

PO-CH/NL/0348.

PART A

Part A.

CONFIDENTIAL

(Circulate under cover and
notify REGISTRY of movement)

Begins : 22/12/87.

Ends : 8/8/88.



PO -CH /NL/0348



PART A

Chancellor's (Lawson) papers:

NIGERIAN AID AND THE
INTERNATIONAL MONETARY
FUND

DD's : 25 Years

Pauline

17/11/95.

PO -CH /NL/0348

PART A

PART A

CONFIDENTIAL



10 DOWNING STREET
LONDON SW1A 2AA

CH/EXCHEQUER

22 DEC 1987

MR MOUNTFIELD
CST EST
SIR PMIDDLETON
SIR G. LITTLE MR ANSON
MR H. EVANS
MR ROBSON
MR BURNER
MS SEAMEN
MRS CASE

From the Private Secretary

22 December 1987

Dear Lynn,

VISIT TO NIGERIA

The Prime Minister has asked for consideration to be given to the possibility of her making some gesture of encouragement and support to the Nigerian government during her visit in early January. In Kenya, she will have the promise of some £20 million additional balance of payments aid to offer, provided the Kenyans reach agreement with the IMF. In Nigeria, as far as I can make out from the briefs, there is no similar piece of good news. The Nigerians are of course a less deserving case. Nonetheless we have a strong interest in using the Prime Minister's visit to get our relations with them on as good a footing as possible and to support their efforts to put the economy to rights.

For these reasons, the Prime Minister would like consideration given to two possibilities:

- military assistance. As I understand it, we are proposing to the Nigerians that we should retain some £7 million from the proceeds of the former West African Currency Board, to offset their debt to MoD of some £9½ million for military assistance. We might consider suggesting that, if the Nigerians accept this proposal, we would be prepared to write off the remaining £2½ million. This would open the way to continuation of our military training and assistance programme and would presumably create a very favourable impression with President Babangida. Clearly there are risks. If we write off a part of this debt, it may only encourage the Nigerians to expect us to do the same in other areas where the stakes (and the cost to us) are higher. But in the Prime Minister's view, it should be possible to ring-fence help of this sort with military assistance. The Prime Minister recognises that the sum involved - if we proceed - would not be a fair charge on departmental votes but would have to be found elsewhere.

- commercial debt. The Prime Minister thinks that a renewed effort should be made to secure Nigerian agreement to pay off a fair proportion of their arrears to ECGD so that resumption of medium term cover could be announced during her visit. I do not know what the practical possibilities of making progress in these negotiations between now and

CONFIDENTIAL

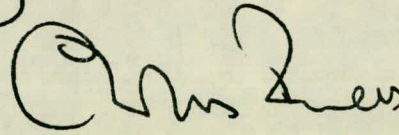
CONFIDENTIAL

2

7 January are, but the Prime Minister would clearly wish the maximum possible effort to be made.

I should be grateful if very early interdepartmental consideration could be given to these two proposals. It would be helpful to have an interim reply at least, some days before the Prime Minister's departure.

I am copying this letter to Alison Brimelow (Department of Trade and Industry), Alex Allan (HM Treasury), John Howe (Ministry of Defence) and Martin Dinham (Overseas Development Administration).

Yours sincerely,


(C. D. POWELL)

Lyn Parker, Esq.,
Foreign and Commonwealth Office.

CONFIDENTIAL

CONFIDENTIAL



CH/EXCHEQUER	
REC.	30 DEC 1987
ACTION	MR MOUNTFIELD
COPIES TO	CST EST SIR MIDDLETON SIR CLITIER MR ANSON MR H PEVANS MR ROBSON MR BURGER

34 Foreign and Commonwealth Office

London SW1A 2AH

30 December 1987

Dear Charles,

Prime Minister's visit to Nigeria

Thank you for your letter of 22 December.

We can see the attraction of the Prime Minister making some gesture of encouragement and support to the Nigerian government during her visit. On military assistance, we and the Treasury have no objection to the idea that the Prime Minister should offer to write-off the £2.5 million debt to MOD which would remain once the Nigerians had agreed to assets from the West African Currency Board being used to offset the rest of the debt.

The mechanism would be as follows. £7m of the assets of the Currency Board, held in a special account at the Crown Agents, would be paid over, on the authority of a Treasury Minute, to the Ministry of Defence, rather than to Nigeria. MOD would treat this as an appropriation-in-aid to its Vote. MOD would forgo the remaining £2.5 million which it had expected to recover from Nigeria in 1987-88; this abandoned claim would have to be reported to Parliament in due course.

You note that the Prime Minister would not wish this to be a charge to departmental votes; the Treasury have confirmed that they could agree to compensate MOD by this amount.

There is, as you rightly point out, a danger that this limited debt relief will lead to demands for more. The Prime Minister would therefore need to say to Babangida that this was a one-off gesture to clean the slate in this particular limited area, and that there could be no question of dealing in the same way with future military training debts or other forms of inter-governmental debt, whether owed to ODA or to ECGD. To do so would set unacceptable precedents.

The MOD however are not happy with this course: they point out that the Nigerian record on debt repayment is very bad, and that a write-off of this kind, however hedged about with provisos, would inevitably encourage the Nigerians to believe that they could do the same again in future. There will probably be future such debts since there can be no guarantee that UKMTAS funds will be available to cover more than a portion of the external costs of future training, let alone internal costs. There is also the possibility of other countries in similar positions seeking to use a Nigerian write-off as a precedent in their own cases. The MOD believe that the course proposed could attract criticism in the PAC on

CONFIDENTIAL



these general grounds. They would find it hard to refute such criticism.

The MOD have therefore suggested an alternative approach to encourage more prudent housekeeping by the Nigerians, which is that we might offer to roll over the debt and ask that it be repaid in fixed instalments over a reasonable period, say five years. The FCO and Treasury are a little more confident that an offer to write-off could be ring-fenced. But they recognise that there are bound to be residual risks of the kind suggested by MOD. They would therefore be content to accept the roll-over approach if that is what the Prime Minister decides on.

Whichever is the preferred option, both we and the MOD believe that it will be important to couple any such gesture with an assurance that we will contribute towards the external costs arising from:

- a) the two military assistance teams currently in Nigeria (whose contracts expire in May and December 1988);
- b) further requests for such military assistance should they be forthcoming.

As well as reinforcing the Prime Minister's gesture, this would achieve the important aim of helping to ensure that the future of the military relationship, effectively under threat because of Nigeria's straitened economic circumstances, is made secure. £450,000 has already been earmarked from FCO UKMTAS funds for 1987-88 to assist the Nigerians financially. But it has been agreed with the MOD that this can only be used if the Nigerians have both settled satisfactorily their debt to the MOD, and put in a formal request for further military assistance. Although this sum, if it remains unused by the end of the financial year, will be returned to UKMTAS funds, we are hopeful that, bearing in mind other commitments on UKMTAS, at least the same amount should be available for the next financial year.

The total external costs of the two teams currently in Nigeria is £650,000. Although it is unlikely, given the country's economic situation, that requests for similar numbers of loan service personnel will be forthcoming, it is important that the Prime Minister make clear that our offer is to contribute towards, and not to meet in toto, the external costs of any further requests; and that in-country costs must in the future be met quarterly in advance, under the terms agreed in the 1980 MOU for military assistance.

As for commercial debt, ECGD are sending a further telegram to our High Commission instructing them to make clear to the Nigerians that provided ECGD receive confirmation by 7 January from the Bank of England that the Nigerians have instructed them to release from their special account an acceptable proportion of the arrears outstanding from the June instalment - at least £23 million - the Prime Minister will be



able to announce the go-ahead for negotiations on release of ECGD cover for an additional £22.3 million loan to complete the project in Niger State for the supply of water to rural areas, being undertaken by Biwater. This project is the first request so far to come from the Nigerian Government for finance under the new ECGD package. It has strong political backing, not least from the President in whose home state it is located. We will of course inform you as soon as we hear anything. But even if the outstanding arrears have not been authorised for release to ECGD by 7 January, ECGD would be content for the Prime Minister to make clear during her visit that as soon as these payments are made, we intend to proceed speedily with negotiations for the early release of the finance for this project.

ECGD would not, however, wish the Prime Minister to go further than this, and make any announcement about the timing of the release of the £200 million medium term credit cover intended to assist the regeneration of Nigerian industry and agriculture. Aside from the continuing problems over interest arrears, a number of technical issues remain to be resolved with the Nigerians. They for their part have clearly not placed the same degree of priority over this line of credit. Negotiations on a draft loan agreement are therefore not well advanced. Indeed, the latest indications which our High Commission has received from the Nigerians suggest that these are unlikely to move forward much before the end of January.

Instead, the Prime Minister might use this opportunity to remind Babangida privately that the interest payments to ECGD in question relate to 1987 and earlier years. Nigeria will also need generous debt relief from her creditors in 1988 and beyond. The UK is anxious to help, etc (as in the Prime Minister's brief). But our ability to do so depends crucially on Nigeria's willingness to help herself, by implementing a much stronger adjustment programme in 1988. The Prime Minister could add (and this has become clear since her brief was written) that the IMF Board will have discussed Nigeria's progress on 6 January, on the basis of a fairly critical report from the Staff. The UK Executive Director will be briefed to take a constructive line on this occasion. He will praise Nigeria's progress to date but point to the need for much more rapid action, especially on the fiscal side. He will be concerned not to criticise Nigeria in a negative fashion, but to put up markers about the further steps which (in our view) must be taken before the IMF can approve Nigeria's plans for 1988 (and thus unlock the way to further debt relief). It is important that Babangida should not misinterpret our objectives at the IMF, but he needs to be persuaded to swallow the pill.

EXCHEQUER	
REC.	31 DEC 1987 3/12
ACTION	MR MOUNTFIELD
COPIES TO	CST ET SIR F. MIDDLETON SIR E. LITTLE MR ANSON H. EVANS MR ROSSON MR BREWSTER

CONFIDENTIAL



10 DOWNING STREET
LONDON SW1A 2AA

31 December 1987

From the Private Secretary

Dear Sir,

PRIME MINISTER'S VISIT TO NIGERIA

Tony Galsworthy wrote to me on 30 December about possible gestures of encouragement and support which the Prime Minister might make to the Nigerian Government during her visit.

The Prime Minister has now considered the two proposals. As regards the military assistance debts, she agrees that we should offer to write off the £2.5m. debt to the Ministry of Defence which would remain once the Nigerians had agreed to assets from the West African Currency Board being used to offset the rest of the debt. She would propose to put this to President Babangida during their talks (unless you advise that the High Commissioner should prepare the ground). While the Prime Minister understands the Ministry of Defence's reservations about the proposal, she does not consider that the alternative of rolling over the debt would have sufficient impact. She takes the view that the importance of Nigeria to us is sufficient to justify an exceptional gesture.

As regards commercial debt, the Prime Minister is content with the proposal set out in Tony Galsworthy's letter, namely that if the Nigerians clear a reasonable proportion of their arrears to ECGD by 7 January, she should announce the go ahead for negotiations on release of ECGD cover for an additional £22.3m. loan to complete the water supply project in Niger State.

I should be grateful if you could let me have, either before our departure or in Nairobi, two or three brief sentences which could be included in the Prime Minister's speech in Lagos, based on the assumption that that Nigerians accept and agree to implement these two proposals.

I am copying this letter to Alex Allan (HM Treasury), Ian Andrews (Ministry of Defence) and Alison Brimelow (Department of Trade and Industry).

Yours sincerely

Charles Powell

Lyn Parker Esq
Foreign and Commonwealth Office.

UNCLASSIFIED

112024
MDHIAN 2154

UNCLASSIFIED

FM LAGOS

TO DESKBY 040900Z FCOLN

TELNO 001

OF 031400Z JANUARY 88

AND TO DESKBY 040900Z TREASURY, BANK OF ENGLAND, ECGD, DTI

INFO IMMEDIATE NAIROBI, UKDEL IMF/IBRD WASHINGTON

INFO PRIORITY ODA

NAIROBI FOR PS TO PM

NIGERIAN BUDGET

SUMMARY

1. UNCONTROVERSIAL BUDGET. MILDLY RELATIONARY. EMPHASIS ON NATIONAL SELF RELIANCE AND CONTINUATION WITH STRUCTURAL ADJUSTMENT PROGRAMME. FIFTH NATIONAL PLAN POSTPONED BY ONE YEAR. WAGE FREEZE ENDED. NEW, BUT INDEFINED, TARRIFF STRUCTURE. PRIORITY FOR MASS TRANSPORTATION AND AGRICULTURE. DEFENCE EXPENDITURE DOWN. DEBT-EQUITY SWOPS TO BE CONSIDERED. THE ISSUE OF PETROLEUM AND OTHER SUBSIDIES DUCKED. INITIAL COMMENTS IN MIFT.

DETAIL

2. PRESIDENT BABANGIDA DELIVERED HIS BUDGET SPEECH IN A TV ADDRESS ON THE EVENING OF 31 DECEMBER. THE FOLLOWING ARE THE MAIN FEATURES: (I) REVIEW OF THE ECONOMY. STRUCTURAL ADJUSTMENT PROGRAMME HAS BROUGHT BENEFITS INCLUDING BETTER ACCESS TO FOREIGN EXCHANGE FOR PRODUCTIVE SECTORS, BOOST TO NON OIL EXPORTS, GRADUAL RURAL TRANSFORMATION AND INCREASED GOVERNMENT REVENUES. BUT THERE HAVE BEEN NEGATIVE EFFECTS, PARTICULARLY ON MANUFACTURING INDUSTRY. HOWEVER IN 1987 REAL DOMESTIC PRODUCT ROSE BY 1.2% AS AGAINST A 3.3% DECLINE IN 1986, AND THE MANUFACTURING SECTOR GREW BY 10% ALSO COMPARED WITH A 6.3% DECLINE IN 1986. THE COUNTRY IS QUOTE AT THE THRESHOLD OF FOOD SELF SUFFICIENCY UNQUOTE. APART FROM IMPORTED GOODS, THERE WAS LITTLE INFLATION IN 1987. OF THE 3.3 BN DOLLARS AVAILABLE TO THE OFFICIAL FOREIGN EXCHANGE MARKET FROM ITS INCEPTION IN SEPT 1986 TO END 1987, ALL BUT 450 M DOLLAR SUPPORT FROM THE WORLD BANK, WAS PROVIDED FROM EXPORT EARNINGS (REPRESENTING 86% OF THE TOTAL). HOWEVER GOVERNMENT EXPENDITURE WAS HIGHER THAN

EEXPECTED AND SOME ANTICIPATED SAVINGS DID NOT MATERIALISE. EXTERNAL DEBT RESCHEDULING QUOTE ACHIEVED CONSIDERABLE SUCCESS DURING THE YEAR UNQUOTE TO THE EXTENT THAT THE PROBLEM QUOTE CAN BE REMOVED FROM THE FRONT PAGES OF OUR NATIONAL CONSCIOUSNESS UNQUOTE.

(II) ECONOMIC OUTLOOK. GIVEN THE UNCERTAINTIES OVER THE EXPORT EARNINGS AND GOVERNMENT REVENUE, AND THE NEED TO SEPARATE SHORT TERM PROBLEMS FROM LONG TERM DEVELOPMENT, IMPLEMENTATION OF THE FIFTH NATIONAL PLAN IS DELAYED UNTIL JANUARY 1989. THE INVESTMENT CLIMATE HAS IMPROVED BUT THERE HAS ONLY BEEN A QUOTE MODEST INFLOW UNQUOTE OF FOREIGN INVESTMENT. BUT AS A RESULT OF THE QUOTE FINE TUNING UNQUOTE OF THE FOREIGN EXCHANGE MARKET AND THE REVISED TARIFF SYSTEM, INVESTMENT IS LIKELY TO QUOTE IMPROVE SUBSTANTIALLY UNQUOTE IN 1988. THE REFLATIONARY PROGRAMME IN THE BUDGET WILL RESULT IN A HIGHER REAL GNP AND, ALTHOUGH THIS WILL CREATE A BUDGET DEFICIT, THIS WOULD BE QUOTE MODEST AND REASONABLE UNQUOTE. ALTHOUGH

THE STRUCTURAL ADJUSTMENT PROGRAMME WILL FORMALLY TERMINATE IN JUNE 1988, THE FOREIGN EXCHANGE MARKET WILL BE A PERMANENT PART OF THE ECONOMIC SYSTEM. IN GENERAL THE ECONOMIC ENVIRONMENT WILL SHOW A QUOTE MARKED IMPROVEMENT UNQUOTE OVER 1987.

(III) THE BUDGET PROFILE. (A) REVENUE. BY END SEPT 1987 REVENUE WAS N 15.3 BN FROM OIL AND N 3.1 BN FROM NON OIL (BUT, NB QUOTE EXCLUDING FUNDS PAID INTO ESCROW ACCOUNTS FOR SOME SPECIAL PROJECTS UNQUOTE), AGAINST A TOTAL 1986 FEDERAL REVENUE OF N 14.2 BN. FOR 1988 REVENUE OF N 27.1 BN IS PROJECTED (N 8.2 BN AND N 2.5 BN GOING TO STATE AND LOCAL GOVERNMENTS RESPECTIVELY). A SPECIAL SELF LIQUIDATING FUND HAS BEEN CREATED FROM RESCHEDULED EXTERNAL DEBTS FOR WHICH EQUIVALENT NAIRA SUMS HAD ALREADY BEEN PAID AND HELD BY THE CENTRAL BANK. FROM THAT ACCOUNT N 2.5 BN HAD BEEN BORROWED TO BE REPAID IN 1988. TOTAL FEDERAL GOVERNMENT RECEIPTS FOR 1988 WILL BE N 18.2 BN.

(B) EXPENDITURE. TO TOTAL N 24.3 BN, WITH N 21.8 BN AS REGULAR EXPENDITURE AND N 2.5 BN SPECIAL RELATIONARY EXPENDITURE. THE CURRENT EXPENDITURE ESTIMATE OF N 13.7 BN IS A 27% INCREASE ON 1987. AMONG THE ITEMS OF CURRENT EXPENDITURE IS N 3.9 BN FOR INTEREST ON EXTERNAL LOANS. CAPITAL EXPENDITURE, AT N 8.1 BN INCREASES BY 20% OVER 1987, AND INCLUDES N 1.1 BN FOR AGRICULTURE.

(IV) A SPECIAL RELATIONARY PACKAGE. THIS TO BE ADMINISTERED BY THE PRESIDENT S OFFICE AND NOT THE MINISTRY OF FINANCE. TO INCLUDE VARIOUS PUBLIC WORKS AND OTHER PUBLIC SECTOR EXPENDITURE E.G. CRIME PREVENTION, WITH HIGH PRIORITY FOR TRANSPORT AND BUSES. MMMHZZHWULWZGSCA SPECIAL TASK FORCE UNDER AIKOMU (NO 2 IN THE GOVERNMENT) WILL HAVE N 700 M FOR IMPROVED MASS TRANSPORTATION.

OTHER INFRASTRUCTURE AND SOCIAL SERVICES WILL GET AN EXTRA REFLATIONARY N 940 M.

(V) FOREIGN EXCHANGE BUDGET. THIS PROJECTS FOR 1988 OIL REVENUE OF 5.5 BN DOLLARS AND PUBLIC SECTOR NON OIL REVENUE OF 248 M DOLLARS, AND A BALANCE OF PAYMENTS SUPPORT LOAN OF 500 M DOLLARS. THIS TOTAL OF 6.2 BN DOLLARS RISES TO 7.4 BN DOLLARS WHEN PRIVATE SECTOR NON OIL RECEIPTS ARE ADDED. MAJOR ALLOCATIONS ARE DEBT SERVICING OF 1.7 BN DOLLARS AND THE FOREIGN EXCHANGE MARKET OF 3.9 BN DOLLARS.

(VI) KEY SECTORS. (A) AGRICULTURE. WILL CONTINUE TO HAVE PRIORITY WITH ATTENTION FOCUSED ON PREVENTION OF PRE AND POST HARVEST LOSSES EG PESTICIDES, STORAGE AND FOOD PROCESSING. SPECIAL ATTENTION WILL ALSO BE PAID TO DESERTIFICATION AND WOOD IMPORTS WILL BE ALLOWED IN ORDER TO LIMIT THIS. (B) EMPLOYMENT. AMONG VARIOUS MEASURES TO REDUCE UNEMPLOYMENT IS THE QUOTE REACTIVATION OF PUBLIC WORKS UNQUOTE. (C) INDUSTRY AND TARIFFS. INDUSTRY WILL ONLY SURVIVE UNDER THE STRUCTURAL ADJUSTMENT PROGRAMME BY INCREASING LOCAL SOURCES OF RAW MATERIALS. HOWEVER MANY HAD BEEN BADLY HIT, AND FROM 1 JANUARY THERE WILL BE QUOTE A NEW COMPREHENSIVE TARIFF STRUCTURE WITH BETTER EFFECTIVE PROTECTION UNQUOTE. BANNED IMPORTS WILL REMAIN UNCHANGED. THIS, WITH THE RECENT ANNOUNCED 2.25% INTEREST RATE REDUCTION TO 12.75% SHOULD RESTORE INDUSTRIAL GROWTH. (D) CONSTRUCTION. SPECIAL ALTERATIONS

HAVE BEEN MADE FOR QUOTE SELECTED HIGH IMPACT CAPITAL PROJECTS UNQUOTE. (E) MASS TRANSPORTATION. THE PROVISION IN THE SPECIAL RELATIONARY PACKAGE, AND THE PARTICIPATION OF BANKS, WILL HELP THE REHABILITATION OF OLD BUSES AND THE PURCHASE OF NEW ONES, AND WILL PUT NEW LIFE INTO VEHICLE ASSEMBLY AND COMPONENTS INDUSTRIES.

(F) POLICE AND DEFENCE. THE POLICE WILL BE GIVEN ADDED RESOURCES TO FIGHT CRIME BUT DEFENCE EXPENDITURE TO BE CUT (BUT WITHOUT FIGURES).

(VII) MAIN POLICY THRUSTS. A NUMBER OF QUOTE POLICY THRUSTS UNQUOTE ARE OUTLINED, THE PRINCIPAL ONES BEING (A) THE REHABILITATION AND COMPLETION OF CAPITAL WORKS, AND THE BRINGING BACK

INTO USE OF ABANDONED EQUIPMENT. (B) NEW TARIFF STRUCTURE. THIS WILL HAVE A TIME SCALE OF 7 YEARS QUOTE TO ENABLE LOCAL INDUSTRY TO ADJUST TO THE DEMANDS OF INTERNATIONAL COMPETITIVENESS UNQUOTE. THE ONLY DETAIL GIVEN IS THAT LENDING CHANGES EQUIVALENT TO THE EXCISE DUTY PAID ON LOCALLY PRODUCED GOODS WILL BE LEVIED ON IMPORTED GOODS OF THE SAME TARIFF CLASSIFICATION. A NEW INSTITUTION IS TO DEAL WITH CASES OF DUMPING, AND A TARIFF REVIEW BOARD WILL CONSIDER COMPLAINTS ABOUT THE TARIFF REGIME. THE CUSTOMS AND EXCISE DEPARTMENT WILL NO LONGER BE INVOLVED IN THE DETERMINATION AND COLLECTION OF DUTY, WHICH WILL DEVOLVE ON THE BANKING SYSTEM. (C) PETROLEUM AND OTHER SUBSIDIES. THIS PASSAGE STATES THAT THE ISSUE IS NOT WHETHER THERE OUGHT TO BE SUBSIDIES, BUT WHERE AND AT WHAT LEVEL. IT GOES ON, QUOTE FOR SOME TIME TO COME, SOME PUBLIC SECTOR ECONOMIC ACTIVITIES SUCH AS AGRICULTURE AND PETROLEUM WILL CONTINUE TO ATTRACT A REASONABLE LEVEL OF GOVERNMENT SUBSIDY. SUCH SUBSIDY LEVELS MUST HOWEVER BE COMPATIBLE WITH THE PRINCIPLE OF RESOURCE ALLOCATION THAT TAKES INTO ACCOUNT THE GREATEST GOOD OF THE GREATEST NUMBER UNQUOTE. THIS IS THE ONLY REFERENCE TO THE SUBSIDY ISSUE IN THE BUDGET. (D) PRICES AND INCOMES. NOTICE IS GIVEN OF THE NEED FOR REGULAR PRICE REVIEWS IN THE PUBLIC SECTOR (PRESUMABLY LARGELY UTILITIES ALTHOUGH THIS IS NOT STATED). ALSO THAT THE LONG STANDING WAGE FREEZE WILL BE LIFTED, ALTHOUGH WITH SEVERE RESTRICTIONS EG THAT NO WAGE SETTLEMENT SHALL BE RETROACTIVE, THAT INCREASES SHOULD BE MODEST, AND THAT NEGOTIATIONS CARRIED OUT UNDER DURESS EG A STRIKE OR LOCK-OUT, OR EVEN THE THREAT OF ONE WILL BE NULLIFIED. (E) DEBT/EQUITY CONVERSION. AUTHENTIC DEBTS OWED TO WILLING FOREIGN CREDITORS WILL BE CONSIDERED FOR CONVERSION TO EQUITY INVESTMENT ESPECIALLY IN NEW HIGH PRIORITY PROJECTS, ALTHOUGH THERE WILL BE SAFEGUARDS TO SEE THAT THE SCHEME QUOTE IS NOT FRUSTRATED BY THOSE SCHEMING TO RECONVERT SUCH PROCEEDS INTO FOREIGN CURRENCY FOR SUBSEQUENT TRANSFER ABROAD UNQUOTE. (F) PRIVATISATION. THERE ARE PLEDGES FOR FURTHER BUT UNSPECIFIED ACTS OF PRIVATISATION. (G) CREDIT EXPENSION. AGGREGATE DOMESTIC BANK CREDIT WILL BE ALLOWED TO GROW BY 8%. CREDITS TO GOVERNMENT OUTSIDE THE SELF-LIQUIDATING FUND WILL BE KEPT TO 2.5% WHILE THAT TO THE PRIVATE SECTOR WILL BE ALLOWED TO GROW BY UP TO 13%.

(VIII) ADMINISTRATIVE AND POLITICAL. THE STATEMENT PLEDGES LIGHTER BUDGETARY CONTROL THAN IN THE PAST, IT MAKES THE CENTRAL BANK AUTONOMOUS WITH THE GOVERNOR REPORTING TO THE PRESIDENT, MAKES MINISTERS RATHER THAN PERMANENT SECRETARIES CHIEF ACCOUNTING OFFICERS, AND MAKES PERMANENT SECRETARY POSTS POLITICAL, TO CHANGE WITH GOVERNMENTS. IT TRANSFERS THE BUDGET OFFICE FROM THE MINISTRY OF FINANCE TO THE PRESIDENCY. A SECTION ON SOCIAL AND POLITICAL DEVELOPMENT ACKNOWLEDGES WEAKNESSES IN THE CONDUCT OF THE RECENT LOCAL ELECTIONS.

3. FURTHER DETAILS OF THESE PROPOSALS ARE TO BE GIVEN BY THE FINANCE MINISTER ON MONDAY 4 JANUARY. MY INITIAL COMMENTS ARE IN MIFT.

EWANS

YYYY

DISTRIBUTION

153

MAIN 153

MONETARY

WAD

NNNN

CONFIDENTIAL

112027
MDHIAN 2155

CONFIDENTIAL

FM LAGOS

TO DESKBY 040900Z FCO

TELNO 002

OF 031455Z JANUARY 88

AND TO DESKBY 040900Z ODA, TREASURY, BANK OF ENGLAND,

AND TO DESKBY 040900Z ECGD, DTI

INFO IMMEDIATE UKDEL IMF/IBRD WASHINGTON, NAIROBI

NAIROBI FOR PS TO PM

MIPT: NIGERIAN BUDGET

SUMMARY

1. THIS MILDLY RELATIONARY BUDGET WILL BE POPULAR IN MOST QUARTERS IN NIGERIA. IT WILL NOT BE SEEN AS WHOLLY SATISFACTORY BY THE INTERNATIONAL FINANCIAL INSTITUTIONS AND EXTERNAL CREDITORS. BUT BABANGIDA CLEARLY FEELS THAT HE IS REACHING THE LIMITS OF THE POLITICALLY POSSIBLE.

DETAIL

2. THE BUDGET STATEMENT, MADE AT THE BEGINNING OF THE HOLIDAY PERIOD, IS DEFICIENT IN MANY DETAILS. SOME OF THE GAPS MAY BE FILLED BY THE FINANCE MINISTER'S AMPLIFYING STATEMENT DUE ON 4. JANUARY. MEANWHILE ONLY PRELIMINARY COMMENTS ARE POSSIBLE.

3. THE MAIN THRUST OF THE BUDGET IS TO HELP THOSE WHO HAVE BEEN HARDEST HIT BY NIGERIA'S ECONOMIC CRISIS. FOR THE MAN IN THE STREET, THE END OF THE WAGE FREEZE WILL BE THE MAIN BENEFIT. THIS MAY NOT BE TOO INFLATIONARY. THE CONTROLS STILL SEEM QUITE STERN. THE PRELIMINARY REACTION OF EMPLOYERS SEEMS TO BE THAT SOME RELAXATION WAS INEVITABLE AND INDEED JUSTIFIED.

4. THE BUSINESS SECTOR WILL WELCOME A NEW TARIFF STRUCTURE, WORK ON WHICH HAS BEEN PROCEEDING, WITH WORLD BANK ASSISTANCE, OVER MUCH OF THE PAST YEAR. MANY MANUFACTURERS, INCLUDING MANY BRITISH ASSOCIATED COMPANIES, COULD NOT HAVE CONTINUED MUCH LONGER IN A SITUATION WHERE FINISHED IMPORTED GOODS COULD BE BROUGHT IN MORE CHEAPLY THAN THE SAME PRODUCT MADE LOCALLY. SOME EG BRITISH LEYLAND, DID NOT SURVIVE TO SEE THIS PROMISE OF A CHANGE. MEANINGFUL FURTHER COMMENT IS NOT POSSIBLE UNTIL WE SEE THE NEW TARIFF LEVELS WHICH WILL NEED TO FIND THE

NARROW LINE BETWEEN THE REALISTIC PROTECTION OF LOCAL INDUSTRY AND THE BOLSTERING OF INEFFICIENCY.

5. THE MOST CONTROVERSIAL ELEMENT IS THE OMISSION OF ANY SPECIFIC ANNOUNCEMENT ABOUT THE PETROLEUM SUBSIDY. BUT THE PRESIDENT'S OPAQUE FORMULATION DOES NOT PRECLUDE MODEST, AND PERHAPS PROGRESSIVE, INCREASES, BALANCED BY THE HEAVY EMPHASIS ON IMPROVED BUS TRANSPORT, WHICH IS TO BE SEEN AS A STEP TOWARDS MAKING A FUEL PRICE INCREASE MORE PALATABLE. THE MINISTER OF FINANCE'S STATEMENT IS LIKELY TO BE MORE REVEALING.

6. THE PROVISION FOR EXTERNAL DEBT SERVICING IS CONFUSING AND AT FIRST SIGHT SEEMS LESS THAN SATISFACTORY. UNDER BUDGETARY EXPENDITURE (PARA 2(III)(B) OF MIPT) PROVISION IS MADE FOR 3.9 BN NAIRA FOR INTEREST ON EXTERNAL LOANS: UNDER THE FOREIGN EXCHANGE BUDGET PROVISIONS ARE 1.7 BN DOLLARS FOR DEBT SERVICING (PARA 2(V) OF MIPT). NEITHER SEEMS ENOUGH, BUT THE FINANCE MINISTER WILL PROBABLY EXPOUND FURTHER ON THIS.

7. ANOTHER NOTEWORTHY POINT IS THAT THE FUNDING OF THE FOREIGN EXCHANGE MARKET IS TO BE INCREASED, CONTRARY TO IMF PRESCRIPTIONS.

8. THE STRUCTURAL CHANGES EG MOVING THE BUDGET OFFICE FROM THE MINISTRY OF FINANCE TO THE PRESIDENT'S OFFICE, AND TAKING AWAY THE POWER OF COLLECTION OF DUTIES PAYABLE ON INTERNATIONAL TRADE FROM CUSTOMS AND EXCISE, ARE PRESUMABLY GEARED TO IMPROVE EFFICIENCY AND LESSEN CORRUPTION, WORTHY AIMS THAT ARE SELDOM ACHIEVED HERE.

CONCLUSION

9. AS I HAVE VARIOUSLY REPORTED, THE PRESSURES ON BABANGIDA AND HIS ADMINISTRATION HAVE BEEN GROWING IN RECENT MONTHS. THE POPULATION IN THE WAGE SECTOR HAVE BEEN INCREASINGLY SQUEEZED BETWEEN RISING PRICES AND A TIGHT WAGES FREEZE. INDUSTRY HAS INCREASINGLY SUFFERED AS COSTS HAVE RISEN AND THE DEFLATIONARY EFFECT OF THE STRUCTURAL ADJUSTMENT PROGRAMME HAS CAUSED DEMAND TO FALL AWAY AND PRODUCTION LEVELS TUMBLE. ALTHOUGH THE IMF AND OTHERS HAVE BEEN TELLING BABANGIDA THAT MORE AND STRONGER DOSES OF THE SAME MEDICINE ARE NEEDED, HE CLEARLY FEELS THAT HE IS APPROACHING THE LIMITS OF WHAT IS POLITICALLY POSSIBLE. BUT FULL JUDGEMENT MUST BE RESERVED UNTIL WE HAVE MORE DETAILS.

EWANS

CONFIDENTIAL

112027
MDHIAN 2155

YYYY

DISTRIBUTION

153

MAIN

153

MONETARY

WAD

NNNN

RESTRICTED

pmf

113656
MDHIAN 2238

RESTRICTED

FM LAGOS

TO IMMEDIATE FCO

TELNO 006

OF 041600Z JANUARY 88

AND TO IMMEDIATE TREASURY, BANK OF ENGLAND, DTI

INFO IMMEDIATE NAIROBI

INFO PRIORITY ODA, ECGD, UKDEL IMF/IBRD WASHINGTON

NAIROBI FOR PS/PM

MY TELNOS 001 AND 002- NIGERIAN BUDGET

SUMMARY

1. FINANCE MINISTER'S STATEMENT ADDS VERY LITTLE TO PRESIDENT'S BUDGET SPEECH. SUBSIDY ISSUE FUDGED. NEW TARIFF RATES PUBLISHED.

DETAIL

2. FINANCE MINISTER OKONGWU GAVE A 75 MINUTE STATEMENT AT THE INSTITUTE OF INTERNATIONAL AFFAIRS ON THE MORNING OF 4 JANUARY ON THE 1988 BUDGET. UNLIKE LAST YEAR, THIS CONTAINED VERY LITTLE HARD INFORMATION ADDITIONAL TO THE PRESIDENT'S SPEECH (REPORTED IN TUR).

3. OKONGWU STRONGLY EMPHASISED THE GOVERNMENT'S WISH TO BUILD UP THE SMALL AND MEDIUM SCALE INDUSTRIAL AND AGRICULTURAL SECTORS IN NIGERIA, AND ANNOUNCED A NUMBER OF MEASURES TO ASSIST SUCH ENTERPRISES, INCLUDING SPECIAL LOW TAX RATES AND FUNDING ASSISTANCE FROM GOVERNMENT.

4. ANNOUNCING THAT THE NEW TARIFF RATES WERE BEING RELEASED TODAY, OKONGWU SINGLED OUT FOR SPECIAL MENTION THE TARIFFS ON VEHICLES. THESE HAD BEEN HARMONISED, SO THAT THE NEW RATE OF DUTY FOR IMPORTED ASSEMBLY COMPONENTS (CKD'S) FOR PASSENGER VEHICLES NOW STOOD AT 25% (COMPARED TO A PREVIOUS RANGE OF 10% TO 180%), WHILE THE NEW RATE FOR BUSES AND TRANSPORT VEHICLES STOOD AT 5% (COMPARED TO 10% PREVIOUSLY). THE NEW RATES FOR IMPORTATION OF COMPLETELY ASSEMBLED VEHICLES IN THESE CATEGORIES STOOD AT BETWEEN 35% AND 100% FOR PASSENGER VEHICLES (COMPARED TO 30-200% PREVIOUSLY), AND 15% (AS BEFORE) FOR BUSES AND TRANSPORT VEHICLES. (COMMENT: THE EFFECT OF THESE MEASURES IS TO GIVE EXTRA PROTECTION TO LOCAL VEHICLE ASSEMBLY PLANTS.) COPY OF FULL TARIFF LISTS WILL FOLLOW TO DTI BY BAG.

RESTRICTED

113656
MDHIAN 2238

5. ON MEASURES TO INCREASE INVESTMENT, OKONGWU ANNOUNCED THAT INVESTMENT INCOME WOULD NO LONGER BE TAXED OVER AND ABOVE THE 15% WITHHOLDING TAX, AND THAT (UNSPECIFIED) TAX EXEMPTIONS WOULD ALSO BE PROVIDED FOR INVESTMENT INCOME FROM OVERSEAS WHICH HAD BEEN APPROVED BY THE FEDERAL MINISTRY OF FINANCE. FROM HENCEFORTH NIGERIAN BANKS WOULD ALSO BE ALLOWED TO TAKE AN EQUITY STAKE IN LOCAL COMPANIES.

6. ON DEBT RESCHEDULING, OKONGWU CLAIMED THAT 'SUBSTANTIAL PROGRESS' HAD BEEN ACHIEVED IN 1987, WITH AGREEMENTS SIGNED WITH THE LONDON CLUB AND WITH 10 OFFICIAL CREDITORS (THE UK, FRANCE, SWITZERLAND, AUSTRIA, US, NORWAY, SWEDEN, FINLAND, IRELAND AND DENMARK). OKONGWU ALSO CLAIMED THAT NEGOTIATIONS HAD BEEN CONCLUDED ON AGREEMENTS WITH THE NETHERLANDS AND SPAIN, AND WOULD SOON BE FINALISED WITH GERMANY, JAPAN AND ITALY. ON THE UNINSURED CREDITORS, OKONGWU REFERRED TO THE PROPOSALS WHICH HAD BEEN PUT TO THEM FOR CONSIDERATION AT A MEETING IN LONDON THIS MONTH. HE SAID THAT THE GOVERNMENT HAD STIPULATED THAT THERE SHOULD BE NO FURTHER RECONCILIATION OF CLAIMS, BUT ALSO REFERRED TO THE LET-OUT IN THE CENTRAL BANK'S CIRCULAR ON THIS SUBJECT WHICH DRAWS ATTENTION TO THE EXPORTERS' CONTINUING RIGHTS FOR PAYMENT AGAINST NIGERIAN IMPORTERS. OKONGWU ADDED THAT NIGERIA'S DEBT SERVICE RATIO IN 1987 HAD BEEN 24.1%, AND THAT ARRANGEMENTS WERE IN HAND TO START NEGOTIATING RESCHEDULING OF 1988 AND 1989 MATURITIES.

7. IN RESPONSE TO QUESTIONS, OKONGWU SAID THAT THE BUDGET HAD BEEN BASED ON AN OIL PRICE ASSUMPTION OF D 16 PER BARREL. ASKED BY THE BBC WORLD SERVICE CORRESPONDENT ABOUT THE ISSUE OF PETROL PRICES, OKONGWU SAID THAT IT WOULD HAVE BEEN NOTED THAT NEITHER HE NOR THE PRESIDENT HAD MADE ANY MENTION OF THIS SUBJECT. HE REFUSED TO BE DRAWN FURTHER, OTHER THAN TO SAY THAT CONSUMERS WOULD HAVE TO FORM THEIR OWN JUDGEMENT OF WHETHER OR NOT THEY COULD AFFORD THE PRICE BEING CHARGED AT THE PUMPS (THEREBY HINTING THAT THIS ISSUE MIGHT BE HANDLED SEPERATELY).

8. AT THE MEETING BOTH THE PRESIDENT OF THE LAGOS CHAMBER OF COMMERCE AND THE PRESIDENT OF THE SMALL SCALE INDUSTRIES ORGANISATION WARMLY ENDORSED THE BUDGET.

EWANS

RESTRICTED

113656
MDHIAN 2238

YYYY

DISTRIBUTION

153

MAIN

153

MONETARY

WAD

NNNN

RESTRICTED

115600
MDLIAN 9813

RESTRICTED

FM LAGOS

TO ROUTINE FCO

TELNO 012

OF 051129Z JANUARY 88

AND TO ROUTINE TREASURY, BANK OF ENGLAND, DTI, ECGD, ODA

AND TO ROUTINE UKDEL IMF/IBRD WASHINGTON

MY TELNO 006: NIGERIAN BUDGET

1. ONE FURTHER POINT OF NOTE FROM OKONGWU'S STATEMENT ON 4 JANUARY WAS THAT HE GAVE A FIGURE FOR NIGERIA'S EXTERNAL DEBT OF DOLLARS 23.4 BILLION AS AT OCTOBER 1987. ALTHOUGH THIS IS STILL LOWER THAN THE IMF ESTIMATE OF DOLLARS 26.2 BILLION, IT IS ALSO SIGNIFICANTLY HIGHER THAN PREVIOUS NIGERIAN OFFICIAL ESTIMATES (THE LATEST OF WHICH STOOD AT DOLLARS 19.7 BILLION).

2. OKONGWU DID NOT PROVIDE ANY DETAILED BREAKDOWN OF THE DEBT PROFILE.

EWANS

YYYY

DISTRIBUTION

153

MAIN

153

MONETARY

WAD

NNNN

CONFIDENTIAL

117117

MDHOAN 5961

CONFIDENTIAL

FM FCO

TO DESKBY 052100Z UKDEL IMF/IBRD WASHINGTON

TELNO 3

OF 051700Z JANUARY 88

INFO PRIORITY LAGOS

NIGERIA: 1988 BUDGET

SUMMARY

1. A PRELIMINARY ASSESSMENT OF THE NIGERIAN 1988 BUDGET INDICATES A LESS EXPANSIONARY BUDGET THAN PROJECTED IN THE STAFF PAPER PROVIDED THE NIGERIANS KEEP TO THEIR TARGETS. IT IS, HOWEVER, SIGNIFICANTLY MORE EXPANSIONARY THAN WAS ORIGINALLY PROGRAMMED FOR 1987 AND WILL PRODUCE ANOTHER LARGE DEFICIT. THE INFLATIONARY IMPLICATIONS ARE STILL CONSIDERABLE, PARTICULARLY GIVEN THE SERIOUS SLIPPAGES IN 1987, AND WE WOULD EXPECT TO SEE FISCAL AND MONETARY POLICIES TIGHTENED FURTHER BEFORE AGREEMENT ON A NEW FUND PROGRAMME.

2. CONCERNS OVER FOREIGN EXCHANGE BUDGET. ALLOCATION FOR 1988 DEBT SERVICE DOES NOT SEEM ENOUGH AND THE PROPOSED INCREASE IN THE ALLOCATION TO THE FEM CANNOT BE AFFORDED ACCORDING TO FUND ESTIMATES.

BACKGROUND

FISCAL

3. THE OUTLINE BUDGET ANNOUNCED BY PRESIDENT BABANGIDA ON 31 DECEMBER (WE HAVE NOT YET HAD CHANCE TO ACCESS THE DETAILS IN OKONGWU'S FOLLOW-UP SPEECH ON 4 JANUARY, LAGOS TELNO 006.) AIMS TO BOOST THE ECONOMY BY LIFTING THE FOUR YEAR WAGE FREEZE, EXPANDING BANK CREDIT, AND INTRODUCING SPECIAL REFLATIONARY EXPENDITURE OF N2.5 BILLION (US DOLLARS 600 MILLION) ON TRANSPORT AND INFRASTRUCTURE. THIS IS EXPECTED TO PRODUCE ANOTHER LARGE DEFICIT OF SOME N7.9 BILLION WHICH, ALTHOUGH SIGNIFICANTLY LESS THAN THE 1987 OUTTURN, IS CONSIDERABLY GREATER THAN THAT PROGRAMMED FOR 1987. IN TERMS OF GDP, THE 1988 DEFICIT WILL PROBABLY BE AROUND 6.5 PER CENT OF GDP (ASSUMING THE N2.5 BILLION SPECIAL SELF-LIQUIDATING FUND IS TREATED BELOW THE LINE AS FINANCING), MORE THAN DOUBLE THAT PROGRAMMED FOR 1987. BUT NOTE THAT FOREIGN INTEREST PAYMENTS ASSUMED SEEM TOO LOW: WE DOUBT WHETHER THE SELF-LIQUIDATING FUND WILL WORK AS ENVISAGED, AND THEREFORE WHETHER CREDIT TARGETS WILL BE MET. RELAXATION OF MONETARY POLICY (WHICH FOLLOWS CREDIT OVERRUNS LAST YEAR), WILL

CONFIDENTIAL

117117
MDHOAN 5961

SERVE TO INCREASE INFLATIONARY PRESSURES, PARTICULARLY SINCE THE EXTERNAL RESERVES ARE NOW INSUFFICIENT TO ACCOMMODATE THE EXTRA DEMAND AS THEY DID LAST YEAR. THE BUDGETTED CREDIT INCREASES ARE REPORTED IN PARA 2 (VI) (G) OF LAGOS TELNO 1. IN ADDITION, THE REDISCOUNT RATE WAS CUT FROM 15 PER CENT TO 12.75 PER CENT AT END DECEMBER. EVEN WITH AN INCREASE IN THE ALLOCATION TO THE FED, THE EXCHANGE RATE WILL STILL BE PUT UNDER MUCH PRESSURE.

4. THE PRECISE NATURE AND ROLE OF THE SELF-LIQUIDATING FUND IS UNCLEAR. HOW MUCH DO THE AUTHORITIES INTEND TO BORROW IN 1988? WHO DOES IT HAVE TO BE PAID BACK TO IN 1988? WHAT CATEGORY OF DEBT IS THE COUNTERPART NAIRA IN RESPECT OF, UNINSURED TRADE ARREARS, COMMERCIAL BANK LETTERS OF CREDIT? IT IS PRESENTED AS A NON-INFLATIONARY METHOD OF FINANCING THE ADDITIONAL EXPENDITURE, BUT THIS IS NOT AT ALL CLEAR. THERE ARE NO DETAILS OF HOW THE REST OF THE DEFICIT IS TO BE FINANCED.

5. WE NOTE ARGUMENTS IN LAGOS TUR ABOUT DIFFICULTY OF RAISING PETROLEUM PRICES. THE MAIN PROBLEM IS TO FIND SOME WAY OF CUTTING THE BUDGET DEFICIT. RAISING PETROLEUM PRICES IS THE OBVIOUS WAY, AND NO OTHER SATISFACTORY SOLUTIONS HAVE BEEN SUGGESTED. IT IS WORRYING THAT THE BUDGET MAKES NO DIRECT REFERENCE TO THE PETROLEUM SUBSIDY, THOUGH IT DOES IMPLY A GRADUAL REDUCTION TO 50 PERCENT. SUCH A REDUCTION IN THE PETROLEUM SUBSIDY WOULD CLEARLY SERVE TO NARROW THE OVERALL DEFICIT AND REDUCE INFLATIONARY PRESSURES. TOTAL ELIMINATION WOULD PROVIDE SOME N3.5 BILLION (P 18 STAFF PAPER). PETROLEUM PRICE INCREASES WILL NOT BE A POLITICALLY POPULAR MOVE BUT IT IS ONE OF THE MORE OBVIOUS MEANS OF RAISING THE NECESSARY REVENUE AND WOULD HAVE SOME IMPACT ON THE FOREIGN EXCHANGE POSITION BY REDUCING DOMESTIC CONSUMPTION AND LESSENING THE INCENTIVE TO SMUGGLE. THE BUDGET DOES NOT MAKE ANY MENTION OF WHETHER STATES AND LOCAL GOVERNMENTS ARE GOING TO BE EXPECTED TO MEET THEIR NAIRA DEBT SERVICE REQUIREMENTS. THE STAFF PAPER SUGGESTED THAT THE AMOUNTS DUE SHOULD BE DEDUCTED AT SOURCE, IE AT THE TIME OF THE DISTRIBUTION OF THE FEDERATION ACCOUNT. THIS WOULD BE A RESUMPTION OF PREVIOUS PRACTICE AND WOULD ENSURE PAYMENT.

6. BABANGIDA'S SPEECH DID MENTION THAT THE RESPONSIBILITY FOR COLLECTION OF CUSTOMS AND EXCISE DUTY HAS BEEN REMOVED FROM THE CUSTOMS AND EXCISE DEPARTMENT AND WILL DEVOLVE ON THE BANKING SYSTEM. THERE ARE, HOWEVER, NO DETAILS AND THE IMPACT OF THIS MOVE IS DIFFICULT TO ASSESS, BUT IT SEEMS FRAUGHT WITH DANGERS.

FOREIGN EXCHANGE BUDGET

CONFIDENTIAL

117117
MDHOAN 5961

7. THE ALLOCATION OF US DOLLARS 1.7 BILLION FOR DEBT SERVICE IS TOO LOW GIVEN THAT FUND STAFF CALCULATE NIGERIA'S EXTERNAL COMMITMENTS TO BE US DOLLARS 2.5 BILLION IN 1988 AFTER ASSUMING GENEROUS RESCHEDULING. AS REGARDS FOREIGN EXCHANGE RECEIPTS IT IS PUZZLING THAT NO MENTION IS MADE OF THE EXPECTED COMMERCIAL BANK NEW MONEY OF US DOLLARS 320 MILLION (PROVIDED A NEW FUND PROGRAMME IS AGREED), OR OF NEW EXPORT CREDITS, OR OF THE AFRICAN DEVELOPMENT BANK LOAN OF US DOLLARS 230 MILLION IN THE PIPELINE. THE FIGURE FOR 1988 OIL RECEIPTS, US DOLLARS 5.5 BILLION, IS US DOLLARS 1.5 BILLION LOWER THAN FORECAST BY THE FUND AND IS BASED ON AN OIL PRICE OF US DOLLARS 16 A BARREL. IT IS UNLIKELY THAT THE INCREASE IN THE FORTNIGHTLY FEM ALLOCATION FROM US DOLLARS MILLION TO US DOLLARS 150 MILLION WILL BE AFFORDABLE IF ALL DEBT SERVICE PAYMENTS ARE TO BE MET, AND LEAVES NO ROOM FOR A BUILD-UP IN RESERVES.

HOWE

YYYY

DISTRIBUTION

153

MAIN 153

MONETARY

WAD

NNNN

CHIEF SECRETARY

FROM: MS D J SEAMMEN

DATE: 7 January 1988

cc **Chancellor**
Mr Anson
Mr Mountfield
Mr Robson
Mr Turnbull
Miss Barber

PRIME MINISTER'S VISIT TO NIGERIA

I should record that in your absence over Christmas I agreed to an effective claim on the contingency reserve in 1988-89 of £2.5 million for MOD.

2. The Prime Minister, anxious to make some concrete gesture of goodwill to her Nigerian hosts, suggested that the Ministry of Defence should write off a debt of £2.5 million owed to them by the Nigerians for assistance with military training. (This was part of a larger debt of £10 million; the balance will be recouped by MOD from Nigerian assets held in London.) The Prime Minister was clear that MOD should not stand the loss (nor any other department) and made it clear that her suggestion was not one she expected to be resisted.

3. One might argue that this is something of a windfall gain for MOD in that a rather bad debt from the Nigerians is exchanged for a gilt-edged debt from us. But there is no doubt that they have been making strenuous efforts to secure repayment of the debt; and while one can stretch a point to say that our defence relationship with Nigeria is the reason for the write-off it is quite clear that MOD would not have taken any such step themselves in the absence of the Prime Ministerial visit.

4. The mechanics seem fairly straightforward. We shall roll this small amount up with the very much larger carry over of end-year flexibility into 1988-89 which we deal with in the Winter Supplementary Estimates. The write-off of the abandoned claim will need to be reported to Parliament.

MS D J SEAMMEN

01 222 2629

1988-01-20 16:23 D.T.I. HEADQUARTERS

01 222 2629

P.01



the department for Enterprise

The Rt. Hon. Lord Young of Graffham
Secretary of State for Trade and Industry

C D Powell Esq
Private Secretary to
the Prime Minister
10 Downing Street
LONDON SW1 2AA

Department of
Trade and Industry

1-19 Victoria Street
London SW1H 0ET

Switchboard
01-215 7877

Tel: 8811074/5 DTHQ G
Fax 01-222 2629

Direct line 215 5422
Our ref DC5AAL

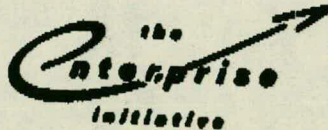
Date 18 January 1988

Dear Charles

Thank you for your letter of 31 December asking for a draft reply to a letter from Mr A Clive Elliott of Elliot Right Way Books who wrote to the Prime Minister about Nigerian debts to uninsured British creditors, including his own company.

The main background to these Nigerian debts has been explained to you when we have supplied draft replies to similar letters from other companies, and in the briefing for the Prime Minister's visit to Nigeria, so I will not repeat that. Your note of the Prime Minister's discussions with President Babangida records that the problem of uninsured creditors was discussed. Your note, and Tel 023 from Lagos, suggest however that there was uncertainty about a reference to a possibility that claims could still be verified.

As we understand it, there is no such possibility and the misunderstanding has arisen from the Central Bank of Nigeria's acceptance that creditors whose claims are unverified can still apply for a refund of the importer's naira deposits. We may have to wait some time for further details of how this is likely to work, although there is just a possibility that further information may emerge at the creditors' meeting of 14 January. It seems unlikely that many of the outstanding



1988-01-20 16:24 D.T.I. HEADQUARTERS

01 222 2629

P.02

OU

the department for Enterprise

14 January. It seems unlikely that many of the outstanding creditors will be enthusiastic.

Some who are able to make use of naira within Nigeria could get something out of it, but even they will have no interest payments for the time the sums have been held. It is unlikely that creditors will be allowed to exchange the naira for sterling or dollars for repatriation, and many would have no good means of using naira. Even if exchange were to be allowed, the devaluation of the naira means that at the current rate the amount received would be only a fraction of the original value. Moreover, many companies - like this one - have had claims rejected because papers are missing; missing papers may still make for difficulties in trying to claim the naira.

It is not clear, but it could even be that Nigeria does not intend this application procedure to apply to companies like this one whose claim has been matched but nevertheless rejected by the Central Bank. You will see that we have therefore kept the reference to this in the draft reply in a low key.

We think that a Private Secretary reply would be suitable in this case, but of course we would have no objections if you wish to amend the draft for reply for the Prime Minister.

Yours sincerely

Stephen Ratcliffe

STEPHEN RATCLIFFE
Private Secretary

DRAFT LETTER FOR SIGNATURE BY PS/PM

A Clive Elliot
Director
Elliot Right Way Books
Kingswood Buildings
Lower Kingswood
TADWORTH
Surrey KT20 6TD

The Prime Minister has asked me to thank you for your letter of 23 December and for your good wishes for her visit to Nigeria. Mrs Thatcher did enjoy her visit and had useful discussions with President Babangida.

So far as Nigeria's debts to uninsured creditors are concerned, you will know that the Trustees of the Nigerian Promissory notes, the Law Debenture Trust Corporation, appointed Mr Murison who has negotiated about rescheduling terms with the Nigerian authorities on behalf of noteholders. The concerns of some uninsured creditors have been made known to the Government throughout the negotiations. The fact is, however, that the British Government is not a party to these negotiations and has no locus to negotiate on behalf of uninsured creditors. The Central Bank of Nigeria has now convened a meeting of note-holders for 14 January where note-holders and it will be for note-holders as a whole to decide

whether to accept the Nigerian proposals.

Nevertheless, the Government does sympathise with the frustrations felt by uninsured creditors and has taken opportunities to urge the Nigerian authorities to reach an equitable settlement. Following the announcement in September of the Central Bank's current proposals, our High Commissioner in Lagos was instructed to make another approach to the Nigerian authorities and to raise in particular the termination of the verification process. Mr Kenneth Clarke, the Minister of Trade and Industry, pursued this further when he visited Nigeria in September and pressed for an extension of the verification process for a reasonable period. Mrs Thatcher also discussed the problem with President Babangida during her visit.

Despite our representations, there has been no change in the Nigerian decision to end verification. The Nigerian Central Bank indicated again in a Circular of 9 December (which accompanied the notice convening the 14 January meeting) that claims presently unmatched will not be approved or the subject of any further reconciliation by the Central Bank. However, the Circular went on to note that "claimant's original rights against Nigerian importers are unaffected by this decision. Applications for refund of the principal amount of an importer's relevant Naira deposits may be made through such importer's commercial bank in Nigeria". I thought you might like to know about this, although I appreciate that it would hardly be the same as obtaining a promissory note for a debt with provision for payments in US dollars, and I must say that it is not yet clear how applications will be processed or whether an application would be considered in your case. We hope

that the Nigerian Bank will provide further information before long.

You will see though that we have been trying to persuade the Nigerian authorities to extend the verification process so that further claims can be approved. I am sorry that they still appear to be unmoved.



10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

CH/EXCHEQUER

REC.	19 JAN 1988
ACTION	CST, EST
COPIES TO	SIR P. MIDDLETON, SIR G. LITTLE, MR LANKESTER, MR CASE, MR MOUNTFIELD, MR HALLIGAN

20/1

18 January 1988

prep

Thank you for your letter of 18 January about the proposed new £200 million line of credit to Nigeria. The Prime Minister was grateful for this full explanation of the position, and is content that we should proceed on the basis proposed in your letter. I am not sure that we are planning any longer letter to President Babangida at present. My inclination, subject to the Foreign Office's views, is to say that the draft enclosed with your letter should be sent by telegram as a message to the President from the Prime Minister and delivered by our High Commissioner.

I am copying this letter to Lyn Parker (Foreign and Commonwealth Office) and Alex Allan (HM Treasury).

Charles Powell

Stephen Ratcliffe, Esq.,
Department of Trade and Industry.

CONFIDENTIAL



10 DOWNING STREET
LONDON SW1A 2AA

CH/EXCHEQUER	
REC.	19 JAN 1988
ACTION	MR MOUNTFIELD
COPIES TO	CST, EST, SIR P. MIDDLETON, SIR G. LITTLER, MR ANSON, MR H.P. EVANS, MR ROBSON, MR BURGNER
19 January 1988	

From the Private Secretary

NIGERIA

The Nigerian High Commissioner called on me this afternoon, shortly after his return from Lagos, to deliver the enclosed message from President Babangida. As you see it is in extremely warm and friendly terms. The High Commissioner stressed to me that President Babangida was genuinely enthusiastic about the visit and pleased with the relationship which he believed he had established with the Prime Minister here. He was keen to take up the Prime Minister's invitation to visit the United Kingdom and was thinking in terms of April/May 1989. I suggested that the High Commissioner should discuss this with the Department in the first instance. The High Commissioner added that he had been asked particularly to stress President Babangida's wish to remain in direct touch with the Prime Minister.

I told the High Commissioner how much the Prime Minister had appreciated the arrangements made for her visit and his own role in them about which she had written to him (he appeared not yet to have seen the letter). I thought that the Prime Minister would be sending a brief message to President Babangida very shortly about the forthcoming visit to Lagos by the ECGD team. This was the main outstanding point for action remaining from the talks in Lagos. The High Commissioner, who seemed to have a pretty good idea of what had been discussed, commented that he understood that our proposal on the military training debt had been accepted and implemented. He also hinted very clearly that if it were possible for the Prime Minister to see the Nigerian Foreign Minister when he came for the UK-Nigeria talks in mid-March, that would be very much appreciated. I think the Prime Minister would be ready to see Major General Nwachukwu. I should be grateful if you could let me know the dates on which he would be available.

I am copying this letter and enclosure to Alex Allan (HM Treasury), Alison Brimelow (Department of Trade and Industry) and Brian Hawtin (Ministry of Defence).

Charles Powell

Lyn Parker, Esq.,
Foreign and Commonwealth Office.



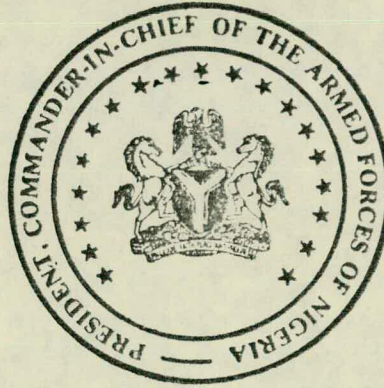
State House,
Lagos, Nigeria.

15 January, 1988.

The Rt. Hon Margaret Thatcher M.P,
Prime Minister,
10 Downing Street,
London.

My dear Prime Minister

1. It is most thoughtful of you to have found the time to write to me immediately upon your return to London, and I want you to know that I appreciate it very much.
2. My colleagues and I in Government were most delighted to receive you. I know too that knowledge of the importance of your visit to our bilateral relations is widely shared among our business and other community leaders as well as our people at large. Its widespread, if lively, coverage in our newspapers is but one manifestation of this. I have been pleased too to see from their own elaborate treatment, that your own communications media also recognized the visit as an important matter.
3. It is clear to me that relations between our two countries are now about to enter their perhaps most co-operative and fruitful phase. I am therefore particularly pleased to be able to reconfirm that I shall be taking advantage of your invitation to make a return visit to the United Kingdom - probably in the spring of next year (I have asked our High Commissioner, George Dove - Edwin, to take early soundings on this). As agreed, I shall in the meantime remain in direct



contact with you.

4. Thank you too for your excellent gift, which we like very much, and for the opportunity which your visit afforded us to show - despite its shortness - that the basic friendship of our people for your country is unsurpassed.

5. My wife, Maryam, joins me in sending you and Dennis our renewed best wishes for 1988.

Yours most Sincerely

Ibrahim B Babangida

General Ibrahim B Babangida
President
Commander-In-Chief
Armed Forces of Nigeria

CONFIDENTIAL

CH/EXCHEQUER



10 DOWNING STREET

LONDON SW1A 2AA

REC.	11 FEB 1988
ACTION	Mr MOUNTFIELD,
COPIES TO	EST EST Sir P. MIDDLETON, Sir G. LITTLE, Mr ANSON Mr H. P. EVANS, Mr ROBSON Mr BURGNER

From the Private Secretary

10 February 1988

Dear Lyn

NIGERIAN FOREIGN MINISTER

Thank you for your letter of 10 February. We have the Nigerian Foreign Minister in the diary for 4pm on 16 March. You will no doubt ensure that we have briefing nearer the time.

I am copying this letter to Alex Allan (HM Treasury), Alison Brimelow (Department of Trade and Industry) and to Brian Hawtin (Ministry of Defence).

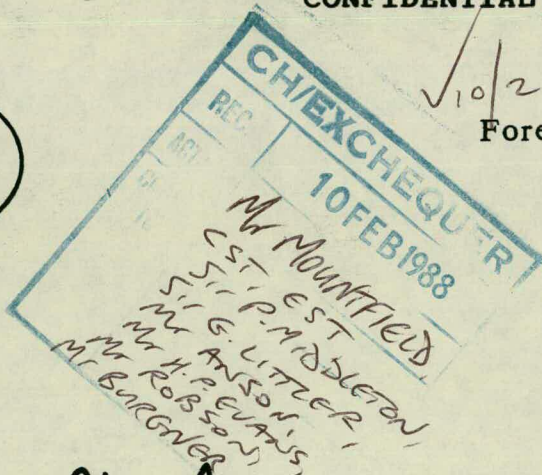
Yours sincerely,
Charles Powell

(Charles Powell)

Lyn Parker, Esq.,
Foreign and Commonwealth Office.

CONFIDENTIAL

CONFIDENTIAL



Foreign and Commonwealth Office

London SW1A 2AH

10 February 1988

Dear Charles,

Nigerian Foreign Minister

Thank you for your letter of 19 January enclosing a copy of President Babangida's message to the Prime Minister.

We are glad that the Prime Minister is likely to agree to receive a call by the Nigerian Foreign Minister, Nwachukwu, on his visit to the UK next month.

Nwachukwu will lead the Nigerian team at the bilateral talks, which will take place over two days ending after lunch on 16 March. There would therefore be no difficulty about his being available for a meeting with the Prime Minister at 4.00 pm on 16 March when I understand he could be fitted in. But Nwachukwu would almost certainly be ready to stay on for a day or two after the talks if 16 March were not possible.

In your letter you also mentioned three other areas for follow-up; Babangida's proposed visit to the UK in 1989; the Prime Minister's message to Babangida on ECGD; and Nigerian debt to the MOD. The Babangida visit and other inward State Visits are, as you know, at present the subject of separate consideration. The Prime Minister's message on ECGD was sent in FCO telno 62 to Lagos. The follow-up on the MOD debt was dealt with in Lagos telnos 129 and 135 and FCO telnos 110 and 112. I enclose further copies of all these telegrams for ease of reference.

I am copying this letter to Alex Allan (HM Treasury), Alison Brimelow (Department of Trade and Industry) and Brian Hawtin (Ministry of Defence).

Yours ever,

(L Parker)
Private Secretary

C D Powell Esq
10 Downing Street

CONFIDENTIAL

(14)
see 16

P. a.
for 25/1

CONFIDENTIAL

001035
MDHOAN 7294

CONFIDENTIAL
FM FCO
TO IMMEDIATE LAGOS
TELNO 62
OF 251030Z JANUARY 88

JWN 102/2		
RECEIVED IN REGISTRY		
25 JAN 1988		
INDEX	PA	ACTION-TAKEN

TOP COPY
Q. DIST ?

PRIME MINISTER'S VISIT: ECGD COVER

1. NO 10 HAVE AGREED THAT YOU SHOULD CONVEY THE FOLLOWING MESSAGE FROM THE PRIME MINISTER TO BABANGIDA. GIVEN ITS BREVITY, YOU HAVE DISCRETION TO DECIDE WHETHER TO SEND IT AS A LETTER, OR TO MAKE IT ORALLY, LEAVING A BOUT DE PAPIER.

BEGINS: ONE DETAILED POINT ARISING FROM OUR TALKS ON 7 JANUARY WHICH I PROMISED TO LOOK INTO CONCERNED THE ARRANGEMENTS FOR THE PROPOSED NEW POUNDS 200 MILLION ECGD-SUPPORTED LINE OF CREDIT. I HAVE ASKED ECGD TO SEND OUT TO LAGOS A SPECIAL TEAM AS SOON AS POSSIBLE AND I CAN ASSURE YOU THAT ECGD WILL GIVE VERY CAREFUL CONSIDERATION TO THE STARTING POINT OF THE REPAYMENT PERIOD AND TO BE AS FLEXIBLE AS POSSIBLE WITHIN THEIR TERMS OF REFERENCE. I AM CONFIDENT THAT THIS WILL LEAD TO THE SPEEDY AND SUCCESSFUL CONCLUSION OF THESE NEGOTIATIONS. ENDS.

2. YOU MAY WISH TO ADD THAT THE PRIME MINISTER HAS RECEIVED AND MUCH APPRECIATED THE PRESIDENT'S MESSAGE (DELIVERED BY DOVE-EDWIN ON 19 JANUARY - YOUR TELNO 76) AND THAT WE HOPE TO BE BACK IN TOUCH SHORTLY ABOUT THIS TOO.

90 016/4

HOWE
YYYY

DISTRIBUTION

156

MAIN 153

MONETARY

WAD

ADDITIONAL 3

PS/NO.10

NNNN

CONFIDENTIAL

043526

TOP COPY
Q. DIST ?

CONFIDENTIAL
FM FCO
TO IMMEDIATE LAGOS
TELNO 112
OF 051230Z FEBRUARY 88

JWN 06112
RECEIVED IN FCO STAY
- 8 FEB 1988
DEAL OFFICER
P. a.
R. 12

OUR TELNO 110 (23) AND YOUR TELNO 135: (22) MOD DEBT
1. IN VIEW OF OKONGWU'S LETTER, WE NOW INTEND TO PROCEED WITH
WINDING UP THE RESIDUAL WACB ASSETS AND WRITING OFF THE REMAINING
DEBT TO THE MOD.
2. UNLESS YOU SEE OBJECTION, WE SUGGEST YOU ACKNOWLEDGE OKONGWU'S
LETTER, USING THE LATEST FIGURES IN PARAS 3 - 4 OF OUR
TUR. WE LEAVE IT TO YOUR DISCRETION WHETHER TO INCLUDE A
REFERENCE TO THE HOME OFFICE DEBT, WHICH YOU WILL SEE FROM OUR
TUR WE ARE HAPPY FOR YOU TO PURSUE IN SEPARATE CORRESPONDENCE.

HOWE

YYYY

DISTRIBUTION

163

MAIN 160

MONETARY
WAD.6
DEF D

PS
PS MRS CHALKER

ADDITIONAL 3

MR N WICKS PPS/NO 10
MR MOUNTFIELD TSY

MR DAVIES SEC (O)(C) MOD

NNNN

PAGE 1
CONFIDENTIAL

CONFIDENTIAL

037432
MDHOAN 8024

CONFIDENTIAL
FM FCO
TO IMMEDIATE LAGOS
TELNO 110
OF 041100Z FEBRUARY 88

JUN 06/2	
RECEIVED IN REGISTRY	
- 5 FEB 1988	
DESK OFFICE	
INDEX	

Pa.
R
8/2

TOP SECRET
Q.D.R.?

YOUR TELNO 129: MOD DEBT

- (21)
1. THIS IS GOOD NEWS, ALTHOUGH, AS YOU SAY, WE SHOULD NOT COUNT OUR CHICKENS YET. WE HAD BEEN THINKING ALONG SIMILAR LINES TO THE PROPOSALS IN YOUR TELNOS 108 AND 109, AND WERE ABOUT TO ASK YOU TO WRITE TO OKONGWU TO CLEAR UP THIS MATTER QUICKLY AND THEREBY SET IN TRAIN THE FINANCIAL ASSISTANCE FROM UKMTAS WHICH WE ARE READY TO OFFER. IF THE TREASURY MINUTE RELEASING THE WACB ASSETS IS TO BE LAID BEFORE PARLIAMENT IN THIS FINANCIAL YEAR AND WE ARE TO USE TO PAY FOR EXTERNAL COSTS IN FY 1988/89 UKMTAS FUNDS CURRENTLY SET ASIDE FOR USE IN FY 1987/88, THERE IS VERY LITTLE TIME LEFT.
- (19) (20)
2. GIVEN THESE TIMING CONSTRAINTS, YOU SHOULD, UNLESS YOU SEE OBJECTION FOLLOW UP YOUR CALL ON OKONGWU WITH A LETTER ON THE LINES OF THAT IN YOUR TELNO 108, SETTING OUT HOW WE INTEND TO PROCEED, AND AIMING FOR CONFIRMATION BY, SAY, 15 FEBRUARY THAT HE AGREES. WE SHALL NOT SET THINGS IN MOTION UNTIL WE HEAR FROM YOU.
3. AS FOR THE LATEST FIGURES YOU SHOULD DRAW ON THE FOLLOWING (ROUNDED THROUGHOUT). THE NIGERIAN SHARE OF THE WACB NOW STANDS AT 7.4 MILLION POUNDS. THE FIGURE FOR THE TOTAL MOD DEBT IS NOW APPROXIMATELY 9.73 MILLION POUNDS. JUDGING BY THE COMMENTS FROM FINANCE MINISTRY OFFICIALS IN YOUR TELNO 109, THERE APPEARS TO BE SOME CONFUSION OVER THE 4.9 MILLION NAIRA. ACCORDING TO MOD(UK) WITH WHOM WE HAVE DOUBLE CHECKED, SOME OF THIS PAYMENT, AMOUNTING TO AROUND 430,000 POUNDS, IS ALREADY HELD BY THEM IN A SUSPENSE ACCOUNT. MOD ESTIMATE THAT THE BALANCE, IF CONVERTED AT THE SAME RATE AS THE FIRST TRANCHE, WOULD AMOUNT TO AROUND 350,000 POUNDS. THEY ARE PREPARED TO DEDUCT THESE TWO AMOUNTS FROM THE TOTAL DEBT, THEREBY LEAVING A FIGURE OF AROUND 8.95 MILLION. OF THIS SUM, WE INTEND TO WRITE OFF 2.5 MILLION POUNDS. THE 6.45 MILLION POUNDS LEFT WILL BE OFFSET BY WACB ASSETS. THIS WILL LEAVE 950,000 POUNDS
4. WE PROPOSE TO RETAIN THIS SUM PENDING RESOLUTION OF THE HOME OFFICE DEBT (NOW STANDING AT 230,000 POUNDS), WHICH WE AGREE THAT

CONFIDENTIAL

037432
MDHOAN 8024

YOU SHOULD PURSUE IN SEPARATE CORRESPONDENCE. THE BALANCE, APPROX 720,000 POUNDS, WOULD THEN BE HANDED OVER TO THE NIGERIANS. THIS IS NOT, HOWEVER, A FIXED SUM: ALL THE ABOVE FIGURES WILL CLEARLY NEED TO BE RECALCULATED AT THE TIME OF PAYMENT AGAINST THE AMOUNT OF DEBT ON THE DAY.

5. ASSUMING THAT THE MOD DEBT IS SETTLED, WE INTEND THAT YOU SHOULD FOLLOW UP SHORTLY WITH LETTERS TO THE MINISTRIES OF FINANCE AND DEFENCE SETTING OUT WHAT CONTRIBUTIONS WE ARE READY TO OFFER TO THE EXTERNAL COSTS OF MAINTAINING THE CURRENT LSP TEAMS IN NIGERIA, AND OFFERING TO CONTRIBUTE IN FUTURE IF THE NIGERIANS MAINTAIN THEIR REQUESTS FOR MILITARY TRAINING IN NIGERIA. BUT WE WILL ALSO WANT YOU TO MAKE QUITE CLEAR THAT WE ALSO EXPECT THE NIGERIANS IN FUTURE TO PAY FOR ALL OTHER COSTS QUARTERLY IN ADVANCE, IN ACCORDANCE WITH THE TERMS OF THE 1980 MOU. AS FOR TAKING ON THE TRAINING COSTS WHICH NIGERIA INCURS IN THE UK, YOU SHOULD KNOW THAT THIS IS VERY UNLIKELY TO INCREASE MUCH IF AT ALL BEYOND THE 100,000 POUNDS P.A. CURRENTLY ALLOCATED FROM UKMTAS.

HOWE

YYYY

DISTRIBUTION

29

MAIN 17

MONETARY
WAD
DEFENCE

PS
PS/MRS CHALKER

ADDITIONAL 12

MR MOUNTFIELD, HMT
MR DAVIES, SEC(O)(C), MOD

PS/NO. 10

NNNN

TOP COPY
Q DIST. 2

CONFIDENTIAL

040362
MDHIAN 6456

CONFIDENTIAL
FM LAGOS
TO IMMEDIATE FCO
TELNO 135
OF 041445Z FEBRUARY 88

JWA 08112

1-6.
12 5/2

(21)
MY TELNO 129: MOD DEBT

1. FOLLOWING IS TEXT OF LETTER DATED 3 FEBRUARY ADDRESSED TO ME
BY THE MINISTER OF FINANCE:

BEGINS

EXTINGUISHING THE 9.5 MILLION POUNDS STERLING DEBT OWED BY THE
NIGERIAN MINISTRY OF DEFENCE TO THE BRITISH MINISTRY OF DEFENCE
(LAST TWO LINES UNDERLINED)

IN RELATION TO OUR DISCUSSIONS YESTERDAY, I NOTE BELOW A
SUMMARY OF OUR UNDERSTANDING AND THE ACTION I HAVE TAKEN.

DURING HER RECENT VISIT TO NIGERIA, THE BRITISH PRIME
MINISTER AND MY COUNTRY'S PRESIDENT AGREED THAT APPROXIMATELY
7 MILLION POUNDS STERLING OF NIGERIA'S SHARE OF THE ASSETS OF
THE DEFUNCT WEST AFRICAN CURRENCY BOARD BE PAID TO THE
BRITISH MINISTRY OF DEFENCE. ON EFFECTING THIS PAYMENT, THE
APPROXIMATELY 9.5 MILLION POUNDS STERLING IN TRAINING DEBT
OWED THE BRITISH MINISTRY OF DEFENCE BY NIGERIA'S MINISTRY
OF DEFENCE WOULD BE EXTINGUISHED, AS BRITAIN HAS AGREED TO WRITE
OFF THE OUTSTANDING BALANCE. IT IS ALSO UNDERSTOOD THAT ANY
AMOUNT IN EXCESS OF THE 7 MILLIONS POUNDS STERLING THAT WOULD BE
DUE NIGERIA ON THE COMPLETION OF THE RECONCILIATION AND
ATTRIBUTION OF THE ASSETS OF THE WEST AFRICAN CURRENCY BOARD
WOULD REVERT TO NIGERIA.

I HAVE , THEREFORE, IN THIS REGARD INSTRUCTED THE
GOVERNOR OF THE CENTRAL BANK OF NIGERIA TO EFFECT THE PAYMENT
FROM NIGERIA'S SHARE OF THE ASSETS OF THE BOARD. I AM PLEASED
TO NOTE THAT WITH THIS PAYMENT OF 7 MILLION POUNDS, THE ISSUE
OF TRAINING INDEBTEDNESS OF MY COUNTRY'S MINISTRY OF DEFENCE
TO THE BRITISH MINISTRY OF DEFENCE IS FINALLY RESOLVED.

ENDS

CONFIDENTIAL

040362
MDHIAN 6456

2. WHILE THIS IS PERHAPS NOT THE MOST FELICITOUS OF COMMUNICATIONS, I VERY MUCH HOPE THAT WE CAN ACCEPT IT AS AUTHORISING THE USE OF THE WACB ASSETS TOWARDS THE OUTSTANDING MOD DEBT. I SHOULD BE GRATEFUL FOR YOUR INSTRUCTIONS AS TO HOW I SHOULD ACKNOWLEDGE IT, AND AS TO HOW I SHOULD PURSUE THE QUESTION OF THE DEBT OWED BY NIGERIA AIRWAYS.

EWANS

YYYY

DISTRIBUTION

168

MAIN 165

MONETARY
WAD
DEF D

PS
PS/MR CHALKER

ADDITIONAL 3

MR MOUNTFIELD HMT
MR DAVIES SEC(O)(C)MOD

PS/NO.10 DOWNING ST

NNNN

CONFIDENTIAL

NO COPY
Q DIST ?

033432
MDHIAN 6229

CONFIDENTIAL
FM LAGOS
TO IMMEDIATE FCO
TELNO 129
OF 031131Z FEBRUARY 88

JWN 0611Z	
RECEIVED W. B. L. L.	
FEB 11 1988	
FEB 11 1988	
FEB 11 1988	
FEB 11 1988	
FEB 11 1988	
FEB 11 1988	

MY TELNOS 108 AND 109: MOD DEBT

1. OKONGWU ASKED ME TO CALL YESTERDAY AFTERNOON, 2 FEBRUARY. HE SAID THAT HE HAD NOW HAD INSTRUCTIONS FROM THE PRESIDENT TO SETTLE THE PROBLEM OF THE MOD DEBT, USING THE WEST AFRICA CURRENCY BOARD ASSETS. WE AGREED THAT THE BEST WAY TO PROCEED WOULD BE FOR HIM TO WRITE A LETTER, WITH COPIES TO ALL CONCERNED IN LAGOS, AUTHORISING THE USE OF THE ASSETS FOR THIS PURPOSE.
2. I TRIED TO PERSUADE HIM TO DEAL AT THE SAME TIME WITH THE SUMS OWED BY NIGERIA AIRWAYS TO THE HOME OFFICE. I SAID THAT I BELIEVED THAT NIGERIA AIRWAYS ACCEPTED THE LIABILITY AND THAT THE MINISTER OF AVIATION, AIR VICE MARSHAL OKPERE, HAD AGREED THAT THE DEBT SHOULD BE SETTLED IN THIS WAY. BUT OKONGWU INSISTED THAT THIS WAS OUTSIDE HIS INSTRUCTIONS AND THAT HE WOULD NEED FORMAL INTERDEPARTMENTAL CLEARANCE BEFORE HE COULD PROCEED. I THEREFORE HAD TO LEAVE IT THAT WE WOULD PURSUE THIS ASPECT IN SEPARATE CORRESPONDENCE.
3. I NEVER COUNT CHICKENS HERE AND IT REMAINS TO BE SEEN PRECISELY WHAT OKONGWU'S LETTER WILL SAY, BUT I AM VERY HOPEFUL THAT WE HAVE NOW FINALLY GOT SHOT OF THE PROBLEM OF THE MOD DEBT. IF SO, IT IS ESSENTIAL THAT WE SHOULD PREVENT IT AGAIN BUILDING UP. I SHALL BE WRITING SEPARATELY ABOUT THIS, BUT VERY MUCH HOPE THAT WE CAN START PLUGGING THE DYKE BY FUNDING IMMEDIATELY THE OFFSHORE COSTS OF THE TEAMS AT JAJI, TOGETHER WITH AS MUCH AS POSSIBLE OF THE TRAINING COSTS WHICH NIGERIA IS INCURRING IN THE UK.

EWANS

YYYY

CONFIDENTIAL

033432
MDHIAN 6229

DISTRIBUTION

167

MAIN 165

MONETARY
WAD
DEF D

PS
PS/MR CHALKER

ADDITIONAL 2

MR MOUNTFIELD HMT

PS/NO. 10

NNNN

MR DAVIES SEC(O)(C)MOD

d/m/20

CONFIDENTIAL

From: T P Lankester
Date: 16 March 1988

plm

MR POWELL - NO 10

cc

PS/Foreign Secretary
PS/Chancellor
Sir Geoffrey Littler
Mr Mountfield
Ms Fort
Mr Muir - DTI
Mr Hudson - ODA
Mr Kemp - ECGD
Mr P Mayes - BOE

ANGLO-NIGERIAN TALKS

I understand that the Foreign Secretary's Private Secretary has already briefed you on the political and defence issues that were discussed. I have been asked to give you a brief summary of what we achieved in the economic/trade session.

2. I led for the UK side; Alhaji Abubakar Alhaji, Permanent Secretary in the Ministry of Finance, for the Nigerian side, which also included Nigerian business men. The talks were thoroughly amicable and both sides found them useful.

3. We covered the following ground -

- i. Nigeria's structural adjustment programme and its relations with the Paris Club, the London Club, the IMF and the World Bank.
- ii. ECGD provision of medium-term credit.
- iii. Trade prospects both for British imports from Nigeria and British exports to Nigeria.
- iv. Investment promotion, joint ventures and the proposed investment promotion and protection agreement.
- v. Technical cooperation (ie funding of training, agricultural technology etc).

4. On technical cooperation, the Nigerians are now to have detailed discussions with ODA to see if the current programme can be strengthened. On investment promotion, the Nigerians said they were keen to have a lot more British investment particularly to help setting up new export industries. DTI will let the Nigerians have a memorandum setting out in detail the various problems such as restrictions on royalties which we see as constraining private investment in Nigeria. We confirmed once again our strong interest in an investment promotion and protection agreement (the Nigerians have had a draft for over a year).

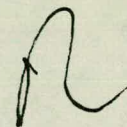
5. On trade prospects, we all agreed that Nigeria is now in a much better position to expand its non-oil exports in view of the competitive exchange rate and much more liberal industrial policy. One of the Nigerian businessmen proposed the setting up of a permanent joint trade commission. Officials on both sides thought that trade could probably be better promoted by strengthening the activities of the British/Nigerian Chambers of Commerce, but we agreed to consider the proposal further.

6. The ECGD representative explained how we are working hard with the Nigerians to make the new export credit package which was announced last July fully effective. This has been held up by delays on the Nigerian side, but good progress has been made by an ECGD mission which has been in Lagos in the last couple of weeks. Full implementation, however, also depends crucially on the Nigerians achieving early agreement with the IMF on a new programme.

7. The Nigerians were not very forthcoming on where they stand with the IMF. We know, however, that the 1988 Budget is far too expansionary to satisfy the IMF and that they also have serious worries about the arrears that are building up again on debt service payments because the Nigerians are putting too much of their foreign exchange resources into their foreign exchange auction. There will have to be action on both fronts - on the fiscal side this will require a substantial increase in petroleum prices - if a new programme is to be agreed.

8. I emphasised that we have all along supported Nigeria's efforts and will continue to do so but that we regarded as absolutely vital that they take the necessary measures to enable a new Fund Programme to be put in place. If they do not, the 1987 Agreements with the Paris and London Clubs will fall apart, and there will be no chance of getting new money from the commercial banks or from the World Bank on any significant scale.

9. The Nigerians seemed to take this admonition in good heart, as did the Minister when the Foreign Secretary repeated the same point in the plenary session. However, I believe it would be worthwhile for the Prime Minister to re-emphasise it herself. The Nigerians need to move fast - otherwise, the patience of the banks and export credit agencies will run out; and they need to do more than I suspect they currently have in mind if a new programme is to be approved.



T P LANKESTER



10 DOWNING STREET
LONDON SW1A 2AA

PMP

CH/EXCHEQUER	
REC.	17 MAR 1988
ACTION	Mr MOUNTFIELD
COPIES TO	CST EST. S. C. P. MIDDLETON S. G. LITTLER. Mr ANSON Mr H. P. EVANS. Mr ROBSON. Mr BURGNER

From the Private Secretary

16 March 1988

Dear dyn,

PRIME MINISTER'S MEETING WITH THE NIGERIAN FOREIGN MINISTER

The Prime Minister met with the Nigerian Foreign Minister for an hour this evening. Major General Nwachukwu was accompanied by his wife, by the Nigerian High Commissioner and by two officials.

The Prime Minister began by recalling her own visit to Nigeria which had been an outstandingly happy one. She had subsequently followed with particular interest everything to do with Nigeria's development. She asked for her warm regards to be conveyed to President and Mrs. Babangida. We very much hoped that President Babangida would visit the United Kingdom. He was much admired here.

General Nwachukwu said the Prime Minister's visit was recalled with equal pleasure in Nigeria. His own meeting with the Foreign Secretary had been successful and he had been able to report good progress with Nigeria's economic programmes. He brought warm greetings from the President and Mrs. Babangida.

Nigerian Economy

The Prime Minister said she understood there had been full discussions between officials about Nigeria's economy. We supported Nigeria's efforts, as she had told the President during her visit, but wanted to see the necessary measures taken to enable the new IMF programme to be put into place.

General Nwachukwu said that Nigeria had today proposed to the London Club re-scheduling of Nigeria's 1988/89 maturities and would be proposing the same to the Paris Club. They hoped that they could look to the United Kingdom for support. The Prime Minister said that we were anxious to help Nigeria when we could and provided the necessary steps were taken to reach agreement with the IMF.

Defence Co-operation

The Prime Minister said that we were keen to maintain defence co-operation between our two countries. This was an important strand in our relations. General Nwachukwu said that Nigeria had paid the military debt. His understanding was that it now rested with them to request further military training teams from the United Kingdom.

Nigerian political situation

The Prime Minister asked about progress towards restoring democracy in Nigeria. General Nwachukwu said that good progress was being made. The local elections had been the first step. The military government were absolutely determined to meet the deadline of 1992.

Visas

General Nwachukwu said the Nigerian Government had last week decided to abolish the requirement for Commonwealth citizens to have visas to enter Nigeria. Abolition would be on a reciprocal basis. The Prime Minister said that our decision to impose visas on Nigerian visitors had arisen from the very large number of Nigerians who sought entry into the United Kingdom and the difficulties of processing them satisfactorily at our ports of entry. It was not a discriminatory measure but had been intended to make sure that people were not unnecessarily inconvenienced or made to wait in uncomfortable conditions. This remained our objective but she took note of Nigeria's decision.

South Africa

The Prime Minister said that we had made a further appeal for clemency in the case of the Sharpeville Six. Chancellor Kohl had taken similar action on behalf of the Twelve members of the European Community. General Nwachukwu said that Nigeria was happy with the action taken by the Prime Minister. The Prime Minister continued that we had been highly critical of the additional restrictions on political activity imposed by the South African Government. We were also pressing for the release of Nelson Mandela and for a resumption of reform measures in South Africa, and were continuing our very substantial aid programme designed to help black South Africans and neighbouring states.

Angola

The Prime Minister described our approach to the conflict in Angola. We understood that there were moves behind the scenes to bring the MPLA and UNITA together. It seemed that President Dos Santos might be prepared to negotiate with UNITA but not with Savimbi himself.

General Nwachukwu said that Nigeria had been trying to persuade President Dos Santos to realise that he must talk to UNITA. They had recalled the precedent of the Nigerian civil

war during which contacts had always been maintained between the two sides. But they had not yet had any response from Dos Santos. The Angolan Government feared that if the Cubans withdrew, South Africa would move right in. The Prime Minister said this was very unlikely: the South Africans had more than enough on their hands.

Mozambique

There was a brief exchange on Mozambique in the course of which the Prime Minister described our practical measures of support for President Chissano. Despite this, the threat from Renamo appear to be on the increase with Maputo effectively cut off from the rest of the country.

East/West Relations

The Prime Minister gave General Nwachukwu an account of the recent NATO Summit and her assessment of Mr. Gorbachev's intentions. General Nwachukwu commented that Nigeria remained anxious about the Soviet Union's ambition to increase its influence in southern Africa. The Prime Minister remarked that the Soviet's approach was essentially opportunistic. Where there was trouble, they would be involved.

Iran/Iraq

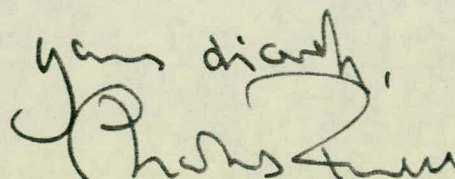
There was a brief discussion on the situation in the Gulf and progress in the Security Council.

Chad

The Prime Minister enquired about the situation in Chad. General Nwachukwu said that the OAU were trying to persuade Colonel Qadhafi and Hissan Habré to meet and settle their differences amicably. Failing that, the dispute should go to the International Court of Justice. Nigeria remained concerned by the build-up of arms in Chad and had urged the United States not to contribute further to this. The Prime Minister said that that Chad must have sufficient arms to defend itself.

The Prime Minister subsequently showed General and Mrs. Nwachukwu round No.10.

I am copying this letter to Alex Allan (H. M. Treasury), Alison Brimelow (Department of Trade and Industry), Brian Hawtin (Ministry of Defence) and Trevor Woolley (Cabinet Office).

Yours sincerely,

C. D. POWELL

Lyn Parker, Esq.,
 Foreign and Commonwealth Office.

CONFIDENTIAL

023625
MDLOAN 3194

CONFIDENTIAL
FM FCO
TO PRIORITY LAGOS
TELNO 242
OF 251700Z MARCH 88
INFO ROUTINE UKDEL IMF/IBRD WASHINGTON

NIGERIA: LONDON, CLUB MEETING

SUMMARY

1. THE COMMERCIAL BANKS STEERING COMMITTEE MET A NIGERIAN DELEGATION IN LONDON ON 15-16 MARCH TO DISCUSS RESCHEDULING ARRANGEMENTS FOR 1988. THE NIGERIANS TOOK A DISAPPOINTINGLY EXTREME STANCE, INCLUDING AN IMMEDIATE SUSPENSION OF PAYMENTS FALLING DUE UNDER THE 1986/87 LETTER OF CREDIT RESCHEDULING AGREEMENT, AND A REQUEST FOR ALL MATURITIES UP TO END 1991 TO BE RESCHEDULED OVER 25 YEARS. NO COMMON GROUND COULD BE FOUND. THEY INTEND TO MAKE A SIMILAR REQUEST TO THE PARIS CLUB.
2. THE STEERING COMMITTEE IS HOPING TO BE ABLE TO RESUME NEGOTIATIONS AT OR ABOUT END-APRIL WHEN THE NIGERIAN CASH FLOW FIGURES ARE MORE CERTAIN, BUT THIS COULD BE DELAYED. NEGOTIATIONS ARE LIKELY TO BE LENGTHY, DELAYING FURTHER AN IMF PROGRAMME REACHING THE BOARD.
3. THE DETAILS OF THE DISCUSSIONS, PARTICULARLY THE TERMS OF THE RESCHEDULING REQUEST, ARE NOT KNOWN OUTSIDE THE STEERING COMMITTEE, AND ARE CONFIDENTIAL. ALTHOUGH THERE HAVE BEEN PRESS LEAKS YOU AND WE MUST AVOID COMMENTING ON DEVELOPMENTS IN THE BANKS' NEGOTIATIONS, AND CONFINE OURSELVES TO SAYING THAT THESE MATTERS ARE FOR THE BANKS AND THE NIGERIANS TO RESOLVE.

BACKGROUND

4. THE MEETING WAS CONVENED IN ANTICIPATION OF NIGERIA'S FAILURE TO REACH AN AGREEMENT WITH THE IMF BY THE FIRST WEEK OF APRIL. UNDER THE EXISTING TERMS, THIS WAS A CONDITION FOR BOTH THE CONTINUATION OF THE 1986/87 RESCHEDULING AGREEMENTS, (WHICH BECAME EFFECTIVE IN DECEMBER 1987) AND THE AVAILABILITY OF DOLLARS 320 MILLION OF NEW MONEY. AN ADDITIONAL PROBLEM WAS THAT LARGE REPAYMENTS START TO FALL DUE IN APRIL UNDER THE 1986/87 LETTER OF CREDIT AGREEMENT, AS WELL AS UNDER THE PROMISSORY NOTE AGREEMENT, WHICH THE NIGERIANS WOULD BE UNABLE TO MEET WITHOUT

CONFIDENTIAL

023625
MDLOAN 3194

NEW MONEY. THEY HAVE MADE SUBSTANTIAL INITIAL PAYMENTS TO THE BANKS IN JANUARY AND FEBRUARY AND HAVE FAILED TO CUT BACK THE AMOUNT OF FOREIGN EXCHANGE IN THE AUCTIONS. RESERVES ARE EXHAUSTED. FAILURE TO CURB DOMESTIC DEMAND AND PLAN FORWARD LEAVE THEM WITH IMMEDIATE, ACUTE CASH FLOW PROBLEMS.

DETAIL

5. THE NIGERIAN DELEGATION WAS LED BY OKONGWU AND AHMED. HAVING SET OUT THE ACUTE SHORTAGE OF FOREIGN EXCHANGE, THEY REQUESTED A RESCHEDULING OF ALL PAYMENTS FALLING DUE BETWEEN 1988 AND END-1991 OVER 25 YEARS WITH 10 YEARS GRACE. INTEREST WOULD BE KEPT CURRENT. IN THE MEANTIME, THE NIGERIANS HAVE SUSPENDED PAYMENTS FALLING DUE UP TO END-1988 UNDER THE 1986/87 LETTER OF CREDIT AGREEMENT, WITH THE EXCEPTION OF CURRENT INTEREST, AND REQUESTED A FURTHER 90 DAY ROLL-OVER OF ORIGINAL MEDIUM-TERM 1988 MATURITIES. IN ADDITION, THEY ASKED FOR THE NEW MONEY TO REMAIN AVAILABLE AT LEAST UNTIL A NEW IMF PROGRAMME IS NEGOTIATED, WHICH THEY HOPE TO ACHIEVE BY MID-1988.

6. THE STEERING COMMITTEE IS CONSIDERING ITS RESPONSE. THE CATCH-ALL NATURE OF THE PROPOSALS, AND THE LENGTH OF THE RESCHEDULING PERIOD, ARE LIKELY TO BE UNACCEPTABLE, PARTICULARLY TO THE LETTER OF CREDIT BANKS. IN NOTIFYING THE PARTICIPATING BANKS OF THE OUTCOME OF THE MEETING, THE STEERING COMMITTEE ENDORSED THE ROLL-OVER, BUT EXPRESSED DISAPPOINTMENT THAT THE PAYMENTS FALLING DUE UNDER THE LETTER OF CREDIT AGREEMENT HAD BEEN SUSPENDED. THE CASH FLOW PROBLEM IN APRIL WILL BE MET BY THE ENDORSEMENT OF THE ROLL-OVER AND THE DE FACTO ACCEPTANCE OF THE SUSPENSION OF LETTER OF CREDIT PAYMENTS. THE CRUNCH POINT WILL NOW OCCUR IN JULY WHEN THE ROLL-OVER AND SUSPENSION PERIOD LAPSES.

7. THE COMMITTEE JUDGED THAT IT WOULD BE COUNTERPRODUCTIVE TO RELEASE THE DETAILS OF THE RESCHEDULING PROPOSALS, AND THEREFORE KEPT THEM CONFIDENTIAL WHILE THE SITUATION WAS CLARIFIED. HOWEVER, THESE HAVE BEEN REPORTED TODAY BY REUTERS AND THE DISCLOSURE COULD AFFECT ENDORSEMENT BY PARTICIPATING BANKS OF THE NIGERIAN REQUEST, MAKING THE STEERING COMMITTEE'S TASK EVEN HARDER.

8. THE COMMERCIAL BANK ECONOMIC SUB-COMMITTEE INTENDS TO GO TO WASHINGTON TO LOOK AT THE IMF AND IBRD'S CASH FLOW FIGURES, WITH A VIEW TO RE-OPENING NEGOTIATIONS IN APRIL. THIS TIMETABLE MAY

CONFIDENTIAL

023625
MDLOAN 3194

BE DELAYED, SINCE THE SUB-COMMITTEE WILL GO ONLY AFTER AN IMF MISSION HAS RETURNED TO LAGOS TO FINALISE ITS OWN FIGURES. THE LATTER IS DEPENDENT ON THE NIGERIANS FULFILLING THE NECESSARY PRIOR CONDITIONS (SEE UKDEL TELNO 57).
COMMENT

9. THE COMMERCIAL BANK NEGOTIATIONS ARE LIKELY TO BE LENGTHY, AND THE POSSIBILITY OF NEW MONEY IS REMOTE. IN CASH FLOW TERMS THE NIGERIANS ARE BETTER OFF WITH THE DELAY. THE BANKS ARE VERY UNHAPPY WITH BEING PUT IN THIS POSITION, AND THEIR COOPERATION MAY WELL BE IN DOUBT.

10. THE NIGERIANS INTEND TO ASK THE PARIS CLUB FOR SIMILAR RESCHEDULING TERMS. THESE ARE UNLIKELY TO BE RECEIVED SYMPATHETICALLY. WHILE HMG WISHES TO HELP AT THE PARIS CLUB, SIMILAR TERMS HAVE BEEN GRANTED ONLY TO THE VERY POOREST COUNTRIES IN SUB-SAHARAN AFRICA.

11. ALLEN (IMF MISSION LEADER) WAS IN LONDON FOR THE MEETING, BUT WAS NOT FULLY AWARE OF THE OUTCOME. HE THOUGHT THAT AN IMF PROGRAMME WOULD HAVE TO BE HELD UP IF THE BANK NEGOTIATIONS WERE PROLONGED, SINCE THE IMF WOULD NOT UNTIL THEN BE ABLE TO CLOSE THE FINANCING GAP. THIS WOULD IN TURN FURTHER DELAY A PARIS CLUB RESCHEDULING AGREEMENT AND THE DISBURSAL OF FUNDS FROM THE WORLD BANK AND AFDB.

12. THE NIGERIANS APPEAR TO HAVE TAKEN SHORT-SIGHTED ACTION. CREDITOR WILLINGNESS TO PUT UP NEW MONEY IN 1988 WILL HAVE BEEN IMPAIRED, AND ACTIVATION OF EXISTING OFFERS SET BACK EVEN FURTHER. PROMPTER IMPLEMENTATION OF DOMESTIC MEASURES AND THUS EARLIER AGREEMENT WITH IMF COULD HAVE AVOIDED THE NECESSITY FOR THIS DAMAGE.

HOWE

YYYY

CONFIDENTIAL

023625
MDLOAN 3194

DISTRIBUTION

149

MAIN 148

MONETARY

WAD

ADDITIONAL 1

MR WICKS NO 10 DOWNING ST

NNNN

d/M.28

CONFIDENTIAL

From: T P Lankester

Date: 29 March 1988

CHANCELLOR

cc

Economic Secretary

Sir G Littler

Mr Evans

Mr Mountfield

Mr Bottrill

Mr Walsh

Mr Thomson

Mr Batt

Mr Cassell - UKDEL-IMF

NIGERIA

Ch/Content to write as proposed?
29/3
OK

The report of the Interdepartmental Debt Group, which I am sending to you separately, covers a recent deterioration in the Nigerian problem. The details are set out in the attached telegram - FCO 242 to Lagos. I mentioned this briefly at your meeting this afternoon.

2. We have discussed the situation with the Bank of England and the FCO. We think the position is so serious that it merits Ministerial intervention. I suggest that you write to the Nigerian Finance Minister, and follow this up with a bilateral talk in the margins of the Washington Spring Meetings.

3. It is particularly important to get the UK position on the record, because we have previously given the Nigerians assurances of support. They did actually tell both the Foreign Secretary and the Prime Minister about their new approach to the banks, but they did so in such guarded terms that the message was not received. It was only the following day that we realised how near the banking negotiations were to complete breakdown. It is very important that the Nigerians do not misinterpret our promises of support as meaning that we would back them against the banks (or indeed against the IMF Staff) as well.

Hasged (the attached letter)

4. The attached draft letter, the terms of which have been agreed at official level with the FCO and the Bank of England, should put the record right. I believe it would be useful to send this in advance of any discussions in Washington. The Foreign Office agree, and are submitting the draft to Sir G Howe overnight. If you approve it, and he has no objections, it can be despatched to Lagos tomorrow for delivery there. We shall also send a copy to Washington, in case Okongwu has already left Lagos.

TL

T P Lankester

CONFIDENTIAL

035421
MDHIAN 4122

CONFIDENTIAL

FM LAGOS

TO IMMEDIATE FCO

TELNO 351

OF 301400Z MARCH 88

AND TO IMMEDIATE TREASURY, BANK OF ENGLAND

INFO PRIORITY DTI, ECGD, ODA, UKDEL IMF/IBRD WASHINGTON.

YOUR TELNO 242: NIGERIA:LONDON CLUB MEETING

SUMMARY

1. GOVERNOR OF THE CENTRAL BANK BRIEFED NIGERIAN BANKS ON THE GOVERNMENT'S REQUEST TO THE LONDON CLUB FOR A MORATORIUM ON DEBT REPAYMENTS. REAFFIRMS COMMITMENT TO STRUCTURAL ADJUSTMENT POLICIES, BUT OUTLINES THE COUNTRY'S ECONOMIC DIFFICULTIES.

DETAIL

2. BRITISH BANKING SOURCES HERE HAVE BRIEFED US IN CONFIDENCE ON A PRIVATE MEETING WHICH THE GOVERNOR OF THE CENTRAL BANK, AHMED, HELD WITH NIGERIAN BANKS ON 28 MARCH ABOUT NIGERIA'S PROPOSALS TO THE LONDON CLUB FOR A MORATORIUM ON DEBT REPAYMENTS.

3. AHMED WAS SPEAKING TO THE BANKS AGAINST THE BACKGROUND OF LOCAL SPECULATION THAT THE FOREIGN EXCHANGE MARKET WAS TO BE ABOLISHED. HE CATEGORICALLY DENIED THIS, BUT SAID THAT HE WAS UNDER POLITICAL PRESSURE TO ARREST THE DECLINE IN THE EXCHANGE RATE. AHMED URGED THE BANKS TO AIM FOR A 1% APPRECIATION OF THE NAIRA AT THE NEXT AUCTION. AS AN INCENTIVE TO DO THIS, HE SAID THAT THE RECENTLY INTRODUCED PRACTICE WOULD BE CONTINUED OF CLAWING BACK 15% OF THEIR ALLOCATION FROM THE BANKS WHO WERE SUCCESSFUL IN THE AUCTION FOR DISTRIBUTION TO THE UNSUCCESSFUL BIDDERS. AT THE LAST AUCTION, THIS EFFECTIVELY MEANT THAT THE UNSUCCESSFUL BANKS RECEIVED 75% OF THE FUNDS THEY HAD BID FOR, WHILE THOSE WHO WERE SUCCESSFUL RECEIVED 85%. THE INCENTIVE FOR BIDDING HIGH TO ENSURE A SUCCESSFUL BID HAS THEREBY BEEN GREATLY REDUCED.

4. A COMMITTEE OF BANKERS UNDER CENTRAL BANK AUSPICES IS ALSO AT PRESENT LOOKING AT THE MECHANICS OF THE AUCTION WITH A VIEW TO SEEING HOW THE PRESENT DOWNWARD PRESSURE WHICH THE AUCTION SYSTEM EXERTS ON THE NAIRA CAN BE AVOIDED.

CONFIDENTIAL

035421
MDHIAN 4122

5. AHMED WENT ON TO BRIEF THE BANKERS ON NIGERIA'S MORATORIUM REQUESTS TO THE LONDON CLUB. HE SAID THAT BECAUSE THE OIL PRICE WAS VERY LOW, NIGERIA COULD NOT SERVICE THE DEBT AGREEMENTS IT HAD MADE LAST YEAR. THIS YEAR'S BUDGET HAD BEEN BASED ON DOLLARS 16 PER BARREL, BUT PRICES WERE NOW WELL BELOW THIS. HE STRESSED THAT THERE WOULD BE NO GOING BACK FROM THE STRUCTURAL ADJUSTMENT PROGRAMME, BUT THERE HAD BEEN SLIPPAGES. THE GOVERNMENT WAS NOW CHRONICALLY SHORT OF MONEY. BY THE MIDDLE OF THE YEAR THEY HOPED THAT A FUNCTIONAL ARRANGEMENT WOULD BE ACHIEVED WITH THE IMF. AND THAT AROUND DOLLARS 700 MILLION WOULD BE RECEIVED IN BALANCE OF PAYMENT LOANS. (COMMENT: THIS PRESUMABLY INCLUDES DOLLARS 200 MILLION FROM JAPANESE GOVERNMENT AS WELL AS WORLD BANK'S DOLLARS 500 MILLION)

6. AHMED SAID THAT EXTERNAL SUPPORT WAS AN ESSENTIAL FOUNDATION FOR THE SAP, AND THERE WOULD BE NO REPUDIATION OF DEBT. BUT 'THE ECONOMY COMES FIRST'. THERE WAS A LIMITED AMOUNT OF RESOURCES WHICH COULD BE DEVOTED TO DEBT REPAYMENT, AND IT HAD TO BE RECOGNISED THAT AN ALLOCATION OF DOLLARS 120 MILLION PER FORTNIGHT FOR THE FOREIGN EXCHANGE MARKET WAS VERY SMALL FOR AN ECONOMY THE SIZE OF NIGERIA'S.

EWANS

YYYY

DISTRIBUTION

154

MAIN 153

MONETARY

WAD

ADDITIONAL 1

MR WICKS NO 10 DOWNING ST

NNNN

CONFIDENTIAL

034466
MDHOAN 3100

PMF

CONFIDENTIAL
FM FCO
TO DESKBY 301230Z LAGOS
TELNO 248
OF 301055Z MARCH 88
AND TO PRIORITY UKDEL IMF/IBRD WASHINGTON

OUR TELNO 242: NIGERIA: MESSAGE FROM CHANCELLOR TO OKONGWU

1. MINISTERS HAVE DECIDED THAT IN THE LIGHT OF INCREASING CONCERN OVER NIGERIA'S FAILURE SO FAR TO REACH AGREEMENT WITH THE IMF, AND THE DEVELOPMENTS WITH THE LONDON CLUB DESCRIBED IN TUR, THE CHANCELLOR SHOULD SEND A MESSAGE TO OKONGWU AND SUGGEST A MEETING TO DISCUSS THESE MATTERS IN THE MARGINS OF THE WASHINGTON SPRING MEETINGS ON 14-15 APRIL.
2. TEXT IS IN MIFT. GRATEFUL IF YOU WOULD DELIVER THIS PERSONALLY TO OKONGWU. IF HE HAS ALREADY LEFT FOR WASHINGTON, GRATEFUL IF UKDEL IMF CAN TAKE ACTION WITH THE NIGERIAN DELEGATION.

HOWE

YYYY

DISTRIBUTION

154

MAIN 153

MONETARY

WAD

ADDITIONAL 1

MR WICKS NO 10 DOWNING ST

NNNN

CONFIDENTIAL



CC - EST.

Sir G. Little

Mr HP Evans

Mr Mountfield.

Mr Bottrill

Mr Lancaster

Mr Walsh

Mr Thomson

Mr Batt

Mr Caswell

Treasury Chambers, Parliament Street, SW1P 3AG
01-270 3000

30 March 1988

UKDEL/IME

Chu S P Okongwu
Minister of Finance
Lagos
Nigeria

I was sorry that we did not have a chance to meet during your recent visit to London. I hope there will be time for a talk during the Spring Meetings in Washington, and I am asking my office there to make contact with your delegation to see if an appointment can be arranged.

The Prime Minister explained to General Nwachukwu, after the Chevening talks, that the British Government remains very anxious to help Nigeria. In particular, provided you are able to get your economic programme back on track and reach agreement with the Fund Staff on a new or continued IMF programme, we will be more than happy to support Nigeria's case in the IMF Board and at the Paris Club. Mrs Thatcher gave the same message, as you will no doubt recall, to President Babangida during her visit to Nigeria in January.

I am writing to you now, in advance of our meeting in Washington, because I am becoming increasingly concerned - for three reasons. It may help if I explain this frankly, as background to our talk.

The first relates to the Adjustment Programme itself. I believe my officials expressed our worries about this during the Chevening meeting. We have admired the steps which you took when the Programme was first established. But we have been greatly concerned about two features of your 1988 Budget: the size of the fiscal deficit; and, given the limited resources, the extent of funding of the Foreign Exchange Market. I am sure these are issues on which you will need to satisfy the Fund staff before they can put a paper to the Board. And it is only at the Board that the British Executive Director can help.



The second reason is your recent request to the commercial banks during your London visit. Although General Nwachukwu mentioned this briefly both to Geoffrey Howe and to Mrs Thatcher, he was not able to give details at that stage, and we did not immediately realise the nature of your proposals. Negotiations are of course entirely a matter between you and the banks; I would not presume to intervene in their commercial decisions, nor have they asked me to do so. However, we are particularly concerned at the possible adverse effects your proposals will have on your relations, over both the short and longer term, with the commercial banks whose cooperation is vital to your programme. If the banks are unable to accept your terms, this also puts the IMF programme at risk, because the Fund will not normally approve a programme until it knows that the supporting bank finance is in place. Lack of a Fund programme would in turn imperil a new Paris Club agreement and the provision of new credit by ECGD and - I suspect - by other export credit agencies, as well as substantial amounts of multilateral funds. Although your relations with the banks are not strictly my business, I hope you will forgive me for suggesting that you may find it advantageous to modify your approach.

Thirdly, I understand that you may be seeking very extended rescheduling terms from the Paris Club. I am fairly sure that this will not be acceptable to the other government creditors. Such lengthy terms have only recently been introduced and have been reserved for the poorest African countries.

I look forward to meeting you in Washington and discussing how best we can help you carry the whole process forward successfully.

A handwritten signature in black ink, appearing to read "Nigel Lawson".

NIGEL LAWSON

CONFIDENTIAL



FROM: J M G TAYLOR
DATE: 30 March 1988

Pop

MR LANKESTER

cc Economic Secretary
Sir G Littler
Mr Evans
Mr Mountfield
Mr Bottrill
Mr Walsh
Mr Thomson
Mr Batt

Mr Cassell UKDEL/IMF

NIGERIA

The Chancellor has seen your minute of 29 March. He is content to write to Okongwu as proposed, and I have asked the Foreign Office to arrange dispatch by telegram. A signed original will follow by bag.

JMGT

J M G TAYLOR

CONFIDENTIAL



10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

2 April 1988

Dear Alex.

NIGERIA

The Prime Minister has seen Lagos Telegram No. 353 reporting our High Commissioner's talk with Okongwu. She has commented that she hopes the Chancellor will be as helpful as possible - and a little more.

I am copying this letter to Lyn Parker (Foreign and Commonwealth Office) and Myles Wickstead (Overseas Development Administration).

*Yours sincerely,
Chris Zeman*

C D POWELL

A. C. S. Allan, Esq.
H.M. Treasury

CONFIDENTIAL

CH/EXCHEQUER	
REC.	05 APR 1988
ACTION	Mr MOUNTFIELD
COPIES	EST EST SIC P. MIDDLETON
	Mr ANSON
	Mr H. P. EVANS
	Mr ROBSON
	Mr BURGNER
	Mr BOTTRILL

CONFIDENTIAL

X p1
and any
over pp
040565
MDHIAN 4272

CONFIDENTIAL

FM LAGOS

TO DESKBY 311400Z FCO

TELNO 353

OF 311000Z MARCH 88

AND TO DESKBY 311400Z TREASURY, BANK OF ENGLAND.

INFO PRIORITY DTI, ECGD, ODA, UKDEL IMF/IBRD WASHINGTON.

YOUR TELNO 248: NIGERIA: MESSAGE FROM CHANCELLOR TO OKONGWU

SUMMARY

1. OKONGWU ANXIOUS TO MEET THE CHANCELLOR, BUT UPTIGHT ABOUT ATTITUDES OF THE IMF AND THE COMMERCIAL BANKS. MAINTAINS THAT BRITAIN IS NOT PROVIDING THE SUPPORT WHICH NIGERIA NEEDS.

DETAIL

2. I SAW OKONGWU THIS MORNING, 30 MARCH, AND DELIVERED THE CHANCELLOR'S MESSAGE. WHILE OKONGWU WAS GOOD HUMOURED THROUGHOUT, HE WAS NEVERTHELESS IN AN EMOTIONAL MOOD AND PERHAPS LESS DIPLOMATIC THAN HE MIGHT HAVE BEEN AT A CALMER MOMENT. HE ASKED ME TO CONGRATULATE THE CHANCELLOR ON HIS RECENT BUDGET AND ON THE SUCCESS OF HIS POLICIES.

3. OKONGWU SAID THAT HE VERY MUCH WISHED TO MEET THE CHANCELLOR IN WASHINGTON. INDEED, HE HAD BEEN WANTING TO MEET THE CHANCELLOR FOR A LONG TIME, BUT THE LATTER SEEMED TO HAVE AVOIDED HIM. LAST SUMMER HE HAD BEEN MADE TO LOOK STUPID BECAUSE, AFTER CONABLE HAD SUGGESTED TO THE PRESIDENT THAT BRITAIN SHOULD BE ASKED TO TAKE THE LEAD IN SECURING "LEAST DEVELOPED" STATUS FOR NIGERIA AND THE PRESIDENT HAD INSTRUCTED HIM TO SEE THE CHANCELLOR TO ENLIST HIS ASSISTANCE OVER THIS, THE CHANCELLOR HAD REFUSED TO SEE HIM (YOUR TELNO 532 OF 6 AUGUST AND RELATED TELEGRAMS). DESPITE WHAT THE PRIME MINISTER HAD SAID TO THE PRESIDENT DURING HER VISIT, THE NIGERIAN GOVERNMENT FELT THAT THEY HAD RECEIVED NO RECENT PRACTICAL SUPPORT FROM BRITAIN OVER THEIR ECONOMIC PROGRAMME, AND MESSAGES OF THIS SORT WERE NO SUBSTITUTE. OUR ATTITUDE CONTRASTED MARKEDLY WITH THAT OF THE FRENCH TRESOR, WHO MADE A POINT OF KEEPING IN TOUCH WITH THEIR AFRICAN FRANCOPHONE COUNTERPARTS AND OF OFFERING ADVISE AND ASSISTANCE ON A CONTINUING BASIS. IF BRITAIN DID NOT TAKE A LEAD IN MOBILIZING INTERNATIONAL SUPPORT FOR THE CONSIDERABLE EFFORTS WHICH NIGERIA WAS MAKING TO PUT HER

CONFIDENTIAL

040565
MDHIAN 4272

HOUSE IN ORDER, THEN THE WHOLE EFFORT MIGHT WELL FAIL AND THE ECONOMY BE LEFT IN THE HANDS OF THE 'WILD MEN'. NIGERIA FELT THAT SHE HAD AN UNANSWERABLE CASE FOR REDESIGNATION AS A LEAST DEVELOPED COUNTRY AND FOR CORRESPONDING RESCHEDULING TERMS. PER CAPITA GDP HAD SLIPPED RIGHT BACK AND SHE HAD 'REDISCOVERED HER POVERTY'. SHE LOOKED TO BRITAIN TO SUPPORT HER ON THIS.

4. OKONGWU INSISTED THAT THE NIGERIAN GOVERNMENT, AND THE PRESIDENT PERSONALLY, WERE DETERMINED TO GET THE FISCAL DEFICIT UNDER CONTROL. BUT THE POLITICAL DIMENSION COULD NOT BE OVERLOOKED AND ONLY SO MUCH WAS IN THE REALM OF PRACTICAL POLITICS. IF THE CHANCELLOR WERE STANDING BEHIND HIS, OKONGWU'S, SHOULDER, HE WOULD UNDERSTAND THE PROBLEM VERY WELL. HE WAS SURE THAT THEY WOULD REACH AGREEMENT WITH THE IMF, DESPITE THE 'ARROGANCE' WHICH THE LATTER WERE EXHIBITING. HE KNEW FROM HIS INTERNATIONAL EXPERIENCE HOW THEY BEHAVED: THEY WORKED OUT 'IDEAL MODELS' OF COUNTRIES' ECONOMIES AND THEN EXPECTED CONFORMITY WITH THEM WITH NO REGARD TO POLITICAL CONSTRAINTS. IT WAS ALSO WELL KNOWN IN NIGERIA THAT EGYPT, FOR EXAMPLE, HAD BEEN ALLOWED MUCH LESS STRINGENT FISCAL LIMITATIONS, AND NOBODY HERE UNDERSTOOD WHY NIGERIA SHOULD NOT BE SIMILARLY TREATED (THERE HAD BEEN A RECENT ARTICLE ON EGYPT IN THE FINANCIAL TIMES WHICH HAD LET THE CAT OUT OF THE BAG).

5. OKONGWU WENT ON TO SAY THAT HE DID NOT NEED ANY LECTURE FROM THE CHANCELLOR ON HOW TO DEAL WITH THE COMMERCIAL BANKS. NIGERIA HAD BEEN NEGOTIATING WITH THEM FOR MONTHS AND EVEN YEARS, AND HAD NOT SO FAR SEEN A PENNY OF THEIR MONEY. THE NIGERIAN GOVERNMENT WERE NOT GOING TO ASK THEIR PEOPLE TO SUFFER IN ORDER TO SATISFY THE BANKS: THE LATTER WOULD HAVE TO ACCEPT SOME SACRIFICE AS WELL.

6. I OF COURSE TOOK OKONGWU UP ON THESE POINTS AND PUT IT TO HIM, FIRST, THAT THE CURRENT PRESSURE ON THE NAIRA SHOWED CONCLUSIVELY THAT THE GOVERNMENT'S FISCAL AND MONETARY POLICIES WERE INSUFFICIENTLY TIGHT, AND, SECOND, THAT AN ACCOMMODATION ACROSS THE BOARD WITH EXTERNAL AGENCIES AND BANKS WAS INTEGRAL TO NIGERIA'S RECOVERY PROGRAMME AND HENCE, LIKE IT OR NOT, THEIR VIEWS HAD TO BE ACCOMMODATED: ALSO THAT ANY DEAL WITH THE BANKS HAD SURELY TO BE RECIPROCAL, WITH AN ADEQUATE SETTLEMENT OF PART DEBTS IN RETURN FOR NEW MONEY. ON THE FIRST POINT, OKONGWU AGAIN INSISTED THAT THE GOVERNMENT WAS DOING ITS BEST WITHIN THE LIMITS OF WHAT WAS POLITICALLY POSSIBLE: ON THE SECOND, HE AGAIN INSISTED THAT THERE HAD TO BE RECOGNITION THAT NIGERIA'S ECONOMIC

CONFIDENTIAL

040565
MDHIAN 4272

CIRCUMSTANCES HAD CHANGED CRITICALLY FOR THE WORSE.
THE PRESIDENT LOOKED TO THE PRIME MINISTER, AND HE LOOKED TO THE
CHANCELLOR, FOR BRITAIN TO TAKE A LEAD. AS FOR THE BANKS,
NIGERIA WOULD DO WITHOUT THEIR MONEY IF NECESSARY.

7. IT IS POSSIBLE THAT AN IMF TEAM MAY BE BACK HERE VERY SOON,
AND HENCE THAT THERE MAY BE SOME MOVEMENT BEFORE
THE CHANCELLOR'S MEETING WITH OKONGWU TAKES PLACE. I WILL
ACCORDINGLY COMMENT ON OKONGWU'S ATTITUDE, AND ON THE SITUATION
HERE, A LITTLE NEARER THE TIME OF THE MEETING.

EWANS

YYYY

DISTRIBUTION

154

MAIN 153

MONETARY

WAD

ADDITIONAL 1

MR WICKS NO 10 DOWNING ST

NNNN

NIGERIA



Treasury Chambers, Parliament Street, SW1P 3AG
01-270 3000

7 April 1988

Russell Dixon Esq
Assistant Private Secretary to the
Secretary of State for Foreign and
Commonwealth Affairs
Foreign and Commonwealth Office
Downing Street
SW1

Dear Russell

... I should be grateful if you could forward the enclosed letter
from the Chancellor of the Exchequer to Chu S P Okongwu.

Yours Sincerely
A A Dight

A A DIGHT

CONFIDENTIAL

060343
MDADAN 2242

CONFIDENTIAL

FM UKDEL IMF/IBRD WASHINGTON
TO DESKBY 110900Z FCO
TELNO 83
OF 082300Z APRIL 88
AND TO PRIORITY LAGOS
INFO ROUTINE ABIDJAN

ADVANCE COPY

ABIDJAN FOR SUTHERLAND
LAGOS TELNO 368

IMF/IBRD: NIGERIA
SUMMARY

ACCESS TO THE IDA AND ESAF
DETAIL

2. WE HAVE DISCUSSED THE QUESTION OF WHETHER NIGERIA SHOULD BE GIVEN ACCESS TO IDA AND ESAF WITH BOTH IMF AND IBRD STAFF. BANK COUNTRY STAFF RECOGNISE THAT NIGERIA HAS A CASE, BASED ON CURRENT (AND DECLINING) INCOME PER HEAD. IN VIEW OF PRESSURES ON IDA RESOURCES, IT HAS OCCURRED TO BANK STAFF TO WONDER WHETHER GIVING NIGERIA 'TOKEN' ACCESS TO IDA RESOURCES MIGHT ALLOW NIGERIA TO DRAW FROM THE ESAF.
3. BOORMAN (DEPUTY DIRECTOR OF THE FUND'S EXCHANGE AND TRADE RELATIONS DEPARTMENT) DISCUSSED THE ISSUE WITH JAYCOX (VICE PRESIDENT FOR AFRICA) RECENTLY. BOORMAN APPARENTLY STRESSED THAT THERE WERE CONSIDERABLE DIFFICULTIES WITH THIS APPROACH. HE ARGUED THAT, IF THE BANK THOUGHT THAT NIGERIA DESERVED IDA RESOURCES, THEY SHOULD BE GIVEN MORE THAN A TOKEN ALLOCATION.
4. EVEN IF THIS WERE DONE HOWEVER, IT WAS FAR FROM CERTAIN WHETHER THE FUND WOULD BE WILLING TO ALLOW ACCESS TO THE ESAF. THERE WAS NO AUTOMATIC ELIGIBILITY AND FUND MANAGEMENT MIGHT WELL ARGUE AGAINST IT BECAUSE THERE WERE A LARGE GROUP OF OTHER COUNTRIES WHICH ALSO NOW MET THE IDA GNP PER CAPITA CRITERIA (PHILIPPINES, EGYPT?) WHO MIGHT WELL ALSO WANT TO FOLLOW NIGERIA'S LEAD. THE TOTAL FUND QUOTAS OF THIS GROUP COULD EXCEED THOSE OF THE CURRENTLY ELIGIBLE GROUP (IE UNLESS ADDITIONAL RESOURCES COULD BE FOUND, ACCESS UNDER THE FACILITY WOULD HAVE TO BE HALVED). ADDING THESE COUNTRIES WOULD ALSO MEAN THAT THE FACILITY WAS LESS DIRECTLY AIMED AT THE SUB SAHARAN AFRICAN COUNTRIES WHICH HAD BEEN AN IMPORTANT CONSIDERATION IN PERSUADING DONORS TO SUPPORT THE FACILITY. FINALLY, BOORMAN NOTED THAT IF NIGERIA AND OTHERS WERE TO BE ADDED, THIS WOULD INCREASE THE LIKELIHOOD THAT INDIA AND

PAGE 1
CONFIDENTIAL



CONFIDENTIAL

060343
MDADAN 2242

CHINA WOULD ALSO WANT TO DRAW SO FURTHER REDUCING THE ACCESS LEVEL.

5. THE BANK RECOGNISE THESE POINTS (AND COULD THEMSELVES FACE REQUESTS FROM OTHER COUNTRIES TO HAVE ACCESS TO IDA IF NIGERIA WERE TO BE ALLOWED) BUT ARE IN DIFFICULTY IN RELATION TO THE ESTABLISHED CRITERIA FOR IDA. WE BELIEVE THAT THE BANK ARE CONSIDERING BEGINNING THE TECHNICAL WORK ON THE POSSIBILITY OF IDA ELIGIBILITY. ONE APPROACH APPARENTLY UNDER CONSIDERATION IS MAKING NIGERIA 'TECHNICALLY ELIGIBLE' FOR IDA BUT NOT GIVING THEM ANY SIGNIFICANT ACCESS UNDER IDA VIII.

6. FUND STAFF CONFIRM THAT, AS THE NIGERIANS HAVE NOT TAKEN ANY MEASURES ON THE KEY AREAS (INCLUDING THE PETROLEUM PRICE) THEY DO NOT CURRENTLY HAVE ANY PLANS TO VISIT LAGOS ALTHOUGH THIS ISSUE WILL CLEARLY BE RAISED IN THEIR DISCUSSIONS WITH THE NIGERIANS NEXT WEEK.

7. COMMENT: AN OBJECTIVE CASE FOR NIGERIAN ACCESS TO CONCESSIONAL AID ALREADY EXISTS, AND WILL BECOME STRONGER AS TIME GOES ON AND LOWER PUBLISHED FIGURES FOR GDP PER HEAD APPEAR. BUT IT CLEARLY PRESENTS INSTITUTIONAL DIFFICULTIES FOR BOTH THE BANK AND FUND. IDA RESOURCES ARE ALREADY STRAINED, AND THE BANK WOULD CLEARLY LIKE TO FIND A MEANS OF TRIGGERING ESAF AND BILATERAL AID, WITHOUT A SIGNIFICANT USE OF IDA. BUT THE FUND HAVE SIMILAR PROBLEMS WITH ESAF, AND BOTH ARE CONCERNED ABOUT OTHER LARGE CLAIMANTS IN THE BACKGROUND. IT IS NOT WHOLLY CLEAR THAT FUND MANAGEMENT WOULD WISH TO OPEN ESAF TO NIGERIA EVEN IF THE BANK MADE A SUBSTANTIAL IDA ALLOCATION. IN ANY CASE, SUBSTANTIVE PROGRESS ON THIS ISSUE IS UNLIKELY UNTIL MORE APPROPRIATE MACRO ECONOMIC POLICIES ARE IN PLACE. GETTING AGREEMENT ON CHANGING THE LIST OF ESAF ELIGIBLE COUNTRIES IS ALSO LIKELY TO TAKE TIME. P

8. FCO PLEASE PASS TO PS/CHANCELLOR, LITTLER, LANKESTER AND EVANS (HMT), WARE (BOE), RICHARDSON (ERD), BREACH (ECGD) AND HUDSON (ODA).

CASSELL

DISTRIBUTION

5

ADVANCE

5

HD/WAD
B/ENG
HM TSRY

HD/ERD
RESIDENT CLERK

NNNN

CONFIDENTIAL

055427
MDHIAN 4864

CONFIDENTIAL

FM LAGOS

TO DESKBY 080900Z FCO

TELNO 368

OF 080700Z APRIL 88

AND TO IMMEDIATE TRESASURY, BANKD OF ENGLAND

INFO IMMEDIATE UKDEL IMG/IBRD WASHINGTON

AND TO PRIORITY DTI, ECGD, ODA

MY TELNO 353: THE CHANCELLOR'S PLANNED MEETING WITH OKONGWU

SUMMARY

1. ACCORDING TO WORLD BANK REPRESENTATIVE, THE BANK AND FUND ARE BOTH TAKING A FIRM LINE WITH NIGERIA. GIVEN ALSO THE EXTREME SERIOUSNESS OF NIGERIA'S CURRENT ECONOMIC SITUATION AND THE ABSENCE OF ANY VIABLE ALTERNATIVE POLICY, HE BELIEVES THAT THE NECESSARY CORRECTIVE MEASURES WILL BE TAKEN.

2. ACCORDING TO THE REPRESENTATIVE, THE WORLD BANK CONSIDERS THAT NIGERIA SHOULD NOW BE CLASSED AS ''IDA-ELIGIBLE'' BUT NOT (REPEAT) NOT AS AN ''IDA-RECIPIENT''. THEY WOULD THEN BE IN LINE FOR A VERY USEFUL ESAF. NIGERIANS LIKELY TO CONTINUE TO PRESS STRONGLY FOR LEAST DEVELOPED TERMS.

DETAIL

3. IN MY TUR I UNDERTOOK TO COMMENT ON OKONGWU'S ATTITUDE AND THE UNDERLYING ECONOMIC SITUATION HERE IN ADVANCE OF THE CHANCELLOR'S MEETING WITH HIM IN WASHINGTON NEXT WEEK. I UNDERSTAND FROM THE RESIDENT WORLD BANK REPRESENTATIVE HERE, HUSAIN, WHOM I DISCUSSED THE WHOLE SITUATION ON 6 APRIL, THAT OKONGWU AND GOVERNOR AHMED OF THE CENTRAL BANK WILL LEAVE FOR WASHINGTON ON 8 APRIL FOR TALKS WITH WORLD BANK AND IMF OFFICIALS PRIOR TO THE SPRING MEETINGS ON 14/15 APRIL. HUSAIN (WHOSE REMARKS WERE MADE IN CONFIDENCE - PLEASE PROTECT), SAID THAT WORLD BANK AND IMF MISSIONS WHICH HAD BOTH BEEN DUE TO VISIT LAGOS THIS WEEK HAD BEEN ABORTED AT HIS SUGGESTION. HE HAD TOLD OKONGWU THAT THE MISSIONS HAD BEEN POSTPONED BECAUSE NIGERIA HAD NOT YET PUT IN PLACE THE ECONOMIC MEASURES NEEDED IF SUPPORT FROM THE WORLD BANK AND THE IMF WAS WORTHWHILE. HE HOPED THAT THIS FIRM LINE WOULD PERSUADE THE NIGERIANS OF THE NECESSITY TO TAKE THESE MEASURES PROMPTLY.

3. HUSAIN WENT ON TO SAY THAT HE NOW REGARDED NIGERIA'S FISCAL AND ECONOMIC SITUATION AS EXTREMELY SERIOUS. THE HUGE FISCAL DEFICIT WHICH HAD BUILT UP TOWARDS THE END OF 1987 HAD BEEN COMPOUNDED BY AN EQUALLY SIGNIFICANT DEFICIT THIS YEAR, AND STRONG INFLATIONARY PRESSURE WAS BUILDING UP. CONTRARY TO POPULAR IMPRESSION, THERE HAD BEEN A 6% DECLINE IN AGRICULTURAL PRODUCTION LAST YEAR, AND THE DECLINE MIGHT BE EVEN WORSE THIS YEAR. THIS IN ITSELF WOULD BE INFLATIONARY. THE GOVERNMENT HAD TO GET TO GRIPS WITH THIS SITUATION, ABOVE ALL BY TIGHTENING PUBLIC EXPENDITURE, INCREASING PETROL PRICES AND MAKING LESS MONEY AVAILABLE TO THE FOREIGN EXCHANGE MARKET.

4. HUSAIN SAID THAT HE WAS IN CONTINUOUS CONTACT WITH OKONGWU ON THESE ISSUES, AND WOULD BE ACCOMPANYING THE NIGERIAN TEAM TO WASHINGTON. HE BELIEVED THAT THE PRESIDENT, ALTHOUGH UNDER PRESSURE FROM HIS COLLEAGUES, WAS SUFFICIENTLY ALIVE TO THE FACT THAT NIGERIA HAD NO REALISTIC ALTERNATIVE BUT TO MAINTAIN AN ECONOMIC PROGRAMME ACCEPTABLE TO THE IMF AND THE WORLD BANK, AND THAT IT WAS SIMPLY NOT A VIABLE OPTION TO GO IT ALONE.

5. HUSAIN FEELS THAT THE BANKS ARE BEING UNDULY PRISY. THE LONDON CLUB HAD KNOWN FULL WELL WHEN THEY SIGNED THEIR AGREEMENT LAST NOVEMBER THAT THE NIGERIANS HAD LITTLE OR NO PROSPECT OF FULFILLING IT. MOREOVER, THE BANKS HAD ALREADY EXTENSIVELY DISCOUNTED NIGERIA'S DEBT IN REAL TERMS. THEY HAD LITTLE CHOICE BUT TO LEAVE THE NIGERIAN GOVERNMENT TO REPUDIATE THE DEBT OR TO GO ALONG WITH THE RESCHEDULING TERMS PROPOSED. IN HUSAIN'S VIEW, THE NIGERIANS HAVE BEEN ENCOURAGED BY THE SUCCESSFUL REPUDIATION OF THE UNRECONCILED UNINSURED DEBT INTO TAKING THEIR PRESENT LINE WITH THE LONDON CLUB.

6. HUSAIN SAID THAT IN THE BANK'S VIEW, NIGERIA SHOULD NOW BE CLASSED AS 'IDA-ELIGIBLE' (BUT NOT (REPEAT NOT) AS AN 'IDA-RECIPIENT'). THE WORLD BANK ATLAS WOULD SHORTLY BE APPEARING AND WOULD GIVE A PER CAPITA INCOME FOR NIGERIA OF DOLLARS 370. BY NEXT YEAR, IT COULD WELL GO UNDER DOLLARS 300. THERE COULD BE NO DOUBT, THEREFORE, ABOUT THE ELIGIBILITY. BUT THERE WERE SO MANY IDA RECIPIENTS IN A MUCH WORSE STATE THAN NIGERIA THAT IT WAS SIMPLY NOT PRACTICAL TO THINK OF GIVING NIGERIA IDA MONEY. HOWEVER THE ADVANTAGE WOULD BE THAT THEY COULD GAIN ACCESS TO THE IMF'S ENHANCED STRUCTURAL ADJUSTMENT FACILITY (ESAF), WHICH HUSAIN FELT COULD BE WORTH UP TO DOLLARS 800 MILLION. THIS WOULD AMOUNT, IN HUSAIN'S VIEW, TO 'AN OFFER THEY CANNOT REFUSE' (ALTHOUGH THE GOVERNMENT MIGHT STILL FIND

CONFIDENTIAL

055427
MDHIAN 4864

IT DIFFICULT TO DRAW A DISTINCTION BETWEEN THIS FACILITY AND IMF STANDBY MONEY IN TERMS OF LOCAL PUBLIC PERCEPTIONS).

7. THERE ARE A NUMBER OF FACTORS AT PLAY HERE WHICH ARE, I BELIEVE, NOW MOVING THE NIGERIAN GOVERNMENT INEXORABLY IN THE DIRECTION OF SEEKING LEAST DEVELOPED STATUS. FIRST, THE MASSIVE DECLINE IN OIL REVENUES IN THE LAST COUPLE OF YEARS, CULMINATING IN THE VERY FRAGILE PRICE THIS YEAR, HAS OPENED A CRITICAL GAP BETWEEN ASPIRATIONS AND RESOURCES. WHILE THE GOVERNOR OF THE CENTRAL BANK, AND DOUBTLESS THE GOVERNMENT AS A WHOLE, REGARD DOLLARS 120 MILLION PER FORTNIGHT AS A VERY SMALL ALLOCATION FOR AN ECONOMY THE SIZE OF NIGERIA'S (MY TELNO 351), IT IS CLEAR THAT NIGERIA CANNOT AFFORD EVEN THIS LEVEL. FOR INSTANCE, ACCORDING TO PRESS REPORTS OIL RECEIPTS IN THE FIRST TWO MONTHS OF THIS YEAR AMOUNTED TO DOLLARS 857 MILLION, COMPARED TO ALLOCATIONS TO THE FEM OF DOLLARS 810 MILLION. THIS LEAVES PRECIOUS LITTLE FOR THE MANY DEBT REPAYMENT DEMANDS ON THE NIGERIAN GOVERNMENT AND ITS VARIOUS INSTITUTIONS. SECONDLY, ALTHOUGH STANDARDS OF LIVING ARE DOUBTLESS STILL HIGHER THAN IN MANY AFRICAN COUNTRIES, THERE IS EVERY RISK OF A RAPID DECLINE. A RECENT WORLD BANK REPORT ESTIMATES THAT BY THE YEAR 2000 NIGERIA'S POPULATION MIGHT WELL BE 160 MILLION, WHILE ITS PER CAPITA INCOME HAS ALREADY DROPPED THROUGH THE FLOOR FROM A LEVEL OF DOLLARS 800 IN 1985. ALTHOUGH THE DROP IS LARGELY A FUNCTION OF THE DEVALUATION OF THE NAIRA, IT MUST BE REMEMBERED THAT:-

(A) THIS DEVALUATION WAS THE CENTREPIECE OF NIGERIA'S STRUCTURAL ADJUSTMENT PROGRAMME, AND AS SUCH INSISTED UPON BY THE IMF AND THE REST OF US. IT IS THEREFORE DIFFICULT TO IGNORE ITS INEVITABLE CONSEQUENCE SEMICOLON

(B) THE PREVIOUS HIGH PER CAPITAL FIGURE WAS ITSELF UNREALISTIC GIVEN THAT THE NAIRA WAS GREATLY OVERVALUED SEMICOLON

(C) EVEN THE PREVIOUSLY HIGH OIL REVENUES DID NOT PERCOLATE VERY FAR DOWN TOWARDS THE VAST MAJORITY OF THE NIGERIAN POPULATION, WHO HAVE NOT AT ANY TIME BEEN FAR ABOVE THE SUBSISTENCE LEVEL SEMICOLON

(D) THERE IS ALSO AN ELEMENT IN THE FIGURE OF A DECLINE IN LIVING STANDARDS IN REAL TERMS. THIRDLY, THE NIGERIANS KNOW THAT THEY ARE OPERATING IN AN INTERNATIONAL CLIMATE IN WHICH THERE HAS BEEN STRONG SUPPORT FOR DEBT AMELIORATION (THE CHANCELLOR'S INITIATIVE, ENHANCEMENTS TO IMF AND WORLD BANK MONEY ETC) AND WHERE THE UNITED NATIONS HAS FOCUSED CONSIDERABLE ATTENTION ON SUPPORT FOR BLACK AFRICA. THIS, PLUS THE RECENT HIGH LEVEL DISCUSSIONS WITH OURSELVES AND OTHER GOVERNMENTS (EG GERMANY

CONFIDENTIAL

055427
MDHIAN 4864

AND THE US), WILL HAVE ENCOURAGED THEM TO THINK THAT IT IS TIME THAT PROPER ACCOUNT WAS TAKEN OF WHAT THEY SEE AS THEIR OWN SPECIAL CIRCUMSTANCES.

8. THERE REMAINS, HOWEVER, A SERIOUS PROBLEM OF FINANCIAL MANAGEMENT. OKONGWU IS FAR FROM COMPETENT AND LACKS GRIP (OUR LEADING PERSONALITIES REPORT). NOT ONLY DOES HE NOT RUN AN EFFICIENT MINISTRY, HE DOES NOT HAVE THE PERSONAL STATURE OR PERSUASIVENESS NECESSARY TO INFLUENCE THE SOLDIERS WHO COMPRISE THIS GOVERNMENT, WHO IN ANY CASE TEND TO HAVE A LOW REGARD FOR CIVILIAN MINISTERS. BE THAT AS IT MAY IT WILL CLEARLY BE IMPORTANT THAT THE CHANCELLOR SHOULD GIVE HIM A CLEAR VIEW ON OUR OWN POSITION, NOT LEAST ON THE QUESTION OF IDA ELIGIBILITY AND ACCESS TO THE ESAF. I DO NOT YET DESPAIR OF THE NIGERIANS TAKING SUFFICIENT STEPS TO SATISFY THE IMF'S REQUIREMENTS, AT LEAST IN TERMS OF INTERNAL POLICIES. BUT AS FAR AS THE PARIS AND LONDON CLUBS ARE CONCERNED, I EXPECT THEM TO INSIST THAT WHILE THEY ARE DOING EVERYTHING THEY REASONABLY CAN TO PUT THEIR HOUSE IN ORDER, THERE ARE JUST NOT ENOUGH RESOURCES AVAILABLE TO ENABLE THEM TO REPAY THEIR DEBTS EXCEPT ON VERY EXTENDED 'LEAST DEVELOPED COUNTRY' TERMS.

9. OF COURSE, IF THEY HAD TAKEN A GRIP EARLIER, BOTH IN DOING EVERYTHING NECESSARY TO SATISFY THE IMF, HUSBANDING THEIR RESOURCES AND MOBILISING FRESH EXTERNAL CREDIT, IT MIGHT HAVE BEEN A DIFFERENT STORY. OKONGWU AND HIS MINISTRY ARE LARGELY TO BLAME FOR THEIR FAILURE TO DO THIS. BUT I NOW SUSPECT THAT, GIVEN THEIR PRESENT PREDICAMENT, THEY ARE VERY LIKELY TO IMPOSE UNILATERAL TERMS ON THEIR CREDITORS, RESTRICTING DEBT REPAYMENT TO 30% AT THE VERY MOST OF THEIR FOREIGN EXCHANGE INFLOWS.

EWANS

YYYY

DISTRIBUTION

155

MAIN 153

MONETARY

WAD

ADDITIONAL 2

MR WICKS NO 10 DOWNING ST

DTI VIC ST

PAGE 4

CONFIDENTIAL

NNNN

UNCLASSIFIED

FM LAGOS

TO IMMEDIATE FCO

TELNO 379

OF 121353Z APRIL 88

AND TO IMMEDIATE TREASURY, BANK OF ENGLAND

INFO IMMEDIATE UKDEL IMF/IBRD WASHINGTON

INFO PRIORITY DTI, ECGD, ODA

INCREASE IN PETROLEUM PRICES

SUMMARY

1. INCREASES IN THE PRICE OF BASE OIL PRODUCTS ANNOUNCED BY NNPC AT THE WEEKEND HAVE RAISED THE COST OF PETROL AND DIESEL AT THE PUMPS. AVIATION FUEL PRICES HAVE INCREASED BY 400%

DETAILS

2. THE NIGERIAN NATIONAL PETROLEUM CORPORATION (NNPC) HAS INCREASED THE PRICES OF CERTAIN PRODUCTS TO NIGERIAN OIL MARKETING COMPANIES. THE INCREASES, WHICH WERE COMMUNICATED TO COMPANIES IN A LETTER FROM THE MARKETING AND MARINE DIVISION OF NNPC DATED 5 APRIL, HAVE BEEN BACK-DATED TO APPLY WITH EFFECT FROM 1 APRIL. PRODUCTS AFFECTED BY THE INCREASES ARE PETROLEUM WAXES, BITUMEN FOR EXPORT AND DOMESTIC SALES, TINNED KEROSENE AND BASE OILS. IN ADDITION, THE PRICE OF AVIATION FUEL HAS RISEN FROM NAIRA 1.32 TO NAIRA 5.28, AN INCREASE OF OVER 400%. THE RISE ALSO TAKES EFFECT FROM 1 APRIL.

DISTRIBUTION

IMF/IBRD
DR LUMLEY
MR POCOCK

ADVANCE COPIES TO
MIN ECON
MR ENOCH

ACTION OFFICER
MR ENOCH

LJC

UNCLASSIFIED

/. 3. THE INCREASE

3. THE INCREASE IN PRICES OF BASE OILS, THE RAW MATERIAL FOR PETROLEUM PRODUCTS, IS EXPECTED TO HAVE THE GREATEST IMPACT. PETROL HAS RISEN FROM 39.5 KOBO PER LITRE TO 42 KOBO DIESEL FROM 29 KOBO PER LITRE TO 35 KOBO SEMICOLON AND KEROSENE FROM 10 KOBO PER LITRE TO 15 KOBO. INCREASES IN THE VARIOUS GRADES OF BASE OIL (PER METRIC TONNE) ARE AS FOLLOWS:

100N/150N : FROM NAIRA 441 TO NAIRA 1127.75

250N : FROM NAIRA 445.00 TO NAIRA 1143.75

500N : FROM NAIRA 457.50 TO NAIRA 1191.75

BS : FROM NAIRA 473.50 TO NAIRA 1255.75.

4. THE INCREASES ARE EXPECTED TO BOOST THE NIGERIAN GOVERNMENT'S YEARLY REVENUE BY ABOUT NAIRA 4 MILLION. HOWEVER, THE REDUCTION OF OIL SUBSIDIES, IT WAS HOPED, WOULD RAISE NAIRA 2.5 BILLION TO PART FINANCE THE NAIRA 8.5 BILLION BUDGET DIFICIT. THE INCREASES IN THE PRICE OF BASE OIL ARE LIKELY TO RESULT IN FURTHER INCREASES IN THE COST OF PETROLEUM PRODCUTS DURING THE COURSE OF THE YEAR.

EWANS

CONFIDENTIAL

103376
MDLIAN 0381

CONFIDENTIAL
FM UKDEL IMF/IBRD WASHINGTON
TO ROUTINE FCO
TELNO 89
OF 152300Z APRIL 88
INFO ROUTINE LAGOS, ABIDJAN, PARIS

(PARIS FOR MOUNTFIELD)
(ABIDJAN FOR SUTHERLAND, AFDB)

IMF: NIGERIA

SUMMARY

1. FOLLOWING REPRESENTATIONS BY THE NIGERIAN DELEGATION TO THE MD, A NEW FUND MISSION WILL RETURN TO NIGERIA TO DISCUSS A POSSIBLE PROGRAMME IN END-MAY/JUNE. THE NIGERIANS DID NOT RAISE THE QUESTION OF ELIGIBILITY FOR THE ESAF.

DETAIL

2. RICHARDSON AND COMOTTO CALLED YESTERDAY ON MARK ALLEN (LEADER OF THE STAFF MISSION TO NIGERIA) TO DISCUSS LATEST DEVELOPMENTS IN RELATIONS BETWEEN THE FUND AND NIGERIA.

3. ALLEN SAID THAT THE NIGERIAN DELEGATION HAD DELIVERED A LETTER TO THE MANAGING DIRECTOR FROM THE PRESIDENT. THEY HAD PERSUADED THE MD TO SEND A NEW MISSION TO NIGERIA TO BEGIN DISCUSSIONS ON ANOTHER PROGRAMME. THIS WILL NOT LEAVE BEFORE THE END OF MAY AND WILL BE LED BY A NEW DIVISION CHIEF, JIMENEZ (ALLEN WILL BE MOVING INTO THE INTERNATIONAL CAPITAL MARKETS AREA TO REPLACE MAX WATSON). THE NIGERIANS DID NOT ENTER INTO SUBSTANTIVE DISCUSSIONS ON OUTSTANDING ECONOMIC ISSUES AND THEY DID NOT REPEAT DID NOT RAISE THE QUESTION OF ELIGIBILITY FOR THE ESAF (ALLEN SUGGESTED THEY HAD BEEN DISSUADED BUT DID NOT SAY BY WHOM).

4. THE RECENT PETROLEUM PRICE INCREASES WERE DESCRIBED BY ALLEN AS A HELPFUL FIRST STEP BUT, WHEN JUDGED AGAINST THE SIZE OF THE OVERALL SUBSIDY, WERE NEVERTHELESS 'PEANUTS'. ALLEN'S GREATEST WORRIES WERE HOWEVER RESERVED FOR THE QUESTION OF THE FOREIGN EXCHANGE AUCTION. THE FREE INTER-BANK MARKET RATE HAD OVER THE LAST FEW WEEKS MOVED DOWN FROM NAIRA 4.8 TO 5.5. ACCORDING TO THE STAFF'S LATEST CALCULATIONS, WHICH TOOK INTO ACCOUNT THE CONTINUED OVER-SUPPLY OF FOREIGN EXCHANGE AT YESTERDAY'S AUCTION, THE NIGERIANS CAN AFFORD TO PUT NO MORE THAN DOLLARS 79 MN. INTO EACH OF THE REMAINING AUCTIONS IN 1988 AND DOLLARS 82 MN.

NEXT YEAR. EVEN THESE FIGURES WERE BASED ON MANY OPTIMISTIC ASSUMPTIONS, SUCH AS A DOLLAR 16 PER BARREL AVERAGE OIL PRICE IN 1988 AND A DOLLAR 16.50 OIL PRICE IN 1989, PLUS A VARIETY OF FAIRLY GENEROUS REFINANCING AND NEW LENDING ASSUMPTIONS. ALLEN STRESSED THAT, EVEN WITH THE MOST GENEROUS RESCHEDULING - INCLUDING PREVIOUSLY-RESCHEDULED OFFICIAL DEBT AND WITH NO PAYMENTS TO COMMERCIAL BANKS - THERE IS NO WAY OF CLOSING THE FINANCING GAP WITHOUT BRINGING THE LEVEL OF SUPPORT FOR FOREIGN EXCHANGE AUCTION DOWN TO THE FIGURES HE QUOTED. HE WAS VERY DOUBTFUL THAT THE COMMERCIAL BANKS WOULD BE AT ALL FORTHCOMING TO NIGERIA, GIVEN THE UNHELPFUL NATURE OF THE LATEST RESCHEDULING PROPOSALS, WHICH CUT ACROSS PREVIOUS AGREEMENTS.

5. ALLEN WAS ALSO DISTURBED BY THE POSSIBILITY THAT THE NIGERIANS WOULD COMPLETELY DEFAULT, GIVEN THE FACT THAT UNDER THE PRESENT DEBT BURDEN THEY WOULD NOT DO ANY WORSE AND COULD PROBABLY DO MUCH BETTER. ACCORDING TO FUND SIMULATIONS, IF THE NIGERIANS WERE TO SERVICE ONLY THEIR DEBT TO THE WORLD BANK AND PROMISSORY NOTES, AND OTHERWISE REVERT TO CASH PAYMENTS FOR TRADE, IMPORTS COULD BE MAINTAINED OVER THE PERIOD TO 1995 AT A LEVEL SOME 14 PER CENT ABOVE THAT FOR A SCENARIO WHICH INCLUDED ORDERLY DEBT SERVICING.

6. FCO PLEASE PASS TO BATT AND LANKESTER (HMT), MAYES (BOE), DRUMMOND (FCO), BREACH (ECGD) AND HUDSON (ODA).

CASSELL

YYYY

DISTRIBUTION

160

MAIN 153

MONETARY

WAD

ADDITIONAL 7

MR WICKS NO 10 DOWNING ST
BATT, HM TREASURY
LANKESTER, HM TREASURY
MAYES, BANK OF ENGLAND

DRUMMOND, ERD
BREACH, ECGD LONDON
HUDSON, ODA

NNNN

CONFIDENTIAL

103235
MDLIAN 0358

CONFIDENTIAL CORRECTED VERSION ADDRESSEE ADDED.
FM UKDEL IMF/IBRD WASHINGTON
TO ROUTINE FCO
TELNO 88
OF 152300Z APRIL 88
INFO ROUTINE LAGOS, ABIDJAN, PARIS
(ABIDJAN FOR SUTHERLAND, AFDB)
(PARIS FOR MOUNTFIELD)
CHANCELLOR'S MEETING WITH OKONGWU AND AHMED
SUMMARY

1. THE CHANCELLOR MET NIGERIAN FINANCE MINISTER OKONGWU AND GOVERNOR AHMED YESTERDAY AFTERNOON. THE CHANCELLOR EXPRESSED UNDERSTANDING FOR NIGERIA'S DIFFICULTIES BUT STRESSED THAT AN IMF AGREEMENT WAS A SINE QUA NON FOR INTERNATIONAL SUPPORT. OKONGWU RE-AFFIRMED NIGERIA'S COMMITMENT TO THE ADJUSTMENT PROCESS: HE WANTED AGREEMENT WITH THE FUND. HOWEVER, SOME ITEMS WERE NON-NEGOTIABLE: NO FURTHER CUTS IN THE ALLOCATION TO THE FOREIGN EXCHANGE AUCTION WOULD BE POSSIBLE. THE NIGERIANS ARGUED ALSO THAT THE RECENT MORATORIUM WITH THE BANKS WAS DUE TO CASH CONSTRAINTS, AND THAT THE BANKS HAD BEEN GIVEN SEVERAL WARNINGS. OKONGWU ASKED FOR UK POLITICAL SUPPORT. NIGERIA WAS SEEKING A GREATER INTERNATIONAL POLITICAL SUPPORT FOR ITS EFFORTS. THE CHANCELLOR CONCLUDED BY REITERATING HIS HOPE FOR AN EARLY NIGERIAN AGREEMENT WITH THE FUND: THIS WOULD BRING ABOUT UK HELP AND WOULD IMMEDIATELY MAKE A BIG DIFFERENCE TO THE BANKS.

2. OVERALL, THE MEETING WAS AMICABLE THROUGHOUT, ALTHOUGH OKONGWU'S PERFORMANCE SEEMED HESITANT. NO MENTION WAS MADE OF ANY SPECIFIC NIGERIAN REQUESTS - SUCH AS IDA AND ESAF ELIGIBILITY - BUT THERE WERE SEVERAL GENERAL REFERENCES TO SEEKING UK POLITICAL SUPPORT IN THE FUTURE. THE NIGERIANS' APPARENT INTRANSIGENCE OVER THE FOREIGN EXCHANGE MARKET MAKES THE PROSPECT OF FUND AGREEMENT REMOTE. THERE WAS NO HINT OF ANY CONCESSION TO THE BANKS.

DETAIL

3. THE CHANCELLOR, ACCOMPANIED BY MESSRS CAINES, LOEHNIS, CASSELL, EVANS AND ENOCH MET OKONGWU (FINANCE MINISTER) WEDNESDAY AFTERNOON. OKONGWU WAS ACCOMPANIED BY AHMED (GOVERNOR OF CENTRAL BANK OF NIGERIA), ADEKANYE (ECONOMIC MINISTER-COUNSELOR) AND OGBA (SPECIAL ASSISTANT TO THE MINISTER).

4. AFTER AN INITIAL COMMENDATION FOR THE UK BUDGET, OKONGWU OFFERED SOME VIEWS ON THE SITUATION IN NIGERIA. HE

STRESSED THAT NIGERIA WAS NOW FIRM IN ITS RESOLVE TO UNDERTAKE ECONOMIC ADJUSTMENT: PERHAPS THERE WERE DIFFERENCES OVER THE TIMING AND MAGNITUDE OF THE MEASURES BUT NIGERIA WAS RESOLUTE ON ITS PATH. PETROLEUM SUBSIDIES HAD BEEN CUT: SERIOUS ATTEMPTS WERE BEING MADE TO CUT THE BUDGET DEFICIT, BOTH THROUGH EXPENDITURE CUTS AND REVENUE ENHANCEMENT.

5. THE CHANCELLOR WELCOMED THE PETROLEUM PRICE MOVES. HE EXPRESSED FULL UNDERSTANDING FOR THE ECONOMIC AND POLITICAL DIFFICULTIES FACED BY THE NIGERIANS. FOR HISTORIC AND OTHER REASONS THE UK HAD CONSIDERABLE GOODWILL TOWARDS THE NIGERIANS, AS SHOWN BY THE PRIME MINISTER'S VISIT. THE UK HAD HELPED IN THE PAST, AND WOULD IN THE FUTURE, BUT THIS HAD TO BE ON A FIRM BASIS OF POLICY. THE 1988 BUDGET HAD FRANKLY DISAPPOINTED. IT WAS OF PARAMOUNT IMPORTANCE THAT NIGERIA REACH AGREEMENT WITH THE FUND: THEN OTHER DOORS WOULD BE UNLOCKED. THERE WAS NO ALTERNATIVE BACK-DOOR BY WHICH NIGERIA COULD GET INTERNATIONAL SUPPORT WITHOUT FUND AGREEMENT.

6. OKONGWU RESPONDED BY FIRST SAYING THAT NIGERIA WOULD CONTINUE TO TAKE ACTIONS, NOT BECAUSE THE FUND WAS TELLING IT TO BUT BECAUSE IT WAS IN NIGERIA'S INTEREST NOT TO MISALLOCATE RESOURCES. THERE WAS NOW NOT MUCH DIVERGENCE OF VIEWS. BUT OKONGWU THOUGHT BRITAIN WOULD ALSO UNDERSTAND THE NEED FOR INCREASED ACTION IN RETURN. NIGERIA WAS NOT TRYING TO GO THROUGH THE BACK-DOOR, BUT WANTED POLITICAL SUPPORT TO ACCELERATE THE MOVES IT WAS TRYING TO MAKE. THERE WAS NO CONTRADICTION BETWEEN SEEKING A RELATIONSHIP WITH THE FUND AND BRITAIN TAKING POLITICAL LEADERSHIP FOR ASSISTANCE TO NIGERIA. NOTHING WOULD BE LOST, AND MUCH GAINED BY BRITAIN COMING OUT IN SUPPORT FOR NIGERIA: IN THIS CONTEXT, THERE WERE PARTICULAR ISSUES WHICH WOULD COME TO THE CHANCELLOR AND TO THE PRIME MINISTER LATER.

7. OKONGWU CONTINUED THAT, WHILST HE HAD TAKEN REVOLUTIONARY MEASURES AT HOME, HE HAD BEEN DISMAYED AT THE LACK OF SUPPORT OF THE INTERNATIONAL COMMUNITY. FOR INSTANCE, THE FUND HAD WANTED A DEVALUATION, AND NIGERIA HAD GONE FURTHER, TO A FREE FLOAT. ALSO, THE BANKS HAD BEEN WARNED THAT NIGERIA HAD INSUFFICIENT RESOURCES TO MEET ITS PAYMENTS OBLIGATIONS. INTEREST PAYMENTS HAD HAD TO BE STOPPED BECAUSE NIGERIA HAD INSUFFICIENT CASH AVAILABLE. IN RESPONSE TO A REQUEST FOR SUPPORT ON THIS, THE CHANCELLOR STRESSED THAT HE COULD NOT DICTATE TO THE BANKS. MR LOEHNIS NOTED THAT THE BANKS ATTACHED CONSIDERABLE IMPORTANCE TO A

NIGERIAN AGREEMENT WITH THE FUND, AND HAD BEEN PARTICULARLY DISAPPOINTED AT NIGERIA'S FAILURE TO SERVICE ITS LETTERS OF CREDIT.

8. MR CASSELL, TAKING UP OKONGWU'S EARLIER REFERENCE TO A FREE FLOAT, RECALLED THAT THE FUND WAS URGING THE NIGERIANS TO SUPPLY LESS FOREIGN CURRENCY TO THE AUCTION. OKONGWU RESPONDED THAT, AS DEBT COLLECTORS, THE FUND WOULD TAKE THAT VIEW: BUT THEY SHOULD RECOGNISE THE BASIC NEEDS OF THE ECONOMY. THE FOREIGN EXCHANGE ALLOCATION COULD NOT BE CUT FURTHER WITHOUT THE COUNTRY 'COMMITTING HARI KIRI'. AHMED RECALLED THAT THE FOREIGN EXCHANGE ALLOCATION HAD BEEN CUT SIGNIFICANTLY SINCE LAST YEAR. DOLLARS 120 MN. PER FORTNIGHT WAS THE MINIMUM ON WHICH THE NIGERIAN ECONOMY COULD SURVIVE, BUT THE FUND WANTED DOLLARS 95 MN.

9. AHMED ALSO RESTATED SOME OF THE GROUND COVERED BY OKONGWU, EXPLAINING THE BANK MORATORIUM. HE UNDERSTOOD THIS WAS A PARTICULAR DISAPPOINTMENT FOR THE US BANKS, BUT WAS INEVITABLE WITH THE FALL IN OIL PRICES THIS YEAR. THE BANKS' ECONOMIC SUB-COMMITTEE WOULD BE WELCOME TO COME TO CHECK THE FIGURES. ALL WAS, HOWEVER, NOT LOST: AS LONG AS THE BANKS DISCUSSED NUMBERS, AND WERE NOT STUCK ON AN AGREEMENT WHICH COULD NOT BE MAINTAINED, PROGRESS WAS POSSIBLE. AHMED WAS AWARE OF UK SUPPORT IN THE PARIS CLUB AS WELL AS IN FUND AND BANK BOARDS. THE SITUATION WITH THE BANKS WAS MORE DIFFICULT, BUT HE PERSONALLY FELT THERE WERE NO DIFFICULTIES WITH THE BRITISH BANKS.

10. MR CASSELL ASKED WHEN THE NIGERIANS EXPECTED THE NEXT FUND MISSION. AHMED THOUGHT THIS WOULD BE AROUND THE THIRD WEEK IN MAY, BUT SOME ITEMS - SUCH AS ROLLING BACK THE AUCTION MONEY - WOULD NOT BE NEGOTIABLE. NEVERTHELESS, WHEN MR CASSELL REPEATED THAT AGREEMENTS WITH THE FUND AND WORLD BANK WOULD BE THE KEY, AHMED ACKNOWLEDGED THAT THIS WAS INCONTESTABLE, AND CLAIMED NIGERIA WAS 'ALMOST THERE'.

11. THE CHANCELLOR CONCLUDED BY SAYING THAT HE WAS GLAD TO HEAR THE LAST POINT. ENCOURAGING STEPS WERE BEING TAKEN, ESPECIALLY AFTER THE 1988 BUDGET, WHICH HAD BEEN A MOVE IN THE WRONG DIRECTION. THE CHANCELLOR REPEATED HIS HOPE FOR AN EARLY FUND AGREEMENT, INDICATING THAT THIS COULD BRING ABOUT BRITISH HELP, AND THAT AN AGREEMENT WOULD IMMEDIATELY MAKE A BIG DIFFERENCE TO THE BANKS.

12. FCO PLEASE PASS TO MOUNTFIELD AND LANKESTER (HMT), MAYES (BOE), DRUMMOND (FCO), BREACH (ECGD) AND HUDSON (ODA).

CASSELL

CONFIDENTIAL

103235
MDLIAN 03

YYYY

DISTRIBUTION

160

MAIN

154

MONETARY
ERD [-]

WAD

ADDITIONAL

6

MR WICKS NO 10 DOWNING ST
MR MOUNTFIELD HM TREASURY
MR LANKESTER HM TREASURY

MR MAYES BANK OF ENGLAND
MR BREACH ECGD
MR HUDSON ODA

NNNN

CONFIDENTIAL

134071
MDLIAN 2832

CONFIDENTIAL

FM LAGOS

TO PRIORITY FCO

TELNO 425

OF 261334Z APRIL 88

AND TO PRIORITY HMT, BANK OF ENGLAND, UKDEL IMF/IBRD WASHINGTON

AND TO PRIORITY DTI, ECGD, ODA

NIGERIAN ECONOMIC SITUATION

SUMMARY

1. HUSAIN, WORLD BANK REPRESENTATIVE IN LAGOS, CLAIMS THAT THE NIGERIANS ARE CONTINUING TO GRASP ECONOMIC NETTLES BUT SAYS THAT THEY WILL CONTINUE TO NEED SYMPATHETIC TREATMENT FROM THE INDUSTRIALISED COUNTRIES.

DETAIL

2. HEAP (MINISTER) CALLED ON HUSAIN AT THE LATTERS REQUEST ON 25 APRIL. HUSAIN'S OBJECTIVE APPEARED TO BE TO BRING US UP TO DATE WITH BANK AND FUND THINKING AND TO ENCOURAGE US TO BE SYMPATHETIC AND FLEXIBLE IN OUR APPROACH. HE SAID THAT A BANK DELEGATION WILL BE VISITING LAGOS AT THE END OF THIS MONTH OR THE BEGINNING OF MAY AND HE WAS VERY CONFIDENT THAT THIS VISIT WOULD SEE THE FINAL ARRANGEMENTS MADE FOR THE WORLD BANK TRADE POLICY LOAN WHICH HAS BEEN UNDER DISCUSSION FOR WELL OVER SIX MONTHS. HE SAID THAT AN IMF DELEGATION WILL VISIT LAGOS LATER IN MAY AND HE WAS EQUALLY CONFIDENT THAT WITH THE WORLD BANK LOAN BY THEN IN PLACE THAT THEY WOULD BE ABLE TO ENDORSE NIGERIA'S ECONOMIC REFORMS.

3. HUSAIN SAID THERE WERE A NUMBER OF REASONS FOR THIS OPTIMISM. THE FIRST WAS THE RECENT INCREASES IN PETROLEUM PRICES. HE SAID THAT HE ACCEPTED OUR ESTIMATE OF ABOUT NAIRA 300M OF INCREASED REVENUE FROM THE INCREASES ANNOUNCED SO FAR. HOWEVER HE SAID THAT THERE WAS NO DOUBT AT ALL THAT THE NIGERIANS PLANNED A SUCCESSION OF FURTHER INCREASES AND EVEN ON A CONSERVATIVE ESTIMATE OF HIS KNOWLEDGE OF THEIR PLANS, WITH FURTHER INCREASES AT LEAST QUARTERLY, THE ADDITIONAL SUM RAISED WOULD BE IN THE ORDER OF NAIRA 1BN. HE SAID THE GOVERNMENT HAD ALSO TAKEN FIRM DECISIONS TO CURB EXPENDITURE. A MAJOR CUT WAS BEING MADE IN STEEL PROJECTS PARTICULARLY IN AJAOKUTA. OTHER PROJECTS WERE BEING DELAYED AND PAYMENTS OWING TO CONTRACTORS WERE BEING SPREAD OUT. HEAP COMMENTED THAT

CONFIDENTIAL

134071
MDLIAN 2832

THIS WAS ENCOURAGING NEWS BUT SAID THAT WE WOULD NEED SOME FIRM EVIDENCE OF SUCH CUTBACKS BEFORE IT WAS LIKELY TO CHANGE OUR OVERALL ASSESSMENT.

4. HUSAIN COMMENTED THAT HE DID NOT VIEW WITH TOO MUCH ALARM THE STUDENT AND OTHER DEMONSTRATIONS AGAINST THE PETROLEUM PRICE INCREASE. HE SAID THAT THE MAIN THING WAS THAT THE GOVERNMENT HAD BITTEN THE BULLET AND OTHER INCREASES WOULD FOLLOW. HE SAID HE THOUGHT IT A PITY THE GOVERNMENT HAD NOT MADE LARGER INCREASES SINCE HE THOUGHT THAT OPPOSITION WOULD HAVE BEEN NO WORSE HAD THEY DONE SO. HE THOUGHT THE NEXT INCREASE WOULD NOT EFFECT AVIATION FUEL, WHICH HAS JUST GONE UP BY ABOUT 250 PER CENT, NOR KEROSENE WHICH HAS GONE UP BY 25 PER CENT, BUT WOULD SEE A BIGGER INCREASE IN THE RETAIL PETROL PRICE.

5. HUSAIN WAS CONCERNED ABOUT THE ATTITUDES OF THE LONDON AND PARIS CLUBS. HE SAID THERE REALLY WAS NO ALTERNATIVE TO RESCHEDULING BECAUSE THE NIGERIANS SIMPLY COULD NOT MEET THEIR CURRENT OBLIGATIONS. IN RESPONSE TO QUESTIONS HE SAID THAT NO ONE IN THE MINISTRY OF FINANCE NOR DODAN BARRACKS ADVOCATED A RENUNCIATION OF DEBTS. THEY WERE MORE RESPONSIBLE THAN THAT. HOWEVER HE THOUGHT THE CREDITOR COUNTRIES WOULD HAVE NO OPTION BUT TO TAKE ACCOUNT OF THE REALITIES OF THE NIGERIAN SITUATION. HE SAID HE THOUGHT THE VIEWS OF BRITAIN AND JAPAN WERE PARTICULARLY IMPORTANT SINCE THEY WERE FOREMOST AMONGST NIGERIA'S FEW FRIENDS.

6. ON NIGERIA'S ACCEPTANCE OF ESAF FUNDS, IF CLASSIFIED BY THE BANK AS IDA - ELIGIBLE, HUSAIN SAID THAT OKONGWU HAD TOLD HIM THAT HE WAS INTERESTED IN PRINCIPLE IN THIS, THAT HE WOULD NOT MAKE UP HIS MIND WHETHER TO ACCEPT SUCH FUNDS UNTIL AND UNLESS THE MONEY WAS IN PLACE AND AVAILABLE, AND THAT THE FINAL DECISION WOULD DEPEND ON THE CONDITIONS IMPOSED. HUSAIN COMMENTED THAT OKONGWU WAS CLEARLY ANXIOUS THAT THE NIGERIANS SHOULD NOT BE SEEN TO BE ACCEPTING TOUGH CONDITIONS IMPOSED FROM THE OUTSIDE, AS IN THEIR ATTITUDE TO THE IMF STAND-BY FACILITY, BUT HIS GUESS WAS THAT NIGERIANS WOULD WELCOME AND ACCEPT ESAF FUNDS.

EWANS

YYYY

CONFIDENTIAL

134071
MDLIAN 2832

DISTRIBUTION

149

MAIN 148

MONETARY

WAD

ADDITIONAL 1

MR WICKS NO 10 DOWNING ST

NNNN

Thanks. I have no conf. in the Nignans, and am strong in the Bank of England & the other government departments concerned, and also a separate meeting I had with officials from the World Bank.

CONFIDENTIAL

Ch. V. depressing - and 'X' (para. 6 of this note) is disturbing. Important background for your meeting with Camdessus.

25 9/5

From: T P Lankester
Date: 9 May 1988

CHANCELLOR

cc

Chief Secretary
Economic Secretary
Sir P Middleton
Mr Anson
Sir G Littler
Mr Scholar
Mr Evans
Mr Mountfield
Mr Bottrill
Mr Davis
Ms Noble
Mr Walsh
Mr Mowl
Mr Cassell

NIGERIA

I attach a paper about Nigeria, prepared by Mr Bottrill after a meeting I took last week with the Bank of England and the other government departments concerned, and also a separate meeting I had with officials from the World Bank.

2. This paper concludes that the Nigerian balance of payments gap this year and next is so wide that it can only be bridged by exceptional measures. These are:

- a. A very generous bank rescheduling, including a 'new money' package which is going to be difficult to sell to the commercial banks.
- b. A very generous Paris Club rescheduling, including 100 percent of all principal and almost all interest falling due this year and next.

CONFIDENTIAL

c. As a prerequisite for both of these, substantial adjustment measures by the Nigerians to be approved by the IMF. These would include a fiscal correction amounting to 4 - 5 per cent of GDP in a full year, and a willingness to let the naira depreciate again. In addition, Nigeria would probably need to drop its political objections to taking IMF money, and actually make a drawing.

3. What are the prospects? The main problem is the attitude of the Nigerians themselves. The reflationary 1988 budget, the refusal to hold down the naira, the renewed build-up of arrears and the failure so far to take any significant fiscal action are not encouraging. Okongwu's attitude when you saw him in Washington was pretty depressing (particularly when he said that the size of the foreign exchange auction was 'not negotiable'). The recent riots in Northern Nigeria - whatever their real cause - will make him and Babangida even more cautious in taking the adjustment measures that are needed. Moreover, although both men almost certainly recognise that less adjustment now accompanied by a continued build-up of arrears to Nigeria's creditors would be damaging for Nigeria in the medium-term, such a policy must have its attractions in the short-term. They seem to be under increasing pressure from other members of the Government to see it that way. Unlike Brazil, the Nigerians have no trade credit to lose if they stop servicing their debts because virtually all their imports are now done on a cash basis; and the inflows they might optimistically expect this year if they take the necessary adjustment measures are likely to be less than their debt service obligations.

4. My own view, which is shared by the FCO, is that there is a considerably less than even chance that Nigeria will reach agreement with the IMF - at least on a package that is remotely credible.

CONFIDENTIAL

5. If there is no IMF agreement, what are the implications for the creditors? One possibility would be a formal default, whether declared by the Nigerians themselves or triggered by the banks individually or collectively. On the whole, I think this fairly unlikely. The more likely scenario is one in which the Nigerians simply stop paying their debt service or continue paying nominal amounts.

6. Five major UK banks have about £700 million in exposure in Nigeria, and they have already made specific provisions of 40 percent. The more likely scenario mentioned above - involving loss of interest payments and probably an increase in provisioning to 60 percent - would obviously hurt the banks, but for four of them at least it should be manageable. The position of the fifth, however, is more questionable, and we will let you have a separate note on this one from the Bank of England.

7. Failure to reach agreement with the IMF would probably also be accompanied by a halt to interest and principal payments on export credit. For ECGD, this would mean an additional call on the PSBR in 1988/89 for some £250 million, and possibly a further £450 million. (The latter would arise if we were unable, because of the deterioration in relations with Nigeria, to complete the refinancing in respect of the 1987 rescheduling agreement.)

8. What can we do to avert this outcome? There will be pressure from the Nigerians and from some of the other creditors for a weak IMF programme. This could be in the form of a regular Standby Arrangement or possibly a 'shadow' programme (ie IMF monitoring without IMF money). In either case, this might form the basis for agreements with the banks and the Paris Club. But a weak programme would at best provide only temporary respite; and creditors (including this time the IMF if Nigeria were to draw Fund money) would simply be digging themselves a deeper hole.

CONFIDENTIAL

Bearing in mind also our stance on IMF conditionality in relation to other countries, I believe we must insist on a Fund programme that is viable. (This does not mean that we should necessarily insist on the full 4 - 5 percent of GDP fiscal correction in 1988. Since we are now so far into the year, this would need to be spread into 1989 to have a chance of being implemented.)

9. Another possibility is that Nigeria might be offered some concessional finance. This could help fill the financing gap or somewhat reduce the amount of adjustment needed. It might also act as an incentive to the Nigerians to undertake the necessary measures.

10. The World Bank have asked us very tentatively if we would consider co-hosting with them a donor group. Such a meeting would happen only after an IMF programme was in place (but the offer would be made beforehand, to persuade the Nigerians to sign). The meeting would produce a package, in which the largest components would be the IBRD and other MDB loans. The World Bank have said that Nigeria is likely to be declared eligible for IDA, and that - if there were a donor group - they might be willing to allocate some IDA funds. This in turn might tempt the Japanese to put their half-promised \$200m on the table and perhaps more. (But they might do this without such a special meeting anyway.) Other bilateral donors, notably the FRG and Italy, might be prepared to follow suit. But we would have to come in too, and our sponsorship of a donor group would probably turn into a continuing aid commitment.

11. There is no money for Nigeria in the bilateral aid budget at present, beyond £2 or 3 million for technical cooperation. ODA have made it clear at official level that they would not recommend a reallocation of existing aid budgets to help Nigeria: this could only be at the cost of other African clients. Indeed, to find the necessary sums (£30/40 million would perhaps be the required level of annual contributions, given the scale of the problem) this would be very difficult. Any pressure from Treasury Ministers is

CONFIDENTIAL

therefore likely to meet with an immediate response from Sir Geoffrey Howe that we should find additional money from the Reserve.

12. There is no need to take a decision on this now - that can wait until after the Fund mission when we should have a clearer idea of what the Nigerians will or will not do and of how much support there might be for a donor group. But my preliminary view is that the stakes for the UK are not sufficiently high, and the incentive effect for the Nigerians is unlikely to be sufficiently strong, to justify our agreeing to do this - and especially so if ODA are unwilling to find the money.

13. The one other thing we can do is to maintain the bilateral pressure. This would include making it clear that the £200 million of new medium-term cover being negotiated by ECGD will not become effective unless there is agreement with the IMF. In addition, the Prime Minister might at the right moment - probably at the end of the Fund mission - send a message to Babangida.

Conclusion

14. Nigeria's overall economic situation is deteriorating, and the proposals for their reaching agreement with the IMF, the banks and the Paris Club do not look at all good. We should encourage the IMF and the World Bank to do all they can to secure an adequate programme of adjustment, and we should keep up the pressure on the Nigerians ourselves. We should discourage the IMF from agreeing a weak programme even if this entails mounting debt service arrears. Such an outcome, however, would be costly to ECGD and to the banks, and we will need to monitor closely the position of one bank in particular. We should reserve judgement for the time being on whether it would be worth the UK mounting a donor group to provide Nigeria with concessional finance.

12
T P LANKESTER

NIGERIA

The external financial position of Nigeria is deteriorating, and the options for both the Nigerian Government and its creditors are becoming increasingly stark. Both the IMF and the World Bank have expressed their concern to us at the Nigerians' current negotiating stance. A World Bank team is due to go to Lagos shortly. An IMF team will follow probably at the end of May, although the Staff do not expect to agree a programme. A further Fund visit will be necessary and no programme is likely until at least September. UK policy has been to encourage Nigeria to agree a Fund programme. This paper considers how best to improve the prospects of achieving that end. It also considers the consequences if negotiations with the international financial institutions break down.

The economic background

2. The onset of global debt problems in 1982 was followed by a sharp reduction in external finance available to Nigeria. This was compounded by the fall in oil prices in 1986. The Nigerians have been forced to cut imports and constrain domestic demand at the cost of lower output. The volume of imports fell by 70 per cent between 1982 and 1987, real domestic demand by more than 30 per cent and GDP by almost 20 per cent. Despite these retrenchments, Nigeria's external debt almost doubled from \$16 billion at end-1982 to \$30 billion at end-1987. This, together with the halving of export earnings, pushed the debt service ratio up from less than 20 per cent in 1982 to a peak of 40 per cent in 1986 before rescheduling reduced it at least temporarily to around 30 per cent in 1987.

Table 1: GDP, domestic demand and imports

	1982-87 annual average	1987
Real GDP	-3½	-2
Domestic demand	-8	1½
Import volume	-20	-9
Consumer prices	16½	12½
Federal budget deficit (% of GDP)	7	8

3. These problems led Nigeria to launch a belated Structural Adjustment Programme in September 1986. This established a more flexible foreign exchange system, which resulted in an 80 per cent devaluation of the naira. This was supported by the abolition of Government export monopolies and price controls. Macro-economic policies, however, have failed to reinforce adequately these measures. Interest rates were deregulated in August 1987 with an increase in the central bank discount rate and in deposit rates to restore positive real rates. Fiscal policy, however, was too lax with a Federal budget deficit in 1987 of some 8 per cent of GDP, of which about 3 per cent probably represented interest arrears to external creditors. The rest was financed by the domestic banking system leading to a sharp increase in domestic credit in the latter part of 1987 and the breakdown of the IMF programme.

4. These unfavourable policy developments have continued in 1988. The Federal budget, introduced at the beginning of the year, is excessively expansionary again and the deficit is expected by the Fund to remain around 8 per cent of GDP. At the same time, the central bank's discount rate has been reduced to 12½ per cent. Commercial bill rates remain at 15 per cent, but relaxation of last year's wage freeze implies that inflation has probably now accelerated to 15-20 per cent, so that real interest rates have become negative once again. In addition, the authorities have provided excessive amounts of foreign exchange to the fortnightly auction and there has been a tendency for the naira to appreciate. The official rate of N4.3 to the dollar compares with an interbank rate of N5½-6.

5. Figures on developments in both the real economy and the recent balance of payments are scarce. GDP probably fell last year as a sharp fall in oil output more than offset some recovery in non-oil production. The naira's depreciation has apparently encouraged production in industries related to agriculture and in import substitution, including textiles, rubber and brewing. Food imports are being replaced by higher domestic output of maize, sorghum and millet. Output in industries such as car assembly, however, which rely on imported inputs, has remained depressed. The current account deficit is estimated to have been about \$1¾ billion in 1987. A trade surplus of about

\$1 $\frac{3}{4}$ billion was achieved as a result of improved oil prices, rising non-oil exports and a continued decline in the volume of imports. The trade surplus, however, was more than offset by interest payments due to external creditors of more than \$2 billion and net payments abroad for imported services.

6. No figures are available so far for the current year, but it seems likely that the authorities are aiming for some growth in both domestic demand and output - although the extent to which this will be possible will depend heavily on whether external financing constraints force a contraction in the latter part of the year. The lower level of oil prices so far this year compared to 1987 is likely to reduce the dollar value of exports. These still account for 90 per cent of exports so that even if non-oil exports continue to rise, total exports are likely to be lower than last year. The dollar depreciation is also resulting in a rise in Nigeria's import prices - by perhaps 10 per cent. Interest payments due will be reduced by the new method of calculating payments on promissory notes although the dollar cost of servicing Nigeria's substantial non-dollar debt will rise as a result of the dollar's fall, so that total interest payments due will remain above \$2 billion.

7. Nigeria's foreign exchange reserves by the end of February had fallen to about \$0.6 billion but this includes some \$0.4 billion in the Bank of England special account to service Paris Club creditors' arrears so that available reserves are only about \$0.2 billion or about two weeks' imports.

8. The inescapable conclusion is that a further fall in the volume of imports is necessary if the current deficit is to be contained within the limits of external finance available. Such rough calculations as we have been able to do, however, suggest that the Government's provision of \$120 million a fortnight to the foreign exchange auction is designed to sustain imports at least at last year's level. This depends heavily, however, on Nigeria's ability to obtain additional foreign credits in the latter part of the year.

External finance

9. The prospects for external finance to Nigeria are extremely uncertain in view of the current absence of a Fund programme

which undermines the likely contribution of official creditors, and the poor state of relations with commercial banks following Nigeria's request in March for a moratorium and exceptionally favourable rescheduling terms. We have tried to consider three scenarios, and these are summarised in table 2 with more detailed figures in the annex. All the scenarios are subject to wide error margins. The first would be based on a conventional Fund programme with substantial adjustment by the Nigerians and support required from all creditors. This process would need to continue in 1989 to restrain the current deficit further and rebuild external reserves. The second which has been suggested tentatively by the IBRD, would be based on a shadow programme with even greater contributions from creditors - either through rescheduling or informal arrears. The last would have no Fund agreement and entail the continued accumulation of substantial arrears to creditors.

Table 2: External financing scenarios 1988

\$ billion	IMF programme	Shadow IMF programme	No IMF programme Arrears/ default
Current balance*	-1.6	-1.9	-1.6
IMF (net)	0.3	0.0	0.0
Multilaterals (net)	0.9	0.9	-0.1
Paris Club (net)	0.6	1.1	1.2
London Club (net)	0.3	0.3	0.3
Cash arrears	-0.6	-0.6	-0.1
Direct investment	0.4	0.4	0.3
Change in reserves (==gain)	-0.3	-0.3	0.0
<u>Memorandum item</u>			
Import volume % change	-10	-5	-9
Fortnightly auction in 1988 H2 (\$m)	100	120	125

* Includes interest on a due basis.

10. Under the first scenario, Nigeria would be able to finance a current deficit of about \$1½ billion and regularise its position with creditors. This would require substantial efforts by creditors and sharp policy adjustments by the Nigerians.

11. It would be helpful if Nigeria drew on IMF resources - although if no programme is agreed until the autumn the amounts would be small. On the basis of a similar SBA to last year's of SDR650 million and assuming Nigeria drew two out of five tranches in September and December this would provide about \$300 million in 1988 with a further \$600 million in 1989. Fund resources would all need to go to rebuild Nigeria's reserves. If Nigeria also sought a CFF for shortfalls in oil earnings (taking Indonesia and Ecuador as precedents) this might provide further resources. For the moment, however, it seems best to work on the basis of an SBA alone. There is no possibility of an EFF until Nigeria establishes a track record. There is no chance of ESAF money in 1988. Even if Nigeria became eligible for IDA, it would not automatically become eligible for ESAF. The World Bank seems keen to declare Nigeria eligible for IDA without making resources available in the hope that this might trigger an ESAF drawing. The Fund is likely to be most reluctant.

12. If Nigeria had a Fund programme, this would be supported by the multilateral development banks. The IBRD currently expects to disburse only some \$500 million net, including \$200 million for projects and \$500 million for the trade and investment policy loan, offset by \$200 million of repayments. Alongside this, however, the Japanese have a special \$200 million co-financing loan and the African Development Bank a further \$200 million with an additional small contribution from the EIB. The World Bank also has up to \$3 billion of loans in the pipeline under discussion. For present purposes, we have assumed a round figure of \$0.9 billion net from the multilaterals, although this could be subject to error on either side.

13. Paris Club creditors are due to receive a total of about \$1.9 billion in 1988 principal repayments, short-term repayments, post-1986 project arrears and interest arrears. The Fund would insist that this last is paid. Governments might then also

need to provide some \$500-\$600 million in new money in the form of rescheduled interest and new credits. This would bring their total net contribution to about \$400 million. Table 3 shows the major export credit agencies' amounts at risk. ECGD had about a quarter of Berne Union's total exposure of \$10½ billion at end-September 1987, and might be expected to provide a significant share of the new credits. The £200 million credit line being negotiated with Nigeria would cover this, although not all would be disbursed this year. The French, Japanese, Germans and Italians in that order might be expected to make up the rest. ECGD is not receiving current interest and along with other agencies is off medium-term cover. ECAs might be expected to return cautiously to cover if an adequate IMF programme were agreed.

Table 3: Export credit agencies' amounts at risk*

	\$ billion	Per cent
COFACE	3.6	34
ECGD	2.5	24
JAPAN Ex-Im/MITI	2.0	19
HERMES	1.2	11
SACE	0.4	4
Others	0.8	8
Total	10.5	100

* End-September 1987. Includes principal and interest.

14. The position of the commercial banks is the most difficult. They are receiving current interest at least up to June but have \$500 million of interest arrears due, as well as almost \$700 million of letters of credit under the 1986/7 agreement and \$700 million of 1988 maturities. If banks were to accept to reschedule again the letters of credit and make a small net contribution to Nigeria's overall financing needs they would still need to provide perhaps \$800 million of new money if they are to receive their interest arrears. They are currently not contemplating anything of this magnitude and are reluctant even

to reactivate last year's promised \$300 million new money. At this stage, the banks may well be unsighted as to the magnitude of the problem. This will not make it easier for them to tackle it.

15. In addition to the major creditor groups, the Nigerians are due to repay some \$600 million to other non-bank creditors, to cover private sector, public sector and debt service arrears from 1987.

16. The magnitude of the effort that would be required from creditors is clear from these figures, but substantial policy changes would also be needed from the Nigerians. The Fund's objective is apparently to reduce the Federal deficit from a projected N9½ billion to N3 billion. This involves additional revenue or expenditure cuts equivalent to about 4-5 per cent of GDP and a slowdown in credit growth to the Federal Government to about 15 per cent.

17. The Fund's target fiscal measures include:

- (i) Naira 2½ billion from reduced petrol subsidies. The recent petrol price rise apparently raises only Naira 300 million. Reports some time ago suggested the Government planned further action to bring this to Naira 1 billion - although this must be more doubtful following the recent strikes. Petrol prices in Nigeria are only 10-20 per cent of those in neighbouring countries.
- (ii) Naira 1.7 billion through Federal withholding at source of revenues due to states in order to cover the States' interest payments to external creditors. The States have avoided their full obligations in the past, and since they cannot borrow, reduced revenues would imply lower spending.
- (iii) Naira 1 billion reduction in capital spending. A side effect of this might be that IBRD and ECA disbursements might be curtailed if projects are delayed.

- (iv) Reduced transfers to parastatals which would be encouraged to adopt more flexible prices.
- (v) Reductions in dedicated spending, eg by the NNPC which sidestepped controls on the oil account by exporting condensates instead of crude.

18. It is difficult to quarrel with the Fund's fiscal package. Two items, however, are missing. One is current public spending on both staff and procurement. The other is measures both to broaden taxes and improve their collection. In the absence of the latter there is little scope for raising additional revenue since oil receipts account for almost 80 per cent of Federal revenues.

19. The other main sticking point with the Fund is likely to be the exchange rate and the provision of funds to the fortnightly auctions. Our calculations suggest that the Central Bank of Nigeria might receive some \$6½ billion in foreign exchange this year made up mainly of \$4½ billion from oil receipts, disbursements from the multilaterals and small contributions from the interbank market. If the Nigerians met all the interest payments due and at least principal payments to the IBRD, the fortnightly auction allocation would have to be reduced from the present \$120 million to \$80 million or less in the second half of the year. Import volumes would need to be cut drastically. In the present scenario with some Fund drawing and some interest relief from both the Paris Club and banks, the amount available for the auction would still need to be cut to \$100 million a fortnight and import volumes would need to be reduced by 10 per cent for 1988 as a whole implying an even sharper cut in the second half of the year. Even if this was achieved by new budgetary measures, a depreciation of the naira would probably still be needed. Okongwu, however, has told the Chancellor, the Fund and the World Bank that the auction allocation is non-negotiable.

20. Against this background, the Fund and the World Bank are concerned about the prospects of agreeing a Fund programme.

21. An alternative scenario mooted in slightly different forms by the IBRD and the IMF is that the Nigerians should proceed without drawing on the IMF but with perhaps a shadow Fund programme financed voluntarily or involuntarily by creditors agreeing to reschedule all principal and most interest payments coming due. The IBRD believes that this would allow the Nigerians to maintain the foreign exchange auction at \$120 million a fortnight. Nigeria could finance a significantly larger current deficit at \$1.9 billion. The volume of imports, however, might still need to fall. The net contribution of Paris Club creditors would increase sharply to close to \$1 billion with a call to reschedule most of current interest. This would be a high price to pay for a doubtful adjustment effort. The next stage would need to be a sharper adjustment in 1989.

22. The third scenario envisages no agreement between Nigeria and either the Fund or other creditors. Arrears would accumulate whether a default was called or not. There would be no Fund money. Disbursements by the multilaterals would certainly be curtailed although it is not clear whether they would cease entirely. The IBRD might continue to provide at least project finance. Net involuntary contributions from the Paris Club and commercial banks would reflect current interest arrears. Interest to other private creditors would also not be paid - with the possible exception of promissory notes. The Nigerians might be able to finance a level of imports slightly higher than under a Fund programme but lower than under the shadow programme. The volume would still fall.

Policy issues

23. None of these scenarios offers an easy options for either Nigeria or its creditors. The UK's response needs to be considered against the background of Nigeria's internal political situation and our bilateral relations. Politically, Babangida appears to be in reasonably strong position. But he clearly faces considerable pressures from a variety of sources to pull back further from his structural adjustment programme. The demonstrations following the recent petrol price increases do not in themselves appear to have had any significant affect

on Babangida's grip on power. But they are bound to be used by those hostile to his leadership and by those within the AFRC who remain opposed to his economic policies as evidence that further moves in this direction cannot be tolerated without widespread political unrest. This could lead to a further weakening of Babangida's commitment to structural adjustment and an agreement with the IMF which remains deeply unpopular in Nigeria.

24. The UK's bilateral relations with Nigeria, which have been steadily improving since Babaginda took office in 1985, received a substantial boost with the Prime Minister's visit in January and the Chevening talks in March. The Prime Minister and Babangida established a good rapport, and she now takes a close interest in Nigerian developments. On the economic front, she commented before the Chancellor's meeting with Okongwu that she hoped the Chancellor would be 'as helpful as possible - and a little more'. Babangida and his Ministerial colleagues are looking to HMG to provide support not only bilaterally but also in their negotiations with the IMF, the Paris Club and the commercial banks. If they conclude that these are not forthcoming, there must be a risk that this will precipitate another serious downturn in our political relations.

25. Another factor is that although Babangida appears to remain secure, his hold on power cannot be taken for granted. If he is toppled, assuming that he has continued on his present path, his opponents may well feel obliged to pursue policies radically at variance with those recommended by the Fund and us. While it may not be easy for the IMF and external creditors to deal with Babangida, they would find any likely successor almost certainly more difficult, and resumption of a satisfactory agreement delayed for at least a couple of years if not indefinitely. In short, Babangida is, from our point of view and that of the IMF, the best President Nigeria has got.

26. Against this background, we need to consider how best to implement our preferred policy to persuade the Nigerians to accept a Fund programme. This will clearly be difficult. We shall need to exert maximum leverage on President Babangida

but we might also have to be able to show him that we and other creditors can deliver an adequate financing package if he implements a Fund programme. Elements of such a policy would include

- (i) Agreement with the IMF on the key elements of a programme - including budgetary and exchange rate measures. Reduction in petrol subsidies will inevitably be part of the package but the Fund may also need to consider other revenue-raising measures including the effective collection of existing taxes. Liberalisation of the exchange rate system will in time imply probably reform of the auction system and greater reliance on the interbank market. The immediate objective must be to ensure that the helpful price signals to producers of non-oil exports and of import substitutes are not reversed by allowing the naira to become over-valued. This is essential if the current deficit is to be reduced further next year. Any Fund programme concluded later this year should run to the end of 1989 with the expectation of a follow-on arrangement in later years. In the first place, this should be an SBA. An ESAF might only be considered subsequently if Nigeria is judged eligible both on grounds of poverty and performance - although this would raise difficult issues of access limits for the existing list of ESAF recipients. It would be desirable that Nigeria should draw Fund resources. These should go to rebuild reserves in both 1988 and 1989. In fact, the Nigerians might be persuaded to view Fund money in this light, ie they have both an asset and a liability so that their total net debt does not change.
- (ii) We should need a clear indication from the World Bank on their contribution over the next two or three years. The Bank is currently considering projects and structural loans up to the total of £3 billion. These include the \$500 million trade and investment loan, as well as a prospective \$500 billion loan to improve the working of the financial market. Many of these loans will take time to organise but we should expect the World Bank

to be a major contributor to Nigeria in the medium-term. We understand that the World Bank management is ready to declare Nigeria eligible for IDA funds. It would be desirable for us to support this. The amounts available, however, would probably be small initially and we should have to consider the conflict with the needs of other IDA recipients, particularly in sub-Saharan Africa.

- (iii) Generous Paris Club rescheduling is certain to be needed. All principal repayments, including previously rescheduled debt will need to be rescheduled again. Any new contribution in the form of disbursements under existing commitments, provision of new credits or rescheduling of interest due depends partly on whether the IMF provides resources. It also depends on the timing of any Fund agreement. The smaller any Fund contribution and the later in the year, the greater is likely to be the need to reschedule not only current interest but also moratorium interest. On any realistic scenario Paris Club creditors are likely to have to increase their exposure by \$ $\frac{3}{4}$ -1 billion. ECGD is currently negotiating a £200 million line of credit with Nigeria. Our view is that this should not be activated until Nigeria has signed a Letter of Intent with the Fund. ECGD may seek a less rigorous interpretation but we believe that withholding new credits is one of the few levers that Paris Club creditors have in the present situation. We should be wary of any Nigerian attempt to split ECAs. Brazil tried this and failed.
- (iv) The contribution from commercial banks will also need to be substantial including rescheduling maturities becoming due and letters of credit arrears and providing enough new money to cover their 1987 interest arrears and make a small contribution to the overall financing gap. This implies about \$800 million in new money, including the \$320 million promised last year. This will be a difficult package to sell - particularly as banks are currently unsighted on the scale of it. They

will expect a briefing from the Fund Staff on their return from Lagos in late June before the banks' 30 June roll-over deadline expires.

- (v) There is virtually no scope for any increase in bilateral aid for Nigeria this year. The FCO and ODA advise that re-allocation of existing priorities would be extremely difficult. Any attempt to provide more aid therefore would certainly provoke an undesirable bid to increase the aid budget. The IBRD has suggested tentatively that the UK might organise a donors' group for Nigeria. This, however, would need a significant contribution from HMG over a number of years, and it is difficult to be confident that enough other countries would be willing to join to provide large sums for Nigeria.
- (vi) It may be essential to ask the Prime Minister to intervene with Babangida later in the year when/if the Fund is close to agreement on a Letter of Intent. In the meantime, we should encourage the Nigerians to co-operate with the Fund.

27. A shadow IMF programme with informal arrangements with creditors is unattractive. In order to make it work, it would require increased new money from all creditors in return for probably only limited adjustment. Neither the Paris Club nor banks would be likely to agree to the substantial contributions implied. It is difficult to see how a credible shadow programme could be devised which allowed the Nigerians to sustain the foreign exchange allocation at \$120 million. This would inevitably lead to the naira becoming increasingly over-valued as inflation continued.

28. The default/arrears scenario could take several forms. The Nigerians could declare a unilateral moratorium on interest and principal payments, or could simply allow arrears to mount without a formal announcement. Alternatively an individual bank or collection of banks could call a default.* Finally,

*NOTE: We understand that the US-based European-American Bank, owned by a consortium of European banks including Midland, is threatening to call default if payments overdue to it under the 1978 jumbo syndicated loan are not made quickly. EAB is not a signatory to the recent rescheduling agreements but its shareholder banks are and may put pressure on EAB.

Nigeria could repudiate its debt. This, however, does not seem probable at present so it is perhaps best to focus on the effects of a temporary moratorium or build-up of arrears. The considerations for the UK would be:

- (i) We and other creditors would need to decide whether to press the IBRD and other multilaterals to halt disbursements. The IBRD's \$500 million trade and investment loan would not go ahead without a Fund programme. The IBRD, however, would probably be reluctant to halt existing project disbursements although new projects might be halted.
- (ii) A stop by Nigeria to interest and principal payments would cause both an increase in claims and a shortfall in ECGD's receipts on already rescheduled debt. The total call on the PSBR would be some £450 million in 1988-89 - although £200 million of this has already been taken into account. In addition, however, if relations with the Nigerians deteriorate it may not be possible to complete the refinancing of a further £450 million under the 1987 rescheduling agreement so that this would not be repaid to the Consolidated Fund as expected. The net increment to the PSBR, therefore, might be of the order of £700 million.
- (iii) A Nigerian default would cause commercial banks to lose interest payments due and in general require an increase in provisions under the matrix. The total exposure of UK-incorporated banks at end-December 1987 was £930 million. Of this, five major banks accounted for £730 million and one bank for almost half of this. Among these major banks one has an exposure of just over 20 per cent of capital base - including shareholders' funds and subordinated loans. The others' exposure is less than 10 per cent of capital. The major banks might lose some £70 million of interest. A 20 per cent point increase in provisions from 40 per cent to 60 per cent would cost close to a further £150 million. The Bank of England advise that these figures do not indicate any significant

problem for UK banks, other than the one, for which the loss of interest and additional provisioning would seriously erode its profits. Further information is being obtained from the Bank under Banking Act confidentiality conditions.

29. We are perhaps not yet at the stage where a default is likely but we shall need to monitor developments very closely, and be ready to act promptly particularly as regards the banking sector if the situation deteriorates. In the meantime, it seems vital that we press ahead as best we can in persuading the Nigerians to come to an arrangement with the Fund.

NIGERIA

Current balance

	IMF programme	IMF shadow programme	No IMF programme Arrears default
Exports	7000	7000	7000
of which oil	6200	6200	6200
Imports	5360	5620	5410
(% change in volume)	(-10)	(-5)	(-9)
Trade balance	1640	1380	-1590
Interest payments (due)	-2130	-2130	-2130
MDBs	(-270)		
Paris Club	(-1060)		
CMEA	(-50)		
London Club	(-540)		
Promissory notes	(-180)		
Other	(-30)		
Other current transactions	-1100	-1100	-1100
Current balance	-1590	-1850	-1640

Foreign exchange auction

Sources	6745	6495	4750
CBN oil receipts	4500	4500	4500
Other public sector receipts	150	150	150
Interbank purchases	100	100	100
External borrowing	1995	1745	0
ow IBRD	(500)	(500)	0
ADB	(225)	(225)	0
Japan	(200)	(200)	0
London Club	(820)	(820)	0
IMF	(250)	(0)	0
Uses	3945	3435	1620
Change in reserves	250	250	0
Public sector LCs	550	550	550
Debt service	2045	1535	820
ow IBRD interest and principal	(480)	(480)	(480)
Paris Club interest	(845)	(335)	(100)
London Club interest	(540)	(540)	(60)
Promissory notes	(180)	(180)	(180)
London Club arrears	500	500	150
1987 cash arrears	600	600	100
Action			
1988 Year	2800	3060	3130
Purchased in 1988 H1	1500	1500	1500
Available in 1988 H2	1300	1560	1630
Auction size 1988 H2	100	120	125

NIGERIA

EXTERNAL FINANCE 1988

	IMF programme	IMF shadow programme	No IMF programme Arrears/ default
Current balance	-1590	-1850	-1640
IMF (net)	250	0	0
MDBs (net)	905	905	-50
In: IBRD projects	(200)		(200)
IBRD trade and investment	(500)		0
Japanese co-financing	(200)		0
African Development Bank	(225)		0
EIB	(30)		0
Out:	(-250)		(-250)
Paris Club (net)	565	1075	1160
In: Rescheduled 1988 maturities	(1200)	(1200)	(1200)*
Rescheduled post-84 LCs	(150)	(150)	(150)*
Rescheduled post-86 project arrears	(310)	(310)	(310)*
Rescheduled interest	(215)	(725)	(960)*
Pipeline	(200)	(200)	(200)
New credits	(150)	(150)	(0)
Out: 1988 maturities	(-1200)	(-1200)	(-1200)
Post-84 LCs	(-150)	(-150)	(-150)
Post 86 arrears	(-310)	(-310)	(-310)
London Club (net)	320	320	330
In: New money	(820)		480
Rescheduled 1988 maturities	(700)		700
Rescheduled 1986/7 LCs	(700)		700
Out: 1988 maturities	(-700)		-700
1986/7 LCs	(-700)		-700
1987 interest arrears	(-500)		-150
Cash arrears	-600	-600	-100
ow Private sector	(-220)		
Public sector	(-150)		
Bank of England account	(-230)		
Direct investment	400	400	300
Changes in reserves	-250	-250	0

* postponed

NIGERIA

ps3/32

CONFIDENTIAL



FROM: J M G TAYLOR

DATE: 10 May 1988

MR LANKESTER

cc PS/Chief Secretary
PS/Economic Secretary
Sir P Middleton
Mr Anson
Sir G Littler
Mr Scholar
Mr Evans
Mr Mountfield
Mr Bottrill
Mr Davis
Ms Noble
Mr Walsh
Mr Mowl
Mr Cassell

NIGERIA

The Chancellor was grateful for your note of 9 May, and for the enclosed paper by Mr Bottrill.

2. He has commented that he has no confidence in the Nigerians, and is strongly inclined to conclude that the time has come to cut our losses.

3. He looks forward to the further note promised from the Bank of England (your paragraph 6).

A handwritten signature, likely of J M G Taylor, consisting of stylized initials.

J M G TAYLOR

FROM: MISS G M NOBLE

DATE: 10 May 1988

CHANCELLOR



c c Economic Secretary
Sir P Middleton
Mr Lankester
Mr Scholar
Mrs Lomax o/r
Mr Kroll

STANDARD CHARTERED AND NIGERIA

At Mr Lankester's suggestion, I spoke to Brian Quinn yesterday about the various scenarios in his paper on Nigeria.

2. Standard Chartered is still in a fairly weak position, but having got through the announcement of their 1987/88 results without undue difficulty, the Bank have no immediate worries about them, although they are "staying close". Standard Chartered will need to raise capital sometime soon - a fact that is well known in the City - but at the moment they can afford to wait for the right time to do so. If the half-year results are good enough, they may announce a Rights Issue then.

3. Holmes a Court's shareholding has now been largely dispersed, through his sale of the Bell Group. (The shares were held by Bell International, a wholly owned subsidiary of the Bell Group.) Holmes a Court retains a minority stake through his residual holdings in the Bell Group, but he is no longer a significant shareholder. Alan Bond has, in turn, acquired an indirect shareholding in Standard Chartered through his acquisition of the Bell Group; but at the moment his stake is nowhere near the critical 15 per cent, so the Bank do not need to take a view on whether he is "fit and proper". (But they are double checking any indirect interest he might have through other holdings.) The Bank's view is that Holmes a Court's disappearance as a significant shareholder is on balance good rather than

further weakening the bank; they have been concerned to see a more diversified shareholding, with less concentration in a few hands, and this contributes to that process.

4. Standard Chartered have a significant exposure to Nigeria, a fact which is, again, well known in the City (it is noted in their annual report and accounts). Any deterioration in Nigeria's debt position, therefore, which meant a loss of interest to Standard Chartered or a requirement for further provisioning, would be unwelcome, and in principle could impact adversely on the bank particularly in relation to current year earnings.

5. Total loss of interest and a requirement to provision up to 60 per cent could cost Standard Chartered around £100 million on its profit and loss account. But Mr Quinn's view is that the consequences of any worsening in the situation would depend very much on the nature and speed of the deterioration and the circumstances in which it happened and at this stage it is genuinely difficult to give a hard and fast view. An insidious drift into arrears would cause a good deal less trouble than some overt statement or event which triggered a loss of confidence in the Far East markets. For example, Standard Chartered have a long standing and very close relationship with the Nigerian Government and always tell the Bank that they have no trouble getting payment on time. It is therefore possible to envisage circumstances where Nigeria would continue to pay Standard Chartered, while slipping further into arrears on their payments to other banks. And if Standard Chartered are right about their special relationship, it would seem extremely unlikely that Nigeria would simply repudiate their debts to the bank. Any question of such preferential treatment would be a very sensitive issue, but it cannot be ruled out. If, however, one of the other smaller banks claimed a formal default on one of its loans to Nigeria, then irrespective of the actual effect, that could have an adverse impact on Standard Chartered standing in the market and damage the prospects of a successful rights issue later in the year.

5. At the moment, therefore, the Bank are not unduly concerned about the implications for Standard Chartered of the situation developing in Nigeria; but that could obviously change as things progress and the options start to crystalise. We will obviously need to keep closely in touch with the banking supervisors, and get further advice from them as necessary.



MISS G M NOBLE

CONFIDENTIAL UNDER THE BANKING ACT



Phyl

FROM: J M G TAYLOR

DATE: 13 May 1988

MISS NOBLE

cc PS/Economic Secretary
PS/Sir P Middleton
Mr Lankester
Mr Scholar
Mrs Lomax
Mr Kroll

STANDARD CHARTERED AND NIGERIA

The Chancellor was grateful for your minute of 10 May.

JMG

J M G TAYLOR

2nd floor

Mr A C S Allan
EST
Sir P Middleton
Sir G Little
Mr Lamberton
Mr Peretz
Mr Walsh

A. mls
m x pbr

FROM BRITEMB WTON

05/24/88 04:17 P. 1

INTERNATIONAL MONETARY FUND

MONDAY, May 23/88 DA

EXTERNAL RELATIONS DEPARTMENT

DOLLAR MOVES NARROWLY. News agencies reported that the U.S. dollar moved narrowly in thin exchange markets, with many European centers closed for Pentecost. Exchange rates included: German mark 1.7028 (1.7030), yen 124.77 (124.82), sterling \$1.8674 (1.8615), French franc 5.7540, Canadian dollar 80.53c, lira 1264 and Swiss franc 1.4195. Gold rose \$5.45 to \$460.35, on inflation worries. The SDR was \$1.37318 (1.37225).

CAMDESSUS WARNS OF INFLATION RISKS. AP-DJ reported from Washington that IMF Managing Director Michel Camdessus noted in a speech in Australia a real risk of inflation in industrial nations as world commodity prices increase and the U.S. economy runs close to full capacity. Governments will have to be particularly vigilant in this area. Money expansion rates are relatively high in a number of countries, while in the U.S., the impact of exchange rate changes on import prices is still coming through, and the virtual elimination of economic slack could result in some bottlenecks and a resurgence of inflation pressures. The two major economic challenges are BOP imbalances of major countries and the economies of LDCs. The U.S. needs additional action to reduce its budget deficits, while Japan and Germany need structural reforms to reduce impediments to domestic demand.

LOWER U.S. BUDGET SURPLUS IN APRIL PUTS TARGET IN DOUBT. WSJ, p30, reported from Washington that the U.S. Treasury said the normal tax-induced April budget surplus was \$13.89B, down sharply from \$38.91B a year earlier. The budget deficit for the seven months to April rose to \$105B from \$84.3B, generating further doubt that the U.S. will be able to meet the Administration/Congressional deficit target of \$146.7B this fiscal year. Most private forecasters think reaching the target is unlikely, while the CBO forecast a deficit of \$161B, largely because it expects higher interest rates than the Administration is projecting.

BRAZIL SAYS IMF-BANK LOAN LINK COULD THREATEN NEGOTIATIONS. EFE reported from Brasilia that Brazilian Finance Ministry spokesman Geraldo Moura said Brazil is prepared to break debt rescheduling negotiations with creditor banks, if they insist on linking these to an IMF agreement. Brazil is not thinking of yielding on this point, he said, adding that debt negotiations were suspended last week after some banks sought an automatic link between bank loans and the IMF agreement. The agency noted that Brazil is also resisting an accord with banks which would allow the seizure of Brazil's foreign reserves if the country suspends debt payments. Finance Minister Mailson da Nobrega reportedly has urged banks and the IMF to show flexibility in the negotiations, noting that Brazil's pending new Constitution gives Congress the power to approve agreements with foreign banks and the IMF. Press reports said Nobrega wants to reach agreement with banks and the IMF before the Constitution takes effect, to avoid an examination of the agreements by Congress.

MEXICAN PRESIDENTIAL CANDIDATE NOTES POTENTIAL FOR DEBT PAYMENTS HALT. Reuters reported from Mexico City that Carlos Salinas de Gortari, presidential candidate of the dominant PRI, said he will suspend debt payments, if this is needed to restore economic growth in the 1990s. Mexico will seek debt reduction and interest relief and will stop paying its debt, if this is needed to ensure a higher rate of growth. Salinas added that he will seek to negotiate with banks, governments and multilateral agencies on easing the burden of Mexico's \$100B of foreign debt and will strengthen the dialogue with other debtor countries.

U.S. REJECTS FRENCH IDEAS FOR MONETARY REFORM. AFP reported from Paris that U.S. Treasury Secretary James Baker rejected French ideas for monetary reform, saying that G7 economic policy coordination has already produced reform and reinforcement of the floating rate system. He said in a speech that the idea of profound and revolutionary changes is tempting, but it is far from clear that such changes are desirable.

AGRICULTURE LIKELY TO BE STICKING POINT OF G7 TORONTO MEETING. AFP said in a Paris report that the thorny problem of farm subsidies threatens to be the sticking point of next month's annual meeting of G7 leaders in Toronto, after the stormy debates on this topic at last week's OECD ministerial meeting. Major U.S./EEC differences on trade and agriculture overshadowed the OECD meeting, pushing an examination of the world economy into the background. After hours of a Byzantine quarrel over language of the final communique, the two sides managed a laborious compromise, which barely disguised the profound disagreements on procedures for and the rate of GATT trade talks. The U.S. wants speedy progress on agriculture which will be on the GATT agenda for the first time, including the abolition of all subsidies by 2000, which the EEC feels is impossible. The resistance of the EEC, supported by Japan and smaller European countries like Switzerland meant the U.S. had to be content with vague language in the final communique. But the EEC was not able to obtain a U.S. commitment against raising export subsidies and reactivating fallow land, and the U.S. served notice after the meeting that it will not give up on its demands.

BANK OF ENGLAND STRESSES STRENGTH OF BRITISH BANKS. Ldn Fin Times, May 19, p8, said in a London analysis that the Bank of England's annual report indicated strong basic performance for British banks last year, despite unprecedented shocks including heavy LDC debt provisions and the October stock market crash, and record losses by some banks. But more competition will force banks to control their costs and examine strategies carefully. The report's section on British banks is fuller than usual because of the Bank's new legal responsibilities for monitoring bank health. Strength of domestic activities offset narrow margins on foreign lending. The Bank said most British banks will be able to meet new international capital adequacy rules being

FROM "BRITISH WTON" --- 05/24/88 04:18 P. 2

JAPANESE OFFICIALS SAY TRADE SURPLUS MAY NOT DROP. Reuters reported from Tokyo that some Japanese trade officials think the country may fail in its efforts to cut its huge trade surplus in 1988/89 because of rising exports. An informal survey of major trading companies indicated the surplus for the current fiscal year is likely to show little change from the \$76B surplus in 1987/88. One official said exporters are overcoming the impact of the strong yen. But he and others stressed that the figures indicated are not a forecast from the Government or the International Trade and Industry Ministry.

FRENCH JUNE ELECTIONS LIKELY TO BE CLASSIC RIGHT/LEFT CONFRONTATION. AFP reported from Paris that political observers said French parliamentary elections June 5 and 12 are likely to be a classic left-right confrontation, after the failure of the governing Socialists to form electoral alliances with centrist groups. Rightist parties have largely succeeded in avoiding first-round contests among competing factions.

ITALIAN TRADE DETERIORATION WORRYING. Ldn Fin Times, May 19, p6, said in a Rome report that Italy's tripled foreign trade deficit last year (11,000B lire) and current BOP slippage to a deficit of almost 1,000B from a surplus of 3,700B in 1986 will feed national debates over competitiveness, labor costs, the need for lira devaluation, and the impact of Germany's growth rate on Italian trade. Italian growth last year touched 3% while Germany's stood at 1.7%. Italy's prospects for raising employment and living standards will be distressingly curtailed if the country cannot grow faster than Germany without running into BOP difficulties.

SPANISH GOVERNMENT RELISHES PRICE FALL BUT UNIONS SKEPTICAL. Reuters reported from Madrid that Spain said the consumer price index fell 0.3% in April after rising 0.7% in March, the first monthly drop this year. The Government said this put inflation on course to meet a 3% target for 1988. Fighting inflation has been an economic priority although accompanying wage restraints have caused considerable friction with labor unions, the agency noted. Unions and some opposition parties were skeptical about the April inflation rate, noting that inflation was up 0.4% in the month if farm product prices were excluded.

HUNGARY NAMES PRIME MINISTER AS PARTY LEADER, REPLACING KADAR. NYT, pA1, reported from Budapest that Hungarian Prime Minister Karoly Grosz was named Communist Party General Secretary, succeeding Janos Kadar who held the post since 1956. He was believed to be the first ruling party chief in the Soviet bloc to be retired honorably. WP, pA1, said Grosz will head a new party leadership purged of many longtime Kadar allies and seemingly shifted towards proponents of rapid economic and political change.

KAUNDA SLAMS AFRICAN LEADERS WHO DIVERT AID FUNDS TO OWN POCKETS. Reuters reported from Lusaka that Zambian President Kenneth Kaunda told foreign newsmen that African leaders who divert foreign aid funds to their own pockets have brought shame to Africa, and such practices will have to change if Africa is to be respected. Zambian officials said Kaunda is likely to express the same views at this week OAU 25th anniversary meeting in Addis Ababa, when he is expected to stand down as OAU chairman. NYT, pD10, carried a Reuters report from Lusaka that Kaunda said Africa needs a 20-year grace period to build its economy in order to repay its \$200B debt. Africa needs time to mature politically and economically, he said.

OAU HEAD FEARS ATROPHY OF ORGANIZATION. AFP reported from Addis Ababa that OAU Secretary General Ide Oumarou urged members to avert the threat of atrophy and to give the organization a new image, as it celebrates its 25th anniversary this week. He warned Chad and Libya that a failure of OAU mediation on their border dispute would damage the OAU's credibility. He welcomed an agreement by Somalia and Ethiopia to normalize their relations and the re-establishment of diplomatic relations between Algeria and Morocco.

CENTRAL PLANK OF NIGERIA'S ECONOMIC REFORMS LOOKS SHAKY. Reuters said in a Lagos report that Nigeria is fast losing faith in the reality of a free-market exchange rate for its battered naira. Bankers, diplomats and analysts said insatiable demand for hard currency, from legitimate importers and for capital flight, has undermined one of the central tenets of Nigeria's painful structural adjustment program. The weekly auction rate guided by the Central Bank -- 4.1 nairas to the dollar at the last auction -- has no effect on the autonomous market among banks, where last week's dollar rate was more than six nairas. Nigeria faces the dilemma of problems with western creditors, the IMF and IBRD if it continues to permit a two-tier exchange rate, or rapid inflation if the naira's spectacular slide continues unchecked. The IMF and IBRD are concerned about Nigeria's exchange rate policy and separate missions are due in Lagos in May and June for talks with the Government, diplomats said.

ZIMBABWE LIFTS YEAR-OLD PRICE FREEZE. AP-DJ reported from Harare that Zimbabwe lifted a year-old price freeze to boost the ailing economy, three months after it suspended controls over wage increases. The agency said labor unions, who claim that wages are already below the poverty line, are sure to criticize the price move.

RWANDA COMPLAINS OF OVER-INVOICING OF IMPORTS. Reuters reported from Kigali that Rwanda President Juvenal Habyarimana told traders and hoteliers that the country loses \$40M to \$60M a year, or nearly half the value of total exports, through over-invoicing of imports of at least 10% to 15%.

ZAIRE ONE OF THE WORLD'S WORST EXAMPLES OF ECONOMIC MISMANAGEMENT. NYT, pA8

CANADA TELLS BANKS TO RAISE LOAN-LOSS RESERVES. NYT, pD4.

GORBACHEV SAYS MOST DIFFICULT SOVIET ECONOMIC REFORMS POSTPONED. WP, May 22, pA29.

SOME NYT DELIVERIES CURTAILED BY INDUSTRIAL ACTION. NYT, May 22, p1.



Bf 2/6

FROM: J M G TAYLOR

DATE: 26 May 1988

MR MOUNTFIELD

cc Mr Bottrill
Mr P G F Davis

NIGERIA

... The Chancellor has seen the attached extract from an IMF news summary ("central plank of Nigeria's economic reforms looks shaky"). The Chancellor would be grateful for a short note.

Jf

J M G TAYLOR

FROM BRITEMB WTON

05/24/88 04:17 P. 1

EST

Sir P Middleton
Sir G Little
Mr Lambert
Mr Levy
Mr Walsh

INTERNATIONAL MONETARY FUND

MONDAY, May 23/88 DA

EXTERNAL RELATIONS DEPARTMENT

DOLLAR MOVES NARROWLY. News agencies reported that the U.S. dollar moved narrowly in thin exchange markets, with many European centers closed for Pentecost. Exchange rates included: German mark 1.7028 (1.7030), yen 124.77 (124.82), sterling \$1.8674 (1.8615), French franc 5.7540, Canadian dollar 80.53c, lira 1264 and Swiss franc 1.4195. Gold rose \$5.45 to \$460.35, on inflation worries. The SDR was \$1.37318 (1.37225).

CAMDESSUS WARNS OF INFLATION RISKS. AP-DJ reported from Washington that IMF Managing Director Michel Camdessus noted in a speech in Australia a real risk of inflation in industrial nations as world commodity prices increase and the U.S. economy runs close to full capacity. Governments will have to be particularly vigilant in this area. Money expansion rates are relatively high in a number of countries, while in the U.S., the impact of exchange rate changes on import prices is still coming through, and the virtual elimination of economic slack could result in some bottlenecks and a resurgence of inflation pressures. The two major economic challenges are BOP imbalances of major countries and the economies of LDCs. The U.S. needs additional action to reduce its budget deficits, while Japan and Germany need structural reforms to reduce impediments to domestic demand.

LOWER U.S. BUDGET SURPLUS IN APRIL PUTS TARGET IN DOUBT. WSJ, p30, reported from Washington that the U.S. Treasury said the normal tax-induced April budget surplus was \$13.89B, down sharply from \$38.91B a year earlier. The budget deficit for the seven months to April rose to \$105B from \$84.3B, generating further doubt that the U.S. will be able to meet the Administration/Congressional deficit target of \$146.7B this fiscal year. Most private forecasters think reaching the target is unlikely, while the CBO forecast a deficit of \$161B, largely because it expects higher interest rates than the Administration is projecting.

BRAZIL SAYS IMF-BANK LOAN LINK COULD THREATEN NEGOTIATIONS. EFE reported from Brasilia that Brazilian Finance Ministry spokesman Geraldo Moura said Brazil is prepared to break debt rescheduling negotiations with creditor banks, if they insist on linking these to an IMF agreement. Brazil is not thinking of yielding on this point, he said, adding that debt negotiations were suspended last week after some banks sought an automatic link between bank loans and the IMF agreement. The agency noted that Brazil is also resisting an accord with banks which would allow the seizure of Brazil's foreign reserves if the country suspends debt payments. Finance Minister Mailson da Nobrega reportedly has urged banks and the IMF to show flexibility in the negotiations, noting that Brazil's pending new Constitution gives Congress the power to approve agreements with foreign banks and the IMF. Press reports said Nobrega wants to reach agreement with banks and the IMF before the Constitution takes effect, to avoid an examination of the agreements by Congress.

MEXICAN PRESIDENTIAL CANDIDATE NOTES POTENTIAL FOR DEBT PAYMENTS HALT. Reuters reported from Mexico City that Carlos Salinas de Gortari, presidential candidate of the dominant PRI, said he will suspend debt payments, if this is needed to restore economic growth in the 1990s. Mexico will seek debt reduction and interest relief and will stop paying its debt, if this is needed to ensure a higher rate of growth. Salinas added that he will seek to negotiate with banks, governments and multilateral agencies on easing the burden of Mexico's \$100B of foreign debt and will strengthen the dialogue with other debtor countries.

U.S. REJECTS FRENCH IDEAS FOR MONETARY REFORM. AFP reported from Paris that U.S. Treasury Secretary James Baker rejected French ideas for monetary reform, saying that G7 economic policy coordination has already produced reform and reinforcement of the floating rate system. He said in a speech that the idea of profound and revolutionary changes is tempting, but it is far from clear that such changes are desirable.

AGRICULTURE LIKELY TO BE STICKING POINT OF G7 TORONTO MEETING. AFP said in a Paris report that the thorny problem of farm subsidies threatens to be the sticking point of next month's annual meeting of G7 leaders in Toronto, after the stormy debates on this topic at last week's OECD ministerial meeting. Major U.S./EEC differences on trade and agriculture overshadowed the OECD meeting, pushing an examination of the world economy into the background. After hours of a Byzantine quarrel over language of the final communique, the two sides managed a laborious compromise, which barely disguised the profound disagreements on procedures for and the rate of GATT trade talks. The U.S. wants speedy progress on agriculture which will be on the GATT agenda for the first time, including the abolition of all subsidies by 2000, which the EEC feels is impossible. The resistance of the EEC, supported by Japan and smaller European countries like Switzerland meant the U.S. had to be content with vague language in the final communique. But the EEC was not able to obtain a U.S. commitment against raising export subsidies and reactivating fallow land, and the U.S. served notice after the meeting that it will not give up on its demands.

BANK OF ENGLAND STRESSES STRENGTH OF BRITISH BANKS. Ldn Fin Times, May 19, p8, said in a London analysis that the Bank of England's annual report indicated strong basic performance for British banks last year, despite unprecedented shocks including heavy LDC debt provisions and the October stock market crash, and record losses by some banks. But more competition will force banks to control their costs and examine strategies carefully. The report's section on British banks is fuller than usual because of the Bank's new legal responsibilities for monitoring bank health. Strength of domestic activities offset narrow margins on foreign lending. The Bank said most British banks will be able to meet new international capital adequacy rules being

FROM BRITISH WTON 05/24/88 04:18 P. 2

JAPANESE OFFICIALS SAY TRADE SURPLUS MAY NOT DROP. Reuters reported from Tokyo that some Japanese trade officials think the country may fail in its efforts to cut its huge trade surplus in 1988/89 because of rising exports. An informal survey of major trading companies indicated the surplus for the current fiscal year is likely to show little change from the \$76B surplus in 1987/88. One official said exporters are overcoming the impact of the strong yen. But he and others stressed that the figures indicated are not a forecast from the Government or the International Trade and Industry Ministry.

FRENCH JUNE ELECTIONS LIKELY TO BE CLASSIC RIGHT/LEFT CONFRONTATION. AFP reported from Paris that political observers said French parliamentary elections June 5 and 12 are likely to be a classic left-right confrontation, after the failure of the governing Socialists to form electoral alliances with centrist groups. Rightist parties have largely succeeded in avoiding first-round contests among competing factions.

ITALIAN TRADE DETERIORATION WORRYING. Ldn Fin Times, May 19, p6, said in a Rome report that Italy's tripled foreign trade deficit last year (11,000B lire) and current BOP slippage to a deficit of almost 1,000B from a surplus of 3,700B in 1986 will feed national debates over competitiveness, labor costs, the need for lira devaluation, and the impact of Germany's growth rate on Italian trade. Italian growth last year touched 3% while Germany's stood at 1.7%. Italy's prospects for raising employment and living standards will be distressingly curtailed if the country cannot grow faster than Germany without running into BOP difficulties.

SPANISH GOVERNMENT RELISHES PRICE FALL BUT UNIONS SKEPTICAL. Reuters reported from Madrid that Spain said the consumer price index fell 0.3% in April after rising 0.7% in March, the first monthly drop this year. The Government said this put inflation on course to meet a 3% target for 1988. Fighting inflation has been an economic priority although accompanying wage restraints have caused considerable friction with labor unions, the agency noted. Unions and some opposition parties were skeptical about the April inflation rate, noting that inflation was up 0.4% in the month if farm product prices were excluded.

HUNGARY NAMES PRIME MINISTER AS PARTY LEADER, REPLACING KADAR. NYT, pA1, reported from Budapest that Hungarian Prime Minister Karoly Grosz was named Communist Party General Secretary, succeeding Janos Kadar who held the post since 1956. He was believed to be the first ruling party chief in the Soviet bloc to be retired honorably. WP, pA1, said Grosz will head a new party leadership purged of many longtime Kadar allies and seemingly shifted towards proponents of rapid economic and political change.

KAUNDA SLAMS AFRICAN LEADERS WHO DIVERT AID FUNDS TO OWN POCKETS. Reuters reported from Lusaka that Zambian President Kenneth Kaunda told foreign newsmen that African leaders who divert foreign aid funds to their own pockets have brought shame to Africa, and such practices will have to change if Africa is to be respected. Zambian officials said Kaunda is likely to express the same views at this week OAU 25th anniversary meeting in Addis Ababa, when he is expected to stand down as OAU chairman. NYT, pD10, carried a Reuters report from Lusaka that Kaunda said Africa needs a 20-year grace period to build its economy in order to repay its \$200B debt. Africa needs time to mature politically and economically, he said.

OAU HEAD FEARS ATROPHY OF ORGANIZATION. AFP reported from Addis Ababa that OAU Secretary General Ide Oumarou urged members to avert the threat of atrophy and to give the organization a new image, as it celebrates its 25th anniversary this week. He warned Chad and Libya that a failure of OAU mediation on their border dispute would damage the OAU's credibility. He welcomed an agreement by Somalia and Ethiopia to normalize their relations and the re-establishment of diplomatic relations between Algeria and Morocco.

CENTRAL PLANK OF NIGERIA'S ECONOMIC REFORMS LOOKS SHAKY. Reuters said in a Lagos report that Nigeria is fast losing faith in the reality of a free-market exchange rate for its battered naira. Bankers, diplomats and analysts said insatiable demand for hard currency, from legitimate importers and for capital flight, has undermined one of the central tenets of Nigeria's painful structural adjustment program. The weekly auction rate guided by the Central Bank -- 4.1 nairas to the dollar at the last auction -- has no effect on the autonomous market among banks, where last week's dollar rate was more than six nairas. Nigeria faces the dilemma of problems with western creditors, the IMF and IBRD if it continues to permit a two-tier exchange rate, or rapid inflation if the naira's spectacular slide continues unchecked. The IMF and IBRD are concerned about Nigeria's exchange rate policy and separate missions are due in Lagos in May and June for talks with the Government, diplomats said.

ZIMBABWE LIFTS YEAR-OLD PRICE FREEZE. AP-DJ reported from Harare that Zimbabwe lifted a year-old price freeze to boost the ailing economy, three months after it suspended controls over wage increases. The agency said labor unions, who claim that wages are already below the poverty line, are sure to criticize the price move.

RWANDA COMPLAINS OF OVER-INVOICING OF IMPORTS. Reuters reported from Kigali that Rwanda President Juvenal Habyarimana told traders and hoteliers that the country loses \$40M to \$60M a year, or nearly half the value of total exports, through over-invoicing of imports of at least 10% to 15%.

ZAIRE ONE OF THE WORLD'S WORST EXAMPLES OF ECONOMIC MISMANAGEMENT. NYT, pA8

CANADA TELLS BANKS TO RAISE LOAN-LOSS RESERVES. NYT, pD4.

GORBACHEV SAYS MOST DIFFICULT SOVIET ECONOMIC REFORMS POSTPONED. WP, May 22, pA29.

SOME NYT DELIVERIES CURTAILED BY INDUSTRIAL ACTION. NYT, May 22, p1.

FROM: P MOUNTFIELD

DATE: 27 MAY 1988

PS/CHANCELLOR

cc: Sir G Littler
Mr Lankester
Mr Evans
Mr Bottrill
Mrs Thomson*Ch/ Do you want a
further report now, or defer
(X' below)?*NIGERIA*25 27/5*

Your note of 26 May. The story in the IMF news summary is correct. But there is nothing new in this. The last Lankester Group report (extract attached) in mid-March pointed out that the authorities were feeding the foreign exchange market at an unsustainable rate, leading to an entirely unjustified appreciation of the naira. You will remember writing to Akongwu about this before the spring IMF meetings, to receive a very dusty response, that this issue was "non-negotiable".

2. We have been watching this carefully, and I discussed it in Washington two weeks ago with both the Bank and the Fund. Both institutions are sending missions to Lagos early next month. They will be stopping off in London on the way back. We shall then have to review our policy, and report to ministers (both to the Chancellor and to the Foreign Secretary, who is taking a close interest in this affair) at that point. There is no action we can take until the missions return, and unless the Chancellor wishes a fuller report now, I am proposing to defer a full submission until then.

R1

P MOUNTFIELD

Nigeria

Preliminary figures indicate that Nigeria's non-oil sector grew by around 2.5% in 1987; overall output fell marginally because of a contraction of the oil sector. With oil prices weakening, Nigeria's cash flow problems have become acute. Following an expansionary budget, an unwillingness to adopt tougher fiscal action and to reduce the size of fortnightly foreign exchange auctions has held up an agreement with the Fund on the new programme that is required to unlock new money under the banks' 1986/87 agreement and from MDB and ECA sources. The Nigerians have now asked the banks to reschedule, over 25 years with 10 grace (ie similar terms to those forced on unguarantee note holders), \$1.2 bn of medium term maturities falling due between 1988 and 1991, together with letter of credit maturities and arrears of interest and fees totalling \$2.6 bn covered by the 1986/87 agreement. They also intend to seek similar terms from the Paris Club. Even after the most generous rescheduling, and on the optimistic assumption that new money previously agreed remains forthcoming, Nigeria still faces a large financing gap which will make the conclusion of a Fund agreement hard to reach. Negotiations on the UK's £200 mn line of credit, which is contingent on a satisfactory relationship with the Fund and an improved arrears position, are progressing.

CONFIDENTIAL

065333
MDLIAN 1339

CONFIDENTIAL

FM LAGOS

TO PRIORITY FCO

TELNO 549

OF 311318Z MAY 88

INFO PRIORITY TREASURY, BANK OF ENGLAND, UKDEL IMF/IBRD WASHINGTON

INFO PRIORITY ECGD, DTI, ODA

MY TELNO 425 AND UKDEL IMF/IBRD WASHINGTON TELNO 88 : NIGERIA
AND THE IMF

SUMMARY

1. VISIT BY IMF TEAM IMMINENT. WORLD BANK ALREADY HERE TO AGREE
LETTER OF INTENT FOR SECOND TRACHE OF TRADE POLICY LOAN. NIGERIANS
CONFIDENT OF REACHING AN ACCOMMODATION WITH BOTH, AND THE WORLD
BANK TEAM NOT UNHOPEFUL.

DETAIL

2. I UNDERSTAND THAT THE IMF REVIEW TEAM ARE EXPECTED IN LAGOS
THIS WEEK (COULD WASHINGTON PLEASE CONFIRM?). THIS WILL BE A CRUCIAL
VISIT SINCE IT WILL DICTATE TO A LARGE MEASURE THE DEGREE TO WHICH
THE NIGERIANS AND THE IMF ARE LIKELY TO REACH AN ACCOMMODATION.

3. IN PREPARATION FOR THE IMF'S MISSION WE HAVE BEEN TAKING
SOUNDINGS OF SENIOR NIGERIANS IN THE MINISTRY OF FINANCE, CENTRAL
BANK AND THE CABINET OFFICE. THE LATTER TWO WERE SURPRISINGLY
CONFIDENT AND THOUGHT THAT THE IMF WOULD ENDORSE THE STEPS ALREADY
TAKEN BY GOVERNMENT TO SET THE ECONOMY ON A SOUNDER FOOTING.
THEY WOULD BE TELLING THE IMF THAT THE GOVERNMENT WAS COMMITTED
TO CUTTING PETROLEUM SUBSIDIES FURTHER, AND WAS TAKING ACTION TO
CUT PUBLIC EXPENDITURE. THEY RECOGNISE THAT AGREEMENT WITH THE
IMF IS ABSOLUTELY VITAL TO THE PROCESS OF ECONOMIC REVITALISATION,
AND THAT WITHOUT THIS, NEITHER EXPORT CREDIT AGENCIES NOR
COMMERCIAL BANKS WOULD BE PREPARED TO PUT NEW MONEY INTO THE
COUNTRY.

4. THE MINISTRY OF FINANCE, ON THE OTHER HAND, THOUGHT THAT AN
ACCOMMODATION WOULD BE MUCH MORE DIFFICULT TO ACHIEVE AND WERE
LESS CONVINCED THAT FURTHER PETROLEUM PRICE INCREASES WOULD BE
ALLOWED SOON IN VIEW OF THE DISTURBANCES LAST MONTH. CLEARLY
HOWEVER THIS WILL BE A TRICKY AND TOP LEVEL POLITICAL DECISION,
AND I DOUBT IF ANY OFFICIALS CAN KNOW FOR SURE WHAT WILL HAPPEN.

CONFIDENTIAL

065333
MDLIAN 1339

THE WORLD BANK TEAM HAVE CERTAINLY BEEN TOLD BY MINISTERS THAT THEY WILL NOT BE DEFLECTED AND THAT FURTHER PETROL PRICE INCREASES WILL FOLLOW, AND OUR OWN MINISTERIAL LEVEL CONTACTS SUPPORT THIS.

5. THERE ARE SIGNS THAT SERIOUS STEPS ARE BEING TAKEN TO REDUCE PUBLIC EXPENDITURE IN ORDER TO LIMIT THIS YEAR'S DEFICIT ALTHOUGH, SO FAR, NO SUGGESTION THAT THE MONEY ALLOCATED TO THE FOREIGN EXCHANGE MARKET WILL BE DECREASED. IMF WILL NO DOUBT HAVE STRONG VIEWS ON THIS LATTER POINT. IN ADDITION, THE GOVERNMENT SEEM TO BE TRYING TO LIMIT WAGE INCREASES AND THE MINISTER OF LABOUR HAS BEEN REPORTED IN THE PRESS AS HAVING ADVISED THE PRIVATE SECTOR THAT THEY WERE NOT EXPECTED TO MATCH THE NEW PAY STRUCTURE FOR THE GOVERNMENT'S OWN EMPLOYEES SINCE PUBLIC SECTOR WAGES HAVE BEEN HELD DOWN MUCH MORE FIRMLY THAN THOSE IN THE PRIVATE SECTOR. IT SEEMS THAT MANY CIVIL SERVANTS HAVE NOT RECEIVED THE ANNOUNCED PAY INCREASES.

6. IN ADVANCE OF THE IMF MISSION, THE WORLD BANK TEAM IS ALREADY HERE WORKING TOWARDS AGREEMENT AD REFERENDUM OF THE LETTER OF INTENT FOR THE SECOND TRADE POLICY LOAN WITH AN AIM TO ISOLATING THE POINTS OF DISAGREEMENT.

7. KOCH-WEISER, THE DIRECTOR RESPONSIBLE FOR NIGERIA, IS EXPECTED THIS WEEK TO TRY AND IRON OUT ANY REMAINING PROBLEMS WITH OKONGWU AND FALAE. THE LETTER OF INTENT WILL BE FROM THE MINISTER OF FINANCE TO THE PRESIDENT OF THE WORLD BANK FOR CIRCULATION TO THE LATTER'S EXECUTIVE DIRECTORS. IT WILL CONTAIN CERTAIN UNDERTAKINGS IN LINE WITH THE WORLD BANK'S OBJECTIVES FOR NIGERIA. ACCORDING TO BANK OFFICIALS HERE. THE WORLD BANK WILL SUPPORT FOR INSTANCE BETTER ECONOMIC MANAGEMENT LEADING TO GROWTH BUT WILL NEED TO BE SATISFIED ABOUT THE USE OF FOREIGN EXCHANGE AND BUDGETARY SUPPORT. THEY SEE THE REACHING OF AN AGREEMENT WITH THE IMF AS A MUCH TOUGHER PROPOSITION.

8. WE WILL CLEARLY NEED TO KEEP CLOSELY IN MIND THE IMPORTANCE OF AN IMF AGREEMENT FOR OUR ECGD CREDIT PACKAGE. MINISTRY OF FINANCE OFFICIALS HAVE SAID TO US THAT IF ECGD INSIST ON AN IMF AGREEMENT WITH NIGERIA BEING ACHIEVED BEFORE DISBURSEMENT OF THE CREDITS, THE PACKAGE WILL LIKELY BE STALLED.

9. WE NOTE THAT THE FCO DEFENSIVE BRIEF FOR THE PUS FOR HIS CALL ON CHIEF FALAE ON 31 MAY, STATES THAT THE ECGD CREDIT PACKAGE AGREED LAST YEAR 'CAN ONLY BE RELEASED ONCE AGREEMENT IS REACHED WITH THE IMF ON A NEW PROGRAMME'. IS NOT THIS MORE EXPLICIT

CONFIDENTIAL

065333
MDLIAN 1339

THAN WHAT HAS BEEN SAID TO THE NIGERIANS HITHERTO, INCLUDING
AT THE CHANCELLOR'S MEETING WITH OKONGWU IN APRIL (UKDEL IMF TELNO
88 OF 15 APRIL) ? IN THE NEGOTIATIONS BETWEEN ECGD AND THE
NIGERIANS OVER THE #200M LINE OF CREDIT, A MUCH MORE FLEXIBLE
FORMULATION HAS BEEN USED, UNDER WHICH THE NIGERIANS MUST HAVE A
RELATIONSHIP WITH THE IMF WHICH IS CONSIDERED SATISFACTORY BY
ECGD.

HEAP

YYYY

DISTRIBUTION

159

MAIN 153

MONETARY
WAD

ERD

ADDITIONAL 6

MR WICKS NO 10 DOWNING ST
MR MOUNTFIELD HM TREASURY
MR LANKESTER HM TREASURY

MR MAYES BANK OF ENGLAND
MR BREACH ECGD
MR HUDSON ODA

NNNN

(copied from)

Sounds like v. unhelpful
World Bank Reps

LENDERS FACE TOUGH CHOICES ON NIGERIAN DEBT. WP, pA1, in a Lagos report discussed social unrest in Nigeria after two years of free market reforms acclaimed by western economists as the most rigorous and far-reaching in Africa. The IBRD and western governments acknowledge that mass hardship and growing discontent threaten to undermine and perhaps even topple the moderate military government, which has made surprising progress in overhauling an economy notorious for corruption and inefficiency. The IBRD argues that Nigeria's courageous effort to follow western reform prescriptions is being sabotaged by impatient western creditors, and has launched an international campaign to persuade western governments and banks that reform efforts will come unglued without immediate and generous debt relief. Diplomats share the IBRD assessment of the seriousness of Nigeria's predicament, but say there is little interest, especially in the U.S. and Britain, to grant Nigeria special favors on debt. They also said Nigeria's conversion to free-market reform has not been as wholehearted as portrayed by the IBRD.

YUGOSLAVIA GETS \$946M PARIS CLUB RESCHEDULING. Reuters reported from Belgrade that Politika said the Paris Club of western creditors agreed to reschedule \$946M of Yugoslavia's external debt over 10 years with a six-year grace period. The news agency Tanjug said the Paris Club also agreed in principle to provide long-term support to allow Yugoslavia to consolidate its debt problems. AFP said the rescheduling covers principal and interest due from April 1, 1988 to June 30, 1989, the period of the country's current IMF standby. The Paris Club also agreed in principle to a medium-term refinancing of \$3.8B of Yugoslav debt maturing by 1995. Tanjug noted that definitive agreements with the Paris Club will depend directly on the application of structural reforms drafted in collaboration with the



Ch.


Nigeria

[Red signature]

P Mountfield tells me that the
Nigeria/banks talks have broken up,
with the Nigerians being given
90 days to come up with something
acceptable.

2. PM will do a note. But he
says that things are "not looking good."

[Signature]
29/16

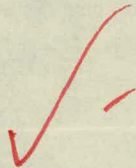


FROM: P MOUNTFIELD

DATE: 30 JUNE 1988

MR LANKESTER

cc: PS/Chancellor - 2nd/-
PS/Economic Secretary
Sir G Littler
Mr Evans
Mrs Lomax
Mr Bottrill
Mrs Thomson



NIGERIA

Following the Chancellor's meeting yesterday morning, we had a visit from the IMF mission leader, Jimenez, yesterday afternoon. We have also had a report on the negotiations with the commercial banks.

2. Jimenez told us, contrary to earlier information, that the managing director has not instructed him to go to Lagos immediately. The staff have set certain conditions for a return visit: these include further information from the Nigerian side (though not, apparently, any prior actions). He expects to be going back, but perhaps not for another few weeks. And he expects a series of further missions before anything substantial happens. (Mrs Thomson is doing a full note of the meeting, which I will circulate later).

3. We have also heard that the commercial banks have rejected the Nigerian proposals of last March completely; have agreed to roll over the maturities due at the end of June for a further 90 days; have tabled an eight-point programme of their own (details of which are following, from the Bank of England); have set a deadline of 15 July for a reply from the Nigerian side; and programmed a further meeting with them on 16 August. (In

other words, they are not going to let the Nigerians drag things out to the end of the 90 day period).

4. Jimenez also told us that the managing director is himself going to Paris next week, and will be seeing the Chairman of the Paris Club while he is there. He has already left Washington, but messages can be passed through the European office.

5. When I spoke to Mr Cassell, I therefore modified slightly the message we agreed this morning. I asked him to let the managing director know, with the Chancellor's authority:

- (a) that the UK would welcome an IMF programme, but it had to be a credible one, and we would not soften our position at all;
- (b) that it would be a mistake to assume at the moment that Nigeria would qualify for the new post-Toronto Paris Club terms: this would make the Toronto package more difficult to sell to the other creditors, and that was our top priority;
- (c) that we thought it would also be a mistake to let the Nigerians know that they might eventually qualify, since this would get them off-the-hook. (No harm in letting the MD know that we thought Nigeria would qualify eventually).

6. Mr Cassell undertook to pass this on to the Deputy MD, who would let Camdessus know before he saw Trichet.

R₁

P MOUNTFIELD

RESTRICTED

022100
MDLIAN 0120

RESTRICTED

FM LAGOS

TO PRIORITY FCO

TELNO 720

OF 040951Z JULY 88

INFO PRIORITY WASHINGTON, IMF/IBRD WASHINGTON

INFO PRIORITY DTI, TREASURY, BANK OF ENGLAND, ECGD

INFO SAVING ADDIS ABABA

FOREIGN POLICY SPEECH BY NIGERIAN FOREIGN MINISTER
SUMMARY

1. NWACHUKWU, MINISTER OF FOREIGN AFFAIRS, IN A SENSIBLE, WELL BALANCED AND TOTALLY MODERATE SPEECH, OUTLINES NEW TRENDS IN NIGERIA'S FOREIGN POLICY. HE PLACES HEAVY EMPHASIS ON THE NEED FOR FOREIGN POLICY TO SUPPORT ECONOMIC POLICIES, AND IN RESPONSE TO QUESTIONS, STRESSES THE NEED FOR A RESPONSIBLE ATTITUDE TO NIGERIA'S OVERSEAS DEBTS.

DETAIL

2. NWACHUKWU SPOKE AT THE NIGERIAN INSTITUTE OF INTERNATIONAL AFFAIRS ON "NEW TRENDS IN NIGERIA'S FOREIGN POLICY" ON 30 JUNE, TO AN AUDIENCE CONSISTING OF DIPLOMATIC HEADS OF MISSION, MEA OFFICIALS, AND A FEW OTHERS WHO INCLUDED ACADEMICS, TRADES UNIONISTS, AND PRIVATE SECTOR REPRESENTATIVES. IT WAS HIS FIRST MAJOR AND COMPREHENSIVE SPEECH ON FOREIGN AFFAIRS SINCE TAKING OFFICE.

3. IN HIS INTRODUCTION NWACHUKWU SAID THAT UNTIL RECENTLY NIGERIA'S FOREIGN POLICY SINCE INDEPENDENCE HAD BEEN AIMED AT ENDING COLONIALISM IN AFRICA. THAT PROBLEM REMAINED ONLY IN THE CONTINUATION OF APARTHEID IN SOUTH AFRICA, AND IN NAMIBIA. NOW THE EMPHASIS HAD TO BE ON ECONOMIC COOPERATION AND DEVELOPMENT.

SUPPORT FOR ECONOMIC POLICIES

4. HE SAID THAT NIGERIA'S FOREIGN POLICY STRATEGY SHOULD AIM AT BRINGING ECONOMIC PROBLEMS FULLY INTO FOCUS IN THE CONDUCT OF ITS FOREIGN POLICY, AND MUST SUPPORT THE DEVELOPMENT OF TRADE AND EXPORTS. HE MENTIONED THE 1992 MOVES TOWARDS

INTEGRATION IN EUROPE AS ONE OF THE REASONS COMPELLING THIS. CHANGES WERE TO BE MADE TO THE MINISTRY TO GIVE ECONOMIC AFFAIRS MORE IMPORTANCE. A LIST WILL BE COMPILED OF NIGERIAN BUSINESSES OPERATING INTERNATIONALLY WHICH WOULD BE AVAILABLE TO NIGERIAN EMBASSIES OVERSEAS AND TO OTHER COUNTRIES' EMBASSIES IN LAGOS, AND THAT ONLY COMPANIES ON THAT LIST WOULD BE CONSIDERED BONA FIDE. ANYONE DEALING WITH COMPANIES OUTSIDE THE LIST WOULD DO SO AT THEIR OWN RISK. ALL NIGERIAN HEADS OF MISSION WERE TO BE GIVEN COMMERCIAL TARGETS. THE MEA WOULD WORK MORE CLOSELY WITH ECONOMIC MINISTRIES AND, HE EMPHASISED, WITH THE PRIVATE SECTOR. THEY WOULD WORK WITH THE MINISTRY OF INTERNAL AFFAIRS TO REDUCE DELAYS IN ISSUING VISAS TO OVERSEAS BUSINESSMEN COMING TO NIGERIA, AND HE REPEATED NIGERIA'S OFFER TO COMMONWEALTH COUNTRIES TO RECIPROCATE IN THE ABOLITION OF VISAS AS A MEANS OF STRENGTHENING TRADE TIES. NIGERIA LOOKED FOR AN INTERNATIONAL CONFERENCE ON AFRICAN DEBTS, AND FOR COOPERATION AMONG DEBTOR COUNTRIES TO MATCH THAT AMONG CREDITOR COUNTRIES. SHE WOULD PURSUE BILATERAL, SCIENTIFIC AND TECHNICAL AGREEMENTS WHICH WOULD INCREASE NIGERIA'S SKILLS. HE SPOKE WARMLY OF THE NIGERIA/UK BILATERAL TALKS, AND SAID THAT THESE HAD INCLUDED NIGERIAN BUSINESSMEN FROM THE PRIVATE SECTOR WHO HAD MADE A VALUABLE CONTRIBUTION, AND THAT THIS WAS AN EXAMPLE OF BRINGING IN THE PRIVATE SECTOR WHICH HE INTENDED TO FOLLOW WHENEVER POSSIBLE.

CULTURAL AFFAIRS

5. HE SAID THAT NIGERIA HAD NEGLECTED CULTURAL DIPLOMACY AND CITED THE BRITISH COUNCIL AS THE FIRST ON HIS LIST OF AGENCIES USED BY OTHER COUNTRIES TO PROMOTE THEIR CULTURES EFFECTIVELY. HE SAID NIGERIA WOULD BEEF UP THEIR INFORMATION CENTRES ABROAD, MAKE GREATER PROVISION FOR NIGERIAN ARTS AND ARTISTS TO BE SEEN OVERSEAS, AND THAT IN SUCH ACTIVITIES THE PRIVATE SECTOR WOULD BE ASKED TO PROVIDE PROPER SUPPORT.

DEFENCE

6. NWACHUKWU SAID THAT AFRICAN CONTINENTAL SECURITY WOULD BE ENHANCED BY MORE EFFECTIVE REGIONAL DEFENCE ARRANGEMENTS, AND THAT THESE WOULD KEEP IN CHECK THE CONTINUOUS OUTBREAK OF SMALL WARS IN THE CONTINENT. IN A CLEAR, BUT UNSTATED,

REFERENCE TO EQUATORIAL GUINEA HE SAID THAT NIGERIA WOULD NOT ALLOW SOUTH AFRICA TO UNDERMINE AND SUBVERT THIS REGION AND THAT HE WAS WATCHING TO SEE THAT NO SUCH SUBVERSION ATTEMPTS WERE REPEATED, AND ADDED THAT NO-ONE WOULD BE ALLOWED TO JEOPARDISE NIGERIA'S EXISTENCE.

ANGOLA

7. HE EMPHASISED NIGERIA'S SUPPORT FOR THE LUANDA GOVERNMENT SAYING THAT WHILE PURSUING PEACE IN ANGOLA, NIGERIA FULLY SUPPORTED THE SOVEREIGNTY AND TERRITORIAL INTEGRITY OF ANGOLA'S LEGITIMATE GOVERNMENT, AND KEEP AN UNFLINCHING COMMITMENT TO THAT GOVERNMENT. HE ALSO DEPLORED OUTSIDE INTERVENTION ALTHOUGH DID NOT SPECIFY EITHER CUBA OR SOUTH AFRICA.

SOUTH AFRICA

8. IN A RELATIVELY MODERATE PASSAGE NWACHUKWU SAID THAT SOUTH AFRICAN POLICIES HAD CAUSED THE DEATH AND MAIMING OF MORE THAN ONE MILLION PEOPLE IN THE FRONT LINE STATES, AND USED AN EXTENSIVE QUOTATION FROM PRESIDENT REAGAN TO INDICATE THAT SUCH POLICIES WERE UNACCEPTABLE TO THE CIVILISED WORLD. HE SUGGESTED THAT MUCH OF THE WORLD'S FUTURE DEPENDED ON WHAT HAPPENS IN SOUTH AFRICA AND NAMIBIA.

WASTE DUMPING

9. HE SAID THAT NIGERIA WOULD CONTINUE AT THE FOREFRONT OF A CRUSADE TO END INTERNATIONAL TRADE IN DANGEROUS WASTES. AFRICA MUST NOT BECOME THE GARBAGE HEAP OF THE INDUSTRIALISED WORLD. NIGERIA HAD CARRIED THIS STRUGGLE TO THE UK, ECOWAS TO THE OAU AND ELSEWHERE AND WOULD NOT RELENT. AS AGREED AT THE OAU A "DUMP WATCH" WOULD BE SET UP TO MONITOR THE MOVEMENTS OF SHIPS SUSPECTED OF CARRYING DANGEROUS WASTES.

10. CONCLUDING, NWACHUKWU SAID THIS WAS A NEW ERA, THAT NIGERIA'S POLICIES MUST BE BASED ON ECONOMIC NEEDS AND REALITIES, AND THAT NIGERIA MUST DO AWAY WITH RHETORIC AND CONCENTRATE ON THE PRACTICAL, AND THAT THIS WAS THE ONLY WAY FOR ECONOMIC SURVIVAL.

DEBTS

11. SEVERAL QUESTIONERS (ALL NIGERIAN) AFTER THE SPEECH TOOK HIM TO TASK FOR HAVING SUGGESTED THAT NIGERIA SHOULD BEHAVE RESPONSIBLY AND DO ITS BEST TO MEET ITS DEBT OBLIGATIONS, AND SUGGESTED THAT SUCH DEBTS WERE IMMORAL, THAT IT WAS OBVIOUS THAT THEY COULD NOT BE PAID, AND SHOULD BE RENOUNCED. NWACHUKWU RESPONDED THAT NIGERIA HAD TO PAY HEED TO ITS CREDIBILITY AND THAT IF SHE WANTED FURTHER HELP FROM HER CREDITORS THEN SHE MUST MAKE AN EFFORT TO REPAY. HE SAID NIGERIA HAD A GOOD RAPPORT WITH THE CREDITOR NATIONS AND HAD AGREED TO RESCHEDULING PROGRAMMES. THE CREDITOR NATIONS ALSO UNDERSTOOD THAT NO COUNTRY CAN SERVICE ITS DEBTS WITH EVERYTHING IT HAD: THERE MUST BE A BALANCE BETWEEN MAKING AN EFFORT TO PAY AND THE SOCIAL UPEHAVAL CONSEQUENT UPON GOING TOO FAR. HE HOPED NIGERIA'S CREDITORS WOULD REALISE SOME DAY THAT NIGERIA CANNOT REPAY ALL THE DEBTS. THERE WERE SIGNS THAT CERTAIN CREDITORS WERE UNDERSTANDING THAT, AS THERE WERE NOW MOVES INTERNATIONALLY TO WRITE OFF THE DEBTS OF SOME OF THE POORER COUNTRIES. HE ALSO SAID THAT EVEN IN DEBT THE NATION MUST HAVE DIGNITY, THAT DIGNITY WAS LOST IN UNILATERALLY ABROGATING DEBTS, AND THAT NIGERIA HAD ITS DIGNITY.

COMMENT

12. WHILE SAYING NOTHING MUCH THAT WAS NEW, THIS WAS A THOROUGHLY SOUND AND MODERATE SPEECH WITH MESSAGES FOR HIS DOMESTIC AS WELL AS OVERSEAS AUDIENCE. THE CONTRAST BETWEEN HIS STYLE AND HIS POINTS OF EMPHASIS AND THAT OF HIS PREDECESSOR IS STRIKING. IT IS SURELY OF CONSIDERABLE SIGNIFICANCE THAT HE PUT SUCH EMPHASIS ON ECONOMIC FACTORS AND TREATED THIS AT LENGTH BEFORE MENTIONING SOUTH AFRICA OR OTHER MORE CONTENTIOUS ISSUES. HIS COMMENT THAT THE DAYS OF RHETORIC ARE OVER AND THAT NIGERIA SHOULD CONCENTRATE ON THE PRACTICAL IS ALSO WORTH UNDERLINING. HIS REMARKS ON DEBT REPAYMENT ARE CLEARLY ALSO WELCOME. IN ALL, AN IMPORTANT STATEMENT WHICH I SUGGEST SHOULD PROVIDE US WITH CONSIDERABLE COMFORT.

HEAP

RESTRICTED

022100
MDLIAN 0120

YYYY

DISTRIBUTION

447

MAIN 445

FCO (PALACE)

WHITEHALL

ADDITIONAL 1

BANK OF ENGLAND

SAVING 1

ADDIS ABABA

NNNN

PAGE 5
RESTRICTED

CONFIDENTIAL

FROM: A BOTTRILL

DATE: 22 JULY 1988

CHANCELLOR

Ch.
Content: (subject
to FCO approval)? JF
Ok subject 5-22/7
varian

cc: Chief Secretary
Sir P Middleton
Sir G Littler
Mr Lankester
Mr Mountfield
Mr H P Evans
Mrs Thomson

NIGERIA

We promised at your meeting on international issues to provide a short note on the latest situation in Nigeria that you might put to the Prime Minister together with a recommendation that she write now to President Babangida. I attach a draft. The terms of the letter to Babangida have been agreed at official level with the FCO, ECGD and the Bank of England. The FCO is submitting in parallel to the Foreign Secretary tonight.

2. The FCO is insisting that the letter should be in personal and familiar terms - although our own preference might have been for something more businesslike. The substance of the message, however, is the same. The intention is that it should be delivered when our new High Commissioner presents his credentials in Lagos next Wednesday.

A Bottrill

A BOTTRILL

MINUTE

P/C type form

DRAFT SUBMISSION TO THE PRIME MINISTER

NIGERIA

The worsening economic situation in Nigeria and its financial implications for UK banks and ECGD give increasing cause for concern.

Nigeria's failure to adhere last year to the adjustment programme agreed with the International Monetary Fund has been followed by excessively expansionary budgetary and credit policies. An IMF mission, recently in Lagos, estimates that the budget deficit will be some 7-8 per cent of GDP this year unless prompt action is taken. Credit growth to the private sector in the first half of the year seems likely to exceed 13 per cent - the target for the year as a whole. Inflation is almost certainly accelerating although no figures are available.

This deteriorating domestic situation is being accompanied by growing external financial difficulties. Export earnings are likely to be lower than last year as a result of the fall in oil prices. The IMF expects this year's current ^{lower} ~~deficit~~ ^{account} to be close to \$2 billion. The Nigerian Central Bank, ^{meanwhile,} ~~however,~~ has continued to provide an excessive amount of foreign exchange to its fortnightly auction. ^{result} ~~This has resulted in an artificially~~ ^{and foreign exchange} high exchange rate for the naira. ~~Nigeria's reserves are now~~ ^{are now} estimated to be close to exhaustion.

These difficulties have been accompanied by interruptions in payments to external creditors. The Nigerians stopped paying the agreed interest arrears on letters of credit to commercial banks in March. They have also asked to extend the moratorium on principal repayments to end-September. Discussions with the banks are continuing but we cannot rule out possible further difficulties later in the year. ECGD has so far only received about one third of the £60 million or so of interest due to it at the end of June under its rescheduling agreement with Nigeria. Other countries' export credit agencies have also suffered arrears in payments.

The IMF's view is that these financing difficulties are likely to worsen, which would have serious implications for the UK. Our commercial banks have £ $\frac{3}{4}$ billion in claims on Nigeria and ECGD £2 $\frac{1}{4}$ billion making the UK probably Nigeria's largest single creditor, although the French are close behind.

It is important that Nigeria takes firm policy action to correct its economic situation and we must consider how best to encourage this. The first priority must be agreement on a programme with the IMF. The Fund has asked the Nigerians to prepare revised budget figures for the current year, together with clear guidelines for next year's budget. The Managing Director will not send a mission back to Lagos until this information is provided. This seems to me entirely sensible since only then will it be possible to discuss the basis of a programme.

The IMF will be looking for a fiscal policy adjustment equivalent to 4-5 per cent of GDP. Reform of the foreign exchange market will also be needed, probably. We can look at the details of the measures in due course but it seems clear that the Nigerians will need to take very difficult decisions. Even if they act promptly, an IMF programme may not be agreed much before the end of the year.

In the absence of a Fund programme, of course, there can be no agreement either with Paris Club creditors or commercial banks. If the Nigerians do agree a programme, however, we would expect to support it in the IMF Board and encourage others to do likewise - although this may not be easy unless the Nigerians take convincing action ahead of the Board's discussion in view of Nigeria's past poor record of implementation. An IMF programme would be likely to be accompanied by support from the World Bank.

We should also try to persuade other creditors to offer Nigeria generous rescheduling terms in the Paris Club. We would not propose at this stage that the Nigerians should be offered Toronto concessions although these might be necessary later as part of a package to clinch an IMF deal. Again, it may not be easy to persuade other creditors to agree.

A particular point of concern to me is that the burden between creditors should be shared equitably. We would normally look to the IMF to approach different creditor groups, and I intend to instruct our Executive Director to ask the Managing Director to consider this carefully. Support of Paris Club creditors for a financing package for Nigeria is likely to be more difficult to obtain if commercial banks seek net repayments. This is ultimately a matter for banks' judgment but we shall urge the IMF to ensure that the banks are fully aware of the scale of Nigeria's financial problems.

The Nigerians will clearly need some persuasion to accept the IMF's conditions. The UK has ~~both~~ ^{and} a special ~~responsibility~~ and interest in this, ~~In particular,~~ your own good relations following your visit to Lagos in January put you in a uniquely ~~good~~ position to approach President Babangida. May I suggest therefore that you write to him along the lines of the attached draft. This seeks to balance a firm recommendation about the need for policy action with the offer of our help to seek international support for a Nigerian adjustment programme. [I understand that the Foreign Secretary is content that you should send a message on these lines,] and the prospective arrival of our new High Commissioner in Lagos provides a suitable opportunity.

N L

NIGERIA: DRAFT LETTER FROM PRIME MINISTER TO PRESIDENT BABANGIDA

I should like to take the opportunity of the arrival of Brian Barder, our new High Commissioner in Lagos, to extend to you and Maryam my own best wishes. I recall with affection my visit to Nigeria in January, and I hope that we will have the pleasure of welcoming you to Britain before too long.

I am at the same time, however, taking advantage of our agreement in January to keep in close touch with one another to write to you to express my growing concern about recent economic developments in Nigeria, the deterioration of your country's external financial situation and the absence so far of any firm measures to correct the situation.

I of course welcome the fact that you have renewed discussions with the International Monetary Fund. I am sure you appreciate how essential it is that you reach early agreement with the Fund on a strong programme. We intend to give the IMF Managing Director our full support in negotiating a programme which can form the basis for a sustained recovery in the Nigerian economy.

Without such a programme in place, it will not be possible for Nigeria to re-establish its international financial credibility and to maintain its obligations towards its creditors, to which we attach particular importance. ^{I fully recognise the} ~~I have no doubt that you face~~ ^{political situation you face a task of enormous magnitude} ~~some difficult decisions in order to meet the IMF's necessary~~ criteria. But I have to tell you frankly that the alternative - no IMF programme and therefore no international support - would be bound to leave ^{Nigeria} ~~you~~ worse off and to affect your ^{country's} ~~ability~~ to raise international credit for many years to come.

In the spirit of our friendly and open discussion last January, therefore, I urge you to take the necessary measures to enable a programme to be put to the IMF Executive Board as soon as possible. When you have done so, we shall do all we can to encourage other governments and multilateral agencies to support the programme. We hope that the commercial banks too would play their part. We shall be ready in the Paris Club to urge official creditors to reschedule Nigeria's debt on generous

terms. We should also hope to conclude our discussions with you on the provision of new export credits.

I am convinced that ~~your~~ agreeing and implementing an adjustment programme with the IMF offers the best hope, both of achieving the enormous economic potential for your country, and of maintaining Nigeria's relations with its trading and financial partners.

I hope you will understand that I am writing because of my close interest in Nigeria's fortunes, and that you will agree that there should be frankness between friends. I should be grateful to know your own reactions and how you see the way ahead.

mjd 2/10Jn

CONFIDENTIAL



22/7/88

Treasury Chambers, Parliament Street, SW1P 3AG
01-270 3000

PRIME MINISTER

NIGERIA

The worsening economic situation in Nigeria and its financial implications for UK banks and ECGD give increasing cause for concern.

Nigeria's failure to adhere last year to the adjustment programme agreed with the International Monetary Fund has been followed by excessively expansionary budgetary and credit policies. An IMF mission, recently in Lagos, estimates that the budget deficit will be some 7-8 per cent of GDP this year unless prompt action is taken. Credit growth to the private sector in the first half of the year seems likely to exceed 13 per cent - the target for the year as a whole. Inflation is almost certainly accelerating although no figures are available.

This deteriorating domestic situation is being accompanied by growing external financial difficulties. Export earnings are likely to be lower than last year as a result of the lower oil price. The IMF expects this year's current account deficit to be close to \$2 billion, or X per cent of GDP. The Nigerian Central Bank, meanwhile, has continued to provide an excessive amount of foreign exchange to its fortnightly auction, resulting in an artificially high exchange rate for the naira, and foreign exchange reserves now estimated to be close to exhaustion.

These difficulties have been accompanied by interruptions in payments to external creditors. The Nigerians stopped paying the agreed interest arrears on letters of credit to commercial banks in March. They have also asked to extend the moratorium on principal



repayments to end-September. Discussions with the banks are continuing but we cannot rule out possible further difficulties later in the year. ECGD has so far only received about one third of the £60 million or so of interest due to it at the end of June under its rescheduling agreement with Nigeria. Other countries' export credit agencies have also suffered arrears in payments.

The IMF's view is that these financing difficulties are likely to worsen, which would have serious implications for the UK. Our commercial banks have £ $\frac{3}{4}$ billion in claims in Nigeria and ECGD £2 $\frac{1}{4}$ billion, making the UK probably Nigeria's largest single creditor, although the French are close behind.

It is important that Nigeria takes firm policy action to correct its economic situation and we must consider how best to encourage this. The first priority must be agreement on a programme with the IMF. The Fund has asked the Nigerians to prepare revised budget figures for the current year, together with clear guidelines for next year's budget. The Managing Director will not send a mission back to Lagos until this information is provided. This seems to me entirely sensible since only then will it be possible to discuss the basis of a programme.

The IMF will be looking for a fiscal policy adjustment equivalent to 4-5 per cent of GDP. Reform of the foreign exchange market will probably also be needed. We can look at the details of the measures in due course but it seems clear that the Nigerians will need to take very difficult decisions. Even if they act promptly, an IMF programme may not be agreed much before the end of the year.

In the absence of a Fund programme, of course, there can be no agreement either with Paris Club creditors or commercial banks. If the Nigerians do agree a programme, however, we would expect to support it in the IMF Board and encourage others to do likewise - although this may not be easy unless the Nigerians take convincing action ahead of the Board's discussion in view of



Nigeria's past poor record of implementation. An IMF programme would be likely to be accompanied by support from the World Bank.

We should also try to persuade other creditors to offer Nigeria generous rescheduling terms in the Paris Club. We would not propose at this stage that the Nigerians should be offered Toronto concessions although these might be necessary later as part of a package to clinch an IMF deal. Again, it may not be easy to persuade other creditors to agree.

A particular point of concern to me is that the burden between creditors should be shared equitably. We would normally look to the IMF to approach different creditor groups, and I intend to instruct our Executive Director to ask the Managing Director to consider this carefully. Support of Paris Club creditors for a financing package for Nigeria is likely to be more difficult to obtain if commercial banks seek net repayments. This is ultimately a matter for banks' judgment but we shall urge the IMF to ensure that the banks are fully aware of the scale of Nigeria's financial problems.

The Nigerians will clearly need some persuasion to accept the IMF's conditions. The UK has a special interest in this, and your own good relations following your visit to Lagos in January put you in a unique position to approach President Babangida. May I suggest therefore that you write to him along the lines of the attached draft. This seeks to balance a firm recommendation about the need for policy action with the offer of our help to seek international support for a Nigerian adjustment programme. I understand that the Foreign Secretary is content that you should send a message on these lines, and the prospective arrival of our new High Commissioner in Lagos provides a suitable opportunity.

[NL]

25 July 1988

IGERIA: DRAFT LETTER FROM PRIME MINISTER TO PRESIDENT BABANGIDA

I should like to take the opportunity of the arrival of Brian Barder, our new High Commissioner in Lagos, to extend to you and Maryam my own best wishes. I recall with affection my visit to Nigeria in January, and I hope that we will have the pleasure of welcoming you to Britain before too long.

I am at the same time, however, taking advantage of our agreement in January to keep in close touch with one another to write to you to express my growing concern about recent economic developments in Nigeria, the deterioration of your country's external financial situation and the absence so far of any firm measures to correct the situation.

I of course welcome the fact that you have renewed discussions with the International Monetary Fund. I am sure you appreciate how essential it is that you reach early agreement with the Fund on a strong programme. We intend to give the IMF Managing Director our full support in negotiating a programme which can form the basis for a sustained recovery in the Nigerian economy.

Without such a programme in place, it will not be possible for Nigeria to re-establish its international financial credibility and to maintain its obligations towards its creditors, to which we attach particular importance. I fully recognise the political difficulties you face in taking the decisions needed to meet the IMF's necessary criteria. But I have to tell you frankly that the alternative - no IMF programme and therefore no international support - would be bound to leave Nigeria worse off and to affect your country's ability to raise international credit for many years to come.

In the spirit of our friendly and open discussion last January, therefore, I urge you to take the necessary measures to enable a programme to be put to the IMF Executive Board as soon as possible. When you have done so, we shall do all we can to encourage other governments and multilateral agencies to support the programme. We

hope that the commercial banks too would play their part. We shall be ready in the Paris Club to urge official creditors to reschedule Nigeria's debt on generous terms. We should also hope to conclude our discussions with you on the provision of new export credits.

I am convinced that agreeing and implementing an adjustment programme with the IMF offers the best hope, both of achieving the enormous economic potential for your country, and of maintaining Nigeria's relations with its trading and financial partners.

I hope you will understand that I am writing because of my close interest in Nigeria's fortunes, and that you will agree that there should be frankness between friends. I should be grateful to know your own reactions and how you see the way ahead.

he thinks it could be counterproductive
to write in this sense.

4. It may be worth having a word
with Sir GH about this.

JF
26/7



mpj

Ch.

Nigeria

You will recall approving the text of a minute to the PM, covering a draft letter from her to Babangida. This is attached at B.

2. This letter was cleared with FCO officials, EC&D, the Bank, and the High Commissioner designate. Sir G Howe apparently thought, however, that it was too tough. The FCO \therefore asked us to hold up our minute while they worked on another version.
3. The FCO's suggested letter is now attached, at A. It seems to me to be so wet that it is not worth sending. Mr Bottrill agrees: indeed

over

CONFIDENTIAL

104052
MDHOAN 1064

CONFIDENTIAL

FM FCO

TO DESKBY 260730Z LAGOS

TELNO 524

OF 251800Z JULY 88

NIGERIA: MESSAGE FROM PRIME MINISTER TO BABANGIDA

1. MINISTERS ARE VIEWING WITH GROWING CONCERN THE DETERIORATING ECONOMIC SITUATION IN NIGERIA. DESPITE THE IMF'S FORECASTS, THE NIGERIANS APPEAR TO BE SHOWING LITTLE SIGN OF APPRECIATING THE SERIOUSNESS OF THE SITUATION, OR IF THEY DO, THE READINESS TO IMPLEMENT THE NECESSARY POLICY MEASURES. WITH THE IMF MISSION UNDER INSTRUCTIONS NOT TO RETURN UNTIL THE NIGERIANS HAVE PUT IN PLACE THE NECESSARY ADJUSTMENT MEASURES, THERE IS CLEARLY A DANGER OF AN IMPASSE EMERGING. THE CURRENT ATTITUDE OF THE COMMERCIAL BANKS ADDS TO THE DIFFICULTIES.

2. THIS WORRYING SENSE OF DRIFT HAS PROMPTED MINISTERS TO CONSIDER THAT THE TIME HAS COME FOR THE PRIME MINISTER TO SEND A MESSAGE TO BABANGIDA. AS WELL AS EXPRESSING OUR CONCERN, IT WOULD URGE THE PRESIDENT TO REACH EARLY AGREEMENT WITH THE IMF ON A STRONG PROGRAMME. IT WOULD ALSO SIGNAL OUR WILLINGNESS TO HELP, EG IN THE PARIS CLUB AND THE IMF, IF SUCH A PROGRAMME IS PUT IN PLACE.

3. A SUGGESTED TEXT IS IN MIFT. GRATEFUL FOR YOUR COMMENTS BOTH ON THE TEXT AND ITS HANDLING. WE SHOULD PARTICULARLY WELCOME YOUR THOUGHTS ON THE FOLLOWING:

(I) IS THERE A RISK THAT A MESSAGE, HOWEVER SKILFULLY DRAFTED, WOULD PRODUCE A STRONGLY ADVERSE REACTION.

(II) HOW GREAT IS THE RISK OF THE OPPOSITE REACTION IE BABANGIDA REPLYING BY FREELY ACKNOWLEDGING HIS DIFFICULTIES, AND ASKING FOR HELP FROM HMG IN ONE FORM OR ANOTHER TO GET NIGERIA OUT OF THEM?

(III) SHOULD A MESSAGE, IF SENT, BE DISENGAGED FROM BARDER'S ARRIVAL? OR SHOULD WE MAKE USE OF THE EARLY OPPORTUNITY THE PRESENTATION OF HIS CREDENTIALS OFFERS FOR HIM TO DELIVER IT PERSONALLY (AND MAKE ANY NECESSARY ADDITIONAL POINTS ORALLY)?

HOWE

YYYY

CONFIDENTIAL

104052
MDHOAN 1064

DISTRIBUTION

154

MAIN 153

.MONETARY

WAD

ADDITIONAL 1

MR WICKS NO 10 DOWNING ST

NNNN

A

CONFIDENTIAL

104073
MDHOAN 1066

CONFIDENTIAL
FM FCO
TO DESKBY 260730Z LAGOS
TELNO 525
OF 251800Z JULY 88

MIPT: NIGERIA: MESSAGE FROM PRIME MINISTER TO BABANGIDA

1. FOLLOWING IS SUGGESTED TEXT OF MESSAGE: BEGINS.
I SHOULD LIKE TO TAKE THE OPPORTUNITY OF THE ARRIVAL OF BRIAN BARDER, OUR NEW HIGH COMMISSIONER IN LAGOS, TO EXTEND TO YOU AND MARYAM MY OWN BEST WISHES. I RECALL WITH PLEASURE MY VISIT TO NIGERIA IN JANUARY. TAKING ADVANTAGE OF OUR AGREEMENT THEN THAT WE SHOULD KEEP IN CLOSE TOUCH WITH ONE ANOTHER PRIVATELY, I CANNOT LET THIS CHANCE GO BY WITHOUT TELLING YOU OF MY GROWING CONCERN ABOUT WHAT I HAVE HEARD ABOUT RECENT ECONOMIC DEVELOPMENTS IN NIGERIA.

I KNOW FROM OUR DISCUSSIONS AT STATE HOUSE IN JANUARY HOW MUCH YOU HAVE ALREADY DONE SINCE YOU TOOK OFFICE IN ORDER TO SET NIGERIA'S ECONOMY ON A SOUNDER FOOTING. I WONDERED, HOWEVER, HOW YOU SAW THE WAY FORWARD. THE FACT THAT DISCUSSIONS HAVE BEEN RENEWED THIS YEAR BETWEEN NIGERIA AND THE IMF IS OF COURSE WELCOME, AND I VERY MUCH HOPE IT WILL BE POSSIBLE FOR YOU TO REACH EARLY AGREEMENT WITH THE FUND ON A GOOD PROGRAMME. I WANTED YOU TO KNOW THAT WE STAND READY TO GIVE YOU AND THE IMF MANAGING DIRECTOR OUR FULL SUPPORT IN NEGOTIATING A PROGRAMME FOR THE SUSTAINED RECOVERY IN THE NIGERIAN ECONOMY AND IN NIGERIA'S INTERNATIONAL FINANCIAL CREDIBILITY.

I DO NOT UNDERESTIMATE THE DIFFICULTY OF THE DECISIONS WHICH MEETING THE IMF'S CRITERIA POSE FOR YOU. AS I SAID TO YOU IN LAGOS, YOU ARE THE BEST JUDGE OF WHAT IS FEASIBLE IN NIGERIAN POLITICAL TERMS. BUT ON THE BASIS OF OUR OWN EXPERIENCE I HAVE FOUND THAT THE HARD DECISIONS BECOME HARDER IF THEY ARE PUT OFF. AND I AM CONVINCED THAT AN IMF PROGRAMME OFFERS THE BEST HOPE, BOTH OF ACHIEVING THE ENORMOUS ECONOMIC POTENTIAL OF YOUR COUNTRY, AND OF STRENGTHENING NIGERIA'S TRADING AND FINANCIAL RELATIONS IN THE YEARS AHEAD.

IN THE SPIRIT OF OUR FRIENDLY AND OPEN DISCUSSION LAST JANUARY, THEREFORE, I URGE YOU TO TAKE THE NECESSARY MEASURES TO ENABLE A PROGRAMME TO BE PUT TO THE IMF EXECUTIVE BOARD AS SOON AS

CONFIDENTIAL

104073
MDHOAN 1066

POSSIBLE. WHEN YOU HAVE DONE SO, WE SHALL DO ALL WE CAN TO ENCOURAGE OTHER GOVERNMENTS AND OTHER MULTILATERAL AGENCIES TO SUPPORT THE PROGRAMME. WE HOPE THAT THE COMMERCIAL BANKS TOO WOULD PLAY THEIR PART. WE SHALL BE READY IN THE PARIS CLUB TO ASK OFFICIAL CREDITORS TO RESCHEDULE NIGERIA'S DEBT ON GENEROUS TERMS. WE SHOULD ALSO EXPECT TO CONCLUDE OUR DISCUSSIONS WITH YOU ON THE PROVISION OF NEW EXPORT CREDITS.

I HOPE YOU WILL SHARE WITH ME YOUR THOUGHTS ON THE WAY AHEAD. IT WOULD HELP US TO INFLUENCE OTHERS TO SUPPORT YOUR EFFORTS IF I COULD HAVE THE CLEAREST POSSIBLE INSIGHT INTO YOUR PLANS FOR THE FUTURE. IN THE MEANTIME, AS BRIAN BARDER WILL EXPLAIN MORE FULLY, I HOPE THAT WE WILL HAVE THE PLEASURE OF WELCOMING YOU TO BRITAIN BEFORE TOO LONG.
ENDS.

HOWE

YYYY

DISTRIBUTION

154

MAIN 153

.MONETARY

WAD

ADDITIONAL 1

MR WICKS NO 10 DOWNING ST

NNNN

CONFIDENTIAL

112413
MDHIAN 8646

CONFIDENTIAL

FM LAGOS

TO DESKBY 280900Z FCO

TELNO 823

OF 271821Z JULY 88

INFO DESKBY 280900Z TREASURY, BANK OF ENGLAND, ECGD, DTI, ODA

INFO DESKBY 280900Z WASHINGTON FOR UKREP IBRD/IMF

MY TELNO 820 (PARAGRAPH 3) (NOT TO ALL): NIGERIA AND THE IMF

SUMMARY

1. GOVERNOR OF CENTRAL BANK TELLS US THAT THE TECHNICAL STAFF OF THE IMF TEAM HAVE ARRIVED IN LAGOS TODAY, 27 JULY, WITH MORE SENIOR STAFF FOLLOWING SHORTLY, IN A FURTHER EFFORT TO REACH AGREEMENT WITH THE NIGERIAN GOVERNMENT.

DETAIL

2. IN A CALL ON AHMED, GOVERNOR OF THE CENTRAL BANK TODAY, 27 JULY, I MADE VEILED REFERENCE TO THE POINT MADE IN YOUR TELNO 524 AND MY TUR THAT AGREEMENT WAS STILL TO BE REACHED ON THE NEXT IMF VISIT. AHMED REPLIED THAT THE TECHNICAL STAFF OF THE IMF MISSION HAD ARRIVED TODAY, THAT JIMINEZ, LEADER OF THE MISSION, WOULD ARRIVE ON 29 JULY, AND DR OTARA, DIRECTOR OF THE IMF AFRICAN DEPARTMENT WOULD BE IN LAGOS FROM 2-5 AUGUST, AND ABDULLAH, EXECUTIVE DIRECTOR COVERING THIS REGION WOULD ALSO ARRIVE ON 2 AUGUST. AHMED SAID THAT THERE HAD BEEN A CONTINUING DIALOGUE WITH THE FUND AND THAT HE HAD BEEN ON THE TELEPHONE TO THEM IN WASHINGTON FREQUENTLY SINCE THE LAST VISIT. HE SAID THAT HE EXPECTED A SUBSTANTIAL MEASURE OF AGREEMENT DURING THE COURSE OF THIS CURRENT VISIT. HE THOUGHT THEY WERE TO A LARGE MEASURE AGREED ON MONETARY AND FISCAL POLICIES AND THAT THE MAIN GAP TO BE CLOSED WAS THE SIZE OF THE BUDGET DEFICIT. HE SAID THE NIGERIAN SIDE WAS FULLY AWARE OF THE NEED FOR FURTHER PAINFUL CUTS AND THAT THESE WERE BEING AND WOULD BE MADE. HE HIMSELF WOULD GIVE THE TEAM HIS FULL TIME ATTENTION WHILE THEY WERE IN LAGOS AND HE HAD SECURED JIMINEZ'S AGREEMENT TO THE TEAM SPENDING 10 DAYS IN LAGOS OR LONGER IF IT WAS REQUIRED.

HEAP

CONFIDENTIAL

112413
MDHIAN 8646

YYYY

DISTRIBUTION

154

MAIN

153

.MONETARY

WAD

ADDITIONAL

1

MR WICKS NO 10 DOWNING ST

NNNN

FROM: A BOTTRILL

DATE: 29 JULY 1988

PS/CHANCELLOR

cc: Sir G Littler
Mr Lankester (o.r)
Mr Mountfield (o.r)
Mr H P Evans
Mrs Thomson (o.r)

WJH

NIGERIA

I spoke to UKDEL/IMF about Lagos Telno 823, but they had had no prior warning of the Fund team's departure for Nigeria. They were unable to discover whether the Fund's conditions for a new mission to Lagos had been met. The fact that a technical group has gone ahead may suggest that the Nigerians are prepared to provide some of the key budgetary numbers that the previous mission was not able to obtain. I have asked for an early debriefing when the mission returns to Washington and have also suggested that we should be happy to see the Staff if they pass through London.

2. In the light of these developments and the difficulties of agreeing a suitably firm draft for the Prime Minister to send to Babangida, I have agreed with the FCO that it would not be appropriate to send a message at this stage. The Foreign Secretary, however, saw Lt General Akerinade, Nigeria's Industry Minister and a member of the Military Council, yesterday and impressed on him the need for a firm IMF programme.

ABH

A BOTTRILL

CONFIDENTIAL



FROM: J M G TAYLOR

DATE: 1 August 1988

MR BOTTRILL

cc Sir G Littler
Mr Lankester
Mr Mountfield
Mr H P Evans
Mrs Thomson

pmf

NIGERIA

The Chancellor has seen and noted your minute of 29 July.

JMG

J M G TAYLOR

CONFIDENTIAL

131160
MDLIAN 7111

CONFIDENTIAL

FM LAGOS

TO PRIORITY FCO

TELNO 842

OF 030732Z AUGUST 88

INFO PRIORITY TREASURY, BANK OF ENGLAND, UKDEL IMF/IBRD WASHINGTON

INFO ROUTINE ECGD, ODA, DTI, ABIDJAN (FOR UK DIRECTOR, AFDB)

INFO ROUTINE KADUNA

NIGERIA/IMF

SUMMARY

1. IMF ARE HERE IN STRENGTH. STRONG HOPES OF AGREEMENT IN PRINCIPLE THIS WEEK AND A FORMAL AGREEMENT BY SEPTEMBER.

DETAIL

2. WHEN I MADE MY INTRODUCTORY CALL ON THE WORLD BANK REPRESENTATIVE, TARIQ HUSAIN, HE CONFIRMED THAT THE IMF ARE IN LAGOS IN STRENGTH, CURRENTLY LED BY JIMENEZ.

3. IT APPEARS THAT THE MINISTER OF STATE (ALHAJI ABUBAKAR ALHAJI) AND CHIEF FALAE ARE FIRMLY IN CONTROL OF THE NEGOTIATIONS AND, ACCORDING TO HUSAIN, HAVE BEEN INSTRUCTED TO REACH AN AGREEMENT WITH THE IMF. TO THIS END, OUATTARA (SP?), HEAD OF THE AFRICAN BUREAU, HAS BROKEN HIS VACATION IN ABIDJAN AND IS IN LAGOS EXPECTING AN AUDIENCE WITH BABANGIDA THIS WEEK AT WHICH HUSAIN HOPED THAT THE TWO SIDES WOULD DRAW UP THE PARAMETERS OF AN AGREEMENT. IF THIS WERE ACHIEVED, IMF STAFF WOULD REMAIN IN LAGOS TO CLEAR UP THE PAPERWORK WITH A VIEW TO AN AGREEMENT BEING SIGNED BY MID-SEPTEMBER.

4. HUSAIN FELT THAT THE NIGERIANS WERE TAKING A SUFFICIENTLY RESPONSIBLE APPROACH TO CUTTING THE BUDGET DEFICIT AND TO TACKLING THE PROBLEMS OF THE FOREIGN EXCHANGE MARKET BY REMOVING CONTROLS AND DESISTING FROM INTERVENTION, WHILE PROMISING TO REDUCE THE AMOUNT OF FUNDING TO BE MADE AVAILABLE. ALL OF THIS WOULD BECOME EVIDENT IN THE NEXT FEW WEEKS, IF NOT DAYS. THEY WERE ALSO SHOWING RESPONSIBILITY IN TACKLING TARIFF ANOMALIES AND RECOGNISING NEED FOR GREATER COMMERCIALISATION AND PRIVATISATION. MANY PROBLEMS WOULD REMAIN, BUT MOVES WERE ALL IN THE RIGHT DIRECTION AND HE ATTRIBUTED MUCH OF THIS TO THE NEW ECONOMIC

CONFIDENTIAL

131160
MDLIAN 7111

MANAGEMENT TEAM OF ABUBAKAR ALHAJI AND FALAE AND THE REMOVAL OF OKONGWU FROM ANY CENTRAL ROLE. HE BELIEVED THAT THE LATTER'S DAYS WERE NUMBERED - BUT WE HAVE HEARD THIS BEFORE - AND THAT THE LIKELY CANDIDATE TO REPLACE HIM WOULD BE KALU KALU.

COMMENT

5. HUSAIN WAS IN AN OPTIMISTIC, ALMOST EUPHORIC MOOD, AND CLEARLY PINNING MUCH HOPE ON THE MEETING WITH THE PRESIDENT. WE SHALL TRY AND SPEAK DIRECTLY TO JIMENEZ, AND HUSAIN UNDERTOOK TO BRIEF US NEXT WEEK ON OUTCOME OF THE MEETING. LOOKING AHEAD, HE SAID THE WORLD BANK WOULD BE COUNTING ON OUR SUPPORT IN SETTING UP A CONSULTATIVE GROUP, WHICH IBRD WOULD CHAIR IF NECESSARY. I WAS NON-COMMITTAL AND SAID THAT LONDON WOULD BE NERVOUS IF THE OBJECTIVE WAS TO DRUM UP CAPITAL AID FOR NIGERIA. IF THERE IS A NIGERIA/IMF AGREEMENT, WE ARE LIKELY TO HEAR MUCH MORE ABOUT THIS PROPOSAL.

BARDER

YYYY

DISTRIBUTION

150

MAIN 149

. MONETARY

WAD

ADDITIONAL 1

MR WICKS NO 10 DOWNING ST

NNNN

CONFIDENTIAL

144255
MDHIAN 9739

CONFIDENTIAL

FM LAGOS

TO DESKBY 081600Z FCO

TELNO 856

OF 081343Z AUGUST 88

AND TO DESKBY 081600Z TREASURY, ECGD, BANK OF ENGLAND

AND TO IMMEDIATE DTI, ODA

INFO IMMEDIATE UKDEL IMF/IBRD WASHINGTON

INFO PRIORITY ABIDJAN (FOR UK DIRECTOR AFDB), KADUNA

MY TELNO 842: NIGERIA/IMF

SUMMARY

1. IMF REPORT THAT SUBSTANTIAL PROGRESS MADE. AGREEMENT EXPECTED BY AUTUMN. MUCH GREATER AIR OF REALITY IN LAGOS. FURTHER RESCHEDULING OF OFFICIAL DEBTS SEEN AS INEVITABLE. NEED FOR UNDERSTANDING BY CREDITORS. NO RESERVES LEFT. NEW MOVES TO COME FROM MULTILATERAL AGENCIES (INCLUDING IMF) AND COMMERCIAL BANKS. CONSULTATIVE GROUP ESSENTIAL. CAPITAL AID PROGRAMME ENVISAGED. UK SEEN TO BE IN A PIVOTAL POSITION.

DETAIL

2. COUNSELLOR (ECONOMIC AND COMMERCIAL) SAW JIMENEZ ON THE LAST DAY (6 AUGUST) OF HIS MISSION TO NIGERIA AND FOUND HIM CAUTIOUSLY OPTIMISTIC.

3. THE MEETING WITH THE PRESIDENT HAD TAKEN PLACE. JIMENEZ FELT THAT 'SUBSTANTIAL PROGRESS' HAD BEEN MADE. THE NIGERIANS WOULD DO FURTHER HOMEWORK ON THE PARAMETERS OF AN AGREEMENT - SPECIFICALLY ON FUNDING OF THE FOREIGN EXCHANGE MARKET (FEM) AND DEBT SERVICING - WITH A VIEW TO A FURTHER MEETING IN WASHINGTON IN EARLY SEPTEMBER. THE MINISTER OF STATE, ALHAJI ABUBAKAR ALHAJI (AAA) WOULD LEAD THE NIGERIAN TEAM. JIMENEZ HOPED THAT THIS WOULD CLINCH THINGS AND THAT A LETTER OF INTENT WOULD ISSUE FOLLOWED BY A FULL AGREEMENT TO BE APPROVED BY THE IMF BOARD IN OCTOBER OR NOVEMBER.

4. THE IMF HAD FOUND BABANGIDA WELL BRIEFED AND DETERMINED TO TAKE THE STEPS NECESSARY TO PUT HIS HOUSE IN ORDER. THERE HAD BEEN A GOOD DISCUSSION AND THE NIGERIANS AT LAST SEEMED TO GRASP FULLY THE SERIOUSNESS OF THE SITUATION. THEY WERE NOW LESS ARROGANT THAN PREVIOUSLY, PREPARED TO TAKE ADVICE AND WILLING TO

CONFIDENTIAL

144255
MDHIAN 9739

IMPLEMENT THE NECESSARY MEASURES. THIS WAS LARGELY DUE TO THE GUIDING HAND OF AAA WHO HAD TAKEN A FIRM GRIP OF THE BUDGET. IT WAS EXPECTED THAT OKONGWU WOULD BE SICK FOR A LONG TIME - THE LONGER THE BETTER IN JEMENEZ'S VIEW.

5. JIMENEZ CONFIRMED WHAT HUSAIN (WORLD BANK REPRESENTATIVE) HAD TOLD ME LAST WEEK, I.E. THAT THERE WAS NOW A REAL GRIP ON THE BUDGET. POCKETS OF FAT WERE BEING TRIMMED AWAY REGARDLESS OF PROTESTS AND VESTED INTERESTS. AAA WAS WEILDING THE KNIFE WHILST THE PRESIDENT WOULD HAVE TO SQUARE THE AFRC. THIS WOULD NOT BE EASY, PARTICULARLY AS MILITARY EXPENDITURE WOULD SUFFER EQUALLY, BUT BABANGIDA SEEMED TO HAVE THE BIT BETWEEN HIS TEETH. CUTS ON RECURRENT EXPENDITURE WOULD BE FAR-REACHING AND ACROSS THE BOARD. NOTHING WOULD BE IMMUNE. CUTS IN CAPITAL EXPENDITURE WOULD BE MORE SELECTIVE. AJAOKUTA STEEL COMPLEX WOULD HAVE TO BE SUBSTANTIALLY RESTRUCTURED TO SOMETHING MUCH SMALLER AND MORE VIABLE. IT WOULD NEVER MAKE ECONOMIC SENSE BUT SAVINGS COULD BE MADE. SIMILARLY, THE ALUMINIUM SMELTER PROJECT WOULD BE RESTRUCTURED OR ABANDONED. ABUJA WAS MUCH MORE DIFFICULT BUT EXPENDITURE THERE WAS ALREADY BEING CUT. IF ALL THESE OBJECTIVES COULD BE ACHIEVED, THE RESULT WOULD BE A MUCH SMALLER BUDGET DEFICIT THAN WAS FEARED AND ONE THAT WOULD BE MANAGEABLE.

6. THE GOVERNMENT HAD A VARIETY OF OPTIONS OPEN TO IT, ALL OF THEM UNPALATABLE. FURTHER TINKERING WITH THE OIL PRICE SUBSIDY WAS A POSSIBILITY, ALTHOUGH THE IMF WERE ALIVE TO THE POLITICAL DANGERS WHICH THIS POSED. SOMETHING WOULD NEED TO BE DONE SOON ABOUT THE EXCESSIVE FUNDING OF THE FOREIGN EXCHANGE MARKET (FEM). IT COULD NOT CONTINUE AT THE RATE OF DOLLARS 120 PER FORTNIGHT AND THE NIGERIANS KNEW THIS. HOWEVER, JIMENEZ WAS RELAXED OVER WHAT HAD HAPPENED AT THE LAST AUCTION (MY TELNO 851) BUT EXPECTED EARLY ACTION TO REDUCE FUNDING SUBSTANTIALLY. THIS WAS ONE OF THE KEY ISSUES TO BE SETTLED AT THE MEETING IN WASHINGTON IN SEPTEMBER.

7. JIMENEZ DESCRIBED NIGERIA AS FACING A WHOLE LIST OF IMMEDIATE CRITICAL FINANCIAL PROBLEMS. THE LEADERSHIP HAD TO DECIDE WHICH TO TACKLE FIRST. APART FROM FEM AND THE BUDGET DEFICIT, ANOTHER PRESSING ISSUE WAS THE FUTURE OF NIGERIA AIRWAYS. IT WAS A HEAVY DRAIN ON RESOURCES AND THE GOVERNMENT WOULD HAVE TO FIND AN EARLY SOLUTION.

8. THE ECONOMIC POLICY MEASURES ANNOUNCED SO FAR - PRIVATISATION, COMMERCIALISATION, DEBT EQUITY CONVERSION - WERE ALL MARGINAL COMPARED WITH THE OVERALL PROBLEM FACING THE COUNTRY. THE NIGERIANS

CONFIDENTIAL

144255
MDHIAN 9739

HAD BEEN TOLD NOT TO SET TOO MUCH STORE BY THEM. IMPORT SUBSTITUTION, GREATER USE OF LOCAL MATERIALS IN MANUFACTURE AND INCREASED NON-OIL EXPORTS WERE MORE IMPORTANT. GOOD PROGRESS WAS BEING MADE ON THE LATTER, BUT FROM SUCH A TINY BASE THAT IT WOULD BE YEARS BEFORE ANY REAL IMPACT WOULD BE FELT. MEANWHILE, INFLATION WAS CREEPING UP AND WOULD REACH 30% BEFORE THE END OF THE YEAR.

9. DEBT SERVICING WOULD REMAIN A MAJOR PROBLEM AREA. MORRICE REHEARSED OUR OWN CURRENT DIFFICULTIES OVER PARTIAL NON-PAYMENT OF INTEREST DUE ON 30 JUNE. JIMENEZ SAID THAT THE COFFERS WERE SIMPLY BARE. THE NIGERIANS HAD DECIDED TO PAY THE INTEREST DUE TO COMMERCIAL BANKS, TO WHICH THEY WERE LOOKING FOR NEW MONEY. OFFICIAL DEBTS WOULD HAVE TO BE RESCHEDULED AGAIN AND THE NIGERIANS WOULD BE PUTTING PROPOSALS TO THE PARIS CLUB SOON. IN THE MEANTIME THEY WOULD SIGN QUICKLY WITH THE REMAINING OUTSTANDING OFFICIAL CREDITORS (NETHERLANDS, CANADA, ITALY, BRAZIL AND ISRAEL) WITH A VIEW TO OPENING RESCHEDULING DISCUSSIONS SOON. MORRICE SAID THAT THIS WOULD NOT GO DOWN WELL IN LONDON. JIMENEZ SAID THERE WAS NO OTHER DEVICE OPEN TO THEM OTHER THAN OPTING FOR A PERUVIAN OR BOLIVIAN SOLUTION WHICH THE NIGERIANS HAD LOOKED AT AND HAD FOUND HAD CERTAIN ATTRACTIONS. WHILST THEY WOULD NOT GO FOR TOTAL DEBT REPUDIATION THEY NEEDED SUBSTANTIAL RELIEF AND CREDITOR GOVERNMENTS WOULD HAVE TO BE MORE UNDERSTANDING.

10. NEW MONEY WOULD COME FROM IBRD, AFDB, IMF, THE COMMERCIAL BANKS (HENCE THEIR REQUEST FOR A MUCH LARGER SUM FROM THE LONDON CLUB) AND THE JAPANESE. THEY WOULD NOT WANT NEW CREDITS FROM THE ECA'S THEY WERE ALREADY OVER-INDEBTED TO THEM.

11. MORRICE QUERIED WHETHER IMF MONEY WOULD BE APPROPRIATE TO NIGERIA'S SITUATION OR POLITICALLY ACCEPTABLE. JIMENEZ THOUGHT THAT ON A 3 TO 5 YEAR ROLL-OVER BASIS IT WOULD BE, AND SAID THAT THE NIGERIANS SEEMED TO WANT IT. THE FIRST TRANCHE (DOLLARS 500 MILLION) OF THE WORLD BANK'S TRADE POLICY LOAN SHOULD BE MADE AVAILABLE ON SIGNATURE OF THE LETTER OF INTENT. OTHER MONEY WOULD FLOW AFTER THE AGREEMENT HAD BEEN ADOPTED BY THE IMF BOARD.

12. JIMENEZ SAID THAT NIGERIA WOULD NEED CAPITAL AID AND WAS ALREADY PREPARING ITSELF FOR IT PSYCHOLOGICALLY. A CONSULTATIVE GROUP WOULD NEED TO BE SET UP VERY SOON AFTER THE IMF/NIGERIA AGREEMENT WAS IN PLACE. HE HOPED UK WOULD PLAY A SUBSTANTIAL ROLE. MORRICE

CONFIDENTIAL

144255
MDHIAN 9739

SAID THAT THERE WAS LITTLE ENTHUSIASM FOR THIS IN LONDON. JIMENEZ SAID THAT WE HAD KEPT TOO MUCH IN THE SHADOW OF THE IMF. IT WAS TIME FOR US TO COME OUT FROM BEHIND THE IMF AND LET OUR VOICE BE HEARD. THIS WAS WHAT THE NIGERIANS EXPECTED. THEY UNDERSTOOD THE BUDGETARY CONSTRAINTS ON DONOR COUNTRIES BUT DID NOT SEE WHY SOMETHING RELATIVELY MODEST COULD NOT BE DONE FOR THEM WHEN SO MUCH WAS GIVEN TO INDIA, BANGLADESH AND OTHER IMPORTANT LDC'S WITH LARGE POPULATIONS.

13. JIMENEZ SUMMED UP BY SAYING THAT NIGERIA WAS IN WITH A CHANCE AND THE PROSPECTS FOR AN IMF AGREEMENT WERE BETTER THAN EVER BEFORE. THEY HAD LEARNED SOME HARD LESSONS. HOWEVER, EVERYTHING DEPENDED ON THE OIL PRICE. IF IT WENT TO US DOLLARS 18 OR 19 THEN NIGERIA WAS IN CLOVER. IF IT HUNG AROUND US DOLLARS 15 - 16, THEN THEY WOULD JUST GET BY. IF IT WENT MUCH BELOW US DOLLARS 14, THE COUNTRY WOULD 'LIQUIDATE'.

14. JIMENEZ WILL BE IN UK NEXT WEEK FOR THE LONDON CLUB MEETING AND SAID THAT HE WOULD BE AVAILABLE IF REQUIRED.

COMMENT

15. ON PAST EXPERIENCE, IMF VIEWS TEND TO HARDEN ON RETURN TO WASHINGTON. NEVERTHELESS, THIS IS AS POSITIVE A VIEW AS WE HAVE EVER HEARD ON THE PROSPECTS FOR AN AGREEMENT. HOWEVER, THERE ARE IMPORTANT IMPLICATIONS FOR OUR ECONOMIC RELATIONS WITH NIGERIA, MOST IMMEDIATELY ON PROSPECTS FOR OUR COLLECTING THE BALANCE OF THE INTEREST DUE ON 30 JUNE UNDER THE BILATERAL DEBT RESCHEDULING AGREEMENT, THE IMPLICATIONS OF NON-PAYMENT FOR THE BIWATER LOAN IN NIGER STATE, AND OUR POSITION ON FURTHER RESCHEDULING OF OFFICIAL DEBTS.

16. I SHALL SEE HUSAIN FOR HIS INTERPRETATION OF EVENTS AND PROSPECTS AND HOPE TO SEE KEY ECONOMIC FIGURES ON THE NIGERIAN SIDE NEXT WEEK, AFTER PRESENTATION OF CREDENTIALS.

BARDER

YYYY

CONFIDENTIAL

144255
MDHIAN 9739

DISTRIBUTION

150

MAIN 149

.MONETARY

WAD

ADDITIONAL 1

MR WICKS NO 10 DOWNING ST

NNNN