DEREGULATING THE NIGERIAN ECONOMY: ACHIEVEMENTS AND PROSPECTS*

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Introduction

I will like to start my presention by expressing sincere appreciation to the Lagos State Chapter of the Nigerian Economic Society for inviting me to be the guest speaker on this important occasion. I will also like to commend the initiative of the Society for organising this public discussion on the important subject of Deregulating the Nigerian Economy. The deregulation of economic activities which gathered momentum in this country in 1986 under the general programme of Structural Adjustment has been a matter of intense debate among economists, bankers and members of the public at large. I am more than convinced that, as the first organized forum in which distinguished professionals and members of the public are gathered to discuss the achievements and prospects of government efforts to deregulate the Nigerian economy, the proceedings will be a rewarding one for all of us.

To set the stage for our discussion, it is important to be clear in our minds as to what we mean by deregulating an economy. It is perhaps simpler to start with the definition of economic regulation. *Regulation* in its broadest sense refers to all of the controls which government imposes on the economy and businesses of all kinds. Although, governments all over the world have always reserved the right to control general economic activities, governments participatory and regulatory roles were traditionally most felt in the area of public utilities, such as electricity, water, posts and telecommunications and public transportation. In such enterprises, competition was thought to be wasteful, and to prevent the abuse of monopolistic power, their regulation became more or less institutionalised. Over time, government control of economic activities has grown and extended beyond these and now embraces diverse controls on both the domestic and external sectors of the economy. In many cases, regulation has extended beyond mere controls of economic activities to include government intervention or participation in non-traditional economic activities with the ultimate aim of fostering competition and improving economic efficiency. Almost invariably, however, excessive regulation, especially in the less-developed countries, creates its own problems apart from the fact that it does not always achieve its primary aims. Inevitably, a process of *deregulation* is embarked upon and its basic aims are to remove all the unnecessary controls which tend to inhibit economic performance in both the private and public sectors of the economy. The introduction of the Structural Adjustment Programme (SAP) in 1986 was a unique opportunity for Nigeria to review all the existing controls on economic activities in support of the restructuring of the economy. In particular, the removal of complex administrative controls and other regulations was to be accompanied with a greater reliance on market forces.

My difficult task at this forum is to assess how far we have succeeded in the efforts to deregulate the Nigerian economy and to examine the future prospects. In doing this, I intend to make my presentation in three main parts. In Part I, I will review the rationale, operations and effects of regulation in the pre-SAP era, while in Part II, I will discuss the process of deregulation under SAP with particular focus on the effects of the measures adopted so far. In Part III, I shall discuss the prospects for the economy under deregulation with particular reference to how the gains so far made can be sustained and the emerging problems minimized.

PART I: THE BASIS, OPERATION AND EFFECTS OF ECONOMIC REGULATION

Regulation of an economy has often been rationalised on the ground that the imperfections in the financial and real markets would certainly constrain the allocative efficiency of resources in a free market system, that would guarantee the attainment of social, political and economic priorities of government. Indeed, the dream of an invisible hand that never shakes, is not callous, and never points to the wrong direction seems illusory. Such imperfections are known to be more manifest in the developing countries than the developed economies. Consequently, most nations at varying levels of development have decided in countless instances not to adhere to the free-market system, choosing instead from a wide range of forms of government intervention, from tariffs limiting free entry of goods to limits on free entry into so many industries and careers, and even to price setting by force of law in numerous sectors. Some regulations are clearly useful while others are counter-productive. There is sense in retaining the former, while the latter should be eliminated. A review of the Nigerian experience will tend to support this conclusion.

Some Aspects of Nigeria's Regulatory Framework

As in other economies, the Nigerian regulatory system developed over the years in response to financial crises and

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other economic and political events. I wish to focus on the circumstances and set goals of government regulations in some major sectors of the Nigerian economy before 1986:

The *banking industry* is traditionally the most regulated in any economy. The basic reasons for regulation of banking are depositor protection, promotion of financial and monetary stability, promotion of an efficient and competitive banking system, and the protection of the consumer of banking services. For more than half a century, no defined banking regulations were operated in Nigeria. The spate of bank failures in Nigeria led to the Paton enquiry in 1948 and culminated in the enactment of the Banking Ordinance of 1952 which essentially set the standard and procedure for the conduct of banking by prescribing the mandatory minimum capital requirement for banks and regulated banking business generally to check incessant bank failures. Following the establishment of the Central Bank of Nigeria (CBN) in 1959, as the apex financial institution to regulate and control the financial system, not only to ensure efficient payment mechanism but also to promote monetary stability, the Banking Act 1969, which has been amended from time to time, was promulgated. The Act provides for regulation and control of the monetary and financial system. It makes provisions for the granting of licences to banks and imposes restrictions on certain activities of licensed banks and specifies the minimum capital requirements for indigenous and expatriate banks. These requirements have been revised several times since. More importantly, the Act makes provision for the CBN to exercise its powers in maintaining monetary and financial stability in the economy. In this regard, the CBN as the regulatory authority:

(a) Stipulates various prudential ratios to ensure the liquidity and capital adequacy of banks;
(b) Prevents banks from investing in certain risky and illiquid assets which could over-expose the security of depositors' monies and precipitate conflict of intere and unfair competition in the economy;
(c) Imposes limits on the size of loans that can be granted to one single borrower to avoid over-exposure and ensure equitable spread of available credit;
(d) Controls interest rates on deposits and lending which gives preferential treatment to certain activities accorded priority status such as agriculture and industry; and
(e) Imposes direct and selective credit controls on the size of overall lending to the private sector and ensures allocation of a minimum proportion of available credit to certain sectors which, under a free market system, might be denied adequate credit to the detriment of the economy.

It is significant to mention that up to 1969, banking regulations as stipulated in law and periodic circulars could not be described as restrictive as such as they aimed mainly at ensuring sound banking practice and protection of depositors. However, the exigencies of the civil war in the late 1960s and the euphoria of oil boom in the 1970s introduced new elements into the Nigerian economic environment and therefore called for greater and more rigid controls of the financial system and indeed other sectors of the economy in the 1970s and 1980s.

Although the *Exchange Control Act* was enacted in 1962, it was applied very liberally until the middle of 1967. The war-induced shortfall in export earnings, despite increased demand pressure on foreign exchange to prosecute the civil war, maintain reserve adequacy as well as service the economy, called for a more rigorous enforcement of the Exchange Control Act. Allocation of foreign exchange was heavily regulated based on the prioritisation of the various economic sectors and end-use of funds. However, a more liberal attitude was adopted during the oil boom in the 1970s. But, following the collapse of the crude petroleum oil market in 1981 and the continued maintenance of an over-valued naira exchange rate, comprehensive exchange control measure were adopted in 1982 with the main objective of reducing the country's foreign exchange expenditure to a level that would be compatible with declining foreign exchange earnings. Those measures were retained in subsequent years and in most cases strengthened because of the additional burden of debt servicing. To complement these measures were the various trade restrictions ranging from imposition of import licensing and high import tariffs, to demand for advance import deposits and outright prohibition of certain import items. Before the introduction of the Structural Adjustment Programme, there were more than 70 commodities on the prohibition list for trading and another 20 were totally banned both for trading and personal use.

To curb the high rate of price increases attributable to high demand pressure in the economy, the Government instituted in 1975, a comprehensive *price control programme*. The Price Control Board was empowered to determine and fix the prices of some domestically-produced and imported commodities, otherwise known in recent years as "essenco", and enforce such prices. In addition, the Productivity, Prices and Incomes Board (PPIB) was established in 1977 to formulate guidelines designed to stream-line policies relating to wages, dividends and other incomes.

In the *securities* area, the Securities and Exchange Commission (SEC) was established in 1977 to ensure an orderly and fair capital market operation in Nigeria. The SEC replaced the Capital Issues Commission which was set up in 1973 to take over the function of the Capital Issues Committee established in 1962. The Commission has since the second phase of the indigenisation scheme in Nigeria effectively controlled the pricing and timing of securities in the new issues market. In addition, the Commission has the task of valuing all the shares and companies offered for sale.

Another area of intense regulation was *agricultural marketing* with reference to the 'cash' crops. Since the second World War, the Colonial Government had instituted a system of agricultural produce marketing through the state-owned marketing boards which were given the monopoly of taking over the scheduled produce from farmers for sale either in the local or foreign markets. Usually, producer prices were fixed for such sales, but the system was gradually converted into a tax instrument because producers were generally paid less than the realised world prices for their produce. The marketing boards were carried into the post-independence period in several forms some of which were supposed to have reflected radical operational adjustments. However, the boards, till they were abolished in 1986, always incurred the wrath of farmers who were not free to sell their produce as they wished.

Control of the *industrial sector* also increased in dimension in the post-independence period. Most of the regulations so far outlined had some direct or indirect impact on the industrial sector. Those that tended to affect the industrial sector directly include the Companies Act of 1968, the Nigerian Enterprises Promotion Act of 1972 and the Exchange Control Act of 1962. For example, the Exchange Control Act of 1962 subjected all foreign investment to the control of the Minister of Finance. Under the Act, prior permission was required for the transfer of profits, repatriation of capital and new foreign borrowing. The application for the repatriation of capital and dividends must be supported by such permits such as 'Approved Status' which was an evidence that the capital was imported. The Companies Act of 1968 stated the requirements for the incorporation of a limited liability company. If the investor was a foreigner, he had to obtain a business permit and in addition he must obtain a permit to employ foreigners. The Nigerian Enterprises Promotion Act of 1972 primarily limited equity participation of foreigners in local enterprises depending on the schedules in which such enterprises fall. The unsatisfactory aspect of these industrial control tools was that prospective investors were obliged to apply to a multiplicity of authorities from whom various permits and licences had to be assembled before projects could take off.

PUBLIC OWNERSHIP OF FACTORS OF PRODUCTION

1. Public ownership of factors of production is perhaps the most significant method through which the government has exerted far reaching influence on the Nigerian economy. Historically, government involvement in the national economy became very pervasive with the promulgation of the Nigerian Enterprises Promotion Act of 1972. The major objective of this economic blueprint was not only to indigenize the economy but also to maximize government control of the political and economic machineries. Consequent upon this Decree, Nigeria's public sector grew immensely in size and importance. In fact, available data indicate that federally-owned parastatals comprising of about 140 enterprises spread over agriculture, mining, manufacturing, transport and other commercial services. Quantitatively, Federal Government aggregate investment in these sectors was estimated at over ₦23 billion in 1986 — comprising ₦8 billion in equity and ₦15 billion in loans. At this juncture, it is perhaps pertinent to remark that Nigeria entered the 1980s with more than half of its GDP and two-thirds of its modern sector employment accounted for by the public sector alone. Surely, no other form of control can be greater than this overwhelming participation of the government.

2. Benefits and Costs of Regulation: What we should pay more attention to in our present discussion is not just the array of regulations themselves, but how far they attain their goals and the new problems they tend to create. Economic regulations not only have a wide range of techniques as already noted earlier but also a wide range of goals ranging from avoidance of conflict of interest to equitable distribution of resources and economic stability. However, some of such regulations are costly to the economy in terms of the distortions and inefficiencies they breed in resource allocation, as well as the disincentive to initiative and innovations created. This is not to say however that the ultimate goal should be total elimination of all regulatory measures but rather a selective retention of regulatory techniques that permit active competition in the financial, labour and commodity markets while also protecting investors and maintaining relative stability. In order to put the government efforts at deregulation in a proper perspective, I want to briefly review some of the problems associated with the regulations outlined above:

(a) The fact that there has not been any major bank failure in Nigeria since the establishment of the CBN almost three decades ago is largely attributable to the strict enforcement of the provisions of the Banking Act. However, the maintenance of financial and banking stability does not necessarily guarantee efficiency of the system. Thus, while those prudential regulations which ensure public confidence in financial intermediation are useful and should be retained, some others have been perversive as they encroach on the operational freedom of the banks to innovate and contribute optimally to growth and development of the economy. This thus raises an important question as to whether movement towards a more market-oriented financial system designed to facilitate the mobilisation of financial savings and encourage more efficient allocation of financial resources would not be superior to controls. Let me illustrate with the controls on interest rates and bank credit.

Until August 1987, for example, fixed and administered interest rates were the rule which, together with ubiquitous inflation, had resulted in interest payments that were very low or even negative in real terms, when corrected for price changes. Low deposit rates have been found to discourage savings in financial assets thereby limiting the supply of loanable funds while low lending rates stimulated the demand for credit leading to rationing and misallocation of available capital funds. When interest rates do not reflect differences in the maturity, risk and administrative costs of different instruments, lenders refuse to make longer, more risky or more expensive loans, and if maintained over a long period, such a policy could slow down economic development. Imposition of ceiling on aggregate bank credit expansion designed to curb demand pressures in the economy has in many cases not been observed as many banks exceed the credit ceilings. For example, in the last three years, the commercial banks have persistently burst the ceilings on their credit expansion. In 1986, observed rate of expansion was 29.0 per cent as against the 10.0 per cent ceiling while in

1987 the overall ceiling was also exceeded by 3.6 percentage points. In general, although selective credit control appears useful, its contribution should not be exaggerated in the development process. If selective credit controls are intended to perform the crucial role of modifying the lending policies of banks to accord with the national investment priorities, it would require additional efforts to check the end-use of credit granted. Sometimes, when these controls are seen to be formally effective in influencing the allocation of bank credit in keeping with the wishes of the authorities, there is no assurance that such distribution of bank credit would involve a corresponding redistribution of actual expenditures to the desired sectors. For example, it would in most cases be relatively easy for a borrower, especially if he engages in more than one activity simultaneously, to borrow formally for the "preferred" purpose but utilise the funds in actual practice for "less preferred" expenditures. Thus, the problem of effective monitoring of this regulation is enormous and actual compliance by the banks and the borrowers is difficult to enforce. Indeed, one major shortcoming of regulation is that it tends to breed further regulations as strategies are continually designed by operators to beat the existing regulations. The need to give banks greater flexibility in their credit operations and putting greater reliance on more conventional tools of credit control cannot be over-emphasized.

(b) Employment of direct controls on trade and exchange transactions may sometimes assist in reducing imports, but it can hardly influence necessary and permanent adjustment to the country's external transactions to ensure the achievement of a healthy balance of payments position, for as long as an administratively fixed and over-valued exchange rate of the local currency continues. For example, despite the retention and streamlining of exchange control regulations between 1984 and 1986 to ease the pressure on Nigeria's external accounts, improvements in the overall balance of payments position were not appreciable as both import and export levels declined. The social problems which accompany the complex import licensing and exchange control, with adverse implications for the economy were overwhelming prior to the introduction of the Second-tier Foreign Exchange Market and trade liberalisation in 1986. These included bribery and corruption, smuggling, over-invoicing of import bills and under-invoicing of export proceeds, to mention only the essential ones.

(c) The rapid increase in public spending attributable largely to the unprecendented increase in aggregate money income tended to generate a substantial rise in price level over the years. The price control programme instituted by government to curb the high rate of inflation was generally unsuccessful. Activities of the Price Control Board were marked with corruption and administrative inefficiency. This was hardly surprising. Under a situation of serious supply shortages resulting in rationing, price control can hardly emerge as an efficient instrument for moderating price increases. In the best of circumstances, the most the measure can achieve is to suppress inflation, except something is done to increase supply. Unfortunately, guidelines designed by the PPIB to streamline policies relating to wages, dividends and other incomes could not povide necessary incentives to stimulate increased output.

(d) Regulations guiding the operations of the securities market may have facilitated an orderly behaviour of the market and have tended to give protection to the investing public, but they have discouraged the participation of many enterprises which, although efficient, have been constrained to avail themselves with the benefits of the capital market because of the rigidities imposed by the regulatory authorities, principally the Securities and Exchange Commission especially on valuation of shares. Besides, the institution of the Nigerian Enterprises Promotion Act, 1972, which restructured the ownership pattern of business in the country in favour of Nigerians, may have militated against foreign private capital inflow into Nigeria, even in sectors in which Nigerians are lacking in expertise.

(e) The adverse effects of controls on the agricultural sector particularly in the area of produce marketing are known to all of us and need no serious elaboration. At one point in the 1960s and early 1970s, the produce marketing system imposed three types of taxes on producers — the export duty imposed by the Federal Government, the produce sales tax imposed by Regional/State Governments and the trading surpluses of the marketing boards which were meant for price stabilisation, but which were generally diverted to financing government projects that were not necessarily of direct benefit to the producers. All these taxes and other operations of the boards adversely affected production and encouraged smuggling across the Nigerian borders. It was also the cause of neglect of farm lands until the introduction of SAP.

In a nutshell, it can be seen that excessive regulation tends to create more problems than it solves. In an environment beset by a lot of indiscipline, considerable resources are wasted in trying to enforce such regulations.

PART II: THE PROCESS OF DEREGULATION: EFFECTS AND PROBLEMS

Given the magnitude of economic problems which confronted Nigeria, especially since the early 1980s —stagnant growth, rising inflation, unemployment, food shortages and mounting external debt — the importance of economic reform became paramount. Indeed, if the sheer number of regulations and controls could revive a depressed economy, this could have happened in the period preceding the SAP. However, it appeared as if the economic situation worsened with the introduction of more regulations and controls. There was the need therefore to remove policy distortions which had stalled economic progress. In particular, policy makers began to recognise more visibly the adverse effects of exclusive reliance on the set of policy instruments being enforced through cumbersome administrative controls and regulations. It was rightly considered that failure to initiate reforms which would stress deregulations of existing policy instruments would seriously jeopardise the long-term growth and development prospects of the Nigerian economy. Economic deregulation which involves appropriate realignments in fiscal, monetary, trade, pricing and exchange rate policies was viewed as a tool of reducing undue government intervention in economic activities and providing the relevant structure of incentives that would put the economy on the path of recovery and growth. In the rest of this part of the paper, I will briefly outline the various measures of deregulation already adopted by the Federal Government before proceeding to assess their impact so far.

1. Measures of Deregulation

Economic deregulation under the Structural Adjustment Programme centred around three elements: the adoption of a realistic exchange rate policy coupled with the liberalisation of the external trade and payments system; the adoption of appropriate pricing policies in all sectors with a greater reliance on market forces and reduction in complex administrative controls; and further rationalisation and restructuring of public expenditures and customs tariffs. Along with other policy measures under the SAP, the deregulation process was expected to rationalise the use of scarce resources especially foreign exchange so as to enhance allocative efficiency, promote industrial diversification and stimulate domestic production not only to broaden the supply base of the economy but to expand non-oil exports. Partly to achieve these objectives, the following measures of deregulation, among others, were adopted:

(a) The Second-Tier Foreign Exchange Market (SFEM) was introduced in September 1986 to evolve a realistic and market determined exchange rate for the Naira so as to reduce the excessive demand for foreign exchange and thereby reduce the pressure on the balance of payments. The realistic exchange rate was expected to eliminate the distortions in all the major sectors, reduce imports, stimulate exports, encourage efficient import substitution and capital inflow. The market determination of naira exchange rate was reinforced in July 1987 when a single Foreign Exchange Market (FEM) emerged from the merger of the first-tier and SFEM exchange rates.

(b) The liberalisation was embarked upon with the abolition of import and export licensing and exchange control on all current transactions and the reduction of prohibited import items from 74 to 16. Also, the requirement that Nigerian residents should surrender their foreign exchange earnings to the Central Bank of Nigeria was abolished. All such exporters and foreign exchange earners were entitled to 100 per cent of their foreign exchange earnings which they must however repartriate and keep in their domiciliary accounts on which they can draw freely either for their own use to meet all eligible foreign exchange transactions under FEM or for sale in the inter-bank market. Authorised dealers were given full appoving authority by the Central bank for private sector current account transactions. Early in 1988, Government enacted the Customs and Excise Tariff Consolidation Decree in which import duty and excise rates were specified for a seven-year period, thus providing producers and consumers with a longer time horizon for making their decisions.

(c) In order to stimulate agricultural production, especially with regard to attaining increased food production, domestic supply of agricultural raw materials, exportable cash crops and rural employment and incomes, the Commodity Boards (together with the price fixing system) were abolished and, coupled with the adoption of an appropriate exchage rate policy under which non-oil export transactions would take place, it was expected that improved price incentives would increase producers' competitiveness both in the product and factor markets and also encourage the rehabilitation of existing productive capacity and induce new plantings which would boost production substantially.

(d) While the stance of monetary policy has generally been tight in order to contain the demand for foreign exchange and avoid inflationary pressures, there has been a conscious move towards a more market-oriented system. This was designed to facilitate the mobilization of financial savings and to encourage more efficient allocation of resources. In a significant departure from previous policies, all controls on interest rates have since 1987 been removed so that banks are now free to charge market rates of interest and pay competitive interest rates to their depositors. The classification of the economy into many sectors/sub-sectors for the purpose of allocation of bank credit which had left the banks with little discretion in their credit operations has been made more flexible. The number of sectors has been reduced from 8 in 1985 to 2 since 1987.

(e) Steps have been taken to allow greater foreign participation in domestic investments, particularly where such investments can foster the development of indigenous expertise and the diffusion of new technology. Foreigners are now, for instance, allowed to hold 80 per cent equity in large scale agricultural ventures. In order to provide more incentives to foreigners as well as local investors requirements, including the procedures for registering new industrial enterprises and the granting of locational approval, have been liberalised so as to remove the hindrances to the free flow of investment. The role and powers of the Industrial Development and Coordinating Committee (IDCC) have been increased in order to make it the central point for all necessary permits and approvals for foreign investment. Hitherto such investors had experienced problems while seeking clearance from many government agencies. The large measure of decontrol in other areas of the economy, other specific incentives and the Debt Conversion Programme recently launched are also expected to enhance the creation of an "enabling environment" and to lead to greater participation of foreigners in domestic investments.

2. Effects of Deregulation

Just like the SAP itself, it will take sometime and consistent implementation of policy measures before the full impact of deregulation can be evaluated. Most of the expected effects, particularly with regard to pricing policies, are of medium to long-term in nature and would therefore require more time before proper evaluation can be undertaken. Also, it is difficult to isolate the effects of the policy measures of deregulation since they have been part of a whole package of diverse policy measures to restructure the economy. However, these measures of deregulation seem to form the centre piece of the SAP and it is not difficult to make relevant inferences from the known effects of the programme so far.

There is considerable evidence throughout the economy of changes in the incentive framework as a result of deregulation. It appears that rational economic behaviour has begun to guide both producers and consumers in the allocation of scarce resources. In particular, deregulation which has resulted in substantial exchange rate depreciation has led to increased costs of imports, while enhancing the prices of exports. Consequently, investors, producers and consumers have increasingly resorted to curtailing their demand for imported goods and finding alternative ways of meeting their consumption and input requirements locally. Without going into too much details, let me now review some specific areas where deregulation has produced some positive impact.

(a) Deregulation of the foreign exchange market has generally achieved for the naira a market-determined exchange rate which made the abolition of the complex and much abused system of discretionary controls such as import licensing and exchange control possible. This has also fostered a large measure of rational economic and financial behaviour in both the public and private sectors of the economy. The use of the foreign exchange market has generally rationalised the process of allocation of foreign exchange and the demand for imports, stemmed capital flight considerably and encouraged the inflow of autonomous foreign exchange from abroad. For instance, the average monthly inflow of autonomous foreign exchange in 1988 has been estimated at ₦449.4 million ($103.1 million), compared with ₦361.8 million ($90.3 million) in 1987 and ₦265.7 million ($75.9 million) in 1986. The operation of FEM has substantially eased access to foreign exchange compared with the situation under the regime of import licensing. Thus, manufacturers and other users of foreign exchange are now better able to plan ahead their production and investment activities. Also, trade bills which used to accumulate during the era of import licensing are now being settled as they mature since banks can now open letters of credit only after purchasing sufficient foreign exchange to cover import transactions.

(b) The market-determined exchange rate and the enhanced domestic prices due to depreciation as well as the generous export incentives have provided great inducement for Nigerians to produce for export. For instance, the value of non-oil exports rose from ₦522.1 million ($434,0 million) in 1986 to ₦2,595.6 million ($646.0 million) in 1987. Besides, an estimated $1,042.1 million was recorded as the value of imports not valid for foreign exchange in 1987. Thus, in spite of the poor performance of the traditional export crops in the world markets, their local prices have risen substantially to cover local cost of production and also provide a reasonable profit margin as to encourage increased production. Cocoa farmers are currently receiving upwards of ₦6,000 per tonne for cocoa beans while processors get as much as ₦15,000 per tonne for cocoa butter/cake. These prices compared with official prices of ₦1,600 and ₦1,500 for cocoa beans and butter/cake, respectively, in 1985/86 buying season, prior to the abolition of the Commodity Boards. Improved prices of agricultural products have induced higher export volume and earnings. For instance, in 1986, the total volume and value of agricultural exports (processed and unprocessed products) were 307.0 thousand tonnes and ₦482.4 million, respectively, indicating increases of 98.6 and 93.3 per cent over the levels in 1985. In 1987, total agricultural export volume and value increased further from the 1986 levels, by 40.4 and 209.4 per cent, respectively. As a direct consequence of these developments, rehabilitation of old farms/plantations and marked increases in new plantings of cash crops have been reported and these would lead to substantial increases in output in the near future. For instance, an increase of 31.5 per cent in total hectarage put under cocoa production was recorded in 1987 over the level in the preceding year. Corresponding increases for cotton, rubber and maize were 6.9, 2.6 and 11.3 per cent respectively. Investment in agricultural production especially by corporate bodies has also increased, despite bureaucratic bottlenecks of land acquisition in the bid to increase the scope and volume of industrial raw materials sourced locally.

(c) In the industrial sector, largely due to deregulation, industrialists now tend to look inward for their basic raw materials. For example, we now have beer brewed from local grains such as sorghum, rice and maize and bread baked from cassava and corn flour. Local industrialists have also been compelled by price considerations to undertake more realistic industrial appraisal prior to investment. There is preference now for projects which do not rely too much on imported inputs, in contrast to past practices. Industrial output which consistently declined between 1983 and 1986, recorded more than 5 per cent increase in 1987. Similarly, average capacity utilisation which had declined from an average of 73.3 per cent in 1981 to 37.1 per cent in 1985 moved to 40.4 per cent in 1987. Further increases in these variables are anticipated for 1988. Consequently, rationing queues and artificial scarcity of the so-called essential commodities like toilet soap, detergents, milk, sugar, etc. have since disappeared in all markets nation-wide.

(d) In the area of monetary and banking policy, deregulation has engendered keen competition among banks for deposits as well as bankable projects. Saving mobilisation has been encouraged as a result of the upward revision of interest rates, following the deregulation of the rates. Thus, commercial banks' time and saving deposit liabilities rose by ₦3.6 billion or 31.3 per cent to ₦15.1 billion in 1987 compared with an increase of ₦936.9 million or 8.9 per cent in 1986. Significant increases are also expected in 1988. Visible efforts to attract more funds from customers are manifested in innovative advertisements in recent times.

3. Problems Associated with Deregulation

Among the major problems facing the Nigerian economy today, one cannot but mention four: exchange rate instability and depreciation, unemployment, inflation and deteriorating balance of payments position. Many people incorrectly tend to attribute these problems to the recent policy measures being implemented by the government. The fact is that the magnitude of these problems could have been much greater but for the prompt policy actions taken by the present administration. The fundamental problem is that the Nigerian economy had been too much import-dependent and this was made possible by the high level of foreign exchange earnings during the oil boom. With the oil crash and continuous fall in the level of foreign exchange earnings, the demand for foreign exchange continued to outstrip supply, resulting in exchange rate depreciation The problem of unemployment is due to the inadequate growth of the economy. Though considerable improvement has been observed in agricultural production, a substantial increase in productive capacity is constrained by the enormous technological, financial and institutional problems which would take time to eliminate. Similarly, the industrial sector has not produced the expanded capacity to absorb a lot of labour because the process of transition to local input use has been naturally slow. Unfortunately, the oil sector which remains a major source of economic growth has become more and more unstable in recent times. Inflationary pressures have gathered momentum mainly because of the inadequate supply of goods and services generally and in particular due to weather-induced food supply shortages. The situation has not been helped by expansionary fiscal operations, the announcement effect of salary and fringe benefit reviews and the partial withdrawal of some price subsidies. The deteriorating balance of payments position has resulted largely from the decline in external loans drawings and increases in visible import and debt service payments. I have also earlier mentioned the weakness in the international oil market.

From this brief review of our current economic problems with which you are familiar, it is difficult to link them directly with the deregulation embarked upon since the SAP. It is significant to note that some of these problems have been with us for long and nobody can dispute today that if the recent measures were not adopted, the economic situation could have been substantially worse. The situation, as it is, has been compounded by unforseen developments such as the continued weakness in the international oil market, adverse weather conditions and the substantial shortfall in the level of financial credit and support from the international financial community. Also, we should note that recent economic policy measures, especially those relating to price reforms are fundamental in nature and tend to affect the foundations of the economy. Not only are they difficult to implement, but also their short-term impact could be marginal and is usually accompanied by a lot of stress. However, this is not to say that we have faced a helpless situation. What we need is effective implementation of policy measures whether in terms of timing, its extent and consistency. In particular, there is need for a strict adherence to the spirit and letter of the SAP to minimise the unavoidable problems by taking care of those most adversely affected.

4. International Experiences

Nigeria is only one of many developing countries presently pursuing programmes of structural adjustment with some bias for the deregulation of economic activities. There are also the developed countries many of which have for a long period embarked on such policy strategies. I will now briefly review in a general way, what has happened in these countries. There is no doubt that some of the developed countries represent the model in market-oriented economies. The developed countries of North America and Western Europe have generally moved in the direction of market-oriented economc policies with satisfactory results in terms of economic stability and reasonable long-term growth and development. It is also interesting to observe that the centrally-planned economies of Eastern Europe are applying more and more market instruments for improved performance of their economies. However, it is very easy to argue that these economies are not really compatible with those of developing countries primarily because of their different stages of development.

On the African continent, as many as 28 countries have embarked on economic policy reforms whose thrust is deregulation. Among these countries are Ghana, Cameroun, Malawi, Botswana, Rwanda, Tanzania, Senegal, Sudan and Madagascar. Countries like Ghana, Cameroun, Malawi and Botswana have been frequently cited as successful with their recent macro-economic management, while the results in other countries have been mixed. The impact of deregulation has been felt in all the major sectors of their economies. In the money markets, for instance, increased domestic savings mobilization has taken place following interest rate deregulation, especially in Tanzania, Senegal and Madagascar. In the real sector, output growth has been slow in most countries with a resultant pressure on domestic prices. In the labour markets, rapid rationalisation of labour has resulted in massive unemployment and considerable social and political unrest. In the external sector, there has been some improvement in balance of payment positions due to reduced imports and larger exports.

On the whole, it would appear that most African countries have had similar experiences in their efforts at deregulation. Most of them have experienced short-term difficulties, but Nigeria has been able to weather the storm better because of her stronger resource base. Apart from the fact that these countries do not have more viable options, the efforts at adjustment with deregulation appear to be moving their economies in the right direction, though at a much slower pace than desirable.

PART III: PROSPECTS

In concluding my presentation, I am required to discuss the prospects, in the context of recent policies, of economic deregulation in Nigeria. You will all agree with me that this is an arduous task given the well-known current uncertainties in the world economy which are likely to have a great influence on our domestic economic policies. Before I attempt to examine the prospects, let me recapitulate what I have said so far. In the previous parts of the paper, I have endeavoured to show how government regulation of the domestic economy in the past had been largely cumbersome and detrimental to economic efficiency. While it is extremely naive to think of a regulation-free economy, it should however be understood that too many regulatory policies, irrespective of the form they assume, impact on the economy in numerous and complex ways. To be sure, while some of the effects of regulation may be intended, others such as smuggling, scarcity of essential goods and services, bribery and corruption, and bureaucratic redtapism, just to name a few, are definitely not. Needless to say that the society has paid very high cost for these unintended effects of government economic regulatory measures. Similarly, while some aspects of government economic regulation such as import licensing requirement, and price controls, etc., might have succeeded in achieving some short-term objectives of restricting imports, achieving external balance, or lowering the domestic prices of factors of production, albeit artificially, lessons of experience have shown that these accomplishments were achieved at a very much higher cost to society than was really warranted.

In general, the deregulatory measures so far initiated under the new economic dispensation involve greater reliance on the market as the prime determinant of business behaviour. Consequently, 'price' rather than 'influence' or 'patronage' is now the factor which dictates: 'who gets what, when and how much'. So far, available short-term evidence strongly indicates that the reform measures have had a salutary impact on mainly the product and financial markets, while developments in the labour market continue to be unsatisfactory. Available data have confirmed that the adoption of a market-determined exchange rate, as opposed to administered rates, has triggered a significant realignment of relative prices across all sectors of the economy and has eliminated the bias against exports of Nigeria's tradeables, particularly, cash crops. Furthermore, the abolition of the Commodity Boards has boosted agricultural production and rendered same more lucrative.

Similarly, the deregulation of the financial market has equally triggered the efficiency of this sector. For example, the abolition of administrative allocation of foreign exchange, including an administered interest rate regime, have combined to enhance the efficient allocation of the sector's scarce resources. This is evidenced by the relative ease with which genuine investors now gain access to foreign exchange and investible loans than hitherto. It is also clear that some economic problems like unemployment, inflation and huge external debts have assumed more serious dimensions in recent times. It should be remembered that these were not directly caused by deregulation in itself, but by several unforseen developments in the economy.

To be sure, while these short-term developments are very laudable, it is however essental to remind ourselves that the conventional measure through which the health of any economy can be guaged is predicated on its ability to generate growth, sustain price stability, enhance employment, and ensure equitable distribution of income in the medium to long-term. It is against these criteria that the prospect of Nigeria's experiment with economic deregulation must inevitably be weighed in the medium to long-term. I believe that a sound foundation has been laid. A process of massive and fundamental restructuring and diversification from a predominantly mono-product economy as we are passing through must naturally and of necessity be slow in achieving results. Old industries that do not fit in because they are dependent on imported inputs must die bcause the foreign exchange to fund them is no longer available while they must be replaced by new ones that will be locally resource-based It takes time for these changes to take place. The pace can however be accelerated in an environment which is devoid of inhibiting bureaucracy and which gives sway to private initiative and creativity through unfettered and dynamic entrepreneurship.

Incidentally, it is crucial to mention that the effects which the recent spate in economic deregulations will have on the product, financial and labour markets in the long-term will depend on our attitude to change. However, some evidence from both developed and developing economies seem to indicate that the financial market possesses the greatest propensity to adjust much more quickly, than the product or labour markets. Indeed, developments in the economy's financial market have corroborated this finding. Despite the deregulated environment, the CBN continued to ensure that the banks manage their asset structure with adequate prudence and regard to the general welfare of the national economy because of the crucial role of a healthy financial system for the development of the economy.

It is however evident that under the new economic dispensation, it is likely that in the medium-to long-term, inefficient banks will either close down or restructure their operations to meet the needs of the present. At this juncture, I will like to mention that the recent move in establishing the Nigerian Deposit Insurance Corporation (NDIC) is very timely. But unlike the financial market, it is rather difficult to predict what changes will occur in the labour market as a result of the wave of deregulatory changes. Nevertheless, it appears certain that given the skill requirements associated with labour employment in the economy, improvements in the labour market will take place only gradually. Consequently, solving the unemployment problem will require more imaginative policy measures in the medium to long term.

Overall, while productivity may be constrained or even retarded in the short-term because of the slower adjustment mechanism associated with lags in agricultural production and manufacturing, it is envisaged that the prospect of the product market will definitely improve provided current policy reforms are sustained over a long period. We must therefore avoid the temptation of indulging in frequent policy changes as a solution to temporary adverse developments. It is heartening to observe the full commitment of the Federal Government to the recent policy actions and determination to find appropriate solutions to the current problems.

I thank you for your attention.

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