



## **FOCUS ON ECONOMIC RECESSION IN NIGERIA**

*Edited By:*

**M.K.O Alimi Ph.D**

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## Preface

This book of reading examined economic recession as a global phenomenon, but authors opined that Nigeria's worse economic woes were caused by the past and present dispensations of political, career, traditional/religious and corporate leadership. Some blamed the cantankerous and precarious condition of Nigeria's economy on cultural peculiarities of the Nigerian people that aid and abet unethical practices and behaviours over the years.

Many individuals and organizations have argued that decline in GDP of the country for three consecutive quarters, instability in the exchange rate, cut in foreign reserve, mono-economic structure of the Nigerian polity leading to non-diversification of Nigerian economy, huge external debt as well as mismanagement and misappropriation of resources by corrupt politicians among others are responsible for the economic recession. All these resulted into hyper-inflation without corresponding increase in purchasing power of all strata of the Nigerian civil society, employee layoffs and benefit reduction, poverty, hunger, disease, insecurity as well as infrastructure decay and deficit. Other attendant problems of economic recession are: credit impairment and bankruptcy, reduction in government revenue and increased borrowing, cuts to quality of goods and services, reduced liquidity leading to paucity of funds for transaction and investment, decline in foreign Direct investment, especially to banks as well as higher consumer price index (inflation) and currency devaluation as well as astard impact on family life – living standard payment for education and so on. Several authors proffered solutions to ease Nigeria out of recession in no distance future among which are: Diversification and restructuring of the economy, increase in Agricultural produce/processing/export, increase in manufacturing produce and export effective spending and discipline. Government should cut down unnecessary expenditure, block leakages, stealing, looting and wasteful spending by shenanigans in positions of authority and focus on health care and educational infrastructure. We also need to run knowledge economy, enhance ICT with huge dependence on ICT for businesses, security, improvements, information exchange, social sector and practically all spheres of life. Also, our Government should consider FOREX conservation a priority to boost foreign reserve by utilizing home grown/manufactured raw materials and also manufacture for export.

This book *Focus on Economic Recession In Nigeria*, arranged in twelve chapters is well designed and sequentially arranged with a view to illumine the readers' understanding of the concepts of economic recession particularly as related to Nigeria. This book is carefully packaged to reflect the various situations in Nigeria economically and politically.

Chapter One analyses the impact of economic recession on Nigeria's development, particularly hyper-inflation, currency devaluation and poor direct

investment in banks as well as downsizing and right sizing of the work force. Banks, industries and public sector, irregular payment of salary and stunted economic growth with reference to Gross Domestic Products (GDP). In Chapter two, the author discusses how *Space Science And Technology Education* can be repositioned to turn around the economy, particularly in the midst of economic recession in Nigeria, especially the causes, consequences and the way forward. Chapter four examines fall in the volume and value of oil revenue in Nigeria, activities of Niger-Delta militants, decline in GDP of Nigeria for three consecutive quarters, instability in the exchange rate, over-reliance on oil and lack of diversification of Nigerian economy among others, as the major causes of economic recession, consequences of economic recession are discussed and solutions proffered.

Also, Chapter five analyses issue of knowledge economy as a veritable tool to drive economic development and launch the nation into buoyant, globally competitive economy. In chapter six, strategies of maximizing the benefits of 2017 Nigeria's annual budget for the purpose of addressing the current economic recession are articulated while chapter seven provides econometric approach to minimize the effects of economic recession on the performance of deposit money banks credit in Nigeria, especially the Nigerian banks financial intermediation. Chapter eight investigates the impact of socio-economic status and personality characteristics on entrepreneurial intention of undergraduates in Oduduwa University. The study establishes significant relationship between personality characteristics and entrepreneurship education as a catalyst to youth enterprises and sustainable development in Nigeria, as it provokes self-reliance and job creation, thus goes a long way to eradicating poverty.

Chapter Ten makes appraisal of the Nigerian 2016 budget as it affects Nigeria's economy and how it fails to address critical economic indices that can lift our nation out of the present economic recession. In chapter eleven, information technology (IT) for wealth creation and poverty reduction in Nigeria towards leading Nigeria to economic prosperity is analysed. Chapter twelve makes a critical appraisal of the impact of foreign aid on Nigeria's economic crisis. It is expedient to add that editors take responsibility for the editorial work, the respective authors of various chapters take full responsibility for the contents of their studies.

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## CHAPTER ONE

### Assessing The Impact of Economic Recession on Nigeria's Development

*Erigbe, P.A*

#### Introduction

The National Bureau of Economic Research (NBER), defines recession as a significant decline in economic activity spread across the macro economy, lasting more than a few months, normally visible in real gross domestic product (GDP), real income, employment, industrial production and wholesale-retail sales. Usually, recession may be triggered by financial crisis and or credit crunch, as well as demand and supply-side shocks, (Kamar, 2012).

The Nigerian economy has been hit hard by a recession, caused by excessive imports, plunging oil revenue and sharply low investment inflows. The global financial crisis brought about economic downturn or meltdown in most of the developed economies with great implication for developing ones like Nigeria. Economic recession is perceived as a symptom of deeper structural problems inherent in the Nigerian economy, and overdependence on external modes of capitalist societies. (Agri, Mailafia & Umejiaku, 2017).

#### Conceptual Issues

##### Economic Recession

There are remote and immediate causes of the current economic recession in Nigeria. Globally, there is geopolitical tension around the world, causing global crisis and commodity prices dropping, the drop in crude oil prices, Brexit, crucial American election in 2016, South China Sea issues, Russia-Syria crisis, ISIS, illegal migration and refugee crisis which are remote but important causes of the recession as Nigeria is an integral part of the global economy. Following the mortgage crisis of 2009 which started in the USA, there have been a couple of actions which, given the size of US economy in the world, has had certain impact both positive and negative on emerging markets and frontier markets (Adelmann, 2011), where Nigeria unfortunately stands today. Amongst the immediate causes of the current recession in Nigeria is a symptom of monoprodukt economic structure, lack of economy diversification and over-reliance on imports.

The Nigerian economy contracted due to global oil price shocks and volatility, worsened by oil pipeline vandalism and depletion of foreign reserves.

a's previous governments. Nigeria's recession was triggered by a sharp drop in government revenues and /or a drop in consumer spending. A drop in global oil prices (which Nigeria cannot control), triggered a drop in revenue and government spending due to Nigerian government not being able to earn what it used to earn before the drop. The mono product economy structure, heavy dependence on crude oil export, and official corruption are the root causes of the economic recession. In Nigeria, where federal and state governments are the largest spenders in the economy, a drop in Government spending can dovetail with a drop in consumer spending which in turn means businesses cannot invest in machinery, inputs and services, and also cannot employ. Instead, there is laying off of workers and high rate of job losses. What Nigeria should realize is that, by excessively importing goods that can be produced in Nigeria, we export wealth and jobs to those countries and import recession, unemployment and poverty to Nigeria. The country has had no control over the price and output of oil at the domestic and international market.

In recession, there is usually a decline in certain macroeconomic indicators such as GDP, employment, investment spending, capacity utilization, household income, business income, and inflation, with the attendant increase in the rate of unemployment, (CBN, 2012). Chinguwo and Blewit, (2012) posited that economic recession, financial crisis and climate change problems combined to make life even more difficult for many working people and their families.

According to Mailafia, (2016), economic recession stagnates wage growth and increases the proportion of people on low pay, as well as swelling unemployment and underemployment. In a research by Bauer, (2009), economic recession and the global financial crisis have inter-linkages with poverty incidence in the developing countries. In a study by Oyesiku (2009), economic recession does not necessarily occur, certain factors trigger recession which include; inflation, loss of consumer confidence, excess supply over demand, excess demand over supply, and global economic crisis. The present economic recession has severe negative impacts, and also some positive impacts on aggregate economic activities in Nigeria. It causes extreme poverty and suffering of the masses, children's right to quality education, affordable inclusive healthcare are deprived, there is adverse demand and supply shocks. It has contractionary effects on aggregate demand and supply resulting to volatile shocks in economic activities. There is scarcity of foreign exchange, few money, reduced income, decreased finances available to

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households and businesses. There is also weak purchasing power, consumer spending and decrease in sales of goods and services. The purchase of goods and services by individuals, households and firms has drastically declined as a result of the economic recession. Business activities are now at the bare minimum; there are job losses and increase in unemployment rate. The decrease in employment is due to decreased sales of goods and services by business companies, street vendors, farmers, shop owners, retailers and wholesalers. Aggregate spending power has sharply declined.

According to NBS data, the Nigerian economy has recorded two consecutive quarters of economic contraction. In Q1 2016, GDP growth was negative 0.36% and recently released Q2 2016 data reflects a larger contraction (-2.0%). The economic contraction is fairly broad and includes both oil and non-oil sectors. The oil sector contracted by 17.48% and non-oil sectors by 0.36%. Virtually all major economic sectors are in recession, manufacturing, construction, trade, transport, hotels and restaurants, finance and insurance, real estate and government. The only exceptions are agriculture and telecommunications.

### **Economic Development**

Economic development typically involves improvements in a variety of indicators such as literacy rates, life expectancy, and poverty rates. Essentially, a country's economic development is related to its human development, which encompasses, among other things, health and education. These factors are however closely related to economic growth so that development and growth often go together. Since economic development and growth cannot be discussed in isolation of a referenced community, society or nation, efforts will be made to relate essentially to the economic development parameters in the Nigerian context. Nigerians' economic aspirations have remained that of altering the structure of production and consumption patterns, diversifying the economic base and reducing dependence on oil with the aim of putting the economy on a path of sustainable, all-inclusive and non-inflationary growth. The implication of this is that while rapid growth in output, as measured by the real gross domestic product (GDP) is important, the transformation of the various sectors of the economy is even more critical. This is consistent with the growth aspirations of developing countries as the structure of the economy is expected to change.

reducing progress. (Kelikume, 2015).

### Statement of The Problem

Nigeria has been an economically slavish neocolonial state. The present economic recession in Nigeria is manifestation of long-term ills in the structure of the economy that became full-blown under the present government. The recession seems to affect socio-political structures, Nigeria's credit condition, general living standard, imports, production and employment as well as consumption demand in Nigeria. Fast developing economies like China, India, and including Vietnam and Thailand depend on exports to drive their economies. Nigeria cannot afford to do otherwise. 80 percent of Nigerians still lack access to electricity, decent housing, portable water and good healthcare. This figure is growing as a result of increasing unemployment caused by the recession. For many years, The importation of petroleum products covers 30 percent of Nigeria's GDP, importation of toothpick, rice, fish, cassava starch, sugar and processed tomatoes take 20 percent; importation of garments and fabrics 15 percent, importation of cars and electronics 20 percent; resulting to skyrocketing inflation of 17.8 percent in 2016 The demand for foreign exchange and imports (including imports of petroleum products) remained high structure of the economy has not only been export dependent, but also on a resource that is non-renewable.

According to RTC Advisory service limited, Nigeria's GDP is quite diversified so the problem is not structure of domestic production. The issue is undiversified structure of government revenue and exports (FX) revenue. The reasons include:

- Legacy Factors
- Policy Factors
- Political/Security Factors

### Literature Review

#### Conceptual and Empirical Impact Review of Economic Recession on Nigeria's Development.

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Following the loss of jobs is the loss of income; the cost of living has gone astronomically too high for the core poor and the middle class. There is sharp decline in savings and investment; decline in the stock market activities, as some investors have pulled out their funds from the stock market due to high risks and uncertainties. There is also increase in the crime rates as life gets harder for a greater number of the population (the poor), living conditions are getting worse, crime rates have escalated; increase in robberies, petty stealing, street hawking, kidnapping, child trafficking, fraudulent schemes and other financial crimes. The aggregate poverty incidence continues to increase. There is budget deficit in government spending. The national and state budgets are experiencing spending

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ted the difficulties due to shortfalls in government revenues. The governments are joined in borrowing as an option to cover for the fall in revenues. This has geometrically amplified the debt burden of the federal and state governments. There is high rate of inflation attributable to hike in pump price of petroleum, low domestic production capacity, dependence on imports, a weak Naira, scarcity of foreign exchange and high cost of doing business in Nigeria, high interest rates, poor electricity supply, lack of portable water, high cost of transportation and poor state of aggregate infrastructure. Statistical overview of growth rates in major sectors of the Nigerian economy show that they are either slow or negative sectoral growth rates. All the macroeconomic fundamentals (variables) such as exports, balance of payment, inflation, unemployment, and exchange rate are not moving in the favorable direction. Nigeria is still a generator-driven, monoculture economy with epileptic power supply. There is jobless growth as well as major and social indices are negative. The basic needs of life have eluded almost 85 percent of Nigerians. Human capital indicators or social indices are fast declining, worse than in the past, as oil revenue continues falling. The economy is deteriorating in human development indices, the quality of education and healthcare has collapsed, with rampant poverty, acute hunger and starvation prevailing amongst the poorest poor. One of the positive impact of the economic recession is that it is giving an edge to small scale businesses such as small scale cropping, gardening, fishery and animal husbandry. Low cost transportation business such as the Keke-Napep and commercial taxis are making it as it has become too expensive (in fact a luxury) to move about with car given the hike in fuel price and the level of illiquidity. Average people prefer to pack their cars, except where very necessary, and patronize cheaper means of transportation. It has become more economical to use Keke-Napep. Sales of food items and operating a low cost canteen, low cost health care are business opportunities favored by the economic recession. There are also individual, household and business austerity measures. Economic agents involved in a lifestyle that leads to wastage of money are making changes. For instance, unnecessary and irrelevant travels, avoidable shopping and flamboyant entertainment and food wastages are minimized. The rich are also complaining. These are making the average Nigerian lifestyle economical and sustainable too.

### Conclusion

The economic recession in Nigeria is caused by both endogenous and

exogenous factors. There have been symptoms of a recession in the economy, just that it became full-blown under the President Mohammad Buhari civilian regime due to certain drastic actions taken to solve perennial economic problems. It is not abnormal for a market economy to go through a business cycle: boom, recession, and recovery. What matters is how the phase of recession is managed to avoid a depression. The economic recession has serious negative impacts on government revenue, employment, vulnerability, inflation, human health, infrastructural supply, poverty and resource management in Nigeria. Recovery and sustained economic development are desirable, but presently, Nigeria is a dependent capitalist economy. It is not the first time Nigeria is experiencing economic recession, as the country experienced recession in the 1970s, 1980s and 1990s. The global (financial) crisis of 2007/2008 affected Nigeria as a periphery economy dependent on the global trade. Nigeria has an unrepentant, unpunished political class, over-reliance on the Federal Government revenue, over-dependence on crude oil, to a large extent, feeds on imported food, lives on foreign household electronics and communication manufactures, military transport and electricity, infrastructure inputs, cloth in imported textiles, garments and drives in 100 percent imported cars. These are the root causes of the recession. The country loses \$18 billion FDI annually to foreign entrepreneurs in telecommunications, with over-blown financial corruption and reckless spending. These are the internal problems that caused the recession. Nigeria should take measures that will conserve its foreign reserves by reducing the dependence on foreign exchange on imports that could be produced in Nigeria. Reforms that would lead to diversifying the economy must be fully implemented. The socioeconomic effects of the recession include; unemployment, inflation, loss of livelihood strategies. These have serious negative consequences on the stability of families. The standard of living, education, healthcare, infrastructure and general wellbeing are affected. People are suffering, life is tough and death rates are on the increase as life expectancy reduces with increases in infant and maternal mortality rates. Consumer confidence is lost; there is psychological loss of faith in the economy and the government, especially by the suffering households, businesses and external sectors.

### **Recommendations**

It is recommended that Nigeria needs positive economic change that is caused by structural and fiscal reforms. Nigeria should strive to diversify the economy, be self-reliant and corruption-free. Addressing the economic recession requires a shift from a mono-product economy structure, overdependence on imports and diversification of the economy with at least 70 percent local contents. In order to make economic progress, Nigeria must change the structure of the economy and move away from oil to agriculture, value added entrepreneurship, chemicals, pharmaceutical industry, develop the iron and steel industry, revamp the machine tools industry for local fabrication of industrial tools. This will change the structure of the economy to a path of sustainable growth. The provision of infrastructure, qualitative education, affordable health care, constant power supply and human capital development are recommended. Unemployed people should accept a low paying job as a short-term solution, pending when a better job offer is available. In order to generate sustainable growth and maintain social cohesion, Nigeria must rise to the urgent challenge of creating 40 million productive jobs over the next decade. Government and private sector should partner to promote community based enterprises, innovation, recycling, re-using, local farmers markets, financial cooperatives, community health and fitness, local training and skills, household gardening and natural resource conservation.

The youth with all their energies and education should not shy away from agriculture, but embrace it with pride and dignity of labor, as a business and means of livelihood. Government should encourage and promote modern agriculture for big and small farm holders. There should be deliberate policy to demystify the oil sector, promote the manufacturing sector, and small and medium scale enterprises. Ideas and innovation of Nigerians must be converted into "made in Nigeria" goods and services, not just classroom theories, empty political speeches or sentimental religious sermons. Monetary policy should provide access to cheap credits and sources of financing start-ups, with very low lending rates. There is need to reduce over-reliance on foreign goods and finance capital, with good example from the political class. States also should not over-rely on the federal government for funding, they should use local-content resources to innovate, produce, collaborate and compete for self reliance and economic independence. The states must be able to generate their own revenue without depending on the federal allocation, as it is done in China and other fast developing countries. Presently, only Lagos State in Nigeria is capable of doing

so. There is need to diversify the state and federal economy, improving the industrial capacity; Nigeria should grow its own rice, refine its crude oil. Farmers should be empowered to grow and process their tomatoes, value-added cassava, cotton, cocoa, rubber, palm oil and fruits. Government and private sectors' investment in agriculture to acquire latest technology innovations in the sector is still grossly inadequate, and does not trickle down on peasant farmers' poor areas. Government should focus on the social factors and conditions that affect the poor's capacity to respond to the economic recession such as the housing scheme, electricity, water supply, employment opportunities, health care provision, entrepreneurship and improving the quality of education. Nigeria should continue to implement fiscal and monetary policies that would reduce overreliance on the dollar so as to bring about economic stability and self-reliant development. In these ways, Nigeria can have resilience in the face of global economic (price) volatility.

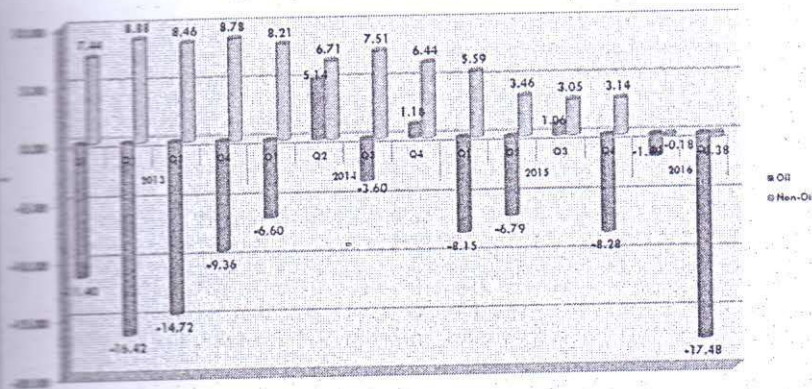
#### **Nigeria's Economy and Recession: Outlook for 2017** **Real GDP Growth: Q1 2013-Q2 2016**



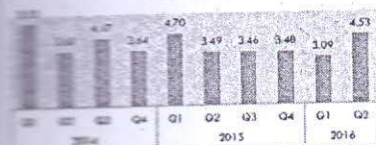
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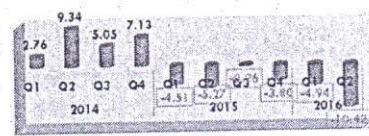
Real Oil and Non-Oil Growth Rates (%)



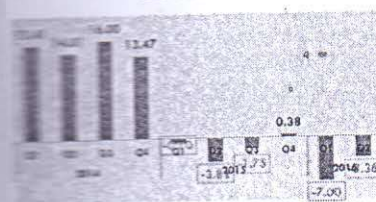
Agriculture Sector Real Growth: Q1 2014-Q2 2016



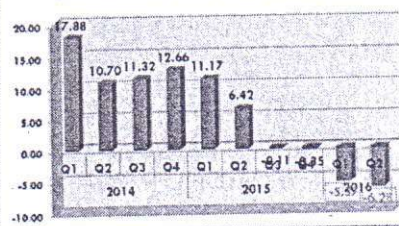
Industrial Sector Real Growth: Q1 2014-Q2 2016



Manufacturing Sector Real Growth: Q1 2014-Q2 2016



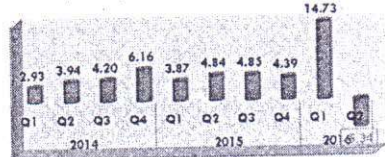
Construction Sector Real Growth (%)



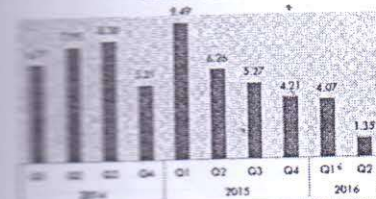
Trade Sector Real Growth: Q1 2014-Q2 2016



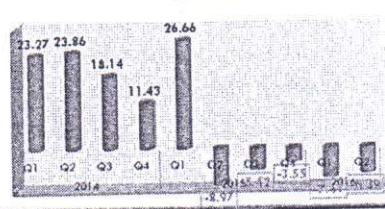
Transport Sector Real Growth



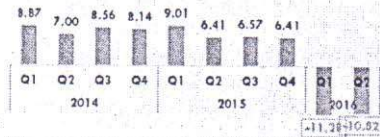
Information and Communication Sector Growth



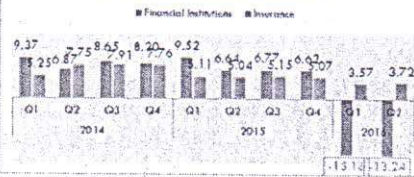
Accommodation and Food Services Real Growth



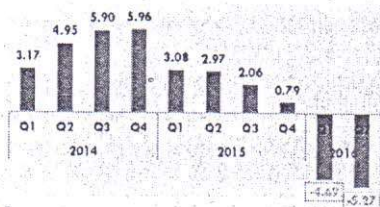
Finance & Insurance Real Growth (%)



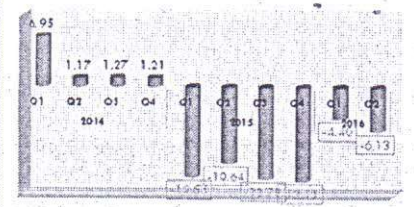
FI & Insurance Sector Growth



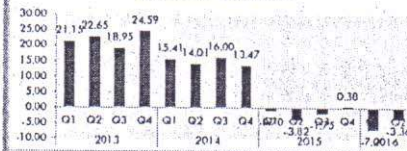
Real Estate Growth



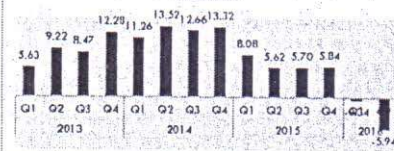
Public Administration Real Growth



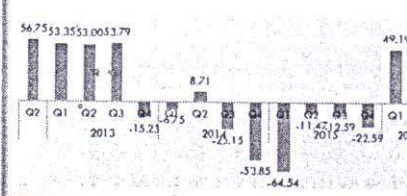
Manufacturing Sector Real Growth: Q1 2013-Q2 2016



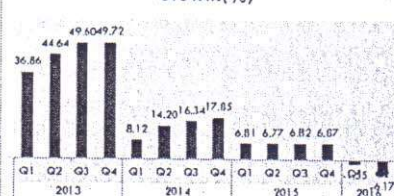
Wood and Wood Products Real Growth



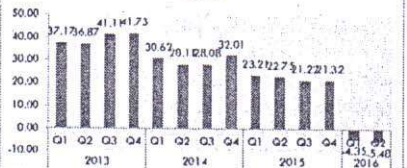
Oil Refining Real Growth: Q1 2013-Q2 2016



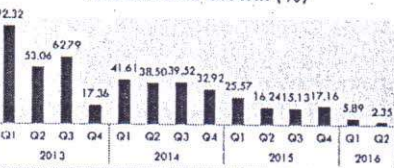
Pulp, Paper and Paper Products Real Growth (%)



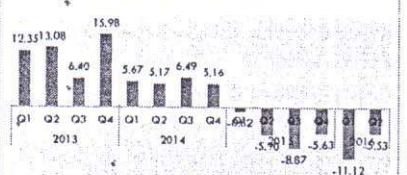
Cement Real Growth: Q1 2013-Q2 2016



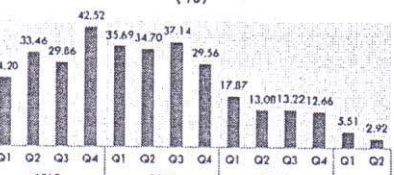
Chemical and Pharmaceutical Products Real Growth (%)



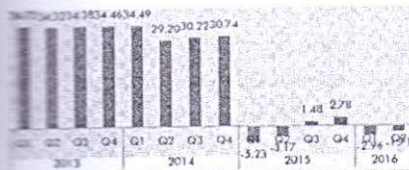
Food, Beverage & Tobacco Real Growth: Q1 2013-Q2 2016



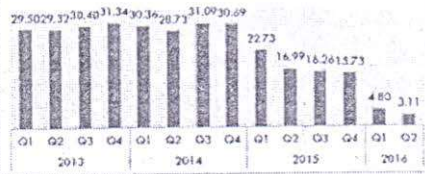
Non-Metallic Products Real Growth (%)



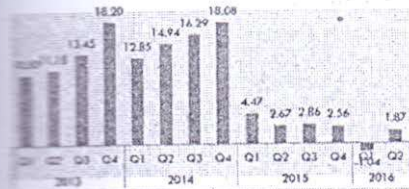
**Textile, Apparel and Footwear Real Growth**



**Plastic and Rubber Products Real Growth (%)**



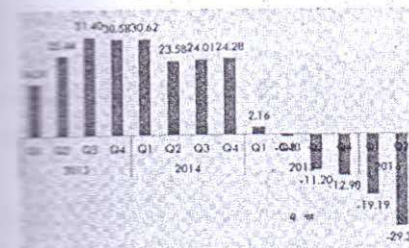
**Basic metal, Iron and Steel Real Growth (%)**



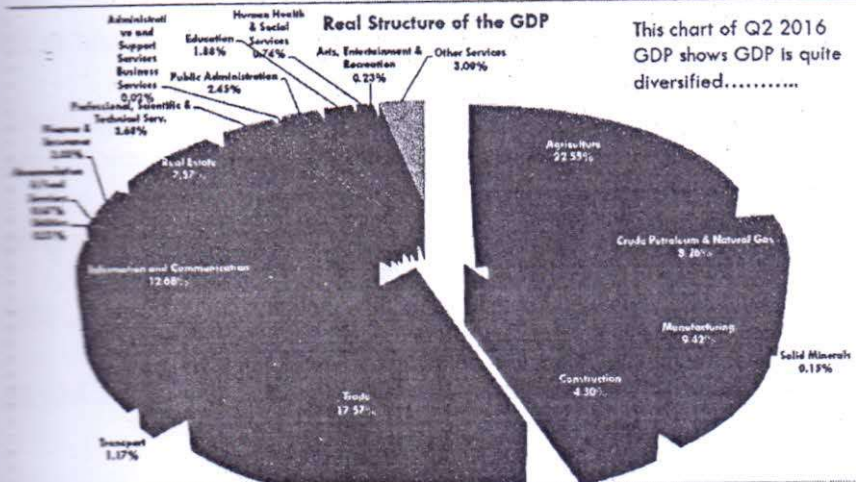
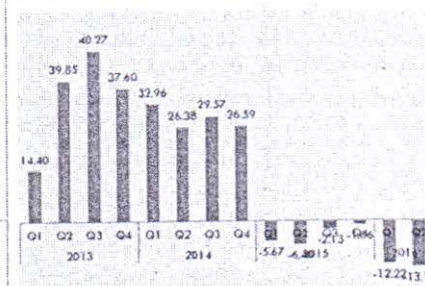
**Electrical and Electronics Real Growth (%)**



**Motor Vehicles & Assembly Real Growth (%)**



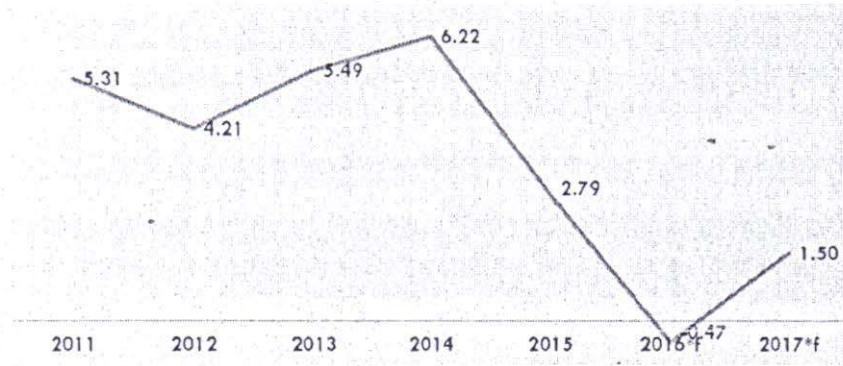
**Other Manufacturing Real Growth (%)**



## Real GDP Growth: 2011-2017



Real GDP Growth: 2011-2017



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