A CRITICAL ANALYSIS OF THE DETERMINING FACTORS TO THE NIGERIAN WEAK FISCAL STATUS

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ABSTRACT

The study was sought to investigate the determining factors to the Nigerian weak fiscal status. Fiscal policy is the governmental use of taxation and spending to influence the conditions of the economy. Typically, fiscal policy comes into play during a recession or a period of inflation, when conditions are escalating quickly enough to warrant government intervention. The use of fiscal policy is very paramount in every society most especially in the less developed countries (LDCs) as a major tool for stabilization and for development to be sporadic. The study concludes that fiscal policy is considered one of the most important means of government intervention in economic activity; it is the foundations, standards, and frameworks developed by the government for the conduct of financial and economic activity in the country. Lack of job opportunities, inadequate infrastructure, tariff and non-tariff barriers to trade, obstacles to investment, lack of confidence in currency valuation, and limited foreign exchange are considered as the factors that weaken fiscal status of Nigeria. The lack of fiscal discipline generally stems from the injudicious use of discretion in formulating and implementing budgetary policies. Maintaining fiscal discipline is essential to maintaining macroeconomic stability, reducing vulnerabilities, and improving aggregate economic performance. One of the recommendations made was that government should ensure that there is functional fiscal policy in the Nigerian economy as it stabilizes a teetering nation and facilitate continued growth.

KEYWORDS: **Determining Factors, Week Fiscal Status and Nigeria.**

Introduction

The constitution of Nigeria requires all levels of government (federal, state, and municipal) to implement economic policy. Fiscal policy is a joint responsibility, but monetary policy is the unique responsibility of the federal government and is controlled by the central bank. The participation of state and local governments in fiscal policy measures has frequently been disregarded in the past due to the increased focus on the federal government, notably in the areas of income collection, which is predominantly derived from oil sources, and spending allocation (Afam, 2012). Nonetheless, numerous analysts have recently begun to reconsider the role of municipal and state governments in fiscal policy. They believed that the combined budgetary operations of state and municipal governments were growing increasingly complex. Every society value fiscal policy, but this is especially true in less developed countries (LDCs), as it serves as a critical tool for stabilization and irregular progress. Many textbooks and literary works define fiscal policy as measures performed by the government that affect its income

(revenue) and outlays, which are commonly measured by the government's net income, surplus, or deficit. Anticyclical variation in government expenditure and tax income may be used by the government to offset negative fluctuations in private investment and consumption. In its most basic form, fiscal policy is the action conducted by the government when it applies government revenue and expenditure programs to manage and stabilize the economy in the direction of development. As a result, it works as a "shock absorber" for an economy in specific sectors of development. Fiscal policy largely focuses on influencing the government's financial actions in order to accomplish certain economic policy goals. In contrast to other areas of public finance that are primarily concerned with the impact of particular government expenditures and taxes, it comprises of government actions to modify fiscal aggregates such as total government spending and tax revenues (Alex and Ebieri, 2014). The key variables used to measure fiscal health are government expenditure, tax income, government investment, budgeting, and indebtedness.

Fiscal policy, according to Nathan (2012), promotes economic growth and development through a variety of avenues. They include macroeconomic (the impact of budget deficits on GDP) and microeconomic factors (influence of resource efficiency on resource use). The economic policy objectives of fiscal policy have been pursued to varying degrees in developing economies, but the overarching goal, the advancement of which has relied heavily on fiscal policy, is economic development, defined not only as continuous and sustained growth in total output as well as output per head, but also as the structural transformation from essentially underdeveloped agricultural economies to fully industrialized economies. A variety of structural issues limit Nigeria's economic potential, including weak infrastructure, tariff and non-tariff trade obstacles, investment hurdles, a lack of confidence in currency valuation, and limited foreign exchange capabilities. Its economic stability is dependent on decreasing poverty and ensuring broad-based, long-term growth. Another problem restricting Nigeria's economic advancement is insufficient energy generating capacity, which results in a lack of a dependable and cost-effective power supply.

Concept of Fiscal Policy

The use of government income collection (taxes or tax cuts) and spending to impact a country's economy is known as fiscal policy. Fiscal policy is the use of taxation and expenditure by the government to alter economic conditions. Fiscal policy is typically used during a recession or a period of inflation, when conditions are rapidly deteriorating and require government involvement. In principle, sound fiscal policy should be able to stabilize a teetering economy and allow for sustained expansion. Fiscal policy's goal is to impose artificial measures to avert an economic collapse and to foster healthy, stable economic development. Fiscal policies can be expansionary or restrictive. Fiscal policy refers to the government's fiscal policy, which entails the government directing its level of expenditure and tax rates within the economy. The government use these two techniques to exert economic influence (Tamplin, 2021). It is the monetary policy's sister approach. Although fiscal and monetary policy are both

concerned with government income and spending and both strive to rectify conditions of excess or insufficient demand in the economy, they do so in quite different ways. Fiscal policy is founded on the views of British economist John Maynard Keynes, who held that changing income (taxes) and expenditure (spending) levels affect inflation, employment, and the flow of money through the economic system (Kiely, 2023). Fiscal policy is frequently used in conjunction with monetary policy, which is controlled by the Federal Reserve in the United States, to affect the course of the economy. Fiscal policy is critical to successful economic management since taxes, expenditures, inflation, and employment all contribute to GDP (GDP).

Fiscal policy is a critical component of the American economy. The executive and legislative branches of government jointly establish fiscal policy and use it to influence the economy by adjusting revenue and spending levels (Adam, 2022). Such decisions might have a significant impact on your small business. The phrase "fiscal policy" is commonly used to refer to the influence on the economy of total expenditure and tax levels, and more particularly, the gap between them. When revenue exceeds expenditure (i.e., when the government budget is in surplus), fiscal policy is said to be tight or contractionary, and when spending exceeds revenue, fiscal policy is said to be loose or expansionary (i.e., when the budget is in deficit). Fiscal policy is an important instrument for directing the economy because of its ability to impact the total quantity of production generated, or the GDP. The first consequence of fiscal growth is an increase in demand for goods and services. Both output and prices grow as a result of rising demand. Depending on the stage of the business cycle, increased demand has varied effects on output and pricing. Financial policy plays an important part in assisting the national economy to reach its various goals because of its multiple instruments, which are among the most important tools of economic management in achieving economic development and eradicating challenges that threaten economic stability (Alarm, 2017). The fiscal policy tools covered include taxation, expenditure distribution, public debt management, and surplus income, and these instruments may be explained as follows (Cordes 2015; Cai 2017).

Concept of Weak Fiscal Status

A fiscal deficit, often known as a bad fiscal situation, is the difference between a government's revenue and expenditures. A government with a budget deficit is responsible for spending over its means. The public debt and fiscal deficits have been recurring themes in government budgeting tactics since the early 1970s. In truth, both the industrial and emerging nations' budgetary balances have been negative for the previous 30 years, with an average deficit of close to 3% of GDP each year for both groups. In recent years, the 1990s financial and economic boom was rapidly followed by a reversal as the industrial economies' general fiscal balances improved. Although many developing nations' fiscal conditions have improved over the last four years, this is mostly due to cyclical factors, growing commodity prices, and a stable global financial market environment.

Budget deficits typically signify a number of negative internal and external shocks that influence budgets both directly and indirectly on the economy. These can include trade shocks, financial market volatility, political instability, and natural disasters, in addition to the amount of economic activity. Yet, the persistence of deficits in so many nations over the last three decades, as well as the continuous expansion in public sector debt, implies that certain basic reasons are likely to have played a substantial role. These explanations, according to theoretical and empirical research, include a lack of fiscal discipline and poor fiscal management. Fiscal discipline requires governments to maintain fiscal positions compatible with long-term economic development and macroeconomic stability. To achieve that goal, it advocates avoiding hasty borrowing and debt buildup. To achieve distributional and resource allocation goals while smoothing out production volatility, policy must be careful. It is also a good idea to construct budgetary buffers to deal with anticipated financial issues, such as those caused by population aging, and to allow for the response to negative shocks. Budgetary discipline must be maintained in order to maintain macroeconomic stability, reduce vulnerabilities, and improve overall economic performance. This is critical if states are to properly navigate and profit from economic and financial globalization. Countries must show budgetary discipline in order to capitalize on the possibilities afforded by more free trade and open capital markets and enhance their long-term economic prospects. To reduce the risk of debt crises, it is also critical to reduce their vulnerability to changes in market sentiment and volatility in capital flows.

In general, a lack of fiscal discipline stems from hasty budgetary policy development and implementation. The benefits of such discretion in enabling policymakers in responding to unexpected shocks in order to minimize disruptive impacts are widely documented. Having discretion also allows elected officials to carry out their tasks by deciding how much money to spend and levy. Yet, it is commonly acknowledged that discretion may be misused, resulting in procyclical policies and a deficit bias. As a result, they lead to weak fiscal situations, rising debt levels, and, eventually, a reduction in policy credibility.

Types of Fiscal Policy

There are two main types of fiscal policy: expansionary and contractionary.

Expansionary Fiscal Policy: Expansionary fiscal policy is most commonly employed to boost the economy during a recession, periods of high unemployment, or other low points in the business cycle. It requires the government to either spend more money, decrease taxes, or do both. The purpose of expansionary fiscal policy is to put more money in the hands of consumers, encouraging them to spend more in order to stimulate the economy. In economic terms, the purpose of expansionary fiscal policy is to boost aggregate demand when private demand has declined. Deficit expenditure is typically associated with expansionary fiscal policy. Deficit spending occurs when government expenditures exceed tax and other revenue receipts. In practice, deficit spending tends to result from a combination of tax cuts and higher spending.

Contractionary Policy and Tools: In the face of mounting inflation and other expansionary symptoms, a government can pursue contractionary fiscal policy, perhaps even to the extent of inducing a brief recession, in order to restore balance to the economic cycle. The government does this by increasing taxes, reducing public spending, and cutting public sector pay or jobs. Where expansionary fiscal policy involves spending deficits, contractionary fiscal policy is characterized by budget surpluses. This policy is rarely used, however, as it is hugely unpopular politically. Public policymakers thus face differing incentives relating to whether to engage in expansionary or contractionary fiscal policy. Therefore, the preferred tool for reining in unsustainable growth is usually a contractionary monetary policy. Monetary policy involves the Federal Reserve raising interest rates and restraining the supply of money and credit in order to rein in inflation. Under contractionary fiscal policies, the economy usually grows by no more than 3% per year. Above this growth rate, negative economic consequences, such as inflation, asset bubbles, increased unemployment, and even recessions, may occur.

Factors that Weaken Fiscal Status of Nigeria

The country has huge developmental problems, including the need to lessen its reliance on oil and diversify its economy, solve inadequate infrastructure, construct strong and functional institutions, and improve governance and public financial management systems. Inequality in terms of income and opportunity persists and has hampered poverty reduction efforts (The World Bank, 2022). The root cause of high poverty, regional inequality, and social and political turmoil is a lack of work possibilities. Rising inflation has also had a negative impact on household welfare, and rising prices in 2020 and 2022 are expected to force an extra 8 million Nigerians into poverty. "Due to high borrowing costs, decreased energy prices, sluggish expansion in oil output, and muted activity in non-oil industries, the budgetary position is anticipated to remain weak."

Nigeria's economic growth improved after the pandemic-induced recession in 2020, but macroeconomic stability deteriorated. Inflation is skyrocketing, forcing millions of Nigerians into poverty as a result of global commodities shocks, a weakening currency, trade restrictions, and deficit monetization. Nigeria has also been unable to profit from rising global oil prices since 2021, as oil output has dropped to historic lows and gasoline subsidies continue to eat a higher percentage of total oil income. In 2018, 40% of Nigerians (83 million people) were poor, while another 25% (53 million) were vulnerable. The number of Nigerians living in severe poverty is expected to climb by 7.7 million between 2019 and 2024, as population growth continues to exceed poverty reduction. While the economy is expected to develop at a 3.2% annual pace in 2022-2024, the forecast is exposed to adverse risks such as additional decreases in oil output and increased instability. Meanwhile, continuing currency scarcity and tightened liquidity may have an impact on non-oil economic activity and threaten overall macroeconomic stability. High inflation and persistent budgetary and debt pressures are also predicted to accompany the uncertainties.

Several structural difficulties restrict Nigeria's economic potential, including inadequate infrastructure, tariff and non-tariff trade barriers, investment hurdles, a lack of confidence in currency valuation, and low foreign exchange capability. Its economic stability is dependent on sustained broad-based economic development and poverty reduction. Inadequate energy producing capacity also limits Nigeria's economic progress, resulting in a lack of dependable and economical power supply. Meanwhile, Nigeria flares significant volumes of associated gas, a byproduct of offshore crude oil extraction. Flaring emits substantial amounts of greenhouse gases and wastes a significant amount of energy.

Strategies to Strengthen Fiscal Status of Nigeria

Increased Trade and Investment Activities: The multilateral lender advised that Nigeria must increase its trade and investment activities regionally and globally, noting that they are key drivers of growth and poverty reduction. According to the World Bank, Nigeria's weak trade performance in recent years has been exacerbated by its protectionist policies and restrictive trade regime such as the FX restriction on certain imports by the Central Bank of Nigeria as well as bans imposed by the Nigeria Customs Service. "Nigeria should not miss this critical time to take advantage of the continental momentum behind greater integration and to nurture the potential and dynamism of a growing number of highly innovative entrepreneurs and firms," it said. It noted that Nigeria has the least diversified economy apart from Angola, which has also limited its export profile with its major concentration on crude oil. "Although Nigeria's competitiveness has stalled overtime, even in areas of comparative advantage, there are emerging sectors in addition to services with potential for growth and diversification especially in agribusiness," it added.

Short Effect Lag: Stimulus spending will have an immediate effect on the economy as it is a direct component of aggregate demand.

Target Specific Sectors: Fiscal policy can target specific sectors, industries or groups. Unlike monetary policy which is a blunt instrument and targets the economy as a whole., fiscal policy can be used to target weaker areas of the economy. For example, in the post-mining boom, fiscal spending can be directed to mining states such as WA or QLD rather than growth states such as NSW or VIC. Sakiru Abiola LAWAL, *Ph.D*

Fiscal policy and Economic Growth: Fiscal policy is considered one of the most important means of government intervention in economic activity; it is the foundations, standards, and frameworks developed by the government for the conduct of financial and economic activity in the country. Therefore, fiscal policy is the government's method of influencing the national economy in order to maintain overall economic stability and address its problems (Farhi 2016). Economic policy includes a set of policies that each operate on a quantity or more of important amounts, such as fiscal policy, monetary and credit policy, exchange rate policy, and trade policy. Fiscal policy occupies an important place among other policies because it can play a greater role in achieving the multiple objectives of the national economy (Dorsi, 2015). In order to promote economic growth and resolve issues that threaten economic stability, fiscal policy is one of the most crucial tools of economic management. Government spending and taxation have steady effects on aggregate demand, which in turn affects macroeconomic variables, in addition to the distributional and specialized effects of fiscal policy tools (Gechert, 2015).

Additionally, fiscal policy is regarded as one of the most significant economic policies affecting economic growth, where it can play a significant role in achieving the nation's many goals, particularly in terms of accelerating the rate of economic growth through its various tools, which are easily controlled by the government (Ugwuanyi, 2017). The primary metric used to measure a nation's progress is deemed to be economic growth. With the exception of a few oil-producing nations that manage their pace of growth, most industrialized countries have high economic growth rates compared to developing nations, which tend to have very low rates. The significance of economic growth comes from its favorable consequences on the national economy and society, which provide a strong push for new investments and increase employment and community purchasing power (Macek, 2015). Also, economic growth refers to any activities that rely on the local market's supply and demand dynamics to generate high rates of income for people and businesses. Based on the availability of numerous economic factors connected with the production process, such as capital, labor, machinery, productive resources, and other means that contribute to economic growth, this results in an increase in the quantity of goods produced and the provision of services (Dandan, 2011).

Fiscal Incentives in Nigeria

Fiscal incentives include tax rebates, discounts, and other types of "monetary compensation" for enterprises. Fiscal incentives are elements of fiscal policy that can affect and drive people's and enterprises' behavior by giving monetary rewards for specified actions (Black, Hashimzade, and Myles, 2009). According to Kerr, McKenzie, and Mintz, fiscal initiatives are also known as tax incentives (2012). These incentives take a number of forms, but they often include the reduction or recurring freezing of tax payments. Financial incentives are meant to make some actions more desirable to individuals than they would be otherwise. If a government wants to increase the quantity of R&D in a certain field, it may provide a tax credit to enterprises that invest more in R&D. Fiscal incentives can be used for a number of different goals. If governments want to encourage individuals to use greener forms of power, they may offer tax credits or rebates to attract them to buy energy-saving technologies such as solar panels or more energy-efficient HVAC systems (Verbruggen, Moomaw, and Nyboer, 2011).

Some forms of fiscal incentives:

Tax Credit: Is a tax incentive which allows certain taxpayers to subtract the amount of the credit they have accrued from the total they owe the state. It may also be a credit granted in recognition of taxes already paid or a form of state "discount" applied in certain cases. Another way to think of a tax credit is as a rebate (Piper, 2014). Tax credit is a certain amount that a tax payer is able to subtract from their annual taxes they owe to the government; the size of the credit and the restrictions are determined beforehand. A tax credit is issued as a dollar amount rather than a percentage of taxable income. For example, if a tax payer gets a tax exemption or deduction the amount of income that can be taxed is reduced whereas with a tax credit, the credit is applied against the final amount that is to be paid to the government.

Tax Abatement: Tax abatement is similar to a deduction or tax credit. Tax abatement is typical used to reduce the level of property tax faced by an individual or firm for period of time. If a government wants to stimulate growth or industry in a certain area, the government could offer a property tax abatement in the area to encourage people and firms to move there to save money. Assume a firm that produces solar panel systems is looking to build a new factory, the firm will take into account the level of taxation that the factory will face in a particular area. If a government offers a 10-year tax abatement in their area, this encourages a solar power firm to choose that area because they will make more money from not having to pay the full level of tax. There are other considerations that firms take into account but assuming all of the prospective jurisdictions offer relatively the same level of service, the property tax rate will be a factor in the decision. While tax abatements can stimulate growth to an area there is a danger that it can over stimulate other markets in the area which can negate the effects of abatement. If firms and individuals begin to flock to an area to take advantage of the abatement, the demand for property increases, and in the short-run, the supply of property is limited. If a large influx of firms and individuals flowing into an area the price of property will rise, eventually every new property acquisition will face a higher price regardless of the abatement. Furthermore, this can increase the demand for services in the area, adding to the costs for a firm. If the price of properties rises to a level equal to or above the level of the abatement, the move would not be worth the money saved by the abatement.

Tax Exemption: Tax exemption reduces the total tax owed, because a person or particular source of money is exempt (not counted toward the total). For example, in many countries low-income earners are exempt from paying income tax because paying that tax would be very hard on their finances. Likewise, tax exemptions can be a way of encouraging (or discouraging) particular behavior (Investopedia, 2016).

Conclusion

Fiscal policy is considered one of the most important means of government intervention in economic activity; it is the foundations, standards, and frameworks developed by the government for the conduct of financial and economic activity in the country. Lack of job opportunities, inadequate infrastructure, tariff and non-tariff barriers to trade, obstacles to investment, lack of confidence in currency valuation, and limited foreign exchange are considered as the factors that weaken fiscal status of Nigeria. The lack of fiscal discipline generally stems from the injudicious use of discretion in formulating and implementing budgetary policies. Maintaining fiscal discipline is essential to maintaining macroeconomic stability, reducing vulnerabilities, and improving aggregate economic performance.

Recommendations

1. Government should ensure that there is functional fiscal policy in the Nigerian economy as it stabilizes a teetering nation and facilitate continued growth.

2. Public policymakers should ensure that fiscal policy is made paramount in every society most especially in the less developed countries (LDCs) as it is a major tool for stabilization and for development to be sporadic.

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