

CHAPTER 12:
BALANCE OF PAYMENTS:

The external sector of the Nigeria economy has undergone profound changes in recent years particularly in the rapid depreciation of the Naira, the accumulation of payments arrears, the external debt problem etc. These changes along with other aspects of international economic transactions are captured in the Balance of Payments Statistics.

The Balance of Payments (BOP) is defined as a systematic record of economic and financial transactions for a given period between residents of an economy and non-residents (the rest of the world). These transactions involve the provision and receipts of real resources – goods, services and income – and changes in claims on, and liabilities to, the rest of the world.

Specifically, the BOP records transactions in goods, services and income; changes in ownership and in an economy's holding of monetary gold, Special Drawing Rights (SDRs) and claims on and liabilities to the rest of the world.

It also records unrequited or unilateral transfers – the provision or receipt of an economic value without the acceptance or relinquishing of something of equal value (or quid pro quo). General transactions involving payments to a country by non-residents are classified as "credit entries, while those involving payments by the country to non-residents are "debit" entries.

The Balance of Payments table is usually structured into three sections: Current Account, Capital Account and Reserves.

The Current Account comprises the visible and invisible. The visible account consists of exports and imports which are tangible physical commodities, the movement of which constitutes merchandise trade. Exports are "credit" entries as non-residents acquiring goods have to pay for the exporting country. Imports are "debit" entries as the importer has to use his stock of foreign currencies to pay for imports.

The value of exports and imports is recorded "free-on-board" (FOB) to show the actual costs of the goods without insurance and freight, both of which are treated in the invisible section of the current account. The invisibles include services and income account. The services covers freight, insurance and other distributive services involved in international transportation of goods (which represents non-factor services).

Entries will either be credit or debit depending on whether the charges are received or paid by the reporting economy.

The Capital and Financial account records changes in a country's foreign assets and liabilities, capital movements and changes in international investment position. Capital may be long- or short-term, and private or public (government). Investment, as a major component of financial account is "direct" if it creates or establishes a permanent interest in an enterprise. However, investment in long-term bonds and corporate equity constitutes "portfolio investment".

Capital movements may take place between a reporting economy and the rest of the world by injection of new loans and investments into the reporting economy by foreigners. This movement may take the form of increases in foreign-owned deposits in the banks of the domestic (reporting) economy. The latter may decide to recover its loans and investments as well as bank deposits abroad. These are examples of credit entries. Capital flows through new loans, and increases in deposits in foreign banks by the reporting economy, constitute "debit" entries. The capital transfers component of unrequited transfers is included in the capital account of the balance of payments

It should be noted that, in conformity with international standards, the balance of payments' statistics is currently undergoing a comprehensive revision to capture major non-residents' transactions with the aim of tracking down the huge inflows of capital and expand coverage.

TABLE 374.1: BALANCE OF PAYMENTS, 2005 – 2007

| | N' Billion | | | \$'Billion | | |
|--|------------|-----------|-----------|------------|-----------|-----------|
| | 2005 | 2006 | 2007 | 2005 | 2006 | 2007 |
| A. Current Account | 4,066.60 | 3,443.08 | 3,723.57 | 30.95 | 27.00 | 29.85 |
| GOODS | 3,833.00 | 3,457.63 | 3,365.16 | 29.17 | 27.12 | 26.97 |
| Export (F.O.B.) | 7,246.54 | 7,324.69 | 8,126.00 | 55.14 | 57.44 | 65.13 |
| Imports c..f | -3,413.54 | -3,867.04 | -4,760.84 | -25.98 | -30.33 | -38.16 |
| Services (net) | -419.47 | -589.08 | -995.16 | -3.19 | -4.62 | -7.98 |
| Credit | 426.27 | 510.90 | 789.39 | 3.24 | 4.01 | 6.33 |
| Debit | -845.74 | -1,099.98 | -1,784.54 | -6.44 | -8.63 | -14.3 |
| Income (net) | -269.77 | -804.09 | -896.64 | -2.05 | -6.31 | -7.19 |
| Credit | 90.30 | 207.77 | 255.03 | 0.69 | 1.63 | 2.04 |
| Debit | -360.07 | -1,011.86 | -1,151.67 | -2.74 | -7.94 | -9.23 |
| Current Transfers (net) | 922.85 | 1,378.61 | 2,250.21 | 7.02 | 10.81 | 18.04 |
| Credit | 940.10 | 1,401.39 | 2,269.09 | 7.15 | 10.99 | 18.19 |
| Debit | -17.25 | -22.78 | -18.88 | -0.13 | -0.18 | -0.15 |
| B. Capital & Financial Account | -2,710.89 | -1,592.22 | -619.93 | -20.63 | -12.49 | -4.97 |
| Capital Account (net) | 962.97 | 1,357.98 | - | 7.33 | 10.65 | - |
| Credit | 962.97 | 1,357.98 | - | 7.33 | 10.65 | - |
| Debit | - | - | - | - | - | - |
| Financial Account (net) | -3,673.86 | -2,950.20 | -619.93 | -27.96 | -23.14 | -4.97 |
| Assets | -1,893.33 | -2,718.26 | -2,366.11 | -14.41 | -21.32 | -18.97 |
| Direct Investment(Abroad) | - | - | - | - | - | - |
| Portfolio Investment | - | - | - | - | - | - |
| Other Investment | 405.24 | -930.70 | -1,238.89 | 3.08 | -7.30 | -9.93 |
| Reserve assets | -1,488.09 | -1,787.56 | -1,127.21 | -11.32 | -14.02 | -9.04 |
| Liabilities | -1,780.53 | 213.94 | 1,746.18 | -13.55 | -1.82 | 14.00 |
| Direct Investment (in reporting economy) | 654.19 | 1,779.59 | 1,553.73 | 4.98 | 13.96 | 12.45 |
| Portfolio Investment | -393.34 | -294.96 | -609.34 | -2.99 | -2.31 | -4.88 |
| Other Investment Liabilities | -2,828.06 | -2,306.49 | -416.89 | -21.52 | -18.09 | -3.34 |
| NET ERRORS AND OMISSIONS | -569.04 | -1,850.86 | -3,103.64 | -4.33 | -14.52 | -24.88 |
| <i>Memorandum Items</i> | | | | | | |
| <i>Current Account Balance as % of GDP</i> | 21.30 | 18.89 | 16.25 | 27.30 | 18.89 | 16.25 |
| <i>Capital & Financial Account Balance as % of GDP</i> | 18.20 | 8.74 | 2.71 | 18.20 | 8.74 | 2.71 |
| <i>Overall Balance as % of GDP</i> | 9.99 | 9.81 | 4.92 | 9.99 | 9.81 | 4.92 |
| <i>External Reserves (US\$million)</i> | 28,279.06 | 42,298.00 | 51,333.15 | 28,279.06 | 42,298.00 | 51,333.15 |
| <i>No. of months of Imports equivalent</i> | 13.06 | 16.74 | 16.14 | 13.06 | 16.74 | 16.14 |
| <i>External debt stock (US\$million)</i> | 20,476.20 | 3,544.49 | 3,654.00 | 20,476.20 | 3,544.49 | 3,654.00 |
| <i>Outstanding debt service due as % of exports of goods and non-factor services</i> | | | | | | |
| <i>Effective central exchange rate(US/\$)</i> | 131.41 | 127.51 | 124.76 | 131.41 | 127.51 | 124.76 |
| <i>End-period exchange rate(US/\$)</i> | 129.00 | 128.27 | 117.97 | 129.00 | 128.27 | 117.97 |

Source: Central Bank of Nigeria – Annual Report and Statement of Account