

Effect of Nigeria Macroeconomic Environment on the Performance of the National Economy: Implications

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Abstract

The rebirth of democratic dispensation in Nigeria was threatened with multi facet challenges of high external indebtedness, rising rate of inflation from single to double digit, unabating high rate of unemployment, slow paced but fluctuating GDP growth rate, foreign reserve inadequacy, and the terrain of the country's power generation/distribution misfortune, which all had been the evident lengthened involvement of the military in the Nigeria political history. Adopting data extracts from the CBN annual reports, SEC statistical bulletins and the NBS, the relevant macroeconomic variables selected for this study were subjected to the OLS regression analysis towards ascertaining the extent of relationship existing between the macroeconomic indicators selected and the nation's growth level. Result obtained in this study showed that although a unique relationship exist between the country's national currency exchange rate to a US dollar, inflation rates, monetary policies, and the extent or level of GDP growth the country has attained, the sustenance and continued maintenance of an upward growth remain a source of worry to Nigerians and national economists, considering the country's unsolved problems of energy generation and distribution which in turn has undermined the performance of the industrial and employment sectors.

Keywords: Democratic dispensation, Employment, External Debt, Foreign Reserve, GDP Growth Rate, Inflation Rate.

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Introduction

Nigeria has witnessed robust economic growth averaging 6-7% in the last decade as a result of high global oil prices and the consequent economic reforms that have been embarked upon by successive governments since the return to democratic rule in 1999.

Although many years of military activism in Nigeria political history had aligned the country on the extreme paths of economic collapse and resources mismanagement fueled by corruption, the need to restore the economic face of Nigeria in the global market becomes imminent in the midst of several problems besetting the nation since the wake of June 1999. The result has been a continuous roll out of tolls of economic reforms and policies that has thrown some life into the economic and financial stream of the country, and this is evident in the country's enlistment among the fastest growing emerging markets in the world.

The Economic Policies of Obasanjo Regime (1999-2007) appear to have ushered in some active moments in Nigeria's economic restructuring landscape. It is pertinent to state that, this well articulated economic plan- the National Economic Empowerment and Development Strategy- (NEEDS) in 2004, may have served as the yardstick for the foundation and evolution of the 7-point agenda of 2007-2011 and the widely publicized Transformational Agenda of Dr. Ebele Goodluck Jonathan administration. This point to the fact that economic growth is a goal whose attainment is dependent on the objectives and effectiveness of any given economic policies.

Mahmoud and Mohammed (2012) opined that the unbiased and effective investment of economic policies (monetary and fiscal policies) usually lead to the achievement of sustained economic growth in the national economy and the consequent address of the problem of poor power generation and distribution which has crumbled the efficiency of the industrial sector.

The implication is that, importation became a better alternative for business mogues in Nigeria who could not rely on domestic productions, thus, leading to a continued depreciation of the Naira exchange value for other hard currencies like US Dollar, and weakening CBN's relentless effort at attaining and sustaining a single digit headline rate of inflation through her Monetary Policy Rate (currently at 12%). The study intends to determine the extent to which the economic growth of Nigeria has been influenced by certain macroeconomic indicators like exchange rate, inflation rate, and monetary policy rate.

Research Question

To what extent has Nigeria's level of economic growth been influenced by her exchange rates movements, inflation rates, and monetary policy rates?

Hypothesis

H₀: There exist no significant relationship between Nigeria's level of economic growth and her exchange rates movements, inflation rates, and monetary policy rates.

H₁: There exist significant relationship between Nigeria's level of economic growth and her exchange rates movements, inflation rates, and monetary policy rates.

Literature Review

Conceptual Issues

Nigeria's current stable macroeconomic environment has provided the platform for the strong performance the country has witnessed across the various sectors of the economy as at second quarter of 2014. A stable macroeconomic environment is one that ensures that

inflation is kept low, stable exchange rates is provided, and ensures that prudent levels of government borrowing is maintained.

As at end-December 2013, inflation remained in single digits (at 8.0 percent); the exchange rate has remained relatively stable within the target band of N155-160/Dollar, the nation;s budget deficit of 1.85% of GDP is one of the lowest in the world (Okonjo 2014). In the 2013 fiscal year, the National Bureau of Statistics reported quarterly GDP growth of 6.56%, 6.18% and 6.81% in Q1, Q2 and Q3 respectively.

Concept of GDP in national development

To economists, the Gross Domestic Product (GDP), is the market value of final goods and services produced within a country in a given period of time. It is often viewed as the most important measure of economic events and activities in the country (Chima 2013)., which helps an individual not just to appreciate the size of an economy but also understand the extent to which an economy is performing.

Without doubt, the GDP could serve as an effective evaluatory tool for weighing the general health of the economy towards revealing the stabilization status of the country's economy.

Yet, the Economists feel that there exist great differences between nominal and real GDP. For a given year (say 2010), the nominal GDP refers to the final value of goods and services produced that year (2010), and valued at the prices of that year (e.g 2010).

In contrast, real GDP refers to the value of the same quantities of goods and services (in 2012 for as an example year), but which is valued at an unchanged prices of a given reference year (e.g 2001). Okonjo (2014) concurred to this stressing that real GDP growth measures the increase in economic activity over a given period of time, calculated at unchanged prices from a reference year. This is an important distinction.

In general, economists are often interested in real GDP, which measures real output changes and not just the impact of price movements. This is why nations are expected to rebase their GDP on every five years interval for the purpose of maintaining an up-to-date performance trend/changes of her economic activities.

GDP Rebasing in Nigeria: Implications on economic growth

The last time Nigeria's GDP was rebased or re-benchmarked by relevant agency(ies) of the federal government was in 1990, even though an existing time frame of five years is globally recognized for the same (Awojobi et al 2014).

This means that the approach that was undertaken by the National Bureau of Statistics (NBS) in April 2013 is consistent with international norms, which in turn enables countries to adequately capture workable data of its economic activities.

Nigeria's dream of maintaining a GDP growth rate of 12% at an output level of \$900 billion by 2020 may have been miscalculated especially now that the country has successfully concluded its GDP rebasing exercise to maintain an output level from about US\$ 262 billion in 2013 to US\$510 billion (an increase of 94.6%) in April 2014 at a growth rate of 5.49 %.

However, Akanbi (2014) reported that economic analysts appear to laud the entire process and the credibility of the GDP obtained, especially as the review yielded lower growth rates as against a more ambitious rate projected earlier by NBS (7.41 percent).

This is in view of the fact that it is rarely possible for the GDP growth rate to grow side by side by an economy that is massively expanding in output. In other words, the larger the economy, the lower the rate of growth. Akanbi (2014) pointed out that it is more easier to grow when

the economy is small than when it has become robust and bigger. This is a global phenomenon.

Based on the outcome of the rebasing exercise, the structure of the economy is now more diversified than before. Previously, the agriculture sector consisted of 33% and the service sector 26%, but with the results of the new rebased GDP, agriculture now represents 22% and the services sector which includes communication, Finance, Insurance, Arts and Entertainment, Real Estate, Public Administration, Education and Health Services account for 51% GDP (Awojobi et al 2014).

However conversely the case may be, the country's GDP growth performance continued to be far below the pre-democratic era. For instance, in 1985 the percentage of the country's GDP growth was 9.5% which later appreciated to 13.0% in 1990.. (CBN Statistical Bulletin 2010 as cited in Abdullateef and Waheed 2010).

The target of raising the country's level of GDP from US\$191.4 billion (2006 estimate before rebasing) to US\$900 billion by 2020, almost a five-fold increase, requires that all the sectors be made to work efficiently and effectively, employment and power sector inclusive.

It is important to note that the GDP growth recorded in the period 2008–2013 was largely attributed to growth in the contribution of the non-oil sector. The global oil market had weakened recently in terms of its contribution to the nation's output. Its contribution to GDP averaged 13.38% as at third Quarter of 2013 compared to the 14.36% and 15.44% recorded in the corresponding period of 2012 and 2011 (DLM Research, 2014).

Concurring to the above view, Usman (2014) cited in Awojobi et al (2014), revealed that the informal sector contributed immensely to the services sector which impacted 51% to the rebased GDP. Moreso, call credit vendors, petty traders and unregulated economic activities in the informal sector formed part of the component of the services sector.

Indeed, the informal sector is rapidly increasing in Nigeria, and this pivotal role in the economic development of Nigeria over the years has not left out for long without being documented. The rebasing of the Nigerian's GDP holistically showcases the role of the informal sector in the development of the Nigerian economy for the first time.

Role of Industrialized Investments on GDP performance

One significant trend prevalent in the developmental process which has remained consistent since civilization is that all developed nations that are known for their flexible upward slopy economic growth are industrialized. Industrialization is associated with heavy investments financed through capital accumulation (Udoka and Anyingang 2012).

Aside the current security challenges prevalent in the north eastern part of Nigeria, the problems of unstable and insufficient Power generation/distribution, and the ever rising high rate of youth unemployment have been identified as major challenges constraining economic growth and the development of other sectors in Nigeria (Okoye et al 2012).

Although industrialization plays a key role in the attainment and sustenance of a sound economic system in any nation, the absence of a reliable energy source has greatly underscored the efficiency, productive functionality and upward performance consistency of the economy in Nigeria.

Indeed, rapid and sustainable real economic growth is a necessary condition for economic development. However, for growth and development to occur, there is the need for a relatively stable macroeconomic environment which is an indicator for low risk and a condition for attracting investment and boosting entrepreneurial activities.

This is because investors and entrepreneurs have always shied away from undertaking investment projects that are associated with high risks, especially when such high risks are related to high security lapses and unstable economic environment. Although certain level of lending interest rate and inflation are considered important for attracting foreign investment, there is still every need for the apex financial regulatory body in Nigeria (CBN) to keep lending interest rate and inflation at a manageable limit in order to propel economic growth.

External indebtedness and the economy

By December end 2004, Nigeria's external debt had reached about USD36 billion (an equivalent of 50% of the country's GDP). The implication is that economic growth in Nigeria during this time was extremely constrained by huge annual debt servicing until debt relief from the Paris and London Club came in 2005. The total Paris Club debt of US\$30 billion was wiped off the country's books and the remaining US\$6 billion bought back by the Obasanjo administration with funds from the Excess Crude Oil Account (ECA) after settling all accumulated interest arrears. (Okonjo 2014). Nigeria's external debt stock, as at September 30, 2013, stood at US\$8.26 billion.

Instrumentality of CBN's monetary policy rates on the economic performance of Nigeria

The Nigerian economy has at different times witnessed enormous interest rate swings in different sectors of the economy since the 1970s and mid 1980s under the regulated regime. (Udoka and Anyingang 2012).

It is interesting to note that the performance of the Nigerian economy in 1999, shortly after the return to democratic regime, was mixed inflationary pressures eased, especially during the second half of the year. According to Masha, (2000), this was a period when inflationary pressures decreased to 6.6 per cent. This was a great decrease as it had earlier risen up to 70 percent in 1995 and 1996.

Depletion of Naira in the global market: The Economic Consequences

The value of the Nigerian currency (Naira) continues to depreciate over the years since the return of the country to democratic rule. Exchange rate has been viewed as the price of one country's currency in relation to another country. It is the required amount of units of a currency that can buy another amount of units of another currency (Adeniran et al 2014).

Following the oil glut of early 80s, it became clear that Nigerian economy which depended largely on oil was not able to sustain the fixed exchange regime because its foreign reserves not only depleted but foreign debt also mounted. Thus, the country adopted a flexible exchange rate through the Second tier Foreign Exchange Market (SFEM) in 1986 as SAP was being instituted.

The Naira exchange rate was partially stable in the last quarter of 1999 (the very year democratic rule returned to Nigeria) as the Naira exchanged for N92.00. However, the reverse was case in the later part of year 2000 as it witnessed a drastic depreciation (a dollar was exchanged for N135.00), revealing a decrease of about 50 percent in the value of the Naira.

This was a time in Nigeria's political history when corruption took to a new name "national cake" with gruesome demands such as the purported furniture allowances by federal lawmakers, leading to an all high inflation rate of 18.87% in the subsequent year (2001); an entirely 173.5% increase from the single digit rate of 6.9% that was the case in 2000.

The fourth republic Nigerian politicians looted and embezzled such public monies unquestioned, with many of such loots laundered in hard currency i.e the US dollar. Although,

the later call for disclosure of assets by public office holders took the stage, many of such looted funds never found their way back to the government purse. The implication was that too many monies were in circulation with fewer goods available to savour them.

It is a scholarly belief among economist that movements in the exchange rates of a country usually engender inflation, hence, some level of association existing between exchange rate movements and economic growth of a country.

For instance, while the inflation rate moved from 6.6% in 1999, 6.9% in 2000 to 18.87% in 2001, the exchange rate in like manner went up (depreciated) from N92.693 per US\$1 in 1999, N102.105 in 2000, to N111.94314 per US\$1 in 2001.

However, when the inflation rate dropped from a double digit headline of 17.86% in 2005 to a single digit headline of 8.22% in 2006, the exchange rate trended in the same direction with an appreciation in naira from N131.661 per US\$1 to N128.651 to a US Dollar.

This trend appear to have equally affected the everyday attitude of Nigerians to business and financial decision makings, ranging from their productivity capacities to their attitude to foreign made or imported goods in contrast to domestically made products.

Methodology

Employing extracted data of the country’s Monetary Policy Rates, Inflation rates, exchange rates, and the GDP growth rates for the years 1999-2013 from the Central Bank of Nigeria Statistical bulletins, and National Bureau of Statistics, the Ordinary Least Square (OLS) regression analytical tool was deployed in activating the following model specifications estimated for this study:

Models Specification:

$$\text{Model 1: } \text{GDP\%} = \alpha + \beta_1 \text{EXCR} + \beta_2 \text{INFR} + \text{MPR} + \mu$$

Where

GDP% = Gross domestic product growth rate

EXCR = Exchange Rate

INFR = Inflation Rate

MPR = Monetary Policy Rate

Hypothesis One

H₁: There exist no significant relationship between Nigeria’s exchange rate policies, rate of Inflation, CBN’s monetary policy rates, and the rate at which the country’s economy is currently growing

Table 2: Descriptive Statistics

	Mean	Std. Deviation	N
GDP Growth Rate %	6.08	2.008	15
MPR %	12.5040	3.75679	15
Inflation Rates %	11.82	3.913	15
Exchange Rate	128.73707	16.828844	15

Source: SPSS Ver. 22

Table 3: Model Summary^b

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.746 ^a	.557	.437	1.507	2.148

a. Predictors: (Constant), Exchange Rate, Inflation Rates %, MPR %

b. Dependent Variable: GDP Growth Rate %

Source: SPSS Ver. 22

Table 4: ANOVA^a

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	31.443	3	10.481	4.615	.025 ^b
	Residual	24.981	11	2.271		
	Total	56.423	14			

a. Dependent Variable: GDP Growth Rate %

b. Predictors: (Constant), Exchange Rate, Inflation Rates %, MPR %

Source: SPSS Ver

Table 5: Coefficients^a

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-1.603	4.275		-.375	.715
	MPR %	-.145	.120	-.271	-1.207	.253
	Inflation Rates %	.119	.106	.232	1.125	.285
	Exchange Rate	.063	.027	.527	2.322	.040

Source: SPSS Ver. 22

Findings and Discussion

Coefficient table: Viewing the beta of the independent variables, we discovered that exchange rate makes the strongest unique contribution in explaining the rate at which the economy of Nigeria is growing. This was further confirmed by its “Sig” value equivalent (.040 less than .05) which implies that Nigeria’s exchange rate to a US dollar made statistically significant unique contribution to the equation in predicting the GDP growth rate of Nigeria. This implies that every depreciation status maintained by the Naira to a US Dollar significantly affects the pace at which the economy grows.

This was followed by Monetary Policy Rate and Inflation Rate in Nigeria which both made less of contribution at predicting the level of economic growth in Nigeria (-.271 and .232). However, the positive coefficient of the inflation rate clearly showcases its impact on the rate of economic growth in Nigeria, and indirectly attesting to the unhealthy attitude of Nigerians to foreign or imported goods when so much money is at their disposal with little locally made goods available to meet their taste. Too much money in circulation is usually prompted by loose access to bank loans due to lower interest rates and the misuse of public monies by public office holders. This has oftentimes weakened the growth, productive capacity and

performances of young domestic industries as Nigeria consumers crave preference for imported goods rather than their domestically made equivalents, to the detriment of the country's GDP growth speed.

Model Summary: From table 3 above, R Square value was .557 and adjusted R Square value was .437. This means that 55.7% of the dependent variable (GDP growth rate %) was predicted by the model (Exchange Rate, Inflation Rates %, and MPR %), implying that 44.3% of economic growth in Nigeria is predicted by other variables not recognized in this model.

ANOVA table: This showed a statistically significant F-value of 4.615 (Sig .025<.05). The decision rule therefore is: *if F Calculated > F Critical – Reject the Null Hypothesis, otherwise accept.* Since 4.615 (F-Calculated) > 3.59 (F Critical- obtained using the F table), we reject the Null Hypothesis and accept the Alternate hypothesis. This implies that there exist a significant relationship between Nigeria's exchange rate policies, rate of Inflation, CBN's monetary policy rates, and the manner and speed with which the economy of the country is growing.

Conclusion And Recommendations

Unchecked persistent appreciation of the Naira simply implies the continued deterioration of its value, and consequent incompetence of the country's currency at the international market. It tend to reflect the extent of weakness of the purchasing power of the local currency when compared to other widely recognized international currencies as US dollar, Euro, UK pounds and shillings etc, at the global level. This may have also resulted in the envisage of other macro economical challenges such as inflation especially when public office holders launder public monies in hard currencies, prompting the Central Bank of Nigeria (CBN) to respond with aggressive economical policies that would discourage the banks from transferring much funds into the hands of the borrowing public. Although, this has helped the federal government achieve and maintain the much desired single digit headline as the country's inflation rate, it has often denied small scale businesses the opportunity of accessing loans and expending their operations towards contributing meaningfully to the growth of the GDP. As result, CBN's MPR has remained at 12% since 2011. However, it is recommended that a more balanced but flexible approach towards the MPR be embraced to allow more room for impressive economic growth in Nigeria.

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