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Nigeria
Structural Adjustment Program
Policies, Implementation, and Impact

May 13, 1994

Western Africa Department
Country Operations Division

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CURRENCY EQUIVALENTS

Currency unit = naira (N)

	Naira/$	$/Naira
	—— (Period averages) ——	
1986	1.755	0.570
1987	4.016	0.249
1988	4.537	0.220
1989	7.365	0.136
1990	8.038	0.124
1991	9.909	0.101
1992	17.298	0.058
1993	21.886	0.046

ABBREVIATIONS AND ACRONYMS

ADP	-	Agricultural Development Project
BOP	-	balance of payments
CBN	-	Central Bank of Nigeria
CEM	-	Country Economic Memorandum
CIF	-	Cost, insurance and freight
CPI	-	consumer price index
DDS	-	duty drawback scheme
DDSR	-	debt and debt service reduction
DFI	-	Development Finance Institution
DHS	-	Demographic Household Survey
ECOWAS	-	Economic Community of West African States
FGN	-	Federal Government of Nigeria
FMBN	-	Federal Mortgage Bank of Nigeria
FOB	-	free on board
GDP	-	gross domestic product
GNP	-	gross national product
GNY	-	gross national income
IDCC	-	Industrial Development Coordinating Committee
IDMC	-	Import Duty Monitoring Committee
IFEM	-	Interbank Foreign Exchange Market
IMF	-	International Monetary Fund
LNG	-	liquified natural gas
MLT	-	medium and long term
MOU	-	memorandum of understanding
NBFI	-	non-bank financial institutions
NDIC	-	Nigeria Deposit Insurance Company
NEPA	-	Nigerian Electric Power Authority
NEPC	-	Nigerian Export Promotion Council
NITEL	-	Nigerian Telecommunications Limited
NNPC	-	Nigerian National Petroleum Corporation
ODA	-	official development assistance
OPEC	-	Organization of Petroleum Exporting Countries
PPP	-	purchasing power parity
SAP	-	Structural Adjustment Program
SFEM	-	second-tier foreign exchange market
SSSR	-	Social Sectors Strategy Review
TCPC	-	Technical Committee on Privatization and Commercialization
TRB	-	Tariff Review Board
UNICEF	-	United Nations International Children's Emergency Fund

FISCAL YEAR

January 1 - December 31

FOREWORD

Under the Structural Adjustment Program (SAP) introduced in 1986, Nigeria reformed its foreign exchange system, trade policies, and business and agricultural regulations. These changes brought economic incentives more into line with the country's underlying comparative advantage. Under the new policies, gross domestic product broke a six-year pattern of decline to grow by 5 percent a year throughout the six-year 1986-92 period.

This success notwithstanding, per capita income is still only US$320 and consumption and income are little higher (in real per capita terms) than they were in the early 1970s before the oil boom. Because over 90 percent of Nigeria's export earnings are from oil, growth in agriculture and manufacturing could offset little of the large drop in purchasing power that resulted from the collapse of oil export revenues that had prompted the adoption of the SAP. With the country's population growing by 3 percent per year, 5 percent economic growth translates into per capita income growth of only 2 percent per year. At this rate, it would have taken about 30 years for Nigeria to recover its peak standard of living (achieved in 1981) from its low point at the start of the SAP.

The loss of oil revenues and its implications for economic activity and living standards hit Nigeria's urban middle class particularly hard. Partly reflecting the fact that the SAP was adopted so soon after the collapse of oil prices in 1986, it came to be identified with the negative impact of the oil price collapse itself. Along with the fact that small farmers were the primary beneficiaries of the SAP, this helps to explain the fundamental SAP paradox—that it was unpopular with many in Nigeria despite its success in turning around the economy. In turn, these political economy issues help to explain why the SAP was implemented erratically—further reducing support—and increasingly went off-track.

Another factor undermining domestic support for the SAP was debt. The debt stock jumped in the early days of the SAP era, as trade arrears from the 1982-83 period were reconciled, and recognized as public and publicly guaranteed debt; in addition, some of Nigeria's debt is denominated in European and Japanese currencies, which appreciated vis-a-vis the U.S. dollar during the period. Meanwhile, during the SAP era Nigeria's net transfers to external creditors absorbed 5 percent of GDP. Nigeria ultimately secured debt reduction from its commercial bank creditors, but its debt to the Paris Club remains large. Its outstanding stock of public and publicly guaranteed debt stands at US$29 billion—roughly US$300 per capita, only slightly less than per capita income.

The experience of other developing countries (some of them also heavily-indebted oil exporters) confirms the importance of instituting (and sticking to) macroeconomic strategies that promote financial stability, private-sector delivery of public services, and investment in human capital. Asian countries, for instance, have unilaterally and consistently implemented these policies and have achieved very rapid growth with low inflation. Latin American countries that began adjustment programs in the 1980s have emerged with vibrant economies. They are benefitting from the return of flight capital and substantial direct foreign investment; their focus on improving basic social services promises to speed the reduction of poverty.

For Nigeria to break its vicious circle of excessive public spending, inflation, and exchange rate depreciation, and to reach the virtuous circle achieved by these other developing countries, it will need to adopt a package of stabilization and structural measures that ensures the efficient use of resources (by both the public and private sectors) and the provision of basic social services. If Nigeria effectively implements such a package, donors should be prepared to support its effort with debt relief. This path offers Nigeria the best prospects for sustaining economic growth and poverty reduction.

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EXECUTIVE SUMMARY

1. In the early 1970s, sharp increases in oil revenues enabled Nigeria to embark on an ambitious public investment program, aimed at extending and improving infrastructure and social services. The expansion of Government changed the structure of relative prices and wages. Rising wages and an appreciating currency squeezed the profitability of non-oil exports and undermined their competitive position internationally, while cheap food imports competed with domestic food production. In a classic case of the Dutch disease, Nigeria's resources shifted from the production of non-oil traded goods (mostly agricultural) to that of non-traded goods (mostly public services). The impact on the agricultural sector—Nigeria's major source of GDP and export revenues before oil—was especially pronounced. In the manufacturing sector, import duties and prohibitions favored imports of intermediate goods and parts for assembly into consumer durables and capital goods.

2. Then, in the early 1980s, the international price of oil fell sharply. Nigeria's export revenues and budgetary receipts fell with it. It took some time for public spending to slow down, and during that time, Nigeria built up large fiscal and external deficits. To finance its domestic deficits, Government relied on borrowing from the banking system and money creation. To finance its foreign deficits, it drew down international reserves; the decreasing availability of foreign exchange caused the private sector to incur arrears with suppliers abroad. In 1984, in an attempt to reduce the country's financial imbalances, Nigeria introduced budget-tightening measures. Economic activity and employment contracted. But rather than allowing the exchange rate to depreciate as a way of stimulating the economy, the Government focused on maintaining the artificially high value of its currency in an effort to contain inflation. Despite these efforts, inflation increased. Drought raised local food prices, while decreased availability of foreign exchange boosted import prices and domestic costs. The competitiveness of non-oil exports fell. The Government's elaborate system of foreign exchange controls and import licenses supported the increasingly overvalued exchange rate, which in turn intensified rent-seeking activities.

3. When world oil markets contracted once again in late 1985 and early 1986, Nigeria's economy was already on the verge of crisis. The Government introduced the Structural Adjustment Program (SAP) to address the underlying malaise and the new challenges posed by the further collapse of oil revenues. The objective was to help promote economic efficiency and private sector development as a basis for improving prospects for long-term growth. Nigeria's SAP combined exchange rate and trade policy reform (aimed at revitalizing the non-oil economy) with stabilization policies (designed to restore equilibrium to the balance of payments and to make prices more stable). The program included efforts to downsize the public sector and improve the management of publicly owned assets. Under the SAP, Nigeria eliminated import licenses and agricultural marketing boards, lifted price controls, launched a program of privatization, and took steps toward the deregulation of the banking system.

A. Implementation

4. **Stance of Macroeconomic Policy.** Although some reforms were sustained during the 1986-92 period, which this report refers to as the SAP era, others were implemented unevenly. All suffered from the vagaries of an increasingly erratic macroeconomic environment. Successive cycles of contractionary and expansionary policies—with their attendant affect on prices and activity levels—rocked the economy. From late-1986 to end-1987, macroeconomic policy was reasonably tight. But responding to criticism that the SAP was too harsh, it turned expansionary in 1988—only to reverse itself a year later when the inflationary consequences of more liberal

policies became painfully evident. In 1990, increased international oil prices (associated with the Gulf crisis) once again fueled higher spending, which—once again—continued after world oil prices had subsequently collapsed. Mirroring earlier periods, Nigeria built up large fiscal deficits in 1990-92 (which, by 1992, amounted to 10 percent of GDP). Driven by the need to finance the fiscal deficit, monetary policy also vacillated, and became increasingly expansionary (and inflationary) as the deficit went out of control.

5. **Exchange and Trade Reforms.** Exchange rate reform was at the core of the SAP. Although the specific modalities and the effectiveness of implementation varied over the SAP era, the foreign exchange reform facilitated a cumulative depreciation in the real effective exchange rate of about 80 percent between September 1986 and the end of 1992. (With foreign exchange reserves nearly depleted in early 1993, Nigeria's authorities switched back to a nonprice system of foreign exchange allocations, and the premium on free-market Bureaux-de-Change sales rose to 100 percent above the official exchange rate. The 1994 Budget formalized this approach to foreign exchange allocations and prohibited free-market transactions at the Bureaux de Change.) Although initial SAP trade reforms reduced the cascading of protection that had encouraged assembly operations based on imported inputs, some of the SAP's first-round tariff reductions—and the pruning of the import prohibition list—were later rolled back.

6. **Private Investment.** Under the SAP, the Government encouraged private sector development by simplifying the regulatory environment, reducing limitations on foreign investment, reducing corporate tax rates, and introducing a debt-equity conversion program. Yet, private sector development still faces cumbersome regulations and approval processes that raise the cost of doing business in Nigeria. Ongoing difficulties with the management of public utilities has made the provision of critical infrastructure services (such as power and telecommunications) erratic, hindering private sector activity. Most critical, Nigeria's unstable macroeconomic and exchange rate policies and political uncertainty increasingly discouraged investors.

7. **Financial Sector.** Much-needed financial-sector and monetary-policy reform began under the SAP. But interest rates and spreads deregulated under the SAP were periodically subjected to moral suasion by the authorities in the face of upward pressure on interest rates. (They have been reregulated under the 1994 Budget.) Financial sector reforms included new legislation, which embraced international (Basle) standards for evaluating the health of the banking system, and there has been considerable progress in meeting the 1991 Banking Act's stricter supervision and provisioning requirements. Within the banking system, new entrants aiming to secure foreign exchange allocations mushroomed, and serious financial distress has emerged in established financial institutions; classified loans now account for one third of total bank credit. While the CBN and National Deposit Insurance Corporation have begun to address the difficult task of restructuring banks with nonperforming loans, the eventual disposition of some of these banks and sources of financing for the restructurings remain unclear. There has been a proliferation of "sectoral banks" and other nonbank financial institutions that fall outside the purview of Central Bank of Nigeria (CBN) supervision and regulation.

8. **Public Enterprise Management.** The SAP included public enterprise reform. Some 58 small enterprises have been privatized—mostly through public offers, or deferred public offers—on the Nigerian Stock Exchange. Although this is an achievement, the planned privatization of several large enterprises has been delayed. Even less success has been achieved with the commercialization program. Eleven parastatals were slated for full commercialization, and in some cases, performance contracts (including a 10-year corporate plan) have been signed. Only limited progress has been made with the partial commercialization of the Nigerian Electric Power Authority (NEPA), however, and the commercialization of Nigerian Telecommunications Limited

(NITEL). Institution-building efforts and the creation of appropriate regulatory frameworks have stalled while service delivery remains intermittent, raising operating costs for both public and private sector users.

9. **Public Expenditure Management.** To improve public procedures for expenditure and budgetary planning, the SAP instituted a rolling-plan process. In the event, this process could not compensate for deep-rooted weaknesses in public expenditure management. For example, the temporary revenue windfall accruing from the jump in international oil prices in 1990 led to the re-emergence of large-scale government spending through so-called dedication accounts (and other devices outside the purview of the statutory budgetary and accounting framework). Increased off-budget spending and continued financing of nonviable investment projects have been major contributors to the erosion of fiscal and monetary discipline. Nor were these expenditures directed toward the provision of basic social services or infrastructure projects designed to build human and physical capability and to meet the needs of a majority of the people. During the pre-SAP period, spending (in real terms) on the social sectors had contracted sharply; the lower spending levels were maintained (in per capita terms) throughout the SAP era.

C. Economic Performance During the SAP

10. Despite difficulties in implementation and overspending, the policies incorporated in the SAP—particularly the large depreciation of the real effective exchange rate—produced results. In contrast to an average decline of 2-3 percent per annum between 1980 and 1986, Nigeria's real GDP grew by about 5 percent per annum between 1986 and 1992, primarily reflecting a recovery in agriculture and manufacturing. Consistent with Nigeria's comparative advantage, the agricultural sector experienced a long-awaited comeback. Some of Nigeria's earlier anti-export bias in manufacturing disappeared under the SAP, and producers switched from imported to local inputs. Particularly in agro-processing and textile manufacturing, there is now greater use of locally produced materials. The assembly-based manufacturing sector, which depends on imported inputs and had been shielded from competition and market signals, contracted during the SAP era. Following a SAP-related shift in relative prices in favor of the rural sector, the production of traditional food crops and cash-crops increased, and agricultural output grew at an average rate of 4 percent per annum. Today, Nigeria spends one fifth of what it spent in 1986 on food imports.

11. **Inflation.** Since 1986, the rate of inflation has fluctuated widely, reflecting variations in the stance of macroeconomic policy. In 1986, despite a 70 percent depreciation of the exchange rate, satisfactory monetary performance kept inflation to 16 percent. And while inflation decelerated in 1987, the expansionary 1988 budget boosted prices by 55 percent. Inflation rates moderated once again, as tight fiscal and monetary policies were implemented in 1989, actually falling below 7 percent in 1990. Recent expansionary fiscal and monetary policies caused inflation to rebound. By end-1992, it was approaching 50 percent and exceeded that level in 1993 and 1994.

12. **Living Standards.** Although the SAP revived Nigeria's economic growth, that growth could not compensate for the huge drop in purchasing power associated with the collapse of international oil prices. With GDP growing at 5 percent per year and population at 3 percent, per capita income grew at 2 percent per annum. At that rate, it would have taken about 30 years for Nigeria to recover its peak living standard (achieved in 1981) from its low point at the start of the SAP. In real per capita terms, consumption and income are now little higher than they were in the early 1970s, before the oil boom. The urban middle class—primarily civil servants and workers in import-substituting industries—bore the cost of adjusting to the downturn in oil

markets and the collapse of foreign exchange earnings. Small farmers were the primary beneficiaries of the SAP.

13. **Balance of Payments and Debt.** Throughout the SAP era, Nigeria ran a large trade surplus, but—with the exception of 1990—a current account deficit (reflecting its large payments for interest and other services). The SAP had a small impact on non-oil exports, but a much larger impact on import substitutes. Nigeria's net transfer position was persistently negative throughout the SAP era, averaging 5 percent of GDP per year. Over the 1985-92 period, Nigeria's stock of public and publicly guaranteed long-term external debt increased from US$19.2 billion at end-1985 to US$29.3 billion by end-1992. This 50-percent increase occurred mostly between 1985 and 1987, and was principally due to cross-currency revaluations, which boosted the value of non-dollar-denominated debt, and the reconciliation and recognition as public debt of a large stock of trade arrears from the 1982-83 period.

D. Political Economy

14. At the inception of the SAP, Nigeria undertook challenging and important reforms. Many of these, however, were only partially implemented. Stop-go fiscal policies undermined the stabilization objectives and introduced uncertainty about the sustainability of the reforms, and the large debt overhang discouraged savers and investors. Nevertheless, the SAP was able to reduce key economic distortions associated with the pricing and availability of foreign exchange, and the growth response during the SAP era was good. More recently, however, accelerating macroeconomic instability has undermined the climate for private investment and choked off the supply response. The earlier gains from the SAP—including the improved competitiveness of the naira and several years of economic growth—are increasingly at risk.

15. **Looking Back.** Nigeria's fluctuating fiscal policies reflect the underlying political economy. The downturn in the oil market that immediately preceded the adoption of the SAP made it all the more necessary. But many Nigerians blamed the SAP for the economic downturn caused by the collapse of world oil prices and their economy's dependence on oil. During the early part of the SAP era, this view weakened political support for the SAP's stabilization policies, leading to their erratic implementation. During the later part of the period, macroeconomic stability eroded dramatically, largely due to extrabudgetary spending, which reflected the political response to special-interest pressures and Nigeria's very expensive electoral process. The resulting acceleration of the rate of inflation further reduced Nigerians' purchasing power and exacerbated their dissatisfaction with the policy regime, which they associated with the SAP.

16. **Looking Ahead.** The central economic challenge facing Nigeria today is to bring its macroeconomic situation back under control. But this first step toward sustained growth and poverty reduction will require many politically difficult measures—expenditure restraint, revenue mobilization, and the return to a market-determined exchange rate system. Because these measures require public backing to be politically sustainable, popular support must be enlisted from the outset. To this end, the Nigerian people must be fully informed about the losses they suffered from the collapse of world oil prices. They must also be informed about the policy choices they face, including the sacrifices the various choices will entail. Finally, Nigeria's budgetary process must be made fully transparent, so that the people can judge current macroeconomic policies for themselves. Only if an informed Nigerian people agrees to support reform will it be sustainable over the long run. Should such a consensus emerge, external donors and creditors should be prepared to support the effort with external assistance and debt relief.

I. INTRODUCTION

1.1 It has been over five years since the last Gray Cover Country Economic Memorandum (CEM) on Nigeria provided a progress report on the Structural Adjustment Program (SAP) introduced in 1986. Various SAP policies have now worked their way through the economy, providing a more extensive basis for analysis. But there have also been considerable backsliding, and an increasingly unstable macroeconomic environment. Most significantly, the recently adopted 1994 Budget constitutes a major reversal of the SAP.

1.2 **Country Characteristics.** Nigeria was one of the world's poorest countries until, in the 1970s, sharply rising oil export revenues improved the country's prospects. By 1980, the value of exports had risen to US$26 billion and per capita GNP to more than US$1,000. As the oil market weakened in the 1980s, however, this process was reversed.

1.3 Currently, per capita GNP is estimated at US$340, and Nigeria's social indicators place it among the poorest countries in sub-Saharan Africa. Infant mortality is about 90 per 1,000 live births (Table 1.1). Life expectancy is a meager 49 years for men and 53 years for women. Half of IDA-eligible African countries have a higher per capita calorie intake than Nigeria, and most offer better access to safe water in both the city and the countryside. Population—estimated at almost 100 million—is rising at a rate of 2.9 percent a year.

Table 1.1: Social Indicators, 1960 to 1990

	1960	1965	1970	1975	1980	1985	1990[a]
Infant mortality[b]	189	162	139	128	118	109	91
Fertility[c]	6.8	6.9	6.9	6.9	6.9	6.4	6.0
Population growth	2.5%	2.5%	2.5%	2.4%	2.8%	3.2%	2.9%
Primary enrollments[d]	36%	32%	37%	51%	104%	82%	76%
Life expectancy[e]	40	42	44	46	48	50	52

[a] Infant mortality and primary enrollments for 1990 are taken from Social Sectors Strategy Review (SSSR).
[b] Per thousand live births.
[c] Average number of children a woman would give birth to between ages 15-49.
[d] As a percent of school-age group.
[e] Life expectancy at birth, in years.

Source: *Social Indicators of Development* and *World Development Report, 1993*.

1.4 In addition to (and as an indirect consequence of) the economic dislocations caused by the drop in world oil prices, Nigeria is now saddled with a major debt burden. At the end of 1992, external public and publicly guaranteed debt totalled US$28.4 billion, equal to more than 225 percent of exports of goods and services and 93 percent of GDP. Of the total debt stock, 6 percent is owed to London Club commercial banks, 54 percent to the Paris Club (and creditors guaranteed by Paris Club participants), 15 percent to promissory note holders, 10 percent to the World Bank, and 15 percent to other creditors.

1.5 Since 1986, Nigeria has been involved in major debt rescheduling exercises with the London and Paris Clubs, the promissory note holders, and other creditors. In 1992, it concluded a debt-reduction agreement with the London Club. Yet despite these exercises, Nigeria has made

net transfers to external creditors and donors throughout the period averaging 5 percent of GDP and awarded very large arrears to Paris Club creditors.

1.6 **Economic Profile**. Nigeria is a major oil producer, and petroleum production accounts for 25 percent of total GDP, 90 percent of foreign exchange receipts, and 70 percent of budgetary revenues. Given the large swings in world oil prices, this dependency on oil subjects the Nigerian economy to recurring external shocks, which in turn complicate macroeconomic management.

1.7 Nigeria also has considerable potential for diversified development. It has vast reserves of natural gas, which are only beginning to be exploited. Agriculture (over 85 percent yams, cassava, and grains) employs over two thirds of the labor force and generates 35 percent of GDP. Cocoa, oil palm, rubber, groundnuts, and cotton—the principal cash crops—account for less than 10 percent of crop-based GDP. Although productivity is low, it could be improved with more small-scale irrigation, better technology, and—to a lesser degree—expansion of the cultivated area.

1.8 Manufacturing production increased rapidly during the 1970s, and now accounts for 10 percent of total GDP and employment. Services account for over 25 percent of GDP and are dominated by wholesale and retail trade.

1.9 **Private Versus Public**. The private sector in Nigeria is vibrant, entrepreneurial, and rent-seeking when circumstances permit. Trading activities abound, and when price controls are imposed, parallel markets circumvent their effect. Owing in part to the geographical mobility of unskilled workers, who move between agricultural work in the villages and construction work in the cities, Nigeria's labor market is also highly flexible, and by African standards, financial markets are well developed.

1.10 The public sector includes the federal, state, and local governments and parastatals. Oil revenues are allocated across these three tiers of government, complicating the country's macroeconomic management. Despite an important privatization program carried out under the SAP, moreover, the public sector still owns a significant share of the manufacturing and financial sectors, and provides both infrastructure and social services. With rare exceptions, the public sector is badly managed.

1.11 **Before Structural Adjustment**. Buoyant oil revenues throughout the 1970s encouraged Government to spend largely to expand the country's infrastructure and non-oil productive capacity. More money in the economy also helped to heal wounds inflicted during the civil war, which ended in 1969. But although Government had some important successes, public investment projects were undertaken without attention to their economic viability or the public sector's capacity to implement them.

1.12 Meanwhile, increased spending on construction and urban services boosted the relative prices of nontraded goods and services, undermining the traded sector. As the real exchange rate appreciated, traditional agricultural exports were particularly hard hit. Import-competing production was affected less, protected by Nigeria's elaborate import restrictions and price controls, which allowed the prices of local goods to be maintained despite the fact that they were well above world levels. Import-based assembly industries prospered, but they contributed little to domestic value-added.

1.13 The oil market in the early 1980s caused sizeable imbalances in Nigeria. In 1983—when oil export revenues fell to US$10 billion as compared with US$26 billion in 1980—the external current account deficit reached 6 percent and the fiscal deficit 12 percent of GDP. To finance these deficits Government increased public sector borrowing, ran down the country's international reserves, and accumulated large-scale payments arrears on external trade credits.

1.14 Then in 1984, the authorities implemented strict austerity measures. Budgetary expenditures were slashed, and administrative controls over imports (import licenses and prohibitions against certain imports) were tightened, multiplying inefficiencies developed during the period of strong oil revenues. As a result, non-oil GDP fell sharply.

1.15 **Structural Adjustment and After.** Upon taking office in August 1985, the new Government recognized the need to approach the problem through structural adjustment, and initiated measures to arrest the deterioration of the economy. The halving of world oil prices in early 1986 caused Nigeria's oil export revenues to drop to US$6 billion, increasing the country's urgency for reform. The Government responded with the first Structural Adjustment Program (SAP), intended to last from July 1986 to June 1988. This program, however, has come to be associated with the period of July 1986 through December 1992.

1.16 The SAP combined exchange rate and trade policy reforms with overall macroeconomic restraint. The goal was to increase the competitiveness of the non-oil sector. Considerable emphasis was placed on improving the efficiency of the public sector and reducing its size. Adjustment strategy was predicated on the assumption that external financing would be forthcoming in sufficient quantities to permit Nigeria to run current account deficits while reforms were taking place, thereby achieving higher import levels and growth rates than would otherwise be possible. It included a plan for selective external borrowing—with some increase in indebtedness at a lower rate than that projected for export growth. Nigeria's creditworthiness was to be restored over time.

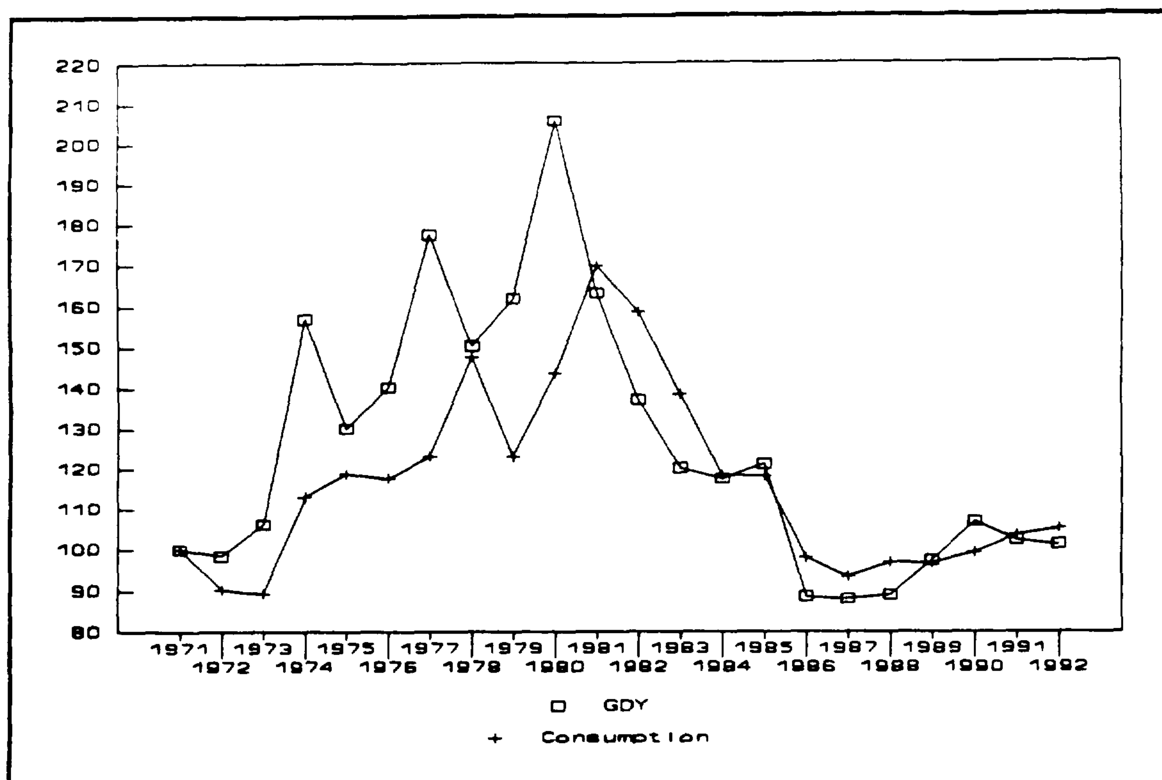
1.17 But actuality did not exactly follow this plan. From 1987 to 1990, Government's stop-and-go fiscal policies undermined the SAP's stabilization objectives. Subsequently, runaway extrabudgetary expenditures caused skyrocketing inflation. Yet, despite these reversals, overall growth performance under the SAP was good.

1.18 The economy shifted from a GDP declining at 2 percent a year in 1980-86 to positive growth of 5 percent a year in 1986-92—a turnaround of some 7 percentage points a year. The turnaround reflects the fact that the SAP was able to reduce distortions associated with the pricing and availability of foreign exchange in the economy considerably—reforms essential to the framework of incentives for both agriculture and manufacturing. The recovery associated with the SAP notwithstanding, real per capita income and consumption were barely higher in 1992 than they had been in 1971 prior to the oil boom (see Figure 1.1.).

1.19 **Political Economy.** The 1986 collapse in world oil prices, which made the SAP so necessary economically, also made its sustained implementation politically quite difficult. For while the adjustment program was being introduced, purchasing power and consumption were dropping. The urban middle class, whose consumption basket contained many imported items, suffered especially from the reduced availability of foreign exchange associated with the drop in oil revenues..

1.20 Counterfactual analysis suggests that incomes would have fallen further without the SAP policies, especially the depreciation of the real exchange rate. It was the collapse of oil prices

Figure 1.1: Indices of Per Capita Income (GDY) and Consumption, 1971 to 1992



at the beginning of 1986 that caused the economy to go into a free fall, which the SAP arrested. Still, not surprisingly, given the coincidence of timing between the introduction of the SAP and the sharp contraction in living standards in 1986/87 that the collapse of oil revenues precipitated, many Nigerians are convinced that the SAP depressed the country's economy. This belief eroded political support for adjustment (and especially for stabilization policies), which was, therefore, erratically implemented.

1.21 Subsequently, extrabudgetary expenditures—reflecting special interests and political programs associated with Nigeria's very expensive electoral process—further undermined the fiscal position. In turn this led to rapid monetary growth, accelerating inflation, and continuing downward pressure on the naira. Many in Nigeria saw the vicious circle of exchange rate depreciation and rapid price increases as central to the SAP, which became even more unpopular as a result.

1.22 With the adoption of the 1994 Budget in mid-January, Nigeria's Government repudiated the key SAP policy that had remained more or less intact: a market-determined exchange rate system. It also pegged interest rates far below market-clearing levels. Coupled with accelerating macroeconomic instability, these policies are undermining the gains that were won under the SAP when it was being implemented in the late 1980s.

1.23 **Looking Ahead.** To bring the macroeconomic situation back under control—the first step toward sustained economic growth and poverty reduction, Nigeria must deregulate foreign exchange and credit markets. But this will require many measures that are politically difficult—expenditure restraint, revenue mobilization, and return to a market-determined exchange rate.

1.24 To avoid a repetition of the stop-and-go implementation style of the past, popular support for these reforms must be enlisted from the outset. The Nigerian people will have to understand the sacrifices they will have to make and why they are necessary. This will require education about the oil revenue losses Nigeria suffered during the 1980s, and the importance of sound macroeconomic policies.

1.25 Nigeria's people will then be able to judge the Government's macroeconomic policy for themselves and to assess its implications for their future. To help them in this effort, this report sets forth what structural adjustment achieved in Nigeria and what prevented it from achieving more.

Part 1. Policies

In September 1986—as the centerpiece of the SAP—Nigeria adopted a market-determined exchange rate and eliminated its longstanding system of import licensing. These steps broke with a tradition of administrative controls that had led to corruption and rent-seeking behavior at the expense of productive activity. A second priority was to reform tariffs and export policies. In addition—to forestall excessive pressure on prices and the exchange rate—Government was to exercise monetary and fiscal restraint. In the event, such restraint proved difficult to maintain. The evolution of these policies—and their implementation—is discussed in Chapters II, III, and IV.

II. CHANGES UNDER THE STRUCTURAL ADJUSTMENT PROGRAM

2.1 The SAP introduced sweeping policy changes in Nigeria. The aims were: to restructure and diversify the country's productive base in order to increase efficiency and reduce dependence on the oil sector; to achieve fiscal and balance-of-payments viability; to improve the efficiency of public sector investments; and to concentrate government efforts on creating an enabling environment for growth in the private sector. The SAP sought to achieve these aims through: adoption of a market-determined exchange rate (supported by prudent fiscal and monetary policies); liberalization of trade policy and prices and markets; and liberalization of private investment regulations.

A. Exchange Rate Policy

2.2 Prior to the inception of the SAP, the naira was overvalued and—with foreign exchange outstripping supply—foreign exchange was rationed. In 1985, the spread between the official and parallel markets exceeded 300 percent. Import licenses, moreover, were issued in accordance with an arbitrary foreign-exchange budget allocation system. Those who managed to get import licenses benefitted while exporters and producers of import substitutes lost out.

2.3 **Realignment**. By eliminating the over-valuation of the naira, exchange rate realignment was expected to restrain imports and stimulate non-oil exports. Realignment would mean that imports cost more and that exports earned more. The difference between the official and parallel exchange rates would also disappear. Indeed, Nigeria's parallel market rate had already adjusted to falling oil prices before the introduction of the SAP (see Table 2.1).

Table 2.1: Exchange Rate Averages and Indices, 1981 to 1992

	1981	1984	1986	1987	1988	1989	1990	1991	1992
				(Naira per US dollar)					
Official	0.618	0.767	1.755	4.016	4.537	7.365	8.038	9.909	17.298
Parallel	0.925	3.250	4.020	4.730	6.870	10.517	9.596	13.285	21.070
				(Index numbers, 1985 = 100)					
Nominal effective	93.7	109.1	55.8	16.8	13.8	9.2	9.4	7.7	5.0
Real effective	65.7	109.7	54.9	17.7	20.4	18.2	16.8	14.2	11.8

Note: All figures are period averages.

Source: *International Financial Statistics*, and World Bank staff estimates.

2.4 The large official devaluation of the naira in 1986 was sustained in real terms over the subsequent six years and even enlarged, despite the periodic reemergence of sizeable parallel market premiums. In real effective terms—that is, taking account of intervening price changes in Nigeria and in its major trading partners—the official exchange rate depreciated very sharply in 1986 and 1987, fluctuated through 1990, and then depreciated again in 1991 and 1992 (see Figure 2.1).

2.5 **Foreign Exchange Markets**. According to the SAP plan, the Second-tier Foreign Exchange Market (SFEM), guided by the market forces of supply and demand, would ration foreign exchange more efficiently and productively than the administrative controls Nigeria had

used heretofore. Nor would import licenses limit access to foreign exchange, and exporters would be allowed to keep their earnings in foreign-exchange denominated domiciliary accounts.

2.6 After its creation on September 26, 1986, the SFEM was administered by the CBN and funded from the proceeds of oil exports and external financing. Alongside the SFEM was an officially recognized interbank (or autonomous market) that purchased funds from holders of non-oil export earnings and sold them to importers and other users of foreign exchange. The parallel market continued to operate as an unsanctioned barometer of market forces.

2.7 The first auction in September 1986 produced an immediate depreciation of the naira, from ₦1.33 per US$1 to ₦4.6 per US$1. The official first-tier rate (reserved for debt service and other official transactions) was also adjusted downward gradually until it merged with the SFEM rate in July 1987—a devaluation of about 66 percent. At the time of the unification of the official and SFEM rates, the spread between the parallel market rate and official exchange rate reached an all-time low of 3.6 percent (see Figures 2.1 and 2.2).

Figure 2.1: Real Effective Exchange Rate

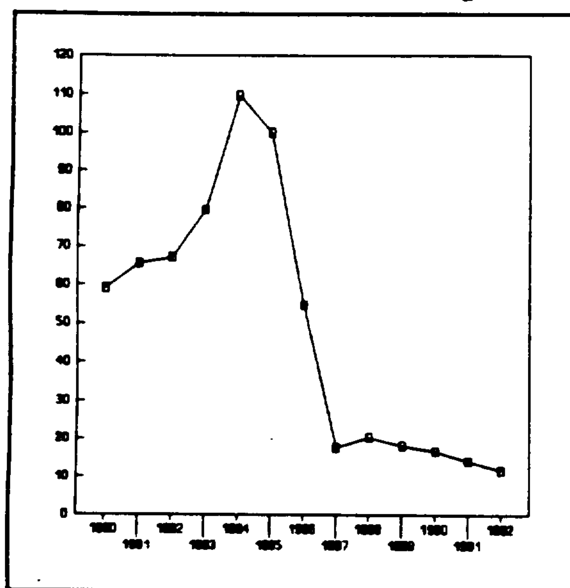
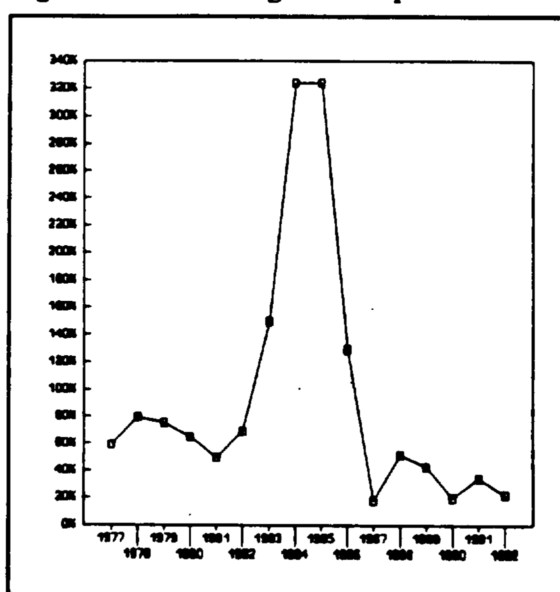


Figure 2.2: Exchange Rate Spread



2.8 **Implementation.** Despite these important gains, Nigeria tended to fund the market at an unsustainably high level and at the expense of programmed debt-service payments and the accumulation of reserves. The authorities' ability to sustain auction funding at these high levels, furthermore, was undermined by the diversion of foreign exchange to fund extrabudgetary public investment projects. In still another type of diversion, the Nigeria National Petroleum Company (NNPC) later opened several new accounts so that earnings from condensate (and later from petroleum) production would go to fund priority gas projects. As a result of such tactics, Nigeria's freely usable reserves were almost entirely depleted by the end of 1987.

2.9 Although the exchange rates on the auction, interbank, and parallel markets moved together in 1987, early in 1988 the differential between the official auction rate on the one hand and the interbank and parallel market rates on the other widened. This was largely attributable to the 1988 budget's expansionary fiscal policies, which put downward pressure on the official exchange rate (as reflected in the interbank rate). Meanwhile, the auction rate reflected the authorities' message that banks bid responsibly—a message that was reinforced by operating procedures virtually assuring each participating bank a specific quota of foreign exchange at the

auction. But with the auction rate failing to keep pace with the interbank market, the spread between them widened to 60 percent. Once again, in mid-1988, the Government implemented measures to restore fiscal balance. The exchange rate depreciated and by November 1988, the spread had been reduced to 30 percent.

2.10 **Interbank Market and Bureaux de Change.** In January 1989, the CBN introduced the Interbank Foreign Exchange Market (IFEM). But while the official exchange rate depreciated sharply with its introduction, the parallel market rate also depreciated. Throughout 1989 and 1990 the spread between official and interbank rates fluctuated between 20 and 30 percent.

2.11 But the effectiveness of the IFEM was constrained from the beginning by its institutionalized lack of competition and a limited supply of foreign exchange that could be used to fund the new market. Banks were essentially guaranteed a fixed share of foreign exchange regardless of their bids and their quotas became the basis for the daily rate which failed, therefore, to reflect true market conditions.

2.12 In September 1989, the Government opened a new window for legal market-based transactions. It authorized bureaux de change to transact business in foreign currency notes and travellers checks at rates negotiated with buyers and with sellers.

2.13 After 1989—as rising inflation produced exchange-rate pressures in conflict with political objectives—regulations guiding the operation of the foreign exchange market were changed several times. In December 1990, the authorities reintroduced an auction system, which narrowed the spread between the official and parallel rates, but did not yield sufficient competition for a market-clearing rate to emerge. The authorities heavily influenced the official exchange rate, even as during the next two years, inflationary pressures depreciated the parallel market and bureaux de change rates. Once again the spread widened; from 16 percent in 1990, it went to 83 percent in March 1992.

2.14 On March 5, 1992, a new interbank system replaced the auction system. The CBN bought and sold foreign exchange to licensed dealers at market-determined rates, and the spread narrowed to 10 percent. By December 1992, however, it had widened to 20 percent and foreign exchange reserves were precipitously low, with demand continuing to outstrip supply.

2.15 **Fiscal and Monetary Policy.** The avoidance of a vicious circle of inflation and exchange rate depreciation depended critically upon the implementation of supportive fiscal and monetary policy. To this end, the SAP recommended budgetary restraint, including wage increases lower than the rate of inflation; expenditures for maintenance over new capital investment; reduced government support for parastatals, which would be commercialized and, whenever possible privatized; curtailed spending on all but the most important uncompleted projects. The improved budgetary position would make monetary policy easier to execute, as growth of net domestic credit to the government, and to the private sector would have to be slowed. When excess liquidity occurred, a combination of blocked accounts and the sale of stabilization securities would help to mop it up. (See Chapters III and IV).

B. Trade Policy

2.16 **Imports.** Prior to the introduction of the SAP, imports were subject to quantitative controls implemented through a combination of outright bans on agricultural and manufacturing goods and a comprehensive licensing system. In January 1986, a 30-percent surcharge was imposed on all imports. The effect of foreign-exchange rationing and import licensing, however,

was to insulate relative prices in Nigeria from those on world markets. While customs and excise duties played a relatively small role in shaping the incentive environment, their net effect was to relieve pressure on the foreign exchange market and provide a revenue stream to the Government.

2.17 **Under the SAP**. Between 1986 and 1988, import and export licensing was eliminated, the list of prohibited imports was shortened, and price and distribution controls on agricultural exports were removed. These measures stimulated domestic production of cocoa, cotton, rubber, groundnuts, and grains.

2.18 Realizing that the impact of customs and excise duties would increase as controls on imports and foreign exchange were eliminated, Government reformed its duty schedules as part of its adjustment program. Interim import-duty and excise schedules were implemented in October 1986.

2.19 The interim tariff reduced the dispersion of tariff rates, reducing the trade-weighted, average nominal tariff from 33 percent to 23 percent. In addition, most duty rates fell between 10 percent and 30 percent. Some agricultural and industrial import products (which competed with major domestic producers) remained subject to higher nominal rates of up to 60 percent, and some luxury goods (such as motor vehicles) were subject to rates of 100 percent or more.

2.20 Shortly after adopting the interim tariff, the Government made two further adjustments to tariffs and excises. The 1987 budget reduced tariffs on eighteen items, and one month later, tariffs and excises covering an additional 24 product groups were adjusted—effectively increasing protection for certain lines of production. (Wider changes, sought by domestic industries, were postponed until completion of a major tariff review.)

2.21 The 1988 budget introduced a new tariff regime, *The Customs and Excise Tariff Consolidation Decree,* based on a comprehensive tariff structure. As the foundation for a more permanent set of customs and excise duties, the Decree sought to bring greater stability and predictability to the incentive system and was stated to be in effect from 1988 through 1994. Reflecting the concern that the interim tariff had gone too far too fast, seriously undermining the financial viability of much of the manufacturing sector, the new, unweighted, average nominal tariff schedule was set at 28 percent. This was above that of the 1986 interim schedule and was coupled with stricter customs procedures (including preshipment inspection) to help increase duty collections.

2.22 **Policy Changes and Reversals.** As it transpired, the SAP's attempts to achieve transparency and stability in the incentive system were overtaken by events. The list of banned imports was once again extended so that by 1991, about 20 percent of industrial imports and 30 percent of agricultural imports were affected. About 1,000 of the harmonized system of 5,000 six-digit import items, furthermore, remained subject to conditional import prohibitions, which could be invoked on the basis of balance-of-payments considerations.

2.23 Every year from 1989 to 1991, tariffs, too, were raised on a variety of products. Tariff rates of 100 to 300 percent were applied to foodstuffs, footwear, transport equipment, and chemical products. Under a 1992 economic relief package, however, many of these items were given substantial duty rebates.

2.24 Changes in excise duties significantly altered the effect of tariffs on protection. Since excise duties apply only to domestic goods and not to comparable imports, raising them (as was

done selectively in 1989) reduced tariff protection for those goods. Similarly, the 1993 suspension of excise duties across the board helped make domestic production of import substitutes more viable. (In the past, the notion of a "landing charge" was often cited as an implicit excise tax on imports, levied as part of the customs duty. In practice, however, changes in the excise tax have not generally been accompanied by equivalent changes in landing charges and in turn in import duties.)

2.25 Throughout the SAP era, considerable inequalities of protection remained, with—according to Government studies—effective rates ranging from negative values to more than 1,000 percent of nominal rates of protection. This high variability reflects different industries' ability to lobby for rate changes rather than any particular comparative advantage. Prohibitions and high rates of duties affected products unevenly, lowering the level of some imports and increasing the quantity (through smuggling) of others. Trade barriers had such unintended side-effects, moreover, as poultry shortages, which resulted from the import-ban on maize.

2.26 In retrospect, it appears that few SAP goals for trade policy were achieved. Nigeria still places quantitative restrictions on external trade, and the transparency and predictability of the incentive system has not improved. Both tariff and nontariff barriers were changed frequently. Nigeria's revenues from trade-related (customs and excise) taxes, moreover, declined from about 3.2 percent of GDP in 1987 to 2.4 percent in 1992. Today, the import regime involves high transaction costs and stands in stark contrast to the relative ease with which unofficial and irregular import transactions occur. Meanwhile, the import system, therefore, penalizes businesses that abide by the rules. The costliness (in time and otherwise) of using official channels provides a clear incentive for business to circumvent official procedures.

2.27 **Institutional Framework.** In 1988, the Government established an independent Tariff Review Board (TRB), attached to the Office of the President. This Board, which included representatives from both the public and private sectors, was created to provide a central source of impartial and technically proficient advice on all aspects of Nigeria's protection policy. A Technical Secretariat (consisting of government representatives and private companies) provided analytical support. As it turned out, however, Government's many decrees and policy amendments undermined the stability and predictability of the trade incentive system. Trade policy became highly politicized, and vested interests were able to secure changes in the rules favorable to themselves. More often than not, the professional advice of the TRB was ignored.

2.28 With the 1988 Tariff Decree due to expire in 1994, the TRB is preparing a new, comprehensive tariff structure to be introduced with the 1995 budget. This could provide an opportunity to revitalize initiatives begun under the SAP; to integrate into Nigeria's tariff structure the 1993 framework agreed upon by the General Agreements on Trade and Tariffs (GATT); and to introduce MVAT as an explicit, nondiscriminatory tax on goods and services.

2.29 During the SAP era, the Government also introduced a new import-duty assessment and collection system that relies on offshore, preshipment inspection of imports and assessment of duties. This system was supposed to improve collections, but initial efforts have so far not translated into higher revenue streams. An institutional framework for dealing with this issue was introduced with the establishment of the interdepartmental Import Duty Monitoring Committee (IDMC), in which the Budget Office, Department of Customs, CBN, and Treasury took part. While the IDMC has brought about some improvement in duty collection, it lacks trained technical staff with access to computing facilities to ensure compliance and match of data from various sources electronically.

1. Exports

2.30 To promote exports, all requirements for the surrender of foreign exchange from non-oil exports were abolished under the SAP, and such earnings were allowed to be kept in foreign currencies in domiciliary accounts. This provision permitted exporters to convert foreign currency into naira as they saw fit. (The use of foreign exchange, however, remained subject to the same restrictions that applied to funds purchased in the foreign exchange auction.)

2.31 Although Government initially abolished most export prohibitions under the SAP, selected prohibitions were later reinstituted. The poor harvest of 1987, for instance, led to bans on grain exports.[1] Prohibitions have since been extended to cover raw palm kernels, cassava, maize, yam, rice, beans, timber, and raw hides.

2.32 The SAP eliminated all export licensing (except for reasons of health, national security, nature conservation, or the preservation of national cultural heritage). All export duties were abolished, and export procedures and documentation were simplified. After a government study, the Nigerian Export Promotion Council (NEPC) was reorganized with enhanced private-sector participation, so that it could be more responsive to exporters. The establishment of a refinancing and rediscounting facility (under which the CBN provided banks with more than ₦500 million in 1988) mostly benefitted cocoa exporters. Export insurance, financing guarantee arrangements, and the dissolution of state-owned trading companies were other notable changes in export policy.

2.33 **Duty Drawback Scheme.** At the outset of the SAP era, the Government approved guidelines for a revised Duty Drawback Scheme (DDS),[2] with streamlined administrative procedures and an emphasizing transparency, reliability, and efficiency. After lengthy delays, the scheme nominally came into operation at the end of July 1987. It faced numerous administrative problems, including difficulties in verifying import and export transactions.

2.34 Because the Department of Customs resisted verifying import and export transactions, by mid-1989, only twelve rebates had been processed through the DDS. Government, therefore, issued revised operational guidelines in December 1989, and the DDS Committee indicated that it would strive for a six-week turnaround between application and rebate. The Budget Office played a guiding role, and in 1992, refunds amounting to US$36 million were provided to forty one companies. Nevertheless, many exporters still do not use the facility.

2.35 In anticipation of increasing export diversification and decreasing reliance on oil exports, the Government set a target of US$1 billion per annum in non-oil exports. Official export statistics show that this target has not yet been met. Substantial unofficial exports particularly of textiles and soaps to neighboring countries have been observed, however, suggesting that official channels are being circumvented.

2.36 The limited effectiveness of SAP export promotion efforts led to an increase of funding for the DDS and provision for a new manufacturing-in-bond scheme (to encourage importers of raw materials to produce exportable products) in the 1991 budget. In November 1991, an export-

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[1] This ban was instituted to prevent a shortage in the domestic market and promote local processing of grain products, so that higher value-added items would be exported.

[2] The 1959 regulations required drawback applications (including the determination of input-output coefficient schedules) to be processed on a case-by-case basis which was administratively cumbersome and caused substantial delays.

processing zone was established in the southeastern port of Calabar. Government has provided domestic and foreign firms operating there such export incentives as exemption from all duties, levies, taxes, and foreign-exchange restrictions.

2.37 ECOWAS. The 16 members of the Economic Community of West African States (ECOWAS) are working to reduce tariff and nontariff barriers to trade. The objective is to establish ECOWAS as a customs union with a common external tariff and to develop a common monetary system.

2.38 To date, the impact of these efforts has been modest. Nigeria's trade with its neighbors increased from less than 2 percent in 1980 to more than 5 percent in 1989. Its persistent problems with currency inconvertibility and foreign exchange shortages have been barriers to more vibrant trade. In 1990, member countries agreed to a Trade Liberalization Scheme that would allow for the free movement of goods within ECOWAS—but Nigeria has yet to simplify the issuing of the certificates-of-deposit exporters need to be able to benefit from the scheme.

2. Agricultural Marketing Boards

2.39 In December 1986, Government abolished the six commodity boards that had held a monopoly on the pricing, subsidization, purchase, and marketing of oil palm, cocoa, rubber, cotton, groundnuts, and grains. Prices had generally been set below world prices (at the parallel exchange rate), and market competitors were not available to bid prices up to realistic levels. At the same time, the boards were creating losses by borrowing from the CBN to make purchases in excess of their marketing earnings.

C. Taxation and Regulatory Policy

2.40 SAP initiatives to improve the regulatory climate for the private sector represent a major step forward. Implementation, however, sometimes falls short of government reform policy, and special attention needs to focus on the IDCC. Meanwhile, by extending the incentives under the Nigerian Enterprise Promotion Decree (NEPD) only to new enterprises, firms already operating in Nigeria failed to benefit. Finally, under current policies' foreign participation in insurance, banking, mining, and petroleum prospecting cannot be increased.

2.41 Amendments to the Nigerian Enterprise Promotion Decree allowed for 100 percent foreign ownership in most lines of production (although this provision was applied only to new ventures). Ceilings on royalty payments and profits declared as dividends have been increased. To encourage firms to locate in disadvantaged geographic areas, the old system of locational approval has been replaced by income tax concessions and higher depreciation rates.

2.42 The Industrial Development Coordinating Committee (IDCC), a one-stop agency for initial investment approvals, has eliminated long delays in obtaining business permits. The Committee's mandate is to process new enterprise applications within 60 days and provide help for firms seeking to qualify for industrial incentives and expatriate quotas. (An alternative to expatriate quotas—a graduated tax on employment of expatriates—is now under consideration.) The Government has directed banks to establish designated departments to assist small- and medium-sized enterprises with credit transactions, and in March 1992, all restrictions on nonresidents' capital account transactions were lifted.

2.43 To encourage investment and provide incentives for certain types of activities, the SAP introduced several tax changes. In 1987, the corporate income tax rate was reduced from 45 to

40 percent. For small firms engaged in manufacturing, mining, or agriculture, the tax rate was reduced to 20 percent for the first three years of operation. Capital allowances were increased for plants and machinery used in manufacturing, construction, agriculture, and transport, and special incentives were provided for expenditures on long-term research.

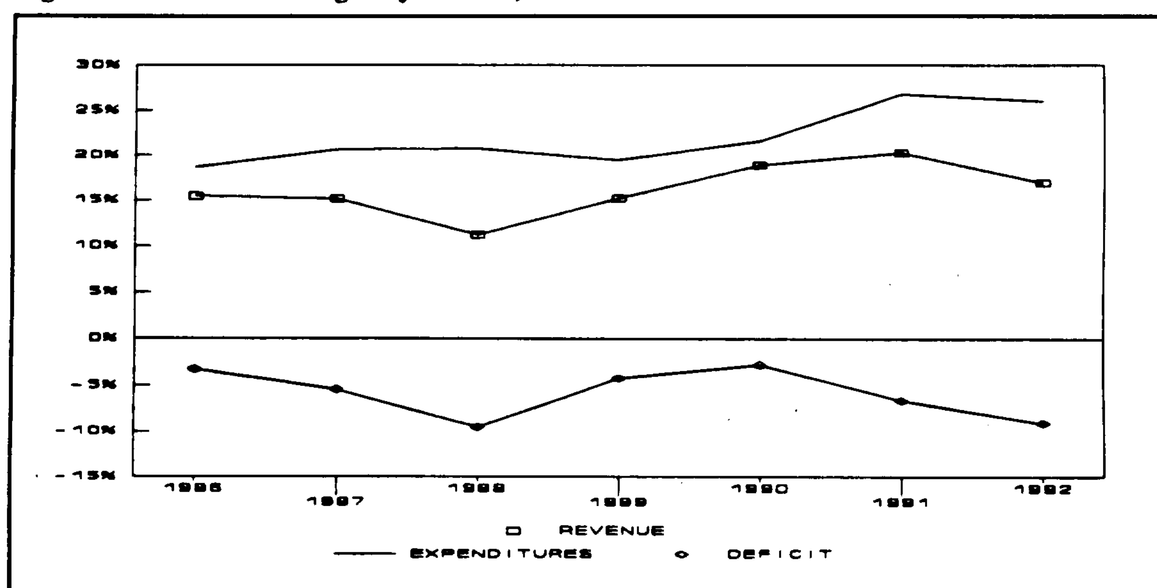
III. FISCAL AND PUBLIC SECTOR POLICY

3.1 To promote fiscal viability, the SAP included measures to hold down the public sector wage bill, rationalize public spending programs, and reduce subsidies and subventions to public enterprises. Civil service employment was to be frozen and public salaries were to rise at a rate lower than that of inflation. The SAP also sought to promote economic growth by recommending greater public investments in human resources development, infrastructure, and maintenance and away from loss-making industrial projects. It gave priority to projects with proven financial viability and low completion costs. To reduce the public sector commitment to inefficient enterprises, it recommended privatization, commercialization, and the eventual elimination of transfers to commercially oriented parastatals.

A. Federal Programs

3.2 In 1986, the federal deficit started out at 3 percent of GDP. But as revenues fell, the deficit rose to 5 percent in 1987 and to 10 percent in 1988. It contracted in 1989 to 4 percent of GDP, and during the 1990 Middle East crisis, fell again to 3 percent as oil revenues rose. When international oil prices returned to pre-Gulf crisis levels, Nigeria's deficit climbed to 7 percent of GDP in 1991 and 9 percent in 1992 (see Figure 3.1 and Table 3.1).

Figure 3.1: Federal Budgetary Trends, 1986 to 1992



1. Total Revenues

3.3 **Federation Account Revenues.** Nigeria's federally collected revenues derive mainly from petroleum receipts—which account for 75 to 85 percent—customs and excise taxes (see Table 3.2). The 78-percent devaluation of the currency between 1986 and 1987 increased the naira value of oil exports from ₦11.8 billion to ₦20.5 billion. From 1988 to 1990, a further 50 percent exchange-rate depreciation—coupled with the temporary increase in production and export prices associated with 1990 Middle East crisis—caused oil revenues to triple (see Box 3.1).

3.4 Oil revenues' elasticity greatly increased Nigeria's exposure to price risk. The new Memorandum of Understanding signed with the joint-venture oil companies in 1991, for example,

Table 3.1: Summary Budget of the Federal Government, 1986 to 1992

	1986	1987	1988	1989	1990	1991	1992
Revenues				(Naira billions)			
Federally collected	16.0	26.6	29.5	58.2	92.3	117.0	168.4
Federally retained	11.3	16.6	16.4	35.1	54.0	68.8	90.2
Expenditures							
Total[a]	13.7	22.4	30.2	44.8	61.6	90.9	138.0
Recurrent	7.9	15.5	20.9	31.6	44.6	54.8	79.7
Interest payments	3.6	12.3	15.4	23.9	33.7	38.1	55.8
External[b]	1.0	8.4	10.4	16.7	21.3	23.1	35.9
Domestic	2.6	3.9	5.1	7.1	12.3	15.0	19.9
Other	4.4	3.2	5.5	7.7	11.0	16.7	23.9
Capital	5.7	5.4	8.3	11.3	15.5	34.4	55.1
Exchange rate guarantees[c]	0.0	1.5	1.0	1.9	1.5	1.7	3.2
Balance	-2.4	-5.9	-13.8	-9.7	-7.7	-22.1	-47.8
Memorandum items				(Percentage of GDP)			
Retained revenues	15.5	15.2	11.3	15.3	18.9	20.3	17.0
Expenditures	18.7	20.6	20.8	19.5	21.6	26.9	26.1
Deficit	-3.2	-5.4	-9.5	-4.2	-2.7	-6.5	-9.0

Note: Audited accounts have not been available since 1982. The 1992 data are preliminary estimates.

[a] Expenditures are derived as the difference between revenues and financing.
[b] After the rescheduling agreements that began in 1986, the Federal Government assumed responsibility for most debt service. This and the exchange rate devaluation in 1987 is the cause of the large increase in payments due.
[c] Obligations incurred prior to the establishment of the foreign exchange market in 1986/87.

Source: Ministry of Finance, Central Bank of Nigeria, and World Bank staff estimates.

Table 3.2: Federally Collected Revenues by Source, 1986 to 1992

	1986	1987	1988	1989	1990	1991	1992
				(Naira billions)			
Total revenues	16.0	26.6	29.5	58.2	92.3	117.0	168.4
				(Percentage of total)			
Petroleum	73.8	77.2	78.4	84.8	83.0	83.3	81.2
Customs and excise	10.8	13.3	14.4	10.2	9.4	10.6	7.8
Company income tax	6.9	4.6	5.3	3.4	3.7	3.3	3.0
Independent revenues	2.7	1.5	1.8	1.6	3.8	2.7	8.0
				(Percentage of GDP)			
Total revenues	21.9	24.4	20.3	25.3	32.4	34.6	31.8
Petroleum revenues	16.2	18.9	15.9	21.4	26.9	28.8	25.8

Note: Official data have been adjusted to achieve consistency with balance-of-payments and monetary data.

Sources: Ministry of Finance, Central Bank of Nigeria, and World Bank staff estimates.

linked the Government's share of revenue to incremental additions to reserves, production costs, and export prices. But for prices below US$24 per barrel, the elasticity of revenues-to-price

Box 3.1: Exchange Rate Movements and Budgetary Revenues from Petroleum

On average, 80 percent of Nigeria's federally collected revenues derive from petroleum receipts, most of which come from exports. The annual rate of change in nominal revenues, therefore, can be divided into three main parts: exchange rate, oil price, and volume movement. For example, at 1992 export volumes, a US$1 change in export prices would be worth ₦5.9 billion, while a movement in the exchange rate of ₦1 per dollar would be worth ₦6.7 billion. (A fourth category captures such residual factors as changes in government agreements with joint-venture oil companies, efficiency of revenue collection, and cross-effects.)

The table below shows that exchange rate depreciation was essential to the growth of petroleum revenues in 1986 and 1987. Without the devaluation, revenues would have fallen by 88 percent in 1986 (rather than rising 8 percent) and 55 percent in 1987 (rather than rising 74 percent), owing to declining oil volumes and prices in those years. Likewise, revenues in 1992 would have fallen by 34 percent (instead of rising 40 percent), if not for the exchange rate depreciation that year.

Derivation of Federally Collected Petroleum Revenues

	1986	1987	1988	1989	1990	1991	1992
	(Nominal percentage rate of increase)						
Petroleum revenue	8	74	13	113	56	27	40
Equals the sum of:							
Exchange rate	96	128	13	62	9	23	75
Export price	-48	22	-13	24	31	-17	-3
Volume	0	-10	6	18	10	3	2
Other factors	-40	-68	7	9	6	17	-33
Memorandum item:	(Naira per US dollar)						
Exchange rate	1.8	4.0	4.5	7.4	8.0	9.9	17.3

Source: World Bank staff estimates.

movement increases to well above one. For example, suppose the dollar-price per barrel of oil fell 20 percent from US$21 per barrel in one year to US$17 in the next year. At current production levels, this would reduce annual revenues from US$9.5 billion to US$7.1 billion or a 25 percent loss in revenue implying an elasticity of 1.25. This volatility, moreover, increases the lower the price drops.

3.5 Because Nigeria has priced domestic petroleum products cheaply, revenues from them have been accordingly low (see Table 3.3). In 1987, Nigerian gasoline was priced at 39.5 kobo per liter, or about 10 cents per liter, compared with an average European price of 22 cents per liter (excluding taxes). In 1989, when the Government increased the price to 60 kobo per liter, concurrent exchange-rate movement reduced the dollar price to 9 cents per liter. Prices were raised again in 1990 to 70 kobo per liter, but again the dollar equivalent was only 7 cents per liter. With the devaluation of 1992, Nigeria had the least expensive gasoline in the world—4 cents versus the European average of 30 cents per liter.

3.6 Over the past few years, customs and excise revenues have risen consistently: from ₦1.7 billion in 1986 to ₦3.5 billion in 1987 to ₦8.7 billion in 1990, and to ₦13.1 billion in 1992. Almost all of this increase was attributable to exchange rate movement, with a real 13-percent (increase in import volume in 1990). Averaging 3.2 percent a year, independent revenue varied

Table 3.3: Domestic Price of Petroleum Products, 1987 to 1992

	1987	1988	1989	1990	1991	1992
Nigerian gasoline, excluding taxes			(Units per liter)			
Kobo per liter	39.5	39.5	60.0	60.0	70.0	70.0
Cents per liter	9.8	8.7	8.1	7.5	7.1	4.0
International gasoline, excluding taxes			(Cents per liter)			
Europe[a]	22.4	21.5	23.5	29.5	29.8	29.5
United States	20.9	20.9	23.2	26.2	24.0	24.0
Price differential			(Percentage of international price)			
Europe[a]	56.1	59.5	63.3	74.7	76.3	86.3
United States	52.9	58.3	65.0	71.5	70.6	83.2
			(Naira per dollar)			
Official exchange rate	4.02	4.54	7.36	8.04	9.91	17.3

a France, Germany, Italy, Netherlands, and the United Kingdom.

Source: Nigerian National Petroleum Corporation, International Energy Agency, and *Middle East Petroleum and Economic Statistics*.

from a low of 1.5 percent of total federally collected revenues in 1987 to 8 percent in 1992. The sharp increase in 1992 revenues derives primarily from ₦7.3 billion in loan recoveries and ₦1.65 billion in proceeds from privatization.

3.7 By law, most federally collected revenues are deposited into the Federation Account for distribution to the three levels of government and to several special funds. The exception is oil revenues earmarked for priority projects, which are deposited into special, extrabudgetary dedication accounts. Prior to distribution, however, a deduction is made for stabilization fund deposits.[3] Approximately half of the remaining Federation Account proceeds are allocated to the Federal Government, with the rest dividend among 30 state governments, 589 local governments, and 5 special funds (see Table 3.4). A small portion of federally collected revenues, called "independent revenues," are allocated only to the Federal Government.

3.8 Since the introduction of the SAP in 1986, the formula for the allocation of federation-account revenue has been changed three times (see Table 3.5). In 1989, the federal share was decreased from 55 percent to 50 percent and the state share was reduced from 32.5 percent to 30 percent, with part of the released revenues going to fund an additional 5 percent allocation to local government and the remaining 2.5 percent used for three new funds: the Federal Capital Territory Fund, the Mineral Derivation Fund (for mineral-producing states), and the Stabilization Fund. In early 1992, the distribution was changed again to allow local government to take on additional responsibilities for roads, primary education, and primary health care—financed by a reduction in the state share from 30 percent to 25 percent. In June 1992, the federal share was decreased by 1.5 percent and the state share by 1 percent to boost the share for mineral-producing areas by 1.5 percent and the ecology share by 1 percent.

[3] There are two stabilization funds in operation. The first, set up in 1989, is an extra-constitutional system set up by the Federal Military Government. No formal rules have been documented for deposits or withdrawals from this fund. The second was specified in the 1989 Constitution and began operation in 1990. Deposits into this fund are set at 0.5 percent of all Federation Account revenues. No formal procedures have been gazetted for withdrawals from this fund.

Table 3.4: Distribution of Federally Collected Revenues, 1986 to 1992

	1986	1987	1988	1989	1990	1991	1992
				(Naira billions)			
Federally collected revenue	16.0	26.6	29.5	58.2	92.3	117.0	168.4
				(Percentage of total)			
Federation account	74.2	92.8	90.6	84.7	72.4	72.8	79.4
Stabilization account	0.0	0.0	0.0	26.2	20.4	24.5	32.7
Distributed	74.2	92.8	90.6	58.5	52.0	48.3	46.7
Federal share	47.1	59.1	50.9	32.2	26.0	24.1	22.3
Federal claims[a]	23.5	3.2	4.4	9.3	22.3	22.4	15.2
Dedication account funds, NNPC	2.4	4.0	4.9	6.0	5.3	4.8	5.4

[a] Independent federal revenues and non-NNPC dedication account funds.

Source: Ministry of Finance, Central Bank of Nigeria, and World Bank staff estimates.

Table 3.5: Federation Account Shares, 1986 to 1992

	1986	1987	1988	1989	1990	1991	Jan. 1992	June 1992
				(Percentages)				
Federal	55.0	55.0	55.0	55.0	50.0	50.0	50.0	48.5
State	32.5	32.5	32.5	32.5	30.0	30.0	25.0	24.0
Local	10.0	10.0	10.0	10.0	15.0	15.0	20.0	20.0
Special funds	2.5	2.5	2.5	2.5	5.0	5.0	5.0	7.5
General ecology	1.0	1.0	1.0	1.0	1.0	1.0	1.0	2.0
Mineral producing areas	1.5	1.5	1.5	1.5	1.5	1.5	1.5	3.0
Federal capital territory	..	..	..	..	1.0	1.0	1.0	1.0
Derivation	..	..	..	..	1.0	1.0	1.0	1.0
Stabilization	..	..	..	..	0.5	0.5	0.5	0.5
Total Federation Account distributed	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: Ministry of Finance.

3.9 **Federally Retained Revenues.** Federally retained revenues accrue only to the Federal Government and are the sum of the federal share of distributed Federation Account revenues, independent revenues, dedication account funds, and the federal share of transfers to the stabilization account (see Table 3.6). Federation Account contributions declined from a peak of 95 percent of all federally retained revenues in 1987 to 42 percent in 1992. In compensation, the contribution from stabilization and dedication account revenues has risen from 3 percent in 1987 to 43 percent in 1992.

3.10 Federal independent revenues come from a variety of sources (including proceeds from privatization, loan repayments from state governments, dividends or profits from public enterprises, the recovery of domestic debt service from the states, and taxation). These revenues increased from 4 percent of the total in 1986 to 15 percent in 1992.

3.11 Budgetary revenue estimates routinely exclude dedication account revenues and, until 1993, stabilization account drawings. Thus (as Table 3.6 illustrates), actual federal revenues regularly exceeded budgetary targets. Between 1989 and 1992, for example, actual revenues

Table 3.6: Federally Retained Revenue, 1986 to 1992

	1986	1987	1988	1989	1990	1991	1992
Federally retained revenues			(Naira Billions)				
Approved budget	10.5	11.0	15.7	17.7	25.4	38.8	54.0
Actual revenues	11.3	16.6	16.4	35.1	54.0	68.8	90.2
Shares of total revenues of which:			(Percentages)				
Federation account share	66.7	94.8	92.0	53.4	44.5	41.1	41.7
Independent revenues	3.8	2.5	3.3	2.7	6.5	4.6	15.0
Dedication account funds	29.4	2.7	4.7	12.7	31.6	33.5	13.4
Stabilization A/C drawings	0.0	0.0	0.0	31.2	17.5	20.8	30.0
Shares of GDP of which:							
Federally retained revenues	15.5	15.2	11.3	15.3	18.9	20.3	17.0
Federation account share	10.3	14.4	10.4	8.1	8.4	8.4	7.1
Retained revenues in approved budget							
Budgeted as percent of actual	92.6	66.2	96.0	50.4	47.1	56.4	59.9
Budgeted as percent of GDP	14.3	10.1	10.8	7.7	8.9	11.5	10.2

Source: Ministry of Finance, Central Bank of Nigeria, and World Bank staff estimates.

were almost double the budgeted targets, showing the need for a more comprehensive and transparent system of budgeting. As shown below, extrabudgetary revenues can be converted all too easily into extrabudgetary spending.

2. Expenditures

3.12 Since 1982, Nigeria has not published audited, final, budgetary accounts. Budget targets, moreover, (specified in annual budget speeches) fail to include all revenues and expenditures. Data shown in Table 3.6 were derived from the difference between total revenues and financing, with additional adjustments for external loan drawings and such extrabudgetary items as dedication and stabilization account funds.

3.13 In 1986, Nigeria's primary expenditures (exclusive of interest payments) started out at 14 percent of GDP (see Table 3.7). In 1987, they dipped to a low of 8 percent but rose to 10 percent owing to the expansionary 1988 budget. In 1989, primary expenditures returned briefly to 8 percent of GDP before accelerating to 15 percent in 1991 and 1992.

3.14 Recurrent, non-debt expenditures dropped from 6 percent of GDP in 1986 to 3 percent in 1987, 4 percent in 1988, and 3 percent in 1989. They peaked at 5 percent in 1991 before declining to 4.5 percent in 1992. In 1992 and 1993, significant increase in recurrent spending is expected, reflecting the 45-percent public-sector wage increase negotiated in 1992.

3.15 Capital expenditures started at 8 percent of GDP in 1986, held steady at 5 percent in 1987, 1989, and 1990 (with a rise to 6 in 1988), then jumped 10 percent in 1991/92 despite the decision not to release the 1992 fourth-quarter capital warrants.

3.16 Interest expenditures due were 5 percent of GDP in 1986 but jumped to an average of 11 percent of GDP, when Federal Government assumed state and local government's external debt-service obligations. From 1986 to 1992, this equalled approximately 60 percent of federally retained revenues.

Table 3.7: Federal Expenditures by Economic Classification, 1986 to 1992

	1986	1987	1988	1989	1990	1991	1992
				(Naira billions)			
Federal expenditures	13.7	22.4	30.2	44.8	61.6	90.9	138.0
Of which extrabudgetary spending	3.0	5.9	6.4	15.9	23.6	55.6	90.0
As percent of total				(Percentages)			
Primary	73.8	38.6	45.5	42.5	43.0	56.3	57.2
Recurrent	31.9	14.4	18.1	17.2	17.8	18.4	17.3
Capital	41.9	24.2	27.4	25.3	25.2	37.8	39.9
Interest due	26.2	54.7	51.2	53.3	54.6	41.9	40.4
Exchange rate guarantees	0.0	6.7	3.3	4.3	2.4	1.8	2.3
As percent of GDP							
Federal expenditures	18.7	20.6	20.8	19.5	21.6	26.9	26.1
Primary	13.8	7.9	9.5	8.3	9.3	15.1	14.9
Recurrent	6.0	3.0	3.8	3.3	3.9	4.9	4.5
Capital	7.8	5.0	5.7	4.9	5.4	10.2	10.4
Interest due	4.9	11.3	10.6	10.4	11.8	11.3	10.5
Exchange rate guarantees	0.0	1.4	0.7	0.8	0.5	0.5	0.6
Extrabudgetary spending							
As a percent of total expenditures	22.1	26.2	21.2	35.5	38.3	61.2	65.2
As a percent of GDP	4.1	5.4	4.4	6.9	8.3	16.4	17.0
Interest due as percent of revenue	31.6	74.1	94.4	67.9	62.3	55.4	61.8

Note: Total expenditures are estimates based on documented expenditure warrants and estimated extrabudgetary expenditures. The 1992 data are preliminary.

Source: Ministry of Finance, Central Bank of Nigeria, and World Bank staff estimates.

3.17 Finally, from 1987 onward, an average of 3 percent of total expenditures has been devoted to exchange rate guarantees on so-called presecondary foreign exchange market (SFEM) obligations. On selected external obligations (incurred just prior to the establishment of the SFEM), the Government and the Central Bank agreed to split the difference between the current exchange rate and ₦1.57 to the dollar on selected external obligations incurred just prior to the establishment of the SFEM. (The size of the total original obligation, however, and amount currently outstanding is not well documented).

3.18 As a percentage of GDP the contrast between budgeted and extrabudgetary spending is extraordinary (see Table 3.7). If budgeted federal expenditures had been adhered to, their GDP share would have declined from 16 percent of GDP in 1988 to 9 percent of GDP in 1992, which suggests significant underbudgeting. Not surprisingly, therefore, extrabudgetary spending increased from 4 percent of GDP in 1986 (22 percent of total spending) to 17 percent of GDP in 1992 (65 percent of total spending). Although little information is available, some extrabudgetary spending went to establish facilities for nine new states created in 1991, to costs associated with the political transition and accelerated spending on the new capital at Abuja, to the Organization of African Unity(OAU) Conference, to participation in ECOMOG activities in Liberia, and to governments attempting to complete most of the major outstanding investment projects by 1992.

3.19 The increase in extrabudgetary spending in recent years was facilitated by the rapid growth of extrabudgetary spending mechanisms. The largest of these are the stabilization-account drawings, ways and means, and various dedication accounts. Table 3.6 shows the magnitude of extrabudgetary sources. The contribution from stabilization account drawings and dedication account revenues, for instance, rose from 3 percent of total revenues in 1987 to 43 percent in 1992.

3.20 **Spending Priorities**. As indicated above, in 1986/87, after the Federal Government assumed state and local external debt obligations, interest expenditures took on a much higher priority and all other expenditure shares had to adjust as a result. Economic services dropped from 15 percent in 1986 to 11 percent of the total for 1988-92; social services fell from 14 percent in 1986 to an average of 12 percent; and other primary expenditures fell (administration, defense, pensions, subventions to parastatals, and on-lending) fell from 44 percent of the total in 1986 to an average of 26 percent (see Table 3.8).

Table 3.8: Federal Expenditures by Function, 1986 to 1992

	1986	1987	1988	1989	1990	1991	1992
			(Percentage of total)				
Economic services	15	9	10	11	10	13	12
Agriculture and water	4	1	2	4	4	4	3
Transport and communications	4	2	2	2	1	2	2
Other economic services	8	5	5	5	5	7	7
Social services	14	3	11	12	11	12	13
Education	8	1	5	7	6	4	6
Health	3	1	2	2	2	2	3
Other	3	1	4	4	4	5	4
Other primary expenditures	44	26	25	20	22	32	32
Defense and security	12	9	8	6	8	13	12
General administration	16	12	14	11	11	16	17
Pensions and gratuities	6	0	3	1	2	2	2
Other[a]	11	4	0	1	1	1	1
Interest due	26	55	51	53	55	42	40
Exchange rate guarantees	0	7	3	4	2	2	2
Total expenditures	100	100	100	100	100	100	100
Primary expenditure shares[b]							
Economic services	21	23	21	25	24	22	20
Social sectors	19	9	24	28	26	21	24
Other primary expenditures	60	68	55	47	50	57	56
Total	100	100	100	100	100	100	100

Note: Includes extrabudgetary spending.

[a] Includes grants, subventions, and lending to public enterprises and states.
[b] Excludes interest and exchange-rate guarantees.

Source: Central Bank of Nigeria, and World Bank staff estimates.

3.21 Contrary to SAP objectives which specified a permanent shift toward infrastructure and social spending, Nigeria's allocation of primary (non-interest) expenditures has not, in fact, changed much. (See Box 3.2). On average, economic activities (such as agriculture or construction) have accounted for 22 percent of noninterest expenditures, while spending on the social sectors accounted for another 22 percent. The temporary increase in social spending in 1988-90 excluded the health sector and, in 1991/92 was edged out by increased spending on administration and security. Administration, security, pension, and on-lending have consumed an average of 56 percent of total non-interest spending.

3.22 **Public Investment.** A substantial portion of the capital expenditure program has been uneconomic and could have been eliminated if greater attention had been paid to the operation and maintenance of existing projects. For example, with the completion in 1990 of two new plants—Shiroro Hydro and Delta IV, NEPA's installed generating capacity stands at 5,988 MW yet available capacity in 1990 was only about 2,700 MW owing to the breakdown of units in existing plants. Peak demand, furthermore, was only 2,219 MW.

3.23 A large number of projects are also far from least cost—either because of inappropriate choices of technology or location or because of padding by foreign suppliers introduced to cover commissions and the costs of doing business in Nigeria. Again in the power sector, the proposed Zungeru hydroelectric plant and Oji River coal-fired units are about US$1.2 billion more expensive than equivalent gas turbines. In the steel sector, the Ajaokuta Steel Project will add more than 2 million tonnes annual capacity, even though the existing Delta Steel Complex is already capable of meeting current total demand for steel at 50 percent capacity. Even if only the first phase of the project is completed, capital costs will be about US$4,000 per tonne as compared with US$1,000 per tonne at competitive plants elsewhere. The complex and oversized Petrochemicals Phase II Project will cost US$1.14 billion, and at best, may be economical only on a sunk-cost basis. Even if capital costs are ignored, the Ajaokuta Steel Complex will be a net loser of foreign exchange (see Box 3.3).

3.24 On the other hand, essentially commercial projects should have been left for the private sector to pursue. For example, minimal private equity was mobilized to run the aluminum smelter at Ikot Abasi, which (at some US$1.4 billion for 180,000 tonnes capacity) has capital costs of approximately US$8,000 per tonne in 1991 dollars (as compared with US$5,000 per tonne for competitive green-field plants in other countries).

3.25 A number of projects—particularly in the manufacturing sector—were initiated and then left uncompleted for long periods owing to a lack of funds. Examples include the Iwopin Paper Mills and Oshogbo Machine Tools. Widespread delays add greatly to the economic cost of projects. In addition to the costs of demobilizing and remobilizing contractors and escalations as contracts are renegotiated, equipment deteriorates or is stolen, technology becomes outdated, and warranties expire.

3.26 These kinds of problems are not limited to the industrial sector. The National Agricultural Land Authority, set up in 1991, takes a dedicated but expensive approach to the development of land for relatively small groups of beneficiaries. Budget allocations in the 1992-94 Rolling Plan were ₦300 billion annually as compared to ₦120 million for existing Agricultural Development Projects (ADPs) which are more cost effective.

3.27 Nigeria continues to neglect its recurrent expenditure needs, particularly for operations and maintenance (O&M) expenditures. In the power and petroleum sectors, neglect of O&M has had disastrous effects on performance. Owing to inadequate resources for maintenance and spare

Box 3.2: Spending on the Social Sectors

There has been a marked decline in real per capita expenditures on health and education since 1981. The pre-SAP fall in oil prices had an adverse impact on public revenues, and in turn on spending. Total federal expenditures fell from 25 percent of GDP in 1981 to 17 percent of GDP by 1985. Spending on health and education fell as well. Thus, real federal expenditures on health fell from ₦9.4 per capita in 1981 to ₦3.1 by 1985, while educational expenditures fell from ₦29.1 per capita to ₦11.6 per capita in 1985. Under the SAP, federal health expenditures initially recovered slightly in 1986 and 1987, but dropped to a low of ₦2.3 per capita in 1989. There has been an increase in real per capita health expenditures since 1990, reaching ₦3.9 per capita in 1991. This is in contrast to federal expenditures on education, which have been highly variable, but recovered their pre-SAP level before the transfer of responsibility for primary education to state and local levels in 1991. The sharp increase observed in 1988 was due to a combination of increased allocations under the reflationary budget and large extra-budgetary expenditures. This level of spending was sustained in 1989 and 1990 through the Federal Government's contribution of ₦800 million each year for primary education.

	Health		Education	
	(₦ M)	(₦)	(₦ M)	(₦)
		(1987 Naira)		
1981	692.2	9.4	2,137.9	29.1
1982	658.1	8.7	2,017.3	26.6
1983	476.0	6.1	763.1	9.8
1984	266.6	3.3	926.1	11.5
1985	261.8	3.1	968.7	11.6
1986	419.6	4.9	974.6	11.4
1987	354.7	4.0	448.6	5.1
1988	321.6	3.5	1,156.4	12.7
1989	215.8	2.3	1,462.6	15.6
1990	362.5	3.8	1,129.9	11.7
1991	385.6	3.9	550.8*	5.6*
1992	-	..	505.0*	5.0*

* Primary education expenditures were transferred to state and local governments in these years.

Source: Federal Ministry of Health and Human Services, CBN Annual Reports and Statements of Accounts, 1981-91 and World Bank Staff Estimates.

Health. In Nigeria's federal system of government, health expenditures are provided by the federal, state, and local governments. Over 50 percent of public health expenditures occur at the state level, 15-23 percent at the local level, and about 33 percent occur at the federal level. There were huge investments in health-care infrastructure in the wake of the oil boom of the 1970s, with the construction of many hospitals, the purchase of medical equipment and drugs, and the training of health-care personnel. During the first half of the 1980s, real federal government health expenditures declined rapidly in real terms reaching a pre-SAP low in 1985 (at 1987 prices). The share of health expenditures in total federal expenditures was about the same in 1990 as it was in 1981, yet the real value of health expenditures was only about half of that in 1981. Including expenditures at all levels of government, real per capita expenditures on health during the SAP era maintained their 1985 level.

Education. The three tiers of government also contribute to the financing of education, with the Federal Government taking primary responsibility for tertiary education, state governments for secondary education, and local governments for primary education. Expenditures on education accounted for about 18 percent of total federal expenditures in 1975/76. This share declined considerably during the 1980s. Education expenditures represented an average of 5.1 percent of total federal government expenditures over the past 10 years, falling as low as 2 percent in 1987, and reaching as high as 8.3 percent in 1989. Parallel to large expenditures during the oil boom, primary (and to a lesser degree secondary) enrollment ratios increased rapidly during the 1970s. The dramatic increase halted in 1983; in the next four years primary and secondary enrollments dropped by 20 percent and 10 percent, respectively. Although there was a revival in primary enrollments from 1987 onward, secondary enrollments stagnated. Enrollments in tertiary institutions continued to increase rapidly throughout the 1980s, at an average annual rate of 8.4 percent.

Box 3.3: The Onosode Report and After—Nigerian Views on Capital Budgeting

In the first half of 1984, the Federal Military Government appointed a Projects Review Committee chaired by Gamaliel O. Onosode, which also included the Permanent Secretaries of Finance and National Planning and the Governor of the Central Bank.

According to the *Onosode Report* issued by the Committee in 1984, assessment for viability was lacking at every stage of Nigerian Government projects' implementation cycle—largely because of the ineptitude and indifference of those in charge. From the paucity of data projects could supply, the Committee concluded that many had never undergone feasibility studies, that existing studies were weak, and that they were misused as rigid guides for project implementation. Although virtually all public capital projects were supported by technical justifications, furthermore, no attempt was being made to evaluate return on investment, either for the project itself or for the country as a whole. Finally, alternative projects or options (different designs, plant locations, size, capacity) had generally not been costed and evaluated in economic terms, making it impossible for authorities to evaluate the economic consequences of their decisions.

The *Onosode Report* also concluded that—given the rate at which project costs escalated—feasibility studies (where they existed) were faulty, or that there were gross inefficiencies in contract negotiations and management. The report further cited the untimely release of project funds, inadequate supervision and monitoring of projects to ensure that solutions to problems were timely, and lack of accountability. Government functionaries lacked commitment to the job, and quite often failed to process requests for permits, licenses, or approvals promptly. Project delays led to still higher costs.

Given its findings that Government failed to coordinate spending on ongoing programs properly and that several new projects had been started outside the approved development plan, the Committee frankly concluded that Government had a craze to start projects and award contracts, and an aversion to pursuing them to completion.

In its own words, the Projects Review Committee "bent over backwards" to promote the completion of existing projects. Yet despite this generous posture, they were forced to recommend that "all possible spending should be stopped" on such major projects as Iwopin Pulp and Paper, Savannah Sugar, Ajaokuta Steel, Delta Steel, the Metallurgical Research and Training Institute at Jos and Onitsha, Itakpe Iron Ore Mining, and Petrochemical Phase II. In most cases, they also recommended future studies regarding the economic viability and desirability of these projects.

Today, eight years after the submission of the Onosode Report to the Cabinet, little has changed. In May 1992, a Presidential Monitoring Task Force was created to inspect federal government projects. In an impressive effort, the Task Force inspected nearly 2,000 projects, including many not listed in the National Rolling Plan. At current rates of administrative capacity and investment, completing all outstanding projects would, the Task Force concluded, cost well over ₦300 billion and take over 20 years.

They found that all of the projects blacklisted by the *Onosode Report* in 1984 were still receiving funding, and that these (plus the other heavy industrial projects) took up one third of the total costs. The Task Force also noted that these projects had incurred substantial internal and external debts.

Once again, ministries were cited for spreading resources thinly among a burgeoning number of projects rather than concentrating on a few viable ones. Projects were budgeted with little concern for cost and changing economic circumstances, and extrabudgetary funding was especially troublesome. The Task Force noted procurement and maintenance as problem areas, with ministries frequently purchasing the machinery before the buildings had been erected to house it and existing equipment and facilities abandoned or neglected due to inadequate funding. Like the earlier *Onosode Report*, the Task Force's October 1992 report urged the Government to reduce and consolidate its list of projects, to limit new projects, to subject new proposals to rigorous evaluation, and to monitor ongoing projects at every stage.

parts, three of the four refineries run by the NNPC now need major rehabilitation expenditures. Gross underperformance in power generation is also largely attributable to similar neglect, while in the transport sector, inadequate attention to road maintenance threatens the whole road network. The share of federal roads classified as in poor condition increased from 23 percent

in 1985 to 30 percent in 1990. These poor roads moreover, cost vehicle operators some US$200 million (in 1990) annually in terms of higher maintenance cost and delays. In the health and education sectors, personnel costs consume an increasing share of a relatively static budget, and the absence of funding for drugs and medical and teaching supplies drastically undercuts the systems' ability to deliver services.

3. Financing

3.28 Since the introduction of the SAP, the sources of external financing have been quite volatile, primarily because of on-off external rescheduling agreements. In the years prior to 1990, external financing made a net positive contribution to the Government's financing needs. Net flows became negative, however, when subsequent external financing failed to keep pace with debt service. This transition was further complicated by the absence of rescheduling agreements in 1988, 1990, and 1992—years when net external flows were considerably smaller. The Government has now accumulated significant arrears to make up for this shortfall. Finally, in 1992, external payments included an additional US$1.7 billion under the London Club Debt and Debt Service Reduction Agreement, which will save Nigeria approximately US$500 million annually (see Chapter V).

3.29 In accordance with rescheduling agreements, the Federal Government began servicing all federally guaranteed debts incurred by federal and state governments and by public enterprises. But as the federal share of revenues moved downward and debt-service requirements increased, Government found traditional sources of financing increasingly inadequate. In 1989, therefore, Government began taking a portion of the state and local share of Federation Account receipts to cover its losses, usually by diverting funds from the state and local share of the Stabilization Account. As shown in Table 3.9, these extrabudgetary flows have been as low as 1 percent and as high as 3 percent of GDP. There are as yet no formal procedures for calculating state external obligations or the size of the revenue recoveries which appear under Net Financing in Table 3.9 as transfers.

3.30 Demands on domestic financing reflect the volatility of external financing. In 1986, for example, nonbank sources (primarily government trust funds, which supplied ₦3.4 billion in credit) offset net negative foreign financing, of which the banking sector absorbed ₦800 million. From 1987 to 1988—when the first Paris Club agreement expired and an expansionary budget was introduced—net bank credit to the Government jumped from ₦2.4 billion to ₦6.1 billion and was supplemented by an additional ₦2.3 billion from nonbank sources. It was 1989 when the second Paris Club agreement became effective that Government became a net creditor to the banking system, after it increased it net liability by ₦2.8 billion. In 1990, when that agreement ended, nonbank borrowing continued at ₦3.4 billion. In both years, net credit from the banking sector increased to ₦12.8 billion (1991) to ₦44.1 billion and (1992) as net external flows became ever more negative.

B. State and Local Programs

3.31 Although fiscal information is even less reliable at the state and local level than at the federal level, a few trends can be identified. Through 1988, Nigeria's state budgets were all running small deficits. Today, state surpluses average 1.5 percent of GDP (see Table 3.10).

3.32 An estimated 90 percent of state government finances derive from the Federation Account. The remainder comes from personal income and sales taxes. Local governments, too, rely almost exclusively on Federation Account revenues, although some obtain modest revenues

Table 3.9: Financing the Federal Deficit, 1986 to 1992

	1986	1987	1988	1989	1990	1991	1992[c]
				(Naira billions)			
Net financing	2.4	5.9	13.8	9.7	7.7	22.1	47.8
External[a]	-0.3	3.5	5.4	8.2	-0.3	-0.5	-12.4
Net domestic	2.6	2.4	8.4	1.5	7.9	22.6	60.2
Banking system	-0.8	2.4	6.1	-9.3	2.8	12.8	44.1
Nonbank credits	3.4	0.0	2.3	3.4	3.4	1.0	0.0
Transfers[b]	0.0	0.0	0.0	7.3	1.8	8.7	16.1
As percent of total				(Percentage)			
External	-10.8	59.5	39.3	85.0	-3.3	-2.1	-26.1
Net domestic	110.8	40.5	60.7	15.0	103.3	102.1	126.1
Banking system	-34.2	40.3	44.4	-95.8	36.1	58.1	92.4
Nonbank credits	145.0	0.2	16.3	35.5	43.9	4.5	0.0
Transfers	0.0	0.0	0.0	75.3	23.2	39.5	33.7
As percent of GDP	3.2	5.4	9.5	4.2	2.7	6.5	9.0
External	-0.3	3.2	3.7	3.6	-0.1	-0.1	-2.4
Net domestic	3.6	2.2	5.8	0.6	2.8	6.7	11.4
Banking system	-1.1	2.2	4.2	-4.0	1.0	3.8	8.3
Nonbank credits	4.7	0.0	1.6	1.5	1.2	0.3	0.0
Transfers	0.0	0.0	0.0	3.2	0.6	2.6	3.0

[a] Large positive financing in 1987 and 1989 resulted from significant Paris Club rescheduling credits.
[b] Net transfers from the state and local governments and special fund shares of the Federation Account.
[c] 1992 data are preliminary and subject to revision.

Source: Ministry of Finance, Central Bank of Nigeria, and World Bank staff estimates.

Table 3.10: State and Local Fiscal Trends, 1986 to 1992

	1986	1987	1988	1989	1990	1991	1992
State governments				(Percentage of GDP)			
Revenue	6.4	7.5	7.1	7.2	7.8	8.4	7.0
Expenditure	7.9	7.6	7.4	5.6	6.2	6.6	5.9
Deficit or surplus	-1.5	-0.1	-0.3	1.5	1.6	1.8	1.2
Local governments							
Revenue	1.6	1.9	1.8	2.1	3.2	4.3	5.0
Expenditure	1.8	2.2	2.1	1.8	2.8	3.6	3.2
Deficit or surplus	-0.3	-0.2	-0.3	0.3	0.4	0.6	1.8

Note: Because sound budgetary data is limited, this table illustrates general budgetary trends only.

Source: Ministry of Finance, Central Bank of Nigeria, and World Bank Staff Estimates.

from fees and municipal taxes. State and local revenue generation contributes an estimated 10 percent to national revenues (state revenue averaged 7.3 percent of GDP in 1986-92 with very little variation, despite losses in Federation Account shares in 1990 and 1992). Local government revenues averaged 1.9 percent of GDP through 1989 and then rose to an average of 5.0 percent of GDP after 1990-92, when the local share of the Federation Account was raised 5 points.

3.33 From 1986 to 1989, state expenditures averaged 8 percent of GDP. When Federal Government (and then local) government assumed more responsibility for primary education, however, they fell to an average of 6 percent of GDP. Local expenditures rose from an average of 2 percent of GDP from 1986 to 1989 to 3 percent of GDP from 1990 to 1992, as local responsibility for education increased.

3.34 Consolidated figures for total federal, state, and local revenue and expenditures show that—both during the SAP and post-SAP period—Nigeria's fiscal deficit has been variable (increasing from 6 percent of GDP in 1986 to 14 percent in 1988, as revenues fell and expenditures failed to adjust.) In 1989, when oil prices were high, the total deficit fell to 5 percent of GDP then to seven tenths of 1 percent. In 1991/92 the deficit increased to 4 percent of GDP and then to 6 percent when revenues once again fell and extrabudgetary spending increased (see Table 3.11).

Table 3.11: Fiscal Trends of the Consolidated Budget, 1986 to 1992

	1986	1987	1988	1989	1990	1991	1992
			(Percentage of GDP)				
Revenue	23.9	25.3	20.8	24.5	31.7	33.9	31.0
Primary expenditures	25.2	21.9	24.3	19.1	20.6	26.8	26.5
Primary balance	-1.2	3.3	-3.4	5.3	11.1	7.1	4.5
Interest due	4.9	11.3	10.6	10.4	11.8	11.3	10.5
Deficit	-6.1	-7.9	-14.1	-5.1	-0.7	-4.1	-6.0
Memorandum item							
Total expenditures	30.1	33.2	34.9	29.5	32.4	38.0	37.0

Note: Because sound budgetary data is limited, this table illustrates general budgetary trends only.

Source: Ministry of Finance, Central Bank of Nigeria, and World Bank staff estimates.

C. Public Enterprises

3.35 By 1990, Nigeria's public enterprise sector (at both the federal and the state levels) accounted for 30 to 35 percent of GDP (excluding petroleum-related parastatals, which accounted for 15 percent and one fifth of modern sector employment). Before the privatization program, the total number of parastatals ranged from 1,600 to 1,700, of which 450 were wholly or partially owned by the FGN, with an estimated book value of ₦36.5 billion. Approximately 140 federal parastatals were revenue earning. The remainder were charged with the provision of noncommercial services. A 1988 assessment of federally owned parastatals indicated that roughly one half of the equity was concentrated in just seven major parastatals: Nigerian National Petroleum Corporation (NNPC), two steel companies (Ajaokuta and Delta), the Nigerian Airports Authority (NAA), the National Electric Power Authority (NEPA), the National Ports Authority (NPA), and the Nigerian Railway Authority (NRA). Although no accurate breakdown of state-level parastatal holdings is available, state investment in 1990 was estimated to be about 40 percent of that of the Federal Government.

3.36 In terms of direct return on investment and impact on the overall economy (most notably in its failure to deliver adequate public services and its displacement of the private sector from profitable activities), sector performance has been uniformly poor. Most of the Government's large-scale capital projects have not proved cost effective: they use inappropriate technologies,

are built in the wrong locations, have long completion delays, and are overcharged by foreign suppliers. In the 1980s, most import-intensive manufacturing parastatals (protected by tariffs and subsidized access to foreign exchange) became increasingly uncompetitive. Large parastatals, furthermore, typically focused on new capital investment rather than the improvement of existing capital stock and long-term neglect of maintenance and operating-cost requirements further depressed plant efficiency. With the SAP trade liberalization and successive devaluations of the naira, therefore, people ceased purchasing substandard parastatal services. For example, vehicle assembly-plant production fell to below 10 percent of capacity. By comparison, small- and medium-sized parastatals—which were better positioned to switch to domestic input suppliers and develop new regional trade links—fared much better.

1. Budgetary Impact

3.37 One of the objectives of the SAP was to reduce the budgetary burden of public enterprises. At the start of the program in 1986, the Government estimated that support to public enterprises consumed 40 percent of the nonsalary recurrent budget and 30 percent of the capital budget. By the end of the program, transfers to commercially oriented parastatals were to be eliminated, while transfers to the remainder were to be set at one half their 1985 levels. Specific goals under the SAP included reduction in steel-sector spending and a review of opportunities for more private sector participation in the petroleum, gas, pulp and paper, and sugar industries.

3.38 To date, the overall budgetary impact of the Public Enterprise Reform Program has been small. A 1990 World Bank review of public expenditures found that success in reducing support to public enterprises was mixed. Parastatal support from the capital budget decreased from ₦0.6 billion in 1984 to ₦0.3 billion in 1989, but recurrent support increased from ₦0.6 billion to ₦1.4 billion. Contrary to the objectives of the SAP, furthermore, steel production was still supported at high levels, as were commercially viable industries in the agro-processing, petroleum, and transportation sectors. Finally, the Government is now heavily supporting projects to build an aluminum smelter and a plant for liquified natural gas—both of which could, and should, be financed by the private sector.

3.39 Federal government divestiture of equity in public enterprises under the privatization program has been negligible. Considering that the capital gains from the sale of government equity amounted to ₦1.2 billion, original shareholding (estimated at ₦36.5 billion at historic book value) has as yet been reduced by only ₦0.4 billion and will be reduced by no more than ₦0.8 billion once the privatization program is completed.

3.40 In addition, the Technical Committee on Privatization and Commercialization (TCPC) focused its privatization efforts exclusively on the Federal Government, even though most parastatals, mostly of small to medium size, are owned by states. In many cases, moreover, privatizations have been merely to shift ownership from federal to state government. For this reason, the privatization of 58 federal parastatals did little to decrease the size of the government portfolio. At the same time, the Federal Government considerably increased its PE portfolio through recapitalization (Savannah Sugar) and additional capital investment (in Ajaokuta, Aluminum Smelter, Nafcon, and Nigerian Machine Tools), such that Government has increased rather than decreased its exposure in the PE sector.

2. Reform Program Objectives and Institutions

3.41 After 1986 when public enterprise reform figured prominently on the Federal Government's agenda, it embarked on the structural adjustment program. In July 1988, following

extensive preparation, the Nigerian Government issued Decree No. 25, listing some 145 federal parastatals for privatization or commercialization under the supervision of the TCPC until October 1992. The primary objectives of the program are:

- To restructure and rationalize the public enterprise sector
- To ensure positive returns on investment in enterprises to be retained in the public domain
- To reduce commercially viable parastatals' dependence on the federal budget and encourage their entry into the Nigerian capital market
- To reduce the size of the public sector through the sale of public enterprises that can be operated better by the private sector.

3.42 Implementation of the entire privatization and commercialization program was overseen by a small and well-qualified in-house group that drew selectively on outside experts (mostly from the private sector) in preparing detailed elements of the reform program. The chairman of the TCPC reported directly to the President's Office and was independent of the ministries. The reform effort was hindered by considerable overlap in the oversight responsibility given to the line ministries, the Ministry of Finance, and the TCPC. After October 1992, the TCPC was to be succeeded by the Bureau of Public Enterprises, in the monitoring of public enterprise performance.

3. The Privatization Program

3.43 Originally, some 110 enterprises were targeted for privatization by the end of 1991. Of these, one was split into two stages and 18 were rescheduled before 1989 when the TCPC was established. This left a total of 92 enterprises to be privatized under the TCPC. Distinguishing full from partial privatization, a total of 67 enterprises (usually profitable activities such as hotels, textiles, food and beverages, and insurance) were slated for full privatization. Another 25 enterprises (mostly heavy industries or industries of strategic importance such as steel mills, cement, oil marketing, fertilizers, and Nigerian Airways) were scheduled for partial privatization, meaning that government equity was to be reduced to no more than 40 percent.

3.44 By March 1992, the TCPC had privatized 40 parastatals. Adding the 18 pre-TCPC privatizations brings the total to 58. The gross value of funds raised from the privatization program was ₦1.65 billion. Nine companies were reclassified for commercialization, another 16 remain under consideration for privatization, and 28—classified for "no further action"—were removed from the list. (This last category included 12 government-owned commercial and merchant banks in which sale of equity was never intended and several companies turned out to be nonoperational or nonexistent.)

3.45 The preferred mechanism for privatization involved the flotation of shares on the Nigerian Stock Exchange. In total, 27 enterprises (mostly insurance, textile, and food companies) were sold for ₦562 million by public offer through the issuance of some 432 million shares. Under what is called deferred public offer, the Government privatized five parastatals by selling 100 percent of the equity to a group of private investors on the condition that 40 percent will, in turn, be sold to the Nigerian public within five years—with the expectation that the company will have been turned around by then. A third method of privatization (chosen for seven loss-making parastatals) was to sell the enterprise's assets by public tender to pay off debts or, where feasible, to put the restructured company on the market as a going concern. Finally, the Government sold off its minority share in a textile mill through private placement.

4. The Commercialization Program

3.46 Originally, Government listed 11 parastatals for full commercialization and another 24 for partial commercialization. With full commercialization the enterprise would be expected to operate profitably on a commercial basis, raising its fixed investment and working-capital funds on the market without government guarantee. With partial commercialization, the enterprise would be expected to generate sufficient revenue to cover operating expenditures.

3.47 On paper the commercialization process is essentially complete. In 1991, following extensive consultations with the supervising ministries and the private sector, the TCPC obtained approval from the Council of Ministers for the signing of performance agreements between individual enterprises and the Government. The first agreement, involving the 11 River Basin Development Authorities, was signed in April 1992. Each performance contract includes a 10-year corporate plan, which specifies measures of financial performance, capacity utilization, productivity, and service objectives. Management and staff will receive a pay bonus for meeting or exceeding these targets.

3.48 During this transition stage, a number of other enterprise reforms were implemented, including analysis of capital needs measures to reduce bureaucratization and the introduction of reporting and auditing systems. Some enterprises (in particular Nigerian Railways) began to shed surplus staff though others (NEPA) did not. Since Government had decided to commercialize on an "as is" basis, however, enterprises were not able to undertake extensive rehabilitation and repair programs at this stage. Debts between Government and parastatals and among individual public enterprises were largely reconciled. In the event, however, some ₦21 billion in capital loans from the Government remained on the public enterprises' books.

IV. MONETARY AND FINANCIAL POLICIES

4.1 Under the SAP, financial policy played a dual role. Monetary policy was to remain tight in order to contain demand for foreign exchange and to avoid inflationary pressures. Financial-sector policies were to have a structural component (involving movement toward a more market-oriented financial system) designed to facilitate the mobilization of financial savings and to encourage a more efficient allocation of financial resources.

A. Monetary Policy

4.2 Fiscal policy, external developments related to oil market fluctuations, external debt-service requirements, and exchange market policy provide the starting point for the operation of Nigerian monetary policy, which continues to be conducted mostly through direct credit controls. The evolution of the monetary aggregates and interest rates are discussed below.

1. The Monetary Aggregates

4.3 From December 1985 to 1992, broad money more than quintupled (see Table 4.1). Fueled by the increase in credit to the public sector—which rose by more than 150 percent in 1992 and by more than 340 percent since 1986—half of the increase occurred in 1992. Credit to the private sector increased less rapidly—by 33 percent in 1992 and by over 200 percent since 1986. Over most of the period, accumulation of foreign reserves (to the extent that it was not explicitly or implicitly sterilized) added to money growth. In 1992, however, a reserve drawdown of almost US$4 billion effectively wiped out the accumulation of the previous six years.

4.4 In real terms—deflating nominal values by the end-of-period consumer price index (CPI)—broad money has remained almost constant since 1986. The 37 percent increase in real GDP over the period points to a rise in velocity of about one third. At the same time, narrow money increased by 15 percent and quasi-money decreased by 6 percent. Credit to the public sector expanded by 73 percent in real terms; credit to the private sector declined by almost 10 percent.

2. Year-to-Year Developments

4.5 **1986.** Under the SAP, monetary growth was initially strictly contained. Broad money increased by less than 3 percent and credit to the Federal Government contracted. By contrast, net credit to the private sector increased by 29 percent. In part, this reflected the creation of the second-tier foreign-exchange market and the associated increase in demand for foreign trade finance. State and local administrations also contributed to the overall credit expansion, increasing their net liabilities to the financial sector by 25 percent. Meanwhile, the rate of inflation fell to 13.5 percent, compared with an average of 17 percent from 1980 to 1985.

4.6 **1987.** In 1987, however, fiscal and monetary restraint began to weaken. Credit to the Federal Government increased by 12 percent—partly at the expense of the state and local authorities, whose net claims on the financial system increased by 65 percent. But although net foreign assets fell by 39 percent, net credit to the private sector remained relatively strong—all of which fueled a 23 percent surge in broad money.

Table 4.1: Monetary Survey, 1986 to 1992

	1986	1987	1988	1989	1990	1991	1992
				(Naira millions)			
Net foreign assets	1,839	1,129	10,220	23,120	44,790	58,753	38,522
Net domestic credit	36,767	41,867	52,742	45,998	53,301	73,980	137,316
Public Sector	18,067	19,784	25,195	17,496	19,007	31,419	80,704
Private sector	18,700	22,083	27,547	28,502	34,294	42,516	56,612
Other Items (net)	(14,255)	(13,117)	(23,084)	(24,862)	(35,930)	(49,878)	(45,773)
Broad money	24,351	29,879	39,879	44,256	62,161	82,855	130,066
Narrow money	11,754	13,612	20,089	24,326	34,918	46,615	79,532
Quasi-money	12,597	16,267	19,789	19,930	27,243	36,240	50,533
				(Percentage rate of increase)			
Net foreign assets	1.0	-38.6	805.2	126.2	93.7	31.2	-34.4
Net domestic credit	11.1	13.9	26.0	-12.8	15.9	38.8	85.6
Public Sector	-2.6	9.5	27.4	-30.6	8.6	65.3	156.9
Private sector	28.7	18.1	24.7	3.5	20.3	24.0	33.2
Broad money	2.7	22.7	33.5	11.0	40.5	33.3	57.0
Narrow money	-6.0	15.8	47.6	21.1	43.5	33.5	70.6
Quasi-money	12.5	29.1	21.7	0.7	36.7	33.0	39.4
				(Percentage rate of increase in broad money)			
Net foreign assets	2.8	-12.8	90.9	294.7	121.0	67.5	-42.9
Net domestic credit	568.8	92.3	108.7	-154.1	40.8	99.9	134.2
Public sector	-74.7	31.1	54.1	-175.9	8.4	60.0	104.4
Private sector	643.5	61.2	54.6	21.8	32.3	39.7	29.9
Broad money	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: Central Bank of Nigeria.

4.7 While the inflation rate at the end of December 1987 was still moderate (less than 10 percent), these monetary developments began to affect inflation in the first quarter of 1988, when it jumped to 22 percent a year. During 1987, real interest rates remained positive, which may in part explain the 29 percent growth rate of quasi-money and 16 percent growth rate of narrow money.

4.8 **1988.** The expansionary budget of 1988 signalled continued monetary relaxation that had begun in 1987. But while the higher credit to the Federal Government was driven by commercial and merchant banks in 1987, in 1988, the bulk of it originated in the Central Bank. In 1988, the Central Bank increased its net lending to the Federal Government by 53 percent, leading to an overall credit increase to the Federal Government of 29 percent. This expansion was partly at the expense of credit to the state and local authorities, which increased their net claims on the financial system by 44 percent.

4.9 As with the Federal Government, net credit to the private sector went up markedly, by 24 percent. Total net domestic credit expanded by more than 25 percent in 1988. Calculated on a year-to-year basis, this led to a 33 percent expansion of broad money by the end of December. These developments were clearly reflected in the rate of inflation, which reached 49 percent by the end of the year. (Most of the large increase in net foreign assets, however, was due to a reclassification of the CBN's net liabilities; it thus had no monetary impact.)

4.10 **1989.** Given the 1988 policy slippage and the resultant increases in the budget deficit, monetary aggregates, and inflation rates, the Nigerian authorities introduced a drastic monetary package in 1989. The main features of that package included an increase of the rediscount rate to commercial banks from 12.75 percent to 18.5 percent, a rise in the liquidity ratio of

commercial banks from 2.5 percent to 22.5 percent and of merchant banks from 2.5 to 30 percent, an adjustment of capital adequacy ratios from 1:12 to 1:10, the transfer of public-sector deposits in commercial and merchant banks to the CBN, and the introduction of an auction system for treasury bills and treasury certificates.

4.11 The contractionary effects of these measures quickly began to be felt by economic agents. Nevertheless, in the short run, they were not reflected in either the narrow monetary aggregate or the rate of inflation. Although quasi money grew by less than 1 percent in 1989, M1 expanded by 21 percent, and the inflation rate averaged 34 percent over the course of the year. The transfer of public-sector deposits from savings accounts at commercial and merchant banks to the CBN contributed to the slow growth of broad money as banks restricted their balance sheet growth in response to the decline in their reserve base. Meanwhile, to the extent the transferred deposits were included in M1, narrow money expanded.

4.12 **1990**. The monetary contraction in 1989 worked. The year-to-year inflation rate steadily declined through 1990, and by the end of December 1990, prices had increased by only 3.5 percent compared to December 1989. Thanks to the recovery of world oil prices and oil exports in 1990, during the Gulf War, furthermore, international reserves at the CBN (which had grown steadily in 1988), kept increasing during 1990.

4.13 This expansion, however, was not translated into higher monetary aggregates owing to the sterilization policy carried out through the second quarter of 1990. Between the last quarter of 1988 and the second quarter of 1990, while the CBN's foreign assets jumped from ₦10.2 billion to ₦33.2 billion, the CBN's net credit to the Federal Government declined from ₦21.8 billion to ₦7.7 billion. In the first half of 1990, moreover, although the total foreign assets of the financial sector increased by 40 percent, overall net credit increased by only 16 percent.

4.14 This sterilization was made possible by the creation of several stabilization and oil windfall accounts. Loosely instituted, these accounts initially proved effective in insulating the economy from external disturbances. But foreshadowing the policy reversal that was to come in the second half of the year, the Federal Government initially replaced lower borrowing from the CBN with higher borrowing from commercial and merchant banks during the first part of 1990. Relative to the beginning of the year, credit from commercial and merchant banks had increased by 70 percent and 100 percent, respectively, by the end of June.

4.15 But in the second half of the year—in an unfortunate move for the longer-term health of the economy—the authorities started to draw down rapidly the 1989 and 1990 stabilization accounts. In the third quarter of 1990, the CBN's net domestic credit to the Federal Government (which should have kept falling as reserves increased during the Middle East crisis) began to increase. Over the course of the year, CBN credit to the Federal Government rose from ₦7.7 billion to ₦13.7 billion. Credit from commercial and merchant banks to the Federal Government also continued to rise, so that overall, financial sector credit to the Federal Government had increased by 15 percent by the end of 1990. Meanwhile, the rest of the public sector massively reduced its net claims on the financial sector, and the private sector increased its indebtedness to the financial system by 20 percent. These developments resulted in an expansion of broad money of 40 percent in 1990, most of which was generated in the second half of the year.

4.16 In an effort to contain the expansion of private credit, the CBN adopted a policy of mandatory holdings of non-marketable interest-bearing stabilization securities. While nominal

interest rates did not change significantly from the previous year, the inflation rate declined markedly, effectively raising real rates. In addition, the spread between the average savings deposit rate and the prime rate (about 7.3 percent in January 1990) rose gradually to more than 8 percent after June.

4.17 **1991**. Monetary events were heavily determined by the foreign assets situation and net credit to the Federal Government. While foreign assets increased during the first half of the year by 25 percent, and net credit to the Federal Government increased by 28 percent, broad money expanded by less than 20 percent—suggesting that net credit to the private sector and the rest of the public sector was severely restricted.

4.18 In the second half of the year, foreign reserves levelled off but net credit to the Federal Government rocketed upward. At the end of December 1991, CBN net credit to the Federal Government had increased by 100 percent, figured on a year-to-year basis. Over the same period, credit to the private sector had increased by 26 percent, while net credit to the states and local authorities had fallen by 20 percent. The combined effect of these events expanded both narrow and broad money by 33 percent in 1991—a rate lower than that for 1990.

4.19 **1992**. By all measures, monetary developments in 1992 were extraordinary. On the one hand, the cash cost of the January London Club debt-reduction operation[4] and the increase in foreign-exchange market funding, (given lower-than-expected export earnings), contributed to a reduction in the net volume of foreign assets equivalent to a money supply contraction of ₦58 billion. On the other hand, both private and public credit rose to record levels, with credit to the Federal Government increasing by almost 160 percent over the 12 months from December to December. In particular, ₦15 billion was extended to the Federal Government during the third quarter (in large part to finance public sector wage increases and relief measures stemming from the March devaluation package). Despite original policy guidelines limiting bank credit growth to 16 percent and repeated CBN attempts to tighten liquidity at commercial and merchant banks, credit to the private sector rose 33 percent.

3. Interest Rates

4.20 Interest rates, like the exchange rate, were to have been deregulated by the SAP. As with the exchange rate, however, progress toward deregulation to market-determined levels was intermittent. As Figure 4.1 and Table 4.2 illustrate, nominal interest rates did not keep up with inflation and (except during two brief periods—in 1987 and 1990, when the rate of inflation was low) real interest rates were negative.

4.21 On August 1, 1987—in the spirit of deregulation—floors and ceilings for deposit and lending rates were removed. In the latter part of the year, the discount and treasury bill rates were increased, permissible credit growth was reduced to 7.5 percent, and the liquidity ratio was increased from 25 percent to 30 percent. The impact of these measures on deregulated interest rates was quickly felt: deposits and lending rates rose above the average level of inflation for the year, yielding positive real rates.

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[4] See Chapter VII.

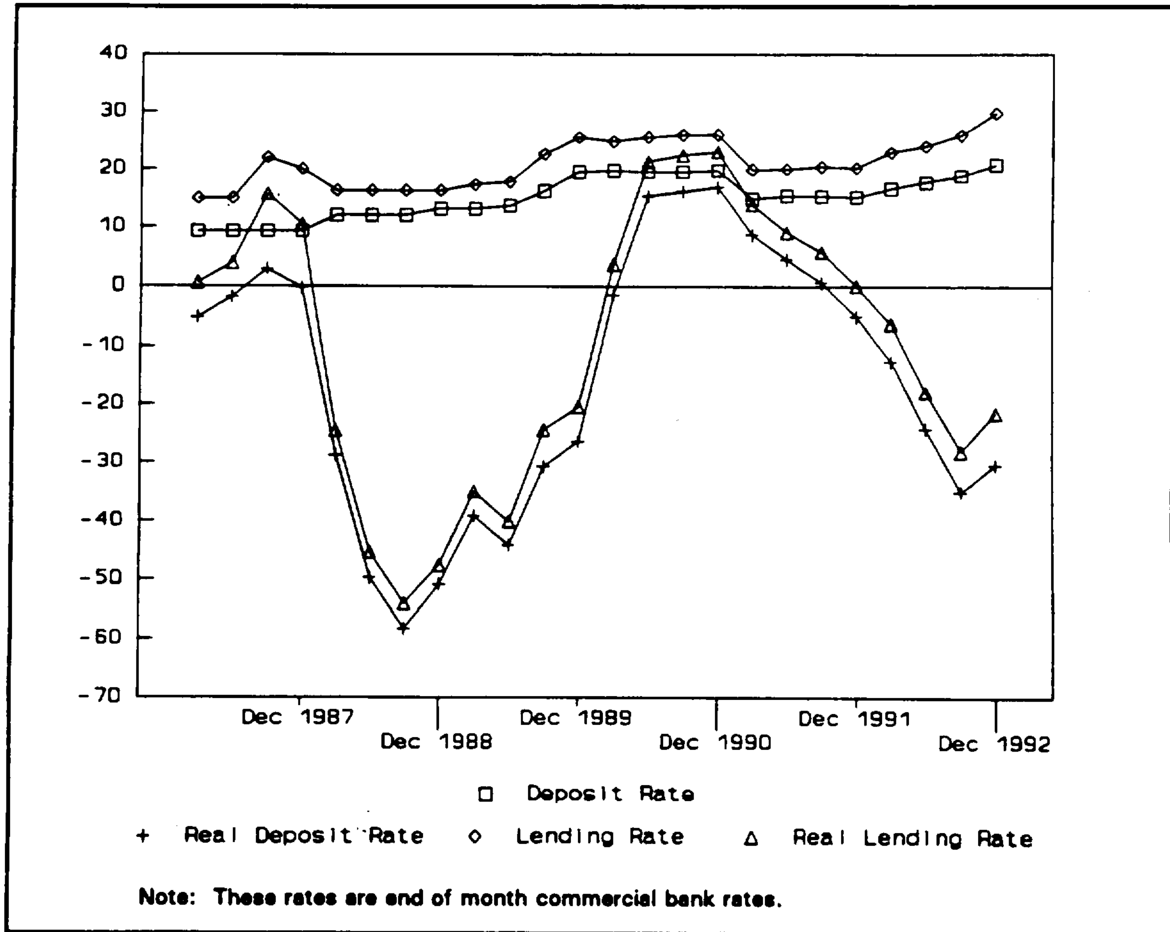
Table 4.2: Selected Interest Rates, 1986 to 1992

	1986	1987	1988	1989	1990	1991	1992
				(Percentage)			
Treasury Bills[a]	8.5	11.5	11.8	13.3	17.3	14.5	18.6
Minimum Rediscount Rate[b]	10.0	12.8	12.8	18.5	18.5	15.5	17.5
Deposit Rates (3 months)[c]							
Commercial Banks	9.2	13.1	13.1	15.6	19.7	15.2	18.5
Merchant Banks	0	0	14.5	20.4	22.9	17.6	29.9
Lending Rates (Prime)[c]							
Commercial Banks	10.5	17.5	16.3	20.8	25.6	19.9	25.8
Merchant Banks	0	0	16.5	23.5	28.8	20.6	37.1
Real T-Bill rate[d]	-4.5	1.6	-32.1	-21.7	13.3	-6.9	-20.3

[a] Average issue rate.
[b] End of period.
[c] Average rates.
[d] Computed with current end-of-period CPI inflation rate.

Source: Central Bank of Nigeria Annual Report, various issues.

Figure 4.1: Selected Interest Rates, 1986 to 1992



Note: These rates are end of month commercial bank rates.

4.22 But during the first part of 1988 (in line with the government's expansionary budget stance) monetary policy was relaxed and, despite rising inflation, nominal interest rates started to decline. In early August, when macroeconomic policies were tightened across the board, nominal interest rates increased again but the rate of inflation (as measured by the 12-month change in the CPI) reached 55 percent. Real interest rates, therefore, reached record negative levels in 1988. While it is unclear why such a discrepancy arose between nominal interest rates and inflation rates in a deregulated environment, moral suasion and the pressure of public expectations could help to explain it.

4.23 In 1989, the evolution of nominal and real interest rates was similar to that in 1988. Although Nigeria's monetary authorities partially succeeded in controlling monetary expansion, the inflation rate remained high. The increase of nominal rates notwithstanding, real rates remained substantially negative.

4.24 But 1990 reflected the lagged effect of monetary restraint in 1989, showing a rate of inflation of less than 5 percent. In 1990, monetary policy remained tight until the middle of the year, when expansion resumed. Throughout the year, therefore, although nominal interest rates remained unchanged, real interest rates were positive, with the real T-bill rate exceeding 13 percent.

4.25 These developments contributed to the perception in Nigeria that nominal lending rates are not responsive to market fundamentals and created public pressure to reinstate interest rates caps. From January to December 1991, therefore, the CBN set a maximum ceiling of 21 percent on the prime lending rates of commercial and merchant banks, with a 4 percent maximum spread between average funding costs and lending rates, and the entire structure of interest rates was artificially reduced. As inflation rates began to rise (albeit slowly, given the pace of money expansion), real interest rates became negative again. In 1992, the CBN removed the cap on lending rates but maintained and modified the restriction on interest rate spreads at 5 percent above average funding costs. As the inflation rate exceeded 40 percent, and money-supply growth was above 65 percent, lending rates were adjusted upward. By December, they had reached 54 percent. Deposit rates increased more slowly.

4. Instruments of Monetary Policy

4.26 In addition to the purely macroeconomic goal of achieving monetary and price stability, the SAP sought to make economic policy making more market-oriented in Nigeria, supported by financial sector institutional and regulatory reforms. But while the CBN had often reiterated its intention to move toward market-based indirect monetary policy instruments since 1986, neither the country's macroeconomic outlook nor its institutional environment favored such a system. Although the official credit control system was somewhat streamlined following the introduction of the SAP, commercial credit remained subject to control mainly by direct measures.

4.27 The Central Bank Decree of 1991 gave the CBN greater nominal control over the conduct of monetary and banking policy. But although Federal Government access to ways and means advances was to be reduced from 25 percent to 12.5 percent, government borrowing continued unabated. Because the CBN monetary authorities have been hampered by the absence of timely information and lags of up to several weeks in bank reporting, the decree also reinforced its authority over banking institutions with respect to financial reporting and the issuance of policy directives.

4.28 **Credit Ceilings**. In Nigeria, individual bank-credit ceilings have been the major instrument of commercial credit control. The CBN indicates, at the beginning of each year, allowed growth of individual bank credit as a percentage of loans and advances outstanding—or, since 1990, of total credit to the domestic economy. Until August 1988, the ceiling for merchant banks was set as a percentage of total assets, which contributed to the relative rise in the share of merchant banks in total bank credit from 1986 to 1988. This was subsequently redefined, however, to conform with the commercial bank-ceiling definition.

4.29 Before 1986, credit ceilings took the form of complex, multisector credit guidelines. The system was simplified under the SAP with a view to eventually eliminating it. In addition to overall growth targets, the current system of credit guidelines now prescribes sectoral targets in a simplified, two-tier system, with a priority sector, (agriculture and manufacturing) to receive at least 50 percent of total new credit and other sectors to receive at most 50 percent. Some sectoral-lending requirements such as the requirement that credit to rural clients reach a certain minimum fraction—45 percent until 1990, 50 percent from 1991—of deposits collected from rural areas remained in place.

4.30 Ceilings and minimum requirements were largely ignored. Penalties for excess or insufficient credit included the deposit of amounts equal to the excess (or the shortfall) in noninterest-bearing CBN accounts or the on-lending of funds to specialized credit institutions. In general, commercial and merchant bankers found it less costly to incur the penalties, which were often imperfectly implemented. To the extent that these penalties were collected, they had little impact on bank profitability. In 1991, for example, excess credit-growth penalties reached ₦671 million which—at 1991 nominal interest rates—amounted to an opportunity loss of little more than ₦130 million.

4.31 **Cash and Liquidity Requirements**. Commercial banks were subject to reserve requirements in the form of cash ratios and to liquidity requirements in the form of a liquidity ratio. Until 1990, cash ratios (determined by a bank's size) were applicable to commercial banks only and had remained unchanged from 1980 to 1988. Since 1990, they have been used repeatedly in an effort to control bank liquidity. Cash ratios were raised in August 1988 from a range of 2 percent to 5 percent of demand deposits to a range of 4 percent to 7 percent. In January 1989, they were raised to 5 to 8 percent of demand deposits and then again, in April 1989, to a range of 6 percent to 9 percent. In January 1990, merchant banks were subject to a cash ratio of 5 percent, and in January 1991, the system was unified and extended. Both commercial and merchant banks were subject to a cash ratio of 3 percent of total monetary liabilities. Finally, in September 1992, the ratio was doubled to 6 percent to contain the rise in liquidity.

4.32 Although liquidity ratios are not, strictly speaking, monetary policy instruments, they played an important monetary role when the Central Bank tried to absorb excess liquidity directly. In 1986, the CBN recalled from importers the naira counterpart of external trade obligations in arrears. Although the CBN extended some liquidity assistance to the banks, liquidity withdrawal forced Nigeria's commercial banks to cut back on lending and to mobilize new deposits in order to meet their required liquidity ratio. In 1989, when the CBN took over all federal government deposits from commercial and merchant banks, the CBN forced another liquidity shock on Nigeria's commercial banks.

4.33 In 1990, the CBN attempted to eliminate some excess liquidity by issuing stabilization securities for ₦800 million (in August), ₦1.7 billion (in September), and ₦1.1 billion (in the last quarter of the year). In 1991, total issues reached almost ₦7 billion—equivalent to 15

percent of the banks' total deposits. In September 1992, along with cash ratio requirements, the CBN issued another ₦3.3 billion of stabilization securities. These securities are nonmarketable, 90 day instruments that pay an interest rate, at issue, equal to the treasury bill rate plus a 1 percent margin.

4.34 Results. From available data, it is difficult to assess the impact of these measures. The tightening of commercial bank liquidity in 1991 and 1992 could not compensate for the CBN's contribution to the system's liquidity through quasi-automatic credit extensions to the Federal Government and other public sector entities. At best, it partially checked the banking system's money multiplication. Within the banking system itself, furthermore, policy tightening had an uneven impact, with banks better placed than other economic actors to cushion liquidity shocks (as in the case of those that have privileged relations with public entities).

4.35 In July 1993, the CBN announced that it would start implementing indirect monetary policy procedures and eliminate individual bank credit ceilings for eligible banks. It is not clear at this stage whether these procedures will be little more than a relabelling of current liquidity-control practices or whether they will, indeed, clear the way for open-market operations.

B. Financial Sector Policies

4.36 Nigeria's financial system is one of the most complex and diverse in sub-Saharan Africa. The value-added from the finance and insurance sector as a share of GDP, increased from 3.9 percent in 1986 to 8.7 percent in 1992, creating new employment opportunities—particularly in urban areas. Since 1986, moreover, the number of financial institutions and the scope of financial services they offer have increased dramatically, creating a need for major policy reform to promote sound and efficient financial intermediation.

4.37 At the end of 1992, the formal financial sector in Nigeria included the CBN, the Nigeria Deposit Insurance Company (NDIC), 66 commercial banks, 54 merchant banks, several development banks, 401 community banks, 228 People's Banks, more than 600 finance companies, 132 foreign exchange bureaux, some 200 mortgage and insurance companies, the stock market, and several other institutions specializing in the mobilization of medium- to long-term capital (Table 4.3.). One indicator of the rapid growth in the banking system is the decline in the number of persons per bank branch from 57,000 (in 1986) to around 29,000 (in 1992, including the Community and People's Bank). Despite this increasing institutional depth, however, it is estimated that roughly one-third of the economy—broadly equivalent to agriculture's share of the GDP—is not monetized.

4.38 The Central Bank's share of total assets in the financial system increased from 33.4 percent in 1986 to 52 percent in 1991—before declining to 47.9 percent in 1992 (see Table 4.4). This expansion—which was accompanied by a decrease in the banking system's share of assets—reflected the CBN's underwriting of government domestic debt through the issuance of Treasury bills and certificates. The 1992 decline resulted from a significant drop in foreign assets.

4.39 Despite the institutional deepening in the financial sector, the composition of financial savings through banks and nonbank financial institutions remained fairly stable (see Table 4.5). Commercial banks continued to maintain a dominant position in mobilizing financial savings, while the role of merchant banks decreased in terms of share of total assets, deposit liabilities, and aggregate credit. Although data for nonbank financial institutions remain incomplete, their relative share in total financial assets was not likely to exceed 5 to 8 percent.

Table 4.3: Structure of the Financial System, 1985 to 1992

	1985	1986	1987	1988	1989	1990	1991	1992
Total deposit-taking banks	40	41	50	66	81	107	185	523
Commercial banks	28	29	34	42	47	58	65	66
Merchant banks	12	12	16	24	34	49	54	54
Community banks	-	-	-	-	-	1	66	401
Foreign exchange bureaus	-	-	-	-	52	88	102	132
Finance companies	-	-	-	-	na	na	558	666[b]
People's banks[a]	-	-	-	-	na	na	200	228
Deposit insurance corporation	-	-	-	-	1	1	1	1
Unit trusts	-	-	-	-	-	1	9	0
Stockbrokers	19	23	33	43	61	80	110	140
Mortgage banks	-	-	-	-	-	1	23	145
Discount houses	-	-	-	-	-	-	-	3
Memorandum items								
Total bank branches[c]	1,323	1,394	1,516	1,711	1,912	2,013	2,107	2,385
Commercial bank branches	1,297	1,367	1,483	1,665	1,856	1,939	2,023	2,269
Merchant bank branches	26	27	33	46	56	74	84	116

[a] The first People's Bank was created in October 1989.
[b] Of these, 48 finance companies were licensed at the end of 1992, and the rest have only provisional licenses.
[c] Excluding Community Banks and People's Banks.

Source: Central Bank of Nigeria, and Nigeria Deposit Insurance Corporation.

4.40 **New Commercial Banks.** Encouraged by a liberal licensing policy, the number of commercial and merchant banks tripled over the past seven years, slowing only after late 1991, when the authority to grant new banking licenses was transferred from the Ministry of Finance to the Central Bank. While it is too early to assess the impact of this expansion in the banking system, a few points are noteworthy.

4.41 There is general agreement that the primary motive for the creation of most new banks was to gain access to the official foreign exchange market and to engage in profitable arbitrage activities between the official and the parallel foreign exchange markets. New banks, therefore, remain vulnerable to changes in the foreign exchange regime and frequently lack a stable deposit base. But because new banks are not burdened by longstanding loan portfolio problems, they tend to be more innovative in offering new financial services. While the competition from new banks is significant, therefore, not all new entrants will be commercially viable over the medium term.

4.42 Increasing competition between commercial and merchant banks has moved Nigeria toward a more unified banking sector. Differences between the two in terms of capital requirements, authorized activities, and branch networks have begun to disappear. Commercial banks can now engage in leasing (previously the exclusive domain of merchant banks). By some token, a number of merchant banks have applied to be reclassified as commercial banks. Although merchant banks still face higher cost of funds and remain excluded from the clearinghouse system, this is partially offset by the lower noninterest expenses generated by much smaller branch networks.

Table 4.4: Assets of the Financial System, 1986 to 1992

Millions of naira	1986	1987	1988	1989	1990	1991	1992
				(Naira millions)			
TOTAL ASSETS	79,380	108,799	145,204	185,039	256,629	352,642	489,063
Central Bank of Nigeria	26,541	41,326	61,522	87,650	133,359	183,265	234,255
Banking System	48,024	62,108	76,430	87,641	111,551	155,457	232,278
Commercial Banks	39,579	49,828	59,226	65,524	82,958	117,512	181,736
Merchant Banks	8,445	12,280	17,204	22,117	28,593	37,945	50,542
Others	4,815	5,365	7,252	9,749	11,719	13,921	22,530
Development Banks[a]	1,529	1,727	2,071	2,132	2,559	3,071	3,685
Insurance Companies	2,647	3,162	4,472	6,741	8,060	9,323	10,458
Mortgage Banks[b]	639	477	709	845	1,100	1,400	1,667
Community Banks[c]	–	–	–	–	–	127	892
People's Banks	–	–	–	30	na	na	435
Finance Companies[d]	na	na	na	na	na	na	5,393
				(Percentage share)			
TOTAL ASSETS	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Central Bank of Nigeria	33.4	38.0	42.4	47.4	52.0	52.0	47.9
Banking System	60.5	57.1	52.6	47.4	43.5	44.1	47.5
Commercial Banks	49.9	45.8	40.8	35.4	32.3	33.3	37.2
Merchant Banks	10.6	11.3	11.8	12.0	11.1	10.8	10.3
Others	6.1	4.9	5.0	5.3	4.6	3.9	4.6
				(Percentage rate of growth)			
Total Assets	37.1	33.5	27.4	38.7	37.4	38.7	
Banking System	29.3	23.1	14.7	27.3	39.4	49.4	
Commercial Banks	25.9	18.9	10.6	26.6	41.7	54.7	
Merchant Banks	45.4	40.1	28.6	29.3	32.7	33.2	

a NIDB, NACB, and NBCI; data for 1990-92 are estimates.
b Data for 1990 and 1991 are estimates.
c Based on returns from 297 of 402 licensed Community Banks.
d 1992 data reflect returns from 207 of 666 operating finance companies.

Source: Central Bank of Nigeria.

Table 4.5: Financial Savings at Banks and Nonbank Financial Institutions, 1986 to 1992

	1986	1987	1988	1989	1990	1991	1992	Avg. % change 1986-92
				(Naira millions)				
TOTAL FINANCIAL SAVINGS	13,930	18,660	23,226	23,763	29,651	37,738	54,019	20
Savings and Time Deposits								
(i) at Commercial Banks	11,488	15,089	18,397	17,813	23,137	30,360	42,439	19
(ii) at Merchant Banks	1,740	2,823	3,983	3,971	4,349	5,007	8,342	22
National Provident Fund	581	614	651	699	723	650	756	4
Mortgage Institutions	121	134	195	213	305	434	729	25
Life Insurance Funds	na	na	na	1,067	1,137	1,242	1,411	–
Other Depository Institutions[a]	na	na	na	na	na	46	342	–
				(Percentage share)				
Savings and Time Deposits								
(i) at Commercial Banks	82.5	80.9	79.2	75.0	78.0	80.4	78.6	
(ii) at Merchant Banks	12.5	15.1	17.1	16.7	14.7	13.3	15.4	
All other institutions	5.0	4.0	3.6	8.3	7.3	6.3	6.0	

a Time and Savings Deposits at Community Banks and Savings Deposits at People's Bank.

Source: Central Bank of Nigeria.

4.43 **Ownership.** Deregulation and privatization had a marked impact on ownership distribution in the banking sector. By the end of 1992, the private sector's share in paid-up equity capital had increased to 72 percent, with the remainder being distributed among state governments (11 percent), Federal Government (9 percent), and foreign equity holders (8 percent). As discussed below, a large number of state government-owned commercial banks now face technical insolvency.

4.44 In late 1992, with the commencement of the privatization program for 14 federally owned banks (including the three largest commercial banks), the Federal Government's direct participation in the banking sector has largely disappeared. To ensure equal regional representation in the ownership of the privatized banks, shares were sold to individuals and institutions on a strictly state-proportional basis. The 40-percent limit on foreign shareholding in any type of bank, introduced in the late 1960s, remains a major disincentive to foreign banking. A revision of this policy could be instrumental in raising Nigerian banking standards as it has been in other African countries. Foreign ownership of commercial banks in Nigeria fell, in fact, from 12.3 percent in 1991 to 8.6 percent in 1992.

4.45 Liberalization of Nigeria's financial system also entailed the gradual shift from direct to indirect monetary control. In 1992, therefore, three discount houses were licensed by the CBN to underwrite money market instruments and to help establish secondary markets for such instruments.

4.46 **Regulatory Reform and the NDIC.** Nigeria's Government initiated a fairly comprehensive program of reform aimed at reducing direct controls on competition and promoting more efficient intermediation. Financial deregulation has encompassed interest rates, the licensing of new banks, sectoral credit allocation, the withdrawal of public sector deposits, and the recent phasing-in of open-market operations. Beginning in 1989, there were important institutional and regulatory changes, including the establishment of a deposit insurance system (1989), the introduction of new prudential guidelines and accounting standards (1990), the adoption of a new legal framework for banks and other financial institutions (1991), and enhanced autonomy and supervisory responsibilities for the Central Bank (1991).

4.47 The Nigeria Deposit Insurance Corporation (NDIC) insures individual bank deposits up to ₦50,000 and, with the CBN, is responsible for promoting the soundness of the banking sector. The NDIC's authorized share capital is ₦100 million. The deposit insurance fund is funded through an insurance fee equivalent to 15/16 of 1 percent of total deposits, which is collected from insured banks.

4.48 Past reviews of the NDIC's status and operations noted that it is underfunded owing to its very small initial capital base, that high insurance premiums on banking deposits add to the high cost of transaction within the financial system, and that the banking system does not have sufficient confidence in NDIC's ability to act. Four years into operation, the NDIC is established as a supervisory authority, a role largely complementary to that of the CBN. Both the NDIC and the CBN, however, were overwhelmed by the rapid expansion of financial institutions, which undermined efforts to improve supervisory standards.

4.49 **Bank Supervision.** In principle, Nigeria adopted the US approach to banking supervision, relying primarily on on-site examination of banks to determine their safety, soundness and compliance with banking law. The CBN and the NDIC focused their joint supervisory efforts primarily on problem banks to determine the extent of insolvency and devise methods for dealing with them. Overall, these special examinations appeared comprehensive in

scope and helped clarify banks' financial position. They emphasized the need to address the growing problem of financial distress among banks. Examinations were less effective, however, in developing scenarios for future action, and consistently underestimated the overall cost of recapitalization.

4.50 In contrast to Nigeria's progress in on-site bank examination, little headway was made in off-site-supervision, the other key component of bank supervision. Off-site supervision relies on the periodic submission of financial data to the Central Bank. This information would allow the CBN to establish an early warning system for capital adequacy, asset quality, profitability, and liquidity, both for individual banks and the system as a whole. Given that Nigeria's banking system has grown to 120 banks, the absence of an accurate and timely off-site monitoring system seriously compromises the overall effectiveness of bank supervision and monetary policy.

4.51 **1990 Prudential Guidelines and Accounting Standards.** Under the new guidelines, banks are required to classify credit facilities as "performing" or "nonperforming" based on the payment of both principal and interest.

4.52 The guidelines also introduced international (Basle) standards for the treatment of interest accrual on problem credits—which can no longer be realized as income—and call for mandatory provisioning for nonperforming credits based on quantitative indicators. With respect to payment of interest on facilities classified as substandard, doubtful, or losses, interest overdue by more than 90 days is to be suspended and recognized only on a cash basis. In addition, principal repayments more than 90 days overdue should be fully provided-for and recognized on a cash basis only. Regarding outstanding loan balances, the guidelines call for mandatory specific provisioning of 10 percent for substandard credits, 50 percent for doubtful credits, and 100 percent for losses.

4.53 The same provisioning criteria and time frames also apply to the "other assets" category, which are often used to hide substantial losses. "Other assets" include checks purchased and uncleared after the permissible clearing period, fraud cases, interbranch items, and all other intangible suspense items.

4.54 In addition, there are limitations on the extent to which security can be taken into account. When a credit is in arrears for more than six months, the outstanding unprovided-for principal should not exceed 50 percent of the estimated net realizable value of the collateral. When arrears reach one year, there should be no outstanding, unprovided-for portion of the credit facility—irrespective of the estimated net realizable value of the collateral.

4.55 Aside from these specific provisioning requirements, each bank is required to make a general provision of at least 1 percent of risk assets not specifically provided for. Although no up-to-date picture on the status of provisioning requirements is available, it should be noted that, upon introduction of the guidelines in 1990, cumulative provisions with respect to doubtful debts increased from ₦4.1 billion in 1989 to ₦7.7 billion. Although the guidelines are intended to reduce banks' reluctance to recognize and deal with problem credits, their enforcement depends on the quality of external auditors. Under the new Banking and Other Financial Institutions Decree (BOFI), the CBN is entitled to issue a list of acceptable external bank auditors and to incorporate assessment of the degree to which a bank adheres to the prudential guidelines into its on-site examinations.

4.56 **Capital Adequacy.** In late 1990, the CBN announced that commercial and merchant banks had until June 1992 to comply with higher requirements for minimum paid-up share

capital. For commercial banks, the minimum was increased from ₦20 million to ₦50 million, and for merchant banks from ₦12 million to ₦40 million.

4.57 The CBN's intention in raising requirements was to force banks to maintain a larger cushion of capital to support their activities and protect depositors. At the end of 1992, at least 10 insured banks (notably state government-owned commercial banks) were still seriously undercapitalized—a problem made worse by the considerable number nonperforming loans eroding many banks' capital bases.

4.58 In 1992, banks needed an additional ₦5.6 billion to meet the minimum statutory capital funds requirement for the banking system as a whole, in addition to adequate capital to cover their risk assets. In 1992, moreover, the minimum ratio of capital to total risk-weighted assets was increased from 7.5 percent in 1991 to 8 percent with at least half of that being first-tier capital, or paid-up share capital and reserves.

4.59 Two decrees, which replaced the Central Bank of Nigeria Act of 1958 (as amended) and the 1969 Banking Act (as amended), formed the centerpiece of the banking reforms in 1991. These decrees provided an updated legal framework for the regulation of banking and nonbank financial institutions.

4.60 The Central Bank of Nigeria Decree (No. 24, of 1991) gave greater authority and autonomy to the CBN with respect to the conduct of monetary and banking policy, and reduced Federal Government access to ways-and-means advances from 25 to 12.5 percent of current-year revenues. According to the decree, the CBN is answerable only to the President. In practice, however, the CBN has not achieved autonomy in monetary matters or been able to restrict government access to deficit financing through the Central Bank.

4.61 The Banks and Other Financial Institutions (BOFI) Decree (No. 25, of 1991) provided basic operating guidelines for banks and other financial institutions and incorporated changes designed to liberalize the competitive market environment. The decree broadened the CBN's regulatory reach to cover financial institutions with activities in the informal sector (such as community banks, finance companies, and the foreign exchange bureaus) whose influence on the Nigerian economy is growing rapidly.

4.62 **Portfolio Quality and Financial Distress**. Technical insolvency and financial distress in Nigeria appear to be pervasive and increasing (see Table 4.6). This deterioration of the financial system stems from macroeconomic instability, distortions in the real sector, political interference in credit decisions, poor supervision, management deficiencies, and the rapid proliferation of financial institutions. With the country's capacity for supervision overstretched, fraud and wasteful overheads are on the increase, while credit skills are on the decline. A large number of financial institutions, furthermore, would not be viable without rents obtained through foreign exchange transactions or the use of finance companies to circumvent banking regulations. Based on NDIC data, by the end of 1992, classified loans in Nigeria made up about 45 percent of the banking system's total outstanding loans. This was up from 39 percent in 1991.

4.63 The number of banks classified as technically insolvent increased from 8 at the end of 1991 to 16 at the end of 1992. Dominated by state-owned banks—and in increasing numbers—private commercial banks, these distressed banks represented more than one third of all deposits. Nonperforming loans, furthermore, amounted to 67 percent of total loans. In 1992, with the number of distressed banks increasing, adjusted shareholder funds deteriorated to a negative position of ₦4.6 billion—grossly inadequate to cover classified loans. A large number of banks,

moreover, have yet to undergo bank examination and audit, so that the number of insolvent Nigerian banks and the extent of their distress is, in fact, likely to be much higher.

4.64 **Bank Restructuring.** As of late 1993, 16 banks judged to be in distress in 1992 were still open for business and the CBN and NDIC have not been able to take the necessary steps toward their closure, merger, or recapitalization. This poses considerable threat to the soundness of the banking system, but power to initiate remedial action rests with the President.

Table 4.6: Indicators of Banking Distress

	1991	1992
Distressed banks	8	16
State-owned	7	8
Classified loans	(Naira billions)	
All banks	12.6	18.8
In distressed banks	4.1	7.7
Ratio of classified to total loans		
Percentage in all banks	39	45
Percentage in distressed banks	77	67
Capital requirements		
All banks	-1.9	-5.6
State-owned	-2.2	-4.8
Private commercial	0.2	-0.3
Merchant	0.1	-0.5
Distressed	-2.4	-6.1
Liquidity ratio	(Percentage)	
Commercial banks	58	31
Merchant banks	30	25
Distressed banks	..	13

Shortfall -, surplus +.

Source: 1992 NDIC Annual Report.

4.65 In their 1991 progress report on distressed banks, the CBN and NDIC observed that the Government has yet to appreciate the implications of delay and advanced the following recommendations: to amend operating laws to enable effective regulation and restructuring of banks; to review and strengthen the supervisory framework of the CBN and NDIC; and to strengthen powers of administrative enforcement of the regulatory authorities.

4.66 Until early 1993, the only tangible measure was the 1990 expulsion of the insolvent National Bank of Nigeria (NBN) from the clearing system and its subsequent take-over by the joint CBN-NDIC restructuring committee. Yet, the NBN remains partially operational, with losses continuing to mount. With presidential approval, the CBN and the NDIC have now embarked on a joint restructuring effort. In May 1993, they took over the management of five more distressed banks, all majority-owned by state governments.

4.67 **Finance Companies.** Finance companies constitute the most significant group of Nonbank Financial Institutions (NBFIs), accounting for an estimated 15 to 25 percent share in the banking system's credit operations. Yet, until 1991, finance houses were only required to register as limited companies under the Companies and Allied Matters Decree (1990) or—if they operated as investment advisers, issuing houses, brokers or dealers—with the SEC. Finance companies have not, therefore, been subject to any capital, liquidity, or reserve requirements, or to on-site inspections.

4.68 In January 1991, when the CBN imposed interest rate ceilings on banks, regulatory oversight of NBFIs became even more difficult. Because interest rate restrictions did not apply to finance companies, banks that did not already own finance companies sought close affiliation with them in order to circumvent the CBN guidelines. But with the issuance of the BOFI Decree in 1991, finance companies, too, were required to apply for licenses by the CBN.

4.69 A sizable number of finance companies were forced into liquidation in recent months, reflecting the considerable financial distress of highly leveraged nonbank financial institutions. Because of Nigeria's inadequate supervision of finance houses, moreover, depositors attracted by their extremely high interest rates run considerable risk of bearing the entire cost of failure, which could spill over into the banking system. Most depositors have now flown to better-quality

institutions, but these developments underline the need for better assessment of the extent and causes of distress, closer supervision and more timely failure resolution.

4.70 **Mortgage Institutions.** In 1987 the Federal Mortgage Bank of Nigeria (FMBN) was established as part of the new National Housing Policy to mobilize funds for mortgages and to license and supervise secondary mortgage banks. By mid-1993, Nigeria had licensed more than 200 secondary mortgage banks.

4.71 As originally envisaged, merchant and commercial banks would deposit 10 percent of their total loan portfolio in a Housing Fund at concessional interest rates. At the same time, workers with annual earnings of more than ₦3,000 would deposit 2.5 percent of their salaries with mortgage banks at nominal interest rates of 4 percent. Opposition from banks and contractual savings institutions, however, against mandatory deposits at below-market rates is strong and has prevented secondary mortgage banks from operating in any substantial way.

4.72 **Development Finance Institutions (DFIs).** The Nigerian Industrial Development Bank, the Nigerian Bank for Commerce and Industry, and National Agriculture and Cooperative Bank are largely funded through CBN credit lines and from penalty deposits received from banks that fail to meet sectoral-lending targets. The quality of these DFIs' financial portfolio, however, is among the worst for all financial institutions.

4.73 Over the past two years, the Government has set up a number of sectoral DFIs to finance projects in the areas of tourism, transport, urban development, and education. The majority equity in these institutions arises from the Government and is supplemented by various levies on the private sector. Sectoral DFIs typically lend at subsidized interest rates and operate under the supervision of the relevant sectoral ministries rather than the Central Bank. The Central Bank is also excluded from the licensing, regulation, and supervision of insurance companies and pension schemes. (As of now, aggregate accounts for these institutions are not available.)

4.74 **Rural Credit.** Most rural Nigerians have little access to formal banking services which has resulted in a dual system of formal and informal credit markets with different prevailing credit costs. Nigerians living in rural areas rely generally on such informal credit sources as traditional *Esusu* credit or private (mostly family) loan assistance. Today, a wide variety of (mostly urban-based) financial intermediaries caters to the credit needs of large- and medium-sized rural enterprises, but for small-scale enterprises and individual entrepreneurs in the countryside a credit gap still exists.

4.75 In 1990, the Government sponsored the introduction of community banks to provide self-sustaining, grassroots financial services similar to those provided by a credit union. The community banking scheme targets rural areas that traditionally had few formal financial services, and was accorded legal status in 1992 by Community Bank Decree No. 46.

4.76 Under CBN, a National Board for Community Banks will license and supervise community banks. As of the end of 1992, returns for 297 of the 401 registered community banks showed total assets of about ₦895 million, of which credit facilities accounted for about ₦140 million. These 297 community banks had total deposits of ₦580 million and a paid-up capital share of ₦215 million. The system reported problems associated with inadequate bookkeeping and inordinate delays in the clearing of checks through correspondent commercial banks.

4.77 The People's Bank of Nigeria (PBN) commenced operations in 1989 with the aim of extending credit facilities to both rural and urban low-income traders, craftsmen, and

microenterprises. PBN loans are usually granted at below-market interest rates on the basis of group membership in cooperatives or trade associations. At the end of 1992, the asset base of the PBN was ₦435 million, with total loan disbursements of ₦270 million to some 1.6 million beneficiaries. Its key problems are dependence on government donations, very high administrative costs, management deficiencies, and negligible savings mobilization owing to low interest rates.

4.78 According to a joint CBN-NISER survey, however, the public response to both the community banks and to the PBN has so far been muted. It remains to ensure an adequate and equitable distribution of credit, therefore, by integration of the formal and informal audit markets.

4.79 **Capital Market**. The capital market has yet to benefit fully from Nigeria's financial reforms. At the apex of the capital market, the SEC regulates the stock exchange and other participating institutions and has the power to approve and regulate mergers and acquisitions. The SEC fixes the prices of all new stock issues (including those for quoted companies) but routinely sets them at low levels. (For this reason, jurisdiction over price setting was partially removed from the SEC in early 1993 and transferred to issuing houses.) Together with high transaction costs, inordinately low prices have dampened activity in the stock market in recent years.

4.80 As a result, total market capitalization is now only about 6 percent of GDP, and from 1989 to 1991, the total value of shares traded on declined from ₦610 million to ₦242 million before recovering to ₦491 million in 1992. Over the past five years, government stocks, industrial-loan stocks, and preference shares have remained depressed. Traditionally the most active segment in the secondary market, equities, accounted for 80 percent of overall trading value in 1992. The increased pace of privatization, coupled with a reduction in withholding tax on dividend payments, expectations that investment returns will stay ahead of inflation, and moves to deregulate the capital market resulted in a recent surge in Nigeria's capital market.

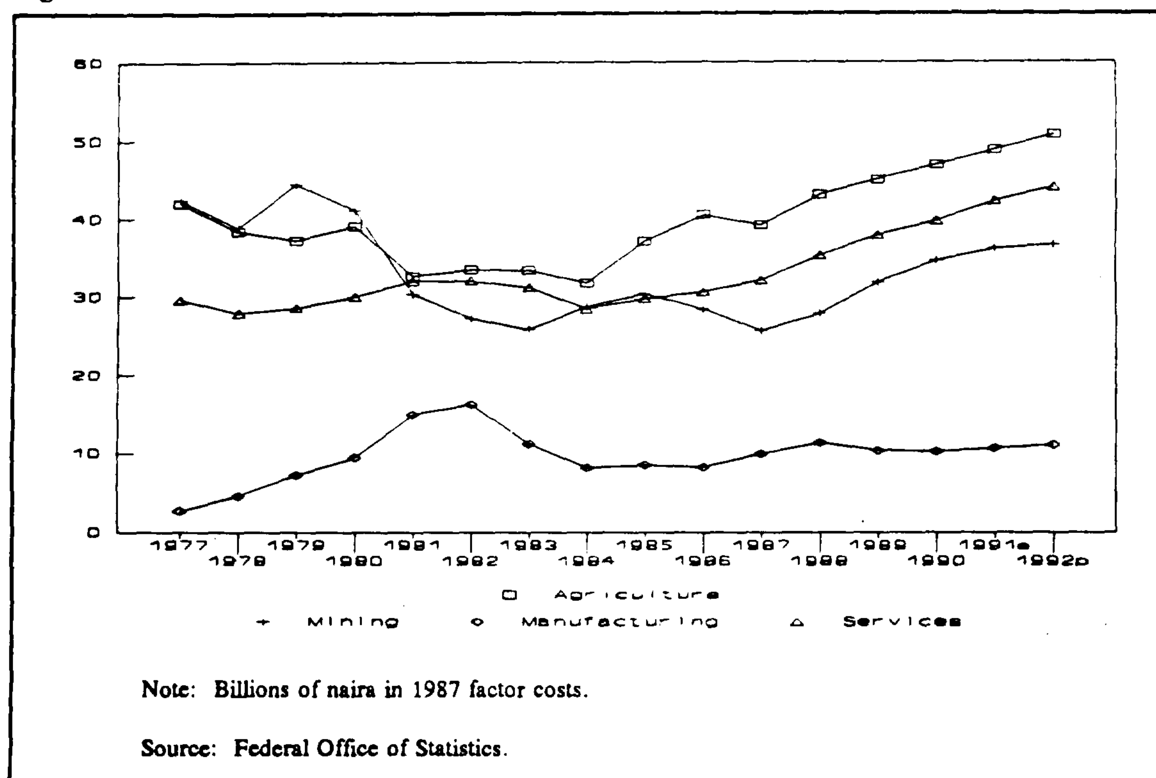
Part 2. Performance

From 1980 to 1986, Nigeria's real GDP declined 2 to 3 percent a year. By contrast, for six years following the introduction of the SAP, real GDP grew by some 5 percent a year. Under SAP policies, both agriculture and manufacturing showed signs of recovery and nontraditional exports experienced modest growth. Despite these successes, SAP could provide only a partial offset to the colossal drop in Nigerian buying power brought about by the collapse of the international oil market. Today Nigerian consumption and income are little higher than they were in the early 1970s, before the oil boom. The supply response to the SAP and the impact on national income, living standards, and the balance of payments are discussed in Chapters V, VI, and VII.

V. THE SUPPLY RESPONSE

5.1 After the SAP was adopted, Nigeria's agricultural, industrial and service sectors began to revive (see Figure 5.1). The recovery of the non-oil sectors started somewhat earlier than that of the oil sector (mining) and continued longer. The upturn in the oil sector did not get under way until 1988; but once started it showed considerable vigor. Overall economic growth averaged close to 5 percent per annum during 1986-92, as compared to a decline of nearly 2 percent in the preceding six years (see Table 5.1). Although the SAP era's recorded growth of 5 percent per annum may not be exceptional by international standards, a robust, sustained growth turnaround of 7 percentage points per annum is quite creditable.

Figure 5.1: Sectoral Performance, 1977 to 1992



Note: Billions of naira in 1987 factor costs.

Source: Federal Office of Statistics.

5.2 To a large extent, Nigeria's economic recovery reflects a strong supply response to improved economic incentives. Under the SAP, for instance, the exchange rate policies resulted in higher prices and profits for non-oil export production and import substitutes, and output accordingly expanded. But policy change was not the whole story. The post-SAP period coincided with the return of normal rainfalls after an extended and devastating drought. In 1988, two years after the adoption of the SAP, oil prices stabilized, although at relatively low levels. Furthermore, the upgrading and rehabilitation of rural infrastructure begun before 1986 was taking effect.

5.3 Nor did all policies implemented after 1986 promote growth. Export bans were expanded in the late 1980s, depressing certain dynamic segments of agriculture, while import restrictions continued to hamper a number of manufacturing industries. Furthermore, many adjustment policies were only partially implemented or were abandoned mid-stream. Little progress was made in the restoration of fiscal discipline, and the resultant monetary expansion exerted strong upward pressure on prices and downward pressure on the naira. This in turn led to extensive

Table 5.1: Economic Performance Before and After the Introduction of the SAP

	Annual rates of growth	
	1980-86	1986-92
	(Percentage)	
Agriculture	0.5	3.8
Industry	-5.1	4.5
Mining	-5.9	4.3
Manufacturing	-1.8	4.9
Services	0.2	6.3
GDP	-1.7	4.7
Oil-based value-added	-5.3	4.5
Non-oil value-added	-0.2	4.9

Note: Compound growth rates based on value-added at factor cost in constant 1987 prices.

Source: Federal Office of Statistics.

government intervention in the foreign exchange market. In addition, substantial subsidies on petroleum products and fertilizers (financed at considerable expense to the Federal Government) remained throughout the adjustment period, resulting in the misallocation and inefficient use of resources.

5.4 On balance, however, under the SAP, the economic environment became more conducive to growth during the SAP era. As is evident from Figure 5.1 and Table 5.1, the recovery was sustained and broadly based. Post-SAP expansion, furthermore, was well in excess of population growth, thus permitting an increase in per capita income. Nonetheless, by the end of 1992 (and in spite of the recovery) Nigeria's per capita income remained well below its 1980 level, reflecting the intervening sharp decline of world oil prices and deterioration in Nigeria's terms of trade. (See Chapter VI.)

5.5 In a period of adjustment, it is unrealistic to expect that all sectors and firms will prosper. Changes in the structure of incentives will inevitably affect certain activities adversely, especially in the short run. In the case of Nigeria, import-intensive industries (including vehicle assembly and electronics) were severely hit by the rising costs of inputs and the limited pricing flexibility among public enterprises, particularly for utility services. Beer manufacturers also suffered from the ban on imported raw materials. Industries that relied primarily on local supplies and exporters, on the other hand (such as the textile industry, tire production, and a variety of agricultural cash crops), expanded rapidly. The agricultural sector also grew much faster than in the earlier period.

A. Oil and Gas

5.6 Petroleum dominates the Nigerian economy. Oil exports provide over 95 percent of total export earnings (Chapter VII) and over 80 percent of government revenues (Chapter III). In 1992, the real value added (measured at 1987 prices) of Nigeria's production of crude oil (that is, the upstream oil sector) accounted for about 25 percent of real GDP on oil permeates all aspects of economic policymaking and defines Nigeria's political economy.

5.7 Nigeria is also endowed with very large resources of natural gas, which is mostly produced in association with oil. To date, however, the high cost of extracting associated gas from crude oil has made it uneconomic for commercial exploitation. In addition to primary exploitation of oil and gas resources, the country has tried to develop a downstream oil sector self-sufficient in the production of final petroleum products, which could turn out an exportable surplus of petrochemicals and fertilizer. In this respect, however, Nigeria has largely failed, as evidenced by the frequent shortages in its own domestic supply.

5.8 In the oil and gas sector, government control is exercised by the Nigerian National Petroleum Corporation (NNPC) and, to a lesser extent, by the Ministry of Petroleum and Mineral Resources. In the upstream oil sector, this means that exploration, development and production are carried out as joint ventures by the NNPC and foreign oil companies, which act as operators. The most important foreign partners are Shell, Chevron, Mobil, and AGIP. NNPC's equity in such ventures has typically been 60 percent, but the Government has recently started to sell parts of its equity in some ventures, reducing its own representation to 55 percent. The objective of these sales is to gain funds to finance NNPC's share in investment expenditures. NNPC also owns and operates the entire refinery sector (four refinery complexes and an extensive infrastructure for oil storage and distribution). The Nigerian Gas Company Ltd (NGC), a subsidiary of NNPC, is in charge of the purchase, transportation, and sale of natural gas, and controls most of the transactions in the sector.

5.9 **Upstream Oil.** Since the discovery of Nigerian oil in 1956, Nigeria has become one of the world's major exporters. In 1991, it ranked ninth in world oil production. Proven recoverable reserves amount to about 17 billion barrels, or 2 percent of proven world oil reserves. Industry experts estimate that Nigeria has the potential to fully replace its present oil-reserve base by adding 15 to 20 billion barrels to its recoverable reserves. About 70 percent of Nigeria's oil production is onshore in the southeastern states of the Niger delta; the remaining 30 percent is offshore.

5.10 In 1979, Nigeria's oil production (mainly of high-value, light, sweet crudes) reached its peak of 2.3 million barrels per day (mb/d). Production broadly declined throughout the 1980s, responding to OPEC pricing guidelines and quotas, variations in world demand, and the declining productivity of mature fields. In 1981, although international crude prices increased by over 12 percent, Nigeria's oil sales fell by 30 percent—in part prompted by an across-the-board reduction in OPEC's global production ceiling. The sales collapse was also prompted by the Nigerian oil ministry's attempt to overprice its crude and the Government's 1980 shift to the spot market. In 1981, when the price differential reversed in favor of contract prices, the oil companies opted to conclude their purchase contracts with Nigeria at the lower spot price.

5.11 From 1981 to 1986, although productive capacity declined, Nigeria's oil production hovered around 1.3 mb/d. It reached a low of 1.235 mb/d in 1983 and recovered to 1.491 md/d in 1985, with the recovery of the world economy. In 1987, as a consequence of the severe glut that the world oil market faced, OPEC reduced quotas and Nigerian production fell by more than 6 percent. Since then, production has steadily increased. It reached 1.956 mb/d in 1992, slightly below the level of 1980 (see Table 5.2).

5.12 As a member of the Organization of Petroleum Exporting Countries (OPEC), Nigeria has been influenced by its crude-oil production ceilings in making its own extraction decisions. Available data, however, show that Nigeria's crude oil production was consistently 3 to 5 percent above its quota from 1982 to mid-1990 despite intermittent production cuts introduced to meet

Table 5.2: Crude and Condensate Production and Exports, 1987 to 1992

	1987	1988	1989	1990	1991	1992
			(Percentage)			
Domestic production*	1,300	1,420	1,670	1,760	1,900	1,956
Domestic consumption	8	9	11	13	12	12
Exports	92	91	89	87	88	88
Exports (percentage of total)			(Percentage of total)			
European Union	37	37	35	35	38	..
Scandinavia	1	-	-	1	1	..
United States	45	47	54	51	41	..
Canada	3	4	4	3	3	..
Others	14	12	7	10	17	..
Total	100	100	100	100	100	

* Includes condensate. In thousands of barrels per day.

Source: Petroleum Economics Limited.

OPEC price targets. After the Middle East crisis in late 1990, Nigerian crude oil production remained significantly in excess of its quota. During the fourth quarter of 1992, for instance, Nigeria's crude oil output averaged 1.967 mb/d, although its OPEC production quota was 1.71 mb/d. Its current quota is 1.865 mb/d, almost 20 percent below estimated actual production (although the latter includes condensates to which OPEC quotas do not apply).

5.13 Much of the oil sector's growth in the SAR era was due to sustained Government effort to increase exploration and add to reserves. To support this effort, in a January 1986 Memorandum of Understanding (MOU), the Government introduced more attractive terms for oil exploration and development including a guarantee of a US$2.0 profit margin in exchange for certain exploration and enhanced-recovery commitments.

5.14 In July 1991, new MOUs were signed to encourage foreign partners to expand their investment, including an increase in the guaranteed profit margin from US$2.0 to US$2.5, a revision of the formula determining realizable prices (the price at which the Nigerian Government deems companies can sell their crude), and such performance-related profit incentives as bonuses for net additions to proven reserves. Originally, the Government's objective was to increase crude oil reserves to 20 billion barrels and productive capacity of 2.5 mb/d by the mid-1990s, but the target date has since been postponed to 1998.

5.15 In trying to increase Nigeria's oil production rapidly, the Government's major obstacle has been the inability of the NNPC to mobilize funds for investment over and above the US$1.5 to US$2.0 billion per year currently committed for reserves replacement. In the last few years, NNPC has accumulated arrears to its joint-venture partners ranging, in 1993, between US$500 and US$750 million. Nigeria's oil investment program could be threatened if the Government does not move rapidly to clear these arrears, either through sales of equity or production-sharing agreements (under which the NNPC joint-venture partners front exploration and development costs). In recent months, a number of production-sharing agreements have been signed, but are not yet effective.

5.16 **Downstream Oil Sector**. Unlike the upstream sector, which has performed relatively well under the operational management of foreign companies, the government-owned downstream sector is plagued by massive inefficiencies. Nigeria has three operating refineries (plus a nonoperating refinery shut down in 1989 and still under repair). Its total installed capacity is 445,000 barrels per day—well in excess of the 300,000 barrels per day allocated to domestic consumption. As a result of mismanagement, structural bottlenecks, and accidents, however, actual capacity utilization has fluctuated between 50 and 65 percent. By comparison, well-managed refineries operate at capacity-utilization rates of 90 to 95 percent. Nigeria's downstream oil sector is a lesson in political intervention in investment strategies and company management; delayed maintenance resulting in costly shutdowns; government-mandated overstaffing and a policy of inadequate compensation; and inadequate regulation of final prices, intermediary margins, and transfer charges between NNPC's downstream units and the Government.

5.17 The Nigerian Government has indicated its willingness to tackle these problems at their root. In March 1988, it announced a program to commercialize NNPC over a three-year period. Government-owned NNPC was to "be operated as a profit-making commercial venture and without subventions from the Federal Military Government." But performance contract negotiations dragged on, and the sector's overall performance remained well below target. Refineries have performed so poorly that Nigeria has had to import final petroleum products, despite its capacity to produce 30 percent more than was consumed in 1992. The only exception is the new Port Harcourt refinery—operated under a management contract with a foreign company—which has generally operated at capacity.

5.18 Inadequate policies have also hindered the transport and distribution of petroleum products. Lack of maintenance and poor pipeline and depot system performance caused supplies to be erratic. Most depots had to ration products. Marketers, in turn, fell back on Nigeria's dilapidated road tanker fleet to move products from refineries to, and between, depots, incurring additional transportation costs and risking road accidents.

5.19 Meanwhile, many Nigerians thought of petroleum as a "free gift" to the country. The Government mandated petroleum product prices that averaged, before November 1993, only 11 percent of world market prices. But this policy made margins too low to cover costs, including the operation and maintenance of the refineries and distribution infrastructure. Intended as a subsidy, the net effect of this policy was to make official supplies unreliable and necessitate severe rationing in some areas of the country. Low official prices engendered a parallel domestic market where petroleum products were sold at premiums (often 200 to 400 percent above their posted prices), and smuggling to neighboring countries (see below). In terms of forgone government revenues, the total cost of the subsidy and refinery, depot, and marketing operating losses, was estimated at around 8 percent of GDP in 1992.

5.20 Smuggling of petroleum products to higher-priced markets abroad was motivated by the sharp difference in Nigeria's subsidized oil product prices and those of its neighbors, particularly Benin (625 percent of the Nigerian price in 1991) and Chad (1,480 percent in 1991). One estimate puts the gap between official statistics for bona fide consumption and reported refinery production at 20,000 to 25,000 bbl/d, or about 7.5 percent of domestic consumption, suggesting a loss of US$200 million per year in forgone government revenue; other estimates of smuggling go as high as 70,000 barrels per day.

5.21 In November 1993, petroleum product prices were increased across the board. Gasoline prices were raised from 70 kobo to ₦3.5 per liter. Even at their new level, however, they fall short of international parity, but they now largely cover the cost of exploration, production, and

refining at the current official exchange rate. As in the past, however, the increase was a one-time discretionary adjustment. The lack of automatic adjustment in the pricing formula and the large spread between the official and the parallel market exchange rates suggest that a one-time adjustment in petroleum prices will be insufficient to correct resource misallocation, cover operating cost, and stem smuggling.

5.22 Gas. Nigeria's gas production increased significantly during the SAP era. Production increased by 67 percent between 1986 and 1992, to reach a level of more than 31,950 million cubic meters (see Table 5.3), primarily from associated gas, a byproduct of crude oil extraction. Nigeria's natural gas reserves are estimated at about 73 trillion cubic feet (tcf), and its probable gas reserves may be as high as 106 tcf. Nearly two thirds of the gas reserves are in the Niger delta, the heart of the oil fields, and roughly half of the known reserves are associated gas.

Table 5.3: Index of Gas Production, 1986 to 1992

1986	1987	1988	1989	1990	1991	1992
100*	91	106	130	143	173	167

* 100 = 1986.

Source: Central Bank of Nigeria.

5.23 While associated gas is more expensive to produce than nonassociated gas, the development of gas reserves is particularly expensive, involving huge capital costs to develop infrastructure for transport. For most countries, in addition, gas must be sold in internal markets. Nigeria's local market for gas is very thin, and domestic prices are fixed at artificially low levels, factors that have discouraged international companies from the development of gas reserves. Attempting to offset these hindrances, the Government introduced significant tax incentives for the investment in and development of natural gas resources.

B. Manufacturing Sector

5.24 Adjustment helped the manufacturing sector reverse the decline that had brought it, by 1986, to 51 percent of its 1982 peak. From 1986 to 1992, under the SAP, manufacturing value-added increased by 33 percent in real terms, or about 5 percent per annum, with most growth occurring between 1987 and 1990.

5.25 Under the SAP, manufacturing growth was about equal to overall GDP growth, and the share of manufacturing in total output remaining roughly constant at 8 percent. In nominal terms, however, the share of manufacturing in Nigeria's non-oil GDP fell from 14 to 12 percent, indicating a 13-percent fall in the price of goods relative to the overall price of non-oil outputs. In the early years of the SAP era, relative prices fell by over 25 percent, then recovered thereafter.

5.26 Despite its relatively small size, manufacturing is important to the Nigerian economy. During the SAP era, little growth was recorded in publicly owned commercial enterprises or in parastatals (which still handle much of Nigeria's industry). Manufacturing, furthermore, had long been protected in one form or another, and many structural impediments to growth remained in place. Growth in the sector, therefore, must be attributed to a very strong response to trade

liberalization and exchange rate adjustment by a relatively small part of the sector. In view of the sector's structure in Nigeria, the magnitude of the turnaround since 1986 is noteworthy.

5.27 Nigerian economic statistics must be used with caution. The most recent survey of the industrial sector, for example, the Industrial Census of 1988, produced usable results for only 37 percent of all registered firms (the register of business reported 20,000 industrial establishments in 1988—in itself probably a gross understatement). There is also ample evidence of a large and active informal sector (mostly small scale), which escapes official statistics, taxation, and regulations, but contributes to employment, investment, and exports. Finally, statistics on capacity utilization rates grossly overestimate installed capacity and the amount of slack in the sector. By showing design rather than economic capacity, these numbers fail to reflect how capital adjustments affected the manufacturing sector throughout the 1980s.

5.28 **Structure.** Nigeria's manufacturing sector contains several 100-percent government-owned and operated Core Industrial Projects (CIPs), a few of which were recently privatized and a few others operate under commercial contracts. CIPs were initiated by the Government as part of an industrialization strategy that spanned the 1970s and most of the 1980s and is still active today at a somewhat slower pace. As a group, they were poorly conceived and planned and are now operating inefficiently, with a good deal of political interference in management.

5.29 Medium to large private and public manufacturing groups are generally owned and run by long-established business groups that originated as subsidiaries of foreign companies. In the 1970s, Nigeria reduced these multinational groups' equity share in Nigerian affiliates as part of its indigenization policies. But though equity was sold to private Nigerians, in many cases the Federal Government acquired a controlling share or bought out companies altogether, building up a portfolio of ownership in virtually all large sectors of industry and finance. Expatriate quotas and restrictions on profit repatriation were established at the same time. Under the SAP, some of the most stringent foreign ownership restrictions were relaxed (see Chapter II), and the Government launched a privatization program (see Chapter III). Table 5.4, which lists public enterprises originally scheduled for privatization, illustrates the extent of Federal Government involvement in commercial activities.

5.30 Small- to medium-sized firms—undoubtedly the most active segment of the manufacturing sector—are also the least well documented. Although government ownership is not entirely absent, at the state and local government level, these firms are mostly private and Nigerian owned. The Industrial Census of 1988 revealed that 85 percent of all businesses were owned by a single proprietor and employed from 5 to 20 people (in such diverse sectors as textiles, wood products, food processing, metal products, chemicals, dyes and paints, paper, and printing). Many of these firms, furthermore, operate in the informal market (in such activities as carpentry, building and construction, repair and maintenance, and tailoring).

5.31 **SAP.** In the manufacturing sector, the SAP strove to stimulate some subsectors and divert resources away from others to produce a structural shift toward export-oriented production and the domestic sourcing of inputs. To enhance the private sector's role in resource allocation, there were also measures to eliminate or lower market distortions and unnecessary public interference.

5.32 The most important effect of adjustment for the manufacturing sector was the realignment of relative prices induced by the devaluation of the naira. The SAP's initial fiscal and monetary policies helped control inflation and ensured flexibility in the determination of the exchange rate, so that, in real terms, the devaluation was successful. A new auction-based foreign exchange

Table 5.4: Public Enterprises Originally Scheduled for Privatization

Partial privatization	No.	Full privatization	No.
Development banks	4	Hotels & tourism	3
Commercial and merchant banks	12	Textiles	3
Oil marketing	3	Agro-processing	18
Steel rolling mills	3	Salt manufacture	2
Air and sea travel	2	Wood & furniture	2
Fertilizer manufacture	2	Insurance	14
Vehicle assembly	6	Film industry	2
Paper mills	3	Flour milling	1
Sugar mills	3	Cattle ranching	2
Cement manufacture	5	Construction and engineering	4
		Dairying	2
		Transport	4
		Food & beverages	6
		Other	4
Total	43		67

Source: Technical Committee on Privatization and Commercialization, Annual Report, 1990.

allocation system helped to ensure that foreign exchange (whose availability had been dramatically curtailed by falling oil prices) would be allocated among sectors on the basis of market incentives rather than government fiat. The SAP also included the removal of import licenses, the simplification of the tariff protection system, and the adoption of various export promotion schemes. Trade liberalization was not complete, however, and some import and export bans remained. (In 1992, it was estimated that import bans protected as much as 20 percent of Nigeria's industrial activity.)

5.33 To encourage investment and provide incentives for certain types of activities, the SAP also introduced several tax changes. In 1987, the corporate income tax rate was reduced from 45 to 40 percent. In 1988, the Federal Ministry of Industries published its new Industrial Policy, which formalized the Government's deregulation stance and included a broad incentive package for new domestic and foreign investment. Capital allowances were increased for plant and machinery. Special tax incentives were provided for long-term R&D expenditures. To promote the development of local raw materials, exports, increases in domestic value-added, and investment in economically disadvantaged areas, special five-year tax holidays, and extra concessions were granted. To allow exporters to retain their earnings, domiciliary accounts (bank accounts denominated in foreign currency) were established where exporters could deposit their exchange earnings and from which they were free to draw for import purposes.

5.34 Although the SAP reduced the number of licenses required to operate manufacturing enterprises, however, Nigeria's licensing requirements still cumbersome. Companies need separate licenses to operate power, water supply, and telecommunications activities not related to their primary production operations. In some sectors, firms also need special licenses to advertise.

5.35 **Impact of the SAP**. Under the SAP, the devaluation and trade liberalization directly affected private manufacturers' incentives. Other adjustments affected the entire economy, and only indirectly affected manufacturing through their impact on sectors. Although essential, the SAP's indirect impact is difficult to measure. Other economic sectors (agriculture, mining, services) and the three levels of government administration all competed with manufacturing for labor and capital resources. The economy-wide shifts in relative prices induced by the SAP in turn affected the allocation of resources among these sectors depending (among other things) on the degree of mobility of these resources. The flexibility of Nigeria's labor markets, for example, was a key factor in the SAP's initial success in stimulating the agricultural sector. (See Chapter VI.)

5.36 The reallocation of resources changed the relative composition of Nigeria's economy. Expanding sectors (within or outside manufacturing) draw resources not only from losing sectors but also from the pool of the unemployed and from the informal sector. Since sectors expand when they are free (not bound by regulations) to respond efficiently to a new configuration of incentives, the manufacturing sector's low level of unemployment and quick resumption of growth suggest that in Nigeria the resource shift that followed the SAP was relatively efficient.

5.37 The reallocation of resources also changes consumption patterns by changing the level, composition, and distribution of income. The boost agriculture received from the SAP, for example, may have directed overall private consumption away from luxury goods and imports (often the same) and toward domestically produced goods and necessities.

5.38 Finally, certain government failures have affected the manufacturing sector's response to the SAP. The policy uncertainty and reversals that have characterized the post-adjustment years have undermined the long-term investment needed for manufacturing growth. (In the World Bank 1990 Industry Sector Report, policy uncertainty was cited as a major reason for the lack of industrial investment.) The poor performance of public infrastructure has also caused substantial problems for the Nigerian private industrial sector. Because government-run utilities are often unreliable, for example, local producers suffer high efficiency losses and incur high extra costs.

5.39 **Public Sector**. As long as industrial enterprises remained in the public sector, little response from them could be expected. For this reason—and the heavy fiscal burden many parastatals imposed on the public sector—public enterprise reform was initially high on the agenda of Nigeria's policymakers. In 1988, the Government published a list of 90 businesses (later increased to 110) to be privatized and 35 to be commercialized. In January 1989, it established the Technical Committee on Privatization and Commercialization (TCPC). Yet from 1988 to 1992, only small firms and no major parastatals were privatized. As a consequence, most of Nigeria's manufacturing sector has been largely unresponsive to the new incentive environment.

5.40 In manufacturing, the best indicator of performance is the rate of capacity utilization (see Table 5.5). The figures show that Nigeria's manufacturers (such as its oil refineries) have extremely low levels of capacity utilization and that most CIPs did not improve. Of all the CIPs, only some of the cement companies, the NAFCON fertilizer plant, and one of the refineries show above-average capacity-use rates. In all these examples, furthermore, either privatization has proceeded, private sector management assistance is supporting operations, or management has been passed over to contractors under commercial incentives. Their relatively better performance argues for a deepening of the privatization and commercialization process, and a further opening to foreign investment.

Table 5.5: Capacity Utilization Rates in Core Industrial Projects, 1986 to 1991

	1986	1987	1988	1989	1990	1991
	(Percentage)					
Steel plants						
Ajaokuta	--	--	--	--	--	--
Delta	13.4	14.0	13.9	--	18.9	11.3
National Iron Ore MC	--	--	--	--	--	--
Jos	--	--	11.1	12.0	14.0	7.3
Katsina	--	17.9	15.0	--	9.1	7.8
Oshogbo	--	16.5	8.0	9.6	7.7	9.5
Paper plants						
Nigerian Newsprint Manufacturing Co.	--	21.2	26.7	28.9	37.5	21.8
Nigerian Paper Mill	66.0	38.0	47.0	25.3	19.2	11.9
Nigerian National Paper Manufacturing	--	--	--	--	--	--
Fertilizer plants						
National Fertilizer at Onne	--	100.0	92.0	95.0	104.4	96.0
Federal Superphosphate	--	7.5	11.2	--	3.2	25.0
Petrochemicals						
Warri Refining and Petrochemicals						
Polypropylene	--	--	15.0	1.8	0.0	0.0
Carbon black	--	--	12.9	9.0	2.2	8.0
Kaduna Refinery Petrochemical Co.	--	--	11.2	--	--	52.1
Refineries						
New Port Harcourt	--	--	--	--	93.0	92.8
Old Port Harcourt	--	--	--	--	0.0	0.0
Warri	--	--	68.5	58.3	14.8	48.0
Kaduna	--	92.5	63.9	54.6	69.3	66.8
Cement						
Cement Co. of Northern Nigeria	--	--	--	--	41.0	48.0
West Africa Portland Cement	--	--	--	--	70.0	69.0
Nigerian Cement Co.	--	--	--	--	21.0	23.0
Ashaka Cement Co.	--	--	--	--	--	--
Calabar Cement Co.	--	--	--	--	18.5	10.1
Ukpilla Cement Co.	--	--	--	--	55.0	36.0
Benue Cement Co.	--	--	--	--	0.0	50.0
Others						
Nigerian Machine Tools	--	--	40.0	--	--	--
Nigerian Marble Mining	--	60.0	25.0	20.4	--	25.0

-- = not available.

Source: Central Bank of Nigeria, and Manufacturers' Association of Nigeria.

5.41 **Private Sector.** Under the SAP's trade and exchange rate policies, industries that were heavily dependent on imports (and especially those protected by tariff barriers) were most adversely affected by the devaluation. Industries that relied on imports as intermediary inputs

or equipment (such as vehicle assembly and brewing) faced large increases in input prices. Only companies that were able to improve the efficiency of their operations rapidly or to reduce their dependence on imports (which many did) were able to withstand the shock. Local producers of import substitutes, whether final or intermediary goods, on the other hand, received a positive boost from the SAP, as did exporters. With the large reduction in the degree of exchange rate overevaluation, a huge burden was lifted from exporters.

5.42 In 1986, although a large fraction of transactions were carried out at the official exchange rate (especially large firms' purchases of capital goods and intermediary inputs, the largest group of imports) a substantial number of imported goods were purchased at parallel market rates. After the 1986 devaluation, rates on the parallel market declined by more than 20 percent, and most of the rents traders and other intermediaries had collected were eliminated.

5.43 Because enforcement of policy in Nigeria was lax and firms followed official regulations only intermittently, the policy change may not have been very pronounced. Thus, the SAP's more liberal tax, price, and regulatory policies may have improved the business environment for manufacturers less than other policy measures undertaken as part of the SAP. In some cases, furthermore (as with interest-rate policy), government pressure on certain sectors contributed to the reinstitution of price controls.

5.44 Table 5.6 illustrates the manufacturing subsectors' different responses to the SAP. According to the data of the CBN, 9 of the 13 subsectors for which we have data recorded an increase in output from 1985 to 1992. By far the most impressive result was in synthetic fabrics, whose production was 18 times greater than in 1986 than in 1992. Sugar and confectionery, soft drinks, cotton textiles and soap and detergent also experienced significant growth (see Box 5.1). By contrast, vehicle assembly declined dramatically, as incentives were brought into line with underlying resource costs. Bank estimates put effective rates of protection for this sector at close to 700 percent, and showed that before the SAP value added for some cars was negative at world prices.

Table 5.6: Index of Manufacturing Production, 1985 to 1992

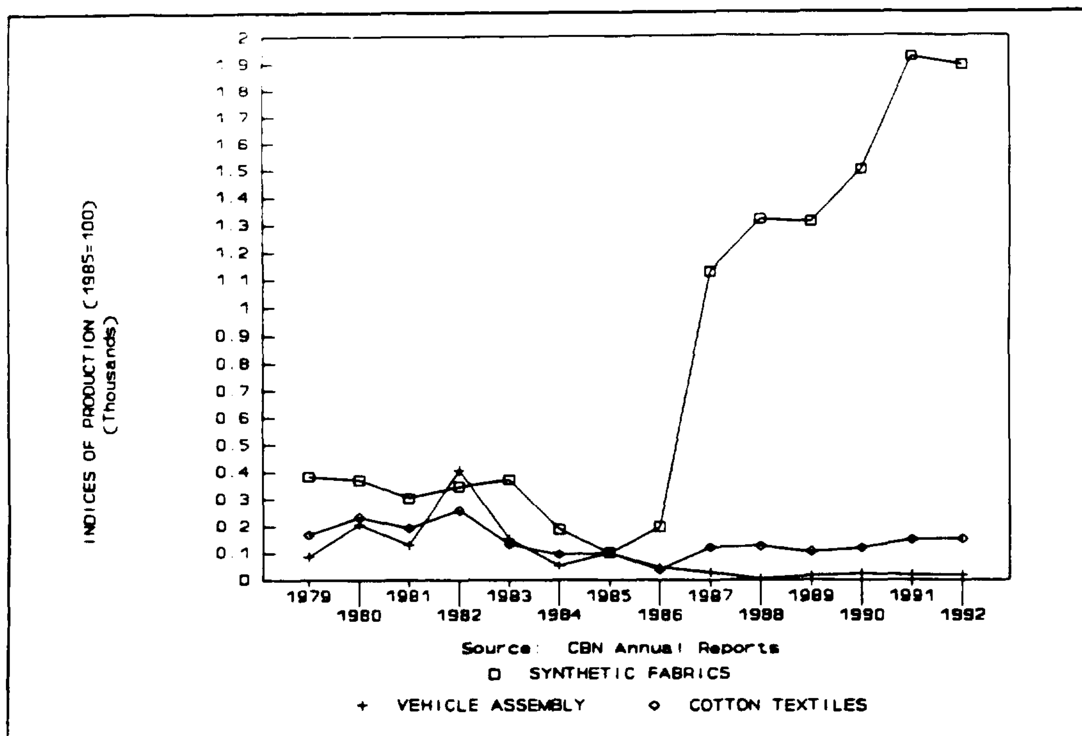
Year\ qtr.	Soap & deter- gents	Refined petrol- eum	Sugar confec- tionery	Soft drinks	Beer & stout	Cotton textiles	Synthetic fabrics	Foot- wear	Paints	Ce- ment	Roof- ing sheets	Vehicle assem- bly	Radio & TV	Total
1985	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
1986	49.3	50.3	71.8	71.2	125.5	37.9	196.1	75.4	79.1	108.1	184.5	46.8	154.8	78.2
1987	135.5	74.0	136.0	128.1	83.4	120.6	1,125.7	93.9	89.1	92.0	54.7	27.0	45.8	130.8
1988	104.6	84.6	190.1	185.5	76.0	123.6	1,318.6	73.8	98.7	119.9	50.6	4.4	14.7	135.2
1989	157.8	110.1	97.4	222.5	101.6	104.1	1,309.3	41.5	82.7	126.2	149.0	15.7	12.5	154.3
1990	153.0	108.8	93.4	364.4	97.8	118.0	1,501.6	45.8	62.7	88.7	79.6	24.1	12.2	162.9
1991	153.9	116.0	129.1	243.5	100.7	147.5	1,921.1	85.9	98.0	98.7	57.9	17.1	11.8	178.1
1992	153.9	113.7	176.7	186.5	104.5	151.1	1,891.6	92.0	99.7	100.5	41.2	18.3	11.6	182.7

Note: 1985 quarterly average = 100.

Source: Central Bank of Nigeria.

Box 5.1: A Tale of Two Sectors

Structural adjustment meant very different things to Nigeria's textile and automobile sectors.



Before the oil boom, textile production in Nigeria was a traditional craft, theoretically shielded from international competition by import laws. After 1973, importers evaded these laws, cheap imports became common, and local dyers, weavers, cap-makers, and tailors went out of business. Domestic textiles could not compete with imported fabrics. By 1986, local synthetic fabrics were only 53 percent and cotton textiles only 16 percent of their 1980 production levels. Within one year of the introduction of the SAP, however, the production of Nigerian cotton goods increased to more than three times its 1986 level, while synthetic fabrics production increased to almost six times its 1986 level. Despite this immense progress, to ensure consistent growth, further measures will be needed to increase access to financing and improve management and engineering capacity.

For the vehicle assembly industry, the 32 percent increase in production it had experienced in 1982 was short-lived. The following year, oil revenues dropped, the cost of imported parts became prohibitive, and production fell by 38 percent—a negative trend that continues to today. Vehicle assembly is now one fifth its size in 1985. A positive development of this adjustment, however, is the active informal sector production of spare parts.

Source: Central Bank of Nigeria Annual Reports, 1979-92; World Bank, "Nigeria: Private Sector Assessment," Report No. 11873-UNI, June 1993; Deborah Brautigam, *Regional Industrialization in Eastern Nigeria*, Washington, D.C.: World Bank, AF4CO, July 1992; Alan Frishman, *The Survival and Disappearance of Small-Scale Enterprises in Urban Kano, 1973-1980*, Geneva, NY: Hobard and William Smith College, Department of Economics, 1990.

5.45 As for the SAP's effect on small business, a 1991 study of small-scale industries in the eastern region of Nigeria showed that almost half the enterprises had doubled their number of employees since 1984, although—according to a 1989 World Bank survey—total employment (in the enterprises sampled) declined by an estimated 4 percent between 1986 and 1988. More

recently, a Bank survey conducted in September-November 1992 confirmed that overall employment declined about 1 percent from 1986 to 1992, and identified several companies that had shed as much as 25 percent of their labor force.

5.46 This evidence suggests that after the SAP, the reallocation of resources across sectors and the reconversion of the manufacturing sector took place as expected. Despite the many structural impediments that still exist and the lack of a supportive macroeconomic environment, apparently the growth of "winning" subsectors far more than compensated for the decline in "losing" ones, as reflected in the data summarized in Table 5.1.

5.47 Under the SAP, the price of imported inputs relative to domestic inputs increased considerably in 1986 and 1987 (the two years when the naira depreciated most in real value). The sectors that benefitted most from the SAP, therefore, were those that depended on local inputs or were able to shift to local sourcing. Although information on this subject is not complete, Table 5.7 shows the estimated share of local inputs each manufacturing subsector used during the SAP.

Table 5.7: Local Sourcing in Nigerian Industry, 1987 to 1992

	1987	1988	1989	1990	1991	1992
			(Percentage)			
Food, beverages & tobacco	65	63	70	79	65	65
Textiles & leather, apparel, shoes & rugs	52	55	31	60	67	66
Wood & furniture	78	70	70	74	80	82
Paper & printing	14	29	40	42	39	33
Chemicals & pharmaceuticals	32	36	38	50	42	44
Non-metallic mineral	77	87	79	80	83	86
Plastic & rubber	21	51	28	28	37	46
Electric goods	19	20	32	28	36	58
Basic metals, iron & steel, & fabricated metal	50	35	42	19	25	47
Motor vehicle & misc. assembly	22	30	39	46	26	37
All sectors	43	43	42	51	47	53

Note: Value of local inputs as a percentage of sales.

Source: Manufacturers' Association of Nigeria.

5.48 In a few product groups (particularly leather and textile products), manufactured exports also showed growth, but as recorded, manufactured goods remained below 2 percent of total exports. Actual exports, however, may have far exceeded what is officially recorded. It is believed that small traders smuggled large amounts of Nigerian goods across the country's borders. Nigerian textiles, for example, could be found throughout West Africa, in addition to petroleum products and fertilizer (attractive to smugglers because of their artificially low government-set prices), soap, cement, processed food, electrical goods, and consumer products. Estimates for unofficial, non-oil exports of manufactured products have been in the range of US$400-500 million per year; however, the recent devaluation of the CFA currencies is likely to shift the direction of the trade.

5.49 Even after the SAP, several trade restrictions remained in place or were introduced later, and some of these depressed manufacturing output. For example, the ban on wheat imports

virtually eliminated flour production. Garment production—a potential export item—suffered from a ban on imported textiles. In a similar vein, buyers regularly bypass legal dry-cell batteries made expensive by high tariffs, and an estimated two thirds of the market is served by smuggled imports.

5.50 Despite Nigeria's efforts to improve its environment climate for investment, the response by foreign investors has been muted. Debt conversion, for instance, allowed conversion of dollar-denominated promissory notes at a favorable discount as compared to market discount in naira terms. To some extent, this lukewarm response can be attributed to the fact that investment incentives provided under the Nigerian Enterprise Promotion Decree (NEPD) applied only to new investments and excluded existing ventures by foreign companies. By 1990, 113 debt conversion projects worth US$1.1 billion had taken place. Of these, 62 were in manufacturing.

C. Agriculture

5.51 In Nigeria today, agriculture accounts for one third of GDP and employs about two thirds of the labor force. It provides raw materials for industry and accounts for the bulk of non-oil exports.

5.52 Prior to adjustment, agricultural production was stagnant, constrained by low producer prices, restrictions on marketing, and the drought of the early 1980s. During the adjustment period, the real depreciation of the naira improved producer prices, while the elimination of marketing boards and liberalization of trading had a very positive impact on a variety of cash crops, particularly cocoa. Beginning in the mid-1980s, agricultural production expanded. The sector's real value added increased more than 25 percent between 1986 and 1992, which meant an average annual growth rate (with significant differences across subsectors) of 3.8 percent (see Table 5.8).

Table 5.8: Agriculture Production, 1982 to 1992

Year	Cocoa	Palm kernel	Rubber	Cotton	Ground nuts	Cassava	Yams	Rice	Maize	Millet	Sor-ghum
1982	156	89	83	127	72	38	103	75	57	65	68
1983	140	89	75	400	62	33	78	51	44	68	60
1984	150	97	97	360	92	77	88	55	88	81	85
1985	110	103	100	380	97	88	91	69	90	90	92
1986	100	100	100	100	100	100	100	100	100	100	100
1987	105	101	85	107	103	92	94	105	90	95	95
1988	253	156	352	647	159	202	175	735	394	125	95
1989	256	268	220	623	182	238	184	1,167	375	116	133
1990	221	342	245	920	161	235	262.	883	432	125	77
1991	180	344	358	997	205	247	307	1,125	435	100	98
1992	167	376	223	1,127	220	263	357	1,086	418	97	95

Note: 1986 = 100.

Source: Central Bank of Nigeria, and Nigerian Institute for Social and Economic Research.

5.53 **Cocoa.** Cocoa production, about 139,000 tons in the pre-SAP period (1982 to 1985) increased by almost 100,000 tons through 1990. This large increase in a relatively short time was attributable to improved care of existing stock, and a reduction in smuggling and unrecorded

exports, rather than to new plantings. After 1989, however, the sector's output fell drastically, with production levels down from 256,000 in 1989 to 167,000 in 1992.

5.54 **Rubber**. During the SAP, production increased significantly from 51,300 tons to above 200,000 tons in 1991. Although production declined in 1992, it remained more than twice the 1986 level.

5.55 **Food Crop Production**. Cassava production showed the largest increase, from an average of 923,000 tons in the pre-SAP period to 2,139,000 tons in 1986-89, reaching a level in 1992 that was 160 percent higher than that of 1986. Maize production grew from an average of 902,000 tons in the pre-SAP period to 1,311,500 tons in the years immediately after the SAP was introduced. It reached even higher levels in 1991-92, with production more than 300 percent the 1986 level.

5.56 **Impact of SAP**. Prior to the SAP, domestic food production had grown at only 1 percent per year. In 1984, Nigeria imported some US$2 billion worth of food. Under the SAP, Nigeria improved its food self-sufficiency. By 1992, Nigerians were importing only a fifth as much food as they had in 1986. The SAP helped resuscitate Nigerian agriculture because:

- The SAP altered farmers' incentives. As a direct effect of the real exchange-rate depreciation of 1986-87, international competitiveness of Nigeria's tradable cash crops was strengthened. Indirectly, devaluation discouraged production in less-competitive manufacturing subsectors, thereby releasing resources that then became available to agriculture.

- During the oil boom, many young men left the rural areas for employment in the rapidly expanding and well-paying nonagricultural sectors. As the boom subsided, many returned to farming. Since the mid-1980s, therefore, more labor was available to the agricultural sector (when public expenditure on labor-intensive construction works was cut dramatically.

- After 1986, the agricultural sector benefited from the economy's overall growth and higher reliance on domestic sourcing and inputs.

- In the mid-1980s a sustained drought ended and rainfall improved significantly throughout Western Africa.

- Beginning in 1980, the northern states established state-wide Agricultural Development Projects (ADPs), with a smallholder orientation and a focus on extension, input distribution, and rural infrastructure development. By the mid-1980s, these efforts were beginning to bear fruit, spreading improved agricultural technology, inputs, and rural infrastructure, improving labor productivity and access to markets. In the north, rapidly expanding use of both ancient and modern Fadama irrigation technique made it possible for farmers to water during dry seasons (see Box 5.2).

5.57 In Nigeria, the public sector is responsible for supplying farmers with key inputs—notably fertilizers. The SAP was unable to reduce fertilizer subsidies, which account for half of total recurrent and capital expenditures budgeted by both federal and state governments for agricultural development. These subsidies are provided, furthermore, at the expense of agricultural infrastructure, research, and extension services. In 1992, it was estimated that 80 percent of sales to end-users moved through the parallel market.

Box 5.2: Better To Be a Farmer in Nigeria

Although Ghana is often regarded as having made the most progress of any adjusting country in Sub-Saharan Africa, its performance in the agricultural sector has lagged behind that of others. Whereas Ghana's agricultural sector grew about 2 percent a year in 1987-91, Nigeria's grew about 4 percent a year, with the net real return to farmers increasing fourfold over the same period. Compare the two:

- Almost overnight, as a part of the SAP, Nigeria eliminated its export crop marketing boards. Nigeria's farmers could thus garner a larger share of export prices. In Ghana, the Cocoa Board and the Ghana Cotton Company continued to influence prices during the adjustment era.
- In Nigeria, rural infrastructure is more extensive than it is in Ghana, which is largely a "footpath" economy. Poor rural infrastructure significantly reduces labor productivity and raises production and marketing costs—which translates into reduced profits and fewer production incentives for the farmer.
- Cocoa, Ghana's main crop, has suffered an extended period of depressed world prices. Although cocoa is also a major crop in Nigeria, agricultural production there is more diversified. Terms-of-trade effects on Nigeria's other export crops have been less severe.
- Investment in research and extension services has provided Nigeria's farmers with the technical know-how to switch to improved varieties (especially cassava), utilize small-scale irrigation and manage soil fertility.
- Although Ghana implemented its overall adjustment policies earlier than Nigeria, Ghana's agricultural reforms did not get under way until the late 1980s. Nigeria proceeded with agricultural reform in 1986 at the outset of the SAP.

5.58 To some degree Nigeria's progress in implementing its 1986 trade reforms was offset by its expansion of export and import prohibitions. Prohibitions were reinstituted for some primary and processed agricultural products (including timber and wood, maize, rice, cassava, yam, beans, raw hides and skins, and unprocessed palm kernels). Export bans led to excess supplies and then to reduced farmgate prices, farmer incomes, and production incentives.

5.59 Some import restrictions were repealed in 1986-88. But import bans remained or were soon imposed on a variety of commodities, most important among them virtually all grains. In 1989, new import bans were introduced (to cover meat, poultry, fish, vegetable juices and oils, beer, and other products). Tariff rates also increased on a number of goods. Meanwhile, the import bans on the livestock feed and poultry industries led to a severe contraction in production and a dramatic increase in smuggling from abroad.

D. Services

5.60 Before the SAP, Nigeria's service sector had shown little growth, although its share of GDP expanded from 25 percent in 1980 to 28 percent in 1986 because GDP itself was falling. Within the service sector, most activities (except for government services, which showed moderate growth) declined.

5.61 In the year following the introduction of the SAP, growth in the service sector rebounded. In 1986-92, the growth rate for total services was about 6.3 percent per year, somewhat higher than the rate of GDP growth (see Table 5.9). The share of the service sector in the GDP, therefore, rose to 31 percent in 1992, once again, with government services in the lead. Excluding government services, service sector growth was comparable to that of GDP.

Table 5.9: Service Sector Growth

	Annual rates of growth	
	1980-86	1986-92
	(Percentage)	
Total services	0.2	6.3
Government services	4.7	10.1
Non-government	-0.4	5.4
GDP	-2.2	5.1

Source: Nigerian Federal Bureau of Statistics, and World Bank staff estimates.

5.62 Within the service sector, the pattern of change was somewhat unexpected. Apart from finance and government services, which grew rapidly, there was little growth elsewhere. Transport and commerce, in particular, which normally expand in tandem with the overall economy, were sluggish in Nigeria. (In Ghana's service sector the pattern of post-adjustment changes was very different.) (See Table 5.10.)

Table 5.10: Service Sector Performance in Ghana and Nigeria

Service	Annual rates of growth	
	Nigeria 1986-92	Ghana 1984-90
	(Percentage)	
Transport	1.9	9.2
Wholesale & retail	-0.0	11.3
Finance	23.3	5.6
Government	9.9	4.4
Others	2.3	13.4
Total services	6.3	7.6

Source: Nigerian Federal Bureau of Statistics, and Ghana Statistical Services.

5.63 The opposite held true with finance and government services, which were relatively sluggish in Ghana but robust in Nigeria. At the same time, Ghana's transport and commerce were strong while Nigeria's were anemic. Overall service-sector growth, however, in the two countries was similar, reaching 6.3 percent in Nigeria and 7.6 percent in Ghana.

5.64 Dramatic growth in Nigeria's financial sector reflects, in part, the SAP liberalization measures, which raised profitability (Chapter IV). Legalization of the foreign exchange bureaus, liberalized bank licensing policies, and incentives for accessing the foreign exchange market also contributed to the growth of the sector. The expansion of government services was the result of ongoing fiscal decentralization, which involved the establishment of local jurisdictions across the country. For this reason, the number of states rose from 21 in the early 1980s to 30 in 1992,

while local governments expanded in number from 301 to 589, with a corresponding increase in staffing.

5.65 By contrast, the limited growth of the transport and wholesales sectors stemmed from relatively modest change in Nigeria's trade policies. Import bans on major commodities continued and tariffs were frequently increased. In the telecommunications subsector, restrictive regulations and NITEL's monopoly status precluded new entries and growth of services, despite considerable pent-up demand. Political interference and inadequate management further reduced NITEL's capacity to provide reliable services and expand capacity.

VI. THE MACROECONOMIC RESPONSE

6.1 The SAP reversed the pronounced economic decline experienced during the first half of the 1980s. Between 1980 and 1986, per capita GDP fell by 30 percent; between 1986 and 1992, it grew by 17 percent. Per capita consumption—which in 1987 was only half of its 1981 peak—expanded by more than 15 percent between 1987 and 1992, and per capita investment grew by more than 35 percent. Also during the SAP era, Nigeria generated higher growth with smaller investments, suggesting improved efficiency, a better incentive regime, and the correction of the market distortions that had characterized the high oil-price era. Finally, during the SAP era, Nigeria's savings were consistently greater than its investment, as reflected in the continuous trade surplus between 1987 and 1992, despite the fact that investment expansion was constrained by large debt-service payments (see Box 6.1).

Box 6.1: SAP Impact—Robust Conclusions Despite Data Problems

Data limitations notwithstanding,[1] the main features of the evolution of output and expenditures in the SAP era clearly stand out. As in the case of sectoral production, they are in sharp contrast to the first part of the 1980s. Total expenditures, which had fallen on average by 5.5 percent between 1980 and 1986, grew by 3.7 percent per annum between 1986 and 1992. Private consumption moved from a decline of 3.7 percent per annum to an increase of 4 percent. Total investment, which had declined by about 12 percent per year in the first six years of the decade, resumed growth at a rate slightly above 1 percent on average.

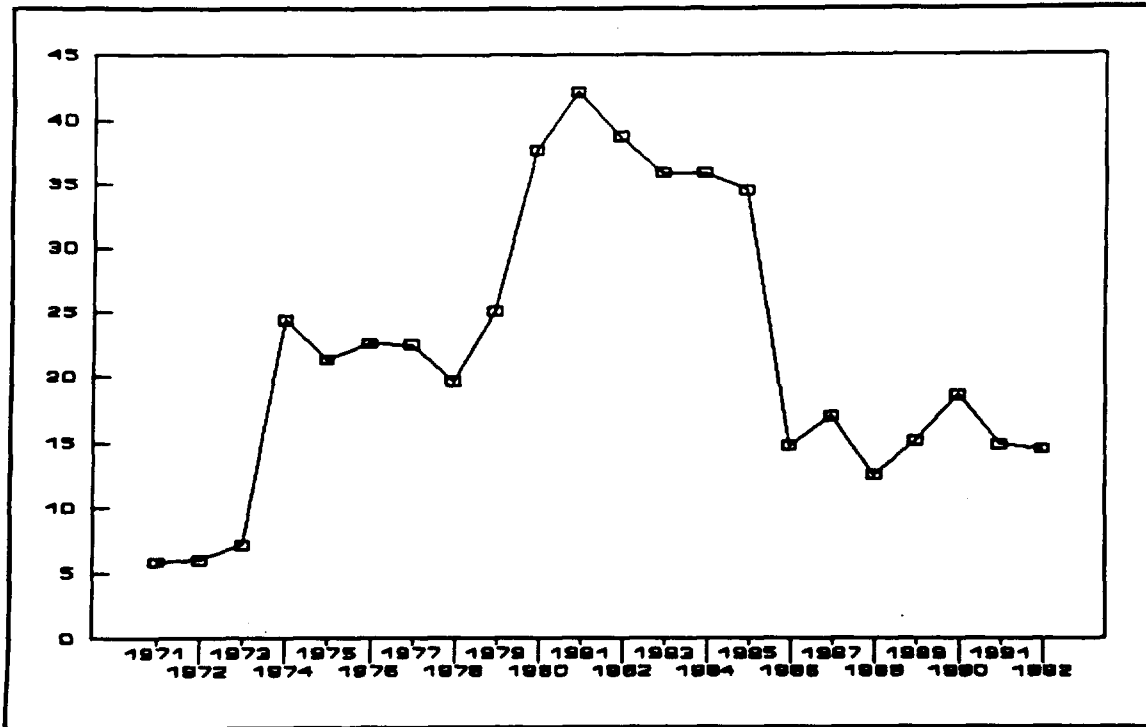
	Annual rates of growth			
	1980-86		1987-92	
	Total	Per annum	Total	Per annum
	(Percentage increases)			
GDP at market prices	-12.6	-2.2	34.9	5.1
Gross domestic income	-48.1	-10.4	35.4	5.2
Expenditures	-28.9	-5.5	24.0	3.7
Consumption	-17.8	-3.2	27.6	4.1
Investment	-55.2	-12.5	8.8	1.4
Per capita GDP	-27.4	-5.2	13.5	2.1
Per capita income	-56.9	-13.1	13.9	2.2
Per capita consumption	-31.8	-6.2	7.3	1.2

[1] There are acute data problems in the Nigerian National Accounts statistics, and in particular in the expenditures accounts. An analysis of major exogenous shocks or policy reforms must proceed with virtually no data on the details of their impact at even a mildly disaggregate level. For example, fiscal behavior at the sub-federal level is almost unknown; there is no information on the breakdown of investment between public and private sectors, by type of asset, or by sector of destination; and data on private consumption by categories of goods, or by socioeconomic groups (such as rural and urban groups), do not exist on a systematic basis in a National Accounts framework.

A. Oil Market Context

6.2 In 1973, real world oil prices[5] increased by 20 percent, and in 1974 they more than quadrupled the 1971-72 level (see Figure 6.1). They climbed further during the late 1970s and peaked in 1981; they were thus 600 percent higher than in 1971-72. (In nominal terms, the price of a barrel of crude oil or OPEC basket, increased from US$1.7 in 1971 to US$34.3 in 1981.) Although prices declined somewhat from 1982 to 1985, they remained historically high. Then in 1986, world oil prices dropped to US$13.6 per barrel—half of the 1985 price and one third of the 1981 peak.

Figure 6.1: Crude Oil Price, 1971 to 1992



6.3 This marked the end of the high oil-price era. Since 1986, oil prices—and Nigeria's terms of trade—have remained depressed (with the exception of 1990, when the Middle East crisis led to a temporary increase in real world oil prices of more than 25 percent). By 1992, world oil and Nigeria's terms of trade were once again at 1986 levels, the same as when the SAP was introduced.

B. Income and Production

6.4 Paralleling the collapse of oil prices between 1980 and 1986, Nigeria's gross national income fell by almost half in real terms over the same period. The largest fraction of this fall (85 percent) can be attributed to the worsening of Nigeria's terms of trade, and the remainder to the decline in oil production. Over the same period, non-oil GDP fell about 20 percent in per capita terms. Total GDP (the sum of oil and non-oil production) fell by almost 13 percent, and per capita income dropped by a dramatic 60 percent (see Figure 6.2).

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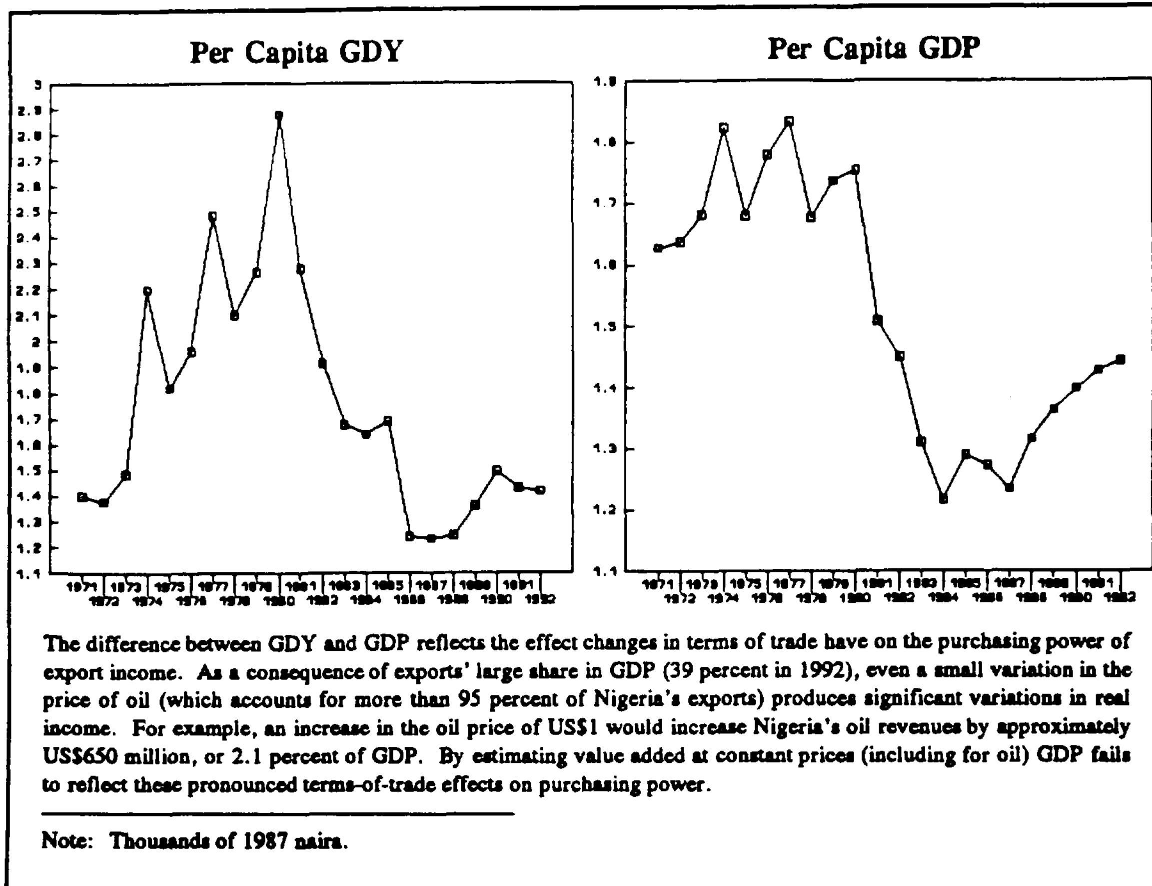
5 The real oil price is defined as the price of crude oil (OPEC basket, US$/bbl) deflated by an index of international inflation as given by the MUV with 1987=100.

Figure 6.2: Per Capita Income (GDY) and Per Capita GDP, 1971 to 1992



The difference between GDY and GDP reflects the effect changes in terms of trade have on the purchasing power of export income. As a consequence of exports' large share in GDP (39 percent in 1992), even a small variation in the price of oil (which accounts for more than 95 percent of Nigeria's exports) produces significant variations in real income. For example, an increase in the oil price of US$1 would increase Nigeria's oil revenues by approximately US$650 million, or 2.1 percent of GDP. By estimating value added at constant prices (including for oil) GDP fails to reflect these pronounced terms-of-trade effects on purchasing power.

Note: Thousands of 1987 naira.

6.5 In contrast, from 1986 (when the SAP was introduced) to 1992, real income and GDP grew by 35 percent (and in per capita terms, by 14 percent). For the first time since the early 1970s and despite wide fluctuations in crude oil prices—including a 30-percent price hike in 1990—terms-of-trade gains contributed nothing to the increase in income. Fully 70 percent of the income growth derived from non-oil production, and—despite large cutbacks in imports—non-oil GDP grew by 34 percent, or an average of 5 percent a year. Meanwhile, the analytic evidence suggests that the economy would have continued to deteriorate were it not for the SAP (see Box 6.2).

6.6 Despite the favorable evolution of real income since the mid-1980s, however, real per capita income in Nigeria has hardly improved at all since the first oil boom 20 years ago. Measured by real per-capita GDP, in fact, the economy is in worse condition now, after two decades of producing oil. In 1992, real per-capita GDP was 10 percent lower than in 1971.

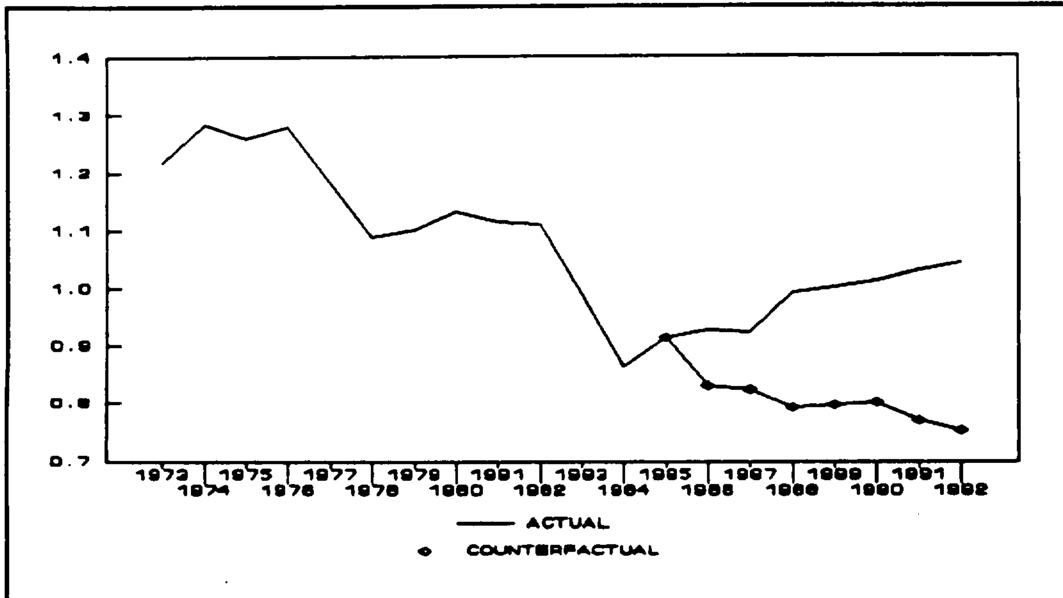
C. Expenditures

6.7 Since the early 1970s, total expenditures have closely tracked the path of real income, with oil generating an extraordinary rise through 1981 and an equally dramatic contraction in the 1980s. From 1971 to 1980, absorption per capita, the sum of consumption and investment expenditures, had risen by almost 50 percent. From 1980 to 1986, it fell by 40 percent, more than wiping out the gains of the entire previous decade.

Box 6.2: What Would Have Happened without the SAP?

Many Nigerians believe that the SAP is responsible for the country's collapse of living standards in the late 1980s, failing to take into account the fall in price and production of crude oil and the inadequate government policy response.

In 1986, Nigeria did take the necessary step of devaluing its currency and letting it float, and the economy recovered. But what would have happened if it had maintained its old exchange-rate, import-licensing, and foreign exchange policies? Although hypothetical, regression estimates of the historical relationship between the performance of the economy and the major policy variables suggest the following scenario.

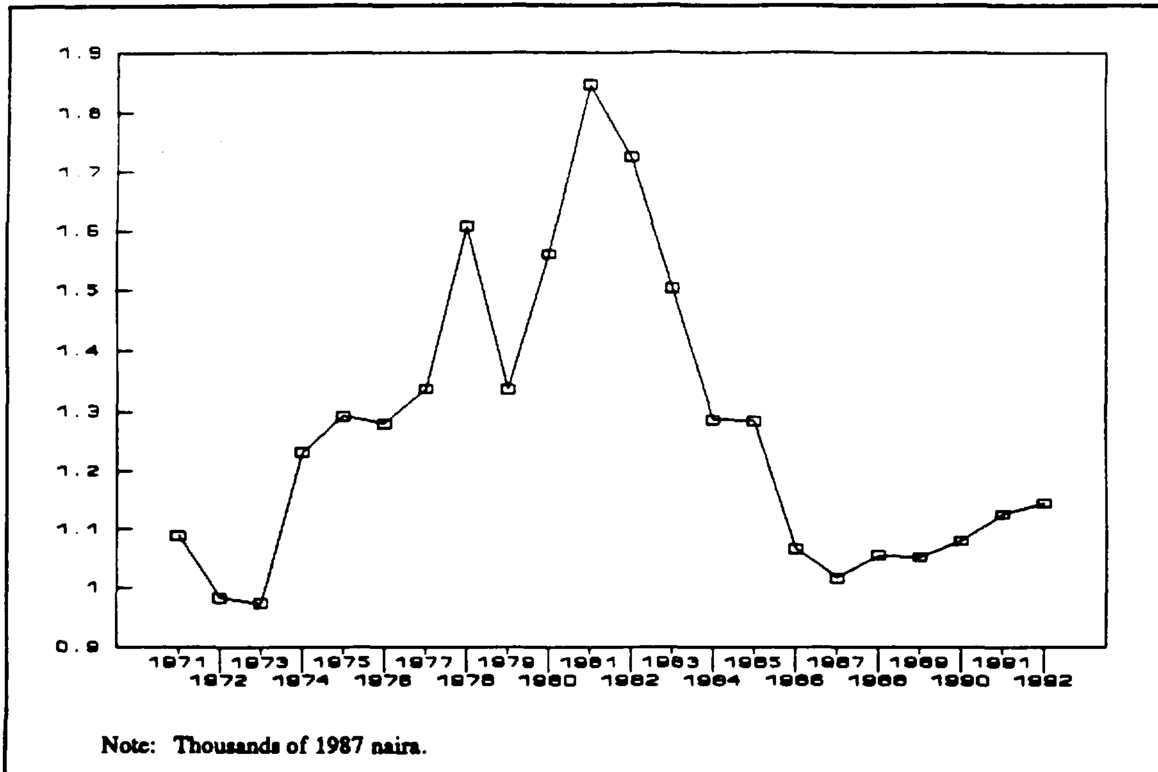


Without the SAP, no recovery would have taken place in 1986-92. Without adjustment of the real exchange rate, the non-oil economy would have continued on its downward path, falling by 2.7 percent a year rather than the 1.9 percent per capita rise that actually took place.

6.8 Though income started to fall in 1981, expenditures at first did not adjust. By 1983, while income per capita had already fallen by more than 40 percent, expenditures per capita had declined by 16 percent only. As a consequence, Nigeria's total external debt had more than doubled to $18.5 billion from its 1980 level of $8.9 billion. From 1983 to 1985, while income stabilized, expenditures continued to fall, as the Federal Government slashed consumption and investment expenditures.

6.9 But the contraction did not end in 1986, when the sharpest annual fall in total consumption (more than 18 percent according to official statistics) took place. This drop in consumption was a direct consequence of the sharp contraction in income, which in turn reflected Nigeria's deteriorating terms of trade. Because these phenomena occurred at the same time that SAP policies were instituted, the country's reduction in standard of living came to be attributed to structural adjustment by many Nigerians (see Figure 6.3).

Figure 6.3: Per Capita Consumption, 1971 to 1992



Note: Thousands of 1987 naira.

6.10 In fact, the 1986 fall in private consumption was primarily a result of the second oil shock. With oil prices at half their 1985 level, and exports revenues down 48 percent, real imports were cut by 28 percent. As Nigeria's access to external borrowing had been severely curtailed, a contraction in expenditures was an inevitable consequence of the huge income fall. Private consumption took the largest part of the adjustment, with per capita private consumption falling by 21 percent.

6.11 Yet despite the large loss of dollar-denominated export revenues, the Government devalued the naira in September 1986 and its naira-denominated income increased by 25 percent. In real terms, government consumption grew by over 12 percent. Thus, by spending rather than saving the naira windfall, the Government compounded the impact of falling income on Nigerian standards of living by partially crowding out private consumption and investment expenditures.

6.12 In 1987, crude oil prices recovered somewhat, yet Nigeria's real oil exports fell as OPEC market discipline tightened. The naira devaluations of 1986 and 1987 induced a 30 percent real contraction of imports, despite the removal of import licensing, high tariffs, and quantitative restrictions. Real domestic production, on the other hand, remained unchanged—clear evidence that Nigeria is not totally dependent on imports for economic growth. In total, the supply of goods—domestically produced and imported—decreased by about 8 percent. Total expenditures also decreased, with investment falling by 30 percent and consumption by only 2 percent. The Government, moreover, reduced its real spending on consumption and investment goods, allowing private consumption to increase slightly.

6.13 The sharp fall in investment in the initial phase of the SAP may be attributable to the SAP itself. Nigeria's trade and exchange rate regime before the SAP favored investment in the

manufacturing sector (especially of import substitutes) and infrastructure (especially within the public sector). The SAP removed these inefficient subsidies to investment.

6.14 If Nigeria's plummeting expenditures hit bottom in 1987, since then, their recovery has been strong. From 1987 to 1992, total consumption has grown a total of 30 percent (5.4 percent a year on average) and total investment by 55 percent (9.1 percent a year). Such a high growth was achieved despite the massive transfers abroad required to service Nigeria's external debt (see Chapter VII). It is likely, furthermore, that this is an underestimate, because much of Nigeria's productive growth took place in rural areas, and rural subsistence consumption is difficult to estimate.[6]

D. Savings and Investment

6.15 High oil-prices in the 1970s generated massive savings and created investment booms. But when oil prices collapsed in the 1980s, both savings and investment collapsed. In 1981-83, the economy was unable to finance the diminishing investment, which called for foreign savings in the form of current account (and budget) deficits. In the early 1990s, although Nigeria barely reached the investment rates achieved in the first half of the 1970s, this was largely compensated for by gains in the overall efficiency of investment.

6.16 Between 1987 and 1992, Nigerians' real per capita investment expanded by more than 35 percent. With consumption slowing, savings grew an impressive 57 percent. In 1990—in response to the favorable terms of trade brought about by the Gulf crisis—gross per capita savings increased by almost 140 percent. Since then, savings have declined, although in 1992 they were still larger than investment. The period since 1986, then, has been characterized by a strong savings effort, which was in turn reflected in continuous trade balance surpluses. Further investment expansion may have been constrained by Nigeria's need to service its external obligations. For while the balance of trade has been consistently in surplus since 1987, the current-account balance of payments was in deficit in every year except for 1990. (See Chapter VII.)

6.17 During the SAP era, the quality of investment in Nigeria improved (see Box 6.3). Using three-year moving averages, it is possible to see that Nigeria's GDP growth decelerated steadily from 1973 to 1983, until—in the early 1980s—it turned negative. Aggregate investment, on the other hand, increased dramatically in the 1970s, to peak in 1977-78 at more than 50 percent of GDP. For the next decade, the ratio between the two fell continuously. In 1989, it was 14 percent of GDP. After the mid-1980s, when SAP policies began to take effect, positive growth resumed. By the early 1990s, Nigeria had sustained GDP growth above 5 percent and an investment/GDP ratio of more than 15 percent.

6.18 Two indicators of the capital stock in Nigeria not only illustrate the massive investment expansion that characterized the oil boom, but they also show how Nigeria managed to resume economic growth with significantly lower capital stock in the second half of the 1980s. Between 1981 and 1991, Nigeria's capital stock fell almost 45 percent, from ₦4.8 thousand to ₦2.7 thousand per capita. Meanwhile, between 1982 and 1991, the ratio of capital stock to GDP contracted from 3.2 to 1.9, consistent with the drastic incentive regime changes brought about by the SAP. These figures only dimly reflect the efficiency of investment, yet they clearly show

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6 In addition, because the SAP generated massive relative price changes, it is likely that Nigeria's official National Accounts statistics which are based on 1984 prices underestimate real output and expenditures for the entire post-SAP period.

how Nigeria funnelled domestic and foreign savings into wasteful investments throughout the oil-rich years, missing the opportunity to build up a solid foundation for leaner years to come.

Box 6.3: Investment Quality

Compared with the high oil-price period, the quality of investment in Nigeria appears to have improved during the SAP era. One indicator of these trends is a comparison between the investment-GDP ratio and the rate of GDP growth. Given that the actual investment-GDP share and the growth rates have fluctuated sharply year to year, the numbers presented in Figure 1 are based on trends—three-year moving averages—rather than on actual figures for GDP and investment. These estimates show that as Nigeria began to enjoy the effects of improved terms of trade in 1973, GDP growth decelerated and kept falling steadily through 1983. While in 1974 GDP was growing at rates above 6 percent, in the early 1980s GDP growth turned negative. Aggregate investment increased dramatically in the 1970s, peaking around 1977-78 at more than 50 percent. After that, this ratio fell continuously through 1989, when it was 14 percent, until positive GDP growth resumed after the mid-1980s. In the early 1990s, the investment/GDP ratio increased to more than 15 percent, and GDP growth was sustained at average rates above 5 percent.

Figure 2 presents two indicators of the capital stock in Nigeria[1] to illustrate the massive investment expansion during the oil boom, but also to show that in the second half of the 1980s, the Nigerian economy managed to resume growth, but with a capital stock significantly lower than at the turn of the decade. In per capita terms, the capital stock fell from ₦4.8 thousand to ₦2.7 thousand between 1981 and 1991: a fall of almost 45 percent. Meanwhile, the capital stock/GDP ratio contracted from 3.2 to 1.9 between 1982 and 1991. This behavior was not inconsistent with the drastic changes in the incentive regime brought about by the SAP. Despite the relative weakness of these figures as a means of judging the efficiency of investment, they clearly indicate how the misallocation of domestic and foreign savings into wasteful investment was at the root of the missed opportunities for development in Nigeria.

Figure 1: GDP Growth and Share of Investment/GDP, 1974 to 1992

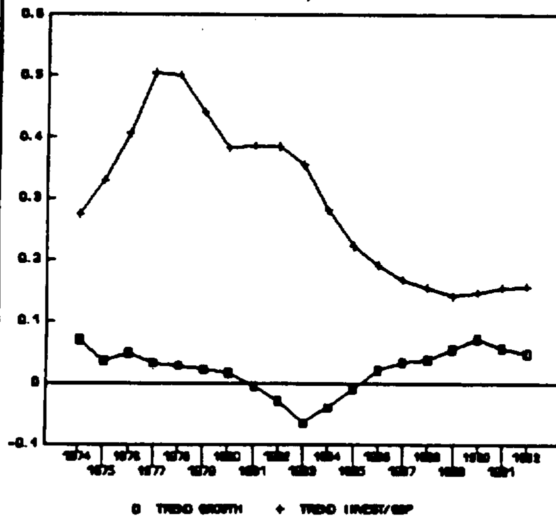
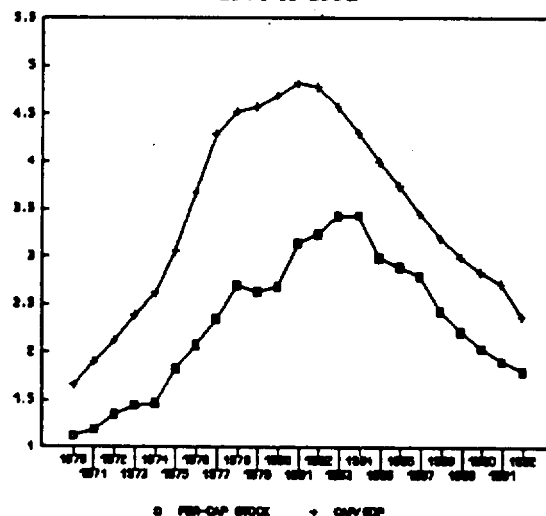


Figure 2: Capital Stock Indicators, 1970 to 1992



[1] These numbers were generated from investment figures since 1950, and assume an annual depreciation rate of 10 percent.

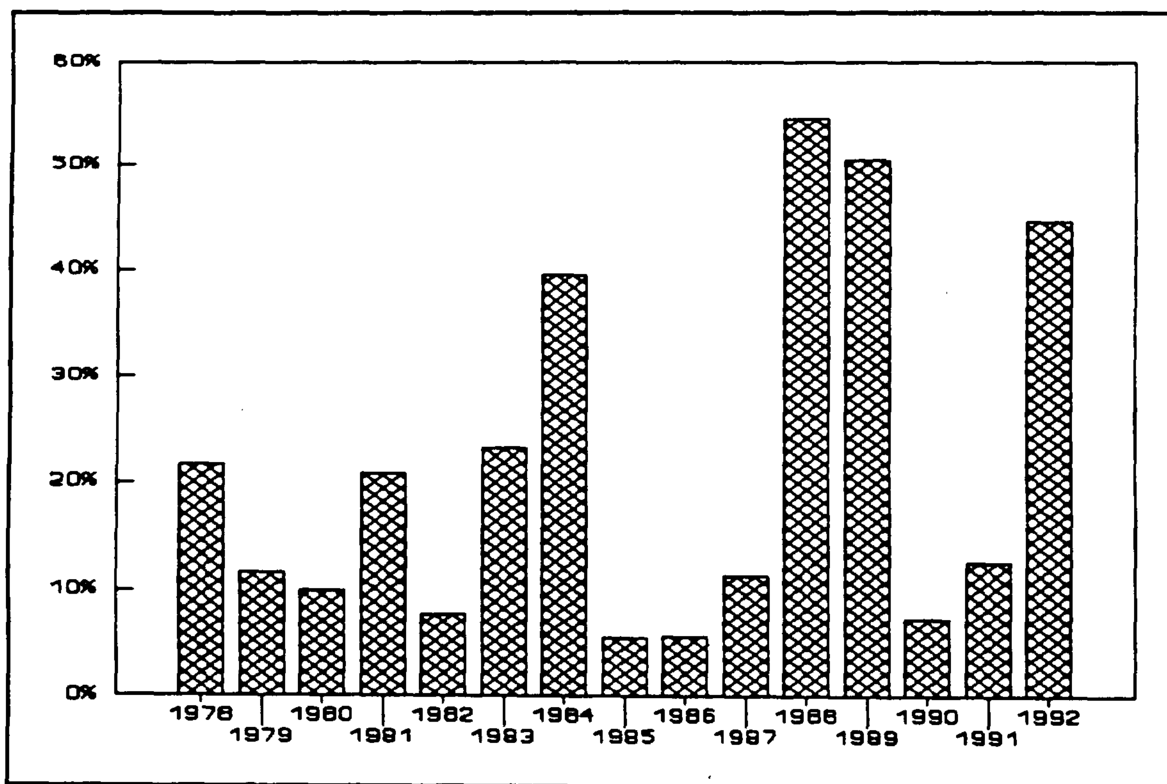
6.19 Empirical work shows that—for Nigeria as well as for other countries—private investment and overall economic growth are closely related, and that private investment is

significantly affected by macroeconomic stability. Macroeconomic stability, therefore, is a necessary condition for sustained growth. To achieve macroeconomic stability, a country must establish a long-term policy strategy that is stable, responsive and seen as sustainable by the private sector. Over the last few years, however, Nigeria's policies have failed to meet all three conditions.

E. Inflation

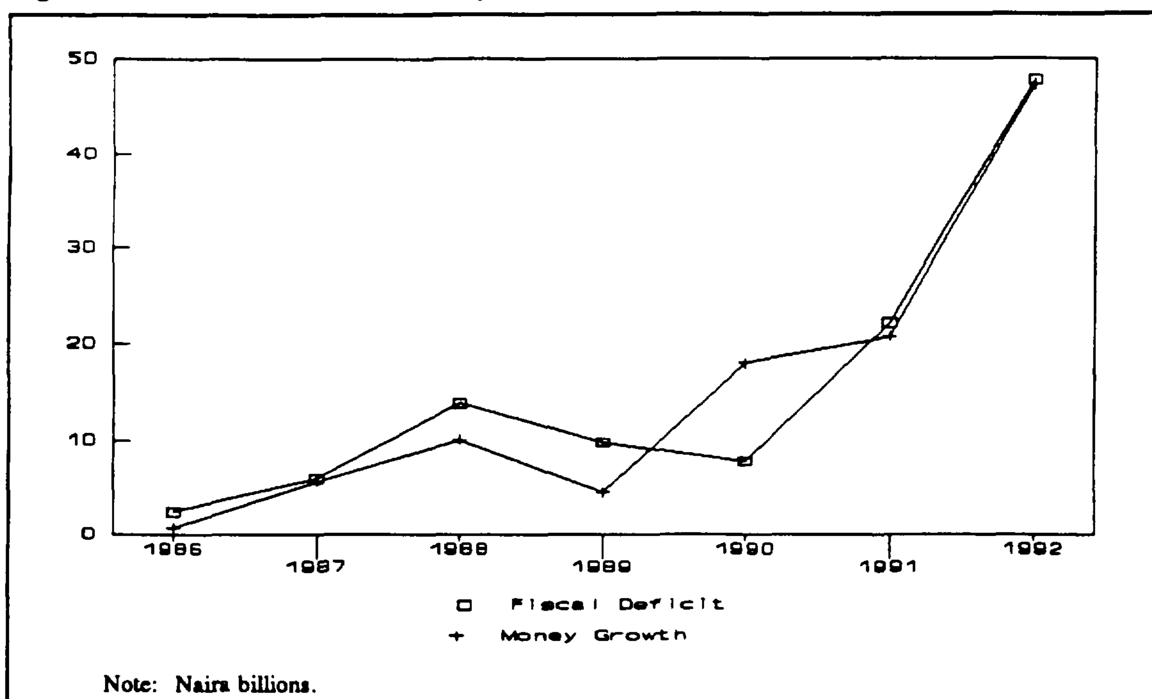
6.20 One of the main characteristics of inflation in Nigeria is its high volatility (see Figure 6.4). Over the past ten years, Nigeria has experienced three episodes of high inflation. In the first two cases, inflation rates above 40 percent per year were followed by sharp drops to 10 percent per year, or less. The fundamental factor behind both the level and the variability of inflation has been monetary growth. In Nigeria, bursts of monetary growth (in excess of real economic growth) have accompanied every major episode of rapid inflation. Conversely, with monetary contraction, inflation dropped.

Figure 6.4: Inflation: Percentage Rates of Change of CPI, 1978 to 1992



6.21 In the short term, many factors in addition to money growth influence inflation both directly and indirectly: the impact of weather on agricultural output and prices and other sectoral supply shocks, currency devaluations, wage concessions to trade unions, major policy announcements, terms of trade changes, etc. But in the long run, it is excess money growth that is responsible for locking the impact of these short term factors into permanent price increases. And in Nigeria, money supply growth has been in general driven by fiscal expansion (see Figure 6.5 and Chapter III).

Figure 6.5: Fiscal Deficit and Money Creation, 1986 to 1992



Note: Naira billions.

6.22 **Episodes of Rapid Inflation.** In mid-1984, inflation rate reached almost 50 percent, but dropped virtually to zero in mid-1985. This episode was associated in part with the 1984 drought, which had been ravaging Western Africa since the 1970s and which devastated Nigeria's agricultural production. Inflation was also spurred by the widespread anticipation that the official exchange rate would be devalued. Over the course of 1983, the spread between the parallel and the official exchange rates had more than tripled. From early 1983 to end 1984, excess money growth had reached 43 percent. Over the same period, credit to the government increased by over 70 percent.

6.23 Nigeria's second big inflationary episode began in the fourth quarter of 1987 and accelerated through the third quarter of 1988 to reach more than 70 percent. This episode was related to the fiscal expansion initiated in the 1988 budget. Initially financed by central bank credit, the fiscal expansion was sustained by increasing oil revenues that were not sterilized in 1989. In the middle of 1989, the monetary authorities engineered a drastic monetary contraction.[7] The fiscal pressure eased as oil revenues continued to increase for a while and some degree of sterilization ensured monetary control. As a result, inflation fell steadily, virtually reaching zero by the middle of 1990.

6.24 Today, Nigeria is in the middle of its biggest inflationary outburst of the past ten years. Starting to rise in the last quarter of 1990, the rate of inflation reached 60 percent by the end of 1992. This acceleration, too, was clearly the result of government inability to control the fiscal deficit and its recourse to excessive monetary financing. Despite attempts by the central bank to control private credit and bank liquidity, money supply growth increased dramatically every year since 1990, reaching 70 percent in 1992.

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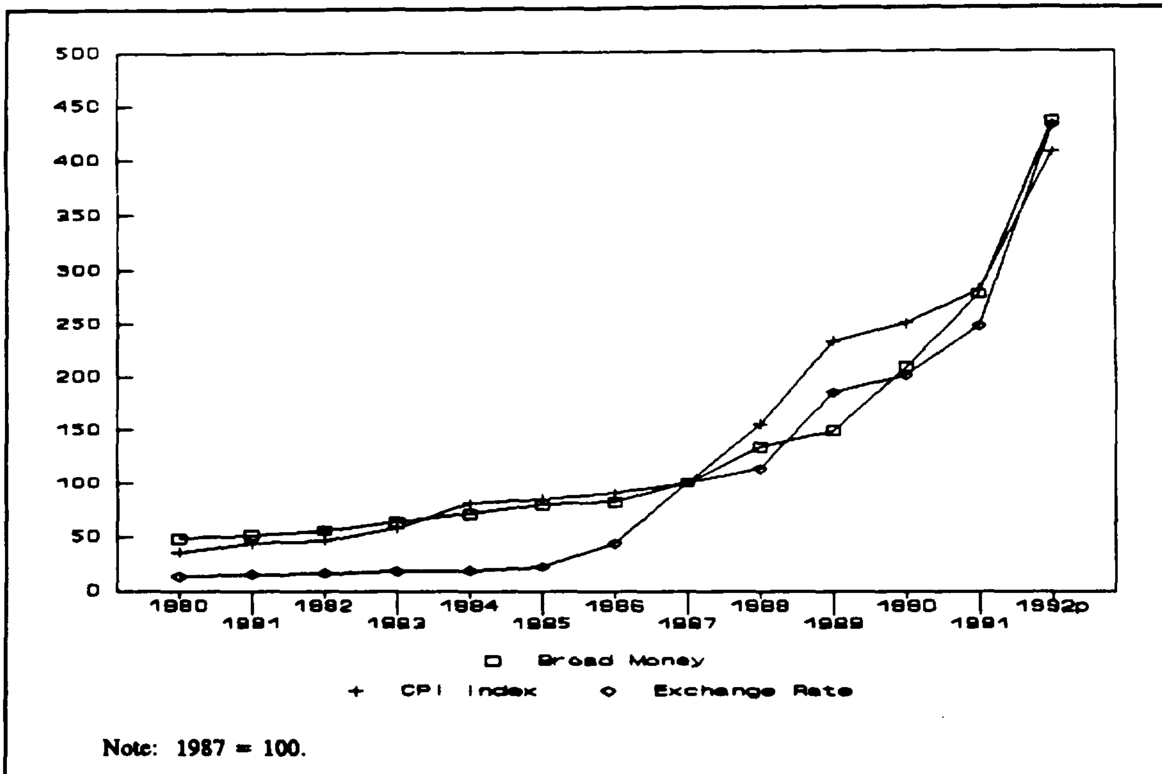
[7] Monetary policies and their outcomes are described in Chapter IV, while fiscal policies are described in Chapter III.

6.25 Nigeria's experience highlights the fundamental relationship over the long-term between the price level, the stock of money, and the exchange rate (see Figure 6.6). Any attempt by the government to control inflation and the exchange rate must deal with excessive money growth and its main source, the monetary financing of the fiscal deficit.

Figure 6.6: Inflation, Money Supply, and Exchange Rate, 1980 to 1992



Note: 1987 = 100.

6.26 Despite several high inflation experiences, however, Nigeria's economy has not been fundamentally inflation prone. Whether falling in one year from 50 to 7 percent or rising in another from 10 to 50 percent, the variations in money and prices have not been associated with significant short-term changes in production. Nigeria has no formal indexation mechanisms. However, in the last three years large fiscal deficits, high rates of money growth, and continued depreciations of the currency have become almost permanent features of the economic environment.

6.27 Though money growth is the common fundamental cause of purely nominal depreciation and domestic price inflation in the long run, their short-term relationship can be difficult to predict. In 1986, for example, when consecutive devaluations and foreign inflation increased prices of imports by 131 percent, domestic inflation was moderate (8 percent in 1986), and the same was true in 1987. But in 1993, when Nigeria's currency was pegged for most of the year at a fixed rate of ₦22 per dollar, inflation reached 60 percent.

F. Labor Markets

6.28 In general, Nigeria's flexible labor markets tend to facilitate movements between rural and urban areas in response to changes in market conditions. During the oil boom years, when the production of nontradables was favored, workers had moved from rural areas to urban areas to take up public sector employment and to join construction crews. With the introduction of the

SAP, relative prices shifted in favor of the agricultural sector in general and agricultural exports in particular. As nontradable activities in the urban areas, like construction, slowed down, workers returned to rural areas and the agricultural sector.

1. Employment

6.29 During the 1970s, employment opportunities increased rapidly in urban areas, where the Government was undertaking large investments in manufacturing activities as well as infrastructure development. Construction activities also expanded very rapidly during this period with the building of roads and highways. At the same time, cheap food imports reduced the demand for domestically-produced root crops and grains, while the appreciation of the naira made tree crop cultivation unprofitable. The net result was a steady stream of labor migration from rural to urban areas. The subsequent decline in economic activity through the mid-1980s made it difficult to continue to absorb the fast-increasing labor force. It led to a sharp increase in urban unemployment—from 7 percent at the end of 1983 to 10 percent in 1986. Secondary school leavers and university graduates faced very sharp increases in unemployment—to over 45 percent—while the unemployment rate for those with less than a secondary education peaked at about 6 percent.

6.30 After the introduction of the SAP, the demand for labor in the non-oil tradable sector expanded, especially in agriculture. This was a response to the depreciation of the exchange rate and the elimination of the commodity boards, which made export crops such as cocoa and rubber very attractive. Food imports meanwhile became more expensive, opening the way for a revival of demand for cassava and yam. As wages in rural areas rose in response to the emerging labor shortage, the labor market responded with a rapid inflow of workers (primarily unskilled) back to rural areas. Meanwhile, there were worker layoffs in parts of the industrial sector which were heavily dependent upon imports and for which import licenses had previously been available. This was broadly and increasingly offset, however, by expansion of firms producing goods that competed with imports or that used local inputs in production.

6.31 Unemployment rates began to come down during the SAP, starting in 1988. (See Table 6.1.) The rural unemployment rate declined from an average of 5 percent in 1986 and 1987 to 4.3 percent in 1988 and down again to an average of just over 3 percent for 1989-92. The improved rural employment situation is attributable to several factors, including the favorable response of the private sector to the new incentive regime in cocoa, cotton, rubber, and other export crops. Survey evidence suggests that the majority of returning migrants went back to their own farms; almost 20 percent were absorbed in the agricultural wage-labor market. Urban unemployment declined from an average of just under 10 percent for 1986-87 to 8 percent in 1988-89 and then dropped more solidly to around 5 percent for 1990-92. The overall trend can be explained by the SAP-induced expansion of firms producing export goods or goods that competed with imports or that used local inputs in production, and by a return of discouraged workers to their villages.

6.32 Although secondary school graduates had the highest unemployment rates over the entire period, according to the official statistics, this group also experienced the largest urban gains under the SAP. Their representation in the pool of unemployed dropped by an impressive 10 percentage points between 1986-89 and 1991/92. This trend matches the overall urban trend and may therefore be due to the increased demand for educated labour by the urban industrial sector. This seems well correlated with the increased unemployment rate for those who had received no schooling at all. Skilled post-secondary school workers fared best of all in terms of an overall low unemployment rate, although they suffered increasing losses through 1989 until the urban

Table 6.1: Structure of Unemployment, 1986 to 1992

	1986	1987	1988	1989	1990	1991	1992
				(Percentage)			
A. Unemployment rates[a]							
National	5.8	6.2	4.8	4.3	3.4	3.6	3.5
Urban	9.8	9.8	8.1	8.4	5.7	5.2	4.8
Rural	4.8	5.2	4.3	3.4	2.9	3.2	3.0
B. Distribution of urban employment by education[b]							
None	13.2	11.7	13.9	11.0	NA	20.7	19.0
Primary	15.8	8.1	15.4	16.5	NA	19.3	12.5
Secondary	67.4	74.1	64.4	65.4	NA	53.4	62.8
Post-secondary	3.6	6.1	6.3	7.3	NA	6.8	5.8
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0

[a] Annual averages of quarterly data.
[b] Annual averages, some quarterly data missing or interpolated.

Source: Federal Office of Statistics (FOS) Labour Force Survey.

situation began to improve in 1990.

2. Wages

6.33 Household income data[8] suggest that the decline in real wages had begun well before the SAP. (See Table 6.2 and Box 6.4 below.) The index of real household income for urban wage earners declined by over 50 percent between 1980 and 1986. The group with the lowest real income in the early 1980s, the rural self-employed, experienced the smallest reduction in income, declining by about 25 percent between 1980 and 1986. The wage differential in favor of urban workers that had opened up during the oil boom apparently eroded before the introduction of the SAP. Rural income increased from 63 percent of urban income in 1981 to just above parity by 1986. Much of this was due to urban consumer prices rising faster than rural prices.

Table 6.2: Index of Real Household Incomes of Key Groups, 1980/81 to 1986/87

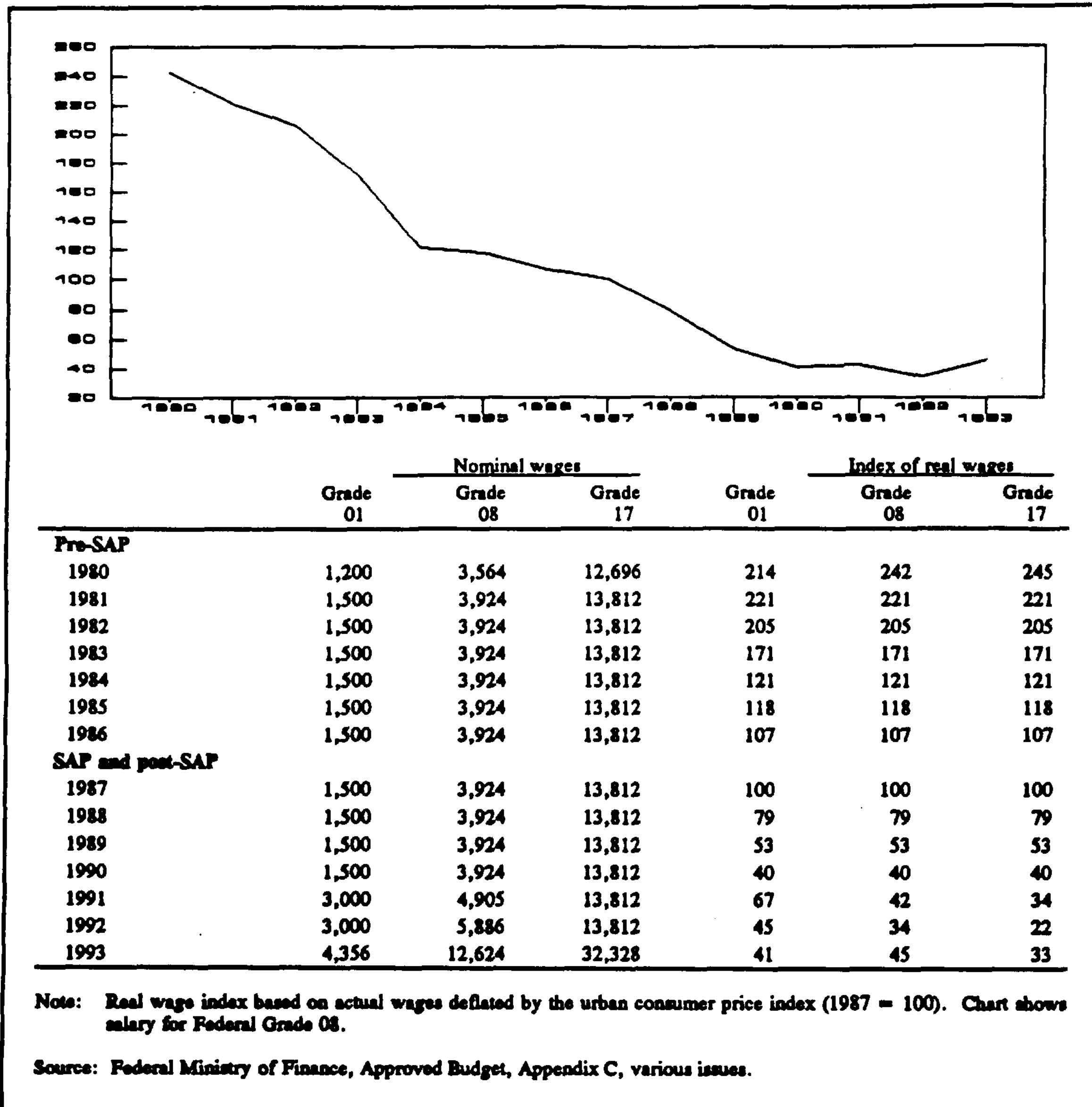
	1980/81	1981/82	1982/83	1983/84	1984/85	1985/86	1986/87
Rural self-employed	100	103	95	86	73	74	65
Rural wage earners	178	160	147	135	92	95	84
All rural households	105	107	99	89	74	84	74
Urban self-employed	150	124	106	94	69	69	61
Urban wage earners	203	177	164	140	101	101	90
All urban households	166	142	129	109	80	80	71
Rural as percent of urban	63	75	77	82	93	105	104

Note: Rural Self-Employed in 1980/81 = 100.

Source: National Integrated Survey of Households (NISH), Federal Office of Statistics (FOS) consumer price data, and Bank staff estimates.

[8] Based on the National Integrated Survey of Households.

Box 6.4: Real Federal Wages, 1980 to 1993



	Nominal wages			Index of real wages		
	Grade 01	Grade 08	Grade 17	Grade 01	Grade 08	Grade 17
Pre-SAP						
1980	1,200	3,564	12,696	214	242	245
1981	1,500	3,924	13,812	221	221	221
1982	1,500	3,924	13,812	205	205	205
1983	1,500	3,924	13,812	171	171	171
1984	1,500	3,924	13,812	121	121	121
1985	1,500	3,924	13,812	118	118	118
1986	1,500	3,924	13,812	107	107	107
SAP and post-SAP						
1987	1,500	3,924	13,812	100	100	100
1988	1,500	3,924	13,812	79	79	79
1989	1,500	3,924	13,812	53	53	53
1990	1,500	3,924	13,812	40	40	40
1991	3,000	4,905	13,812	67	42	34
1992	3,000	5,886	13,812	45	34	22
1993	4,356	12,624	32,328	41	45	33

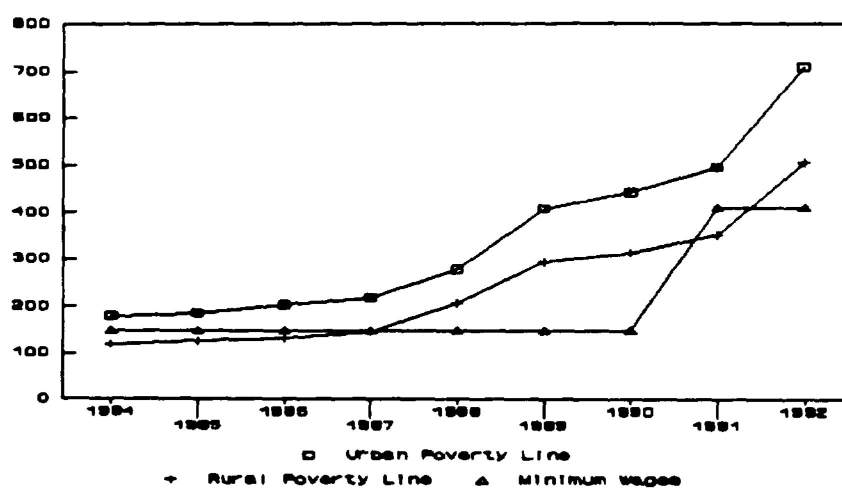
Note: Real wage index based on actual wages deflated by the urban consumer price index (1987 = 100). Chart shows salary for Federal Grade 08.

Source: Federal Ministry of Finance, Approved Budget, Appendix C, various issues.

6.34 The same decline in pre-SAP real wages can also be seen in federal government wages in Box 6.4. Federal salary scales had been frozen since 1981, with further measures taken in 1985 to reduce fringe benefits. There was clearly a substantial erosion of purchasing power of public sector employees. By 1990, the real purchasing power of civil service wages, at all levels, had fallen to only 40 percent of their original value in 1987 at the start of the SAP. Grade 01 civil servants saw the real purchasing power of their wages cut in half between 1980 and 1986. The top grades saw their real wages cut even more, to less than 45 percent of their 1980 levels. The national monthly wage for civil servants in grades 1-9 was doubled in 1991, and during 1992, the Government provided an across-the-board increase in civil service salaries of 45 percent. These improvements brought some relief but were quickly eroded by continued inflation so that, by 1993, real federal wages were still no better than 41 percent of their 1987 value for grade 01, 45 percent for grade 08, and 33 percent for grade 17.

6.35 Private sector wages, including the minimum wage, were frozen beginning in 1984, although fringe benefits were allowed to rise. The annual guidelines stipulating the allowable wage increases (including fringe benefits) that can be negotiated in the public and private sector issued by the Productivity, Prices, and Income Board were relaxed in 1990. The national minimum monthly wage was increased in 1991 from ₦125 to ₦250, and the 1991 guidelines also allowed the private and public sectors to negotiate wage and salary increases over and above the minimum wage "where the need arises, with a view to improving the living standards of the workers concerned." However, those earning the minimum wage fell increasingly below the poverty line—that is, the level of income required to buy the essentials of life. (See Box 6.5.)

Box 6.5: Evolution of Minimum Wages and Poverty, 1984 to 1992



Wages in Nigeria are not indexed to inflation. The national minimum wage was fixed at ₦125 per month until 1990. Transportation and housing benefits added another ₦25 per month to raise the effective minimum wage to ₦150 per month. The minimum wage was increased to ₦250 in 1991; the effective wage, including fringe benefits, increased to ₦410 per month. Accounting for inflation, the poverty line for the rural and urban areas, respectively, moved up to ₦505 and ₦710 in 1992, from ₦120 and ₦180 in 1984. Using data expressed in naira per month, the figure above shows that, while the poverty line continuously moved up, minimum wages remained unchanged until 1990, falling below the poverty line from 1985.

VII. IMPACT ON THE BALANCE OF PAYMENTS AND DEBT

7.1 Nigeria's oil export revenues peaked in 1980 at US$25 billion, with a record volume of 2.36 million barrels per day and a price in excess of US$35 per barrel. Subsequently, with the tightening of OPEC quotas and falling prices, the value of exports declined dramatically. In 1983 Nigeria's oil export revenues totaled only US$10 billion and in 1984 and 1985, only US$12 billion. In 1986, oil export revenues declined still further to US$6.4 billion, with unchanged volume and a per-barrel price of US$14—half the average 1985 price. This was the starting point for the SAP.

7.2 During the SAP era, Nigeria's balance of payments (BOP) continued to be dominated by developments in the oil market, and in its external debt position. From 1986 to 1992, although the services account was in deficit, the trade balance was in surplus every year. The current account was in surplus only in 1990 as a result of the surge in oil prices in the wake of the Gulf crisis. Scheduled interest on external debt amounted to more than US$2 billion every year (see Table 7.1).

Table 7.1: Balance of Payments, 1986 to 1992

	1986	1987	1988	1989	1990	1991	1992
				(US dollars millions)			
Trade Balance	40	1,758	1,292	3,900	6,843	4,234	3,675
Exports Merchandise	6,784	7,532	7,069	9,812	13,914	12,127	12,471
Imports Merchandise	(6,744)	(5,774)	(5,776)	(5,912)	(7,070)	(7,892)	(8,796)
Services	(4,391)	(3,460)	(3,845)	(4,268)	(5,389)	(5,256)	(5,249)
Interest	(2,085)	(2,110)	(2,370)	(2,357)	(2,739)	(2,422)	(2,145)
Private Transfers	(32)	(4)	(26)	(10)	26	27	29
Current Account Balance	(4,383)	(1,706)	(2,579)	(377)	1,481	(995)	(1,545)
Capital Account	(4,024)	(2,586)	(2,320)	(1,166)	(2,073)	(1,298)	(6,150)
Direct Investment	526	613	359	2,443	602	588	576
Medium and Long Term	(2,313)	(3,280)	(3,458)	(2,502)	(3,112)	(2,539)	(5,940)
Other	(2,237)	81	779	(1,108)	438	654	(786)
Overall Balance	(8,407)	(4,292)	(4,899)	(1,544)	(592)	(2,292)	(7,695)
Financing	8,407	4,292	4,899	1,544	592	2,292	7,695
Reserve Movements	851	78	331	(1,272)	(2,508)	(50)	3,370
Change in Arrears	(792)	(3,372)	4,568	(4,915)	834	(956)	1,849
Rescheduling Credits	8,348	7,586	0	7,731	2,266	3,298	2,828
Other	0	0	0	0	0	0	(352)
Stock of Reserves	643	565	234	1,506	4,014	4,064	830

Note: Parentheses denote negative numbers.

Source: Central Bank of Nigeria, and World Bank staff estimates.

7.3 The SAP had a limited impact on Nigeria's external position. There was considerable import substitution, but the non-oil export response was small. In part, this reflected the fact that world prices of the non-oil commodities that Nigeria exports dropped sharply after 1985. The potentially positive impact of incentive policies toward foreign investment was eroded over time by unstable macroeconomic policies.

7.4 Nor were there positive effects on Nigeria's external debt, which at end-1986 exceeded US$23 billion. Because of the dramatic fall in oil prices, the amount that would have been required to service this debt in 1986 was equivalent to about 75 percent of total export receipts. During the SAP era, Nigeria periodically negotiated rescheduling agreements with its main creditor groups; whenever this was not forthcoming, Nigeria accumulated large arrears. Even so, net transfers from Nigeria to its foreign creditors (disbursements of loans less actual payment of interest and repayment of principal) were negative every year of the SAP era, averaging 5 percent of GDP from 1986 to 1992.

A. Current Account: Trade

1. Exports

7.5 Nigeria's total merchandise exports (free on board, FOB) increased from US$6.8 billion in 1986 to US$13.9 billion in 1990 , then, in 1992 decreased to US$12.4 billion (see Table 7.2). This was largely the result of fluctuations in prices and volumes of oil, which account for 90 percent of merchandise exports. Up to 1987, cocoa and rubber, Nigeria's traditional exports, accounted for the bulk of non-oil exports. Since then, however—in part in response to the SAP—exports of manufactured and semimanufactured goods have accounted for some 40 percent of non-oil Nigerian exports.

7.6 **Oil Exports.** Following the collapse in oil revenues—from US$25 billion in 1980 to US$12 billion in 1985 to US$6.4 billion in 1986, there was a modest recovery in 1987 but in 1988 a fall back to the 1986 level. In 1989—as a consequence of an increase in production and a recovery in price of about 24 percent—oil exports increased to US$9.4 billion. The following year, as a result of the Gulf crisis, Nigeria experienced a large windfall. Although oil prices increased significantly only in the second half of 1990, Nigeria's oil export revenues reached US$13.5 billion (a 10 percent increase of volume) at an average yearly price of US$24.2 per barrel. This added up to a US$4 billion in additional export revenues. But although Nigeria was able to sustain small increases in oil production and exports throughout 1991 and 1992, world prices declined from their 1990 peak. In 1991, oil exports totalled US$11.7 billion and in 1992, US$12.0 billion, with the price remaining steady at US$19.6 per barrel.

7.7 **Non-Oil Exports.** During the early 1980s, the export of manufactured goods—then the majority of non-oil exports—came to an almost complete halt. In 1988, non-oil exports rebounded modestly to reach a SAP-era high of US$613 million—far below the 1980 level. Since 1988, Nigeria's non-oil exports have hovered around US$400 and US$500 million.

7.8 Before the oil boom, cocoa and rubber were Nigeria's most prominent agricultural exports. In the early 1980s, however, cocoa exports suffered from the country's pricing policies, overvalued exchange rate, and unfavorable weather conditions. From 1985 to 1990, furthermore, world cocoa prices declined by about 65 percent to only 48 percent of the 1985 level by 1991. Rubber prices also fell sharply in 1986 and 1987 and recovered in 1988, but since then, the trend of world prices has been down. Between 1986 and 1988, the export volumes of cocoa and rubber both rose by over 100 percent, more than compensating for the impact of lower world

Table 7.2: Exports and Imports—Values and Volumes, 1986 to 1992

	1986	1987	1988	1989	1990	1991	1992
OIL EXPORTS							
Value ($billions)	6.4	7.0	6.5	9.4	13.5	11.7	12.0
				(Percentages)			
Volume Change	-0.4	-10.1	5.9	17.8	9.7	3.2	2.0
Price Change	-47.5	21.9	-13.1	24.0	31.0	-16.5	-3.3
NON-OIL EXPORTS							
Value ($billions)	0.4	0.5	0.6	0.4	0.4	0.5	0.5
				(Percentages)			
Volume Change	66.9	41.1	45.9	-44.0	-9.3	15.4	-13.3
Price Change	-34.1	-4.4	-21.9	16.9	11.5	0.9	16.6
IMPORTS							
Value ($billions)	7.5	6.4	6.4	6.5	7.8	8.7	9.7
				(Percentages)			
Volume Change	-27.9	-23.6	-6.4	2.6	9.2	11.6	5.5
Price Change	13.0	12.1	6.9	-0.2	9.5	0.1	5.6
Memorandum Items:							
				(Percentages)			
Growth Rate of GDP	1.7	-0.2	9.8	6.7	5.6	5.1	4.1

Source: Central Bank of Nigeria, and World Bank staff estimates.

prices. But, from 1988 to 1991, the export volume of cocoa fell by 56 percent.

7.9 Following the introduction of the SAP, Nigeria's manufactured and semimanufactured goods exports rose modestly, although at US$200 million in 1991, they still accounted for less than 2 percent of total merchandise exports. Unrecorded exports of manufactured goods could add significantly to non-oil exports, but would still account for only a small fraction of total exports. Overall, the SAP's goal to diversify and increase Nigeria's non-oil exports was only insignificantly met.

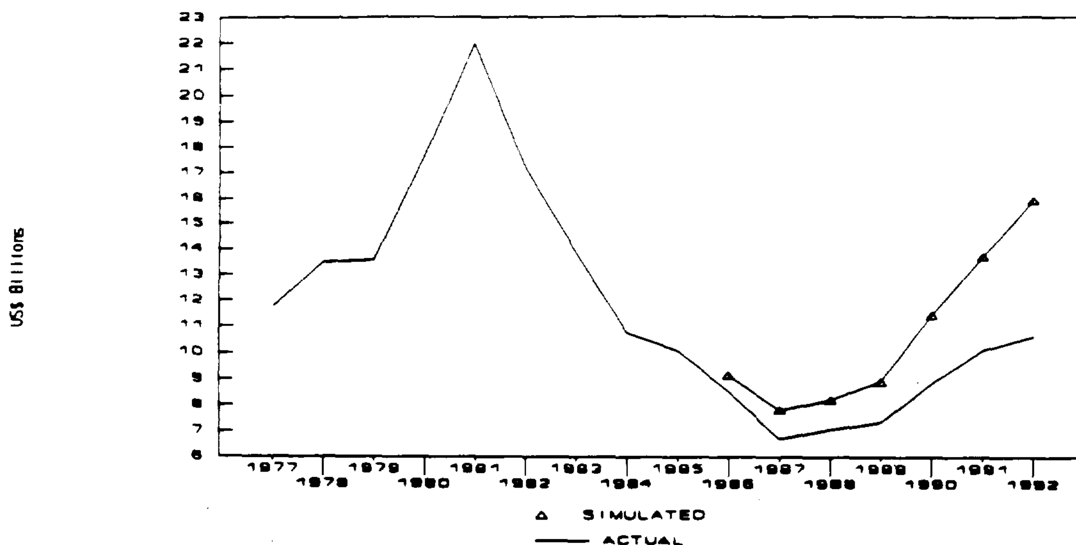
2. Imports

7.10 From 1986 to 1987, total merchandise imports (FOB) fell from US$6.7 billion to US$5.8 billion. Over the next five years, however, they increased, reaching US$8.4 billion in 1992. The 1987 decline reflected a drop in real volumes reflecting import substitution induced by the depreciation of the real exchange rate (see Box 7.1). There was a further real decline in 1988, which was offset by large price increases. In 1989-92, strong real GDP growth drove up import volumes, overcoming periodic real devaluations in the official and parallel exchange rates.

7.11 In 1988-90, oil-related imports rose from 17.2 to 21.3 percent of total imports, almost doubling in value to reach US$1.1 billion. This suggests an increasing level of investment in Nigeria's oil sector.

Box 7.1: The Impact of the SAP on Imports and the Balance of Payments

The SAP, by promoting import substitution, allowed the economy to economize on foreign exchange usage. The figure below shows the result of an empirical analysis of the determinants of imports used to simulate a counterfactual analysis. On this basis, if the real official exchange rate had remained constant at the 1986 average, then real imports, which declined by 30 percent between 1986 and 1988, would have declined by only 16 percent. This would be the equivalent of spending an additional US$1.2 billion more per year on imports in 1987 and 1988. By 1992, total annual imports of goods and non-factor services would have been US$5 billion higher than the actual amount. (See the figure below.) Given that the falling price of oil and the level of available external financing would not have supported these levels of imports, the alternatives to a devaluation of the official exchange rate were a tightening of quantitative restrictions, accumulation of arrears, or contraction of economic activity.



7.12 Although consumer goods have accounted for a larger share of Nigeria's imports in recent years, that increase has not been steady. In 1985, consumer goods accounted for 22 percent of Nigeria's total imports; in 1988 they accounted for 29 percent; and in 1990, their share had declined to 25 percent. Over the same period, imports of raw materials declined from 41 to 37 percent, while imports of capital goods increased slightly, from 35 to 38 percent.

7.13 Nigeria has traditionally imported mostly from Western European countries, whose share of the Nigerian import market increased from 56 to 67 percent in 1986-90. During that period, the United Kingdom was the largest supplier at 22 percent, followed by Germany at 19 percent, and Japan at 10 percent, while US imports rose from 1 percent in 1986 to 12 percent by 1990.

7.14 Most significantly, the United States has now replaced the European Union as Nigeria's major client for oil. In 1986, the European Union accounted for 51 percent of Nigeria's oil exports and the United States for 32 percent. By 1991, their positions had switched, with the United States importing 54 percent of Nigerian oil and the European Union only 23 percent.

B. Current Account: Services and Transfers

7.15 During 1986-92, the services account deficit went from a low of US$3.5 billion in 1987 to a high of US$5.4 billion in 1990, in the main because of changes in nonfactor services imports. The evolution of costs for services in the oil sector and for insurance and freight closely parallels the path of merchandise imports. Interest payments on foreign debt has consistently averaged around US$2.3 billion a year, except for 1990, when it increased because of late payments on arrears. Other investment income is associated with the oil-sector repatriation profits which have little impact on total flows. Finally, with worker remittances in decline, private transfers do not make a significant contribution to the current account.

7.16 As a result of the developments outlined above, Nigeria's current account moved from a deficit of US$4.4 billion in 1986 (equivalent to 65 percent of exports) to a much smaller deficit of US$1.5 billion in 1992 (about 12 percent of exports). It exhibited a surplus only in 1990, following the Gulf Crisis related oil windfall. When evaluated at the official exchange rate, the deficit in 1986 was equal to 10.5 percent of nominal GDP and that of 1992 to 5 percent. (The 80 percent real depreciation of the naira between 1986 and 1992 explains why this percentage has only halved over the period, although the current-account deficit in dollar terms has declined by 66 percent and Nigeria's real GDP has grown by 35 percent.)

C. Capital Account

7.17 Since 1986, Nigeria's capital account has suffered large deficits attributable in the main to the country's high level of scheduled repayments of external debt. In 1986 the deficit reached US$4 billion. It declined to US$1.2 billion in 1989, but increased again to US$2 billion in 1990. Nigeria's record 1992 deficit of US$4.7 billion includes a payment of US$1.7 billion to London Club creditors, which was used to buy back US$3.4 billion of commercial debt. Compared to long-term capital flows, direct foreign investment and net short-term capital flows are relatively small. Although they can affect the capital account significantly, most of the variability in the deficit is attributable to net movements in official borrowing.

7.18 During the SAP era, net capital flows associated with official borrowing were systematically negative. While disbursements averaged US$840 million per year, scheduled amortization (even after several debt and debt-service reduction operations) averaged US$3.7 billion—a sum almost equivalent to Nigeria's average trade surplus of US$3.1 billion for the period. When interest due is included, total debt-service obligations amount to about US$6 billion per year. (Net flows on private, nonguaranteed, medium- and long-term debt have been negligible.)

7.19 Owing to the variability in the timing of receipts from petroleum exports, short-term capital flows have been subject to large fluctuations. Much of the outflow recorded in 1989 and 1990 occurred because of lags between oil shipment and payment, which amounted to US$2 billion in 1989 and US$0.6 billion in 1990, respectively. Autonomous capital inflows to commercial and merchant banks (totalling US$0.6 billion in 1989 and US$1 billion since 1990) partially offset these outflows.

7.20 The large negative short-term capital outflow in 1989 resulted from the sale of NNPC equity in joint ventures, which increased direct foreign investment (DFI) inflows to US$2.5 billion. For the most part, however, direct investment in Nigeria has been related to the oil sector. In 1992, total DFI totalled US$544 million (almost the average for preceding years of US$522 million, excluding 1989). Nigeria's formal restrictions on foreign company ownership

and its rudimentary stock market partially explain the limited foreign investment there to date, although the perception, since 1988, that the SAP may not be sustainable may have also affected Nigeria's attractiveness to foreign companies.

7.21 Little is known about the volume of capital flight from Nigeria.[9] Some of the assets are repatriated in cash or other instruments which are converted into domestic currency at the local parallel foreign exchange rate. One estimate of capital flight during the period 1970-89 suggests that underinvoicing of exports amounted to US$8.2 billion and overinvoicing of imports amounted to US$6 billion.

Table 7.3: Rescheduling and Arrears, 1986 to 1992

	1986	1987	1988	1989	1990	1991	1992
				(US dollars millions)			
Total Debt Service Due [a]	(5,141)	(6,079)	(6,419)	(6,058)	(6,760)	(5,703)	(5,346)
Interest	(2,085)	(2,110)	(2,370)	(2,357)	(2,739)	(2,422)	(3,150)
Amortization	(3,056)	(3,969)	(4,049)	(3,701)	(4,021)	(3,281)	(3,196)
Plus Additional Obligations							
Debt and debt-service reduction[b]	–	–	–	–	–	–	(1,700)
Cash payment of arrears	(1,149)	(263)	80	(297)	(522)	(668)	–
Plus New Credits							
Accumulation of new arrears	357	130	4,487	426	2,097	591	2,857
Rescheduling of LT maturities	2,757	2,915	–	1,896	470	1,766	425
Rescheduling of ST maturities	165	1,432	–	1,281	1,072	698	161
Equals Total Debt Service Paid [c]	(3,011)	(1,865)	(1,852)	(2,752)	(3,643)	(3,316)	(3,603)
Memorandum items:				(Percentages)			
Debt Service Ratio[d]							
Before rescheduling	72	78	86	59	47	46	58
After rescheduling[d]	31	22	86	27	36	26	53
Total Debt Service Paid	42	24	25	27	25	27	29

Note: Negative numbers in parentheses denote outflows and debits.

[a] Includes payments associated with pre-SFEM liabilities and the debt conversion scheme.

[b] London Club debt work-out. Includes US$1.3 billion used to buy-back US$3.4 billion at a 60 percent discount and US$400 million used to collateralize payments due on par bonds.

[c] 1992 debt service paid includes the financing of the DDSR operation, comprising the cash buyback ($1.3 billion), principal collateral ($300 million), and interest collateralization ($127 million).

[d] In percent of exports of goods and nonfactor services.

Source: Central Bank of Nigeria, and World Bank staff estimates.

D. Rescheduling, Arrears, and Reserves

7.22 As indicated above, over the past six years, total scheduled debt obligations have averaged US$6 billion—or about 66 percent of total exports of goods and nonfactor services.

[9] See Ibi Ajayi, An Economic Analysis of Capital Flight from Nigeria, World Bank, 1992.

Nigeria has relied on exceptional financing from main creditor groups or—whenever this was not forthcoming—accumulated large arrears. With several successive rescheduling arrangements, Nigeria's scheduled debt-service ratio (including rescheduling credits) has averaged about 39 percent. For 1986-92, the debt-service ratio (including rescheduling credits and arrears accumulations) averaged about 29 percent. (See Table 7.3.)

7.23 From 1986 to 1988, foreign exchange reserves in relation to imports were very low. The increase in exports in 1989-90, together with the 1989 reschedulings—provided Nigeria with an opportunity to raise its level of reserves to a more sustainable level (equal to seven months of 1990 imports). By 1992, however, the country's increasing imports, added to the financial requirements of the London Club debt-reduction operation, brought reserves to a level equal to slightly less than one month of imports, or about US$830 million.

E. External Debt

7.24 Throughout the 1980s, as a consequence of falling oil export revenues, Nigeria's external debt grew rapidly. The Government borrowed heavily, and large trade arrears were amassed in 1982-83. When oil prices fell in 1986, Nigeria found itself unable to meet its external obligations, and embarked on a program to reconcile and reschedule its debts. On a per capita basis, Nigeria's external debt stands at US$300, which is roughly equivalent to its per capita income.

7.25 **Stock of Debt.** As shown in Figure 7.1 and Table 7.4, in Nigeria's stock of external debt grew from US$23.5 billion at end-1986 to US$34.5 billion at end-1991. Two thirds of this increase came from the Government's assumption of nonguaranteed debt (particularly in 1986/87) and from successive rescheduling agreements; both changed the status of Nigerian external liabilities from arrears to public and publicly guaranteed medium- and long-term debt. Cross-currency revaluations (brought about by the depreciation of the US currency) contributed another 27 percent. By comparison, new net borrowing accounted for only 8 percent of the increase in external debt.

7.26 **Net Transfers.** During the SAP era, Nigeria's net transfer position on a cash basis (defined as project loan disbursements and balance-of-payments support minus total debt-service paid) was persistently negative, averaging about US$2.1 billion per annum. (On average, debt-service payments amounted to US$2.9 billion and new disbursements US$800 million.) For the period 1986-92, this net-resource outflow averaged 6.4 percent of GDP. (See Table 7.4.)

F. Agreements with Creditors

7.27 By the end of 1992, following the debt-reduction operation with London Club creditors concluded in March, Nigeria's total external debt had declined to US$30.7 billion. This operation effectively cut the volume of London Club debt by 60 percent, which was 7.5 percent of Nigeria's total external debt at the end of 1992. The rest (58 percent) of the stock is owed to Paris Club creditors; to other bilateral creditors (5 percent); to multilateral institutions, in particular the IBRD (13.5 percent); and to uninsured private and other creditors (15 percent).

7.28 **Paris Club.** More than half of Nigeria's external debt is owed to Paris Club creditors. Most of the associated debt-service obligations falling due in 1986 and 1987 were rescheduled in 1986. That agreement covered US$3.3 billion in medium- and long-term (MLT) maturities, US$0.5 billion in letters of credit (LCs), and US$2.8 billion in arrears on insured trade credits dating back to 1982-83. In early 1989, Government approached the Paris Club for a new

Table 7.4: Total External Debt Outstanding and Disbursed, 1986 to 1992

	1986	1987	1988	1989	1990	1991	1992
	(US dollars millions)						
A. Public & Publicly Guar. LT Debt	19,156	28,464	29,058	30,994	32,586	33,245	29,336
1. Official Creditors	8,622	11,525	10,888	14,425	16,722	18,759	18,996
a. Multilateral	2,234	3,062	2,849	3,173	3,733	4,010	4,283
1. IDA	34	32	31	30	36	59	151
2. IBRD	2,137	2,939	2,728	2,907	3,284	3,297	3,320
b. Bilateral	6,388	8,463	8,039	11,252	12,989	14,749	14,713
2. Private Creditors	10,534	16,939	18,170	16,570	15,864	14,486	10,340
a. Bonds	0	0	0	0	0	0	1,990
b. Commercial Banks	2,945	6,531	6,238	6,022	5,714	5,590	44
c. Other Private	7,589	10,409	11,932	10,547	10,150	8,896	8,306
B. Private Non-Guaranteed LT	600	552	537	406	391	343	339
C. Total LT DOD	19,756	29,016	29,595	31,400	32,977	33,588	29,676
D. Use of IMF Credit	0	0	0	0	0	0	0
E. Short-Term Debt	3,717	1,640	1,652	576	1,580	909	974
F. Total External Debt	23,473	30,656	31,247	31,977	34,557	34,497	30,650
Debt Stock/GDP	56	113	98	102	98	101	102

Source: Federal Ministry of Finance, Central Bank of Nigeria, and World Bank Debtor Reporting System.

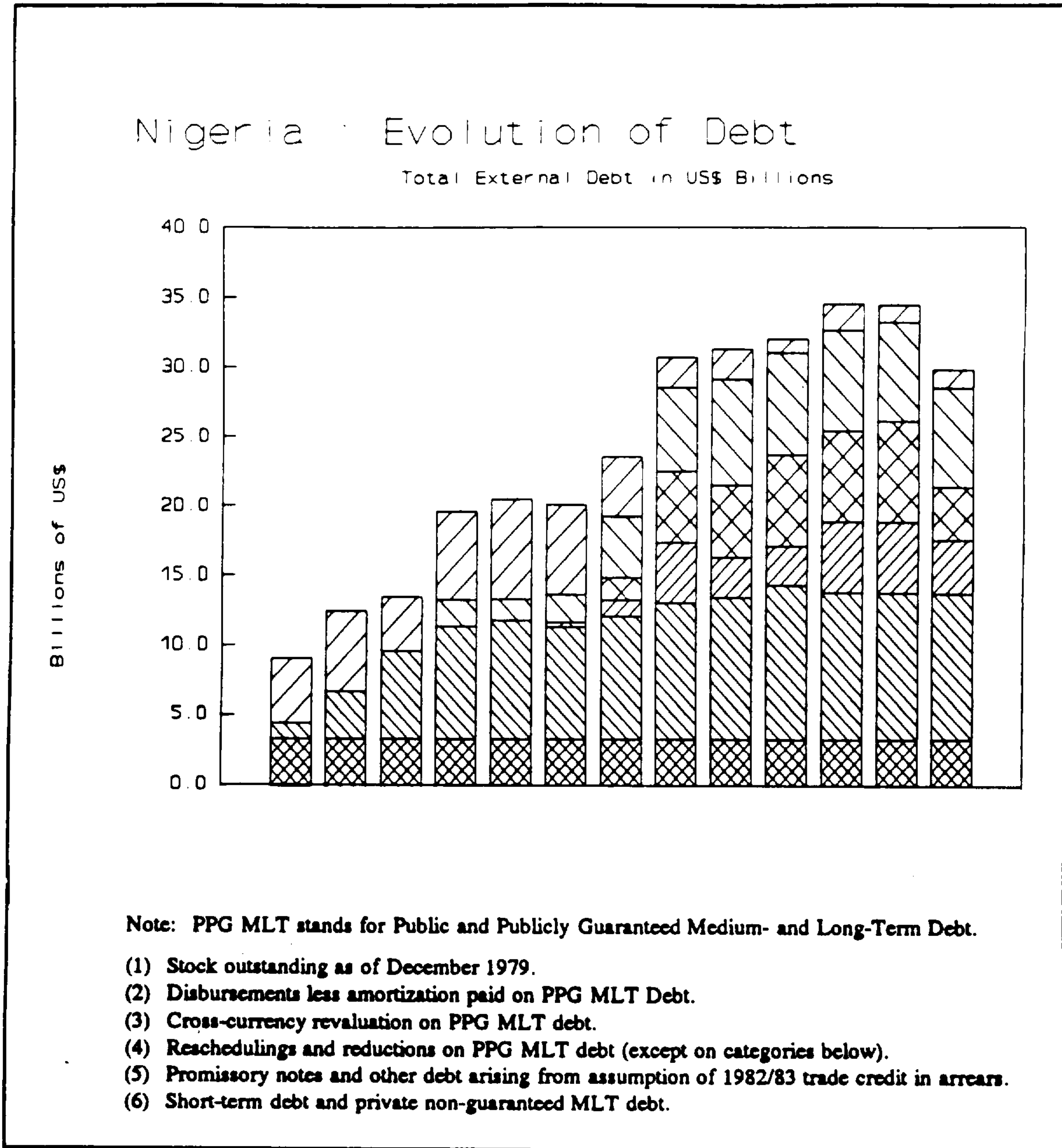
rescheduling. In March 1989, a second agreement was reached with 17 creditor countries covering US$6.4 billion in payments. Of this amount, approximately US$2.9 billion was due to arrears on long- and short-term debt. The total amount of debt relief for 1989 and the first four months of 1990 is estimated at about US$3.5 billion, on conventional rescheduling terms, with a 10-year repayment period and a 5-year grace period.

7.29 A third rescheduling agreement was signed with the Paris Club in January 1991. The repayment terms for the amounts rescheduled were those granted to heavily indebted lower- and middle-income countries. These terms included 15-year maturities for debt service owed to export credit agencies (ECA) and 20-year maturities for debt service owed for official development aid (ODA). In addition, all ODA debt (and 10 percent of ECA debt) was to be eligible for debt-equity swaps, which must be approved by individual creditors. Under the new agreement, arrears and maturities on previously nonrescheduled debt (falling due from January 1991 through March 1992) plus maturities due in accordance with the 1986 rescheduling agreement will be rescheduled. The actual amount rescheduled has been estimated at approximately US$3 billion. All arrears that were not rescheduled were to be repaid by May 1991.

7.30 **Promissory Notes.** Fifteen percent of Nigeria's debt is in the form of promissory notes. These debts originated in 1982 and 1983 in trade arrears to uninsured suppliers. Under the terms of the rescheduling agreement signed with these creditors in January 1988, all claims (including late interest) were converted into promissory notes. Amortization is payable over a period of 23 years beginning in 1988 at an interest rate of 5 percent. Nigeria's new foreign investment law has made these notes eligible for debt-equity swaps.

7.31 **London Club.** There have been three agreements with the London Club, the first two for reschedulings in 1986 and 1989, and the third for a debt-reduction operation in 1992. In November 1986, Nigeria reached an agreement with the Steering Committee of the London Club

Figure 7.1: Evolution of Debt Outstanding, 1980 to 1992



Note: PPG MLT stands for Public and Publicly Guaranteed Medium- and Long-Term Debt.

(1) Stock outstanding as of December 1979.
(2) Disbursements less amortization paid on PPG MLT Debt.
(3) Cross-currency revaluation on PPG MLT debt.
(4) Reschedulings and reductions on PPG MLT debt (except on categories below).
(5) Promissory notes and other debt arising from assumption of 1982/83 trade credit in arrears.
(6) Short-term debt and private non-guaranteed MLT debt.

to reschedule US$1.7 billion in MLT maturities falling due between April 1986 and December 1987, and US$3 billion in arrears on letters of credit. (The agreement also involved US$320 million in new money, although this part of the agreement was never implemented because, in late 1987 when it was signed, Nigeria was out of compliance with the IMF.) In early 1988, the Nigerians reopened the agreement with a request for rescheduling on more favorable terms. In April 1989, a new rescheduling agreement was signed after lengthy negotiations. Under this agreement, the entire stock of debt—excluding interest in arrears, also known as payable debt—was rescheduled over a 20-year period—15 years for the letters of credit—with a 3-year grace period.

7.32 In 1992, Nigeria reached a third agreement with the Steering Committee of the London Club. It included a buyback of US$3.4 billion of commercial debt at a 60-percent discount and

Table 7.5: Net Transfers, 1986 to 1992

	1986	1987	1988	1989	1990	1991	1992
	(US dollars millions)						
New disbursements of project loans	845	736	618	1,217	927	715	560
Total Debt Service Paid[a]	3,011	1,865	1,852	2,752	3,643	3,316	3,953
Net Transfers[b]	-2,166	-1,129	-1,234	-1,535	-2,716	-2,601	-3,393
Net Transfers/GDP	-5	-4	-4	-5	-8	-8	-11

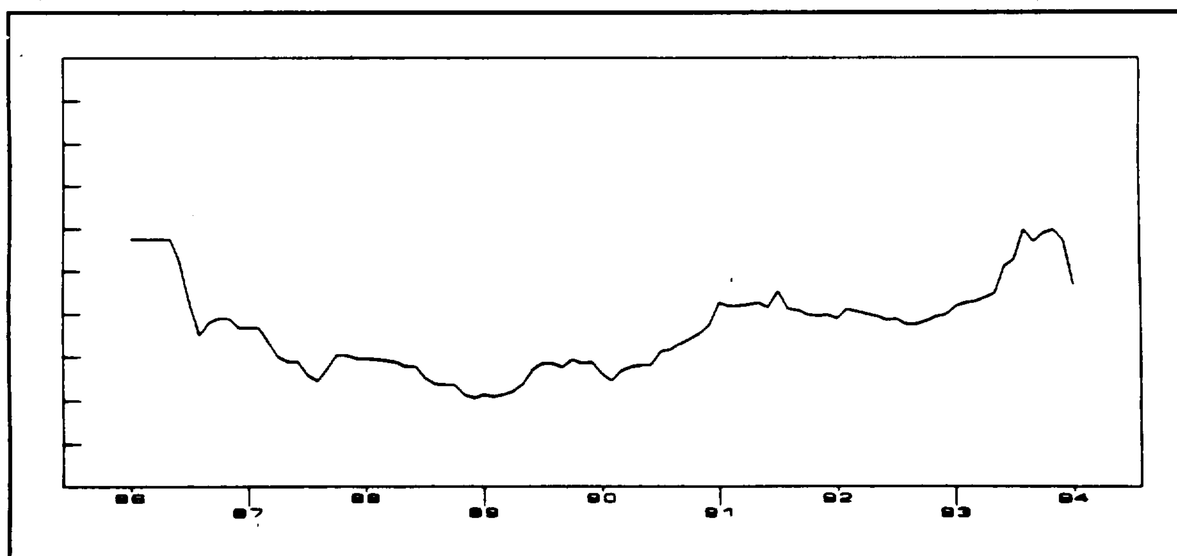
[a] 1992 debt service paid includes the financing of the DDSR operation, comprising the cash buyback $1.3 billion, principal collateral $300 million, and interest collateralization ($127) million.
[b] Defined as disbursements less debt service paid.

Source: Central Bank of Nigeria, and World Bank staff estimates.

a swap of US$2 billion for par bonds backed by US Government securities. The cost of the operation, including collateral, totaled approximately US$1.7 billion and was financed entirely from Nigerian resources. The stock of debt owed to London Club creditors was reduced to US$2.2 billion, while debt service was reduced by US$700 million in 1992, and by about US$500 million per annum in subsequent years.

7.33 **The Price Evolution of Nigeria's Commercial Debt.** The announcement of the Brady Plan in March 1989 and the prospect of a future debt reduction operation prompted a rise in the price for Nigeria's commercial debt on the secondary market. From US$0.21, it leveled off at an eventual buyback price of about US$0.40 in June 1991. While this is broadly consistent with the experience of other countries, such exogenous factors as the windfall effect of the Gulf crisis and the subsequent decrease in world interest rates, also helped push up the price. Following the announcement of the 1994 budget, the secondary market price has fallen sharply. (See Figure 7.2.)

Figure 7.2: The Secondary-Market Price for Nigeria's External Debt, 1986 to 1994



Statistical Annex

Table 1: Nominal GDP by Source and Use
(Naira Millions)

	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992p
GDP at market prices	33,585	36,053	42,912	50,897	50,751	51,953	57,144	63,609	72,356	73,065	108,880	145,244	230,153	285,040	338,133	529,519
Net Indirect Taxes	523	691	755	1,731	292	383	433	602	988	934	1,999	2,565	4,101	5,658	8,151	16,335
GDP at factor cost	33,062	35,362	42,157	49,166	50,459	51,570	56,711	63,007	71,368	72,131	106,881	142,679	226,052	279,382	329,981	513,184
Agriculture	9,778	10,780	12,080	13,491	13,580	15,906	18,837	23,800	26,625	27,888	39,204	57,924	89,257	101,140	121,595	187,349
Industry	10,387	11,787	15,944	19,799	18,960	17,190	16,863	17,502	20,828	18,757	35,604	43,985	77,471	107,180	124,086	195,781
Mining and quarrying	6,896	7,341	9,892	13,149	11,102	9,294	8,451	10,155	12,539	10,071	25,709	30,243	57,532	82,855	95,675	152,005
Petroleum	6,169	6,599	9,154	12,381	10,220	8,430	7,786	9,569	12,110	9,828	25,423	29,919	57,532	82,594	95,460	151,622
Other	727	742	738	768	882	864	665	586	429	243	286	324	307	261	215	383
Manufacturing and other	3,491	4,446	6,052	6,650	7,858	7,896	8,412	7,347	8,289	8,686	9,895	13,742	19,939	24,325	28,411	43,775
Services, etc.	12,897	12,795	14,133	15,876	17,919	18,474	21,011	21,705	23,915	25,486	32,073	40,770	59,324	71,062	84,301	130,054
Imports of GNFS	7,564	8,567	8,180	9,650	13,490	11,591	10,016	8,239	9,001	14,976	26,863	31,995	54,042	70,882	99,968	197,319
Exports of GNFS	8,353	7,049	10,649	14,767	11,434	8,491	7,779	9,446	11,648	12,490	31,152	33,515	73,507	113,300	121,369	221,377
Resource balance	789	(1,518)	2,469	5,117	(2,056)	(3,100)	(2,238)	1,207	2,647	(2,486)	4,289	1,520	19,465	42,418	21,401	24,058
Total Expenditures	32,796	37,571	40,443	45,780	52,807	55,053	59,382	62,402	69,709	75,551	104,591	143,724	210,688	242,622	316,732	505,461
Total consumption	23,283	27,645	30,967	34,470	40,992	44,661	50,957	56,341	63,218	64,546	89,676	124,160	178,265	200,897	261,542	409,123
General government	4,515	5,922	5,945	6,079	6,534	8,349	10,133	11,217	9,792	11,584	13,627	18,176	21,040	32,354	42,592	28,408
Private, etc	18,767	21,723	25,022	28,390	34,458	36,313	40,824	45,124	53,426	52,962	76,049	105,984	157,225	168,543	218,950	380,715
Gross domestic investment	9,513	9,926	9,476	11,310	11,815	10,392	8,425	6,060	6,490	11,005	14,914	19,564	32,423	41,725	55,190	96,338
GDFI	9,592	10,006	9,536	11,397	12,407	11,477	9,077	7,214	6,937	10,594	15,970	19,225	31,450	42,142	55,689	NA
Changes in Stocks	(79)	(80)	(60)	(87)	(592)	(1,085)	(652)	(1,153)	(447)	411	(1,056)	339	973	(417)	(500)	NA
Memorandum Items:																
GDP FC (Non-oil)	26,893	28,763	33,003	36,785	40,239	43,140	48,925	53,438	59,258	62,303	81,458	112,760	168,520	196,788	234,522	361,562
GDP FC (Non-oil, Non-agr.)	17,115	17,983	20,923	23,294	26,659	27,234	30,088	29,638	32,633	34,415	42,254	54,836	79,263	95,648	112,927	174,213
Gross domestic saving	10,302	8,408	11,945	16,427	9,759	7,292	6,187	7,268	9,138	8,519	19,204	21,084	51,888	84,143	76,591	120,396
Population (new estimate)	64,931	66,911	68,983	71,148	73,409	75,774	78,217	80,699	83,196	85,718	88,273	90,866	93,505	96,203	98,983	101,922

Source: Federal Office of Statistics, and staff estimates.

Table 2: Real GDP by Source and Use
(1987 Naira Millions)

	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991e	1992p
GDP at market prices	119,046	112,184	119,767	124,803	110,792	109,922	102,509	98,114	107,243	109,106	108,880	119,525	127,489	134,577	141,388	147,236
Net Indirect Taxes	2,307	2,430	2,295	5,170	766	909	859	998	1,543	1,356	1,999	2,043	2,367	2,989	3,486	4,685
GDP at factor cost	116,739	109,754	117,471	119,633	110,027	109,012	101,650	97,117	105,700	107,749	106,881	117,482	125,123	131,588	137,902	142,551
Agriculture	42,017	38,385	37,223	39,061	32,630	33,459	33,361	31,747	37,076	40,495	39,204	43,051	45,088	46,922	48,799	50,751
Industry	45,111	43,441	51,653	50,524	45,403	43,515	37,117	36,931	38,896	36,676	35,604	39,147	42,156	44,855	46,784	47,731
Mining and quarrying	42,456	38,893	44,424	41,130	30,408	27,254	25,876	28,727	30,391	28,371	25,709	27,802	31,802	34,600	36,157	36,679
Petroleum	40,077	37,014	41,530	39,206	28,271	25,048	24,260	27,420	29,741	28,183	25,423	27,483	31,633	34,412	35,961	36,446
Other	2,379	1,879	2,894	1,924	2,136	2,206	1,616	1,307	649	188	286	319	170	188	197	233
Manufacturing and other	2,655	4,547	7,228	9,394	14,996	16,261	11,241	8,204	8,505	8,305	9,895	11,345	10,353	10,255	10,626	11,052
Services, etc.	29,611	27,928	28,596	30,048	31,993	32,039	31,172	28,438	29,728	30,578	32,073	35,284	37,879	39,811	42,319	44,068
Imports of GNFS	83,154	83,045	73,646	87,498	107,835	86,301	70,958	56,360	52,378	37,657	26,863	26,398	27,663	31,460	35,298	35,770
Exports of GNFS	49,623	39,867	59,447	53,824	34,783	27,838	26,373	30,218	34,242	34,156	31,152	33,852	37,880	41,207	42,731	43,352
Resource balance	(33,532)	(43,178)	(14,198)	(33,674)	(73,052)	(58,463)	(44,585)	(26,142)	(18,136)	(3,501)	4,289	7,454	10,216	9,747	7,433	7,582
Total Expenditures	152,578	155,362	133,965	158,477	183,845	168,385	147,094	124,256	125,379	112,607	104,591	112,071	117,273	124,830	133,954	139,654
Total consumption	86,897	107,729	92,275	111,164	135,509	130,712	117,776	103,775	106,785	91,396	89,676	95,752	98,312	103,854	111,342	116,584
General government	20,727	23,341	20,324	16,509	19,695	22,257	21,898	15,909	14,003	15,743	13,627	14,127	13,660	16,381	19,084	8,099
Private etc.	66,170	84,387	71,951	94,655	115,814	108,455	95,877	87,866	92,782	75,653	76,049	81,625	84,653	87,474	92,259	108,485
Private	58,266	61,124	60,941	72,901	70,449	70,756	66,603	67,021	76,280	72,760	76,049	84,001	88,968	90,806	93,750	108,485
Statistical discrepancy	7,903	23,263	11,010	21,754	45,365	37,699	29,274	20,844	16,502	2,893	0	(2,377)	(4,315)	(3,332)	(1,492)	0
Gross domestic investment	65,681	47,633	41,690	47,313	48,335	37,673	29,318	20,481	18,594	21,212	14,914	16,319	18,961	20,976	22,612	23,070
GDFI	69,368	50,236	43,935	49,934	50,476	42,276	32,112	24,379	19,810	20,422	15,970	16,033	18,393	21,188	22,819	NA
Changes in Stocks	(3,687)	(2,603)	(2,246)	(2,621)	(2,140)	(4,604)	(2,794)	(3,898)	(1,216)	789	(1,056)	285	568	(212)	(207)	NA
Memorandum Items:																
GDP FC (Non-oil)	76,662	72,740	75,941	80,427	81,755	83,965	77,390	69,697	75,958	79,567	81,458	89,999	93,490	97,176	101,941	106,105
GDP FC (Non-oil, Non-agr.)	34,645	34,355	38,718	41,366	49,125	50,506	44,029	37,949	38,882	39,071	42,254	46,948	48,402	50,254	53,142	55,354
Gross domestic saving	74,356	32,921	63,920	93,710	31,903	14,591	13,466	28,739	34,001	14,960	19,204	17,573	28,925	39,803	30,169	27,734
Capacity to import	91,829	68,333	95,876	133,895	91,402	63,219	55,105	64,618	67,785	31,406	31,152	27,652	37,627	50,287	42,854	40,131
Terms of trade adjustment	42,207	28,466	36,429	80,071	56,619	35,381	28,733	34,400	33,543	(2,750)	0	(6,200)	(252)	9,080	123	(3,221)
Gross domestic income	161,253	140,650	156,195	204,874	167,412	145,302	131,241	132,514	140,786	106,356	108,880	113,325	127,237	143,657	141,511	144,015

Source: Federal Office of Statistics and staff estimates. 1992 figures are preliminary.

Table 3: Balance of Payments
(US$ Millions)

	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992p
Trade Balance	2,411	(1,166)	4,923	11,221	(672)	(2,725)	(1,081)	3,009	4,287	40	1,758	1,292	3,900	6,843	4,234	3,675
A. Exports FOB	12,376	10,444	16,767	25,956	17,718	12,154	10,370	11,891	12,566	6,784	7,532	7,069	9,812	13,914	12,127	12,471
1. Petroleum	11,564	9,455	15,655	24,942	17,162	11,888	9,954	11,568	12,203	6,385	6,994	6,456	9,411	13,508	11,655	12,026
2. Other	811	989	1,112	1,014	556	266	416	323	363	399	538	613	401	406	472	445
B. Imports FOB	(9,965)	(11,610)	(11,844)	(14,735)	(18,390)	(14,879)	(11,451)	(8,882)	(8,279)	(6,744)	(5,774)	(5,776)	(5,912)	(7,070)	(7,893)	(8,796)
Services	(3,233)	(2,320)	(2,860)	(6,335)	(4,803)	(3,539)	(3,535)	(3,743)	(4,241)	(4,391)	(3,460)	(3,845)	(4,268)	(5,389)	(5,256)	(5,249)
A. Investment Income	(2,046)	(1,097)	(2,026)	(4,472)	(2,147)	(1,661)	(1,527)	(2,309)	(2,916)	(2,934)	(2,770)	(2,903)	(2,668)	(3,286)	(2,969)	(2,833)
1. Net Interest	(537)	(228)	(448)	(1,213)	(653)	(577)	(1,126)	(1,998)	(2,020)	(1,988)	(2,020)	(2,290)	(2,205)	(2,529)	(2,134)	(2,034)
Credits	5	6	12	19	17	356	110	116	122	97	90	80	152	210	288	111
Debits	(542)	(234)	(460)	(1,232)	(670)	(933)	(1,236)	(2,114)	(2,142)	(2,085)	(2,110)	(2,370)	(2,357)	(2,739)	(2,422)	(2,145)
2. Other Investment Income	(1,510)	(869)	(1,578)	(3,259)	(1,494)	(1,084)	(401)	(311)	(896)	(946)	(750)	(614)	(463)	(758)	(835)	(799)
B. Non-Factor Services	(1,187)	(1,223)	(834)	(1,863)	(2,655)	(1,877)	(2,008)	(1,434)	(1,325)	(1,457)	(690)	(942)	(1,599)	(2,102)	(2,287)	(2,416)
1. Exports	582	652	864	1,050	793	453	368	433	466	335	225	334	167	169	197	186
2. Imports	(1,769)	(1,875)	(1,699)	(2,913)	(3,449)	(2,331)	(2,376)	(1,867)	(1,791)	(1,792)	(915)	(1,276)	(1,767)	(2,271)	(2,484)	(2,602)
Net Private Transfers	(180)	(250)	(347)	(409)	(448)	(389)	(376)	(306)	(244)	(32)	(4)	(26)	(10)	26	27	29
Current Account Balance	(1,002)	(3,736)	1,716	4,478	(5,923)	(6,653)	(4,992)	(1,040)	(198)	(4,383)	(1,706)	(2,579)	(377)	1,481	(994)	(1,545)
Capital Account	NA	1,515	1,725	67	(277)	1,357	(768)	658	125	(4,024)	(2,586)	(2,320)	(1,166)	(2,073)	(1,297)	(6,150)
A. Net Official Transfers	(5)	(19)	(41)	(167)	(119)	(40)	(19)	(26)	(16)	(140)	(20)	89	128	48	22	(9)
B. Direct Investment /a	382	211	305	(739)	165	430	365	189	345	526	613	359	2,443	602	588	576
C. Medium and Long-Term	NA	1,387	1,033	652	811	2,976	1,404	(181)	(1,098)	(2,313)	(3,280)	(3,458)	(2,502)	(3,112)	(2,539)	(5,940)
Official MLT	NA	1,393	977	604	782	2,976	1,404	(181)	(1,082)	(2,211)	(3,233)	(3,432)	(2,484)	(3,094)	(2,566)	(6,002)
Disbursements	NA	1,448	1,005	988	1,365	3,603	2,352	1,848	1,560	845	736	618	1,217	927	715	594
Amortization (scheduled)	NA	(55)	(28)	(384)	(583)	(627)	(948)	(2,029)	(2,642)	(3,056)	(3,969)	(4,049)	(3,701)	(4,021)	(3,281)	(6,596)
Private MLT	16	(6)	56	48	29	0	0	0	(16)	(102)	(47)	(26)	(18)	(18)	27	62
D. Short-Term /a	(78)	(101)	10	134	409	(1,143)	(2,095)	18	544	(1,815)	(48)	142	(1,758)	(106)	884	(513)
E. Net Errors and Ommissions	(100)	37	417	188	(1,544)	(866)	(423)	658	350	(282)	149	547	522	496	(252)	(264)
Overall Balance	NA	(2,222)	3,440	4,545	(6,200)	(5,296)	(5,760)	(382)	(73)	(8,407)	(4,292)	(4,899)	(1,544)	(592)	(2,292)	(7,695)
Financing	818	2,222	(3,440)	(4,545)	6,200	5,296	5,760	382	73	(8,407)	(4,292)	(4,899)	(1,544)	(592)	(2,292)	(7,695)
A. Reserve Movements	818	2,222	(3,440)	(4,545)	6,200	2,367	1,045	(475)	(696)	851	78	331	(1,272)	(2,508)	(50)	3,370
B. Non-Reserve Assets /b	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	(352)
C. Change in Arrears	0	0	0	0	0	2,929	4,715	857	(280)	(792)	(3,372)	4,568	(4,915)	834	(956)	1,849
D. Rescheduling Credits	0	0	0	0	0	0	0	0	1,049	8,348	7,586	0	7,731	2,266	3,298	2,828
Memo Items:																
Debt Service Paid (LT PPG)	138	149	393	774	1,304	1,714	2,160	3,474	4,067	1,685	921	2,062	2,185	3,324	3,153	2,402
o/w Interest	52	66	258	531	669	873	998	1,249	1,299	485	584	1,458	1,517	1,845	2,218	1,656
o/w Amortization	86	83	135	243	634	841	1,162	2,225	2,769	1,200	338	605	668	1,479	982	746
Stock of Reserves	4,350	2,021	5,546	10,327	4,451	1,959	1,226	1,504	1,687	891	755	320	1,592	4,100	4,150	830

/a Includes transactions associated with the sale of petroleum production equity in 1989.
/b Cost of collateral for the 1992 London Club deal.

Source: Central Bank of Nigeria, World Bank Debtor Reporting System, and staff estimates. 1992 data are preliminary.

Table 4: Exports by Commodities
(US$ Millions)

	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992p
Oil																
Nominal Value	11,564	9,455	15,655	24,942	17,162	11,888	9,954	11,568	12,203	6,385	6,994	6,456	9,411	13,508	11,655	12,026
Constant Value (1987=100)	13,689	11,770	13,050	12,026	7,697	6,290	5,869	6,877	7,815	7,783	6,994	7,408	8,729	9,575	9,883	10,080
Value Index	165	135	224	357	245	170	142	165	174	91	100	92	135	193	167	172
Volume Index	196	168	187	172	110	90	84	98	112	111	100	106	125	137	141	144
Unit Value Index	84	80	120	207	223	189	170	168	156	82	100	87	108	141	118	119
Cocoa																
Value	482	595	717	569	233	176	313	239	258	265	375	325	142	150	176	..
Constant Value (1987=100)	184	211	262	264	135	173	290	173	173	276	375	566	244	280	248	..
Value Index	129	159	191	152	62	47	83	64	69	71	100	87	38	40	47	..
Volume Index	49	56	70	70	36	46	77	46	46	74	100	151	65	75	66	..
Unit Value Index	262	283	273	216	172	102	108	138	149	96	100	57	58	54	71	..
Cocoa Butter																
Value	60	28	35	37	41	24	40	31	52	32	13	16	15	16	7	..
Constant Value (1987=100)	9	5	6	7	11	8	18	11	20	14	13	8	7	8	6	..
Value Index	459	213	265	285	312	185	306	238	400	246	100	123	115	123	54	..
Volume Index	66	36	47	57	88	62	138	86	157	106	100	63	56	61	44	..
Unit Value Index	699	594	567	498	355	298	222	277	254	232	100	195	206	202	123	..
Rubber																
Value	17	20	22	26	29	17	21	22	23	23	15	45	69	41	78	..
Constant Value (1987=100)	11	12	10	11	15	12	7	10	11	13	15	26	40	26	38	..
Value Index	114	131	143	171	192	111	136	144	154	154	100	298	457	272	517	..
Volume Index	71	79	67	71	102	77	44	64	74	86	100	175	267	171	250	..
Unit Value Index	160	165	212	239	188	144	307	226	208	180	100	171	171	159	208	..
Palm Kernals																
Value	51	20	20	26	29	30	23	11	9	5	8	15	16	12	6	..
Constant Value (1987=100)	11	3	3	4	5	7	8	2	3	5	8	9	9	5	2	..
Value Index	664	263	258	339	384	393	301	145	117	71	100	197	211	155	80	..
Volume Index	140	43	39	57	66	86	102	31	35	64	100	119	125	71	28	..
Unit Value Index	474	614	668	595	583	455	297	468	334	110	100	165	169	223	223	..
Other																
Value	202	326	320	356	225	19	20	20	21	73	127	212	159	187	205	445
Constant Value (1987=100)	184	313	262	266	193	18	18	18	21	74	127	176	138	80	166	..
Value Index	158	256	251	280	177	15	16	16	17	58	100	166	125	147	161	..
Volume Index	144	246	206	209	151	14	14	14	17	58	100	139	109	63	131	..
Unit Value Index	110	104	122	134	117	105	111	112	100	100	100	120	115	233	123	..
Merchandise FOB																
Value	12,376	10,444	16,767	25,956	17,718	12,154	10,370	11,891	12,566	6,784	7,532	7,069	9,812	13,914	12,127	12,471
Constant Value (1987=100)	14,087	12,313	13,593	12,578	8,056	6,507	6,209	7,091	8,043	8,165	7,532	8,193	9,168	9,973	10,342	10,493
Value Index	164	139	223	345	235	161	138	158	167	90	100	94	130	184	161	165
Volume Index	187	163	180	170	110	89	84	97	110	109	100	109	122	133	138	140
Unit Value Index	88	85	123	206	220	187	167	168	156	83	100	86	106	139	116	118

Source: Central Bank of Nigeria and staff estimates.

Table 5: Imports CIF by End-Use
(US$ Millions)

	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992p
Consumer Goods																
Current Prices	3,166	3,724	3,691	6,459	9,039	6,852	5,261	3,638	2,025	1,628	1,540	1,835	1,787	2,090	2,167	..
Constant 1987 Prices	5,587	5,711	4,998	7,974	11,113	8,556	6,722	4,750	2,623	1,788	1,540	1,711	1,677	1,856	1,887	..
Value Index	206	242	240	419	587	445	342	236	131	106	100	119	116	136	141	..
Volume Index	363	371	324	518	721	555	436	308	170	116	100	111	109	121	123	..
Unit Value Index	57	65	74	81	81	80	78	77	77	91	100	107	107	113	115	..
Capital Goods																
Current Prices	5,302	6,117	6,372	5,464	6,331	4,151	4,107	3,166	3,199	2,703	2,697	2,046	2,925	3,170	3,320	..
Constant 1987 Prices	9,357	9,380	8,628	6,746	7,784	5,183	5,248	4,133	4,142	2,969	2,697	1,907	2,746	2,816	2,892	..
Value Index	197	227	236	203	235	154	152	117	119	100	100	76	108	118	123	..
Volume Index	347	348	320	250	289	192	195	153	154	110	100	71	102	104	107	..
Unit Value Index	57	65	74	81	81	80	78	77	77	91	100	107	107	113	115	..
Raw Materials																
Current Prices	2,552	2,994	3,028	4,372	4,967	5,403	3,283	2,920	3,794	3,128	2,141	2,506	1,826	2,567	3,215	..
Constant 1987 Prices	4,503	4,590	4,100	5,397	6,107	6,746	4,195	3,812	4,914	3,436	2,141	2,336	1,714	2,281	2,800	..
Value Index	119	140	141	204	232	252	153	136	177	146	100	117	85	120	150	..
Volume Index	210	214	191	252	285	315	196	178	229	160	100	109	80	107	131	..
Unit Value Index	57	65	74	81	81	80	78	77	77	91	100	107	107	113	115	..
Miscellaneous																
Current Prices	11	17	19	16	20	66	25	108	147	7	13	6	7	0	35	..
Constant 1987 Prices	19	26	26	20	25	82	32	141	190	8	13	6	6	0	30	..
Value Index	85	135	151	128	159	515	198	846	1,147	58	100	50	51	0	273	..
Volume Index	150	206	204	158	196	644	253	1,105	1,486	64	100	47	48	0	238	..
Unit Value Index	57	65	74	81	81	80	78	77	77	91	100	107	107	100	115	..
Total CIF																
Current Prices	11,031	12,852	13,111	16,312	20,358	16,471	12,676	9,832	9,165	7,466	6,392	6,395	6,544	7,827	8,737	9,737
Constant 1987 Prices	19,466	19,708	17,753	20,137	25,029	20,567	16,197	12,837	11,869	8,201	6,392	5,960	6,143	6,953	7,610	7,402
Value Index	173	201	205	255	318	258	198	154	143	117	100	100	102	122	137	152
Volume Index	305	308	278	315	392	322	253	201	182	131	100	94	96	105	117	125
Unit Value Index	57	65	74	81	81	80	78	77	79	89	100	107	107	117	117	122

Source: Central Bank of Nigeria and staff estimates.

Table 6: Long-term Debt
(US$ Millions)

	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992p
DISBURSEMENTS																
Public and Publicly Guaranteed																
A. Official Creditors	73	72	208	695	1,560	2,134	1,950	1,195	1,486	1,232	1,314	939	1,511	892	844	702
1. Multilateral	64	59	54	73	85	150	190	262	288	545	408	265	606	542	501	532
2. Paris Club /1	9	13	140	622	771	1,685	1,344	932	1,163	581	854	572	905	335	342	170
3. Other /2	-	-	14	-	705	299	416	-	35	105	53	102	-	16	-	-
B. Private Creditors	15	1,399	777	492	1,056	1,424	722	529	83	62	14	23	28	44	0	0
1. London Club /3	-	1,399	777	444	1,027	1,417	713	426	82	21	14	23	27	-	-	-
2. Uninsured Suppliers b	-	-	-	-	29	4	9	-	1	-	-	-	1	44	-	-
3. Promissory Notes /4	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
4. Other	15	0	0	48	0	2	0	103	0	41	0	(0)	(0)	(0)	0	0
Private Non-Guaranteed	53	239	457	565	524	166	308	300	90	50	75	83	99	0	0	4
Total	141	1,709	1,442	1,753	3,141	3,724	2,981	2,023	1,659	1,344	1,403	1,045	1,638	937	844	706
AMORTIZATION																
Public and Publicly Guaranteed																
A. Official Creditors	27	27	36	51	56	158	311	441	1,036	306	164	413	477	1,061	881	660
1. Multilateral	20	19	21	25	30	34	41	40	46	85	135	207	213	247	291	316
2. Paris Club /1	7	8	14	25	26	122	260	303	560	214	26	189	250	771	564	252
3. Other /2	-	-	0	0	0	2	9	98	430	7	2	17	14	43	26	91
B. Private Creditors	34	23	15	14	304	483	639	1,584	1,608	894	174	192	191	419	54	75
1. London Club /3	-	-	-	-	290	457	620	834	984	234	140	160	156	71	6	75
2. Uninsured Suppliers b	-	-	-	-	-	2	3	1	3	-	-	-	-	-	-	-
3. Promissory Notes /4	-	-	-	-	-	-	-	740	620	647	-	-	-	-	-	-
4. Other	34	23	15	14	14	25	16	8	1	13	34	31	35	348	48	..
Private Non-Guaranteed	26	33	84	177	274	200	213	200	125	50	123	90	14	15	47	12
Total	86	83	135	243	634	841	1,162	2,225	2,769	1,250	461	694	681	1,495	982	746

/1 Includes bilateral loans and all other loans rescheduled by the Paris Club.
/2 Includes non-Paris Club bilateral creditors and loans rescheduled by these creditors.
/3 Commercial banks.
/4 Originally short-term trade credits in arrears.

Source: World Bank Debtor Reporting System. 1992 data are preliminary.

Table 6a: Long-term Debt
(US$ Millions)

	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992p
INTEREST																
Public and Publicly Guaranteed																
A. Official Creditors	38	43	59	86	172	212	370	449	505	228	412	782	732	1,136	1,435	744
1. Multilateral	30	34	46	46	44	54	60	75	85	146	212	240	219	262	355	322
2. Paris Club /1	8	9	13	38	127	153	277	321	367	74	194	533	498	838	1,064	381
3. Other /2	-	-	0	2	1	4	33	53	54	8	6	8	14	36	16	41
B. Private Creditors	5	4	151	354	369	556	572	690	752	257	172	676	786	709	783	910
1. London Club /3	-	-	147	347	363	550	483	538	360	195	157	460	545	332	418	563
2. Uninsured Suppliers b	-	-	-	-	-	2	2	2	1	-	-	-	-	-	2	2
3. Promissory Notes /4	-	-	-	-	-	-	83	148	366	49	-	181	234	330	360	345
4. Other	5	4	3	7	6	4	4	2	24	14	14	34	6	47	3	-
Private Non-Guaranteed	8	18	48	91	128	106	55	110	42	30	29	26	10	3	13	3
Total	52	66	258	531	669	873	998	1,249	1,299	515	613	1,484	1,527	1,848	2,231	1,656
DEBT OUTSTANDING AND DISBURSED																
Public and Publicly Guaranteed																
A. Official Creditors	781	853	1,028	1,625	3,018	4,856	6,026	6,036	7,761	14,537	18,603	17,911	20,367	22,309	23,103	21,915
1. Multilateral	451	490	524	571	623	737	883	955	1,431	2,234	3,062	2,849	3,173	3,733	4,010	4,087
2. Paris Club /1	330	363	490	1,042	1,680	3,136	3,867	3,999	5,477	11,053	14,019	13,578	15,636	16,788	17,486	16,392
3. Other /2	-	-	14	12	715	982	1,276	1,081	852	1,250	1,523	1,483	1,559	1,788	1,607	1,436
B. Private Creditors	74	1,455	2,239	2,659	3,343	4,250	6,154	5,357	5,378	4,619	9,861	11,147	10,628	10,277	10,081	6,542
1. London Club /3	-	1,399	2,196	2,586	3,263	4,197	4,195	3,705	2,926	2,580	6,165	5,873	5,657	5,666	5,590	2,051
2. Uninsured Suppliers b	-	-	-	-	28	27	30	24	29	33	38	35	13	56	46	46
3. Promissory Notes /4	-	-	-	-	-	-	1,920	1,525	1,956	1,511	3,195	4,809	4,562	4,507	4,446	4,446
4. Other	74	56	43	73	52	26	9	103	468	496	462	431	396	48	0	0
Private Non-Guaranteed	130	336	709	1,097	1,347	1,313	1,300	1,400	1,416	600	552	537	406	391	343	331
Total	985	2,645	3,976	5,381	7,709	10,419	13,481	12,793	14,555	19,756	29,016	29,595	31,400	32,977	33,527	28,789

/1 Includes bilateral loans and all other loans rescheduled by the Paris Club.
/2 Includes non-Paris Club bilateral creditors and loans rescheduled by these creditors.
/3 Commercial banks.
/4 Originally short-term trade credits in arrears.

Source: World Bank Debtor Reporting System. 1992 data are preliminary.

Table 7: Summary Budget of the Federal Government
(Naira Millions)

	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992p
Federally Retained Revenue	6,830	5,749	8,891	12,059	8,057	8,254	7,483	7,345	9,007	11,293	16,583	16,356	35,133	53,985	68,779	90,242
Total Expenditures /a.	9,009	7,334	9,648	12,202	13,240	12,617	14,078	10,264	10,422	13,654	22,438	30,176	44,816	61,645	90,869	138,000
A. Recurrent	2,680	2,491	3,678	5,229	4,997	4,164	6,627	6,362	5,854	7,936	15,511	20,910	31,576	44,649	54,819	79,732
1. Interest Payments	205	424	449	693	748	1,360	2,045	2,607	2,886	3,574	12,282	15,442	23,871	33,650	38,083	55,813
a. External /b'	21	111	144	225	289	346	616	761	826	989	8,401	10,367	16,736	21,332	23,062	35,866
b. Domestic	184	313	305	468	459	1,014	1,429	1,846	2,060	2,585	3,881	5,075	7,135	12,318	15,021	19,947
2. Other	2,475	2,067	3,229	4,536	4,249	2,804	4,582	3,755	2,968	4,362	3,229	5,468	7,705	10,999	16,736	23,919
B. Capital	6,329	4,843	5,970	6,973	8,243	8,453	7,451	3,902	4,568	5,718	5,425	8,268	11,335	15,507	34,382	55,056
C. Exchange Rate Guarantees /c	0	0	0	0	0	0	0	0	0	0	1,502	998	1,905	1,489	1,668	3,212
Balance	(2,179)	(1,585)	(757)	(143)	(5,183)	(4,363)	(6,595)	(2,919)	(1,415)	(2,361)	(5,855)	(13,820)	(9,683)	(7,660)	(22,090)	(47,758)
Net Financing	2,179	1,585	757	143	5,183	4,363	6,595	2,919	1,415	2,361	5,855	13,820	9,683	7,660	22,090	47,758
A. External	298	925	93	255	500	264	174	(95)	(379)	(255)	3,486	5,430	8,230	(251)	(467)	(12,449)
B. Net Domestic	1,881	660	664	(112)	4,683	4,099	6,421	3,014	1,794	2,616	2,369	8,390	1,453	7,911	22,557	60,207
1. Banking System	1,147	723	(97)	125	3,526	3,803	5,063	2,317	1,626	(807)	2,360	6,131	(9,276)	2,768	12,828	44,127
2. Non-bank Credits	734	(63)	761	(237)	1,157	296	1,358	697	168	3,423	9	2,259	3,439	3,365	1,005	0
3. Federation Account Trans	0	0	0	0	0	0	0	0	0	0	0	0	7,290	1,778	8,724	16,080

Note: The 1992 data are preliminary estimates and are subject to revision.

/a Audited accounts have not been available since 1982. Expenditures are derived as the difference between revenues and financing.
/b The Federal Government assumed responsibility for most debt service after the rescheduling agreements which began in 1986.
/c Obligations incurred prior: 6,830.

Source: Ministry of Finance, Central Bank of Nigeria, and staff estimates.

Table 8: Money Supply and Its Determinants
(Naira Millions)

	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992p
Net Domestic Credit	6,099	7,866	7,348	8,843	15,017	20,759	26,841	29,507	33,081	36,767	41,867	52,742	45,998	53,301	73,980	137,316
A. Credit to Government (net)	2,634	3,143	2,281	1,825	5,828	10,059	15,234	17,433	18,551	18,067	19,784	25,195	17,496	19,007	31,419	80,704
1. Federal Government	NA	NA	3,230	3,020	6,546	10,349	15,412	17,729	19,869	19,062	21,422	27,553	18,277	21,044	33,873	86,189
2. State Government	NA	NA	(807)	(1,104)	(554)	(232)	(103)	(168)	(1,073)	(791)	(1,315)	(1,917)	(314)	(1,297)	(1,552)	(4,372)
3. Local Government	NA	NA	(142)	(91)	(164)	(58)	(75)	(128)	(245)	(204)	(323)	(441)	(467)	(740)	(902)	(1,113)
B. Credit to Pvt. Sector and O	3,465	4,723	5,067	7,018	9,189	10,700	11,607	12,074	14,530	18,700	22,083	27,547	28,502	34,294	42,561	56,612
Net Foreign Assets	2,962	1,486	3,228	5,607	2,550	977	(1,075)	(147)	1,822	1,839	1,129	10,220	23,120	44,790	58,753	38,522
Other Items (net)	(1,248)	(1,831)	(727)	(60)	(2,328)	(5,043)	(6,732)	(8,117)	(11,200)	(14,255)	(13,117)	(23,084)	(24,862)	(35,930)	(49,878)	(45,773)
Money plus Quasi-Money	7,813	7,521	9,849	14,390	15,239	16,694	19,034	21,243	23,703	24,351	29,879	39,879	44,256	62,161	82,855	130,066
A. Money	5,184	5,150	5,161	7,747	8,984	9,669	10,702	11,522	12,502	11,754	13,612	20,089	24,326	34,918	46,615	79,532
B. Quasi-Money	2,257	2,677	3,248	4,777	5,500	6,352	7,556	8,795	11,201	12,597	16,267	19,789	19,930	27,243	36,240	50,533

Source: Central Bank of Nigeria and staff estimates.

Table 9: Selected Prices, Exchange Rates and Interest Rates

	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991e	1992p
NOMINAL TERMS																
A. Domestic Interest Rates																
Deposit Rate (3 months)	2.8%	4.1%	4.5%	5.3%	5.7%	7.6%	7.4%	8.3%	9.1%	9.2%	13.1%	13.1%	15.6%	19.7%	15.2%	18.5%
Discount Rate (end of perio	4.0%	5.0%	5.0%	6.0%	6.0%	8.0%	8.0%	10.0%	10.0%	10.0%	12.8%	12.8%	18.5%	18.5%	15.5%	17.5%
B. Consumer Prices																
Index	24.1	29.3	32.7	36.0	43.5	46.8	57.7	80.5	85.0	89.8	100.0	154.5	232.4	249.5	281.1	406.5
Inflation	12.0%	21.7%	11.7%	10.0%	20.8%	7.7%	23.2%	39.6%	5.5%	5.7%	11.4%	54.5%	50.4%	7.4%	12.7%	44.6%
C. Official Exchange Rates (US	1.550	1.575	1.658	1.828	1.629	1.486	1.383	1.309	1.119	0.570	0.249	0.220	0.136	0.124	0.101	0.058
Index	622.6	632.4	666.0	734.2	654.1	596.7	555.5	525.7	449.2	228.8	100.0	88.5	54.5	50.0	40.5	23.2
Appreciation/Depreciation (	--	1.6%	5.3%	10.2%	-10.9%	-8.8%	-6.9%	-5.4%	-14.5%	-49.1%	-56.3%	-11.5%	-38.4%	-8.4%	-18.9%	-42.7%
D. Parallel Exchange Rates (US	0.976	0.877	0.943	1.108	1.082	0.878	0.553	0.308	0.264	0.249	0.211	0.146	0.095	0.104	0.075	0.047
Index	461.6	414.7	446.2	523.9	511.6	415.4	261.6	145.5	124.8	117.7	100.0	68.9	45.0	49.3	35.6	22.4
Appreciation/Depreciation (	--	-10.2%	7.6%	17.4%	-2.3%	-18.8%	-37.0%	-44.4%	-14.2%	-5.7%	-15.0%	-31.1%	-34.7%	9.6%	-27.8%	-36.9%
E. Crude Oil (OPEC basket, US$	12.8	12.9	18.6	30.5	34.3	31.0	28.1	27.5	26.7	13.6	17.2	13.6	16.3	21.2	17.3	17.6
Index	74.4	75.0	108.1	177.3	199.4	180.2	163.4	159.9	155.2	79.1	100.0	79.1	94.8	123.3	100.6	102.3
Inflation (%)	9.4%	0.8%	44.2%	64.0%	12.5%	-9.6%	-9.4%	-2.1%	-2.9%	-49.1%	26.5%	-20.9%	19.9%	30.1%	-18.4%	1.7%
F. International Interest Rate	6.4%	9.2%	12.2%	14.0%	16.7%	13.6%	9.9%	11.3%	8.6%	6.8%	7.3%	8.1%	9.3%	8.4%	6.1%	3.8%
G. International Inflation (MUV)																
Index	56.7	65.2	73.9	81.0	81.3	80.1	78.3	76.6	77.2	91.0	100.0	107.3	106.5	112.6	114.8	119.7
Inflation (%)	9.9%	15.1%	13.3%	9.7%	0.4%	-1.5%	-2.3%	-2.1%	0.8%	17.9%	9.8%	7.3%	-0.7%	5.7%	2.0%	4.3%
REAL TERMS																
H. Domestic Interest Rates																
Deposit	-9.6%	-14.4%	-6.5%	-4.3%	-12.5%	-0.1%	-12.8%	-22.4%	3.4%	3.3%	1.6%	-26.8%	-23.2%	11.5%	2.2%	-18.0%
Discount	-8.6%	-13.7%	-6.0%	-3.6%	-12.3%	0.3%	-12.3%	-21.2%	4.2%	4.1%	1.3%	-27.0%	-21.2%	10.3%	2.5%	-18.7%
I. Official Exchange Rates (US$/N)																
Index	292.4	309.3	319.4	341.3	382.5	392.6	463.8	638.9	572.7	312.7	100.0	118.6	105.4	97.9	82.5	65.5
Appreciation/Depreciation (	--	5.8%	3.3%	6.8%	12.1%	2.7%	18.1%	37.8%	-10.4%	-45.4%	-68.0%	18.6%	-11.1%	-7.1%	-15.8%	-20.6%
J. Parallel Exchange Rates (US$/N)																
Index	196.00	186.24	197.66	232.69	273.43	242.84	192.84	152.98	137.32	116.06	100.00	99.13	98.10	109.27	87.18	76.20
Appreciation/Depreciation (	--	-5.0%	6.1%	17.7%	17.5%	-11.2%	-20.6%	-20.7%	-10.2%	-15.5%	-13.8%	-0.9%	-1.0%	11.4%	-20.2%	-12.6%
K. Terms of Trade (Crude Oil)																
Index	131.3	115.0	146.4	218.9	245.2	225.0	208.7	208.7	201.0	86.8	100.0	73.7	89.0	109.5	87.6	85.5
Inflation (%)	-0.4%	-12.4%	27.3%	49.5%	12.0%	-8.2%	-7.2%	0.0%	-3.7%	-56.8%	15.1%	-26.3%	20.7%	23.1%	-20.0%	-2.5%
L. International Interest Rate	-3.2%	-5.1%	-1.0%	4.0%	16.2%	15.4%	12.5%	13.7%	7.8%	-9.4%	-2.3%	0.8%	10.0%	2.6%	4.0%	-0.4%

Source: Central Bank of Nigeria, IMF International Financial Statistics, and World Currency Yearbook.

Table 10: Implicit GDP Deflators by Source and Use
Base Index (1987 = 100)

	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992p
GDP at market prices	28	32	36	41	46	47	56	65	67	67	100	122	181	212	239	360
Net Indirect Taxes	23	28	33	33	38	42	50	60	64	69	100	126	173	189	234	349
GDP at factor cost	28	32	36	41	46	47	56	65	68	67	100	121	181	212	239	360
Agriculture	23	28	32	35	42	48	56	75	72	69	100	135	198	216	249	369
Industry	23	27	31	39	42	40	45	47	54	51	100	112	184	239	265	410
Mining and quarrying	16	19	22	32	37	34	33	35	41	35	100	109	181	239	265	414
Petroleum	15	18	22	32	36	34	32	35	41	35	100	109	182	240	265	416
Other	31	39	25	40	41	39	41	45	66	129	100	102	181	139	109	165
Manufacturing and other	132	98	84	71	52	49	75	90	97	105	100	121	193	237	267	396
Services, etc.	44	46	49	53	56	58	67	76	80	83	100	116	157	178	199	295
Imports of GNFS	9	10	11	11	13	13	14	15	17	40	100	121	195	225	283	552
Exports of GNFS	17	18	18	27	33	31	29	31	34	37	100	99	194	275	284	511
Total Expenditures	21	24	30	29	29	33	40	50	56	67	100	128	180	194	236	362
Total consumption	27	26	34	31	30	34	43	54	59	71	100	130	181	193	235	351
General government	22	25	29	37	33	38	46	71	70	74	100	129	154	198	223	351
Private, etc	28	26	35	30	30	33	43	51	58	70	100	130	186	193	237	351
Gross domestic investment	14	21	23	24	24	28	29	30	35	52	100	120	171	199	244	418
GDFI	14	20	22	23	25	27	28	30	35	52	100	120	171	199	244	NA
Changes in Stocks	2	3	3	3	28	24	23	30	37	52	100	119	171	197	241	NA
Memorandum Items:																
GDP FC (Non-oil)	35	40	43	46	49	51	63	77	78	78	100	125	180	203	230	341
GDP FC (Non-oil, Non-agr.)	49	52	54	56	54	54	68	78	84	88	100	117	164	190	213	315

Source: Federal Office of Statistics, and staff estimates. 1992 figures are preliminary.

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NIGER

BURKINA FASO

BENIN

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Rima R. · Sokoto R. · Yobe R. · Niger R. · Benue R. · Kainji Reservoir

Gulf of Guinea

NIGERIA

ADMINISTRATIVE DIVISIONS

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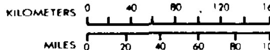


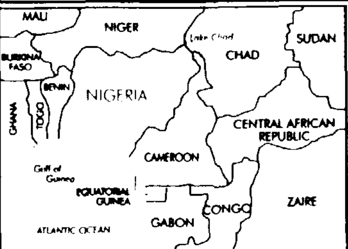
STATE BOUNDARIES

STATE CAPITALS

NATIONAL CAPITAL

MAJOR RIVERS

INTERNATIONAL BOUNDARIES



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