Bullion

Volume 3 | Number 3 Article 3

9-1978

Nigeria's economic outlook

B. U. Ekong
Central Bank of Nigeria

NIGERIA'S ECONOMIC OUTLOOK

THE immediate post-war era brought into the Nigerian economy some of the most significant structural transformations ever imagined. From a position of dominant dependence on agriculture, the Nigerian economy swang over to that of dominant dependence on crude petroleum production for foreign exchange earnings, for government revenues and as the main source of incomes for investment, trade and general economic development. Developments such as these owed their intensification to the 1973/74 fortuitous events in the international petroleum industry.

The resultant sharp increases in incomes from oil enabled this country to embark on a massive National Development Plan which places the strongest emphasis on infrastructural, educational and industrial development.

The main features of these post war developments included the accelerated expansion of earnings from oil and the rapid increases in public expenditures on both capital and recurrent items. In particular, as the petroleum production alone accounts for over 90 per cent of export values, over 80 per cent of Federal Government revenues and for over 30 per cent of gross domestic product, almost every new development in the economy depends on the petroleum sector.

Significantly, the agricultural sector on which the nation's supply of food, feeds and fibre hitherto depended grew grudgingly at a disappointing rate. The result was that Nigeria moved from a position of a net exporter of food and industrial raw materials to one of net importers of both. The excessive reliance on petroleum production for incomes on which investments, trade and general economic development sort of disorganised other normal occupations in the economy. As a result, rapid urbanisation, the near stagnation of agricultural production, greater dependence on imports to meet current consumption and the resultant serious domestic inflation followed.

The effect of the massive efforts to meet current consumption needs from imports led to our

Dr. B. U. Ekong
Chief Economist,
Central Bank of Nigeria,Lagos.

port congestion and the immediate erosion of the nation's favourable foreign exchange balances of 3,102 million Naira in 1974 to a deficit balance of N488.4 million by 1977.

The accumulation of government revenues built up mostly during the "oil boom days" in 1973 and 1974 started to dwindle in 1975. Sizeable budgetary deficit re-emerged shortly and widening external resource gaps followed. .deed, in the 1977/78 budget the combined Federal and state government's deficits amounted to 6.2 billion Naira or 31 per cent of estimated gross domestic product for 1976/77. In the 1978/79 budget, drastic cuts in both the capital and recurrent expenditures led to a number of painful, belt-tightening measures in an effort to contain some of these factors of instability.

The menace of inflation which had developed even before the end of the civil war worsened in 1973 and 1974. A series of policy measures aimed at this menace included the introduction of bulk importation of essential items for domestic supplies, modification or removal, in some cases, of import duties as well as the introduction of producer subsidies for domestic producers, between 1976 and 1977. As a result of these and other measures, the rates of domestic inflation slowed down from 33.5 per cent in 1975 to 22.1 per cent in 1976. Details of measures taken between 1973 and 1977 are recounted in the pages which follow.

REVIEW OF THE POST WAR POLICIES (1973-1977)

Within the last five years, the major features noted in the structural and functional development of the national economy produced domestic inflation which was to become a major disturbing factor to the economy system. The reasons underlying the spiraling in domestic prices were elements of imported inflation, crisis in the international monetary system, increased domestic aggregate demand in the face of supply constraints on consumer items including food and the general rapidly increased spending added to the growing excess liquidity of the banking system. So grave had inflation been that the rate of increase in consumer price index jumped from 6.1 per cent in 1973 through 13.4 per cent in 1974 to 33.5 per cent in 1975 only to reduce to 22.1 per cent in 1976 and 21.5 per cent in 1977.

As if inflationary problems were not enough, the external accounts which showed favourable balance of payments of 3,102 million Naira and 158 million in 1974 and 1975, respectively, slumped to a deficit of 211.6 million Naira in 1976. This balance of payments further deteriorated to a deficit of 483.4 million Naira in 1977.

In order to contain the noted inflationary problems and restore external stability, measures were taken to reduce domestic prices and increase supplies of essential goods and services. To this end, reductions in import duties were imposed on a wide variety of commodities as well as on raw materials in 1977 while outright abolition of duties on others were effected.

ENCOURAGEMENT

Encouragement was given to domestic production of goods and services through investment subsidies, mainly by the reduction of companies' liability to profit tax. Indeed, action was taken to remove the incidence of double taxation on dividends in a bid to encourage more domestic investment. Protection of domestic industries thus became the cornerstone of the industrial policy. Major reforms were also directed at personal income taxes including the provision of enhanced personal allowances and abolition of income rates for workers on P.A.Y.E. tax system.

On the monetary front, adequate credit was directed to the production sectors (production and services) through the imposition of sectoral allocation of such loans; production 60 per cent, services 10 per cent, general commerce 23 per cent and others seven per cent in 1976. Indeed, credit ceilings of 40 per cent were imposed on total loans and advances granted by commercial and other banks at the same time. And, to contain the high liquidity within the banking system action was taken to suck away.

Commercial lending rates were reduced from a range of seven to 12 per cent to a new range of six to nine per cent. Minimum deposit rates on savings accounts was raised from three to four per cent in respect of commercial banks and from four to five per cent in the case of the Federal Savings Bank. Two new money market instruments – Bankers' Unit Fund (BUF) and the Certificate of Deposit (CD) were introduced to encourage savings and to moderate aggregate demand in 1975. Later stabilisation securities were issued and further restrictions on the rate of aggregate credits expansion were imposed.

Other measures adopted between 1973 and 1976 included the encouragement of food production through the establishment of large and mechanised farms and the operation feed the nation programme. The Nigerian National Supply Company was encouraged to make large-scale importation of consumer goods for resale at subsidised prices to local consumers.

As a result of excessive importation for industrial, commercial and other purposes, an unprecedented port congestion problem developed. Measures were directed to the containment of these port congestion problems as a major issue. Indeed, ships could only sail into Nigeria with the prior approved certificates for berthing by the Nigerian Ports Authority.

In order to check excessive capital outflow and protect domestic industries from excessive competition from imports, the Naira was devalued by 10 per cent in 1973.

Apart from the diversification of external reserves, specific regulations had to be made on the repatriation of capital, following the implementation of the Nigeria Enterprises Promotion Decree of 1972.

By 1977 when the deteriorating position of the balance of payments became critical, exchange control regulations were tightened up such that a review of regulations on remittances of consultancy and technical fees were made. The promulgation of the Foreign Exchange Anti-Sabotage Decree (1977) crowned the efforts to contain prevailing foreign exchange malpractices. Even the conditions for payments for imports were reviewed while the reduction of personal travelling allowance was effected.

A structural transformation of the marketing of exports crops was introduced when seven new Commodity Boards and Price Fixing Authority were set up. This replaced the former Marketing Boards and their Central Marketing Company. The Agricultural Guarantee Scheme to assist the grant of loans for agricultural purposes was introduced. The setting up of the Mortgage Bank was to assist the efforts to provide credit and mortgages for housing. Further review of the indigenisation scheme culminated in the promulgation of the Indigenisation Decree of 1977, which was designed to improve the distribution of the ownership of shares of affected enterprises.

THE CURRENT POSITION OF THE ECONOMY

(a) Petroleum Crude Production: Towards the close of 1977 and the beginning of 1978, not only the production but also the export of petroleum crudes declined. This was a serious situation for a country nearly 90 per cent dependent on this source for its export earnings. However, the seemingly gloomy picture changed with improved oil production figures reported from April this year. For 1978, the following are the production figures:

January 1978 1,638m barrels per day.
February 1978 1,566m barrels per day.
March 1978 1,521m barrels per day.
April 1978 1,693m barrels per day.
May 1978 1,720m barrels per day.

It is significant that these improved production came at a time of multiplication in the sales price which has made our oil competitive with those of similar producers worldwide.

Moreover, there appears to be a slight improvement in the international oil market at the moment. With the recent introduction of new fiscal incentives for exploration increased production may be expected in the nearest future.

FISCAL OUTLOOK

Even though budgetary surpluses on current accounts had been noted between 1973 and 1977, the overall surpluses realised in 1973 and 1974 swung into deficits which worsened in 1977/78. Such deficits amounting to over three billion Naira were accumulated during the first two years of the current Development Plan period.

The continued drawing down of deposits with the Central Bank to finance those deficits left the Federal Government no more a net creditor to the banking system. The position was heightened by expanding public spending on account of the heavy loans to the states. As at the moment, the finances of the Federal Government are very tight.

(c) EXTERNAL ACCOUNTS

Up to 1975, this country enjoyed overall favourable balances on her external accounts. This was due to the improved performance of the export sector, dominated by the petroleum exports sub-sector despite the decline in the non-oil export sub-sector. Despite the increase, non-oil imports oil receipts were more than enough to leave favourable margins in the external accounts.

But by 1976 fiscal year, the overall balances swung into deficits. Imports values far exceeded exports values and drawing down of reserves was undertaken to meet the deficits. Another source of foreign exchange drain was the purchase of equity in foreign-owned firms affected by indigenisation requirements. As at 1978, the gap between exports and imports values widened particularly with the excessive increase in imports in the face of declining exports receipts.

(d) Public capital expenditures reached 5.6 billion Naira in 1976 (30 per cent of gross domestic product or 56 per cent of estimated gross fixed capital formation). The bulk of the public capital expenditures was for building and construction activity assessed at 60 per cent of total capital estimates.

Due to the high level of inflation in that sector, the growth of value added in the industry was estimated at 15 per cent in 1974, 21 per cent in 1975 and 11 per cent in 1976. Because profits were reported to be high in the construction industry, the attraction of labour into this sector has in part been responsible for the reduction in growth of output in agriculture and hence indirect impact on food production and port congestion.

Estimates show that a large proportion of the public expenditures by 1976 was concentrated in transport and communication infrastructure, housing and building for education and administration.

In the future, probably more of the financial allocations will have to be devoted to the maintenance of these assets. Indeed, as at the present, a balance is to be struck between the creation of new facilities and the proper operation and maintenance of existing ones.

(e) PRIVATE SECTOR INVESTMENTS

In general, growth in private sector investments is estimated to have been sluggish within the last five years. The greatest encouragement in indigenous private investments, however, has been the indigenisation decree which succeeded in transferring the ownership of existing projects into Nigerian hands. The index of industrial production indicated that increases in manufacturing output between 1970 and 1976 averaged 14 per cent, due mainly to greater capacity utilisation.

The wide spread of ownership of enterprises as a result of the Indigenisation Decree would foreclose possible future nationalization exercise with its bitter feelings and consequences. This will in future encourage both foreign and local private investments and is the underpinning of the current industrial policy of this country.

RESPONSE OF THE NATIONAL ECONOMY TO THESE MEASURES

Between 1973 and 1978, domestic inflation which was tackled with all the available tools persisted and continues to plague the economy till today as a major problem.

The poor performance of the economy was basically due to the problems of management of aggregate demand while policy emphasis was placed on augmenting aggregate supplies. By 1977, industrial production merely increased at the rate of 7.7 per cent compared with 19 per cent in 1976. Growth rates of both the manufacturing and mining sectors declined, the latter being attributable to the slump in the international crude oil market. Output of agricultural export products also declined as increases in the importation of food became noticeable.

In the area of monetary policy, the major prescriptions made very modest achievements in compliance terms. The performance of the credit guidelines was, however, satisfactory. But in the achievement of the basic objectives - price stability and output growth - not much success was realised.

In the external accounts sector, the overall balance of payments swung from credits in 1974 and 1975 to deficits as bad as 241.6 million Naira in 1976, worsening to 488.4 million Naira in 1977. This was in part due to the increase of total import values over the export values. Apart from excessive import of consumer items, import of capital goods in response to the fiscal policies together overwhelmed the total receipts from exports where incomes from crude petroleum declined seriously.

Thus at the close of 1977, the two major areas of problems facing the economy were inflation and deficits on the external accounts.

Whatever is expected in the short run covering 1978/79 to 1979/80 assumes a number of conditions. With the transfer of political power from the military to the civilian politicians, one would expect the initial excitement to ensure peaceful social atmosphere. One would expect the party in power to seek to justify the public confidence by sticking to realistic economic and political policies capable of achieving the goals of the national economic planning and development. Such achievements should ensure continued growth in national output (gross domestic product) price stability, generation of gainful employment of resources and social equity (income distribution).

(i) CRUDE PETROLEUM OUTPUT AND EXPORTS

It is expected that the recent trends in the output of crude petroleum will continue such that the level of 1974/75 will be reached. Moreover, the recently noticed improvement in the international oil market continues. Thus increased revenues will continue to accrue to this country from the sales of its crude petroleum.

(ii) AGRICULTURAL SECTOR

It is also expected that the various policy prescriptions now being implemented will be followed and amended only in the light of current development. Thus one would expect the overall local output of food, feed and fibre to meet domestic needs and expand into export markets. The reorganised new commodity marketing system would succeed in the improvement of produce output both for local and external markets. If our food output improves such that this country is self-sufficient in food supplies, a good foundation would have been laid for the national economy.

(ii) HOUSING

It is expected that the present policies designed to expand home ownership and housing construction should prove successful. If they do, then the present contribution of high rentals to the inflationary pressure in the economy should yield place to reduction of such pressure.

(vi) FISCAL MEASURES

The reduction of customs duties on imported raw materials should be seen to enhance domestic industry. On the other hand, the raising of import duties on a varity of imported finished goods should truly protect domestic industry. Other impositions of duties and taxes for revenue purposes are expected to improve governments' finances. If these turn out to be efficacious as expected it would then be possible to bridge internal resources gap and equate expenditures with resource base.

(v) MONETARY POLICY

The policies were designed to mop up excess liquidity, limit the increase in commercial and merchant banks' credit to the private sector and direct larger part of the permissible increase in credit to the preferred sectors of the economy. Achievements of these were to be through the issue of stabilization securities, the restriction of the rate of expansion of aggregate credit and the use of credit guidelines on the sectoral distribution of credit.

It is hoped these policy measures will be effective, in particular with the changes in interest rate structures adopted since 1977/78.

(v) EXCHANGE CONTROL POLICY MEASURES

As the foreign exchange budget for 1977/78 envisaged a balance between the amount of inflow and outflow of funds, the background of accelerating imports exchange control policy adjustments made it necessary to design specific measures. It is envisaged that such measures as the regulation of remittances of consultancy and technical fees, payment of management fees and educational remittances as well as the new Foreign Exchange Anti–Sabotage Decree, among others, should be effective in narrowing the external resource gap and yield favourable surpluses on external accounts. If this happens it will then start the situation of healthy external accounts to enable this country import the necessary capital equipments for needed investments.

(vii) INCOMES POLICY

The present incomes policy dealing with wage and salary restrains as

The effects of the present packages offered by the government to ginger up exploration activities are expected to yield dividends. More oil wells are expected to be discovered and drilled. Production and export of crude oil should have nearly doubled the present leve. The refineries at Port Harcourt, Warri and Kaduna should all be producing refined products both for domestic use (with zero imports) and export surpluses for foreign markets. Thus the country should be exporting both crude and refined petroleum products.

well as payable dividends are expected to ensure social equity. It is hoped this policy will be able to achieve that objective.

(viii) INFLATION

It is also believed that the present anti-inflationary measures taken will not worsen but will reduce inflation rates and ensure greater price stability.

(ix) OTHER MEASURES

The Second Nigerian Enterprises Promotion Decree of 1977 is expected to tighten up the loose ends in the 1972 decree by giving more powers to the Nigerian Enterprises Promotion Board for enforcing compliance with the provisions of the decree. It is hoped this will streamline conditions binding the distribution of ownership of shares of affected enterprises. Indeed, it is hoped this should assure foreign investors that nationalization is not a part of the national policy and what is done under this decree is final in intent.

Of course, since the Nigerian economy has a number of resilience features capable of helping adjustment mechanisms, the system should be able to correct any trends towards instability.

(i) Nigeria's external debt is relatively low and is hoped should be kept low. (ii) The Federal Government, despite its heavy commitments and consequent heavy spending is still a net saver as shown by a recurrent surplus of N2.8 billion in 1977/78 and N2.4 billion in 1978/79 and is likely to prevent serious imbalances from occuring.

On the above assumptions, two areas — the external sector and resources mobilisation — both related to the fortunes and misfortunes of the petroleum sector will have to be watched. Given the recent trends in the improvements of petroleum output, external sector balances will be favourable.

The inflow of these incomes should be, mobilised for further investments and thus generate greater economic activities. In this way, the prospects for achieving the major economic goals of continued growth in output, (gross domestic product) and generation of employment are excellent. With well-planned diversification of investments, the use of incomes policy for social equity and price stability through proper policy tolls should improve the fortunes of this economy in the immediate future.

MEDIUM TERM PERSPECTIVE (1980–85)

In the medium term in this case, covering 1980–85 (the 4th Development Plan Period), the effects of the present economics measures are expected to crystallise.

(i) CRUDE AND REFINED PETROLEUM PRODUCTION

The effects of the present packages offered by the government to ginger up exploration activities are expected to yield dividends. More oil wells are expected to be discovered and drilled. Production and export of crude oil should have nearly doubled the present level. The refineries at Port-Harcourt, Warri and Kaduna should all be producing refined products both for domestic use (with zero imports) and export surpluses for foreign markets. Thus this country should be exporting both crude and refined petroleum products

(ii) INDUSTRIAL PRODUCTION

Most of the industries now being protected and assisted ought to be able to produce substantially to meet, at least, domestic needs. The cement plants, beer brewing plants, vehicle assembly plants etc. should produce to substitute for imports. Others should be able to reduce the level of the nation's dependence on imports. Such reduction of imports of these items should increase internal activity level and improve our balance of trade.

(iii) AGRICULTURE

The massive efforts made on the production of food and raw materials should by 1984/85 be able to supply the needs of this country. This also should reduce our dependence on imports.

(iv) MONETARY AND FISCAL POLICY MEASURES

Given the current trends and the application of the relevant monetary and fiscal policy measures, it is expected that they should ensure controlled expenditure pattern commensurate with the national resource base. Indeed the following lines of policy should be kept operative and adjusted from time to time.

(a) Equation of government spending within the levels of available resources.

(b) Adjustment of the exchange rate for development and balance of payments purposes in order to correct the long term adverse structural implications of over valued or undervalued Naira.

(c) Adjustment of interest rates to cater for resource mobilisation and discouragement of excessive capital waste.

(d) Gradual reduction of consumer subsidies which not only tend to impose heavy costs on government but tend to worsen public sector savings and efficient services.

(e) The optimal use of producer subsidies to promote industrial and agricultural production and which should be phased out in time to ensure efficient use of resources.

(f) A strategy for external borrowing with a balance between maturity structure of various loans — short, medium and long terms — preference being given to long over the short-term suppliers' credits.

(g) A policy for assisting the transfer of technology and improvement of foreign investment climate.

Given the above conditions along with political and social stability, the economy is expected to move steadily towards the achievement of significant growth rates of gross domestic product, optimum resource employment, stable price levels and social equity. These of course are predicated on adaptive planning, resourceful monetary and fiscal policies and greater cooperation of the public and private sectors on the common grounds of national interests. Given all these, the outlook on the Nigerian economy both in the short run and medium terms, appear bright.