

NIGERIAN ECONOMY: CAN WE ACHIEVE THE VISION 20: 2020?

By

**Prof. Chukwuma C. Soludo, CFR
Governor, Central Bank Of Nigeria**

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OUTLINE

- I: Introduction
- II: Stylized Facts About Nigerian Economy and the Reforms (NEEDS)
- III: The Vision 20: 2020 and the Growth Potentials
- IV: The Next Generation of Reforms?



I: Introduction

- Retreat very timely:
- Party and Electoral System as framework for canvassing/generating competing Policies/programmes
- Economic well-being and security of citizens as most important deliverable of Democratic governance---- “Sound economics is excellent politics”: Prosperity as foundation for sustainable democracy----- threshold of \$1,000 per capita required for enduring democracy.
- Goal of Presentation: Provide information and provoke Debate towards broad ‘consensus’!



II: Stylized Facts and Reforms

- Stylized Facts
 - Nigeria with abundant resources (human and natural resources--- largest black nation; 8th largest oil producer and 6th largest deposit of gas; 34 solid minerals; 44 exportable commodities; huge arable land; etc
 - Yet stagnated in first 40 years as a nation
 - 2.8% GDP growth in 1990s; Poverty 70% in 1999; Power only 1700MWH against 50,000 needed; 419 and corruption as trade marks; Collapse of education system; unemployment; culture of impunity and 'anything goes'
 - Compare with Indonesia and Malaysia
 - But NOTE: No country like Nigeria– with over 250 ethno-linguistic groups!



Stylized Facts and Reforms contd...

- Obasanjo's two phases of reforms:
 - a) 1999- 2003: Socio-political reconstruction (de-militarization of the state and reconstructing the military; Due Process— for accountability and transparency; strengthening institutions for democratic governance--- judiciary, legislature, executive, DMO, ICPC; re-integrating Nigeria into global community of nations; foundation for private sector take-off--- GSM, privatization, infrastructure provision, security---tripling size of police, etc
 - b) 2003—2007: NEEDS: Economic reforms, fighting corruption, and strengthening institutions
 - Objectives of NEEDS: Poverty reduction; employment generation; wealth creation and value re-orientation
 - Assisted States with SEEDS
 - EFCC and anti-corruption stance
 - Several landmark legislations--- AML-EFCC, Energy Reform; Pension Reform; PPP in infrastructure; etc



Reforms and Outcomes contd...

- Fiscal, Monetary and Exchange Rate Policy Reforms
- Banking and Insurance reforms
- Presidential initiatives--- Agriculture; etc
- De-regulation of downstream oil sector
- (see the full reform program in NEEDS document)



Outcomes of Reforms contd...

- Average GDP growth of 7% since 2003 (2.8% in 1990s)
 - Non-oil sectors growth above 8% since 2004, led by agriculture
- External reserves grown from \$4bn in 1999 to \$43.5 in Dec 2006--- even after paying about \$14 billion to Paris and London Clubs
- Debt relief (from Paris and London clubs)--- about \$33 billion of debt wiped out
- De-listed from FATF; and BB- credit rating
- Foreign investment over \$3 bn in 2006 (was negative in 1990s); Remittances about \$4 billion per annum
- End period inflation has declined to single digit in 2006
- Exchange rate has been appreciating and Stable: Parallel and Official rates have converged
- UNEMPLOYMENT (15- 64 years): down from 18% in 1990s to 5.3% in 2006, BUT:
 - Youth Unemployment (15- 24 years):14%-- (20% urban) and S-S 23.8%
 - Under-employment (15- 64 years): 20.2% (20.5% rural) and S-S 26.2%

Reforms and Outcomes.

...Poverty incidence down from 70% in 1999 to 54% in 2004, but Regions differ...

Trends in Poverty Level by Zones (1980- 2004)

| ZONE | 1980 | 1985 | 1992 | 1996 | 2004 |
|---------------|-------------|-------------|-------------|-------------|-------------|
| South South | 13.2 | 45.7 | 40.8 | 58.2 | 35.1 |
| South East | 12.9 | 30.4 | 41.0 | 53.5 | 26.7 |
| South West | 13.4 | 38.6 | 43.1 | 60.9 | 43.0 |
| North Central | 32.2 | 50.8 | 46.0 | 64.7 | 67.0 |
| North East | 35.6 | 54.9 | 54.0 | 70.1 | 72.2 |
| North West | 37.7 | 52.1 | 36.5 | 77.2 | 71.1 |

Poverty is strongly correlated with size of household and level of education

Reforms and Outcomes...

---But individual self-assessment of Poverty status
is different...

| ZONE | Self- Assessment of Poverty Status | Actual Incidence of Poverty |
|---------------|---|--|
| South-South | 74.8 | 35.06 |
| South-East | 77.6 | 26.74 |
| South- West | 71.5 | 43.01 |
| North-Central | 80.0 | 66.97 |
| North-East | 81.8 | 72.16 |
| North-West | 71.9 | 71.17 |

Very High Levels of Poverty is Essentially a Northern Phenomenon

| 10 STATES WITH HIGHEST INCIDENCE OF POVERTY | 10 STATES WITH LOWEST INCIDENCE OF POVERTY |
|---|--|
| 1. JIGAWA -----95.0 | 1. BAYELSA ---20.0 |
| 2. KEBBI -----89.7 | 2. ANAMBRA ---20.1 |
| 3. KOGI ----- 88.6 | 3. ABIA ----- 22.3 |
| 4. BAUCHI ---- 86.3 | 4. OYO ----- 24.1 |
| 5. KWARA -----85.2 | 5. IMO ----- 27.4 |
| 6. YOBE ----- 83.3 | 6. RIVERS -----29.1 |
| 7. ZAMFARA ---80.9 | 7. ENUGU ----- 31.1 |
| 8. GOMBE -----77.0 | 8. OGUN ----- 31.7 |
| 9. SOLETO -----76.8 | 9. OSHUN -----32.4 |
| 10. ... -----7 | 10. ... ----- 33.1 |

Where Is Nigeria's Money?

- Lagos State accounts for 48% of deposit, and 69.96% of total loans.
- FCT accounts for 16.86% of deposits and 4.6% of total loans
- 3 Zones in North (excluding FCT) have less bank deposit than South-South Zone
- Excluding FCT, 3 Zones in North account for approx. 10.75% of deposits, and 8.5% of bank loans. If we net out Govt deposits, the picture could be more gloomy.
- The above statistics corroborate the Poverty profile of the States/Regions
- The Poverty status in turn is highly correlated with Adult literacy rates; size of average household; orientation to private sector-led wealth creation as opposed to dependence on Government or few people; Active intervention of states/LG Government towards empowerment of the people; etc.



Banking and Financial Sector soundest it has ever been....

- 25 strong and reliable banks: soundest the sector has ever been, with no unsound bank
- 25 banks now the size of first and second largest banks in South Africa combined (contrast to 89 banks in 2003 being the size of 4th largest bank in South Africa)
- Growth in Assets; Deposits; Credit; Profitability; etc since 2004 astounding; Performance on capital adequacy and liquidity ratios is good; size of non-performing loans as percentage of total loans declined significantly.....
- 20 out of 25 Nigerian banks in top 100 banks in Africa, and indeed, 17 out of top 40; and 4 in top 10
- About 20 out of 25 Nigerian banks in top 1000 banks in the world by end of 2006 (there was none in 2003)
- Nigerian banking industry as fastest growing in Africa
- The Banking Sector is the dominant sector in the Nigerian Stock Exchange; and indeed the key driver of the recent phenomenal growth of the Exchange
- More commercial bank branches now than pre-consolidation
- Awaiting results of ongoing survey to know if employment in the sector has declined or increased since consolidation

And Confidence in the Economy is Growing....

- Sovereign rating expected to improve from BB-given performance indices
- Market capitalisation of US\$35 billion projected to double by 2007 and about \$100 bn in 2008
- Capital inflows more than doubling every two years---- about \$4 bn in 2006
- Low inflation, stable exchange rates and declining interest rates
- Rate of return on investment in dollar terms remains high and Stable
- Elimination of the external debt burden



III: Vision 20: 2020 and Growth Reserves

Vision 20: 2020--- Nigeria to become one of 20 largest economies in the world by year 2020.

See Various Studies and Projections by Goldman Sachs--- Nigeria to be the 12th largest economy by 2050 ahead of Italy, Canada, Korea, etc

(See my paper on Nigeria as China of Africa)

Economy has capacity to sustain over 10% in the medium term and achieve Vision 20: 2020, while also:

- Non-inflationary growth of non-oil sector.
- Inclusive (broad-based) growth for poverty reduction and employment creation

diversifying away from primary sector and mono-economy

Growth Reserves Abound...

- NIGERIA HAS ENOUGH GROWTH RESERVES TO SUSTAIN HIGH GROWTH
- Agriculture has huge untapped capacity: Over 60% of Nigeria's arable land not under cultivation
- Nigeria is a bed of gas (6th highest in the world). It is the world's fuel of choice
- The Gulf Of Guinea is now a major exploration zone and Nigeria is discovering huge deepwater oil reserves.
- 17 million Diaspora: remittances and potential supply of skills, global networks, etc



Growth Reserves abound...

- Nigeria's vast and largely youthful population has capacity to create huge demand through the emergence of a large middle class (population of 140 million)
- Improving telecommunications system and IT system for productivity
- Addressing the Business Environment ---



Matters Arising/Challenges

- Unemployment: Especially urban youth
- High rate of urbanisation (5.4%) associated with crime and pressure on urban infrastructure and housing
- Getting the States to be 'developmental' and stem the rural-urban drift and poverty reduction: Appropriate Local Government Administration that links with Town Unions/Communities
- Insecurity of lives and property
- Infrastructure deficiency
- Urban renewal challenges
- Addressing spatial inequality (North and South) and absolute poverty
- Institutional challenges ---- Constitutional Reforms ---other legislations by national assembly



IV: NEXT GENERATION OF REFORMS WILL GET US THERE

- Need a clear ***VISION***, and a ***PLAN***
- (**NEEDS II** as suggestion to next Government)
 - Vision of a prosperous country based on hard work and productivity of the citizens and sound value system. A vision that breaks away from a natural resource and rent- dependent society to one based on intangible wealth, entrepreneurship, and competition
 - Objectives remain: poverty reduction; employment generation, wealth creation and value re-orientation.



...Some of Next Reforms...

- Consolidating Macroeconomic stability--- stable (low) inflation; exchange and interest rates
- Security of lives and property and continuing to address infrastructure deficiency
- Financial System Strategy (FSS 2020)--- to drive the economic transformation
- Trade, Technology and Exploiting Networks and Partnerships: Nigeria may lose the future contribution of the Diaspora
- Agriculture: Conquering Nature and Exploiting Technology
- Deepening Reform in Education as bridge to the future---especially Science and Technology
- Addressing Spatial Inequality: New Thinking required on how to move the Northern Zones Forward: Old models have failed.
- Continuing to Strengthen Public institutions for transparency, accountability and Good Governance



... Some of Next Reforms.....

Urban Renewal Across the States--- especially Lagos (Lagos is the economic capital of Nigeria, if it does not work, the economy stagnates.....)

- National payment system reforms for productivity
- Consumer Credit, Mortgage and Capital Market Reforms
- Africa Finance Corporation (in-formation).
- Micro finance and entrepreneurship
- Commercial courts
- Amendments to the Constitution: Imperative for Effective Governance and Economic Management
- How to compel the States and LGAs to deliver on Development?--- so far Nigeria has been clapping with only one hand--- States and LGAs control about 50% of the resources
- Etc, Etc: NEEDS II to articulate the Road Map: Your input needed)



Thank You For Listening

