THE NIGERIAN EXPERIENCE OF STRUCTURAL ADJUSTMENT PROGRAMME — A CENTRAL BANK PERSPECTIVE*

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INTRODUCTION

Since the introduction of the Structural Adjustment Programme (SAP) in Nigeria in July 1986, a great deal of interest has been shown in the subject. Indeed, it is generally recognised that the SAP is by far the most comprehensive economic reform programme ever introduced in this country. The interest and concerns shown are, therefore, understandable. Even with the termination of SAP as a two-year programme on 30th June, 1988, the changes fostered by it will continue as a way of life and the subject will remain topical. Indeed, this will not be the last seminar on the SAP as there will be the need from time to time for a forum of this nature to articulate the issues involved and review progress.

It is in the expectation that this seminar will contribute to better understanding of the SAP and its impact on the Nigerian economy and thereby serve the cause of public enlightenment. We very much welcome the opportunity to participate in it.

There are many perspectives and many leading issues to the SAP. In presenting a Central Bank perspective on the SAP we would in this paper address such aspects as the pre-SAP situation, the policy framework of the SAP and thereafter review and appraise the programme. We would also outline some of the leading issues on the SAP and the problems and prospects of consolidating its gains.

2. **The Antecedents of the SAP**

The backdrop to our discussion here is, of course, the antecedents of the SAP. These are so well known and have been articulated at many seminars and conferences that a detailed presentation is not necessary here. By way of recapitulation, it should be stated that the oil-boom of the 1970s brought with it massive oil revenue which the country could not prudently manage. Flushed with more money than they could efficiently manage, successive Governments both at the Federal and State levels, embarked on huge and expensive projects, many of which were of doubtful utility and viability. Moreover, there was a proliferation of public and private sector firms largely dependent on imported inputs. Another feature of the oil-boom era was that it witnessed the emergence of widespread imbalances and distortions in the Nigerian economy. For instance, the country was transformed from one dependent on agriculture to one heavily dependent on oil, while fiscal and external deficits prevailed. Both the heavy dependence on oil and on import rendered the economy vulnerable to external shocks. It was, therefore, not surprising that with the collapse of world oil prices in mid-1981, an economic crisis emerged in Nigeria although its existence and magnitude were not acknowledged or fully appreciated at that time.

Another aspect of the pre-SAP era which is relevant to this discussion, is the policy environment. Although it is true that there were a number of good policies and measures in the pre-SAP era, it is equally true that there were a number of vital missing links and that the policy-mix was far from being optimal. Even worse was the divergence between policy and practice, between stated objectives and actual performance. The observed policy lapses may be summarised as follows:-

(i) the pursuit of unduly restrictive trade and exchange control policies and measures which, in retrospect, were counter-productive;

(ii) gross over-valuation of the naira exchange rate through deliberate administrative action; and

(iii) the lack of the political will to embark upon, and resolutely implement, warranted economic reform measures.

The combination of the above policy lapses resulted in gross mis-allocation of resources, stagnation of non-oil exports, increased reliance on imported items (including food), high incidence of capital flight (estimated at some $15 billion between 1981 and 1984) and other malpractices which not only undermined Government fiscal integrity and its management of the economy but also impoverished the country.

The policy response to the emergent economic crisis included the imposition of stringent and comprehensive trade and exchange controls under the Economic Stabilisation Measures of 1982 and intensification of those controls in 1984. These measures proved grossly inadequate in dealing with the intractable problems of the economy. On the contrary they tended to aggravate the problems.

After the proclamation of a state of economic emergency for a period of 15 months effective from October 1985, three policy options were considered by the Authorities namely:

(i) to maintain the status quo i.e., a continuation of the austerity measures but without structural adjustment;

(ii) to accept IMF structural adjustment facility including its conditionalities;

(iii) to reject the IMF loan but adopt a variant of the traditional (typical) structural adjustment package, designed and implemented by Nigerians.

After a great national debate, the IMF option was rejected. Nevertheless, the debate did establish that there was

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urgent need for fundamental policy reform aimed at restructuring the economy and averting economic collapse. If there was any doubt about the futility of half measures which had been pursued by previous Administrations, there could be no doubt that radical policy reforms could no longer be resisted by late 1985 and early 1986 when the country's international creditworthiness became so eroded that the inflow of essential inputs was seriously impeded as most overseas banks refused to extend further credit to Nigerian banks which had accumulated huge arrears on their confirmed letters of credit. This is the genesis of the SAP which, owing to failing human memory or for reasons of self interest, many critics have now conveniently forgotten.

3. The Policy Framework of the SAP

Objectives:

The key objectives of the SAP were:

(i) the achievement of fiscal and balance of payments viability over the short and medium terms;

(ii) laying the basis for sustainable non-inflationary or minimal inflationary growth; and

(iii) improving the efficiency of the public and private sectors.

Policy Strategy:

The broad strategy of the SAP as an operational concept had the following basic elements:

(i) the setting-up of a Second-Tier Foreign Exchange Market (SFEM) as a mechanism for achieving a realistic exchange rate for the naira and ensuring a more efficient allocation of scarce foreign exchange resources;

(ii) the adoption of tight fiscal and monetary policies;

(iii) dismantling of price, trade and centralised exchange controls i.e. trade and exchange liberalisation;

(iv) rationalisation of Customs Tariff and Excise Duty regimes;

(v) rationalisation and selective commercialisation/ privatisation of public enterprises; and

(vi) overhauling of the administrative structure.

Most of the above policy measures such as trade and exchange liberalisation, the SFEM, Customs Tariff and Excise Duty rationalisation, etc, have since been implemented while action has been initiated in respect of others such as commercialisation and privatisation of public enterprises.

4. The Nigerian Experience of the SAP (July 1986 to June 1988)

The SAP is by definition an economic reform programme. Consequently, this performance appraisal is intended to deal first of all with the impact of the SAP on the Nigerian economy and also with the wider issue of the performance of the economy during the review period.

The Impact of the SAP on the Nigerian Economy

Although the adoption of the SAP has come to be acknowledged by Nigerians as inevitable, its implementation and impact have continued to generate a great deal of controversy. This is understandable because the impact of the SAP has been mixed, the programme having had both positive and negative effects. Both these aspects will be examined in this paper.

1. THE ACHIEVEMENTS OF THE SAP

In dealing with the positive effects of the SAP, we would first of all outline qualitatively and quantitatively, the macro and micro-economic changes that have emerged since the adoption of SAP.

The qualitative changes that are discernible are:

(i) increased cost consciousness and more rational conduct on the part of economic agents;

(ii) enhanced efficiency in resource allocation;

(iii) drastic reduction in malpractices such as over-invoicing, diversion of import shipments, fraudulent diversion of official foreign exchange to the parallel market etc. Moreover, given the increased inflow of autonomous funds and the quantum of goods imported with off-shore funds, it may be asserted that there has been a reversal of capital flight. (Another way of viewing the present situation is that the country is getting better value in relative terms from its less than $6 billion annual official receipts now more than from its annual receipts of over $20 billion in the early 1980's);

(iv) easier access to foreign exchange and its fairer distribution to the productive sectors of the economy;

(v) enhanced export competitiveness;

(vi) increased local sourcing;

(vii) alteration of the internal terms of trade in favour of the rural sector where the vast majority of Nigerians live;

(viii) reversal of the perverse phenomenon of rural-urban drift;

(ix) fostering of a maintenance culture and the evolution of local/appropriate technology and adaptive research as well as productive recycling of used materials; and

(x) gradual restoration of international creditworthiness and confidence in Nigeria, (a positive development which has facilitated the debt rescheduling negotiations).

Sectoral Performance

(i) Agricultural Sector

Available statistics show that more hectares of land have been brought under cultivation in respect of various crops. For instance, in 1987, hectares brought under cocoa production increased by 31.5% while increases of 11.3%, 6.9% and 2.6% were recorded in respect of maize, cotton and rubber respectively. Moreover, corporate bodies have increased their investment in agricultural production not only to meet their raw material needs locally, but also to take advantage of higher sales prices for agricultural commodities.

With the alteration of relative prices arising from the significant depreciation of the naira, together with other export incentives, non-oil exports have recorded very encouraging results in terms of value, volume and product-mix. For instance, the total value of non-oil exports rose from ₦497.2 million in 1985 to ₦552.1 million and ₦1,500.9 million in 1986 and 1987 respectively. This performance has been sustained if not surpassed in 1988 with non-oil exports up to June amounting to ₦1,397.4 million, representing an increase of 11.2% over the level achieved in the corresponding period of 1987. And inspite of the declining world market prices for some of our non-oil exports, their local prices have risen significantly. This development has improved the incomes and living standards of farmers of cash crops. The more attractive domestic prices for agricultural products have led to increased production and induced higher export volumes and earnings. For example, in 1986, the total volume and value of agricultural (distinguished from total non-oil) exports were 307.0 thousand tons and ₦482.2 million respectively, indicating increases of 98.6% and 93.3% over their respective levels in 1985. The corresponding increases in 1987 over the 1986 levels were 40.4% and 209.4% respectively.

These developments in the agricultural and non-oil export sectors since the SAP are very encouraging and there are prospects for more significant achievements in the near future provided the present liberal policy thrust is maintained in order to sustain confidence and encourage producers to take a long, rather than short-term view in their agricultural investment decisions.

(ii) Industrial Sector

The industrial sector witnessed some far-reaching SAP-induced changes.

With the enhanced naira prices and incomes to miners arising from the significant depreciation of the naira with the advent of the SFEM in September, 1986, there has been a remarkable revival in the production of some solid minerals. For instance, the output of cassiterite, columbite and limestone increased by 261.5, 113.1 and 85.6% respectively in 1987 in contrast to declines of 87.0, 91.0 and 23.4% respectively in 1986. Moreover, increased investments are being made to raise the production of tin.

Another significant SAP-induced development in the industrial sector is increased local sourcing. In response to the sustained depreciation of the naira and the prohibition of the importation of some raw materials, such as wheat and rice, etc. local manufacturers have been compelled to look more inwards for the sourcing of their raw materials. Indeed, for many business firms, the choice presented to them was either to accept the logic of the SAP by looking more inwards for their raw materials or to fold up. Consequently, a number of industrial sub-sectors such as food and beverages; soap and detergent, tyres and tubes, beer and stout, textiles and wearing apparels; non-metallic mineral products; domestic and industrial plastics and rubber have achieved a large measure of local sourcing.

Industrial output, as measured by the index of industrial production (1972=100), increased by 0.1% in 1987 in contrast to a decline of 3.9% in 1986. In the first half of 1988, further progress has been made with industrial production recording an increase of 8.3% over the level achieved in the corresponding period of 1987.

With respect to industrial capacity utilisation, encouraging improvement has also been made. Average capacity utilisation increased from 36.4% in 1986 to 40.4% in 1987 and further to 40.7% in the first half of 1988. There were, however, marked sectoral variations. While domestic resource-based enterprises such as tyres and tubes, textiles, printing and publishing, paper manufacture, beer, soft drinks, non-metallic mineral products, etc. achieved high levels of capacity utilisation, those heavily dependent on imported inputs such as electrical and electronics group and basic metal, iron and steel, operated at rather low levels of their installed capacities.

(iii) The Financial Sector

Government revenue from crude petroleum has been boosted by the SAP-induced depreciation of the naira. This has made it possible for Government at both the Federal and State levels not only to pay accumulated arrears of salaries and wages of their employees but to remain current in respect of personal emoluments. Moreover, these Governments have been able to repay substantial amounts of outstanding debt owed to local contractors thereby enabling most of them to resume their businesses which had folded up as a result of the accumulation of debt by Government since the late 1970's. It is also relevant here to refer to the activities of the Directorate of Food, Roads and Rural Infrastructure (DFRRI). Since its establishment in 1986, DFRRI has invested over ₦1 billion naira in the provision of rural feeder roads, rural water supply, electrification and housing programmes nationwide. This concern for the welfare of our rural majority is unparalleled in the history of this country. The revamping and transformation of the rural sector and enhancement of the rural-urban terms of trade in favour of the rural sector would not have been possible without the SAP-induced boost in Government revenue from oil and in the incomes of farmers.

(iv) Monetary Policy Measures

The upward revision of deposit rates has stimulated savings mobilisation with total savings growing significantly by 31.3% to ₦15.09 billion as at the end of 1987 from a level of ₦11.49 billion in 1986. There has been a further increase of 19.3% in 1988 with savings reaching a high level of ₦18.01 billion as at the end of August.

Although the divergence between the average deposit rate and the average lending rate is wider than desirable, the impact of the prevailing interest rate regime since the introduction of the SAP has on balance been positive; it has encouraged competition among banks in canvassing for deposits, promoted savings mobilisation and more efficient use of loanable funds.

(v) **The External Sector**

As indicated earlier, the introduction of the SAP has brought about more efficient allocation of foreign exchange and enhanced the inflow of autonomous funds.

Arising from the improvement in the merchandise trade account and the reduction in the deficit in the services account, the current account swung from a deficit of $972 million in 1986 to a surplus of $505 million in 1987. The trade balance improved from a surplus of $2,710 million in 1986 to $3,732 million in 1987 while the overall balance of payments moved from a deficit of $560.0 million in 1986 to a surplus of $38.0 million in 1987. Although the pressure on the external sector persisted and even intensified in 1987 as shown by the widening of the financing gap from $4,009 million in 1986 to $4,764 million in 1987, what is of significance and more relevant in our present context is the trade balance which has recorded a significant improvement since the introduction of the SAP, with the depreciation of the naira achieving the dual objectives of, import compression, even in the face of trade liberalisation, and export expansion.

The various economic reform measures introduced under the SAP by enhancing international confidence have made it possible for Nigeria to make progress in the rescheduling of her external debt obligations. Indeed, remarkable success has been achieved with the recent agreement reached with the London Club of creditors on the rescheduling of a total of U.S. $5.9 billion involving medium and long-term debt, which were consolidated and rescheduled over a period of 20 years including a 3–year grace period, and trade arrears (letters of credit) payable over a period of 12 years.

In light of the size and terms of the rescheduling, that was a remarkable achievement. It should be noted here that debt rescheduling is intended to bring debt relief arising from payments being stretched out over a longer period, thereby reducing current debt service payments while permitting the country to devote a larger proportion of current receipts to meet the basic needs of the country. Moreover, over time, it is envisaged that the economy would grow and be in a better position to service external debt obligations in future.

II. ADVERSE REPERCUSSIONS OF THE SAP

On the negative side, the SAP has engendered the following repercussions:

(i) (S)FEM-induced inflation;

(ii) credit squeeze arising from the tight monetary policy pursued as a demand management strategy in support of the SFEM. This has meant especially in late 1986 and most of 1987, low aggregate demand and a constraint on the sustained increase in capacity utilisation in a number of sectors;

(iii) increased incidence of importation of finished goods, some of it of doubtful utility, arising from trade liberalisation and ineffective implementation of the tariff. It should, however, be noted that this problem has tended to be unduly exaggerated since, in reality, less than 25% of (S)FEM funds allocated for imports went to general merchandise (which includes some essential items such as spare parts, books, educational materials, drugs and pharmaceuticals etc) as against about 70% for the industrial sector;

(iv) the burden of settlement rate for pre-FEM transactions. However, Government has made significant concessions to importers by absorbing the bulk of the burden of exchange rate depreciation; and

(v) some business failures arising largely from undue import dependence, over-exposure and inefficiency of the firms concerned. Nevertheless, new businesses have emerged and some old ones have, through acquisitions, mergers and rationalisation moved to exploit new frontiers of opportunity offered by the advent of the new policy and business environments. This is part of the dynamic process called structural adjustment.

In concluding this review and performance appraisal, I wish to stress that on balance, the impact of the SAP has been quite positive having stabilised the Nigerian economy by halting the drift to economic collapse which was manifest on the eve of the introduction of the SAP.

5. Issues, Problems and Prospects of the SAP

As indicated earlier, there is a great deal of controversy over the implementation and impact of the SAP. This divergence of opinion and its vocal expression are understandable in a free society such as ours and given the far-reaching nature of the recent economic reform measures and the often conflicting interests of various groups in society. In the foregoing appraisal, effort was made to present the situation objectively and in a balanced manner.

Beyond that assessment, there are a number of leading issues in the SAP, an exploration of which I hope would serve to clarify matters further and moderate, if not finally resolve, the controversies. Consequently, I shall now briefly discuss some leading issues in, and problems and prospects of, the SAP.

I. LEADING ISSUES

(i) **Funding of the FEM**

It is recognised that adequate funding of the FEM is desirable and crucial for the success of the SAP. This is why Government has consistently given top priority to the funding of the (S)FEM since its inception and even maintained official funding of the market at levels that may reasonably be considered as unsustainable, given the quantum of official foreign exchange receipts in recent times. It is, therefore, a matter for regret that otherwise well-informed commentators including bankers who should know better, continue to urge that the level of official funding be significantly increased.

It should be stressed that there are many competing needs for foreign exchange not the least of which is the need to maintain reserve adequacy in order to sustain both domestic and international confidence in our currency. In the face of the severe compression of official foreign exchange receipts and the generous concessions granted to exporters of non-oil products and other foreign exchange earners since September 1986, it is legitimate to expect that the private sector which is the main beneficiary of these concessions, should contribute more meaningfully to the funding of the FEM. To this end, the Central Bank, in collaboration with other Government agencies, is intensifying the monitoring of non-oil exports to ensure that the proceeds are repatriated in an approved manner and put to use for the benefit of the economy. Ultimately, in the medium to long term, the FEM should be self-supporting, with the monetary authorities only intervening to ensure stability in the market.

(ii) Exchange Rate Developments

Exchange rate developments in the FEM have aroused so much controversy. Given the critical role of the exchange rate not only in household and business decision-making but also as an instrument of macro-economic management, exchange rate developments since the introduction of the SFEM have attracted a great deal of interest and some measure of concern. The main areas of concern are the massive depreciation of the naira, exchange rate instability and, in recent months, the huge divergence between the rates emerging from the official bidding sessions and the rates in the autonomous segment of the market. In order to put the exchange rate question in its proper perspective, I would state the following points:

(a) The exchange rate is a price, which, in a free-market environment, is the outcome of the interplay of the forces of supply and demand as mediated by the numerous participants in the market. The massive depreciation of the naira exchange rate with the advent of the SFEM has arisen largely from the substantial shortfall in the supply of foreign exchange relative to demand. The fact that speculative pressures have also been at work does not invalidate the fundamental issue of supply and demand; indeed, speculative pressures may well be manifestations of uneasiness about an underlying supply inadequacy or the unsustainability of the level of official funding.

(b) In spite of its limitations and imperfections, the (S)FEM has achieved a more realistic exchange rate regime in Nigeria than during the pre-SFEM era. If there was a choice between overvaluation and undervaluation of the naira, the preference, which may not be popular with the users of foreign exchange, should be for an undervalued one. In this connection, it should be noted that the deliberate undervaluation of the Japanese Yen and the South Korean Won for sustained periods was a critical factor in the economic miracles achieved by these two economic giants. On the other hand, the deliberate overvaluation of the currencies of most developing countries over long periods was largely responsible for the economic predicaments of those countries. Consequently, if they are to stabilise their economies and achieve economic viability and self-reliance in the medium and long-terms, they must adjust their exchange rates realistically.

(c) The current concern about the huge gap between the official tender rate and the effective autonomous funds rate is not misplaced. This is because such a wide divergence is capable of creating distortions and fostering malpractices. We cannot now go into the sources of the divergence. What should be noted is that the substantial narrowing of the gap is a major policy goal and that concerted efforts are being made to foster the convergence process.

(d) Let me now make a final point on the exchange rate question. In keeping with prevailing policy, the naira exchange rate will continue to be largely determined by market forces. However, the exchange rate in an economy such as ours, cannot be a matter of benign neglect to be left entirely to market forces. Consequently, it is expected that the Central Bank will intervene in the FEM from time to time when such intervention (I do not say interference) is deemed necessary to give support and direction to the market and ensure its orderliness.

(iii) External Balance vis-a-vis Internal Balance

Some critics allege that policy instruments under the SAP have tended to focus on external balance at the expense of internal balance. Such critics go on to propose that the external sector should be marginalised.

Perhaps, I should explain that policies such as exchange rate re-alignment, commercialisation and privatisation, trade and exchange liberalisation etc., to the extent that they affect relative prices in the domestic economy, efficiency in resource allocation and the internal terms of trade, are indeed aimed at securing internal balance.

Moreover, the call for the marginalisation of the external sector although possibly well-intentioned and patriotic is not well-informed. This is because policies of autarky and protectionism are now not only unfashionable but also potentially injurious to those countries which might wish to indulge in them because of the risk of retaliation by other countries and adverse welfare implications. Again, in an increasingly and irreversibly interdependent world, no country can go it alone, producing all its need and consuming all it produces. What we need is self reliance, a major goal of SAP, and not just marginalising the external sector. We cannot contract out of the international economy of which we are a part. It is more meaningful to enlarge our share of the international market and diversify our economic base to make the country less vulnerable to external shocks.

(iv) The Performance of the Banking Industry Under SAP

With the advent of the SAP, the operational environment of banks has been significantly transformed. This transformation has brought about far-reaching changes in the character, style, operation, risks, strategy and fortunes of banks. Some of the major discernible changes may be outlined as follows:

(a) There has been increased competition among banks. Following the measures taken on the introduction of the SAP to mop up excess liquidity in the banking system through the call-in of customer deposits with banks awaiting foreign exchange cover and the subsequent deregulation of interest rates, there has been an aggressive drive by banks to attract time-deposits through offering competitive and attractive interest rates to depositors.

(b) There are indications that the cost of bank funds, cost of lending and overheads etc. have gone up since the SAP. The extent to which margins could be maintained is severely constrained by the level of loan demand and borrowing rates. In some cases, high interest rates charged for loans might mean poor loan quality and ultimately increased provisions for bad and doubtful debts, "non-performing assets" and write-offs. Although many banks have had profitable operations under the SAP, a substantial part of which has been generated from their foreign exchange transactions, the returns to banks relative to their capital base and funds employed are not out of tune with the earnings of comparable firms in the manufacturing and commercial sectors of the economy. Moreover, with the escalation in personnel costs and increased competition arising from the rapid growth in the number of banking firms, it is unlikely that the present level of profitability in the industry will be sustained in the medium and long-terms.

(c) Given the increasing competition and the erosion of bank margins, far-reaching rationalisation is taking place in the industry. These rationalisation efforts include: restructuring and realignment of offices and departments, computerisation, redeployment of staff, strategic planning etc.

It is recognised that banks have a crucial role to play in the implementation of various aspects of the SAP especially with respect to (S)FEM operations and mobilisation and allocation of scarce resources. Their performance has increasingly been subjected to scrutiny by the regulatory authorities and concern has been expressed by members of the public about their role. There are indications that so far the banking industry as a group has been generally responsive to the needs of the economy by channelling resources to the productive sectors and observing legality. If that was not the case, there would not have been any semblance of order in the financial system nor indeed the whole economy. However, there have been areas of slippage in the performance of banks and there exists enormous scope for improvement. Banks should, therefore, in their own interest ensure that their customers' needs are well served at all times and that they adhere strictly to the letter and spirit of the regulations governing their operations.

(v) Other Leading Issues

There are some other leading issues such as the deregulation of interest rates, commercialisation/privatisation of public sector enterprises, phasing out of subsidies, the debt conversion programme, the burden of settlement rate for pre-SFEM transactions etc. Given the time constraint, I cannot explore these issues some of which are rather complex. However, it is pertinent to state that given the circumstances of the country, no rational or responsible Government could be indifferent to these issues some of which have to do with questions of fiscal viability and efficiency. The price of benign neglect is high in both political and socio-economic terms and it is laudable that this Administration has courageously addressed these issues and taken warranted action in the best interest of the country.

II. Current and Anticipated Problems

In spite of the significant achievements of the SAP as discussed above, the Nigerian economy is confronted by a number of problems which are bound to have serious implications for sustained growth and development. Consequently, even as we seek to consolidate the gains of the SAP, close attention will have to be paid to these problems with a view to ameliorating them and thereby removing the clog to sustained growth and development. These problems which affect various sectors of the economy can only be outlined here as follows:

(i) slow growth in output and underutilisation of installed capacity;

(ii) undue monetary expansion and inflationary pressures;

(iii) unemployment – in spite of the commendable efforts of the National Directorate of Employment in job creation activities, the unemployment situation appears to be deteriorating because the already saturated labour market continues to be flooded by a large number of primary, post-primary and post-secondary graduates as well as some retrenched workers.

(iv) balance of payment pressures arising from the severe compression in foreign exchange receipts from earnings and external loan draw-downs in the face of high demand. In this connection, the instability and deterioration in the world oil and other commodity markets is a matter of serious concern, underscoring the continued vulnerability of the country to external shocks.

(v) exchange rate developments and the wide divergence in the rates for official auction funds and those of autonomous funds, which is capable of introducing distortions and malpractices into the FEM.

It should be stressed that while a number of the problems listed above have been long with us some others emerged in the course of executing the SAP.

III. Prospects

The prospects for the economy in achieving recovery and growth will depend not only on the resoluteness with which the policies initiated under the aegis of the SAP are pursued but also on the responsiveness of Nigerians in accepting the challenges and exploiting the opportunities which the new policy and business environments offer. Some elaboration here would be in order as it would serve to clarify the position and give a more credible prognosis. First, the success of our external debt rescheduling efforts, which is contingent on our resolutely pursuing rational economic reform, would reduce the rate of foreign exchange disbursement and improve the external reserve position of the country as well as release more foreign exchange for current productive activities. Moreover, the Debt Conversion Programme (DCP) recently approved by Government, if effectively implemented, should help to reduce the external debt burden of the country and to stimulate both capital formation and foreign investment.

Second, substantial potential for diversification exists both in the oil industry and non-oil exports. In this connection, the shortfall in crude oil receipts is likely to be more than compensated for, by export receipts from liquefied natural gas and petrochemical down-stream operations which are expected to be fully operational by the mid-1990's. Moreover, the innovative oil marketing strategy including off-shore operations, recently adopted by NNPC should yield positive results by enhancing receipts from the oil industry. With respect to non-oil exports, diversification into other products including processing with increased local value added, is a viable alternative.

Third, it would be naive to think that even in the pursuit of national economic self-sufficiency and reliance, we could deal without the outside world. We need to exploit the opportunities for trade to enhance our foreign exchange resources. Moreover, in view of the prevailing large unused industrial capacity, unemployment and resource gap problems, the country needs the inflow of additional external resources in the form of Official Development Assistance (ODA), project-tied multi-lateral and bilateral loans as well as direct capital investment of the right quantum and terms to accelerate the economic recovery process and mitigate the painful side-effects of structural adjustment in the short-term and initiate a more confident resumption of growth in real GDP, in the medium and long-terms. The policy and business environments are now more conducive to external inflows. Government has also taken further initiatives such as the establishment of the Industrial Development Co-ordinating Committee (IDCC) by Decree 36 of 1988 and Nigeria's membership of the Multilateral Investment Guarantee Agency (MIGA) both of which are intended to enhance the climate for foreign investment.

Fourth, it is expected that the 1989 Budget would deal with the observed areas of leakage and imperfection in the achievement of policy objectives.

Finally, the imperative of structural adjustment, namely self-reliance, is being gradually integrated into our society as a way of life. With all these and inspite of the problems besetting the country, there is reason to believe that the prospects for the future are good.

6. Summary and Conclusions

In this lecture, I have considered the Nigerian economy in retrospect, its current problems, and its prospects. It is the story of our country which, for a period of over two decades, had pursued policies of stringent trade and exchange controls and for over one decade maintained an overvalued currency through deliberate administrative action. It continued to resist and to defer rational economic reform until it was on the edge of a precipice.

The far-reaching economic reform measures introduced under the auspices of the SAP (July 1986 to June 1988) have generally been acknowledged as comprehensive, bold and viable. I have outlined the policy framework of the reform programme which has, as its major objectives, the enhancement of economic efficiency and self reliance, structural transformation, restoration of confidence and the establishment of a stable liberal macro-economic environment with greater reliance on market forces. The various policies under the SAP have the potential not only for stabilising the economy in the short-term, which has in fact been accomplished, but also for initiating recovery and growth in the medium- and long-term. I have also made a provisional assessment of the SAP in Nigeria. Although its initial impact has been mixed and there were some unavoidable adverse repercussions, on the whole the SAP has been significantly positive in terms of promoting more efficient allocation of resources and enhancing the investment climate. In particular, trade and exchange liberalisation, the reduction of wasteful and time-consuming bureaucratic processes, the accent on financial discipline, encouragement of commercialisation and privatisation of public sector enterprises and the fostering of fairer competition among economic agents all of which have happened under the SAP have introduced a large measure of realism and order in macro-economic management, and enhanced business confidence and performance. I have also considered the current and anticipated problems and the prospects of the economy. The kernel of my presentation here is that, assuming the resolute pursuit of economic reform beyond June 1988 and well into the 1990's, the prognosis is that although Nigeria will continue to contend with some serious problems such as inadequate domestic and foreign exchange resources, pressure on the balance of payments, inflation, unemployment etc., it will have a fitter and more buoyant economy in the 1990's. By then, her economy would have been adequately restructured to secure durable external and internal balance and her sources of foreign exchange sufficiently diversified to insulate the country from adverse developments in the international economy.

Distinguished Ladies and Gentlemen, in concluding this lecture, I should like to invite special attention to the following points:

First, the far-reaching economic reform measures introduced under the SAP are being pursued at a time when the country's economic problems have converged and become overwhelming, while the resources available for stabilisation and initiating recovery and growth have become severely compressed. In particular, the international economic environment has become increasingly unfavourable, if not hostile, while official foreign exchange receipts have declined to about one quarter of what the country was receiving about eight years ago. For instance, the country's average selling price for crude oil declined from a peak of about \$40.00 per barrel in 1980 to less than \$15.00 in 1986 and about \$18.00 in 1987 while daily oil sales declined from over 2 million barrels per day to about 1.3 million barrels per day during this period. Moreover, the country's official foreign exchange receipts plunged from a peak of about \$26 billion in 1980 to about \$12 billion in each of 1982 and 1985 and further to \$7 billion in 1986 and less than $6 billion in 1987. The prospects for 1988 are even worse. Such a drastic reduction in a critical resource such as foreign exchange cannot but be destabilising. It also explains the progressive depreciation of the naira in the FEM.

Second, although the achievements made in executing the SAP have manifested less visibly than the adverse side-effects, the impact of the SAP has on balance been quite qualitative and positive. The overall performance of the economy in 1987 (the first full year of the SAP) showed some improvement over the preceding year judging by the various macro-economic indicators I have given earlier in this lecture. Consequently, although it could be said that the country continued to be confronted by serious economic problems, the economy moved in the direction in 1987 and the improvements made far outweighed the adverse trends. Further improvements have been made in the first half of 1988. It should be stressed that the situation in the country would have been much worse if the economic reform programme had not been in place. For one thing, if the country had continued to pursue policies of stringent trade and exchange controls together with the overvalued exchange rate regime, the bulk of the $6 billion current official receipts would have ended up in the parallel market through fraudulent diversion; industrial capacity utilisation would have been much lower and acute supply shortages would have ensued. Moreover, non-oil exports would have stagnated further, Government naira revenue from oil would have been about a quarter of the present levels and Government fiscal integrity would have been seriously impaired. International confidence in the Nigerian economy would have been seriously eroded thereby impeding the inflow of essential imports. The logical conclusion of this scenario of what would have happened if the country had failed to adopt the economic reform measures is economic collapse. It is, therefore, a matter for regret that many people who apprraise the impact of the (S)FEM have tended to focus only on the negative side-effects without acknowledging its overall positive impact. The tendency by some self-styled experts to blame (S)FEM or SAP for all our problems is both naive and unfair; such pre-occupation cannot serve the cause of national economic recovery and the resumption of growth.

Third, the SAP should be seen as a way of life. "The reforms are permanent changes." In our circumstances, it represents the triumph of rationality, an effective response to chronic imbalances and disequilibria in the economy.

Fourth, the country now faces hard options and trade-offs because there is no easy way out of our problems. Nevertheless, the SAP, viewed more meaningfully as a way of life and a scheme for rational economic management and good order rather than a two-year programme (July 1986 to June 1988), is the best option open to the country. It has reversed the drift of the country to collapse and the economy is now in the transition stage between recovery and growth. However, the transition has been prolonged and rendered rather painful because of the neglect of the past and the deep-seated nature of our economic problems as well as the drastic compression of the resources needed to execute this ambitious and courageous reform programme. What is called for now is not an abandonment of the path of rational economic reform but its resolute pursuit. Nevertheless, the implementation of the various components of the SAP will be reviewed and modified from time to time to consolidate the gains of the programme and minimise its adverse side effects.

Fifth, executing a comprehensive and ambitious economic reform programme such as the SAP has been a unique learning process for the country with important lessons never to be forgotten. It would have been stimulating pursuing this theme but I must resist that temptation because of time constraint. In passing, however, let me state that SAP has confirmed the twin problem of predictability and control of human behaviour which confronts social scientists, businessmen and policy makers; it has engendered pragmatism as a viable way of coping with trade-offs and dilemmas which emerge in the execution of an economic reform programme. This is the basic instinct for balance, for a middle way, for survival. Again, there is the vital lesson that our economic redemption lies in our own hands; although foreign assistance and capital are necessary, they should be seen more as a supplement to, and not a substitute for, our own indigenous efforts. There is also the prevalence of policy – impact lags – i.e. policy measures take time to achieve the desired objectives. In this connection while it has been the lot of this Administration to muster the political will to embark on these far-reaching economic reform measures, the main beneficiaries will be the next civilian regime which will inherit a more durable, diversified, self-reliant and buoyant economy.

A final point!

Nigerians must work hard and productively, honestly and patiently to restore the economy on the path of growth along the lines mapped out by the SAP. The road to national self-sufficiency is long, rough and arduous and sacrifices are unavoidable. In any case, the ruin of the economy which took over 20 years to executive cannot be remedied in only 2 years no matter how efficacious the present therapy. This is the logical imperative of the SAP, a challenge which we as Nigerians could fail to accept only to our detriment. All hands must, therefore, be on deck to put the economy on an even keel and launch it on the longed-for path of growth. Indeed, as a country and a people, we have no other rational choice.

Thank you for your kind attention.

Table 1

COMMERCIAL BANKS SAVINGS & TIME DEPOSITS
(₦ Million)

	Dec. 1985 (1)	Dec. 1986 (2)	Dec. 1987 (3)	August 1988 (4)	Growth Between					
					(1) & (2)		(2) & (3)		(3) & (4)	
					Ab	%	Ab	%	Ab	%
Time	6,850.8	7,217.6	9,882.0	11,619.1	+366.8	+5.3	+2,664.4	+36.9	+1,737.1	+17.6
Savings	3,700.0	4,270.1	5,206.7	6,389.5	+570.1	+15.4	+936.4	+21.9	+1,182.8	+22.7
Total	10,550.8	11,487.7	15,088.7	18,008.6	+936.9	+8.9	+3,601.0	+31.3	+2,919.9	+19.3

Table 2

SECTORAL ALLOCATION OF FOREIGN EXCHANGE THROUGH SFEM 1987 – 1988

Sectors	Jan – June 1987	% Of Total	July – Dec. 1987	% Of Total	Jan – June 1988	% Of Total
VISIBLE IMPORTS ($ million)	1,810.8	92.4	635.3	79.7	1,300.4	91.2
1. Industrial Sector	1,295.7	66.1	368.2	46.2	909.7	63.8
(i) Raw Materials	737.6	37.6	154.7	19.4	509.1	35.7
(ii) Machinery Spare Parts & CKD	558.1	28.5	213.5	26.8	400.6	28.1
2. Agricultural Sector	8.9	0.5	3.7	0.5	8.2	0.6
3. Finished Goods	506.2	25.8	263.4	33.1	382.5	26.8
(i) Food	140.9	7.2	118.1	14.8	78.9	5.5
(ii) General Merchandise	354.5	18.1	140.5	17.6	298.8	21.0
(iii) Capital Goods – Aircraft Shipping	10.8	0.6	4.9	0.6	4.8	0.3
INVISIBLE IMPORTS ($ millions)	149.9	7.6	161.4	20.3	125.3	8.8
(i) Education	6.1	0.3	12.4	1.6	5.7	0.4
(ii) Personal Home Remittances	13.9	0.7	13.9	1.7	11.0	0.8
(iii) Airline Remittance	42.4	2.2	38.7	4.9	17.5	1.2
(iv) Travel	11.1	0.6	8.4	1.1	12.6	0.9
(v) Re-Insurance	2.1	0.1	2.3	0.3	4.7	0.3
(vi) Contract	5.3	0.3	6.6	0.8	11.9	0.8
(vii) Aircraft Lease Maintenance Fees	1.5	0.1	6.9	0.9	7.7	0.5
(viii) Shipping Vessels Charter & Maintenance	5.7	0.3	5.1	0.6	5.4	0.4
(ix) Investment Income Profit & Dividends	17.8	0.9	16.1	2.0	8.4	0.6
(x) Others	44.0	2.2	51.0	6.4	40.4	2.8
TOTAL (A & B)	1,960.7	100.0	796.7	100.0	1,425.7	100.0