ECONOMIC RECESSION IN NIGERIA; HISTORICAL PERSPECTIVE AND IMPLICATIONS ON CURRENT ECONOMIC REALITIES IN NIGERIA

Dr. Mba, Ahamefula Uka
1Hezekiah University, Umudi Nkwerre Orlu, Imo State, Nigeria
Email: lifters_ent@yahoo.com

ABSTRACT – Nigeria’s neglect of the agricultural sector and huge dependence on oil led to series of economic downturns in the country. This study looked at economic recession from the historical perspective with a view to exposing the implications on current economic realities in Nigeria and how Nigeria can learn from the mistakes of the past in terms of economic policies. The research is a qualitative study involving a discussion of the immediate and remote causes of the economic recessions witnessed in Nigeria. The study found that historically, Nigeria has experienced eight economic recessions. The country’s GDP plunged to negative growth rate for three consecutive quarters in 1967, 1975, 1978, 1981, 1982, 1983, 2016 and 2020. The study discovered that over dependence on oil revenue, low savings and fiscal leakages, endemic corruption, inconsistent economic policies and political unrest were reoccurring factors that have adversely affected the Nigerian economy. Thus, policymakers in Nigeria can learn from history and diversify the economy beyond oil to other sectors like the entertainment sector, agriculture, tourism etc. Also, people with sound technical economic knowledge should be engaged in policy making, and efforts to stabilize the political economy of Nigeria were recommended, among others.

Key words - Current economic realities, Diversification, Economic recession, Historical perspective, Nigeria, Oil revenue.
1.0 INTRODUCTION/BACKGROUND TO THE STUDY

The Nigerian economy slipped into economic recession in the second quarter of 2016 which was seen by many as the worst economic crisis Nigeria has ever faced in decades. However, it was not the first time the country’s economy is slipping into recession. Historical evidence abounds on various periods of economic down turns in Nigeria and some of the period was also met with serious economic recession. The case, as Nigeria sees it today is not a novelty, but a reoccurrence of past events albeit with severe outcome.

Mohammed, et al (2018) pointed out that the economy is strongly vulnerable to both internal and external shocks with near zero absorptive capacity. According to Alhassan and Kilishi (2016), the vulnerability to shocks is perceived to be as a result of the weak structure of the Nigerian macro economy characterized by some key features worthy of mention as important background framework. First, the economy is highly mono-cultured. Since the discovery of oil in the 1970s, agriculture has been neglected while proceeds from oil has not been well and sufficiently channeled to developing other key sectors such as industrial, infrastructural and agricultural sectors (Mohammed et al, 2018). Income from oil has been touted as a curse rather than blessing to the Country which explains the reason why the economic recession witnessed in the early part of 2016 was dubbed as having many indications of the “curse”. This is what economists refer to as Dutch Disease Syndrome. It is a situation in which boom in one sector (in our case, oil) leads to decline in the commitment to and increased attitude of neglect of other sector(s).

Sanusi (2016) observed that the Nigerian economy is more of a consumption economy where no real policies are advanced to improve supply side of the economy making all focus to be centred on oil sector. Coupled with the shift in focus to the oil sector is the high cost of governance. While political office holders are the fewest in the distribution of populace, they seem to get most of these oil proceeds in relative terms. One common feature of the Nigerian economy in the 1970s and 1980s was abrupt changes in government expenditure to GDP ratio (Babalola, 2016). The expenditure – GDP ratio rose from 9 percent in 1960s to about 44 percent in the end of 1970s and fell to 17 percent by the end of 1980s. The oil boom of the 1970 led to massive influx of money culminating in high inflation rate that exceeded 50 percent in the 1990s.

Nigeria had experienced recession in 1983 when GDP contracted by -10.93 percent which Bamidele (2020) observed was the biggest contraction in the country’s GDP in history. Nigeria adopted several economic plans notably the Structural Adjustment Programme (SAP) in 1986 in a bid to turn around the dwindling fortunes of the economy. The 2004 global economic crunch affected the Nigerian economy adversely which led to contraction in Nigeria’s GDP for a second quarter in 2004 by -0.18 percent. This was followed after a long time by the 2016 recession, 2017 recovery and the devastating effect of the covid-19 pandemic led Nigerian economy into a second recession in less than 4 years.

The historical antecedent of economic recession in Nigeria shows that there appears to be a similar pattern. The pattern is triggered by oil price falls and the resultant government ineffective short term policies to tackle the situation. This study intends to trace the first economic recession that happened in Nigeria, its causes, as well as other recessions in history with a view to making informed decision on the implications for future policy making purposes.
The study has the main and sole objective of identifying the remote and immediate causes of various economic recessions in Nigeria and relate same with the current economic realities. The scope is from independence 1960 through 2021.

2.0 LITERATURE REVIEW

Recession is a period of significant decline in output (income or expenditure) and rise in unemployment (Bamidele, 2020). For the first and the second quarters of 2016, Nigeria recorded negative economic growth rates of 0.36% and 2.06% respectively (CBN, 2016). Hence, it became obvious that the Nigerian economy was in recession. According to John Maynard Keynes (1936), economic recession is that period when there is a decline in aggregate demand and consumption of goods and services. The decline in the aggregate demand and consumption of goods and services is caused by a fall in revenue of manufacturing firms. A decline in production activities leads to a fall in output which invariably leads to retrenchment of workers, basically, because these firms would not be able to cover their cost of production; and this automatically results in an increase in the rate of unemployment in the country. Omolua and Adeyemo (2021) see recession as the general slowdown in the level of economic activities around its long term growth trend for two consecutive quarters.

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 (RGDP), real income, employment, industrial production and wholesale retail sales”. When a country is in the phase of recession, the economy is far from the point of effective use of resources, i.e. Far from the optimal production and the natural rate of unemployment (Nikoloski and Lazarov, 2000).

In April 2009, IMF had changed their Global recession definition to a decline in annual per capita real World GDP (purchasing power parity weighted), backed up by a decline or worsening for one or more of the seven other global macroeconomic indicators: Industrial production, trade, capital flows, oil consumption, unemployment rate, per-capita investment, and per-capita consumption.

2.1 HISTORICAL ANTECEDENTS OF ECONOMIC RECESSION IN NIGERIA

Usually, recession may be triggered by financial crisis and or credit crunch, as well as demand and supply side shocks. The International Centre for Investigative Reporting (ICIR, 2020) reported that Nigeria had experienced eight recessions from 1960 to date. These are detailed below as follows:

- **First Recession in 1967:** The first recession was in 1967 when Nigeria’s GDP growth rate fell cumulative figure of -15.74 percent (CBN, 2016). At independence, Deji (2019) noted that the federal government was saddled with the sole responsibility of directing and planning of economic growth and development. Education sector was progressively expanded at all levels to reduce the rate of illiteracy and to provide the requisite skills and labor force for development. There was massive Infrastructural development as roads and communication networks were constructed far beyond what was inherited from colonial rule. The federal government built hydroelectric dams to generate electricity. Secondary industries and automobile assembly plants were established to create more employment opportunities (Deji, 2019). However, due to the paucity of indigenous (native or local) private capital, these activities were undertaken and financed by the government, often with foreign assistance.
from such countries as Britain and the United States. Foreign oil companies, such as Shell-BP, Exxon-Mobil, Chevron, Agip, and Texaco, operate in partnership with the government in the oil sector. The capital-intensive oil sector provided 95 percent of Nigeria’s foreign exchange earnings at the time and about 65 percent of Nigeria’s budgetary revenues.

What led to rapid decline in Nigeria’s GDP by 15% at the time was the fact that Nigeria was caught in the web of competing demands for scarce resources, the officials took the path of rapid, large-scale industrialization at the expense of the agricultural sector, as well as light manufacturing (Agri, Mailafia and Umekaku, 2017). The government directed the bulk of investment capital towards the promotion of "industrial take off". This decision to abandon the known agriculture for the relatively unknown rapid large-scale industrialization was a fundamental step in the wrong direction that led Nigeria to its first economic downturn. The capital and the skill needed for rapid, large-scale industrialization were not sufficiently available.

- **Second Recession in 1975**: At the beginning of the 1970s, Nigeria experienced *oil boom* when government receipts from oil exceeded government expenditure. Government expenditure had increased from 9% in the 1960s to more than 44% by 1975. Nigeria was basking in the euphoria of a new found “*oil wealth*”. A series of world oil prices increased from 1973 which grew the transportation sector, construction sector, manufacturing and government services. Owing to the fact that there was widespread rural-urban migration, agricultural production stagnated to such an extent that cash crops such as palm oil, peanuts, cotton, cocoa, etc. were no longer significant export commodities. Nigeria now became one of the biggest importers of rice and cassava (Agri et al., 2017). The consequence was retrogression in Nigeria’s GDP growth rate as it fell by another -5.23 percent in the latter parts of 1975.

- **Third Recession in 1978**: Although much of the population remained engaged in farming, very little food was produced, requiring increasingly costly imports. The federal government of Nigeria at the time launched the Operation Feed the Nation which promoted the return to rural areas to grow food crops. Nigeria’s imports exceeded her exports with decreased production leading to 5.76 percent decline in GDP over three consecutive months in 1978.

- **Fourth Recession in 1981**: The continued promotion of rural agricultural farming in the midst of the booming oil sector by 1980 led to a huge boost in manufacturing industries and the economy experienced a rapid growth of about 8 percent per year which placed Nigeria as the largest economy in Africa. The growth, however, was not sustained as the new oil wealth did little to sustain rural consumption just as poverty became widespread, and basic social services collapsed. Gross domestic product fell by -13.13 percent in 1981

- **Fifth Recession in 1982**: In 1982, Nigeria had GDP growth rate of -10.92 percent over three consecutive quarters. Nigeria’s debt profile continued to mount just as administrators engaged in external borrowing and subsidized food and rice imports.

- **Sixth Recession in 1983**: By 1983, the economic growth indicators worsened. External loans grew Nigeria’s debt profile to $30bn. This continued until early 1990s when the price of crude oil fell and corruption and mismanagement became endemic leading to severe depression in the economy. Urban unemployment rose to 28 percent in 1992 and poverty rate increased to 31.4 percent in the 1990s.
The Structural Adjustment Programme (SAP) launched in 1986 as prescribed by the International Monetary Fund (IMF) failed to advance the economy, but rather aggravated the problems of inflation and unemployment in the economy. There was reduction in fiscal spending on education and health care. Political instability became rife in 1993 and the subsequent military regime made the general economic situation worse. Many industries and manufacturing companies could not obtain raw materials and closed down (Deji, 2019). Others operated under severe handicaps, including rampant power outages and refined petroleum scarcity. Evidently, not enough was done in the years of plenty to diversify the economy or to sustain the development.

There was considerable optimism in May 1999 when Nigeria returned to civilian rule. Nigeria was able to secure debt relief from foreign creditors (CBN, 2019). However, inflation rate which was estimated at 12.5 percent in 1999, was estimated at 6.6 percent in 2000 (NBS, 2016). Significant exports of liquefied natural gas started in 1999, and increased crude oil prices in 2000 thus providing the government with additional revenues.

However, despite the 2007/2008 global financial crisis, which was dubbed by many economists as the most serious financial crisis since the Great Depression, wide spread credit freeze was experienced leading to declining consumer and industrial demand. As a result, demand for crude oil as well as crude oil price fell drastically. However, the local economy was not hit hard as Nigeria’s GDP grew by 2.8 percent for the year while macro-economic aggregates showed significant and satisfactory movements.

- **Seventh Recession in 2016**: Nigerian economy experienced negative GDP growth for three months in the first quarter of 2016. 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, South China Sea issues, Russia-Syria crisis, ISIS, illegal migration and refugee crisis which are remote but important causes of economic recession around the world. The global financial crisis of 2007-2009 was triggered by the United States housing bubble; excessive lending of banks into high-risk subprime and adjustable rate mortgages resulted in high default rates as well as downfall of banking sector. Defaults and losses on other categories of loans also rose considerably as the crisis expanded from the housing market to other sectors of the economy. Bankruptcy of several high rated investment banks started to panic on the interbank loan and stock markets and eventually, the bubble busted. This resulted in the fall of global GDP, rising unemployment and economic difficulties in emerging markets and frontier where Nigeria unfortunately stands today (Adelmann, 2011, Kamar, 2012).

The global recession of 2009 brought a great amount of attention to the risky investment strategies used by large financial institutions, along with the global nature of the financial system. As a result of the wide-spread global recession, the economies of virtually all the world's developed and developing nations suffered significant setbacks. Numerous government policies were implemented to help prevent a similar future financial crisis as a result. Typically, a recession lasts from six to 18 months, and interest rates usually fall during these months to stimulate the economy.

- **Eight Recession in 2020**: Nigeria slipped into another recession in the year 2020 after the country’s GDP contracted for the second consecutive quarter according to official data released by the Central Bank of Nigeria. This came about after exiting the 2016 recession amidst various economic recovery strategies by the government prominent among them was the Economic Recovery and Growth Plan (ERGP). According to World Bank
(2020), the collapse in oil prices coupled with the COVID-19 pandemic plunged the Nigerian economy into severe economic recession. Kale (2020) also noted that cumulative GDP for the first nine months of 2020 stood at -2.48 percent while the oil sector contracted by 13.89 percent in the third quarter of 2020.

3.0 CAUSES OF THE ECONOMIC RECESSIONS IN NIGERIA

Evidently, the causes of economic recession can be divided into two broad factors namely endogenous and exogenous factors. The former is usually as a result of conflict of ideas, misapplication of economic theory and regulatory negligence or policy inconsistency. The external causes of recession have to do with factors that are exogenous to the economy over which policy makers have little or no control. Factors like natural disaster, climate change, revolution and wars (CBN, 2019). The reasons for the emergence of the 2020 economic recession in Nigeria, can be linked to natural occurrences like the COVID-19 pandemic. This study has identified the following remote and immediate causes that led Nigeria into the series of economic recessions witnessed. They include:

1. **The country’s over-dependence on oil production**: Nigeria hugely depends on oil production for government revenue. Nearly all the years of recession were pre-informed by decreasing oil prices. When there is economic slowdown in the world economy (U.S., China, India and EU), it leads to negative impact on the demand of Nigerian crude oil from these countries (CBN, 2012). As a result, the price of crude oil which was sold for over $100 per barrel went as low as below $50 per barrel as at beginning of the year 2016. Government’s revenue and spending dropped, taxes rose, disposable income fell and aggregate demand also fell, adversely impacting the production of goods and services in the economy. These developments consequently led to economic recession.

2. **Low sovereign savings and fiscal leakages**: Nigeria is a country of abundant human and natural resources. The over-dependence on oil revenue has resulted to the misappropriation of government funds which leads to low savings and fiscal leakages. Fiscal leakages come in the form of using government funds for individual aggrandizement rather than channeling same to the real sector that the funds are meant for. For instance, Nigeria’s foreign reserves plunged down to $30billion at 2015 from over $65billion in 2007 (CBN, 2019). The foreign reserve is intended to safeguard the economy against budgetary deficits being a last resort from which government may withdraw annually to meet shortfalls in the budget brought about by falls in oil prices or other budgetary constraints.

3. **Official endemic corruption**: The mismanagement of government funds and the neglect of key sectors of the economy is another factor that plunged Nigeria into series of economic recessions.

4. **Lack of clarity over economic policy**: A major contributor to the recent economic recessions in Nigeria was the wrong and policy incoherence over foreign exchange policy. The ban on 41 items in a market base forex market perpetuated multiple exchange rates (Shido-Ikwu, 2017). Manufacturers who rely on some of these imports will have to buy from the parallel market at a very high rates, leading to high cost of production and a rise in the general price level (inflation). Also, the recession witnessed in the 1980s was partly caused by inconsistent monetary policies which could not sustain the huge oil revenues at the time.

5. **Inconsistencies between monetary policies**: Nigeria pursued monetary tightening through treasury single account (TSA), raising cash reserve requirement (CRR) and
monetary policy rate (MPR). Furthermore, the budget relies exclusively on borrowing for fiscal stimulus in the absence of private capital strategy. And the big gap in policy is the lack of a strategy to leverage and optimize private capital (Sanusi, 2016). From the preceding, the consequence of policy factors has resulted in low investment and market confidence from both domestic and foreign investors and has impacted forex flows, foreign direct investment (FDI), new domestic investment, capital markets, employment and economic growth negatively.

6. **The political/security factors:** The political tensions emanating from the coup d’état and counter coup d’état witnessed in the 1980s impacted negatively on the economy. Since Nigeria changed to civilian rule in 1999, there have been cases of civilian unrest prominent among them in the early 2000s was the Niger-Delta militancy on oil production. More recently, the impact of herdsmen/farmers conflicts on agricultural production across the country particularly in the North-Central and the continuing impact of Boko Haram activity on agricultural output and trade in North-East and impact of grave internally displaced persons (IDPs) situation in the region has contributed to the current economic recession in Nigeria.

4.0 **NIGERIAN POLICYMAKERS CAN LEARN FROM HISTORY**

The current economic crisis facing Nigerians has affected virtually every sector of the economy. Both the rich and the poor have been adversely hit by the current economic realities. Recent evidence points to the fact that the economic situation in Nigeria is getting worsened by the day, as the prices of foodstuff and other basic need have increased to alarming rates; The current economic recession has caused extreme poverty and suffering of the masses; children right to quality education, affordable inclusive healthcare are deprived, cost of living has gone extremely high for the core poor and the middle income class.

Historical evidence abounds on the need to diversify the Nigerian economy beyond oil revenue. The basic needs of life have eluded almost 85% of Nigerians due to the harsh effects of the economic recession. There is high cost of transportation, lack of portable water, epileptic power supply and poor aggregate infrastructure. Social indices are fast declining as oil revenue continues to fall. The economy is deteriorating in human development indices, the quality of education and healthcare has collapsed, with extreme poverty, acute hunger and starvation prevailing amongst the poorest poor (Agri, Maliafia and Umejiaku, 2017).

Government can learn from history and avoid policy inconsistencies, diversify the Nigerian economy not only to the agricultural sector but also to look out for the tourism sector, export of human resources (for example in entertainment, sports etc.), engage people with sound technical economic knowledge, ensure political stability etc. These form part of our recommendations in this study as stated below:

1. An effective synchronization between measures of fiscal and monetary policy in the direction of increasing liquidity in the economy, decreasing interest rates, increasing investment and employment, increasing the income of economic entities and finally, in the direction of increasing aggregate demand as an exit from the phase of recession.

2. Nigeria is a mono-product economy, which solely depends on oil exportation for its survival. Therefore, the fall of oil price in the international market and the Niger Delta unrest calls for and inward looking into the Nigerian economy and the need to shore up the non-oil sector of the economy to diversify the structure of government revenue and export revenue. Mere increase in government spending will not solve the problems posed by the recession, but rather planned and strategic spending in areas...
with high multiplier effect such as the entertainment industry, agricultural sector, manufacturing sector, construction sector etc. These sectors have the ability to stimulate aggregate demand.

3. The government needs to learn from history and expand her export earnings and production base away from the oil sector through wise investment on non-oil sector because such sectors will produce alternative goods and goods that can be exported to make up for the earning or deficit for imported goods.

4. The government should ensure continued efforts to restore normalcy in the North-East and also resolve the recent agitations for secession by groups in the South East region of Nigeria. The mishandling of secessionist threats by the South East region in the late 1960s led Nigeria to series of economic down-turns. Thus, we can learn from this and find an amicable way of ensuring stability in the political economy of Nigeria. There should be political engagement, professional security measures, as well as zero tolerance for herdsmen/farmers clashes in the North-Central and across the country.

5. There should also be improvement in institutions to make them more functional to reduce the level of official corruption, fiscal leakages as well as, political, social and religions crises (the likes of Boko Haram, Fulani herdsmen, Niger-delta avengers etc.) to ensure stable government and guarantee the sustainability of democratic rule free from unwarranted changes, or intervention by the military.
References


