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Socio – Economic Challenges of Global Economic Crisis on Budget and the Nigerian Economy

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ABSTRACT
Macro - economic policy objectives had suffered a great set back in Nigeria due to the global economic crisis that engulfed all nations. The economic crisis on the budget and the Nigerian economy was evident as the budget suffered deficit financing through borrowing of funds to finance the budget, also there was a drop in government revenue due a fall in oil prices. From the study which employed descriptive analysis, revealed that the global economic crisis has a negative impact on Nigerian budget and the economy. As a result, developmental goals were not achievable due to low budgetary allocations to all sectors of the economy and the three tiers of government. These had pushed a greater number of people into poverty. The crisis had affected economic activities thus decreasing productivity, business operations and investment among others, the flow of Foreign Direct Investment (FDI) and equity investment had also dropped. The paper recommends among others that government should invest massively and explore the non – oil and agricultural sector, thus diversifying its avenues of generating revenue and Nigerian budgets should be well planned and properly implemented.

KeyWords: Socio-Economic Challenges, Global Economic Crisis, Budget, Economy.

JEL Classification Codes: E0; F6; I0; H61

INTRODUCTION

Budgetary policy emphasizes a shift from mere authorization of government spending to public scrutiny of what government had accomplished. The idea of appraising value received for money spent in government finances has drawn serious attention recently. In deciding how to raise enough money to finance its expenditure, government faces a lot of challenges. A budget is a plan made (abstract or written) of a task to be undertaken within a period of time. Budget is a financial statement of governments' planned expenditure and expected revenue usually for a period of one year. However, the budget can be surplus, deficit or balanced. When government planned expenditure for a year is less than its expected revenue then it is a surplus budget. On the other hand when government planned expenditure is more than its expected income for the year it is a deficit budget. While balance budget refers to a situation where planned expenditure equals expected revenue. According to Anyanwu (1995) government world over plan their yearly budget of estimated revenue and expenditure which serves as a working tool for achieving macro economic objectives. In a submission, Kalra (2006) posited that government manipulates its public expenditure and public revenue so as to fulfill certain essential goals.

In trying to achieve these laudable macroeconomic objectives and goals of attaining full employment, maintaining price stability, reduction in income inequality, maintaining a stable balance of payment equilibrium among others, it is belittle with the socio – economic challenges of the global economic crisis. This global economic crisis has rattled markets and economies around the globe and its duration is unpredictable. The pervasive impact and uncertainty of the crisis has continued to dominate national and international economic discourse. According to Oyesola (2010), the global economic crisis had affected productivity, business operations and investments by way of reducing domestic and international demand for goods and services. It has pushed up unemployment as many industries and organizations had closed down thus, shedding off workers, it had affected the global oil price, exchange and interest rates and national income and budgets.

The scenario has force many countries to borrow in other to achieve it desired macroeconomic objectives. According to Adamu (2009), the root cause of the economic and financial crisis was the United State mortgage market selling subprime mortgages to large number of consumer with inadequate incomes. These mortgages were bundled into securitized paper investment and sold by Wall Street to major financial institutions across the globe. Daniel (2011) posited that the crisis escalated in the mid 2007, when subprime mortgage borrowers were unable to service their loans which were then due for refinancing began to default en – masses.

The mass default triggered the beginning of the global credit crunch because investment banks who sold these collaterised debt obligations could no longer service the huge debts packaged as purchase notes from commercial banks.

When the mortgage became non – performing these securitized assets were transformed into "toxic assets", infecting the entire worldwide financial system. The ensuring global economic and financial crisis began to destroy trusted banks and borrowers in all major economies of the world. The evolving financial crisis and credit crunch had today affected developed and developing economies, leading to massive unemployment, demand destruction and price deflation among many pivotal asset classes. Contributing, Oyesola (2010) opined that the intervening crisis rocking the new global economy could transform Nigeria's longstanding problems into a social crisis, injustice, unemployment, robberies, and kidnapping, among others. Coupled to these problems were weak under writing standards, unsound risk management practices, increasingly complex and opaque financial products and excessive leverage which combined and create vulnerabilities in the system. Dike (2010) submitted that while the crisis was on going, policy makers, regulators and supervisors, in some advanced countries did not adequately appreciate and address the risk building up in financial markets by keeping pace with financial innovation, or ramification of the domestic sector.

The global economic crisis immediately affected Nigeria as its foreign reserves dropped from US $67 billion in June 2008 to US $53 billion in December 2008. Oyesola (2010) posited that the United States whose ailing economy triggered off the global financial crisis is among the major importers of Nigeria's crude oil and any problem in the economies of the nations that trade with Nigeria would negatively affects Nigeria's earnings. This led to arguments for a need to cut down Nigeria's budget in 2009 at both Federal and State levels to sustain the dwindling revenues from crude oil exports. In October, 2008, oil prices fell below $50 per barrel from its peak of $147 per barrel in July 2008. As Nigeria solely depends precariously on oil revenues, political leaders had expressed fear that the Nigerian economy is "under threat" because $50 is below the $58 oil benchmark for the 2008 budget (Adamu, 2009). In their submission Ajekaye and Fakiyesi (2009) opined that the oil sector, which serves as the mainstay of the Nigerian economy, had experienced a plunge in the international price of crude oil resulting in huge decline in foreign exchange earnings. This also means less budgetary allocation to all tiers of government, hence retarding growth and development as evident in Nigeria a drastic fall in power supply and decay in the health sector.

It is in light of the declining prices of crude oil and foreign exchange that this paper seek to discuss the protracted socio economic challenges of the global economic crisis on the Nigerian budgetary system. The paper also highlights the implication of Nigerian budget hanging on oil revenue.

REVIEW OF RELATED LITERATURE

The Concept Budget/Budgeting

Budget is a proposal describing government intentions and policies that will be pursued within a given period, usually one year. Budget could also be referred to as a financial estimate of revenue receipts and proposed expenditures or disbursement of funds. According to Ogba (1999) budget is a vivid description of government fiscal policies and their corresponding financial plans where revenue is earmarked for certain specific expenditures. Buttressing this fact, Okauru (2009) stressed that budget is a plan of action covering a particular period of time, specifying how revenue coming into a system will be spend or allocated. It is a periodic assessment of a programme for national revenue and expenditure proposed by a government and presented to the relevant arm of government. The budget is a powerful tool in the hands of the government for the control and regulation of the economy and for further national development.

According to Abubakar (1998) cited in Dabo and Dashol (2013) budget in its broadest sense is "a conscious and systematic allocation of resources prepared in advance relating to a future period and based on a forecast of key variables adopted to achieve certain policy objectives which may or may not set explicit performance targets for the achievement of objectives, it relates anticipated expenditure to anticipated revenue and forms the basis against which actual expenditure and revenue can be measured and controlled". Hence, budget can be seen as a quantitative expression plan of action prepared with the aim of achieving specific purpose in the period it relates. In Nigeria budget is often divided between the three tiers of government (Federal, State and Local Government) each of these tiers of government prepares, passes and implement its' own budget. Ochonma (2009) submitted that the budget is a principal instrument of fiscal policy used to encourage stable growth, sustainable development, prosperity, and optimum employment on the economy.

THE SOCIO – ECONOMIC IMPACT OF THE GLOBAL ECONOMIC CRISIS ON THE BUDGET/ECONOMY

The global economic crisis has affected the Nigerian budgetary system and has enormous impact on growth and development in Nigeria. The global crisis led to a drop in the price of oil. According Oyesola (2010) the global economic crisis affected the prices of oil as it falls below $50 per barrel from $147 in July 2008. There was also a fall in the share price of the stock market. The combined effect of these two led to the depreciation of the naira exchange rate. Further worsening the situation is the withdrawal of foreign portfolio investment (hedge funds) from the Nigerian market. Daniel (2011) opined that as at January 2009, foreign portfolio investors had withdrawn some US $15 billion from the country's capital markets. Such massive withdrawals compound the crisis of confidence, which further complicated the market recovery process. The transmission of these impacts to the real and financial sectors will surely hamper growth and development of the Nigerian economy.

The oil sector, which serves as the mainstay of Nigerian economy, experienced a plunge in the international price of crude oil. This resulted in a huge decline in foreign exchange earnings. The overall implication is low budgetary allocation at all tiers of government for growth and development – enhancing programmes (Ajekaiye & Fakiseyi, 2009). Contributing Segun (2009) posited that poor budgetary allocations affects the poor working masses negatively, compounded by the socio economic impact of the global economic crisis, the Nigerian populace had been forced to adjust their living standard and many have been thrown out of jobs thus adding more security problems that were hitherto there. According to Dike (2010) crude oil price (Bonny Light) declined precipitously from $147 per barrel in July 2008 to $47 per barrel in January 2009, prompting the government to seek other sources of financing for the 2009 fiscal year, since it could no longer rely on earnings from crude oil exports.

This led to eventual huge budget cut to all tiers of government and social spending, health, education among other sectors were all affected. According to Ajakaiye and Fakiseyi (2009) the Nigerian currency had to be depreciated against the US dollar and this had implications for foreign reserves which dropped from $67 billion in June 2008 to $53 billion in December 2008. Contributing, Udoh and Ebong (2011) posited that the global economic crisis hit Nigeria through two transmission levels – trade and finance. The fall in demand and price of Nigeria's major export commodity, that is crude oil, did not augured well for the country's export earnings as the global economic crisis resulted in a 71 per cent decline in basket price of crude oil prices. According to Balouga (2009) the federation account allocations dropped sharply from N435.4 billion in January 2009 to N285.5 billion in February, 2009. This signals a serious bottleneck to power generation as well as roads construction among others which are considered key to development in developing countries.

The socio economic impact of the global economic crisis made Nigeria's foreign reserve drop. In line with that the Central Bank of Nigeria CBN (2008) reported that Nigeria's reserve fell from US $62,081 million in September, 2008 to US $ 53,000.36 million in December, 2008 and government had to use part of the funds in excess crude account to supplement revenue allocation to the three tiers of government in the months available when revenue fall short of the budgetary provision. Contributing, The International Monetary Fund IMF (2009) posited that the unpleasant economic realities of the recent past had exerted enormous pressure on the overall performance of the country. The balance of current account as a percentage of GDP was positive between 2004 and 2008 and was estimated to be negative at 9.0 per cent in 2009.

According to Udoh and Ebong (2011) the global economic crisis confronted other export commodities in Nigeria to decline especially primary commodities. Similarly Oyesola (2010) opined that there was a drastic reduction in demand for made in Nigeria goods and services even within the context of the Nigerian economy. Therefore unemployment ratchets upwards and the pressure of job loss and associated hardship contributes to stress, mental health crisis (heart attack, stroke, suicide) and other related diseases among others. Many small scale businesses collapsed due to erratic electricity supply and their inability to power their private generator because of high cost of fuel.

The entire budgetary system was affected and the repercussion was felt in all sectors of the economy. The economic crisis according to Balouga (2009) the Federal Government retained revenue of N747.37 billion for the first quartet of 2009 fell short of Federal Government expenditure of N786.37 billion for the same period realizing a deficit of N49 billion at the end of the first quarter. This affected all sectors of the economy. Eichengreen and Portes 1987 cited in Oyesola (2010) asserted that the socio – economic crisis led to distress among financial markets. They faulted the inconsistency caused by non - implementation of monetary and fiscal policies. The crisis therefore slowed consumers demand, labour productivity and trade growth thus worsening the prospects of recession.

The global economic crisis affected the flow of Foreign Direct Investment (FDI) and equity investment. This also affected other sectors of the economy such as agriculture, infrastructure, health and education. According to Compbell (2013) the fall in the flow of FDI led to withdrawals of portfolio investment as a result of contagion effect that had caused a reduction in stock prices. This had a negative impact on the economy. When FDI and equity investment are not forth coming, many key sectors of the economy will be affected among which is education which is key to development. In line with that Omotola (2013) submitted that budgetary allocations to education sets off an intergenerational process of poverty reduction, because better educated persons are more likely to ensure the education of their children and also attend to health requirement of their wards, thereby moulding them to become better citizen that will contribute to the development of the society.

The global economic crisis brought

instability in banks and other financial institutions as many of the banks were exposed to the oil and gas sector when it was booming. Compbell (2013) reported that Nigerian banks were already filled with toxic assets and facing serious liquidity challenges, which impaired their ability to give credit to the real sector. The crisis made the banks to even downsize their staff strength and tightened expenditure to scale through the challenges of the global economic crisis, while adding to the number of unemployed in Nigeria. According to Daniel (2011) the Central Bank of Nigeria (CBN) and Nigeria Deposit Insurance Company (NDIC) conducted a stress test on the banks in Nigeria; only fourteen banks scaled through, while ten were adjudged to be in distress with substantial non – performing loans; weak capital adequacy; poor corporate governance and illiquidity. This further explains the extent the global economic crisis had on the general state of the economy.

The common tool of measuring the economy is the Gross Domestic Product (GDP). However, the global economic crisis affected the GDP, given the indices used by International organizations, Nigeria's current GNP per capita of about $260 is below that of less affluent countries such as Bangladesh with a per capita of about $370 (Dike, 2010). Similarly, Iyortsuun and Akpusuungh (2013) opined that Nigeria's poor per capita income becomes more frightening when compared with those of some Western nations. Coupled to the global crisis in Nigeria was high profile of corruption, bad governance among others. For instance in 2007, the GDP of United States was about $13.8 trillion with per capita income GDP of about $46,000 and per capita GDP of Britain was put at about $23,590, this was before the global economic crisis, and even with the global economic crisis those countries still remains better off than Nigeria.

IMPLICATIONS OF THE CHALLENGES ON NIGERIAN ECONOMY

Firstly the global economic crisis exerts pressure in all sectors of the economy. It implies a rapid decline in bank loans. These therefore mean that corporate organizations, businessmen/women will not be able to secure loans from the banking industry due to excessive distress the industry is facing. Udoh and Ubong (2011) opined that the crisis will further a reversal of portfolio investment wealth and a sharp decline in capital investment. By implication the economy will run short of cash as most economic activities slowed down.

Secondly, the government through its monetary authorities had to cut its monetary inputs by introducing different measures. This submission is in line with Balouga (2009) who reported that to caution the effects of global economic crisis in 2009, government had to remove some items of expenditure from the budget while doing that it pruned down it recurrent overheads and capital expenditure. By implication government had to embark on deficit budgeting.

Thirdly, many industries, businesses had to close up thereby sending most of the staff to the labour market. These they had to do to withstand the economic crisis. The cost of doing business in Nigeria became expensive as the infrastructures were not adequate enough and most businesses died off naturally (Elrufai, 2012). According to Balouga (2009) government of Nigeria in 2009 had to cancel all oversea training and also ban the purchase of new car for government functionaries and agencies among others. These measures were taken to caution the effect of the global economic crisis which made all economies of the world to adjust its spending.

CONCLUSION AND RECOMMENDATIONS

The Nigerian economy faced serious destabilizing effect with the occurance of the global economic crisis. The massive reduction in crude oil prices led to a severe reduction in crude oil prices led to a severe reduction in foreign earnings. It also resulted to the depletion of Nigerian external reserve and contraction of GDP. The study indicates a shortfall in the Federal Government of Nigeria's revenue, thus resulting to a contraction in allocations for government budget, and an increase in the budget deficit, through increased borrowing. The negative effect of running a mono economy by the Nigerian government by her over reliance on oil was brought to the fore. The study revealed that the global economic crisis has significant negative impact on the budget and all sectors of the economy. With reduced development funds and lower oil revenue, there was less funding available for much – needed investment in infrastructure and other socio economic projects.

Based on the discourse, the recommendations raised are as follows:

i. The falling oil prices in the international market calls for a need for diversifying the revenue base of the Nigerian economy. This becomes more crucial because Nigeria gets about 85 per cent of her revenue from oil exports, and she experienced a huge fall in revenue following the situation in the market. The economy must be diversified and transformed to meet up with the challenges of the recent times.

ii. Banks and other financial institutions in Nigeria should perform thorough risk assessments before giving out loans to organizations and individuals alike. Shareholders should ensure good corporate governance and strong regulatory oversight of all financial institutions in Nigeria, as that will go a long way in checking corruption.

iii. Nigerian budgets should be well planned and effectively implemented with strict supervision. This will ensure adherence to budget allocations.

iv. Government should show commitment to sustainable monetary and fiscal policies and develop skilled personnel to supervise the needed reforms and manage the affairs of the nation.

v. Government should invest massively in the non – oil and agricultural sectors of the economy. The mines and steel sector, for instance, needs to be carefully targeted for development. When the sector is expanded regionally and internationally market wise, it will provide adequate revenue for government.

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