Nigeria's Balance of Payments Position (2009 – 2013): A Conceptual Analysis

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Abstract: *The aim of this paper is to explore and present facts and figures in relation to Nigeria's balance of payments for a period of five years including latest year's data available, while bringing to limelight, the concept of balance of payments, its components and related terms– to promote general awareness as international trade and related transactions attract more public attention given the recent fall in oil prices. In the process of content analysis, secondary data was used through sources which include text books, journal articles, reports, internet and more importantly, from the library and the website of Central Bank of Nigeria (CBN). Among the findings of the paper are that out of the five years BOP data presented, a deficit is realized in three – thus concluding that though not incessant, is still somewhat worrisome - and is also probable in 2015 and 2016. Also, there is element of laxity in the CBN's operation as reflected by unbecoming delays in complying with some international standards and releasing its reports as well as some unverified comments/statements. The paper recommends that Nigeria should improve the state of infrastructure so as to attract foreign investments and ease the way of doing business, increase competitiveness and promote local products thereby positively impacting on the country's balance of payments. Also, the CBN should improve its operations to increase accuracy, consistency and speed in the preparation and release of the Annual Reports that contain Nigeria's balance of payments, to boost the confidence of the international community.*

Keywords: *Balance of Payments, Nigeria, Central Bank of Nigeria, International Transactions*

1. Introduction

No nation is completely self -sufficient or is able to provide her people with all their needs. This fact was stressed over two centuries ago when pointed out the 'systematic' effect of international trade on economic growth of nations. Thus, nations engage in international trade, to benefit from specialization for instance. Besides the flow of goods and services, income and capital also flow, hence stressing the need for keeping records of trade and financial transactions with the rest of the world.

The volume and scope of international trade and or international business inform the need for a systematically comprehensive framework that facilitates recording, sorting, analyzing and reporting each nation's international transactions. Central to these functions is the Balance of Payments, which according to the , is a statistical statement that systematically summarizes, for a specific time period, the economic transactions of an economy with the rest of the world.

This paper centers mainly on exploring and presenting facts and figures in relation to Nigeria's balance of payments (BOP) for over a period of five (5) years (2009 – 2013) and equally on the concept of balance of payment, its components and related terms and other concepts.

1.2 Objectives of the Study

The main objective of the study is to explore and present facts and figures in relation to Nigeria's balance of payments for a period of five years. The specific objectives are to:

1. Identify the years and the extent to which Nigeria experienced balance of payments deficits in the period under study.
2. Identify the ways in which Balance of Payments position could affect economic stability and development of a nation.
3. Identify the extent to which the Central Bank of Nigeria complies with the current global Balance of Payments practices.
4. Identify and recommend ways that Nigeria could best improve her Balance of Payments position.

1.3 Statement of the Problem

The official compilation of external trade statistics started in Nigeria in the early 1930s and published by the Crown Agent, London. In 1947, a full-fledged Department of Statistics was established to compile and publish external trade statistics. It was reorganized in 1949, and renamed the Federal Office of Statistics (FOS) in 1960 - now known as the National Bureau of Statistics (NBS) (http://www.nigerianstat.gov.ng/, n.d). But with the establishment of the Central Bank of Nigeria in 1959, it has been publishing Nigeria's Balance of Payments Statistics, being used by planners and decision makers in both public and private sectors (http://www.nigerianstat.gov.ng/, n.d;. Thus, the need for adequate and lucid literature on the balance of payments for thorough understanding becomes very important. The issue of promoting a favorable balance of both trades should be everybody's business; if countries like Nigeria want to be making progress in international transactions.

However, despite the importance of BOP to the growth of the Nigerian economy, many citizens do not have clear understanding of what it really is and how it affects their lives such that their contributions can be justified personally. Although some recent studies (& analyzed Nigeria's balance of Payments; they neither adequately addressed the concept of Balance of Payments to the understanding of even non-experts, nor did they give very practical recommendations on how to improve the balance of payments position of the country. Thus, this study focuses mainly on providing an update and promoting general understanding of the concept of balance of payments in Nigeria, its components and related terms and other concepts.

1.4 Research Questions

Based on the above research objectives, the following research questions are developed:

1. In which of the years under study did Nigeria experience Balance of Payments deficits, and to what extent?

2. In what ways could Balance of Payments position affect economic stability and development of a nation?

3. To what extent does the Central Bank of Nigeria comply with the current global Balance of Payments practices?

4. In what ways could Nigeria best improve her Balance of Payments position?

1.5 Significance of the Study

Given the recent fall in oil prices, which really affects government revenues, national income, foreign reserves and foreign exchange availability and rates, and the way the international trade and other transactions attract more public attention, this study would help enrich the literature and assist managers and public officials, academics and the general public to have additional knowledge especially on the concept, contemporary position, practices and dynamisms of the balance of payments and international transactions, and how they affect virtually whatever they do or don't do; such that they can be able to personally justify the contributions they shall give toward stabilizing and improving the country's position.

2. Literature Review

2.1 International Trade

International trade, otherwise known as foreign trade or external trade, is a trade between one country and another, or between their people. It can also be described as the flow of goods and services across international boundaries. The two branches of international trade are Import trade and Export Trade, the records of which shall be kept for analysis and decision making (Ahukannah, Ndinaechi & Arukwe, 1992; http://www.nigerianstat.gov.ng/ , n.d).

2.2 Balance of Payments (BOP)

Although virtually saying the same thing, various scholars and organizations offered various definitions, with varying degrees of scope and perspectives, of the Balance of Payments. For instance, according to Ahukannah, Ndinaechi and Arukwe (1992), balance of payments is the relationship (the financial difference) between all imports and exports of visible and invisible nature. To , it is a complete and systematic statement of all economic and business transactions made by its residents, government or agencies with the rest of the world. For a period, if the total of receipts, less payments, is positive, the balance of payments shows a surplus, if the sum of the total payments exceeds that of total receipts, the balance of payments is said to be in deficit and if the difference between these two is zero, the balance of payments depicts equilibrium. It also provides a systematic summary of economic transactions of an economy with the rest of the world (. From these definitions we can deduce that balance of payments relates to international trade and a specific period of time. It is also systematic in nature and is a summary of receipts and payments. Furthermore, its overall balance can be favourable (surplus), equilibrium (zero or insignificant difference) or unfavorable (deficit).

2.3 Balance of Trade

Balance of Trade is simply the relationship between visible imports and exports in a given period, usually a year. Visible imports and exports relate to items that can be seen, felt or touched like machines, food stuff, chemicals, vehicles etc. Table 1 shows Nigeria's balance of trade, for the period 2009 – 2013.

Table 1: Nigeria's Visible Trade N' Million

Year	Total Imports *(cif)*	Total Exports *(fob)*	Balance of Trade
2009	5,116,459.71	8,363,326.41	3,246,866.70
2010	7,614,656.23	11,662,462.54	4,047,806.31
2011	10,235,174.22	14,826,062.82	4,590,888.59
2012	9,084,454.73	14,735,977.76	5,651,523.02
2013	8,808,102.61	14,841,507.75	6,033,405.14

Source: *CBN Annual Economic Report, 2013.*

2.4 Nigeria's Balance of Payments

We would recall that balance of payments is the record of all economic transactions involving payments and receipts between the residents of a country say Nigeria, and those of other countries in any given period, usually a year. All external transactions between residents and non-residents, as captured by the banking system form the basic inputs for the compilation of the BOP. Thus the BOP is based on the international transactions reporting system (ITRS). (http://www.nigerianstat.gov.ng/ , n.d; .
In a recent development the Central Bank of Nigeria declared that it "is responsible for the preparation of the Balance of Payments (BOP) and the International Investment Position (IIP) of the Nigerian economy" (http://statistics.cbn.gov.ng/cbn-onlinestats/Meta Data.aspx#external, 2015).

However, there are three (3) major accounts that always feature, either separately (CBN, 2001;, or some being merged, renamed and or repositioned (IMF, 1993; CBN, 2015)[b], and they are: the Current Account, the Capital Account, and the Financial Account/Official Settlement Account. These accounts are explained as follows . Basically, as per the IMF Balance of Payment Manual (BPM5), the BOP table is usually divided into two main sections, namely the Current Account, and the Capital and Financial Account; and the Net Errors and Omissions, which is a balancing item.

2.4.1 Current Account

The Current Account is divided into two major sections; visible and invisible. The visible account consists of *Goods Account*, which are tangible physical commodities. *Exports are "Credit"* entries, while *Imports are "Debit"* entries. The value of exports and imports are recorded "free on-board" (f.o.b.) to show the actual costs of the goods without insurance and freight, because both are treated in the Services section of the current account (CBN, 2015)[a]. *The invisible, services* section, include transport, freight, travels, insurance and other business services. Notable aspects are: *The Investment Income* (profits, interest, dividends and royalties) and *The Current Transfers* (a unilateral transfer by the reporting economy to the rest of the world (ROW) or vice versa without an equivalent value in exchange, like home remittances by migrant workers or private sector grants to educational institutions, grants, subscriptions, technical assistance ,etc). Transfers received are recorded as credit items, while outflows are debits to the reporting economy. *The sum total of the balances of these sub-accounts namely: Goods, Services, Income and Current Transfers, make up the Current Account (*CBN, 2015)[a].

2.4.2 Capital and Financial Account

The Capital and Financial Account as the two accounts are merged by the CBN in recent years annual reports (2005 to date), capture changes in a country's foreign assets and liabilities, capital movements and changes in international investment position. Furthermore, investment, as a major component of financial account is *"Direct Investment"* if it creates or establishes a permanent controlling interest in an enterprise; and the investor has equity ownership of at least 10 per cent, and *"Portfolio Investment"* if it covers the acquisition and disposal of equity and debt securities (instruments), which cannot be classified under direct investment. observes that foreign capital is available in the form of credits and joint ventures with foreign partners. Although the balance of payments accounts are, in principle, balanced, imbalances result in practice from imperfections in source data and compilation. This imbalance, a usual feature of balance of payments data, is labeled net errors and omissions and should be identified separately in published data .

2.4.3 Net Errors and Omissions

Differences between debits and credits in the current and the capital and financial accounts are balanced through the Errors and Omissions component of the BOP. A credit balance on the Net Errors and Omissions Account shows that the credit items are under-estimated, while a debit balance indicates an understatement of debit items *(*CBN, 2015[a]).

2.4.4 Reserve Assets

Another critical component of the balance of payment is the Reserve Assets, relating to those external assets that are readily available to and controlled by monetary authorities *for meeting balance of payments financing needs,* for intervention in exchange markets to affect the currency exchange rate, and for other related purposes (such as maintaining confidence in the currency and the economy, and serving as a basis for foreign borrowing). Worthy of noting is that reserve assets must be foreign currency assets and assets that actually exist and central to the concept of reserve assets are the notions of "control," and "availability for use," by the monetary authorities (IMF, 2009; Dunn (Jr) & Mutti, 2004).

2. 5 Theoretical Underpinning

This study is anchored on the Monetary Approach/Model to the balance of payments developed by and his colleagues, for its special relevance to the BOP manual recommended by the IMF and used by Nigeria and how it relates to the disposal of excess outputs; despite its shortcomings and the criticisms against it. It also relates to the balance of payment in respect of the two major heads of accounts of the balance of payments, the Current Account and the Capital and Financial Account (;. The crux of this approach is based on Walras' law which states that the sum of the excess demand for goods and services, bonds, securities and money is identically zero; that in an open economy, the excess demand for money can be eliminated by net sales of domestic goods and services or by disinvestments in foreign markets resulting in a reserve flow. The excess money supply can be eliminated through purchase of foreign goods or by investment abroad resulting in reserve losses. The money market equilibrium can be restored when net flow becomes zero...(Johnson, 1977, in Das, n.d.).

3. Methodology

This paper places emphasis on the concept of balance of payments, its components and associated terms and concepts and explores Nigeria's balance of payments for a period of five (5) consecutive years including latest year's data available from the Central Bank of Nigeria (CBN).The Conceptual Analysis approach is chosen because Balance of Payments is highly official and authority bound subject, with a lot of such authoritative materials available, whose contents need to be synthesized and brought together to achieve the 'ultimate' objective of promoting general awareness and inducing collaborative efforts towards improving the balance of payments position of the country. The study period is chosen for its being *recent* and including the most recent annual data available; and *adequate*, as a period of five (5) years is mostly seen sufficient in financial cum economic transactions and considerations. Even two (2) years could be considered in a comparison , or Index Analysis (Kurfi, 2003). Similarly, Akintoye (2008) used four years data (of some five companies), while used six time periods in a socio-economic analysis.

Being conceptual, text books, journal articles and other print media relevant documents were consulted. More importantly, the researchers sourced some of the data especially Nigeria's balance of payments figures from the official website of the CBN (http://www.cbn.gov.ng) and library of the Central Bank of Nigeria (CBN), Kano Branch, visited on Thursday, 1st December, 2015. However, the major *limitations* experienced are the unavailability of the BOP data for 2014 and the fact that even the CBN Annual Report for the year 2013, as released online in July, 2015, bearing the latest available data, was, and is up to the completion of the paper (December, 2015), a draft copy, though having little probability of major variations.

4. Results and Discussion

4.1 Analysis on the Years and Extent to Which Nigeria Experienced Balance of Payments Deficits

Table 2 shows extracted Nigeria's BOP's overall balance for the five year period. It shows BOP moving from N2.957.78 billion in 2012 to N3,143.8 billion (US$20.2 billion) in 2013, the current account surplus increased by 6.3 per cent while non-oil exports rose remarkably by 48.9 per cent, to N708.9 billion and accounted for the balance of 4.8% of the aggregate export. It also shows a rise of 52.25% from the beginning of the period under consideration, 2009, with N2.064.89 billion. The account was sustained by the positive trade balance and huge current transfers which more than offset the net payments in the services and income accounts (CBN, 2015)[b].

The capital and financial account of Nigeria posted a net incurrence of liability of N1,209.1 billion, or 1.5 percent of GDP , in contrast to a net acquisition of asset of N1,949.2 billion or 2.7 per cent of GDP in 2012 (CBN, 2015)[b]. As it can be seen here, just like the overall balance of payments, a positive (+) figure means or suggests a liability while a negative (-) balance shows a favourable net asset acquisition IMF, 2009; CBN, 2015)[b].

Table 2: Extracted Nigeria's BOP (Overall Balance) and Related Items N' Billion

Year Item /Ac	2009	2010	2011	2012	2013
Current Account	2,064.89	2,165.17	1,931.40	2,957.78	3,143.77
Capital And Financial Account	1,862.60	305.56	(831.41)	(1,949.20)	1,209.07
Net Errors And Omissions	(3,927.49)	(2,470.73)	(1,100.00)	(1,008.58)	(4,352.84)
Overall Balance Of Payment (Reserve Assets)*	1,563.69	1,491.48	(47.06)	(1,747.90)	154.18
Gross Domestic Product (GDP)	25,236.06	55,469.35	63,713.36	72,599.63	81,009.96
Overall Bal. As % Of GDP	(6.31	(2.73)	0.07	2.44	0.19

Source: *CBN (2011) ; CBN (2015)* [b] *- (CBN Economic Report (2013).*

NB: * = *A negative balance (-/ ( )) indicates increase in reserves (surplus), while a positive (+) one indicates a decrease (deficit).*

With regard to Nigeria's overall balance of payments, it can be observed, as the CBN (2015)[b] explains, the external account recorded an overall deficit of N 154.2 billion (US$1.00 billion), equivalent to 0.2 per cent of GDP in 2013, in contrast to a surplus of N 1,747.9 billion (US$11.2 billion) or 2.4 per cent of GDP in 2012. The development reflected, largely, the decline in external reserves, rising external debt and increased repatriation of investment income by foreign investors (CBN, 2015)[b]. It is however a 91.71% better position if contrasted against the first considered year, 2009, which had a balance deficit of N 1,563.69 billion. Out of the five years data presented, a deficit is realized in three – 2009, 2010 and 2013 as shown in table 2 above – suggesting that it is not that incessant in the years under review, though it is of course worrisome, especially considering the recent fall in oil prices.

4.2 The Ways in Which Balance of Payments Position Could Affect the Economic Stability and Development of a Nation

Balance of Payment can affect the economy in either a positive way (a surplus) or a negative one (a deficit).But Dunn (Jr) & Mutti (2004) posit that if balance of payments deficit persists however, it may present problems like foreign exchange squeeze and the inability to pay for imports and other obligations. It also makes domestic money supply complicated with increasing pressure on the Central Bank. Furthermore, a nation may find itself dependent on lenders such as the IMF, Paris Club or London Club, that come with stringent terms known as 'conditionality (or conditionality)'. To avoid this, suggests that suitable reforms targeted at stabilizing the balance of payments should be in place. Although BOP surplus presents fewer problems than deficits, among its disadvantages are (Dunn (Jr) & Mutti, 2004):

1. It increses domestic money supply requiring various corrective measures which may complicate the system's operations.

2. The sudden emergence of trade surplus can be inflationary thereby affecting purchasing power (on its way to equilibrium).

4.3 The Extent to Which the Central Bank of Nigeria Complies With the Current Global Balance of Payments Practices

Though there is no permanent or standard format of the balance of payments report, there are IMF recommended formats based on economic and financial developments, changes in analytical interests, and accumulation of experience by compilers(IMF, 2009), having different acceptance times. For instance, it was only in the year 2005 that the Central Bank of Nigeria (CBN) started using the format of BOP Manual released by the IMF since 1993; that is twelve (12) years later, and just four (4) years to the release the latest (6th) edition, released in 2009.

Surprisingly, these variations with time might be due to ignorance as the CBN exhibits ignorance of the release of the latest 6th edition of the IMF Balance of Payment Manual, released five years ago (since 2009), in its 2014 Statistical Bulletin released/published online on 31st July, 2015, with the following declaration (CBN, 2015:18)[a]: “The method of BOP compilation 'has been reviewed four times' by the International Monetary Fund (IMF). The fifth edition of the BOP compilation Manual (BPM5) provides an expanded conceptual framework to encompass both balance of payments flows (transactions) and stock of external financial assets and liabilities otherwise called the International Investment Position (IIP).”

4.4 Ways Nigeria Can Best Improve on Her Balance of Payments

Acknowledging the experienced and expected deficits of Nigeria in his 2016 Budget Speech, President Muhammadu Buhari asserts that the Government proposes a budget of N6.08 trillion with a revenue projection of N3.86 trillion resulting in a deficit of N2.22 trillion (2.16% of GDP), following the fall in oil prices to under $39 per barrel as against the $112 by June, 2014**., 2015)**. Thanks to the problem identification but is there a way out? Yes, listen to the President's response in same speech:

“The answers to our problems are not beyond us. They exist on our farmlands; our corporations; in the universities in the hearts and minds of our entrepreneurs; through the gallantry of our Armed Forces; and the resolute spirit of Nigerians, especially the youth, who have refused to give up despite all the obstacles confronting them”. This position cum finding tallies with the assertion of Schumpeter (1935), in Adejugbe (1997) that industrialization is inextricably tied to economic development, which to a large extent, has to be internally generated. Furthermore, on the President's promise to ensure *macro-economic stability*, one may be tempted to ask for concrete steps in that direction. The proposed budget answers that with the following (http://www.premiumtimesng.com/, 2015): (i) Increase of 30%,in the capital expenditure portion of the budget from N557 billion in the 2015 budget to N1.8 trillion, in the 2016 budget (ii) Committing significant resources to critical sectors such as Works, Power and Housing – N433.4 billion; Transport – N202.0 billion; Defense – N134.6 billion; to support reforms in the Agriculture, Solid Minerals and other core job creating sectors (iii) Commitment to “fighting corruption” and blocking loopholes in government revenues – the implemented Treasury Single Account (TSA) which enhances visibility of Government revenues and cash flows.

5. Conclusion and Recommendations

5.1Conclusion

At this juncture, it is worth noting that out of the five-year BOP data considered, a deficit is realized in three – 2009, 2010 and 2013 as shown in table 2 above – leading to a major conclusion that though the deficit is not that incessant, it is still somewhat alarming especially given the recent sharp fall in oil prices. This makes the observed likelihood that Nigeria would experience balance of payments deficits in the years 2015 and 2016 worrisome, just as Dunn (Jr) & Mutti (2004) posit that if balance of payments deficit (decline in reserve assets) persists however, it may present many problems of varying noticeability. This is so far a remarkably recent update on the balance of payments position of Nigeria.

Another conclusion of this paper is that there is an element of laxity in the reporting system and process of the Central Bank of Nigeria (CBN) as reflected by the excessive delay in its compliance with the latest BOP Manual and in the release of its Annual Report (and Statement of Accounts) for the years 2013 and 2014 which are yet to be released. In contrast, even as big as the American economy is, though data readiness in the systems differ, the American Federal Reserve (a body akin to the CBN) already released its 2014 (101st) Annual Report (www.federalreserve.gov/publications/default.htm, 2015). Another breakthrough of this paper is the discovery of laxity in the CBN's express statement that "the method of BOP compilation 'has been reviewed four times by the International Monetary Fund (IMF) …", meaning that the IMF reviewed its BOP Manual only four times as against the actual five times, with the 6th edition being the latest - the existence of which the CBN implies ignorance or slackness to thoroughly check its publications before release, which is unbecoming to an organization like the CBN.

This paper is also satisfied with the policy statements and expenditure structure with increased emphasis to capital expenditure, probity, security, science, technology and education and the focus on diversification as reflected by the proposed budget allocation structure presented earlier.

5.2 Recommendations

Based on the study and the conclusions above, we recommend that:

1. Nigeria should improve the state of infrastructure so as to attract foreign investments and ease doing business in Nigeria for local products to be competitive both locally and internationally, thereby impacting on Nigeria's balance of payments.

2. The Central Bank of Nigeria (CBN) should improve its operations to speed up the preparation and release of the Annual Reports that contain Nigeria's balance of payments.

3. Also, any document or report to be released by the CBN should be thoroughly checked to avoid future occurrence of unbecoming erroneous statements or declarations. Moreover, it should facilitate speedy compliance with the latest 6th edition of the IMF BOP Manual (BPM6), to boost the confidence of the international community.

4. The government, being the driver and policy formulator for the economy, should implement all the plans for sustainable development as stipulated in the 2016 budget. It should also uphold the spirit in subsequent budgets and national developmental plans.

5. Internal production and by extension, expertise, as well as consumption of local products should be promoted in order to improve chances of balance of payments surplus and reduce foreign exchange pressure due to high demand for foreign goods. In that vein, the government should start with good example of adopting a policy, for instance, that from January, 2017, only locally produced furniture should be acquired for "all" government offices, houses and other buildings and gradually extending same to other locally available products – thereby motivating individuals and private sector to follow suit.

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