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An Analysis on the Causes and Effects of Recent Economic Recession on the Nigerian Economy

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Abstract: **This research investigates the causes and effects of the recent economic recession on the Nigerian economy. Corruption, mismanagement of funds by past administration, vandalization of oil pipeline, Boko Haram insurgency, oil price shocks, delay in approving national budget are the main causes of the recent economic recession in Nigeria. The effect of recession in an economy result to a fall in aggregate demand, decrease in consumption, increase in unemployment, inflation and in general high cost of living. The study employed ordinary least square method in the analysis of this research and the result from findings shows the rate of inflation has negative effects on the Nigerian economy as it was evidenced from the result and when prices of commodities are inflated, it affect all the economic activities in the country. The findings also revealed that debt negatively affect Nigerian economy and this is because the money borrowed was diverted to illegal channel by the corrupt instead of investing into economy. Unemployment rate and GDP shows to be positively related and this was because of the increases in population of the country. Based on the results from findings it was recommended that instruments of monetary and fiscal policies should be effectively used to tackle the economic recession and bring the economic activities back on track and thus, effective used of both the monetary and fiscal policies is not only the sufficient condition but a necessary condition.**

Keywords: **Nigerian economy, business cycle, recession, unemployment, inflation, economy.**

1. INTRODUCTION

Economy which is generally referred to a country or nation can be seen as a universal set. The sectors in the economy can be the subsets of the universal set while on the other hand the individuals and households can be seen as the elements of the subsets. Therefore, anything that affects the Universal set (economy) it will also affect the subsets (sectors) which in turn, have a serious effects on elements (individuals and households). One of the major problems that affect the entire activities of an economy is recession. Recession is a very dangerous economy virus that a mere doctor cannot cure it. Recession is a business cycle contraction, and it refers to a general slowdown in economic activity of a country for about two consecutive quarters.

During recession, there is usually a serious decline in macroeconomic indicators such as GDP, employment, investment spending, capacity utilization, household income, business income, aggregate demand, aggregate supply, with an increase in the rate of unemployment and inflation. Technically and economically, when an economy recorded two consecutive quarters of negative growth in real GDP, it clearly shows that the economy is deeply into recession. According to CBN

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(2012), recession can be caused by two broad factors: internal (endogenous) and external (exogenous). The former is usually as a result of conflict of ideas, misapplication of economic theory and regulatory negligence or policy inconsistency. The recent economic recession in Nigeria was caused by these internal factors; mismanagement of funds by the past administration, corruption, import restrictions, budget approval delay etc. 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, [1] Boko Haram insurgency, [2] vandalization of oil pipeline by the militants, [3]Herdsmen-Farmers crisis, unexpected fall in oil price, implemented policies on the OPEC nations, etc. Agricultural economies normally face crop failure resulting in general economic slowdown. Also, a [4] mono-economy could suffer recession from international price shock for its product.

Other group of economists was on the view that negative demand and supply shocks as well as deflationary macroeconomic policies are the main causes of recession. The negative demand-side shocks that affect the aggregate demand work through a global economic slowdown that impacts major trading partners of a country. CBN (2012), observed that in the case of Nigeria, when there is economic slowdown in the U.S., China, India and EU, it could have negative impact on the demand of Nigerian crude oil from these countries. As a result, government's revenue and spending would drop, taxes will rise, disposable income will fall and aggregate demand will fall, which in turn, affect the production of goods and services negatively and therefore, these would lead to economic recession. Another source of negative demand shocks could be sharp appreciation of the domestic currency, which encourages import and discourage export of goods and services, and causes disequilibrium in balance of trade and deterioration in the balance of payments position.

Supply side shocks causes of recession result mainly from general increases in commodity prices as a result of an increased in cost of production. These factors are inflationary in nature. Inflation, which is the persistent general rise in prices of goods and services as a results of high cost of factor inputs, which are usually transferred to the final consumers who can only afford less quantity because of higher prices. This lowers demand for goods and services, and reduces the standard of living, and ultimately reduces production of goods and services by firms and led to letting off some workers from work. The macroeconomic policies work more or less like the internal factors. Here, when monetary and fiscal policies are not well coordinated it results to recession. During contracting growth or economic slowdown, taxes ought to be lowered, and government also ought to spend more to stimulate the economy. On the other hand, monetary authority ought to encourage borrowing by households and businesses by lowering interest rate. However, when the above policy mixes are not properly synchronized, it could further stifle the economy. Therefore, this research will investigate the causes and effects of the recent economic recession on the Nigerian economy.

The main objective of this research is to investigate the causes and effects of the recent economic recession on the Nigerian economy. The following research questions will help the researcher during the course of this research:

i. What are the causes of the recent economic recession in Nigeria?

ii. What are the effects of the recent recession in Nigeria?

iii. Does government applied both the monetary and fiscal policies properly during the recession period?

iv. How the monetary and fiscal policies are to be used to tackle such kind of economic problems?

2. LITERATURE REVIEW

2.1 Economic Cycle:

Every economy (country) is affected by business cycle (or economic cycle). CBN (2012) defined Business cycle "as the economy-wide (nationwide) fluctuations in production, trade and general economic activities over medium-to-long-term in a free market system". Free market economy is one where there is no government intervention in economic activities; rather demand and supply interact to correct disequilibrium (anomalies) in the market. The business cycle is the upward and downward movements of levels of gross domestic product (GDP), and refers to the period of expansions and contractions in the level of economic activities (business fluctuations) around its long-term growth trend (CBN, 2012). According to CBN (2012), these fluctuations involve shifts over time between periods of relatively rapid economic growth (boom), and periods of relative stagnation or decline (a contraction or recession).

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Recession is a business cycle contraction, and it refers to a general slowdown in economic activity for two consecutive quarters. During 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. Technically, when economy experienced at least two consecutive quarters of negative growth in GDP, thus the economy is said to be in recession. GDP is the market value of all legitimately recognized final goods and services produced in the country in a given period of time, usually one year (CBN, 2012).

A typical business cycle, as demonstrated in Figure 1 has a period of booms (prosperity), followed by a period of recession, slump and recovery. During the boom period, there is minimal unemployment; high production and consumption; high standard of living; high inflation; and so on. It is a period when most macroeconomic indicators are positive. In a recession period, economic activities slowed considerably.

When economic activities reach the lower part of the chart, it is said to be in a slump (depression); a prolonged recession. Most macroeconomic indicators remained negative for a long time, usually more than two years. Subsequently, the cycle enters a recovery period. This is as a result of the impact of fiscal policy (the use of taxes and government expenditure) and monetary policy (the cost and availability of money) to stimulate economic activities. Demand and other macroeconomic indicators begin to pick up, leading to increased investment and production of goods and services in the economy. Gradually, the boom would be restored and the cycle continues.

2.2 Empirical Literature:

The term "recession" or "economic recession" has been defined and interpreted differently by different scholars. ‘Claessense and Kose (2009; 2012), were on the opinion that there is general recognition that the term refers to a period of decline in economic activity. But in practical view point, recession is a period of time when a country's gross domestic product (GDP) declines for at least two consecutive quarters in a quarter-to-quarter comparison (Mazurek and Mielcova, 2013). This implies that if an economy grows by 2% in one quarter and then contracts by 0.5% in each of the next two quarters, it is deemed to be in recession. Although this definition, which was first suggested by Julius Shisken (1974) is instructive, it has two weaknesses. First, the "two-quarter" rule is flawed. Judgment should be made based on monthly data of economic activity such as industrial production, employment, real income and wholesale and retail trade. Second, the focus on GDP alone is narrow.

According to Claessens and Kose (2009), it is often better to consider a wider set of measures of economic activity to determine whether a country is indeed suffering a recession. The National Bureau of Economic Research (NBER), a prominent economic research organization in the United States put forward a working definition of what constitute a recession. The NBER (2010) defines a recession as when "a significant decline in economic activity spreads across the economy, lasting more than a few months to more than a year, normally visible in real Gross Domestic Product (GDP) growth, real personal income, employment (non-farm payrolls), industrial production and wholesale- retail sales". The NBER's definition has, been criticized along a number of lines. According to Knoop (2015: 14), the first problem with the definition is that a lag exists between getting data and making decisions. Output must be falling for at least “a few months” before the NBER will declare a recession. In practice, the economy has typically been in a recession for at least six months before it has been officially recognized as one by the NBER. For example, the recession that began in the United States in December 2007 was actually not recognized as such by the NBER until December 2008, a full year after it began. This recognition lag might delay a policy response until it is too late to be effective. The second criticism is that the definition ignores growth recessions, or periods of positive but below-average growth.

The problem according to view point of Knoop (2015) is that a period of growth that is below trend, or the long-run average GDP growth rate, is generally regarded as a recession by the public but not technically considered a recession by economists. For example, economists timed the end of the global financial crisis as occurring in June 2009, but the vast majority of the public considered the United States to be in recession until well into 2012 because of real GDP growth, while positive, was weaker than trend. As argued by Tule et al. (2012), recession is a business cycle contraction where there is decline in certain macroeconomic indicators such as the GDP. According to Leamer (2009), "GDP is the market value of all legitimately recognized final goods and services produced in the country in a given period of time, usually a year". It is one of the most comprehensive and closely watched economic statistics. In the United States, for instance, it is used severally by the White House and Congress to prepare the Federal budget; by the Federal Reserve to formulate monetary policy; by Wall Street as an indicator of economic activity; and by the business community to prepare forecasts of economic performance that provide the basis for production, investment, and employment planning (Pritzker et al., 2015).

However, GDP is one of the primary indicators used by economists to determine whether an economy is in a recession or not. From the standpoint of Mazurek and Mielcova (2013), recessions are often described by adjectives such as 'strong', 'big' or 'severe'. They, however, identify four classes of recessions, namely, minor recession, major recession, severe recession and ultra-recession. According to them, minor recession refers to the mildest recession with smaller magnitude. This category typically last for only two or three quarters and mean quarterly GDP decline is up to about 1.5%. Examples are the recessions that occurred in USA between 1969 and 1970; Japan in 2001 and Sweden in 2008. Major recessions are economic events, often on the global scale. They lasted from 2 to 4 quarters with mean quarterly GDP growth rates decline between 1 and 3%. Severe recessions constitute a large-scale economic downturn and typically lasted for 1 to 2 years with mean quarterly GDP growth rates decline from 3 to 5%. The extreme recession category is ultra-recession in which GDP falls by 30% or more as compared to the levels prior to a recession and last for several years (Mazurek and Mielcova, 2013).

Benjamin S.S. (2017) posited that the negative consequences of the recession has led to the reduction of standard of living and the quality of life of the people and increase in poverty rate. In his research, he examined and analyzed the main reasons for the emergence of the current economic recession in Nigeria. The findings of his study indicates that the main causes for the emergence of the economic recession in Nigeria can be group under three main factors: legacy factors, policy factors and political/security factors. The paper recommended among other, effective government intervention through 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.

Furthermore, Monday E. Dickson and Gerald E. Ezirim (2017) were on the view that an exceptionally large and virulent recession engulfed the Nigerian State that had for the previous two and half decades experienced sustained growth at unprecedented levels. The research investigates the political economy explanation of recession in Nigeria's Fourth Republic. The study adopts the descriptive/qualitative research technique to probe the following questions: What are the factors responsible for the crisis? What is the relationship between the structure of the Nigerian State and recession? How may recession be checked? The paper argues that recession expresses the capitalist nature of the Nigeria State. Moreover, lack of political will of the successive governments to save, corruption, mismanagement and overdependence on oil earnings, among other, are the factors that instigated the recession. The study recommends substantial structural reforms that will overthrow the system that serves the narrow interests of the capitalist class rather than people. There is also the need to diversify the nation's economy, particularly investing on the non-oil sector such as manufacturing and agriculture production.

2.3 Causes of the Recession:

1. Mismanagement of funds by the past administration: One of the major causes of the recent economic recession in the country was as a result of mismanagement of funds by the past administration. During late Umaru Musa Yar Adua administration (2007-2009), he inherited $45.0 billion as external reserve from President Obasanjo. In September 2008, the external reserve grew to $63 billion and left $47.7 billion as at December 31st 2009 when Jonathan took over as overseer. The increased in the external reserve was as a result of rise in the price of crude oil in the World market to $147 per barrel. It then slide in mid-2008 during the recession when the price of the crude oil crushed to $35 per barrel in 2009 till his death. When President Goodluck Jonathan took office after the death of Yar Adua, he inherited $3.94 billion as debt and as at 2014, the debt raised to $9.3 billion. President Jonathan inherited $47.7 billion in the foreign reserve account as at December 31st, 2009. As at 2010, oil price shut up again to $89 billion per barrel. In 2011, it was $103 per barrel and as at early 2013, it was $100 per barrel. However, this means that the immediate past administration have access to more money than late Yar Adua, but depleted our foreign reserve account and still purge the country into further debt with nothing to show and the money from excess crude oil was not invested and instead it was shared among very few class of people in the country. Therefore, it is very clearly that the mismanagement of funds by the past administration was the major cause of the recent economic recession in the country. In 2012, Nigeria earned N4.36 trillion, in 2013 Nigeria earned $84 billion (N13 trillion) and in 2014 (January to June), Nigeria earned $40 billion (N6.4 trillion) but we end up with nothing in our external reserve. However, assuming this money was saved for the rainy day, Nigeria would have no smell any kind of economic problem.

2. Corruption: Another major cause of this deadly economic disease is corruption which is the father of the day in our country. Corruption is a disease, which eats into the cultural, political and economic growth of any country and as well destroys the functioning of various organs of the government. Obviously, in the case of developing country like Nigeria, where limited resources that are initially allocated for industries, hospitals, road construction, schools and other infrastructure are either, embezzled, misappropriated, or otherwise severely depleted through kickbacks and over invoicing by government officials. The most painful part of this corruption is that after our wealth has been stole, instead to be invested in the country they rather take it to other unknown people to benefit than their own people. The value of money is only it purchasing power but also it generating power. You have money and you did not channel it into economy, is nonsense.

3. Another factor that contributed to the recent economic recession was the delay in forming the cabinet of ministers by the present administration. The present administration ran like a sole proprietor business in its first year in office. Therefore as a result of this delay, it gave way for leakages in the economy. There was no finance and coordinating minister of the economy to make accurate decisions and implement policy directions of government. Since there cannot be an empty space in decision chain, the forces of demand and supply, businessmen and women as well as politicians made decisions for the people.

4. Then the introduction of the so called Treasury Single Account (TSA) also pave way to the recession. Yes of course the TSA was a good policy idea that if properly implemented will help in blocking the loopholes in the economy and minimize the level of corruption in the country but instead it cleared up liquidity in the circulation and silence credit creation and economic activities in the country.

5. The subsidy removal was done at the wrong time. Even though the subsidy removal was in intention to remove the cabals and liberalize the petroleum sector, its multiplier effects on the economy was too bad. Because everything in Nigeria depend on oil prices, when the pump price increased, it caused a serious inflationary pressure.

6. Delay in Budget Approval: Another serious cause of this deadly economic problem was the delay in signing the appropriation bill into law. How can you signed the budget that cover the expenditure of the country for good 12 months (from January to December) on May, June or even July? It makes no any sense. And this delay silenced economic activities because the zero-based budget approach apparently adopted rendered most ministries, departments and agencies of government partially inactive as there were no capital votes for project implementation. As a result, it create low circulation of income in the economy.

7. The recently fall in the price of crude oil in the world market: The fall in the global crude oil prices is another factor. Nigeria being described as mono-economy in which the economy depend on only one sector of the economy can easily be affected by the fluctuations in the global economy. Thus, the benchmark oil price for 2016 budgetary allocation was changed to reflect the current realities. This later translated into a restrictive budgetary allocation as well as contractual monetary and fiscal policies. Especially, most state government in the country could not pay their workers' salaries because of the dwindling budgetary allocation from the federal government.

8. The security problem: The security problem in the country has serious effect on both economic activities and the entire human life. This problems include the Niger-Delta militant problem on oil production which is the life wire of this nation, the herdsmen/farmers conflicts on agricultural production in all part of the country particularly in the North-Central and North-East of the country and the problem of Boko Haram activity on agricultural output and trade in North-East. All these problems have contributed toward the recent economic recession in Nigeria.

2.4 Effects of Recession on the Economy:

Any slowdown in economic activities affects all aspects of national and human life. Many people usually lost their jobs, families usually adjust their budget during recession and in the process, social activities are also affected. Thus, below as some of the effects of recession on the economy;

1. Effect on business activities

Under normal economic assumption, when household incomes are cut as a result of economic slowdown, they reduce their demand for goods and services. As a result of low demand of goods and services from households, firms reduce their production of such goods and services in order to cut cost and profit will decline. So, by cutting their production, workers would be laid off in order to minimize the cost of production, there will be no buying of new equipment, no funding for research and development, no new product rollouts and general business activities would also fall. In general, recession affects both small and large business.

2. Effect on Product Quality Compromise

As a result of decreased in the quantity of goods bought, revenue will surely fall. Thus, recession affects the revenue of firms, and by extension, profitability. In an effort to cut costs and improve its bottom line, the firm could compromise product quality. For instance, can you imagine that even a baker could offer the same loaf of bread at the same price but reduce major ingredients such as milk, butter, etc. so as to cut cost and improve bottom line during recession. Recession could also force people to die of hunger because their income is not enough to pay for the price of commodities in the market.

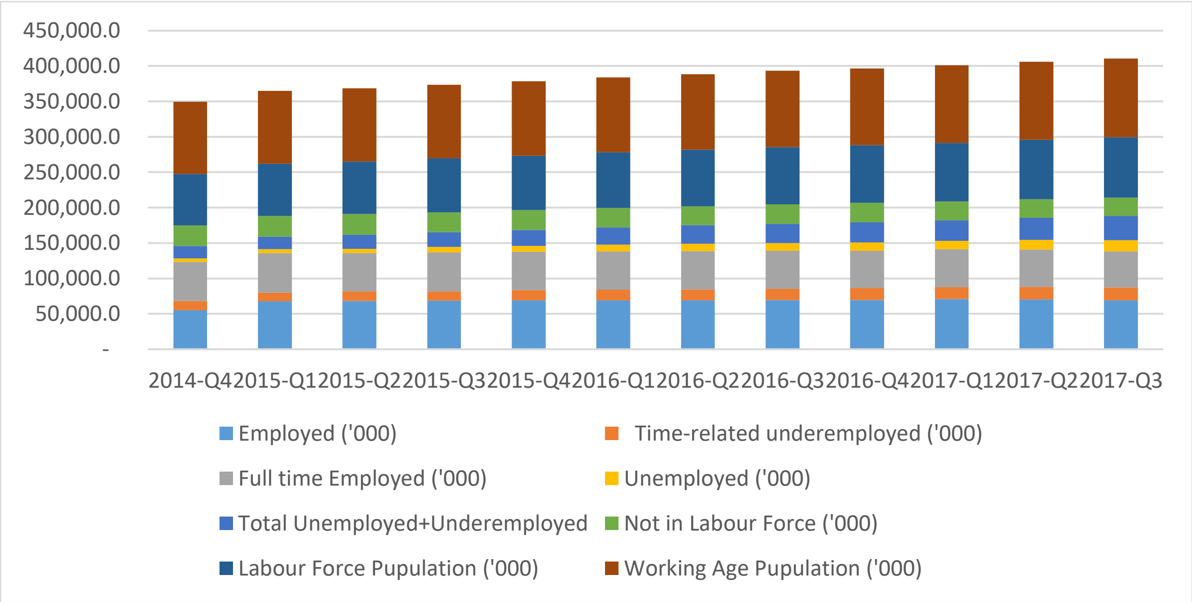
3. The Effect on Household Expenditure and Consumption

The recent economic recession in Nigerian affect every sectors of the economy. Both the rich and the poor are adversely affected by the economic recession. Findings show that during the crisis, the prices of foodstuff and other basic need has increased by more than 100%. For instance, the price of a bag of rice which was sold for about $24 to $26, later sold for $64 to $67 which is above the minimum wage of an worker, bag of maize that was sold at about $14 to $17 was later sold to about $35, price of groundnut oil and palm oil have increase by 100 percent, cement that was sold for $4 was later sold at $8 only to mentioned few among many commodity whose price has doubled with reduce quantity and quality. The recession has caused extreme poverty and suffering of the masses; children stopped going to school, cost of living has gone extremely high for the poor and the middle income earner. There was also increase in crime rates as life gets very difficult for a significant number of the poor people, living conditions was worse, increase in kidnapping, robberies etc. which has further worsen the welfare of Nigerians seeking ways to manage themselves from the difficulties posed by the recession. Therefore, as a result of that the basic needs of life have shaken-off almost 90% of Nigerians.

4. Unemployment Effect

Recession has a devastating impact on employment worldwide. Unemployment is one of the major signs of recession in the economy. When consumers cut their demand for goods because of the increase in price of the goods, producers will be left with so many unsold products which reflect in their revenue and which also in turn affect their profits. So the best thing for the any company/firm to do is to find a way to minimize it cost of production and this can only be done by reducing the number of it workers. And already there are millions and millions of energetic people on ground that are able and capable to work but have no any work. So, as result of laying off some workers by the companies/firms as a result of recession, it will lead to an increase of unemployment rate in the country. For instance, private companies like Faro Company, Gotel TV and Radio station owned by former Vice president which played a significance role in Adamawa State in terms of employing youth lay off many of its workers because of this recession.

Figure 1&2 below shows the labor market statistics and the male and female unemployment rate in Nigeria.



Source: National Bureau of Statistic, 2017

Figure 1: Labor Market Statistics

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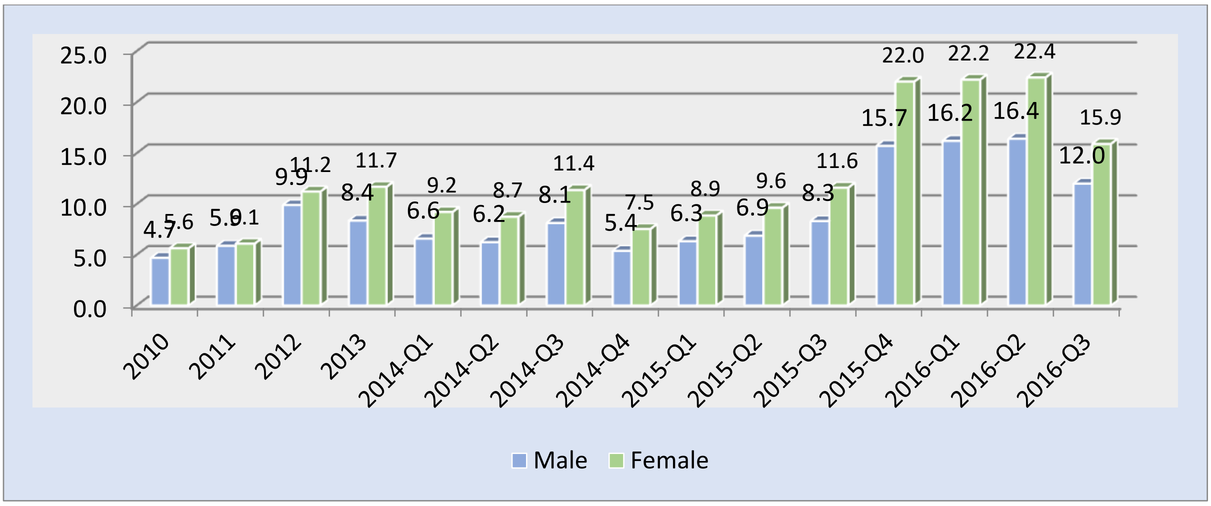
The figure above depict the labor market statistics from 4th quarter of 2014 to 3rd quarter of 2017. The figure shows the fluctuations on labor force population, working age population, those category of people that are not in labor force, total unemployed and underemployed people, unemployed people, the number of employed and the time-related underemployed from 2014 to 2017.

From the above figure, it shows that the number of energetic citizens who are willing, able and capable of working have increased significantly within a short period of time. These are group of people that fall between the ages of 18 years to 45 years. That means about 40% of our population comprised of people within this ages which is almost equal to the population of the Germany, the 3rd largest economy in the World.



Source: Statistical Bulletin, 2016

Figure 2: Male and Female Unemployment Rate

The Figure above shows the rate of unemployed male and female from 2010 to 2016. In 2010, the unemployment rate for male is just 4.7 while that for female is 5.6. In 2011, almost same unemployment rate with just a different of 0.1. The rate increased when the economic recession manifested in 2015 in fourth quarter of 2015 and reaches its peak in the second quarter of 2016 with the rate of unemployment for men is 16.4 and that of female 22.4. But in the third quarter of 2016, the rate dropped to 12% for men and 15.9% for female, thanks to the N-Power programs.

2.5 Theoretical Framework:

The Marxist theory which focuses on the dynamics of capitalist economies rests on physical capital accumulation which spurred greater productivity, all in the relentless pursuit of more profit. According to Karl Marx, this accumulation, however, created greater wealth and income, albeit unequally shared between bourgeoisies or the capitalist class and the proletariats also known as the working class (Cypher and Dietz, 2009). Obviously, the capitalist class appropriated a disproportionate share of society's total income solely by their "virtue" of being the owners of the means of production while the disenfranchised working class would gain very little from what they laboured for. Marx's, therefore, theorized that excess capital accumulation over time would reduce the profitability of businesses, leading to periodic business failures and economic contractions. Marx and other Marxist scholars blamed the falling purchasing power of workers that results from the inequality inevitably created by capitalism. Thus, as the purchasing power of most of the population falls relative to the size of aggregate output, persistent and destabilizing excess supply will occur (Knoop, 2015).

Hobson's under consumption model focused on the fact that households save a larger share of their income as their income rises. As aggregate income in a country increases over time, the average propensity to consume (consumption divided by income) falls and the gap between aggregate income and total consumption increases. For a while, this gap can be filled with higher levels of investment. However, over time, this increased investment will only aggravate the excess supply of goods and reduce the average propensity to consume even further. Increasingly, large excess supplies of goods will eventually necessitate cuts in production and a decrease in aggregate income. This recession leads to a rise in the average propensity to consume, eventually causing the problem of excess supply to disappear for a while.

The Keynesian economics corroborate the above viewpoint by positing that unregulated private markets inevitably yield price movements that react back on the decisions of businesses, workers, and consumers to produce out-of-control price spirals. These periodically push the economy into inflations, recessions, or even depressions (Resnick and Wolff, 2011). Therefore, this research adopted the doctrine of Keynesians School of economics. Keynes was on the advocate of strong government intervention in the economic activities of the country. It was the Keynes approach that tackle the problem of great depression in 1930s. Keynesian believed that the major cause of economic recession are ineffective demand and weak economic planning. Keynes posited that, because wages and prices adjust slowly during recession, distortions in production and consumption may move the economy away from its desired level of production and employment for a longer period of time. According to Him, the state should intervene through measures of economic policy, in particular, monetary policy actions by the financial authorities (CBN in the case of Nigeria) and fiscal policy actions by the government through the instruments of taxation and expenditure, can help stabilize output over the business cycle. Keynesian school often advocated an active role for government intervention during recessions to alleviate the consequences of the recession and the reduction of overall economic activities in the economy. The main points of the Keynesian approach to economic recession is that aggregate demand should be increase through increased of government spending, taxation, money supply, and interest rates regulation to stimulate production, employment and creation of new investment. Hence, this research was built based on the Keynesian approach to economic recession.

3. METHOD AND MATERIAL

The research is basically quantitative in nature and uses a time series data from 1980 to 2016. The data was sourced from secondary source published by Central Bank of Nigeria, National Statistical Bulletin, Business magazines etc.

Since the data is secondary in nature, an econometric analysis will be carry out to investigate the effect of the recent economic recession on the Nigerian economy. The variables to be used will include unemployment rate, GDP, exchange rate and inflation rate and dabt.

The research will use a linear regression analysis in analyzing the effect of recession on the Nigerian using data from 1980 to 2016.

The functional relation of the model is as follows;

GDP= *f*(UNR, IFR, EXR,DBT)……………..........………………………………………(1)

Where;

GDP = Gross Domestic Product

UNR = Unemployment Rate

IFR = Inflation Rate

EXR = Exchange Rate

The linear relation of the model is as follows;

$GDP = \beta_0 + \beta_1 INF + \beta_2 EXR + \beta_3 DBT + \beta_4 UNR + U_t$…………………..……..…………. (2)

ANALYSIS:

The result of this analysis is presented in appendix 2 but the summary of the result is shown in equation 3 below:

Results:

GDP = 15139.93 – 5.19INF + 150.62EXR – 4.00DBT + 975.92UNR…………………...... (3)

S.E (2983.577) (77.09618) (61.1479) (1.246263) (438.4439)

t (5.07) (0.07) (2.46) (-3.21) (2.23)

F-stat value = 50.57 prob>F = 0.0000

R-Squared = 0.8634 Adj. R-Squared = 0.8463

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The above estimated equation is the estimated regression coefficient obtained from the analysis using stata version 13. The result was estimated to examine the causes and effects on the Nigerian economy which was the main aim of this research work.

From the obtained results, the constant intercept of the regression result shows to be 15139.93. This value explained the units of GDP that does not depend on any of the independent variable. Thus, the estimated regression result show that inflation rate has a negative relation with GDP. Based on the estimated coefficient of inflation, it shows that holding all other variables unchanged, 1 unit increase in inflation rate will decrease GDP by 5.19 units. It means that a naira increased in the price of commodities in the economy, GDP will decrease by about 5.19 units. The result also shows that the estimated coefficient with regards to exchange rate explained that holding all other variables constant, any 1 unit increased in exchange rate will increase the Gross Domestic Product by 150.62. Furthermore, the coefficient of Debt shows that while holding the rest of the independent variables unchanged, a unit increase in the Debt will decrease the Gross Domestic Product by 4.00 units. And lastly, based on the estimated coefficient, it shows that Gross Domestic Product and Unemployment Rate move in the same direction. As the population increases, the unemployment rate also increases and at the same time GDP is also increasing. Based on the obtained result, it shows that any 1 unit increase in unemployment rate, the Gross Domestic Product is also increasing by 975.92.

The t value is a statistical tool used to explain the individual statistical level of each variable in the model. And based on the estimated t value from the estimated coefficients, it shows that almost all the variables were individually significance with the exception of inflation rate. From the t value, it shows that Debt is significance at 1% level while on the other hand Exchange Rate and Unemployment Rate both were significance at 5% level.

The F value which explains the significance level of the whole model shows that the whole model is significance at 1% level of significance as evidenced from larger value of obtained from the estimated coefficients. The R-squared value of the estimated regression coefficient is 0.8634 and this value shows that about 86% variations in Gross Domestic Product is explain by the independent variables (inflation rate, exchange rate, debt and unemployment rate).

4. DISCUSSION

However, based on the findings, it clearly shows that inflation which is a general increase in the price of goods in an economy have a negative influence on the general economic activities. This was evidenced from the obtained results and the economic implication of it is that, inflation is one of the signs and effects of economic recession in an economy and thus it affect the economy through it manifestation from recession. Debt which is a borrowing of money from developed countries of the world or international organization for developmental project in the country appeared to be of negative impacts on the economy of Nigeria. This is because instead the money borrowed should be spend on projects that will benefits the citizens of the country but rather it will be share among the very few classes of people in the country through corruption which causes the economic recession in the economy. Therefore, unnecessary borrowing of money by the past was one of the main problems that put Nigeria into the recent economic and this was evidenced from the negative impacts shows by the estimated regression coefficient from the obtained results. Also, the money borrowed by the past administration from developed countries of the world was nothing but a way for looting money by the politicians because all the money borrowed was diverted to another channel instead of investing it into the economy.

Hence, it clearly shows that the result from findings shows that high rate of inflation has negative effects on the Nigerian economy (GDP) as it was evidenced from the result and when prices of commodities are inflated, it affect all the economic activities in the country. The findings also revealed that debt negatively affect Nigerian economy (GDP) and this is because the money borrowed was diverted to illegal channel in form of corruption instead of investing in a productive channels. Exchange rate and unemployment rate has a positive relation with GDP. The findings further shows that under normal conditions, when the value of naira depreciated many invested would to come and invest in the country but because of the security issues and instead reverse is the case. Unemployment rate and GDP shows to be positively related and this was because of the increases in population of the country

5. CONCLUSIONS AND RECOMMENDATIONS

Recession is a business cycle contraction which is seen as a general slowdown in all economic activities in an economy. During recession, there is usually a serious decline in key macroeconomic indicators such as GDP, employment, exchange rate, household income, household consumption, business income, and with an increase in inflation rate, debt, and unemployment rate. Recession could be caused by factors such as mismanagement of funds by past administration, corruption, misinterpretation of economic theories, delay in budget approval (endogenous factors) and natural disaster, Boko Haram, Herdsmen-Farmers conflicts, vandalization of pipelines (exogenous factors).

Instruments of monetary and fiscal policies can be used to tackle the problem of recession and bring economic activities back on track. These two policies are just like two pairs of scissors, is very difficult to say which one does the cutting. Therefore, effective used of both the monetary and fiscal policies is not only the sufficient condition but a necessary condition.

On the monetary policy side, the monetary authorities can implement a strong and accommodating monetary policy to stimulate economic activities of the country. In this situation, the monetary authorities can lower the cost of credit. This can only be achieved by lowering interest rate, and lowering of eligibility conditions for banks to have access to the monetary authority's window. When monetary authorities lowers interest rate, it will encourage individuals and businesses to borrow more funds to finance their consumption or to expand the productive capacity of their businesses and this will increase the aggregate demand and consumption in the economy. When consumption increases, companies produce more, hire more workers and buy more raw materials for production, which in turn, stimulate economic activities in the country which would end recession.

Also, the monetary authorities can embark on unconventional monetary policy or quantitative easing to stimulate the economy. This is the policy is undertaken by the monetary authorities by injecting money into the economy through the banking system to shore up banks' balance sheet or through buying government securities from the secondary market, thereby injecting money into the economy to stimulate the economic activities in the country.

On the fiscal policy side, government can pursue loose fiscal policy to bring economy back to track from recession through the use of the two instruments of expenditures and taxes. On the taxes, government can lower it taxes on individuals and businesses thereby increasing the disposal income of the household and additional resources to businesses for consumption and investment.

On the other hand, government expenditure, the second instrument of fiscal policy to increase their spending in real activities during recession to bring about stability in the economy. Therefore, when government reduced it taxes for individuals and businesses and increases it spending; extra money will be made available for consumption and investment. If consumption increases, businesses andfirms spend more on producing more goods and services, which in turn, will increase employment and ultimately stabilize the economy.

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APPENDIX - I

REGRESSION RESULT:

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. regress GDP INF EXR DBT UNR
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Source	SS	df	MS
Model	1.0225e+10	4	2.5563e+09
Residual	1.6177e+09	32	50551580.3
Total	1.1843e+10	36	328968060

Number of obs	= 37
F(4, 32)	= 50.57
Prob > F	= 0.0000
R-squared	= 0.8634
Adj R-squared	= 0.8463
Root MSE	= 7110

GDP	Coef.	Std. Err.	t	P>|t|	[95% Conf.	Interval]
INF	-5.191076	77.09618	-0.07	0.947	-162.2309	151.8487
EXR	150.6184	61.1475	2.46	0.019	26.06505	275.1718
DBT	-4.001016	1.246263	-3.21	0.003	-6.53957	-1.462461
UNR	975.924	438.4439	2.23	0.033	82.84292	1869.005
_cons	15139.93	2983.577	5.07	0.000	9062.581	21217.28

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