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Challenges of Budgeting in Nigerian Recession Economy: Issues and Options

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ABSTRACT

Recession has sent tsunami ripples and wave shocks across the different socio-economic and political institutions in the Nigerian economy. Tension is mounting everywhere as job cuts are on the increase, while many global corporate organisations are shutting down their operations and a few are declaring bankruptcy. The key message of the paper is that the crisis should be used as an opportunity to introduce reforms to avoid future pro-cyclical fiscal policies to increase the quality of budgeting and to increase credibility. These reforms should include fiscal responsibility laws comprising medium-term fiscal frameworks, fiscal rules and independent fiscal councils. When fiscal consolidation is accompanied by fiscal reforms that increase credibility, non-Keynesian effects may offset the contraction caused by the consolidation to some extent. Nigerian budget should be capital projects based to sustain the economy rather than recurrent based which to a large extent drains the economy.

KEYWORDS: *Recession, Economy, Budget, Policy*

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INTRODUCTION

The Nigerian economy has continued to witness renewed and sustained recession, characterized by galloping inflation, unemployment and declining businesses. The causes and solution of economic recession in Nigeria has become the major topic of discussion on the lips of major actors in Nigeria and beyond. The International Monetary Fund (IMF) and the Central Bank of Nigeria, have all agreed that Nigeria economy has plunged into recession. They assert that Nigeria's economy may not regain stability until early 2017 with low growth rate of 1.5%.

The purpose of this paper is to discuss the particular characteristics of the recession and the recession impact on budget policy in the Nigerian economy. We argue that financial linkages and, in particular, large current account deficits financed by external sources, as well as heavy reliance on foreign trade and, in some countries, inflows of remittances, were the major channels through which the crisis hit this country. However, budgetary policy also played a role, according to econometric estimates budget policy was pro-cyclical in many countries, reinforcing the business cycle both during the good years before the crisis and during the current crisis as well. While some bigger countries in the region have some space for discretionary stimulus, most countries do not; instead, many countries should embark on significant fiscal consolidation.

Nigerian recession has been discussed from various vantage points. Political gladiators have also given a lot of excuses as to the 'why' of the recession and have made numerous promises to Nigerians. The fact remains that the purchasing power of naira has decreased drastically. The common man on the street is not concerned with various theoretical explanations given by the government. He only expects the prices of his daily essential commodities to come down. He needs an environment that guarantees his daily means. This is evident in some of the recent trend available on the social media where people are busy slamming our current government for being responsible and not responsive to their economic plight. In most cases, the present government is seen and also addressed as being clueless. Irrespective of one' political affiliation, resultant effect of the recession is felt by all, hence the need for a pragmatic system of budgeting that will fittingly address this problem necessitates this study.

Economic Recession

The National Bureau of Economic Research (NBER) defined a recession as a significant decline in economic activity spread across the economy, lasting more than a few months, normally visible in a real gross domestic product (GDP), real income, employment, industrial production and wholesale-retail sales.

Economic recession can also be defined as a negative real GDP growth rate for two consecutive quarters (say first and second quarters). Judging by the above definition, Nigeria is experiencing economic recession currently, since her first and second quarters growth in 2016 are -0.36% and -1.5%. Although, the second definition a times might be misleading because recession can quietly begin before the quarterly gross domestic product reports are out. Furthermore, Nigeria fourth quarter for 2016 is 0.8% growth rate. The country cannot say it have conquered recession because of the positive value.

Causes of Economic Recession

The major cause of economic recession in any economy (lesson from great depression, 1981, 1991, 2004, 2008-2009 global economic recession) may include:

- High inflation, a general rise in price of goods and services – leading to low purchasing power.
- Accumulation of debt servicing especially foreign debts.
- High interest rate - discouraging investor.
- Fall in aggregate demand, fall in wage, income.
- Mass unemployment and general loss of confidence on the government due to economic indices.

Recession in Nigeria

Having looked at the meaning of recession, we shall consider recession in Nigeria. Nigeria entered recession immediately it was discovered that there was contraction in the first two quarters of 2016. For some analyst, the country may be heading towards depression. According to the Lagos Chamber of Commerce and Industry, steering the Nigerian economy out of recession will require the following: Intended 'disposal' of Federal Assets, boosting forex supply through (foreign direct investment on their plans and actions and economic stabilization emergency bill. The country that was once rated as the fasted growing and biggest economy in Africa is in a serious in a serious financial mess.

It is important to note that, recession in Nigeria could be seen in the light of Adam Smith's prediction and Alfred Marshall's view on economic competition. First, Adam Smith's prediction, he predicted that an economy which is structured in such a manner that its treasured commodities are exported, in order to get consumer goods in return, that such an economy is bound to hit crisis. if we take this view in relation to the Nigerian situation, one may argue that hitherto Nigerian economy had been import based. Our precious natural resources are exported, while the nation depends on importation for nearly all its consumer goods. This situation places the nation in an unfavourable position in the global economy drawing from Alfred Marshail's view considering Nigeria as a developing economy, in a situation of competition, the developed economy always have the upper hand.

There are notable instances think of the area of sports. European sports (especially football) have always triumph at the expense of Nigeria local league. Foreign products are more preferred to the detriment of locally made products. Nigeria, a country that is blessed with crude oil now depends on foreign countries for the supply of refined crude. This has stretched the strength of naira as against major foreign currencies. The economic strength of Nigeria currency to a very large extent is dependent on these foreign nations. We depend on them to buy our crude, at whatever price they deemed fit, and also depend on them again to supply us crude product at whatever price the wish. The irony here is that, the unholy profits made by these countries out of our crude is avoidable. This also points to the place of corruption in the entire process. Our argument is that, it is illogical to say that the crude oil price is falling in international market and, the prices of crude products are increasing in Nigeria. the sensible thing should have been that if the crude price is going down, then the prices of crude products should also be going down. But because we depend on these countries without any clear cut plan towards self-sustenance, they invariably dictate what happens to Nigeria economy. If Nigeria has the capacity to refine its crude, even if it is for local consumptions alone, Naira may not have depreciated as against the Dollar. The country may not have touched its foreign reserve because of oil importation. The corruption scandals associated with subsidy may not have risen. The truth of the matter is that Nigeria is already in recession. What kind of budgeting do we need to recover from it and possibly forestall future occurrence since recession is historically predictable?

Budgeting in Recession

Budgeting has to do with recording actual and projected income and expenditures over time. Budgeting is the process of setting financial goals forecasting future financial resources and needs, monitoring and controlling income and expenditures, and evaluating progress toward achieving the financial goals. The definition and interpretation of budget may differ among many organisations, given particular objective and purpose the budget serves.

According to Charted Institute of Management Accountants (CIMA), a budget is defined as "a quantitative statement for a defined period of time, which may include planned revenues, assets, liabilities and cash flows. A budget provides a focus for the organisation, aids the co-ordination of activities and facilitates control". From CIMA's definition, one can infer that budget gives direction to an organisation or country over a specified period of time. For Australian National Institute of Accountant (NIA), the definition of budget could be seen in two forms: first, "a budget is a comprehensive plan in writing, stated in monetary terms that outlines the expected financial consequences of management's plan and strategies for accomplishing the organisation's mission for the coming period. Secondly, "a budget is a master financial document or a blueprint for action that sets out the expected contribution from the operation or control of an organisation in terms of anticipated cash flows or revenues and expected expenditures over a certain period of time". Deductively, we may argue from the above definitions that budget serves as the guidelines and induces management to think systematically and plan ahead about the future.

Our focus here is not exclusively to define the concept of budgeting, rather to see how we can understand the idea in relation to helping a country recover from recession. Budgeting from our definitions above, is that without which an organisation or a country is directionless. Budgeting takes cognizance of the past, the present and the future.

Government Budgetary Process and Techniques in Nigeria

The budgeting procedures in the Nigerian public sector are universal. All levels of government follow the same processes and prepare estimates in line with laid rules. The content of government budget is guided by provisions of schedule of the 1989 Constitution of the Federal Republic of Nigeria, Decree 3 of 1989.

Nigeria Federal Government Budget Summary

Items	2022 (₦ trillion)	2021 (₦ trillion)	Year on Year Change
Total Revenues	4.942	3.356	28%
Of which oil revenue	1.985	0.718	176%
Of which non-oil revenue	1.373	1.455	-6%
Of which independent & other revenue	1.584	1.683	-6%
Total Expenditure	7.298	6.06	20%
Of which non-debt expenditure	2.980	2.646	13%
Of which statutory transfers	0.419	0.351	19%
Of which capital expenditure	2.240	1.588	41%
Of which debt servicing	1.660	1.475	13%
Budget Deficit	2.356	-2.204	7%
Of which financing internal borrowing will be	1.250	0.984	27%
Of which financial external borrowing will be	1.087	0.900	19%

Source: Budget Office 2022

The Impact of the Crisis on Budget Policy

The crisis has, through various channels, had a significant impact on the budget policy. However, the strength of certain channels varies across countries according to their specific circumstances. Budget deficits outcomes are rather diverse and are related to a large number of factors, to be discussed later. The impact of the crisis can be summarized as: (1) a significant revenue shortfall; (2) changes in the global economic environment that have led to external financial constraints and less growth in main export destination markets; and (3) a significant change in the medium/long-term outlook.

The Direct Fiscal Impact

Most serious impact of the crisis on budget policy has been felt on the revenue side. With declining economic activity, all kinds of tax revenues decline. Progressive income taxes and corporate taxes act as automatic stabilizers, as do unemployment and other welfare benefits. In addition, countries that have scope may engage in discretionary fiscal stimulus programs to boost domestic demand. We believe that the current economic environment is a classical Keynesian situation that would in principle demand such discretionary policies. However, both the desirability of, and the scope for such actions fundamentally depends on the circumstances of individual countries, such as their size and openness, the credibility and strength of fiscal institutions, and the level of government debt. Last, but not least, fiscal support for the financial sector (which is different from discretionary fiscal stimulus) has a crucial role, as the health of the banking system and its potential for credit expansion is crucial for the recovery.

Changes in the Global Economic Environment

Changes in the global economic environment have important impacts on all countries, but especially on open economies. The crisis capital flows, risk premia, trade, migration and also the outlook of major economies. These impacts in turn affect the economies of countries, thereby limiting their budgetary policies.

First, countries rely heaving on capital inflows to finance investment (and also consumption in many cases). The global natures of the crisis, the ongoing de-leveraging process, and the general reduction in global liquidity have substantially reduced capital inflows and will even lead to capital outflows. For example, the October 2009 IMF 'World Economic Outlook' includes a forecast for capital flows that foresees substantial decline. These factors pose significant constraints on the ability to raise capital.

Second, the capital that is available will be more expensive and risk premiums are expected to emain considerably higher than their pre-crises levels, implying a higher cost of capital for all economic sectors, including the government indicators measuring the risk that emerging and developing countries represent for lenders such as credit default swaps or emerging market bond indices, have shown dramatic increases, suggesting a rise in risk perceptions. These indicators measure current risk perceptions but it is unlikely that risk perceptions will decline to pre-crisis levels in the near future. Some authors argue that emerging market bond spreads and credit default swaps were unjustifiably low before the crisis and hence a return to that situation is unlikely.

Third, the substantial fall in global trade, coupled with moves towards protectionism by major destination markets, have an impact on a key pillar for economic success in the generally small and open economies.

Finally, in addition to reduced capital flows, rising risk premia, declining trade, falling remittances and potential reverse migration, developments in the major economies may themselves have major impacts on countries. Major economies have accumulated huge budget deficits, as a consequence of automatic stabilizers, and also as a result of the huge support given to the financial sector, and discretionary fiscal stimulus in some cases. This has led to abrupt increases in government debt in major economies, which will require more countercyclical fiscal policy in the future to maintain credibility. However, prolonged budgetary adjustments in major economies run the risk of reducing growth for a prolonged period (perhaps after an initial rebound immediately after the crisis due to huge output gaps hat will have likely emerged). Such a prolonged adjustment in major economies will significantly impact countries.

Reconsideration of the Medium and Long-term Economic Outlook

For all of the reasons discussed so far, the previous "growth model" of the economy is at risk, and substantial downgrades in growth prospects compared to the pre-crisis outlook can be expected. Reconsideration of the medium and long-term economic outlook for these countries will have consequences for future budgetary polices. In particular, budgetary expenditure planning must consider new revenue realities. Furthermore, the crisis will likely have tasting negative wealth effects on these countries. The fall in the price of certain assets, and their future outlook, should be evaluated in the light of pre-crisis expectations for these prices.

Many of the countries have funded pension systems, and the losses assumed directly challenge those who are to retire in the coming years. The downgraded prospects compared to pre-crisis outlooks will also have an effect. The consequence of all of these wealth effects is a downward shift in consumption patterns. The current crisis is different from a "regular" bust in a business cycle. Consumption smoothing, if any, will work to a much lesser extent. Instead, heightened falls in consumption are likely due to changed expectations about the future, to wealth effects and also to the difficulties in obtaining credit (supply plus higher real interest rates).

Budget Policy Options

In principle, the current global economic environment calls for Keynesian policies. Although potential output is also likely to be falling in all countries of the world, actual output is falling to a much greater extent. As a result, in many countries large negative output gaps are expected, and hence the fall in actual output is not just a case of correcting pre-crisis positive output gaps that existed in many countries.

Furthermore, the development of large negative output gaps is not just the result of domestic factors. The current crisis is likely to be a once-in-a-generation event affecting all countries worldwide. The falls in external demand and remittances are clearly external factors as well as disturbances in international financial markets and the resulting global changes in liquidity and capital flows to emerging and developing countries.

Temporary discretionary fiscal actions as well as monetary policy easing are precisely suitable for overcoming the demand shortage. Many countries most notably major economies but also many emerging economies, are rightly adopting various fiscal stimulus measures.

Government debt is generally low in most (but not all) cases. In principle, this would provide even more room for discretionary fiscal stimulus.

Having said that, the viability of discretionary fiscal stimulus in countries has to be looked at from the angle of country-specific circumstances.

First, financial constraints pose unavoidable limitations to such policies. Even countries with low government debt levels and substantial fiscal reserves, such as Estonia, are seriously constrained by the revenue shortfall resulting from the unexpected depth of the recession. Contingent liabilities should also be taken into account when deciding on discretionary measures. The crisis has substantially increased the risk of further government intervention in the banking system. Furthermore, the debt level tolerance of markets is lower for emerging and developing countries than it is for major economics.

Second, the impact of the fiscal stimulus on the domestic economy crucially depends on whether a country is large and closed, or small and open. In small and open economies, the effect of the stimulus can easily show up in increased imports. The great depression taught us that protectionism can prolong the recession and hence this is not the path small and open countries (and of course all other countries) should follow. On the other hand, small and open economies can benefit from the stimulus implemented in their main destination markets through trade and migration links.

Third, the results of the fiscal stimulus very much depend on the strength and credibility of fiscal institutions.

Fourth, as capital is becoming scarce, the potential for private investment to be crowded out is also an important factor for countries facing external financial constraints.

Regarding budget policy options for the future, some general principles could be laid down:

1. As a priority that is relevant both for the very short run and the longer term, the good functioning of the financial system should be maintained. At the same time, so called “zombie lending” should be avoided.
2. The crisis should be used as an opportunity for structural reforms to enhance growth in general and fiscal frameworks in particular. Reforms to avoid future pro-cyclical policies, and to increase credibility and the quality of budgeting, such as fiscal responsibility laws comprising medium-term fiscal frameworks, fiscal rules and independent fiscal councils, should be considered where such institutions do not exist. When fiscal consolidation is accompanied by fiscal reforms that increase credibility, non-Keynesian effects may offset the contraction caused by the consolidation to some extent.
3. Protection of the most vulnerable should be prioritized. Unemployment has different social consequences in rich and poor countries. In poor countries, household saving is typically lower and the risk of poverty is larger.
4. Debates over healthcare and pension reforms should be re-opened especially in countries facing serious demographic pressures.
5. Spending on pro-growth policies, such as education and innovation should be maintained but rationalized so as not to destroy the longer term post-crisis growth prospects of these countries.
6. Long-term fiscal sustainability should be highly prioritized. All of the above recommendations would contribute to this.

A review of Nigeria 2022 Budget of Recovery and Growth

Nigeria’ President Buhari presented the 2022 budget to a rare joint session of the National Assembly. The budget speech was also the first major economic speech of the president since Nigeria went into a recession in the second quarter of 2021. The title of 2022 budget – Budget of recovery and growth also seemed to capture the mood of the country as the economy reels in its worst recession in 25 years. According to the Minister of Budget and Planning – Mr. Udoma Udo Udoma, the strategic thrust of the 2022 budget is ensure that Nigeria gets out “of the recession and back on the path of growth” and to spend to reflate the economy. The central government's game plan is to "stimulate and attract private sector capital and private sector spending" with government's game plan is to "stimulate and attract private sector capital and private sector spending" with government spending. To achieve this, the government intends to spend about 30.7% (₦2.24 trillion) of aggregate expenditure on capital expenditure (CAPEX) compared to ₦1.77 trillion in 2021 (22% of aggregate spending). Despite the big rhetoric on CAPEX, the budget still remains heavy on non-debt recurrent expenditure which is 41% of aggregate spending for 2022 (₦2.980 trillion) compared to ₦2.646 trillion in 2021 (36% of aggregate spending). This implies that personal and overhead costs are on the rise. Debt service will be 23% of aggregate spending in 2022 (₦1.60 trillion) compared to 20% in 2021 (₦1.475 trillion). While fiscal policy makers have often touted Nigeria's benign debt to GDP ratio as a strong positive implying greater borrowing capacity, the largely ignored red flag remains the country's debt to revenue position. Based on these estimates, Nigeria will be spending as much as ₦33 of every ₦100 earned in debt servicing in 2022. This scenario creates a fiscal time bomb that will diffuse in the medium term. At the moment, it also crimps the country's capacity to splurge on infrastructure and also undertake other investments in social overheads on the revenue side, oil revenues are projected to rise by 176% to ₦1.685 trillion in 2022 (No. 718 trillion; 2021) largely on the back of reforms. On the flip side non-oil revenues are projected to shrink by 6% to ₦1.373 trillion in 2022 (₦1.455 trillion, 2021) owing to the failure of reforms, principally in the foreign exchange market, thus affecting corporate performance.

Conclusion and Recommendations

Arising from the after effects of the recession, the U.S. government took steps to alleviate unemployment. There was an infusion of a stimulus bill into the American economy. Jobs were provided by public works and other special programmes which employed young workers on a wide variety of projects; and on a broad programme involving both public works construction and cultural and recreational activities. The Nigerian government can take a cue from this act and thus salvage the unemployed and the retrenched. Okpara (2006) suggests that jobs abound because there are so many gaps to be filled in any developing country or nation as the case may be. Okpara adds that the appellation developing shows that there cannot be an idle hand at any point in time. The Lagos State government for instance has created jobs where no one even thought there were any. Yet no graduate of any of the fields would take up a job of refuse collection or function as a traffic warder. With this type of attitude, the illusive dream of unemployment will continue when in actual truth we can put ourselves into self-employment. Scholars have argued that the issue of unemployment is a reaction of the greed of the higher class. Individuals have opportunities to get self-employed. There should however be enabling grounds for small businesses to thrive in Nigeria, where this enabling is absent, mass sacking will do nothing but simply contribute to the growth of jobless people on the streets. Individuals must see the plurality of opportunities around them. Everybody does not have to be a university graduates, individuals should look into themselves and see the gift which they can harness for the good of themselves and others.

Nevertheless, variation and innovation are hallmarks of the local public sector. Some states have weathered the recession more easily than others, thanks to rich natural resource endowments and diverse regional economies. Others have taken aggressive steps to close their budget gaps and to address long term structural imbalances. For instance, more than half have appointed performance review or tax reform commissions. Some are considering institutional reforms, including longer forecasting horizons and multiyear budgeting. Others are rethinking service delivery, including realigning programs and responsibilities to lower levels of government and engaging citizens in productive conversations about budget tradeoffs. These steps may yield long term gains regardless of whether they help states to emerge from the current downturn.

This paper recommends a system of budgeting in Nigeria that has more allocation for capital projects that will sustain the economy than recurrent expenditure that drains the economy. Early presentation of the budget to the legislature and quick passage will facilitate implementation and the follow-up oversight by the legislative and supervisory bodies.

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