LESSONS AND POLICY IMPLICATIONS OF NIGERIA'S ECONOMIC RECESSION: 2016-2017

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Abstract

The paper considers and discusses Nigeria's economic recession as a market event because of its exogenous nature primarily driven by fall in global oil prices in 2016. This led to a fall in oil revenue and consequent reduction of total federally collected revenue within the period. This followed suit as the country was monolithic and highly dependent on oil revenue for the bulk of her revenue. Since the discovery of oil in the 70's, the revenue trajectory of the country has followed a similar pattern with oil price movements as successive governments stall in efforts for the economy's diversification. The lack of sustainable diversification of the economy stalled her recovery process during the period as cost of governance kept on rising. This caused a rise in the country's deficit as borrowings increased to meet financing of recurrent expenditure. The event is considered a recurring event as the COVID-19 pandemic which led to shut down of several sectors globally and in Nigeria, such as the aviation sector, etc. led to a fall in demand in oil globally and simultaneously decreased revenue in 2020. Despite policies instituted by present administration, growth and recovery has been slow which the author attributes to over dependence on oil and inconsistencies in policy implementation and recommends an expansion on the country's export base and three step pronged approach to reduce discontinuity.

Keywords: Economic recession, Oil revenue, Economic diversification, Recurrent expenditure, Policy implementation.

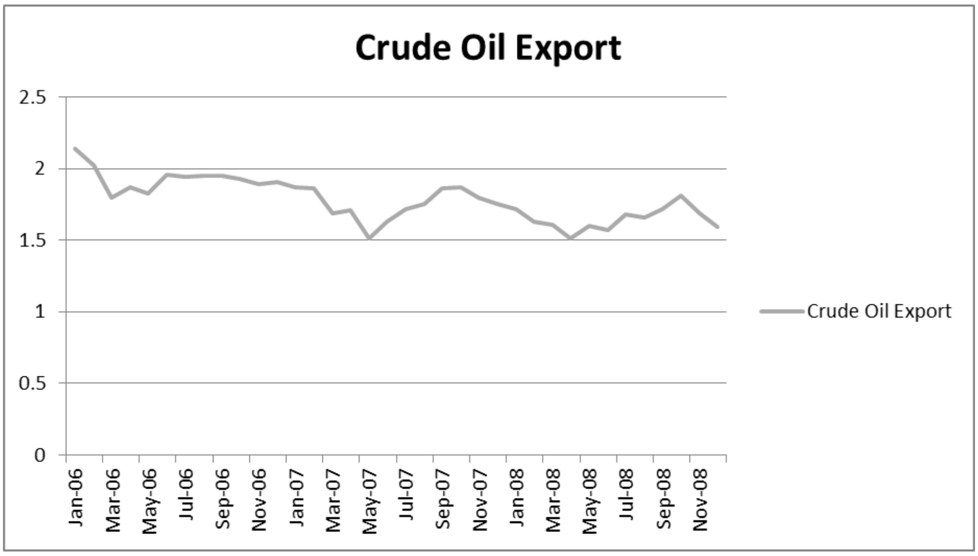
Introduction

The most important sector in Nigeria is the oil sector, and the revenue from this sector is the reason for the growth of the Nigerian economy. This is the source from which the country funds almost all its capital expenditures. The financial sector is relatively linked with the oil sector because it has to do with import and export. The financial sector is the engine that moves the economy in any given country and it is the backbone that sustains economic activity and guarantees the sovereignty of the country. The fall in oil price became disastrous on the economic system of the country. The recovery rate of the country has been on a very slow pace making it difficult to know if we are out of recession or just suffering its effects. The effects and features of recession still seem to be in play in the country. It is against this background that this conceptual research seeks to review the lessons and policy implications of Nigerians economic recession of 2016-2017, which is as a result of the decline in oil revenue, to further look at the economy before, during and after the recession, the consequences and global implication of the recession.

Macroeconomic Environment Prior to the Recession

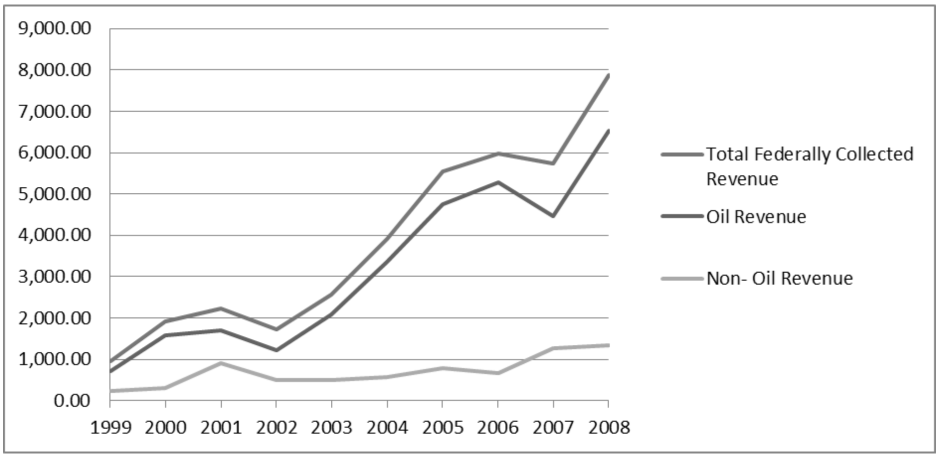
The inception of democracy commenced with President Olusegun Obasanjoin 1999 after a peaceful transition. His administration instituted the National Economic Empowerment and Development Strategy (NEEDS) policy. The policy placed emphasis on macro-economic, structural and social policies that will promote growth and reduce poverty (Awojobi, 2015, p1). Oil remained the main stay of the economy since its discovery in the 70's and accounts for the bulk of the country's export earnings (Paki and Ebienfa, 2011). The period witnessed stable crude oil export from 2006 to 2008, averaging 1.5 million barrels per day.

Figure 1: Crude Oil Export (mbd) from January 2006 to December 2008



Source: MS Excel; Central Bank of Nigeria [CBN] Statistical Bulletin (2019).

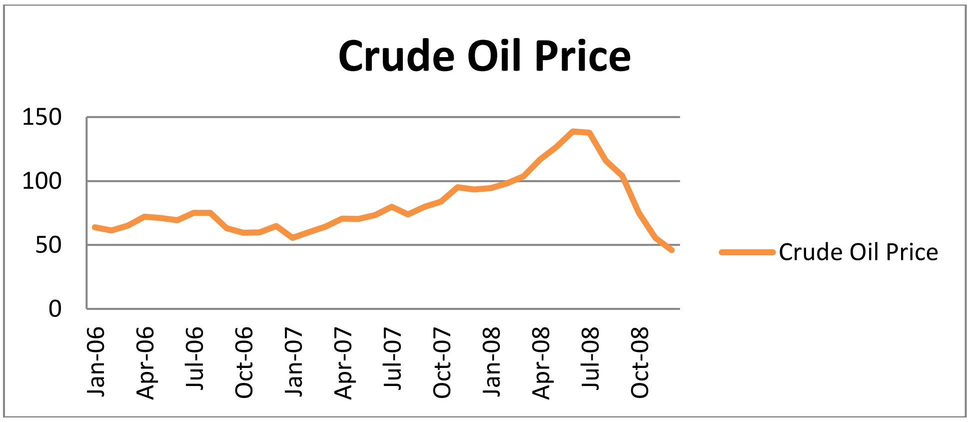
Figure 2: Oil and Non-Oil Revenue from 1999 to 2008



Source: MS Excel; Central Bank of Nigeria [CBN] Statistical Bulletin (2019).

Oil contributed immensely to the country's revenue and external reserve from 1999 to 2008. The Figure above showed a steady increase in oil revenue from 1999, while non-oil revenue remained fairly stable. The wide margin confirms its bulk contribution to government revenue. The total federally collected revenue line graph follow a similar pattern with oil revenue line graph. During the period, oil price (US$/barrel) remained fairly stable revolving around US$60 and US$80between 2006 and 2007; but, rose in 2008 toUS$140 per barrel. Inflation rate had a wavering behavior; gradually rising in 2003 and early 2004 before peaking in mid-2005 and declining in Q1 2006. The inflation rate remained fairly stable all through 2007 before rising again in 2008. The movements are depicted in the line graphs below.

Figure 3: Crude Oil Price from 2006 to 2008



Source: MS Excel; Central Bank of Nigeria [CBN] Statistical Bulletin (2019).

Figure 4: Inflation Rate from 2003 to 2008

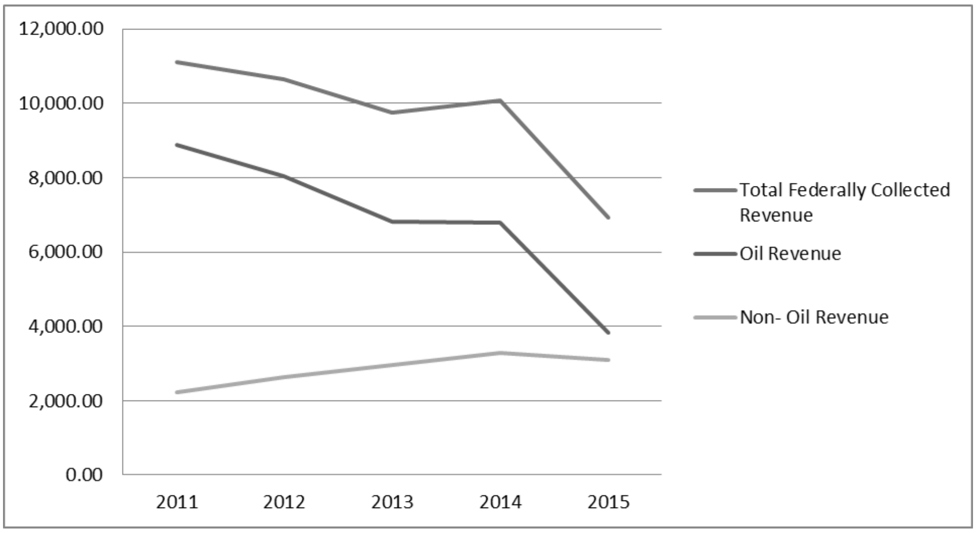
Source: MS Excel; Central Bank of Nigeria [CBN] Statistical Bulletin (2019).

President Umaru Musa YarAdua later succeeded Obasanjoin 2007, after winning the general elections. His administration developed a Seven-Point Agenda. The agenda focused on: Critical Infrastructure; Food Security; Niger Delta Development; Human Capital Development; Land Tenure and Home Ownership; National Security and Wealth Creation. However, his policy was short-lived after he suffered a protracted illness and demise in 2010; subsequently, his vice Dr. Goodluck Ebele Jonathan was sworn in as President. President Jonathan came up with his 'Transformation Agenda', after winning the general elections in 2011. He is widely acclaimed with electoral reforms, and enactment of Freedom of Information Act. His administration also attempted a systematic expansion of the non-oil sector. Despite the increase in oil price averaging US$ 100/barrel between 2011 and 2014; production and export remained fairly stable. This accounted for a fall in oil revenue; and, consequent shortfall in total revenue during same period.

Figure 5: Oil Price, Production and Export under President Jonathan

Source: MS Excel; Central Bank of Nigeria [CBN] Statistical Bulletin (2019).

Figure 6: Oil and Non-Oil Revenue from 2011 to 2015



Source: MS Excel; Central Bank of Nigeria [CBN] Statistical Bulletin (2019).

The 'Transformation Agenda' involved a synergy of both private and public sector and the budgeted contributions from both sectors are shown below.

Table 1: Investment for the 5-Year Period of the Transformation Agenda (₦' Trillions)

Sector	**2011**	**2012**	**2013**	**2014**	**2015**	**Total**
Private	1, 755.49	2, 158.50	2, 953.83	3, 708.59	4, 657.16	15, 233.57
Public	2, 633.23	3, 237.76	3, 759.42	4, 720.02	5, 927.29	20, 277.72
Total	4, 388.72	5, 396.26	6, 713.25	8,428.61	10, 584.45	35, 511.29

Source: Awojobi (2015)

His administration as part of economic strategies approved the rebasing of GDP in 2013. The GDP was rebased from approximately USD$270 billion to USD$510 billion. The increase was attributed to the introduction of new sectors and under reporting of some sectors (PwC, 2013). Thereafter the country was ranked largest in Africa and 26th in global economy. The rebased GDP growth rates were estimated at 17%, 13% and 13% for 2011, 2012, and 2013. The country's public external debt outstanding grew steadily from 15% in 2012 to 35% in 2013 and 29% in 2015; while, the country's foreign reserves fell steadily in 2014 with a negative growth rate of 18% and 20% in 2015.

The performance of alternative revenue sources were abysmal, Nigeria had a 6.1% tax to GDP ratio, when compared to other African countries such Tanzania 12% and Burkina Faso 11.5% (PwC, 2013). The depletion of foreign reserves and rising debt profile were attributed to hike in cost of governance, as annual recurrent expenditures exceeded capital expenditures (Awojobi, 2015).

Table 2: Selected Real and External Sector Statistics under President Jonathan

Year	**Nigeria's Public External Debt Outstanding (₦' Billion)**	**External Reserves (US$' Million)**	**Gross Domestic Product at Current Basic Prices - Annual (₦' Billion)**	**Gross Domestic Product at Current Basic Prices - Annual (₦' Billion)**
2011	896.85	390963.4	62,980.40	57,511.04
2012	1,026.90	457105.9	71,713.94	59,929.89
2013	1,387.33	547355.4	80,092.56	63,218.72
2014	1,631.50	446644	89,043.62	67,152.79
2015	2,111.51	357665.8	94,144.96	69,023.93

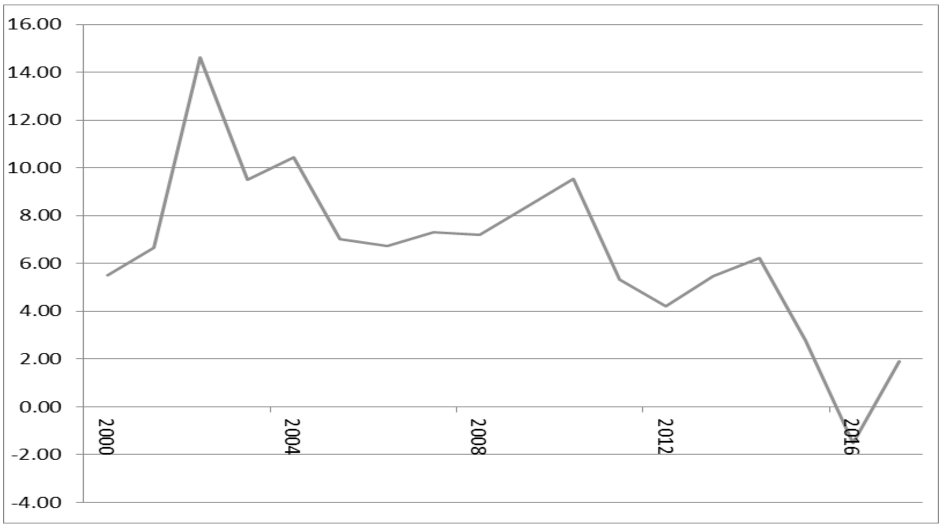
Source: National Bureau of Statistics; Central Bank of Nigeria [CBN] Statistical Bulletin (2019).

The Government in a bid to tackle the perennial unemployment problem introduced the SURE-P (Community Service and Graduate Internship Schemes) and YOUWIN programmes for the massive unemployed youths. The Federal Executive Council (FEC) also approved the mandatory adoption of International Financial Reporting Standards (IFRS) from 2012 financial year for publicly quoted companies as part of the moves to strengthen corporate governance in corporations. During his tenure, the country was bedevilled with numerous problems paramount of which was the menace of Boko Haram insurgency in the north eastern states. It was estimated that from 2009 to 2014 over 12,000 Nigerians have been killed (Awojobi, 2015). The problem in the power sector despite huge expenditure also led to withdrawal of some key players in the manufacturing sector. Last, is the problem of corruption whichmanifests in several forms such as political, electoral, and the bureaucratic process, etc. (Egwaikhide, 2009).

The Economic Recession (2016-2017)

The economy slid into a recession in 2016, under President Muhammadu Buhari who defeated his predecessor Goodluck Jonathan in the 2015 general elections. The economy after three consecutive quarters experienced a contraction. The graph shows the real GDP growth for periods prior to and during the recession, a sharp fall below zero to the negative zone is witnessed Q1 2016.

Figure 7: Real GDP growth rate from 2000 to 2016

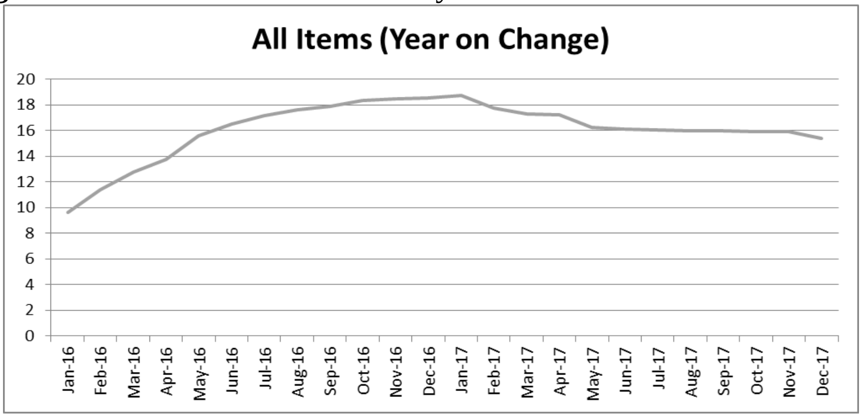


Source: MS Excel; National Bureau of Statistics [NBS] (2018).

In the first quarter, GDP growth had a negative value of -0.36%; and, in Q2 a further contraction of -2.06%. The downward trend also continued in the Q3, contracting by 2.24 percent. Noko (2016) opined that the three major causes of the recession in Nigeria were poor economic policies, fall in oil prices and the militancy in the Niger Delta region. Also, recession is associated with high unemployment and inflation rates (Adeniranand Sidiq, 2018; Mbah, Chijioke and Nebechi, 2018). The unemployment and underemployment rates stood at 13.3% and 19.3% at Q2 2016 (NBS, 2016; Vetiva Research, 2016).

The inflation rate steadily rose from January 2016 peaking in late 2016; while, stabilising at 16% from mid-2017 through November 2017. The Figure below depicts movement in inflation rate during the period.

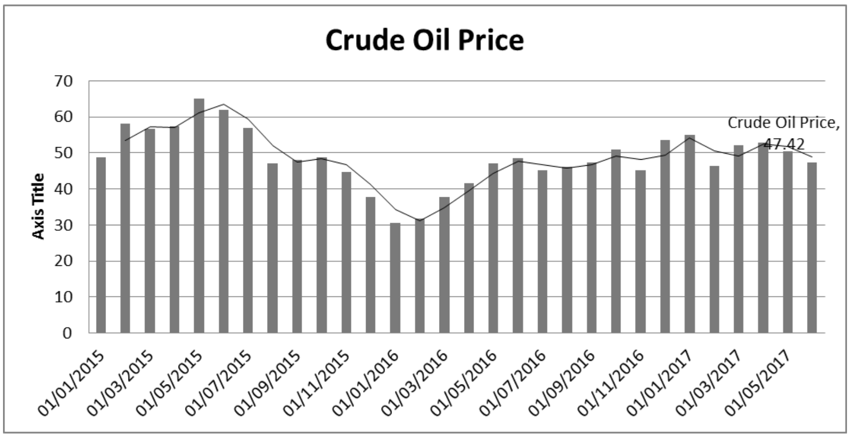
Figure 8: Inflation Rate from January 2016 to December 2017



Source: MS Excel; Central Bank of Nigeria [CBN] Statistical Bulletin (2019).

The Central Bank of Nigeria [CBN] (2012), observed that a *monoeconomy* may suffer recession as a result of international price shock of its product, thus, the over dependence on oil revenue became the major cause of the recession. Figure 9 shows the crude oil price from early 2015 to mid-2017. The line graph shows that crude oil price which sold for about $140 per barrel in 2013 increased in mid-2015; but, gradually declined steadily in latter parts of the year and further in Q1 and Q2 of 2016 as low as US$30 per barrel. The 60% drop in global oil prices was attributed to the growing supply glut. This exogenous shock caused a rapid decline in the country's revenue which accounted for bulk of her revenue.

Figure 9: Crude Oil Price from 2015 to mid-2017



Source: MS Excel; Central Bank of Nigeria Statistical Bulletin [CBN] (2019).

The plunging oil revenue was a result of plummeting oil prices. Bonny light, fell from about US$115 per barrel in June 2014 to US$31 by January 2016; and, this coupled with a dwindling demand of oil in international market as many developed countries, sought for alternative sources (Ukoko, 2015). This was mainly driven by supply factors, such as the boom in U.S. oil production, rising geopolitical tensions, and dynamic OPEC policies (Stocker, Baffes and Vorisek, 2018). The drop in oil price in 2016 led to a reduced revenue in 2016; however, recurrent expenditure grew from the 2015 figure with an additional ₦' billion 328.16. The country's domestic debt also grew by 25%; while, the revenue from the non-oil sector declined at -0.05%. This became the first major market event to impact the economy; following the global financial crisis of 2008 with its indirect effect.

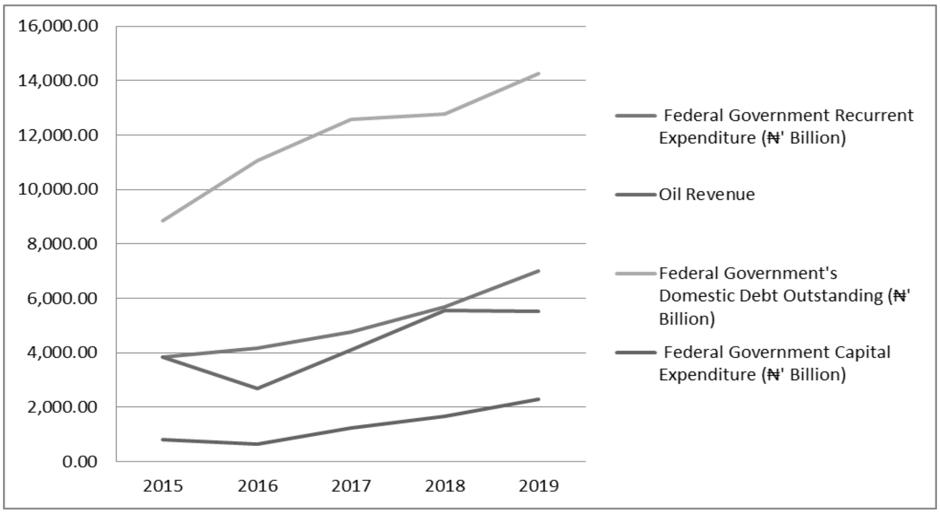
Table 3: Selected macroeconomic indicators from 2015 to 2019

Year	FG Recurrent Expenditure (₦' Billion)	FG Capital Expenditure (₦' Billion)	% of GDP	Oil Revenue	Non-Oil Revenue	Total Federally Collected Revenue	FG Domestic Debt Outstanding (₦' Billion)
2015	3,831.95	818.35	0.87	3,830.10	3,082.41	6,912.50	8,837.00
2016	4,160.11	653.61	0.64	2,693.90	2,922.50	5,616.40	11,058.20
2017	4,779.99	1,242.30	1.09	4,109.80	3,335.20	7,445.00	12,589.49
2018	5,675.20	1,682.10	1.32	5,545.80	4,006.00	9,551.80	12,774.40
2019	6,997.39	2,289.00	1.59	5,536.66	4,725.60	10,262.30	14,272.64

Sources: Federal Ministry of Finance, Office of the Accountant-General of the Federation, and Central Bank of Nigeria.

The oil sector contracted at 17.48%; while, the non-oil sector at 0.38%.. To boost local production regulators placed a restriction of Foreign Exchange (FX) on importation of goods that can be sourced locally. This however had ripple effect on other sectors. The exchange rate depreciation caused a significant upsurge on cost of importation. The divergence in rates between official and parallel markets reinforced inflation and undermined industrial development. This culminated in a significant depreciation of the exchange rate, reaching ₦520 to US$1 in February 2017, from as low as N155/US$1 in June 2014 (Nwokoji, 2017).

Figure 10: Recurrent, Capital Expenditure, Oil Revenue and Domestic Debt Outstanding from 2015 to 2019



Source: MS Excel; Central Bank of Nigeria Statistical Bulletin [CBN] (2019).

The capital expenditure skyrocketed at a rate of 0.90% in 2017; and, domestic debt grew slightly from previous figure. The Consumer Price Index recorded an increase in price level of goods and services, to a 20-year high of approximately 19 (year-on-year) in December 2016 (Klynveld Peat Marwick Goerdeler [KPMG], 2017). The increase was largely due to the devaluation of the Naira, hike in electricity tariffs and the "modulation" of the prices of petroleum products (KPMG, 2017).

Consequences of the Economic Recession

The economy suffered major setbacks, as inflation rate, foreign exchange scarcity, and several Multinational Corporations exited causing a decline in Foreign Direct Investment, among others. Capital importation declined to an all-time low of $647.1million in Q2 2016. Thus, a sharp decline in the 'Ease of Doing Business Index', which ranked Nigeria 169th out of 190; and, in Sub-Saharan Africa, 36th out of 47 countries in 2016 (World Bank, 2017). The recession also had a 'ripple effect' on the manufacturing sector (Chukwu et al., 2015). As at January 2017, the manufacturing index stood at 48.2 index points (CBN, 2017); while, the Manufacturers Association of Nigeria (MAN) estimated that the total number of companies shut down due to the recession at 272 (Atuma, 2017).

Nigeria Post Economic Recession (2018-2019)

The Federal Government of Nigeria (FGN) enacted policies and initiated plans aimed at sustaining industrialization in the country. The most recent was the recent Economic Recovery and Growth Plan (ERGP)" under President Buhari, which set out a specific objective of achieving economic growth of 7% by 2020 (Bank of Industry, 2018). The CBN Governor Godwin Emefiele (2019) in 2017 introduced an Investors and Exporters foreign exchange, allowing investors and exporters to purchase and sell foreign exchange at prevailing market rate. In addition, exchange rate management was further liberalized following the approval of the "Revised Guidelines for the Operation of the Nigerian Inter-bank Foreign Exchange Market"; the commencement of which introduced the Naira Settled Foreign Exchange Futures Market.

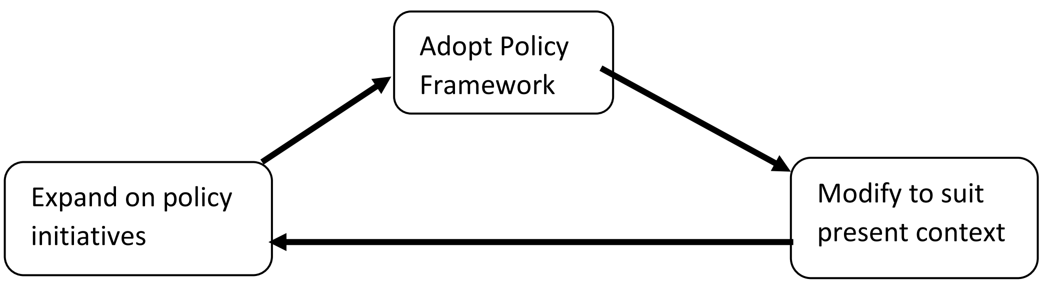
Global Implications of the Recession

The recession was attributed partly to the aftermath of global economic recession and other country-specific factors such as, plunging oil revenue, low investment inflows, hegemonic politics etc. (Akpan, 2017; Eneji, Dimis and Umejiaku, 2017; Isumonah, 2005). Globally oil exporters have lowest levels of export diversification compared to any other group (Stocker, Baffes and Vorisek, 2018), and a shock in price often drastically affects such an economy.

Findings and Recommendations

There is over dependence on oil revenue which was the major cause of the recession because the managers of the country's resources paid little or no attention to the non – oil sector of the economy. There is also this factor of that contributed to the country been in a state of recession was its nature of borrowing to finance recurrent expenditures. A major cause of economic destabilization and macro-shocks in the Nigerian economy is rate of variability witnessed in policies as incumbent Governments do not follow past policy regimes. This inconsistency by several successive governments creates a clog in the wheel of economic growth and development. The authors hence suggest that there is need to intensify the diversity of the export base of the country which will result in other source of revenue and reduce dependency on the oil sector. Furthermore there is need to reprioritize public spending to protect critical development expenditures and stimulate economic activity. The Figure below as well present the authors recommended economic policy framework for transition from one government to another.

Figure 11: Suggested Policy Framework



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