KEYNOTE ADDRESS BY CHIEF (DR.) J. O. SANUSI *(CON);* GOVERNOR, CENTRAL BANK OF NIGERIA, AT THE OPENING CEREMONY OF THE REGIONAL COURSE ON FINANCIAL PROGRAMMING AND POLICIES HELD AT THE CHELSEA HOTEL, ABUJA, NIGERIA

JULY 14, 2003

Deputy Governors, Central Bank of Nigeria,
Representative of the IMF Institute
Director General, Debt Management Office,
Director General, WAIFEM,
Departmental Directors, Central Bank of Nigeria,
Course Facilitators and Participants,
Ladies and Gentlemen,

On behalf of the government and people of Nigeria, the Managements of the CBN and WAIFEM, I welcome you to Abuja, the nation's capital. Let me bid particular welcome to the facilitators and participants who are visiting Abuja for the first time. I am aware that you have a crowded programme before you. Let me urge you, nonetheless, to take out some time to visit the numerous interesting places in the city and its environs.

2.0 I should, at the outset, thank the WAIFEM and IMF Institute, the organizers of this course, for the honour of inviting me to chair this ceremony and deliver the keynote address. I view the conduct of this course on Financial Programming and

Policies as another giant step in capacity building for macroeconomic management in the sub-region. You will recall that prior to the establishment of WAIFEM, the opportunity of participating in a course like this was restricted to only a few in the sub-region who would compete with candidates from other IMF member countries for participation in Washington DC. Presently, it has been brought to our door steps. Let me, therefore, commend the two institutes for this collaborative effort. I urge our visitors from the IMF Institute to, please, convey the appreciation of the Board of Governors of WAIFEM to the Management of the IMF.

3.0 Faced with structural problems, mounting imbalances, and declining growth rates, the poor economic performance of most Sub-Sahara African Countries since the mid-1970s was attributable largely to poor implementation of macroeconomic policies, reflecting the problem of inadequate executive capacity. For the overall macroeconomic environment to improve, the need for the implementation of rigorous macroeconomic policies has, since the mid-1980s, become very obvious. This requires that economic policy makers, and national economic managers must acquire the technical skills to analyse, formulate and implement economic policies, such that they can respond effectively to internal and external shocks. Despite several years of foreign technical assistance, however, a very serious management skills gap remains.

Efforts to bridge this gap in the sub-region led to the establishment of WAIFEM and the motivation for organizing this regional course, the seventh in the series.

4.0 Ladies and Gentlemen, the overall economic performance in the sub-region remains unimpressive. With about 10 percent of the global population, the West African sub-region accounts for less than one percent of world output. This compares unfavourably with the East Asian and Pacific countries and Latin America and the Caribbean with which ECOWAS countries share a comparable colonial past. Whereas the Asian countries experienced double-digit economic growth rates in the 1970s and 80s, ECOWAS countries grew at a mere annual average rate of 2.5 percent. That state of affairs informed the adoption of Structural Adjustment Programmes (SAPs) in the early to mid-1980s, with a view to correcting macroeconomic imbalances and promoting growth.

5.0 Despite two decades of adjustment, West African economies are still defined by macroeconomic imbalances manifested in slow growth, rising unemployment, high inflation and huge external imbalances. To my mind, the time has come for a new approach and commitment to macroeconomic policy design and management, if ECOWAS countries are to grow out of their current lack luster performance. This paradigm shift calls for the use of modern techniques of economic analysis and policy formulation such as financial programming. At this juncture, one may ask: **What is financial programming**?

6.0 Ladies and Gentlemen, I am informed that a robust team of experts is here to answer that question and also shed light on the various aspects of the theme of this course. I have no intention to pre-empt their presentations. What I will do in the rest of my remarks this morning is to prepare the stage for their soft landing by provoking your thoughts on some salient issues about financial programming. First of all, let me attempt to answer the question I posed a short while ago.

7.0 According to the IMF, a financial programme is **a comprehensive set of policy measures designed to achieve a given set of macroeconomic objectives**. These objectives usually include growing the economy, full employment, low inflation and a healthy balance of payments position. In general, a financial programme is usually adopted to correct macroeconomic imbalances, **preferably as soon as they occur**. In the past, many developing countries have, however, failed to adjust in a timely manner when faced with macroeconomic imbalances. The result, more often than not, was that the remedies came too late to make the desirable impact.

8.0 Crafting a credible financial programme begins with an assessment of economic problems and the quantification of a set of policy instruments to deliver a given outcome. In our sub-regional context, this phase of the design of a financial programme is especially challenging owing to the perennial problem of paucity of timely and reliable data. I urge you to give serious thought to this fundamental problem and proffer a lasting solution to it in your deliberations.

9.0 The financial programmer is often faced with policy dilemma. Using a holistic and integrated system of national accounts, the balance of payments, as well as the fiscal and monetary accounts, a **financial programme** would typically use monetary, fiscal and exchange rate policies to eliminate macro-economic imbalances and spur growth in an orderly and sustainable manner. In this context, a **financial programmer** could be confronted with conflicting policy choices in designing a financial programme. It is important therefore, that the programmer takes adequate care to ensure the coherence and internal consistency of all the elements in the financial programme. In our nascent democracies, where the society's expectations (sometimes conflicting) are high, it is particularly important that the framework takes into account trade-offs between competing goals. For instance, the financial programmer should bear in mind that:

- devaluation of the domestic currency aimed at reducing the current account deficit, could also push up local currency costs of external debt service and exacerbate inflation;
- dismantling price controls could also drive up inflation, at least in the short term;
- raising domestic interest rates to mop up excess liquidity may increase the cost of funds, spike domestic debt service payments and reduce growth in the real sector;
- trade liberalization and removal of exchange controls may worsen the balance of payments in the short run as a deluge of imports rush in to satisfy pent -up demand.

The ability of a financial programmer to reconcile these conflicting goals is a critical factor in coming up with a credible and implementable reform programme.

10. Drawing on successful adjustment experiences elsewhere and taking the Sub-Saharan Africa's circumstances into account, I would suggest four (4) strategies that should guide member countries of the Economic Community of West African States (ECOWAS) undertaking reform programmes:

i <u>Get Macroeconomic Policies Right</u>

Keeping budget deficits small helps in controlling inflation and avoiding balance of payments problems, while the use of a realistic exchange rate enhances international competitiveness of the domestic economy.

ii <u>Encourage Competition</u>

Competition leads to innovation, higher productivity and consumer-friendly activities by firms. In general, firms that are exposed to the rigours of competition are likely to be more efficient than others with privileged access to credit, foreign exchange, or protected market.

iii <u>Use Scarce Institutional Capacity Effectively</u>

ECOWAS countries have limited capacity to design, implement and effectively monitor economic policies. Therefore, high priority should be given to reforms that minimize unnecessary government involvement in the economy.

iv <u>Good Governance</u>

Good governance is manifested in the rule of law, equity, participatory democracy and the provision of basic services. In its absence, undesirable side effects of economic globalization and liberalization can take hold. These include, widespread non-compliance, corruption, organized crime and drug trafficking.

11. Among the major policy concerns, facing some West African countries today is the problem of fiscal dominance that constrains the effectiveness of monetary policy. The concerns for high budget deficits and inflation emanate from their negative consequences on growth and employment and thus general welfare. Since both can adversely affect growth, they are inimical to poverty reduction as evidenced by recent studies, which established a strong relationship between growth and poverty reduction. Also, budget deficit is particularly harmful if the content of the government expenditure is biased towards imports, which would place pressure on domestic production and the exchange rate of the local currency. Moreover, it is undesirable if government expenditure to GDP ratio is unduly high, resulting in the government dominating the economy, thereby crowding out the private sector. However, the strongest argument against a budget deficit lies in the consequences of its sources of financing and their sustainability.

12. As you are aware, authorities of WAIFEM member countries are implementing a programme to create the West African Monetary Zone (WAMZ). The implementation of the programme has been characterized by the failure of most of the member countries to meet the critical convergence criteria relating to fiscal deficits and inflation targets. Recognizing the

importance of macroeconomic stability to the promotion of investment and output growth towards poverty reduction in the sub-region, it is expected that participants at this course would, at the end of two weeks, be able to appreciate the need for ensuring the formulation and implementation of sound economic policies. They would also have acquired the skills to understand and be able to shape the institutional framework to review and analyze policy directions on a regular basis. In this regard, all participants must participate fully and actively in order to derive maximum benefit from the course.

13. In concluding, Ladies and Gentlemen, I am aware that you have a long day ahead of you and are itching to make an early start. Before I leave you to commence the technical sessions, I would, once again, like to welcome you to Abuja and wish you a pleasant stay.

14. It is now my privilege and honour to declare the 7th **Regional Course on Financial Programming and Policies** jointly organized by WAIFEM and IMF Institute open.

15. Thank you and God bless you all.

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