

GENERAL AGREEMENT ON TARIFFS AND TRADE

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1986 CONSULTATION WITH NIGERIA (SIMPLIFIED PROCEDURES)

Statement made by Nigeria in the Committee Meeting on 15 October 1986

1. During the oil boom which ended in 1981, Nigeria allowed its economy to become excessively dependent on imports and on the export of a single commodity. The public sector became over-extended, the exchange rate over-valued, and the structure of the domestic economy distorted. When the downturn in oil revenues occurred, Nigeria faced widening external current account and fiscal deficits, increased external borrowing, the accumulation of arrears, declining GDP, increasing unemployment, and accelerated inflation. The economic and financial situation at the end of 1983, when the Nigerian Armed Forces assumed power, was therefore very difficult. Policy initiatives were taken to improve the efficiency of public administration, restructure expenditure policies, foster financial discipline, reduce the overall fiscal deficit of the Federal and State Governments, and cut imports sharply. These policies have had a number of positive effects, including the reduction in the federal fiscal deficit from 12 per cent of GDP in 1983 to 3 per cent in 1985, the moderation of inflation, the achievement of an external current account surplus in 1985, and the arresting of the decline in GDP. However, with an increasingly tight foreign exchange constraint, imports were subjected to increasingly strict administrative allocation, and their value declined from US\$14.9 billion in 1982 to US\$8.3 billion in 1985. Notwithstanding this compression of imports, Nigeria experienced continuing difficulty in remaining current on its external payments, particularly in view of the mounting debt service burden. In 1986, despite a strengthening of fiscal and monetary policies and a considerable depreciation of the exchange rate, macro-economic management has been further complicated by the latest slump in oil prices.

2. The present Administration announced major economic adjustment measures in October 1985, by initiating a fifteen-month economic emergency period. In addition to giving our President wide-ranging powers in economic decision-making, compulsory reductions were applied to wages and salaries varying from 2 to 20 per cent during the emergency period, and imports of rice and maize were banned. The 1986 Budget sought to deal more effectively with the economic crisis and to provide the foundation for economic recovery and sustained economic development. In addition to the surcharge on wages, other measures embodied in the budget were the introduction of a 30 per cent import levy, the elimination of the overall domestic petroleum product subsidy, a surcharge of 5-15 per cent on company profits, dividends, and rents and an extension of import bans to include

vegetable oils, commercial day-old chicks and hatching eggs, and stockfish. Capital expenditure was henceforth to be limited to maintenance and rehabilitation of viable projects rather than the initiation of new ones. The 1986 Budget recognized that the Naira was substantially over-valued and that the introduction of a Second-Tier Foreign Exchange Market was a means to correct the serious distortion in relative prices. In the meantime, a policy of gradual depreciation of the Naira was continued. In the area of monetary policy, the budget announced that the expansion of money and credit would remain under tight control and positive real interest rates would be maintained. The wage policy guidelines of 1980-82 were further extended into 1986, and thus maintained the de facto freeze on wages. In the light of the collapse in oil prices in early 1986 and to further define economic policy objectives, in the second quarter of 1986 the Government prepared a Structural Adjustment Programme in close collaboration with the staff of the Fund and the World Bank.

3. The aims of the Structural Adjustment Programme, which covers the period July 1986-June 1988, are:

- (a) to restructure and diversify the productive base of the economy in order to reduce dependence on the oil sector and on imports;
- (b) to make substantial progress towards fiscal and balance-of-payments viability over the period;
- (c) to lay the basis for sustainable non-inflationary growth;
- (d) to lessen the dominance of unproductive investments in the public sector, improve the sector's efficiency and intensify the contribution of the private sector to economic growth;
- (e) to attract fresh capital and new investments from the external sector;
- (f) to encourage exports.

The main features of the Adjustment Programme include:

- (a) adoption of measures to stimulate domestic production and broaden the supply base of the economy;
- (b) adoption of a realistic exchange rate policy;
- (c) further rationalization and restructuring of tariffs;
- (d) trade and payments liberalization;
- (e) reduction of the complex of administrative controls and increased reliance on market forces;

- (f) adoption of appropriate pricing policies for public enterprises;
- (g) encouragement of further rationalization and privatization of public sector enterprises.

4. The Nigerian Government recognizes that the over-valuation of the Naira has been the single most important obstacle to the restructuring of the Nigerian economy. In the future, the Government intends to pursue a realistic exchange rate policy with the aim of promoting exports, reducing the demand for imports, encouraging efficient import substitution, and promoting a reversal of capital flight. To this end, the Second-Tier Foreign Exchange Market (SFEM) has been introduced, in which the exchange rate for the Naira is determined freely by the interplay of supply and demand. The SFEM covers all Nigeria's external payments, including those of the Government, except service on public external debts contracted before the commencement of the market, service on private external debt and arrears incurred with documents submitted for approval before the commencement of the market, and payments and transfers to official international organizations, and to Nigerian embassies. On the supply side, all foreign exchange accruing to Nigeria will pass through the SFEM, except that which will be required to meet those payments remaining at the official rate. Accompanying the introduction of the SFEM, exchange, trade and price controls have been and are being greatly liberalized. In order to minimize the risk of distortions and to improve government revenues, the policy of continued depreciation of the official rate will be continued until the official rate reaches the level of the rate prevailing on the SFEM, and this is to be achieved within a short period after the launching of the market. From then on, the Nigerian Government intends to continue to allow the exchange rate of the Naira to be determined by market forces.

5. The Government is aware that a system of bureaucratic controls applied to trade flows is not only cumbersome but also leads to unintended distortions in resource allocation. The Government is also aware that the current import licensing system is unnecessary now that the SFEM has become operational since the rationing of available foreign exchange would take place by price and not by administrative means. Indeed, elimination of trade controls is necessary to allow the SFEM to function effectively under market conditions. The Government has therefore decided to eliminate the existing administrative controls on trade and prices. Thus, with the inception of the SFEM all import licensing requirements are abolished. The Nigerian Government believes that a combination of supply-promoting measures and fiscal and monetary policy provides the best means of controlling domestic prices. The price control functions of the Productivity, Prices and Incomes Board are therefore to be eliminated. All price controls are removed, including those on factory gate prices and on mark-ups for imported goods. Export licensing requirements, as a matter of principle, are removed except in the case of exceptional circumstances, (e.g. health, national security, nature conservancy, national cultural heritage, etc.). The import prohibition list has been substantially reduced from seventy-two to seventeen items; those bans that are retained

are applied for reasons of national security or of public health, safety or morality. However, the remaining bans will be reviewed as part of the comprehensive tariff study. Consequently, the thrust of the protection policy has shifted from quantitative restrictions to tariffs.

6. The Nigerian Government believes that, within the present social and political framework, dynamic economic growth can best be promoted by encouraging the activity of the private sector. The Government sees one of its primary functions in the area of economic development as providing the private sector with infrastructure and supporting services. In its development strategy, Government will increase expenditures on roads and rural infrastructure and will modernize the transport system, including the railways. The Fifth National Development Plan will be launched in 1987 and will stress the need to complete viable existing projects, rather than to initiate new ones. Priority will be given to the maintenance and rehabilitation of existing assets, with increased focus on cost-recovery. The Fifth Plan will also stress rural development and employment creation, with the Government promoting an appropriate macro-economic environment for agricultural production and supporting the rural sector through the provision of the required infrastructure, with community participation in funding.

7. The emphasis placed on agricultural development over recent years has resulted in the excellent harvest of 1985, a performance which is expected to be repeated this year. Nigeria has thus essentially succeeded in ending its dependence on food imports. For the future, it is the Nigerian Government's intention to rely on private initiative as the main source of agricultural growth. With this in mind it has terminated the activities of the Commodity Boards, which will be wound up by 31 December 1986, and has transferred the distribution of fertilizer and other inputs to private sector channels. The establishment of a market-determined exchange rate should provide a major incentive for the production of export and import-competing crops.

8. The introduction of the SFEM and the elimination of import licensing is expected to have a pronounced effect on the performance of different industries in Nigeria. To encourage the movement of resources into viable manufacturing industries, controls on factory prices have been eliminated. Tariffs and excise duties are also to be substantially revised in order to promote an efficient industrial structure. The Nigerian Government recognizes that the present system of industrial licensing has constituted a barrier to investment. Regulations governing industrial establishment are to be streamlined. The Nigerian Government desires to encourage direct foreign investment and has eliminated the restrictions on the outflow of bona fide dividends and profits.

9. The public enterprise sector in Nigeria is quite large. At the Federal level alone, it comprises of well over 150 enterprises spread over agriculture, mining, manufacturing, transport, commercial and other service activities. Government investment in this sector is above ₦ 23 billion (₦ 8 billion equity and ₦ 15 billion in loans) but the returns thereon are

less than ₦ 500 million annually. The Government is thus clearly not receiving a fair return on its investment outlay, while it continues to pay interest charges and principal on the huge loans. This state of affairs can no longer be allowed to continue. These public enterprises will therefore be rationalized - either fully or partially privatized, or fully or partially commercialized wherever it is possible - after detailed study. Purely social public enterprises will continue to operate under existing legislation, provided their level of supplementation is ascertained after the rates or fees being charged for their services have been properly rationalized. Enterprises which operate in a fully commercial manner will be fully privatized. Some partially privatized enterprises will have the Government equity holdings in them substantially reduced and will therefore be required to operate like private companies where they are not already doing so. In such cases Government will no longer provide any operating subventions. Such companies will be expected to tap the capital markets for their future financing needs. The fully commercialized enterprises will also be expected to operate without Government operating subventions and Treasury support for future capital developments. Those partially commercialized will be those that can generate a fair proportion of their financial resources but may continue to need some government support towards meeting part of their future capital investments. The purely public institutions will continue to impose user charges as may be appropriate.

10. In light of the steady decline in the volume of non-oil exports over recent years, a major aim of the adjustment programme is to reduce dependence on oil exports and promote non-oil exports. The Government believes that there is a considerable market for Nigeria's traditional products, and that there is scope for exporting manufactured goods to neighbouring countries. The main incentive to increased exports will be the new exchange rate. However, the Government has adopted a package of additional export promotion measures. These measures include the elimination of export bans, duties, and licences, the elimination of the Commodity Boards, the institution of a duty drawback scheme, and the reorganization of the Nigerian Export Promotion Council. The new exchange system also allows exporters to retain in domiciliary accounts all foreign exchange earned. The Nigerian Government hopes to achieve an average annual growth rate of non-oil exports of at least 20 per cent over the remainder of the decade.

11. We intend to remain current on our external account from now henceforth. In this regard, we have presented a comprehensive enduring solution in the form of a realistic and sensible multi-year rescheduling proposal to our creditors. This was formally presented to the London Club group of creditor banks at our meeting of 11-12 September. The Paris Club has also been intimated of the proposal which would be formally presented to them shortly.

12. Our proposal has been reviewed with, and received the support of, the World Bank and the International Monetary Fund. Implementation of our

proposal will both provide an important source of increased degrees of freedom for domestic macro-economic management and improve our relationships within the international economic community.

13. In our transformation process, while we emphasize on self-reliance, we count on the participation of our genuine friends in the requisite productive endeavour. The medium- and long-term prospects of the Nigerian economy are vast for mutually beneficial activities in the medium and large manufacturing and engineering industries. Under the new economic dispensation, it goes without saying that these activities will have to rely correctly on local sources of materials.

14. No society can make progress unless it satisfactorily prospects the future and invests in both science and technology and economic activities which are relevant in that future period and is competitive in the context of the global economy. That is why we have taken a resolute step in correcting our anomalous price structure; that is why also we are devoting 2 per cent of the 1987 Budget in research targeted on materials development.

15. The measures outlined above are considered by the Government to be prerequisites to the diversification of the economy and sustained growth over the medium term. Sustained economic growth will require continued flows of external finance. The Government will continue to pursue rigorous fiscal and monetary policies and maintain its programme of supporting the private sector as the main engine of economic growth.

16. Nigeria is confident that the policies and measures outlined herein will help attain the objectives of the Structural Adjustment Programme and put the country on a steady growth course.

17. The present complex of policies in economic management is in my view truly revolutionary. Throughout the past 25 years, previous administrations have skirted the issue of economic reform. This, however, is the first attempt to boldly and intelligently face up to the entailed reforms. This step is expected to have a lasting beneficial impact on the Nigerian economy and the West African sub-region.