

State of the Economy: Overcoming the Economic Recession

1. INTRODUCTION

The Nigerian economy is in recession and seems to be at its ever lowest point in recent history. The GDP grew negatively by -0.36 percent in the first quarter of 2016 and there are indications that the second quarter may be negative. Unemployment is high at the official rate of 12.1percent; exports dipped by 34.6% while imports dipped by 7.8percent in Quarter 1 of 2016. The headline inflation index for the month of June 2016 stands at 16.5%. This is the fifth consecutive month of increase in inflation rate and up from a single digit rate in 2015.

2. THE ISSUES

(i) Policy Context: Economic policy planning is not done in vacuum. It is preferably done within the overarching context of a coherent policy position with clear timelines, targets, indicators of success and measurable goals. This is a policy position that will cut across all the sectors of the economy and integrate activities into a programme of action with necessary linkages, for instance, between education and industry, agriculture and manufacturing, etc. The administration lacks a policy framework but needs to devise one as quickly as possible.

(ii) Fiscal and Monetary Policy: There seems to be a debilitating fixation with monetary policy and what happens to the value of the naira with all eyes on the Central Bank of Nigeria and its Monetary Policy Committee. While monetary policy is important, it will not achieve the desired results if it is not complemented by fiscal policy. The expectation and promise of the administration to reflate the economy with a stimulus package would have matched the monetary policy positions of the CBN and we may not have exactly seen Nigeria in this recession. There is unusual delay in implementing the budget, may be, due to paucity of resources which raises issues around budget planning and revenue forecasting for the 2016 federal budget. The full implementation of the capital components of the 2016 federal budget is imperative.

(iii) Savings and Interest Rates: The current position where savings and deposits in banks attract little single digit interest rates whilst lending rates shoot over the roof in double digits of the twenties makes no sense at all. It is a great disincentive to saving. When one receives an interest rate that is less than the inflation rate, he is punished for saving money in the bank. Untying the chord between the saving and lending rate is a great disservice to the economy; it discourages savings which is needed to build up investible funds in the economy. The Central Bank may consider a corridor of between 400-500 basis points between the deposit and lending rates to spur savings and investment.

(iv) Special Reflation and Intervention Funds and the Rule of Law: Of recent, the Federal Government has been granting bailout funds to states whilst the Central Bank of Nigeria has a plethora of special intervention funds running into trillions of naira. Unfortunately, none of these funds seems to be backed by law or done under any special or particular legal authority. We are not aware that the National Assembly appropriated the bailout funds in the 2016 federal budget or under any supplementary appropriation. Under what authority is the executive negotiating and disbursing this bailout funds? Where is the money coming from at a time when the Federal Government cannot implement its capital budget due to paucity of funds. Pray, that this is not just seigniorage or that the CBN is creating money not backed by any value. Just like in the United States when the Obama administration came on board, bailout and special intervention funds were backed by law which regulated the criteria for qualification to access the funds, the procedures, repayment, etc. We cannot afford lawlessness in the name of bailouts and special intervention funds.

(v) Tariff and Non Tariff Measures: The Nigerian economy, because of its lack of competitiveness (whilst building the capacity to compete) needs to protect local producers of goods and services from adverse foreign competition. The idea of importing toothpicks to toys makes no sense. We may need to use high tariffs to discourage the importation of non essential items that can be produced locally. In this regard, the full implementation of the automobile policy which encourages local manufacture and assembly of vehicles is imperative. Nigerian manufacturers need to be supported to export their products and this calls for the reinstatement of the Export Expansion Grant which was stopped due to abuses. But the loopholes for corruption need to be plugged.

(vi) Taxation: The report of the Mbeki Panel on Illicit Financial Flows shows that Nigeria contributes the larger part of the Illicit flows out of Africa which is done *inter alia* through base erosion and profit shifting. Building the capacity of the tax authorities in the FIRS to understand the technicalities of these flows and how to plug them, will get more money into the Federation Account for the three tiers of government to share.

Expanding the tax base in terms of numbers of companies and individuals who pay tax (which although has been started by FIRS) needs to be deepened. There are lots of Nigerians and companies out there who are yet to get into the tax net. But the corollary is that governments at all levels need to be more accountable and transparent in the use of public resources.

(vii) The Niger Delta Debacle: That the Niger Delta region is a resource base that needs to be handled with great caution may be an understatement of its importance to the national economy. A good part of the challenge we face, apart from declining crude oil prices is the declining oil production due to sabotage and militant activities. This has led to decreased revenues to the Federation Account for sharing among the three tiers of government. Also, this has diminished our access to foreign exchange

as oil contributes over 90 percent of our foreign exchange resources. Beyond these, most of electricity generating stations are gas fired and the bulk of the gas come from the region. Thus, the debacle combines a challenge to federation resources with access to foreign exchange and improvements to electricity generation.

(viii) The Petroleum Industry: Despite the mantra of diversification of the economy, present and previous attempts at diversifying the economy, the petroleum industry still holds a lot of promise for Nigeria's economy. The country has not expounded the frontiers and benefits of the full value chain of the petroleum industry. Whilst we need to diversify the economy, investments in the petroleum industry in terms of refineries, petrochemical complexes, fertilizer plants, gas gathering, processing and distribution, etc have not been fully explored. Thus, these are low hanging fruits that can give the economy a short to medium term shot in the arm and boost economic activities. They will save foreign exchange used in importation; create new sources of foreign exchange earnings when we have excess capacity that can be exported, bring new jobs to Nigerians and new sources of corporate and personal income tax to government.

Reforms in the sector have been stalled since over ten years when the idea of a Petroleum Industry Bill was muted and became the subject of intense politics. Surprisingly, over one year in office, the Buhari administration seems not interested in presenting an executive bill to the National Assembly. Whatever version of the bill that is currently in NASS are private members bill which even if passed may be faulted by the executive at the point of presidential assent. So, what exactly informs this lack of executive interest?

Still on the Petroleum Industry, we have treated and approached petroleum refining as if to say it is rocket science. Combining this with our colonial mentality, a simple process of fractional distillation has been complexified to ensure that locals do not derive livelihood support from the industry. Every day, we see the security agencies destroy "illegal refineries" reminiscent of the colonials calling our local gin "illicit" so as to create a market for their imported alcoholic beverages. Is it not time we improve the technology used by these locals and legalise what we call illegal. Get the experts in the departments of chemical, petroleum and allied sciences and engineering in the universities/polytechnics and their colleagues in the various fabrication sciences to see how they can improve what we call crude and illegal refineries. This will build an autochthonous local refining capacity not dependent on the foreign imported technology, improve environmental conservation, create jobs, etc.

(ix) Renewable Energy: Considering the challenges associated with fossil based energy generation and consumption, it is imperative that Nigeria leapfrogs into the era of renewable age using solar, wind, hydro, etc. This is not just good for eco conservation and reduction of carbon footprints but it makes good economic sense in that it will create jobs and skills in the population. This may be seen as a medium to

long term measure which provides power to households, far flung distant communities and eventually powers commerce and industry. The idea that renewable energy components are costly can no longer be sustained considering the reduced price of renewable energy inputs and the lifelong concept of costs. A solar panel powering a residence removes it from the DISCO tariffs for the period and frees up energy for other users.

(x) Employment Creation: It makes no sense for us to continue bemoaning the unemployment situation in the country. There are several things to be done to create Nigerians jobs which can add value to goods and services for local consumption and for export. The first is the patronage of locally produced goods and services by the public and private sectors of the economy. The public sector needs to kick-start this in the cars, dressing furniture, food, etc of the government. Reforming public procurement laws at federal and state levels to enhance domestic preferences is the starting point. We are in a period of recession which justifies taking steps to ensure that our people survive. Government should priorities this.

We need to extend the concept of local content beyond the few sectors like petroleum and cabotage to other sectors of the economy including electricity, telecoms, etc. This will not only guarantee Nigerian jobs but will increase the retention capacity of our economy in terms of preventing capital flight out of the economy. It will be recalled that the bulk of the capital expenditure of our budget, especially in construction are captured by foreign firms.

(xi) Agriculture: Energising the agriculture value chain should be beyond sloganeering and mere mantras. It is a practical thing that converts idle arable land into cultivated or used land - produce plants and animal varieties to feed the nation; produce raw materials for industry and products for export. This involves their processing into finished products for local or export use. The products of Nigerian universities of agriculture and the various agriculture faculties in our universities have produced enough manpower to be used in the agriculture revolution. The previous and current administrations have proposed the value chain approach and this needs to be deepened. There is also need to introduce new farming techniques, improved varieties of seeds and seedlings, soil diagnosis as a basis to introduce appropriate fertilizers or encourage organic agriculture. On no account should this be a basis for legalizing or approving of genetically modified plants and animals.

The challenge of the Fulani herdsmen can be converted into an opportunity for improved agriculture productivity. Herdsmen can become settled in ranches with good foliage thereby increasing meat and milk production and their derivatives.

3. RECOMMENDATIONS

- The FGN through the National Planning Commission should start the process of drawing up a National Economic Framework and Policy to fill the policy void and conclude this in the next couple of months.

- Fiscal and Monetary policy should be harmonised and reinforce each other so as to achieve macroeconomic stability and economic growth. Full implementation of the 2016 budget is imperative.
- The CBN should link deposit and lending rates in a corridor of between 400-500 basis points to promote savings to increase credit to the economy.
- Special intervention funds should be set up by law which provides for targets, criteria for entitlement and measurable indicators of success.
- Tariff and non tariff measures should be used to encourage local production. There should be full implementation of the automobile policy to encourage local production of vehicles whilst the Export Expansion Grant should be reinstated.
- Capacity building in the tax authorities to curtail illicit financial flows and to expand the tax base should be encouraged. A special campaign that encourages voluntary tax compliance should be launched by FGN.
- FGN should start full and good faith negotiations with leaders and militants of the Niger Delta. This would involve the review and continuation of some aspects of the Amnesty Programme. This would increase income from crude oil and provide gas to power gas fired electricity generation plants.
- The President should submit a reviewed Petroleum Industry Bill to the National Assembly whilst NASS should consider its expedited passage before the end of 2016.
- Nigeria should expound the borders of investments in the petroleum industry through investments in refining; petrochemicals, gas gathering, processing and pipelines for their distribution.
- FGN should legalise the local refining process, improve on it and build local capacity for refining beyond the large scale imported refining plants.
- Renewable energy should be encouraged through tariff and non tariff measures. Capacity building and training in the sector should be incentivised. Energy efficiency should be promoted.
- Use domestic preferences in public procurement to create jobs and livelihood opportunities and operate a Buy Made in Nigeria policy.

- Expand local content beyond the petroleum industry and cabotage to create jobs and increase the retention capacity of the economy as an antidote to capital flight.
- The full value chain approach to agriculture should be explored; turn the challenge of the Fulani herdsmen into an opportunity for agriculture led economic growth.

4. CONCLUSION

These are some ideas and in no way exhaustive of the issues that can reflate the economy. But they are good starting points.