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IMPERATIVES OF FISCAL DISCIPLINE IN SUSTAINING ECONOMIC GROWTH

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1.0 INTRODUCTION

The Nigerian economy technically exited a recession since the second half of 2017 but the growth in GDP has remained weak and fragile. The National Bureau of Statistics (NBS) report for the first quarter of 2018 reveals that although the real Gross Domestic Product grew by 1.95 per cent in Q1 2018, it actually declined when compared with the output growth of 2.11 per cent in the previous quarter.

The recession was brought about in the first instance by the continuous decline in crude oil prices from mid-2014, which led to a drastic fall in government revenue given the Nigeria's over reliance on crude oil revenue. Indeed, the economic shock from the collapse in international crude oil price would have been less severe had the country observed fiscal discipline during periods of boom.

Fiscal discipline can be defined as the capacity of a government to maintain smooth financial operations and long-term fiscal health. It is essential to improve and sustain economic performance, maintain macroeconomic stability, and reduce vulnerabilities. Strong fiscal discipline builds up financial management capacity which contributes to good governance.

The concept of fiscal discipline can be viewed from three perspectives. The first is by public finance theorist, Richard Musgrave who explained it to mean financing of current operations from current revenue, implying that a government should cover its current expenditures only with current revenues. According to Musgrave and Musgrave (1989), deficits can bring current benefits to residents and win political support for officials but add tax burden on future tax payers.

Another view by John Mikesell (cited in Musgrave and Musgrave, 1989), is that fiscal discipline is exercised if government agencies execute the appropriations Act faithfully by spending approved amounts of money on legislatively intended items or purposes. The third usage by Axelrod extends the coverage of fiscal discipline to legislators, which requires that the legislature should act to meet its own deadlines and targets on resolutions, budget and appropriation bills. The remaining sections of this paper examine why fiscal discipline is essential for Nigeria, experiences of peer countries and imperatives of fiscal discipline for sustaining economic growth.

1.1 WHY FISCAL DISCIPLINE IS CRUCIAL FOR NIGERIA

Rising oil prices, higher oil output, new foreign exchange measures (Investors & Exporters window), tight monetary policy and interventions by the Central Bank of Nigeria (CBN) in Agriculture have contributed immensely to achieving stability in the foreign exchange market, declining inflation, improvement in capital inflows, increased foreign exchange reserves and positive developments in the capital market. However, all these factors have not positively impacted enough to boost non-oil revenue, reduce inflation within the CBN's target range of between 6 – 9 per cent or reduced unemployment.

Fiscal imbalance is also widening. According to the International Monetary Fund (IMF, 2018), “'high fiscal deficit is crowding out the private sector. The provisional Federal Government (FG) overall fiscal deficit for 2017 (4.3 percent of GDP) is 50.0 per cent higher than what was recorded in

2016'' Tax to GDP ratio is low at 6.0 per cent while debt service ratio is becoming unsustainable. Concessional loans from multilateral sources are dwindling and becoming difficult to secure. Foreign commercial credits (Eurobonds) which the country has resorted to have considerable risks.

The structure of the Nigerian economy is still defective. Although the size of the oil sector in the country's economy is on the decline, it has continued to account for a disproportionate share of government revenue. Data from the NBS show that crude oil accounts for about 90.0 per cent of foreign exchange earnings. Consequently, the fate of Nigeria's economy is still tied to the fortunes of the international crude oil market-rising with a rise in crude oil price and falling with a dip in oil price.

As indicated in Table 1, the country's macroeconomic performance in recent times confirms this pattern as the major indicators fared better between 2011 and 2015, a period characterised by relative high oil price. The last two years have witnessed relatively poor economic performance mainly due to relatively low oil prices.

Table 1: Selected Macroeconomic indicators : 2011 – 2017

	2011	2012	2013	2014	2015	2016	2017
GDP (%)	4.4	4.3	5.4	6.3	2.7	-1.54	0.8
Inflation (%)	10.8	12.2	8.5	8	9.0	17.6	15
Exchange rate (US$)	162.3	156.2	160	183	199.1	305	305
MPR (%)	12	12	12	13	11	14	14
Foreign reserves	32.9	44.2	43.6	34.5	29.1	24.5	33
External Debt/GDP (%)	1.4	1.5	1.8	1.8	2.2	2.6	3.5
Debt/GDP ratio (%)	10.2	10.4	10.5	10.5	na	11.5	18

Sources: CBN, NBS, DMO

The negative effect of the country's defective economic structure is pronounced in unmet budget targets. In recent times in particular, shortfalls in projected government revenue have accounted for the poor implementation of annual budgets especially the capital component (see Table 2).

Table 2: FGN Revenue Performance, January, 2017– July, 2017

		2017 Approved Budget (₦'Billions	Pro Rata (Jan-June) (₦'Billions)	Actual (Jan-June) (₦'Billions)	Variance (₦')
S/N	FEDERAL RETAINED REVENUES	5,084.40	2,542.20	2,429.65	-112.55
A	FGN 48.5% Share of:	3,503.08	1,751.54	1,313.75	-437.80

1	Oil Revenue	2,122.18	1,061.09	960.87	-100.22
2	Minerals & Mining Revenue	1.06	0.53	-	-0.53
3	Non-Oil Revenue	1,379.84	689.92	352.88	-337.04
i	CIT	807.82	403.91	157.38	-246.53
ii	VAT	241.92	120.96	62.54	-58.42
Iii	Customs Revenue	277.56	138.78	132.97	-5.81

Sources: OAGF, Budget Office

Table 2 clearly shows a significant adverse variance in oil revenue projections for 2017.. In this regard, it is evident that the Nigerian economy is highly vulnerable to shocks. According to Fitch, Nigeria requires an oil price of about US$139 a barrel to balance its budget.

An oil-exporting country's "fiscal breakeven" oil price is the minimum price per barrel that the country needs in order to meet its expected spending needs while balancing its budget. Oil prices below this level will result in budget deficits unless government policies change.

In its 2017 report on 14 major oil exporting nations in the Middle East, Africa and emerging Europe, Fitch says only Kuwait, Qatar, Congo and UAE have estimated break-evens that are below US$60 per barrel. It is therefore not surprising that the Federal Government has increased borrowing to finance its budget deficits. According to data from the Debt Management Office (DMO), Nigeria's total public debt stock at end December 2017 was N21.7 trillion,(table 3).

Table 3: Nigeria's Public Debt Stock as at December 31, 2017 in N'Millions

Debt Category	Amount Outstanding in USD	Amount Outstanding in NGN
A. External Debt Stock (FGN + States)	18,913.44	5,787,512.64
Domestic Debt Stock (FGN Only)	41,142.11	12,589,486.13
Sub-Total	60,055.55	18,376,998.77
B. Domestic Debt of States	10,943.71	3,348,774.26
C. Grand-Total (A+B)	70,999.26	21,725,773.03

Source: DMO

Although the country's public debt stock, representing about 18.0 per cent of nominal GDP, remains within acceptable debt thresholds since it is well below the World Bank's debt sustainability threshold of 56.0 per cent for Nigeria and other peer countries, rising debt service payment relative to revenues is a source of concern as it places a squeeze on government's ability to fund its expenditure programmes.

As noted by the IMF, "the FG interest payments-to-FG revenue ratio rose to 63.0 per cent at end-

Table 4 indicates that owing to the decline in government revenues, the debt service payment is significant relative to total expenditure.

Of greater concern is the contribution of domestic debt service payments to the debt service ratio as domestic debt service constitutes about 90.0 per cent of total debt service.

Table 4: FGN Expenditure Performance January, 2017 - July, 2017

		2017 Approved Budget (₦'Billions)	Pro Rata (Jan-June) (₦'Billions)	Actual (Jan-June) (₦'Billions)	Variance (₦'Billions)
S/N	FGN EXPENDITURE	7,441.18	3,720.59	3,101.33	-619.26
A	Statutory Transfer	434.41	217.21	209.02	-8.19
B	Recurrent Expenditure	4,832.27	2,416.13	2,892.31	476.18
1	Non-Debt Recurrent Expenditure	2,990.92	1,495.46	1,947.57	452.11
2	Debt Service	1,841.35	920.67	927.74	-7.07
i	Domestic Debt	1,488.00	744.00	871.94	-127.94
ii	Foreign Debt	175.88	87.94	55.80	-32.14
iii	Sinking Fund	177.46	88.73	-	-88.73
3	Others	-	-	17.00	
C	Capital Expenditure	2,174.50	1,087.25	-	1,087.2 5

Sources: OAGF, Budget Office

Table 4, also reveals that about N1.00 trillion should have been expended as atJune, 2017 out of the N2.174 trillion allocated to capital in the 2017 budget but not a single kobo had been spent by the end of June 2017. While the late passage of the 2017 budget was partly responsible, the shortfall in projected oil revenue contributed to the problem. This is happening in a country with huge infrastructure gap.

Nigeria was ranked 132 out of 138 countries in overall quality of infrastructure in the 2016 Global Competitiveness Report. Low tax revenues are keeping the fiscal deficit high, leading to more government borrowing that is crowding out the private sector activity amid high unemployment rate.

Although relative macroeconomic stability has been achieved attributable to rising oil prices and higher output as well as effective monetary policy and strategic interventions by the Central Bank of Nigeria, the economic situation remains challenging. Recovery after recession is still fragile, weak and uneven as critical sectors are still in the negative territory as indicated in Table 5.

Table 5: Performance of leading sectors in 2017

Activity Sectors	Contribution to GDP (Per cent)	GDP (Per cent)
Agriculture	25.08	3.45%
Trade	16.86	(1.05)
Information and Communication	11.35	(1.04)
Manufacturing	9.18	(0.21)
Mining and Quarrying	8.81	4.72
Real Estate	6.85	(4.27)
Construction	3.72	1.00
Professional, Scientific and Technical	3.69	(0.26)
Financial and Insurance	3.00	1.26
Public Administration	2.28	(0.38)

Sources: NBS and FSDH Research

According to the IMF, the population is growing at about 3.0 per cent annually, with youth (0 to 19 years of age) accounting for more than 54.0 per cent of the population. Demographic trends imply that Nigeria could be the third most populous country in the world by 2050. This could present a significant challenge to per capita growth and poverty reduction.

According to the 2018 IMF Article IV Consultation Report on Nigeria:

> "State and local governments balance sheets remain fragile. Backlogs in the payment of salaries, debt to contractors, slow progress in generating internal revenue (despite ongoing efforts to improve tax administration and inflows from Ministries Departments and Agencies) and 11.0 percent of Paris Club refunds outstanding, are weighing on the reform environment. The Budget Support Facility, intended to run out in May 2017, has continued to transfer N700 million per month per state (N126 billion between June and October 2017), even though some states have not met the associated conditions for disbursements set out in the 22 points Fiscal Sustainability Plan".

So despite the country's exit from recession, vulnerabilities remain, providing a strong case for the enthronement of fiscal discipline at all levels of government in Nigeria.

1.2 FISCAL DISCIPLINE: EVIDENCE FROM PEER COUNTRIES

Nigeria is often grouped among the MINT countries. MINT is an acronym for Mexico, Indonesia, Nigeria and Turkey. These countries undertook reforms at one point or the other to strengthen fiscal discipline.

Mexico Intensified a two-year austerity drive in its 2017 budget trimming the headline fiscal deficit from 3.0 per cent of GDP in 2016 to 2.4 per cent of GDP in 2017. The government focused on cutting spending rather than increasing debt or taxes- from slashing government operating costs by about one fifth. It also implemented diversification of public revenues and increasing the tax base in order to reduce dependence on oil

revenues, strengthened the tax administration system to combat evasion, enhanced efficiency in tax collection as well as carried out reforms in public expenditure to incorporate a performance-based perspective to allow for a more efficient allocation of resources.

Indonesia made use of carefully planned conditional cash transfer programmes geared towards job creation and equal distribution across regions, enacted a tax amnesty law in 2016 which offered citizens a nine-month window in which to declare previously unreported assets and pay a low tax rate. This was meant to widen the tax base and boost government revenues. It is instructive to note that Indonesia has a population of over 255 million people. Before the tax amnesty only 27 million registered as tax payers while less than 1 million paid income tax.
On her own part, Turkey halved the ratio of public debt to GDP from almost 80.0 per cent in 2001 to less than 40.0 per cent before the global crisis of 2008. Improved management of public debt led to longer maturity periods and lower interest rates. Prudent applications were made with proceeds from sale of government assets and privatization to repay sovereign debt. As noted in the country's Medium Term Program introduced in 2017, the budget deficit/GDP ratio is targeted at 1.9 per cent in 2018, 1.8 per cent in 2019, and 1.6 per cent in 2020

2.0 IMPERATIVES OF FISCAL DISCIPLINE FOR NIGERIA

The imperatives of fiscal discipline in sustaining economic growth in Nigeria are examined from two perspectives: what the government has done and what it can still do. Interestingly, the Fiscal Responsibility Act of 2007 contains key provisions designed to promote fiscal discipline in Nigeria. Key provisions in this regard include:

a) Time Limit for presentation of Medium-Term Expenditure Framework in which the Minister is required before the end of the second quarter of each financial year to present the Medium-Term Expenditure Framework to the Federal Executive Council for consideration and endorsement;

b) Where the reference commodity (oil) price rises above the predetermined level, the resulting excess proceeds are expected to be saved. The saving of each Government in the Federation shall be deposited in a separate account which shall form part of the respective Governments Consolidated Revenue Fund to be maintained at the Central Bank of Nigeria by each Government. The CBN, in consultation with the Minister of Finance, the State Commissioners of Finance, and Local Government Treasurers, shall invest, for and on behalf of the Governments in the Federation, the saving of each Government and such investment can be undertaken in a consolidated manner, provided that, the shares of each Government and income due to them from the investment are clearly identified. No Government in the federation shall have access to the savings made unless the reference commodity price falls below the predetermined level for a period of three consecutive months;

c) According to Section 36 of the FRA 2007, the creation, expansion or improvement in government action which result in an expenditure increase shall be accompanied by an estimate of the budgetary or financial impact in the year it becomes effective and in the two subsequent years and statement by the person requesting for the expenditure stating that the increase is consistent with the Appropriation Act and the Medium-Term Expenditure Framework;

d) Government at all tiers shall only borrow for capital expenditure and human development, provided that, such borrowing shall be on concessional terms with low interest rate and with a reasonable long amortisation period subject to the approval of the appropriate legislative body where necessary, (S.41). In addition, government shall ensure that the level of public debt as a proportion of

national income is held at a sustainable level as prescribed by the National Assembly from time to time on the advice of the Minister;..

e) The President shall with advice from the Minister of Finance subject to approval of National Assembly, set overall limits for the amounts of consolidated debt of all tiers of government. The limits and conditions approved by the National Assembly, shall be consistent with the fiscal policy objectives in the Medium term fiscal Framework, (S. 42); and

f) Any Government in the Federation or its agencies and corporations desirous of borrowing shall, specify the purpose for which the borrowing is intended and present a cost-benefit analysis, detailing the economic and social benefits of the purpose for which the intended borrowing is to be applied,(S. 44). Each borrowing shall ensure the existence of prior authorisation in the Appropriation or other Act or Law for the purpose for which the borrowing is to be utilised and that the proceeds of such borrowing shall solely be applied towards long-term capital expenditures.

2.1 What the Government has done

a) Implementation of some Public Financial Reforms involving Treasury Single Account, the Efficiency Unit and Payroll Clean Up-Integrated Payroll and Personnel Information System;

b) Establishment of Debt Management Office in some states;

c) Tax Amnesty (VAIDS) to ramp up non-oil revenue helped by the BVN; and

d) Strategy of replacing existing T-bills with Eurobonds in view of the high cost of domestic debts.

2.2 What the Government can still do

a) Strict compliance with FRA 2007. This will among other benefits curb state governments' penchant for bank borrowings;

b) There is still room to cut recurrent spending (beam searchlight on Ministries that consume the bulk of recurrent expenditure notably Interior, Education, Defense and Health);

c) Revisit the report of the Presidential Committee on reform of government agencies. The Committee chaired by Mr. Steve Oronsaye had observed that the average cost of governance in Nigeria ranks among the highest in the world and recommended the reduction of statutory agencies of government from 263 to 161;

d) Use Executive order to streamline purchases made by MDAs. Leverage economies of scale from collective demand processes;

e) Utilise more of infrastructure bonds (eg sukuk);

f) Clearly identify and sell unproductive government assets. The proposed relocation of Ikoyi and Kirikiri prisons in Lagos are good initiatives;

g) The National Assembly should enact the “Buy Nigerian Act'' which promotes the use of locally made products (similar to The Buy American Act that helped the US exit economic recession in the 1930's) to complement the President's Executive Order;

h) Tweak some sintervention programmes, especially the conditional cash transfer scheme to gear them towards productivity;

i) Plan for fiscal tightening in 2018 ahead of elections in 2019;

j) To achieve overall increase in tax to GDP ratio from 6.0 per cent to 15.0 per cent

focus on consumption (indirect) taxes. Increase collection efficiency. Reduce direct taxes to stimulate production and employment. Personal and company taxes can be reduced while VAT can be raised, as part of moves to increase competitiveness and rebalance the economy towards exports and savings;

Show greater commit to the implementation of the ERGP. Fiscal Discipline demands that annual budgets should properly connect with government's medium term plan (ERGP). Recently Bill Gates observed that allocations to Education and Health do not reflect ERGP key objectives.

There is need to increase capital allocations to key sectors such as agriculture, education and health in order to align with the key ERGP objectives. Timely release of funds is essential to achieve greater performance of the budget.

3. CONCLUSION

The overarching goal of Nigeria's growth strategy beyond recession exit should be to achieve high, sustainable and inclusive economic growth. With the economy still susceptible to the vagaries in the crude oil market, economic growth will remain fragile and anemic. A number of reforms have been undertaken by the government to promote fiscal discipline but more can still be done to strengthen the efficiency of public financial management. There is therefore the need to apply fiscal discipline in the budgetary process to limit recurrent expenditures in particular within currently available resources and to guarantee timely adoption of a realistic budget to guide government operations in any fiscal year. Sound budgetary practices must be accompanied by mechanisms devised to cushion the effects of oil price shocks as well as other exogenous factors beyond the control of government. To this end the build-up of a fiscal buffer and the adoption of budgets before the start of each fiscal year are necessary conditions for fiscal discipline.

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