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**T**he rapidly unfolding developments in the world economy in recent times, have led to resurgent calls for moves towards currency convertibility (basically, the unrestricted use of a country's currency for international transactions, allowing it to be freely exchanged for foreign currencies) as a part of the process of integration into the world market economy. The virtues of convertibility appear to be widely accepted: offering of greater freedom of choice between foreign and domestic goods, services and assets; and when combined with trade liberalization, could enhance efficiency through elimination of price distortions.

In Nigeria, the issue of the convertibility of the naira was first raised by Ghana at the Accra Ministerial meeting on ECOWAS Protocols in July, 1976. At that meeting, Ghana proposed the adoption of the naira and the CFA Franc as two convertible currencies in the West African sub-region. A major policy goal of the 1995 Federal Government budget is "the deliberate build-up and strengthening of external reserves to enhance confidence in the Nigerian economy, strengthen the naira and pave the way for its convertibility". Also the abolition of the 1962 Exchange Control Act by the Federal Government early

this year is another step toward the convertibility of the naira. However, the inevitable costs inherent in wrenching adjustment entailed in moving toward currency convertibility have led to divergent views on the desirable pace toward convertibility. While some are opting for gradual approach, others prefer front loaded approach. To understand what is involved in the move to convertibility and why some countries opt for approaches that are faster than others, it is needful to place the concept of convertibility in perspective.

This paper seeks to discuss the issues and prospects of naira convertibility. The paper is divided into four parts. Part I discusses the various concepts of and preconditions for currency convertibility. Part II, evaluates Nigeria's economic conditions in relation to the issue of convertibility. In Part III, implications of a convertible naira on the national economy are examined, while summary and some concluding remarks are contained in part IV.

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Convertibility traditionally defined as the unrestricted exchange of paper money into gold

at a predetermined rate, has long played a central role in international economic relations. Until 1914, the United Kingdom maintained full convertibility of sterling into gold at a fixed rate. But in 1925, and again, in 1947, it failed in its attempts to restore convertibility, not only to gold but also to the U.S. dollar, because of high underlying rate of inflation and inappropriate supporting macroeconomic policies in the United Kingdom. It was only in 1958 that the Western European nations re-established currency convertibility (following the breakdown of the world financial system between the two world wars and the move from a gold standard to a modified gold/dollar standard) although the financial discipline imposed by the convertibility requirements at pre-established par values eventually proved unacceptable to certain major industrial countries. In 1973, the par value system, which had been adopted with the founding of the International Monetary Fund (IMF) at Bretton Woods in 1944, collapsed, and the era of floating rates was ushered in. In theory, this should have allowed most countries to move toward full convertibility, since there would be no need to impose restrictions to support a particular exchange rate.

In practice, a large number

<sup>1</sup> Expressed views are essentially those of the Authors and do not necessarily reflect the official position of the CBN. The authors are of the International Economic Relations Dept. CBN.

of governments were unwilling to give total freedom to their currencies' movements preferring fixed exchange rates or at least bands for the exchange value of their currencies. Many resorted to restrictions on trade and payments (e.g.) exchange control, tariff, etc.) rather than monetary and fiscal discipline to support their exchange rate policies, correspondingly reducing the degree of convertibility of their currencies. As a result, even where tight government controls on currency convertibility existed, there was usually a parallel, and often illegal market where currency could be exchanged at some price.

Currency convertibility, in principle, applies to the ability of residents and nonresidents to exchange domestic currency for foreign currency without limit. There are, however, many degrees of convertibility, with each denoting the extent to which governments impose limitations on the use of currency, which can take the form of prohibitions, taxes, special deposits nominal ceilings (such as for travel allowance), or procedures for allocating foreign exchange. But even in cases where currencies are fully convertible, the practical scope depends not only on the extent of government limitations on foreign exchange and payments but also on restrictions applied to the underlying transactions, such as imports, services, or investing abroad. To

free one without the other is to effectively limit the use of a given currency in a practical sense, by reducing the extent to which it can be used to carry out transactions and make purchases.

Distinctions could as be made between 'soft' and 'hard' concepts of convertibility. Soft convertibility entails the ability to freely exchange currencies at market-determined exchange rates while hard convertibility entails the right to freely exchange currencies at a given exchange rates. Definitionally, soft convertibility applies to flexible exchange rate regimes, while hard convertibility is for fixed exchange rate regimes. The key distinguishing factor here is, who bears the exchange rate risk? Under the soft convertibility, the holders of the currency do, while under hard convertibility the country issuing the currency does. Soft convertibility is most prevalent among nations today. Countries participating in the European Monetary System (EMS), however, maintained hard convertibility until August 1993. At that time they temporarily widened their bands of permissible exchange rate fluctuation and thereby softened, at least in principle, the requirement of convertibility of their currencies.

The International Monetary Fund (IMF), one of whose founding purposes was to seek a multilateral, nondiscriminatory system of payments and transfers for current international trans-

actions, and to eliminate foreign exchange restrictions, accommodated the switch to floating exchange rates by incorporating them into the second Amendment of its Article of Agreement in 1978. This flexibility implied that there would no longer be any impediments, in principle, to the adoption of full convertibility of members' currencies.

The fundamental notion of convertibility enunciated by the IMF is that countries should allow an unrestricted and nondiscriminatory right to residents to use domestic currency to effect payments and transfers for current international transactions. But it should be noted that the Fund's concept of convertibility as defined in its Articles of Agreement (Article VIII), is a limited one, relating pragmatically to the economic circumstances of members.<sup>2</sup> Fund members are obliged to maintain financial convertibility (the absence of government limitations on the making of payments and transfers), but not capital account convertibility. Moreover, the Fund's concept applies only to current account transactions (in a few instances transactions of a capital nature are included, such as amortization of loans or depreciation of direct investments) and is limited mostly to relations with other fund members. Deviation from the Fund's convertibility objectives are permitted, although members are expected to remove restrictions as soon as

<sup>2</sup> Article VIII Sections 2, 3 and 4 of the IMF Articles of Agreement, members accepting the obligation of the Article undertake to refrain from imposing restrictions on the making of payments and transfers for current international transactions or from engaging in discriminatory currency arrangements or multiple currency practices without IMF approval.

circumstances permit.

### **Transition to Convertibility: Historical Overview**

Movement by the IMF member countries from inconvertibility to convertibility by accepting obligations under Article VIII was rather slow. By 1946, IMF's first year of operation, only four out of 44 member countries had accepted Article VIII obligations. The bulk of the industrial countries did not do so until the early 1960s, and subsequent years saw member countries doing so at a rate of about three in a year. In 1993, the rate increased considerably, with member countries including Ghana, Tunisia, Morocco and the Gambia accepting Article VIII obligations, which brought the cumulative total to 86 countries<sup>3</sup>. IMF members accepting the obligations of Article VIII undertake to refrain from imposing restrictions on the making of payments and transfers for current account transactions or from engaging in discriminatory currency arrangements or multiple currency practices without IMF approval. However, in the late 1960s and 1970s, the major industrialized countries went beyond the requirements of Article VIII and moved, for the most part, to establish full convertibility of their currencies.

The three basic approaches to convertibility are:

- The front-loaded approach;
- The Pre-announcement approach; and
- The by-product approach.

The front-loaded approach involves the overnight elimination of any exchange restrictions on current account transactions. It entails immediate establishment of external payments balance and a conceded policy push in all economic and financial areas. On the other hand, in the pre-announcement approach, a specific date is set for the elimination of all exchange restrictions and adoption of policies that will achieve current account convertibility. A country pursuing the by-product approach would subordinate the achievement of convertibility to other economic and financial policy objectives.

As noted earlier full convertibility embraces both current and capital accounts convertibility. However, most countries are reluctant to pursue capital account convertibility owing to the fear of unfavourable capital movements. The interferences with international capital flows have taken a variety of forms, including both exchange restrictions and specific quantitative limitations placed on capital movements. These measures have been justified on four principal grounds:

- (a) to limit balance of payments instability;
- (b) to retain domestic savings and prevent excessive foreign ownership of domestic factors of production;
- (c) to minimize the return from taxation of domestic capital and financial transactions; and

- (d) to reinforce domestic stabilization and reform efforts.

Although, the above reasons may still find some level of relevance today, it is pertinent to note that external payments imbalances have roots in sources other than capital movements. Thus, the imposition of capital restrictions cannot be expected to replace appropriate actions to remove the basic source(s) of imbalance.

### **Preconditions To Convertibility**

Experiences of many countries have shown that the mutual goals of relative exchange rate stability and convertibility cannot be achieved simultaneously in an inflationary environment or where inflation is repressed by price controls and rationing. More concisely, if a country's price level rises faster than its trading partners (and abstracting from terms of trade, institutional, technological, and climatic changes) it can not hope to maintain equilibrium in its balance of payments without either introducing ad hoc restrictions on imports or payments or letting its currency depreciate; in other words, without abandoning either convertibility or the nominal stability of its currency. Clearly, within this trade-off, convertibility, accompanied by increasing trade liberalization, has been the more desirable objective.

According to Gilman (1990), in moving toward convertibility, a country would need to estab-

<sup>3</sup> IMF Survey April 18, 1994 p. 117

lish certain pre-conditions if extreme fluctuations in its nominal exchange rates are to be avoided. These include:

### **(1) Realistic Exchange Rate**

Whatever type of exchange arrangement is put in place, the real exchange rate must be compatible with a sustainable balance of payments over the medium term - that is relative price must be roughly aligned. This will usually entail movement from an overvalued official exchange rate and a substantially more depreciated parallel market rate toward a unified, market-clearing nominal rate. This could involve, at least initially, floating the rate in an auction market through which an increasing proportion of external transactions (including those of the official sector) are channelled. The goal would be to narrow, and then eliminate any difference with the parallel market rate. Thus, maintenance of a realistic exchange rate (one that is perceived as being credible in terms of market expectations), is a prerequisite for the convertibility of a currency.

### **(2) Appropriate Macroeconomic Policies**

Appropriate macroeconomic policies (essentially monetary and fiscal policies that would help restrain overall demand in line with a country's productive and debt-servicing capacities) must be put in place. Internal financial stability, in the form of relatively low inflation is essential to the success of convertibility. A major burden will fall on monetary policies, especially where there has been suppressed inflation and thus excess liquidity in the

system.

### **(3) Elimination of Price Control**

In countries where resource allocation has been distorted through the use of price controls, the use of a market-clearing price for foreign exchange has facilitated the determination of appropriate domestic market prices in the non-tradable sectors. The longer the domestic price structure has been distorted, the greater the transitional costs of adjustment; conversely, the greater the benefits in the removal of distortions in the long-run.

### **(4) Adequate Foreign Exchange Reserves**

Substantial foreign exchange reserves or external credit lines may be necessary to bolster market credibility in an initial period of adjustment, if convertibility is to be introduced while maintaining a particular nominal exchange rate, or within a specified range. Balance of payment support may also be needed in subsequent periods of external pressure. However, for members of the IMF, the use of the Fund resources could be temporarily made available for this purpose.

The removal or reduction of the above obstacles should permit a country to move toward currency convertibility by eliminating various restrictions on payments and transfers - including the use of bilateral payments agreements, import deposits, and export subsidies.

Furthermore, two set of factors are essential if a currency is to be used internationally. First,

there must be confidence in the value of the currency and political stability of the issuing country. Second, a country should possess broad financial markets that are substantially free of controls, (i.e. the existence of well-developed secondary markets). It should also possess financial institutions that are sophisticated and competitive in off-shore financial banking activities.

On the first factor, high and variable inflation rates - relative to those of other countries - generate nominal exchange rate depreciation and uncertainty. This increases the costs of obtaining and verifying accurate information about the prices of tradable goods and capital assets. In addition, inflation increases the costs of holding a currency by eroding its purchasing power, thereby debasing the currency as an international store of value and medium of exchange. However, holding a relatively high inflation currency in an interest yielding form can offset some of the inflation costs but are associated with higher risk.

The achievement of relatively low levels of inflation variability depends importantly on stable and consistent government policies. In this connection, a track record of sustained current account deficits in excess of normal private capital inflows (i.e. those capital inflows that exist in the absence of incentives to incoming or outgoing capital) can lead to continuous exchange rate depreciation and erosion of confidence in the currency.

There is need for well-developed and free financial markets. Just as relatively low levels of inflation and inflation variability contribute to the demand for international currencies, so also well-developed financial markets facilitate the supply as well as the demand of such currencies. Thus, the large and free financial markets of the New York and London contribute to the use of the dollar and the pound sterling, respectively, as international currencies..

The absence of financial market controls contributes to lower costs of transacting in currency than would otherwise be the case. Correspondingly, a country that possesses fairly large financial markets is in a position to serve as an international banking centre. Specifically, such a country can be expected to provide a high degree of efficiency in international liquidity transaction by accepting short-term liquid liabilities denominated in its own currency, while making long-term, less liquid loans abroad.

While the foregoing condition are important determinants of international currency use, they do not fully explain why a currency emerges as a dominant international currency. In this regard, studies of invoicing practices between exporters and importers have shown that the international dominance of a nation's currency appears to be directly related to the country's share of world exports, the proportion of specialized manufactured products in its exports, and the extent of its trade with other

countries.

## **Part II**

### **Evaluation of Nigeria's Economic Conditions in Relation to the Issue of Convertibility**

The pertinent question that should naturally flow from the above discussion is - does Nigeria possess the necessary pre-conditions to make the Naira convertible? In this segment we shall attempt to relate the issue of pre-conditions with the Nigerian situation. As earlier stated, the pre-conditions include: an appropriate exchange rate regime - one consistent with balance in external payments; a stock of international reserves sufficient to cushion the effects of economic shocks and seasonal fluctuations in net exchange receipts; sound macroeconomic management, including both fiscal and monetary management; and an effective market environment - one in which market forces are allowed to play a greater role. We now take these issues one by one.

### **Appropriate Exchange Rate Policy**

Since the exchange rate is a very important price mechanism that directs the movement of other prices in the domestic economy and tries to equilibrate the balance of payments it is not surprising that the exchange rate policy adopted by the authorities since 1986 within the framework of SFEM/FEM/IFEM/AFEN has been geared towards achieving medium to long term objectives of a realistic exchange rate for the naira for efficient allocation of resources in the economy. It is

expected to eliminate wastages, enhance investment and ultimately improve the trade balance, preserve the value of the domestic currency, maintain a comfortable external reserve position and engender price stability for ultimate convertibility of the naira. The naira exchange rate has since then moved from its initial over-valuation to under-valuation in recent times (according to the views of some analysts). The adoption of floating exchange rate system has also facilitated prompt settlement of import bills.

Prior to the first bidding in the Second Tier Foreign Exchange market, in 1986, the exchange rate of the naira vis-a-vis the U.S. dollar was below one i.e. less than one naira exchanged for one US dollar between 1960 and 1985 officially. In the wake of the Structural Adjustment Program, in 1986, the naira depreciated to N1.73 = \$1.00. On the average, the naira depreciated from N4.02 = \$1.00 in 1987 to N22.41 = \$1.00 in 1994, in the official market, while the parallel market rates ranged from N6.05 = \$1.00 in 1987 to N61.27 = \$1.00 in 1994. Thus, the gap between these two rates widened significantly from N2.03 in 1987 to N40.86 in 1994. With the adoption of Autonomous Foreign Exchange Market (AFEM) in 1995 and deliberate intervention by the Central Bank in the market, the exchange rate of the naira has remained relatively stable. So far, the Central Bank of Nigeria has met all the foreign exchange demands of banks by supplying a cumulative

total of \$1,040.7 million at its various interventions. Since February, 1995, the exchange rates averaged N80.66 to the dollar, in the AFEM between February and September, 1995. In the bureaux de change and the parallel markets the naira on the average also exchanged at N82.58 and N83.50 to the dollar, - a development which is showing the convergence of rates in these segments of the exchange market. The gap between the Central Bank intervention rate and the parallel market rate has also narrowed from N26.51 in April, 1994 to N2.84 in 1995 on the average. Although it is too early to conclude on the appropriateness of the current modality and the emerging rates, one may not be too far from the fact that the current AFEM rate approximates closely to the realistic rate of the naira given that the gap between the AFEM/Parallel rates has remained narrow overtime. In this connection, applying the simple economic principles of demand and supply, one may accede to the fact that the foreign exchange demand and supply in recent months has also matched each other, in contrast to the situation prior to this arrangement.

### **Appropriate Macroeconomic Policies**

There has been growing macroeconomic instability since the mid-1970s but the years-1990 - 1994 witnessed a worsening situation in most economic indicators. The excessive expansionary fiscal policies of the Federal Government fi-

nanced mainly by the banking system since 1990, in the main, accounted for the misalignments. Between 1990 and 1994, the deficit/GDP ratio moved from 8.5 percent in 1990 to 11.0 and 10.2 percent in 1991, and 1992 respectively, and thereafter rose to 15.4 per cent in 1993 but declined to 7.4 percent in 1994. The deficit financing through the Centra Bank crowded out the private sector and resulted in injection of high powered money into the economy which was not matched by increases in domestic output. Thus, a situation of excess liquidity coupled with excess demand resulted in the persistent upward movement in the prices of goods and services.

In the money market, nominal interest rates also maintained upward movement in the deregulated financial sector in parallel with the accelerating inflation rate, while real interest rates declined - even to negative in 1992. Since 1994 interest rates has been fixed. This policy reversal created distortion as savers and owners of financial wealth moved their funds away from the banking system to investments that provide some protection from inflation, such as real estate, commodities or foreign currency transactions.

The excess liquidity in the system also aggravated the increase in demand for foreign exchange which manifested in persistent pressure on the naira exchange rate and balance of payments position. Thus, the period 1987 - 1994 was characterized by inconsistencies in macroeconomic policy mix as

policy outcomes deviated markedly from the targets due to frequent, abrupt and unnecessary changes in policy goals and instruments. For now, one cannot say that the macroeconomic policy mix (monetary and fiscal) for 1995 is appropriate of not, but there exists some level of contradictions between the two policies. However, the current tight fiscal stance of government is a step in the right direction, although, the same cannot be said about the monetary policy in a regime of fixed interest rate.

### **3. Elimination of Price Control**

The distortion in the domestic prices in the economy caused by government subsidies on various sectors is gradually giving way to appropriate prices. With the abolition of commodity boards, and withdrawal of subsidies on petroleum products utilities, ports facilities, air-transportation, etc. there has been a slow, but steady movement towards appropriate pricing in the economy. It is worthy to note also that the 1995 Budget has in a significant way put in place some structural changes that will lead to the ultimate convertibility of the naira. Such changes are: the repealing of the Exchange Control Act of 1962; introduction of AFEM, and Domiciliary accounts; the repeal of the Enterprises Promotion Decree of 1979; the planned contract leasing of some key public-sector owned industries; and the planned establishment of a private-sector driven commodity exchange markets.

However, there still exists some level of subsidies in the areas of fertilizer and other agricultural inputs, but this is expected as even the most advanced industrial economies of the West, whose currencies are fully convertible still have one form of subsidy or the other.

### **Adequate Foreign Exchange Reserves**

One of the methods frequently used in measuring the adequacy of reserves is the reserves/imports ratio (an IMF minimum reserves requirement). This refers to adequate reserves which can finance 4 months imports. Nigeria has over the years used this method to measure its reserves adequacy. However, there is no consensus on acceptable scientific way of measuring adequate reserves in a country. Consequently, the method adopted by any country at any point in time is a matter of convenience and to that extent is merely a guide. The reserves/imports ratio of Nigeria from 1980 to 1993 is shown in Table II. The ratio declined from 7.2 in 1980 to 1.1 in 1983, rose gradually to 7.2 in 1986 and thereafter declined to 1.8 in 1988. The ratio nudged to 5.7 and 9.7, in 1989 and 1990, respectively. In 1991, 1992, and 1993, respective ratios of 6.9, 1.2 and 2.4 were recorded.

Nevertheless, the use of the above analysis alone to determine the level of reserves adequacy can be misleading as several other factors at various points in time influence the ratio. The present situation in which the country is

laden with large stock of external debt and debt service burden, the external reserves/imports ratio is not a reliable method of measuring the adequacy of external reserves. The crucial point to note here is that irrespective of the reserve levels, what really matters is the volume of inflow and outflow. The synchronization of these two variables in the context of existing realities is more important in considering convertibility than the level of existing reserves.

Confidence in the value of the naira and political stability is another issue of importance which can not be quantified. Confidence in any country's currency is a direct by-product of that country's productive strength. It is directly dependent on the level of economic activities as well as the level of goods and services that is demanded by international communities. The strength of any economy also will be reflected not just on the varieties in the range of tradable but also on the size of the economy. While Nigeria's tradable in international markets are presently dominated by crude petroleum, there is a very high potential for the enlargement of this frontier as many other relevant internationally tradable abound and are at various stages of exploitation. Hence, recent creation of a Federal Ministry for solid mineral development is very much welcomed.

The issue of political stability, however, remains a big hurdle for the country. In fairness, Nigeria's political terrain has been very unstable and politics

cannot be divorced from economics. The design of economic policy must take into account appropriate socio-political dimensions for its effectiveness. More so, the implementation of policy is generally under the control of the appointed authorities. More often in the Nigerian case, we have had frequent changes in ministerial composition both at Federal and State levels and by extension significant policy changes as new leadership changes baton. Similarly, political instability is not conducive for foreign investment inflow as no genuine investor will invest in an area of high uncertainty.

With respect to well-developed and free financial markets, Nigerian financial markets have undergone several deregulations since the adoption of SAP in 1986 and consequently, cannot by any standard be said to be undeveloped. At present, there are 116 licensed commercial and merchant banks in Nigeria. Of these, 65 are commercial banks while 51 are merchant banks. While the commercial banks operate a branch net work of about 2,541, the merchant banks have about 144 branches. At the current level, the average number of persons per bank branch is 23,599. Although, the incidence of financial distress is significant among virtually all categories of financial institutions, this fact had not halted growth in the number of primary mortgage institutions, community banks and bureaux de change. The number of Primary Mortgage institutions currently stand at 229, Community Banks

970, while that of bureaux de change is 183. However, for the first time in several decades, the Central Bank of Nigeria closed some banks and non-bank institutions which were terminally distressed in 1994 as part of the efforts aimed at strengthening the financial system as a whole. The recent introduction of the secondary securities market and their relative performance in recent times reinforce the relative development of the financial system in Nigeria.

### **Structure of Nigeria's Production and Exports**

As indicated earlier, the proportion of specialized manufactured products in a country export is a *sine qua non* to the emergence of a currency as international currency. Nigeria's share of world exports and the proportion of specialized manufactured products in its exports, and the capacity to expand its primary export commodities in the world markets in response to price changes are limited. Nigeria by all standard is still a primary producer. The manufacturing sector is small in both absolute terms and in terms of its contribution to Gross Domestic Product (GDP). Table V shows the GDP at 1984 factor cost indicating the share of activity sector in total GDP from 1989-1994. Manufacturing sector's contribution to GDP has generally been below N9 billion or 9.0 percent of total GDP. On the other hand, Agriculture, including livestock, Forestry and Fishery has contributed to GDP around N35

billion or 37.0 per cent during the period. Broad Primary Production which include Agriculture, Crude Petroleum and Mining and Quarrying constituted over 51.5 per cent of total GDP in 1994.

Given the structure of Nigeria's production and foreign trade, exchange rate policy was expected to result in the diversification of the export base by boosting non-oil exports and controlling the growth of imports. The exchange rate action does not have much impact on oil earnings as the price and quantity of crude oil produced are fixed in international market. The same also goes for the primary export commodities, the prices of which are set by international commodity markets.

### **Part III Implications of a convertible naira on the economy**

Article 1 of the IMF's Article of Agreement makes clear the systemic benefits that flow from widespread currency convertibility, including promotion of world trade efficient resource allocation, economic growth, and employment.

From the individual member country's point of view, moving to current account convertibility offers many advantages. It reduces distortions associated with foreign exchange rationing, contributes to increased productivity by opening the domestic market to increased competition, improves access to imported inputs and capital goods, and

facilitates the international transfer of technology. Current account convertibility encourages a country to produce the goods and services in which it has comparative advantage and generally promotes an improved structure of economic incentives. A step further to capital account convertibility can offer member countries significant additional benefits. It can attract foreign investment, this in turn, can accelerate the introduction of improved technologies and more efficient production methods. In addition, foreign investors' knowledge of market opportunities abroad may encourage the growth of the country's exports.

On the other hand, transition to current account convertibility may have some temporary negative impacts on the country concern. The resulting expansion of foreign competition for domestic industries may, for example, force the restructuring of their production and lead to temporary declines in output.

Another prominent cost involved in currency convertibility is the reduction of policy options available to government to deal with serious adverse balance of payments development. The government can no longer impose direct controls such as exchange control or import licensing, nor directly manipulate the exchange rate. It could, however still intervene indirectly by taking monetary and fiscal policy measures which are generally slow in having the desired impact.

#### **Part IV**

#### **Recommendation and some concluding remarks**

The analysis thus far indicates clearly that making the Naira a convertible currency is not only desirable, but is as consistent with the current policy stance of the government. It is also clear that Nigeria has to some extent met the basic preconditions for the adoption of the IMF Article VII which also implies current account convertibility. However the analysis also does indicate that formidable problems loom large on the path of internationalization of the currency. These include relative underdevelopment of the economy, structure of the economy which lacks diversified export base, inadequate external resources, persistent balance of payments problem, high inflation rate, etc. Never-the-less, on the strength of our restructuring exercise, it is clear that some countries like Ghana and the Gambia and most recently some East Africa countries namely, Tanzania, Kenya

and Uganda which have adopted the said Article do not have a stronger economic or productive base than Nigeria. For instance, in these countries single commodity dominated their export basket and agriculture is the mainstay of their economy. However, considering the fact that the current level of attainment in some of the pre-conditions enumerated above were achieved barely six months ago. It is our considered opinion that if this level of achievement is maintained through policy consistency, Nigeria could be ready for current account convertibility in the next few years. However regarding capital account convertibility, Nigeria is not ready for the consequences that might follow. In any case, capital account convertibility is the exception rather than the rule.

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**Table 1**  
**Nigeria's oil and non-oil exports (1985-1994)**  
 =N= Million

Year	Oil Export	Non-Oil Export	Total Export	Oil Export as % of total	Non-Oil Export as % of total
1985	11,223.7	497.1	11,720.8	95.8	4.2
1986	8,368.5	552.1	8,920.6	93.8	6.2
1987	28,208.6	2,152.0	30,360.6	92.9	7.1
1988	28,435.4	2,757.4	31,192.8	91.2	8.8
1989	55,016.8	2,954.4	57,971.2	94.9	5.1
1990	106,626.5	3,259.6	109,886.1	97.0	3.0
1991	116,856.5	4,677.2	121,533.7	96.2	3.8
1992	201,383.9	4,227.8	205,611.7	97.9	2.1
1993	213,778.8	5,022.3	218,801.1	97.7	2.3
1994	200,936.1	5,349.0	206,285.1	97.4	2.6

Source: Central Bank of Nigeria Annual Report (Various issues)

**Table II**  
**Level of External Reserve/Imports (1980 - 1994).**  
 =N=

Year ended	Total External Reserves =N= Million	Average Monthly Imports =N= Million	No. of Months Equivalent
1980	5,445.6	758.0	7.2
1981	2,424.8	1,060.0	2.3
1982	1,026.5	897.5	1.1
1983	781.7	742.0	1.1
1984	1,143.8	598.2	1.9
1985	1,641.1	588.6	2.8
1986	3,587.4	498.6	7.2
1987	4,643.3	1,488.5	3.1
1988	3,272.7	1,787.1	1.8
1989	13,457.1	2,571.7	5.2
1990	34,970.0	809.8	6.3
1991	44,269.6	7,457.4	6.5
1992	14,013.1	11,929.3	1.1
1993	29,112.7	13,808.0	2.2
1994	36,307.8	13,418.9	2.7

Source: Central Bank of Nigeria Annual Report (Various Issues)

**TABLE III**  
**FOREIGN EXCHANGE SUPPLY AND DEMAND**  
**1990 - 1994**

Year	Amount Offered (US \$M)	Actual Demand by Banks	Amount Release
1990	2,646.1	20,196.6	2,501.6
1991	3,158.4	9,452.3	2,927.3
1992	5,090.4	6,434.6	4,045.7
1993	3,103.9	40,641.9	2,892.7
1994	1,880.0	35,691.3	1,961.1

Source: Central Bank of Nigeria, Annual Report ( various issues)

**TABLE IV**  
**NIGERIA'S PRINCIPAL DEBT AND DEBT SERVICE RATIO (1980-1994)**  
**(=N= MILLION)**

Year	External Debt	Debt/Export	Debt/GDP	Debt Serv/Export
1980	1,866.8	13.3	3.8	0.7
1981	2,331.2	22.3	4.5	5.0
1982	8,819.4	101.1	16.9	8.9
1983	10,577.7	141.0	17.4	17.6
1984	14,577.7	160.0	21.2	29.1
1985	17,290.6	154.2	51.0	33.1
1986	41,451.9	486.9	95.5	29.4
1987	105,395.5	370.3	86.9	33.2
1988	146,076.1	242.1	114.3	29.4
1989	242,933.7	275.0	101.2	11.9
1990	297,894.3	231.9	98.9	24.2
1991	328,054.3	273.3	79.0	25.8
1992	544,264.1	292.1	72.3	26.8
1993	633,144.4	273.3	79.0	16.9
1994	648,813.0	292.1	72.3	18.7

Source: Central Bank of Nigeria, Annual Reports

**Table V**  
**GROSS DOMESTIC PRODUCT AT 1984 FACTOR COST**  
(N billion)

Activity Sector	Percentage Share in Total										Annual Percentage Change (Growth Rate)			
	1990 (1)	1991 (2)	1992 <sup>1</sup> (3)	1993 <sup>1</sup> (4)	1994 <sup>2</sup> (5)	1990 (6)	1991 (7)	1992 (8)	1993 (9)	1994 (10)	1991 (11)	1992 (12)	1993 (13)	1994 (14)
1. Agriculture	27.21	28.43	29.28	30.13	31.04	30.11	30.05	30.06	30.23	30.74	4.48	2.99	2.90	3.02
2. Livestock	5.17	5.09	5.14	5.17	5.22	6.57	6.22	6.09	5.95	5.86	(1.55)	0.98	0.58	0.97
3. Forestry	1.20	1.23	1.26	1.29	1.32	1.33	1.30	1.29	1.29	1.31	2.50	2.44	2.38	2.33
4. Fishing	1.70	1.77	1.59	1.19	1.12	1.88	1.87	1.63	1.19	1.11	4.12	(0.17)	(25.16)	(5.88)
5. Crude Petroleum	11.65	12.72	13.06	12.72	11.96	12.89	13.44	13.41	12.76	11.84	9.18	2.67	(2.60)	(5.97)
6. Mining & Quarrying	0.27	0.27	0.28	0.30	0.31	0.30	0.29	0.29	0.30	0.31	0.00	3.70	7.14	3.33
7. Manufacturing	7.36	8.05	7.66	7.34	6.97	8.15	8.51	7.86	7.37	6.90	9.38	(4.84)	(4.18)	(5.04)
8. Utilities	0.50	0.51	0.56	0.58	0.61	0.55	0.54	0.57	0.68	0.60	2.00	9.80	3.57	5.17
9. Building & Construction	1.73	1.80	1.87	1.96	2.02	1.91	1.90	1.92	1.97	2.00	4.05	3.89	4.81	3.06
10. Transport	2.85	2.95	3.08	3.22	3.24	3.15	3.12	3.16	3.23	3.21	3.51	4.41	4.55	0.62
11. Communication	0.26	0.24	0.27	0.28	0.28	0.29	0.25	0.28	0.28	0.28	(7.69)	12.50	3.70	0.00
12. Wholesale & Retail Trade	11.49	11.86	12.22	12.59	12.59	12.72	12.54	12.54	12.63	12.47	3.22	3.04	3.03	0.00
13. Hotel & Restaurant	0.48	0.48	0.49	0.50	0.50	0.53	0.51	0.50	0.50	0.50	0.00	2.08	2.04	0.00
14. Finance & Insurance	7.88	8.20	8.52	8.85	9.11	8.72	8.67	8.75	8.88	9.02	4.06	3.90	3.87	2.94
15. Real Estate	0.26	0.26	0.27	0.28	0.29	0.29	0.27	0.28	0.28	0.29	0.00	3.85	3.70	3.57
16. Housing	2.08	2.16	2.25	2.34	2.41	2.30	2.28	2.31	2.35	2.39	3.85	4.17	4.00	2.99
17. Producers of Government Services	7.60	7.91	8.90	10.12	11.12	8.41	8.36	9.14	10.15	11.01	4.08	12.52	13.71	9.88
18. Comm. Soc. & Pers. Services	0.67	0.68	0.72	0.80	0.87	0.74	0.72	0.74	0.80	0.86	1.49	5.88	11.11	8.75
TOTAL (G.D.P.)	90.36	94.61	97.42	99.66	100.98	100.00	100.00	100.00	100.00	100.00	4.70	2.97	2.30	1.32
NON-OIL (G.D.P.)	78.71	81.89	84.36	86.94	89.02	87.11	86.56	86.59	87.24	88.16	4.04	3.02	3.06	2.39

<sup>1</sup>Revised.

<sup>2</sup>FOS Estimates.

Sources: (i) Federal Office of Statistics, Lagos.  
(ii) National Planning Commission.