



Nigeria: Economic Growth Drivers And Financing Challenges

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Outline

- Growth Challenges in Nigeria?
- Sources and Drivers of Growth?
- Macro Framework for Non-inflationary Growth?
 - Unholy trinity: Which price(s) should adjust under expansionary fiscal policy? (inflation, interest rate, exchange rate)
- Challenges of Financing: Sources and issues
- Special Temporary (Micro-level) Interventions?
- Medium and Longer-term Challenges

Growth Challenges?

- Rapid Growth (7- 12% p.a) for MDGs and become Africa's largest economy
- Non-inflationary growth of non-oil sector
- Inclusive growth (broad-based) for poverty reduction and employment creation
- Addressing growth volatility---
diversification away from primary sectors
- Sustainability of growth over the long-term

Sources and Drivers of Growth?

- Growth Accounting:
- Factor accumulation == about 80% of growth (labour = 65%; capital = 15%; efficiency/productivity = 20%)
- Major implications for SKILLS Development (EDUCATION) and ICT
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Growth Accounting: Sectoral Decomposition

- Agriculture = 41.49%
 - Crop production = (36.95%)
- Crude petroleum = 25.72%
- Mining and Quarrying = 0.27%
- Manufacturing = 4.5%
- Building and Construction = 1.53%
- Wholesale and Retail Trade = 13.74%
- Services = 14.88%
 - Communication = (1.4%)
- MESSAGE: For short-term impact, agriculture and crude petroleum (approx. 70% of GDP) hold the key to growth.
- Primary Sectors are highly Volatile: Diversification into Industry and Services is key for sustainable long-term growth.

**SECTORAL GROWTH RATE OF GROSS DOMESTIC PRODUCT AT 1990
CONSTANT BASIC PRICES (1982-1998)**

Sectors/Sub-sector	Average 1982-85	Average 1986-90	Average 1991-98
Agriculture	3.5	5.5	3.2
Crop Production	4.7	5.5	3.6
Livestock	5.9	1.6	1.7
Forestry	0.1	-0.6	1.8
Fishing	-14.4	21.7	2.3
Industry	-0.8	6.8	0.4
Crude Petroleum & Nat. Gas	-2.9	7.3	0.6
Mining & Quarrying	-18.5	-2.9	4
Manufacturing	-2	4.6	-1.1
Building & Construction	-20.4	5.7	4
Wholesale & Retail Trade	-0.5	5.2	1.8

SECTORAL GROWTH RATE OF GROSS DOMESTIC PRODUCT AT 1990 CONSTANT BASIC
PRICES (1982-1998)

Sectors/Sub--sector	Average 1982-85	Average 1986-90	Average 1991-98
Services			
Transport	-6.9	1.9	8.2
Telecommunications	7.4	1.1	6.9
Electricity	6.4	-2.4	1.7
Water	-5.8	11.2	3.1
Hotel & Restaurant	-11.3	1	1.8
Financial Institutions	1.2	29.9	4
Insurance	-4.4	8.2	3.1
Real Estate	0.6	1.9	4
Business Services	9.5	2.7	3.5
Public Administration	2.3	2	1.8
Education	2.3	2	1.8
Health	2.3	2	1.8
Other Services	-6.9	1.9	8.3

SECTORAL GROWTH RATE OF GROSS DOMESTIC PRODUCT AT 1990 CONSTANT BASIC PRICES (1999-2005)

	1999	2000	2001	2002	2003	2004	2005	Average 1999-2005
Agriculture	5.29	2.95	3.88	4.25	6.47	6.5	6.7	5.1
Crop Production	5.2	3	3.8	4.2	7	6.5	6.39	5.2
Livestock	2.8	2.3	3	4.8	4.2	6.5	6.6	4.3
Forestry	1.3	1.5	2	0.7	1.5	6.5	8	3.1
Fishing	14.2	4	8	6.3	4.1	6.5	5.5	6.9
Industry	-6.2	10.2	5.2	-3.8	21.4	4.1	-1.3	4.2
Crude Petroleum & Nat. Gas	-7.5	11.1	5.2	-5.7	23.9	3.3	-2.2	4
Mining & Quarrying	3.8	3.8	10	4.3	5.5	10.8	16.9	7.9
Manufacturing	3.5	3.6	4.2	11	5.6	10	5.7	6.2
Building & Construction	3.8	4	12	4.3	8.8	10	-5.2	5.4
Wholesale & Retail Trade	2.5	1.6	2.5	6.5	5.8	9.7	39.9	9.8

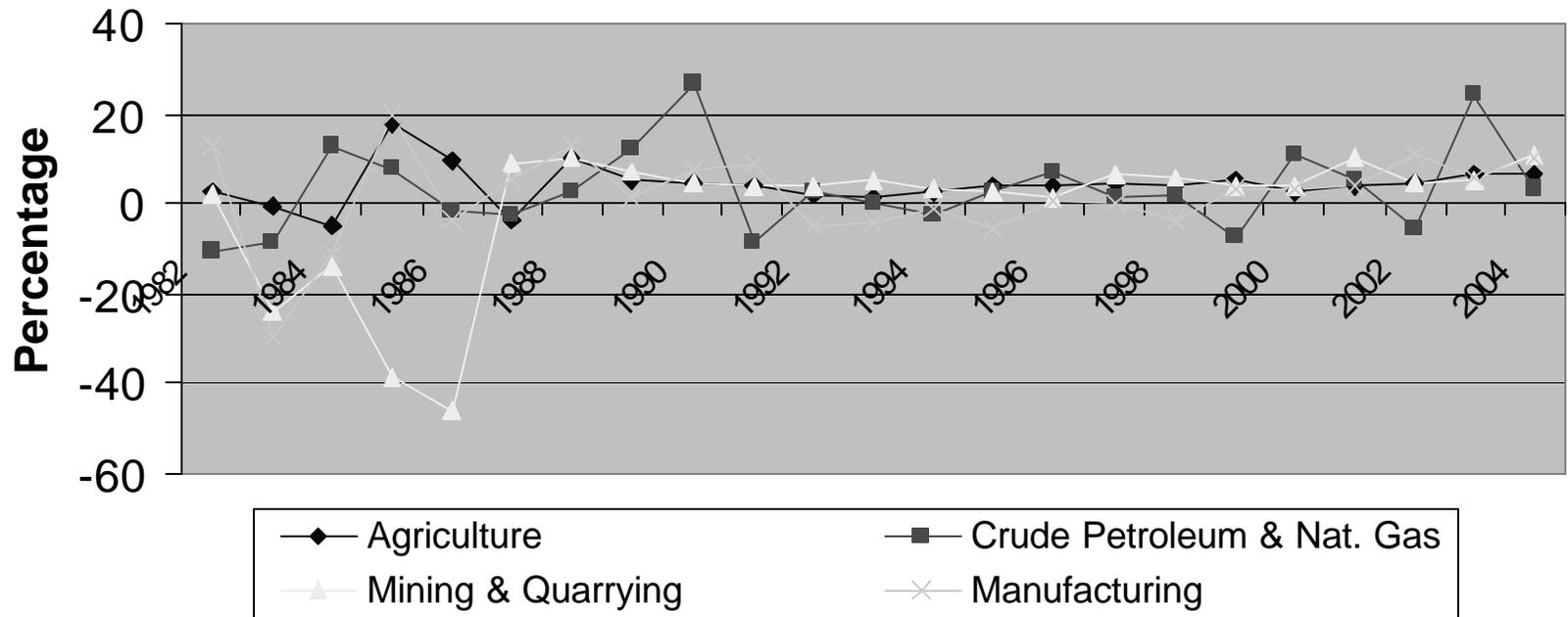
**SECTORAL GROWTH RATE OF GROSS DOMESTIC PRODUCT AT 1990 CONSTANT BASIC
PRICES (1999-2005)**

	1999	2000	2001	2002	2003	2004	2005	Average 1999-2005
Services								
Transport	2.5	4	4	15	1.3	5.9	6.5	5.6
Telecommunications	20	8	10	46.6	43	30	30	26.8
Electricity	1.3	2	13.7	28.6	3.4	10.4	9.3	9.8
Water	3.1	3.5	2.4	7.5	8.2	10.8	0	5.1
Hotel & Restaurant	3.5	3.7	4.5	6.8	4.6	10.8	19	7.6
Financial Institutions	3.5	3.9	4.5	29.4	-9.2	2.5	3	5.4
Insurance	3.8	5.8	4	29.4	-19.3	10.8	10.9	6.5
Real Estate	3.8	3.9	5	3	3	10.8	10.2	5.7
Business Services	4.4	4.3	5	6.5	4.4	10.8	7.2	6.1
Public Administration	1.7	1.6	1.6	18.1	0	10.8	4	5.4
Education	1.7	1.6	1.6	7.9	7	10.8	10.6	5.9
Health	1.7	1.6	1.6	0.8	2	10.8	9.8	4
Other Services	1.7	1.6	1.6	15	1.3	10.8	1.5	4.8

SECTORAL CONTRIBUTION TO GDP (%)

	1999	2000	2001	2002	2003	2004	2005
ACTIVITY SECTOR	1999	2000	2001	2002	2003	2004	2005
1. Agriculture	47.6	35.84	35.58	35.86	34.63	40.99	41.49
(a) Crop Production	37.99	29.89	29.66	29.86	28.98	36.48	36.95
(b) Livestock	6.06	3.48	3.42	3.47	3.28	2.6	2.63
(c) Forestry	1.4	0.78	0.76	0.74	0.68	0.54	0.54
(d) Fishing	2.15	1.69	1.74	1.79	1.69	1.37	1.37
2. Industry	19.77	36.98	37.3	34.67	38.16	29.48	27.72
(a) Crude Petroleum	12.47	32.45	32.65	29.75	33.44	25.72	23.82
(b) Mining & Quarrying	0.37	0.29	0.31	0.31	0.3	0.26	0.27
(c) Manufacturing	6.93	4.24	4.34	4.61	4.42	3.5	3.63
3. Building & Construction	2.46	1.95	2.09	2.11	2.08	1.44	1.53
4. Wholesale & Retail Trade	13.62	13.11	12.85	13.22	12.68	12.9	13.74
5. Services	29.75	12.12	12.17	14.12	12.45	14.56	14.88
(a) Transport	3.64	2.28	2.28	2.59	2.38	2.38	2.41
(b) Communication	0.37	0.11	0.13	0.19	0.21	1.14	1.4
(c) Utilities	0.61	0.44	0.46	0.54	0.52	3.58	3.6
(d) Hotel & Restaurant	0.57	0.21	0.21	0.21	0.2	0.37	0.39
(e) Finance & Insurance	11.16	5.2	5.2	6.5	5.34	4.08	3.98
(f) Real Estate & Business Services	0.35	1.9	1.91	1.9	1.78	1.34	1.41
(h) Producers of Govt. Services	11.06	1.25	1.22	1.35	1.24	0.96	0.95
(I) Comm., Social & Pers. Services	1.99	0.73	0.76	0.84	0.78	0.71	0.74

Growth Rate of some key sectors at 1990 Constant Basic Prices



Challenge for 2006?

- Rapid, inclusive growth of more than 7%
 - Led by the Private Sector?
 - Non-Inflationary and Stable Exch. Rate regime?
 - Led by the non-Oil Sector?
- KEY SECTORS TO FOCUS?
 - Agriculture (Crop production)
 - Oil and Gas
 - Industry (Manufacturing, esp. SMEs)
 - Housing Development
 - Services--- especially TOURISM; ICT
 - Solid Minerals

Growth Drivers?

- Security of lives and property
- Sound Macroeconomic Environment– stable prices!
- Infrastructure
 - POWER
 - TRANSPORT and COMMUNICATION
 - WATER
- Finance
- Efficient Institutions for enforcement of contracts--- property rights; and facilitation of businesses--- NIPC; NEPC; EPZ; CAC; customs; etc.
- Fight Against Corruption--- value for money spending!
- Human Capital----- Education/Health and ICT
- FOCUS of Presentation?: Macroeconomic Framework and Financing

Macro Framework for Non-inflationary Growth

- Challenge of STABLE PRICES under Expansionary Fiscal Policy Regime--- monetization of higher oil receipts and challenge of liquidity management!
- For GDP growth (7—10%) and inflation rate of 9% ---- M2 growth MUST range no more than 16—19%; and Credit to the economy no more than 30% growth.
- To keep Inflation and Exch. Rate low and stable, mop-up of liquidity at market interest rate through TBs/CBN bills
- Plus part- financing of Govt. Deficit through issuance of Treasury Bills
- Both Actions MIGHT Drive Interest Rate above single digit.

Macroeconomic Balancing

- Little Incentive for Banks to lend to riskier sectors at lower rates when riskless Govt instruments are available at HIGHER INTEREST RATES.
- Most critical challenge to movement to single digit interest rate is the HIGHER INFLATION RATE and Government as competitor with the Private Sector in the money market (liquidity mgt and deficit financing).
- Over the medium-term, a sustainable strategy for lower interest rate is for single digit inflation rate and more stringent fiscal regime (perhaps, a Balanced budget!)
- CBN Committed to stable Exchange Rate Regime and Effective Liquidity Management--- Both will Dampen Inflationary Pressures
- Cost of funds review (CRR; liquidity ratio) as Monetary ¹⁵ policy requirements permit liquidity management constraint

Financing Sources and Options

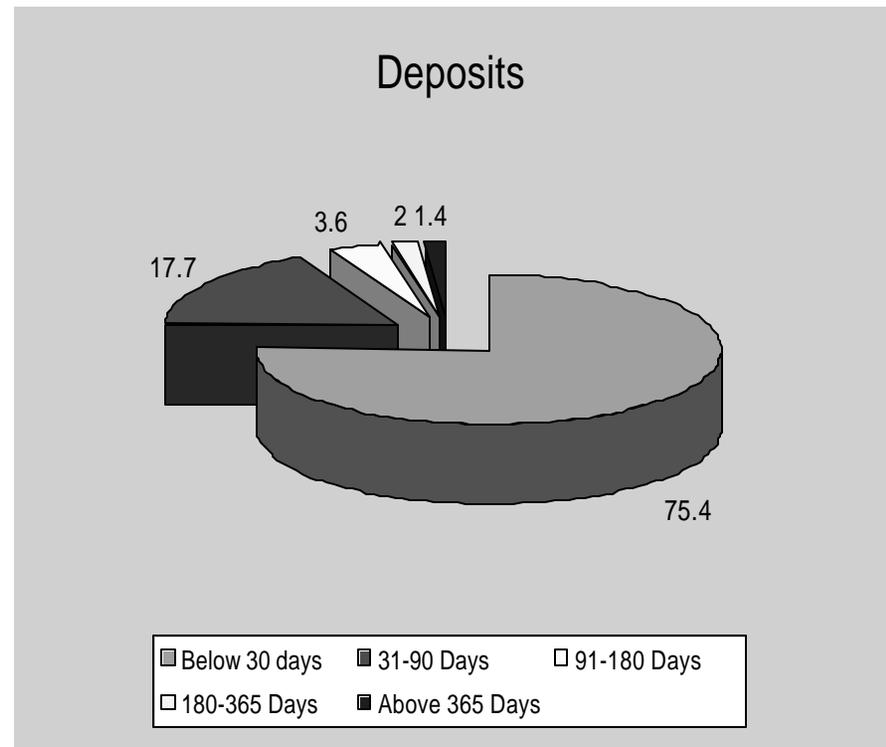
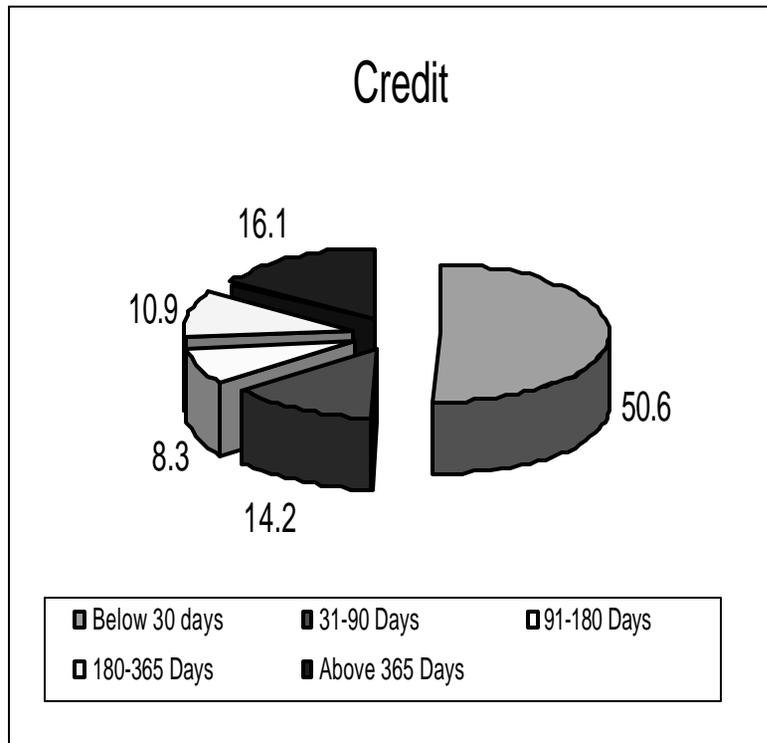
- Financial System underdeveloped relative to the size of the Economy: (Nigeria's GDP is about 61% of South Africa's---US\$107b compared to US\$175b), BUT:
 - NSE is less than 10% of JNSE– South Africa
 - South Africa's largest Bank--- Standard Bank Group (Stanbank) in 2004 had about the Capital base and thrice the Assets of ALL the CURRENT 25 banks in Nigeria combined.
 - Total Credit by SA banks to the economy is more than 100% of GDP, and Nigeria's is about 20% of GDP
 - Mortgage loans in Nigeria is less than 0.5% of GDP, whereas it is about 18% in South Africa
 - SME loans are more than 22% of total loans in SA but about 0.9% in Nigeria
 - Market for Debentures and bonds largely non-existent

Long Way to Go in Reforming the Financial System....

- National Legal and institutional reforms— creditor rights; mortgages; land tenure, etc (Designate special 'Federal Commercial Courts' in 2006?)
- Attracting a reasonably stable deposit base as opposed to volatile, short-term--- savings certificate; pension funds
- Liquidity and risk management tools
- Benchmarking capital market fees/charges to best practices
- Creative product developments--- bond, debentures, housing finance; consumer credit; etc
- Establishing a yield curve....
- Overall improvement in business environment
- NOTE: Without Stable Macroeconomic Environment, sustainable development of Money and Capital Markets Will NOT HAPPEN!---- First priority: Low inflation and Exchange Rate Stability

Deposit and Credit Structure: Squeezing Water out of the Rock?

- Credit from Deposit Money Banks (N2.0 trillion in 2004 & N2.5 trillion in 2005)



Financing Growth in 2006

- AGGREGATE INVESTMENT PROJECTIONS
- Approximately N1 trillion in capital spending by Federal and State Govts in 2006 (8% of GDP)
- Private Savings– Investment: approx 20% of GDP
- Foreign Direct Investment ---- estimated US\$5 billion---- 4% of GDP
- TOTAL: About 32% of GDP in total investment spending.

- Challenge of VALUE-FOR-MONEY SPENDING BY ALL AGENTS---- can generate more than 10% growth!!

- Which SECTORS Are We Spending---- have implications for non-inflationary growth?
- Also, resolving Debt to Local Contractors will have huge impact

Strategic Use of 'Excess Crude'

- Funds for the Future (50%) of Excess crude
- Rest of the 'Excess Crude':
 - Internal Security (APC for each LGA) for effective policing?
 - N100 b to recapitalize BOI and Bank of Agric--- to lend at concessional interest rates--- Fund 30—50 large scale farmers per state, each with 50 or more hectares for high impact on agriculture.
 - Externalize spending: more on Power plants and Transportation
 - Invest in the Future---- EDUCATION; HEALTH; WATER!!

Special (Micro-level) Interventions

- CBN and the Universal Banks to work hard:
 - Mainstreaming Microfinance Banks (MFBs) which can jump-start SMEs and create millions of jobs.
 - Encourage states to devote 1% of budget to micro credit--- about N20 billion in 2006
 - LGAs to devote 1% of budget to micro credit == N5 billion
 - Establishment of African Investment Bank to finance export-oriented Industries and infrastructure.
 - REVIEW of SMEEIS; ACGS; and Interest Draw-back Scheme to facilitate easier access and maximum impact especially on Agriculture and Manufacturing
 - Special SME Windows in Commercial Banks?
 - Investment in Entrepreneurship Development Centres¹

● **THANK YOU FOR LISTENING!**