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Book 1 - Chapter 3

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MID 1995 ECONOMIC OUTLOOK AND THE CHALLENGE OF PARTNERSHIP

MR. CHAIRMAN
FELLOW SUMMITEERS
DISTINGUISHED LADIES AND GENTLEMEN

We have a twin launching today. We will shortly launch the Green Book - which summarizes and symbolizes the successful renewal of the Nigerian Economic Summit in May this year. The Summit provides a constructive dialogue between public and private sector leaders. The Summit raises issues and fosters ideas aimed at achieving sustainable economic development for the benefit of all Nigerians.

Building on this Summit foundation, our other launching today is a new Summit Group service which will continuously analyze and monitor Nigeria's economic performance and future outlook. We start today in the form of a mid year review of the economy, based heavily on members inputs, which will simultaneously be made available to the public through the media. We envision a quarterly information service which will expand and grow as we establish and deepen our research capabilities.

The purpose of this information service is threefold -

(1) to objectively track actual economic results in the context of the current economic policy framework,

(2) to analyze the strengths and weaknesses of the economy in the light of longer term economic strategies defined by the Summit process, and

(3) to assess the future outlook in terms of the investment climate and the need to continuously adapt the economic environment to future realities.

In other words, we seek to objectively monitor where we are now, to analyze how we stand compared to our goals, and to assess the future in terms of actions that both the private and public sectors need to take.

We launch this service with considerable humility. We recognize how challenging and difficult Nigerian's sustainable economic development will be to achieve. We also understand how hard it is to obtain accurate and timely economic information. We will be learning as we go. We will do the best we can and welcome everyone's comments, suggestions and ideas for improvement.

My own task today is to briefly analyze the 1995 Economic Policy Framework, to assess mid year results and outlook, and to focus our minds on key issues for the 1996 Budget. Lastly, I will conclude with some reflections on the challenge of partnership between public and private leaders on economic matters. Since the theme of the 1995 Summit was "Partners in Progress", my remarks are therefore entitled ***"Mid 1995 Economic Outlook and the Challenge of Partnership".***

1995 ECONOMIC POLICY FRAMEWORK

The Head of State charted a bold and positive direction in the 1995 Budget Message. Economic policy was focused on fiscal discipline which is reducing deficit spending, sanitizing the macroeconomy and bringing inflation down to levels conducive to higher savings and investment. Two fundamental reforms - the repeal of foreign exchange controls and ownership constraints - have been enthusiastically welcomed by the private sector.

The Minister of Finance also introduced improved quarterly reporting and disclosure standards. Results to date indicate that major economic turnaround is in process. The groundwork is being laid for a truly credible investment climate by 1996.

At mid year, we must now recognize that Nigeria has moved towards a highly deregulated economy. The macroeconomic picture is coming right. With continued discipline and no future U-turns, government will succeed in putting the ball in the private sector's court.

Lets therefore pause briefly to assess the private sector response thus far. We hear very positive comments from virtually all our members as to the policies themselves. In fact, there is a clear and consistent message for government to ***stay the course*** so that we can live through today's ***pains*** to enjoy tomorrow's ***gains.***

At the same time, we observe considerable scepticism, or at least concern, as to whether these positive ***words*** will be converted to ***actions.***

There are three aspects of these concerns which merit further comment -

(1) The implementation of the 1995 Budget had an unintended impact on investor confidence. It has taken months to obtain 1995 Budget clarifications and to issue enabling decrees. Revenue mobilization efforts have involved overly aggressive tactics. The possible U-turn on privatization of the Big 4 banks has added to scepticism and investor concerns. Delays, aggressive tactics and signs of policy reversals have therefore undermined what are inherently sound policies announced in the 1995 Budget.

(2) The 1994 U-turn towards re-regulation did major damage to investor confidence. Not only will it take most of 1995 to overcome the economic problems caused by the 1994 Budget, it has caused even existing investors to look for signs of U-turns and to doubt this Administration's commitment to continued deregulation. This cautious mindset will take years to overcome completely.

(3) Lastly, there is the normal conservatism of investors to want to see a proven track record before making major investments. Nigeria's economic track record since the oil boom has caused most new investors to want to see several years of improved track record before major investments will be made.

In light of these concerns, it should be clearly stated that NESG members fully support the overall thrust of the 1995 Economic Policy Framework. We urge government to stay the course and to avoid U-turns. Once implementation is consistent, fair and timely, private sector support will translate into significantly higher and increasing future investment in Nigeria.

MID YEAR RESULTS AND OUTLOOK

Where there is praise for the overall economic policies, there is considerable grumbling and some desperation about the actual situation at mid year. Most managements are battening down the hatches to ride out the storm. A few are about to abandon ship.

Nigeria has experienced entrenched recession of the stagflation type for several years due primarily to government overspending. The 1995 Budget introduced strong deflationary measures which are widely recognized as the right medicine to cure inflation. While the private sector is ready to live with the necessary pills, there are signs that the dosage may be too strong for some industries and that government may be yet to face up to the pills it must also take.

Lets look industry by industry from our member survey before concluding overall. The highlights are -

- very few companies report strong demand at mid year and for the near term. Liquidity is universally tight. Many companies face serious cash flow problems. Industry comments must therefore be viewed against the backdrop of continued recession for at least the remainder of 1995.

- upstream petroleum could be counter cyclical, due to willingness to invest heavily in Nigeria. But it is not. The reason is cash calls which have continued to slip behind despite announced intentions to give them first priority. The resulting spending cutbacks are severely threatening production capacity to the point Nigeria's ability to even produce OPEC quotas is in question. Oil service companies and oil producing communities have been equally impacted as a direct result.

- downstream petroleum faces continuing supply problems and declining profitability this year. The necessity to import refined products continues to drain the nation's scarce foreign exchange. Smuggling continues, and should increase, due to increased petroleum subsidy following recent devaluation. NNPC now depends on PTF (Petroleum Trust Fund) for its margins and is virtually living hand to mouth.

- banking is experiencing a severe shakeout as each CBN intervention in the AFEM market takes large amounts of liquidity out of the system. Distressed banks are virtually treading water. Other financial institutions generally are in a similar "belt tightening" mode to ensure survival. Only the lean and well managed will be able to survive.

- manufacturing and distribution generally are facing collapsing demand. Gone are the days of easily passing on increased costs to consumers through higher prices. The 1994 robust profits will not easily, or frequently, be repeated in 1995. We found a smile in the pharmaceutical area but textiles, vehicle assembly, import dependent companies, those needing bank loans, etc. are in varying degrees of slow death.

- agriculture is potentially in positive position but early assessment at mid year is not possible with any accuracy.

- there are some common concerns expressed by most member companies - particularly with higher tax incidence (excise, VAT or both are commonly mentioned) and the heavy tariff burden (caused by the impact of devaluation). What is also clear is that layoffs have been widespread as companies in most industries have downsized.

Given the necessity of strongly deflationary policies and unwillingness of the private sector to invest in the face of adversity, there is no way the last half of 1995 can show significant improvement. Current policies must run their course before the macroeconomic situation can become conducive to recovery. We will sense recovery only when inflation nears single digits at which point positive interest rates should be ready to foster savings, lending and investing.

Government, fortunately, is in position to help start the recovery before year end, if it does so prudently. As future FX interventions by CBN continue to take liquidity out of the banking system, the time will become ripe to return stabilization funds to the banks. As PTF gets ready to carry out its role, funds can be released to the economy for projects which will create jobs and consumer demand. As government continues to improve revenue mobilization and resource allocation, the economy should also experience improved productivity and income levels. As government addresses other reforms and issues defined at the Summit, their great leverage on the economy will increasingly come into play.

In summary, the private sector is downsizing to adjust to deflation. It is becoming healthier as a result. The private sector, by itself, can not be a significant factor in starting the next recovery. We find it largely in government's hands to fine tune policies and to start the prudent spending needed to launch recovery. Fortunately, government is in shape to do so, if it does so prudently.

We will next look at key issues for 1996 but I believe it important, to reaffirm publicly that private sector executives believe government is on the right course. We stand ready to absorb those sacrifices which we know will lead us to a healthier economy and towards sustainable recovery.

KEY ISSUES FOR 1996

While being pragmatic about the need for government actions to start the recovery process, we also must be abundantly clear about the private sector role. Lasting recovery can only be achieved through vigorous private sector investment and expansion.

Readers of the Green Book will rapidly discover that the private sector has less and less to ask from government and more and more responsibility - and opportunity - to do our own part to boost the Nigerian economy.

We now have a substantially deregulated economy. The ball is increasingly in the private sector court. Economic results will increasingly be driven by private sector initiative and investment decisions.

I would therefore like to divide my remarks on 1996 into three categories, as follows -

(1) Fine tuning of the 1995 Budget,
(2) Further 1996 Budget steps to create the enabling environment, and
(3) Major issues for Government to address.

Fine tuning means exactly that. Fine tuning makes the economic engine run better. We may get to our destination without fine tuning but it will not be as fast, or as surely or as safely. Among the myriad of Summit suggestions, there are five that stand out -

(1) permit ***all*** private sector foreign exchange to be traded on AFEM directly with the commercial and merchant banks. Inclusion of the oil companies will widen and deepen the supply of foreign exchange, making planning more predictable and increasing investor confidence,
(2) pay cash calls timely per agreements thereby encouraging oil companies to increase their spending and to protect our future revenue stream from oil exports,

(3) promote banking competition and private sector access to credit by removing interest rate ceilings, eliminating sectoral lending limits, abolishing Bankers' Tariffs, gradually eliminating stabilization securities and opening up the licensing of new banks as well as permitting merchant banks to change to commercial banking,

(4) remove all constraints to foreign direct investment (as stated in the 1995 Budget) and encourage the return of flight capital, and

(5) lastly, assure that government fully spends its budget (but not over budget) with emphasis on personnel related costs, social and educational expenditures, roads and infrastructure, etc. while making necessary cuts in unproductive capital projects.

Collectively, these five "fine tuning" measures would cushion the 1995 recession, encourage immediate private sector expansion and improve overall macroeconomic fundamentals without fueling inflation. They can be implemented by Government any time from now and would be strongly welcomed by the private sector. Given the state of the economy at mid year, clearly the sooner the better for all concerned.

As we go beyond "fine tuning" to look at the 1996 Budget, we should look increasingly at incentives which foster savings and investment, since they provide the trigger for long term economic development. The 1996 Budget should focus on getting the private sector turned on. Again, the Green Book helps provide the 1996 Action Agenda. I have selected four issues for emphasis -

(1) taxation reform needs to encourage savings and investment while seeking to discourage consumption. First, the VAT system must be improved to overcome problems of timely refunds and fairness. It can then be used to raise additional revenue to offset tax reductions aimed at significantly increasing savings and investment. Specifically, the 1996 Budget should reduce personal income taxes, reduce corporate income tax, eliminate capital gains taxes, accelerate investment allowances and roll back excise taxes, while increasing VAT rates accordingly.

(2) given the recent devaluation, petrol pricing must soon be faced again. It is time to create more competition through investment incentives and opening up export markets. The NNPC monopoly should be broken. Retail prices should be freed up completely while government should continue uniform wholesale prices (at the depots) in response to public sensitivities. Marketers should be free to export to neighbouring countries and to import product thereby opening up competition

with NNPC and reducing smuggling. This intensified competition would not only stimulate investment but also put the "pricing monkey" squarely on the marketers' back where it properly belongs.

(3) given Nigeria's chronic foreign exchange shortfall, both imports and exports should be reviewed to stimulate local sourcing, to simplify customs processes, and to improve balance of payments. In addition, the official and AFEM markets should be merged and further steps taken towards Naira convertibility.

(4) finally, capital markets should be stimulated by removing remaining constraints to a totally free securities market and by funding all government borrowing through Open Market Operations (OMO) at free market interest rates.

While the reader will find many more issues in the Green Book, the above four reforms will go a long way towards providing the enabling environment which finally triggers major private sector investment in 1996.

The remaining keys for lasting economic recovery are in government's hands. They involve three hard choices , as follows:

(1) Government needs to decide how to get out of business so it can concentrate its resources on the Nigerian people. Privatization must be addressed squarely and it should ideally start with NNPC, NITEL, NEPA and NPA. To receive full value for these major economic institutions, it is clear that open and competitive international tenders are the proven approach. This is a difficult but important issue for the nation to face, hence considerable debate and deliberation are suggested.

(2) Similarly, Government needs to manage its debt, both external and domestic, so that the debt burden does not strangle economic growth. It would appear that our economic policies are sufficiently close to permit debt relief to be negotiated externally, while a continued tight rein on spending coupled with growth could let us outgrow our domestic debt. Again, these issues are most important and require considerable deliberation.

(3) Finally, Government needs to reengineer and downsize itself (as we would say in the private sector) to take advantage of savings due to deregulation, to rebuild and properly reward the civil service, and to refocus its spending on services which visibly improve the quality of life for all Nigerians. This will be a difficult but rewarding process for government to undertake and it deserves full private sector support.

It is our plan to have all of the above issues on the agenda when we next dialogue together at the Pre-1996 Budget Workshop which is planned for late September 1995. Successful conclusions on these issues should remove all doubt that Nigeria is on the move economically.

THE CHALLENGE OF PARTNERSHIP

There remains the final comments about partnership between public and private sector leaders. The 1993 summit started us on a search for constructive dialogue and partnership. I see this search as a challenge and a learning process that has exciting potential.

Previously Government and the private sector have largely treated each other as adversaries and tried to take advantage of each other.

The Summit process has proven there is a better way. Consensus, dialogue, and mutual support are much more productive and successful. It is truly better to be "Partners in Progress".

It will not be an easy path to follow. We know that old habits will die hard. We know that we must learn how to work constructively together. Partnership must be created based on trust and mutual benefits. We know that partners do not always see eye to eye. They must sometimes agree to disagree. But we also know that listening to each other and finding common ground will lead us to trust, confidence and joint investment in Nigeria's future.

As our "Partnership in Progress" unfolds, we will need to encourage candour, tolerance and patience. We have the same ***ends*** in view, now we must work out mutually acceptable ***means***.

Our challenge is to multiply the dialogue and relationships between us. Our challenge is to lay the cards squarely on the table and to work towards jointly acceptable solutions. Our challenge is to see the other person's view and to help him or her succeed. Our private sector challenge is to go to Government with solutions we support rather than problems, or "hat in hand", to beg for subsidy. Our joint challenge is to become truly ***partners in progress*** and to march forward together for the greater good of Nigeria.

Long live the Summit partnership.