

WORLD TRADE ORGANIZATION

RESTRICTED

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Committee on Balance-of-Payments Restrictions

REPORT ON THE CONSULTATIONS WITH NIGERIA

1. The WTO Committee on Balance-of-Payments Restrictions resumed its consultations with Nigeria, suspended in September 1996, on 3 and 4 March 1997. The consultation was held under the Chairmanship of Mr. Peter Jenkins (United Kingdom), in accordance with the Committee's terms of reference, pursuant to Article XVIII:12 (b) of GATT 1994 and the Understanding on the Balance-of-Payments Provisions of the GATT 1994. The International Monetary Fund was invited to participate in the consultation in accordance with Article XV:2 of GATT 1994.

2. The Committee had before it the following documents:

Basic Document supplied by Nigeria	WT/BOP/6/Rev.1
Addendum to Basic Document supplied by Nigeria	WT/BOP/6/Rev.1/Add.2
Background Paper by the Secretariat	WT/BOP/W/9
IMF	<u>Nigeria: Statistical Appendix</u> , 27 December 1996

Opening Statement of the Representative of Nigeria

3. The opening statement of the representative of Nigeria is attached as Annex I.

Statement by the representative of the International Monetary Fund

4. The statement by the representative of the International Monetary Fund is attached as Annex II.

Discussion in the Committee

5. Members reacted negatively to the Nigerian proposal that import prohibitions be phased out by the year 2010. Members recalled that Nigeria had undertaken, in February 1996, to make all restrictive trade measures price-based and to disinvoke Article XVIII; and that subsequently, in September, the Committee had been informed that positive recommendations had been put before Government to eliminate these prohibitions, with the expectation of a decision to the effect that they would be adopted with the 1997 Budget. It was further recalled that the Committee had already agreed in September (WT/BOP/R/18) that balance-of-payments restrictions could no longer be justified; since then, reserves had risen further (to five months of import coverage at end-December 1996). Several Members expressed the view that prohibitions should be eliminated immediately. Some Members suggested that economic prospects remained fragile, and time lags in the impact of macroeconomic policies could justify a longer time-frame for elimination.

6. Several Members agreed with the IMF's analysis that appropriate macroeconomic policies, not trade restrictions, held the key to a sustained improvement in the overall balance of payments. Members emphasized that such policies would involve a tighter monetary policy, a reduced public deficit and greater transparency in order to create a more favourable investment climate.

7. Members sought information on the current bound tariff rates on the items still subject to quantitative restrictions justified for balance-of-payments reasons. The Nigerian representative responded that the three agriculture items were bound at 150 per cent while the others were unbound. In response to suggestions that Nigeria had ample flexibility to maintain effective price-based restrictions, arguing even more for the immediate elimination of quantitative restrictions, the Nigerian representative noted that these restrictions were, *inter alia*, necessary to prevent smuggling. He thought it possible that, once a reform of the customs administration was completed, probably within the next two years, price-based measures (tariffs) could be relied on.

8. The representative of Nigeria proposed that the time frame for elimination be reduced to 2005, but, in the light of continued objections from the Committee, agreed to consult with trading partners and to provide a time-schedule for elimination of the prohibitions in advance of a resumed consultation in July 1997. He reaffirmed Nigeria's commitment to the conclusion of the September (1996) consultation.

Conclusions

9. The Committee recalled that at its previous meeting, Members considered that the import prohibitions in force in Nigeria could no longer be justified under Article XVIII:B and the Understanding on the Balance-of-Payments Provisions of the GATT. At that time, Nigeria had stated its commitment to proceed with their early elimination and to disinvoke Article XVIII:B. Members welcomed the removal of two items from the import prohibition list, but expressed disappointment that six items on the list remained in place. While some Members urged immediate elimination, others felt that a phase-out could be justified. The Committee did not find acceptable Nigeria's proposal of a phase-out by 2005.

10. The Committee agreed with the IMF analysis that a continued bold and credible programme of economic and trade reforms was essential to achieving lasting improvements in Nigeria's balance-of-payments position. The Committee took note of the reaffirmation by the Nigerian delegation of its continuing commitment to phase out the remaining import restrictions. The Committee called on the Nigerian authorities to consult those Members who expressed an interest and to draw up a time-schedule for the elimination of these WTO-incompatible measures. The Committee invited Nigeria to resume consultations in the week beginning 7 July 1997 and, to that end, requested Nigeria to circulate, three weeks in advance, proposals for a time-schedule.

11. Meanwhile, Members reserved their rights under GATT 1994.

ANNEX I

Statement by the Representative of Nigeria

Let me begin by congratulating you on your election as Chairman of the WTO Committee on Balance-of-Payments Restrictions. Nigeria is confident that under your able leadership, this Committee will be able to reach balanced conclusions in the pursuit of global trade liberalization. We pledge our support to your tenure as Chairman of this Committee. I would also like to seize this opportunity, on behalf of my delegation, to convey our gratitude, through you, to your predecessor Mr. Peter Witt, for the able and astute manner in which he conducted the affairs of the Committee.

At the Resumed Consultation between this Committee and Nigeria, in September 1996, the Committee took note of the technical and legislative processes which had been initiated with a view to eliminating the import prohibitions based on balance-of-payments grounds. It was agreed that if all items were removed in the 1997 Budget, there would be no need for further consultations.

Following that meeting, I wish to report that the Nigerian Government comprehensively reviewed our recommendations with a view to eliminating and phasing-out the import prohibitions.

As a result of that review, Government removed two items from the import prohibition list in the 1997 fiscal year, namely textiles and furniture, listed as items 13 and 15 in Annex I of WTO documents WT/BOP/W/9, BOP/W/165 dated 10 November 1995. Government has also agreed, in principle, to phase-out the remaining restrictive trade measures by the year 2010. It is relevant for the Committee to note that the Government of Nigeria has adopted a comprehensive economic and socio-political programme entitled "Vision 2010". The above decisions by Government took account of the overall performance of the Nigerian economy, particularly the continued fragility and uncertainty of the balance-of-payments situation, and the general policy framework under the Vision 2010 Programme.

However, Government has decided for health, safety and moral reasons to retain the import prohibitions on the following items:

- (i) mosquito repellent coils;
- (ii) retreaded/used tyres;
- (iii) motor vehicle and motorcycles above eight years old; and
- (iv) gaming machines.

I would like to reiterate as stated at our September consultations that Nigeria is a developing country confronted with tremendous domestic and global economic challenges. One of the central tasks of Government, therefore, is to reduce poverty, increase the material prosperity of our people, and their general well-being, as well as enhance their capacity and that of our enterprises to compete globally.

In conclusion, Mr. Chairman, I look forward to the continuing understanding and co-operation of the Committee.

ANNEX II

Statement by the IMF Representative

1. Background

Nigeria's macroeconomic performance during 1991-94 was disappointing, with real GDP growth averaging less than 3 per cent a year, inflation surging to 77 per cent in 1994 (end-period), gross international reserves falling to US\$0.9 billion (1.3 months of imports of goods and nonfactor services) by end-1994, and large external payments arrears accumulating. In response to this performance, the Government began to adopt a number of corrective measures in 1995. First, the system of administered foreign exchange allocation was replaced with a dual exchange rate régime, consisting of an autonomous foreign exchange market (AFEM) rate (N80= US\$1) and the official exchange rate (N22= US\$1). Second, the federal government budget deficit (on a commitment basis) was reduced from its peak of about 18 per cent of GDP in 1993 to 3.7 per cent in 1995. Third, even though the interest rate ceiling (21 per cent) was retained in 1995, the growth of money supply was substantially reduced. Finally, on the structural front, the exchange system was liberalized, import tariffs were lowered markedly, restrictions on foreign investment relaxed, and distress in the banking system was reduced.

These corrective measures have had some success in restoring macroeconomic stability. Inflation decreased to 52 per cent in 1995 (end-period) and further to an estimated 28 per cent in 1996. While the cap in interest rates and the sectoral credit allocation guidelines were removed effective 1 October 1996, interest rates nonetheless remained negative in real terms. The AFEM rate remained within the range of N80-N85 per U.S. dollar, and this entailed a 37 per cent appreciation of the real effective exchange rate. Based on data proved by the Nigerian authorities, and the Fund staff adjustments to reflect a better coverage of the underlying transactions, it is estimated that the federal government budget recorded a surplus of 0.6 per cent of GDP in 1996. In addition, the external current account has been improving, with the deficit being almost halved in 1995, to 1.7 per cent of GDP, and with a shift to a surplus in 1996, estimated at 5.0 per cent of GDP, thanks largely to the recent increases in world oil prices. Nigeria's gross international reserves are reported to have increased to US\$4.1 billion (5.2 months of imports) at end-December 1996, from US\$1.4 billion (1.8 months of imports) a year earlier. Nevertheless, economic activity has remained weak, with non-oil GDP growing by an estimated 2.4 per cent in both 1995 and 1996.

2. Policy directions in 1997

The 1997 federal government budget was presented in January. The budget envisages a deficit equivalent to 2.2 per cent of GDP, compared with the reported surplus of 0.6 per cent of GDP in 1996. Total government expenditure is to increase to 15 per cent of GDP from 13 per cent of GDP in 1996, while total federally retained revenue is estimated to be 12.8 per cent of GDP in 1997, representing a reduction of 0.7 per cent of GDP from estimated receipts in 1996. To further address financial sector distress, the authorities have undertaken a number of measures, including increasing the minimum paid-in capital requirement of banks and requiring the recapitalization/liquidation of all distressed banks. As regards privatization, the Government announced that it will set up a committee to examine the various options before any privatization exercises are embarked upon. The Government intends to maintain its policy of commercialization of public enterprises and encourage efficient management of these bodies.

In the view of the fund, the 1997 federal government budget is disappointing and the envisaged budget deficit is inappropriate. The planned increase in expenditure is excessive, particularly in view

of the fragility of oil prices, and large expenditure items still remain in areas that should be left to the private sector. It is also necessary to establish a mechanism for raising domestic petroleum prices to international levels. Moreover, the Fund is concerned that the budget envisages a further accumulation of external arrears. While the elimination of the cap on interest rates and the removal of the mandatory sectoral credit allocation guidelines are welcome, it is critical that real positive interest rates are achieved without delay. The Fund is also concerned about the recent measure to bring the Central Bank of Nigeria under the Ministry of Finance, which could undermine the central bank's independence in the conduct of monetary policy. Furthermore, it is regrettable that the authorities have decided to delay the privatization of the oil, power, and telecommunications sectors, rather than moving ahead expeditiously with the needed privatization. Finally, in order to strengthen public and investor confidence, it is crucial to enhance the transparency of fiscal policy and to put in place the institutional framework to help eliminate the perception of widespread corruption.

As regards the exchange and trade system, the authorities have announced that they will continue with their policy of guided deregulation of the exchange rate. The dual exchange rate system will be maintained and the unification of these rates has been deferred, thereby maintaining a major source of economic distortions. The number of prohibited import items remains unchanged at 14, although the composition has changed, with five items being removed (i.e. vegetables, processed wood, textile fabrics, kaolin, and fluorescent tubes and GLS bulbs), and five items being added (i.e. sorghum, millet, wheat flour, gypsum and gaming machines). At the same time, the number of items on the export prohibition list has increased from four to nine, with raw palm kernels being removed from the list, and scrap metals, rice, yams, maize, cassava, and beans being added. While the Nigerian authorities have lowered import duty rates for a number of products, including writing inks, crushed or powdered talc, electric accumulators (automotive batteries), textile fabrics, spare parts for commercial aircraft, fertilizer, certain machinery equipment tools, tractors, and water treatment chemicals, they have also increased overall rates by reducing the import duty rebate from 35 per cent to 25 per cent.

The authorities have announced the removal of limitations on the availability of foreign exchange relating to personal and business travel allowances, home remittances by foreign nationals, and remittances for education expenses. The authorities have finally announced the removal of limitations on payments of fees, tariffs, and other charges for services rendered in Nigeria, and the lifting of the suspension of bills for collection. While these measures are welcome, certain exchange restrictions remain and further clarification is required in order to assess whether other measures constitute exchange restrictions.

3 External prospects

Nigeria's medium-term prospects depend not only on developments in the oil sector - which accounts for 98 per cent of the country's exports and 70 per cent of government revenue - but, even more importantly, on the course of its economic policies. The Fund's latest projections indicate that crude oil prices would remain relatively high, at about US\$20 per barrel, over the next three to five years. Under this assumption, and a projected steady increase in oil export volume, oil export earnings would rise by 12 per cent of GDP by 2001. The projected substantial increase in oil receipts would not, however, resolve Nigeria's external financing problems. While the current account would remain in surplus over the medium term, the capital account would continue to be in deficit as neither direct investment nor loan disbursements could be expected to increase significantly in the absence of a major privatization drive or an improvement in the investment climate. This deficit would more than offset the current account surplus. For 1997, a current account surplus is again projected, albeit less than that estimated for 1996. However, it is expected that the capital account would continue to be in deficit, resulting in an overall balance-of-payments deficit.

Owing to uncertainty regarding the future courses of oil prices, the weak performance of the non-oil export sector, and the country's heavy debt-service burden, Nigeria's economic prospects therefore remain fragile. There are substantial downside risks that oil prices might fall in the period ahead. If oil prices were to return to their 1995 level of about US\$17 per barrel, oil export earnings would decline sharply in 1997, and would not recover to their 1996 level over the next five years. Although the external current account could remain approximately in balance, the capital account would continue to be in deficit in the absence of improved relations with official bilateral, multilateral, and private creditors, resulting in an overall balance-of-payments deficit. This further underscores the need for the adoption of appropriate macroeconomic policies.

In the Fund's view, trade and exchange restrictions are not the appropriate means to tackle the balance-of-payments problem. Accordingly, the Executive Board did not approve the maintenance of exchange restrictions nor the maintenance of the multiple currency practice arising from the current dual exchange rate system that are subject, respectively, to Article VIII, Section 2a and Section 3. Rather, the Board maintained that the steadfast implementation of strong macroeconomic policies was required if improvements in the overall balance of payments were to be sustainable. The authorities should, without delay, remove prohibitions on exports and imports, as well as all remaining restrictions on current international transactions. A significant and durable improvement in economic performance in Nigeria can only be achieved through a comprehensive and bold set of actions, which should encompass strict fiscal discipline and transparency, a tight monetary policy, unification of the dual exchange rates, removal of market distortions, an ambitious privatization drive, a strengthening of fundamental economic institutions, and the regularization of relations with Nigeria's external creditors.