

NIGERIA'S MAJOR DEVELOPMENT PROBLEMS IN THE MEDIUM TERM

I. Introduction

The Nigerian economy has experienced significant changes since the 1950s. Its growth has been uneven and the growth process has been accompanied by dramatic sectoral changes, some of which were partly policy-induced while external and exogenous factors caused others.

Nigeria's GDP increased by 4 percent per annum in real terms between 1950 and 1960. It then moved up to an average annual rate of about 5.5 percent during the first half of the 1960-70 decade before declining sharply between 1966 and 1969 as a result of the civil war which caused major damages. The oil boom of the 1970s ushered in a period of rapid economic growth; GDP increased at 6% per annum in real terms between 1974 and 1978. However, the inherent softness of the international oil market and the attendant collapse of oil prices especially since early 1980s pushed the Nigerian economy into deep recession. The downturn in the international oil market in 1977/79 sent GDP down to an average annual growth rate of -1.3 percent between 1978 and 1981. As the oil market worsened further in mid-1981, the growth performance of GDP declined further to an average rate - 4.7 percent between 1981 and 1984; and -1.05 percent between 1985 and 1986.

The Nigerian economy confronts short - medium - and long-term problems. In the immediate future, the authorities have to grapple with liquidity and debt-servicing problems. These problems are caused by past mismanagement, fast-dwindling oil revenues and the mounting debt service obligations. To come to terms with the cash flow problems, Nigeria will need to reschedule its external debts in order to stretch out the bunched maturities. In the medium term, Nigeria has to grapple with the problem of restoring economic growth and ensure a rise in the per capita income; expand employment opportunities; increase capacity utilisation in industry and promote price stability; create incentives for increased food and agricultural raw material production and non-oil export commodities. These problems are traceable to sharp economic decline, excessive reliance on the oil sector and structural distortions inherent in the economy. In order to foster a resumed growth, there is acute need for undertaking structural adjustment

Professor T. Ademola Oyejide
and
Dr. Mufutau Iyola Raheem

Department of Economics
University of Ibadan
Ibadan, Nigeria

and economic reform in Nigeria. In the long run, there is need to change the mono-cultural nature of the economy and diversify away from the heavy reliance on oil. A preferable strategy would be to gear up the non-oil tradeable sectors with a view of making the economy less dependent on oil and to make more efficient use of future oil earnings to develop and promote other sectors of the economy. This paper provides a brief perspective on some of these issues.

II. The Oil-Boom and Its Legacy

Prior to the emergence of oil in the Nigerian economy, agriculture was the mainstay of the economy and the principal source of exports. Growth in the 1970s and thereafter was founded on the oil sector. Increased oil production and rapid increases in oil prices in 1973/74 and 1979/80 radically transformed the economy; and the fairly broad based agricultural economy became considerably less diversified as the oil sector dominated production and trade structures. Thus, in the early 1980s, the oil sector accounted for 22 percent of GDP, 81 percent of government revenue and 96 percent of export earnings. The public sector became over extended and it assumed an increasingly dominant role in the economy, accounting for around half of the GDP and two-thirds of modern-sector employment. In addition, the economy became largely import-dependent. National expenditure and production became highly linked to imports and by 1980, total imports amounted to 25% of GDP.

Consequent upon the expansionary effect of oil boom, Nigeria's savings ratio rose rapidly at least up to the 1973-78 period. From 11 percent in 1960-65 the ratio increased two-fold to reach 23 percent in 1970-73 and almost three-fold to 30 percent in 1973-78 period. When, however, the downturn in the international oil market came, the savings ratio was adversely affected by declining through 27 percent in 1978-81 to 19 percent in 1981-84. The overall balance in the Nigerian balance of payments was in severe deficits from 1981 through 1986. The deficit which was to the

tune of \$1853 million rose to about \$2,000 million in 1986. Current account deficit of \$ 6.5% billion was recorded in 1981 and it worsened to \$ 7.4 billion in 1982. Actually, Nigeria's current account position has been negative during most of the 1960-84 period, in spite of the oil boom. The impact of the resource boom was essentially to reduce current account deficit for only brief periods during part of which some surpluses were recorded. Thus, the ratio of current account balance to GDP moved from -5 percent during the 1960s to -3 percent in 1970-73 and then to just over 1 percent in 1973-78. However, this surplus position could not be maintained and the ratio slipped back into negative in the subsequent periods. From a ratio of -1.5 percent during 1978-81, the deficit position worsened to -6 percent level in the 1981-84 period.

Instead of instituting major structural reforms to arrest the decline in the economy in the early 1980s, the authorities perceived the problem to be short-lived and consequently, the government resorted to massive deficit financing. The fiscal deficit was increasingly being financed by inflation tax. The ratio of budget deficit to GDP dramatically went up from -0.43 percent in 1980 to almost -10.5 percent in 1983 before dropping to -6.6 percent in 1986. The financing of the emerging budget deficits contributed to high inflation rates, which in conjunction with an inflexible nominal exchange rate resulted in an accelerating real appreciation of the naira. During and after the oil boom period, the exchange rate was allowed to be over-valued as Nigeria maintained a fixed nominal exchange rate for a non-convertible currency with extensive capital controls. Using the import-weighted real exchange rate (Pinto 1987) Nigeria's naira appreciated by about 68% between 1973 and 1984.

The inability of the country to reduce imports and also government expenditures sufficiently to match declines in oil revenues during the 1980s has resulted in a massive draw-down of external reserves from \$ 10.2 billion in 1980 to \$ 1 billion in 1984 and build-up of internal and external debts to finance development/expenditure programmes on top of growing accumulation of trade arrears. As a result, total internal debt grew from just over \$ 1 billion in 1970 to about \$ 8 billion in 1980 and to over \$ 25 billion in 1984; approximately 75 percent of the internal debt was owed to the banking system. Simultaneously,

public and publicly guaranteed external debt rose from less than \$ 0.5 billion in 1970 to \$ 4.4 billion in 1980 and almost \$ 12 billion in 1984. As at December 1987, Nigeria's total external debt stood at about \$ 23 billion. A cursory review of Nigeria's debt portfolio reveal certain features that appear particularly disturbing as they indicate rather unfavourable terms and inefficiencies in debt management. First, the poor maturity profile of debt which has led to a bunching-up of loan repayments even when most of the projects so financed were still uncompleted. Second, besides the increasing shift from official to private source, a sizeable proportion of the outstanding debts are in the form of short-term trade bills (including unconfirmed letters of credit and open bills for collection) the precise amount of which has been difficult to determine. These debts, owed to financial institutions, suppliers and private creditors, both insured and uninsured, have been the subject of conflicting claims which make their genuineness doubtful.

Nigeria's debt problem became particularly serious from 1981 when there was a glut in the world oil market. This severely curtailed the country's ability to service existing debt. Thus by 1985 as much as 33 percent of foreign exchange receipts went to debt servicing. The 1986 federal budget estimates had put debt service obligation at about 42% of projected foreign exchange earnings. This made debt restructuring and rescheduling inevitable and it is a key part of the efforts of the government to prevent imminent collapse of trade and industry as oil earnings fell from \$ 25 billion in 1980 to \$ 6 billion in 1987. Some trade debts were converted to medium-term debts to be repaid within 3 years including a grace period of six months. The authorities also entered into negotiations with London Club in the second quarter of 1986 and finally reached an agreement in November 1987 to reschedule a total sum of \$ 3.8 billion of principal repayments and arrears on letters of credit falling due between April 1986 and December 1987. Similar agreement was concluded with the Paris Club involving a total of \$ 6.8 billion in debt relief. There are indications that negotiations would have to begin almost immediately on a rescheduling of debt falling due in 1988 and 1989.

III. Economic Reform and

Structural Adjustment

Various austerity measures were pursued between 1982 and 1985 geared towards containing the economic crisis. Most of these measures relied heavily on administrative controls, tight fiscal and monetary policies and severe re-

restrictions on trade and payments. While some progress was achieved, these policy measures further compounded rather than corrected the structural distortions that were in place earlier. Therefore, major structural and financial difficulties remained.

The authorities, therefore, intensified their efforts by launching a structural adjustment programme (SAP) covering the period July 1986-June 1988. The programme aims at altering and re-aligning aggregate domestic expenditure and production patterns so as to minimize dependence on imports, enhance the non-oil export base and bring the economy back on the path of steady, non-inflationary and balanced growth.

The major elements of the SAP include strengthening demand management policies; adopting measures to stimulate domestic production and broaden the supply base of the economy; adoption of a market-determined exchange rate policy; measures towards improved trade and payments liberalization as well as tariff review; adoption of appropriate pricing policies, reduction/removal of subsidies, and reliance on market forces in allocation of resources and price setting as well as rationalization and privatization of public sector enterprises. In addition, a progressive deregulation of interest rates is built into the programme. The programme also envisaged a rescheduling of Nigeria's external obligations and the provision of new financing.

With the economic reform in progress, some achievements were recorded. A sizeable proportion of the overvaluation of the naira exchange rate has been successfully eliminated. The introduction of SAP and the generous export promotion incentives associated with it may have induced increases in non-oil exports. Besides improving the price competitiveness of Nigeria's export products, the change in relative prices due to the depreciation of the naira has enhanced the attractiveness of exports, particularly

primary products. Furthermore, the government naira revenue has appreciated substantially through the monetization of petro-dollars at the new exchange rate. This has provided a good revenue base for settling public domestic debt and funding vital domestic programmes.

However, the implementation of the structural reform of the economy left in its wake some problems and difficulties. It has severely aggravated the operational problems and constraints of the manufacturing sector, despite the elimination of import controls. Sales have dropped to a record low level; industrial closures, particularly among the small scale industries, as well as a reduction in working shifts are still rampant and assuming increasing proportions. The attendant credit squeeze has restricted the aggregate credit available to the system. This has constrained the expansion of most businesses. It fuelled inflationary pressures as the prices of products shot up sharply. The loss in real income translated into a decline in aggregate demand, thus accounting for the stockpiling of finished goods in the warehouses. It is widely feared that the reform might have triggered capital flight from Nigeria. The most frightened aspect of SAP is the adverse effects it has on the living conditions of vulnerable groups.

IV. Prospects in the Medium-Term

Given the response of the economy to the structural reform policies so far, there are indications that growth will be restored in the medium term. As priority is now being given to the development of agriculture, in particular the production of food and cash crops as well as raw materials for agro-allied industries, it would not be long before Nigeria will be capable of first, reversing the adverse trade deficits trend in food products and second, restructuring the industrial set-up to be based on domestic raw materials and intermediate goods.

The success of the reform programme would depend to a large extent on the speed at which the agricultural, manufacturing and

construction sectors are rehabilitated. Export promotion appears to be a potent tool in the restructuring agenda, and it is capable of turning round the economy through an export-led strategy with the long-term objectives of industrialization and balanced growth. However, government's efforts towards steering the economy towards resumed growth may be vitiated by large and disproportionate amount of scarce resources which are being devoted to servicing debts. Nigeria is debt-distressed, and will urgently need both an alleviation of her debt burden and additional concessional assistance if the economy is to achieve growth through her adjustment effort. "New money" primarily from the London and Paris Clubs is highly needed to provide requirements for financing the resource-shortfall in the immediate future.

One important issue that needs to be urgently addressed is the socio-political viability of the reforms. This factor becomes more relevant since the policy reforms inevitably set in motion a process of changes which has direct and significant implications for a redistribution of income and wealth both across sectors and between owners of resources. Too much of reforms within a relatively short period of time may not be endurable given the nature of the socio-political set up of the country. Then, the issue of the optimal time profile of policy reform boils down, therefore, to the question of trade-offs between reducing the adjustment costs of policy reform and sustaining the efficiency gains of the adjustment process.

There are two difficult questions that will continue to face the policy makers in the decade or so. The first is how the spending of revenue from an exhaustible resource like oil is to be organized and arranged. The second is how to lessen the economy's dependence on oil and to attain economic diversification and self-propelled growth. The success or failure of the policy makers in tackling these problems will have a profound effect on the course of the nation's economic growth in the future.

V. Conclusion

The performance of the Nigerian economy is largely propelled by oil-generated resources. The critical dependence of the economy on oil is reflected in the fact that any adverse disequilibrium experienced in the sector would trigger negative multiplier effects on the domestic economy. Therefore, a combination of the declining trend in the world oil market, the policy inadequacies of the past and the bunching of external debt service obligations have reinforced output decline and internal as well as external imbalances in producing a very difficult and hard economic environment.

Developments in the international oil market will continue to dominate economic prospects of Nigeria, although the level of external financial support and relative success of the economic recovery programme will also have a bearing on the country's economic outlook. The realities of the present economic crisis have made a fundamental structural adjustment of the economy inevitable. A major economic challenge in future would include the role oil should play in a more diversified economy.

The spectre of a Nigerian economy in the foreseeable future with a heavy foreign debt, stagnating agriculture, an overblown non-tradable goods sector, a stunted industrial sector and depleted oil reserves should haunt Nigerian policy makers.

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