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Economic Crisis and Personal Financing in Nigeria

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ABSTRACT

The study was carried out to find out the relationship between economic crisis and personal financing among Nigerian workers. The research work made use of both primary and secondary data. Primary data were collected through questionnaires and secondary data sourced from the Central Bank Annual Reports and Bureau of Statistics. Multivariate analysis was applied to determine the relationship between Economic crisis (proxied by inflation, exchange rate, unemployment and cost of living) and personal financing (proxied by spending, tax, savings and investment). Results from the analysis showed a significant positive relationship between economic crisis and personal savings of Nigerian workers. The results showed further that both workers' personal spending and taxes have a positive relationship with the economic crisis in Nigeria, and their relationships are statistically significant at a 5% significance level. It means all the proxied economic crisis variables jointly affect Nigerian workers' personal savings, spending and personal taxes. However, economic crisis had no significant effect on the investment of Nigerian workers. Economic crisis does not influence how Nigerian workers invest their meagre income. Therefore, the economic drivers (governments) are advised to pay more attention to tackling the problems of the high exchange rate, inflation rate, and unemployment rate bedeviling the country to reduce the overall cost of living in Nigeria.

Keywords: Economic crisis, Inflation, Exchange rate, Unemployment, Cost of living, Spending, Savings.

JEL: D14, D51, M12

INTRODUCTION

An economic crisis is when a country's economy experiences a sudden downturn in its aggregate output of real gross domestic product (GDP). Though Nigeria has not experienced a decrease in its gross domestic product, all indicators of economic crises (high cost of living,

increase in unemployment rate, poverty, high inflation rate and high exchange rate) have conspicuously manifested in our economy today. The lockdown of the economy in the year 2020 has plunged the economy of Nigeria into recession. The most dreadful about our economy now is that the policymakers seem helpless, without knowing the right direction to paddle the canoe of the country's affairs with accompanying vices like banditry, epileptic power supply, kidnapping, and farmer-herder conflicts, among others.

Nigeria is already facing severe fiscal problems, with its rising budget deficit, debt and shrinking revenue. In July, PREMIUM TIMES reported how the country's fiscal position worsened in the year's first four months as the cost of repaying debt surpassed the government's revenue in the first quarter of 2022. Nigerian government deficit spending shot up to N3.09 trillion in the first quarter of 2022. The country's external debt has not been efficiently utilised because borrowed funds are usually used to finance recurrent expenditure instead of capital infrastructural development, which would have been self-liquidating.

Continuous borrowing with its attached conditionalities has depleted the naira value, which has led to the high cost of all imported raw materials, equipment and other foreign goods. This has also led to imported inflation. Recently, the inflation rate has risen from 15.63% in December 2021 to 19.64% in July 2022 (Premium times). This led to a high cost of living in the presence of stagnated workers' salaries in the country. Hence an average worker spends all his salary -- in the face of income tax and value-added tax (VAT) -- on consumption and may still want to borrow available to consume.

In many cases, the banking sector has not come to the aid of the production sector, as the interest rate has increased as high as 25% to 30% on loans. With this rate, hardly can any manufacturing company get an internal rate of return that can repay such a cost of debt. These problems, coupled with unsteady power in the last two decades, have pushed many manufacturing companies like Dunlop Plc, formerly in Nigeria, to neighbouring countries (Ghana), while others outrightly closed their businesses, laying off their workers.

Economic crisis is proxied by inflation, cost of living, unemployment and exchange rate, while personal financing is proxied by worker's savings, investment, spending and personal taxes. Though many authors have done some research in this area by linking one construct at a time from each of the dependent and the independent variables, this research investigated the effect of all the constructs that make up the economic crisis, jointly and severally, on the constructs that make up the personal financing. Therefore, the major objective is to determine the effect of Nigeria's economic crisis on Nigerian workers' personal financing.

Specifically, the paper is out to find:

- The effect of the Economic crisis on Personal Savings
- The relationship between Economic crisis on Personal Investment
- The effect of the Economic crisis on Personal Spending
- The impact of the Economic crisis on Personal Taxes.

Research Questions and Research Hypothesis are formulated in line with the research Objectives

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LITERATURE REVIEW

An economic crisis is when a country's economy experiences a sudden downturn in its aggregate output or real gross domestic product (GDP). A country is said to have an economic crisis when they encounter a financial crisis (a wide variety of situations in which some financial assets suddenly lose a large part of their nominal value). The effect of economic crisis can be felt in the Increased unemployment, loss of income which directly influence the cost of living and increased vulnerability have been among the dominant social impacts of the crisis.

The world experienced a global economic crisis in the form of recession between the years 2007 to 2009 as a result of the United States bubble and high rates of sub-prime and adjustable-rate mortgages (ARMs), leading to the inability of homeowners to make their mortgage payments. (Subprime loans are loans given out even when the borrower has not passed the necessary credit checks). This phenomenon adversely affected Nigerian investors as the Nigerian Stock Market recorded massive losses in the value of shares of quoted companies because the foreign investors withdrew their holdings to their home countries. Nigeria was yet to recover from the problem before the Covid-19 plague, which negatively affected the economy.

VARIABLES	CONSTRUCTS	CONCEPTUAL STUDIES
Economic crisis	Inflation	Adeleye, Ogundipe, Ogunrinola & Adediran (2019); Mindrican (2020); Briggs, W. (2022).
	Exchange rate	Aloui, Hkiri, Hammoudeh, & Shahbaz, (2018); Olayeni, Tiwari, & Wohar,. (2020); Rajković, Bjelić, Jaćimović & Verbič, (2020).
	Unemployment	Uju, & Racheal, (2018); Liotti (2020); Onifade, Ay, Asongu, & Bekun, (2020).
	Cost of living	Holleran (2019); Aytaç (2021); Fortis, Kriebardis, Georgatzakou, Lyrakos, Alexiou, Antoniou, & Valsami, (2022).
Personal Financing	Personal Savings	Hanspal, T. (2018). Mongale, I. P., Mashamaite, T., & Khoza, K. (2018). Lawal, S., & Abdulrahman, R. M. (2022).
	Personal Investment	CHANG, (2021). Yahaya, Dutse, & Bello, (2021). Zhanje, & Jeke, (2022).
	Personal Spending	Akinyede, Ayodele & Ojedele (2022)
	Personal Taxes	Link, Menkhoff, Peichl, & Schüle (2022).

The table above summarises the review of concepts relevant to literature where the constructs are used as measures of the variables.

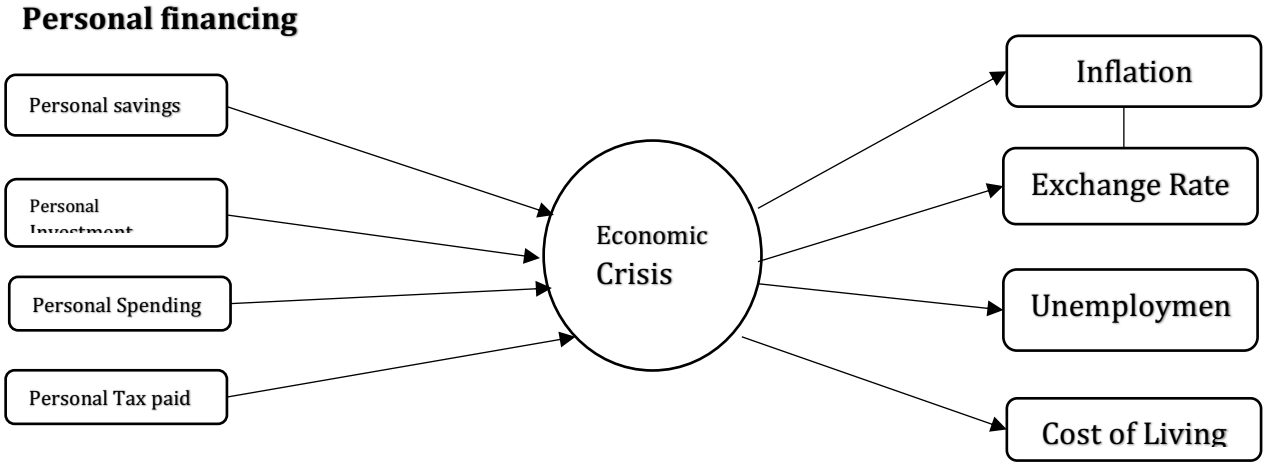


Fig. 1. The relationship between economic crisis and personal financing of workers
Source: Authors' computation

Economics, psychology, finance, management, and decision-making theories are the foundation of personal finance. Theoretically, this study is based on personal financial planning (PFP), which is still developing. Personal financial planning (PFP) theory's roots can be found in the underappreciated contributions of Modigliani, Becker, and Markowitz. PFP refers to a procedure wherein an individual would achieve their anticipated goal through efficient capital management. The heuristic theory is a psychological theory that governs behavioural finance. The heuristic theory concept introduced by Herbert A. Simon explains how investors make financial judgments in the face of uncertainty.

Empirical Review

Felipe (2019) suggests that activities of the value of the disaster may cause adjustments within the monetary behaviour of agents that aren't explained by using the economic impacts suffered. The worldwide economic crisis has extended the relevance of factors such as the number of kids, age, education level, profits, and financial uncertainty. In comparison, other extensive elements have faded with equity, economic danger tolerance, funding horizon, health, and domestic ownership. According to Agarwal, Qian & Tan (2020), household saving behaviour is affected in different degrees by the rate of return, inflation, corporate savings, demographic and socio-economic factors, financial literacy, health status and death rate, private saving motivations, and the availability of credit, pension funds and insurance.

Andersen, Hansen, Johannesen, & Sheridan (2020) studied the Pandemic, shutdown and consumer spending: Lessons from Scandinavian policy responses to COVID-19 and concluded that the Economic crisis caused by the COVID virus made spending drop. Personal savings increased during the financial crisis with a sharp consumer spending contraction (IMF, 2010). An economic crisis reduces the spending tendency of nations and their citizens by modifying the incentives of legislators. (Kim and Park, 2022).

METHODOLOGY

The study utilised the primary data through the snowballing methods of data collection to gather data from the working-class sector of the Nigerian population using a well-structured questionnaire. The study population included all 60 million working-class adults in Nigeria

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between 18 and 65. The infinite sampling method was used at a confident level of 95%, and margin error of 5% and a sample size of 384 was used.

The questionnaire was structured to include three main sections. The first was the demographic section, and the second was the economic crisis, where five questions were asked on each variable's constructs. The last aspect on personal financing also had five questions on each of the four constructs of the variable. The IBM SPSS statistics 23 packages were used to analyse the collected coded questionnaires multivariate.

Model specification

PF = f (EC)

PF = a + b EC+ e

$SAV = a + b_1 INF + b_2 EXR + b_3 UNE + b_4 COL + e$ ……eq. 1

$INV = a + b_1 INF + b_2 EXR + b_3 UNE + b_4 COL + e$ ……eq. 2

$SPD = a + b_1 INF + b_2 EXR + b_3 UNE + b_4 COL + e$ ……eq. 3

$TAX = a + b_1 INF + b_2 EXR + b_3 UNE + b_4 COL + e$ ……eq. 4

Where

SAV = personal savings

INV = personal investment

SPD = personal spending

TAX = personal taxes

INF = inflation

EXR = exchange rate

UNE = unemployment rate

COL = cost of living

a = the intercept

bs = coefficients of the independent variables

e = error term

RESULT AND DISCUSSION

Table 1. Summary of regression models

	Constant	EXR	INF	UNE	COL	R	R Square	F	Sig.	T
SAV	14.15	-0.133	-0.022	0.051	0.179	.225[a]	0.05	5.032	.001	11.2390
INV	16.074	0.005	-0.012	0.031	0.069	0.069	0.005	0.456	.768	12.622
SPD	5.463	0.217	0.139	0.205	0.154	.300[a]	0.09	9.338	.000	3.87
TAX	9.947	-0.09	-0.004	-0.006	0.252	.372[a]	0.139	15.242	.000	11.024

'Authors' computation 2022

Interpretation and Discussion of results

The table above shows that a unit change in the exchange rate and inflation affects personal savings to 13% and 2.2% in the opposite direction. A unit change in unemployment and cost of living affect personal savings to the tune of 5.1% and 17.5% positively.

For investment, a unit change in inflation results in a 1.2% change in investment in a negative way. In contrast, a unit change in the exchange rate, unemployment and cost of living results in a positive 0.5%, 3.1% and 6.9% change in investment.

The analysis also discovered that a unit change in all the captured variables used for economic crisis led to a positive change in personal spending to the tune of 21.7%, 13,9%, 20.5% and 15.4%, respectively.

For the impact of the economic crisis on personal tax, results discovered that a unit change in each exchange rate, inflation and unemployment rate affect personal tax negatively, while a unit change in the cost of living results in a positive change of 25.2% in personal tax.

Using the ANOVA result from the table, the F-ratio was used to test the overall significance of the model. From the first hypothesis derived from research objective one, we can conclude that the relationship between the economic crisis variables and personal savings is significant at 0.01 (i.e. $P < 0.05$) with an F-value of 5.03. The null hypothesis is rejected, meaning that economic crisis significantly affects Nigerian workers' personal savings. This agrees with the work of Agarwal et al. (2022).

Furthermore, hypothesis two is insignificant because the overall relationship between economic crisis and investment gives F= 0.456 and a significance value of 0.768 (i.e. $P > 0.05$), which is greater than the 5% significance level. Therefore, the null hypothesis is accepted, meaning that economic crisis does not significantly affect Nigerian workers' personal investment.

Between economic crisis and personal spending of workers, the ANOVA gives the F value of 9.338, which is statistically significant at 0.000 (i.e.$P < 0.05$). The null hypothesis is rejected, and the alternative one is accepted, meaning that the economic crisis significantly affects Nigerian workers' personal spending. This is concomitant with the work of Andersen et al. (2020). Similarly, the overall relationship between economic crisis and the personal tax of workers gives an F value of 15.242. This value is statistically significant at 0.000 which is less than 5% (i.e.$P < 0.05$). The null hypothesis is also rejected, and the alternative one is accepted. This follows that economic crisis has a significant effect on the personal tax of Nigerian workers.

SUMMARY AND CONCLUSION

The study examined the relationship between economic crisis and personal financing among Nigerian workers. The study reviewed some literature that is relevant to the subject matter. Both primary and secondary data were used in the research work. Primary data were collected through a questionnaire (structured and unstructured served on respondents) and secondary data sourced from the Central Bank Annual Reports and Bureau of Statistics. Questionnaires

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were served physically and online through Google Forms, and 385 valid ones were recovered and analysed.

Multivariate analysis was applied to determine the relationship between Economic crisis (proxied by inflation, exchange rate, unemployment and cost of living) and personal financing (proxied by spending, tax, savings and investment). Results from the analysis showed a significant positive relationship between economic crisis and personal savings of Nigerian workers. The results show further that both workers' spending and taxes have a positive relationship with the economic crisis in Nigeria, and their relationships are statistically significant. It means all the provided variables of economic crisis jointly affect personal savings, spending and personal taxes of Nigerian workers.

However, economic crisis had no significant effect on the investment of Nigerian workers. This means that economic crisis does not influence how Nigerian workers invest their meagre incomes. The workers still invest part of their income because of the uncertainty of the future.

Therefore, the economic drivers (governments) are advised to pay more attention to tackling the problems of the high exchange rate, inflation rate, and unemployment rate bedevilling the country in order to reduce the overall cost of living in Nigeria. This can be done by a conscious attempt to fix the power sector, among others, that can help in transforming the overall economy to an industrial type.

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