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

BY

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Introduction

The Nigerian economy was in a deplorable state prior to the introduction of various policy and structural reforms in 1986. During the period of oil boom (1973–80), the production and consumption patterns in the country became import–dependent. With the collapse of oil prices in mid–1981, a foreign exchange crisis emerged. Foreign exchange earnings declined from US $25.9 billion in 1980 to $7.2 billion in 1986 with adverse consequences for the economy. The balance of payments came under severe pressures, swinging from a surplus of ₦2.4 billion in 1980 to a large deficit of ₦3.0 billion in 1982. External debt increased as external borrowing was resorted to, and unpaid trade bills accumulated. Foreign creditors were reluctant to grant further credit facilities to the economy. The resultant inability of the industrial sector to import raw materials and spare parts led to reduction in production, retrenchment of workers and rationing of scarce essential commodities. Domestic inflation and unemployment worsened. An overvalued naira exchange rate, which favoured the propensity to import, created price distortions, destroyed productive incentives and contributed largely to the decline of the agricultural sector. The Gross Domestic Product (GDP) declined persistently from 1981 through 1986 except in 1985. Fiscal imbalances in the public sector deteriorated further. The demand management policies designed to turn the economy around proved to be mere palliatives in addressing the fundamental problems facing the economy.

Since the introduction of the Structural Adjustment Program (SAP), most major macro–economic variables have moved in the desired direction. The exchange rate has relatively stabilized at levels reflective of the scarcity of, and increased demand for, foreign exchange. Monetary policy has also continued to evolve in the right direction within the framework of deregulation. The policy of trade liberalisation and rationalisation of the tariff structure, aimed at encouraging domestic production and exports, is achieving some of these objectives. Although inflation is still a serious problem, its level has moderated considerably. Efforts to reduce pressures on the external sector through effective debt management strategies, are progressing satisfactorily.

With the new sense of direction now unfolding in the economy and the relative stability which has emerged, Nigeria should persist in learning from past mistakes and in consolidating the positive achievement made in the last four years. The broad objective of this paper is therefore to trace the trajectory of the economy in line with our perceived notions of how key macro–economic variables would and should move over the next decade.

For case of presentation, the paper is divided into four parts. Part I reviews policy reform measures introduced since 1986. Part II focuses on developments in the economy under SAP reforms. Part III provides medium to long–term forecasts of major macro–economic indicators and discusses their implications. Part IV highlights medium to long–term requirements for the development of the economy, and the general prospects for the economy. There is also a Summary and Conclusion.

PART I: ANALYSIS OF POLICY REFORMS SINCE 1986

As highlighted in the introduction, the Nigerian economy was badly battered by mismanagement and imprudent expenditure before the introduction of the Structural Adjustment Programme (SAP) in 1986. Complacency during the oil boom years (1973–80) resulted in inadequate attention being paid to the real sector, particularly agriculture, with adverse consequences for output growth. Import substitution and licensing measures, designed to restore domestic and external financial equilibrium, were unsuccessful. It later became obvious that the economy needed a comprehensive package of macro–economic policy reforms. Such a package of reforms was embodied in the SAP.

In this section, the objectives of SAP as well as the accompanying policy reforms are outlined. In addition, a brief analysis of policy measures pursued in the course of implementation of SAP is attempted, including a comparison of the main SAP–induced reforms with the pre–SAP approaches to solving our economic problems.

Objectives

SAP focuses on the re–orientation of macro–economic management, improvement in incentives and productive efficiency and on other policy reforms affecting the performance of the economy. The major objectives of the programme include restructuring and diversifying of the productive base of the economy, achieving a durable fiscal and balance of payments viability, laying the basis for minimal inflationary economic growth and lessening the dominance of unproductive investments in the public sector. Some of the major strategies adopted in pursuit of these policy objectives include the maintenance of a viable and realistic exchange

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rate policy, liberalisation of trade and payments, restructuring of tariffs to protect agriculture and industry, removal of elements of subsidy on goods and services provided by the public sector and increased reliance on market forces to direct economic activities.

POLICY MEASURES UNDER SAP

The initial policy measures, taken to implement the above strategies, and the supplementary policy instruments introduced since 1989 are discussed below.

(a) Monetary and Credit Policy Measures

In the years before the introduction of SAP, interest rates charged on all kinds of banking transactions were administered and generally remained low. In order to stimulate savings and increase efficiency in the allocation of financial resources, the interest rate structure was deregulated in August 1987. The minimum rediscount rate (MRR) of the CBN was raised from 11 to 15 per cent and the minimum liquidity ratio of commercial banks was raised from 25 to 30 per cent. However, following the reflationary package adopted by Government in 1988, inflationary pressures loomed large while the balance of payments position worsened. The restrictive monetary and credit policy measures were reintroduced in 1989 in order to contain inflation. Growth in money supply (M_1) was reduced from 43.6 per cent in 1988 to 14.6 in 1989. Similarly, growth in aggregate domestic credit was targeted at 9.5 per cent from a level of 22.2 per cent in 1988. For the purpose of providing adequate credit to the agricultural and industrial sectors, banks were directed to allocate not less than 50 per cent of total credit to these high priority sectors. It was further stipulated that not less than 45 per cent of total deposits mobilised by bank branches in rural areas should be lent to productive activities in those areas.

The policy measures discussed above were reinforced from the second quarter of 1989. The additional measures include:

(i) abolition of foreign assets as guarantees for naira–denominated loans;

(ii) transfer of deposits of government Ministries, parastatals and agencies in commercial and merchant banks to the Central Bank; and

(iii) increase in bank reserve and liquidity ratios.

Provisional data for 1989 indicated that the economy responded significantly to the policy measures introduced. In 1989, agricultural output increased by 6.1 per cent over the level in 1988 while output in industry rose by 6.6 per cent. In spite of the improved performance in 1989, the economy was still faced with problems of high inflation, rising interest rates, low real sector's productivity, inadequate foreign exchange and large external debt burden.

Against this background, monetary and credit policies for 1990 were formulated to moderate inflation, reduce pressures on the balance of payments, stabilise the exchange rate and induce savings and investments and growth. The restrictive monetary policies, pursued in 1989 were therefore continued in 1990. In addition, a cash reserve requirement of 5.0 per cent of total demand deposit liabilities was to apply to all merchant banks hitherto excluded from the requirement. The ceiling on commercial and merchant banks' aggregate credit expansion to the private sector was raised from the stipulated 10.0 per cent in 1989 to 12.5 per cent in 1990.

(b) Fiscal Policy Measures

Before SAP, importers were required to pay the appropriate import duty at the time letters of credit were opened. This stipulation did not enhance the financial liquidity and requirement of companies for trade and investment. The use of excise and import refund policy to encourage non–oil exports did not succeed because of administrative difficulties of implementation. A revised system, under SAP, required payment of only 25 per cent of the assessed import duty while the balance of 75 per cent was to be paid when goods actually arrived. Other fiscal measures considered contrary to the spirit of SAP were rationalised. For example, the 30.0 per cent Consolidated Import Levy was abolished; duties on industrial raw materials and agriculture inputs were reduced while those on luxury items were raised.

Current taxation policies, aimed at increased investment, have gone further than their pre–SAP counterpart in providing individuals and companies options for tax–free dividends up to three years.

(c) External Sector Policy Measures

Measures were focused on the reduction of pressures on the external sector. SAP reforms which encouraged exports while discouraging non–essential imports, particularly through the depreciation of the naira, led to an improved position of the merchandise account in 1987. A policy of deferment of the bulk of debt service payments was also pursued in 1987. Consequently, there was a turn–around in the balance of payments situation. During the 1988 fiscal year, accessibility to foreign exchange was based on the ability of the applicant to compete in the foreign exchange market with no special provisions made for government ministries as obtained previously. Foreign exchange allocation for domestic use was reduced by 19.8 per cent in 1989 from its level in 1988, while allocation to external debt servicing rose by 17.1 per cent during the same period. Similarly, debt service payments for the first half of 1990 exceeded the proportional budget by 68.8 per cent while foreign exchange allocation for domestic use fell short of target by 14.5 per cent. If these trends persist, they could frustrate the effort at economic recovery.

(i) Trade Policies

Under the SAP, trade liberalisation was intensified in order to increase the volume of, and receipts from non–oil exports and bring about overall improvement in our trade balance. The policy measures adopted in support of these objectives include export credit guarantees, duty draw–back scheme and 100 per cent retention of export credits in domiciliary accounts. Import duties paid on raw materials used in the production of goods for exports are repaid in full under the duty draw–back scheme.

(ii) Exchange Rate Policy

For several decades before the introduction of SAP, the naira was substantially over–valued and the naira exchange rate was administratively managed. The over–valued currency favoured imports of goods and services, discouraged exports and thus worsened the current account balance. Output and exports of agricultural commodities declined as hard currency export receipts translated into relatively small naira amounts. Domestic manufactures could hardly find markets as they were less competitive than their import counterpart. Following the drastic fall in foreign exchange inflow into the economy, a regime of import licensing was inaugurated.

Since the adoption of SAP and the introduction of (S)FEM in September 1986, the rules governing the operation of the market and the determination of exchange rate have continued to change to reflect experiences gained over time. In addition to the official foreign exchange market, Bureaux de Change were established to assist small foreign exchange users and to alleviate demand pressures on banks. The inter–bank foreign exchange market strategy introduced since January 1989, through a merger of FEM auction and autonomous market exchange rates, represents the latest approach to targeting a realistic naira exchange rate. Initially, the system succeeded in narrowing the hitherto wide gap between the official and parallel market rates. However, since June 1990 there has been a resurgence of the problem of wide parallel market premium in addition to the perisistent depreciation of the naira. Short supply of foreign exchange relative to demand, expansionary fiscal and credit policies adopted especially in 1988 and inflationary pressures have largely contributed to the instability of the naira exchange rate and the wide parallel market premium.

(iii) External Debt Management Policy

Negotiations for the restructuring of medium and long–term debt due in 1986 and 1987 and refinancing of arrears of letters of credit were pursued vigorously and successfully concluded in 1987. A Debt Conversion Programme was established in February 1988 as part of the effort to reduce the stock of Nigeria's debt and the pressure on the external sector. Since 1989, Government has maintained an external borrowing policy which restricts borrowing mainly to viable and growth–oriented projects which could pay for themselves. The economy stands to benefit substantially from such a policy if its intent is strictly adhered to.

(d) Other Policy Measures

Privatisation and Commercialisation of public enterprises have been implemented under SAP. The initial public opposition to the policy has subsided as the policy is successful with small shareholders dominating the subscription.

In place of direct participation in **agricultural production**, government has embarked on the provision of required inf.astructure (through DFRRI, Ministries and other Agencies) to facilitate the response of private farmers to market incentives and to meet increasing demand for food. The export of staple food products was banned in 1989. On–farm storage was supported through the allocation of ₦2.0 million to Stored Products Research Institute to design and produce facilities for storage of farm products. The Government also allocated ₦50 million to Universities to fund their research on agricultural development.

For the **industrial sector**, a Raw Materials Research Council has been established to encourage and support local sourcing of raw materials. A two–tier system of pricing of petroleum products was instituted but later repealed because of wide spread abuse.

In the area of **mass transit**, policy was directed at funding an expansion of the programme to cope with increasing demand and complement the efforts of private operators. A sum of ₦50 million was set aside as special allocation for further relief of traffic congestion in major urban centres. Tariff exemptions granted in 1989 on the importation of commercial vehicles were reviewed and exemptions are now granted in respect of chassis, completely knocked down sets and spare parts for commercial vehicles imported by licensed motor vehicle assemblers and manufacturers in the country.

With respect to **incomes policy**, the stance of policy has been to continue to encourage negotiated wage and salary increases that recognised the role of productivity growth. In order to enhance the prospects for employment and income generation, the National Directorate for Employment was directed to evaluate the implementation strategy of its programmes so as to identify areas where savings in expenditure could be made without impairing employment creation.

On the whole, the policy measures introduced since the introduction of SAP to deal with the various economic problems, to a large extent, achieved encouraging results. The upward trend in domestic aggregate output, which began in 1987, continued through the first half of 1990. Although many economic problems are yet to be solved, a solid foundation for the management of the economy has been laid under SAP. Pre–SAP economic policies consisted mainly of administrative controls. With the SAP, emphasis has shifted from such controls to reasonable reliance on market forces. Let us now see what this has meant for the economy in terms of its performance to date.

PART II: DEVELOPMENTS IN THE ECONOMY UNDER SAP REFORMS

The impact of structural reforms so far implemented will continue to be felt in the years ahead as most of the expected effects are of medium to long–term in nature. In the last four years, however, there have been many positive developments which are directly or indirectly attributable to SAP. In general, the programme has gone a long way in addresing some of the financial and structural imbalances, caused by price and other distortions, observed before mid–1986. At the same time, some aspects of implementation of SAP have had unintended negative side effects and many outstanding economic problems remain to be solved. The issues are examined in this section.

Achievements of SAP

The Gross Domestic Product (GDP) at 1984 constant factor cost increased by 4.0 per cent to ₦85.82 billion in 1989 compared with 4.1 and 1.2 per cent increases in 1988 and 1987, respectively. In the years preceding SAP (1981–85), the rate of growth of national output fluctuated around an average rate of 0.8 per cent. The improved GDP growth is, however, inadequate, especially when adjusted for an average annual population growth of over 3.0 per cent.

The growth rate in manufacturing output averaged 17.6 per cent during the period of reforms (1987–89), compared with 1.4 per cent in the pre–reforms period 1981–85. Although average capacity utilisation in industry rose from 37.1 per cent in 1985 to 42.5 per cent in 1989, the sector was expected to perform better than that given the relatively easier access to foreign exchange following exchange deregulation in contrast to the meagre supply situation engendered by the pre–SAP exchange controls. However, the deregulation of interest rates under SAP raised the cost of funds for investment as well as the cost of imported raw materials denominated in the devalued naira and thus dampened somewhat the improved foreign exchange climate. Capacity utilisation, higher than the average for the industrial sector, has been attained by enterprises, such as textiles and breweries, which have sourced a substantial portion of their raw materials locally. The moderate improvement in the industrial sector has helped to put an end to rationing queues and artificial scarcity of "essential commodities" such as toilet soap and detergent. A culture of maintenance rather than replacement of machinery and equipment has been successfully inculcated in all economic agents.

In the agricultural sector, the output of export crops, especially cocoa, groundnuts, palm produce and cotton, has been stimulated by sharp increases in farm gate prices following naira depreciation and other generous export incentives. In spite of declining world commodity prices, local prices have risen substantially to cover local costs of production and provide reasonable profit margins as to encourage increased production. Cocoa farmers now receive more than ₦6,000 per tonne compared with ₦1,600 per tonne in 1985/86 fixed by the defunct Cocoa Board. The value of non–oil exports rose from ₦497.2 million in 1985 to ₦552.1, ₦2,152.0, ₦2,757.4 and ₦2,954.4 million in 1986, 1987, 1988 and 1989, respectively. The agricultural sector is projected to grow at an average annual rate of 4–5 per cent in the early 1990s, a relatively good improvement when compared with the negative growth recorded for the sector between 1983 and 1986. If rain–fed cultivation were not widely practised, the impact of SAP on agriculture could have been greater.

SAP has been fundamental to the achievement of a market–determined exchange rate for the naira. The complex system of discretionary controls (import licensing and exchange controls) has been abolished. The process of foreign exchange allocation and the demand for imports have been rationalised. Inflow of autonomous foreign exchange has been encouraged and capital flight has been significantly stemmed. The naira exchange rate, which depreciated substantially with wide fluctuations from the inception of FEM in September 1986 to the first quarter of 1989, stabilised considerably. Whereas the naira depreciated by 20.0, 22.7 and 30.0 per cent in 1987, 1988 and 1989, respectively, in the one–year period ending September 1990, it depreciated by only 3.9 per cent from ₦7.5885 to ₦7.9009 to the US dollar. Parallel market premium, which widened by 56.1 per cent at the end of 1988, narrowed to 12.8 per cent at the end of September 1990. Users of foreign exchange were in a better position to plan ahead. However, a renewed round of depreciation of the naira and of widening parallel market premium has been experienced since June 1990. These adverse developments are widely attributed to increased seasonal demand pressures and excess liquidity in the economy.

SAP has also had a strong fiscal impact. Government revenue has risen considerably through the monetisation of the dollar earnings from oil and other exports. This has enabled governments, at state and local levels in particular, to pay accumulated arrears of salaries of civil servants and to remain current on such charges. It has been possible to allocate funds to DFRRI, People's and Community banks to assist and support rural–based development projects. The Federal Government budget deficit has, however, widened. As a ratio of GDP, the overall deficit was 6.2 per cent in 1989 as against 8.0 per cent in 1988. On a cumulative basis, the fiscal deficit of the Government at the end of the first half of 1990 stood at ₦12,904.0 million which was higher than the budget estimate of ₦7,166.0 million for the period.

With respect to monetary policy, interest rates were deregulated in August 1987. Since then, competition has been keen in the banking industry and new strategies have been adopted by banks to attract deposits and encourage savings. Savings have grown from ₦11.49 billion in 1986 to ₦30.3 billion in 1989, a 37.9 per cent increase. The number of banks has more than doubled, and about 30 of them were established in 1989 alone. Besides, banks have appreciated the need to move into hitherto neglected geographical area. However, rapid and significant shift in interest rates has been a source of concern to businesses and even the authorities. Restrictive monetary policy pursued since 1989 helped to bring inflation rate to 18.4 per cent by June 1990 from a peak of 51.6 per cent in June 1989.

On the external sector, SAP has provided a favourable environment for debt rescheduling and refinancing arrangements. The arrangements have eased debt service burden and influenced a turn around in the balance of payments from a deficit in 1988 to a surplus in 1989. External reserves rose from $611.4 million in 1988 to $1,422.8 million in 1989 and to ₦23,238.3 million in June, 1990. International credit worthiness has been gradually restored.

Some Outstanding Problems

In spite of the improvements recorded since the inception of SAP, the economy is still beset with a number of problems. These include low productivity in agriculture and industry, increased government deficit, high interest rate, and limited employment opportunities. In the external sector, the fundamental problems of over-dependence on a single export commodity, inadequate foreign exchange resources and a large external debt burden have persisted. These will obviously raise the question of what needs to be done in the years ahead.

PART III: MEDIUM TO LONG–TERM MOVEMENT/FORECAST OF MACRO–ECONOMIC INDICATORS AND THEIR IMPLICATIONS

The main objective of this part is therefore to provide the medium to long–term forecast of major macro–economic variables and to discuss their implications. This is likely to permit a clear perception of some requirements of national development in the years ahead.

REAL SECTOR

Important structural transformations have taken place in the agricultural and industrial sectors of the economy under SAP. The price and incentive structure for the farmer has improved significantly following the abolition of Commodity Boards. Similarly, trade liberalisation and downward review of tariffs on agricultural and industrial machinery were measures designed to boost output in those sectors. Furthermore, the privatisation and commercialisation of public enterprises were aimed at making such enterprises financially viable, self–sustaining and profitable. Many of these measures are already yielding tangible benefits. Given the positive achievement made so far, the country should be in a position to deal more decisively with such lingering problems as unemployment and low productivity in the real sector.

(a) Agriculture

In spite of the measures which have been introduced, agricultural production is characterised by low growth, and agriculture is still largely rain–fed and weather dependent. The less costly, small–holder, *fadama*–type irrigation technology is yet to be introduced on a scale that ensures timely cultivation of crops, especially in the drier northern parts of the country. The extent of the use of modern technology, including hybrid and clonal seeds, to boost agricultural output is limited. The supply of inputs, such as fertilizers, insecticides, and the provision of storage facilities to enhance yields and minimize post–harvest losses, are inadequate. Given these constraints, aggregate agricultural output is projected to grow at 5.0 per cent per annum between 1990 and 1995. This projection assumes that the government will assist farmers with essential inputs and act to minimise the constraints indicated.

(b) Industry

After three years of improved performance, manufacturing production has been on the decline since 1989. The major causes of the decline have been high costs of production and relatively low demand for manufactures. The major challenges facing the sector include its ability to raise productivity, step up the level of capacity utilization and embark on new investments. In view of these challenges, aggregate industrial output is estimated to grow at the rate of 6.6 per cent per year between 1990 and 1995. The degree to which resources will be allocated to the productive sectors will largely influence the overall performance of the economy.

EXTERNAL SECTOR

Forecasting movements in external sector variables and indeed macro–economic variables is fraught with many uncertainties. This becomes even more intractable in the longer term because of the dynamics of the economic environment. In making external sector projections up to the year 2000, therefore, extreme caution was exercised particularly regarding the future of the oil market and the negotiations with our creditors. For ease of analysis, the outlook for the external sector during the 1990 decade is discussed under two scenarios. The first scenario excludes the impact of the LNG and Oso–Mobil project and the resultant projections are shown in Table 1, while the second scenario takes these into account and the results are shown in Table 2.

Under the first scenario, (Table 1), estimates show that the balance of payments will be under persistent pressure throughout the current decade. The overall deficit averages $4,122.6 million yearly throughout the period. However, the deficit is projected to decline in the last few years. The poor state of the balance of payments reflects the persistent pressures on both the current and capital accounts, exerted largely by the high debt service payments, low levels of direct foreign investment inflow, drawings on loan and inflow from non–factor services. However, in the second scenario, (Table 2) under which the Liquefied Natural Gas (LNG) and Oso–Mobil condensate (Oso–Mobil) projects are taken into account, the overall balance of payments picture changes only marginally. Under this scenario, the overall balance of payments deficit averages $3,334.2 million annually during the forecast period.

(a) Current Account

Largely reflecting the persisting deficit in the services account and the relatively low level of merchandise trade surplus, the current account is projected to be in deficit throughout the period. The deficit, which averages $1,814.8 million stands at $2,405 million in 1990 declining marginally during the middle of the decade. It, however, rises to its highest level of $2,488 million by the end of the century. Despite the progressive decline in interest payments on external debt, the gap in the services account remains relatively wide reflecting the low level of receipts as well as the projected rise in profit remittances and payments on non-factor services such as shipping and NNPC joint venture expenses.

It is estimated that the merchandise trade account will be in surplus throughout the period. However, a closer look shows that the surplus will average $2,191.3 million between 1990–1992, rising to $4,156.2 million between 1993–1998 but declining to $3,665.0 million in the last two years of the decade. Based on the assumptions alluded to earlier, aggregate exports in the year 2000 will be only 61.6 per cent of the 1980 figure. Similarly, oil exports which are projected to rise to $15,186 million in the year 2000 from $8,411.8 million will remain below their level in 1980. Although non-oil exports, excluding LNG exports, are projected to also rise to $668 million by the year 2000 from $401 million in 1990, their relative share of total exports, though higher than in 1990, remains below that attained in 1980.

To sustain the projected level of output, non-oil imports have been projected to rise in nominal dollar terms by 9 per cent throughout the period. Along with the projected increase in oil sector imports, aggregate imports are envisaged to reach $14,022 million in the year 2000 compared with $6,214 million in 1990. Thus, the average level of imports during the review period ($9,635.5 million) is expected to remain substantially below that recorded in 1980 ($17,662.1 million).

In projecting external sector variables, the impact of the LNG projects and other oil sector projects was taken into account. When this is done, it is discovered that the current account performance does not improve substantially although the level of deficit is less than when the oil sector projects are excluded. The deficit averages $1,236.6 million compared with $1,814.8 million obtained under the alternative scenario (Table 1) which excludes the oil sector projects. This reflects the bunching of imports needed to finance the Oso-Mobil condensate and LNG projects between 1990 and 1994.

However, as these projects come on stream, especially the LNG project, the deficit is projected to decline to an average of $346.7 million from 1995–2000. The surplus which appears in 1997 reflects the improvement in merchandise trade account as well as the sharp decline in interest payments.

(b) Capital Account

The capital account position is largely influenced by changes in external debt amortization and the projected low levels of drawing on external loans. The capital account position is expected to be weak throughout the period with the deficit averaging $2,969.5 million from 1990–1997 but declining to $1,526.7 million during the last three years. The weakness of the capital account reflects the relatively high level of external debt amortization, the low levels of direct foreign investment and drawings on external loans.

The impact of the LNG and Oso–Mobil condensate projects on the capital account in terms of direct investment inflow is marginal as the deficit persists, averaging $2,096.3 million during the eleven-year period compared with $2,307.8 million under the alternative scenario (Table 1).

(c) Financing

Deficits can be financed in a number of ways, namely, through draw down on external reserves, recourse to balance of payments support loans, external debt rescheduling, repudiation or deferment as well as accumulation of arrears, etc. Policies designed to increase the level of reserves or settle accumulated arrears merely expand the level of deficit. Thus, given the currently low level of external reserves and the need to build it up so as to further sustain the confidence in the Nigerian economy, external reserves have been projected to rise gradually throughout the period thereby enlarging the financing gap.

In financing the overall deficit, therefore, three scenarios have been sketched. The first can easily be dismissed as undesirable. It depicts a situation where the deficit is financed not through debt rescheduling but by compressing the quantum of imports to an average of $5,512.9 million or 57.2 per cent of that needed to sustain the expected growth in real output. Under these circumstances, the reduction of the level of imports will severely constrain the level of output and may put the process of restructuring the economy in serious jeopardy. The second and third scenarios recognise the role which external debt rescheduling can play to reduce the debt service payments and so make more funds available in the country to meet current needs. Consequently, two options were considered. The first pegs the debt service payment at 30 per cent of exports of goods and non-factor services while the second assumes a debt service ratio of 20 per cent.

The balance of payments profile that emerges under these scenarios clearly underlines the severe pressures on the external sector during the last decade of the century. The residual financing gap when the debt service ratio is pegged at 30 per cent averages $2,581.2 million. Indeed, the financing gap remains high, averaging about $3,099.1 million from 1990–1996 but declines sharply to an average of $1,675.8 million in the subsequent two years. However, the gap is projected to disappear during the last year of the decade. Similarly, when the debt service ratio is pegged at 20 per cent, the financing gap declines to an average of $2,318.5 million and disappears only in the last year of the decade.

Under the alternative balance of payments scenario (Table 2) which takes account of oil sector payments, the financing gap also persists, averaging $1,922.1 million and $1,790.9 million for the 30.0 and 20.0 per cent debt service ratios, respectively, in the 1990–1996 period.

(d) Overall Assessment

The picture that has emerged so far points decisively to the persistence of the balance of payments pressure throughout the decade. Specifically, it depicts a serious foreign exchange gap even after debt rescheduling. The disequilibrium in the external sector arises precisely because of the high debt service payments, low level of non-oil exports, low levels of external loan drawings, foreign direct investment inflow as well as receipts from non–factor services. The LNG and Oso–Mobil projects, because of their high import content, will not make substantial impact on the external sector at least within the review period. It has been noted that compressing imports below what is needed to sustain a tolerable rate of output growth is not a viable option given the need to keep the economic restructuring process on course. The potentials for reducing the debt stock and debt service payments through debt conversion do not seem to be great. A crucial assumption made in the projections of oil exports was that prices will continue to rise. However, a situation where oil price may crash, though not desirable, cannot be ruled out given the vagaries of the international oil market. Therefore, there exists the possibility that the pressure on the balance of payments may further intensify.

The analysis so far has shown that debt service is the most destabilizing factor in the external sector. It has also indicated that debt rescheduling on a scale analysed here offers little succour to the problems of the external sector. Given these facts therefore, there is need for a completely new and radical approach to handling the issue of debt restructuring so as to realise its full potentials. Also, the persistence of financing gap during the greater part of the decade, points conclusively to the need for continued capital inflow on highly concessional terms. In addition, given the projected slow growth in traditional non–oil exports, there is need to exploit to the fullest the potentials of the LNG as well as downstream activities of the oil industry.

PART IV: REQUIREMENTS FOR MEDIUM TO LONG–TERM DEVELOPMENT

The essence of the quantitative projections undertaken in Part III of the paper is to enable us identify the basic priorities and strategies for the transformation of the economy to pre–empt any adverse situations that would result if no action was taken or indeed to chart the ideal course for economic growth and development. It is acknowledged at the outset that opinions are divided on the priorities and strategies needed for the transformation of the Nigerian economy. A major source of divergence in views is the choice of policy instruments. However, as a result of the country's experience so far with the reform effort under SAP, awareness has increased regarding persistent sectoral problems on which policy measures should be focused. Although some significant gains have been made under SAP, our remaining economic difficulties point to the deep seated structural problems of the economy and the need, therefore, to evolve consistent, long–term strategies that get to the root of our economic imbalances.

As a general framework, for medium to long–term development, it would be necessary to judiciously allocate and manage all available resources, expand our resource base and strike a balance as much as is feasible between public revenues and expenditures primarily to attain certain major economic objectives. Such objectives include price stability, increased productivity, a healthy external balance and alleviation of poverty. In order to achieve these objectives, some requirements which involve re–orientation and streamlining of policy instruments would need to be met. Areas in which progress is considered vital for the rapid development of the Nigerian economy are discussed in the following sub-sections.

Domestic Price Stability

There is no gainsaying that domestic price stability is a necessary condition for meaningful economic growth and development. It is common knowledge that high and persistent inflation has complicated the problems of managing the reform programme. It is also clear that serious inflationary dangers are inherent in excessive expansionary fiscal, monetary and credit policies motivated by considerations of short–term growth. For the attainment of price stability in the medium to long–term, it would be essential to fine–tune fiscal, monetary, interest and exchange rate policies in a manner that minimizes inconsistencies and stems persistent depreciation of the naira exchange rate and the attendant cost–push inflationary tendency. Increased investment, production and availability of goods and services at affordable prices should also have a dampening effect on the general price level. For more investments to take place, it would be essential to maintain attractive savings rates so that increased domestic savings can offset the lower rate of foreign capital inflow and support increased investment required for higher output and economic growth. Appropriate management of the interest rate is important since very high lending rates adversely affect investments. However, it should be remembered that no matter how much tinkering of macro–economic policy instruments is done, the real test of economic policy and stability is the regular supply of an adequate volume of goods and services. Improved productivity should be a critical element of growth and development in Nigeria in the medium to long–term.

Productivity

A visible revival of agricultural and industrial production is most essential for higher growth of output in Nigeria. For the purpose of enhancing growth of the industrial and agricultural sectors of the economy, an internal "technological revolution" would be required. For meaningful industrial growth to take place, adaptation of imported technology to suit local raw material and production needs and encouragement of local fabrication of machines and equipment are a prerequisite. Improvement in industrial organisation and managerial practices would also aid long–term growth. Increases in agricultural output would require the production and cultivation of hybrid and other varieties of seeds and improvement in irrigation technology by adopting the less costly small–scale *fadama* type to minimize dependence on rain–fed farming. In addition, harmonizing research findings and disseminating results through effective extension services would be indispensable. The problems of deforestation, desertification and environmental pollution need to be addressed in the long-term as part of the overall development effort.

In order to achieve the desirable rates of growth in the various sectors of the economy, Nigeria must devise strategies to make optimal use of the diversified energy resources. It has become clear that too much reliance on petroleum products is not desirable. To sustain current levels of crude oil production major new investments must take place to upgrade the physical facilities. To reduce the over reliance on the oil sector, the development of natural gas should be pursued more vigorously. One however feels happy at the recent developments in the oil and gas sectors. The new initiatives include the better incentives for oil exploration and development, increased public sector investment in the oil and gas sectors and the completion of a new refinery and the rehabilitation of the existing ones. What is needed is to keep up the momentum of these development efforts.

Infrastructure

Erratic supply of electricity and water as well as weak communication links have contributed enormously to the escalating costs of doing business in Nigeria. These costs, when passed to the consumer, continue to fuel inflation. In the medium to long-term, the country's physical infrastructure: water, power, transport and communications would need to be rehabilitated and expanded. The major causes of their inefficent operation and non-competitiveness should be minimized to encourage private sector participation where appropriate. Priority attention is also needed in the social sectors like health and education. Spending in these areas has to be increased, first to improve maintenance and equipment supplies and second to expand existing facilities to meet the demand of the population.

Other Developmental Issues

Out of numerous other general issues of development, we cannot fail to mention three briefly. These are the population problem, increasing environmental problems and the role of women in development. It is heartening to note that major actions are being taken in these three directions, but the magnitude of the problems needs to be constantly put in focus. Without any meaningful reduction in the levels of fertility (estimated at 5-6 children per woman), Nigeria's population may double within the next 25 years. This will place unmanageable burden on social services, and put greater pressure on land and other resources. Except new economic opportunities emerge, the rising trend in unemployment, and mounting educational and health bills may continue. This may tend to foster faster urbanisation, which is a potential source of political instability. Also, Nigeria is currently facing serious environmental problems with particular reference to the degradations of land, forest and water resources. The deteriorating environmental landscape will certainly threaten the productive base if appropriate actions are not taken.

It has now been accepted that the giving of more opportunities to women will enhance the development of the economy in view of the vital roles played by them in all sectors of the economy. The main constraints placed in the way of women such as limited access to land, modern inputs, education and credit facilities, will have to be eliminated quickly. The institutional structure being laid out should be complemented by a well designed and implemented policy framework that will basically ensure that women participate more in major economic activities. The issue of women in development must be tackled by the whole society and not simply left for women alone to resolve.

Prospects

The potential for Nigeria's economic transformation and self-sustaining growth in the medium to long-term remains considerable. The country has a diversified resource base, sizeable internal market and enterprising and adaptable population. However, the country's technological and managerial resources continue to be deficient, while the educational and health sector have suffered considerable attrition. The physical infrastructure such as water, power, transport and communications requires substantial rehabilitation and expansion. The rate of population growth has also become a major constraint on achieving increases in per capita incomes and improving per capita consumption. If prompt and continuous actions are taken on these problems, our development prospects are good.

The country's capability for developing its human and material resources and overcoming the formidable bottlenecks mentioned here, hinges on the success in consolidating and strengthening the on-going structural adjustment programme in the medium-term. This in turn depends on being able to purusue a viable debt management policy, maintaining reasonable macro-economic stability, generating investor confidence in the stability of policies and the country as a whole and on being able to maintain a broad consensus on key issues of development strategy.

It is also important that Nigeria continue to receive the support of the international community for its reform efforts. A considerable amount of such goodwill currently exists and it is to be hoped that the country could obtain significant relief on her external debt. By and large, there is good cause for cautious optimism for a successful economic take-off by the end of the decade.

SUMMARY AND CONCLUSION

In conclusion, let me recapitulate in brief the main elements of this paper. Structural imbalances in the economy have been traced to past inappropriate economic policies, which among other things, resulted in persistent balance of payments deficits, rising external debts, currency over-valuation, rising prices and declining production and growth with adverse consequences for employment and living standards. It is noted that demand management measures, in the form of exchange control, import licensing and restrictive credit introduced between 1982 and 1985, proved inadequate to turn the economy around. The Structural Adjustment Programme was, therefore, adopted in 1986 to address the problems of structural imbalances.

Policy measures adopted under the programme included restriction of monetary expansion, fiscal reforms, exchange and interest rates' deregulation, trade liberalisation, privatisation and refinancing and rescheduling of external debts. The programme is observed to have had many positive results. These include: growth in the real GDP, emergence of realistic exchange rate, elimination of accumulated trade arrears and stimulation of non–oil exports. It has also encouraged greater competition, induced the increase in the number of banks and fostered a culture of repairs and maintenance.

In spite of improvements recorded since the inception of SAP, the economy is still beset with a number of problems. These include low productivity in agriculture and industry, increased government deficit, high interest rate, wide parallel market exchange rate premium and high unemployment. In the external sector, the fundamental problems of over–dependence on a single export commodity, inadequate foreign exchange and a large external debt burden have persisted.

In order to sustain the momentum of SAP and ensure medium and long–term development, efforts required would have to include judicious allocation and management of all available resources, expansion of resource/revenue base and the striking of a balance between revenues and expenditures. Innovations in and the continuous restructuring of agriculture and industry would be essential to meaningful growth of these sectors. Our tools of external sector management would have to continue to improve. Only then can the long–term objectives of full employment, price stability, growth and external balance be realized.

SAP has helped considerably in laying the foundation for the orderly growth and development of our economy. The medium to long–term forecasts of major macro–economic indicators are modestly encouraging. However, in view of outstanding problems, a period of difficult choices and hard work lies ahead. But if extrapolation could be made from achievements so far we have cause to believe that the economy would remain on a path of sustained growth during the next decade.

Distinguished Ladies and Gentlemen, there is therefore need to continue to support sound economic policies of government and not to backslide in reform efforts. In particular, we have a critical role to play in sustaining the momentum of effective monetary management which is an important precondition for economic growth and stability. More than ever before, we need to coordinate our efforts to move in the same direction. In this vital process, active in–house consultations and dialogue should be the hallmark of professional bankers.

Table 1

BALANCE OF PAYMENTS PROJECTIONS (1990–2000)

CATEGORY	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
CURRENT ACCOUNT	–2,405	–2,023	–2,217	–1,519	–1,562	–1,613	–1,744	–1,129	–1,497	–1,950	–2,488
Merchandise	2,664	2,315	2,965	3,519	3,350	3,115	2,846	3,344	2,894	2,378	1,832
Exports (fob)	8,878	9,051	10,268	11,438	11,938	12,432	12,953	14,311	14,795	15,295	15,854
Oil	8,418	8,657	9,849	10,994	11,465	11,929	12,418	13,709	14,187	14,658	15,186
Non–oil	460	394	419	444	473	503	535	602	608	637	668
Imports (fob)	–6,214	–6,736	–7,303	–7,919	–8,588	–9,317	10,107	–10,967	–11,901	–12,917	–14,022
Oil Sector	–932	–978	–1,027	–1,078	–1,132	–1,190	–1,248	–1,311	–1,376	–1,445	–1,517
Non–oil	–5,282	–5,758	–6,276	–6,841	–7,456	–8,127	–8,859	–9,656	–10,525	–11,472	–12,505
Service and Income	–5,156	–4,425	–5,269	–5,125	–4,999	–4,810	–4,672	–4,555	–4,463	–4,400	–4,392
Investment income (credit)	100	100	100	100	100	100	100	100	100	100	100
Interest on reserves	100	100	100	100	100	100	100	100	100	100	100
Others	–	–	–	–	–	–	–	–	–	–	–
Investment income (debit)	–3,715	–3,525	–3,364	–3,188	–2,989	–2,790	–2,633	–2,477	–2,345	–2,239	–2,191
Interest on loans	–2,818	–2,626	–2,413	–2,183	–1,953	–1,708	–1,452	–1,218	–1,023	–851	–734
Others	–897	–899	–951	–1,005	–1,036	–1,082	–1,181	–1,259	–1,322	–1,388	–1,457
Non–factor service (net)	–1,541	–2,000	–2,005	–2,037	–2,110	–2,120	–2,139	–2,178	–2,218	–2,261	–2,306
Shipment	–706	–790	–795	–827	–860	–842	–869	–908	–948	–991	–1,036
Others	–835	–1,210	–1,210	–1,210	–1,210	–1,250	–1,278	–1,279	–1,270	–1,270	–1,270
Unrequited transfers (Net)	87	87	87	87	87	82	82	82	72	72	72
Proceeds from debt conversion	112	112	112	112	112	112	112	112	112	112	112
Others	–25	–25	–25	–25	–30	–30	–30	–30	–40	–40	–40
CAPITAL ACCOUNT	–2,519	–2,291	–2,722	–2,621	–2,620	–2,866	–2,808	–2,353	–1,955	–1,877	–754
Direct investment	456	456	456	472	472	472	472	472	472	472	472
Debt conversion	106	106	106	106	106	106	106	106	106	106	106
Others	350	350	350	366	366	366	366	366	366	366	366
Portfolio Investment	–324	–339	325	–325	–325	–325	–325	–325	–325	–325	–325
Other capital longterm	–2,161	–1,920	–2,363	–2,287	–2,277	–2,523	–2,465	–2,010	–1,612	–1,534	–411
OFFICIAL (of which)	–2,143	–1,902	–2,345	–2,269	–2,259	–2,505	–2,447	–1,992	–1,594	–1,516	–393
Amortization	–2,446	–2,202	–2,545	–2,569	–2,559	–2,805	–2,747	–2,292	–1,894	–1,816	–693
Disbursement	300	300	300	300	300	300	300	300	300	300	300
PRIVATE (NET)	–18	–18	–18	–18	–18	–18	–18	–18	–18	–18	–18
Other capital (short–term)	–490	–490	–490	–490	–490	–490	–490	–490	–490	–490	–490
OVERALL BALANCE	–4,924	–4,314	–4,939	–4,140	–4,182	–4,479	–4,552	–3,482	–3,452	–3,827	–3,242
Reserves (– = increase: + = decrease)	–300	–200	–200	–200	–200	–200	–200	–200	–200	–200	–200
FINANCING GAP	–5,224	–4,514	–5,139	–4,340	–4,382	–4,752	–4,752	–3,682	–3,652	–4,027	–3,442
BOP Support Loans	972	500	500	–	–	–	–	–	–	–	–
World Bank	(625)	500	500	–	–	–	–	–	–	–	–
O E C F – Japanese	(168)	–	–	–	–	–	–	–	–	–	–
A D B	(150)	–	–	–	–	–	–	–	–	–	–
UK Import Stimulation	107	–	–	–	–	–	–	–	–	–	–
Others	(22)	–	–	–	–	–	–	–	–	–	–
FINANCING GAP BEFORE RESCH.	–4,252	–4,014	–4,639	–4,340	–4,382	–4,679	–4,752	–3,682	–3,652	–4,027	–3.442
AMOUNT TO BE RESCHEDULED with											
(a) Debt service pegged at 30%	2,539	2,046	1,819	1,258	864	713	238	–868	–1,607	–2,012	–3,424
(b) Debt service pegged at 20%	3,446	2,973	2,865	2,423	2,080	1,980	1,558	591	–99	–452	–1,807
RESIDUAL FINANCING GAP											
(a) Debt service pegged at 30%	–1,713	–1,968	–2,828	–3,082	–3,518	–3,966	–4,514	–2,814	–2,045	–2,015	–18
(b) Debt service pegged at 20%	–806	–1,041	–1,774	–1,917	–2,302	–2,699	–3,194	–3,194	–3,553	–3,575	–1,635

Table 2

BALANCE OF PAYMENTS PROJECTIONS (1990—2000) IMPACT OF LNG OSO PROJECTS ETC

CATEGORY	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
CURRENT ACCOUNT	-2,765	-3,829	-2,486	-1,216	-1227	-737	-329	320	-11	-428	-895
Merchandise	2,364	1,515	2,695	3,822	3,690	39,91	4,261	4,793	4,380	3,900	3,430
Exports (fob)	8878	9051	10,498	12,241	12,778	13,308	14,368	15,760	16,281	16,817	17,452
Oil	8418	8657	10,079	11,797	12,305	12,805	13,333	14,658	15,173	15,680	16,284
Non-Oil	460	394	419	444	473	503	1,035	1,102	1,108	1,137	1,168
Imports (Fob)	-6,514	-7,536	-7,803	-8,419	-9,088	-9,317	-10,107	-10,967	-11,901	-12,917	-14,022
Oil Sector	-1,232	-1,778	-1,527	-1,578	-1,632	-1,190	-1,248	-1,311	-1,376	-1,445	-1,517
Non-Oil	-5,282	-5,758	-6,276	-6,841	-7,456	-8,127	8,859	-9,656	-10,525	-11,472	-12,505
Service and Income	-5,216	-5,431	-5,269	-5,125	-4,999	-4,810	-4,672	-4,555	-4,463	-4,400	-4,397
Investment Income (credit)	100	100	100	100	100	100	100	100	100	100	100
Interest on reserve	100	100	100	100	100	100	100	100	100	100	100
Others	–	–	–	–	–	–	–	–	–	–	–
Investment Income (debit)	-3,775	-3,525	-3,364	-3,188	-2,989	-2,790	-2,633	-2,477	-2,345	-2,239	-2191
Interest on loans	-2,878	-2,626	-2,413	-2,183	-1,708	-1,708	-1,452	-1,218	-1,023	-851	-734
Others	-897	-899	-951	-1,005	-1082	-1,082	-1,181	-1,259	-1,322	-1,388	-1,457
Non-Factor Services (Net)	-1,541	-2,006	-2,005	-2,037	-2120	-2,120	-1,239	-2,178	-2,218	-2,261	-2,306
Shipment	-706	-790	-795	-827	-842	-842	-869	-908	-948	-991	-1,036
Others	-835	-1,210	-1,210	-1,210	-1250	-1,278	-1,270	-1,270	-1,270	-1,270	-1,270
Unrequited Transfers (net)	87	87	87	82	82	82	82	72	72	72	72
Proceeds from debt conversion	122	112	122	112	112	112	112	112	112	112	112
Others	-25	25	25	25	30	30	30	30	40	40	40
CAPITAL ACCOUNT	-2,402	-1,658	-2134	-2146	-2,120	-2,866	-2,808	-2,353	-1,955	-1877	-754
Direct Investment	576	776	656	656	672	472	472	472	472	472	472
Debt Conversion	106	106	106	106	106	106	106	106	106	106	106
Others	350	350	350	366	366	366	366	366	366	366	366
Portfolio investment	-324	-324	-337	-325	-325	-325	-325	325	325	325	325
Other capital (long-term)	-2,164	-1,920	-2,263	-2,287	-2,277	-2,277	-2,465	-2,010	-1,612	-1,535	-411
OFFICIAL (of which)	-2,146	-1,602	-1,945	-1,959	-1,959	-1,959	-2,447	-1,991	-1,594	-1,516	-393
Amortization	-2,446	-2,202	-2,545	-2,559	-2,559	-2,559	-2,747	-2,292	1,894	-1,816	-693
Disbursement	300	300	300	300	300	300	300	300	300	300	300
Others	–	300	300	300	300	300	–	–	–	-18	–
PRIVATE (NET)	-18	-18	-18	-18	-18	-18	-18	-18	-18	–	-18
Other capital short-term	-490	-490	-490	-490	-490	-490	-490	-490	-490	490	-490
OVERALL BALANCE	-5,167	-5,487	-4,620	-3,362	3,347	-3,603	-3,137	-2,033	-1,966	-2,305	-1,649
Reserves (- = increase: + = decrease)	-300	-200	-200	-200	-200	-200	-200	-200	-200	-200	-200
FINANCING GAP	-5,467	-5,687	-4,820	-3,562	-3,547	-3,803	-3,337	-2,233		-2,505	-1,849
BOP Support loans	972	500	500	–	–	–	–	–	-2,166	–	–
World Bank	625	–	–	–	–	–	–	–	–	–	–
O E C F – Japanese	68	–	–	–	–	–	–	–	–	–	–
A D B	150	–	–	–	–	–	–	–	–	–	–
UK Import Stimulation	107	–	–	–	–	–	–	–	–	–	–
Others	22	–	–	–	–	–	–	–	–	–	–
FINANCING GAP BEFORE RESCH.	-3,523	-5,187	-4,320	-3,562	-3,547	3,803	-3,337	-2,233	-2,166	-2,505	-1,849
AMOUNT TO BE RESCH. with											
(a) Debt service pegged at 30%	2,537	2,058	1,750	1,018	612	450	-257	-1,369	-2,124	-2,539	-3,974
(b) Debt service pegged at 20%	3,446	2,981	2,819	2,262	1,912	1,804	1,228	257	-444	-804	-2174
RESIDUAL FINANCING GAP With											
(a) Debt Service pegged at 30%	-986	-3129	-2,570	-2,544	-2,935	-3,353	-3,080	-864	-42	34	2125
(b) Debt Service pegged at 20%	-77	-2,206	-1,501	-1,300	-1,635	-1,999	-2,109	-1,976	-1,722	-1,701	325