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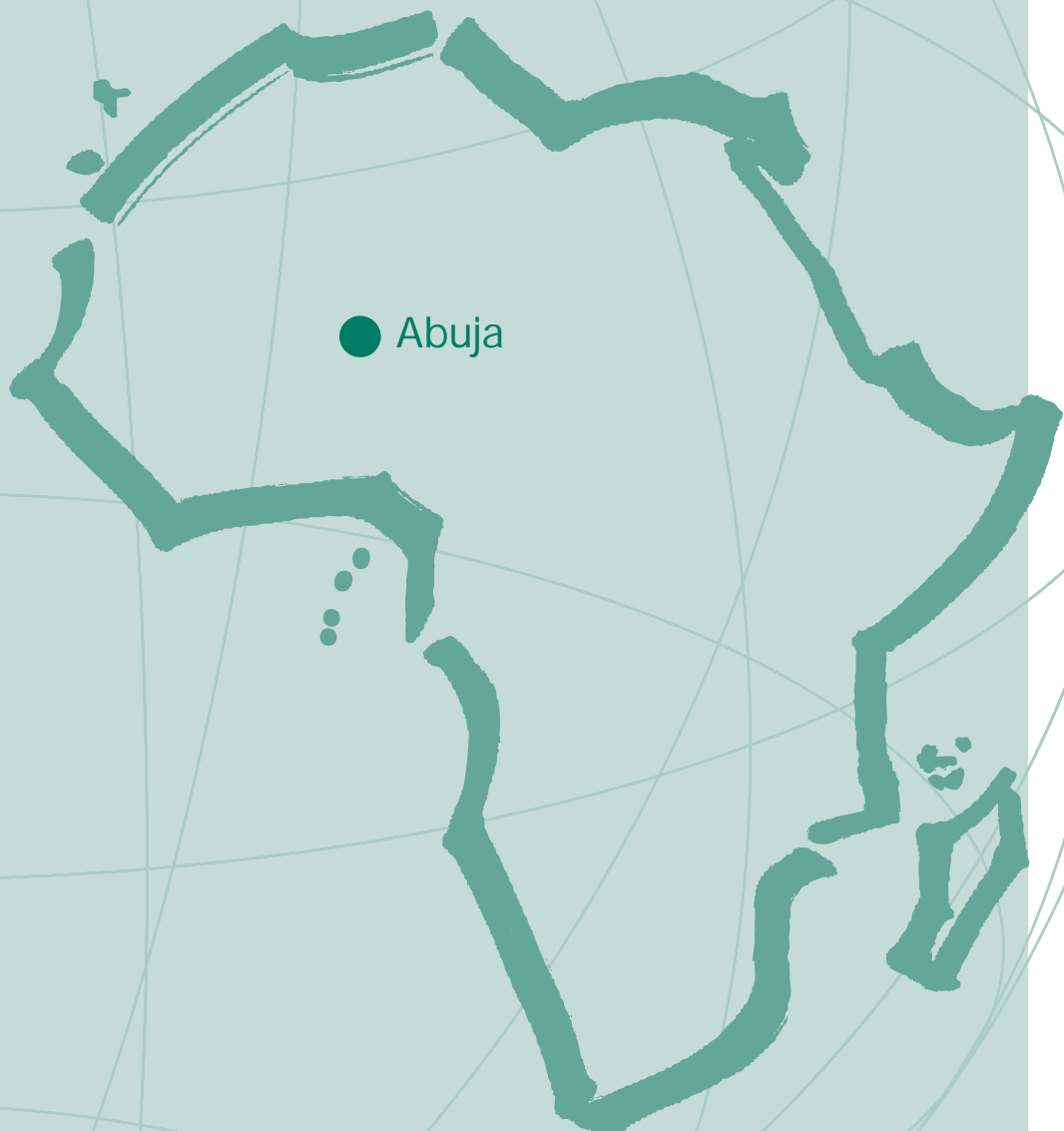
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Nigeria

Nigeria



key figures

• Land area, thousands of km ²	924
• Population, thousands (2001)	116 929
• GDP per capita, \$ (2001)	362
• Life expectancy (2000-2005)	52.1
• Illiteracy rate (2001)	34.7

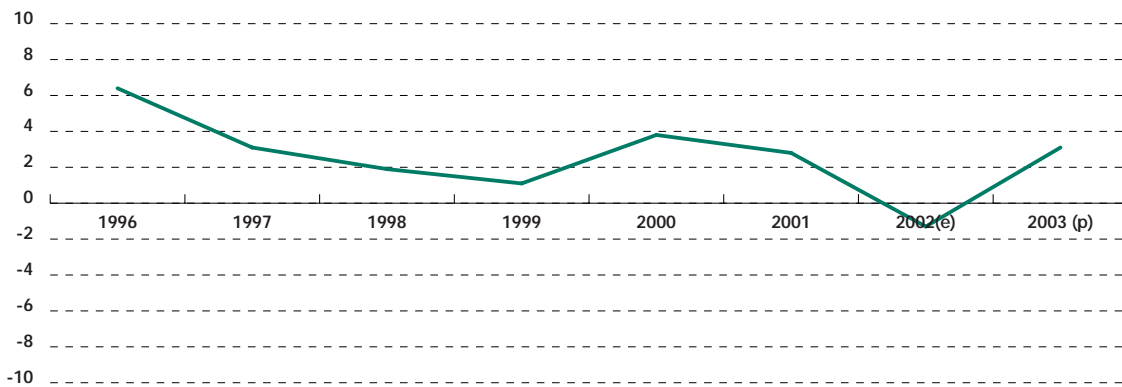
Nigeria

NIGERIA'S ECONOMIC PERFORMANCE remains mixed. The economy maintained a moderate rate of growth of real GDP, which reached 3.9 per cent in 2001, from the yearly average of 3.3 per cent since 1995. The outlook on growth remains mixed. Real GDP is estimated to decline by about 1.3 per cent in 2002, following which the economy is projected to resume positive growth at 3.1 per cent in 2003. The growth performance in 2001 was achieved in an atmosphere of weakening economic fundamentals: inflationary pressures were exacerbated, interest rates rose and the foreign exchange rate of the naira depreciated sharply. The government's fiscal position deteriorated sharply in 2001 as expenditure increases were met with reduced revenues. The

government's effort to reduce expenditure is made difficult by Nigeria's fiscal federalism. In spite of increased expenditures the key social services that bear directly on poverty alleviation have not seen significant improvement. Nigeria's public finances are expected to improve with an estimated contraction in the overall balance in 2002 with further improvement in 2003. The government's expansionary fiscal operations in 2001 induced monetary expansion that intensified inflationary pressure and contributed to rising interest rates and depreciation of the naira. Inflation is however expected to come down in 2002 and 2003 as the fiscal position improves. The external

Revenue shortfall and renewed external pressures contributed to the suspension of Nigeria's payments on its external debt.

Figure 1 - Real GDP Growth



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Source: Authors' estimates and predictions based on IMF and domestic authorities' data.

sector experienced renewed pressure in 2001 as the excessive dependence on imports caused a sharp fall in the trade balance. The difficulty in the external sector precipitated in Nigeria suspending payments on some of its external debt in August 2002. The outlook on the external sector is mixed; the trade surplus is estimated to fall in 2002 and to increase significantly in 2003. Nigeria's economic recovery continues to be hampered by structural bottlenecks in the economy. The attempt to restructure the economy through privatisation is currently at a snail's pace. Nigeria's phase-1 privatisation programme (1988-93) was deemed successful with

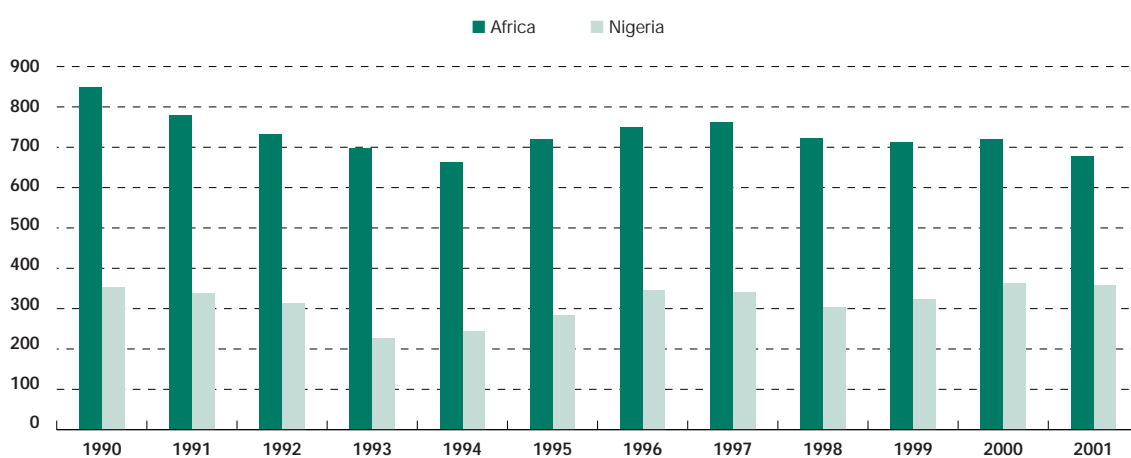
measurable benefits to the economy. However, since the re-launch of the programme from 1999, progress has been extremely slow. At the start of 2002, the government still had some 117 enterprises to privatise in a programme expected to be completed in 2003. The privatisation programme faces serious opposition from both houses of the Nigerian parliament. Nigeria is moving towards elections in early 2003 and the political situation has become highly charged. However, in the midst of political tension, communal, ethnic and religious violence the country's democracy does not appear threatened.

Recent Economic Developments

The performance of the Nigerian economy was mixed in 2001. The economy maintained its moderate rate of growth with real GDP growth of 3.9 per cent compared with 3.8 per cent in 2000 and the yearly average of 3.3 per cent achieved during the 1995-99 period. The economic expansion in 2001 was, however, achieved in an atmosphere of weakening economic fundamentals as inflationary pressure was exacerbated, interest rates trended upwards, the naira depreciated in all segments of the foreign exchange market, and the external sector experienced renewed pressure.

The moderate growth in total output in 2001 was reflected in all the major sectors of the economy. Agricultural output rose by 3.7 per cent in 2001 compared with 3.1 per cent in 2000 with the sector contributing 29.3 per cent of GDP in 2001. All the sub-sectors contributed to the agricultural expansion in 2001. The output of staples rose by 3.5 per cent in 2001 compared with 3 per cent in 2000 with all the major staples such as maize, cassava, millet and sorghum, recording output increases. Cash crop production expanded by 3.4 per cent in 2001 from 3.3 per cent in 2000 due largely to improvements in demand and market prices. The output of cotton, soya bean and palm

Figure 2 - GDP Per Capita in Nigeria and in Africa (current \$)



Source: Authors' estimates based on IMF data.

oil as well as coffee, rubber and cocoa increased in 2001. The modest increase in agricultural production in 2001 was attributed mainly to favourable weather conditions. Other factors that contributed to the improved agricultural output in 2001 included the supply of high-yielding and disease-resistant seeds, low incidence of pests and diseases, improved post-harvest handling, as well as continued intensification of off-farm research efforts by research institutions. At the same time, Nigeria faces difficulties in achieving the annual agricultural growth target of 5.8 per cent set in the 2000-2003 National Rolling Plan. The expansion of agricultural output continues to be hindered by major constraints including shortages in the supply of fertilizer. In 2001, for example, there was major shortage of fertilizer. The total quantity of fertilizer available for

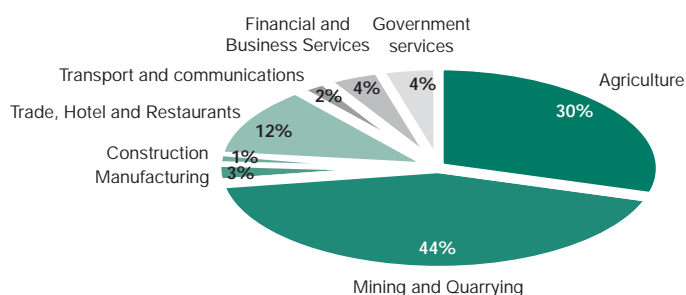
distribution during the year was 120,000 metric tonnes, which represented a decline of 60 per cent on the level distributed in 2000. The main reason was that locally produced fertilizer was virtually non-existent in 2001, owing to the continued shut-down of the National Fertilizer Company of Nigeria (NAFCO), which accounts for over 85 per cent of total local production. The shortfall in the supply of fertilizers and the inefficiencies of distribution make the commodity inaccessible to many farmers.

The industrial sector was responsible for 45.8 per cent of GDP in 2001. Industrial output rose by 3.3 per cent in 2001 substantially below the 7.6 per cent rate of increase in the previous year. The main activity that increased significantly was electricity generation that

expanded by 22.3 per cent in 2001 compared with the decline of 6.5 per cent in the previous year. The improvement was attributed largely to the rehabilitation of some generating equipment and higher utilisation of existing capacities. The manufacturing sub-sector recorded modest improvement as manufacturing production rose by 2.9 per cent, compared with the increase of 0.4 per cent in 2000. In general, the expansion in manufacturing was due largely to improved supply of inputs, especially the restoration of normal supply of petroleum products, a moderate improvement in electricity supply, the introduction of comprehensive inspection of imports at the ports, which forced importers of finished goods to pay appropriate duties, thereby increasing slightly, the competitiveness of local manufactures. The improvement in manufacturing in 2001 was corroborated by a CBN survey on capacity utilisation which showed an average capacity utilisation rate rising from 36.1 per cent in 2000 to 39.6 per cent in 2001. At the same time, manufacturing expansion in Nigeria continues to be generally impaired by low effective demand for locally made goods, occasioned by the continued influx of cheaper and better quality, imported products, especially from South East Asia; and the poor state of social and economic infrastructure, including power and water supply. Also, the manufacturing sector has suffered from reduced capacity, which has seen, for example, the number of textile industries in the country fall to just 40 in 2002, a quarter of the number in the mid-1980s. This situation has prompted the government to ban the importation of all printed fabrics in order to protect the ailing textile industry. The performance of the mining sector was subdued in 2001, as the upward trend in output

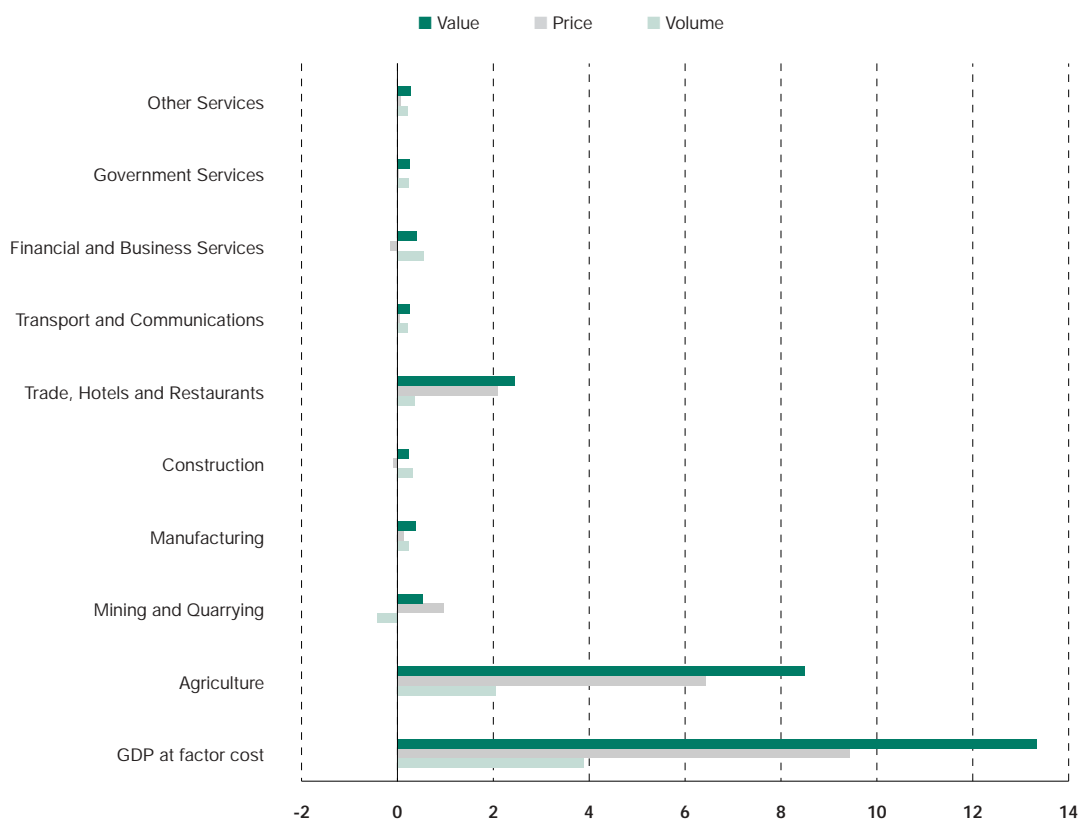
observed in 2000 was slowed in 2001. Mining production rose by only 0.4 per cent in 2001, compared with the expansion of 14.9 per cent in the previous year. The sluggish growth of the mining sub-sector in 2001 was due largely to the slow increase in crude petroleum production, which accounts for about 98.7 per cent of the total output of the mining sub-sector. Crude oil production increased by only 0.4 per cent in 2001, compared with 7.1 per cent in the preceding year, reflecting compliance with OPEC output quota cuts. The OPEC quota for Nigeria was reviewed downwards to 2 075, 1 993, and 1 911 mbd in February, April and September 2001 respectively. This downward trend in Nigeria's OPEC quota has continued since the start of 2002 with the level down to 1.787 from January. However, Nigeria's crude oil production, according to data from the International Energy Agency, was 2.17 million b/d in October 2001 and 2.08 million b/d in November 2001; the Nigerian authorities put crude oil output for December 2001 at 1 992 million b/d. These output levels were well above the OPEC quota, which gives credence to the view that Nigeria is the worst OPEC offender in exceeding its quota. At the same time, it was hard to imagine Nigeria reducing output substantially as the reduced quota coincided with reduced oil prices. The spot price of Nigeria's reference crude, the Bonny Light (370 API), averaged \$24.53 a barrel in 2001, representing a fall of 14.1 per cent when compared with the level of 2000. Besides, in 2001 the Nigeria National Petroleum Corporation (NNPC) began crude oil production from the Okono field, marking the beginning of Nigeria's own production of offshore oil. The second field, Okpoho, is expected to start production by mid-2003.

Figure 3 - GDP by Sector in 2001



Source: Authors' estimates based on IMF data.

Figure 4 - Sectoral Contribution to GDP Growth 2001



Source: Authors' estimates based on IMF data.

The share of the services sector in total GDP remained at 24.8 per cent in 2001. The sector grew by 4.8 per cent compared with 3.4 per cent in 2000. Distributive trade (wholesale and retail) accounted for about 11.7 per cent of GDP and grew by 2.9 per cent, while building and construction accounted for 2.3 per cent of GDP with a growth rate of about 15.3 per cent. The building and construction sector gained from activities of the federal and state governments in road and bridges construction and maintenance, rehabilitation and refurbishment of sea and airports, as capital spending of the federal and state governments increased. Some of the major activities included the commencement of the reconstruction of the domestic terminal at the Murtala Muhammed Airport on a build, operate and transfer system, and maintenance work at the Abuja international airport. Other major construction activities were the rehabilitation and ancillary works at the Apapa Port Complex, the Lily Pond Container Terminal and the Port Harcourt Bitumen Jetty. Improvements in

telecommunications received a boost in 2001 with the deregulation of the sub-sector. The Nigeria Communication Commission (NCC) licensed two private operators in addition to NITEL to operate the Global System of Mobile (GSM) telecommunications in 2001. Of the three licenses, two of the operators commenced operation during the year and by end-2001, about 300 000 cell phones had been rolled out, bringing the total operational telephone lines available in Nigeria to 726 500 or a tele-density of about 1:165, an improvement on the ratio of 1:284 in 2000.

The demand composition of GDP in 2001 shows that the government increased its participation in economic activity — in both consumption and investment. The public's share of gross capital formation increased significantly as the government finally bowed to the politically unsustainable situation of the recent fall in public investment. Public consumption also increased to record levels in 2001. The downside to these

Table 1 - Demand Composition (percentage of GDP)

	1995	1999	2000	2001	2002 (e)	2003 (p)
Gross capital formation	16.3	24.9	18.7	20.7	22.3	21.9
Public	5.3	10.0	9.6	12.6	13.4	13.2
Private	11.1	14.9	9.1	8.1	8.9	8.8
Total Consumption	83.0	74.7	66.3	73.4	73.4	70.1
Public	7.3	12.8	20.1	24.0	24.2	23.5
Private	75.7	61.9	46.2	49.3	49.2	46.6
External sector	0.7	0.4	15.0	5.9	4.2	7.9
Exports	44.3	35.5	51.4	46.9	46.6	48.5
Imports	-43.6	-35.1	-36.4	-41.0	-42.4	-40.6

Source: Authors' estimates and predictions based on IMF data.

developments is that Nigeria financed these activities with the oil windfall in 2000, raising doubts about their sustainability without further windfalls from the oil sector. However, given the difficulty of reducing public consumption in Nigeria, the government may be forced to resort to measures detrimental to the health of the economy to sustain consumption levels. The outlook on the demand structure is the government maintaining increased public investment as public consumption moderates in 2002 and 2003.

Macroeconomic Policy

Fiscal and Monetary Policy

The Nigerian government's fiscal activities underscore the country's dependence on the oil sector. In 2001, although the government's total revenue increased, an even larger increase in total expenditure resulted in the overall fiscal balance deteriorating from the surplus of 2.6 per cent of GDP in 2000 to a deficit of 3.1 per cent of GDP. The primary balance also fell from 10 per cent of GDP in 2000 to 5.2 per cent of GDP in 2001.

In 2001, the government's total revenue increased to 48.8 per cent of GDP from 45.9 per cent of GDP the previous year. Revenue from the oil sector rose by 7.3 per cent in 2001, to constitute 76.5 per cent of total revenue. The rise in oil revenue reflected largely the rise in crude oil price above the budget benchmark of \$22.00 per barrel (the spot price of Nigeria's reference

crude, the Bonny Light (370 API), averaged \$24.53 a barrel in 2001). Revenue from non-oil sources also grew substantially by 66.6 per cent in 2001 compared with the increase of 39.9 per cent in 2000. The company income tax component of non-oil revenue increased by 34.4 per cent while customs and excise duties and VAT increased by 68.1 and 56.9 per cent respectively. The sharp rise in non-oil revenue in 2001 reflected higher receipts from import duties following the government's policy during the year of a comprehensive (100 per cent) import inspection scheme. The government confirmed in the 2002 budget that pre-shipment inspection would stop in June 2002 while destination inspection would commence in July 2002. Also, the opening of additional VAT offices during the year contributed to the improved revenue performance. On the expenditure side, total expenditure as a proportion of GDP rose from 43.3 per cent in 2000 to 51.9 per cent in 2001. The higher levels of expenditure in 2001 reflected both increases in current and capital expenditure. The rise in recurrent expenditure in 2001 reflected the effect of increased overhead costs and debt service payment. Capital expenditure rose on account of increased expenditure in "priority" projects in the economic sector, including roads, water supply power and steel.

The federal government undertook at the start of 2001 to bring its expenditure under control through the elimination of waste and corruption. However, its efforts were made difficult by Nigeria's fiscal federalism. In particular, lack of transparency and lack of fiscal accountability at the lower levels of government

continued to lead to indiscipline in the management of resources. In the face of the deterioration in the fiscal account, the policy challenge for 2002/03 was how to address the effects of fiscal federalism, which continues to exacerbate the problem of excess liquidity with adverse implications for domestic price, exchange and interest rate. However, the 2002 budget made high expenditure outlays, based on an optimistic future direction of oil prices. The expenditure outlays were also based on two other sources: first, revenue from privatisation, which was unreliable given the government's own record of carrying out its programme; and second, repatriation of assets expropriated by the previous military regime, which had been difficult to assess and locate. The budget was by the second half of the year facing problems of non-implementation with implications for Nigeria's external obligations. The outlook on the public finances is moderation. Total revenue is estimated to retain a 48.1 per cent share in GDP in 2002 with total expenditure also maintaining a 51.8 per cent share. In 2003, revenue is projected to increase significantly leading to further improvement in the overall budget situation.

The primary objective of Nigeria's monetary policy, which is the achievement of price and exchange rate stability, was maintained in 2001. However, in 2001, the environment for the conduct of monetary policy was largely un-conducive, following the continued expansionary fiscal operations of the government that resulted in large injections of liquidity into the economy, and induced rapid monetary growth and intensified inflationary pressures. The resulting macroeconomic imbalances in the system were responsible, in part, for the collapse of Nigeria's stand-by accord with the IMF in October 2001, although technically the accord was said to have collapsed owing to the government's failure to satisfy performance criteria, especially those relating to fiscal targets.

The growth of monetary aggregates in 2001 exceeded the government's targets by wide margins. Broad money (M2) expanded by 27 per cent (as against the stipulated target of 12.2 per cent). The expansion in M2 reflected growth in both narrow money (M1) and quasi money. M1 expanded by 28.1 per cent (as against the 4.3 per cent stipulated target) driven by

Table 2 - Public Finances (percentage of GDP)

	1995	1999	2000	2001	2002 (e)	2003 (p)
Total revenue and grants^a	22.5	29.7	45.9	48.8	48.1	49.7
Taxes	9.2	9.6	15.0	18.5	18.4	18.5
Other tax revenues	2.9	2.1	7.8	8.7	8.5	9.0
Total expenditure and net lending^a	18.3	37.0	43.3	51.9	51.8	48.2
Current Expenditure	7.6	17.6	16.3	17.3	16.9	15.6
<i>Excluding interest</i>	3.9	9.6	8.9	9.0	9.1	8.8
Wages and salaries	1.6	4.1	6.6	6.1	5.9	5.7
Interest payments	3.7	8.0	7.4	8.3	7.8	6.8
Capital expenditure	5.3	10.8	11.8	18.2	19.4	19.0
Primary balance	7.8	0.8	10.0	5.2	4.2	8.3
Overall balance	4.2	-7.3	2.6	-3.1	-3.6	1.5

a. Only major items are reported.

Source: Authors' estimates and predictions based on domestic authorities' and IMF data.

increases in bank credit to the domestic economy and net foreign assets of the banking system following the continued monetisation of the excess crude oil proceeds. Aggregate bank credit to the domestic economy rose significantly by 75.8 per cent (compared with the 15.8 per cent target for the year) reflecting the growth in credit to both the government and the private sector,

with credit to the private sector constituting 72.4 per cent of the total, while 27.6 per cent went to the public sector. The expansion in credit to the government resulted from the fiscal deficit financed by the CBN, while the expansion to the private sector reflected the persistent demand pressure in the foreign exchange market during the year.

In the attempt to curb the fiscal surfeit, the CBN pursued several actions including the progressive increases in the minimum rediscount rate (MRR) by 650 basis points between January and September of 2001, the upward review of the cash reserve requirement and the liquidity ratio of saving banks from 10 and 35 per cent respectively to 12.5 and 40 per cent respectively. The CBN also introduced its own intervention instrument, the CBN Certificate, to complement the traditional treasury bills in addressing the problem of liquidity in the banking system.

In spite of the measures at controlling monetary expansion, the modest inflationary pressures that Nigeria had witnessed in the previous four years intensified in 2001. The rate of inflation rose to 18.9 per cent in 2001 from 6.9 per cent in 2000. Other factors that contributed to the sharp rise in inflation in 2001 included depreciation of the exchange rate of the naira, inadequate power supply, weak infrastructural facilities and a rising interest rate which resulted in high costs of domestic production. However, inflation is estimated to fall to 13.4 per cent in 2002 and to come down to 11.9 per cent in 2003 with improvements in the fiscal situation.

Interest rates were also influenced by the state of bank liquidity as well as the policy actions aimed at addressing the problem of liquidity overhang. Through its proactive adjustment of the MRR, the CBN maintained a flexible interest rate policy. The treasury bill issue rate rose progressively from 13 per cent in December 2000 to 20.5 per cent in December 2001. Bank deposit and lending rates also generally showed increases: the average rates on time deposits of various maturities maintained an upward movement from a range of 7.9-12.8 per cent in December 2000 to 12.0-18.4 per cent at end-December 2001. Banks' average lending rates exhibited a similar pattern during the year. The average prime and maximum lending rates rose respectively from 21.0 and 25.8 per cent in December 2000 to 26 and 31.2 per cent in December 2001.

Against the background of the daunting environment for the management of monetary policy in 2001, the CBN at the start of 2002, formulated policies to ensure price stability and reverse the upward

trend of the inflation rate for 2002/03. Since the beginning of 2002 the CBN has adopted a medium-term perspective monetary policy framework with a two-year period for the new programme, unlike earlier programmes designed for one year. The shift is in recognition of the fact that monetary policy actions affect the ultimate objectives of policy with a substantial lag. The shift is thus expected to free monetary policy implementation from the problem of time inconsistency and minimise over-reaction due to temporary shocks. The main strategy of the CBN policy is to include effective control of anticipated liquidity injections that may arise from excessive government spending during 2002/03 in order to minimise their negative effect on domestic prices and the exchange rate. The primary instrument of policy, however, remains open market operations (OMO), supported by reserve requirements and discount window operations for enhanced effectiveness.

On the foreign exchange market, Nigeria maintains four exchange rates; the interbank foreign exchange market (IFEM) at which the CBN transacts; an interbank exchange rate quoted by a group of commercial banks — the Nigerian Inter-Bank Foreign Exchange Fixing (NIFEX); the *bureaux de change* rate; and the parallel market rate. In 2001, the exchange rate of the naira depreciated against the US dollar in all segments of the market. At the Inter-Bank Foreign Exchange Market (IFEM) the naira depreciated by about 9.6 per cent during the first part of 2001 and remained relatively stable for the rest of the year. At the other segments of the market, namely the forex bureaux, and the parallel market, the rate of depreciation was sharper as the value of the naira declined by about 10.3 per cent in the year. During 2001, the CBN took steps to ensure orderly transactions in the IFEM following the persistent pressure in the market. These measures included the setting up of a committee to monitor the utilisation of IFEM funds; direct debit of banks' current accounts with the naira equivalent of funds purchased; prohibition of the use of IFEM funds to finance bills for collection approved in 1993 and 1994; and limitation of Business Travel Allowance (BTA) to a maximum of \$10 000 per quarter and Personal travel Allowance (PTA) to a maximum of \$5 000 per half year.

External Position

Nigeria has maintained progress in liberalising its external environment. Although there are frequent complaints that Nigeria is not fully compliant with its WTO obligations, the country continues to review, in its annual budgets, the customs and excise schedule towards liberalising external trade. Nigeria currently has a structure of trade taxes, with at least seven taxes and with the customs duty varying from 0 per cent to 100 per cent. Over the 1995-2000 period the customs and excise schedule liberalised external trade by reducing the average import tariff rate from 24 per cent to 12 per cent. In 2001, out of about 5000 lines of tariff code, 70 were increased (by an average of 25 per cent) and 437 were reduced (by an average of about 9 per cent) estimated to have reduced the average import tariff to 11.5 per cent. Similarly, in the 2002 budget the government made several tariff amendments that are expected to reduce further the average import tariff rate: out of 136 lines of tariff codes 35 were increased whilst 131 were reduced. Significantly, a wide range of "luxury" imported food items now attracts 100 per cent duty. These include, margarine, sausages, sugar confectionery, chewing gum, chocolate, pasta, prepared food such as cornflakes, bread, ice cream, beer, wine and spirits. Also, tobacco, or tobacco substitute items such as cigars also attract 100 per cent duty. In 2001 the import prohibitions list included cement in bags, bulk vegetable oil, wheat flour, millet, sorghum, re-treaded and used tyres, mosquito repellent coils, and gaming machines. This list was added to in 2002 with used refrigerators, air conditioners and compressors.

The external sector of Nigeria experienced renewed pressure in 2001 due to a sharp fall in the trade surplus. The fall in the trade surplus was the result of Nigeria's lingering problem of excessive dependence on imports even as export revenues dwindle. The value of Nigeria's exports increased by 8.9 per cent in 2001 to \$18.9 billion, with the oil sector accounting for 98.7 per cent of the total. As a share in GDP, exports accounted for 44.5 per cent in 2001, down on the share of 49 per cent the previous year. On the other hand, total imports rose by 31.5 per cent in 2001 to \$10.3 billion, representing 31.2 per cent of GDP compared with 26.4 per cent of GDP in 2000. The increase in imports in 2001 reflected increased demand for finished goods and raw materials. Consequently, the trade surplus fell from \$10.4 billion (22.7 per cent of GDP) in 2000 to \$8.5 billion (13.3 per cent of GDP) in 2001. The reduction in the trade surplus led to the current account balance also falling from 9.5 per cent of GDP in 2000 to 5.2 per cent of GDP in 2001. The outlook on the external sector is a further fall in the trade surplus to an estimated 11.7 per cent of GDP in 2002. The trade surplus is projected to rise significantly in 2003 to 15.1 per cent of GDP, with an increase in exports and moderation in imports.

The external debt stock of Nigeria stood at \$28.4 billion at end-December 2001. The distribution of the debt stock showed that the Paris Club accounted for 77.9 per cent, multilateral holdings were 9.9 per cent while the London Club of creditors was owed 7.2 per cent. The balance of 4.6 per cent was owed to promissory note holder and the non-Paris Club bilateral creditors held 0.4 per cent. The main debt

Table 3 - Current Account (percentage of GDP)

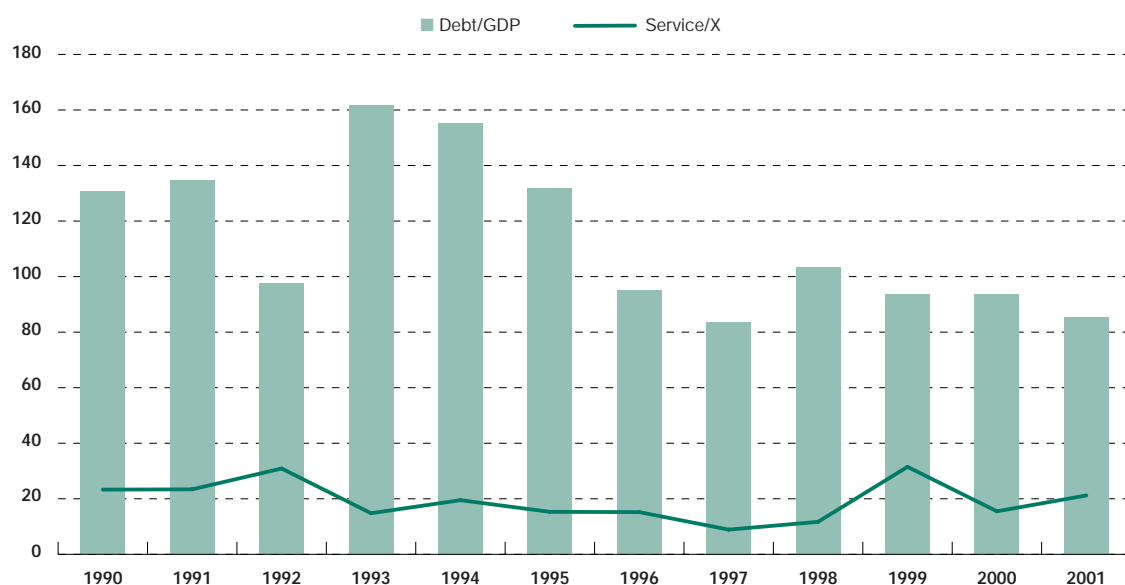
	1995	1999	2000	2001	2002 (e)	2003 (p)
Trade Balance	11.2	7.6	22.7	13.3	11.7	15.1
Exports of goods (f.o.b)	41.7	33.1	49.0	44.5	43.9	45.9
Imports of goods (f.o.b)	-30.6	-25.4	-26.4	-31.2	-32.2	-30.9
Services	-10.5	-7.2	-7.1	-6.4		
Factor income	-7.9	-9.7	-10.2	-6.0		
Current transfers	2.6	4.6	4.2	4.3		
Current account balance	-4.6	-4.7	9.5	5.2		

Source: Authors' estimates and predictions based on IMF data.

management strategy Nigeria followed in 2001 was the Debt Conversion Programme (DCP). In 2001 the number of applications received in the DCP fell to 14 from 20 in the previous year. During 2001 two applications valued at \$714.4 million were approved under the DCP. Also, at end-2001 external debt valued at \$26.6 million was redeemed under the auction system, while \$0.8 million was cancelled under the out-of-auction arrangement. In 2001, Nigeria secured a debt rescheduling deal with the Paris Club. Rescheduling agreements were reached with each Paris Club creditor without a public, collective deal. These agreements were dictated by the fact that Nigeria had made it clear it would not be able to meet its repayment schedule estimated at \$2.5 billion to the Paris Club alone in 2002 with the fall in the oil price. To emphasise this point, the 2002 budget allocated only \$1.7 billion for debt servicing against an amount of \$3.3 billion in scheduled debt repayments. Individual Paris Club creditors consequently entered

into rescheduling negotiations with Nigeria to avoid default. Yet, given the serious revenue shortfall that had compromised the implementation of the 2002 budget, Nigeria admitted in August 2002 that it had a debt crisis and could no longer afford to service its external debt. Nigeria backed its decision by blaming plunging oil revenues and the failure of some of its privatisation plans. Consequently, the country suspended payment on some of its debts, the first time it had completely halted payments, as it tried to reschedule payments. The debt suspension was also in response to the sharp fall in Nigeria's external reserves, which in August 2002 had fallen by a fifth since December 2001. It is also arguable that Nigeria was using debt suspension, which has strong domestic appeal to solve domestic political problems as it could not be a mere coincidence that the debt suspension was announced just as President Obasanjo was facing possible impeachment by both houses of Nigeria's parliament.

Figure 5 - Stock of Total External Debt (percentage of GNP) and Debt Service (percentage of exports of goods and services)



Source: World Bank.

Structural Issues

Nigeria continues to pursue reforms, deregulation and re-organisation to remove the persistent structural

bottlenecks that hamper economic recovery and growth. During 2001 the country made some progress in pursuing investments in areas of comparative advantage, especially in the oil and gas sectors. The government

secured a production-sharing agreement with Chevron/Texaco and its partners for the deepwater oil block OPL250. As part of its policy of liberalising the downstream oil sector, the government at the start of 2002 re-launched the process of issuing licenses for the construction and operation of private refineries in Nigeria. At the end of 2001, Korea's Hyundai Heavy Industries signed contracts with the Nigeria Liquefied Natural Gas Project (NLNG) for the construction of four LNG vessels — to be delivered in 2004 and 2006 — for transporting gas from the plant at Bonny Island. Hyundai is already building three other vessels (due to come on line in late 2002) for NLNG. Likewise, at the start of 2002 Royal Dutch/Shell announced it was planning a new five-year investment of \$7.5 billion with its joint-venture partners in Nigeria's oil and gas industry.

Nigeria continued in its privatisation programme, which is currently at a snail's pace. The country has a relatively long history of privatisation, dating back to March 1988, when the government established the Technical Committee on Privatisation and Commercialisation (TCPC) to oversee the programme and intended to: improve on the operational efficiency and reliability of SOEs; minimise the dependence of SOEs on the national treasury; roll back the frontiers of state capitalism and emphasise private sector initiative; and encourage share ownership by Nigerians. During the period 1988-93 that marked the Phase-1 of the privatisation programme, 88 SOEs were privatised. These were enterprises in which the Nigerian government invested jointly with foreign and/or private Nigerian investors. With the exception of the cement and oil marketing companies, the capitalisation of most of these enterprises was small. The Phase-1 privatisation was deemed successful, yielding several benefits including: considerable income accruing to the government — sale of shares and assets realised over N3.7 billion as gross privatisation proceeds from the privatisation of 55 enterprises; minimised the scope of political patronage in the form of Board appointments — the government relinquished about 280 Directorship positions in the privatised enterprises; and, in expanded personal share ownership in Nigeria, over 800 000 shareholders were created, almost twice

as many as there were in 1988 when the exercise started. The TCPC wound up its activities in June 1993. Nigeria began another privatisation programme in 1999, under three phases, to continue from where the TCPC left off. The first phase completed at end-2000 involved the sale of 12 enterprises including banks and petroleum marketing companies, cement and insurance companies. The second phase, which was scheduled to be completed in 2000 started only in 2001 and has since been bogged down with problems. The National Assembly has been up against the privatisation of the key public enterprises scheduled to be sold such as the Nigeria National Petroleum Corporation (NNPC), Nigeria Security Printing and Minting Company (NSPMC), Niger Dock, Sadiq Petroleum and Nigeria Telecom Limited (NITEL) among others. The government reached agreement with the World Bank in early 2001 on a privatisation support credit with the Bank intensifying its support for the programme. Nigeria was offered debt relief in exchange for the privatisation of key SOEs including the National Electric Power Authority (NEPA), NITEL and Nigeria Airways. However, in May 2001, the World Bank body advising the Nigeria government in the privatisation of Nigeria Airways quit, saying its advice was not being heeded. This followed the Nigeria House of Representatives opposition to the sale of Nigeria Airways. In the last quarter of 2001 the government commenced the privatisation of NITEL with the sale of 51 per cent of the government equity interest to a core investor, which made a down payment of 10 per cent of the contract sum. The remaining 49 per cent of the government's equity interest is scheduled to be sold to small-scale investors through the capital market during 2002.

At the start of 2002 the government still has some 117 public enterprises, in such sectors as communications, energy, fertilizer, steel, aviation, insurance, transport, paper, sugar, cement, automobiles, finance and media to be sold in a programme expected to end in 2003. In 2002, the government chose 24 enterprises to be privatised. However, the programme has continued to face serious opposition. In October 2002, the Senate in calling on the President to halt the privatisation of NEPA, raised issues that cast doubts

on the government's ability to continue with the privatisation programme.

In the financial sector the government's liberalisation process received a boost in 2001 with the introduction of universal banking. The guidelines allow banks to engage in any or a combination of the following: money market activities, including clearing; capital market activities; and insurance services. The extent of the demand for liberalisation in the banking sector, and the slow pace of the reforms are depicted by the fact that while by end-2001 there were 21 applications for bank licenses at different stages of processing, only one banking license was issued to Guardian Express Bank Plc., which could not commence operations. In the Other Financial Institutions (OFI) sub-sector, operating licenses were issued to three non-bank financial institutions, namely Folu Financial and Securities Limited, Blue-Wall BDC Limited, and Yobe Savings and Loans Limited. Approval was also granted in principle to two institutions, namely, Provident Savings and Loans to operate as a primary mortgage institution, and Infinix Capital Limited to operate as a finance company. In 2001, the restructured Nigerian Agricultural Cooperative and Rural Development Bank and the Bank of Industry began operations. In order to supervise the non-bank financial institutions effectively, the CBN established a new department, the Other Financial Institutions Department (OFID) to oversee the activities of this category of financial institutions.

An effort was made in 2001 to streamline the institutional arrangements in Nigeria's capital market. Consequently, the Abuja Stock Exchange, which was commissioned in 2000, was re-named Abuja Commodity Exchange, thereby changing the operational focus of the institution from being a stock exchange to a commodity exchange. Thus, the Nigerian Stock Exchange (NSE) remained the only stock exchange in the economy. During 2001, the NSE made some progress in improving market infrastructure through the upgrading of an automated trading system, expansion of investor-base, and consolidation of its global outlook. The NSE signed an additional MOU with the Egyptian Stock Exchange; three MOUs had

earlier been signed with similar stock exchanges in Africa in the last three years. Nigeria's capital markets made a remarkable achievement in 2001, as most indicators exhibited an upward trend. The total volume, value and number of transactions in the secondary market increased by 18.7, 104.9 and 65.9 respectively during 2001; market capitalisation also rose sharply by 40.1 per cent during the year.

Political and Social Context

Nigeria's fragile democracy plodded on in 2001 amid a sharp rise in political tension, and heightened communal and ethnic violence. Several regional and national issues undermined efforts at promoting confidence in an orderly political process. The political situation took a turn for the worse following the assassination of the justice minister in late 2001. At the regional level, the introduction of sharia (Islamic law) in the northern states and especially the application of sharia to criminal cases from 2000 had caused violent conflict across the country. However, sharia poses considerable danger for Nigeria as it raises questions about the federal government's ability and willingness to protect the human rights of all Nigerians. At the national level, sharp ethnic divisions, which have long existed throughout the country, often stirred by political interests and inflamed by poverty and inequality, continue to undermine the viability of the political system. This long-standing fault line was compounded by the killing of the justice minister, which necessitated the government deploying troops in parts of Osun and neighbouring Oyo states to forestall reprisal attacks. As Nigeria moves towards local, state and federal elections, planned for between 29th March and 29th April 2003, the political atmosphere has quite naturally become charged and ethnic and religious tensions are heightened. A political storm erupted over changes to the electoral bill, which set the state, legislative and local elections in March 2003. State governors had wanted the local elections to be held in April 2002 and challenged the electoral bill in the Supreme Court. The President himself came under threats of impeachment from the Senate following the difficult fiscal situation that delayed the implementation of the 2002 budget. Moreover,

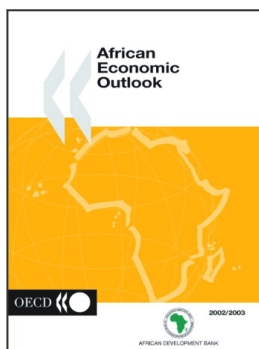
Nigeria has never successfully held a transition from one elected government to another since independence more than 40 years ago. In spite of these problems, it is safe to say that Nigeria's democracy will endure given the utter disgust of most Nigerians of the military option.

On the international scene, Nigeria's relations with neighbouring Cameroon took a turn for the worse in October 2002 when Nigeria said it would refuse to hand over the disputed oil-rich Bakassi peninsula to Cameroon, as ordered by the International Court of Justice in The Hague. President Obasanjo had earlier promised to respect the ruling of the court. Nigeria, however, left the door open for negotiations by appealing to the UN Secretary General to intervene in the dispute.

Political tension, communal, ethnic and religious violence undermined the government's poverty intervention programmes during 2001. Consequently, the performance of the key social services did not improve significantly in 2001 despite increased budgetary allocations. The slow pace of rehabilitation of basic facilities and the high incidence of industrial actions in education and health hampered service delivery by the key institutions and departments established to mitigate the living conditions of the vulnerable groups. In the health sector, performance was mixed in 2001. The budgetary allocation to the sector rose to represent about 4 per cent of the government's budget for 2001 from about 2.5 per cent the previous year. This enabled repeated house-to-house visits by medical staff to immunise children against the six childhood diseases and contributed to the overall rate of immunisation rising from 72.7 per cent in 2000 to 74.6 per cent in 2001. Nevertheless, other health indicators including population per physician, population per hospital bed, and population per nursing staff deteriorated in 2001 owing largely to prolonged industrial action by doctors, nurses and midwives during the year. Furthermore, Nigeria had to cope with a growing threat of HIV/AIDS in 2001. According to the government's data Nigeria had 3.47 million HIV cases in 2001. The prevalence rate among people aged between 15 and 49 was estimated to have risen to 5.8 per cent in 2001 from 5.4 per cent in 1999

and 1.8 per cent in 1991. Nigeria is, thus, the most populous nation to have crossed the 5 per cent prevalence rate, the level, according to the UN, at which the epidemic begins to grow at an exponential rate. The government has responded to the worsening HIV/AIDS pandemic by launching at the start of 2002 an anti-AIDS programme, which includes the sale of generic life-prolonging anti-retroviral drugs at the cost of \$9 a month, substantially cheaper than branded medicines. The government plans to purchase substantial quantities of anti-retroviral treatment from India to treat up to 15 000 sufferers a year.

The education sector received enhanced budgetary allocation, which rose by 10.6 per cent in 2001 and accounted for 7 per cent of the government's total budget. This enabled rehabilitation of schools under the government's UBE programme and contributed to modest improvements, as enrolment in both primary and secondary school increased by 4 per cent from 24.9 million and 6.4 million respectively to 25.9 million and 6.7 million respectively. This modest improvement was reflected in both male and female enrolment. However, other indicators of the education system including the pupil/teacher ratio in both primary and secondary schools deteriorated slightly from 54 and 41 respectively in 2000 to 56 and 45 respectively in 2001.



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