GENERAL AGREEMENT ON

TARIFFS AND TRADE

RESTRICTED

BOP/W/136
26 February 1991

Limited Distribution

Committee on Balance-of-Payments Restrictions

CONSULTATION WITH NIGERIA (SIMPLIFIED PROCEDURES)

Background paper by the Secretariat

1. This paper has been prepared in accordance with paragraph 7 of the Declaration on Trade Measures Taken for Balance-of-Payments Purposes (BISD 26S/205-209) to assist the Committee in taking the decision referred to in paragraph 8 of that Declaration. It updates the paper prepared for the 1988 consultation (BOP/W/118).

I. Previous consultations with Nigeria

2. Nigeria's first consultation with the Committee was held in April 1984 under Article XVIII:12(a). Subsequently, two simplified consultations were held in October 1986 (BOP/R/165) and in October 1988 (BOP/R/179).

II. Nigeria's trade and exchange system: evolution since the last Consultation

(a) Import restrictions

3. In September 1986, Nigeria abolished all import licensing requirements and reduced the list of prohibited imports. Import prohibition is, however, still applied to two broad groups of products: those whose importation is prohibited for reasons of national security, public health, safety, or morality (Schedule 4 of the Nigerian Tariff of 1988); and goods which may be imported only as personal effects (Schedule 3). These lists were annexed to the Secretariat background paper for the previous consultation with Nigeria (BOP/W/118). The "personal effects" group, as amended in 1989, comprises 16 broadly defined product categories. These include poultry (except day-old chicks); vegetables; processed wood; eggs; fresh fruit and fruit juices; textile fabrics; domestic articles made of plastics; beer, soft drinks, malt and barley; rice and rice products; maize and wheat products; wheat and wheat products; sparkling wines; vegetable oils; aluminium sulphate; and retreaded and used tyres. Cigarettes, jewellery and precious metal articles, gaming machines and particle boards were removed from prohibition in 1989; at the same time import duties on these items were raised substantially.

4. Until the end of 1990, all imports valued more than US$5,000 were subject to preshipment inspection under the "Comprehensive Import Supervision Scheme" to ascertain quality, quantity and normal price. Unless a "Clean Report of Findings" on the goods to be imported has been issued, foreign exchange payment for imports may not be made. The minimum value for pre-shipment inspection was lowered to US$1,000 in the 1991 budget in order to combat circumvention of import prohibitions and duty evasion.

(b) Exchange regulations affecting trade

5. A two-tier Foreign Exchange Market, consisting of an auction held by the Central Bank of Nigeria and an interbank market, was in operation in Nigeria until the end of 1988. Until March 1987, auctions were held on a weekly basis, with the price being determined by marginal bid; the price charged to all successful bidders was the price which exhausted the supply to the market. Starting in April 1987, the auctions were held on a bi-weekly basis and the pricing rule was changed from the marginal bid system to a "Dutch Auction" system at which each of the successful bidders paid the exchange rate specified in the bid. The last auction was held on December 8, 1988, when the Government announced the introduction of a new Interbank Foreign Exchange Market with the aim of unifying the exchange system and moving the exchange value of the Naira towards a market-determined rate.

6. The new "unified" foreign exchange system consists of a dealer market and a daily allocation of foreign exchange to that market by the Central Bank of Nigeria. The applicable exchange rate, called the central rate, is determined by the Central Bank on the basis of quotations submitted by the banks on that day. Since the end of 1990, the Central Bank, after deducting amounts required to make official external payments and allowing for a targeted increase in reserves, allocates official foreign exchange receipts to authorized dealers through a Dutch auction system. Dealers succeeding in the auction receive an allocation of foreign exchange based on their relative size (in terms of capital). They are then free to sell to their customers foreign exchange to make any payments abroad consistent with Nigeria's exchange control regulations.

7. Currently, all licensed commercial banks and merchant banks have been appointed as authorized dealers by the Ministry of Finance and are empowered to deal in foreign currencies and to approve applications in accordance with guidelines set by the Central Bank.

8. Private sector receipts can be sold directly to foreign exchange dealers. Dealers are also free to sell foreign exchange to their customers for any payments abroad consistent with Nigeria's liberal exchange control system. Authorized dealers must sell foreign exchange obtained through the market at a margin of not more than 1 per cent of the buying rate.[1]

9. Authorized payments may be made in Naira or in any foreign currency. Export proceeds may be received in Naira or in any convertible currency. Settlements with the central banks of West African countries are made through the West African Clearing House.

10. In September 1989, in order to enlarge the scope of the official market for foreign exchange transactions and reduce the parallel market, the government authorised the establishment of private bureaux de change,

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[1]Nigeria's exchange regulations and exchange system are described by the IMF in the 1990 Annual Report on Exchange Arrangements and Exchange Restrictions.

permitted to buy and sell foreign currency notes freely and to buy travellers' cheques. The exchange rate in this market has normally been higher than the IFEM rate and approximates that of the parallel market.

11. Nigeria does not maintain restrictions on payments for invisibles. The basic allowance for tourist travel is US$500 per year, and for business travel, US$5,000 per trip per enterprise. The exportation of Naira in excess of N50 is prohibited. Declaration of foreign currency imports of more than US$5,000 is required for statistical purposes.

(c) Import duties and other charges

12. A new tariff classified according to the Harmonized System was introduced by Nigeria in January 1988. This established the structure of tariffs to be applied from 1988 up to 1994. The structure of duties, which was intended to continue in force until 1992, provides broadly for rates of 5-25 per cent for machinery, equipment, spare parts and components; 15 per cent on raw materials; 10-45 per cent on consumer goods; 50-100 per cent on luxury consumer items; and 50-200 per cent on automobiles. From 1993 onwards, the tariff provides for reductions in most higher rates of duty while increasing low rates of 5 or 10 per cent to a minimum of 15 per cent. The spread of rates on industrial products by 1994 will thus be generally between 15 and 60 per cent as against 5 to 90 per cent at present; most semi-manufactures and capital goods will be taxed at rates between 15 and 40 per cent.

13. A number of significant changes were made to individual duty rates in 1989 and 1990. In 1989, duties on cigarettes and jewellery were raised to 200 per cent, and that on particle board to 50 per cent, as import bans on these products were lifted; tariffs on footwear, sorghum, cigars, perfumes, make-up, calendars, mosquito coils, alum, bentonite and barytes were raised to 100 per cent; tariffs on a number of other consumer and industrial goods were also increased, while reductions were made in duties on iron ore (eliminated); flat steel products; Portland cement; tractors, buses and trucks; milk powder and fats; certain types of machinery and a number of other items. In 1990, the tariffs on starches; primary cells and batteries; and electric light bulbs and their glasses, were raised to 200 per cent, while duties on a range of goods including cycle frames, forks and chains; plasticised PVC; aluminium foil; and colouring materials and inks were raised to a lesser degree. Rates on a number of capital goods, buses, wood in the rough, fertilizers and insecticides and a number of other industrial goods were reduced. The 1991 Budget has again brought about a number of tariff adjustments.

14. None of Nigeria's tariffs except that on stockfish is bound in GATT. The 1991 Budget statement also indicated that the effectiveness of the tariff system as a protective mechanism would be kept under review in 1991 and that anti-dumping procedures - particularly relating to determination of dumping - would be overhauled.

15. In addition to import tariffs, three import surcharges continue to apply: a 5 per cent Port Development tax levied on all goods entering by air or sea, a 1 per cent Raw Materials and Development Council surcharge, and a 0.02 per cent Freight Rate Stabilization surcharge earmarked for the

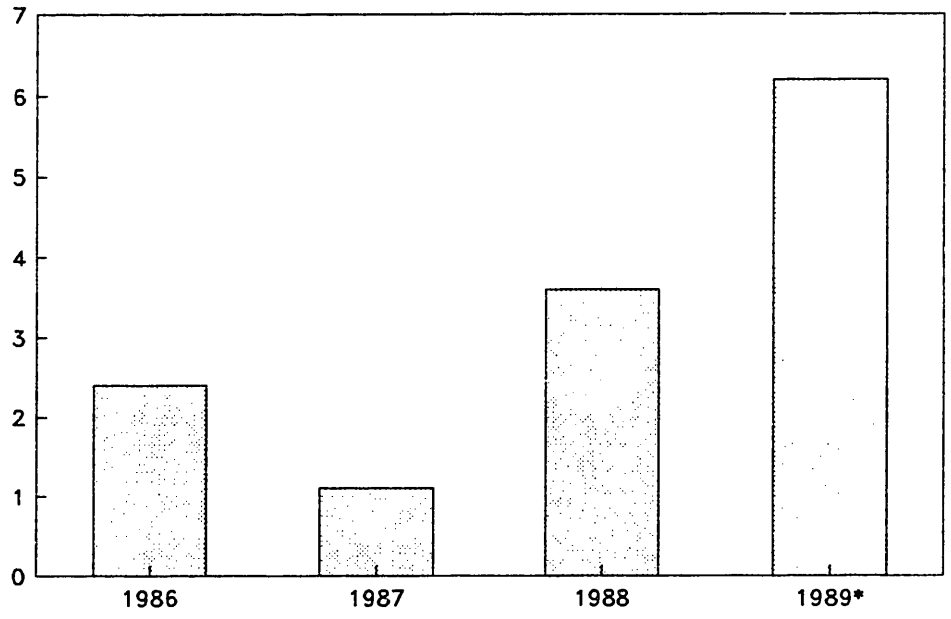
Nigerian Shippers Council. It is also reported that a fiscal entry duty of up to 60 per cent is levied on the c.i.f. price of certain imports.

III. Economic and trade developments in 1988-1990

(a) Aggregate supply and demand

16. Nigeria's gross domestic product grew at just over 3.5 per cent in real terms in 1988, a noticeable improvement over 1987 which posted real GDP growth of about 1 per cent (Graph 1). There appear to be three leading causes of the increased growth: an expansion in the volume of oil production, recovery in manufacturing production, and improved output in agriculture. Oil production increased by 4.6 per cent to 1.45 million barrels per day (mbd) in 1988. The recovery in manufacturing was a result of a combination of better access to foreign exchange which enabled manufacturers to obtain imported spare parts and raw materials; some increased local sourcing of raw materials; and an increase in domestic demand. Finally, liberalization of marketing arrangements in agriculture and improved price incentives, together with better weather conditions, led to higher farm output.

Graph 1 – Nigeria – Real GDP
(Annual percentage change)



Source: IMF.
*Preliminary.

17. On the demand side, there was a marked increase in federal government expenditures during the first half of 1988. The nominal value of oil exports fell by 9 per cent in 1988, despite increased production. There was an adjustment of wage rates across both the public and private sectors. Gross domestic investment was over 11 per cent of GDP in 1988. Unemployment, according to a survey conducted by the Federal Office of Statistics in September 1988, stood at 4.7 per cent, down from 7.4 per cent in September 1987 and 5.3 per cent a year earlier. However, unemployment rates in urban areas remained significantly above average.

18. Preliminary information for 1989 suggests that real growth of GDP was just over 6 per cent, a significant improvement over past years. Oil production increased to 1.69 mbd, almost 17 per cent above the 1988 figure, and its highest level since 1985. The rising price of oil, together with increased production, caused the average daily export value of oil to rise by about 46 per cent in 1989 relative to 1988.

(b) Public finances

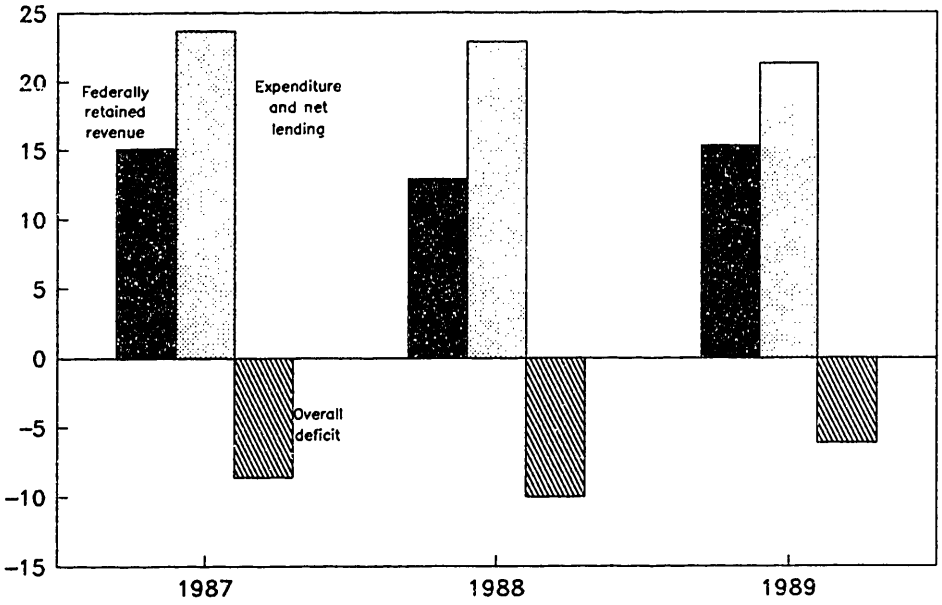
19. The public sector in Nigeria consists of the Federal government, 21 state governments, more than 150 local authorities, and a substantial list of public enterprises. The principal source of federally collected revenue is from receipts for the production and export of petroleum products.

20. The cost of servicing Nigeria's foreign debt rose sharply in 1987, causing a severe deterioration of the fiscal balance. Despite increased federal revenues from petroleum production (up about 62 per cent over 1986 in nominal terms) the overall public sector deficit (on a commitment basis) reached 8.6 per cent of GDP according to current figures, more than triple the figures for 1985 and 1986 (Graph 2).

21. Figures for 1988 show the overall deficit (on a commitment basis) rising again, reaching 10 per cent of GDP. Federally retained revenue was about 12 per cent above its 1987 level while expenditures rose by 27 per cent. These figures show that federally retained revenue fell to 13 per cent of GDP (from 15 per cent in 1987), while expenditures declined slightly to 22.9 per cent of GDP.

22. The government's 1989 budget was predicated on a conservative estimate of world oil prices ($14 per barrel) and proposed substantial expenditure cuts in order to reduce the overall deficit-to-GDP ratio. Higher than expected revenues from the oil sector caused federally retained revenues rise to over 15 per cent of GDP in 1989 while expenditures dropped to some 21 per cent of GDP. This led to an improvement in the fiscal balance; the deficit fell to 6 per cent of GDP, the lowest level since 1986 when it had been below 3 per cent.

Graph 2 – Nigeria –
Federal Government Budget
(Percentage of GDP)



Source: IMF.

23. No information is currently available on the outcome of Nigeria's fiscal operations in 1990.

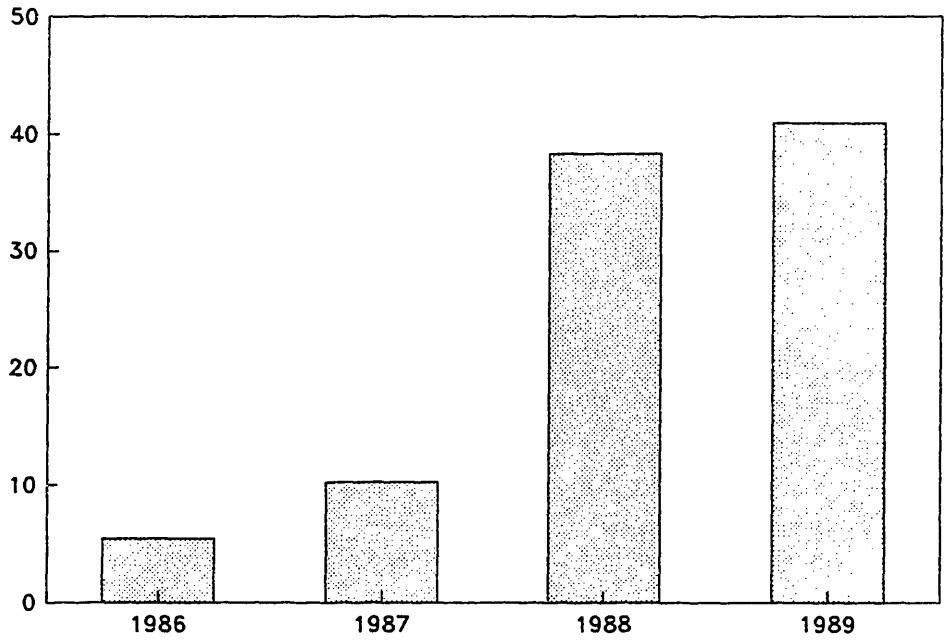
(c) Money and credit

24. The supply of narrowly defined money grew by about 16 per cent in 1987 while the growth figure for the broader monetary aggregate, money and quasi-money (roughly M2) was 22.8 per cent. In 1988 the government announced a reflationary budget, including a relaxation of monetary policy. Narrow money grew by 47 per cent and quasi-money by 22 per cent, leading to an overall increase of 33 per cent. Inflation, as measured by consumer prices, was already on the rise in 1987 (Graph 3) and the substantial increases in the money supply in 1987 and 1988, together with evidence of an increase in the velocity of money (suggested by a shift in the money stock away from savings and time deposits toward currency and demand deposits), pushed the 1988 inflation rate (on an annual average basis) to 38 per cent.

25. Some effort to stem inflationary pressures through tighter monetary policy came in August of 1988 when the "cash ratio" (a reserve-requirement ratio for commercial banks) was raised from between 2 and 5 per cent (higher ratios apply to larger banks) to a range of 4 to 7 per cent. It was raised again in January 1989 to 5 - 8 per cent and to 6 - 9 per cent in April 1989. These efforts at indirect monetary restraint resulted in the growth of narrow money falling to annualized rates of 21.7, 15.3 and

28.5 per cent in December 1989, March and June 1990, respectively. The quasi-money component of the money stock rose on average by less than 1 per cent a month during the period from December 1989 to June 1990. Possibly fuelled by earlier money growth, high inflationary expectations, and consequently higher velocity of circulation, the CPI inflation rate for 1989 was slightly above that of the previous year at 40.9 per cent on an annual average basis. However, if these levels of monetary growth are maintained or reduced, they should moderate inflation in the course of 1991. Some signs of this is already seen in a lower end-year figure for inflation (28 per cent).

Graph 3 – Nigeria– Consumer prices
(Annual percentage change)



Source: IMF.

(d) Balance of payments

26. Figures provided by the IMF indicate that the overall balance of payments deficit of Nigeria declined sharply in 1989 and 1990 relative to 1987-1988, and that the current account balance, which had been in substantial deficit up to 1988, moved into surplus in 1989. The surplus is estimated to have increased in 1990.[2]

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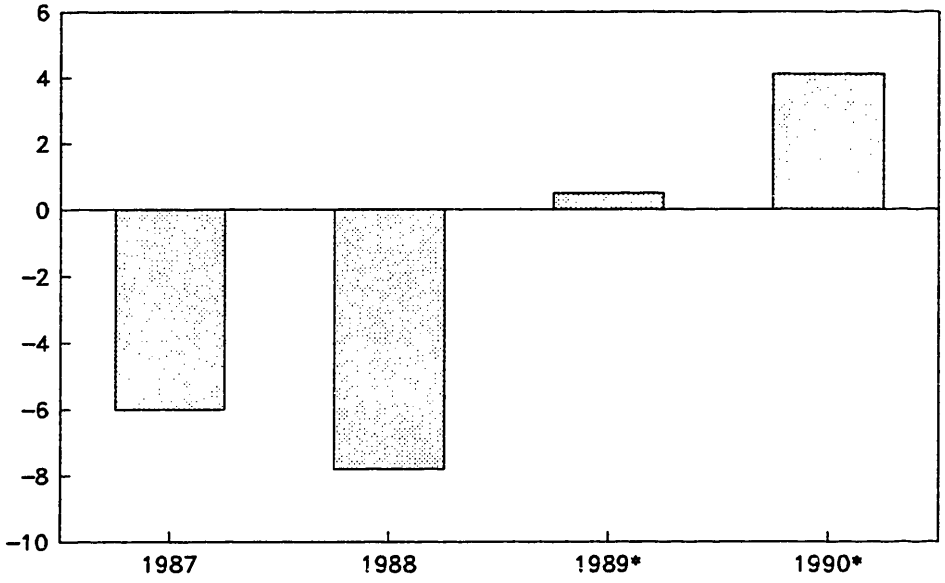
[2]See Table 1 for definitional questions. The statement presented by Nigeria to the Committee indicates an overall balance-of-payments surplus of US$1.2 billion in 1989, with a current account surplus of US$1.9 billion (BOP/...).

27. The merchandise trade surplus is estimated to have trebled between 1988 and 1989 to reach US$4.2 billion, and may have increased by a further 46 per cent in 1990. The main contributory factor was a sharp rise in the value of petroleum exports, from US$7 billion in 1988 to an estimated US$9.8 billion in 1989, resulting from higher prices and volumes of petroleum exports. The continuing rise in the price of oil in the first half of 1990 - with production running about 12 per cent above that for the same period in 1989 and the effects of events in the Middle East later in the year, should have increased Nigeria's merchandise trade surplus still further.

Graph 4 – Nigeria – Current account balance
(Percentage of GDP)



Source: IMF.
*Preliminary

Table 1 - Nigeria - Balance of payments
(Millions US dollars)

	1987	1988	1989*	1990*
Trade balance	1 758	1 291	4 206	6 154
- Merchandise exports	7 532	7 053	9 782	13 371
- Merchandise imports	-5 774	-5 761	-5 576	-7 217
Services (net)	-3 460	-3 844	-4 039	-4 655
- Factor services (net)	-2 770	-2 903	-2 758	-2 910
- Non factor services (net)	-690	-940	-1 280	-1 745
Private transfers	-4	-26	-10	-10
Current account	-1 706	-2 578	158	1 489
Official transfers (net)	-20	89	113	68
Direct investment	613	359	2 438	458
Official borrowing	-3 233	-3 432	-2 205	-2 923
Private borrowing	-47	-26	-18	-18
Short-term capital and errors and omissions	101	689	-2 216	-924
Capital account balance	-2 586	-2 320	-1 887	-3 339
OVERALL BALANCE	-4 292	-4 899	-1 730	-1 850

*Preliminary figures.

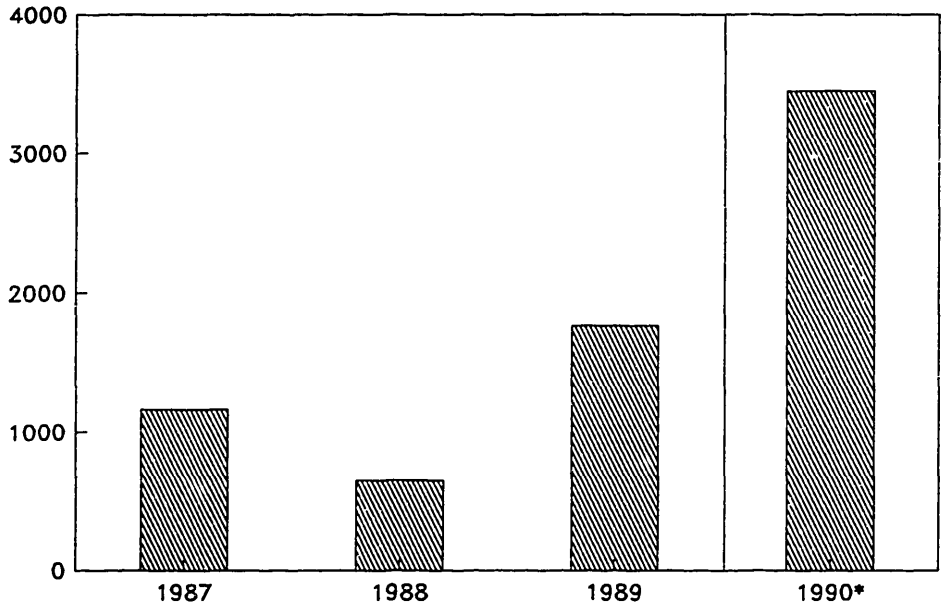
Note: The reported overall balance indicates the balance as it would have been had Nigeria met all of its debt-servicing obligations.

Source: IMF.

28. IMF estimates for the capital account show substantial deficits over the period 1987-90. A fall in the deficit for 1989 appears to be due to the sale of equity in the Nigerian National Petroleum Corporation which entered the capital account as direct investment.

29. During the 1986-90 period, a substantial value of Nigeria's arrears of debt was rescheduled or granted relief, particularly in 1987 and 1989. This process of rescheduling and debt relief, together with the current account developments described above, contributed to substantial increases in Nigeria's international reserves in 1989 and the first three quarters of 1990.

Graph 5 – Nigeria – International reserves (excluding gold)
(Millions US dollars)



*September 1990
Source: International Financial Statistics, IMF, January 1991

30. The new exchange rate policy followed by the Nigerian central bank has contributed to the favourable balance of payments situation. Until January 1989, the Central Bank of Nigeria sold foreign currencies to banks once every two weeks. At that time the fortnightly foreign exchange auction was replaced by a daily sale under a new Interbank Foreign Exchange Market. The new system was intended to manage the Naira's movement toward a market-determined rate with the eventual unification of the autonomous and official sector in foreign exchange trading. At the moment of this policy change the naira depreciated sharply, due to the excess demand for foreign exchange implied by the ongoing balance of payments deficit (Table 2). From December 1988 to January 1989 the official rate (naira price of US dollar) increased by 35 per cent and the parallel (market) rate increased by 29 per cent. The parallel rate shows signs of having anticipated the policy change early in December 1988. From the end of November 1988 to the end of January 1989 the parallel rate increased by 55 per cent. Other things equal, allowing the naira to float freely would tend to eliminate the payments imbalance.[3] As indicated in Table 1, while the balance of

[3]Under a policy of market-determined exchange rates, with no central bank intervention in the foreign exchange market, the exchange rate adjusts endogenously to clear the foreign exchange market ensuring a balance of payments of zero.

payments deficit narrowed significantly, it did not disappear. Yet Graph 5 indicates that there is a notable increase in international reserves in 1988 and 1989. Hence the payments deficit was not only not financed out of existing international reserves; it was deepened by the accumulation of reserves. Financing of the payments deficit for 1989 occurred through debt relief. According to preliminary figures for 1990, however, there is a remaining financing gap of US$1151 million, or 62 per cent of the reported BOP deficit.

31. According to World Bank figures, Nigeria's total external debt (EDT) as a percentage of GNP stood at 135.2 per cent in 1987 (Graph 6), following an increase in the total debt stock for Nigeria (in US dollars) of about 30 per cent over the 1986 level. The 1987 EDT/GNP ratio was significantly above that in 1986 when it was 52.7 per cent. Values in the 20-23 per cent range were the norm in 1983-85. In 1988 and 1989 the ratio of external debt to GNP declined 114.7 and 119.3 per cent, respectively. In 1987, the ratio of total debt service (TDS) to exports of goods and services (XGS) stood at 13.3 per cent, the lowest level since 1982. For 1988 and 1989 the TDS/XGS ratios at 29 and 21.3 per cent, respectively.

Table 2 - Nigeria
Nominal Exchange Rates
(Naira per U.S. dollar)

		Central rate[1] (per cent)	Parallel rate[2]	Spread
1988	January	4.2	4.6	8.9
	February	4.3	4.6	5.9
	March	4.3	5.1	19.1
	April	4.2	5.9	41.2
	May	4.0	6.4	58.9
	June	4.3	6.6	52.3
	July	4.7	6.4	33.9
	August	4.5	6.5	41.3
	September	4.7	6.0	29.0
	October	4.8	5.9	23.7
	November	5.3	6.4	20.6
	December	5.4	8.2	54.8
1989	January	7.2	10.0	38.0
	February	7.6	12.0	58.1
	March	7.6	11.4	50.3
	April	7.6	11.5	52.1
	May	7.5	11.5	54.3
	June	7.2	10.5	46.2
	July	7.2	10.2	41.7
	August	7.3	10.3	41.1
	September	7.4	10.3	39.9
	October	7.5	10.2	35.9
	November	7.5	10.1	33.5
	December	7.7	9.5	24.2
1990	January	7.9	9.6	21.2
	February	7.9	9.4	18.0
	March	7.9	9.3	16.5
	April	7.9	9.1	14.9
	May	7.9	9.3	17.7
	June	7.9	9.5	19.0
	July	8.0	9.9	23.8
	August	8.0	9.6	19.9
	September	8.0	9.7	21.5
	October	8.1	10.0	23.5
	November[3]	8.7	10.1	16.3
	December[3]	9.0	10.1	12.3

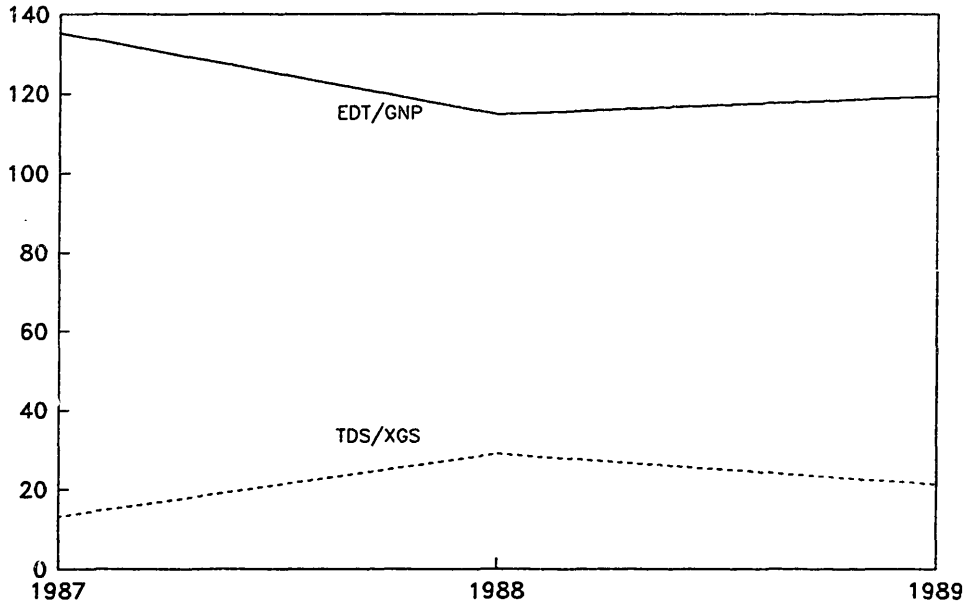
[1]The central rate refers to the official exchange rate.

[2]The parallel rate refers to the free market bureau de change exchange rate. Prior to January 1989, the parallel rate refers to the interbank rate.

[3]Provisional.

Source: IMF.

Graph 6 – Nigeria –
External debt indicators
(Percentage)



EDT refers to total external debt; TDS refers to total debt service; XGS refers to exports of goods and services;
Source: World Debt Tables, The World Bank, 1990–91.

32. Nigeria has reportedly been able to meet its debt-servicing requirements under the rescheduling agreement signed in 1989. Nevertheless, some doubts have been raised about future servicing. In his 1990 Budget address, the President indicated that the debt service requirements were "too high and unsustainable." In April 1990 interest payments to the London Club were reduced to a flat rate of 3 per cent beginning in the second half of May. In January 1991 a rescheduling agreement was reached with Paris Club creditors covering debt servicing of US$3.3 billion falling due up to March. The Paris Club agreement also provides for the long-term rescheduling of development aid loans and guarantees commercial credits, with grace periods of 10 and 8 years respectively. Even with this rescheduling, reports suggest that Nigeria's debt servicing obligations will rise from 33 to 40 per cent of export values in 1991. Further talks are expected soon with London Club creditors; in 1991 Nigeria is scheduled to pay about $1 billion to London Club commercial banks.