

OVERVIEW OF RECENT ECONOMIC DEVELOPMENTS AND INVESTMENT POTENTIALS IN NIGERIA

For most of the decade of the 1990s, the performance of the Nigerian economy was unimpressive as the growth in investment and output was low and gave rise to high rate of unemployment. Reflecting the impact of years of excessive fiscal expansion by the three tiers of government, inflation ran high, while the pressure on the naira exchange rate was intensive. The level of foreign investment flow plummeted, influenced by the pariah status of Nigeria in the international community. Some improvements have, however, been observed since the coming of the democratic governance in the country. The highlights of major developments are as follows:

1.1 Gross Domestic Product

After many years of slow growth in real gross domestic product (GDP), averaging 2.6 per cent annually in 1992-1999, the growth rate rose to 3.8 and 3.9 per cent in 2000 and 2001, respectively. The modest recovery was largely attributable to the improved performance of the agricultural and manufacturing sectors. Although the growth rate in 2002 was estimated at a lower 3.3 per cent, compared with the preceding two years, the decline was accounted for entirely by the poor performance of the oil sector. Specifically, the robust growth of the non-oil sector more than off-set the output contraction in the oil sector, caused by the OPEC-imposed reduction in members production quota to beef up prices. Assured by the commitment of the present Government to pursue sound macroeconomic policies, rehabilitate and upgrade economic and social infrastructural facilities that had suffered many years of neglect,

and ensure continued democratic governance, the prospects are good that a high growth rate will be sustained over the medium-term.

1.2 Inflation Rate

Inflation, which peaked at 72.8 per cent in 1995, was a major problem in the economy during the first half of the 1990s. The major factor responsible for the poor inflation performance was the expansionary fiscal stance of the three tiers of government. Reflecting the impact of monetary policy tightening and improvement in fiscal prudence, the inflation rate decelerated rapidly from 72.8 per cent in 1995 to 6.6 and 6.9 per cent in 1999 and 2000, respectively. However, the declining trend in the inflation rate was reversed in 2001 when the rate shot up to 18.9 per cent, owing to excessive government spending of the excess earnings from crude oil exports. The actions taken by the CBN during the course of 2001 and early 2002 to contain demand pressure led to the steady deceleration of the inflation rate to an estimated 13.0 per cent in December, 2002.

1.3 Fiscal Deficits

Federal Government's fiscal deficit as a proportion of the GDP was very high in the early 1990s, reaching an all time high of 15.5 per cent of GDP in 1993, in spite of the buoyant oil revenue earnings. The fiscal balance, however, swung into a surplus in 1995 and 1996, mainly because the social and economic infrastructures were left unmaintained and most of the government's liabilities to local contractors were not paid. The deficit level moderated considerably in fiscal 2001 with the deficit/GDP ratio falling to 2.1 per cent, down from 8.0 per cent of GDP in 1999.

1.4 Exchange Rate

A major gain from Nigeria's adoption of structural adjustment programme was the liberalization of the foreign exchange market, in which the determination of the exchange rate of the national currency (Naira) has largely been dictated by market forces. This has helped to enhance efficiency in the allocation and utilization of foreign exchange resources. Over the years, various types of market mechanisms have been adopted, with Dutch Auction System (DAS) being the latest. The introduction of DAS has been a giant step in promoting increased flexibility in the management of the naira exchange rate. Under the DAS, satisfactory progress has been made to make naira exchange rate to be truly market-determined. The narrowing of the spread between the official and parallel market rates from about 20 per cent in the first half of 2002 to less than 10 per cent in the second half was a remarkable achievement.

1.5 External Reserves

The level of Nigeria's external reserves rose substantially from US\$712 million in 1992 to over US\$10 billion in 2001, which could finance 12 months imports and other external disbursements, compared with the 3 months conventionally required. However, following the excessive demand pressure in the foreign exchange market during the first half of 2002, the reserves level was rapidly depleted to US \$8.3 billion by end-July. Although, the level stood at US \$7.7 billion by end-December 2002, the fall has been stemmed, following the introduction of the Dutch Auction System in July 2002.

1.6 Direct Foreign Investment

The level of foreign direct investments in Nigeria has fluctuated downward in the last five years. As indicated in Table 2, the net

foreign private capital inflow fell persistently from ₦24.1 billion in 1998 to ₦3.4 billion in 2001. The bulk of the investments came from the United Kingdom, accounting for about 60 per cent of the total in 1998 and almost 80 per cent in 2001. Provisional data for 2002 have indicated a reversal of this trend.

2.0 CURRENT POLICY PURSUIT

The central focus of current economic policies is to create a conducive environment for investment and output growth, through strong commitment to sound macroeconomic policies and structural reforms. In this regard, the targets are to bring inflation back to a single digit by end-2003 and raise the real output growth rate to a minimum of 7 per cent annually by 2007. Towards this end, the CBN will maintain a non-accommodating monetary policy, while ensuring that adequate credit is available to the productive sectors of the economy. The CBN stands ready to tighten monetary policy if the need arises. Moreover, the Bank has put in place appropriate supervisory and regulatory framework and is beefing up its supervisory capacity to ensure the soundness and stability of the financial sector. Appropriate mechanism is being put in place to ensure necessary co-operation with the fiscal authorities and effective coordination of monetary policy with other economic policies, including fiscal and structural, are maintained.

Towards the achievement of real growth target of 7 per cent per annum by 2007, six (6) priority tracks of production, mainly in the non-oil sector, have been identified as follows:

- (i) agriculture and agro-business, based on government's support for private sector initiatives in the production of rice, maize, cassava, cotton and export crops through the provision of credit

- facilities and extension services, among other incentives, to ensure a minimum agricultural output growth rate of 8 per cent by 2007.
- (ii) solid minerals development, which is being promoted through government support to encourage private sector participation in value-added processes, and export-oriented activities.
 - (iii) other manufacturing, which is being promoted through the establishment of investment-friendly climate, attractive fiscal incentives, provision of long-term credit at affordable interest rates and improved infrastructure.
 - (iv) crude oil sector, promoted through the liberalization of both upstream and downstream activities as well as increased private sector participation in petroleum products refining and distribution.
 - (v) natural gas sector development through support for initiatives to harness natural gas for exports and domestic utilization.
 - (vi) tourism development through appropriate legislation and encouragement of private sector initiatives.

The government is also pursuing policies to attract foreign direct investment by accelerating the implementation of its privatization programme and liberalizing the economy to enhance its openness. Other measures include the establishment of a legal framework and effective security arrangement that are supportive of investment growth.

3.0 **INVESTMENT POTENTIALS IN NIGERIA**

The potentials for investments in Nigeria are enormous, including large fertile landmass, a versatile and large population as well as abundant mineral resources.

3.1 Population and markets

Nigeria is the most populous country in West Africa. It occupies a land area of 923,768 square kilometers and lies between longitudes 3° and 14° East of the Greenwich Meridian and Latitudes 4° and 14° North of the Equator. Her population based on 1991 census and using an annual growth rate of 3.1 per cent was projected at 118.8 million in 2001, thus making the country the largest single market for goods and services in the African continent. The large population also provides relatively cheap labour force.

3.2 Agriculture

Nigeria's agricultural potentials are enormous, including an arable land area of 72 million hectares of which only 50 per cent is currently under cultivation. A large expanse of land can therefore still be brought under cultivation. The country is endowed with a wide range of ecological zones – from the Sahel, Sudan and Guinea Savannah of the North to the Southern Rain Forest – that makes it possible to produce many varieties of crops and livestock. The climatic conditions are suitable for the production of cocoa, coffee, rubber, sugar cane, yam, cassava, maize, millet, rice, banana, palm fruit, orange, etc. Livestock farming also offers major attraction. Nigeria's ample waters provide great potentials for fishing and other aquacultural activities. On the whole, agricultural production currently accounts for over 40 per cent of the country's gross national product.

3.3 Manufacturing

The manufacturing sub-sector comprises a wide range of industrial activities, undertaken by large, medium and small-scale enterprises, as well as cottage and handicraft units in the informal sector. Most of the enterprises producing consumer goods are

owned by the private sector. Areas of productive activities include food, beverages, textiles, weaving apparels, plastics, rubber products, soap and detergents, wooden and metal furniture, petroleum, chemicals, tyres and tubes and leather products. Owing to a number of problems, including inadequate funding, the sub-sector, on the average, utilized only 36.1 and 39.6 per cent of aggregate installed capacity in 2000 and 2001, respectively. As the constraints to production activities, created mainly by decades of military rule, are being removed, the level of capacity utilization has been improving. The firms in the sector require extensive re-tooling, restructuring and modernization to enable them produce competitively and these require large funding.

3.4 Small and Medium Industries Equity Investment Scheme (SMIEIS)

Cognizant of the important and revolutionary role, which small and medium scale enterprises can play and, indeed, have played in the industrial and overall economic development of a nation, the Central Bank of Nigeria in collaboration with the deposit money banks, under the aegis of the Bankers' Committee, has established the Small and Medium Industries Equity Investment Scheme (SMIEIS). Under the Scheme, banks have decided to set aside 10 per cent of their profits before tax for direct equity investment in small-and medium-scale industries. This initiative is intended to plug the gap resulting from inadequate long-term financing, as well as provide risk capital, entrepreneurial management and financial advisory services in support of the growth objective of Government. The scheme, which took off in August, 2001 has made satisfactory progress and the prospects for improved performance are high.

Considering the vast experiences and expertise of most countries of South East Asia, including Singapore, in promoting small and medium scale enterprises as an engine of economic growth and export diversification, I believe that this is an important area where Nigeria and Singapore can co-operate for the mutual benefits of both nations.

3.5 Mining (Oil, Gas and Solid Minerals)

Nigeria is endowed with mineral resources, many of which have been proven to be in commercial quantity. These include crude petroleum and gas, as well as solid minerals, such as iron ore, coal, cassiterite, columbite, limestone and marble.

The country is a major producer and exporter of crude oil with reserves of over 32 billion barrels and daily production of 2.018 million barrels in conformity with OPEC quota allocation to member countries. The gas reserve is about 167 trillion cubic feet. The major international oil companies prospect and exploit oil and gas reserves in Nigeria. Also, Nigeria has four petroleum refineries, which produce petroleum for local consumption. However, the refineries are old and require refurbishment. Also, there is a need for the establishment of new refineries to bring relief to the sector. Nigeria's solid minerals are largely unexploited, as too much attention has been paid to the crude oil sub-sector. In general, there are great potentials for investment in the sector.

Finally, there are other areas of great potentials for investment in Nigeria. They include power, steel, aluminium and communications sectors. Huge financial resources would be required to rehabilitate and upgrade the infrastructural facilities in these sectors. In fact, most of the government-owned enterprises in these

sectors have been slated for privatization. Let me note at this point that the Nigerian authorities have, in the last three years, demonstrated strong commitment to the pursuit of sound and credible economic policies that will ensure a stable and investor-friendly environment in the country. The policy of economic liberalization has continued to be pursued vigorously, while the pace of implementation of the privatisation programme has been accelerated. Moreover, while the capital account of the balance of payments has not been explicitly liberalized, Nigeria has adopted a liberal policy of allowing free inflow and exit of foreign investments. Capital brought in by way of funds or equipment and earnings on such investments are allowed to be repatriated, provided that the Certificate of Capital Importation was obtained from the bank, through which the inflow was channeled, at the time of importation. I wish to assure you that we shall sustain this effort.

Thank you for your attention.

**Chief (Dr.) J.O. Sanusi (CON),
Governor,
Central Bank of Nigeria.**

20th February, 2003.