net inflow of ₦554.8 million realised during the corresponding quarter of 1987. Correspondingly, official external reserves declined from ₦3,519.1 million (\$815.9 million) at the end of the second quarter to ₦2,990.7 million (\$638.7 million) at the end of the third quarter of 1988. It is pertinent to note that at this level, the external reserves could finance barely 1.4 months of foreign exchange commitments at the current average rate of foreign exchange disbursement.

2. Foreign Exchange Inflow into the Economy

Total foreign exchange receipts by the economy amounted to ₦6,843.3 million (\$1,480.6 million) during the third quarter of 1988. This performance represents a decline of 1.3 and 1.7 per cent when compared with the aggregate amount realized in the second quarter of 1988 and the corresponding quarter of 1987. The decline in the value of oil receipts arising from the downward movement in the average price of crude petroleum from \$15.34 to \$13.90 per barrel was responsible for the overall decline in the value of aggregate receipts during the third quarter of 1988. Oil receipts represented 78.3 per cent of aggregate inflow during the quarter under review. At ₦5,358.6 million (\$1,160.3 million), oil earnings fell by 1.5 per cent and 5.5 per cent below the levels of ₦5,441.9 million (\$1,304.8 million) and ₦5,668.3 million (\$1,217.2 million) recorded in the preceding quarter and the third quarter of 1987, respectively. Autonomous receipts by authorised dealers amounted to ₦1,256.1 million (\$271.9 million), equivalent to 4.8 per cent decline below the level in the preceding quarter.

3. Foreign Exchange Outflow from the Economy

Total foreign exchange outflow from the economy during the review quarter amounted to ₦7,058.3 million (\$1,530.0 million) – down by 2.0 per cent below the level recorded in the preceding quarter but up by 39.0 per cent above the level recorded during the corresponding quarter of 1987. The decline in the level of aggregate outflow was attributable to the marked decline in external debt servicing as a result of the on-going rescheduling negotiations and the deliberate policy to slow down the rate of foreign exchange disbursement in the face of dwindling external resources. As usual, the bulk of outpayments were in favour of visible imports, which, at ₦4,907.3 million (\$1,061.8 million), represented 69.5 per cent of aggregate outflow and showed increases of 5.2 per cent and 30.2 per cent above the levels recorded in the preceding quarter and the corresponding quarter of 1987, respectively. External debt service payments totalled ₦1,592.6 million (\$390.5 million) during the third quarter of 1988 – down by 24.7 per cent below

the level in the preceding quarter but up by 81.4 per cent above the level in the corresponding quarter of 1987.

4. Sectoral Allocation of Foreign Exchange:

(a) Allocation of Official Funds

Total allocation of official foreign exchange via the Foreign Exchange Market (FEM) in the third quarter of 1988 amounted to \$713.5 million, representing a decline of 7.9 per cent below the level recorded in the preceding quarter. The downward movement in disbursement for the major items of imports and invisibles resulted in this development. Allocation for visible imports totalled \$655.5 million representing 91.9 per cent of the total allocations with official funds and a decline of 6.5 per cent below the level in the preceding quarter. The industrial sector obtained \$468.0 million or 65.6 per cent of the total. Further analysis showed that \$265.8 million or 56.8 per cent of the total was utilised for raw materials and that \$202.2 million, – 43.2 per cent of the total – was employed to import machinery spare parts and CKD. Allocation for finished goods – 26.0 per cent of the total – represented a decline of 12.3 per cent below the level recorded in the preceding quarter. Payment for invisibles stood at \$58.0 million and showed a decline of 21.3 per cent.

(b) Allocation with Autonomous Funds

Allocations made with autonomous funds totalled \$205.1 million, representing an increase of 21.1 per cent above the level in the second quarter of 1988. The phenomenal rise in the value of invisibles as a result of the marked increase in the levels of disbursement in favour of travels and other services was responsible for this outturn. Payments for visible imports amounted to \$144.0 million or 70.2 per cent of total autonomous allocations and showed a decline of 5.2 per cent below the amount disbursed in the second quarter of 1988. Industrial sector's imports of raw materials, machinery spare parts and CKD totalled \$120.2 million vis-a-vis \$125.7 million allocated during the second quarter of 1988. Allocation in favour of finished goods imports totalled \$23.8 million, representing a decline of 33.7 per cent below the level in the preceding quarter. On the other hand, payments for invisible transactions aggregated \$61.1 million – 29.8 per cent of total autonomous outpayments – and up by 251.1 per cent above the level in the preceding quarter.

5. External Assets

Nigeria's total external assets during the quarter ended September 1988 stood at ₦8,814.0 million (\$1,882.4 million), representing a marginal decline of 0.1 per cent below the level in the quarter ended June 1988 but an increase of 10.7 per cent over the level achieved in the corresponding period of 1987. Specifically, Central Bank's holding accounted for ₦2,990.7 million (\$638.7 million) or 33.9 per cent of the total. Quantitatively, this amount represented declines of 15.0 per cent and 27.8 per cent below the levels of ₦3,519.1 million (\$815.9 million) and ₦4,142.2 million (\$1,108.2 million) recorded at the end of

the preceding quarter and the corresponding quarter of 1987, respectively. The significant decline in Central Bank's asset holding was caused mainly by the continuous decline in oil receipts as a result of the persistent instability in the world oil market for crude petroleum, the need to finance the foreign exchange market and service external debt obligations with official funds.

Commercial banks' net external assets stood at ₦3,735.5 million (\$797.8 million) as against ₦3,481.5 million (\$807.2 million) and ₦1,818.5 million (\$486.6 million) at the end of June 1988 and September 1987, respectively. Merchant banks' net external assets increased by 14.5 per cent and 69.9 per cent above the levels achieved at the end of June 1988 and September 1987, respectively. Commercial banks' external assets were 42.4 per cent of total external assets as against 39.4 per cent and 25.3 per cent in the quarter ended June 1988 and the corresponding period of 1987, respectively. Merchant banks' net external assets rose to 23.4 per cent from 20.4 per cent at the end of June 1988 and 16.9 per cent at the end of September 1987.

6. Exchange Rates

In the official Foreign Exchange Market (FEM), the Naira depreciated on an average basis by 9.7 per cent from ₦4.1710 = \$1.00 during the second quarter of 1988 to ₦4.6210 = \$1.00 in the third quarter of 1988. However, on an end of quarter basis, the Naira depreciated by a narrower margin of 7.7 per cent from ₦4.3132 = \$1.00 at the end of June to ₦4.6823 = \$1.00 at the end of September 1988.

In the autonomous market, the Naira recorded a depreciation of 7.7 per cent on an average basis from ₦5.9795 = \$1.00 to ₦6.4738 = \$1.00 during the reference period.

7. Debt Rescheduling

Agreement for the rescheduling of external debt maturities from 1988 and beyond, including those for 1987 which were previously rescheduled was reached, in principle, with the London Club in September, 1988. The exercise involves the rescheduling of a total of \$5.9 billion in debt over a period of 20 years effective from 1989. These are made up as follows: L/Cs (\$2.5 billion), medium and longterm (\$1.7 billion) outstanding debt payable on L/Cs (\$0.5 billion), 1988 maturities and beyond (\$1.2 billion). At the same time, negotiations continued with creditors of the Paris Club for similar multi-year rescheduling of all outstanding debt due to it.

Balance of Payments Division
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