TITLE PAGE

THE PRINCIPLES AND METHODOLOGY OF BALANCE OF PAYMENTS: A CASE STUDY OF NIGERIA.

BY

JOSEPH HABILA JATAU
(G 91 BA 7231)

BEING A PROJECT SUBMITTED TO THE POSTGRADUATE SCHOOL, AHMADU BELLO UNIVERSITY, ZARIA, IN PARTIAL FULFILMENT OF THE REQUIREMENT FOR THE AWARD OF MASTER OF BUSINESS ADMINISTRATION (M.B.A.)

JULY, 1994

PROJECT APPROVAL

This project has been read and approved as having met the basic requirements for the award of the Degree of Masters of Business Administration (M.B.A.)

.....
5.8.99.

SUPERVISOR

M M MIRZA

NAME

S. A. D. Shirazi
20/8/99

EXTERNAL EXAMINER

DEDICATION

This work is dedicated to:

1. **My Late Parents: JATAU ARUNG and CHICHAI JATAU ARUNG.**

2. **Members of my Family: VICTORIA, JANET, PATIENCE, MERCY, JOY, BEGE AND GLORIA**

ACKNOWLEDGEMENT

In the process of writing this project, I received great help from many individuals, too numerous to mention, however, special mention must be made of some key persons.

The first person is Mr. Mirza, my Supervisor, who gave me all the attention and assistance I needed to put up a good write-up.

I am also indebted to Mr. Olarunshola of the Research Department, C.B.N., Lagos, for his assistance. His excellent academic disposition made this survey possible.

My gratitude further goes to Mr. Dalong, my Secretary, for his dedication and efficiency in computerizing the project.

Lastly, I seize this opportunity to thank the Management of Central Bank of Nigeria for the permission and encouragement given to me to embark on this work. Worth special mentioning also, is the Director of Personnel, Central Bank of Nigeria, Lagos (Alhaji Saidu Mohammed), and the Branch Controller, Central Bank of Nigeria, Jos, Mr. B. Passa. I am most grateful to all.

ABSTRACT

In this study, a systematic and empirical investigation has been carried out to examine the principles and methodology of balance of payments with particular emphasis on the consistent deficit balances recorded in most segments of the balance of payments package since the 1960s.

The summary of the objectives of this study was to determine the role played by trade factors, government attitude and private interest, both domestic and foreign, in the continued adverse outcome of balance of payments packages.

We found in the course of our investigations that the entire economic problems and, indeed, that of balance of payments, are not that adequate policies have not been put in place to achieve better results but there is complete lack of sincerity to see these policies work. These policies are merely "photo-tricks" as those who make these policies themselves violate them.

We corroborated our hypothesis by analyzing in-house data collected from creditable sources and tried to establish that oil prices greatly influence the outcome of balance of payments.

Based on our findings we made recommendations that deliberate policies must be put in place to bring sanity to the society. Also, funds should be provided for intensive economic activities. Activities in agriculture, the manufacturing sector as well as petroleum industry should be diversified.

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CHAPTER ONE

INTRODUCTION

The mention of these three words - 'balance of payments', especially at governmental circles, brings about absolute attention. It *carries a strong persuasive attraction to itself, yet the monumental* confusion that is generated when discussions on it are rife, does not make it a good partner to those who are compelled to romanticize with it. Discussions about these words, confirm the "more you look, the less you see".

It has to be so because, the highly technical characteristics associated with the recordings and the brain comprehending level expected to come on while discussing and analyzing a balance of payments package, make it a drama interesting to watch, without even being a participant.

Among policy makers therefore, there is usually confusion as to *what a balance of payments is, or should be and what constitutes a* balance of payments disequilibrium and the appropriate adjustment policies to remedy an adverse development. Here, therefore, lies the justification for the choice of the title of this write-up.

It is, therefore, a must that for justice to be done to the topic of this paper and the protracted inability to understand, in simple language, what

a balance of payments is and what it entirely involves, the ABC of a balance of payments definition, concepts and analytical considerations would be the leading issues in the discussions.

We shall, therefore, commence discussions in this paper by stating in a very simple language, what can be pieced together in a one-hold definition of balance of payments. Perhaps, this may, in one single effort, *put the reader in a better frame of mind to grapple with all that will be* documented in this paper, no matter the technicalities.

We shall then talk about the structure and later, the methodology of determination of a balance of payments account. We shall apply these to the Nigerian situation by appraising a balance of payments performance in a given period and highlighting a balance of payments disequilibrium and the appropriate adjustment policies to be put in place. We shall then conclude by making prognosis of the future role of the balance of payments in the Nigerian economy.

1.1 PURPOSE AND OBJECTIVE OF STUDY

The history of balance of payments outcome in Nigeria, unfolds an unsatisfactory account, manifesting an increasingly wobbling economy, which has defied all socio-economic solutions. The outcome of this checkered history, is not least expected, just for that uncontroversial reason that events at the foreign trade sector be it economy or social, turns, to a greater magnitude, the wheel of economic determination of any

country, since no country can survive in isolation as no economy can exist as an entity.

In this study therefore, we shall have the following objectives:

(a) To examine the existing principles and methodology for the determination of balance of payments outcome in Nigeria and the extent of structural imbalances.

(b) To investigate to what extent government policies and actions have contributed in the existing malady of balance of payments outcome.

(c) To investigate to what extent trade factors and private interest both domestic and foreign, has contributed in this continuously unfolding economic catastrophe.

(d) Finally, in an attempt to carry out the above investigation, the researcher will try to identify the factor(s) that militate against the realization of a favourable balance of payments outcome in Nigeria.

1.2 PROBLEM OF STUDY

The problem of this study arose from the consistent deficit balances recorded in most segments of the balance of payments package since the 1960s which have undoubtedly brought about uncomfortable developments in the overall balances of Nigeria's balance of payments. The Nigerian economy has been terribly bad for this, and has continued to wobble, tilting more often, to the disadvantage scale with its tremendous economic hardship on the citizens.

The research endeavour will attempt to unravel the myth surrounding the continued failure of policy packages to bring sanity in Nigerian foreign trade sector.

1.3 METHODOLOGY

The study is partly descriptive and partly analytical. The analytical approach will be focused on available in-house data from sources that include the Central Bank, Commercial Banks and Federal Office of Statistics.

These balance of payments data will be broadly analyzed, specific problems identified for a useful research outcome to enable a meaningful conclusion.

1.4 SIGNIFICANCE OF THE RESEARCH

Quite recently, much attention has been drawn to the activities of Nigerians and foreigners at the foreign trade sector. The government and citizens, and the international community have shown genuine concern. With these concerns expressed, the problems have continued to mount. Unfavourable balance of payments continues to persist. As a result budget proposals and announced budgets are visited and revisited as many times as the enormity of the confusion mounts. Budgeting concepts are manipulated now and again, a balanced budget, a surplus or a deficit, yet the problems persist and the economy continues to nose-

dive. Often, issues that attract such monumental economic disadvantages, apart from discussing it on the platform of symposia, seminars and in classrooms or in the form of a village-square kind of moonlight gossips, no systematic and empirical investigations have been carried out to identify the factors giving rise to these hydra-headed problems and the magnitude of the hardships encountered by citizens. This is precisely what the researcher intends to do and thus, the significance of the research.

1.5 HYPOTHESIS

The purpose of collecting and analyzing data is to find a reasonable and suitable criterion for deciding a proper line of action. This is in a nutshell what the research endeavours are and, exactly what we shall do as we embark on this.

We want, through the outcome of this research, to have enough supporting evidence to suggest to those who are responsible for the formulation of policies which affect the balance of payments problems.

It is with this understanding that we make assumptions and try to transform our assumptions into reality and, authenticate them or drop them. It is for this, that we embark on a systematic and empirical research to enable us to determine whether our assumptions are on course and our objectives are realizable or not.

These assumptions, which we want to refer to as hypotheses in this research, are:

H_1 Balance of payments outcome in Nigeria has continued to be adverse.

H_2 Adverse balance of payments outcome in Nigeria, rose tremendously from the 1980s.

H_3 There would be significant relationship between oil prices and balance of payments outcome.

H_4 Frequent changes of government would influence balance of payments outcome.

REFERENCES TO CHAPTER ONE

1. P.N. Opara: Democratization of Decision-Making Processes and Achievement Motivation. A University of Jos M. P.A. Thesis, 1989.

CHAPTER TWO

REVIEW OF RELEVANT LITERATURE

2.1 DEFINITION AND OPERATIONALIZATION OF CONCEPTS

It is necessary, to define and operationalize key concepts involved in the research topic in order not to embark on a loose-end kind of endeavour, denied of the excellence of articulation.

Definition and operationalization of key concepts have been strongly established as a method of approach to scientific investigations, without which it would be impossible to properly and adequately investigate and analyze the variables in the research topic (Blalock, 1969; Babbre, 1973; Kerlinger, 1964; Spector, 1981).

The research topic; 'The Principles and Methodology of Balance of Payments', will be defined and operationalized as follows:

2.1[1] PRINCIPLES:

This is the basic rules, the generally acceptable perspective of an issue or a concept, the guiding direction of an understanding which sets the confines of its flexibility.

2.1[2] METHODOLOGY:

The ways of doing things. A systematic approach depicting a laid down order In the conduct of any endeavour.

2.1[3] BALANCE OF PAYMENTS

The balance of payments table of any country, reveals a comprehensive recording in an accounting format of credit and a corresponding debit entry of all the economic transactions between nations and residents of nations in the world, within a given period, usually one year.

Simply, if we consider a visitor or tourist in Nigeria, his/her expenses in Nigeria will be recorded as credit while expenditure by a Nigerian visitor in a foreign country will be recorded as debit.

Going a little bit further, if Nigeria exports a certain amount of goods and services, this transaction is recorded as credit and signifies that the country has received some money, equivalent to the value of the goods and services exported. The corresponding debit entry in this case, is recorded In the reserve movement, representing an increase in net claims on foreigners, that is, increase in Nigeria's foreign reserves.

On the other hand, the importation of goods and services is a debit entry and its corresponding entry is recorded as a credit item in the reserve movement. Therefore, the effects of exports of goods and services is to increase the reserves while imports which involve payments deplete the reserves.

Furthermore, there are unrequited transfers which are considered as receipts (credit) and payments (debit) either in cash or in kind without a "qui-pro-quo" (an obligation to provide an equivalent economic value in

exchange). For instance, if a Nigerian working abroad remits some money home, it is recorded as a credit (receipts) entry, while a foreigner working in Nigeria remits money home, it is recorded as a debit (payment) entry. The same applies to private and official gifts/donations and charitable contributions from either country.

It is therefore a truism, that from all that is illustrated above, credit entries may be construed as receipts and debit entries, as payments. For instance, from the first illustration, all expenditures made by the visitors in Nigeria are regarded as receipts, while all expenses made by Nigerian visitors abroad are regarded as payments. In this understanding, all export earnings in the second illustration are regarded as receipts while expenses on imports are regarded as payments. And, in the third illustration, all gifts/donations to residents in Nigeria are regarded as receipts while all such gifts made by the residents in Nigeria to others abroad are regarded as payments.

It, therefore, becomes very clear that a balance of payments is a country's statement of receipts (credit entry) and payments (debit entry) between residents, governments and other institutions (private and public) in that country and residents, government and other institutions (public and private) in the rest of the world within a specified period of time, usually one year.

2.2 LITERATURE REVIEW

I will not do a literature review of just any documented mind. Such blanket review of general literature, which has characterized research endeavours in recent times, might be avoided, for such moves, on a general perspective, does not provide opportunities for deductions, that will provide a base for discussions which are relevant to the topic of research. This approach, only "dance" around documents, and it is quite ridiculous, suggesting that emphasis is placed on just to satisfy requirements for a systematic research rather than addressing the issue of relevance.

The message is that researchers should avoid embarking on broad based literature reviews in an attempt to sound ambitious but which in the end put them a wide degree off in respect to the topics of their researches. Attempts might be made to build on literature in the specific area of concern of the research topic or a relevantly component aspect of the topic to enable diversification and, at the same time, the intensification of knowledge. There is much need to be more relevantly specific in the documentation of knowledge.

The researcher would draw literature for review from foreign resource related literature with much emphasis on the available documents on activities surrounding the oil sector.

Analysis of balance of payments development in Nigeria is dominated by the components that contribute to external reserves. For example, developments in the oil sector have dominated Nigeria's balance of payments. In the 1970s when there was a much rising export earnings from petroleum we had large balance of payment surplus. However, when the oil market weakened in the early 1980s, the overall level of export receipts also dwindled considerably. Large balance of deficits were incurred, reserves were drawn down and external debts rose substantially as large amounts of trade arrears were incurred. In addition, new lending started to decline as creditors were not receiving payments on outstanding debts.

During this period, the government resorted to administrative controls to contain the impact of their depleting receipts. An economic emergency programme launched in late 1985 was overtaken by the collapse in oil prices in early 1986; export earnings in 1986 were almost half of that of 1985. Further, large amounts of trade arrears were accumulated.

The literature review will further proceed by discussions on the components of our external reserves or resources and a focus on the management of external reserves.

2.2[1] SOURCES OF FOREIGN RESOURCES

A. RECEIPTS FROM PETROLEUM

1. Crude Oil:

Crude oil is produced in Nigeria and considered as one of our major foreign resources because of the petrodollars involved. Crude oil is paid for in Dollars and Central Bank of Nigeria is the collecting agent on behalf of the Nigeria National Petroleum Corporation (NNPC). When crude oil is lifted in Nigeria, the NNPC gives the Central Bank of Nigeria the list of the contractors and the payments to be made on the due dates. The currency proceeds of the sale of crude oil received are managed by Central Bank of Nigeria while the Naira is paid to the federation through the NNPC.

2. Petroleum Profit Tax (PPT):

Oil producing companies in Nigeria pay tax on their output. This tax is paid in dollars/foreign currency because oil producing companies have been given special concession to keep proceeds abroad while they maintain Naira accounts in Nigeria.

3. Royalty:

This is also paid in Dollars for the use of our resources, that is, for the space of land used in the petroleum industry as blocks Oil Mining License (OML).

4. Gas Flared:

This is the penalty for burning our gas instead of injecting same back into the ground as is done in other oil producing countries. This is also paid in dollars.

5. Bunkering:

This is the fueling of ships. Ships that berth in Nigeria's ports pay for their fueling in foreign currency. Foreign exchange proceeds of oil Bunkering are then surrendered 100% to the Central Bank of Nigeria by the oil bunkers in return for Naira equivalent.

B. PUBLIC SECTOR SERVICES INCOME

1. Interest on FEM Funds:

Authorized dealers are required to open FEM Accounts where their takings in FEM market are deposited. Before accounts are opened and negotiated, these funds earn interest. They are therefore required to surrender this interest for Naira on behalf of their customers.

2. Interest on External Reserves:

All the foreign receipts are placed in interest yielding accounts with foreign banks.

3. Others:

(i) Exchange Equalization:

Before release of FEM takings to the authorized dealers, the CBN charges 1% equalization.

(ii) Commission on Debt Converted:

A commission is charged for handling this by the CBN.

C. EXTERNAL BORROWING/GRANTS

These include adjustment support loans from the London and Paris Clubs, loans for funding FEM and loans specifically to assist some projects administered by the CBN for the World Bank.

There are also loans from the African Development Bank (ADB) to the Government of Nigeria, usually tied to projects. An example is the *Export Stimulating Loan (ESL) of about US $245 million for the purpose* of stimulating Nigeria's non-oil exports by providing foreign exchange to support export oriented industries and agricultural production. There are also adjustment support loans which are tied to specific projects by the Japanese loan from the DECF.

There are also British grants, Gold balances, SDR, IMF Gold Tranche, foreign Government Securities and other reserves.

2.2 MANAGEMENT OF FOREIGN RESOURCES/RESERVES

It can be safely argued that the balances on our accounts with foreign correspondent banks constitute our foreign reserves. The management of these reserves will therefore, be examined on the background of the foreign accounts and loans which form the bulk of the sources of these reserves as highlighted earlier.

1. Correspondent Banking Relationship:

Our funds are managed through maintaining of correspondent relations with various banks throughout the world. Correspondent banking refers to the development and maintenance of relationship between a bank and other financial institutions - mainly other banks. It also calls for the supervision of flow of transactions through them to ensure maximum handling efficiency towards the full satisfaction of the Central Bank of Nigeria and its customers;

that is:

- the Federal Government of Nigeria and its Agencies.

There are services deriveable from our correspondent bank:

- Cheque transfer;
- Wire transfer;
- Buying and safe-keeping of securities;
- Providing lines of credits;
- Facilitating international trade transactions;
- Providing investment advice;
- Offering participation in domestic and Eurodollars;
- Buying and selling foreign exchange;
- Technology; and
- Economic, institutional, country and other information.

2. Movement of Funds:

Funds are normally moved to areas that are safe, from low interest to high interest rate areas.

3. Block Reserves, Time Deposits and Notices of Accounts:

Some of our reserves are in block so that they cannot be drawn at random. Some are even for specific purposes, for example our Bank of England No. 3 Account is for the purpose of payments to Paris and London Clubs. Time Deposit Accounts with maturity dates which could not be touched until maturity.

4. Drawing Facilities:

Some of our small correspondent banks are authorized to draw funds from our major correspondents to make payments on our behalf. This is to avoid a situation where our foreign reserves are spread in too many banks. Example, MGTC draws on Frb, New York, Midland Bank on Bank of England, BNP on Bank of France, Deutsche Bank and Dresdner Bank on Deutsche Bundes Bank.

5.

Major investment accounts and time deposits accounts are maintained with BIS (Bank for International Settlement) because our funds could be attached and the attractive services they offer.

6. Loans:

Whatever the nature of the loans, Central Bank of Nigeria is the administrative manager. These include:

(i) policy based loans;

(ii) balance of payments loans;

(iii) TIPL - from the World Bank for the funding of FEM; and

(iv) project tied loans and grants.

These go to specify projects like Education, Health, Guinea Worms Eradication Programmes, Portable Water projects, Agricultural projects. The Central Bank of Nigeria manages these loans, keeping accurate records and monitoring to ensure that proceeds go to the targeted projects. The CBN has to maintain both overseas and local accounts to enable it to manage the disbursement and utilization of funds. Returns are also sent to donor countries or organizations periodically. The Central Bank of Nigeria has to manage the draw down and preview the draw down proper. In the management of these loans, the bank has to liaise with the Federal Ministry of Finance and other related ministries to ensure judicious use of the funds. Some donor countries also visit Nigeria to monitor how funds are being utilized.

CHAPTER THREE

THE STRUCTURE AND METHODOLOGY OF BALANCE OF PAYMENTS

In discussing the structure of a balance of payments, we shall be looking at the existing conceptual framework as presented by Machlup (1964: 69 - 92). These are:-

(a) the market balance;

(b) a programme balance;

(c) an accounting balance.

We shall however, limit ourselves to (c) - an accounting balance, because it is the one commonly adopted in recording of balance of payments items.

The accounting balance of payments concept presents an annual record of all real and financial transactions between government and residents of one country and government and residents of another. It employs the double - entry principle of accounting whereby each credit entry is balanced by a corresponding debit entry. On the whole, the balance of payments table might balance because unrecorded transactions which would have resulted in unbalanced accounts are taken care of by the inclusion of the "errors and omissions" item.

The accounting balance of payments recording is divided mainly into the current account and the capital and reserve movement account.

We shall now endeavour to present as comprehensively as possible, a format showing the components of a balance of payments table:

		CREDIT	DEBIT
A.	**CURRENT ACCOUNT**		
1.	Merchandise		
i.	Export of goods		
ii.	Import of goods		
	Balance of trade (i - ii).		
2.	Services and Income		
i.	Shipment		
ii.	Other transportation		
iii.	Travel		
iv.	Investment income		
v.	Other goods, services and income		
-	Balance on services and income (item 2 (c) through (v)).		
-	Balance on goods, services and income (ii) through 2 (v)).		
3.	Unrequited Transfers		
i.	Official		
ii.	Private		
-	Balance on unrequited transfers (3 (i) - 3 (ii)).		
-	Balance on Current Account (1 (ii) through 3 (ii)).		

B. CAPITAL EXCLUDING RESERVES

4. Direct Investment

   i. *Abroad*

   ii. In reporting economy (country)

5. Portfolio investments

6. Other long term capital

   i. Drawings and repayments on loans extended.

   ii. Other assets

   iii. Drawings on loans received

   iv. Other liabilities

7. Other Capital (Short Term)

   i. Assets

   ii. Liabilities

8. Deposit Money Banks

- BALANCE ON CAPITAL ACCOUNT (4 through 8).
- BALANCE ON CURRENT AND CAPITAL ACCOUNT (Items 1 through 8).

C. RESERVE MOVEMENTS

9. Monetary Gold

10. Special Drawing Rights

11. Reserve Position in the Fund

12. Foreign Exchange Assets

13. Other Claims

14. Use of Fund Credit. Errors and Omissions.

We advise that a careful reading of our systematic build-up of a *definition of a balance of payments as earlier documented in this paper* will enable the reader to know where to classify each item, that is, either as a credit or debit entry.

3.2 THE NIGERIA'S BALANCE OF PAYMENTS ACCOUNTS TABLE

Nigeria's balance of payments statement is divided into two broad categories, namely, the oil sector and the non-oil sector.

Each of these sectors has two columns for credit and debit items. The oil sector estimates refer to the external transaction of the oil prospecting and mining companies while those of the non-oil sector refer to the rest of the economy. There is the third column, the total column, where each of the balances analyzed are reflected.

Data on Nigeria's balance of payments for any year are usually subject to revisions for the next two succeeding years. For instance, the *1990 figures will still feature in the CBN 1992 Annual Report.*

3.3 METHODOLOGY OF DETERMINATION OF BALANCE OF PAYMENTS

From an accounting point of view, the overall balance of payments table might balance. However, balance of payments calculations derive their analytical contents from the fact that the various accounts can be segmented into two categories[1] to provide a basis for calculation to determine a balance of payment deficit or surplus. These are:

1. Autonomous transactions (usually referred to as "above the line" items): These are transactions taken on the normal process of economic activity and not given rise by balance of payments *exigencies*.
2. Accommodating transactions (usually referred to as 'below the line' items): These are transactions taken as a reaction to what has occurred in the autonomous accounts. In other words, there are transactions undertaking for financing the deficit and infact, surplus, that may have occurred from the calculations in the autonomous transactions.

Depending on what constitutes the autonomous and accommodating transactions, using various definitions, a balance of payments position could be determined.

In this paper therefore, we shall outline three definitions, which could be used in the determination or calculation of a balance of payments positions. These are:

A. <u>*The Basic Balance Approach:*</u>

This approach is considered as autonomous:

(i) All transactions in the current account;

(ii) Long-term private and official capital.

The remaining items as components of a balance of payment table are regarded as accommodating items for financing the balance on the autonomous accounts.

This approach is particularly suited for determining the role of the foreign trade sector on the economy and the long-run movements of *resources.*

B. <u>The U.K. Version:</u>

This approach is a modified version of the basic balance used by the British and considered as autonomous;

(i) All transactions in the current account;

(ii) Long-term private and official capital;

(iv) Errors and omissions.

All other items are considered as accommodating items.

C. <u>The Official Settlements Balance Approach:</u>

This approach is considered as accommodating:

(i) Net changes in official monetary reserves;

(ii) Net change in liabilities to foreign officials and institutions.

And all other items as autonomous. This approach, has been endorsed by the International Monetary Fund (IMF) to member countries.

We shall now proceed to present a simple and unambiguous hypothetical balance of payments table, showing how the various approaches named above, are used to determine a balance of payments position, either a surplus or deficit (disequilibrium).

3.4 TABLE 1: A SIMPLE HYPOTHETICAL BALANCE OF PAYMENTS TABLE

			CREDIT	DEBIT
1.	**CURRENT ACCOUNT**			
	(a)	Merchandise Trade		
		(i) Exports	200m	
		(ii) Imports		*300m*
	(b)	Services		
		(i) Travel		
		(ii) Transport insurance		
		(iii) Government activities		
		(iv) Miscellaneous	50m	100m
	(c)	Donations	10m	2m
2.	**CAPITAL ACCOUNT**			
	(a)	Private long term capital	50m	
	(b)	Official long term capital	100m	20m
	(c)	Short term capital	20m	
	(d)	Liabilities to foreign official institutions	50m	
	(e)	Running down of international reserves	50m	
		Errors and omissions		*98m*
			530m	

We shall now proceed to determine the analytical balance of the hypothetical balance of payments table. In other words, we shall, by using the various approaches, determine the imbalances of the above table for policy consideration.

From Table 1:

Using the Basic Balance Approach, we have:

				CREDIT	DEBIT
	(a)	Merchandise trade			
		(i)	Exports	200m	
		(ii)	Imports		300m
	(b)				
		(i)	Travel		
		(ii)	Transport insurance		
		(iii)	Good activities		
		(iv)	Miscellaneous	50m	100m
	(c)	Donations		10m	2m
2.	(a)	Long term private capital		50m	
	(b)	Long term official capital		100m	20m
				imbalance =	- 12m

Using the U.K. version approach, we have:

				CREDIT	DEBIT
1.	(a)	Merchandise Trade			
		(i)	Exports	200m	
		(ii)	Imports		300m
	(b)				
		(i)	Travel		
		(ii)	Transport insurance		
		(iii)	Government activities		
		(iv)	Miscellaneous	50m	100m
	(c)	Donations			
2.	(a)	Long term private capital		50m	
	(b)	Long term official capital		100m	20m
	(c)	Errors and omissions			98m
				imbalance =	- 118m

Using the official settlements balance approach:

				CREDIT	DEBIT
1.	(a)	Merchandise Trade			
		(i)	Exports	200m	
		(ii)	Imports		*300m*
	(b)				
		(i)	Travel		
		(ii)	Transport Insurance		
		(iii)	*Government activities*		
		(iv)	Miscellaneous	50m	100m
	(c)	Donations		10m	2m
2.	(a)	Long term private capital		50m	
	(b)	Long term official capital		100m	20m
	(c)	Short term capital		20m	10m
		Errors and omissions			98m
				imbalance = -	100m

From the calculations, the balance of payments recordings on Table 1 show the various imbalances as deficits.

3.5 DEVELOPMENT IN THE METHODOLOGY OF DETERMINATION OF BALANCE OF PAYMENTS IN NIGERIA

In recent years, Nigeria's balance of payments has been affected by various developments especially in the external debt section. These include the accumulation and redemption of payments arrears and refinancing and rescheduling of external debt obligations. Also, in order to ease the pressure on the balance of payments and fund the foreign

exchange market more adequately, the State Governments have started contracting balance of payments loans especially from the World Bank. These developments no doubt called for a reassessment of the methodology of presenting Nigeria's balance of payments, and the determination of its analytical balances. It was considered that to give a better picture of developments in the external sector, the accumulation of arrears, rescheduling of debt obligations as well as drawings on loans contracted strictly for balance of payments support, should be regarded as financing items and treated accordingly, that is, considering them as "accommodating transactions" along with reserve assets. This new development was used in the CBN Annual Report for 1988.

The obvious advantage of this arrangement is its analytical usefulness as it reflects more forcefully, the underlining sources of pressure on the balance of payments.

It is also useful in projecting the balance of payments situation and identifying possible sources of financing the overall deficit.[2]

REFERENCES TO CHAPTER THREE

1. The Table is designed with respect to the Double-Entry Accounting Format of Credit and Debit Columns.

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CHAPTER FOUR

THE FOREIGN TRADE SECTOR AND BALANCE OF PAYMENTS

The foreign trade sector revolves around the export of non-oil and oil (petroleum) based products, including importation activities. Because from the oil comes hundreds of chemicals that are valuable to agriculture and industry which determine the non-oil exportables, we shall limit talks about the foreign trade sector on the diversification potential of oil (petroleum) based products as exportables, since it is all-embracing - giving hope for manufacture, we revisit the magnitude of potentials that abound in the oil sector to redeem the persistent precarious position of Nigeria's balance of payments which is, in this research endeavour admitted for review. A considerable diversion of interest from just the crude oil exports to petro-industrial products might provide the leverage.

4.1 THE PETROLEUM INDUSTRY

The petroleum industry is a gigantic and enormously important industry in the world's economy. The importance of oil in the world economy is generally recognized. It is no exaggeration to say that the modern world turns on oil. The veracity of this statement would be easily recognized if one were to imagine what would happen if supply of oil suddenly ceased. Oil is needed to power factories, to run cars, ships,

aircrafts and railways; to heat and light homes and offices, to lubricate machinery, to provide bitumen to surface roads and from oil too, comes hundreds of chemicals that are invaluable to agriculture and industry and help to produce a surprising number of things we use everyday[3] (Obadan, 1983).

Oil is one of the most vital requisites of civilized existence[3] Some economists have ranked energy as the fourth factor of production and have argued that as capital and labour are dependable, so is sophisticated capital and capital[4].

Oil is important to both industrialized and developing nations. The hue and cry in the industrialized countries over the rapid increase in the price of oil in the period 1970 - 77 was a tacit acknowledgement of the importance of oil for the continued growth of their economies. Such a massive inflow of foreign capital into developing countries would not have been forthcoming in the absence of large oil deposits. Whether the inflow of foreign capital has accelerated the development of these economies is another question.

Outside the U.S., U.K. and the States of the former U.S.S.R. most of the world oil is produced in developing countries. Theories about the oil industry have been formulated in the advanced countries, and some economists have argued that these are appropriate to the development needs of the developing countries. These theories include the need for reservation of oil for future consumption, the need for individual producing

countries to determine their export capacity and price and alliance with the Western countries in the determination of oil policies. While we agree that the theories may not be realistic in their entirety, they certainly offer some guidelines to oil producing developing countries which may not completely operate in isolation of global developments and interests.

4.2 THE PRESENT RANGE OF PETROLEUM - BASED PRODUCTS IN NIGERIA AND DIVERSIFICATION EFFORTS.

Crude oil production began in Nigeria in 1958 and the quantity increased every year until the interruption caused by the civil war 1967 - 1970. However, after the end of the civil conflict, the upward trend in production continued and today, Nigeria ranks among major world producers. On the continent of Africa, she is the largest producer of crude oil and in 1979 she accounted for about 35 percent of total African production[5]

The first effort to diversify petroleum products was made in 1965 by establishing an oil refinery at Alesa-Eleme near Port Harcourt. The refinery was to process about 10 percent of the total crude oil produced in the country. It was the only industry in the country that used crude oil as an imput. However, it was severely limited not only in its size but also in its range of products. Initially, it processed thirty-one thousand barrels per day and later expanded to fifty-eight thousand barrels per day. Table 4.1 shows the finished products of the Elesa-Elema refinery for the year 1971. .

The construction of two other refineries at Warri and Kaduna could be seen as an effort to utilize the Nigerian crude oil more as an input in our refineries. The planned refining capacity of the Warri and Kaduna refineries was one hundred thousand and seventy thousand barrels per day respectively. It was proposed to expand further, the Elesa-Elema refinery to seventy-five thousand barrels per day.

The total output of all the Nigerian refineries in 1982 is shown on Table 4.2. Apparently, there was a substantial increase but it remains to be seen whether it was adequate to the development needs of the country.

As could be gathered from the Table 4.1 and 4.2, the range of petroleum products of the Nigerian refineries is severely limited. From 1971 - 1981, seven petroleum based products were produced, but later, they dropped to six. Regular motor spirit is no longer produced. In most Nigerian oil fields, crude oil is found in association with natural gas. Gas production also showed the same strong upward trend as crude oil, from 1.6 billion cubic feet in 1958 to 458.2 billion cubic feet in 1971. Only a very small portion of this is utilized for domestic, commercial or industrial purposes (see Table 4.3). There are only few fertilizer plants in the country to utilize the natural gas and moreover, the existing ones are limited in their capacity.

4.3 AN APPRAISAL OF THE DIVERSIFICATION IMPACT ON THE PETROLEUM INDUSTRY

The existence of crude oil in large quantities in Nigeria offers opportunity for the diversification of petroleum-based products but this has not been utilized to a considerable extent. As seen from Table 4.1 and 4.2 the range of petroleum products is very much limited. The inadequacy of the present range becomes obvious if the country's demand for petroleum products is compared with local production (see Table 4.2, 4.4 and 4.5). The country consumes about fifteen different petroleum products out of which only seven are from the local refineries. This means that Nigeria depends heavily on imports to meet her needs. Heavy importation of petroleum products drains the country's foreign exchange.

Even those petroleum products that are available from local source are not produced In quantities sufficient to meet adequately domestic consumption. Like the limited product range, the insufficiency of quantities imposes a drain on foreign exchange reserves. Nigeria's imports of petroleum products rose from 176,047.35 metric tons in December 1981 to 228,278.33 metric tons in January, 1982. The country's imports of mineral fuels were consistently on the increase from ₦13.56 million in 1973, to ₦100 million in 1975 and ₦181.29 million in 1976.[6]

Most of the natural gas produced in the country is not utilized to an appreciable extent. This is partly due to the low level of development of

the country, and partly to lack of effort by the government to encourage the establishment of industries that could use gas as a source of energy. Table 4.6 shows industries and utilities that used gas as a source of energy in 1966. Though the data are fairly old, it does not seem that the situation has changed significantly. It would improve when the steel plants proposed for the country begin to function, which is still quite far.

Natural gas can be used as an input in the production of fertilizers. Regrettably, there are only a few small sized fertilizer plants in Nigeria. Many of the less developed oil producing countries (especially OPEC) have fertilizer plants with capacity of thousands of tons per day. While Nigeria is flaring her natural gas, she is also importing ever increasing quantities of fertilizer which could have been produced locally from abundant supply of gas. In 1970, Nigeria imported 34 thousand tons of fertilizer, this figure increased to 117.8 thousand tons in 1971 and ₦9.16 million in 1974. It would be hard to argue that the flaring of natural gas in Nigeria is not a waste of natural asset.[7]

The existence of crude oil in association with natural gas in Nigeria provides the base not only for the expansion of the existing refineries and fertilizer plants but also for the establishment of petro-chemical industries. The expansion of the existing refinery output would entail not only an increase in quantities of finished products but also am increase in the range of petroleum products. This would make Nigeria self-sufficient in petroleum products and could provide also considerable quantities for

export. The establishment of petro-chemical industries in the country could facilitate the production of petro-chemical products such as ethylene, chlorine, caustic soda, vinyl chloride monopict, nitrogenous fertilizer, not only for domestic consumption but also for export. The sale of increased refined and varied petroleum products in the world market could greatly increase Nigeria's foreign exchange earnings, and this could accelerate the development of the economy. It is our view that petroleum-based products in Nigeria are at present not sufficiently diversified and it would be hard to argue that this has not constituted a perennial problem to the precarious balance of payments position which Nigeria has often witnessed.

4.4 MEASURES TO DIVERSITY PETROLEUM-BASED PRODUCTS

It is evident from our brief appraisal in 4.3 that petroleum-based products are not sufficiently diversified and the quantities of petroleum products are not enough to meet both domestic consumption and export requirements. We shall now, make some suggestions which we shall elaborate when we discuss the results of our research findings in the next chapter.

4.4.1 INCREASING THE PRODUCT SLATE OF EXISTING REFINERIES

It is suggested that the product slate of the Nigerian refineries (that is, the list of products they produce) should indicate anywhere from fifteen to eighteen different products. The refineries in advanced countries

produce as much as twenty products. This could be achieved if the government insists on oil refining companies producing full range of products. Now that the Nigerian National Petroleum Corporation (NNPC) has virtually got an effective control in petroleum products, it would not be too difficult to secure compliance.

The advantage of producing full range of petroleum products are too obvious and does not need much elaboration, since this will lead to the country's self sufficiency in these products. Moreover, she will be able to export larger quantities of refined oil products and which, of course, would earn more foreign exchange. Increased foreign exchange will guarantee a healthier balance of payments as well as enable Nigeria to import machinery and other capital equipment, which could hasten development.

4.4.2 ESTABLISHMENT OF PETRO-CHEMICAL INDUSTRIES

Policy measures should be directed to encourage the establishment of petro-chemical industries. Such industries, would provide for domestic consumption and in addition make Nigeria an exporter of petro-industrial products. The adoption of such a policy measure could be beneficial to the economy, leading to the development of indigenous technology, employment opportunities and would also increase our foreign exchange drive.

4.4.3 ESTABLISHMENT OF GAS-BASED INDUSTRIES

Active support and encouragement should be given to the

establishment of gas-based industries and other industries or utilities that can use gas as their major source of energy. Such support and encouragement could be effected through fiscal means such as tax concession, etc. Gas-based industries could include iron and steel, fertilizer, electricity and many other related industries.

4.4.4 MEASURE TO STOP THE FLARING OF GAS

There should be a policy measure in Nigeria aimed at stopping the flaring of gas. This could be done if the government refuses to grant new oil concessions or to renew existing ones unless the oil company has plan for the exploitation of natural gas. Oil companies should be required to re-inject into the ground gas that is not utilized, and this could conserve the nation's energy and also its supply. As a further move to encourage the utilization of the Nigerian gas, outlets should be found for it in the world markets. Since Nigerian gas is associated with crude oil (and therefore involves no extra cost for exploration) it will be highly competitive in the world market.

4.5 POSSIBLE PROBLEMS IN IMPLEMENTATION OF THE SUGGESTED MEASURES

It would be naive to believe that the suggested measures would be easy either in administration or compliance. Considerable problems must be encountered. They include technological capability, capital requirements, foreign exchange availability and access to market. Each of these will be briefly examined.

4.5.1 TECHNOLOGICAL CAPABILITY

Successful launching of full product range of the refineries, the establishment of petro-chemical and gas-based industries would require assembling competent personnel with administrative, scientific and technical knowledge as well as experience to carry out the programme. The National Board for Technical Education Projection for 1975 - 1980 showed that Nigeria had in 1980 a manpower deficit in all occupational categories. However, the story is different today, since the country is almost self sufficient in almost all fields of learning. This development makes for the easy take off of the petro-chemical industries in the country.

4.5.2 CAPITAL REQUIREMENTS

The NNPC would need large capital sums for its operations. In Nigeria, as in other developing countries, capital is relatively scarce. It would not be easy to provide all the capital needed in the oil sector. Apparently, lack of adequate capital could affect adversely, the whole programme.

4.5.3 FOREIGN EXCHANGE

Full and effective implementation of the suggested measures would require sophisticated machines, equipment and their installation. At the present level of the country's economic development, all these have to be imported. Other important imports unrelated to the oil sector must also

continue. All these will increase foreign exchange outlays. Foreign exchange problem is bound to arise. Foreign credits from suppliers of materials and other equipment may be too small to offer a real relief and moreover, they are usually for relatively short term.

If the suggested industries are not efficient in their operations, they would make losses and this would reduce foreign exchange availability in the country.

4.5.4 MARKET ACCESS

It is possible that Nigeria may not find it easy to sell the increased petro-industrial products in the world markets, especially in the advanced countries. This would not be surprising because the industrialized countries adopt highly restrictive policy towards manufactured goods from the developing countries. The tariff structures of industrialized countries typically impose low (or no) duties for unprocessed primary products; but in many cases these rise progressively with the degree of processing (often to high levels).

Nigeria can sell substantial quantities of different refined products in West Africa and in terms of freight cost she has an advantage which could make her products competitive in the region.

4.5.5 OIL COMPANIES' COMPLIANCE

It is most likely that the oil companies operating in Nigeria may not be willing to comply with some of the suggested measures. This could reduce their sale of refined petroleum products in Nigeria as well as in

most countries of West Africa. Foreign oil companies in Nigeria are known to oppose any measure that could affect their interest. For instance, toward the end of 1966, the Federal Military Government proposed to promulgate decrees reducing capital allowances and to introduce 'posted prices' as the basis for calculating tax liabilities of the oil companies. However, hard and protracted bargaining will be needed to secure compliance from the foreign oil companies.

The problems noted above are by no means insurmountable. In the short run, the problems of shortage of skilled manpower can be solved by encouraging Nigerians who have acquired these skills both in the country and abroad with good incentives, and projects specified, and challenges made, for a better technological advancement. Serious areas of manpower shortages, could still be filled with foreign technicals and consultants as a short-run remedy.

Training centres should be established, while existing technical colleges, polytechnics and the universities should be properly equipped and expanded. This would facilitate the much talked about transfer of technology to Nigeria.

Funds for diversification of the petroleum sector, could be partly raised in the Nigerian Stock Exchange by floating shares. This could tap some of the funds that presently find expressions in extravagance spending.

It is expected that if petroleum-based products are given adequate attention, Nigeria would be counted as one of the industrialized in the near future, and its persistent adverse balance of payments outcome would improve.

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CHAPTER FIVE

DATA ANALYSIS

5.1 APPRAISAL OF BALANCE OF PAYMENTS SITUATIONS IN NIGERIA

To do the above, we shall proceed as follows:

Examine:

1. Nigeria's Balance of payments entries from 1960 - 1969 (on Table 5.1).
2. Some key balances 1955 - 1969 (on Table 5.2).
3. Some key balances in the current account table from 1960 - 1971 (on Table 5.3).
4. A summary of Nigeria's balance of payments from 1980 - 1991 (on Table 5.4).

5.1.1 TAKING NO. 1,2,3, THAT IS TABLES 5.1, 5.2, 5.3, NIGERIA'S BALANCE OF PAYMENTS ENTRIES FROM 1960 - 1969:

It is necessary to fall far back to the 1960's in our examination in order to focus, how we started.

Up to 1962, the trade balance deficits were consistently larger than the services accounts. As from 1963, however, the deficit on the services accounts were consistently larger than the trade deficits up till 1965. From 1966 to 1972, though surplus were recorded in the balance of trade,

the rapidly increasing debit balances in the services accounts resulted in deficits in the goods and services accounts. The services items, that contributed significantly to the deficits on the services accounts are travel expenses, which rose significantly as from 1967.

The oil industry in Nigeria continues to contribute to debit balances in the investment income account over the period covered by the data. The debit balance in the investment account increased from ₦546 million in 1972. In 1965, the deficit on total investment income account rose to ₦65.6 million, increasing to ₦107.8 million in 1968 and going up to a provisional ₦106 million in 1969. Government transactions showed a slight deficit In 1960. Between 1961 and 1966, slight surpluses were recorded. As a result of the civil war, deficits on this account rose sharply, being ₦46 million in 1967 ₦31 million in 1968 and ₦19.6 million in 1972. The miscellaneous or other services account, was consistently in deficit during the period covered by the data with the deficits growing in the 1960s. The deficit on this account in 1966 was ₦86.8m, rising to a provisional figure of ₦205.4 million in 1972.

On the donations account, official unilateral transfer shows a consistent surplus over the years. The private component indicates slight deficits, up till 1967. The surpluses in 1968 to 1970 reflect increased foreign exchange control during the civil war years. Total unrequited transfer shows deficit up to 1964, and in 1972 and surplus from 1965 to 1971.

Capital inflow in the form of direct foreign investment in the country has shown an upward trend, though it tended to decline in the crisis period of 1965 to 1969. Capital inflow to state governments reached a peak in the 1964 to 1965 period as a result of the use of contractor finance and suppliers credit by the former regional governments to finance development.

Significantly, the table on balance of payments imbalances, is characterized by deficit imbalances, however, showing some positive development beginning from the late 1960s.

5.1.2 TABLE 5.4 SHOWING A SUMMARY OF NIGERIAN'S BALANCE OF PAYMENTS FROM 1980-1991

Current Account:

The current account surplus rose five-fold from ₦8,232.3 million in 1989 to ₦44,731.2 in 1990 due largely to the surplus on the merchandize trade account. Hitherto, it has consistently recorded a deficit in the preceding years and shows sign of depletion as it dwindled from a surplus of ₦44,731.2 in 1990 to ₦12,655.4 in 1991.

Merchandize Trade:

The surplus on the merchandize trade account more than doubled from ₦30,770.3 million to ₦70,114.9m due largely to the sharp increase in the volume and prices of crude oil exports. However, the depletion to ₦44,677.9 in 1991 indicates that there might not be cause for jubilation.

Imports (CFR):

In the years preceding 1987, imports bills were on a steady decline, this was due perhaps, to the rigid trade policies in place. However, as from 1987 when external trading was liberalized, there was a steady increase which significantly rose from ₦5,476.6 in 1986 to ₦76,885.8 in 1981.

Exports (FOB):

Exports increased from ₦57,971.2 million in 1989 to ₦109,866.1 million in 1990, reflecting positive developments in both oil and non-oil sectors. Revenue from crude oil rose sharply in the later part of 1990 due to the Persian Gulf crisis which pushed prices to new heights.

Services And Income Account:

Transactions in the services and income account resulted in an enlarged deficit of ₦28,995.2 million in 1990 as compared with the deficit of ₦24,714.0 million in 1989.

This was because of increased payments in respect of all items in the account. The oil sector deficit increased from ₦1,215.9 million in 1989 to ₦2,644.3 million in 1990 and the deficit of the non-oil sector also increased to ₦26,354.0 million in 1990 from ₦22,462.9 million in 1989.[1]

Total disbursement rose from ₦28,995.2 million in 1990 to ₦39,314.4 in 1991 as a result of interest payments due to external loans.

Unrequited Transfers:

The unrequited transfers account recorded a reduced level of surplus of ₦614.6 million in 1990 compared with ₦1,140.5 million in 1989. It however, rose significantly to ₦7,291.9 million in 1991. The account, however, showed deficit from 1980 up to 1988.

Capital Account:

The aggregate capital account continued to deteriorate with the deficit widening each year. For instance, the other long term capital account rose from a deficit ₦4,078.4 million in 1986 to a deficit of ₦30,679.5 million in 1991. Long term capital (net) account also recorded similar down-trend rising from ₦3,191.0 million deficit in 1986 to a deficit of ₦24,356.3 million in 1991.

External Assets (Reserve Movement Account):

Nigeria's external reserve stood at ₦18,498.2 million in 1990 showing a significant increase from what it was some five years ago when it depleted to just ₦349.1 million in 1985. Although, this was not to be taken as completely positive as the improvement may be due largely to the deferment of external debt obligations falling due during the period.

Overall Balance:

The development in the balance of payments in 1989 was remarkable as the deficit of ₦2,294.1 million in 1988 was reserved to a surplus of ₦8,727.9 million. The Nigeria balance of payments recorded a further improvement in 1990 when it rose to ₦18,498.2 (US $2,124.5 m).

The turn-around in the current account positions as a result of increase in petroleum exports and the decline in the deficit on the capital account reflecting the decline in loans repayment as a result of debt restructuring and rescheduling and the deferment of due obligations. There was still pressure on the external sector as the benefits in surplus balance of payments were not in real terms.

5.2 NIGERIA'S BALANCE OF PAYMENTS DISEQUILIBRIUM AND ADJUSTMENT POLICIES

From the tables appraised in the preceding chapter, Nigeria's balance of payments positions cannot be said to be comfortable when even there is surplus in the overall balance of payments; this will be characterized by pockets of deficits in most of the component items that make up the balance of payments table. The overall verdict is a balance of payments disequilibrium (deficit).

In principle, both surplus and deficit balance of payments are considered as disequilibrium and any country with either a deficit or surplus is required to adjust to payments imbalances. However, the urgency to adjust is much greater in respect of a balance of payments deficit hence the urge to adjust is felt more in the deficit country.

In Nigeria, as well as in other developing countries, the problems giving rise to balance of payments deficit which is becoming perennial, are fundamental. The problems are fundamental as they derive largely from the characteristics which are part of the socio-economic existence of

the third world countries or the so-called developing countries. These characteristics which are fundamentally adverse include: low per capita income, low level of technology, primary production, high level of unemployment, hunger, disease and high mortality rate, monoproduct export economy, high rate of illiteracy, high rate of population growth, low infrastructural development, social indiscipline, and high dependency ratio.

This paper takes the position that both economic and social factors must be taken into account if any adjustment policies are to work. The characteristics stated above suggest that a lot has to be done within the domestic economy to give it the primary strength now needed to address other problems which give rise to balance of payments deficit. It is very obvious that we cannot now advance into the realm of talking about wrong exchange rate when due to cracks in the domestic economy, there are hunger and social upheaval largely due to the fact that the leadership and the led are not honest in the affairs of the nation.

However, for the purpose of academics, we would like to ask, apart from the fundamental characteristics that bedevil the Nigerian economy to which we shall come back later, what are these problems that lead to a balance of payments deficit? These problems would at any time include wrong exchange rate, excess supply of money in the domestic sector, government implementation of ego-boosting projects and enormous "father-Christmas" spending, structural imbalances within the domestic production sector, high taste for foreign made goods.

Instead of addressing these problems and finding solutions to them, we often embark on policies that do not sincerely address these vices.

5.3 NIGERIA'S EXPERIENCE AND BALANCE OF PAYMENTS ADJUSTMENTS

Basically, balance of payments adjustment policies are meant to correct the defects in the economy in both the internal and external sectors that militate against the simultaneous achievement of both internal and external balance. We cannot therefore talk about external balances without talking about internal imbalances, it will be a case of a house without a solid foundation, which might collapse.

The major factors that at any given period contribute to a balance of payments for Nigeria, would include unrestrained importation, massive deficit financing, excessive credit creation, over-dependence on the oil sector, poor performance of the non-oil sector, increased external debt burden and the inappropriateness of the exchange rate of the Naira.

Rather than going down to the specifics, Nigeria's approach to adjustment policies has been a kind of block approach. These policies have been anchored on the twin approach of economy control and economy liberalization.

We shall now take a close look at each of the past adjustment policies. To do this, the period to be reviewed will span 1962 - 1992 and will be broken into two, viz:

1. The period of controls, 1962 - 1985;
2. The period of decontrol, i.e. the SAP era, 1986 - 1993.

5.3.1 THE PERIOD OF CONTROLS:

The policy instruments used during the era of control in Nigeria focused largely on demand management since the supply of foreign exchange is in this case given. In other words, the country depended on one export commodity (oil), the price and sales of which are exogenously determined by the wishes of the consumer nations of the West. The other major sources of financing imports and other development programmes were external loan from official international financial institutions and unofficial financial sources.

The demand management instruments were often used to eliminate or prevent balance of payments deficits and they include:

(i) trade and exchange control;

(ii) administrative control; and

(iii) foreign exchange budgeting.

Trade and Exchange Control:

The Exchange Control Act of 1962 was the first attempt to manage and control the country's foreign exchange resources. Prior to this time, Federal and Regional Governments held their reserves independently of the monetary authority. Therefore, the Act gave the custody and management of the country's external reserves to the Central Bank of

Nigeria. The bank therefore embarked on the diversification of the country's foreign resources which were held mainly in sterling assets and also stepped up the control and disbursement. However, a delegated approving authority was extended to commercial banks and some reputable hotels under strict compliance of specified regulations for disbursement. However, the disbursement for the public was handled by the Federal Ministry of Finance.

Another measure, was the trade control using import licensing policy, quantitative import restrictions, including, sometimes, the total ban of some imports and the Comprehensive Import Supervision scheme (CISS). All these were introduced with the aim of managing the country's import bill and thus putting a check on further depletion of available foreign exchange. For instance, stringent exchange control was put in place during 1982 to 1985 after about four years of very high import bills between 1979 and 1982.

Administrative Control:

This was mainly a package of policy instruments to monitor the policies put in place for trade and exchange control. These included, the Comprehensive Import Supervision Scheme, scrutiny of foreign exchange application especially by the monetary authority, lengthening the process between approvals and remittance and monitoring the utilization of approvals in terms of content and value. The exchange rate was equally fixed, administratively.

Foreign Exchange Budgeting:

This control instrument provides a guide on the receipt and utilization of foreign exchange resources within a year. Every year, the Federal Government through its many official organs charged with the responsibility of implementing its fiscal and monetary policies prepares a budget for the country's foreign exchange resources. The budget among other things gives an estimate of the accretion/depletion to reserve during the fiscal year. This control measure also helps in the effective implementation of the trade and exchange regulations.

There were also policies put in place to tackle pressures on the domestic economy that resulted from the various control measures. These policy instruments include:

1. Administratively fixing the Naira exchange rate to British sterling and US Dollars.
2. Monetary policy guidelines annually issued by the Central Bank to financial institutions. Some of these bordered on controls on the market interest rates for borrowing and saving, and restrictions on monetary growth and correlating it with developments in the economy as a whole.
3. Discourage public external debts and government commitment or guarantee on other external loans by its parastatals and other private investors.

All these control measures, were, however, always modified as economic situations dictated, although this was not without a lot of political undertone.

5.3.2 THE PERIOD OF DECONTROL

July, 1986, marked a turning point in the balance of payments policy strategy of Nigeria as it brought in place, the Structural Adjustment Programme (SAP).

The Structural Adjustment Programme was adopted to restructure and adjust the varied distortions that moved the economy away from a desirable rate of growth and sustainable equilibrium. One of the objectives of the programme was to achieve balance of payments viability in the shortest possible time. The policy instruments that were put in place to achieve this objective included:

Export Diversification:

The restructuring and diversification of the economy from a mono-product system to a producer of varied export products, such as manufactured goods and agricultural products (semi-processed and processed). To this end, Commodity Boards were scrapped and licenses were given to individuals and organizations to export directly and retain the foreign exchange proceeds.

Foreign Exchange Market Deregulation:

The deregulation of foreign exchange market gave rise to SFEM (Foreign Exchange Market). Under this scheme, some new authorized

dealers came into operation. These included newly licensed commercial and merchant banks and more recently, the introduction of Bureau de Change dealers. The deregulation also encouraged private ownership of foreign exchange denominated accounts in Nigerian banks (called the Domiciliary Account). The aim of this aspect of decontrol was to allow the market to determine a realistic exchange rate for the Naira. Devaluation or depreciation of the Naira which resulted therefore was to encourage exports but discourage imports so that the balance of payments could become healthy.

Government involvement in micro-economic activities was reduced in almost all sectors of the economy and this was done to allow the private sector to take initiative and dictate the direction of economic activities in the economy.

Government divested from all economic undertakings that the private sector could manage, that is, the privatization and commercialization programme.

Trade Liberalization:

Government embarked on the removal of all restrictions on trade either by way of import quota or tariff discrimination on some goods. The government further dismantled price, trade and centralized controls.

Other balance of payments adjustment schemes, included debt conversion programme, debt rescheduling and refinancing to reduce the debt servicing pressure on foreign exchange resources including the debt

burden.

During the decontrol period, some measures were introduced by the government to aid the successful implementation of the decontrol policies as well as relieving the undesirable effect of the measures on the people. These measures included:

(a) Export Incentives:

A package of measures were adopted to facilitate export promotion, financing and diversification. These measures ranged from some grant to producers who exported a certain proportion of their products to special funds set aside to help reduce cost of production in order to make domestic prices of exports competitive at the foreign markets. Banks were also encouraged to lend funds to producers of export products through various tax-free interest rates.

(b) Participation in Aid Free Access to the Foreign Exchange Market:

The foreign exchange market was very open to everyone through the authorized dealers. In fact, only transactions that would require official funding need come to the Central Bank. The complete deregulation of the market has helped to bridge the gap or reduce the premium between the official exchange rate and the unofficial (parallel, bureau de change) rates of conversion. All the evidence required to be presented to the Central Bank before one could have access to foreign exchange were no more in place.

5.3.3 MODIFIED CONTROL PERIOD:

The Federal Administration that had been in control in Nigeria since November, 1993, had brought in, once more, control measures to tackle the country's external and domestic problems.

These control measures in brief included:

(i) fixed exchange rate;

(ii) fixed bank rate;

(iii) fixed savings rate;

(iv) lodging of all foreign exchange with the Central Bank of Nigeria.

A campaign against corruption and other social indiscipline has been put in place.

The present administration is just new and we only watch as events and the days unfold.

5.4 DISCUSSIONS OF DATA ANALYSIS OUTCOME

In this chapter, we shall discuss our presentations in the Data Analysis in relation to our hypothesis and the objectives of this study. We had said in the methodology of this study that the analytical approach to the research will be focused on available in-house data from financial institutions and Government agency sources. We did not therefore embark on questionnaire approach, which to the researcher is not for now, what will provide useful outcome in this kind of research endeavour.

Hypothesis 1:

We postulated in our first hypothesis that balance of payments outcome in Nigeria has continued to be adverse.

Analyzing Tables 5.1, 5.2 and 5.3 shows a continuous deficit balance of payments which supports our hypothesis 1 and meets objective (d) of this study.

Hypothesis 2:

The hypothesis that adverse balance of payments outcome in Nigeria rose tremendously from the 1980s was upheld in this study. As shown on Table 5.4 and our analysis in Chapter 5, deficit balancing continues to be recorded as some surplus balancing recorded in some components of balance of payments items was not in real terms; these surpluses were due largely to the deferment of external debt obligations falling during the period.

Hypothesis 3:

Our hypothesis 3 states that there would be significant relationship between oil prices and balance of payments.

Table 5.4 shows some remarkable improvement in the oil exports due to high prices because of the Persian Gulf crisis. There were some improvement in the export sector balances, thereby affecting the overall balance of payments.

Hypothesis 4:

Our hypothesis that frequent changes of government would influence balance of payments outcome was upheld by our analysis on the period of controls in the preceding chapter. Because of frequency in the change of Government, foreign trade policies oscillated between control, decontrol and more recently, what has been described within government circles as the modified control measures. The tables of analysis that is tables 5.1; 5.2; 5.3 and 5.4 all showed the impact of these inconsistences of policies on the balances of the various component items of the balance of payments structure. The overall balances, also showed the impact of these inconsistences in policies.

REFERENCES TO CHAPTER FIVE

1. A.S.F. Atoloye. The Structure and Determination of Nigeria Balance of Payments and its Adjustment Programmes, 1992.

CHAPTER SIX

FINDINGS, RECOMMENDATION AND CONCLUSION

6.1 FINDINGS

During our investigation and analysis of data, we found out that there have been persistent deficit balances recorded in most segments of the balance of payment's table since 1960. However, we discovered that the proceeds from oil have assisted greatly, in improving the adverse balances. It was, however, obvious that the proceeds from the oil sector alone would not remedy these deficit positions satisfactorily without substantial contribution from other sectors like agriculture and manufacturing.

We found that the principles of balance of payments tabulation and evaluation were quite laudable and the methodology conforms with acceptable international standards. We also established that the crisis of deficit balance of payments over the years was due largely to the sabotage of policy packages meant to achieve a satisfactory result by both ordinary citizens and those who made these policies.

6.2 RECOMMENDATIONS:

In our discussions in Chapter Four, we tried to put in place what we consider as an interim recommendation based on the outcome of our pilot

investigation which enables us to place together the problems of this research endeavour.

Whatever remains to be done to remedy the situation has been discussed throughout the body of this write-up. It is quite obvious still, that measures have been taken to correct adverse situations and making packages of recommendations may now become just a tradition. However, based on the above understanding and the findings, this researcher will say the following in form of recommendations:

6.2.1 Government should make deliberate policies to check the violation of her economic policies, if she is sincere. Often, principal government functionaries violate the same policies made by them and therefore do not have the moral justification to punish other offenders.

Government should put in place very harsh punitive policies to sanitize the attitude of the generality of Nigerians, including the leaders, which has been characterized by intolerable indiscipline, corruption and moral degeneration! Corrective policies, including death penalties, are hereby advocated to bring sanity to the society and no person should be spared, no matter how highly placed.

If there is no sanity in the society, no respect for government policies by all, including those who made it, whatever policies put in place will be absolute thrash. Nigerians, both the leaders and the

led must be purged of their dirty attitudes, using all measures, including brute force, so that the nation can move forward for the better. It is not only the adverse balance of payments outcome that is here for clinical attention; the entire nation and her citizens, with no exception, are sick and must be cured.

6.2.2 Perhaps, what remains after the above recommendation has been done, is for the government to embark on deliberate plans to grant loans without stringent restrictions to individuals to embark on massive private investments and economic endeavours of whatever kind, so that the multiplier effect will usher in a buoyant economy, providing idle funds for further economic activities.

6.2.3 Activities in the agricultural, manufacturing and the petroleum industries must be diversified by deliberate policies of the government; such policies including encouraging private individuals to participate greatly in these areas, will help to put Nigeria in a better competition in the foreign trade sector.

6.3 CONCLUSION

We have chosen Nigeria as a case study in this exercise. The problem arose from the consistent deficit balances recorded in most segments of the balance of payments package since the 1960's which

have undoubtedly brought about uncomfortable developments in the overall balances of Nigeria's balance of payments.

Series of adjustment policies both orthodox and unorthodox, control and decontrol, have been put in place to remedy the situation.

It is important to note that the objective of the two systems of adjustments: the control and liberalized systems, are meant to harness foreign exchange resources and deploy them optimally for servicing the economy and meeting other external obligations without putting much stress on the balance of payments while at the same time maintaining and safeguarding the international value of the domestic currency. What is the difference is just the method of approach.

The position of this paper is therefore that efforts have not achieved better results, not because of dearth of ideas or policy packages but largely due to the unpatriotic behaviour of Nigerians, both the leaders and the led.

Nigerians have become increasingly confused, whether to become a patriot of the truth hence a patriot for the nation or a patriot of tribe, ethnicity, sectional interest or a patriot of parochial individual interest.

Recent events have shown that there is no one true, serious minded Nigerian devoted to a nationalistic course. These negative attitudes of Nigerians, both the leaders and the led, which are expressed in deliberate sabotage of institutional policies, betrayal, outright deceit and hypocrisy have gone deep like cancer into the fabric of our body polity.

Unless these variables of social indiscipline are tackled now, not as anti-social factors, but as endangered economic factors, the entire Nigerian economy might "halt" and we may not even have balance of payments "whatever", to talk about.

Table 4.1: REFINERY PRODUCTION RETURNS SUMMARY

JANUARY - DECEMBER, 1971

PRODUCTS	ACTUAL PRODUCTION		LOCALLY DELIVERED		EXPORTS		DESTINATION
	Longtons	'000 Gallons	Longtons	'000 Gallons	Longtons	'000 Gallons	
Liquified Petroleum Gases	1,996	-	1,876	-	17	-5	Tchad
Premium	236,618	70,985	233,644	70,093	415	125	Lome
Regular Motor Spirit	197,382	60,202	189,098	64,675	308	94	Ivory Coast
Dual Purpose Kerosene	267,802	73,646	264,704	72,794	-	-	-
Automotive Gas Oil	466,453	151,278	447,800	116,428	13,085	-	Cameroon, Casablanca, Dahomey, Togo, I Noire.
Low Pour Fuel Oil	223,407	52,501	215,383	50,615	-	-	-
High Pour Fuel Oil	463,558	111,254	234,493	56,278	398.531	95,647	Bahamas Curacao, Denmark, Rotter, Wes Germany, U.K.

NOTE: Non-reconciliation of production with sum of products locally delivered and exports is due to stocks already held in the country before the 1971/72 production.

SOURCE: Petroleum Division, Federal Ministry of Petroleum Resources, Annual Report 1971 - 1972, P. 54.

Table 4.4: NIGERIA: DOMESTIC CONSUMPTION OF PETROLEUM PRODUCTS IN JANUARY, 1982

Products		Total Consumption:
Liquified Petroleum Gas (M. Tons)		1,960
Aviation Spirit		266
Motor Spirit:		
(i)	Premium	410,454
(ii)	5-Star	33
Dual Purpose Kerosene:		
(i)	Household	98,694
(ii)	Aviation Turbine	47,556
Autometive Gas Oil:		
(i)	Gas Oil	185,039
(ii)	Diesel Oil	36,145
Fuel Oil:		
(i)	High Pour	18,131
(ii)	Low Pour	60,836
Lubricating Oils		18,100
Greases ('000 Kgs.)		318
Petroleum Jelly, Waxes, etc. ('000 Kgs.)		1,278
Bitumen and Asphalt, etc. (M. Tons)		29,291
Others		17,233

NOTE: All figures are in thousand Litres unless otherwise stated.

SOURCE: Nigerian National Petroleum Corporation, Monthly Petroleum Information, January 1982, Pp. 48 - 49.

Table 4.5: DOMESTIC CONSUMPTION OF PETROLEUM PRODUCTS IN 1971

		Refinery Off-Take	Total Imports	Total Consumption
Liquified Petroleum Gases (M.T.)		1,893	2,479	1,698
Aviation Spirit		-	4,057	1,183
Motor Spirit:				
(i)	Premium Grade	70,218	21,200	93,135
(ii)	Regular Grade	57,769	6,100	56,881
Dual Purpose Kerosene:				
(i)	Household	72,794	12,100	58,619
(ii)	Aviation Turbine	-	-	19,710
Automative Gas Oil:				
(i)	Gas Oil	129,513	9,100	102,753
(ii)	Diesel Oil	-	-	7,810
Fuel Oil:				
(i)	High Pour	151,925	-	20,225
(ii)	Low Pour	50,615	2,202	4,391
Lubricating Oils			5,393	11,133
Greases (M.T.)			*5,805	6,821
Petroleum Jelly, Wades etc. (M.T.)			*11,268	11,664
Bitumen and Asphalt etc. (M.T.)		43,533		50,175
Others		1,249		1,404

NOTES:

(i) All figures are given in thousand imperial gallons unless otherwise stated.

(ii) *3,025,000 gallons of lubricating oils, 3,501,000 pounds of greases, 8,041,000 pounds of petroleum Jelly, Waxes, etc. were locally blended.

(iii) Figures under the column "Refinery Offtake" indicate the total withdrawal from the local refinery for both domestic consumption and export.

(iv) Non-reconciliation of refinery offtake, total imports, total consumption figures is due to stocks held in the country before 1971/1972.

SOURCE: Petroleum Division, Federal Ministry of Petroleum Resources, Annual Report 1971/1972, P. 53.

Table 4.6: INDUSTRIES AND UTILITIES THAT USE NATURAL GAS AS SOURCE OF ENERGY IN 1966

(Thousand Cubic Feet)

Industry or Utility	Natural Gas Consumed
a. **Industries:**	
Eastern Nigerian Development Corporation (Enugu) Nigerian Petroleum	152,691
Refining Company	352,849
Textile Mills (Aba)	138,663
Lever Brothers (Aba)	30,967
Associated Industries (Aba)	73,112
Nigerian Breweries (Aba)	14,626
Glass Factory (Ughelli)	250,059
TOTAL INDUSTRIES	1,012,967
b. **Utilities - E.C.N.:**	
Portharcourt	654,637
Trans. Amadi	131,772
Afam	1,412,795
Ughelli	2,861.030
TOTAL UTILITIES	5,060,234
GRAND TOTAL	6,073,201

NOTE: E.C.N. = Electricity Corporation of Nigeria.

SOURCE: Annual Report of Petroleum Division, 1966.

Table 5.1: NIGERIA BALANCE OF PAYMENTS ENTRIES FROM 1960 - 1969

FIRST PART OF TABLE: FROM 1960 TO 1964

	1960		1961		1962		1963		1964	
	Receipts	Payments	Receipts	Payments	Receipts	Payments	Receipts	Payments	Receipts	Payments
CURRENT ACCOUNT:										
Goods & Services:										
Merchandize Trade	167.0	217.5	170.9	224.4	165.4	199.0	186.0	200.6	211.1	245.8
Travel	2.3	2.0	8.9	2.5	13.5	13.5	3.3	13.6	1.0	13.6
Transport & Insurance	8.4	9.8	9.3	8.5	9.4	4.6	9.9	6.0	10.5	7.0
Direct Investment Income	-	8.1	-	6.5	-	10.9	-	17.2	-	19.1
Other Investment Income	5.6	2.3	6.0	3.4	5.6	3.5	4.0	3.8	3.2	4.4
Government Transactions	2.1	6.3	3.2	6.7	3.7	2.2	3.7	3.2	4.1	2.8
Miscellaneous Services	-	2.0	-	1.1	2.4	8.9	2.0	16.3	2.2	28.6
TOTAL	185.4	248.0	198.3	253.1	200.0	243.6	208.9	260.7	232.1	213.4
Donations:										
Private	1.3	7.0	1.3	7.7	2.5	5.7	2.2	7.4	4.1	10.0
Official	4.9	-	2.0	-	3.6	1.1	4.1	1.6	7.5	0.3
Credit/Debit Balance	69.4	-	72.5	-	54.3	-	54.5	-	81.0	63.7
TOTAL CURRENT ACCOUNT	261.0	255.	274.1	260.8	260.4	249.4	249.7	269.7	324.7	324.7
CAPITAL TRANSACTIONS:										
Private Capital (Net)	19.0	-	27.3	-	17.7	-	37.9	-	63.0	-
Official Banking Capital Net Chance in:										
(i) Nigerian Liabilities	8.1	-	9.0	-	4.3	-	-	3.3	10.6	-
(ii) Nigerian Assets:										

(a) Marketing Boards	15.0	-	17.6	-	-	0.5	-	3.8	2.6	-
(b) Currency Boards	-	0.9	5.0	-	6.0	-	12.3	-	-	13.0
(c) Banks	14.7	-	-	8.6	7.3	-	-	1.6	19.5	-
(d) Other Official	15.9	-	1.4	-	15.3	-	23.3	-	8.4	-
Errors and Omissions	-	2.4	20.8	-	4.2	-	-	10.3	-	10.1
Credit/Debit Balance	-	69.4	-	72.5	54.3	-	51.5	51.5	-	81.3
TOTAL CAPITAL TRANSACTION	72.7	72.7	81.1	81.1	109.9	54.8	73.5	73.5	104.1	104.1

SECOND PART OF TABLE 5.1: FROM 1965 TO 1969

	1965		1966		1967		1968		1969	
CURRENT ACCOUNTS:										
Goods and Services:										
Merchandize Trade	265.3	268.1	279.0	248.0	238.8	218.4	208.4	191.1	313.3	220.0
Travel	1.7	14.1	1.5	13.0	1.3	12.0	1.0	16.7	1.0	1.3
Transport & Insurance	14.7	8.8	13.1	8.6	9.0	8.2	12.4	10.2	16.4	12.2
Direct Investment Income	4.1	36.9	3.5	44.6	3.6	44.0	2.6	56.5	3.9	5.3
Other Investment Income	-	-	-	-	-	-	-	-	-	-
Government Transactions	5.0	2.6	3.4	2.7	5.2	28.2	3.9	19.4	4.0	27.9
Miscellaneous	2.4	29.1	2.5	47.0	6.1	43.9	7.6	43.3	7.7	64.2
TOTAL	293.2	359.6	303.0	363.9	264.0	354.7	235.9	337.2	345.4	495.9
Donations:										
Private	4.1	10.8	4.2	9.5	5.0	9.5	11.9	8.4	12.2	10.2
Official	10.6	1.2	8.0	1.0	13.5	1.3	14.9	1.2	9.6	1.2
Credit/Debit Balance	63.7	-	59.2	-	83.0	-	84.1	-	50.0	-

TOTAL CURRENT ACCOUNT	371.6	371.6	374.4	374.4	365.5	365.5	346.8	346.8	417.2	417.2
CAPITAL & MONETARY TRANSACTIONS:										
Capital Transactions:										
Private	37.0	-	34.9	-	60.3	8.8	107.0	27.8	93.4	59.9
Official	34.7	2.5	14.8	4.9	17.3	7.4	10.5	19.7	12.8	11.3
Monetary Transactions:										
Official Institutions	21.4	26.5	11.2	-	31.1	-	1.1	6.1	3.6	-
Commercial Banks	11.8	21.9	15.0	12.6	9.6	7.0	13.4	11.4	-	0.3
Errors and Omissions	9.7	-	2.0	-	-	12.1	7.1	-	16.4	-
Net Debit/Credit Balance	-	63.7	-	59.2	-	83.0	-	84.1	16.4	-
TOTAL	114.6	114.6	77.9	77.9	118.3	118.3	139.1	139.1	126.2	126.2

SOURCE: Federal Office of Statistics, Lagos, Nigeria: Digest of Statistics, Vol. 7, No. 3, July 1958, P. 95; Vol. 9, No. 1, January 1960, P. 88; Vol. 10, No. 5, October 1961, P. 88, Vol. 11, No. 4; October, 1962 P. 88, Vol. 14, No.s. 1 & 2; January & April, 1965, P. 62, Vol. 62, Vol. 16, No. 1; January 1967, P. 62, Vol. 18, No. 4; October 1969, P. 57, Vol. 9, No. 3; July, 1970 P. 57, Vol. 20, No. 2,; April 1971 P. 57.

Table 5.2: BALANCE OF PAYMENTS IMBALANCES

Year	Official Settlements Approach	Basic Balance Approach
1955	+3.7	+1.2
1956	-5.3	-11.8
1957	-0.6	-27.0
1958	-22.8	-54.0
1960	-38.1	-100.8
1961	-33.0	-90.4
1962	-25.1	-73.2
1963	-28.5	-33.2
1964	-8.6	-36.0
1965	+5.1	-11.0
1966	-10.0	-28.8
1967	-31.1	-43.2
1968	+5.0	-8.2
1969	+4.2	-24.4

SOURCE: Calculated from the Table 2.

Table 5.3: SOME KEY BALANCES IN THE CURRENT ACCOUNT TABLE FROM 1960 - 1971

YEAR	BALANCE ON TRADE	BALANCE ON SERVICE	BALANCE ON GOODS/SERVICES	BALANCE ON UNREQUITED TRS	CURRENT ACCOUNT BALANCE
1960	-44.3	-23.3	-67.6	-1.7	-69.3
1961	-43.7	-14.2	-57.9	-3.8	-61.7
1962	-32.1	-19.9	-52.0	-0.7	-52.7
1963	-16.0	-36.8	-52.0	-2.7	-55.5
1964	-36.0	-55.0	-91.0	-0.2	-91.2
1965	-2.5	-89.6	-92.1	+2.7	-89.4
1966	+30.1	-124.3	-94.2	+2.1	-92.1
1967	+20.4	-111.1	-90.7	+7.7	-83.0
1968	+17.3	-118.6	-101.3	+17.2	-84.1
1969	+83.4	-148.1	-64.7	+10.4	-54.3
1970	+86.5	-134.0	-47.5	+22.5	-25.0
1971	+142.5	-258.1	-115.6	+0.9	-114.7

SOURCE: Central Bank of Nigeria, Economic and Financial Review. Vol. VII, June 1969, P. 93, Vol. IX (June 1971), P. 77 and Unpublished Central Bank of Nigeria Estimates.

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