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AN ANALYSIS OF NIGERIA'S FISCAL POLICY DESIGN AND REFLECTION

Isaac Chii Nwaogwugwu

Abstract

Nigeria's fiscal policy issues have dominated the discussion in many years over matters of design and management as efforts by the government to redirect the economy through fiscal actions have not yielded desired results. This paper therefore, makes an attempt at reviewing the design and reflections of Nigeria's fiscal policy between 1960 and 2011. This period has been divided into five sub-periods of fiscal policy regimes based on the similarity of policy and its manifestations. Relying on descriptive statistics the paper reveals that fiscal policy regime shifts are not consistent with the overall economic policy of the state. The fiscal targets and instrument variables were also poorly defined and mismatched both in content and operations. The paper therefore recommends a robust fiscal policy design and regime that will effectively complement the nation's monetary policy actions.

Key Words: Fiscal Policy, Fiscal Policy Design, Pubic Revenue, Public Expenditure, Public Debt, Fiscal Deficit

Dr. Isaac Chii Nwaogwugwu
Department of Economics, University of Lagos

INTRODUCTION

Contemporary fiscal policy theory began with the work of Keynes (1936) and is often referred to as Keynesian, although there have been numerous refinements and developments in it. According to Gravelle and Hungerford (2013) these developments include, among others, the standard model (referred to as IS-LM) that includes both monetary and fiscal policy, the refinement of the trade-off between inflation and unemployment, leading to the notion of a natural rate of unemployment.

Since the Great Depression of the 1930s economic management has relied on a policy-mix of monetary and fiscal policies (see Gravelle and Hungerford 2013). Although the relative effectiveness and weaknesses of the two policy approaches have been debated by scholars over decades, the effect of their combined action in steering up an economy remains unquestionable. They generally influence the pace of aggregate economic activities, (Senbet, 2011).

However, it has been pointed out that fiscal policy tends to dominate the monetary policy as the macroeconomic management tool of many a government especially of the less developed world, (Sanusi and Akinlo, 2016) (Okonjo-Iweala, 2011), (Mackocheknwa,2011). In many cases, the governments of these countries lack the ability of effective and efficient management of fiscal variables on both the revenue and expenditure sides as a result of fiscal indiscipline.

The economic policy approach of Nigeria at the dawn of independence in 1960 was not different from the ones adopted by other nations that had just been freed from colonialism. These economies were generally under-developed and agrarian and characterised by low per capita income, low capital formation, high illiteracy rate, weak social sector, weak socio-economic infrastructure, widespread poverty, weak private sector, highly skewed personal, functional and regional income and low investment. Hence, their governments could not resist the temptation of embracing public policy models that would plant them at the centre of all developmental efforts. This naturally involved adopting public sector-led growth and development strategies which simply implied the government asserting itself

on every sector of the economy. An essential ingredient of such policy approach was an invigorated fiscal policy – expansive revenue and expenditure policy that sought to enlarge the scope of public sector operations in the economy. The goal was for the government to address the plethora of problems facing the economy.
The economic outlook of the nation was set for a change in the early 1970s with the oil boom. But the manifestations of this windfall over the years (as borne by key economic indicators) revealed that management of macroeconomic variables was the frustration of the Nigerian government, (see CBN, 2000). During those years, there were shifts in fiscal regimes as well as in fiscal targets and instrument variables.

This work, therefore, evaluates the various regimes of Nigeria's fiscal policy and their reflections on revenue and expenditure variables between 1960 and 2011. The specific objectives pursued here are to; investigate the design and the developing pattern of Nigeria's fiscal policy with special reference to the nature of the "instrument variables" and their relationship with the "target variables" over the years in Nigeria

The remaining part of the paper is divided as follows; section two deals with methodology applied while section three is dedicated to Literature Review. Section four looks at the design of Nigeria's fiscal policy while the fifth section evaluates empirical reflections of Nigeria's fiscal policy in a historical perspective. Policy Implications and Conclusion of the study are also contained in fifth section.

METHODOLOGY

The empirical analysis of this work was based on collected data spanning 51 years, 1960 -2011. In order to isolate the specific fiscal policy actions (and its operations) of different regimes, this period has been divided into five sub-periods -1960 -70, 1971 -85, 1986 - 91, 1992 - 2000 and 2001 - 20011.

The periods have been identified based on the similarity of fiscal targets and instrument variables as well as the drive of economic ideology. For

instance, the first period (1960-1970) was characterised by a mixed economic ideology with a bent on democratic socialism. During this period the government dominated economic activities in the country and embarked on aggressive investment in socio-economic infrastructure. The second period (1971 – 1985) was characterised by the oil boom and the problems associated with it as well as increased participation of the private sector in the economy. Although the economy remained a mixed one but the policies of the day were gradually pushing it to what may be described as a 'middle' mixed economy as the bent between socialism and capitalism seemed even (see FRN, 1962, 1970, FRN, 1975, FRN, 1977; and FRN, 1981; Nwaogwugwu , Shittu and Efe (2016). The third period (1986 - 1991) represents the period of Structural Adjustments when the government experimented with various fiscal and monetary policy tonics in an attempt to correcting the external and internal balances of the economy. This also marked the period when the government commenced its neo-liberal policies as the economic ideology overtly started tinting to the right. The fourth regime (1992 – 2000) was the period when the neo-liberal ideology manifested clearly in virtually everything the government did. This was the regime when globalisation gained ground and the government initiated several reform programmes including the privatisation of State Owned Enterprises (SOEs). The fifth period (2001 – 2011) represents the era of full-blown capitalist operation in Nigeria with the economy relying more on private sector investment for economic growth and development (see FGN,2004).

The investigations rely mainly on descriptive statistics such as simple ratios, percentages, charts and growth rates. The growth rates have been calculated using the compounded annual average rate (CAAGR) formula is given in the equation below:

$$CAAGR = [Y_1/Y_0]^{1/n} - 1$$

Where:

CAAGR = Compounded Annual Average Growth Rate

Y_1 = Current year value

Y_0 = Base year value

n = Number of year

Thus, CAAGR is derived by dividing the value of the requisite fiscal variable at the end of the period (current year) by the value of that fiscal variable at the beginning of the period (base year), with a raise in the result to the power of one divided by the number of years covered by the study, and a subtraction one from the subsequent result.

LITERATURE REVIEW

Conceptual Review of Fiscal Policy

Fiscal Policy is a policy instrument that relies on public revenue and public expenditure management to produce the desired effect in an economy. This implies the manipulation of Government expenditure, or taxes, or both, for the purpose of influencing the level of economic activity, inflation and economic growth (Amacher and Ulbrich, 1986). It is the Government Policy with respect to spending and taxing in pursuance of the goals of stabilisation, greater equality in income distribution and enhancing the economic well-being of the people (Shapiro,1996).

Hence, it is the objective of the fiscal policy to achieve the goals of growth, stability and full employment through decision-making with respect to taxation, government spending and public debt. Fiscal Policy in all these facets deal with the flow of funds out of the spending and saving streams into the hands of the government and the flow of these funds (from the government) into the economy. Thus, the fiscal policy operations depend on the manipulation of the fiscal agents - taxes, government spending and public debt. Decisions with respect to these fiscal agents impact directly on matters which immediately influence the consumption and investment expenditures, and hence the level of income, output and employment in the economy.This as a necessity therefore implies the rejection of the "gradualism" approach to development policy and the adoption of the "Big Push" approach through government intervention (Benjamin and Higgins, 1957). The fiscal operations of the government, therefore, enable it to assert itself as an investor, stabiliser, saver, employment generator and income redistributor among other objectives (see Oner, 2002 and Schckrek, 2004).

A good number of writers have undertaken studies on what the fiscal policy of a nation emphasises. These include Fu, Taylor and Yucel (2003), Wyplosa (2002) and Jha (2007) whose interest was on the how fiscal policy measures spur economic growth. Tanzi and Zee (1997) identified three basic indicators offiscal policy - government expenditure, taxes and deficits. Nevertheless, these indicators are manifestations of the fiscal instruments such as tax rate, subsidies, tax concessions, tax holidays, trade tax policies, and etcetera.

In general, it could be inferred that fiscal policy implies deliberate attempt by the government to manipulate revenue and expenditure variables (such as total outlay, tax rates, subsidies and tariff) and tax expenditures in order to achieve specified predetermined macroeconomic objectives like; economic growth, income redistribution, revenue generation, job creation, poverty alleviation among others. Such objectives and instruments reflect the goals of public policy for a particular period of time, regime of governance or budget policy.

Empirical Literature Review

The role of fiscal policy in stimulating economic growth and development has been hotly debated in the economic literature since the works of Keynes (1936). For instance, Sanjeev *et al.* (2005) investigated the effects of the fiscal consolidation and expenditure composition of government on economic growth for 39 low-income countries within the period 1990 to 2000. Adopting the Generalised Method of Moments (GMM) techniques, their study shows that a strong correlation exists between budgetary positions and economic growth in both the short and long run. Similarly, it was indicated in their results that countries where government expenditure is concentrated on recurrent expenditure (wages) tend to have lower growth than those that allocate higher shares of government expenditure to capital and nonwage expenditure.

In a study of determinants of economic growth and private investment in Ghana, Soli *et al.* (2008) used the co-integration and the error correction technique to established the long and short run model within the period

1964 to 1998. In this study, fiscal policy is disaggregated into government recurrent expenditure, government capital expenditure, international trade tax, tax on domestic goods and services and tax on income and properties. Their empirical results reveal that while government recurrent expenditure, government capital expenditure, and international trade tax are statistically significant in influencing economic growth in Ghana, international trade tax, tax on domestic goods and services and tax on income and properties are the key variables that determine private investment in Ghana.

Attinasi and Klemm (2014) examine the impact of discretionary fiscal policy on economic growth for a sample of eighteen EU countries over the period 1998-2011. The main novelty of their paper is the use, on the revenue side, of a dataset of fiscal measures based on the yield of actual legislative and budgetary measures, rather than approximations, such as changes in cyclically-adjusted variables. Using static and dynamic panel data techniques, they found that fiscal consolidation can be a drag on economic growth in the short-term, although some specific budget categories are not found to be statistically significant. In general, their results also indicate that expenditure-based adjustment tends to be less harmful than revenue-based adjustment. Among expenditure cuts, reductions in government investment and consumption are found to be growth reducing.

Mansouri (2008) studied the relationship between fiscal policy and economic growth in Egypt, Morocco and Tunisia. The span of data for each country are: 1970-2002 for Morocco, 1972-2002 for Tunisia and 1975-2002 for Egypt. The empirical results show that 1 percent increase in public spending raised the real GDP by 1.26 percent in Morocco, 1.15 percent in Tunisia and 0.56 percent in Egypt. The results also indicated the existence of long-run relationships for all the three countries. Enache (2009) investigated the connection between fiscal policy and economic growth in Romania using forecasted time series data which covered the period between 1992 and 2013. The empirical results indicated weak evidence for the positive impact of fiscal policy on economic growth. The study concluded that government authorities could use fiscal policy to affect economic growth in an indirect manner.

The study by Mutiu and Olusijibomi (2013) investigated the relationship between government expenditure and economic growth in Nigeria during the period 1970-2009. The study employed a disaggregated public expenditure analysis using the Gregory-Hansen structural breaks co-integration technique. Their result conforms with Wagner's law in two models in the long run and shows that there was a break in 1993. From their empirical result, it is deduced that expenditure on social and community services i.e. investment in infrastructure and human resources are important in driving economic growth in Nigeria.

Okoro (2013) researched on the impact of government expenditure on economic growth in Nigeria using annual time series data for the period 1980- 2011. The study employed Granger Causality test, Johansen Cointegration Test and Error Correction Mechanism and the variables used in the model include; Real Gross Domestic Product (RGDP) a proxy for economic growth as well as government capital (GCEXP) and government recurrent expenditure (GREXP) used to capture government expenditure. His result shows that there exists a long-run equilibrium relationship between government spending and economic growth in Nigeria. The short-run dynamics adjusts to the long-run equilibrium at the rate of 60% per annum.

Teriba and Ajayi (1975) studied the effects of fiscal policy on macroeconomic variables between October 1967 and May/June 1969. In their study, they discovered that government expenditure as well as fiscal deficit has a negative impact on both inflation and balance of payment. In the case of economic recession and unemployment, the two fiscal policy variables were highly effective to restore them back to equilibrium.

Omoruyi (2000) earlier showed that the major cause of macroeconomic instability and low growth in national output were the unsustainable level of fiscal deficits, financed through borrowing from the banking system and poor management of deficit finance which gave little attention to the heavy scheduled debt service obligations. He highlighted that a prudent fiscal policy can contribute to the achievement of macroeconomic stability and growth. However, deficit financing by borrowing from the banking system

and poor management of deficit finance can also lead to instability and poor economic performance.

Oyejide (1972) believed that rapid economic development is tied to a rapid rate of capital formation and he demonstrated with the aid of data that the methods of financing government deficit in Nigeria have been inflationary. To him, deficit financing may be defined as an increase in the amount of money in circulation where such an excess results from a conscious governmental policy designed to encourage economic activities which would otherwise not have taken place. He said further that deficit financing could be defined as domestic credit creation, which is not offset by increased taxation, more restrictive bank credit policy and similar deflationary measure. He explained that the most obvious measure of deficit financing is the fiscal deficit on current account, which represents the gap between current expenditure and current revenue.

Oyejide (1972) explained further in his analysis that the fiscal deficit of the government have been financed by drawing upon past and current savings of the economy, foreign assistance and increased simply by borrowing from the banking system. He formulated a regression model with the view to establishing the theoretical relationship between money supply and government expenditure and to be able to quantify the domestic price level, deficit and the rate of capital formation. He concluded that the policy of deficit financing in Nigeria gained strength rapidly between 1957 and 1970. The policy was used as a means of financing capital formation for economic development and was accompanied by a phenomenal increased in the domestic price level, even though the policy of deficit financing also encouraged the process of capital formation as listed in pre-war period. The policy implication, he said, is that in a less developed country, sustained growth of deficit financing can hardly take place without some amount of inflation. Bohn (1998) looked at whether the primary fiscal balance responds positively to increase in the level of debts, while controlling for other determinants of the primary balance. The study indicated that a sufficiently positive response ensures that is satisfied and that public debt grows rapidly in the long run. Nwaogwugwu (2005) highlights the impact of seemingly intractable problems of deficit financing on the socioeconomic

welfare of the Nigerians. The work looked at the trend and structure of public expenditure in Nigeria as well as the implication of fiscal deficit and its mode of financing on the economy. He calls for prudent public debt management and reduced dependence on the Central Bank for deficit financing.

The major gap in the literature review is that researchers have not been able to analyse the various regimes of Nigeria's fiscal policy and how they may have impacted on the fiscal operations of the country.

THE DESIGN OF NIGERIA'S FISCAL POLICY

The design of a fiscal policy reflects the need of fiscal management to achieve espoused goals of the government, which generally has the intention of enhancing the welfare of the citizenry. It essentially entails a layout of the plan of action of fiscal administration and control. This revolves around five basic issues;

a) Fiscal Policy Persuasion (the need for the fiscal policy) derives from the overall budget policy which gave the fiscal policy a purpose *ab initio*.
b) The target variables which reflect the *raison d'etre* – the specific objective of the fiscal policy such as growth of output, reduction of inflation rate, increased employment, etc.
c) The instrument variables spelt out in the form of new tax measures, variation in tax rates, expenditure cuts, varied transfer payment policy, tax expenditures, etc., to achieve some specific goals.
d) Operational approaches implying the mechanism of fiscal policy implementation to achieve the desired goal, and
e) The system of government, which shows whether the country operates a federal or a unitary system of government.

Fiscal Policy Persuasion:

The fiscal policy of the first regime, 1960 - 70 was persuaded by the need for the state to assert itself on the economy (see Federal Government of

Nigeria, 1962). This implied defining the economic activities within the context of parameters of public sector–led growth and development with the private sector playing a supporting role (see Central Bank of Nigeria, (2000) and Anyanwu,(1997)). This policy inclination continued in the second regime, 1971 - 85, during which the government remained visible in all sectors of the economy (see Federal Government of Nigeria (1970), FGN (1975) and FGN (1981).

However, the policies in the third regime, 1986 – 1991, were persuaded by the Structural Adjustment Programme, Fiscal Deficit crises and Public Debt Management (see FGN (1988a), FGN (1988a), FGN (1988c) and FGN (1988d)) This driving ideology shifted once again during the fourth regime, 1992 – 2000 (see FGN (1990) and (1997)). During this period, the fiscal policy derived mainly from the ideas of globalisation, free market economy and reduced government role in economic activities. These policies were deepened during 2001 and 2011 with the budget policy of the government anchoring mainly on the Medium Term Expenditure Framework. It is also pertinent to point out here that economic reform measures like privatisation, commercialization, tax reform, foreign exchange reform and the New Industrial Policy have also reshaped the stand of fiscal policy persuasion in the country (see FGN (1988a), FGN (1997) and (2004)).

Target Variables:

The target variables of the fiscal policy during the first regime were, income distribution, strengthening fiscal federalism, economic growth, revenue generation, price stability, increased production of food and reduction in unemployment (see Federal Government of Nigeria (1962), Baer (1972).

However, during the second regime, emphasis was on revenue generation, political and economic stability; rehabilitation and reconstruction, reduction of inequalities and economic growth. Stabilisation of macroeconomic variables through fiscal deficit management and economic growth were the targets of the fiscal policy during the third regime. This did not change during the subsequent period, when the policy also had to focus on Public

debt management and employment generation (see Federal Government of Nigeria (1970), FGN (1975), FGN (1977), and FGN (1981)).

However, the primary fiscal target since the late 1990s and throughout the fourth and fifth regimes was economic growth which the planners and policy makers identified as the elixir macroeconomic variable that would ultimately influence the behaviour of the other variables (see FRN (2004) FGN (2014) and FGN (2016)). The secondary or ancillary targets include fiscal discipline, increased revenue generation and macroeconomic stability.

Instrument Variables

The instrument variables of the first regime were fiscal incentives in the form of agricultural subsidy, periodic wage review and financial relief to the industry as well as reduced expenditure, increased tax rates and increased import duties for domestically produced alternatives (see Federal Government of Nigeria (1962), Baer (1972)).

During the second regime, the Nigerian fiscal policy relied mainly on import liberalisation, reduction of surcharges on import, concessional rates on duty on raw materials, low excise duties, reduction on import duties, agricultural production incentives (import subsidy, duty-free import of agric equipment) and higher company tax rates. It is also pertinent to note that during this period, a nominal excise duty of 5% was imposed on a wide range of locally produced goods (to raise revenue) as well as banning of some commodities like fireworks, footwear, tooth pastes, etc., (see Federal Republic of Nigeria FRN (1962), (1970), FRN (1975), FRN (1977), and FRN (1981)).

As far as the third regime is concerned, the fiscal instruments were clearly shaped in line with the policy persuasion of structural adjustment. Hence, the major variables were: removal of subsidy, restructuring of tariff, curtailment of recurrent expenditure, restraint in wage increase, employment freeze, reduction in transfer payments to parastatals, cost recovery and tax reform with emphasis on indirect taxes (see Beckman (1987), FGN (1988a), FGN (1988a), FGN (1988c) and FGN (1988d)).

The total federally collected revenue increased from N312.2 million in 1964 to N1168.8 million in 1971, and further to N12595.8 million in 1986 and touched the peak of N1906159.7 in 2000. The figures stand at N9987629.00 in 2011. This translates into growth rates of 11% between 1964 and 1970, 18% between 1971 and 1985, 41% between 1986 and 1989, 29% between 1992 and 2000, 15% between 2001 and 2011 and 24% for the whole period, 1964 – 2011. These are captured by fig. 1, fig. 2 and Appendix table1.

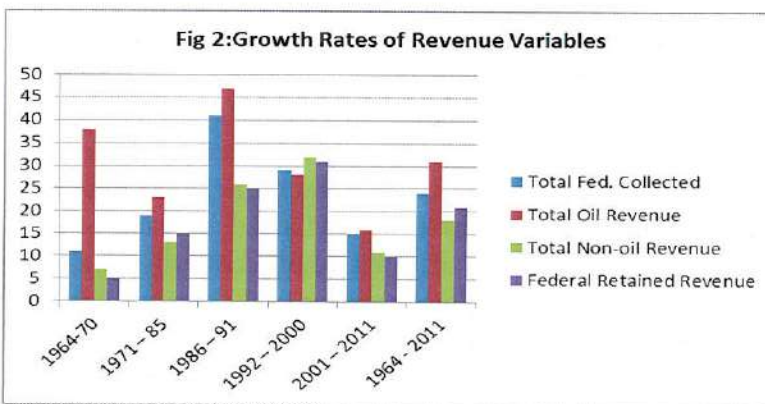
These tremendous growth rates would imply that the resource bases of the Federal Government were highly productive. But the periodic analysis reveals that they revolve mainly around oil revenue. In this regard it may be noted that the growth rate was only 10.6% between 1964 and 1970, the period when oil has not dominated the Nigerian economy. It should be pointed out also that the period 1986-1991 registered the highest growth rates for the entire variable which derives from the Naira depreciation consequent upon the Structural Adjustment Programme and thereby influencing the nominal value of revenue variable.

Column 3 of Appendix table 1 shows that the trend of the oil revenue figures was very steep. It rose from a mere N17.8 million in 1964 to N510.1 million in 1971, and rose further with slight fluctuations to N10923.7 million in 1985 and to the highest figure of N8848615 in 2011. The figures for non-Oil Revenue for the corresponding years are N294.4 million, N658.7 million, N4126.7 million and N314483.9 million respectively. The growth rates for the four regimes are 38% and 7%, 23% and 13 %, 47% and 26 % 28% and 32% and 16% for oil and non-oil revenues respectively. For the entire period the growth rates stood at 31% for the former and 18% for the latter, (see columns 3 and 4 of table 2). The share of oil revenue in the total federally collected revenue rose from a mere 5.7% in 1964 to 81.38% in 1979 and further to 88.60% in 2011. This drives home the point that although the federally collected revenue shows a high degree of buoyancy, this is not necessarily the case with respect to the non-oil revenue, which comparatively, registered only modest growth rates in all the regimes save for the fourth, 1992 - 2000. The implication of this is that the exclusive Revenue of the Federal

Government remains very narrow, hence the total revenue accrual and collection is dominated by the oil resources bases. This is buttressed by the fact that the relative share of oil revenue moved up during this period.

As far as the Federal Retained Revenue is concerned, the quantum increase was very modest. The figure rose from N312.2 million in 1964 to N1168.8 million in 1971, to N10001.4 million in 1985, and reached its peak of N3140636.74 in 2011.These imply growth rates of 5%, 15%, 25%, 31% and 10% for the first, second third, fourth and fifth regimes respectively

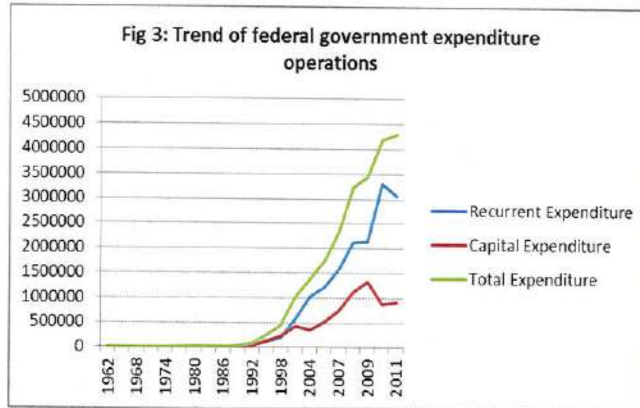
It may be mentioned that Customs and Excise remains the major resource of non-oil revenue, contributing about 79.1% of the total non-oil revenue in 1970 while the share of corporate income tax stood at 9.8% in the same year.

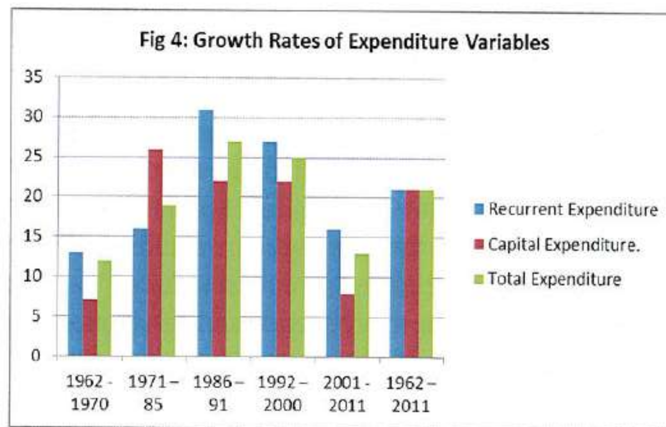


The expenditure activities of the Federal Government operate through the Recurrent and Capital Accounts. Whereas the former deals with "running expenses" or maintains costs, the latter implies expenditures of a long-term nature usually of a period of more than one year. These are basically expenditure on capital formation, Rede (1993). The operation of these accounts are shown in Appendix table 3. Column 2 of this table shows that the total Recurrent Expenditure of the Government increased steadily from N232.4 million in 1962 to N823.6 million in 1971 and further to N7576.4 million in 1985 before reaching its highest of N3054333.40 million in 2011. The corresponding figures for the capital expenditure are N106.4, N173.6, N5464.7 and N918548.9 respectively. A combination of the Recurrent and Capital Expenditures gives the total expenditure, which is shown in column 4 of the same table. From here, it is noted that the total public expenditure, which was N338.8 million, rose sharply to N997.2 million in 1971 and tremendously further to N13041.1 in 1985, before reaching its peak of N429915.10 million in 2011. See fig.3.

From Appendix table 4 and fig.4 one finds out that these expenditures variables recorded high growth rates which range from 13% to 27% for recurrent expenditure, 8% to 26% for capital expenditure and 12% to 27% for the total expenditure for the various regimes studied. The growth of these public expenditure variables have been induced by increased revenue, assumed role of the state in production and distribution of goods and services, and the challenges of growth and development.

The domination of recurrent expenditure over its capital counterpart is also revealed by columns 5 and 6 of Appendix table 3 as well as fig. 5. These columns show that the recurrent expenditures were generally higher than the capital expenditures with percentage shares that fall mainly between 45% recorded in 1996 and 86% registered in 1982. This leaves the relatives share of capital expenditure ranging between the highest figure of 65% in 1986 and the lowest of 14% in 1982.





Some interesting facts are evident in from that table. First, it is noted that apart from during the first regime the growth rates were generally very high (above 15%) in all other regimes. These periods coincide with the era of the monolithic nature of the Nigerian economy consequent upon the domination of oil revenues in the revenue and expenditure operations of the government. Secondly, a comparison of column 5 of Appendix table 4 and column 5 of Appendix table 2 indicates that the total expenditure grew faster than the federal retained revenue in all the periods save for 1992 – 2000 when the former was marginally lower.

During the fourth regime, the fiscal policy approach relied on lowered company tax rates, improvement in rationalisation of dividend taxation, introduction of Value Added Tax (VAT), withdrawal of subsidies, tax exemption, reduction of personal income tax burden, increased tax allowance, lowering of tax rate, monetisation and taxation of fringe benefits and tariff reform (see FGN (2004) and FGN (2014). The fifth period relied mainly on tax rate variation, tax expenditure, wage rate manipulation, trade tax reform, modified agricultural policy, expenditure allocation and factor-input manipulation.

Fiscal Policy Implementation Strategy

Fiscal policy implementation strategy generally relies on; formulation of expenditure policy, allocation of resources in conformity with both policies and fiscal targets and addressing operational efficiency and performance issues. During the decades of 1960s and 1970s Nigeria relied on term development plans for its fiscal policy implementation. See FRN (1970), FRN (1975), and FRN (1981).

The targets of those plans' strategies were broken down into annual plans through the budgetary process. Resources were therefore transferred to government institutions, Ministries, Departments and Agencies (MDAs) that have been set up as Plan/Budget implementation units. During the 1980s the government institutionalised annual plans as a way of implementing fiscal policy decisions. This was later changed into rolling plans in the 1990s (see FRN (1990)).

Medium Term Expenditure Framework has been serving as the basis of Nigeria's budgeting and annual plan implementation since 2004. This also led to the establishment of Fiscal Responsibility Commission which ensures that fiscal policy decisions are properly handled. In addition to this, the federal government also initiated budgetary reform programmes.

System of Government

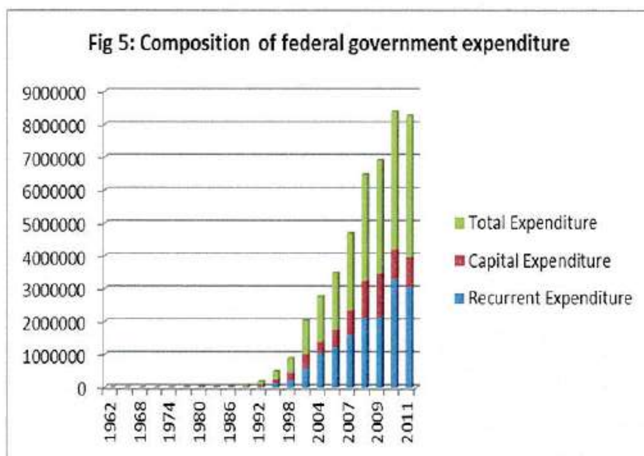
This within the context of fiscal policy implies the extent and constitutionality revenue and expenditure power decentralisation in a polity. That is, whether those powers are centralised as is the case in a unitary system of government or devolved as is usually the case in a federal system. This becomes relevant in fiscal policy analysis for the fact that under a unitary system only one budget operates at any point in time whereas under a federal system there are as many budgets at any point in time as there are the number of federal and federating units in the country. This way at any point in time there are eight hundred and eleven fiscal policy regimes operating in Nigeria (see FRN (1999) That is, one fiscal policy regime of the federal government, thirty-six fiscal policy regime of the 36 States and seven hundred and seventy-four fiscal policy regimes of the 774 Local Government Authorities.

REFLECTION ON FISCAL POLICY OPERATIONS: EMPIRICAL EVIDENCE

This section attempts to empirically examine the different aspects of Nigeria's Fiscal Operations, viz, Revenue, Expenditure, and Public Debt operations.

The federal system of government which Nigeria operates enables fiscal policy decisions to be made at three different levels that conform to the three-tier federal arrangement of the country. Hence, all the revenues collected by the federal government from federal resource bases are "exclusive" only in terms of legislation and administration and "concurrent" in terms of retention as most of these revenues accrue to the Federation Account which in essence is a Distributable pool. Similarly, each tier of decision-making has its own sphere of expenditure which has been allocated to it by the constitution. Only the federal revenue and expenditure operations and their consequences have been analysed here.

Revenue Operations



The implication of this is that the overall fiscal deficit will not only become persistent and endemic but will also increase at an increasing rate, and thereby limiting the scope and volume of capital formation on the one hand, and exposing the economy to the dangers of public borrowing and its attendant burden on the other hand. The third point to be noted here is that with the exception of the period 1971 - 85, the growth rate of capital expenditure lagged behind that of recurrent expenditure. This means that the budgets had not made adequate effort in the area of capital formation, which generally guarantees the future of the nations.

Revenue Expenditure Dichotomy

The budget position of the government shows its surplus (+) or deficit (-) or balance depending on the disproportional or proportional relationship between the Revenue and Expenditure variables. A surplus on the Recurrent Account denotes savings made by the State and is used in financing capital expenditure (Rede, 1993).

Column 2 of Appendix table 5 shows that the Federal Government made huge savings in the Recurrent Account in all years between 1970 and

2011 except 1970, 1988, 1989, and 1993. The surplus was smallest in 1992 when it stood at N230.8 million and highest in 1999 when it was N212922.9 million. This endorses the fact that the Recurrent Account Budget position reflects adequately in the financing of the capital expenditures.

However, column 3 of this table reveals the precarious position of Nigeria's fiscal operations. This shows the overall deficits that grew larger by the year – from a mere N455.1 million in 1970 to N3039.7 million in 1985 and further to its peak of N1464400.0million in 2011. This high level of fiscal deficit arose mainly from the oil boom that caused the expansion of permanent expenditure. This level of fiscal deficit might be destabilising in nature especially when the same is mainly financed through the banking system or through foreign borrowing. But fiscal deficits ordinarily should not elicit worries if they are sustainable productive and provided the desired stimulus (Obadan and Uga, 1996).

5.4 Financing of the Fiscal Deficits

The major sources of financing the deficits in Nigeria are external borrowing, domestic borrowing and drawing down on reserves. The domestic sources have always dominated the rest since independence, and most of these funds come from the banking sector. In fact 60.7% of total deficit financing between 1981 and 1990 and an average of 94.1 percent between 1991 and 1998, come from this sector (see CBN 2000). Also see Appendix table 6.

Public Debt

The analysis with respect to the operations of Revenue and Expenditure revealed a serious disequilibrium (fiscal deficit) which became wider over the years. The stock of the total public debt of the country (Domestic and Foreign) stood at N118 million in 1960 from where it rose sharply to N1424.2 million in 1971 and further to N45252.6 million in 1985. It reached its peak of N4019979.7 million in 2000 (see column 2 of table 7). .

Columns 3 and 4 of the same Appendix table 7 shows the Domestic and Foreign components of Nigeria's Public Debt respectively. The Domestic Debt figure was a mere N23.5 million in 1960 which rose sharply to N1245.7 million in 1971, to N27952 million in 1985 and further to N898253.9 million in the year 2000, and to 5622843.71 in 2011. The corresponding figures for the External Debt are N94.5 million, N178.5 million, N17300.6 million, N3121725.8 million and 896,832.62 respectively. From column 5 and 6 of that table we note that the relative share of the two components of Public Debt has changed rapidly. Whereas between 1963 and 1985 the share of Domestic debt was greater than that of External debt (ranging between 53.5% in 1963 and 92.7% in 1977), it was far lower than the share of the External Debt from 1986 to 2000, (ranging between the lowest figure of 16.36% in 1989 and its highest of 45.92% in 1998. This swing which reflects foreign debt domination explains why Nigeria has been under the threat of the same since the 1980s which has led to the numerous problems associated with External Debt Management not to mention the barrage of its consequences on macroeconomic management. However, it is interesting to know that this trend was reversed in 2002. Hence, between 2006 and 2011 the share of foreign debt in the total debt of Nigeria ranged between 13.16% recorded in 2010 and 20.48% observed in 2007.

This reversal was due to the buy-back Debt Management Strategy adopted by the government in 2004 under which the nation had to pay $12 billion to the Paris Club creditors to secure a forgiveness of $18 billion.

It may be pointed out once again that huge public debt may not be bad for an economy. In fact it can be a source of growth and development if effectively and efficiently managed. The problem with Nigeria is that Public Debt is treated as a Recurrent receipt at the use-end and not as a capital receipt that carries liability in the form of repayment of the principal and interest thereupon.

Public Debt Charges and Debt Servicing

The immediate impact of public debt is reflected on the budgeting allocation of Public Debt charges (interest payment) as well capital repayment. These payments are generally regarded as unproductive (see Rede, (1993)). Hence, their sizes attract serious attention of policy makers as its increase will generally constrain the utilisation of fund for productive purposes.

Nigeria's Public Debt charges stood at N467 million in 1977 and rose with fluctuations to N1586.9 million in 1985. By 1988, the figure stood at N6915.6 million from where it moved erratically to N108485.0 million in 2000, before declining to N90894.3 in 2011. The decline here is obviously connected to the buy-back Debt Management strategy mentioned earlier. (see column 2 of Appendix table 8). This implies growth rates of 14.55% between 1977 and 1985, 43.62% between 1986 and 1991 and 20.48% between 1992 and 2000.

Column 3 of table 6 shows that interest payment as a percentage of the Recurrent Expenditure stood at 12.23% in 1977 and rose with fluctuations to 50.13% in 1989 before dropping to 9.59% in 2011. It is interesting to note that the figures ranged between 34.64% and 50.13% between 1987 and 1997. This therefore implies that in most years more than one-third of the recurrent budget was directed from productive purposes which definitely translate into reduced welfare of the people. Columns 4 and 5 of the same table also shows that the ratio of these debt changes to total

expenditure and GDP has also been very high confirming the initial revelation and fear of the debt burden.

It is also interesting to note that debt servicing–GDP ratio has declined reasonably since the 1990s. The figure which stood at 12.16% in 1993 fell drastically to 6.70% in 1994 and reached its lowest of 2.67% in 1997 before rising marginally to 3.01% in 2000, (see column 4 of table 8). In fact it was 0.13 in 2011.This would imply that the effort of the government in effective public debt management yielded useful results, although this to a great extent is the result of the government decision to restrict its debt servicing to a reasonable limit.

It isequally important to observe that the major strategies of the Pubic Debt Management Policy in Nigeria have been the Debt Conversion Programme, Rescheduling, Refinancing and New Loan Facility. But the effectiveness of these programmes in reducing or mitigating the problem of debt over-hang remains questionable. In this connection, it may be said that the prime objective of the debt conversion programme is "to reduce the debt stock with a view to alleviating the debt service burden stimulate foreign investment flow, serve as an additional incentive for the repatriation or reversal of capital flight, and encourage the creation and development of an export base for the economy; "(CBN, 1998). So far, the programme has achieved little or none of the above objectives. Instead, "it has adverse monetary expansion effects, especially as large chunk is chandelled to charitable organisations," Mbanefor & Anyanwu, 1995).

The Link between the Fiscal Variables

The preceding analysis establishes the fact that there exist crucial relationships between all the fiscal variables (revenue, expenditure, public debt and fiscal deficit) which have been under constant manipulation by the fiscal managers.

It is noted here that the revenue bases of the nation are not buoyant enough to contain the expenditure obligations of the government, which has not only been expensive but expansive as well. This tendency of the public

expenditure was initially spurred by public policy needs as reflected in growth and development efforts, which increased the participation of the government in socioeconomic activities. Hence the exponential increase of fiscal deficits. An attempt at closing this gap results into huge public debt which in turn mounts pressure on the succeeding budgets because of liabilities of capital repayment and interest thereupon. This increases the deficit further and hence throws the nation into the quagmire of persistent and perpetuated deficit which can only be overcome through extra-ordinary effort of fiscal management, especially on its public debt aspects. It might be pertinent, however to point out that a rising public debt and fiscal deficit may not constitute a fiscal problem so long as there are within a tolerable range when viewed against the size of the economy.

CONCLUSION AND POLICY RECOMMENDATION

Fiscal policy matters seem quite complicated in Nigeria. This is clearly evident from virtually every aspect of fiscal policy design and operation. Whereas the various fiscal regimes are clear in terms of ideology and rationale, problems of 'non-correspondence' abound between fiscal targets and instruments. The implication of this is that for the entire period studied 1960 - 2011, the fiscal instruments proved counterproductive on the fiscal targets as well as on the ideology of the various fiscal regimes. This is also clearly evident from the magnitude of the fiscal deficit and the stock of outstanding public debt recorded over the years. Although it is not clear whether the high level of fiscal deficit and public debt in the 1970s and 1980s translated into a productive expenditure of the federal government, the same may have formed the bases of macroeconomic instability that characterised the Nigerian economy in the 1980s and 1990s.

There is the need therefore to clearly define the ideology driving a particular fiscal policy design in the country and as well ensure that the instrument variables are compatible with the target variables. This becomes much more relevant today when the government is pursuing policies anchored on neo-liberal ideology in the face of worsening social conditions of the citizenry which can only be attended to through a counter-ideological perspective.

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Appendix 1: Revenue Operations of the Federal Government of Nigeria 1964 – 2011

(Amount in Millions of Naira)

Year	Total Federally Collected Revenue	Total Oil Revenue	Total Non-oil Revenue Revenue	Federal Retained	3 as % of 2	4 as % of 2	5 as % of 2
1	2	3	4	5	6	7	8
1964	312.2	17.8	294.4	312.2	5.70	94.30	100.00
1967	318.8	55.6	263.23	18.8	17.44	82.56	100.00
1970	634.0	166.6	467.44	48.8	26.28	73.72	70.79
1971	1168.8	510.1	658.71	168.8	30.57	69.43	100.00
1973	1695.3	1016.0	679.31	695.3	59.93	40.07	100.00
1976	6765.9	5365.2	1400.7	6765.9	79.30	20.70	100.00
1979	10912.4	8880.8	2031.6	8868.4	81.38	18.62	81.27
1982	11433.7	7814.9	3618.8	5819.1	68.35	31.65	50.89
1985	15050.4	10923/7	4126.7	10001.4	72.58	27.42	66.45
1986	12595.8	8107.3 4	488.57	969.4	64.37	35.63	63.27
1988	27596.7	19831.7	7765.0	15588.6	71.86	28.14	56.49
1991	100991.6	82666.4	18305.2	30829.2	81.85	18.15	30.53
1992	190453.2	164078.1	26375.1	53264.9	86.15	13.85	27.97
1994	201910.8	160192.4	41718.4	90622.6	79.34	20.66	44.88
1997	582811.1	416811.1	166000.0	351262.3	71.52	28.48	60.27
2000	1906159.7	1591675.8	314484.9	597282.1	83.50	16.50	31.33
2001	2231600.0	1707600.0	624000.0	1062800.0	76.52	23.48	47.63
2003	2575100.0	2074300.0	500800.0	1107700.0	80.55	19.45	43.02
2006	6061000.0	5287600.0	773400.0	2214500.0	87.24	12.76	36.54
2007	5715600.0	4462900.0	1252700.0	2638500.0	78.08	21.92	46.16
2008	7866590.10	6,530,630.0	1,335,960.00	3,193,440.00	83.02	16.98	40.59
2009	4,057,499.20	3,191938.00	865,561.20	2646904.70	78.67	21.33	65.24
2010	7,303,671.55	5,396,091.05	1907580.50	3088778.10	73.88	26.12	42.29
2011	9987629.00	8848615.00	1139014.00	3140636.70	88.60	11.40	31.45

Source (a) *Columns 2 to 5 are obtained from (I) The changing structure of the Nigerian Economy and Implications for development, CBN, 2000, (ii) CBN's Statistical Bulletin, 2006, 2008 and 2011* ***(b)*** *Columns 6 to 8 are derived from columns 2 to 5 by the author.*

Appendix 2: Growth Rates of Revenue Variables

Year	Total Fed. Collected	Total Oil Revenue	Total Non-oil Revenue	Federal Retained Revenue
1	2	3	4	5
1964-70	11	38	7	5
1971 – 85	19	23	13	15
1986 – 91	41	47	26	25
1992 – 2000	29	28	32	31
2001 – 2011	15	16	11	10
1964 - 2011	24	31	18	21

Source: *Calculated by the Author.*

Appendix 3: Federal government's Expenditure and Its Distribution 1962 – 2011.

(Amount in Millions of Naira)

Year	Recurrent Expenditure	Capital Expenditure	Total Expenditure	2 as % of 4	3 as % of 4
1	2	3	4	5	6
1962	232.4	106.4	338.8	68.60	31.40
1965	324.2	140.8	465.0	69.68	30.32
1968	330.1	130.1	460.2	71.73	28.27
1971	823.6	173.6	997.2	82.59	17.41
1974	1517.1	1223.5	2740.6	55.36	44.64
1977	3819.2	5004.6	8823.8	43.28	56.72
1980	4805.2	10163.3	14968.5	32.10	67.90
1983	4750.8	4885.7	9636.5	49.30	50.70
1986	7696.9	6526.8	16223.7	47.44	52.56
1989	25994.2	15034.1	41028.3	63.36	36.64
1992	53034.1	39763.3	92797.4	57.15	42.85
1995	127629.8	121138.3	248768.1	51.30	48.70
1998	206477.5	237085.8	443563.3	46.55	53.45

Year	Recurrent Expenditure	Capital Expenditure	Total Expenditure	2 as % of 4	3 as % of 4
2001	579300.0	438700.0	1018000.0	65.91	43.09
2004	1032700.0	351300.0	1384000.0	74.62	25.38
2005	1223700.0	519500.0	1743200.0	70.20	29.80
2007	1589300.0	759300.0	2348600.0	67.67	32.33
2008	2117362.50	1123456.00	3240818.50	65.33	34.67
2009	2131906.00	1325019.00	3456925.40	61.67	38.33
2010	3310343.38	883,874.50	4194217.88	78.93	21.07
2011	3054333.40	918548.90	4299155.10	70.05	21.37

Source:*(1)* ***Source (a)*** *Columns 2 to 5 are obtained from (I) The changing structure of the Nigerian Economy and Implications for development, CBN, 2000, (ii) CBN's Statistical Bulletin, 2006, 2008 and 2011 (2) Column 5 and 6 are derived from column 2 to 4 by the author.*

Appendix 4: Growth Rates of Expenditure Variables

Year	Recurrent Expenditure	Capital Expenditure	Total Expenditure
1	**2**	**3**	**4**
1962 - 1970	13	7	12
1971 – 85	16	26	19
1986 – 91	31	22	27
1992 – 2000	27	22	25
2001 - 2011	16	8	13
1962 – 2011	21	21	21

Source: *Calculated by the Author.*

Appendix 5: The Budget Position of the Federal Government of Nigeria 1970 – 2011.

(Amount in millions of Naira)

Year	Recurrent (+) or (-)	Overall (+) or (-)	2 as & of GDP	3 as % of GDP	External Debt
1	2	3	4	5	6
1970	+267.3	-455.1	-5.1	-8.7	175.0
1973	+731.8	+166.1	6.7	1.5	276.9
1976	+2950.5	-1090.8	10.8	-4.0	-374.6
1979	+5681.2	+1461.7	13.2	3.4	1611.5
1982	+313.1	-6104.1	0.3	-5.5	8819.4
1985	+2425.0	-3039.7	1.7	-2.1	17300.6
1988	-3820.8	-12160.9	1.4	-4.4	133956.3
1991	-7414.3	-35755.2	1.3	-6.2	328453.8
1992	+230.8	-39532.5	0.0	-4.3	544264.1
1994	+647.7	-70270.6	0.0	-4.8	648813.0
1997	+264651.7	-50000.0	6.2	-0.1	595931.9
2000	+135673.6	-103777.3	0.0	-1.5	3097383.9
2003	+39000.0	-202724.7	0.0	-2.0	4478329.3
2006	+564400.0	-101397.5	0.0	-0.6	451461.1
2007	+744400.0	-117.2	0.0	-0.0	428058.7
2008	+1076077.50	-47,378.50	4.43	-0.20	493,180.2
2009	+514998.70	-810,020.70	2.08	-3.28	590,441.1
2010	+1284400.0	-303723.7	5.42	1.8	689845.30
2011	+1464400.0	-40500.4	4.67	2.4	896832.62

***Source:* (a)** *Column 2 to 5 are obtained from (I) The changing structure of the Nigerian Economy and Implications for development, CBN, 2000, (ii) CBN's Statistical Bulletin, 2006, 2008 and 2011*

Appendix Table 6: Financing of Nigeria's Overall Fiscal Deficits, 1970 – 2011

Year	Overall Budget Surplus/ Deficit	Foreign Loan	Domestic Loan	Banking System	Non-Banking Public	Other Funds
1	2	3	4	5	6	7
1970	(455.1)	1.0	227.4	165.6	61.8	+226.7
1973	166.1	48.9	60.5	28.5	32.0	-275.5
1976	(1090.8)	24.5	1041.3	620.0	421.3	+25.0
1979	1461.7	363.8	729.0	101.6	627.4	-2554.5
1982	(6104.1)	263.5	3402.0	3989.2	412.8	+2438.6
1985	(3039.7)	1045.9	571.2	785.6	-214.4	+1422.6
1988	(12160.9)	1918.7	8361.8	6102.4	2259.4	+1880.4
1991	(35755.2)	2972.6	32112.4	31107.1	1005.3	+670.2
1994	(70270.6)	8390.8	60247.6	40900.1	19347.5	+1632.2
1997	(5000.00)	13382.6	-8382.6	-62880.5	2243.4	+52254.5
2000	(103777.3)	N/A	103447.3	731137.0	30310.3	+330.0
2003	(202724.7)	N/A	163746.4	134246.4	29500.0	39000.00
2006	(101397.5)	N/A	45000.0	N/A	45000.0	56251.4
2007	(117.2)	25,735.20	5860.10	159.8	40.2	19139.60
2008	(1003921.32)	5860.10	25,735.10	213.08	-80613	15807.30
2009	1101248.90)	7978.90	162,271.70	292.98	152343	(147478.50)
2010	(1105439.78)	24809.82	225795.03	372.87	224073	(118,507.29)
2011	(1158518.40)	12,977.22	170,408.42	452.77	29580	(51,528.68)

Source: *Column 2 to 5 are obtained from (I) The changing structure of the Nigerian Economy and Implications for development, CBN, 2000, (ii) CBN's Statistical Bulletin, 2006, 2008 and 2011*

Appendix 7: Nigeria's Public Debt Outstanding, 1960 - 2011

Year	Total Public Debt Outstanding (3+4)	Domestic Debt Outstanding	External Debt Outstanding	3 as % of 2	4 as % of 2
1	2	3	4	5	6
1960	118.0	23.5	94.5	19.92	80.08
1963	240.0	128.4	111.6	53.50	46.50
1966	440.0	288.1	151.9	65.48	34.52
1969	918.8	743.0	175.8	80.87	19.13
1972	1266.3	1000.7	265.6	79.03	20.97
1975	2028.8	1678.9	349.9	82.75	17.25
1978	7235.2	5983.1	1252.1	82.69	17.31
1981	13526.7	11195.5	2331.2	82.77	17.23
1984	40483.7	25675.0	14808.7	63.42	36.58
1987	137579.6	38790.6	100789.1	26.74	73.26
1990	382739.0	84124.6	298614.4	21.98	78.02
1993	894238.0	261093.6	633144.4	29.20	70.80
1996	960994.1	343674.1	617320.0	35.76	64.24
1999	3372189.7	794806.3	2577383.4	23.57	76.43
2002	5098886.5	1166001.7	3932884.8	22.27	77.73
2005	4220978.8	1525906.6	2695072.2	36.15	63.85
2006	2204720.7	1753259.0	451461.7	79.52	20.48
2007	2597687.0	2169628.3	428058.7	83.52	16.48
2008	2813490.0	2320309.5	493180.2	82.47	17.53
2009	3818474	3228032.5	590441.1	84.54	15.46
2010	5241667.69	4551822.39	689845.30	86.84	13.16
2011	6519676.33	5622843.71	896,832.62	86.24	13.76

Source: *Compiled by the author with data from: CBN,(200) The changing structure of the Nigerian Economy and Implications for Development, and (ii) CBN's Statistical Bulletin, 2006, 2008 and 2011*

Appendix 8: Nigeria's Recurrent Public Debt Charges (Interest Payment), and its relationship with some Economic Indicators, 1977 - 2011

Year	Public Debt Charges (on Domestic and Foreign Debts)	2 as % of total recurrent Expenditure	2 as % of total Expenditure (Recurrent and Capital	2 as % of GDP
1	2	3	4	5
1977	467.0	12.23	5.29	1.48
1978	358.3	12.80	4.48	1.04
1979	1358.3	42.62	18.34	3.24
1980	835.6	17.39	5.58	1.68
1981	973.5	20.09	8.53	2.04
1982	1020.0	18.53	8.55	2.08
1983	1115.1	23.47	11.57	2.10
1984	2564.4	44.01	25.83	4.30
1985	1586.9	20.95	12.17	2.34
1986	1509.0	19.61	9.30	2.18
1987	6578.0	42.04	29.88	6.26
1988	6915.6	35.63	24.92	4.97
1989	13030.0	50.13	31.76	6.10
1990	16872.0	46.58	27.99	6.31
1991	13247.0	34.64	19.90	4.14
1992	20442.0	38.55	22.03	3.84
1993	58400.0	42.71	30.54	8.54
1994	41000.0	45.57	25.48	4.56
1995	55000.0	43.09	22.11	2.85
1996	56000.0	43.27	19.44	2.07
1997	56000.0	38.25	15.72	2.00

Year	Public Debt Charges (on Domestic and Foreign Debts)	2 as % of total recurrent Expenditure	2 as % of total Expenditure (Recurrent and Capital	2 as % of GDP
1998	66000.0	31.96	14.88	2.44
1999	16300.0	3.27	1.72	0.51
2000	100000.0	21.66	14.26	2.18
2001	155424.0	26.83	15.27	3.29
2002	203902.9	29.26	20.03	2.95
2003	363363.0	36.92	29.64	4.28
2004	369369.0	35.77	25.90	3.24
2005	355723.0	29.07	19.52	2.44
2006	289500.0	22.44	14.94	1.56
2007	270045	0.000021	0.000013	0.0000016
2008	219411	15.85	11.73	1.07
2009	176572	13.77	10.46	0.76
2010	133733	11.68	9.19	0.44
2011	90894.3	9.59	7.91	0.13

Source: *Compiled with data from CBN's statistical Bulletin, 2006 and 2011 and Annual*