Understanding The Effect Of Dutch Disease On The Economy Of A Developing Country: The Nigerian Case

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ABSTRACT

Nigeria is one of many developing economies affected by the "Dutch Disease"- a concept that diagnoses the case of a country so poor yet so rich even with abundant resources. Is it possible to have resource endowment and have a slow growing economy with little or no infrastructural development? In 2009, studies showed that there has been a steady decline in life expectancy and standard of living since the discovery of crude oil in Nigeria in 1956. This is a misnomer as the country has "earned more than US$300 billion from crude oil" (Okonjo-Iweala, 2012, p.4) but corruption, infant mortality, and poor infrastructure has become the bane of the economy impeding any of form of development. In this paper, the concept of Dutch disease as it affects Nigeria is considered with a view to understanding the major culprits in the country's case. It is also surmised that the chief culprit for a nation's poverty is not always the lack of abundant natural resources but lack of planning, preparedness, transparency, mismanagement of these resources and a high level of corruption. It has been concluded that Nigeria as a nation of talented and industrious people would have fared better economically and as a consequence politically, if crude oil had not been discovered and exploited. Some evidence is the gradual decline of GDP, the increase in unemployment rate and the continued increase in the country's poverty level. These should not be the indices of a resource-rich country.

UNDERSTANDING THE EFFECT OF DUTCH DISEASE ON THE ECONOMY OF A DEVELOPING COUNTRY: THE NIGERIAN CASE

1.0 INTRODUCTION

Nigeria, a developing country is well known for her crude oil exports. A member of the Organization of the Petroleum Exporting Countries (OPEC), Nigeria first discovered oil in Oloibiri, in the now Bayelsa State in 1956. Prior to the discovery, her economy was dominated by agriculture with major crops being cocoa, groundnuts, rubber, hides and skin etc. Oil production started in 1958 and the economy started a gradual but seemingly permanent shift towards total dependence on oil as its main source of revenue. This is a peculiar problem to many developing countries some of which include Mexico, Venezuela and Algeria.

Does the immiserizing growth hypothesis affect the economic development of developing countries? Is it possible to have resource endowment and have a slow growing economy with little or no infrastructural development?

The trade of these resources generates foreign exchange earnings for these countries and has a direct effect on the country's economy. This increase in earnings should in turn cause economic growth as the government is now able to afford the provision of basic amenities, essential infrastructure and social stability but this is hardly the norm in most developing countries with a lot of natural endowment. This phenomenon is often referred to as "Dutch Disease" or "Resource Curse". It also applies to the situation where after discovery of this resource, all other sectors of the country's economy begin to suffer and eventually economic development declines.

Dutch disease was first mentioned in the1970s in Netherlands after the discovery of natural gas, hence the name, "Dutch". This discovery was associated with an increase in foreign exchange earnings and thus an economic boom. The boom did not however last an eventually gave way to economic retardation evidenced by unemployment, high rate of inflation etc.

For countries like Nigeria, it is expected that this increased revenue will translate into economic development but the real life scenario differs completely. Instead oil has choked up other resources and source of foreign exchange earnings – agriculture, manufacturing – and became the major dependence of the country resulting in a complete neglect in the other sectors.

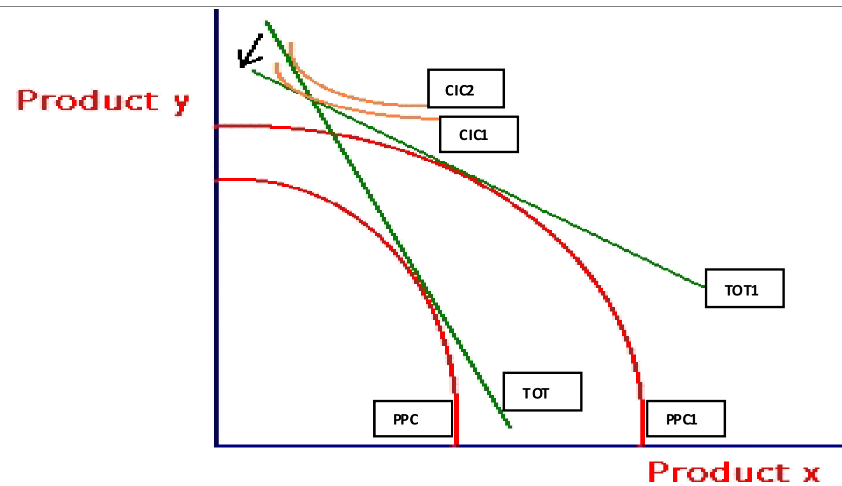
A good way to understand this phenomenon is to examine this situation through the lens of the immiserizing growth hypothesis. Attributed to the Colombian University economist, Jagdish Bhagwati, this theory explains the effects of a country's abnormal growth due to the sudden economic boom as "[e]conomic expansion increases output which, however, might lead to a sufficient deterioration in the terms of trade to offset the beneficial effect of expansion and reduce the real income of the growing country" (Bhagwati, 1958, p.201).

The first section of this paper will examine the different literature on this hypothesis and its application to developing countries. The benefits of the increase foreign exchange earnings to an economy will be examined as well as the impact of poor management of these resources on the economy and the populace. The next section will focus on Nigeria beginning from the discovery of oil and the major landmarks after this discovery. Nigeria's history, leadership, economic policies and how all these have helped shaped the nation's economy will be looked at. The management of the oil sector, the challenges the sector currently faces and the effect this has had on the economy will also be examined. With the aid of tables, data and charts, a comparison between the country's welfare and growth retardation will be made. In conclusion, a brief assessment of what has been done by other developing countries to prevent or cure this disease will be made; with special emphasis on what has worked so far and how this can by Nigeria.

2.0 THE IMMISERIZING GROWTH HYPOTHESIS

The immiserizing growth hypothesis was invented by Jagdish Bhagwati, an economist at Columbia University, in 1958. He sought to explain the impact of terms of trade on the economic growth of a country, especially in the area of economic welfare. Terms of trade is "the price of a country's exports divided by the price of its imports" (Krugman, Obstfeld, and Melitz, 2012 p.112). As a result, when the price of a country's exports exceed the price of imports, there is an increase in the terms of trade and this signals an improvement and vice versa.

In his explanation, he "assume[d] the traditional two-country, two commodity "real" model" … where growth … leads to a sufficiently acute deterioration in the terms of trade which imposes a loss of real income outweighing the primary gain in real income due to the growth itself" (Bhagwati, 1958, p. 202). This will affect the country's overall welfare negatively, in spite of the fact that, an increase in exports should bring about an increase in the country's welfare. This is depicted by the graph below:



Where:

TOT is the Terms of Trade

CIC is the Community Indifference Curve

PPC is the Production Possibility Curve

Figure 1.1 Immiserizing Growth Hypothesis (*Source: http://business.baylor.edu/Joe_McKinney/Graphs.html*)

2.1 THE "DUTCH DISEASE" EXPLAINED

The above theory is proven by what is known as "Dutch disease" which explains why resource rich countries end up being poor because of their inability to manage their resources effectively. In spite of the increase in revenue owing to the exports, the country remains impoverished. The first example, as explained earlier, was seen in the Netherlands after the discovery of natural gas in the 1960s. It was used to explain the situation where though revenue from trade of the natural resource was high, "the Dutch economy suffered from rising inflation and unemployment, declining export of manufactures and lower rates of income growth" (Kulkarni, Erickson, 1999, p.298).

In theory, the Dutch disease does not happen suddenly, it takes a gradual process. According to Kulkarni and Erickson (1999), "[a]s its [the country] main national export enjoys increased demand from the rest of the world, a nation's foreign reserves increase, its currency appreciates and its other exportable commodities see much decline in their demand" (p.298). It starts with the discovery of the natural resource. Kulkarni (2011) also explained that "it tends to affect countries upon the discovery, extraction, and exploitation of large amounts of natural resources – most notably oil or natural gas – it can occur once international demand for a country's export item spikes or the world price of the resource rises" (p. 420).

Why is this situation peculiar to developing countries? Developing countries are usually characterized by the abundance of labour and the production of labour intensive goods. They are usually disposed to a lot of problems mainly because they have a fundamental problem of good and effective leadership. They are blessed with a lot of resources but mismanagement of the revenues generated from these resources, leaves many of these country in dire poverty. Oplatka, 2004 opined that some of the characteristics of developing countries include the fact that, "[t]hese countries were ruled by Europeans for a long time, their economy is more agricultural-based, and they are usually characterized by high mortality rates, high birth rates, high levels of poverty and large gaps between rich and poor" (p.428).

2.2 SYMPTOMS AND IMPACT OF THE "DUTCH DISEASE"

The first and most profound is the increase in foreign reserves which is most likely dependent on external factors. In the case of the Netherlands, the oil shocks of the 1970s were responsible for this. With the increase in natural gas price came increased revenues for the government and invariably an increase in the government's spending power. However, that a country earns more revenue from its export does not mean the country has been infected by the disease. This increase, particularly from a resource, renders the other tradable sectors of the economy unimportant. The country's focus shifts completely to that resource causing a neglect of other sectors of the economy.

This invariably affects imports, making imports expensive. In the case of the Netherlands, the country depended on raw materials for its local production and these raw materials became expensive because of the same reason – the instability caused by the oil shocks. Import prices increased and the cost of production, increased. With an increase in exports, came a drop in the country's aggregate supply (Kulkarni, 2011).

The drop in aggregate supply resulted in an increase in unemployment and inflation referred to as stagflation. In stagflation, the domestic money supply increases and the supply of good decreases owing to the increase in cost of production. This is closely linked with the appreciation of the country's exchange rate which is also a symptom of the disease. This increase in the availability of foreign exchange caused by the increase in revenue from the trade of the resource is often responsible for this. Kulkarni and Erickson (1999) concurred in their research stating that "the surplus of foreign currency caused by domestic economy's increased export earnings can reduce the domestic real exchange rate leading to appreciation of the domestic currency" (p.370).

All these symptoms culminate in a loss in the country's Gross Domestic Product (GDP). The higher the GDP, the higher the economic welfare of a country; this is however not so in the case of countries suffering from the Dutch disease. Instead, there is a decline in the country's GDP. Kulkarni (2011) maintained that "countries with resource-based exports with respect to their GDP have … a tendency for low growth" and that "a negative effect of the stock of foreign reserves on the level of GDP is a sign of the presence of Dutch disease" (p.379,425).

Finally, other sectors of the economy bear the brunt of the appreciation of that one sector and this is exhibited in the neglect experienced in these sectors, especially the agricultural and manufacturing sectors. This phenomenon, according to Kejeh (1986), is called "resource movement effect" (p.61). This is peculiar to those situations where the vibrant sector of the economy – the sector experiencing the boom, causes a deficiency in the other sectors of the economy by taking up most of the available resources and causing a lack in these sectors. For instance, the situation where the oil or natural minerals sector, takes up most of the labour available, causing a noticeable deficiency in the agricultural industry. In Kularni (2011)'s view, "the rural agriculture sector, that was the major source of domestic food supply and industrial raw materials, suffered severe manpower loss" (p.394) as a result of this resource movement.

3.0 NIGERIA AND THE DUTCH DISEASE

3.1 ECONOMIC BACKGROUND

Nigeria is a very diverse country. She boasts of a population of over 160 million people, over 250 languages and is referred to as the most populous country in Africa. The country was created in 1914 and gained independence in 1960; has had both civilian and military administrations and each has helped shaped the country into what it is today.

Until recently, the Nigerian economy was predominantly agrarian with cocoa, rubber, yams, cassava, palm produce, hides and skin being the major crops. In addition, "[her] wealth includes large deposits of coal, iron, tin and columbite, as well as lead, copper, and zinc" (Falola, Heaton, 2008, p.4). Eventually the discovery and exploration of oil in 1956 skewed the dependency on this sector towards the petroleum sector. As opined by Kulkarni (2011), increase in oil revenue further resulted in the decline of the agricultural sector as "[c]ontinued neglect of the agriculture sector, while oil exploration was prioritized, amounted to misplacement of emphasis in the country's economic development effort" (p.394). In the chart below, the authors demonstrated the importance of the oil sector above the agricultural sector. Thus, a marginal growth in the agricultural production is noticed compared to the massive activity in oil production.

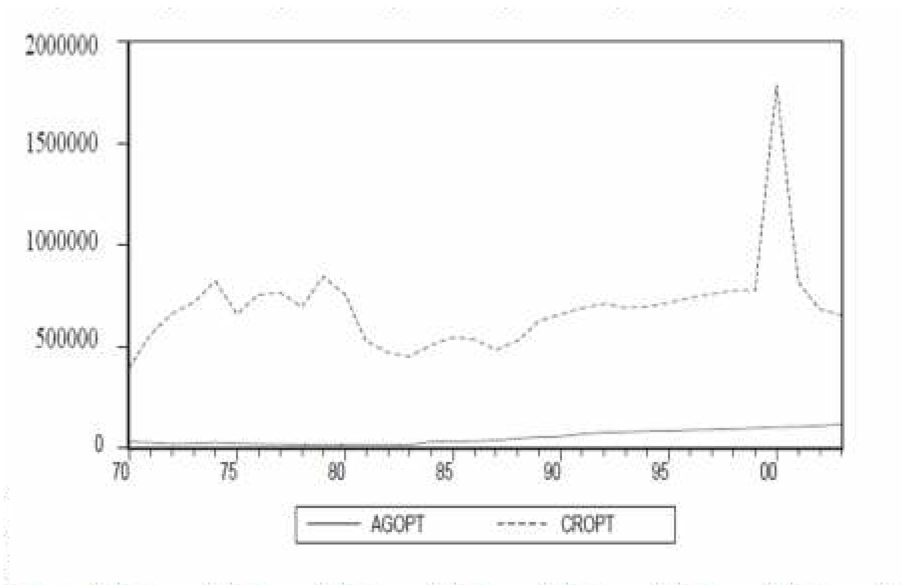


Figure 1.2 Agric and Crude Oil Production (1970-2003) (*Source: Olusi, J.O. and Olagunju, M.A. (2005)*

3.2 THE NIGERIAN CRUDE: A BRIEF HISTORY

The discovery of oil dates back to 1956 and "this discovery opened up the oil industry to investment from multinational oil companies" (Okonjo-Iweala, 2012, p.2). Consequently, oil became the main stay of the Nigerian economy after the Nigerian civil war known as the Biafran war as signaled by the country joining the Organization of Petroleum Exporting in 1971. Similarly, the increase in crude oil production to over 2.3 million barrels per day, currently, and "... reserves of oil amount[ing] to 37.2 million barrels – the tenth-largest reserves in the world (Okonjo-Iweala, 2012, p.2 quoting OPEC, 2011). Refineries were built in Port Harcourt, Warri and Kaduna but due to poor maintenance, they are still producing below capacity and as such cannot meet the daily requirement of a big country like Nigeria. This therefore explains why Nigeria imports most of the refined petroleum products consumed locally, as seen in the graph below which shows crude oil exports viz-a-viz refined petroleum products imports.

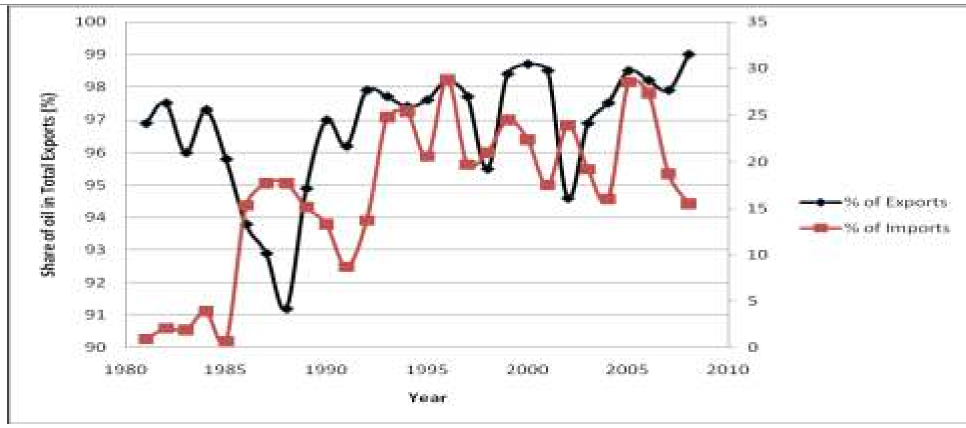


Figure 1.3 Trend of Crude Oil Exports and Imports in Nigeria (1980-2008) *Source: Central Bank of Nigeria, Statistical Bulletin (2009) via Oyejide T. and Adewuyi A. (2011)*

3.3 THE NIGERIAN CRUDE: ECONOMIC IMPACT

The discovery of oil encouraged the influx of foreign owned oil companies. Oil exploration and production is a very expensive venture which requires huge capital investment and technical know-how. Nigeria unable to provide these requirements contracted the services of these multinational companies such as Shell, BP, Mobil etc. These companies in turn paid for been able to operate in Nigeria and these payments are often to as “rents”. These companies provided jobs which encouraged the migration of workers from the rural areas depleting the human resource in the agricultural sector of the economy. The adverse effect was the reduction in the agricultural sector's output and the increase in dependence on oil. Falola, Heaton (2008) stated that “[t] he agriculture sector continued its decline during the oil boom years, and Nigeria became more dependent on food imports” (p.183). In Kahn (1994)'s view, the “Dutch disease symptoms had set in during the so-called boom years [and] was made evident by the pattern of government capital expenditure, the growth of the non-tradable sectors, and the decline of the only other main tradable sector besides oil, agriculture” (p.186). Okonjo-Iweala (2012) concurred stating that “[t] he terms of trade turned against agriculture because the high value of the naira, made it easier and cheaper to import agricultural products than to produce them at home. Agriculture as a share of the value of exports declined from 75 percent in 1965 to 3 percent in 2010. Oil increased from 25 percent of exports by value in 1965 to about 96 percent in 2010” (p.3).

In financial terms, Nigeria's foreign reserves showed positive growth since the discovery oil but it has not been a steady climb until recently. Currently it stands at about $46 billion as at January 2013, according to data from the Central Bank of Nigeria. The country's national currency is Naira and the current exchange rate stands at NGN155.75/$1 from the same source. In 2000 however, the macroeconomic indicators according to Okonjo-Iweala (2012) was

characterized by volatile exchange rates, double-digit inflation (23 percent on an annual basis in 2003), a high fiscal deficit (3.5 percent GDP in 2003), low foreign-exchange reserves ($US7.5 billion in 2003), and low GDP growth (2.3 percent on average for the past decade, including negative GDP growth per capita in those years because of the increase in population) (p.19).

3.4 THE NIGERIAN CRUDE: POLITICS OF OIL BOOM AND PROBLEM OF CORRUPTION

Political instability also characterized Nigeria's history and impacted the economy as one would expect. The Nigerian civil war is a good example of the discord an increase in resource based revenue can cause. Odularu (2007) mentioned that "oil revenues fueled already existing ethnic and political tension and actually "burned" the country. This tension reached its peak with the civil war that lasted from 1967 to 1970" (p.7). The war affected crude oil production, causing a drop in government revenue. After the war, the government took over the management of oil with the creation of the Nigerian National Petroleum Corporation (NNPC) in 1971 originally known as Nigerian National Oil Corporation (NNOC).

The two oil booms in the 70s and 80s were very critical to the country's economy. This was evidenced by the sudden increase in oil revenue resulting in a rise in government expenditure, loans and external borrowings. The influx of oil revenue eventually did not help the country as it was squandered and grossly mismanaged as only a few benefitted at the expense of the remainder of the populace. Obioma (2012) in concurrence stated that "[u]nfortunately, these influx of oil revenues have brought in low per capita income for generality of the people and affluence and high living standards for the privileged few citizens of the nations concerned" (p.100).

These booms also made excess funds available to the government and those funds were, for the most part, squandered. Prominent is the regime of General Sani Abacha, the military head of state from 1993 to 1998. After his death, "the Swiss government agreed to repatriate about US$505 million of frozen Abacha funds back to Nigeria in 2005 and 2006" (Okonjo-Iweala, 2012, p.84). This pales in comparison to the over US$5billion alleged to have been looted by the head of state and his family.

3.5 THE NIGERIAN CRUDE: MONETARY AND FISCAL REFORMS AND THE EFFECT ON GROSS DOMESTIC PRODUCT (GDP)

Kulkarni and Erickson (1999) confirmed that "the Nigerian government used this windfall to expand its role in the provision of infrastructural facilities, free social services and capital expenditure for industrial development" (p.300). There is however a school of thought that opined that these were 'elephant projects' which gulped a lot of resources but were never completed. For instance, Udosen, Etok, and George, (2009) mentioned that "the year 2007, Nigeria realized a whooping sum of NGN29.8 trillion naira [app. USD186.2m], much of which was squandered on white elephant projects leading to slow rate of economic growth" (p.42). A very popular instance is the Ajaokuta steel mill which gulped a whopping "US$5billion" and has yielded no dividend to Nigerians (Okonjo-Iweala, 2012).

From the exchange rate argument, Nigeria's real exchange rate appreciated as a result of the oil income. Olusi and Olagunju (2005) showed the appreciation of the REER (real exchange rate) in Nigeria, in the figure below, and suggested that "the appreciation of the REER (downward sloping REER curve) started about the second quarter of 1984" (p.161) and as this occurs, it reduces the strength of the other sectors of the economy, in this case, the agricultural sector.

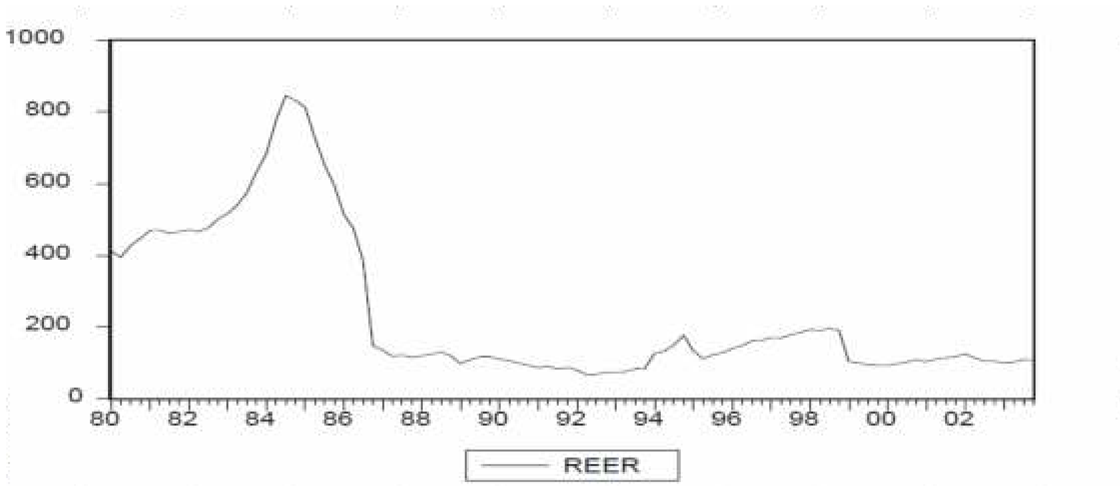


Figure 1.4 Real Effective Exchange Rate (1980-2003) *Source: Olusi, J.O. and Olagunju, M.A. (2005)*

Another result was the reckless habit of external borrowing. According to Okonjo-Iweala (2012), "[f]rom the mid 1970s to 2001, Nigeria earned more than US$300billion from crude oil. Yet over the same period ... borrowed abroad unwisely and unsustainably, accumulating up to US$30 billion in debt ..." (p.4). Crude oil was used as collateral for these loans and this became a norm during this period. Even though the spate of borrowing was unsettling, what was more unsettling was the fact that the funds were not being used for the purpose for which they were borrowed. In the rare instance that they were used for such purpose, the projects were never completed and such projects yielded no dividend.

It is therefore worthy to mention that the rise in oil prices and the increase in government revenues did not actually translate to an improvement in economic indicators in the country, mainly, the Gross Domestic Product (GDP). The country's GDP was on a decline and other sectors of the economy, particularly agriculture and manufacturing, experienced neglect. Kahn (1994) commented on the fact that, "the rising oil revenue and declining GDP of the late 1980s suggest that the impact of the oil boom in the earlier decade was so detrimental to non-oil economic activities, that even increasing oil revenues after the low of 1986 were not sufficient to initiate or sustain GDP recovery" (p.183). The graph shows the steady decline in GDP rate and the resultant inflation. The second indicates the increase in government revenue viz-a-viz the country's GDP rate; which otherwise should have been increasing.

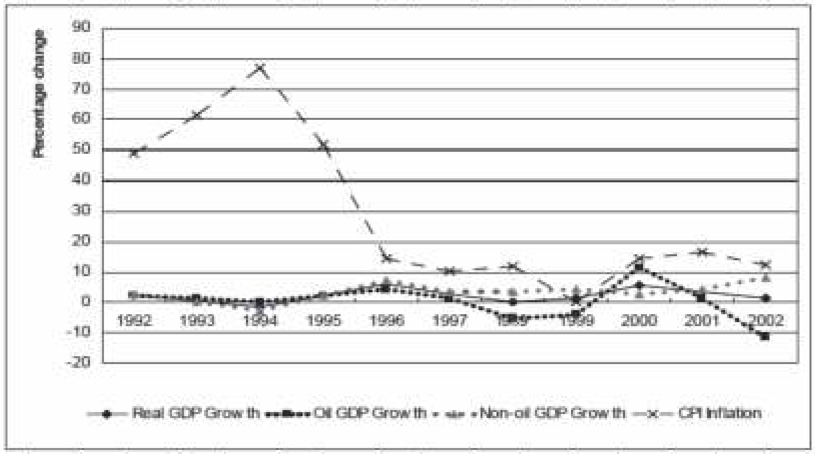


Figure 1.5 Real GDP growth and Inflation (1992-2002) *Source: IMF(2005; 2003; and 2001) via Okonjo-Iweala N. and Osafo-Kwaako, P. (2007)*

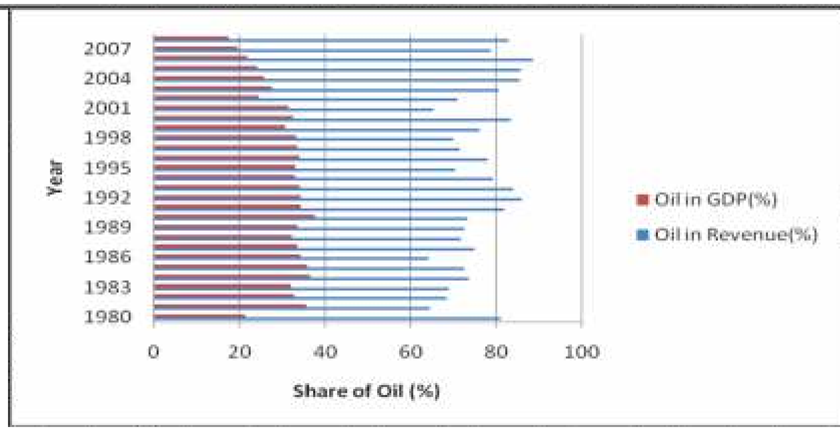


Figure 1.6 Shares of Oil in Total Revenue and GDP of Nigeria (1980-2008) *Source: Central Bank of Nigeria, Statistical Bulletin (2009) via Oyejide T. and Adewuyi A. (2011)*

4.0 THE CASE FOR DUTCH DISEASE IN NIGERIA

Nigeria has had her fair share of corruption, unemployment, poverty, crime etc. arising from a country lacking leadership and accounting and infected by the Dutch disease. Aiken (2011) concurred to this assertion stating that "... many oil-producing African nations face the challenges of corruption, poverty, and the extensive involvement of foreign companies and government" (p. 293). In agreement, Obioma (2009) also mentioned that, "[t]he sizeable oil windfall, of course, presented net wealth and thus additional spending room, but it also has complicated macroeconomic management and led to an extreme dependency on oil- a highly volatile source of income" (p.99). As Nigeria became 'rich', the government became heavily corrupt. This did not come as a surprise as funds available increased and between the military and civilian governments, there was a gradual depletion without any resistance. According to Transparency International, Nigeria is one of the most corrupt countries in the world with a ranking of 139 out of a total of 176 countries and territories. "The oil boom also resulted in widespread corruption on the part of the government officials responsible for collection and allocation of revenues" (Falola, Heaton, 2008, p.183). Corruption thrived because there was "the lack of financial disclosure and transparency of government finances" (Khan, 1994, p.196).

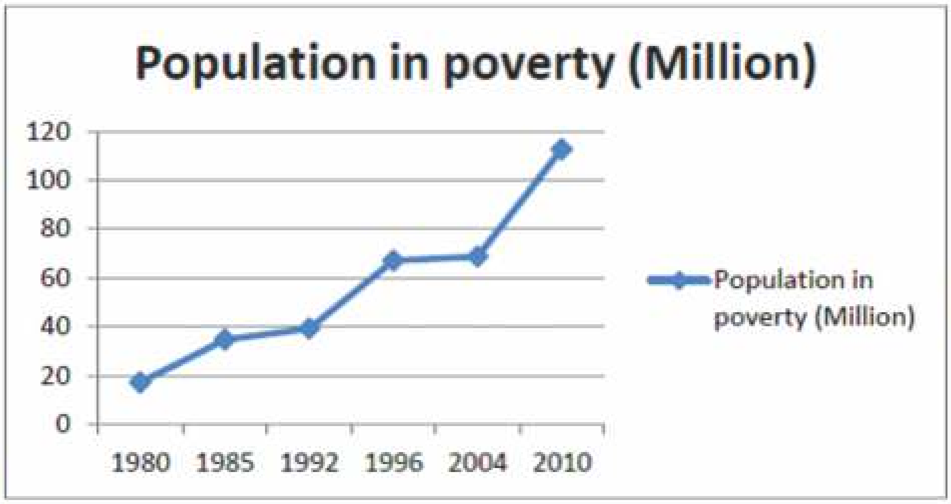


Figure 1.7 Population in Poverty *Source:*
http://www.oxfordresearchgroup.org.uk/publications/middle_east/nigeria_generic_context_boko_haram_violence

Other challenges faced by Nigeria include oil theft otherwise called bunkering. Pipeline vandalization has become a norm in the oil rich region of the country and has caused the country in loss of revenue and loss in production level. Crude oil is usually siphoned from these pipelines in large quantities and sold to a ready market overseas. It has been suggested that this illegal business is control by a cartel and it is estimated that it costs the country roughly N10 billion (about US$62.5 million) daily in lost revenue although this cannot be verified due to the nature of the crime and lack of adequate statistics. A report by the U.S. Energy Information Administration in 2012 states that the [e]stimates from Nigeria's Ministry of Finance show that about 400,000 bbl/d of oil was stolen in April 2012, which led to a fall of about 17 percent in official oil sales. Royal Dutch Shell, Nigeria's largest producer, recently estimated that 150,000-180,000 bbl/d, or 6 percent of the country's total production, on average is lost to oil bunkering and spills.

Another major concern is the issue of security in the country. The growing reliance of the country on oil and gas alone may undermine the democratic structure such as rule of law, political stability (as in the case of militancy in the Niger Delta region), government effectiveness and the fight against corruption (Udosen, Etok, and George, 2009, p.46). The militants in the Niger Delta oil rich region of the country claimed to have taken up the cause of the indigenes of this region who have claimed that they have been continuously marginalized even though they have borne the brunt of oil exploration. They claim they have not received any compensation or fair treatment and decided to make crude oil exploration in the region impossible. This has however been contained to a certain extent by the amnesty given to the militants by the Yar'Adua administration in 2009, "… the resource control conflict also provided opportunistic excuse for militants and criminal gangs to engage in oil theft, the proceeds of which they used to procure arms to perpetuate themselves and resist the security agencies". (Gboyega et al, 2011, p.19).

4.1 LESSONS FROM INDONESIA

Indonesia is one country that is known for its supposed recovery from the Dutch disease and has used her oil revenue for her economic growth. There is however a controversy in this regard as some economists do not concur with this assertion. For the purpose of this study we will only consider what Indonesia did differently to manage the oil boom for the country's advantage as a lesson for Nigeria.

Indonesia is very similar to Nigeria in that the two countries are "agricultural-based, primary commodity-exporting countries which experienced a large transfer of wealth, brought by two major oil booms over 1972-82 (1973-74 and 1979-81)" (Chowdhury, 2004, p.133). Gelb et al. (1988) concluded that "Indonesia's good performance during the oil booms reflected the *institutions* developed earlier to nurse the economy back to health, the *approach to policy* set in the Suharto government's formative years, and *unusual degree of continuity*" (p.223).

5.0 SUMMARY AND CONCLUSION

This paper was geared at understanding the economy of developing countries viz-a-viz the Dutch disease, with special emphasis on the economy of Nigeria. From the aforementioned, we can conclude that Nigeria has shown visible symptoms of the Dutch disease since the discovery and exploration of crude oil. It is also obvious that the country is taking steps to counter the effect of this problem albeit that this is not coming along fast or easy as the disease has eaten into the very fabric of the economy. In sum,

[t]he growth of the oil economy has been both a blessing and a curse for Nigeria. Oil has brought massive revenues, making Nigeria a very wealthy country in terms of increasing overall revenues and giving the country a strong potential for equitable economic growth and sustainable development over the long run. Oil revenues have been horribly mismanaged, with the result that only a very few people have benefitted from Nigeria's oil wealth. The vast majority of the population continues to live in poverty, seeing few tangible results from the country's oil wealth (Falola, Heaton, 2008, p.11).

From previous studies, it is obvious that a lot of the country's wealth has been wasted and since oil is an exhaustive resource, changing previous policies and formulating new policies is inevitable. One of such is the Petroleum Industry Bill (PIB) which is currently with the country's lawmakers waiting to be passed into law. According to the U.S Energy Information Administration website, the key points of the PIB include:

Increase exploration activities and expand reserves; monetize natural gas reserves and reduce flaring; separate regulators for the upstream, midstream, and downstream sectors; deregulate the downstream sector; offer acreage through bid rounds; increase government take; higher royalties; lower production taxes; increase local participation through employment, related industries, and local oil and gas companies; and the Petroleum Host Communities Fund (PHCF).

Another breakthrough is in the positive results of the Federal Ministry of Trade and Investment in attracting foreign investment to the Nigerian economy. According to the ministry's website, one of the most recent achievements is the deal between the Federal Government of Nigeria and General Electric Company of the United States for a sum of US$1billion. The project is supposed to involve the building of a manufacturing assembly facility in Calabar, Cross River state. This will not only provide job opportunities for Nigerians but will also boost the country's export sector. It is situated the Trade Free Zone of the country which also a good indication.

Other reforms have also been carried out in the country in recent times in a bid to improve the economic situation. The price of crude of oil in the budget is usually pegged the current market to allow room for price fluctuations and reduce the effect a sharp decrease will have on the country's economy. This, according to Okonjo-Iweala (2012) is called "The Oil Price-based Fiscal Rule (OPFR)" (p.22). In 2004, oil price was pegged at US$25 per barrel when oil prices were in the region of US$33 per barrel. The excess amount was credited into an account called the Excess Crude Oil account and the funds were to be used for government spending. This entire process was aimed at reducing the government's dependence on oil revenue by "de-link[ing] public expenditures from current oil revenues" (p.21). This policy ultimately increased government revenue.

The banking sector also underwent various reforms under the supervision of the country's apex bank, the Central Bank of Nigerian (CBN). One of these was to ensure the reduction in inflation rate. "End-year inflation declined from 21.8 percent in 2003 to 10 percent in 2004 but increased slightly to 11.6 percent at the end of 2005" (Okonjo-Iweala, Osafo-Kwaako, 2007, p.10). The table reflects some economic indicators of the country between 1992 and 2006.

	1992-1998 (avg.)	1999-2001 (avg.)	2002	2003	2004	2005	2006 (est.)
(Annual percentage change; unless otherwise specified)							
Real GDP (at 1990 factor cost)	1.8	3.5	1.4	10.9	6.1	6.2	5.1
Oil GDP	0.9	2.9	-11.6	26.5	3.5	2.6	-1.6
Non-oil GDP	2.4	3.8	8.0	4.4	7.4	8.2	8.2
Inflation rate (year-on-year)	39.3	10.4	12.2	21.8	10.0	11.6	12.2
Money supply (M2) (% change)	…	35.0	21.6	24.1	14.0	16.0	…
Exchange rate (IFEM/DAS) (N/US$, average)	…	102.3	121.3	129.5	133.5	131.8	126.5
External reserves (US$ billion)	3.6	8.4	7.7	7.5	17.0	28.3	46.5

Table 1.1 Selected Economic Indicators *Source: CBN, 2006 Annual report; Federal Ministry of Finance (Nigeria), and IMF(2001; 2003; and 2005) via Okonjo-Iweala N. and Osafo-Kwaako, P. (2007*

There is a long way to go if Nigeria wants to get rid of the traces of the Dutch disease in her economy but it is safe to say that she is well on her way and hopefully one day, this goal will be accomplished.

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