IOSR Journal of Economics and Finance (IOSR-JEF)
e-ISSN: 2321-5933, p-ISSN: 2321-5925.Volume 9, Issue 6 Ver. I (Nov. – Dec.2018), PP 22-27
www.iosrjournals.org

Fiscal Policy And 2016 Recession In Nigeria: An Analysis Of 2017 Budget Of Recovery

Abubakar Okuwa Abdullahi, Abubakar Angulu Omaku
Department of Social Sciences,School of General Studies and Pre-nd,Nasarawa State Polytechnic, P.M.B 109 Lafia, Nasarawa State, Nigeria
Corresponding Author: Abubakar Okuwa Abdullahi

Abstract: *Nigerian recession is not accidental but a logical effect of the mindless looting of national treasuring, mismanagement of public funds, neglect of the real sector of the economy for security issues, huge cost of insecurity, over dependence on crude oil and the global crash in crude oil price which culminated into dwindling revenue accruing to the federation account. This study analyzed the efficacy fiscal policy measures taken by the government to recover the economy from recession. Using trend analysis the study found that the adoption of deficit financing and release of bailout were meant to inject money into the economy in order increase aggregate demand and revitalize the economy. However, there is policy conflict that mitigates the achievement of desire result. The study concludes that fiscal policy plays an indispensable role in recovering an economy from recession but policies conflict and delay in budget implementation mitigates the achievement of desired result in Nigeria. Finally the study recommended that government should embark on strategic spending in area with multiplier effect such as agriculture and manufacturing sector that increases aggregate demand and diversify the economy*
Keywords: *Fiscal Policy, Recession, Recovery, Budget, Government Revenue, Government Expenditure*

Date of Submission: 20-10-2018 Date of acceptance: 05-11-2018

I. Introduction

Nigeria has had a series of recession experience in her life time; 1925-1945, 1965-1975, 1980-1989, 2008-2009 and 2016-2017 to date, with the 2016 being the worst aside the 1980-1989 recession due the mindless looting of national treasuring, mismanagement of public funds, neglect of the real sector of the economy for security issues, huge cost of insecurity, over dependence on crude oil and the global crash in crude oil price (Johnson, 2016). Recession is a period of significant decline in output (income or expenditure) and rise in unemployment. It became obvious that the Nigerian economy is in recession due to the negative economic growth rates of 0.36% and 2.06% recorded in the first and the second quarters of 2016 respectively (CBN, 2016). All the economic agents in Nigeria (household, firms and the government) suffer the worst hit of this recession as it is characterised by a decline in income, output, employment, demand and unusual increase in general price level which is import driven due to deterioration in the value of naira. Thus Nigeria recession experience could best be described as stagflation which is a situation where recession and inflation coexist. It is important to note that recession is one of the four phases of business circle; recession, depression, recovery and boom (Jhingan, 2005).

Aside the subtle economic terms and explanations (GDP, recession, recovery, inflation, etc), any visit to the market in 2016 would prove to you that the economy was in a state of mess. The appalling situation was best described by president Buhari's statement while presenting the 2017 budget to the national assembly. He said that "we continue to face the most challenging economic situation in the history of our nation. Nearly every home and nearly every business in Nigeria is affected in one way or the other". The president made a statement of fact because it was virtually impossible to do viable business, pay school fees and even to feed in millions of home in Nigeria.

Therefore, the economic thinkers and development planners were preoccupy with a study of which policy option can best save Nigeria from getting into depression and overlap into recovery and growth path.

The major macroeconomic goal of Nigeria then was how to recover the economy from recession through stability in economy growth, stability in the balance of payment, stability in prices, creation of employment opportunities, external debt regulation and equitable distribution of income among others. These goals could best be achieved using fiscal policy whether neutral, expansionary or contractionary. Fiscal policy refers to the overall effect of budget outcome on economic activity (Bulus, 2006). Thus, fiscal policy is concerned with the government revenue and government expenditure. Jhingan (2005) has argued vigorously that for growth and development in the less developed countries like Nigeria, fiscal policies are generally more effective than monetary policies. This according to him is due largely to the nature of our monetary institutions and markets which are poorly developed and the presence of various structural rigidities such as immobility of factors of production among regions as well as imperfect market structures.

It is a statement of fact that the revenue accruing to the federation account through crude oil export, non oil export and Foreign Direct Investment from 2014-2017 was dwindling due to the global crash in oil price and a decreased in production occasioned by militancy activity in Niger/Delta region, the neglect of non oil sector due to the discovery of oil, and the present insecurity that deter foreign investors. The worst of all is the mind burgling looting of the oil boom revenue that could have been saved for the raining day and the depletion of foreign reserve.

The study will seek answers to the following questions:

a. How best has government made optimal use of slim revenue through 2017 budget and revamped the economy?
b. How can government achieve fiscal policy efficacy in Nigeria?
c. What can government do to avert future slide into recession?

Thus, the study seeks to:

1. Analyze how government used allocations in 2017 budget to achieve recovery despite slim revenue
2. Examine how effectiveness of fiscal policy can be achieved in Nigeria
3. Highlight the critical areas of focus for the government to avert future recession

The study focused on fiscal policies with emphasis on government expenditure and it impacted on the economic recovery and growth of Nigeria using content analysis. However, the research has several limitations which include time, cost and inadequate data for analysis. Notwithstanding these limitations, an attempt is being made by the researcher to make best use of the available data.

II. Theoretical Framework and Review of Related Literature

The study adopt a Keynesian theory which advocate for state intervention in the economic management so as to attain full employment against cyclical recession or depression which is in contrast to the classical economic theory which believes in the say's law. Fiscal policy was invented by John Maynard Keynes during the great depression of the 1930s. Keyne's theory asserted that some microeconomic actions of individuals and firms can lead to aggregate macroeconomic outcomes in which the economy operates below its potential output growth (Keynes, 1939). Keynesian school has suggested measures of ending recession as:

-Massive borrowing and infrastructural spending
-lower taxes and incentives
-accommodating monetary policy
-countercyclical spending and investment
-acceptance of Natural rate of inflation
- given bailout

Keynes favours injection of money into the economy in the face of recession in order to increase aggregate demand and that any leakage could lead the economy into depression (Jhingan, 2005)

Fiscal policy refers to the overall effect of budget outcome on economic activity (Bulus,2006). Fiscal policy is concerned with the government revenue and government expenditure (Kalra, 2006). According to ogboru (2006), fiscal policy has to do with any decision to change the level, composition or timing of government expenditure or to vary the burden, structure or frequency of tax payment. In this study fiscal policy is seen as the use of budget to influence the level of economic activity through changes in the level of government revenue and government expenditure. Budget refers to an estimate of planned government expenditures and expected revenues (Jhingan, 2005)

Recession refers to the period of decline in gross domestic product (GDP), employment, output, income, demand and investments (Jhingan, 2005). In the same light National Bureau of Economic Research (NBER) defined a recession as a significant decline in economic activity spread across the country, lasting more than a few month, normally visible in a real (GDP), real income, employment, industrial production and wholesale-retail-sales.

III. Overview of the Origin of Nigeria Recession

Nigerian economy is vulnerable to both internal and external shocks with near zero absorptive capacity (Alhassan & Kilishi, 2016). The vulnerability to shocks is due to weak structure of the Nigerian economy characterized by some key features worthy of mention as important background framework. First, the economy is highly mono-cultured. Agriculture has been neglected since the discovery of oil. While proceeds from oil has not been sufficiently channelled to developing other key sectors such as industrial, infrastructural and agricultural sectors. In one perspective, income from oil has been more of a curse than blessing to the Country and in fact the 2016 recession is one of many indications of the curse.

Next is the lack of political will to improve the supply side of the economy thereby dipping us into a consumption economy as all eyes are centred on oil (Sanusi, 2016; Babalola, 2016; Emefiele, 2016). Legislations at different tiers of the government concentrate on allocation to each sector with little or no emphasis on production (Supply Side). At Federation Accounts Allocation Committee (FAAC) meetings, discussion is about sharing income and nothing about production, generating values and incomes by different tiers of the government.

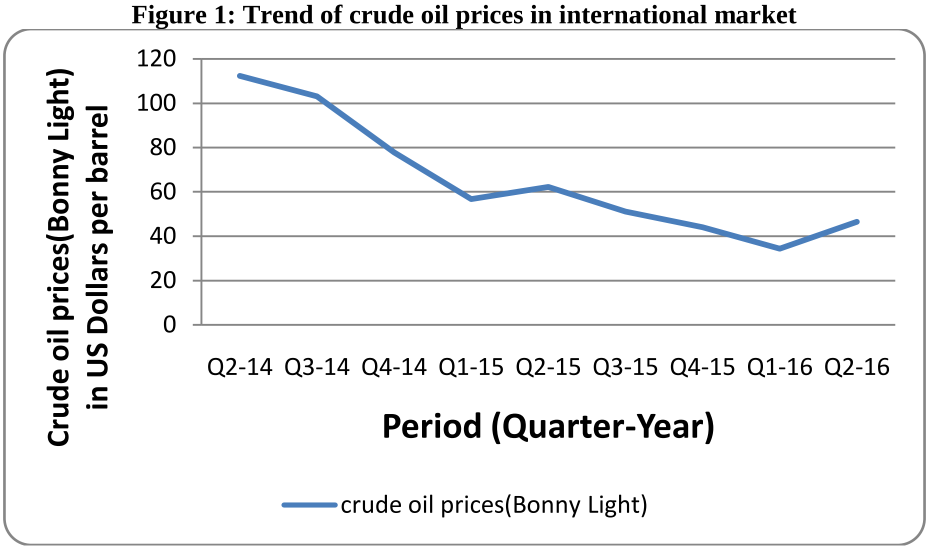
Another bent is that, most booms in oil sector translate to rising allowances for political office-holders who in real terms contribute the least (if any) to the economy. This poor governance and poor policy implementation result from weak and extractive political and economic institutions (Babalola, 2016). While political office holders are the fewest in the distribution of populace, they seem to get most of this oil proceeds in relative terms. They have made legislations that guarantee unreasonably high pay for political office holders which is not obtainable elsewhere in the globe. More so at each level, the leader has the discretion to decide how many sub-political office-holders (aids, advisers etc) to engage. With rising population and rising governmental responsibilities, including insecurities, governance becomes more costly on yearly basis thus putting more pressure on our limited resources.

In the same vein, bulk of our income from oil is trapped in personnel cost. Over the years since independence, statistics have shown that recurrent spending across all levels of government in Nigeria has been on the rise for no rationally economic reasons. During campaigns, politicians do campaign with job opportunities. So, on assumption of offices, they employ large number of people, not minding the need assessment. Government staff's figure in Nigeria exhibits one-directional trend, always on rising horizon and this generates high correlation with personnel cost which is being constantly offset predominantly by oil proceeds.

Corruption and sentimental tendencies exhibit probably highest grades in recent time in the history of Nigeria. Relatively lower corruption in the past would mean that resources lost to corruption were lower than what obtains now. Sentiments, by influencing who are appointed and who are charged for corrupt practices means that this economy wastes more money than before and all summed together impose core burdens on the oil money.

The 2016 economic woes was envisage as at June 10, 2013, when the then Minster of Finance and Co-ordinating Minister for the Economy in Nigeria, Dr Okonjo Iweala stated that despite impressive macroeconomic fundamentals, Nigerian economy was shaky and that drastic steps were needed to save it from imminent collapse (Iweala, 2014). She revealed this at the 50th meeting of the 15-member Federal Government Economic Implementation Team held behind closed doors at the Presidential Villa. By the last quarter of 2014, oil price had fallen to a four-year low with New York Mercantile Exchange (NYMEX) December WTI oil futures selling for around $75 per barrel at that time. With this development, the then Minister of Finance warned that tougher time awaited Nigerian economy. The logic from this inference is that if oil price of around that price range implied a gloomy future for the nation's economy, what will the 2016 oil price hovering between $40- $50 per barrel imply?

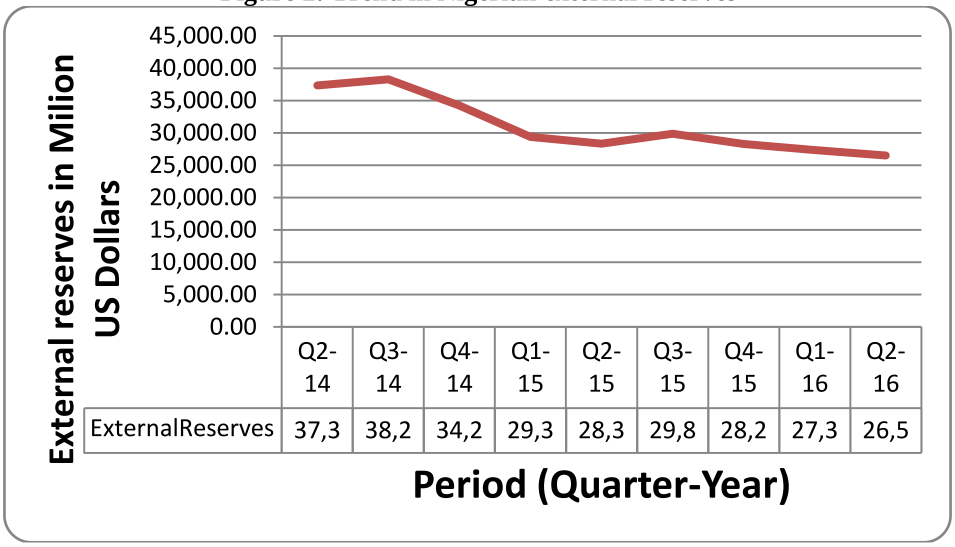
Figure 1: Trend of crude oil prices in international market



Source: Authors Computation Using CBN Data.

Foreign Exchange Reserves declined significantly from about US$42.8 billion in January 2014 to about US$26.7 billion June, 2016 due to over 70 percent drop in crude oil price. In terms of monthly inflows, the CBN foreign exchange earnings have fallen from about US$3.2 billion to current levels of below a billion dollars (Emefiele, 2016).

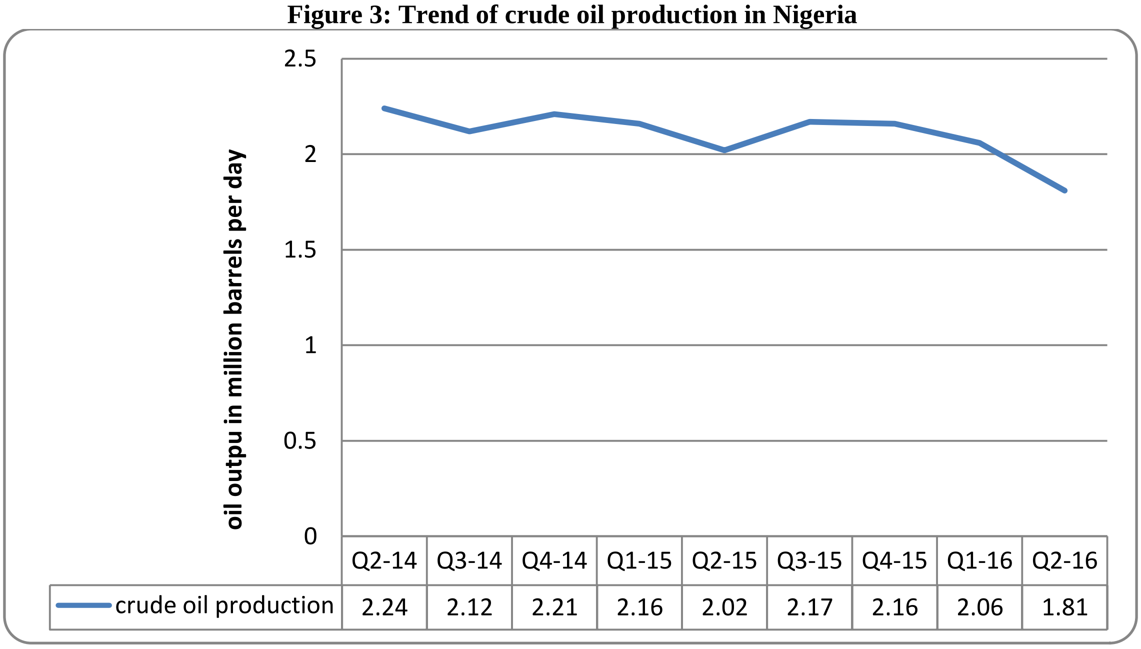
Figure 2: Trend in Nigerian external reserves



Source: Authors Computation Using CBN Data.

In terms of crude oil production in Nigeria, there was a dropped from about 2.24 million barrels in 2014 to about 1.8 million barrels per day in 2016 due to militancy in Niger Delta Region (CBN, 2016).This degenerated into all-time low of oil output of about 900 million barrels per day (CBN, 2016). At times, oil export terminals are damaged and oil companies begin to panic for safety of both staff and facilities. The combine effects of a fall in oil price and decline in oil output cause a depletion in revenue and foreign exchange earnings.

Figure 3: Trend of crude oil production in Nigeria



Source: Authors Computation Using CBN Data.

However, government expenditures are on the rise, such that the gap between revenue and expenditure continues to widen. Foreign earnings from oil which at present stays at about 90% of aggregate foreign exchange earnings is on a strong decline due to simultaneous all-time lows of oil output (oil export) and world crude oil prices. Despite this decline, the demand for foreign exchange has risen significantly. For example, average import bill rise from N148.3 billion per month in 2005 to about N917.6 billion per month in 2015 (Emefiele, 2016). This led to deterioration of naira and strengthening inflationary pressures which worsen the recession. The problem becomes more compounded with the depletion of foreign reserves and excess crude accounts. For instance, external reserves dropped from about 38 billion US Dollars in second quarter of 2014 to about 27 billion US Dollars in second quarter of 2016 while excess crude accounts was completely depleted.

As a consequence, job-cuts, job losses, pay-cuts, non payment of salaries and welfare loss becomes inevitable due to declining income in real terms (purchasing power effects). So to a reasonable extent, recessionary impacts affect virtually all economic agents and consumers feel the impact most.

The combined effects of the aforementioned factors led to the Contraction in the economy 0.36% and 2.06% fall in growth rate of Gross Domestic Product for the first and second quarter of 2016 respectively. This result is not unexpected. World oil price has not improved as it continues to hover between $40-$50 dollar per barrel while oil output has not reasonably improved with failed dialogues and continued mistrust between Nigerian government and Niger Delta Militant groups (NBS, 2016). Pronounced efforts to diversify the economy remain highly threatened by poor infrastructures, security challenges and power inadequacies.

IV. An Analysis of 2017 Budget

President Buhari presented 2017 budget of recovery by the last quarter of 2016 to the national assembly estimated at ₦7.298 trillion which was based on a benchmark crude oil price of ₦42.5 per barrel, oil production estimate of ₦2.2 million barrels per day and an average exchange rate of ₦305 to US dollar (Johnson, 2016). The budget expected aggregate revenue of ₦4.94 trillion naira of which oil was projected to contribute ₦1.985 trillion. While the deficit of ₦2.36 trillion would be finance mainly by borrowing of which ₦1.254 trillion will be source internally and ₦1.067 will be source externally. Premised on fiscal economic analysis, the 2017 budget was a deficit budget of economic recovery and growth. Using Keynesiam paradigm, running a deficit budget and borrowing to finance it is not alien. There is need to borrow in recession in order to increase spending that will trigger the exchange towards revitalisation of an economy. The comprehensive policy measures to fight recession in a Keynesian model are; Massive borrowing and infrastructural spending, lower taxes and incentives, accommodating monetary policy, countercyclical spending and investment, acceptance of Natural rate of inflation and given bailout (Jhingan, 2005). Keynes favours injection of money into the economy in the face of recession and that any leakage could lead the economy into depression.

On the expenditure side, the budget estimates for infrastructure was ₦2.24 trillion (30.7%), debt servicing ₦1.837 trillion (25.2%), ₦1.8 trillion on cost of governance, ₦100 billion as seed money for ₦1 trillion Family Home Fund, ₦213.14 billion was provided for rail projects and ₦50 billion was set aside as support to Small and Medium Enterprises (SMEs).

An objective analysis of the expenditure side of the budget estimates shows that infrastructural development received priority with budgetary allocation of ₦2.24 trillion because the government wanted to create an enabling environment for local and foreign investors. It culminated into employment generation and entry of dollars into the economy that improved the value of naira.

The estimate for debt servicing (₦1.837 trillion) and administrative cost (₦1.8 trillion) showed that the economy is under catastrophe. The figures were threatening to the economy and urgent majors needed to be taken if not they will continue to be on the rise and hence cripple the real sector of the economy.

The provision of ₦100 billion as seed money for Family Home Fund was commendable. Beyond providing home, it will create employ opportunity.

It was a good omen that ₦213.14 billion naira was estimated in the budget as counterpart funding for the Lagos-Ibadan, Lagos-Calabar, Ajaokuta-Itakpe-Warri and Kaduna-Abuja railway projects. This if completed will ease the pressure on roads, reduce transportation cost and stimulate productivity in Nigeria.

It was also commendable that ₦50 billion was estimated in the budget as FG contribution to the expansion of existing as well as the development of new Small and Medium Enterprises (SMEs). This is another critical sector that serves as engine of growth. By proper support they can metamorphose to Large Scale Enterprises and lead to economic prosperity as in the case of China, Malaysia and Singapore amongst others. The measure bend was the delay in the passage and signing of the proposed budget due to institutional interests which lowered the actual effects of the budget. However, despite the delay in signing of ₦7.44 trillion budget after plus and minus by the acting president professor Yemi Osinbajo on 12th June, 2017, Nigeria economy got out recession in the third quarter of 2017 due largely to the strict adherence to the spirit of 2017 budget.

V. Summary, Conclusion and Recommendations

5.1 Summary of findings

The study found that federal government adopt deficit financing to recover the economy from recession as propounded by Keynesian model. Similarly, release of bailout funds to state government was meant to pay salaries, pensions and gratuity so as to inject money into the economy with the view to increasing aggregate demand and rejuvenate the economy.

5.2 Conclusion

Fiscal policy (budget) played an indispensable role in recovering Nigerian economy from recession but policies conflict and delay in budget implementation must be avoided to increase the prospect of achieving future result in Nigeria.

5.3 Recommendations

1. Effective Spending: mere increase in government spending will not sustain Nigerian economy recovery and growth but strategic spending in area with high multiplier effect such as agriculture, mining and manufacturing sector that increases aggregate demand and diversify the economy
2. Nigeria government should make provision of special funds in the subsequent budgets for tertiary institutions to train students on technical skill in domestic trade, agro-Allied trade and technical trade amongst others in other to curb increasing joblessness. The training should be 80% practical and there should be high level of commitment, sincerity and transparency in the programme to ensure the best candidates are picked, trained and graduated.
3. Consistency and proper coordination of macroeconomic policies: there should be consistency and proper coordination of fiscal and monetary policies to sustain the recovery and growth. When fiscal policy is expansionary, monetary policy should be expansionary as well in order to inject money that will revitalise trade and economy
4. In addition to the budgetary allocation for rail project embedded in the budget, government should put aggressive efforts towards improving all railway system as well as all forms of transportation in the country.
5. State government should please use the bailout funds to pay salaries, pensions and gratuity as intended. The economic reason of giving the bailout is to inject more money into the circulation so as to spur the economy.

Reference

[1]. Alhassan A & Kilishi A.A (2016), Analysing oil price macroeconomic relationship in Nigeria. Central bank of Nigeria journal of applied statistics, 7(1), 1-22

[2]. Babalola A. (2016) Nigeria and economic recession: Way out (1) On December 7, 2016 Vanguard .

[3]. Bulus, L.M. (2006), The structure of federal government expenditure in Nigeria._Journal of Economics, (3)1 December 2006, A publication of the Department of Economics University of Jos.

[4]. Central Bank Nigeria. (2016) Statistical Bulletin, Central Bank of Nigeria, Abuja,

[5]. Emefiele G. (2016). Re-introducing and operationalizing Nigeria's flexible exchange Rate market. An Address At the Unveiling of the Framework for Re-introduction of Managed Float Exchange Rate System on 15th June 2016, Central Bank of Nigeria

[6]. Iweala O. (2014). Speech delivered at 50th meeting of the 15-member Federal Government Economic Implementation Team held behind closed doors at the Presidential Villa, Abuja Nigeria.

[7]. Jhingan, M.L. (2005), The economic of development and planning, 39th Revised and enlarged edition. Delhi, Verinda Publications Ltd.

[8]. Johnson B.M (2016), 2017 Budget and lifting Nigeria out of recession, retrieved from https://guardian.ng/opinion/2017-budget-and-lifting-nigeria-out-of recession

[9]. Kalra, K.B. (2006), Academic dictionary of economics, 1st edition. New Delhi academic Publishers

[10]. Keynes. J.M. (1936) The general theory of employment, interest, and money, web edition eBooks@Adelaide 2010.

[11]. National Bureau of Statistics (2016). Annual Socio-Economic Report,Federal Republic of Nigeria.

[12]. Ogboru, I. (2006), Macroeconomic 2nd edition. Kaduna, Liberty publication Ltd

[13]. Sanusi L.S. (2016). How Nigerian government caused economic recession, September 2, 2016. Premium times online.

Abubakar Okuwa Abdullahi "Fiscal Policy And 2016 Recession In Nigeria: An Analysis Of 2017 Budget Of Recovery "IOSR Journal of Economics and Finance (IOSR-JEF) , vol. 9, no. 6, 2018, pp. 22-27.