GENERAL AGREEMENT ON TARIFFS AND TRADE

RESTRICTED
BOP/W/151
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Committee on Balance-of-Payments Restrictions

1993 CONSULTATION WITH NIGERIA UNDER ARTICLE XVIII:12(b)

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).

I. Previous consultations with Nigeria

2. Nigeria first consulted with the Committee in April 1984 under Article XVIII:12 (a). Subsequently, three simplified consultations have been held in October 1986 (BOP/R/165), October 1988 (BOP/R/179) and in March 1991 (BOP/R/190).

3. At the last consultation, Committee members welcomed the liberalization of trade and exchange restrictions pursued to date by Nigeria, although a number of restrictions introduced initially for balance-of-payments reasons remained in force.

II. Recent changes in trade policy

(a) Import restrictions

4. Import licensing was abolished in 1986, when the authorities introduced a two-year Stuctural Adjustment Programme aiming for trade liberalization and market-oriented reforms. The list of prohibited imports was reduced, but prohibitions continued to apply for reasons of national security, public health or morality to products listed in Schedule 4 of the (1988) Nigerian Tariff. Another 18 broadly defined product groups were banned for balance-of-payments purposes and could be imported only as personal effects (Schedule 3). The lists were annexed to the Secretariat background paper for the 1988 consultation with Nigeria (BOP/W/118).

5. In January 1989, branched alkyl benzene and bentonite and barytes were added to the Schedule 3 list. Prohibitions were lifted on cigarettes, particle boards, gaming machines, jewellery and precious metal articles during 1989, but import duties on these items were increased significantly. At the time, conditional import prohibitions covered about 21 per cent of all six-digit tariff items.

6. Absolute prohibitions on imports of fish (except when landed by authorized vessels), meat, chicken and some other products were introduced in December 1989. Since April 1992, import restrictions on pharmaceuticals have been relaxed as private individuals may now import drugs prescribed by qualified doctors. Importers with proven milling capacity were permitted to import wheat during the final two months of 1992.

7. Export prohibitions have been introduced to encourage local processing or mitigate shortages in the home market. In 1988, the authorities banned exports of timber, wood in the rough and

processed wood except furniture, furniture components and gmelina. Subsequently, prohibitions have been extended to cassava tuber, maize, yam tuber, beans, rice and products derived from these crops (1989); all imported food items (1989); raw hides and skins (1990); and palm kernels (1991).

8. All imports valued at more than US$1,000 (the limit was US$5,000 before 1991) are subject to preshipment inspection to ascertain quality, quantity and normal price. A "Clean Report of Findings" is required to effect settlement in foreign exchange.

9. The current list of import and export prohibitions is attached as Annex I to the Nigerian basic document (BOP/313) for this consultation. Nigeria has not specified the GATT justification for these prohibitions.

(b) Exchange regulations affecting trade

10. Prior to December 1988, foreign exchange was traded in a weekly auction system managed by the Central Bank of Nigeria (CBN) and in an interbank market. New regulations established a dealer market, supplied daily with foreign exchange from the CBN through a Dutch auction system. Successful bidders were allocated foreign exchange based on their relative size (in terms of capital). The Ministry of Finance accepted all licensed commercial banks and merchant banks as authorized dealers. Private bureaux de change were authorized in September 1989 to enlarge the scope of the official market for foreign exchange transactions and reduce the parallel market.

11. Persistent downward pressure on the naira exchange rate in the parallel/bureaux de change market led to a widening margin to the dealer market rate, reaching 80 per cent in February 1992. On 6 March 1992, the CBN raised its offer rate from N10.67 to N18 per US dollar. Allocation of foreign exchange based on predetermined quotas was discontinued.

12. Currently, the CBN is ready to trade foreign exchange with any licensed foreign exchange dealer bank at the going rate. However, banks participating in the weekly auction are required to raise the naira equivalent before collecting their allocation. Banks are free to purchase foreign exchange from any source and sell foreign exchange to any client upon presentation of approved documents. The maximum permitted spread between buying and selling rates is 1 per cent. All dealings in foreign exchange must be reported to the CBN for statistical purposes.

13. Authorized payments may be made in naira or in any foreign currency. Export proceeds may be received in naira or any convertible currency. Settlement with central banks of West Afrian countries are normally made through the West African Clearing House.

14. Restrictions on capital transfers have been abolished, but evidence of importation or exportation must be provided to the authorities. Strict debt-equity ratios are enforced on all foreign investors in Nigeria to prevent borrowing of naira for repatriation of funds.

15. Most payments for invisibles are unrestricted. The basic allowance for business travel is US$5,000 per trip per enterprise. The allowance for tourist travel is US$500 per year. Exportation or importation of more than 100 naira is prohibited. Imported foreign currency of a value equal to US$1,000 or more must be declared for statistical purposes.

(c) Import duties and other charges

16. The Harmonized System customs tariff introduced in January 1988 established the structure of tariffs to be applied until 1994. The general tariff structure to be applied up to 1992 established rates of 5-25 per cent on machinery, spare parts and components; 15 per cent on raw materials; 10-45 per cent on consumer goods; 50-100 per cent on "luxury" items; and 50-200 per cent on automobiles. Starting in 1993, low tariffs would be raised to 15 per cent and most higher rates reduced, resulting in a general tariff spread of 15 and 60 per cent on industrial goods in 1994. Most capital goods and semi-manufactures would enter at rates between 15 and 40 per cent.

17. Tariff reforms in 1988 were designed to provide a stable tariff structure for the following seven years. However, selective amendments in tariffs have occurred every year since then. During 1989-1991, changes involved increases in import duties up to 100 to 300 per cent on certain products. Affected items included steel products, sorghum, toothbrushes, cigarettes and jewellery. Only one tariff item, stockfish, is bound under GATT.

18. Anti-dumping actions have resulted in increases in m.f.n. tariffs. Effective January 1989, duties were changed from 35-70 per cent to 200 per cent on fluorescent tubes, R.20 batteries, starch, GLS tubes and glass shells. Higher duties apply to all sources, apparently for administrative reasons. Nigerian anti-dumping legislation is to be reviewed.

19. Import duties have been reduced on inputs for local industries. Examples include battery parts, cold rolled and hot rolled sheets, tin plates, milk powder and fats, refractory bricks, sheet glass and marine engines. Following the March 1992 devaluation, relief measures included tariff reductions on assembled commercial vehicles, duty free concessions on CKD components and spare parts for commercial vehicles and removed or reduced duty on certian essential drugs, industrial and agricultural inputs from 1 April 1992. Implementation of zero duty on imported cement began in May 1992.

20. The Department of Customs and Excise levies a 7 per cent across-the-board surcharge on imports, comprising a Port Development tax (5 per cent), a Raw Materials and Development Council surcharge (1 per cent) and a Shippers' Council surcharge (1 per cent). The taxes are levied to maintain the services of these bodies. Landing charges, equivalent to excise duties on imports competing with local products subject to excise duty, have been levied since 1988. Excise taxes, ranging from 5 to40 per cent, affected some 160 items in 1991.

III. Macroeconomic and Trade Developments[1]

(i) Introduction and overview

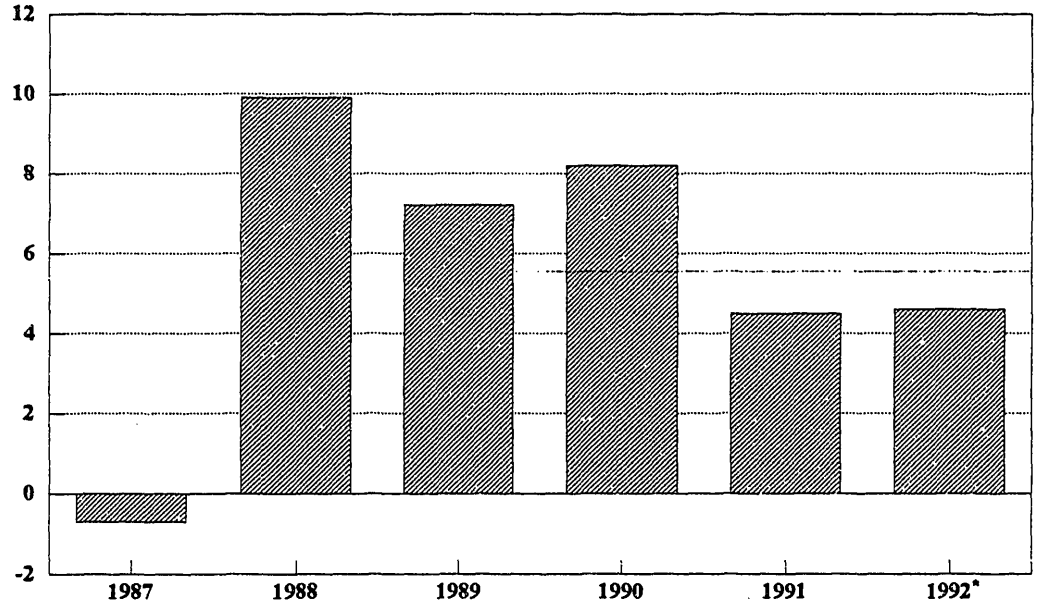
21. The Nigerian economy experienced substantial difficulties following the weakening of oil markets and the increase in real interest rates during the first half of the 1980s. A prolonged downturn in economic growth started in 1981, real GDP (at factor cost) falling by almost 18 per cent between 1981 and 1984. Total exports fell from US$ 25.7 billion in 1980 to US$ 6.0 billion in 1986, largely as the result of a collapse in oil prices. The current account and fiscal deficits both reached 9.5 per cent of GDP in 1983. The Nigerian Government made heavy recourse to international capital

[1]All data in this section are based on IMF sources, except where noted otherwise.

markets to finance these deficits. In mid 1986 a structural adjustment programme was adopted by the Government. This included liberalization of foreign exchange and trade systems, the elimination of many price controls, a real depreciation of the naira and public sector reform (including a privatization-cum-commercialization programme of state-owned enterprises).

22. After registering a decline of 0.7 per cent in 1987, real GDP grew throughout the 1988-92 period (Graph 1), boosted in large part by the recovery of the oil sector and the impact of the structural adjustment programme. Although oil accounts for only one-seventh of GDP, the oil sector generates over 90 per cent of Nigeria's merchandise exports and some 75 per cent of government revenues. Having fallen by 5.2 and 9.8 per cent in 1986 and 1987, oil output rose by 8.1 and 15.1 per cent in 1988 and 1989, boosted by higher prices on world markets. In 1990 Nigeria benefitted from increases in oil prices subsequent to the crisis in the Persian Gulf, as well as from the associated freeing of OPEC production quotas. The oil sector continued to expand in 1991, although at a slower pace than in earlier years.

Graph 1 - Nigeria: Real GDP
(Annual percentage change)



* Estimate
Source: IMF.

23. The IMF estimates real growth to have been 4.6 per cent in 1992, slightly higher than the 4.5 per cent growth rate achieved in 1991, despite a rise in oil sector output of only 0.3 per cent in 1992 (as compared to 8.1 per cent in 1991).[2] Production of manufactured products was adversely affected by foreign exchange allocation constraints before the March depreciation of the naira. The private sector has also faced crowding out of credit markets due to large government fiscal deficits, which have been a major factor behind a substantial increase in inflation during 1991-92.

[2]Other sources suggest a lower growth rate for 1992.

24. In 1991 the expansion of net domestic credit and broad money led to a substantial rise in inflation. Consumer prices increased by 13 per cent on average in 1991, but inflation was running at a 23 per cent annual rate at the end of the year. The consumer price index is estimated to have increased by 45 per cent in 1992, with inflation running at 55 per cent at the end of August 1992. Inflation was fueled by an increase in fiscal spending - financed by government borrowing from the domestic banking sector - and the March depreciation of the naira. For the year ending October 1992, Nigeria's effective exchange rate depreciated by 31.5 per cent in nominal terms and 16.3 per cent in real terms. These developments contrast markedly with the reduction in inflation that was achieved during 1990, when restrictive monetary and fiscal policies resulted in an average inflation rate of 7.4 per cent for 1990, as compared to 50 per cent for 1989.

25. Gross domestic investment declined between 1982 and 1987, falling to 13.1 per cent of GDP in 1987. Since 1988 it has increased substantially, and is projected to have attained 25.8 per cent of GDP in 1992 (Table 1). Gross national savings increased significantly during the 1986-90 period, rising from 6.4 per cent of GDP in 1986 to 23.9 per cent of GDP in 1992. The average savings rate during 1990-92 was 24.9 per cent, as compared to 8.4 per cent during 1986-88. In 1989 and 1990, gross national savings exceeded gross domestic investment, Nigeria consequently registering a surplus on the current account during these years. In 1991 the current account was almost in balance, gross national savings slightly exceeding gross national investment. In 1992 national investment is estimated to have exceeded national savings by about 2 per cent of GDP. As a result, the current account registered a deficit.[3]

Table 1
Nigeria: investment and savings,1986-91
(Percentage of GDP)

	1986	1987	1988	1989	1990	1991	1992[1]
Gross domestic investment	15.5	13.1	16.2	16.3	18.8	24.1	25.8
Gross national savings	6.4	8.5	10.2	17.7	26.6	24.2	23.9
Current account balance	-9.1	-4.6	-6.0	1.3	7.8	0.1	-2.0
Memorandum item							
National government deficit[2]	4.4	7.6	13.5	5.9	2.9	6.8	10.6

1 Estimate
2 Overall fiscal balance of the Federal government.

Source: IMF

26. According to World Bank data, the stock of total external debt grew continuously throughout the 1980s, rising from US$ 8.9 billion in 1980 (9 per cent of GNP) to US$ 36 billion in 1990 (118 per cent of GNP). The rise in the debt to GNP ratio reflects both the rise in the stock of debt

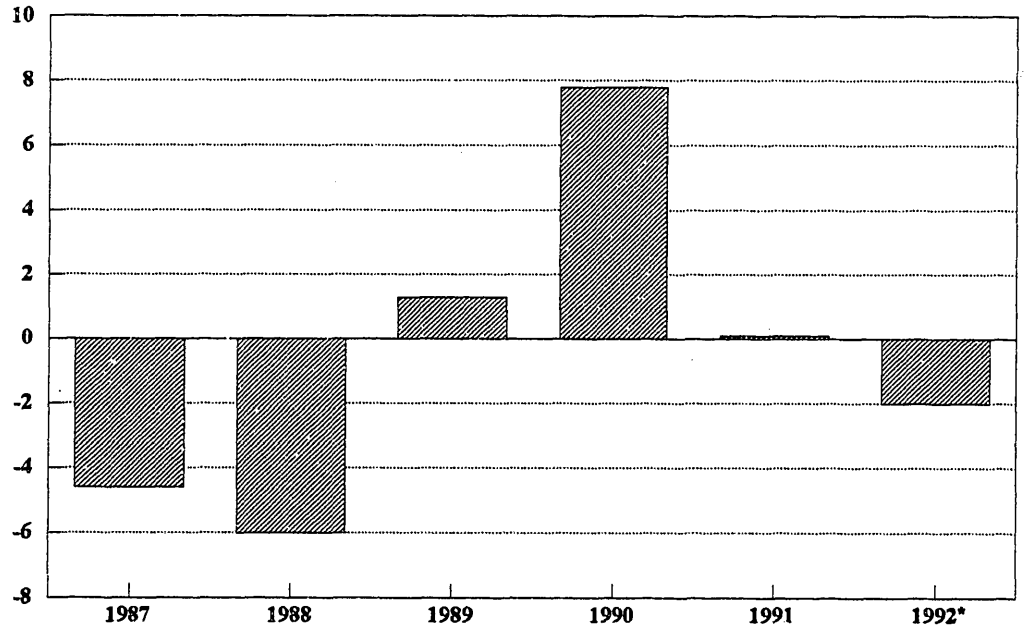
[3] No recent data were available to the GATT Secretariat regarding the breakdown of gross national savings and investment into a public sector and a private sector component.

outstanding and the substantial fall in GNP. Between 1980 and 1990 real GNP fell by over 50 per cent, while nominal GNP in dollar terms -- evaluated at official exchange rates -- fell more than seven-fold. Debt servicing obligations remain severe, despite continued rescheduling and debt relief agreements with official and commercial creditors during 1991. In conjunction with persistent net capital outflows, the overall balance of payments recorded a deficit throughout the 1986-92 period. Although these deficits declined continously during 1986-90 - decreasing from $8.4 billion in 1986 to $590 million in 1990 -in 1992 the overall balance of payments is expected to register a deficit of $6.2 billion.

(ii) Balance of Payments

27. In the latter half of the 1980s Nigeria's merchandise trade account was continuously in surplus. The decline in oil exports up to the mid 1980s and mounting debt service obligations constrained imports, which followed a declining trend until 1989. Significant merchandise trade surpluses have tended to be offset by large deficits on the services and income (invisibles) account. Nigeria generally runs a deficit in its trade in commercial services. This net outflow is augmented by large debt servicing obligations. Between 1989 and 1991 the current account was in surplus, contrasting with large deficits in 1987 and 1988 (Graph 2).

Graph 2 - Nigeria: Current account balance 1987-1991 (percentage of GDP)



* Estimate
Source: IMF.

28. The surplus on the merchandise trade balance increased more than five-fold between 1988 and 1990, rising to $6.8 billion in 1990 (Table 2). The main factor underlying this growth was the rise in oil output (volume of exports) and higher prices for crude petroleum on world markets. The merchandise trade surplus fell by almost 40 per cent in 1991 to reach $4.2 billion. The current account registered a surplus of $400 million in 1989. The surplus increased substantially in 1990,

rising to $2.5 billion. In 1991 the current account surplus virtually disappeared, standing at $27 million, as imports of goods and commercial services surged. For 1992, rising imports and stagnant exports - reflecting the deterioration of the terms of trade and the expansionary fiscal policy stance of the Nigerian government - reduced the merchandise trade surplus to $3.5 billion. Given net service imports of $5 billion and net inflows of unrequited transfers of $1 billion, the current account is estimated to register a deficit of $500 million.[4]

29. Having been in slight surplus in 1985, the balance on the capital account has been negative since 1986, as capital outflows greatly exceeded inflows. As a result, the overall balance has been negative in all years from 1985 to 1992. Net capital outflows declined from a high of $4.3 billion in 1986 to $2.5 billion in 1989. In 1990 net capital outflows increased further to $3.6 billion, falling to $2 billion in 1991. Despite the reduction in net capital outflows in 1991 and a small reduction in debt servicing flows, the overall balance of payments registered a deficit of $2.3 billion in 1991, as compared to a deficit of $600 million in 1990.[5] In 1992 the capital account deficit is estimated to have more than doubled to $5.7 billion, largely accounting for the deficit on the overall balance of payments of $6.2 billion in 1992. Payment arrears on external debt are estimated to have risen to $2.1 billion in 1992, having fallen from $4.5 billion in 1988 to $1.5 billion in 1990.

30. Gross international reserves recovered from a low of $320 million in 1988 (0.5 months of imports of merchandise and commercial services) to a high of $4.2 billion in 1991 (approximately 5 months of imports) (Graph 3). In part this increase reflects continued payments arrears on external liabilities. Reserves peaked in March 1991 at $4.7 billion. Since then reserves have declined as payments arrears were reduced and a buyback of commercial bank debt was implemented (see below). By the end of 1992 reserves had fallen to $2.3 billion (2.6 months of imports).

[4] The Central Bank of Nigeria has reported that in the first half of 1992 both the trade and current accounts strengthened appreciably. The current account is reported to have registered a surplus of $1.6 billion in the first six months of the year, as compared to a $100 million surplus for the same period in 1991.

[5] National sources report a surplus of $1 billion in 1990.

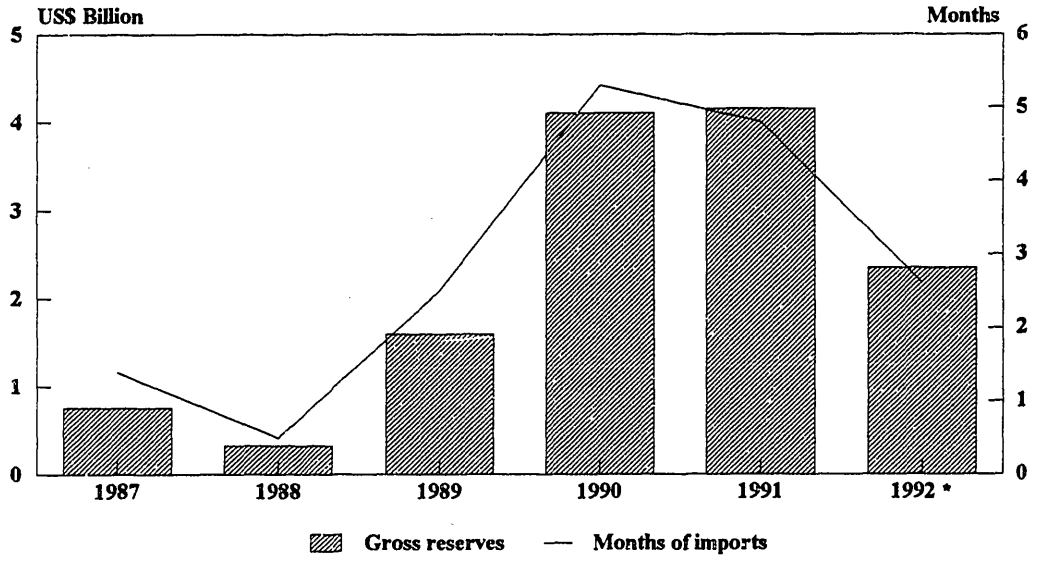
Table 2
Balance-of-Payments, 1986-92

	1986	1987	1988	1989	1990	1991 Prel	1992 Est.
Trade balance	40	1,758	1,292	3,900	6,843	4,234	3,522
Exports f.o.b	6,784	7,532	7,069	9,812	13,914	12,127	11,972
Imports f.o.b.	-6,744	-5,774	-5,776	-5,912	-7,070	-7,892	-8,450
Services (net)	-4,391	-3,460	-3,845	-4,268	-5,389	-5,256	-5,042
Of which: interest due	(-2,085)	(-2,110)	(-2.370)	(-2,357)	(-2,739)	(-2,422)	(-2,169)
nonfactor services (net)	(-1,457)	(-690)	(-942)	(-1,599)	(-2,102)	(-2,287)	(-2,329)
Private unrequited transfers (net)	709	479	544	651	1,029	1,027	1,029
Official unrequired transfers (net)	-140	-20	89	128	48	22	-9
Current account balance	-3,782	-1,243	-1,920	412	2,531	27	-500
Official capital (net)	-2,211	-3,233	-3,432	-2,484	-3,094	-2,566	-6,026
Disbursements	845	736	618	1,217	927	715	560
Amortization due [1]	-3,056	-3,969	-4,049	-3,701	-4,021	-3,281	-6,587
Private capital (net)	424	566	333	2,425	584	615	606
Direct investment	526	613	359	2,443	602	588	544
of which: from debt conversion	(...)	(...)	(42)	(159)	(110)	(58)	(59)
Other (net)	-102	-47	-26	-18	-18	27	62
Short-term capital (net)	-2,556	-531	-428	-2,419	-1,109	-116	-299
Capital account balance	-4,343	-3,198	-3,526	-2,478	-3,620	-2,067	-5,719
Errors and omissions (net)	-282	149	547	522	496	-252	0
Overall balance	-8,407	-4,292	-4,899	-1,544	-592	-2,292	-6,220
Financing	8,407	4,292	4,899	1,544	592	2,292	6,220
Net reserves (increase -)	851	78	331	-1,272	-2,508	-50	1,804
Net nonreserve foreign assets [2]	--	--	--	--	--	--	-352
Accumlation of arrears (decrease -)	2,001	-132	4,568	-361	1,559	-123	2,153
Rescheduling of arrears	-2,793	-3,240	--	-4,555	-725	-833	-208
Debt relief [3]	8,348	7,586	--	7,731	2,266	3,298	2,823

1 Amortization in 1992 includes US$3.4 billion of debt to London Club creditors which was bought back at the beginning of the year.
2 The cost of purchasing in 1992 the collateral for par exchange of about US$3 billion debt to London Club creditors.
3 In 1992 includes US$2.0 billion debt reduction through the debt buy-back operation with London Club creditors and US$0.8 billion debt rescheduling with bilateral official creditors.

Source: IMF

Graph 3 - Nigeria - Gross international reserves, 1987-1992: US$ billion and months of imports of merchandise (fob) and commercial services



* Estimate
Source: IMF.

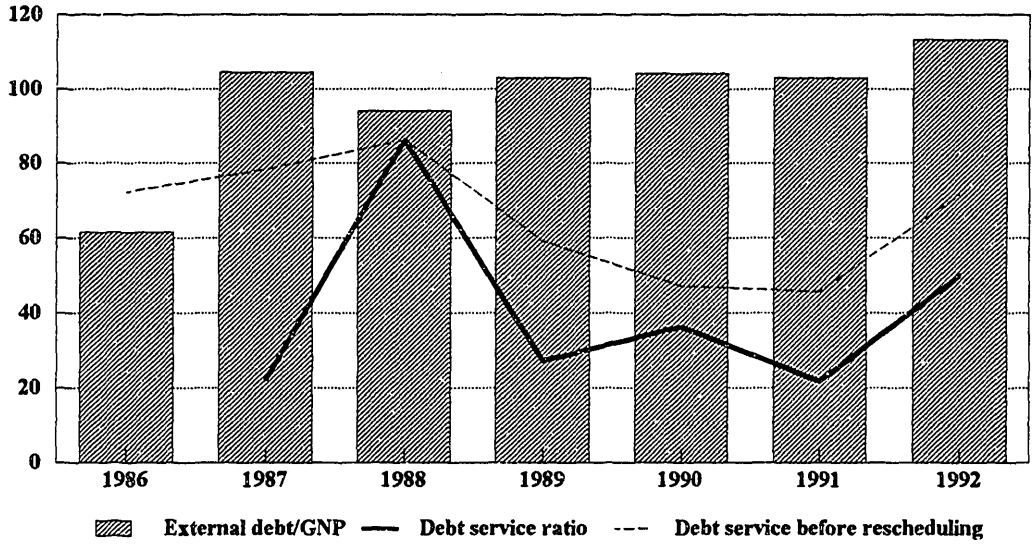
31. Until March 1992 a two-tiered foreign exchange market existed, which had been introduced as part of the 1986 structural adjustment programme. The two tier system consisted of an official foreign exchange market and a set of foreign exchange bureaux. On the official foreign exchange market the Central Bank allocated available foreign exchange through a Dutch auction to licensed dealers. Foreign exchange bureaux determined the exchange rate for foreign currencies bought outside the auction system - e.g., remittances. As of December 31, 1991, the average central rate in the official auction market was 9.9 naira per U.S. dollar, while the average rate in the foreign exchange bureaux was 15.7. By early March the naira-dollar rate of exchange on the parallel market had fallen to 19.5, while on the official market the rate reached 10.5. This substantial price difference created great incentives for diversion of funds from the official into the parallel market. The Nigerian government replaced the auction system on March 6 1992 with an interbank system. The rate at which dollars were sold on the official market was set at 18, an increase of some 70 per cent. As a result of this policy change the spread between the official and foreign exchange bureaux rates fell from some 80 per cent in early March to less than 5 per cent immediately thereafter. However, since then the spread widened again, standing at about 13 per cent at the end of 1992.

Foreign indebtedness

32. Throughout the latter part of the 1980s much of Nigeria's external debt was rescheduled. New debt relief agreements with both official and private creditors were negotiated during 1991. The stock of external debt remains high, however. Total debt has approximately equalled GDP since 1987 (Graph 4), and is estimated to have risen to 113 per cent of GDP in 1992. According to the World Bank, the absolute value of external obligations rose from $31 billion in 1987 to $36 billion in 1990. Paris and London Club debt relief agreements in 1991 led to a reduction of the stock of external debt

by about 10 per cent. Total external debt as of the end of 1992 is estimated by the IMF to be about $29 billion. Debt servicing obligations impose a severe strain on the Nigerian economy. In 1990, interest payments on domestic and foreign debt represented over 60 per cent of current expenditures of the federal government. The debt service ratio has not fallen below 25 per cent since 1986, and is expected to be 50 per cent in 1992.

Graph 4 - Nigeria - External debt as a percentage of GNP and debt service ratio 1986-1991



Source: IMF.

33. In January 1991, Nigeria signed a debt restructuring agreement with official creditors. The agreement consolidated debt worth $3.3 billion, rescheduling arrears as of December 31, 1990. Nigeria agreed to make monthly payments of SDR 80 million into an account at the Bank of England for the duration of the consolidation period (15 months). In September 1991 Nigeria and its Bank Advisory Committee agreed in principle to a debt and debt service reduction deal with commercial creditors under Brady Plan auspices, revising an understanding reached in March 1991. Under the buyback option Nigeria was able to buy back about 60 per cent of its outstanding commercial bank obligations, with a face value of $3.4 billion. At a price of 40 cents on the dollar (a discount of 60 per cent), this implies a foreign exchange cost of some $1.3 billion. As a result of the buyback the magnitude of commercial bank debt has fallen to approximately $2 billion, less than 10 per cent of the total.[6]

[6] In addition to the buyback, Nigeria swapped $2 billion of commercial debt for par bonds backed by U.S. government securities.

Trade

34. As noted earlier, virtually all of Nigeria's merchandise exports consist of crude petroleum (Table 3). Remaining exports are mostly agricultural, cocoa beans and palm kernels and products being the most important. Imports consist predominantly of manufactured products. Machinery and transport equipment account for the largest share of total imports, followed by chemicals and other manufactured products (Table 4). The share of machinery and transport equipment and chemicals increased between 1985 and 1990, while that of food and live animals declined from 17 to 8 per cent.

Table 3
Exports by major commodity, 1985 and 1990
(US$ million and percentage share)

	1985		1990a	
	Value	Share	Value	Share
Petroleum	11,224	95.8	13,265	97.0
Cocoa beans	182	1.6	150.4	1.1
Palm kernels and products	6	-	136,7	1.0
Rubber	4	-	41.1	0.3
Cocoa products	57	0.5	13.7	0.1
Other	248	2.1	63.9	0.5
Total	11,721	100	13,671	100

a Provisional

Source: Central Bank of Nigeria

Table 4
Imports by major commodity, 1985 and 1990
(US$ million and percentage share)

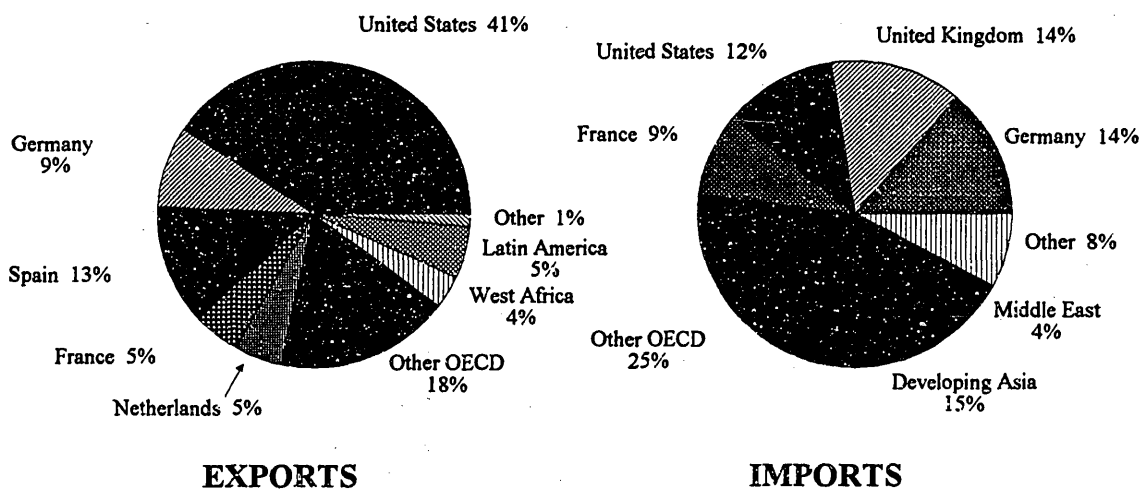
	1985		1990	
	Value	Share	Value	Share
Food and live animals	1,200	17.1	468	8.2
Beverages and tobacco	9	0.1	22	0.4
Cured materials excl. fuels	350	5.0	198	3.5
Minerals fuels	61	0.9	39	0.7
Animal and vegetable oil	71	1.0	17	0.3
Chemicals	1,108	15.7	1,138	20.0
Manufactured products	1,612	22.9	1,252	22.0
Machinery and transport equipment	2,414	34.3	2,316	40.7
Other	238	3.4	237	4.2
Total	7,063	100	5,688	100

a Provisional.

Source: Central Bank of Nigeria

35. The geographic pattern of Nigeria's trade is relatively concentrated, especially on the export side. OECD countries absorb almost 90 per cent of total exports. The United States is Nigeria's major export market, accounting for almost 41 per cent of total exports in 1991 (Graph 5). Spain and Germany are the second and third most important export markets, respectively. Germany and the United Kingdom are the most important sources of imports - each accounting for about 13.5 per cent of total imports - followed by the United States (11.8 per cent). South-east Asian countries (especially Hong Kong, South Korea, Singapore and Taiwan) have become increasingly important suppliers in recent years, accounting for some 15 per cent of total imports in 1991, up from 3.7 per cent as recently as 1987. While the market share of OECD countries remains high, it has been falling. In 1985 it was approximately 80 per cent, as compared to 73.5 per cent in 1991.

Graph 5 - Geographic patterns of merchandise exports and imports, 1991

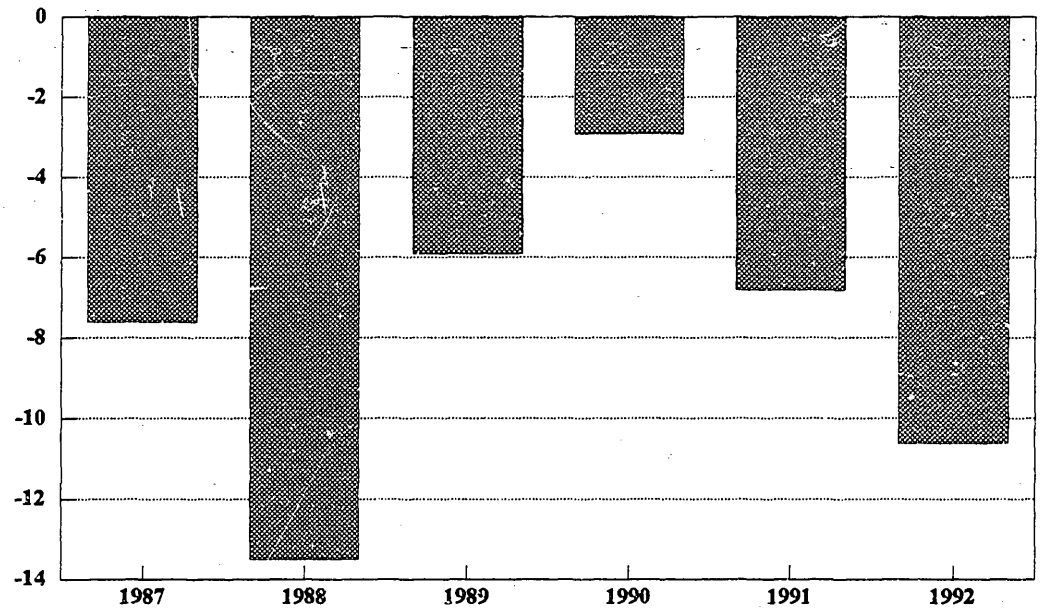


(iii) Macroeconomic developments

36. The public sector in Nigeria consists of the federal government, 30 state governments, more than 400 local governments, and some 600 public enterprises, including about 90 autonomous social service institutions that fall under the control of their respective ministries. State and local governments are to a large extent dependent on the federal government for their revenues. The federal government, in turn, derives most of its income from the oil sector, complemented by customs and excise taxes. Due to a lack of accurate statistics it is not possible to construct the fiscal accounts for the consolidated public sector. What follows therefore focuses mostly on the operations of the federal government.

37. Given stronger than expected oil prices in 1989 and further oil price increases subsequent to the Gulf crisis, federally collected revenues rose from some 20 per cent of GDP in 1988 to about 35 per cent in 1990. The volume of oil exports rose by 29 per cent between 1988 and 1990, while prices increased by some 60 per cent. While the increase in revenues was not sufficient to finance current and capital expenditures, the overall fiscal balance of the federal government improved. In 1990 the federal government's overall fiscal balance registered a deficit of 2.9 per cent of GDP, as compared to 13.5 per cent in 1988. In 1991 and 1992 fiscal deficits increased again, to attain 6.8 and 10.6 per cent of GDP, respectively (Graph 6). These developments reflect large increases in extra-budgetary outlays and the decline in world oil prices during 1991 and 1992. The depreciation of the naira in March 1992 - which had the effect of raising naira denominated revenue - was insufficient to offset expenditure increases.

Graph 6 - Federal government balance, 1987-1992 (percentage of GDP)



Source: IMF.

38. Deficits have been financed through expansion of domestic credit, which increased by 55 per cent between 1987 and 1990. Central bank claims on the federal government increased by 154 per cent over the same period. However, restrictive monetary policies introduced during 1988 and 1989 reduced net claims on the federal government from N27.5 billion to N18 billion in 1989, a decline of 34 per cent. Domestic credit was reduced by 14 per cent the same year. As a result the average rate of inflation fell to 7.4 per cent for 1990, as compared to 50 per cent for 1989. These achievements were offset in 1990, net claims on the government rising by over 70 per cent, domestic credit rising by 42 per cent. Consumer prices increased by 13 per cent on average in 1991, and attained 23 per cent at the end of the year. At the end of August 1992 inflation had accelerated to 54 per cent on an average annual basis. Inflation was fueled by the increase in fiscal spending - financed by government borrowing from the domestic banking sector - and the March depreciation of the naira.

39. Public debt has grown substantially, rising from N37 billion in 1987 to an estimated N84 billion in 1990, a 127 per cent increase. State governments and public enterprises have apparently also seen their naira debt increase, although no detailed information is available on this. In 1990 interest payments on domestic debt constituted 23 per cent of current expenditure of the federal government (servicing of foreign debt accounted for a further 44 per cent of total federal expenditure).