



## FISCAL OPERATIONS AND MACROECONOMIC GROWTH: THE NIGERIAN EXPERIENCE



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### ABSTRACT

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Over the years in Nigeria, the trend of fiscal expenditures continues to increase rapidly without any corresponding increase in the level of revenue. This scenario had deteriorated the fiscal stability resulting in high rate 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 stabilization 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 utilized both charts and table to show the trend of fiscal elements with the aim of determining the relationship among the variables. The paper concludes that fiscal operation is ineffective in providing the needed macroeconomic environment for sustainable growth. Therefore, there is need for government to reduce the size of its deficits, broaden the revenue base by increasing the contribution from non-oil sources, and synchronize both monetary and fiscal policies in order to ensure growth and maintained stability in the economy. Also, an effectively implemented fiscal policy programs could play a vital role in overcoming these instabilities on the economy by providing a suitable framework for a more stable and predictable budget. Nevertheless, mere quantitative implementation of fiscal programs will not change the impacts of these instabilities on the economy unless viable pro-active measures are taken to fight corruption and to strengthen transparency and accountability of fiscal management in the public sector.

**Contribution/ Originality:** This study contributes in the existing literature by providing a better understanding on how fiscal operations affect the macroeconomic condition of the Nigerian economy using a descriptive analysis. The paper utilized a recent dataset (2010 base year) for more than 3 decades with the view to establishing reliable findings.

### 1. 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, Nigeria is inclusive, means that more emphasis and greater importance is placed on the use of fiscal policy operations to stabilize 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 macroeconomics thought is the Classical school. The classical economists are advocates and supporters of the price mechanism that believes in a sound and efficient market where there are effective resource allocations and a guarantee to 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 failed to achieve a satisfactory level of welfare for the society by providing 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).

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. 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 categorized as follows: section two deals with the empirical review of fiscal operations in both developed and developing countries taking into cognizance the Classical and Keynesian propositions. Section three contains an overview of fiscal operations in Nigeria towards ensuring sustainable growth and development, section four highlight 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, section five provides the concluding remark and possible recommendations.

## **2. EMPIRICAL REVIEW OF THE LITERATURE**

In an attempt to provide a review of how 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 operations can affect macroeconomic activities both in the short-run and long-run. While some studies show a positive relationship providing more 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.

### 2.1. 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 utilizing 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 debated that fiscal policy component (aggregate government expenditure) has a negative and insignificant relationship with economic growth. At disaggregate level, capital expenditure is also negative while recurrent is on the contrary. However, only labor 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 utilizing 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. In addition, [Fatás and Mihov \(2001\)](#) evaluate the effects of fiscal policy on macroeconomic growth in developed countries by utilizing a quarterly data from 1960Q1 to 1996Q4. The study adopts a VAR technique and found that the rise in public sector consumption are always expansionary, while increases in government investment do not affect output significantly. This, however, supports the argument that fiscal policy exerts a negative influence on the real output growth within the review period. Moreover, [Baunsgaard \(2003\)](#) examine 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 [Ilzetzki et al. \(2011\)](#) contribute to the literature on the effect of fiscal policy on output by examining 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 \(2002\)](#) and the result shows that the response of economic growth to increases in public expenditure is negative and statistically significant in developing countries. Also, fiscal policy differs in developing countries not only in its execution but also in its effects and relationship with other policies, as increases in government expenditure are far more short-lived compared to highly-persistent public expenditure shocks in developed countries. Similar results

were obtained by [Ravn and Spange \(2012\)](#) in Denmark using a SVAR model as developed by [Blanchard and Perotti \(2002\)](#) from 1983 to 2011.

Additionally, [Abata et al. \(2012\)](#) investigate the impact of fiscal policy variables on economic growth using a conceptual framework. The study submitted that the role of fiscal policy in achieving sustainable economic growth has remained an illusion. In spite of a considerable increase in the public sector spending over the years, the growth rate remains very low and marginal. Also, the study reveals that the effect of monetary policy on economic growth is much stronger than that of fiscal policy within the review period. This result is consistent with the findings obtained by [Ajisafe and Folorunso \(2002\)](#) and [Adefeso and Mobolaji \(2010\)](#). In addition, [Havi and Enu \(2014\)](#) examine the effect of fiscal and monetary policy in Ghana's economy from 1980 to 2012 using the OLS estimation technique. The study maintained that fiscal policy, though positive but statistically insignificant compared to monetary policy in achieving sound and sustainable macroeconomic growth.

## 2.2. Evidence in Support of Keynesian Proposition

Relevant works in the literature related to the Keynesian principles includes the following arguments: [Alex and Ebieri \(2014\)](#) examines the impact of fiscal policy on the Nigerian economic growth from 1986 to 2010 by utilizing ARDL technique 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 examine 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.

Additionally, [Cyril \(2016\)](#) evaluates 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 \(2013\)](#) examine the implication of fiscal policy measures on the Nigerian economy from 1970 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 stabilize investment activities in the economy.

In a similar submission, [Ogbole et al. \(2011\)](#) evaluates 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 \(2014\)](#) examine 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. \(2014\)](#) evaluates 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. However, public investment expenditure positively affects economic growth in Egypt and Tunisia only in the long run. Also, there exists a significant relationship between productive expenditure on investment and economic growth in all the three countries within the study period, 1970 to 2002, because, 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 serves as an obstacle to economic growth in the three countries.

Equally, [Maku \(2015\)](#) assesses 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, labor force and human capital stock.

In another development, [Yadav et al. \(2010\)](#) investigates 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 Perotti \(2002\)](#) 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. Whereas, tax shocks, on the other hand, decrease output growth, investment and private consumption, but the effect on both spending and tax becomes statistically insignificant subsequently. 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.

Additionally, [Matthew \(2011\)](#) 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 Perotti \(2002\)](#). 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 et al. \(2013\)](#) analyses the effect 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 \(2009\)](#) assess the effects of a new consensus in macroeconomics in relation to fiscal and monetary policy in developed countries by utilizing 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, especially when properly coordinated with monetary policy.

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 \(2015\)](#) examine 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 of the various sectors of the economy within the sample period. In the same vein, [Gemmell and Au \(2012\)](#) evaluate the relation between fiscal policy and output growth in OECD countries from 1995 to 2009 using a pooled regression model. The study argued, among other things that, increase in government spending as a fiscal policy variable has positive effects on output growth while increased tax rates produce negative output effects in all the review economies. In addition, [Kilindo \(1997\)](#); [Tanzi and Howell \(1997\)](#); [Easterly and Rebelo \(1993\)](#); [Baxter and King \(1993\)](#) and [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.

### 3. AN OVERVIEW OF FISCAL OPERATIONS IN NIGERIA

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 ([National Bureau of Statistics, 2012](#); [Central Bank of Nigeria, 2015](#)). 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 Osafo-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 programs. 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 (Abdurrauf, 2015; Cyril, 2016).

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 (Mansouri, 2008; Onyemaechi, 2014). The key priority sectors and areas where funds are mainly expended are critical infrastructures, fighting corruption and human capital development, land reforms, 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 (Gemmell and Au, 2012; Osinowo, 2015).

Like every nation particularly in developing countries, public expenditure is among the significant component of economic governance in Nigeria. 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 (Matthew, 2011; Alex and Ebieri, 2014). 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 (Baunsgaard, 2003; Appah, 2010).

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. In 1980, the estimated value of GDP on the average stood at ₦31.55billion and later rises to an average of ₦15,258.00billion in 1981. 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 ₦13,779.26billion 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 the poor diversification of the economy and increased dependency on oil and gas sector. In 1985, the value is ₦14,953.91billion and later rise to ₦15,237.99billion in 1986 and 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 ₦19,305.63billion providing a difference of about ₦4.0billion within a four-year period. The mantra of Structural Adjustment Program (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 ₦19,305.63billion 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 ₦25,267.54billion in 2001 to ₦35,020.55billion in 2004. Its annual growth rate averaged 7.01 percent from 2005 with the value of ₦37,474.95billion, reaching a significant amount of 9.54 percent in 2010. With the new administration of President Jonathan in 2011, the value favorable increased up to ₦59,929.89billion 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 ₦63,218.72billion; ₦67,152.79billion; and ₦69,023.93billion with an annual growth rate of 2.79 percent, respectively (CBN, 2015).

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. It was in 1994 that a fall occurred in recurrent expenditure, but not for capital expenditure. Recurrent expenditure was ₦7,696million or 45.98% of the total expenditure in 1986, but by 1993, this had risen to ₦136, 177.8million or 76.80% of the total expenditure. Similarly, in the year 2000, total expenditure of the federal government stood at ₦701,059.40million, where both recurrent and capital expenditures were ₦461,600million and ₦239,450.9million 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 ₦3,240,820.00million, and recurrent and capital expenditure were ₦2, 117,362.00million and ₦960,890.00million, respectively (CBN, 2015). From 2009 up to 2015, the value of recurrent expenditure continued to increase at the speed of horse tripling 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 ₦15.23billion in 1980 to ₦12.60billion in 1986 and later to an average of ₦949.19billion by the end of 1999. This may partly be as a result of various economic and complimentary reform programs introduced during the period. In the year 2000, tax revenue stood at ₦1,906.16billion, it then later increases from ₦2,231.60billion in 2001 to an average of ₦7,866.59billion in 2008. Though, these increase trend in tax revenue has not reflected on the life of an average Nigerian (given the rising trend of the poverty level and unemployment rate) in spite of a corresponding increase in total government expenditure during that period. By the fiscal year 2009, total federally collected revenue was valued at ₦4, 844.59billion, this trend continues up to the last quarter of 2015 where it recorded an annual amount of ₦6,912.50billion (CBN, 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 realized 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. Over the period covered by the study (1980-2015), developments in fiscal balance reveal that with the exception of 1995 and 1996, Nigerian government documented deficits in fiscal balance. The surpluses realized in 1995 and 1996 may probably be reversed to deficits if proper accounting and evaluation procedures are conducted.

This instability scenario can be drawn directly to high dependency on oil and gas exportation which are exposed to global oil price shocks coupled in addition to inappropriate fiscal spending policies by the public sector. It is interesting to express that Nigeria over the period has suffered an enormous external shock heightened 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 Ebieri, 2014).

It is in view of this framework 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 between 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 recognized 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 industrialized countries are still underdeveloped.

In the previous evaluation of oil boom era in Nigeria, the disbursement from oil earnings in early 1970's was utilized 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.

#### 4. 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 characterized 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.

Numerically, 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, 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.

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 ₦27.95billion in 1985. In 1990, the value still represents 26% of GDP, with an average amount of ₦84.90billion. 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 to ₦8,837.00billion, representing 8.3% and 13% of GDP, respectively. This, however, shows a declining percentage in contrast to what is obtained during the previous years. This may partly be explained due to the increase rate of GDP over the years (CBN, 2015).

Another challenge of fiscal operations in the macroeconomic management is the rising trend of deficit. As shown in figure 1, statistical data from CBN (2015) reveals that, as at 1980, the overall deficits stood at ₦1.98billion 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 ₦5.89billion in 1987, ₦12.16billion in 1988 and ₦15.13billion in 1989, respectively. This represents an increased percentage between 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.

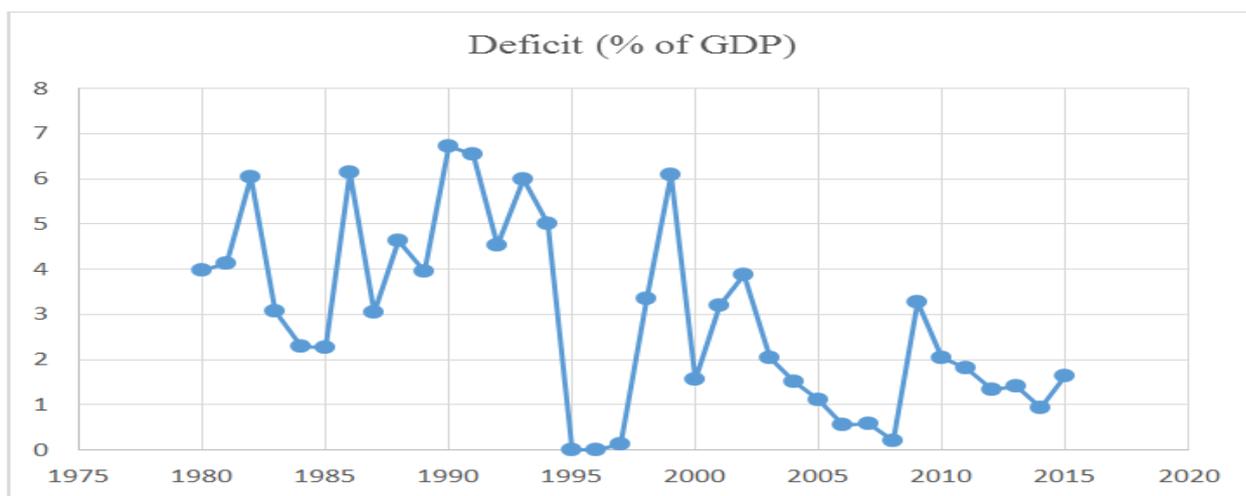


Figure-1. Trend of budget deficit in Nigeria

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

Given the problems in managing debt and deficit, the challenges became more pronounced when examined 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 to 1984 in which similar scenario of negative growth rates of -2.0% was realized. 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, because the growth rate reflected back again to non-positive values of -0.55%, but 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.

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

addition, 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 stabilize 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.

## 5. CONCLUSION AND RECOMMENDATIONS

This paper has provided a review and a better understanding of how 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 African continent, countercyclical fiscal policy is adopted in order to improve the efficiency of public finances through reduction of deficits and public debt. 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. 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. Unfortunately, the strength of macroeconomic growth and stability in Nigeria is affected by inappropriate fiscal operations over the years through the accumulation of excess fiscal deficit and debt thereby leading to macroeconomic instability. The government must, therefore, 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 maintained stability in macroeconomic indicators. Also, an effectively implemented fiscal policy programmes could play a vital role in overcoming these instabilities on the economy by providing a suitable framework for a more stable and foreseeable budget. Nevertheless, ordinary and simple implementation of fiscal programmes will not change the impacts of these instabilities on the economy unless viable pro-active measures are taken to fight corruption and to strengthen transparency and accountability of fiscal management in the public sector. Therefore, 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. Uncertainty remains another major challenge in the management of fiscal operation in Nigeria. To address the problem of uncertainty in the macroeconomic management of the Nigerian economy, a solid partnership between the two sister policies should be encouraged to be able to monitor the activities and administrative functions of key institutions in Nigeria.

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