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Trends in Nigeria's balance of payments and policy measures needed for self-reliance

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TRENDS IN NIGERIA'S BALANCE OF PAYMENTS AND POLICY MEASURES NEEDED FOR SELF-RELIANCE

The period 1960 to 1977 is long enough for a comprehensive discussion of the trend in Nigeria's balance of payments and the structural and cyclical changes that have attended to and influenced it. Tables 1a, b, c and d which are a summary of balance of payments from 1960 up to 1977 show the contribution of two major sectors—the oil and the non-oil sectors. For purposes of analysis, the period has been divided into three sub-periods.

1960-1969 period

During this period, the overall balance of payments was in deficit in 1960 and 1964 and in 1966 and 1967. The merchandise trade of both the oil and non-oil sectors was in persistent deficit between 1960 and 1965, even though the oil sector was in overall surplus during the period. Between 1966 and 1969, the surplus of the oil sector more than offset the deficit of the non-oil sector. The services account of both the oil and non-oil sectors showed sustained deficit and grew rapidly from ₦46.6 million in 1960 to ₦104.8 million in 1964. By the end of 1967, it had reached ₦222.2 million. The deficit recorded on the oil sector services account which represented only about 17.6 per cent of the total in 1960 rose to about 25 per cent in 1964 and to about 54 per cent in 1967. The large surplus on merchandise trade and on capital account in 1966 and 1967, however, moderated the balance of payments deficit of those years.

Balance of payments surpluses were recorded in 1965, 1968 and 1969. In those years, the surpluses were accounted for largely by the oil sector—the non-oil sector recorded large deficits on current account—inspite of the cessation of oil exports during 1967 to 1969 which stemmed from the civil war.

1970-1973 period

The foreign exchange earning of the country was drastically and significantly enhanced by the phenominal increase in petroleum exports.

There was a balance of payments surplus during the period in 1970 and 1972 and the accretion to external reserves rose from ₦176.8 million in 1970 to ₦438.4 million in 1973. While oil exports accounted for 57.9, 75.8, 82.7 and 82.7 per cent of total exports (oil and non-oil) in 1970, 1972 and 1973 respectively, foreign exchange earnings from oil accounted for 57.6, 70.4 and 70.7 per cent of total foreign exchange earnings for the years.

Except in 1970 when there was a record deficit of ₦130.4 million, the oil sector recorded surpluses in its capital account during the period.

The deficit on the services account widened progressively from ₦268.0 million in 1970 to ₦887.3 million in 1973. While both the oil and the non-oil sectors accounted for the increase, the oil sector's deficit increased and averaged about 68 per cent of the total deficit between 1971 and 1973—the oil sector's external payments on the services account, made up largely of profits, dividends and overseas contractors' fee rose from ₦81.2 million in 1970 to ₦624.6 million in 1973. The high payments on the services account led to a current account deficit for the two sectors combined between 1970 and 1972 although the oil sector recorded a current account surplus over the period. Throughout the period 1970-1973, the oil sector recorded surpluses on the current account, its deficit on the services account notwithstanding. In 1973, the surplus on the current account was due to the oil sector.

On the capital account, there was rapid decline in capital inflow in 1970 and in 1973 and some increases in 1971 and 1972.

1974-1977 period

The small balance of payments surplus recorded in 1973 increased to an unprecedented surplus of ₦3.1 billion in 1974, ₦2.9 billion higher than the 1973 increase. The surplus was however short-lived: by the end of 1975 it had dropped to a paltry sum of ₦157.5 million while in 1976 and in 1977, there was a swing to deficits of ₦340 million and ₦447 million respectively.[1]

Over the period, the oil sector accounted for about 92 percent of the total exports which rose from ₦5.8 billion in 1974 to a peak of ₦8.7 billion at the end of 1977. Imports in the same period rose from 1.7 billion to ₦7.3 billion.

The deficit on the services account widened further from earlier years. From ₦1.3 billion in 1974, it rose to ₦1.5 billion in 1976 and dropped marginally to ₦1.2 billion in 1977.

On the capital account, the absolute decline in capital inflow which began in 1972 resulted in actual dis-investment in 1974 and in 1976. The increase recorded in 1975 and 1977 was due largely to re-investment of locally generated funds.

A further analysis of the major components of the balance of payments items reveal the following characteristics:

Merchandise Trade (exports and imports) increased rapidly over the period. Between 1960 and 1972, exports averaged ₦621 million a year while imports averaged ₦586 million a year. Between 1973 and 1977, the yearly average of imports was ₦5.2 billion while exports averaged ₦5.7 billion. It is significant to note that the *monthly average* of exports and imports at ₦474 million and ₦430 million respectively was only about ₦100 million on either side lower than *the yearly average* of ₦621 million and ₦586 million of the period 1960 to 1972.

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[1] In June, 1978, there was an estimated deficit of ₦1.1 billion.

TABLE 1(a)

SUMMARY OF BALANCE OF PAYMENTS: NIGERIA, 19601965
(₦ million)

Category	1960 Oil	1960 Non-oil	1960 Total	1961 Oil	1961 Non-oil	1961 Total	1962 Oil	1962 Non-oil	1962 Total	1963 Oil	1963 Non-oil	1963 Total	1964 Oil	1964 Non-oil	1964 Total	1965 Oil	1965 Non-oil	1965 Total
Merchandise trade	- 1.2	- 87.4	- 88.6	+13.0	-100.4	- 87.4	+30.2	- 97.4	-67.2	+31.8	- 61.0	- 29.2	+40.6	-109.2	- 68.6	+109.2	-114.8	- 5.6
Non-merchandise trade	- 8.2	- 38.4	- 46.6	- 3.4	- 25.0	- 28.4	- 4.0	- 26.0	-30.0	-13.6	- 60.8	- 74.4	-26.6	- 78.2	-104.8	- 72.8	- 54.4	-127.2
Balance of goods and services	- 9.4	-125.8	-135.2	+ 9.6	-125.4	-115.8	+26.2	-123.4	-97.2	+18.2	-121.8	-103.6	+14.0	-187.4	-173.4	+ 36.4	-169.2	-132.8
Unrequited transfers	–	- 3.4	- 3.4	–	- 7.6	- 7.6	–	- 0.4	- 0.4	–	- 5.4	- 5.4	–	+ 0.4	+ 0.4	–	+ 5.4	+ 5.4
Balance on current account	- 9.4	-129.2	-138.6	+ 9.6	-133.0	-123.4	+26.2	-123.8	-97.6	+18.2	-127.2	-109.0	+14.0	-187.0	-173.0	+ 36.4	-163.8	-127.4
Balance on capital account	+24.8	+ 29.4	+ 54.2	+13.6	+ 50.4	+ 64.0	+ 6.6	+ 23.2	+29.8	+10.4	+ 58.8	+ 69.2	+36.2	+111.4	+147.6	+ 34.8	+ 97.2	+132.0
Allocation of SDRs	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
Net change in banking assets (–"increase," + "decrease" in assets)	–	–	+ 78.4	–	–	+ 35.0	–	–	+55.8	–	–	+ 90.0	–	–	+ 33.4	–	–	- 19.2
Errors and omissions	–	–	+ 6.0	–	–	+ 24.4	–	–	+13.0	–	–	- 50.2	–	–	- 8.0	–	–	+ 21.8

TABLE 1(b)

SUMMARY OF BALANCE OF PAYMENTS: NIGERIA, 1966-1971
(₦ million)

Category	1966 Oil	1966 Non-oil	1966 Total	1967 Oil	1967 Non-oil	1967 Total	1968 Oil	1968 Non-oil	1968 Total	1969 Oil	1969 Non-oil	1969 Total	1970 Oil	1970 Non-oil	1970 Total	1971 Oil	1971 Non-oil	1971 Total
Merchandise trade	+144.0	- 82.8	+ 62.0	+109.0	- 68.2	+ 40.8	+54.2	- 19.6	+ 34.6	+236.2	- 69.4	+166.8	+464.8	-291.8	+173.0	+929.8	-644.8	+285.0
Non-merchandise trade	-115.8	- 68.0	-183.8	-102.6	-119.6	-222.2	-56.4	-180.8	-237.2	- 96.2	-200.0	-296.2	- 81.2	-186.8	-268.0	-329.2	-187.0	-516.2
Balance of goods and services	+ 29.0	-150.8	-120.8	+ 6.4	-187.8	-181.4	- 2.2	-200.4	-202.6	+140.0	-269.4	-129.4	+383.6	-478.6	- 95.0	+600.6	-831.8	-231.2
Unrequited transfers	–	+ 2.4	+ 2.4	–	+ 15.4	+ 15.4	–	+ 34.4	+ 34.4	–	+ 20.8	+ 20.8	–	+ 45.0	+ 45.0	–	+ 1.8	–
Balance on current account	+ 29.0	-147.4	-118.4	+ 6.4	-172.4	-166.0	- 2.2	-166.0	-168.2	+140.0	-248.6	-108.6	+383.6	-433.6	- 50.0	+600.6	-830.0	-229.4
Balance on capital account	+ 57.8	+ 39.0	+ 96.8	+ 91.0	+ 31.8	+122.8	+59.8	+100.2	+160.0	- 33.4	+114.0	+ 80.6	-130.4	+179.6	+ 49.2	+ 4.0	+289.4	+293.4
Allocation of SDRs	–	–	–	–	–	–	–	–	–	–	–	–	–	+ 12.0	+ 12.0	–	+ 10.4	+ 10.4
Net change in banking assets (–"increase," + "decrease" in assets)	–	–	+ 17.6	–	–	+ 67.4	–	–	- 6.0	–	–	- 17.2	–	–	- 58.6	–	–	-127.8
Errors and omissions	–	–	+ 4.0	–	–	- 24.2	–	–	+ 14.2	–	–	+ 43.2	–	–	+ 47.4	–	–	+ 53.4

TABLE 1 (c)

SUMMARY OF BALANCE OF PAYMENTS: NIGERIA, 1972–1974
(₦ million)

Category	1972			1973			1974		
	Oil	Non-oil	Total	Oil	Non-oil	Total	Oil	Non-oil	Total
Merchandise trade	+1,141.2	-663.7	+477.5	+1,797.3	- 773.2	+1,024.1	+5,618.3	-1,179.0	+4,439.3
Non-merchandise trade	- 527.3	-245.4	-772.7	- 624.6	- 262.7	- 887.3	- 561.2	- 753.5	-1,314.7
Balance of goods and services	+ 613.9	-909.1	-295.2	+1,172.7	-1,035.9	- 136.8	+5,057.1	-1,932.5	+3,124.6
Unrequited transfers	–	- 14.3	- 14.3	–	- 29.1	- 29.1	–	- 62.1	- 62.1
Balance on current account	+ 613.9	-923.4	-309.5	+1,172.7	-1,065.0	+ 107.7	+5,057.1	-1,994.6	+3,062.5
Balance on capital account	+ 195.8	+ 63.4	+259.2	+ 64.5	- 5.3	+ 59.2	+ 135.8	- 141.7	- 5.9
Allocation of SDRs	–	+ 10.2	+ 10.2	–	–	–	–	–	–
Net change in banking assets (-"increase," + de-crease" in assets)	–	–	+ 40.8	–	–	- 165.5	–	–	-3,102.2
Errors and omissions	–	–	- 0.7	–	–	- 1.4	–	–	+ 45.6

TABLE 1(d)

SUMMARY OF BALANCE OF PAYMENTS: NIGERIA, 1975–1977
(₦ million)

Category	1975			1976			1977[1]		
	Oil	Non-oil	Total	Oil	Non-oil	Total	Oil	Non-oil	Total
Merchandise trade	+4,648.3	-3,161.2	+1,487.1	+5,826.9	-4,533.4	+1,293.5	+6,994.6	-6,355.0	+ 639.6
Non-merchandise trade	- 579.3	- 788.4	-1,367.7	- 547.4	- 907.6	-1,455.0	- 531.0	- 646.4	-1,177.4
Balance of goods and services	+4,069.0	-3,949.6	+ 119.4	+5,279.5	-5,441.0	- 161.5	+6,463.6	-7,001.4	- 537.8
Unrequited transfers	–	- 76.8	- 76.8	–	- 97.8	- 97.8	–	- 118.7	- 118.7
Balance on current account	+4,069.0	-4,026.4	+ 42.6	+5,279.5	-5,538.8	- 259.3	+6,463.6	-7,120.1	- 656.5
Balance on capital account	+ 121.4	+ 19.7	+ 141.1	- 42.0	- 8.6	- 50.6	+ 147.5	+ 86.9	+ 234.4
Allocation of SDRs	–	–	–	–	–	–	–	–	–
Net change in banking assets (-"increase," + "de-crease" in assets)	–	–	- 157.5	–	–	+ 339.9	–	–	+ 447.0
Errors and omissions	–	–	- 26.2	–	–	- 30.0	–	–	- 24.9

[1] Provisional

Between 1960 and 1974 exports had increased by 26 per cent a year while imports grew by 13 per cent over the same period. Between 1975 and 1977, the reverse had begun with imports average growth rate of 65 per cent and exports at 17 per cent.

Developments in the first six months of 1978 showed imports totalled ₦3.4 billion while exports amounted to ₦2.6 billion resulting in a trade deficit of ₦800 million; the first visible trade deficit recorded since 1965.

The behaviour of imports

From the period 1973 to 1977, there was a six-fold increase in imports–the year that marked the beginning of the new and higher level of oil receipts. In absolute terms imports, increased from ₦1.26 to ₦7.3 billion during the period. In 1977 alone, imports increased by 42 per cent above the 1976 level. The most rapid annual expansion in imports occurred in 1975 when total imports more than doubled. Since then, the pace of expansion has been less feverish but nonetheless rapid. Some selected items of imports are shown in Table 2.

In the current year, imports payments on the basis of Central Bank sources indicate an acceleration in the pace of expansion of imports. Payments up to and including March 1978 indicate that imports may be running at about the level in the fourth quarter of 1977 but some 22 per cent above the level in the first quarter of 1977. Much more disturbing is the level of import payments during the second quarter of the current year at ₦2.00 billion. This is much higher than during any quarter of 1977. Payments in the first two quarters of the current year were consequently 23.4 per cent and 17.1 per cent higher than in the first and second quarters respectively of 1977. This trend was noticeable from 1975 when imports more than doubled the previous years. The rate of importation rose much more steeply than the rate of exportation. By 1976, the outflow on the 'goods and services' account was over and above the inflow such that only an exponential growth in oil revenues could accomodate such a steep rise in the level and rate of imports in the country. The high rate of importation has not slowed down and it is evident that the pattern and trend in imports have reached an alarming level and rate of growth which, if not curbed would have severe consequences for the economy in general by way of a permanent erosion of foreign exchange reserves and chronic balance of payments deficit especially in view of the short-fall in oil exports and revenues.

Services account

Developments in the services account have generally followed and showed some functional relationship between it and merchandise trade. Just as the growth in exports and imports became rapid, the growth in the deficit on services account moved up rapidly. The deficit which started in 1960 with a relatively paltry amount of ₦46.6 million has continued and maintained an upward trend throughout the whole period. What is perhaps important is the size of the deficit. From the period 1960 to 1965, the deficit averaged ₦68.6 million annually. From 1966 to 1971, it averaged ₦287 million annually. But between 1972 and 1977, the annual average was ₦1,162.5 million, whose monthly average of ₦96.9 million was more than the annual average of the early sixties. The breakdown of the services account from 1974 to June 1978 is shown in Table 3. Table 4 shows further the foreign exchange outflow and the major components responsible for such outflows from 1975 up-to-date in the balance of payments account.

TABLE 2

NIGERIA'S IMPORTS OF SELECTED COMMODITIES
SELECTED YEARS 1970-1978
(₦ million)

	Items	1970	1972	1974	1975	1976	1977 (Jan.-Oct.)	1978*
1.	Beer and stout	1.0	1.0	2.8	31.9	48.6	69.7	2.7
2.	Malt extract drinks	1.4	2.4	10.7	19.7	17.4	28.3	10.9
3.	Footwear	1.0	2.0	3.7	14.9	25.3	20.2	5.6
4.	Furniture	0.2	1.4	4.5	11.0	15.9	14.5	3.2
5.	Ready-made garments	2.0	16.1	20.6	139.1	74.2	68.8	12.9
6.	Passenger cars	7.0	30.1	99.2	222.3	261.0	249.7	113.3
7.	Radios, record players, tape, recorders, video tapes, tape decks and stereos	0.3	1.2	7.1	26.7	40.6	53.2	21.3
8.	TV sets, air conditioner and domestic fridges	1.1	1.4	5.4	32.2	42.6	39.1	22.4
9.	Built-up commercial vehicles	15.0	18.0	47.3	148.5	320.0	434.4	29.4
10.	Bar and insulated copper and aluminum electric wires	11.3	10.0	22.8	80.7	59.2	148.7	1.8
11.	Rice	0.1	1.0	1.5	2.4	20.1	112.9	62.3
12.	Electric generators	4.0	4.4	23.3	86.2	114.5	127.4	22.1

Source: Federal Office of Statistics and Central Bank of Nigeria.
*Releases of Foreign Exchange for 3 months, April-June 1978.

TABLE 3

SERVICES ACCOUNT
(NET) (₦ million)

	1974			1975			1976[1]			1977[2]			January–June 1978[3]		
	Oil	Non-oil	Total	Oil	Non-oil	Total	Oil	Non-oil	Total	Oil	Non-oil	Total	Oil	Non-oil	Total
Freight and Insurance	–	+ 10.4	+ 10.4	–	- 2.1	- 2.1	–	- 4.9	- 4.9	–	+ 3.3	+ 3.3	–	- 5.5	- 5.5
(a) Freight	–	+ 10.4	+ 10.4	–	- 2.1	- 2.1	–	–	–	–	- 11.1	- 11.1	–	- 5.4	- 5.4
(b) Insurance				–	–	–	–	–	–	–	+ 14.4	+ 14.4	–	- 0.1	- 0.1
Other Transportation	+ 6.6	- 32.8	- 26.2	+ 20.4	- 74.0	- 53.6	+ 20.9	-109.4	- 88.5	+ 23.5	- 95.3	- 71.8	+ 10.1	- 41.9	- 31.8
(a) Passenger fares	–	- 6.8	- 6.8	–	- 3.3	- 3.3	–	- 10.0	- 10.0	–	- 31.7	- 31.7	–	- 14.0	- 14.0
(b) Time charters	–	- 12.1	- 12.1	–	- 33.4	- 33.4	–	- 12.9	- 12.9	–	- 25.1	- 25.1	–	- 11.1	- 11.1
(c) Port expenditures	–	- 9.0	- 9.0	–	- 16.3	- 16.3	–	- 0.1	- 0.1	–	- 1.1	- 1.1	–	- 0.6	- 0.6
(d) Demurrage	–	–	–	–	- 21.0	- 21.0	–	- 86.4	- 86.4	–	- 62.3	- 62.3	–	- 33.5	- 33.5
(e) Others	+ 6.6	- 4.9	+ 1.7	+ 20.4	–	+ 20.4	+ 20.9	–	+ 20.9	+ 23.5	+ 24.9	+ 18.4	+ 10.1	+ 17.3	+ 27.3
Travel	- 1.9	- 68.4	- 70.3	- 1.1	-144.2	-145.3	- 0.6	-230.6	-231.2	- 1.2	-193.0	-194.2	- 0.6	-104.2	-104.8
(a) Business travel	- 1.2	+ 1.2	–	- 0.7	- 6.5	- 7.2	–	- 8.3	- 8.3	–	+ 2.7	+ 2.7	- 0.4	- 1.8	- 2.2
(b) Basic travel allowance	–	- 26.1	- 26.1	–	- 63.3	- 63.3	- 0.5	-191.5	-192.0	- 0.6	-133.4	-134.0	- 0.2	- 70.0	- 70.2
(c) Education	- 0.7	- 15.0	- 15.7	- 0.4	- 8.2	- 8.6	- 0.1	- 20.3	- 20.4	- 0.6	- 54.3	- 54.9	–	- 28.5	- 28.5
(d) Leave and medical tours	–	- 0.4	- 0.4	–	- 0.2	- 0.2	–	- 1.5	- 1.5	–	- 1.0	- 1.0	–	–	–
(e) Pilgrims[4]	–	- 26.8	- 26.8	–	- 62.5	- 62.5	–	- 5.1	- 5.1	–	–	–	–	–	–
(f) Government official tours	–	- 1.3	- 1.3	–	- 3.5	- 3.5	–	- 3.9	- 3.9	–	- 7.0	- 7.0	–	- 3.9	- 3.9
Investment Income	-308.1	- 67.7	-375.8	-320.8	-148.4	-172.4	-309.2	+127.9	-181.3	-205.6	+ 53.0	-152.6	- 92.6	- 34.8	-127.4
(a) Profit and dividend	-296.6	-103.2	-399.8	-308.6	-147.0	-455.6	-286.1	-136.5	-422.6	-196.4	-156.5	-352.9	- 87.3	- 96.9	-184.2
(b) Interest payment	- 11.5	+ 35.5	+ 24.0	- 12.2	+295.4	+283.2	- 23.1	+264.4	+241.3	- 9.2	+209.5	+200.3	- 5.3	+ 62.1	+ 56.8
Government (n.i.e.)	–	-272.1	-272.1	–	-276.6	-276.6	–	-294.2	-294.2	–	-176.2	-176.2	–	- 64.2	- 64.2
(a) Military transactions	–	-116.9	-116.9	–	- 76.8	- 76.8	–	-108.0	-108.0	–	- 89.9	- 89.9	–	- 36.7	- 36.7
(b) Non-Military transactions	–	-155.2	-155.2	–	-199.8	-199.8	–	-186.2	-186.2	–	- 86.3	- 86.3	–	- 27.5	- 27.5
Other Services	-257.8	-322.9	-580.7	-277.8	-439.9	-717.7	-258.5	-360.1	-618.6	-347.7	-238.2	-585.9	-300.0	-204.9	-504.9
(a) Service charges	- 13.9	-135.2	-149.1	- 15.1	-214.1	-229.9	-153.4	-200.4	-353.8	-136.2	-137.2	-273.4	-237.0	-129.4	366.4
(b) Commission and brokerage	–	+ 1.9	+ 1.9	–	- 1.1	- 1.1	–	-141.3	-141.3	–	- 0.5	- 0.5	–	- 0.8	- 0.8
(c) Books and correspondence courses	–	- 34.1	- 34.1	–	- 31.7	- 31.7	–	- 29.0	- 29.0	–	- 9.7	- 9.7	–	- 4.7	- 4.7
(d) Insurance non-trade	- 2.9	- 4.9	- 7.8	- 3.1	- 3.9	- 7.0	- 3.3	- 0.8	- 4.1	- 3.2	+ 14.3	+ 11.1	- 1.4	+ 2.1	- 0.7
(e) Copyrights, patents and royalties	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	–	- 8.9	- 6.9	–	- 2.2	- 2.2
(f) NNPC joint venture expenses	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	- 82.7	–	- 82.7	- 53.0	–	- 53.0
(g) Miscellaneous	-241.0	-150.6	-391.8	-259.6	-189.1	-448.7	-101.8	+ 11.4	- 90.4	-208.3	- 15.5	-223.8	- 8.6	- 69.9	- 78.5
TOTAL (NET)	-561.2	-753.5	-1314.7	-579.3	-788.4	-1367.7	-560.7	-871.3	-1418.7	-613.8	-563.7	-1117.4	-383.1	-455.5	-838.6

[1] Revised.
[2] Provisional.
[3] Preliminary estimates.
[4] Merged with basic travel allowance from April 1st, 1976.
n.a. = not available.

TABLE 4

FOREIGN EXCHANGE DISBURSEMENT: 1975-1978

Items	1975	1976	1977	January-August 1978
	(₦ 000s)			(₦ million)
A. **Visible Trade**	*3,506,366*	*4,396,235*	*6,342,579*	*5,230.2*
(i) *Private Sector*	*3,369,852*	*4,263,526*	*4,056,528*	*4,324.9*
1. Consumer goods	–	–	1,321,416	1,562.1
2. Capital goods	–	–	2,735,112	2,762.8
(ii) *Public Sector*	*136,514*	*132,709*	*876,922*	*905.3*
3. (a) Consumer goods	–	–	100,487	206.2
(b) Capital goods	–	–	241,289	513.5
4. Ministry of Defence	136,514	132,709	99,099	28.7
5. State governments	–	–	60,436	33.0
6. Statutory corporations	–	–	374,784	113.5
7. Higher institutions	–	–	10,793	10.4
B. **Invisible Trade**	*826,654*	*1,014,719*	*1,088,300*	*743.5*
(i) *Freight and Insurance*	*4,941*	*8,027*	*27,928*	*15.9*
8. Freight charges	–	–	17,780	8.0
9. Insurance (exports and imports)	3,740	7,380	2,410	0.8
10. Other insurance	1,201	647	7,738	7.1
(ii) *Other Transportation*	*45,594*	*201,302*	*130,029*	*93.8*
11. Passenger fares	10,132	42,401	37,550	22.4
12. Pilgrims charter fees	15,198	80,146	13,303	31.4
13. Other charter fees	8,106	34,671	70,236	39.0
14. Port expenditures	12,158	44,084	8,940	1.3
(iii) *Travel*	*162,776*	*243,031*	*320,758*	*53.5*
15. Business travel	10,652	13,253	10,461	7.9
16. Official and education tours	19,743	24,889	14,030	5.4
(a) Federal Government	–	5,785	4,656	2.3
(b) Parastates	–	–	967	1.8
(c) States	–	–	1,391	1.3
17. Basic travel allowance	69,063	197,453	188,222	39.6
18. Medical tours (a) Public	787	1,651	190	–
(b) Private	–	–	841	0.6
(iv) *Unrequited Transfers*	*63,598*	*95,527*	*132,851*	*104.8*
19. Home remittances	61,978	93,362	129,227	103.2
20. Pension	1,604	2,076	3,281	1.6
21. Cash gifts (a) Private	16	69	343	–
(b) Public	–	–	–	–
(v) *Government Services* (n.i.e.)	*366,242*	*193,339*	*61,943*	–
(a) Governments	366,242	193,339	61,943	–
(vi) *Investment Income*	*81,670*	*66,551*	*64,939*	*32.1*
22. Profits and dividends	81,670	60,526	58,196	29.1
23. Interest charges (private)	–	6,025	5,725	2.2
24. Interest charges (public)	–	–	1,018	0.8
(vii) *Other Services*	*101,833*	*206,942*	*449,852*	*443.4*
25. Nigerian embassies	–	–	18,230	–
26. Membership, subscription on, and examination fees (private)	8,436	1,690	3,594	0.8
27. Membership, subscription on, and examination fees (public)	–	–	4,883	0.9
28. Correspondence courses (private)	6,202	3,979	1,329	4.7
29. Education–students, etc. (private)	–	–	29,605	46.0
30. Education–students, etc. (public)	–	–	5,359	85.7
31. Commission and brokerage	357	71	490	1.1
32. Copyrights, patents and royalties	–	–	6,888	146.5
33. Contract and services charges (public)	41,765	193,721	216,988	53.5
34. Contract and services charges (private)	–	–	78,679	101.7
35. NNPC joint venture expenses	–	–	82,717	2.1
36. Miscellaneous	45,073	7,481	1,089	–
C. **Capital**	*155,649*	*55,570*	*41,127*	*46.2*
(i) *Capital Transfers* (Public)	*155,649*	*19,065*	*9,155*	*35.9*
37. 38, 39 (i) Loans repayment	155,649	6,258	4,234	10.9
40. Investment (direct)	–	2,054	2,711	3.1
41. Official contribution (multi- and bilateral)	–	–	–	21.9
42. Other capital transfer–indigenisation	–	10,753	2,210	–
(ii) *Capital Transfers* (Private)	*28,848*	*36,505*	*31,972*	*10.3*
43. Repatriation of capital–indigenisation	22,623	31,718	20,591	3.2
44. Loans repayment	6,225	4,787	11,381	7.1
D. **Special**	*7,194*	*11,079*	*10,105*	*2.8*
45. External accounts	7,174	11,078	10,105	0.5
46. Contingency	20	1	–	2.3
TOTAL	4,524,711	5,344,894	7,482,111	6,022.7

As can be observed from Table 4, the bulk of foreign exchange outflow is in respect of payments for merchandise imports. Within the last three years, the share of import payments in total outflow increased from 71.3 per cent in 1975 to 81.5 per cent in 1976 and 1977, respectively. In the first quarter of 1978, import payments alone accounted for 89.6 per cent of aggregate payments.

The invisible items (from B[8] to 14 on Table 4) are also revealing. Items responsible for increased outflow include passenger fares, pilgrim and other charter fees, travel, home remittances, profits and dividends, military and non-military government transactions, and contract service charges both public and private. The capital account (37-43) shows loan repayment, capital repatriation due to indigenisation as the items largely responsible for capital outflow. The magnitude of flow on each is shown in the table.

Tables 5a and 5b show the monthly statistics on the flows and stock of foreign exchange assets of banking and official institutions between January 1976 and July 1978. In 1976, the net position of the flows of foreign exchange assets through the Central Bank resulted in a deficit of ₦352.9 million. Receipts from merchandise trade (non-oil) lagged behind disbursement of funds for that sector. Thus the substantial earnings from the oil industry (payment by oil companies) was used to finance payment for imports and other transactions. Consequently the level of foreign exchange assets which stood at ₦3,680.3 million in January, 1976 declined to ₦3,418.6 million at the end of December 1976.

In the following year, net outflow of foreign exchange was ₦538.4 million as against ₦352.9 million in 1976. As in the preceding year, the inflow of money from the oil industry was not sufficient to finance large outpayments for imports and services. The level of foreign exchange declined further to ₦3,034.0 million at the end of 1977.

By the end of August 1978 provisional data for the stock of foreign exchange assets of the nation had fallen to a very low level of ₦1,045.8 million an amount not enough to finance two months of our import bill at the current rate of importation. Perhaps, it should be mentioned that between 1973 and 1975, external reserves increased from ₦409.1 million to ₦3,702.7 million, sufficient to finance 4½ month imports in 1973 and 24 months imports in 1974, given the level of importation at that time. At the end of 1975, foreign exchange reserves could finance about 12 months imports equivalent which was still sufficiently large. In 1976 and at the end of 1977 external reserves had declined to ₦3,455.2 million and ₦2,994.1 million respectively. As a matter of fact, average daily foreign exchange earnings amounted to ₦20 million while average daily foreign exchange disbursement amounted to ₦21.6 million at the end of 1977 leaving a net average daily outflow of ₦1.6 million. The picture is even worse in the eight months of 1978 when foreign exchange earnings averaged ₦19.4 million daily and its disbursement averaged ₦25.6 million daily.

Other sources of foreign exchange leakages

The dominance of the oil industry in Nigeria's export trade which has been responsible for the foreign exchange earnings of the country since 1970 has had some adverse effect on Nigeria's potential earnings from non-oil export trade.

(1) It has discouraged the production of a number of export items which are the traditional source of Nigeria's export earnings before the advent of oil. Non-oil exports which sustained the economy before the advent of oil accounted for between 97 per cent and 83 per cent of foreign exchange earnings between 1960 and 1968. The percentage dropped to 59 in 1969 and accounted for only 8.1 per cent in 1977, having dropped to an all-low of 6.4 per cent in 1976 (see Table 6). The sharp drop in the earnings from such non-oil exporters in the last couple of years has led to the government ban on such exportable items such as cotton, timber, etc. Those items that are not banned are not given adequate supervision and priority in port allocation facilities. For example, the infrastructural facilities particularly at the ports, seem to be geared mainly in favour of imports rather than exports. There was abundant evidence that oil-palm rotted away at Calabar ports some time ago because of non-availability of export facilities at the ports.

(2) **Non-repatriation of export proceeds**
There is an arrangement whereby non-oil exporters are allowed to retain the foreign exchange proceeds of their exports for three months before they are surrendered to the authorised dealers and for submission to the Central Bank. Exporters of such commodities especially non-scheduled commodities and semi-manufacturers have hidden under this regulation by making fictitious claims of non-exportation of such goods. Such excuses given by exporters are that the exports are damaged or spoilt in transit; there are delays in shipments, and in some cases non-shipment of such commodity. Other malpractices used by exporters especially of non-scheduled export commodities are in under-pricing and non-declaration of the value of such exports in order to retain foreign exchange abroad. (see Table 7).

(3) National carriers like Nigerian Airways and the Nigerian Shipping Line are more of foreign exchange consumers even though by their operations they are supposed to be foreign exchange earners. As of today, there is no evidence whatsoever of any foreign exchange earnings from either the Nigerian Airways or the Nigerian Shipping Lines.

Causal factors in balance of payments developments

The foundation to the development in Nigeria's balance of payments and the current problems attendant to it was laid with the advent of oil bonanza that began immediately after the civil war.

The manifold increase in oil earnings gave filip to ambitious projects. Based on the expectations from oil earnings, the expenditure on the Third National Development Plan 1975-80 was projected at ₦29.8 billion. In 1976, the Plan

TABLE 5(a)

FLOW OF FOREIGN EXCHANGE THROUGH THE CENTRAL BANK (₦ million) as at end of month

1976	January		February		March		April		May		June	
	Receipts	Payments	Receipts	Payments	Receipts	Payments	Receipts	Payments	Receipts	Payments	Receipts	Payments
Merchandise trade (non-oil)	16.9	320.0	10.4	284.5	24.6	332.0	24.5	183.1	18.4	386.2	22.1	383.6
Payments by oil companies	397.5	21.2	245.7	5.6	495.4	14.3	538.3	4.7	510.6	2.2	405.1	14.8
Other transactions	50.3	230.9	47.8	139.4	70.3	209.0	176.1	143.0	56.3	253.1	53.1	130.6
TOTAL	464.7	572.1	303.9	429.5	590.3	555.3	738.9	330.8	585.3	641.5	480.3	529.0
NET	-107.4		-125.6		+35.0		+408.1		-56.2		-48.7	
Foreign Exchange Assets	3,680.3		3,557.9		3,560.9		3,962.8		3,940.4		3,881.6	
	July		August		September		October		November		December	
Merchandise trade (non-oil)	22.0	318.5	25.9	358.9	15.5	400.4	30.8	387.0	13.3	439.3	25.9	407.3
Payments by oil companies	431.6	8.0	444.7	3.7	501.1	8.4	429.5	14.5	475.6	214.8	556.1	24.9
Other transactions	51.6	200.9	50.6	177.5	63.5	217.8	155.2	221.0	63.0	257.4	51.2	204.9
TOTAL	505.2	527.4	521.2	540.1	580.1	626.6	615.5	622.5	551.9	911.5	633.2	637.1
NET	-22.2		-18.9		-46.5		-7.0		-359.6		-3.9	
Foreign Exchange Assets	3,863.2		3,844.3		3,815.5		3,738.6		3,475.6		3,481.6	

Prepared by: Central Bank of Nigeria.

TABLE 5(b)

FLOW OF FOREIGN EXCHANGE THROUGH THE CENTRAL BANK (₦ million) as at the end of month

1977	January		February		March		April		May		June	
	Receipts	Payments	Receipts	Payments	Receipts	Payments	Receipts	Payments	Receipts	Payments	Receipts	Payments
Merchandise trade (non-oil)	16.2	439.8	18.6	429.4	24.6	450.3	31.2	489.2	34.4	621.5	43.1	585.7
Payments by oil companies and foreign earnings of NNPC	321.7	16.2	640.7	8.4	545.0	3.3	535.2	17.5	715.2	21.8	531.0	6.1
Other transactions	56.9	212.8	73.8	156.7	102.0	212.3	100.4	147.1	61.1	242.1	58.6	114.9
TOTAL	394.8	668.8	733.1	594.5	671.6	665.9	666.8	653.8	810.7	885.4	632.7	706.6
NET	-274.0		+138.5		+5.7		13.0		-74.7		-73.9	
Foreign exchange assets of banking and official institutions	3,207.36		3,334.76		3,256.83		3,365.67		3,303.97		3,324.35	

	July		August		September		October		November		December	
Merchandise trade (non-oil)	32.9	624.3	62.1	571.2	36.4	365.7	26.6	480.5	22.7	706.9	20.0	609.0
Payment by oil companies and foreign earnings of NNPC	509.2	11.3	629.9	8.6	412.1	34.2	418.0	15.1	696.7	8.5	475.2	9.4
Other transactions	56.6	89.0	66.7	77.8	54.9	114.3	63.6	72.3	168.6	157.6	80.9	150.4
TOTAL	598.7	724.6	758.7	657.6	503.4	514.2	508.2	567.9	888.0	873.0	576.1	768.8
NET	-125.9		+101.1		-10.8		-59.7		+15.0		+192.7	
Foreign assets	3,137.59		3,259.79		3,190.42		3,216.87		3,230.05		3,034.03	

1978	January		February		March		April		May		June	
	Receipts	Payments	Receipts	Payments	Receipts	Payments	Receipts	Payments	Receipts	Payments	Receipts	Payments
Merchandise trade (non-oil)	48.0	559.0	30.7	492.0	73.9	638.4	69.9	604.6	39.2	795.1	35.8	592.2
Payments by oil companies and foreign earnings of NNPC	420.0	18.3	482.9	12.1	314.7	19.0	347.2	10.0	214.0	26.1	470.9	16.2
Other transactions	54.3	302.2	267.5	159.3	368.1	199.5	215.6	132.0	240.8	175.7	103.6	109.3
TOTAL	522.3	879.5	881.1	663.4	756.7	856.9	632.7	746.6	494.0	996.9	610.3	718.0
NET	-357.2		+217.7		-100.2		-113.9		-502.9		-107.7	
Foreign exchange assets	2,364.9		2,577.3		2,397.1		2,277.4		1,715.6		1,516.22	

	July*		1st–29th August*	
Merchandise trade (non-oil)	49.6	597.4	74.9	524.1
Payment by oil companies and foreign earnings of NNPC	211.5	19.6	311.7	18.5
Other transactions	62.7	70.5	65.5	78.2
TOTAL	323.8	687.5	452.1	620.8
NET	-363.7		-168.7	
Foreign exchange assets	1,126.66		1,045.78	

*Provisional.

TABLE 6

NIGERIA'S IMPORTS AND EXPORTS
1960-1977
(₦ million)

Items	1960	1961	1962	1963	1964	1965	1966	1967	1968
Imports (c.i.f.)	*431.8*	*444.8*	*406.5*	*413.8*	*507.6*	*550.6*	*512.7*	*447.1*	*385.2*
Oil	[2]	[2]	[2]	[2]	23.4	25.8	37.2	35.0	19.8
Non-oil					484.2	524.8	475.5	412.1	365.4
Exports (f.o.b.)	*330.0*	*346.9*	*334.2*	*371.5*	*429.2*	*536.8*	*568.2*	*483.6*	*422.2*
Oil	8.8	23.1	33.5	40.4	64.1	136.2	183.9	144.8	74.0
Non-oil	321.2	323.8	300.7	331.1	365.1	400.6	384.3	338.8	348.2
(% of non-oil to total exports)	(97.3)	(93.3)	(90.0)	(89.1)	(85.1)	(74.6)	(67.6)	(70.1)	(82.5)
Balance of Trade	*-101.8*	*-97.9*	*-72.3*	*-42.3*	*- 78.4*	*- 13.8*	*+ 55.5*	*+ 36.5*	*+37.0*
Oil					+ 40.7	+110.4	+146.7	+109.8	+54.2
Non-oil					-119.1	- 124.2	- 91.2	- 73.3	- 17.2

Items	1969	1970	1971	1972	1973	1974	1975	1976	1977[1]
Imports (c.i.f.)	*497.4*	*756.4*	*1,079.0*	*990.1*	*1,224.8*	*1,737.3*	*3,721.5*	*5,148.5*	*7,296.8*
Oil	22.2	52.2	50.4	45.2	41.0	52.4	118.0	95.0	65.7
Non-oil	475.2	704.2	1,028.6	944.9	1,183.8	1,684.9	3,603.5	5,053.5	7,231.1
Exports (f.o.b.)	*636.3*	*885.4*	*1,293.3*	*1,434.2*	*2,277.4*	*5,794.8*	*4,925.5*	*6,751.1*	*8,673.5*
Oil	261.9	510.0	953.0	1,176.2	1,893.5	5,365.7	4,563.1	6,321.6	7,969.2
Non-oil	374.4	375.4	340.3	258.0	383.9	429.1	362.4	429.5	704.3
(% of non-oil to total exports)	(58.8)	(42.4)	(26.3)	(18.0)	(16.9)	(7.4)	(7.4)	(6.4)	(8.1)
Balance of Trade	*+138.9*	*+129.0*	*+214.3*	*+ 444.1*	*+1,052.6*	*+4,057.5*	*+1,204.0*	*+1,602.6*	*+1,376.7*
Oil	+239.7	+457.8	+902.6	+1,131.0	+1,852.5	+5,313.3	+4,445.1	+6,226.6	+7,903.5
Non-oil	- 100.8	- 328.8	- 688.3	- 686.9	- 799.9	- 1,255.8	- 3,241.1	- 4,624.0	- 6,526.8

Source: Compiled from data supplied by the Federal Office of Statistics.
[1] Provisional.
[2] Oil sector imports are not available.

expenditure was completely revised and greatly expanded for both current and development purposes. A new target for public sector domestic capital expenditure was set at ₦42.7 billion, 30 per cent above the planned period mentioned in the original version of the Plan.

With comfortable foreign exchange earnings from oil exports, there was the uninhibited rapid monetization of the foreign exchange for domestic expansion and development, which led to rapid increase in money supply as a result of increase in money income which in turn bouyed the rapid demand for import of goods and services. Against the background of an apparent abundant foreign exchange reserves and projected earnings arising from the oil, the post-war government budgetary measures liberalised considerably exchange and trade restrictions, encouraged massive importation and placed ban on the exportation of some locally produced goods in a laudable attempt to cure inflation. The ban on the exportation of certain locally produced goods in order to make them available for local consumption, the progressive reductions in import duties, the lifting of the bans on the importation of some goods and the lifting or liberalisation of import licences on others which occurred on a massive scale between 1973 and 1977 are examples; so also were the liberal home remittances and personal travel allowances. Although steps were taken in the 1978/79 budget to reverse the trends, including the Foreign Exchange Anti-Sabotage Decree, it is clear that these measures have had the effect of emphasizing and increasing importation and that it will take quite sometime for the 1978/79 measures to result in lower imports and net foreign exchange inflows.

The first and immediate factor in rapid growth in money income was the very substantial increases in salaries and wages awarded first to the public sector and ultimately extended to the private sector in the first half of 1975. A total amount of ₦859.3 million was spent on payment of arrears throughout the country, with the public sector accounting for ₦567.3 million (66 per cent) and the private sector accounting for ₦292 million or 34 per cent.[1]

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[1] See "Survey of the Effects of Udoji Salary/Wages Awards" Research Department, Central Bank of Nigeria: a paper prepared for the *Anti-Inflation Task Force*, unpublished October 1976.

TABLE 7

NIGERIA'S EXPORTS OF MAJOR COMMODITIES SELECTED YEARS 1970–1977 (₦ million)

Commodity	1970	1972	1974	1975	1976	1977[1]
Major Agricultural (including forest) Products	*265.2*	*172.0*	*276.0*	*230.6*	*274.1*	*393.7*
Cocoa	133.0	101.1	159.0	181.0	218.9	321.3
Cotton (raw)	13.2	0.6	–	–	–	10.2
Groundnuts	43.6	19.1	6.8	–	0.2	0.1
Groundnuts oil	23.2	10.9	11.4	0.2	–	–
Hides and skins	5.6	6.8	10.6	8.8	6.8	5.0
Palm oil	1.2	0.2	*	1.2	2.5	–
Palm kernels	21.8	15.7	43.7	18.5	27.0	35.8
Rubber (natural)	17.4	7.4	33.2	15.2	14.4	16.1
Timber (logs and sawn)	6.2	8.1	11.2	4.6	0.9	0.5
Coffee	–	2.1	0.1	1.1	5.4	4.7
Mineral Products	*512.0*	*1,177.3*	*5,367.1*	*4,565.3*	*6,324.7*	*7,975.2*
Columbite	2.0	1.1	1.4	1.5	2.5	5.5
Petroleum (crude)	510.0	1,176.2	5,365.7	4,563.1	6,321.7	7,969.2
Others	n.a.	n.a.	n.a.	0.7	0.5	0.5
Manufactured and Semi-Manufactures	*65.8*	*37.3*	*67.0*	*53.8*	*58.9*	*96.4*
Agricultural	26.6	18.1	31.7	25.5	22.8	53.8
Cocoa butter	(13.2)	(10.1)	(21.0)	(20.4)	(14.5)	(52.0)
Cocoa cake	(2.2)	(2.1)	(5.1)	(4.2)	(3.1)	(–)
Cocoa powder	(0.2)	(–)	(0.8)	(0.3)	(1.8)	(–)
Groundnut cake	(11.0)	(5.9)	(4.8)	(0.6)	(3.4)	(1.8)
Tin metal	33.8	19.1	26.4	20.4	15.5	10.5
Others	5.4	0.1	8.9	7.9	20.6	32.1
Other Exports	*34.0*	*35.2*	*73.8*	*70.5*	*86.0*	*197.5*
Total domestic exports	877.0	1,421.8	5,783.9	4,920.2	6,743.7	8,662.8
Re-exports	8.4	12.4	10.9	5.3	7.4	10.7
TOTAL EXPORTS	885.4	1,434.2	5,794.8	4,925.5	6,751.1	8,673.5

Source: Compiled from data supplied by the Federal Office of Statistics.
[1] Provisional. *Negligible n.a.=not available

Since the end of the civil war, public expenditure through monetization of oil revenue has been the main engine of growth and development in the economy. The post-war rehabilitation and reconstruction, the introduction of the 19-state structure in place of the existing 12 states, the introduction of the Universal Primary Education (UPE), the massive expenditure on infrastructural developments, the local government reform and the expansion of universities to 13, the expenditure on the Armed Forces meant a drastic increase in overheads which all combine, overstretch not only the financial resources but also the executive capacity and human resources of the economy. Because the country produces little or none of the goods on which the massive expenditure is spent, Government expenditure has led to high importation because of its high import content and because of the high liquidity which it generates in the economy. It also led to increased use of imported brains for the execution of most of the projects because of the overstretched local talents. Since we have to pay for the services rendered by the foreigners, there has been resultant drain on capital.

In a recent study conducted by the Research Department of the Central Bank of Nigeria,[1] the following results were obtained:

(a) That government revenue was mainly explained by oil sector exports, so that government receipts are skewdly dependent on foreign sector receipts.

(b) Government oil revenue and prior period government expenditures were the significant explanatory variables accounting for up to 98.6 per cent of total variability in government expenditure.

(c) The demand for imports is heavily dependent on government expenditures. Government expenditure is the significant explanatory variable accounting for up to 97 per cent of the changes in imports. Although the bulk of the actual imports appear in the private sector, such importation is government expenditure led and induced because of the high import content of government spending.

Another significant causal factor in the balance of payments developments can be attributed to some policy measures. For example, low interest rates in the country encourage low capitalisation, discourage capital inflows, encourage capital outflows and induce foreign partners who otherwise would have probably introduced capital from elsewhere to rely on cheap funds in the local money and capital markets. Indeed, with interest rates ranging over 10 per cent in foreign countries and about 4 per cent in this country, it does not pay to retain funds in the country, *especially since the inflation rate is relatively high.*

[1] "Current Import Level, Foreign Exchange Earnings and proposals for Adjustment," Research Department, Central Bank of Nigeria: Confidential unpublished paper, July 1978.

Some capital outflows can also be attributed to unscrupulous costing and inflation of development projects; cost increases due to bureaucratic and administrative delays in decision-making and project execution; and cost escalation due to "haste" in project execution.

Also some well-meaning policies adopted in the overall interest of the nation have had some adverse effects on capital flows in and out of the country. Indigenisation is a case in point. This involves massive foreign capital disinvestment. Although the foreign partners are encouraged to redeploy in other sectors, evidence shows massive capital repatriation of the proceeds. In addition, because of the ceiling on dividend, foreign firms have tended to circumvent such ceiling by merely doubling or trippling the salaries of their expatriate staff who are able to send 50 per cent of such salaries abroad as home remittances as the regulation permits. Besides, the indigenisation seems to have been mis-interpreted as creeping nationalisation which creates uncertainties and fears as to future policies and attitudes towards foreign capital and encourages the foreign investors to exploit all conceivable opportunities and avenues to take money out of the country.

Other factors in the foreign exchange drain include the high propensity for imports by Nigerians in preference for locally produced goods. Also, in-frastructural bottlenecks such as the frequent power failures and shortages of water encouraging the high importation of generators and water pumps; air-freighting of cargoes and spare parts. A casual look at our daily newspapers will show an array of ever-increasing number of new product seeking agents in Nigeria. Invariably overseas exporters, in collaboration with Nigerian importers, prepare about three invoices for the same goods; inflated invoice for foreign exchange remittance; deflated invoice for customs duty purposes; and the actual invoice for the records of the importer. There is no doubt that this over and under invoicing has involved the country in huge *foreign exchange drain and losses in revenue*. The balance of payments implication of these huge expenditures apart, the money supply and inflationary implication is even more frightening. As shown earlier, ₦859.3 million was spent on salary arrears in 1975. For that year alone, money supply increased by 73.5 per cent. Whereas for the years 1969 and 1970 when money supply's growth rates were 20 and 42.5 per cent, the rates declined to 3.4 per cent in 1971 and moved upwards to 11.3 per cent in 1972. In 1973 and 1974, the annual growth rate jumped to 18.1 and 42.5 per cent, respectively and accelerated to 73.5 and 61.1 per cent in 1975 and 1976 respectively. It declined to 45.6 per cent in 1977.

These annual growth rates of money supply, especially since 1974 far outstripped those of all developed industrial countries as well as the less developed countries of the world (see Table 8). Even compared with other OPEC countries where the growth rates of money supply had been generally high, the growth rate of money supply in Nigeria has been unusual. Among the eleven OPEC countries for which figures are available, the Nigerian rate of increase in money supply (18.1 per cent) was the second lowest in 1973, higher only than the 13 per cent recorded by Algeria. The highest three, Ecuador, Saudi Arabia and Indonesia recorded 30.7, 39.9 and 41.6 per cent respectively. In 1974, however, the Nigeria rate of increase at 42.5 per cent ranked the fourth highest; being lower than only Iraq, Libya and Gabon with 43.3, 46.7 and 68.3 per cent, respectively. With the astronomic increase of 73.5 per cent in 1975, the Nigerian rate of increase was the second highest, lower only than the 80.9 per cent recorded by Saudi Arabia, compared with the lowest rates of increase of 10.8 per cent for Ecuador and 15.1 per cent of Libya. Even with the decline to 61.1 and 45.6 per cent in 1976, 1977 the annual rate of increase in our money supply far exceeded those of the other eight OPEC countries for which data are available except Saudi Arabia (see Table 9).

The private sector

In the period 1969 and 1970, the private sector accounted for an average of 40.0 per cent of primary money creation. This declined to an average of 25.0 per cent in 1971 and 1972 and thereafter shrunk to an average of 14.0 per cent in the four and a half-year period January 1973 to June 1977 inclusive. In the first half of 1977 alone, however, the private sector share rose to 18 per cent (see Table 10).

The government sector

As the private sector share of primary money creation declined, government sector contribution rose correspondingly. From an annual average of 60.0 per cent in 1969 and 1970 it rose to 75.0 per cent in 1971 and 1972 and to 85.0 per cent in the period January 1973 to July 1977. The main increasing factor in primary money creation for government in the earlier period 1969 and 1970 was bank credit to government. From 1971, however, net inflow on government foreign account took over as the main expansionary factor (see Table 10).

The significance of government monetisation of its oil receipts and borrowed funds for the growths of money supply and leakages from the money stock for price movements and balance of payments are such that they neutralise, and in many cases negate all the policy objectives to which the various instruments enumerated earlier and discussed so far have been devoted. As shown earlier, in Table 10, Government now accounts for about 86 per cent of money supply. A one per cent increase in money supply in Nigeria leads to 0.6 per cent increase in prices. Also, as a result of huge government spending, about 60 per cent disposable income is now spent on importation of goods and services, with serious consequences for balance of payments. Thus the threat which huge government domestic spending posed to domestic monetary stability in the last five years has spread to the external sector since 1975, and has worsened in 1976 and 1977.

Policy measures:

The balance of payments problems facing the country are so acute and overwhelming; but they do not defy solution once the problems are recognised. Such solutions will however require courageous decision of painful consequences.

TABLE 8

ANNUAL CHANGES IN MONEY SUPPLY IN SELECTED DEVELOPED AND LESS DEVELOPED COUNTRIES
(Per cent)

		DEVELOPED INDUSTRIAL COUNTRIES					LESS DEVELOPED COUNTRIES							
Period	Nigeria	U.S.A.	France	Germany	Switzerland	U.K.	India	Srilanka	Ghana	Kenya	Sierra Leone	Somalia	Tanzania	Uganda
1960		0.0	13.5	6.3	10.5	1.9	6.5	1.8	18.8					
1961	0.8	3.0	15.9	15.1	4.6	3.7	4.4	6.3	5.7			37.8		
1962	3.1	1.9	18.5	6.6	1.3	3.6	10.1	5.0	21.1			11.0		
1963	7.6	3.8	4.4	7.5	7.4	0.9	13.7	12.0	7.3			17.4		
1964	15.9	4.6	8.1	8.2	6.3	5.1	10.1	7.8	48.9			5.5		
1965	3.9	4.4	9.3	7.6	4.1	7.3	9.7	5.9	- 0.7		0.9	11.4		
1966	8.8	2.7	7.6	1.7	3.6	4.4	9.1	- 3.5	2.9		3.9	11.3		
1967	- 9.1	8.0	4.7	10.1	6.9	11.0	9.1	9.1	- 2.8	5.9	- 0.6	11.6	2.2	12.3
1968	4.7	5.7	9.0	8.4	13.0	6.9	5.6	5.8	7.4	15.3	21.7	12.3	25.7	18.1
1969	30.1	3.8	0.7	5.6	11.5	2.8	11.8	- 1.6	12.4	19.4	14.6	3.9	30.0	8.8
1970	42.6	3.7	7.5	10.0	2.6	9.0	12.9	4.0	5.5	7.1	- 7.1	-12.4	9.2	13.4
1971	3.4	6.2	11.9	12.8	17.7	15.3	13.0	9.2	5.0	24.8	14.4	–	21.1	3.3
1972	11.3	7.6	14.9	13.9	5.5	13.9	12.7	15.7	44.1	16.6	18.9	33.8	11.3	33.8
1973	18.1	7.3	9.8	0.7	- 0.2	5.1	17.3	11.9	15.4	27.5	23.6	15.1	17.4	37.2
1974	42.5	2.8	15.2	12.2	- 3.5	10.8	9.3	4.6	23.7	4.5	14.7	24.0	28.8	n.a.
1975	73.5	5.4	12.7	14.0	4.4	18.6	33.6	4.9	44.6	12.9	9.9	31.4	23.2	n.a.
1976	61.1	5.6	7.9	3.9	7.7	11.4	24.7	34.9	41.7	26.0	19.6	20.5	24.6	n.a.
1977	45.6	8.2	11.4	11.9	0.6	21.5	13.7	29.0	67.4	48.5	18.0	24.4*	18.4	n.a.

Source: *International Financial Statistics*: various issues.
*Statistics for Setpember are used to calculate the annual rate of change.

TABLE 9

ANNUAL CHANGES IN MONEY SUPPLY IN SOME OPEC COUNTRIES
(Per cent)

Period	Nigeria	Algeria	Ecuador	Gabon	Indonesia	Iran	Iraq	Kuwait	Libya	Saudi Arabia	Venezuela
1960							- 7.1		19.8		
1961	0.8			13.8			2.4		17.4	5.2	3.1
1962	3.1		12.7	12.3		6.9	8.4		10.4	11.7	- 2.1
1963	7.6		12.3	10.0		8.7	11.1		17.6	20.9	7.5
1964	15.9		12.0	9.0		12.0	0.0		33.0	5.0	14.0
1965	3.9	10.5	2.7			12.5	12.0	- 9.5	48.9	8.9	11.4
1966	8.8	8.2	13.9		764.2	9.5	7.1	52.9	39.9	15.2	1.6
1967	- 9.1	27.3	9.9		133.4	14.5	8.3	7.9	30.0	11.4	9.3
1968	4.7	31.8	18.5		118.4	14.4	7.7	-10.7	28.5	14.7	8.4
1969	30.1	18.2	13.3		58.1	1.9	15.4	-10.9	34.4	5.5	10.9
1970	42.6	4.3	24.5		34.7	11.4	5.8	7.6	19.4	3.4	5.4
1971	3.4	11.4	11.4	13.4	28.2	20.7	4.4	15.0	51.2	10.2	16.7
1972	11.3	29.3	21.7	26.3	47.8	38.4	14.4	29.5	13.3	42.6	19.9
1973	18.1	13.0	30.7	24.2	41.6	29.7	24.2	24.0	24.5	39.9	19.2
1974	42.5	23.0	36.6	68.3	40.4	37.2	43.3	13.1	46.7	41.4	37.7
1975	73.5	30.4	10.8	55.5	34.2	20.1	35.3	48.4	15.1	80.9	50.4
1976	61.1	29.6	31.1	76.4	25.6	45.8	20.7	35.6	31.3	71.2	17.6
1977	45.6	20.3	22.5	7.3	26.3	23.0	15.8*	24.6	37.1*	54.0*	26.5

Source: *International Financial Statistics*: various issues.
*Statistics for September are used to calculate the Annual Rate of Change.

TABLE 10

PRIMARY MONEY CREATION FOR PRIVATE AND GOVERNMENT SECTOR–ANNUAL DATA 1969-1976 (₦ million)

	1969	1970	1971	1972	1973	1974	1975	1976	1977
Total Money Created (1) and (2)	*219.2*	*388.9*	*441.0*	*839.1*	*947.9*	*1,993.0*	*5,215.3*	*6,500.0*	*4,752.9*
1. *For Private Sector*	*92.0*	*152.2*	*113.2*	*202.6*	*107.1*	*224.8*	*696.6*	*851.7*	*1,096.6*
(i) Increase in bank credit	29.0	152.2	113.2	159.0	95.2	224.8	695.4	647.7	1,096.6
(a) From commercial banks	(15.6)	(109.4)	(148.6)	(111.6)	(127.7)	(182.9)	(602.4)	(613.4)	(899.2)
(b) From Central Bank	(13.4)	(42.8)	(-35.4)	(47.4)	(-32.5)	(41.9)	(93.0)	(34.3)	(197.4)
(ii) Foreign assets (net inflow)	63.0	–	–	–	–	–	–	–	–
(iii) Increase in other assets (net)	–	–	–	43.6	11.9	–	1.2	204.0	–
2. *For Government Sector (A-B)*	*127.2*	*236.7*	*327.8*	*636.5*	*840.8*	*1,768.2*	*4,515.7*	*5,648.6*	*3,656.3*
(i) Increase in bank credit (gross)	188.0	186.3	–	5.8	30.0	200.4	388.2	959.3	1,893.7
(a) From commercial banks and F.S.B.	(145.4)	(183.8)	–	(98.4)	(11.9)	(356.1)	(67.1)	(279.6)	(251.6)
(b) From Central Bank	(42.6)	(2.5)	–	(-92.6)	(18.1)	(-155.7)	(321.1)	(679.7)	(1,642.1)
(ii) Foreign assets (net inflow)	–	100.6	469.1	643.3	893.3	4,174.5	3,627.2	4,014.6	2,951.6
(iii) Draw down of demand deposits	–	–	5.2	–	–	–	1,216.1	1,384.4	–
(iv) Drawn down of quasi money	–	–	–	5.6	–	–	53.9	401.6	–
A. **Total Resources**	*188.0*	*286.9*	*474.3*	*654.7*	*923.3*	*4,374.9*	*5,585.4*	*6,759.9*	*4,845.3*
Less: (i) Increase in demand deposits	4.0	24.1	–	18.2	51.9	2,557.8	634.0	602.7	911.8
(ii) Increase in quasi money	6.8	26.1	10.3	–	30.6	48.9	421.6	257.4	277.2
(iii) Foreign liabilities (net outflow)	50.0	–	–	–	–	–	–	–	–
(iv) Decline in bank credit	–	–	136.2	–	–	–	14.1	253.2	–
B. **Total Savings**	*60.8*	*50.2*	*146.5*	*18.2*	*82.5*	*2,606.7*	*1,069.7*	*1,111.3*	*1,189.0*
Percentage contribution:									
(i) Government sector	58.0	60.9	74.3	75.9	88.7	88.7	86.6	86.9	76.9
(ii) Private sector	42.0	39.1	25.7	24.1	11.3	11.3	13.4	13.1	23.1

As I have indicated earlier, the total foreign exchange of the country at ₦1.0 billion is scarcely sufficient to finance two months level of imports at the current rate of importation. Given the current rate of importation and also the overall rate of capital outflow, the end of the year's financial operations may end up in a balance of payments deficit of nearly ₦2 billion.[1] Two broad solutions within which other recommended measures are subsumned, come readily to mind.

(a) The government being the single most important spender in the economy must bear directly the brunt of the struggle to abate the alarming trend in our balance of payments position by drastically cutting its spending which has generated the bulk of the importation. Happily the very engine that fuelled government spending has itself been reduced; the oil exports dropped drastically from 2.3 million barrels a day at the end of last year to 1.5 million barrels a day in April this year, although it is currently picking up. Government should take advantage of this drop to adjust its spending.

(b) The high propensity to import and consume by the average well-off Nigerian has to be drastically curtailed. Whatever opinion one may have of government spending, the end-use of such large sums received by Nigerians from government patronage has generally been in negative and wasteful purposes. The orientation the users of funds need is proper use in resource allocation. Apart from proper costing of projects from both the public and private sectors, there is need to move resources gradually from consumption to investment, from import to export trade, and from social to purely economic activities.

One of the ways by which government can reduce its expenditure is not only to reduce its involvement in a number of purely commercially-oriented projects for which the private sector is best suitable to undertake but to reduce a number of sinecure institutions that have become irrelevant and to scale down the costs of most of its projects. For a simple illustration, I have indicated earlier that our National Carriers like Nigerian Airways and National Shipping Lines are potential foreign exchange earners but have generally defaulted in this area. However, one is concerned about the frightening cost of airfreighting completely knocked down (CKD) parts of the Peugeot cars being assembled in this country. Although one does not have the details of the agreement between the Peugeot Nigeria Ltd, (a Nigerian owned Company) and UTA, (a French Airline), one cannot but be concerned that, whatever the arrangement, the services rendered by UTA will be a drain on foreign exchange reserves of this country which can safely be earned (or saved) by Nigerian Airways even if it will require its hiring additional aircraft for the operation. If as it is projected the Peugeot Company is to produce annually between 32,000 cars and 50,000 cars between 1978 and 1981 and all the CKD parts are to be airfreighted, one can hazzard that the foreign exchange cost cannot be less than ₦80 million in freight costs a year, given the present level of freight and insurance. What is perhaps more serious is that other Car and Truck Assembly plants in the country (Bauchi, Ilorin, Enugu, Ibadan) will follow suite in such airlifting competition. Whether Nigeria needs five or six car/truck plants is a different question; (it should be borne in mind that USA, the largest car manufacturer in the world has 2 or 3 plants only); but at the rate of present cost, Nigeria's cars will be the most expensive in the

[1] The estimated balance of payments deficit for the first half of 1978 is about ₦1.0 billion.

world and will therefore be uncompetitive in the world market.

The recent trend by Government (through Ministries and Departments) to be involved in direct importation encourages inflation of prices by foreign sellers. The resources diverted to importing fertilizers every year should be diverted to establishing actual farms, as reports show a great deal of waste in fertilizer importation. This will help reduce the size and hence the liquidity in the hands of those who at one stage or the other are the direct financial beneficiaries of government spending and also invariably are importers and/or persons who undertake business trips.

Of recent, there has been paper advertisements requesting tender for the supply of furniture for Army Barracks and the new international airports. I believe that there are enough domestic manufacturers of furniture whose services can be fully utilized and save the foreign exchange cost of importing this furniture. It seems rather unnecessary resources that NECCO (a Federal Government owned Company) should request tenders for airport furniture from importers and not from domestic manufacturers. The cost of such importation and the high commissions payable to parent company is an unnecessary drain on foreign exchange resources.

There is need for a complete review of items in the services account that constitute a serious drain on foreign exchange. For example, the policy on home remittance is over generous. Also, the drain on foreign exchange in form of charter fees arising from organised flight is phenominal that there is need for drastic cut or moratorium on foreign travels. The management fees being charged by parent companies of Nigerian Companies under the indigenisation pretext should be stopped.

Again when cognisance is taken of the cause of such large outflow on each item in the services account, it will be discovered that they are all linked to over-expansion in the economy. Nigeria has become a dumping ground for all sorts of foreign experts both in the public and private sectors and virtually in all professions. Apart from generous salaries that are even more than those of their Nigerian counterpart, they are housed free or live in expensive hotels at government expense. My thesis is not a condemnation of imported brains but is directed at the financial particularly the foreign exchange costs. An expatriate employee housed free and fed free with a huge monthly salary has no cause to spend the money in Nigeria but to repatriate it, hence the huge outflow on "home remittances". No wonder there is such influx of foreigners to Nigeria. The salary attraction for any expatriate in this country should be sufficient to feed him and to provide accommodation on which to live. The removal of the over-generous allowances will reduce the size of the home remittances.

The time for the alien companies to sell the portion of their companies to Nigerians under the Indigenisation Decree need be extended. Between now and December, 1978, over 100 companies are required to comply fully with the Indigenisation Decree by selling part of their equity shares to Nigerians. Apart from the congestion in the market which is quite apparent, when these shares are sold, the proceeds are for the foreign owners and they are entitled to repatriate these proceeds after paying the necessary taxes. This is a drain on our foreign exchange resources. If we should stop them from repatriating these proceeds, they could still find all sorts of illegal means to take this money out as they are currently doing by doubling or trippling the salaries of expatriate employees and this will also be a drain on our reserves. It may therefore be necessary to extend the period of sales of the shares.

The greater the cut in government expenditure, the more the reduction in import bills that will be achieved and the lower the net outflow in other sectors that can also be achieved. Once this is recognised, it is only then that specific measures, requiring a mix of demand and supply management, using trade, fiscal and monetary tools or a combination of them, can be meaningful and effective.

Since importation and the preference for it have become the stock-in-trade of Nigerians, there is need to prune down heavily on imports. Import trade has become so attractive with high returns that it has altered our work pattern. Virtually every house is a trading house. Imports, unlike industrial and agricultural ventures only help to deplete our resource base and capacity while helping to promote other countries' trade and expansion. Because of this serious preference for foreign goods, Nigeria has become a dumping ground for all sorts of inferior, yet heavily overpriced goods. Nigerian-made goods are readily passed on as inferior even when there is abundant evidence that such locally made goods are of high quality. It is now fashionable to label Nigerian made goods as "Made in Italy, Austria" etc. before they can be sold. There should therefore be quantitative restrictions on import in form of quotas and import licenses. The Ministry concerned should undertake a detailed analysis of our import structure, identify those that are consumption goods and have them restricted.

The size of our financial problems has rendered external financial assistance both public and private inevitable, inspite of the anxiety in the public mind about the rational of external borrowing. A number of key projects are already embarked upon by the Government which if abandoned now because of financial constraints will turn out to be an action worse than inactivity; hence the need for external borrowing.

The resource gap facing the whole country therefore makes external financial resources as a supplement to domestic resources a raison d'etre. This takes two forms: direct borrowing from official international institutions, intergovernmental loans and direct private foreign investment. For reasons which are more of illusion of oil money than the reality of financial prudence, the country has shunned foreign borrowing until recently. Apart from official borrowing in the Euro-market, the World Bank has indicated its readiness to lend to Nigeria the equivalent of $500 million a year over the next couple of years. What is important for the Nation is to prepare projects on a continuous basis which the World Bank group, including the International Finance Corporation (IFC) will readily be willing to finance through the Federal Government. The second is the private sector borrowing. The private sector has a role to play in foreign capital mobilisation which whether in form of equity participation or direct investment, trade credits, deferred payments or contractor finances, constitute foreign borrowing.

One major problem that has faced the economy in attracting sufficient external finance is the failure to identify a stock or portfolio of bankable projects whose technical feasibility and financial profitability have been ascertained, or whose costs are internationally reasonable to be acceptable for financial support. In the Development Plans, a number of projects are merely enumerated without any effort to conduct cost-benefit analysis as a way of preparing them for marketing and financing. There is no point to commit external financial assistance to financing projects whose debt-burden service will cripple some of the projects and mortgage the country's financial resources to meet debt-service burden of uncompleted projects whose repayments are overdue when the projects are still under construction. The project therefore should be such whose gestation period will allow for their construction and completion which would then be in production to be able to generate funds for repaying the loan.

Role of monetary policy

I have already drawn attention to the high increase in money supply in the last 5 years and also the serious drain in foreign exchange and the consequence for the country's balance of payments. There are some monetary tools whose effectiveness in a developing country like our own is always questioned or doubted, but which if appropriately applied can at least reduce the problem if it cannot provide the ready answers to such problems. Given the rate of monetary expansion in the last couple of years and the inflationary trend attendant to it, I have always come to the conclusion that our level of interest rate is low and inadequate.

Interest rate as a price of capital to the borrower and as a return on capital to the saver or lender should ideally be an instrument rather than a target of monetary policy. The interest rate, along with other instruments of control should therefore aim at the following objectives:

(a) to combat inflation,
(b) to ease budget burden,
(c) to promote capital inflow and discourage capital exportation,
(d) to avoid misallocation of resources,
(e) to promote the growth of the capital and money markets.

It is often argued that interest rate can be pro-inflationary or anti-inflationary in an economy like ours depending on its level. It is argued in fact that any increase in interest rate will increase cost and therefore promote inflation. A proper examination of the cause of inflation in Nigeria will demonstrate that it is largely demand pull. In a situation like that, it is the availability of long-term credit and the high yield expectation in a seller's market rather than the insignificant interest costs due to a rise in interest rates which determine whether producers use credit for production purpose or not. Whatever small increase in cost that interest rate may generate is more than offset by the stimulus to domestic savings, which in itself is deflationary. A proper examination of the maturity pattern of credit will reveal that the bulk of it is of short-term nature. For instance in 1972-76, 86.8 per cent of banks' credit matured within twelve months. Only an increase in interest rates will lengthen maturity of loans which will give greater incentive to banks to make credit available for long-term maturity for productive ventures than the present concentration on short-term loans which are used for get-rich-quick purposes.

The low rates on government debt instruments (that is bonds and stocks) are themselves causes of inflation. This is because such instruments are purchased by the Central Bank in the absence of willing buyers. The Commercial banks purchases are made merely to reduce their excess and idle liquidity which result in cheap credit expansion which worsen inflationary tendencies. Although there is bound to be increase in budgetary burden as a result of higher government interest payments, such payments will be far outweighed by the beneficial effects of greater domestically generated revenues. If anything, the rapid increase in government expenditures leads to inflation which can be reduced through increase in savings and revenue which in turn will lead to a decrease in inflation and a reduction in costs.

The present low rate of interest in Nigeria inhibits the promotion of viable money and capital markets and the tapping of these markets by prospective lenders and borrowers. There may be justification for their low rates particularly when there is cheap money from the Federal Government to subsidize such lending. However, in a period of tight money which Nigeria is entering now, all these institutions will be forced to turn to the open market for borrowing as Government funds will no more be available for the subsidy they currently enjoy. Nor would these institutions be able to raise funds from abroad unless their lending rates are drastically revised upwards. Efforts by the Government to borrow at world market rates (now that Government is borrowing from the world money markets) and on-lend at concessionary rates will be too costly and will lead to misallocation of resources.

Finally differences in interest rates should roughly reflect expectations as to future exchange rate movements. In the absence of such differences, there should be effective exchange control to combat speculative capital movements. In Nigeria, the existing level of interest rates which is low by international standards coupled with expectations regarding the future value of the Naira, creates a strong and potential impulse towards capital flight.

Exchange rate

This brings me to the role which exchange rate can play in the problem facing the economy.

In the period of rapid accretion of external reserves which increased from ₦438.6 million in 1973 to a peak of ₦3.8 billion in 1975, we, as it should be, appreciated the Naira to reflect the strength of the Naira in response to the country's economic performance. The reserves have since then declined, with sharp fall in 1978 to a low of ₦1.0 billion at the end of August, 1978. It is only logical that the Naira should be made to depreciate (or to be devalued) in order to avoid the consequences of its over-valuation. For an economy like ours, devaluation is of limited value. As a matter of fact it should be a last resort as it tends to fuel inflationary pressure and lead to further loss of confidence in currency. While it succeeds in raising the price of imports, it does not guarantee a reduction in imports. It does not also lead to increase in our exports especially non-oil exports which takes a long time to respond to price changes. However, it has the merit of encouraging capital inflow and discouraging capital flight and these are two important issues facing the economy at the moment. It will also help increase the local currency of oil receipts which the Government needs so urgently. The effectiveness or otherwise of devaluation depends on the extent to which Government is able to slow-down drastically its expenditure which continues to fuel monetary expansion with the attendant inflationary consequences.

In order to minimise adverse reactions which devaluation will have, a less invidious and more flexible method aimed at minimising the problems of devaluation and achieving its advantages is to allow a depreciation of the Naira over time until a meaningful equilibrium level is reached.

The strong point in favour of this recommendation is that the present rate of exchange coupled with the present level of interest rate has tended to encourage capital outflow and discourage capital inflow. A foreigner resident in this country has no incentive to keep his money here if instead of earning 4-5 per cent in Nigeria, he can earn 10-12 per cent outside Nigeria. Also an investor or a non-resident who intends to bring $10,000 to Nigeria for investment and receives only ₦6,250 instead of say ₦8,000 is not encouraged to bring money into Nigeria. On the other hand, a foreigner resident in Nigeria is encouraged to repatriate his funds because for every Naira to be transferred, he receives more foreign exchange for it and therefore encourages capital flight while discouraging capital inflow. In fact, if anything one of the major factors behind the large foreign exchange disbursements on services account is attributable to the two factors, which in turn encourages smuggling on a large scale. There is therefore the need for a review of the interest rate and the exchange rate.

Export and promotion

The final phase of this paper discusses briefly on ways to broaden Nigeria's export base, increase its output and promote exports, other than oil.

There is no doubt that the oil euphoria has led to virtual neglect of not only Nigeria's traditional non-oil exports, but also a neglect of new frontiers in export trade.

Tables 6 and 7 show trend in Nigeria's export trade and the relative contribution to foreign exchange earnings of non-oil exports. The increase in value in the last three years was due not to increase in output but to increase in prices. Nigeria has moved to a third place, from second place in world cocoa export; she is now a net importer of palm oil, while groundnut production can no more meet local demand how much more if its being exported. The same is true of cotton.

Rather than helping to promote other countries' export trade, there is need for conscious policy on promoting Nigeria's export trade. Apart from the traditional exports, there are a number of manufactures and semi-manufactures, in whose favour our fiscal policy should discriminate as a way of promoting their exports. For example, there is no need to charge excise duty for an export-oriented product, provided the proceeds are surrendered to authorised dealers within stipulated time. The Export Promotion Board has a big responsibility in taking a stock of all Nigerian-made goods and promoting their sales both locally and by exportation. If necessary buy Nigeria-made goods and trade fairs should be organised from time to time; and all selling houses be made to separate Nigerian-made goods from imported ones, with proper display and identification. Those that are exportable should be properly identified for proper marketing. Adequate incentives for export promotion should be given to prospective exporters, with national awards as a reward for contributing to export promotion and national self-sufficiency.

There is need for proper regulation and control of utilisation of water resources which have the potential of foreign exchange earnings more than what the oil provides. At the moment, both domestic and foreign vessels fish in Nigerian territorial waters and sell off fish, shrimps, lobsters etc., yet the fishing industry has on no occasion surrendered foreign exchange for its operation except to claim foreign exchange for so-called hired vessels. There is no doubt that the fishing industry is thriving well in this country with such big fishing companies like Ibru, Globe, Abasubong, Transcontinental, Sadia, Hamza, Mesurando, Sken Consult, Intra, etc. But let them join hands with Government in being *net* foreign exchange earners and NOT net foreign exchange users.

I have earlier drawn attention to our National Carriers—the Nigerian Airways and the Nigerian National Shipping Line. By their operations, they should be *net* foreign exchange earners and *NOT* net foreign exchange users. These Nigerian Companies and the Fishing Companies by their operations keep foreign accounts and they should be patriotic enough to register such foreign accounts with the Central Bank of Nigeria and render such accounts on a monthly basis.

There are a number of latent and unexplored export-oriented resources in this country that cry out for investment and proper organisation and management, example being the marble resources of this country. From available information, the marble resources of this country have the potential of doubling our foreign exchange earnings if properly tapped. The priority given to tapping these resources is the only sure way towards self-sufficiency and self-reliance.

In conclusion, while the vast expansion of imports has been useful as a short-term strategy in the control of inflation, it cannot be used as a long-term strategy. Virtually, every conceivable item is now being imported fairly freely into the country and this has serious implications for domestic industrial development. There is evidence that the high propensity to import has provided a ready Nigerian market for highly over-priced, and often inferior, foreign goods. By making domestically produced goods less competitive, these imports hamper domestic industrial production. The consumption pattern has itself encouraged and fostered investment in some less desirable industries. Other than government-led investment in heavy and directly productive industries, there is no evidence that the private sector is intensifying investment or establishing new plants in these areas. Although the index of industrial production shows some increases, such increases reflect only some expansion to existing plants because of excess demand while the value-added to such plants is extremely small. Unless policy is geared towards encouraging domestic and foreign investment in directly productive and desirable industries, most of the country's reserves will be used up in the importation of consumer goods of doubtful value rather than in expanding domestic productive capacity.

Let me end by saying that Nigeria will not end tomorrow. Hence there is need to slow down a bit the pace of projects. The pace of development for all good intentions of Government has increased, is increasing and ought to be diminished. Otherwise, the cost of development may turn out to be a perpetual curse for future generations.

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