A CASE STUDY OF STABILIZATION MEASURES IN NIGERIA

By

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INTRODUCTION

Implicit in a stabilization programme is the notion that an economy which had in the immediate past experienced economic prosperity has fallen captive – hopefully temporary – to a catalogue of economic ills culminating in a recession. The Nigerian economy was relatively buoyant in the decade of the seventies. In January 1970, the civil war was over thus petroleum production and export soon reached the pre-war levels providing the much needed foreign exchange for reconstruction and development. The revenue situation of the country further improved following the phenomenal increases in the price of crude oil. However, by the turn of the decade, glut in the international oil market and recession in the major oil importing countries of Europe and North America combined to terminate the economic prosperity of the seventies and to impose the most severe economic hardship in recent memory.

The unfavourable developments in the Nigerian economy are better appreciated by taking a critical look at the major macroeconomic aggregates.

As shown in table I petroleum export is responsible for over 90% of total export earnings. Therefore, any fluctuation in petroleum exports send ripple effects throughout the economy. Hence the sharp drop in

Table I: Nigeria: Output and Export of Petroleum 1979–1982

	1979	1980	1981	1982
Index of output (1972 = 100)	126.6	113.1	79.0	70.8
Export (in ₦ billions)	10.2	13.6	10.7	8.6
Export of Petroleum as % of total Export Earnings	93.8	96.1	98.2	98.8

Source: *Federal Office of Statistics (FOS), Lagos.*

petroleum had far reaching implications for the Nigerian economy. First, total revenue collected by the Federal Government dropped from a high of ₦ 15.2 billion in 1980 to ₦ 10.6 billion in 1982 consequent to which Federal Government overall deficit rose from ₦ 2.0 billion in 1980 to ₦ 6.2 billion in 1982. Appreciable increases were also recorded in both internal and external loans.

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Table 2: Nigeria: Federal Government Finance 1979–1982 (in ₦ billions)

	1979	1980	1981	1982
Total Revenue Collected	10.9	15.2	12.2	10.6
Total Revenue Retained	8.9	12.1	7.5	6.2
Total Expenditure	7.4	14.1	11.4	12.4
Overall Surplus/Deficit	1.5	– 2.0	– 4.0	– 6.2
Internal loans	0.4	0.6	3.5	3.6
External loans (Net)	0.36	0.26	0.46	0.20

Source: *Central Bank of Nigeria (CBN)*

The effect of the sharp drop in the production and export of crude oil is very clearly reflected in the balance of payments position. Current account balances for both 1981 and 1982 were in deficit and despite favourable balances in the capital accounts for both years the country was in overall balance of payments deficit of ₦ 3.04 billion and ₦ 1.4 billion in 1981 and 1982 respectively. Also external assets declined by 54.2 % and 58.3 % in 1981 and 1982 respectively.

Table 3: Balance of Payments and External Assets (in ₦ billions)

	1979	1980	1981	1982
Current Account Balance	1.01	1.59	– 3.42	– 2.50
Balance on Current and Capital Accounts	1.82	2.37	– 2.94	– 1.38
Reserve Movement	–1.87	– 2.40	+ 3.04	+ 1.40
External Assets	3.25	5.66	2.59	1.08
Percentage Change in External Assets	134.3	73.8	–54.2	–58.3

Source: *CBN*

Since foreign exchange earning has an expansionary influence on the money supply the latter which had risen by 50.1 % in 1980 rose only marginally in 1981 (5.6 %) and 1982 (3.1 %) with positive influence on the rate of inflation. Though production figures especially in agriculture and manufacturing do not seem to reflect the general downturn in the economy the percentage change in registered unemployment which had shown a 7.1 per cent point decline in 1981 rose sharply by 42.3 per cent point in 1982. Similarly the percentage change in vacancies for the lower grade workers which was 66.5 per cent in 1981 registered an 18.2 per cent point decline in 1982.

However, the gravity of the recession cannot be attributed solely to the sharp drop in petroleum export. There are very strong indications that the economy was poorly managed. For example, warnings in the first quarter of 1981 about deterioration in the export sector and about the need to introduce control/stabilization measures early enough to arrest or

Table 4: Nigeria: Output in Agriculture, Manufacturing and Unemployment Related Statistics 1979–1982

	1979	1980	1981	1982
Index of Agricultural Production (1975= 100)		89.4	92.4	94.7
Index of Manufacturing Production (1972 = 100)	327.5	344.7	364.2	N.A.
Percentage Change in Registered Unemployment	N.A.	N.A.	– 7.1	42.3
Percentage Change in Vacancies for Lower Grade Workers	N.A.	N.A.	66.5	– 18.2

Source: *FOS and CBN*

temper the momentum were politicised; in consequence no corrective measures were taken until April 1982, when the country was already on the brink of bankruptcy and when foreign exchange reserves were barely sufficient to pay a month's import bill. Also not enough care had been taken to monitor and regulate foreign loans especially those contracted by the State Governments and other public institutions. Though statistics on Nigeria's foreign debt are inadequate it has been estimated that the total external debt is between US $ 22 – US $ 25 billion of which US $ 5 – US $ 8 billion is in short-term arrears. The debt service has run into colossal amounts; monthly interest payments and repayment of principal in 1983 have been estimated at US $ 125 million and US $ 150 million respectively.

The high cost of democratic institutions and the heavy burden which this cost imposes on socio-economic structures is also thought to have aggravated the adverse developments in the Nigerian economy. In 1983 alone total allocation to political institutions at the federal level was over ₦ 1 billion.

Table 5: Nigeria: Cost of Democratic Institutions at the Federal Level 1983 and 1984 (in ₦ millions)

	1983	1984 (proposal)
National Assembly	124.6	63.3
Office of the President	382.3	230.4
Federal Electoral Commission	576.3	51.1
Total	1,083.2	344.8

THE STABILIZATION POLICIES OF 1982

In response to the rapidly deteriorating economic situation the National Assembly on April 21, 1982, passed the Economic Stabilization (Temporary Provisions) Act designed to stem the deterioration in the balance of payments and to revamp the economy. The provisions of the Act include the following:

Exchange Control Measures:

(a) Reduction in basic travel allowance from ₦800 to ₦500 and applicable only to persons 16 years and over;

(b) Basic travel allowance for pilgrims was retained at ₦800 subject to the limitations above as well as to a 50,000 limit on the number of pilgrims;

(c) Business travel allowance was reduced from ₦3,000 to 2,500 per annum for registered companies;

(d) Pre-shipment inspection was extended to spare parts, raw materials, books, frozen and canned fish;

Fiscal Policy Measures:

(e) The list of commodities whose importation is banned is extended to include a number of other commodities while 29 other commodities were removed from the open general licence and placed under specific import licence;

(f) Tariff changes, largely increases, affecting 49 items were made;

(g) New rates of excise duty ranging from 5 – 45 per cent were introduced;

Monetary Policy Measures:

(h) Compulsory deposits were imposed on imports as follow:

Items	Deposit as percentage of value of import
Raw materials	25 (reduced to 10 in October)
Spare parts	25 (reduced to 15 in October)
Food (Except rice, Medicament, Building materials, Capital goods	50
Motor Vehicles and trucks	200
Motor Cars	250
Other goods	250

(i) Interest rates were revised upwards across the board by two percentage points though they were again revised downwards in November by one percentage point.

As part of the Stabilization package the Nigerian Government initiated discussions with the International Monetary Fund (IMF) for a loan of US $ 2 billion. . The recourse to the IMF will be discussed more fully in the next section. The 1982 Stabilization Measures, draconian as they were, made very marginal contribution to the re-adjustments which were intended. Though the deficit in the balance of payments declined by over 50%, and the rate of inflation dropped from 20.8 per cent in 1981 to 7.7 per cent in 1982 the index of agricultural production improved only marginally. Besides the structural dislocation was horrendous. In 1983 raw materials and spare parts shortages were rampant and manufacturing industries responded by closing down or laying off workers; wages in some public and quasi-public institutions were in arrears for months and there was an ever growing danger that Nigeria might default in the servicing of its external debt. The 1982 Stabilization Measures did not stem the tide of economic recession in the Nigerian economy thus there were clear indications that more austerity measures were in the offing. However, political expediency dictated that additional austerity measures should not be introduced in an election year, hence more Stabilization Measures were delayed till after the 1983 elections. Measures which were announced in the budget speech of December 29, 1983, were still-born because of the successful military *coup d'état* of December 31.

RECOURSE TO THE IMF

It has already been noted that as part of the 1982 Stabilization package Nigeria intended to borrow US $ 2 billion from the IMF. The loan was to serve at least three purposes. First, if obtained, it would convince suppliers that Nigeria is implementing creditable economic policies which would ensure economic recovery and enhance Nigeria's ability to service its loan. This conviction would then encourage suppliers to whom between US $ 5–8 billion in short-term loans were owed to reschedule the loans. Second, the loan would for the same reason stated above facilitate the raising of more medium and long-term loans from private banks for financing other aspects of the structural adjustment programmes. Third, the IMF loan itself would be used to finance current imports. In view of the above the criticism that the IMF loan is too small to make any significant contribution to the structural adjustment takes a very narrow view of the objectives of the negotiations with the IMF.

The problem with the IMF loan is not so much with its impact *per se*, on the Nigerian economy but more importantly with the conditions which it imposes on the borrower and the far-reaching implications of these conditions for the economic, social and political process. The IMF conditions for granting a US $ 2 billion loan to Nigeria are:

a) Cessation of non-statutory transfer to State Governments;
b) Wage and employment freeze;
c) Classification of parastatals into economic and social heads with a view to privatising them;
d) Review of interest rates on loans;
e) Trade liberalization;
f) Withdrawal of subsidies on social services;
g) Adjustment of Naira exchange rate;
h) Reduction or elimination of subsidies for consumer goods especially petroleum and petroleum products;
i) Review and curtailment of public expenditure.

There is no doubt that the IMF conditions form a strong basis for an effective recovery programme. It is no surprise therefore that in the period over which the negotiations have lasted a number of the IMF conditions have been implemented. State Governments have been directed to intensify efforts aimed at generating more revenue internally, employment in the public sector has been reduced, interest rates have been revised upwards – twice; social services such as education and health are no longer free, and public expenditure has been substantially reduced. However, there are three conditions over which there continues to be disagreement between the IMF and the Nigerian Government. These are devaluation, trade liberalization, and reduction of subsidy for consumer items especially petrol and petroleum products. An assessment of the IMF conditions must therefore focus on these three.

Devaluation is expected to ease the burden of adjustment by minimizing maladjustments resulting from price distortions; it is presumed to boost exports, reduce imports and to reduce the income disparities between the urban and rural populations among others. In the Nigerian case, however, these hopes may be misplaced. First, the prices of Nigeria's most important export commodities among them petroleum and cocoa, are denominated in foreign currency therefore the volume of export of these commodities should not be affected by the price effect of devaluation. Second, imports in the Nigerian case are not likely to be significantly affected by devaluation largely because of the low price elasticities of demand which are reflective of the rigidities created by the heavy import dependence of economic activities. Third, the extent to which devaluation reduces the income disparities between the urban and rural populations depends critically on the extent to which devaluation boosts exports, government pricing policy on agricultural export commodities and the elasticity of supply. It has already been argued that for those commodities whose export prices have already been denominated in foreign currency no increases in export volume could be expected. Even for those agricultural commodities whose prices are not denominated in foreign currency increases in their export volume depend on elasticity conditions which are known to be unfavourable and on the extent to which other producers counter the price competitiveness of the Nigerian products.

It should be noted that devaluation has other shortcomings. It increases the external debt burden of government, as well as of private institutions and individuals, by requiring greater amounts of local resources for the servicing of foreign loans. Thus a greater burden is placed on monetary and fiscal policy because of the need to increase revenue collected locally at a time of faltering economic performance, and the need that government be more austere. Also devaluation will exacerbate the inflationary spiral not only through the direct impact of increases in the prices of imports but also through its impact on money supply. The total picture emerging from this analysis is that devaluation may be catastrophic for the social and economic structures which are already straining from the draconian austerity measures which are in force.

However, the disadvantages of maintaining an over-valued currency over a long period of time call for a review of the foreign exchange policy in Nigeria. The time may be ripe for the introduction of a multiple exchange rate system designed not only to minimize the disadvantages of an over-valued currency but also to facilitate if well managed, the return to a single exchange rate system which equates both the official and the free market rates.

The insistance of the IMF on trade liberalization involving the 'free' repatriation of profits in a situation of chronic balance of payments deficit and debilitating structural dislocation is very disturbing. As already pointed out above, a number of rigidities inhibit the operation of the price system for resource allocation. Thus under this condition quantitative and payment restrictions as a way of reducing imports are imperative.

Many Nigerian economists view with sympathy the condition that subsidy especially for petrol and petroleum products be reduced or eliminated. This subsidy was based on the principle of even-development but it has been a major source of illegal frontier trade in petroleum and petroleum products constituting a major source of foreign exchange for dealers. Recent findings indicate that domestic consumption of petroleum is far less than had previously been recorded while savings is estimated to yield a net foreign exchange earning of US $ 1 billion annually.

The disenchantment with the IMF further stems from the fact that most developing nations now perceive it as a tool for propagating Western civilization by defining the welfare functions of weak nations using the values in Washington; an institution seemingly owned by all of its membership but surreptitiously used by a few to foster a particular ideological cause. The international monetary institution is also perceived as being more concerned about preventing the collapse of Western banking institutions than it is in assisting poor nations with their adjustment problems. The reputation of the IMF is nowhere enhanced by the record of performance of those developing countries which have adhered to its economic package. Nor is the reputation enhanced by its insensitivity to the social and political climate in these weak nations. The announcement effects and the implementation of IMF conditions lead to social up-rising because in most cases they had tantamounted to government depriving the governed some of the privileges which had been enjoyed for decades. These are measures which in most advanced western economies are unthinkable. Consider for example the withdrawal or reduction of social security, farm subsidies as well as other social benefits in the United States.

The case for the IMF loan for Nigeria is weaker now than it was a year ago. The short-term debts have been 'rescheduled'; also given the seemingly better management and the severe austerity measures the economic situation – though it is too early to conclude – seems under control; the international oil market conditions are a lot more stable – price though lower is somewhat firmer. Rising interest rates and the danger of a growing debt burden are additional reasons for abandoning the pursuit of an IMF loan.

ADDITIONAL AUSTERITY MEASURES

More austerity measures were announced in the revised 1984 budget. The most important feature is the size of the budget itself; at ₦10.1 billion it is 18.5 % lower than the 1982 budget. Remittances by expatriates were reduced from 50 to 25 per cent of income and external borrowing by State Governments is banned.

The most important stabilization measure of 1984, is the currency change which preceeded the revised budget by a few days. Its goals were deflationary – to reduce the money in circulation and to render useless the Nigerian currency held outside of the country. It is too early to assess the effects of this measure, however, prices of most consumer goods have fallen appreciately but the extent to which illegal transactions in Naira has been reduced is yet unknown. Unfortunately the way in which the currency change was implemented may leave some permanent scar on both political and economic institutions. The difficulty «deliberately» created to minimize withdrawals from commercial banks has undermined the confidence in both the Government and the banking system, consequently hoarding of the new currency is likely to pose a severe problem for monetary and fiscal policy.

CONCLUSION

We have attempted in this paper to present the background to the structural problems in the Nigerian economy and to review the efficacy of the various measures which have been introduced to contain and hopefully, reverse the deteriorating social and economic conditions. The structural dislocation is traceable to the oil glut and to the recession in the major oil importing countries. Since over 90 per cent of Nigeria's foreign exchange earnings is obtained from oil export the sharp decline in oil export generated 'proportionate' decline in government revenue with attendent consequence for government expenditures, the level of output, money supply, average price level and employment. The effect of the sharp decline in oil export was most directly reflected in the balance of payments deficit and the size of external assets.

Stabilization measures which were introduced in April 1982, though severe, had only marginal effects on the deteriorating social and economic conditions. The balance of payments deficit was lower for 1982 than it was in 1981 and the rate of inflation declined from 20.8 in 1981 to 7.7 in 1982. However, unemployment was sharply on the increase, wages and salaries were in arrears in a number of public and quasi-public institutions; external assets fell by 58.3 per cent and there was a growing fear that Nigeria might default in the repayment of its medium- and long-term loans.

The 1982 Stabilization policy was to be supplemented with a US $ 2 billion loan from the IMF. However, disagreement on three of the conditions stipulated by the IMF – devaluation, trade liberalization and the reduction of subsidies for consumer goods especially petroleum and petroleum products – has caused the negotiations to be rather protracted. Events seem to be overtaking the need for an IMF loan and if good sense is to prevail the loan would no longer be sought.

Additional measures were introduced in 1984, coupled with a currency change which was designed to deflate the economy by reducing the money supply and by rendering useless the Nigerian currency in illegal trading outside of the country.

In spite of the multifarious austerity measures Nigeria continues to grope in the dark. The saving grace in the short run is the combination of better management of the economy, improvement in the external sector – in particular improved foreign exchange earnings from petroleum, and the extent to which the tendency for government expenditure to increase the demand for foreign exchange is curtailed. Economic prosperity in the medium- and long-term will depend critically on the extent to which the sources of foreign exchange are diversified and the extent to which local industries are oriented towards local raw materials while importation of consumer goods including food is kept at a minimum.

RESUME

Le présent article étudie la cause des problèmes structurels de l'économie Nigériane et examine l'efficacité d'un certain nombre de mesures de stabilisation qui avaient été prises en vue de freiner puis d'inverser la dégradation de la situation économique et sociale.

La baisse vertigineuse du volume des exportations de pétrole est à l'origine de la dislocation des structures.

Cette baisse a eu des conséquences graves aussi bien pour le volume des dépenses de l'état que pour l'emploi et pour le niveau moyen des prix. Des mesures de stabilisation furent prises pour la première fois en Avril 1982. Cependant celles-ci se sont avérées peu efficaces sur la détérioration de la situation économique et sociale. En effet l'on pouvait constater un chômage accru, des retards de paiement de salaire dans nombre de secteurs publics et semi-publics, et un risque croissant de voir le Nigéria faire défaut dans le paiement de ses emprunts à moyen et long-terme. Le FMI devait assortir ces mesures de stabilisation d'un prêt de 2 milliards de dollars. Néanmoins trois des conditions imposées par le FMI ont fait l'objet d'un désaccord, à savoir : la dévaluation de la monnaie, la libéralisation du commerce, et la réduction des subventions accordées aux biens de consommation, notamment à l'essence et aux produits pétroliers. Voilà ce qui explique pourquoi les négociations n'ont pas encore abouties.

Le Nigéria continue à sombrer malgré la mise en œuvre d'une politique de rigueur. Dans le court-terme, l'espoir réside dans la combinaison de trois facteurs : la bonne gestion de l'économie, l'amélioration de la position extérieure, et la capacité du gouvernement à réduire l'augmentation de la demande de devises.