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WHY FISCAL POLICIES MATTER IN AFRICAN COUNTRIES*

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The paper discusses the critical role of fiscal policy in developing African economies. While it is accepted that fiscal management is one of the important functions of a modern state, the nature of the fiscal management in a specific environment determines, to a large extent, the overall effect of such intervention. The Nigerian experience indicates a very narrow revenue base that could not withstand the weight of public expenditure and investment. Fiscal deficits financed by borrowing from the banking system increased while, in consequence, macroeconomic instability and public debt burden escalated. This has persisted as the various fiscal adjustment policies have not been fully executed. The paper concludes that fiscal adjustment has to continue in most African countries, otherwise growth and development potential cannot be attained. Improvement in the macroeconomic environment, revenue diversification, expenditure rationalisation, gradual elimination of deficit financing and improved budgetary and planning procedures are some of the proposals outlined.

Fiscal policy, as a major tool of macroeconomic management, may be broadly defined as the package of adjustments in government revenues and expenditures in support of economic stability and a desired rate of economic growth. Specifically, it seeks to achieve full employment, sustain general price stability and thereby increase the potential rate of economic growth with as little disruption as possible to other social and economic objectives. Thus, conceptually, fiscal policy is relevant in a modern state as it seeks to guide the major activities of the government. In practice, fiscal management can deviate from the accepted norm if it is not adequately synchronised with other macroeconomic and sectoral policies which, ultimately, seek to achieve the same broad objectives as fiscal policy. A common feature of government fiscal

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operations is an expanded government spending programme which is beyond the scope of real resources, resulting in wide fluctuations in economic activity.

In consideration of the above, fiscal policy is a most relevant subject in the development of African economies. This is buttressed by the experiences of African countries under their structural adjustment programmes often supported by the international financial institutions. Undoubtedly, inefficient fiscal management was an important cause of the economic crisis preceding the adoption of structural adjustment programmes, while inadequate fiscal adjustment has often been cited as one of the constraints on achieving the expected turn-around in the African economies in the period of adjustment. Consequently, a major issue in African economic recovery today relates to the prospects of adopting the most relevant fiscal policies in these economies.

The paper adopts a generalised approach to the discussion of the subject while drawing lessons from the Nigerian experience. Firstly, the theoretical basis of fiscal policy is examined as a way of outlining a framework of fiscal management in a developing economy. Secondly, the Nigerian experience of fiscal management is reviewed and this tends to show that resource adequacy could both benefit and constrain effective fiscal management. Thirdly, drawing inferences from the Nigerian experience in fiscal management, the focus and direction of fiscal policy for the sustainable growth of African economies in the years ahead is articulated. The three main parts of the paper are therefore organised to analyse these three important aspects.

PART I

THEORETICAL BASIS OF FISCAL POLICY

The theoretical literature of public sector economics discusses at least three important issues in fiscal policy. These are the basis and scope of government activities, the form of intervention of government in the economy and the general effects of governmental activities. A brief consideration of these follows:

Assuming an economy in which there is a primacy of private enterprise, the underlying reason for government intervention in the economy is based on the recognition that the market mechanism, which is supposed to guide private economic agents, has several inadequacies. Examples of such are the cases of collective goods, divergence between private and social costs or benefits, extreme technological risks and natural monopolies (Eckstein, 1979: 5–9). At one extreme, this principle even allows government to undertake any economic activity in the interest of the society. In a developing market economy, there are more frequent cases of market failure which explains the urge for government intervention. Over and above the situations in which the private market fails, government intervention may be justified if it will provide an alternative initiative, change the pattern of consumption or redistribute income in a desirable direction. These situations may explain why government engages in an enterprise which may be thought to be in the domain of private enterprise, or takes steps to discourage citizens from consuming certain products such as drugs, alcohol, and tobacco, which normally should lie within their discretionary power. To shift income from one group to the other, government also undertakes activities in social security, welfare services and unemployment insurance.

Government intervention can take several forms. Government may decide to provide some goods directly. In developed market economies, the goods to be so provided will be determined by their inherent characteristic; the need to adapt such goods to the preferences of the society or the need to attain the highest level of efficiency (Due, 1968: 14-15). Experience in most developing countries, especially prior to the recent economic crisis and reforms, shows that a wide range of considerations guide the choice of what goods the government directly provided. Another form of government intervention is the use of subsidies to induce higher output on the part of producers or to increase consumption. Whereas subsidies have been more frequently used to induce higher output in developed economies, they have been more common in inducing consumption in developing economies. Examples of subsidies on production in developing countries include sales of fertilizer and seedlings to farmers, charging of differential or lower interest rates on credit to productive activities, lower tariffs on imported inputs and provision of infrastructural services in support of industrial production, etc. On consumption, subsidy elements are to be found in government's effort to provide social services at uniform prices throughout the country, e.g. petroleum products, stamps, electricity and water rates, education and health services, etc. Other methods of government intervention include direct controls to deal with external costs and dis-economies, as well as the use of fiscal and monetary policies to boost aggregate demand in certain circumstances, and transfer payments to rationalise the pattern of real income distribution in the economy. These actions imply some specific forms of taxation and spending pattern on the part of the government.

The economic effects of government intervention in the economy are very pervasive and buttress the need for such economic activities to be well planned and executed. Due (1968: 145–264) analyses four types of effects: allocational and efficiency, factor-supply, distributional and stabilization, and growth effects. Firstly, government actions change resource allocation when they involve the direct production of some goods or the transfer of payments from some economic agents to others. Indeed, the taxes imposed on citizens to finance such activities can reallocate not only consumer expenditures but also economic resources generally. Government activity can also affect operational efficiency, that is, the amount of output obtained from a given quantity of resources, because of the way the activity utilizes resources, the nature of the revenues derived and the reaction of the private sector in terms of its factor combinations. Secondly, as suggested indirectly above, the pattern of government revenue and expenditure can alter the supplies of various production factors. This will affect not only the total level of output and employment but also the pattern of distribution of real income among economic agents. Thirdly, and arising from the latter factor, government expenditure and revenue systems alter the overall pattern of real income distribution both intentionally and inadvertently. For instance, welfare programmes are deliberately planned to increase the real incomes of some disadvantaged groups, while a progressive tax system seeks to take away some income from the highest income groups of the society. Fourthly, governmental activities influence the aggregate spending in an economy and therefore the level of the Gross Domestic Product (GDP) and its growth. In the Keynesian model of income determination, government expenditures and revenues alter the level of national income in real terms through (i) its own direct spending, (ii) influencing private consumption and investment, and (iii) changing the basic wage rate.

From the foregoing review, one may assert that the real issue of government activity and its fiscal actions is not whether they are justified but how discretion is exercised in the use of the powers involved, since such actions have definite effects on the economy in various dimensions. These actions can only be evaluated empirically. The empirical outcomes will, to a large extent, depend on the specific economic environment, the combination of the policy instruments, and the implementation of the fiscal programme. In all these considerations, the Nigerian experience is both unique and relevant in the African context. This experience forms the basis of the discussion in Part II.

PART II

FISCAL POLICY AND OPERATIONS: THE NIGERIAN EXPERIENCE

Over the years, the major objective of economic management in Nigeria has centred around the achievement of rapid development of the economy in order to improve the welfare of the people. In recognition of the importance of the public sector in complementing the private sector's role in transforming the economy, the government had used the major instruments of fiscal policy in pursuit of macroeconomic objectives of growth, price stability, full employment and balance of payments equilibrium. Significant progress was made in transforming Nigeria's rural economy, especially in the 1970s, through these actions. However, the economy had come under increased pressure since the 1980s due to a number of factors including inappropriate fiscal management. In this part of the paper, we shall review fiscal policy and operations as well as their impact in Nigeria between 1970 and 1991. The objective is to use the Nigerian experience to support the position that fiscal policy matters in African countries.

Analysis of Government Revenue

There are two main sources of government revenue in Nigeria. These are oil and non-oil sources. Revenue from the non-oil sources between 1970 and 1972 contributed an average of 58.1 per cent of the federally-collected revenue; but from 1973 the contribution of non-oil sector decreased substantially. Consequently, foreign exchange earnings from the exports of crude oil became dominant as it displaced the exports of agricultural commodities, such as cocoa, palm produce, rubber and groundnuts, etc. as the major source of foreign exchange earnings and government revenue.

Under the Federal Constitution of Nigeria, all revenues collected under federal laws are known as federally-collected revenues and are paid into a Federation Account. The Federal Government also has independent sources of revenue which accrue to it directly without passing through the Federation Account. Revenue in the Federation Account is shared among the Federal, State and Local Governments in accordance with the prevailing revenue allocation formula. The revenues that are paid into the Federation Account are oil-sector receipts, Company Income tax, and Customs and Excise duties. Under the current statutory allocation formula, the Federal Government gets 48.5 per cent of the Federation Account while State and Local Governments receive 24.0 and 20.0 per cent, respectively. The balance of 7.5 per cent is allocated to special funds to meet national needs. These include Development of Mineral Producing Areas (3%), General Ecology (2%), Federal Capital Territory, Abuja (1%), Derivation (1%) and Statutory Stabilization (0.5%). The independent revenue of the Federal Government comprises interest on loans on-lent to state governments, capital re-payments, rents on government properties, personal income taxes of the Armed Forces, External Affairs, residents of the Federal Capital Territory of Abuja, etc. The independent revenues accrue to the Federal Government as part of its retained revenue.

In 1970, federally-collected revenue stood at ₦624.2 million, with revenue from oil sources accounting for ₦166.4 million or 26.6 per cent, while revenue from non-oil sources totalled ₦457.8 million, representing 73.4 per cent of the total receipts. By 1974, federally-collected revenue had increased seven-fold to ₦4,537.0 million, resulting largely from the increase in the posted price of crude oil in the world market from US $3.81 per barrel in 1972 to US $14.69 per barrel in 1974. Revenue from oil sources accounted for 82.1 per cent of the total, while the share of non-oil revenue dropped to 17.9 per cent. This upward movement in federally-collected revenue peaked at ₦15,234.0 million in 1980, while revenue from the oil sources alone amounted to ₦12,353.8 million or 81.1 per cent and non-oil revenue provided the balance of ₦2,880.2 million or 18.9 per cent. Between 1981 and 1986, federally-collected revenue declined persistently from the level attained in 1980 until it started to rise again after the introduction of the Structural Adjustment Programme (SAP) in the second half of 1986. One of the major policy measures of SAP was to evolve a realistic and sustainable market-determined exchange rate for the Naira so as to reduce the demand for foreign exchange to available supply and to reduce pressure on the balance of payments. This resulted in a significant depreciation of the naira exchange rate. The abolition of the fixed exchange rate regime thus enhanced federally-collected revenue considerably as it rose from ₦12,302.0 million in 1986 to ₦25,099.8 million in 1987, and stood at ₦88,158.7 million in 1991. The relative contribution of the oil sector to federally-collected revenue dropped from the average of 80 per cent in the late 1970s to about 76.5 per cent between 1986 and 1991, while non-oil revenue accounted for 23.5 per cent. However, the oil sector continued to provide the bulk of government revenue, and the country has not really succeeded in reducing its dependence on crude oil for government revenue. Further details of the revenue profile are given below.

(a) Oil Sector Revenue

Revenue from the oil sector consists of petroleum profit tax, rents, royalties and earnings from sales by the Nigerian National Petroleum Corporation (NNPC). The total oil revenue in 1970 was only ₦166.4 million. Petroleum profit tax accounted for 58.7 per cent, while royalties, rents, and NNPC earnings contributed 41.3 per cent. Receipts from the oil sector improved considerably between 1973 and 1980 when it peaked at ₦12,353.8 million and then started to decline until the mid-1980s. After the abolition of the fixed exchange rate regime, oil revenue increased from ₦8,107.3 million in 1986 to ₦19,027.0 million in 1987 and stood at ₦68,832.2 million in 1991. The oil sector receipts actually constitute a net residual as a result of the high level of subsidies that is involved in the sale and distribution of crude petroleum and products. The subsidy has three elements. There is a primary subsidy which is the difference between the price at which the Federal Government sells crude oil for domestic consumption and the price that would have been obtained if the oil was sold in the international oil market. This primary subsidy is currently estimated at about ₦380 per barrel. The second level subsidy is the excess of the total costs of crude oil, refining, excise duty, distribution and marketing (borne by the Nigerian National Petroleum Corporation (NNPC) Marketing and Transport Companies) over gross sales revenue. The estimated subsidy is over ₦10 billion per annum. A third level subsidy is the extra cost borne by the NNPC in ensuring that petroleum products are evenly distributed between zonal areas of the country arising from shortfalls between supply and demand for oil products in any part of the country. The Federal

Table 1
NIGERIA: FEDERALLY COLLECTED REVENUE
(₦ million)

SOURCE	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980
OIL REVENUE	166.4	510.4	764.3	1,016.0	3,726.7	4,271.5	5,365.2	6,059.0	4,654.1	8,880.9	12,353.8
(i) Petroleum Profit Tax	97.6	383.2	540.5	769.2	2,872.5	2,707.5	3,624.9	4,286.2	3,415.7	5,164.2	8,564.3
(ii) Rent, Royalties and NNPC Earnings	68.8	127.0	223.8	246.8	854.3	1,564.0	1,740.3	1,772.8	1,238.4	3,716.7	3,789.5
(iii) National Economic Reconstruction Fund (NERF)	—	—	—	—	—	—	—	—	—	—	—
NON-OIL REVENUE	457.8	631.3	640.5	678.1	799.2	1,227.3	1,397.2	1,593.0	2,749.2	2,020.0	2,880.2
(i) Company Income Tax	45.8	63.0	80.4	75.5	146.6	261.9	222.2	271.8	527.4	575.1	579.2
(ii) Import Duties	215.5	284.8	274.4	307.9	328.3	629.3	724.3	964.2	1,436.2	870.6	1,407.2
(iii) Export Duties	41.9	37.7	26.9	12.3	5.6	5.8	6.1	4.2	2.8	0.2	0.1
(iv) Excise Duties	112.6	168.8	179.8	196.0	164.4	125.5	152.3	177.2	259.2	273.0	406.2
(v) Others	42.0	77.0	79.0	86.4	154.3	204.8	292.3	175.6	523.6	301.0	487.5
(vi) NERF (Non-oil)	—	—	—	—	—	—	—	—	—	—	—
TOTAL FEDERALLY COLLECTED REVENUE	624.2	1,141.5	1,404.8	1,695.3	4,537.0	5,514.7	6,765.9	7,652.5	6,879.7	10,912.4	15,234.0
Less Federal Government Independent Revenue [1]	42.6	77.1	79.0	86.4	154.4	204.7	292.3	312.4	523.6	301.0	487.5

Table 1 (contd.)

SOURCE	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991
OIL REVENUE	8,564.1	7,814.9	7,253.0	8,209.7	10,915.1	8,107.3	19,027.0	20,933.8	41,334.4	54,713.2	68,832.2
(i) Petroleum Profit Tax	6,325.8	4,846.4	3,746.9	4,761.4	6,711.0	4,811.0	12,504.0	12,496.5	24,161.7	26,909.0	38,615.9
(ii) Rent, Royalties and NNPC Earnings	2,238.6	2,968.5	3,506.1	3,448.3	4,204.1	3,002.5	6,242.2	8,435.6	17,172.7	27,804.2	30,216.3
(iii) National Economic Reconstruction Fund (NERF)	—	—	—	—	—	293.8	280.8	1.7	—	—	—
NON-OIL RESERVE	3,398.0	3,877.9	3,817.2	3,789.0	3,691.0	4,194.7	6,072.8	6,377.0	8,865.6	13,857.3	19,326.5
(i) Company Tax	508.2	734.0	561.5	808.2	1,049.9	1,102.5	1,235.2	1,572.4	1,977.4	3,408.7	3,826.7
(ii) Import Duties	1,880.9	1,801.7	1,114.8	924.2	1,199.0	1,298.7					
(iii) Export Duties	—	0.3	1.1	1.0	5.6	6.8	3.5				
(iv) Excise Duties	654.6	680.7	869.3	690.8	978.9	1,041.4	814.4				
(v) Others	394.3	661.2	1,270.5	1,364.8	457.6	745.3	1,296.8				
(vi) NERF (Non-Oil)	—	—	—	—	—	930.3	889.2				
TOTAL FEDERALLY COLLECTED REVENUE	11,978.9	11,692.8	11,070.2	11,998.7	14,606.1	12,302.0	25,099.8	27,310.8	50,200.0	68,570.5	88,158.7
Less Federal Government Independent Revenue[1]	564.0	807.9	1,271.6	1,368.1	577.8	433.7	407.6	540.5	938.0	1,724.0	3,040.4

1. Federal Government Independent Revenue includes revenue from Interest and Repayments, Rents on Government properties and proceeds from Personal Income Tax of the Personnel in the Armed Forces, External Affairs and the Fede4ral Capital Territory of Abuja.

Source: Federal Ministry of Finance, Abuja.

Government had in the past tried to gradually phase out the subsidy element, but with the continued depreciation of the Naira exchange rate, the level of implicit subsidy on petroleum products has tended to increase.

(b) Non-oil Revenue

The major sources of non-oil revenue in the Nigerian economy since 1970 have been imports, excise and export duties as well as company and personal income taxes. Revenue from non-oil sources was dominant in the federally-collected revenue between 1960 and the early 1970s. In 1970, non-oil revenue amounted to ₦457.8 million, with import duties accounting for 47.1 per cent of the total revenue from the sector, while excise duties contributed 24.6 per cent. Company income tax and excise duties accounted for 10.0 and 9.2 per cent, respectively. Non-oil revenue increased from ₦457.8 million in 1970 to ₦2,880.2 million in 1980, with import duties alone accounting for ₦1,407.2 million or 48.8 per cent of the total receipts, while company income tax accounted for 20 per cent. Excise duties contributed 14.1 per cent, while export duties, which in 1970 had accounted for ₦112.6 million or 24.6 per cent of non-oil revenue, had ceased to be a source of government revenue. This was due largely to the impact of the fixed exchange rate system on domestic production, especially agriculture. It was more profitable to import finished goods instead of producing them locally. Between 1980 and 1985, revenue from non-oil sources increased from ₦2,880.2 million to ₦3,691.0 million. This upward trend in the level of non- oil revenue continued till 1991 although the level did not improve sufficiently to displace the oil-sector revenue as the major source of government revenue.

The review does not contain data on personal income tax because under the Nigerian federal system, personal income tax is collected by State Governments in their respective domains, and they are allowed to retain the receipts as part of their internally-generated revenue in addition to their statutory allocations from the Federation Account. However, personal income tax plays an important role in the fiscal policy of the government. It is used as a main instrument of achieving income redistribution in Nigeria, hence the statutory laws governing the administration of personal income tax are within the jurisdiction of the Federal Government. One advantage of this is that it prevents a situation where each state promulgates personal income tax laws which are in conflict with those of other states. The personal income tax system is highly progressive, but it allows for allowances before tax for self, children, dependants, insurance, research and development expenditure, etc.

Analysis of Government Expenditure

In the context of a federal set-up, the constitution allocates functional responsibilities among the three tiers of government, i.e. Federal, State and Local Governments. The first is a list of social services that are provided exclusively by the Federal Government and it includes national defence, security, external affairs, printing of money, etc. The second list contains the concurrent subjects, such as health, education, agriculture, etc., which each of the Federal, State and Local Governments could accommodate in their expenditure programme. The third list contains residual subjects, that is, social services that are not specifically mentioned under the exclusive or concurrent lists. These are to be provided by State and Local Governments. Each of the three tiers of governments has its expenditure programme. However, this analysis is focused strictly on the expenditure of the Federal Government.

The early 1970s was characterized by a relatively low level of government activities in the economy. However, this situation changed considerably between the mid-1970s and the early 1980s. In the latter period, a relative decline in government expenditure took place as revenue fell due to the collapse of the world oil market. The total expenditure of the Federal Government as a ratio of the Gross Domestic Product (GDP) increased from an average of 12.2 per cent between 1970 and 1974 to 23.9 per cent between 1975 and 1980, while it declined to 17.2 per cent between 1981 and 1985. Total expenditure as a percentage of GDP increased marginally on average to 21.0 per cent.

In nominal terms, the total expenditure increased consistently from ₦858.4 million in 1970 to ₦14,167.9 million in 1980 after which it fell to ₦7,963.1 million in 1983 before it started to rise again. Total expenditure increased from ₦11,380.0 million in 1985 to ₦67,530.4 million in 1991. However, much of the growth in total expenditure was accounted for by the increase in transfer payments, especially debt service payments, while the share of expenditure on productive activities actually declined.

In order to highlight the relative shares of transfer payments and productive activities, total expenditure is disaggregated into some functional categories, such as administration, economic services, social and community services and transfer payments. Conceptually, transfer payments are not considered to be directly productive as they represent payments either for work done in the past or for debt service which represent outlay for credit received in the past. In 1970, the total expenditure on administration, comprising general administration, defence and internal security, stood at ₦603.8 million and accounted for 70.3 per cent of the total expenditure of the Federal Government, while transfer payments accounted for 19.5 per cent. Economic services, such as outlays on agriculture, construction, transportation and communication absorbed 7.8 per cent, while expenditure on social and community services, consisting of outlays on education, health, housing and other services, accounted for 2.3 per cent of the total expenditure. Between 1971 and 1980, productive expenditures accounted for an average of 85.2 per cent of the total expenditure, while transfer payments, largely gratuity and pensions, accounted for 14.8 per cent. This pattern of a relatively high share of total expenditure going into the productive sectors of the economy continued into the early 1980s when government revenue started to decline. This resulted largely from increased public

Table 2
FUNCTIONAL ANALYSIS OF TOTAL EXPENDITURE, 1970–1991
(₦' million

Year	Total Expenditure (1)	Adminis-tration (2)	% Share (3)	Economic Services (4)	% (5)	Social & Community Services (6)	& (7)	Transfer Payment (8)	% (9)
1970	858.4	603.8	70.3	67.6	7.9	19.7	2.3	167.2	19.5
1971	639.0	401.6	62.8	89.6	14.0	33.6	5.3	114.2	17.9
1972	977.1	607.0	62.1	179.1	18.3	71.4	7.3	119.6	12.2
1973	1,091.3	588.1	53.9	301.9	27.7	71.5	6.6	129.8	11.9
1974	2,097.5	823.7	39.3	540.5	25.8	453.0	21.6	280.3	13.4
1975	4,904.0	1,803.2	36.8	1,446.5	29.5	1,214.9	24.8	439.4	9.0
1976	6,713.9	1,805.6	26.9	2,373.2	35.3	1,534.3	22.9	1,000.8	14.9
1977	7,251.2	2,053.8	28.3	3,316.4	45.7	1,193.3	16.5	687.7	9.5
1978	8,519.5	2,249.4	26.4	3,156.2	37.0	1,620.4	19.0	1,493.5	17.5
1979	7,417.6	1,769.0	23.8	2,925.5	39.4	1,124.3	15.2	1,598.8	21.6
1980	14,167.9	3,205.9	22.6	5,917.3	41.8	2,131.7	15.0	2,913.0	20.6
1981	11,433.0	3,713.9	32.5	4,033.3	35.3	2,364.9	20.7	1,320.9	11.6
1982	9,855.2	3,109.3	31.5	3,451.5	35.0	2,186.7	22.2	1,107.7	11.2
1983	7,963.1	3,114.2	39.1	2,824.8	35.5	1,741.3	21.9	282.8	3.6
1984	8,882.2	2,940.0	33.1	950.8	10.7	1,038.0	11.7	3,953.4	44.5
1985	11,380.8	3,097.8	27.2	1,208.1	10.6	2,286.2	20.1	4,788.7	42.1
1986	16,206.8	2,940.5	18.1	1,613.6	10.0	1,517.1	9.4	10,135.6	62.5
1987	22,018.7	7,862.5	35.7	3,252.6	14.8	1,088.1	4.9	9,815.5	44.6
1988	25,781.5	7,676.9	29.8	3,349.9	13.0	3,840.2	14.9	10,914.5	42.3
1989	41,028.3	8,888.0	21.7	6,276.3	15.3	6,074.9	14.8	19,789.1	48.2
1990	61,491.1	7,857.6	12.8	16,365.3	26.6	4,816.9	7.8	32,451.3	52.8
1991	67,530.4	10,298.8	15.3	4,448.4	6.6	4,168.6	6.2	48,614.6	72.0

Source: (i) Federal Ministry of Finance.
(ii) Federal Office of Statistics.

Table 3
FEDERAL GOVERNMENT RECURRENT AND CAPITAL EXPENDITURES, 1970–1991
(₦ million)

Year	GDP (1)	Recurrent Expenditure (2)	Recurrent Expenditure As Percentage of GDP (3)	Capital Expenditure (4)	Capital Expenditure As Percentage of GDP (5)	Total Expenditure (2) + (4) (6)	Total Expenditure As Percentage of GDP (7)
1970	5,210.0	637.5	12.2	220.9	4.2	858.4	16.4
1971	6,570.0	492.8	7.5	146.2	2.2	639.0	9.7
1972	7,210.0	681.2	9.5	295.9	4.1	977.1	13.6
1973	10,990.0	656.2	6.0	435.1	4.0	1,091.3	10.0
1974	18,300.0	874.0	4.8	1,223.5	6.7	2,097.5	11.5
1975	20,960.0	1,696.0	8.1	3,208.5	15.3	4,904.0	24.4
1976	26,660.0	2,672.6	10.0	4,041.3	15.2	6,713.9	25.2
1977	31,520.0	2,246.6	7.1	5,004.6	15.9	7,251.2	23.0
1978	34,540.0	3,427.2	9.9	5,092.3	14.7	8,519.5	24.6
1979	41,950.0	3,198.1	7.6	4,219.5	10.1	7,417.6	17.7
1980	49,630.0	6,076.0	12.2	8,091.9	16.3	14,167.9	28.5
1981	50,460.0	5,739.5	11.4	5,694.0	11.3	11,433.0	22.7
1982	51,570.0	4,332.7	8.4	5,522.5	10.7	9,855.2	19.1
1983	56,710.0	3,929.5	6.9	4,033.6	7.1	7,963.1	14.0
1984	63,010.0	5,604.3	8.9	3,277.9	5.2	8,882.2	14.1
1985	71,370.0	5,916.1	8.3	5,464.7	7.7	11,380.8	16.0
1986	72,130.0	7,680.0	10.7	8,526.8	11.8	16,206.8	22.5
1987	106,890.0	15,646.2	14.6	6,372.5	6.0	22,018.7	20.6
1988	142,660.0	19,409.4	13.6	6,340.1	4.4	25,781.5	18.0
1989	222,460.0	25,994.2	11.7	15,034.1	6.8	41,028.3	18.5
1990	267,060.0	36,561.6	13.7	24,929.5	9.3	61,491.1	23.0
1991	285,630.0	38,243.5	13.4	29,286.9	10.2	67,530.4	23.6

Source: (i) Federal Ministry of Finance.
(ii) Federal Office of Statistics.

sector borrowing which helped to maintain the high level of outlay on administration, economic services, social and community services. From the mid-1980s, as capital and interest payments on external and domestic debt obligations became due, the share of transfer payments in the total expenditure increased considerably. Thus, the share of transfer payments to total expenditure rose from 44.5 per cent in 1980 to 72.0 per cent in 1991. Consequently, transfer payments generally, and debt service in particular, have become a major component of government outlay in Nigeria. Further component analysis of government expenditure is done below.

(a) Recurrent Expenditure

In 1970, the recurrent expenditure of the Federal Government was ₦637.5 million or 72.3 per cent of total expenditure and accounted for 12.2 per cent of the GDP. In 1971, it dropped to ₦492.8 million, but its share of the total rose to 77.1 per cent, while its share of GDP fell to 7.5 per cent from 12.2 per cent in 1970. Between 1971 and 1980, recurrent expenditure increased persistently from ₦492.8 million to ₦6,076.0 million, while the recurrent expenditure/GDP ratio averaged 8.2 per cent with 1972, 1976 and 1980 being exceptional years when the ratios at 9.5, 9.9 and 12.2 per cent were higher than the period average. The recurrent expenditure in nominal terms continued to grow up to the end of 1991 when it amounted to ₦38,243.5 million.

(b) Capital Expenditure

The capital expenditure of the Federal Government stood at ₦220.9 million in 1970 and accounted for 25.7 per cent of total expenditure, while the capital expenditure/GDP ratio was 4.2 per cent. After a fall in the level of capital expenditure to ₦146.2 million in 1971, the level rose persistently up to 1980 when it stood at ₦8,091.9 million and accounted for 57.1 per cent of total expenditure. The capital expenditure to GDP ratio was 16.3 per cent. Capital expenditure fell continuously from 1980 up to 1985 until the beginning of the SAP. Reflecting the foreign exchange impact on the capital budget and particularly external debt service, capital expenditure increased persistently between 1986 and 1991. It rose from ₦8,526.8 million in 1986, representing 52.6 per cent of total expenditure, to ₦29,286.9 million in 1991 and representing 43.4 per cent of total expenditure. The capital expenditure to GDP ratio dropped slightly from 11.8 per cent in 1986 to 10.2 per cent in 1991.

Public Sector Investment

Designed largely to accelerate the pace of industrial development in Nigeria, the Federal Government as well as the State Governments embarked on massive capital-intensive programmes in some key areas of the economy during the oil boom years. Between 1973 and 1990, public investment, which was estimated at about US $115 billion (converted at the official rate), was nearly two-thirds of total investment in the economy. In the 1970s, public investment focussed on the social sectors and infrastructure, while in the 1980s large industrial plants gained prominence. The notable projects included the Iron and Steel Complexes at Delta, Ajaokuta and Warri, the petroleum refineries in Port Harcourt, Kaduna and Warri, the paper mills at Oku Iboku and Iwopin, and motor assembly plants in Lagos and Kaduna. The public sector investments also extended to acquiring shares in oil companies, newspapers, banks and insurance companies, among others. These public sector investments represented substantial transfers of government revenue for the operations of these public organizations. However, these parastatals have not been very viable over the years and still demand continuous government funding for survival. When the oil boom was on, the Federal Government was able to meet this demand, but with the decline in government revenue, these public parastatals became a drain on the Federal government finances. Under the SAP, in order to reduce the level of its total expenditure, the Federal Government reviewed and appraised its participation in the economy generally and, in particular, some of these parastatals with respect to the social services they provide. One strategy aimed at reducing fiscal imbalance in the economy was to privatize as many parastatals that could stand on their feet and be viable, especially where the goods produced by such organizations are private goods. On the other hand, where outright privatization would not be practicable, the price charged for such services should be related to the cost of production, hence the idea of commercialization. In essence, the objective was to reduce the size of total expenditure in order to improve fiscal management in the country.

Analysis of the Fiscal Deficit

The fiscal operations of the Federal Government between 1970 and 1991 resulted in overall surpluses in only five years while they were in deficit in the remaining years. The overall surpluses as percentages of GDP ranged from a low of 1.3 per cent in 1972 to a high of 9.8 per cent in 1974. The overall deficits as percentages of GDP ranged from a low of 2.1 per cent in 1984 to a high of 12.3 per cent in 1991.

In 1971, the Federal Government achieved a surplus of ₦199.0 million in its fiscal operation but the level dropped to ₦97.0 million in 1972 as a result of the higher increase in total expenditure compared with the retained revenue. In 1973 and 1974 the fiscal operation were in surpluses of ₦296.7 million and ₦1,796.8 million, respectively. The last time during the review period when the fiscal out-turn resulted in a surplus was in 1979 with an amount of ₦1,450.8 million. Between 1975 and 1980, the fiscal operations resulted in overall deficits of ₦429.3 million, ₦1,090.8 million, ₦784.7 million, ₦2,388.4 million, and ₦2,029.2 million. This upward growth in the level of fiscal imbalance continued into the 1980s as the overall deficit increased from ₦3,922.2 million in 1981 to ₦35,316.8 million in 1991.

The increase in the level of deficits reflected the growing imbalance between the

Table 4
FISCAL OPERATIONS OF THE FEDERAL GOVERNMENT 1970–1991
(₦ million)

	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980
Retained Revenue	366.4	838.0	1,074.1	1,388.0	3,894.3	4,474.7	5,623.1	6,466.5	6,131.1	8,868.4	12,138.7
Recurrent Expenditure	631.5	492.8	681.2	656.2	874.0	1,696.0	2,672.6	2,246.6	3,427.2	3,198.1	6,076.0
Capital Expenditure	220.9	146.2	295.9	435.1	1,223.5	3,208.5	4,041.3	5,004.6	5,092.3	4,219.5	8,091.9
Total Expenditure	858.4	639.0	977.1	1,091.3	2,097.5	4,904.0	6,713.9	7,251.2	8,519.5	7,417.6	14,167.9
Overall Deficit/Surplus	–492.0	199.0	97.0	296.7	1,796.8	–429.3	–1,090.8	–784.7	–2,388.4	1,450.8	–2,029.2
Deficit/GDP %	9.4	3.0	1.3	2.7	9.8	2.0	4.1	2.5	6.9	1.3	4.1
						(PERCENTAGES)					
Financing the Deficit											
(i) External Loans	0.0	—	—	—	—	6.4	0.8	–1.2	37.2	—	55.1
(ii) Internal loans[1]	55.3	—	—	—	—	105.5	95.5	89.1	56.4	—	27.6
(a) Banking System	38.5	—	—	—	—	84.5	56.8	93.8	43.5	—	24.4
Central Bank	4.1	—	—	—	—	68.5	13.4	106.3	63.4	—	17.0
Commercial Banks	34.4	—	—	—	—	16.0	43.4	–12.5	–19.9	—	7.4
Merchant Banks	—	—	—	—	—	—	—	—	—	—	—
(b) Non-Bank Public	16.8	—	—	—	—	21.0	38.7	–17.2	12.9	—	3.2
(iii) Other Funds[2]	44.7	—	—	—	—	–13.3	3.7	+12.1	+6.3	—	17.2

Table 4 (contd.)

	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991
Retained Revenue	7,509.8	7,500.0	6,234.1	7,571.6	9,715.0	8,505.0	16,129.0	15,588.6	26,679.3	39,467.2	32,223.6
Recurrent Expenditure	5,739.5	4,332.0	3,929.5	5,604.3	5,916.1	7,680.0	15,646.2	19,409.4	25,994.2	36,561.6	38,243.5
Capital Expenditure	5,694.0	5,522.5	4,033.6	3,277.9	5,464.7	8,526.8	6,372.5	8,340.1	15,034.1	24,929.5	29,286.9
Total Expenditure	11,433.0	9,855.2	7,963.1	8,882.2	1,380.8	16,206.8	22,018.7	27,749.5	41,028.3	61,491.1	67,530.4
Overall Deficit/Surplus	–3,923.2	–2,355.0	–1,729.0	–1,310.6	–1,665.8	–7,701.8	–5,889.7	–12,160.9	–14,349.9	–22,023.9	–35,316.8
Deficit/GDP %	7.8	4.6	–3.0	2.1	2.3	10.6	5.5	7.1	6.4	8.2	12.3
	(PERCENTAGES)										
Financing the Deficit											
(i) External Loans	11.8	11.2	22.7	17.8	29.2	8.3	14.1	15.8	39.8	7.2	0.8
(ii) Internal loans[1]	89.9	151.4	151.4	136.3	63.6	6.1	141.6	84.2	69.8	124.7	90.9
(a) Banking System	59.7	127.7	115.2	137.7	69.6	–6.1	80.6	63.9	45.9	109.2	88.1
Central Bank	50.4	32.7	68.3	–15.8	22.9	75.1	25.1	75.3	74.6	83.8	93.0
Commercial Banks	9.3	95.0	46.9	153.8	39.2	–69.0	53.3	–11.0	–28.2	24.2	–5.8
Merchant Banks	—	—	—	—	7.5	–12.2	2.2	–0.4	0.5	1.2	0.9
(b) Non-Bank Public	30.2	237.0	36.2	–1.4	–6.0	+12.2	61.0	20.3	23.8	15.5	2.8
(iii) Other Funds[2]	–1.7	–62.6	–74.1	–54.1	+7.2	+85.6	–55.7	0.0	–9.6	–31.9	+8.3

1. Draw-down of external loans or aids in the early 1970s.
2. Includes special and trust funds used as balancing item.

Source: Federal Ministry of Finance and Central Bank of Nigeria.

revenue and expenditure of the Federal Government. The years of the overall surpluses in the early 1970s were the period of oil boom before government expenditure adjusted to the improved revenue inflow from the oil sector. When the oil market weakened, due to a glut in supply, government revenue from the sector declined. It was not easy to cut back total expenditure to match available financial resources. In addition, the debt service payments, particularly on external debts service, had been growing with deregulation in the foreign exchange market. This accounts for a growing proportion of total expenditure and inevitably the overall deficit.

In financing the deficit, both domestic and external financial market were utilized in raising funds. Until the mid-1970s the country did not borrow heavily from external sources. In 1980 about 55 per cent of the deficit was financed from external sources, while 1977, 1985 and 1989 stood out as years when more than 25 per cent of the deficit was financed from funds raised from abroad. On the other hand, domestic financial markets had been the main source of the deficit in Nigeria. In 1970, credit from domestic money market accounted for 55.3 per cent of the deficit finance while special and trust funds accounted for the balance. Between 1975 and 1978, domestic money market accounted for an average of 86.6 per cent of the funds utilized in meeting the budgetary gap, with the Central Bank accounting for 90.0 per cent of the credit to the Federal Government. This pattern of heavy reliance on finance from domestic sources continued for most of the review period with CBN credit accounting for a major portion of the funds that were mobilized from domestic sources.

Impact of the Fiscal Operations

The preceding review shows that the Federal Government has continued to rely on internal sources, especially the Central Bank, in financing its fiscal deficit. The financing of the fiscal deficit by borrowing from the Central Bank is highly inflationary and tends to induce macroeconomic instability. In addition, it affects private sector activities and the level of public debt which must be repaid in the future. These are considered further below:

(i) Macro-economic Impact

The primary impact of a deficit, financed by borrowing from the Central Bank, is an increase in credit expansion and money supply in the economy. The expenditure of such deficit finance increases aggregate demand generally which may be in excess of aggregate supply of goods and services. This situation inevitably accelerates inflationary pressure in the economy. The Nigerian experience is that for most of the years when the Federal Government borrowed heavily from domestic sources to finance its fiscal deficit, credit expansion exceeded the targets stipulated in the monetary and credit guidelines issued as part of the budgetary process. This has usually resulted in larger bank reserves than desired. Money supply often increased beyond what the economy could cope with in the short run. This situation of excess liquidity in the financial system has often impacted adversely on price stability. The second impact of deficit financing through borrowing from the Central Bank is that the excess liquidity in the financial system has encouraged excess demand for foreign exchange. In addition, external debt service obligations, which is a major cause of fiscal deficit has also reduced the supply of foreign exchange available to the private firms and households, especially in the Nigerian experience. Thus, credit expansion tended to fuel increased demand for foreign exchange and increase pressure in the external sector. With the increased level of macroeconomic instability, economic growth itself could not be sustained. The situation is compounded by the use of credit control and ceilings in Nigeria. This monetary control policy tool does not affect the public sector's borrowing in practice, but restrains the private sector as very often credit facilities are frozen once the credit limits have been reached. Credit rationing, especially by a few banks, has, in addition to the process of deregulation, induced higher interest rates. The impact of this distortion is that private investment suffers and economic growth is lower than anticipated. Thus, the financing of fiscal deficit by borrowing from the Central Bank undermines the attainment of macro- economic objectives of price stability, economic growth, full employment and balance of payments equilibrium in the economy.

The above conclusions have been adequately supported by several quantitative analyses carried out by the Central Bank of Nigeria. In one of such analyses, it was shown that given a 10 per cent increase in the government deficit, the ₦/$ exchange rate depreciates by between 1.2 and 2.4 per cent. Also, a 10 per cent increase in the external debt service ratio depreciates the naira exchange rate by about 5 per cent. The analyses have generally underscored the potency of the fiscal deficit and external debt service payments as critical factors in the movement of the exchange rate.

(ii) Public Debt

One inevitable consequence of borrowing to finance the fiscal deficit of the Federal Government was the rapid growth in the public debt obligations of Nigeria. In 1970, total public debt outstanding amounted to ₦1,579.8 million and represented 30.3 per cent of GDP. External debt component was ₦488.8 million ($664.3 million) and accounted for 30.9 per cent of the total public debt, while domestic debt stood at ₦1,091.0 million and constituted 69.1 per cent of the total debt. By 1980, total public debt obligations had jumped to ₦9,782.4 million or 19.7 per cent of GDP. External debt outstanding totalled ₦1,866.8 million ($2,444.8 million) and accounted for 19.1 per cent of the total debt while domestic debt accounted for ₦7,915.6 million or 80.9 per cent. Between 1970 and 1980, total public debt, as a percentage of GDP, averaged only 17.4 per cent. This position changed in the 1980s as the public debt/GDP ratio

Table 5
NIGERIA'S PUBLIC DEBT, 1970–1991
(₦' million)

Year	Domestic Debt ₦' million	External Debt ₦' million	External Debt $' Million	Total Public Debt ₦' million	GDP at Current Factor Cost ₦' million	Total Public Debt/GDP %
1970	1,091.0	488.8	684.3	1,579.8	5.21	30.3
1971	1,227.0	214.5	308.9	1,441.5	6.57	21.9
1972	1,312.8	263.4	400.4	1,576.2	7.21	21.9
1973	1,423.1	276.9	420.9	1,700.0	10.99	15.5
1974	1,480.7	322.4	523.3	1,803.1	18.30	9.9
1975	1,868.7	349.9	559.2	2,218.6	20.96	10.6
1976	2,687.7	374.6	593.6	3,062.3	26.66	11.5
1977	3,406.5	496.9	762.9	3,903.4	31.52	12.4
1978	4,813.5	1,265.7	2,163.8	6,079.2	34.54	17.6
1979	7,214.0	1,611.5	2,824.6	8,825.5	41.95	21.0
1980	7,915.6	1,866.8	3,444.8	9,782.4	49.63	19.7
1981	11,462.6	2,331.2	3,667.7	13,793.8	50.46	27.3
1982	14,844.6	8,819.4	13,124.1	23,664.0	51.57	45.9
1983	22,221.4	10,577.7	14,130.7	32,799.1	56.71	57.8
1984	25,675.0	14,536.6	18,034.1	40,211.6	63.01	63.8
1985	27,952.0	17,290.6	17,297.5	45,242.6	71.37	63.4
1986	28,451.2	41,451.9	18,631.3	69,903.1	72.13	96.9
1987	36,790.6	100,789.1	23,445.1	137,579.7	106.89	128.7
1988	47,031.1	133,956.3	28,400.4	180,987.4	142.66	126.9
1989	57,051.1	240,392.6	31,423.9	297,443.7	222.46	133.7
1990	84,093.1	298,614.3	33,179.0	382,707.4	267.06	143.3
1991	116,200.1	325,496.4	33,467.3	441,696.5	285.63	154.6

Table 6
NIGERIA'S EXTERNAL DEBT, 1970–1991

Year	Total Debt Outstanding		Value of Total Exports ₦ million	Total Debt Service ₦ million	Debt Service Ratio %
	₦ million	$' Million			
1970	488.8	684.3	885.5	31.0	3.5
1971	214.5	308.9	1,293.3	29.9	2.3
1972	263.4	400.4	1,434.2	26.2	1.8
1973	276.9	420.9	2,369.2	30.8	1.3
1974	322.4	523.3	5,794.0	29.1	0.5
1975	349.9	559.2	4,925.5	32.7	0.7
1976	374.6	593.6	6,709.8	34.4	0.5
1977	496.9	762.9	7,630.7	25.6	0.3
1978	1,265.7	2,163.8	6,064.4	160.8	2.7
1979	1,611.5	2,824.6	10,836.8	182.9	1.7
1980	1,866.8	3,444.8	14,077.0	101.6	0.7
1981	2,331.2	3,667.7	10,470.1	513.6	5.0
1982	8,819.4	13,124.1	8,722.5	775.2	8.9
1983	10,577.7	14,130.7	7,502.5	1,335.2	17.8
1984	14,536.6	18,034.1	9,088.0	2,640.5	29.1
1985	17,290.6	17,297.5	11,214.8	3,718.0	33.2
1986	41,451.9	18,631.3	8,513.0	2,502.2	29.4
1987	100,787.6	23,445.0	30,360.6	3,590.6	11.8
1988	133,956.3	28,400.4	31,192.8	8,140.7	26.1
1989	240,392.6	31,423.9	57,971.2	15,577.7	26.9
1990	298,614.3	33,179.0	109,886.1	30,855.8	28.1
1991	325,496.4	33,467.3	121,533.7	35,291.8	29.0

Table 7
DOMESTIC PUBLIC DEBT OF THE FEDERAL GOVERNMENT
(₦ Million)

Year	Treasury Bills	Treasury Certificates	Treasury Bonds	Development Stocks	Total	GDP at Current Factor Cost (₦ Billion)	Total Debt/ GDP Ratio %
1970	556.0	236.0		299.0	1,091.0	5.21	20.9
1971	616.0	256.0		355.0	1,227.0	6.57	18.7
1972	616.0	286.0		410.0	1,312.8	7.21	18.2
1973	616.0	286.0		521.1	1,423.1	10.99	12.9
1974	616.0	286.0		578.7	1,480.7	18.30	8.1
1975	616.0	228.0		1,024.7	1,868.7	20.96	8.9
1976	616.0	652.0		1,418.7	2,687.7	26.66	10.1
1977	691.0	900.0		1,815.5	3,406.5	31.52	10.8
1978	816.0	1,800.0		2,197.5	4,813.5	34.54	13.9
1979	2,119.0	2,310.0		2,785.0	7,214.0	41.95	17.2
1980	2,119.0	2,727.6		3,069.0	7,915.6	49.63	15.9
1981	5,782.0	2,307.6		3,353.0	11,462.6	50.46	22.7
1982	9,619.0	1,668.6		3,557.0	14,844.6	51.57	28.8
1983	13,476.0	4,894.4		3,851.0	22,221.4	56.71	39.2
1984	15,476.0	6,413.1		3,785.9	25,675.0	63.01	40.7
1985	16,976.0	6,654.1		4,321.9	27,952.0	71.37	39.2
1986	16,976.0	6,664.7		4,810.5	28,451.2	72.13	39.4
1987	25,226.0	6,654.1		4,910.5	36,790.6	106.89	34.4
1988	35,476.0	6,794.6		4,760.5	47,031.1	142.66	33.0
1989	34,126.0	6,944.6	11,350.0[1]	4,630.5	57,051.1	222.46	25.6
1990	25,476.0	34,214.6	20,000.0	4,402.5	84,093.1	267.06	31.5
1991	57,763.0	34,214.6	20,000.0	4,222.5	116,200.1	285.63	40.7

1 Treasury Bonds were floated and issued in 1989.

Source: Central Bank of Nigeria

Table 8
NIGERIA: MAJOR ECONOMIC AND FINANCIAL INDICATORS

		1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992
1.	GDP AT 1984 FACTOR COST (₦b)	—	70.4	70.2	66.4	63.0	68.9	71.1	70.7	77.8	83.5	90.4	94.3	n.a.
	Growth Rate (%) of: Aggregate	—	—	-0.3	-5.1	-5.1	9.4	3.2	-0.6	10.0	7.3	8.3	4.4	n.a.
	Agriculture	—	—	2.6	-0.3	-4.8	16.9	9.2	-3.2	9.8	4.9	4.3	4.5	n.a.
	Manufacturing	—	—	12.9	-29.4	-11.2	19.7	3.9	5.1	12.9	1.6	7.6	6.1	n.a.
	Crude Oil	—	—	-11.4	-3.1	13.0	8.5	-5.3	-9.8	8.1	15.0	5.6	0.9	n.a.
2.	DOMESTIC PRICES (5 CHANGE)													
	Composite CPI	9.9	20.8	7.7	23.2	39.6	5.5	5.4	10.2	38.3	50.5	7.4	13.0	26.8
3.	GROWTH OF MONEY STOCK (%)													
	M1	50.1	5.6	3.1	12.3	8.2	8.7	-1.2	13.7	41.9	21.5	44.9	32.6	26.5
	M2	46.1	8.0	8.7	14.6	11.5	10.3	3.2	22.0	42.6	8.0	40.4	32.7	25.8
4.	GROWTH OF CREDIT (5) TO:													
	Economy	21.7	50.8	34.7	28.7	10.5	5.0	12.7	27.4	22.2	-14.1	17.1	45.3	10.4
	Private Sector	32.8	34.3	17.8	8.6	4.8	5.9	26.7	46.7	16.9	3.9	18.4	23.7	11.9
	Government Sector	4.4	84.1	59.3	50.3	15.0	4.3	2.5	10.3	28.4	-33.5	14.9	82.9	8.5
	Banks' Loans and Advances	37.3	35.2	19.7	8.0	3.7	5.8	29.0	11.7	11.0	10.8	18.4	22.7	n.a.
5.	BALANCE OF PAYMENTS (₦b)													
	Overall Position	2.4	-3.0	-1.4	-0.3	0.4	0.3	-0.8	0.2	-2.3	8.7	18.5	6.0	-5.7
	Current Account Position	2.4	-4.0	-4.9	-3.1	0.0	2.2	-3.0	-0.3	-1.0	8.2	41.8	12.6	25.4
	Capital Account Position	0.1	0.9	3.5	2.7	0.2	1.8	-1.9	1.7	0.1	1.5	-22.7	-12.6	-29.1
6.	EXTERNAL EASSETS (₦ b)	5.7	2.6	1.1	0.8	1.4	1.9	6.2	8.0	10.3	23.2	45.5	57.7	62.4
	CBN (%)	96.7	94.1	96.4	87.5	75.9	84.6	58.0	58.3	32.0	58.2	79.0	76.7	78.2
	Others %	3.3	5.9	3.6	12.5	24.1	15.4	42.0	41.7	68.0	41.8	21.0	23.3	21.8
		1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992

n.a. — not available.

Table 8 (contd.)

	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992
7. FOREIGN EXCHANGE FLOWS ($' b)													
Inflow	26.0	21.4	15.0	11.7	12.1	12.4	7.2	6.6	6.5	8.1	11.0	12.1	5.8
Outflow	21.6	26.4	17.0	12.1	11.7	11.7	6.5	5.3	6.3	6.7	9.1	12.1	7.4
Net	4.4	–5.0	–2.1	–0.4	0.5	0.6	0.7	1.3	0.2	1.4	1.9	0.0	–1.5
8. AVERAGE EXCHANGE RATES (₦/$)													
Official	0.5469	0.6048	0.6731	0.7235	0.7642	0.8924	1.2713	3.5971	4.5065	7.3855	7.9422	9.9095	15.8944
Bureau de Change	—	—	—	—	—	—	—	—	—	10.1300	9.5540	13.4078	19.0041

Notes:
(1) Both the GDP and CPI series are currently being revised.
(2) GDP data, unemployment rates and capacity utilization for 1991 are estimated.
(3) Interest rates up to 1987 are the predominant rates, while the rates thereafter are weighted averages.
(4) All data are provisional and subject to changes when new information is available.
(5) * Position as at June, 1992.

increased substantially from 27.3 per cent in 1981 to 154.6 per cent in 1991 underlying the heavy debt burden that is now affecting the fiscal operations of the Federal Government and the economy.

Nigeria's external debt obligations amounted to ₦488.8 million in 1970, representing about 9.4 per cent of GDP. By 1980, external debt obligations had risen to ₦1,611.5 million and represented 3.8 per cent of GDP. The upward trend continued in the 1980s and at the end of 1991, external debt obligations totalled ₦325,496.4 million ($33,467.3 million) reflecting the depreciation of the Naira and representing 113.9 per cent of the GDP. The debt service ratio on the outstanding external debt between 1970 and 1982 averaged only 2.3 per cent, but in 1991 it stood at 29.0 per cent. In fact, the low debt service ratio in the late 1980s resulted from a deliberate policy of the Federal Government in successfully rescheduling debt service payments in order to limit such payments to not more than 30 per cent of the country's foreign exchange earnings. However, as new loans were taken and the debt service due on the outstanding debt commitments were rescheduled, external debt obligations continued to grow with the inevitable higher debt burden.

In 1970, the domestic debt outstanding amounted to ₦1,091.0 million and represented about 20.9 per cent of the GDP. In the 1980s, domestic debt outstanding further increased to ₦7,915.6 million and represented 15.7 per cent of GDP. By the end of 1991, domestic debt had jumped to ₦116,200.1 million, representing 40.7 per cent of GDP. The persistent increase in the stock of domestic debt is partly explained by its management. Domestic debt management in Nigeria has been used to a large extent to minimize debt service payments of the Federal Government. To this end, domestic debt instruments such as treasury bills and certificates are not liquidated as they mature. The bills are rolled-over by issuing new securities to pay the holders of matured instruments while new loans are raised. A sinking fund is established for the repayment of development stocks when the tranches mature. Treasury bonds were floated in 1989 by converting part of the existing treasury bills to fixed interest rate bonds which could not be payable until 2001.

PART III

FISCAL POLICY AND AFRICAN ECONOMIC DEVELOPMENT

The analysis thus far has pointed to the need for government intervention in an economy, but that the nature of such intervention can produce wide-ranging economic effects which may sometimes be counter-productive to the desired goals of economic development. These assertions have been clearly borne out by the review of fiscal policy and operations in Nigeria and, in varying dimensions, the same may apply to most developing nations in Africa. It is very clear that one of the conditions for sustainable economic growth and development in Africa is to undertake radical changes in the pattern of fiscal policy and operations. There will certainly be variations in remedial measures but it is possible to discuss some broad proposals which may form benchmarks for individual actions by African countries. This part of the paper will discuss three areas: the general economic environment, elements of an effective fiscal management system, and the institution of an effective budgetary and planning system.

The Economic Environment

Fiscal policy is greatly determined by the dynamics of the environment in which it is applied. The latter in turn is a product of the goals of society and the mode of achieving these goals. The need to determine what government should do or not do in trying to achieve one of the goals of the society is as relevant today as it was several decades ago. Fortunately, the contents of the various adjustment programmes being implemented in African countries currently have aptly illustrated what is most desirable in terms of government participation in the economy. Some operational rules can be derived from what one can see in the various programmes being implemented and what can be considered appropriate in the context of past experience. Firstly, there is need to install a strong macroeconomic policy framework that is consistent in both design and implementation. Similarly, sectoral policies must be related to the macro framework such that economic growth takes place in a state of relative stability. Secondly, governments must participate substantially in the development of physical infrastructure such as power, roads, water and housing, as well as social infrastructure such as health and education. Participation in these areas does not imply exclusion of the private sector, but active participation that will ensure that these areas do not become constraints on national development. There are some long-range issues that should also engage the minds of policy makers. These include population matters, the role of women and the protection of the environment. Again, these are areas that could be a drag on the economy unless an appropriate policy environment and action is provided by the government.

Thirdly, an effective policy framework must be provided for the development of the real sector embracing largely agriculture and industry. The policy framework should enhance the private sector's participation in the development of these areas. Again, the current attempt to redirect the efforts of the private sector will become more relevant. Similarly, the sustenance of the financial sector and international trade policy reforms will go a long way to provide a vital support to the private sector in the development of the real sectors in African economies.

Elements of Fiscal Management and Adjustment

Based on historical experience, effective fiscal management in African countries must be re-built on a viable and diversified revenue base, expenditure rationalisation and minimization of deficit financing. As we have seen in the Nigerian case, public revenue is derived from a narrow base, mainly receipts from oil production. Direct tax revenue has been derived from a very small size of tax-payers such as large companies, their employees and public servants. Indirect taxation has remained largely untapped. Consequently, as oil revenue declined with the collapse of the oil market, the burden of adjustment fell on public expenditures. Invariably, the expected adjustment did not quite take-off the ground. In this setting, fiscal deficits increased substantially. The pattern just described may be different in other countries particularly as oil is involved. However, it is true that most African countries have very few revenue sources derived mainly from some primary commodities. As these commodities fared poorly in the world markets, public revenue fell with no alternatives to fall back on. If necessary public expenditures are to be maintained, the narrow base of statutory taxation has to be expanded to achieve greater flexibility and fairness in the distribution of the burden of taxation. The emerging trends have been to expand and refine the role of taxation on consumption, reform the direct taxation of income to encourage savings and investment as well as effect changes in the administrative and institutional structure for taxation. In the past two years, for instance, the Nigerian Government has embarked on studies on the various aspects of tax reform which when implemented are expected to improve the sustainability and flexibility of non-oil revenue. In particular, the Nigerian government is currently exploring the feasibility and scope of a modified value added tax system which appears to have been successfully adopted in Malawi, among other developing countries.

The second major element of an effective fiscal management is the rationalisation of public expenditures. Experience points to the need to cut down public expenditures until the revenue base is expanded and sufficiently diversified. Preference should be accorded revenue diversification and expansion to sustain the levels of public expenditures. But, in the short-run, reduction in absolute expenditures in many countries cannot be avoided if only to allow revenue mobilization measures to take effect. If this is the situation, it appears that the burden should fall more on capital expenditures than on recurrent expenditures. This is based on the need to sustain the level of asset maintenance and indeed increase it in many instances where adequate provisions might not have been made in the past, as it is the case in Nigeria. Capital spending can be postponed if the sizes of capital projects can be scaled-down in the hope that such projects could still be executed within the medium to long-term development plans. Capital spending has also to be prioritized according to the framework that is fast gaining ground in most African countries —

the provision of infrastructural facilities and social services and incentives for the private sector to increase investments in agriculture, industry and the energy sector.

The third element of fiscal management is the need to reduce fiscal deficits substantially, and if deficits are to be entertained at all they should be financed with resources outside the banking system. It has been made clear that failure to do this in the past had produced deleterious effects on domestic price stability. In poorly managed developing economies, beset by structural rigidities and undeveloped markets, the resort to deficit financing tends to increase aggregate demand at a much more rapid rate than domestic incomes because of the limited scope for additional productive investment. Where there is a high propensity to consume, as in Nigeria, deficit financing ultimately increases pressures on the external sector and induces, in particular, exchange rate instability in a free market environment.

Budgetary and Planning System

Effective fiscal management in many African countries can only be built on a viable and credible budgetary and planning system. A system does exist in most if not all cases, but it is typically not efficient. Some of the elements of an efficient budgetary system are consistency between the budget and the medium/long-term plan, ensuring efficiency in public investment, adequate provision for asset maintenance and providing effective in-built revenue and expenditure controls. These are features that do not require further articulation, and indeed they are stated in the form of intentions in the budgetary procedures. However, they do not always get implemented, hence the frequent incidence of revenue losses, extra-budgetary expenditures and total asset loss.

SUMMARY AND CONCLUSION

This paper has attempted to illustrate the critical role of fiscal policy in developing African economies. The literature review shows that the main concern of fiscal management is not whether government should undertake certain activities but how it seeks to do so. The specific economic environment, the instruments used and the execution of the fiscal programme are important determinants of the effects of fiscal policy.

The review of fiscal policy and operations in Nigeria, which can be a guide to what obtains in other African countries, reveals several characteristics. These include the narrowness of the revenue base, implying that sudden changes would tend to put a lot of burden on public expenditure, a faster growing level of public expenditure than revenue, pointing to the fact that the system has not adjusted to the available resources, a massive programme of public investment, accounting for nearly two-thirds of total investment in the economy, a growing fiscal deficit financed largely by the banking system. The increasing levels of spending as well as the level and mode of financing the fiscal deficit have introduced macroeconomic instability and continuous rise in the public debt. Under the Structural Adjustment Programme, a number of measures were introduced to make fiscal management more efficient. These included a reduction in the size of the public sector, reduction and rationalisation of public spending, the privatization and commercialization of federal parastatals and a more efficient planning and budgetary system, involving the replacement of the five-year planning system with the three-year rolling plan technique. Some measure of success has been achieved, but it is clear that implementation needs to be strengthened to ensure that the initial aims are attained.

In the final part of the paper, it is argued that further fiscal adjustment needs to be carried out in African countries. In the absence of such adjustment, weak fiscal management systems will continue to reduce potential economic growth and development. Improvement in the macroeconomic and sectoral policy environment, revenue diversification, expenditure rationalisation, gradual elimination of deficit financing, as well as further improvement in the budgetary and planning process are some of the broad steps that can be taken to improve the effectiveness of fiscal management in African economies.

In conclusion, one would want to restate that fiscal policy is critical for African economic development. When fiscal policy is appropriate it helps, but when it is out of tune, it hurts the economy. It is most unfortunate that fiscal adjustment is very painful, but it has to be undertaken, probably gradually, consistently and credibly. There is no gainsaying that no developing country can attain the stage of self-sustained growth and development unless it first achieves fiscal viability and restores domestic stability. This has become clear to a few developing countries, including Ghana, where a culture of fiscal restraint is gaining ground and the reward is bound to be positive in the long-run.

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