Engaging the Approved 2016 Federal Budget: The Macroeconomic Framework

CENTRE FOR SOCIAL JUSTICE (CSJ)
(Mainstreaming Social Justice In Public Life)

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By

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Acronyms

FGN	Federal Government of Nigeria
CSJ	Centre for Social Justice
NBS	National Bureau of Statistics
CSOs	Civil Society Organisations
CBN	Central Bank of Nigeria
GDP	Gross Domestic Product
CIT	Company Income Tax
VAT	Value Added Tax
TSA	Treasury Single Account
MDAs	Ministries, Departments and Agencies of Government
BOF	Budget Office of the Federation

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EXECUTIVE SUMMARY

The Muhammadu Buhari-led administration of the Federal Government of Nigeria came into power on the promise of change. The 2016 budget of the Federal Government of Nigeria (FGN), which is the first full year budget prepared by the current administration is referred to as the Budget of Change. The approval and passage of the budget into an Act of the National Assembly delayed into the fifth month of the fiscal year for which the budget is prepared. This leaves only seven months for the implementation of the budget. Having been passed, it is important to understand how well the projections and assumptions in the budget tally with economic realities in the Nigerian economy. This study, anchored by the Centre for Social Justice (CSJ) is on the macroeconomic framework of the 2016 approved budget of the FGN. The essence of the study is to present the economic realities that currently exist in the Nigerian economy and relate these realities with the projections of the budget. This will facilitate the learning of lessons for the preparation of future budgets especially, the 2017 federal budget. It will also provide opportunities for course correction to guarantee the realisation of government's budgetary objectives.

Of great importance to this study is the fact that available statistical records published by the National Bureau of Statistics (NBS) show that the Nigerian economy experienced negative growth (the worst in the last 10 years) within the period of waiting for the passage of the Appropriation Bill into an Act of the National Assembly. The records also show that inflation also reached double digits within the first quarter of 2016 and unemployment/underemployment continues to rise in geometric progression. It therefore implies that the implementing of the budget should commence in earnest to rectify these challenging scenario.

Between 2013 and 2015, the FGN consistently ran budget deficits and most of the funds were used for recurrent consumption expenditure. The capital budget projections were hardly fully implemented. On the other hand, the monetary policy authorities have been changing the monetary policy tools in a way that their indicators are quite unstable. Between Q4 of 2013 and Q 4 of 2015, the maximum lending rate moved from 24.9 to 27.0%. The cost of borrowing has been high and this discourages investments. Growth in credit to the private sector has been sluggish. It recorded a negative growth of -0.09% in the third quarter of 2005 and another negative growth rate of -0.1% in the final quarter of 2015. Generally, operations in the money and capital market in the last one year have not been favourable to investments and growth.

However, the revenue projections of the 2016 FGN budget seem too optimistic. At some points in 2016, global oil prices have fallen below the projected benchmark oil price, though there is a recent increase above the benchmark oil price. The situation is compounded by the recent attacks on oil installations by militants in the Niger Delta, which have reduced the crude oil production capacity of Nigeria to much below the benchmark level of 2.2 million barrels per day. It is worrisome that the

Federal Government projects a deficit of N2.2 trillion and will borrow the total sum of ₦1.84 trillion from domestic and foreign sources, whereas the same government projects to spend the total sum of ₦1.588 trillion on capital projects. This implies that the government, contrary to the dictates of fiscal responsibility, plans to spend up to ₦612 billion of the deficit financing on recurrent expenditures. On the other hand, the government projects to service existing debts with the sum of ₦1.475 trillion. This implies that almost all the money that the government has projected to borrow can go in for debt service. In any of these two cases, the implications for growth, inflation, employment and domestic investment can be devastating.

While the 2016 budget is expansionary, the monetary policy environment is contractionary. Without harmony between fiscal and monetary policy, the economy is bound to lose further grounds. The Central Bank of Nigeria had warned of the possibility of a recession since July 2015 and this seems to be a self-fulfilling warning considering the poor growth figures of Q1 2016 and the likely continuation of the trend in Q2 of 2016. The management of deficit financing may raise some challenges for the economy in terms of crowding out private sector investors. Considering the causality between investment and growth, if the private sector is crowded out and receives very little credit coupled with the continuation of the high interest rate regime, economic growth may stagnate.

The declining oil revenue will also have negative implications for the value of the naira and Nigeria's balance of payment. A decline in oil revenue without commensurate increase in other exports to fill the foreign exchange gap will further depreciate the naira. In our import dependent economy, this will also hamper the ability of the private sector to pay for imports of machinery, raw materials and other inputs for production and service delivery and thereby negatively affecting the projections for corporate income tax.

In the light of the foregoing, this study makes the following recommendations.

FGN should:

- Commence immediate negotiations with Niger Delta militants and take other actions to halt the decline in oil production capacity. The full realisation of the projected quantity of millions of barrels a day will stabilise access to foreign exchange.
- Ensure harmony between fiscal and monetary policies to guarantee the realisation of budgetary objectives; a contractionary monetary environment cannot facilitate the realisation of expansionary fiscal objectives.

- Guarantee sources of financing the deficit in the Medium Term Debt Management Framework, especially the foreign exchange components of loans before the commencement of the next financial year.

- Further strive to reduce recurrent expenditure so that deficits and borrowed money can be channelled to capital projects and human development in accordance with the Fiscal Responsibility Act.

- Guarantee that 2017 FGN budget revenue projections are more realistic, based on trends, empirical evidence and are less over-optimistic.

- Take steps to improve the capacity of revenue generating agencies especially the Federal Inland Revenue Agency to generate non oil revenue.

- Start the 2017 budget preparation process on time to ensure that the budget proposal gets to the legislature not later than the second week of September 2016.

Finally, the executive and legislature should reassess the projects in the 2016 federal budget with a view to focussing on the most critical infrastructure to stimulate economic growth.

1. MOTIVATION

The history of changes that have occurred in the budgeting processes of the Federal Government of Nigeria cannot be complete without mention of the role of civil society organisations (CSOs) in the country. It is an observable fact that there has been a rapid increase in the number of civil society organisations in Nigeria in recent time. The increase in number also corresponds with increased impact of civil society organisations in influencing public policy in Nigeria. One area that the impact of civil society organisations is felt most is in fiscal transparency and public financial management monitoring. These organisations have continued to hold the government accountable and increased the demand for transparency in the entire system of public financial management.

With increased activities and impacts of civil society organisations in Nigeria, some of the inherent traits of the military system of government that had hitherto been held as the norm had been dropped, and tenets of democracy introduced. Currently, the executive arm of government observes all the procedures of drafting the budget proposal and presents the same to the legislature for consideration, critical assessment and approval. The legislative arm of the government thereafter critically reviews the contents of the budget proposal presented by the executive arm of government. As part of the review process, several civil society organisations and non-governmental organisations are invited to make inputs into the proposed budget before it is being passed into law. Certain recommendations of civil society organisations are also presented to the executive arm of government at the time of drafting the budget.

This study seeks to find out whether the assumptions upon which the 2016 federal budget was based are realistic. The study also seeks to find out how much of the recommendations of the civil society organisations in Nigeria have affected or caused changes in some of the assumptions before the 2016 budget was approved. The ultimate goal of this study is to recommend certain precautionary measures that should be taken in order to ensure that the 2016 budget is not another ritual without any meaningful impact on the people or the economy.

2. NIGERIAN MACROECONOMIC ENVIRONMENT AT A GLANCE

It is a common practice to review the extant macroeconomic situation before preparing a budget for next fiscal year. This means looking at various macroeconomic indicators that point to where the economy is headed and how fiscal policy can be used in re-directing the economy in the event it is not headed in the right direction. The reason for this is that fiscal policy interacts with monetary policy to define the economic policy direction of any administration. The interaction between monetary policy and fiscal policy goes a long way in determining the macroeconomic environment of the country. Therefore, this section seeks to present the Nigerian macroeconomic environment looking at fiscal operations, monetary policy operations, money market operations, capital market operations, growth, employment and inflation.

2.1 Fiscal Operations of the Federal Government of Nigeria

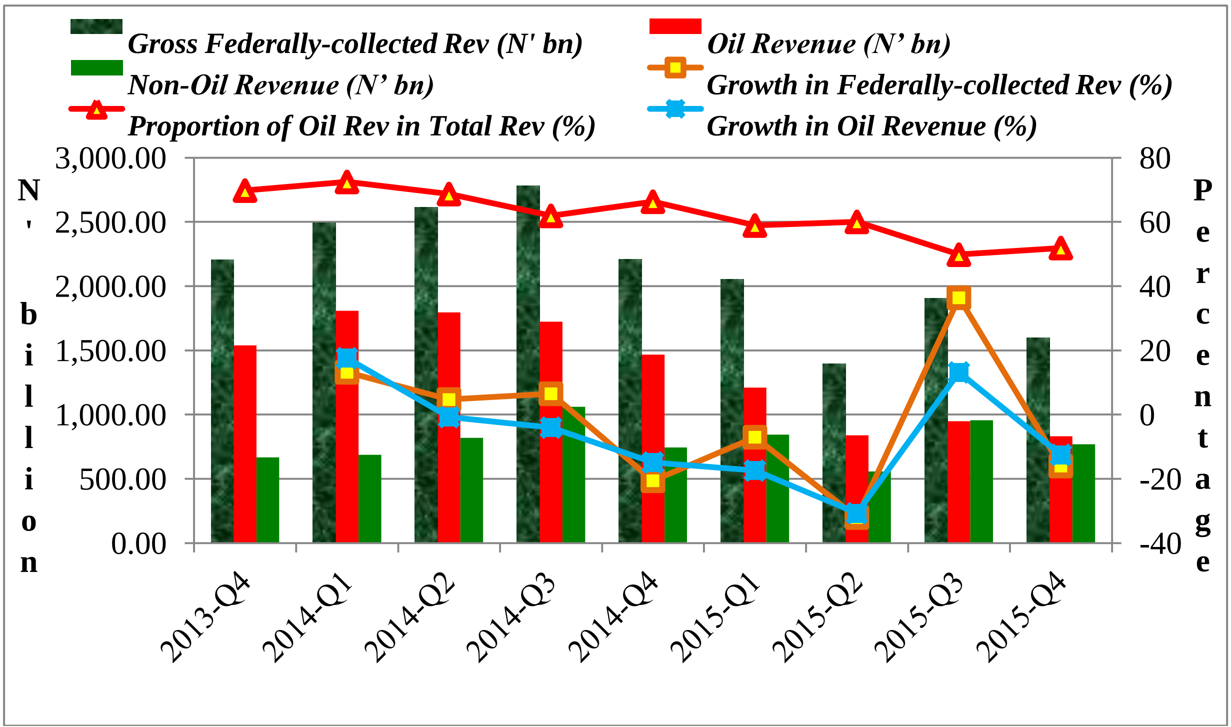
In preparing a realistic budget, any tier of government must be able to assess its performance in the last fiscal year with respect to its fiscal budget for the same year. Ekeocha (2012) observes that ideally, a realistic budget should receive inputs from the monitoring and evaluation reports of the previous year's budget implementation process. This is in line with the position of Lawyer (2013) who opines that the only way to avoid repeated budget failure experiences in Nigeria is to ensure that the budgets are realistic enough.

In a related study, Oniore (2014) observes that it is usually difficult to prepare a realistic budget without considering reasonable suggestions from interest groups. Some of the suggestions stem from monitoring and evaluation reports of previous year's budget implementation. Some other suggestions are based on the analyses of the prevailing economic conditions that might have been overlooked by the government in the budget preparation process.

Therefore, in order to ensure that the 2016 budget of the federal government of Nigeria does not fail, it is important to consider and analyse the prevailing macroeconomic environment in which the budget will be implemented. One of such macroeconomic indicators that need to be considered is the performance of previous year's budget.

Certain assumptions form the basis of revenue forecast of any government. The assumptions are borne by the fact that the government already knows the sources of revenues for its fiscal operations. Certain levels of revenues have been seen as being optimal. It is therefore possible for the government to set benchmark levels of such revenue sources on the basis of some assumptions that there would not be any change in the status quo. Whenever such forecasts are not realistic, the budget implementation is bound to fail. But at their best, such forecasts are based on the economic principle of *all things being equal*. It is certain that all things may not always be equal. Therefore, this sub-section seeks to assess the prevailing fiscal operations of the federal government in the last few quarters. This is to be able to determine if the assumptions upon which the revenue forecast of the 2016 budget is based, are accurate. The nearer the assumptions are to realities, the nearer the budget is to being a realistic budget.

Figure 1: Fiscal Operations of the Federation Account of Nigeria (2013-Q4 – 2015-Q4)



Source: *Central Bank of Nigeria (CBN) Economic Report Fourth Quarter 2015*

From Figure 1 above, it is clear that the gross federally-collected revenue has been very unstable over the period under review – fourth quarter of 2013 to fourth quarter of 2015. From a high level of ₦2.205 trillion in the fourth quarter of 2013, the revenue increased to ₦2.496 trillion in the first quarter of 2014. Gross federally-collected revenue continued increasing steadily up to the third quarter of 2014, when it reached the climax of ₦2.783 trillion. From the climax of third quarter 2014, total federally-collected revenue started declining sharply until second quarter 2015 when it settled at ₦1.397 trillion. It later increased slightly to ₦1.906 trillion in the third quarter of 2015 before declining again to ₦1.601 trillion in the fourth quarter of 2015.

Considering the reason for the oscillating nature of federally-collected revenues, it is no longer arguable that this is usually attributed to the level of dependence of the country on oil revenue. The Figure above shows that within the study period, between 50 percent and 72 percent of the gross federally-collected revenue came from oil. Going by the fluctuations in global oil prices, it is equally not surprising that oil revenue has been very unstable. This is in addition to other domestic social and environmental issues associated with drilling and oil exploration. It is therefore important that the FGN considers the extent of impact of changes in global oil market on the overall generation of federally-collected revenue.

Statutorily, federally collected revenues (otherwise known as federation account revenues) are shared among the three tiers of government – federal, states, and local governments (Ikeji, 2011; Ojide and Ogbodo, 2015). Therefore, what is reported as gross federally-collected revenues is not meant to be utilised by the federal government of Nigeria alone. It is meant to be shared among the various tiers of government. It is on the basis of whatever share that accrues to the federal government of Nigeria, that the government is able to take care of its fiscal policy needs. It is therefore important to consider the fiscal operations stance of the federal government of Nigeria in the face of dwindling federally-collected revenues in the recent past quarters.

Table 1: Federal Government Fiscal Operations

Quarter	***Retained Revenue (N' billion)***	***Actual Expenditure (N' billion)***	***Overall Balance: Surplus or Deficit (N' billion)***	***Budgeted Expenditure (N' billion)***	***Budget Variance: Actual – Budgeted Expenditures (N' billion)***
2013-Q4	897.30	1,533.00	-635.70	1,231.15	301.85
2014-Q1	912.10	1,114.80	-202.70	1,160.74	-45.94
2014-Q2	864.20	1,193.50	-329.30	1,160.74	32.76
2014-Q3	1,023.10	1,166.60	-143.50	1,160.74	5.86
2014-Q4	839.80	1,164.00	-324.20	1,160.74	3.26
2015-Q1	1,027.00	1,156.60	-129.60	1,123.34	33.26
2015-Q2	538.60	1,024.50	-485.90	1,123.34	-98.84
2015-Q3	1,044.80	1,175.50	-130.70	1,123.34	52.16
2015-Q4	818.40	1,107.50	-289.10	1,123.34	-15.84

Source: *Central Bank of Nigeria – CBN (2015) Economic Report Fourth Quarter 2015; and adaption from Budget Office of the Federation – BOF (2013, 2014a, and 2015a) Federal Government of Nigeria Approved Budgets*

In 2013, the FGN budgeted to spend a total of ₦4.927 trillion. Dividing the total budgeted amount in an equal measure to the four quarters within the year gives a total of ₦1.231 trillion budgeted to be spent in each quarter of 2013. It therefore implies that based on the 2013 budget, the federal government of Nigeria should have spent ₦1.231 trillion in the fourth quarter of 2013. However, in the same quarter, the federal government was only able to raise ₦897.30 billion in its share of the federation account. This led the government into borrowing a total of ₦635.7 billion in order to meet up with its spending need of ₦1.533 trillion.

In 2014 fiscal year, the FGN did not present a different fiscal operations scenario from what obtained in 2013. The only exceptional case is as seen in the first quarter of 2014. In 2014, the Federal Government of Nigeria budgeted to spend a total of

₦4.643 trillion. Dividing the total budgeted amount in an equal measure to the four quarters within the year gives a total sum of ₦1.161 trillion budgeted to be spent in each quarter of 2014. It therefore implies that based on the 2014 budget, the FGN should have spent ₦1.161 trillion in the first quarter of 2014. Rather than that amount, the federal government spent the sum of ₦1.115 trillion in the first quarter of 2014. This amount represents a budget variance of (₦45.94 billion). Again, the government was only able to raise the sum of ₦912.10 billion in its share of the federation account. This also led the government into borrowing a total sum of ₦202.7 billion in order to meet up with its expenditures need in that quarter. However, other quarters of 2014 had similar fiscal operations. For example, in the fourth and last quarter of 2014, the FGN should have spent ₦1.161 trillion, but was only able to raise ₦839.80 billion in its share of the federation account. This led the government into borrowing a total of ₦324.2 billion in order to meet up with its spending need of ₦1.164 trillion.

Just like 2014 fiscal year, fiscal operations of the FGN in 2015 fiscal year maintained a similar pattern. In all the quarters considered above, there is a similar trend running through each of them. FGN has consistently maintained fiscal deficit stance over the years. It becomes a burden for consideration that the government keeps increasing its debt burden by spending in deficit annually. Where there is no surplus, the implication is that the FGN will soon exhaust its borrowing capacity in the shortest possible time due to consistent budget deficit.

Regrettably, the consistent budget deficit is used for financing over-bloated recurrent expenditures. BOF (2014b) observes that out of the ₦1,119.62 billion budgeted to be spent on capital projects in 2014, only ₦501.79 billion was released for same purpose throughout the year. Unfortunately, available records show that the FGN actually spent a total of ₦4,638.90 billion as against the total sum of ₦4,642.96 billion budgeted to be spent in 2014 fiscal year. The two figures imply that the FGN experienced budget variance of a paltry sum of (₦4.06 billion) in 2014. However, in the same 2014, the FGN recorded the sum of ₦617.83 billion in capital projects budget variance. The implication is that going by the budget, up to ₦613.77 billion meant for capital projects in the budget was used in financing recurrent budget after exhausting the amount budgeted for recurrent expenditures in actual expenditures. Sadly, about ₦999.7 billion was borrowed to finance the over-bloated recurrent expenditures without funding the ₦1,119.62 billion worth of capital projects. In the same way, BOF (2015b) observes that out of the ₦557.0 billion budgeted to be spent on capital projects in 2015, only ₦47.29 billion was released in the first quarter, while a paltry amount of ₦5.14 billion was released in the second quarter. The implication is that as at the end of the first half of 2015 fiscal year, only a total of ₦52.43 billion had been released for capital projects (less than one-tenth of total capital expenditure budget for the year). As at the end of the first half of 2015 fiscal year, a total of ₦2.181 trillion had been spent against the equal distribution of 2015 budget that should have meant spending ₦2.247 trillion as at the end of the first half of 2015 fiscal year. Critically analysing the above amount shows that the federal government of Nigeria had only a budget variance of ₦65.58 billion as at the end of the first half of the year, whereas this coincides with a period of capital expenditures budget variance of ₦226.07 billion.

From all the facts and figures presented above, it is clear that the conduct of the fiscal operations of the FGN have been very poor. The first and very important observation is that the government has continued to come up with deficit budget without any serious efforts towards self-sufficiency. Another important observation is that the government has continued to borrow in order to maintain ostentatious cost of governance embedded in over-bloated recurrent expenditures. This is very unsustainable given that the major source of revenue is oil revenue, which depends heavily on the international oil market forces and restiveness or otherwise in the Niger Delta.

2.2 Monetary Policy and Financial Markets (Money Market & Capital Market) Operations

Monetary policy tools are used by monetary authorities to control the level of money in circulation so as to avoid inflation. Nigerian monetary authorities have continued to change monetary policy tools in a way that their indicators are quite unstable. As at the fourth quarter of 2013, maximum lending rate of deposit money banks in Nigeria stood at 24.9%. The rate increased to 25.7 in the first quarter of 2014 and later to 25.8 as at the fourth quarter of 2014. However, changes in monetary policy instruments led to further increase in maximum lending rates to the point of reaching 26.3 in the first quarter of 2015. Following further upward trend, the rate move up to 27 percent as at the fourth quarter of 2015. Table 2 below is a clearer presentation of the figures discussed above.

Table 2: Average Interest Rates of Deposit Money Banks (2013-Q4 – 2015-Q4)

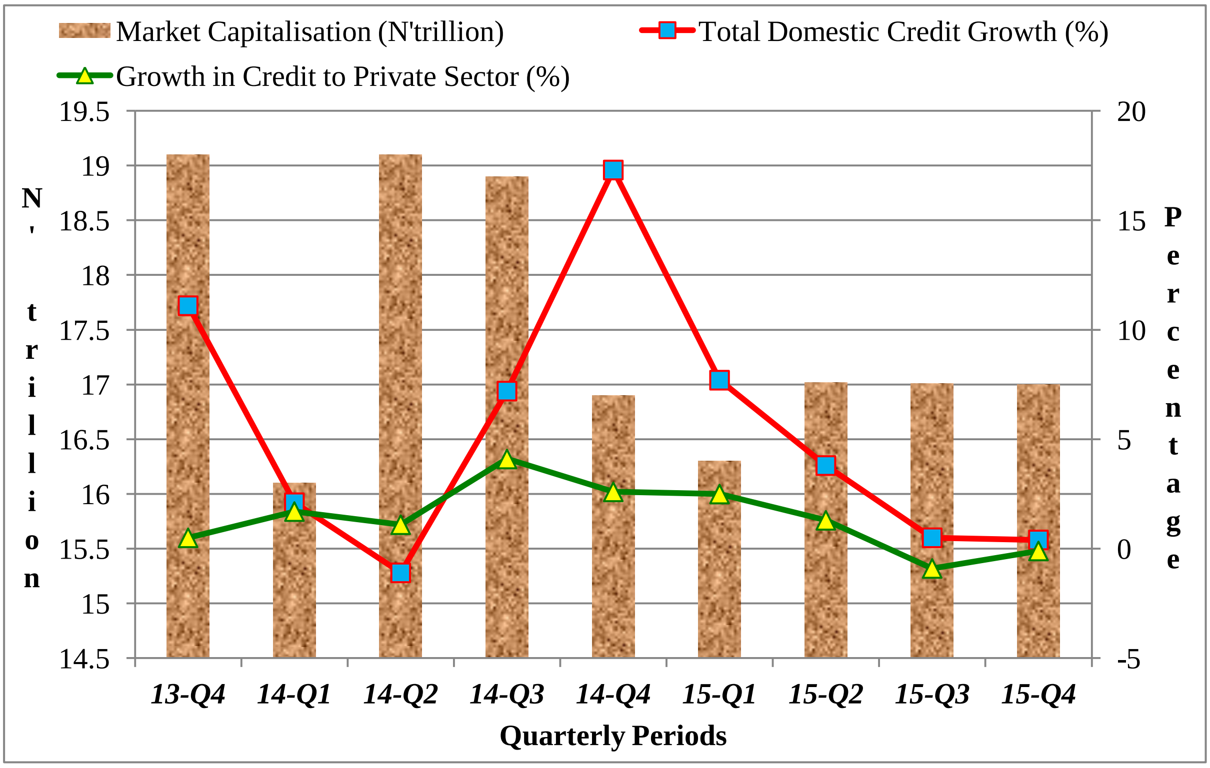
Quarterly Periods	***Interbank Rate***	***Maximum Lending Rate***
2013-Q4	10.5	24.9
2014-Q1	10.3	25.7
2014-Q2	10.6	25.8
2014-Q3	11.1	25.6
2014-Q4	16.0	25.8
2015-Q1	15.4	26.3
2015-Q2	17.3	26.6
2015-Q3	20.5	27.0
2015-Q4	1.6	27.0

Source: *Central Bank of Nigeria (CBN) Economic Report Fourth Quarter 2015*

The health of any economy depends heavily on the health of the economy's financial institutions. The money markets and the capital markets play a great role in determining the growth path of any economy. Therefore, the discussion on the money market operations is predicated on the fact that their lending rates are usually determined by the prevailing monetary policies of the monetary authorities in the economy. For instance, the Central Bank of Nigeria has a great influence on the determination of prevailing interest rate in Nigeria. This can easily be influenced through increase or decrease in the reserve or liquidity ratio. Any of the two policies will determine whether deposit money banks will have more money at their disposal to lend to investors or not. This in turn goes a long way in determining the level of interest rate chargeable on loans and advances. Generally, it may be argued that maximum lending rate of 27 percent is too high. Even at 24.9 percent lending rate, an investor will only be able to access such loans after a thorough cash flow analysis of the nature of business he/she wants to go into. Supposing the investment is not a quick and heavy returns project, the investor cannot borrow to invest in it. The reason is merely because of the high rate of interest chargeable on such loans.

Therefore, it is important to consider the level of growth in monetary and credit aggregates in the same study period. Figure 2 below is a graphical presentation of quarterly growth in the money and capital market aggregates.

Figure 2: Quarterly Growth in Money and Capital Markets Aggregates (2013-Q4 – 2015-Q4)



Source: *Central Bank of Nigeria (CBN) Economic Report Fourth Quarter 2015*

Analysis from Table 2 above shows that money market interest rates have been on the increase. The same applies to interbank rates. The implication is that the cost of borrowing becomes high thereby discouraging private investors who ordinarily would have loved to collect bank loans. In most cases, the discouragement becomes worse when the governments tend to borrow more from the deposit money banks. In situations of scarce loanable funds, deposit money banks will naturally lend more to the government than they would to private investors. The reason is that government debts are usually considered risk-free, while private sector debts on the other hand are considered risky debts.

Figure 2 above shows that growth in total domestic credits has been very unstable over the study period (2013-Q4 – 2015-Q4). From about 11.1% growth in the fourth quarter of 2013, total domestic credits grew by only 2.1% in the first quarter of 2014. By the second quarter of 2014, total domestic credits recorded negative growth of -1.1%. From the point of negative growth in the second quarter of 2014, total domestic credits grew again by 7.2% in the third quarter of 2014. There was a further increase in the growth rate of total domestic credits in the fourth quarter of 2014 to a maximum level of 17.3%. The growth rate of total domestic credit fell sharply from 17.3% in the fourth quarter of 2014 to 7.7% growth rate in the first quarter of 2015, and later 3.8% in the second quarter of 2015. The growth rate of total domestic credits continued shrinking from that point until it settled at 0.4% in the fourth quarter of 2015.

On the other hand, the same figure shows that growth in credit to private sector has been very unstable and low over the study period (2013-Q4 – 2015-Q4). From about 0.5% growth in the fourth quarter of 2013, credits to private sector grew by 1.7% in the first quarter of 2014. The growth rate of credit to private sector later moved down to 1.1% in the second quarter of 2014. Again there was an increase in the growth rate of credits to private sector to the tone of 4.1% in the third quarter of 2014. This happens to be the highest rate of growth recorded within the study period. From the highest point of 4.1% growth rate in credits to the private sector, the rate of growth started shrinking continuously until it recorded the first negative growth level of -0.9% in the third quarter of 2015. From this point, credits to private sector recorded another negative growth rate of -0.1% in the fourth quarter of 2015.

Operations of the country’s capital market were not any better. Closing in the fourth quarter of 2013 with a total market capitalisation of ₦19.1 trillion, Nigeria Stock Exchange shrank in the first quarter of 2014 by closing with a total market capitalisation of ₦16.1 trillion. The market expanded sharply in the second quarter of 2014 when it moved back to a total market capitalisation of ₦19.1 trillion before shrinking steadily in subsequent quarters till it settled for ₦16.3 trillion in total market capitalisation in the first quarter of 2015. Again, the market recorded a slight increase in total market capitalisation to ₦17.02 trillion in the second quarter of 2015 before sliding to total market capitalisation of ₦17.01 trillion and later ₦17.0 trillion in the third and fourth quarters of 2015 respectively.

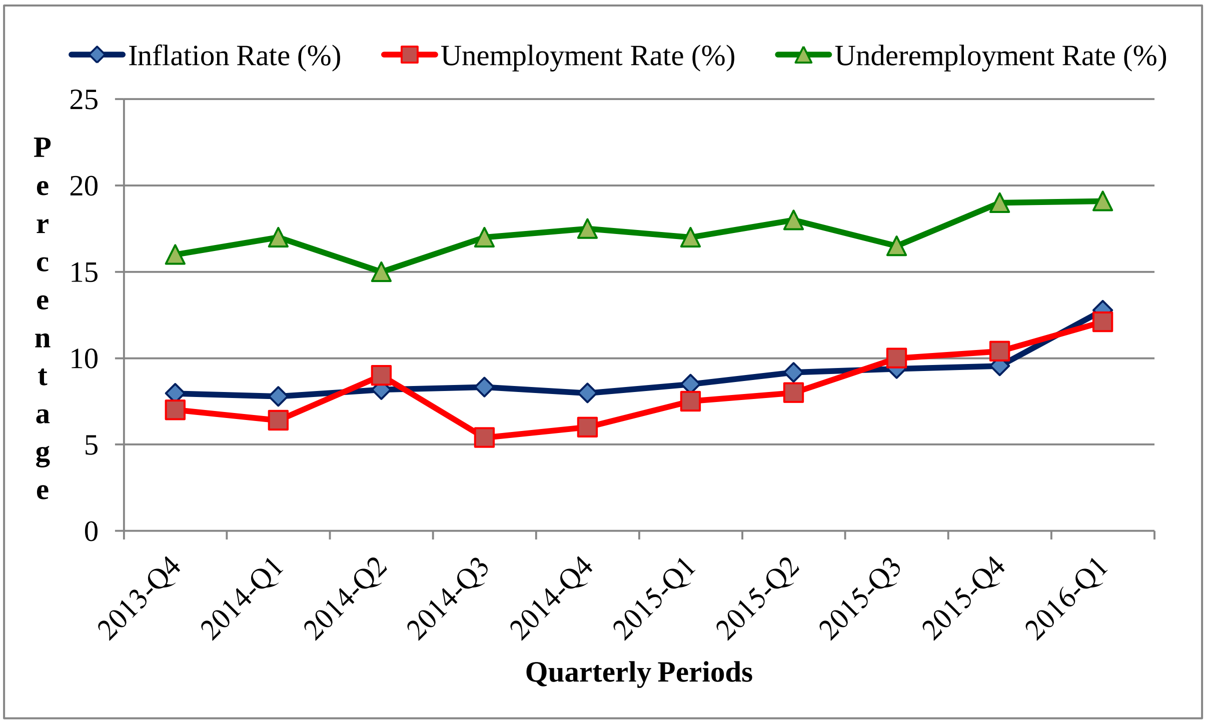
From all the facts presented in Figure 2 above, we can conclude that the operations of Nigerian money and capital markets have not been favourable in the immediate past fiscal year. This has great implication for growth, employment and inflation.

Shrinking the volume of credits released to the private sector with accompanying rise in the cost of credits implies that private sector investment will also shrink. On the other hand, shrinking private sector investment has great implication for employment. Given that activities at both the money market and the capital market as presented in Figure 2 above do not seem pleasant, it is not out of place to expect that growth and employment will suffer in the Nigerian economy in the subsequent fiscal year to the ones analysed above (i.e. 2016). However, it will still be important to see and understand how employment, growth and inflation rate have fared in conditions of shrinking capital for investment.

2.3 Employment, Inflation and Growth

Employment of labour in an environment where there is no investment is bound to shrink. The discussion in this sub-section draws from the discussion in the previous sub-section. The link between lack of credit facilities and reduction in investment has been established in the literature. Many investors are bound to divest as a result of lack of capital. And it is clear that capital can be raised through many channels including banks (otherwise credit facilities). Therefore, if there is lack of credit facilities, investment is bound to suffer some set-backs. Therefore, this sub-section seeks to present the current situation of Nigerian macro-economy as it relates to employment, inflation and growth.

Figure 3: Nigeria's Inflation Rate, Unemployment Rate and Underemployment Rate (2013-Q4 – 2016-Q1)

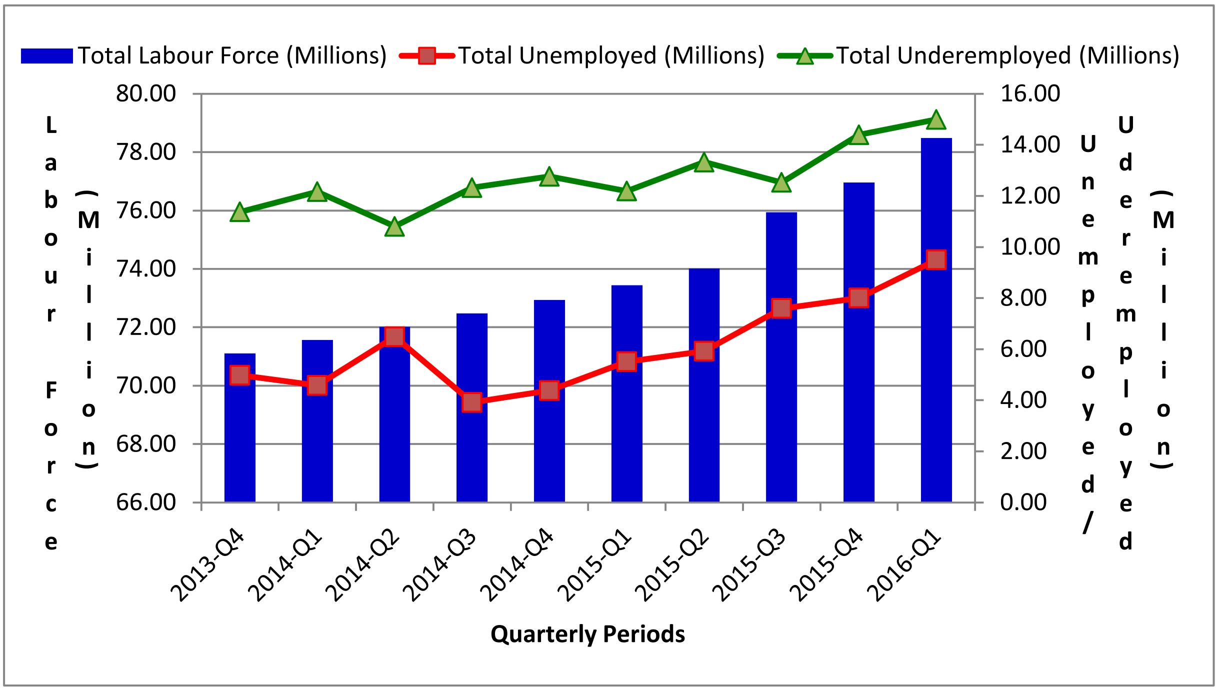


Source: *National Bureau of Statistics (NBS) Unemployment/Under-employment Watch, Q1 2015, Q2 2015, Q3 2015, Q4 2015, and Q1 2016; and Nigerian GDP Reports, Quarter Four 2014 & Quarter One 2016.*

Based on economic theory, there is a trade-off between inflation and unemployment. Therefore, at every point in time, countries are faced with the challenge of choosing between a manageable level of inflation and a manageable level of unemployment (Karanassou et al, 2006; Llaudes, 2005). The implication is that as inflation rises, investors tend to invest more due to increase in the level of demand of their products. The increased investments therefore lead to increase in employment generation/job creation. The direct effect of which is a decline in unemployment rate. However, whenever a country seeks to keep inflation very low, investment seems to be discouraged and employment generation capacities of the economy seem reduced. This leads to increase in unemployment rate. This theory is otherwise illustrated with the "Phillips Curve."

Sometimes, empirical experiences of certain economies of the globe defy economic theories. This is really the case with Nigeria where there is no specific pattern of trade-off between inflation and unemployment rate. Figure 3 above shows that as at the fourth quarter of 2013, inflation rate stood at 7.96%, unemployment stood at 7% of the labour force, while underemployment stood at 16% of the labour force. However, in the first quarter of 2015, inflation increased to 8.49%, unemployment rate also increased to 7.5% of the labour force, while underemployment also increased to 17% of labour force. Worse still, as at the first quarter of 2016, inflation rate has hit a high level of 12.77, at the same time unemployment rate has also increased to 12.1% of the labour force, while underemployment rate stood at 19.1% of Nigeria's labour force.

Figure 4: Nigeria's Labour Force, Unemployed and Underemployed Populations



Source: *National Bureau of Statistics (NBS) Unemployment/Under-employment Watch, Q1 2015, Q2 2015, Q3 2015, Q4 2015, and Q1 2016.*

Recall that in the previous sub-section, it was clear that domestic credits to the private sector have been very low. Therefore, the high level of inflation could have been caused by increased public sector consumption expenditures. This aspect of government expenditure crowds-out domestic private investment (Friedman, 1978; Mahmoudzadeh et al, 2013; and Balcerzak and Rogalska 2014). By crowding-out, we mean that the government and the private sector investors will approach the same financial institutions for funds. At such points, financial institutions will naturally lend to government instead of private sector investors. Consumption expenditures of the government do not benefit private sector investors, rather capital expenditures of the government do.

Looking at unemployment and underemployment in Nigeria from the perspective of unemployment and underemployment rates may be deceptive. It is important to have an idea of what the rates translate into in terms of absolute numbers of persons that are currently unemployed or underemployed in Nigeria. This will help in relating the macroeconomic framework of FGN 2016 budget to the realities of the issues presented in the various sections of this analysis.

Presenting unemployment rate of 12.1% and underemployment rate of 19.1% in the first quarter of 2016 when the budget was still going through the processes of consideration and approval may not make much sense to the common person. In the same way, presenting unemployment rate of 10.4% and underemployment rate of 19% in the fourth and last quarter of 2015 before the 2016 budget was presented to the National Assembly for consideration and approval may not also make much sense to the ordinary person. To press the full weight of the matter home, it is important to look at the absolute figures of the unemployed and underemployed in Nigeria.

In the fourth quarter of 2013, the total labour force of Nigeria amounts to 71.11 million persons. Out of the 71.11 million persons, 11.38 million persons were under-employed, while 4.98 million persons were totally unemployed. Initially, there seems to have been a boom in the economy within the 2014 fiscal year. This period coincides with the period that Nigeria's national output (GDP) increased to become the biggest in Africa and Nigeria moved from being a low income country to a lower-middle income country. As at the fourth quarter of 2014, total labour force of Nigeria has increased by 2.57% from its value in fourth quarter of 2013 to stand at 72.93 million persons. At the same time, the unemployed population reduced by 12.08% from its 2013-Q4 value to stand at 4.38 million persons. However, at this point, much of the reduction in the unemployed population only translated to underemployment. It is important to emphasise that the underemployed population could have moved up to full employment supposing the gains of the economic boom were sustained in the subsequent fiscal year. The 2015 fiscal year came in with its economic woes as an election year. The gains of economic boom of 2014 could not be sustained. As at the fourth quarter of 2015, Nigeria's total labour force has increased by 8.23% from its

2013-Q4 value to stand at 76.96 million persons. At the same time, the unemployed population has increased by 60.8% from its 2013-Q4 value to stand at 8.00 million persons, while the underemployed population also increased by 26.49% from its 2013-Q4 value to stand at 14.39 million persons. After winning and losing elections, the economy is expected to rebound to its potential level of labour employment. The first quarter of 2016 passed without the 2016 budget receiving approval for hastened implementation. This had severe implication on labour and productivity in Nigeria. Available statistics as presented in Figure 4 above shows that as at the first quarter of 2016, Nigeria's total labour force has increased by 10.38% from its 2013-Q4 value to stand at 78.49 million persons. At the same time, the unemployed population in Nigeria increased by 90.8% from its 2013-Q4 value to stand at 9.5 million persons, while the underemployed population also increased by 31.77% from its 2013-Q4 value to stand at 14.99 million persons.

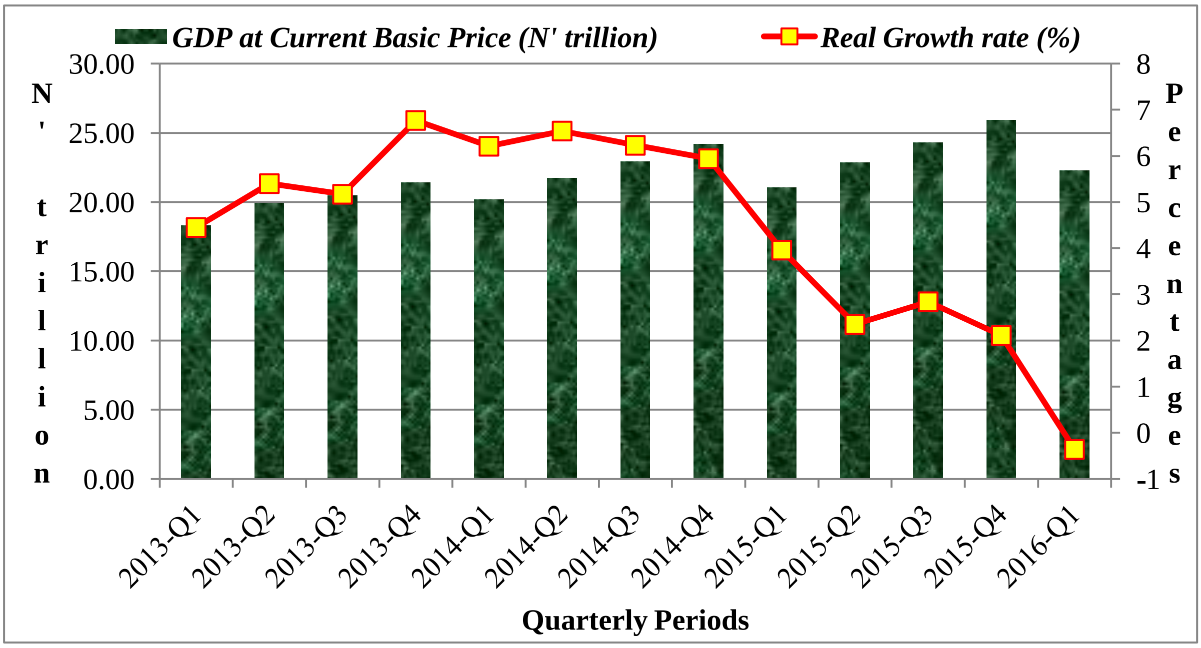
From all the Figures and facts presented above, it may be concluded that when the Nigerian economy was experiencing a boom, more people were getting employed (though many of such were underemployed). However, since the 2015 fiscal year, even those who were once underemployed have been losing their little employment. This explains why there was a decline in the number of unemployed persons from 2013-Q4 to 2014-Q4, while there was increase in the number of underemployed persons within the same period. On the other hand, the rates of increase in the unemployed population in 2015-Q4 and 2016-Q1 exceeded the rates of increase in the underemployed population within the same period.

A further enquiry reveals that majority of the unemployed and underemployed persons are youths. As at the first quarter of 2015, total labour force of Nigeria was 73.44 million persons. Out of this number, 35.04 million of them were youths. Sadly, out of the 35.04 million young persons that were ready to work, 7.67 million of them were not employed at all. Between the first quarter of 2015 and the first quarter of 2016, the number of unemployed youths almost doubled. As at the first quarter of 2016, the total labour force of Nigeria increased by 6.88% from its value in 2015-Q1 to stand at 78.49 million persons. In a similar way, the total number of youths in the labour force increased by 9.16% from its value in 2015-Q1 to stand at 38.25 million youths in 2016-Q1. Unfortunately, the one year period of first quarter 2015 to first quarter 2016 recorded 71.47% increase in the number of unemployed youths who were ready to work. The number of unemployed youths increased from 7.67 million to 13.16 million between the first quarter of 2015 and first quarter of 2016.

Comparatively, the number of unemployed youths alone as at the first quarter of 2016 exceeds the 2014 combined total populations of three other ECOWAS countries – Guinea-Bissau, Liberia and Sierra Leone. Based on the latest published population data, the total population of Guinea-Bissau in 2014 was 1.801 million persons, that of Liberia was 4.396 million persons, while that of Sierra Leone was 6.316 million persons (World Bank, 2016). Therefore, the 2014 total population of the three countries amounts to 12.513 million persons, which is less than the 13.158 million youths that are currently unemployed in Nigeria. Some studies (e.g. Ajaegbu, 2012; Adebayo, 2013) have tried to show the correlation between unemployment and crimes in the Nigerian economy. Therefore, the 2016 budget of the FGN got its approval at a time that many economic issues need to be tackled in the country using the budget.

National output is the sum of the productivities of all the employed labour force in any country. Nigeria has witnessed a period of dwindling employment ratio, especially in the recent past quarters. It is therefore easy to assume that the effects of increasing unemployment rate should reflect in reduction in the volume of national output. But this study is not all about assumptions. It is purely an empirical assessment of economic realities that abound in the Nigerian economy. It is therefore proper that we also show and understand the implications of the increased unemployment and underemployment rates for economic output and growth. Figure 5 below is a graphical presentation of the quarterly growth rate of Nigeria's aggregate output between the first quarter of 2013 and the first quarter of 2016.

Figure 5: Quarterly Growth in Nigerian Aggregate Output (2013-Q1 – 2016-Q1)



Source: *National Bureau of Statistics (NBS) Nigerian GDP Reports, Quarter Four 2014 & Quarter One 2016.*

Nigeria's national output (GDP at current basic prices) was valued at ₦18.3 trillion as at the first quarter of 2013. The figure later increased to ₦21.4 trillion by the fourth and last quarter of 2013. With some slight oscillations in the national output, Nigerian economy grew to be valued at ₦24.21 trillion as at the fourth quarter of 2014. During the elections and transition periods of first and second quarter of 2015, the economy shrank to ₦21.04 trillion and ₦22.86 trillion. Immediately after the transition, the economy rebounded and grew up to ₦25.93 trillion by the fourth quarter of 2015. However, the first quarter of 2016 witnessed another sharp decline in national output. Nigeria's GDP (calculated at current basic prices) stood at ₦22.26 trillion in the first quarter of 2016.

In terms of real growth rate, Nigerian economy grew at about 4.45% in the first quarter of 2013, and later grew at 5.40% in the second quarter of 2013. From that point in time, the Nigerian economy continued recording impressive growth in each quarter. Between the second quarter of 2013 and the fourth quarter of 2014, Nigerian economy persistently grew at above 5% quarterly. This is part of the reason the economy was able to grow bigger than South Africa and Egypt to become the largest economy in Africa as at 2014. However, the political transition could not sustain the economic boom. The first major reduction in the growth rate of Nigerian economy was witnessed in the first quarter of 2015, where the growth rate dropped from 5.94% in the previous quarter to 3.96%. From that point in time, the economy started growing at a reducing rate until the first quarter of 2016 when it recorded the first negative growth in over ten years (NBS, 2016).

3. MACROECONOMIC ASSUMPTIONS OF THE 2016 APPROVED BUDGET

The 2016 approved budget is the first full year budget prepared by the current administration of President Muhammadu Buhari. Like any other fiscal budget, the 2016 approved budget is based on certain macroeconomic assumptions for revenue generation. The assumptions include crude oil production of 2.2 million barrels per day; benchmark oil price of US$38 per barrel and average Naira exchange rate of ₦197 to US$1. Based on the assumptions above, the FGN projects that the Federal Government's share of total oil-related revenues drawn from the Federation Account will amount to ₦820 billion, while non-oil revenues, comprising Company Income Tax (CIT), Value Added Tax (VAT), Customs and Excise duties, and Federation Account levies, will amount to ₦1.45 trillion.

The 2016 approved budget is also predicated on the assumptions that total fiscal deficit will amount to ₦2.2 trillion (or 2.14% of GDP or 36.3% of the 2016 budget), while real GDP will grow at 4.37% within the fiscal year. Based on the projected growth rate, FGN projects to borrow ₦1.8 trillion (or 29.70% of the 2016 budget) to fund the deficit in the budget. Of the ₦1.8 trillion worth of borrowing, about ₦980 billion will be borrowed domestically, while the remaining ₦900 billion will be borrowed from foreign sources. However, there is no mention of what level of inflation is targeted by the 2016 budget.

3.1 Major Highlights of the 2016 Approved Budget

The 2016 approved budget amounts to a total of ₦6,060,677,358,227. This amount represents about 34.88% increase from the ₦4,493,363,957,158 approved for 2015 budget. The 2016 budget allocates the sum of ₦1,587,598,122,031 for capital expenditures. Capital expenditures therefore represent 26.2% of the entire budget.

The amount allocated to capital expenditures in the 2016 budget represents an increase of 185.03% from the ₦556,995,465,449 allocated to capital expenditure in 2015. Based on the amount allocated to capital expenditures, it is clear that recurrent expenditures will take about 73.8% of the 2016 budget, which proportion is lower than over 80% recurrent expenditure of 2015 budget. The budget is predicated upon total revenue of ₦3.855 trillion. This amount is made up of ₦1.505 trillion that FGN hopes to generate from FG-owned institutions with the help of Treasury Single Account (TSA) in independent revenue; N820 billion from oil revenue and N1.454 trillion which will come as its share of non oil revenue from the Federation Account. It will also get N 75.17billion from special levies and unspent balance of previous year.

To be able to realise the share from the Federation Account, the Federal Government of Nigeria projects that net distributable revenue in the Federation Account will amount to ₦5.72 trillion in 2016. Of the said amount, ₦4.303 trillion is expected to be generated from the main Federation Account revenue while the remaining ₦1.416 trillion will come from VAT pool account. The government projects that out of the net distributable revenue of ₦5.72 trillion, about ₦1.48 trillion will come from net oil receipts while the remaining ₦4.22 trillion will come from non-oil revenues.

Implicitly, the 2016 approved budget considers some sectors to be strategic in the accomplishment of the promised change of the administration. This explains why some sectors received very keen attention through key allocation in the 2016 budget. Specifically, the greatest share of allocation to any single sector goes to the Ministry of Interior (₦513.65 billion), and this closely followed by Special Intervention Programmes (₦456.93 billion), and then by Power, Works and Housing (₦456.93 billion). Another sector that receives very large share of the 2016 budget is Defence (₦443.07 billion), and this is closely followed by Education (₦403.16 billion). Ranking the sectors in order of their shares of the 2016 budget, Health is the sixth with a total allocation of ₦250.06 billion, while Transportation is the seventh with a total allocation of ₦202.34 billion. Other numerous sectors received total allocation of less than ₦100 billion. However, of utmost concern is the allocation that goes to agriculture (₦75.80 billion or 1.25% of the total).

3.2 Macroeconomic Implications of the 2016 Approved Budget

The budget of any particular administration goes a long way in showing the policy focus of that administration. The Buhari administration came into power on the promise of change. The 2016 budget (otherwise known as the budget of change) is the first full year budget of the administration. Therefore, the policy thrust of the 2016 budget comes with great implication for Nigerians to know what to expect in the next three years of the current administration. Recalling that we have shown in previous sections, the level of economic woes that are currently facing Nigerians in terms of unemployment, negative growth due to low productivities, high level of inflation, etc.

It is important to consider how this administration hopes to address some of those challenges using the 2016 approved budget.

3.1.1 Lack of Policy Coordination between Fiscal and Monetary Policies in the 2016 Budget: Implications for Inflation, Interest Rate and Money Supply

Nigeria is gradually approaching a state of economic recession, having registered a quarter of negative growth in 2016 quarter 1. The second quarter has not received much economic attention due to late passage of the 2016 Appropriation Act. Given the likelihood of a recession by the time the economic figures of the second quarter are in, it makes economic sense to expect expansionary fiscal and monetary policies. However, the 2016 budget proposes something that looks like expansionary fiscal policy while the monetary policy authorities counter whatever effort being made through contractionary monetary policy.

In order to give the Nigerian economy a lift from the point of near-recession, it is important that fiscal policy is expansionary without necessarily tending towards government consumption expenditures. This means that the budget ought to be expansionary, but with greater attention given to capital expenditures. To some extent, this may be said of the 2016 budget, given that the share of capital expenditures in the total budget is up to 26.2 percent. The capital expenditure is even more than 26.2 percent when the value of capital expenditure in statutory transfers is added. However, given the level of fiscal deficit that is proposed by the same budget, the projection of financing the high fiscal deficit through borrowing poses a challenge. It is interesting to note that the Federal Government of Nigeria hopes to spend about ₦1.588 trillion on capital expenditures, and at the same time will borrow up to ₦1.84 trillion in order to finance the 2016 budget. More than half of the ₦1.8 trillion is expected to be borrowed from within Nigerian economy. Depending on the model to be adopted in raising the money from within Nigeria, such borrowing may have severe implications for lending rate and private sector investments. This is because fewer credits will be made available for private sector investors after the financial institutions have attended to the Federal Government. This issue of crowding-out is complicated by the current monetary policy of the Central Bank of Nigeria. With the adoption of Treasury Single Account (TSA), banks' credit capacities have been limited.

In addition to the effects of the adoption of TSA, the Monetary Policy Committee of the Central Bank of Nigeria in March 2016 increased the monetary policy rate from 11 percent to 12 percent, cash reserve ratio from 20 percent to 22.5 percent, while leaving the liquidity ratio at 30 percent. This is a contractionary monetary policy which is wrongly targeted at reducing the high rate of inflation. This type of contractionary monetary policy is duly applied in a situation where inflation is induced by excess money in circulation. On the contrary, the current tide of inflation in Nigeria is imported inflation as a result of wrong exchange rate policy. Being an import-dependent economy, prices of basic goods in Nigerian market increased due to increase in parallel market exchange rates.

As observed earlier, the 2016 budget only mentioned the policy thrust of the government being to manage inflation. However, the budget did not mention how and to what extent the government targets to reduce inflation rate to. The budget did not state what percentage level of inflation the budget targets to reduce inflation to. This is a visible indicator that any level of inflation is acceptable and manageable. This also implies that the government cannot be held responsible for not meeting the target inflation rate given the fact that the government did not set a target level of acceptable inflation rate.

The fiscal authorities propose as a first step, to inject the sum of ₦350 billion into the economy through the execution of several capital projects. This is a good step in the right direction if well implemented. However, this can also cause more havoc than expected, if not well managed. For instance, if the execution of the various projects does not translate to employment of domestic firms in order to allow for more money in the economy, it will not be able to boost productivity within Nigeria's economy as expected. This is most especially the case where the Federal Government of Nigeria hopes to raise more than double that amount from domestic sources of credits. Money supply will have to increase as a result of the proposed injection of the funds into the economy through the execution the projects. However, the channel of raising the money to be injected also poses great challenge for money supply and consequently, inflation. If the money to be injected into the economy is to be raised through printing of more currency, the monetary policy authority of the economy has to be very ready to manage whatever effect this may have on inflation. Double digit inflation rate as recorded in the first quarter of 2016 is already a very serious challenge. The challenge stands to be compounded if the capacities of money market institutions to raise loanable funds are not increased through reduction in the cash reserve ratio and liquidity ratio. Pushing more paper money into the economy without commensurate increase in the capacities of private sector investors to increase their investment outlays and employ more labour will only lead to more incidence of inflation in the next few quarters.

It is not very easy to predict the implication of the 2016 budget on lending rate. This is because it depends on the source of financing for the budget deficit that is projected in the 2016 budget. In the event the Federal Government hopes to finance the deficit through the capital market, the effect of such deficit financing may not be much on lending rate. But where the government hopes to finance the deficit through the money market, then the effect will be devastating for an economy that is almost crashing into recession. This is because of the crowding-out effect of the deficit financing on private sector investment due to the possibility of increase in lending or even shortage of loanable funds among the money market institutions. Already, there is reduction in investment growth and consequently reduction in employment of labour. The two factors have combined to lead to negative growth as recorded in the economy within the first quarter of 2016. It will therefore not be a good step to source for deficit financing from sources that can compound the existing economic problems of Nigeria.

3.1.2 Macroeconomic Implications of the 2016 FGN Budget for the Financial Markets (Capital Market and Money Market)

The 2016 budget of the Federal Government of Nigeria presents great prospect for domestic financial markets – capital markets and money markets. The implementation of the Treasury Single Account (TSA) by the Federal Government of Nigeria in 2015 had some severe implications for the money markets in Nigeria. Monies that were usually deposited into the commercial bank accounts by various Ministries, Departments and Agencies (MDAs) of the government pending the end of their accounting periods, were mandated to be paid directly into the TSA. The implication is that the depositors' funds (including those from the MDAs) which the banks used to pool together to form the basis for credit advances were reduced by that singular policy. Given that the Federal Government of Nigeria projects to implement a fiscal deficit that will be partly funded from the domestic economy, the choice will most likely be between money market and the capital market.

If the government decides to issue bonds, then the capital market is the place to visit. The implication is that activities at the Nigerian Stock Exchange will increase as a result of the bond issue. This source of deficit financing poses great challenge for the current state of the economy – low level of commercial banks' loanable funds, declining investment, and consequently high level of unemployment. Once the government issues bonds, it is predictable that even the little depositors' funds available with the commercial banks will still decline further due to potential private investors withdrawing their money to buy government bonds. Consequently, the money that should have been made available for private investors who would have needed credit facilities will no longer be able to access such. Furthermore, private investors who were already becoming averse to invest in the economy due to non-predictability of policy thrust of the current administration will find another avenue for investing their money in bonds and thus, shrink domestic private investment further.

On the other hand, if FGN decides to patronise the money market in order to finance its fiscal deficit, this will also increase financial services and activities of the commercial banks. However, this will reduce loanable funds that should have been made available to the private sector investors. Commercial banks will also benefit from the process as a result of advancing loans that are less risky or even risk-free. But beyond advancing risk-free loans, financial activities of the banks will reduce. This is because of the fact that their services to the private sector investors will sharply reduce within the fiscal year.

3.1.3 Macroeconomic Implication of the 2016 FGN Budget for Growth and Employment

From previous sub-sections, a lot have been said about the 2016 FGN budget and private sector investment. The conventional hypothesis is that there is a relationship between investment and growth. Some studies have established bidirectional causality between investment and growth, while some other studies have established unidirectional causality between investment and growth. To those studies that have established bi-directional causality between investment and growth, a growing economy encourages investors to invest more, while on the other hand, increased investment boosts growth in any economy. However, to understand the studies that established unidirectional causality between investment and growth, it is important to consider one as preceding the other. Where investment is considered to precede growth, the hypothesis is that it is only investment that can cause growth to occur and not vice versa. On the other hand, it also implies that it is growth that causes investment and not vice versa.

Whether bidirectional causality or unidirectional causality, the implication is that there is a relationship between investment and growth. Therefore, any fiscal policy that can affect investment will also affect growth in the economy. Our discussions in previous sub-sections reveal that deficit financing has great implications for investment. This is equally true of the relationship between deficit financing and growth. This is especially true when the economy has already witnessed a quarter of negative growth. Whatever can be done in order to improve on the level of investment within Nigerian economy should not be overlooked.

In a similar way, investment creates employment. Often times, governments in Nigeria view employment generation from the angle of public sector employment. This is not sustainable since the three tiers of government in Nigeria cannot absorb up to 10% of the Nigerian labour force. As a result, private sector investment is the only solution to the raging level of unemployment in the country. Drawing from the discussion on the relationship between investment and growth, it may also be argued that there could be both bidirectional and unidirectional causality between investment and employment. This being the case, as long as the 2016 approved budget of the FGN can crowd-out private sector investment, it will also increase the level of unemployment in the country.

Mahmoudzadeh, et al (2013) observed that in many developing countries, government consumption expenditures crowd-out private sector investment. It may not be difficult to infer that the 2016 budget of the FGN will crowd-out private sector investment due to the level of consumption expenditure in the budget. The budget projects total deficit of ₦2.2 trillion, whereas total capital expenditures in the budget amount to only ₦1.588 trillion. This implies deficit financing of up to ₦612 billion for recurrent expenditures. Out of the deficit of ₦2.2 trillion, the government projects to borrow up to ₦1.84 trillion from domestic and foreign sources. Even the ₦1.84 trillion loan proposed in the budget is still much higher than the ₦1.588 trillion projected for capital expenditures. The implication is that the government will consume instead of investing the loanable funds that it will deprive the private sector investors from accessing due to its deficit financing. Granted that the budget projects to create up to 100,000 jobs, it should also be noted that the implementation of that programme may send more than 500,000 employed persons back to the labour market. The transmission mechanism is a simple one. As long as government wants to borrow money to implement the programme, more investors will be unable to access credit facilities from the financial markets, thereby shrinking their working capital and consequently shrinking their work force in order to meet up the cost of available capital.

3.1.4 Macroeconomic Implication of the 2016 FGN Budget for Exchange Rate

Since the past one year, it had become obvious that the fixed exchange rate regime as implemented in Nigeria was no longer useful. The sustained and widened gap between the official exchange rate and the parallel market exchange rate had created several loopholes in the system. However, the recent transition from fixed exchange rate regime to flexible exchange rate regime looks commendable, but this presents its challenges. One of the major challenges is that creating a special window for items considered too important to the government may be abused. The window may place strict conditions that must be fulfilled before an item qualifies for the special window. Therefore, maintaining a flexible exchange rate should have meant that there will not be any special window.

The 2016 budget projects that the role of oil revenue in total revenue of the FGN will continue to decline. This means that the 2016 budget of the FGN projects that the major source of foreign earning of Nigeria will also decline further. Such expectation of further decline in the major source of foreign earning implies that Nigeria anticipates higher levels of exchange rate. Being an import dependent country, decline in the foreign earnings of the country realised from the sales of crude oil becomes a problem for Nigeria's balance of payment. This will also have negative impacts on the balance of trade of the country. At the end, decline in foreign earning from oil without commensurate increase in other forms of exports will amount to further depreciation in Naira exchange rate.

Another issue in the budget that needs to be pointed out is the amount budgeted for debt services viz-a-viz the 2016 expected deficit. The sum of ₦1.475 trillion is budgeted for debt service, while the sum of N2.2 trillion is budgeted as deficit that will be financed through internal and external borrowing and other sources. Specifically, ₦1.84 trillion is to be borrowed. The implication is that almost all that will be borrowed in 2016 will still be used in servicing existing loans. Such practice has severe implication for exchange rate, especially for servicing external loans. In situations where domestic loans will be taken to service external loans, the Naira exchange rate may be affected in a flexible exchange rate regime as currently the case in Nigeria.

2.1.5 The 2016 FGN Budget and Revenue Projections

The 2016 budget of the FGN is predicated on the assumption that the country will produce oil at an average of 2.2 million barrels per day. However, available records show that the country produced an average of 1.6 million barrels per day in the last month of the first quarter of 2016 (i.e. March 2016). Frequent destruction of oil installations by the Niger Delta militants have been blamed for the decline. There are indications that there could be further decline in the volume of oil produced in the second quarter of 2016. The implication is that the target of 2.2 million barrels per day production of oil is too high a target. It is true that the global oil price has recorded some impressive increase after crashing below the benchmark oil price upon which the budgeted revenue is based. However, the increase may not compensate for the decline in the quantity of oil produced by the country. Such a decline poses great threat to the realisation/implementation of the projects in the 2016 budget of the FGN.

It is interesting to observe that the FGN received the sum of ₦118.363 billion from the Federation Account in March 2016. Before this period, revenues accruing to the FGN from the Federation Account were higher than the amount recorded in March, meaning that there has been a decline in revenues. Unfortunately, there was further decline in revenues for the month of April. However, assuming that there is no further decline in total revenue accruing to the FGN in subsequent months of the year, then the FG may not expect to generate more than ₦1.42 trillion (i.e. ₦118.363 x 12 months) from the Federation Account within the year. The likely total amount shown above is much less than the amount the Federal Government projected in the budget that it will realise from its share of non-oil revenues in the Federation Account (i.e. ₦1.45 trillion).

The implication of the foregoing is that the projections for revenues are rather too optimistic. The day to day determination of global oil market prices is outside the control of the FGN as the prices are determined by market forces. However, the determination of quantity of oil produced in Nigeria is within the control of the FGN. It is not rational to expect a government that has projected to realise and spend such huge amount of money to watch economic and social situations in the country degenerate to the point of losing both in price and quantity of oil sold per day.

4. CONCLUSION AND RECOMMENDATIONS

The premise of zero-based budgeting as promoted by the 2016 budget of the Federal Government of Nigeria is a commendable one. It is also reasonable to appreciate that the economic problems faced by the current administration are quite enormous. It is in the midst of the economic problems that the 2016 budget of

Change received approval from the National Assembly and President's assent. However, some of the assumptions in the budget are not in agreement with current economic realities. This is especially the case with the amount the budget hopes to realise in revenues that will be used in financing the budgeted expenditures within the 2016 fiscal year. The situation is compounded by the delay in passing the appropriation Bill into an Act of the National Assembly.

Based on the projections and assumptions of the 2016 approved budget of the FGN, it may not be safe to conclude that the current economic woes facing the country – unemployment, inflation, negative growth, exchange rate volatility – can be taken care of through the implementation of the budget. Some of the assumptions and projections of the budget tend to suggest that the problems may compound in the coming months/quarters.

Having passed the Bill into an Act, it is important that the budget implementation process begins immediately. However, there are certain constraints that the implementation process may face. Some the constraints outlined in this study include unrealistic revenue projections, and lack of policy coordination in order to achieve the expected goal. It will be difficult for the current administration to implement the 2016 budget without borrowing more than the amount stated in the budget. This is because of the high level of optimism in terms of revenue generation as exhibited in the budget. However, it is possible to achieve priority areas of the budget by reducing the attention given to some non-priority areas. In addition, the current tide of militancy can be nipped in the bud through a combination of approaches adopted by the FGN in handling the issue of militancy in the Niger Delta. The FGN cannot afford to continue losing from both the price and the quantity angles of oil revenues.

In the light of the foregoing, this study makes the following recommendations.

FGN should:

- Commence immediate negotiations with Niger Delta militants and take other actions to halt the decline in oil production capacity. The full realisation of the projected quantity of millions of barrels a day will stabilise access to foreign exchange.

- Ensure harmony between fiscal and monetary policies to guarantee the realisation of budgetary objectives; a contractionary monetary environment cannot facilitate the realisation of expansionary fiscal objectives.

- Guarantee sources of financing the deficit in the Medium Term Debt Management Framework, especially the foreign exchange components of loans before the commencement of the next financial year.

- Further strive to reduce recurrent expenditure so that deficits and borrowed money can be channelled to capital projects and human development in accordance with the Fiscal Responsibility Act.

- Guarantee that 2017 FGN budget revenue projections are more realistic, based on trends, empirical evidence and are less over-optimistic.

- Take steps to improve the capacity of revenue generating agencies especially the Federal Inland Revenue Agency to generate non oil revenue.

- Start the 2017 budget preparation process on time to ensure that the budget proposal gets to the legislature not later than the second week of September 2016.

Finally, the executive and legislature should reassess the projects in the 2016 federal budget with a view to focussing on the most critical infrastructure to stimulate economic growth.

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