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An Analysis of the Nigerian Economic Growth And Recovery Plan

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1. Introduction

This Policy Brief examines the response of the Nigerian government to the ongoing recession in the domestic economy, particularly in the context of the recently released Economic Recovery and Growth Plan (ERGP) for 2017-2020. It also provides an analysis of key questions regarding the suitability, achievability, and prospect of the ERGP. The second section of the brief runs through the state of the Nigerian economy with a focus on the cause and drivers of the ongoing recession. The third section reviews the objectives, implementation strategy, and expected outcomes of the ERGP over the medium-term. The fourth section weighs on the potentials of the ERGP by analyzing some pertinent questions: Is the proposed recovery plan and policies well-targeted to address prevailing economic crises in Nigerian economy? Is the plan realizable given its ambitious goals and projections vis-à-vis the local and global economic developments? Is the new policy building on strengths and shortcomings of the previous initiatives? The Policy Brief concludes with some recommendations for the government that are critical to the success of the ERGP.

2. State of the Nigerian Economy: The Drivers of the Economic Recession

Since the 2014 global oil crisis, the Nigerian economy has been confronting challenges of rising inflation and declining output, thus, engendering severe economic crises in the country. The crash in crude oil prices following an global oil glut in mid-2014, gave rise to macroeconomic imbalances in Nigeria: from revenue shortages and balance of payment problems, to shrinking external reserves and foreign exchange pressure in the country.

Particularly, the fall in crude oil prices led to significant drops in government revenue which weakened the fiscal capacity of the Nigerian government. Oil revenue fell by more than 70 percent while non-oil revenue witnessed a shrinkage of about 23 percent, between 2014Q2 and 2016Q2DG. With revenue plummeting, government deficit increased significantly: from N12 billion in 2014Q2 to N1,090 trillion in 2016Q2[1]. On account of revenue shortages, the government became severely constrained in satisfying its fiscal obligations. This was even more pervasive at sub-national tiers of governance, as most states were unable to pay workers' remuneration[2] and execute developmental projects.

Due to lower crude oil prices amid falling crude oil export (on account of Niger Delta attacks on oil facilities), external balance fell deeper into negative territory. From a mild trade deficit of about US$4 million in 2014Q4, the average trade deficit rose to US$37 million in 2016Q4. The effect has been disastrous for the country's external reserves. At the time of the oil crisis, Nigeria's external reserves stood at about US$37 billion. With an average monthly import of approximately US$5 billion, the current external reserve can only finance 7 months of import. As at December 2016, the external reserve had fallen drastically to a value of about US$27 billion.

[1] See CBN Economic Report, Second Quarter 2016

[2] http://www.vanguardngr.com/2016/05/bleak-may-day-26-states-workers-owed-salaries/

Despite several import control measures instituted to improve the country's trade balance and ease pressure on foreign reserves, the economy continued to record unfavourable trade balance.

With persistent trade deficits putting a downward pressure on external reserves, the Nigerian economy witnessed foreign exchange scarcity, resulting in the waning international value of the naira. Declining reserves in addition to high speculation in the forex market put upward pressure on exchange rates with the international value of naira on a free fall. Notably, official dollar-naira exchange rate rose from N168/US$ recorded in January 2015 to N306.4/US$ as at March 2017[3].

The declining value of the naira led to the rise in the price of imported goods with feedback effects on domestic prices. The pass-through effects in combination with increasing energy price and shortages of agricultural produce[4] worsened the inflationary problem in the economy. From about 8.2% in January 2015, inflation soared to about 18.72% as at January 2017 – above the CBN upper bandwidth of 9%.

The combined effect of weak government expenditure, foreign exchange scarcity, and rising inflation manifested in decelerating growth witnessed post-2014 global oil crisis. On the demand side, sharp decline in oil revenue weakened government expenditure, creating a dampening effect on aggregate demand. On the supply side, scarcity of forex to import required inputs for domestic production, as well as rising cost of production arising from increasing electricity tariffs and gasoline prices, contributed to waning capacity utilization and eventual downsizing and operation scale-downs among firms in the economy. The country's growth trajectory has been assuming a downward trend since the second half of 2014 declining from 6.2% in the 2014Q3 to 2.1% in 2015Q4. The economy eventually slipped into recession in 2016Q2 following a negative growth record of about 2.06%.

3. Nigeria's Economic Recovery and Growth Plan (ERGP)

After a year-long recession in the Nigerian economy, the Ministry of Budget and Planning released an ERGP in March 2017 as a medium-term comprehensive strategy to revive economic growth in the country between 2017 and 2020. The development of the ERGP was largely driven by the need to: Tackle supply-side constraints to economic growth which include power/electricity, fuel, foreign exchange, unfriendly business environment, as well as low skills and technology; Strengthen national cohesion and social inclusion given that the contentions in different parts of the country such as the Niger Delta region and the North East region have been the major culprit in the ongoing economic woes and food security issues; and Promote conditions that allow markets to function properly.

The vision of the 4-year plan is to generate sustained inclusive growth through structural economic transformation that allows for increasing national productivity and sustainable diversification of production. In achieving this vision, the initiatives contained in the ERGP rests

[3] See: https://www.cbn.gov.ng/rates/ExchRateByCurrency.asp

[4] See Central Bank of Nigeria Communiqué No. 106 of the Monetary Policy Committee Meeting of Monday and Tuesday, March 21 and 22, 2016

on three broad and strategic objectives. First, gradually *restoring growth* in Gross Domestic Product (GDP) to its 2010-2011 levels of around 7 percent by 2020. This will entail: providing fiscal stimulus, ensuring monetary stability, improving external balance of trade, as well as diversifying the economy by leveraging science and technology to drive growth in agriculture, energy, industry, manufacturing, and key service sectors. Second, *improving the human capital base of the economy* through investments in job creation, youth empowerments, education, health, and supporting vulnerable members of the society. Third, *building a globally competitive economy* by creating a business-friendly environment to support the operations and inventiveness of the private sector. The target is to achieve a top 100 ranking in the World Bank's Doing Business index by 2020 (up from the current ranking of 169) by investing in critical infrastructure (power, transportation, and broadband networks), as well as creating more transparent business regulatory requirements with faster processing times.

In achieving the aforementioned objectives of the ERGP, the government plans to prioritize the following broad execution/action plans:

i. *Stabilize the macroeconomic environment:* This will entail aligning monetary, trade and fiscal policies; accelerating non-oil revenue generation; drastically cutting government costs; and privatizing selected government assets/enterprises. Importantly, the government will dedicate 30 percent of federal budget to capital expenditure, while monetary authorities are to cut down interest rate and inflation as well as create import substitution and export promotion policies.

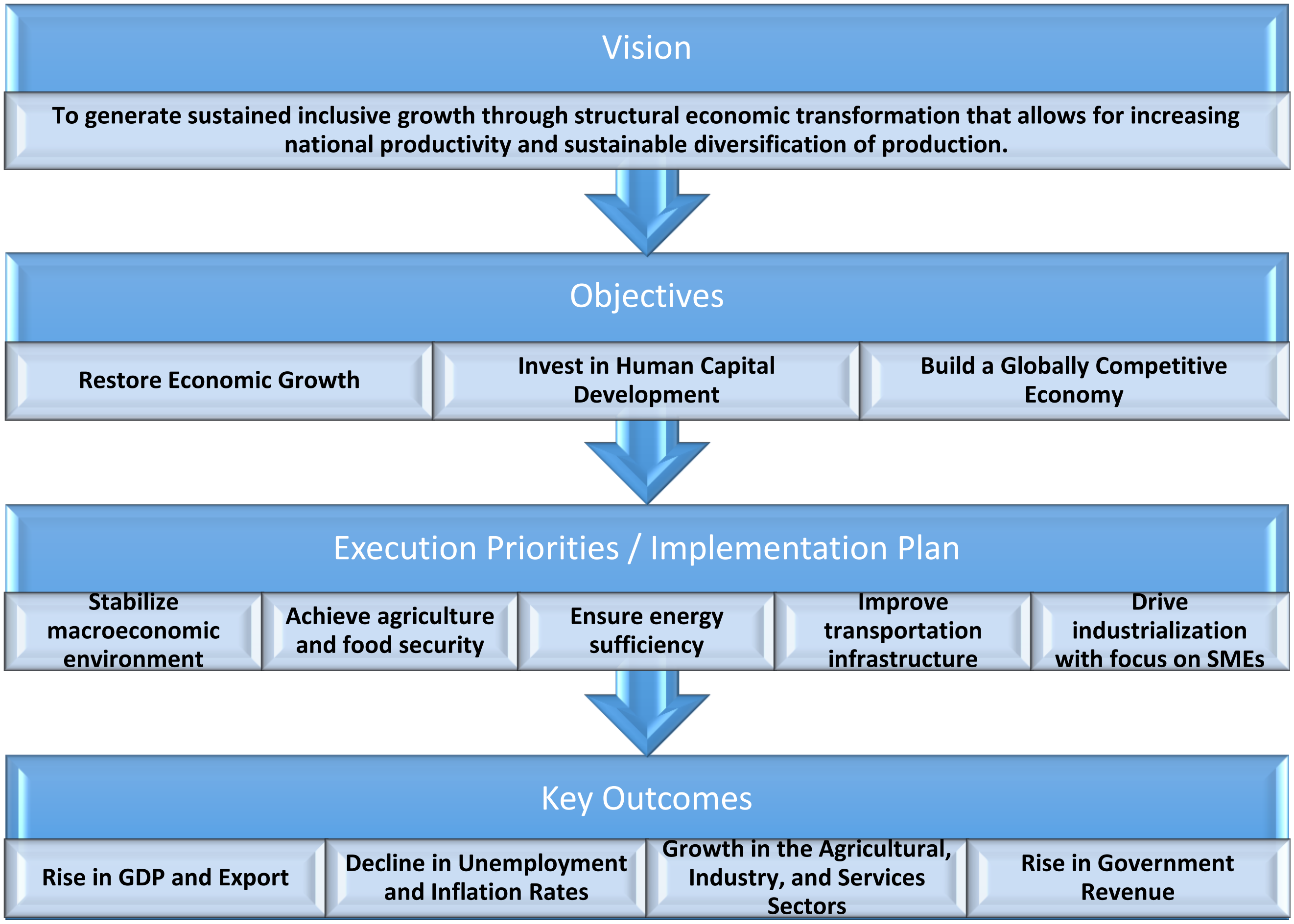
ii. *Achieve agriculture and food security:* This is to be achieved by delivering on existing plans to transform the agricultural sector and ensure national self-sufficiency in rice by 2018, and wheat by 2019/2020.

iii. *Ensure energy sufficiency in power and petroleum products:* This is to be achieved by urgently increasing oil production; expanding power sector infrastructure; and boosting local refineries for self-sufficiency. The target is to increase crude oil production from 1.7 million barrels per day (mbpd) as at 2016 to 2.5 mbpd by 2020.

iv. *Improve transportation infrastructure:* This will entail delivering on key transportation projects by enabling private sector financing of through direct investments or private-public partnerships.

v. *Drive industrialization with focus on SMEs:* This is to be achieved by improving the ease of doing business, and accelerating the implantation of the National Industrial Revolution Plan (NIRP).

Figure 1: A Snapshot of the ERGP



Specifically, abiding by the aforementioned execution priorities or implementation plan is expected to yield significant improvements in macroeconomic indicators over the next few years. *Table 1* shows estimates or projections for macroeconomic indicators between 2016 and 2020.

Table 1: ERGP Projections for Macroeconomic Indicators

Indicators	2016	2017	2018	2019	2020
Overall Real GDP Growth (%)	**-1.54**	**2.19**	**4.80**	**4.50**	**7.00**
Oil Real GDP Growth (%)	*-15.41*	*24.30*	*4.55*	*4.35*	*4.45*
Non-Oil Real GDP Growth (%)	*-0.07*	*0.20*	*4.83*	*4.52*	*7.28*
-Agriculture	*4.69*	*5.03*	*7.04*	*7.23*	*8.37*
-Industry	*-10.13*	*7.74*	*6.11*	*6.07*	*8.02*
-Services	*-0.51*	*-1.26*	*3.16*	*2.45*	*5.82*
Inflation Rate (%)	**18.55**	**15.74**	**12.42**	**13.39**	**9.90**
Unemployment (%)	**14.20**	**16.32**	**14.51**	**12.90**	**11.23**
Trade Balance (% of GDP)	**-0.31**	**1.80**	**2.85**	**3.26**	**3.42**
Total Exports	*9.01*	*10.82*	*11.52*	*11.39*	*11.66*

Total Imports	*-12.58*	*-12.03*	*-11.4*	*-10.58*	*-10.47*
Government Revenue (% of GDP)	**3.95**	**4.68**	**4.30**	**4.61**	**4.46**
Oil Revenue	*0.74*	*1.88*	*1.68*	*2.11*	*2.01*
Non-Oil Revenue	*3.22*	*2.80*	*2.62*	*2.50*	*2.45*
Government Expenditure (% of GDP)	***6.21***	***6.92***	***6.27***	***5.85***	***5.57***
Non-debt Recurrent Expenditure	*2.4*	*2.49*	*2.22*	*2.02*	*2.03*
Capital Expenditure	*1.63*	*1.95*	*1.54*	*1.42*	*1.41*
Interest Payments on Debt	*1.4*	*1.58*	*1.64*	*1.59*	*1.54*

4. Analysis of the ERGP

With the release of the government bold economic recovery plan, a number of important questions arise, in view of the prevailing economic conditions and failure of past, equally ambitious, policies. The central questions include: Does the proposed recovery plan and policies match the reality regarding the prevailing economic problem? Is the plan realizable given its ambitious goals and projections vis-à-vis the local and global economic fundamentals and developments? Is the new policy building on strength and shortcomings of the previous initiative? This section examines these pertinent questions taking cognizance of the fact that implementation strategy also plays a key role in a policy success. In essence, analysis of policy document, as carried in this brief, can only reveal the potentials of the policy, but whether this will translate to success hinges more on the implementation strategy.

a. ERGP: A Match or Mismatch?

The consensus in both policy and academic circles suggest that the ongoing economic slump in Nigeria is a supply side shocks caused by the forex crisis. Specifically, the crash in crude oil price, coupled with uptick in vandalism of the oil infrastructure in the Niger-Delta led to deteriorating foreign exchange. Monetary policy intervention through mop-up operation to address crisis, in some ways compounded the problem, led to wide divergence between official and parallel exchange rates and inflation. Therefore, the starting point for ERGP is to address the forex crisis, through laying out a clear exchange rate policy. This is important, as it provides quick win for government to stabilize the economy, upon which sound fiscal and monetary policies can be built.

However, a review of the ERGP shows that while there is commitment to making the exchange rate more market reflective, there was no policy objective or action specifically highlighted tha addresses exchange rate issues. Comparatively, the monetary, fiscal and trade policies of government were documented, with clear target and implementation strategy highlighted. Given that more priority is needed in the area of exchange rate, ERGP is expected to provide a policy framework for exchange rate. Essentially, the lack of priority to exchange rate policy represents a major weakness of the ERGP.

Looking more broadly, ERGP highlights on some vital developmental issues, such as diversification of the economy and government earning away from crude oil, infrastructural and human developments and private sector-led industrialization strategy. These are issues with huge potential to galvanize long-term growth and development. These gains are premise on the plans being successfully implemented. However, there are two areas of concern regarding implementation. First, given the deteriorating fiscal stance of government, financing the ambitious plan in the ERGP will no doubt be difficult. Second, sustainability of the plan could be constrained due to inappropriate timing of the policy. The policy is coming almost two years into the lifespan of the present administration, leaving about two years for actual implementation. Moreover, sustaining the momentum in implementing the policy will be hard, once another election cycle begins. At best, for a policy of such long-term plan and broadness, ERGP was belatedly introduced by the administration. Overall, ERGP contains viable medium-term plan to develop Nigeria economy, but lacking in substance to address the country's immediate economic need.

b. ERGP: Are the objectives realizable?

The ERGP projects the economy will grow by 2.19 percent in 2017 and reach 7 percent by 2020. The projections are premised on expected growth in the key sectors namely oil (9.41%), agriculture (6.92%) and industry (6.99%) over the period. In addition, oil prices is expected to stabilize at around US$47 per barrel over the period, while oil production is expected to reach 2.5mbpd. These projections are more optimistic about Nigerian growth potential, compared to recent estimates provided by International Monetary Fund (IMF) and World Bank. IMF estimated that the economy will grow by 0.8 percent and 2.3 percent in 2017 and 2018 respectively, while World Bank forecasts a moderate growth of about one percent in 2017. While these contrasting projections could reflect the underlying assumptions used in the forecasting process, the ERGP appears overly optimistic and seems not to take into consideration the local and global economic fundamentals. For example, the projected growth for the industrial sector within next three years, seems not to take into account the various bottlenecks faced in the manufacturing sector. As recent surveys by NOI-Polls and CSEA (2016)[5] show that the constraints to manufacturing development are mainly related to energy availability (electricity and petroleum products), policy inconsistency, access to finance and more recently access to forex. While the ERGP highlights various policy options to address these challenges, it must be recognized that making progress in the aforementioned areas takes a considerable time. For instance, Nigeria infrastructural gap alone is estimated at around US$20 billion. Another key factor that is not supportive of the ERGP optimistic growth projection is the weak global economic growth, which implies weak demand for Nigerian goods and services. The global growth forecast for 2017 is about 2.7percent, while for Sub-Saharan Africa is about 2.9. Taking these factors into consideration, the Nigerian economic growth trajectory, while it should expectedly be positive, might not be as optimistic as projected in the ERGP.

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[5] http://www.noi-polls.com/root/index.php?pid=399&parentid=13&ptid=1

c. ERGP: To what extent does it depart or link to previous policies?

Since 1999, each administration has been notable for introducing an ambitious economic development plan. The ERGP can be seen as a medium-term blueprint of the economic agenda of the present government administration, just like the several policy strategy and agenda pursued by previous Heads of Government of Nigeria since independence *(see Table 2).* However, its timing is unique due to the ongoing recession; thus, making it not just a medium-term economic growth/development plan but also recovery plan for lifting the Nigerian economy out of its present recession in the short-term.

Table 2: Key Development Plans (1999-till date)

	ERGP *President Buhari*	**Transformation Agenda** *President Jonathan*	**7-Point Agenda** *President Yaradua*	**NEEDS & SEEDS** *President Obasanjo*
Aim	To generate sustained inclusive growth through structural economic transformation that allows for increasing national productivity and sustainable diversification of production.	To deepen the effects of the Vision 20:20 agenda and the 1st National Implementation Plan (NIP), while providing a sense of direction for the current administration	To articulate policy priorities that will strengthen the NEEDS reforms and build the economy, so that the gains of the reforms are felt widely by citizens across the country.	To tackle poverty by reforming government and its institutions, growing the private sector, creating social charter / human development, and re-orientating the people with an enduring African value system
Duration	4-year plan (2017-2020)	5-year plan (2011-2015)	4-year plan (2007-2010)	5-year plan (2003-2007)
Priority Sectors	-Agriculture -Industry -Services	-Agriculture -Water Resources -Solid Minerals -Manufacturing -Oil &Gas -Trade & Commerce -Culture & Tourism	-Transportation -Power/ Energy -Agriculture	-Agriculture -Transportation -Water Resources -Power -Health
Key Objectives	-Restore economic growth -Invest in human development -Build a globally competitive economy	-Job creation -Public expenditure management -Address governance challenges -Human capital	Improve: -Food security -Power supply -National security -Human capital development -Road, rail, air,	-Wealth Creation -Employment Generation -Poverty Reduction -Value Re-Orientation

		development -Develop the real sector -Infrastructure development	water transport -Land tenure reforms -Wealth creation/ employment	

Source: Authors' compilation

While moderate progress were achieved regarding the various polices, none has succeeded in addressing the core developmental issues facing Nigeria with regard to high inequality and poverty incidence, low physical and human capital development, over dependency on crude oil, among other challenges. It is therefore imperative that EGPR learn from the failure of these past initiatives, in order to deliver its set objectives. On a positive side, the ERGP has two features that improve on past initiatives. First, the ERGP is not just built on a new set of plans and programmes, but in many instances, draws from viable initiatives in the past. For example, the ERGP industrial, infrastructural and agricultural sectors strategy were scaled up from the Transformation Agenda programme under the previous administration. This is a clear departure from past initiatives that were completely disconnected from their predecessors. This implies the ERGP prioritizes policy stability which is crucial for investment. Second, ERGP is more linked with budgetary process than previous initiatives. The ministry of budget and planning, which developed the ERGP, is also saddled with developing the budgeting framework for its implementation. According to Vietnam (2007), integrating the policy and budgeting process could facilitate better service provision, improve the efficient use of resources, and promote greater accountability for policy implementation[6].

However, ERGP still suffers from a number of drawbacks like the previous initiatives, which needs to strengthened going forward to improve policy outcome. The current plan, with sixty goals and more than a hundred key activities, appears over bloated or more of a wish list, given the time and resources constraints. Streamlining the objective to few priority areas will help fast-track the achievement of the stated goals. Also, ERGP lacks an underlying program logic to help in its implementation and performance evaluation. A clear program logic provides a framework to link a specific set of problem with intervention to address them and expected outcome, in order to map out strategy for implementation. In this regard, it is imperative that a clear program logic is develop to support ERGP. Overall, while ERGP improves on the previous policies in some significant respects, it has areas which needs further strengthening in order to meet its ambitious plan.

[6] http://www.mfdr.org/rt3/Glance/Documents/P&B_final.pdf

5. Concluding Remarks

This brief assesses the strengths and weaknesses of the ERPG in the dimensions of potency to address pressing current economic challenges, realism of objectives, and alignment and departure towards previous policies. On the upside, the policy document would help guide investment decision given a familiarity with the policy direction of the government. Also, the ERGP draws from and builds on past policy initiatives and this ensures policy consistency and continuity. In addition, the plan is more linked to budgetary process and this increases chances of policy implementation and survival. However, ERPG is fraught with numerous challenges. On a first note, the plan is bereft of a clear exchange rate policy. Given that forex crisis contributed immensely to the ongoing recession experience, a standard, clear, and credible flexible exchange rate policy strategy needs be clarified. Exchange rate policy position of the monetary authority is required to improve foreign investors' confidence. Also, the ERGP is set with too many goals making the realization of the plan over-ambitious. This study canvasses for the streamlining of the objectives of the ERGP to priority areas that is realistic with country's economic fundamentals. Furthermore, the document's policy objectives lack an underlying programme logic that could guide their implementation and evaluation. Breaking down objectives into specific programmes based on sound programme evaluation assessment is critical towards effectiveness of public expenditure. Lastly, given the timing of the ERPG, the brief recognizes upcoming elections in 2019 as potential distortions and major downside risk to the implementation of the plan.