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Nigeria's Economic Recovery & Growth Plan: Tackling the Macroeconomic Downside Risks

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Abstract

The Federal Government of Nigerian launched an economic plan tagged the Economic Recovery and Growth Plan (ERGP) in 2016. The ERGP is a medium term economic framework meant to stimulate the recessive Nigerian economy back to sustainable, accelerated development and restore economic growth in the medium term (2017 - 2020). Despite the robust provisions of the Plan, the presence of inherent and emerging risks poses significant uncertainty in many circles over the prospects of a successful implementation of the Plan. Premised on the theoretical framework of the Keynesian stimulus to economic revival, the paper employed introspective and retrospective methodology and inductively and deductively arrived at conclusions. This paper identifies the downside risks associated with each objective of the ERGP like impending elections in 2019, militancy in the Niger Delta area and policy inconsistency which had the potential to frustrate the achievement of the goals of the Plan. The paper concludes that the ERGP is a needed reform and the risks capable of frustrating it must be tackled. It is suggested that the Nigerian economy should be restructured, Monetary and fiscal policy sustainability should prevail, and the ERGP should be reviewed and updated annually. There should also be an organ responsible for ideological re-orientation of Nigerians particularly in the more restive areas like the Niger Delta area.

Keywords: *ERGP, Economic recession, Macroeconomic Downside risks.*

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Background to the Study

Over the past decades, successive Nigerian governments have launched various economic renewal or recovery plans aimed at boosting or reforming the economy. In 2007, the Umar Musa Yar'Ádua administration launched the 7-point Agenda and subsequently, the Vision 20-20-20. The Goodluck Jonathan administration launched the National Industrial Revolution Plan and the Nigeria Integrated Infrastructure Master Plan in 2014. In a similar fashion, the Muhammadu Buhari administration launched yet another economic plan tagged Economic Recovery and Growth Plan (ERGP). The ERGP was launched soon after Nigeria slumped into economic recession in the second half of 2016 (PWC, 2017).

The concern of the government of Nigeria to pull the country out of recession and place her on the path of sustainable growth sounds familiar as all the previous governments in Nigeria had done similarly. There is however this premonition that the factors which frustrated the many past plans by various governments seems not to be clearly identified and strategies of tackling them discovered. Despite the comprehensiveness of the ERGP document, only a casual attention is paid to potential risks that are capable of derailing any prospect of success from the plan. In the 140 -page - ERGP document, the downside risks is contained in just 23 lines occupying less than half a page; yet, they are capable of frustrating whatever policy measures that may be applied to revive the comatose macroeconomic variables. This economic omission or commission has created uncertainty in many circles over the prospects of a successful implementation, particularly in the absence of clear strategies for tackling the possible downside risks casually mentioned in the plan.

Objective of the Study

The major objective of this paper is to highlight the macroeconomic downside risks capable of frustrating the realization of the goals and objectives of the ERGP, and recommend a possible way of avoiding the doom.

Literature Review

This section treats the key concepts in this paper, the necessity of ERGP and the theoretical framework.

Conceptual Clarification

The basic concepts central to appreciation of the subject matter in this paper are Economic Recovery Growth Plan (ERGP), economic recession and Macroeconomic downside risks.

Economic Recovery and Growth Plan (ERGP).

The ERGP is an economic plan - an amalgamation of the anticipated annual budgets from 2017 through to 2020. In this case, it is a medium term expenditure framework. The medium term development plan was launched in 2016 after identification of negative socio-economic indices in virtually all areas of national welfare of Nigerians. The plan is expected to pull out the economy from the recession and place her on sustainable growth path. The plan has clearly identified objectives and set out targets (FGN, 2017). The ERGP is unique and different from the past plans of the various governments. We have 4 year budget implemented on the ERGP; The 2017, is just like an extension of the 2016; is more like a re-calibration of adjustments in terms of real value (adjusting for inflation only) The ERGP is an overarching plan, hence to produce subsequent budgets like 2018 budget would not be difficult because there is now a framework. Business entities can now evaluate the existing framework and plan and make decisions depending on what would happen in terms of taxes and tariffs. This is good for both private and public sector planning.

Economic Recession

There exist two definitions of economic recession in the literature. First, economic recession is "a significant decline in economic activity spread across the economy, lasting more than a few months, normally visible in a real gross domestic product (GDP), real income, employment, industrial production and wholesale-retail sales." (Central Bank of Nigeria , 2017a). The challenge with this definition is that it is too general and not definite on the timeframe which the decline in economic activities would last before it could be term a recession. The issue is that "lasting for few months..." is relative and subjective, and hence a limitation to a general understanding what a recession is across nations.

The second definition perceives economics recession as a negative real GDP growth rate for two consecutive quarters of a financial year, say first and second quarters (The National Bureau of Statistics (NBS), 2017). The shortcoming of indefinite time span for identification of a recession is hereby resolved, as the second definition clearly spells out that decline in economic activities must be general in a nation for at least two consecutive quarters of a year. However, the challenge of this second definition is that economic recession is identified as an event and not a process whose symptoms would surface at a time. The point is that economic recession had definitely existed before its identification for two consecutive quarters of a year would be recognized. This definition seems to compromise the idea of an existing underground phenomenon that manifest at *two consecutive quarters of a year*, thus symptoms are identified as causes. This compromise is crucial as it forms the basis of a serious problem when an economy's GDP growth rate increases consecutively after a recession was identified and declared conquered; but the socio-economic conditions of the country remains deplorably unchanged. Thus highlighting that what was identified as recession probably was its symptoms and not the subject matter itself.

From the foregoing, we can at least describe a recession (even if unable to define it) and by this identify the presence of the phenomenon in Nigeria. We can therefore assert that a recession already exists in a country when a national decline in GDP growth rate and many other socio-economic indicators prevail over at least two consecutive quarters of a financial year. On this basis, we observed that Nigeria was already in an economic recession in 2016. According to CBN (2017b), in the first and second quarters of that year, economic growth indices were -0.36% and -1.5% respectively. Although, the growth rate for the fourth quarter of 2016 was 0.8%, recession had already established itself and the country was by now possessed with negative macroeconomic indices typical of a country in recession.

Macroeconomic Downside Risks

Economic risks referred to threats that are capable of diverting the expected positive trend of variables that affect the welfare of a people directly or indirectly. The variables become macroeconomic risks if they are perceived to possess widespread capacity or could assume national dimension (http://www.investopedia.com).

Generally, macroeconomic risks could be upside risks or downside risks. The macroeconomics upside risk is the chance that an asset or investment will increase in value beyond expectations. It is an example of positive risk – a realization beyond planned expectation. Many Economists perceive the idea of positive risks as controversial arguing that risks should always negative. Nevertheless, the concept of upside risks serves a number of useful purposes. For example, it can be a red flag that a particular fund or investment manager is taking excessive risks. Upside risks is also used to model the potential of investments. For example, with a high upside risks expectation, policy makers may take excessive risks and go for massive external borrowings to fund projects in an attempt to exit recession. Nonetheless, the concept of upside risks is not the central issue in this paper.

Macroeconomic downside risks on the other hand is an estimation of an economic variable or sector's potential to suffer a decline in value if the market or socio-economic conditions change, or the amount of loss that could be sustained as a result of the decline. A downside macroeconomic risk explains a worst case scenario for an investment or indicates how much the investor or a nation stands to lose. It could be the financial risks associated with losses. That is, it is the risks of the actual return being below the expected return, or the uncertainty about the magnitude of that difference (Prague, 2005).

Analysts use varieties of fundamental metrics to estimate macroeconomic downside risks. A very common downside risks measure is retrogressive deviation, which is also known as semi-deviation. This measure is a variation of standard deviation in that it measures the deviation of only bad volatility. It measures how large the deviation in losses is. In general, many investments that have a greater potential for downside risks also have an increased potential for positive rewards. Investors often compare the potential risks associated with a particular investment to its possible rewards. Downside risks are in contrast to upside potential, which is the likelihood that a security's value will increase. In this paper, the downside risks is not calculated since the treatise is on existing socio-economic facts and the forecasted possible variables are based on a priori expectations.

Necessity of ERGP

The need for measures that would revive macroeconomic variables and stimulate growth that 's stunted and retrogressive became paramount by 2016 when the Nigerian economy was leclared recessive. The causes of the recession can be classified into remote and immediate causes. While the remote causes hanged on the structure of the Nigerian economy, the immediate causes identify with the undesirable socio-economic variables that characterized the Nigerian economy.

The structural defect of the Nigerian economy is the heavy dependence on the oil revenue. The revenue from here drives every sector of the economy. It is interesting to note that while the ERGP seeks to correct this by diversification of the revenue base of the country, it is this same oil money that is expected to finance the ERGP and drive the country out of the recession. It is still this same fluctuating oil money/price that will build the infrastructure and be used to stabilise the current market price. The future therefore looks bleak and requires economic circumspection; otherwise the audacious plans of the ERGP may be hampered.

The immediate causes could be viewed as stimulants as well as symptoms of the same recession. In other word, the immediate causes are viciously intertwined. As the oil price slumped from an average of 83.4 $pb between 2011 – 2015 to 44 $pb in 2016, the production per day slumped from 1.86 mbpd in 2015 to 1.47 in 2016. Thus declining oil prices and declining productivity compounded the trade balance of Nigeria which declined from an average of 26.8$bn to -0.5 in 2016; the country was indeed in recession making ERGP inevitable.

Other leading macroeconomic indicators that turned negative by 2016 were;

(i) Budget balance (% of GDP) moved from -1.2 in 2015 to -3.0 in 2016

(ii) Nigerian stock market return (%) slide from 6.57 in 2015 to -6.17 in 2016 and average corporate profitability growth (%) went drastically down from 19.74 in 2015 to -17.4 in 2016.

Whatever remained of the purchasing power of the recessive Nigerian was eroded away by an inflation that galloped from 10.69 in 2015 to 18.55 in 2016 and has since remained above 15% in 2017 [CBN (2017), Nwaoba (2017), Think Tank (2017)].

The undesirable indices were the consequences of many factors like excessive delay and inadequate policy decisions, policy inconsistency and political interference in monetary policy environment. These eroded investor's confidence and dwindled capital inflows. Strangely, while this lowered aggregate demand, the government increased different types of taxes and eventually outrightly ban essential foodstuff like rice without considering the gestation period of the crop. While this was going on, oil subsidies were removed thus igniting inflation. These policy conflicts and their consequences watered the ground for the germination of economic recession, which necessitated the launching of ERGP.

Theoretical Framework

This study hangs on the prescriptions of the Keynesian school of economic thought to recession, specifically the Keynesian economic stimulus. The Keynesian economics entails influencing an economy's total output by influencing aggregate demand or total spending, especially during recessions. The essential element is the idea that the macro economy can be in disequilibrium or recession for a considerable time until government intervention would assist stimulate growth and overcome the lack of aggregate demand to reduce unemployment and all the negative socio-economic macroeconomic indices. The government intervention expected to kick-start the comatose macroeconomic variables is referred to as Keynesian stimulus. A Keynesian stimulus happens when policy-makers deliberately seek to stimulate one or more of the components of aggregate demand to boost output, jobs and incomes, and thereby pull an economy out of recession (Foster, 2009).

Keynesians economics dissects an economic recession as when an economy gets stuck at high levels of unemployment with negative output that is persistently below its potential. This is the scenario experienced since the first quarter of 2016 when the GDP growth rate turned negative at -0.36% and then dipped further to -1.5% by the second quarter of the same year. The oil production fell short of the national potentials from 1.86mb/d to 1.47mb/d between 2015 and 2016. Inflation romped up from an already high 10.86% to 18.55% in 2016 and remained high despite all efforts at 15.2% in 2017 (FGN, 2017). Business and consumer confidence became very low resulting to the Keynesian paradox of thrift where high rates of savings would worsen the recession. In this situation, the weaker demand for *made in Nigeria* goods and services, would further cause job losses and can cause negative multiplier and accelerator effects particularly on the few surviving manufacturers and service businesses.

So a Keynesian stimulus is designed to actively manage the level of and rate of growth of aggregate demand. An example would be to inject extra government investment into infrastructure projects and finance this through a higher level of government borrowing. Keynesians believe that the positive effect on national income and jobs would help to reduce the risks of a higher budget deficit 'crowding out' activity in the private sector. Another example would be tax cuts targeted at lower-income consumers which tend to have a higher marginal propensity to spend any gains in income. The Keynesian stimulus package or policy instruments are centred on the government boosting aggregate demand by increasing expenditure. This can be achieved through reduced taxation to keep per capital income high, higher borrowing and higher spending, increase safety nets for the very poor and unemployed, injection of the massive recovered loot into infrastructure development, and control inflation and stabilize price. Some fiscal stimulus to demand is inevitable in a recession. There should exist a systemic social welfare nets which increases government debt during recessions. When unemployment is rising, the government automatically provides more in welfare assistance and in a recession, the revenue from taxation also diminishes (Cogan, Cwik, Taylor & Wieland, 2009).

The relevance of the Keynesian stimulus lies in the undesirable socio-economic indices that bedeviled the Nigerian economy as captured by CBN (2017). The average GDP growth rate of 4.72% between 2011 - 2015 falls to -1.5 in 2016. Labour productivity growth also slumped from 0.58 within the same period to -4.2% in 2016 and to -1.8 in the first quarter of 2017. The Nigerian oil production also fall from average of 1.86 (mbpd) to 1.57 in the second quarter of 2017. Other indices like inflation galloped from 10.69 in 2015 to 18.55 in 2016 and have never gone below 14% since then (CBN,2017; Tink Tank, 2017). Generally, the socio-economic indices became negative hence making Keynesian economics basic to the Nigerian experience and the Keynesian stimulus inevitable in Nigeria's attempt at recovery from the recession and its stubborn undesirable socio-economic indices that have refused to go away.

It is important to note that Keynesian Economists, after the pattern John Keynes do not incorporate the socio-economic and socio-political variables into policy formulation on the basis of *ceteris paribus*; but they were and are still very central to the policy implementation (Foster, 2009). This brings to the forefront why the Keynesian stimulus sometimes fails to yield expected results. In Africa and in countries like Nigeria, these factors like communal and tribal militancy, nepotism, bribery and corruption, as well as youthful restiveness cannot be ignored in Keynesian economics if expected results are to be achieved. These ignored variables constituted the macroeconomics downside risks which the paper seeks to draw the attention of the relevant authorities to avoid a fiasco of ERGP.

Methodology

This research adopted the introspective and retrospective diary design. The introspective methodology is a process of observing and reflecting on one's thoughts, feelings, motives and reasoning processes with a view to determining the ways in which these processes and states determine behaviour (Hayes, 1986). ERGP is the expression of the economic thought of the government, hence the suitability of this method. We complimented the introspective method with retrospective diary approach. The retrospective diary study highlights issues which are normally hidden or largely inaccessible to a casual observer using induction and deduction reasoning for logical analysis and conclusion. (Danziger, 1980).

Downside Risks Analysis

This section treats the risks that have been casually mentioned in the ERGP document and emphasis that they are capable of frustrating whatever Keynesian stimulus that may be applied to revive the comatose macroeconomic variables. For a proper understanding of these, the study reviews the objectives of the ERGP first.

Objectives and Targets of the ERGP

The ERGP has a three-fold objective. Firstly, the ERGP aims to restore growth, macroeconomic stability and engender economic diversification. In achieving this objective, the Plan intends to drive fiscal stimulus (through increased government spending), ensure monetary stability, improve the balance of trade and focus on key sectors that would drive and enable growth [such as agriculture and Micro, Small and Medium Enterprises (MSMEs), manufacturing and services]. The Plan also seeks to achieve the above by, inter alia, leveraging on information technology.

Secondly, the Plan aims to invest in the Nigerian people by continuing to provide support for the economically-disadvantaged, create jobs, improve accessibility and affordability to quality healthcare across the country; and guarantee improved human capital (through access to basic quality education for all). Finally, the ERGP aims to significantly increase investment in infrastructure through robust Public Private Partnership arrangements, simplify and improve the legal and regulatory framework for doing business in Nigeria and promote digital-led growth through the expansion of broad band coverage.

In order to easily pursue these objectives, the plan set out ten specific targets over the plan period. These targets however can be classified into four groups of (1) oil, (2) FOREX and taxation (3) agriculture and (4) unemployment related targets. By the cumulative effect of these targets, it is expected that GDP will expand by 2.19% in 2017, averaging 4.62% between 2018 and 2019 annually before hitting 7% by 2020.

The oil related goals include increase in oil production from 1.4mbpd to 2.5mbpd. Also Nigeria shall be a net exporter of refined oil. It is also expected that the Nigeria shall achieve a large asset sale particularly in the oil industry. In a similar vein, the FOREX related goal stipulates a review of the FOREX market by direct government interventions through the CBN to achieve sustainable market determined exchange rate. By this and other means to manage the Inflation forecast of 15.74% in 2017 to 12.42% in 2018 and to an unspecified single digit by 2020. Also the tax related target aims at improving tax policy and implementation to raise revenue to N350 billion annually. It is hope this will be feasible via an overall increase in tax to GDP ratio to 15%. Finally, it is expected that unemployment be reduced from 13% (Q3 2016) to 11.23% by 2020. This would be achieved majorly by investment in agriculture to drive self sufficiency in tomato paste in 2017, rice in 2018 and wheat in 2020.

Downside Risks Analysis

There are 2 macro-structural risks the ERGP document faced. Though the plan calls itself a growth plan, it is obvious that the ERGP focuses more on growth out of recession than growth on a sustainable basis towards development. This has created a missing gap of an arid effect after the exodus out of recession. This is more so because the recession was calculated on the basis of GDP which may be improved simply by change in price of oil without any improvement in real production. The policy gap is the absence of how to manage an *after recession economy* which should serve as a spring board for sustainable economic growth. Unfortunately, this is not built into the ERGP and explains why the CBN is celebrating Nigeria's exit from recession since August 2017 (CBN, 2017b), yet the country's socio-economic indices and welfare are worsening.

Secondly, though the ERGP stipulates *investment in our people,* the plan is more monetary in nature as output is strictly measured for growth by GDP. Other key measurements of growth revolve round ascension in money supply and measurement of interest rates and inflation *at a single digit.* Apart from the fact that it is antithetical to grow money supply and drastically reduce inflation and interest rates to single digits in the short term, investing in an abject poverty stricken population languishing in a recessive economy requires safety nets and transfer earnings which essentially have been ignored by the document.

Apart from these structural risks, the objective of attaining 7% GDP growth by 2020 is faced with a downside risk of increasing commodity prices in the plan period. Generally, if commodity prices improve in the plan period, this would boost earnings of the massive population in the agricultural sector, propel aggregate demand and also provide funds for investment. The diversification policy is apt and the government zeal in this regard is commendable. The result of massive investment in crop production like rice is attestable already. The real challenge is the sustainability of the programmes and policies which changes with every new administration. The risk of policy volatility is eminent. This is especially likely because the diversification into agriculture is planted on un-modernized, non-mechanical and manual communal farm system. The growth component expected from agricultural stands to be unrealized and thus the objective frustrated.

The objective of single digit inflation may be achieved especially with the accelerated activity in the agricultural sector which is attested by non-oil exports of products like yam. The old pattern of financing agriculture should be discarded to value-chain based approach as recommended by Kyarem & Onov (2017). The Nigerian inflation manifests more on foodstuff and hence an effective consistent financing policy would gradually stifle the rising inflation. The risk of losing out in the sector to rising foodstuff prices hang on the un-modernized, non-mechanical and manual communal farm system. This is compounded by a system that lacks basic infrastructures and hence the persistence of seasonal supply and scarcity. This frustrates inflation targeting and control.

The objective of increasing oil production to 2.5mbpd is very freak yet it is very central to the success of ERGP. Over 70% of the revenue to pursue the objectives of the ERGP itself depends on the revenue expected from the export of oil. There is however a precarious relationship between the FGN and Niger Delta constituents. The future looks bleak especially considering the previous inabilities of the government to keep their end of the bargain with pressure groups. There are also the ideological shifts in the militant camp towards more violence in the region. There are nationalities that are turning violent in their agitation for *self independence* and more autonomy in the federation. The prevailing situation does not support consistent increased oil production in Nigeria.

The possibility of reduced unemployment within the plan period looks distant. Generally, such a prospect hangs on increased economic activities nationwide. The prevailing situation in Nigeria where organised labour unions down-tool frequently would doom provision of more job opportunities. Many unions like ASUU and Resident Doctor Union have down tooled for more than 30 days each within the last 6 months. Not only this, the prevailing high interest rates could starve economy of spending. Both aggregate demand and investible funds has shrike and hence render increased employment hopeless.

Finally, there is a political risk which precariously hangs over the macro economy of Nigeria. Electoral campaign in 2019 is situated in the middle of the lifespan of ERGP, but political campaigns and economic goals are normally not pursued together. Political campaign expenditures would likely steer objectives away from ERGP towards winning elections. Stakeholders might be gunning for positions which do not entail implementation of ERGP. There are other downside risks entertained in many circles which must not be wished away. Foreign exchange policies possess the ability to derail growth projections. CBN should watch out. Oil prices could crash if glut is upheld and that would frustrate the ERGP.

Conclusion and Suggestions

Though the needed economic reform in Nigeria is long overdue, the urgency and zeal upon which the government has launched and is pursuing the ERGP is commendable. It is good that the economic recession provided another opportunity to take a hard look at the structural deficiencies and develop a more sustainable pathway to economic development. Thus, the downside risks identified must be taken seriously and tackled. I prophesy that by government's action or inaction, and by global economic maneuverings, the economic recession and many of the socio-political and economic debacles will disappear and even oil prices could rebound. However, if the structural deficiencies are not addressed, more ferocious recessions with more deadly consequences would revisit. To avoid the doom, the paper suggests the following:

1. The restructuring of the economy should be carried out thoroughly, especially diversification to agriculture. This would reduce overreliance on the oil sector which is the main cause of the recession. This will also diversify the revenue-base of the country and reduced pressure on restive areas like the Niger Delta.
2. Monetary and fiscal policy sustainability must prevail. The legislature should legalized economic policies and programmes, then monitor and evaluate the projects. This would ensure risks like electioneering does not distract the policy away from the goals of ERGP.
3. The ERGP should be reviewed and updated periodically. This should be done in partnership with relevant bodies like the budget office, the legislature, the private sector and relevant Non Governmental Organizations. By this, incidental epochs like the post recession period experienced in Nigeria would be address with the right approach. In this light the Plan would also be made to address growth out of recession as well as growth on a sustainable basis towards development.
4. There should be a campaign for national re-orientation and ideological re-alignment for all Nigerians especially in the more restive areas that are agitating for *independence*; this should go with more safety nets for the very poor generally.

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