

Fiscal Sustainability And Management In Nigeria

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ABSTRACT

This paper examines the sustainability of fiscal management in Nigeria. The reviews of various studies on fiscal sustainability in Nigeria shows that fiscal policy is both strongly and weakly unsustainable in Nigeria, given the disaggregated components of government expenditure. Although sustainability is attained between capital expenditure and government revenue, but the government has to contend with liquidity problems since the need for and growth of capital expenditure is higher than that of its revenue counterpart. More so, the fiscal operations of government remained cyclically intoned with changing policies and regimes in Nigeria. Despite the existence of fiscal rules as enunciated in the Fiscal Responsibility Act (FRA 2007) and various constitutional provisions, the sustainability of fiscal policies in Nigeria still remains elusive. This suggests that the mere existence of fiscal rules does not guarantee its sustainability.

Keywords: *Fiscal Sustainability, Debt Sustainability, and Fiscal Policy.*

1.0 Introduction

Fiscal sustainability is a measure of how capable a government is to continue its current level of spending, borrowing, taxation and other elements of economic policy in the long run, without either threatening its solvency or defaulting on some of its liabilities and promised expenditures.

Fiscal sustainability analysis has, in the recent time, become an important component of macroeconomic health analysis of countries. This is predicated on the fact that the usefulness of annual budgetary balances and the public debt figures for assessing the soundness of public finances has gradually lost frontline mention. Fiscal sustainability of the government policies therefore, exists if the implementation of the government programmes does not threaten the solvency of a country now or in the future. Also, solvency requires that the current and future expenditures and income are reduced into a common denominator (Adams *et al.*, 2010), or the financial ability of the government to service its debt obligations in perpetuity without being explicitly defaulted. Although, the issues surrounding fiscal deficits as well as national debts are certainly not new, but an important fact is that threats to fiscal sustainability have serious implications for macroeconomic growth and financial stability of a country as well.

Fiscal policy is the use of government spending and taxation to influence the economy. Governments typically use fiscal policy to promote strong and sustainable growth and reduce poverty. The role and objectives of fiscal policy gained prominence during the recent global economic crisis, when governments stepped in to support financial systems, jump-start growth, and mitigate the impact of the crisis on vulnerable groups. Fiscal policy that increases aggregate demand directly through an increase in government spending is typically called expansionary. By contrast, fiscal policy is often considered contractionary if it reduces demand via lower spending.

One of the most challenging issues facing both developed and developing countries in recent years are dealing with the accumulation (size) of **Public debt**. A build-up of public debt can adversely affect economic progress through several channels (higher long-term interest rates, higher taxation, greater uncertainty, vulnerability to crises, etc.), especially when their level exceeds a certain threshold. In addition, fiscal sustainability is most likely to be aggravated in those countries experiencing debt distress.

On the contrary, a low level of public debt allows the fiscal policy to play more of a stabilizing role during economic downturns and dampens, or at least does not exacerbate, economic cycles.

Maintaining fiscal sustainability is important to obtain enough “**fiscal space**” for orderly adjustments to mitigate the impacts of financial crises. Fiscal space is the flexibility of a government in its spending choices, and, more generally, to the financial well-being of a government. Peter Heller (2005) defined it “as room in a government’s budget that allows it to provide resources for a desired purpose without jeopardizing the sustainability of its financial position or the stability of the economy. Moody's Analytics provides monthly estimates of the fiscal space of many countries. They define it as the difference between an estimated upper limit of public debt (beyond which action would have to be taken to avoid default) and actual public debt, expressed as a percentage of GDP or equivalently as the difference between the debt-limit-to-GDP percentage and the actual-debt-to-GDP percentage. The existing Fiscal Space helps to answer the question of how much leeway national policymakers have for increasing spending or cutting taxes has been hard to assess. It is a critical question during periods of economic downturn when the government is asked to stimulate the economy. But it is also an equally important question in a time of cyclical upswing such as we’re now experiencing because the answer is critical to understanding how fast a nation should rebuild buffers.

The recent global financial crisis is a case in point. A sustainable debt ratio is one such that the government has no incentive to default on its internal debt. From another perspective, the notion of sustainability implies that there is a limit to the flexibility of fiscal policy as a stabilization policy tool.

To examine the sustainability of some of the fiscal policy components such as **Budget deficits**, which occurs when government expenditures exceed revenues from taxes and other sources, many researchers rely on the evidence from unit-root tests of which rejection imply sustainability. Worthy of note is that in government budgeting, public savings are also referred to as budget surplus and when public savings are negative, the government is said to be running a budget deficit. To spend more than tax revenues allow, governments borrow money and run budget deficits, which are financed by borrowing.

Adding to concerns about fiscal deficits is the fear that public debts have reached levels that might hinder economic growth and the starting of a debt, growth and high employment vicious circle. It is widely accepted that, with a moderate level of public debt, fiscal policy can induce economic growth, but at high levels of public debt, the expected tax increases will mitigate the positive results

of the fiscal outcome, decreasing investment and consumption, reducing employment, and lowering growth rates of the gross domestic product (GDP). Since the subprime crisis that began in the US in 2007, many countries around the world have found themselves with high ratios of debt-to-GDP. These are due to high budget deficits as a result of declining tax revenue and rising public spending due to economic slowdown. In times like these, the central question that arises concerns the relationship between public debt and economic growth. Specifically, we try to provide an answer whether fiscal policy has a Keynesian or non-Keynesian effects on economic activity.

The growth and development paradigm has undergone series of transformation and redefinition since the time of traditional economists like Sen (1984), Goulet (1986) and a host of others. From the traditional economic growth concept to pro-poor growth and recently to inclusive growth; today, economists of all leanings speak of sustainable growth, development and macroeconomic dynamics which suggests that the future should not be mortgaged or compromised in a bid to undertaking business and economic activities today. It is in this dimension that this study on fiscal sustainability is properly situated.

In less developed countries of Africa, Nigeria inclusive, the growth, size and persistence of fiscal deficit, over the years, have been blamed for much of the macroeconomic crises that encompass them in the recent times: over indebtedness and the debt crisis, high inflation rates as well as poor implementation of policies targeted at poverty level reduction in the region. Therefore, attempts to regain macroeconomic stability through fiscal policy adjustments by most of African countries achieve little or no success, raising questions about the macroeconomic consequences of public debts and fiscal deterioration or fiscal stabilization (Easterly *et al.*, 1994).

Empirical researches have documented macroeconomic consequences of fiscal policy unsustainability. Long series of balance of payments crises have a link to unsustainability of fiscal deficit, particularly the series of failed stabilization efforts. (Budina and Sweder van 2009). Fiscal deficit financed through foreign loans would increase external debt burdens which directly jeopardize current account sustainability (Oshikoya and Tarawalie 2010). Consequently, a large accumulation of debts naturally generates a debt overhang that creates a permanent macroeconomic climate of financial instability for an economy. Therefore, sustainability analysis is crucial for an economy that has long term development plan such as Nigeria with a missed vision 20: 20 goal, as large debt servicing obligations crowd out necessary resources for social and economic development, thereby exacerbating poverty level.

The motivation for this study is predicated on the threat of fiscal insecurity as well as fiscal risk that have been raised by Economics scholars and national issues commentators despite strong and

improved macroeconomic indicators (CBN, 2012). More so, the government debt has started building up again and large proportion of total expenditure is devoted to recurrent expenditure and payment of wages and salaries for which some of the workers can be classified 'ghost' workers and the annual budget basically non-performing. Again, the issue of financial recklessness and budgetary indiscipline on the part of government administrations remains the order of the day as both the legislative and executive arms of the government have always been at loggerheads for unapproved expenditure votes and extra-budgetary spending, thereby aggravating the spate of fiscal crises in the country. This has a high level chance that the intertemporal government budget constraint has been violated.

Metrics of Assessment: Metrics such as debt to income ratio and debt to GDP ratio are often used as part of the assessment of fiscal sustainability.

a) Debt to GDP ratio

The debt to GDP ratio compares a country's sovereign debt to its total economic output for the year. There have been many attempts to establish a debt to GDP ratio threshold beyond which debt becomes unsustainable. It has been argued that when 'public debt exceeds a certain threshold level (above 55% of the gross domestic product), it is negatively correlated with economic activity'.

The famous Maastricht Criteria are the terms that European Union member states are required to meet in order to enter the third stage of the Economic and Monetary Union (EMU) and adopt the euro as their currency. Amongst other metrics, the Maastricht Criteria require that the debt to GDP ratio of qualifying countries should not be over 60% (Real, 2011).

A team from Nigeria argue for a threshold of 70%. Others argue for a 90% debt to GDP ratio. But Lysandrou (2013) argues that there is no point in having a threshold as it depends on the unique economic situation and that more factors need to be taken into consideration.

b) Interest payments as a % of revenue

Income/Revenue is important when considering debt sustainability. A stable debt/income ratio gives a good indication of fiscal sustainability. However, rising debt/income ratios are not always a bad thing.

Whilst there are arguments that rising public sector debt/income ratios lead to crowding out of the private sector and higher risk of private sector default, this is only in the short run. In the long run, this effect is not seen. In an underemployed economy, there may even be some benefits to increasing public sector debt which outweigh any disadvantages. There are alternative arguments that claim that under certain circumstances, rising debt/income ratios are irrelevant (Davis, 1987).

For example, given any debt path, when taxes are distortionary, governments can adjust taxes so as to attain that debt path without affecting equilibrium allocations or prices (Bassetto, 2004). Metrics often don't tell the whole story, as argued by Reinhart (2003). Some countries have debt to GDP & debt to income ratios that would be acceptable in advanced economies, but still default.

The paper calls this phenomenon 'debt intolerance' and therefore suggests that in addition to the traditional metrics, the country's actual track record in paying back debt should be a key consideration. (Reinhart, 2003).

Type of Economy: Advanced or emerging: Advanced economies are often characterized by low interest rates. Often, the interest rates, for example in parts of the Eurozone, are lower than the rate of economic growth.

When interest rates are lower than the rate of economic growth, then it becomes more sustainable to use debt to fund public services. This is especially true for many Eurozone countries that already have high debt to income ratios. This is because when debt to income ratios are very high, the debt path is actually more dependent on the relationship between economic growth and interest rates. . In addition to this, there is the reputation and credibility of these markets that allow them to take on higher levels of debt on every metric without an adverse reaction from financial markets.

Peter Heller is Deputy Director of the IMF's Fiscal Affairs Department and he defines fiscal space as the "room in a government's budget that allows it to provide resources for a desired purpose without jeopardizing the sustainability of its financial position or the stability of the economy" (Heller, 2005).

The IMF describes fiscal space as 'like having money in the bank'. The more a government is able to increase spending without risking an adverse reaction from the financial markets or risking the country's long-term financial health, the more fiscal space it has.

Alternatively, the riskier a country is perceived to be, the less fiscal space it has.

For the most part, developing or emerging economies have less fiscal space because debt vulnerability has been increasing in low income countries substantially.

The reasons for the increased debt vulnerabilities in low income countries as outlined by the World Bank include: Dependence on external debt, Rising cost of debt service, Non- traditional and often higher interest debt sources and Countries with the fastest rise in debt were often fragile and affected by a combination of conflict, weak governance, or commodity-dependence.

Advanced economies have a lot more fiscal space as they are less fragile, have stronger institutions and more favorably looked upon by international investors. Furthermore, interest rates are very low, often lower than the rate of growth, which provides a more sustainable debt path.

The Role of Currency: There is a great degree of variability in the amount of foreign-currency denominated debt that countries decide to take on, even amongst developed countries. It broadly ranges from zero % to up to 60%.

Countries like Ireland, Iceland, New Zealand and Canada have foreign currency debt levels greater than 20%, whilst countries like Austria, Australia, the UK and Spain range between zero and 20%. There is a third group of countries that don't have any foreign currency exposure at all, such as the United States, Germany, Japan and the Netherlands. Foreign currency indebtedness is positively correlated with debt to GDP ratio (Lorenzo, 1998).

Japan has the largest gross debt to gross domestic product (GDP) ratio globally, reaching 230% in 2015. Meanwhile, countries with significantly less debt have experienced debt crises.

The key advantage of Japan's domestic borrowing is that there is no currency risk for which investors would charge higher interest to cover.

However, Japan was able to pursue this strategy because of its well-developed financial markets and high level of domestic savings. Many countries in Africa have underdeveloped financial markets and low levels of saving. Therefore, they must borrow in foreign currency. Rising external debt tends to weaken the economy as foreign debt increases vulnerability to external conditions.

However, domestic borrowing also has some disadvantages, such as in some economies, it will crowd out the private sector. Nevertheless, currency considerations are important to factor in when looking at fiscal sustainability.

Demography and contingent liabilities: The first chapter of the book 'Japan: The Precarious Future' by Sawako Shirahase is called 'Demography as Destiny'. It looks at the impact of contingent liabilities to the State, such as healthcare and pensions on advanced countries like Japan where the birth rate is falling (Sawako, 2015). Japan and many other advanced nations face a situation where the number of elderly and the expenses that come with them are set to explode. Yet the working population that ordinarily should support them is shrinking.

Innovations in technology such as robotics and artificial intelligence may not become advanced enough in terms of the additional productivity they provide to an economy to bridge this gap. So economies that have a huge burden of older people and fewer younger people, meaning falling fertility rates, definitely have to consider this when they plan towards debt sustainability.

The condition of the economy: My final point with regard to the important factors to consider when making decisions about debt sustainability is the condition of the economy. This is probably the most important point. When the economy is in recession, regardless of the demography/contingent liabilities, the currency, the debt to income ratio, the debt to GDP ratio, the currency or the type of economy, governments must find a way to stimulate the economy.

When citizens are suffering, battling diseases, and there is unrest due to a deep recession and monetary policy isn't effective, then, there is usually only one way out—taking on debt and spending it on fiscal stimulus packages to alleviate suffering and to 'prime' the economy back into growth.

We know that the boom and burst is cyclical and in the long run, every economy, even in the deepest and darkest recessions, will self-correct, moving back into growth. But in the words of John Maynard Keynes' most famous quote, 'in the long run, we are all dead'. Using monetary policy during recessions is like pushing on a string; it is frequently ineffective (Tenreyro, 2016). Fiscal stimulus must therefore be used and this often means taking on debt.

Therefore a stable debt/income ratio is a useful metric when considering the issue of fiscal sustainability. But the International Monetary Fund (IMF) doesn't rely on a single metric; the IMF has expanded its definition of debt sustainability "with high probability" by combining a level assessment (debt to GDP ratio) with a flow assessment (the gross financing needs as a share of GDP).

Debt to income ratio should be considered not only alongside other metrics like debt to GDP ratio, but also other factors like currency, type of economy, interest rate, growth rate, demographics, and the wider condition of the economy when making decisions about debt sustainability.

Essentially, fiscal sustainability cannot be over-emphasized for a developing oil-producing economy such as Nigeria; especially going by the negative effects of the Dutch disease syndrome (**Dutch disease** is a concept that describes an economic phenomenon where the rapid development of one sector of the economy (particularly natural resources) precipitates a decline in other sectors. It is also often characterized by a substantial appreciation of the domestic currency), that has eaten deep into the fabric of the Nigerian society. Admittedly, the observation of fiscal rules is the first order condition for fiscal sustainability (Marnefee, Aarle, Van De Wielen and Vareeck; 2011) and, as such, Nigeria has adopted the Fiscal Responsibility Act (FRA) 2007 – as the brainchild of the National Economic Empowerment Development Strategies (NEEDS). The Act commits all tiers of government to avoid financial recklessness, imbibe transparency and accountability in public finance and seeks to

improve inter-government fiscal coordination to secure greater macroeconomic stability (Okogu, 2006).

The government's fiscal strategy in Nigeria actually commenced effectively in 2010 in Nigeria as provided for by the Fiscal Responsibility Act (2007) and it has been revealed that to mitigate the effects of shocks to the fiscal system, the government pursued the creation of the Sovereign Wealth Fund (SWF) to insulate the economy from the possible negative effects of windfall in oil revenue, provide a legal framework for the management of excess oil revenues and serve as a means of attracting local and foreign investors. A sustainable fiscal consolidation and management require greater fiscal discipline. Therefore, Nigeria requires a continuous policy effort as a nation to live within her means. Fiscal consolidation is aimed at reducing the budget deficit and minimizes debt accumulation through more diligent revenue generation and prudent expenditure.

The motivation for this study therefore is predicated on the threat of fiscal insecurity as well as fiscal risk that have been raised by the current aggressive borrowing by members of the executives despite the huge pay out from the country's revenue as debt servicing. More so, the government debt has increased in foreign component and a large proportion of total expenditure is devoted to recurrent expenditure and payment of wages and salaries for which some of the workers can be classified as 'ghost' workers and the annual budget is basically non-performing. Again, the issue of financial recklessness and budgetary indiscipline on the part of government administrations remains the order of the day as both the legislative and executive arms of the government have always been at loggerheads for unapproved expenditure votes and extra-budgetary spending; thereby aggravating the spate of fiscal crises in the country.

2.0 Review of Theoretical Literature

The theoretical literature for fiscal sustainability is anchored on three major strands viz; the Convergence hypothesis, the Neoclassical and Keynesian propositions. Primarily, the convergence proposition is couched in finite, initial and infinite horizon outlook in relation to the convergence path with which the public-debt ratio threads (see Langenus, 2006). The first version, which was initiated by Domar (1944), predicts the convergence of debt ratio to a finite value, the second – which is enshrined in the study of Buiter (1990) and Blanchard, Chouraqui, Hagemann and Sartor (1990) requires convergence to an initial level while the last version popularised by Blanchard et al, (1990); implies that the debt ratio converges to zero. Given these multifarious dimension to fiscal sustainability, specific measurement indicator is lacking with different options revolving around real and nominal variables, gross or net debt level, nominal or market valuation of securities and delineation of government expenditure into recurrent and capital forms have been proposed (see Ballassone and Franco, 2000). **Besides, the sustainability of fiscal policy can be explained under the conditions to which fiscal policies are managed by observing existing fiscal rules (Marnefee, Aarle, Van De Wielen and Vareeck, 2011).** It is from this thought that the motivation for both the (Neo) Classical and Keynesian propositions relate. According to Marnefee et al., (2011), fiscal rules can be categorized into two viz:

- (i) Fiscal rules that primarily aim at restricting government spending, budgetary deficits and government debt in order to safeguard fiscal sustainability. The fiscal rules inspired by (Neo) classical principles fall into this category.
- (ii) Fiscal rules that primarily aim at stabilizing macroeconomic fluctuations. These rules are guided by short-run (new) Keynesian principles of fiscal management.

On the one hand, the Neoclassical economics, in its characteristics nature, rest on full employment equilibrium and symmetric market information without any room for policy impulses from the government to persuade policymakers to pursue balanced budget strategy. Government intervention through public expenditure is presumed to crowd-out private investment due to increasing interest rate. Fiscal rules based on (neo) classical principles concentrate on securing solvency of the government through the inter-temporal budget choice and also allow for public

debt provided it is channeled towards productive investment that would yield a high return. In effect, this suggests that the solvency of government can go with public deficit since the present value of the discounted future amount is positive and higher, thus, amounting to the country's **fiscal gap** – that is, the measure of additional burden that will need to be imposed on future generations to satisfy the **inter-temporal budget constraint**, which is a constraint faced by a decision maker who is making choices for both the present and the future. Understanding that the term inter-temporal is used to describe any relationship between past, present and future events or conditions, the intertemporal budget constraint says that the present value of current and future cash outflows cannot exceed the present value of currently available funds and future cash inflows. Hence as a way of emphasis, the neoclassical theory presumed a long-run sustainability of fiscal policy through the balanced budget.

In contrast, going by the credence lent by the Keynesian propositions on the heel of the 1930's Great Depression, cyclical revenues and expenses were proposed to mimic automatic market stabilization policies during recessionary period when balanced budget is favoured. This proposition is predicated on the Keynesian thought that market forces alone cannot be trusted to solely regulate the market and, thus, progressive tax rates and unemployment benefits are means through which the government regulates the market. The Keynesian's view suggests a short-term intervention to fiscal policy where diverse policy-mix – including bail-out measures – are employed during recessionary period to sustainability (Marnefee et. al., 2011).

Various studies has been carried out locally on the Fiscal Sustainability issue in Nigeria. These studies include Akanbi (2015) who conducted a study on fiscal sustainability in Nigeria between 1970 and 2011, and observed fiscal policy in the non-oil sector to be unsustainable. Jubrilla (2015) examined fiscal sustainability in Nigeria between 1961 and 2014. The study show that there is co-integration between government revenue and expenditure and the slope of the long run elasticity is less than one, which indicates weak sustainability and the fact that the country might face debt financing problem in the long run. Also, Oyeleke and Ajilore (2014) investigated the sustainability of fiscal policy in Nigeria between 1980- 2010 using the Error Correction Model (ECM) with the objective of determining whether government has violated intertemporal government budget constraints. The study revealed that fiscal policy was weakly sustainable in Nigeria's economy. The study recommended improvement on tax revenue generation and other sources of income by government with restriction of her expenditure to growth enhancing projects.

Ayinde (2014) did a triangulation analysis to examine the sustainability of fiscal management between 1970 and 2011. Findings from the study show that fiscal policy is weakly sustainable when capital expenditure and revenue is considered and strongly unsustainable when recurrent expenditure and revenue is considered. The empirical result also implies that the government is faced with liquidity problem. Similarly, Folorunsho and Folade (2013) on the relationship between fiscal deficit and public debt between 1970 and 2011 in Nigeria used a similar methodology to Oyeleke and Ajilore (2014). However, a slightly different data were collected. The implication of the results obtained is that public debt is strongly sustainable.

3.0 Review of Empirical Literature

There are two prominent conceptual approaches to analyze fiscal sustainability; the accounting approach and the present value constraint (PVC)/econometric approach. The starting point for the two approaches is the temporal financial constraint or consolidated public sector which is generally known as government budget constraint (Cuddington, 1996).

Following Cuddington (1996) accounting approach is sometimes viewed as a way to assess fiscal sustainability. It could also be interpreted as a way of assessing the mutual consistency among a number of macro policy targets; inflation rate, interest rate, etc. Summarily, the approach focuses on a particular debt ratio, typically constant ratio of debt to real GDP which focuses on steady-states and assumes that a fiscal deficit (or surplus) that leads to unchanging (constant) debt/GDP ratios over time is sustainable. The implication is that a primary deficit (or surplus) is said to be sustainable if it does not generate an ever-increasing debt/GDP ratio, given a specified real GDP growth target and constant real interest rate.

The PVC/econometric approach, to determine the equation of government budget constraint, a set of assumptions are made; (a) that all debt is in the form of domestic bonds B with a nominal interest rate equal to $i+r$. (b) that debt is also real and is paid over a period of time. The approach states that the debt stock i.e. the initial debt, when measured in present value terms, vanishes in the limit. By implication, there exists No Ponzi Game (NPG) in financing debt; that is, the government is not 'bubble'-financing its expenditure by issuing new debt to finance the deficit. This is analogous to saying that the deficit is sustainable if and only if the stock of debt held by the government is expected to grow not faster than the average real rate of interest, which is viewed as a proxy for the growth rate of the economy. In another word, this condition states that the present value of the government's debt in the indefinite future converges to zero. The NPG condition is typically justified by arguing that lenders would presumably not allow a government to perpetually pay its entire current interest obligation merely by borrowing more. This is so-called Present Value Constraint (PVC).

The foregoing frameworks have copiously found applications in most existing empirical analysis of fiscal sustainability. However, empirical literatures on the subject matter have generally been divided into two prominent strands.

These are those that harp on investigating fiscal sustainability under non-stochastic (certainty condition and constant discounting factor) environments – see for example the studies of Afonso, 2004; Hussin, Jauhari and Muszafarshah, 2012; Kredjl (2006) and Kia (2008) – and those which focus on stochastic (uncertain and risky) economic conditions – see Kia (2008). It is along these dimensions of empirical divides that we put up a review of empirical studies in line with existing time-series and time series cross-sectional data points.

In line with the first strand of empirical literature, Afonso (2004) conducted a cross-country study for the European countries for the period 1970-2003 through the use of cointegration and stationarity tests of analyses. The results of the paper revealed that with few exceptions, European Union governments might have sustainability problems, although debt-to-GDP ratios show signs of stabilizing at the end of the 1990s. However, a small number of countries emerged as less likely to exhibit sustainability problems namely Germany, Netherland, Finland, Austria and United Kingdom. Of these, Germany and the Netherlands almost appear as less likely to have sustainability problems (Afonso, 2004). More so, this result showed that even for those two countries, the absolute value of the relevant estimated coefficient in the cointegration relation is quite below unity implying that their budget deficit may not be sustainable with higher growth rates for expenditures than the growth rates of revenues. This, thus, has implication for inter-temporal primary deficit (Afonso, 2004). This submission conformed to the findings in the study of Hussin, Jauhari and Muszafarshah (2012) which carried out an empirical study between fiscal sustainability and Gross Domestic Product (GDP) in Malaysia with the use of cointegration tests analysis under a Vector Autoregressive (VAR) framework coupled with the Vector Error Correction Modeling (VECM) technique for the period 1970- 2009. The results indicated that the macroeconomic performance on the output in Malaysia was sustainable and thus further established that the levels of fiscal sustainability were sustainable in Malaysia. In effect, the results of the study which was based on an Error Correction Model (ECM) – showed that the conduct of fiscal policy within the sample frame was consistent with government policy but with a need for some fiscal adjustment. It should be noted that Hussin et. al., (2012) employed a barrage of descriptive indicators for fiscal sustainability viz; ratio of government net financial liabilities, gross government interest payments, net government interest payments, government total disbursement, government total receipts, short-term nominal interest rate and long-term interest rate and suggested a simultaneous analysis of indicators and tests for fruitful policy evaluation and design.

While many studies in this strand arbitrarily trace the trends of fiscal policy to reach conclusion on the threshold for fiscal sustainability or otherwise, the work of Muhanji and Ojah (2011) which

gauged the effect of governance infrastructures on debt sustainability in Africa reviewed a large retinue of sustainability thresholds computed by Manasse and Roubini (2009); Paltillio, Poirson and Ricci (2002) and those advanced by Highly Indebted Poor Countries (HIPC) initiatives. They employed simple Ordinary Least Square (OLS) to confirm the impact factor of debt indicators on institutional and macroeconomic variables. Specifically, they employed the external debt to GDP measure – as the solvency indicator – and short-term debt to international reserves ratios – as the liquidity indicator; both serving as dependent variables respectively while political and legal infrastructures stood for institutional variables. After deriving an appropriate threshold level, they pointed to failure of appropriate levels of `sustainable external debt, inadequate effective governance infrastructure and ineffective management of external shocks as important reasons why Africa's external debt problems have persisted.

For the second strand, Kia (2008) is one of the studies on stochastic and varying discounting factors for fiscal sustainability, even though it was also predicted on non-stochastic conditions.

He investigated fiscal sustainability in two emerging countries – Iran (an oil producing country) and Turkey (an agricultural country) under a multi-cointegration framework. He argued that the standard model of intertemporal budget balance suffices for the non-stochastic economic environments but adjusted with some underlying assumptions for stochastic variability between government debt and government revenues and spending. Complementing this, is the use of tax-smoothing model, following the study of Barro (1979, 1986), to cater for the peculiarity of Iran as an energy-producing country. He decried the cointegrating relationship between tax and revenue in developing oil producing economy; especially with unorganized and unstructured tax system as a misleading measure of fiscal sustainability. Chalk and Hemming (2000) also assessed fiscal sustainability; both in theory and practice. The paper summarized the general analytical background especially those that focused on present value budget constraint; the various tests of sustainability (including sustainability indicators) and sustainability with uncertainty. They further assessed the way in which these methods have been approached on the different studies by the International Monetary Fund (IMF). In this context, various indicators such as non-increasing government debt – as an indicator of solvency, and an enduring current fiscal policy which is devoid of government solvency; were employed. The study found a discount between theoretical and empirical works on fiscal sustainability and concluded that most IMF studies in this regard were largely based on a theoretical technique with less attention paid to the present value budget constraint (PVBC) as an indicator of sustainable fiscal policy.

Studies carried out in developing economies of Sub-Saharan Africa indicated a less sustainable fiscal policy situation. Oshikoya and Tarawalie (2010) investigated sustainability of fiscal policy of West African Monetary Zone (WAMZ) countries. Using annual time series data to perform co-integration for the period 1980 to 2008, their empirical result revealed that fiscal policy was weakly sustainable for all the countries under investigation, including Nigeria, except Sierra Leone whose fiscal policy was found to be unsustainable. However, the authors result was in doubt as they failed to provide information about the statistical significance of the β through which weak or strong sustainability can be determined Quintos (1995). They used Johansen co-integration method instead of Engle-Granger 2-step procedure that could afford testing for statistical significance of the vector β .

Ariyo (1993) investigated fiscal sustainability in Nigeria over the period 1970 to 1990, using sustainability indicators. He found that the policy of fiscal deficit was not sustainable due to post civil war reconstruction efforts that occasioned the protracted increase in fiscal deficit. However, it is on record that the deficit continues even a long period after the war. It should be noted also that the transition to democratic administration could definitely change the fiscal behaviour of the government which has implication for debt profile. More importantly, a lot of events have taken place after 1990 when the study was conducted such as debt forgiveness and increasing revenue from oil exports which could have brought reduction to fiscal deficit in Nigeria.

Jibao *et al.* (2012), applied conventional linear co-integration test, tested the asymmetry relationship between revenue and expenditure i.e. making a distinction between the adjustment of positive (budget surplus) and negative (budget deficit) deviations from equilibrium. They used quarterly data on South Africa. The authors found that fiscal policies were sustainable though the authorities in South Africa were more likely to react faster when the budget was in deficit than when in surplus and that the stabilization measures by government were fairly neutral at low deficit levels, that is, at quarterly deficit levels of 4% of GDP and below. They submitted that the increasing tension amongst local communities complaining about poor service delivery by the government could be a recipe for fiscal unsustainability.

Eyitayo (2010) investigated the sustainability of the current account balances of ten ECOWAS economies in 1980 to 2006. According to the author, the empirical investigation was carried out with a view to providing an insight into the possibility of achieving ECOWAS's goal of common currency in the region. The study employed Vector- Auto Regression technique of analysis. The results showed that, out of the ten countries, only Burkina Faso, Ghana and Nigeria had their current

account balances sustainable. Although, Nigerian current account sustainability provided an insight to the economic relationship between Nigeria and the outside world. However, the author was not in line with internal consistency of fiscal policies unarguably relied upon to generate stability of the economy.

For advanced economies, fiscal rules – as enshrined in the controlled approach to budgeting process – were found instrumental to the absence of fiscal distress. Tapsoba (2012) while investigating whether national numerical fiscal rules (FRs) really shaped fiscal behaviours in 74 developing countries over the period 1990- 2007 also found same conclusion as he controlled for self-selection problem in policy evaluation. He employed a treatment effect evaluation and found that the effect of FRs on structural fiscal balance is significantly positive, robust to a variety of alternative specification and varies with the type of FRs. In terms of policy implication, the paper suggested that the introduction of rule-based fiscal policy frameworks remain a credible remedy for governments in developing countries against fiscal indiscipline.

Overall, fiscal policy has been less sustainable for several countries, and panel results corroborate the time series findings. Fiscal sustainability hence describes the condition of fiscal policies, perhaps, due to the persistent implementation of fiscal rules, absence of political apathy and the existence of an economy that is free from perpetual debt accumulation.

4.0 Methodology

Research Design is the structure and strategy for investigating the relationship between the variables of the study. This study is predicated on examining the threat of fiscal insecurity as well as fiscal risk that have been raised by the current aggressive borrowing by members of the executives despite the huge pay out from the country's revenue as debt servicing. The study made use of Content analysis research design.

A Content Analysis according to Holsti (1969) is, "any technique for making inferences by objectively and systematically identifying specified characteristics of messages" Under Holsti's definition, the technique of content analysis is not restricted to the domain of textual analysis, but may be applied to other areas such as coding student drawings (Wheelock, Haney, & Bebell, 2000). Content analysis is also useful for examining trends and patterns in documents.

A detailed review presented in Table 1 below showing the actual revenue, expenditure and national debt profile of Nigeria for the years 2018, 2019 and 2020 was utilized to show the numerical result of the fiscal policies adopted over the three-year period and the state of its sustainability.

ANALYSIS OF THE NIGERIAN REVENUE AND EXPENDITURE 2018, 2019 AND 2020

Table 1: Revenue, Expenditure and National Debt for the fiscal years 2018 - 2020

	2018(TRILLION)		2019(TRILLION)		2020(TRILLION)	
REVENUE		9.57		10.15		7.41
EXPENDITURE- Debt Serv.	1.6		1.1		3.3	
-Statutory Transfers	0.1		0.2		0.5	
-Recurrent Exp.	9.7		10.9		11.2	
-Capital Exp.	3.2	13.97	3.4	15.62	1.6	16.56
DEFICIT/SURPLUS		4.39		5.47		9.15
TOTAL BORROWING: To finance the Deficit.		4.39		5.47		9.15
-Domestic	4.2		4.7		7.1	
-Foreign	0.2		0.7		2.1	
NATIONAL DEBT		31/12/2019		31/12/2020		31/03/2021
Total Debt- Domestic and Foreign		27.401		32.916		33.107

SOURCES: CBN website- www.cbn.gov.ng/documents/annualreports.asp ; Budget office of the Federation website- www.budgetoffice.gov.ng ; Debt Management Office website – www.dmo.gov.ng/debt-profile

In 2018, at N9,573.6 billion or 7.5 per cent of GDP, the aggregate revenue of general government in 2018, comprised: the Federation Account, N6,634.9 billion; VAT Pool Account, N1,046.5 billion; Exchange Gains, N282.5 billion; Recovered Excess Bank Charges, N14.7 billion; and NNPC Refunds, N23.3 billion.

A breakdown showed that recurrent expenditure, which stood at N9, 686.7 billion (7.6% of GDP), accounted for 69.3 per cent of the total; while capital expenditure at N3,209.2 billion (2.5% of GDP); and transfers, N1,017.0 billion (0.8% of GDP); represented 23.0 and 7.7 per cent of the total, respectively.

The fiscal operations of the general government resulted in primary and overall deficits of N2,130.6 billion (1.7% of GDP), and N4,393.3 billion (3.4% of GDP), compared with deficits of N2,477.7 billion (2.2% of GDP) and N4,388.6 billion (3.9% of GDP), respectively, in 2017. The overall deficit was financed, largely from domestic sources, especially borrowings from the non-bank public and draw-down on special accounts.

Also in 2019, at N10,146.6 billion or 7.0 per cent of GDP, aggregate revenue of general government in 2019, comprised: the Federation Account, N6,445.1 billion; VAT Pool Account, N1,128.9 billion; Exchange Gain⁷, N108.1 billion; Excess Non-Oil Revenues⁸, N22.6 billion; and Excess Oil Revenue, N78.1 billion.

A breakdown showed that recurrent expenditure, which stood at N10,889.0 billion (7.5% of GDP), accounted for 69.7 per cent of the total; while capital expenditure at N3,408.0 billion (2.3% of GDP); and transfers, N1,320.2 billion (0.9% of GDP); represented 21.8 and 8.5 per cent of the total, respectively.

The fiscal operations of the general government resulted in estimated primary and overall deficits of N3,049.5 billion (2.1% of GDP) and N5,470.6 billion (3.8% of GDP), compared with N1,852.9 billion (1.4% of GDP), and N4,115.7 billion (3.2% of GDP), respectively, in 2018. The estimated overall deficit was financed, largely, from domestic sources.

In 2020 at N7,416.6 billion or 7.0 per cent of GDP, aggregate revenue of general government in 2020, comprised: the Federation Account, N6,445.1 billion; VAT Pool Account, N1,128.9 billion; Exchange Gain⁷, N108.1 billion; Excess Non-Oil Revenues⁸, N22.6 billion; and Excess Oil Revenue, N78.1 billion.

A breakdown showed that recurrent expenditure, which stood at N8,121.64 billion (7.5% of GDP), accounted for 69.7 per cent of the total; while capital expenditure at N1,614.89 billion (2.3% of GDP); and transfers, N3,800.2 billion (0.9% of GDP); represented 21.8 and 8.5 per cent of the total, respectively.

5.0 Conclusion

The conclusion that can be drawn from the foregoing studies is that fiscal policy is grossly unsustainable in Nigeria. This is in line with the results derived in the study by Tapsoba (2012) for some developing countries and that of Afonso and Jalles (2012) on sustainability between revenue and expenditure for some European countries. Also, according to the findings by Oyeleke and Ajilore (2014), fiscal policy in Nigeria was found to be weakly sustainable.

On attaining equilibrium after violating the Intertemporal Budget Constraint, The findings by Adebisi, D. G., & Oyeleke, O. J. (2020) showed that approximately 42% (-0.417%) was the speed of adjustment with which public revenue was trailing public expenditure for them to be at equilibrium. The implication was that the recovery process between government revenue and expenditure was somehow slow for them to be at equilibrium whenever there was distortion between government revenue and expenditure in the economy of Nigeria during the period under review. From the findings, converting the percentage of error correction into yearly period, it would take government revenue at least two years and five months to catch up with government expenditure, for both variables to be in equilibrium in Nigeria.

More so, continued regime and policy changes has been impacting significantly on the fiscal policies in Nigeria. It is noted that policy breaks have important implications for the behaviour of the economy. Despite the existence of fiscal rules as enunciated in the Fiscal Responsibility Act (FRA) 2007, and various sections of the constitution, fiscal sustainability eludes the economy of Nigeria, suggesting that the mere existence of fiscal rules does not guarantee its sustainability.

Also, the findings in the various studies on Nigeria show that government recurrent expenditure in Nigeria is over bloated while that of its capital expenditure is still accommodating but unsustainable. As such, government should look beyond the enactment of fiscal rules for the sustainability of fiscal policies in Nigeria.

Policy Suggestions

On the basis of the above findings and conclusion, the following recommendations are proffered:

- The central government must streamline expenditure to its revenue and diversify the economy by fully investing in the non-oil sector (export) in order to improve fiscal policy sustainability and macroeconomic stability of Nigeria. Nigeria's weak fiscal stance is already a source of concerns and needs to be addressed to avoid fiscal crisis.
- Debt is a development tool. Hence, Nigeria could go ahead and borrow internationally to finance **only** productive investment projects. However, these borrowings should be long term and have lower cost implications in terms of debt servicing. Also, borrowed funds should be tied to development projects that could either, reduce the country's dependence on foreign exchange or improve foreign exchange earnings.
- Government should introduced debt ceilings in order to prevent explosion of the initial stock of debt arising from arbitrary borrowings by state governments.
- More pragmatic procedures should be instituted such as the creation of institutions that will punish erring public officials who breach fiscal laws. As noted by Tapsoba (2012), mere existence of rule without any implementation aid in terms of institution cannot assist the sustainability of fiscal policy in Nigeria. The presence of institutional framework will engender rule-based fiscal policy framework rather than fiscal indiscipline.

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