Bullion

Volume 15 | Number 1 Article 2

3-1-1991

Perspective on medium to long-term outlook for the Nigerian economy

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PERSPECTIVES ON MEDIUM TO LONG - TERM OUTLOOK FOR THE NIGERIAN ECONOMY*

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I feel honoured and delighted to be invited once again as the Guest Spéaker on the occasion of our Annual Dinner. In keeping with my previous practice, I do not intend to bore you with a long address after this sumptuous dinner. Since you have, as usual, given me the liberty to address you this evening on: "Perspectives on Medium to Long - term Outlook for the Nigerian Economy". The topic has been designed as a new slant to the familiar subject of Structural Adjustment Programme (SAP). In choosing to share my views on this topic with you tonight, I have the firm belief that it was high time we started to discuss the future of our economy more seriously.

The Nigerian Economic Crisis

Distinguished Ladies and Gentlemen, let me quickly take your minds back to the economic situation in our country before SAP was introduced in 1986. As you are all aware, after an initial period of growth, following the advent of the so - called oil boom, the Nigerian economy faltered and went into deep recession in the early 1980s. Average growth rate of aggregate output was extremely low, while per capital income declined, in the face of rapid expansion in population. The ability of the country to feed herself was considerably reduced, and an overwhelming reliance on imports to augment domestic supplies of food, consumer and capital goods became the order of the day. The situation was accentuated by the high levels of unemployment and domestic inflation, and an accelerating environmental degradation. The hope for meaningful progress at addressing these issues was dashed by the emergent foreign debt burden. Nigeria which was buoyant in the mid-seventies not only became a debtor nation but had her international credit worthiness seriously eroded.

Causes of the Economic Crisis

While acknowledging the fact that several fundamental problems such as low productivity in agriculture and industry, environmental degradation arising from unfavourable climatic conditions, weak internal markets, low and unstable world market prices for exports, lack of viable innovations and capital for investment, remained major impediments to economic progress, it is the general consensus that wrong macro - economic policy pursuits prior to the reforms initiated in 1986, fostered the deterioration within the Nigerian economy. Among the policy lapses of the time were large fiscal deficits, rapid monetary expansion, pricing and trade restrictions, foreign exchange controls and currency over-valuation.

*Being the summary of a Lecture Delivered at the Annual Dinner of the Chartered Institute of Bankers of Nigeria, Lagos, 9th November, 1990.

The Policy Reform

After some initial hesitation, SAP was finally introduced in 1986 with the sole objective of correcting these observed macro- economic policy distortions. The strategy was to get the economy on the path of growth once more. The policy reforms adopted included: rationalisation of public spending through cut- back in the size of the public service, commercialisation and/or privatisation of many public enterprises in addition to reduction in spending on subsidies and abolition and/or reform of inefficient parastatals, adoption of more realistic trade and pricing policies, introduction of liberal trade and foreign exchange practices and a general shift to market forces in the allocation of resources. Moreover, major reforms were introduced into the financial system, the most important of which were the reduction in cumbersome sectoral credit controls and allocative policies, especially interest rates deregulation.

The Impact of Policy Reforms

The main effect of the policy reforms so far is the obvious correction of distortions in relative prices in the product, money and foreign exchange markets. Although no definite statement can at present be made about the stability and desirability of the current levels of relative prices, they have so far tended to serve as incentives to stimulate private sector investment in agriculture, manufacturing and export trade. Overall improvement in economic performance in the last four years can be linked directly with these policy reforms. These improvements include the recovery in GDP growth rates and export earnings, more efficient utilisation of scarce resources and the gradual restoration of international confidence in the economy.

With regard to total output, the growth rate averaged 3.1 per cent during 1987-89 as against about 0.8 per cent annually for 1981-85. The growth rate of the manufacturing sub-sector averaged 17.6 per cent in 1987-89, as against a marginal growth of 1.4 per cent in the pre-reform period. This could be attributed largely to the improvement in domestic product prices and in capacity utilisation. In agriculture, the average growth rate rose from 3.4 per cent during 1981-85 to about 3.9 per cent in 1988-89. In particular, output of grains, tubers and export crops rose sharply in response to improvements in product prices which followed exchange rate devaluation, trade liberalisation and the elimination of implicit taxation of farmers under the previous marketing system.

However, real incomes have been generally eroded due largely to sharp increases in input costs arising mainly from exchange rate devaluation and rising interest rates. Moreover, inflationary pressures have been high during the policy reform era. On the other hand, rural labour markets which were hitherto characterized by deep recession due to rural-urban migration were given fillip with improvements in rural incomes and reversal of the rural-urban drift.

Medium to Long-term Outlook

Given the above trends in economic policies and their impact, it is logical to lift our gaze and attempt to construct a credible prognosis of the economic environment in Nigeria in the next decade and beyond. Certainly, beyond getting the policy framework right, there are other fundamental issues that will need to be addressed in order to put the Nigerian economy in a more satisfactory shape. I would now like to turn my attention to some of these issues. First, in the domestic economy, against the background of poor technology and low production capacities, growth in aggregate output may continue to hover around 5 percent annually which may be inadequate to meet the needs of the economy. The manufacturing sub-sector may grow at the rate of 6.0 per cent while its share of GDP may rise to 10 per cent within the next five years. But, given the high import dependence which characterises most of the import-substituting industries in the sub-sector, investments may continue to be low, while consumer demand restraints in the face of declining real incomes, will be an additional limitation on industrial output expansion. Already, some industries are beginning to be saddled with large stocks of unsold goods, despite the less than optimal level of capacity utilisation. With this picture of the real sector, inflation may continue to stare us in the face. To that extent, the purchasing power of the population may continue to be eroded. The situation could be worsened by expansionary fiscal and monetary policies. These forecasts, notwithstanding, there is some optimism that economic growth will resume with greater momentum if the enhanced capacities and the supportive policy environment currently prevailing, persist. This optimism is further buttressed by the apparent improvement in the capacities of individuals, as well as the public and private sectors, to manage growth efforts; the diversified economic base reflected in the significant adjustments in consumer preferences and investments in agriculture, small-scale and cottage industries; and the likely alteration to the industrial production frontier to be made possible by a successful completion of the Petrochemical, LNG and Steel projects.

The second issue I consider to be of major importance pertains to the external sector where the balance of payments pressure which has persisted in the last decade, may prevail for some time to come due largely to high debt-service payments, low level of non-oil exports, low levels of external loan drawings and foreign direct investment inflow, as well as receipts from non-factor services. This may be accentuated by the fact that, given the predominance of import substituting industries, compressing imports below what is needed to sustain a tolerable rate of growth may not be feasible even within the medium term. Also the potential for stimulating exports may be constrained by the recession in primary commodity markets, the inadequate competitiveness of domestic manufactures, and growing protectionist tendencies. However, the transient gains initially made in the non-oil sector export receipts could become more sustainable with the current actions being taken to improve the performance of the sector. If this happens, the projected pressure on the balance of payments could be mitigated significantly.

A third issue dwells on the fact that without any meaningful reduction in the level of fertility (estimated at 5-6 children per woman), Nigeria's population may double within the next 25 years. This will place unmanageable burden on social services, and put greater pressure on land and other resources. Except new economic opportunities emerge, the rising trend in unemployment, and mounting educational and health bills may continue. This may tend to foster faster urbanisation, which is a potential source of political instability. Nevertheless, the general expectation is that this situation will be moderated by the likely positive response to the current birth control campaigns in the country. It is also natural to expect that the economic realities may voluntarily inhibit the explosive growth of the population.

Another important issue that should engage our attention is the threat that Nigeria's deteriorating environmental landscape poses to the productive base. Unless bold initiatives are taken this decade, the emerging trend could be more serious than imagined because of the international nature of the problem. Perhaps, the creation of the Environmental Protection Agency which is empowered to focus attention and resources on this problem may fruitfully check further deterioration of our environment.

There is also the issue of the inadequate nutritional status of the Nigerian population which is likely to linger on, while the nation may be faced with chronic food insecurity, except constructive effort is made to expand domestic food production. Even when supplies are increased, there would be need to enhance the purchasing power of the urban poor and non-farm families in order for them to be able to afford minimum food intake.

Lastly, although significant strides have been taken towards better health care in Nigeria, a lot will need to be done in future if we are to maintain our people in good health. Life expectancy may impro to about 55 years if adequate emphasis is given to preventive medicine such as immunization campaigns against preventable diseases, education of the people on personal hygiene, sanitation, family planning and other oral therapies. Adequate investment is also required to update the quality of services of curative medicine in our modern hospitals.

The Challenges Ahead

I have outlined these possible trends not to raise an unnecessary alarm, but to emphasise the great challenges ahead of us. The main objective is for us to reverse the present trends to pre-empt the adverse aspects of the above scenario. As a nation, we have the potentials in the vast but poorly exploited resources of land, water, minerals, oil, gas, people and international support. Among the challenges facing us are:

(i) Ensuring conducive enabling environment to private sector initiative for greater investment: the necessary actions should include the pursuit of a favourable policy framework and the provision of infrastructural facilities. To tackle these issues, government must restrain itself from undue intervention in the economic system, but give priority to rehabilitating infrastructural facilities such as communication, transportation and utilities. Nigeria needs not just less government, but constructively needs to build private sector capacity to manage the development effort.

(ii) Investing in people since high economic performance is a function of the people working in the country: Their education, health and nutritional status will continue to pose serious challenges. Meaningful progress in the future can only be made if appropriate education, health, nutrition and population control strategies are adopted. This should also include the provision of better managed social programmes;

(iii) Raising agricultural productivity: If agriculture is to lay the necessary primary foundation for growth, there is the need to alter the technological base which, so far, offers little scope for rapid output expansion. This will require a new emphasis on research and strengthening of extension service programmes, especially for extensive, yield improving and bio-chemical technologies. Related to this is the need to protect the environment to reduce soil erosion, deforestation and desertification;

(iv) Redirection of the focus of industrialisation strategies: with an industrial base that is essentially inward looking, the major challenge will be how to effectively redirect them towards export substitution. Unfortunately, most of the big industries are linked with large multinational corporations, whose parent companies offer cheaper products under the same trade name to our most likely potential markets. Related to this is the challenge of expanding markets for these products within Sub- Saharan Africa. Because of low domestic resource content, lack of effective monetary integration and foreign exchange, most of these countries often find Nigeria manufactures less attractive. The ultimate hope perhaps lies in the need to build indigenous industrial capacities, and development of new-line competitive products that can be managed even if on small-scale levels;

(v) Encouraging indigenous entrepreneurship: This may include improving the business environment, expanding access to credit, encouraging self-sustaining services and stimulating local markets, by government patronage of small scale entrepreneurs and artisans, particularly women;

(vi) Overcoming energy problems: To meet Nigeria's energy needs, formidable technical, financial and environmental problems must be overcome. Considerable advantages exist in the planning and exploitation of the natural gas resources of the nation.

Concluding Remarks

Distinguished Ladies and Gentlemen, I feel convinced that there is hope of a bright medium to long-term outlook for the Nigerian economy. However, a lot needs to be done by all to sustain the progress already made. Specifically, I wish to emphasise that financial institutions and in particular the banking industry have a crucial role to play in the efforts to chart the correct path for the development of the Nigerian economy. First and foremost we need to sustain the momentum of financial reform and effective monetary management which are critical elements in achieving stable growth and development. More than ever before, we need to coordinate our efforts to move in the same direction and in this vital process, active in-house consultations and dialogue should be our main strategy. Equally important for us is the need to continue to support all the sound economic policies of government and not to backslide in the crusade to restructure the Nigerian economy. We, as bankers, cannot afford to fail in this direction as we are priviledged to understand and appreciate contemporary economic issues, perhaps much more than any other professional group in the society.

Once again, I thank you for honouring me. I wish you all a happy evening.