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# THE CURRENT STATE OF THE NIGERIAN ECONOMY AND ITS CHALLENGES TO POLICY MAKERS\*

by

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Mr. Chairman, Fellow Bankers, Distinguished Guests, Ladies and Gentlemen:

First of all, I want to say I am highly delighted to be invited again to be the Guest Speaker at this 1985 Annual Dinner of the Nigerian Institute of Bankers. I feel particularly happy to be here to share my thoughts with you today, realising the role the Institute of Bankers has been playing and will continue to play in the development of the Nigerian economy.

\* A speech delivered at the Annual Dinner of the Nigerian Institute of Bankers on November 8, 1985.

Tonight, I have decided to deliberate on the issue of "The current state of the Nigerian economy and its challenges to policy makers." The discussion is organised into three broad sections. Part I describes briefly the current state of the Nigerian economy. As the emphasis is on the current situation, the historical development, which I am sure you are all familiar with, will be largely ignored. Part II examines the major problems confronting the economy, while the third part focuses on the challenges for policy makers.

## PART I

### The Current State of the Nigerian Economy

In order to appreciate the implications of the current state of the Nigerian economy for policy makers, I intend to highlight first of all the developments in the major sectors of the economy today. The Gross Domestic Product (GDP) at 1977/78 factor cost is projected to increase in 1985 by about 2 per cent over the level in 1984, with agriculture, petroleum and manufacturing accounting for the bulk of the increase. Although the projected increase in 1985 is remarkable in the sense that the GDP had declined by 6.4 and 0.6 per cent in 1983 and 1984, respectively, the level of GDP in 1985 is still below the levels attained in each of the years 1977-1982 and only marginally higher than the level attained in 1983. Ironically, population growth continues unabated and if we have to avoid starvation which we must, then the gains made in improved food production has to be stepped up and the increase has to continue to be ahead of population growth. With population growing at about 2.5 per cent per annum, our per capita income has declined from about ₦400 in 1977 to about ₦286 in 1985.

#### 1. Agriculture

Agriculture, which was the mainstay of the Nigerian economy in the 1960s providing the bulk of the revenue to the government and the nation's foreign exchange earnings, suffered severe neglect since the 1970s during the period of the so-called oil boom. As a result, the nation started to import food and other agricultural products that hitherto were produced in the country. But largely as a result of the fast deterioration in foreign exchange earnings since the turn of the decade, government has shown greater determination in the development of the agricultural sector so that the sector can provide food for the teeming population and thereby lead to foreign exchange savings, provide raw materials for use in agro-allied industries, and earn foreign exchange for the nation to supplement the foreign exchange earning from the oil sector. To

enable the sector perform this role, there is the need to modernise the sector which today still manifests the symptoms of a peasant agriculture, dependent on very crude traditional technology that has made the industry one of the most unattractive in the country.

Largely as a result of government renewed efforts to develop the sector, favourable weather conditions, the increase in areas put under cultivation by individual and corporate farmers, and timely supply of adequate farm inputs, significant improvement in agricultural output was recorded in 1984 while the situation is expected to improve further in 1985. Encouraging as this development may be, there is the concern that the gains in increased output may be severely negated if adequate and timely solutions are not found to the problems of storage, preservation, and distribution.

#### 2. Industrial sector

Industrial production performance has remained unsatisfactory in recent years. The indices of industrial production, which had increased by 11.4 per cent in 1982, fell by 25.1 and 2.1 per cent in 1983 and 1984, respectively. It is, however, estimated to increase by about 7 per cent in 1985. The manufacturing sub-sector which increased by 20.8 per cent in 1982 declined by 33.0 and 9.3 per cent in 1983 and 1984, respectively, due largely to shortages in the supplies of imported essential production inputs, arising from shortage of foreign exchange. An increase of 10.8 per cent is estimated for 1985. This increase is not unrelated to the spill-over of most of the import licences which were issued in late 1984 in addition to those issued in 1985.

The structure of industries in Nigeria is characterised by heavy dependence on imported raw materials, machinery and spare parts which tends to negate one of the major gains expected from import substitution—that of foreign exchange savings. Although recently, many companies have embarked on local

raw material development programmes, it may take some time before the use of local raw materials in our industries produce significant results. In the meantime, many industries are reported to be operating below installed capacities.

The strong downward trend in mineral production since 1980 was reversed in 1984 largely as a result of the increase in crude petroleum output made possible by the increase in demand for Nigerian crude petroleum as well as the concession by OPEC for Nigeria to increase its quota of output. In 1985, crude petroleum output is expected to increase further. However, the oil industry has continued to face several problems including uncertainty in demand for oil in the international market. It must be stressed here that the petroleum sector is very vital to the survival of the Nigerian economy. It provides the bulk of the nation's foreign exchange earnings and revenue to the government.

### 3. Monetary and credit developments

In recent years, monetary and credit developments were characterised by a fast deceleration in the growth of major monetary and credit aggregates in line with policy objectives. The growth in the narrow measure of money supply ( $M_1$ ) decelerated from 12.3 per cent in 1983 to 8.2 per cent in 1984 and is projected to rise by 6.3 per cent at the end of 1985. The growth in the broader measure of money supply ( $M_2$ ) also decelerated from 14.7 per cent in 1983 to 11.5 per cent in 1984 and is projected to rise by 9.7 per cent in 1985. Quasi-money is expected to expand by 14.2 per cent in 1985, compared with the increase of 16.2 per cent in 1984.

A major feature in bank credit developments in recent years has been sharp declines in credit to the domestic economy, especially credit to the private sector. Total credit expansion to the domestic economy dropped from 28.7 per cent in 1983 to 10.5 per cent in 1984 and is expected to decline further to 6.4 per cent in 1985. The rate of increase in credit to the private sector fell from 8.6 per cent in 1983 to 4.8 per cent in 1984 and is projected to increase to 5.9 per cent in 1985, following expectations of gradual recovery in the economy and the consequent expansion in private sector demand for bank credit as well as the anticipated increase in credit to Commodity Boards. Largely as a result of government determination to reduce its deficit financing since 1984, bank credit to the sector is projected to increase by 6.7 per cent in 1985, compared with increases of about 50 and 15 per cent in 1983 and 1984, respectively.

### 4. External sector

Since the past five years, the external sector has posed serious problems for economic management. There has been fast and persistent deterioration in export earnings particularly receipts in crude petroleum exports while foreign exchange expenditure has been high and rising. Total foreign exchange earnings which stood at ₦13.0 billion in 1981 dropped to ₦8.4 billion in 1983 and is projected to rise to ₦10.7 billion in 1985. In the same period, foreign exchange expenditure at an all-time high of ₦16.0 billion in 1981 dropped to ₦8.8 billion in 1983 and is projected to rise to ₦11.0 billion in 1985.

As a result of these developments, the balance of payments position swung from a surplus of ₦2.0 billion in 1980 to a deficit of ₦3.0 billion in 1981. The deficits continued in the following two years though at reduced rates. However, there was a balance of payments surplus of ₦362.1 million in 1984, following vigorous import controls. For 1985, the balance of payments position is projected at a deficit of about ₦304 million.

Following the deterioration in the balance of payments position, external reserves declined persistently. From an all-time high of ₦5.6 billion in 1980, external reserves fell to ₦792.4 million in 1983 but rose to ₦1.1 billion in 1984. For 1985, the reserves are projected to decline to ₦910.0 million.

Currently, the problems of the external sector are compounded by high debt service burden and accumulation of short-term trade arrears on documentary credit and bills on open account. Although refinancing agreements have been concluded with the international banks since 1983 and that promissory notes to the tune of \$1.258 billion have so far been issued, there are still problems with the refinancing of the remaining claims particularly those of insured creditors.

The situation of the external sector is critical not only because of the adverse balance of payments position and the low level of reserves but also and more importantly because it can, if the situation not properly managed, constrain future development of the country.

### 5. Government finances

In the last few years, the overall financial position of both the federal and state governments deteriorated sharply as reflected in their persistently high budgetary deficits. Based on budget estimates, the overall budgetary deficit of the Federal Government stood at ₦6.1 billion in 1983. But largely as a result of government determination to reduce deficit financing in 1984, the deficit for that year dropped to ₦3.5 billion. In 1985, however, the deficit is projected to increase to ₦4.8 billion. The budgetary deficit of the state governments was estimated at ₦6.8 billion in 1983. However, this was estimated to decline to ₦2.6 billion in 1984 and to ₦1.7 billion in 1985.

The problems of the government sector are many and varied and include (1) over-dependence on oil revenue for financing its expenditure programmes and inadequate attention paid to generating revenue from non-oil sources; (2) implementation by all tiers of government of unsustainable huge capital projects as well as projects that could have been better handled by the private sector in addition to expenditure on increasing recurrent services; and (3) indiscriminate resort to domestic and foreign borrowings particularly by the state governments.

### 6. Inflation

Inflation has remained a major source of concern to the Nigerian authorities in recent years. Inflation rate, as measured by the composite consumer price index for all commodities, stood at an all-time high of 39.6 per cent in 1984. However, available data shows that the upward pressure on domestic prices has somewhat abated in recent months. The inflation rate for the 12-month period ended July, 1985, decelerated to 20.2 per cent. All prices except those of drinks recorded lower rates of price increases.

Our knowledge of the Nigerian economy indicates that supply-side factors are dominant in exerting upward pressures on domestic prices. Very severe supply shortages in consumer goods and services markets, caused mainly by low level of domestic output, hoarding activities, long distribution chains and import restrictions have led to high rates of inflation in Nigeria.

### 7. Data problems

Generally speaking, there is a dearth of accurate, reliable and up-to-date statistics in the country except in few cases of monetary, credit and financial data published by the Central Bank. There are also statistical technical problems such as

biased, inconsistent, non-comparable and sometimes duplicated statistics from various producer agencies or sources, reflecting lack of cooperation, collaboration and coordination required of a good national statistical system. Lack of adequate data has adverse implications for policy formulation and implementation.

#### **8. Unemployment**

Although exact figures of unemployment in this country are not known, it is generally believed that the level is high and rising. What is more, the profile of the unemployed is shifting more to the graduates sector. The retrenchment exercise carried out in the public sector last year and lay-offs undertaken by the private sector have also contributed to the unemployment problem. Although some of the actions taken in this direction were inevitable, the social consequences can hardly be fully documented. The rising tide of criminal activities with the increasing daringness and apparent purposelessness of crimes and criminals may well be pointers to the increasing frustration caused by persistent adverse economic conditions and waning expectations.

#### **9. Stubborn behaviour of economic agents**

There appears to be a certain built-in stubbornness in the

attitude of the typical Nigerian economic agent. This stubbornness can hardly be sufficiently explained by reference to socio-cultural or traditional customs. It manifests itself in a strong propensity to circumvent laid-down rules of economic behaviour and to resist control and regulation. At more mundane levels, it underlies activities of smugglers, hoarders, and other underground economic activities. On the other hand, it tends to encourage a kind of softness and lukewarmness in the application and implementation of legitimate rules of economic conduct. Hence it provides a fertile ground for bribery, corruption, idleness and the contrivance of get-rich quick attitude which are antithetical to hard work and discipline.

#### **10. Patronage system**

Another dimension to the social problems plaguing this country is what may be described as a "patronage system" which confers almost automatically, preferential treatment on the basis of some kind of affinity. This has permeated the recruitment practices of establishments, the award of contracts and even the promotion and reward systems of institutions. This heightens inefficiency, corruption and reduces productivity, among other things.

## **PART II**

### **The Major Problems Confronting the Economy**

From the brief survey of the current state of the Nigerian economy above, the major problems confronting the economy can be summarised as follows:

1. Heavy dependence on the oil sector for foreign exchange earnings to finance foreign exchange expenditure as well as revenue from the sector to the government to meet its domestic expenditure requirements. For example, the contribution of the oil sector to total foreign exchange earnings between 1980 and 1985 averaged about 87 per cent, while the proportion of revenue from the sector to total government revenue in the same period averaged about 71 per cent. The heavy dependence on the oil sector for revenue implies that non-oil revenue has been relatively low.
2. Decline in oil sector receipts aggravated by volatility of the oil market, which has been reflected in the persistent low levels of external reserves and unfavourable balance of payments positions. Decline in oil sector revenue has also contributed to substantial reduction in government revenue.
3. Slow growth of the agricultural sector and the consequent inadequate output of food items and other items needed as inputs in other industries.
4. Slow growth of the industrial sector worsened by the heavy dependence of the sector on imported raw materials, machines and spare parts.

5. Inflation, reflecting inadequate supply of agricultural and industrial commodities and distribution bottle-necks.
6. Unemployment, which has been high and rising in recent years. In the last few years, university graduate unemployment has been on the increase.

It should be pointed out that these problems have been with us for a long time. As noted earlier, the neglect of the agricultural sector began in the seventies during the period of the oil boom while the pressures on the external sector and government finances began at the turn of the 1980 decade.

Efforts by policy makers to solve these problems as they reared their heads have been through the national development plans with an average time-frame of five years, the annual budgets and other policy directives such as contained in the "Economic Stabilisation Measures" of April, 1982, and the "State of Economic Emergency" of 1985, recently announced by the President of the Federation. While some of the measures that have been adopted have achieved some success, by and large, the problems have remained unsolved. On reflection, the failure of the policies to achieve their objectives can be attributed to, among others, inadequate specification problems to be solved and hence prescription of wrong measures, poor policy implementation, lack of nationalism and patriotism, lack of continuity in policies pursued, political instability, and over-regulation of the economy.

## PART III

### The Challenges to Policy Makers

Before I speak on the challenges of the current state of the economy to policy makers, I would like to examine the issue of who is the policy maker.

In a federal system of government such as Nigeria there are two levels of legislative powers – one at the federal government level and the other at the state government level. At the federal level, the ultimate legislative or policy making body today is the Armed Forces Ruling Council (AFRC) while at the state government level, the ultimate legislative or policy making body is the State Executive Council (SEC). Thus, it can be concluded that in Nigeria, the policy makers are the AFRC presided over by the President of the Republic at the federal level and the SEC presided over by the respective Governors in the states. To me, this is a narrow definition of policy makers. It is acceptable that the AFRC has full responsibility for all its legislative or policy actions at the federal level and that the SEC has similar responsibilities at the state government levels. Nevertheless, I strongly believe that the concept of policy makers goes beyond that of the body that takes the final legislative or policy decision.

I want to suggest that the policy makers in Nigeria include all persons (individuals and corporate), ministries and parastatals that make some inputs into any policy decision. In this broader concept of policy makers, I have therefore included for example, our organisation – the Nigerian Institute of Bankers, the Manufacturers' Association, the Nigerian Chamber of Commerce, – and the Institution which I represent – the Central Bank of Nigeria. Therefore, the challenges of the current economic situation are challenges not only to the AFRC or the SEC but also to all of us that have the privilege in one way or the other to influence the course of policy both at the stage of making the policy and at the stage of implementing it.

I now like to discuss specific challenges of the current state of the Nigerian economy for policy makers.

#### 1. Complete re-orientation

The current state of the economy calls for complete re-orientation in our perception and attitude to national issues. For too long, we have been too concerned about benefits to ourselves as individuals and groups with deep-rooted manifestation of ethnic, nepotic, social and interest groups, state, and north versus south cleavages. For once we should endeavour to think, speak and act as people of the same nation and develop the right attitudes of nationalism, patriotism and loyalty to issues affecting the nation. Complete re-orientation of ourselves will foster understanding and cooperation among us in the pursuit of national objectives and obviate the present situation in which everybody does whatever he likes and one person unnecessarily blaming the other, with the result that progress is retarded.

#### 2. Policy formulation

As indicated earlier, policy makers must improve the policy making process in two major ways. First, the measures adopted to deal with the problems must take into account the structural nature of our economic problems. Second, the measures must be conceived and designed in a framework of macro-economic approach, taking into consideration in a simultaneous manner all the economic problems to be solved.

On the challenges of the current economic crisis to policy makers, I have emphasised the structural nature of our economic problems. In recent past too much emphasis appeared to have been laid on stringent control of the economy with a view to cutting demand to available resources. Now while control in certain areas are still necessary there is need for a new policy orientation. A major objective of policy should now aim at restructuring the economy and decontrolling some areas of the economy so as to give individuals and corporate bodies opportunity to use their initiative for productive activities. The structural adjustment policies would be designed to rationalise public investment priorities in the light of resource availabilities, provide incentives to investors and producers of essential commodities and export commodities and increase efficiency of resources use.

#### 3. Policy implementation

The importance of policy implementation cannot be over-emphasised. Indeed, the greatest problem in Nigeria is translating policy decisions into reality. The public sector in Nigeria has an unsatisfactory record of policy implementation. While there are some instances where policies have been properly implemented, there are several cases where policies have not been adequately implemented or implemented at all.

As aptly stated by Frank E. Harrison in his book: *The Management Decision-making Process* (p. 36), “. . . a decision made without implementation is merely an interesting abstraction. It is in the implementation phase that the choice moves from the intellectual realm to a commitment of time, energy and resources.” It is important to draw attention to the human factor in policy implementation. Decisions are implemented by human beings whose contributions can be positive or negative, depending on their dispositions, degree of responsibility and commitment to the attainment of the objective. Finally, it should be stressed that as much as possible persons who participate in policy making should also be involved in the policy implementation as well as during the follow-up and control stages.

During implementation, it will also be necessary to set up a machinery for monitoring the effectiveness or otherwise of the implementation. This involves setting up of standards and targets against which the outcomes can be measured.

#### 4. Continuity in policies

Most of the economic problems this country has had in the past as well as the current ones are structural in nature and any measures designed to deal with them must be cast in a medium-long-term perspective. It is therefore highly desirable that policies to be adopted to solve the present economic problems must be given sufficient time to work before they are reviewed or changed. In the past, the ineffectiveness of some policies was not because the policies were bad but because they were changed before they had time to work. While some degree of flexibility must be allowed for, there is also need for stability. Stable measures make for stable environment. Changes in policies should only be made if such changes are considered to be in the public interest. Constant changes in policies create problems for planning and development.

## **5. Regulation of economic activities**

In the past, there has been general lack of systematic approach to policy making. Policy makers reacted to developments on the spur of the moment. For example, in periods of balance of payments disequilibrium, the policy makers resorted to tightening exchange control measures and if the balance of payments position worsened, the controls were tightened further. This approach has overtime led to over-regulation of economic activities in several sectors of the economy. Although such regulations cannot be totally avoided, there is a limit to which regulations can facilitate efficiency and productivity.

Excessive control and over-regulation of our economy have in fact certainly not proved a successful policy as it has neither led to the required growth nor development. A conducive environment should now be created for foreign direct investment and their attendant technological transfer. The policies of self over-protection and inward looking have not been successful. The Nigerian entrepreneurship has not really been challenged through adequate exposure to the outside world. Therefore, in the years ahead, policy makers must make serious review of the existing regulations with a view to de-regulation wherever necessary.

## **6. Political stability**

The current economic situation also calls for political stability. Not only will political stability ensure that policies are not unnecessarily changed too often, it will also help, among others, to restore international confidence and understanding in the Nigerian economy.

Mr. Chairman, ladies and gentlemen, I have tried in this address to give you the picture of the current situation of the Nigerian economy and the challenges to policy makers. I drew your attention to the fact that although there are some little signs of improvement in the economy in 1985, the economy is still very much in the woods. Although the performance of the agricultural and industrial sectors has been encouraging since last year, the indexes of their output are below those at the turn of the decade. I also drew your attention to the peculiar and intractable problems of the external and government sectors, both of which suffer from the decline in revenue from the oil sector. I also talked about the issues of inflation, unemployment and other social factors.

On the challenges of the current economic situation for policy makers, a programme of recovery which emphasizes structural adjustment of the economy and elements of decontrol should be established. The policy maker henceforth should not concentrate only on how to ration available foreign exchange but also on how to earn more foreign exchange from a wider base. Policy should not unduly concentrate on demand management, it should contain substantial element of supply management. In conclusion, I feel the economy should be directed along a course that will lead to minimum control in the medium to long-run.

I pray to Allah and hope that this time around, we shall get it right for the sake of our great country, for our sake and for the sake of posterity.

I thank you for your attention.