Recession, Oil and the Nigerian Economy

Duruji, Moses Metumara
Covenant University. Ota, Nigeria.

1. **Issue statement**

The Nigerian economy, Africa's largest after it was rebased in 2014, plunged into recession in the 2nd quarter of 2016. The combined effect of low oil price and low output led to drop in Nigeria's foreign exchange earning which affected the country's revenue profile, resulting in the devaluation of the country's currency naira (Muye,2016). Nigeria prior to the discovery of crude oil in commercial quantity in late 1950s and the boom that occurred in the 1970s was purely dependent on agriculture for its foreign exchange, but these sectors was abandoned following the oil boom (Odularu, 2007). The implication of this sole dependence on revenues from oil meant that the country was exposed to the vagaries of international oil market. That clearly explains the recent crash in the price of crude oil resulted in short fall in revenue inflows to the government. The effect was the inability of the government at various levels in Nigeria to fund their budgets leading to abandonment of capital projects, payment of contactors and salaries of government workers.The spiral effect on the economy was the weakened capacity of consumers which affected the economy negatively. This is coupled by the general hike in the prices of goods and services due to high cost of manufacturing and imports due to the fall in the value of the naira (Nigeria's currency against other currencies). The lull in trade and industrial activities, negatively affected the country's stock market which lost over N603.7 billion of investment, thereby reducing investor confidence (Egwuatu and Nnorom, 2017). Consequently a lot of business in the country has to close shop, thereby worsening the unemployment situation in the country

2. **Causes and Analyzation**

According to the National Bureau of Statistics NBS, the Nigeria's GDP contracted by 2.24 percent, year on year in real terms, while oil production averaged 1/63 million barrels per day mbpd, lower by 0.06 million barrels from 1.69 mbpd recorded in the 2nd quarter of 2016 (Udo, 2016;Eboh, 2017). The report also stated that oil production was also lower relative to the corresponding quarter in 2015 by 0.54 mbpd when output was recorded at 2.17 mbpd. The same NBS report also stated that real growth of the Nigeria's oil sector declining by 22.01 percent, year on year in 3rd quarter of 2016 which was a sharp decline when compared to 1.06 percent growth recorded in the preceding quarter of 2016 (Eboh, 2017).

The consequence of the above is the depletion of the country's foreign reserve due to high demand and scarcity of foreign exchange for the payment of imports. This puts pressure on the available foreign exchange that further devalues the country's national currency, the naira. This situation, results into fragility of foreign exchange as was the case in Nigeria where the naira plunged from N190 to $1, to N500 to $1(Eboh, 2017). The expensive foreign exchange rate led to lull in the economy as most manufacturing and service industries that depend on foreign inputs were unable to access foreign exchange. Same with traders who were affected as imports into the country reduced due to rising prices and dwindling disposable income.

The non-diversification of the Nigerian economy makes it vulnerable to these cyclical ups and downs that is completely out of the control of the country's economic managers. The effect of low crude oil price in the international market that started in 2015 as well as the low production in Nigeria that occurred largely as a result of vandalization of oil facilities in the oil bearing region of the Niger Delta cannot be discountenanced. Though the country's budget for 2015 and 2016 were predicated on production of 2.2 mbpd the country managed to produce and average of 1.4 mbpd (Eboh, 2017). According to a report of the National Bureau of Statistics, Nigeria's crude oil export in the first nine months of 2016 depreciated by 13. 51 % or N712 billion to N4.558 trillion from N5.27 trillion recorded in the same period in 2015 (Eboh, 2017). This report is collaborated by a report of the Central Bank of Nigeria which stated that oil revenue inflow into the Federation Account for the first half of 2016 was N1.203 trillion, dropping by 38.88 % and 41.32 % against N1.906 trillion and N2.05 billion recorded in the second half of 2015 respectively. Another report from the national oil company, the Nigerian National Petroleum Corporation indicated that N881.933Mbillion was remitted to the Federation Account between August 2015 to July 2016 from the domestic sale of crude oil and gas as against N774.467 billion remitted between January to June 2015. The same report also indicated that in August 2016 NNPC remitted $23.665 million which was a drop of 45.97% from $44.125 million which was remitted in July 2015, while nothing was remitted in September and October 2016 (Eboh, 2017).This shows the importance of oil in the Nigerian economy implying that even to diversify to other sources to augment for the foreign exchange needs, the price of oil and the productive output of Nigeria must improve tremendously for such investment to occur. However, some analyst has called the question, the argument that the recession in Nigeria was caused by the structure of Nigerian economy but the inability of the government to devise appropriate policies (Oluwole, 2017)

Table 1: Data of Nigeria

Below data covers 2015	
Population (million inhabitants)	183.173
Land area (1,000 sq km)	924
Population density (inhabitants per sq km)	198
GDP per capita ($)	2,646
GDP at market prices (million $)	484,635
Value of exports (million $)	45,365
Value of petroleum exports (million $)	41,818
Current account balance (million $)	-15,439
Proven crude oil reserves (million barrels)	37,062
Proven natural gas reserves (billion cu. m.)	5,284.3
Crude oil production (1,000 b/d)	1,748.2
Marketed production of natural gas (million cu. m.)	45,148.1
Refinery capacity (1,000 b/cd)	445.0
Output of refined petroleum products (1,000 b/d)	24.1
Oil demand (1,000 b/d)	407.8
Crude oil exports (1,000 b/d)	2,114.0
Exports of petroleum products (1,000 b/d)	18.0
Natural gas exports (million cu. m.)	26,703.5

- b/d (barrels per day)
- cu. m. (cubic metres)
- b/cd (barrels per calendar day)

Source: Annual Statistical Bulletin 2016

Source: http://www.opec.org/opec_web/en/about_us/167.htm

Figure 1: Nigeria GDP Annual Growth Rate

Figure 2: Nigeria Government Revenue

3. **Outlook and Implication**

The sign of an impending recession of the Nigerian economy was visibly obvious to the government and other observers as indicated in figure 1 and figure 11(OPEC, 2016). What seem unfortunate for Nigeria lies on the inability of managers of the country's economy to map out and execute actions that could steer the country away from recession? But unfortunately, these incidents happened during the middle of a contentious election that saw the incumbent regime swept out of power (Magaji, 2016) that regimes plan to stem the tide of recession through a regime of taxation were not carried through and the new administration that succeeded them were filled with personnel that had little experience in the management of the economy (Oluwole, 2017). The steep crash in the prices of crude oil in the International market which was at a time selling $120 per barrel to selling as low as $40 per barrel occurred too sudden for for government to take proactive actions to either prevents or minimize its effect.

The regime change in Nigeria in 2015 rather slowed down the response of the government to the recession as the new administration that lacked understanding of the management of the economy (Oluwole, 2017). In fact it took the administration almost two years to produce an economic blue print to tackle the challenges that confronted the Nigerian economy (Nwabughiogu, 2017). The current economic recession in Nigeria have lasted longer than anyone experienced in recent future and most analyst believe that the economy of Nigeria require restructuring to avoid a recurrence of this kind of economic crisis in the future. The style of watching the situation for the prices of crude oil to improve in the market and things remaining as usual, seem to be the situation in Nigeria (Akinola, 2017). Though improvement in crude oil price is vital, the Nigerian government need to have a good plan to prudently spend to diversify the Nigerian economy.

4. Conclusion

The current financial crisis bedeviling Nigeriahas brought untold hardship on the business climate and lives of the people. The shortfall of income due to low price of oil and rise in exchange rates continued to put pressure on the naira which was strenuous to the country which is an import dependent. Even the plan to diversify the economy and make it productive to avoid future occurrence, requires improvement in the prices of crude oil which must be spent prudently. The inconsistencies in the management of the Nigerian economy must stop with the government coming out with well-defined and properly articulated fiscal and monetary policies. Even though analysts have claimed that ideas are not the problem of Nigeria, it is execution of such plans.

Reference

Akinola, Wale (2017) Nigeria's Economic Recession nears end as oil hits mid-$60s, Naij. Comhttps://www.naij.com/1084538-nigerias-economic-recession-nears-oil-price-hits-mid-60s.html

Eboh,Michael (2017) How Petroleum Sector Drove Nigeria into Economic Recession, Vanguard Online, January 2. http://www.vanguardngr.com/2017/01/petroleum.sector-drove-nigeria-economic-recession

Egwuatu, Peter and NkirukaNnorom(2017) Capital Market Investors lose N603.7 Billion to Economic Recession, Vanguard Online, January 2. http://www.vanguardngr.com/2017/01/capital-market-investors-lose-n6033-7bn-economic-recession/

Magaji, Haruna (2016)Nigeria's Recession: We had Everything under Control until Nigerians voted Buhari, Financial Watch, September 13. http://www.financialwatch.com/2016/09/03/nigerians-voted-buhari-okonjo-iweala/

Nwabughiogu, Levinus (2017) Buhari launches Economic Recovery Plan. Vanguard Online, http://www.vanguardngr.com/2017/04/buhari-launches-economic-recovery-plan/

Odularu, GbadeboOlusegun (2007) Crude Oil and the Nigerian Economic Performance.Oil and Gas Business.http://www.gbusru/eng

Oluwole, Josiah (2017) Buhari's Government, not low oil prices, cause recession-Pat Utomi. Premium Times, April 4. http://www.premiumtimesng.com

Udo, Bassey (2016) Nigeria's economic recession deepens as GDP contracts 2.28 per cent in Third Quarter, Premium Times, November 21. http://www.premiuntineng.com/news/headline/215901

Yahaya, Ibrahim Muye (2016) Nigerian economy: Recession, depression and recovery, Daily Trust, September 8. https://www.dailytrust.com.ng/news/opinion/nigerian-economy-recession-depression-and-recovery/161848.html