THE CURRENT AUSTERITY MEASURES AND THEIR IMPACT ON THE NIGERIAN ECONOMY

By

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INTRODUCTION

Growth in the developing economies is characterized by shocks and bottlenecks because changes in demand associated with high money income levels are often not matched by adequate supply responses. Supply shortages of final outputs often occur because of physical bottlenecks such as acute shortage of managerial and skilled manpower, capacity limitations in public utilities, and inadequate supply of various intermediate inputs. The significance and negative impact of the bottlenecks vary depending on each developing country's resource base and level of development. Rigidity in tax and expenditure structure of the government in addition to the absence of a well developed financial system capable of adequately mobilizing and transforming savings for productive investments could intensify and protract this disequilibrium.

There is no consensus among economists as to the appropriate policy strategy for achieving sustained equilibrium in the economic situation sketched above. In the view of the structuralist economists, the main thrust of stabilisation policy should aim at complete elimination of identified bottlenecks through long-term structural adjustment measures. In their view, any attempt to stabilise the economy through monetary measures is doomed to failure as one disequilibrium would be removed at the expense of creating new ones. It is the view of Taylor *(1)*, for example, that the standard stabilisation package is disastrous in the typical case of the developing economy because:

i) devaluation has little impact on trade and mainly aggravates inflation, and

ii) domestic credit restriction causes a loss of real output, essentially because operating credit for firms acts like a real input in the production function,and cutting this credit may result in cutting output. Similarly, Schydlowsky *(2)* has argued that the standard stabilization package (devaluation, reduced government spending and reduced credit expansion) is ineffective because, (i) imports and exports are unresponsive to the exchange rate and (ii) real output will fall as higher prices induced by devaluation reduce purchasing power and demand and as credit squeeze cuts firms' output.

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On the other hand, the monetarists believe in short-term stabilization measures designed to control aggregate demand in the economy. SHEAHAN *(3)*, for example, focuses on the policy flaws of excess demand and the inadequate attention to the external sector which primarily led to the crisis and considers the corrective stabilisation measures, and their costs, as relatively inevitable. Such measures follow rather closely the «orthodox package» which aims to restore equilibrium through a reduction in the rate of expansion in money supply and total credit, a reduction in government expenditures, a decrease in real wages, exchange rate devaluation and elimination of government subsidies. The late 1950s and 1970s saw the application of numerous monetarist programmes in many Latin American countries like Chile, Argentina, Uruguay and Brazil, to name only a few.

The Nigerian economy has faced serious adjustment problems since the early 1970s when the 'oil factor' became dominant. The earlier disequilibrium was the product of the oil-induced excess liquidity in the economy. Adjustment problem has however, assumed new dimensions since 1981 when large reductions in oil earning occured. The stagflation in the last three years reflects the fundamental policy problems posed by the restrictive measures adopted by the country. It is therefore in the broad context of these problems that we wish to examine the impact of the current austerity measures on the Nigerian economy.

The paper has been divided into five parts. Part I gives an overview of developments in the Nigerian economy between 1970 and 1980 when petroleum became the dominant sector. Parts II and III will respectively focus on the genesis of the current economic crisis and the subsequent stabilization measures adopted since April 1982. An attempt will be made in Part IV to appraise the stabilization measures with respect to set objectives and their impact on the national economy. The final part is the summary and our recommendations.

PART I. – OVERVIEW OF THE NIGERIAN ECONOMY, 1970–1980

Before the 1981 glut in the crude petroleum market and the consequent policy of reduction in output and prices, Nigeria was a major exporter of crude petroleum to Africa and the rest of the world. The emergence of petroleum as a dominant sector in the economy was attributable largely to a sharp rise in price matched by a marked increase in output, and increased government participation in the industry. After a four fold increase in 1970, output level rose by 41 per cent to 558 million barrels in 1971 and by 1973 had risen to 823 million barrels annualised average output. Between 1975 and 1980, daily average output ranged between 1.8 and 2.3 million barrels with the production peak reached in 1979. This expansion in output coincided with more than doubling of prices resulting in a quadrupling of export receipts by the Government.

The importance of the oil sector can best be illustrated by evaluating its contribution to some important economic variables during the period under review. For example, the contribution of the sector to real GDP which was only 9.4 per cent in 1970, rose to 31.9 per cent in 1974 but thereafter declined irregularly to 30.2 per cent by 1980. Its share of total export earnings rose from 57.6 per cent in 1970 to 93.6 per cent in 1976 and oscillated to 96.1 per cent in 1980. Contribution to government revenue by oil leaped from 27.1 per cent of the total in 1970 to 82.3 per cent in 1979 but declined to 66.3 per cent in 1978, following the weakness in world oil market. It however picked up again and reached 82.3 per cent in 1979 before declining marginally to 81.8 per cent in 1980 (see Table 1). Thus, oil took over from the agricultural sector in terms of relative importance in almost every area of Nigeria's economic life except employment of labour on which its impact remained virtually negligible. It is not coincidental therefore that developments in the Nigerian economy has, to date, been dictated largely by the performance of the oil sector.

PART II. – BUILDING OF CURRENT ECONOMIC CRISIS

Nigeria's economic problems originated partly from her over-dependence on oil and largely from the gross mismanagement of available resources realized when the boom lasted. The rapid expansion of government expenditure geared to improve living standards, accelerate the development of the economy and diversify its productive base was faced with serious physical and institutional constraints for which there were no immediate solutions. While domestic capacity could not expand, there was a rapid build-up of demand pressure in the economy which put serious strains on both the domestic and the external sectors. In particular, the pattern of investment shifted mainly to the construction and services sectors to the detriment of the agricultural and other directly productive sectors. Consequently, the only option the country was left with was to liberalise imports in order to stem the high rate of domestic inflation. The importation strategy gave rise to the acquisition of sustained high tastes for imported luxuries and food items which had to be paid for in foreign exchange. In addition, the development of Nigeria's economy outside the oil sector has been looked into the country's ability to pay for imports. The import substitution strategy of the country's industrialisation policy has led to the excessive dependence of the growing manufacturing sector on imported inputs. On the average domestic value-added constituted less than 25 per cent of most manufacturing outputs. Unfortunately the country lost most of the additional foreign exchange that could have accrued from the traditional export sector through the neglect of that sector.

The extent of the country's overwhelming dependence on oil was manifested in 1981 when we could not sell our oil in the world market. There was a dramatic slump in oil production and sales and daily output fell sharply from a daily average of 2 million barrels in 1980 to about 0.7 million barrels in 1981 and by the end of the first quarter of 1982 our production level slumped further to 0.63 million barrels per day. Price also fell from $ 40 to $ 35.5 per barrel in the same period and continued the slide thereafter as the major consumers demanded less oil in the face of world economic recession. Besides, the Nigerian oil faced price competition from the North Sea oil which is of similar quality to the Nigerian crude. The decline in the quantity and price of crude oil export thus put severe strains on government revenue and export earnings. Since this adverse development could not influence corresponding downward adjustments in government spending and the country's imports, deficit budgeting by the Government rose sharply and tended to drain available finance from the private sector. As our balance of payments position deteriorated, the comfortable foreign exchange built up was gradually depleted. External borrowing equally surged, leading to a sharp rise in the country's debt service burden.

Federal Government budgetary position deteriorated from an overall surplus of ₦ 275.8 million in 1980 to a deficit of the ₦3.6 billion in 1981. The deficits increased further to ₦ 5.6 and ₦ 6.1 billion in 1982 and 1983, respectively. With respect to state governments, available data for 1980–1983 showed that their combined estimated budgetary deficits rose from ₦ 3.3 billion in 1980 to ₦ 4.9 billion in 1981, ₦ 5.4 billion in 1982 and ₦ 6.2 billion in 1983. The recorded total deficit for all Governments in 1980 was therefore 16.2 per cent of non-oil GDP while those for 1981, 1982 and 1983, represented 26.3, 30.2, 32.8 per cent of the non-oil GDP, respectively. The major sources of finance for these deficits was the banking system which, on the average, accounted for more than 80 per cent and thereby constituted a significant source of primary money creation. The impact has even become greater since 1981. Under the circumstance, the maintenance of monetary stability by the Central Bank became elusive since it is the proportion of money supply for which the commercial bank's credit to the private sector is amenable to the Central Bank's control.

The worsening balance of payments position was due to the fact that the rate of foreign exchange outflow was much faster than the rate of inflow. Thus, the country's import bill had substantially outpaced export earnings by 1982. For example, the country's current accounts balance swung from a surplus of ₦1,593.0 million in 1980 to a deficit of ₦3,419.4 million in 1981, representing a deterioration of ₦ 5,012.4 million in one year. Viewed in another way, the situation in 1981 was such that while the monthly outflow of foreign exchange averaged ₦ 1,213.9 million, inflow was only ₦ 964.5 million monthly. These yearning deficits were financed by drawing down Nigeria's external reserves from ₦5.8 billion at the end of June 1981 to a little over ₦ 1.2 billion by end-March, 1982, just before the introduction of the stabilisation measures. The low level of external reserves had by 1982, defied the conventional measures of reserve adequacy for the country. For example, the conventional standard practice stipulates that reserve holdings should be sufficient to finance at least four months imports level. This safety rule was first violated in 1978 when the country experienced the first oil shock. By 1982, however, the rule had been persistently contravened. Available reserves could on the average finance only up to 2.0 and 1.1 months import levels in 1981 and 1982, respectively.

The pressures in the external and domestic sectors of the economy were aggravated by factors other than the slump in the demand for oil. These other factors included the unregulated external borrowing by both the Federal and State governments for projects which hardly took off; smuggling which deprived the Government of the much needed revenue and posed a serious threat to the survival of local industries whose products could not compete effectively with the smuggled goods in terms of price and quality. Various malpractices like over-invoicing of imports and false foreign payments documentations were channels of syphoning the country's foreign exchange abroad for uses not beneficial to the country. Productivity was low particularly in agriculture, manufacturing and the services sectors and this contributed substantially to supply inadequacy from the domestic source, particularly the basic food items and industrial raw materials which could be produced locally. It is pertinent to add that the Nigerian economic crisis was many years in making. It might have taken longer to manifest itself but for the oil glut. Although government's policies since 1977 have been appropriate and well designed to correct most of the imbalances in the economy, only limited successes were achieved before the problems worsened in 1982. The failure to achieve all the objectives of policy could not be attributed to unappropriate policy measures but faulty implementation and lack of political will to enforce policy measures. Nevertheless, approach to some policies were also inconsistent, being in the nature of stop-go, while the increasing role of government as the prime mover of the economy did not only constrain the efforts of the private sector but also rendered monetary policy as an instrument of macro-economic management increasingly ineffective.

The poor performance of the economy intensified in the first quarter of 1982. In the face of a dwindling level of external reserves occasioned by rising outflows and declining inflows of foreign exchange, the over ₦ 5 billion accumulated merchandise trade debts vividly demonstrated the very dangerous and critical situation facing the economy and the need to take the drastic economic measures announced in April 1982, under the Economic Stabilisation (Temporary Provision) Act 1982. The Stabilisation Measures included wide ranging fiscal, monetary and other measures aimed at combating the severe financial pressure already sketched above. The measures were reinforced in 1984.

FISCAL MEASURES

The public sector deficit spending was an important source of monetary expansion and thus inflation in the economy. Fiscal adjustments adopted from April 1982 were geared towards reducing government expenditures and increasing tax revenue. Reduction in government spending was expected to be achieved through a general budgetary control which eliminated wastes, abandoned or postponed the implementation of less viable projects and the starting of new ones. However, on-going viable projects were to be funded and completed.

In order to increase revenue yields, new rates of excise duty ranging from 5 to 40 per cent were imposed on a wide range of domestic manufactures, which hitherto attracted no excise duty. The rate and coverage of such excisable goods have been revised from time to time since 1982. Also, there have been tariff changes on various imports. Most of the changes were in terms of increases in the rates of existing import duties and the introduction of new ones. Government anti-smuggling campaigns were intensified in addition to other fiscal measures which featured total ban on certain category of imports while others were removed from open general licence and placed under specific import licence. By 1984, all imports were placed under specific licence while the allocation of foreign exchange to authorized dealers for each month was not to exceed 1/12th of the estimated foreign exchange budget for the year. These measures were intended to balance the compelling need to reduce imports and stem foreign exchange outflows. Other important objectives of the restrictive import measures included the protection of domestic manufactures and the promotion of increased use of domestic raw materials.

EXCHANGE CONTROL MEASURES

Comprehensive exchange control measures 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 the subsequent years and in most cases strengthened because of the additional burden of debt servicing. The measures are:

i) Reduction of Basic Travel Allowance from ₦ 800 to ₦ 500 in 1982 for adults only, and was further slashed to ₦ 100 in 1984. Although pilgrimage allowance remained at ₦ 800 the number was pegged at 50,000 in 1982 and 1983 and was further reduced to 20,000 in 1984. The amount of naira which travellers could take in and out of the country was also reduced from ₦ 50,000 to ₦ 20,000 in 1984.

ii) Business travel allowance was initially reduced from ₦ 3,000 to ₦ 2,500 per annum for registered companies in 1982 and was suspended altogether in 1984.

iii) Suspension of foreign exchange approval for new students intending to go for study courses available in local universities and other institutions of higher learning.

iv) Reduction in the rate of home remittance by expatriates workers living in Nigeria from 50 per cent to 25 per cent of net income.

v) Condition for the approval for medical treatment abroad became more stringent as certified letter from the Medical Board of the state in which the applicant is domiciled was required.

vi) Allowance for freighting personal effects from abroad was pegged at ₦ 2,000 maximum.

vii) Reduction of buying commission to agents or confirming houses from the maximum of 4.0 per cent to 2.0 per cent of f.o.b. consignment.

viii) Introduction of strict foreign exchange budgeting for the country where guidelines were issued for the sectoral allocation of the foreign exchange budget to conform with the set order of priorities as follows:

(a) raw materials, spare parts, etc.. – 58 %;
(b) food items – 18 %;
(c) general merchandise – 12 %;
(d) invisibles – 12 %.

Registration and approval of Form 'M' continued to be a precondition for imports to facilitate budgetary discipline. The total foreign exchange budget for 1984 was pegged at ₦ 8,000.0 million and expenditures were to be made at a monthly pro-rata rate of ₦ 666.7 million.

To ensure strict compliance with these measures, the Foreign Exchange Anti Sabotage Decree was promulgated.

MONETARY AND CREDIT POLICY

The objective of monetary policy has since 1982 emphasised the need to curtail inflation and maintain a healthy balance of payments position while increased domestic production of goods and services was encouraged to achieve these ends, measures were adopted and have been reviewed from time to time as necessary.

BANK CREDIT CONTROL

Control of bank credit was used to achieve the twin objectives of checking excessive expansion of aggregate demand in the economy and at the same time encourage increased domestic output of goods and services. To this end ceilings and sectoral distribution measures were imposed to ensure that commercial and merchant banks' lending to the private sector of the economy was not inflationary. Ceilings of 30 per cent for big banks and 40 per cent for the small banks were imposed on the rate of expansion of aggregate credit to the private sector during the period, 1978 to 1982. For the two respective categories of banks these rates were reduced to 25 and 35 per cent in 1983, 12.5 and 20 per cent in 1984 and 7 and 10 per cent in 1985. While it is admitted that Government spending explains more than 80 per cent of primary money creation in the country, the imposition of these ceilings was necessary to check an excessive secondary expansion of money supply.

In addition, guidelines were issued to the banks from time to time instructing them to allocate the bulk of available credit to the directly productive sectors and less to the less-productive and consumption oriented sectors.

SUPPLEMENTARY RESERVE REQUIREMENT

In realisation of the potential danger which commercial banks' excess reserves constitute to credit expansion and thus to monetary stability, measures were adopted from time to time to reduce the level of such excess reserves. The minimum liquidity ratio requirement for all commercial banks was fixed and left at 25 per cent over the years. This ratio has of course not been an effective instrument of credit control in Nigeria because most banks tend to maintain ratios well above the prescribed legal minimum. Hence, supplementary reserve requirements were imposed to mop up commercial banks' excess liquidity. For example, each bank was required to maintain with the Central Bank at its Head Office in Lagos, a minimum amount of cash deposits which ranged between 2 and 5 per cent of the bank's total deposit liabilities. Such deposits were not eligible for inclusion in the calculation of liquidity ratios.

INTEREST RATE STRUCTURE

In order to encourage increased financial savings and promote a more efficient resource allocation of available loanable funds, interest rates were revised three times in 1982 when two percentage points were raised in January and April, but lowered by one percentage point in November. In 1984, the rates were raised by about one and half to two percentage points generally except that the concessional rate for agriculture and the maximum allowed for all purposes were retained at 7 and 13 per cent, respectively. In 1985, interest rate on agricultural lending was raised to 8 – 9 per cent to encourage banks to lend more for agricultural production.

COMPULSORY ADVANCE DEPOSITS FOR IMPORTS

Compulsory advance deposits for imports which was first introduced in 1978 to discourage imports and reduce commercial banks' excess liquidity was abolished with effect from April 1, 1980. However, in response to the re-emergence of adverse developments in the external sector in 1982, the Economic Stabilisation Measures reintroduced a compulsory advance deposits for imports. Advance deposits on imports was also designed to cut down the rate of importation to a level compatible with the rate of foreign exchange inflow. The rates of such deposits varied inversely with the importance attached to each category of imports and ranged from 25 per cent for raw materials to 250 per cent for motor cars and other non-essential goods. In 1983, the rates for raw materials and spare parts were reduced from 15 to 10 per cent and from 50 to 15 per cent, respectively to stimulate increased domestic output. By 1984, advance deposits on imports as a constraint on the rate of imports was considered no longer necessary because all import items came under specific licence and the licences issued were strictly in accordance with foreign exchange budget.

PRICE AND INCOME POLICY MEASURES

Income policy guidelines remained virtually unchanged since 1980. The objectives of the policy included promotion of an equitable re-distribution of income, enhanced productivity and maintenance of price stability in the economy. In pursuit of these objectives, salaries and wages in both the public and private sectors were frozen, while revision or introduction of fringe benefits were subject to Government approval. Normal annual salary increments were allowed but changes in compensation packages could not be effected retroactively unless they arose from promotion or enhancement of status. The government was to be properly notified if ex-gratia payments such as end of year bonus which must not exceed one month's basic pay were to be made. Incomes from professional services and dividends were pegged at stipulated levels or rates.

Since these measures were adopted to contain increases in production cost and thus dampen the effect on the rate of increases in whole-sale prices, any upward adjustment in prices were to be effected only after due approval by the Government.

PART IV. – APPRAISAL OF POLICIES AND THE IMPACT ON THE ECONOMY

The effectiveness of a policy measure can best be evaluated in terms of its contributions to the achievement of the ultimate goals. While it would take some time before the full impact of the current austerity package can be felt, it is our belief that in the short-run the current stabilisation programme has achieved some measure of success. The short-run achievements have been through the influence of the monetary, fiscal and exchange control measures adopted.

MONETARY POLICY MEASURES

Financial variables, be they monetary aggregates, credit or interest rates are, of course, only intermediate targets. The effectiveness of monetary policy should therefore be judged on the basis of its ability to influence the ultimate objectives, principally price stability, increased output and balance of payments equilibrium which go beyond these aggregates. All the same, the movement of monetary aggregates could be a pointer to whether the ultimate objectives could or could not be achieved.

The current monetary policy measures have apparently started to influence these monetary targets in the desired direction. For example, the high rate of monetary expansion which characterized 1979 and 1980 was moderated in the period 1981 to 1984. For instance the monthly growth rate of M1 averaged 1.0 and 1.9 in 1983 and 1984 respectively. While the substantial outflow of money through the external sector largely explained the moderation in monetary expansion in 1981, the fast deceleration in bank credit expansion to the private sector and the impact of advance import deposits between April 1982 and May 1984 influenced the moderation in the latter period (1982–1984). The rate of increase in aggregate bank credit to the economy fell persistently from 50.9 per cent in 1981 to 10.5 per cent in 1984. In those years, expansion in commercial banks' loans and advances was low and was in consonance with the credit ceiling and other forms of liquidity squeeze imposed on the commercial banks. In addition, the amount sterilized and withdrawn from money stock on account of compulsory advance deposit for imports was persistently in excess of ₦1 billion in 1983 and 1984.

The institutional growth in banking facilities together with the upward revisions in the interest rate structure in 1982 and 1984 contributed largely to the high rate of increase in financial savings in the country, and thereby moderated the rate of expansion of M1. For example, time and savings deposits with commercial banks (quasi-money) rose by about ₦3.6 billion or 61.9 per cent between 1981 and 1984.

However, despite the deceleration in monetary expansion during the review period, inflation rate which declined sharply from 20.8 to 7.7 per cent during the first year of the austerity package has assumed an upward trend, recording an annual growth rate of 23.2 per cent in 1983 and an estimated 43.6 per cent in 1984. In which case, inflation in those years appeared not to be a monetary phenomenon but a development which could be blamed on supply shortages, hoarding and distribution bottlenecks.

FISCAL POLICY MEASURES

Fiscal measures were aimed mainly at reduction in public sector spending, particularly capital expenditures. The Federal Government Expenditures fell by 10.7 and 3.1 per cent in 1983 and 1984, respectively as against the increase of 12.8 per cent in 1982. The effect of this development is reflected in the fast deceleration in the rate of growth in Federal Government Budgetary deficit from 60.7 and 77.1 per cent in 1981 and 1982, respectively, to only 8.6 per cent in 1983. In 1984, the estimated deficit fell drastically and was reduced by almost one half to ₦3.3 billion from 6.1 billion in 1983.

BALANCE OF PAYMENTS ADJUSTMENT

Despite the continued slump in the international oil market and the consequent revenue loss to the economy, the oil sector still accounted for an average of 97.3 per cent of total export earnings between 1982 and 1984. In which case, the non-oil sector has not responded positively to measures adopted to boost its contribution to export revenues. In effect, export earnings decline between 1981 and 1983, but an increase of ₦ 1,058.1 million or 13.9 per cent was recorded in 1984 for which oil wholly accounted.

Measures adopted to restrict imports appeared to be somewhat effective as the level of imports declined between 1982 and 1984 (see table 2). The trend whereby the country's imports bill substantially outpaced export receipts just before the austerity package was introduced had been reversed by 1984 when the monthly import bill averaged about ₦ 650.0 million as against ₦ 723 million export revenue. Consequently, the overall balance of payments position improved making it possible for the country to pay for its imports on current basis, honour her external debt obligations and increase the level of her external reserves by 67.2 per cent to ₦1,496.5 million in 1984.

Although Nigeria has not accepted the IMF option to devalue the Naira as a means of achieving balance of payments adjustment, there has been a gradual and persistent depreciation of the Naira against the U.S. dollars. For example, between 1982 and 1984, the value of the Naira vis-à-vis the dollars had declined from $ 1,5534 to $ 1,3822 and slumped further by 16.3 per cent to $ 1,1576 in 1985. Depreciation against the pound sterling has not been as sharp and consistent because of the inherent weakness of the sterling itself.

The cost of the corrective stabilization measures to a semi-industrialized economy which depends heavily on imports is inevitable. This fact has been demonstrated in the Nigerian case by the sharp fall in output, unemployment and high inflation rate.

DECLINING OUTPUT

Our appraisal of the current austerity measures shows that a consistent adherence to the policy stance could in the medium or long-term enhance Nigeria's chance to survive the crisis and achieve a sustained growth. However, in the short-run there was a sharp fall in output leading to high rate of unemployment and loss of real income.

The poor performance of the oil sector which also influenced a slowdown in activities of the other major sectors in the economy induced a persistent decline in real Gross Domestic Product (GDP) between 1980 and 1984. The rate of decline at 6.3 per cent in 1983 was the highest during the period as the austerity measures taken in April 1982 made their full impact. The low rate of decline (estimated at 0.5 per cent) in 1984 was due to the improved performance of the oil and agricultural sectors (see tables 3 and 4).

The productive capacity of the economy has been under severe strain since 1982 partly because of the restrictive import policy and the reduction in government capital outlays among other measures introduced to correct the disequilibrium in the economy. Output of the industrial sector (as indicated by the index of industrial production which combines the output of mining, manufacturing and electricity sub-sectors) declined by 4.1 and 11.7 per cent in 1983 and 1984 respectively. The manufacturing sub-sector accounted mainly for the sharp declines in both years. The output of domestic manufactured products reached its peak in 1982 and since then the index of manufacturing declined by 4.7 and 18.2 per cent in 1983 and 1984, respectively. As it became difficult to obtain adequate imported raw materials and spare parts due to the shortage of foreign exchange, the sector plunged into a severe recession. As capacity underutilisation became rife during this period motivation for new investments disappeared. The low level of activities in the sector has also contributed to low demand for credit from the banking system as companies' own funds were free to finance their expenditure requirements. This source of funds accounted for more than 50 per cent of their total financial requirements, on the average.

In the country-wide survey conducted by the Central Bank of Nigeria to obtain on the spot assessment of the state of industrial activities, many manufacturing industries complained of increased costs, resulting from higher interest rates, wages, taxes as well as additional costs incidental to the provision of water and electricity for industrial use. The most important complaint, of course, was shortage of raw materials and spare parts.

UNEMPLOYMENT

The depression in the industrial sector, as would be expected, also had adverse effects on the level of employment. The economic down-turn did not encourage new investments. More importantly, the restriction on imports exposed the weakness of the country's industrialization process which has very little domestic inputs, except manpower. Consequently, most of the manufacturing establishments with high import dependency operated far below their installed capacity or closed down completely. Besides the slash in government expenditure, particularly on capital projects, reduced the level of activities in the construction industry apart from the massive retrenchments of workers in the public sector itself. The problem of unemployment was thus aggravated by the slow-down in the industrial sector and also the construction industry which had hitherto provided a high rate of employment for the unskilled and semi-skilled workers. In addition, the number of unemployed graduates and fresh school leavers increased rapidly as the recession deepened in all sectors of the economy.

INFLATION

Inflation rate assumed an upward trend in 1983 and 1984. The rate of inflation which decelerated from 20.8 per cent in 1981 to 7.7 per cent in 1982 shot up to 23.2 per cent in 1983 and escalated to an estimated 43.6 per cent in 1984. The major contributor to the rapid increase in prices was the food item. This was due mainly to the fall in domestic production arising from unfavourable weather condition, pests and animal diseases. Apart from drought and other unfavourable weather conditions, the other mitigating factor was the sharp decline in government assistance to farmers in the areas of subsidised inputs and cash grants.

Disruption in poultry in 1983 and 1984 was caused mainly by the interruptions in the supply of day old chicks and poultry feed due to the curtailment of their imports because of foreign exchange scarcity. Thus, the disruption to agricultural production did not only influence a fall in total output, but also aggravated the inflationary pressures in the economy, arising from high food prices.

Finally, when fiscal adjustment implies a drastic reduction in public expenditures, the so-called social sectors such as health, education, housing and other forms of government welfare services are bound to be adversely affected.

PART V. – SUMMARY AND CONCLUSIONS

The over-dependence of the Nigerian economy as a single commodity-oil as the main source of foreign exchange earning and government revenue as well as the expanded role of government as the prime mover of the economy have been the major sources of instability in the Nigerian economy since 1973. The boom in the oil sector and the consequent over expansion of the public sector during the boom years was the major source of excess liquidity in the economy and over reliance on the external sources for the supply of industrial and manufactured goods and good items. Although the boom assisted in improving welfare in the country generally while it lasted, the slump in the oil industry since 1981 has brought the unpleasant consequences of economic recession and fall in the standard of living of Nigerians. The current crisis emanating from the drastic fall in oil receipts exposed the weakness of our industrialisation strategy based on massive importation of inputs, the neglect of the non-oil sector, particularly agriculture and the expanded role of government which was on the verge of crowding out the private sector.

The current austerity measures are therefore designed to achieve the medium to long-term objectives of restructuring the economy to achieve increased output, balance of payments equilibrium and domestic price stability.

The crisis in the Nigerian economy has persisted for several years, therefore the structural shifts necessary to move the economy into a path of self-sustaining growth would need some time to materialise. Although some laudable measures had been adopted to address some of these problems in the economy, the implementation had been very often faulty. From time to time, some policy measures have been prematurely dismantled mainly because of lack of sufficient political will to execute such policies and the unpreparedness of the citizens to make sacrifices and cooperate fully with the government. The end result was that we found ourselves in a vicious cycle of stop-go policies where the objectives of economic self-reliance becomes elusive.

The domestic deflation of the past three years is essentially a holding operation aimed at restricting imports and foreign spending for a period during which the accumulated trade arrears would be financed and debts repaid. This may take a few more additional years to accomplish except the oil industry bounces back and provides the much needed foreign exchange.

The policy of constraining the importation of some industrial raw materials and intermediate inputs is explained by the need to stimulate increased use of local raw materials. It has been observed that the slow growth in the contribution of the manufacturing sector to GDP is traceable to the high import content of our manufactured products. The hope is that industries will respond by finding alternative raw materials from domestic sources. Besides, the country's long-neglected agricultural base will be stimulated to provide food and agricultural raw materials to replace imports which would no longer be available in sufficient quantities.

A long-term and fundamental solution of the ills of the Nigerian economy lies in moving the country away from the mono-cultural economy to which the oil boom had pushed it. In this connection, greater emphasis should be placed by government on the major sectors other than oil. These include Agriculture, Liquified Natural-Gas, Petro-Chemicals and Iron and Steel industries.

The import substitution strategy of the country's industrialisation policy has to be reviewed. A distinction must be made between capital intensive import substitution industries that depend largely on imported inputs and those that are labour intensive utilising local raw materials. The Government should provide monetary and fiscal incentives to the latter in order to change the base of our existing industries with very little domestic value-added.

One additional goal of structural adjustment should be to reduce the size of the public sector by turning some economically viable public enterprises over to the private sector. The Federal Military Government has embarked on a policy of privatisation and this should be seen as a step in the right direction provided that a distinction is made between the social services units and the economic units which could be privatised.

While it appears that the current stabilisation measures have saved the Nigerian economy from a total collapse which was very apparent without such action, actual recovery is still being anticipated. It is encouraging to note the fall in real GDP in 1984 was the lowest rate in seven years (see Table 4), but the structural imbalance remains. While the hope for increased agricultural output in 1985 is bright, the recovery of the manufacturing sector will take some time in view of its over-dependence on imported inputs in the face of foreign exchange scarcity to pay for such inputs. Thus, any real growth in the economy in 1985 would be marginal and would depend largely on whether the agricultural and oil sectors between them will record sufficient improvement to ensure an overall expansion in GDP.

Table 1: Percentage contribution of petroleum income to some economic variables (per cent)

	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984
Exports earnings	57.6	73.4	82.0	83.1	92.6	92.7	93.6	92.7	89.1	93.8	96.1	96.9	98.6	96.4	96.8
Gross Domestic Product *(1)* (current factor cost)	9.4	14.4	15.9	22.4	31.9	20.4	22.9	22.6	22.7	26.2	30.2*(2)*	24.5	21.8	19.7	20.3
Government Revenue *(1)*	27.1	49.5	54.6	67.9	80.9	78.7	77.8	71.4	66.3	82.3	81.8*(2)*	62.8	70.2	59.7	68.8

(1) Between 1970 and 1979 figures are for fiscal year, starting in April and ending March the following years.

(2) For nine months (April–December) 1980 only.

Sources:

i) Central Bank of Nigeria Annual Report (various issues)

ii) Federal Office of Statistics, Lagos.

TABLE 2

SELECTED MAJOR ECONOMIC INDICATORS IN NIGERIA 1975-1984
(N' Million)

	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984
BALANCE OF PAYMENT										
(i) Overall Balance	+183.7	-309.9	-422.1	-1,364.8	+1,868.9	+2,402.2	-3,020.8	-1,398.3	-244.8	+362.1 2/
(of which Basic Balance	n.a	n.a	n.a	n.a	n.a	n.a	(-3,165.3)	(-4,184.4)	(-2,238.8)	(+554.2) 2/
(ii) Exports (F.O.B)	5,116.1	6,343.4	7,976.6	6,632.6	10,836.8	14,186,7	11,023.3	8,722.5	7,612.3	8,670.4 2/
(of which crude oil)	(4,766.3)	(5,917.8)	(7,453.6)	(5,004.9)	(10,166.8)	(13,632.3)	(10,680.5)	(8,601.6)	(7,337.4)	(8,394.4) 2/
(iii) Imports (C & F)	3,629.0	5,049.0	6,933.6	7,982.0	7,472.5	9,095.6	12,719.8	12,565.5	9,723.0	7,794.4 2/
(iv) External Assets	3,696.5	3,481.6	3,034.0	1,417.3	3,235.7	5,640.9	2,579.3	1,066.9	894.8	1,496.5
FINANCIAL AGGREGATES										
(i) Money Supply	2,044.1	3,293.0	4,794.4	5,089.7	6,146.6	9,226.8	9,744,9	10,048.5	11,282.4	12,204.1
(ii) Banking System Credit	488.6	2,617.3	5,537.4	8,068.1	8,855.2	10,780.1	16,268.5	21,906.8	28,182.1	31,141.6
(a) To Government Sector	(-1,281.5)	(199.5)	(2,094.4)	(3,345.1)	(3,438.4)	(3,589.2)	(6,614.3)	(10,535.3)	(15,828.2)	(18,199.6)
(b) To Private Sector	(1,770.1)	(2,417.8)	(3,443.0)	(4,723.0)	(5,416.8)	(7,190.9)	(9,654.2)	(11,371.5)	(12,353.9)	(12,942.0)
(iii) Quasi Money	1,578.4	1,985.9	2,263.1	2,609.8	3,710.6	5,170.6	5,803.2	6,845.4	8,086.5	9,396.4
PUBLIC FINANCE 1/										
(i) Revenue	5,514.7	6,765.9	8,042.4	7,469.3	10,913.5	15,234.0	12,113.0	11,630.4 2/	9,306.7 2/	11.331.7 2/
(ii) Current Expenditure	2,734.9	3,815.4	3,819.2	4,667.7	5,231.1	9,117.3	9,587.2	9,731.7 2/	9,024.6 2/	10,660.3 2/
(iii) Capital Expenditure	3,207.7	4,041.3	5,004.6	5,095.3	4,219.6	8,091.9	5,699.3	7,519.0 2/	6,385.8 2/	4,270.1 2/
(iv) Overall Balance (+ = Surplus; – = Deficit)	-427.9	-1,090.8	-781.4	-2,293.7	+1,462.8	-1,975.2	-3,173.5	-5,620.3	-6,103.7	-3,264.3
(v) Public Debt Outstanding	2,028.8	3,004.6	5,001.1	7,235.2	8,893.8	9,785.3	13,526.7	21,685.2	30,013.3	32,585.0
(a) Internal	(1,678.9)	(2,630.0)	(4,636.0)	(5,983.1)	(7,282.3)	(7,918.5)	(11,195.5)	(14,847.5)	(22,224.3)	(24,335.5)
(b) External 3/	(349.9)	(374.6)	(365.1)	(1,252.1)	(1,611.5)	(1,866.8)	(2,331.2)	(6,837.7)	(7,789.0)	(8,249.5) 4/
PRICE INDEX (% CHANGE)	33.9	23.4	15.9	16.6	11.8	9.9	20.8	7.7	23.2	43.6 2/
(Food Component)	(41.9)	(22.0)	(19.7)	(16.4)	(8.0)	(7.7)	(25.2)	(8.9)	(23.2)	(46.7) 2/
INDUSTRIAL PRODUCTION INDEX (% CHANGE)	-5.9	19.1	3.6	2.0	18.6	-1.0	-2.8	11.4	-4.1	-11.7
Manufacturing	(23.6)	(23.4)	(6.2)	(14.4)	(1.9)	(5.2)	(14.6)	(20.8)	(4.7)	(-18.2)

1/ Estimates
2/ Excludes unscheduled short term trade arreas.
3/ Figures as at end October, 1984.
n.a Not Available
Sources: Central Bank of Nigeria Annual Reports
Federal Office of Statistics

Table 3: Nigeria: Gross Domestic Product at 1977/78 factor cost, 1977/78–1984 (₦' Million)

SECTORS	1977/78 (1)	1978/79 (2)	1979/80 (3)	1980 (4)	1981 (5)	1982 (6)	1983 (7)	1984 * (8)
1. Agriculture	7,305.3	6,673.7	6,472.4	6,071.0	5,720.7	6,495.3	6,155.0	6,272.2
2. Crude Petroleum	7,071.6	6,449.4	7,512.2	6,748.2	4,613.1	4,071.7	3,966.2	4,304.7
3. Other Mining & Quarrying	833.4	792.2	758.9	658.5	689.0	573.5	495.3	493.3
4. Manufacturing	1,555.0	1,778.4	1,908.6	2,244.8	2,458.3	2,526.5	2,216.7	2,172.4
5. Utilities	98.7	116.3	134.6	143.3	169.5	189.4	199.4	203.8
6. Construction	2,990.8	2,875.9	2,778.8	3,056.0	3,204.1	2,674.5	2,312.2	2,196.6
7. Transportation	987.1	1,047.0	1,122.7	1,247.0	1,391.0	1,457.2	1,230.9	1,184.1
8. Communication	52.2	56.9	61.1	64.4	67.1	66.5	68.7	69.6
9. Wholesale & Retail Trade	6,771.7	6,203.5	6,911.5	6,432.1	6,831.6	6,236.5	5,956.8	5,599.4
10. Housing	1,081.4	1,074.4	1,077.2	1,091.5	1,105.9	1,120.8	1,070.8	1,082.7
11. Producer of Government Services	1,676.6	1,441.7	1,511.0	1,687.4	2,150.8	2,280.4	2,143.0	2,046.6
12. Other Services	859.6	933.8	971.1	790.8	1,042.3	1,189.1	1,225.8	1,265.7
Total =	**31,283.4**	**29,443.3**	**31,220.1**	**30,232.0**	**29,443.4**	**28,881.4**	**27,040.8**	**26,891.1**

Source: *Federal Office of Statistics*

* *Estimates of the National Planning Office, Lagos.*

Table 4: Nigeria: Percentage changes in real GDP (at 1977/78 factor cost) – 1978/79 - 1984

SECTORS	1978/79	1979/80	1980	1981	1982	1983	1984
1. Agriculture	- 8.6	- 3.0	- 6.2	- 5.7	+13.5	- 5.2	+1.9
2. Crude Petroleum	- 8.7	+ 16.4	- 10.1	-31.6	- 11.7	- 2.5	+8.5
3. Other Mining & Quarrying	- 4.9	- 4.2	- 13.2	+4.6	- 16.7	-13.6	- 0.4
4. Manufacturing	+14.3	+ 7.3	+17.6	+9.5	+ 2.7	-12.2	- 1.9
5. Utilities	+17.8	+ 15.7	+ 6.4	+18.2	+10.5	+5.2	+2.2
6. Construction	- 3.8	- 3.3	+ 9.9	+4.8	- 16.5	-13.5	- 4.9
7. Transportation	+ 6.0	+ 7.2	+11.0	+11.5	+ 4.7	-15.5	- 3.8
8. Communication	+ 9.0	+ 7.3	+ 5.4	+ 4.1	- 0.8	+3.3	+1.3
9. Wholesale & Retail Trade	- 8.3	+ 11.4	- 6.9	+ 6.2	- 8.7	- 4.4	- 5.9
10. Housing	- 0.6	+ 0.2	+ 1.3	+ 1.3	+ 1.3	- 4.4	+1.1
11. Producer of Government Services	- 14.0	+ 4.8	+11.6	+27.4	+ 6.0	- 6.0	- 4.4
12. Other Services	+ 8.6	+ 3.9	- 18.5	+31.8	+14.0	+3.0	+3.2
Total =	**- 5.8**	**+ 6.0**	**- 3.1**	**- 2.6**	**- 1.9**	**- 6.3**	**- 0.5**

Source: *Federal Office of Statistics.*

RESUME

La forte dépendance du Nigéria vis-à-vis du pétrole comme seule et unique source de devises et de revenus pour le gouvernement ainsi que le rôle accru de l'Etat comme unique agent pour la promotion de l'économie du pays ont été les principales causes des difficultés économiques du Nigéria. Ces deux éléments ont en effet largement contribué à la création d'un excès de liquidités dans l'économie du pays et ont fait des sources externes les principaux fournisseurs des industries alimentaires et des produits manufacturés. Les mesures d'austérités actuelles sont donc destinées à garantir une restructuration de l'économie dans les moyen et long termes pour augmenter la production, équilibrer la balance des paiements et obtenir une stabilité des prix internes. Les mesures prises jusqu'à présent n'ont pas toujours donné satisfaction pour des raisons diverses mais essentiellement pour des raisons de mauvaise exécution. C'est ainsi que, certains échecs s'expliquent par un manque évident de volonté politique tandis que d'autres sont dus tout simplement au fait que les citoyens n'étaient pas suffisamment prêts à faire les sacrifices nécessaires pour une collaboration franche et entière avec le gouvernement. En tout état de cause, pour guérir les maux de l'économie du Nigéria, les mesures suivantes s'imposent :

– *L'économie de «mono-produit» dans laquelle le pétrole à installé le pays doit être abandonné,. Il faut donc qu'une importance accrue soit donnée à d'autres secteurs vitaux de l'économie à savoir – l'agriculture, le gaz naturel liquéfié, les industries pétrochimiques ainsi que les industries du fer et de l'acier.*

– *La politique de substitution à l'importation doit être aussi revue. Dans ce cadre, il convient de faire une distinction claire entre les industries de substitution à l'importation à fort usage de capitaux qui reposent essentiellement sur des intrans importés et celles à forte proportion de travail qui utilisent les matières premières locales. Le gouvernement doit prendre des mesures incitatives de nature fiscale et monétaire en faveur de ces dernières pour pouvoir changer la base des industries actuelles qui ont une valeur ajoutée faible.*

– *Le gouvernement doit enfin envisager la réduction de la taille du secteur public en confiant la gestion de certaines entreprises économiquement viables au secteur privé.*