

FROM A PARIIAH, FAILED STATE TO AN EMERGING MARKET ECONOMY:

THE OBASANJO LEGACY AND CHALLENGES

AHEAD

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OUTLINE

Introduction

II: Background: Nigeria's Lost Decades

III: Picking the Pieces: 1999 – 2002

IV: Laying the Foundation: 2003 – 2007

V: A New Economy is Emerging

VI: Change With Continuity: Challenges Ahead.

VII: CONCLUSIONS

II: BACKGROUND: Nigeria's Lost Decades?

- Recall the groundnut, palm produce, cocoa economies of the 1960s. Nigeria comparable to Indonesia in 1973
- By 1995 Indonesia's GDP was more than twice Nigeria's; manufactured exports was 40% and Nigeria's less than 1%.
- Malaysia borrowed Palm technology from Nigeria, and exports palm produce to Nigeria!
- Recall the Austerity Measures; Essential commodity era; SAP era; Guided liberalization, and all forms of experiments with reforms
- Per capita income of \$2,010 in 1980 declined to \$547 in 1993
- GDP growth rate in decade of 1990s was 2.8%; and poverty soared to estimated 70%
- Frequent military interventions characterised first 4 decades as nation
- By 1999, Nigeria was literally a pariah and Failed State--- with defining brand names of Corruption, 419; drug trafficking; lawlessness, and stagnation. Most Nigerians sought to flee the country, and Not many people gave Nigeria a chance!

III: PICKING THE PIECES:

First Obasanjo Era: 1999 -- 2002

- De-militarization and reforms of the military
- Re-building basic institutions of the state
 - Police force and law enforcement
 - ICPC and fight against corruption
 - Procurement Reforms --- 'Due Process'
 - Nurturing nascent Democratic institutions--- legislature, judiciary
- Liberalization and Privatization program
 - GSM licenses and telecom revolution
 - Liberalization of downstream oil sector
- Attempts at rebuilding infrastructure--- NEPA, roads
- Re-integration of Nigeria into global community
- Nigeria as a stabilizing force in Africa, especially West Africa
- Several Sectoral Reforms under the BPE and line Ministries

IV: LAYING THE FOUNDATION: The Second Obasanjo: 2003- 2007

- Focus on Economy as foundation for new Nigeria --- Economic Team; NEEDS

NEEDS objectives:

- Macroeconomic Reforms
 - Budget and public expenditure reforms (transparency and procurement reforms, Due process; oil price-based fiscal rule)
 - Non-accommodating monetary policy; exch. Rate management

2003- 2007: It's the Economy, full stop!

Structural/Institutional Reforms

- Tax Reforms
- Ports and Customs Reforms
- Banking and Financial Sector Reforms
- Exchange Rate and forex management
- Trade Policy and Tariff Reforms--- adoption of CET
- Liberalization and deregulation (eg. petroleum pricing)
- Monetization Policy
- Public service reforms
- Pension Reforms
- Breaking public sector monopolies--- power, telecom, infrastructure, etc (Energy Reform Act, etc)
- Urban Renewal: The Abuja Example
- ICPC; EFCC; Police force quadrupled; Judiciary reforms

2003—2007: It's the Economy, full stop!

- Sectoral Reforms
 - Presidential initiatives on Agriculture
 - Solid minerals
 - Education
 - Power and energy reforms especially local content in oil sector
- Regulatory Reforms
 - NCC; NAFDAC; SON; SEC; CBN
- Pursuit of Debt Relief and Integration of Economy into global system
 - External Agencies of Restraint, including:
 - PSI with IMF; submit to External Rating Agencies
 - WAMZ, single currency and convergence criteria
 - Nigeria part of core of NEPAD and its Peer Review mechanism

V: MAJOR OUTCOMES OF THE REFORMS?

Nigeria on the way to emerging market status

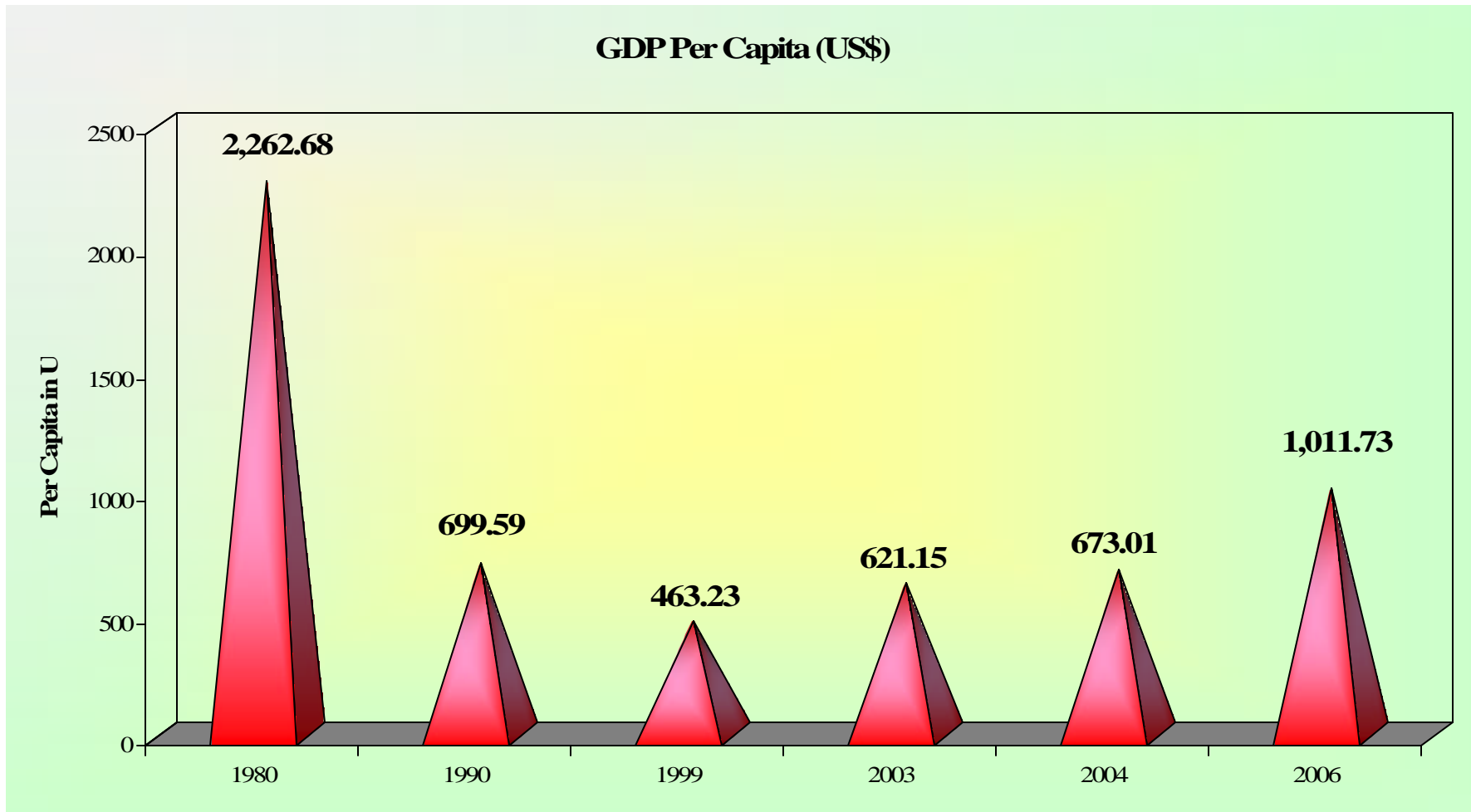
GDP: WHAT HAS CHANGED?			
Indicator	1999	2005	2006*
GDP [Nominal Naira value] (Million)	4,799,966.00	14,894,454.44	18,222,800.00
GDP [Nominal US Dollar value] (Million)	51,783.28	112,789.93	141,646.33
GDP Growth Rate	1.19	6.51	6.0
Non-oil GDP Growth Rate	4.37	8.59	8.93
OIL GDP	-7.50	0.50	-4.67

Source: National Bureau of Statistics

Note: 2006 figure provisional

US dollar GDP value at N127.5 to 1 Dollar for all periods.

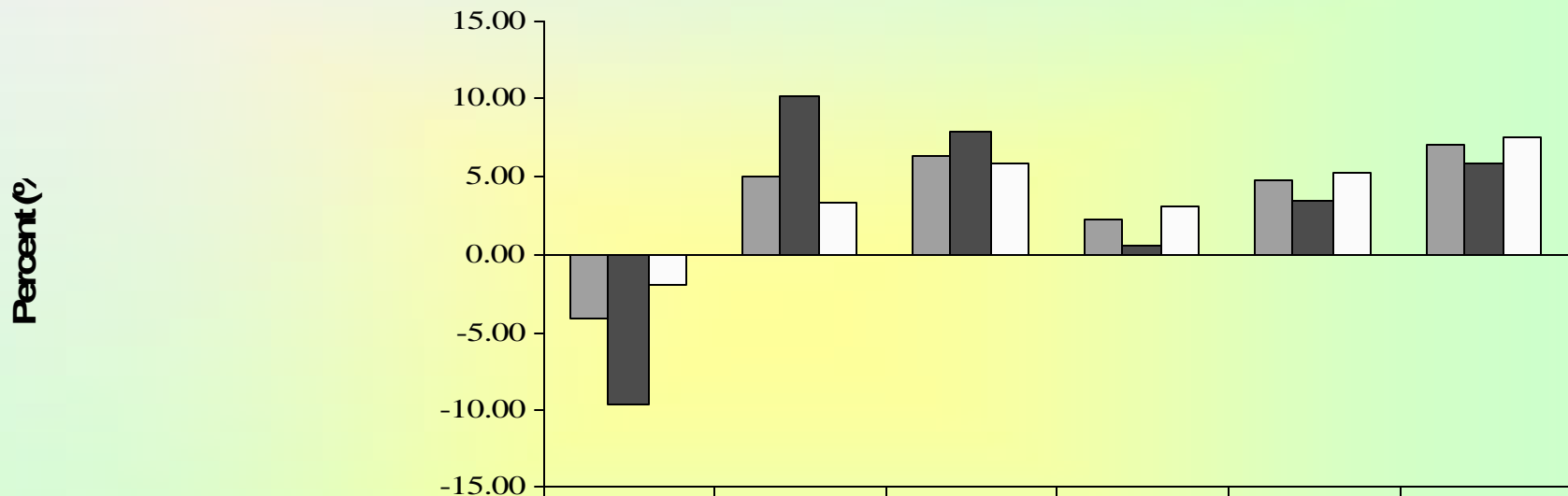
GDP Per Capita (US\$)



REAL GDP Growth (%)

- Non-oil sector powers a new economy
- Non-oil sector growth out-performed overall growth in reform years

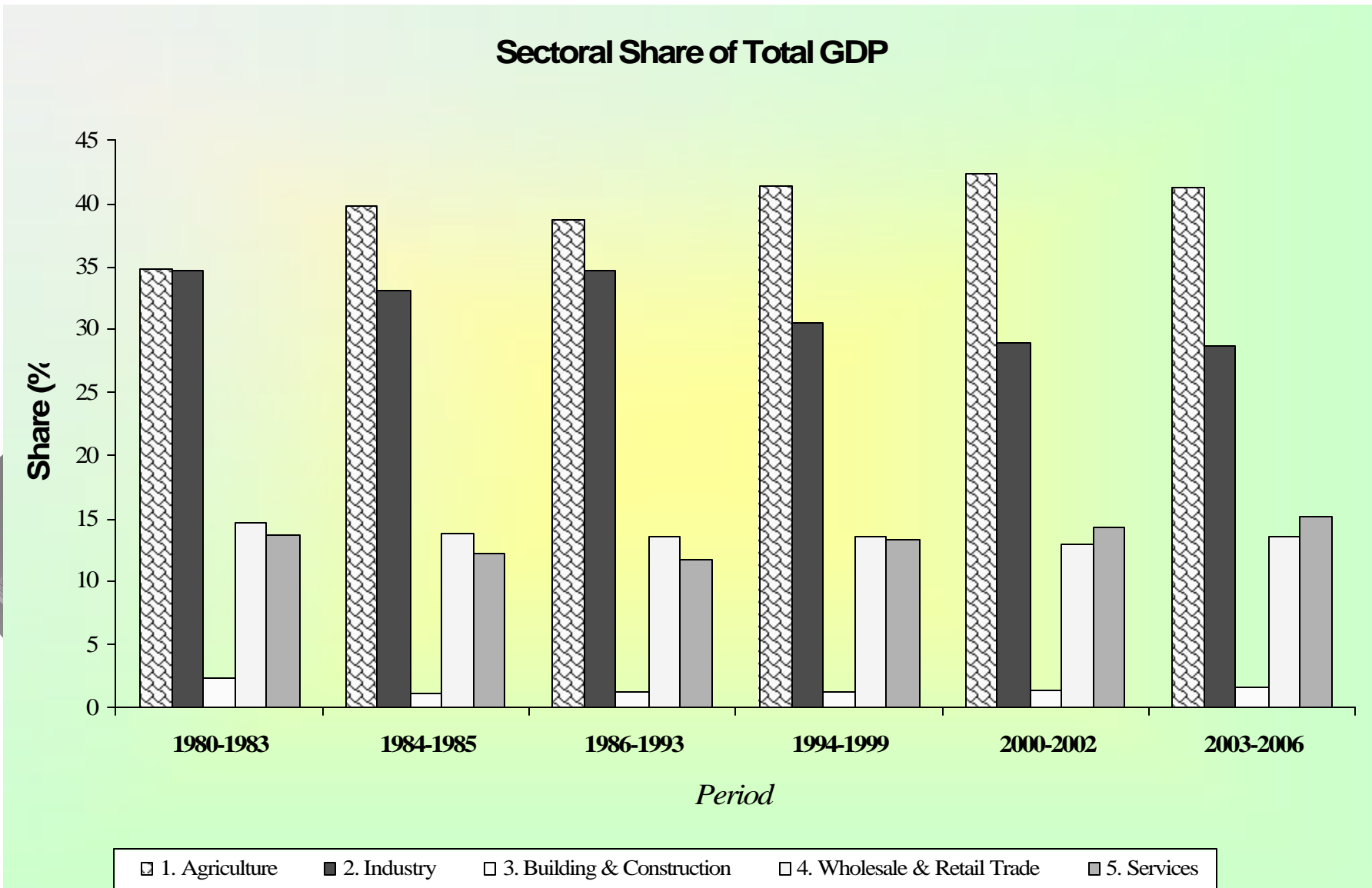
Real GDP Average Growth Rate (%)



	1980-1983	1984-1985	1986-1993	1994-1999	2000-2002	2003-2006
■ TOTAL GDP GROWTH RATE	-4.17	4.99	6.23	2.33	4.75	7.07
■ OIL GDP GROWTH RATE	-9.76	10.18	7.84	0.51	3.55	5.76
□ NON-OIL GDP GROWTH RATE	-1.94	3.30	5.77	3.00	5.23	7.61

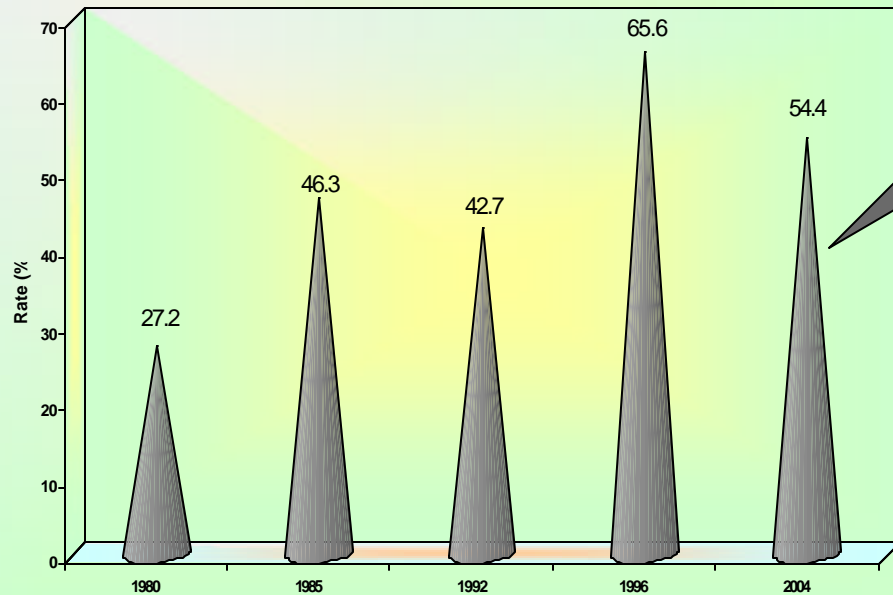
Period

Sectoral Share of Total GDP



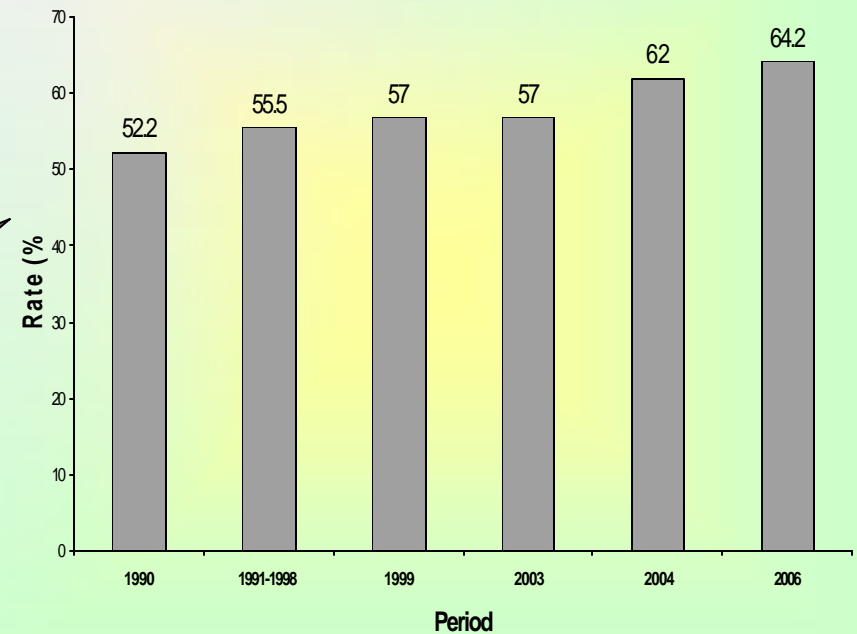
Poverty Incidence & Literacy Rate

Poverty Incidence



Poverty on the decline

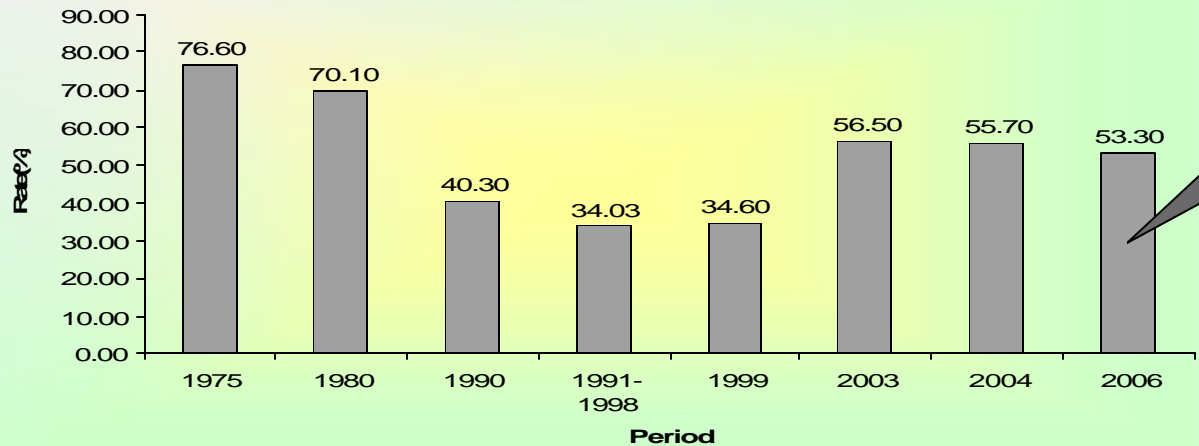
Adult Literacy Rate



Adult literacy on the increase

Industrial Capacity Utilization & Teledensity

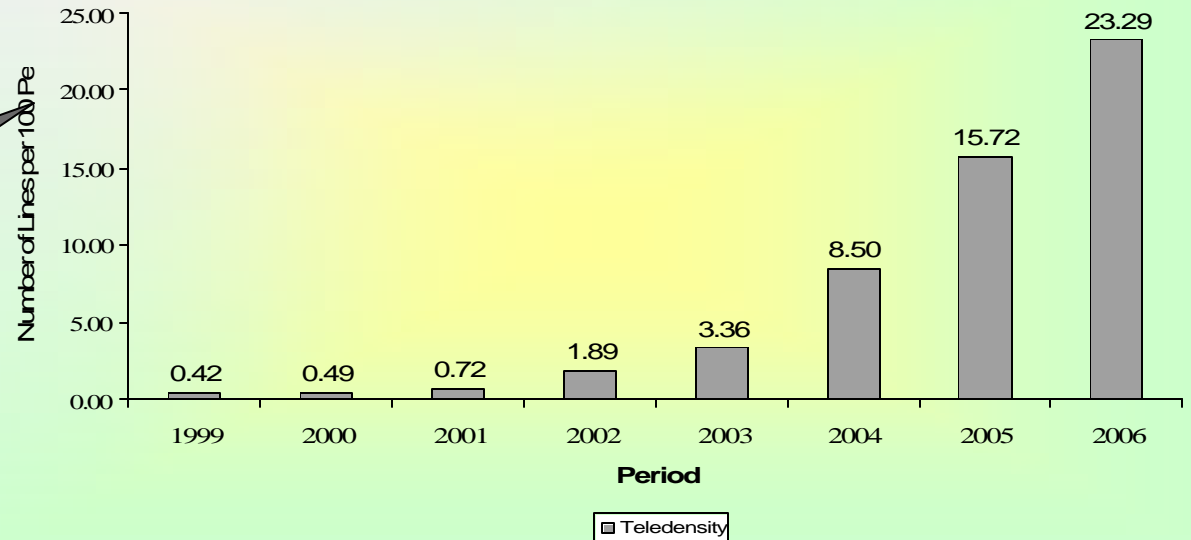
Capacity Utilization in Indust



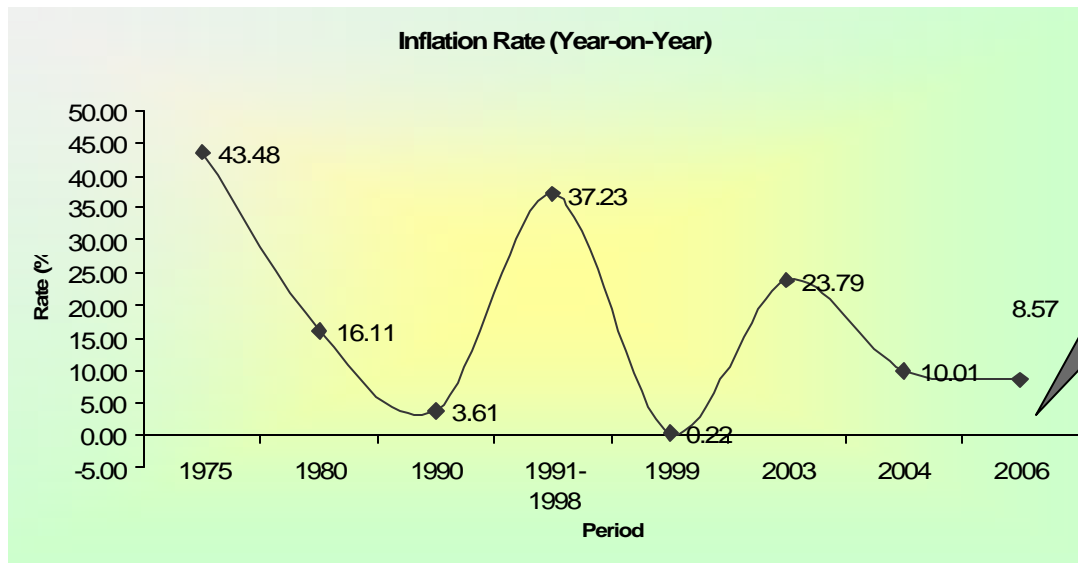
Poor power supply
constrains capacity
utilization in industry

Telecom revolution
empowers economy

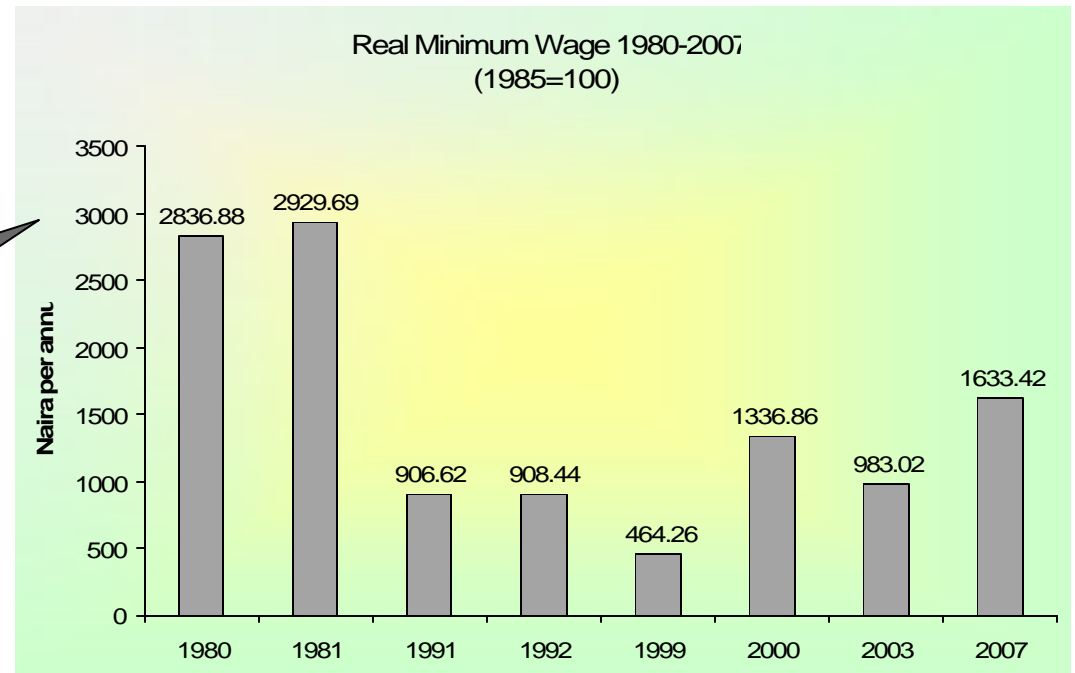
Teledensity



Movement in Inflation and Real Minimum Wage

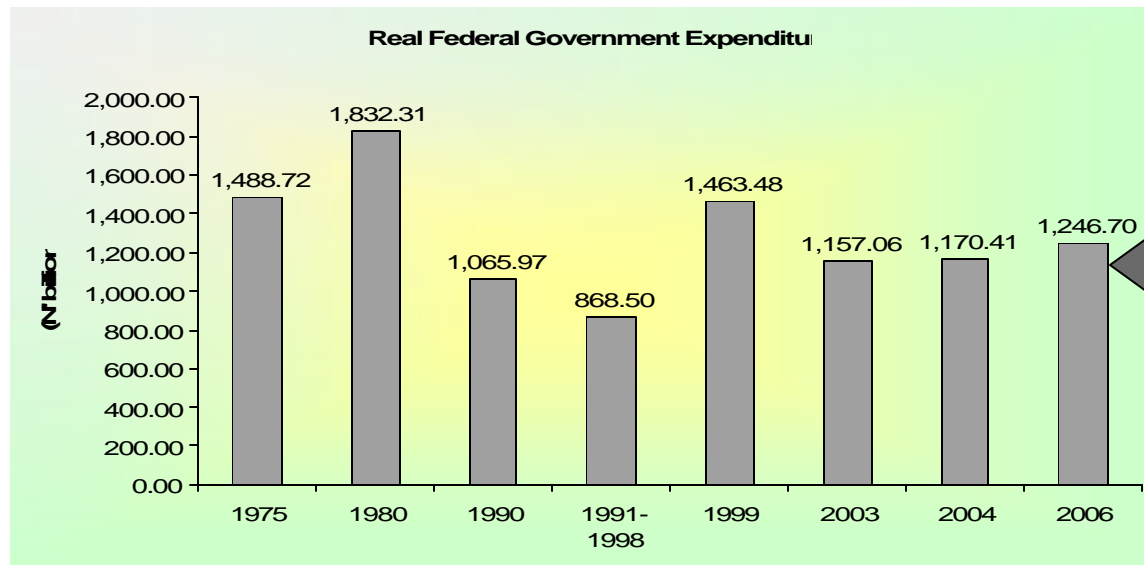


Inflation abates due to effective monetary, exchange rate, fiscal policy and growth of agric.

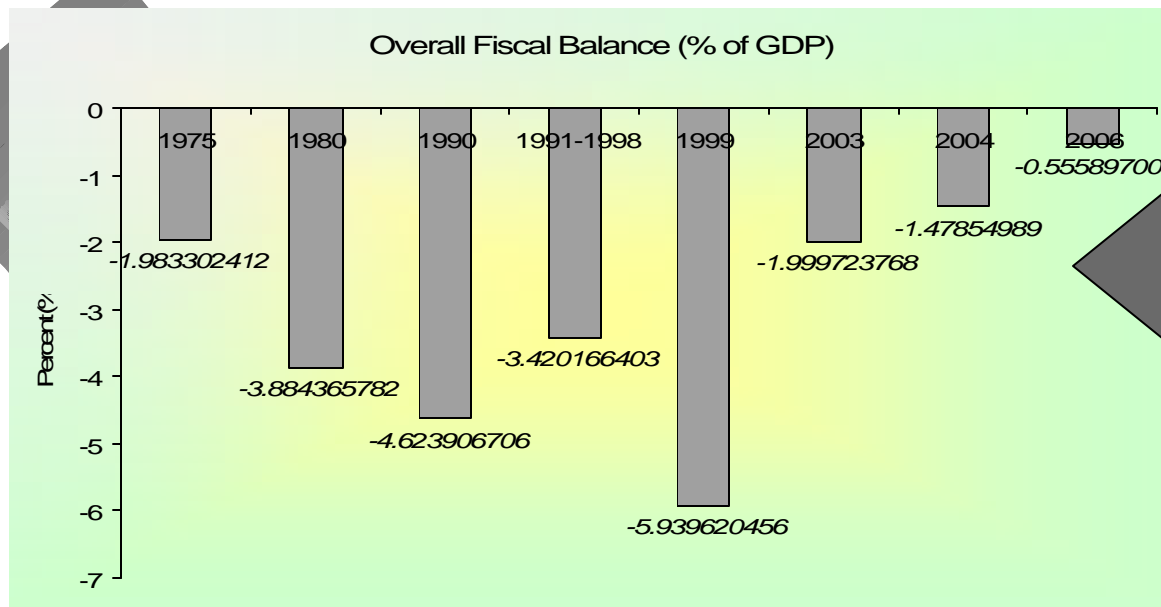


Real minimum wage on the rise again

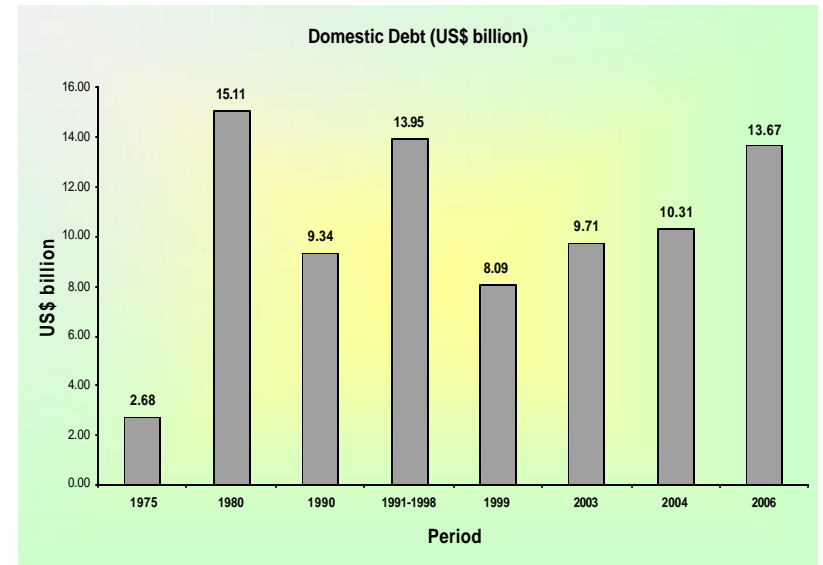
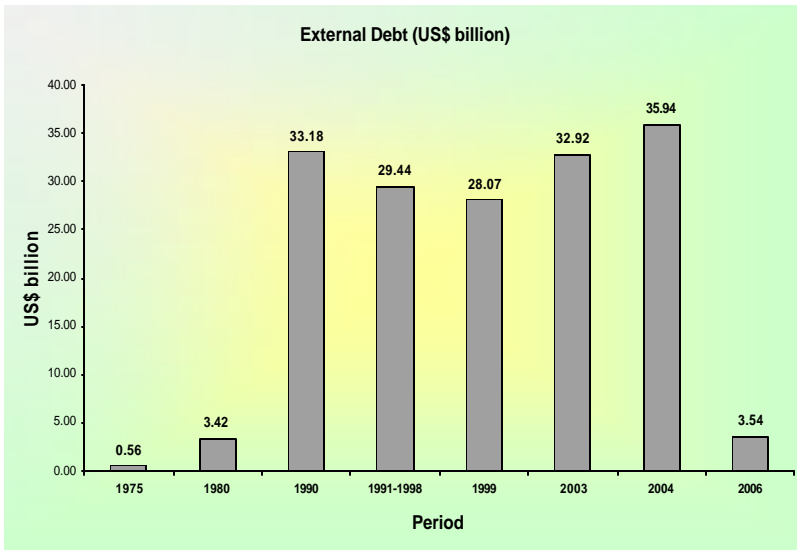
Federal Government Fiscal Operations



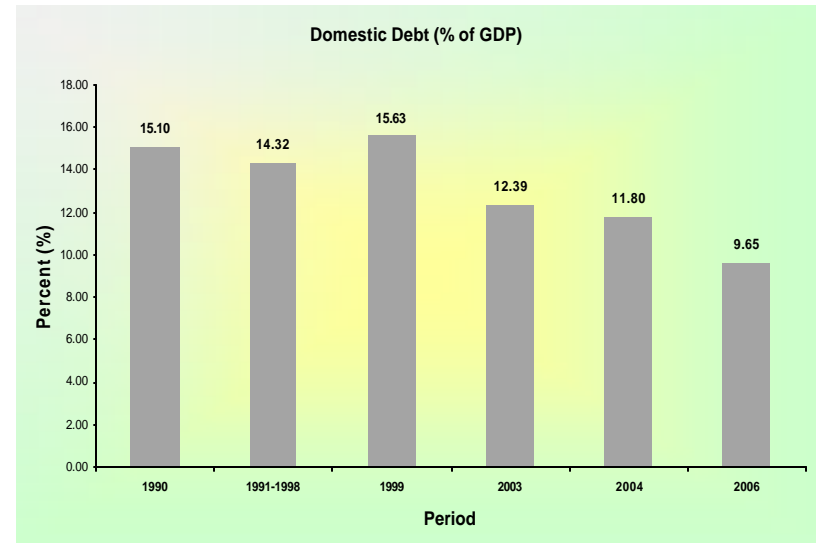
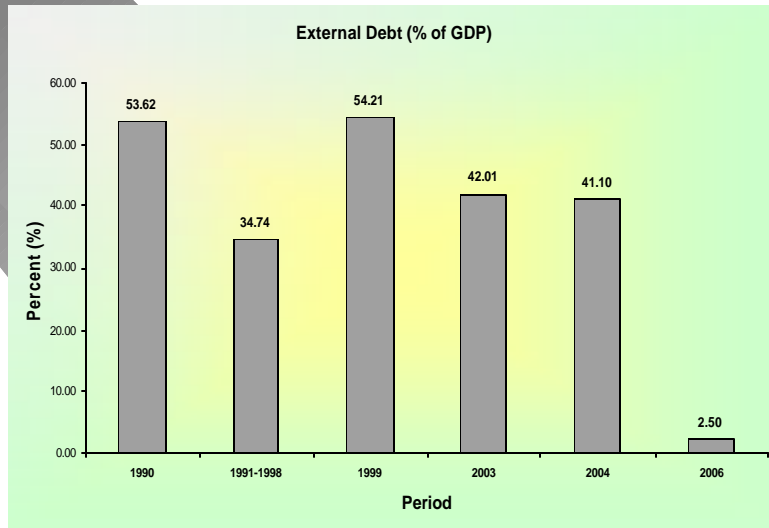
Federal Government expenditure falls In real terms



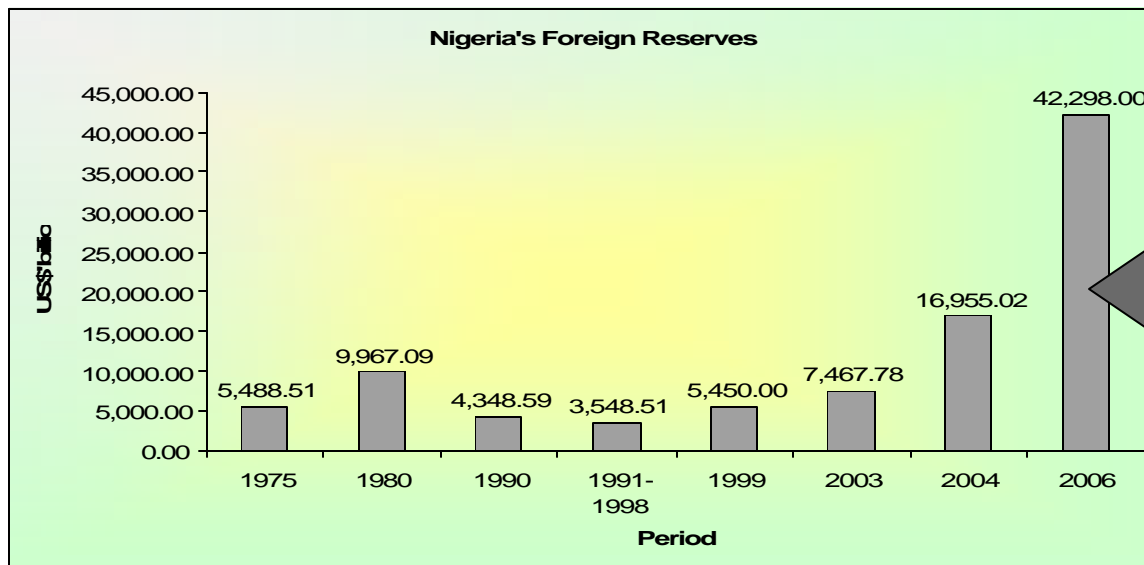
The nominal overall fiscal deficit narrows significantly



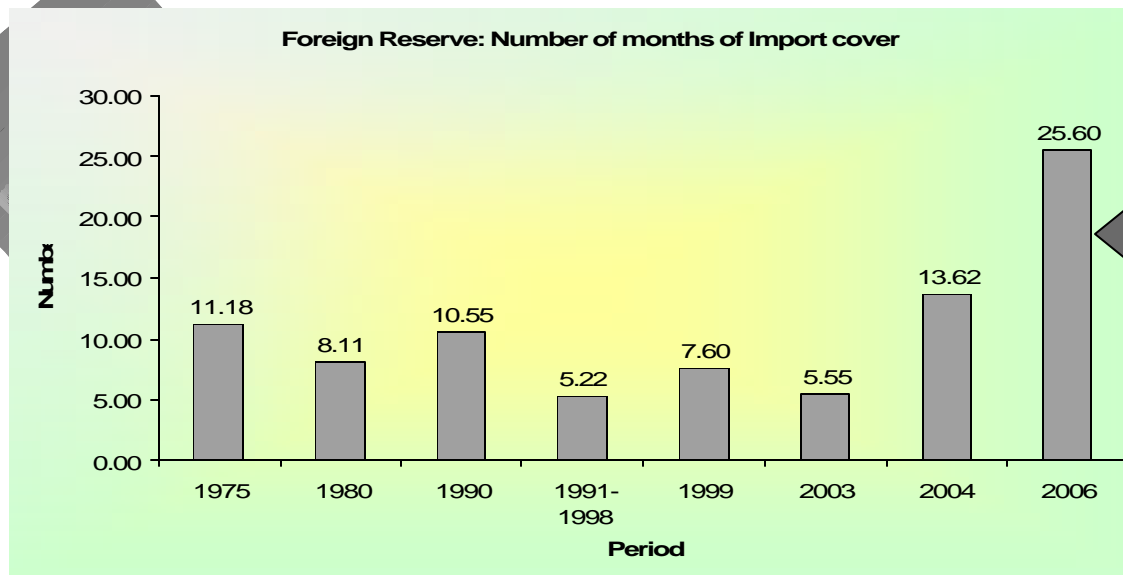
NIGERIA'S DEBT PROFILE



Movement in Foreign Reserves



External reserves hit all-time high level

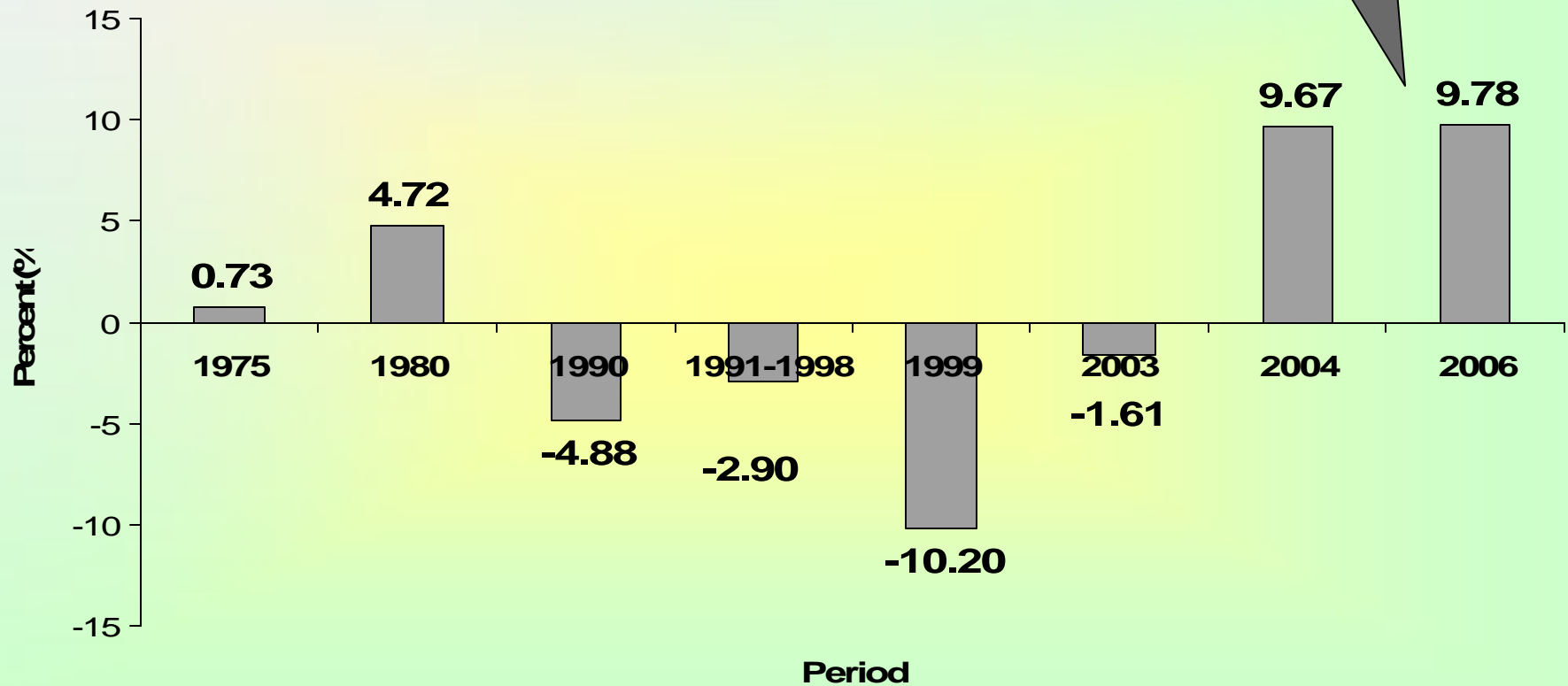


Significant surge in external reserves translates to more than 25 months of Imports cover

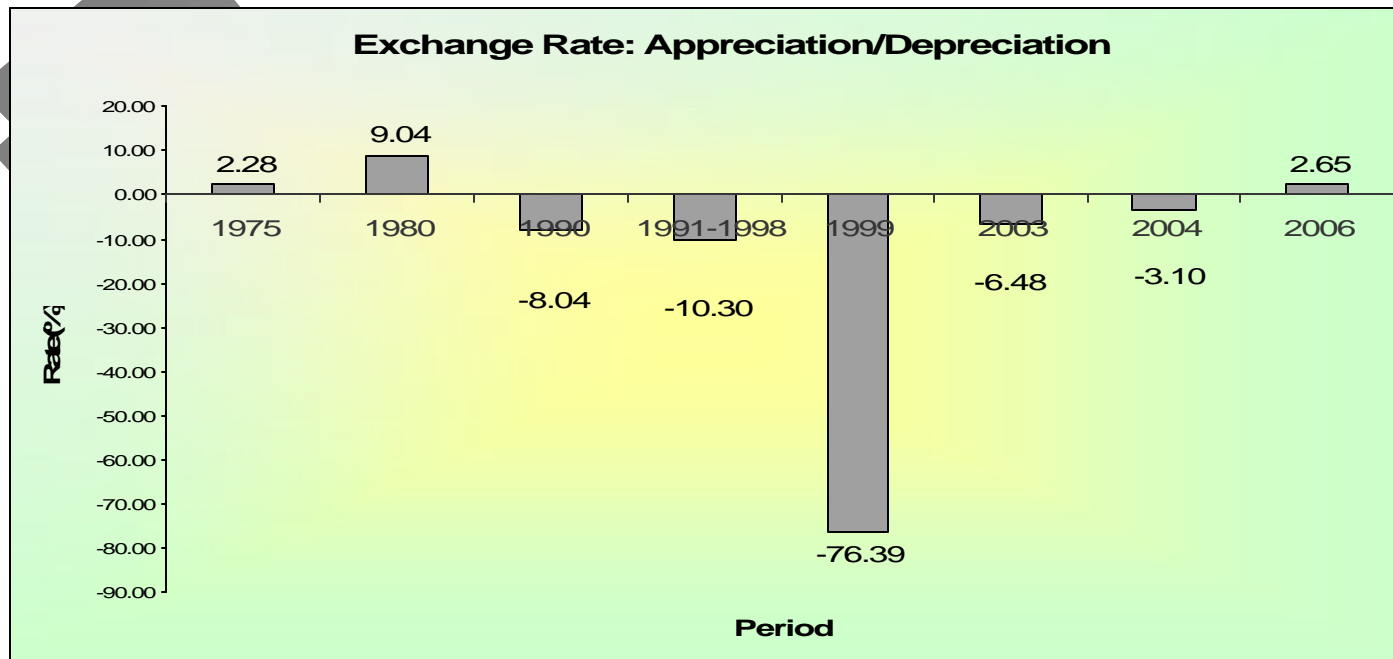
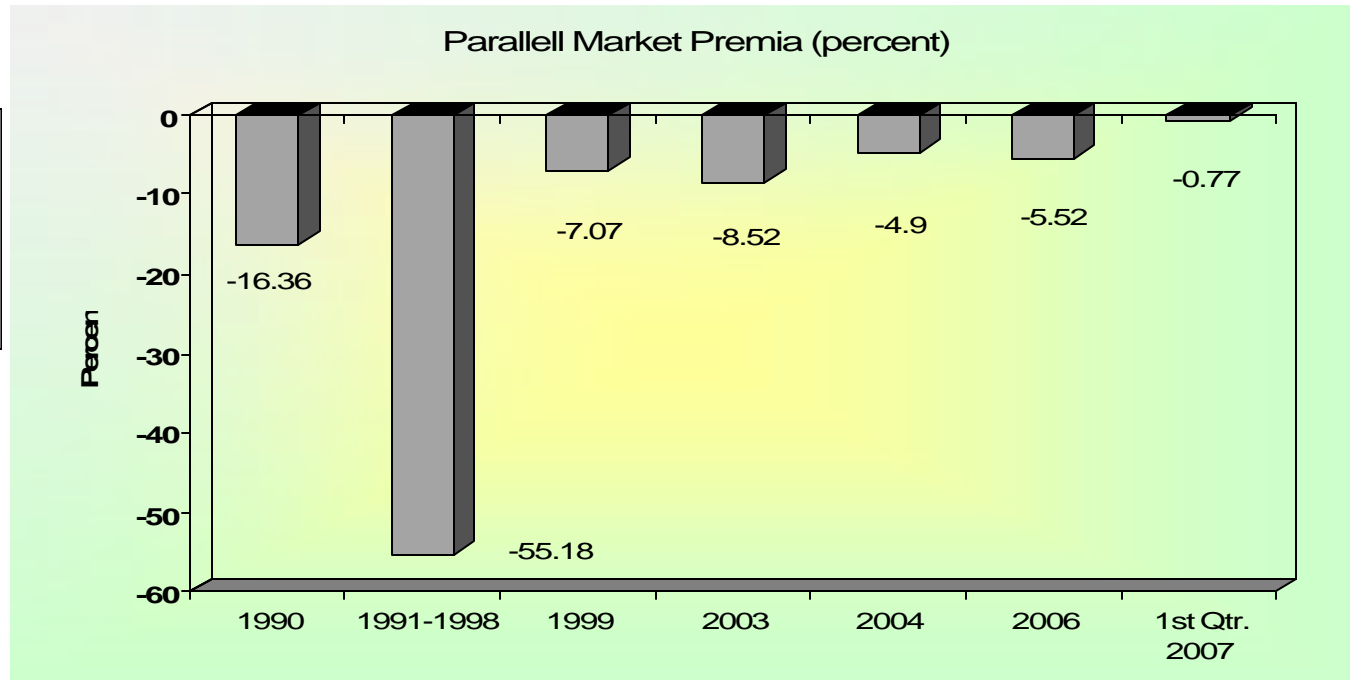
Overall BOP Position

Overall BOP position swings to a surplus

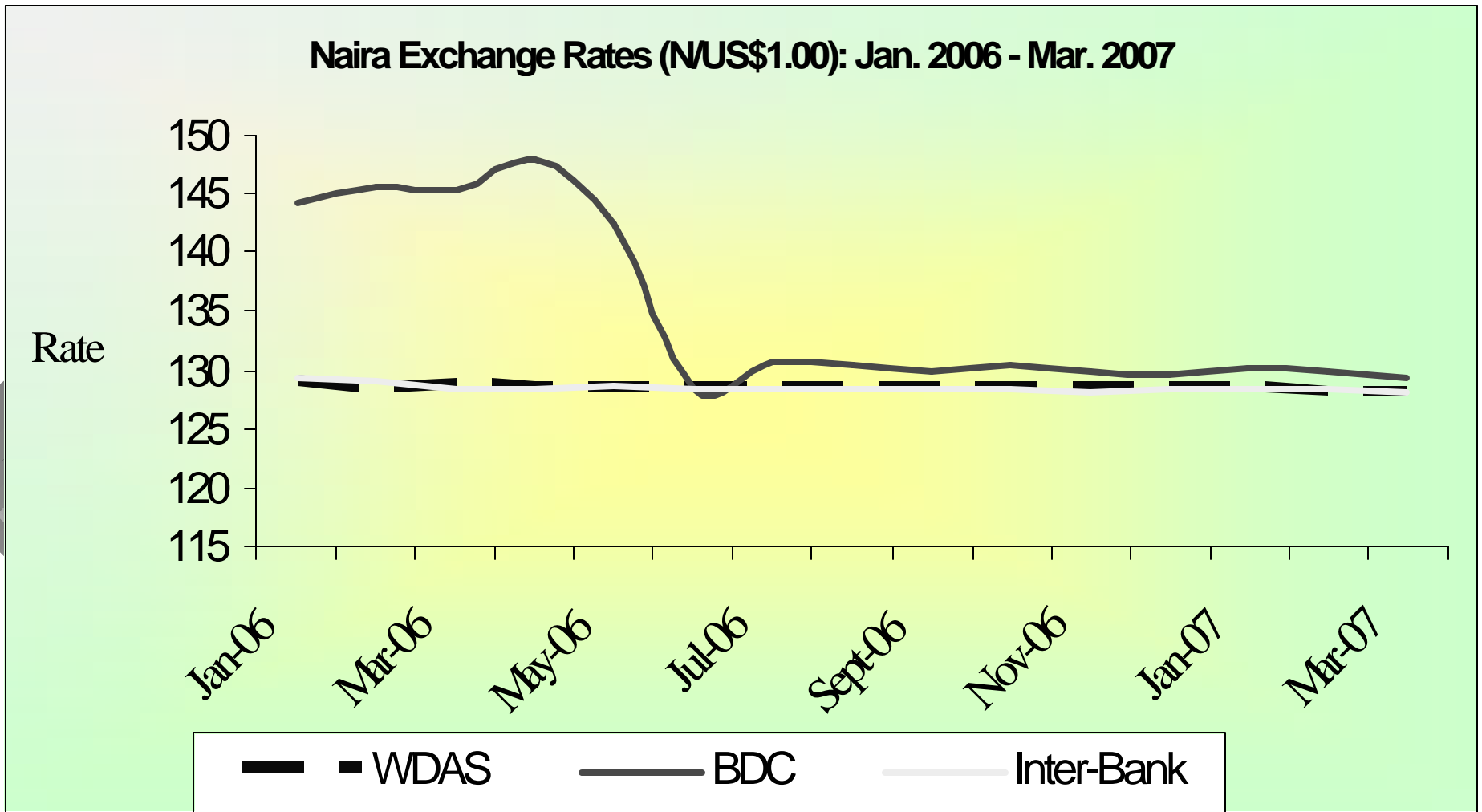
Overall Balance of Payments (% of GDP)



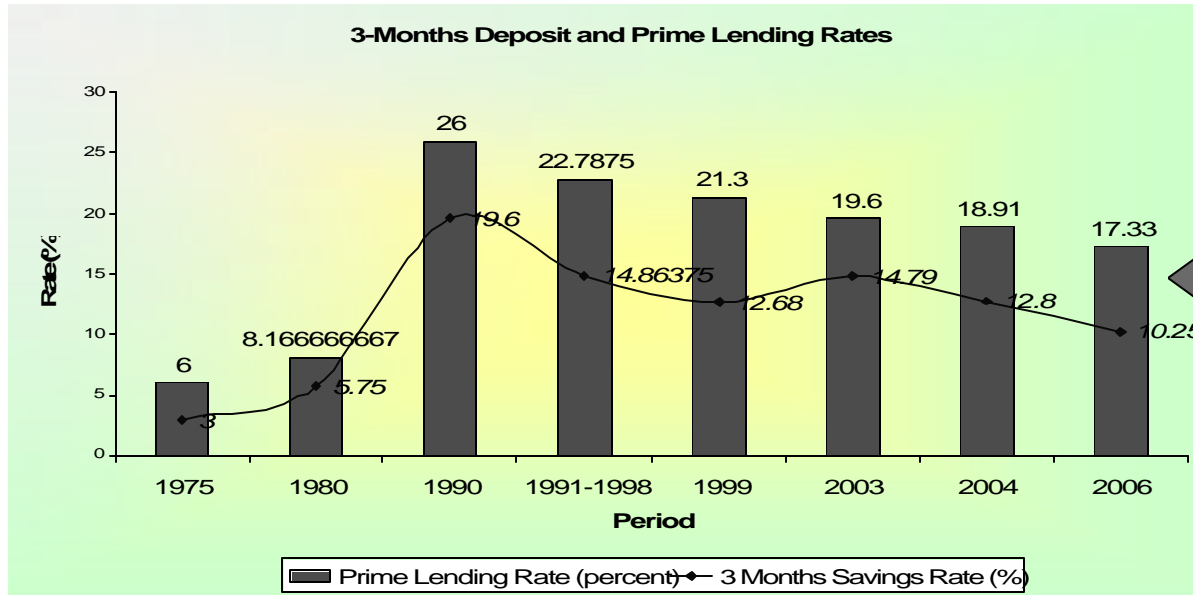
EXTERNAL SECTOR INDICATORS



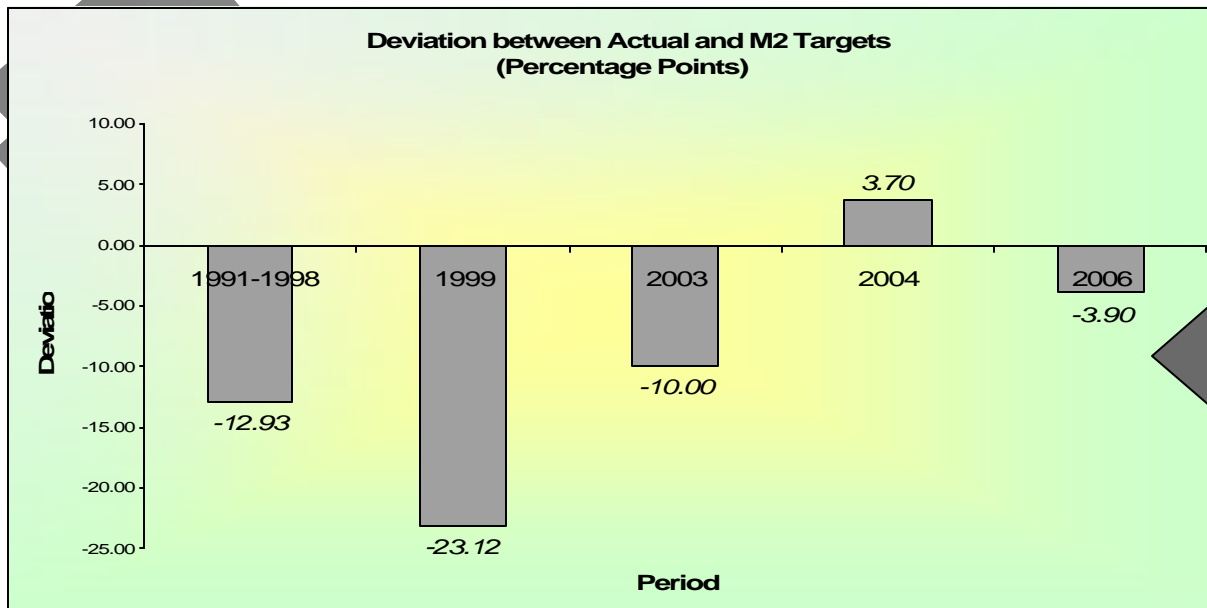
Nigeria Has Finally Achieved Convergence In Exchange Rates After 20 Years



Monetary Aggregates



Spread between deposit and lending rates narrows



Deviation from target narrows - an indication of the effectiveness of monetary policy

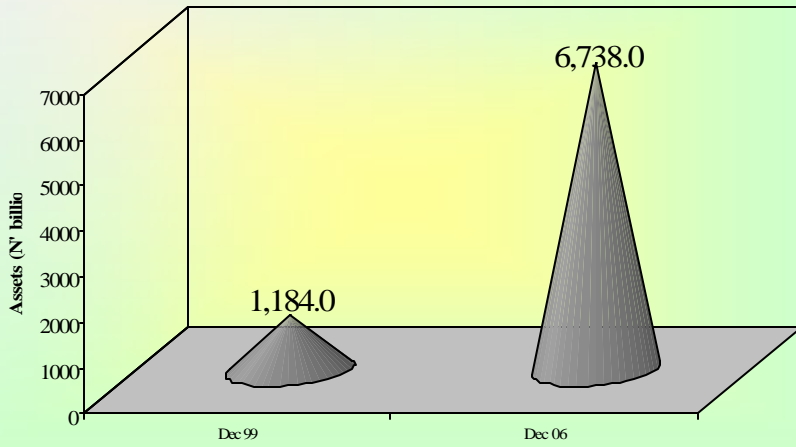
OUTCOMES?

- Services sector growing faster than industry; agric share no change yet; ICT growth consistent with new economy
- Institutions are getting better: EFCC--
- culture of impunity lessening; ICPC;
FIRS; NAFDAC; SON; Due process

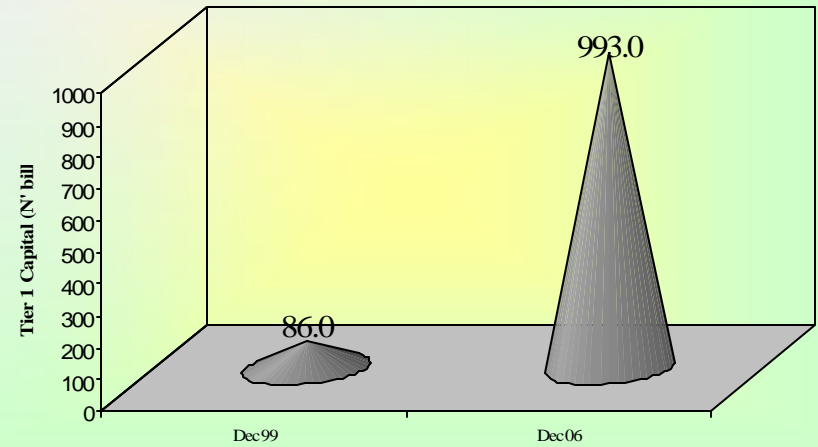
OUTCOMES?

- New banking system powering new economy
 - About 6-7 banks expected with over US\$1 billion in tier 1 capital by end of 2007
 - Now 10 banks with market cap ranging between \$1 bn and \$3.6 billion; and would range between US\$2billion and US\$5 billion by end 2007
 - 16 banks in top 1000 in the world: None in 2003; and 5 out of top 10 in Africa
 - Banks the soundest and safest they have ever been
 - Big ticket assets being created
 - AFC and Lekki Financial Corridor in the making
 - FSS 2020 as new Vision for the Next Economy

TOTAL ASSETS OF BANKS

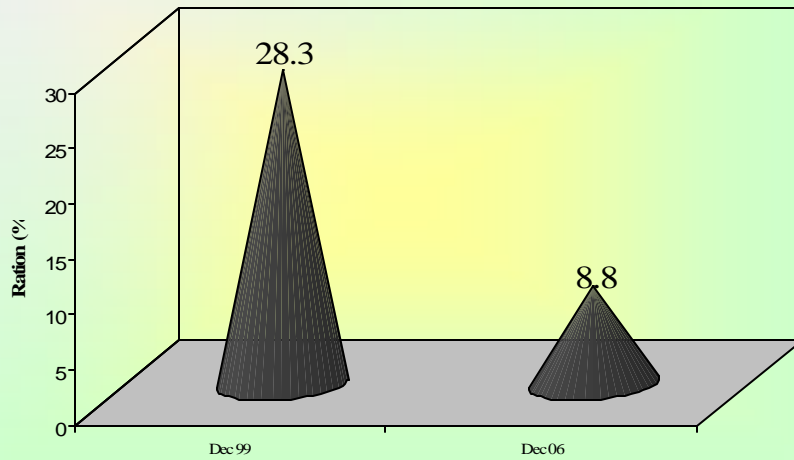


TOTAL TIER 1 CAPITAL (N' billion)

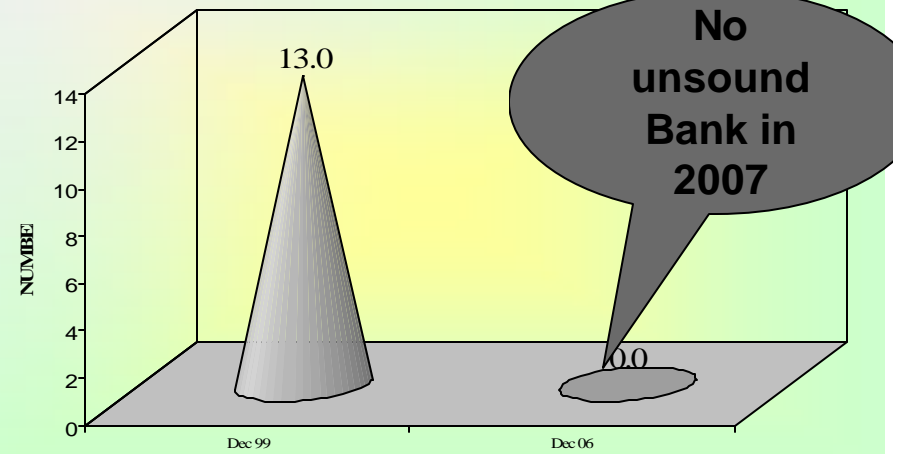


BANKING SECTOR KEY INDICATORS

RATIO OF NON-PERFORMING LOANS



NUMBER OF UNSOUND BANKS



OUTCOMES?

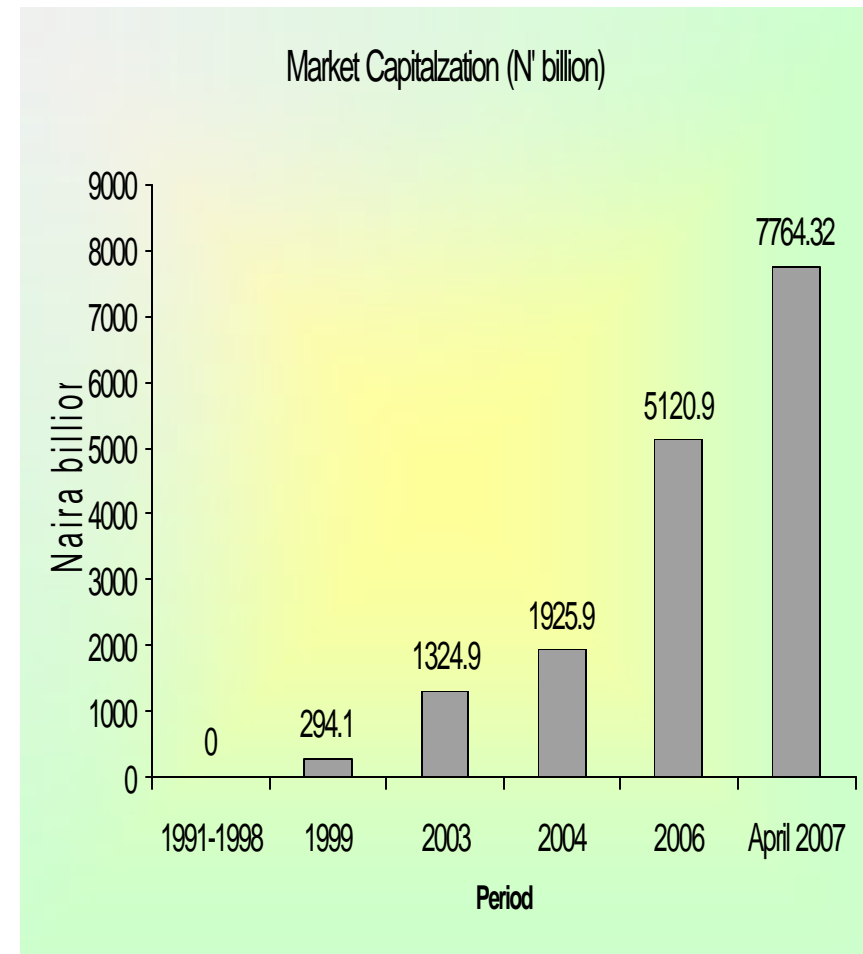
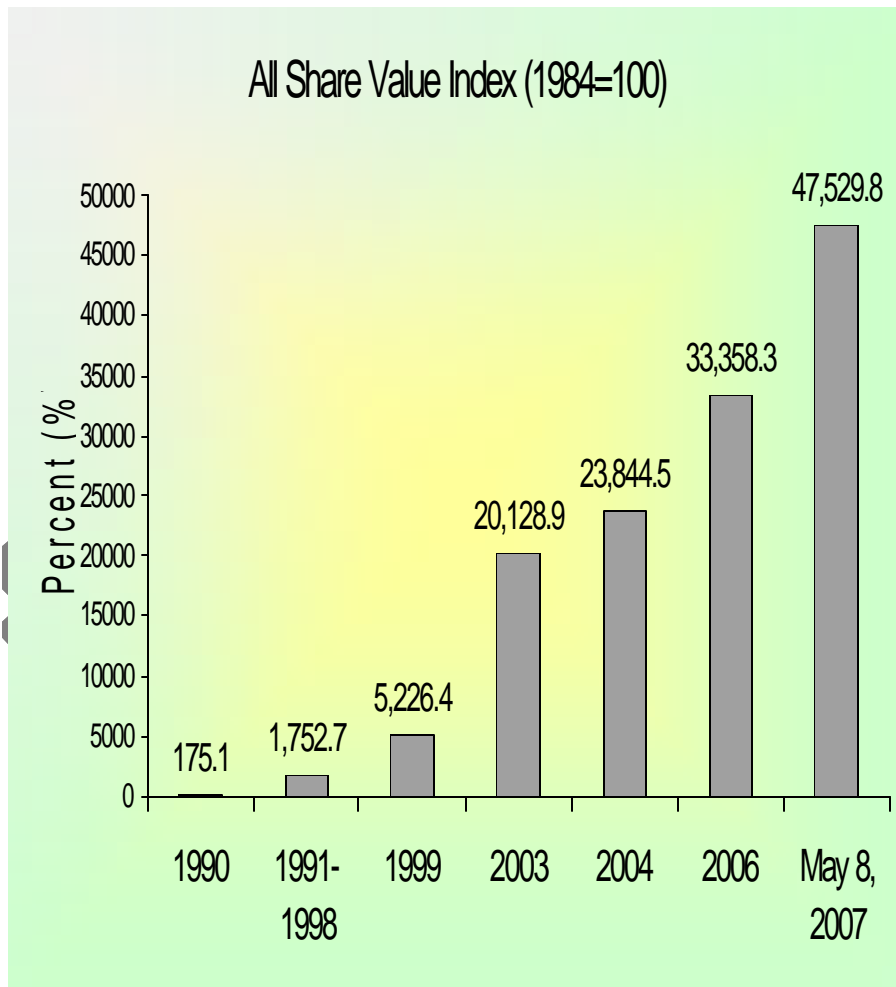
The World Is Voting for the Nigerian Economy

- Nigeria exited external debt about US\$30 billion: frees resources for MDG; freer economic space--- less intrusion by BWIs and Creditors
- FATF de-listed Nigeria
- Fitch and S&P rated Nigeria BB-
- FDI and portfolio inflows more than doubling every year---- about US\$7 billion in 2006
- Non-oil exports grew by 24% in 2006 and China and India becoming preferred partners
- Diaspora remittances over \$4 billion per annum

OUTCOMES?

- Capital Market Explosion
 - About 21 companies with market cap of US\$1 billion and above (India has about 100): About 22 in West Africa, out of which 21 in Nigeria. None in 1999.
 - Stable prices (exchange rate, inflation) and stronger banking system powering NSE
 - Thousands of Nigerians are making money out of the capital market
 - NSE capitalization expected about US\$100 billion in 2008, ahead of Egypt and second only to JSE
 - Pension asset (over N600 billion) and long-term capital

Capital Market Indicators



Is this a Fluke? Has Nigeria Finally Turned the Corner?

- Not a Fluke, and maybe a permanent change, PROVIDED:
- Reforms to be consolidated and sustained
- Prosperity not powered by oil, although primary commodity sector still dominant (agric)---- see fiscal and GDP charts
- Private sector growing by the day and owns the reforms---- broadened stakeholders

Growth of 12% can be achieved and sustained

- Exploiting Hidden Reserves for Growth
 - Youthful population, provided educational revolution succeeds
 - 60% of arable land lying fallow
 - Diaspora as reserve of skills and resources
 - Exploiting dormant natural resources--- solid minerals, oil and gas, etc
 - Awakenning Nigeria's dormant capital--- real estate/mortgage revolution
 - The SME revolution

VI: The CHALLENGES AHEAD.

- It is not yet UHURU: Still long way to go!
- Continued prosperity possible, provided:
- Breaking Dynasties of poverty: spatial inequality
- Nigeria one of most unequal societies--- need to enlarge the cake
- Breaking the Natural Resource/Oil Curse
- Infrastructure Gap: power; transportation; national gas policy; security and law and order
- Taking Reforms to the States--- the 'other hand'
- Decisive Solution to the Niger- Delta
- Employment, especially urban youth unemployment

The CHALLENGES AHEAD

- Macroeconomic Stability--- new models and framework to lock-in recent gains: fiscal responsibility and consolidation; domestic debt burden; inflation targeting framework for monetary policy and Naira Revolution
- Constitutional Reforms--- especially aspects that constrain effective economic management
- Electoral reforms and sustenance of Democracy
- FSS 2020 and Africa's Financial hub to drive the new economy
- Urban Renewal across states, especially Lagos
- Deepening the ICT Revolution and educational reforms
- Revolutionalise Science & Technology Infrastructure
- Agrarian revolution
- Tourism

The CHALLENGES AHEAD

- Addressing the Business Environment issues:
 - Social Service Delivery
 - Ports and Customs Reforms --- clear customs in 6 hours as target? Latin America in 2 hours.
 - Administrative red-tapes; eg. Land registration
 - Deepen NIPC's one-stop shop
- Institutionalizing Reforms
 - Leadership of the President and his team
 - National Council on Reforms and Transformation
 - Challenge of right skills: economy getting too sophisticated and needs new skills

CONCLUSION

- **NIGERIA ON ROAD TO EMERGING ECONOMY...**
- “Once a country has a democratic regime, its level of economic development has a very strong effect on the probability that democracy will survive. Democracy can be expected to last an average of about 8.5 years in a country with per capita income under \$1000; 16 years in one with income between \$1000 and \$2000; 33 years between \$2000 and \$4000; and 100 years between \$4000 and \$6000. Above \$6000 democracies are impregnable and can be expected to live forever. No democratic system has fallen in a country where per capita income exceeds \$6055”-----
- Prezeworski, et al, 1996 *“What Makes Democracy Endure?”*
- Nigeria is on the 16 years range now, but can do much better unto 33 years and forever!

BROAD CONSENSUS FOR DEVELOPMENT

- Nigerians seem to have broad consensus on the imperatives of Africa's giant. According to President-Elect, the four key consensus by Nigerians are:
 - a. Deepening Democracy and Rule of Law
 - b. Economy to be driven by the private sector
 - c. Zero tolerance on corruption, and
 - d. Need for Good Governance
- "Nigeria's greatness lies in consolidating on these basic agreements and extending the frontiers of reforms" --- Yar' Adua, May 4, 2007.

Both Goldman Sachs and Financial Times of London agree: Listen to FT:

“We have a super-conviction about Africa. We are very optimistic that the corner has been turned economically. You have to imagine where it will be in two or three years’ time, and it is going to change in ways that people don’t expect. ... Irrespective of its chequered and often bloody history, and in spite of ongoing political uncertainty, Nigeria is attracting an unprecedented wave of interest from bankers and investors.... Renaissance is making a big push into Africa, with Nigeria at the heart of its strategy”.

----- Financial Times, London: May 1, 2007

**Thank You For
Listening**

