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# AN APPRAISAL OF THE SOCIO-ECONOMIC IMPACT OF STRUCTURAL ADJUSTMENT POLICIES IN NIGERIA\*

BY  
DR M.O. OJO

## Abstract

*The paper appraised the economic and social impact of the Structural Adjustment Programme in Nigeria from 1986 to early 1989, against the background of the observed downturn in the economy since the early 1980s. On the economic impact, the paper found that the economy responded favourably to the programme on the basis of the recorded increases in domestic output and exports, especially in the agricultural sector, reduced dependence on the oil sector for revenue and foreign exchange and on imports for internal growth, as well as the greater efficiency in resource allocation observed in various sectors of the economy. But the external sector of the economy witnessed increased pressures which could have been worse without the programme. On the social impact, it was found that intensified inflationary pressures which reduced purchasing power, as well as unemployment, deterioration in social services and utilities and the worsening standard of living in the urban areas tended to erode some of the gains of the programme. Policy measures to fight inflation, generate more employment opportunities and improve urban transportation systems have been adopted by the government, but would take time to make a significant impact. The paper concluded that, on balance, the programme has been an effective strategy of reorientating the Nigerian economy for long-term sustainable growth. But it suggested that efforts would need to be made to implement effectively other economic policies as a follow-up to the programme and to integrate all policy actions to minimise the adverse side effects of the programme, especially on the poor.*

## Introduction

The adoption of structural adjustment programmes whether supported by international financial institutions, such as the International Monetary Fund (IMF) and the World Bank, or self-imposed, is now a common feature of economic management in many developing countries, especially in Sub-Saharan Africa. Generally, a structural adjustment programme becomes necessary when a country faces a serious economic disequilibrium or imbalance between domestic aggregate demand and aggregate supply which invariably results in a deteriorating external payments position. Such an undesirable economic situation can usually be traced to bad economic policies in the past which accelerated the growth of domestic demand far beyond the productive capacity of the economy, leading to distortions in relative prices to the detriment of balanced growth and development. If the country involved has enough access to

external financing, rising domestic demand can be supported for a fairly long time, but such a situation is frequently associated with growing current account deficits, the erosion of international competitiveness owing to a high inflation rate, misallocation of scarce resources arising from price distortions and an unbearable external debt burden. Since access to external financing is grossly limited, the economic crisis emerges sooner than later. The basic objective of the structural adjustment programme is to correct the imbalance such that the subsequent improvement in the external payments position can be sustained. In general, the imbalance is corrected by reducing domestic demand through monetary, fiscal and other policy measures such as tighter monetary controls, making imports dearer, removal of price subsidies which will make local goods and services dearer, restraint on real wages and cutback on government spending, particularly when it does not directly aid a productive activity. At the same time, aggregate supply is boosted through the removal of price distortions so that productive factors are appropriately rewarded, as well as through incentives for mobilization of domestic savings and encouragement of local and foreign investment.

Usually, the implementation of the adjustment programme results in economic hardships in the process of reducing aggregate demand in the short-run. Indeed, many observers have maintained that most of the hardships are borne by the poorer segments of the population, while the international financial institutions and other observers have maintained that if the programme had not been adopted and implemented, the poor would have suffered even more. But it is now accepted that the social costs of structural adjustment cannot be ignored, otherwise the initial gains of a programme could be dissipated. Nigeria has implemented a structural adjustment programme since July 1986, and while Government has identified the gains of implementing the key elements and emphasised the need to consolidate such gains, it has also acknowledged the adverse effects. Many critics have continued to harp on these adverse developments, particularly with respect to their effects on the poor people. Some have even called for its abandonment. It is the view of this paper that both the short and long-term impact of the adjustment policies should be taken into account while discussing the various controversial issues. The main purpose

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\* An earlier version of this paper was used as a working paper at a Seminar held at the World Bank, Washington, D.C. U.S.A. I gratefully acknowledge the benefit derived from that Seminar. The paper has also benefitted from the ideas and comments of my colleagues in the Research Department (CBN). The views expressed in the paper are personal and do not necessarily represent those of the Central Bank of Nigeria on the subject.

of this paper is therefore to evaluate the economic and social impact of the structural adjustment programme in Nigeria, with particular reference to (i) its benefits to the economy and the social costs to the population and (ii) the prospects for economic development of Nigeria under a regime of the current structural adjustment policies.

The paper is organised into five main parts. Part I contains an outline of the economic policy measures adopted during

the programme. In Part II, an analysis of the economic impact of the programme is undertaken, while in part III an assessment of the social impact is done. Part IV contains a review of government response to the adverse developments. Part V contains the summary, conclusion and some observations on the prospects for Nigeria's economic development under the present structural adjustment policies.

## PART I: POLICY MEASURES UNDER STRUCTURAL ADJUSTMENT

### Background to Adjustment Policies

The sad turning point observed in the Nigerian economy in the early 1980s had its origins in the oil boom period of 1973-1980. The dramatic increases in oil prices in 1973/74 and 1979/80 had a positive impact on foreign exchange earnings and government revenue from oil which induced a rapid expansion in public sector activities, the rationale being to utilise the available resources to expand infrastructural facilities and build up the country's industrial base. This strategy resulted in particular in massive public investment in social and economic infrastructure in the utilities, construction, transportation and communications, housing and the social service sectors. One direct result of this development is that most of the public assets in Nigeria today were initiated during that period. But it is also true that many of the investment projects were unviable, poorly implemented and had generally overtasked the capacity of the fragile public sector.

The macroeconomic policy framework which guided government actions during the period had several undesirable features. Firstly, both the Federal and State Governments increased their expenditures substantially not only within available resources, but also to incur deficits particularly when there were shortfalls in revenue. Secondly, macroeconomic policies resulted in large distortions in the pattern of investment in favour of construction, transport, communication and other service sectors which had better returns on investment than in agriculture and industry which therefore suffered. Thirdly, the import bias of the period helped to sustain the industrial sector through the easy access to foreign inputs. Industrial production which grew appreciably did not have its root in the domestic economy with the adverse result of low value-added and backward linkage. Fourthly, the trade and exchange rate regime placed severe pressures on the domestic production sectors. The import licensing system did not encourage efficient allocation of resources and the overvalued exchange rate placed agricultural and other exports at an uncompetitive position in the world markets. Industries that depended on foreign inputs were implicitly protected at the expense of those that depended on local raw materials. Finally, by and large, the monetary policy stance in the midst of these developments appeared fairly successful. The system of credit allocation and interest rate structure which favoured the domestic productive sectors tried to effect some structural changes in the economy, but the expansionary fiscal policies and the trade and exchange regime worked in the opposite direction.

The ultimate effects of these policy actions were adverse

for the real sector. The domestic production of goods and services performed below expectation and this contributed to the pressures in the external and domestic sectors of the economy. The low productivity in agriculture resulted in reduced production for export as well as substantial rise in food imports. Apart from the high dependence on imported inputs and the low value-added in the manufacturing sector, high costs of production were not matched by a high standard of quality of local manufactured products. In spite of the heavy investments in the service industries, the needs of the country were far from being met, particularly with regard to electric power generation and water supply. The immediate cause of the economic crisis in 1981 was the collapse of the international oil market price which had serious repercussions for Nigeria's balance of payments, public finances and the economy as a whole. At first, it was hoped that the adverse development would be shortlived and no concrete action was taken. In fact, the down-turn continued up to 1986. Government's first main reaction was in April 1982 when the Federal Government promulgated the Economic Stabilization Act designed to arrest the deterioration of the economy through more stringent exchange control measures and import restrictions supported by appropriate monetary and fiscal policies. In October 1985, the Federal Government declared a 15-month Economic Emergency period in pursuit of further economic stabilization. The major action was the compulsory deductions from workers' salaries and company profits. In January 1986, 80 per cent of the petroleum subsidy was removed. Efforts started in 1983 to reschedule external debts were also intensified. However, the various policy measures did not produce the desired effects, while the population was experiencing hardships which it had not seen in the previous 15 years. This situation made it clear that a more purposeful economic adjustment was required to revive the economy.

### Objectives and Strategies of Economic Adjustment

The Structural Adjustment Programme (SAP) introduced by the Federal Government in July 1986 for an initial two-year period had the overall aim of restructuring the production and consumption pattern of the economy, as well as eliminating price distortions and the overdependence on the export of crude oil and imports of producer and consumer goods. The specific objectives were to:

- (a) restructure and diversify the productive base of the economy in order to reduce dependence on the oil

sector and on imports:

- (b) achieve fiscal and balance of payments viability during the two years;
- (c) lay the basis for a sustainable non-inflationary growth; and
- (d) lessen the dominance of unproductive public sector investments, improve its efficiency and expand the growth potential of the private sector.

The programme outlined three important policy instruments for attaining these basic objectives. First was the adoption of a realistic exchange rate policy in conjunction with the liberalisation of the external trade and payments system. Second was the adoption of relevant pricing policies in all sectors with greater reliance on market forces and consequent reduction in complex administrative controls. Finally, there was to be further rationalisation and restructuring of public expenditure and customs tariffs. The various policy measures under the Programme are reviewed below:

### Exchange Rate Policy

A more dynamic exchange rate policy formed the cornerstone of the SAP. Its aim was to evolve a realistic and market-determined exchange rate for the Naira in order to reduce the excessive demand for available foreign exchange and mounting pressures on the balance of payments. Overall, it was expected to support self-sustaining growth through the elimination of price distortions, reduction of imports, promotion of exports and encouragement of capital inflow. In September 1986, the Second-Tier Foreign Exchange Market (SFEM) was introduced to operate alongside the official first-tier market which accommodated only payments for public sector debt service and obligations to international organisations and embassies. Under the SFEM, a floating exchange rate system in which the price mechanism allocated foreign exchange among competing uses was adopted. In July 1987, the market-determined exchange rate was unified with the first-tier rate under the new Foreign Exchange Market (FEM) which comprised foreign exchange dealings between (i) the Central Bank of Nigeria (CBN) and the authorised foreign exchange dealers, (ii) the authorised dealers and the public in the autonomous funds market and (iii) among authorised dealers in the inter-bank market.

Several changes were subsequently introduced into the modalities of the FEM auction system. In April 1987, the Dutch Auction System whereby authorised dealers paid their bid prices, replaced the earlier system in which each successful dealer paid the marginal rate that exhausted the total amount of foreign exchange offered. In December 1987, winning dealers were required to sell foreign exchange purchased on their auction to their clients at the rate that the clients had bid, rather than at the rates paid by the dealers,

with excess profits being returned to the CBN. In the Interbank Market, initially, all transactions were carried out at the rate established at the most recent auction adjusted for a dealing margin which allowed a maximum buy-sell spread of one per cent. In January 1987, price setting in the inter-bank market was liberalised which implied that it could respond to shifts in supply and demand, although dealers were still obliged to both buy and sell at their quoted rates, except for the one per cent buy-sell spread. On June 15, 1987, dealers' biddings on the auction market were required to reflect specific customer demand which meant that the free interbank rate would only apply to funds obtained from autonomous sources. In an attempt to stabilise the naira exchange rate and encourage more rational behaviour in the operations of the FEM for enhancing its efficiency, both the FEM auction rate and autonomous funds rate were merged in January 1989. Under the new arrangements, sales of available foreign exchange are made from official sources by the CBN to the banks daily at rates fixed by the CBN on the basis of their quotations and developments in the local and international financial markets.

These developments in the FEM have been accompanied by significant changes in the funding of the market, foreign exchange allocation and inflow, as well as the naira exchange rates. Since the introduction of the new exchange rate policy, funding of the market has been inadequate. In 1986, a monthly average of US \$290.3 million was offered for sale in SFEM. But in 1987, this average level declined by 33.8 per cent to US \$192.2 million a month. In 1988, the funding improved when it increased by 24.8 per cent to US \$239.9 million monthly. It should also be observed that the amount of foreign exchange offered for sale was only a small fraction of market demand. The bulk of official funds (ranging between 65 and 80 per cent) was allocated to the industrial sector. Autonomous inflow of foreign exchange increased steadily. It moved from a monthly average of US \$75.9 million in 1986 to US \$90.3 million and US \$103.6 million in 1987 and 1988, respectively. The value of the Naira vis-a-vis the US Dollar has edged downwards since 1986. At the end of that year, the SFEM rate stood at US \$1.00 = ₦3.1828, while it moved down to US \$1.00 = ₦4.1664 and US \$1.00 = ₦4.7167 at the end of 1987 and 1988 respectively. At the end of April 1989, the naira stood at US \$1.00 = ₦7.5810 in the new interbank market, thus bringing the rate of depreciation of the Naira since the first auction in 1986 to nearly 80 per cent.

### External Trade Policy

At the inception of the SAP, the import licensing system was abolished together with exchange control on all current transactions. The number of prohibited import items

was reduced from 74 to only 16. Also, the 30 per cent import levy introduced in January 1986 was abolished, except the Port Development surcharge (5%) for the Nigerian Ports Authority, the Raw Materials Research and Development Council surcharge (1%) and the Freight Rate Stabilisation surcharge (0.02%) for the Nigerian Shippers Council all of which were reintroduced in January 1987. Also in January 1987 the system of advance payment of import duties whereby importers were required to pay the relevant import duties when letters of credit were opened was modified. Under the new system, only 25 per cent of the duty assessed would be paid, while the balance would be settled when the goods finally arrive. With the dismantling of import and foreign exchange controls, customs and excise duty schedules were overhauled, especially to produce desirable incentives to the productive sectors. Provisionally, the customs and excise tariff schedule introduced in October 1986 reduced the average nominal rate of protection by about 10 per cent. After a comprehensive tariff study late in 1987, a new tariff structure was introduced in the 1988 budget. Under the new tariff regime, import duty rates were outlined for a seven-year period which would permit both producers and consumers some adequate planning horizon and effective decision making. Average nominal rate of protection was slightly adjusted upwards from the interim level of 1987, but was still lower than the level before SAP. The new tariff structure also introduced a landing charge to serve as an implicit tax on imports corresponding to the excise on similar domestic output which could serve as variable consumption tax for raising government revenue without changing the tariff protection regime. Also, the practice of general concessionary rates on imported inputs for certain producers was abolished, while discretionary duty exemptions, especially for government imports, were reduced. A Tariff Review Board was set up in the middle of 1988 to examine tariff complaints and to establish the framework for monitoring the effectiveness of these measures aimed at promoting competitiveness and efficiency in domestic economic activities.

Under the SFEM, non-oil exporters were permitted to retain 100 per cent of their foreign exchange earnings in domiciliary accounts on which they can freely draw to meet all eligible foreign exchange transactions. Export prohibitions were also abolished although the exports of grains and tubers have since been banned because of the local shortage of these items. Export licensing requirements have also been reduced to the barest minimum. In a major move late in 1986, the Government dissolved the Commodity Boards which had hitherto been charged with the external marketing of Nigeria's scheduled export produce. The Commodity Boards were abolished because they had begun to constitute a constraint on the local and external marketing of the produce under their control, thereby discouraging the primary production of such produce. In April 1987, a new export finance facility, the Refinancing and Rediscounting Facility was introduced by the Central Bank to assist private exporters through their banks to finance their marketing activities. Under the facility, the CBN can provide refinancing for the export of both agricultural and non-agricultural products for periods of up to one year at the Bank's rediscount rate. In

addition to the retention of total proceeds of foreign exchange by exporters, a Duty Draw-back/suspension Scheme was introduced in 1987 to enable exporters import raw materials and intermediate products for use in the manufacture of export products free of import duty and other indirect taxes and charges. Other export promotion measures which had received some attention in terms of implementation include the proposed establishment of the Export Development Fund, Export Performance Grant Fund, Export Price Adjustment Scheme Fund and the Export Credit Guarantee and Insurance Scheme.

### Fiscal Policy

Most of the policy measures described above were announced as fiscal measures. These measures, together with the revenue and expenditure strategies, were intended to achieve fiscal balance during the SAP. It was clear at the inception of the programme that financial resources for public expenditures would be much less than envisaged because of the declining oil revenue and the substantial debt repayments falling due. Consequently, it was the Government's intention to adjust public expenditures to reflect the revenue constraints with the ultimate aim of containing budgetary deficits within 3.5 per cent of GDP. In order to reduce general expenditures, government was to take the following measures: (i) minimise the growth of public sector wage bill through holding down employment and wage increases; (ii) concentrate on maintaining adequate supplies and maintenance of infrastructures to ensure efficient delivery of public services; (iii) reduce to the barest minimum non-statutory transfers to all economic and quasi-economic parastatals; (iv) complete on-going projects on the basis of their economic viability and proportionate completion costs, with priority accorded those with high economic viability and high completion ratios; and (v) undertake new projects only where they are clearly essential for the economic recovery process and their funding clearly established.

However, the fiscal operations of the Federal Government during the programme were out of tune with targeted levels. In 1986, for instance, a budget deficit of ₦8,254.3 million was incurred by the Federal Government, which was 10.3 per cent of GDP in comparison with the target of 3.5 per cent. In 1987, the ratio declined to 4.2 per cent, but under the influence of the reflationary package of 1988, the deficit/GDP ratio increased to 8.5 per cent. The increased levels of budget deficits since the start of the programme reflected an accelerated expansion of expenditures relative to revenue receipts. Total revenue of the Federal Government increased by an average of about 27 per cent a year between 1986 and 1988, whereas total expenditure increased by an annual average of 30 per cent. Recurrent expenditures increased faster by 44.7 per cent a year, while capital expenditures grew by 20.5 per cent per annum. On the other hand, judged by the declining levels of budget deficits, state government finances appeared to have improved. Overall budget deficit of state governments declined by 89.5 per cent from ₦1,070.3 million in 1986 to ₦111.9 million in 1987 and declined further by 5.3 per cent to ₦106.3 million in 1988. While the current revenue of state governments

increased by an average of about 50 per cent a year during the Programme, total expenditure increased by an average of 35 per cent a year.

### Monetary Policy

Monetary policy measures under the SAP were designed to stabilise the economy and to induce the emergence of a market-oriented financial system for effective mobilization of financial savings and efficient resource allocation. In order to dampen inflationary pressures and restrict the demand for available foreign exchange resources, the CBN required the banks in August 1986 to deposit in non-interest bearing deposit account at the Bank the naira equivalent of all outstanding external payments arrears. A total of ₦4.2 billion was deposited with the CBN at the end of the exercise. In pursuance of a tight monetary policy and greater competition and more efficient allocation of resources, the following policy measures have been adopted under the Programme:

- (i) On the introduction of the SAP in 1986, the 10 per cent ceiling imposed on the rate of credit expansion by the big and medium-sized commercial banks fixed earlier in the year was reduced to 8 per cent for the rest of 1986 and 1987. In August 1987, this was again reduced to 7.4 per cent for the last three quarters of the year. Any excess in credit expansion was required to be deposited with the CBN free of interest. But under the reflationary package of 1988, the growth in credit expansion by commercial banks was raised to 12.5 per cent. From August 1988, due to the overheating of the economy, total loans and advances by commercial banks were programmed to grow by not more than 7.1 per cent over the June 1988 level and by no more than 2.7 and 4.3 per cent in the third and fourth quarters respectively. These targets were made applicable to the merchant banks whose credit ceiling was hitherto prescribed as a percentage of their total eligible assets outstanding at the end of the previous year. These ratios had been fixed at 50, 55, 37.5, 47 per cent in 1986, January 1987, August 1987 and January 1988, respectively. In January 1989, with a background of excess liquidity in the banking system and inflationary pressures, the permissible rate of credit expansion by both commercial and merchant banks was reduced to 10 per cent;
- (ii) With respect to interest rates, the 9½ per cent interest rate on savings deposits was retained at the inception of SAP, but in place of the range of 8½ - 12 per cent interest rate payable on time deposits, a floor of 8½ per cent was fixed, while the bank lending rate was raised from 13 to 15 per cent. In August 1987, all controls on interest rates were removed in support of the policy of deregulation of the economy under SAP;
- (iii) The treasury bill rate was raised from 10 to 14 per cent in order to encourage the private sector non-bank public to invest in government securities. The minimum rediscount rate which was raised from 11 to 15 per cent in August 1987 was reduced to 12.75 per cent under the 1988 reflationary budget, but raised

to 13.25 per cent in January 1989; and

- (iv) In order to give banks the much needed flexibility in their credit operations, the sector specific credit distribution targets were further compressed into four sectors in 1986 and two sectors in 1987. Under the two-sector categorisation, agriculture and manufacturing enterprises have been regarded as priority sectors, receiving at least 50 per cent of credit allocation. Small-scale enterprises wholly owned by Nigerians have been given special consideration in credit allocation out of which at least 15 per cent has been reserved for them. Similarly, in order to complement efforts to transform the rural areas and stem rural-urban migration, commercial banks have been mandated to lend to rural borrowers at least 45 per cent of total deposits mobilised by their rural branches.

Monetary developments during the programme reflected an accommodative attitude of the expansionary fiscal operations outlined earlier. Consequently, monetary and credit targets specified in the Programme were generally not adhered to. Bank credit to the domestic economy increased by 12.7, 12.4 and 26.1 per cent in 1986, 1987 and 1988, respectively, compared with the targeted expansion rates of 8.7, 4.4, and 8.1 per cent. Credit to the private sector grew by an average of 19.4 per cent a year during the programme compared with the average target of 11.6 per cent a year. Claims on the government increased by 2.5, 14.4 and 30.0 per cent in 1986, 1987 and 1988 compared with target increases of 5.9, 1.5 and 2.5 per cent, respectively. The excessive growth in bank credit resulted in a rapid expansion of the money stock. Its narrow measure (M1), after falling by 4.1 per cent in 1986, increased by 17.1 and 43.9 per cent in 1987 and 1988, compared with the targets of 11.8 and 15.0 per cent, respectively.

### External Debt Management

Nigeria's huge external debt estimated at about US \$26 billion in 1987 had a large potential to constraint economic recovery. Consequently, it was the intention of government to undertake its effective management to minimise its adverse impact in terms of the burden of repayments of principal and interest. Early in 1986, government had determined that it would be unable to accommodate a debt service ratio higher than 30 per cent of export earnings. The Stand-by Agreement with the Fund in 1986 enabled Nigeria to negotiate with the London and Paris Clubs of creditors for the rescheduling of 1986 and 1987 obligations which fell due. The rescheduling agreements which were signed in 1987 amounted to US \$9.6 billion. Also, the reconciliations of trade arrears embarked upon in 1984 were substantially concluded by December 1987 and promissory notes were issued. However, because of shortage of foreign exchange, arrears of payments were accumulated, especially on the promissory notes due for redemption. Proposals were therefore made to note holders for the rescheduling of US \$4.8 billion payable in 22 years with 2 years of grace. These proposals were accepted, while interest payment of 5 per cent during the grace period and 4 per cent thereafter was also agreed. Further successes were achieved in 1988 in the debt rescheduling exercise. By the end of September 1988, an agreement was reached to



reschedule a total of US \$5.9 billion owed to the London Club of creditors. All debt owed to the London Club were consolidated and rescheduled over 20 years beginning in 1989, including a three year grace period.

In February 1988, a Debt Conversion programme was adopted to supplement Nigeria's debt management strategy, as well as to enhance capital inflow and productive investments in the economy. As at end-December 1988, 82 applications worth US \$1.87 billion had been received for conversion. Most of the applications were in respect of agricultural and manufacturing projects. Out of these applications, 50 worth US \$618.6 million were approved in principle. In 1988, about US \$70 million worth of debts was offered for conversion under the Programme.

### **Public Sector Reform**

The public enterprise sector in the country is extremely large and has been largely unproductive in relation to the substantial investments undertaken. At the Federal Government level alone, the public enterprises on the eve of adopting structural adjustment numbered about 140, engaged in agriculture, mining, manufacturing, transport, commercial and other activities. Total investment in the enterprises was about ₦23 billion (comprising loans and equity capital) yielding only about 2 per cent annual rate of return. The Federal Government not only paid the maturing debt obligations of the enterprises, but also was responsible for about 30 per cent of their capital investment budget and about 40 per cent of non-salary recurrent expenditure. One of the major aspects of the SAP was to initiate radical reforms of these enterprises in the form of privatisation and commercialisation. Privatisation was planned to reduce the size of the public sector to a manageable size, especially in areas where private sector enterprises could operate more efficiently. Commercialisation was aimed at decentralising decision making and encouraging financial independence needed for more effective management control and accountability.

For purpose of implementation under the SAP, the public sector enterprises were classified into five broad categories: fully privatised, partially privatised, fully commercialised, partially commercialised and wholly public enterprises. Enterprises which already function in a fully commercial way are to be fully privatised, while those to be partially privatised through the sale of part of their government equity holding will operate as private companies without any operating subventions from the Government. Enterprises to be commercialised will continue to be government-owned but will be reformed to enable them raise private capital. Those to be fully commercialised will operate without government financial support while those to be partially commercialised will generate a fair proportion of their financial resources independently but will continue to receive government subventions to cover part of operating costs and capital investment. Those enterprises that will continue to be wholly public institutions will be financed by the government but will be required to impose user charges as may be appropriate.

In 1988, the Federal Government passed the enabling law formalising the implementation modalities of the programme. The Privatisation and Commercialisation Decree No. 25 of 1988, provides for the setting up of a Technical Committee on Privatisation and Commercialisation to oversee the implementation of the programme. Among other functions, the Committee is to advise on the capital restructuring of enterprises to be privatised or commercialised, carry out all activities required for the successful public issues of shares of such enterprises, negotiate with the Securities and Exchange Commission on a fair price for each issue and oversee the actual sale of shares of the enterprises concerned by the issuing houses. In furtherance of these functions, the Committee announced early in 1989 the public sale of Federal Government shares in two enterprises — the Flour Mills of Nigeria and African Petroleum. Many more enterprises have been scheduled for such exercise.

## **PART II: ECONOMIC IMPACT OF STRUCTURAL ADJUSTMENT**

The economic impact of Structural Adjustment in Nigeria between 1986 and 1988 can be assessed by observing changes in domestic output, composition of output and trade, as well as changes in the external sector to the extent that the implementation of the programme can be identified with these developments.

### **Domestic Output**

The gross domestic product (GDP) assumed an upward movement during the implementation of the programme. During 1981-1985 which preceded the introduction of structural adjustment policies, the GDP recorded no change in 1982 and negative growth rates in 1983 and 1984. The positive growth rates of 7.0 and 7.9 per cent in 1981 and

1985, respectively, brought the average growth rate for the 1981-1985 period to only 0.8 per cent a year. However, the GDP recorded an increase in each of the years 1986-1988, resulting in an average growth rate of 3.0 per cent a year during the programme. Both agricultural and industrial production contributed to the increase in domestic output during the programme.

The index of agricultural production which increased on the average by only 0.4 per cent a year between 1981 and 1985, recorded an annual growth rate of 2.6 per cent during the programme. Favourable weather conditions rather than the direct impact of structural adjustment policies have been identified as an important factor in better agricultural performance during the programme. For instance in 1986,

adequate and timely rainfall appeared to have induced the growth of 6.5 per cent in total agricultural output, whereas the reverse was experienced in 1987 when low rainfall led to a fall of 1.8 per cent in total agricultural production. However, one remarkable development during the period and which could be attributed to the new economic policy changes generally was the increased tempo of movement of individuals to the agricultural and related activities. This development could have had a marginal impact on output during the period and could be a positive sign for the future.

Of the various components of agricultural production, the cash crop sub-sector recorded the most consistent performance. In 1986-1988, the component increased by 2.9 per cent a year in comparison with 3.3 per cent in 1981-1985. But whereas cash crop production consistently went up during the period, it experienced downward movements in 1982 and 1983 in the pre-SAP period. The major cash crops contributing to the improvement were groundnut, palm kernels, rubber and cocoa whose output increased by 7.5, 15.0, 10.0 and 35.0 per cent, respectively, between the two sub-periods. Minor cash crops like sheanut and soyabeans also performed much better than in the pre-adjustment period. The impact of structural adjustment on agricultural exports, particularly of the cash crops was remarkable. There is evidence that a good portion of total agricultural production was diverted to exports during the period because of the new price incentives arising from the improved marketing conditions and currency depreciation which boosted local earnings. The total volume of agricultural exports increased by 19.4 and 30.7 per cent in 1986 and 1987, respectively, while in 1988 it increased further by 9.6 per cent. At 439.8 thousand metric tons in 1988, the total export volume of agricultural commodities was more than 70 per cent higher than the pre-adjustment average export volume. The most important products contributing to the increase were cocoa beans, palm kernels, rubber, hides and skins, as well as coffee, edible nuts and gum arabic. The significant increase in total export volume and the substantial depreciation of the Naira exchange rate resulted in a similar big increase in the total value of agricultural exports. The total value of agricultural exports increased by an average of 65.4 per cent a year during 1986-1988 and at over ₦1.0 billion in 1988 was more than four times the level in the year preceding the adoption of adjustment policies. All products contributed to the remarkable performance. But, cocoa beans and products, palm kernels and products, natural rubber, and hides and skins were the major sources of the increased export values. It should be observed that in terms of US dollars, the total export value did not perform as satisfactorily as the naira values indicate. In fact, in 1987, the total export value, at US \$260.1 million, was 17.5 per cent below the 1986 level. The total dollar value went up by 20.3 per cent in 1988, but was still marginally below the 1988 level of US \$315.3 million. This development could be partly due to movements in the dollar exchange rate, but the main problem which has been observed in the recent past was the declining trend in the world prices of primary commodities.

There is no doubt that enhanced prices arising from the new exchange rate regime has been an important factor in

stimulating agricultural exports. The abolition of the commodity boards in Nigeria since 1986 has introduced a dynamic agricultural pricing policy which has a big potential for boosting agricultural production for export in particular. The producer prices of major agricultural export crops have increased by multiples since the adjustment was started. For instance, the local producer price of cocoa beans increased from only ₦1,600 per metric ton before structural adjustment to an average of ₦7,500 per metric ton between 1986 and 1988. The local producer prices of cotton, rubber and coffee have also increased substantially.

The production of staple food crops, except for the recorded fall in 1987 due to adverse weather mentioned earlier, was generally satisfactory. It recorded an average increase of 5.9 per cent a year between 1986 and 1988, in comparison with the 6.2 per cent average increase before the adjustment. Nevertheless, this fairly good performance might be substantially discounted by the observed substantial food price increases in the same period. What seems to have happened was that with the adjustment process, a lot of demand shifted to local foodstuff especially from industrial food processors, while the prohibition placed on the importation of wheat, rice and maize, among other food items, tended to limit local supplies. Other sources of pressures on food prices were the diversion to export and the excess liquidity in the economy particularly in 1988. On the whole, the objective of limiting food imports under the adjustment programme was achieved to a large extent even if through physical controls. But, it does seem clear that domestic food production performance has not coped with the growth in demand and this led recently to a prohibition of exports of some food items.

Of the other subsectors of agriculture, fishery output continued to be adversely affected by inadequate allocation of foreign exchange and escalating cost of fishing inputs such as nets, vessels and spare parts. These problems were observed before adjustment policies were adopted in 1986. In fact, in 1984 and 1985, fish production declined by 30.5 and 40.0 per cent respectively. Increases of 17.2 and 38.3 per cent were recorded in 1986 and 1987, but in 1988, a decline of 25.5 per cent was observed. The input problems intensified during adjustment, especially in the artisanal subsector where it was difficult for operators to buy new outboard engines or maintain the old ones effectively. Other constraints included the high cost of automotive gas oil and lubricants arising from the partial removal of fuel subsidy under the adjustment programme. A similar development affected poultry production which experienced the problem of inadequate feed due to the short-supply of imported feed inputs and disease control drugs.

The industrial sector perhaps responded more clearly to the adjustment programme than other economic sectors. During 1986-88, the index of industrial production increased by an average of 9.4 per cent a year, compared with the average decline of 1.6 per cent a year between 1981 and 1985. However, it is the manufacturing component that appears more relevant for review. Here, the performance was generally satisfactory. After declining by 3.9 per cent in 1986, the index of manufacturing production increased



by 33.6 and 13.7 per cent in 1987 and 1988 respectively, bringing the average rate of growth of output in the subsector to 14.5 per cent, compared with 1.4 per cent in the pre-adjustment period. Average capacity utilization in the subsector also recovered. Falling persistently from a peak of 73.3 per cent in 1981 to a low of 37.1 per cent in 1985, average capacity utilization rose to 38.2, 42.0 and 44.5 in 1986, 1987 and 1988, respectively. Higher than average capacity utilization has been recorded in enterprises such as beer and stout, industrial chemicals, textiles, tyres and tubes, printing and publishing, cement and plastics which have sourced a substantial proportion of their raw materials inputs locally. But manufacturing enterprises like auto assembly plants and paints had lower capacity utilization due to continued heavy dependence on imported inputs. Trade liberalisation measures implemented during the adjustment as well as the adjustment in the exchange rate of the naira no doubt positively influenced the incentive structure for local manufacturing industries. Firstly, there has been easier access to foreign exchange resources for the importation of raw material inputs and spare parts. Unlike the situation under the import licensing regime, the market-determined exchange rate and a more efficient foreign exchange allocation have made access to foreign exchange easier. This has obviated the need, to a great extent, to hold large stocks of imported inputs, raw materials and spare parts, as well as large numbers of employees to sustain the spurts in production. Secondly, the incentive to use local raw material inputs has been enhanced due mainly to the inadequate volume of foreign exchange for importing raw materials as well as their high cost following the depreciation of the naira exchange rate. Thirdly, the adjustment process has encouraged export activities in the manufacturing subsector, particularly in enterprises where local sourcing of raw materials has been very high. The increased competitiveness of these enterprises was brought about by the depreciated naira exchange rate. Correspondingly, those enterprises that enjoyed cheap imported inputs when the naira was overvalued and have not shifted significantly to the use of local inputs are now being penalised for being inefficient users of scarce foreign exchange resources. One negative development has been the substantial increase in production costs at a time when purchasing power has been eroded by high inflation rates. Increased costs of production have been recorded in all enterprises due mainly to more expensive imports and the inflationary expectations built into activities in the unstable foreign exchange market. In some cases where trade liberalisation has not been fully permitted, such as in the importation of some agro-based raw materials, prices of finished goods of local manufacturers have risen substantially due to high production costs and may even have slowed down the shift to local sourcing of raw materials.

### **Overdependence on Oil and Imports**

One of the cardinal objectives of the Adjustment Programme was to restructure the economy so that the overdependence on crude oil and imports would be substantially reduced. Some progress was made in this direction, but this might not have been significant in relation to expectation.

In the output sectors, the non-oil sectors have grown faster than the oil sector. Between 1986 and 1988, the non-oil GDP grew on average by 3.8 per cent a year, while the oil sector declined by an average of 1.1 per cent a year. The declining trend in the oil sector was in fact minimised by the 8.8 per cent growth in output in 1988 in contrast to the declines of 10.5 and 1.7 per cent in 1987 and 1986, respectively. The higher growth in non-oil GDP resulted in a slight rise in its share of total GDP from 84.6 per cent in 1984-1985 to 86.3 per cent in 1986-1988. Correspondingly, the share of the oil sector declined from 15.4 per cent in the earlier period to 13.7 per cent in 1986-1988. To the extent that the observed increase in the tempo of activities in the agricultural and manufacturing sectors can be sustained, the slight shift to the non-oil sectors could be the start of a desirable long-term structural change of domestic output.

Diversification away from oil as a specified objective of structural adjustment had an important implication for dependence on crude oil export earnings and revenue. If the basic objective was being attained, there should be a noticeable fall in the ratios of oil to total export earnings and oil to total revenue. In the period preceding adjustment (1981-1985), the ratio of oil to total export earnings ranged between 96.0 and 98.6 per cent with an average of 97.4 per cent for the period. During the programme, the ratio ranged between 88.4 and 93.8 per cent, resulting in an average of 91.7 per cent. The ratio progressively declined from 93.8 per cent in 1986 to 82.9 and 88.4 per cent in 1987 and 1988, respectively. Although the ratio was still large considering the relatively small share of oil in the GDP, the observed trend was a satisfactory performance as far as the aim of the Adjustment programme was concerned. With regard to the contribution of the oil sector to government revenue, the trend observed in the early 1980s was generally maintained. In the period 1981-1985, the ratio of oil revenue to the total Federally-collected revenue ranged between 66.4 and 74.4 per cent, with an average contribution of 70.8 per cent a year. The average contribution of oil to total revenue during the programme was 72.8 per cent, while it ranged from 65.9 per cent in 1986 to 76.7 per cent in 1988.

Two major problems emerged in the pre-adjustment period regarding the importation of goods and services into the country. The level of importation of goods and services itself was extremely large, particularly in a period when export earnings were falling rapidly and unstable. This situation created serious problems for foreign exchange management. In addition, the structure of imports was lopsided in favour of consumer goods, especially food items. The adjustment process was expected to alter these situations such that there would be less dependence on imports, while the structure of imports should favour the most productive sectors of the economy. In fact, the process of adjustment had started earlier than 1986 when some bold measures were taken to adjust import levels to the available foreign exchange resources. Between 1981 and 1985, the total value of imports declined by 2.6 per cent a year following the measures taken. But between 1986 and 1988, the total value of imports increased at an annual rate of 74.8 per cent. However, this was entirely due to the large depreciation of the naira

exchange rate during the period. In dollar terms the total value of imports actually declined by 4.3 per cent a year during the period, which was a significant achievement given that international price levels increased markedly in the same period.

With regard to the structural composition of imports, there was a shift from consumer goods to capital goods and raw materials, which was a desirable trend. Before the adjustment process in 1986, consumer goods constituted, on the average, 38.8 per cent of total imports. However, between 1986 and 1988, the share of consumer goods out of total imports had declined to 27.5 per cent a year. The share of capital goods increased from 32.7 to 38.4 per cent, while that of raw materials increased from 28.1 to 34.1 per cent. Within the component of consumer goods, the share of food imports declined from 15.6 per cent in 1981-1985 to 11.8 per cent in 1986-1988. But, much as the increased level of raw material imports would have supported productive activities, it was still an undesirable trend since the adjustment process should foster a shift from imported to local inputs, particularly in raw materials for local industries.

### External Sector

Three important indicators can be examined to assess the impact of structural adjustment on the external sector which was expected to show viability with the adjustment process. These indicators which are not mutually exclusive are the balance of payments position, foreign exchange flows through the economy and the level of the external debt. In fact, all three indicators pointed to intense pressures on the external sector of the economy during the programme. The balance of payments position generally worsened during the period. The balance of payments position, as measured by movement of external reserves, which recorded surpluses in 1984 and 1985, showed deficits of ₦784.3 million and ₦2,294.1 million in 1986 and 1988, respectively, but a surplus of ₦159.2 million in 1987. The surplus recorded in 1987 would have been a huge deficit, while the deficits recorded in 1986 and 1988 would have been much larger if part of the external debt commitments falling due during the period had not been deferred. This deferment of capital repayments which merely shifts current liabilities to the future became a more important feature of the external payments system during the Programme. The worsening balance of payments position stemmed from the deterioration of the current account. The current account which recorded surpluses of ₦1,504.2 million in 1984 and ₦2,215.4 million in 1985 showed deficits in each of the three years under review. The current account deficit which was ₦2,999.1 million in 1986 declined to a deficit of only ₦295.3 million in 1987, but climbed to ₦5,103.3 million in 1988. The behaviour of the current account was influenced largely by that of merchandise trade whose surplus was reduced by 32.0 and 25.9 per cent in 1986 and 1988, respectively, although the quadrupling of the merchandise trade surplus in 1987 was a welcome development. Another source of deficit in the current account was the increased levels of deficits on the services and income account. The deficit on that account moved from only ₦2,617.7 million in 1985 to ₦6,202.6,

₦14,167.2 and ₦15,396.6 million in 1986, 1987 and 1988, respectively. This development was traceable to the increases in outpayments in respect of shipment, other transportation and interest on external loans.

Foreign exchange flows through the economy could also serve as a measure of the stability of the external sector. Subject to the fact that not all foreign exchange which should have been spent was actually spent, the foreign exchange movements during the programme have not been too unsatisfactory. The foreign exchange net inflows which were recorded in 1984 and 1985 following the reverse situation in the early 1980s were generally sustained between 1986 and 1988. Net inflows during the latter period averaged ₦3,127.4 million, compared with only ₦458.1 million in 1984 and 1985, although the precipitous decline of 76.9 per cent in net inflow to ₦1,246.3 million in 1988 was disturbing. Both inflow and outflow have grown faster than in the pre-adjustment period. Between 1986 and 1988, total inflow increased by 45.1 per cent a year, compared with the average decline of 2.5 per cent between 1981 and 1985. Total outflow increased by 47.2 per cent a year in 1986-1988, compared with the decline of 8.2 per cent in 1981-1985. The downward movement of net inflow during the programme was a reflection of the faster growth of foreign exchange outflow than in inflow. The main item of interest in the outflow account is the debt service which, after declining in 1986 to ₦2,502.2 million, increased by 43.5 and 128.2 per cent to ₦3,590.6 million and ₦8,193.5 million in 1987 and 1988, respectively. Debt service payments were limited to these obviously large levels simply because government had since 1986 decided that its debt service capacity would not exceed 30 per cent of current foreign exchange receipts, as well as the fact that some payments falling due were not paid. Overall, taking into account these factors, the foreign exchange position during the review period indicated a lot of pressure on the external sector of the economy.

Another variable which mirrored the pressures on the external sector of the economy was the rising level of external debt which, among others, gave rise to excessively large debt service payments mentioned earlier. Between 1981 and 1985, total external debt outstanding recorded moderate growth rates, but during the period of structural adjustment, total external debt outstanding increased at a very rapid rate. It moved from only ₦17.3 billion in 1985 to ₦41.2 billion in 1986, ₦100.8 billion in 1987 and ₦134.0 billion in 1988, indicating a growth rate of 105.3 per cent a year. This growth rate was substantially due to the depreciation of the naira exchange rate. In dollar terms, the average growth rate was only 16.1 per cent a year during the review period. Nevertheless, it is still true that the levels of external debt outstanding during the period were substantially higher than in the preceding period. The size of the external debt could become problematic when related to some relevant economic variables such as the levels of exports and domestic output. Three ratios, namely, debt/exports, debt/GDP and debt service, commonly used to measure the burden of debt, showed that the Nigerian debt burden exacerbated during 1986-1988. The debt/export ratio which averaged 115.7 per cent between 1981 and 1985 accelerated to 408.1 per cent

during 1986-1988, while the debt/GDP ratio increased from an average of only 16.4 per cent in the former period to 114.0 per cent in the latter period. Similarly the officially controlled debt service ratio (debt service/export ratio) moved from an average of 18.6 per cent before the adjustment period to 22.0 per cent during the period. Apart from the traditional adverse effects of heavy debt burden such as acceleration of balance of payments deficits, depletion of external reserves, curtailment of imports and the number of development projects that could be embarked upon, as well as inflationary pressures due to possible adverse effect on the output level, the management of the debt, especially since the Adjustment Programme was launched in 1986 posed a heavy demand on national resources which could otherwise have been deployed for more productive activities.

### Efficiency in Resource Allocation

One of the major economic problems facing the country before the adoption of structural adjustment policies was the high degree of inefficiency in resource allocation in the economy which resulted in distortions and imbalances between urban and rural development, domestic and export production, foreign exchange allocation between production and consumption as well as acquisition of new assets and maintenance of existing ones. Economic management which was characterised by controls and discretionary actions fostered uncompetitiveness and inefficiency in the system. By and large, the package of policies adopted under structural adjustment has attempted to reverse these trends and thereby induced a more efficient allocation of resources, although the economy is still far from the optimum level of efficiency and performance. A few of these can be cited.

The most notable is the positively changed environment of the rural areas vis-a-vis the urban areas to the extent that a good proportion of those who migrated to cities in the period of the oil boom have started to return. This has been induced by the greater resource flows of the rural areas in the form of increased investments in infrastructural facilities

and incomes derived especially from the higher tempo of agricultural and other rural activities. Terms of trade have moved in favour of the rural areas and hold brighter prospects for increased productivity generally. Secondly, the recent policies have removed the bias against production for export. Previously, it was more rewarding to use foreign exchange to import finished goods for sale locally. It is still rewarding to do so, but it is now more sustainable, since foreign exchange is scarce, to plan production for export which will yield foreign exchange for the exporter. Thirdly, the radical change in the allocation of foreign exchange has made the process less cumbersome and more favourable to those who produce. The easier access to foreign exchange from official sources and the constant flow of foreign exchange to exporters who choose to keep their earnings in the domiciliary accounts permit users of foreign exchange to plan ahead their production and investment activities. The system has also encouraged foreign exchange users to look inwards to procure some of their inputs because foreign exchange supply to the economy is grossly limited and highly priced. Fourthly, the package of policies has fostered to a large extent the culture of repair and maintenance of durable assets, instead of discarding them for new ones as in the past. There has also been a changed attitude in favour of jobs that were despised or looked down upon. Farming, carpentry, tailoring, refuse collection and other basic occupations are embraced by both educated and uneducated people alike. This development has been brought about by the reality that self-reliance is basic to economic survival of the country. The same attitude is reflected in the shift from preference for imported foods to local ones. Finally, the new economic environment created by the adjustment process is freer of controls and more competitive, a condition which not only reduces the burden and waste in economic management but also discourages the pursuit of windfall gains. This has been observed in the banking industry with positive impact on savings mobilization and project financing. Also, economic agents now spend less time finding ways of beating regulations.

## PART III: SOCIAL IMPACT OF STRUCTURAL ADJUSTMENT

As stated earlier in this paper, structural adjustment policies were introduced in Nigeria to induce a positive turn around in the economy in the medium to long-term. Inevitably, some of the short-run effects of the adjustment process have been negative for the population, especially the low-income groups. The need to address these negative effects has now been accepted as a necessary step within the Adjustment Programme, otherwise the economic gains made would not be sustained under the weight of the resultant charged social and political environment. While we discuss the steps taken to ameliorate the adverse effects of structural adjustment on the population in Part IV, we focus here on the dimensions of the social impact of the programme. The programme impact on inflation trends and purchasing power, unemployment, the social services and the distribution of costs of adjustment is highlighted in both quantitative and qualitative terms.

### Inflation Trends

The basic statistic for measuring the inflation trends in the country is the consumer price index (CPI) compiled by the Federal Office of Statistics (FOS). There is also the Lagos Area Retail Price Index (RPI) compiled by the Central Bank of Nigeria (CBN) using the same broad methodology as in the FOS survey. Both indices indicate that inflationary pressures gathered momentum between 1986 and 1988. After reaching a peak of 39.6 per cent in 1984, the increase in the FOS CPI nose-dived to 5.5 and 5.4 per cent in 1985 and 1986 respectively. It climbed to 16.2 and 38.3 per cent in 1987 and 1988, respectively. The rural index which has in recent years increased faster than the urban index, as well as the urban index followed the same pattern of movement. After recording modest increases between 1985 and 1987, they both increased substantially by 39.9 and 27.1 per cent in 1988, respectively. The food component which contributes

over 60 per cent of any change in the composite index assumed the same pattern of movement. It increased by 52.2 per cent in 1988, compared with an average increase of only 4.2 per cent between 1985 and 1987. Similarly, the CBN CPI increased by 34.2 per cent in 1988, compared with an average of 10.2 per cent between 1985 and 1987. The food component of the index increased by 39.3 per cent in 1988, in comparison with an average of 6.9 per cent in the previous three years. The inference that could be drawn from these price trends is that the inflationary spiral observed during the Programme was substantially generated in 1988, while the inflation rates in 1986 and 1987 could be considered tolerable based on past records. Hence, it is clear that the implementation of structural adjustment policies need not cause runaway inflation.

One major clue to the inflation problem, especially in 1988, was the excessive growth in domestic liquidity due to the large deviations from the fiscal and monetary targets, especially with regard to government deficit spending financed mainly by borrowing from the Central Bank, details of which were given earlier. These developments resulted in total liquidity as measured by broad money supply ( $M_2 = M_1 + \text{quasi-money}$ ) growing by 32.8 per cent in 1988 alone, and this was on top of the 23.9 per cent increase registered in 1987. Such excessive growth in liquidity occurred at a time of inadequate growth of goods and services, especially food, due to the spill-over effects of the poor harvest in 1987, as well as limited imports because of scarcity of foreign exchange. A cost-push element was introduced because the excess liquidity put pressure on the naira exchange rate which depreciated persistently over the period as stated earlier. Owing to the fact that production and consumption activities have continued to depend critically on imported inputs, there were marked increases in the production costs and prices of all classes of goods and services — food, manufactured goods and spare parts. The increase in the prices of fuel also resulted in higher transportation costs which in turn affected the distribution costs of all consumer goods. Another round of inflation was caused by speculative activities, particularly because of the demand pressures on the naira exchange rate. For fear of further exchange rate depreciation, purchasers attempted to buy more than their normal requirements of foreign exchange, while others held inventories of goods, part of which they planned to resell to make a good margin. All of this tended to depreciate the naira exchange rate further and thereby increase costs and prices. Also because of foreign exchange scarcity, producers might have patronised the foreign exchange parallel market where the exchange rates were higher and could therefore further escalate their cost schedule.

What is of direct relevance in a high inflation rate is the reduction it induces in purchasing power because nominal incomes traditionally do not adjust, if at all, *pari passu* with inflation levels. The purchasing power of most workers and self employed persons certainly declined during the programme due to the high inflation rates and stagnant incomes. However, this development had started long before the Programme was launched in 1986. Salaries and fringe benefits in the public sector, with few exceptions, had been

frozen since 1982 when the Federal Government made the first determined effort to tackle the effects of reduced export earnings and revenue from oil. The wage freeze was lifted in 1988, but wage increases granted were not commensurate with the increase in the cost of living up to that point. It should be observed that the wage increase granted might have accelerated the decline in purchasing power. Purchasing power of workers in the private sector was similarly reduced because wages were frozen in 1984. However, they appeared better cushioned against rising prices because of the much improved conditions of services relative to the public sector in the last ten years.

## Unemployment

Traditionally, in an expansionary fiscal and monetary policy regime, such as was witnessed particularly in 1988, there should be reasonable growth in output and employment. However, where, as in Nigeria, foreign exchange is a key resource in production and consumption activities and is acutely scarce, an expansionary policy tends to aggravate inflationary pressures rather than generate new employment opportunities. Estimates show that the employment level during the programme increased by only one per cent a year, compared with the estimated average increase of 3 per cent of the labour force. Consequently, unemployment problem assumed a more serious dimension. However, available statistics do not always tell the true story of unemployment in Nigeria. The FOS labour force sample survey shows that unemployment rates since the Adjustment Programme was launched have risen generally. The average national unemployment rate between 1983 and 1985 was 4.9 per cent, while it increased to 5.7 per cent between 1986 and 1988. However, in an annual basis, the continuous rise was interrupted in 1986 and 1988 when the rates declined. The unemployment problem has been more pronounced in the urban than in the rural areas. Between 1983 and 1985, the average urban unemployment rate was 8.3 per cent compared with 9.7 per cent during 1986-1988. In the rural areas, the unemployment rate averaged 4.0 and 4.8 per cent in the two respective periods. Registered unemployment data compiled by the Federal Ministry of Employment, Labour and Productivity, subject to the qualification that many unemployed persons do not bother to register, also seem to indicate more serious unemployment problem since the adjustment was started. For the lower grade workers, the total number of registered unemployed persons reached a peak of 120.9 thousand in 1984 prior to adjustment. A new peak of 145.1 thousand was attained in 1987. For the professional and executive groups, total registration moved from only 4.3 thousand in 1985 to 15.1 and 16.8 thousand in 1987 and 1988, respectively. The tight labour market portrayed by these figures was further buttressed by the reduced number of vacancies declared and placements for the two categories of workers both in the pre and post-adjustment periods.

The critical nature of the unemployment problem since the adjustment process began can be discerned by reference to the rapid expansion of enrolment in the primary, secondary and tertiary educational institutions between 1979 and 1983.

These institutions have been the traditional sources of the supply of new hands in the labour market since 1984 at a time when the labour market had contracted substantially. The public sector which was the pace setter in labour recruitment has started a massive disengagement of redundant labour following the economic crisis of the early 1982. Private sector agencies such as manufacturing firms took similar action and indeed have been consciously economising on the use of labour not only because it became more costly, but also as a means of reducing total cost already inflated by more expensive imported inputs. Though the demand for labour increased in the rural areas, particularly in the agricultural sector, because of new incentives mentioned earlier and there is evidence that many retrenched workers returned to the rural areas either as new labour or as self-employed persons. However, the rapid increase in the labour force and the type of prospective employees were such that increased demand for labour in the rural areas could not significantly counter the serious national unemployment problem.

The increased unemployment has probably accentuated the problem of poverty in the country. Unemployed persons have no purchasing power, except where they depend on a survival basis on relations who themselves have suffered reduced real incomes. The unemployment problem could also be associated with the higher incidence of crimes since 1985, as a result of which national economic growth and inflow of foreign investment have been hampered.

### **Deteriorating Social Services and Utilities**

Traditionally, the performance of the social service sectors in Nigeria has fallen below expectation. The supply of services has not measured up to the effective demand, while the limited services have not been rendered efficiently. Such was the situation in the services provided in the transportation, water, health and education subsectors, among others. The main problems of these services, mostly under the control of the public sector, were financial indiscipline, political interference, organisational deficiency and inadequate pricing policies. Except in a few cases, the performance of the service sectors has degenerated in terms of the volume and cost of services provided since the Adjustment Programme was started, which has thus increased the burden on the population. The problem can be examined from at least three angles.

Firstly, there has been little or no growth in the volume of services provided. This development started long before the structural adjustment programme arising from the reduced revenues of the Federal, State and local governments. Since 1981, only few transportation, water supply, health and educational facilities have been provided due to the cutback in government revenue. A new situation developed in 1986 when the prohibitive costs of providing such facilities restrained the installation of many new facilities. Secondly, the gradual removal of subsidies has resulted in more costly services provided. Increased fuel costs have adversely affected the costs of all the services in addition to the increased charges necessitated by the need to achieve operational viability in the various services. Consequently,

transportation fares, water rates, medical charges and educational levies have substantially increased during the programme. Thirdly, increased cost of importation has induced higher service charges and poorer services. As in other sectors, activities in the service sectors depend a lot on the importation of inputs such as spare parts. Shortage of spare parts for motor vehicles, inadequate supply of chemicals in water schemes and drugs in hospitals, as well as books and other learning materials in educational institutions have all led to deteriorated services and higher charges in the service sectors. The general decline and higher costs in the social services can properly be observed in the context of the inflation problem mentioned earlier, while it further underpins the miserable plight of the unemployed.

### **Distributional Effects**

From what has been discussed so far, the socio-economic costs of structural adjustment to the Nigerian population are not controvertible. That every segment of the population has borne part of its costs is clear and this is what policy makers predicted. It is now generally accepted that some measures need to be taken alongside the adjustment measures to cushion the adverse effects of the latter. But a new dimension could be introduced if the burden of adjustment is disproportionately borne by various groups in the population. If this happens, it must introduce a new policy perspective. Unfortunately, further consideration of the issue would introduce qualitative judgements because of the absence of relevant data.

In terms of the adjustment process and the long term goal of national development, two types of distributional effects can be examined. The first relates to adjustment effects on the urban and rural areas while the second concerns the effects on the low and high-income groups. Taking the urban-rural divide first, it is easy to make some assessment from the fragmentary data presented earlier. With regard to inflation, the rural areas have suffered more than the urban areas. Except in 1986, the rural price index has increased more than the urban index. The critical year of 1988 showed that rural prices increased by 39.9 per cent compared with the 27.1 per cent in urban areas. Ironically, food prices increased by 53.7 per cent in the urban areas in the same year. However, unemployment rates have been much lower in the rural than in the urban areas. The FOS labour force sample survey indicated an average unemployment rate of 4.8 per cent in the rural areas compared with 9.7 per cent in the urban areas. The rural areas have traditionally lacked social services and other amenities when compared with urban areas. On account of high population densities, the urban areas could have suffered more following the observed deterioration in the social services. With respect to the low and high-income classification, it is easier to identify the low-income classes as the rural peasantry, the urban poor and the physically disadvantaged. The low income group appears to have been more affected by increased costs of food, medical care, education and transportation. However, there has been a clear redistribution of income in favour of the rural dwellers, particularly farmers who form the bulk of



the low income earners following the improved prices of agricultural products. Available data from the POS National Integrated Survey of Households (NISH) indicated that real incomes fell more rapidly in the urban than in the rural areas

with the result that living conditions in the rural areas were relatively better than in the urban areas during the implementation of the Adjustment Programme.

## PART IV: POLICY RESPONSE TO SOCIAL EFFECTS OF ADJUSTMENT

To date, the Federal Government has taken a number of policy actions to reduce the adverse effects of structural adjustment policies, particularly on the poor. Specific policy measures have been taken to stem inflationary pressures, generate more employment opportunities and reduce transportation problems in the urban areas. These measures are briefly reviewed below.

### Anti-Inflation Measures

Since the Structural Adjustment Programme was embarked upon, five important policy measures which could reduce inflationary pressures have been adopted. The first was the setting up of the Directorate of Food, Roads and Rural Infrastructure (DFFRI) early in 1986 to help promote, in cooperation with state governments, a framework for the construction and rehabilitation of rural feeder roads, as well as the provision of other rural infrastructures in a bid to effectively mobilize the rural peasants for sustained agricultural transformation. To execute its programme, DFFRI was allocated ₦500 million in 1986, ₦400 million in 1987, ₦500 million in 1988 and ₦300 million in 1989. The Directorate's programme consists of four important elements — rural roads construction and rehabilitation, agricultural promotion, horticultural development and rural water supply and electrification. On the whole, fairly satisfactory progress has been made in the execution of the Directorate's programme, and its activities have generated a lot of interest in many rural communities. But it has been subjected to many criticisms relating to the unduly large scope of its programme having regard to its limited human and material resources, inadequate coordination of its activities in the country and poor quality of some of its facilities.

Secondly, early in 1988 government lifted the wage freeze hitherto in force. This step was taken in consideration of the adverse impact of the adjustment programme on workers' real incomes. In both the private and public sectors, negotiated increases in salaries and wages were permitted subject to approval by the Minister of Employment, Labour and Productivity. Under this guideline, most workers in both sectors obtained salary increases which helped cushion purchasing power at least in the short-run. Thirdly, both Federal and State governments intensified their special food production schemes, the basic elements of which were the provision of agro-chemicals and improved seeds, the construction of storage facilities and the promotion of wheat cultivation in the suitable parts of the country. Under the Accelerated Wheat Production programme, for example, wheat farmers are given 50 per cent discount on the cost of

inputs such as seeds, water pumps, jute bags, as well as on land clearing and harvesting. The programme was first launched in Kano State in 1986/87 and by 1988/89 six other states, Sokoto, Kaduna, Borno, Bauchi, Katsina and Plateau had joined the scheme. A fourth measure taken to boost food supply and bring down the inflation rate was taken early in 1989 when the Federal Government placed a ban on the exportation of all grains, tubers and their byproducts. Simultaneously, all the state governments were ordered to release for immediate sale at affordable prices to the public all their food reserves. Similar prohibition had been placed on the importation of wheat, rice, maize and other major food products much earlier as a way of encouraging farmers to intensify production activities which would lead to the achievement of self-sufficiency in these food products.

Finally, monetary and fiscal policies which had been very expansionary in 1988 were tightened up early in 1989. This action was taken to mop up excess liquidity from the economy and dampen demand pressures generally. For example, of the overall budget deficit of the Federal Government amounting to ₦12,889.1 million, a sum of ₦2.5 billion is expected to be realised from draw-down on project loans while ₦6.0 billion would be realised from balance of payments support loan. In effect, only ₦4.4 billion would be raised from internal sources, compared with an amount of ₦12.2 billion in 1988. With the smaller level of borrowing from the banking system, especially the Central Bank, inflationary pressures would be significantly reduced. With regard to monetary policy measures the target growth in money supply ( $M_1$ ) was reduced from the 43.9 per cent achieved in 1988 to 14.6 per cent for fiscal 1989, while the target increase in aggregate bank credit was restricted to 9.5 per cent compared with the actual growth of 26.1 per cent in 1988. Expansion in credit to Government was targeted to be 8.3 per cent compared with the 30 per cent rate of increase in 1988, while credit to the private sector was to increase by 11.4 per cent in comparison with 21.6 per cent increase achieved in 1988. In a bid to further restrain the ability of the banks to expand credit, some amendments have been made to the monetary policy guidelines announced early in January 1989. With effect from January 31, 1989, the Central Bank's Minimum Rediscount Rate was raised from 12.75 to 13.25 per cent which would have the effect of positively influencing the other interest rates and probably restrain borrowing from the banking system. Also, with effect from April 5, 1989, the cash reserve and liquidity ratios of the banks were raised with the aim of further reducing aggregate demand pressures which have spill-over effects on prices and the naira exchange rate.



## Employment Promotion

The Federal Government initiated actions to tackle the unemployment problem early in 1986. In May, the government ordered the registration of all unemployed persons in the country. Following that exercise, the Federal Government in October made a grant of ₦25 million to State and local governments to be used for various agricultural programmes, as well as providing vocational training for unemployed school leavers. Government formally inaugurated the National Directorate of Employment charged with the task of creating job opportunities and to implement other government measures towards solving the unemployment problem in the country.

The Directorate has since launched a number of programmes aimed at creating employment opportunities and providing training, finance and guidance to unemployed persons. The Directorate estimated that its activities resulted in the creation of 142.1 and 94.4 thousand new jobs in the country in 1987 and 1988, respectively. The four primary programmes designed by the Directorate are the youth employment and vocational skills, agricultural, small-scale industries and graduate employment, as well as the special public works programmes. Under the youth employment scheme, youths are placed as apprentices in private and public establishments for one to two years after which they could be productively absorbed into the labour force. In the agricultural scheme, land for farming provided by state governments is distributed to participants who are supported

by loans for the purchase of inputs and subsistence. Under the small-scale industry scheme, the Directorate guarantees loans from banks to young unemployed entrepreneurs wishing to set up small-scale enterprises which will engage both themselves and other unemployed persons. In the special public works programme, unemployed youths are engaged to execute labour intensive construction projects such as community roads and buildings in their local government areas.

## Reducing Urban Transportation Problems

Early in 1988, the Federal Government embarked on a country-wide programme to ameliorate the urban transportation situation. It set up the task Force on Urban Mass Transit and Transportation System to review existing recommendations on mass transit systems for urban areas, examine the relevance and scope of various transport modes and propose suggestions and advise on allocation of funds for the construction of mass transit vehicles and crafts. Various projects which embraced the major transportation modes have been initiated. For instance, under the road transportation scheme, the Federal Government acquired 939 buses, including spare parts and workshop equipment, for distribution to the states and some educational institutions on a soft loan basis. Most state governments have taken the opportunity to revamp their transport corporations or establish new agencies to implement their mass transit schemes. Notable actions were also taken to rehabilitate other transportation facilities throughout the country.

## PART V: SUMMARY, CONCLUSION AND PROSPECTS

The paper set out to appraise the economic and social impact of the Structural Adjustment Programme in Nigeria from 1986 to early 1989. It reviewed the economic downturn in the country following the oil crisis of the early 1980s and the various control measures which could not arrest the downturn, thereby necessitating a more sustainable adjustment process. The SAP introduced in July 1986 was designed to restructure the production and consumption patterns of the economy as well as eliminate price distortions and the lop-sided structure of the economy. The three central policy instruments of the programme were the adoption of a realistic exchange rate policy alongside a liberalised external trade and payments system, institution of market-oriented pricing policies which would minimise price controls, as well as a restructuring and rationalisation of the public sector for more effective performance. The new exchange rate policy resulted in a continuous depreciation of the naira exchange rate which stood at US \$1.00 = ₦7.5810 at the end of April 1989, bringing the rate of depreciation of the naira exchange rate since September 1986 to nearly 80 per cent. The Foreign Exchange Market has witnessed a measure of stability after the merging of the official and autonomous segments in January 1989. Fiscal policy has not adhered strictly to set targets. Federal Government budget deficit as a ratio of GDP averaged 7.7 per cent between 1986 and 1988, compared with the target of 3.5 per cent under the Programme. The 1989 budget attempted to arrest the expansionary fiscal operations of the

government. Monetary policy was accommodative of fiscal expansion resulting in excessive credit creation and the money supply. Monetary policy has also been properly redirected by the 1989 budget. Through vigorous debt restructuring and rescheduling as well as the adoption of a Debt Conversion programme, external debt management strategies outlined in the programme were generally implemented to bring some relief to the external sector. The reform of the Public Sector was initiated and by early 1989 had engendered a lot of momentum.

Overall, the programme made some positive economic impact as reflected in higher domestic output, reduced revenue dependence on oil, imported industrial inputs and greater efficiency in resource allocation throughout the economy. But the external sector was still under severe pressures which could have been more serious without the programme. With respect to domestic output, the GDP increased at an annual rate of 3.0 per cent during 1986-1988, compared with the average of 0.8 per cent in the period, 1981-1985. Agricultural production, especially the cash crop component, performed much better than in the previous five years. Following the improved pricing and marketing policies, agricultural exports increase significantly. The production of major food crops also increased, but a higher level of demand continued to put an upward pressure on food prices. Production and capacity utilization in the manufacturing subsector increased appreciably largely because of the easier access to foreign

exchange for procuring foreign inputs. Efforts to source raw material needs locally were intensified, while export activities were boosted by the more competitive environment. Production costs however increased substantially. Diversification away from petroleum as an important objective of the programme met with some success. There was a slight shift to non-oil production which partly led to a decline in the share of oil exports out of the aggregate, while the contribution of oil revenue to the total was somewhat stable. In real terms, the level of imports declined during the programme, while the structure of imports shifted in favour of capital goods and raw materials rather than consumer goods. The package of policy measures under the programme induced a more efficient allocation of resources, although the economy still has a lot of room for improvement in that regard. Improved terms of trade in favour of the rural areas, expansion of export activities. Improved allocation of foreign exchange to priority sectors, the changed attitude towards asset maintenance and the more competitive environment in the economy have all been brought about by the new economic policies. The increased pressures on the external sector of the economy could not be attributed to the Programme as such, but could be a reflection of the persistence of some key economic problems such as the heavy debt burden. In fact, but for the gains made under the programme, these pressures could have been greater.

Some of the side effects of implementing the programme on the population have been negative. Such effects include increased inflationary pressures which have reduced real incomes, higher unemployment, deterioration and higher costs of social services and utilities, as well as the relatively worsening economic position of the articulate urban dwellers. Programmes have been mapped out at both the Federal and State Government levels to minimise these problems. These include the adoption of some anti-inflation measures, employment promotion activities of the National Directorate of Employment, the introduction of the mass transit programme to reduce urban transportation problems and the adoption of macroeconomic policies to reduce aggregate demand pressures. It will, however, take some time before these measures could make an impact.

From the analysis undertaken in the paper, there is enough evidence that the Nigerian economy has responded positively to the structural adjustment policies adopted since 1986. While it may appear to some observers that the beneficial impact generated by the programme has not been adequate, it is well to remember the magnitude of the economic crisis which the Programme was designed to arrest and it may take a much longer period to reconstruct the economy than was needed to bring it down. It usually takes time for policies to work themselves out, especially when there are always conflicts to resolve. It is however acknowledged that there is a need for all government economic policies to be well articulated and systematically implemented as a follow-up to the core of structural adjustment policies introduced since 1986. Such policies are at present being examined in a piecemeal fashion. In another perspective, it is easy to over-emphasise the short-run negative effects of the Programme

especially on the poor. While the Programme has stemmed the emergence of a more serious economic crisis, it is necessary for government to integrate its efforts to ameliorate the economic conditions of various income groups suffering from the adverse effects of the programme. In implementing some of the schemes aimed at assisting the poor, it is necessary to involve the private sector and local governments for more effective results. In conclusion, it may be stated that in the context of our present political economy which has traditionally relied on the principles of free enterprise, there appears to be no better option than the direction to which the SAP has now tilted the Nigerian economy, provided, of course, that the policy package continues to be efficiently implemented.

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Table 1

**MONETARY AND CREDIT DEVELOPMENTS (END-DECEMBER)**  
(N' Million)

	1981	1982	1983	1984	1985	1986	1987	1988
Credit to Domestic Economy	16,268.5	21,906.8	28,182.1	31,141.6	32,680.3	36,820.3	41,390.8	52,201.6
% Growth	50.8	34.7	28.6	10.5	4.9	12.7	12.4	26.1
% Target	—	—	—	—	—	8.7	4.4	8.1
Credit to Private Sector	9,654.2	11,371.5	12,353.9	12,942.0	13,700.2	17,365.0	19,125.8	23,247.4
% Growth	34.3	17.8	8.6	4.8	5.9	26.7	10.1	21.5
% Target	—	—	—	—	—	12.8	8.4	13.3
Credit to Government Sector	6,614.3	10,535.3	15,828.2	18,199.6	18,980.1	19,455.3	22,265.0	28,954.2
% Growth	83.9	59.3	50.2	15.0	4.3	2.5	14.4	30.0
% Target	—	—	—	—	—	5.9	1.5	2.5
Money Supply (M1)	9,744.9	10,048.5	11,282.4	12,204.1	13,267.8	12,728.3	14,905.9	21,446.4
% Growth	5.6	3.1	12.3	8.2	8.7	-4.1	17.1	43.9
% Target	—	—	—	—	—	—	11.8	15.0
Money Supply (M2)	15,548.1	16,893.9	19,368.9	21,600.5	23,818.6	24,216.0	29,994.6	39,843.5
% Growth	8.0	8.7	14.7	11.5	10.3	1.7	23.9	32.8

Source: Central Bank of Nigeria

Table 2

**SUMMARY OF FEDERAL GOVERNMENT FINANCES**  
(N' Million)

	1981	1982	1983	1984	1985	1986	1987 <sup>1</sup>	1988 <sup>1</sup>
<b>Revenue</b>								
Total Federally Collected								
Revenue	12,180.2	11,764.4	10,508.7	11,133.7	14,606.1	12,302.0	25,099.3	27,310.8
Federal Govt. Retained Revenue	7,509.8	7,500.0	6,234.1	6,938.5	9,640.3	7,969.4	16,129.0	15,588.6
<b>Expenditure (Total)</b>	11,438.4	12,440.4	9,949.7	9,553.6	12,680.0	16,223.7	22,018.7	27,749.5
Recurrent Expenditure	5,739.1	7,417.9	5,916.0	6,275.7	7,215.3	7,696.9	15,646.2	19,409.4
Capital Expenditure	5,699.3	5,522.5	4,033.7	3,277.9	5,464.7	8,526.8	6,372.5	8,340.1
<b>Balance of Revenue &amp; Expenditure</b>								
Overall surplus/deficit	-3,928.6	-5,440.4	-3,715.6	-2,615.1	-3,039.7	-8,254.3	-5,889.7	-12,160.9
<b>Financing</b>								
External Loans	464.4	6,488.2	1,758.3	1,184.5	1,045.9	708.1	832.7	1,918.7
Internal Loans	3,527.0	4,402.0	7,376.8	3,450.7	2,277.0	499.2	8,349.4	10,240.5
(a) Banking System	2,344.2	2,989.2	5,616.1	2,892.5	2,491.4	498.9	4,693.5	7,821.4
(i) CBN	3,187.9	1,975.2	3,324.0	- 646.0	820.5	6,199.7	1,442.0	9,156.7
(ii) Commercial banks	-843.7	1,013.3	2,292.1	3,538.5	1,670.9	-5,700.8	3,251.5	-1,335.3
(b) Non-bank Public	1,182.8	1,412.8	1,760.7	558.2	-214.4	0.30	3,655.9	2,419.1

<sup>1</sup> Provisional

Source: Returns from Federal Ministry of Finance and Economic Development and Central Bank of Nigeria

Table 3

**DOMESTIC PRODUCTION**  
(N' Million)

	1981	1982	1983	1984	1985	1986	1987	1988
Gross Domestic Product	78.3	78.3	73.8	70.0	75.5	77.9	79.3	82.5
% Growth	7.0	0.0	(5.7)	(5.1)	7.9	3.2	1.8	4.0
Index of Industrial production (1972 = 100)	185.5	197.2	154.6	147.0	169.4	166.0	197.6	220.0
% Growth	(2.8)	6.3	(21.6)	(4.9)	15.2	(2.0)	19.0	11.3
Index of Manufacturing Production	394.9	447.0	319.0	280.8	336.5	323.5	432.3	491.6
% Growth	14.6	13.2	(28.6)	(12.0)	19.8	(3.9)	33.6	13.7
% Capacity Utilisation	73.3	63.6	49.1	42.0	37.1	38.2	40.4	40.7
Index of Agricultural Production (1975 = 100)	90.1	92.1	83.9	91.4	95.8	102.1	100.3	103.3
% Growth	0.5	2.2	(8.9)	3.5	4.8	6.6	(1.8)	2.9
Index of Food Crop Production	71.6	73.8	72.6	81.5	88.9	98.6	93.3	104.9
% Growth	5.9	3.1	(1.6)	12.3	9.1	10.9	(8.8)	12.1
Index of cash crop production	124.1	122.2	108.0	115.1	126.3	125.9	128.7	130.6
% Growth	13.4	(1.5)	(11.6)	6.5	9.7	5.3	2.2	1.5

<sup>1</sup> GDP at 1984 factor cost

<sup>2</sup> Provisional

Sources: Returns from (1) Office of Budget & Planning, The Presidency, (2) Central Bank of Nigeria.

Table 4

**CRUDE OIL STATISTICS**

	Production (Million barrels)	Exports (Million barrels)	Oil Export Earnings US \$ million	Oil Revenue (N'million)	Ratio of Oil to Total Export Earning	Ratio of Oil to Total Revenue
1981	525.5	447.8	17,659.6	8,564.4	98.2	70.3
1982	470.7	366.4	12,779.1	7,814.9	98.6	66.4
1983	451.0	341.4	9,953.3	7,253.0	96.0	69.0
1984	508.0	400.4	11,568.4	8,269.2	97.3	73.9
1985	547.0	453.8	12,203.7	10,923.7	97.1	74.4
1986	534.2	447.4	5,469.5	8,107.3	93.8	65.9
1987	483.3	390.5	7,575.6	19,027.0	92.9	75.8
1988	525.6	421.5	6,457.1	20,933.8	88.4	76.7

Source: Derived from Data Returns of Nigerian National Petroleum Corporation.

Table 5

**IMPORTS BY MAJOR GROUPS**  
(N' Million)

	1981	1982	1983	1984	1985	1986	1987	1988 <sup>1</sup>
Consumer Goods	5,736.3	4,480.5	3,700.8	2,656.7	2,069.3	1,757.8	4,304.7	7,146.4
Durable	1,576.2	861.6	858.8	632.5	247.2	302.9	839.5	249.0
Non-Durable	4,160.1	3,618.9	2,842.0	2,042.0	1,822.1	1,454.9	3,465.2	6,897.4
Capital Goods	4,018.0	3,532.7	2,886.3	2,307.2	2,486.0	2,422.9	7,568.0	7,957.4
Raw Materials	3,152.4	2,703.4	2,307.7	2,133.3	2,493.1	1,751.9	5,983.7	9,785.9
Miscellaneous	12.9	53.9	8.9	81.1	14.2	6.0	5.3	10.7
Total	12,919.6	10,770.5	8,903.7	7,178.3	7,062.6	5,938.6	17,861.7	24,900.4

<sup>1</sup> Provisional

Source: Federal Office of Statistics, Lagos.

Table 6

**BALANCE OF PAYMENTS SUMMARY STATEMENT**  
(N 'Million)

	1981	1982	1983	1984	1985	1986	1987 <sup>1</sup>	1988 <sup>1</sup>
Current Account	-3,998.4	-3,105.7	-820.0	1,504.2	2,215.4	-2,999.1	-295.3	-5,103.3
Merchandise	-703.5	133.8	1,508.8	3,839.9	5,065.1	3,443.9	13,968.1	10,347.4
Export (F.O.B)	11,023.3	9,223.9	7,751.8	9,138.9	11,720.8	8,920.5	30,360.6	33,138.1
Import (F.O.B)	-11,726.8	-9,090.1	-6,243.0	-5,299.0	-6,655.7	-5,476.6	-16,392.5	-22,790.7
Services and Income (Net)	-2,948.4	-2,950.1	-2,043.0	-2,081.9	-2,617.7	-6,202.6	-14,167.2	-15,396.6
Unrequited Transfer (Net)	-346.5	-289.4	-285.8	-253.8	-232.0	-240.4	-96.2	-54.1
Long Term Capital (Net)	833.1	1,026.8	1,373.8	268.7	-435.1	-3,191.0	-7,473.6	-9,274.8
Direct Investment (Net)	334.7	290.0	264.3	144.5	434.1	735.8	2,452.8	3,871.1
Portfolio Investment	—	—	—	207.3	783.0	151.6	4,353.1	2,611.8
Other Longterm Capital (Net)	498.4	736.8	1,109.5	-83.1	-1,652.2	-4,078.4	-14,279.5	-15,757.7
Basic balance	-3,165.3	-2,078.9	553.8	1,772.9	1,780.3	-6,190.1	-7,768.9	-14,378.1
Other Capital (Short term) Net	170.0	204.6	-1,102.8	-1,391.4	-1,336.9	6,206.7	9,154.3	1,235.2
Balance on Current/Capital Accts	-2,995.3	-1,874.3	-549.0	381.5	443.4	16.6	1,385.4	-2,026.1
Balancing Item	-25.5	476.0	247.7	-26.7	-94.3	-800.9	-1,226.2	-268.0
Overall Balance	-3,020.8	-1,398.3	-301.3	+354.8	+349.1	-784.3	+159.2	-2,294.1
Reserve Movement	+3,020.8	+1,398.3	+301.3	-354.8	-349.1	+784.3	-159.2	+2,294.1

<sup>1</sup> ProvisionalSource: Central Bank of Nigeria, *Annual Report and Statement of Accounts (1981-1988)*

Table 7

**FOREIGN EXCHANGE FLOWS THROUGH THE ECONOMY**  
(N 'Million)

	1981	1982	1983	1984	1985	1986	1987 <sup>1</sup>	1988 <sup>1</sup>
Inflow	12,972.8	10,064.1	8,449.7	9,263.6	11,024.1	12,496.1	26,429.6	29,159.0
Oil	10,567.0	8,197.7	7,374.1	8,418.9	10,180.9	8,293.0	18,769.5	21,808.0
Non-oil	2,405.8	1,866.4	1,075.6	844.7	843.2	4,203.1	7,660.1	7,351.0
Outflow	15,993.6	11,462.4	8,751.0	8,908.6	10,463.0	9,752.7	21,037.0	27,912.7
(a) Visible	13,379.4	9,588.9	5,601.2	5,204.8	5,032.5	5,667.1	15,818.0	14,886.7
(b) Invisible	2,614.2	1,873.5	3,149.8	3,703.8	5,430.5	4,085.6	5,219.0	10,033.1
(i) Debt Service	518.5	775.2	1,335.2	2,640.5	3,717.8	2,502.2	3,590.6	8,193.5
(ii) Others	2,095.7	1,098.3	1,814.6	1,063.3	1,712.7	1,583.4	1,628.4	1,839.6
(c) Autonomous	n.a	n.a	n.a	n.a	n.a	n.a	n.a	2,992.9
Netflow	-3,020.8	-1,578.3	-301.3	+355.0	+561.1	+2,743.4	+5,392.6	+1,246.3

n.a = Not Available

<sup>1</sup> ProvisionalSource: Central Bank of Nigeria, *Returns of Foreign Operations Department*.

Table 8

## FOREIGN EXCHANGE FLOWS, DOMESTIC LIQUIDITY AND THE NAIRA EXCHANGE RATE

Period	Foreign Exchange Inflow (US \$ Million)			Foreign Exchange Disbursement (US \$ million)		Monetary Aggregates (End of Period) (N' million)			Naira/US Dollar Exchange Rate: Average for period (N = \$)	Units of Domestic Liquidity to a Unit of Available Dollar (N) (8) ÷ (5)
	Oil (1)	Non-Oil (2)	Total (1) + (2) (3)	Debt Service (4)	Net available to Service the Economy (3) - (4) (5)	Narrow Money (M <sub>1</sub> ) (6)	Time and Savings Deposit (OM) (7)	Broad Money M <sub>2</sub> (6) + (7) (8)		
1981	17,471.5	3,977.7	21,449.2	857.4	20,591.8	9,774.9	5,803.2	15,548.1	0.6048	0.76
1982	12,178.5	2,772.7	14,951.2	1,151.6	13,799.6	10,048.5	6,845.4	16,893.9	0.6731	1.22
1983	10,192.5	1,486.7	11,679.2	1,845.5	9,833.7	11,282.4	8,086.5	19,368.9	0.7235	1.97
1984	11,016.1	1,105.3	12,121.4	3,455.1	8,666.3	12,204.1	9,396.4	21,600.5	0.7642	2.49
1985	11,367.2	943.0	12,310.2	4,180.4	8,129.8	13,267.8	10,550.8	23,818.6	0.8924	2.93
1986	5,742.5	1,461.8	7,204.1	2,127.2	5,076.9	12,728.3	11,487.7	24,216.0	1.5300	4.77
1987	4,639.3	1,934.4	6,593.7	1,567.0	5,026.7	14,905.9	15,088.7	29,994.6	3.7236	5.97
1988	4,851.5 <sup>1</sup>	1,566.8	6,418.3 <sup>1</sup>	1,933.1	4,485.2	20,052.7	18,397.2	38,449.9	4.5365	8.26

<sup>1</sup> Provisional

Source: Derived from earlier Tables.

Table 9

EXTERNAL PUBLIC DEBT (END OF PERIOD)  
(N' million)

	1981	1982	1983	1984	1985	1986	1987	1988
Total Commitments	8,043.9	14,714.5	17,758.4	20,982.7	29,337.8	57,029.0	142,302.6	182,857.8
Total Drawings	5,188.3	10,187.1	12,845.0	17,703.5	23,195.0	48,871.3	123,522.2	164,582.0
Total Repayments	682.5	1,367.7	2,267.3	3,166.9	5,904.4	7,710.4	22,734.6	30,626.0
Total Outstanding	2,331.2	8,819.4	10,577.7	14,536.6	17,290.6	41,160.9	100,787.6	133,956.3
Debt/Export Ratio (%)	22.3	101.1	141.0	160.0	154.2	486.9	333.3	404.2
Debt/GDP Ratio (%)	4.5	16.1	17.4	21.2	21.9	52.8	127.1	162.2
Debt Service/Export Ratio (%)	5.0	8.0	17.6	29.1	33.2	29.4	11.9	24.7

<sup>1</sup> As at September

Source: Returns from: (a) Federal Ministry of Finance and Economic Development, (b) Central Bank of Nigeria

Table 10

CHANGES IN CONSUMER PRICE INDICES  
(Base: 1975 = 100)  
(Per Cent)

Components	1981	1982	1983	1984	1985	1986	1987	1988
1. Composite Index	20.9	7.7	23.2	39.6	5.5	5.4	10.2	38.3
2. Composite Index (Components)								
Food	25.2	8.9	23.2	42.9	3.9	0.1	8.6	52.2
Drinks	2.7	7.6	13.5	23.1	30.9	10.9	8.6	4.9
Tobacco	15.5	2.6	14.7	36.9	25.8	22.6	14.1	8.1
Accommodation	-2.3	3.9	33.1	12.7	-4.5	40.6	4.3	-5.5
Household Goods	7.2	9.7	33.7	57.3	5.0	30.8	18.3	3.0
Clothing	16.1	6.7	18.8	40.8	9.0	15.4	11.9	10.6
Transport	2.3	10.9	21.1	16.4	13.1	18.2	13.2	15.7
Other Services	20.2	4.7	20.7	38.9	23.2	36.3	21.8	7.4
3. Urban Index	20.7	7.6	20.0	41.2	2.9	10.1	7.0	27.1
4. Rural Index	20.8	7.7	23.7	39.4	5.9	4.7	10.7	39.9

Source: Derived from returns of Federal Office of Statistics, Lagos



Table 11

**ANNUAL AVERAGE RETAIL PRICE INDICES**  
(Base: NOV. 1975 = 100)

Components	1981	1982	1983	1984	1985	1986	1987	1988
1. Food	468.3	510.2	614.2	850.7	870.6	944.1	1,037.7	1,445.8
A. Staples	535.6	586.4	650.0	841.2	788.8	682.3	792.2	1,382.2
B. Meat, Fish & Eggs	421.3	486.1	584.8	917.7	1,073.9	1,249.9	1,389.9	1,690.4
C. Oils & Fats	276.8	267.0	612.9	982.8	792.9	754.9	601.6	1,061.7
D. Veg., Fruits & Nuts	385.4	456.8	545.3	646.2	676.9	890.7	931.9	975.9
2. Beverages & Drinks	278.5	287.7	311.6	452.1	576.8	644.9	640.5	858.3
3. Tobacco	186.3	209.4	210.8	234.3	261.9	300.1	358.3	537.8
4. Fuel & Light	274.3	302.9	343.0	340.6	359.7	719.1	591.9	684.6
5. Clothing	335.5	364.1	467.9	629.4	777.3	1,046.7	1,457.1	1,505.8
All Items	401.5	426.4	505.4	696.9	762.3	867.6	931.5	1,250.4

Source: Central Bank of Nigeria

Table 12

**REGISTERED UNEMPLOYMENT, VACANCIES DECLARED AND NATIONAL UNEMPLOYMENT RATES**

	1982	1983	1984	1985	1986	1987	1988
<b>LOWER GRADE WORKERS (NO)</b>							
Total Registration	106,496	112,588	120,945	96,580	85,158	145,084	116,162
Old Registration	15,688	25,131	30,670	27,926	27,210	33,967	66,625
Fresh registration	59,259	55,339	50,108	36,039	31,273	79,718	30,003
Re-registration	31,549	32,118	40,167	32,615	26,675	31,399	19,534
Vacancies Declared	19,943	18,310	14,612	11,156	13,050	16,502	14,154
Placements	8,276	7,394	3,865	2,139	2,378	4,988	2,506
<b>PROFESSIONAL AND EXECUTIVES (NO)</b>							
Total Registration			2,514	4,264	6,123	15,100	16,759
Old registration			706	1,234	2,295	2,116	9,031
Fresh registration			1,324	2,038	2,329	10,917	4,046
Re-registration			484	992	1,499	2,067	3,682
Vacancies Declared			955	748	606	444	591
Placements			26	145	148	175	282
<b>NATIONAL UNEMPLOYMENT RATES (%)</b>							
National Rate *		3.4	5.1	6.1	5.3	7.0	4.7
Urban rate		7.3	7.9	9.8	9.1	9.8	10.1
Rural rate		2.4	4.4	5.2	4.6	6.1	3.8

Sources: Returns from:

- (1) Federal Ministry of Employment, Labour and Productivity.
- (2) Federal Office of Statistics, Labour Force Sample Survey.