Fiscal operations and macroeconomic growth: The Nigerian experience

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ABSTRACT

Over the years in Nigeria, the trend of fiscal expenditure continues to increase rapidly without any corresponding increase in the level of revenue. This scenario had deteriorated the fiscal stability resulting in high rates of deficits and domestic debt, as well as inducing more inflationary pressure within the market-oriented economy. In view of the decreasing price of crude oil in the international market accompanied by lower revenue generation, the rising inflationary pressure has continued to serve as a major obstacle to ensuring sustainable growth in Nigeria. With the monetary policy being constrained in addressing this problem as a result of the prevailing exchange rate regimes which adversely affect the activities of the commercial banks, this gave fiscal policy the opportunity to carry the main task of macroeconomic stabilisation in Nigeria. It is in view of this background that this paper is aimed at evaluating the effects of fiscal operations on macroeconomic growth in Nigeria. Enormous literature related to fiscal operations in both developed and developing countries are reviewed, and the trends of fiscal variables are also presented. The paper adopted a descriptive method and utilised both charts and table to show the trend of fiscal elements with the aim of determining the relationship between the variables. The paper concludes that fiscal operation is ineffective in providing the needed macroeconomic environment for sustainable growth. Therefore, there is a need for government to reduce the size of its deficits, broaden the revenue base by increasing the contribution from non-oil sources, and synchronise both monetary and fiscal policies in order to attain the desired level of sustainable growth.

Key Words: Fiscal operations, Macroeconomic growth, Fiscal policy and Monetary policy

I. Introduction

In recent years, the growth and performance of key macroeconomic indicators in many developing countries has decelerated. The current recession and tightening of global financial conditions in addition to financial market volatility may lead to a decrease or reversals of capital inflows. Since the
risk to capital flows can limit monetary policy in these countries, the choice of fiscal policy as a countercyclical tool becomes highly essential. Fiscal policy as a tool of macroeconomic management, is central to the health of any economy, as the tax and expenditure policy of the public sector affects the disposable income of individuals and business organisations. Hence, effective fiscal policy operations will ensure a sound balance of payment and price stability that will provide the atmosphere needed for sustainable economic growth and development. Therefore, fiscal policy involves the use of taxes, borrowing and changes in public expenditure pattern to influence the level of economic activities. The underdeveloped features of money and capital markets in addition to poor private sector development in most developing countries mean that more emphasis and greater importance is placed on the use of fiscal policy operations to stabilise the economy. In the economic literature, the effects of fiscal operations on macroeconomic performance outcomes is essentially fastened on two broad propositions of Classical and Keynesian arguments. The early and structured school of macroeconomic thought is the Classical school. The classical economists are advocates and supporters of the price mechanism who believe in a sound and efficient market where there are effective resource allocations and a guarantee for economic freedom incorporated with the flexibility that eliminates the need for mindful government planning and intervention (Paul, 1994). However, this conjecture has certain limitations resulting in a condition referred to as a market failure. The market has failed to achieve a satisfactory level of welfare of the society, particularly with respect to the provision of an equitable or fair distribution of income and wealth (Samuelson, 2015). The confirmation of the market failure was shown by the Great Depression of the 1930s, which led to the evolution of Keynesian economics. Keynes submitted that the persistent unemployment and economic depression were as a result of the failure on the part of the public sector to control the economy through appropriate economic policies. Keynes further suggested that the government’s support for knowledge accumulation, research and development, maintenance of law and order, productive investment, and the provision of other public goods and services can encourage growth in both the short-run and the long-run (Blinder, 2016). On the other hand, the neoclassical school is against the expansionary fiscal policy of the Keynesian doctrine, due to the assumption that government attempt to increase aggregate demand simply leads to crowding-out of private sector. Because the increase in government expenditure leads to higher public borrowing thereby reducing the availability of fund meant for private sector investment. Rather than focusing on cyclical fluctuations, the argument of Neoclassical is relatively based on long-term growth. The cyclical disturbances will weaken and disappear while long-term growth will definitely influence the level of social welfare. Instead of reducing the cyclical unemployment caused by the economic recession, this school of thought focuses on decreasing the natural rate of unemployment which is caused by public policies. This study intends to provide a review of the operations of fiscal policy in the macroeconomic management of the Nigerian economy over a period of three and the half decades using a descriptive method. This is because, in an economy in which macroeconomic fluctuations are partly due to the combination of aggregate demand effects and nominal rigidities, fiscal policy has the potentials to reduce these fluctuations to the desired level through aggregate demand and hence increase the level of economic and social welfare. The remainder of this paper is categorised into sections that provides the theoretical relationship between fiscal policy and economic growth; deals with the empirical review of fiscal operations in both developed and developing countries taking into cognisance the Classical and Keynesian propositions; contains an overview of fiscal operations in Nigeria towards ensuring sustainable growth and development; highlights the challenges of fiscal operations in developing countries with particular reference to the Nigerian economy in a view to providing a solid macroeconomic framework for the market-driven economy, and finally and provides the concluding remark and possible recommendations.

II. Fiscal policy and economic growth

The approach of fiscal policy can be rooted based on the epistemological contributions of the British economist; John Maynard Keynes who postulated that government can influence the level of macroeconomic output through simultaneous manipulation of expenditure and tax. The collective impacts of an increase in public expenditure and a reduction in taxes usually pull an economy out of a recession, while a decrease in expenditure and an increase in taxes tends to slow down an economic boom. Hence, it is an essential element in controlling the cyclical fluctuations or building a solid framework for sustainable growth (Abdiweli, 2005). The growing outcome of this manipulation leads to increase in employment rate, aggregate output and sustainable economic growth. On the other
hand, economic growth refers to an aggregate increase in the capacity of an economy to produce goods and services, compared from one period of time to another. It can be measured in nominal or real terms, the latter of which is adjusted for inflation. It is the existence of a steady long-term increase in real GDP and improvement in living standards. Given the fact that fiscal policies impact on economic growth and development, it is not surprising that they are interrelated (Laura, 2008; Macek, 2014). In the classical view, increase in public expenditure (expansionary fiscal policy) will lead to decrease in net export, and further, heighten the effects on aggregate output and income. When the public sector increases the level of borrowing, the rate of interest will attract an inflow of foreign capital in the form of investment (Onuchukwu et al., 2006). All things being equal, the rate of returns on the issued bond is relatively higher in a country executing expansionary fiscal policy. As a result, the capital inflow will increase the demand for the local currency, since purchasing a foreign bond requires the use of local currency by the foreigner. Due to the high demand for local currency in the market, the value of such currency will relatively increase. Henceforth, locally-manufactured goods will turn-out to be expensive to foreigners, while foreign goods will cost less. Subsequently, the export level will decrease while the import level will increase (Macek, 2014; Kneller et al., 1999). Consequently, the overall effects of this scenario include the deterioration in the balance of payment due to excessive importation, an increase in unemployment rates, and the general decline in aggregate output. In a similar perspective, the neoclassical school are of the assumption that real output is determined by the supply side. They argued that an increase in aggregate demand higher than aggregate supply will be inflationary in the long-run and not affecting the level of output growth. Instead, it is the supply factors that encourage the growth of output and further increase the productive capacity of the economy (Strulik and Trimborn, 2009). In addition, the neoclassical school is against the expansionary fiscal policy of the Keynesian school, due to the assumption that government attempt to increase aggregate demand simply leads to crowding-out of the private sector. Because increase government expenditure leads to higher public borrowing thereby reducing the availability of fund meant for private sector investment. The argument of Neoclassical is relatively based on long-term growth rather than controlling the effects of cyclical fluctuation. The cyclical disturbances will weaken and disappear while long-term growth will definitely influence the level of social welfare. Instead of reducing the cyclical unemployment caused by the economic recession, this school of thought focuses on decreasing the natural rate of unemployment which is caused by public policies. In the presence of changing economic circumstances, the neoclassical school holds the view that market-economies will continually be self-adjusted toward a new equilibrium to provide the full employment and stable price. While the Keynesian argued that real economies tend not to behave in such manner. To ensure full employment and stable price, economies need to be controlled by the public sector. The public sector is expected to perform the opposite functions of what others are doing in the economy in order not to act as a substitute of the private sector.

III. Review of the literature

In an attempt to provide a review of how the management of fiscal operations can enhance the sustainable growth and development of the Nigerian economy, this study examines the literature base on the current functioning of the Nigerian economy. Several empirical and conceptual literature with conflicting results has continued to surface on how fiscal policies can affect macroeconomic activities both in the short-run and long-run. While some studies show a positive relationship providing support towards Keynesian propositions, others found a negative relationship between the fiscal operations and macroeconomic growth. The epistemological underpinning of these controversies can be traced to the expositions of the different schools of thought particularly the Classical and the Keynesian. Furthermore, the fundamental assumptions guiding the empirical literature are summarised as follows: The economy is operating below the full equilibrium level; The public spending is channelled to productive investments to increase the growth of output and national income; Expansionary fiscal policy deteriorates the incentives to invest in human and physical capital, therefore leads to decrease in output level; Lower fiscal stimulus which enhances productivity level, leads to output growth due to the nature of utility function assumed for the private agents; Productive expenditures that influence the marginal product of private capital, leads to output growth. Otherwise, it is classified as growth-retarding through decreasing the level of output and national income.
Evidence in support of classical proposition

Literature in support of Classical proposition includes the following contributions: Blake (2013) measures the impact of fiscal multipliers on Jamaican government by adopting a SVAR technique from Blanchard and Perotti (2002). The study employed quarterly data from 1993Q2 to 2012Q2 and the results indicate that the effects of fiscal policy (expansionary) on GDP are weak and not persistent. Fiscal policy produces insignificant effects on growth, especially in the long run because the fiscal multiplier is statistically insignificant on impact and zero over the long run. In addition, Perotti (2002) examines the effects of fiscal policy in five (5) OECD countries using a quarterly data from 1960Q1 to 2001Q4 by utilising Structural VAR (SVAR) technique. The study holds the view that, in the last 20 years, the effects of fiscal policy on growth and its various components appeared significantly very weak in OECD countries, hence, providing less support for a long-run relationship between fiscal policy and economic growth. Furthermore, Akanni and Osinowo (2013) examine the effect of fiscal instability on output growth in Nigeria from 1970 to 2010 using CUSUM of square diagnostic test and the Hodrick-Prescott (HP)-filtered fiscal framework with correlation technique. The result shows that fiscal policy component (aggregate government expenditure) has a negative and insignificant effect on economic growth. At a disaggregated level, capital expenditure is also found to be negative while recurrent is positive. However, only labour force and trade openness have a significant countercyclical effect on the economy over the review period. In the same vein, Nelson and Singh (1998) investigate the relation between fiscal policy, economic freedom and output growth in LDCs from 1970 to 1989 using a neoclassical growth model. The study concluded that the large government expenditure is detrimental to a nation’s growth, but economic freedom shows a positive and significant effect on economic growth. Evidence of government policy and economic freedom variables obviously submits that many heroes of dictatorship wrongly attribute the poor economic performance to democracy when in reality it is public sector policies that may be responsible for poor growth in such respective countries. Similarly, Enache (2009) investigates the relationship between fiscal policy and economic growth in Romania using forecasted time series data from 1992 to 2013 by utilising a reduced-form neoclassical growth model to develop a regression analysis for the estimation. The results established a weak evidence for the positive impact of fiscal policy on economic growth, and a decrease of distortionary government revenues accompanied by a reduction in unproductive government spending will increase real output growth in the long run. Moreover, Baunsgaard (2003) examines the role of an appropriate fiscal policy rule in macroeconomic growth in Nigeria from 1970 to 2001 using a simulation analysis. The study debated that fiscal operation exerts negative influences on output growth since both revenue and expenditure were highly volatile. In other words, a major challenge for the economy is the macroeconomic volatility both in expenditure and revenue driven largely by external terms of trade shocks, weak fiscal discipline and the nation’s heavy dependence on oil export earnings. Furthermore, empirical support from Izbetzkii et al. (2011) contribute to the literature by examining the effect of fiscal multipliers on 44 countries (20 developed and 24 developing) using a quarterly data set from 1960Q1 to 2007Q4. The study employed a SVAR technique originally developed by Blanchard and Perotti (2002). Hence, the finding shows that the response of economic growth due to increase in public expenditure is larger among industrialised countries than in developing countries. In addition, the framework of fiscal policy differs among developing countries not only in its execution but in its effects and relationship with other policies. This is because the increase in government expenditure is far more short-lived compared to highly-persistent public expenditure shocks in developed countries. A similar result is obtained by Ravn and Spange (2012) in Denmark using a SVAR model as developed by Blanchard and Perotti (2002) from 1983 to 2011. In another related development, Abata, Kehinde and Bolarinwa (2012) evaluate the influence of both monetary and fiscal policy variables on economic growth using a theoretical exploration. The study submitted that the role of fiscal policy in achieving sustainable economic growth has remained a mirage. In spite of a considerable increase in the public sector spending over the years, the growth rate remains very low. Further evidence reveals that the effect of monetary policy on economic growth is much stronger than that of fiscal policy within the review period. This finding is consistent with the results obtained by Ajisafe and Folorunso (2002); Adefeso and Mobolaji (2010). In addition to these, another empirical evidence is supported by Havi and Enu (2014). The paper examines the effect of fiscal and monetary policy in the economy of Ghana from 1980 to 2012 using an OLS estimation technique. Results show that fiscal policy is insignificant compared to monetary policy in achieving sound and sustainable macroeconomic growth.
Evidence in support of Keynesian proposition

Relevant works in the literature related to the Keynesian propositions includes the following contributions: Alex and Ebieri (2014) examine the impact of fiscal policy on economic growth in Nigeria from 1986 to 2010 by utilising an Autoregressive Distributed Model (ARDL) and log-linear model of the multivariate regression model. The study empirically established that about 69% of the total variation in the real GDP is explained by fiscal policy variables. Total government expenditure as a fiscal policy variable has more positive and significant impact on GDP than non-oil tax and total debt. Hence, there is an evidence of long-run equilibrium relationship between fiscal policy and economic growth in Nigeria. Likewise, empirical results from Nathan (2012) in a study that examines the impact of fiscal policy in Nigeria from 1970 to 2010 using error correction model and two-band recursive least square technique reveals a significant causal relationship between GDP and fiscal policy variables. Hence, fiscal operations have a positive influence on output growth in the Nigerian economy. Furthermore, Cyril (2016) examines the influence of fiscal policy on real output growth in developing countries from 1986 to 2013 using an OLS estimation technique. Finding reveals that fiscal policy components, particularly public spending on economic services have enormous returns to economic growth and stability. The results furthermore propose that these expenditures crowd-in private investment. Therefore, there is an evidence of a positive relationship between public spending on economic services and economic growth. In other words, an increase in budgetary allocation to economic services will lead to a speedy improvement in economic stability. Moreover, Imoisi (2013) examines the implication of fiscal policy measures on the Nigerian economy from 1970 to 2009 using the OLS of multiple regression models. The study maintained that fiscal policy is a strong determinant of economic growth, particularly when aggregate public sector expenditure is properly directed towards the provision of adequate basic infrastructural facilities to encourage private sector participation and stabilise investment activities in the economy. In a similar submission, Ogbole et al. (2011) evaluate the causal link between fiscal policy and economic growth in Nigeria from 1970 to 2006 using a granger causality test and Johansen cointegration technique. The study supported that, fiscal policy operations though insignificant, has a positive impact on the macroeconomic stability. The study further reveals the existence of a causal relationship between fiscal policy components and GDP with a unidirectional causality running from aggregate expenditure to GDP. In addition, Appah (2010) investigates the relationship between fiscal policy and economic growth in Nigeria from 1991 to 2005 using OLS multiple regression analysis. The result indicates a significant positive relationship between fiscal policy components and Gross Domestic Product (GDP), and no relationship between the specific explanatory variables contributing to GDP except aggregate government spending. On the average, 99% of the total variations in GDP is explained by fiscal components in the model. Furthermore, Onyemaechi (2014) examines the impact of fiscal policy components on economic growth in Nigeria from 1980 to 2010 using a baseline, log and lag models of regression analysis. The result shows that the effect of fiscal policy component (government expenditure) on economic growth at a certain level appeared to be statistically insignificant. Though, public sector expenditures on administration, social and community services produce positive effects on growth. Similarly, Agu et al. (2014) evaluate the relationship between fiscal policy components and economic growth in Nigeria from 1961 to 2010 using OLS in multiple regression frameworks. The study establishes the existence of a positive and significant correlation between economic growth and the components of fiscal policy. Though investment spending appeared very insignificant compared to recurrent expenditure, hitherto, aggregate government spending tends to increase with tax revenue, with spending increasing faster than the tax revenue. Likewise, empirical results from Mansouri (2008) in a study that examined the effect of fiscal policy in Egypt, Tunisia, and Morocco based on error correction model and log-linear regression model argue that public investment exerts a crowding-in effect on economic growth. Further evidence shows a significant relationship between productive expenditure on investment and economic growth in all the three countries. Such kind of public spending exercise a positive impact on growth. In order to adjust the public sector budget, fiscal adjustment should be concentrated on reducing wasteful expenditure which appeared as an obstacle to economic growth in the study countries. In addition, Fatas and Mihov (2001) evaluate the effects of fiscal policy on macroeconomic growth in developed countries by utilising a quarterly data from 1960Q1 to 1996Q4. The study adopts a VAR technique, findings reveal that increase in public consumption is accompanied by a corresponding increase in consumption, employment and output, while the increase in government investment does not affect public spending significantly. This, however, supports the argument that fiscal policy exerts a positive influence on the real output growth within the review period.
Equally, Maku (2015) evaluates the effects of fiscal policy on economic growth in Nigeria from 1970 to 2011 using Engle-Granger cointegration test and OLS estimation model. The study submitted that fiscal policy is generally believed to be associated with growth. Alternatively, it is believed that appropriate fiscal measures in a particular circumstance can be used to encourage growth. The result from the estimation shows that fiscal policy rather than monetary produces a higher influence on the nation’s economic growth and development. In a similar analysis, using cointegration technique and a Vector Error Correction Model (VECM), Byiabani and Mohseni (2014) examine the effects of fiscal policy and economic growth in Iran over a period of two decades. The study argued that there exists a positive and significant long-run relationship between economic growth and fiscal policy components, including government investment and private investment, labour force and human capital stock. In another development, Yadav et al. (2010) investigate the impact of fiscal policy shocks in India using a Structural VAR (SVAR) on quarterly data from 1997Q1 to 2009Q2. Finding reveals that the effects of fiscal shocks to government expenditure on private consumption produce a positive impact while shock on the tax to private consumption yield negative results on the nation’s growth. Furthermore, Jemec et al. (2011) examine how fiscal shocks affect macroeconomic dynamics in Slovenia using a SVAR technique adopted from Blanchard and Perroti (2002) on quarterly data from 1995Q1 to 2010Q4. The study maintained that government expenditure shocks increase output growth, investment and private consumption only in the short-run. On the other hand, tax shocks are found to decrease output growth, investment and private consumption. In the long-run, the effects of both spending and tax become insignificant, respectively. The results indicate that fiscal policy shocks have weak impact multipliers. In other word, changes in government spending and taxes do not have long-run effects on macroeconomic variables. Moreover, Mathew (2011) examines the effect of fiscal policy on economic growth in South Africa using a quarterly data from 1990Q1 to 2008Q4 by adopting a SVAR model of Blanchard and Perroti (2002). The result supports the arguments that, the effect of fiscal policy on real output tends to be uncertain, though persistent and significant through shocks on public consumption expenditure, public investment expenditure, tax revenue and budget deficits. Though, the effect is positive for shocks from tax revenues and budget deficit but negative from public sector consumption and investment expenditures. Similarly, Zhattau (2013) conceptually assess the role of fiscal policy in influencing output growth in Nigeria by using a descriptive analysis. The study supports the arguments that, fiscal policy plays a vital role in ensuring economic growth and stability. Therefore, an appropriate system of tax implementation will increase the revenue generating capacity of a country thereby accelerating economic growth. The study further submits that the efficiency of the tax system is not just an issue of appropriate tax laws, but also the efficiency and integrity of the tax administrators. Likewise, Musa, Asare and Gulumbe (2013) analyse the effects of fiscal and monetary policy interaction on output growth in Nigeria from 1970 to 2010 using VAR methodology. The result shows a positive relationship between fiscal policy components and output growth, this implies that public revenue as a fiscal policy variable has a significant influence on the economic growth and also leads to an increase in price. This is because the spending decision of the public sector is significantly determined by the aggregate government revenue. Similarly, Arestis (2009) examines the effects of a new consensus in macroeconomics in relation to fiscal and monetary policy in developed countries by utilising a general equilibrium model. The study debated that, fiscal policy operations has a significant impact on the economic growth, and also serves as an effective instrument for regulating the level of aggregate demand in an economy. Moreover, evidence reveals by Abdurrauf (2015) in a study that evaluates the impact of fiscal policy on economic development in Nigeria from 1981 to 2013 by employing pairwise correlation test, VECM and Johansen cointegration test shows that aggregate public expenditure and government investment have a positive and significant effects on economic development whereas tax revenue produces a negative effects both in the short-run and long-run. In addition, empirical findings from Babalola and Aminu (2015) in a study that examines the relationship between fiscal policy and economic growth in Nigeria using VECM and Engle-Granger cointegration test indicates a long-run relationship between government expenditure and economic growth as reveals by the cointegration result. Meaning that productive government spending has a positive and significant impact on economic growth during the study coverage period 1977 to 2009. This result is similar and consistent with the study findings revealed by Austin and Ogbole (2014) in Nigeria from 1970 to 2010 using a granger causality technique. Furthermore, Osinowo (2015) examines the effect of fiscal policy on sectoral output in Nigeria from 1970 to 2013 by employing ARDL and Error Correction Model (ECM). The study debated that, different fiscal policy variables to a considerable extent, influence the output growth. Generally, the study holds the view that aggregate government
spending has a positive relationship with sectoral output, hence economic growth. Though, inflation serves as a major brake on output growth among the various sectors of the economy within the sample period. In the same vein, Gemmell and Au (2012) evaluate the relationship between fiscal policy and output growth in OECD countries from 1995 to 2009 using a pooled regression model. The study found, among other things that, increase in government spending as a fiscal policy variable has a positive effect on output growth while increased tax rates produce a negative effect in all the review countries. In addition, Kilindo, (1997); Tanzi and Howell (1997); Easterly and Rebelo (1993); Baxter and King (1993); Engen and Skinner (1992) postulate that fiscal policy and its various components play a fundamental role in influencing the long-run growth performance of an economy. However, these results are also consistent with the empirical findings obtained by Amin (1998) on the study of fiscal policy and economic growth in the republic of Cameroun.

IV. Results and Discussion

Fiscal operations in Nigeria: Overview

Nigeria, with an estimated population of over 180 million people is the most populous country in Africa, with an approximate GDP of ₦69,023.93 billion in 2015 (CBN bulletin, 2015; NBS, 2012). Nevertheless, following several years of military rule and poor economic management, the country experienced many internal and external shocks; a prolonged period of economic stagnation, rising poverty levels, and the decline of its public institutions (Okonjo-Iweala and Osako-Kwaako, 2007). By most measures, human development indicators in Nigeria were comparable to that of other least developed countries, while widespread corruption undermined the effectiveness of various public expenditure programmes. Moreover, the lack of public investments in previous decades meant that there were severe infrastructural bottlenecks that hindered private sector activities. In addition to infrastructural deficiencies, the major priority sectors in the Nigerian economy have been immensely affected by shocks (both internal and external) whose appearance resulted in poor fiscal policy and imbalance between various economic activities (Cyril, 2016; Abdurrauf, 2015). As a result, fiscal involvement in recent years in Nigeria has been to encourage economic recovery from the negative effects of the global economic and financial crisis. The country embarked on increased spending on priority sectors to provide an enabling environment needed to accelerate sustainable economic growth and development driven by the private sector (Onyemaechi, 2014; Mansouri, 2008). The key priority areas where fund are injected include the provision of critical infrastructures, fighting corruption and human capital development, food security and agriculture, national security and unity, power and transportation sector, review of existing tariffs and provision of fiscal incentive to enhance productivity in the real sector and provide alternative transportation of goods and services through investment in upgrading the existing railway network and dredging the waterways (Osinowo, 2015; Gemmell and Au, 2012). In Nigeria, public expenditure is among the significant component of economic governance as found in other developing countries of Sub-Saharan region. The structure, efficiency and effectiveness of public spending impact upon the ability of government to create a conducive business environment, deliver developmental goods and achieve national prosperity (Alex and Ebeiri, 2014; Mathew, 2011). In particular, the adequacy and quality of public goods such as infrastructure, utilities and related services largely depend on the nature and quality of public spending. On the other hand, the nature, conduct and levels of public expenditure affect the conditions of fiscal sustainability and macroeconomic framework of any country. In Nigeria, for example, over many years, fiscal profligacy and poor public financial management intensified by oil revenue driven macroeconomic instability. Budgetary processes virtually seem to be meaningless as extra-budgetary expenditures surface the entire fiscal activities, combined with the lack of medium or long-term plans which the budgeted spending will be connected with the view to achieving sound growth (Appiah, 2010; Baunsgaard, 2003). These unplanned expenditures on budget resulted in a significant increase in the country's domestic debt, rising level of deficits and fluctuation in GDP over the years (Table 01 and Figure 01). In 1980, the estimated value of GDP on the average stood at ₦31.55 billion and later rises to an average of ₦15,258.00 billion in 1981 (Figure 02). This is undoubtedly attributed to the sound fiscal and monetary policies employed during the years. The value later began to decrease and fluctuate in an average of ₦13,779.26 billion from 1982 up to 1984 which is due to the fall in the international price of crude oil in the world market. Nigeria being a mono-product economy is always vulnerable to external shocks due to poor diversification of the economy and increased dependency on the oil and gas sector.
In 1985, the value is ₦14,953.91 billion but later increases to ₦15,237.99 billion in 1986 and ₦15,263.93 billion in 1987. The effects of tight monetary and fiscal policy in addition to the currency devaluation scenario all combined to enhance the level of output growth. By the year 1990, the value of GDP grew to ₦19,305.63 billion providing a difference of about ₦4.0 billion within a four-year period. The mantra of Structural Adjustment Programme (SAP) and its befitting objectives are the contributing factors to the output performance. During the adjustment period, the value of GDP continues to operate within the average of ₦19,305.63 billion from 1990 to 1994. With the transition of Nigerian economy from military to a democratic system of leadership, the value of GDP begins to increase from ₦25,267.54 billion in 2001 to ₦35,020.55 billion in 2004. Its annual growth rate averaged 7.01 percent from 2005 with the value of ₦37,474.95 billion, reaching a significant amount of 9.54 percent in 2010. With the new administration of President Jonathan in 2011, the value favourably increased up to ₦59,929.89 billion in 2012. The increased exploration of oil and gas as well as the rise in the price of crude oil in the international world market during this period has certainly contributed to the growth of GDP, not to mention the contribution of other revenue generation machinery especially the non-oil sectors. From 2013 up to 2015, the value of GDP in Nigeria increase to

Figure 01. The trend of GDP in Nigeria

Figure 02. The trend of GDP in Nigeria
₦63,218.72 billion; ₦67,152.79 billion; and ₦69,023.93 billion with an annual growth rate of 2.79 percent, respectively (CBN bulletin, 2015).

Table 01. Fiscal Components and other selected Macroeconomic Indicators in Nigeria, 1980 – 2015.

<table>
<thead>
<tr>
<th>Years</th>
<th>Government Expenditure</th>
<th>Tax Revenue</th>
<th>Budget Deficit</th>
<th>Domestic Debt</th>
<th>GDP growth rate (%)</th>
<th>Real GDP (₦billion)</th>
</tr>
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</table>
|       | Capital Exp. (₦billion) | Recurrent Exp. (₦billion) | (₦billion) | (₦billion) | (₦billion) | (₦billion) |%
| 1980  | 10.16                  | 4.81        | 15.23          | 3.98         | 8.22                | 4.2                | 31.55 |
| 1982  | 6.42                   | 5.51        | 11.43          | 6.04         | 15.01               | -1.1               | 14,985.08 |
| 1984  | 4.10                   | 5.83        | 11.25          | 2.25         | 25.67               | -2                 | 13,779.26 |
| 1988  | 8.34                   | 19.41       | 27.60          | 4.62         | 47.03               | 6.23               | 16,215.37 |
| 1990  | 24.05                  | 36.22       | 98.10          | 6.73         | 84.09               | 11.63              | 19,305.63 |
| 1992  | 39.76                  | 53.03       | 190.45         | 4.52         | 177.96              | 2.19               | 19,620.19 |
| 1994  | 70.92                  | 89.97       | 201.91         | 5.02         | 407.58              | 0.26               | 19,979.12 |
| 1996  | 212.93                 | 124.49      | 523.60         | 0            | 419.98              | 4.05               | 21,177.92 |
| 1998  | 309.02                 | 178.10      | 463.61         | 3.34         | 560.83              | 2.50               | 22,332.87 |
| 2000  | 239.45                 | 461.60      | 1,906.16       | 1.55         | 898.25              | 5.52               | 23,688.28 |
| 2002  | 321.38                 | 696.80      | 1,731.84       | 3.87         | 1,166.00            | 14.60              | 28,957.71 |
| 2004  | 351.30                 | 1,032.70    | 3,920.50       | 1.51         | 1,370.33            | 10.44              | 35,020.55 |
| 2006  | 552.39                 | 1,290.20    | 5,965.10       | 0.55         | 1,753.26            | 6.73               | 39,995.50 |
| 2008  | 960.89                 | 2,117.36    | 7,866.59       | 0.2          | 2,320.31            | 7.20               | 46,012.52 |
| 2010  | 883.87                 | 3,109.38    | 7,303.67       | 2.04         | 4,551.82            | 9.54               | 54,612.26 |
| 2012  | 874.83                 | 3,325.16    | 10,654.75      | 1.34         | 6,537.54            | 4.21               | 59,929.89 |
| 2014  | 783.12                 | 3,426.90    | 10,068.85      | 0.93         | 7,904.02            | 6.22               | 67,152.79 |
| 2015  | 818.37                 | 3,831.95    | 6,912.50       | 1.64         | 8,837.00            | 2.79               | 69,023.93 |


In addition, the increasing level of GDP growth relates to the rising trend of government expenditure. From the commencement of SAP in 1986, capital and recurrent expenditure increased persistently till 1993 (Figure 03). It was in 1994 that a fall occurred in recurrent expenditure, but not for capital expenditure. Recurrent expenditure was ₦7,696 million or 45.98% of the total expenditure in 1986, but by 1993, this had risen to ₦136, 177.8 million or 76.80% of the total expenditure. Similarly, in the year 2000, total expenditure of the federal government stood at ₦701,059.40 million, where both recurrent and capital expenditures were ₦461,600 million and ₦239,450.9 million respectively or both at 65.84% and 34.16% of the total expenditure. This increasing trend continues in both the recurrent and capital expenditure till 2008 where the total expenditure was ₦3,240,820.00 million, and recurrent and capital expenditure were ₦2, 117,362.00 million and ₦960,890.00 million, respectively (CBN bulletin, 2015). From 2009 up to 2015, the value of recurrent expenditure continued to increase at the speed of horse triplicating the value of capital expenditure which possesses more productivity inclination than the former. It has been argued and suggested by many kinds of literature that government should reduce the overarching spending on recurrent and increase priority attention to the capital spending. Due to its prospects of yielding more productivity, capital expenditure has the potentials to encourage the level of growth and development in an economy.

However, government expenditure increases faster than the level of revenue. Total tax revenue has also considerably fluctuated, decreased from ₦15.23 billion in 1980 to ₦12.60 billion in 1986 and later to an average of ₦949.19 billion by the end of 1999. This may partly be as a result of various economic and complimentary reform programmes introduced during the period. In the year 2000, tax revenue stood at ₦1,906.16 billion, it then later increases from ₦2,231.60 billion in 2001 to an average of ₦7,866.59 billion in 2008. Though, these increase trend in tax revenue coupled with a corresponding increase in total government expenditure during that period has not reflected on the life of an average Nigerian given the rising trend of poverty and unemployment rate. By the fiscal year 2009, total federally collected revenue was valued at ₦4, 844.59 billion, this trend continues up to the last quarter of 2015 where it recorded an annual amount of ₦6,912.50 billion (CBN bulletin, 2015).
Given the marginal increase in total revenue and rapidly cumulative government expenditure, the effect was an increase in the level of inflation and low growth rate. Inflation was targeted to be 7.0%, 9.30% and 9.00% from 2001, 2002 and 2003 respectively, but recorded an outcome of 16.5%, 12.20% and 23.80% respectively. However, the rate of 10% targeted for the year 2004 was certainly attained. Furthermore, real GDP growth was targeted at 3.0% in 1999 but realised 2.7% and the target of 5.0% in 2001 achieved 4.6%, while 5.69% outcome in 2007 was below its target of 7.0%. It has been postulated that poor macroeconomic framework in most developing countries is the constraint to their development, as it makes investment riskier and hinders any meaningful business planning, also that decisions in private investment are affected by high level of risk and uncertainty (Imoisi, 2013). However, an evaluation of selected macroeconomic indicators and the performance of fiscal variables revealed that the Nigerian situation has been relatively marginal. For the thirty-five years period covered by this study (1980-2015), the trend of budget balance shows a deficit amount in all the respective years except in 1995 and 1996.

This instability scenario can be drawn to high dependency on oil and gas exportation, poor diversification of the economy, in addition to inappropriate policies on fiscal spending by the public sector. It is interesting to express that Nigeria over the period has suffered an enormous external shock heighen by inappropriate policy choices hence, has amplified the level and macroeconomic effects of instability in the market-driven economy (Baunsgaard, 2003). Therefore, fiscal reforms at all levels of government are necessary with the view to cloud public finance from externally induced shocks, in order to maintain stable and investment-friendly macroeconomic framework. In particular, a sound fiscal policy enhances macroeconomic stability by providing economic agents with expectations of a predictable economic environment (Alex and Ebeiri, 2014).

It is against this deficit-prone instabilities that, the government of Nigeria has been implementing budget and fiscal reforms under the National Economic Empowerment and Development Strategy (NEEDS), which in addition to other policy reforms are now incorporated into the 3-year new economic policy of the present administration titled Economic Recovery and Growth Plan (ERGP) scheduled from 2017 to 2020. The reforms are aimed at establishing sound public finance system that is efficient, sustainable, predictable and effective in generating public goods and services (Nwagbara, 2011). It has also been recognised that strong financial systems can reduce the negative effects of macroeconomic instability. The strength of the financial system is often measured in terms of the volume of domestic credit available to the private sector for productive investment. The financial system in Nigeria compared to highly industrialised countries are still underdeveloped.

In the previous evaluation of oil boom era in Nigeria, the disbursement from oil earnings in early 1970's was utilised in encouraging infrastructural development as well as ambitious and unproductive
projects, while less attention was given to the financial system. On the face value, it could be argued that inflationary pressure was more intensified by the inappropriate government expenditures during that era. As a result, the government was largely advised by policymakers to embark on ownership and control of not only the commanding heights of the economy like the petroleum sector and mining but also direct involvement in banking, insurance, transportations, etc. With the promulgation of the Nigerian enterprise promotion decree of 1972, and amended in 1974, the public sector became directly involved almost in all sectors of the economic activities, especially as foreign exchange was no longer posing any restriction to the growth of the financial sector, unlike the present situation.

Challenges of fiscal operations in Nigeria

The main targets of fiscal policy over the years has remained the pursuit of the macroeconomic objectives of sustainable growth and stability, employment generation and poverty reduction, as well as the provision of basic infrastructures. However, in order to attain these objectives, several fiscal factors have over the period hampered the efficiency and effectiveness of fiscal operations in the macroeconomic management of the Nigerian economy. The fiscal operations of the Nigerian economy at all tiers of government have basically been characterised by continuing growth in expenditure and fluctuating rate of tax revenue. In spite of the several efforts of the federal government through Central Bank of Nigeria (CBN) to ensure and maintain price stability in the domestic economy, statistical and empirical evidence shows that the Nigerian economy is still suffering from rising inflation and higher deficits hence causing all other macroeconomic indicators to a general state of disequilibrium. Inflation will clearly distort the market economy, hence, a moderate increase in the inflation rate would have only a limited impact on real debt burdens, while accelerating inflation would impose major economic costs and create significant risks to a sustained expansion. On the other hand, robust and sustained growth combined with appropriate spending controls by all the different tiers can make a significant impact to reducing debt ratios both in the short-run and the long-run.

However, the value of inflation rate averaged 9.9% in 1980, climaxing to about 39.6% in 1984 while dropping to 13.7% in the period of 1986. However, despite the tight fiscal and monetary measures adopted in 1980’s during the Economic Austerity and SAP reforms, the rate of inflation registered its major peak in 1988, 1993 and in 1994, destructively to about 61.2%, 61.3% and 76.8% respectively to become the highest unusual peak ever attained since the history of Nigeria, even when the ratio of government expenditure to GDP and the growth rate of money supply were relatively low (CBN bulletin, 2015). The value later dropped to an average of 14.5% in 2000 and later recorded 11.8% in 2010 and 9.55% in the year 2015 (Figure 04).

In addition, one of the most important objectives of Nigeria’s fiscal policy is to reduce the national debt and to check the interest payments on such debt from increasing and prevent it from leading to a higher deficit in the future. Unfortunately, in Nigeria, government debt increased continuously in the past three decades. However, numerical evidence shows the rising trend in domestic debt accumulation over the years. Government domestic debt continued to increase from ₦8.22billion (26% of GDP) in 1980 to ₦27.95 billion in 1985. In 1990, the value still represents 26% of GDP, with an average amount of ₦84.90 billion. Since the early 90s up to the later years of 2000, government domestic debt represents over 30% of GDP within these respective years. From 2010 up to 2015, the value of domestic debt rises consecutively from ₦4,551.82 billion to ₦8,837.00 billion, representing 8.3% and 13% of GDP, respectively. This, however, shows a declining percentage relative to the values in preceding years. This may partly be explained due to the increase rate of GDP over the years (CBN statistical bulletin, 2015).

Another challenge of fiscal operations in the macroeconomic management is the rising trend of deficit. As shown in figure 5, statistical data from CBN bulletin (2015) reveals that, as at 1980, the overall deficits stood at ₦1.98 billion an equivalent of 4% of the GDP in that year and later increased to 6% in 1982. Since 1986, the federal overall fiscal deficit stood at ₦8.3 billion or 11.3% of GDP. The deficit ratio was ₦5.89 billion in 1987, ₦12.16 billion in 1988 and ₦15.13 billion in 1989, respectively. This represents an increased percentage from 11.0% of GDP to an average of 15.5% in 1990. However, the fiscal deficit increases by 58% between 1985 and 1986 during the initial period of SAP, while the real GDP growth rate was mere 3.1 percent. Between 1991 and 1992, the fiscal deficits grew by 60.9
percent, increasing to 86.2 percent in 1998. This fluctuation and rising trend of the deficit over the years resulted in an eventual fluctuation in the country's growth rate.

![Inflation rate and Deficit](image)

Source: Author's computation (2017) using data from 2015 CBN bulletin

**Figure 04. The trend of budget deficit in Nigeria.**

![Deficit (% of GDP)](image)

Source: Author's computation (2017) using data from 2015 CBN bulletin

**Figure 05. The trend of budget deficit in Nigeria.**

Given the problems in managing debt and deficit, the challenges became more pronounced when examining the trend of real GDP growth rates over the years. By the year 1980, the growth rate of real GDP stood at 4.2% but later decrease to a non-positive value of -13.1% in 1981. This negative tendency continues lingering up to 1984 in which similar scenario of negative growth rates of about -2.0% was realised. By 1986, it was 1.90% but later hastened and speed up to about 11.63% in 1990. Although it was a different situation in 1991, as the growth rate registered another non-positive value of -0.55%, but later increases to an average of 5.5% in the year 2000. This increasing trend in growth rates continues to occur up to 2010 where it stood at 9.54%. However, from 2010 to 2015, the value shows a declining rate from 5.13% in 2011 to an average of 2.79% in 2015 becoming the lowest rate ever attained in sixteen years since the transition of the Nigerian economy from the military rule to a democratic system of government. This indicates the extent of inefficiency by the fiscal authorities to ensuring sustainable growth.
Furthermore, Zhattau (2013) maintained that there are various challenges facing fiscal policy implementation and tax administration in Nigeria, which is responsible for the macroeconomic disequilibrium at varying times. The resultant effect, therefore, was inappropriate government expenditure, poor tax policies and large fiscal deficits. In another empirical argument, North (1990) submitted that the rate at which a country will grow depends on the creation of appropriate public policies and the efficiency of government to enhance the provision of public goods. Similarly, Knack and Keefer (1995) postulated that countries that make wrong decisions in economic policies and inefficient public investments are also expected to have some elements of economic stagnation including lower growth rate and income level. Likewise, Rena (2011) noted that fiscal governance is strong only when the government can deliver its fiscal policy in a sustainable way and are efficiently applied to the provision of public goods and services. Moreover, one of the possible reasons for the failure of fiscal operations in both developed and developing countries is how it is employed. For effective use of fiscal policy, Elmendorf and Furman (2008) recommend three viable conditions: Fiscal policy must be timely, so that increase in aggregate output manifest as at when due, otherwise it occurs at an inappropriate time. It must be targeted so that the highest increase in aggregate demand reflects the increase in public expenditure. Finally, it must be temporary in order to avoid the problems of budget deficits in the long-run.

Similarly, the use of fiscal policy is influenced by two essential factors; the ability to use fiscal policy, and the need to use fiscal policy in order to stabilise the economy. Country’s level of growth and fiscal deficits influence the needs for fiscal stability by either increasing or decreasing the prevailing situation of the economy. In particular, lower level of growth and excess fiscal deficits contribute to greater macroeconomic instability, hence leading to a greater requirement for fiscal policy employment. On the other hand, higher levels of growth rate accompanied by lower budget deficits will result in a smaller amount of instability in the economy. With less instability, the possibility of fiscal policy usage becomes low. In the case of fiscal policy capacity, the ability to use fiscal policy is likely to be inhibited given the higher level of public debt and excess budget deficits accompanied by lower levels of government tax revenue.

V. Conclusion and Recommendations

This paper has provided a review and a better understanding of how the government fiscal operations contribute to the macroeconomic management of the Nigerian economy. It established the fact that increasing and rising trend of government expenditures over the years without the corresponding increase in the level of revenue, had deteriorated the fiscal stability resulting in the higher rate of deficits and domestic debt accumulation, as well as inducing more inflationary pressure within the market-oriented economy. In view of the decreasing price of crude oil in the international market accompanied by lower revenue generation, the rising inflationary pressure has continued to serve as a major obstacle in ensuring macroeconomic stability. With the monetary policy being constrained in addressing this problem as a result of the prevailing exchange rate regimes which adversely affect the activities of the commercial banks, this gave fiscal policy the opportunity to carry the main task of macroeconomic stabilisation in Nigeria. In many developing countries, particularly in the Sub-Saharan Africa, countercyclical fiscal policy is adopted in order to improve the efficiency of public finance. However, the ability to implement a countercyclical fiscal policy in a timely manner is constrained on one hand by the nature of public sector expenditures through the irregular release of budgeted funds and on the other hand by administrative inefficiencies. As a result, the strength of macroeconomic growth and stability is largely affected by the inappropriate fiscal operations. The growing outcome is the excessive increase in fiscal deficit and debt thereby leading to macroeconomic disequilibrium. Therefore, government must reduce the size of these deficits, broaden the revenue base by increasing the contribution from non-oil sources and synchronise both monetary and fiscal policies in order to ensure growth and maintain stability in the economy. For fiscal policy to be a feasible policy option in the macroeconomic management of developing countries, it will be necessary and essential to identify the areas where priorities of government expenditure should be assigned. Furthermore, such public expenditures should be reversed once the need for a fiscal stability is attained so that higher expenditure on these items does not become a permanent feature of the government fiscal policy. Otherwise, the neoclassical views on the growth-retarding effects of an increase in aggregate demand higher than aggregate supply will now be valid among the developing countries of Sub-Saharan Africa.

In addition, there is a need for government to implement reliable fiscal programmes which are
expected to play a vital role in overcoming these instabilities encircling the economy by providing a suitable framework for private sector development. Although, implementing a fiscal programme will not change the impacts of these instabilities on the economy unless viable pro-active measures are taken by the public sector to fight corruption and to strengthen transparency and accountability in fiscal management. Furthermore, there is an urgent need to ensure that appropriate fiscal operations are conducted and do not result in excess liquidity beyond the absorptive capacity of the economy. In addition, proper coordination between fiscal authorities and monetary management should be established to support in the execution of macroeconomic objectives of price stability and deficit reduction.

VI. References


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