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DEVALUATION AND STRUCTURAL ADJUSTMENT: THE NIGERIAN EXPERIENCE

By

H. M. A. Onitiri

Research Paper No. 3

* The paper was written in April 1990, whilst the author was a consultant with the United Nations Economic Commission for Africa. It has been updated by the staff of Socio-Economic Research and Planning Division to take account of developments in Nigeria's exchange rate policy since April 1990.

Table of Contents

LIST OF TABLES

1. INTRODUCTION

Nigeria, like many other African countries, has had to devalue its currency substantially in recent years as part of the Structural Adjustment Programme (SAP) undertaken with World Bank prodding and support. Both before and after devaluation, the policy has given rise to great controversy, and the debate continues both internally and externally.

There are many reasons why Nigeria provides a special but interesting case of the impact of devaluation on the national economy. First, it is a country with a potentially large market where, with proper planning, the domestic economy ought to provide a dynamic factor in economic development. Second, oil exports account for over 90 per cent of exports. Third, the foreign exchange earnings from oil exports come directly into the hands of the government, and the basic issue of policy is essentially how these resources are to be allocated for the most efficient uses. Fourth, in many areas there is close interconnection between production of food and raw materials for domestic use, and production for exports, so that an increase in exports may create shortages in supplies for domestic use and therefore fuel domestic inflation.

As will be evident in the following analysis, these special characteristics of the Nigerian economy have been important implications for the impact of devaluation on the economy.

In the fifteen years which preceded the adoption of SAP, the Nigerian economic scene was dominated by the boom and collapse of oil prices. The boom years were characterized by five major developments: large increases in government expenditures to expand infrastructure and non-oil productive capacity; substantial increases in recurrent expenditures resulting largely from the sharp rise in wages and salaries; relative and, in some cases, absolute decline in non-oil exports - an important aspect of the general decline of the agricultural sector; substantial appreciation of the exchange rate; expansion of import-based consumer goods industry.

As a result of the collapse of the oil boom in 1980, export receipts declined from $26bn in 1980 to $9.4bn in 1989. Oil export revenues, in real terms, fell below their pre-oil boom levels, and the resulting external and fiscal imbalances became unsustainable. The current account deficit reached 6 per cent of GDP in 1983 and the fiscal deficit was double that percentage.

The situation deteriorated steadily and, by 1989, per capita GDP had dropped dramatically to around $250 compared with $1,090 in 1980. There was need for urgent policy responses, but, up to mid-1980s, there was no consensus as to what should be done.

By the mid-1980s, Nigeria had accumulated up to $5bn of insured trade debt in addition to arrears on London and Paris Club obligations. Promissory notes were issued against the trade arrears, and introduction of SAP reforms has paved the way for a series of London and Paris Club reschedulings.

adjustment process. There was general agreement (1) that the exchange rate was grossly overvalued, and (2) that the way the policy of controls was administered, with import licenses being blatantly abused, was merely putting profits in the hands of a few vested interests. Far from achieving their objectives of regulating the level and structure of imports, they were in fact causing great distortions.

Of all the SAP measures, devaluation was the most important and the most controversial, understandably because the high degree of openness of the economy makes exchange rate management a matter of critical importance for many macro-economic variables. It represented a most radical departure from previous policy. As can be seen from Table 1, the official exchange rate of the Naira with respect to the dollar depreciated from N0.892 per dollar in 1985 to N7.430 per dollar in 1989, and N8.041 in 1990. By August 1991, the rate had depreciated to N10.95 per dollar. The further devaluation of March 1992 brought the official rate N18.0 per dollar.

2.1 What devaluation was expected to achieve

The heavy devaluation of the naira in September 1986 was undoubtedly the most important measure in SAP. It represented a most radical departure from previous policy and was expected to play a central role in the implementation of SAP. The most important policy aims were to reduce the excessive demand for foreign exchange, particularly for the importation of finished goods and services; eliminate the prevailing distortions in the patterns of production and consumption; stimulate non-oil exports; attract an inflow of foreign capital, including the repatriation of foreign funds held by Nigerians abroad, and eliminate illegal currency trafficking, smuggling activities and other foreign exchange malpractices.

It was expected that, ultimately, these developments would result in a large degree of convertibility of the naira under which the benefits of trade expansion, larger investment inflow, efficient resource allocation and the absence of currency malpractices, can be sustained.

2.2 How devaluation was expected to work: the critical questions

As has frequently been pointed out, devaluation is simultaneously an expenditure switching and an expenditure reducing policy. By altering relative prices of traded and non-traded goods - i.e., increasing the prices, in domestic currency, of imports and exportable products, relative to those of non-traded goods - it is expected to encourage consumers to switch purchases away from traded to non-traded goods, and encourage producers to switch production to export goods and import substitutes. If the real world behaves true to the theory, the volume of exports will increase and the volume of imports will fall, and there may be a significant improvement in the balance of payments (provided that any fall in the foreign currency price of exports does not cancel out the effect of the increase in export volume).

As Riccardo Faini and Jaime de Melo have noted,

> "The relative effectiveness of expenditure-reducing and expenditure-switching policies depends on the marginal propensity to consume tradeables and on supply responsiveness. The lower the marginal propensity to consume tradeables, the less external adjustment will be obtained from a given demand reduction. And the more difficult it is to shift existing resources from non-tradeables to tradeable activities, the greater the required relative price shift (real exchange rate depreciation)."[1]

Furthermore, by raising the overall level of domestic prices, devaluation is also expected to reduce domestic absorption of goods and services, in real terms. The increase in domestic prices is also to be expected because, in the short run (with little change in the level of domestic production), increased exports and lower imports will lead to a reduction in the amount of goods and services available for domestic consumption and investment.

Given this situation, the critical question to consider is: what happens in the medium- and long-term ? If the overall level of domestic production can be expanded, more exports can be made available, and the reduced imports can be accommodated without serious shortages of domestic supplies. However, if there are serious bottlenecks in expanding domestic production, the principal aims of devaluation will be largely frustrated, and the economy may be locked in an inflationary spiral.

It is for this reason that most of the controversy generated by the policy of heavy devaluation in African countries turn on three factors:

- whether the changes in domestic production necessary to accommodate increased exports and reduced imports can be effected without serious inflation and without a significant reduction in domestic absorption;

- whether, in view of the poor demand prospects for primary commodities, an increase in the volume of exports will lead to a substantial increase in export earnings; and,

- whether devaluation will lead to increased inflow of foreign investment, thus simultaneously easing any decline in domestic investment and promoting productivity in critical sectors.

2.3 Some relevant observations on current exchange rate policies in developing countries

The failure of a large number of countries implementing SAP to resume sustainable growth, the failure of expected increase in foreign investment to materialize, and the decline in the ratio of investment to GDP, have sharpened the debate on SAP and led to serious questions about the efficacy of the policy mix and serious thoughts on alternative policies.

The paper by Riccardo Faini and Jaime de Melo cited earlier[2] has examined the impact of devaluation in 83 developing countries since 1965. They have classified the countries into three groups. The first comprises manufacturing exporters - those whose exports make up more than 30% of the total, or whose manufacturing output equals more than 13% of GDP (e.g. south Korea, Brazil, India, Argentina); the second, fuel exporters, where energy exports comprise more than 50% of their total exports (e.g. Mexico, Nigeria); the third group, the primary exporters (almost every sub-Saharan African country).

The authors find that from 1965 to 1985 a depreciation of the real exchange rate improved the trade balances of both manufacturers and primary exporters but not those of fuel producers. However, they found that, since 1981, there is no evidence that devaluations, by themselves, have improved the trade balances of primary producers. Even over the longer period from 1965, they believe that the trade balances of primary producers (i.e., mainly poor African countries) are affected much more by a reduction in demand than by a change in exchange rates. With little domestic industry, even a big change in the price of imports or exports is not likely to have a big impact on the industrial structure. They found that in the countries surveyed, only manufacturing exporters (mostly the East Asian countries) have resumed growth at pre-crisis levels.

The authors also conclude that the costs of devaluations, in terms of inflation, greater macroeconomic uncertainty and less investment, may be greater than are often thought, and that the benefits, at least for primary producers, do not seem as strong as have often been claimed.

3. THE MODALITIES AND IMPACT OF EXCHANGE RATE ADJUSTMENT IN NIGERIA

3.1 The modalities

The fact of devaluation cannot be dissociated from the actual modalities adopted for its implementation. Without doubt, the approach to the implementation of such a radical change of policy cannot but involve some degree of trial and error. As the following summary of the modalities adopted during the past four years clearly indicate, there has indeed been in Nigeria a good deal of trial and error.

"Dutch auction" versus "marginal pricing"

Perhaps the most important decision that had to be taken at the inception of the new exchange rate policy was whether to follow a **"Dutch auction"** or a **"marginal pricing"** approach for the determination of the exchange rate. Under the former, each bidder for foreign exchange whose bid is accepted must pay his bid price for foreign exchange. Under the latter, a single rate - the most appreciated bid price for which the available foreign exchange is exhausted, which is the market-clearing price - is applied to all successful bidders.

A second decision is whether there should be an interbank market for foreign exchange transactions, and how this is to be regulated.

Against this background, the following phases can be distinguished in the Nigerian experience:

(1) <u>In September 1986, a Second-tier Foreign Exchange Market (SFEM) was introduced to co-exist with a first-tier official market. At first, prices at the foreign exchange auctions were determined by the average of the bids submitted by banks. After the first two auctions, the marginal rate system was introduced. There was an inter-bank market.</u>

The first tier continued to have an administered rate covering certain official payments (payments of public sector debt services, payments to international organizations and to Nigerian embassies abroad, and various private sector transactions having their origin prior to the reform of the exchange system). The second tier covered all other transactions.

The first auction under the new system was held on September 26, 1986 when the naira rate was fixed at N4.2 to the dollar. Until March 1987, auctions were held on a weekly basis, with the price being determined by marginal bids; the price charged to all successful bidders was the price which exhausted the supply to the market. The naira fluctuated around N4.0 per dollar for most of 1987. The spread with the interbank rate was small but started to increase after March 1987 when the price in this market was liberalized.

(2) <u>In April 1987, in order to discourage high bids by banks, the Dutch Auction System (DAS) was introduced, under which each bank was made to buy foreign exchange at the bid rate which it submitted.</u>

The auctions were held on a bi-weekly basis. In the meantime, the autonomous, inter-bank, market had grown and there was strong suspicion that the banks were selling foreign exchange bought at the official market at much higher rates in the inter-bank market.

(3) <u>In June 1987, the Inter-Bank Foreign Exchange Market (IFEM) was introduced</u>.

Under this scheme, Government required all funds obtained at the auction to be resold at the price at which the funds were bought, subject to a dealing margin, the free inter-bank rate applying only to funds obtained from autonomous sources.

(4) <u>In July 1987, the two markets were merged into a single foreign exchange market (FEM).</u>

After the merging, downward pressure on the exchange rate sharply increased the differential between the exchange rates on the auction, where the depreciation was suppressed, and the inter-bank market, where the rate was free to respond to market pressures. Under FEM, the naira depreciated by 22.7 per cent between end-December 1987 and end-December 1988.

In the autonomous market it depreciated by 43.5 per cent during the same period. According to the Annual Report of the Central Bank of Nigeria (CBN) for 1988, "the persistent depreciation of the Naira exchange rate in the period reflected the interplay of several forces, notably short supply of foreign exchange in the face of high demand fuelled by the expansionary monetary and fiscal policies, speculative purchases of foreign exchange by economic agents, inflationary pressures and expectations, etc."

(5) In January 1989, the DAS was scrapped and FEM and the autonomous market were merged into one market - the Inter-Bank Foreign Exchange Market (IFEM).

The merging of the official and autonomous segments of the FEM, resulted in a single ruling exchange rate through daily auctions in the market. With the introduction of the new system, the central rate was determined at N 6.87 per US dollar. The rate depreciated further to N 7.58 in mid-February. According to the CBN, "although efforts were made to stem the intense demand pressures in the market, the naira exchange rate depreciated further due largely to the persistent gap between the supply and demand for foreign exchange."[3] In 1989, the average monthly amount of foreign exchange offered at the auctions was US $199.8 million as against a monthly average of US $1,444.8 million demanded by the banks participating in the auction.[4]

All official foreign exchange receipts, minus official external payments and deduction for addition to reserves, were allocated by the CBN to banks, based on their relative size. The CBN assumed full responsibility for determining the exchange rate using, among others, a simple or weighted average of quotations submitted by the banks on that day. Authorized dealers must sell foreign exchange obtained through the system at a margin of not more than one per cent of the buying rate.

Although, initially, the new arrangement introduced some stability into the foreign exchange market, it later turned out that the system did not function as designed. The bulk of the inter-bank market transactions escaped into the parallel market where the exchange rate was more depreciated. The auction market failed to reflect market conditions, and a wide margin opened up between the official and the parallel rates, reaching a margin of 40 per cent in February 1989.

(6) In August 1989, the Bureaux de Change was introduced.

These are licensed spot dealers in foreign exchange. They were established to accord legal recognition to small dealers in foreign exchange, expand the scope of the official market for foreign exchange transactions, and diminish the scope of the parallel markets. The number of such institutions grew from 52 in 1989 to 102 in 1991.

(7) <u>In December 1990, the Dutch Auction System was re-introduced</u>.

Before that, every bank submitting bids to the CBN was sure of an allocation of foreign exchange, no matter its bid rate. In December 1990, the CBN dismantled the Inter-Bank Foreign Exchange Market (IFEM) and re-installed the Dutch Auction System. Banks which formerly bought foreign exchange for themselves and then resold it to their customers were directed to bid for their customers only. This meant the scrapping of the inter-bank market for foreign exchange, where banks bought and sold foreign exchange among themselves. With the re-introduction of the Dutch Auction, not all banks were sure of receiving allocation of foreign exchange at the auctions.

With the re-introduction of the Dutch Auction system, CBN reclassified banks into six groups instead of the five that existed before. The three biggest banks in the first category - First Bank, Union Bank and UBA - each obtained 4.7 per cent of the foreign exchange on sale at each FEM session if they are successful; the next seven big banks obtain 2.1 per cent each; the thirteen banks in category 3 receive 1.65 per cent each; 12 in the fourth category get 1.3 per cent each; 30 in category five are allocated 0.8 per cent; and the 42 smallest banks making up category 6 obtain 0.45 per cent.

This categorization implies that 66 per cent of the foreign exchange available is controlled by 35 banks (27 per cent of the 120 banks in the country). The remaining 85 smaller banks compete for 40 per cent of the foreign exchange on offer at each SFEM bidding. Hence the intense competition at each SFEM session among the smallest banks.

The re-introduction of the Dutch Auction System caused a faster rate of depreciation in the rate of exchange of the naira because banks tended to bid high rates in order to be sure of getting an allocation. Whereas, between January 1989 and December 13 1990, the naira lost only a little above N2 against the dollar, which was considered quite moderate given the wide disparity between the demand and supply of foreign exchange, the naira depreciated substantially on the reintroduction of the Dutch auction system. This prompted a growing demand by bankers for a modification of the Dutch Auction system in order to allow the naira value to appreciate, and for an increase in the amount of foreign exchange supplied to the market. This demand, however, touches on the fundamental problem of demand and supply in the foreign exchange market since, in the final analysis, the rate of exchange will be determined by the amount of foreign exchange that the CBN can put into the market.[5]

In actual fact, the official rate has always been a managed rate rather than a rate that is determined by the free play of supply and demand. For example, the CBN was compelled to intervene not less that five times when the Dutch Auction was introduced in the early days of FEM. This should not be surprising. Few countries in the world, even the industrial countries, ever allow full free play in the markets for foreign exchange.

(8) In July 1991, the CBN introduced a weighted average in allocating foreign exchange to banks under the existing Dutch Auction System.

The aim of the policy which came into effect on August 14, 1991, was to compel banks to keep their bids relatively low and within the same close range. It has been suggested that the policy had some effect in narrowing the gap between the highest and lowest bids.[6]

(9) In March 1992, the official exchange rate of the naira was harmonized with the rate in the parallel market.

This was undoubtedly the most radical move in the deregulation of the naira since the currency was first devalued in September 1986. With the introduction of the new policy, the official N/$ rate depreciated immediately from N9.75 to N18.00.

Two implications of the new policy were "the discontinuation of the practice of allocating foreign exchange to banks in predetermined quotas and the active participation of the CBN in selling and buying of foreign exchange freely, to and from licensed foreign exchange dealers at the on-going market rates."[7] In effect, the market for foreign exchange became an interbank market, with the CBN becoming a participant in the market.

The new policy was dictated by the widening gap between the official exchange rate and the rate in the parallel market, which assured substantial profit margins to official foreign exchange dealers (in effect, all the commercial and merchant banks) allocated foreign exchange at official rates.

The major advantage of the new policy is to divert to government coffers the profits previously realized by the commercial and merchant banks from arbitrage operations in the foreign exchange market. However, the implications of the new policy for domestic costs and prices, and income distribution, have been more controversial, and the controversy has intensified as a result of the depreciation of the parallel market rate of exchange from N18.00 when the policy was introduced, to N23 by October 1992.

3.2 Implications of the characteristics of the Nigerian economy for the effectiveness of flexible exchange rates

Many of the major questions which featured in the fierce controversy which preceded the adoption of the flexible exchange rate policy, and has continued ever since, reflect the fears and doubts about the new policy arising from the special characteristics of the Nigerian economy.

First, on the export side, with oil accounting for more than 90 per cent of export earnings, the crucial question was how far devaluation will promote non-oil exports. And there were serious doubts both on the responsiveness of domestic production of non-oil exports to higher domestic prices of exportable products induced by devaluation, and about the world price prospects for such exports even if production could be expanded. Some observers believe that

there is little prospect of having more agricultural exports even with SFEM without seriously undermining domestic needs and fuelling inflation.[8]

Second, on the import side, there were doubts on the capacity of the economy to expand the production of import substitutes. These arose, in particular because of the heavy dependence of domestic production on the imports of goods and services, and the unreliability of basic services (especially, power, water, and telecommunications). Given such limitations, there were doubts whether the high domestic prices of imports induced by devaluation would cause a substantial reduction in the level of imports.

Third, given the production bottlenecks faced by the Nigerian economy, it was virtually inevitable that the impact of devaluation will fall heavily on domestic absorption, with devastating effects on both consumption and investment.

Finally, in view of other important impediments to foreign investment (e.g. political instability, frequent policy changes, and a hostile environment), there were doubts whether devaluation would have a significant positive impact on the inflow of foreign investment.

Five years is certainly a relatively short period within which to appraise the impact of devaluation in the economy. However, the experience so far points to a number of areas where some modifications of existing policy may be desirable. The critical questions to ask are: First, how far have the results expected from devaluation been achieved? To what extent, if any, has currency devaluation furthered the cause of adjustment in Nigeria, and how. What kind of adjustment has it led to, if any. Second, at what economic and social costs have these results been achieved? How successful have been the efforts made by the Nigerian Government to cushion the effects of the negative impact of devaluation? Finally, in the light of the experience so far, what changes in existing policy should be contemplated?

3.3 What devaluation has achieved

The devaluation of the naira has undoubtedly had some beneficial effects. However, these effects need to be analyzed with great care. In this connection, three main questions should be considered:

First, what has been the impact of devaluation on domestic production?

Second, what impact has it had on the value of exports?

Third, in what ways has devaluation affected the structure of imports, in particular the distribution of imports between consumer goods, on the one hand, and capital goods and raw materials, on the other?

These and related questions are discussed below, on the basis of the available evidence.

Agricultural Production

The impact of devaluation on agricultural production can be assessed on the basis of the information in Table 5. Although the annual changes in agricultural production reflect the quality of the harvests, the significant increases in several of the figures since 1987 can probably be attributed in part to the impact of the higher prices induced by devaluation.

Manufacturing production

The available evidence on industrial production is presented in Tables 6 to 8.

In the manufacturing sector, SAP was expected to i) promote the rationalization of production patterns to make domestic industries more competitive; and, ii) boost the export of manufactures. Devaluation of the naira was supposed to play a central role in the achievement of these objectives. To what extent have the objectives been achieved?

Devaluation has undoubtedly had a positive effect on domestic industries producing import substitutes, though the effect has been much less than expected. As can be seen from Table 6, the index of manufacturing production showed only a modest increase between 1983 and 1986, but rose significantly in 1987 and 1988. The increase was maintained in 1989 and 1990. The changes in the sectoral indices are particularly impressive in the case of soft drinks, synthetic fabrics, cement, soap and detergents, and roofing materials, while they are very disappointing in the case of vehicle assembly and radio and T.V.

The impact of devaluation on local industries seems to be closely related to the relative opportunities for such industries to shift from imported raw materials to local sources. Table 7 shows that, on the whole, there has been a marked reduction in the very heavy dependence on importation of inputs for local industries. This is particularly marked in such industries as textiles, beer and baking. It is evident that the industries that have done very well since devaluation are those with substantial opportunities for local sourcing. As can be seen from Table 8, capacity utilization is relatively high in such industries as Food, Beverages and Tobacco, Non-Metallic Mineral Products, Textile, Wearing Apparel and Products, and Wood and Furniture. It is precisely these industries that have shown marked expansion since devaluation. However, as Table 7 reveals, overall capacity utilization in local industries did not improve significantly since devaluation, rising only from 42.8 percent in 1987 to 46 percent in 1989. Table 8 shows the result of a CBN country-wide survey of capacity utilization in Nigerian industry. The survey covers 647 manufacturing establishments with a response rate of 60.4 percent. According to the Bank, the result shows an average increase in capacity utilization from 41.6 percent in 1989 to 43.2 percent in 1990.[9] The modest increase in overall capacity utilization is attributable to the difficulties experienced by those industries in low value-added activities without much opportunity for local sourcing, in particular motor vehicle assembly, electrical and electronics, and iron and steel and metal products, all of which have suffered significantly from the impact of devaluation. On the whole, however, rapid inflation has tended to boost manufacturing profit even where capacity utilization has been relatively low.

The 1991-93 Rolling Plan notes that the performance achieved by manufacturing industry in 1990 was attributable to industries such as sugar confectionery, soft drinks, cotton textiles, synthetic fabrics, footwear, paints and cement which have achieved high levels of utilization of local raw materials rather than industries that depend heavily on imports.[10]

It has been argued that such industries - vehicle assembly, electronics and dry-cell batteries - should never have been established. However, this is a rather pessimistic view, since the published figures for capacity utilization may not fully reflect some of the adjustments that those industries are slowly, and painfully, going through. As one observer has noted:

> "Structural adjustment since 1986 has forced manufacturers to restructure, developing local sources of supply as in the Nestlé group's new malt extract plant. At the same time, repair and servicing activities have assumed far greater importance. Vehicle manufacturers are focusing more on repairing the existing largely obsolete fleet, selling reconditioned engines and spares, rather than new cars.
>
> De-industrialization it may be, but it is also a type of activity far more appropriate to Nigeria's factor endowment - plentiful unskilled and semi-skilled labour and an acute scarcity of foreign exchange and capital."[11]

Be that as it may, the real difficulties of industry remain acute, particularly in the extremely high costs of infrastructure. According to the CBN estimate, 92 per cent of a sample of 179 firms have their own electricity generators. Nearly half the firms have their own boreholes, two-thirds have their own truck and van fleets and 37 per cent their own telecommunications equipment. Manufacturing industry is at a competitive disadvantage because of the operating and capital costs of providing this infrastructure.[12]

One positive trend resulting from the prohibitive prices of new machinery caused by devaluation is the renewed interest in the maintenance of physical assets and the local fabrication of spares and parts. Indeed, some observers have noted that a maintenance culture is gradually being cultivated.

There has also been some reduction of costs associated with the procurement of import licenses, excessive confirmation charges for letters of credit, over-loading of invoices by suppliers as a hedge against delays in receiving payments, and elimination of the pre-FEM 30 percent import levy from the cost structure of firms importing goods for manufacture and for resale.

However, on the whole, the response of domestic industries to the incentive provided by devaluation has been much below expectations. This has been explained by a number of factors. Chief among them are the substantially increased cost of foreign exchange resulting from devaluation, the high rate of interest, unreliability of basic services (in particular, power, water and telecommunications), and reduced consumer demand resulting from high product prices and lower real incomes.

The increased competitiveness of local industries which devaluation was supposed to promote is being undermined by the difficulties faced by domestic industries, particularly with respect to basic infrastructure. These keep the level of their productivity below what is required to enable them compete in world markets for manufactured goods. Although many industries are operating below capacity, and some have stocks of unsold surpluses, they are finding it difficult to produce exportable surpluses. Future prospects for exports will continue to be bleak unless productivity can be raised substantially. Without doubt, raising the overall level of industrial productivity should constitute one of the central elements of future policy.

The 1990-93 Rolling Plan notes that:

> "With easier access to and increased sectoral allocation of foreign exchange for import of raw materials, spares and machinery, as well as improved capacity to source industrial inputs, the sector is estimated to have achieved a real growth rate of 7.16 per cent during the year as evidenced by increases in production indices in the first half of the year. This compares fairly well with the 7.43 per cent growth target set in the plan. Most of the growth is accounted for by the use of more local raw materials in activities such as sugar confectionery, soft drinks, cotton textiles, footwear, paints and cement rather than industries that depended heavily on imports. On the whole, capacity utilization improved during the year from about 32 percent in 1989 to about 37 percent.[13]

More significant for the present paper is the Rolling Plan's explanation of why the manufacturing sector's growth rate was below expectation. It gives the following reasons:

i) weak consumer demand and rising stocks discouraged further production;

ii) steep increase in production costs due to sharp increases in interest rates, depreciation of the naira and further removal of subsidies on petroleum products, electricity and telephone facilities; and,

iii) the continued dependence of the sector on imported raw materials notwithstanding the gains that have been achieved from local sourcing of raw materials.

The Plan also notes some of the complaints by manufacturers which include shortage of raw materials, prohibitive cost of replacing equipments, increase in the cost of raw materials and high interest rates. The latter, in turn, led to high cost of production of finished goods. This, accompanied by consumer resistance, led to reduced demand. The other problem has to do with low level of investment, inadequate industrial infrastructure, including capacity for research and development.[14]

Non-oil exports

The devaluation of the naira in 1986 was accompanied by a wide range of incentive measures aimed at strengthening the non-oil export sector, and encouraging operators in this sector to take advantage of the higher domestic prices for exportables induced by devaluation. The incentives include the abolition of export licenses, retention of 25 per cent of foreign currency proceeds (later increased to 100 per cent) for the exporter's use, abolition of the agricultural commodity marketing boards, the establishment of a three-tier export financing fund, and the extension of pioneer status to companies manufacturing for export. In a further move to promote non-oil exports, the government established the Nigerian Export Processing Zone (NEPZ) in November 1991 with the object of introducing market-oriented economic and institutional reforms in a geographically limited area.[15]

In spite of these incentives, the response of non-oil exports to devaluation has been much less than expected. There has been only a marginal increase in the volume of non-oil commodity exports and an even less significant increase in the exports of manufactured goods. Table 11 shows that of the three most important non-oil commodities (cocoa, palm kernel and rubber) only the quantity of rubber has shown a consistent and significant increase since devaluation. Some of the increase in non-oil commodity exports since devaluation may be attributed to a reduction in the smuggling of exports across Nigeria's borders, and to increased attention to harvesting as a result of higher domestic currency prices of exportables and the various export incentives provided by the government. Indeed, at one point, the scramble for exportable commodity products by exporters was so intense that it diminished significantly the quantities available for sale to domestic processing industries, and there was a strong suspicion that exports of such products were being used as an avenue for capital exports. There were calls for a ban to be imposed on the exportation of products important for domestic industries and, in January 1990, the Government announced a 1991 ban on exports of cocoa beans. However, the ban was rescinded in October of the same year, before it ever came into effect.

It is obvious then that a full assessment of the impact of devaluation on non-oil commodity exports needs to take into account the increasing processing of such commodities for domestic use. Ideally, one needs to have a full picture of domestic production, domestic use and exports of such commodities to be able to assess the full impact of devaluation. However, available statistics on domestic production, and domestic use, are far from comprehensive or reliable.

The long-term impact of devaluation on non-oil exports may turn out to be much more favourable when producers and exporters have had more time to respond to the various incentives provided by the government. However, in the case of non-oil commodity exports, an important factor in the calculation of potential producers is the movement of world prices for the various commodities. For example, the weakening of world prices for some of the key commodities, particularly since 1987, has not created a favourable climate for new plantings.

The structure of imports

The impact of devaluation on imports can be assessed from the figures presented in Table 2. One important feature of the Table is the steady decline in the proportion of food in total imports since devaluation. However, this cannot be said for consumer goods in general. As Table 2 shows, in 1985, before devaluation (in September 1986), consumer goods as a proportion of total imports had fallen to 22.1 percent, while the proportion of capital goods and raw materials had risen to 76.3 percent, as compared with 41.5 and 58.3 percent, respectively, in 1983. Since devaluation, the proportion of consumer goods has edged upwards, in spite of the decline in the proportion of food in total imports, while the proportion of capital goods has edged somewhat downwards.

The official explanation of the trend in the structure of imports is as follows:

> "The distribution of total imports between consumer and producer goods is in the ratio of 21 and 79 per cent respectively. The share of food imports is expected to continue to decline over the period because of the pursuit of government policy of self-sufficiency in domestic food production. The imports of other consumer goods, especially durable consumer goods, is expected to be stable and positive as the economy is not in a position to make rapid gains in the local production of such goods. The import of transport equipment and passenger cars, is projected to record an average annual growth of about 20.9 per cent over the plan period."[16]

The decline in the proportion of food in total imports since devaluation is indeed a significant trend. While "the pursuit of government policy of self-sufficiency in domestic food production", in particular through various forms of subsidies, must have had some favourable effect on domestic food production, the trend has undoubtedly been helped by the higher domestic prices induced by devaluation.

The question that needs to be considered is why devaluation has not had the same favourable effect on other consumer goods. The official explanation quoted immediately above notes that, "the economy is not in a position to make rapid gains in the local production of such goods". Yet, this is one of the areas where devaluation must have a favourable impact in the short-term if it is to succeed in the long-term in having a significant impact on the composition of imports and the structure of the Nigerian economy.

The most recent evidence shows a substantial increase in the value of imports in the first half of 1991, compared with the corresponding period of 1990. Figures made available by the Central Bank of Nigeria (CBN) shows that aggregate imports are running at 59.1 per cent above the 1990 level. However, there has been some improvement in the structure of imports, with capital goods and raw materials accounting for 72 per cent of the total compared with 70 per cent for the corresponding period of 1990, while the proportion of consumer goods has decreased slightly, from 29.7 per cent in 1990 to 27.9 per cent in 1991. While a full evaluation

of the increased level of imports must await more information on how it has been financed, the CBN has nevertheless expressed concern about the trend. It notes that the financing has been associated in part with more public drawings on letters of credit. The CBN governor is reported to have noted that, rather than participate in the creation of the nation's wealth, a large percentage of Nigerians "have been consumers and spenders of the wealth coming from crude oil." He added that "until we channel our energy towards agricultural and industrial production and de-emphasize the dominance of oil wealth in our national productive output, the nation's economic problem may take time to overcome."[17]

Such a substantial increase in the level of imports during a period that the naira has depreciated more or less steadily in both the FEM and the parallel markets (see Table 4), must raise serious doubts about the efficacy of devaluation in curtailing the level of imports, and the success of other measures, in particular monetary and fiscal policies, in reinforcing, as expected, the impact of devaluation.

Allocation of foreign exchange

It has been claimed that under FEM the bulk of foreign exchange has been allocated to the directly productive sectors such as industry and agriculture. However, the extent to which this has been achieved has been contested. Some observers believe that, while FEM has succeeded in rationing foreign exchange to the banking institutions for onward sales to customers, it would seem to have shifted the locus of corruption to the banking sector since the banks apparently do not sell foreign exchange to their customers through the market mechanism but by some administrative criteria. Hence it is believed that a good deal of the foreign exchange obtained from auction finds its way to the parallel market rather than into the vital sectors designated by the authorities. Currently 73 banks are under investigation by the CBN over allegations of falsification of returns on their inter-bank foreign exchange transactions.[18] The impression about the diversion of foreign exchange obtained at FEM rates to the parallel market is so strong that the Manufacturing Association of Nigeria (MAN) has a pending application with the CBN for the establishment of its own merchant bank.[19] At least three government agencies - the Nigerian Postal Services Department (NIPOST), the Nigerian Maritime Authority (NMA), and the Ministry of Education, have also commenced plans to obtain banking licenses.[20]

Although there are fears that foreign exchange may have been diverted from capital goods and raw materials to the importation of consumer goods, there is no clear evidence from the trade figures to support these fears. The published figures for the first half of 1991 show a marked increase in the overall level of imports but a slight decrease in the proportion of consumer goods in the total.[21]

On the basis of the above evidence, it cannot be said categorically that devaluation has succeeded significantly in shifting foreign exchange expenditures in favour of capital goods. This is probably not surprising, considering two factors. First, in spite of official measures designed to ensure that the allocation of foreign exchange for imports under FEM give priority to capital goods and raw materials for industry, the proportion so allocated has not been significantly

higher than they were in 1985, before devaluation. Second, there are doubts, even in official circles, whether a significant amount of the foreign exchange sold at auction had been used as prescribed, without significant seepage into the parallel markets. Thirdly, there is increasing evidence that the production bottlenecks and marketing problems faced by local industries (in particular, the high cost of foreign exchange, high rates of interest, and unreliable infrastructural services), present serious constraints to industrial expansion, in spite of increased access to foreign exchange.

Overall balance of payments

There are two ways in which devaluation can be expected to improve the balance of payments on current account. These are through i), an increase in the dollar value of exports; and ii), a reduction in the dollar value of imports. The actual picture, presented in Table 9, shows that the current account balance is still influenced predominantly by the fluctuations in oil revenues. Non-oil exports, after increasing significantly in the two years following devaluation, have stabilized at lower levels since 1989. In any case, they represent such a small proportion of total imports (between 3 and 8 per cent in the period 1986-90) that even a significant increase does not have a perceptible impact on the balance of payments.

On the capital account, the picture is still dominated by debt repayments. However, the net outflow of private capital declined steadily after devaluation and the country recorded a small net inflow in 1990.

Foreign exchange malpractices

It has often been claimed that the level of foreign exchange malpractices has been reduced. What is surprising is that the parallel market still shows great vitality. While the Bureau de Change has attracted a great deal of the transactions that previously fueled the parallel market, it cannot be said that it has captured most of it, even though the margins between the rates in both markets have become very narrow. There is strong suspicion that the continuing vitality of the parallel market may not be unconnected with illegal transactions, for example, money laundering, which still find a safer haven in the parallel market.

Debt rescheduling

While the adoption of SAP has enabled the country to reach limited agreements with creditors on the rescheduling of the country's external debts, this has not led to any significant reduction in the overall debt burden. More importantly, it is not expected that agreement on major debt relief will be concluded until Nigeria is able to meet the macro-economic targets, in particular public borrowing targets, that the IMF considers necessary for the conclusion of a stand-by Fund agreement.

Capital inflows

The FEM has encouraged a greater inflow of autonomous foreign exchange resources into the banking system. However, a good deal of this represents repatriation of capital by Nigerians abroad rather than fresh inflow from foreign investors. While international capital has not flowed in as expected, there have been some recent indications of renewed interests by foreign investors. Apart from the petroleum sector, where an inflow of about $500m a year is expected, a foreign beverage producing company plans to expand its activities in Nigeria substantially. The new spurt of activity by foreign investors has been explained not only by devaluation, but also by changes in the Enterprise Promotion and Indigenisation Decree.

Overall Assessment

Two conclusions emerge from the evidence. First, the effect of devaluation has not been as significant as expected. Second, it is unlikely that the long-term expectations from devaluation will be realized without more official intervention in critical areas of policy which will make it possible to channel foreign exchange resources to the productive sectors of the economy, promote more investment in domestic industry, and restrict the importation of inessential consumer goods. More importantly, it is now generally agreed that a tighter rein over domestic credit is essential to arrest the steady deterioration in the free market rate of exchange. In this connection, recent liquidity mop-ups by the CBN have had only limited impact. The expectation is that open market operations by the CBN to control the volume of domestic credit will be more effective with the establishment of discount houses.

3.4 The economic and social costs of devaluation

There is general agreement that whatever the immediate gains from the structural adjustment programmes, of which devaluation is a central component, the manifest costs, and the uncertainties about long-term trends, give cause for serious concern. Some of the costs to African economies have been described graphically in several official reports. For example, the recent World Bank report points to deteriorating social indicators, institutions, and environment, sharply reduced expenditure on social services, deterioration of the educational system, worsening nutrition and infant mortality, open unemployment in the towns, especially of educated youth, and institutional decay symbolized by the poor conditions of once world-class universities.[22]

This description fits the Nigerian experience only too well. Indeed, the Nigerian Government has been alert to the economic and social costs of SAP and, early in June 1989, it introduced a number of remedial measures. Among them were i) special allocations to the National Directorate of Employment (NDE) and the Ministry of Works and Housing for special employment programmes, ii) special allocations to pharmaceutical companies for the direct importation of drugs, and iii) special allocation for the importation of motor spare parts.

An evaluation of the impact of these measures has been constrained by the short span of time within which they have been in existence. However, what is important is that special measures have been found necessary to redress the impact of the adjustment measures, and that some of these measures (such as special allocation of foreign exchange, and rates of interest below market rates, as in the case of the People's Bank) imply a departure from some of the key tenets of SAP. Indeed, one of the questions that will be raised in the concluding sections of this paper is whether there should not be more of such departures from the free market in the interest of redressing some of the glaring failures of the adjustment policy.

Impact on the terms of trade and domestic prices

The fact that a country's currency is now worth less than before, in terms of foreign currency, gives the impression that the country must necessarily suffer a decline in its real income. It is well known, however, that this would not happen unless devaluation led to a deterioration in the country's income terms of trade (the index of export values divided by the index of import prices) and, consequently, in domestic absorption. This is an extreme case which could arise if, because of low elasticity of foreign demand for the country's exports, devaluation actually led to a fall in the foreign currency value of exports. In other words, the adverse impact of a fall in the foreign currency price of exports resulting from devaluation (i.e. a deterioration in the terms of trade, assuming no change in the foreign currency price of imports) was not sufficiently offset by an increase in export volumes.

In the Nigerian situation, there is little evidence that devaluation per se has had an unfavourable impact on the terms of trade. This is not surprising, since Nigeria is not in a position to influence either the prices of her exports, or the prices of her imports. For these reasons, these prices, in terms of foreign currency, tend to remain unaffected by devaluation. The implication is that domestic currency prices of imports and exports tend to rise by the full amount of devaluation. Hence, a good deal of the immediate impact of devaluation depends on the effects of the rise in domestic prices of traded goods on domestic production and domestic income distribution.

The expectation was that the increase in the domestic prices of traded goods would be quickly transmitted to the markets for non-traded goods, thus raising the general level of domestic prices,

Unfortunately, the evidence about changes in domestic prices in Nigeria since devaluation has been somewhat controversial. Secondly, it is not an easy task to isolate the impact of devaluation on inflation from the impact of other factors, such as the fluctuations in the domestic harvests for the staple products. Thirdly, it has been pointed out, with some justification, that many domestic prices already reflected the rates of exchange in the parallel market even before the official devaluation of the naira.

The annual changes in the official consumer price indices are presented in Table 3. While the inflation rates since 1987 have been generally higher (since 1988, much higher) than the rates in 1986, the actual escalation in the rates occurred not in 1987 (the first year following devaluation), but in 1988 and 1989.

There is little doubt that a major effect of the substantial depreciation of the naira has been increased cost-push inflation, although monetary and fiscal policies have also been responsible for the high inflation rates. Deregulation of wages, and elimination or reduction of subsidies for some products and services of public enterprises, must also have contributed to the increase in domestic prices.

While it was expected that some increase in the inflation rate would accompany the heavy devaluation of the naira, it has been disappointing that this has not been significantly ameliorated by the expected expansion in domestic production. Nevertheless, the lower inflation rates recorded in 1990 provided a welcome break in the high levels recorded since devaluation. According to the Rolling Plan, the reasons for the downward trend include "the continued pursuit of restrictive and tight fiscal and monetary policies, improvement in the domestic supply situation brought about by the generally good harvest of 1989 and stepped-up efforts at the development of infrastructural facilities needed to transport, preserve, process and store agricultural produce.[23] The CBN Annual Report for 1990 also notes that "the pressure on domestic prices eased substantially due in large part to the enhanced domestic supply situation, especially of food staples and to some extent the action taken to dampen aggregate demand through the restrictive monetary policy pursued. Some doubts have been expressed about the extent of the fall in prices in 1990, but no credible alternative figures have been proposed. However, the most recent evidence shows that inflationary pressures increased in the first half of 1991.

Because of the further devaluation of the naira in March 1992, the inflation picture in 1992 is likely to be different from that of 1991. In its Economic Report for the first half of 1992, the CBN notes that "the inflation rate more than doubled the rate observed in 1991, resulting largely from higher production costs emanating from the restoration of deregulated interest rates in January and the unification of the official and parallel market rates in March."[24]

Another factor explaining the higher inflation rate in 1992 is the substantial increase in the money supply. This is due partly to the fiscal operations of the Federal government, where the level of the deficit has been consistently higher than the target, and to a significant increase in banking system credit to the private sector.

On the whole, therefore, domestic inflation rates have certainly risen faster than those of Nigeria's trading partners, and this has narrowed some of the competitive advantage that the country expected to derive from the devaluation of the naira.

Impact on income distribution

The effect of devaluation on income distribution is even more difficult to analyze. However, the lag between the rise in domestic prices, on the one hand, and domestic wages and salaries, on the other, implies that wage and salary earners have suffered substantial reductions in real incomes, while those with substantial incomes from profits and rents must have greatly benefitted. Another favoured group are the producers of export crops: cocoa, oil seeds, hides and skins etc.

On the whole, it can be said that devaluation has undoubtedly worsened the structure of income distribution. While unemployment levels have risen sharply, many industries have been making substantial profits, in spite of low capacity utilization, because of the inflationary trends. Even more spectacular has been the unusually high profits made by the banks - a fact accounting for the astonishing growth in the number of banks since devaluation.

The effect of the instability of the exchange rate on the economy

The impact of the instability of the exchange rate on the economy as a whole has been of concern to the authorities. The rate of exchange depreciated by 20 per cent between 1986 and 1987. By December 1988 it had depreciated further by 22.7 per cent, and by the end of 1989 it had depreciated by a further 30 per cent (Table 1). For a time, the rate of depreciation was moderated. During the one-year period ending in February 1990, the naira exchange rate depreciated by only 3.9 per cent. The parallel market premium was reduced substantially. It increased from 9.4 per cent at the end of 1987 to 56.1 per cent at the end of 1988, but narrowed to 24.0 per cent in December 1989. This moderation in the rate of depreciation was short-lived. Since 1989, because demand has generally exceeded supply, the depreciation of the naira exchange rate has been more pronounced. By July 1991, the Bureau de Change rate has depreciated to over 14 naira to the dollar.(See Table 4).

Frequent institutional adjustments have added to the instability which has been detrimental to planning. To some business operators, instability of the rate, rather than the actual level of the rate, has been the main problem of the naira exchange rate since SAP. It has been argued that the frequent bidding sessions and the wide swings in the exchange rates which are determined at these sessions have made corporate, investment and production planning highly risky and difficult.[25]

The impact of the instability of the exchange rate and the frequent institutional changes have been different. Against the background of the changing modalities for the allocation of foreign exchange, banking business has become perhaps the most profitable enterprise in the post-devaluation era. In 1988, the number of commercial banks operating in the country rose from 34 to 42, while the number of merchant banks rose from 16 to 24. In 1989, the number of commercial banks increased by 6 to 47, while the number of merchant banks increased by 10 to 34. In 1990, 11 commercial banks, and 14 merchant banks commenced operation. The rapid expansion of the banking industry and increased risk of bank failure has caused the CBN

to introduce regulatory reforms in the banking system aimed at enhancing the capital base of banks and promoting more professional approach to bank lending and provisioning for non-performing credits. Measures introduced include risk-weighted measure of capital adequacy, increase in minimum capital requirement, and regulation stipulating that at least 50 per cent of banks' capital must comprise primary capital, defined as paid-up capital and reserves.[26]

The primary aim of the CBN was to ensure that the limited amount of foreign exchange available was channelled towards the most productive sectors. However, no matter what system was used in allocating foreign exchange to the banks, it was not an easy task for the CBN to ensure that there was no seepage between the official allocations and the parallel market. In fact, there was no effective machinery to ensure that the stipulated allocations were followed.

Debate continues about the equilibrium level of the exchange rate. While some believe that the rate has moved reasonably to its equilibrium level, others have argued that the naira has become undervalued. There seems to be general agreement, however, that, while the FEM has narrowed the margin between exchange rates in official and parallel markets, it is not likely to close the gap in the foreseeable future. One view is that the naira exchange rate should be managed at a fixed rate within a narrow band of fluctuation.

There has also been some discussion on the effects of currency fluctuations on short-term capital movements, in particular on people's decision to keep balances at home or abroad, and whether, since devaluation, short-term capital movements have been stabilizing or destabilizing. It is feared in particular that when the naira is headed downwards, speculators will be encouraged to buy and export foreign exchange for subsequent repatriation at a profit when the naira further depreciates. However, others doubt whether those transferring dollars abroad have the intention of repatriating it. It is also suspected that when the local rate of interest was high, Nigerians borrowed abroad at not more than ten per cent per annum and imported foreign exchange for conversion into naira and investment in Nigeria. Such capital transactions must have declined, as it would have become unprofitable, with the steady decline in the naira exchange rate and the fall in local interest rates.

Here is an area where facts and figures are hard to come by. However, it is important enough to warrant more research. The implication for the policy maker is that, in an environment of freer markets for foreign exchange, and absence of major exchange restrictions, policies on real exchange rates and real interest rates have to be conceived with an eye on what is happening abroad. This is one of the limitations imposed by freer markets and the philosophy of greater openness of the economy which underlies SAP.

The lesson for policy is that if a country, for administrative or other reasons, cannot enforce the controls which it imposes, the case for freer markets is unassailable, even though there may be valid economic arguments for imposing such controls.

Impact on small-scale industry

The National Rolling Plan notes that "for the Industrial Sector, the emphasis is on the creation of the right environment, including the provision of infrastructure that will enable small and medium scale private industries to thrive. If this objective is to be fulfilled, more would have to be done for small-scale industries.[27]

On the whole, devaluation has been detrimental to the vast number of small-scale industries which constitute an important sector of the Nigerian economy. They are the production segment of Nigeria's huge informal sector which is expected to play a major role in the various schemes to reduce the level of unemployment. The operators in this sector have been particularly hit by the impact of devaluation. Usually, they are unable to go through the elaborate process that will enable them to obtain foreign exchange at the official (FEM) rates. In addition, they suffer most severely from the unreliability of basic services, in particular power and water, as they are usually incapable of providing standby facilities to compensate for the persistent failures of such services.

The World Bank and the African Development Bank (ADB) have provided special assistance to small-scale industry through the National Economic Reconstruction Fund (NERFUND), operated by the banks, the ADB alone providing $130 million. However, this assistance is far below what is needed to make a significant impact on Nigeria's vast and dynamic small-scale industry sector.

Impact on manufacturing industry

Devaluation has contributed to the high investment costs in Nigerian manufacturing industry and, consequently, to low investment levels. It may also have inhibited the flow of foreign investment which it was expected to promote.

It is generally believed that investment levels are low because of high cost of foreign exchange, high interest rates and high replacement costs of machinery - all this in the face of consumer resistance to high domestic prices for consumer goods resulting largely from devaluation.

One observer has described the decline in the ratio of investment to GNP as the "great shortcoming of structural adjustment lending in the 1980s"[28] Another observer has noted that "a real exchange rate depreciation is expected to promote investment by increasing the availability of foreign exchange. This may not happen, however, since a real exchange rate devaluation may substantially raise the real cost of capital goods"[29] According to Riccardo Faini and Jaime de Melo, "the sharp fall in the share of investment in GDP in developing countries...does not bode well for a consolidation of adjustment achievements to date in the absence of a significant increase in the efficiency of investment. Lower investment not only reduces future productive capacity, it also engenders lowered expectations for future growth....In addition, lower investment limits the scope for resource reallocation in response to reforms

throughout the economy. Yet, it is resource reallocation to the new set of incentives created by the reforms that is expected to play a crucial role in most adjustment-with-growth programmes"[30]

It has been suggested that one consequence of low investment in Nigerian industry is an ageing capital stock. One survey is reported to have found that three-quarters of manufacturing equipment is between 10 and 20 years old, and 15 per cent more than 20 years old, with only 10 per cent installed in the last seven years. According to a recent Financial Times Survey on Nigeria, "this finding casts doubt on the reliability of capacity utilization ratios, since it is clear that actual capacity is well below rated capacity. The theory that output can be doubled simply by using existing capacity does not stand up, not just because of this but also because the skills and infrastructure are not available."[31]

Impact on unemployment

There is a general awareness that SAP has contributed to a sharp increase in unemployment, particularly among urban workers. One visible manifestation of such increase is the high level of retrenchment, in particular of public employees, and the increasing difficulties experienced by graduates in finding employment. In response to the situation, the Nigerian government established the National Directorate of Employment (NDE) in 1987 as part of a series of measures aimed at reducing the social costs of SAP. Among others, the NDE launched the integrated self-employment scheme which provided easier access to loans for use as initial capital by small-scale investors. Loans ranging from N1,000 to N6,000 were approved for graduates, retrenched workers and post-primary school leavers who wanted to engage in farming and small-scale industrial projects.

Impact on economic relations with other African countries

Several questions can be posed on the implications of flexible exchange rate policy for Nigeria's economic relations with other African countries. Within this context, relations with ECOWAS countries, in general, and CFA countries, in particular, need particular attention. Beyond that, it may be apt to examine also how the exchange rate policy will affect Nigeria's response to the challenges that a post-apartheid South Africa will pose for the country in African markets. Although this latter issue is still speculative, it underlines the need for Nigeria to improve her production base sufficiently to be able to take full advantage of devaluation and face the stiff competition that the more structurally developed South African economy will pose in the future.

The more immediate question is the implication of devaluation for Nigeria's trade relations other with African countries, in particular ECOWAS and other neighbouring countries.

With the introduction of flexible exchange rate policies in a number of West African countries, particularly in Nigeria which accounts for about half the GDP of the subregion, the future of the CFA arrangement in the Francophone African countries has come under increasing

scrutiny. Can the CFA arrangement survive the new changes in neighbouring countries? Is a devaluation of the CFA franc imminent? Such questions have become even more urgent because of the move towards monetary union in Europe and its possible implications for the CFA countries.

The answers to such questions need to be based on a thorough analysis of how the CFA system has worked, the advantages and disadvantages that have become evident, compared with the experience of non-CFA countries, and the actual trends in trade and monetary movements since the introduction of flexible exchange rates in the non-CFA countries.

The advantages of the CFA arrangement have been very well documented. Members of the arrangement enjoy all the advantages of a hard currency area, and the strict monetary discipline built into the system confers upon them a rare degree of monetary stability. This is in sharp contrast to the experience of the neighbouring anglophone countries, in particular Nigeria and Ghana, whose examples are often cited to justify a continuation of the CFA system.[32]

However, the disadvantages of the system have also become apparent in recent years as a result of the downturn in the economies of the CFA countries, caused by the sharp reduction in export earnings, and the growing outflow of foreign capital. It is these developments, more than the pressure arising from the devaluation of the neighbouring currencies, that have prompted a major debate on whether the CFA franc should be devalued. However, the latter developments have also been a major element in the continuing general debate on the efficacy of devaluation in African countries.

While it is generally admitted that the devaluation of the non-CFA currencies have provided the devaluing countries with a margin of competitive advantage, no firm figures are as yet available as to the exact magnitude of the increase in their exports to the CFA countries. What can be said is that however large the margin of advantage of the devaluing countries in the first months of devaluation, a good deal of it must have been eroded by the subsequent higher inflation rates in the devaluing countries as compared with the CFA countries. For example, some published figures show that inflation rates in the devaluing non-CFA countries have been two to three times as high as in the non-devaluing CFA countries during the past five years.[33] Indeed, those who are opposed to the devaluation of the CFA franc have supported their arguments by pointing to the higher inflationary trends in the devaluing countries.

It thus seem that the real pressure for the devaluation of the CFA franc will come from three sources: first, the liquidity crunch in the CFA countries, prompted by the decline in export earnings and the outflow of capital; second, developments in Europe, particularly with respect to the move towards monetary union; and three, pressures from the international financial institutions.[34] The devaluations of the neighbouring currencies will be a major factor only if the rates of inflation in the devaluing countries can be kept sufficiently low to provide a major depreciation of the real exchange rate.

4. CO-ORDINATION OF EXCHANGE RATE POLICY WITH OTHER POLICY MEASURES

When SAP was adopted in 1986, it was recognized that other measures, apart from the devaluation of the currency, were essential to the success of the new policy. The most important of such measures were:

- measures to stimulate domestic production and broaden the supply base of the economy;
- further rationalization and restructuring of tariffs in order to aid industrial diversification;
- deregulation of the monetary and financial system while maintaining a tight control over budgetary deficits;
- substantial trade and payments liberalization;
- adoption of appropriate pricing policies, especially for petroleum products and public enterprises; and,
- encouragement of rationalization and privatization of public sector enterprises.

The overall intention was to dismantle most of the administrative controls that had proved ineffective, rely more on market forces in domestic pricing of goods and services, and in the allocation of the country's foreign exchange resources.

How far have these policy measures that were expected to support the new exchange rate policy been effective ?

Monetary policy

The interest rate is undoubtedly a factor influencing the naira-dollar exchange rate. It has been suggested that when the 1990 budget pegged interest rate at 21 per cent (down from the 30 per cent that prevailed before the Budget) in response to the complaints of industrialists that high interest rates were stifling industrial production, this made it easier for manufacturers to borrow from the banks to fund their activities, including their bids for foreign exchange allocations. It is believed that this has contributed to the further depreciation of the exchange rate since the 1990 Budget. Hence, it is claimed that what the manufacturers gained in lower interest rates, they are losing in the depreciation of the naira.

As earlier noted, lower local interest rates may also have had a depreciating effect on the exchange rate by reducing the inflow of short-term foreign funds.[35]

Trade Liberalization

An important feature of SAP was the elimination of import licensing and initial steps to reform the structure of tariffs. Virtually all price controls and import licensing requirements were abolished at the start of SFEM, and the import prohibition list was reduced. The Government also abolished the 30 per cent import surcharge and adopted an interim import duty and excise schedule which somewhat reduced the level of protection.

While the liberalization of the importation of intermediate products needed in domestic industries has been generally welcomed, the liberalization of some finished products, particularly where domestic industries producing similar goods are still very uncompetitive, has been more controversial. An important example of the latter group of products is passenger cars. Since imports of cars were liberalized, the Nigerian market has been flooded by almost all brands of cars imaginable, and the automotive industry in the country is now on the point of collapse. According to the President of the Nigerian Institute of Automotive Engineer Assessors, Nigeria has become a dumping ground for all sorts of vehicles in the past few years. He added that a recent survey had confirmed that there were over 154 models of vehicles on Nigerian roads, and that this was a dangerous trend.[36]

Fiscal Policy

In order to forestall excessive pressure on the exchange rate and on prices, fiscal restraints played an important role in the design of SAP. However, the indications are that the restraints have not been kept consistently. Indeed, for most years since the first devaluation of the naira in 1986, the growth rates of the money supply (M1) have exceeded their stipulated targets, and the trend has continued in 1992. As Table 10 shows, aggregate credit to the economy was particularly excessive in 1988 and 1991. The same was true for the second half of 1990. In its Annual Report and Statement of Accounts for that year, the CBN noted that:

> "during the second half of the year, high government spending, resulting in a larger fiscal deficit than projected, induced a rapid monetary expansion and a big increase in domestic liquidity. This development exerted considerable pressure on the naira exchange rate which depreciated persistently. The continued depreciation of the naira exchange rate and the prevailing high levels of market interest rates tended to slow down the growth of output, particularly in the non-oil sectors."[37]

According to new figures published by the CBN, higher than projected deficits continued in the first half of 1991, fuelling public concern that this has been partly responsible for intensified inflationary pressures, and the substantial depreciation in the naira rate of exchange, in recent months. The CBN notes in its Annual Report for 1991 that aggregate banking system's credit to the economy in that year grew at a rapid rate of 45.3 per cent, considerably in excess of the 10.6 per cent target fixed for that year. The CBN's Economic Report for the first half of 1992 also notes that during this period, the money stock increased by 26.5 per cent, which is 2.2 per cent in excess of the target.

An attempt by the CBN Governor to explain the persistent increase in the money supply above the stipulated targets by reference to the increased expenditure on debt servicing has not been entirely convincing.[38] In an editorial responding to the CBN's explanation, The Guardian newspaper has noted:

> "The situation is more worrying because the level of government spending and the objective of a surplus budget was only one of the several interrelated objectives of the macro-economy during this 1991 financial year. Therefore, the distortion of one automatically results in the distortion of all the others, primarily among which are the rate of inflation, the rate of interest and the exchange rate. These three, taken with the rate of government spending/borrowing, also significantly affect the rate of investment in the economy and hence the productivity rate of aggregate production and growth.
>
> As it is now, the Nigerian economy is likely to record high rates of inflation, interest and exchange so long as the rate of government spending far exceeds her income and the budget. Little wonder then the naira has been falling and the 21 per cent interest rate could not hold.
>
> Since the source of this distortion is largely government spending and borrowing, the Federal Government should hold its spending tendency in reins and see that the economy is managed as per the plans of January 1, 1991."[39]

The opinion expressed in this editorial cannot be lightly ignored. The control of inflation is crucial to the success of the whole reform policy of which devaluation is a central element. Without tight reins over domestic inflation, the country could experience the worst of both worlds in many areas of policy. First, in a situation of continuing depreciation of the naira, high domestic interest rates, which restrict domestic growth, may still not attract foreign investment, in particular, if because of further depreciation of the naira, they yield negative interest rates to the foreign investor. Second, the competitive advantage provided by a nominal depreciation of the currency may be so seriously eroded by domestic inflation that the real depreciation is only a fraction of the nominal. Indeed, it has been argued that devaluation is pointless unless it changes the real exchange rate.[40]

Plan Implementation

Without any doubt, the implementation of most of the objectives outlined in the Rolling Plan will ease some of the critical constraints that prevent the full realization of the advantages that could be derived from devaluation. This is why it is important that exchange rate policy itself should not inhibit the implementation of the Plan. According to the 1991-93 Rolling Plan, the main problems plaguing programme implementation at all levels of government include:

i) resource constraints due to rising recurrent expenditures;

ii) cost overruns that made nonsense of plan/budget provisions and prevented a lot of projects from taking off;

iii) extra-budgetary expenditures which exerted a 'crowding-out-effect' on plan programmes;

iv) the high incidence of non-plan programmes; and,

v) problems in providing counterpart funds and meeting down-payment requirements for projects under external financing.[41]

5. POSSIBLE ALTERNATIVE APPROACHES TO EXCHANGE RATE POLICY IN NIGERIA

5.1 The search for alternatives: the crucial questions

There is general recognition that the expectations of SAP have not been fully fulfilled, and there are many suggestions on how present policy could be replaced or modified. In this context, a number of crucial questions confront the policy makers whether in establishing conditions for the success of the present policy or in designing new or modified strategies for the future. The most important of such questions are the following:

How should foreign exchange receipts be allocated?

What options should be given to the CBN to intervene in the foreign exchange market?

What is a realistic exchange rate in Nigerian circumstances ?

How should the use of foreign exchange allocations by the recipients be monitored?

Given the experience of operating the present policy, what are the alternatives that could be considered ?

How feasible is a multiple exchange rate system (MERS) as an alternative to the present system ?

How should a possible MERS be designed in terms of i) objectives, ii) the markets to separate and differentiate, iii) degree of complexity, iv) the administrative and institutional machinery needed for the successful implementation, and v) the complementary policies that will be needed to make it work ?

The Nigerian experience shows that these are not easy questions to answer and that, in the final analysis, there would have to be trade-offs between apparently conflicting policies.

Consider, for example, the allocation of foreign exchange resources. One major characteristic of the Nigerian situation is that close to 90 per cent of the country's foreign exchange receipts accrue directly to the government through the sale of petroleum resources. Hence the crucial question is how these receipts are fed into the economy. Before SAP, the system was based on allocation to those who obtained import licenses. On the advent of SAP, it was fed into the system by allocation to the commercial and merchant banks on the basis of bids and predetermined ratios. However, collusion among the banks did not ensure that bid prices reflected the scarcity of foreign exchange, while the use of pre-determined ratios in the allocation among the banks opened avenues to these institutions to make assured profits from arbitrage operations in the foreign exchange market. Furthermore, the substantially lower official exchange rates, compared with the rates ruling in the parallel markets, could not be justified on the basis of channelling foreign exchange resources to the most productive sectors. The reason is that the mechanism established by the CBN for monitoring the use of foreign exchange resources obtained at official rates did not work effectively.

The further deregulation of the foreign exchange market in March 1992 was expected to remove the allocation system and thereby close the avenues for profitable arbitrage operations by the banking system. The policy will, of course, succeed only if the official rate of exchange - the rate at which the CBN sells foreign exchange to authorized buyers - closely reflects the rate in the parallel market. The implication is that, if the CBN is not to continue to chase an ever moving target - that is, a steadily deteriorating rate of exchange in the parallel market - the government would have to take measures to reduce the pressures on the parallel market. In other words, deregulation of the foreign exchange market will succeed only if a tight rein is kept on policy in other spheres, in particular in the areas of monetary and fiscal policy.

Maintaining stability in the foreign exchange market will not mean the end of the story. The government would also have to ensure i) that measures are taken to address the implications of the policy for domestic prices and incomes, and ii) that the deregulated market does not price out critical sectors of the economy from their foreign exchange requirements. These are only a few of the realities that must be faced and dilemmas that must be resolved if deregulation of the foreign exchange market is to contribute to stable development in the long run.

5.2 Facing the realities and dilemmas

Whatever policy changes are contemplated for the future, a number of realities that are important in the Nigerian situation would have to be taken into account. The fundamental causes of exchange rate instability will not disappear overnight whatever policy is pursued. In particular, future strategy must contend with:

- falling commodity prices in the world markets which will limit the advantages of promoting production and exports of primary products;

- difficulties of breaking into the export markets for manufactured goods;

- heavy drain of debt servicing on foreign exchange resources, which raises the question whether Nigeria can succeed with SAP as long as it remains a net exporter of capital to service its debt - a situation that is hardly compatible with the needs of a run-down economy;

- the rising demand for services from a population growing at 3 per cent per annum, and which is expected to reach 150 million by the year 2000. Confronted with this trend, even a rate of growth of 4 per cent per annum will not be sufficient to maintain present standards of living; and,

- rising costs of investment and declining purchasing power have been detrimental to foreign investors.

The Financial Times has summed up some of the worrying trends that have to be reversed if Nigeria's expectations from SAP are to be met. It notes:

> "Unemployment is growing and the country's infrastructure and social services are deteriorating: the telephone system is unreliable; power supply is unreliable; the transport system is ageing; many industries need re-equipping; schools, universities and hospitals are poorly equipped; and environmental problems in Northern Nigeria are mounting as desertification gathers pace."[42]

Aside from these realities, there are a number of other challenges that would have to be met. First, the debt over-hang, uncertainties about oil prices and the prices of non-oil exports, and uncertainties about foreign investment, all imply that resources are going to be very short. Second, the pressure of demand on the limited resources, both for the rehabilitation of crumbling infrastructure and for improvements and expansion needed for growth, is going to be considerable. Third, the Nigerian public would have to be required to sustain a good deal of sacrifice in many areas for quite some time to come. For example, they may even have to be required to bear even greater sacrifices in some areas, for example in an increased domestic price for petroleum. Fourth, it would be easier to persuade the Nigerian public to sustain the sacrifices of SAP much longer if a new level of trust and confidence between the government and the public can be established. This would imply a thorough review of the existing order of priorities, and new measures to improve the transparency of government actions in many critical areas of policy, notably the sale of petroleum and the award of contracts. In the Nigerian context, these measures constitute essential aspects of the political management of economic reform and adjustment - a critical element in assuring the eventual success of adjustment measures.[43] Finally, within the framework of the present Rolling Plan, a crash programme could be conceived to step up present efforts to achieve substantial improvements in the basie services (water, power and telecommunications) that are crucial to a significant improvement in overall productivity.

A number of dilemmas must also be resolved:

- Promoting non-oil exports, and reducing dependence of domestic production on imports, would require substantial allocation of foreign exchange to those sectors. However, the heavy drain on debt-servicing will reduce foreign exchange available for these purposes.

- Liberalization of imports, while it could contribute to the lowering of domestic prices, must nevertheless be tailored to the needs of reducing import dependence, and should not be detrimental to the development of small-scale industries and the promotion of employment.

- Foreign exchange arrangements must not increase the cost of manufacturing to the extent that what is produced cannot be sold.

- Unless the productivity of domestic industries can be improved significantly, substantial reduction in the importation of consumer goods, induced by devaluation, will result in escalating rate of domestic inflation.

An illustration of the kind of dilemma that policy makers may face is provided by Mohsin S. Khan:

> "Once a target for the exchange rate has been chosen, policies to achieve it must be chosen. In principle it would be possible to hold the nominal exchange rate constant and adopt deflationary policies to force down domestic prices and wages. In practice, prices and wages tend to be sticky, so deflation by itself would likely cause substantial falls in output and employment. Nor would a nominal devaluation be enough on its own: without supporting policies that limit the increase in domestic prices, it would have only a transitory effect on the real exchange rate. In the long run domestic prices will rise by the full amount of the devaluation, returning the real exchange rate to its original level. The extent to which nominal exchange rate action affects the real exchange rate - and for how long - depends directly on the supporting measures - fiscal, monetary, trade and wage policies - that are adopted".[44]

It is against the background of the above considerations that future changes in the implementation of SAP should be conceived. The policy should not be based mainly on merely balancing the books - that is, maintaining fiscal discipline and sound balance of payments policy. It must also be justified in terms of its contribution to increasing the responsiveness of the economy to market forces. If this necessitates a departure from market forces in certain circumstances, there should be no hesitation in doing so, provided that such measures are not conceived as permanent mechanisms.

5.3 One approach to future policy: emphasis on a limited set of economic and social priorities

One approach to future policy is to identify a number of priority tasks in the economic and social sectors that need to be accomplished in order to lay a solid foundation for the resumption of growth and, at the same time, ease some of the adverse social effects of SAP. This could be done within the framework of the present Rolling Plan. The starting point could be some of those vital areas of the economy, such as education and health, that are virtually on the point of collapse, as well as the critical services, such as transportation, water, energy and communications, that are imperative for improving the productivity of domestic industries.

Once these priority areas have been identified, a package of policy measures should be designed to achieve a rehabilitation programme over a given period. Such a package could include special budgetary allocation, concessional sales of foreign exchange, loans at concessional interest rates etc. Some critics would argue that everything should be done through the budget, and that there should be no departures from the market-determined exchange rates and rates of interest. However, in the Nigerian situation, deregulation should not imply that the government remains a passive observer of trends that may be inimical to national development in the long run. However, if departures from market principles are to be credible, they would have to be justified on grounds that are related to long-term development and poverty alleviation. The sale of foreign exchange at concessional rates for the purpose of religious pilgrimage would be hard to justify on such grounds.

5.4 African Alternative Framework to Structural Adjustment Programmes for Socio-Economic Recovery and Transformation (AAF-SAP)

It is in the context of alternative strategies that the African Alternative Framework to Structural Adjustment Programmes for Socio-Economic Recovery and Transformation (AAF-SAP), proposed by the ECA, needs to be considered. The AAF-SAP proposes an alternative policy to SAP based on "careful use of multiple exchange rates; differential interest rates; and production subsidies and price support measures as core policy instruments". Of these measures, the one that has given rise to major controversy is the multiple exchange rate system (MERS). It is a controversy of long standing.

It is argued in AAF-SAP that: (i) discrimination in the pricing of foreign exchange will ensure the rationing and channelling of scarce foreign exchange resources to priority areas; and, (ii) MERS could be designed in a simple but responsive way which combines the advantages of both fixed and floating rates while minimizing their disadvantages. An important caveat is added however, i.e., that the design of MERS "must be guided by a thorough understanding of the working and constraints of the economy concerned as well as by experience gained by countries which have applied these instruments particularly in Africa and Latin America. The implementation of MERS requires an efficient and honest bureaucracy as well as transparent and accountable administration."

Viewed against the background of the Nigerian experience, the following observations can be made:

Since operations in the Bureau de Change have more or less displaced transactions in the parallel market, it can be said that, for all practical purposes, a dual rate of exchange now prevails in the Nigerian foreign exchange market: the official or FEM rate and the Bureau de Change rate. Table 4 shows that the margins between the two rates have widened in recent years. Given the continuing high demand for foreign exchange, and uncertainties about supply, in view of the doubtful outlook for the prices of petroleum and non-oil exports, the margin is more likely to widen than narrow. In effect, if the rate in the parallel market can be regarded as reflecting the free market rate of exchange, the official rate would represent a marked deviation from the market rate. Indeed, it has been claimed that FEM was not a free market and was taking the country back to the system of administrative allocation of foreign exchange.

The wider the divergence between the official and parallel market rates, the more difficult it would be for the authorities to ensure that there will be no seepage between the two markets - i.e, that foreign exchange resources obtained from the FEM market do not find their way into the parallel market. In such circumstances, the question could be asked whether the aim of the authorities to use the official rate to channel foreign exchange resources into priority sectors, can be fulfilled. If there are serious doubts about the realization of this policy objective, there may be a case for a limited change of policy involving a more direct allocation of foreign exchange to selected sectors that are critical for economic recovery and growth. Such direct allocation could be directed to specific purposes, such as imports of vital supplies necessary to rehabilitate the educational and health systems. This will make it easier to provide specially favourable rates of exchange to those sectors. Such a policy would, in effect, add a third rate of exchange to the present system. The risk of seepage will still be present, but this may be easier to monitor and control.

The success of such a policy would depend not only on closing the possibility of seepage, but also in ensuring that the goods purchased with such concessional foreign exchange allocations are not resold in the open markets. Hence such allocations would need to be restricted to selected areas where there is less likelihood of a resale.

The virtual floating of the naira in March 1992 suggests that the Nigerian Government had finally given up on the possibility of closing suçh seepage, and had decided to bite the bullet of a freely floating exchange rate. As it happened, however, the first breach of the new policy came a few months later when the Government granted a special rate of exchange (N10 to the dollar instead of N18 to the dollar) to those going on religious pilgrimage.

6. CONCLUDING OBSERVATIONS

The substantial decline in Nigeria's oil export receipts represents a sharp decline in current income. Given that development, the level of absorption (i.e., consumption and investment) can be maintained only by drawing on reserves and/or on foreign resources in the form of long-term investment or short-term credits. What made the Nigerian crisis more critical was that, as export receipts declined, too much reliance was placed on short-term credits to maintain the level of absorption.

The situation has been complicated by four other problems: first, consumption rather than investment accounted for the major part of absorption; second, a large part of investment was in relatively unproductive channels; thirdly, even where investment was in productive channels, the investment costs, particularly in government-sponsored enterprises, were unusually high; and, fourth, the productivity of investment, even of productive investment, was generally low because of poor infrastructural services, in particular, water, power, and telecommunications.

These are real and critical problems that the country must tackle if it is to derive maximum advantage from exchange rate adjustments. It is needless to emphasize that exchange rate adjustment is merely a price instrument and, like any price, it favours those who possess flexible and efficient structures to take full advantage of price changes. This is an aspect of the general lesson that African countries undertaking market reforms have to learn. Markets provide signals, and only those with the capacity to respond to market signals can benefit fully from the advantages of free markets. For example, to the extent that heavy devaluation actually reduces the capacity of the economy to respond to market signals, it becomes counter-productive. And yet this is exactly what happens when devaluation actually reduces the level of investment, as has happened in some cases. One view suggests that Nigeria's "predicament confirms the view that devaluation tries to tackle what is essentially a crisis of production from the sphere of exchange."[45] Perhaps it would be more apt to say that the full benefits of a flexible exchange rate policy cannot be reaped without resolving the crisis of production. The policy mix for the future must take cognisance of this fact.

A major effort to check the rate of depreciation of the naira was initiated in July 1991 when the Vice President of Nigeria had a closed door meeting with representatives of private and government banks on the depreciating naira. This was followed in August by a similar meeting by the Nigerian President with the representatives of banks and industry. One of the bank chiefs attending the latter meeting noted that the meeting was the beginning of an effective arrangement to stabilize the exchange rate and that various views had been articulated.[46]

While this initiative was a move in the right direction, subsequent developments suggest that dialogues with bankers and industrialists are useful only as supplementary measures to an effective regulation and control of the banking and industrial sectors, in the pursuit of the basic objectives that the government aims to achieve with SAP. Such basic objectives must include, as central elements, a substantial improvement in economic and social infrastructure, change in the import structure in favour of investment goods needed in industry and for the maintenance

and expansion of critical infrastructure, and more efforts to raise the overall level of productivity. To these must be added the need to restrain the growth of budget deficits, in particular by maintaining tighter control over banking system credit to the economy. All these are part of the policy priorities outlined in the National Rolling Plan. What is needed, above all, is a more determined effort to implement these priorities. It is only thus that the full benefits of devaluation can be realized, and the attendant economic and social costs minimized.

Since more than 90 per cent of Nigeria's foreign exchange earnings accrue directly to the Government through the sale of petroleum, the Government has the means within its power to intervene effectively in the foreign exchange market, and to take whatever measures are necessary to ensure that as much as possible of the foreign exchange resources are used to strengthen the productive base of the economy. Such interventionist measures, used with great discretion, and with clearly defined objectives, can be justified on the ground that, in the long run, they will improve the responsiveness of the Nigerian economy to the signals provided by free markets, including the market for foreign exchange.

TABLE 1

NAIRA EXCHANGE RATE 1980-1992
YEARLY AVERAGE

Year	Naira per $
1980	0.546
1981	0.614
1982	0.673
1983	0.724
1984	0.764
1985	0.892
1986	1.347
1987	4.006
1988	4.482
1989	7.430
1990	8.038
1991	9.910
1992 (January - June)	15.70

Source: Central Bank of Nigeria, Annual Reports 1988-1991; Economic Report - First Half 1992.

TABLE 2

IMPORTS BY MAJOR GROUPS
(N million)

Import Group	1983	1984	1985	1986	1987	1988	1989	1990
Consumer Goods	41.5	37.0	22.1	21.8	24.1	28.7	27.3	26.7
Durable	9.6	8.8	7.8	3.6	4.7	1.0	4.0	3.2
Non-durable	31.9	28.2	14.3	18.2	19.4	27.7	23.3	23.5
Capital Goods and Raw materials	58.3	61.9	76.3	78.1	75.9	71.3	72.6	73.6
Capital goods	32.4	32.2	34.9	36.2	42.4	32.0	44.7	40.5
Raw Materials	25.9	29.7	41.4	41.9	33.5	39.2	27.9	32.8
Miscellaneous	0.2	1.1	1.6	0.1	0.0		0.1	**
TOTAL	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: Central Bank of Nigeria, Annual Report and Statement of Accounts, December 1989, Table 6.5, page 10((for 1987-89 figures). Earlier figures taken from World Bank reports on Nigeria.

** negligible

TABLE 3

NATIONAL CONSUMER PRICE INDICES
Percentage change from previous year

	Official Sources	
	Food	**All items**
1982	8.9	6.4
1983	23.9	23.2
1984	42.9	39.6
1985	3.9	5.5
1986	0.1	5.4
1987	8.6	10.2
1988	52.2	38.3
1989	52.6	50.5
1990	3.3	7.4

Source: Federal Republic of Nigeria, First National Rolling Plan 1990-1992, Volume 1, January 1990, Table 2.6, page 13; Central Bank of Nigeria, Annual Report and Statement of Accounts, 1989 and 1990.

TABLE 4

(S)FEM MONTHLY AVERAGES OF THE NAIRA EXCHANGE RATE

(Naira per US$)

	FEM	OFFICIAL RATE	AUTONOMOUS	PARALLEL	BUREAU DE CHANGE
			1986		
September	4.6406				
October	4.1203				
November	3.5311				
December	3.3166				
			1987		
January	3.6471	2.6031			
February	3.7014	2.8884			
March	3.9213	3.2157			
April	3.9054	3.4354			
May	4.1617	3.4780			
June	4.0506	3.5868			
July	3.8081				
August	4.0809				
September	4.2073				
October	4.2761				
November	4.2890				
December	4.1413		4.6928	4.6000	
			1988		
January	4.1740		4.3611	4.8560	
February	4.2611		4.2850	4.5000	
March	4.3152		4.3470	4.3000	
April	4.2525		5.8900	4.3000	
May	4.1838		6.4943	5.4000	
June	4.0574		6.6660	5.9000	
July	4.3941		6.3328	6.3500	

	FEM	OFFICIAL RATE	AUTONOMOUS	PARALLEL	BUREAU DE CHANGE
			1988		
August	4.6440		6.8800	6.6000	
September	4.6961		5.8115	7.2000	
October	4.7748		6.0362	7.3250	
November	5.1479		6.4761	7.5000	
December	5.3530		8.2856	8.3500	
			1989		
January	7.0389	6.6558		8.8500	
February	7.3828	7.3828		10.5000	
March	7.5871	7.5856		11.6200	
April	7.5808	7.5808		11.4300	
May	7.5051	7.5051		11.3800	
June	7.3477	7.3477		11.5500	
July	7.1388			10.5500	
August	7.3000			10.2000	10.2000
September	7.3725			10.6000	10.3700
October	7.4750			10.3500	10.4000
November	7.5454			9.2000	10.5500
December	7.6500			9.6000	9.5000
			1990		
January	7.8621			9.6000	9.5100
February	7.9009			9.3000	9.4700
March	7.9388			9.2000	9.2600
April	7.9400			9.2000	9.2700
May	7.9400			9.2600	9.3000
June	7.9424			9.4400	9.4700
July	7.9523			9.9200	9.8800
August	7.9623			9.7500	9.6700
September	7.9743			9.9600	9.78001
October	8.0089			9.9700	9.9000

	FEM	OFFICIAL RATE	AUTONOMOUS	PARALLEL	BUREAU DE CHANGE
			1990		
November	8.3200			10.4000	10.1500
December	8.7071			10.4100	10.0900
			1991		
January	9.2482				10.8400
February	9.6108				11.8600
March	9.4521				12.0400
April	8.7881				12.4000
May					12.6500
June					13.2800
July					14.2000
August					14.2600
September					
October					
November					
December	9.86			15.6	15.7

Source: Central Bank of Nigeria, Annual Report and Statement of Accounts, 1988, 1989 and 1990.

TABLE 5

ESTIMATED OUTPUT OF MAJOR AGRICULTURAL COMMODITIES (YEAR-TO-YEAR PERCENTAGE CHANGES)

Commodity	1986-87	1987-88	1988-89	1989-90	1990-91
1. CROPS					
i. Staples		5.2	4.9	12.2	8.0
Maize	- 10.0	- 2.6	4.8	31.7	5.0
Millet	- 5.0	21.2	2.2	15.4	4.9
Sorghum	- 5.0	- 4.9	1.5	9.0	5.1
Rice	4.9	2.9	29.9	11.4	4.4
Wheat	5.3	14.4	61.6	5.8	2.2
Acha	- 3.7	15.4	16.7	11.4	10.3
Beans	- 6.0	26.3	- 2.5	12.4	13.4
Cassava	- 5.0	0.1	18.1	10.0	12.5
Potato	- 2.2	- 2.2	13.6	8.0	22.2
Yam	- 6.6	- 1.4	0.4	7.8	7.5
Cocoyam	- 5.1	14.4	- 6.3	12.6	6.4
Plantain	- 5.0	44.6	9.7	16.0	8.0
Vegetable	4.0	9.1	9.3	19.0	15.0
ii. Other Crops		6.6	5.0	2.0	2.0
Melon	- 5.2	- 1.8	- 25.8	2.0	- 2.4
Groundnut	2.7	- 1.4	18.4	2.2	1.4
Benniseed	- 2.9	5.9	11.1	10.0	4.5
Coconuts	1.0	2.9	1.9	7.3	9.3
Sheanut	1.0	4.8	0.9	7.3	9.3
Soyabeans	7.0	18.6	10.7	9.0	4.8
Cottonseed	6.7	142.5	- 3.6	47.6	- 2.2
Palm Kernel	0.9	54.4	10.1	3.3	- 5.0
Palm Oil	10.0	2.9	0.0	2.9	0.7
Groundnut Oil		20.0	0.0	16.7	5.7

Commodity	1986-87	1987-88	1988-89	1989-90	1990-91
Cocoa	5.0	119.0	11.3	- 13.7	- 18.6
Coffee	0.0	66.7	20.0	0.0	16.7
Rubber	- 15.0	21.4	17.6	10.0	59.1
Sugar Cane	- 5.0	4.2	1.4	2.2	- 3.5
Palm Wine	0.2	0.7	2.5	0.2	3.9
Tobacco	4.0	3.8	11.1	- 30.0	- 4.8
2. LIVESTOCK PRODUCTS		- 2.6	- 0.7	0.6	0.5
Poultry	- 16.4	- 3.6	- 7.4	2.0	5.9
Goat Meat	5.1	1.5	3.3	0.9	2.3
Lamb/Mutton	10.2	8.0	6.2	0.0	3.5
Beef	4.0	12.1	6.2	0.7	0.4
Pork	3.0	5.9	27.8	4.3	4.2
Milk	1.1	3.3	- 1.1	0.0	2.2
Eggs	- 16.8	- 21.7	- 15.4	- 0.5	- 5.9
3. FISHERY		9.8	12.9	15.6	4.9
Artisanal Coastal and Brackish Water Catches	4.3	17.8	12.2	- 55.4	4.7
Inland Lakes and Rivers	- 3.6	- 50.5	37.3	185.7	7.0
Fish Farming/Inshore Fishing	- 42.5	28.6	- 7.4	80.0	6.7
Industrial (Trawling) Coastal Fish and Shrimps		20.8	- 6.9	22.2	- 9.1
4. FORESTRY ('000 cu.mtrs)		2.1	3.3	4.0	2.0
Roundwood	3.2	2.1	3.3	3.9	2.0
Sawn Wood	1.4	2.3	2.5	12.6	0.4
Wood Based Panels	0.0	4.2	3.2	0.8	0.8
Paper and Paper Boards	0.0	0.0	6.7	0.0	6.3

Source: Central Bank of Nigeria, Annual Report and Statement of Accounts, 1988 - 1991.

TABLE 6

INDEX OF MANUFACTURING PRODUCTION
(Base Quarterly Average 1985 = 100)

PRODUCT	1986	1987	1988	1989	1990	1991
Sugar Confectionery	71.8	136.0	190.1	97.4	93.7	85.6
Soft Drinks	71.2	128.1	185.5	222.5	364.4	404.2
Beer & Stout	125.5	83.4	76.0	101.6	313.6	100.3
Cotton Textiles	37.9	120.6	123.6	104.1	118.0	123.8
Synthetic Fabrics	196.1	1125.7	1318.6	1309.3	1715.1	2046.6
Footwear	75.4	93.9	73.8	41.5	45.8	46.0
Paints	79.1	89.1	98.7	82.7	62.7	47.9
Refined Petroleum	50.3	74.0	84.6	110.1	108.8	390.3
Cement	108.1	92.0	119.9	126.2	88.7	67.7
Roofing Sheets	184.5	54.7	50.6	149.0	79.6	72.3
Vehicle Assembly	46.8	27.0	4.4	15.7	24.1	27.9
Soap & Detergents	49.3	135.5	104.6	157.8	153.0	156.8
Radio and T.V.	154.8	45.8	14.7	12.5	12.2	12.1
TOTAL	78.2	130.8	135.2	154.3	215.4	183.4

Source: Central Bank of Nigeria, Annual Report and Statement of Account, December 1991, Table 5.12

TABLE 7

SOURCING OF RAW MATERIALS BY VARIOUS INDUSTRIAL SUB-SECTORS (PERCENTAGES)

SECTOR	PERIOD				
	Jan/June 1987	June/July 1988	July/Dec 1988	Jan/July 1989	July/Dec 1991
1. Food, Beverages and Tobacco	65.2	62.7	63.0	62.0	57.46
2. Wood & Wood Products including Furniture	77.6	N.A.	N.A.	N.A.	90.00
3. Non-Metallic Mineral Products	76.5	88.4	85.0	81.0	80.07
4. Textile, Wearing Apparel & Products	52.4	52.5	57.0	62.0	62.3
5. Chemicals and Pharmaceutical	31.5	36.3	36.0	37.0	47.10
6. Domestic and Industrial Plastics & Rubber	20.0	53.0	48.0	45.0	43.50
7. Basic Metal, Iron & Steel and Fabricated Metal Products	49.7	39.7	30.0	30.0	31.88
8. Motor Vehicle and Miscellaneous Assembly	21.8	N.A.	N.A.	37.0	21.67
9. Electrical & Electronics	19.3	N.A.	N.A.	10.0	29.67
10. Pulp, Paper & Paper Products, Publishing	13.7	15.3	42.0	46.0	30.50
AVERAGE	42.8	49.7	52.0	46.0	47.06

Source: Central Bank of Nigeria, Annual Report and Statement of Account; the July/Dec 1991 figures are from th Manufacturing Association of Nigeria's Half Yearly Economic Review, published in the UBA, Monthly Business an Economic Digest, Vol.15, No.6/7, June/July, 1992.

TABLE 8

CAPACITY UTILIZATION IN NIGERIAN INDUSTRY 1988-1990

INDUSTRY	1988	1990	1991	INDUSTRY	1988	1990	1991
Overall average	44.5	39.0	39.4	Overall Average	44.5	39.0	39.4
Basic industrial chemical	65	60.5	38.6	Bakery products		42.3	57.2
Beer and stout	67	59.2	62.4	Soap and Perfumes		38.8	32.6
Tyres and tubes	56.5	57.2		Wood and cork products		36.6	48.7
Leather products		53.0	52.2	Miscellaneous food preparation		35.8	58.7
Plastic products	51	49.5	39.2	Paper and paper products		34.1	44.5
Other chemical and petroleum products		49.4	41.5	Fabricated metal products		33.6	34.6
Textiles		48.9	44.2	Leather footwear		33.5	38.2
Soft drinks		47.0	38.6	Motor vehicles assembly	22.1	27.9	19.6
Cement and cement products	52	46.3	33.2	Structural metal products		28.1	46.7
Printing and publishing	52	44.2	54.5	Vegetable products and flour milling		25.0	34.0
Drugs and medicine		44.1	45.6	Meat and diary products		24.1	36.6
TV and communication equipment		42.3	34.6	Knitted carpets and rugs		23.1	35.3
Sugar confectionery		42.6	47.5	Basic metal products		15.0	34.6

Source: Central Bank of Nigeria, Annual Report and Statement of Account.

TABLE 9

BALANCE OF PAYMENTS (SUMMARY STATEMENT)
($ million)

Category	1987	1988	1989	1990	1991
A. CURRENT ACCOUNT	- 73.8	- 214.6	1117.7	5565.1	1277.1
Merchandise	3492.0	2541.1	4177.8	8723.1	4508.6
Export (F.O.B.)	7590.2	6931.7	7870.9	13671.1	12264.3
Oil	7052.2	6319.0	7469.8	13265.6	11792.3
Non-Oil	538.0	612.7	401.1	405.5	472.0
Imports	- 4098.1	- 4390.6	- 3834.4	- 4948.0	- 7755.7
Oil	- 792.5	- 845.1	- 634.3	- 755.6	- 784.3
Non-Oil	- 3305.6	- 3545.5	- 3200.1	- 4192.4	- 6971.4
Services and Income	- 3541.8	- 2841.3	- 3214.9	- 3607.7	- 3967.3
Unrequited Transfers (net)	- 24.0	85.6	154.9	449.7	735.8
B. CAPITAL (excluding D & E)	- 4185.8	- 4099.4	- 4103.3	- 6126.7	- 2773.4
Direct Investment	613.2	381.8	1884.2	583.0	697.9
Portfolio Investment	1088.3	580.4	- 219.8	- 54.1	- 60.0
Other capital long-term	- 3769.9	- 3602.1	- 3289.3	- 3552.0	- 3096.0
Official	- 3722.2	- 3576.6	- 3271.6	- 3557.6	3096.0
Private (Net)	- 47.7	- 25.5	- 17.7	5.6	--
Other capital short-term (net)	- 2117.4	- 1459.5	- 2478.4	- 3103.5	- 315.3
TOTAL (A & B)	- 4259.6	- 4314.9	- 2985.6	561.5	- 1496.3
C. NET ERRORS AND OMISSIONS	- 306.6	- 307.1	136.3	- 155.2	- 97.8
TOTAL (A & B & C)	- 4566.2	- 4621.1	- 3121.9	- 716.8	1594.1

Category	1987	1988	1989	1990	1991
D. EXCEPTIONAL FINANCING	4606.0	4111.3	4306.3	3018.2	2195.5
i) Promissory notes (arrears)	(1451.0)	(-)	(-)	(-)	(-)
ii) Deferred/Resch. Debt service	(2955.0)	(4010.9)	(3852.3)	(1440.2)	(2195.5)
iii) Others	(200.0)	(100.4)	(454.6)	(-)	(-)
TOTAL (A through D)	39.8	- 509.8	1185.0	2301.4	601.4
E. CHANGE IN RESERVES	- 39.8	509.8	- 1185.0	- 2301.4	- 601.4

Source: Central Bank of Nigeria, Annual Report and Statement of Account.

TABLE 10

BANKING SYSTEM CREDIT TO THE ECONOMY
(Monthly Averages)
(N million)

Year	Credit to Government Sector (1)	Credit to Private Sector (2)	Aggregate credit to the Economy (1) + (2)
1987	20,251.1	17,710.1	37,969.2
1988	25,445.0	27,326.4	52,771.4
1989	24,085.6	30,403.2	54,488.8
1990	16,632.2	35,547.7	50,179.9
1991	29,314.3	41,352.5	70,666.7

Source: Central Bank of Nigeria, Annual Report and Statement of Account, 1988-1991.

TABLE 11

EXPORT OF MAJOR COMMODITIES
(Thousand tonnes)

	1986	1987	1988	1989	1990	1991
Cocoa	148.4	201.5	211.5	131.3	138.5	147.7
Palm Kernels	61.3	92.4	97.0	115.1	62.0	24.6
Rubber (natural)	33.0	38.6	40.5	103.0	105.8	108.6

Source: Central Bank of Nigeria, Annual Report and Statement of Account, 1988-1989.

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